

## Lower Gas Prices Could Rev Up Holiday Spending

*Less money spent at the pump means more to spend at the mall*

By Meg Handley, December 16, 2011

Thanks to easing energy and food costs, Americans might be feeling a little jollier this holiday season.

The consumer price index, which measures changes in prices for consumer goods such as food, clothing, and medical services, stayed flat in November, according to the Labor Department, primarily due to dropping gas prices.

That's likely to make consumers, hit earlier this year with a surge in gas and food prices, feel more confident about their financial situations and could boost retail sales this holiday season.

Gas prices are down 70 to 80 cents from their peak this year, and with every penny decline translating into a billion dollars on an annualized basis, according to economists, Americans potentially have \$70 billion to \$80 billion dollars more in disposable income than they did earlier this year.

"The decline in gas prices especially has helped out," says Joel Naroff, president and chief economist at Naroff Economic Advisors. "People who may have felt a lot more stressed before looking at \$4 a gallon rather than \$3.15 a gallon, there's definitely a little more money for them."

According to data from Sageworks Inc., a financial information company, sales for private retailers have been increasing between 5 and 6 percent in 2011. Those sales will likely continue to increase if consumers spend the cash they're saving on gas.

Still, some economists caution that higher prices are likely on their way. Core prices have risen 2.2 percent in the past 12 months, the most in more than three years, mostly due to pricier clothing and higher rents.

"What worries me a lot is shelter costs," Naroff says. "Once housing prices go up, shelter prices go up, food prices are going to rise over a longer period of time when you have demand coming from all the rest of the world. There are some pressures out there."

He admits Americans aren't likely to see inflation soar to levels seen in the 1970s, but it also won't be the 1 to 2 percent the Fed would like to see. The year-over-year rate continues to accelerate and exceeds the Fed's target, Naroff notes.

Other economists say inflation probably has peaked and is likely to decline next year as slower growth in China and a possible recession in Europe reduce global demand for energy and other goods.

For the full story featuring Sageworks' private industry data, please visit [U.S. News & World Report – Lower Gas Prices Could Rev Up Holiday Spending](#).