The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

1100 13th Street NW, Washington, DC 20005 • kiplinger.com • **Vol. 98, No. 25**

Dear Client: Washington, June 25, 2021

The housing market has been on fire lately. But the first signs of cooling are appearing. Here's what to expect over the rest of this year.

HOUSING

The market is sure to remain very tight, with prices continuing to rise. Inventories are just too low, and demand figures to stay strong.

However, price gains look to be moderating after their spectacular...and unsustainable...pace earlier this year. Home prices are simply rising beyond the level that many buyers can stomach.

Sales are slowing, with existing homes logging sales declines over the past four months. Pending sales are also down after peaking in May.

Inventories, though slim, aren't falling the way they had been. Listings are trending up.

Competition is slightly less intense now than it was earlier this spring in many markets. Some Realtors are reporting that new listings are no longer getting a flood of bids on the first day that they hit the market, as was common earlier.

Look for home price gains to slow this year... up another 3.5% by year-end, after a sharp 8.2% so far.

Housing Forecasts

	2021	2022
Single-family starts	13.1%	3.0%
Multifamily starts	12.8%	-5.0%
New-home sales	5.3%	3.0%
Existing-home sales	7.2%	5.0%
Year-end 30-year mortgage rate	3.5%	4.0%
Year-end price change	12.0%	2.0%

It'll still be a seller's market. Especially in the most popular metro areas... places that people continue to flock to for jobs, amenities, low taxes or other draws.

The hottest local markets: Bend, Ore., and multiple cities in Idaho. Prices in Bend are up 34% from a year ago. In Idaho cities like Boise, it's 30% or more. More than 40 metros are seeing prices up at least 20%, including Salt Lake City, Phoenix and Austin, Texas. Conn., once a sleepy market, is booming as well.

Builders are trying to take advantage of strong demand for new homes.

But there's only so much they can do, with building materials so expensive and skilled labor so hard to find. Housing starts are above their prepandemic level. And in some markets with fast-growing populations, like Austin and Nashville, starts have exceeded the peaks hit during the housing-bubble era of 15 years ago. Other big markets, such as San Antonio; Dallas; Houston; Jacksonville, Fla; and Raleigh, N.C., could reach or exceed their earlier peaks sometime this year. Still, on a national level, construction isn't going fast enough to really ease the shortage.

Some would-be buyers are holding off as prices get too high for them.

However, note that real estate investors are pouring into the market. In some metro areas, investors account for a larger share of home sales now than they did during the subprime housing-bubble years...for instance, Nashville, Seattle, Houston plus Los Angeles, Riverside-San Bernardino and Orange County, Calif. Buying homes to rent out is an increasingly popular business model on Wall Street.

The Kiplinger Letter (ISSN 1528-7130) is published weekly for $199 per year, including first-class postage, by The Kiplinger Washington Editors, Inc., part of the Dennis Publishing Ltd. Group, London, United Kingdom. POSTMASTER: Send address changes to The Kiplinger Letter, P.O. Box 420308, Palm Coast, FL 32142-0308.

Subscription inquiries and customer service: Call 800-544-0155; e-mail kiplingerletter@emailcustomerservice.com; or visit kiplinger.com/customer-service
Editorial information: Call 202-887-6462; or e-mail letters@kiplinger.com
Mailing address: 1100 13th St. NW, Suite 1000, Washington, DC 20005

THE ECONOMY

GDP is set to increase 7.2% this year and 5.5% in 2022. And after that? Look for growth to come back to earth at roughly 2% in 2023 and beyond. Big levels of savings and wealth are boosting spending, along with stimulus outlays from Uncle Sam. Inflation is soaking up some of the money, but the pile of cash held by consumers and businesses is plenty big enough to keep spending humming when various shortages are resolved and price hikes of some goods and services ease.

Though a possible federal infrastructure splurge won't be felt this year… Such legislation could boost growth rates further next year and beyond.

SHIPPING

Trucking rates will soon level off and stay flat for the rest of the year. Overall, rates will be up 16% year-over-year in 2021…the combined rise of contract and spot rates. Individually, contract rates will be 12% higher this year and spot rates will be up 23%. In 2022, blended rates will trend lower, by roughly 2%.

A similar pattern is in store for 2021-22 intermodal rates. Capacity will be strained, especially shipments from West Coast ports. Also, containers are stacking up at Midwestern terminals because of a lack of truck chassis.

Rate hikes for shipping commodities by rail should ease this year. After a rise of 5% in the first half of 2021, look for an increase of 2% in late 2021 and 2022.

A reason for retailers to fret before the holidays: Shipping delays are on tap. A continuing high level of imports and a likely strong back-to-school retail season will further strain transpacific capacity during the usual peak summer shipping rush that precedes the holidays. A partial shutdown of the key Chinese port of Yantian because of COVID-19 fears is shaping up to be a bigger mess for ocean shipping than the Suez Canal blockage was in March. Fifty ships and 350,000 containers are waiting. This will add to shipping delays and cause some retailers to scramble.

RETAIL

The boom in online shopping is reshaping the Black Friday buying frenzy. Retailers plan to de-emphasize in-store hours even as the pandemic eases. Last year, COVID made offering Black Friday deals online standard. Walmart, Target and a number of other major retailers say they will close on Thanksgiving Day, reversing a longtime tradition of expanding store hours on Black Friday weekend.

E-commerce sales on Thanksgiving are expected to soar 50% this year.

Though the pandemic is ending, many shoppers are still averse to long lines and wait times. The e-commerce shift may also expand the length of time sales go on, especially as shipping problems cause retailers to urge customers to buy earlier.

INVESTING

Don't overlook the enduring strength of tax-exempt bonds, say the editors of *Kiplinger's Personal Finance* magazine. Despite an uptick in interest rates and worries about inflation, municipal bonds still have a positive return this year. The ongoing lure of munis continues to be that many investors just hate paying taxes. And the perception that high-income investors may be hit with tax increases in coming years makes them more frantic for shelters like tax-free bonds.

Municipals' prices are not nearly as sensitive to interest-rate bumps as are Treasuries or corporate bonds. There is less trading, plus more holders of municipal bonds stay the course until maturity, so the prices are stickier.

Tailwinds for the sector include healthy employment and consumer spending, as well as robust business activity and rising real estate sales and property values. The S&P Infrastructure Plus tax-free index is up 2.29% this year as of June 4, four times the gain in the index of general obligations. Almost none of these airport, hospital and toll road bonds saw significant declines in value or missed payments a year ago.

Though few mutual funds are devoted specifically to tax-exempt bonds… Check out these two picks: Nuveen High Yield, which has a heavy share of muni bonds. And BNY Mellon Municipal Bond Infrastructure, a closed-end fund.

OBAMA-CARE

The Republican fight to repeal and replace Obamacare is essentially over. The winner: Obamacare, following the latest Supreme Court decision rebuffing a GOP legal challenge to the Affordable Care Act. The legislation has now survived over a decade of legal and legislative efforts to dismantle it.

Republicans appear to be bowing to reality. Even before the decision by SCOTUS, the GOP had eased up on political attacks against Obamacare, especially after the party came close, but failed to repeal the law in 2017.

Over 30 million Americans are currently enrolled in Obamacare, the most ever, which raises the political cost of trying to do away with it.

RX

Just how expensive is Biogen's new Alzheimer's drug, aducanumab? By the mid-2020s, it could account for 1% of national health spending and 8% of prescription drug spending, thanks to its $56,000 annual price tag.

Note the potentially huge impact on spending by Medicare Part B, the section of the federal health insurance program for senior citizens that covers drugs administered in doctors' offices and hospitals. In a scenario in which 1 million patients annually use aducanumab at the current list price, Medicare Part B spending on prescription drugs could more than double from its current level of $37 billion per year...7% of total U.S. drug spending.

In short, expect aducanumab to fuel even more debates in Washington over prescription drug prices and possible reforms Congress could undertake.

HUMAN RESOURCES

Now that Juneteenth is a federal holiday, what does it mean for employers? Only federal workers are required to get the day off, with pay, per the bill signed by President Biden, commemorating June 19 as the 12th federal holiday.

Private-sector employers can make the call themselves. Many companies, ranging from Apple to Stanley Black and Decker, say they will either allow employees to take June 19 off with pay or allow them to take off another day of their choosing.

Juneteenth commemorates the end of slavery and was already recognized as a holiday or day of observance in every state except South Dakota. In most cases, though, state and local governments have opted to keep their offices open for the day.

ANTITRUST LAW

Want a sense of how much an antitrust crackdown is animating Congress? Look no further than Lina Khan, the new, 32-year-old chair of the FTC... Federal Trade Comm. Khan, a Columbia professor, gained fame in progressive circles for a 2017 essay that argued Amazon uses anticompetitive tactics that are overlooked by the current consumer welfare standard that guides federal antitrust enforcement.

Both parties see Khan as a sword against Big Tech. Her confirmation vote in the Senate of 69 yeas included 28 Republicans, a stark shift from past years, when most GOPers didn't support tougher antitrust policing. The Republican Party still has members that aren't fully on board...expect that intraparty divide to widen.

Big Tech is now on high alert, as are big firms in other industries. But...

The FTC will still have a hard time winning lawsuits under current law and court precedent. One strategy by Khan & Co.: Pursue lawsuits that chip away at legal precedent to shift to a more aggressive antitrust legal regime. Another: Simply deter future mergers with the threat of more aggressive antitrust action, which can be costly and time-consuming for companies even when it fails.

That's why the antitrust bills swirling in Congress are so important. We'll continue to track them closely and let you know which ones we think will pass.

Big Tech still has deep pockets and an army of lobbyists on Capitol Hill.

But note that competitors smell blood in the water and will push hard for Congress to pass laws that they feel will crack down on major tech companies.

TECH A key piece of internet infrastructure is drawing some unwanted scrutiny: Content delivery networks. CDNs are basically the traffic controllers of the World Wide Web, with extensive computer service networks around the world.

While vital, CDNs are also vulnerable to manipulation or malfunction, such as the glitch that temporarily took down websites managed by CDN Fastly, including those of the *New York Times*, Reddit and even the U.K. government.

Experts recommend that companies work with multiple CDNs to avoid what happened with Fastly, especially those that prioritize protection of sensitive info that could be a tempting target for hackers. Note that Amazon was able to get its website back online much faster than other companies that rely on Fastly because the e-commerce giant works with other CDNs, too.

AVIATION As planemaker Boeing grapples with a host of problems in the present, including ongoing issues with both the 737 Max and 787 Dreamliner and a slow recovery for air travel, which has yet to return to prepandemic levels...

The company must also plan for the future. The biggest question at hand: Will Boeing move forward aggressively on a new single-aisle jet to compete with rival Airbus, which has emerged from the pandemic in much better shape? Some say Boeing needs to act quickly to recover its share of the single-aisle market (the industry's most lucrative), which has fallen from 50% to 35% in the past decade.

The problem with such a strategy is that it would be expensive...$15 billion, if not more...at a time when Boeing doesn't have a lot of extra cash lying around. The company burned through $20 billion and amassed a mountain of debt in recent years, dealing with the twin crises of the 737 Max and the pandemic.

Plus, Airbus is prepared to move quickly to defend its market position with fast and relatively inexpensive upgrades to its existing aircraft offerings.

This could tempt Boeing to delay development of a new passenger jet until the early 2030s, when it can benefit from more advanced jet engine technology.

Expect a decision soon. The planemaker has reached out to various suppliers, including Spirit AeroSystems and Rolls-Royce, about a possible future aircraft.

Boeing is both America's largest manufacturer and its largest exporter, meaning whatever decision it makes will likely have major economic implications.

In the shorter term, U.S. airlines must grapple with a pilot shortage. The issue isn't a new one, as pilots have for years been retiring at a faster rate than they can be replaced. But it was exacerbated last year by the pandemic, which caused airlines to furlough many pilots, some of whom will not return. American Airlines, for example, canceled hundreds of domestic flights this month, with more possibly on the horizon, in part because of pilot and crew shortages.

SNAKES Hankering for a bit of snake hunting? Head down to the Sunshine State. Fla.'s annual Python Challenge aims to rid the Everglades of said critters, whose numbers are increasing at an alarming rate. While not poisonous, pythons are an invasive species with no natural predators in the southern part of Fla., where they are a threat to the native wildlife...rabbits, birds, even alligators.

Yours very truly,

Knight Kiplinger

June 25, 2021 THE KIPLINGER WASHINGTON EDITORS

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