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This Labor Day, Think Energy

By Sarwar A. Kashmeri

For the Valley News

Last week, the National Association of Manufacturers released its ninth annual Labor Day Report (<http://www.nam.org/labordayreport>) on the state of the American work force.

Its conclusion reflects what many of us have been absorbing in daily headlines over the last couple of years -- energy costs are cutting into American workers' standard of living, even though the economy continues to demonstrate steady growth.

The NAM report points out that, despite a disastrous hurricane season, rising energy prices and a cooling housing market, the state of the U.S. economy has held up surprisingly well over the past year.

In the past four quarters, the economy grew by 3.5 percent and created an additional 1.7 million jobs. Two-thirds of these jobs were in sectors where hourly earning are at least 10 percent above the national average, sectors such as professional and business services; construction; finance; wholesale trade; natural resources and mining; and utilities.

Of special interest to the recovering manufacturing sector of the Upper Valley, manufacturing production increased at its fastest pace in six years and jobs on the factory floor posted their strongest gain since 1998.

Healthy productivity growth, combined with a tightening labor market, continued to increase workers' inflation-adjusted compensation by 1.7 percent over the last year, but -- and this is an important but -- actual take-home pay declined by 0.5 percent. The culprit: last year's 23 percent increase in energy costs. It is the main reason why workers' wages have not kept pace with inflation.

Mitch Latva, president of Newport, N.H.-based Latva Machine Inc., said the growth in manufacturing employment statistics made a lot of sense to him. Beginning in 1998, and through the 2001 recession, "there was a steady reduction in manufacturing jobs due to both the economic downturn but also the offshoring of jobs," Latva told me.

“Manufacturing companies have realigned themselves and are now focused on higher-level manufacturing, and the creation of new jobs ties into that,” he explained.

“We certainly reflected the trend and had a good year at Latva with sales increases at several customers, a healthy pipeline of potential new customers and growing technical and military-aerospace sales,” Latva said.

Interestingly, in his sector of the manufacturing industry (precision machining of metal products), Latva did not see the negative impact on real wages, driven by energy costs, that the NAM report highlighted.

“I don't believe it materialized in the Upper Valley because of the scarcity of skilled manufacturing workers. Companies had to compete to hire these workers by paying higher wages.”

On the Vermont side, Edmund Winnicki, vice president of finance and controller at North Springfield-based Kiosko, a manufacturer of specialty wood kiosks mainly for the cell-phone industry, said the dip in real wages made a lot of sense to him because employees pay for heating oil and car gasoline out of what they take home, “and the wood manufacturing industry has not had a huge demand for increase in employees that Latva has seen.”

Winnicki said he feels Kiosko has been lucky because of the long-term electricity contracts that Central Vermont Public Service (Kiosko's electric utility) has with its nuclear and hydro suppliers. “But those are ending in 2010, and what then?” he asked.

Winnicki has another concern related to energy costs. Kiosko has been heating its factory with wood chips. However, it is now moving from its wood chip-heated plant to the recently refurbished Fellows Gear Shaper building in North Springfield, which is heated by oil. “Although wood chip prices also rise, the increases are a fraction of those in the heating-oil business,” he said.

Kiosko and Latva have a hard enough time remaining competitive against lower-priced competition from overseas. The lack of a national energy plan further stacks the odds against them.

Congress finally was able to pass the Energy Policy Act of 2005 last year after protracted negotiation and consensus building, but it took 15 years to get agreement and it left key issues unresolved, John Engler, NAM's president, told me.

“In today's environment of fierce global competition, we can't wait that long to make decisions about how to meet our country's energy needs. Investment and location decisions are being made every week.

“Just as our nation was galvanized around the Manhattan Project, putting a man on the moon and creating the interstate highway system, our country can become more energy independent if we focus our nation's considerable resources to the challenge,”

Engler said.

He would like to see a national debate on a comprehensive, bold and far-reaching national energy strategy to reduce our reliance on foreign sources of energy. “While increasing domestic energy production alone will not solve the problem, neither can our country simply conserve our way to energy security,” Engler said.

As the election season in our region gets into full swing after the Labor Day weekend, you will no doubt cross paths with one or more candidates for office. Take the time to ask them about their position on meeting our region's, and the nation's, growing energy needs, and their commitment to following through with action until there is a bipartisan consensus and a plan is in place. We simply cannot wait for another 15 years to start.

Sarwar A. Kashmeri of Reading, Vt., advises corporations on communications and marketing strategy and is a fellow of the Foreign Policy Association. This twice-monthly column explores the Upper Valley's “business climate,” focusing on the issues and conditions affecting the region's economic health. Kashmeri can be reached at skashmeri@aol.com.

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