

The Impact of Rising Energy Costs

For eight years, President Bush and congressional Republicans have promoted drilling and taxpayer subsidies for oil companies. Today's record energy prices are the result of spending all these years without a real plan for American energy independence.

The New Direction Congress has begun to reverse these policies of the past, with the passage of the Energy Independence and Security Act of 2007. This historic energy legislation includes provisions to combat oil market manipulation, increase fuel efficiency to 35 miles per gallon in 2020 – the first congressional increase in more than three decades, and increase supply of more affordable American biofuels. To bring down gas prices, we have also temporarily suspended the oil purchases and acquisition for the Strategic Petroleum Reserve, over the initial objection of the President. We are also fighting to hold OPEC and oil companies accountable for oil price fixing, crack down on price gouging and to invest in renewable energy for green jobs. It took years to get into this mess and will take some time to get out of it.

Here's the current impact of ongoing effects of the failed Bush-Cheney energy policies.

Economic Effects

Inflation. Surging energy and food costs are spreading to other parts of the economy causing more widespread inflation problems, analysts said. Wholesale inflation (excluding food and energy) has risen by 3 percent, the highest reading in more than 16 years, over the past 12 months.

Economic Growth. Increased oil prices have reduced real GDP by more than \$1 trillion (at an annual rate) in the first three months of 2008. [EIA]

Jobs. These energy prices are also costing us jobs. On average, every time oil prices go up 10 percent, 150,000 Americans lose their jobs -- based on the calculations of the Bureau of Labor Statistics and Federal Reserve Board.

On Family Finances

Spending on Gas. The average American driver now pays about \$2,250 per year for gasoline – that's an increase of \$1,400 over what consumers spent in 2001. [House Select Committee on Energy Independence and Global Warming, 5/21/08]

Food Prices. The biggest culprit for increasing food prices is sky-high energy costs. With the average food item traveling more than 1,500 miles before reaching the final consumer, it is no wonder that food costs are increasing when gasoline prices have increased by nearly 200 percent over the past seven years. [NFU, 5/20/08]

Seniors. Seniors spend a larger share of their income (nearly 10 percent) on energy-related cost than younger families. [CRS, 3/4/08]

From Diapers to Tissue. A range of products are impacted by the rising petroleum prices. For example, Kimberly-Clark (KMB) plans to increase prices for consumer tissue and baby-care products like Huggies Diapers by 4% to 7%. The company uses oil-based raw materials like polypropylene and pulp for these products, and is facing higher overall production costs. [Business Week, 1/14/08]

Memorial Day Travel. Record-high fuel prices and a slowing economy will shrink travel in the United States over the coming Memorial Day holiday for the first time since 2002, auto and travel group AAA said [Reuters, 5/15/08]

Trucking

Consumer Goods Delivered by Trucks. Because trucks haul 70 percent of all freight tonnage, and 80 percent of communities receive their goods exclusively by truck, rising fuel costs have the potential to increase the cost of everything that is transported by truck.

Cost to the Trucking Industry. Each year, the trucking industry consumes over 39 billion gallons of diesel fuel...every one cent increase in the cost of a gallon of diesel fuel costs the industry an additional \$391 million in annual fuel expenses. The trucking industry will be forced to spend an incredible \$141.5 billion on fuel this year, according to DOE forecasts. It costs approximately \$1,200 to refuel a truck.

Trucking Bankruptcies. The number of trucking companies going out of business continues to climb – 935 in the first quarter of 2008, the largest amount since the 3rd quarter of 2001. [Dave Berry, Vice President of Swift Transportation & Chairman of the American Trucking Associations Environmental and Energy Policy Committee, before the House Select Committee on Energy Independence and Global Warming on 4/24/08]

Small Business

Small Business Energy Use. More than 37 percent of businesses have energy costs linked primarily to operating vehicles. The single largest business cost for more than 10 percent of small businesses is related to energy used in the business. [NFIB, 5/14/08]

Range of Business Affected. Delivery companies, cruise lines, taxis, electric utilities, garbage collectors, landscapers, pizza chains, florists and numerous other businesses nationwide are finding it necessary to either tack on extra fees to the basic consumer price or to increase existing fuel surcharges.

Less Able to Pass on Costs. While record energy prices have hit large corporations as well, small businesses feel a much greater impact. The latter, with their slim profit margins, have less flexibility to absorb price hikes -- or pass them along.

Airlines

Record Breaking Spending on Fuel. This year, airlines are projected to spend a record breaking \$60 billion on jet fuel – nearly double the cost in 2005 and five times the cost in 2002. Skyrocketing oil prices have the Air Transport Association projecting that the industry's 2008 jet fuel bill will be 72% higher than last year's. ATA President and CEO Jim May has said that soaring fuel prices are "the worst economic shock since 9/11, and, possibly, one that is worse." Every time the price of a barrel of oil goes up \$1, it drives up the expense of jet fuel by \$465.0 million for American carriers [Air Transport Association]

Airlines Losing Money and Going Out of Business. The biggest airlines mainly have blamed high jet fuel prices for steep financial losses this year. United Airlines, a unit of UAL Corp, lost a staggering \$537 million in the first quarter on a 50 percent jump in fuel costs to \$1.5 billion. Eight airlines have entered Chapter 11 bankruptcy protection or stopped flying since Christmas 2007; virtually all of them have been low-cost or regional carriers that couldn't keep up with the rising cost of fuel as crude oil surpasses \$120 a barrel, up from \$28.98 in May 2001. [Forbes, 5/19/08]

Airline Ticket Prices. U.S. airlines have boosted ticket prices at least seven times since September to combat rising jet-fuel prices, which jumped nearly 60% in the past year. Since jet fuel represents about a third of airlines' operating costs, domestic fares began rising \$10-\$20 or more within days of oil prices reaching \$100 per barrel. [Business Week, 1/14/08] Fuel cost is now 36.5% of the price of a ticket, compared to 15% in 2000, according to the ATA. [CNN, 5/15/08]

Farmers and Rural Communities

Energy prices are costing farmers billions of dollars. Retail diesel fuel prices are at a record \$4.56 a gallon, 57 percent higher than a year ago and three times the amount when President Bush came to office. [EIA, Historical Tables - 1/22/01; AAA, 5/21/08]

With skyrocketing energy costs farmers are hurt in several different ways. It costs more to grow and harvest crops because prices are higher for fertilizer, pesticide, fuel, and lubrication. Energy-related inputs—such as gasoline, diesel fuel, electricity, and fertilizer— make up 15 percent of farm expenses. For the first four months of 2008, fertilizer prices are up 67 percent, fuels prices are up 43 percent, feed is up 23 percent compared to last year's first four month. Gasoline, diesel fuel, natural gas and propane gas power the equipment used to plant, cultivate, water, harvest and deliver crops to market. [USDA]

Farmers are the least able to pass on cost increases because agriculture is so highly competitive, but higher production costs may inevitably lead to higher grocery prices for all Americans.

High prices at the pump are particularly painful for Americans living in rural communities because they often must drive long distances every day to get to work, drop their kids off at school, access healthcare and pick up essentials such as prescription drugs. Rural households drive 28,000 miles year on average – 17 percent more than urban Americans. [Economic Research Service/USDA, 4/06] Rural Americans should not have to wonder if they can afford groceries after facing higher prices at the pump.