



***The Impact of Increased Gasoline Prices
on Family Budgets in Massachusetts***



***Report Prepared by the
Office of Congressman Marty Meehan***

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Executive Summary

This report finds that the average two-car family in Massachusetts will pay \$392 more for gasoline this summer than last summer. This is a dramatic increase from last summer, when families paid \$172 more for gasoline than they did in the summer of 2004.

Since last summer, gas prices have increased 40 percent in Massachusetts, to nearly \$3 a gallon for regular unleaded gasoline.

The report cites statistics showing that the price of gasoline is on a rapid increase, one that the Bush Administration concedes is here to stay.

This increase is affecting not only summer vacation travel, but is more importantly squeezing family budgets to the breaking point.

This report calls for a comprehensive government response to high gas prices, including an increase in average fuel economy standards, tax credits for the purchase of flexfuel vehicles, and government assistance to bring alternative fuels, like E85 Ethanol, to more gas stations.

Running on Empty

The Impact of Increased Gasoline Prices on Family Budgets in Massachusetts

Background

This report updates an August 2005 report on rising gasoline prices in Massachusetts. That study found that an average two-car family would pay \$172 more during the summer months of 2005 than they did in 2004.

At that point in time, a gallon of gasoline in Massachusetts cost an average of \$2.137.¹ As of last week, the average price of a gallon of regular gasoline was \$2.974, with higher grade gasoline costing more than \$3-a-gallon.²

The price of a barrel of oil is nearly \$70, according to current statistics from the Energy Information Administration, an increase of 17 percent from last year, and 83 percent from 2004.³

Since the 2005 report, the price of a gallon of gasoline has increased nearly 40 percent. Gasoline prices in Massachusetts are rapidly returning toward the record high of \$3.209 that occurred in September of 2005 in the aftermath of Hurricane Katrina.⁴

This year marks the fourth year in a row that gas prices averaged higher than the year before in Massachusetts,⁵ and this trend shows few signs of abating. Indeed, President Bush's Secretary of Energy, Samuel Bodman, conceded, in April of this year, that high gas prices are here to stay. "Clearly," he said, "we're going to have a number of years, two or three years, before suppliers are going to be in a position to meet the demands of those who are consuming this product." Bodman added that the oil and gas companies "have lost control of the market."⁶

¹ Energy Information Administration, *Massachusetts Total Gasoline Retail Sales by All Sellers*. (<http://tonto.eia.doe.gov/dnav/pet/hist/d100611252m.htm>)

² American Automobile Association, *Daily Fuel Gauge Report, Massachusetts Unleaded Average*, 6/21/2006. (<http://www.fuelgauge.com/MAavg.asp>) Mid-grade gasoline was \$3.197/gal., premium-grade gasoline was \$3.319/gal.

³ \$69.30 on June 20, 2006. Energy Information Agency, *Spot Price FOB (Dollars per Barrel)* (<http://tonto.eia.doe.gov/dnav/pet/hist/rwtcd.htm>)

⁴ AAA, see note 2.

⁵ EIA, see note 1.

⁶ Samuel Bodman, Transcript, *Meet the Press*, April 30, 2006.

High gasoline prices continue to significantly affect family budgets. Even the smallest increase in gasoline prices can reduce families' flexible income and spur inflation in the price of consumer goods due to increased transportation costs.

This analysis examines the effect the increase in gasoline prices has on Massachusetts drivers. It finds that the rising costs could force motorists in Massachusetts to pay nearly \$1 billion more for gasoline during this year's summer driving season than they did last summer. For the average family in Massachusetts, using two cars, the increase in gasoline prices translates into an increase of \$392 between Memorial Day and Labor Day.

Methodology

This analysis estimates the increased amount that consumers will spend on gasoline between Memorial Day and Labor Day due to rising gasoline costs. It is based upon (1) data from the American Automobile Association that tracks changes in fuel prices (2) data from the Energy Information Administration on fuel prices and (3) data from the Department of Transportation's Federal Highway Administration that tracks fuel usage and driving patterns at a state level. This data is used to determine total gasoline usage for the state. Total increased spending on gasoline is determined by multiplying the increase in gasoline prices by the estimated amount of gasoline that will be used.

Findings

A. Gasoline Prices in Massachusetts

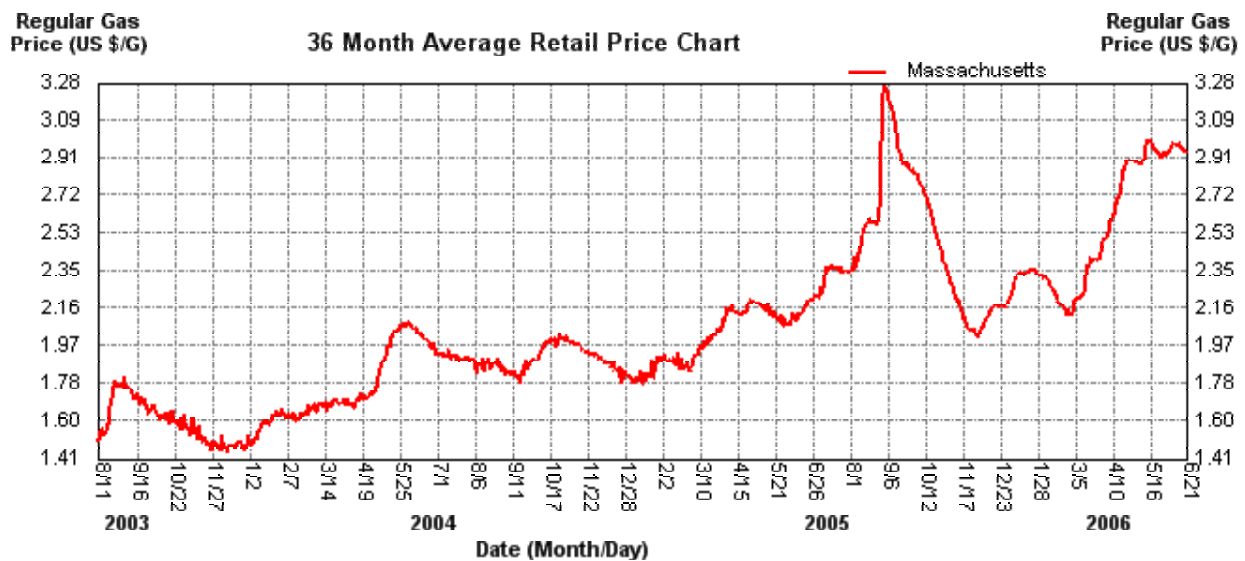
Massachusetts gas prices reached record highs on September 9, 2005, when the cost of regular unleaded gasoline climbed to \$3.209 per gallon.⁷ While the price has dropped slightly since, the increased cost has an appreciable effect on the local economy.

Since June 2005, gas prices have risen approximately \$1.22 per gallon. Looking back farther to June 2004, prices have increased nearly \$1.34 per gallon over the past two years.⁸ The 2004 to 2005 increase is significantly smaller than the 2005 to 2006 increase, showing that prices are on a rapid, upward climb. (see Figure 1).

⁷ AAA, see note 2.

⁸ EIA, see note 1.

Figure 1: Consistent Increase in Massachusetts Gas Prices⁹



B. The Impact of Gasoline Prices in Massachusetts

In 2006, Massachusetts drivers will purchase roughly 3 billion gallons of gasoline, an estimated 250 million gallons per month.¹⁰ With the \$1.22 increase in gasoline prices since June 2005, Massachusetts drivers will pay \$304 million per month more this year than last year. Over the three month summer driving season from Memorial Day through Labor Day, the total increased cost for drivers in Massachusetts would be nearly \$1 billion (\$912 million).

C. Individual Costs of Increased Gasoline Prices in Massachusetts

There are approximately 4.7 million registered drivers in Massachusetts.¹¹ On a per-driver basis, the increased gasoline prices will cost the average driver in Massachusetts approximately \$196 over the summer months -- or \$392 for the average two car family.

This increase comes on top of increases last summer, where the average two-car family paid \$172 more during the summer of 2005 than the summer of 2004.

⁹ Data available at <http://www.massachusettsgasprices.com>

¹⁰ Federal Highway Administration, *Monthly Motor Fuel Use Reported by States* (April 2004). The 2004 report is the latest statewide data available from the FHWA. This data shows that drivers in Massachusetts purchased 2.9 billion gallons of gasoline in 2004. According to the Energy Information Administration, gasoline use will increased by approximately 2% annually. Energy Information Administration, *Short Term Energy Outlook* (May 2006).

¹¹ Federal Highway Administration, *Licensed Drivers by Sex and Ratio to Population* (2004).

Conclusion

In January 2001, when President Bush took office, the average price of a gallon of gas was \$1.137, and a barrel of oil cost \$32.21. Today, that same gallon of gas costs \$2.974 - a 162 percent increase - and a barrel of oil costs \$69.30 - a 115 percent increase. These increases far exceed the core inflation rate, which increased 12.7 percent over this same period.¹²

There is no doubt that higher gas prices will affect summer vacations. The Consumer Board, a leading private research firm, found that this year will mark a 28-year low in travel, and a recent USA Today/Gallup Poll found that one-third of Americans said they were changing their summer vacation plans because of higher gas prices. Of those, 37% said they would reduce the number of trips they normally take, 26% said they're canceling plans or simply can't afford to take a trip and 23% said they will take shorter trips.¹³

Beyond disrupting travel, increasing gas prices are affecting all areas of family budgets. A recent Quinnipiac University Poll found that 72 percent of people said that the rising price of gasoline has been either a "very serious problem" or a "somewhat serious problem" for their family.¹⁴

The current energy crisis is larger than high gas prices; American dependence on oil raises serious national security and environmental concerns. A comprehensive solution must include increasing fuel efficiency standards. Congress should increase average fuel economy standards incrementally over the next 10 years. According to the Union of Concerned Scientists, these seemingly small improvements could save Massachusetts taxpayers \$203 million annually.¹⁵

Government should also invest in cheaper and cleaner fuel alternatives. Ethanol-based flexible fuels and gasoline/electric engine hybrids are solutions that can address America's energy needs today.

¹² Bureau of Labor Statistics, *Consumer Price Index, All Urban Consumers, All Items Less Food and Energy* (June 2006).

¹³ Barbara De Lollis and Barbara Hagenbaugh, "Summer Vacations Run on Empty," USA Today, June 27, 2006.

¹⁴ Quinnipiac University Poll. May 23-30, 2006. N=1,534 registered voters nationwide. MoE \pm 2.5.

¹⁵ Union of Concerned Scientists, *Consumer Savings from Higher Fuel Economy Standards*.

(http://www.ucsusa.org/clean_vehicles/fuel_economy/federal-fuel-economy-standards-consumer-savings.html)

Flexible fuels, or flexfuels, are blends of ethanol and gasoline that is often priced 30 to 60 cents that gasoline alone.¹⁶ Flexfuel vehicles emit approximately two tons less in greenhouse gases annually compared to the same model running on normal gasoline.¹⁷ Although nearly 120,000 vehicles in Massachusetts are equipped to run on alternative fuels, there are currently no stations offering 85% ethanol, or E85, flexfuel blends.¹⁸

The Meehan 3-point flexfuel plan calls for:

- new tax credits for purchasing flexfuel vehicles or retrofitting existing vehicles to run on flexfuel;
- a special tax credit for purchasing flexfuel vehicles with hybrid gas/electric engines; and
- a trust fund providing grants to gas stations for installing pumps equipped to dispense E85 flexfuel.

Local Massachusetts companies are also at the forefront of hydrogen fuel cell technology. Fuel cells, which can be designed to run without any fossil fuel, offer another important long-term solution to high gasoline prices. Congressman Meehan is currently working with local industry for developing strategies for bringing fuel cells to the marketplace.

The key is to explore all options that save money for working families in Massachusetts. For more information on the Meehan energy plan or to share your concerns and suggestions, please visit <http://www.house.gov/meehan>.

¹⁶ Kirk Johnson, "New Hope for Ethanol," *New York Times*, April 30, 2006.

¹⁷ Department of Energy/Environmental Protection Agency,
<http://www.fueleconomy.gov/feg/flextech.shtml>

¹⁸ Alliance of Automobile Manufacturers, *Resources and Tools: Alternative Fuel Autos Are Everywhere*.
http://www.discoveralternatives.org/Resources_and_Tools_AFAs_Everywhere.php