



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Charlie Dougherty, Economist
charles.dougherty@wellsfargo.com • (704) 410-6542
Matthew Honnold, Economic Analyst
matthew.honnold@wellsfargo.com • (704) 410-3059

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.

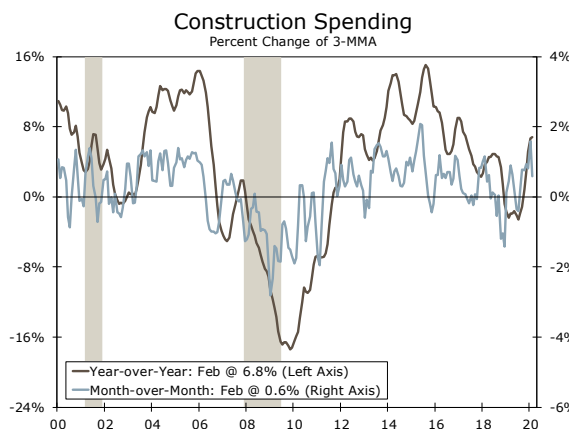
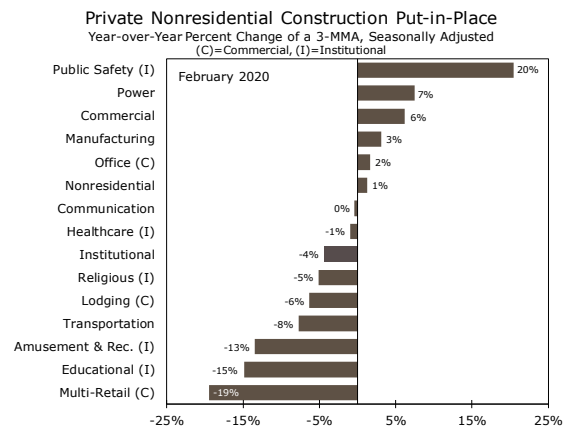
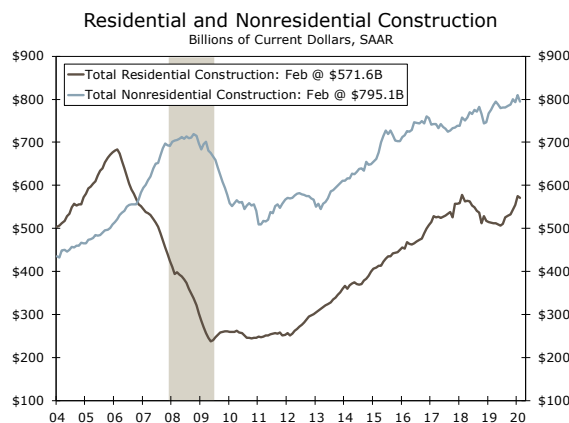
Construction Not Immune to COVID-19 Crisis

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).



Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2020 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE