

Feeling the Pinch - Why Fuel Prices Matter

February 27, 2012 - If you are feeling some pain from gas prices, you are not alone. That picture of the gas sign with prices over \$4 is actually the sign at the gas station that I filled up at yesterday. Of course, I'm in California and we have our own "designer blend" of gas. But you can bet that the prices that are here in California are on their way to you if you live in another state. And those high prices are likely to have a significant impact on the spending habits of all Americans.

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As a site focused on credit issues, we haven't said too much about gas prices. But since fuel prices impact the entire economy, they are now at a point that they can't be ignored. If you think that the prices shown in the picture are bad, then you may be surprised to learn that I was actually happy to find gas at this price. On the west side of Los Angeles, there are places where it already exceeds \$5 per gallon.

The problem here is that fuel prices impact that price of everything else. Virtually everything is made or transported using petroleum products. And there is virtually no way for the economy to recover as long as fuel prices remain at their current levels.

Businesses will try to absorb some of the costs associated with high fuel prices. But the portion of these costs that they absorb is at the expense of other things, such as hiring and expanding.

More importantly, consumers are already having to make some painful choices associated with fuel. Do you take your car to work or rely on public transportation? If you need to drive your car to work because you use it in your job, that may not be an option. So, where else do you cut back? And when you cut back, how do you impact people and businesses with your decisions?

Every 50 cent increase in the price of gas shaves \hat{A} ½% off of the Gross Domestic Product of the United States. Every single penny that gas prices increase takes more than \$1 Billion out of the pockets of consumers.

One of the things that ACCESS is really concerned with is how the increases in fuel prices could impact consumer credit card bills. The reason for this is fairly simple. Simply because fuel prices go up doesn't mean that you can cut spending in other areas to make up the difference. If you have already cut out frivolous spending and down to paying your rent, food and utility bills, you may not have a lot of options to cut in other areas.

Unfortunately, this means that some people are going to start charging more. And if fuel prices remain high for a long period of time, it means that some people are going to become overextended and be unable to pay their bills.

Right now, fuel prices are at record highs for this time of the year; and this isn't even the peak driving season. With all of the problems in the Middle East and the falling value of the dollar, they are not likely to come down soon. And if they don't fall soon, that will be bad news for unemployment numbers and personal budgets.

byJim Malmberg

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