THE WALKER INDUSTRIAL

OUTLOOK

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It's Too Bad Stupidity Isn't Painful

A review of big oil...without the hysteria

Let's step back for a moment from Congress' fantasy that higher taxes on oil companies will lower gas prices, and look at a few facts about the oil and gas industry. Perhaps this will enlighten a few elected officials and calm some of the hysteria.

You can't swing a dead cat without hitting a senator or representative blathering about a windfall profits tax on "big oil." But if we do that, we should take the beverage, tobacco and pharmaceutical industries to the woodshed, because their profit margins were more than twice those of oil and gas companies in 2007. The average profit margin in the oil and gas industry was 8.3%, anemic compared to the 19.1% and 18.4% margins earned in the beverage/tobacco and pharmaceutical industries, respectively.

Oil and gas profits were even below the average margin for all manufacturing industries if the auto sector is excluded from the calculation.

In a world economy, U.S. oil companies aren't the boogeymen many assume, and are small players in a very large market. Investor-owned oil and gas companies, both U.S. and abroad, own only 6% of proven oil reserves worldwide. National oil companies of foreign governments own 89% of the reserves.

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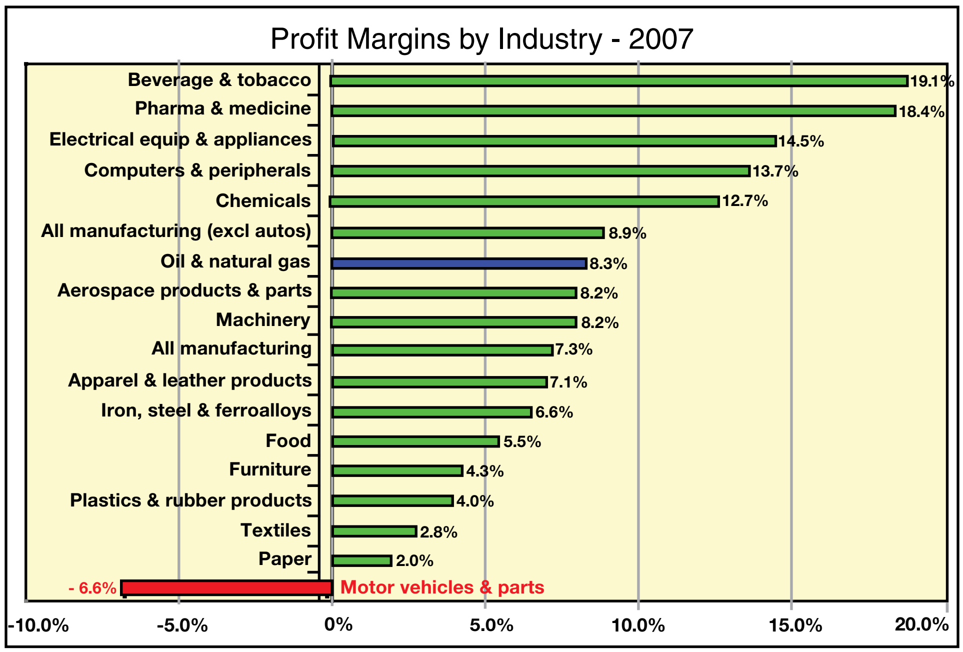

Profit Margins by Industry - 2007

In This Issue

Excuse Me...Is That Spot Taken?

They paved paradise and put up a huge parking lot.

Increased imports and consolidation of smaller warehouses into larger facilities may be drivers behind the recent trend in companies requiring more trailer parking at their mega-distribution centers.

By 2020, the AIWA (Atlantic Intercoastal Waterway Association) predicts U.S. highways, railways, and ports will move 70% more freight than they did in 1998. This increased cargo volume will create challenges for every player in the supply chain.

Freight flows by truck, which are nearing capacity today, will increase sharply in the future, causing more trucks to be on the highways. Trailers have gotten larger, space is being consumed by trailers waiting in queue to be unloaded, and truck courts are being used as storage buffers. These factors drive the need for more trailer parking and staging

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It's Too Bad Stupidity Isn't Painful *A review of big oil...without the hysteria*

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A company-specific analysis of production and resource ownership paints an even more sobering picture of how dependent the U.S. is on imported oil, and the absence of pricing power that politicians ascribe to"big oil." ExxonMobil seems to be viewed as the most nefarious pillager, so let's take a look at that company.

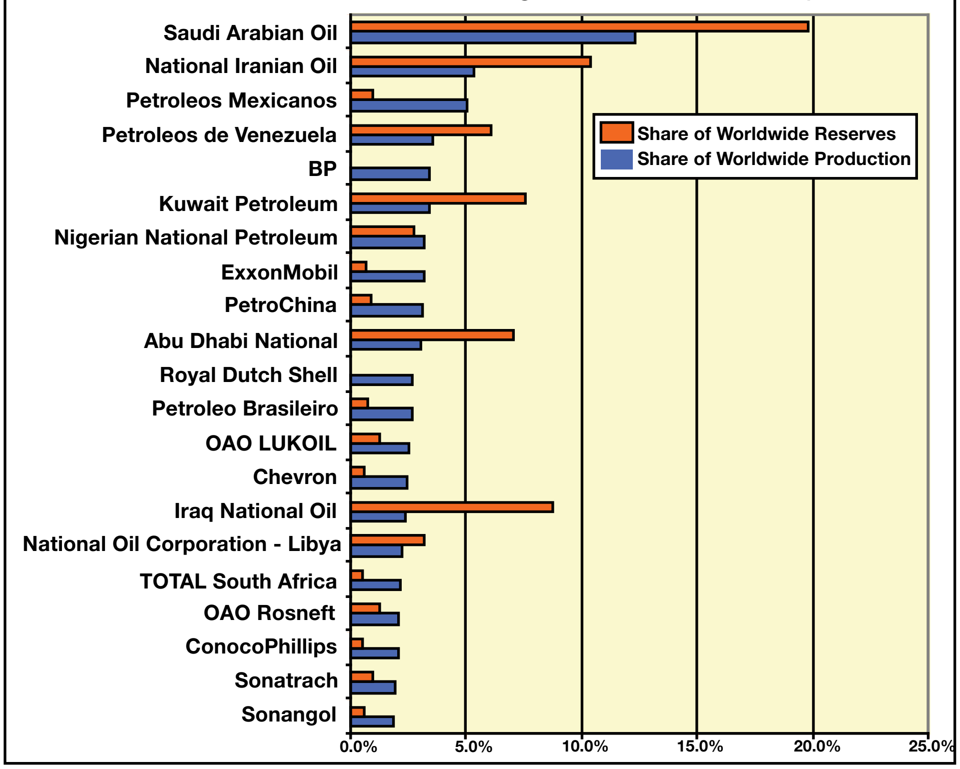
ExxonMobil accounts for 3.15% of worldwide production of oil and gas. This places the company in a tie for seventh largest company with that oil and gas behemoth everyone loves to hate, Nigerian National Petroleum. By comparison, Saudi Arabian Oil controls 12.3% of worldwide production.

ExxonMobil's share of worldwide reserves is a paltry 0.62%, slightly higher than the other two major U.S. investor-owned oil and gas companies, ConocoPhillips and Chevron. Saudi Arabian Oil controls nearly 20%.

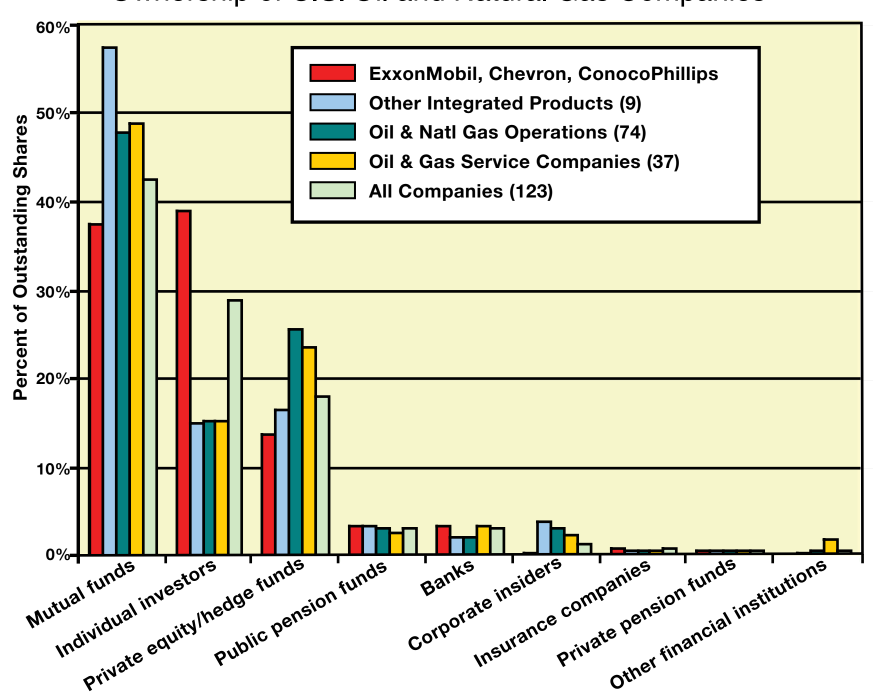
So what about that windfall profits tax? If enacted, it will punish the very people politicians claim they want to protect--middle-class Americans--that are shareholders in oil companies. Eighty percent of the stock in the big three investor-owned oil companies is controlled by mutual funds, individual investors, and public and private pension funds.

The median household income of mutual fund holders is under $69,000, and the average value of accounts in pension funds is $62,280, hardly the financial profile of captains of industry and greedy oil barons the windfall profits tax is intended to punish.

Production Versus Reserves of Largest Oil and Gas Companies



Ownership of U.S. Oil and Natural Gas Companies



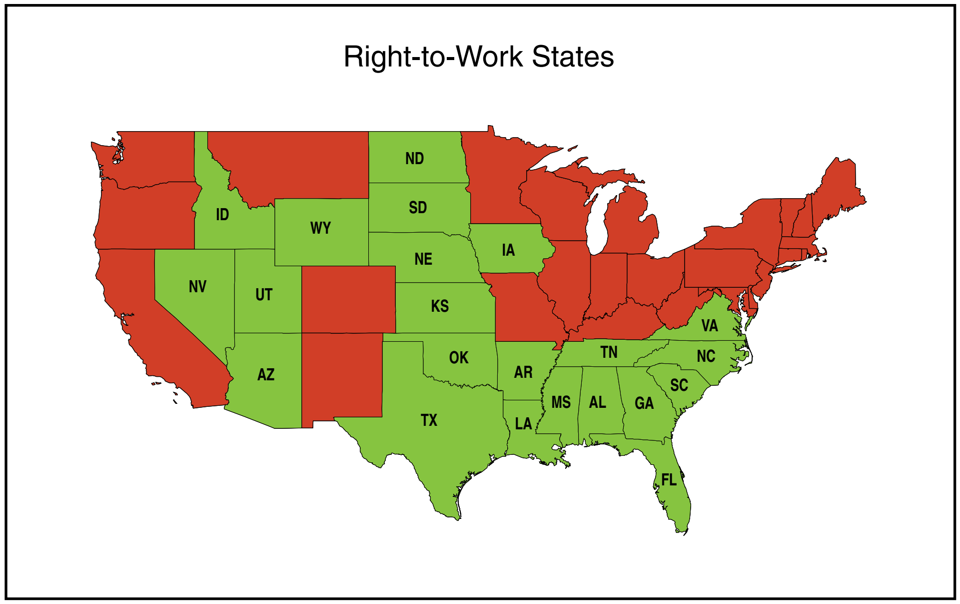
Don't Confuse Me With the Facts

Unions want to kill right-to-work laws despite the benefits

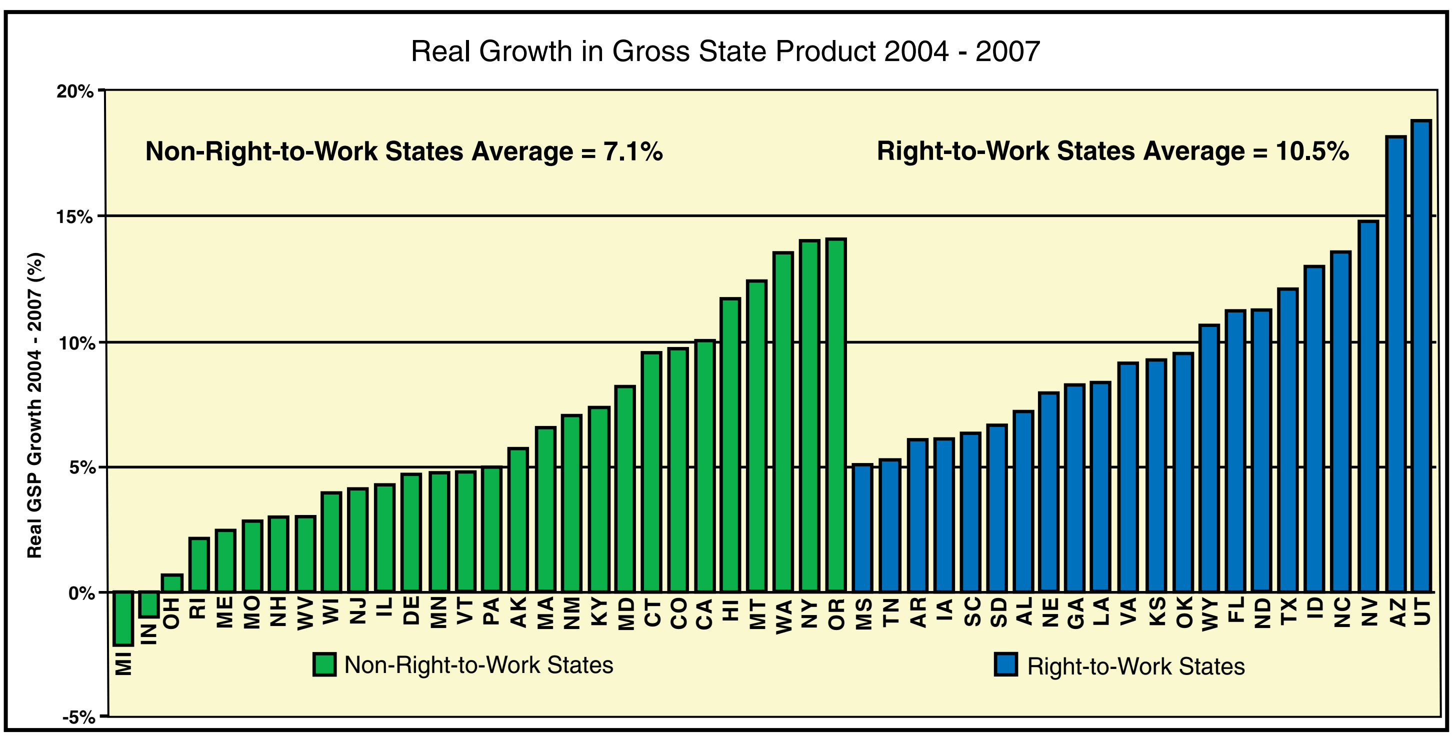
Organized labor sees this election cycle as its best opportunity ever to strike right-to-work provisions from the Taft-Hartley Act. Right to Work (RTW) "secures the right of employees to decide for themselves whether or not to join or financially support a union," according to the National Right to Work Legal Defense Foundation.

A comparison of fiscal performance and jobs creation in the 22 right-to-work states with non-right-to-work states shows they are strikingly dissimilar. Over the period 1996-2006, employment in RTW states (shown in the map at right) grew an average of 14.4%, while non-right-to-work states experienced job growth at half that level, 7.3%.

From 2004-2007, real growth in gross state product in RTW states averaged 10.5%, while non-right-to-work states averaged 7.1% growth. Mississippi, the RTW state with the lowest real growth in gross state product at 5.1%, exceeded the growth rates of 15 non-right-to-work states.



Given organized labor's strong opposition to the North American Free Trade Agreement (NAFTA), under the theory it exports jobs, one must assume unions wish to create job opportunities within the U.S. As usual, unions are looking through the wrong end of the telescope if they think their aims are furthered by overturning RTW laws.



Labor Unions and the Hydra Strategy

Cut off one head and two grow back

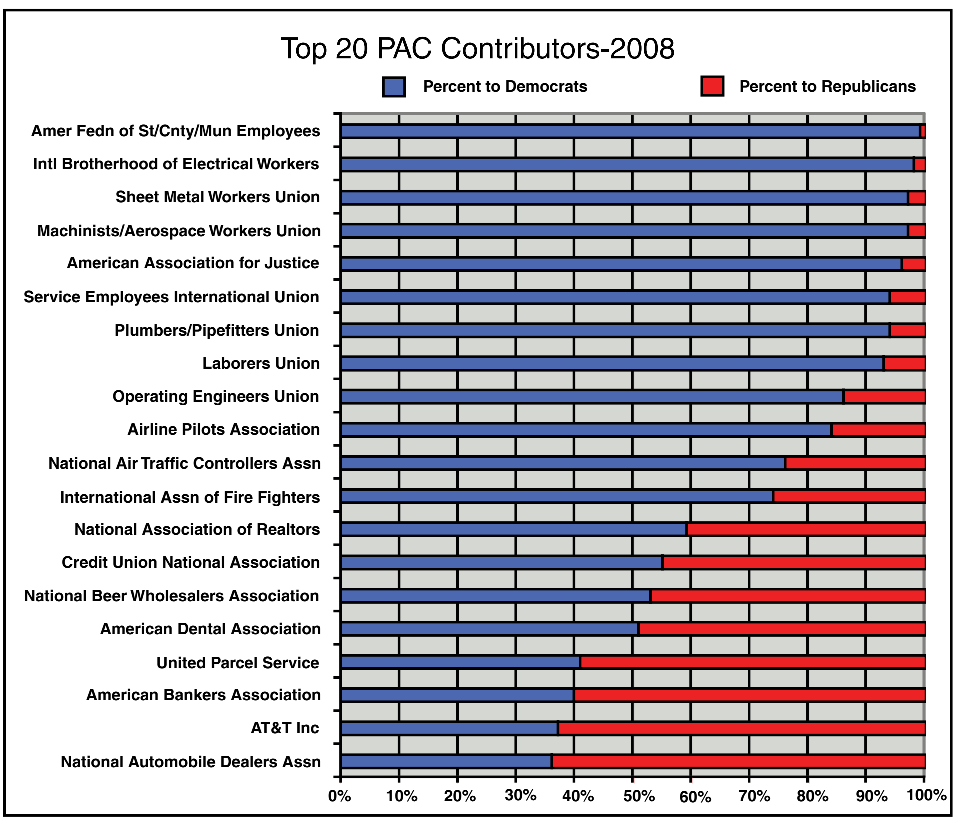
The Hydra was a nine-headed beast in Greek mythology. Hercules was tasked with killing the monster, only to find that when he cut off one head, two grew in its place.

Corporations should feel like Hercules when they realize big labor is employing a Hydra strategy to not only regain waning power and membership, but to take a dominant role in the global business community.

It starts with regaining political clout, and that means campaign spending. The AFL-CIO has approved a political budget of $53 million, and its affiliated unions have pledged an additional $200 million. The National Education Association (i.e., the teachers' union) will spend an estimated $40-$50 million, and the fast-growing Service Employees International Union (SEIU) will spend another $100 million. (More on the SEIU below.)

Eleven of the top 20 PAC contributors thus far in 2008 are labor unions, and 74% to 99% of their PAC dollars are going to Democrats. The other major left-leaning PAC is the American Association for Justice, the warm-and-fuzzy name under which the Trial Lawyers are rebranding themselves. (See chart below.)

But political spending and support for Democratic candidates is just one element of the Hydra strategy. Organized labor in general, and certain unions specifically, are engaged in a broad battle on many fronts to reverse the long slide in union membership. A few of these initiatives include:



- Rewriting NAFTA to protect jobs in the U.S.
- Mandating health care reforms to include universal coverage
- Passage of the Employee Free Choice Act, which will abolish secret ballot union certification elections and use card check as the means to gain recognition as the exclusive bargaining agent for workers
- Striking down right-to-work legislation, which would mean forced unionization in the 22 states that now leave membership up to the individual worker
- Insertion of Davis-Bacon wage requirements in every piece of significant legislation considered by Congress. These wage rates can be twice the market rate.
- Aligning with other special interest groups to achieve their organizing goals. One such example is the strange-bedfellows relationship between the Teamsters and the Natural Resources Defense Council (NRDC). The Teamsters want the ports of Long Beach and Los Angeles to restrict port access to drivers employed by hauling companies, rather than independent owner-operators. Why? Because trucking company employees are easier to organize than individual drivers.

  What's in it for the NRDC? The Council wants to keep the older vehicles driven by owner-operators out of the ports because they pollute more than the newer vehicles

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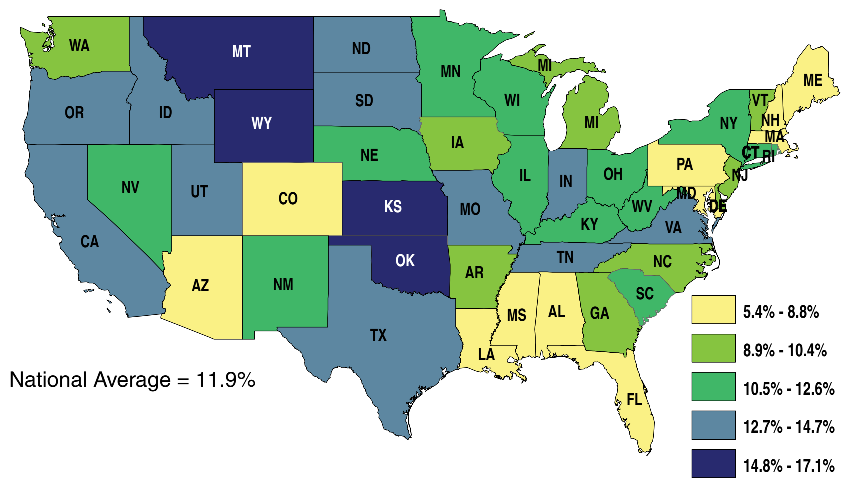
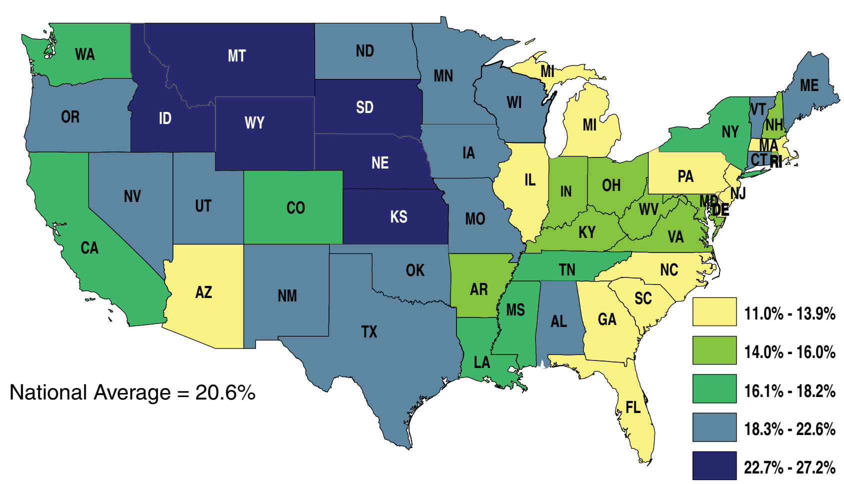
The Wage Premium for Unionized Workers

Better than 15%

Average Hourly Wage Premium From Unionization



Hourly Wage Premium For Unionization For Lowest Wage Workers



Unionized workers earn 11.9% more, on average, than non-union workers with similar characteristics, according to research reported by the Center for Economic and Policy Research in Washington, D.C. Adding a typical benefits load of 30%, the union premium grows to 15.5%.

The Center's research is consistent with other studies that place the union wage premium at somewhere between 10% and 20%. What's unique about this analysis, however, is that it stratifies workers by wage category, and estimates the union wage premium for low, moderate and high wage workers.

For example, the study estimates unionization raises the wages of low-wage workers (i.e., those in the 10th percentile) by 20.6%. As wages increase, the wage impact of unionization diminishes, adding only 6.1% to the highest wage group.

The study also provides state-by-state comparisons of the union wage premium at various wage levels. As one might expect given the Southeast's reputation as a lower wage region, the union impact on wages is small relative to the Midwest and West. The union premium is below 10.4% in most of the Southeast, but more than 12.7% in most states west of the Mississippi River.

Of note among the southern states is Alabama. While the unionization wage impact is among the lowest when considering workers in all wage ranges together, with an 8% premium, carving out the lowest wage workers shows the state has a much higher unionization premium for this group, estimated at 21.4%.

"Virtue in the middle," said the Devil...

...as he seated himself between two lawyers

The U.S. Chamber Institute for Legal Reform (ILR) has published its annual study on the legal climate in each state, and the findings are, well, what you'd probably expect. The survey of 957 general counsel and senior corporate litigators shows that only 3% view the fairness and reasonableness of the state court liability system in the U.S. as "excellent," while 55% characterize it as "fair" or "poor."

Of great importance to the economic development community: 64% of respondents stated the litigation environment in a state is likely to impact corporate decisions about locating facilities or doing business in a particular locale. This is up from 57% in last year's study.

The states cited as having the most attractive state liability systems were Delaware, Nebraska, Maine, Indiana and Utah. The worst rated states were Illinois, Alabama, Mississippi, Louisiana and bringing up the rear, West Virginia. These five states were also ranked at the bottom of the list last year.

Five cities and counties were singled out as having particularly unfair litigation environments: Los Angeles, Chicago/ Cook County, and several cities and counties in Texas.

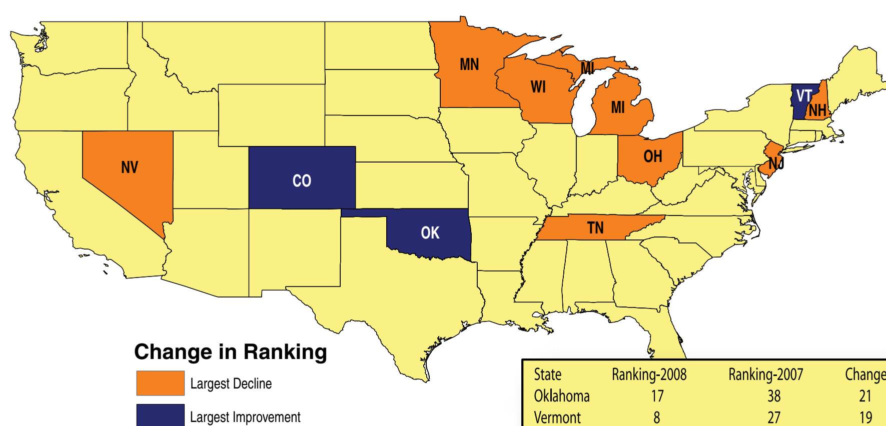
The accompanying map shows those states that experienced the largest gain or drop in ranking from 2007 to 2008, excluding Alaska and Hawaii. The big winner was Oklahoma, which jumped 21 spots in the rankings, followed by Vermont and Colorado.

Wisconsin and Tennessee were the big losers, falling 14 and 15 spots, respectively, from 2007 to 2008.

State	Ranking - 2008
Delaware	1
Nebraska	2
Maine	3
Indiana	4
Utah	5
Virginia	6
Iowa	7
Vermont	8
Colorado	9
Kansas	10
Minnesota	11
South Dakota	12
North Dakota	13
Oregon	14
Arizona	15
New Hampshire	16
Oklahoma	17
Massachusetts	18
Connecticut	19
Alaska	20
North Carolina	21
Tennessee	22
Wyoming	23
Wisconsin	24
New York	25

State	Ranking - 2008
Idaho	26
Washington	27
Georgia	28
Kentucky	29
Maryland	30
Missouri	31
Ohio	32
Michigan	33
Arkansas	34
New Jersey	35
Pennsylvania	36
New Mexico	37
Montana	38
Rhode Island	39
Nevada	40
Texas	41
Florida	42
South Carolina	43
California	44
Hawaii	45
Illinois	46
Alabama	47
Mississippi	48
Louisiana	49
West Virginia	50

Lawsuit Climate Change in Ranking From 2007 to 2008



State	Ranking-2008	Ranking-2007	Change
Oklahoma	17	38	21
Vermont	8	27	19
Colorado	9	21	12
Ohio	32	24	-8
Minnesota	11	2	-9
New Jersey	35	26	-9
New Hampshire	16	6	-10
Michigan	33	23	-10
Nevada	40	28	-12
Wisconsin	24	10	-14
Tennessee	22	7	-15

Source: U.S. Chamber Institute for Legal Reform

You Can Have It in Any Color...

As long as it's black

Health care regulators seem to have taken a page out of Henry Ford's book when it comes to state-level health care insurance coverage mandates for small groups and individuals…consumers can buy anything they want, as long as it includes the coverage mandates state insurance regulators dictate.

Inter-state differences in medical insurance regulations have created a patchwork of coverage mandates that vary widely from state to state, with the kind of cost variability one would expect in an industry where state health insurance regulators dictate what will and will not be covered, rather than leaving these decisions to the marketplace.

The Council for Affordable Health Insurance has completed a state-by-state analysis of health insurance coverage mandates for small groups and individuals, which documents measurable differences across the country.

Minnesota and Maryland top the U.S. with the largest number of mandates, requiring health insurance companies to offer coverage for problems such as alcoholism, breast reconstruction, cervical cancer screening, contraceptives, dental anesthesia, and over 50 other items. (See Map A.)

Among the most expensive mandates are coverage for alcoholism, out-patient surgery, contraceptives, in vitro fertilization, morbid obesity, prescription drugs, smoking cessation, rehab services, well-child care, and the requirement that mental health conditions be covered at the same level as other health problems. The Council for Affordable Health Insurance estimates these collective mandates can increase the cost of a policy by 20% to 46%.

Of course many, if not most, policies already cover out-patient surgery, contraceptives, and some level of coverage for mental illness. But not all buyers of medical coverage may need or want benefits related to smoking cessation or in vitro fertilization, to name just a few.

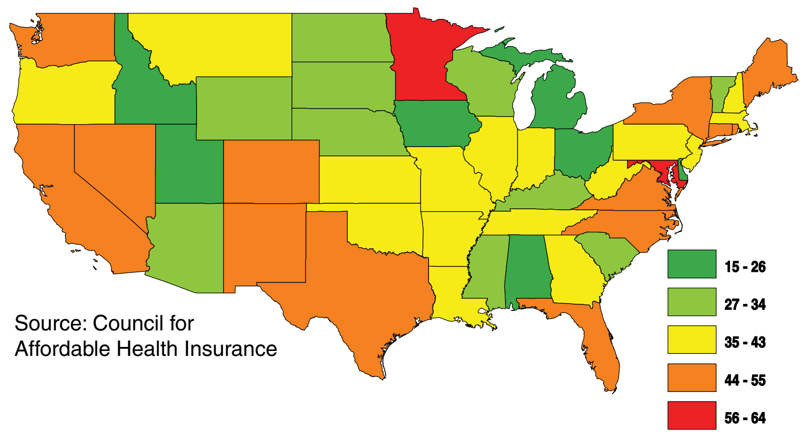
A number of states mandate coverage for many "conditions" that most consumers may never need, and certainly don't want to pay for. For example, eight states require benefits for alcoholism and drug treatment, as well as in vitro fertilization. (See Map B.)

Among them is Maryland, which may take the (crab) cake for mandates at the expense of the consumer. In addition to the three treatment mandates above, Maryland also requires coverage for autism, hair prostheses and hearing aids, and that the services of chiropractors, marriage therapists and massage therapists be covered.

Are you a balding woman with a hearing loss whose bad back is causing problems in your marriage? Move to Maryland!

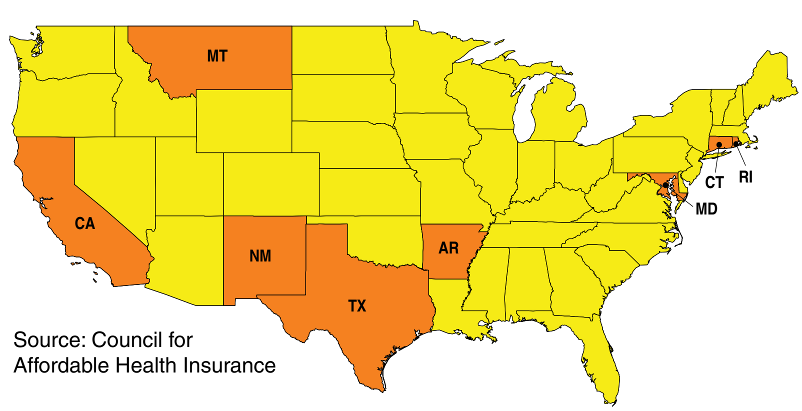
Map A

Total Number of Health Insurance Mandates



Map B

Coverage Mandates for Alcoholism, Drug Treatment and In Vitro Fertilization



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Labor Unions and the Hydra Strategy *Cut off one head and two grow back*

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larger trucking companies supposedly use.

The SEIU is arguably employing the most sophisticated tactics to grow membership, with an objective to add 500,000 members by 2012. A few examples of the union's efforts:

- Though ultimately unsuccessful, the union came close to getting the California legislature to pass a law that would have made it easier for the SEIU to organize certain companies owned by targeted private equity firms.
- Andy Stern, president of the 1.7 million member union, is introducing plans to dramatically shift money, union organization, and negotiations with large corporations away from union locals, consolidating it in the hands of its international headquarters.

Given the numerous challenges facing corporate leadership today (e.g., a weak economy, surging fuel prices, and skyrocketing health care costs), corporate leadership appears to be taking a time out from fighting these union initiatives.

The economy will eventually get better, fuel costs will level off and health care will be dealt with one way or another. But it will be very difficult to beat back the Hydra if organized labor is successful in getting the Employee Free Choice Act passed, or succeeds in these other initiatives.

Excuse Me...Is That Spot Taken? *They paved paradise...*

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areas…a trend which shows no sign of letting up.

Distribution center consolidation also adds to this problem. Many companies are reducing the number of DCs to drive efficiency and reduce costs, but this necessitates more land to accommodate the larger number of trucks these buildings must handle. In markets like Atlanta, Dallas, Chicago, San Francisco and Los Angeles, it is common for distribution centers to have one million square feet or more under roof.

The Perris Distribution Center (Perris, CA), developed by Los Angeles-based IDS Real Estate Group, is considered to be the nation's largest single spec building. The DC, which has an area of almost 1.7 million square feet, has parking for 842 trailers.

Whether companies begin sharing lots, constructing additional parking facilities, or leasing space from adjacent DCs within industrial parks, there is no question that more land area is a major criterion to accommodate the trailer parking needs of these vast centers.

WALKER

provides location consulting, real estate, and facility development services for industrial corporations throughout the United States. For additional information on our services, or to comment on *The Walker Industrial Outlook* please contact:

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