COVID-19 IMPACT ON THE CONSTRUCTION MARKET

OVERVIEW

In various geographies around the United States, Gilbane routinely publishes opinions of construction market conditions. We do so to keep our clients, design colleagues, and peers informed of our perspective on construction economics, both regionally and nationally.

The recent impact of the coronavirus disease 2019 (COVID-19) is being felt globally. As such, Gilbane feels it is prudent to offer insight as to how the disease might affect market conditions on the domestic construction industry. We do so in the spirit of making sure our customers and partners have current information and awareness to help mitigate negative effects on their employees’ health and their organizations’ business operations.

As with similar natural or political events that introduce economic uncertainty, it’s important to fully understand the problems before implementing a solution strategy. “We are taking guidance from the Centers for Disease Control and Prevention (CDC) and other government agencies,” says Mike McKelvy, President and CEO of Gilbane Building Company. “We will continue to monitor the situation closely and stay informed so that we are prepared to act in the best interests of our employees, partners, clients and suppliers. Safety is our number one priority.”

STAY INFORMED:
The Centers for Disease Control and Prevention (CDC) keeps the latest information here:

www.CDC.GOV/Coronavirus/
Domestic manufacturers of commodity-based products, such as concrete, steel, gypsum and glass, are currently reporting no disruption to lead times or prices. Major producers have increased inventory levels over the last few weeks and have committed to reserving plant capacities for regular customers; new customers will be considered only if additional capacity exists. It is becoming increasingly common for manufacturers to fortify their supply chains with domestic materials and commodities and rely less on imports, wherever possible.

For infrastructure and equipment, such as electrical switchgear or mechanical air distribution, most manufacturers have issued a watch-out for imports. While many have built up inventories, on-hand levels are expected to diminish rapidly. Lead times for imported materials could increase significantly, even as Chinese plants come back online.

Construction labor and productivity will be affected should infections become more prevalent. The CDC has advised that a 14-day quarantine is necessary for recovery and to prevent the spreading of the disease. As such, construction delays due to diminished or temporarily ceased on-site operations are possible and should be considered with respect to holistic facility delivery and turnover.

Some local regions have greater impacts to our national supply chains. Coastal areas with shipping ports may be prone to labor shortages; even when products arrive, containers may be quarantined or delayed prior to drayage. Different regions may experience various degrees of impact, depending on factors such as urban density and healthcare availability.

While the construction industry is seeing relatively little supply chain and labor impacts at the moment, some market sectors are seeing vast product shortages. These include technology, manufacturing, and healthcare. We must acknowledge and constantly be aware of how those sectors are addressing the issues, as there are probably indirect impacts to construction that have yet to be observed or realized.

As news about the disease continues to evolve, there are positives to consider in the context of how to manage our collective health and business risk:

**We have forewarning.** China and other countries were hit extremely hard and very quickly due to the contagiousness of COVID-19 and the severity of disease. In response, the CDC, national and local officials, as well as leadership within major corporations are taking the threat very seriously and are planning accordingly.

**Leveraging lessons learned from recent tariffs.** When tariffs were introduced in 2018, many suppliers and contractors immediately began to speculate about possible economic outcomes. In response, Gilbane and fellow peers were challenged by clients to fully understand the impacts that tariffs had on the supply chain; essentially, we were tasked to “prove” that any increases were justified. As such, we became better educated by determining the granular tariff pinch points along the supply chain. Where there was exposure, we managed the cost volatility through a number of strategies, including pre-purchase and dollar-cost averaging analyses.

First and foremost, the leadership at Gilbane is focused on the health of our clients, suppliers, subcontractors, design colleagues and employees. As we manage through this event, it is important to remember that safety is our number one priority. We will continue to monitor the situation and adapt our responses accordingly. For updates visit the Gilbanelnk blog at www.Gilbaneco.com/blog