

Drivers Feel Pinch at Pump

Gas Prices Surge as Many Paychecks Shrink, Threatening Consumer Spending

February 22, 2013

By BEN CASSELMAN and TOM FOWLER

American consumers, already struggling to adjust to higher taxes, now face another challenge: gasoline prices that have risen nearly 50 cents a gallon in the past month alone

The national average price for regular gasoline hit \$3.78 a gallon on Thursday, up 15 cents in the past week and 47 cents in the past month, according to auto club AAA. The increases, driven in part by speculators betting on stronger U.S. gasoline demand, have been dramatic in parts of the country. California drivers are paying \$4.20 a gallon on average, up 55 cents in the past month.

The rise in prices is a reversal from late 2012, when seasonally adjusted energy prices fell, helping keep inflation in check. The Labor Department on Thursday said consumer prices were flat in January for the second consecutive month. Core prices—which exclude volatile food and energy costs—rose at their fastest pace since May 2011.

Prices at the pump are rising just as households are dealing with the expiration in January of the payroll tax holiday, which raised taxes on nearly all working Americans. Economists worry the one-two punch of smaller paychecks and higher gas prices could force consumers to spend less on other goods and services, which are more likely to contribute to hiring and economic growth. That could further slow the economy at a time when government spending cuts and global economic weakness are holding back the recovery.

Neal Ferri, a manager at Quality VAKuum Products, a woodworking-equipment maker in Hudson, Mass., said he has been wide-eyed at gas prices when he fills up roughly twice a week. He does the 75-mile round-trip commute from his home in Webster in a Toyota Corolla, leaving the family's less fuel-efficient Subaru Forrester with his wife.

The family has tried to cut back on other expenses, like meals out, to offset such costs, but those measures have been in effect for the last couple of years, he said.

"You absorb the higher prices at the pump and move on," Mr. Ferri said.

Rising gas prices come "at a bad time," said Nigel Gault, chief U.S. economist for forecasting firm IHS Global Insight. "It just adds to the reasons why we're likely to have a relatively sluggish first half of the year."

Despite those worries, however, consumers seem to be holding steady. Retail sales growth slowed in January, but remained positive, and consumer sentiment rose in early February even as gas prices began their upward march. So far, most consumers appear to be focusing on rising home prices and an improving jobs picture rather than gas prices, said **Bernard Baumohl, chief global economist for the Economic Outlook Group**, a research firm.

"The bottom line is that the economic fundamentals in the U.S. right now are the best they've been in more than half a decade," **Mr. Baumohl** said. "That is helping provide some support for consumer confidence."

Moreover, despite their recent rise, gas prices are only modestly higher than a year ago and remain well below their 2008 highs. Economic research has shown that consumers react most to gas prices when they set records—something few experts expect this time around.

Energy-market analysts cite several factors behind the rise. Crude-oil prices have been climbing amid increased Chinese consumption and a drop in production from members of the OPEC cartel. At the same time, traders have pushed up gasoline futures in anticipation of increased demand as the economy strengthens.

However, with those factors largely accounted for in prices, said Andy Lipow, an independent energy economist in Houston, prices are unlikely to rise much further.

Nonetheless, some companies' sales are taking a hit. Wal-Mart Stores Inc. WMT +0.04% cautioned that gas prices are pressuring its already pinched U.S. consumers, who made fewer shopping trips to the retail giant in the last quarter compared with the same time a year ago.

"What we see making its way up the list of financial concerns is gas prices, particularly over the last couple of weeks," Wal-Mart U.S. President Bill Simon said on a conference call with reporters.

Consumers aren't the only ones affected. Businesses also are seeing higher costs due to gas prices. Rod Collins, who runs Bulldog Mobile Billboards, which operates truck-mounted billboards in Dallas and New York, said his profit margins have been "crushed" by prices, which surged too fast for him to adjust his rates. "I don't have the ability to go back to the customer and say: 'Hey, gosh, gas prices went up. Can I charge you more?' " he said.

He is trying to introduce fuel surcharges into new contracts, but with customers pinching pennies, he worries about losing business as a result.

"I'll lose deals if I insist on any kind of a surcharge," he said. "The sticker shock is too much."

###