

“LESS THAN EXPECTED” EFFECT ON CONSTRUCTION SUPPLY CHAIN FROM COVID-19?

June 16, 2020

By: Stephanie M. Chaissan

More than five months after the first reported case of COVID-19 in Wuhan, China, on December 31, 2019, Joe Piro, the Vice President of Supply Chain for Gilbane Building Co. (the 10th largest contractor in the U.S., according to ENR's Top 400 List) reports that the effect of the coronavirus on the construction supply chain has been “less than expected.” Piro acknowledges that imports were affected, sometimes significantly. But he discusses the change in the construction supply chain model brought about by the coronavirus pandemic. Where previously each link in the chain operated on a “just in time” model, he notes there has been a shift to a “just in case” model and a recalibration of availability, lead times, and production. However, Piro qualifies his optimistic outlook by limiting it to domestic impacts – a position supported by the report from the Commerce Department that spending for U.S. construction projects dropped only 2.9% in April, a decrease smaller than the 6.8% drop that analysts had predicted.

Not all share these rosy positions. GEP, a global procurement and supply chain company, reports a 20% drop in cargo volumes at American ports in the first quarter of 2020 – evidence of the supply chain disruption and the U.S.'s reliance on imported building materials. GEP reports that many countries, including European countries that provide flooring, windows, glass, and aluminum, have stopped production, and experts foresee a “considerable passage of time” before levels are normalized. According to Piro, the problem was not scaled-back manufacturing or halted production, but a shortage of shipping containers. He states that manufacturers in China were back online but lacked enough quantities of shipping containers to store and ship the materials produced.

Supply chain impacts – whether large or small – along with other issues, such as sites being shut down or projects delayed, will lead to changes in supply and demand. The Associated General Contractors of America (AGC) reports that at least 45% of contractors are experiencing delays or disruptions related to the outbreak. As Piro notes, these delayed projects will cause “softening” demand, higher inventory (supply), and, generally, lower prices throughout the remainder of 2020.

The supply chain for building materials has not only been affected. Given requirements and guidelines by OSHA and other regulatory agencies, Piro and others have encountered shortages of personal protective equipment. An AGC survey reports one-third of respondents encountered such shortages, which lead to job delays unrelated to construction materials. Even when PPE is available, the cost has skyrocketed. The joint divisional managing director of Barnes Construction in England, Mark Hart, observed a 1000% increase in the cost of face masks.

Overall, uncertainty appears to be the “dominant theme right now in the construction industry.” Like all industries, construction is adapting to the “new normal” – and that likely means something different in each state, city, or municipality. While some projects, companies, and locales may have been affected “less than expected,” some have felt the full brunt of work stoppages, material shortages, delays, and other effects of the global coronavirus pandemic.

Related Practices

Construction

Related Practice Teams

Dispute Resolution

Related Team Member(s)

Stephanie M. Chaissan

Topics

Construction

COVID-19

New Normal