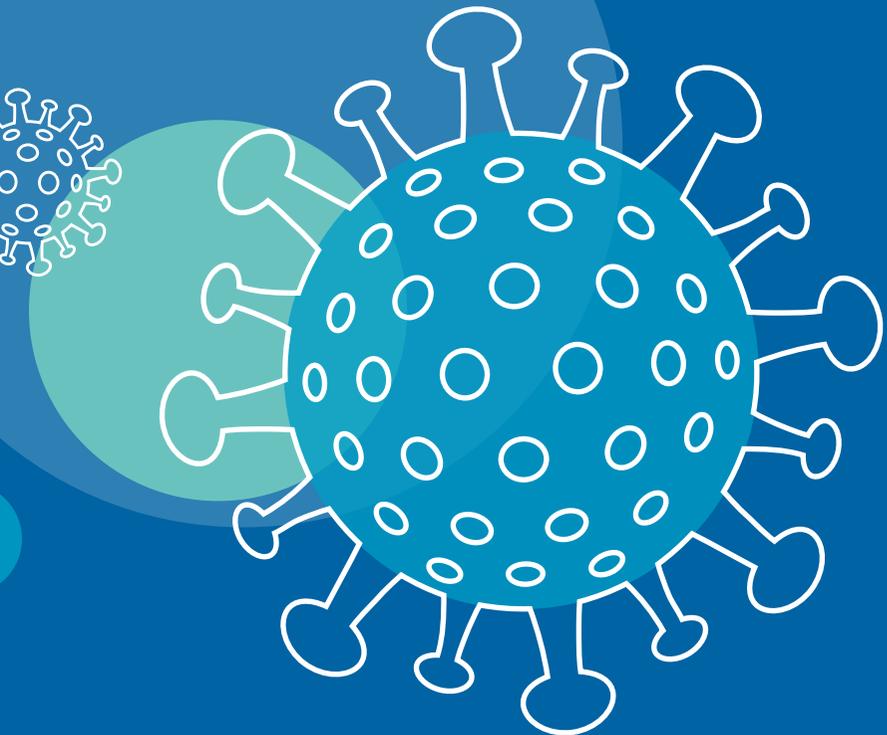




# COVID-19

## Impact on Supply Chain



## Executive summary

For week commencing 29 June 2020

10.1 million cases of COVID-19 have been confirmed worldwide, circa 501,000 deaths and circa 5.1 million recoveries. The rise in the number of cases in certain countries have increased the fear of a second wave. Countries which were out of lockdown have brought back local restrictions in areas with a virus outbreak. The number of new cases and death continues to reduce in Europe, while the virus spreads in Latin America.

Last week's highlight was the relaxation of rules in the UK with the announcement of the reopening of pub and restaurants, reduced social distancing measures and borders starting to reopen.

The Markit/CIPS Manufacturing PMI Flash was published on 23rd June and has increased from 40.7 in May to 50.1 in June. The Composite PMI and UK Services PMI have respectively improved from 30 to 47.6 and 29 to 47<sup>1</sup>.

The International Monetary Fund has reviewed its initial provisions of the global economic growth in 2020, projecting a contraction of 4.9%, followed by a rebound by 5.4%. The UK GDP is estimated to reduce by 10.2% in the 2020, followed by a 6.3% increase in 2021<sup>2</sup>.

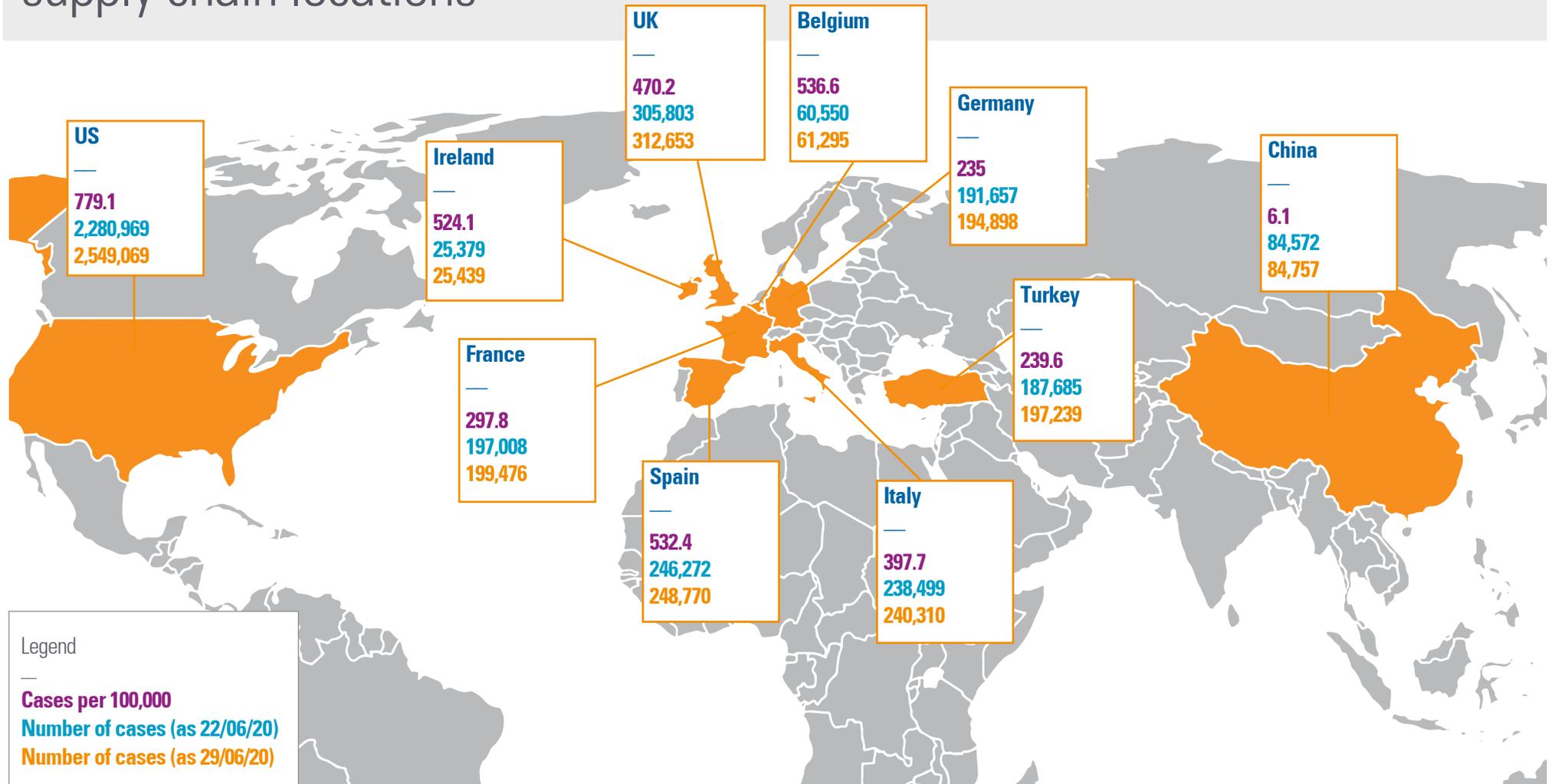
### **The main supply chain risks remain:**

- » Insolvency in the supply chain (high)
- » Disruption to supply chain logistics and transportation
- » Shortages and delays to delivery of materials due to reduce stocks availability
- » Reduced labour resources on site (employees, agency staff or subcontractor staff)

<sup>1</sup> <https://www.markiteconomics.com/Public/Home/PressRelease/31975bdd766349268b37c9856621dcea>

<sup>2</sup> <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

# Impacted countries – supply chain locations<sup>3</sup>



For more information on the impact of Covid-19 per country, please refer to Financial Times article from 29/06/2020, here.

<sup>3</sup> <https://news.sky.com/story/coronavirus-the-infection-numbers-in-real-time-11942138>

## Impact by markets

### **Steel Reinforcement** – no update since 22/06

- » Overall demand and new business down c. 50%. Current framework rate for Cut & Bent reduced to £480 from £500 per tonne, as a result of normal winter down-turn exacerbated by Covid-19 lockdown.
- » Supply chain is fully operational with lead times for Cut & Bent at 5 to 7 working days and Prefabricated at 15 to 20 working days.
- » Supply chain starting to see an influx of delayed projects starts along with planned projects in 2020, this will likely result in significant price increase of c. 15 to c. 20% over next 12 months.

### **Quarry products and surfacing** – no update since 22/06

- » Our quarry and surfacing supply chain partners are now operating between 45% (ready-mix & concrete) and 80% (aggregates & asphalt and contracting) capacity across UK, with geographical variations depending on customer demand.
- » Supply chain has established a 'Critical Network' of assets with the purpose of providing materials across UK. All major quarries are now operating at 100%.
- » Forecast for return to pre Covid-19 volumes is increasingly optimistic and expected to out-turn c. 80 of budget in July. London market is leading recovery.

### **Building Fabric and Envelope** – no update since 22/06

- » Key Drylining manufacturers are open on a reduced capacity and in line with anticipated demand and government guidelines. Some suppliers have increased product stock and distribution capacity to 80% of Pre-covid levels. Allocation continues to remain in place.
- » Drylining and insulation distributors continue to operate at reduced capacity however more branches are opening steadily as demand increases. Distributors are committed to prioritising supply to critical projects and deliver to non-critical sites where capacity and availability of materials allow. For plasterboard and plaster, distributors confirm that material allocation is increasing weekly. There are extended lead times for various insulation products.
- » Timber material suppliers continue to run at a reduced number of branches open across the UK. There are signs of price inflation although suppliers believe it is opportunist rather than core fundamentals driving up prices. Direct contact by phone or email is required with national sales teams or local branches prior to placing orders on a delivery only basis. PEFC or FSC wood specifications sources are available through select building merchants.
- » Aluminium curtain walling, windows and door profile manufacturers continue to operate and supply materials; some at a reduced capacity. Minimal impacts to projects are expected as manufacturers have good levels of stock (built up for Brexit) and continue to supply operating fabricating subcontractors.

**FM, Plant & Fleet** – no update since 22/06

- » **Plant** – The plant industry continues to operate and support the construction industry. Most plant hire providers have between 80 – 100% branches and depots open. We may start to see OEMs re-structuring business due to fall in demand<sup>4</sup>.
- » **Fuel** – Brent Crude Oil remains steady at 32 euros a barrel.
- » **PPE** – HSE notified the media that there are a substantial number of face masks, claiming to be of KN95 standards, but in fact provide an inadequate level of protection and are likely to be poor quality products accompanied by fake or fraudulent paperwork in the industry at the moment<sup>5</sup>.

**M, E & P** – updated 30/06

- » The MEP supply chain is de-furloughing staff and increasing production as the focus moves towards business as usual.
- » Stock levels in wholesalers remains very good. Sales staff continue to work from home using IT to process orders and call on customers.

**Labour** – no update since 22/06

- » Government payments of furlough pay are running smoothly.
- » Projects are starting to open across the industry and focus has been on enabling projects with health and safety rigour.
- » Key vendors are keen to continue the close working practices of open sites and future plans for contingent labour.

**Subcontractors** – no update since 22/06

- » Concerns have been raised across the industry regarding the medium to long term impact on subcontractors. SME are particularly at risks of bankruptcy however Government funds have started to be released but this still remains a risk.
- » There is potential to have supply issues in the earth moving sub-contract towards 2021 due to high profile work (HS2) taking capacity in plant operatives and earthwork supervisors specifically. Currently there seems to be no issue in the market with work in London/M4 corridor for example continuing in line with Covid-19 Site Operating Procedures.

**Building merchants** – no update since 22/06

- » Our strategic building merchants are operating a reduced capacity and service at between 20% to 50% capacity across UK. Overall market demand mirrors this capacity.
- » Civils & Merchants supply chain is increasing production.

<sup>4</sup> <https://www.expressandstar.com/news/business/2020/05/15/jobs-at-risk-as-crisis-halves-jcb-demand/>

<sup>5</sup> [https://www.hse.gov.uk/safetybulletins/use-of-face-masks-designated-kn95.htm?utm\\_source=govdelivery&utm\\_medium=email&utm\\_campaign=kn95-safety-alert&utm\\_content=textlink](https://www.hse.gov.uk/safetybulletins/use-of-face-masks-designated-kn95.htm?utm_source=govdelivery&utm_medium=email&utm_campaign=kn95-safety-alert&utm_content=textlink)