

Fuel savings may fill stockings

Relief from summer's high gas prices boosts consumer confidence

By **BRENDAN M. CASE**
Staff Writer

As an employee at a Mesquite service station, Kevin Raybourne can't help but watch gasoline prices all day.

He avidly follows gas prices as a consumer, too, because he drives mile after mile to buy merchandise for his small clothing store.

"I have two cars, and I used to spend \$100 a week on gas. Now it's more like \$60," said Mr. Raybourne, 22. "That means more presents for everybody this year."

Gasoline prices are significant-ly down from their summer highs, by about 80 cents per gallon nationwide and 90 cents per gallon in the Dallas-Fort Worth area.

The price declines are giving consumers a boost just in time for the holidays.

That's one reason consumer spending is expected to hold its own, despite the slowing economy and the housing bust in some parts of the country.

"It's putting money back into consumers' pockets," said Nariman Behravesh, chief economist at Global Insight, a research firm near Boston. "The bottom line is that consumer spending has only taken a very small hit, despite the crunch that seems to be going on in the housing market around the country."

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Certainly, there are limits to the benevolent economic effects of falling gas prices. Gasoline and motor oil accounted for just under 4 percent of household spending in the Dallas-Fort Worth area in 2004 and 2005, according to the U.S. Department of Labor.

But price declines over the past few months have provided some relief. A Dallas motorist who drives 1,250 miles per month in a car that gets 21 miles per gallon would expect to spend about \$125 on gasoline in a month at current prices. That's more than \$50 less than what the same person would have spent when gas prices were at their summer peak.

Consumer confidence

Also, falling gas prices loom large in consumer confidence. In October, as gas prices fell, the University of Michigan's index of consumer sentiment hit its highest level since July 2005. The index fell somewhat in November but remains healthy, analysts said.

Gasoline prices take the biggest bite out of the budgets of lower-income people, analysts said. So the recent declines should give them a boost at a time when median wages have been largely stagnant.

"We know that low-income consumers spend so much more of their income on energy," said Rakesh Shankar, senior economist at Moody's Economy.com, a research firm near Philadelphia. "The pain and now the benefit is very concentrated in the lower tiers."

Still, Dallas mom Cynthia Ferguson, 51, says she doesn't want to get too excited about recent declines in gasoline prices.

"They're still high," she said, pumping gas at an Oak Cliff service station into her 1992 Toyota Corolla.

When gas prices spiked to \$3 a gallon last year, she watched her fuel bills gobble up the fixed income she receives from disability payments. So she traded in her 1996 Buick Regal for the Corolla.

Recent gasoline price declines help, but Ms. Ferguson says she still tries to drive less in order to make ends meet.

"It's like robbing Peter to pay Paul," she says, describing how she juggles her household finances.

Gasoline prices are unlikely to spike during the rest of the year. But it's unclear what next year might have in store.

Barring an unforeseen shock to oil markets, however, it's possible next year's peak prices might not go as high as they did this year and last year, some experts say.

"We'll have more high and low tides in 2007, but I think the high tides will be less severe than in the previous couple of years," said Tom Kloza, publisher and chief oil analyst at Oil Price Information Service, which tracks petroleum prices and news.

Change in behavior

From September 2005 to the end of August, high gas prices forced U.S. households to spend an additional \$535 on gasoline compared with the preceding 12-month period, according to a recent study by Information Resources Inc., a Chicago-based research firm.

As a result, consumers changed their behavior, said Information Resources' Sheila McCusker. For example, people cut down on the number of shopping trips they made and spent less money at casual dining establishments.

Now that prices have stayed at relatively low levels for some time, people might be a bit more willing to spend money on other goods.

"There is a delay in consumer behavior, where people hold their breath and ask, is this real? Are prices really going to stay down?" Ms. McCusker said. "Prices have been down for a little while now, so I would expect that we would start to see spending picking up in some areas, in casual dining for example."

Lower gasoline prices should



provide a little respite for holiday shoppers, too.

Gail Cunningham, vice president of business relations at Consumer Credit Counseling Service of Greater Dallas, predicts that most of the savings from lower fuel prices will end up in retailers' cash registers.

"Typically, consumers spend all the money they have and more," Ms. Cunningham said. Now that gasoline isn't eating into people's pocketbooks quite so deeply, "that money's probably going to be spent at the mall."

E-mail bcase@dallasnews.com