
FLORIDA TAXWATCH

Economic Commentary

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Pumping Savings into the Economy

There are very few products or services that impact, in one way or another, nearly every consumer in the United States. One product that does is gasoline. Since the end of 2014, the consumers in the U.S. have experienced a steady decline in the price of gasoline, down from \$3.52 in July 2014, to the current national average of \$1.72.¹ The drop in gasoline prices has sparked debate among economists as to whether or not lower energy costs are an overall positive or negative for the economy. While both sides have staked their claims and can produce evidence to support some of their arguments, one fact remains true: the drop in gasoline prices has led to fairly significant savings for U.S. consumers, and those savings are flowing back into the economy.

Lower Gasoline Prices are a Positive for Most Consumers

It is estimated that individual consumers saved between \$540² and \$700³ in gasoline-related expenses in 2015. This savings had a significant effect on the spending power of individuals. A study of more than 25 million debit and credit card users found that individuals were spending nearly 80% of the “extra” money they had due to the savings incurred from lower gasoline prices.⁴ Instead of being spent at the pump, this “extra” money was able to flow into other sectors of the economy, to the tune of an estimated \$5.86 billion in Florida in 2015 alone, generating an additional \$350 million in sales tax revenue.⁵

In particular, the study shows that nearly 20% of gasoline savings were spent at restaurants alone.⁶ This helped fuel a record year for restaurants as Americans spent more money eating out than at the grocery store for the first time in history.⁷ Consumers also spent some of their gasoline savings shopping, as industries such as entertainment, electronics, appliances and department stores all saw added revenue due to the increase in expendable income.⁸ The overall benefits to individuals in the U.S. is upwards of \$140 billion as a result of the drop in gasoline prices.⁹

1 *Gasoline and Diesel Fuel Update*. U.S. Energy Information Administration. www.eia.gov/petroleum/gasdiesel/;
Also see: AAA website: fuelgaugereport.aaa.com/states/florida/florida-metro/

2 *Americans saved \$540 on gas this year*. CNN Money. October 2015.

3 *U.S. household gasoline expenditures expected to fall in 2015*. U.S. Energy Information Administration. April 2015

4 *How Falling Gas Prices Fuel The Consumer: Evidence from 25 Million People*. JPMorgan Chase & Co. October 2015.

5 Florida Legislature Office of Economic and Demographic Research. *Florida: An Economic Overview*. August 26, 2015.

6 *How Falling Gas Prices Fuel The Consumer: Evidence from 25 Million People*. JPMorgan Chase & Co. October 2015.

7 *Americans' Spending on Dining Just Overtook Grocery Sales for the First Time Ever*. Bloomberg Business. April 2015.

8 *How Falling Gas Prices Fuel The Consumer: Evidence from 25 Million People*. JPMorgan Chase & Co. October 2015.

9 *Why Cheap Gas Might Not Be Good For The U.S. Economy*. NPR. February 2016.

Who Is Impacted the Most

While the fall in gasoline prices leads to savings for everyone, the impact is greater on those who are more susceptible to changes in their income. For example, the two groups of society most greatly impacted by the decrease in gasoline prices are the lower two income quartiles, or those in the bottom 40% of income earned. This is due to the fact that these individuals spend the highest percentage of their monthly income filling up their car (5.6% for quartile 1 and 4.1% for quartile 2).¹⁰ Some estimates show an even greater impact for lower-income households. In 2012, it was estimated that households earning less than \$50,000 spent approximately 21% of their after-tax income on energy costs associated with oil (including heating oil).¹¹

With the decline in energy costs, these individuals stand to benefit the most. One study estimates that those individuals in the lowest income quartile experienced what is equivalent to a 1.6% increase in income, more than 3 times the impact lower gasoline prices had on the highest quartile (the top 20 percent of income earners).¹² The benefit from energy savings comes at a crucial time for middle- and lower-income earning individuals because these segments of society have not seen significant wage gains in recent years.¹³ The savings instead act as a pseudo wage increase that helps boost consumer sentiment, giving middle- and lower-income individuals some much-needed expendable income.¹⁴

Do Oil Prices Affect the Stock Market?

2 | A popular headline that seems to overshadow the decline in oil prices is the idea that their decline negatively affects the stock market. The talking point has become so popular that it can be heard discussed by the mainstream media on almost a daily basis; however, a study published by the Federal Reserve casts serious doubt that oil prices (and, in turn, gasoline prices) have any real effect on the stock market at all.

The study, which analyzed 10 years of data relating to oil prices and the S&P 500 index (widely used as a broad market indicator), concluded that the overall relationship between oil and stocks does not appear to be strong in either a positive or negative context.¹⁵ The study found that over a 10 year period, the price of stocks and oil both climbed, but the changes did not seem to correlate in any significant way.¹⁶ The study instead asserted that those industries directly affected by energy costs, such as transportation, are the only stocks that may be directly impacted by the price of oil.¹⁷

10 *How Falling Gas Prices Fuel The Consumer: Evidence from 25 Million People*. JPMorgan Chase & Co. October 2015.

11 *Lower Gas Prices: How Big A Boost for the Economy?* The Wall Street Journal. December 2014.

12 *How Falling Gas Prices Fuel The Consumer: Evidence from 25 Million People*. JPMorgan Chase & Co. October 2015.

13 *Lower Gas Prices: The New Wage Increase*. Newsmax. December 2014.

14 *Ibid.*

15 *Do Oil Prices Directly Affect the Stock Market?* The Federal Reserve Bank of Cleveland.

16 *Ibid.*

17 *Ibid.*

It is also important to note that that changes in the stock market, no matter what is driving the changes, do not have a direct effect on most Americans. Roughly speaking, 90% of all stocks are owned by 10% of the population;¹⁸ therefore, a decline in the stock market usually affects investors and people who work for the companies experiencing declines in stock prices, which is where one can actually find some negative side effects from declining oil prices.

One Industry Feeling the Effects

While a majority of Americans benefit from lower prices at the pump, there is one industry that has (naturally) taken a significant blow due to the decline in oil prices. The oil and gas industry has felt significant negative effects, to the tune of 250,000 industry jobs lost around the world. The industry has also cut more than \$100 billion in spending and suspended production on more than 1,000 rigs, primarily due to lost revenue as a result of low gasoline prices.¹⁹ States that rely on shale oil production, such as Texas, North Dakota, Colorado, and Oklahoma are now lagging behind the rest of the nation in job growth.²⁰ With oil prices expected to remain low in the coming years, the economies in these states will continue to struggle.²¹

While the private sector tied to oil has been greatly affected, some state governments are also starting to feel the effects of the decline in oil prices. Currently, Texas' public assistance expenditures are on pace to exceed the previous forecasts for 2016.²² Alaska, on the other hand, has been forced to propose higher taxes on products such as alcohol and tobacco to make up for the decline in oil revenues, an industry responsible for 80% of the state's operating budget.²³ With the expectation that oil prices will remain low, states that are heavily reliant on the industry must prepare for the continued effects.²⁴

Conclusion

While it is true that the decline in oil prices and, in turn, gasoline prices, have a negative effect on a few specific industries and regions, overall, low oil and gasoline prices are a net positive.²⁵ The benefits of lower gasoline prices is wide-ranging, affecting an overwhelming majority of individuals in the United States. Individuals are able to save roughly \$700 a year and, as a result, have more expendable income that is able to flow into many different sectors of the economy. Americans can look forward to gasoline prices remaining low, allowing them to save money at the pump for the foreseeable future.

18 *How Worried Should We Be About the Stock Market's Recent Decline?* Economic Policy Institute. August 2015.

19 *Global Oil Job Cuts Top 250,000*. Bloomberg Business. November 2015.

20 *Falling oil prices put the squeeze on state budgets*. CNBC. January 2016.

21 *Russia's Big Worry Is Not What the Pentagon Thinks but What Shale Frackers Will Do to Oil Prices*. Manhattan Institute. February 2016.

22 *Falling oil prices put the squeeze on state budgets*. CNBC. January 2016.

23 *Ibid.*

24 *Global Oil Job Cuts Top 250,000*. Bloomberg Business. November 2015.

25 *Why Cheap Gas Might Not Be Good For The U.S. Economy*. NPR. February 2016.

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