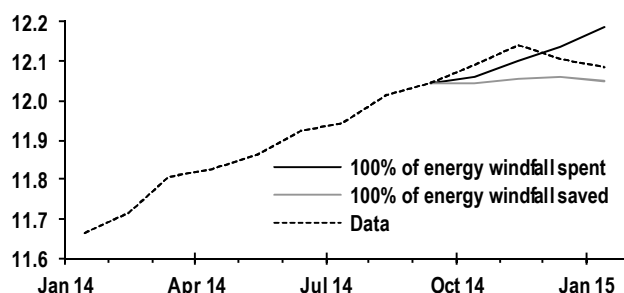


## Focus: Consumers spending energy windfall, but less so

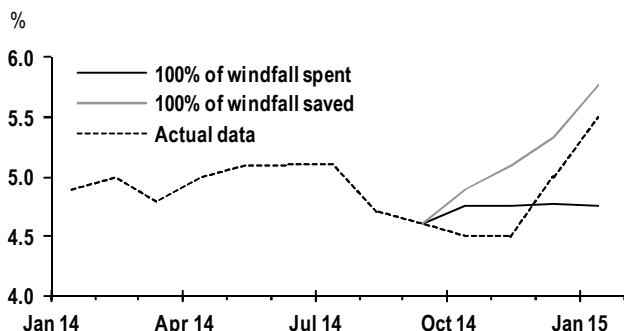
- Despite recent disappointments in the consumption data, it looks like consumers still are spending some of the windfall generated from the large drop in gasoline prices. That said, consumers have spent less of the windfall recently than they did when prices first started to fall. This adjustment in spending coincided with consumers shifting their expectations to look for a larger rebound in gasoline prices, suggesting that they may now view the price moves as temporary. Although we still expect solid consumption growth into 2Q, we will watch carefully for further signs that consumers are shifting toward saving.
- In the first chart we present an updated estimate of the share of the energy price windfall that was spent, where the windfall is measured relative to 3Q average levels of energy prices and the energy spending share of disposable income. [As we've noted before](#), consumption in October and November was stronger than we would have expected even had consumers spent their entire windfall in those months. Nominal consumption in December and January then stepped down considerably, but remained higher than we would have expected had all of the windfall in those months been saved. Overall, we still find that consumers spent about 80% of the total windfall received over these four months. But the recent dynamics are less favorable—while we would say that consumers spent more than 100% of the windfall in October and November, they spent only 27% in January.
- The downshift in consumer spending beginning in December may be related to a change in consumer expectations regarding gasoline prices. Expectations for gasoline price changes, as measured in the University of Michigan sentiment survey, typically follow actual changes in gasoline prices. And when gasoline prices began to fall late in 2014, expectations for prices also declined and consumer spending strengthened. But when gasoline prices fall a lot, consumers tend to anticipate a rebound in prices. And expectations for gasoline prices started to increase in January around the time when consumer spending slowed.
- The relationship between changes in gasoline prices and the expectations measure are shown in the lower two charts. In the first chart, trends in these measures align closely for most of the recent history, but then diverge sharply over the past few months. Likewise, the second chart shows a positive relationship in the sample excluding observations with price declines greater than 10% (solid line) but a negative relationship when gasoline prices fall dramatically (dashed line). The data thus suggest that consumers often expect large price declines to reverse, but this appears to have been especially true this January.

Total nominal consumption spending under alternative scenarios  
 trillions, saar



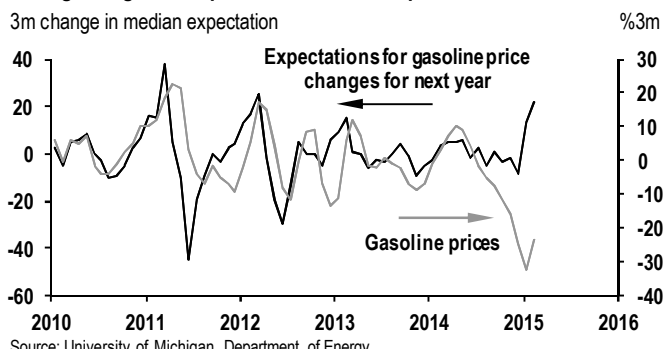
Source: BEA, J.P. Morgan

Personal saving rate under alternative scenarios



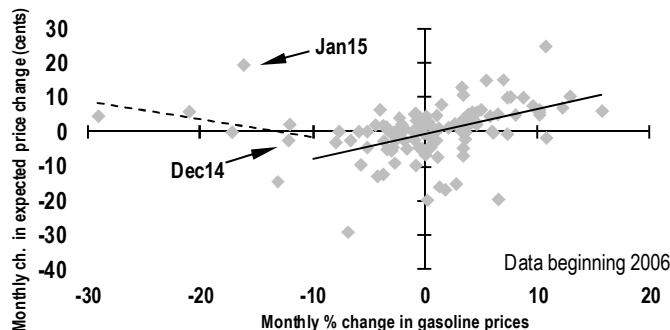
Source: BEA, J.P. Morgan

Changes in gasoline prices and related expectations



Source: University of Michigan, Department of Energy

Changes in gasoline prices and in price change expectations for next year



Source: Department of Energy, University of Michigan, J.P. Morgan

**J.P. Morgan Securities LLC**  
Jesse Edgerton (1-212) 834-9543  
jesse.edgerton@jpmorgan.com  
**JPMorgan Chase Bank NA**  
Daniel Silver (1-212) 622-6039  
daniel.a.silver@jpmorgan.com

**Economic Research**  
Focus  
March 6, 2015

**J.P.Morgan**

**Analysts' Compensation:** The research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues. **Principal Trading:** JPMorgan and/or its affiliates normally make a market and trade as principal in fixed income securities discussed in this report. **Legal Entities:** J.P. Morgan is the global brand name for J.P. Morgan Securities LLC (JPMS) and its non-US affiliates worldwide. J.P. Morgan Cazenove is a brand name for equity research produced by J.P. Morgan Securities plc; J.P. Morgan Equities South Africa Proprietary Limited; JPMorgan Chase Bank, N.A., Dubai Branch; and J.P. Morgan Bank International LLC. J.P. Morgan Securities Inc. is a member of NYSE and SIPC. JPMorgan Chase Bank, N.A. is a member of FDIC. **U.K.:** JPMorgan Chase N.A., London Branch, is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and to limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from J.P. Morgan on request. J.P. Morgan Securities plc (JPMS plc) is a member of the London Stock Exchange and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. J.P. Morgan Equities South Africa Proprietary Limited is a member of the Johannesburg Securities Exchange and is regulated by the Financial Services Board. J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority. JPMorgan Chase Bank, N.A., Singapore branch and J.P. Morgan Securities Singapore Private Limited are regulated by the Monetary Authority of Singapore. JPMorgan Securities Japan Co., Ltd. is regulated by the Financial Services Agency in Japan. J.P. Morgan Australia Limited (JPMAL) (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (JPMSAL) (ABN 61 003 245 234/AFS Licence No: 238066) is regulated by ASIC and is a Market, Clearing and Settlement Participant of ASX Limited and CHIX. J.P. Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA), licence number 35-07079. **General:** Information has been obtained from sources believed to be reliable but JPMorgan does not warrant its completeness or accuracy except with respect to disclosures relative to JPMS and/or its affiliates and the analyst's involvement with the issuer. Opinions and estimates constitute our judgment at the date of this material and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed may not be suitable for all investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. JPMorgan and/or its affiliates and employees may act as placement agent, advisor or lender with respect to securities or issuers referenced in this report. Clients should contact analysts at and execute transactions through a JPMorgan entity in their home jurisdiction unless governing law permits otherwise. This report should not be distributed to others or replicated in any form without prior consent of JPMorgan. **U.K. and European Economic Area (EEA):** Investment research issued by JPMS plc has been prepared in accordance with JPMS plc's Policies for Managing Conflicts of Interest in Connection with Investment Research. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with these persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan, Type II Financial Instruments Firms Association and Japan Investment Advisers Association. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. This material does not take into account the specific investment objectives, financial situation or particular needs of the recipient. The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the term "wholesale client" has the meaning given in section 761G of the Corporations Act 2001. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. **Brazil:** Ombudsman J.P. Morgan: 0800-7700847 / ouvidoria.jp.morgan@jpmorgan.com. Revised November 29, 2014. **Copyright 2015 JPMorgan Chase Co. All rights reserved. Additional information available upon request.**