UNDERSTANDING GASOLINE PRICES

PRICES AT THE PUMP historically follow the global cost of crude oil, which is influenced by current conditions and expectations of consumer demand, supply, inventories, geopolitical events, the strength of the U.S. dollar and other factors. Prices across the states can also vary reflecting the different state taxes applied to each gallon.

Pump prices track with crude oil costs.

Because the price of crude oil is the largest single cost factor in manufacturing gasoline, change in the global price of crude generally has a direct bearing on pump prices. As the chart shows, gasoline and global crude prices typically move together. Current pump prices have been lower than they were four years ago.

Gasoline taxes vary from state to state.

Gasoline taxes in West Coast states range from 55 cents per gallon in Oregon to 73 cents per gallon in California. Pennsylvania currently has the highest state gasoline tax at 77 cents per gallon. Alternatively, some of the lowest gasoline tax rates are in the southern states, averaging less than 40 cents per gallon.
Other factors influencing pump prices:

The U.S. is the world’s top producer of natural gas and oil. This position has helped keep energy more affordable for families and businesses, and shielded U.S. consumers from the more frequent and dramatic price fluctuations that were once routine. In April, U.S. consumers enjoyed domestic oil prices that continued to run at a discount of more than $5 per barrel below international crude oil.

Seasonal Variation: Refiners and blenders follow different requirements for summer blend gasoline, which has a lower evaporation rate than winter blend gasoline, decreasing emissions as temperatures rise. According to the EPA, summer gasoline has 1.7 percent more energy than winter blend gasoline, but is more expensive to produce.

Geopolitics: World events can affect global crude oil markets. Production disruptions, transportation and other supply restrictions can affect the supply/demand balance. In general, instability - or even the threat of instability - can factor into global crude market trends.

Value of U.S. Dollar

Strength of the Dollar: Oil is priced using the U.S. dollar, which depreciated by 3.8 percent over the past year. As a result, other countries could buy oil for a cheaper price. Lower-priced oil can create higher demand, which, in turn, can cause prices to increase until an equilibrium is reached between supply and demand.