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## Oil falls but not price of petro-based consumer goods

Jaclyn Trop / The Detroit News

Relief at the gas pump won't translate anytime soon into lower prices on toothpaste, diapers and razors in the checkout line.

When petroleum prices hovered around \$150 per barrel early this summer, panicked manufacturers, wholesalers and retailers nationwide hiked prices for petroleum-based goods from aspirin to Ziploc bags.

Although petroleum's cost per barrel peaked at \$147.27 in July, by Monday oil had fallen 57 percent, down to \$62.41. But don't expect to see the summertime price increases on trash bags and golf balls rolled back soon.

Once a price hike has been set, it's difficult to reverse it unless there is a drastic drop in demand or a competitor starts undercutting the price, according to William Knudson, an economics professor at Michigan State University.

"When oil prices went up, they were really quick to slap those on," Knudson said of the price increases. "But if there's a lack of competition, these companies may use the opportunity to recapture their profit margin."

That's because the worsening economy has businesses scrambling, said Patrick Anderson, principal and CEO of Anderson Economic Group in East Lansing.

Though cheaper gas is "unambiguously good for retailers and customers," Anderson said both groups remain cautious and uncertain. "The decline in gas prices is swamped by negative and scary information about the economy. I do expect retailers to be reluctant to lower prices."

### Dow 'playing catch-up'

Responding to skyrocketing prices for raw materials such as oil and natural gas, Midland-based Dow Chemical Co. raised prices on most of its 3,100 products by as much as 20 percent in June, followed by an additional increase of up to 25 percent in July.

"We've been consistently behind, playing catch-up with our selling prices each quarter," said spokesman David Winder.

But even as the price of petroleum falls, Dow says it's unlikely it will roll back cost increases for its chemicals. A third-quarter hike of \$2.6 billion, or 48 percent, in raw material costs from the same quarter last year means the company must keep its prices up to recoup those losses, Winder said.

"Pricing for our commodity products, which are more closely tied to raw material costs, may come down," Winder said, "but specialty and performance products, which deliver high levels of features and functionality to our customers, likely will not."

Products likely to retain their price hikes include Dow's Styrofoam insulation and elastic fiber, Winder said.

Rising energy and commodity costs for manufacturing set off a ripple effect all down the supply chain. At the height of the gas-price hysteria this summer, manufacturers and wholesalers had to decide whether to absorb losses on raw materials and transportation costs or pass them on to retailers, who ultimately set the price consumers pay.

"In a typical economy, a drop in energy prices would mean cheaper flights, lower heating costs and cheaper consumer goods," said Charlie Drevna, president of the National Petrochemical and Refiners Association. "But these aren't normal times we're living in. The price of petroleum has nothing to do with the economic factors we're seeing on a global scale," such as the banking collapse and failure of international credit markets, he said.

#### **Charmin, Iams pricetags up**

Proctor & Gamble raised prices on Charmin, Bounty, Pampers, Crest, Iams and Braun products this year but has no plans to scale back. Already shouldering a \$3 billion increase in petroleum-related costs during the past three years, Proctor & Gamble expects another \$3 billion hike this year alone, according to spokeswoman Kate DiCarlo.

The company sets prices to recover costs already incurred, not in anticipation of fluctuating costs, and is only now feeling the impact of summer's oil price run-up because the commodities market lags by three to six months.

"While oil costs are a factor, our costs are based on a much larger mix of commodities, so we will not adjust pricing based solely on changes to oil prices," DiCarlo said. "Based on prior experience and competitive dynamics, we would expect that a continual reversal of the current cost trends would gradually translate into lower prices for consumers."

Kimberly-Clark Corp., which raised prices on six product lines, including Huggies, Kleenex and Cottonelle by 6 percent to 8 percent in July and August, has no plans to offset the price hikes.

Retailers say they continue to "remain price competitive."

Though Target has seen "mid to high single-digit increases" from food and commodity

suppliers, "we try not to pass costs on unless we have to," said spokeswoman Hadley Barrows.

Whether Target adjusts prices as the cost of petroleum fluctuates is determined on a "case-by-case basis," she said.

At Kroger, "we're still going to charge for lettuce what our competitors charge even if we're paying more" in fuel and transportation costs, said spokesman Dale Hollandsworth.

In addition to fuel prices, transportation contracts, supply and demand and weather influence grocery prices, according to Hollandsworth.

In a typical store with 40,000 or 50,000 items, he said, prices for at least 2,000 or 3,000 goods will be fluctuating at any given time.

"Prices in the grocery business are as fluid as a river. They move all the time and they move quickly."

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