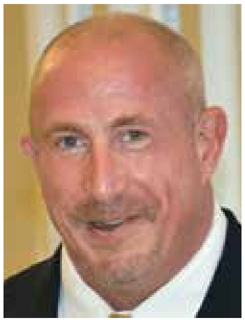
Quarterly Newsletter Bringing You Financial Insights From The Leaders | VOL 14 | ISSUE 4

SIA
SIGNATURE INVESTMENT ADVISORS®
A subsidiary of Signature Estate & Investment Advisors, LLC®

THE SIA REPORT

WHAT THE INFRASTRUCTURE BILL MEANS FOR THE ECONOMY: NOW VS. THE FUTURE



BY **Gene Balas**
CFA®
Investment Strategist

Congress' newly passed $1.2 trillion infrastructure bill will improve the nation's productive capacity—dedicating $500 billion to highways, $39 billion to urban transit, $65 billion to broadband projects and $73 billion to electrical grids. These are all projects that may generate dividends well into the future. But this infrastructure investment program (as currently designed) may not generate as much immediate economic activity as one might assume.

Before exploring the benefits, let's first address some important caveats. The infrastructure bill is not intended to be 'stimulus' in the traditional sense of the term. Instead, the bill will focus on designing projects to be developed in the future as much or more so as those to be implemented today. The

authors of the bill are keenly aware of the current levels of inflation, difficulty in sourcing materials and workers, and the stresses that a sudden jolt of spending might potentially place on the economy. Costs for steel products, for example, are up by 142% over the last 12 months according to the New York Times.

Therefore, funds from the $1.2 trillion program will gradually flow into the $23.2 trillion U.S. economy over a period of five or more years.[1] Most of the spending under the plan has been previously authorized. But the law does include $550 billion of new money to be spent in as little as five years.

1 Source: U.S. Bureau of Economic Analysis
2 "Years of Delays, Billions in Overruns: The Dismal History of Big Infrastructure," New York Times, November 28, 2021

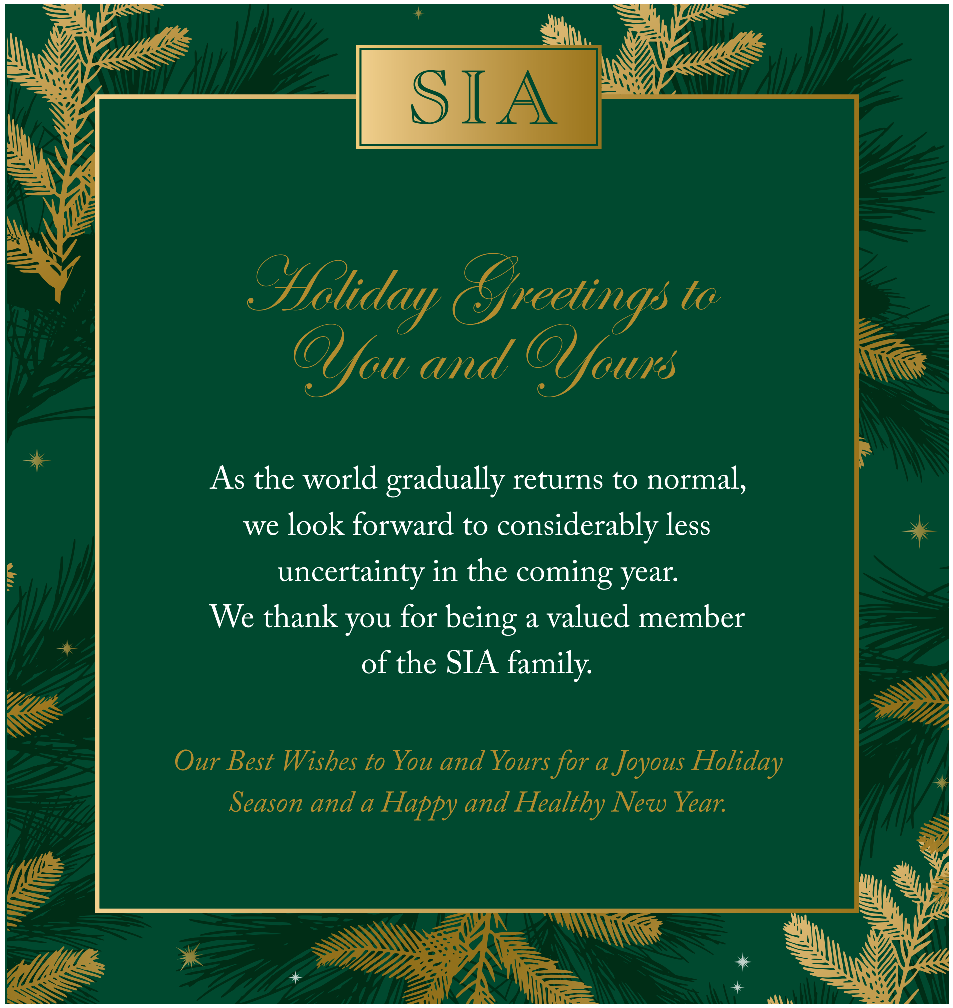
continued on page 3

> I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

Brian D. Holmes,
MS, CFP®, CMFC, AIF®, *President & CEO*

ABOUT SIA

Signature Investment Advisors® (SIA) is a Registered Investment Advisor firm offering investment management solutions that are tailored to meet the unique needs of affluent individuals and organizations. In partnership with your wealth manager, we bring our combined experience, expertise and high level of service to provide a dynamic process that can meet your investment objectives and goals.



2022 TAX BRACKETS

The tax items for tax year 2022 of greatest interest to most taxpayers include the following dollar amounts:

Married – Filing Jointly

The standard deduction for married couples filing jointly for tax year 2022 rises to $25,900 up $800 from the prior year.

Married – Filing Separately / Single

For single taxpayers and married individuals filing separately, the standard deduction rises to $12,950 for 2022, up $400.

Head of Household

For heads of households, the standard deduction will be $19,400 for tax year 2022, up $600.

Marginal Rates

For tax year 2022, the top tax rate remains 37% for individual single taxpayers with incomes greater than $539,900 ($647,850 for married couples filing jointly).

The other rates are:

35% for incomes over $215,950
($431,900 for married couples filing jointly)

32% for incomes over $170,050
($340,100 for married couples filing jointly)

24% for incomes over $89,075
($178,150 for married couples filing jointly)

22% for incomes over $41,775
($83,550 for married couples filing jointly)

12% for incomes over $10,275
($20,550 for married couples filing jointly)

The lowest rate is 10% for incomes of single individuals with incomes of $10,275 or less ($20,550 for married couples filing jointly)

Source: Internal Revenue Service

The infrastructure bill is not intended to be ‘stimulus’ in the traditional sense of the term. Instead, the bill will focus on designing projects to be developed in the future as much or more so as those to be implemented today.

In 2019, before the pandemic hit, federal, state, and local agencies were already putting $270 billion a year to work in authorized spending. Increasing that amount by an additional $110 billion annually, as envisioned, represents a 41% jump. And industry analysts have serious questions as to whether that will be possible to achieve.[2]

“It is a very big bump,” notes Ken Simonson, chief economist at Associated General Contractors of America, which represents major infrastructure builders. “My guess is that we are not going to see $550 billion spent in the first five years.”

Bent Flyvbjerg, a professor at the University of Oxford who has studied many infrastructure projects globally, has determined that 92% of those projects overran their original cost and schedule estimates—often by large margins. “A lot of projects are not delivering what they promised to deliver,” he cautions.

Some construction projects take longer than anticipated (or promoted) because of the amount of time federal agencies spend reviewing environmental reports and issuing records of decision, according to Diana Furchtgott-Roth, who formerly oversaw research and technology for the U.S. Department of Transportation. She points out that in many cases, projects are put on hold for years, as agencies conduct these detailed and lengthy examinations.

“Implementing a historic bill like this will test all of our management facilities,” advises Adie Tomer, who leads infrastructure work at Brookings’ Metropolitan Policy Program. The challenges, he notes, include “hiring federal, state, and local officials to direct programming; finding enough skilled tradespeople to execute the work; and securing equipment and materials during a major supply chain crunch.”

These caveats aside, the long-term boost to our economic growth could be substantial—though not necessarily directly from the funds the government spends on these projects themselves. Rather, the benefits may come through productivity enhancements: shortening transit delays of merchandise by improving roadways and ports; augmenting students’ learning potential and enabling more people to benefit from the internet through broadband investments; and reinforcing our electrical grid to better withstand the future challenges it may face (whether stemming from environmental factors or population growth).

However, what’s missing from many of the arguments stressing the productivity-enhancing benefits of the infrastructure program is an explanation as to how productivity gains affect the economic growth potential of the country. Put simply, the potential growth rate of the entire economy—as measured by GDP—is the growth of the labor force (how many more people are working) plus productivity gains (how much more per hour each of those workers produce).

It’s that latter factor, productivity gains, which allows our economy to grow and generate a higher standard of living for all. As our population ages, we have a growing proportion of the population who are retired, with relatively fewer people entering the labor force. Those who are working must therefore generate a proportionally greater amount of economic activity to compensate for these demographic trends. That additional growth must come from productivity gains—where significant increases are often driven by investments in technology and infrastructure.

Yes, it will take time for the funds from this infrastructure package to be spent. And there certainly will be delays and cost overruns along the way. But reaping the rewards well into the future from these investments in infrastructure will be well worth the caveats noted above. It just may be the best hope our economy has of meeting the long-term demographic and international competition challenges that likely lie ahead.

RUNAWAY INFLATION OR REFLATION?

According to a recent Wall Street Journal article, both economists and business leaders expect "strong consumer demand for goods in the West, ongoing port congestion in the U.S., shortages of truck drivers and elevated global freight rates" to continue impeding our economic recovery over the short term.[1] Add to that a new omicron COVID variant and an increased risk of extreme weather conditions, and there's clearly some lingering cause for concern.

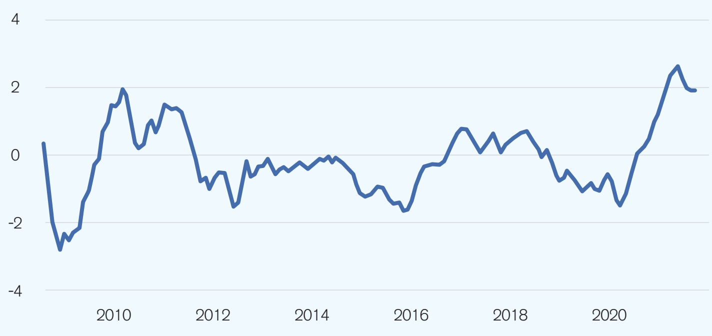
In 2019, the average cost to ship a container from China to California was a little less than $2,000. During the peak of supply chain disruption this summer (with demand soaring and supply falling), the same container cost more than $20,000 to ship.

As we look ahead towards the coming year, however, the impact of supply chain disruptions is hard to ignore. According to recent data from Adobe Analytics, the frequency of shoppers encountering 'item out of stock' messages this holiday season are 258% higher than they were just two years ago.[2]

Calmer waters ahead

While still elevated, the U.S. Supply Indicator (a measure of the availability of goods) appears to have peaked over the summer and begun to trend down. Not only should this help continue driving retail sales, but also help to ease the recent severe inflationary pressures on the economy. Meanwhile, both the cost of industrial materials as well as the order-to-inventory ratio for retailers have similarly begun to move lower—both positive signs.

U.S. Supply Indicator



Source: Bloomberg Economics
Note: Positive numbers indicate supply deficit and negative numbers mean supply surplus.

This should be much welcome news to Fed Chairman Powell—who's likely been feeling a great deal of pressure to tighten monetary policy and raise rates, considering inflation currently stands at 6.2% with expectations that it will rise somewhat higher before gradually receding. The shortage of service sector workers, however, continues to worsen. And this could prove an additional cause for concern if it continues to drive wages considerably higher.

As recent Black Friday and Cyber Monday sales data indicates, however, the nation's feverish pace of economic activity shows no signs of abating. Despite fewer retail discounts and price reductions, from November 1st through Cyber Monday, U.S. consumers have spent $109.8 billion online (up 11.9% year over year from 2020).[2] In fact, 2021 is currently on pace to be the single largest retail sales year in U.S. history—with total sales from November 1st through December 31st expected to eclipse $850 billion ($207 billion of that generated through digital sales).[3]

While there will continue to be a number of supply chain concerns that need to be ironed out in the coming months, it appears we're gradually moving in the right direction. As the Chicago Federal Reserve noted in its most recent Beige Book released on December 3rd, "wider availability of some inputs, notably semiconductors and certain steel products, led to easing of some price pressures." And private investors are stepping up to help resolve the problem. Venture capital investment in supply chain technology exceeded $7 billion for the third straight quarter this year—roughly doubling the amount invested during the same period last year.[4]

1 "Supply-Chain Problems Show Signs of Easing," Wall Street Journal, November 21, 2021
2 Adobe Analytics, November 30, 2021
3 National Retail Federation, November 2021
4 "Private Supply Chain Investment Explodes," National Review, December 3, 2021

SIA
Signature Investment Advisors®
A subsidiary of Signature Estate & Investment Advisors, LLC®
2121 Avenue of the Stars, Suite 1600 Los Angeles, CA 90067
T 888 349 3241 F 310 855 3955 SignatureIA.com