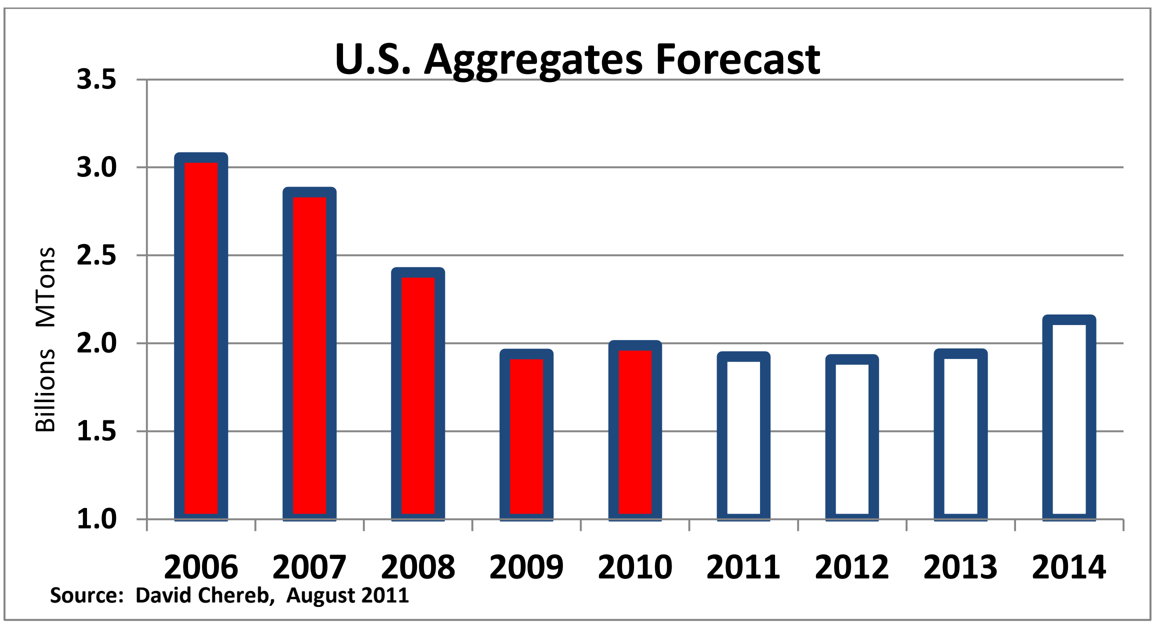
100% - Now What?

Now that the United States has joined that rare club of nations with a debt/GDP ratio of greater than 100%, what's next?

If we were a family we'd look for ways to trim spending, enhance income and search for lower interest rate loans to pay off our existing debt. Funny, that's just what the U.S. has to do. The timing of the spending reductions, the exact amounts, from where, etc. are all important details but the elephant in the room is 100+%.

I doubt the voters have the stomach for really dealing with this but we will know within sixteen months.

Our aggregates forecast assumes we are in a 'growth recession'; i.e. very slow GDP growth in the zero to two percent range. At these low growth rates construction demand cannot thrive. Even though both residential and nonresidential construction are at their approximate bottom, they will move sideways for a few more years. Nonbuilding will move lower as Federal stimulus money ends and states try to balance their budgets with austerity programs.



Notice though that in 2014 volume increases by almost 10% from 2013. This is based on the assumption that the U.S. will enact pro-growth policies by 2013 that are geared to stimulate the economy. We know what works: make permanent changes to incentives and reward innovators and capital investments. The details will be determined by politics but the basics are easy—let producers and innovators earn a high risk adjusted return on their capital. Of course we don't have to do that; we can just decide we want to become Greece.

Aug. 2011 David Chereb