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## **We need to focus on productivity gains to accelerate and grow the economy - by Bill Norton**

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In a few weeks I will head to Chicago for the spring CRE meeting. The Counselors are a great organization, and I always learn a lot. However, much of the “big data” covers the A markets (NYC, Boston, D.C., Chicago, LA) which is a long way from New Hampshire, Vermont, and Maine. Yesterday I was at a People’s United Bank event – “Investing at the Intersection of Main Street, Wall Street and Pennsylvania Avenue.” The keynote was John Traynor, chief investment officer for PUB. His 30,000 ft. view is well conceived and his metrics are solid. Two keys to look out for are an inverted yield curve (10-year treasuries/2-year treasuries); when it tips we most often see a recession 12 - 18 months later. The second is the wage and employment sector. Lots going on here. The aging of the population (and workforce) here in the Northeast; the percentage of advanced manufacturing of all industrial and manufacturing jobs; the education of our young people - the future workforce; the mismatch of skills and our overall competitive productivity.

On February 28, the GDP Q-4-18 numbers came out at 2.6%, and perhaps a little higher for all of 2018. With 2% inflation (+/-) this is pretty anemic and it has been for a while. There is great attention to the slowdown in China’s growth, but the reality is if they are now half of 12% - 16% that is still 3x - 4x faster/higher than here in the U.S. (The EU is hard to figure. Germany is humming economically, but social issues and EU politics, such as Brexit, and massive immigration have them bogged down).

So, sitting here on the 1st of March, the forecast is good/positive or 6, 12, maybe 18 months when some level of correction will kick in. How much and how long, no one is sure. In June, we will have experienced the longest continuous recovery in the post-war years (40+ months) but the actual bounce back is about 1/2 of what has been achieved in some previous recoveries, in terms of actual GDP growth, maybe 8-10% v. 16-20%.

My takeaway as a commercial real estate guy is we need to focus on productivity gains to accelerate the economy (and grow it to cover the cost of expanding programs and entitlement costs). The current 2-2.5% GDP growth is barely keeping up with inflation. The structural deficit now exceeds \$1 trillion annually. In 2018 Congress passed a \$2.99 trillion budget while spending \$4

trillion. This is not sustainable. The point being while the U.S. is still the global safe harbor our strength and prominence is fading. In 2018 China's economy matched or exceeded the U.S. as measured by Purchasing Power Parity (PPP). The productivity discussion has been going on for years. For example, quoting Paul Krugman from his 1994 book, *The Age of Diminished Expectations*, "What about competitiveness? It is obvious to everyone that the once-vaunted U.S. superiority over other nations in technology and quality has eroded and perhaps vanished over the past decade..."

The PUB presentation nailed it – our economy, along with our stock markets and bond markets are built up on Main St. (businesses like you and me), but we live in a global world market, so politics, both national and international come into play. What we know we are likely to see is continued volatility in the markets. The 20% drop in December (Christmas Eve!) was daunting, but we have recovered. Timing these ups and downs is not humanly possible. That is where asset classes like commercial real estate can smooth out some of the peaks (and more importantly the valleys).

Extremely high construction costs for new construction have pushed pricing on existing buildings higher, well above historic norms, even adjusted for inflation. Those A markets are seeing bullish construction, even now, – condos, multifamily, hotels and some office/mixed-use. Here in the peaceful suburban markets (a.k.a. "the boonies" to some) we have not seen as much activity. There are exceptions - Portsmouth, Rockingham Park in Salem, Woodmont Orchards in Londonderry (just coming out of the ground).

We in commercial real estate see a correction coming, and are actually looking forward to it, as some level of price normalization will be good for everybody.

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