



The Impact of Rising Energy Prices

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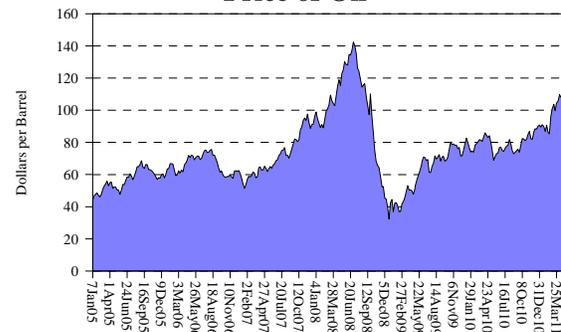
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Highlights

- Oil prices have risen to about \$100 per barrel, more than three times higher than the price in December 2008 of just over \$30 per barrel.
- If current prices are sustained for the next 12 months, New Yorkers will pay, on average, \$811 more for gasoline than two years earlier, and the average annual home heating bill will be higher by \$1,027.
- While New York City had the highest average price for home heating fuel in April 2011, residents in colder upstate regions use more fuel and have annual heating costs about 25 percent higher than the Statewide average.
- The rise in oil prices was one factor that held growth in the national economy down to 1.8 percent in the first quarter of 2011 (compared to 3.1 percent in the fourth quarter of 2010).
- Higher energy prices raise costs throughout the economy. For example, higher processing and transportation costs increase food prices.
- National energy and food prices rose by 13.2 percent and 2.5 percent, respectively, during the first four months of 2011 compared to the same period one year earlier.
- Higher energy prices will increase costs for governments, including New York City and the Metropolitan Transportation Authority.
- Rising gasoline costs have led New York City's taxi industry to request a rate increase. If granted, it would be the first permanent increase in seven years.
- The New York City Rent Guidelines Board has proposed a 1 percent fuel surcharge on rent-stabilized apartments where heat is provided, on top of a proposed rent increase of between 3 percent and 5.75 percent for one-year leases renewed during the October 2011-September 2012 period.

In New York State, as well as in the nation, a modest economic recovery took hold in 2010. Rising energy costs, however, could create a drag on the pace of the recovery. Over the past year, the price of oil has risen by about 40 percent, reflecting rising demand in developing economies, tensions in the Middle East, and a decline in the value of the dollar (see Figure 1).

Figure 1
Price of Oil



Note: Price is for West Texas Intermediate Crude Oil.
Source: Wall Street Journal

Although the price of oil has fallen in recent weeks, long-term trends point to higher consumption in developing nations, which will place upward pressure on prices. Higher energy prices could have an adverse impact on domestic economic growth, as consumers (who represent two-thirds of the economy) shift spending to cover energy costs rather than the purchase of goods and services that generate jobs. Higher energy prices, however, may encourage conservation, and make the cost of alternative fuels more competitive with fossil fuels.

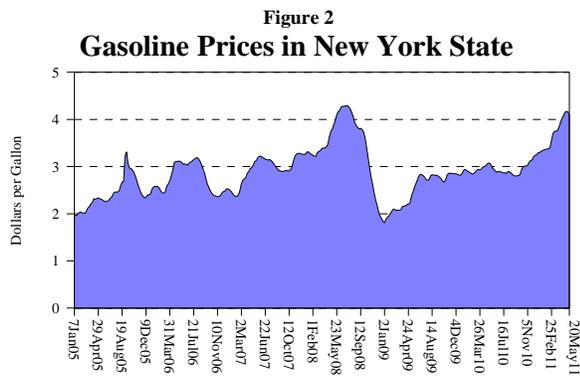
A recent report by the New York State Energy Research and Development Authority found New York to be the most energy-efficient state in the continental United States on a per-capita basis (due to its well-developed mass transit systems and the large share of its population living in urban areas), but the State is still the nation's fifth-largest energy consumer. As a result, its economy would be hurt by a sustained rise in energy costs.

Impact on the National Economy

For the first quarter of 2011, the nation's Gross Domestic Product increased at an annual rate of 1.8 percent, compared to 3.1 percent in the prior quarter. The slower growth is attributable to several factors, including rising oil prices and their effects on consumer confidence and spending. While many economists, including those at the Federal Reserve, believe oil prices will fall later this year, IHS Global Insight has generated an alternative economic forecast that assumes continued high prices. Under this scenario, the average annual rate of job growth through 2014 is reduced from 1.7 percent to 1.2 percent.

Impact on New York State Residents

Gasoline prices across New York State averaged \$4.09 per gallon on May 20, 2011. While the price of gasoline was slightly less than the peak reached in the summer of 2008 (see Figure 2), it is nearly 37 percent or \$1.09 per gallon higher than it was one year ago.



Note: Weekly prices for regular unleaded gasoline.
Source: Oil Price Information Service

The average annual cost of operating a passenger car in New York totaled \$1,646 during the April 2010 to March 2011 period (based on 2008 statistics of 12,000 miles per year and 22.6 miles per gallon). This was \$288 more than during the prior 12-month period due to higher gasoline prices. If current gasoline prices are sustained for the next 12 months, the annual cost of driving a car could rise by another \$523 to \$2,169. This would represent a cumulative two-year increase of \$811 or 60 percent (the increase would be higher for SUVs and light trucks). Each \$0.25 change in the price of gasoline could raise or lower the average annual cost by \$133.

Home heating fuel prices have also increased. The statewide average price for home heating fuel was

\$4.10 per gallon in April 2011, \$1.07 higher than one year earlier (but below the peak reached in June 2008). While New York City had the highest average price for heating fuel in April 2011, the City's more moderate winter results in a lower average annual bill than in many other areas of the State (see Figure 3). Average annual heating costs for residents in the North Country region, for example, are about 25 percent higher than the statewide average.

During the April 2010 through March 2011 period, the average cost of heating a home with oil in New York State was \$2,757, which was \$492 higher than in the prior 12-month period. If current prices are sustained for the next 12 months, the cost of heating a home could rise by another \$535 to \$3,784, for a cumulative two-year increase of \$1,027 or 45 percent. Each \$0.25 change in the price of home heating oil could raise or lower the average annual heating bill by \$188.

Figure 3
Increases in Average Annual Home Heating Bills

	Estimated Cost April 2010 – March 2011	Increase from Prior Year	Projected 2-Year Increase from Prior Year
Albany	\$2,587	\$486	\$1,016
Binghamton	\$2,940	\$562	\$1,157
Buffalo	\$2,510	\$483	\$943
Kingston	\$2,244	\$394	\$839
Long Island	\$1,881	\$321	\$681
Lower Hudson	\$2,022	\$365	\$765
Messena	\$3,451	\$608	\$1,173
Mid Hudson	\$2,740	\$482	\$1,045
New York City	\$1,470	\$249	\$516
Rochester	\$2,675	\$515	\$1,052
Syracuse	\$2,601	\$499	\$1,015
Utica/Rome	\$3,147	\$601	\$1,240
Watertown	\$3,432	\$603	\$1,169
Statewide Average	\$2,757	\$492	\$1,027

Sources: New York State Energy Research and Development Authority; Energy Information Administration; OSDC analysis

Impact on Government

Higher oil and electricity costs also put pressure on government budgets. For example, New York City's May 2011 financial plan forecasts energy costs of \$903 million in FY 2011, rising to nearly \$1.1 billion in FY 2015—up from \$400 million in FY 2000 and \$800 million in FY 2008.

The Metropolitan Transportation Authority's (MTA's) energy costs almost doubled from \$261 million in 2003 to \$515 million in 2010 (lower than the all-time high of \$594 million in 2008), as oil and natural gas prices rose and utility companies increased rates and charges. The MTA's February 2011 financial plan expects energy costs to rise to \$698 million by 2014, but recent trends could push costs higher still.