



AKROS CAPITAL, LLC

Highways and Driveways Reflect Changing Attitudes

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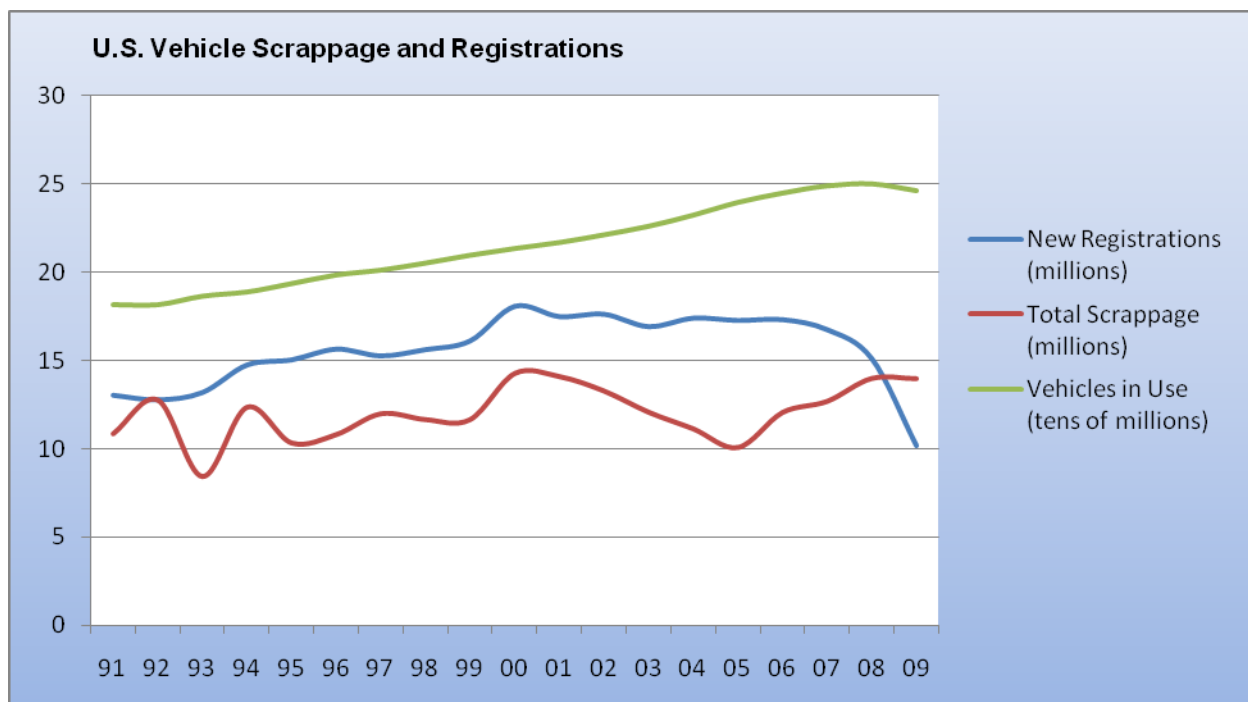
Ridin' along in my automobile
My baby beside me at the wheel
I stole a kiss at the turn of a mile
My curiosity runnin' wild

Cruisin' and playin' the radio
With no particular place to go

– Chuck Berry, *No Particular Place to Go*, 1964

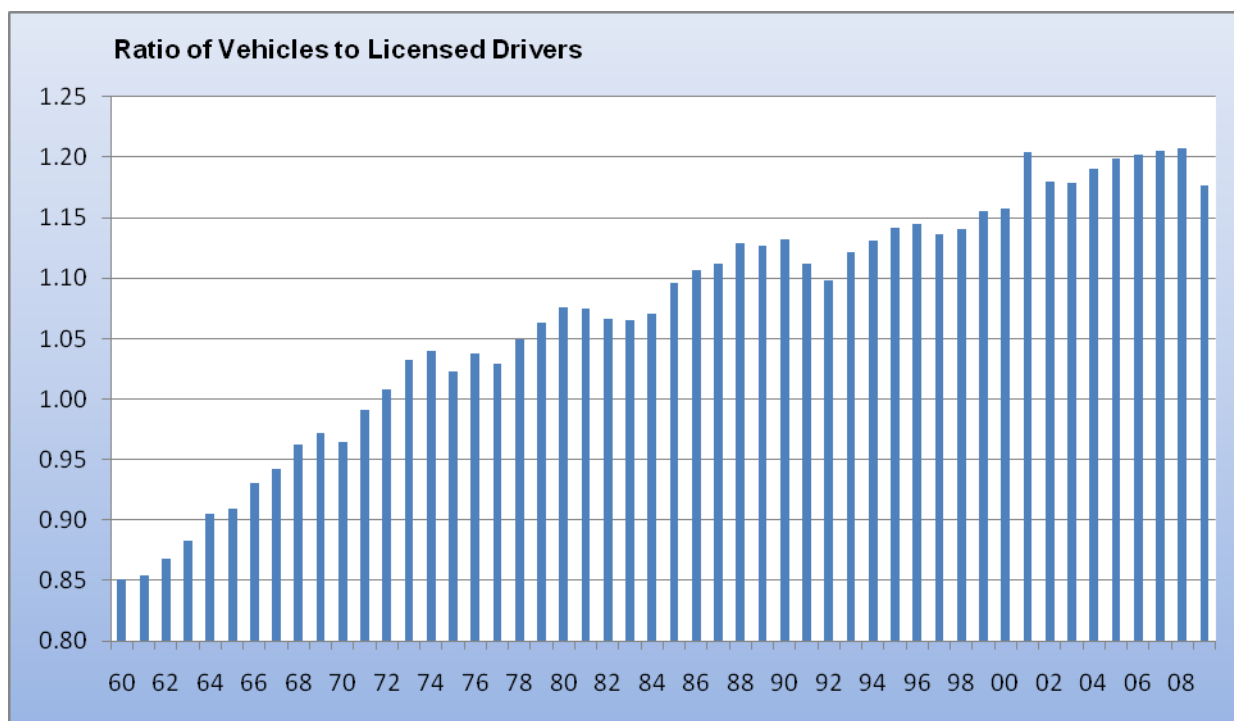
Perhaps no other machine has had a more profound impact upon American life than the automobile. While passenger cars will remain an essential part of the transportation mix for the foreseeable future, subtle shifts are underway that suggest a diminished role. When viewed against a backdrop of changing consumer attitudes toward spending and saving, the waning influence of the automobile presents a grim picture for the motor-vehicle industry.

For the first time since World War II, the number of cars scrapped exceeded new car registrations in 2009 as shown in the chart below.



Accordingly, the number of vehicles on American highways and driveways declined last year to 246 million from the all-time high of 250 million reached in 2008. This trend may continue for years to come as aging cars sold during the auto industry's boom years from 1994 through 2007 gradually are taken out of service. Before falling off a cliff in 2008 auto sales had hovered above 17 million for eight consecutive years, but that elevated level is unlikely again to be reached for a long time, if ever.

Simple arithmetic reveals there already are too many cars on the streets. During the credit bubble, Americans piled up debt to buy everything from soup to lug nuts. Though the number of vehicles has exceeded the number of licensed drivers since 1972, the next chart suggests recent ratios of roughly six cars for every five drivers may represent a saturation point.

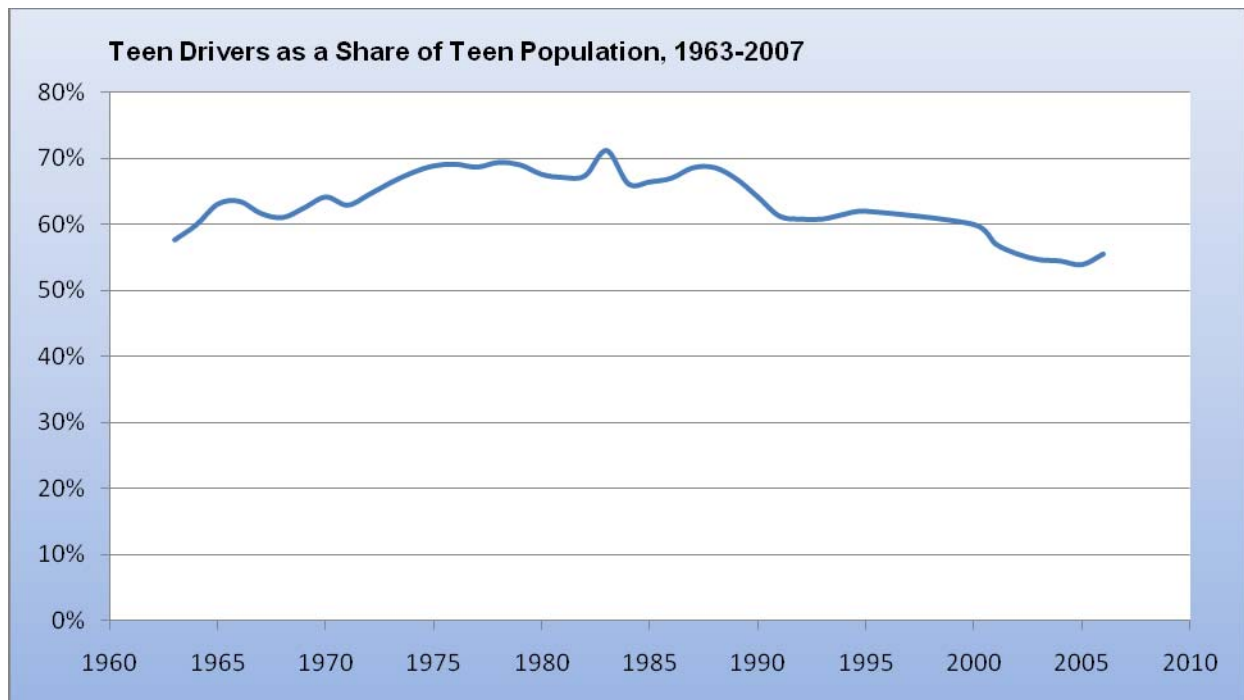


Attrition will keep the U.S. auto fleet in check as retired vehicles are not replaced as rapidly as before. Families that previously owned three cars are getting by with two. Two-car families are making do with one. Some have decided they do not need a car at all. The recent economic downturn has accelerated these trends. Faced with potential job loss and an uncertain future, people are not as eager to take on the extra debt associated with purchasing a car.

The World Has Changed

Things are much different now than they were when Chuck Berry penned his humorous tune in 1964. Americans are working longer hours, driving longer distances to get there and paying higher gasoline prices for the privilege. Consequently, the notion of driving purely as a recreational activity with no particular place to go is not as appealing as it once was. Meanwhile, in urban areas the need for autos has been eased by improved public transportation just as congestion and parking problems have reduced the benefits of owning a car.

The decrease in recreational driving has contributed to a steadily declining interest in cars among teenagers. As illustrated in the graph below, the share of teens with driver's licenses fell from over 71% of the 16-to-19-year-old population in 1983 to just 56% by 2007.



High unemployment has made it difficult for teenagers to afford cars, as they now are forced to compete with adults for jobs traditionally held by young people. At the same time, new economic realities have caused parents to reconsider the wisdom of buying cars for their teenage children. Many would rather put the money aside for their retirements or for their kids' educations. Others need the money for their own auto expenses, mortgage payments or simply to make ends meet.

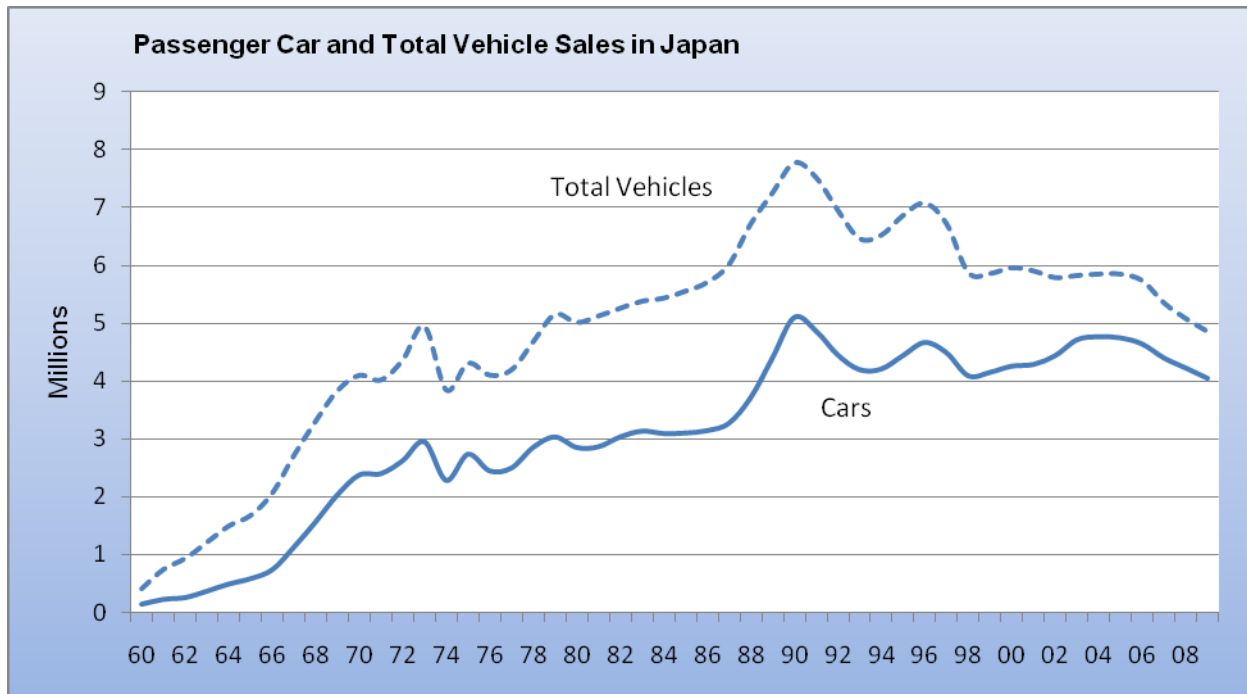
And from the automakers' perspective, the legal and regulatory environment in which they must operate has drastically worsened. Increasingly stringent government regulations with respect to mileage and the environment have further driven up costs and hurt the manufacturers' bottom lines.

Outlook and Implications

Japan's stock-market bubble burst in 1989. Their real-estate bubble burst in 1991. It is no coincidence that passenger-car sales in Japan peaked at 5.1 million in 1990 and have declined by nearly 21% since then.

Many of the same economic and demographic headwinds encountered by Japan in 1990 are now facing the United States. Following a decades-long spending spree, households are paying down debt and saving. To the extent that homeowners have any equity in their homes at all, the ability to aggressively borrow against it has been curtailed. As aging Baby Boomers retire from their jobs, they will not need as many cars per household. Those who become too old and frail to drive will not need cars at all. In short, demographic and societal trends toward

fewer automobiles have been unmasked now that the veil of easy credit fueled by rising asset values has been stripped away.



The U.S. auto industry's glory days of producing 17+ million vehicles per year are long gone. Suffice it to say, motor-vehicle manufacturing will not be an engine of employment growth going forward. At its current level of 112,000, domestic auto-plant employment is half of what it was following the 2001 recession.

Ongoing collateral damage in related industries will exact a heavy toll. The Bureau of Labor Statistics reports that in the 10-year period ending in 2018, over 100,000 jobs will be lost in the auto-parts category alone. New technologies eventually will emerge to replace some of the lost jobs. However, progress will be agonizingly slow. In the meantime, a confluence of adverse trends affecting the motor-vehicle industry will continue to weigh on the U.S. economy.

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