Economic Implications of the Lockdown in Construction

9 March 2021

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Economic Implications of the Lockdown in Construction

Dear Hubert,

In accordance with the terms of our engagement letter signed by you on 26 February 2021, we have prepared a report on the Economic Implications of the Lockdown in Constructon.

Limitations of Scope

We have not, except to such extent as you requested and we agreed in writing, sought to verify the accuracy of the data, information and explanations provided by yourselves, and you are solely responsible for this data, information and explanations. We have therefore relied on the information provided by you to be accurate and complete in all material respects.

The report has been provided to you for the above Purpose only and should not be used or relied upon for any other purpose, nor should it be disclosed to, or discussed with, any other party without our prior consent in writing.

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We appreciate the opportunity to have provided EY's services to the Construction Industry Federation. Should you have any queries or comments regarding this report or if we may be of any further assistance, please do not hesitate to contact me on +353 1 221 2611.

Yours sincerely

Simon MacAllister

S MacAllister

Partner

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1. Economic Implications of the Lockdown in Construction

Lockdown having widespread repercussions for all stakeholders in construction

The Government's decision to extend the partial lockdown of the construction industry for a further 6 weeks until 5 April, follows the 6 week partial lockdown period from 8 January 2021. This means the construction industry will have been shut for 19 weeks since the pandemic started. This is giving rise to widespread repercussions for construction firms, construction workers and apprentices, clients, the industry's supply chain, the economy and society as a whole.

Discussions with CIF member federations and Euroconstruct members across Europe confirm that Ireland is the only country across Europe with a partial lockdown of the construction sector.[1] A number of countries, notably Poland and Denmark, are strongly promoting construction activity, accelerating the commencement of new infrastructure and renovation projects to support their economies.

A fully functioning construction sector is essential to ensure Ireland remains a competitive place to do business. FDI clients rely on the high level of expertise of Irish contractors who are known for being world class in delivering high quality infrastructure. There is now a risk that the continued restrictions placed upon the sector could lead to reputational damage at an international level, which could cause FDI clients to look elsewhere for construction expertise.

Definition of "essential services"

The "essential services" covered under the January 2021 Regulations[2] exclude the construction and development of private housing and private non-residential buildings. It appears that the definition appears to mostly accommodate 'public' sector projects as opposed to 'private' housing and 'private' non-residential building projects. This is difficult to explain given the housing supply shortage which continues to prevail across the entire market, as well as the importance of FDI clients to the Irish economy. While some essential sites remained open, many private sector sites closed with resulting layoffs.

Initial evidence of the impact of the pandemic is evident from official data from 2020

- The first lockdown lasted 7 weeks from 27 March 2020, led to a contraction of 8.6% in volume of construction investment in 2020[3]
- The weakest performance was in the residential sector, where production contracted by 19.2% in 2020[4]
- The level of house building declined by 32.6% year-on-year in Q2 2020 to 3,237 units, the lowest level since Q1 2017
- There were large scale job losses, with 79,300 construction workers claiming the Pandemic Unemployment Payment (PUP) in the peak week (5 May) and a further 35,171 claiming the Temporary Wage Subsidy scheme (TWSS)
- In total 89.1% of the numbers directly employed in construction in Q2 2020 (128,500) or almost 9 out of every 10 workers in the industry were on some form of pandemic related payment

The impact of the Government decision on 8 January 2021 has been stark

- There were 59,867 construction workers in receipt of the PUP on 2 March 2021, almost one in two workers (43.9%) of the total number directly employed in construction (136,400) in Q4 2020.

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[1] Based on consultations with FIEC, the European Construction Industry Federation and members of Euroconstruct, www.euroconstruct.org.

[2] Health Act 1947 (Section 31A – Temporary Restrictions) (COVID-19) (No. 10) (Amendment) Regulations 2021 (S.I. No. 4 of 2021) ("January 2021 Regulations"). gov.ie - Statutory Instruments related to the COVID-19 pandemic (www.gov.ie)

[3] CSO National Accounts. This figure excludes of transfer costs, i.e. the costs associated with the transfer of land and buildings. When these are included the corresponding contraction in 2020 was 9.1% on the same period in 2019.

[4] CSO Building and Construction Production Value Index. The corresponding volume change was 20.1%.

- 5,266 construction employers were using the Employment Wage Subsidy Scheme (EWSS) in January 2021.
- Given that 89.1% of those directly employed in construction were on pandemic related payments at the peak of the first lockdown, the current partial lockdown could result in additional people on the scheme, as some of those deemed "essential" sites reach completion over the coming weeks and workers will be unable to move to find work on alternative 'private' construction sites. In the event, for example, that the numbers increased to 60-70% of the total directly employed, this would correspond to between 81,000 and 95,500 direct construction workers.
- The heightened concern in the industry is evident from the latest Ulster Bank Construction PMI for February 2021[5], as the index plunged to 27.0, signaling a further contraction, following the steepest month of contraction in January 2021 since May 2020, due to the renewed COVID-19 lockdown. All three sectors contracted sharply again in February for the second month in a row. Civil engineering activity contracted the most last month (19.5 vs 42.0 in December) with sharp declines also in commercial activity (31.2 vs 49.7) and housing activity (23.8 vs 56.2).

The Government decision on 23 February to extend the partial lockdown of the construction sector until at least the 5 April 2021 will exacerbate the above trends, with adverse consequences for the wider economy.

Economic impact of the lockdown in construction

Any spending during construction, or in the supply chain, will have a considerably larger effect on the economy than the initial amount spent. This is because there is an entire economic supply chain being supported by this spend, not only in the construction industry but across a wide range of sectors such as energy and building materials. It is therefore important to take the wider contribution of construction to the economy into account in order to estimate the total economic impact of construction activities, rather than just estimating the total amount that the industry and its suppliers spend directly in the economy.

Based on our assessment of economic impact multipliers for construction, the economic impact of the lockdown in construction is estimated, after all direct, indirect and induced economic impacts are taken into account in the construction supply chain and the wider economy.

Estimated Economic Impact of Lockdown in Construction in 2020 and 2021

	2020	2021
Value of Construction Output (current prices)	**€24.7bn**	**€21.6bn**
Change in construction output	-€2.0bn	-€3.0bn
Economic Impact:		
Gross output in economy	-€3.70bn	-€5.55bn
Gross Value Added/GDP	-€1.36bn	-€2.04bn
Exchequer revenues	-€0.28bn	-€0.42bn
Full-time equivalent (FTE) Employment	-24,200	-36,300

Source: CSO, EY-DKM

- The value of construction output was €24.7bn in 2020, which is a reduction of 7.3% or almost €2bn in construction investment compared with 2019 (-8.6% after adjusting for construction inflation). This reduction generates less GVA/GDP (€1.36bn) and returns less taxation to the Exchequer (€0.28bn) and reduces FTE employment across the economy by 24,200.
- Assuming the industry remains partially closed until 5 April 2021, which represents 12 weeks in total, and based on an estimated decline of close to 5,000 housing completions to 16,000 in 2021 compared with the outturn for 2020 (20,676), and an estimated decline in non-residential construction of 10.0%, the value of building and construction investment would

[5] https://tradingeconomics.com/ireland/construction-pmi

€21.6bn in 2021. This corresponds to a reduction in output in the sector of €3bn this year or 12.2%.

- This output loss of €3bn is expected to generate a further reduction in GVA/GDP (€2.04bn) and return less taxation to the Exchequer (€0.42bn), while FTE employment across the economy is expected to decline by 36,300.

The economic impact estimates above are gross impacts and have not been adjusted to take account of the range of income supports to the sector during the Covid-19 pandemic. But it is important to point out that these estimates are based on the 2019 outturn. These adverse economic impacts are likely to be significantly higher given that the industry was on a growth trajectory and was projected to perform strongly in 2020 and 2021 pre-Covid-19.

Pandemic challenges for construction firms

- With non-essential construction sites closed for 19 weeks in total, business performance has been severely dented with many firms facing challenges around their cash flow, working capital requirements and retaining their highly skilled staff.
- Contractors could also face tighter margins upon the reopening of the sector, as a result of the changing market conditions plus additional costs, which would present a sustainability challenge for the sector.
- There is the risk that the ability of contractors to tender for public sector work may be limited, as required turnover thresholds may not be achieved due to the reduction in turnover. This may result in deliverability challenges if firms which close, are not replaced, resulting in less competition in the market. This may place Irish construction firms at a disadvantage versus European firms bidding for projects in Ireland.
- Similarly, the opportunity to bid for work overseas may be impacted by the lockdown in Ireland. The top 50 contractors in the industry had a combined Republic of Ireland turnover of €6.7bn in construction activity in 2019[6], equivalent to one-quarter of total construction output. Assuming their turnover declines in line with the sector as a whole, this would be equivalent to a decline of €490m in 2020 and €759m in 2021. These firms exported €3.3bn in construction expertise, a figure which is also likely to be lower due to the challenges with operating in a partial national lockdown with travel restrictions. [7]
- A recent CIF Survey of its members on construction prices reported that 83% were experiencing prices increases for steel, two-thirds were experiencing price increases for timber and almost 50% for cladding. [8] The survey also reported that one-third of respondents were experiencing delivery delays as a result of Brexit. The IHBA completed a survey amongst homebuilders that suggested that there had also been significant rises in the cost of materials with, timber price increasing by 10.01%, steel by 12.6%, insulation materials by 9.8% and cement aggregates by 6.0%. [9]
- The Construction PMI in February reported the highest rate of input cost inflation March 2019, which is adding further to construction costs.
- For those construction firms not deemed to be undertaking essential projects, they are incurring their normal head office overheads/non-site-based costs as their staff work from home. In addition, there are obligations in terms of pay for public holidays when workers are on temporary lay-off. This may be sustainable in the short term for those larger companies who have healthy balance sheets, however smaller and micro businesses could be under an increasing level of financial stress which could lead to them increasing their corporate debt levels. Many of the smaller firms in the sector – 96.5% of construction firms (55,616) employ

[6] Construction Top 50 2020 Survey, CIF
[7] Ibid.
[8] CIF Survey on Construction Price Inflation, February 2021.
[9] IHBA Estimated delivery 2021 and construction remobilisation.

less than 10 persons – may work in the renovation sector and on smaller home extensions, which are not deemed essential.

- The remobilisation of sites will be more difficult the longer the partial lockdown remains, with the likelihood that a return to 100% productivity on site may take some time to achieve.

Consequences for construction workers

- Of the 136,400 persons working directly in construction, an estimated 80,000 comprise on-site construction workers, with the balance of almost 70,000 comprising professional and office-based employees, largely instructed to work from home.
- Many in the further education and training sector will also have been impacted while there are the separate issues for apprentices, with on-site attendance severely restricted and off-the-job training programmes moved primarily to online.
- The risk in a lockdown situation is that construction firms and/or self-employed individuals may undertake construction work in the 'hidden' or 'shadow' economy in order to generate income. There is no estimate available of the extent, if any, of this activity but the longer the lockdown continues the more likely this type of activity could emerge. The loss of taxation and other revenues to the Exchequer would be one of the main consequences should this increase. Some workers could choose to remain in the 'shadow' economy after lockdown, resulting in a longer-term negative impact.
- The availability of adequate skilled resources in the industry has been a challenge for some time in advance of Covid-19. There are an estimated 50,000 qualified skilled crafts persons and an estimated 46,000 self-employed persons in the construction industry. [10] Many will work in the residential and non-residential renovation market and will therefore be unable to work. With construction industries fully opened across Europe, there is a risk that workers may opt to emigrate to where work is available rather than remain on PUP payments for a further 6 weeks. This is a factor which could derail the construction recovery when the lockdown is eased.

Consequences for clients

- All construction projects which are not deemed to be "essential" will now be on hold for a further six weeks. Office building, manufacturing and FDI projects, hotels, private cultural and sporting facilities, student accommodation, private health and education facilities, will be delayed, resulting in additional costs for clients.
- The impact of unfinished sites exposed to weather for longer periods than technical standards or warranties may allow, particularly for those using timber frame construction, will result in additional costs.

Covid-19 has caused a series of retrograde steps for the housing market

Ireland has a significant housing crisis which the partial shutdown of the sector has exacerbated. The crisis has put pressure on their cash flow, their ability to access finance and working capital to finance ongoing operations. There are negative consequences for the housebuilding industry, the economy and society:

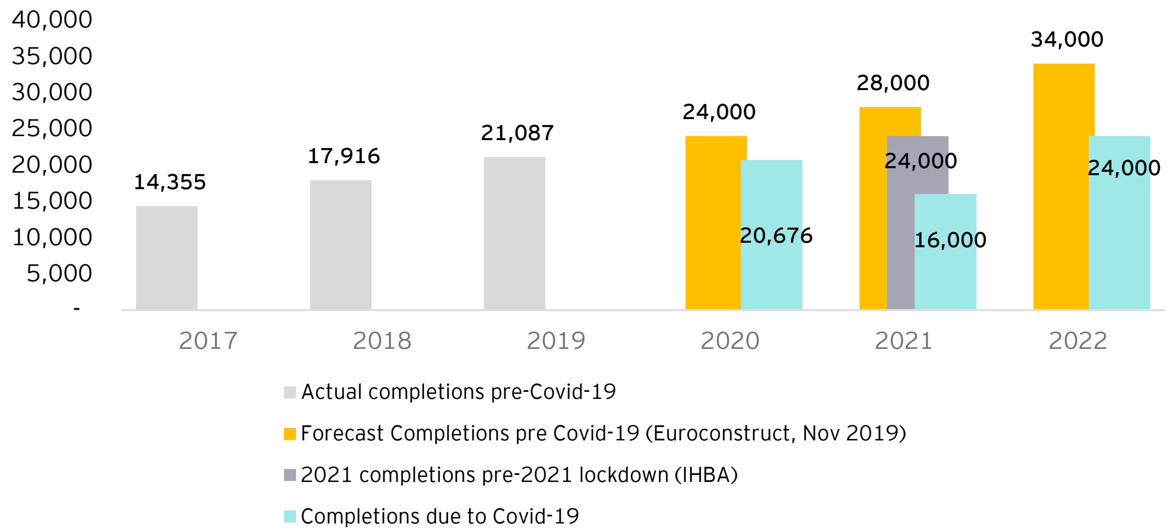
- The level of new commencements declined by 23.5% in the first nine months of 2020 to 17,615 on the same period in 2019. This will have serious repercussions for the supply pipeline in 2021
- The partial lockdown since 6 January is now planned to continue until 5 April, which will mean a further 13 weeks of lost housing output in 2021. A 13-week lockdown will see the level of housing supply significantly undershoot the pre-Covid-19 projection for 2021 of 28,000 units.[11] Following the Covid-19 impact in 2020, the IHBA had revised their projection for 2021 to 24,000 completions before the 2021 lockdown.

[10] Demand for Skills in Construction to 2020, EY-DKM, September 2016.

[11] Euroconstruct, November 2019.

- The loss of commencements and momentum during 2020, is expected to result in a sharp fall in housing supply in 2021. Data from IHBA members suggests the industry will lose 8,000 units in 2021, due to the lockdown, when compared with the expected 24,000 units projected for 2021. This implies completions of 16,000 units this year. This is only 57% of what was envisaged for 2021 pre-Covid (28,000), two-thirds of the revised 2021 projection (24,000) and 77% of the actual 2020 outturn (20,676).
- The loss of supply over the two years will be around 15,000[12], compared with what was expected pre-Covid and almost 43% of the estimated national annual demand of 35,000 units. In a housing market where building more homes is a national priority, this trend is a significant retrograde step.
- It is estimated by the IHBA that housebuilding accounts for approximately 30% (24,000) of the 80,000 'onsite' workers in the overall construction sector. In the region of 9,600 workers (40%) are currently travelling to and from work to social housing sites. This implies that 14,400 workers who should be on private housebuilding sites are on PUP payments, or almost one in four of the total number on PUP payments in the sector as a whole.
- The continued opening of social housing sites during the first lockdown resulted in 43.2% of the total supply in 2020 targetting the private market in 2020. This proportion is expected to be lower again in 2021 at 28.1%.

Projected Housing Completions



Source: CSO, EY-DKM, Euroconstruct, November 2019, IHBA.

- In the residential PRS market, the value of transactions was estimated at €1.2bn in 2020, down 52% on the corresponding value in 2019 (€2.5bn).[13] With 68% of this total turnover last year derived from foreign investors, these investors are fundamental to the success of the residential PRS model and to the delivery of housing supply. Property agents report that there continues to be large volumes of capital seeking investment in PRS.[14] However the inability to travel to complete PRS transactions and the extended lockdown and delays are creating additional uncertainties amongst investors.
- There will be further adverse impacts in a wide range of sectors in the housebuilding supply chain, such as building materials and households goods, which will be included in the wider economic impacts estimated above.

[12] This is the total of 37,676 units in 2020 (20,676) and 2021 (16,000) versus the 52,000 units projected in 2020 (24,000) and 2021 (28,000).

[13] Irish Residential Market, Review 2020, Outlook 2021, Sherry Fitzgerald, February 2021.

[14] Ireland Market Outlook 2021, CBRE Research, January 2021

Impacts on society

The expectation for the property market last March was that largescale job losses would result in fewer mortgages, less transactions, a plunge in property prices and substantially lower supply levels. What has transpired has been as follows:

- The scale of the pent up demand is such that it is supporting house prices (nationally prices were up 2.2% year-on-year in December and by 1.2% in Dublin), which is resulting in greater affordability issues for first-time buyers. Recent results reported by Glenveagh included a significant quantity of presold homes which is an indication of the pent-up demand in the market.

- The supply constrained environment is resulting in potential buyers having to stay in rented accommodation or live at home for longer, only to find that house prices could be beyond their reach when they re-enter the house purchase market post Covid-19.

- An added issue is that one of the pillar banks, Allied Irish Banks, has tightened the 'mortgage approvals in principle' regime for first-time buyers, reducing the length of approvals from 12 months to 6 months. There is also a limited availability of mortgages, with the number of mortgage approvals (involving a property purchase) in the eleven months of the pandemic to January 2021 (latest data available) down by 13.1% on the same period to January 2020. The number of mortgage drawdowns was down by 16.4% in 2020 compared wth 2019, while the corresponding value was down 12.8%.

The lack of new supply and credit combined with rising house prices and affordability issues are evidence that Ireland's housing market continues to be dysfunctional and is not meeting the demands of a significant cohort of potential buyers and renters. With an additional 1 million persons forecast to be living in Ireland by 2040, according to the National Planning Framework, the private housebuilding sector needs to urgently deliver new homes.

Private non-residential construction also bearing the brunt of the impact of the partial lockdown; yet public non-residential construction is open for business

- We estimate the value of private non-residential construction is significant and could be of the order of 40% of the total value of construction output.
- Whilst the full impact of Covid-19 on the offices sector has yet to be seen, the uncertainty is causing firms to place expansion plans on hold. There were 394,800 square metres of office space under construction at the end of December and while 54% of it is reported to be pre-let, the likelihood is that the delivery timelines will be pushed out to 2022, with the added inconvenience this causes for clients.[15]
- A recent report from Construction Information Services showed that the number of projects starts in the non-residential sector fell by over 12% in Q4 2020 when compared to the same period in 2019.[16] The report concluded that whilst public sector project starts increased by 175% year on year, there were significant declines in private sector activity, notably in the industrial, commercial and hospitality sectors.

The increased level of uncertainty, delays and potential postponement of some projects will result in a loss of turnover for many contractors as well as reduced employment for many workers in the supply chain, as demonstrated in the economic impact above.

The research and evidence demonstrated highlights the importance of the sector to the economy and shows how the partial lockdown of the sector over 19 weeks since the start of the pandemic is having a number of adverse consequences, which will be exacerbated, the longer the lockdown is extended. In order to allow the sector to recover from the contraction in 2020 the sector should be urgently opened ensuring compliance with operating guidelines, given the importance of the sector to the economy.

[15] Dublin Office Market, Q4 2020, Cushman & Wakefield.

[16] Construction Information Services Construction Activity Report Q4 2020

2. Appendix A

2.1 Background

The construction industry is a vital sector of the Irish economy. The industry is responsible for providing the housing, social and productive infrastructure required to sustain economic growth and competitiveness and attract foreign direct investment. By providing efficient and quality infrastructure, the industry helps Ireland to remain a competitive place in which to do business. Irish construction firms have built relationships over decades working on major projects for leading multinational firms in Ireland. The high level of expertise of Irish contractors in delivering complex projects on schedule for FDI clients is key to supporting a confident FDI sector.

The successful delivery of projects in the National Development Plan and Project Ireland 2040 requires the industry to be fully open for business, appropriately resourced and working efficiently, while also delivering value for money. The wider policy agenda for construction in the medium-term is to improve productivity and sustainability and develop its technology, all of which can only be tackled by having a fully functioning construction industry.

However, the Covid-19 pandemic over the past twelve months has adversely impacted the construction sector, with a number of negative consequences for the industry, its supply chain, the economy and society as a whole. This analysis sets out those consequences which have arisen to date and the impact of the Government's decision to retain a partial lockdown on the sector.

The Covid-19 pandemic continues to have a profound economic and wider societal impact. It is fully acknowledged that the reopening of the economy in December contributed to unprecedented case numbers and deaths, which has been very difficult for communities and placed considerable pressure on health services. Although case numbers were down substantially on 27 February (738) compared with the 8 January peak (8,248) and down 42.5% since the previous peak (18 October), they remain elevated.

The construction industry has shown resilience in how it has dealt with the unprecedented challenges of Covid-19 from the beginning. Looking to the future, the widespread deployment of vaccines is the one factor which now offers hope for a path out of the crisis and will allow the construction industry to re-establish the momentum and growth achieved over the five years to 2019. In the meantime the Government's decision to extend its lockdown of parts of the construction industry for a further 6 weeks, making it 19 weeks that the industry will have been shut down since the pandemic started. This is having a serious repercussions for construction firms, construction workers and apprentices, clients, the industry's supply chain, the economy and society as a whole.

2.2 The Covid-19 timeline for construction

The Covid-19 pandemic triggered an extremely severe economic shock which has been fundamentally different from any previous economic shock in recent history. The latest outturn for Irish GDP in 2020 shows the economy expanded by 3.4% in 2020, reflecting the strength of exports.[17] The volume of modified domestic demand on the other hand contracted by 5.4% in 2020.[18] The latter includes the volume of construction investment which contracted by 8.6% year-

[17] CSO National Accounts for 2020.

[18] Modified Domestic Demand (MDD) is an indicator produced by the CSO to better capture underlying domestic demand. MMD includes domestic expenditure and investment (including construction) in the Irish economy and excludes the impact of large gross flows related to activities of MNEs and aircraft leasing companies and all exports and imports of R&D services and of R&D-related IP Products which are included in the traditional Total Domestic Demand indicator.

on-year.[19] This is in contrast to expectations at the start of the year, with output in the industry on track to perform strongly in 2020, with a forecast volume growth of 6.3% (Euroconstruct, Nov 2019), following a healthy expansion of 8.0% in 2019 and an annual average growth in building and construction investment of 10.7% in the period 2014-2019.

Following the first case of the Covid-19 virus in the country on 29 February 2020, which led to the first restrictive measures being announced on 12 March until 29 March 2020, attention quickly turned to management of the crisis, the protection of lives and livelihoods. Government introduced a number of stimulus packages to mitigate against some of the negative impacts of COVID-19 pandemic, including ex gratia interim payments to contractors on public works contracts, to cover certain non-pay fixed costs associated with site closures, as well enhanced levels of support for the Help to Buy incentive, the Credit Guarantee Scheme, the Pandemic Unemployment Payment, the Temporary Wage Subsidy Scheme (until 31 August 2020), which was replaced by the Employment Wage Subsidy Scheme (to run to 30 June 2021) and the temporary reduction in the standard rate of VAT from 23% to 21%.

The first lockdown on 27 March 2020 – 7 weeks

On 27 March 2020, the Government imposed a full lockdown across society and the economy. These restrictions included mandatory site closures across the construction sector for 7 weeks, apart from c. 35 social housing sites which remained open.

The initial 7 week lockdown represented over half of Q2 2020 and led to a contraction in the volume of construction output of 34.0% in the quarter on the same period in 2019. The level of house building declined by 32.6% over the same period to 3,237 units, the lowest level since Q1 2017. The widespread shutdown at the time led to large scale job losses, with 79,300 construction workers claiming the Pandemic Unemployment Payment (PUP) in the peak week (5 May) and a further 35,171 claiming the Temporary Wage Subsidy scheme (TWSS). In total this corresponded to 89.1% of the numbers directly employed in construction in Q2 2020 (128,500) or almost 9 out of every 10 workers in the industry.

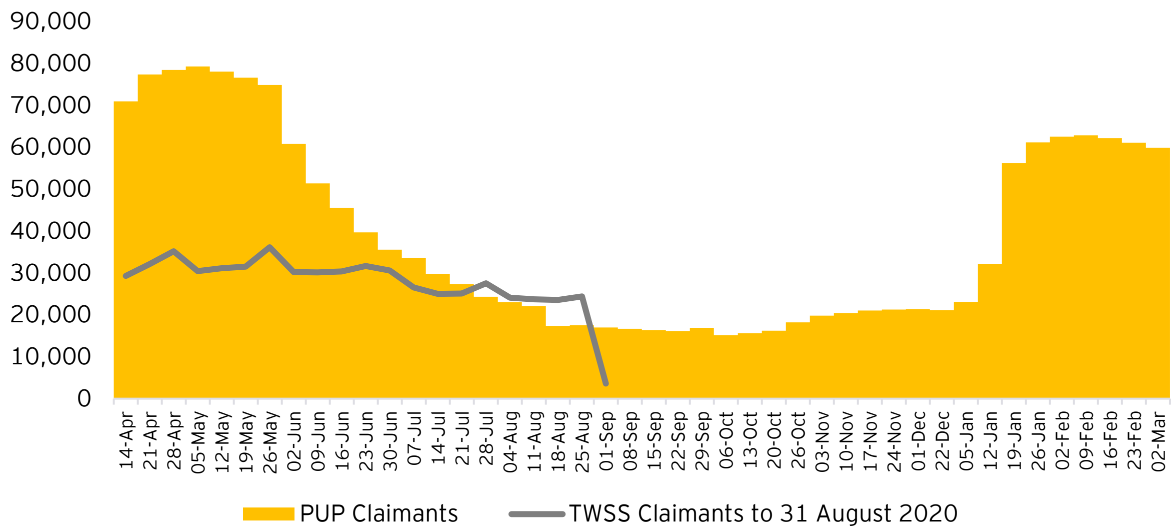
The reopening of sites on 18 May had its challenges. The CIF developed a Standard Operating Procedure (SOP) to help lower the spread of Covid-19 amongst the sector and to provide guidance for those travelling to and from sites. In addition, an agreement was reached with the Trade Union Federation to ensure worker safety on site. This agreement is industry-specific and supports the National Return to Work Safely Protocol.

According to records from the CIF, in excess of 150,000 people had taken the CIF's post-COVID-19 induction programme within a week of re-opening and over 200,000 individuals have to date completed the programme, while the SOP document has been downloaded over 22,000 times. [20] These measures had a number of implications for the industry, leading to higher training and operational costs and concerns about worker productivity. There were also supply chain problems as suppliers were also opening up after the period of the first lockdown.

[19] This figure excludes of transfer costs, i.e. the costs associated with the transfer of land and buildings. When these are included the corresponding contraction in 2020 was 9.1% year-on-year.

[20] Preparatory Works for Construction Remobilisation, IHBA and CIF

Figure 1: Construction Workers on Covid-19 related payments (from 14 April 2020 to 2 March 2021)



Source: CSO, www.gov.ie

The industry continued to operate over the summer months in a difficult environment. Productivity would have been impacted, even though extended working hours were undertaken to finish off projects, particularly on housing sites. The number of construction workers in receipt of the PUP declined as the industry opened up and remained below 20,000 claimants for 10 weeks, from 18 August to 3 November, indicating the increased resumption of work by the majority of firms. The number of construction workers on the TWSS remained above 30,000 until 29 June and above 23,000 thereafter until 24 August, following which the TWSS closed on 31 August 2020. By end of Q3 2020, the number of persons directly employed in construction was 136,700, which represented a decline of 8.8% or a loss of 13,200 workers on the same period in 2019.

The second lockdown on 21 October 2020 – 6 weeks but excluded construction

The second lockdown followed on 21 October as cases reached a new peak on 18 October 2020 (1,283). This lockdown was for 6 weeks and ended pre-Christmas on 6 December. Construction was deemed an essential sector and thus construction and development works were allowed to continue during this lockdown, subject to continued compliance with health and safety guidelines. The industry continued to deliver the critical housing and infrastructure for the economy. The number of PUP claimants in the sector during this period peaked at 11,790 on 16 November.

The third lockdown on 24 December 2020 – partial lockdown for construction for 6 weeks

Ireland entered its third lockdown on Christmas Eve, as a range of restrictions took effect until the new year to control the rising levels of Covid-19 infections. Following a review in early January, after increasing rates of Covid-19 over the Christmas period, the Government made the decision to impose a new set of restrictions on the construction sector from 8 January 2021. The current restrictions are set out in the Health Act 1947 (Section 31A – Temporary Restrictions) (COVID-19) (No. 10) (Amendment) Regulations 2021 (S.I. No. 4 of 2021) ("January 2021 Regulations"). [21] While some essential sites remained open, many sites closed with resulting layoffs. Under the January 2021 Regulations, the previous definition of "essential services" (in the context of construction and development) was amended. Details of those projects permitted to continue are detailed in Appendix B.

[21] gov.ie - Statutory Instruments related to the COVID-19 pandemic (www.gov.ie)

The "essential services" covered exclude the construction and development of private housing and private non-residential buildings. It appears that the definition appears to mostly accommodate 'public' sector projects as opposed to 'private' housing and 'private' non-residential building projects. This is difficult to explain given the housing supply shortage which continues to prevail across the entire market, as well as the importance of FDI clients to the Irish economy. Both sectors are addressed later.

Extension of the third partial lockdown from 22 February – at least 6 weeks until 5 April

On 23 February 2021, the Government decided to extend the lockdown of the construction sector until at least 5 April 2021. Although it represents the continuation of a 'partial' lockdown in construction, the impact has been severe, as the latest available data shows the number of construction workers in receipt of the PUP at 59,867 on 2 March 2021. This represents 13% of total PUP claimants and 43.9% of the total number directly employed in construction (136,400) in Q4 2020. There is a risk this number could continue increasing if some of those deemed essential sites reach completion over the coming weeks and workers will be unable to move to find work on alternative 'private' construction sites.

There were 5,266 construction employers using the Employment Wage Subsidy Scheme (EWSS) in January 2021, which accounted for 15% of the total number of employers availing of the scheme.

The latest restrictions could potentially have considerable time and/or cost implications for non-essential construction and development projects across Ireland.

Discussions with CIF member federations and Euroconstruct members across Europe confirm that Ireland is the only country across Europe with a partial lockdown of the construction sector.[22]

- Whilst new and tighter restrictions were implemented in January 2021 across the UK, construction activity has been allowed to continue unlike in March/April 2020 when activity in the sector was forced to close.
- Spain had an initial 3-week shutdown in March 2020
- In Italy there was a 2 week shutdown on 22 March 2020 for all sites, apart from civil engineering and plants for public utilities, which was followed by a 2 week shutdown on 1 April 2020 for all construction sites. This was extended 3 weeks on 10 April. Since November, Italy have had regional measures in high risk territories with construction sites closed, apart from some public sector projects.
- Governments in Poland and Denmark are strongly promoting construction activity to support their economies. In Poland, the government is accelerating the commencement of new infrastructure and renovation projects, and hew housebuilding is performing strongly, while renovation and energy related programmes for private housing and public buildings are being funded in Denmark.

2.3 The economic impact of the lockdown in 2020 and 2021

The value of investment in the building and construction industry was €26.6bn in 2019[23], of which €4.4bn represented the value of new residential construction, according to the CSO. The industry accounted for 60.9% of total (modified) investment or capital formation, 7.5% of GDP and 12.4% of GNI*. The volume of construction investment contracted by 8.6% in 2020 compared with 2019

[22] Based on consultations with FIEC, the European Construction Industry Federation and members of Euroconstruct, www.euroconstruct.org.

[23] This figure increases to €25.89bn when the value of transfer costs is included (€1.23bn), i.e. the costs associated with the transfer of land and buildings. For the purposes of capturing real building and construction activity, this figure is excluded.

(CSO).[24] A more detailed sectoral breakdown is available from the CSO's separate Construction Production Index and shows the sector contracted by 6.6% in volume terms in 2020. The weakest performance was in the Residential sector, which contracted by 21.3%, following a strong performance in 2019 (+13.2%).

Table 1: Volume of Production in Building and Construction

	2018	2019	2020
Year-on-Year % change			
All Building and Construction	10.3	5.7	-6.6
Building (excluding Civil Engineering)	10.1	7.7	-5.3
Residential building	-1.3	13.2	-21.3
Non-residential building	12.1	6.8	-2.6
Civil Engineering	11.2	-5.0	-14.3

Source: CSO Building and Construction Production Index. This Index is based on a survey of 2,400 construction firms.

Construction output was almost €2bn lower in 2020 and is projected to be €3bn lower in 2021

The value of building and construction investment in 2020 was €24.7bn (a decline of -8.6% after adjusting for construction inflation). This represented a reduction in the region of €2bn of construction investment in 2020 compared with 2019.

The value of output in 2021 is more difficult to predict given the uncertainty of the length of time the industry will remain in partial lockdown. At the time of writing it is expected that the industry will be partially closed until 5 April, which represents 12 weeks in total. Based on an estimated decline of close to 5,000 housing completions to 16,000 in 2021 compared with the outturn for 2020 (20,676), the estimated decline in new residential construction would be 22.6%.[25] With public sector non-residential construction projects continuing to operate, it is assumed that non-residential construction investment would decline by 10.0% overall in 2021. Based on these assumptions, the value of building and construction investment is projected to be €21.6bn in 2021. This corresponds to a reduction in output in the sector of €3bn in 2021, following an estimated decline of €2bn in 2020. It is important to point out that these estimates are before any adjustment for construction inflation. These reductions are likely to be significantly higher given that the industry was projected to perform strongly in 2020 and 2021 pre-Covid-19.

Any spending during construction, or in the supply chain, will have a considerably larger effect on the economy than the initial amount spent. This is because there is an entire economic supply chain being supported by this spend, not only in the construction industry but across a wide range of sectors such as energy and building materials. It is therefore important to take the wider contribution of construction to the economy into account in order to estimate the total economic impact of construction activities, rather than just estimating the total amount that the industry and its suppliers spend directly in the economy.

Based on our assessment of economic impact multipliers for construction, it is estimated, after all direct, indirect and induced economic impacts are taken into account in the construction supply chain and the wider economy, that every €1m of construction activity [26]:

- Delivers an additional €0.68m in Gross Value Added (i.e. profit and wages) to GDP

[24] The figure represents the volume change, after adjusting for inflation. The corresponding change including construction inflation was -7.3%, implying construction inflation of 1.4% over the same period, according to the CSO National Accounts.
[25] See Section 2.4.1 on Residential construction.
[26] Economic Impact of Construction, EY-DKM, prepared for the CIF, July 2020

- Creates 12.1 full-time equivalent (FTE) jobs across the economy
- Returns €0.14m in tax revenue to the Exchequer

Using the above metrics, the economic impact of the lockdown in construction is estimated in the wider economy and are summarised in the table below.

Table 2: Estimated Economic Impact of Lockdown in Construction in 2020 and 2021

	2020	2021
Value of Construction Output (current prices)	**€24.7bn**	**€21.6bn**
Change in construction output	-€2bn	-€3bn
Economic Impact		
Gross output in economy	-€3.70bn	-€5.55bn
Gross Value Added/GDP	-€1.36bn	-€2.04bn
Exchequer revenues	-€0.28bn	-€0.42bn
Full-time equivalent (FTE) Employment	-24,200	-36,300

Source: CSO, EY-DKM

Exchequer revenues from construction estimated to be €0.28bn lower in 2020 and €0.42bn in 2021

Based on the gross impact of -€2bn of construction output in 2020 and -€3bn in 2021, the wider economic impact is as follows:

- -€1.36bn in Gross Value Added (i.e. profit and wages) in 2020 and -€2.04bn in 2021
- 24,200 less full-time equivalent (FTE) jobs across the economy in 2020 and 36,300 in 2021
- -€0.28bn in tax revenue to the Exchequer in 2020 and -€0.42bn in 2021

It is important to note that the above estimates are gross impacts and have not been adjusted to take account of the range of income supports to the sector during the Covid-19 pandemic. But as already noted the reduction in output would likely be significantly higher given that pre-Covid-19 the industry was projected to perform strongly in 2020 and 2021.

Prolonged nature of the pandemic is taking its toll on construction firms and suppliers

One year into this global pandemic, the increasing level of uncertainty with respect to the virus and its economic impact has created many challenges for construction firms and their suppliers. The heightened concern in the industry is evident from the latest Ulster Bank Construction PMI for February 2021, as the index reached plunged to 27.0 in February, following the steepest month of contraction in construction output in January 2021 since May 2020, due to the renewed COVID-19 lockdown. [27] Civil engineering activity contracted the most last month compared with the year-end position (19.5 vs 56.2 in December) followed by sharp declines in commercial (31.2 vs 49.7) and housing activity (23.8 vs 42.0). New orders and input buying continued to fall sharply. At the same time, the Construction PMI reported an increase in the lead time for suppliers' , albeit to a slightly lesser extent than in the January 2021 survey, which reported the longest delays in more than 20 years of the PMI survey.

With non-essential construction sites closed for 19 weeks in total, business performance has been severely dented with many firms facing challenges around their cash flow, working capital requirements and retaining their highly skilled staff. Contractors could also face tighter margins upon the reopening of the sector, as a result of the changing market conditions plus additional costs, which would present a sustainability challenge for the sector.

[27] https://tradingeconomics.com/ireland/construction-pmi

With public sector work deemed to be essential, there is the risk that the ability of contractors to tender for public sector work may be limited, as required turnover thresholds may not be achieved due to the reduction in turnover. The may result in deliverability challenges if firms which close, such as subcontractors, are not replaced, resulting in less competition in the market. This may place Irish construction firms at a disadvantage versus European firms bidding for projects in Ireland.

Similarly, the opportunity to bid for work overseas may be impacted by the lockdown in Ireland. It is noted that the top 50 contractors in the industry, according to the CIF annual survey, had a combined Republic of Ireland turnover of €6.7bn in construction activity in 2019[28], equivalent to one-quarter of total construction output. Assuming their turnover declines in line with the sector as a whole, this would be equivalent to a decline of €490m in 2020 and €759m in 2021. These firms exported €3.3bn in construction expertise, a figure which is also likely to be lower due to the challenges with operating in a partial national lockdown and travel restrictions. [29]

A recent CIF Survey of its members on construction prices reported that 83% were experiencing prices increases for steel, two-thirds were experiencing price increases for timber and almost 50% for cladding. [30] The survey also reported that one-third of respondents were experiencing delivery delays as a result of Brexit. The IHBA completed a survey amongst homebuilders that suggested that there had also been significant rises in the cost of materials with, timber price increasing by 10.01%, steel by 12.6%, insulation materials by 9.8% and cement aggregates by 6.0%. [31]

The Construction PMI in February reported the highest rate of input cost inflation March 2019, which is adding further to construction costs.

Impacts on construction workers

There are challenges too for construction workers. Of the 136,400 persons working directly in construction, an estimated 80,000 comprise on-site construction workers, with the balance of almost 70,000 comprising professional and office-based employees, largely instructed to work from home. The CIF estimate that approximately 30% (24,000) of the 80,000 onsite workers operate on residential developments.

For those construction firms not deemed to be undertaking essential projects, they are incurring their normal head office overheads/non-site-based costs as their staff work from home. In addition, there are obligations in terms of pay for public holidays when workers are on temporary lay-off. This may be sustainable in the short term for those larger companies who have healthy balance sheets, however there smaller and micro businesses could be under an increasing level of financial stress which could lead to them increasing their corporate debt levels. Many of the smaller firms in the sector – 96.5% of construction firms (55,616) employ less than 10 persons – may work in the renovation sector and on smaller home extensions, which are not deemed essential.

The availability of adequate skilled resources in the industry has been a challenge for some time in advance of Covid-19. There are an estimated 50,000 qualified skilled crafts persons and an estimated 46,000 self-employed persons in the construction industry. [32] Many will work in the residential and non-residential renovation market and will therefore be unable to work. With construction industries fully opened across Europe, there is a risk that workers may opt to emigrate to where work is available rather than remain on PUP payments for a further 6 weeks. This is a factor which could derail the construction recovery when lockdown is eased.

[28] Construction Top 50 2020 Survey, CIF
[29] Ibid.
[30] CIF Survey on Construction Price Inflation, February 2021.
[31] IHBA Estimated delivery 2021 and construction remobilisation.
[32] Demand for Skills in Construction to 2020, EY-DKM, September 2016.

Many in the further education and training sector will also have been impacted in some way by the range of measures being implemented to help contain the spread of Covid-19. There are the separate issues for apprentices, with on-site attendance severely restricted and off-the-job training programmes moved primarily to online.

The risk in a lockdown situation is that construction firms and/or self-employed individuals may undertake construction work in the 'hidden' or 'shadow' economy in order to generate income. There is no estimate available of the extent, if any, of this activity but the longer the lockdown continues the more likely this type of activity could emerge. Again the loss of taxation and other revenues to the Exchequer would be one of the main consequences should this increase. Some workers could choose to remain in the 'shadow' economy after lockdown, resulting in a longer-term negative impact.

Impact on clients

All construction projects which are not deemed to be "essential" will now be on hold for a further six weeks. Offices, manufacturing and FDI projects, hotels, private cultural and sporting facilities, student accommodation, private health and education facilities, will be delayed, resulting in additional costs for clients.

The impact of unfinished sites which would be exposed to weather for longer periods than technical standards or warranties allow, particularly for those using timber frame construction, will result in additional costs.

2.4 Sectoral Impact

The impact of Covid-19 on the construction sector will not be distributed evenly across all sub-sectors. Certain sectors have been severely impacted by the pandemic as a result of the regulations, notably private housebuilding, private non-residential building and renovation projects, while the majority of publicly funded construction projects have been deemed essential and allowed to continue.

2.4.1 Residential construction

Prior to Covid-19, the housing challenge facing the country was significant. There were the persistent problems of underinvestment in private and social housing and the failure of supply to keep pace with demand, which resulted in rising house prices and rents and affordability issues for many first-time buyers and renters in urban areas. With close to 70,000 households on the social housing waiting list, it was clear for some time that a radical and urgent reassessment was required to restore a properly functioning housing market.

Against that background, the Programme for Government, published three months into the pandemic, placed housing at the centre of its policy agenda, prioritising a wide range of areas to be addressed, including an increased supply of public, social and affordable homes, increased investment in social housing (9,000 new social housing units in 2021), measures to address affordability, and the development of a national retrofitting plan to upgrade 50,000 homes per annum by 2030. The important role of the private sector in addressing housing supply was acknowledged as critical to addressing the challenges presented by the Covid-19 crisis.

Covid-19 has caused a series of retrograde steps for the housing market

What transpired over the past twelve months, as a result of Covid-19, has seen the housebuilding industry take several retrograde steps. All housebuilding sites (apart from around 35 social housing sites) were closed for 7 weeks on 27 March during the first lockdown. With the resumption of work on the 18 May 2020, the focus during 2020 was on finishing off units that had started, with workers undertaking extended working hours to deliver completions, a situation which was not sustainable. The result was that house completions declined by 32.6% in Q2 2020 and by 10.2% in Q3 2020 on the corresponding quarters in 2019. Overall in 2020, supply was 3,324 units lower than expected pre-Covid-19 (24,000).[33] It was down to the substantial effort by the industry in a constrained working environment that the 20,676 completed units delivered in 2020 were just 1.9% below the corresponding level in 2019. In a housing market where annual demand is estimated to be 35,000 units and building more homes is a national priority, this trend is a retrograde step.

The industry remained open until 6 January 2021, albeit it would not have operated at 100% capacity due to public health restrictions on sites. As a result, there was less attention paid to new commencements, which declined by 23.5% in the first nine months of 2020 to 17,615 on the same period in 2019. With commencements expected to be around 21,600 in 2020, some 4,500 units lower than in 2019, this would have serious repercussions for the supply pipeline which would transpire in 2021, as set out below.

The partial lockdown since 6 January is now planned to continue until 5 April, which will mean a further 13 weeks of lost housing output in 2021. A 13-week lockdown will see the level of housing supply significantly undershoot the pre-Covid-19 projection for 2021 of 28,000 units[34] and the IHBA's own projection (made during the 2020 pandemic) for 2021 of 24,000 units. With the industry being closed over the first quarter of the year, the difficult weather conditions will have generated some defects resulting in additional repair work for some unfinished units, particularly those being constructed using timber frame, where speed of construction is important.

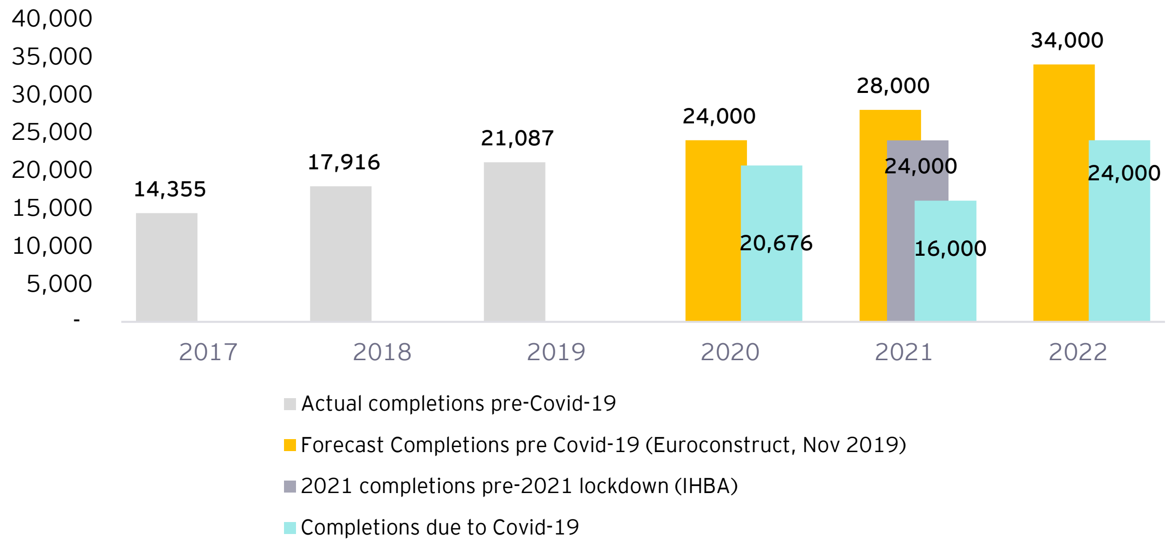
Data from IHBA members suggests the industry will lose 8,000 units in 2021, due to the lockdown, when compared with the expected 24,000 units projected during Covid for 2021. The loss of commencements and momentum during 2020 is expected to result in housing supply of 16,000 units in 2021. This is only 57% of what was envisaged for 2021 pre-Covid (28,000), two-thirds of the revised 2021 projection (24,000) and 77% of the actual 2020 outturn (20,676).

The loss of supply over the two years will be around 15,000, compared with what was expected pre-Covid and almost 43% of the estimated national annual demand of 35,000 units. In a housing market where building more homes is a national priority, this trend is a significant retrograde step.

Moreover, due to the continued opening of social housing sites during the first lockdown, the mix of units provided resulted in just 43.2% of units serving the private market in 2020. This proportion is expected to be lower again in 2021 at 28.1%.

[33] Euroconstruct November 2019.
[34] Ibid.

Figure 2: Projected Housing Completions



Source: CSO, EY-DKM, Euroconstruct, November 2019.

The chart includes a projection for housing supply in 2022 of 24,000 completions. This figures assume that in a non-Covid environment, the industry regains the momentum lost in 2020 and 2021, the current provisions of Part V of th Planning and Development Act, 2000 are maintained, as are the continued supports for first-time buyers (Help-to-Buy and the forthcoming Shared Equity Scheme) and that the measures in the 2020 Affordable Housing Bill are implemented.

Further negative consequences for the housebuilding industry, the economy and society

The impact of a reduction in supply of in the region of 15,000 new housing units will have serious negative consequences for the housebuilding industry, its supply chain, the economy and society as a whole. The crisis has put pressure on their cash flow, their ability to access finance and working capital to finance ongoing operations.

It is estimated by the IHBA that housebuilding accounts for approximately 30% (24,000) of the 80,000 'onsite' workers in the overall construction sector. With social housing works currently permitted under S.I. No.29 of 2021, the IHBA estimate that there are in the region of 9,600 workers (40%) currently travelling to and from work. This implies that 14,400 workers who should be on private house buildng sites are on PUP payments, or almost one in four of the total number on PUP payments in the sector as a whole.

In the residential PRS market, the value of transactions was estimated at €1.2bn in 2020, down 52% on the corresponding value in 2019 (€2.5bn).[35] With 68% of this total turnover last year derived from foreign investors, these investors are fundamental to the success of the PRS model and to the delivery of housing supply. Property agents report that there continues to be large volumes of capital seeking investment in PRS.[36] However the inability to travel to complete PRS transactions and the extended lockdown may create additional uncertainties for investors.

There will be adverse impacts in a wide range of sectors in the housebuilding supply chain, such as building materials and households goods. A separate economic impact for residential construction is included below, based on the value of new residential output of €4.36bn in 2020.

[35] Irish Residential Market, Review 2020, Outlook 2021, Sherry Fitzgerald, February 2021.
[36] Ireland Market Outlook 2021, CBRE Research, January 2021

Table 3: Estimated Economic Impact of Lockdown in Residential Construction in 2020 and 2021

	2020	2021
Value of Residental Construction Output (current prices)	**€4.36bn**	**€3.37bn**
Total housing supply (units)	20,676	16,000
Change in residential construction output	-€21m	€985m
Economic Impact:		
Gross output in economy	-€38m	-€1,823m
Gross Value Added/GDP	-€14m	-€670m
Exchequer revenues	-€3m	-€138m
Full-time equivalent (FTE) Employment	-250	-11,921

Source: CSO, EY-DKM

The value of residential construction in 2020 was €21m lower than the 2019 outturn. The value of residential construction is expected to be €985m lower in 2021 compared with the outturn for 2020. This lower output reflects a decline in housing supply of 411 units in 2020 versus 2019 and 4,676 in 2021 compared with 2020 or over 5,000 units in total. The wider economic impact in 2020 and 2021 is estimated as follows:

- -€14m in Gross Value Added (i.e. profit and wages) in 2020 and -€670m in 2021
- 250 less full-time equivalent (FTE) jobs across the economy in 2020 and 11,921 fewer in 2021
- -€3m in tax revenue to the Exchequer in 2020 and -€138m in 2021 (excluding development contributions paid to local authorities).

It is evident that the vast bulk of the reduction in output was in the non-residential sector in 2020, while the reduction in residential construction is projected to account for almost one-third of the €3bn overall reduction in construction output in 2021.

It is important to note that the above estimates are gross impacts and have not been adjusted to take account of the range of income supports to the sector during the Covid-19 pandemic. But as already noted the level of housing supply pre-Covid in 2020 and 2021 was projected to be 52,000 in total, compared with the Covid-adjusted figure of 36,676, which is a reduction of c.15,000 units. This would have resulted in a significantly higher level of residential construction output and the loss of c.15,000 units would therefore have generated a greater negative economic impact that set out above.

Impact on society

There is no doubt that Covid-19 has tightened conditions in the housing market. The expectation for the property market last March was that largescale job losses would result in fewer mortgages, less transactions, a plunge in property prices and substantially lower supply levels. While supply and transactions (down by 21.1% in 2020) have plummeted, house prices nationally were up 2.2% year-on-year in December and by 1.2% in Dublin.

The scale of the pent up demand is such that it is supporting house prices, which is resulting in greater affordability issues for first-time buyers. Recent results reported by Glenveagh included a significant quantity of presold homes which is an indication of the pent-up demand in the market. In a supply constrained environment, as has transpired with Covid-19, this is resulting in potential buyers having to stay in rented accommodation or live at home for longer, only to find that house prices could be beyond their reach when they re-enter the house purchase market post Covid-19.

An added issue is that one of the pillar banks, Allied Irish Banks, has tightened the 'mortgage approvals in principle' regime for first-time buyers, reducing the length of approvals from 12 months to 6 months. There is also a limited availability of mortgages, with the number of mortgage approvals (involving a property purchase) in the eleven months of the pandemic to January 2021 (latest data available) down by 13.1% on the same period to January 2020. The number of mortgage drawdowns was down by 16.4% in 2020 compared wth 2019, while the corresponding value was down 12.8%.

The lack of new supply and credit combined with rising house prices and affordability issues are evidence that Ireland's housing market continues to be dysfunctional and is not meeting the demands of a significant cohort of potential buyers and renters. With an additional 1 million persons forecast to be living in Ireland by 2040, according to the National Planning Framework, the private housebuilding sector needs to urgently deliver new homes.

2.4.2 Private non-residential

Aside from residential construction, private non-residential construction is probably the other sector bearing the brunt of the impact of the partial lockdown. This sector captures all private non-residential building, including offices, retail, industrial, hotels, private cultural and sporting facilities, student accommodation, private health and education facilities. We estimate this private sector is significant and could be of the order of 40% of the total value of construction output.

The outturn for construction output shows the value of non-residential construction (public and private)[37] at €17.7bn in 2020. This is €1.57bn lower than the corresponding 2019 figure and represented 81% of the total decline of €2bn in construction output last year.

Manufacturing and FDI clients would comprise key clients within this sector. Projects underway relating to, for example, food and beverage, pharmaceuticals and ICT, will have been delayed, resulting in additional costs. Whilst the full impact of Covid-19 on the offices sector has yet to be seen, the uncertainty is causing firms to place expansion plans on hold. There were 394,800 square metres of office space under construction at the end of December and while 54% of it is reported to be pre-let, the likelihood is that the delivery timelines will be pushed out to 2022, with the added inconvenience this causes for clients.[38]

A recent report from Construction Information Services showed that at the end of 2020, the number of projects starts in the non-residential sector fell by over 12% when compared to the same period in 2019.[39]

- The industrial sector saw a 48% decline in the value of project starts in Q4 2020 and a 16% decline in the number of project starts when compared to the previous year whilst on the quarter, the value of starts fell by 68%.
- Commercial property remained volatile with a decline in the value of project starts by 67% over the quarter; the volume of activity fell by 15% over the year. Growth in Q4 2020 was driven by office developments whilst the rest of the sector witnessed a decline in activity.
- The number of hospitality projects started in Q4 2020 fell by 63% over the year with the value of projects falling by 79%.
- At a regional level, the Midlands and South East witnessed large declines in the value of project starts over the year (-93% and -23% respectively).

The increased level of uncertainty, delays and potential postponements of some projects will result in a loss of turnover for many contractors as well as reduced employment for many workers in the supply chain. These impacts will be included in the economic impacts estimated above.

[37] A split between private and public non-residential construction is not published by the CSO.
[38] Dublin Office Market, Q4 2020, Cushman & Wakefield.
[39] Construction Information Services Construction Activity Report Q4 2020

2.4.3 Public sector construction

As previously noted, health, education, transport and social housing publicly funded projects have been permitted to continue following the introduction of the January 2021 restrictions.

The February Ulster Bank PMI suggested that civil engineering activity had declined from a PMI reading of 42 in December to 19.7 in January 2021 and to 19.5 in February. This substantial decline in activity is the strongest the sector has seen since May 2020. [40]

Data also from Construction Information Services showed [41]

- Public sector project starts increased by 175% year on year.
- The education and medical sector both witnessed growth in the value of project starts in Q4 over the year (202% and 55% respectively).

With public sector construction sites mostly open, it is difficult to reconcile this with the closure of private sector construction sites, given the importance of all infrastructure to the competitiveness of the economy and particularly housing.

2.5 Concluding remarks

At present, Ireland is the only country in Europe with a partial lockdown of the construction sector. As a result, this is having severe impacts on not only those directly employed in the sector but also the wider economy and society. The continued lockdown of certain components of the sector will have short run and long run impacts for the Irish economy.

The sector relies heavily upon FDI and there is a risk that the continued restrictions placed upon the sector could lead to reputational damage at an international level in an economy that is known for being world class in delivering high quality infrastructure for its FDI clients.

Ireland has a significant housing crisis which the partial shutdown of the sector has exacerbated. The level of new housing supply in 2021 will be close to 16,000 units, which is 57% of what was envisaged for 2021 pre-Covid (28,000) and almost 5,000 units less that the outturn for 2020. This is a total reduction in housing supply of over 15,000 units over the two years compared with what was expected and approximately 43% of the estimated national annual demand.

The continued partial lockdown of the sector will have significant impacts for not only the sector itself, there will be impacts on construction firms and their suppliers, employees, apprenticeships, clients, the public purse, consumers, and the economy.

We have estimated that construction sector output is likely to be €3bn lower in 2021, following a reduction of €2bn in 2020. Given the contribution of the construction sector to the wider economy, we have estimated the corresponding negative impact on the economy as follows:

- €1.36bn in Gross Value Added (i.e. profit and wages) in 2020 and €2.04bn in 2021
- 24,200 less full-time equivalent (FTE) jobs across the economy in 2020 and 36,300 in 2021
- €0.28bn in tax revenue to the Exchequer in 2020 and €0.42bn in 2021

Similar estimates have been provided for the economic impact of residential construction across the economy, with the value of residential construction €21m lower in 2020, compared with the 2019 outturn, and expected to be €985m lower in 2021 comoared with the 2020 outturn. The result is a reduction of €3m in tax revenues in 2020 and €138m in 2021. These figures exclude development contributions paid to local authorities. It is evident that the vast bulk of the reduction in output was

[40] https://tradingeconomics.com/ireland/construction-pmi

[41] Construction Information Services Construction Activity Report Q4 2020

in the non-residential sector in 2020, while the reduction in residential construction is projected to account for almost one-third of the €3bn overall reduction in construction output in 2021.

It is important to note that the above estimates are gross impacts and have not been adjusted to take account of the range of income supports to the sector during the Covid-19 pandemic. But as already noted the reduction in output would likely to be significantly higher given that pre-Covid-19 the industry was projected to perform strongly in 2020 and 2021.

Recognising that the availability of adequate skilled resources in the industry has been a challenge for some time in advance of Covid-19, there is a risk that workers may opt to emigrate to where work is available rather than remain on PUP payments for a further 6 weeks. This is a factor which could derail the construction recovery when it gets back on track. A related factor is the challenge for training apprentices, with on-site attendance severely restricted and off-the-job training programmes moved primarily to online.

There is a heightened risk that the longer the lockdown continues the more likely activity in the hidden' or 'shadow' economy could emerge, with adverse consequences for Exchequer revenues. Some workers could choose to remain in the 'shadow' economy after lockdown, resulting in a longer-term negative impact.

Whilst the construction sector has taken measures to protect those working on site and to limit the spread of the virus, we have not assessed these measures or their impact on public health issues.

The research and evidence demonstrated above highlights the importance of the sector to the economy and shows how the partial lockdown of the sector over 19 weeks since the start of the pandemic is having a number of adverse consequences, which will be exacerbated, the longer the lockdown is extended. In order to allow the sector to recover from the contraction in 2020 the sector should be urgently opened, ensuring compliance with operating guidelines, given the importance of the sector to the economy.

3. Appendix B

The current restrictions facing the construction sector are set out in the Health Act 1947 (Section 31A – Temporary Restrictions) (COVID-19) (No. 10) (Amendment) Regulations 2021 (S.I. No. 4 of 2021) ("January 2021 Regulations"). [42]Under the January 2021 Regulations, the previous definition of "essential services" (in the context of construction and development) was amended so that only construction and development of the following were allowed to remain open:

- Essential health and related projects
- Essential primary, post-primary level and third-level educational facilities
- Social housing, whether contracted by, or on behalf of, a local authority/approved housing body
- Essential works on vacant residential properties, owned or controlled by a local authority/approved housing body, which are necessary to allow the property to be allocated to a household on the social housing waiting list, and which are scheduled to be completed by the 28 February 2021
- Works of adaptation relating to a housing adaptation grant paid in accordance with Reg. 5 of the Housing (Adaptation Grants for Older People and People with a Disability) Regulations 2007
- Projects funded under the pyrite remediation scheme in accordance with the Pyrite Resolution Act 2013 which are scheduled to be completed by the 31 January 2021 and where the completion of such construction or development is essential to prevent, limit, minimize or slow the spread of COVID-19
- Repair, maintenance and construction of critical transport and utility infrastructure
- Supply and delivery of essential or emergency maintenance and repair services to businesses and places of residence on an emergency call-out basis
- Housing construction and completion works ongoing and where such works are scheduled to be completed and occupied by the 31 January 2021
- Construction and development projects that relate to the direct supply of medical products for COVID-19.

[42] gov.ie - Statutory Instruments related to the COVID-19 pandemic (www.gov.ie)

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