U.S. 'Energy Crisis' Slams Manufacturers

by Marcia Merry Baker

The National Association of Manufacturers (NAM) held a press conference on Jan. 17 in Washington, D.C., to release a survey showing that U.S. manufacturing has been "severely hit" by rising costs of natural gas and other energy sources. The survey was taken Jan. 8-12, of 5,500 firms of all sizes, with 737 responding.

NAM President Jerry Jasinowski reported on the significance. "Manufacturers consume more than a quarter of the energy used in our economy, which means they're being hard-hit by escalating natural gas prices. Two-thirds of the survey respondents say they rely on natural gas as a significant source of energy. According to the Department of Energy, the price of natural gas in the first quarter of 2001 will be 130% higher than during the same period one year ago. Manufacturers consume 26% of the natural gas used in the U.S., so they face serious economic consequences from the extraordinary rise in prices."

Jasinowski elaborated on the broader economic effect. "There's no question but that energy and energy price increases for oil and gas have had a devastating impact on the American economy and the manufacturing sector," he said. "Our calculations indicate that between 1999 and 2000, the rising price of oil and gas cost our economy more than $115 billion, a full percentage point of GDP. Simply put, over the past year, manufacturers that use natural gas have been hit by a whopping increase in energy costs that have reduced their profits by roughly 14%."

Layoffs and work stoppages are mounting. Over 43% of the 737 companies responding on the employment question, said they have had to lay off workers because of the increased energy costs, and one-third to two-thirds have had to reduce benefits, hours worked, or profit sharing to employees. "Let no one be mistaken," Jasinowski said, "but that we are, in the American economy, in treacherous waters, because of the combination of high interest rates, extraordinarily high oil, electricity, and, most importantly, natural gas prices, as well as an inventory cycle and some other factors that are slowing the growth and threatening the health of the American economy."

The pass-it-on effect to end-users, of high energy prices for manufacturing? Jasinowski reported: "The survey shows that nine out of ten companies dependent on natural gas are passing no more than a quarter of their increased energy expenses through to those who buy their goods. Additionally, more than a quarter of large companies report that they have curtailed operations in response to natural gas price increase or unavailability, and 12% of all natural gas-using firms have had their production processes interrupted due to the inability to obtain natural gas."

All Sectors and Regions

The industrial dislocation is widespread, with obvious hyperinflationary potential. California and the Northwestern states lead the nation, but the process is under way throughout the country, from metals, to pulp and paper, to machinery, to food.

Kaiser Aluminum and Chemical Corp., whose operations are concentrated in the West, announced in early January that it has imposed a $0.019 per pound surcharge, on all orders shipped on or after January 2001, regardless of entry-date, and until further notice. This applies to all its flat-rolled goods, and to engineered products of other kinds. In several locations, Kaiser has closed aluminum plants, instead selling the power it would have used for its own production.

Shasta Paper, whose products are shipped nationally, shut its plant in Redding, California in December, laying off 460 workers because of high gas prices. In January, it re-opened, with 68 fewer workers, then was hit with the new 10% electricity surcharge in the state. The Redding plant manager now says the facility may close permanently.

Food Processing

Light industry and food processing are as hard-hit as heavy industry. California is the foremost state in value of agriculture output, accounting for some $25 billion, out of the nation's $189 billion in agricultural production in 1999. The state has a gigantic food-processing sector—ranging from dehydration plants, to canneries and yogurt factories. Most of these use natural gas, and many are simply shutting down. The national impact on the food chain, as well as on communities in the state, will be disastrous.

In Tulelake, California, for example, the potato-flake plant was closed on Jan. 20, for the second time in a month, because of the 16-fold increase in monthly natural gas bills, and then on top of that, the January 10% electricity rate hike. These dried potatoes go out of state to users such as Cincinnati-based Procter & Gamble, for processing into mashed potatoes, chips, and other products.

California is the biggest milk-producing state, accounting for 20% of all U.S. dairy products. Besides electricity for milking machinery, milk processors rely on natural gas power to produce cheese, butter, dried milk powder, evaporated milk, and other products. California Dairies, Inc., the nation's second-largest farmer-owned cooperative, expects farmers' power costs to rise at least tenfold this Winter. Michael Marsh, chief executive of Western United Dairymen, said that consumer prices for dairy products will go up nationwide because of California, unless "cows fall from the skies in Wisconsin."