USA TODAY MONEY

FALLING GAS PRICES PUMP UP CONSUMER SPENDING

Experts: Cost cut may fuel better holiday sales

Paul Davidson
USA TODAY

Falling gasoline prices are boosting consumer spending, economists say, heralding a pickup in holiday sales and economic growth.

Average regular unleaded gas prices have plunged to $2.99 a gallon from $3.70 in late June, dipping below $3 for the first time since 2010 as a weak overseas economy and U.S. energy boom cut oil prices.

A drop in pump prices effectively serves as a tax cut, with consumers using much of the savings on other purchases that cycle back into the economy.

Until recently, cheaper gas wasn't reflected in spending data. Retail sales fell 0.3% in September. But half of the recent decline in gas prices occurred last month, helping lift consumer confidence to a seven-year high and leading economists to predict a more dramatic spending impact ahead.

Early reports bear out such forecasts. The International Council of Shopping Centers said chain-store sales jumped 0.6% last month, reversing September's decline. And average daily consumer purchases rose by $2 to $89 in October, Gallup says.

Economist Chris Christopher of IHS Global Insight expects the government to report this week that retail sales, excluding autos and gasoline, surged 0.6% last month after dipping the previous month.

Tumbling gas prices are "very supportive of increased consumer spending," Christopher said, citing the biggest benefits for low- and moderate-income Americans who spend most of the savings. That's partly why he predicts holiday sales will rise 4.2% this year, up from 3.1% in 2013.

Christopher expects $3-a-gallon gas to boost economic growth by nearly half a percentage point over 12 months ending next September, offsetting a stronger dollar that's hurting U.S. exports.

Consumers are likely to spend two-thirds of their gas savings, pumping $40 billion into the economy in 2015, said economist Mark Zandi of Moody's Analytics.

Lynn Contos, 65, of Kalamazoo, Mich., said lower gas prices prompted her to drive across the state to a Detroit area IKEA recently to snap up wall art, mugs and other items. This week, she's heading to Ann Arbor to shop for jewelry and clothing. "It allows me to take trips I may not normally" take, she said.

For some, cheaper fuel simply offsets a sharp rise in food prices in the spring. "It's going from one hand to the other," said Gene Young, 59, of Sioux Falls, S.D.

SAVINGS AT PUMP

U.S. weekly average price for a gallon of regular gas:

MAY 5	SEPT. 1
$3.68	$3.46
JUNE 2	OCT. 6
$3.69	$3.30
JULY 7	NOV. 3
$3.68	$2.99
AUG. 4	
$3.51	

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SPENDING