



Record High Memorial Day Gas Prices Are Stinging Consumers and Impacting Travel

By: Patti Domm, May 27, 2022

The Memorial Day holiday weekend marks the start of the summer driving season, and already drivers are limiting their trips due to record gasoline prices that are expected to go even higher.

The national average for unleaded gasoline is now \$4.599 per gallon, just below a record of \$4.60. That's also a 40% increase so far this year and well above last year's \$3.04 per gallon level, according to AAA. By the July 4 holiday, more states could see average prices above \$5 a gallon, analysts say.

"I don't think as many people are going to hit the road, and if they do, I think a good portion are going to be staying close to home," said Patrick De Haan, head of petroleum analysis at GasBuddy. "They're definitely should be a noticeable bump, but my impression is people are not driving as far. The concern is high prices that are keeping people a little closer. There's also work-from-home that changed things. There's a strong subset of people that can basically work from the road all the time."

The upcoming holiday weekend is expected to be the busiest for travel in two years, but driving should still be below 2019 levels. AAA expects 39.2 million people in total will travel 50 miles or more this weekend, an increase of 8.3% over last year. Of that, there are expected to be 4.6% more drivers on the road during the three-day weekend, but that number is still down 7.2% from 2019.

Across the U.S., prices vary widely, with a high \$6.07 per gallon average in California and \$4.13 per gallon in Georgia. As high prices impact consumers, analysts say they will not fill up their vehicles as often, and that reduced demand could act to curb the pace of further price increases.

Expensive gasoline has already caused some people to cut back on driving. Government data shows consumers used about 8.8 million barrels a day of gasoline on average over the past four weeks — down from 9.1 million in the same period last year.

“That goes back to 2011, 2012 [demand] levels,” said De Haan of the government data. GasBuddy data also shows slower-than-expected demand over the last several days. For instance, drivers bought 4% more gasoline Thursday than the week earlier, but De Haan had projected that to be up 7%-10% to account for drivers expecting to travel for the holiday weekend.

“Based on that, there’s definitely demand destruction,” he said.

The national average price of a gallon of gasoline was up about 10% in May, though it was a fraction of a penny lower in the last day and flat on the last week.

According to Bespoke Investment Group, that is the third-largest increase for the month of May since 2005, and the 40% jump in prices year to date is more than twice the historical average. Gas prices were up 35% last Memorial Day from the beginning of the year, as the economy began to reopen.

Consumers have clearly not been immune to the jump in prices, along with other inflation. The University of Michigan consumer sentiment survey, released Friday, fell 10.4% in May to 58.4.

“Consumer sentiment hit the lowest level since 2011. That’s the high gasoline price undermining the consumer,” said John Kilduff, partner at Again Capital.

Gasoline prices have run up sharply following Russia’s invasion of Ukraine. Sanctions on Russia, a major oil and fuel supplier to Europe, have sent Europeans scrambling to find supplies elsewhere, straining already tight global supplies.

Combine that with reduced refining capacity, and the world’s supply of fuel is well below normal. U.S. refineries have lost about a million barrels a day in capacity over the last several years.

“I think these high gas prices are making at least some folks think twice,” said Kilduff. “We do see a national average of \$5 by July 4th, and we should trend down from there. I think history is going to repeat itself. The refineries are operating at extraordinary rates. They are operating at 97% on the East Coast and Gulf Coast, which are the major refining centers.”

Memorial Day is just the beginning of summer travel, but typically gasoline prices have peaked by this time of year. Prices at the pump are at a record high for the holiday, but when inflation adjusted, the price is the highest since 2012, according to the Energy Information Administration.

“On average over the last 10 years, we usually peak somewhere in mid-May. ... It could potentially be mid-to-late July, which would coincide with peak demand,” said De Haan. “The overall market continues to tighten. Supply continues to go down.”

Some analysts expect gasoline prices to peak near or above \$5 per gallon, though JPMorgan analysts have forecast a price above \$6 per gallon. Analysts say demand destruction may already be impacting the price, which is up 47 cents from a month ago, according to AAA.

Travel Plans

According to a new survey, 90% of Americans plan to travel in the next three months, and 50% say the cost of motor fuel is a major consideration. The survey of 2,210 individuals was conducted May 18-22 for the American Hotel and Lodging Association.

Nearly 70% of those surveyed say they will take vacations this summer, with 60% saying they will go on more trips than in the past two years.

However, 82% said gasoline prices would have some impact on their destination.

For instance, 57% said they will take fewer leisure trips, and 54% plan to take shorter trips. While 44% say they are likely to postpone their travel, another 33% say they will cancel with no plans to reschedule.

"I think there will be a respite [from rising prices] in June ... I think we're going to run into strong demand, but it's not the sort of summer sweet spot we'll have in July and August," said Tom Kloza, global head of energy analysis at OPIS. "I think demand is going to be running well below 2019 and probably lower than what we saw last year." In 2020, demand cratered when many Americans stayed home due to Covid.

Kloza noted that for the whole of 2019, gasoline demand was higher than it is now, at 9.3 million barrels a day. He expects pent-up demand for vacation travel to create a surge in gasoline demand in July. Demand peaked last year at about 10 million barrels a day on some days during the summer.

"I think we've seen the most violent price moves until July ... July will be the top demand month," he said. "In July, it will be anything goes, and August is really anything goes because of the potential for hurricanes."

Sal Risalvato, executive director of New Jersey Gasoline Convenience Store and Automotive Association, said he expects a busier Memorial Day weekend for highway travel than last year. He said consumers want to get out after two years of Covid, but demand for gasoline has not yet materialized as many expected.

He said the reason appears to be elevated gasoline prices.

"The best remedy for high gas prices is high gas prices."