MINORITY STAFF
COMMITTEE ON GOVERNMENT REFORM
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Prepared for Senator John Edwards

The Impact of Increased Gasoline Prices in North Carolina

BACKGROUND

In recent months, gasoline prices have increased dramatically, exceeding $2.00 per gallon and reaching record levels in May 2004.[1] Although recent decisions by OPEC are expected to have some impact on gas prices, the Energy Information Administration has indicated that gasoline "price levels are still expected to remain high by historical standards."[2]

These high gasoline prices have significant impacts on family budgets — and on the economy as a whole. Increased expenditures for gasoline reduce families' discretionary income and can result in inflation in the price of consumer goods. On May 17, 2004, Federal Reserve Chairman Alan Greenspan indicated that the "dramatic" increase in oil and gasoline prices is "an economic event that can significantly affect the long-term path of the US economy."[3]

At the request of Senator John Edwards, this analysis examines the impact of the increase in gasoline prices in North Carolina. It finds that the increased costs could force motorists in North Carolina to pay over $600 million more for gasoline in the summer driving season than they did last summer. For the average family in North Carolina, the increase in gasoline prices could increase fuel costs by approximately $210 between Memorial Day and Labor Day.

METHODOLOGY

This analysis estimates the increased amount that consumers will spend on gasoline between Memorial Day and Labor Day due to rising gasoline costs. It is based upon (1) data from the American Automobile Association that tracks changes in fuel prices and (2) data from the Department of Transportation's Federal Highway Administration that tracks fuel usage and driving patterns at the state level. This data is used to estimate total gasoline usage for the state.

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1 *Price of Gas Hits 23-Year High*, Washington Post (May 15, 2004).

2 Energy Information Administration, *Short Term Energy Outlook* (June 8, 2004) (online at http://www.eia.doe.gov/emeu/steo/pub/contents.html).

3 *Greenspan Warns Dramatic Rise in Oil Price Will Dent U.S. Demand*, Financial Times (May 18, 2004).

Total increased spending on gasoline is determined by multiplying the increase in gasoline prices by the estimated amount of gasoline that will be used.

FINDINGS

A. Gasoline Prices in North Carolina

In recent months, gasoline prices have increased rapidly in North Carolina. On June 11, 2004, the average price of a gallon of regular gas in North Carolina was $1.94.[4] Compared to prices one year ago, this represents an increase of 55 cents per gallon.[5] Despite recent announcements by OPEC that the cartel would increase production, the U.S. Energy Information Administration has projected that gas prices (and the difference in gas prices from 2003 to 2004) will remain at high levels through the summer.[6]

B. The Impact of Increased Gasoline Prices in North Carolina

In 2004, drivers in North Carolina will purchase approximately 4.5 billion gallons of gasoline, an estimated 370 million gallons per month.[7] Assuming that gasoline prices remain 55 cents per gallon higher this summer than in 2003, increased gasoline prices would cost North Carolina drivers an additional $204 million monthly. Over the three-month summer driving season from Memorial Day through Labor Day, the total increased cost for drivers in North Carolina would be $611 million.

C. Individual Costs of Increased Gasoline Prices in North Carolina

There are approximately 5.9 million registered drivers in North Carolina.[8] On a per-driver basis, the increased gasoline prices will cost the average driver in North Carolina approximately $105 over the summer months. An average two-car family in North Carolina will spend an additional $210 on gasoline during the summer driving season.

CONCLUSION

This analysis finds that increasing gasoline costs will have a significant impact on drivers in North Carolina. In the aggregate, increased gasoline prices could cost North Carolina drivers an

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4 AAA, *Daily Fuel Gauge Report* (June 2004).

5 *Id.*

6 Energy Information Administration, s*upra* note 2.

7 The latest statewide data available from the Federal Highway Administration is for 2002. FHWA, *Monthly Motor Fuel Use Reported by States* (Dec. 2002). This data shows that drivers in North Carolina purchased 4.3 million gallons of gasoline in 2002. According to the Energy Information Administration, gasoline use has increased by approximately 2% annually, or 4% between 2002 and 2004. A 4% increase in gasoline use in North Carolina would result in North Carolina drivers using 4.5 million gallons of gasoline. Energy Information Administration, *supra note 2.*

8 *Id.*

estimated $611 million from Memorial Day to Labor Day, with the average two-car family in the state paying $210 or more extra for gasoline during this period.