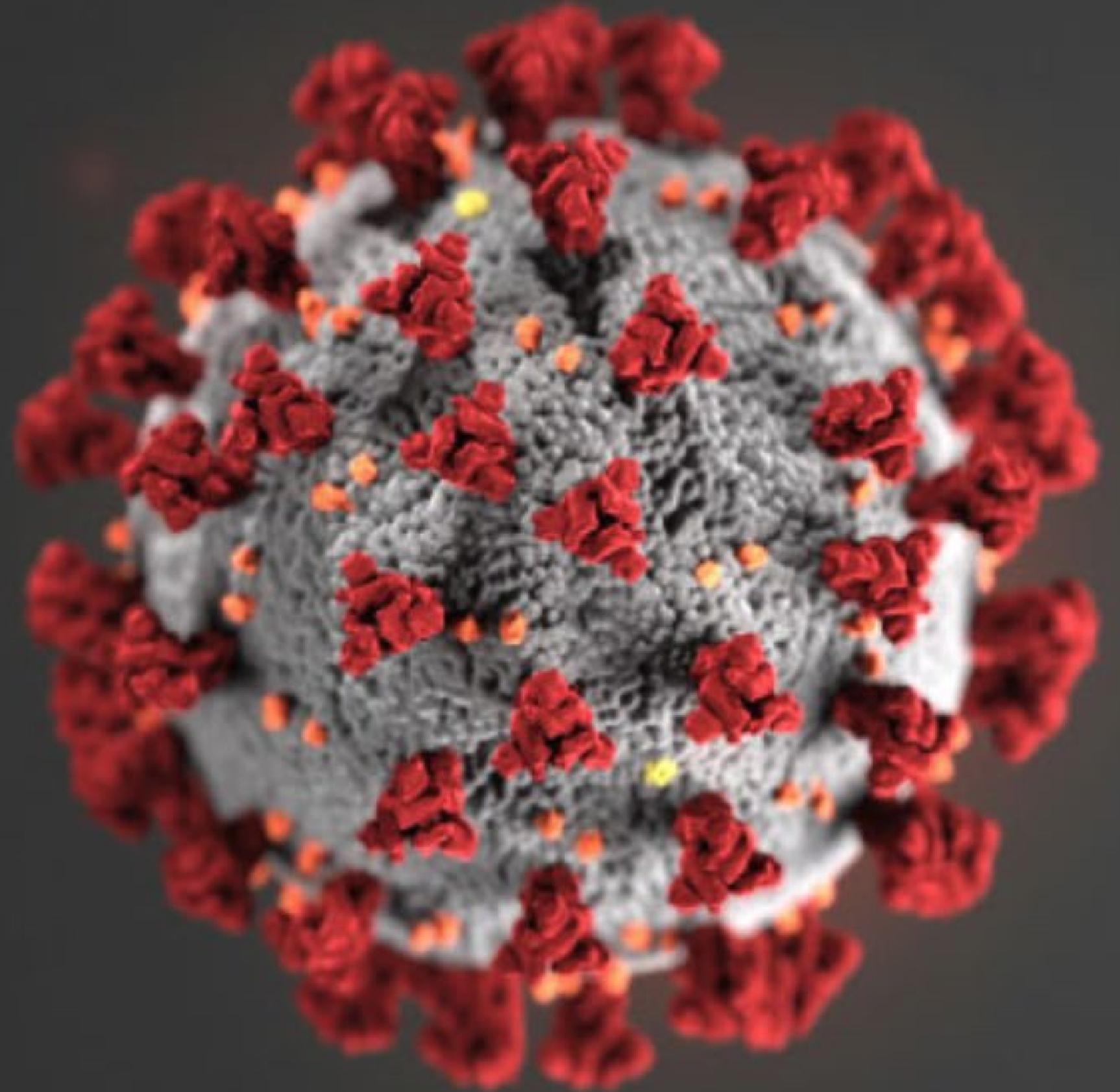




# Corona virus Impact Assessment – Construction Industry

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April 2020



# Summary – Industry-level Impact – Construction

- **Key Highlights:** The outbreak of Coronavirus attack in China impacted construction industry adversely. Just as China and the United States began to ease trade tensions providing some longed-for certainty, the coronavirus has again increased fear and uncertainty in the steel markets.
- Companies globally are being squeezed by the coronavirus outbreak, through labor market and supply chain disruptions. Travel restrictions on Chinese workers are stopping the normal recommencement of work after Chinese New Year and affecting the operation of manufacturing plant within China as well as the Chinese labor market outside China.
- The construction demand will weaken and steel production levels are likely to go down as well. For the time being, buyers are likely to agree a wait and watch attitude as the extent of drop in steel prices will become evident in the upcoming weeks.
- According to Beroe Analysis, the consumption and production of commodities like iron ore and steel are expected to dip through the country and cause ripple effects throughout the world
- Since the Chinese Lunar New Year commenced as the virus spread, many companies across the mainland have stopped production and construction crews have paused work as an extension of the holiday break

## Major Risk Factors

Industry Risk Drivers	Comments	Risk Probability		
		Almost Certain	Likely	Possible
Construction Labor	Shortage of labor due to extension of holidays			
Global Supply Chains	Supply chain disruptions until mid may 2020			
Supply of Construction Materials	Export of steel, wood, plaster, aluminum, glazed partition systems, cement and cementitious products, paints, HVAC equipment, electrical equipment, light fixtures from china will be delayed until march			
Construction Project Delivery Execution	A construction contract may allow for time extensions when contractors cannot obtain materials or there is a supply shortage as a result of an unforeseeable epidemic.			

## Category impact

Key Categories	Impact Level	Outlook Impact	Comments
Engineering Construction	High	Medium–Long Term	Construction industry is currently experiencing a dull period, as a result of delay in project completions , lack of labor availability due to outbreak of corona virus ,disruption in supply of materials such as steel from China

## Key Facts:

- Fourteen provinces, including the major industrial hub of Hubei where Wuhan is located, and other municipal areas such as the port city of Shanghai, will be on lockdown until next week.
- These regions make up 90 percent of the country's copper smelting, 60 percent of its steel manufacturing, and 40 percent of coal output.
- Despite these fears, China's most dominant steel group, the China Iron and Steel Association (CISA), have asked steel companies not to bloat steel prices because of the declining demand



# Summary – Industry-level Impact – Construction

## Market Outlook

As concerns grow about the continued spread of the COVID-19 across various regions, the global construction industry will face disruptions for next 3-4 months. Pandemic has further caused disruption in work, movement of labor and breakdown of the supply chain, recovery would be a challenge for next 8 months.

## Global Construction

- Construction work globally has tumbled as the nationwide lockdown to combat Covid-19 pandemic kicked in, causing concerns that the companies would see profits being hurt and may even incur losses on some projects.
- The concern for the construction sector is that most of it has already been facing monetary stress, shrinking orders and tight working capital.

## Supply Chain Disruptions

- Companies with worldwide supply chains may see tier 2 and tier 3 suppliers highly affected by disruptions related to the pandemic.
- The construction industry may experience constant supply issues surrounding construction equipment and materials from Asia (e.g., structural steel and floating glass, fixtures)

## Labor Shortages

- Construction workers in US and India are facing a lockdown due to fear over coronavirus infection and many of them may have returned to their villages or are planning to return. Contractors are also not keen on pushing them either, as the recovery is going to happen only by end of April.
- Impositions on travel ban has made life difficult for laborers, as they are not be able to return to their hometowns and, therefore, contractors are providing some financial assistance due to the loss of daily wages for blue collar labor.

## Mitigation Measures

- Companies should create a pandemic reaction plan. Firstly, establish a working group of employees from across the organization to author the plan.
- Owners and contractors should work together to implement public health and infection control improvements on the jobsite by providing masks, sanitizers
- Most contractors should claim postponement of time of the completion date of the project as a result of interruption caused by the novel coronavirus. (Force Majeure or NEC3)
- Companies with extensive international supply chains should contemplate the tax and transfer-pricing components of restructuring their supply chains by identifying alternate suppliers.
- To help evaluate labor costs, consider workforce emergency planning scenarios, including during a period of diminished demand and activity.



Regions	Highly Affected Regions	Impact on Construction	Measures Taken
<b>North America</b> 	<b>US</b>	<ul style="list-style-type: none"> <li>US Construction industry plugs away with novel corona virus lockdown with most affected, 191,133 cases</li> <li>Boston has postponed all construction projects in the city, while San Francisco's new shelter-in-place order has left cranes and construction sites empty.</li> </ul>	<ul style="list-style-type: none"> <li>The U.S. Dept. of Homeland Security issued new guidance that adds infrastructure construction as an essential service .The</li> <li>infrastructure work is expected to continue during the COVID-19 pandemic,</li> <li>Owners and contractors should work together to implement public health and infection control improvements on the jobsite by providing masks, sanitizers</li> </ul>
<b>LATAM</b> 	<b>Brazil, Chile, Peru</b>	<ul style="list-style-type: none"> <li>Construction firms in LATAM are starting to feel the strain from labor scarcities and supply chain disturbances caused by the outbreak of COVID-19, with some looking for deadline extensions for their projects.</li> </ul>	<ul style="list-style-type: none"> <li>Owners and contractors should work together to implement public health and infection control improvements on the jobsite.</li> <li>Most contractors should claim postponement of time of the completion date of the project as a result of interruption caused by the novel coronavirus.</li> </ul>
<b>APAC</b> 	<b>India</b>	<ul style="list-style-type: none"> <li>Indian construction sector climate is predicted to be negative for 2020-21 on account of likely muted order inflows, and concerns that loan disbursements and sanction of additional limits to construction companies would be slow-moving due to weak funding across banking sector and the overall fragile economy</li> </ul>	<ul style="list-style-type: none"> <li>21 day lockdown issued in India, causing project delays and supply disruptions</li> <li>Indian Governments has proposed to use the welfare fund for building and construction laborers, which has around Rs 31,000 crore, to help those who are facing financial disruption because of the lockdown.</li> </ul>
<b>Western Europe</b> 	<b>UK, Italy</b>	<ul style="list-style-type: none"> <li>COVID-19 has impacted on construction and infrastructure projects in the UK ,Italy and other parts of Europe, with labor and material shortages being expected.</li> </ul>	<ul style="list-style-type: none"> <li>Most contractors should claim postponement of time of the completion date of the project as a result of interruption caused by the novel coronavirus. (Force Majeure or NEC3)</li> </ul>



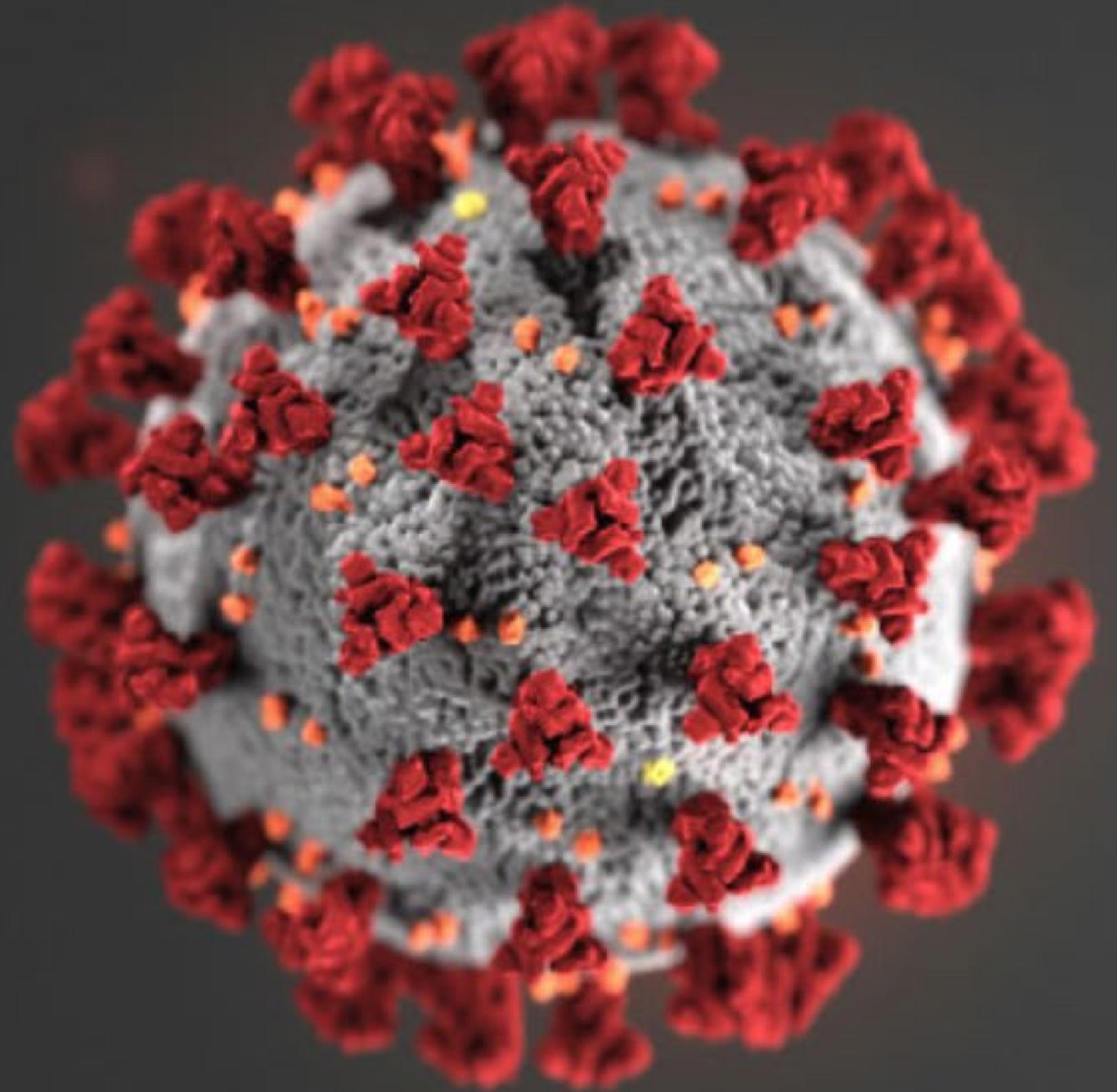
# Regional Summary – Impact on Construction Materials

## Key Highlights:

- The outbreak of Covid-19 in China has adversely impacted the construction materials such as Flooring , Fixtures, Steel ,Cement, glass . Producers and distributors across the globe are being squeezed by the coronavirus outbreak, through labor market and supply chain disruptions. Travel restrictions on various countries across the globe is affecting the operations of manufacturing units within China and other countries as well
- The demand for construction materials has weakened across sectors and is likely to go down further in the coming few weeks. For the time being, buyers are adopting a wait and watch attitude as the extent of drop in supply of flooring products and price changes will become evident in the upcoming weeks
- According to Beroe Analysis, the consumption and production of like steel, cement, carpets, luxury vinyl tiles, etc. are expected to dip globally along with trade restrictions amongst countries. Difficulty in transportation of products might lead to increased prices in certain regions

Materials	Comments	Impact of COVID
		Impact Level
<b>Steel</b>	Prices for steel reinforcing bar (rebar) domestic, Eastern China was 3,390-3,400 yuan (\$489-493) per tonne. Rebar prices in China has slumped due to weak buyers market. Prices in Europe are stable, despite zero trading of steel for couple of weeks For India, Domestic production of steel has tumbled due to the 21 day lockdown and Indian suppliers are expected to focus on export markets	Medium - High
<b>Cement</b>	Cement prices fell in March globally after rising for two straight months as the novel coronavirus outbreak slowed down economic activity in a usually strong period of construction	Medium - High
<b>Flooring</b>	The demand of flooring products has been affected on a regional basis. The spread of COVID-19 in China has led to a stoppage in the manufacture of LVT which is shipped to the US on a regular basis. Almost 90% of the flooring products are transported from China which will further cause supply chain disruptions	Medium - High
<b>Fixtures , Tiles, Wood</b>	Buyers in traditional markets such as the Middle East and North Africa, Europe - particularly Italy - and even in Southeast Asia are refraining from booking amid reduced economic activity within their home countries due to stringent measures imposed by governments to contain the coronavirus as well as due to uncertainties over the next few months. Interest among buyers for marbles and fixtures from Italy has been limited due to the strict measures being applied at Italian borders, according to market sources.	Medium - High





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