

Our View: Hoarding Explains High Gasoline Prices

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The hoarding “premium” for gasoline and heating oil is now nearly 40 cents per gallon.

Hoarding is a common behavior when supplies of commodities become uncertain. Historically, consumers have rushed to stock up on salt, sugar, grains, or coffee when their availability seemed threatened. Petroleum is no different.

Having access to data on price spreads and petroleum product stocks going back more than thirty years allows us to estimate hoarding premiums, that is, the additional amounts a buyer must pay a seller to obtain a good when supply seems uncertain. We use a statistical technique called the “supply of storage” developed by Holbrook Working to measure these amounts (see the graph here).

Applying Working’s method, we calculate that the hoarding premium for gasoline is close to 40 cents per gallon—almost \$20 per barrel. In other words, consumers must pay that much more to obtain gasoline today due to suppliers’ fear of shortages.

We measure the hoarding premium by determining the spread between the gasoline futures price (in this case, gasoline to be delivered in September) and the spot price. Given the current stock level, the delivered 2022

September future price, based on data for the last thirty years, should be around 12 cents per gallon greater than the cash price. Instead, the cash price is 26 cents greater than the futures price. The difference, 38 cents, is the hoarding premium.

The government officials now blaming oil companies for the high gasoline prices must recognize the existence of this premium, that is, that prices have risen because gasoline suppliers are reluctant to release supplies when they are unsure of replacement volumes. These officials should also recognize they have the means to ease the sellers’ anxiety by releasing large volumes of oil from their strategic oil reserves (the US Strategic Petroleum Reserve holds around 600 million barrels now and can hold over 700 million). Releasing this oil into the market would help boost product supply, moderate hoarding, and lower prices.

