

Emergence of COVID-19: Outlook for Construction Industry

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Abstracts

The global construction industry is negatively affected by COVID-19 with the series of lockdowns, supply chain issues resulting in delivery delay in the basic construction materials, interruptions in the operations resulting in reducing labour productivity. The pandemic appears as friction for the in-progress construction project and adversely affects the capital structure and business modus operandi for construction firms.

The COVID-19 scenario has left the workers engaged in construction industry vulnerable to severe externalities as the construction sites halted during the lockdown which remains the only source of income for the temporary employed workers. For emerging nations, such as India, construction sector is recognized as mass employer after agriculture sector. As the construction sites were shutdown, the laborer started migration from urban to rural areas as a result of unexpected job loss and fright of the pandemic situation. The curve shows highest rate of unemployment at 23.52% in April, 2020 rising from 8.75% during March, 2020. This has declined the growth of construction industry in major cities such as Delhi, Bengaluru, Pune, and Mumbai. Considering the repercussions of lockdown, the Indian government has resumed construction operations in the first unlock series based upon the views of The Confederation of Real Estate Developers Association of India (CREDAI) and The National Real Estate Development Council (NAREDCO) to take measures to normalize construction operations. The government also provided relief packages amounting to INR 1.7 lakh crores for the marginalized and vulnerable migrant labour population with budget of INR 31,000 crore allocated specifically for building and construction workers. With the current scenario in consideration, the construction sector remains short with the labour. However, the trend in the unemployment has been fallen reflecting a change in 6.51% in November, 2020 with optimistic view is expected to get corrected further to around 5.33% which had prevailed under in 2017 under the normal circumstances.

However, As per the data by Ministry of Labour and Employment, the December 2020 has recorded increase in unemployment by 2% standing at 9.3% under the 30 day moving average.

The bottle neck in the production and shipping delay of basic materials such as steel and cement have contributed to the decline in the Housing starts, Industrial and Infrastructure construction developments. The developers and builders who relies on China for raw material have dealt with rising operational costs due to lack of construction material, slow turnover rate of projects leading to higher prices and increase in construction project cancellations. The supply chain disruptions further halt slows the process as the suppliers could not undertake the deliveries as required. This has led contagion effect even on the construction equipment rental companies as the projects are stalled.

As per the United States Census Bureau Construction start data, the demand for the new construction projects to be decline as the projects under process seems like expense corresponding to lack of income, with potential clients going busted with the pandemic and on the verge of insolvency is expected to cast huge debt impact on the construction sector. The sector might fall in short of liquidity and working capital due to pending or bad-debt payments for project under process, shutdown of manufacturing facilities which reduces the prospects for new facilities, travel restrictions and meagre support available to laborer, and operating in loss incurring cost structures.

The decline in the demand and the long duration of the projects can be justified with the contrasting difference between the properties under construction and completions. As per the US Census Bureau data, there is increase in the number of properties under construction and decline in the number of completions because of the halt in the construction sites. However, the decline in the completion was sharp with the inception of lockdown during the first quarter of 2020. With the halt of operations from March to May 2020, the under-construction sites remained as is with cancellation of some of projects. With the downward trend, the investors in the construction segment lost confidence in the market due to which the projects further shown dip. With the resuming of projects from June 2020, there is upward transition in the completions for the projects at their final stages while there remains uncertainty about more under construction projects due to lack of construction material, frequent delays in the logistics, and low availability of workforce.

Segmentation

By Construction

Infrastructure

Real Estate

Industrial

By Geography

Americas

USA

Others

Europe Middle East and Africa

Germany

United Kingdom

France

Others

Asia Pacific

China

Japan

India

Others

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