

The Kiplinger Letter

FORECASTS FOR MANAGEMENT DECISIONMAKING

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Dear Client:

Washington, Aug. 14, 2009

Whether you believe it's needed or not...

Climate change legislation is a solid bet.

There's a slim chance it will squeak through this year... a much greater one that, come 2010, legislation to curb emissions of carbon dioxide will become law.

The impact will be wide and deep...in 2030, for example, it would pare about 2.3% from GDP.

CARBON CAPS

The cost of fuel and electricity will soar, despite swift growth in alternative sources of energy, such as solar, geothermal and wind power.

New regs will add 20% or so to electricity rates by 2020...and that's over and above any increases anticipated from changes in supply and demand.

All told, the average cost for residential, commercial and industrial users may be 50% higher than today... more in areas such as the Midwest and Southeast, where coal fired power dominates. There...a 100% hike.

As for gasoline prices: About \$2 a gallon more than they will be if climate legislation is not enacted.

Hardest hit industries, in addition to utilities:

Makers of cement, chemicals, electronics, cardboard and boxes, fertilizer, aluminum, steel, glass and plastics. Ore and petroleum refiners. Printers. Paper and pulp mills. Metal fabricators. Food processors and others.

Many businesses will need to rethink their supply chains...not just firms in the bull's-eye. On the one hand, transportation costs are likely to climb sharply, making near-sourcing more attractive for some. On the other, some local suppliers will have to ratchet up prices to offset their own higher regulatory and energy costs. Some may not survive the blow, sending businesses scurrying for alternative suppliers.

New and significantly renovated buildings will have to meet tough standards for energy efficiency...using 50% less energy than required for new construction today. New rules should kick in by 2014 for residences, by 2015 for other types of buildings.

For older buildings not undergoing major overhauls...a piecemeal approach. Overall building efficiency standards won't apply, but codes for replacement systems or components...boilers, air conditioners, windows, doors, roofing materials, etc...will.

Expect Uncle Sam to offer carrots as well as sticks to cut carbon emissions. Lawmakers are likely to extend today's bevy of tax breaks for energy improvements... weatherizing buildings, replacing equipment with more efficient models and so on... and perhaps add to them. Ditto, incentives for on-site alternative energy production.

But energy cost hikes alone will spur changes. Users will seek savings, installing skylights and windows to cut down on lighting bills, employing sensors to calibrate heating & cooling temperatures, recapturing heat from manufacturing, etc.

And entrepreneurs & innovators will develop new technologies to assist them.

ECONOMIC FORECASTS

↑	GDP	NEW
	Increasing moderately from now into '10	
↔	Interest rates	NEW
	Prime, 3.25%; 10-year T-notes, around 3.75% through the fall	
↔	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	
	Extremely volatile through Aug... \$65 to \$85/bbl. trading range	
↑	Retail sales	
	Second half...up from '08, but sales still down for the year	

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