

Our View:

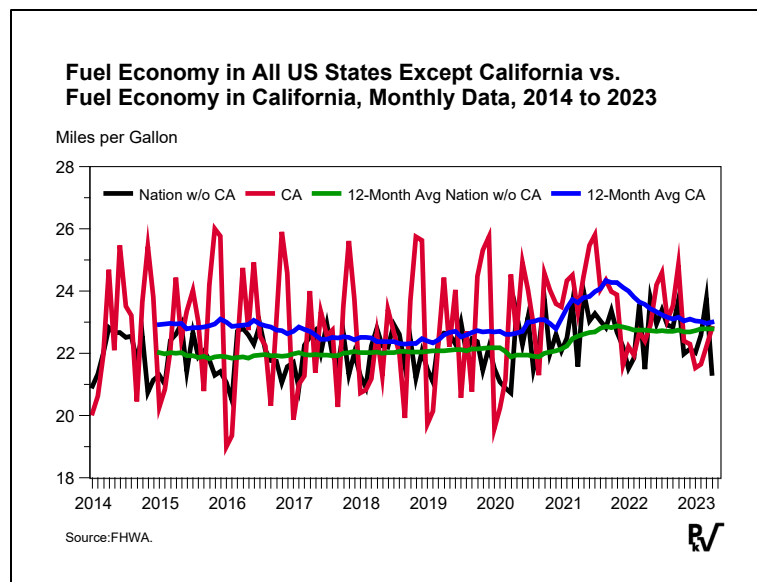
Too Little Distillate-Rich Crude
Too Much Distillate-Poor Crude
No Sign of Improved Fuel Economy

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Much has been made about the decline in gasoline prices. Some writers attribute the decline to improved fuel efficiency.

The data empirically refute this view. Fuel economy measured using the best data on gasoline use per mile driven shows no change since 2014. When one breaks the data down to isolate fuel economy in California, the state with the highest electric vehicle sales, one finds no sign of an EV impact on fuel economy. In fact, as the chart here reveals, fuel economy is on a downward trend in the state, probably due to increased congestion as more workers return to the office.

The drop in gasoline prices is explained by a surplus of light sweet crude, which produces large gasoline volumes, while supplies of distillate-rich crudes have declined thanks to Saudi Arabia's production cut. The price change has nothing to do with how much gasoline is purchased.



Many commenting on oil do not understand that diesel production from light sweet crudes cannot be increased. As Repsol chief economist Antonio Merino explained, "Long hydrocarbon chains in heavy crude can be broken to produce more valuable lighter products. Short-chain hydrocarbon shale cannot be lengthened to add value."

Still, many writing about oil seem to believe that advanced refineries can boost the distillate yield from light crudes, such as those coming from the Permian Basin. Sadly, they do not understand chemistry.

The surplus of light sweet crude will depress the Brent benchmark price because the low WTI prices are setting the Brent price. Meanwhile, the prices of distillate-rich crudes are rising sharply relative to light sweet crude. The trend will continue, especially as refiners cut runs to sustain gasoline margins.