The New York Times
nytimes.com

PRINTER-FRIENDLY FORMAT
SPONSORED BY

May 7, 2006

ECONOMIC VIEW

Why Prices at the Pump May Have Little Bite

By DANIEL GROSS

AS the summer driving season approaches, gas prices have been soaring — a national average of $2.92 a gallon on Friday, up from $2.22 a year ago, according to the American Automobile Association. But the steep prices don't seem to be curbing the enthusiasm of American consumers.

Same-store sales at Wal-Mart, those for stores open at least a year, rose a solid 6.8 percent in April. Last week, the Conference Board reported that the consumer confidence index for April hit its highest level since May 2002. "The rising prices on the pump didn't have an impact on consumer confidence at all," said Lynn Franco, director of the Conference Board Consumer Research Center.

These data point to the enormous resilience of the consumer. But they also bring into focus a truism lost in the miasma of media coverage and political rhetoric surrounding energy: while the price of gasoline may be highly visible and symbolic, filling up the tank simply doesn't eat up that much of most families' budgets.

How much will Americans spend this year to satisfy their gasoline habit? It's hard to know precisely. But there are clues in government data. In the Consumer Price Index, the inflation gauge, gasoline has a weighting of 4.15 percent, according to Patrick Jackman, an economist at the Bureau of Labor Statistics. In other words, about four pennies of every American's consumer dollar wind up in the gas tank. (The weighting is revised every two years.)

Based on data collected in the bureau's consumer expenditure surveys in 2004, consumer expenditures per household averaged $43,395; spending on gasoline and motor oil, with gasoline accounting for virtually the entire sum, were 3.7 percent of that, or $1,598.

Since then, this amount has certainly risen with the price of gasoline, but so has average income. John Felmy, chief economist at the American Petroleum Institute in Washington, estimates that in 2006 the average household will devote $2,150 of its $46,302 in consumer expenditures to gasoline — or 4.6 percent.

"This proportion is certainly up from recent years, but it is something that most households can cope with," said Carl Steidtmann, chief economist at Deloitte Research. The difference in spending on gasoline from 2004 to 2006, then, is an extra $10.62 a week, about the cost of going to a movie. In 2004, for comparison, the typical household spent significantly less on gasoline than on discretionary things like entertainment ($2,218), or food away from home ($2,434), according to the Bureau of Labor Statistics.

Drill down a little further, and it becomes apparent why rising gas prices may not be as economically damaging as has been assumed. A person with a comparatively low income who has to drive long distances — say, a sales clerk in Wyoming who commutes 100 miles — will be hurt a great deal, especially if she drives a gas-guzzling pickup. But for people with high incomes who don't drive much — say, an actress in Los Angeles who drives her Toyota Prius hybrid to the studio lot, or a hedge fund manager who commutes from Greenwich, Conn., to Manhattan by train — higher gas prices won't factor into spending decisions.

These may be extreme examples. Still, income and gasoline use vary widely by geography. In New York, the Metropolitan Transportation Authority carries 7.7 million passengers a day in its subway, bus and train systems, more than the combined populations of South Dakota, North Dakota, Wyoming, Alaska, Montana and Nebraska.

What's more, consumers with a greater ability to absorb the pain of higher gasoline prices buy a disproportionately large amount of the stuff. In 2004, according to the Bureau of Labor Statistics, the 26.4 percent of households with more than $70,000 in annual income bought about 40 percent of all gasoline and motor oil. The 41.4 percent of households that earned more than $50,000 accounted for 58.4 percent of total expenditures. Even at the higher prices, these comparatively better-off households — which account for 64 percent of overall consumer spending — are still devoting only a small fraction of their total spending to gas.

Maybe that is why prices near $3 a gallon haven't put a significant dent in Americans' overall gasoline use. (Mr. Felmy of the American Petroleum Institute said total gasoline consumption rose about 0.5 percent in the first quarter.) Compared with switching from a car to a commute by bus or train, or undertaking the expense of buying a new, more fuel-efficient car, paying more for gas is a minor inconvenience for many consumers.

That doesn't mean Americans should be complacent. Expensive gas is a burden for those at the lower end of the income scale, whose wages have generally stagnated during this expansion. Ms. Franco of the Conference Board noted that consumer confidence fell in April among households making less than $35,000.

Ken Goldstein, a Conference Board economist, says that people who worry about the impact of expensive oil shouldn't look just at the prices at the local Mobil station. When a spike in a crucial commodity evolves into a long-lasting plateau, the higher costs can spill over into a wide range of other products and services.

"We haven't seen the high price of oil show up in the prices of chemicals, plastics, paint and rubber yet," Mr. Goldstein said. "But when it happens, it is going to drive up the cost of a lot of goods."

Daniel Gross writes the "Moneybox" column for

Slate.com.

Copyright 2006 The New York Times Company

Privacy Policy | Search | Corrections | XML | Help | Contact Us | Work for Us | Site Map