

**TO:** Interested Parties

**FROM:** Association of Equipment Manufacturers

**DATE:** June 25, 2020

**SUBJECT:** Economic and Operational Impact of COVID-19 on Equipment Manufacturers

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The Association of Equipment Manufacturers (AEM) conducted a survey of member company executives (Presidents, CEOs, and Owners) on the continued impact of the COVID-19 pandemic on equipment manufacturers. The survey was in the field from May 28 to June 15, 2020. The 102 respondents weighed in on the effects on the economy, the industry, their companies, supply chain and manufacturing operations, and their financial expectations. Respondents also detailed the challenges they face and specific ways the federal government can keep equipment manufacturing strong and help ensure the country's economic comeback.

*Note: This is the second survey of member company executives on the impact of the COVID-19 pandemic on equipment manufacturers and the industry as a whole. The first survey was conducted from April 16 to April 27, 2020.*

#### KEY FINDINGS

- The impact of the COVID-19 pandemic continues to be severe, but equipment manufacturers are adjusting to the changing economic conditions and taking steps to protect themselves from the disruption.
- Three quarters of respondents said that the impact of the COVID-19 pandemic on the overall economy is still very negative, while just under half said that the impact on the equipment manufacturing industry is equally bad.
- Six out of 10 respondents said they plan to lower their financial outlook in the next 30 days, with roughly one in three indicating that they expect reductions by between 11 and 30 percent in the next 30 days.
- Executives said that employee health and well-being, lack of new orders, and continued supply chain challenges are the three biggest issues they face as they re-open their facilities.

- The COVID-19 pandemic is taking its toll on the industry's workforce. More than one-third of respondents said they have furloughed up to half of their employees, while roughly one in five of respondents indicated that they have laid off as many as 10 percent of their workforce.
- The road to recovery is lined with warning signs. For equipment manufacturers who have furloughed workers, almost a third said they would not bring anyone back to work. For those that have laid off workers, eight out of ten said they will not rehire them based on current market conditions and challenges.
- More than eight out of 10 respondents said they would like to see a significant investment in infrastructure to help keep equipment manufacturers in business during the crisis and set the stage for the economic recovery.
- A clear majority of respondents said that the equipment manufacturing sector is not getting the support it needs from the federal government as it continues to navigate the various challenges caused by the COVID-19 pandemic.

## DETAILED FINDINGS

### *The impact of the COVID-19 pandemic on the overall economy, the equipment manufacturing industry, member companies, supply chains, manufacturing operations, and sales.*

Compared with the results for the time period April 16 to April 27, most metrics have improved. However, equipment manufacturers continue to face significant challenges as a result of the ongoing COVID-19 pandemic and its impact on the economy. **Three quarters (74 percent) of respondents said that the impact of the COVID-19 pandemic on the overall economy is very negative** (compared to 91 percent in April). Their outlook on the impact on the industry and individual manufacturers is improving, but **just under half (47 percent) of respondents still said the impact on the industry is very negative** (down from 56 percent in April), while one in three (28 percent) said that the impact on individual companies is very negative (compared to 42 percent in April).

The outlook on supply chains and manufacturing operations remains negative. **Six out of 10 (62 percent) of respondents surveyed said the impact on their supply chain is moderately negative** (down from 68 percent in April), while **six out of ten (61 percent) said the impact on manufacturing operations is moderately negative** (compared to 65 percent in April). Finally, nearly nine out of 10 (88 percent) of respondents said that the impact on sales is either moderately negative or very negative (compared to 93 percent in April).

### *The impact of the COVID-19 pandemic on the industry in the next 30 days and the remainder of the year.*

When asked about the impact of the COVID-19 pandemic on the economy during the next 30 days, **just over half (56 percent) of respondents said that it will remain the same** (up by one percentage point), while one out of six (15 percent) believe that it will get worse (compared to 42 percent in April). Looking ahead to the rest of the year, **six out of 10 (61 percent) respondents said it will improve** (compared to 58 percent in April).

Equipment manufacturers are less likely to make any additional revisions to their financial outlook than they were two months ago. **Still, 30 percent of respondents indicate that they will need to reduce their outlook by between 11 and 30 percent over the next 30 days** (compared to 38 percent in April), while **one in eight (12 percent) anticipate lowering it by more than 30 percent over the next 30 days** (compared to 28 percent in April). Looking ahead to the rest of the year, the outlook is more positive. Seven percent of respondents said they plan to lower their financial outlook by more than 30 percent (compared to 11 percent in April), while one in three (33 percent) respondents said they plan to reduce their financial outlook by between 11 and 30 percent (compared to 61 percent in April). **More than a quarter (27 percent) of respondents said that no revision is needed for the remainder of the year.**

*How quickly equipment manufacturers can resume normal operations if the COVID-19 pandemic lasts another three to six months.*

Executives are more confident that they can resume normal operations even if the COVID-19 pandemic lasts another three to six months, but the industry still faces a bumpy road back to normal. **Slightly more than one in six (17 percent) respondents said that they would be able to immediately resume normal operations** (compared to 4.8 percent in April). But more than one in three (36 percent) of respondents said they can resume normal operations within three months (compared to 44 percent in April), while more than a quarter (28 percent) of respondents indicated that they can be back to normal within the year (compared to 42 percent in April).

*The greatest challenges facing equipment manufacturers as a result of the COVID-19 pandemic.*

The respondents continue to overwhelmingly agreed on the same three challenges with respect to the COVID-19 pandemic: **the financial impact on the business**, including effects on results of operations, future periods, and liquidity and capital resources, **employee health and well-being**, and **cancelled or delayed orders**.

*The biggest issues facing equipment manufacturers as they re-open their facilities.*

The three biggest issues facing equipment manufacturers as they re-open their facilities are: **employee health and well-being**, **not enough new orders to ramp up production**, and **continued supply chain issues**.

*How equipment manufacturers are modifying their workforces in response to the COVID-19 pandemic and the changing business environment.*

The impact of the COVID-19 pandemic on equipment manufacturers is far from over. **More than one-third of respondents (36 percent) said they have furloughed up to half of their employees**, while almost one in 10 (8 percent) of respondents indicated that they have furloughed at least half of their employees. **Roughly one in five (18 percent) of respondents said they have laid off as much as 10 percent of their workforce.**

For the equipment manufacturers who have furloughed workers, **nearly a third (31 percent) indicated that they would not bring anyone back to work**, while almost four out of ten (38 percent) said they plan to bring all furloughed employees back to work. The picture is even more grim for those equipment manufacturers who laid off workers as a result of the COVID-19 pandemic, with eight out of 10 (81 percent) respondents saying that they will not rehire workers.

*Specific ways the federal government can support equipment manufacturers and the economic recovery.*

The men and women of the equipment manufacturing industry, even as they are profoundly affected by the COVID-19 pandemic and ensuing economic crisis, have a special and essential role in America's response, recovery, and renewal. With that in mind, **more than eight out of 10 (83 percent) respondents said they would like to see a significant investment in infrastructure** (compared to 79 percent in April), including immediate passage of a surface transportation reauthorization bill. Seven out of 10 (69 percent) identified the continued and clear designation of equipment manufacturers, suppliers, and distributors as "Essential Critical Infrastructure Workforce." Finally, one in three (33 percent) respondents want a suspension of all payroll taxes for the next 90 days.

*The role of the Paycheck Protection Program (PPP) in supporting equipment manufacturers in response to COVID-19.*

The Paycheck Protection Program (PPP) has provided much needed relief as equipment manufacturers navigate the COVID-19 pandemic. **Three in 10 (30 percent) of respondents said that their company received a loan during the first round, while just under 10 percent (8 percent) received a loan during the second round.** However, **four out of 10 (42 percent) respondents said that they did not qualify for relief under the Paycheck Protection Program.**

*The need for the federal government to provide additional relief for equipment manufacturers.*

While the Paycheck Protection Program has provided relief for some equipment manufacturers, **one in eight (12 percent) respondents who secured a loan need additional support from the federal government.**

*How the federal government has responded to the challenges facing equipment manufacturers as a result of the COVID-pandemic.*

A clear majority (**59 percent**) of respondents said that the equipment manufacturing sector is not **getting the support it needs** from the federal government as it continues to navigate the various challenges caused by the COVID-19 pandemic.

#### **ABOUT THE COMPANIES THAT PARTICIPATED IN THE SURVEY**

Just over half (51 percent) of the companies that participated in the survey manufacture heavy equipment, while about one in six (14.7 percent) build light equipment, and almost a third (29.4 percent) make components and/or attachments. Eight out of 10 (80.2 percent) respondents identified construction as a primary segment, while just under half (49.5 percent) cited agriculture as a primary

segment, and one out of three (30.7 percent) indicated mining as a primary segment. Two-thirds of the companies (63.7 percent) employ fewer than 500 employees, while just over one quarter (26.5 percent) employ more than 1,000 employees.