

## OIL MARKETS

# Cheap Gas Revs Up Consumers, Boding Well for U.S. Economy

Low prices at the pump can further bolster consumer sentiment and spending



GasBuddy estimates some 10,000 gas stations could be under \$2 a gallon by Thanksgiving. PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

*By Dan Molinski*

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Drivers hitting the road this Labor Day weekend will enjoy the cheapest gasoline prices in three years, a boon to consumers who have remained confident, while fears of recession grip much of Wall Street.

Price-tracking firm GasBuddy predicts the national average for a regular gallon of gas will be \$2.55 a gallon on Labor Day, down nearly 30 cents from last year and the lowest price on the holiday since 2016. The national average has fallen for six straight weeks to \$2.58.

“Oh, Lord, people love these prices,” said Susan Begnell, a cashier at the Murphy USA gas station on Interstate 20 in Meridian, Miss. At \$1.89 a gallon, her station currently is among the cheapest in the nation.

Trade tensions, volatile markets and sliding business investment have all sparked worries of a looming economic downturn. A particularly gloomy signal: Yields on long-term U.S. government debt have fallen several times below those on shorter-term securities, which many investors believe is a recessionary signal.

But consumers have been a counterpoint to the gloom.

Consumer spending has remained on strong footing this year. Personal-consumption expenditures, a measure of household spending, increased a seasonally adjusted 0.6% in July from June, the Commerce Department said Friday.

Retail sales climbed in July, and Walmart Inc. reported this month that second-quarter sales rose. The labor market remains tight, and wage growth is solid.

Low prices at the pump, brought about by recent oil prices that have remained between \$50 and \$60 a barrel, can further bolster consumer sentiment and spending. Cheap gas frees up household cash, especially for those at the lower rungs of the income ladder, to be used on other items.

Robust spending, which is being partly fueled by low gasoline costs, “mitigates the risk of the downturn in manufacturing, trade and business investment spilling over into an outright recession,” said Brian Coultan, chief economist at Fitch Ratings.

Moribund oil prices themselves are a potentially positive sign as well. Since 1973, the U.S. hasn’t had a recession that wasn’t accompanied by a sharp run-up in oil prices, according to James Hamilton, an economics professor at the University of California, San Diego, and Dow Jones Market Data.

Prof. Hamilton, who has studied the economic impact of oil-price shocks, has written that the sharp run-up in prices in 2007 and into 2008 contributed, along with the mortgage meltdown, to the 2007-2009 recession.

In 2008, crude prices surpassed \$140 a barrel, with gasoline in parts of the country topping \$5 a gallon.

If a sharp jump in oil prices occurs again, that could help tip the economy into a recession, Prof. Hamilton said. So far, though, that isn’t the case.

“There are some recession worries, but my reading is that those risks haven’t shown up in any hard numbers for the U.S. economy,” he said. “All the indicators are still fairly positive.”

Subdued oil prices have come at an important point for consumers. The time between Memorial Day and Labor Day—when many Americans travel for vacation—are crucial for the gasoline market.

Should gas prices stay low in coming months, they could provide a further economic tailwind. The average U.S. household uses about 750 gallons of gasoline a year, according to an estimate from AAA, the automobile association. So a 27-cent-per-gallon drop—the amount that the national average is predicted to fall this Labor Day versus last—would save families about \$202.50 a year, or \$16.88 a month.

While that amount might be inconsequential to some, economists say changes in gasoline prices also play a unique role in shaping consumer spending habits and sentiment.

“With consumer sentiment, you have fundamental factors such as income and employment, but gasoline prices play this independent, separate role,” said Ben Herzon, executive director of IHS Markit’s Macroeconomic Advisers.

Low gas costs would also be key if tariffs on Chinese imports drive prices of other goods higher.

Pump prices could fall even further. GasBuddy estimates some 10,000 stations could charge below \$2 a gallon by Thanksgiving, noting that, during autumn, gas stations switch to a cheaper, winter-grade fuel. About two dozen gas stations already have sub-\$2 prices, mostly in Southern states, including Alabama and Texas.

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Consumer sentiment could sour if tariffs are removed and oil prices soar.

Another threat: hurricane season. In 2017, Hurricane Harvey caused the national gas average to jump 30 cents a gallon in a matter of days, according to AAA.

Although the storm season this year has gotten off to a relatively slow start, the National Hurricane Center said it expects more activity in coming months, with Hurricane Dorian posing the most immediate threat.

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