Fourth Crisis-era Message to Contractors from: Dr Tom Schleifer
Time is Not on Our Side

Last week in this crisis message series I said *time is not on our side*. Three weeks back I said that *prudence suggests a reduction in overhead sooner rather than later*. Unfortunately, since then we've seen nothing but more bad news; social restrictions extended through May 1, warned to expect more virus deaths and continued spread until at least mid-April, ten million unemployed. No need to go on, other than repeating that the construction market follows and lags the US economy—this time it lagged by days not months. With so many unknowns, time has run out. This while many of us are still wondering how should I even think about this—what is the process I should go through to figure this out--what are the principles I should use—can I even identify the problem, let alone evaluate, quantity and analyze it? What we do know is that the construction market has already been affected and, while we can't solve the global problems, we can react to the impact on our businesses. Senior managers and owners of construction enterprises, expecting a reduction in volume, need to determine now how long they can afford to carry their full overhead. These enterprises include contractors, subcontractors, architects, engineers, suppliers, service companies and those in the supply chain to these organizations.

The next step should be to decide for yourselves how long your individual construction market will likely be impacted. There are some fundamentals you may want to consider in making informed decisions. We are bombarded with news that this disaster will get worse before it gets better so even the beginning of the US economic recovery is unknown. What do we know? Consumer and business spending are the economic engines that fuel the economy. When recovery finally begins, a lot of consumers may have limited money to spend, while at the same time lingering fear may cause others to hold on to what cash they have. Restrained consumer spending impacts business spending and some industries like hotels, restaurants, travel and others may be slow to recover. There is little evidence that the rate of economic recovery will be robust.

In the meantime, cities, counties and states will have suffered extreme reductions in tax revenues; and private industry will have experienced severe losses from lack of activity, which may cause these buyers of construction services to reduce capital spending to conserve cash. This would slow total economic recovery, defined as when Gross Domestic Product returns to pre-crisis value. All of this may impact the restarting of delayed construction projects and much-needed new projects to replenish backlog, a prerequisite to achieve a full recovery of the construction market.

With the above in mind (and anything you can add to it), you have little choice but to speculate on when the economic recovery will begin; and will the initial rebound be instant or anemic? Another question is, when will total recovery occur? Fortunately, we don't need to know that to make the critical initial decisions. The reason being, historically US economic downturns that fully recovered in less than six months had relatively little impact on the construction industry. I am reasonably comfortable guessing that few construction professionals watching the news expect full US economic recovery within six months so construction will clearly be impacted. A construction market recovery normally follows and lags the US economy by at least 12 months, which suggests that full construction market recovery may be well after full US economic recovery.

Prudent senior managers and owners of construction enterprises will decide for themselves and their companies if they can afford their full overhead for six months or more if their sales fall off. Most have already incurred six weeks of full or almost full overhead, so *time is not on our side*. The worst case is trying to absorb overhead for months and then finding the downturn will last longer.

If there is an economic ripple affect, how long is anyone's guess. The limited optimism I am seeing in the news is described as resulting from anticipated *"pent up demand".* My concern with that is that economics tells us that consumer and commercial transactions are stimulated by a demand, AND the ability or willingness to pay for it. Pent up demand notwithstanding, when social restrictions are lifted the economy may continue to suffer from both constrained ability and restrained willingness to spend on the part of consumers, businesses and cities, counties and states. If so, the economic "ripple" effect may have a long tail.

I have talked with a number of businesspeople who insist that we need to *"wait and see."* While I respect their opinion, I *don't think time is on our side*. I am dealing with a lot of unknowns, analyzing new information as it comes out and trying to define cause and effect so that we can better project the impact on our businesses. You are on the front line and your feedback would be of great value in this effort. Please share your evaluation of these issues and let me know what you are seeing and doing in these uncertain times.

To assure you will continue to receive the free weekly Crisis Message to Contractors, you will need to send your email address to tom@schleifer.com.

Note: Additional information on overhead management can be found on letstalkbusiness.net. Click on "Manual" and go to Managing Overhead in the table of contents.