THE WALL STREET JOURNAL.
ASIA EDITION

HD **Heard on the Street / Financial Analysis and Commentary**

WC 1,235 words

PD 30 June 2014

SN The Wall Street Journal Asia

SC AWSJ

PG 28

LA English

LP

America's Oil Weapon: Autos

Higher oil prices threaten the U.S. economy, but not like they used to. North Dakota is a reason for that. Changes in America's car industry and driving habits are bigger ones.

TD

Amid sectarian violence in Iraq, oil prices have risen, and it isn't hard to imagine them going higher. That is unwelcome for a U.S. economy still struggling to find its footing. Starting with the downturn set off by 1973's oil shock, higher energy prices have been a constant factor in U.S. recessions.

But the economy isn't what it was in 1973, or even in 2007, when rising gasoline prices added to strains on U.S. household spending power.

One difference is the shale boom. The U.S. now produces over eight million barrels of oil a day, up from five million in 2007. So when Americans pay more at the pump, more of what they pay ends up back in the pockets of other Americans. A shift in U.S. energy consumption toward abundant natural gas provides an additional offset.

But one of the biggest ways high energy prices affect the economy is through consumers' car-buying behavior. When gasoline prices rise sharply, overall vehicle sales go down. And because of the major role the automobile industry plays in employment, those sales declines can pack a lot of oomph. Think not just of the 2.5 million people who work at motor vehicle and parts manufacturers and dealerships, but the truckers who haul cars and waiters and bartenders who work near auto plants.

What has historically intensified this effect is that U.S. car companies' vehicle offerings have tended to have lower fuel economy than those of foreign counterparts. And because it is sales of the least efficient cars and light trucks that get hit hardest by higher gasoline prices, while sales of cars with the best fuel economy fare better, it is the U.S. auto industry, and all the workers and businesses that depend on it, that tend to bear the brunt.

But with more efficient offerings than in the past, U.S. car makers may capture more of the consumer shift toward higher-fuel-economy vehicles if gasoline rises further. The average vehicle sold in May got 25.6 miles per gallon, according to the University of Michigan Transportation Research Institute, versus 20.1 mpg when the recession began. In a report last week, Wood Mackenzie forecast that U.S. road-fuel demand would drop 10% by 2030 despite vehicle numbers rising by 17%.

Moreover, foreign auto makers have expanded their American manufacturing presence, so more of any sales increase they see as a result of higher gasoline prices will end up in U.S. workers' paychecks.

Meanwhile, despite a 5% increase in the U.S. population, Federal Highway Administration data show that the distance traveled on highways in the year ended April was 2% lower than in the 12 months before the recession. Combine changing driving patterns with efficiency gains, and the American consumer is gaining a useful umbrella against global oil's storms.

-- Justin Lahart

Apple's iPod Still Has the Touch

The iPod may seem like a side act for Apple these days. But the company has good reasons for keeping the music-player business humming.

Apple updated its iPod Touch models this past week, adding more colors and the iSight camera to the entry-level version. It also cut prices, reducing the price of the 16-gigabyte version by $30, to $199, and cutting $100 off the price tag of the largest version sporting 64GB, to $299.

Given that the iPod accounted for just over 1% of Apple's revenue over the past two fiscal quarters, these changes likely won't move the needle much for the business overall.

But the iPod Touch helps to extend Apple's iOS operating software beyond smartphones and tablets, often to younger buyers not yet ready, or able, to buy those other devices.

The recent move also is notable given how disciplined Apple has been on pricing. Unit sales of the iPod fell more than 50% in the past two quarters, year over year.

Yet the average selling price in that period slipped by only 4% to about $163.

The hefty $100 price cut for the 64GB device is noteworthy. Larger memory units can hold more music, movies and games, so cutting the price of the 64GB device could boost sales of iTunes and App Store content that is becoming more important to Apple's growth.

And boosting sales of higher-capacity hardware can have an outsize effect on profits. The price difference between the 16GB iPod Touch and the 64GB version means Apple is effectively upselling 48GB of memory for $100. In comparison, 64GB memory cards for computers and other devices cost as little as $30.

With its surprising acquisition of Beats Electronics announced just weeks ago, Apple is clearly thinking different about its music business. Keeping the iPod in the mix makes sense.

-- Dan Gallagher

Civeo Is Finding China's

Slowdown Inhospitable

China's slowdown is rippling through the world's commodities supply chain. Raw-materials prices are down, the companies producing them are hurting, and those who serve the producers are feeling the pain, too.

That includes New York-listed services company Civeo. It builds lodgings for workers in Canada's oil sands and Australia's coking-coal basins. The Australian business is of particular concern. Coking coal is a key ingredient in China's steel mills, making it a victim of the construction slump there.

Miners such as BHP Billiton already have shut down projects and cut jobs in the coking-coal-rich basin where Civeo primarily operates. Civeo reported in the first quarter that only 76% of its Australian rooms were occupied, down from 84% a year before. Earnings before interest, taxes, depreciation and amortization, or Ebitda, from Australia fell 16%. Australia accounts for one-third of Civeo's Ebitda.

Filling rooms will get tougher, with the company saying that just 42% of its built rooms in both Australia and Canada are contracted out by next year's end.

Canada makes up most of the rest of Civeo's Ebitda. Though the oil-sands sector looks more stable than coal, there are still risks. Oil is extracted from oil sands either "in situ" -- drilling wells in one place in a process that requires fewer workers -- or mined in open pits that use more labor. Unfortunately for Civeo, most of the growth in oil sands will be for in-situ projects, according to the Canadian Association of Petroleum Producers.

Civeo fetches 25.2 times estimated earnings this year. That is much dearer than Australian peer Fleetwood's 13.4 times or Canadian rival Horizon North Logistics's 16.8 times. Investors might be pricing Civeo's stock at a premium because the company wants to convert into a real-estate investment trust. These are popular with investors because of the high dividends.

Yet the Australian coal business blackens the visibility of future cash flows, according to analysts at Sterne Agee, potentially putting future payouts at risk. Even if U.S. officials let Civeo convert into a REIT, investors should beware how far China's problems can reach.

-- Abheek Bhattacharya

License this article from Dow Jones Reprint Service

CO applc : Apple Inc.

IN i3302 : Computers/Electronics | i35101 : Passenger Cars | i665 : Lodgings | imet : Mining/Quarrying | i351 : Motor Vehicles | i66 : Hotels/Restaurants | iaut : Automotive | ibasicm : Basic Materials/Resources | ilea : Leisure/Arts/Hospitality | itech : Technology

NS c1521 : Analyst Comments/Recommendations | c181 : Acquisitions/Mergers/Takeovers | c314 : Pricing | ccat : Corporate/Industrial News | cgvfil : Government Filings | ciprof : Industry Profile | m11 : Equity Markets | ndj : Dow Jones Top Stories | nedc : Commentaries/Opinions | neqac : Equities Asset Class News | nhrd : Heard on the Street | nsum : News Digests | ntesi : Essential Stock Market Information | ntop : Top Wire News | c15 : Performance | c152 : Earnings Projections | c18 : Ownership Changes | c31 : Marketing | cactio : Corporate Actions | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpex : FC&E Executive News Filter | nfcpin : FC&E Industry News Filter | niwe : IWE Filter | redit : Selection of Top Stories/Trends/Analysis

RE usa : United States | austr : Australia | china : China | eurz : Europe | uk : United Kingdom | usnd : North Dakota | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | eecz : European Union Countries | namz : North America | usc : Midwest U.S. | weurz : Western Europe

IPC ABO

PUB Dow Jones & Company, Inc.

AN Document AWSJ000020140629ea6u00014