High Energy Prices Impact Businesses and Consumers in 2007

Impacts on Manufacturing, Chemical, and Forest Product Industries

Manufacturing Industry

- Oil and natural gas are used in 97 percent of all manufactured goods – plastics, medicines, machinery, etc.
- U.S. manufacturers consume roughly one-third of our nation's available energy supplies and are disproportionately impacted by energy price instability.
- Over the last three decades, U.S. population has grown by 40 percent while energy demand increased 47 percent. With domestic demand further outstripping domestic supply, energy prices can be expected to take a further toll on U.S. competitiveness. Already, higher energy prices have cost some 3 million American jobs.

Chemical Industry

- More than 100,000 jobs in the chemical industry alone have been lost due to high prices of natural gas.
  - Of the 120 new chemical factories in development worldwide, 119 are being built outside the U.S.

Forest and Paper Industry

- Today, energy is the third largest manufacturing cost for the forest and paper industry – up 50 percent in the last three years for pulp and paper mills. For some mills, the cost of energy is about to eclipse employee compensation.
- Since the rise in natural gas prices began six years ago, the forest products industry has closed 267 mills and lost 189,000 jobs. Energy costs were a factor in many of the closings.

Impacts on the Transportation Industry

- Oil and natural gas power 97 percent of U.S. transportation – cars, trucks, trains, planes, and ships.

Airlines

- According to the Air Transport Association, the organization representing leading U.S. airlines, the industry consumes more than 19 billion gallons of jet fuel per year. Every penny increase in the price of a gallon of jet fuel drives and additional $190 million in annual fuel costs for U.S. airlines.
- Since 2000, the airline industry has increased fuel efficiency by 16 percent, but despite these efforts, fuel has overtaken labor as the industry's top cost for many carriers and now constitutes 20 to 30 percent of industry operating expenses.

Trucking

- For many motor carriers, fuel represents the second highest cost after driver wages. Fuel can account for up to 25 percent of total operating expenses, according to the American Trucking Association.
- Commercial trucks consume 51.4 billion gallons of fuel each year. About 36 billion gallons (71 percent) is diesel. The remaining 29 percent is gasoline. The trucking industry spent $87.7 billion in 2005, $21.8 billion more on fuel in 2005 than they spent in 2004.

- The rising cost of fuel has the potential to create a ripple effect through the economy because, if prices continue to rise, eventually consumers will see higher costs for any purchase delivered by truck. (More than 80 percent of communities in the U.S. get their goods solely by truck.)

Railroads

- Today, freight railroads serve nearly every industrial-, wholesale-, retail-, agricultural-, and mineral-based sector of our economy, moving approximately 40 percent of all the nation's freight. Diesel fuel, a critical variable cost for the railroad industry, surged 46.7 percent in 2005 leading the industry to impose a fuel surcharge, transferring these costs to its clients.
- In 2005, U.S. freight railroads consumed 3.1 billion fewer gallons of diesel fuel, and emitted 35 million fewer tons of carbon dioxide because of increases in fuel efficiency. In 1980, railroads moved a ton of freight an average of 235 miles per gallon of fuel. In 2005, the comparable figure was 414, a 76 percent improvement.

Impacts on Small Business and Consumers

Small Business

- While record energy prices hurt all corporations, small businesses feel a disproportionately greater impact. Businesses with slim profit margins have less flexibility to absorb price hikes – or pass them along, according to a *Business Week* article April 28, 2005.

Consumers

- Two-thirds of the energy Americans use comes from either oil or natural gas. Nationwide, 58 percent of all households depend on natural gas as their primary heating source.
- 30 percent of all U.S. households rely on electricity as their primary heating fuel, with electricity the primary heating fuel for 52 percent of households in the south, 30 percent of households in the West, 11 percent both in the Northeast and the Midwest.
- Consumers who have to pay more for heating and cooling costs have less to spend on goods and services provided by the nation's 32 million small businesses.
- The Energy Information Administration (EIA) of the United States Department of Energy projects that the average residential customer in 2007 will spend approximately $873 this year on home heating, 25 percent higher than the 2000-2001 winter heating season.
- According to the National Energy Assistance Directors Association (NEADA), during 2006 increasing energy costs will cause 32% of low-income families to sacrifice medical care, 24% to fail to make their rent or mortgage payments, and 20% to be without food for at least one day, while 44% of low-income families reported that they skipped paying or paid less than their entire home energy bill in the past year.
- A survey of LIHEAP recipients by NEADA issued in September 2005 found that: 73 percent reported they had reduced expenses for household necessities because they did not have enough money to pay their energy bills; 19 percent reported they had kept their homes at temperatures that they felt were unsafe or unhealthy; 24 percent used their stove or oven to provide heat; and 20 percent reported that they had gone without food altogether for at least one day in the last five years.
- A report issued in February 2006 by America's Second Harvest, the Nation's food Bank Network, found that more than 40 percent of their clients reported that they had to choose between paying for food and paying utilities or heating fuel.