



Pain at the Pump: Coping with Gas at \$5 per Gallon

The spike in gas prices has added to Americans' growing angst about inflation and the economy. Understanding what's behind the surge, and how it compares to past peaks, can help put the current situation in perspective.

On June 10, the average price of gas hit \$5.01, up \$1.93, or 63% from a year earlier.*

Ouch! Anyone filling their car lately probably has had that very reaction. On June 10, for the first time ever, the average price of gas in the U.S. topped \$5 per gallon. And motorists in some parts of the country, especially California, are paying well above that. Spending over \$50 to fill a tank has become common, and if you own a large vehicle with a big gas tank, it can run twice that.

The latest surge reflects a spike in the price of oil. As of June 28, Brent crude was trading at \$118 a barrel, up from about \$70 just six months ago.¹ But there are other fundamental factors at work. For one, demand is up. Americans are still rebounding from COVID lockdowns, driving and traveling more -- and the summer travel season has begun. Many remote workers are also returning to offices, at least part time, adding to demand. Meanwhile, global demand is growing as China eases off its severe coronavirus restrictions.

Supply is also a factor. The Russian invasion of Ukraine has disrupted oil supply chains, especially in Europe, while Russian sanctions have impacted supplies across the globe. Although the U.S. imports very little Russian oil and gas, a shortage of refinery capacity has compounded supply issues. Meanwhile, OPEC has shown little sign of increasing production. Although the U.S. has released some of its strategic fuel reserves, and President Biden has called for oil companies to step up new drilling, supply remains tight -- and prices high.

Why can't the oil companies just lower their prices?

It's tempting to blame the high prices on the oil companies, which, incidentally, are making large profits off the price surge. But it's not that simple. Although the price of oil makes up over half of the retail price of gasoline, oil companies play a very limited role in how retail gasoline prices are set. In fact, gas prices are set in competitive markets across the globe. Gas station operators set retail prices based on a variety of factors, such as distributor prices, federal and state tax rates, and other variables. Since only 1% of service stations in the U.S. are owned by companies that also produce oil, U.S. oil producers are in no position to control retail gasoline prices.

It could be worse

For anyone who lived through the oil embargo of the early 1970s, today's price spike pales in comparison. Back then, OPEC drastically cut production, bringing about a quadrupling of the price of oil from \$2.90 a barrel before the embargo (October 1973) to \$11.65 a barrel in January 1974.² Not only did the price of gas skyrocket, but shortages became rampant and gas lines common. Since then, the U.S. has made dramatic strides in achieving energy independence. In fact, the U.S. now produces more oil than any other single country in the world, accounting for 20% of oil production in 2021.

It's also worth noting that even at \$5 a gallon, gas is much cheaper in the U.S. than in many other countries. In Western Europe, for instance, gas runs closer to \$8 or \$9 per gallon, and it costs over \$11 per gallon in Hong Kong.

What you can do about it

The pain at the gas pump is putting a serious dent in many household budgets. If you are looking for ways to lessen the impact of the high cost of fuel, your options are limited. But here are a few tips worth considering.

- Shop around for gas. Costco and many stations on Native American land may offer significantly lower prices -- sometimes 50 cents cheaper per gallon -- or \$5 less for a 10-gallon fill-up.
- Carpool. Many employers offer bulletin boards for employees seeking to carpool.
- Avoid unnecessary trips. If you have multiple chores to run, batch them.
- Go electric. The per-gallon price equivalent for an electric vehicle is less than half that of gas, even in areas with high electric rates. A 2020 study found that EV drivers tend to spend about 60 percent less each year on fuel costs compared to drivers of gas-powered cars.³
- Bike or walk instead. You'll get exercise and save gas at the same time.

*AAA, [Gas Prices](#), June 13, 2022.

¹ [TradingEconomics](#), Brent Crude Oil.

² [Federal Reserve History](#), Oil Shock of 1973-74.

³ Consumer Reports, [Electric Vehicle Ownership Costs: Today's Electric Vehicles Offer Big Savings for Consumers](#), October 2020.