

What Surging Gasoline Prices Mean for Consumers and the Economy



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For many Americans, the price of gasoline at the pump represents one of the most immediate ways the conflict in Iran touches their daily lives. Gasoline prices are highly visible, updated regularly, and filling up at least once a week is a necessity for commuting to work, running errands, and purchasing groceries. Diesel prices are equally significant, as they influence transportation and manufacturing costs throughout the broader economy. These dynamics make fuel prices key economic indicators, and the ongoing situation in the Middle East has become an increasing source of concern for both consumers and investors.

Now in its second month, the conflict continues to generate daily headlines ranging from proposed peace agreements to the threat of further escalation, keeping oil prices elevated with notable intraday volatility. Brent crude is currently trading above \$110 per barrel and WTI above \$100, and these elevated energy prices are expected to weigh on household budgets, inflation metrics, and Federal Reserve policy decisions.

The energy crisis of the 1970s is perhaps the most frequently referenced historical example of how elevated oil prices can fundamentally reshape consumer behavior and the broader economy for years. During that period, two separate oil embargoes resulted in long lines at gas stations, fuel rationing, and a lasting shift in how Americans approached energy consumption and security.

Fortunately, the current environment differs in meaningful ways. The long-term consequences of the 1970s and early 1980s included a substantial wave of investment in domestic energy production and fuel efficiency measures, which reduced the U.S. economy's sensitivity to oil price spikes. The U.S. is now the world's largest oil producer, inflation had been on a downward trajectory prior to this shock, and markets have historically adapted and recovered once initial disruptions ease. While consumers may continue to face near-term challenges, perspective and patience remain essential qualities for long-term investors.

Gasoline prices have climbed sharply from recent levels

Gasoline Prices

Average Price Nationwide, Regular Grade, All Formulations



Sources: Clearnomics,
U.S. EIA
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The national average price for regular unleaded gasoline has risen to approximately \$4.00 per gallon, an increase of more than one dollar per gallon in just a single month. Although this remains below the record high of \$5.00 per gallon reached in 2022, it could deteriorate further if oil prices stay elevated. For most households, purchasing gasoline is a non-negotiable expense. While consumers may reduce their driving somewhat, higher prices at the pump will directly reduce discretionary spending and savings. Even with the growing adoption of electric vehicles, the vast majority of cars on the road today still run on gasoline, meaning that higher fuel costs affect virtually every

household budget across the country.

The impact of rising gasoline prices on consumers is both direct and indirect. A straightforward back-of-the-envelope calculation illustrates how the increase affects everyday spending across different income levels. Assuming the average fill-up is 15 gallons, the current price increase adds \$15 to each trip to the pump. For those who fill up once a week, this translates to roughly \$780 less in available funds per year.

At the federal minimum wage of \$7.25 per hour, that would represent more than two additional hours of work simply to keep pace financially. The picture looks different for higher earners. According to the latest Census Bureau data, the median American household earns just over \$70,000 per year after taxes, meaning this added cost represents more than 1% of their after-tax income. While this reduces money available for discretionary spending or savings, it is likely manageable for most households without causing significant financial hardship.

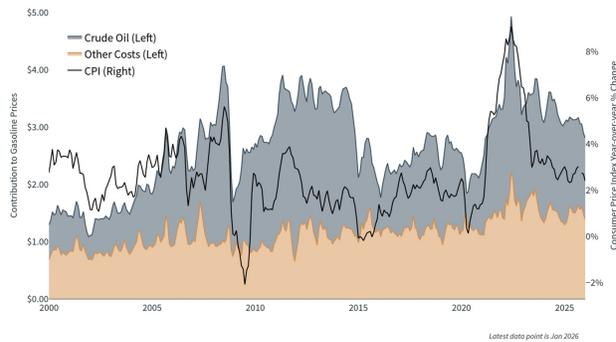
In effect, higher gasoline prices function as a direct burden on consumers. Without minimizing the difficulties some may face, it remains clear that the majority of households will be able to navigate through this period.

From an investment perspective, the drag on the economy can be meaningful. When aggregated across millions of households filling up week after week, the cumulative effect on consumer spending and savings rates can become significant if oil prices remain elevated for an extended period. However, the indirect effects may ultimately prove even more consequential. Gasoline and diesel are fundamental inputs across nearly all sectors of the economy. Transportation, manufacturing, agriculture, and distribution all rely on energy, which means higher fuel costs filter through to the prices of goods and services broadly. This is why oil price surges do not simply affect energy bills but can reverberate across the economy over time.

The components of gasoline prices extend well beyond crude oil costs

Gasoline Price Components

Cost breakdown of average nationwide price versus inflation



Sources: Cleonomics, U.S. EIA, Bureau of Labor Statistics
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Gaining a clearer understanding of what drives gasoline prices helps place the current situation in context. According to the U.S. Energy Information Agency, roughly half of the price at the pump reflects the underlying cost of crude oil. The remaining half is composed of refining costs, transportation and distribution to gas stations, sales and marketing expenses, and federal and state taxes.

These additional cost components also explain why consumers in certain states pay considerably more than the national average. The accompanying chart, based on the latest available data which does not yet fully reflect the most recent jump in

prices, illustrates how these components have evolved over time.

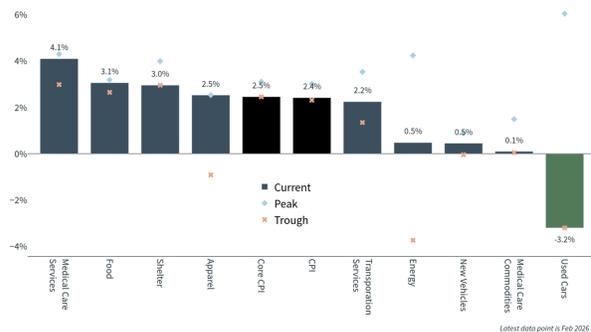
This breakdown also helps explain why there is not a direct one-to-one relationship between oil prices and prices at the pump. It takes time for higher market prices, which adjust rapidly in the futures market, to translate into what consumers actually experience. The chart also highlights the annual change in the overall Consumer Price Index and the evident relationship with oil prices over time.

For investors, it is also worth noting that the oil futures curve is currently deeply “backwardated.” This technical term refers to a situation in which oil prices are significantly higher today than they are expected to be in the future—a notable shift from just a month ago when the curve was relatively flat. In other words, while current spot prices reflect the ongoing Middle East supply disruption, traders are signaling an expectation that oil prices will eventually decline once conditions stabilize. This does not guarantee a swift resolution and is subject to change as new information emerges, but it does suggest that the market views the current spike as a one-time shock rather than a permanent move to structurally higher prices.

Elevated energy prices add complexity to the inflation outlook

Consumer Price Index Components

Current year-over-year changes and 12-month peaks and troughs



Sources: Cleonomics, Bureau of Labor Statistics
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For investors, energy prices will have a direct impact on headline inflation, as fuel costs represent important components of the headline Consumer Price Index. Following several years of improving energy CPI readings, the recent surge in oil and gasoline prices will almost certainly push headline inflation higher in the months ahead. Organizations such as the OECD now estimate that U.S. inflation could rise more quickly than previously anticipated this year.

This development matters for several reasons. First, consumers are still recovering from the inflationary surge that

followed the pandemic. Second, both stocks and bonds have historically faced headwinds when inflation rises unexpectedly, as it increases costs for companies and erodes the real value of fixed income payments. That said, markets have shown considerable resilience over recent years even amid challenging inflationary conditions.

Third, and perhaps most immediately relevant for financial markets, rising inflation complicates the Federal Reserve's decision-making process. Markets have already shifted their expectations, with traders now assigning a higher probability to the Fed holding rates steady or even raising them rather than cutting. This reversal in expectations has introduced additional uncertainty for both equity and bond markets, particularly as the Fed undergoes a leadership transition in mid-May.

Economists generally regard these types of "supply-side" shocks as temporary in nature. This is not necessarily a prediction that high oil prices will be short-lived, but rather reflects the view that elevated oil prices should moderate once supply returns to normal levels.

While the current environment remains challenging for consumers, it is meaningfully different from the 1970s. Notably, the U.S. is now the world's largest producer of oil and natural gas, and the Federal Reserve has considerably greater credibility in anchoring inflation expectations, making today's economic and financial market environment more stable than in prior decades. For investors, the most prudent approach continues to be remaining invested with a well-constructed portfolio and financial plan. This strategy served investors well during the last inflation surge in 2022 and remains the most effective path toward achieving long-term financial goals.

The bottom line? Rising gasoline prices are a burden for consumers and will likely drive headline inflation higher. However, history shows that markets and the economy have navigated past energy shocks. Investors should maintain a long-term perspective, avoid overreacting to daily headlines, and stay focused on their financial plans.

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