

SPECIAL EDITION

State of the Economy - Forecasting

It is very difficult in the trucking industry to forecast earnings or economic cycles because the target keeps moving:

- Oil spikes up and down.
- Unemployment keeps rising.
- The government keeps creating more and more debt to stimulate the economy.
- The economy jumpstarts and then sputters, jumpstarts and then sputters, and;

We seem to be living in an environment where we work for the moment. If you look at the financial catastrophes that have taken place on Wall Street and in the banking community, investors pay too much attention to quarterly and daily results and not enough to the long term picture.

For most of us, betting the healthy portion of our life's savings in any event that may happen tomorrow isn't investing; it's speculating, at worst it's an act of desperation. Either way the odds are stacked against you.

For the last year, I've been reporting on the State of the Economy, I've received numerous inquiries into why I'm so concerned about the group "eight" countries. So that we all know what I'm describing, the group "eight" countries are the world's wealthiest industrialized nations, all of which are in the Northern hemisphere. They consist of Canada, France, Germany, Italy, Japan, Russia, and the UK and of course the United States.

Ten years ago, the G8 probably represented 60% of the world's economic supply, but today, that portion has shrunk to under 50% - that number depends upon which expert you speak to.

However, what we do know, for certain, is that the G8 nations no longer represent the bulk of the world's economy. Consequently, some analysts believe that new members can be added to the G8 club, known as the "Outreach 5". These include countries such as Brazil, China, India, Mexico and South Africa. Why is this important? It's important because it directly affects trucking.

Today, for instance, people recognize that China's resources and consumption are growing stronger than that of the G8 nations, but no one wants to consider the long term implications of this trend. Sharing in other resource rich, high wealth nations remain off the radar screen. Yet, China has been stock piling commodities, particularly oil and iron ore. Unlike Americans, the Chinese think long term. Rather than worrying about the next quarter, China plans decades in advance and it has over 1 billion people to house, feed and transport to work each day.

Buying resources makes perfect sense if you have a broad idea of the resource crisis that's approaching the world. The problems that we have today may seem big, but at least they can be solved by money. The commodity resource shortage cannot. China's method of utilizing money to accumulate resources is now one of a few possible answers.

MANAGEMENT CONSULTING • OPERATIONAL REVIEWS • DIVESTITURES • ACQUISITIONS • MERGERS

THE AHERN ADVISORY

in this issue

State of the Economy -
Forecasting



Ahern & Associates, Ltd.

Accredited Member
National Bureau of Certified
Consultants Inc.

July 14, 2009

Why does China want so much iron ore? Well there has been a massive spike in demand for iron in China: in other words, China's stimulus campaign seems to be working better than the U.S.

Their infrastructure projects are booming. Auto sales in China surpass those in the U.S., even though the number of Chinese people owning cars is only about 30 per thousand vs. 800 per thousand in the U.S. Car ownership in China has a lot room for growth and those cars must be made of steel.

Meanwhile, China also has a problem needing more energy. There's only so much oil in the world to fuel all those cars and trucks. Recently, T. Boone Pickens, a billionaire stated that the world "peaked" last year on oil production at 85 million barrels per day. Sometime next year, as U.S. oil demand starts rising along with the rest of the world we are going to be in trouble, and that means it directly affects trucking.

You hear Government talk about alternative energy, but the world has "dropped the ball" in reference to "wind" as a new alternative energy. Wind remains the cheapest and easiest alternative energy source, but building windmills to meet our energy needs may take more steel than can be produced, at reasonable cost in the future, and we are barely making an effort now. China may be accumulating iron ore with this problem in mind, but who knows for certain. Nonetheless, China's foresight is our misfortune. As commodity prices rise, which they will despite short terms dips, the world's population may have problems obtaining enough power and food. There's simply no way 5 billion people can enjoy the lifestyle of today's average New Yorker, unless we somehow discover more resources on planets that we can cheaply exploit.

My point, we should be learning a lesson from China's accumulation of resources and building alternative energy, because if we don't we are going to be left out "in the snow" when the global winter hits. Frankly, there is no short term solution to resource shortage, so, if we don't start thinking long term we are going to be in serious trouble.

I've stated on numerous occasions that trucking moves 87% of the products in the United States, and that is assuming that we believe that statistic. Trucking is main street America and consists of average people, working very hard to support their families; the same people that are directly affected by our national financial crisis. If our industry is to survive, then as a Country we need to start thinking "long term".

As China and India continue to grow, they will have an insatiable thirst for more energy; more energy means more consumption, and we all know that the Saudis will sell to the highest bidder. By reducing energy consumption, and placing mandates on automobile manufactures is a start, but it certainly it is not the end to a continuing problem. The higher resource prices, and the increase in tax, we can endure. Income taxes, as bad as they are, can at least be used by the government to pay down debt, build infrastructure, and support other beneficial programs. Higher resource prices only benefit producers, an increasing number, of which are overseas companies in other Nations; not the United States.

QUOTE OF THE WEEK: **"We live in a fantasy world, a world of illusion. The great task in life is to find reality."**