

Why Gas Prices Rise Faster Than They Fall – Commodities Review

Consumers nationwide are frustrated at gasoline pumps as prices have leaped much more quickly than they have dropped. As the drop in gas prices has afforded more discretionary spending for consumers, it now adds to the uncertainty of where fuel prices might be headed.

A study released by the Federal Trade Commission (FTC) showed that gasoline retail prices rise four times faster than they fall after wholesale price changes. The dynamics behind the price conundrum is how much gasoline stations pay for fuel and how long it takes for them to sell that fuel before wholesale prices move higher or lower.

Competition is also a factor as one station may have bought an 8,000-gallon load of gasoline the day before the decline started, in which case they'll be even slower to drop their price since they paid a higher price. If a station isn't as willing to be competitive, it stalls other stations from dropping prices further. Stations aren't in the business of losing money, so they tend to resist dropping prices until another station does. That's why there may sometimes be four stations on the same corner, yet selling the same grade of gasoline at different prices. Refineries, inventories, and delivery times also impact the price paid at the pump as these factors may vary from station to station.

The FTC study also found that in some places around the country, gasoline retailers sell at a loss when wholesale prices are high and then try to make up for that loss when prices go down. Retailers try keeping prices higher for as long as possible as the only way for them to make a minimal profit, or in some cases break even. Some stations are even willing to sell gasoline at a loss since some of these stations make most of their profit from attached convenience stores. If a sign boasting low prices draws drivers to the station, they're more likely to spend money in the store.

Interestingly enough, the FTC study identified that when prices are high, buyers search around to find a better deal. Immediately after prices go down though, buyers don't search as hard. This gives a cushion for the station owners to lower prices in smaller increments.

Sources: EIA. FTC

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