



# Gas Prices Explained

What Goes Into the Price at the Pump?



## FREQUENTLY ASKED QUESTIONS

### WHY DOES DISRUPTION IN THE MIDDLE EAST IMPACT GASOLINE PRICES IN THE UNITED STATES?

Both crude oil and gasoline are commodities traded in global markets, where prices are set by supply and demand.

That's why recent disruption in the Strait of Hormuz shows up at American gas pumps. When the Strait closed, the global supply of both crude oil and fuels, including gasoline, tightened. And the prices of crude oil and gasoline have followed.

Even though the U.S. only imports a small share of its oil from the Middle East — around 8% — and is the world's largest producer, we're still part of a connected global system. Prices are set globally, so disruptions abroad can still show up at American gas pumps.

### WHO OWNS GAS STATIONS AND SETS PRICES?

Most gas stations in the United States are independently owned businesses. Prices at individual stations are influenced by a range of factors, including the cost—or anticipated cost—of the next fuel delivery, labor and operating expenses, transportation costs and local taxes.

Of the roughly 155,000 retail fuel stations in the United States, less than 5% are owned by major oil companies. 55% are owned by individual operators or families who operate a single store.

### ARE OIL COMPANIES RAISING PRICES OR ENGAGING IN PRICE GOUGING?

No. Gasoline prices are largely driven by global supply and demand, and the cost of crude oil, the largest component of gasoline prices, is set in global markets rather than by any single company. Repeated investigations by the Federal Trade Commission have found that changes in gasoline prices are driven by market conditions rather than illegal price manipulation.

### WHY AREN'T GAS PRICES FALLING YET EVEN IF OIL PRICES DROP?

Gasoline and crude oil prices generally move in the same direction—but not at the same speed. When oil prices decline, it takes time for lower costs to work through the supply chain, from refineries to fuel terminals to retail stations, and for existing higher-cost inventory to be sold. According to the U.S. Energy Information Administration, about half of a change in crude oil prices is reflected in retail gasoline prices within two weeks.

Prices also tend to fall more slowly than they rise, a dynamic known as asymmetric price movement. When costs increase, retailers adjust quickly to reflect higher replacement costs for the next delivery to their station. When costs decline, prices adjust more gradually as stations work through inventory purchased at earlier, higher prices, but competition among stations gradually pushes prices down over time.

In the current environment, ongoing geopolitical uncertainty can also delay price declines. Even if oil prices ease, it takes time for production to recover, shipments to normalize, and inventories to rebuild—keeping pressure on fuel prices. Local factors—like transportation costs, taxes, and station-level competition—also affect how quickly lower prices show up at the pump.

### WHY ARE GAS PRICES DIFFERENT IN DIFFERENT STATES?

Gasoline prices vary across the country due to differences in fuel taxes, regional fuel specifications, transportation costs, local supply and demand and operating costs for gas stations.

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