

Our View: US Gasoline Consumption Declining Because “It’s the Economy, Stupid”

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The US and, to an extent, the European economies are bifurcating. Those with very high incomes are doing very well as their wealth increases. Most people, though, are being squeezed and are likely already experiencing a recession. The near or actual recession for those earning less than, say, \$75,000 (almost 60 percent of the US population) forces consumers to make difficult choices, especially given the rapid price rises. History shows that gasoline use drops significantly more than consumption of other goods at such times. At this juncture, we expect US and probably European gasoline use this summer to be lower than in 2023.

James Carville coined the “it’s the economy, stupid” catchphrase in 1992 during Bill Clinton’s successful presidential campaign. The *Political Dictionary* notes that “Carville told campaign staffers to hammer on the importance of the economy at every chance they got—he even went so far as to hang a sign in campaign headquarters reading, in part, ‘the economy, stupid.’”¹

In 1992, the US economy was in recession. Real disposable per-capita personal income had declined. The effects of Iraq’s invasion of Kuwait on consumer budgets and inflation were still being felt.

The situation in 2024 is similar in some ways and different in others. Today, the economy is not in recession, at least not yet, as Nick Timiraos observed in a June 7 *Wall Street Journal* article.² However, Aaron Back, another *WSJ* economist, explained a day later that the US economic picture shows two distinct Americas. The rich are doing fine. Those in what is left of the middle class and the growing number of poor are not.

Surprisingly, many seem not to understand this situation. In February, four *Wall Street Journal* writers published an article titled “Why Americans Are So Down on a Strong Economy.” They began the piece this way:

There’s a striking disconnect between the widely shared pessimism among Americans and measures that show the economy is actually robust. Consumers are spending briskly—behavior that suggests optimism, not retrenchment. Inflation has tempered. Unemployment has been below 4% for 24 straight months, the longest such stretch since the 1960s.

¹ Taegan Goddard, “It’s the Economy Stupid,” *Political Dictionary* [<https://tinyurl.com/zj3v3bf2>].

² Nick Timiraos, “Why the Recession Still Isn’t Here,” *The Wall Street Journal*, June 7, 2024 [<https://tinyurl.com/mut53dw3>].

The disconnect has puzzled economists, investors and business owners. But press Americans harder, and the immediate economy emerges as only one factor in the gloomy outlook. Americans feel sour about the economy, many say, because their long-term financial security feels fragile and vulnerable to wide-ranging social and political threats.³

The authors conducted interviews in many cities with the affluent and those just making it, the well-educated and blue-collar workers, and Democrats and Republicans. They noted that most “are weighed down by fears of an unpredictable world in which no one in government or business is competent to steer the nation through precarious times.”

Economists are clueless in these circumstances. The article included this comment from a former White House consultant:

To many economists, the negative outlook doesn’t reflect the current economic life of most Americans. “There’s some justification for some negativity about the economy, but nothing resembling the amount of negativity seen in some of the survey data,” said Jason Furman, a top economic adviser to President Barack Obama.

Furman said that, historically, inflation and unemployment levels have been predictors of consumer sentiment, and that the recent spate of rising prices had unsettled consumers. “It’s just not a good enough reason for them to be as down on the economy as they say they are,” he said.

Furman does not get it. Sitting in his comfortable position at Harvard, he thinks all is well. He is wrong. McDonald’s decision to offer a \$5 meal highlights the impact of the tightening economy. As the Associated Press explained, the firm plans to introduce the meal “in the US next month to counter slowing sales and customers’ frustration with high prices.”⁴

Gasoline sales are being dragged down, just as Bic Macs® sales are dropping. Gasoline purchases in the United States have tracked the economy’s growth for more than sixty years. During that period, the growth rate in gasoline consumption has lagged GDP growth by 1.3 percentage points. Thus, when year-over-year real GDP increases by three percent, gasoline use can be expected to rise by 1.7 percent.

However, this relationship breaks down when the economy enters or teeters on the brink of recession. On those occasions, the change in gasoline consumption growth lags GDP growth by more than three percentage points. Hence, gasoline use can be expected to fall by four percent from the prior year if GDP declines by one percent.

Today, most forecasters foresee less than two percent growth for US GDP in the third and fourth quarters of 2024. Those in the declining middle class may feel like they are in recession as they face rising insurance bills and high interest rates. Under these circumstances, one should expect

³ Aaron Zitner, Amara Omeokwe, Rachel Wolfe, and Rachel Louise Ensign, “Why Americans Are So Down on a Strong Economy,” *The Wall Street Journal*, February 7, 2024 [<https://tinyurl.com/4px8hzma>].

⁴ Dee-Ann Durbin, “McDonald’s plans to step up deals and marketing to combat slower fast food traffic,” AP, April 30, 2024 [<https://tinyurl.com/bdhnusn7>].

to see gasoline use decrease from 2023 levels over the summer. As James Carville said, “It’s the economy, stupid!”