

Americans to Drive 125 Billion Fewer Miles, According to Analytics Firm Quality Planning

by NAMIC

A survey of driving habits shows that annual mileage driven on American roads is declining, mainly because of a reduction in discretionary use of vehicles.

Quality Planning, the company that validates policyholder information for auto insurers, has released proprietary findings that show Americans are changing their driving habits as gas prices hit record levels this year. Based on telephone conversations with drivers around the country, the firm concludes that a majority will drive less in the coming year, with the biggest planned cutback occurring in "pleasure use," when a vehicle is not being used for commuting or work-related purposes.

Based on this predicted reduction in discretionary use of vehicles and assuming gas prices remain at current levels, QPC projects a mileage decrease of 4 percent to 5 percent, or 500 miles per year per vehicle, during the next 12 months. "With 250 million passenger cars on the road, this equates to 125 billion fewer miles driven," said Dr. Raj Bhat, president of Quality Planning. "At an average 20 miles per gallon, this will result in a reduction in gasoline consumption of 6 billion gallons, equivalent to 307 million barrels of crude oil." A barrel of crude oil yields approximately 19.5 gallons of gasoline.

While the report notes that Americans have been slow to respond to fast-rising gas prices, it also reveals that behavioral changes are accelerating as old habits are displaced by more fuel-conscious actions. And automobile buying decisions are beginning to reflect the pain consumers are feeling at the pump. Although some commuters are reporting a shift to public transportation in areas that have well-developed public transit systems, this shift has so far been insignificant and has not yet affected total commute miles driven.

"Our conclusion is that as for the first time in more than 20 years, annual mileage driven on American roads is declining, and the rate of that decline is accelerating. The many factors causing this decline make for a very complex pattern," said Robert U'Ren, senior vice president at Quality Planning. "As individuals and families adjust their lifestyles to the impact of higher oil prices, fundamental change will occur. In no sector is this truer than for auto insurance companies, which must focus their pricing and products to address consumers' emerging switch to new vehicle designs, shifts in household vehicle mix, driver usage patterns, and also changes to underlying cost structures. The latter due to the fact that the increased price of oil and other goods also affects the cost of goods and services for which auto insurance pays."

The survey found:

Americans have responded slowly to rising gas prices

Despite gas price hikes of 35 percent to 50 percent, only 1 percent fewer miles were driven in the past year. The rapid rise in prices at the pump took many consumers by surprise. Initially, consumers reacted with "quick fixes" that could be implemented without reducing mileage driven. For example, despite recommendations of car manufacturers, some owners of high-end cars switched from premium to regular gasoline. Others tried to reduce average speed or inflate their tires to help improve miles per gallon. Still others investigated public transit, but may have found that those fares had also recently increased.

Discretionary miles are going down, more so for rural drivers

By the end of the second quarter of 2008, 60 percent of drivers reported driving fewer miles than a year earlier. A comparison of projected mileage estimates obtained in the first and second quarters of 2008 highlights a disparity in the mileage reduction between areas with well-developed transit systems and those areas with poor public transit; people living in areas with fewer transit options are cutting back more on their discretionary outings.

People with large SUVs are economizing the most

Drivers of large SUVs are more likely to change their driving habits. Quality Planning found that in multi-vehicle households with a mix of vehicles, owners of vehicles with larger engine sizes (SUVs, larger vans) plan to reduce miles driven by 5.5 percent and shift some of the miles to more fuel-efficient smaller cars, resulting in an expected increase in miles driven on the smaller cars by about 2.8 percent.

Station wagons are emerging as a popular solution for hauling loads

The composition of insured vehicles during the first half of 2008 has changed from a year earlier. But contrary to expectations, there was virtually no reduction in the proportion of SUVs/minivans/vans/pickups, which remained at 52.5 percent. The proportion of sedan/coupe category dropped from 46.6 percent to 45.4 percent. The big change was in the station wagon category, which increased from 0.9 to 2.1 percent.

Driving less will likely not lower insurance premiums

Drivers expecting to see lower insurance premiums because they are driving less may be in for a surprise. The rapidly rising price of oil has increased the cost of vehicle parts. Those higher costs will be reflected in higher loss severity and, as a result, will act as a counter force to the reduction in annual mileage.

Source: Quality Planning

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