

The Kiplinger Letter

FORECASTS FOR MANAGEMENT DECISIONMAKING

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Dear Client:

Washington, Oct. 9, 2009

Big change is coming to the workplace...

Nine months after President Obama took office, his political appointees are firmly taking the reins of Cabinet departments and regulatory agencies, issuing a slew of new rules affecting businesses. Congress is also getting into the act, albeit slowly.

WORKERS & BOSSES

Most changes will boost labor protections against workplace hazards, discrimination, unfair pay policies and in other personnel disputes.

For employers...more costs and red tape as they're forced to show they're in compliance.

Here's what's in the works:

Safety checks: Much tougher enforcement from OSHA, the Occupational Safety & Health Admin. Tighter rules, too, on exposure to combustible dust and to diacetyl. Plus a big new push on ergonomics. Congress, meanwhile, is mulling a bill to give OSHA beefed-up powers, to increase fines for violations and provide wider protection to whistle-blowers.

Wages: Quicker action on worker complaints.

Labor's Wage and Hour Division has won funding to hire 250 more investigators to probe pay disputes and try to resolve problems. Plus more enforcement of rules against unfair practices.

Discrimination: A broader definition of disability that will expand protection under the Americans with Disabilities Act to more individuals. Business groups say that the Equal Employment Opportunity Comm. move exceeds its statutory authority and puts companies at risk of lawsuits for actions that aren't, in fact, discriminatory. Also, EEOC regs implementing a 2008 law banning the use of genetic info in decisions on employment. Firms fear too-tight rules will make wellness programs less effective.

Union rights: A pro-labor stance by the National Labor Relations Board as soon as Congress confirms Obama's appointees, giving Democrats a majority. Look for reversals of key decisions made by Bush appointees on the use of e-mail for organizing and union representation of nonmembers at disciplinary meetings.

Plus Congress will OK several pro-labor bills next year over the objections of business groups. Their only hope is to coax moderate Democrats to defect.

A bill to ban employer discrimination based on sexual orientation.

Small businesses will be exempt, and it probably won't cover transgender individuals.

Legislation to overturn a Supreme Court ruling on age discrimination.

The Court said age had to be the determining factor in a decision, not one of several.

Not likely to pass, though, are two big labor priorities: A requirement that all employers offer paid sick leave, which many small firms say they can't afford. And no card check rule...at least not in the form that unions would like it to take.

ECONOMIC FORECASTS

↑	GDP A big third quarter spurt, then moderate gains into '10
↑	Interest rates Prime, 3.25%; 10-year T-notes, rising to about 4% at year-end
↔	Inflation Flat now to year-end, up 1.5% Dec. '09 over Dec. '08
↑	Unemployment Peaking above 10% in early '10, few net new jobs till later in '10
↔	Crude oil \$70 to \$80/bbl. through Oct., barring hurricane damage
↔	Holiday retail sales NEW Job woes, low prices mean sales will barely match last year's

Complete economic outlook at kiplingerbiz.com/outlooks

**THE
ECONOMY**

Is recent manufacturing strength starting to fizzle out? Squishy car sales in Sept., following the end of the government's cash for clunkers program, and purchasing managers' tepid expectations are giving rise to such speculation.

We don't think so. Zigzagging performance is normal coming out of recession, but the underlying trend is up. Manufacturing job losses have slowed dramatically... at 51,000 in Sept., compared with an average monthly loss of 171,000, Jan.-June. Profits have climbed back from a bottom...up \$10 billion (on an annualized basis) in the second quarter...and showing every sign of increasing in the quarters ahead.

Still, some industries are very wobbly and likely to lose ground this quarter: Autos, especially, pulling fabricated metals, plastics and electronics down with it. They'll do somewhat better in 2010. The strong horses in the pack, this year and next: High-tech medical equipment, general medical supplies and defense electronics.

A flood of foreclosures early next year will dampen the housing recovery. The tidal wave is still being held back this year, as mortgage companies struggle to figure out which homes qualify for federal programs. But that finger will come out of the dike by year-end. Making matters worse...unemployment above 10% and a new surge of adjustable rate loans due to reset.

Sales of foreclosed homes will hit 1.9 million in 2010, up from 1.7 million this year and a half-million or so a year till 2007 when the housing market collapsed.

Expect more for-sale signs on other homes as well. Convinced that a somewhat improved economy will make sales more likely than over the past year, homeowners who aren't distressed will list their homes.

Nevertheless, housing supplies will creep lower.

Inventory of unsold new homes is down 54%...unsold existing homes...about 20%.

And price declines will flatten out...at least on a national average basis.

Look for the median price on existing homes to drop 4% in the first half of 2010, then level off. The new home median: Down 2%, first half...up 2% in the second. For both new and existing homes, the median price will drop 12% this year.

Meanwhile, more foreclosures spell woe for the Federal Housing Admin.

Despite agency officials' insistence that a taxpayer funded bailout isn't in the cards...

Uncle Sam's housing insurance fund will likely need a \$50-billion infusion next year to cover losses when borrowers it has insured default on their mortgages.

And it'll be forced to tighten loan requirements and charge borrowers more.

**IN
CONGRESS**

The stubborn jobless rate is getting White House attention in a big way.

Nervous Democrats in Congress worry about big election losses if the rate climbs past 10% and stays there for months as members get ready to face voters. Look for a grab bag of legislative moves meant to help the unemployed and add jobs.

One sure step: An extension of jobless benefits for the long-term unemployed.

Plus an extension of the \$8,000 tax credit for first time home buyers.

Maybe a \$3,000 credit for employers that create new jobs. Obama favors it, but many Democrats say it's too easy to cheat...impossible to tell what's a new job.

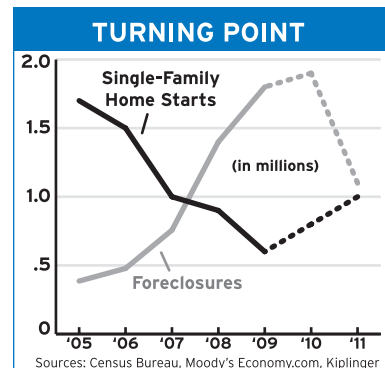
Also an extension of the COBRA health care subsidy for the newly jobless.

Businesses want another idea in the mix: Extended loss carryback rules.

They were included in the first stimulus but only for small firms. Bigs want in.

States are also lobbying for help. Many are struggling with huge deficits.

They particularly want help with Medicaid costs, which could grow substantially if Congress passes a health reform bill that leads to a major increase in eligibility.



TRADE

Even if the World Trade Org. nixes U.S. import curbs on Chinese tires...

It won't prevent a series of tit-for-tat trade squabbles over the next few years.

Although China specifically agreed to the provision that guards against import surges as the price of U.S. support for its WTO membership, Beijing now wants it kicked out. Odds are it'll take three or four years for the WTO to come to a decision. By then, the provision allowing for a safeguard will have likely expired. Meanwhile...

U.S. steel, textile, apparel, furniture and other industries will seek relief

from the pressure of lower cost Chinese imports. And having given the nod once, Obama is likely to agree to similar restraints on imports affecting other industries.

The tough question for U.S. policymakers: Will such curbs be a net plus?

They're sure to provoke retaliation from China, starting with stiff penalties

it will levy on sales of U.S. chicken, worth over \$700 million a year. Fresh restraints on other products will help ailing industries, but only at the expense of others.

Washington is worried about China's grip on some scarce, critical metals:

Terbium, dysprosium, thorium, erbium, yttrium and others. For the past decade, China has been aggressively acquiring rare-earth mines located around the world and now accounts for between 90% and 100% of production of a dozen or so metals. In recent years, China has also cut its rare-earth exports and increased domestic use.

So U.S. policymakers are mulling resurrecting a strategic materials stockpile,

most of which was sold off years ago following the Cold War's end. Only small amounts of rare earths would have to be acquired, but many are costly. For example, terbium... used in avionics and radar systems...sells for about \$150 a pound on the open market.

The Defense Dept. is also likely to push for exploration and mining,

in promising spots in South Africa, Mongolia, Paraguay, Greenland and New Guinea.

The U.S. will try to weaken China's dominance, challenging its export curbs

at the WTO and negotiating new-acquisition limits with Australia, Argentina, etc.

SHIPPING

Coming within two years or so: New smart seals for ocean cargo containers.

The remote monitoring devices will signal security agencies, cargo owners and shippers if tampering is sensed or if radioactive materials or toxic chemicals are detected. Even suspect movements...tipping off authorities to possible stowaways.

Lack of a standard format is all that's holding up sensor implementation...

the technology is already available. Once an international standards setting group adopts communications, software and hardware conventions, shippers will gravitate toward the seals. First uses are likely to be for high value products...auto parts, for example, and exotic fruits and vegetables. Within five years...widespread use.

Look for Uncle Sam to require the technology on international shipments

once the cost comes down. Initially, each seal is likely to cost a few hundred bucks.

Better security isn't the only appeal...logistics will get a boost as well.

The sensors will signal real-time global positioning, letting firms improve planning for offloading truck and rail shipments. Plus similar sensors inside containers can monitor temperature, humidity and other variables that could cause damage.

Lawmakers are determined to make regulators crack down on big railroads,

urging them to keep a sharper eye on rate hikes and outlawing practices that keep shippers captive to one line. Among Congress' targets: Railroad refusals to allow switching at junctions and letting short-haul rail companies use their track. Both practices enable the half dozen or so big U.S. railroads to insist that shippers rely on them and them alone to move freight over broad swaths of the country.

Bet on more manpower and money for the Surface Transportation Board

as Congress pushes the board to aggressively pursue investigations of rate hikes, taking the initiative itself rather than waiting for shippers or rivals to file complaints. Lawmakers will also increase the number of board members from three to five.



POLITICS
&
POLICY

As much as Obama has riding on the health care reform debate...
Senate Leader Harry Reid may have more. And his job may be tougher.

Reid has the exceedingly difficult chore of melding two very different health bills and then getting the entire Democratic caucus to get behind the combined bill. Reid hopes to pick up one or two Republican votes, but he can't count on them, so he has to herd the 58 Democrats and two independents in a single direction.

Reid must find a middle ground between liberals who insist the plan include a public option and conservatives whose constituents can't abide one. He has to appease liberals who want health coverage for more of the uninsured, with plenty of help to make it affordable, while persuading fiscal conservatives that the reform plan won't become another drain on the already sky-high deficit. In fact, he has to keep Obama's promise not to add a dime to the deficit.

We still think that in the end, Congress will enact major health changes...
But if Reid can't pull it off, the repercussions for him will be huge.

It could easily diminish his standing as leader, causing the Obama White House and the Senate Democratic caucus to lose confidence in his legislative skills, thereby reducing his influence on other issues. Party fund-raising could be hurt as liberals close their wallets in anger just as the next election cycle intensifies.

And Reid's own 2010 reelection prospects in Nevada could be damaged.

As majority leader, he has to do the bidding of the president and the caucus, which means frequently pushing bills more liberal than his constituents want. To make up for that, he points to his power and how that helps his home state. Any weakening of that power will undermine that critical argument in 2010.

CLIMATE
CHANGE

The Copenhagen climate summit in Dec. won't make much of a mark.

The U.S. won't agree to any binding commitments until Congress acts on legislation tackling the problem of CO₂ emissions back home. And the chances of that happening this year are now nil. Lawmakers' plates are plenty full already.

That means China and India won't budge, either. They're not about to agree to fixed targets for their greenhouse gas emissions until the U.S. is also on the line for them. Indeed, they'll insist the U.S. commit not only to big emissions cutbacks, but also to subsidies for them and other developing countries that won't get to benefit from decades of unfettered use of fossil fuels. The parties are just too far apart for the meeting to gin up a replacement for the Kyoto Protocol, which ends with 2012.

SIN
TAXES

Is sugar the new sin? Food and beverage industry execs fear it'll become one.

They worry Congress wants to tax soda pop as it does cigarettes and liquor, using the funds raised to help offset the cost of health care reform legislation. They're determined to fight it and have even launched a costly advertising offensive.

There's no such plan afoot, but lobbyists know that such revenue raisers... even unpopular ones... have a way of quietly creeping into legislation down the road. Especially when lawmakers find themselves in need of a few million more bucks.

Yours very truly,

Knight/Kiplinger
THE KIPLINGER WASHINGTON EDITORS

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P.S. In these tough economic times, everyone is struggling to boost sales. For techniques that work, join us for a 90-minute interactive audio conference on Nov. 5. Register by visiting www.krm.com/kiplinger or calling 800-775-7654.