



Stuart's 2006 predictions

Posted by [Stuart Staniford](#) on January 2, 2006 - 7:24pm

Topic: [Miscellaneous](#)

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Having been reading around the web what everyone thinks is going to happen this next year, here are my takes, below the fold. My chance to be grossly in error! Overall, I think 2006 is going to be like 2005, but a bit more negative.

Oil Supply

85mbpd +- 1 mbpd. I'm anticipating basically flat production, give-or-take. Efficiency gains in western economies and fuel switching away from oil to coal for power production will compensate for continuing increased driving in the wealthier developing countries. SUV sales will continue to be poor, and sales of smaller vehicles and hybrids will gain momentum.

Oil Price

\$65 +- \$20. I think we'll see high volatility, with the overall average a little higher than in 2005. I expect the average pace of price increase of the last few years to drop off a little as demand-side responses really start to take hold.

Natural Gas

NG will continue to have increasing price and increasing price volatility. US production will continue slight decline despite herculean efforts at drilling. Gas-to-liquids for transport fuel is going to start to look like a bad idea, because we're going to need all the gas we can develop for the current uses of natural gas. I do not anticipate actual delivery interruptions to end-customers in the US (nor even in Europe, though the chances there have to be somewhat higher given the Russia-Ukraine wildcard).

US Housing Market

I think we'll continue to see slowing in the housing market, and more stories [like this one](#):

When she bought her two-bedroom condominium in Mira Mesa in mid-2004, Elizabeth Eure didn't envision herself one day sleeping on an egg-crate mattress in an empty unit. The furniture was gone in December because Eure was preparing to move, awaiting the close of escrow. After living there less than a year and a half, she had sold her home to cut her losses. Her monthly mortgage payment of \$2,500 was too much for her to handle.

"It was a mistake," Eure, 29, said of the purchase. "If I could do it all over again, I would have rented an apartment."

There are \$2.5 trillion in [creative loans](#) that start to increase payments beyond the initial teaser rates by the end of 2007. I expect to see further gradual slowdowns in the housing market in 2006, but real pain only appearing from 2007 onwards. I rent my house currently and I don't anticipate making any effort to buy a house again until the 2009 timeframe at the earliest. I think the US housing crash will occur in slow motion over 5-10 years. Young real estate agents should start working on plan B.

Overall economy

I expect worldwide economic growth to slow in 2006, but probably not to go into outright recession (I think the latter is pretty likely by 2007). Rural economies will hurt earlier and worse than urban economies (something those of you planning on "going local" should bear in mind).

Auto Companies and Airlines

At least one major US automaker will go into Chapter 11. At least one major airline will go into Chapter 7. In general, these and other corporate sectors will continue to shed their pension and health care obligations to employees and retirees.

Stock Market

Dow at 9000 +- 1000 by December 2006.

IT sector

I think the IT (information technology) sector will do better than most sectors other than the energy sector. There will be a gradual shift to using IT to save energy that will start to become more evident in 2006 but will not hit full stride for several more years.

Immigration

Conditions will continue to deteriorate for the poorest of the poor in developing countries. This will lead to further increased attempts to immigrate illegally to wealthy countries, adding to the political tension we saw over this issue in 2005 (eg the riots in Paris, and the Minutemen taking matters into their own hands in the US).

Climate

2005 was either the hottest or 2nd hottest year on record, depending on who does the analysis (check out the [RealClimate](#) coverage). I'm sure 2006 will be hot too. I expect several landfalling hurricanes in the US. I don't anticipate quite the level of hurricane damage of 2005 though - some reversion to the mean is in order. I expect evidence to continue to emerge that the climate situation is a little more urgent and alarming than the 2001 IPCC consensus suggested, particularly with respect to ice-sheet changes and positive feedback loops in the climate system. I don't anticipate much political progress in addressing the issue, however.

Iraq

I think we'll see the US declaring victory and withdrawing some, but not all, troops for political reasons before the US election and we'll see Iraq run by an increasingly barbaric Shiite theocracy with de-facto Kurdish autonomy continuing, and worsening insurrection by the Sunni minority. Oil supply from Iraq will not improve.

Iran

Allah has not chosen to share his mind with me here. Almost anything could happen between the idiot they elected for President, the idiot we elected for President, and trigger-happy Israelis.

US Politics

Lord Acton's law that "Power Corrupts. Absolute power corrupts absolutely" is alive and well in the Republican party. The explosion of scandal will continue and grow. However, Democrats will struggle to take advantage of it as they still lack any coherent political theory of what they should be doing. I do not anticipate true resurgence of the Democratic party until the country is in deep crisis.

Geopolitics

I'm bullish on Russia. Geopolitical power is going to shift away from consuming countries like the US and towards Russia, Venezuela, etc. I don't foresee open warfare between the great powers any time soon - nuclear war looks no more like a useful policy option now than it did fifty years ago.

Civilization Collapse, Rapture, Alien invasion, etc

I estimate the probability of any of these events in 2006 as being negligibly small.

Wild Cards

These are long shot but possible events that could change everything:

- Saudi revolution leading to massive oil shock. Alternatively, Venezuelan civil war.
- Ultra cheap nanotech solar panels
- Cold fusion becomes reliable energy source.
- Coup in China
- Al-Qaeda pulls off another major attack. I think those guys have been slow to recognize the potential for cyber-attacks on western interests, but it's hard to predict when they'll get around to it.
- Bush forced to resign after losing support of Republican senators in worsening scandals.



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