Low Gas Prices in 2015: How Long Will They Last?

A significant drop in gasoline prices has taken the pinch off many budgets over the last several months, but the sensible optimist in all of us still drives that burning question – how long will it last?

Well, that depends on the influencing factors and who you ask. First, let's take a look at where gas prices stand.

Current Market

One month into spring, the national average price of mid-grade gasoline sits at $2.38 per gallon, with South Carolina cruising at $2.09 and Hawaii topping out at $3.09. Rates are down slightly from last month at $2.44 and still noticeably less than the average $3.64 a year ago at this time, according to AAA's Daily Fuel Gauge Report.

The market has made a huge shift in a relatively short period of time. With the latest plunge of crude dipping below $43 a barrel in March , gas prices in 2015, thus far, are the lowest they have been since 2009. As conditions continue to remain unstable, it's not surprising that expert predictions are equally as gaping, ranging from $20 to $200 per barrel.

Influencing Factors

So, how did we get here? To begin with, the price of fuel is determined by the price of crude and dependent upon supply and demand. From there, a number of other factors can influence and cause the price of gasoline to fluctuate. Natural disasters, such as hurricanes, global economic health, global demand and refinery activity all play a role in the industry market.

For example, now is the time of year when demand for gasoline is at its lowest. As a result, refiners generally decrease or suspend production and take the opportunity to perform routine plant maintenance. Naturally, if less crude is being processed, supply starts to accumulate. However, it's the price of oil that is at front and center of current conditions and we need to understand what has been causing that to drop.

Oil Spilleth Over

Frankly put, the biggest reason is that too much shale or "tight" oil is being produced. Surplus supply is at an 80-year high and storage capacity across the US has almost been depleted. Exacerbating matters is that neither of the two powerhouse producers, US (Organization of the Petroleum Exporting Companies, OPEC) and Saudi Arabia, wants to cut back output and risk losing their market share.

Why not just sell off the excess? Due to their configurations, many US refineries are unable to process the light, sweet crude being produced and federal laws are limiting exports. At the same time, foreign oil imports are still flowing to supply heavy, sour crude refineries and support weak economies in other nations. Added to that are investors making money utilizing the “stock-up now and sell-later” (for higher prices) strategy.

Outlook for 2015

Despite the market glut, the short-term outlook for consumers is positive. The US Energy Information Administration expects prices at the pump to average $2.45 per gallon through to September. While both oil tycoons are expected to reduce production, supplies likely won’t balance out until late in the year.

However, the risks for oil prices to bounce back and send gasoline prices upward still remain. A number of drilling operations have been forced to shut down due to the decrease of crude oil prices. Though inventory levels are still high, the equally high demand means they won't be for long. Indications suggest that oil prices will be back to approximately $65 per barrel by the autumn. Though this remains significantly lower than the prices of last year, it does mean that consumers could see a steady increase at the pump throughout Summer 2015.

If all of this information has only left you with other burning questions – can I make that new vehicle or equipment purchase? Hire a new employee? Or take the family on vacation? 2015 just might be the year to do it, but you may want to consult with your fuel distributor first to ensure you are on top of the latest market developments.