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Plenty of Nuttin'

By Sarwar A. Kashmeri

For the Valley News

Oil prices have gone down by almost 30 percent since the summer, which provides some relief to drivers in rural areas like the Upper Valley who are heavily dependent on their automobiles. But the drop in recent oil prices may not be unalloyed good news, either.

Here's why: There's a direct relationship between oil consumption and economic growth. If the decline in oil prices signals the slowing of the global economy, as it well might, then an Upper Valley economy that is increasingly dependent on foreign trade and investment might be about to experience the other side of globalization's equation.

A barrel of oil cost around \$30 three years ago, and as the *Financial Times* recently pointed out, the world's demand for oil took off in 2004 at precisely the same time that the world economy began its fastest expansion in 25 years.

Today's oil prices are a reflection of a sustained global economic expansion that has been with us for the last four years. So why is the price of oil dropping now? There has not been any increase in supply.

True, there were new deposits located in the Gulf of Mexico a few weeks ago, but these will take some years to come on stream. Energy conservation has not made any rapid strides, so price declines are getting no help from that quarter.

Some of the price drop must reflect seasonal variation, but I suspect the market's sensitive antennae are picking up the whiff of a global economic deceleration.

“My concern here is that the incipient economic slowdown may be the most important factor responsible for declining petroleum demand,” said James D. Hamilton, professor of economics at the University of California, San Diego, in the Sept. 13, 2006, issue of *Econbrowser*, a popular economic analysis and policy blog. (“Blog” is short for Web log, an interactive journal kept on the World Wide Web.) “And to the extent that's the story, the oil price declines are not exclusively a harbinger of good economic news,” he says.

American consumer spending has had a big hand in keeping the global economy bubbling. "In the last few years, consumers have kept the economy afloat by using their homes' equity as an ATM machine to spend on vacations, expensive purchases and so on," Kathy Underwood, president and CEO of Hanover-based Ledyard Bank, told me a few weeks ago.

But that ATM machine is running out of dollar bills as the housing market goes into reverse.

And the rest of the world doesn't seem to be in a position to fill the gap when consumer spending in America cools -- in part because those economies were driven by exports to the United States and, as the *Financial Times* pointed out, some of this impetus will disappear when American consumers realize they cannot extract yet more equity from their homes to buy another foreign car.

As international demand cools, so must the economies of New Hampshire and Vermont. Thanks to globalization, these states' fortunes are increasingly connected to their exports and to investment from other countries.

According to data from the Office of Trade and Industry Information, which conducts research and analysis for the Commerce Department, the International Trade Administration and other government agencies, almost 20 percent of New Hampshire's manufacturing workers depend on exports for their jobs. More than 2,275 companies exported goods from New Hampshire in 2004. More than 86 percent of them were small- and medium-sized enterprises -- the engines for creating new jobs in the American economy -- and were responsible for 43 percent of New Hampshire's exports, which totaled \$2.5 billion in 2005.

The story in Vermont is no different. It exports more than \$4.2 billion in merchandise to 135 countries. Manufactured goods account for most of Vermont's exports and 20 percent of the state's manufacturing workers depend on exports for their jobs. (New Hampshire and Vermont may be called rural states, but the bulk of each state's manufactured exports were in the form of computers and electronics.)

In 2003, foreign-controlled companies employed 10,400 workers in Vermont. A total of 1,113 companies exported goods from Vermont in 2004, and as is the case with its neighbor across the river, more than 82 percent of them were small- and medium-sized enterprises. (Additional information can be found at http://ita.doc.gov/td/industry/otea/state_reports/states06-index.html.)

"The connection between exports and New Hampshire's economy is quite clear," Paula Newton, market research specialist at the state's Department of Resources and Economic Development, told me. "Slowing exports impact our economy, but we tend not to be affected for long here because of the entrepreneurial nature of New Hampshire's export industry."

"Exports from Vermont totaled \$4.2 billion in 2005 and are a significant driver of

Vermont's economy; in fact the state ranks No. 1 in the country in the ratio of exports to the gross state product," Mike Quinn, Vermont's economic development commissioner told me. "So there is no question an export slowdown has the capacity to adversely impact us."

My neighbor, Andy Hall, president and CEO of Phibro, the commodity trading subsidiary of Citigroup, says that he would like to see oil prices go back up again: It would help conservation, facilitate additional production, and move the United States along to a more energy-efficient way of life. (You can listen to my podcast interview with Hall on <http://www.fpa.org>.)

So when next you fill up your car, do raise a half cheer for lower gas prices, but only that. A full cheer would mean lower gas prices equals better economic times. In the memorable lyrics from *Porgy and Bess*, "It ain't necessarily so."

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 sarwar@kashmeri.com.

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