

Gasoline Prices for 2017

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<http://www.agmanager.info>

Current Situation

Gasoline prices the last two years have been much lower than they were in the three preceding years. Gasoline prices typically follow a seasonality pattern where prices peak in the summer time and are lower in the winter time. These seasonality patterns corresponding to typically higher summer demand as many consumers in the U.S. are traveling.

Despite lower gasoline prices the last two years, prices still followed the basic seasonality pattern; although prices in 2016 didn't change much during the year. As explained in AgManager.info publication GI-2017.1, diesel

prices were also lower the last two years but the seasonality pattern was not consistent. Thus the changes that have occurred over the last two years seem to be affecting diesel differently than gasoline.

Figure 1 below shows the gasoline prices by week for the last five years. Consumers were likely very happy with gasoline prices in 2016 as this was the lowest price year in a long time and prices did not fluctuate much at all during the year. In many places, consumers saw gasoline below \$2 a gallon for at least some parts of the year.

A bigger concern going forward though is what

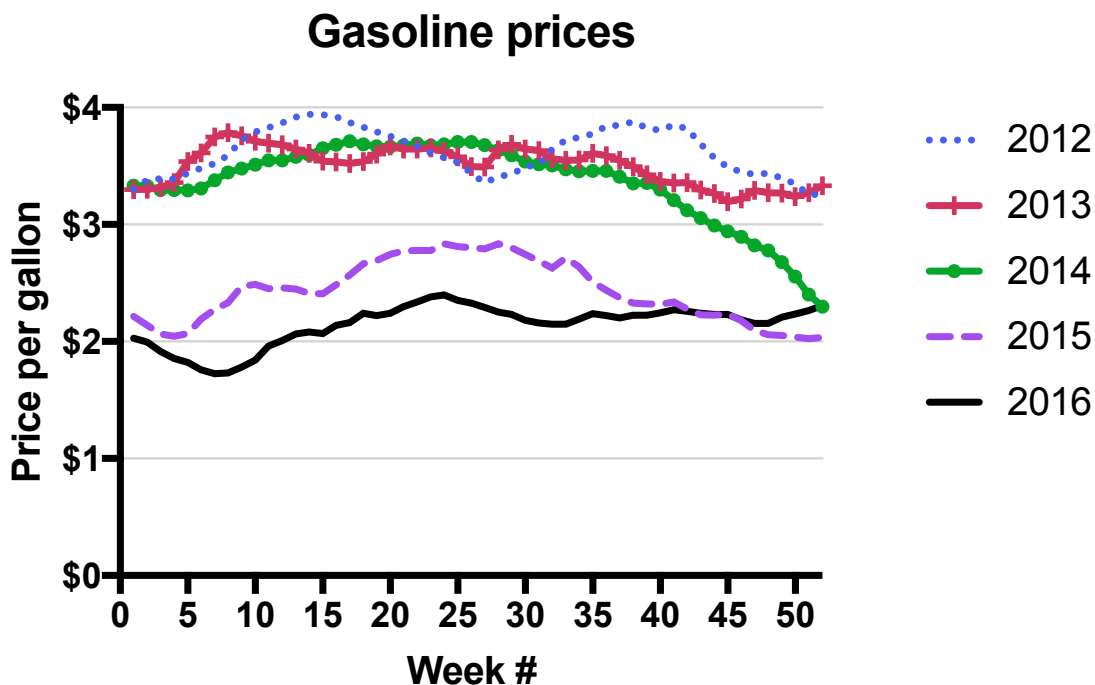


Figure 1. Five Year Weekly Gasoline Prices

Seasonality of Gasoline Prices

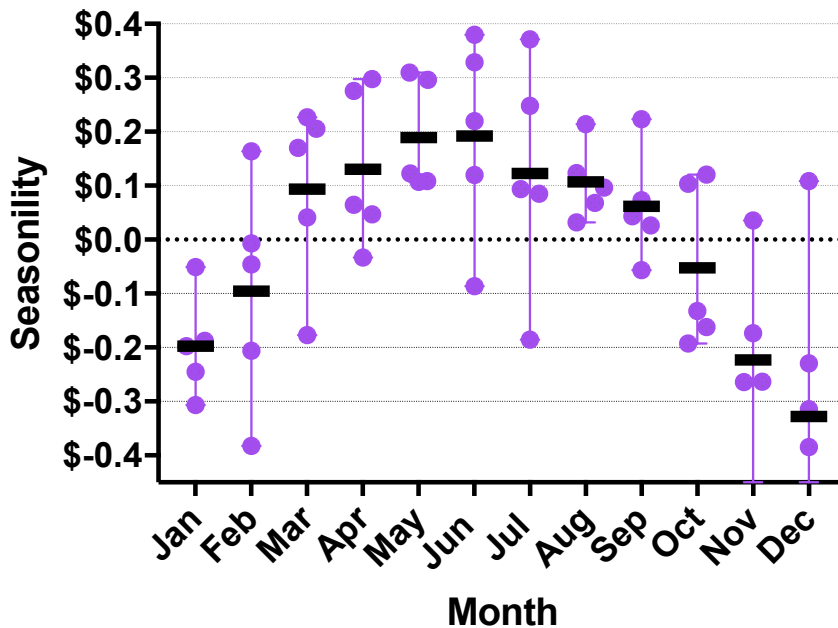


Figure 2. Monthly Seasonality of Gasoline Prices

do these low prices mean for oil production. There is some evidence that from 1994 to 2014 there was a rightward shift in the supply curve (<http://oilprice.com/Energy/Crude-Oil/The-2014-Oil-Price-Crash-Explained.html>) which led to lower prices. However, low prices certainly do not encourage more drilling of oil and could actually lead to the supply curve moving back to the left if oil producers profits are so low that oil producers shut down production. Oil demand and oil supply are inelastic so any shifting of the supply curve results in big price changes. Boom and bust cycles are not that unusual in the oil business so

consumers should not be all that surprised when gasoline and diesel prices change rapidly.

Seasonality

As mentioned above, gasoline shows a strong seasonality pattern where prices are higher in the summer. The seasonality pattern is much stronger than it is for diesel fuel. Typically, gas prices will reach their peak in May or June (see Figure 2). Most farmers don't use enough gasoline and gasoline doesn't store as well as diesel either to take advantage of this price seasonality.

Price Predictions for 2017

Just like for diesel fuel, the price of gasoline is closely tied to the price of oil. As shown in Ag-Manager publication GI-2017.1, oil prices are expected by traders to reach \$56 this summer. That would add another \$0.08 to the price of a gallon on gasoline. Thus, gasoline could be slightly more expensive in 2017 when compared to 2016 but still likely below the levels from 2012 to 2014. Again, any shocks to the market could change prices dramatically.