



NAC Member Viewpoint

Reflections on Trends Likely to Accelerate

by Bob Prieto



With a President-elect recently declared in the U.S. to conclude the 2020 election, I thought it now appropriate to reflect on four trends that are likely to strengthen or accelerate. This is not to suggest this acceleration results from a change in leadership, but the change undoubtedly represents some element of contribution. On the U.S. political front, I would expect a tumultuous couple of months.

Trend #1: Infrastructure

The pandemic and the associated economic crisis have caused state and federal governments to spend at levels not previously seen. The associated deficits can only be addressed through higher taxes, inflation, or asset sales. The latter, in effect, is the continued privatization of government-owned assets. Currently the Federal Reserve has signaled near-zero interest rates will hold for some number of years into the future, effectively taking broad-based inflation off the table. Higher taxes will be significantly constrained if the Senate remains in Republican hands. This brings us to the sale of government-owned assets, a.k.a. infrastructure.

Before looking closer at infrastructure privatization, it is necessary to address the impact of any infrastructure stimulus. Additional federal dollars in this direction act to further increase the burgeoning federal deficit and put added pressure on selling assets. The federal government is not an owner of roads and bridges and airports, as those are largely state and locally owned. What the federal government can do, therefore, will be limited, certainly in the medium term if not in the short term as well. Any intelligent federal action on infrastructure stimulus should include “language” that gives the states more flexibility. This is important since the pandemic has punched huge holes in state and local infrastructure funding mechanisms. We now turn to infrastructure as it applies to state and local governments.

State infrastructure budget holes can likely only be partially filled by any federal stimulus. Instead, they at best are more likely to return planned expenditures to pre-pandemic levels. This is not enough at the state level since budget holes in the largest urbanized states go well beyond infrastructure funding holes. They need to plug those holes. Also, they will be the ones who are selling assets. There was already a trend towards public-private partnerships (PPPs). That will now accelerate. In addition, look for sales of *existing assets* to the private sector.

Opportunities exist in this structural change, including potential new roles.

Trend #2: Dramatic Energy Transition

Pre-pandemic, the fossil fuel industry was already under increasing pressure. The pandemic and the resulting reduction in economic activity further increased that pressure. At the same time, the costs on renewables, especially wind and “net zero” buildings, became competitive due to the depressed fossil fuel prices. This competitiveness will likely temper any sharp fossil fuel price increases except under supply dislocations. Concomitantly, renewed interest is growing in the “hydrogen/ammonia cycle” as a way, at considerable savings, to store energy generated by renewables.

This dramatic energy transition received a boost as ESG (environmental, social, and governance) issues, which weigh heavily in investor considerations, received increased focus due to the pandemic. The outcome of the presidential election in the U.S. will likely further add to this acceleration, which is currently underway.

Trend #3: Data Anywhere, Anytime

The remote working environment accelerated by the pandemic will drive many fundamental changes in how businesses and even whole industries will be configured in the near future. One enabler of this trend will be access to data anywhere, anytime. Cloud environments will provide increased cybersecurity options as well as ready platforms for software as a service. One physical effect of this will

be more data centers as well as more emphasis on universal broadband coverage. Already an accelerating market, data centers will grow even faster. Also, expect any compromise infrastructure stimulus to include provisions for rural broadband. Large swaths of the U.S. do not have reliable high-speed broadband access.

Trend #4: Scale Matters

All industries at all levels will have relative winners and losers. The losers will be consolidated, just as they are in any market shakeout. Expect consolidations in client sets and competitors. Also, expect to see some elements of vertical integration in industries as supply chains are reconfigured and large enterprises seek ways to create competitive advantage.

About the Author

Bob Prieto was elected to the National Academy of Construction in 2011. He is a senior executive who is effective in shaping and executing business strategy and a recognized leader within the infrastructure, engineering, and construction industries.

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