AHERN ADVISORY
Preparing for 2012

As an analyst, it's always difficult to predict what the future holds, and preparing for 2012 in the trucking industry. **However, at the same time, I'm a firm believer that history does repeat itself** and if you review what's happened to the world economy, over the past 12 months, **you can anticipate what 2012 will hold.**

First of all;

- GDP growth will slip under 2% for the end of the year, and will be about the same for the 2012 year.
- 10 year Treasuries will stay near 2% interest rates through the mid-portion of 2012.
- Inflation will slip back to 2% in 2012 after hitting 3.3% in 2011.

However, there is a possibility of a "double dip recession" if the economy doesn't start showing signs of improvement; not next year but probably by the year 2013

- Unemployment will be stuck at 9% through most of 2012, and believe me 9% is not the true number.
- **From a trucking perspective, most analysts predict that crude oil will trade in the vicinity of $85 - $90 a barrel through January of 2012.**
- Depending who you ask, it's anybody's guess what will happen to crude after that.
- **Retailers believe that retail sales will be up 12% in 2012.**

What does that mean for trucking? Opportunity! First of all;

- There are not enough trucks or drivers, which mean freight rates should continue to increase for trucking companies that are still in business.
- Banks are still very reluctant to loan small trucking companies money, so;
- **There will be a substantial consolidation (in 2012) of trucking and logistics companies.**

Cargo to the U.S. dropped for the first time since the end of 2009. U.S. imports on the world's biggest trading route have dropped for the first time in almost 2 years, as consumer confidence weakens to the lowest level since the recession ended in 2009.

Container volumes on the Asia to US routes fell 3.8% in the 3rd quarter; this is the first decline since the last 3 months of 2009. Rates for 40 foot containers to the West Coast tumbled 24% this year, according to information received from Clarks & PLC, which is the world's biggest ship broker.

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The slumping rates for container lines from AP Moeller – Maersk, which is the largest to Neptune Orient Lines, Ltd are as much about capacity as trade. Although the fleets have increased over the last 2 years, **Cargo's to the US West Coast from Asia are shrinking and volumes will probably expand no more than 1.5% from 2010,** which signals no return from the last recession. **This means container lines will be unprofitable the end of this year and next year, which will unfortunately be 2 consecutive years of losses.**

In reference to the American economy, under the current policy, the national debt will grow to $21.5 trillion from $10.3 trillion in the next 3 years; or, $72,000 per US resident. In order for this crisis to be averted, there's going to have to be a combination of;

1. Increased taxes.

2. Reduced spending on Health Care and Social Security, and;

3. **Numerous spending cuts – not to mention that Congress will close some tax loop holes in attempts to balance the budget.**

Wall Street will participate in the revisions as it's anticipated that the special tax treatment that fund managers get on carried interest is going to change, which would raise approximately $18 billion of additional income to Congress over the next 10 years. This would generally affect General Partners and Private Equity hedge funds who may or may not contribute capital to their firms.

In reference to capital gains, expect that to expire in 2013. That means, if you're going to sell your business, you better do it at the end of this year or next year. The scheduled expiration of the Bush era tax cuts in 2013 means that the tax rate on capital gains will revert to 20% from 15%;

- **Dividends will be taxed as ordinary income**, with a top rate of 39.6%, and;

- That's in lieu of the current 15%.

In reference to per diems, the IRS is "flip flopping" on per diem rates for lodging, meals and incidentals. The move is in response to employers suggesting the agency's decision to scrap the high/low method for substantiating travel cost in which one rate is used for high cost areas, and a lower rate everywhere else. **Therefore, the high/low method remains and some rates have risen;**

- **Firms may provide employees $245 a day for meals, lodging, and incidentals in 43 high cost regions.**

- In other locations, companies can pay a daily stipend of $163.

- **For meals and incidentals, however, the rates stay unchanged at $65 a day in high cost areas**, and **$52** elsewhere.

Firms can opt instead to use per diems calculated separately for hundreds of cities. **The good news, for trucking, in 2012, should be an excellent year for profits.**

- Freight rates will continue to rise.

- **Capacity will continue to be a problem for shippers, and;**

- Certain trucking companies are already experiencing record profits.

If I had a crystal ball for the 2012 trucking year, I would state that;

- Trucking companies and logistics companies that prepare properly;

- Analyze their cost, and;

- **Compensate their employees, based upon results rather than tenure, will do very well, financially.**

If you're a trucking company;

- Treat each truck as a profit center.
- Analyze your daily utilization on each truck and each driver.
- Work with your dispatch and operations department to set target goals and objectives to achieve each week.
- Continue to monitor lanes, routes and customers.
- **Make sure that any lanes you're delivering freight to, in which you're operating at a loss, you either increase the rate or you shift your equipment to customers that are willing to pay for service.**

2012 will be an economic challenge, but an excellent opportunity for transportation

QUOTE OF THE WEEK: "Change is inevitable. Change for the better is a full time job" (Adlai Stevenson)