A Bright Future

Yes, we have enormous levels of debt—but our national assets are strong as well

We are fascinated by the notion of looking 30 years into the future to predict the state of our industry. Will driverless trucks solve the shortage of CDL drivers? Will 3-D printers produce structural materials at jobsites, eliminating the need for delivery? Will debt in our country lead to a Great Debt Depression, as Don Magruder predicts in the preceding column (see page 17)?

Leaving the first two questions to others, I respectfully disagree with Don's position. Recognizing that it doubtless comes from a place of sincere concern and hope for a better future than he's predicted, this notion that debt will topple the world economy is based on a somewhat keyhole view of only a few of the important factors involved.

We'll continue to pay our debts the way we have in the past, from taxes levied by the government with the backdrop of a growing economy. Yes, those taxes will continue to increase, but so will the size of our economy.

Our economy continues to improve over time, whether through improved worker productivity, proliferation of technology, the creation of new products, or exported goods. The debt figures Don presents are accurate, but they also ignore the asset side of the national balance sheet.

In 2018, U.S. households have a collective wealth—net of their debts—of $100 trillion. Add to that the net worth of U.S. corporations and the government itself and it presents a much less troubling picture.

Even if we weren't naturally optimistic, we'd be comforted that the progression of humankind has always been a long, gently upward sloping line. There are setbacks along the way, yes, but we always find a way. If the national debt were hindering our economy, government borrowing would be crowding out private borrowing, which is not the case.

Regarding the short-term outlook, a prediction of a housing recession in 2019 or 2020 is more likely based on the unusually long period of expansion we're experiencing now. When you have an unusually long downturn, though, the excesses and inefficiencies get wrung out of the market and you're able to experience a longer-than-expected period of growth.

All of the LBM companies with which we're in touch are posting record months, quarters, and years. Labor is tight and home builders can't keep up with demand. That's a set of conditions more likely to culminate in slower-than-expected growth rather than in another steep recession.

What should LBM distributors do to plan for the potential of a soft market a few years from now? The answer may seem to contradict our comfort with the high absolute level of national debt. Companies should make an assessment of their debt and their current cash generation. The repayment of debt should be scheduled to leave a typical LBM distributor with enough debt to weather a soft patch a few years out. Companies could go to zero debt if they choose, but the thinking behind such a decision would be based on a belief that we're going to have two 100-year storms a decade apart. While possible, it seems unlikely.

Rather, companies should avoid the mistake made after the period of unrestrained housing growth from 2004 to 2007 of entering the recession that followed with the maximum possible level of debt. During that period, companies were borrowing as if there'd never be a soft patch again.

Today, home buyers are putting down substantial downpayments but not waiting until they can pay cash for a home. Companies in the building industry should simply exhibit the same blend of caution—and optimism. **PS**

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