



Economic Flash!

May 11, 2011

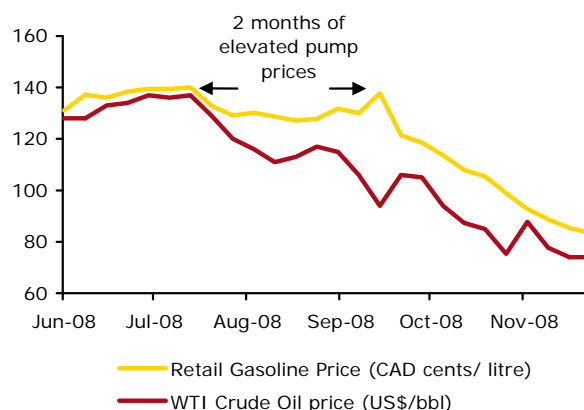
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Will Consumers Get Relief at the Pump Anytime Soon?

- Consumer budgets have been stretched due to rising gasoline costs, and the recent drop in the global crude oil price gave Canadians only a fleeting glimmer of hope, with pump prices up again. In fact, only a fraction of the 15% drop in crude oil prices last week translated into a lower bill at the pump, likely reflecting still-tight gasoline markets and expectations that global petroleum costs could inch up again. Indeed, we've seen a modest 6% uptick in crude oil prices that was already reflected in higher pump prices in some regions, highlighting the asymmetry in energy price pass-through to consumers.

- In order for declining crude oil prices to be reflected at the pump, we would need to see a sustained period of declining world-market prices for energy. This would be in contrast to mere "volatility" in the global price of petroleum. In the summer of 2008, the world price of petroleum was moving lower, but the declines were not immediately reflected in the retail price of gasoline. We only began to see clear declines in pump prices once the crude oil price was more than 20% below its peak, and declining for about two months (Chart 1). So if history is any guide, a drop in the global price of crude oil, if sustained and persistent, will eventually filter into weaker gasoline prices at the pump for Canadians.

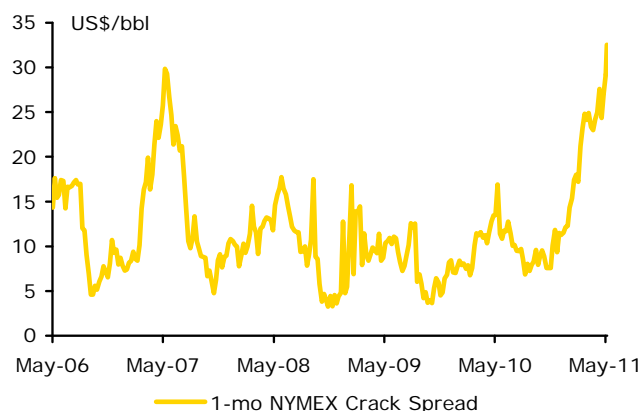
Chart 1
World Petrol Price Decline Hits Pump Prices with Lag



Source: MJ Ervin and Associates, Bloomberg, CIBC

- But gasoline pump prices don't follow a one-to-one relationship with petroleum costs. The crack-spread, a measure of refiners' profit margin from processing petroleum into finished energy products (such as gasoline), is at a multi-decade high (Chart 2). That reflects softer refinery activity, weaker seasonal inventories and inclement weather conditions (most recently flooding in Southern US) that raised supply concerns, pushing up gasoline prices for consumers. Following spring refinery maintenance and weather-related disruptions that could see pump prices temporarily elevated, a rebalancing of supply/demand could see crack spreads compress to more historic levels. That could give consumers some relief; even if global petroleum prices don't follow a smooth downward trajectory.

Chart 2
Crack Spreads: Petroleum Price Differential to Gasoline Soars



Source: Bloomberg, CIBC

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