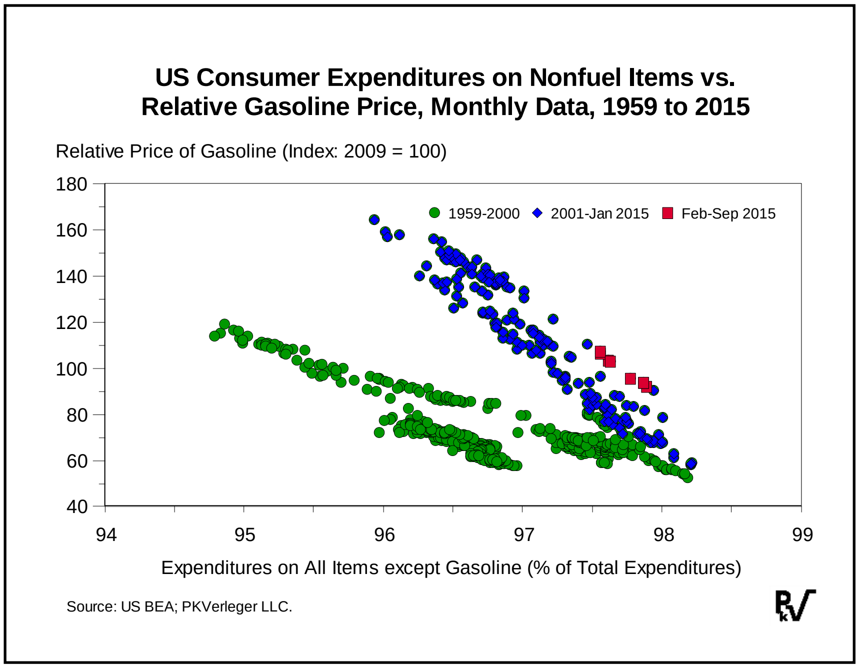
US Consumer Behavior Has Changed

Philip K. Verleger, Jr.

November 2015

As I have written often over the last year, US consumer behavior has changed in an important way since 2000 that reduces the impact of gasoline price changes on purchases of other goods. Today a gasoline price rise leads to reduced saving or increased debt rather than lower spending on other goods. Conversely, a price decline increases savings or debt repayments rather than boosting spending on other goods.



The figure presented here captures this behavior. It shows the relationship between the relative price of gasoline and the share of consumer dollars spent on all items but gasoline. The data come from the Bureau of Economic Analysis and are published as part of the national income accounts. BEA economists and national income accountants identify spending on roughly two hundred items spanning all consumer transactions. The statistics date back to 1959.

One can interpret the orientation of the data in this graph with the help of a clock metaphor:

> If the observations followed a horizontal line (from 9 to 3 on an analog clock), one would conclude that changes in gasoline prices were being offset almost dollar for dollar by changes in expenditures on other items.
>
> On the other hand, if the data were arrayed vertically (from 12 to 6 on the clock), one would interpret this as showing that changes in gasoline prices were having no effect on consumption of other items. This would imply that price increases lead consumers to borrow more or save less, while price decreases result in lower borrowings or higher savings.

This is what I find in the data. To use a politically charged term, consumers are *segregating* their gasoline expenditures from other spending. This means Nordstrom, Walmart, Costco, and other retailers cannot count on lower gasoline prices boosting gift buying this Christmas. The American consumer is being prudent and careful.

I speculate that this prudence is the consequence of experience. Consumers have all too often responded to lower gasoline prices by increasing consumption and purchasing less-efficient vehicles, only to see prices rise again and find themselves with burdensome financial obligations that force them to cut back on other activities. From this experience, they have learned never to believe in lower gasoline prices, never to trust the oil industry. The data appear to confirm my observation that lower prices are not a cause for celebration.

I note in conclusion that gasoline consumption has surged this year. However, it jumped because of the housing and construction boom, not lower prices. As I have written repeatedly, gasoline and diesel use is tied to the building industry. It takes twenty to thirty thousand gallons to construct every new unit.

Conclusive evidence for this view can be found in California, where consumption has increased dramatically despite gasoline prices there being higher this summer than last summer. California may also have enjoyed the largest boost in economic activity in the nation.

Cheaper oil, then, will not yield “holiday cheer” for retailers because consumers have gotten the message: they dare not count on low prices for the long term. The old adage “Fool me once” applies. Americans have been fooled on several occasions previously. Not this time.