

Special Edition

2010 – A Look to the Future

We all hope that 2010 will be a time of growth, stability, and an end to several years of economic challenges. However, as we all know;

- It's going to take a substantial amount of time before the US economy can recover, and;
- There are signals that we still have a tough transition ahead of us, before the business climate will return to the 2006 levels – if ever.

The Federal Reserve plans to end purchases of \$1.25 trillion of mortgage back securities, and about \$175 billion of Federal agency debt in March;

- This could “spike” an increase in mortgage rates;
- If this happens, it will lead to declines in home sales and prices.
- **The Kiplinger report indicates they expect very slow growth, possibly a 3% gain in GDP for 2010 with possibly 1 million jobs added.**
- That will leave the unemployment rate, at close to 10%.

Consumers will spend about 2% more in 2010, but exports are expected to rise as foreign economies, especially in Asia and Latin America, keep growing. If I had a big ball, I would say that inflation will probably not rear its ugly head this year, assuming that no big oil supply disruption occurs.

However, the biggest story for 2009 and the entire 2000 period, has been the rise of the developing companies over the United States. Today, US oil consumption remains close to what it was 10 years ago. The oil prices are almost 4 times higher. **What's more, despite US unemployment rising to 10%, oil prices are nearly 100% higher** than they were one year ago.

Normally, a 10% year over year rise in oil prices signifies a bad period for the economy and the stock market. However, this year, it's anybody's guess.

There is one thing that is for certain; gasoline prices effectively tax the consumer, decreasing their spending on other products and services. Gasoline keeps increasing; why? The answer, oil prices are not being driven by US consumption, but by growing demand from the rest of the world, particularly in the developing nations.

This signifies that, in some instances, the United States is no longer in control of its economy destiny, which means that as trucking business, we need to align ourselves (strategically) to get through some difficult times Ahern. The problem that many economists are facing is that there are no direct indicators that state what's going to happen to our economy.

We've just gone through the biggest housing slump since the Great Depression. Yet, at \$3.00 a pound, copper prices are not far from an all time high. What's more, they are more than 3 times higher than they were in 2000, when US housing starts were many times greater than today.

This, again, signifies that we are losing control of our economic destiny. In past periods of economic decline, we could count on commodity prices falling, which reduced inflationary pressures and encouraged growth. **When the economy grew too quickly, commodity prices rose and helped put on “the breaks”.**

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Today, we're witnessing the exact opposite taking place. Commodity prices remain strong, despite economic weakness. Meanwhile, the Fed is forced to follow the same old policy, keeping rates low during times of recession. **That means that nothing can keep commodity prices and inflation "in check".**

My point; we're in "unchartered waters" and when you are in a marketplace that nobody can really define, it becomes more important than ever to focus on your business and your expenses. Small businesses are still having trouble obtaining credit, and as a result, very few small companies predict any capital expenditures during the next 6 months.

It's been stated that 60% of trucking companies have 1 – 99 trucks. If this statistic is factual, this means that 60% of the trucking industry does not plan on any capital expenditures during the next 6 months. Analysts are predicting overall investment to be flat for the 2010 year, with the exception of software and equipment, which will rise about 3%.

There is some good news, exports are set to rise as foreign economies, especially in Asia and Latin American countries keep growing;

- This will lead to a restock of inventory, and;
- This should be somewhat of a boost for the trucking industry.

Housing will also boost GDP slightly. Predicted housing starts should be around 750,000 this year, up from 600,000 in 2009, but well below the typical base of 1.5MM annually.

Historically, financial crises are very prolonged. Although the US banking system has appeared to stabilize, it hasn't returned to normal growth cycles. As I stated previously, small businesses are still struggling, and that's not a good thing. The United States does not have a fully healthy functional financial system.

The economy expanded at a 2.2% annual rate in the third quarter, yet the nation's jobless rates started at 10% in November, up from 9.8% in September. The rate was anticipated to rise to 10.1% in December according to Bloomberg News.

I personally believe, for businesses; it's going to be very difficult to plan a growth strategy (this year) because there are so many variables that you can't control. Homeowners with the best credit are the next big dick of the US housing market. An increase in mortgage defaults among prime borrowers in 2009 is anticipated to continue this year, which would slow the real estate recovery, even as American's become more optimistic about the US economy;

- There will be continuing foreclosures.
- There is going to be a large inventory of homes that will be on the market.
- **The number of prime mortgages is over due by at least 60 days or more, and they doubled in the 3rd quarter from a year earlier to 838,000.**
- Employers have cut more than 7.2 million jobs in the last 2 years; the biggest employment loss since the Great Depression.

Assuming that the unemployment rate hovers around 10% - 10.5% in 2010, that will be the highest rate in government records dating back to 1948 after rising to a 26 year high of 9.3% last year. Michigan had the highest US unemployment rate in November at 14.7%, followed by Rhode Island at 12.7%, and California, Nevada and South Carolina were tied for 3rd place with a 12.3% jobless rate.

What does all this mean? It means that you need to;

- Re-evaluate your business plan.
- Tweak your business plan, and;
- Continue to review your cost wherever possible.

Over the next several weeks, I will be discussing developing a business plan, how to implement a business plan, and how to adjust to market conditions. The 2010 year can be a prosperous year for many trucking companies that are willing to make the necessary sacrifices and changes in their operating model to be "ahead of the curve".

Companies that continue to believe that the economy is going to adjust overnight, are going to be challenged and will experience financial difficulty.

QUOTE OF THE WEEK: "When opportunity knocks, open the door; even if you are in your bath robe".