

STATE OF THE ECONOMY

2008 FINANCIAL OUTLOOK

Another week has gone by and the stock market has, again, been fractured;

- The S&P lost 3% while the Dow fell by more than 4% or more.
- Oil hit a new high and gold took a 3% jump.

In fact, gold producers did even better with the Philadelphia gold and silver index rising nearly 9%. As for stocks in general, well, we know what happened, but why are these things important to the trucking industry? It's important to the trucking industry because the price of oil dramatically affects our operating cost.

In fact, today for many carriers, where fuel used to be the second most expensive line item expense, it now exceeds salary and wages.

For many of you that have read about Washington's take on the oil crisis, the House Energy and Commerce Committee staged hearings with the aim of blaming high gasoline prices on speculators and proposing Legislation to end that practice. The key piece of testimony was the claim without speculators; oil would only cost half of today's prices.

On the surface, that sounds like a valid statement, but it's not. It is true that speculators have driven the price of oil up, but it's like saying if oil didn't cost so much, it would be cheaper. I believe sometimes we forget that speculators provide several essential benefits to the capitalistic system. Those benefits include:

- Liquidity;
- Allowing producers to sell production in advance, and;
- It makes the earning stream more stable.

The controversy is that while a certain segment of the market has liquidity and stability, it affects the majority of the market place and therefore the speculators are to blame.

The real problem is that the government completely ignores the underlying supply/demand fundamentals, which are the real reason why commodity prices have climbed, even commodities that do not trade on future markets and cannot be influenced by speculators have experienced huge price increases in recent years;

- Rising demand;
- Stagnant supplies are what's driving commodity prices higher.

Speculation adds to the volatility, but it doesn't cause a long term trend. In the government's infinite wisdom, it's easier for them to blame speculators than to try and develop alternative energy supplies or promote conservation, which is what they should do.

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in this issue

State of the Economy –
Part 1



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To lower oil prices by kicking out the speculators would take away people's main reason for cutting back on consumption. It would also discourage the development of new energy sources. The result would be that when the world's demand for oil surpasses available supplies, energy will be too expensive to allow the development of new sources. There would be no way to avoid a collapse of the world economy.

In essence our real problem lies within the leadership in our country and until Congress and the people that are appointed to run our country recognize this, we are going to continue to have problems.

I stated previously, it's easy to blame the oil speculators for our problems, but the North American Continent is estimated to have between 1 and 2 trillion barrels of recoverable oil, including crude oil, oil shell and oil sands. Much of this oil is within the United States; however, environmental groups have successfully lobbied Congress to pass legislation to keep us from being able to drill for this oil, **even though drilling technology has progressed to the point that all of these oils can be extracted with minimal damage to the environment.**

As far as speculation is concerned, a promise of increased oil supply would cause an almost immediate drop in oil prices, since speculation is based upon future supplies, not present supplies. Another reason for the rising price of fuel is the lack of refining capacity in the US. **The number of refineries in the US has dropped from approximately 300 in 1981 to 149 today, while fuel consumption has risen by 45% over the same period of time.** There has not been a refinery built in the US since 1976, mostly because of environmental laws that make it next to impossible to build refineries.

In 2005 a group tried to build a refinery in southern Arizona; however, they finally gave up due to constant law suites by environmental groups. The logical conclusion is that the high cost of fuel is, in fact, caused by politicians pandering the special interest groups and passing bad legislation. We all know Congress would deny this but many Congressmen and Senators also say that drilling for oil in the US is a bad idea because it will do nothing to ease fuel prices.

Currently, Congress is blocking legislation that would allow drilling in the Gulf of Mexico, off of the California coast and in ANWR, while at the same time they are trying to pass a bill to reduce global warming that will result in fuel prices tripling within 8 years, as well as costing at least 1.5 million US jobs.

Based upon the above, my question is very simple. If you were to ask the average American if they would rather feed, clothe and house their family, or save the spotted owl or the kangaroo rat, I believe that they would chose their families and therein lies the opportunity to change things and take care of the US energy crisis quickly and fairly easy.

In my next newsletter, I will discuss what we can do as citizens and truckers to get Congress' attention.