November 2010

# Economic Indicators

BEACON HILL INSTITUTE AT SUFFOLK UNIVERSITY

## BHI energy cost estimate: Expect to pay 4% more

| Projected Monthly Residential Energy Bills for Winter 2010-2011 & Projected Year over Year % Change | | | | |
|---|---|---|---|---|
| | Electricity | | Natural Gas | |
| | $ | % | $ | % |
| November | 113 | 8 | 84 | 16 |
| December | 127 | 15 | 200 | 5 |
| January | 121 | 10 | 233 | 6 |
| February | 106 | 16 | 220 | 6 |
| March | 91 | 9 | 175 | 9 |
| | Heating Oil | | Gasoline | |
| | $ | % | $ | % |
| November | 124 | 0 | 230 | 3 |
| December | 182 | 2 | 248 | 3 |
| January | 162 | 7 | 233 | 2 |
| February | 156 | 9 | 233 | 11 |
| March | 133 | 7 | 244 | 2 |

### *Staying warm, lighting your home and fueling your car will cost more this winter*

The latest issue of *The Old Farmer's Almanac* predicts that winter in the Atlantic Corridor will be colder than normal while winter in the Northeast will be milder. Whether or not that turns out to be true, consumers in Massachusetts can expect to pay 4% more for their energy from all sources this coming winter, according to a new analysis by the Beacon Hill Institute. Electric bills alone will rise by double digits over the next five

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## BHI/SUPRC Poll: Voters would pay modest increases for renewable energy

To mitigate the emission of greenhouse gases, 31 state governments have enacted Renewable Portfolio Standard (RPS) policies that mandate the generation and sale of electricity from renewable sources such as wind, solar and biofuels. Meanwhile, the federal government is considering a national RPS. Most economists, including those at the Beacon Hill Institute, expect the higher costs to be passed onto consumers — both households and businesses. However, those cost increases will be baked into electric bills. In the interest of transparency, the Institute set out to identify just how much more ratepayers would be willing to pay for electricity generated from renewable sources. In September, BHI, with the help of the Suffolk University Political Research Center, posed a sur-

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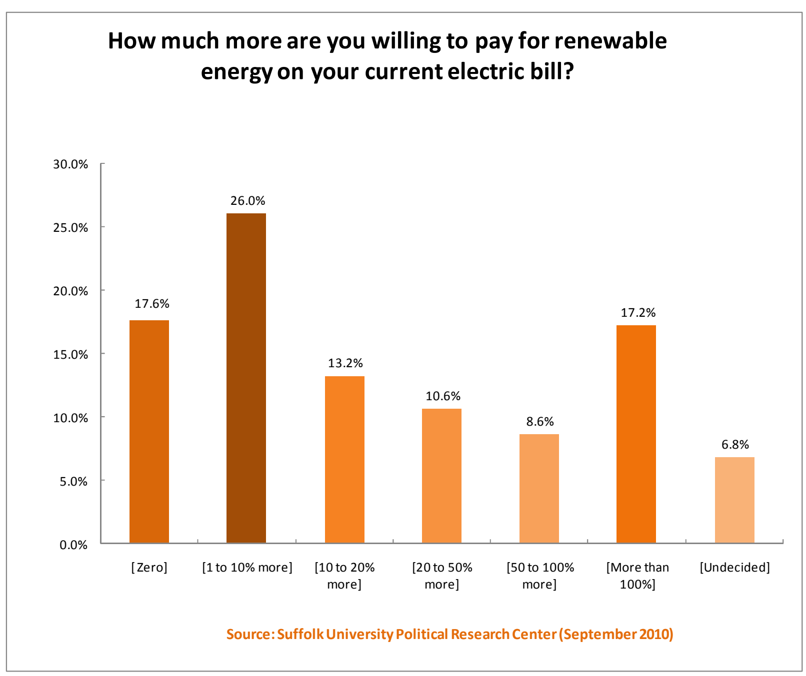

## Energy costs...

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months while natural gas and home heating oil bills register mid- to upper-single digit increases.

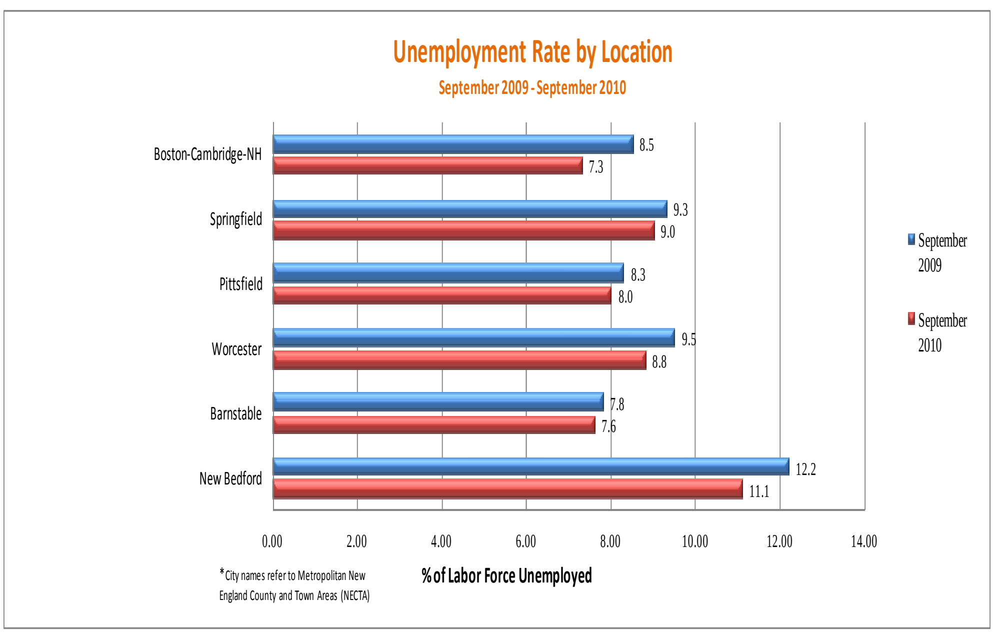
Demand for electricity will be one reason why consumers will see the highest year-over-year cost increase in February. The average electricity bill will be $106 per month. Lighting the Christmas tree will cost you more this December. BHI estimates that the average residential cost for December will be 15% higher than last year.

Notwithstanding the recent rise in commodity prices (in part due to the weaker dollar and a sluggish economy), we expect monthly heating oil prices to remain relatively stable, with consumers seeing the highest percentage change over the preceding year in February 2011. In February 2011 gasoline prices are expected to be 11% higher than they were in the previous February. Meanwhile, natural gas prices for November are expected to be 16% higher than last year.

The Institute bases its prediction on figures from the U.S. Energy Information Agency and its own model which takes into account the relationship between annual expenditures and energy prices.

## Massachusetts unemployment: The metropolitan view (September 2010)

If you are looking for a job, the Boston metropolitan area is the place to be. Unemployment dropped from 8.5% to 7.3% over the past 12 months, lending some credence to claims that Massachusetts is doing slightly better than the U.S. in taming joblessness. Recent anecdotal information suggests Boston has created more jobs than the rest of the state coming out of the summer months.



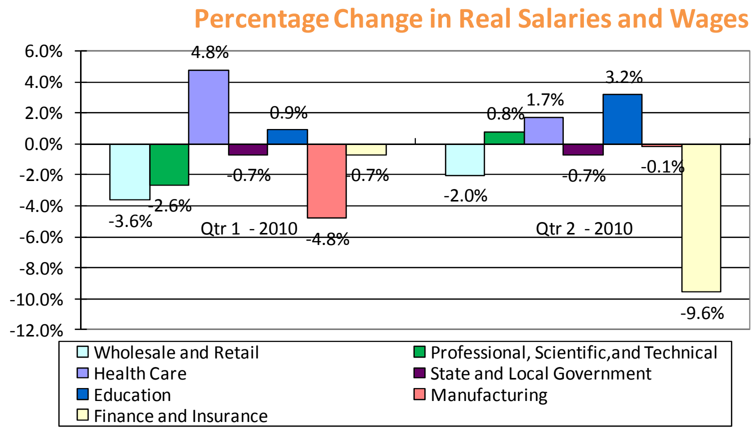

Source: Bureau of Labor Statistics

Worcester experienced the second highest drop in unemployment with a decrease of 0.7 percentage points.

New Bedford, however, remains mired in unemployment even though the rate fell by 1.1%. Unemployment remains steady in other areas such as Pittsfield, Barnstable and Springfield. The overall trend across the major metropolitan areas in Massachusetts suggests that unemployment may be easing.

## Real wages remain sluggish

Across the United States, real average hourly earnings rose 0.7 percent, seasonally adjusted, from September 2009 to September 2010. The increase in real average hourly earnings, combined with a 1.2 percent increase in the average work week, resulted in a 1.9 percent increase in real average weekly earnings during this period.



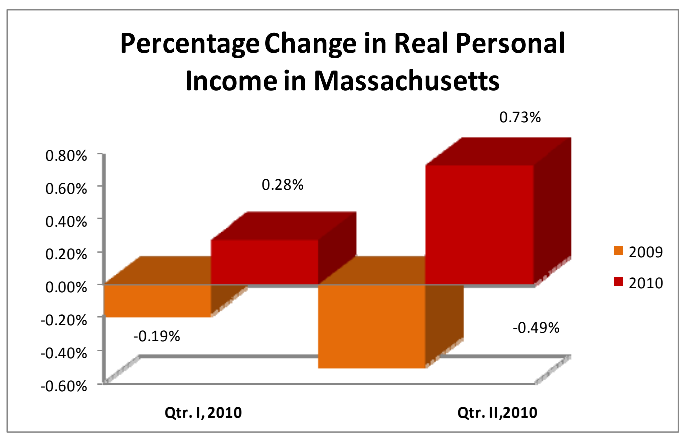

Real salary and wages are important because they identify a worker's purchasing power after accounting for inflation. That is to say, the measure of real wages identifies how many goods and services workers can purchase.

The majority of workers by sector have lost ground in Massachusetts during the first two quarters of 2010. Health care and education, two critical components of the state's economy, continued to generate real gains for workers employed in these fields. Health care salaries and wages shot up 4.8 % in Quarter 1 and continued growing in Quarter 2. Education workers saw their real wages grow modestly in the first quarter and surge by 3.2% in the second. Professional, scientific and technical workers' wages staged a modest comeback over the first two quarters, growing by 0.8%.

The rewards for labor are elusive for workers in other fields. The losses in manufacturing have been tempered with some improvement – real wages in the Bay State swung up 4.7%. The real wages of workers in the finance and insurance industries remain battered, falling 9.6% in the second quarter. State and local government workers continue to lose purchasing power although the rate has stabilized.

## Real personal income improves

Real personal income includes not only wages but also interest income and transfers from the government. Real personal income tends to expand and contract with the economy's overall performance. Over the first two quarters of this year, Real Personal Income in the U.S. grew by 3.1%.




Real personal income in Massachusetts increased almost by almost three-quarters of a percentage point from March to June 2010, from .28% to .73%. The positive movement in real personal income suggests that consumers in Massachusetts may be ready to spend more in the coming months.

## Energy Poll

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vey question to Massachusetts voters asking, "How much more in percentage terms are you willing to pay for renewable energy on your current electric bill for sources such as wind power, solar power or bio-fuels?" The poll asked voters to identify specific percentage ranges on a sliding scale of 0%, 1% to 10%, 10% to 20%, 20% to 50%, 50% to 100%, more than 100% or undecided.

**Renewable Energy: Consumer Willingness to Pay**

**What will my bill look like with renewables added to current charges?**

| Respondents % | Preferred Price | Low | High |
|---|---|---|---|
| 18 | [ Zero] | $79.35 | $79.35 |
| 26 | [1 to 10% more] | 80.14 | 87.29 |
| 13 | [10 to 20% more] | 87.29 | 95.22 |
| 11 | [20 to 50% more] | 95.22 | 119.03 |
| 9 | [50 to 100% more] | 119.03 | 158.70 |
| 17 | [More than 100%] | 158.70 | . |
| 7 | Undecided | | |

Calculations by BHI using data from U.S. Energy Administration, BHI-SUPRC Poll and MA Department of Energy Resources. Based on MA Avg. Monthly Electric Bill of $79.35.

Overall, 76% of survey respondents would be receptive to some form of an increase in the price of electricity while 7% of respondents were undecided. Only eighteen percent (18%) were not willing to pay more for electricity that was generated from renewable sources. Twenty-six percent (26%) of all respondents said they would pay between 1% and 10% more, the biggest plurality. Seventeen (17%) were willing to more than double their current bill to pay for electricity generated by renewables. Of that 17%, the plurality majority (39%) were between the ages of 46 to 65 with 29% between 18 and 45 and 30% over the age of 65.

An analysis of the responses grouped by location suggests where in the Bay State increased electric bills due to renewable energy would be met with the least resistance. Voters in the northeast and Suffolk County, 82% and 80% respectively, are willing to pay extra for electricity generated in part by renewable energy. In Southeastern Mass and Cape Cod, which would most benefit from the construction of the 130-turbine wind farm in Nantucket Sound, 73% were to be willing to pay more for alternative energy. The lowest number of respondents, 68%, willing to pay more for alternative energy, reside in the West and Worcester.

The price increase most acceptable across all four geographical areas clearly was in the "1% to 10%" category. Support trailed off for the higher price ranges (10% to 20%, 20% to 50% and 50 to 100%). Those who were willing to pay double were mostly likely to be located in the Northeast part of the state. Currently, a Massachusetts household pays approximately $79.35 a month for its electricity based on 500kWh of usage, according to the Massachusetts Department of Energy Resources.

Based on our calculations, that bill that would increase to $87.29 (assuming the upper bound of 10%) for those who said that they would be willing to pay an additional 1-10% more; increase to $95.22 for the group willing to pay 10-20% more; increase to $119.03 for voters willing to pay 20-50% more. The voters who responded that they would pay an extra 50% to 100% more could see a bill that would increase to $158.70, and even more for those who would seek to pay more than double the current amount.

The statewide survey of 500 Massachusetts registered voters was conducted September 16-19, 2010. The margin of error is +/- 4.4 percent at a 95 percent level of confidence.

*BHI Economic Indicators* is a quarterly publication of the Beacon Hill Institute at Suffolk University.  Mail: 8 Ashburton Place, Boston, MA 02108; Tel: 617-573-8050; Fax:617-994-4279; Email: bhi@beaconhill.org; Web: www.beaconhill.org. BHI Interns Olga Moros, Charlotte Hu, Jesse Dalton, Bonnie Thibodeau, Eli Cutler and Taylor Lewis assisted in the preparation of this edition.