Research

Summer Gas Prices at 10-Year Low

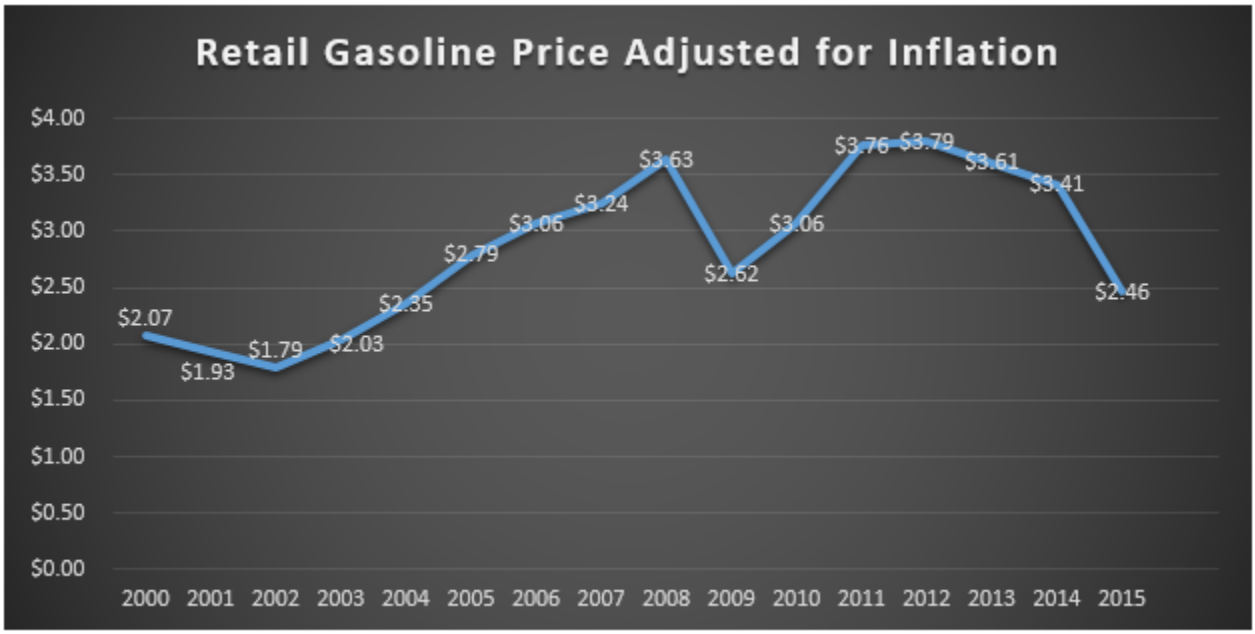
KIMBERLY VANWYHE | JULY 27, 2016

Summary

- The average retail price of gasoline is estimated at $2.25 per gallon this summer, the lowest price in the past decade.
- The low price of gasoline we are experiencing is a direct result of the low price of crude oil.
- Policies directed at ramping up domestic production and exports, as well as creating sensible market-friendly initiatives, will ensure the industry contributes to overall Gross Domestic Product, job creation and economic growth.

Average Gas Prices Across the Nation

The retail price of gasoline in the United States is estimated to be at a ten-year low this summer at $2.25[i], that's $0.20 cents below last year's average retail price, and should be a welcome price tag for summer vacationers.



Data Sourced from EIA

According to the Energy Information Agency (EIA), the West Coast is currently paying the most for gasoline with average prices at $2.73 this week. The East Coast average (which cover New England, Central Atlantic and Lower Atlantic) is $2.12, or $0.61 below, West Coast prices. While the Midwest is currently averaging $2.07 per gallon with the Gulf Coast and Rocky Mountain region averaging $1.98 and $2.26 respectively.

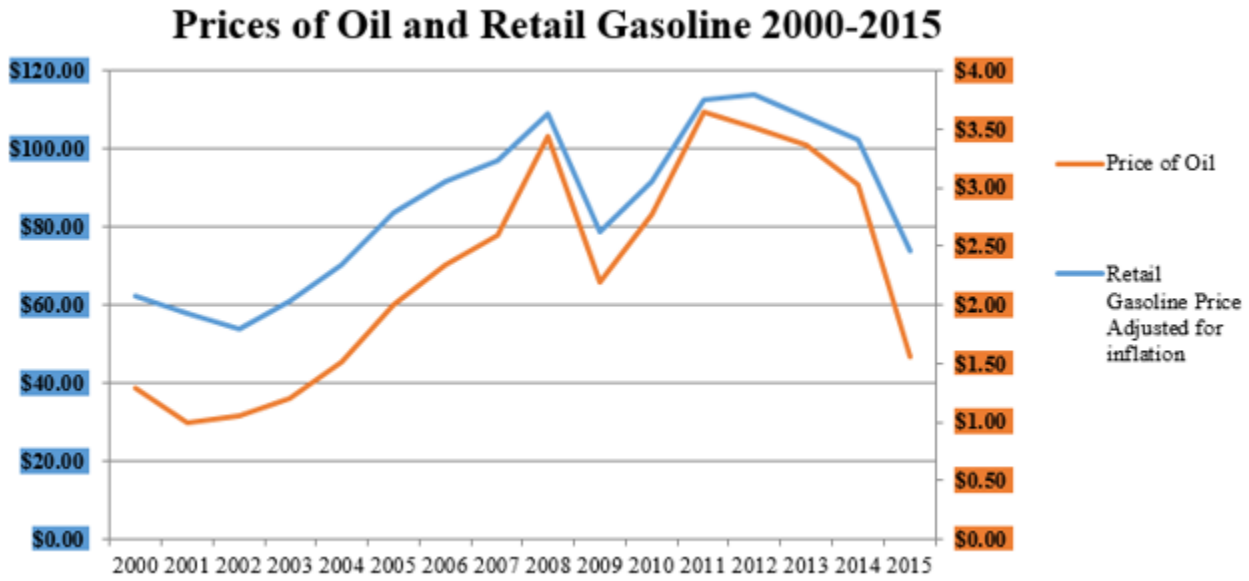
The states paying the most for gasoline this summer are California, Hawaii, Washington, Alaska and Oregon, ranging from $2.52-$2.80 per gallon. At the opposite end of the spectrum, South Carolina, Missouri, Oklahoma, Mississippi and Alabama are paying between $1.85 and $1.95 per gallon.

According to cars.com, "Gasoline prices are poised to continue their slide this week as both crude oil and wholesale gasoline prices turned lower last week". AAA said in a release, "The price of oil currently reflects slightly more than half the price of gasoline at the pump, so lower oil prices are expected to result in lower retail gas prices for drivers."The map below will give you an idea of how much you will be paying at the pump. Scroll over your state to find out.

Why So Low?

There are many factors that contribute to the price of gasoline you see at the pump. Generally, fluctuations in gas prices are tied to:

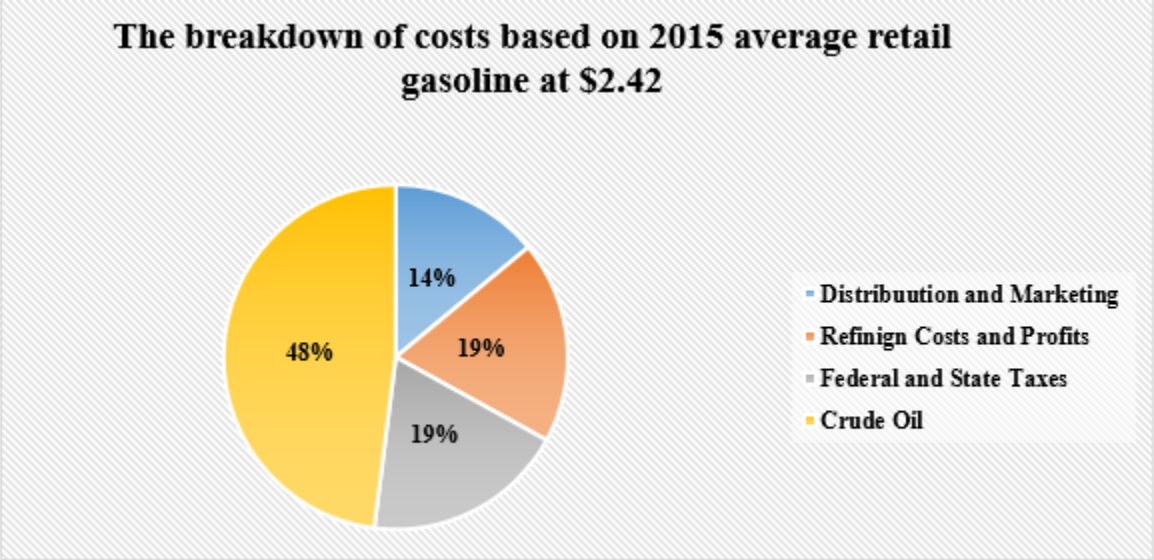
- **The cost of crude oil**: The price of crude and gasoline are directly tied, as evidenced by the graph below. But even when crude prices are steady, gasoline prices will continue to rise and fall due to seasonal demand and retail competition. According to the EIA, retail gasoline prices tend to gradually rise in the spring and peak in late summer, which is attributed to more vacation drivers on the road. It is estimated that gasoline demand is around 7 percent higher[ii].



- **Refining costs and profits:** Refining costs affect the bottom line price of gasoline, especially when other ingredients are blended into the fuel. The EPA has been regulating the Renewable Fuel Standard (RFS), releasing new standards each year, but has consistently failed to meet targets and deadlinesset by the Energy Policy Act of 2005 (EPAct). For 2016, the target was 22.25 billion gallons of renewable fuel, 15

billion of which would come from ethanol. The latest regulation sets a revised target of 18.1 billion gallons of renewable fuel, with only 14.5 billion coming from ethanol. The RFS, which according to a previous American Action Forum report was initially intended to reduce American reliance on energy imports, has become increasingly environmentally focused.

- **Distribution and Marketing costs and profits:** Retail gasoline outlets are owned by both private businesses and refiners. Local market conditions including location, salary, benefits, wages and other overhead sources account for an increased price at the pump.
- **Taxes:** All gasoline is subject to federal, state and local taxes. According to EIA, the federal excise tax is currently 18.34¢ per gallon and as of last year state taxes averaged 26.49¢ per gallon which comes out to around 44.83¢ per gallon. Using today's cost of gasoline, taxes come out to just under 20 percent.



Data Sourced from EIA

Conclusion

The U.S. should expect to see relatively low gasoline prices throughout the summer. The price of gasoline is never set and at any time could quickly creep back up due to several factors: the global price of crude oil, overseas geopolitical tensions or supply and demand production cuts due to lower prices to name a few.

In order for the industry to contribute to overall Gross Domestic Product, job creation and economic growth, policymakers should focus on pragmatic policies, rather than over-regulation, that allow the industry to grow.

[i] http://www.eia.gov/todayinenergy/detail.cfm?id=27052

[ii] http://www.eia.gov/energyexplained/index.cfm?page=gasoline_factors_affecting_prices