

Overview

Nearly every year, gas prices become an added burden for Americans anxious over tight family budgets. Many factors affect what you pay at the pump, which can make gas prices seem unpredictable and volatile.

What determines gas prices?

The price of gasoline largely reflects the cost of making and distributing it, which can also fluctuate broadly. According to the U.S. Energy Information Administration (EIA), retail gas prices are the sum of four key ingredients:

- **The price of crude oil.** The cost of oil currently accounts for about two-thirds of the price of gas. A spike in oil prices translates into a hit at the pump:

	<u>Oil per barrel (world)</u>	<u>Regular gas per gallon (U.S.)</u>
- October, 2013	\$102.04	\$3.43
- August, 2011	\$111.32	\$3.67
- July, 2010	\$74.69	\$2.70
- January, 2009	\$42.07	\$1.87

- **Refining costs and profits.** Refining costs and profits. The process of refining oil into gas accounts for about 12% of gas prices. One barrel of oil can produce 19 gallons of gas (along a variety of other petroleum products).
- **Distribution, marketing and retail costs and profits.** This includes the costs of buying gas from a refinery and shipping it cross-country, as well as running and maintaining a service station. These costs make up 11% of the price of gas.
- **Federal and state taxes.** Taxes make up the final 11% of gas prices. The federal gas tax is currently 18.4 cents a gallon, while state taxes averaged 23.5 in April 2013.

What else affects gas prices?

With the exception of taxes, which are relatively static by comparison, all of the factors above vary widely, depending on supply and demand. For example, a hurricane can wipe out a refinery, causing shortages, as could a war in the Middle East. Or the countries that make up the Organization of Petroleum Exporting Countries (OPEC)—suppliers of 44.5% of the world's oil in 2012, may decide to limit production to increase profits. Many states also require different gas formulas in winter and summer for environmental reasons, which can be more expensive for refineries to make. Domestic demand also peaks during the summer "driving" season. Investors betting ("speculating") on the direction of world oil prices can also affect prices, which many say happened in 2008 and early 2012.

Is \$4 gas the new normal?

On the one hand, global thirst for oil is rising. In 2010, the world consumed 87.1 million barrels of oil per day, compared to 66.5 million barrels in 1991. In the absence of significant new oil discoveries or new technologies that reduce demand dramatically, a finite supply of oil in the face of increasing demand means higher prices. On the other hand, the inflation-adjusted price of gas earlier this year was still *lower* than what it was during the oil shocks of 1973.

Key Facts

- Average gas consumption per day (2011 avg.): **367,080,000 gallons**
- Gasoline as a share of U.S. oil consumption (2011): **45%**
- Average U.S. oil consumption per day (2012): **18.8 million barrels**
- Foreign imports as a share of U.S. oil consumption (2012): **40%**
- Average fuel efficiency of U.S. passenger cars (2011): **33.8 mpg**
- Average price per gallon, regular gas (2013 Q2)
 - United States: **\$3.52**
 - Venezuela: **\$0.04**
 - Saudi Arabia: **\$0.45**
 - United Kingdom: **\$7.99**

Other Resources

- U.S. Energy Information Administration – [Energy Explained](#)
- U.S. Energy Information Administration – [Weekly Retail Gas Prices](#)
- Congressional Research Service – The Federal Excise Tax on Gasoline and the Highway Trust Fund: A Short History (RL30304)
- American Petroleum Institute – [Motor Fuel Taxes: State Gasoline Tax Reports](#)
- AAA – [Fuel Price Primer](#)
- Research and Innovative Technology Administration – Bureau of Transportation Statistics – [National Transportation Statistics](#)

Links to Other Resources

- U.S. Department of Energy, Energy Information Administration – Energy Explained
<http://www.eia.doe.gov/energyexplained/index.cfm>
- U.S. Department of Energy, Energy Information Administration – Weekly Retail Gas Prices
http://www.eia.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html
- Congressional Research Service - The Federal Excise Tax on Gasoline and the Highway Trust Fund: A Short History (RL30304)
- American Petroleum Institute – Motor Fuel Taxes: State Gasoline Tax Reports
<http://www.api.org/statistics/fueltaxes/>
- AAA – Fuel Price Primer
<http://newsroom.aaa.com/wp-content/uploads/2011/08/FuelPricePrimer.pdf>
- Research and Innovative Technology Administration – Bureau of Transportation Statistics – National Transportation Statistics
http://www.bts.gov/publications/national_transportation_statistics/-chapter_4