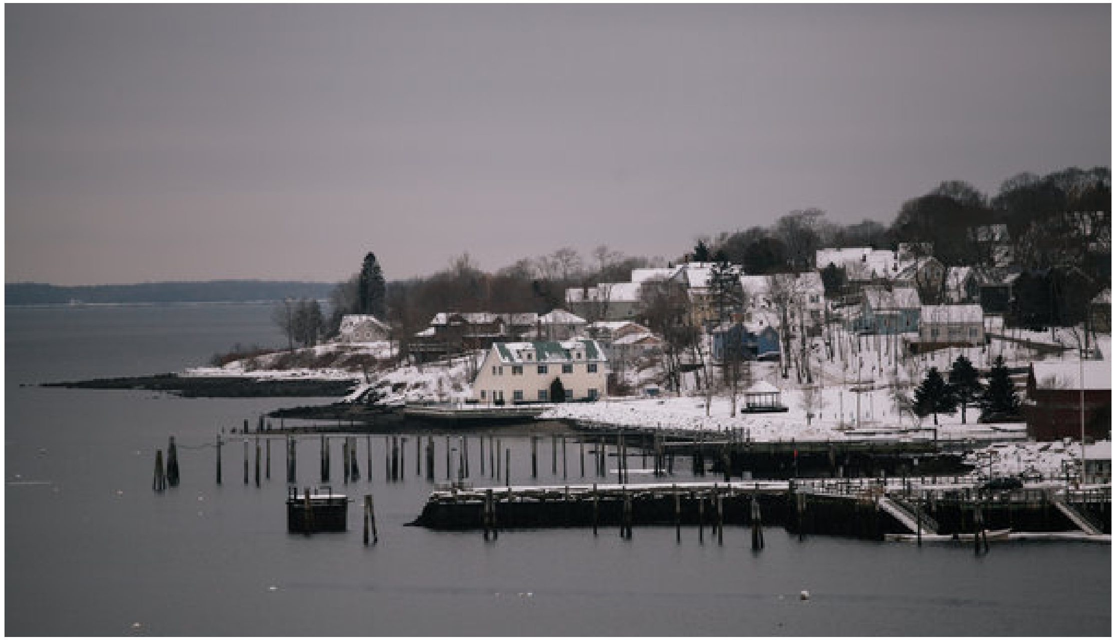
ECONOMY

Lower Oil Prices Provide Benefits to U.S. Workers

By DIANE CARDWELL and NELSON D. SCHWARTZ JAN. 17, 2015

LEWISTON, Me. — Wall Street may be growing anxious about the negative impact of falling oil prices on energy producers, but the steep declines of recent weeks are delivering substantial benefits to American working-class families and retirees who have largely missed out on the fruits of the five-and-a-half-year economic recovery.



Belfast, Me., on Thursday. The governor's energy office estimates a typical family will save

Just last week, the federal Energy Information Administration estimated that the typical American household would save $750 because of lower

$3,000 this year if oil costs stay low. Tristan Spinski for The New York Times

gasoline prices this year, $200 more than government experts predicted a month ago. People who depend on home heating oil and propane to warm their homes, as millions do in the Northeast and Midwest, should enjoy an additional savings of about $750 this winter.

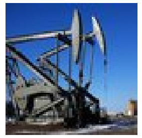
“It may not have a huge effect on the top 10 percent of households, but if you’re earning $30,000 or $40,000 a year and drive to work, this is a big deal,” said Guy Berger, United States economist at RBS. “Conceptually, this is the opposite of the stock market boom, which was concentrated at the top.”

April Smith of Lewiston, Me., says the decline in oil prices means meatloaf on the table instead of hot dogs and ramen noodles.
Tristan Spinski for The New York Times

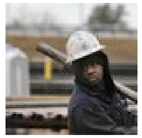
In recent years, most of the other positive economic trends — things like efficiency gains driven by new technologies, higher corporate profits, rising home prices, lower borrowing rates and stronger demand for white-collar workers with advanced degrees — have also mostly benefited businesses and wealthier Americans.

But the latest drop in energy prices — regular gas in New England now averages $2.35 a gallon, compared with $2.94 in early December, and it is even cheaper in the Midwest at $1.95 — is disproportionately helping lower-income groups, since fuel costs eat up a larger share of their more limited earnings.

RELATED COVERAGE



Fair Game: What’s So Bad About Cheap Oil? JAN. 17, 2015



Q. and A.: Oil Prices: What’s Behind the Drop? Simple Economics JAN. 12, 2015

OPEC Report Downgrades Demand for Its Oil as Prices Fall Again JAN. 15, 2015

For many residents of the bone-chilling state of Maine, the plunge in energy prices adds up to more than just a few extra dollars in their pockets and purses at the end of the month.

Take April Smith, a home health aide, and her husband, Eddie, who works in the auto services department of the Walmart in Brunswick, Me. Together they bring in about $42,000 a year. For them, the decline in energy prices means being able to put meatloaf on the table instead of serving their four children hot dogs, ramen noodles and macaroni and cheese.

“Oil prices, gas prices, food prices — luckily it’s going down, which is great,” Ms. Smith said, explaining that when prices were higher she had to scale back on groceries to save money for heating oil. “I hope it keeps going.”

For the overall economy, the tailwind generated by falling crude prices is expected to be particularly welcome as growth appears to be slackening overseas. Oil finished Friday at just under $49 a barrel, down from $65 early last month.

What might be called an energy shock in reverse is creating losers as well as winners.

States like Texas and North Dakota, which boomed as oil prices mostly stayed above $90 a barrel from 2011 to mid-2014, are now feeling a chill. So are industries that supply pipes and other material to energy drillers and frackers, including steel makers and sand producers.

Nevertheless, economists say the benefits of lower energy prices will be felt much more broadly than the expected drag on some industries and regions.

Household consumer spending contributes roughly 65 percent of gross domestic product, compared with about 1 percent from oil and gas industry investment, said Michael Gapen, chief United States economist at Barclays.

In addition, consumers typically spend the money they save on fuel in sectors that are more "employment-heavy" than the energy industry, Mr. Gapen said, like dining, travel and retail. He noted that stores employ about 13 percent of American workers, compared with the less than 1 percent of Americans who work in oil and gas extraction and related fields.

RELATED COVERAGE OF OIL AND ITS ECONOMIC IMPACT

On Friday, the University of Michigan said that its preliminary survey of consumer sentiment in early January recorded the best reading in 11 years, while the Labor Department said consumer prices declined slightly in December. Although deflation is usually a worry for policy makers, in this case the energy-led drop in prices makes the weak wage gains of recent months a little more bearable for American workers.

Few places are more sensitive to shifts in oil prices than Maine, especially in winter. The state is dotted with struggling blue-collar towns like this one, where the economy is still reeling from the hangover from the recession, which only added to the woes created by sky-high energy prices and disappearing factory jobs.

People here spend a significant proportion of their incomes on heating and transportation fuel, said Patrick C. Woodcock, who directs the governor's energy office. He estimates the typical family will save $3,000 this year if the cost of oil remains low.

“For people who have been struggling with the economy, the winter has been the hardest time,” he said. “This is the first time that there has been this space where you can make it through the winter in a more affordable way.”

High crude prices pose a particular threat here because almost two-thirds of Maine homes, which tend to be older and less efficient, rely on oil for heat. Officials have been urging residents to upgrade equipment and better insulate their houses, but the federal government gives the state only $1 million to promote insulation, Mr. Woodcock said, compared with $35 million to $40 million annually on fuel assistance. With oil prices down, at least for now, the aid that agencies dole out either as part of the federal low-income home energy assistance program, Liheap, or other efforts, goes much further. Suppliers can impose hefty fees to deliver small volumes of fuel, and last winter’s emergency grants often fell short of the minimum needed to avoid these charges.

“This year, we’ve been able to get people a full 100 gallons,” said Linda Dudley, assistant manager of the heat program at Waldo Community Action Partners in Belfast, on the coast.

And for a vast portion of the country’s population, such aid makes a huge difference. Households that earn $40,000 or less represent about 40 percent of American families, according to the Census Bureau.

Even middle-class families who earn much more will see clear benefits, especially compared with wealthier Americans, who spend a much smaller share of their income on fuel. For example, Census Bureau data shows that households with annual earnings of less than $70,000 spent 5.9 percent of their income on gasoline in 2013 versus 3.4 percent in households where income tops $150,000.

At the opposite end of the wealth spectrum, especially in states like this one, people are still grappling with difficult financial choices, despite the seeming windfall from lower energy costs.

For Ms. Smith, the lower oil and gas prices mean she is talking with her husband about possibly quitting the second job she took on after they fell behind on bills last winter, despite the heating assistance they received through Community Concepts, which helps low-income residents in western Maine.

She works 60 to 80 hours a week and worries that she is not spending enough time with the couple's four children, including a grandchild they are raising. First, though, Ms. Smith said she would like to catch up on current bills and "maybe get a little bit of money put away just in case things decide to go south."

Ms. Smith's fear, echoed by other still-cautious residents here, is that prices will turn back up, squeezing household budgets again.

"Us small people, we just see it go up and down, up and down," she said. "We throw a party when it's down — but not too much of a party because we know it's going up."

Diane Cardwell reported from Lewiston, Me., and Nelson D. Schwartz from New York.

A version of this article appears in print on January 18, 2015, on page A4 of the New York edition with the headline: Lower Oil Prices Provide Benefits to U.S. Workers.