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NJ Gas Prices Are Beginning To Fall. But What Really Drives Them In The First Place?

By: Michael Diamond, March 18, 2022

The price of gasoline at New Jersey stations began to retreat from its record high this week after investors grew worried that a COVID-19 wave in China would slow global demand, experts said.

However, it likely will take Garden State motorists longer to see the decline than the increase, observers said, since prices at the pump typically abide by the adage: up like a rocket, down like a feather.

"You're going to start to see some drops a little at a time in the next week or so," said Sal Risalvato, executive director of the New Jersey Gasoline-Convenience-Automotive Association, a trade group.

New Jersey on Thursday averaged \$4.26 a gallon, according to AAA, still up 76 cents from a month ago, but down 11 cents in the past week.



The soaring gas prices, sparked by Russia's invasion of Ukraine three weeks ago, have added more weight to an economy trying to find its footing during a global pandemic. And with Russia's game plan unclear and the summer driving season looming, experts are unsure what's in store.

"Anything beyond the next 100 days in terms of forecasting is witchcraft," said Tom Kloza, global head of energy analysis for the Oil Price Information Service, a research group based in Rockville, Maryland.

For now, New Jersey motorists are catching their breath. The price of oil has fallen from more than \$130 a barrel to close at about \$95 a barrel on Wednesday, AAA said.

The sharp decline was a sign that investors both overreacted to the impact of Russia's invasion and found a new worry: China has locked down residents in some of its cities due to another COVID outbreak, threatening to slow down supply chains once again, Kloza said.

No one is willing to say for sure if the trend will last. Oil prices bounced back above \$100 a barrel on Thursday.

Gas prices are forcing New Jersey residents and business owners to scale back their driving, cut back on spending or absorb the cost.

Some took it in stride. Marguerite Simpson of Rumson said rising prices hurt, but were a small price to pay to help Ukraine protect itself against Russia.

Others hoped relief came soon. "Suppliers hike their prices up to compensate for gas prices, so it's more expensive for us to buy things, but I can't sell it for more," said Anthony Fabbri, owner of Amici, a pizza place in the Navesink section of Middletown.

What can be done about prices?

The sudden spike comes at a shock for consumers who have become accustomed to low gas prices for a decade.

While Republicans have pinned the blame for the latest jump on President Joe Biden for his decision to cancel the expansion of the Keystone XL pipeline and to postpone oil leases, experts say his moves have had no short-term effect.

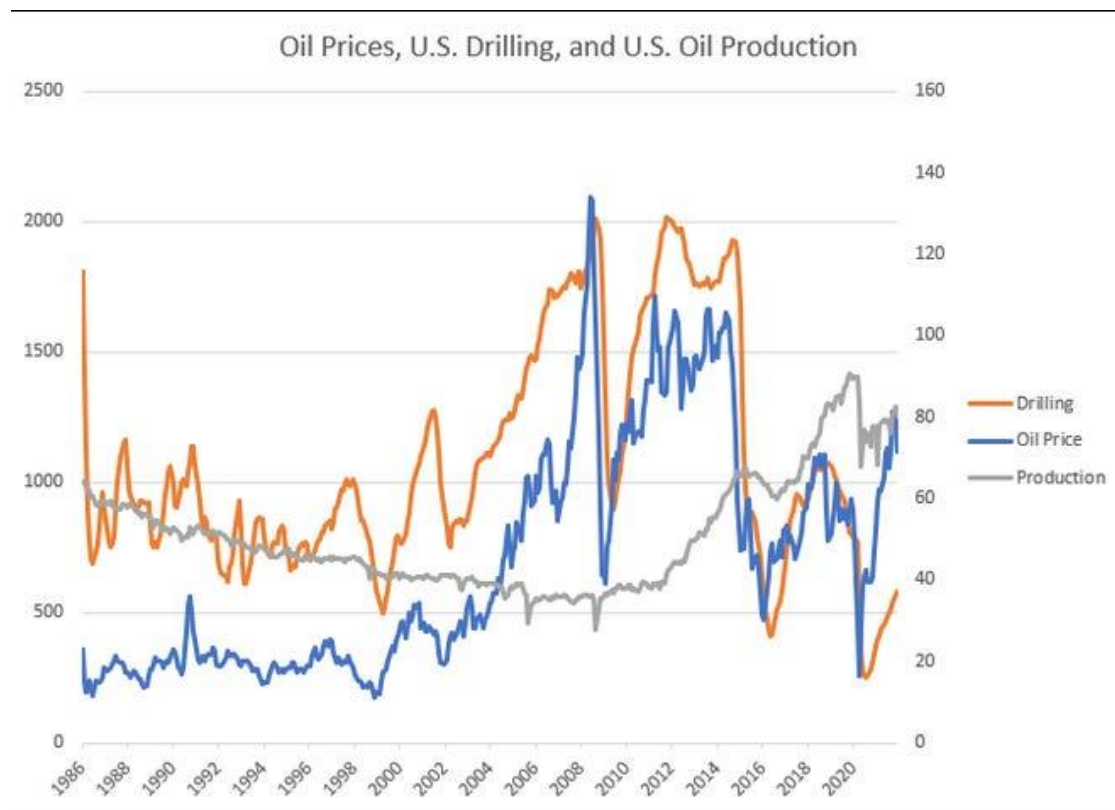
The Keystone project would have increased the pipeline's capacity, sending 830,000 barrels of oil a day from Alberta, Canada, to refineries in the Gulf Coast. From there the refined gasoline would have been mainly exported overseas.



But the project was years away from completion, and its impact on prices isn't clear. The U.S. Energy Information Administration projected worldwide oil consumption this year would be about 100 million barrels of oil a day.

Instead, experts said oil prices are set on the world market, and they typically fluctuate with supply and demand — along with hurricanes or outages or any geopolitical fights that flare up among oil-producing countries.

The U.S. sharply increased its oil production during the 2010s largely thanks to new technology such as hydraulic fracturing, or fracking, that allowed companies to produce so much oil that they began to export it.



At times, it worked out better for consumers than the oil companies. Even as U.S. oil companies increased production in the mid-2010s, OPEC, whose members include Saudi Arabia, continued to produce oil, creating a glut.

On St. Patrick's Day in 2016, the average price of gasoline in New Jersey was \$1.72 a gallon, according to AAA.

OPEC at the end of 2016 agreed to cut production, and prices began to tick up again, reaching \$3 a gallon in New Jersey just in time for the summer driving season in 2018.

By the time the pandemic hit in March 2020, the U.S. was producing 13 million barrels of oil a day, the most in the world. But demand plummeted. Prices for a barrel of oil briefly fell below \$0. Some 70 oil and gas companies declared bankruptcy, according to Haynes Boone, a law firm.

Gasoline prices in New Jersey bottomed out at \$1.99 a gallon in May 2020, according to AAA.



The economy bounced back faster than expected thanks to upward of \$9 trillion in stimulus from Congress and the Federal Reserve Board. But experts said the oil industry couldn't respond fast enough to keep up with rising demand — or make up for the 3 million barrels of oil that Russia exports each day.

Steffen Hitzemann, a professor of finance and economics at Rutgers Business School in Newark and New Brunswick, said it takes more than six months for oil production to ramp up.

Among the obstacles: Oil companies have run into a worker shortage and supply chain issues to secure drilling equipment, he said.

Meanwhile, their investors are hesitant to spend a lot of money on new drilling. In the short-term, they aren't sure how long the current shortage will last. In the long-term, they aren't sure how much demand there will be as the world turns to energy sources other than fossil fuel, Hitzemann said.

In short, the industry doesn't want to get stuck with another glut.

"Drilling new wells is a long-term investment, such that firms will only do it if they believe that the supply shortage will last for a year or longer," Hitzemann said. "In addition, the general trend towards green energies makes new investments in the fossil fuel industry generally less attractive."

It leaves New Jersey motorists waiting for relief, even before the summer driving season begins.

Gas station owners will respond, Risalvato said, but first they need to sell the inventory they bought at a high price.

"There's a lot of product in the ground, and they can't lower their price because they can't lose money on it," he said.