What trade Barriers and Capital Repatriation Might mean for US Warehouse demand

The stock of US warehouse space has increased by almost 75% since 1988, representing 3.5 billion additional square feet. Economic globalization has transformed the US economy with its resultant supply-chain greatly boosting US warehouse demand.

The incoming administration has proposed several policy objectives with respect this trend in globalization. The first is to renegotiate trade agreements so as to better favor the US: penalizing imports and providing better access for US exports. Expanding exports and curtailing imports is long agreed by economists to be a potential tactic to help raise GDP. A second objective is to expand US corporate investment within our borders to increase domestic manufacturing. There is less agreement by economists on the effects of policies designed for example to prevent corporate profit shifting or penalize job outsourcing.

Imports, exports and domestic production all generate different types of inventories which in turn impact warehouse demand. Imports for example, are most often repackaged and transshipped once landed, and as such necessitate much distribution space. Exports on the other hand tend to go directly from the point of production to shipping, and create warehouse demand mainly in the destination country. Domestic industrial production generally creates a shorter supply-chain than international imports. Shorter chains are held to reduce inventories and warehouse demand.

Recently at EA we econometrically crunched the numbers and came up with some results for how warehouse demand might respond to changes such as the above. We found highly significant cointegration between imports, exports and industrial production on the one hand and the warehouse stock on the other. The error correction process is slow, but in the long term suggests:

- A dollar increase in imports consumes 3 times as much warehouse space as a dollar increase in exports.
- A rise in industrial production (trade held constant) actually reduces warehouse demand as the supply chain shortens.

Assuming no “trade-war” retaliation, the policies above could well boost US GDP. That said, from a real estate perspective they would certainly help curtail the 3-decade long expansion in US warehouse space.