UNDERSTANDING GAS PRICES

PUMP PRICES TRACK WITH CRUDE OIL COSTS

The main components of retail gasoline prices are the cost of crude oil, taxes, refining costs, and distribution and marketing costs. Of those, the price of crude oil has the largest impact—accounting for 56 percent of the price. Because of this, changes in the price reflect the global cost of crude oil, which is influenced by current conditions and expectations of consumer demand, supply, inventories, geopolitical events and other factors, generally have an effect on pump prices.

GASOLINE TAXES VARY FROM STATE TO STATE

Federal, state and local governments levy a variety of taxes in fees on transportation fuels. The nationwide average tax on gasoline is 57.09¢/gal which includes a federal tax of 18.4¢/gal as well as state-level taxes that range from 68.15¢/gal in California and 15.13¢/gal in Alaska.

THE TRUTH ABOUT “ROCKETS AND FEATHERS” IN RETAIL GAS PRICES

While the price of gasoline and crude generally rise and fall in tandem, changes in the price of crude oil may not be immediately reflected at the gas station. In many industries retail prices tend to come down slower than they go up—the so-called “rockets and feathers” effect.

This is because replacement costs based on current market prices tend to drive daily prices, but it often takes more time for competition among retail stations to bring them back down. This is especially true in the case of diverse retail fuel sales, where nearly all stations are independently owned and not operated by oil companies. Local conditions, perceptions of future costs, supply considerations, and competition can therefore be an important contributor to the timing of price changes.

Gasoline and Crude Oil Prices Move Together

Source: Bloomberg, API, AAA, Real Gasix, Slickline, MITRE Analysis

Gasoline Taxes (cents per gallon)

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