

Market Comments



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The Rising Price of Crude

Oil prices continue to make headlines and recent chatter about the price jumping to \$200/barrel is making everyone nervous. There is even a story in the Wall Street Journal titled, "Oil Prices Prompt Four-Day Week." If prices continue to escalate from here, there could be some major changes in our working lives. Some employers may actually begin to move toward a 40-hour four-day workweek. This may be too radical to catch on in a big way, but allowing employees to work from home one or more days per week could get a boost if gasoline prices head toward \$5.00/gallon. Teleconferencing is likely to get increased attention as companies scramble to cut travel costs. We have read where one of the leading technology companies in the U.S. is quadrupling its own videoconferencing capacity by 2009, aiming to eliminate around 20,000 employee plane trips per year.

Already we are seeing people responding to higher gasoline prices by driving about 4.4% fewer miles in the last twelve months. No one needs to tell General Motors that its customers are buying fewer trucks and high-margin SUVs. GM recently announced the closure of four more truck/SUV plants by the 2009 or 2010 model year, including the local plant in Moraine that produces the GMC Envoy and Chevy Trailblazer. Other auto makers are sure to follow.

So where does the price of oil go from here? Politicians point the finger at speculation driving prices higher, but the price increases are really a function of basic supply and demand. The world oil market has the capacity to produce about 84-85 million barrels of oil per day. If world-wide demand exceeds that level, as it has recently, then prices will continue to rise. If not, they will fall. With the lack of major new discoveries recently, it is unlikely that production capacity will jump anytime soon, so it remains doubtful that oil prices will decrease in a meaningful way. Meanwhile, emerging market economies will likely continue to subsidize the price of gasoline, albeit at a slower pace, for their evolving middle class society.

The U.S. and global economies remain susceptible to a spike in the price of oil that could cause a recession if there is a large disruption in supply caused by geopolitical tensions. In addition, the U.S. economy remains vulnerable to supply disruptions from a heightened hurricane season in the Gulf of Mexico, given that we lack the political will to expand our domestic oil supplies and refining capacity away from the Gulf region. However, economies around the world have been able to adapt well to the rising price of crude by using existing oil supplies more efficiently and continuing to embrace emerging alternative energy technologies. As long as we can avoid a spike in prices from here, more efficient use of oil and alternative energy will continue. This will help stock prices continue to recover from the early 2008 sell off.

	5/31/2008	4/30/2008	12/31/2007	MTD Change	YTD Change
Dow Jones Industrials	12638.32	12820.13	13264.82	-1.42%	-4.72%
S&P 500	1400.38	1385.59	1468.36	1.07%	-4.63%
Nasdaq Composite	2522.66	2412.80	2652.28	4.55%	-4.89%
Russell 3000	1500.50	1473.35	1560.05	1.84%	-3.82%
2-Year Treasury Yield	2.64%	2.27%	3.05%	0.37	-0.41
10-Year Treasury Yield	4.05%	3.76%	4.03%	0.29	0.01