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# *Economics Group*


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# COVID-19 to Hammer Construction Industry

***Prior to the coronavirus crisis, construction spending dipped 1.3% in February. While many projects continue to proceed, hard-hit areas are shutting down construction sites and project delays/cancelations are mounting.***

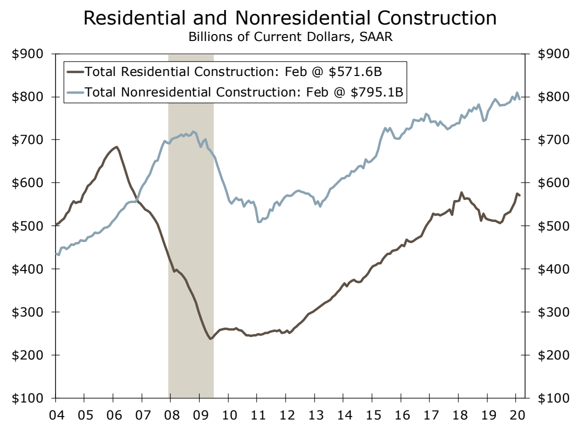
## Construction Not Immune to COVID-19 Crisis

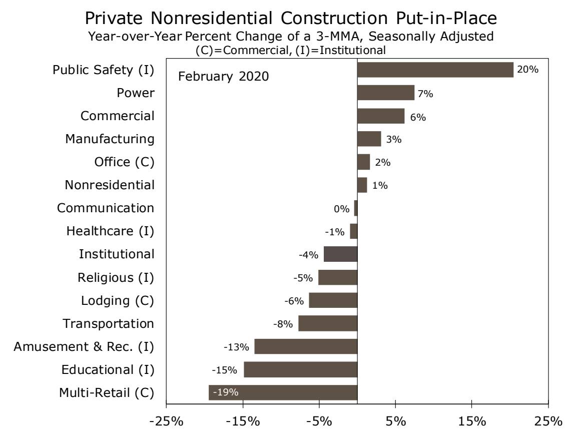
The construction industry will not be able to avoid the adverse impacts of widespread shutdowns in place to slow the spread of the coronavirus. Even before the crisis began in earnest, construction spending appears to have moderated. Total construction spending fell 1.3% during February, as residential (-0.6%) and nonresidential (-1.8%) activity both slipped. The drop follows a huge 2.8% jump in construction outlays in January, which was revised up a full percentage point from the previous report.

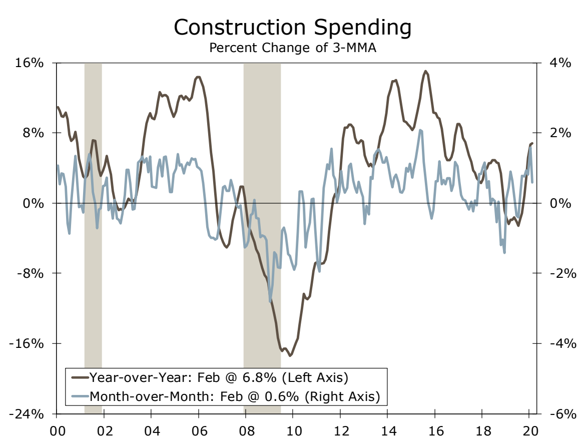
The February data offer a glimpse of what is likely ahead in coming months. While many projects appear to be moving forward, several hard-hit areas have already suspended all construction or are beginning to close down sites. Whether or not projects can continue depends on if state or local authorities deem construction "essential" when ordering the closure of all "non-essential" businesses. As of this writing, most projects in New York, Pennsylvania, Vermont and Washington have come to a halt. At the local level, work stoppage directives have been mixed. On March 1, Boston shut down all construction, and other areas in Massachusetts have since followed suit. Illinois and California lawmakers consider construction "essential," with some exceptions. For example, Bay Area officials have paused some large commercial projects while allowing residential development to continue. In Los Angeles, construction continues on SoFi Stadium, the future home of the NFL's Rams and Chargers. Similarly work continues on some megaprojects in Florida, notably the I-4 Ultimate Improvement project and the Virgin Trains high-speed rail.

Even projects allowed to continue may be indirectly effected. A wide array of building materials are imported from COVID-19-embattled countries, many of which have shuttered factories to contain the pandemic. While economic activity appears to be starting to get back on track in some of these areas, supply chain disruptions may be apparent in the United States for quite some time. What's more, the construction industry has been persistently constrained by a shortfall of skilled labor, which may be exacerbated by quarantine requirements and the longer-term decline in labor mobility. Moreover, a growing list of projects in the bidding or final planning stages have been delayed or canceled due to uncertainty about how rapidly the economy will recover.

To be sure, construction should fare better than other industries like hospitality and retail trade. Many infrastructure, hospital and residential projects are considered essential and should continue even in the areas with severe outbreaks. Construction workers already follow strict safety precautions which include protective gear. Many projects are primarily outdoors and social distancing rules can more easily be installed (although they may limit the number of contractors on a site at a given time).




Source: U.S. Department of Commerce and Wells Fargo Securities

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