

## Rising oil prices beginning to hurt US economy

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Just when companies have finally stepped up hiring, rising oil prices are threatening to halt the U.S. economy's gains.

Some economists are scaling back their estimates for growth this year, in part because flat wages have left households struggling to pay higher gasoline prices.

Oil has topped \$108 a barrel, the highest price since 2008. Regular unleaded gasoline now goes for an average \$3.69 a gallon, according to AAA's daily fuel gauge survey, up 86 cents from a year ago.

The higher costs have been driven by unrest in Libya and other oil-producing Middle East countries, along with rising energy demand from a strengthening U.S. economy.

Airlines, shipping companies and other U.S. businesses have been squeezed. The rising prices are further straining an economy struggling with high unemployment and a depressed housing market.

"The surge in oil prices since the end of last year is already doing significant damage to the economy," says Mark Zandi, chief economist at Moody's Analytics.

Unlike other kinds of consumer spending, gasoline purchases provide less benefit for the U.S. economy. About half the revenue flows to oil exporting countries like Saudi Arabia and Canada, though U.S. oil companies and gasoline retailers also benefit.

For consumers, more expensive energy siphons away money that would otherwise be used for household purchases, from cars and furniture to clothing and vacations.

High energy prices are "putting a drain on consumer budgets," says James Hamilton at the University of California, San Diego. "To the extent they're having to spend more on gasoline, they have to make cutbacks elsewhere."

Two-thirds of Americans say they expect rising gasoline prices to cause hardship for them or their families in the next six months, according to a new Associated Press-GfK Poll. The telephone poll conducted March 24-28 had a sampling error margin of plus or minus 4.2 percentage points.

Seventy-one percent say they're cutting back on other expenses to make up for higher pump prices. Sixty-four percent say they're driving less. And 53 percent say they're changing vacation plans to stay closer to home.

"I try to leave the car parked at home all day Saturday," says Curt Lindsay, who commutes an hour each way to his job as a computer systems administrator outside Washington, D.C. "I'd rather not spend the money on gasoline."

Since gasoline prices topped \$3 a gallon, Lindsay has also been trying to drive more slowly to conserve fuel.

His co-worker Albert Zaza canceled family trips to New York and Boston after the cost of filling up his Honda CRV surged from \$35 to \$47. Zaza spends four to five hours in traffic each day and has to fill up every other day.

Rising fuel prices are pinching businesses too.

In Tipton, Iowa, Grasshopper Lawn Care is tacking 5 percent onto customers' bills to compensate for higher fuel costs. The company has to buy more than 8,000 gallons of gasoline a year. It plans to keep the surcharge until gasoline prices dip back below \$3 a gallon, owner Dan Kessler says.

The oil shock and global instability are diluting the benefits of an improving job market. The unemployment rate, though still high, is at a two-year low. And the economy has just produced the strongest two months of hiring since before the recession began.

**Bernard Baumohl**, chief economist at the Economic Outlook Group, has slashed his estimate for growth this year to 2.8 percent from 3.5 percent. In 2010, the economy grew 2.9 percent.

Consumer spending accounts for about 70 percent of the economy. After adjusting for inflation and for seasonal factors, consumers spent 0.3 percent more in February than in January.

But that's unlikely to last. Gasoline prices are surging just as inflation-adjusted

incomes are falling. More expensive gas is draining much of the cash Americans are receiving from a cut in Social Security taxes this year.

Zandi estimates that higher oil prices shaved 0.5 percentage point from growth in the January-March quarter. He predicts the economy grew 2.6 percent during the quarter.

If oil prices average \$100 a barrel for the year, Zandi says, growth will be 0.3 percentage point lower than if prices had stayed at last year's level -- an average of less than \$80 a barrel. A few months of \$125-a-barrel oil would slash economic growth by a full percentage point, Zandi says. And a few months at \$150 a barrel could push the economy back into recession.

Surging oil prices don't hurt everybody in the United States. Oil companies, for example, stand to gain. In 2008, Exxon Mobil Corp. earned \$45 billion -- a record for a U.S. company -- after oil prices hit a record \$150 a barrel.

Oil services companies such as Halliburton Co., Schlumberger Ltd. and Baker Hughes Inc. also benefit as the oil industry rushes to find and produce more oil. And the products of biodiesel and other alternative energy companies become more competitive the higher oil prices go.

In a speech last week, Sandra Pianalto, president of the Federal Reserve Bank of Cleveland, offered hope that higher oil prices won't persist long enough to do much damage.

"Large increases in food or energy prices tend to be temporary," Pianalto said. "History shows that they are often followed by sharp declines."

But Mark Pawlak, a market strategist at Keefe, Bruyette & Woods, says he worries about a repeat of what happened to the economy last year: It built momentum at the start of 2010, only to stall in the face of a European debt crisis and a run-up in oil prices from February to Apri