

Mike Merrill:

Welcome back to the podcast, Anirban.

Anirban Basu:

Thrilled to be here again. We enjoyed it two years ago. So, uh, let's see what we do now.

Mike Merrill:

Yeah, I appreciate that. So we're here at the Converge24 conference for Foundation Software. You were just the keynote, very well received message. So thank you for sharing that with our audience.

Anirban Basu:

Oh, it's a privilege, you know, to be able to get on stage and talk about the economy, which is what I love to do, is talk about the economy. Anyway, just The stage part I don't love but they talk about the economy part I do and so it's a very receptive audience as it turns out There are a lot of good questions at the end.

And so I feel pretty gratified by that

Mike Merrill:

Yeah, the the the economy itself is not a fascinating dazzling topic But you have a way to add pizzazz to it make it interesting. So,

Anirban Basu:

Thank you You know, I think the economy is a dazzling subject, but a lot of economists They want to get, you know, stuck in the mud, the numbers, the data, the methodology, so on and so forth.

They don't want to do the storytelling, but the economy is about human behavior and humans They do crazy things. They make horrific mistakes. And that's not

just interesting, but also sometimes amusing. Maybe tragically so, but amusing. And so that's the storytelling about the economy, which is how do people respond to this external stimuli?

Interest rates, inflation, the housing market, whatever it happens to be. And what decisions do they make? And some people make great decisions. Some of you make desperately bad ones, and that's interesting,

Mike Merrill:

Right? Yeah, I would agree with that. Well, and I love how you do the dirty, hairy, good, bad, and the ugly theme to talk about the economy because it is it is fascinating.

The ebbs and flows and the ups and downs. And I think Um, after you got done speaking as we were walking here and I'm listening to people and paying attention, knowing that we're going to have this discussion, I think a lot of people were pleasantly surprised with the outlook. Um, I think, I think they're surprised construction is still growing just because of interest rates and other things.

What do you think is stimulating the growth to continue as it has despite some of these other markers that might be concerning?

Anirban Basu:

Three things. One is that. The consumer, again, who is much of the economy, 70 percent of demand in the economy, has continued to spend despite high interest rates. They just want to consume.

They're used to it. They picked up their consumption during the pandemic and they've just kept going. That's one. Second, the federal government is spending a ton of money. Lots of subsidies coming out of whether the American Rescue Plan Act, which was signed by

President Biden March 11th of 2021, Infrastructure Investment and Jobs Act, November 15th of 2021.

Then in August of 2022, he signs the inflation reduction act as well as the chips and science act. So lots of money pouring into altering the built environment, charging stations, manufacturing plants. And of course, we've got some secular changes in the economy as well, you know, big tech and data. And so there's also a lot of demand for data centers.

And that's the thing. That's the thing that's been immune to these higher boring costs, the transformations of the economy and federal spending federal government spending. They only look at interest rates right now. They, they should, but they're not. And the transformation of the economy, you know, data centers, inpatient, outpatient, medical facilities, infrastructure, obviously the electrical grid, all of these things are being transformed and they create demand for contractor services.

Mike Merrill:

Yeah. We've got, you know, solar and these initiatives with energy and conservation and other things that are, uh, you know, we had an electrician, uh, electrical company here. Large company, they've got 18 people at this conference. So really, really big company. And, you know, they're getting involved in, you know, installing solar fields and things that electricians historically had nothing to do with.

And that really wasn't a thing, right? So there are all kinds of new things that are keeping this thing changing and very hard to predict. I

Anirban Basu:

Mean, how great is the outlook for electricians in this country? I mean, it's fantastic. I mean, if you're a young person, don't know what you want to do, but like to work with your hands and mind at the same time, But you can do worse than being an electrician.

It's very interesting work, and it's going to evolve over time. With respect to charging stations, other aspects of economic life. The other thing about it, of course, is supply chains coming back home. More manufacturers coming back to America. Industrial policy is here again.

So it's computer chips, and electric vehicles, and all the rest of it.

All of those things create demand for contracts because the built environment has got to change with the economy and the economy is changing very, very quickly.

Mike Merrill:

Yeah. And I, I do think, you know, and I've watched you for years now, been, uh, a lot of CFMA events where you spoke, um, And shared your insights.

And it is interesting to kind of watch how things have continued to roll forward. I know for some reason, it's just hanging on. This growth just keeps happening. And I know at some point that other shoe is going to drop, but at this point, um, does it feel like we're maybe another year of this continued, um, growth at the rate that it is?

Or, or what are you, what's your takeaway

Anirban Basu:

On that? Yeah, I think it's probably another year. You know, I think we could enter 2025 with some strength. Now, the economy is somewhat overheated. What does that mean? It's growing, but it's growing too quickly to bring inflation back to 2%, which is the Federal Reserve's target.

That's the tension here, which is that the Federal Reserve is stuck with these high interest rates. We're all stuck with these high interest rates. It's making economic life more challenging, project financing, so on and so forth. It's causing certain asset values to fall, including office Space valuation, so on and so forth, and at some point you have enough of that critical mass of weakness to bring the overall economy into its next downturn.

But right now the economy has social momentum, so much job creation, so many job openings, you got to think the consumer is going to continue to spend through the summer and into the fall. And so what does that translate into? Yeah, I think in 2025, We'll have some momentum during the early stages of the year, but like I said to the audience today, all it takes

is one geopolitical event, one major surprise, all of a sudden you're in the soup, recession comes.

So, we will see.

Mike Merrill:

Yeah, an election year to boot, which is always, I mean, there's that's just inevitably going to happen. Right?

Anirban Basu:

That's inevitable. We're going to have an election. Now, whether the results will be accepted, you know, you know, uh, whether who wins Michigan or Wisconsin is in doubt, but we're going to have an election and that in and of itself creates some uncertainty.

Yeah. People take a wait and see attitude. But that also means that once the election is over and people have some more sense of what's going to transpire in Washington, D. C. See some sense at least that the things that didn't take place before the election will now take place at least some of them

Mike Merrill:

It

Anirban Basu:

Was a one of the big issues here is that we have some significant Explorations of tax cuts, which were first implemented in 2018, signed into law in 2017 and implemented in 2018.

And so, that could be a major game changer. Uh, you know, the tax code reverting in part to the pre jobs and tax cut act of 2017. So, we'll see. This election matters. They all do, but this one really matters. Yeah,

Mike Merrill:

You made a joke. It was actually pretty funny. I won't steal your thunder on it, but talk about the water heater.

What you shared, you know, at the keynote. Oh,

Anirban Basu:

Only simply that, you know, a lot of people, you know, for instance, project owners, developers, that kind of person will embrace a wait and see attitude prior to presidential election year. They'll postpone big decisions, whether to move forward with the project, for instance, but sometimes they'll postpone small decisions like, hey, honey, we need a water heater.

Babe, uh, let's, let's see how Trump does now, you know, before we make that kind of commitment, that kind of thing. And so, um, So anyway, uh, yeah, and so that, you know, often people think of presidential election years as being very strong years for the economy. If you look back at some of the recent years of presidential election, 2020, of course, was the pandemic year, but 2016 was not a particularly great year for the economy.

Yeah. It's a quite weak one. 2012 was not a great year for the economy. Actually, the recovery from the global recession doesn't really begin until 2013 in earnest. I mean, really, that's when we saw some acceleration of growth globally. So, uh, in any case, um, Yeah. Yeah, 2024 will be, if nothing else, very interesting.

Mike Merrill:

Yeah. And I, another thing, you know, you, you talked a lot in your presentation about consumer spending and I was actually surprised to see that it's up as high as it is, but when you related it to Taylor Swift selling out concert stadiums and, you know, the resale value of the average ticket, 1, 600. And yet people are just, they're still spending this money.

Like it's, like, it's nothing right.

Anirban Basu:

They are, and there is a buy now pay later mentality out there. So we're even seeing that with, yeah, airline tickets now. There's those, you know, companies out there that will help finance your airline ticket. So you buy now, but you gotta pay later. The buy now part is great, isn't it?

Because that's good for the economy right now. It's the pay later part that's the problem. And a lot of Americans are going to have to pay later. What does

that mean? That's why I say I expect some further economic weakness during the months ahead. I mean, maybe later this year, maybe early 2025, but the consumer cannot continue to spend this way.

They cannot continue to borrow this way. It's not sustainable. So this economy is set to slow.

Mike Merrill:

Another graph that I found interesting, um, the one that showed the relationship between interest rates and inflation, because I think a lot of people forget about, well, based on the interest rate, you got to kind of deduct that off of the growth rate,

Anirban Basu:

Right?

So the higher the inflation rate, the rate at which prices are increasing, all things be able to hire the interest rate. Why? Because if I'm a bank or lending to you or you're lending to me, whatever, I'm going to be paid in the future. Now, I want to be paid enough to offset the effect of inflation. So if prices go up 2 percent and I've only, you know, I'm only charging an interest rate that doesn't cover that inflation, I'm getting poorer as the banker, you're getting wealthier as the borrower.

So, as inflation goes up, I have to charge a higher interest rate to make up for that as a lender. And so there's a relationship, all things being equal again, between Inflation, interest rates. Inflation is stubbornly high right now, stuck above 3 percent by certain key measures. Uh, around 3 percent according to others.

And, uh, and so when inflation is stubbornly high, interest rates are stubbornly high. And that's a situation in which we find ourselves. And for an industry like construction, which is so interest rate sensitive, project financing, that kind of thing. This can become a problem eventually, but it has not been a problem yet really, because we've seen so much deal flow out there.

Mike Merrill:

Yeah. Yeah. And I, you know, personally, I think of, um, you know, I built a home about five years ago,

my interest rates, like two and a quarter percent. So, I mean, it's like, I don't really want to pay that off. Normally my, you know, I'm 50 now. So, I mean, my, my wisdom, my deeper inner self was like, you got to pay that off.

You got to pay that off. But. The money is so cheap that I'd rather put that money in the market and let it continue to grow while I'm paying this cheap rate. So, I mean, this can't keep going, is the point, I guess. It's not sustainable. Is that right?

Anirban Basu:

Well, I mean, your behavior is sustainable because it's perfectly rational.

Yeah. Right? I mean, uh, if the inflation rate is Above your interest rate.

Mike Merrill:

Yeah,

Anirban Basu:

Then you should wait to pay as long as possible that there is something about us. Gen Xers, though, that we want to pay down our debt. You know, we just don't want to, you know, we're very hyper responsible, very hardworking people as it turns out as a generation.

Um, and so I can understand why one would pay off their debt faster than they have to just because of that impetus, that impulse. But no, it's not sustainable. Uh, people are boring a lot of money right now at very high rates of interest. And income can only go up so fast. I mean, the job market is good right now, but a lot of employers can't afford to pay much more than they already are.

And benefits are eating them up. We're in the healthcare benefits, property and casualty insurance. My goodness. Look at the property casualty insurance market in Florida, for instance, it's these, some of these things are not sustainable. And so that's again, why I think something's got to give here and that that will produce these tensions.

We'll produce the next economic downturn. And that's what I said to that audience today.

Mike Merrill:

And I know some of the questions that came from the audience. Uh, remember one gentleman asked, you know, what should we do right now to prepare for that future economic downturn? And the answer might seem simple, but reiterate for the listeners anyway.

What would you recommend a contractor does now while things are, while they're fat and happy, so to speak? What can they do to sort of recession proof their business?

Anirban Basu:

I would say put aside more cash on the balance sheet than normally, one normally would, under such circumstances, because these contractors have been busy for years.

They're sitting deal flow. They've got healthy backlog. So why do I have to put aside cash? I want to buy more equipment. I want to lease more equipment. I want a nicer office building, whatever it happens to be. I would say don't do that right now that often a lot of construction firms, home builders, for instance, 15, 20 years ago, that kind of thing, took a lot of money out of their businesses just before downturn.

Mike Merrill:

And then

Anirban Basu:

They needed that cash and they didn't have it. Uh, and so, and the beautiful thing about that is, is that, Cash, cash, that's boring. It's not that boring. Because when a one year treasury is yielding over 5%, 5 percent is exciting to me, risk free. 5 percent A 10 year treasury is yielding, and as a contractor you don't necessarily want to buy a 10 year treasury because it's just too long of a duration.

But, it happens to be yielding over 4. 6 percent today. So, That's kind of exciting. So if you can put aside some cash, um, particularly in short duration treasuries, I

mean, one year, two years, six months, whatever it happens to be, get some nice interest risk free. And if you need the money, you just take it back out of the market.

No problem. But, uh, but you know, it's there and you can sleep at night.

Mike Merrill:

Yeah, I mean my local credit union is advertising, you know, five, five and a half percent on a six month CD. I mean that's, that's unheard of in my lifetime at least, right? And here's the

Anirban Basu:

Thing, a lot of consumers know that this is happening and they're still spending their money.

Yeah. So the opportunity cost is high if they would just not spend that money, whatever it is, cell phone, shoot, whatever it is. But if they would just hold off and just buy that six month CD in six months, they have even more money to spend, right? And you're more than capable with inflation, right?

Inflation's, you know, three and a half percent, whatever it is. The CD is yielding over five percent. You're getting richer. Risk free! Right. You're taking on no risk. But when consumer decides to spend, they not only spend that money now, but they lose out on that interest that they could have been making.

Mike Merrill:

Well, and again, as we know, we saw in 06, 07, 08 when the downturn came down and the, the housing market just crashed and got horrible. The companies that had that cash that were able to sustain and, you know, hang tough and reduce to key personnel, man, when it came raging back, they were in a very, they were, they were in the catbird seat, right?

Anirban Basu:

Hundred percent because now there are fewer competitors bidding against them. They're around to enjoy the recovery. They probably got leaner too during the downturn. Everyone got leaner. But, they survived,

and now having survived, they have fewer competitors, more market share to conquer, and therefore higher profitability, and so a lot of the contractors that are doing so well today are the survivors of 06, 07, 08, 09, 10, 11, and they've had this marketplace Uh, they've been able to really, you know, handle quite nicely because they haven't had so much competition.

So, um, what can I tell you, you know, cash is king. It's a really and there's going to be another downturn at some point in the future. If you're wrong this next year at some point it's going to happen and coming out of that a contractor wants to be strong.

Mike Merrill:

Yeah, and another thing that we talked about or you know, one of the questions that came up was talking about these baby boomers retiring.

And we don't have the bodies to replace them on the, on the, the newer inexperienced end, these new hires. What do we do in construction to try and get ahead of that? Or at least try and avoid those challenges that it can bring.

Anirban Basu:

What can I tell you? This is a real challenge. You can't just create skilled construction workers from nothing.

Right. And so, uh, this has been happening for a couple of decades now, at least, in which, uh, the American educational establishment decided they want to take shop class out of school, teach to the test. Um, you know, and so a lot of our young people, men and women, are not exposed to the school trades as pathways to prosperity.

They don't know they exist. And sometimes the parents are the problem. They don't want them to go into manufacturing, construction, or mechanics. They want them to have a four year college degree. He's

Mike Merrill:

My doctor, this is my lawyer. Yeah, right, this is my doctor,

Anirban Basu:

Lawyer, but this is my barista, because often those four year college degree holders end up being baristas, which is a great job.

I'm not saying it's not a tough job, though. It doesn't compensate as well as one might expect, given how much money was spent on that four year degree, which might have taken six years to acquire, by the way. Yeah, so we probably have a mismatch in the labor force, in which we have a lot of people out there who would be great, world class carpenters, never were exposed to the trades.

Great pipefitters, great electricians, great mechanics, never exposed. Now one group, uh, seems to be filling these jobs quite aggressively, at least certain types of these jobs, workers, that kind of thing, drywall hangers, immigrants. Okay. And of course we have a huge influx of immigrants in this country. Now, the folks at Brookings did this amazing report recently.

I wish I had written it. It's so good. So they looked at population dynamics in America. Okay. And they found that population is growing much faster than anyone thought it would be growing. Much faster. Yeah. Each year. Then they asked the question, well why is it growing so rapidly? Immigration. Not births minus deaths.

Immigration. Okay. Then they ask a question. Well, are these documented or undocumented migrants? Right. Undocumented.

Mike Merrill:

Which is why they wouldn't know who, how it's

Anirban Basu:

growing, right? Exactly. Then the final question, are these undocumented migrants working? They're working by the millions. And often they enter certain Industries, agriculture, of course, being one of them, hospitality being another, uh, landscaping being another, and then construction as it turns out.

Mike Merrill:

Yeah.

Anirban Basu:

I'm not saying this is good or bad. Please do not get me wrong. I, I think, you know, many Americans agree the southern border is an issue. Understand that. National security, all those kinds of things. Sovereignty. But we have had this influx of new workers at a time when we have had a worker shortage.

They are working. I would point out, I'm from Baltimore, we had a bridge collapse March 26th, everyone knows about the Key Bridge. Iconic. Six people died, all people working, 1. 30 a. m. Eastern Standard Time, filling potholes, all Central American immigrants. I'm not saying good, bad, indifferent, but that's who's working out there in many cases, doing the jobs that others are not willing to.

And that's one of the reasons the U. S. economy probably has continued to grow when many people thought it wouldn't be.

Mike Merrill:

Interesting. What's your take on recruiting more women into construction? Because that's another untapped resource that we really aren't doing a great job as an industry at.

Anirban Basu:

Completely.

We need to do that. I mean, you know, traditionally, or at least recently, construction has been about 87 percent male. Uh, you know, uh, and as many people might realize, the young women in particular are just killing it economically, right? They are more educated than the young men. They actually make more money than the young men.

So it's often said that men make more money than women, but young men do not make more money than young women and young women are far more likely to own their own home than a young man in this country. Uh, and so, you know, we see a lot of ambition among young women. Well, that's exactly what we want.

Ambitious young people entering an industry like construction. So the industry has to do a much better job recruiting women. And there's some inroads there.

Um, but you know, you think about the traditional and the stereotypes matter. Right? So when you think about a woman walking by a construction job site, what image do you see?

Right? Hooting, hollering, whistling, so forth. Catcalls. Yeah, catcalls. And so women are still much more likely to enter industries like education and healthcare than in an industry like construction. That's to the collective loss. Because if there are women out there who would be really productive as carpenters and pipe fitters and electricians, but who are not doing those things for various reasons, then That's a loss of opportunity for our country.

It's a loss of efficiency for our country. Loss of prosperity for our country. So, yeah, the industry has to do a better job. I'm just trying to do that, but I think further effort is necessary.

Mike Merrill:

Yeah, and I think one of the other things, too, with the innovation and tech and AI and all these other things coming, there's such a more technological perspective on construction in general.

That there's other roles that aren't pipe fitting. They're not welding. Maybe they're not lifting up steel beams or having to be physically stronger like a man genetically is that they're, they're sharp. They have, they have very capable brains. In a lot of cases, I would submit the women are, are sharper than the men in a lot of ways, right?

They're more organized historically, I would say. So there's, there's other areas where. These talents and skills could really bless our industry. That's a very

Anirban Basu:

Good point. One I should have made. Yeah. Construction management, superintendent, right. Design. I will say that, you know, I, I think the average man probably is stronger than the average woman, but the average is probably stronger than me as it turns out.

So, but, um, but yeah, I think that's right. And that would not be so problematic. Right. When you take out

the physical dimension. Um, but I think still, I see a lot of, you know, women now on job sites doing various things. And, uh, A lot of women are very, very strong as it turns out. And, uh, and if they have a passion for what it is they're doing, right?

If they're passionate about being an electrician, then so be it. Have at it. Uh, the industry has got to make, uh, women and others aware that those opportunities exist, that there are those pathways and how they can enter those pathways. Cause a lot of young people in high school, they're just taking test after test, after test, trying to get to graduation.

They have no idea what they're supposed to do after graduation. It's important for the industry to reach out to, you know, Juniors and seniors in high school, for instance, or community college students and say, Hey, you may not know this, but there's some opportunities over here. If you're interested, come talk to us.

Mike Merrill:

Well, and then there's another, which, you know, um, there's legislation and other things where there's a requirement. I mean, women, women, construction, business owners, um, some, some projects require, Hey, there needs to be a percentage of women ownership. In these projects. And so there's an opportunity there where, I mean, what stops a entrepreneurial woman from owning a construction company versus, you know, a clothing store or a coffee shop or anything else, right?

Anirban Basu:

Well, probably history. So in other words, um, one of the reasons that most construction firms are owned by men is because most construction is done by men. So, you know, the men learn the skills and the, you know, whether it's again, carpentry, pipe fitting, electrical work, roofing, drywall, whatever it is. And now they have the wherewithal to start their own business.

They hire other people. Um, but of course you have many daughters of construction firm owners. She can take over the business, that kind of thing. So there's, there are different pathways. And of course, if you get more women into the skilled construction trades, they'll start more businesses organically. So all

kinds of pathways here in which we can see more of a female role in the U.S. construction industry and the, everyone would benefit. Users of construction services also delivers of construction services.

Mike Merrill:

Yeah. So, um, so getting back to, you know, great points, all, um, getting back to the economy and what you're seeing in the industry, Are certain sectors substantially more strong, I mean residential, commercial, industrial, government, healthcare, I mean what, where are you seeing the most growth and where do you feel like the growth is going to continue to come from?

Anirban Basu:

Yeah, not to sound too Dickensian, but it really is a tale of two sectors. So you've got some very strong segments and some extremely weak segments. The strong segments are those that are really benefiting from economic transformation. So at the top of that list is manufacturing. Supply chain's gone back home.

You know, more and more American CEOs and in fact CEOs from other places like Taiwan have made a decision. I want to be in America. I want to protect my intellectual property. I want to be closer to my client. I want to self apply my logistics. I want to have access to a Reliable court system that kind of thing.

Mike Merrill:

Okay

Anirban Basu:

Um, so supply chain is coming back home whether it's computer chips electric vehicles inputs alternative energy, whatever it happens to be See a lot of supply chain, steel and aluminum, um, healthcare demographics are changing, uh, we don't have enough capacity to deliver outpatient, inpatient services, getting older.

Uh, and so, uh, that's a infrastructure. Obviously we were racing as a nation, you know, improve our infrastructure, you know, whether it's our, you know, our, our bridges that are delinquent. And so, I mean, it's

a bridge, it's a sensitive subject for me from Baltimore, but, you know, I recognize it's a national issue.

And roads and so on, so highways, water and sewer systems, all those things need improvement. So lots of money on infrastructure, data centers, my goodness. What a boom that is. Yeah. And it will continue to be, 'cause we just produce so much data and now people will say, well maybe it won't be such a boom.

Because each and every server is just having much more efficient in handling so much data. So we don't need as much space, more data. , we, had so much data, my gosh, that we're producing, we need to hold onto so on and so forth. Store warehouse, disseminate that. Uh, I think data cell construction booms for years on it.

The weaker segments include the office market, obviously. Yeah. Horrendous market. Horrendous.

Mike Merrill:

A lot of vacancies.

Anirban Basu:

A lot of vacancies, not everywhere. I get that. Some suburban markets, to the audience, some suburban markets are in fine shape. I think if you were to build an office building in St. Petersburg, Florida, right now, you'd have no issues leasing it up.

I mean, some markets are really strong, but in certain other markets, particularly older markets, east and west coast, midwest, Boy, those office markets are in horrific shape. And he said, Oh, well, that's bad for the building owners. Yeah, it's not bad for the building owners, but it's also bad for the bankers.

Mike Merrill:

Yeah.

Anirban Basu:

And that's the issue. So, you know, when the housing market collapsed, oh, that's bad for you. You're a homeowner. But it's bad for everyone because it took the banking system out with it, right? We all depend

on the banking system. So there's some vulnerability there. So, you know, some of these segments are quite weakly.

We also see, have seen fairly weak hotel room construction in recent years because, again, business travel has just not come back that aggressively.

Mike Merrill:

And I'm from Utah and I still, I mean, I can go in certain areas and I can look a mile this way and a mile that way. And they're like three and four stacked high, 14, 16, 20 apartment buildings per unit and they're throwing them up as fast as they can possibly build.

It's crazy to me. Where are all these people coming from?

Anirban Basu:

Well, they're coming from other parts of the country. They're coming from California. So Salt Lake and Utah generally are, in Provo, are winner markets. Meaning that there are markets that are disproportionately attracting Young knowledge workers.

Okay. They want to start off in, you know, Utah. They want to live, you know, that recreational life while still being part of a great and very deep labor market. Um, they want the clean air, the mountains, all those kinds of things. They want to watch Utah Jazz. And, you know, um, for whatever reason. And so, um, Denver, Colorado fits that profile.

Boise, Idaho fits that profile. Columbus, Ohio fits that profile. Austin, Texas, Nashville, Tennessee, Charlotte, North Carolina, Tampa, Orlando, Miami. These are markets, Atlanta, Georgia, that have really won because they're the most appealing markets right now to the young cognoscente, the young knowledge worker.

Uh, and, you know, among the states, Utah has been one of the strongest in terms of appealing to that population. So, um, you Keep going Utah, you know, and that's a very nice business climate, very high quality of life. And so the economic outcomes are very good.

Mike Merrill:

And we just got the coyotes from Arizona for the hockey team.

Anirban Basu:

Yes, I forgot about that. Yeah, yeah, yeah. But you'll

Mike Merrill:

news last week.

Anirban Basu:

Not everything that happens in Utah can be good. So, um, So, you know, yeah. You'll figure it out. You'll handle that. Yeah, sure. I think it's going to work out. Not well, but it'll work out.

Mike Merrill:

Okay. Well, so back to, you know, the main topic of point here.

So, as we talk about construction, we're And, um, the, the economic outlook, which is really your wheelhouse, what would you say, you know, a contractor's best course of action, aside from conserving cash, what about within their business structure? I mean, what, what other areas of their business should they shore up while they're busy while they have backlog while they're in this position of strength right now,

Anirban Basu:

You know, we have the NFL draft coming up.

And what's that about? It's about looking at your team. What are your weak spots? Where do you need improvement? Who needs to be on the team next year? Who needs to be on the roster? Who doesn't need to be? And that's, you know, a major cost, of course, for construction firms or workers.

Mike Merrill:

Yeah.

Anirban Basu:

And a lot of people have been hired in recent years.

And you've got to ask the question, I think, as an employer, and I'm an employer myself, it's just I'm in economic consulting, but I'm an employer myself. Who needs to be on the team? Who's worth paying? And where can I improve? And, and actually that's in some sense an exercise in cash management, isn't it?

Right? Because if I decide this person really doesn't need to be on the team. Maybe I'll keep them for now because I'm so busy. I've got so much backlog. I need them. But if the market turns down, they're the first to go, second to go, wherever it happens to be. Those kind of plans make sense to me as an employer.

Because it doesn't do anybody any good if a business fails. Who benefits from that?

Mike Merrill:

So

Anirban Basu:

a business has got to be in the business first and foremost of survival. Microsoft Because then you maintain employment, then you, you know, remain a taxpayer, all those kinds of things. So, plan for survival. And one way to do that is to think about, okay, let's look at our workforce here.

Where's the strength? Where's the weakness? Who do I need to lock up? Right? Who's my Lamar Jackson that I need to sign for six years, 250 million, whatever it is. And who's not? And, and, you know, that's another thing that people can do. At any time an employer should do all the time.

Mike Merrill:

Yeah. That's great advice.

I don't know that. I mean, I've literally heard, I mean, I don't even know how many times I'd run out of fingers and toes if I was counting, but people say, I just need warm bodies. Anybody with a pulse. I mean, they have

literally been saying this for the last several years to me, like we will take anyone we can get.

Anirban Basu:

Look, I mean, it's hard to reconcile that with one safety on the job site.

Mike Merrill:

Great Point.

Anirban Basu:

And second. It's hard to reconcile that actually with profitability because what you're saying then is, and it could be an exaggeration if some people say that, right? But yeah, there's a certain sense. It's not as a sentiment.

Mike Merrill:

Right?

Anirban Basu:

It's a sentiment. Is, okay, if you just want warm bodies, that warm body is not going to be that productive necessarily, right? Because you're not holding, you know, maintaining standards. Second thing is, we've got something in this country called liability.

Mike Merrill:

Yes.

Anirban Basu:

We're really, we love to sue each other. We love it.

We love baseball. They say baseball is a national pastime. It's lawsuits. And, uh, and so if you've got that kind of worker on the job site, guess what? You might have a problem.

Mike Merrill:

Yeah. Yeah.

Anirban Basu:

Uh, and so, no, no, no. One wants to be very careful. As an economist, we're not held to any standard. Right? No one holds us accountable.

I can hire whomever. I really can hire another body and not worry about it. But putting people on a construction job site, working with heavy equipment next to others? That's serious business.

Mike Merrill:

And quality control and all these other things, right?

Anirban Basu:

You don't want to have to redo construction. That's what destroys a project's profitability offer is I have to redo that ceiling.

I have to redo that wall. I have to redo the plumbing. Now, all of a sudden, this project that I was so happy to win is now a source of loss for me. And why is that? Because I had a person on the job site who wasn't up to the task.

Mike Merrill:

And a lot of times that's six months, a year later when you, you know, you thought you were in the clear and then fat and happy and really you've still got liability out there.

Anirban Basu:

Yeah. You get a call from your general contractor who says, we've got a problem here. We need to talk. Right. Come in. You don't get that call.

Mike Merrill:

Yeah.

Anirban Basu:

So, um, yeah. So again, you've got to understand the issue. I remember speaking recently in St. Louis. to a group of CEOs, owners of construction firms. And a woman who talked about female firm owners.

This was one said, I got four, four men on the job right now who should not be on the job. They're not qualified, but I can't find anyone better. Interesting. You don't want to hear that. And by the way, you don't want to use, hear that not just as an investor in the company or something or the lender. You don't hear that as the user of their services.

Mike Merrill:

Yeah, that's for sure.

Anirban Basu:

That's where we are.

Mike Merrill:

That's interesting. So the, uh, the economy in general, still strong, um, surprisingly strong in some regards, I would say. Um, the stock market record highs. I mean, it's still just unbelievable that the growth that keeps happening. Um, technology sector, like you mentioned, data center, solar, there's, there's so many positive things, which, you know, you made, you made a joke about, if you want to hear this side of things, you're going to watch CNN or that side Fox and it's news of the same story, right?

I know that, you know, depending on where you want to put your foot at which side of the aisle, so to speak, you're going to get a different narrative. But at the end of the day. Uh, it, it sounds to me like you're optimistic cautiously about the coming year and uh, it's, it's a great time as it always would be to shore things up, to make sure that you're lining yourself up with, you know, more insulation on some things so that should things switch quickly you can make and take corrective action and, and keep yourself, you know, um, solvent and in a good position for a potential.

Anirban Basu:

Yeah, I'll tell you, I think my 12 month outlook is better than my 18 month outlook.

Mike Merrill:

Okay. Right?

Anirban Basu:

So, yeah, I think we have momentum right now. It probably carries us through the next year or so, but I, as I, you know, in my presentation, I pointed out some susceptibilities in the economy, some vulnerabilities, you know, the fact that consumers have taken on so much high interest credit card debt, as an example.

Mike Merrill:

Yeah.

Anirban Basu:

Or, you know, the fact, um, that the federal government has taken on such debt, and all these kinds of issues, it seems to me, suggest Um, that we have some imbalances in the economy, not to mention all the geopolitical issues, the weakness of the U. S. office market, susceptibility of the bank, et cetera, to that office market weakness.

So, you know, you, you look at all these things and I think we have enough there now in terms of critical mass of weakness to push us into our next economic downturn. So it's momentum versus the structural considerations. It becomes a theoretical, uh, but I think in the next 12 to 18 months, the probability of recession is actually quite high.

The next few months should be fantastic.

Mike Merrill:

Nice. So, so do you think businesses are, I mean, if there's a lot of consumer debt, do you think businesses are taking on? Too much debt, or do you think they're positioned well?

Anirban Basu:

Oh, I think actually business have been quite responsible and not taking out too much debt.

You know, profitability has been very elevated. They've actually been able to pay down debt. You know, many employers receive money, paycheck protection program payments, for instance, employer retention credits. So that those actually lumpy cash flows. In

addition to a quite strong economy, uh, have allowed them actually to pay down debt quite aggressively.

Now, you can find companies, of course, that have huge debt on their balance sheets, no doubt about that. But you also got companies like a Tesla or something like that, sitting on 29 billion dollars of cash, or an Apple, or whatever, I mean, there's lots of cash on corporate balance sheets. So I think the consumer is in much worse shape financially than the typical corporation, even small business.

Mike Merrill:

Okay, another thing that you talked about, you mentioned, uh, something with the economic index and also the ratio to building permits being pulled and kind of how that's trending. What can you share about that?

Anirban Basu:

Yeah, some of these leading indicators are quite ominous. We call them leading indicators for a reason because they lead the economy.

They tend to turn a certain direction before the broader economy does. In this case, some of these indices are turning lower. So a couple of examples I gave today included residential building permits on the multifamily side. So we're seeing less prospective apartment construction going forward. I think high interest rates and project financing issues have everything to do with that.

Developers are having a tough time lining up project financing. So we've got lots of people wanting to rent apartments out there. We have a housing market shortage as it turns out in this country. But, uh, if you can't get your project financed, Uh, or the interest rate is so high that all of a sudden the performer no longer pencils out.

You got a problem. And so we're starting to see that multi family permit category really fall. And why is that a leading indicator? Because if you're a builder, you've got to pull a permit before you build. And so we've got a lot of apartments under construction now, but the next phase of apartment construction is, stands to be

much smaller in amplitude than the current generation of apartment construction.

And many contractors have done a lot of work in multi family. And I would suggest to them that maybe multi family won't be quite as active in many markets as it has been in the last couple of years. Two or three years. Another thing I pointed out was the architectural buildings index, uh, is below the threshold of 50.

So any of the reading below 50 means that architects are less busy this month than they were last month, seven straight months. The reading has been below 50. So if architects are less busy upstream, contractors on average will be less busy downstream. At least contractors who work on projects that tend to involve architects.

So a lot of that's building construction, right? Office buildings, hotels, multifamily. And, um, and so again, why do I think that that's happening? It's project finance. That, again, developers who would otherwise hire these architects and allow them to build are finding it more difficult to finance projects, are finding it more difficult to have performance pencil out.

And so what do I need an architect for? Stop billing me, because I'm not moving forward with this project right now. I can't. I need to wait for interest rates to fall. The problem is, interest rates are not set to fall because inflation is still too high as judged by the Federal Reserve Bank of the United States.

So they're not lowering interest rates right now. So, and that gives these higher interest rates more time to pound away at current economic momentum. Another index I pointed out was the Conference Board's Index of Leading Economic Indicators. Uh, it's an index that predicted the 2001 recession, predicted 07, 08, 09.

So it's telling us it's going to get tougher economically. So, um, and I also mentioned the inverted yield curve. Yeah. Which is a favorite among economists and investors. And it's been a, you know, pretty flawless particular recession for. Decades, and it's been inverted since July of 2022. So a lot of leading indicators suggest that there is economic weakness in front of us.

Now, I understand the next few months will be fine. Lots of economic momentum for spending, lots of job creation set to transpire. But beyond that, later this year, I wouldn't be surprised if the economy becomes meaningfully weaker than it is right now,

Mike Merrill:

Which is also interesting to in my own mind, just as a consumer, you know, taking my business owner entrepreneur hat off to You know, my brain tells me that we're going into an election.

So maybe things are kind of locked down. Like, you know, the cat has all four paws on the floor for a minute, but maybe that's not the case according to what you're saying.

Anirban Basu:

I mean, I think having a presidential election can lock people down. I mean, you know, we talked about that, but, um, We will see. I mean, this, you know, they say it could be.

Mike Merrill:

A cause of the chaos.

Anirban Basu:

It certainly is. I mean, 2020 was chaos, wasn't it? Yes. 2020 election was a cause of chaos. Now, of course, we already had COVID, right? But we had just a surplus of chaos and that really did, you know, It caused the economy to sputter in late 2020 to 2021, even as the economy is reopening in fits and starts.

And then it takes off, right? The chaos is behind us, you know, you get tax cuts and the economy is supercharged by federal spending and tax cuts and, you know, reopening of economies and we're off to the races. And that's what the period we're living in. There's still an overheated economy generating too much inflation.

But my goodness, elections matter. We can debate whether or not the most important election was 1896,

William McKinley, or whatever it happens to be. But, uh, 1896 as it turns out was a very important, William James Bryan and all that. But, this is an important election, and one of the reasons for that is that we have some tax cuts set to expire in 2025.

Now, I'm not saying that's a good policy or a bad policy. Some people like tax cuts, some people don't. But they're set to expire, and if you're a business person, that matters. As it turns out, especially in construction. Immediate impact as soon as it changes.

Mike Merrill:

Yeah.

Anirban Basu:

It makes an impact, right? You know, corporate tax rates, whatever it happens to be.

So, um, we have to watch for that. And the results of this election will determine those kinds of things. I'll give you another example. You know, I'm from Maryland. One of the big projects we've secured is the new FBI headquarters. Hmm. Okay. But that was secured under the Biden administration. Donald Trump has indicated that if he becomes president, he's stopping that.

So, there are micro level things out there and macro level things that are affected by presidential elections. And so, in advance of that uncertainty, people take a wait and see attitude.

Mike Merrill:

Anticipation.

Anirban Basu:

Exactly. And that's why I think that later this year, you might see some suppression of economic activity as people wait and see.

And again, you'll still have high interest rates at that time. So there's lots of downward pressure on the U. S. economy facing us later this year.

Mike Merrill:

Wow. Well, all fascinating and we've, uh, we've kept you long enough. I know you've got a plane to catch, but, uh, Always fun to talk to you. Always very educational and entertaining.

We appreciate you gracing us with your wisdom and your knowledge and, sharing with us today, Dr. Basu.

Anirban Basu:

Yeah. Privilege as always. Thanks a lot. I hope to see you again very soon. All