

The Impact of Higher Energy Costs and The Need for Action

The increased cost of energy is having a serious impact on Americans:

- Based on a cost increase nearing \$2 per gallon compared to January of 2007, the average American family will have to spend \$2,200 more this year than last year on gas, a major hit to any family's budget.
- By comparison, that is enough for an American family to buy 8 months of groceries or to pay a family's out-of-pocket health care costs for a year.
- The tax rebate checks meant to address a slowing economy are needed just to pay for the increased cost of gas.
- Inflation driven by higher energy costs means that Americans are actually earning less in real terms than last year.
- Americans are facing higher costs for everything from paper towels to tires because so many products are derived in part from oil.
- Even the cost of food has gone up because of the increased cost of transporting food to market.
- This demonstrates the need for Congress to act immediately to increase the supply of oil and reduce the pressure on American consumers. While we must also work towards greater efficiency and alternative sources of energy over the long term, the costs of doing nothing in the short term are too great.

The Direct Impact: *Energy costs are consuming an increasing share of income.*

- Americans are spending a larger share of their income on energy than at any time since 1986.¹ According to last week's report on inflation, the price of energy rose 4.4 percent in May and 28.2 percent over the past year.²
- In the past three months, average consumer spending on energy came to \$663 billion, or 6.5 percent of total consumer spending, according to Moody's Economy.com. A year ago, it represented 5.8 percent and in 2002, it was 4.1 percent of consumer spending.³

¹ *Christian Science Monitor*, "The Rising Impact of High Oil Prices," April 18, 2008.

² *Washington Post*, "Inflation Rises Due to Soaring Energy Costs," June 14, 2008.

³ *Christian Science Monitor*, "The Rising Impact of High Oil Prices," April 18, 2008.

- If gasoline prices continue at \$4 per gallon, that means gasoline spending would increase by more than \$100 billion per year, or roughly the size of the tax rebate checks mailed.⁴

The Impact on the Value of Wages: *Because of inflation caused in large part by higher energy prices, Americans are earning less in real terms than last year.*

- Because of inflation, caused in large part by higher oil prices, real average weekly earnings fell 1.2 percent for the year.⁵
- Even though earnings have gone up, the value of wages has gone down in real terms. That means that Americans are able to buy less with what they make than last year.

The Impact on Other Costs: *Costs go up for everything from paper towels to mobile phones.*

- Higher fuel costs have driven up the price for things you would expect like gas prices and airline costs. However, prices have also gone up for things you might not expect.
- Prices also have increased an average of five percent for paper towels, tissues, and diapers, all made with chemicals derived from oil. In fact, paint, computer and television screens, mobile phones, light bulbs, cushions, paper, mattresses, car seats, carpets, steering wheels, and polyesters are all made with ingredients that manufacturers refine from oil and natural gas. The price of many tires has gone up 15 percent over the last 4 months even though companies have switched to natural rubber instead of synthetic rubber made from oil.⁶
- Higher fuel prices are also a major reason for soaring food prices – in part because of higher fuel costs to produce and transport food.⁷
- Rising inflation caused by higher energy costs is making it more expensive for companies to borrow money to expand and for ordinary Americans to buy a house. As the *Washington Post* reported, “In recent days, long-term interest rates have risen, as investors have become concerned about high inflation and have concluded that the Federal Reserve will ultimately have to raise rates sharply.”⁸

Prepared by the Senate Republican Policy Committee

⁴ *Christian Science Monitor*, “The Rising Impact of High Oil Prices,” April 18, 2008.

⁵ Bureau of Labor Statistics, “Real Earnings in May, 2008,” June 13, 2008.

⁶ *New York Times*, “Oil Prices Raise Cost of Making a Range of Goods,” June 8, 2008.

⁷ *Christian Science Monitor*, “The Rising Impact of High Oil Prices,” April 18, 2008.

⁸ *Washington Post*, “Fuel Costs Pushed up Inflation in May,” June 14, 2008.