Global Economic Research

MAY 20, 2022

Fuel Prices: Volatile, Fluid

Seasonal price changes will push fuel prices even higher this summer.

By Ryan Boyle

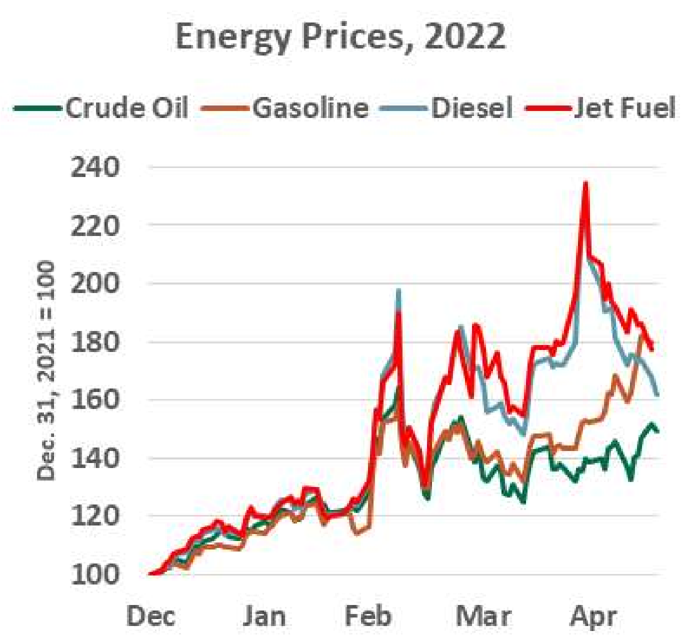
Everything is in place for this summer's family vacation, a road trip to the east coast of the U.S. in June. For a family of five, we had assumed driving would be more cost-effective than airfare. But as our departure moves closer, I find myself revising the budget to account for persistently higher gasoline prices. I am not the only one reckoning with higher energy costs. Oil prices are up 50% since just the start of the year, and the consequences of that rise go far beyond just the fuel pump.

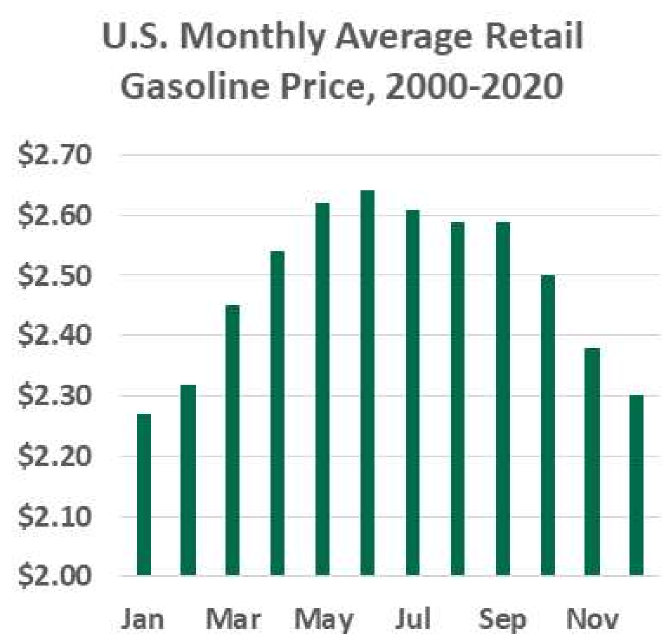
I had no illusions that our summer trip would be cheap. Every spring, gasoline formulations change to summer blends. Gasoline is a toxic liquid prone to evaporation in warmer summer weather, which contributes to ozone-depleting pollution. Longstanding requirements of the U.S. Environmental Protection Agency require petroleum refineries to change to formulations that do not evaporate as readily; these require more additives that increase the cost of fuel. Summer blends must be in pumps by June, which means that fuels begin changing over as soon as April to deplete winter inventories, reliably raising fuel prices each spring. Sixteen of the most populous U.S. states use reformulated fuel to improve air quality, often with **differing ingredients**, which will prove costly yet again this year.

Most U.S. gasoline contains ethanol, a combustible alcohol usually derived from corn. A small amount can help to lower the cost of fuel, but too much will degrade the performance of most engines. Some modern "flex fuel" engines are made to use very high ethanol concentrations—as is the norm in Brazil, where sugar ethanol is a common motor fuel—but most of the U.S. fleet cannot run on ethanol. As a cost-saving measure, the Biden administration has **raised the limit** from 10% to 15% ethanol blends in fuel for the rest of the year. Though as we face **rising food prices**, it is not clear that using corn in this manner will offer much of a cost savings over conventional petroleum.

If gasoline is the problem, could we save much on our trip by flying instead? Unfortunately, not this year. Airfare led the April U.S. consumer price index (CPI) report, gaining 18.6% in just one month. Airlines are passing along the higher cost of jet fuel, the price of which doubled amid both strong demand and **tight supply**. Deals are scarce as the price index now exceeds its pre-pandemic level.

The need for multiple blends of fuel keeps prices high.

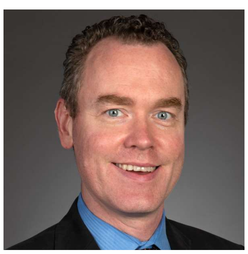




Sources: EIA, Haver Analytics

On our trip, we expect to encounter countless trucks carrying goods. Each of those truck drivers are reckoning with a significant increase in diesel fuel prices, up 62% from the start of the year. Diesel prices do not exist in a vacuum: they will be passed on to final prices, whether through fuel surcharges or simply higher shipping rates. And of course, most of the goods those trucks are carrying are not immune from the higher costs of energy. Petroleum is an important input for a variety of goods and manufacturing processes.

Roadtrip rest stops are usually a welcome respite for weary travelers who have spent the day cooped up in their vehicles. But as we pull up to the gasoline pumps across the U.S. this summer, I do not expect to feel much relief.



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