

## Loftus Wealth Strategies

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## Why are you paying more at the pump?

Have you ever stood at the pump wondering why you're paying so much to fill up your vehicle? The answer is ... complicated. According to the U.S. Energy Information Administration (EIA), many factors contribute to the cost of a gallon of gasoline, including the price of crude oil (which accounts for the majority of the cost), refining costs and profits, taxes, and distribution and marketing expenses.

The price of crude oil is dependent on global supply levels relative to demand, and can be influenced by political events in major oil-producing countries, supply disruptions (which often result from hurricanes and storms in supply zones), and market speculation. Supply and demand is also one of the reasons that U.S. gas prices tend to fluctuate seasonally, with prices generally rising in the spring and remaining higher in early summer. But refining costs also play a role. Prices tend to rise as refineries shift from winter to summer gasoline blends in order to meet federal and state environmental guidelines. Gasoline must be blended with other ingredients to reduce emissions, and costlier ingredients are used in

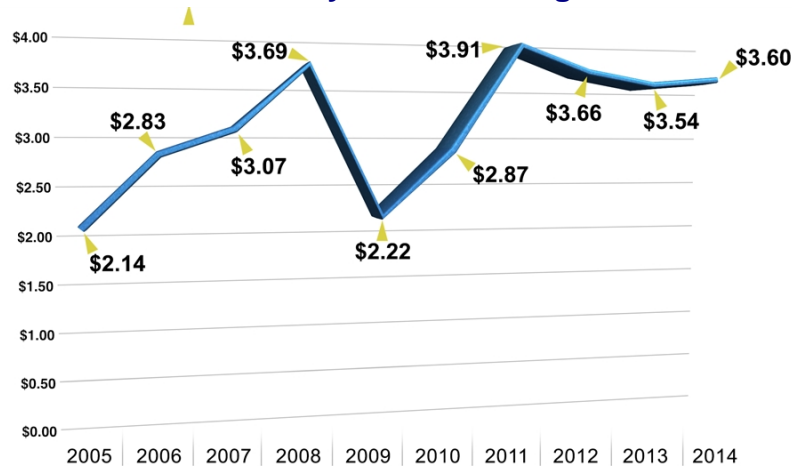
the summer blend.

How much you pay for gasoline also depends on where the pump is located and who owns it. For example, prices are generally highest on the West Coast due to higher state taxes and transportation costs from distant refineries. But no matter where you live, you know that prices also vary locally from one station to the next. Why? Generally it's because the cost of doing business for an individual station owner varies. The price the station pays for gasoline, the station's location and volume of business, and whether it must match or beat prices from local competitors all contribute to how much you pay for a gallon of gas.

What's the outlook for the future? The EIA expects the average price of gasoline to fall in 2015 to \$3.39 per gallon. Despite the increasing demand from emerging economies, U.S. crude oil reserves and production are expected to increase, and U.S. demand is expected to decrease as vehicles become more fuel efficient.

Sources: "Factors Affecting Gasoline Prices" and "Short-Term Energy Outlook", May 6, 2014, [www.eia.gov](http://www.eia.gov)

## Chart: Ten-Year History of U.S. Average Gas Prices



Gas prices fluctuated widely in 2008, peaking at a high of \$4.11 during the second week of July, then plummeting to \$1.81 by the first week of December. Since 2008, gasoline prices have generally been on an upswing, but have leveled off during the past three years, as this chart shows. According to the U.S. Energy Information Administration (EIA), average gasoline prices are even expected to decline slightly in 2015, although projections are far from certain.

Sources: Short-Term Energy Outlook, May 6, 2014, U.S. Energy Information Administration, [www.eia.gov](http://www.eia.gov); Chart data is from the EIA's Weekly U.S. Regular Conventional Retail Gasoline Prices (chart shows average dollars per gallon as of the second week of May of each year).