



Equipment Appraisers Association of North America

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IS NOT DRILLED FOR, MINED OR FARMED IT DOES NOT EXIST

I am just an old coal miner. But I think it's worthwhile to examine for a moment what is happening to our most basic and historically economically significant industries. I suggest that you will find where we may be headed and where other industry sectors currently reside as well.

It appears that mining companies, especially those in the mined metals (e.g. copper, iron ore, nickel, etc.) sector are delaying or canceling projects that will eventually result in reduced production. This is setting the stage for the next demand driven market of these commodities. Our observations supported by industry analysts suggest we may not see any significant new domestic production supply of copper, iron ore, aluminum, zinc, nickel, and platinum for the next few years. If the China economy rebounds, then we may find related metal pricing back to the high levels of recent years at a time when our metal mining industry will still be paying down debt and be hesitant to add new capacity.

For now it is obvious that demand is down for commodities across the board, especially for copper and iron ore. (ref: Mine Info charts) As the demand rate decline slows the market is likely to eventually require additional supply. When we drag ourselves out of the current credit crisis, it should be realized that production supply growth is contracting and constrained resulting in exaggerated recovering demand and consequently price.

In recent months, we have all heard so much about the lack of and or no demand for mined commodities, with most base metals being off by as much as 50% or more from last years levels. However, this may set up the market for a supply crunch sooner than we would be inclined to believe right now. But particularly if new projects are postponed or cancelled and established operations continue to cutback production. The rush to cancel production appears to be irrational even more so than the rush to produce was in the last five years.

One striking difference between the "High Tech" "dot.com" market rage of the late 90's and the recent mineral commodity bull market was that in the last five years the mining industry never built up a significant new supply. The Australians ramped up some iron ore capacity and the Chinese built aluminum and zinc capacity, but there was never the wholehearted embrace from an industry that historically built like they did back in 1969-71, 1988-91 and 1994-97. In reality, the largest companies didn't really buy into the commodity bull market until late 2004, and only early last year started to outline their growth projects. Analyst after analyst reported peak pricing charts of new iron ore, coal, nickel and copper projects that would flood the market after 2010. Today, most of those projects are now being cancelled and the prospect of them returning to actual planning let alone funding is now highly unlikely for at least another year. Once bitten, twice shy.

The canceling of new projects and production cutbacks has had a domino effect on the subsequent years. This is clearly bad news for related equipment manufacturers and distributors. The last time the mining industry went on a world based spending freeze was in 1998 (e.g. post Asian financial market crisis) and then it took the industry seven years to even consider the concept of production and supply growth. In fact, growth immediately following 9-11 was almost politically incorrect and the very idea of a new mine during that period was nearly unheard of. Currently it can be said that many producers, especially those with an international scope have arguably geared up too much in the good times and are now cash-constrained and highly unlikely to deliver on even a fraction of their growth programs near-term.

However, there are some brighter or maybe some not-so-dim prospects for this industry. Coal remains the provider of approximately 50% of the electrical generation in this country. And anyone who can appreciate the magnitude of such a fact understands that despite the current administrations already stated objective to radically change that ratio, not much will (or can) change quickly. Minus an economic turndown of epic proportions, this country will continue to grow, albeit slightly, the use of electricity. Admittedly, the demand for coking coal for steel making has almost vanished for the time being. But prices for thermal coal remain reasonably steady and low cost producers will continue to have cash flows adequate for some capital purchases over the near term future.

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Having said all of this and accepting my premise that the mining sector of this country is reflective if not predictive for most other real industry sectors and the businesses that ultimately rely upon their health, what does this mean for those of us advising our clients on equipment related transactions? Well first of all, most surviving producers and manufacturers are likely to have increasingly marginal profit, which may intern provide an incentive for increasing off balance sheet equipment financing for their most critical and expensive equipment providing ample opportunities for good sound appraisal services. With producers and manufacturers rationalizing production, some marginal or cash flow negative operations will most certainly be idled creating heavy surplus equipment returns and subsequent sales. Leased equipment retention rates will surely decrease, creating opportunities for isolated equipment sales and of course increased auction activity as well. Personal property tax issues will no doubt be prevalent as decreasing profit margins will leave little tolerance for paying personal property tax at any level on equipment that is not able to contribute to the economic well being of a business. Assisting government in the collection of or dutifully assisting the hardworking taxpayer in the lawful avoidance of such taxes should be a very active area of interest.

To be sure much if not all of this assumes that a demand for all of this secondary market activity will exist. As previously inferred, I am very far from being an economist, but that has never stopped me from offering an opinion. Taxpayer funded green energy, highway, bridge, mass transit, water, waste and other infrastructure projects are on the way. They may not be realized until late in 2009 but on the way none the less. Our hope has to be that this spending of future tax receipts will create another surge of confidence that can spur the real economy back to life, that includes true capital, replacement, improvement and increasing personal productivity, all necessary ingredients for a surviving economy. Alternatively, We might need to find something else for the Chinese to get excited about now that the Olympics are gone. I vote for immediately moving the next Olympics to India or to any heavily populated under-developed country. Maybe another mass population will find reason to create a growth spurt like the one we have enjoyed for the last 5 years or so. But then again we better be careful what we wish for.

I offer these observations without any reference to Brokerage Firms, Institutional Banking, Insurance Companies (posing as banks), American Automobile Companies (and their Bank subsidiaries) or American Oil Companies or Government backed mortgage institutions, since any such reference has political overtones that would no doubt alter any discussion of the associated issues to one minus reason or rationality.

By: Mark Craig

EAANA NEWS & UPDATES

USPAP

EAANA President Jean Novotny is teaching a 15 hour USPAP class Jan. 21 & 22, 2009 prior to the Jan. 23 & 24, 2009 Annual membership meeting. Jean is an AQB Certified USPAP instructor. You can reach her by email: jnovotny@sbcglobal.net with any questions. Registration for the class is limited so please get your forms in right away. The 15 hour class is a requirement for any appraiser wanting to gain the Certified Senior Appraiser designation. Those who are already CSA's can take the course to refresh your knowledge on USPAP. There is something new for you even though you have taken it in the past. Those needing the hours for recertification would be advised to take the course. Registration must be completed by January 9, 2009. Any questions call Valerie at 1800-790-1053

19th Annual Membership Meeting

The 19th Annual Membership Meeting is in just about 3 weeks. Please make your plans to attend. Along with several key note speakers, Andy Fanter will be giving a presentation on the economic forecast. The agenda will be worth the time you take to attend! Remember all Certified Senior Appraisers and Candidate Members working toward their certification will earn 15 hours of education credits. Clear your calendar for January 23th and 24th, 2009. Please fill out the registration form and send it back to Valerie ASAP.

Welcome New Members
Steve Carver, North Carolina
Jason Mortimer, Iowa

Special Acknowledgement to Certified Senior appraiser **Roger Daugherty** for completing all CSA reaccreditation requirements.