Why Americans Are Paying More At the Pump

Turmoil abroad and rising costs at home mean consumers will have to shell out more for gas this summer

By MEG HANDLEY

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Gas prices—already the highest they've ever been in January and February—shot up nearly 30 cents over the past month to a national average of about $3.70 per gallon, sparking worries that a steep increase in fuel costs could crimp consumer spending and hobble an economy that is just starting to show signs of life.

Unfortunately, those fears may be grounded, experts say. On top of typical seasonal increases in fuel prices, a host of other factors threatens to disrupt supply chains and make financial markets nervous, pushing up the price of crude oil, which determines the bulk of what Americans pay at the pump.

Here are a few more reasons why even higher gas prices may be on the way this spring and summer:

Volatility in the Middle East. If it isn't Egypt, it's Libya, and if it isn't Libya, it's Iran. After several countries imposed sanctions over Iran's nuclear program, the fifth largest oil producer in 2010 halted shipments to some European nations, putting more pressure on oil supply and causing crude prices to spike. Since crude oil prices make up nearly 70 percent of the ultimate cost of a gallon of gas, even tiny disruptions to supply can cause a spike in prices when consumers fill their gas tanks.

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"Under ordinary circumstances we would expect prices to climb incrementally from now through May," Gregg Laskoski, senior petroleum analyst at GasBuddy.com, told *U.S. News*. "What's exacerbating that is the situation in the Middle East. It's becoming a very dangerous waiting game."

Escalating tensions between Israel and Iran have also added to worries about the future of gas prices. An Israeli attack on Iran could push crude oil prices to $200 a barrel, if not higher, according to recent comments from Defense Secretary Leon Panetta, causing gas prices to spike to $6 per gallon or more.

Growing demand from Asia. The Department of Energy reported that the United States became a net exporter of refined petroleum products (such as gasoline) for the first time since 1949 last year. But if we have all this "extra" gasoline to be exporting, why are prices at home still going up?

A lot of it has to do with demand for gasoline, which has been declining in the United States for the last 10 years, while shooting up by leaps and bounds in places such as Asia and South America. As demand has tapered of here due to more fuel-efficient vehicles and, more recently, the weak economy, oil companies have had to broaden the scope of potential markets—bad news for American consumers.

"Oil companies that have increased their exports overseas essentially are depleting the U.S. supply [and] in doing so it's creating an artificially higher price for American consumers," Laskoski says. "When consumer demand is weak [in the United States], it's a very attractive option to export and get those healthier profit margins."

That trend isn't likely to change with a burgeoning middle class in Asian economic powerhouses such as China. According to the EIA, Asia surpassed North America as the largest petroleum-consuming region in 2008, gobbling up 25 million barrels a day in 2010.

Gasoline formulation requirements. Although crude oil prices account for the lion's share of what consumers pay at the pump, the process of refining crude oil and making the right formulations to produce gasoline costs money—about 7 percent of the price Americans pay per gallon.

Prices head even higher going into the summer months because refiners have to transition from a winter blend—required by law between Oct. 1 and April 30—to a more eco-friendly—but more expensive—summer blend.

"[The summer blend] has additional additives that add to the cost of producing the product," Laskoski says. "Not only do the refineries have to go through the process of ramping up production for it, but they're doing this at a time of year when consumer demand is starting to increase. This is one of the key reasons why the United States sees this cyclical up and down trend every year."

Specific state requirements can tack on even more expense for refiners and ultimately consumers.

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An improving economy. A growing economy is supposed to be good for everything, right? Not necessarily for gas prices. With economic growth pegged at more than 2 percent this year and a rosier employment outlook, more Americans will have the means—and confidence—to consume more goods and services such as gasoline.

It's not just consumer demand for gasoline, either. As the economy picks up, businesses will likely have to produce and shuttle more goods around, putting pressure on gasoline supply and prices.

Summer. Warmer weather and peak driving season usually coincide as Americans take vacations and hit the road. Coupled with an improving economy, more drivers should be on the road this summer, which will boost demand, and ultimately prices.

Taxes. If you take a look around the country, gas prices aren't uniform. A lot of the variation has to do with supply lines and transport, but a chunk of it has to do with varying state and local taxes. As government budgets have been strapped in the wake of the recession, some states and cities have looked to gasoline taxes to bridge budget shortfalls.

According to GasBuddy.com, Virginia is considering a gas tax hike, which would index the tax to inflation, generating an extra $124 million in revenue each year until 2018. Michigan, Maryland, and Iowa could also face increases on gas taxes.

mhandley@usnews.com

Twitter: @mmhandley

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Corrected on 2/27/12: A previous version of this article misstated that the United States is a net exporter of oil. It is net exporter of refined petroleum products.

Tags: Iran, China, gas prices, consumers