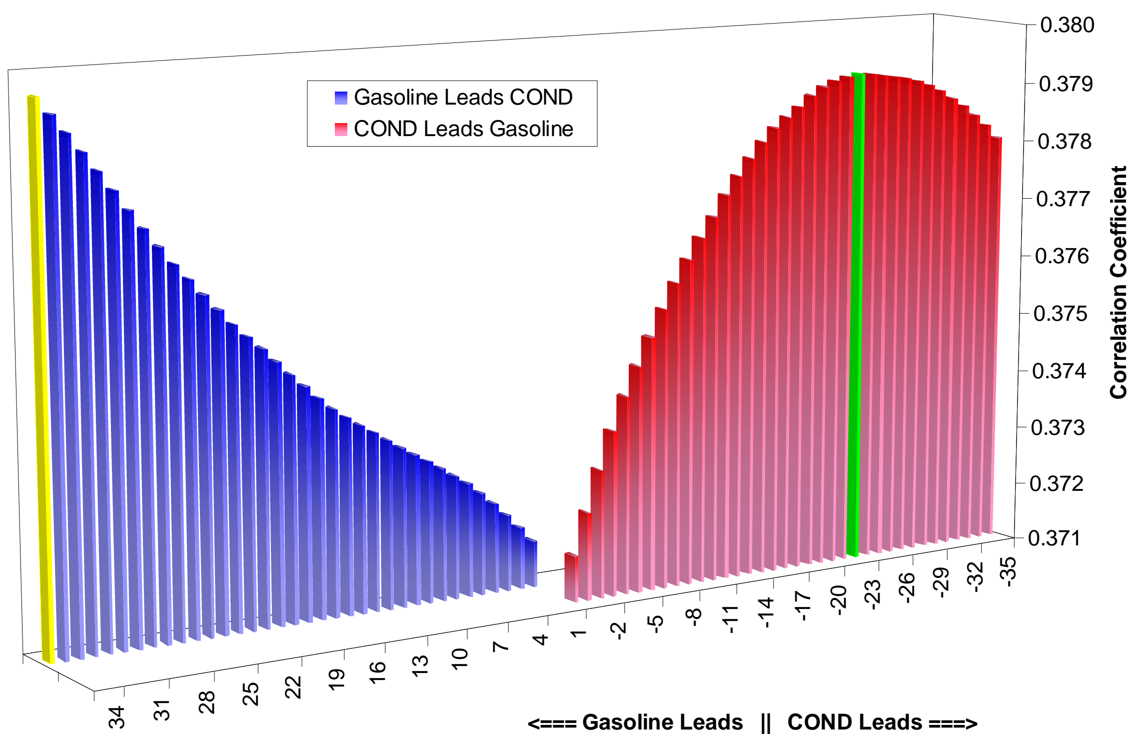
Gasoline Largely Irrelevant For Equities

Once upon a time when demagogic politicians who fly in private jets and are chauffeured about in limousines were willing to take a cheap shot at something they called “Big Oil,” investors feared higher gasoline prices. Now that the shoe is on the other foot and the worm has turned let’s mix in a few more metaphors and see if what was sauce for the goose is sauce for the gander, never mind that I would not know a gander if it flew into my windshield at 80 miles per hour and left nothing but feathers fluttering off in all directions in its wake.

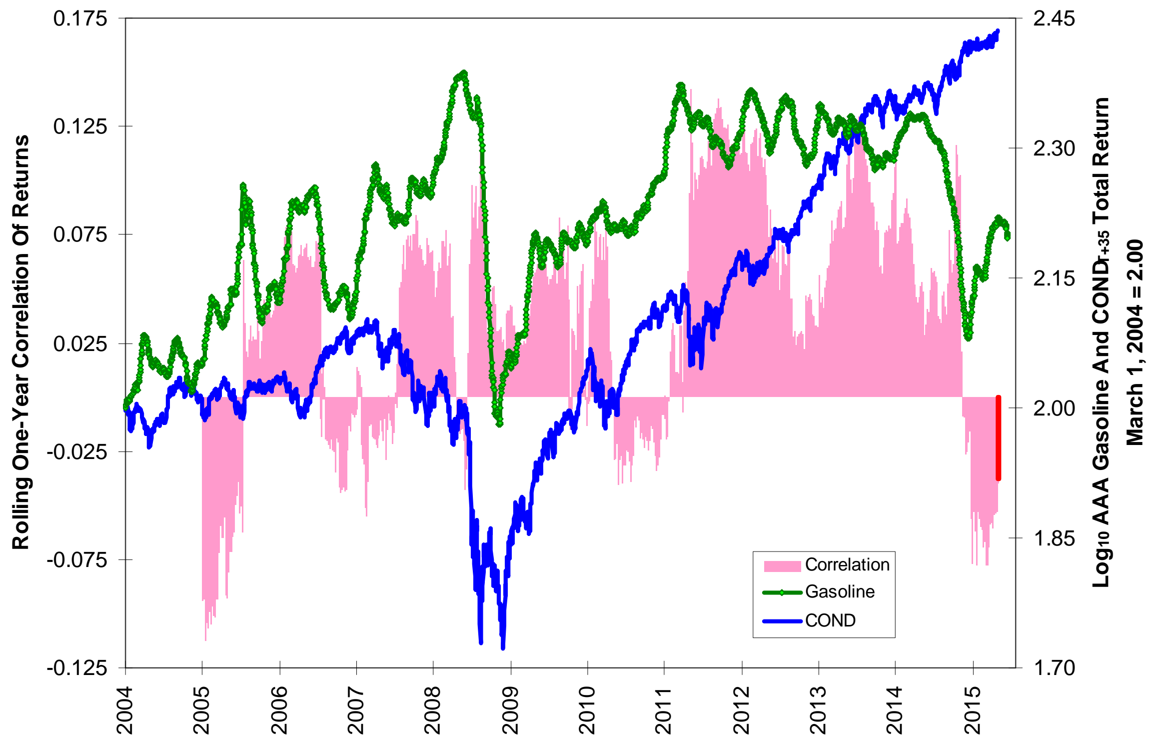
Yes, the time has come to ask whether the consumer is gouging Big Oil and its cousins Little and Middling Oil via lower gasoline prices. The answer, as any self-respecting gander could tell you, is no. Let’s take a look at the performance of the Russell 3000 consumer discretionary index relative to the national retail average as compiled by the American Automobile Association. As an aside, those AAA roadmaps were an indelible part of everyone’s personal National Lampoon’s *Vacation* experience back in my day. While they have been replaced by dashboard navigation screens, no 14 year-old from Romania ever hacked into one and sent your family’s Tripster on a beeline into the electric fence of the nearest NSA listening post.

If we run a lead/lag analysis, we find the total return of the consumer discretionary sector tends to lead gasoline prices far more than the other way around, but the relationship is insignificant in either direction. Gasoline’s leading effect grows with time and peaks at the 35-day lag shown below.

Gasoline's Leading Effect Grows With Time



If we use this 35-day lag and map the total return of the consumer discretionary sector against gasoline prices on a common logarithmic scale along with the rolling one-year correlation of returns between the two, we find the correlation has been irregular over time. It turned negative in January, but spent nearly the entire March 2011 – December 2014 period in positive territory.



For you stat-hounds out there, the r-squared or percentage of variance explained of this relationship has been 0.20. There is no Granger Causation present in either direction, meaning past values of gasoline do not improve the fit of an autoregressive model of consumer discretionary performance.

The idea consumers would do something with their savings on gasoline was appealing. Too bad it has not been visible in the data for more than a decade.