



Understanding the sector impact of COVID-19

Engineering & Construction

As the effects of COVID-19 are felt around the world, public construction has been one of the few activities that has been maintained to some extent. Activity will likely continue in the very short-term because the lockdown in several countries hasn't been total and companies are willing to continue executing their contracts in order to avoid liquidation damages. However, work is expected to halt soon as supply chains are disrupted by a shortage of subcontractors and materials, and public agencies and administrations begin to terminate contracts to control expenses. In the residential and non-residential subsectors, the situation is different. Entities in these subsectors (for example, individuals, retail companies, and small businesses) are facing significant short-term stress and, with little choice but to conserve cash, many of these have already stopped projects.

Potential long-term impact on construction companies

Longer-term construction companies across the board will have to contend with decreased demand as governments face rising deficits and residential and commercial projects are dampened by unemployment and low GDP growth. Although some companies may be able to execute on the backlog of projects, the pipeline is expected to be weak for the foreseeable future. This suggests:

- Construction companies with high levels of debt and low cash reserves may face a liquidity crisis.
- As smaller businesses, sub-contractors may fail rapidly.
- Contract management will come into sharp focus, as customers seek to terminate or renegotiate contracts.
- Internationalization will become less viable as companies reconsider the regions in which they want to operate, and countries put more restrictions on foreign companies.

Key questions executives and boards should be asking

- How can we maintain the safety of own people first?
- Do we need to restructure our company to remain financially solvent?
- Do we need to rethink our supply chain and the use of subcontractors in light of emerging risks?
- How can we use technology to gain operational leverage?



Practical next steps

Construction leaders will be defined by what they do along the three dimensions of managing a crisis: Respond, Recover, and Thrive. Some key next steps include:

- Prepare for increased liquidation and renegotiation of contracts.
- Work on restructuring to weather the storm.
- Adjust your strategy to the new normal of much smaller markets in some countries.
- Consider if the crisis can be used as a catalyst to rethink how work is done and to accelerate adoption of digital capabilities.

For additional steps that companies should consider taking, visit www.deloitte.com/covid19-resilient-leadership

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