



Kiplinger

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Your Kiplinger Connection

The economy • HR • Katrina

The economy

Many firms are reining in spending plans as they shell out more for natural gas and other energy bills. Spending on equipment and facilities was expected to go up about 9% this year, but energy costs and Katrina-spawned disruptions will shave that growth to about 8.5%.

Next year, growth in business spending will dip to 7% or so. Government spending in the Gulf states will keep growth from going lower.

Spending the most: Oil services and software firms...over 10%. Telecom, railroads, paper, and specialty chemicals, between 3% and 9%.

Spending the least: Makers of beverages and personal care items and providers of wireless services. Look for hikes under 3% in 2006, in part because consumers are also becoming more skittish about spending. Electric utilities, banks and insurers...no increase from this year.

Prices of industrial metals will remain sky-high next year because of strong demand from the U.S., China, India, and Eastern Europe. Copper will average around \$1.65 a pound, 5¢ higher than this year but a whopping 100% higher than it cost two years ago.

Aluminum will average 90¢ a pound, 2¢ more than this year.


Nickel will stay flat at a very pricey \$7 a pound.

With diesel fuel hovering well above \$2 a gallon in 2006...

Truck fuel surcharges of 20¢-30¢ per mile will probably persist through much of next year. Surcharges will be the steepest in the West.

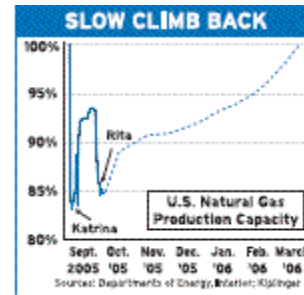
To save money, consider consolidating freight to get bulk rates. Off-the-shelf software from IMI, Manugistics, Savi Technology and others helps firms merge inbound and outbound goods, shaving costs by up to 10%.

Or look to third-party logistics providers to move your goods. ProLogis, Schneider Logistics, and others tap freight carriers

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nationwide to get volume discounts and find routes that can trim surcharge mileage. The catch: Businesses have to cede control of daily shipping operations.

Expect to pay about 50% more for natural gas this winter than last winter. Prices are likely to average \$12-\$14 per million Btu from Dec. through Feb. Several drilling platforms on the Gulf Coast that were damaged by hurricanes won't begin pumping again for several months, stinting supplies as cold weather approaches.



The supply/demand picture is way out of whack. Shuttered platforms off the Louisiana coast... which provide about 6% of U.S. production... won't come back to anywhere near full tilt for about six months. Others will restart sooner, but every day they're closed adds to the problem. At full capacity, the Gulf accounts for one-third of the country's overall natural gas production.

HR

Most employers will hand out bigger merit-based bonuses this year than last. Bonuses will average 3.4% compared with 3% in 2004, nudged up by a tightening labor market and strong 2005 corporate profits.

About a third of companies still give one-size-fits-all cash gifts of \$200 to \$500, a practice mostly confined to small, family-owned firms.

Holiday parties are regaining popularity, though. More employers are deciding that hosting a fete is a fairly cheap way to improve morale.

More jobs, better pay for 2006 college grads. For accounting and business majors, the average starting salary will be \$43,000. Youngsters fresh from engineering schools will get \$45,000-\$55,000.

Katrina

Federal aid for Katrina is sure to be less than first estimated. After Rita, and with the threat of more storms, Congress is leery of setting expectations that it may not be able to match in the future. Lawmakers are also wary of running up federal budget deficits even more.

Spending will be closer to \$100 billion, not the \$200 billion that was talked about in the early days of the Gulf Coast devastation. Moreover, money will trickle out more slowly as safeguards are put in place to keep a lid on fraud and waste in the damaged areas.

Contracts are going to be carefully scrutinized, delaying awards and work on schools and other facilities that aren't top priorities.

The military won't be given civilian law enforcement authority on the home front, a touchy subject that goes to the root of relations between Washington and the states. After the Katrina response debacle, President Bush suggested that Congress revise the Posse Comitatus Act, a Reconstruction-era law that bars troops from enforcing civilian laws.

The Pentagon opposes the move, as do senior Republicans and Democrats on the armed services committees. They're apprehensive about asking an already-stretched-thin Army to assume new duties. Congress will hold hearings, but opponents of change have the upper hand.

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