



Stimulus Funds Begin To Flow Slowly But Manufacturers Will Have a Hard Time Identifying Opportunities

By:
Donald W. Westfall
Research and Council Director
dwestfall@mapi.net

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Introduction

As the long winter of economic discontent passes into spring, many manufacturers are asking when and to what extent they are likely to see the ballyhooed benefits of the stimulus package. The short answer is that, with a few exceptions, the overall economy is likely to feel the stimulus long before individual companies capture a substantial share of the spending.

Facing the most serious economic downturn in recent memory, Congress passed the American Recovery and Reinvestment Act (ARRA) into law on February 17, 2009. Although the bill's enactment may have given the economy a psychological boost in the 90 days since its passage, measurable effects will not be evident for several more months. The normal lag between passage and implementation in a massive spending program, combined with the something-for-everyone aspects of omnibus government appropriations, further obscures the direct effects. As much as manufacturers may have hoped that the ARRA was targeted at them, and despite the severe downturn in manufacturing activity expected in 2009, the real focus lies elsewhere. The Vice President's first quarterly report on progress implementing the Act makes this clear when it lists the five major purposes of the legislation as:

1. To Preserve and Create Jobs
2. To Assist Those Most Impacted by the Recession
3. To Provide Investments Needed To Increase Economic Efficiency by Spurring Technological Advances in Science and Health Care

4. To Invest in Transportation Environmental Protection, and Other Infrastructure That Will Provide Long Term Economic Benefits
5. To Stabilize State and Local Government Budgets in Order To Minimize and Avoid Reductions in Essential Services and Counter Productive State and Local Tax Increases.”¹

This brief report will address the current status of stimulus spending, when manufacturers are likely to feel the effects, and what steps MAPI members can take to find business opportunities in the ocean of federal stimulus spending.

Spending Now, Spending Later

Even emergency spending follows the general rule that the bigger the beast, the longer the gestation period. It takes a long time to spend \$787 billion even when \$288 billion is in tax cuts.² Through May 15, various agencies reported that they had made available \$102.9 billion of the discretionary spending and

transfers to the states provided for in the ARRA which, in turn, will necessarily take some time to process and obligate. That leaves another \$400 billion in spending to be obligated. “Obligated” and “paid out” are two different things. An obligation is basically a contract against which payments are made. The “paid out” amount (also called the “gross outlay”) is the actual amount for which checks have been written. To date, outlays from the stimulus bill total just under \$37 billion. As Figure 1 below shows, the lion's share is accounted for by transfers to the states to pay for social welfare programs.

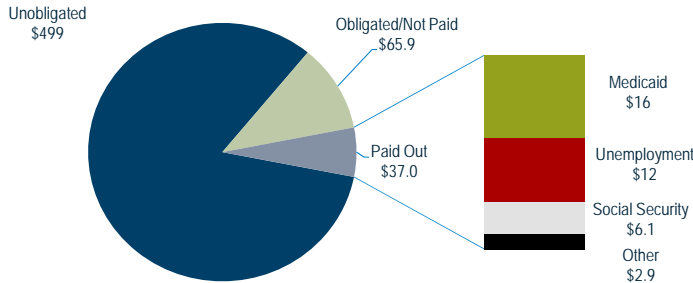
According to the Government Accountability Office, about \$49 billion will be transferred to states and localities in FY 2009 (October to September), and 90 percent of that will move through health, education, and transportation programs.³ Another \$37 billion in discretionary outlays will occur in FY 2009 (Figure 2). The health and education activities will hit the economy relatively quickly in the form of extended unemployment benefits, food stamps, housing subsidies and the like. Education spending which is geared primarily to employment support for teachers will pick up in late summer when federal disbursements catch up with the need to supplement school district budgets. But it will not be until FY 2010 (after October 1) that

¹ *Quarterly Report to the President on Progress Implementing the American Recovery and Reinvestment Act of 2009*, May 2009. (http://www.recovery.gov/sites/default/files/FINALQ1_ARRA_Report.pdf).

² It takes a long time just to print that much money. According to the Bureau of Engraving and Printing, the government produced approximately 38 million notes a day in FY 2008 with a face value of approximately \$629 million. At that rate, the stimulus could be paid out in cash in a little less than three and a half years (<http://www.moneyfactory.gov/document.cfm/18/106>).

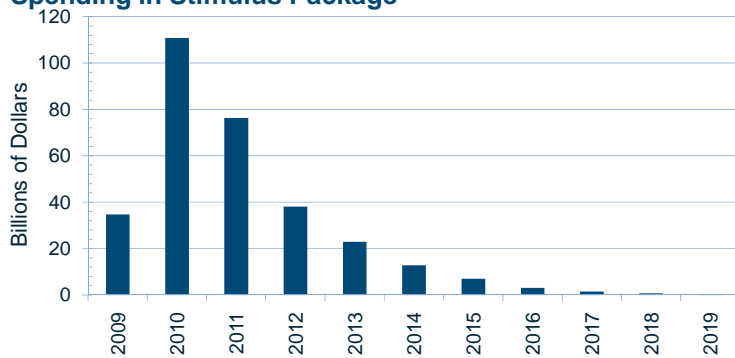
³ Government Accountability Office, “Recovery Act As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues is Essential,” Testimony of Gene L. Dodaro before the Committee on Homeland Security and Governmental Affairs, U.S. Senate, April 23, 2009.

Figure 1
Discretionary Spending and State Transfers from Stimulus Bill* (Billions of Dollars)



*As of May 15, 2009
 Sources: www.recovery.gov and GAO

Figure 2
Estimated Outlays From Discretionary Spending in Stimulus Package



Source: Congressional Budget Office

energy retrofits. This last group of projects will all involve direct federal procurement by individual agencies.

At this level of expenditure it is relatively easy to follow the money. The units are big, round numbers tabulated in the billions. Breaking the data down further requires both time and tenacity. MAPI's Stimulus Plan Analysis Tool is a place to start.⁴ Users can see which ARRA funded programs are likely to produce projects that might result in larger sales for manufacturers. It provides a first filter to determine where the major areas of expenditure are and which projects might warrant a closer look. The Recovery.gov website provides useful and current information on the allocation of funds by agency, but the budget data give off a distinctly green eyeshade glow. The website can teach one much about how the government accounts for money, but not very much that might be useful for the manufacturer who wants to increase sales in a weak market. Learning that the Federal Aviation Administration will be purchasing new HVAC systems for control towers at 128 airports or fuel storage tanks at 20 locations may look promising to manufacturers until it becomes clear that these are likely to be bid as separate projects.

Each state government will report on the projects it is considering and will provide detail on contracts that use stimulus funds. (There are links at Recovery.gov.) This reporting system presumes to increase "transparency," but to date it seems mostly to be adding complexity to an already bewildering process. State expenditures are so atomized that it seems that identifying opportunities at the community

infrastructure spending really kicks in and manufacturers begin to feel the effects of the stimulus.

What Companies Can Do

Disbursement of the "discretionary" stimulus funds will occur in four main ways. Money will be sent to the states under formulas used in existing programs—primarily for activities related to health, education, social services, and housing. Other funds will be distributed to the states for projects based on proposals that will be reviewed by

federal agencies. A large number of transportation projects fall into this category. Federal grants make up a third expenditure class. The efforts to expand advanced battery manufacturing and develop smart grid technology as well as the bulk of research and development (R&D) programs funded through the stimulus will require grant reviews. Finally, the federal government will itself be the source of a significant amount of stimulus spending on office buildings, military housing, and

⁴ www.mapi.net/stimulus.

level and piecing together a coherent sales plan to fit each local environment would be nearly impossible.

A better source of information might be the website for Federal Business Opportunities (FedBizOpps).⁵ A search of the requests for bids yields over 1,200 citations covering everything from new roofing projects at federal courthouses to skid steer track loaders for the Army Corps of Engineers. The process is cumbersome, but the projects are real and well defined.

Conclusion

There are no easy ways to estimate the impact of stimulus spending for individual manufacturers or, for that matter, to find obvious business opportunities that the ARRA will throw off. A few companies will be well situated to take advantage of programs designed for individual sectors, e.g., high speed rail or batteries. But, by and large, business will come to manufacturers in the natural course of events. Distributors will be contacted by contractors to bid on projects. Existing customers will gradually increase orders in response to higher levels of economic activity. A manufacturer may never know whether the stimulus generated a specific widget order, only that demand for widgets picked up.

⁵ www.fbo.gov.