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Jonathan Fahey, The Associated Press – 2 hrs.

High gas prices persist despite US oil boom



Damian Dovarganes / AP file

Costco members filled up with discounted gasoline in Van Nuys, Calif. in this October file photo. Gas prices continue to rise even as oil output increases.

The U.S. is increasing its oil production faster than ever, and American drivers are guzzling less gas. But you'd never know it from the price at the pump.

The national average price of gasoline is \$3.69 per gallon and forecast to creep higher, possibly approaching \$4 by May.

"I just don't get it," says Steve Laffoon, a part-time mental health worker, who recently paid \$3.59 per gallon to fill up in St. Louis.

U.S. oil output rose 14 percent to 6.5 million barrels per day last year — a record increase. By 2020, the nation is forecast to overtake Saudi Arabia as the world's largest crude oil producer. At the same time, U.S. gasoline demand has fallen to 8.7 million barrels a day, its lowest level since 2001, as people switch to more fuel-efficient cars.

So is the high price of gasoline a signal that markets aren't working properly?

Not at all, experts say. The laws of supply and demand are working, just not in the way U.S. drivers want them to.

U.S. drivers are competing with drivers worldwide for every gallon of gasoline. As the developing economies of Asia and Latin America expand, their energy consumption is rising, which puts pressure on fuel supplies and prices everywhere else.

The U.S. still consumes more oil than any other country, but demand is weak and imports are falling. That leaves China, which overtook the U.S. late last year as the world's largest oil importer, as the single biggest influence on global demand for fuels. China's consumption has risen 28 percent in five years, to 10.2 million barrels per day last year.

"There's an 800-pound gorilla in the picture now — the Chinese economy," says Patrick DeHaan, chief petroleum analyst at the price-tracking service GasBuddy.com.

U.S. refiners are free to sell gasoline and diesel to the highest bidder around the world. In 2011, the U.S. became a net exporter of fuels for the first time in 60 years. Mexico and Canada are the two biggest destinations for U.S. fuels, followed by Brazil and the Netherlands.

Two other factors are making gasoline expensive:

— High oil prices. Brent crude, a benchmark used to set the price of oil for many U.S. refiners, is \$108 per barrel. It hasn't been below \$100 per barrel since July. On average, the price of crude is responsible for two-thirds of the price of gasoline, according to the Energy Department.

— Refinery shutdowns. Refineries temporarily close in the winter, when driving declines, to perform annual maintenance. That lowers gasoline inventories and sends prices higher nearly every year in the late winter and spring.

Rising gasoline prices act as a drag on the economy because they leave less money in drivers' wallets to spend on other things. But because average prices have remained in a consistent range — between \$3 and \$4 per gallon since the end of 2010 — economists say their effect on growth has been minimal.

Drivers in Connecticut, New York and Washington, D.C., are paying \$3.92 or more per gallon on average, according to the Oil Price Information Service. Drivers in Rocky Mountain states, where refineries can tap low-priced crude from the U.S. and Canada, are paying far less. Gas costs \$3.42 or less in Wyoming, Utah and Montana.

For the year, prices are forecast to average \$3.55 per gallon, slightly lower than last year's record average of \$3.63. The peak for 2013, likely to come this spring, is expected to fall slightly short of last year's peak of \$3.94.

A major reason cited for high gasoline prices over the last two years — fighting and political tensions in the Middle East and North Africa —

doesn't apply this year. Libyan production has returned after collapsing during the country's revolution two years ago. And higher production from the U.S. and Saudi Arabia has made up for Iran's declining output in the face of Western sanctions.

David Haeussermann, a police dispatcher in Tampa who recently paid \$3.56 per gallon to fill his Kia Rondo, hasn't had a raise in six years. He says higher prices for gasoline and food in recent years have prompted him to cut back on dinners out and to settle for less fancy food at home. He doesn't understand why gasoline costs so much, but by now he's used to it.

"Three-dollar gas seems to be a dream right now," he says.

The good news is that the national average price is 15 cents lower than last year at this time, because of slightly lower oil prices and less concern over the situation in the Middle East. But disruptions at refineries or pipelines, or threats to oil supplies around the world, could send gasoline prices sharply higher at any moment, analysts say.

Lafoon, the St. Louis man, consolidates trips and drives as little as possible to blunt the effect of high prices. And he never fills all the way up. It is an exercise in what he calls "magical thinking" — that prices aren't really what they are.

Hey, it's worth a try.

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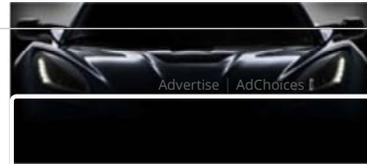
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