



Written by [Bob Adelman](#) on December 21, 2015

## Gas & Retail Prices Drop, Consumers Not Spending; Recession Feared

The *Wall Street Journal* [has calculated](#) that the average driver spent \$550 less on gas this year compared to previous years, thanks to the precipitous drop in crude oil prices. On Monday, NYMEX crude oil broke below \$34 a barrel while Brent crude (traded in London) hit lows not seen since 2004. Apparel prices are down 1.5 percent from last Christmas, while television prices are down 12 percent.



Consumers should be spending the savings, according to Wall Street economists. But a closer look at relevant numbers shows they aren't: In October, consumer spending rose just 3.8 percent from last October. Growth in credit card debt has slowed as well. And aside from buying more SUVs and a small uptick in dining out, consumers aren't taking the expected advantage in lower prices online or at the malls.

So where is the extra money going? Some of the money not spent on gas and other consumer goods is going into savings, which hit the highest level in October in almost three years. Besides, the \$550 a year in gas savings — or about \$10 a week for the average motorist — isn't all that much. It might buy a new tablet or pay for a trip to see the folks, but hardly enough to change the consumer's outlook significantly.

And that outlook is becoming more cloudy and questionable.

For the first time in 14 months, economists surveyed by Bloomberg are showing an increasing concern about a recession on the horizon. As Bob Bryan, writing for the *Business Insider*, put it: "Recessions don't begin when times are bad; they begin while times are still good."

Although manufacturing is a relatively small part of the economy, it is a harbinger for the future nevertheless. The Purchasing Managers Index (PMI) just registered its lowest reading since October 2013, while the Institute of Supply Management's (ISM) index ticked down to 50.2 percent, the lowest since May 2013 and just above contraction levels.

The Chicago Business Barometer's reading in September was 48.7, the fifth time this year it has come in below 50. The Philadelphia Fed's Current Activity Index dropped six percent, confounding Wall Street's expectations of a pick-up of plus 5.9 percent.

The New York Fed's General Business Conditions index registered a negative 14.7, its worst reading since August of 2009. In Dallas, the Texas Manufacturing Outlook Survey has been negative all year and showed a -9.5 reading in September.

The BDI (Baltic Dry Index) measuring the costs of shipping commodities by sea, has just hit a record low of 471, down from 1,222 last August, a whopping 40-percent decline.

TD Securities put all this data together into its own Manufacturing Sector Growth report, registering negative numbers going back to the third quarter of 2014. TD analysts explained: "This crucial sector



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has struggled to navigate against the headwinds coming from the collapse in global energy prices, the drag from the strengthening dollar [compared to the relative weaknesses of currencies overseas] on export activity, and the weakening in global demand.”

This whiff of recession may just be hitting consumers enough to cause them to pocket their gasoline and retail savings rather than spending them. From here, further declines in crude oil prices, even to as low as \$20 a barrel, are not likely to have additional positive impact in getting consumers to open their wallets. They might just be, as other observers, holding their breath and waiting to see.

*A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at [LightFromTheRight.com](#), primarily on economics and politics. He can be reached at [badelman@thenewamerican.com](mailto:badelman@thenewamerican.com).*



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