



GAS PRICES

Stimulus-by-the-gallon: Lower gas prices

By Chris Isidore

June 15, 2012

NEW YORK (CNNMoney) -- Congress and the Federal Reserve aren't likely to provide any meaningful stimulus to the economy. But your corner gas station might.

The average gas price has come down about 40 cents, or 10%, since the peak near \$4 a gallon in early April. With U.S. drivers expected to use about 133 billion gallons of gasoline this year, the 40-cent price break works out to about \$53 billion in annual savings if it were to stay in place for a full year.

"Just as an increase in gas prices is essentially is a tax on consumers, a decrease in prices acts as a tax cut," said Brett Ryan, economist with Deutsche Bank.

The government report on retail sales earlier this week estimates Americans spent about \$1 billion less at gas stations in May than they did in April, and that decline is likely to continue when June numbers are reported.

Lower gas prices was enough to cause a decrease in overall retail prices paid by consumers in May compared to April, the first such decline in two years.

To be sure, some of the decline in gas prices is due to weakness and worry about the economy. Traders worried about a recession in Europe due to the sovereign debt crisis and a slowdown in China have driven the price of a barrel of oil sharply lower in recent months.

Economists worry that those economic headwinds could overwhelm the positives of lower energy prices, as they cause consumers to pull back on their spending.

"A drop in gasoline prices obviously helps with consumer finances, said **Bernard Baumohl of the Economic Outlook Group** in Princeton, N.J. "However, even with the drop in gasoline prices, consumers don't seem as much in a spending mood as they were earlier this year,"

But there are positives helping to take oil and pump prices lower, including increased domestic oil production, a stronger dollar compared to the euro, and at least some reduction in Middle East political tensions, which has reduced the fear premium that was helping to drive up prices earlier this year.

Jim Baird, chief investment strategist for Plante Moran Financial Advisors, said that even if there are some negative factors helping to drive down the oil prices, it's better for the economy to have consumers and businesses spending less on fuel.

"It's a silver lining of these problems," he said "You'd rather not be dealing with European sovereign debt or slower growth. But it does obviously make oil and other commodity costs cheaper."

Estimates are that the nation's gross domestic product, the broadest measure of economic growth, could tick up a little less than a half percentage point if the 40-cent-a-gallon decline in gas prices can stick.

That's not enough to turn weak growth into strong growth, but it could reduce the risk of the U.S. economy falling into a new recession, according to Ryan.

"I get more worried about recession when we have an energy price spike than a drop in energy prices," he said.