

The general rule of the EIA states that about two-thirds of the price of gasoline at the pump is determined by the cost of crude oil. The remaining one-third comes from a combination of taxes, refining costs, distribution expenses, and marketing budgets set by the federal, state, and local governments as well as private companies along the supply chain. A key issue in the oil industry is that production capacities currently exceed distribution and refinement levels. So, while crude oil reserves remain high, bottlenecks exist regarding transforming raw supplies into consumer-ready gasoline. The downstream supply chain struggles to match upstream output volumes. Refinement and transportation logistics fail to align with production (McFarlane, 2021).

Crude oil remains one of the highest in-demand commodities globally, so any notable price fluctuations make a significant economic impact. We can observe price changes for both crude oil and gasoline due to constant financial speculations in their respective markets. For example, while the law of supply and demand governs crude oil prices, government taxation drives a portion of gasoline rates regardless of oil barrel expenses.

The two provided graphs showcase spot prices for gasoline in New York Harbor from 1986 to 2023 and crude oil in Cushing, Oklahoma during the same period. They illustrate a long-term trend of steady price growth for both commodities over the past 37 years. The data also reveals crude oil and gasoline prices tracking each other relatively closely overall.

However, the prices do not perfectly align or move in perfect symmetry. Gasoline tends to be more inelastic than crude, meaning demand remains high even as prices rise, so supply and production levels require closer monitoring. Additionally, crude oil derives values from global market conditions, while regional differences exist at the consumer-facing gasoline level.

While crude oil and gasoline prices relate due to the intrinsic link between raw production and consumer fuel, many other forces influence the ultimate costs passed onto drivers. Taxes, local prices, accessibility, consumer behavior, and speculation trading can cause pricing gaps. Understanding these complex, intertwined factors help explain why prices at the pump may not always directly mirror per barrel crude oil costs.

Reference:

McFarlane, G. (2021, July19). Oil Price Analysis: The Impact of Supply and Demand. Investopedia. Retrieved from: <https://www.investopedia.com/articles/investing/100614/oil-price-analysis-impact-supply-demand.asp>