INFRASTRUCTURE PLAN

NEW RAILS OR JUST ANOTHER THIRD RAIL?

April 8, 2021

The U.S. government has not passed meaningful infrastructure legislation in decades. Both sides of the political aisle agree on the problem but can't seem to agree on the solution. Given the historical context, investors are rightly skeptical that the current $2 trillion+ proposal will pass quickly in its current form.

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Infrastructure, and so much more. Historical challenges of passing a transformative infrastructure bill are not deterring the Biden administration. The American Jobs Plan is a bold proposal with a fairly broad definition of infrastructure. In 2021 dollars, its size is three times that of the post-Depression New Deal (though only one-fourth the size when measured as a percentage of the economy). It goes beyond transportation infrastructure and includes home infrastructure, business support and caretaking (see Exhibit 1).

There's no time like the present for infrastructure... A large infrastructure program could dig the U.S. out of its pandemic-driven hole and cement the economic recovery (pun intended). The country's infrastructure needs are high — both repairing the old (bridges and roads) and building the new (leveraging technological advances and pursuing green energy). Low interest rates will aid any needed deficit financing.

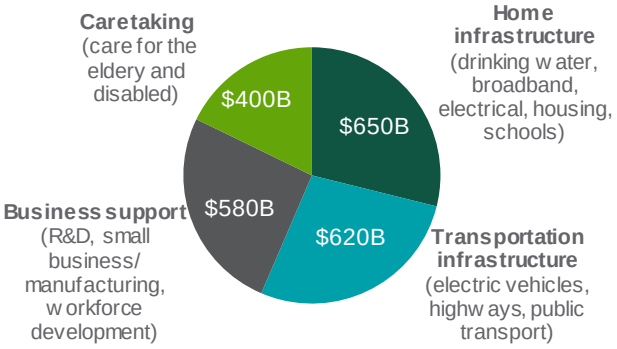
…but that doesn't mean this will be easy. Corporate tax increases to pay for the bill are a non-starter for Senate Republicans, so the filibuster-proof reconciliation process will likely be used again. But this will be harder than the pandemic stimulus bills. Moderate Democrats share Republican concerns on higher corporate taxes, while progressive Democrats don't think this plan goes far enough. Absent a crisis (say, an ongoing pandemic), big bills are hard to pass — and infrastructure initiatives are a political beast.

EXHIBIT 1: HISTORIC SIZE AND SCOPE

The Biden administration's infrastructure plan rivals the 1930s New Deal in its size and is broad-based in its application.

	New Deal	American Jobs Plan
Cost at the time ($B)	42	2,250
Cost in 2021 ($B)	721	
Cost as % of GDP	40% of 1929 output	10.5% of 2020 output
Cost over…	8 years	8 years
Increase in federal debt	30.3% from 1931-1939	?

AMERICAN JOBS PLAN COST DETAILS



Source: Northern Trust Asset Management, Bloomberg, St. Louis Fed, Whitehouse.gov.
Left-hand chart: increase in federal debt is as a percentage of gross national product.

Market Implications: Less impact and not where you may expect. Our base case starting point (understanding politics are very fluid) calls for a smaller infrastructure bill to be passed late this year in a fairly uninspiring fashion, with a small corporate tax rate hike. Interest rates are unlikely to notably rise, as the growth and inflation impulses will be small and U.S. Treasury supply/demand dynamics will be manageable. Equities will find some modest support from increased demand (offsetting slightly higher corporate taxes).

While a quickly-passed large stimulus bill seems challenging, what if we got one? Though ostensibly an obvious link, any infrastructure plan would be fairly immaterial for global listed infrastructure (GLI). Most GLI companies merely maintain infrastructure; they don't build it. And utilities (~40% of GLI) would suffer from the higher interest rates induced by a large infrastructure bill. Sectors most impacted include:

Materials: Steel, cement, iron ore, copper, nickel and aluminum — as well as rare earth minerals (for wind/solar generation) — would experience significant demand. Industrial gas companies may also benefit from Biden's focus on a clean energy transition, which supports hydrogen as a fuel source (though hydrogen is not explicitly mentioned).

Energy: Support for clean energy was slightly greater than expectations. The plan strives for 100% carbon-free electricity by 2035, versus the current 2050 expectation. The plan downplays (in some cases outright opposes) oil and natural gas infrastructure. That said, the outlook for oil and gas demand remains solid through at least 2040.

Technology: Impacted industries are semiconductors and communications. The plan earmarks $50 billion for semiconductor production incentives; another $100 billion for rural broadband and Internet access; and $174 billion for electric vehicles (expanding the charging footprint, increasing rebates and converting government vehicles).

Industrials: Machinery, electrical equipment, engineering and construction, commercial services and building products companies would benefit most. But they could also be among the hardest hit by an increase in the corporate tax rate.

Healthcare: The $400 billion proposed for caretaking should create jobs and increase caregiver wages. Expanding access to healthcare services and reducing the backlog of patients seeking long-term care would be positive for the sector.

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