



# The Economy and Construction

A look ahead for contractors written by Morton J. Marcus, an economist formerly with the Kelley School of Business, Indiana University for the Lake County Contractors Association

## The blame game

The price of gold is up. Why? Seems the Chinese and Indians are pushing gold prices up as they use their new wealth to buy jewelry.

The price of steel is up. Why? Seems it's the Chinese and Indians who are expanding their building programs so rapidly that all construction materials are getting more expensive. The growth in supply can not keep up with the growth in demand and so prices are rising.

The price of oil is up. Why? The Chinese and Indians are using petroleum to fuel their rapidly growing economies. Plus, as a larger middle class emerges in these countries, more automobiles are being sold and that too accelerates the demand for petroleum products.

American jobs are moving off-shore. Why? Chinese and Indian firms can offer lower prices because they have lower labor costs.

Interest rates have been increasing. Why? Our trade deficit, related to all of the above, puts downward pressure on the value of the dollar. To act against possible inflation (a decline in the value of the dollar), the Federal Reserve has been raising interest rates to slow the American economy and support the value of the dollar.

So, there you have it. America's economic problems are mainly related to the success of China and India. And all of this comes right back to you, the Lake County contractor. Higher prices for the construction goods you need and decreased demand for your services as a result of higher interest rates.

That's the way Americans have been talking for the past two years. Every problem we have can be traced to China and India, if it can not be blamed on the war in Iraq and the tragedies of 9/11.

**I don't buy it.** I do not deny that the rapid emergence of China and India have increased the demand for many products and temporarily raised prices. But the real problem is a slow response of our own businesses to the challenge of change.

Adaptation is the key skill of the business man or woman. What do you do if homes with three-car garages start selling far faster than the old standard two-car garage? Do you sit around with others moaning about the fickle market and the fact that all your blueprints are for two-car garages? Not if you want to stay viable in the market.

When the price of wood rises, you find a way to use less wood and more of something else. Or if you can not reduce the amount of wood you use, you find a way to convey value to the buyer to justify the higher cost. Sure it can be difficult. But the successful firm is the one that keeps on course despite the ever-changing winds.

I used to be the director of a research center within the Kelley School of Business at Indiana University. One year I went down to the Dean's office to complain about how little we were getting from his budget at a time when selling research services was becoming almost impossible. I was letting staff go and about to endanger the very core of our programs. We needed more money to protect our future.

The Dean, who had held the same job two decades earlier, told me that running a small business, as I did, was like playing the accordion. "You have to learn to make music both when it is expanding and contracting."

I hope that, in this New Year of 2006, all of you are successful musicians.