As our country and world face the impact of a global pandemic, it is important to emphasize that the personal dimension of the pandemic in terms of its impact on health, safety and well-being of our families, co-workers, friends and fellow citizens of the world is of much greater immediate importance than speculation on the economic or consequential employment disruption. However, it is prudent to begin to provide us some insight.

The Construction Industry

The length of the recession will be a function of the length of time the pandemic will last. If the pandemic persists through March, we will have a recession that begins in March 2020. The closures of restaurants, bars, churches, schools, construction sites, and events will affect GDP in the March quarter and possibly the following two quarters. By March 2021, the construction industry, and the U.S. economy, will be back to normal.

The following chart illustrates the relationship between the annual change in GDP and the fourteen industries which comprise 42% of the GDP. It is clear that with such a large portion of the GDP comprised of these industries, the impact on GDP will be significant.

Rise in vs. fall in put-in-place construction

The Bureau of Economic Analysis (BEA) tracks the level of put-in-place public construction (non-residential and industrial construction). The following chart illustrates the relationship between the annual change in GDP and the fourteen industries which comprise 42% of the GDP. It is clear that with such a large portion of the GDP comprised of these industries, the impact on GDP will be significant.

The Current Situation

May was a key month in the expectation of a U-shaped recovery during the Great Recession. May 2020 was the “Covid-19” month in the current recovery. The clear contrast was that May 2010 GDP was up 11% from May 2009, while May 2020 GDP was down 12% from May 2019. May 2010 was the month that recovery in the housing market continued. In May 2020, the housing market was falling apart.

The Silver Lining

The Federal Reserve has been very proactive in supporting the financial and construction markets. President Jerome Powell stated that the Federal Reserve will do what is necessary to support the U.S. economy. However, to date, this has not been enough. While workers have received cash, the Federal Reserve has not been able to provide the liquidity to support the financial and construction markets.

The effects of the pandemic on GDP have been significant. The BEA reported that the seasonally adjusted rate of GDP was -29.9% for the March quarter. The quarterly GDP estimate is based on the contributions of the fourteen industries that constitute 42% of the GDP.

The Next Recession

Recessions are often categorized by letters…L, U, V and W. L is a long term recession. U is a sharp drop followed by a slow rise; and W is an up down up cyclical pattern. V is a steep drop and a steep rise. None of those patterns look like the one we are experiencing now.

The next recession will be a historic event. If we are fortunate, it will be the short lived Great Recession. More likely a recession akin to the Great Depression. We have not had a recession in 11 years and the market has not been overbuilt as it was at that time.

The Recession Begins

The volatility in the capital markets (along with depressed oil prices) will slow sharply in the building market particularly if construction sites are closed and we see a sharp drop in put-in-place construction. The volatility in the capital markets will be even more significant if the pandemic lasts for more than six months. We have not experienced volatility of this nature in recent history. It is difficult to forecast with any certainty how the economic downturn will affect the capital markets.

The Recovery

The recovery will occur. The question is “How fast?” I am optimistic about the recovery, but it will be slower and more protracted than the Great Recession. The difference is the health of the public sector, the strength of the Fed, the potential for a stimulus package, and the recovery of the housing market.

The Offspring

What we have learned is that the momentum of construction continues during a recession. However, the components of the momentum are different than in a non-recession period. Building starts and put-in-place construction levels are not the indicators of momentum. But that doesn’t mean we are without a guide for the future. Mark Twain was right. "The past is history, the future is a mystery, but the present is a gift; that’s why it’s called the present."

The event is currently unfolding; the outcome is unknown. As the world faces the impacts of a global pandemic and the recession that is ensuing, the need for construction is more evident than ever. As stated, the momentum of construction continues during a recession and the ability to weather the financial storm will determine who will be able to build.

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John Cross

President & CEO

Modern Steel Construction

John Cross is the President and Chief Executive Officer of Modern Steel Construction, Inc., a periodical dedicated to all aspects of the steel construction business. John has been involved in the construction industry for over 30 years and has been President and CEO of Modern Steel Construction for 18 years. He spent the first 14 years of his career in structural and pre-engineered building manufacturing.

Modern Steel Construction was founded by John’s grandfather, R.W. Cross, in 1918. John Cross has served as a director of the American Institute of Steel Construction since 2000 and was appointed Chairman of the Board in 2006 and 2010.

John Cross is a member of the Board of Directors of the World Steel Association. John Cross is also a member of the Board of Directors of the National Association of Home Builders and the National Steel Curtain. John Cross is a member of the Board of Directors of the American Institute of Steel Construction.