



WHITE PAPER

UK Covid Impact Customer Update – Q3

Quarterly Construction Materials and Labour Pricing Update

Since our last update the general economy has picked up significantly. In September schools reopened and staff started returning to working in office. In the month of July, the economy grew by 6.6%. However, output is still below pre COVID-19 levels.¹

The COVID-19 outlook appears slightly more concerning since the start of September, with recorded cases rising, the alert level increasing to four, additional restrictions being enacted across the UK, and an ever-increasing list of local tightening and lockdown measures.

Further uncertainty has been created in the market with the possibility of a no deal Brexit, which in turn has created currency fluctuations all summer.

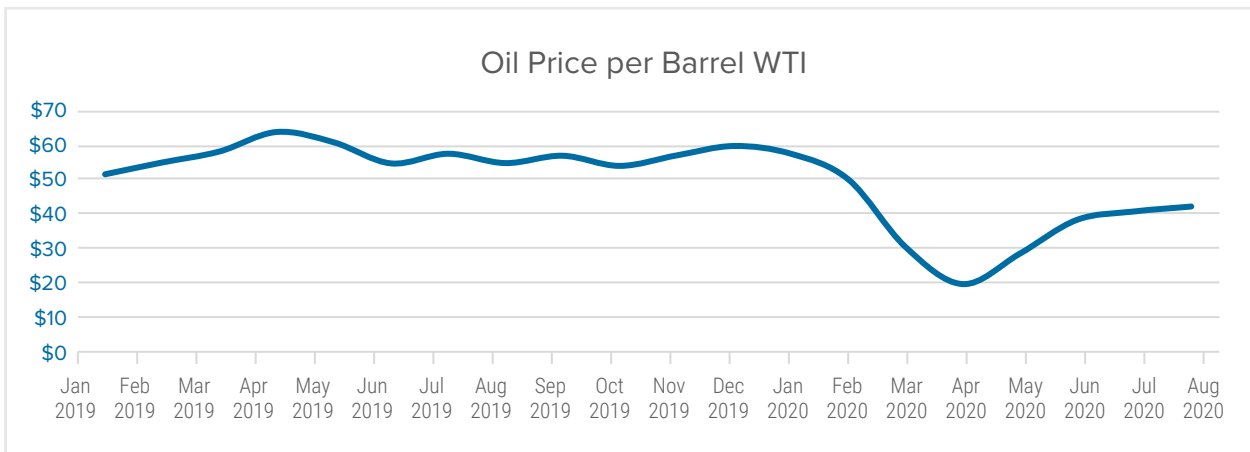
We remain in an ever-evolving situation. While 1 in 10 of the UK workforce remains furloughed, the construction industry has shown signs of rapid recovery over the Summer months following the largest drop in output recorded in April 2020.

¹ <https://www.bbc.co.uk/news/business-54113948>

MARKET INDICATORS

Oil prices continued the recovery seen at the end of Q2 2020 as the demand for oil began to rise as major economies throughout the world reopened. Prices initially increased rapidly before levelling out at approximately 20% down compared to the start of 2020. Global demand for oil has not returned to pre COVID-19 levels due to decreased transport and production globally.²

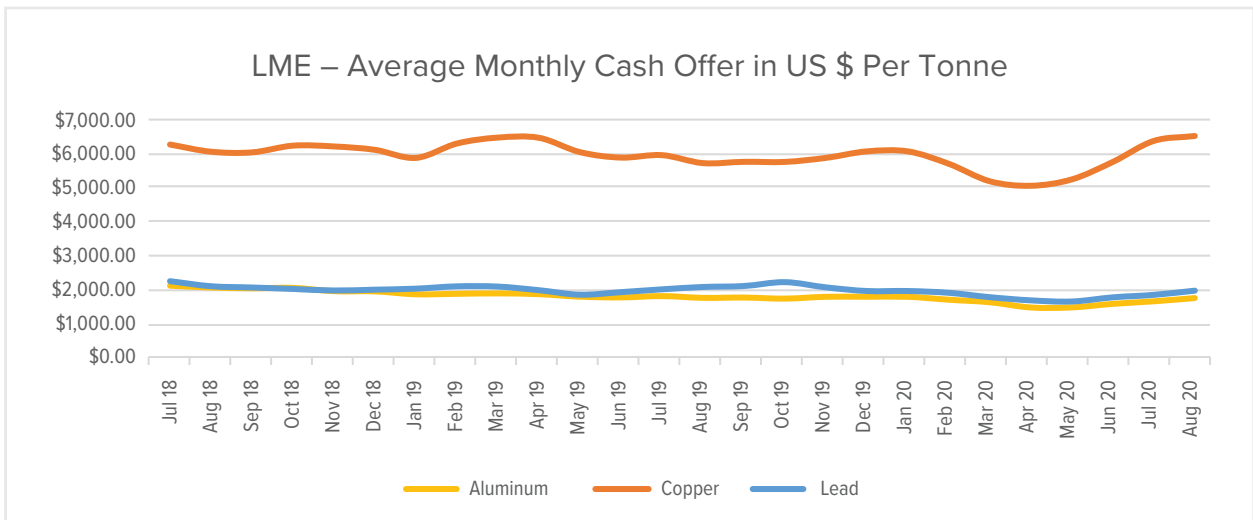
In September, prices had begun to decline slightly as many countries began tightening restrictions before again recovering. On this basis, it is likely that further volatility may be seen as 2020 progresses and threats of second waves threaten globally.



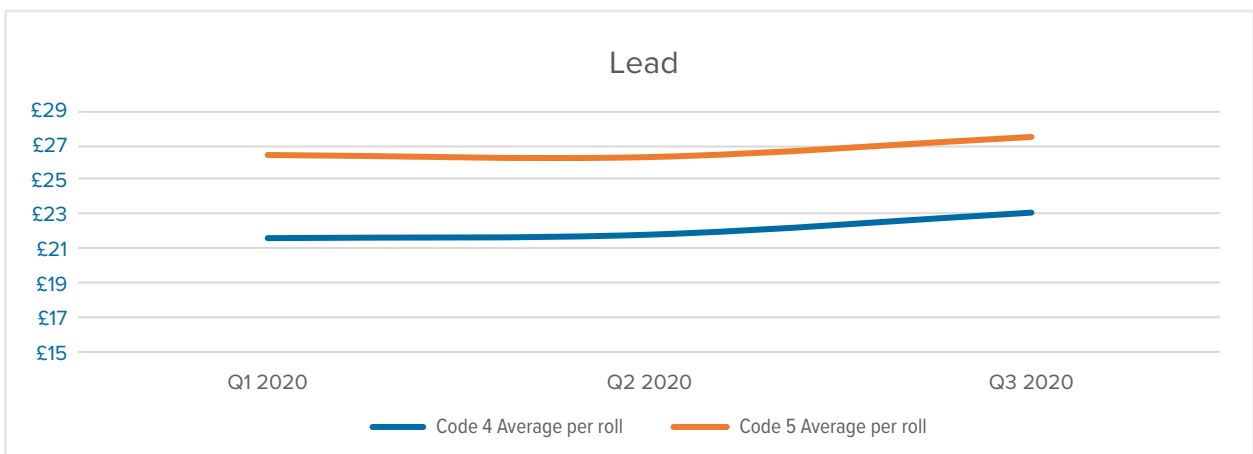
² <https://www.macrotrends.net/2516/wti-crude-oil-prices-10-year-daily-chart>

Copper prices have not only recovered but reached a two year high on the London Metal Exchange³. Opinions differ about how long this recovery may last for, and prices are generally expected to drop as the production of copper picks up. One of the main factors that influenced the rise in the cost of copper was the disruption to the South American mines. This disruption reduced supply at the same time as the Chinese economy showed signs of recovery—all of which lead to a simultaneous increase in demand. For this reason, it is believed that the price of copper is currently over estimated.⁴

Aluminium and lead have returned to their pre COVID-19 prices, having experienced smaller fluctuations during the height of the pandemic.



The increase in the price of lead has been observed within our research for lead flashing within our Roofing Category, where prices are showing an increase on the previous quarter.



³ <https://www.lme.com/News/Non-ferrous/Copper#tabIndex=3>

⁴ <https://www.cnbc.com/2020/07/06/copper-could-see-a-supercharged-recovery-but-analysts-are-cautious.html>

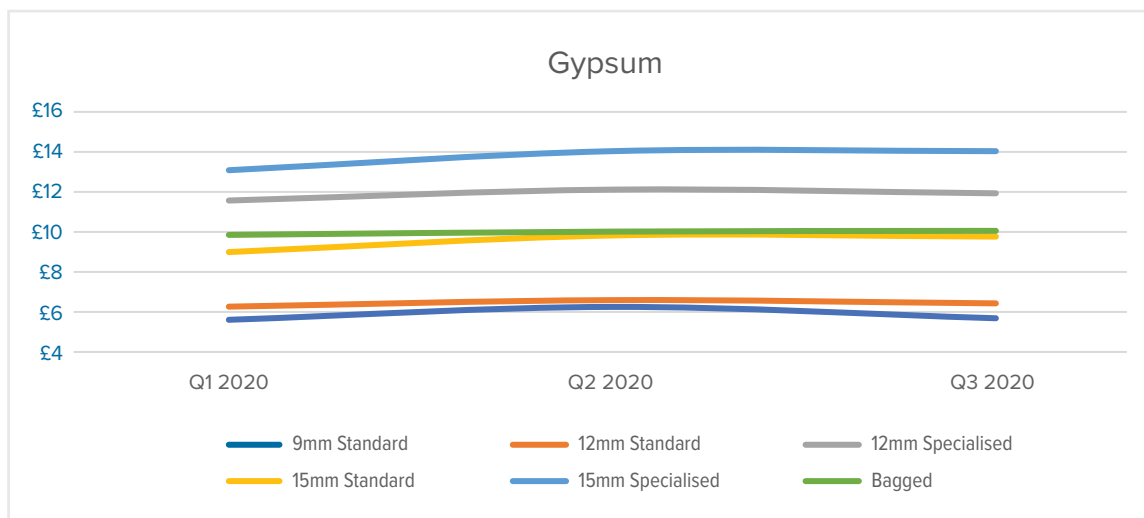
Plaster

Plaster production is now at normal production capacity; however, demand remains at an exceptional level. Matt Pullen, Managing Director of British Gypsum, stated:

“We are acutely aware that many of our individual plasterers are still having difficulty obtaining plaster from their usual distributor, merchant or DIY stockist. Given this continuing very high demand, plaster will remain on allocation to ensure we supply all our usual merchants fairly. We are working 24 hours a day, seven days a week to ensure as much product is available as possible.”⁵

Pullen also referenced the continued inflated prices available for plaster products at some retailers, indicating average prices are still higher than at the start of the year. This means that price movements are less linked to production than we may have expected.

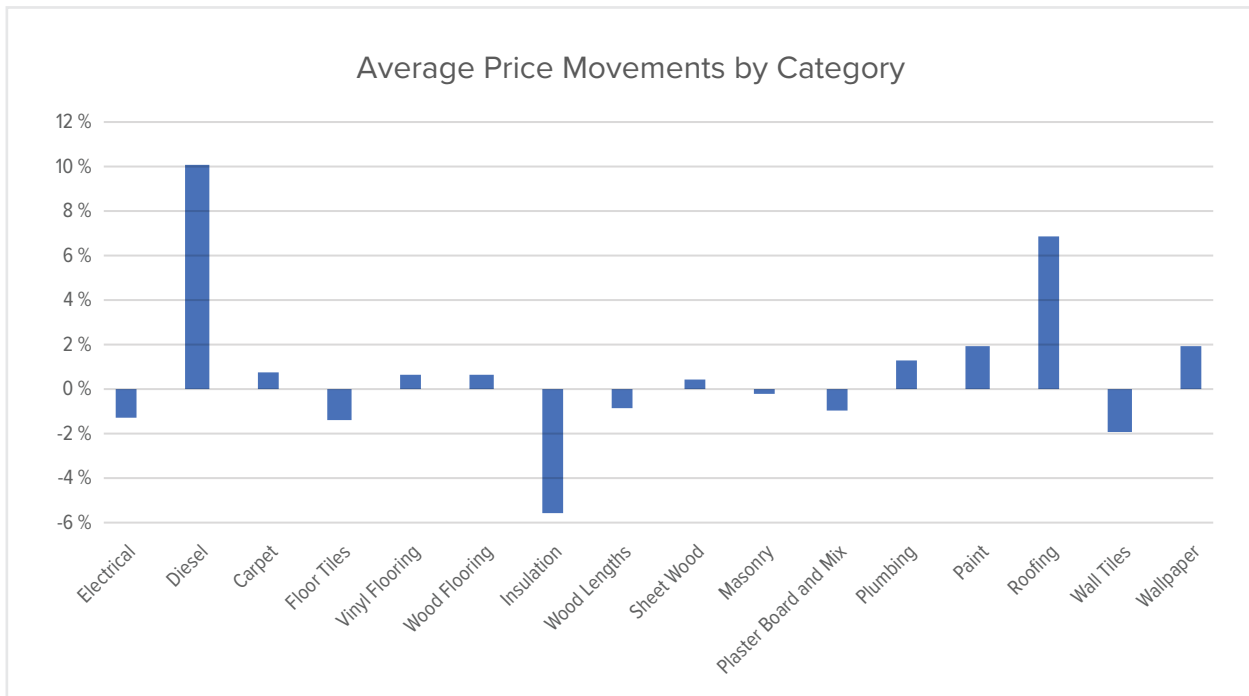
We have seen this in our research this quarter, where plaster board and mix prices have fallen slightly, following a significant increase in the previous quarter as production levels have returned to normal. We expect this price will fall further as retailers become more price competitive.



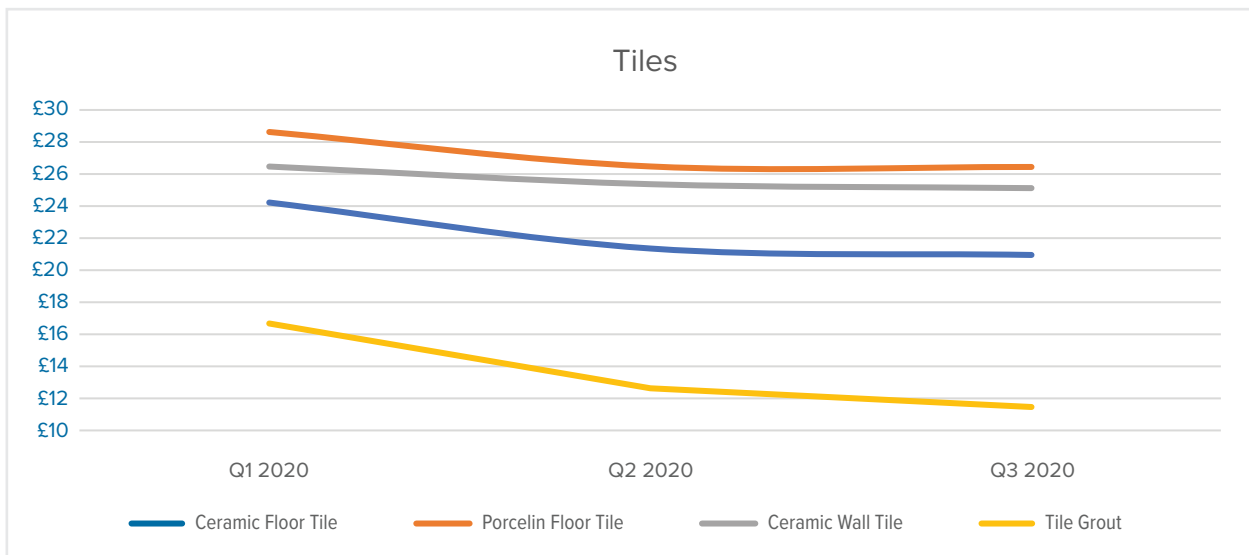
⁵ <https://www.british-gypsum.com/about-us/coronavirus>

RESEARCH FINDINGS – Materials

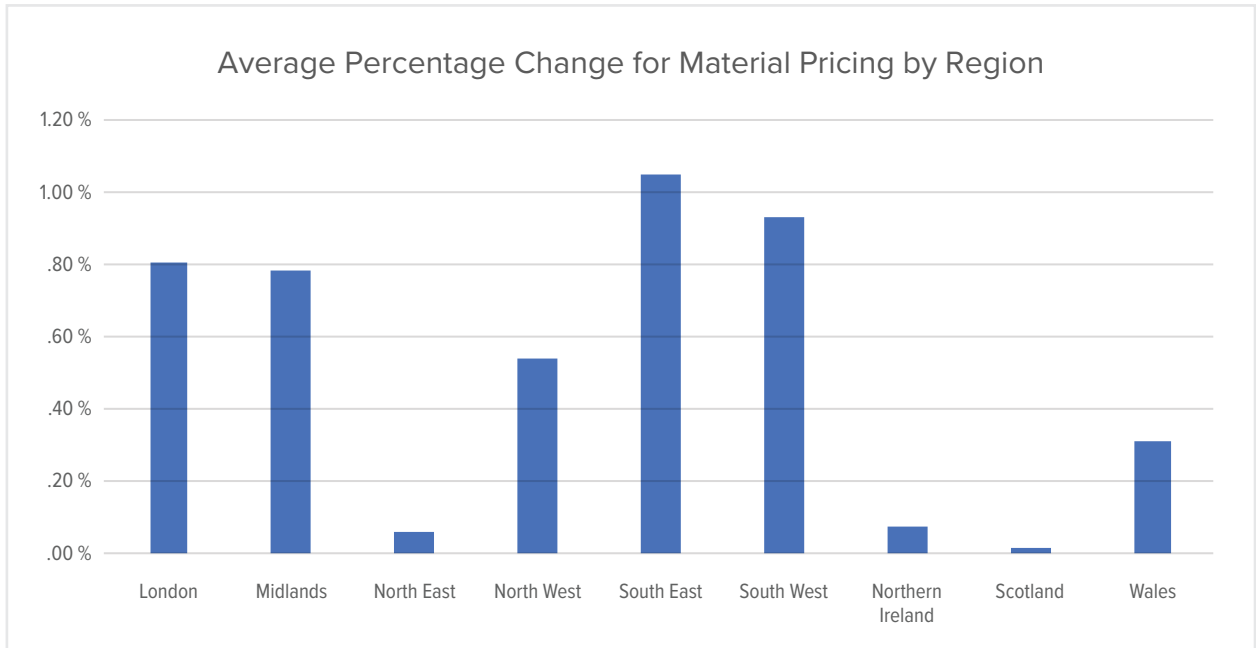
Raw material prices have begun returning to their prices at the start of the year. Most notably, diesel prices have increased by 10% on average, countering the price decreases seen the previous quarter. However, these prices have not returned to their pre COVID-19 levels, much like the price of oil per barrel.



The prices of both wall and floor tiling has continued to fall, albeit at a much lower rate than in the previous quarter.



Most prices have stayed relatively stable and within the bounds we would expect. However, on average prices have risen across the UK, the largest price rises being seen in the South East, the only region to exceed 1% price growth in the UK.



Labour

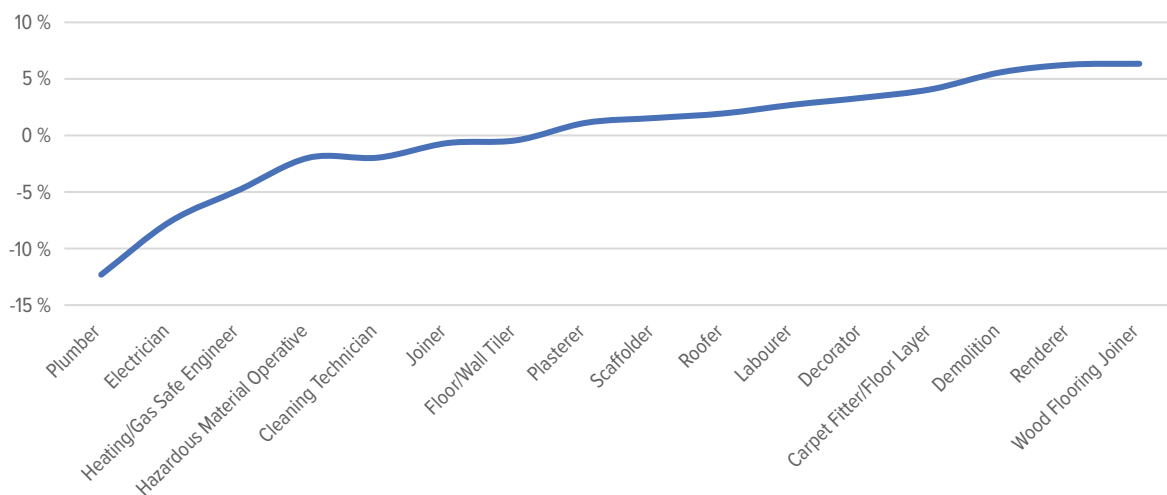
The Construction industry has shown great signs of recovery in the past quarter; however, construction output is still at an 11.6% reduction compared to January 2020.⁶ Obviously this decrease in output has caused a detrimental effect on employment. Construction has recovered well comparably to other industries, with the largest proportion of workers returning to work of any sector with only 22% of workers furloughed remaining on the furlough scheme.⁷

Our research at Verisk Property has shown some significant movements. However, most costs have not fluctuated a large degree. The largest changes have been seen with skilled indoor trades: electricians, heating/gas safe engineers, and plumbers.

⁶ <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/articles/coronaviruscovid19roundupeconomybusinessandjobs/2020-07-02#services>

⁷ <https://www.building.co.uk/news/construction-workforce-sees-biggest-drop-in-furloughed-workers-out-of-all-sectors/5108018.article>

Average % difference between 2019 and 2020



As stated in the I Love Claims webinar⁸ of the 10th September, most areas of construction linked to the insurance market are now back to pre COVID-19 levels after experiencing a decline in work uptake earlier in the year. Exterior works were able to continue, which explains the decrease in wage rate for skilled indoor trades, as demand for non-essential interior work dropped.

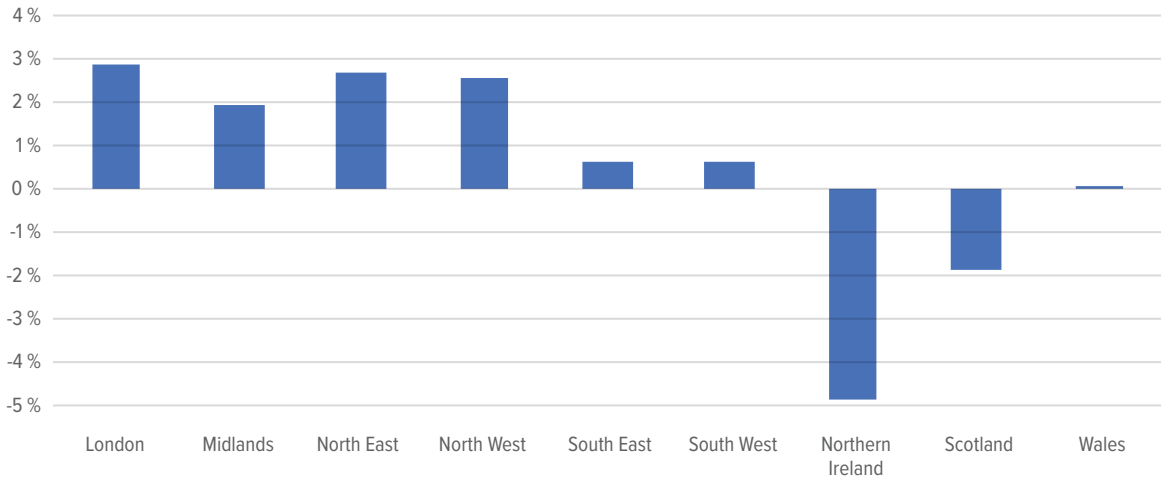
Across England, the average wage of construction trades has increased across all regions. However, in Scotland and Northern Ireland, the average wage has decreased. The reason for the increases was a skills deficit which was expected because of Brexit, but the Industry has been less able to resolve that skills deficit largely because of COVID-19. In order to help counter this across the UK, on the 29th September NHBC are launching their first ever apprenticeship scheme to counter this skills shortage and train the next generation of construction professionals. Darryl Stewart, the head of training and analysis at the NHBC stated “Our apprenticeships provide a first rung on the ladder, along with a solid understanding of the issues and opportunities facing the industry”.⁹

⁸ https://www.youtube.com/watch?v=W2l8Y0R_Fww

⁹ <https://developmentfinancetoday.co.uk/>

[article-desc-8194_nhbc-launches-apprenticeship-scheme-to-train-%E2%80%98builders-of-the-future%E2%80%99](https://developmentfinancetoday.co.uk/article-desc-8194_nhbc-launches-apprenticeship-scheme-to-train-%E2%80%98builders-of-the-future%E2%80%99)

Average % difference across the UK between 2019 and 2020



The Verisk Property Pricing Team will continue to monitor the changes closely. We will share any insight with our customers as the situation evolves. We will continue to reach out and talk to our customers, listen, and share information before deciding our next steps. Changes will be reflected in our quarterly pricelist release as the industry reacts to the ever-changing climate. The next pricelist will be released on the 1st January 2021.

Stay Safe

For further information please contact UKpricing@Xactware.com

