

Rising gas prices are a growing threat to the American way of life

Cadie Thompson Mar 8, 2017, 2:22 PM



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For the last few years, Americans have enjoyed friendly prices at the pump. And in many ways consumers' lives have been shaped by these prices.

People have bought bigger cars, traveled more, and spent more money in general.

But nothing lasts forever and rising gas prices could mean big changes for the American way of life.

According to [GasBuddy.com](#), gas prices could reach a three-year high in 2017. And in the long-term, gas prices are likely to climb back up to record levels, experts say.

"There may not be a giant hike, but I do think eventually gas prices could return to record levels, maybe not in the next year or two...but it's just a matter of time," Patrick DeHaan, a senior petroleum analyst at GasBuddy.com, told Business Insider. "Global demand is on the uptick because of low oil prices so that would tell us that demand is increasing, but oil production has not really followed to that degree."

And as gas prices continue to rise, Americans could be forced to transform how they drive, spend, and where they live.



pick-up trucks, SUVs, and crossovers.

In fact, SUV and crossovers accounted for 40% of US market share in 2016 versus 34.7% in 2014, [according to IHS](#). The market share for sedans, on the other hand, decreased from 36.2% in 2014 to 31.1% in 2016.

IHS

But if gas prices go back, it's possible we could see Americans abandon their larger vehicles for smaller cars.

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"Gasoline prices have been higher for a longer time there, so people drive smaller much more fuel efficient cars and you would expect to see similar patterns in the United States," she said.

Americans have actually made this shift before.

In July 2008, gas prices reached record highs of about \$4 a gallon and almost immediately consumers made a dramatic move to smaller, more fuel-efficient cars.

"Almost overnight fuel efficiency became a very important factor in what kind of cars Americans were looking at. And that could happen again," DeHaan said.

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Since gas prices dropped in late 2014, there has been a boom in SUV and truck sales. David Goldman/AP Photo

As gas prices have inched back up during recent months, we are already seeing a small shift in what kinds of vehicles people are buying.

"What we are finding in the current environment that we are in, where gas prices are about 60 cents higher than last year, is that motorists are very slowly going back to more fuel efficient vehicles," DeHaan said.

The average fuel economy of new vehicles sold in December 2015 was 24.8 mpg. But in December 2016, it had gone up to 25.0 mpg and in January and February this year it went up again to 25.1, according to the according to the [University of Michigan's Transportation Research Institute](#).

But trading their large car for a smaller one isn't the change people are likely to make if gas prices soar. Americans are also likely to find other areas of their life they can cut spending.

Less dining out, less shopping

One of the biggest things people quickly change when gas prices go up is their discretionary spending, Morris said.

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Consumer tend to cut back on eating out when gas prices rise. David Sharp / ASSOCIATED PRESS

"In the short run, when gas prices go up it, people have only a limited ability to significantly change how much gasoline they consume. Because they have the car they have, they live where they do, they work where they do, so they might be able to cut back on discretionary travel a little bit, but probably the biggest factor is changes in other expenditures," Morris said.

"So where you tend to see a decline in other expenditures are things like meals eaten outside the home, where people can on a pretty rapid basis change their consumption patterns of discretionary spending."

Lower gas prices generally translate to higher consumer sentiment, which means people feel good about the economy and generally will spend more, DeHaan said. This

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In fact, in 2015 it was estimated that consumers spent 80 cents of every dollar saved on



However, if gas prices surge, we would likely see consumer sentiment plummet, people stop spending, and businesses would likely suffer.

Brick and mortar stores feel the pain when gasoline prices increase. Business Insider/Sarah Jacobs

"When gas prices are high, very quickly we see an impact on fast food restaurants and shopping in brick and mortar stores," DeHaan said.

"The impact varies, but it can come back to hurt traffic in malls. It's likely because motorists are cutting back from their discretionary spending categories as they shell out more of their paycheck towards gas prices," he said.

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shopping habits.



AS THE COST OF GAS INCREASES, SOME HOMES MAY BECOME WORTH MORE THAN OTHERS.

"We find that all else equal, homes in areas with longer commutes tend to sell at lower prices when gasoline goes up and homes with shorter commutes tend to sell at higher prices when gasoline prices go up," Morris said.

In fact, according to a [2014 study](#) done by Morris and Helen Neill of the University of Nevada, Las Vegas, a 10% increase in gas prices can mean a 2% price bump for homes closer to a city center.

Homes further from a metropolitan hub, though, saw about a 1% drop in home value, according to the study.

To calculate this correlation, Morris and Neill used data from 930,702 home sales in the Las Vegas area for a span of more than 30 years. Morris said that home prices were most likely to decline if they were located more than half an hour outside a metropolitan area.

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There's some evidence that suggests gas prices can even impact the value of your home. [Flickr/Images Money/TaxRebate.org.uk](#)

"The pivot point in our data, for this particular city, was about a 30-minute commute. So if your house was in an area where your commuting time was less than 30 minutes you were more likely having home prices going up when house prices go up," Morris said. "But if it was more than 30 minutes, your home prices were more likely to go down when gasoline prices go up."

This area outside of suburbs, which is often referred to as the "suburban fringe," was most affected when gas prices soared in 2008 and the housing crisis hit.

"If you look at the walkable urban neighborhoods, during the great recession, the housing prices basically went flat. Maybe they went down 10%, but they basically went flat," Christopher B. Leinberger, the chairman of the Center for Real Estate and Urban Analysis at George Washington University, told Business Insider.

"The drivable suburban fringe, relying upon cheap gas prices, had by far felt the

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while homes in suburban areas closer to the city saw a drop of about half that.

Of course, gas prices were not the sole factor influencing home prices in 2008. The mortgage crisis sent the housing market into a tailspin and home values across the nation fell. But high gas prices do affect peoples' preferences, and when prices at the pump are soaring, people simply don't want to live as far out.

"Over the longer run, we know that gasoline prices can shift the prices for different types of cars and even people's patterns of living and commuting," Morris said. "Prices matter and people respond to prices and if gasoline prices go up and stay up then certain consumption patterns are harder to sustain and people are going to make other choices."

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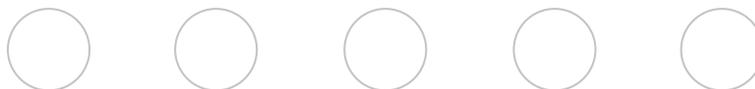
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