Rising Oil Prices and the Impact on Consumers

Gas prices are expected to be about 30 cents higher this summer

The stock market in 2018 has seen large fluctuations, beginning with fantastic returns in January, followed by a real bona-fide correction in February, a middling March and a decent April that brought the markets essentially back to where they started by May. Naturally, this volatility can make investors nervous.

At the center of this volatility has been the price of oil. Oil prices fell precipitously from 2014 to early 2016, but they have risen steadily since then, especially since the spring of 2017 until now, settling in the $65/barrel range after topping out over $70 in May 2018.

What should consumers and investors expect?

Steady Rise in Oil Prices

As we have all seen, gas still costs less than it did a few years ago. In April 2014, a gallon of gas in the U.S. cost about $3.70. Remember when filling your car's tank cost over $60? The price sank to $1.70 in February 2016, but it rose to a U.S. average of $2.93 in May 2018, and over $3.00 in CT according to AAA.

Larger supply. Prices dropped a few years ago because the supply of oil increased dramatically worldwide. U.S. domestic oil production had nearly doubled and, as a result, foreign oil that would have been sold to U.S. consumers was sold in other countries. In addition, since December, 2015, U.S. producers were allowed to export crude oil for the first time in 40 years, so even more oil was on the worldwide market.

Oil Production

So, where is all this extra oil coming from? Oil production in the U.S. surged in recent years due to shale oil. Until recently, the oil trapped in layers of rock was largely inaccessible. However, recent advances in hydraulic fracturing (fracking) and horizontal drilling have opened up the oil in this shale. Producers have pumped this oil and continue to find new reservoirs of resource-rich shale.

This increased production reduced both the cost of oil and American dependence on foreign oil.

Oil Prices and Gasoline Prices

In a more practical sense, how does the price of oil affect the cost of gasoline? Pretty directly. Any change in the price of a barrel of oil directly affects the price of a gallon of gas.

Barrel of oil. A barrel of crude oil holds 42 gallons. From this barrel will come about 12 gallons of diesel fuel, 4 gallons of jet fuel, and smaller amounts of propane, asphalt, motor oil, and various lubricants, along with about 19 gallons of gasoline.

So, it takes one barrel of oil, on average, to come up with about 1.5 tankfuls of gas in your average, non-diesel car.

Considering all the products that are derived from oil (plastics, packaging, clothing, chemicals, paints, carpeting, etc.), each person in the U.S. consumes an average of about 2.5 gallons of crude oil per day, according to the Department of Energy. As a result, the price of a barrel of oil affects each us beyond the pump, too.

Gas Price Forecast

The most practical concern for all of us is, quite simply, the price of a gallon of gas.

U.S. gas prices (regular) have jumped on average 30 cents per gallon so far in 2018, according to the Department of Energy, compared to where prices were last summer at this time.

The silver lining: gas prices may have already peaked for the year and certainly should not come close to their record highs seen back in 2012, when gas prices were well over $4/gallon.

The price of oil has been a major economic factor for years. The cost of energy affects virtually every aspect of the economy and the market, including our investments.

The price of oil will continue to fluctuate, producers and oil-producing countries will change their plans, and alternative energy sources will continue to develop.

We will monitor all of these developments and their effect on your investments.