

# The Kiplinger Letter

FORECASTS FOR MANAGEMENT DECISIONMAKING

1729 H St. NW, Washington, DC 20006-3938 • KiplingerForecasts.com • Vol. 83, No. 21

Dear Client:

Washington, May 26, 2006

American voters are angry and fed up.

A majority believe the government is inept in its handling of Iraq, disaster relief, immigration, spending and energy policy.

They disagree on what's wrong, on whom to blame and certainly on what to do about it.

But on one point, voters are united:

## POLITICS

They want big changes from Washington. Gridlock is no longer seen as benign.

Americans now see problems that need solutions.

Voters will make their voices heard when they cast their ballots this November.

The GOP is sure to lose several seats in the biggest anti-incumbent vote since 1994. Both parties will feel the wrath, but the GOP, as the party in power, will take a harder hit.

Democrats have a lot going for them. The party base is energized and optimistic, making it easier to recruit solid candidates and volunteers and to raise money. Democrats are also managing to put more seats in play by channeling voter anger at the president toward his allies, turning the vote into a referendum on GOP rule.

Though improving, odds remain against Democrats winning control of either chamber. There still won't be many contestable GOP seats, making it hard to net the 15 House seats or six Senate seats they need. Redistricting gives scores of GOP incumbents safe districts to run in.

~~Republicans have five months to fight back. And fight they will.~~ Unlike 1994, when Democrats got caught flat-footed by the GOP juggernaut, Republicans are already going full steam to protect their majorities.

The great unknown is Iraq. It's the president's Achilles' heel, and the public's loss of confidence in Bush's stewardship is rubbing off on other Republicans. Progress there and a partial withdrawal of troops this summer could improve the GOP's fortunes, while more setbacks in Iraq could be disastrous, turning a wave of unrest into an election tsunami.

Whatever happens in Nov., voters are likely to be disappointed.

There's no hope of breaking the gridlock. Small Democratic gains will mean an evenly divided Congress, with neither party able to do much. If Democrats manage to take over, they'll be blocked by Bush's veto power.

That will set the stage for watershed elections in 2008.

By then, the status quo won't be tolerable. If neither political party scores a sweeping victory, the pressure on both to end partisan bickering and work together on the nation's problems may be impossible to ignore.

## ECONOMIC FORECASTS



### GDP NEW FORECAST

Growth slowing to 3.4% this year



### Interest rates NEW FORECAST

Prime rate reaching 8.25%



### Inflation NEW FORECAST

Holding steady at 3.4%



### Employment

2 million more jobs



### Trade deficit

Rising to \$780 billion, 6.1% of GDP



### Crude oil NEW FORECAST

About \$80 a barrel by August



### Housing sales

Easing 6% to 7.85 million



### Retail sales

Growth slipping to 4.5%

Complete economic outlook at  
KiplingerForecasts.com/outlooks

**LANGUAGE LESSONS**

Politicians are eager to have more immigrants speaking English. Any immigration reform bill is likely to include a provision requiring that anyone seeking residency here be proficient in English. The U.S. also needs more Americans to learn other languages, especially those that are fast becoming vital to U.S. economic and national security...Arabic, Chinese, Russian, Farsi, Hindi, etc. It's a paradox of globalization. On the one hand, integration of global economies through travel and commerce can pose a challenge to maintaining a country's dominant tongue. On the other hand, successfully competing in world markets requires linguistic prowess.

Language study in the U.S. is woefully deficient. Only 10% of college students and a third of students in grades 7 through 12 take language courses, well below most other developed nations.

President Bush is taking up the cause, pushing programs aimed at training thousands more speakers of strategic languages.

More companies will step in, funding language instruction for workers to ensure firms don't miss out on global opportunities. Not surprisingly, demand for skilled translators is booming.

**TECH**

Cell-phone-like service for laptops can smooth Web connections for users nearly anywhere in the U.S. where cell phones work. Sprint and Verizon Wireless now offer nationwide Web hookups for laptops and personal digital assistants for \$59.99 a month for phone customers, or \$79.99 for laptops alone. Cingular also plans a national network. Downloads via the services rival speeds of desktops using DSL or cable.

These university research projects will soon go commercial:

Featherweight solar panels, as thin as film, to power laptops and other electronics. The Georgia Institute of Tech. is developing them.

Noise reduction materials made from natural fibers and polymers. They can help quiet home appliances, cars and aircraft. From Iowa State.

Vein finders using a Doppler ultrasound system. They help workers in health care locate hard-to-find veins. From the Univ. of Oklahoma.

A gas that alters chemical solvents to allow a single solvent to be used in many applications. The goal is to reduce the overall use of toxic chemicals. From Queen's University in Ontario, Canada.

New software to calculate body strength needed for manual tasks. It's being developed at the University of Michigan Center for Ergonomics.

**ENERGY**

There's mixed news for the nuclear industry on waste disposal: The opening of the Yucca Mountain depository will be delayed till about 2013 from the original target date of 2010 set by Congress.

But plans are afoot to nearly double the facility's capacity to about 120,000 tons of spent fuel. Environmental objections are waning as more green groups view nuclear power as a solution to global warming.

Congress will beef up incentives for making biofuels.

Coming this year: More tax breaks for installing equipment used for storing and pumping ethanol and other biofuels at gas stations.

In a year or two: A likely energy bill will include a requirement that the nation's fuel supply contain much more ethanol and biodiesel.

But the 54¢-a-gallon duty on imported ethanol is here to stay.