SMU Community Chat

April 29, 2020
Starting at 11 AM Eastern

John Packard, President & CEO, **Steel Market Update**

Ken Simonson, Chief Economist,
Associated General Contractors of America

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SteelMarketUpdate.com/Blog/SMU-Community-Chat-Webinars

SMU Hot Rolled Price Index

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Pre-COVID-19 Business Levels

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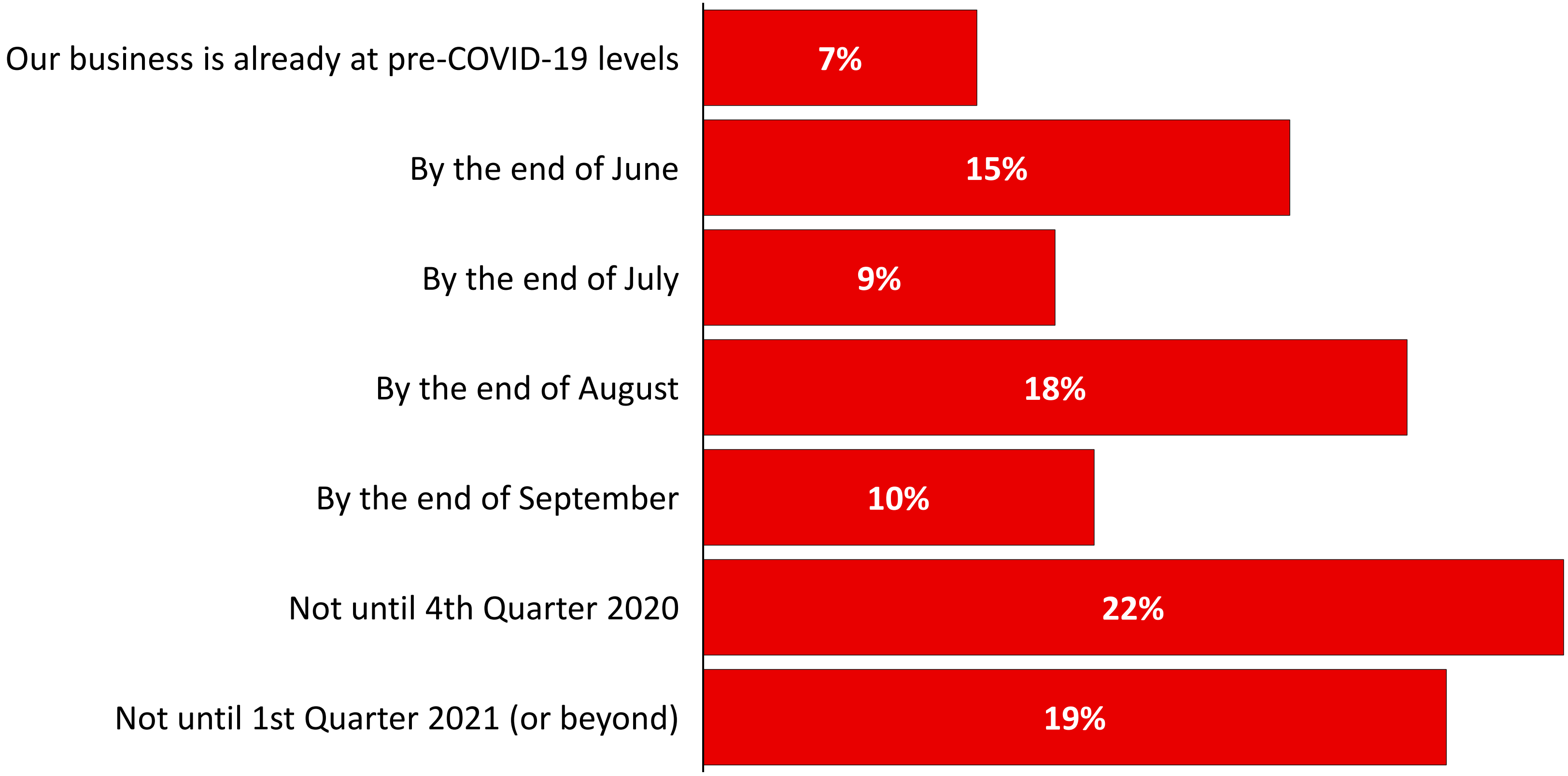
Some states are beginning to re-open for business. The question now becomes when will your business return to pre-COVID-19 levels?



Virus Impact on Order Books/Shipments

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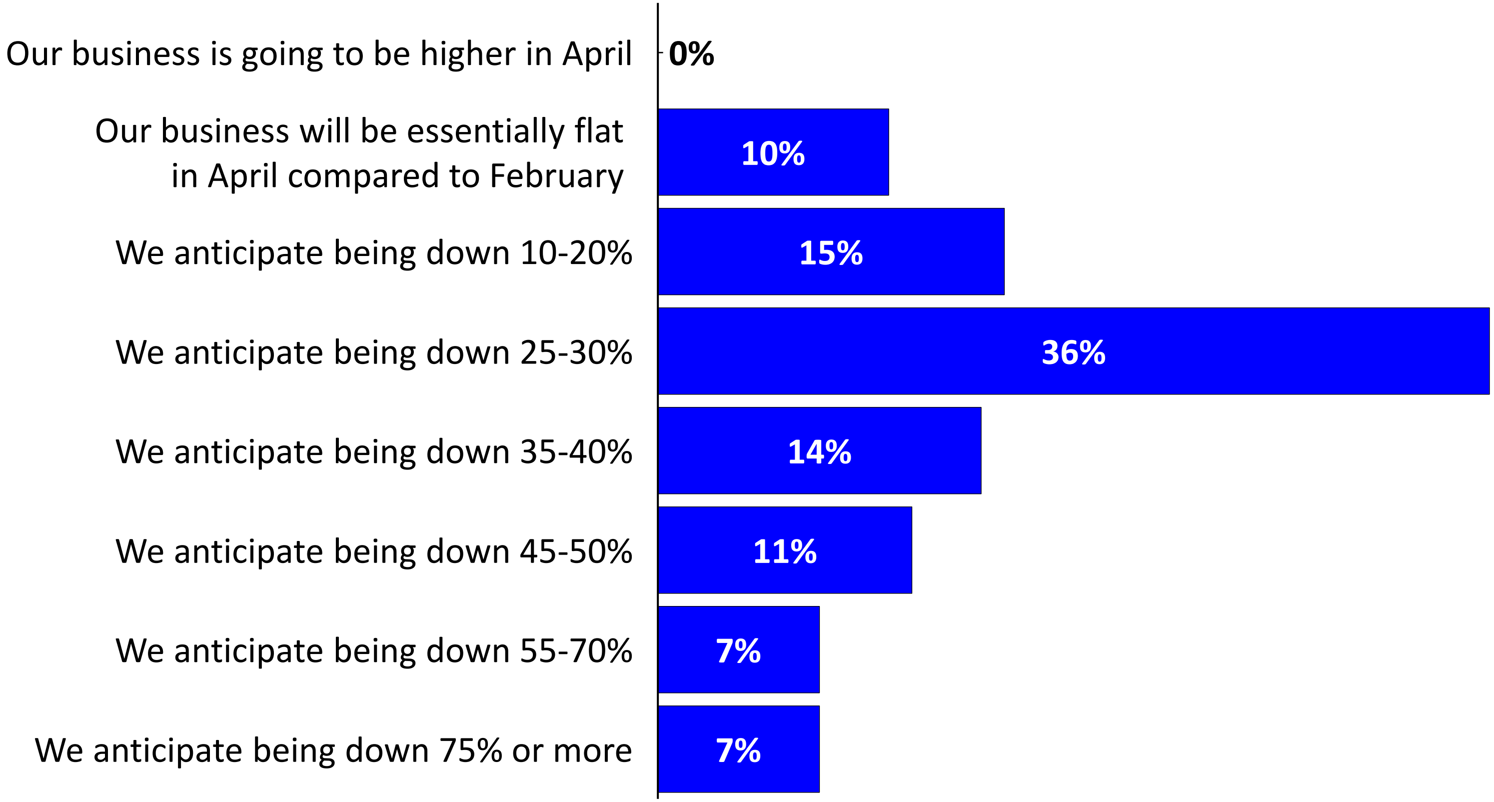
As it stands now, what will the impact of the virus be on your order book and/or shipments for the month of April compared to what it was in February 2020?



Purchasing

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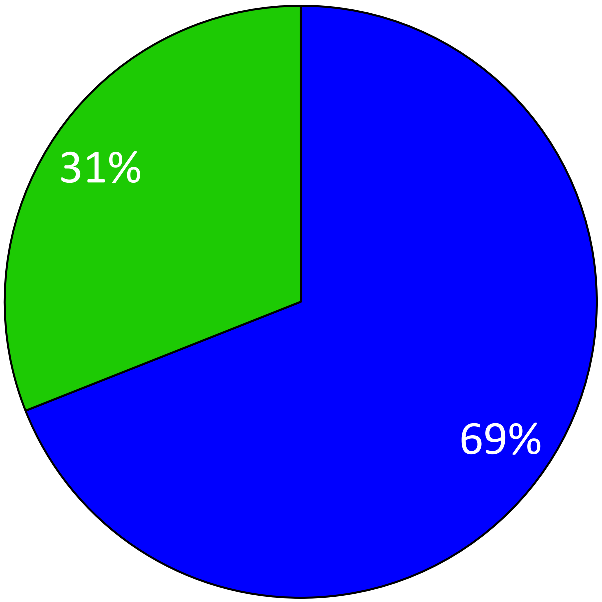
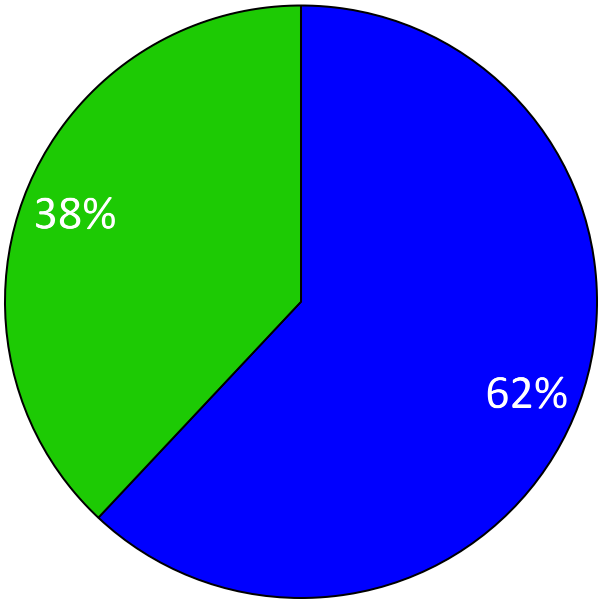
Has your company put purchasing in a wait and see mode or are you buying as normal?

Yes – we are holding all future purchases unless the steel is sold
No – we continue to purchase as normal

April 17, 2020



April 29, 2020



SMU Steel Summit 2020 (yes)

SMU Steel Summit 2020 Will be held this year.

1) We will host a virtual/online conference either in conjunction with or in place of our live conference.
2) Decision on whether we host a live event will be made on June 1st.
3) Cost for online conference will be $350 per person or less (exact amount not yet determined).
4) We will begin posting more details over the next couple of weeks.
5) However, SAVE THE DATES of August 24-26, 2020

Additional details can be found at www.SteelMarketUpdate.com/Events/Steel-Summit

Ken Simonson

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Ken Simonson has been Chief Economist for the Associated General Contractors of America, the leading trade association for the construction industry, since 2001. He provides insight into the economy and what it implies for construction and related industries through frequent media interviews, presentations and the *Data DIGest*, his weekly one-page e-newsletter that goes to over 50,000 subscribers.

Ken has more than 40 years of experience analyzing, advocating and communicating about economic and tax issues.

He currently serves on the Census Bureau's Scientific Advisory Committee. He is a Fellow and past president of the National Association for Business Economics, and he is co-director of the Tax Economists Forum, a professional meeting group he co-founded in 1982.

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AGC
THE CONSTRUCTION ASSOCIATION

April 27, 2020

Coronavirus Impacts and Implications for US Construction

Ken Simonson
Chief Economist, AGC of America
ken.simonson@agc.org

AGC Coronavirus Survey Summary

conducted April 20-23, 849 responses

- Owner ordered **halt to current work**: 50% of respondents (March 38%, April 31%)

  - canceled scheduled project: 28% (April 19%, May 16%, June 16%)
- Are you experiencing **project delays/disruptions** (total: 67% of respondents) due to:

  - **shortage of personal protective equipment (PPE)**: 33%

  - **shortage of construction materials**, equipment or parts: 26%

  - **shortage of craftworkers** (incl. subs): 28%
- Have suppliers sent notice that **deliveries will be late/cancelled**: 49% of respondents
- **Laid off** workers: 35% of respondents (March 25%, April 22%)
- **Added** workers: 13% of respondents (March 4%, April 12% incl. 3% laid off in March)
- **PPP loan**: 74% applied (funded 44%; approved, awaiting funds 15%; no answer 8%)

Source: Author

Current economic impacts on construction

- Owners are increasingly halting projects, canceling scheduled starts
- Some governors, local officials tightened previous exemptions
- Disruptions are increasing due to shortages of PPE, materials, workers
- Growing number of suppliers are warning of late/canceled deliveries
- Layoffs are widespread but quick funding of PPP loans may be helping

<u>A few positives:</u>

- Small # of new projects to respond to crisis (healthcare, mfg., lodging)
- A few cases of accelerated highway, airport work as traffic declines
- Substantial price reductions for fuel, other commodities

Source: Author

Construction outlook for 2020

- Virtually no new private starts except pandemic-related and emergency repair work
- State DOTs likely to continue lettings but with some delays, cutbacks
- Other infrastructure will depend on amount of advance or assured funding
- Many state/local building projects will be canceled or postponed
- Contractor layoffs, closures/bankruptcies will increase sharply
- PPP loans may keep many firms afloat if disbursed in time

Source: Author

Likely longer-term economic impacts on construction

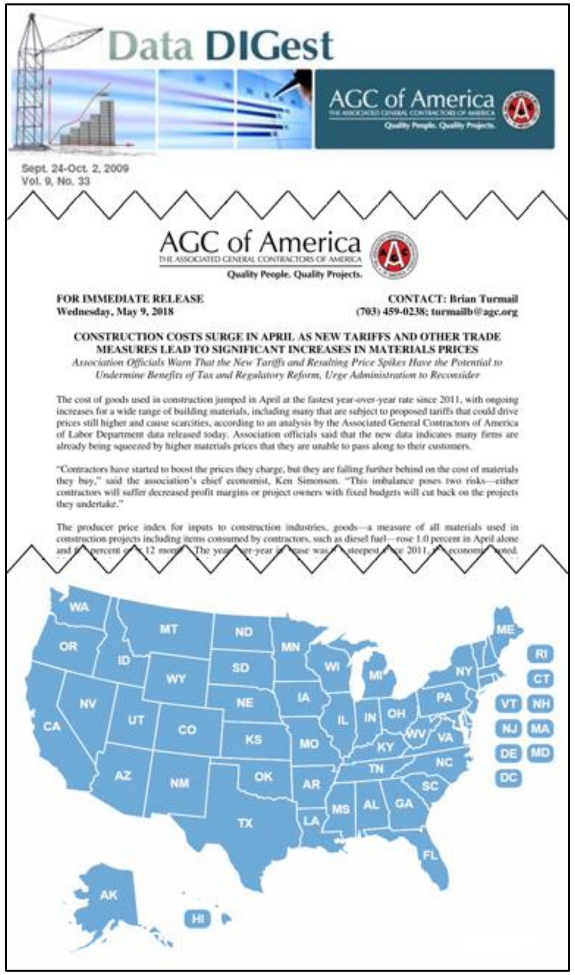
- Slower rebound than for other sectors as owners, consumers await certainty and repair of balance sheets
- Public spending will vary according to revenue source, amount of unbudgeted costs incurred to combat pandemic
- Less demand than pre-crisis for retail, offices, higher ed, cultural facilities
- Possibly less demand for sports, entertainment, lodging & travel-related
- Possibly even greater demand for distribution facilities, data centers
- Little long-term change in outlook for K-12 education, water/sewer, federal
- Unclear: additional infrastructure funding, healthcare construction

Source: Author

AGC economic resources

(email ken.simonson@agc.org)

- *The Data DIGest*: weekly 1-page email (subscribe at http://store.agc.org)
- Monthly press releases: spending; producer price indexes; national, state, metro employment with ranking
- Yearly employment & outlooks surveys, state and metro data, fact sheets: www.agc.org/learn/construction-data
- Coronavirus resources: www.agc.org/coronavirus



AGC THE CONSTRUCTION ASSOCIATION

Data Digest

WWW.AGC.ORG

Vol. 20, No. 15 · April 14-20, 2020

Beige Book, starts data, airport consultants survey point to plunge in new construction

Evidence is mounting rapidly as to the **damage from the pandemic to the economy and construction**. "**Economic activity** contracted sharply and abruptly across all regions in the United States as a result of the COVID-19 pandemic," the Federal Reserve reported on Wednesday in the latest "Beige Book," a summary of informal surveys of businesses in the 12 Fed districts from late February to April 5. (Districts are referenced by the names of their headquarters cities.) **Comments relevant to construction** included the following. Boston: "steep declines in [commercial] construction activity." New York: "Businesses in construction…noted declines in their selling prices…New construction starts have essentially fallen to zero, and ongoing construction projects have paused, except where considered essential." Philadelphia: "Philadelphia's commercial real estate construction fell 70% by the end of March—some contractors have no projects. After initially being shut down in Pennsylvania, commercial construction was allowed an exemption. Unfortunately, worker attendance is less than 50% on some projects. …deals already in the works have been finalized, but fewer new projects are coming forward now." Cleveland: some "construction contacts said that supply chain disruptions may push prices up for some materials….Nonresidential builders reported that work continued on large projects that were underway in areas that allowed it, but they have seen some job postponements and cancellations." Richmond: "Existing construction projects continued, but new construction starts declined." Chicago: "Nonresidential construction activity was little changed. Contacts indicated that, as with residential construction, most projects were continuing. A contact in southern Wisconsin reported greater demand from restaurants for remodeling work as owners anticipated eventually reopening." Minneapolis: "Commercial construction fell since the last report, though some underlying optimism remained….Producers of construction materials reported disruptions in demand as construction activity was curtailed in some regions." Kansas City: "Selling prices held steady for construction supplies after rising in the previous survey period. [Commercial] construction underway and [completions] declined." Dallas: Manufacturing "firms noted delaying large construction projects." San Francisco: "Prices for building materials declined moderately on balance as new construction projects were put on hold….In Southern California, major infrastructure projects proceeded amidst the statewide shelter-in-place order though some reports emphasized that continuation depends on maintaining a healthy workforce. In the Mountain West, commercial projects generally proceeded though new project proposals declined noticeably."

The **value of construction starts**, not seasonally adjusted, plunged 20% year-over-year (y/y) in March from March 2019, ConstructConnect reported on Tuesday, with nonresidential building starts down 45%, residential starts down 9.7%, but civil starts up 25%. On Thursday, the Census Bureau reported mixed results for **housing starts** (units) and **residential permits** in March. Starts increased 1.4% y/y at a seasonally adjusted annual rate from March 2019, with single-family starts up 2.8% but multifamily (five or more units) starts down 3.9% y/y. However, from February to March, starts plummeted 22%, with single-family starts down 17% and multifamily down 32%. **Permits** increased 5.0% y/y, with single-family permits up 8.7% and multifamily down 3.6%. For the month, permits fell 6.8%, with single-family permits down 12% and multifamily up 5.2%.

On April 13, the Airport Consultants Council announced "initial results of an association-wide survey of the immediate impacts from the COVID-19 pandemic on capital development **projects** that are active or planned **at airports** throughout the United States. [Of the more than 80 responding companies, 90%] have experienced delays or cancellations of projects, with 21%...experiencing major delays[; 72%] report reductions in project advertisements, with 18% reporting significant reductions."

The Small Business Administration announced on Thursday that 1.66 million **Paycheck Protection Program loans**, totaling $342 billion (plus "the amount required for reimbursement to lenders"), had been approved. Out of 20 sectors, construction firms received the largest amount ($44.9 billion), closely followed by professional, scientific and technical services ($43.3 billion), although the latter sector had more loans approved (208,400 vs. 177,900). There were more than 700,000 construction establishments with 500 or fewer employees (the size limit for PPP loans) in 2017, Census Bureau data show, implying that about one-fourth of eligible firms received loans. (Nearly all construction firms have only one establishment.) AGC's April 6-9 survey found that 74% of 830 respondents had either applied (64%) or intended to apply (10%) for PPP loans.

Seasonally adjusted **construction employment** increased from March 2019 to March 2020 **in** 41 **states,** declined in seven states and the District of Columbia, and held steady in Delaware and Alaska, an AGC analysis of Bureau of Labor Statistics (BLS) data released on Friday shows. (The "reference" period for the data was the week of March 12, when there were still few coronavirus-related layoffs.) The largest y/y gains in construction jobs again occurred in Texas (26,100 jobs, 3.4%) and Florida (26,000, 4.6%). The largest y/y percentage gain again occurred in New Mexico (11%, 5,300 jobs), followed by Montana (7.9%, 2,300). The largest y/y construction job losses again occurred in Louisiana (-7,800 jobs, -5.3%) and West Virginia (-3,900, -10%). The largest percentage loss occurred in West Virginia. Construction employment rose from February to March in 24 states, decreased in 20 and D.C., and was flat in six states. Employment reached a new high (in records back to 1990) in seven states: Idaho, Kansas, Massachusetts, New York, Oregon, South Dakota and Washington. (AGC's rankings are based on seasonally adjusted data, which in D.C., Hawaii and Delaware is available only for construction, mining and logging combined.)

Thank You

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Thank you for attending our SMU Community Chat Webinar.

A special thank you to Ken Simonson for his participation in today's community chat.

Tomorrow we will provide a link to the video recording of today's webinar.

Our next webinar will be **Wednesday, May 6th at 11 AM ET** and will feature **Timna Tanners,** Metals and Mining Analyst at **Bank of America Merrill Lynch**. Click here to register.

Stay safe and stay tuned to Steel Market Update.

Timna Tanners

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Timna Tanners is a Managing Director in Americas Equity Research covering North and South American metals and mining companies and U.S. building materials for **Bank of America Merrill Lynch**. She has covered the Metals and Mining sector since 2002. Regular research publications include: a quarterly U.S. metal buyer survey and a weekly Metals Musings note. Tanners sponsors field trips to facilities and hosts steel buyer lunches/dinners. She and the team were ranked #1 in Metals and Mining in the Institutional Investor All-America Research Poll from 2013 to 2018. Tanners has been at BofA Merrill Lynch since 2011 and began her career in 2002 at UBS. Tanners has a BA in politics from Pomona College, an MS in journalism from Northwestern University, and an MBA from UCLA. She is based in New York.

Click here to register for next week's webinar

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