

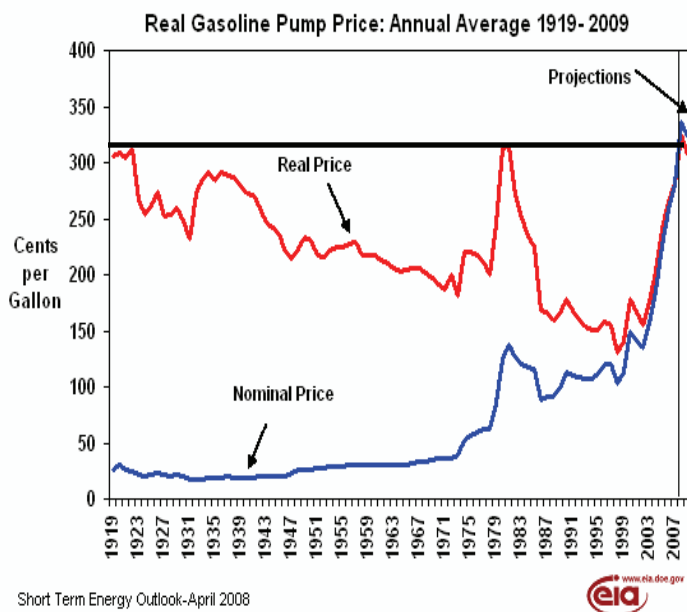
Market Research

Gasoline Price—A Historical Perspective

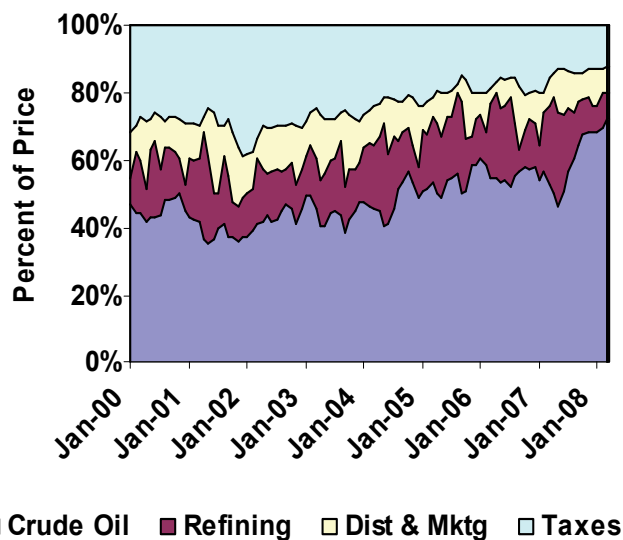
US retail gasoline prices are at their highest ‘real’ and ‘nominal’ price levels dating back to 1919. See the chart below, courtesy of the EIA. The ‘nominal’ price reflects the then current cost at the time of purchase. The ‘real’ price reflects the then current cost adjusted to today’s dollars. The recent breakout in real price above the \$3.10 price level seen in the early 1920’s and 1980’s is of critical importance. A technical interpretation of the breakout suggests higher gasoline prices are on the horizon.

So what’s causing the escalation in gasoline price? The primary components of gasoline price include crude oil costs, refining costs, distribution & marketing costs, and taxes. The history of these components, in percentage terms, dating back to January of 2000 is attached in the chart below. The change in the price of the crude oil feedstock is the primary driver in gasoline price escalation during this period. West Texas Intermediate light sweet crude oil was valued at approximately \$27/bbl in January of 2000 versus \$114/bbl as of this publication date. Refining plus distribution & marketing costs, when taken together, have risen slightly, reflecting seasonal variations and a tightening capacity market over the period. Taxes, as a percentage of price, have actually gone down over the period as many states, but not all, utilize a flat cents-per-gallon tax rate.

At the end of 2006, global refining capacity stood at approximately 104.5 million bbls/day versus global crude oil production of 86.3 million bbls/day (including crude oil, natural gas liquids, and non-conventional oils). Significant refinery additions are occurring overseas, primarily in the Pacific Rim and Middle Eastern markets, increasing capacity approximately 1.3 million bbls/day, per year, for the next five years. Interestingly, global crude oil production is expected to grow by the same amount, leaving the ratio of global refinery capacity to global crude oil production relatively unchanged. US refinery capacity growth is primarily driven by existing capacity debottlenecking. One greenfield refinery project is planned in Arizona. The US will increasingly rely on imported gasoline and distillates to satisfy demand growth over the next five years. As crude oil prices go, gasoline prices will follow.



Composition of US Retail Gasoline Price



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