LESS PAIN AT THE PUMP THIS SUMMER EQUALS BOOST FOR BUSINESS

By Alan Lammey

Despite the fact that fuel prices were inching higher during the early spring, there's some good news ahead when it comes to Texas gasoline prices at the pump for this summer. Thanks to America's energy boom and the start of some new major oil pipelines, which are moving larger volumes of oil to Gulf Coast refineries, people who reside in the Lone Star State will likely be paying less at the pump in 2014. That's good for business, as lower gasoline costs typically boost the Texas economy.

It's just a matter of a few cents per gallon, but the amount that the public pays for gasoline plays a big role in spending psychology, affecting how much consumers are willing to spend on other needs, wants, and frivolities. A multitude of studies performed over the last few decades have concluded that lower fuel costs at the pump encourage folks to spend more of their hard-earned discretionary income and pinch pennies less tightly. The opposite is true when gasoline costs are higher.

COLD WINTER LEADS TO MORE SUPPLY

Overall, things are looking at least faintly rosy when it comes to fuel costs: gasoline prices are forecast to decline in 2014, according to the U.S. Energy Information Agency. Here's what's different for the coming year: not only is there more oil in supply, but the EIA's forecast also doesn't predict a pronounced spike in gasoline demand during the coming summer. Typically, gasoline prices remain subdued during the winter because drivers are less inclined to spend much time in a vehicle during cold, inclement weather. This was particularly the case with the 2013–14 winter, which was one of the coldest and longest on record; as a result, overall gasoline demand was down even further during the winter season. In fact, this winter was ranked the 33rd coldest since weather records began. But going into the summertime, the seasonal pickup in fuel demand is inevitable, which is why May through September is known as the "summer driving season."

In March, gasoline prices ticked higher, averaging near $3.25 per gallon as the refining industry moved into its "shoulder-period maintenance season." A "shoulder period" is energy-industry terminology that refers to the seasonal low-demand period for energy. This is when refineries, power plants, pipelines, and so on typically perform required maintenances on their facilities—maintenance that can usually only be performed when outside temperatures are mild. Because gasoline refinery production is significantly reduced during the maintenance period, prices at the pump typically tick higher.

At the end of the maintenance period, gasoline prices tend to fall, depending on the cost per barrel of oil in the futures markets. Fortunately for Texans, there will be a major surplus of oil in the region, due to several factors. First, a burst of oil-production growth from Texas and North Dakota is expected to make the United States less dependent on more expensive foreign oil this year. This mother lode, along with an increase in fuel-efficient vehicles and a rising trend in American drivers who appear to be driving less, is making the summer spikes in gasoline prices less pronounced.

UNITED STATES PRODUCING THE MOST DOMESTIC OIL SEEN IN TWO DECADES

Meanwhile, over the past year the United States has produced more oil than it has in nearly two decades. That trend is expected to continue in 2014, as domestic oil production is forecasted to rise by a million barrels per day to 8.5 million barrels per day. That's important, because oil produced in America is cheaper than imported oil, with the U.S. Department of Energy forecasting that American oil will go for about $8 to $10 per barrel cheaper than oil priced off the global market.

Consumers aren't the only ones to benefit from cheaper oil. Refiners in the United States also benefit from lower priced American crude oil because it increases their profit margins—and the cheaper feedstock translates to a lower retail price at the pump. Some refineries, such as Corpus Christi–based Valero, have several projects geared toward upgrading facilities in order to process more cost-advantaged North American crude oil.

Because of the fairly recent development of cheaper domestic oil, an interesting trend has developed over the past couple of years: the United States is becoming a "net exporter" of refined petroleum products like gasoline. In fact, exports of U.S. refined products have gone from a million barrels per day to more than 3 million barrels per day. The United States in general is likely to see lower gasoline prices this summer because Americans are using less gasoline due to energy-efficiency gains; the last recession is also having lingering economic effects. And those two trends would have made gas prices even cheaper if refiners weren't shipping our excess gasoline outside our borders.

NEW MAJOR PIPELINES SURGING SUPPLY INTO TEXAS

To top this year off, there has been the recent start of the southern leg of the Keystone XL pipeline, which is now transporting hundreds of thousands of previously land-locked crude oil production from the Cushing, Oklahoma area. This pipeline is capable of bringing up to 700,000 barrels per day (bpd) of oil to the Gulf Coast, providing more supplies of crude oil to refineries. Additionally, Enterprise Products Partners also recently announced that their Seaway crude-oil pipeline will begin operating in late May or early June. This is a 450,000 bpd twin pipeline that runs parallel to the current 400,000 bpd pipeline and would start up in the second quarter, bringing even more oil to Gulf Coast refineries. So oil supply at regional Texas refineries shouldn't be an issue this summer. In fact, Texas refineries should be awash in supply.

However, it's not just the abundance of oil supply alone that might cause some downside pressure on prices. In March, Federal Reserve Chairwoman Yellen made comments regarding the fact that the Fed has its sights set on increasing short-term interest rates roughly "six months" after the quantitative easing package #3 program is completed. If the Fed follows through on this action, it would potentially strengthen the U.S. dollar, which would in turn be a bearish driver for Nymex-traded WTI oil futures. This is due to the inverse relationship between the value of the U.S. dollar and dollar-dominated crude oil.

As we peer into 2014, it appears that gas prices will be lower than what we saw in 2013. That forecast is dependent upon oil prices remaining in the low-to-mid $90s for the year. Except for unforeseen geopolitical events that could impact oil and/or gasoline futures prices, it appears that oil prices in America have more room to fall as production continues to rise. That's why it looks like 2014 won't be a painful year at the pump, and consumers will have more funds available to buy other stuff. **N**

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