



The American Jobs Plan – what does it mean for metals demand?

CRU Economics



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Agenda



The American Jobs Plan (AJP): overview



Impacts on US metal demand



Financing: The American Tax Plan (ATP)



The macroeconomic impact of the AJP and ATP



Congress and the AJP

Need for a new infrastructure plan

Biden’s American Jobs Plan

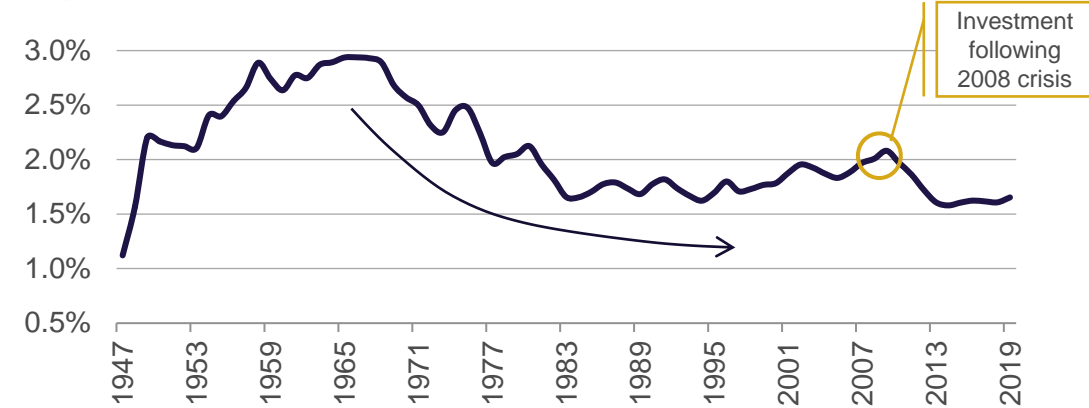
- Announced in Pittsburgh on March 21, **a plan of \$2.3tn** including spending on infrastructure, workforce, R&D, clean energy. Addition of **\$400bn** in clean energy tax credits.
- Plan to pass the **bill this summer**. President Biden is meeting with lawmakers in an attempt to speed up the process and convince sceptics over the size of the plan and the tax plan.
- Three main themes: jobs, buy American, clean energy.
- Funding via **increase in taxes on corporations**

Restoring US infrastructure

- The American Society of Civil Engineers (ASCE) estimate that the infrastructure **funding gap will reach \$2.6 trillion by 2029**. States and the federal government have arguably underinvested in infrastructure for decades.
- Continued underinvestment could mean a loss of **\$10tn in GDP and 3 millions jobs by 2039**.
- Bipartisan support for investing in infrastructure, disagreement over size and funding.

Investment in public infrastructure has declined since the 60s

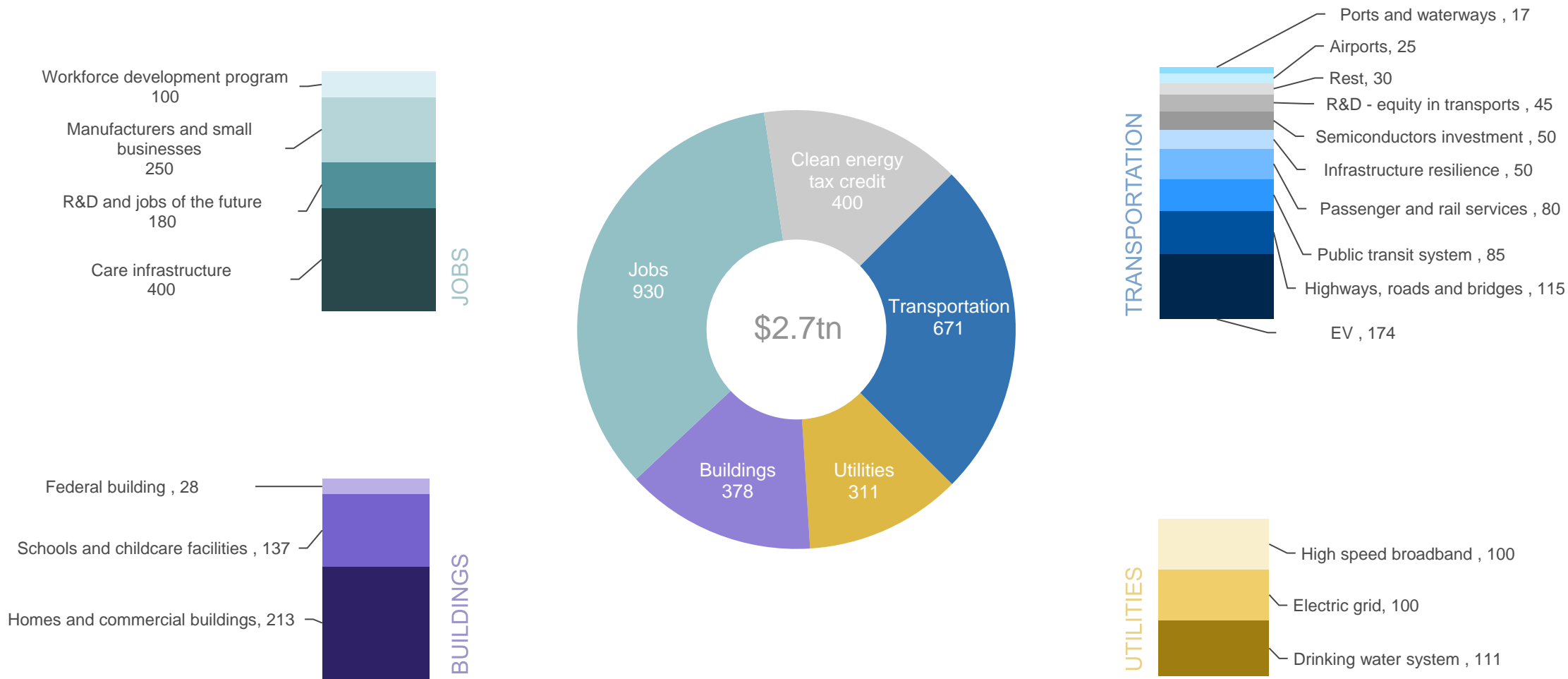
Government investment in fixed assets (federal, state and local gov.) as share of GDP



ASCE estimate of cumulative investment needs, funding gap by sectors over 2020-2029 in \$bn

Surface transportations	1215
Drinking water systems	434
Schools	380
Electricity	197
Airports	111
Inland Waterways, Marine Ports & Dams	106
Levees	70
Others	75
TOTAL	2,588

The American Jobs Plan at a glance: ~\$1tn for “pure” infrastructure



Infrastructure Plan Intensity Score (0-3), impact on metal demand

	\$bn	Steel	Aluminium	Copper	Additional information
Transportation	671				
Highways, roads and bridges	115	2	0	1	Modernise and repair.
Passenger and rail services	80	3	2	2	Modernise, repair and expend.
EV	174	1	3	3	Build EV chargers, EV for yellow buses and federal fleet.
Ports and waterways	17	2	0	1	Renovate.
Airports	25	3	1	1	Renovate.
Public transit system	85	2	3	3	Modernise and expand (buses, rail car, stations).
R&D - equity in transports	45	0	0	0	
Infrastructure resilience	50	0	0	0	
Semiconductors investment	50	0	1	2	
Rest	30	0	0	0	
Utilities	311				
Drinking water system	111	1	0	3	Replace lead pipes mostly with resin, however copper could be used to replace pipes and service lines.
Electric grid	100	1	3	3	Expend thousands of miles of transmission lines, copper used in underground distribution and generation.
High speed broadband	100	1	0	1	Reach 100% coverage, mostly use of fibre optic. Use of copper for last mile connection, steel for towers.
Buildings	378				
Homes and commercial buildings	213	2	2	2	Build affordable and sustainable buildings (inc. 1mn housing units, 500k affordable houses).
Schools and childcare facilities	137	2	2	2	Upgrade and build schools.
Federal building	28	2	2	2	Renovation and construction of Veterans hospitals (\$18bn) and federal buildings.
Jobs	830				
Care infrastructure	400	0	0	0	
R&D and jobs of the future	180	0	0	0	
Manufacturers and small businesses	250	0	0	0	
Workforce development program	100	0	0	0	

Boost to construction demand will be positive for metal demand

AJP could boost total construction demand by between 11-16% over a 5 year period



Steel

- Around 44% of total US steel demand is for construction related spending.
- Therefore potential increase of around 5%, or 5Mt/year.
- Demand may be front-loaded, as steel often used early in projects.
- AJP could boost demand for steel through:
 - physical infrastructure (bridges, rail lines, power pylons).
 - re-fitting of buildings.

~5Mt/year for 5 years



Aluminium

- Around 13% of total US aluminium demand is for construction related spending.
- Therefore potential increase of around 1.6%, or 157kt/year.
- AJP could boost demand for Al through:
 - transportation (buses, stations, public transit system).
 - electric vehicles.
 - electric grid (long distance transmission line).

~157kt/year for 5 years



Copper

- Around 45% of total US copper demand is for construction related spending.
- Therefore potential increase of around 5.5%, or 140kt/year.
- AJP could boost demand for Cu through:
 - power grid (underground distribution especially in urban areas).
 - EV charging network.
 - replacement of lead pipes.
 - construction (wiring in building).

~140kt/year for 5 years

'Buy American' focus will be positive for US producers

American Tax plan to offset AJP spending

American Tax Plan	10-Year Savings (\$bn)	15-Year Savings (\$bn)
Corporate income tax rate at 28% instead of 21%	[850-892]	[1300 -1490]
Raise the global minimum tax (GILTI) for U.S. multinational corporations to 21%, prevent inversions (tax havens)	[525-728]	[800-1226]
Eliminate deduction for Foreign-Derived Intangible Income (FDII)	[250-260]	[400-541]
Enact a 15% minimum tax on corporation book income	[100-184]	[200-340]
Eliminate tax preferences for fossil fuels	[25- 33]	[30-55]
Increase corporate tax enforcement, eliminate deductions for offshoring jobs, create tax credits related to onshoring jobs, encourage other countries to raise their corporate minimum tax.	NA	NA
Total	~\$1.9 tn	~\$3.2 tn

The American Tax Plan would raise around \$ 1.9tn over the next 10 years.

- This would cover more than 2/3 of the expense of the AJP.
- Deficits would increase by a cumulative \$800bn over the decade, although this would fall if the package stimulates growth.
- Unclear how this will interact with OECD tax harmonisation plans.



Macroeconomic impact of the AJP

American Jobs Plan (AJP) impact on GDP		American Tax Plan (ATP) impact on GDP	
Spending will boost aggregate demand	+	Tax increases will reduce aggregate demand	-
Boosts public capital stock (by ~ 7%)	+	Tax increases may reduce corporate investment, especially by raising the minimum tax on book income	-
Could increase productivity of private capital and labour	+	Disincentives savings by households	+

Overall impact (AJP + ATP)

- The estimated multipliers (increase in GDP for 1\$ increase in spending) for infrastructure spending are large.
- The overall impact on macroeconomic demand should be positive but modest. As the plan is mainly financed through higher taxes, it creates little net fiscal impulse. However, this picture could change depending on the timing of spending versus tax increases. Political negotiations could also alter the net fiscal effect, for example if the tax increases are scaled back more than spending.
- On the macroeconomic supply side, more spending on public and human capital could boost productivity and competitiveness. Based on size of AJP infra spending relative to current capital stock, could plausibly increase trend growth by 0.1-0.2ppt per year for 5 years.
- The impact on government debt should be limited, assuming that most of the spending remains financed by tax. Under current plans, would increase US fiscal debt by around 3% of GDP – less if the package stimulates growth.

Bipartisan negotiation or budget reconciliation?

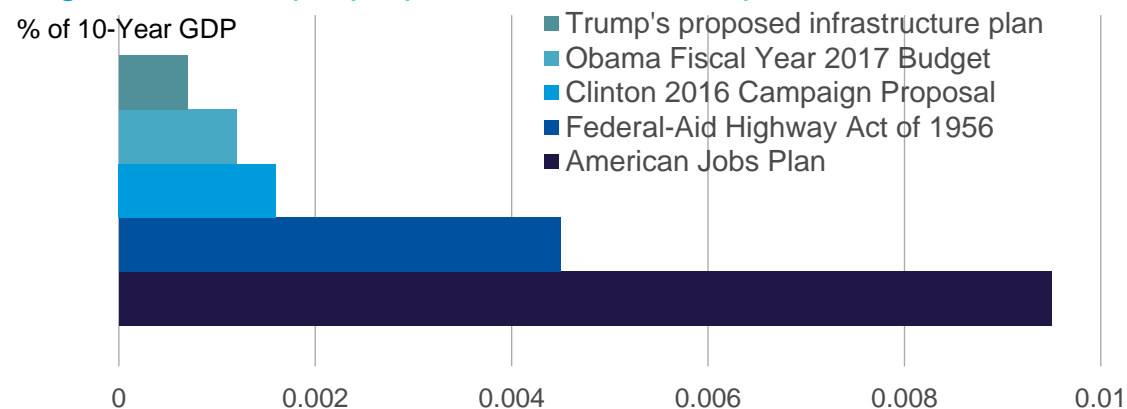
President Biden has two main options to get AJP through congress:

- **Budget Reconciliation.** Same process as used for ARP.
 - **PROS:** Needs only simple majority in Senate.
 - **CONS:** can be used only once per financial year. With super-slim majority, Biden may need to compromise with moderate Democrats (e.g. Joe Manchin). Could result in package being downsized, and/or tax rises reduced.
- **Find a compromise with some Republicans.** Would require at least 10 Republican Senators to beat the filibuster.
 - **PROS:** projects image of bipartisan co-operation, preserves Budget Rec for other uses.
 - **CONS:** getting Republican support will be very difficult.

We think the **Budget Rec** option more likely. Republicans support the need for ‘hard’ infra spending, but don’t like much of the other spending in AJP. Plus, even moderate Republicans will bitterly oppose the tax increases.

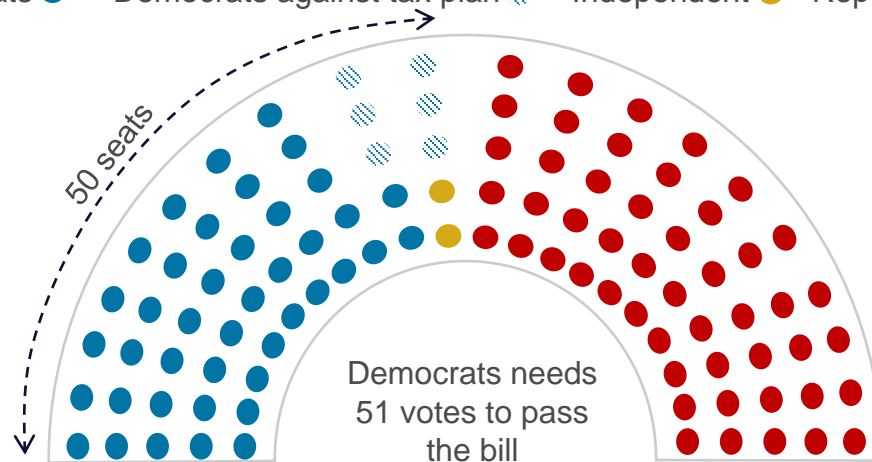
Timing: AJP likely to come to the House in July, Senate in August.

American Jobs Plan is 8x larger than Obama FY17 budget, ~14x larger than Trump’s proposed infrastructure plan.



At least 6 Democrats senators expressed doubts about the American tax plan.

Democrats ● Democrats against tax plan ▨ Independent ● Republicans ●



Takeaways



The American Jobs Plan is an ambitious proposition of **\$2.7tn** aiming at restoring the US infrastructure and boosting the American competitiveness. Around **\$1tn** of this plan concerns “pure” infrastructure such as renovating highways, bridges, and utilities networks.



The AJP will be positive for US metal demand. We estimate that the plan could boost total demand for steel, Cu and Al by around **5%, 5.5% and 1.6% respectively** over a 5 year period. Further details about the plan, expected to be released this summer, will tailor this estimation.



The current American Tax Plan is expected to cover more than **2/3 of the AJP** over the next 10 years. The Tax Plan mainly consists of raising the corporate income tax from 21% to 28% and limiting both the offshoring of profits and tax avoidance.



The macroeconomic impact of the AJP will be only **moderately positive** since higher taxes on corporations will offset the fiscal impulse. Government debt would remain under control and spending on public infrastructure and human capital should improve productivity.



Congress is divided about both the size of the AJP and the tax plan. President Biden will probably opt for passing the bill via **budget reconciliation** and re-negotiate the tax plan with moderate Democrats.



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