



Gas prices gain 1.6 cents, near \$3.76 a gallon

By Chris Isidore
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Those hoping for gas prices to turn around and start falling should be careful what they wish for. If consumers get significant relief from prices, it could well be due to a new recession that's far more painful than the gas pains they're now feeling.

The chance of the U.S. economy falling into a new recession isn't a front-burner issue the way it was in the second half of last year. Stronger hiring, a pick-up in home building and auto sales and a stock market rally has given a significant lift to consumer confidence. Even most economists are now downplaying the risk.

But a new downturn is still a significant risk. One prominent economist, Lakshman Achuthan, co-founder of the Economic Cycle Research Institute, says that lower-profile economic growth readings have slowed so much that a new recession later this year is inevitable. And that's his call even if we avoid a European debt default or some other shock.

With gas prices rising steadily and about 33 cents a gallon higher than they were a year ago, some other economists worry that high gas prices could be the tipping point that brings on a new downturn. It's one of the factors blamed for the softening in the economy in the second half of 2011.

Americans used 134 billion gallons of gas last year, so paying an extra 33 cents a gallon is the equivalent of a \$44 billion tax increase. Of course, that drag could grow if prices hit record levels, as many fear.

“I don’t think for a minute consumer confidence levels can hold at these levels in the face of sustained high gas prices,” said **Bernard Baumohl, head of the Economic Outlook Group**, a Princeton, N.J., research firm. “Real household earnings have been falling. It puts real pressure on household finances if gasoline prices keep going up.”

Unfortunately, one of the surest cures for high gas prices is a new recession. Few things cut demand, and prices, more surely. People lose jobs and don’t have to commute. Drops in wealth kill plans for vacations and other discretionary travel. And with the drop in demand comes lower prices.

The record high for gas prices came on July 17, 2008, when a gallon of regular rose just above \$4.11, according to motorist group AAA. A little more than five months — and one financial meltdown — later, prices ended 2008 at \$1.62 a gallon. With the economy on the brink of a new depression, no one was getting too excited about cheap gas.