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## Waiting for the fog to lift and make everything clear regarding the economy - by Bill Norton

July 06, 2018 - Northern New England

Bill Norton, Norton Asset Management

I'm sitting in the Tea Room at the Trapp Family Lodge, waiting for the morning fog to burn off, have the sun pop out and make everything crisp and clear. As I sit to write this, I cannot help but think we would like for the fog to lift and make everything clear regarding the economy!

On a micro-level, we see rapidly rising housing costs with severely limited demand. Over-bids on houses and even some apartments. It feels like a bubble, but maybe not.

I had a wonderful dialogue with a good friend and fellow CRE, Frank Pigna. Frank lives in Coral Gables and his practice focuses on ports, international trade and intermodal facilities (among other things!). Having recently read our newsletter NortonNews, he felt our world view was too negative - too much doom and gloom. The key is that New England is not Coral Gables and the Port of Miami, with oceans of trade and foreign investment.

I read yesterday that Vermont is the third oldest state (median age 41±). Lo and behold, New Hampshire is second and Maine is the oldest. What does this mean? Fewer younger people provides less energy to the economy and fewer workers. Older folks appear to be working longer to fill the gap(s). Alas, nationally there are 200,000 unfilled construction jobs. Seniors are not keen to fill these. This translates into a "skills gap" or a misalignment of education and skills with open and available jobs. It seems like North and South Carolina, and other Sunbelt states, are most fast afoot and can adjust their courses, figuratively and literally, to meet immediate demands and needs, than the more traditional states. Here in New England, we seem to lack momentum. There are many factors in play including the high cost of living – especially during an abnormally cold winter. My last electric bill was \$113 for 423 kilowatt-hours (26.5 cents per kilowatt hour!). I called a friend in North Carolina. We did the math. His was 9 cents per kilowatt hour!

The high cost of housing in New England appears to be deterring some young folks from staying and settling down. This impacts recruitment for medical, R&D, technology and more traditional jobs as well. We used to say that while we were an expensive place to live, we made up for it with a very high quality of life. But the Sunbelt states are catching up to us – some would say they are passing

US.

So domestically, demographics is an important issue. Fiscally, entitlements are now 59% of the federal budget. 90% of all federal spending is non-discretionary, 10% is interest payments on the debt. We borrowed another \$1 trillion this past year (yes, trillion with a T). Even at 2.9%, that is another \$29 billion of interest annually. States (and some cities) with their school systems are not far behind. The tax cut was supposed to boost GDP growth by 1%. It appears it will come up short of that. We are in the ninth year of the expansion - the second longest ever. At a recent CRE meeting in Chicago, the pundits said it (the expansion) could last another 1 - 3 years.

So what keeps these pundits up at night? Global protectionism (trade tariffs), geopolitics (i.e., North Korea, Syria, Iran...) and the continuing rise of debt (aka federal budget deficits) are all big picture issues, which we here in New England do not have much capacity to impact dramatically. But they can have big impacts on us.

Where does that leave us here in New England? For now, we continue to march along. The sky is not falling, but it could, and likely might at some point. But, whether this is a minor and short-term correction (a recession) lasting 2 - 4 quarters, or a more protracted downturn remains to be seen.

In the world of commercial real estate, we are seeing some hunkering down. Interest rates are inching up. Credit scrutiny is tighter, construction costs seem to go up daily. Many, if not most, companies are shrinking office space and renewing for shorter terms. These are all signs of a slowing economy/expansion. Whether it is regional, national or global remains to be seen.

Bill Norton, CRE, FMA, Hon. AIA NH, is a principal of Norton Asset Management, Manchester, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540