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As Gas Prices Fall, Auto Buyers Abandon Greener Cars

Gas prices are down. Truck sales are up. And fuel economy standards loom.

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(Scott Barbour/Getty Images)

December 3, 2014 Plummeting gas prices have pushed car buyers away from smaller, greener cars and back into their traditional comfort zone: big SUVs and light-duty trucks.

Amid robust sales last month, automakers saw consumers flock toward larger cars, while shunning traditional small cars. And although the strong sales are good news for carmakers right now, that could create problems later as the manufacturers work to meet tightening federal fuel economy standards.

"It is a fact that sales of our most energy-efficient vehicles mirror gas prices," said Gloria Bergquist, spokeswoman for the Auto Alliance, the lobbying arm for American carmakers. "When gas is more costly, sales of high-mileage vehicles rises too, and vice versa. While low energy prices offer good news for our customers, it makes the steep climb to [fuel economy] compliance even more challenging."

Thanks in part to dealers' promotions and a rebounding economy, auto sales were strong in November, with Subaru and Chrysler both reporting 20 percent increases over the previous month. General Motors, Honda, Toyota, and Volkswagen all saw gains as well, as the industry is on track to finish with annual sales higher than in 2013.

Those sales were largely driven by rebounding light-duty trucks and SUVs -- the GMC truck brand was up 22.7 percent, the Jeep Cherokee rose 67 percent, and the Honda CR-V saw sales rise 38 percent. Toyota took a hit on its cars but stayed afloat thanks to increased sales of its 4Runner SUV (up 53.4 percent) and the Highlander crossover SUV (up 16.7 percent).

The [Washington Post](#) has even anecdotally reported higher demand for the gas-guzzling Hummer on used-car lots, years after General Motors killed off the massive car.

Those sales increase as low gas prices make bulkier, heavier vehicles cheaper to drive: per-gallon prices dropped 23 cents in November and now sit at \$2.76 a gallon, a four-year low, according to AAA.

And that's bad news for smaller cars. Toyota's car sales overall were down 2.7 percent, the Ford Fusion fell 11 percent, the Nissan Altima fell 7 percent, and the Chevy Malibu lost 16.7 percent of sales.

Even one of the flagship electric vehicles, Chevy's plug-in hybrid Volt, saw sales drop to 1,336 units, a 30 percent dip from last month and a 16 percent decline compared to 2013 (some of that drop could be driven by consumers waiting for a new model to be released next year).

The all-electric Nissan Leaf defied the odds and continued its strong performance -- November sales of 2,687 were up 34 percent, and the model is on pace for its best year yet.

"Consumers respond very quickly to the changes in the price of gas," said Michael Sivak of the University of Michigan's Transportation Research Institute. "Specifically, when the price of gas goes down, so does their interest in fuel-efficient vehicles. This is especially the case if the change in the price of gas is rapid, as was the case this fall."

Those market forces could present some problems as automakers strive to meet tougher Corporate Average Fuel Economy standards. The Obama administration set a fleetwide 54.5 mile per gallon limit by model year 2025, and automakers must meet a 35.4 mpg target in model year 2016. Although the standards allow a footprint approach that will keep automakers in line if they make their light trucks cleaner, to hit the fleetwide average automakers are counting on sales of their smaller, greener, more fuel-efficient models.

EPA [has said](#) that overall efficiency is up and carmakers hit a high of 24.1 mpg in model year 2013, thanks to adoption of cleaner engine technology. But it noted that cars and car SUVs (or crossovers) were the cleanest of the bunch.

Sivak tracks the efficiency of new vehicles sold and found that fuel economy, after peaking in August, [dipped](#) to 25.3 mpg in September and has stayed there over the last two months, coinciding with the descent in gas prices.

Steven Szakaly, chief economist for the National Automobile Dealers Association, said that's largely because of a simple reflex: stable or low gas prices mean consumers aren't hedging their bets by buying more fuel-efficient cars.

"If I'm worried about my budget and gas prices, I'll buy a hybrid or an electric vehicle to give me a natural way to mitigate those costs," said Szakaly, whose group lobbied against tighter fuel-economy standards. "We've seen gas prices be more stable and now they're declining, so that gives consumers a lot more confidence. ... The economically rational consumer is not going to pay for technology that doesn't have a payback for them."

It's hard to pin the truck sales entirely on gas prices. Guy Caruso, who led the Energy Information Administration under President George W. Bush, said that people do respond to gas prices, but "it does take time."

"People are not going to run out and buy a gas guzzler just because prices are a dollar less now than they were 18 months ago," Caruso said.

The truck sales could also be fueled in part by the economic recovery: Sales of larger vehicles dropped in 2008 and 2009 as the economy turned, but they may be rebounding as small businesses and consumers can again afford to purchase larger vehicles.

Dan Becker, director of the Safe Climate Campaign, said the truck sales could be good news for automakers, who requested and got a midterm review to renegotiate the fuel-efficiency standards before 2020. Becker, citing incentives listed in automotive trade publications, said that automakers also haven't incentivized more-efficient vehicles enough to make them more attractive to consumers even when gas prices are high.

"The automakers are making the case that consumers don't like this and they can't comply with regulations," Becker said. "But they're trying to get away with doing the minimum, and there are lots of people out there who want more-efficient vehicles."

Ben Geman contributed to this article.