

Business

Price spike: Higher fuel prices a litmus test for US economy

Some consumers absorbing higher costs, while others shifting behavior

WASHINGTON: Surging energy costs are being felt across the US economy with varying effects. Some consumers are absorbing higher costs, while others are shifting behavior or cutting back.

Here's a sampling of how the story is playing out in different sectors.

Trucker sees austerity

As he contends with surging fuel prices, truck driver Lamar Buckwalter sees signs all around that consumers are cutting back. Demand for refrigerated pet food—a torrid business just three months ago—has virtually disappeared. Humans are also shifting their own diets, ordering less high-end meats like veal and crab cakes.

"People are starting to cut off the extras," said Buckwalter, a third-generation trucker who lives in Pennsylvania. "They're not buying filet mignon steak." The last time he fueled up, Buckwalter spent \$5.79 a gallon for diesel, more than double the price from a year ago, a shift exacerbated by lower job rates as demand for trucking services cools. Mitigating things a bit is Buckwalter's membership in a national small trucker association that offers discounted fuel. He can also pass on a fraction of the fuel price spike to consumers.

But the pain from fueling up is "enough to make a preacher man curse," said Buckwalter, who has been turning down trips that pay insufficiently. He is also planning to tighten the belt on perks for his three employees, such as a summer family picnic.

"We'll still do Christmas bonuses," he said. "Unfortunately, I have to cut back where I can."

Tough times for taxis

Also taking a hit is Rutz Alliance, a New York taxi driver who feels the pinch daily. "I used to put \$25 of gas every day," Alliance told AFP. "Now it's up to \$45." That computes to weekly pay of about \$600 to \$650, one-third less than the pre-pandemic amount.

"We're trying to live. We have no choice. Inflation is all over. Rent, food, everything, but it's take it or leave it." Dubbing the jump in prices an "emergency," the New York Taxi Workers Alliance called in March for a 75-cent temporary fuel surcharge. But city officials have not taken action thus far.

Airlines pass on the pain

Airlines have been among the sectors most directly affected by spiking energy prices, with jet fuel prices jumping almost 50 percent since mid-March, according to Argus.

That would normally amount to a huge drag on the industry, given that fuel and labor are two major sources of costs. "The rule of thumb in this industry is that you can pass through two-thirds of a fuel price increase within three to six months, the full amount within six to 12 months," said Savanthi Syth, an industry expert at Raymond James.

But in a twist of fortunes in a pandemic-dominated era, airlines are benefitting from "pent-up demand" of consumers desiring travel after more than two years of being hemmed in.

Airline tickets are currently up 38 percent compared with the level of the year prior, with industry executives saying they are having no trouble passing on the hit from higher fuel costs.

A higher bar on vacations

For Chayzz Devyant, one casualty of spiking gasoline prices has been a summer visit to Atlantic City. Just traveling back and forth to the casino town would cost some \$162 in gas, on top of lodging costs.

"Big Oil is to blame," said Devyant, who hopes to work from home to save on fuel costs. But travel experts still expect a busy summer even if more consumers like Devyant cut some trips.

"We are seeing mixed messages. Oil prices obviously have an effect," said Aaron Szyf, economist



MCLEAN, US: In this file photo taken on June 10, 2022, a sign displays the price of fuel at a gas station in McLean, Virginia. —AFP

for the US Travel Association. "But pent up demand is so high that hotels/attractions/national parks/flights are all expected to be at full capacity this summer."

Electric vehicles get a closer look

Higher gasoline prices have prompted greater interest from consumers in electric vehicles (EV). Since January, website visits to EV options have soared 73 percent, according to Cox Automotive.

However, the share of visits to EVs remains a

relatively small 5.7 percent of overall page views, according to Cox. Moreover, the shortage of semiconductors and other key supplies has left car dealerships with limited inventories, crimping sales.

In May, Toyota and Lexus sold 46,000 hybrid vehicles, down 17 percent from the year-ago period amid tight supplies. At Tesla, the top-selling EV maker in the United States, the wait time is at least three months for delivery of a Model 3 and six for the Model Y. —AFP

US gas price hits a record \$5 a gallon

NEW YORK: The average price of premium gasoline at the pump has surpassed \$5 a gallon for the first time in the United States, the American Automobile Association (AAA) reported Saturday. That record level, coming on top of months of soaring inflation, represents the latest bad news for President Joe Biden just five months before crucial midterm elections. A year ago, the average price of gas in the US was just \$3.07; since then it has shot up by 62 percent.

While Europeans have long been accustomed to paying much more at the pump, US gas taxes are lower — leaving car-loving Americans in shock over surging prices. The increase in gas prices follows a steady rise in oil prices — which had plummeted in the early days of the Covid-19 pandemic as demand sagged, but have risen again as world economic activity resumes. Oil prices soared further after Moscow invaded Ukraine in late February, and as international sanctions against Russia — a major petroleum producer — began to bite. A barrel of crude currently sells for more than \$120 in both London and New York.

Overall US energy prices in May were nearly 35 percent higher compared to the same month in 2021, according to government data. This has contributed to the overall rise in US consumer prices, which were up 8.6 percent in May from a year earlier — a 40-year record.

As the summer vacation season nears, Americans — with their longtime love affair for big gas-guzzling vehicles — can expect to see energy prices rise still further. That will pile even more pressure on consumers already struggling with higher prices for food (up 10.1 percent in May), housing, automobiles and health care.

All this complicates Biden's position. For months he has sought to reassure Americans that his administration is doing everything in its power to bring down prices without derailing the economic recovery. But in November, Americans vote to elect all members of the House of Representatives and one-third of senators — and polls show voters listing the economy, inflation and high gas prices as their top issues. On Friday, the president again lashed out at the American oil industry, cautioning it in a statement "not (to) use the challenge created by the war in Ukraine as a reason to make things worse for families with excessive profit taking or price hikes." —AFP

Climate: Offshore methane gas leak spotted from space

PARIS: Scientists have for the first time used satellite data to detect a major offshore leak of the potent greenhouse gas methane, according to peer-reviewed research. The findings add a crucial tool to an expanding space-based arsenal for pinpointing previously invisible methane plumes from the oil and gas industry.

Fossil fuel operations globally emitted about 120 million tons of the planet-warming gas in 2020, nearly one-third of all methane emissions from human activity, according to the International Energy Agency (IEA). The new study in the journal Environmental Science and Technology Letters identified a plume from an oil and gas production platform in the Gulf of Mexico that spewed some 40,000 tons over a 17-day

period in December.

The platform, near Campeche in southern Mexico, is in one of the country's biggest oil producing fields. "Our results demonstrate how satellites can detect methane plumes from offshore infrastructure," senior author Luis Guanter, a professor at Valencia Polytechnic University, said in a statement. "It opens the door to systematic monitoring of industrial emissions from individual offshore platforms."

Satellite-based methods for spotting methane leaks over land have developed rapidly in the last few years, training an uncomfortable spotlight on regulators and industry. But equivalent techniques have been lacking for leaks from offshore oil and gas operations, which account for about 30 percent of global production.

Huge short-term potential

Up to now, ocean water's capacity to absorb short-wave infrared radiation has limited the amount of reflected light reaching space-based sensors. Guanter and colleagues overcame this problem with a new method for measuring solar

radiation bouncing off the water's surface, called Sun-glint observation mode.

Methane is responsible for roughly 30 percent of the global rise in temperatures to date. While far less abundant in the atmosphere than CO₂, it is about 28 times more powerful as a greenhouse gas on a century-long timescale. Over a 20-year time frame, it is 80 times more potent.

Methane lingers in the atmosphere for only a decade, compared to hundreds or thousands of years for CO₂. This means a sharp reduction in emissions could shave several tenths of a degree Celsius off of projected global warming by mid-century, helping keep alive the Paris Agreement goal of capping Earth's average temperature increase to 1.5C, according to the UN Environment Program (UNEP).

Last year saw a record jump in the atmospheric concentration of methane, US government scientists reported in April. Methane is generated by the production, transport and use of fossil fuels, but also from the decay of organic matter in wetlands, and as a by-product of livestock digestion in agriculture. —AFP

NBK Money Markets Report

Peaking inflation data sends the dollar higher

KUWAIT: In the United States the highly anticipated and closely monitored inflation data surfaced early on Friday showcasing an increase in price pressures. On an annual basis, the consumer price index in the US reached 8.6 percent from the previous reading of 8.3 percent. Core inflation, which excludes food and energy, reached 6 percent and beat expectations by 0.1 percent. Futures on the S&P 500 fell more than 1 percent after the data, exacerbating concerns that the Fed's efforts to control inflation will tip the economy into a recession. The two-year Treasury rate rose, while yields on longer-dated maturities were little changed. The flattening of the yield curve indicates expectations for a faster pace of central-bank tightening. Inflation is still running at the highest in 40 years even after the Fed began winding down monetary support for the economy in March. The central bank

signaled it will likely raise rates by 50 basis points when it meets next week.

The market is still pricing in 8 hikes worth 25 basis points each till year end, with the next three meetings having a 100 percent probability of a 50 basis point hike. The latest inflation data seems to support the rhetoric of the market that the Fed will need to continue to be aggressive in its tightening policy to contain inflation.

Market movement

On the forex front, the dollar remained on top of the currencies hill and almost reached 104 last week following the release of the inflation data. The divergence in the forward guidance between the Fed and the BOJ continued to weigh in on the yen. The pair has reached a 20-year high of 134.55 while the Swiss franc is depreciating against the dollar and traded close to the 0.9900 level.

ECB sets the tone for future hikes

The June ECB policy statement was unusually explicit in laying out the ECB's near-term intentions and its new forecasts. It stated that the "Governing Council intends to raise the key ECB

interest rates by 25 basis points at its July monetary policy meeting". But for now, as widely expected, the ECB did not change its key interest rates as the deposit rate still stands at -0.50 percent.

The ECB "expects to raise the key ECB interest rates again in September ... If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting." This suggests that unless the inflation outlook improves between now and September, the door is very much open to a 50bp rise then.

Markets are currently pricing in 100 percent probability of a 25 basis point hike by the ECB in July and September and a total of 1.5 percent worth of hikes from now till year end, which will raise the policy rate to 1.00 percent. Although the ECB was clear in its tightening framework and forward guidance, it was below the market's expectation of a 50 basis point hike, which pressured the euro and sent it tumbling below the 1.06 level.

UK PM survives

Prime Minister Boris Johnson survived a no confidence vote motion with 211 Tory MPs voting for him and 148

against him. The rebellion was bigger than the one suffered by predecessor Theresa May, who was ousted as premier six months later after failing to unite the party over leaving the European Union.

The Reserve Bank of Australia hiked its benchmark cash rate by 50 basis points to 0.85 percent, whereas markets were expecting a hike of 25 basis points only. The Aussie hit a high of 0.7245 after the decision before retreating to 0.7100 levels on the back of a stronger US dollar. The Australian equity market declined by 1.5 percent as a result of the higher than expected hike by the central bank.

Oil prices remain supported

Worries over inflation and monetary tightening are stoked further in the commodities complex, where oil prices advanced past \$124 a barrel, its highest level in three months. Tightening US crude stockpiles and wakening global demand have contributed to rising prices.

Kuwaiti dinar

USD/KWD closed last week at 0.30615.

Meta to launch 'metaverse academy' in France

PARIS: Facebook's parent company Meta and a French digital training firm will launch a "metaverse academy" in France for the new academic year, the two organizations said on Sunday.

Seen as the internet's next great technological development, the metaverse refers to an immersive digital world that aims to recreate real life via

augmented or virtual reality and take the web from 2D to 3D.

The school's goal in its first year will be to train for free around 100 students in two roles, specialist immersive technology developers and support and assistance technicians, Meta's vice president for southern Europe Laurent Solly told AFP. The teaching method will be in-person and revolve around projects, with a focus on the 3D world and interactions in the virtual universes, said Frederic Bardeau, co-founder and boss of Simplon, the French firm working with Meta.

Located in the capital Paris and other cities including Lyon, Marseille and Nice, the metaverse academy will train 20 students per city each year.

Particular attention will be paid to diversity. Solly said the target was for 30 percent of the first cohort to be women, while Bardeau said he would not look at applicants' CVs and endorse positive discrimination.

In October 2021, Meta said it intended to create 10,000 jobs in Europe in five years' time to build the metaverse, the US technology giant's new strategic priority.

The goal is tied to predictions that future job skills demanded by employers will be closely tied with the metaverse. Meta and Simplon said 80 percent of the careers that will exist in 2030 have not been invented yet, highlighting the need to develop training schemes now. —AFP

