Dear Client:

A slew of electric cars is hitting the market. Technologically, they’re better than ever. But consumers aren’t buying many yet, despite hefty government incentives and regulations that strongly encourage automakers to build them. Can electric vehicles ever go mainstream?

Widespread adoption of EVs is a decade off, probably. It’ll take that long for the cost of the batteries to fall enough and their driving range to improve enough that the typical buyer will view EVs as viable alternatives to traditional, gas-fueled autos. And while there are now tens of thousands of stations that offer high-voltage charging, the U.S. needs more before most drivers will be able to recharge on the go. Some challenges that must be overcome for sales of EVs to surge, aside from their high cost: How to reduce the time it takes to recharge. What to do with the batteries in old cars.

Still, you’ll be seeing more EVs on the road well before 2030. Consumers are slowly warming to them, especially as their driving range improves...now up to almost 400 miles for pricey models, with 200 or so increasingly common. New models on the way will drive sales. Next up, electric pickup trucks. Several makers have EV trucks in the works, with promises of high towing capability, rugged off-road handling and sports car acceleration. They’ll cost a bundle initially. But given the red-hot truck market, expect plenty of affluent buyers to embrace them, especially folks with outdoorsy lifestyles who are drawn to new technology in general. Both start-up firms and established giants like Ford are eyeing this potential market.

Odds are EVs will colonize the suburbs first, before the cities or rural areas. Many suburban drivers have relatively short commutes, which are well suited for EVs. And more of them have houses with garages...key for installing high-voltage chargers. Charging at home is relatively cheap and generally costs less than fueling a gas car.

Commercial fleet operators may also be EV early adopters. For certain roles, such as package delivery over short routes, electric trucks that recharge at a garage after running predictable routes each day could significantly cut down on energy costs. (Online retail giant Amazon is reportedly investing heavily in a fleet of electric trucks.) Other future roles for commercial EVs: Trash hauling. Mail delivery. (The Postal Service is weighing bids for an overdue new mail truck. EV designs are said to be in the mix.)

Does the trend toward electrification mean the end for gasoline-fueled cars? No, not at all. The internal combustion engine still has plenty of life in it. Gas-powered cars will retain some key advantages over EVs for many years to come. Think of it as coexistence... consumers weighing what works best for them.
2020 is shaping up to be another good year for workers’ pay increases. Expect wages to rise 3.4% for nonsupervisory workers, the same as in 2019. The low unemployment rate and the struggle to find enough labor means employers have no choice but to sweeten pay offers, though they’ll hold the line as best they can. Given the uncertainty about the economy next year, they can’t hikes wages too much.

Expect regional wage trends to continue, with the biggest gains on the coasts and in the Mountain West, averaging 3.5% to 4.5%. In the central part of the U.S...3%. Big rises in home prices in the former regions put pressure on employers to pay more.

Skilled and unskilled workers alike are benefiting from the trend. For both, wages are rising at about the same rate when measured in percentage terms.

The strong U.S. economy is a boon for Amtrak. The federally funded railroad set new records in fiscal year 2019 for ridership, revenue and financial performance. Amtrak logged 32.5 million passenger trips for the year, an increase of 800,000. Operating losses narrowed 83% to only about $30 million. Capital investments rose by almost 10% to reach a hefty $1.6 billion last year, also an all-time record. The better financial picture is prompting Amtrak to invest in more high-speed trains to serve the congested Northeast, plus locomotives and a new type of passenger car.

The current fiscal year could see the railroad actually break even...a switch for an entity that has long been in the red. Credit ratings agencies Standard & Poor’s and Moody’s have even upgraded Amtrak’s ratings to A and A1, respectively.

Expect a global wave of interest rate reductions in 2020 as central banks take more action to combat slowing economies. The U.K., Australia, Canada, Brazil, China, Mexico, South Korea, Switzerland, Denmark, the euro zone and Russia are all likely to cut rates by 2020’s end. A few central banks will stand pat. Only India is likely to raise rates as it seeks to combat inflation caused by rate cuts this year. Some of the coming cuts mark a sharp reversal of interest rate increases, such as in the U.K. and Canada, both of which raised their rates late last year. Other cuts will push benchmark rates further into negative territory. That group includes central banks in Japan, Switzerland, Denmark and the euro zone.

Note that interest rate cuts overseas tend to strengthen the dollar’s value, which makes imported goods cheaper while making American goods costlier abroad.

A financial watchdog could soon lose one of its key enforcement policies: Disgorgement of ill-gotten gains from fraudsters. The Supreme Court is set to rule on a case that will decide whether the Securities and Exchange Comm. has the legal authority to claw back fraudulent gains and disburse them to victims of the fraud. Disgorgement has won $11 billion for the SEC over the past four years. Being able to threaten it also allows the agency to reach settlements with fraudsters.

A court ruling against the SEC wouldn’t completely defang it. The agency can still recover illicit funds through its in-house courts. But that poses more risk, since the Supreme Court has ruled SEC’s method of picking judges unconstitutional. Meanwhile, Congress may give the agency some help. A group of senators is pushing a bill that would give the SEC more than the current five years it has to recover funds from financial crooks. Well-concealed frauds take time to uncover.

Despite the allures of city life for some, home buyers still favor the suburbs for their larger homes, extra bedrooms and yards. About half of all buyers are opting for the 'burbs, according to new data from the National Assn. of Realtors.

One thing that is changing about the market: The age of home buyers. They’re getting older, with a median age of 47. That’s up from 46 last year and just 31 back in 1981. The median age of first-time buyers is now 33, up from 28 a few decades ago. Unmarried couples now make up 9% of buyers, whereas families with kids under the age of 18 have been falling as a percentage since the early 1990s.
The Supreme Court will finally decide the fate of the so-called Dreamers, the hundreds of thousands of folks who were brought to the U.S. illegally as children and are now protected from deportation under an Obama-era program. The Trump administration has tried repeatedly to phase out such protections, but has been stymied by lower court rulings that deemed the action illegal.

Expected in June, the court’s ruling will affect nearly 700,000 immigrants who came to America before the age of 16 and have spent most of their lives here.

It will also figure prominently in the 2020 election, whatever the outcome. Democrats seek to mobilize Latino voters and have made the DACA program… Deferred Action for Childhood Arrivals…a signature issue. For Trump, by contrast, the decision will be an opportunity to tout his tough-on-immigration bona fides.

The Defense Dept. has a looming semiconductor supply chain problem. The military relies on advanced chips to maintain its technical prowess and enable continued upgrades to America’s war machine, from missiles to satellites.

But the most sophisticated chip manufacturing is gradually moving overseas, namely to Taiwan. The programmable semiconductors that power the F-35 fighter jet, for example, are designed in Calif. but manufactured in Taiwan, so U.S. officials fear the possibility of supply disruptions in the event of a U.S.-China conflict.

And much of the private sector finds working with the Pentagon unprofitable. The military imposes strict security requirements and generally orders semiconductors in batches too small for many chipmakers to make money. New chip plants can cost as much as $20 billion to build and require large production runs to turn a profit.

The problem isn’t urgent…yet. But the Pentagon isn’t taking any chances, investing more in chip innovation and rewarding trusted suppliers. Examples include the $1.5 billion Electronics Resurgence Initiative, started in 2017.

The War on Terror could receive a national memorial sooner than usual. Reps. Jason Crow (D-CO) and Mike Gallagher (R-WI), both military veterans, have introduced legislation OKing a memorial to commemorate the longest conflict in U.S. history, triggered by the terrorist attacks of Sept. 11, 2001, and still ongoing.

Generally, such memorials wait until at least a decade after a conflict ends… But with no end in sight for the War on Terror, Congress is bucking tradition. The project would be privately financed and take several years to complete.

The Global War on Terrorism Memorial Fdn. is looking to raise at least $50 million for the project and plans to break ground on one of three National Mall sites in 2022.
Who holds sway with Gen Z...the web-obsessed group age 24 and under? When it comes to shopping, it's increasingly social media personalities whom marketers have dubbed “influencers.” Gen Zers often place more trust in influencers than they do other celebrities, believing that their favorite personalities are more authentic. Influencers are known for posting personal videos and photos. Young shoppers look to social media stars for trustworthy product advice on skin care, clothes, food, gadgets, etc. Popularity is important but it’s not everything. Many social media figures that young people trust have fewer than 50,000 followers.

The trend is shaking up the marketing world. It’s no surprise that older stars who weren’t on certain social media sites are jumping in, because product endorsements require social sway. Some recent examples: Matthew McConaughey, Jennifer Aniston and Will Smith. Brands want to tap spokespeople who post videos with lots of views. The most popular influencer product types are gaming and fitness/sports for Gen Z men, and beauty/skin care and fashion for Gen Z women. Coming in third for both: Food. 25% of Gen Z women say influencers are where they most often learn about new products to buy. For Gen Z men, it’s a smaller but still sizable 16%.

The phenomenon is good news for Google and Facebook, owners of YouTube and Instagram, the top sites for influencers. The tech giants can sell more video ads, since teens are increasingly watching video on social media rather than TV. Gen Zers spend about three hours per day on social media...20% more than the global average. Social media firms are working to root out the rise of influencer fraud...buying followers or using bots to artificially inflate "likes." Marketers are on high alert.

E-commerce sites are finding better ways to mimic the in-store experience. Some noteworthy practices: With Clarity jewelers will 3D-print a cheap ring, using a diamond simulant and a gold- or platinum-mimicking alloy, and then ship it to a prospective buyer to try before they buy. Usehero.com connects online shoppers to in-store sales associates. Seekxr.com turns product images on a retailer’s website into 3D digital models. Bold Metrics analyzes a user's weight, height and body type to highlight areas of tight and loose fit on the garment...potentially reducing returns.

Inventory management and customer service are becoming more high-tech for online sellers, too. Radio frequency identification tags are becoming cheap enough to be commonplace. RFID tags enable automatic inventory tracking, boost security, and speed up order fulfillment. Meanwhile, more online sellers are letting buyers order via text, use a phone's camera to look up product details by snapping photos, or see what a piece of furniture would look like in a room using augmented reality.

Like almost everything else, consignment is going online. Budget-conscious and younger shoppers in particular are avid customers. Ever-changing fashion means that three in five garments will be in a landfill or incinerator within a year, making consignment buys popular with people worried about the environment. The secondhand market is expected to double over the next five years, to hit $51 billion. Among the popular vendors: The RealReal, Poshmark and thredUP.

Yours very truly,

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THE KIPLINGER WASHINGTON EDITORS

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