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In Search of a \$3 Gallon of Gas — or, Why Prices Are (So Much) Cheaper In the South

Station owners prefer low prices. They actually make more money. Here's why N.J. prices are higher than elsewhere.

By: Tom Bergeron, September 23, 2022

A few gas stations near Morristown are selling gas for less than \$3 a gallon. But, don't go looking for them — unless you're near Morristown, Tennessee.

A recent trip to the South showed that the price of a gallon of gas in Tennessee, Georgia and Alabama was considerably cheaper than it is in New Jersey. At least 50 cents a gallon cheaper.

And that cost difference can't simply be tied to the lower price that comes with self-service gas. After all, the prices in Pennsylvania, Maryland and even Virginia — where self-serve is the norm — more closely resembled New Jersey.

Eric Blomgren, the chief administrator and the director of government affairs for the New Jersey Gasoline, C-Store, Automotive Association, said there are numerous factors behind the cost discrepancy — including the region's proximity to the Gulf of Mexico and the massive amount of oil it produces.

"They've got a lot of refineries and infrastructure and stuff down there because of the Gulf," he said. "Whereas, up here, we've got some refineries but we're more of the endpoint for the pipeline.

"We have to import some of our gasoline and diesel from overseas because we don't have the capacity supply that they have down there."

Blomgren also points to full service.

“The stations down there are not legally mandated to require someone to pump the gas for you and pay them \$14 an hour — which is really more like \$16 or \$18 an hour with the current labor shortage,” he said. “That gets passed on to the consumer.”

A consumer who increasingly wants to pump their own gas — and not just for savings. For speed and convenience, too.

“There’s a lot more people than people realize that would say, ‘Forget the savings, I just don’t want to wait around for someone to come pump my gas,’” Blomgren said.

Blomgren noted that the wholesale cost of gas is now cheaper than it was on the day Russia invaded Ukraine.

That’s good for New Jersey. But will we ever see the price below \$3? That’s another story.

“I think it’s possible in the future in some isolated stations who are always the cheapest — the ones who are not making much money but are trying for volume,” he said.

“But, if you’re talking about the average price, which right now is \$3.50 to \$3.60, I would be surprised if we’re able to get below \$3 in the next couple of months — and the next couple months are normally the cheapest time of the year for gas.”

Blomgren gave his thoughts on a number of gas-related issues. Here’s a sampling:

ROI-NJ: Let’s talk about the price of gas and all the factors that go into it. What does the average consumer not realize?

Eric Blomgren: It’s one of the most competitive industries there is, because everybody’s selling the same product, more or less. It’s the only business left that’s still a pennies business. It’s the only industry where you’ve got a gigantic sign on the front of your property saying exactly what your price is. Nobody gets to the back of the supermarket and says, ‘I can save 2 cents on milk if I drive across town.’

People don’t quite understand how the market works. Just because you have a big sign that says ‘Exxon’ or ‘Lukoil’ doesn’t mean these stations are a direct outpost of that corporation. These are mostly small businesses that just have some sort of franchise agreement. They are just on the front lines.

There's something about gas that really gets people going. Nobody likes to pay more for gas, especially when, seemingly out of nowhere, it goes up \$1 a gallon. So, sometimes, people take their frustrations out on their neighborhood stations, but there's nothing they can do. They're really in the same boat as the customer. The price is what it is.

ROI: Then walk us through this. Obviously, the price has been volatile in the past six months. The general feeling is that the price goes up quickly — seemingly it was going up 10 cents a day for a point — but comes down slowly. Is that just a feeling, or is it true?

EB: It's probably a mix of both. It's definitely a feeling, because people care a lot more when it's spiking — that's when everyone tracks the price more closely and follows every little change. Here's the thing, because people are so price conscious, and the retailers know that, the price doesn't quite go up as immediately as people think. Retailers will eat it, but, eventually, they can't do that anymore.

So, because they took it on the chin so much in the beginning, when it comes down, their margins tend to be a little higher than they were in the beginning, so it all evens out in the end.

ROI: But don't stations make a lot more money when the price is higher?

EB: No. Because, if you have prolonged high prices, you wind up with demand being affected. Now, you're selling fewer gallons, but you still pay the same property taxes and environmental insurance and other things. So, if you get fewer gallons to make that money back down, your margin is going to be a little higher.

The other thing that affects stations that people don't really talk about are the credit card fees. Approximately 85% to 90% of customers are buying with a credit card. So, when the cost of gas goes from \$2.50 a gallon to \$5 a gallon, the credit card fee literally doubles for the same single gallon of gas. That's a cost that has to get passed on. It's the largest expense after the cost of labor.

Station owners love low prices. People drive more. People are happier. And they're less concerned about that minute change in price.

ROI: Last question: We'll accept that we're not going to get \$3-a-gallon prices, but is there anything out there that you think could bring huge volatility again?

EB: This is not the first time even in the last few years that you've seen sharp price increases. There was a big increase in 2008, just before the economy crashed. Every so often, the prices

are going to spike, and everybody gets upset, but then come down, and the pressure comes off. It's just the way it goes.