

The local construction industry rebounded in the second half of last year and recovered much of the turnover lost due to lockdown restrictions. That's according to the latest Construction Employers' Federation State of Trade Survey for H2 2020. Two-thirds of turnover for last year occurred in H2. However, despite the rebound, average turnover was still down 20-25% on 2019.



The speed and scale of the construction sector's recovery has been much swifter than after the last recession more than a decade ago. Fortunately, this time around, austerity and swingeing cuts to the government's capital investment plans are not on the menu. Nor is there a legacy of negative equity to sap demand for residential housing for years to come. Nevertheless, there is a sense of déjà vu at some of the challenges facing construction firms in 2021 and beyond.

Three key challenges evident in the latest Construction Employers' Federation State of Trade Survey concern demand, supply-side disruption and inflationary pressures. In turn, the interaction of these factors will put pressure on profitability. Indeed, the spectre of negative profit margins may become more widespread this year like it was a decade ago.

According to the industry, two key demand challenges stand out. These are the significant reduction in public sector opportunities in 2021; with almost three times as many firms (43%) anticipating reduced opportunities relative to those expecting an increase. Even more stark is the anticipated drop in demand within Northern Ireland's commercial market. The legacy of COVID-19, both in terms of debt and working from home, will shape demand within this sector for the foreseeable future. Perhaps not surprisingly two-thirds of local firms expect commercial market opportunities to fall in 2021.

Eight out of ten construction firms have experienced delays in their supply-chains as a result of either COVID-19 or Brexit. For over one-third of firms (35%) the delays experienced so far have already severely disrupted their business. A further 35% expect severe disruption to occur in due course. Supply-chain disruption has been par for the course during January and it is not just down to Brexit and COVID-19. The global shipping industry is struggling to deliver what the world wants to buy during lockdown. A shortage of containers is choking exports and has triggered a surge in prices. Some ports are reporting tenfold increases in the cost of containers. This has been impacting on manufacturers, consumers and the construction industry.

Disruption in the global logistics industry adds yet another layer of uncertainty - in terms of cost and delivery times - on top of Brexit and COVID-19 related disruptions. Resilience and patience are two qualities exemplified by the construction industry. And these virtues will be tested in the coming months. Indeed, local construction firms face a perfect storm of uncertainty as far as public procurement and tendering are concerned. Supply-chain

disruptions alongside significant price rises for construction related materials make it difficult, if not impossible, for firms to accurately price tenders on a profitable basis. Given that Northern Ireland's public procurement tenders are awarded on 'price only' evaluations this presents risks to both firms' profitability and the quality of the projects undertaken. A lack of sufficient workloads could lead to a race to the bottom on price. While this may appear desirable from a value for money perspective, it is not sustainable - nor in the interests of the local economy - to have an unprofitable construction sector.

The key findings of the survey include:

1. A game of two halves with two-thirds of turnover completed in H2 - that is twice the activity in H2 than H1 and was due to the lifting of restrictions on construction work.
2. On average turnover was still down 20-25% on 2019.
3. The number of firms reporting a deterioration in profit margins outnumbered those reporting an improvement by more than eleven to one.
4. Over half of firms are operating at full or almost full capacity (53% ) while the remainder (47%) are operating at  $\frac{3}{4}$  capacity or less.
5. Encouragingly the vast majority - 82% - of firms expect furloughed staff to be retained.
6. Cost inflation has led to rapid input costs rises with 64% of responders seeing increases in labour costs, 95% in material costs and 67% in plant costs.
7. 79% have experienced delays in supply chains as a result of Covid-19 and Brexit.

8. 35% have seen the delays in supply chains severely disrupt their business while 35% haven't but expect it to in due course.
9. Prospects for the year ahead - Almost 3 x as many firms (43%) see reduced opportunities in the public sector than those who expect increased opportunities. Even more stark for NI commercial opportunities with two-thirds expecting these to fall in the next year while 4% foresee increases. On commercial opportunities in GB market, 17% see these reducing with 17% expecting increases.

The survey was conducted in late December/early January and CEF points out that it contained the responses of 80 Northern Ireland-headquartered construction firms with a combined turnover of £1.5bn per annum.

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