

# The Kiplinger Letter

**SPECIAL**

**ECONOMIC  
STIMULUS**

FORECASTS FOR MANAGEMENT DECISIONMAKING

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Dear Client:

Washington, Feb. 13, 2009

The stimulus will boost the economy... easing the depth of GDP contraction by a full point in '09, adding at least two points to growth in '10, while keeping the jobless rate below double digits.

We still see GDP falling 2% this year, with growth turning positive in the last quarter. The drop would be much worse with no stimulus.

**THE ECONOMY** And we won't see a strong rebound. That'll take longer and require new efforts to tackle the credit crunch and the housing crisis. A fiscal stimulus is only one piece of the puzzle. That's what makes a recovery such a challenge.

Washington will do whatever it takes, with the Federal Reserve and Treasury leading and Congress reluctantly adding more money.

The Fed will buy mortgage-backed loans for as long as it takes to keep interest rates low. Plus the Fed will shore up a range of financing backed by student loans, credit cards, car loans and, if necessary, corporate bonds and debt that is now backed by commercial mortgages.

Treasury will get its act together soon and start rebuilding confidence. Its first try at a rescue plan was vague and met with widespread disappointment. But it will come back with more details to win over banks, markets and lawmakers. If it doesn't, the boost from the stimulus will fade when it runs out in 2010.

Housing is a top priority for all. Up to \$100 billion will be spent to help. Under Treasury's plan, delinquent homeowners will be able to redo their mortgages to avoid foreclosure. The stimulus tries to spur buying with more tax credits. And the Fed will buy T-bonds as needed to keep fixed rate mortgages around 5%.

For now, lenders remain tightfisted, pushing firms closer to financial ruin. Consumers who want to buy a car or a house continue to face high credit hurdles. Businesses will wait to rehire until they're sure that any pickup in demand will last.

We'll never know if the stimulus really worked. There are no do-overs, so we won't be able to tell what would have happened if a different path were taken.

Because recessions run their course, eventual improvement is inevitable, helped by low interest rates as well as low prices for gasoline and other commodities. But a lack of confidence among consumers and companies and the halt in spending and hiring threaten to keep the economy from recuperating fully for several years.

Throwing billions at the problems means soaring deficits and inflation later. But policymakers see those as the least of the evils they face. And it will help efforts to keep deflation from getting out of control. That would lead to a downward spiral that could get vicious and certainly would result in a much longer, deeper recession.

## ECONOMIC FORECASTS

↓	<b>GDP growth</b>	
		-2% in '09, contraction
↓	<b>Interest rates</b>	
		Prime at 3.25% in '09, 10-year T-notes yielding 3%
↓	<b>Inflation</b>	
		Declining in coming months
↑	<b>Unemployment</b>	
		Rising to 9% in '09
↓	<b>Crude oil</b>	<b>NEW</b>
		Averaging \$57/barrel in '09
↓	<b>Housing sales</b>	<b>NEW</b>
		Declining until second half of '09
↓	<b>Retail sales growth</b>	<b>NEW</b>
		A drop of over 1% in '09
↓	<b>Trade deficit</b>	<b>NEW</b>
		\$450 billion, 3.2% of GDP in '09
Complete economic outlook at <a href="http://kiplingerbiz.com/outlooks">kiplingerbiz.com/outlooks</a>		

**THE FINE PRINT**

The \$789-billion, 1100-page stimulus bill has benefits for almost everyone. It'll take weeks to sort through the fine print and determine who'll win big and who'll get less of a lift, but here's a start.

About 65% of the money will go to spending, including general and specific aid to the states, energy investments, health and infrastructure.

Much of the spending will help businesses.

Energy. A down payment on Obama's push for renewable energy. Grants from the Energy Dept. for firms that develop promising new technologies... part of \$40 billion or so to promote cleaner energy. Power companies do well: Utilities get \$4.5 billion in subsidies for smart-grid technologies and meters.

Health. \$19 billion for IT, including grants for training plus Medicare and Medicaid incentives for providers that go electronic...up to \$11 million for hospitals that switch...thousands for doctors under a complex formula. There will be penalties for providers that don't change over by 2014. Also, more than \$1 billion to compare success rates for different treatments. And temporary subsidies to help the jobless afford insurance under COBRA.

Telecom. Extending broadband access to more rural areas. That will provide a nice boost for Internet shopping, e-learning and telecommuting. The bill has \$7 billion for broadband expansion; the industry wanted \$50 billion.

**STIMULUS BREAKDOWN**

FINAL TAB \$789 billion	
Infrastructure	\$120 billion
Business Tax Cuts	\$142 billion
Individual Tax Cuts	\$140 billion
Medicaid/States	\$87 billion
AMT Patch	\$70 billion
Other Aid to States	\$67 billion
Aid for Jobless	\$60 billion
Energy Efficiency	\$40 billion
Health IT	\$19 billion
Rural Broadband	\$7 billion
Other	\$37 billion

Infrastructure. States will get \$29 billion to divvy up for roads and bridges, \$8.4 billion for mass transit, \$9.3 billion for rail and \$6 billion in clean water projects.

How will states spend their infrastructure funds? Most are still deciding, trying to split up the funds they'll get under a long-standing congressional formula. Each idea needs a federal OK, but here's our call on some that'll likely make the cut. The dollar figures are for the road and bridge portion of the infrastructure money, though states may draw upon other stimulus accounts for some projects listed here.

Upper New England states won't get much to work with...\$130 million to \$138 million each...so they will stick mostly to repairs. In Vt.: Bridges along I-91 plus Richmond's historic truss bridge. In N.H.: I-93 from the Mass. border to Salem, plus a jump start on adding and upgrading the rail line from Lowell, Mass., to Concord via Nashua and Manchester. On Maine's list: Upgrading rail tracks from Portland to Brunswick to add passenger service and rehabilitating stretches of I-295 and I-95.

Not much more for R.I. Likely uses: Repaving parts of I-95, reclaiming all of Providence's old Washington Bridge for a park, rebuilding a bridge on I-295.

Close to \$400 million for Conn.: Sewer and water projects in New Haven, West Haven & Bridgeport. An I-95 bridge near Milford. Upgrades to Groton's sub base. New sewer lines and other water projects in New Haven, West Haven and Bridgeport.

About half a billion for Mass. to renovate Boston's bus and subway stations, resurface parts of the Mass. Turnpike, maintain I-91 and fix Connecticut River rails.

N.Y. will spread its \$1.35 billion around...everything from work on local roads in Suffolk, Nassau and Oneida counties to rehabbing a Grand Central Pkwy. bridge in Queens, repaving parts of I-90 and resurfacing an I-95 bridge in Westchester Co.

\$1.25 billion for Pa. Philadelphia will get hybrid buses and improvements to subway stations. For the rest of the state: Bridge replacements and road repaving.

Del.'s \$121-million portion will be used mostly for repaving and repairs. Three-quarters of a billion for N.J. Priorities include mass transit tunnels to Manhattan, repairs to the Pulaski Skyway, some repaving of I-295 and other roads, work on the Rte. 52 bridge to Ocean City and upgrading N.J. transit platforms and track. Md.'s nearly half a billion...divvied up three ways: 30% each for repairs to roads and bridges. The other 40% will go for intersection and safety improvements. Washington, D.C., has lots of candidates for its roughly \$125-million share including bus, rail & subway improvements and fixes to traffic-snarling intersections. Likely uses for Va.'s \$750 million: Replacing Virginia Beach's Lesner Bridge, repairing Norfolk's Midtown Tunnel and resurfacing roads all over the city of Hampton. W.Va.'s \$240 million will help replace bridges and repair congested highways.

\$800 million means new life for delayed projects in N.C.: An access road to an industrial park in Kinston and a road connecting Fort Bragg to Interstate 295. S.C.'s half billion will help it rehab interstates and put a new Exit 3 on I-95. On the list for Ga.'s \$1 billion: Extending Savannah's Truman Pkwy., improving terminals and runways at Brunswick and Savannah/Hilton Head airports. Likely to come from Fla.'s \$1.5 billion: For St. Petersburg, a new bridge. For Panama Beach, an interchange. Rehabbing plane runways in Sarasota/Bradenton and Jacksonville. In Brevard Co...widening I-95 and renovating a causeway bridge.

Ala. wants part of its \$560 million for I-20 and I-65 near Birmingham. Miss.' priorities for its \$350 million: Repaving state and U.S. highways. In La...\$470 million...to fix broken bridges and roads, many in Baton Rouge. Tenn. will get over \$600 million. It'll use some to alleviate congestion on I-40 near Nashville and S.R. 66 toward Gatlinburg and to widen S.R. 15 in the southwest. About half a billion for Ky. Good bets: Renovating roads in Highland Heights, rebuilding Old Morgantown Rd. in Bowling Green, widening other roads and bridges.

From Ohio's \$1 billion: Rehabbing I-675 bypassing Dayton, I-71 maintenance in Cuyahoga Co., energy efficient buses for Cincinnati, bridge replacements and more. Top priority for Ind.'s \$746 million: Redecking and widening bridges... over I-74 and I-69 as well as structures spanning the state's numerous creeks. Part of Ill.'s \$1-billion pot will likely go to Alton, Cicero and Oak Brook for road rebuilding. Plus a bundle for Arlington Heights to buy buses and vans. Iowa gets about \$350 million. Roads in Des Moines are at the head of the list. Mo...about twice as much. It wants to relocate Rte. 141 outside St. Louis, make Rte. 71 a freeway in McDonald Co. and widen Rte. 55 in Jefferson Co.

On Mich.'s \$875-million list: Fix Detroit's streets and improve water systems, hybrid buses for Lansing, a Grand Rapids amphitheater and a wind farm in Taylor. Out of its half billion, Wis. wants high-speed rail from Milwaukee to Madison, to widen I-94 from the Ill. state line to Milwaukee, plus PCB cleanup in the northeast. For Minn...\$478 million. It wants to extend Hwy. 610 outside Minneapolis, rebuild the I-494 and Hwy. 169 interchange and resurface I-90 near Alden.

About \$200 million each for the Dakotas. Good bets: Repaving part of I-94 in western N.D., regrading Hwy. 83 near Max. In S.D., Sioux Falls projects rank high: The 69th St. extension of the I-29/I-229 project; a new highway between I-29 and I-90. For Neb...a bit more than that. Likely to get funding: Work on I-80 east of Lincoln and reconfiguring the interchange of I-480 and U.S. 75 in Omaha. From Kan.'s \$300-plus-million slice: Resuming work on S.R. 61 in McPherson Co. Rescue, firefighting & snow removal equipment for Wichita's airport. In Okla...bridge & pavement work around Tulsa on the Inter-Dispersal Loop and the rehabbing of I-40 in Beckham Co. will get a chunk of the state's \$464 million.



STATES  
CONT'D

From Ark.'s \$370 million: Interchange work at I-430 and I-630 in Little Rock. A whopping \$2.4 billion for Texas: A big chunk of it for Dallas mass transit, serving downtown and Dallas-Fort Worth airport. Plus widening Houston's Tanner Rd. and roadwork in Missouri City and Allen as well as Harris and Chambers counties.

N.M.'s plans for \$280 million: Widen I-10 and U.S. 64 and upgrade I-40.

A hunk of Ariz.'s \$586-million pot...headed to Maricopa Co. to widen I-10 and work on Loop 303 around Phoenix. Also, a new interchange on I-17 in Prescott.

With \$415 million, Colo.'s priorities include road projects in Rio Blanco Co., Redstone, Springfield and Denver, plus renovating that city's historic rail station.

Utah, Nev., Wyo. and Idaho all get \$200 million or a bit more. Widening roads is a priority for each: U.S. 6, I-15 & I-70 plus Rte. 108 in the Ogden area for Utah; I-15 and U.S. 95 in Las Vegas and U.S. 395 in Reno, Nev.; U.S. Hwy. 93 in Jerome, Idaho; and in Wyo...Hwy. 220 south of Casper plus stretches of Hwy. 116 and U.S. 18/20.

Wyo. also wants to repave I-80 near Elk Mountain. Nev. wants a Reno transit terminal. For Utah...fixing old bridges & roads. And a laundry list of small town roads for Idaho.

Replacing bridges is at the top of Mont.'s to-do list for its \$278 million.

The state also wants to fix traffic problems on the Rockvale-Laurel section of U.S. 212.

Over a half billion for Wash. Its priorities: Rebuilding an I-82 interchange in Yakima, widening I-405 north of Seattle and improving traffic on I-5 in Seattle.

Ore. wants another lane on I-5 south of Portland and on U.S. 97, south of Bend. Also from its \$350 million...improving U.S. 20 from Corvallis to Newport.

Calif., of course, gets the biggest allocation...\$2.8 billion. Top candidates for funding include rehabbing I-710 in L.A. County, repairing the Golden Gate Bridge, L.A. and Santa Ana airport improvements, HOV lanes on U.S. 50 east of Sacramento.

Alaska wants to put much of its \$238 million toward highway repairs.

Bridges on Maui, Oahu and Kauai will claim much of Hawaii's \$130 million.

Plus the state is likely to dedicate funds to repairing and improving Honolulu's streets.

For more details on state plans, go to [www.kiplinger.com/links/stimulus](http://www.kiplinger.com/links/stimulus).

TAXES

Tax cuts in the stimulus will help businesses and individuals get a leg up.

Smaller firms with losses get a big break. They can carry back a 2008 tax loss to offset income in the five prior tax years, instead of two years, for a quick cash infusion. But this relief is limited to firms with average gross receipts of \$15 million a year or less. Earlier versions of the legislation would have allowed larger companies to do the same.

A break, too, on equipment: 50% bonus first-year depreciation on assets purchased this year and the higher \$250,000 limit on expensing assets is extended through this year. And full expensing until \$800,000 of assets are put in service.

A boost for home buyers...and the housing industry: An \$8000 tax credit for first-time home buyers who act by Nov. 30. It's better than last year's credit, which had to be paid back eventually. Also, a tax incentive for new-car purchases.

Workers will see more in their paychecks, thanks to a payroll tax credit for 2009 and 2010: 6.2% of income capped at \$400 for singles and \$800 for couples. It will be phased out, however, starting at incomes of \$75,000 for single people and \$150,000 for married couples. Tax withholding will be adjusted for workers, while self-employed individuals can reduce their estimated tax payments.

Retirees will get a piece of the tax credit, too...a onetime check of \$250.

Yours very truly

  
THE KIPLINGER WASHINGTON EDITORS

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