

## TO DOWNSIZE OR NOT TO DOWNSIZE?

Six dollars a gallon.

That's what the price of gas will be by 2011 at the latest, according to Arjun N. Murti, the "oracle of oil." Murti caught the commodities world's attention by predicting a few years ago that gas would top \$4.00 at the pump – a number many industry observers dismissed at the time.

Although prices may ease in the short term, the general consensus amongst commodities experts now is that the days of cheap gas are history. Declining production in Britain, Norway, and Mexico, along with rising demand in China and India, have turned gas into liquid gold.

American consumers have felt the pain of high gas prices, and they're changing the kind of cars they buy as a result. Detroit's Big Three have seen its sales of trucks and SUVs plummet, while a Ford spokesperson said that popularity of fuel-efficient cars "appears to be structural in nature rather than a short-term reaction to gasoline prices".

In other words, the days of the gas-guzzlers are numbered.

### ***Pain at the Pump***

Some quick arithmetic puts the pain at the pump in perspective.

The average American drives 12,000 miles a year. The average mid-sized sedan gets about 24 miles per gallon.

At \$4.00 a gallon, you'll spend \$2,000 a year on gas. At \$6.00 a gallon, you'll spend \$3,000 a year on gas.

These numbers are probably conservative, as mpg is measured using ideal – and not real-world – conditions. Our numbers also assume you're cruising down a highway, and you're never stuck in stop-and-go traffic or drive in a city.

Adjusting these numbers to make them more realistic, the average American spends \$3,000 a year on gas sold at \$4.00, and \$4,500 if gas reaches \$6.00 a gallon. The median income for Americans — the midpoint of the income range — is \$43,200.

That means the average American is spending about 10% of his gross income on

gas.

### ***Not So Fast on that Trade-in***

Wealthy, active, and educated: that's the profile of the typical hybrid owner, according to Scarborough Research. The typical owner has an annual income of \$100,000 or more, and is three times more likely to have a post-graduate degree.

There's a good reason for this.

Allhybrids.com says that the average sticker price for a hybrid is about \$5,000 more than the same conventional model. Trading in an SUV for a fuel-efficient model also means you can afford the sting of depreciation on your existing car.

And even if you bought a Prius, which gets 48 mpg on the highway, you'd cut your gas bill in half. But it still would probably take you several years of driving before you broke even.

### ***Help is on the Way***

Car manufacturers know that there is growing demand for fuel-efficient cars.

Honda announced in May 2008 that it was making an "all out effort" to introduce new hybrid models early in 2009 SEE NOTE IN EMAIL. General Motors is coming out with the Chevrolet Volt and Saturn Vue, both plug-in hybrids that will have gas or ethanol onboard power sources to recharge the battery while driving. Toyota plans to introduce its first plug-in hybrid by 2010. Tesla Motors, which unveiled the Tesla Roadster in 2008 and plans to introduce an affordable model in 2010, states that it costs .2 cent a gallon to power its cars. SEE NOTE

At .2 cent a gallon, it would cost you an astonishing \$60 a year to "fuel" your car. So here's the take-away.

Downsizing is still for those who can afford it. But come 2010, there will be a batch of cars on the market that will make choosing a plug-in an easy decision.