

# A CRISIS-ERA MESSAGE TO CONTRACTORS

## *Pace of Recovery-Impact on Construction*



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**IT IS BECOMING CLEAR THAT THE PANDEMIC WILL NOT END SUDDENLY,** nor will the US economy rebound

rapidly. It's beginning to sound like a drawn-out affair with experts speculating about where, when and how to lift social and commercial restrictions. They all seem to agree that it will not be like "flipping a switch" which sounds like the current "turned off economy" will just become less turned off—more like a dimmer than a switch. Socially moving slowly from severe restrictions to less severe restrictions may feel good, but for most businesses moving from not enough customers to a few more customers is still not enough customers. Most commercial enterprises prosper at near-full to full capacity, but how many can profit with just "a few more customers." For most businesses this crisis will be over when they have most or all of their customers back—think restaurants, airlines, sports venues, stores, anyplace people gather. Then the economy can recover.

All of this is too much to digest at once, and we construction professionals can't solve a global pandemic so let's concentrate on what we CAN do—protect our companies. Construction professionals have no choice but to forecast their individual markets in order to plan their reaction to the current and potential disruption. We already know that construction follows and lags the US economy so let's build a logic stream. Consumer spending drives the US economy which stimulates capital spending which drives the construction market. That gives us a place to begin. Ask yourself how long you think it will take to put 20 plus million people back to work? When will sports venues open? How soon will people feel comfortable going to restaurants, traveling or simply back into society? That's when consumer spending will begin to increase. The next milestone is when consumer spending rebounds to prior levels, which is essential to full recovery. As the economy recovers, capital spending should increase with it; however, losses and the amount of debt accumulated during the slowdown will likely impact the pace of increases in capital spending.

► Therefore, you need to estimate when you think

social restrictions will be reduced, marking the start of the US economic recovery.

- Then the additional length of time for ALL social restrictions to be lifted which should mark the point where consumer spending may return to prior levels.
- Adding these lengths together and factoring in your estimate of the impact of debt and prior losses incurred should yield an approximation of the regeneration of capital spending.
- Guessing how many more months it will take for capital spending to rebound to prior levels should give you a pretty good supposition of when the construction market across the country will return to 2019 levels.

We are now being told that the lifting of social restrictions will be partial and staged. At this point we don't need an accurate estimate of when the construction market will be fully recovered to make decisions. Partial relief has not started. Staged relief implies more delay so just getting to full consumer spending is at least months away and then we wait for capital spending to catch up. The big question remains: when will the construction market rebound to 2019 values? - which history tell us is when profits will rebound.

There is evidence that projects continue to be delayed and cancelled while the talk of a rapid rebound persists to worsen. When (and if) delayed projects are released, bringing them back to life will not happen overnight. At that point we will also need new work to maintain backlog. Unfortunately, design firms are beginning to report delays and cancellations of some of their work in progress which may be a developing problem. Add to this the reality that cities, counties and states continue to suffer a dramatic reduction in tax revenue at the same time as private industry is incurring serious losses from reduced sales. If there is any disruption in new work coming into the market, recovery will be delayed. Please understand that I hope I am wrong.

There are few ways a construction enterprise can cope with this declining market, but "wait and see" is not one of them. Facts: The construction market has been disrupted. Clearly it will rebound, but when and at what pace? Each construction industry professional must decide that for themselves. Those with the responsibility to protect an affected enterprise must determine how long they can afford their present overhead. Can you outlast this developing market downturn, or do you need to conform to it in order to profit from the work you do have? ■

*Note: Additional information on how to cut overhead can be found on [letstalkbusiness.net](http://letstalkbusiness.net). Click on "Manual" and go to Managing Overhead in the table of contents.*