

Federal Reserve Bank of Atlanta

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Moderator: *Welcome to Southeastern Economic Perspectives, an occasional podcast from the Federal Reserve Bank of Atlanta. The following comments provide insight into the current energy concerns that are affecting the Southeast. Laurel Graefe and Menbere Shiferaw, analysts who specialize in economic analysis for the Sixth District, will provide insight into how energy concerns are affecting the Southeast. Thank you for joining me, Laurel and Menbere.*

Laurel Graefe: Thanks for having us.

Menbere Shiferaw: Sure.

Moderator: *Many news articles about the rising prices of gas and energy mention consumers cutting back on other expenses. Can you talk about the way rising energy prices are affecting Sixth District consumers?*

Graefe: Although regionally the Sixth District has some of the lowest gasoline prices in the country—we pay about 10 cents less than the national average—the Southeast is actually more exposed to high gas prices than the rest of the country, when taking into consideration average income in the district and the percent of income spent on gasoline. Residents in some areas of Alabama and Mississippi, for example, spend on average 16 percent of their income on gas.

Shiferaw: And with a larger portion of their income going towards fuel, people's consumption habits are changing. Our retail contacts have indicated that rising gas prices are affecting consumer pockets. People are tightening their belts, eating out less, and thinking twice before making bigger purchases.

Tourism is, of course, another industry that's been affected by rising energy prices. The increase in gas prices has clouded the outlook for tourism everywhere in the district except South Florida. This also applies to business travel destinations and convention centers like New Orleans, Orlando, and Atlanta as companies are less likely to send employees to conferences and on-site assignments with the cost of travel being so high.

Commuting has also changed. Many people are now reviewing their options for transportation. Residents are now looking into carpooling or commuting on an express bus to and from work. The city of Birmingham introduced a four-day workweek for its employees last month. And many other businesses in the region have taken initiative to minimize the effect of gasoline prices on their employees, from shorter workweeks to encouraging more telecommuting. And according to the Federal Transit Administration, more people have been switching to public transportation as the cost of driving increases. The FTA calculates that average ridership in our district's major cities was up 6 percent in May of this year from May of last year, compared to about 1.6 percent for the nation. On the other hand, motorists traveled on average 5.2 percent fewer miles in our district in May than in May of last year, according to the Federal Highway Administration.

Moderator: *Can you talk about how businesses have responded to rising gas prices? Are they passing costs along to consumers?*

Graefe: Well, many different industries have felt the impact of rising gas prices; the airline industry provides a clear example. Atlanta-based Delta Air Lines recently announced cutbacks in flight schedules and regional planes in an attempt to blunt \$4 billion in additional fuel costs that the carrier expects to run up this year.

Automakers are also reacting to rising energy costs. Nissan announced that it's transitioning its truck line workers to a new car-making shift at a Canton, Miss., plant as a result of decreased demand for trucks. Toyota has also announced plans to produce their hybrid car, the Prius, at a planned plant in Mississippi instead of their midsized SUV, as was previously announced.

We have also seen increased investment in more energy-efficient means of production by manufacturers in the region. And looking at some transportation firms, in addition to fuel surcharges, some companies are waiting until they have full loads before shipping goods to customers in an attempt to limit the impact of rising transportation costs. So while our contacts are telling us that with input costs rising, businesses are passing on as much of the increase as they can. When the economy is underperforming, it becomes much harder to institute price increases. However, district contacts have also indicated that it's been easier to pass on fuel surcharges to customers than increased costs of other inputs such as metals or grains.

Moderator: *Looking at energy from a different perspective, how much energy is actually produced in the Sixth District?*

Shiferaw: Well, because the Sixth District includes a number of Gulf Coast states, it plays a vital role in the national energy market. Looking at average production over the past couple of years, crude oil production in our region has accounted for about 28 percent of total national production, and that includes producing states of Alabama, Florida, Louisiana, and Mississippi. Over the past 10 years, our district accounted for roughly 15 percent of total natural gas withdrawals in the nation. And in terms of refining, as of January of this year, about 27 of the total 150 operable refineries in the U.S.—that's about 18 percent—were in district states.

Graefe: Right, our district's oil industry is situated in a good spot, such that if exploration and production do expand, this will benefit those areas of the district financially. In fact, in March, Louisiana, Mississippi, and Alabama received a share of the proceeds from federal Gulf Coast leases for the first time. Beginning in 2016 these states will begin drawing revenue from all leases in the Gulf of Mexico.

Moderator: *Are any new projects planned that would help provide more gas and energy to the Sixth District?*

Graefe: Production from the Tahiti field, located about 190 miles south of New Orleans and believed to be one of the Gulf's largest deepwater discoveries, is scheduled to begin by third quarter 2009. The field's expected to produce around 125,000 barrels per day of crude and 70 million standard cubic feet of natural gas. Also, the Minerals Management Service, making advances in an alternative energy program for the Outer Continental Shelf, recently awarded leases to collect information that could be useful for future commercial projects. A number of leases went to companies in Georgia and Florida for data collection on wind resources and ocean currents and for testing new technology. Also, pointing to more current headline news, the conclusion of the current debate about whether to open up more Outer Continental Shelf areas for leasing would obviously have a substantial impact on our region.

Moderator: *Have energy suppliers in the region seen an impact because of the rising prices?*

Shiferaw: Well, anecdotally, we've heard that major oil companies in the Gulf of Mexico are not expanding their exploration budget, and that's because the cost of exploration has increased. For example, rig rates and the costs of key raw materials, such as steel, has risen dramatically. But energy companies in the Gulf region, for the most part, have been successful in passing along high input costs because of high energy demand, especially global demand coming from developing countries.

Global demand has thus far cushioned profits for refiners and petrochemical plants, but there is pressure to change company operations if the national and global economies continue to soften and hamper energy demand and the rise in end user prices—meaning what these energy companies end up charging for their final products—can no longer keep up with the rise in input costs.

Gas station retailers have also been battling high prices. This is a combined effect of consumers buying less gas and delivery companies raising costs to deliver goods, such as food and drinks, to the stores. Even gas stations that have diversified their products so that they get revenue from goods other than gasoline are now in a tight spot because customers are buying less of everything because of the struggling economy. Keep in mind that the majority of gas stations are independently owned, regardless of whatever big name they carry, such as Chevron or BP. But on a positive note, many district industries that are performing relatively well are energy-related, such as companies that manufacture parts for energy production. And anecdotally, news of employment expansion and new hires has recently come from energy-related companies.

Moderator: *Thanks, Laurel and Menbere.*

Graefe: It was great to be here.

Shiferaw: You're welcome.

Moderator: *Again, we've been listening to Atlanta Fed regional research team members Laurel Graefe and Menbere Shiferaw provide insight into the current energy concerns affecting the Southeast. This concludes our Southeastern Economic Perspectives podcast. Thanks for listening, and please return for more podcasts. If you have comments, please send us e-mail at podcast@frbatlanta.org.*