

ECONOMIC OUTLOOK NOTES MARCH 2021

It is difficult to talk about construction economics without addressing the changes in policy. Most change in policy so far have been in regulations. During the Trump administration thousands of pages of regulations were eliminated by executive order. When regulations are eliminated by executive order they can also be reinstated by executive order and that is what we are seeing now. There is nothing new about this as President Trump also reversed most of the executive orders issued by President Obama. The following bullet points are just a few observations about the construction economy and the impact of policy changes.

- The most impactful change so far has been in energy policy. During the Trump administration the EPA influence on the issuing of construction permits was curtailed, especially in the energy sector. With the Biden administration that has already been reversed with the cancelling of the Keystone pipeline and stopping the issue of new permits on public land. With this administration environmental policy will be more prominent and the EPA will have much more influence. With the oil production outlook for the U.S. contracting as worldwide demand increases the price of oil, gasoline, and other refined products will continue to increase.
- Something that we can expect that will be positive for our industry is that we will probably get increased spending from a separate infrastructure package as well as additional Government stimulus to help rebound from the Covid-19 economic contraction. Another positive is that contrary to expectations most states did not have significant reductions in tax revenue and have resources for infrastructure.
- Even though President Elect Biden campaigned on repealing the tax cuts I do not think that will happen early as the impact on businesses still recovering from the impact of Covid-19 would slow the recovery. I do believe he will push for a repeal of the Trump tax package and an increase in Capital Gains tax at a later date.
- I do not expect any changes to the current trend in the housing market. The inventory of unsold homes is only 1 or 2 months with many markets effectively at zero. The trend is away from apartments and condos and into single family homes or duplex and 4plex units with yard. One of the effects of the Pandemic has been to lead people away from shared

spaces in housing. Another influence here is investment. Throughout 2020 and continuing into 2021 housing prices have continued to increase and will continue to do so until we move from a sellers' market to a buyers' market. This will probably take us well into 2022 before we get to a 6-to-8-month inventory of unsold homes. With 30-year mortgage rates under 3% and possible changes in down payment requirements (policy driven) this sector should see growth for 2021 & 2022. Even lumber prices 75% higher year over year have not slowed this sector.

- The trend in housing may help in the nonresidential sector as well. I expect declines in sectors like Lodging, entertainment & amusement, brick & mortar retail, and office space. However, as more people move to the suburbs more infrastructure will be needed, water, sewer, power, & communications. It will also bring the normal building of grocery, medical, educational, etc. that follows population growth or migration. I still expect that nonresidential construction will be down in total dollars, but the housing trend may mitigate some of the decline.
- Despite the negatives in nonresidential construction, I am optimistic about the opportunities for 2021-2022. As the vaccine continues to protect more of the population restrictions will be lifted and more of the economy will return. Just this week Texas eliminated most business restrictions and eliminated the mask mandate. I believe this will be the trend going forward as more states reopen their economies.

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