



# Boiling oil, blistered economies

India's heavy dependence on oil imports means the economy is in trouble as crude prices rise.

**A**s crude oil prices leap to record highs and the dollar plumbs record new depths every day, the biggest jump in unemployment in the United States for over two decades is before us. It is a time of reckoning.

Morgan Stanley has predicted that the crude oil prices will soon touch US\$150 a barrel. Many oracles speak of US\$200 being a matter of time - maybe by Thanksgiving!

At 5.5-per-cent unemployment in the US, fears are intensifying that the world's biggest economy is inexorably sliding into recession. If this is the story of the foreseeable future for many of the world's industrialised economies, the big question is, 'Who will survive the storm?'

Airlines are facing a nightmare summer of soaring fuel costs and falling demand. This double whammy could cause the industry to lose more than US\$6 billion this year.

Airlines are already going bust on a weekly basis with the swanky "business class only" SilverJet being the most recent casualty. Others are hiking fuel surcharges and sneaking charges on unwary passengers for everything from airport check-in to on-board "nourishment".

Is this the end of the low-cost, no-frills air travel revolution?

The well-heeled business class passengers who patronise the legacy carriers will continue to fly and hence, the theory goes, the big boys will be safe - but what is in store for the low-cost guys? They have responded by grounding planes, cutting frequency, using lighter cutlery and seats, etc etc etc.

Is it also the end of the road for the SUV? Sales are falling off a cliff with the greatest monster of all, the Godzilla of the road, the Hummer, facing the threat of imminent extinction. Have these US\$150 prices finally cured the world (read the US) of its gas-guzzler big-car addiction?

The High Mobility Multi Purpose Wheeled vehicle (or Humvee) was a boxy 1970s-era workhorse for transportation of sundry military dudes - until Arnold Schwarzenegger, The Terminator, saw it, fell head-over-heels for it and badgered AM General, its manufacturer, to produce a civil version in 1992.

But this June, with sales plummeting, GM, which has owned the Hummer brand since 1998, has announced a strategic review and possible sell-off of what has come to symbolise America's love affair with the gas-guzzling mega-car. GM has announced the closure of four SUV-manufacturing plants in the US, Canada and Mexico. Registration of 4WD vehicles is dropping in most countries. Is this due to some kind of environmental crisis of conscience cum overdue angst among buyers of these goliaths? No; the answer is simple. It's the gas, stupid.

For 2008, auto industry analysts say that annual US vehicle sales will probably be around 15 million units, about 1.2 million less than 2007 and thus the worst

year for the auto industry since 1998.

The American big three automakers sold just 47.4 per cent of new vehicles sold in April this year, the smallest market share ever for them. Toyota now sells more vehicles in the US than Ford or Chrysler, and is sniping at GM's heels.

How is all this playing out in India? India has no option now but to increase the retail prices of petrol and diesel. India's cost of living is heavily dependent on oil prices. Salary levels in India are already rising much faster than the official inflation level. Now, for the first time in eight years, India has recorded a deficit in its current account in the country's balance of payments. A sliding stock market and a slowdown in debt offerings only add to the sense of gloom. According to recent Reserve Bank of India data, the current account deficit stood at US\$1,041 million during the quarter ended March 08 compared with a surplus of US\$2,563 million hardly a year ago. The usual suspects being blamed include surging inflation, high valuations, political uncertainty and soaring commodity prices - but the arch-fiend is oil. India's high exposure to oil imports have caused it - and Turkey - to rank at the bottom of the global stock market league tables this year with extremely large oil import bills running at nearly 5 per cent of the GDP.

Where will this end? And if oil touches US\$200, what then? **is**

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