BEYOND THE DATA DODGE

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Insights from Dodge Economists

The November 2016 Elections and the Potential Impact on Construction

With the November 2016 elections now concluded, what are the early thoughts on how the construction industry will be affected? At the federal level, Donald Trump is the new President-elect, and the extent to which his campaign proposals get translated into actual programs will have an impact on the economy and construction activity. Both houses of Congress remained under Republican control, which along with a Republican President may ease some of the gridlock of recent years. At the same time, any Trump proposals will still need the approval of the more fiscally conservative members of Congress, who will be reluctant to agree to programs that increase the federal budget deficit. In addition, the slim Republican control of the Senate (expected to be 51 to 49) means that Senate Democrats can still hold up legislation through the use of the filibuster. At the state and local levels of government, the potential for a positive impact on construction is clearer, given the passage of several major construction-related measures.

During the campaign, Trump offered a wide range of proposals which were put forth in broad terms with the specifics still to come. These included the following – the repeal and replacement of the Affordable Care Act (Obamacare), greater funding for infrastructure, easing of federal regulations, lower taxes for business, a more protectionist trade stance including the renegotiation of NAFTA, and the deportation of undocumented immigrants. The uncertainty as to how the proposals would be implemented initially caused a sell-off in the stock futures markets when it became clear Trump would win the election early on November 9. The conciliatory tone of Trump's post-election speech that followed seemed to calm the financial markets, leading to a stock market rally later that day.

Of the various proposals, there are three which are relatively safe to say will have some near-term impact on

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About Dodge Data & Analytics

Dodge Data & Analytics is a technology-driven construction project data, analytics and insights provider. Dodge construction. First, the repeal and replacement of the Affordable Care Act will be brought up quickly in the new Congress, although reaching agreement on the details will require time and face opposition by Senate Democrats. One issue, of course, is how the repeal will affect the 22 million newly insured individuals who received healthcare coverage under Obamacare. The uncertainty created as new healthcare legislation is being crafted will likely have a negative impact on healthcare-related construction, at least during 2017. Since Obamacare was enacted back in 2010, the uncertainty created by several challenges contributed to healthcare construction starts hovering in the subdued range of 65 to 75 million square feet per year, down from the most recent peak of 110 million square feet in 2006. The overhaul of healthcare legislation in 2017 means that healthcare-related construction will stay in this subdued range, if not slip further.

Second, the broad proposal for increased federal funding for infrastructure work should offer some support for the public works sector, either directly or indirectly by keeping attention focused on the need to upgrade infrastructure. During the campaign, Hillary Clinton said that she would spend $250 billion over five years for infrastructure projects, and would also provide $25 billion for a national infrastructure bank. In August Trump indicated that he would “at least double” the amount in Clinton’s proposal and then in late October called for $1 trillion over a 10-year period for infrastructure work. The new plan would “leverage public-private partnerships,” encourage private investment through tax incentives, and be “revenue neutral.” More recently, the website “greatagain.gov” states that the Trump Administration would seek to invest $550 billion for infrastructure, presumably over a five-year period. While there’s some question about whether the Trump infrastructure plan will be a top priority for the next Congress, the plan does emphasize the necessity for greater infrastructure support. This should encourage Congressional action on two existing legislative items – the Water Resources Development Act (with separate House and Senate versions already approved), and federal appropriations for fiscal 2017 which includes funding for transportation projects.

Third, the easing of federal regulations will have a wide impact on a variety of project types. The plan for Trump’s initial days in office calls for lifting “Obama-Clinton roadblocks and allow vital energy infrastructure projects, like the Keystone Pipeline, to move forward.” The Trump Administration will also “lift the restrictions on the production of $50 trillion dollars’ worth of job-producing American energy reserves, including shale, oil, natural gas and clean coal.” How this may affect construction of new coal-fired power plants remains to be seen, given the current low prices for natural gas and the growing surplus of electric power generating capacity. At the very least, though, such construction is more likely to occur under the Trump Administration, along with upgrades to coal-fired power plants. Solar and wind power plant projects may receive reduced emphasis.

The easing of federal regulations also involves the financial services sector. The greatagain.gov website states that a major reason for the tepid economic recovery are the rules regulating the financial services industry under the Dodd-Frank Act. Accordingly, the website states, the Financial Services Policy Implementation team of the Trump Administration “will be working to dismantle the Dodd-Frank Act and replace it with new policies to encourage economic growth and job creation.” What remains unclear is how willing Congress would be to substantially modify Dodd-Frank. Dialing back regulatory oversight may well contribute to banks taking on riskier loans for commercial real estate projects, which would boost commercial building projects in the near term. It also sets the stage for a steeper downturn for commercial building when a cyclical decline eventually occurs. The impact of this potential regulatory shift will become more apparent when further details on its implementation become available.

As for tax reform, during the campaign Trump called for lowering the top income tax bracket from 39.6% to 33%, and lowering the corporate income tax rate from 35% to 15%. These proposals will be presented to Congress, which will consider them within the framework of how they will affect the federal budget deficit. Some tax reduction will get passed, but perhaps not to the degree as proposed by Trump, and its impact on the economy and construction activity will likely be felt more in 2018 as opposed to 2017.

With regard to trade, Trump has called for the renegotiation of NAFTA, including the possible withdrawal from the agreement, and it’s virtually certain the Trans-Pacific Partnership agreement won’t be approved. He has also indicated that he will confront China about currency manipulation, and consider imposing tariffs of as much as 35% on certain foreign nations. This stance should help the U.S. manufacturing sector, which would lead to an improved level of manufacturing plant construction. It may also lead to rising inflation, which would be accompanied by rising interest rates during 2017 and into 2018. As for immigration reform, there is concern that if deportation of undocumented immigrants takes place too quickly, the reduction in the available labor force would lead to an economic slowdown, and possibly recession. And, with regard to the proposed wall across the southern border of the U.S., this will be addressed by Congress. When questioned on November 9 about the wall, Senate Majority Leader Mitch McConnell said that he wanted to “achieve border security in a way that is most effective.”

As for the broad impact on construction activity, an examination of the construction start statistics shows that for a President’s first year in office there’s typically only a modest impact on construction activity, but by the second year the impact becomes more discernible since new programs are then in place. The assessment of how the Trump proposals will affect construction will receive greater clarity as more details come forth, including how these proposals make their way through Congress. For the moment, it’s still believed that total construction starts in 2017 will increase in the 4% to 5% range, with some dampening for healthcare-related projects accompanied by some improvement for public works construction.

The passage of several major bond measures in the November 2016 elections should provide support to construction activity in 2017 and beyond. For education-related projects, California voters approved Proposition 51 which will allow the state to sell $9 billion in general obligation bonds for new construction and upgrades to educational facilities. This involves $7 billion for K-12 public schools and $2 billion for community colleges. Other noteworthy school construction bond measures that achieved passage were in El Paso TX ($669 million), Denver CO ($628 million), Pearland TX ($220 million), and Corpus Christi TX ($194 million).

For transportation projects, voters in Los Angeles county approved the $120 billion Measure M, financed by a half-cent increase in the sales tax, which will fund a rail tunnel through the Sepulveda Pass and a subway extension to Santa Monica, among other projects. Voters in the San Francisco Bay area approved a $3.5 billion measure to upgrade the region’s BART mass transit infrastructure. Wake County NC voters approved a half-cent sales tax increase to provide $2.3 billion over ten years for commuter rail and bus transit systems. And, Austin TX voters approved the issuance of $720 million in transportation bonds to help alleviate the city’s traffic congestion.