

The Kiplinger Letter

FORECASTS FOR MANAGEMENT DECISIONMAKING

1100 13th Street NW, Washington, DC 20005 • kiplinger.com • Vol. 90, No. 9

Dear Client:

Washington, March 1, 2013

Prices are up. Inventories are down.
The recovery in housing is firmly under way.

HOUSING

Good news for the economy as a whole, as increased construction and sales put more people to work and feed an upward spiral of income, spending and employment. And not just in the real estate and home building industries... but also for makers and sellers of appliances, furniture and carpets, plus nurseries, landscapers and more.

This year...about a 0.6% boost to GDP from the housing industry. In 2014...almost 1%.

Home sales will rack up solid gains: 36% for new homes and roughly 7% for existing housing.

Nearly a million new homes will be built.

And the average home price will climb by 5% this year, with an additional 7% likely next year.

But all of the country won't benefit equally.

In some areas...robust sales, soaring prices.

Homeowners in N.D., Colo. and Texas, for example, are already seeing average prices that top 2007 levels.

Places where inventories of unsold homes are plunging will fly high.

A dozen Calif. metro areas, from Sacramento to San Diego, saw inventories fall by 30% or more, up to 65%, in 12 months. For the Washington, D.C., and Boston areas, which weren't greatly overbuilt...declines in the 20% to 30% range. Even Phoenix... once buried under an avalanche of foreclosures...is steaming, with inventories down 15% from a year ago. Others likely to fare well: Austin, Texas; Portland, Ore.; Seattle; Salt Lake City; Atlanta; Minneapolis; and Boise, Idaho. In the hottest spots, sellers are getting multiple bids and builders are scrambling to keep up with demand.

Nationwide, inventory has slipped to a mere 4.2 months' worth of homes... the lowest since April 2005, before the overinflated housing market went bust.

In other regions...a different story. Home values will remain depressed

across much of Fla. and in Nev., for example, despite sharp declines in inventories and solid price gains. The supply overhang is just too big, and the plunge prices took, too steep to overcome quickly...particularly in Fla., where foreclosures can take years. Similarly, the New York City-N.J.-Conn. corridor still has a long way to climb back.

Distressed sales will account for about one in five home sales in 2013, down from one in three a year ago but still way above prerecession single-digit rates. With foreclosed properties often selling at a discount of up to 40%, it's no surprise that Nev. home prices, for instance, started 2013 about 45% under Jan. 1, 2008, levels.

Lagging economies and slow job growth are reining in growth for other cities. Among them: New Orleans, Chicago, Philadelphia and a wide swath of cities that cuts from Charleston, W.Va., across Tenn., Ky., Ohio, Ind., Ill. and Mo., into Mich. and Wis.

HOUSING FORECASTS

	2013	2014
Single-family starts	635,000	790,000
Multifamily starts	315,000	350,000
New-home sales	500,000	650,000
Existing-home sales	5 mil.	5.3 mil.
Unsold inventory	2.2 mil.	2.5 mil.
Avg. price change	Up 5%	Up 7%

**LIQUIDITY
BUBBLES?**

There's a growing undercurrent of worry about ultra-easy money... the combined effect of record-low interest rates and quantitative easing by the Federal Reserve. Not to mention the concerted efforts by central banks of the European Union, China and Japan to pump funds into their economies.

The fear: The policy is promoting too much risk-taking in search of returns.

And some policy watchers see bubbles in the making, noting, for example, that corporate bond market yields are at record lows and issuances are prolific. Elevated prices for high-yield and leveraged loans are also becoming worrisome. Ditto, soaring farmland values...in some areas, rising as much as 30% in a year, despite ongoing drought...driven up by speculation as well as robust crop prices.

Expect more calls to scale back or end bond buying by the Federal Reserve.

But don't expect Fed Chairman Ben Bernanke to pay much attention. He and Vice Chairman Janet Yellen remain committed to quantitative easing, and they'll insist on low interest rates until unemployment dips below 6.5%.

The Fed won't budge through 2013, and possibly not until well into 2014, if Yellen replaces Bernanke at the Fed's helm when his term ends early next year.

When the Fed does move, the shift will come in slowly paced stages.

**FINANCIAL
SERVICES**

By early next year...a new, tougher rule for measuring and labeling assets. Though an earlier proposal from the Financial Accounting Standards Board will be dialed back, the new FASB standard will require banks and other companies to reveal the fair market value of assets on their books. Under a rule likely to be OK'd later this year, public firms may still use amortized costs to determine the worth of assets they carry, but they must also disclose a mark-to-market appraisal. Plus, anytime the valuation method is changed, more market info will be required.

Next on the regulators' agenda: Changes in how firms account for losses.

**BUSINESS
COSTS**

The White House push for a higher federal minimum wage is going nowhere. But more states will nudge up wages and make future hikes automatic, hitching them to the inflation rate. Look for a ballot initiative in N.J. this year to make it the 11th state to do so. Voters in about a dozen more states will weigh in on the issue next year. Meanwhile, the Conn., N.Y., Ill. and N.M. legislatures will hike the minimum pay in their states this year. They won't top Wash. state's rate, the highest this year at \$9.19 per hour and expected, with indexing, to reach \$9.39 next year. Mass., Md., Conn. and Ill. are all contenders to top that in 2015.

The slide in precious metal prices isn't over yet. The surging stock market is prompting many commodities investors to cull their holdings of gold, silver, platinum and palladium, shifting more of their resources into equity investments. Gold, already near a seven-month low at \$1,600 an ounce, could drop \$100 more.

But some of the gleam will return, come 2014. South Africa's platinum mines will trim output as production costs continue to rise. And growing global auto sales will help buoy demand for palladium, used in catalytic converters for gasoline engines.

Overseas demand for U.S. propane is on the rise, quietly lifting exports. Long a net importer of the fuel, the U.S. exported more than it imported in 2012 and is likely to sell even more to overseas customers this year. Major energy firms, such as Enterprise Products Partners and Targa Energy Services, are adding capacity to take advantage of the higher prices that propane fetches in Asia and Latin America.

Propane prices are bound to climb, but only gradually. Booming production of natural gas brings with it more propane, and record-high output is headed higher. Look for the current \$1.30-a-gallon gap between gasoline and propane prices to shrink.



Remember, your subscription includes The Kiplinger Letter online

RESEARCH

Researchers and inventors, take note: Big changes loom for U.S. patent law. As of March 16, patents will be awarded based on when the applicant files for patent protection...perhaps forcing inventors to withhold any public disclosures.

Expect a mad dash for patents as applicants scramble to be the first to file. Unlike under the current system...which considers when an invention is developed...inventors will be out of luck if their idea is poached before they've filed for protection. And the rush to file figures to worsen the backlog of applications awaiting review.

Small firms, universities and nonprofits have the most to lose. Larger players have the legal resources to adapt. Many start-ups, schools and nonprofit outfits don't. Plus they'll have trouble winning grants or venture capital without spilling key secrets.

Bad news for medical research: Uncle Sam's budget woes spell cutbacks. The National Institutes of Health faces funding cuts of 8% under sequestration. Even if lawmakers modify the sequester, NIH's funding hasn't kept up with inflation. So research grants to colleges and universities are certain to keep dwindling...just as mapping of the human genome is creating many promising research avenues.

HEALTH CARE

Most states are taking a cautious tack on health insurance exchanges, which open for business on Oct. 1, as required by the Affordable Care Act. Some plans will act as clearinghouses, accepting all insurers that meet basic criteria. Ditto for exchanges that will be operated by Uncle Sam in roughly half of the states.

But some will take on a more active role in coming years: Price regulation. Conn., Wash. and Md., for instance, have all passed laws giving more authority to state government to control premiums once the exchanges are up and running.

Look for nurses to play a greater part in treating patients. At least 11 states are mulling bills to give nurse practitioners (NPs) more authority to diagnose illnesses, prescribe medications, order up tests, etc., with less supervision from physicians. The reason: A shortage of primary care doctors, which will only get worse next year, when 27 million uninsured people gain coverage because of health care reform.

Doctors will balk, arguing that supervision is needed for patient safety.

But odds are good that many states will say OK. Growing health clinic firms...such as MinuteClinic and Take Care Health...will need more NPs to staff offices. And rural states with fewer doctors will lean more on NPs to help shoulder the load.

TECH

New tools and strategies are making social media pay off for businesses.

For starters, consider adding a "buy" button to your Facebook posts to enable shoppers who view your products to purchase them, too...all in a few clicks. Services such as Chirpify and Yapyzal handle the logistics for a fee or a cut of the sale.

Or try combining in-store promotions with online efforts...such as a raffle that customers enter in-store, with winners announced via Twitter...to gain followers.

And take advantage of free tools to analyze traffic on your social media sites. Facebook Insights and Google Analytics yield valuable feedback on your advertising, showing which tweets, posts or e-mails draw the most visits or get customers talking.

A tussle over government-controlled airwaves is coming as the number of tablet and smart phone users surges and networks scramble to handle the data. Mobile data traffic will grow by an average of 66% a year between now and 2017, with particularly torrid increases from new users in the Middle East and Africa.

Telecom firms are eyeing Uncle Sam's restricted Wi-Fi spectrum...the key to routing more mobile wireless traffic onto their cable and fiber-optic networks. Those can handle heavier traffic than already congested cell phone networks.

But the Defense Dept. and other agencies will be slow to give up control. The military and intelligence agencies use that bandwidth for radar surveillance and secure communications. Convincing them to let go will take several years.



BUDGET CUTS

Take the scary budget cut tales you're hearing with a big dose of skepticism. Nothing changed when automatic cuts kicked in. And nothing will for weeks, even though the March 1 deadline passed with no rejiggering of the sequester law. It requires \$1 trillion in cuts over a decade, half of it from Pentagon programs. For now, planes continue to fly. Meat is inspected. It's mostly government as usual. Furloughs of federal workers? Not until April. Cuts? They'll be phased in. Don't be surprised if the toughest trims are avoided by a just-in-time deal, with Congress and President Obama dialing back the size of the cuts. Part of the pact may give Obama and agency heads more flexibility in picking programs to be reduced in return for all of the parties agreeing to soften the blow of cuts in defense spending.

The real deadline is March 27, when money to run the government runs out. Congress has to approve more funds by then or the government shuts down.

Both sides see another short-term funding measure as a vehicle to change the rules for addressing the deficit: Lawmakers would negotiate cuts to specific U.S. programs instead of allowing the robocuts to remove \$85 billion pretty much across the board.

In the end, major damage from the sequester and shutdown will be averted...

Even if tea partyers force a short-term closing, which can't be ruled out.

But for weeks yet, any such deal will sound unlikely. Neither side is ready to blink. And lawmakers won't come together till they have to...when markets start to sour.

LABOR

Republicans will win one fight in the debate over changing immigration laws: Obama will give in to their demand to end the practice of "chain migration."

Since 1965, legal immigrants have been able to bring their relatives into the U.S. Under a new law, a merit system will determine whether would-be immigrants qualify for a guest worker program, even if they already have relatives living in the U.S. The system will weigh education levels, job training and English-language skills.

The guest worker program may be the only reform that Congress OKs.

Obama's push for a path to permanent residency for illegals will be DOA.

Some immigration changes of interest to businesses: Uncle Sam wants to let some H-1B visa holders' spouses...often skilled themselves...hold jobs earlier in the long process of getting a green card to become a permanent resident of the U.S. The idea: Fewer workers with advanced skills will be tempted to leave America because a spouse can't work. (The spouse eventually needs a separate green card.) Also, Immigration and Customs Enforcement is beefing up the I-9 verification form used by firms to determine eligibility to work in the U.S...two pages instead of one.

POLITICS

Most GOP presidential hopefuls will be in Washington later this month.

But N.J. Gov. Chris Christie isn't invited to a big annual bash for the right...

the Conservative Political Action Conference...though he's viewed as a top contender for the 2016 Republican nomination. CPAC did invite a number of other Republicans viewed as more in line with the group's politics. Among them are Ky. Sen. Rand Paul, former Fla. Gov. Jeb Bush, Fla. Sen. Marco Rubio and Rep. Paul Ryan of Wis. Sarah Palin will be there, too. She'll act like a candidate but won't run in the end.

Yours very truly

Knight Kiplinger
THE KIPLINGER WASHINGTON EDITORS

March 1, 2013

P.S. Looking for more information about investing, saving and spending? Consider subscribing to *Kiplinger's Personal Finance* magazine for just \$12 a year. To start your subscription, go to kiplinger.com/go/save or call 800-544-0155.