**Todd Miller:** I'm Todd Miller of Isaiah Industries, manufacturer of specialty metal roofing and other building materials. Today, my co host is Ethan Young. Mr. Young, how are you doing?

**Ethan Young:** I am doing good, Mr. Miller. How about you?

**Todd Miller:** Doing well also. Thank you. I'm looking forward to today's show. And, just so our audience knows, once again, we are doing challenge words. So, both Ethan and I and our guests have a mystery word. And we have been challenged. But one of the others to work into the conversation. So you, the audience can try to figure out what our mystery words are.

And at the end of the show, we will tell you whether we were successful using them or not. So, let's go ahead and dive right in. I actually am really excited about today's guest. this is something a little bit unusual for us, a repeat guest. We have not had too many of those. in the past, and, he's actually a repeat guest from our most listened to episode.

So that's really exciting. Our guest today is Wolf Richter, author and founder of the very popular Wolf Street website as well as a prolific writer and video creator. Wolf tells the stories behind business, finance, and money. Born in Germany, Wolf found himself moved to Oklahoma when he was 17 years old and he ended up sticking around here in the States.

Uh, Wolf now lives in San Francisco. With degrees from Midwestern State and Tulsa University, Wolf spent a decade managing a large Ford dealership and its subsidiaries, giving them a bit of a heart, as well as knowledge for the automotive industry. But one day, nearly 30 years ago, he quit his job, went to France for seven weeks, and then went on a life altering three year journey that took him across a hundred countries on all continents.

In 2011, then, he started Testosterone Pit,In 2014, he changed the name to Wolf Street, where he writes daily for the most part on many different topics, often related to business, economics, finance, and real estate, as well as automotive industry. Um, always interesting and informative.

Wolf has a great following due to his keen insight. And. What I like about him is his ability to make sense and draw conclusions, about some pretty complex issues. Wolf, welcome back to Construction Disruption. Pleasure to have you here today.

**Wolf Richter:** Thanks for having me back, Todd.

**Todd Miller:** Well, that was kind of a long introduction too, but it was well deserved. we're glad to have you here today. So when you were on the show before, I don't think We talked a whole lot about you. We kind of dove right into a lot of topics, but I'm kind of curious to kind of open us up today. Can you share with us?

you know, what was your state of mind when you left the car dealership, went to France supposedly for seven weeks and then started a three year journey around the world? You know, what were you looking for? What was your state of mind at the time?

**Wolf Richter:** Well, there were a couple of things that came together. One, a good friend of mine died of brain cancer at a very early age, relatively speaking. It seems a very young age now. And I wasn't even 40 then. And I thought, you know, what if I don't make it to 40, you know, what if I don't make it to 50? and so that started,a process, where I started questioning what I was doing.

and then I was ultimately frustrated with a franchise dealer business. I was frustrated with a Ford motor company. They have never had management that can manage itself out of a paper bag. And, it is just incredible the stuff they decide. And I didn't want to spend the rest of my life doing that, and I didn't know what else to do. So, what does a young man almost 40 do? You know, he just takes off and goes to France. And, there I met, I, a Japanese woman who was talking to me about Japan and it raised my curiosity about Japan. I never even thought about it much. And, so, this, Japanese woman is now my wife. And,it triggered this whole thing where I wanted to go. look around the world a little bit, and especially visit her in Japan, and I did that, and I wrote a book about that Japan part, Big Like, and it's, it, the book is not a happy ending, and,it, Japan turned out to be a very difficult, but super fascinating country for me. And after Japan, I didn't want to go home.

So that was that, you know, I went from Japan to Vietnam and then from there overland to China. And I just worked my way across Asia and Mongolia, Russia, and then up hitchhiking through the Scandinavia back down south. and, you know, that, that's just, It took a long time, and then I went from Spain to Africa and spent six months in Africa and, overland mostly. So, it just went from one thing to another, and in the end, I spent three years traveling, and that was never planned. It was, just one step at a time kind of thing, and at some point, I decided, I was done. I needed to go home. And home at that point was Oklahoma. and so I had a condo there and I went home and then I constructed a new life for me.

**Todd Miller:** Wow. I mean, that's quite the story. I mean, I guess I'm curious. obviously, you know, as you're going traveling around and you're learning a lot, seeing a lot of different cultures, when you came back to the States, you didn't make the decision to go right back into the automotive industry or business again.

I mean, were there any key things that you kind of developed during that time traveling that ended up really altering the rest of the course of your life?

**Wolf Richter:** Well, one thing I did was, I really improved my French because I spent,probably about a year in, French speaking countries, or in France mostly, but also in Africa. And, I worked hard on it, so I, I became, you know, fluent in French, and I studied French before as an adult, and then gone to France, taking language courses in France, but so this was really different now, I was at a different level, and I wanted To really do something more internationally and I ended up doing that, you know, I ended up, running a VC funded startup company in Belgium. and then, worked a little on Wall Street and did different things and it just, I never wanted to go back to the car business itself. I followed it and I have a passion for it and I get really pissed off when the automakers do stupid stuff but I don't want to work in it anymore.

**Todd Miller:** Yeah, gotcha. Well, very interesting. And yeah, I mean, that's just that, amalgamation, all those experiences is kind of what makes, I think your commentary and, what you write so incredibly interesting. Well, I want to go ahead and start digging into one of your favorite topics because I think it is of strong interest to our audience as well.

and that's commercial real estate. here coming in our I guess I can call it post pandemic world. Is there still a glut of office space out there? and do you see that getting any better or worse or what's going on?

**Wolf Richter:** Yeah, I mean, office is probably among the worst sectors in commercial real estate. they're all having problems now because of the higher interest rates. But the office sector has, on top of that, has a structural problem in that before the pandemic, the major companies, you know, perceived there to be an office shortage.

And so every time office space came on the market, they jumped on it to grow into it and for future use. And I mean Facebook. at least a whole building in the tower, you know, in San Francisco, and it's kind of stuff. And,they didn't need it. And, they didn't need it then. and then we had the pandemic and we had working from home and that with all these executives sitting around the house and nothing to do and making decisions from a distance, they realized, wait a minute, we don't need all this space.

We've got people working at home. We've always had some people working at home, you know, so now we've got more of that. we're never going to grow into this office space and they started massively putting this stuff back on the sublease market and they pulled back from the, from the direct leasing market and, companies that owned their own buildings put them up for sale. And, so now we have this huge amount of vacant office space, sitting on the market for lease. in some cities in quite a few cities, it's around 30 percent of the total inventory is on the market fully. So that includes San Francisco, includes Dallas, includes Houston, includes a whole bunch of other cities in some of the smaller office. cities like St. Louis and Tulsa. it's like a depression there in terms of the office sector and, so,there really isn't a good solution to that, that, you know, I mean, interest rates can go down. It's not going to change the structural issues of the office sector and, So the industry is grappling with this, and in San Francisco, well, if you know, we, I follow this a little more closely and, for a while, there weren't any sales of office buildings.

Now, we've had a few, they were at discounts of 65, 70 percent of the prices that they, were at before the pandemic, a lot of buildings are essentially being sold for land value. with the intent of either tearing them down or spending a huge amount of money converting them into residential and, ultimately this will be good.

I would love to see, downtown's financial districts, et cetera, become much more mixed. So more residential involved along with office. I think that would be a great thing because now these business districts at night, they're dead, there's nobody there. And it's really good to have a mixed environment where people live and where they work and where they play. And in San Francisco, the financial district is right next to the waterfront. It's beautiful. And, there's some people, there's some towers around it, but not a lot, you know, that would really benefit from, from mixed use. In Manhattan, that's already the case. They've already converted over the decades, a whole bunch of older office buildings into residential, including when I was living there, there's some of them that came on the market that had been office buildings and they did a pretty good job, so that's, that can be done, especially with older buildings and,I'm really looking forward to that, that will enhance our city centers, I think, but it's just brutal out there for investors and for lenders for, we thankfully.

biggest lenders to the office sector aren't the banks. I mean, that's part of it. But the investors, life insurance companies,pension funds, international banks, collateralized loan obligations, commercial mortgage backed securities. I mean, these are the primary lenders to the office sector, not necessarily the U. S. banks. And so, thankfully, the risks are not really taking down the banks as much as we might. and that's a good thing on these. These losses are spread across the globe, across investors. but it's just brutal out there. It, I mean, it's a depression in that sector and it's going to last.

And, the solution is conversion to residential and tearing them down.

**Todd Miller:** I never even thought about that conversion to residential. It makes a lot of sense though, very interesting.

**Wolf Richter:** Yeah when you hear that some of the experts talk about this, it's. only a very small number of buildings that can, that you can even do that with. They have to have a fairly narrow footprint, these big square buildings, big square footprints. You have to have windows in apartments and condos.

You can't have, you can't live in a windowless environment. And you have to have windows you can open and,Yeah, so that they're experimenting with putting a big air shaft in the middle of a square building and those kinds of things. But, you know, it's not easy to convert a 1980s office building into residential.

It may be impossible. So, yeah, they will pick and choose the ones that they can convert and the rest will sell for land value to new investors and they redevelop it.

**Todd Miller:** Very interesting. I have a friend who has a business in Chicago and about 10 years ago, they leased a couple floors on a, office building near O'Hare and, you know, spent a lot of money on the build out and getting it all right for them and everything. And, you know, then of course, about six years into that COVID hit.

And, now they're all working from home. So they actually have, walked away from, the end of their lease or maybe a little early and are moving to a smaller space, a little bit more outside of town, but it's interesting that building there. And I'm thinking, gosh, could that be residential? it is a neat location right near O'Hare.

but, you're right. It's kind of a big block also,

**Wolf Richter:** Well, Also, when I was living in the Washington, D. C. area, I lived in Rosslyn, so that was in the flight path of

the airport. And, I mean, you can scratch the bellies of the planes going by, and, on the way down, they're not that loud, but on the way up, it's just atrocious. and back then they stopped the traffic at around 11 o'clock at night and they started at six.

So that those are the seven hours you can sleep. And, you can't be on the phone when that happens. so, putting residential into, The area of an airport, I think you have to spend lots of money soundproofing the building.

**Todd Miller:** Sure. Makes sense. Well, you wrote recently about what you see as far as the possible impact of AI on commercial real estate. Can you kind of clue us in on that a little bit?

**Wolf Richter:** Yeah, that came from the real estate industry. Actually. I really hadn't thought that much about it and AI I mean people make fun of it and we as consumers are in contact with it now all the time we deal with the chatbots and we go The major, hospital chains and doctor offices, and they use AI in their interpretation of medical tests. And, they also have a doctor look at it. But you, if you get an EKG, it will, the system in there will tell you what you have. And the same with scans and other things. So, AI's already moved into every aspect of our lives and has been for a long time. There's nothing new. What's newer is that this generative. AI, so that, that produces things, produces new stories and pictures and videos and, summaries and analyses and reports, all kinds of stuff. and that used to take lots of man hours to do. And now it takes seconds with AI and some of the news reporting has been generated by AI already all major. some of the major ones are using it like Bloomberg and Reuters and so forth and Market Watch and they may or may not disclose that this was produced by AI. And, what one person used to do in a day, AI can do in seconds. And, you know, I call AI a generative AI produces a lot of quote, fluent bullshit. And, but

humans do that too. You know, it's not like humans don't. And, I don't know. Sometimes AI may be better than humans, but it's everywhere. And so what we're seeing now is companies replacing humans with AI. So they may have an editor, Editing 20 AI stories a day instead of 20 reporters writing them and one editor editing them. So, and that's happening and, it's happening in other industries. and so you're reducing, and it happens in coding, in tech. And, customer service and all kinds of stuff and in advertising and what people used to do, some of the basic stuff is now done by AI. and so the real estate industry sees this as a further shoot to drop on it.

So when. Not now, not today, but sometime in the near future that it will reduce, office employment further and will reduce the need,the requirement for office space. And, it's on top of the issues we already have. They're seeing this coming down the road. And, rather than office, the office market bottom, bottoming out, they think that maybe it, it might still have those challenges ahead of it.

**Todd Miller:** Very interesting. Yeah, you sometimes you don't think about the far reaching impacts of technology, but,can be significant. So let's switch and talk a little bit about manufacturing infrastructure. And it seems like there are a lot of plants being built in the U S right now. In fact, one of the most noteworthy is the Intel plant going up near us in Columbus, Ohio right now, or on the outskirts of Columbus.

who are some of the movers and shakers you're seeing in this manufacturing and infrastructure? do you think this is sustainable? Is it going to continue?

**Wolf Richter:** Well, right now, the biggies that get all the headlines are the semiconductor manufacturers. They're setting up huge, expensive plants. And in multiple states, and you mentioned one of them, and, but they're big time in Arizona. And I mean, where is Arizona going to get the water to supply these plants long term?

That's going to be an issue. But, you know, they are throwing billions of dollars at these plants and a big plant like that. the construction cost is not the main thing in it, the main expense is equipping it and then, getting it to work, training the people, those kinds of things, and it can run up to 20 billion to do one of those plants.

So this is a huge input in the economy. these are massive movements that we're seeing, and I'm tracking the construction spending,on,on factories. And so that's dollars spent on building the factories, not putting the equipment into them. And that has tripled over the last few years. So, the United States has been way behind in manufacturing expansion. And we've kind of offshored all of this. The pandemic has taught everybody that there are risks involved. The United States ran out of a whole bunch of stuff. We had shortages on everything. I mean, I remember you talking about the shortages.

You ran into Todd. I ran into shortage with my beer mugs that I sent out as gifts. And, I mean, everything was impacted by that. And it taught people a lesson about how not to become too dependent on China and on imports. And, it taught people a lesson about how expensive it really is to manufacture offshore and to bring this stuff in and you lose your intellectual property, especially with semiconductors and autos and high speed trains and that kind of stuff. And there's a huge corporate rethink now going on in, in trying to manage that better. Now, before then, we already had a huge change in the United States, that started. with fracking in 2010, 2012, when fracking for natural gas and then for crude oil became, commercially very viable.

and since then, you know, the United States sort of ran out of, so before 2007, 8, you know, people thought, you know, it says we run out of natural gas, and we would have to, you know, beg the Saudis to sell us more oil. And, since then, the United States has become the largest natural gas producer in the world.

In 2014, that's when we did that, we've become last year the largest, liqui liquified natural gas exporter in the world. 'cause we're overproducing, we're producing so much that we're exporting large amounts via pipeline to Mexico and a small amount to Canada, but a very large amount now via, l and g to other countries, including Europe.

when Iran into trouble with its supply from Russia. And, we've become the largest crude oil producer in the world. we're producing more, petroleum products than we use. So we've become, an exporter of those products. We may import crude oil and export and refine them.

Yeah, here in California and in the Bay Area, we've got a bunch of refineries that import crude oil and export, gasoline, jet fuel. diesel to South America. And this is a huge trade. And this has cost energy prices in the United States to be, far below, where they are in Europe. And that has been the case for years. our natural gas prices here in the United States, they've collapsed. I mean, they're lower than they were 15, 20 years ago and, because of overproduction. And so we have seen a lot of European manufacturers set up shop here in the United States. Due to the low cost of energy, and that happened years ago, that started years ago, and it continues the petrochemical industry.

A lot of European companies have moved in. It's, the industries that use a lot of natural gas, either as input or, for energy purposes. And, so that is a manufacturing trend that predates the pandemic. And, that has been one of the big drivers in growth in that sector. Now we've got the reshoring going on.

So these are mostly American manufacturers or in semiconductors. it's, it's foreign manufacturers also that set up shop here. in the mechanical, electromechanical industry, Siemens has The German company has been setting up shop here, in the recent years,to manufacture, electrical equipment, trains are starting to be manufactured.

So, commuter trains, those kinds of things are starting to be manufactured here. Yeah, this is a slow process and it's not like we're bringing these jobs back. It's not that process where we send, you know, 20 million jobs to China. Now we're bringing 20 million jobs back. What we're doing is we're expanding in the United States and, There are new jobs being created here in manufacturing, and they're not in many cases.

They're highly qualified people to work in the semiconductor plant. You may have to have an advanced degree in one of the STEM fields. In many other manufacturing areas, you have to be highly trained. Many jobs require college degrees, technical degrees. So it's a different kind of manufacturing than what it was decades ago.

So the jobs are different. They're fewer, they're not as many jobs in the plant, but they're much more highly qualified and probably more difficult to fill. And you can't just take a bunch of immigrants and stick them in the plant. You know, that doesn't work anymore. so, Yeah, it's changing the economy here and manufacturing is only a relatively small part of the US economy, but it has a huge secondary and tertiary impact on the rest of the economy. And so overall, I think what we're looking at is kind of a U turn from two decades of offshoring.

**Todd Miller:** so the plants they're building, I mean, surely they are concerned about how they're going to find workers. And, you brought up a good point. It's not like those construction workers can just become factory workers now. And so you hit, you know, some equilibrium that way.

Um, you know, do you see that being a lot of folks coming into the country in order to fill some of those jobs or what? What do you see happening

**Wolf Richter:** Well, we already got those folks here. You know, they came in. We, according to estimates from the Congressional Budget Office, the last two years, we got six million people in here. So, that's a huge number of people. Of course, most of them will not be qualified to work in these manufacturing plants. And they'll be driving Ubers and they'll be doing other stuff, you know, and they're making sandwiches and doing different things.

And some of them may be qualified. but might take some time in training. the solution is to really is to train and we've abandoned manufacturing as a country for a long time. So there's a lot of things that we've walked away from a lot of expertise, the older people retired and the younger people haven't learned it.

and so this is a, is this a process we have to go through and,it's not instant. So you have to train the people. I mean, they're even short on construction workers. It's not like we have enough construction workers. So when they have these big projects, they have trouble building them because it's labor issues. And so. You know, it's not like we can build a plant and then stick,500 immigrants into it to work. Yeah, that's not how it works. it will require a lot of training. A lot of, schools will have to get involved. And companies will have to tell the educational system what they need. And, long term process, it will be good.

But it's going to have some rough spots, I think.

**Todd Miller:** Yeah, it's very interesting. It's not like you can have someone one day, using a spatula and the next day they're working in one of these high tech factories. So, well, last time we talked, we were really very much in the midst of a lot of supply chain difficulties. And you know I know that seems to be better at some point.

I do think there are some ongoing ramifications. I know one of the ramifications we have seen as a manufacturer is, even though maybe supply has gotten better, as a smaller company, it seems like we don't mean as much to our suppliers as we did, before all that happened. But, can you reflect some on the state of things as far as supply chain right now?

**Wolf Richter:** Yeah, like you said, it's, Most of the problems, the large problems, have been addressed. they're sort of back to normal. There are still issues. I mean, the big one was the auto industry with the semiconductor shortages, and then it just kind of shut down the industry. And that's a huge industry in the United States, auto manufacturing, all the major Japanese automakers, everyone who sells in the United States, manufactures in the United States or in Mexico. And, and they all had issues. And Shutdown production, slow production, and that's largely removed. So now we have plenty of production of vehicles in the United States. They're piling up. that's good. Prices are starting to come down a little bit, and that's good. That's what consumers need. So I don't, there may still be some issues on some specific product. But overall, that industry looks like it's getting what it needs. And it's putting our cars and many automakers are producing a lot more cars than they're selling. So they have restocked and now they've overstocked and now they need to cut their big fat profit margins and cut prices.

And that's kind of a painful thing to do. But that's what that's the next step. in the building industry, occasionally you run into problems. I mean, there's occasionally issues. you know, we look at the indices of supply chain issues and they're essentially back to normal it looks like.So we've seen geopolitical issues crop up, and less so here than in Europe, but with the issues in the Middle East, shipments that were routed through the Suez Canal are now being routed around it. So that has delayed by months, all kinds of shipments.

And, you know, Tesla and other companies have complained about that. They've got a bunch of cars made in China, stack on car carriers, and they're going around Africa to, to get where they need to go and, to Europe. And, yeah, so, so that's a new issue. In terms of transpacific trade, that really doesn't impact us, but prices have come up. So shipping prices have come up. And, so we're seeing a little bit of that. but overall, I think we're in pretty decent shape in terms of supply.

**Todd Miller:** What about housing? What are some of the hot markets right now? Or, you know, bubbles, if you will, where supply is short, prices are high. and are there any markets out there maybe where there's a housing glut? I doubt there are. but just kind of curious to reflect on that and how mortgage rates are influencing things.

**Wolf Richter:** In terms of mortgage rates, let's start with that. People who have, 3 percent mortgages They're not particularly incentivized to sell the house and to buy a new house. So that's a the classic thing, you know when you get older, maybe you want a smaller house Or you want to get a different job you sell your house buy a new one in a different city Or you want a bigger house or and that has slowed down a lot. So, People who have these mortgages, these 3 percent mortgages, have essentially, many of them, have stepped away from the housing market. So they're not buying. So that's why demand is down so much. We had a huge plunge in demand, but they're not selling either. So we've had this huge plunge in supply. And, an inventory. And, so this kind of went down together. And my estimate is that about 20 percent of the entire housing market stepped away from the housing market. It's just not there anymore. And they're not there as buyers, and they're not there as sellers. And so now we have the people that have to buy and sell because they did move, they get a different job, and, they have to sell their house, buy a new house, or they start a family to buy a house.

And so there are people that are having to buy. And, you know, they're selling, some of them are selling their existing house. So they're putting one on the market and they're buying one. They're putting one, taking one off the market. So that's in balance. But then we have the younger generations coming in, their first time buyers, and they're, they don't sell anything.

They just buy. And, they're kind of balanced by the older people selling and not buying either because they die or they're moving to a home or because they're moving to an apartment or some other facility. and the generation now that's moving out of the housing market very slowly was the largest generation ever, the boomers. And so now the generation that has moved into the housing market very strongly already are the millennials, and they're now the largest generation. And they're followed by generation C, the big buyers too. So those two combined are the biggest, Homebuyers now, and,they're struggling. They're, they make pretty good money overall, and, but interest rates are high, and, home prices are high, and, they're eager to buy, and so they're the ones that are driving up the prices, because they're the big force, and the, they're the buyers.

They're in there, and they want to start a family, and they're eager, and they're overbidding and they're doing those kinds of things. And they've done that and for a few years. So that's the driving force behind the prices. And, there, there's plenty of inventory. Active listings have risen now that we're in the fourth year in a row.

So we've had a big plunge in active listings during the pandemic and every year now they've been higher. And so now they're the highest since before the pandemic. So there's, enough inventory out there. It's no longer a shortage. The home builders are building at a very strong pace. They have a huge amount of inventory for sale and they're cutting prices and they're buying down mortgage rates and they're doing all the things that they need to do to move the inventory because they have to build homes.

They cannot stop building homes. You know, they're in the business to, to build homes. And so they will do that and then we'll do whatever it takes to move them. And, they're making smaller homes. They're making cheaper homes. They're squeezing the profit margins a little bit. So there's supply on the market.

There are new homes are now in terms of mortgage rates and homebuilders buy down the mortgage rates. You can buy a new house, for a smaller payment than you can buy an existing similar house. The dynamics are there for prices to come down. There's plenty of supply now. And,we have this very strong buying force in the younger generation that's counterbalanced to some extent by the older generation getting out. but yeah, prices are just too high and that's a problem. They're not too high in every market. You go to Tulsa and prices have doubled in Tulsa the last few years. I mean, that's really bad too, but they were really low. So that's doubled from a really low level and compared to San Francisco, they're still very low and Tulsa, you know, I used to live there for a long time, so I follow the market.

I owned a condo that came up for sale and I sold it for 210, 000 back in, when was that, 2001 or something, and it was on the market for 160, 000, sold 160, 000 in, in about 2016 or something like that. So that's the market in Tulsa. It just went downhill and downhill for a long time.

And I bought the condo from a bank that then collapsed. And my neighbor bought his condo from the FDIC, the same bank. After it collapsed, FDIC picked it up. So there's a housing bust going on in Tulsa that lasted 20 years. And, it started in the 1980s and it wasn't, the prices didn't go up until a few years ago. So this happens, it happens in lots of cities. It's just the national average is kind of, pave over that. And people say you can't lose money in real estate or housing will never go down. Well, in the local markets, housing can go down and can stay down for decades.

So we have some markets that are still pretty hot and we have other markets that are not. and, we have a shift towards higher end homes that are now selling. So all the medium prices are shifting up. Because the larger share of homes that sell are higher end homes, because a lot of times they don't need to finance or they have plenty of money to make the higher mortgage payments.

What we're not seeing is the lower end selling. So, we have seen an increase in median prices simply because of the shift. Not that the prices actually changed, but there were more expensive homes in the mix and that pushed up to median price. So that's, it's a really screwed up market right now.

I call it a frozen market because there's demand is down by 20, 25%. Supplies down has been down for a long time, but it's been coming up from the low levels, because not enough demand. And so the inventory sits longer and, sellers don't want to get these aspirational prices.

So that allows to cut the prices. And so you have this dynamic where the houses that do sell at a still fairly high price. And there's some cities like Austin and San Francisco and others have seen significant price declines. And,some of the tech cities and some other parts and in Southern California, you have price increases.

But that's the dynamic we're seeing. We're seeing a plunge in Demand. We're seeing very high prices and high mortgage rates that don't work together. the demand has plunged because you can't make it work. You can't make Those high prices with 7 percent mortgages work. And, and it just will take Years to work out. I don't think there is a solution to that other than, you know, taking your time and, waiting for this to settle down somehow.

**Todd Miller:** Very interesting.I want to talk a little bit about, back during COVID, we heard a lot about people starting businesses and, I think there were record numbers of businesses being started back in 2020, 2021. Any idea how those businesses are doing now, you know, three years into the whole thing?

I'm just kind of curious. Are they making it or,what's going on there?

**Wolf Richter:** You know small businesses and startups, that's a risky thing to do. And among them, the riskiest thing to do is restaurants. And it's like 90 percent of restaurants don't survive the first five years or so. so the mortality rate of small businesses is very high and we don't really track that, uh,, what we do track is businesses that are no longer there. So, when they disappear. But it could be that an owner sold the business or, after making a certain amount of money they decided they're going to retire and they shut it down. So it includes all kinds of things. So We don't really, know how many businesses fail in that sense. And we would call it business failures because they're gone.

but we don't know why they're gone because they sold or because they, the owner retired or, because they went bankrupt and we can

track the bankruptcies and, But a lot of small businesses don't owe a lot of money and they don't file for bankruptcy when it's not worth it anymore.

They don't have to, they just pay off their stuff and move on and get another job. and, Gallup just came out with an interesting survey yesterday. and, I just, I'm just throwing that in there. Americans, love to be their own boss.and so they came up with this percentage and it's the majority of Americans is 60 some percent of Americans want to be their own boss.

They don't want to work for the man anymore and they're tired of it. and they want to strike out on their own and do their own thing. And only 30, only about a third of Americans want to work. For somebody else want to be employed by somebody else and this is a huge mismatch because most americans are actually employed and You know, so that's reality and a lot of gig work your own boss, but he doesn't pay and it's not worth it So people when they say they want to be their own boss they're thinking about a profitable enterprise that they can do and maybe expand maybe have some employees and Or maybe some consulting work that they can do after they leave the company You And, so Gallup found that Americans are just really eager to do that. And, the numbers of business starts, as you mentioned, spike during the pandemic, and it's come down a little bit, but it still has, remain at a very high level, people continue to start new businesses at a much higher than pre COVID level.And I'm my own boss and, you know, I know, and you're your own boss.

and we know that, we're not really our own boss. You know, we have bosses out there. They're our customers, they're our readers. And, you know, we get bossed around all the time. It's not like you can decide whatever you want. And, but there's, there's, there's. sort of romantic view that if you your own boss, you can decide what to do and you can be more creative.

and people are, according to the Gallup poll, people are willing to take substantial financial risks to do this. And, they go out on a limb to do this. and that's of course, the American spirit. You take a huge risk to try to make it big. and if you don't, if you fail, well, you get a job and do something else. This has grown after the pandemic. So this is not something that, that is almost there, but it, this. It's a bigger thing now and there's a more interest in doing that and more people that are actually doing that and that's a quite an interesting creative force in the economy and of course we distinguish between businesses that will never hire anybody and businesses that have a high propensity to hire people.

So the Census Bureau that tracks the stuff that has this category for high propensity businesses, startups, and companies that have funding that have payroll coming. so when they apply for an employer identification number, that's how we track these business starts. yeah, they're the ones that are likely to hire people. And, that number is higher also than before the pandemic. It's it didn't jump as much, but it has also grown. And, some of these companies are the famous startups that we hear about, but you know, many hundreds of thousands of them that you'll never hear about. They're just small little companies employing a few people and they do well and the owners make nice amounts of money and producing quality products and services and everybody's happy. And, yeah, this is, and it's happening across industry. So, it's still there. It's working. The pandemic has changed a lot of things and that's one of them.

**Todd Miller:** Very interesting. you know so much about so many different topics. I'm kind of curious. You know, what are you reading these days? Where do you get your knowledge from? Or any good books you've been reading recently to recommend?

**Wolf Richter:** Well, I'm a huge reader of reports, daily reports,

and, stuff that is written or that's produced, By, various government agencies and private sector, companies, all the data, economic, financial data, et cetera, that I report on. And I'm, I really live in the day now. So, years ago, I mean, we're talking years ago, a decade, over a decade ago, I stopped reading books. I just stopped. And I have, so I have two master's degrees. I have my last one, so that's from 1980s, MBA in finance. But before that I have a master's in English and literature and,a bachelor's in literature and in English. and I have, bookcases up to the ceiling. I've read a gazillion books in my life. And I, I just quit cold stop at some point and I no longer read books. I'm, I live now in the day and I can't recommend any books. I used to love reading books about, novels about businesses that are based on a real life experience and that people fictionalized and like Bombardier by Pope Ronson and some of those, but that came out a long time ago.

and, and that's one of my all time favorite books, Bombardier.it's,about a bond trader when First Boston was still there and they had a trading office in San Francisco. And, so that when that he worked at First Boston and so that book reflects his experience and it's just really fun to read. But I wouldn't, you know, I just don't have the time anymore. You know, I'm, I get up early and go to bed late and I work all the time. And so being my own boss, you know, get you the worst, your own worst boss.

**Todd Miller:** Exactly. And I got to admit, I don't read near like I used to as far as books either. And, we did have someone a few episodes ago who recommended a book called Freedom's Forge, and I bought that and read it. And that was really good. It was about what it took to ramp up for, the production of weaponry and so forth during World War II and how the automotive industry, was a strong supporter of that, which I knew nothing about so that was very interesting. Well, you live in San Francisco. How are things there these days?

**Wolf Richter:** Well, we love it. It's great. It's beautiful place. Right now I'm looking out the window here. We see a little bit of

smoke from the wildfires move in. So that's starting with the time of the year. We've got the first fires in the Bay Area. And I mean, that's a problem. you know, the, The city itself is beautiful and attracts lots of tourists, and so we live in the touristy area, and you have to get used to being surrounded by tourists, and, it's a little different, and a lot of tourists now.

I mean, this place is packed with tourists, But we're close to the waterfront. It's just beautiful. And, I go financial district, that's half an hour and foot from here. And during the pandemic, during the lockdowns, you know, I did a picture series on it and it was just a rush hour in the financial district, eight o'clock in the morning, you know, and it was just, there's nobody on the street. it was beautiful in a way, you know, it was just sunrise in San Francisco and financial district with nobody there. And it changed. Yeah, so now the, there's plenty of people walking around going about the business, but it's not as packed. And we, like I said, you know, a third of the office space is on the market for lease. it's in other cities too. So there's less few people coming in and San Francisco is sort of the epicenter of working from home. you have that going on. The people make lots of money here. The median household income is as close to $130,000 a year. And, they're spending lots of money and young people make lots of money.

And so they're just, we're knee deep in money here, which is bad because the city made too much money. And this is corruption and everything everywhere. we have a, you know, a huge gigantic budget. San Francisco is not a big city. You know, we've got a budget that's bigger than most of the state's budgets and, And it's just way too much money is being thrown around and I think the best thing that can happen to San Francisco would be just a recession that, that turns off the money spigot and, and people, the San Francisco government has to reconsider its priorities. I mean, that's the big issue that I see is just how this money gets thrown around everywhere.

And, you know, that, that's the problem I see. and that's really not changing since the gold rush times. It's been the same thing. That's just what the city lives off and it comes in from the outside it's tourist and it's tech and it's all this other stuff. It's venture capital and it's jobs and, You know, it's just a phenomenon having lived in Tulsa where really there was, after the oil bust, during the oil boom in Tulsa was knee deep in money too, you know. I mean, all the major oil companies were headquartered there. They moved to Houston after the oil bust and so they're gone. But, you know, when the money spigot gets turned off, it's really tough, but it hasn't yet in San Francisco, money's still flowing.

**Todd Miller:** Well it's a beautiful city it's been about last time I was there about six years ago and I've been Kind of thinking I need to figure out a way to get out there again here before too long. Soyou just are watching everything. It seems I'm curious. What keeps you awake at night?

**Wolf Richter:** Well, I'm trying to sleep at night, you know, so, I mean, we have a huge national problem. In that we financialized everything and, and I, and now everything is financialized, everything is leveraged. The economy has become much more fragile because of that. And, you know, Wall Street is out there.

We're also meeting the broader construct, trying to financialize absolutely every little thing. And, and then it's used as collateral and then it's used to bet and take risks. And, You know, 15 years of interest rate repression, you know, have furthered that along and high interest rates are going to help. To calm that down a little bit, but that's not a panacea either, because there's all these other issues that, that we now have to deal with, and so you've raised rates, your leverage is getting in trouble, and so we're going to have banks fail, we're going to have companies fail, we're going to have commercial real estate is already in a depression. A lot of these loans have already failed. So, Yeah, I think the financial and commercial really so let me just talk a little bit about that because that's how that's what financialization means. In the olden days, an investor would fundthe construction or maybe the bank would fund the construction of an office tower and then a company would buy that office tower and either a landlord and lease it out or a company direct and then pay off the loan over time and so we have this office tower on your books and you depreciate the building to zero over 30 years and you leave the land value at cost. And so when the price collapses of that office tower down the road, your loans paid off, the building is depreciated to zero and you're carrying in the land value at cost. So if you have to sell it, you're still going to get more than land value for it, the old land value and, your loans paid off and the buildings depreciated.

So you show a gain. And we've had a case like that here in San Francisco, a bank sold a building it owned for many years. And, it, it sold for, you know, a discount of 65 percent of asking price, but, the bank didn't lose any money. Yeah, that was a not a financialized building and, and nobody got hurt. With that sale, getting the sales price, getting got 65%, you know, it was just an imaginary price cut, but there's no lenders involved that got a haircut.

Now there's no issues in it. and the bank, booked a profit on it. And so now what we have is office towers that were refinanced in 2020 and 2019. and these loans are coming. These are short term loans that are coming due,they're, these are old office towers to refinance with huge amounts, and now there's lenders out there. That put half a billion dollars into this office tower that's worth a half a billion into an office tower that's not worth a hundred million or less. And, and so that's what financialization does. You know, we've taken a real estate product. And turned it into financialized product and the loan was sold to mortgage backed security holders was chopped up in little pieces And sold to retail investors to bond funds to pension funds to all kinds of things And so now the losses are rippling through the financial sector that way when there really shouldn't be any losses if the building original one, had kept it on the books, hadn't refinanced it and could now sell it for land value at a profit. And that's the system that's now everywhere. Everything has been leveraged. Everything has been financialized. And that keeps me up at night because this is risk, you know, this is a high risk situation we're in. And the Fed's trying to. To manage that, you're trying to sort of tamp down on the risk carefully, but not blow up something. And, I don't know that keeps me awake at night. I don't know that we'll manage to, to solve that, problem.

**Todd Miller:** Very interesting. Well, Wolf, thank you very much. This has been a great time together. we're close to the end of things, or at least what we call the business end of things. Is there anything we haven't covered yet today that you wanted to be sure to share with our audience?

**Wolf Richter:** Well, make sure you come to my site, wolfstreet. com. Business, finance, and money. that's all we talk about in our politics. Vibrant, usually well behaved commenting section and Todd has commented a few times himself there very welcome comments And so so join us there.

**Todd Miller:** Very good, and we will put that in the show notes as well. So before we close out i'm going to ask you if you're willing to participate you did this first time you're on the show, in something we call our rapid fire questions. These are seven questions and all you got to do is give an answer that comes to mind I've made sure we have not asked any of the questions we asked last time.

So are you willing to participate in rapid fire?

**Wolf Richter:** Okay. I gotta keep it short then, right?

**Todd Miller:** Yeah As long as you want. Well, let's do it.I'll let Ethan ask the first one. Now you may want to temper this question now that we've talked to him or come up with another one, it's

**Ethan Young:** Yeah. I don't want to upset the equilibrium here, but the first question is not going to work. So I'll pick something maybe more fun, but, okay. I got one. One of our favorites is, so. Who is one person you would take with you in a zombie apocalypse?

**Wolf Richter:** Okay, my wife

**Todd Miller:** There you go, good answer.

Question number two. What is your biggest pet peeve?

**Wolf Richter:** The biggest one

**Todd Miller:** Biggest one, oh, he's debating hard -here.

**Wolf Richter:** I just go through my list right now

Commenters on my website, dragging in BS from the internet that they picked up somewhere

**Todd Miller:** No, gotcha. Yeah, understand that.

**Ethan Young:** Um, what's a cause you're passionate about?

**Wolf Richter:** healthy living.

**Ethan Young:** Nice.

**Todd Miller:** Love it. Next question. If you could time travel to any point in time, what would it be? What time would it be?

**Wolf Richter:** Well, I'd like to figure out how the Neanderthals lived.

**Todd Miller:** There you go. That sounds like a rough time to time travel to, but.

**Wolf Richter:** I've got some of their blood, so,

**Todd Miller:** they might be chasing you around, you might be their next meal.

**Ethan Young:** All right. Next one. if you could instantly become an expert on any topic, what would that topic be?

**Wolf Richter:** Well, it's got to be something good. There's a lot of bad experts out there.

**Ethan Young:** Yeah, true.

**Wolf Richter:** let's see, expert, meaning something, somebody who's really good at something, not just who pretends to be an expert, but who really nails it,

**Todd Miller:** Nails it or knows

**Wolf Richter:** knows

about it. Yeah.

**Todd Miller:** Knowledge.

**Wolf Richter:** yeah, I would love to, to understand, how the technical aspects of my work function. So that's essentially the issues surrounding servers and the internet.

**Ethan Young:** Very cool. Yeah.

**Wolf Richter:** Because I

don't, I get, I have problems on my site and I, don't even know

how to deal with it. So

**Todd Miller:** Yeah, I hear you. A lot of us experience those. Um, What is the most challenging thing you recall ever doing?

**Wolf Richter:** starting the site.

**Todd Miller:** It would be tough. I mean, how do you gain an audience? how do you make that happen? That's gotta be difficult.

**Wolf Richter:** Well, you know, if you know how hard it is, you're probably not going to start. that's the good thing You know, you just walk into it and you say, I'm going to start this. and, you have no idea how hard it actually is but then it's super rewarding when you get there.

**Todd Miller:** How is the, beer mug supply chain recent? is it getting better?

**Wolf Richter:** Well, so I never could get the beer mug that I wanted, the original mug. And,and I needed them. I had a long list of people that were on my mug list. And, and so my mug flow forecast, was completely wrong because I couldn't get anything done. And so I switched, models. So now I have a generation two mug. And, that's a little slender, more slender than the other one and a little more elegant and less, less stocky. And I think, it, it did pretty well. And, I don't sell them, you know, they're, they have artwork on them from a San Francisco artist and, I give them out as gifts for larger donations to my site. And so there, there's really no price. So the last batch, I ordered them by the pallet. So the last batch I got was the one that they had. It's not what I wanted, but it's the one that they had. And so that was a year and a half ago maybe. And back then, you know, you still had to order what they had, not what you wanted. And now I think it's changed. Now probably, if I needed another order, I can probably get what I want instead of what they have.But it, you know, I still have enough. And what I noticed is, my shipping costs have jumped and they have come down a little bit, but they've gone up 40 some percent and over the pandemic.

And so when I ship them out and they've come down a little bit, but they haven't come back down to where they were. So in terms of supply chain, you know, the shipping costs are still there.

**Todd Miller:** Yeah. Shipping costs have been really huge impact on our business. That's for sure. So, I encourage folks, if you go to wolfstreet. com, you can find out what this beer mug talk was all about, but, it's pretty cool. Okay. Last question, Ethan.

**Ethan Young:** this one's a fun one. It's interesting to hear different answers from people, but, is there a product or service that you've recently purchased or found out about that's been kind of a game changer for you?

**Wolf Richter:** My hair clippers.

**Todd Miller:** Really? Okay.

**Wolf Richter:** Started cutting my own hair during the pandemic and

I'm not going back and my old barber died and I, before the pandemic and then, I went to another set and they were pretty good, but, you know, it's just hit and miss. And you know, guys handling power tools, kind of fun to do and,

**Ethan Young:** It's a good way to look at it. Yeah.

**Todd Miller:** So what's the brand? What do you know offhand?

**Wolf Richter:** oyster maybe. It's

not for professional

barbers. It's just for people like me that do it once a month.

**Todd Miller:** Well, my, my barber about 30 years ago, has said, Todd, I can't take your money anymore. So I had to figure out how to do it myself at that point. well, this has been great. Thank you again, Wolf. I've really enjoyed this.

for folks who do want to get in touch with you, follow what you're doing. go ahead and give us that information again.

**Wolf Richter:** Wolfstreet. com. So everything's there. Everything's free. No paywall. Just join.

**Todd Miller:** And I gotta say he loves comments. He does always have some great, comments to what he posts and, he often responds to them too. So it's a great place to hang out and follow what he does. So good stuff. So, I think we were all successful getting our challenge words out and Ethan, I apologize.

I used yours at one point too, without even really thinking about it. Ethan, your word was,

**Ethan Young:** Mine was equilibrium. I kind of shoved it in there, but I had maybe an better opportunity earlier, but yeah, you used it very well, Todd. So give you extra credit.

**Todd Miller:** and the word I had was spatula. Yeah, I worked in there. I said, you might trade your spatula for a different job. And Wolf, your word

**Wolf Richter:** Well, I have to say, Todd, yours was an amazing use of the word spatula.

**Ethan Young:** Yeah.

**Wolf Richter:** That was great. So my word was panacea.

**Todd Miller:** which you worked in extremely well. Thank you. Good stuff. Well, thank you again. And thank you to our audience for tuning into this very special episode of construction disruption. With the inimitable Wolf Richter of wolfstreet. com. please watch for future episodes of our podcast. We always have great guests.

Don't forget to leave a review, please. till the next time we're together, keep on disrupting, keep on challenging, keep on looking for better ways of doing things and don't forget to do kind things for others, simple. Powerful ways you can change the world just by interacting with others. So God bless and take care.

This is Isaiah industry signing off until the next episode of Construction Disruption.