3 Reasons Construction Will Be an Economic Bright Spot in the US After COVID-19

BY MATT ALDERTON CONSTRUCTION / JUN 1 2020 / 6 MIN READ

These are dark times for the US economy. Since the COVID-19 crisis began, gross domestic product (GDP) fell 4.8%, its first decline since 2014 and the biggest since the Great Recession. Unemployment reached 14.7% in April 2020, marking America's highest jobless rate since the Great Depression.

Stay-at-home orders were a punch to the gut to the airline, hotel, and restaurant industries. Construction firms also received a grim prognosis. "Project postponements and cancellations are now commonplace, with construction backlog falling to be the protective shield that it normally is during the early stages of economy-wide recession," says Associated Builders and Contractors (ABC) Chief Economist Anirban Basu.

According to ABC, the US construction industry lost 975,000 jobs in April alone, which is the most severe one-month decline in construction employment ever and the steepest drop since the late 1930s. Add the losses at architecture and engineering firms, which shed another 85,200 jobs in the same month, and it's evident that COVID-19 has taken a wrecking ball to American building.

But the news isn't all bad. If you look closely, construction isn't just a victim of the COVID-19 pandemic—under the right circumstances, it also could become a hero that helps the country recover from it. Here are three reasons to think that it might.

1. Construction is an economic power player.

The construction industry's size and importance are cause for optimism, according to ABC President and CEO Michael Bellaman. "Construction represents 7% of GDP and last year employed 8.3 million workers directly," he says, adding that every $1 billion in extra overall construction spending generates an average of at least 6,500 construction jobs. "We support the truly essential infrastructure of the country. We build the places where people live, learn, and play. That makes us a critical part of the economy—and it will make us a critical part of the recovery."

The industry's value is not lost on lawmakers, whose economic policies often favor construction. The Emergency Relief Appropriation Act of 1935 and the American Recovery and Reinvestment Act of 2009, for example, funneled significant support into public building projects during the Great Depression and the Great Recession, respectively. If past is prologue, construction will be a likely beneficiary of post-pandemic relief.

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If it arrives in the right place at the right time, that relief could mitigate damage by keeping the crisis short, according to Paul Emrath, vice president of survey and housing policy research at the National Association of Home Builders (NAHB). According to NAHB, building 1,000 average single-family homes creates 2,900 full-time jobs and generates $129.65 million in taxes and fees for local, state, and federal governments. "The government is working to provide liquidity, and that will help," Emrath says. "A downturn of a few months isn't going to permanently depress construction all by itself."

2. Construction is risk-ready.

Construction is not immune to COVID-19. But because many construction sites can be easily modified to support new public-health recommendations, it may be more resilient than other sectors—which is why many cities and states have allowed construction to continue uninterrupted during the pandemic or have designated construction to be among the first sectors to reopen.

"In new construction, workers don't interact with the public, and there are things you can easily do on a construction site to maintain social distancing," Emrath says. To meet the moment, contractors might have to install handwashing stations on jobsites that lack running water, divide work into more shifts with fewer people, and implement new procedures for cleaning tools and surfaces. But changes like those come naturally in construction.

"Construction during this pandemic has to be delivered safely, and construction companies are used to dealing with safety issues," Bellaman says. "This virus is something no one anticipated but we're prepared because mitigating risks is what we do every day. When OSHA [Occupational Safety and Health Administration] issues a new regulation or guideline, for example, we amend our safety measures to meet it. We adapt. This is no different."

3. Construction demand remains.

It's impossible to paint the entire construction sector with a single brush. While some projects will suffer, others might flourish.

Housing, for example, is a likely bright spot. "Before the coronavirus pummeled the US economy, housing was on the rise, with January and February new-home sales numbers posting their highest reading since the Great Recession," says NAHB Chairman Dean Mon. "The demand is clearly there, and ... we expect that housing will play its traditional role of helping to lead the economy out of recession later in 2020 when the pandemic subsides."

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Affordable housing is particularly ripe for investment, according to Los Angeles–based architect Brian Wickersham, owner of AUX Architecture. Because of COVID-19, he says, inflated construction prices are beginning to fall; this opens the door to profits on projects that previously had low margins. In response, opportunistic investors might shift resources from hard-hit sectors such as hospitality toward low- and middle-income housing, where demand is high due to a nationwide shortage of affordable housing.

"Bureaucracy, in conjunction with lower financial returns, has made building affordable housing too slow and too expensive for most investors," Wickersham says. "Now that margins may be better than other sectors, investor interest will be higher. If we can cut some red tape and get things into construction quickly, it can be a kickstart to the economy."

Bellaman says COVID-19 has created new problems that construction may solve. With schools and offices closed, for example, Americans have realized how much they rely on the Internet. As a result, there may be new projects to expand Internet access in rural areas and build new data centers. Meanwhile, contagion hot spots—hospitals, nursing homes, schools, offices, grocery stores, convention centers, hotels, restaurants, prisons, and factories—will need retrofits that improve social distancing, cleanliness, and air quality.

"After 9/11, a transformation occurred where we had to rethink security in airports and other facilities," Bellaman says. "I think there's going to be a similar transformation now. That's going to take redesign and construction."

Even manufacturing could see a boost, says Scott Copas, president and CEO of Baldwin & Shell Construction Company, a Little Rock, AR–based firm whose industrial division has surged during the pandemic. "It's clear that we cannot rely on China anymore for certain things, so I think there's going to be a groundswell movement to bring a lot of manufacturing back to the United States," he says. "Not for political reasons, but for national security purposes; we don't want to be in a situation again where we can't get medicine or masks or whatever else because we don't make it in America."

Therein lies the silver lining: Although an economic downturn implies a shortage of construction capital, the will to build a more resilient America will be strong. And where there's a will, there's a way.

"We've experienced crises before, but this time is different," Copas says. "In the past, people just went back to business as usual. Nothing changed. This time, I think we've learned something: We're not going to let another virus shut down this country, so we're going to make the changes we need to make."

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