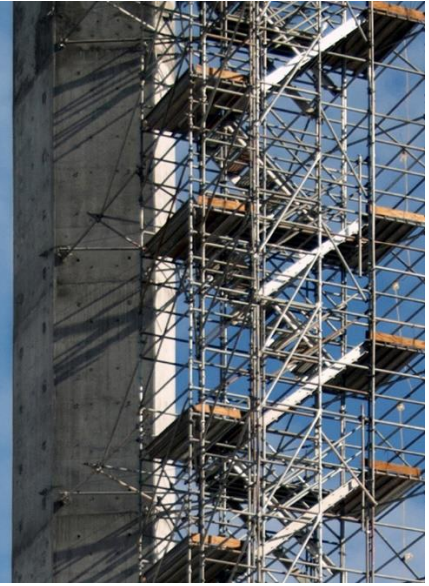




# COVID-19 Sector Implications

## Construction



**Please note that this sector summary should be read in conjunction with the [Overview](#), and that the information below considers the impact to date of COVID-19, then looks to the future under two different recovery scenarios. Additional information about the scenarios can also be found in the [Overview](#) document.**

- **The first scenario assumes recovery by the end of 2020**
- **The second scenario assumes a longer-term recovery**

### Impact to date

At the time of writing, many construction businesses have maintained the status quo with little major impact so far. In fact, some sites are working double shifts to meet advance work and deadlines ahead of any further restrictions. We have not heard of any significant defaults on progress payments or cancellation of contracts in progress so far. A number of businesses impacted by international and domestic travel (i.e. Airlines, Airports, Education and Tourism) will likely defer capex almost immediately.

Major supply chain shortages are yet to be seen, with minor shortages noted only; however depending on how quickly supply can be maintained from China and Italy/ Europe, building products such as nails, screws, nuts, bolts, tiles, bathroom/ plumbing fittings and steel may see shortages. A number of businesses are forecasting where these shortages could arise and then stockpiling against this, which could lead to shortages in the wholesale supply chain.

The major risk continues to be a complete site shut down as a result of infection, or mandatory self-isolation. Working from home is not applicable to much of the sector as physical onsite work is required to be productive. While administration functions that support site teams can continue, the volume of transactions may reduce impacting the need for these functions. Businesses will need to be proactive about how they deal with the health and safety of their employees and contractors, including how to isolate workers from each other on site, cleaning and what can be categorised as 'essential' works. In particular, earthworks, road and water maintenance and housing workers can be more easily self-isolated from others with the right processes and controls.

Those that do this quickly will have better outcomes in alert 3 and 4 scenarios and in the longer term.

For those servicing the sector, including engineers, where physical works do not potentially require monitoring and oversight, planning for pipeline projects can be done working offsite and may be an alternative use of resource, particularly for those major planned infrastructure works. This may, nevertheless, be impacted by the availability of resource in Government agencies, which will be constrained where they are having to make trade-offs to divert resources to the COVID-19 response, so that other policy/operational work is now a lower priority. It is important that these agencies maintain resourcing (focused on the development of early stage planning for infrastructure projects), which will ensure progress can continue in the long run.

Consistent with all other sectors, cash flow is crucially important to maintain workforces, and businesses are planning for different scenarios over the short and medium term, including reduction of expenditure for controllable costs, restructuring and shortened working weeks. The sector has numerous mid-sized businesses, for which current government initiatives are unlikely to make much difference. Further assistance for these businesses will be vital to be able to maintain workforces. Where work can continue and construction progresses, the use of transferable or low skilled workers from impacted sectors like forestry, may make up some of the gap created by a lack of overseas workers. Some of our clients have already mentioned that workers have been picked up from the forestry sector.

At this point, we have not seen contract provisions enacted, but it is likely that time extensions in particular, will be required to avoid contract penalties and liquidated damages. We expect force majeure claims to feature prominently. We hold hope that banks and government agencies will assist their suppliers and customers through this period, and the sector will take a pragmatic approach to dealing with contractual terms. However, this will require the entire supply chain to behave in this manner. Unavoidably, there will likely be a number of contractual disputes that arise as a result. We encourage leaders in the sector to avoid this at all costs, as if projects suffer from temporary productivity issues as a result of COVID-19, ramping work back up may be more sluggish than it could otherwise be.

## Recovery by end of 2020 Impact

As the impacts of recession flow through the economy, it is likely that late or non-payment of settlements for pre-purchased land, apartments and houses maybe impacted, resulting in cash flow and funding constraints on developers, further impacting the pipeline. Those that are well funded, may see this as opportunistic, but given the pervasive nature of the impact there may be some conservatism around this. It looks more and more likely that there will be a prolonged period of recession, therefore it is important that businesses and government take initiatives to stay productive.

## Longer term recovery impacts

Longer term impacts are expected to be seen in the deferral of funding for private developments and capital projects in the corporate sector (in particular for Airlines, Airports, Tourism, Retail and hospitality). However, Government infrastructure projects, for which a number are in the pipeline and funded, will hopefully make up some of this gap. Importantly, we will need people to do the work. Therefore, as highlighted above, the Government will need to support both medium and large businesses to maintain continuity of this supply. If we have prolonged periods with a lack of productivity or restrictions on ability to work, there is a possibility that some overseas contractors will retreat, but a number are well vested in the New Zealand market place and have significant investment in completion of existing projects. In addition, if the Government can spend this time diverting resource into planning for large infrastructure works, when activity returns to normal these will be well advanced to bring to construction more quickly.

As mentioned earlier, there may be some concern over resource constraints as a result of not being able to source overseas workers. It is unclear whether this will have an impact on cross border flows of labour, but certainly there is some reliance in the construction sector of resources from abroad, particularly for labour, machine operators and technical and management skills; therefore any constraint on resource flow may impact the ability of the sector to service major infrastructure works quickly (especially if globally, governments take similar approaches to get their economies going). Continued investment in training and diversion of resource from other sectors where recovery is prolonged may mitigate some of this issue, as well as keeping those that we already have.

**We have additional information, insights and practical advice on the business implications of COVID-19 available for you here:**

- [Business implications](#)
- [Cyber safety](#)
- [IT resilience](#)
- [Financial reporting](#)
- [Business Continuity and Crisis Management](#)

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