March 2020: Potential Economic Impacts of Covid-19 in the U.S.

Overall economic activity is flat to weakening with the manufacturing sector on the verge of a contraction. Spending is expected to soften as a result of limits on **travel and tourism**. With the closure of Disney and other major economic drivers, Florida will be deeply affected by the pandemic.

As of March 16th, the **Federal Reserve** has implemented two rate cuts and slashed interest rates to effectively zero, but U.S. markets continue to tumble. At this point, the tools the Fed has to structurally combat a real economic slowdown in the long term are limited.

Mortgage rates have recently hit an all-time low of 3.92% for an average 30-year refinance rate, creating an environment where housing starts and sales were the highest they had been since the great recession. However, the uncertainty surrounding the coronavirus makes people uneasy and more likely to refinance rather than buy; the Mortgage Bankers Association reports that there has been a large surge in refinancing applications since the announcement of the interest rate cut by the Federal Reserve.

In the **Concrete** sector, anecdotal price decreases at the start of the year may be offset by work stoppages in the coming months. At this writing, Boston has halted all construction to protect workers, Disney has as well, and it is likely a matter of time before this becomes the norm. Limited testing for coronavirus could contribute to a decline in the available workforce. Further, as asphalt becomes cheaper due to decreases in crude oil and binder prices, concrete may be seen as a less cost effective material in the short term.

U.S. **steel** supplies are expected to be resilient during the crisis as alternative sources of production have been in place since the 2018 tariffs kicked off the trade war with China. Global oversupply, which has led to lower prices, should meet demand in the short term.

Asphalt prices may temper as the crude oil market continues to weaken. Restrictions on travel, along with oil producing countries like Saudi Arabia and Russia maintaining production instead of cutting it, have led to a reduction in crude oil prices. Average FDOT binder prices over the last three months show a 9 percent decrease in PG 67 & Lower and an 8 percent decrease in PG 76 & Higher from 2019.

Aggregate costs may be exacerbated by further driver shortages as qualified people contract coronavirus. However, decreases in diesel prices, which have dropped 24 percent since January, make trucking more appealing to shippers as a cheaper mode of transport. Retail inventories will have an impact on the overall trucking market as retailers attempt to re-supply depleted stocks.

While initial reports assumed **trade** would become more congested at east coast **ports** because sources of goods would shift to European markets when virus was limited to China, this is no longer the case since the virus is worldwide. As China is an authoritarian government, they were able to enforce shutdowns faster and more effectively than other countries and are supposedly bringing production back online shortly.