

## The Recession Is Over!

I, recently, read in the newspaper that the longest recession since the “Great Depression” is officially over! With unemployment at a 20 year high and poverty on the rise, an announcement from Cambridge Massachusetts that the recession officially ended, 15 months ago, was a sigh of relief.

Reading, this amazing fictional novel, I couldn't help but dwell on the economic statistics that I'd been reviewing for a while. My statistics were different than the economists; however, my newsletters are always meant to be informative, and I try to be very careful not to offend any of my readers, because any time politics are discussed, it's a very sensitive issue.

- Everyone is entitled to their opinion, and;
- I try to “lay out” the facts and let people make their own decisions.

### In fact;

- My job is to report facts and statistics, for the trucking industry, and;
- Let my readers come to their own conclusion.

I offer my personal opinion, but I don't force my opinion on my readers.

For any trucking or Logistics Company to properly plan for profits, I believe;

- They need to understand the economic conditions of our economy.
- They need to understand the world economy, and;
- They need to understand the economic impact of imports/exports and how they affect the trucking industry.

Within the article, there was another article titled “Federal Debate-Next Steps Today”, which stated;

- The Federal Reserve policy makers were poised to have a “lively debate” about what steps, if any, are needed to get the economy moving, and;
- Those 115 banks that received TARP money had failed to make their interest payments to the government, which were mostly small banks (so what).
- Small banks received \$3.6 billion in TARP funds, and;
- Only 2% of the total \$205, billion that was given to the banks: (I feel better)

That is not a very positive statistic.

I was very concerned that my reading skills were beginning to fail me, so I decided to review the housing industry statistics, to determine what those analysts were saying. Here is what I discovered;

- “Economic worries affect foreclosure rates and home prices” (did they not know the recession is over?).
- In certain sections of the country experts believe that real estate will drop by an additional 25% in value, and;
- Home builders are concerned about further market deterioration

# THE AHERN ADVISORY

in this issue

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**In fact, the National Association of Home Builders, stated, "Its monthly index of builders sentiments was unchanged".** I don't purport to be the smartest "spark plug" in the engine, but;

- If you have record high unemployment.
- Slow job growth.
- Tight credit;

**If you believe what the experts say, such as the "Kiplinger report" or the "WSJ" have stated, "That up to 60% of the American population may not own their own homes in the next 4 to 5yrs.** (What am I missing?)

**Here is what I know!**

- The economy has struggled over the last several years and is going to continue to struggle.
- The S&P 500 is down 0.5% for the year.
- CD deposits have declined by \$200 billion dollars in the first 6 months of this year.
- Deposits, checking and savings and money markets froze by \$171 billion.
- The national average rates for deposits dropped significantly the first half of 2010.
- The interest rates consumers can earn are at a historic low.
- This is the first time that these economic indicators have fallen below 1% since the 1950s.

**Prior to the recession:**

- Consumer debt was \$2.6 trillion;
- Since the recession, debt has been reduced to \$2.4 trillion.

**The fact that the recession has reduced household wealth by \$10 trillion, and only 25% of Americans expect their income to improve in 2011 does not signal an end to the recession! Let's not also not forget that the cost that of doing business will increase next year.**

- Employers will start seeing the impact of the new health care mandate and could see increases by 20% or more, earlier in the year.
- Most employers are planning to pass on some of the increases to their employees, by raising deductibles, out of pocket expenses and co-payments(less spendable income for many people).
- Additionally, there is a new Ergonomic initiative, which will require employers to proactively look for work place health hazard---If this rule is enacted!
  1. This will increase the cost of doing business, and;
  2. Will open up businesses to more potential litigation.

**According to the Kiplinger report:**

- Base salary increases should be 2% to 2.5% in 2011;
- Oil prices will average around \$80 a barrel, next year, after falling to \$70 or so, at the end of this year.

**Let's not forget, the new initiative for truck drivers.**

- Truck drivers will be limited to 10hrs OTR.
- This is down from 11hrs currently, and;
- There will be a prohibition on "trucker texting"

**This will increase the driver capacity shortage, over the next 12-18 months. My point:**

- The general economy isn't robust and won't be for a long time.
- As Americans, we want to believe that we have turned the corner – but we haven't!

**However, with that stated, the economic indicators are very good for trucking.**

- As the U.S. economy continues to struggle;
- **Truck capacity has become a large issue for shippers.**
- Freight rates are starting to increase, and;

**In the next 12 to 18 months, there will be many opportunities for trucking and logistics companies---**if they plan properly.

**In fact, if you read the “Stephens update report”, it states that:**

- Freight volumes are much improved (approaching previous peaks in many cases).
- **The combination of improved volumes and tight capacity is leading to the most significant pricing power the transport companies have had since at least 1987.**
- Along with pricing power, comes a prospect for significant incremental margins on revenue growth.

**There will always be questions about sustainability, and I am sure that we will continue to have our peaks in volume, (rates were weak in some areas) but;**

- **TL volume accelerated April-May** at a surprisingly high rate, and;
- **Many transportation analysts believe that it's going to be a strong market for trucking over the next year.**

**Although, the economic indicators are good for the trucking industry, do not believe, for a minute, that the improvement is due to the economy. The improvement in rates and volume are directly attributable to capacity issues.** The old scenario “supply equals demand”.

**In reference to freight brokers;**

- Margins continue to get “squeezed”, but;
- **As capacity continues to shrink, and drivers continue to be a hard commodity to locate, freight rates will rise, and;**
- **Our industry will rebound quicker than the rest of the economy.**

**In closing, you have to remember that;**

- **State and local governments have indicated that they are a trillion dollars “short” in their budgets.**
- To replenish funds--- tax increases, budget cuts and retirement benefits are all going to be affected.
- **State workers will start to push for Federal Bail outs;**
- The end result is a long term “drag” on the economy.

**My points, even if trucking and logistics is rebounding, do not go out and create a lot of debt. Don't leverage yourself, because the pendulum will swing. The one thing, truckers have in their favor:**

- 87% of commodities are transported by trucks.
- The railroads are not going to take a significant amount of volume from the trucking industry, as long as the demand is stronger than the supply, our industry will prosper.

**Next year's taxes are going to affect 28 million families and that is definitely going to impact spendable income!**

QUOTE OF THE WEEK: **“Never shirk one simple duty---earn your honors, earn your rep”**  
(Walter H. Brooks)