

# Stimulus Spending: Where's the Opportunity for Paints & Coatings, Part 1

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**W**ith consumers holding their breath while they wait for the next economic shoe to drop and businesses cutting costs and jobs to offset lost revenues due to the worldwide economic downturn, the U.S. government has taken bold action to jolt the economy through massive spending in several key areas. The American Recovery and Reinvestment Act (ARRA), or the Stimulus Bill as it is commonly referred to, was signed into law on February 17, 2009.

Reading through the large volume of pages of the "U.S. Stimulus Package" and sorting through the various promises and cross-promises to determine specific business opportunities is both interesting and time-consuming. To assist the specialty chemicals constituency, Chemark Consulting's Fast Track Solutions Team has studied this bill in order to cull out its impact on the paints and coatings industry—from suppliers, formulators, down-stream distributors and end-users. The key general targets that represent opportunities for our industry are:

- Increased investment in the renewable energy industry by providing capital over the next three years to eventually double domestic renewable energy capacity;
- Implementation of the largest weatherization program in history by modernizing 75% of federal building space and more than one million homes; and
- The largest increase in funding for our nation's roads, bridges and mass transit systems since the creation of the national highway system in the 1950s, as part of the \$150 billion



***The American Recovery and Reinvestment Act (ARRA), or the Obama Stimulus Bill, was signed into law on February 17, 2009. According to Chemark Consulting's "Fast Track Solutions Team," the stimulus package will increase demand for architectural, heavy-duty and OEM paints/coatings, adhesives, sealants, composites, plus their basic raw material ingredients.***

investment in new infrastructure.

Spending will be stimulated at the federal, state and local agency levels, in addition to increased spending on military infrastructure upgrades. In addition, the stimulus bill was designed in part to have a direct and measurable impact on the home improvement market and new home construction through its "First Time Home Buyers Tax Credit" and "Neighborhood Stabilization" provisions.

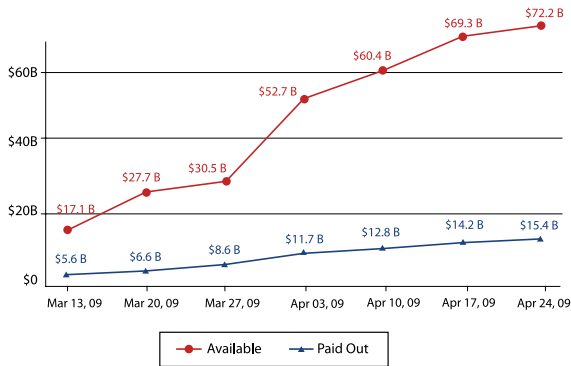
The complete bill is available on the Federal government's official stimulus bill website, [www.recovery.gov](http://www.recovery.gov). In addition, by going to [www.recovery.org](http://www.recovery.org) you

are directed to a site that tracks recovery spending by state and county. It also allows businesses to find stimulus projects in a particular region and even allows visitors to register to receive free notification of upcoming economic stimulus projects of interest.

To qualify which stimulus monies actually entered the economy during the month of April, a comparison of spending versus available funds was made. *Chart 1* on the next pages highlights weekly spending versus available stimulus funds for the weeks of April 3, 10, 17 and 24.

Clearly there remains ample room

**Chart 1 Funds distribution reported by week**  
(Total Stimulus Amount - \$787 Billion)



Source: Financial and Activity Reports submitted by agencies

for growth in the number of projects being funded, and this means at this juncture, the stimulus program is not close to being effectively deployed into our economy achieving its ultimate economic benefits. During these initial stages of implementation most argue that it is too early to expect anything else and we concur.

Allowing for inefficiencies in our system, we believe that we will move from the current weekly rate of deployment of funds of 20-21% paid out to approximately 85%, a little less than the entire package. Our estimates take this inefficiency into consideration.

On a macro-basis, in what market segments should we expect a positive impact on the paint and coatings industry as the spending position of the stimulus programs become effectively employed? Of the seven major segments, four represent the most predominant in terms of paints and coatings use impact. They are:

- Transportation, housing and urban development;
- Energy and environment;
- Agriculture and rural development;
- Defense and security.

Chart 2 shows a total of \$317.2 billion of which, \$187.72 billion (yellow) to be spent in these four segments. Fifty nine percent (59%) of the total spending is devoted to these four segments.

The maintenance and new construction market for the U.S. was \$1.3 billion in 2008 and declining in growth due to the general economic situation.

The Stimulus Package will increase demand for architectural, heavy-duty and OEM paints/coatings, adhesives, sealants, composites, plus their basic raw material ingredients, and other specialty chemicals-based construction products exist in a wide range of end-use areas.

### HOME BUILDING PRODUCTS MARKET

As mentioned, the stimulus bill was designed in part to have a measurable impact on the home improvement market by encouraging homeowners and communities to take actions that will ultimately result in an increase in home values in order to help stabilize the housing market.

The “First time home buyer’s tax credit” provides an \$8,000 tax credit for first-time buyers for home purchases made between January 1 and December 1, 2009. Although they prefer new homes, most first time home buyers purchase existing homes; and,

existing home sales are a critical demand driver for almost all home improvement products from paints, general construction items such as adhesives, sealants, wallpaper and carpeting to even composite-based materials such as certain bathroom/kitchen sinks.

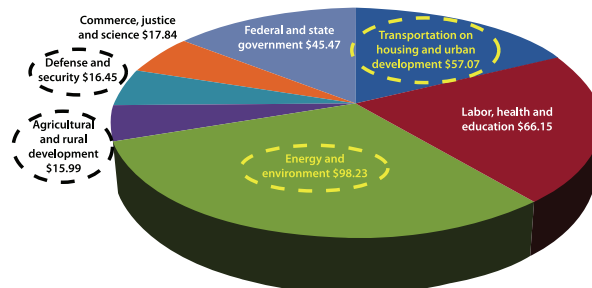
The \$2 billion Neighborhood Stabilization Act provides grants to communities to purchase and repair foreclosed properties. Funds can also be used by states and local communities to establish financing methods for the purchase and redevelopment of foreclosed properties. Since these properties have been abandoned, they are usually in need of extensive repair; and, with the guarantee of government funding, increased sales for paint, dry-wall and other home maintenance and construction materials will most certainly materialize.

Energy tax credits and incentives through 2010 allow homeowners to claim a 30% tax credit for purchases of new furnaces, windows and insulation. Installation of these items creates demand for other home improvement items such as paints, wallpaper, siding and other basic home construction materials. Buyers can also capture these through the purchase of homes constructed to meet Energy Star guidelines. Energy tax credits can be taken with first time buyers as well—a “double whammy” that could help the new home construction market also.

### DEPARTMENT OF TRANSPORTATION

The Department of Transportation (DOT) plans include investments to

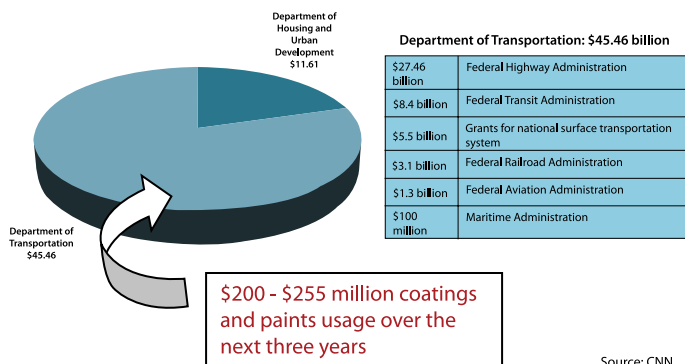
**Chart 2 Stimulus Spending (Billions)**  
Total spending: \$317.2 billion



Source: CNN

## Stimulus Spending (Billions)

Transportation, housing and urban development: \$57.07 billion



Source: CNN

expand transit capacity and to modernize transit systems. This includes airport capacity expansions, improvements in bus and rail systems—plus various safety improvements; and, building and rehabilitation of roads, highways, bridges and ports. According to Secretary LaHood, \$30 billion will be made available for highways, \$12 billion for transit, \$3.1 billion for passenger rail and \$3 billion for airports.

Amtrak alone will receive \$1.3 billion from the Stimulus Bill, which will amount to roughly double Amtrak's current capital investment program. This funding will be used to upgrade railroad assets and infrastructure, and will provide capital to expand passenger rail capacity. Current planned improvements include replacement of a drawbridge on the Northeast Corridor, repair to Amtrak facilities nationwide, and repair and return of damaged passenger cars.

Another \$26.6 billion from the American Recovery and Reinvestment Act (ARRA) has also been released to state and local transportation authorities to repair and build bridges, roads and highways. More than 100 projects—totaling \$750 million—have already been identified by state highway departments. Usually an approval process is required for coatings sales to DOT bridgework. Suppliers with existing approvals will be the ones able to capitalize on this increased sales opportunity.

Overall, DOT plans will result in

increased demand for a range of new construction and maintenance materials—from road marking paints, decals and adhesives to architectural paints, heavy duty coatings—and, for other specialty products depending on the particular project such as fire protection materials and composites.

Chemark estimates paints and coatings usage for the DOT initiative to range from \$200-\$255 million over the next three years. This calculation represents approximately one half of one percent (0.5%) of the planned overall DOT planned stimulus offering.

### DEPARTMENT OF ENERGY

Table 1 highlights Department of Energy (DOE) Stimulus Plan funded programs. In addition, \$6 billion is allocated to fund approximately \$60 billion in loans. The DOE plans to invest in energy efficiency and conservation in order to reduce total energy use, and fossil fuel emissions and to improve energy efficiency nationwide. This will include investments in renewable energy such as wind, solar and hydropower—and will involve enhanced energy efficiency, such as deployment of more energy efficient heating and cooling systems on government buildings plus use of renewable energy as much as possible—and, even installation of energy efficient street lights.

The long-term stated goal is to ensure that ten percent of electricity comes from renewable sources by 2012 and 25% by 2025. Other stated objectives to

end dependence on foreign oil are to weatherize one million homes annually, develop/deploy clean coal technology and prioritize the construction of the Alaska Natural Gas Pipeline. The latter alone will use more than \$150 million in powder coatings.

In particular, the Economic Stimulus Bill contains multiple provisions to benefit the wind industry and other renewable sources, including a long-term extension of the wind energy production tax credit, and a Treasury Department grant program for renewable energy developers, among other steps. The increased demand for wind energy alone will result in increased sales for coatings of turbines and blades, in addition to other specialty chemical materials such as composites and tapes.

Obviously DOE planned projects will result in a variety of increased sales for architectural paints, high performance coatings including pipeline and OEM coatings, and for other specialty chemicals-based end-use construction materials. In some cases, general approval and specification by the supplier is all that is needed in order to sell for that particular application. However, for other end-use applications, specific product approvals may apply, such as in the case of coatings for wind turbines where depending on the manufacturer specific

Table 1. DOE Recovery Act Funds

Recovery Act Program	Authorized Funds
Energy Efficiency & Renewable Energy • Weatherization: \$5B • State Energy Program: \$3.1B • Advanced Batteries Manufacturing: \$2B • Energy Efficiency & Renewable Energy: \$6.7B	\$16.8B
Environmental Management	\$6.0B
Smart Grid & related programs	\$4.5B
Fossil Energy R&D	\$3.4B
Science	\$1.6B

Source: Chemark

test performance requirements exist for both the coatings used on the turbines as well as different ones for the blades.

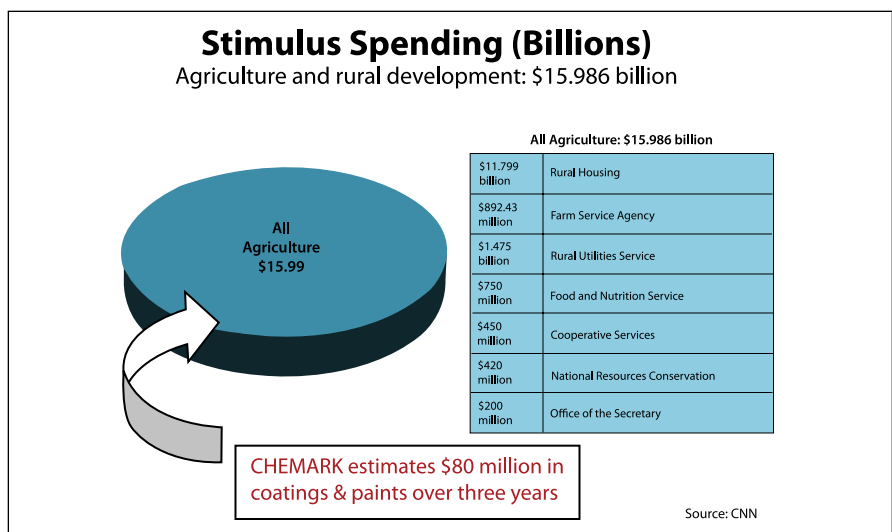
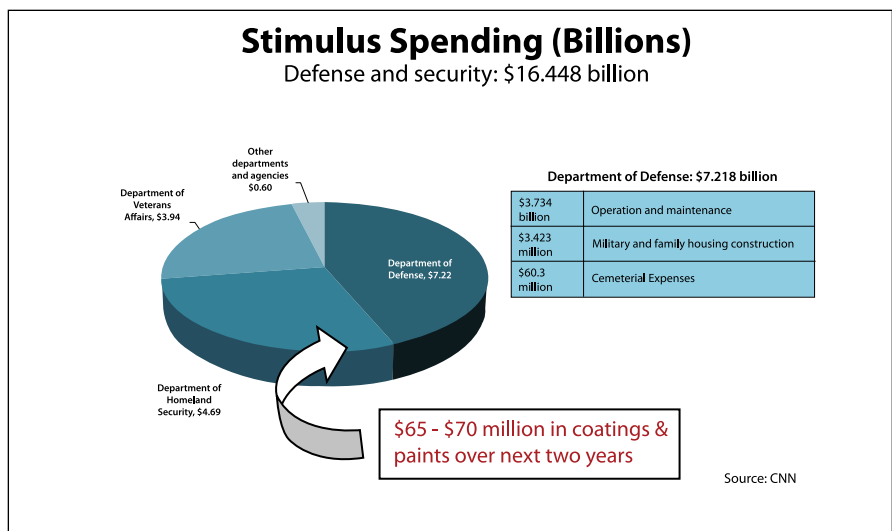
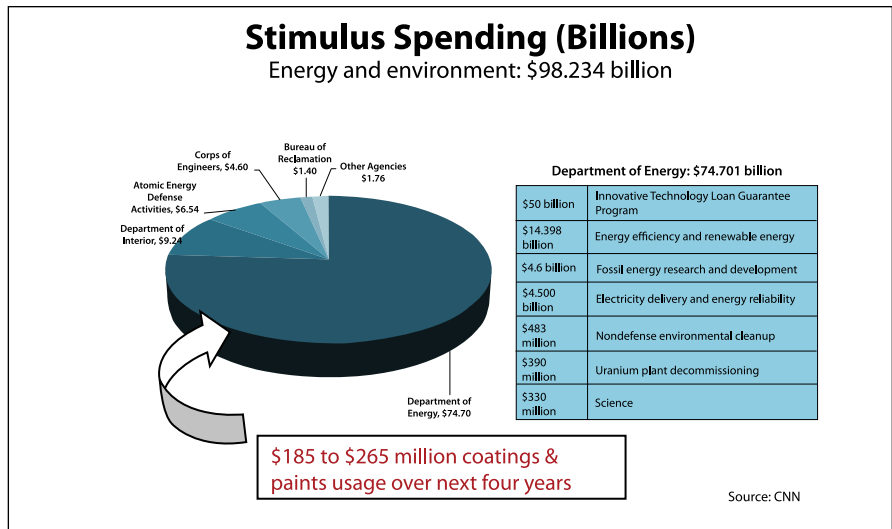
Chemark estimates between \$185 and \$265 million in paints and coatings will be needed over the next four years as the stimulus program comes into effectiveness.

## DEPARTMENT OF DEFENSE FACILITIES

Military infrastructure new construction and maintenance will improve base housing and barracks, invest in energy efficiency, expand and improve health care facilities for military personnel and veterans, and invest in basic military site infrastructure renovation for each of the major military entities. The Army has been allocated \$1,474,525,000; the U.S. Navy \$657,051,000; the Marine Corps \$113,865,000; the Air Force \$1,095,959,000; in addition to millions of dollars also allocated to the various reserves and National Guard.

Generally, these investments all involve increased demand for products derived from the specialty chemicals industry, such as paints for barracks and base housing/medical and education facilities and general office spaces, to high performance coatings for steel structures and tank linings for such items as fuel and drinking water, to general construction materials. Depending on the specific end-use application, prior specification-use approval, approved vendor status or specific product approvals are needed to access these sales opportunities. In fact, many suppliers already have existing U.S. General Services Administration (GSA) contracts to supply these very products and associated contractor services at agreed-to-pricing. In order to make procurement from thoroughly vetted vendors most convenient, GSA provides a gateway ([www.gsaaadvantage.gov](http://www.gsaaadvantage.gov)) for use by various government and military entities.

Of the \$16.4 billion of defense and security spending (depicted in the chart below), Chemark estimates approximately four tenths of one percent (0.4%) of the total will be formulated paints and coatings value. This would result in a paints and coatings



impact of between \$65 and \$70 million over the next two years.

In addition, GSA's Public Buildings Service is responsible for the design, construction and maintenance of thousands

of federally-owned facilities. Another \$750 million from the Recovery Act is being directed to renovate and construct land ports of entry and \$4.5 billion will be used to convert federal buildings to

high-performance green buildings. Again this provides opportunities for our industry, and even for use of innovative technologies such as paints containing IR reflective pigments to reduce energy for basic cooling requirements in certain climates.

## AGRICULTURE & RURAL DEVELOPMENT

The Agriculture & Rural Development portion of the stimulus program is approximately \$16 billion. Chemark estimates \$80 million dollars will be spent on paints and coatings over the next three years. 74% of the total is ear-marked for rural housing where paint and coating materials will be a must.

## OTHER AGENCIES

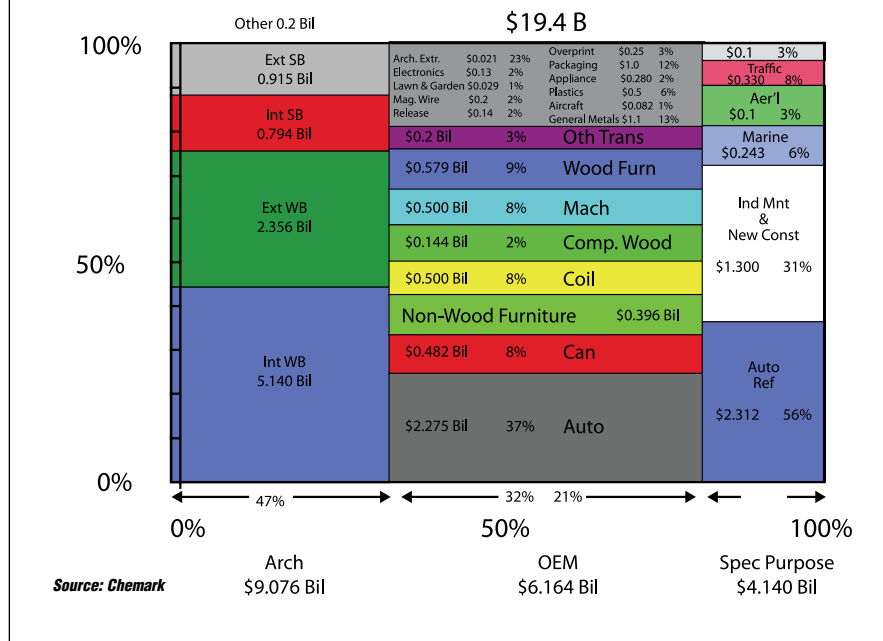
The National Park Service will use \$750 million from the stimulus bill to preserve and protect national parks buildings and sites, improve energy efficiency and use of renewable energy at parks and will also use it to improve roads, and even remediate abandoned mines on park sites. All these involve as a minimum increased demand for paints and coatings over a variety of surfaces from steel to concrete to wood to asphalt, as well as other basic construction materials.

The Bureau of Reclamation, which provides water supplies and hydro-power, will get \$1 billion to fund water-reuse projects and to construct various water supply projects for rural and western localities. Among other construction materials, this will increase demand for coating systems approved for use in waste and water treatment, typically over both concrete and steel. Testing and approval to National Sanitation Foundation (NSF) requirements is needed for coatings systems that will come in contact with potable water. Existing suppliers with these approvals will obviously have an edge for any specifications requiring potable water approvals.

## CONCLUSION

This overview highlights additional demand growth opportunities for the specialty chemicals segment. The

# US Coatings Consumption 2008



American Recovery and Reinvestment Act of 2009 definitely compensates for lost sales due to the recession. Investments in new construction, as well as maintenance, have increased significantly the near-term sales potential for paints, heavy-duty coatings, adhesives, sealants, composites and their basic raw material ingredients. Likewise, long-term investments in the basic U.S. infrastructure will also lead to additional long-term maintenance opportunities. Finally,

paints and coating will be employed in these projects towards the end and near the completion of them. However, getting specified in and otherwise positioned, it is critical to be active at the beginning.

Next month, in the second article of this two-part series, Chemark Consulting's "Fast Track Solutions Team" will identify the coatings technologies most likely to benefit from stimulus-related spending and forecast the timing of segment growth. **CW**

## CHEMARK FORMS "FAST TRACK SOLUTIONS TEAM"

Earlier this year, Chemark Consulting Group, Inc. formed its "Fast Track Solutions Team. Drawing on its global marketing and technical knowledge within the specialty chemicals industry, and combining it with Chemark's methodologies in value chain analysis, strategic and tactical planning, decision-risk analysis and mergers and acquisition prowess, the Fast Track Solutions Team is designed to bring immediate problem-solving capabilities to its clients. The team consists of Lynda Gordon, vice president, market analysis; Patrick Jones, vice president, marketing and business analytics; Linda Marquez, vice president, global infrastructure systems; and Phil Phillips, president and managing director.



For more information visit [www.chemarkconsulting.net](http://www.chemarkconsulting.net).