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## Your Kiplinger Connection

*The economy • Global economy • Disaster planning*

### The economy

The U.S. economy is taking its lumps ... two nasty hurricanes, lofty prices for energy, the Federal Reserve's ongoing rate hikes ...

But it's a strong, resilient fighter able to shake off the kinds of blows that would crumple a less hardy economy. Growth will slow only modestly through 2006.

Look for GDP to gain 3% next year ... far outshining other industrialized nations.

The slowest patch ... now till spring, while consumers and firms absorb the impact of record natural gas and heating oil prices. The average home heating bill for winter 2006 will hit about \$1650, up 50% from this year.

Then, a brisk second-quarter upswing when consumers shake off their winter blahs but don't yet face high summer gasoline prices.


Hurricane rebuilding will add strength by spring. The flow of reconstruction money is starting off slowly as officials make sure that sites are adequately cleaned up, made safe and remain economically viable for redevelopment. The \$100 billion earmarked for stricken areas will contribute 0.8% to GDP growth in 2006.

The hurricanes didn't blow business confidence off course. Firms remain bullish about the economy's underlying vigor. With orders holding steady, investing and hiring will slow only slightly next year.

Business spending ... up 7% after rising 8.5% this year. The upside of high energy prices will be a surge in investment in the energy sector.

Consumer spending will rise 3%, compared with 2005 growth of 3.5%. Wage gains are picking up, and hiring will stay brisk, at about 160,000 a month in 2006, sustaining consumer confidence.

Tempering buying: Rising short-term rates that will boost the cost of home equity loans, credit cards, and other types of financing.

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That'll cut into folks' discretionary income.

A cooler housing market will reduce cash-outs that have pumped up spending in recent years.

Fortunately, energy users are adapting quickly to costly fuel ... driving less and picking cars that get better gas mileage, doing energy audits, and investing in power-saving technologies.

#### **Global economy**

Japan will move quickly on economic reforms. The big election win last month gave Prime Minister Junichiro Koizumi the mandate he needs, while ridding his party of many of those resistant to change.

The first steps: A deal to gradually privatize the postal system. That will open a \$3-trillion financial institution, the world's largest, to U.S. and other foreign bankers and insurers hungry to invest in Japan.

Also ... deeper cuts in government spending on a number of programs as part of an effort to rein in Japan's debt, now nearly 170% of GDP.

And a start on health insurance and pension reform ... higher taxes and trimmed outlays to offset the growing demands of an aging society.

As a result, Japan finally has a chance to shine economically.

Expect a new round of bluster in Congress over China this month, fueled by ongoing concern about the growing bilateral U.S. trade deficit.

The Senate will vote to impose a 27.5% tariff on Chinese imports unless Beijing agrees to let the yuan rise further against the dollar. The yuan is up only 2% since Beijing relaxed exchange controls July 21.

Neither Bush nor the House will go along with new tariffs.

But the Senate vote will send a message. And it'll give Bush a stronger hand when he heads to China in November. He'll push hard for intellectual property protection and wider access to China's markets.

More protection is near for U.S. firms with foreign partners.

A new treaty requires mutual recognition of legal decisions rendered by a court in either firm's home country. Today, even if firms in a contract dispute agree on which court should decide the matter, international enforcement of the ruling is difficult. The new treaty, which is likely to go into effect in 2007, would require the legal system in the home nation of each company to respect and enforce the verdict.

### **Disaster planning**

Avian flu has U.S. government officials scurrying to prepare.

A pandemic is overdue. Pandemics usually occur every 30 years, and the last one was in 1968. And the bird flu moving through Asia is acting in ways that make scientists think this may be it. So far the disease has spread mainly through infected poultry. But ... Many health experts think it's only a matter of time before it mutates to pass from human to human. If that happens soon, it will spread quickly, infecting millions and killing half of them.

The toll would be devastating. In addition to the lives lost, a pandemic would wreak economic havoc ... Katrina on a global scale. For perspective: The 2003 SARS outbreak spread to five countries in 24 hours. About 800 people died, and Asia took an economic hit of about \$40 billion. The avian flu virus is far more virulent.

The sooner a pandemic strikes, the worse it's likely to be because officials will have less time to make necessary preparations. Right now, few nations, including the U.S., are anywhere near ready.

A U.S. game plan due out soon will outline containment steps ... quarantines, travel bans, cancellations of events, building closings.

Bush will want the feds in charge ... a lesson from Katrina. Billions will be spent to make and distribute vaccines and drugs, to raise global surveillance and to beef up hospital preparedness. The Health and Human Services Dept. wants to buy antiviral drugs and an experimental vaccine ... enough of each for 20 million people.

No pandemic for years? There's danger in that, too ... the risk of relaxed vigilance once the flurry of concern dies down.

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