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Even as gas prices rattle economy, Americans can't stay off the road

No relief in sight to high prices at the pump, as the fallout ripples through society

*By Evan Halper
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School officials in Davenport, Iowa, expected that keeping the tanks of district buses filled would be a challenge in these days of high gas prices. What they were not prepared for was prices at the pump making it such a challenge to keep students fed.

As gas prices climbed past \$4, snacks of rainbow carrots and other enticing fresh fruits and vegetables delivered as part of federal grant to promote healthy eating were suddenly in jeopardy. The grant got drained as the vendor tacked on extra charges to cover the high price of fuel, forcing some schools to end deliveries early.

Troubles with bread came next. The company delivering it first asked for hefty fuel surcharges before ultimately telling the district not to bother. It said it can't afford to keep loaves coming to schools next year at all. The district has turned to another company, paying nearly double — \$40,000 more — for less-frequent deliveries.

[Why gasoline prices remain high even as crude oil prices fall](#)

"It's very stressful," said Coni Dobbels, the Davenport school district's food and nutrition services director. "People keep saying, 'Aren't things at schools

better this year than they were last year?' They're not. I have never experienced anything like this."

The shocks of high gasoline costs are ricocheting through the economy, as prices at the pump continue to rise, and industry analysts see little relief on the horizon. Even as drivers are loath to change their habits, with Americans eager to get on the road after pandemic cabin fever, the fallout from high gas prices is touching every corner of society.

Retailers and trucking companies are in a state of high anxiety over [worsening diesel shortages](#), with an increasing threat that the fuel will need to be intermittently rationed at [filling stations](#) in some parts of the country. Similar worries are gripping the airline industry, as [jet fuel becomes more scarce](#).

Concern about soaring fuel prices is [spreading to restaurateurs](#), as dining out tends to be high on the list of spending that gets cut when household budgets are strained by filling up at the pump. Manufacturers are wrestling with the cost of plastic packaging, which is made from the same crude oil in high demand for gasoline. Boaters are weighing whether they should delay putting their vessels in the water, now that filling their tanks can run hundreds more dollars.

[*Biden takes additional steps to ease gas prices as inflation rises*](#)

Gas prices keep [passing](#) earlier milestones, now averaging more than \$4.59 per gallon nationwide. That is 50 percent higher than gas was at this time last year, according to AAA, as factors converge to create supply shortages not seen since the run-up to the Great Recession in 2008.

While the war in Ukraine is playing a major role, as the world shuns Russian oil, it is [not the only challenge](#). The plunge in fuel demand during the pandemic moved producers to cut back on their investments in drilling and refining capacity. The oil-and-gas sector now finds itself ill-equipped to meet the demand of a society getting back on the road. The federal government has exhausted most of the [limited tools](#) it has to confront price spikes, such as releasing oil from the Strategic Petroleum Reserve.

"The bottom line is, it is going to be an expensive summer," said Michael Tran, managing director for global energy strategy at RBC Capital Markets. The

warning was echoed this week, albeit in more subdued language, by Treasury Secretary Janet L. Yellen, who said [during a visit to Germany](#) that upward pressure on energy prices is likely to continue in the near-term.

[*Yellen warns of global 'stagflationary' risk from gas, food prices*](#)

As climbing gas prices force Americans to change their spending habits, one thing Americans aren't doing very much of is driving less. All that driving in this moment of low fuel supply pushes prices up further. "As we reopen, there is a lot of pent-up demand," Tran said. "People are willing to pay higher prices to make up for lost travel over the last few years."

It is a different economic landscape than when gas prices last spiked like this, in the summer of 2008. At the time, Americans had been on a spending frenzy for a while and household savings rates were particularly low. Nonessential driving was a luxury more Americans could not afford then. Gas prices dropped again relatively quickly following a brief surge.

By contrast, household savings right now are at record highs, after people spent less during the [coronavirus](#) pandemic. "We were never, as a population, more ready to absorb high gas prices than we are right now," Tran said. So even as prices keep going up, demand is not easing, which puts pressure on prices to go up even further.

Memorial Day Weekend is expected to bring 37.9 million Americans to the road, more than traveled by car over that holiday weekend before the pandemic hit, and an increase of 8.5 percent over last year, when gas prices were considerably lower, according to [projections](#) by the location data firm Arrivalist. The firm attributes the trend, in part, to Americans forgoing air travel. Plane ticket prices have become [prohibitively expensive](#) for many, as the airline industry struggles with its own fuel scarcity.

While Arrivalist's pronouncement that "the American road trip is thriving" is hardly an overstatement, some drivers are stunned by what they are seeing at the pump.

Amanda Laudwein of Silver Spring was finally able to attend her nephew's wedding in Death Valley National Park, which spans Nevada and California, this month after it was twice postponed because of covid. The already

expensive trip came with an unexpected cost: The price for a gallon of unleaded at Death Valley's Furnace Creek gas station, the only place to gas up for miles, was \$8.25.

"It cost us \$120 to fill up our van," she said. "It was quite a shock."

Like many other Americans, though, the 67-year-old has no plans to cut back on her travel. She is looking forward to a cross-country road trip in the fall regardless of whether gas prices are high then. "People have been so careful with their money for so long," she said. "It is not going to stop us from going where we want. ... I want to see the big prairies."

Even as old driving habits remain, the high gas prices are forcing Americans to make other adjustments to accommodate them. Walmart this week saw its stocks suffer their biggest decline since 1987 amid an earnings report that acknowledged high gas prices are hammering its business. They are creating unanticipated operational costs for the company and also changing the ways consumers shop, as they try to consolidate their trips to the store and forgo purchasing items that are not daily necessities.

As they see so much of their money going into their gas tanks, Walmart CEO Doug McMillon said on an earnings call this week, "customers are even more price sensitive right now. ... They're paying close attention." He described Walmart shoppers at this moment as "portfolio managers" carefully balancing their budgets and more reluctant to buy something like a piece of sporting equipment unless they see a price drop.

Consumers are also impacted in unexpected ways. A [decade-old study](#) found obesity rates tend to go down when gas prices spike. Not so much because people abandon their cars to walk or bike, but because they cut out of their budgets services like house cleaning and gardening, opting to burn the calories doing it themselves.

Older drivers who lived through the gas shortages and accompanying stagflation of the 1970s, meanwhile, are more likely to associate rising prices at the pump with a souring economy and cut back their spending sooner, according to a recent [study built on extensive survey data](#) from Gallup.

“I grew up waiting in line to get gas,” said James Cassel, an investment banker in Miami. “Most people don’t remember that.”

While Cassel said he’s relieved not to be reliving the long lines at the pump endured during the 1970s, the soaring prices are creating a cascade of headaches for the midsize companies he invests in. Fuel and other costs for manufacturers are mounting so fast, he said, that big-box retailers are easing their rules on when manufacturers can hike the price of products on store shelves.

But that doesn’t mean consumers won’t just turn to buying generics. Cassel is working with a food company struggling to readjust its budget for excessive gas costs, as it weighs whether they will lose more customers if they increase the price of their product, or instead cut costs by shrinking its size.

Economists and energy analysts warn the prospects are dim for this cycle of increasing energy prices driving evermore inflation to end anytime soon. There are only a few things that could bring it to a close. One is a huge uptick in available oil, gas and renewable energy, which most analysts say is years away. The other is a recession.

A less-painful alternative to a recession would be consumers tiring of the high prices and moderately pulling back on their spending on gas and other products, driving down demand for fuel.

“If this were not the covid reopening year, I would say consumers start to pull back when gas hits \$5 a gallon,” Tran said. “But I am reluctant to make those predictions for this summer. A year from now, maybe everyone has had their fill of travel and demand starts to drop.”