

Dip in Gas Prices Helps Consumers, Hurts Investors

By Scott Horsley

BP is pumping oil again from the eastern half of Prudhoe Bay. The giant Alaskan oil field had been partially shut down last month because of leaky pipelines. The renewed production is one of several factors helping to push crude oil prices down to about \$61 a barrel. That's 20 percent below oil's midsummer peak.

Gasoline prices have also fallen more than 20 percent. And natural gas is selling for less than half what it cost a year ago. Cheaper energy is a windfall for most consumers, but not everyone is celebrating.

If you're serious about toasting the drop in gasoline prices, you're probably not drinking champagne at Morton's steakhouse. It's more likely that you're lifting a glass of beer at an Applebees.

The nation's biggest casual restaurant chain says it lost 5 percent to 6 percent of its customers in June and July, when gasoline prices were at their peak. Now that pump prices are coming down again, restaurant consultant Malcolm Knapp thinks those middle-income customers will be coming back.

"It's the median income, \$43,000 to \$60,000 range," he says. "That, a lot of them have SUVs and that's worth \$80 to \$100 a month, with the drop we've just experienced. So you can actually go out and buy something with that."

By contrast, Knapp says, customers at high-end restaurants barely blinked when gasoline prices soared. And even though gas prices have moderated, people at the lower end of the income scale are still wary of going out to eat.

"They're very nervous about, is this just a short-term phenomenon? A longer-term phenomenon? They're not sure."

For most consumers, energy is a smaller part of their household budget than it once was. And that's true for the U.S. economy as a whole. For some industries, though, energy is still a major cost. Jack Gerard heads the American Chemistry Council, whose members are heavily dependent on oil and natural gas.

“Beyond just using it for heat and power, we use it to make products,” Gerard says. “So we take natural gas or oil and we turn it into things like plastics that we use every day; the medicines in the pharmaceutical industry; fabrics in our clothing. So we’re very energy sensitive.”

Gerard suspects the drop in natural-gas prices may be short-lived, but he says it’s welcome nonetheless.

Airlines are also flying a little higher now, says aviation economist Dave Swearinga, thanks to the falling cost of jet fuel.

“The airlines consume 19 billion gallons of jet fuel every year,” he says. “And every penny change in the price is a \$190 million reduction in their cost.”

Some airlines are far more vulnerable to price swings than others, though. Southwest, for example, has effectively pre-purchased nearly three-quarters of its fuel for the year at bargain-basement prices, while American Airlines contracted for about one-third of its fuel at prices that, in hindsight, may be too high.

Some investors who’ve poured money into the energy markets with the expectation that prices would keep climbing have gotten a rude awakening this fall.

Among them are investors in the Amaranth Advisors hedge fund, where a roll of the dice on natural-gas futures cost \$5 billion in a single week.

San Diego County’s pension fund lost much of the \$175 million it invested in Amaranth. That drew a scolding from taxpayer advocate Lani Lutar when the retirement board met last week.

“Private investors can play all they want in hedge funds,” Lutar says. “But public money should not be used for gambling.”

The falling cost of conventional fuel has also taken some of the shine off alternative energy. Ethanol producers Aventine and Verasun have both lost nearly one-third of their value since early August. Another ethanol company, Hawkeye Holdings, was forced to postpone its initial public offering last week.

Still, most industry veterans take the long view. As the roller-coaster ride of the last few months has shown, energy prices don’t stay up -- or down -- forever.

