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Section: Local

Rising gas prices have a ripple effect statewide

By Lucy Sutherland

Malay Sarivong won't be taking a vacation this summer because gas prices have climbed too high. "I don't think I'll be going anywhere," said Sarivong, a Fitchburg resident who dreams about buying a hybrid car but can't afford one.

Jim Reger, president of the road construction firm P.J. Keating Company in Lunenburg, pays twice as much as he did last year for gas. He said the soaring price of crude oil, a base material used in asphalt, has also cut deeply into the company's bottom line.

And since heating oil prices began their steady climb this winter, many residents in Larry Charles' apartment complex have been priced out of his building because the landlord has been forced to raise the rent. "Something's got to give," said Charles, a Leominster resident.

Bay State consumers and businesses alike are scrambling to cope with the sky-rocketing price of crude oil, which is driving up the cost of other energy sources.

A mini-regression

The ripple effects are legion, including rising gas and other energy costs, lower profits for businesses and flatter consumer spending, analysts say. It's a mini-regression back to the 1970s, said Ned Riley, chief investment strategist at State Street Global Advisors in Boston. When crude oil prices began to edge up in earnest last year, said Riley, most economists thought the impact would be limited.

Now, he said, the problem is weakening the state's economy. "It's generally accepted that (higher prices) will have an impact on inflation," he added, a sign that consumers are getting more cost-conscious. Riley points to sluggish car sales in recent months as a signal that demand for big-ticket items such as cars -- an indicator of consumer confidence -- has slowed. "Domestic (car) manufacturers are caught with really high inventory," said Riley.

Crude oil prices averaged \$49.77 per barrel this year, about \$14.50 higher than the first quarter of 2004, according to the Department of Energy. Regular unleaded gas averaged \$2.14 per gallon last week in the state, up 40 cents per gallon from the same time last year, according to an AAA survey.

And if DOE predictions prove true, the coming months won't offer much relief, either. Gas prices will average \$2.28 per gallon through September, according to a recent Department of Energy report. "We've got some people out there (in the construction industry) who are saying get used to it, because it's not going

back,” Reger of P.J. Keating said. “Right now, everyone is anticipating (the price of oil) is going to stay where it is.”

Struggling to survive

Joe Fiumara, president of ASAP Courier Service in Lunenburg, said companies like his are struggling to survive as gas prices push up the cost of doing business. “Fuel always threatens small business,” he said.

Fiumara’s 15-vehicle delivery fleet can’t make enough deliveries to overcome rising fuel costs. And the business is so competitive that Fiumara can’t raise his delivery charges. All he can do is absorb the fuel costs himself. “That comes right out of our bottom line,” Fiumara said. “Hopefully the price will come down. If it doesn’t, it’s going to turn a profitable business into a loser business.”

The price of resin, which is used in the plastics industry, has swelled 40 percent since last year according to Peter Crisci, CEO of Acromatic Plastics in Leominster. “Crude oil is used in the production of resin. Resin cost can be as much as 50 percent of the cost of the product,” Crisci said. He said he must pass on any cost increases directly to his customers.

Cutting costs

As businesses struggle with higher energy prices, some consumers are choosing to spend less on retail goods, such as clothing, cars and other luxury goods.

Margaret Hamel of New Salem drives 40 minutes every week to escape the \$2.15-per-gallon price at the filling station near her home. Instead she pays \$2.03 per gallon at a Leominster station. Hamel said she skimmed on her grocery spending in recent months, because filling up her tank is still so expensive. “I’m on a very limited income,” she said.

Hamel’s daughter Fran, also of New Salem, said she buys less expensive gifts and shops more frequently at Wal-Mart. Linda Rodriguez of Leominster said she has spent less on clothing, jewelry and other luxury items at Leominster’s Mall at Whitney Field in the last few months because of rising gas prices.

The local car industry is also contending with a growing number of customers turned off by the idea of a gas-guzzling SUV. Mike DiPietro of Lancaster, who said rising gas prices haven’t cut into his retail spending, said he has thought about buying a hybrid car, but thinks they’re still too expensive. Dave Paul would like to trade in his half-ton truck -- which gets 12 miles to the gallon -- for a more fuel efficient car, but can’t afford to. Instead, he’s buying a motorcycle so he can leave his gas guzzler at his Orange home. “I’m taking my bike to work,” Paul said.

Demand for SUVs has weakened significantly in 2004 nationwide, according to a recent study by J.D. Power and Associates. The region’s demand for heavy trucks hasn’t changed according to Jeff Chadler, general manager at Colonial West Chevrolet in Fitchburg, partly because customers in plumbing, construction and other trades need trucks and other heavy vehicles for their businesses.

“Truck sales are the strongest I’ve seen so far in March,” he said. “If you’re a truck person, you’re a truck person,” Chandler added. But he said SUV sales are slower than they were in 2000 and 2001, though he’s steadily moving Suburbans and other SUVs off the dealership lot.

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