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Fuel for Consumer Rebound: Lower Oil Prices

By KELLY EVANS

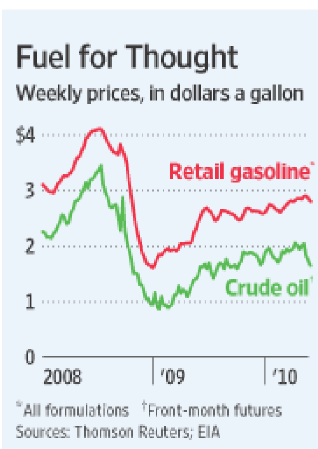
One man's financial crisis may be another's stimulus.

U.S. markets have taken a beating amid fears over Europe's fiscal woes and global economic growth. Commodities haven't been spared—crude-oil prices have tumbled roughly 20% since early April to close at about $70 a barrel on Monday.

The decline is just starting to show up in lower prices at the pump. As of Monday, the average price of regular unleaded gas was $2.79 a gallon, according to the Oil Price Information Service and AAA, versus $2.85 a month ago. The price is likely to fall further in coming weeks, defying the typical seasonal increase heading into Memorial Day weekend and the busy summer-driving season.

If so, that could give a psychological boost to consumers. On Tuesday, the Conference Board, a New York-based consultancy, is expected to say its consumer-confidence index nudged up to 58.3 in May, an 18-month high, from 57.9 in April.

Consumer confidence began sinking in late 2007. The housing crisis was already gathering steam, but soaring energy prices also played a big role. By the summer of 2008, crude prices hit $145 a barrel and prices at the pump topped out at about $4 a gallon.



People concerned with the cost of gas are twice as likely to cut spending as those who monitor the stock market's daily gyrations, according to First Command Financial Services, a Texas-based investment firm.

Falling gas prices could lead people to spend, although job growth will be paramount. Goldman Sachs economists noted recently that lower oil prices could be "the most important offset" from the European debt crisis.

A $10-per-barrel drop in prices could save households about $20 billion per year in energy costs. If roughly 70% of those savings were spent elsewhere, it would boost gross domestic product by 0.1%, Goldman notes.

That's not to say the effect will be permanent. Any lift may prove fleeting if financial-market turmoil is correctly forecasting slower growth, says James Hamilton, an economics professor at the University of California at San Diego.

Still, lower oil prices can't hurt. Add in lower mortgage rates and consumers may feel cheerier this summer, even if the stock market has left investors feeling poorer.

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