United States: Are Rising Gas Prices a Risk for Growth?

Already on an uptrend since the start of 2016, gas prices have accelerated in the last few weeks. The price of a gallon of gas in the United States has soared from US$2.45 in mid-March to almost US$3.00 in recent days. Part of this increase is seasonal; prices often tend to rise as summer gets closer. However, a good chunk of the increase stems from rising crude oil prices caused by renewed tensions in the Middle East and problems in Venezuela. Part of this pressure eased recently after Saudi Arabia and Russia moved to increase their production.

Rising gas prices represent an additional burden for households. If prices remain at roughly their current levels, this could add an annualized cost of US$45B for Americans (graph 1). This is equivalent to 0.3% of personal disposable income that cannot be used for other consumption or for savings.

Given the current context, the negative effect on economic growth is still modest. Gas prices are still far from the peaks of close to US$4 a gallon reached a few times since 2008. What’s more, the hot labour market and solid household income (supported by tax cuts) are minimizing the negative risks. Confidence is still high, although some indicators have started to show some fragility since gas prices starting climbing (graph 2).

IMPLICATIONS

Rising gas prices alone do not appear to be a very big risk at the moment. This could become more of a problem if prices keep rising and remain high, however. This could also push U.S. consumers to change their attitudes, especially when it comes to their next vehicle purchases.

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