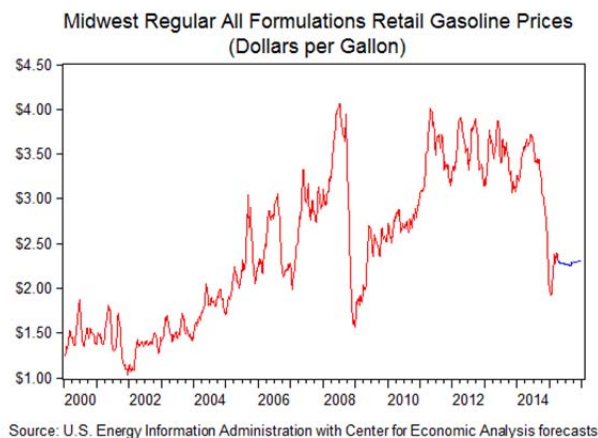


Summertime is fast approaching and Michigan holiday travelers are planning their summer outings. This summer may see an increase in vehicular traffic as consumers revel in mystifyingly low gasoline prices. Michigan motorists have become accustomed to the price of regular gasoline hovering around \$3.50 per gallon over the past three years. But something remarkable happened in the late summer of 2014 when gasoline prices started to drop, and they kept dropping to lows not seen since early 2009. Economists now expect these suppressed prices to remain through 2015. But sceptics exist, and everybody knows that gas prices jump in the summer time when motorists hit the highways. New research from the Center for Economic Analysis suggests that this perception is a gaffe, and that gasoline prices do not tend to increase in the summertime.

The Center for Economic Analysis analyzed weekly gas prices since 1995 to isolate summertime gasoline prices. Data for two gasoline formulations were used for the Midwest, including the price of conventional regular unleaded and reformulated regular unleaded (FRG). A third measure was also modeled that combines the two prices based on share of total sales. The distinction between conventional and RFG is important, as RFG formulations are more expensive to produce and are required for substitutes to conventional for eight counties in Southeast Michigan. These

eight counties, including Lenawee, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne Counties, are required to switch to RFG blends in the summer between June 1 and September 15, to reduce summertime air pollutants. Even though only eight counties are required to switch to more expensive RFG gasolines in the summer, the switch can impact the price of conventional gasoline across the state. This is because other states and counties outside of Michigan also require RFG blends, requiring refineries to reduce batch sizes and coordinate around the need to dispense of two blends of gasoline. This increases the costs of delivering conventional gas as it competes for refinery time with RFG gasolines. Other forces may drive up summer prices, including increased demand as Americans hit the road for summer travel.

We compared weekly gasoline prices during summer months, just before the start of the travel season (Memorial Day Weekend), on the week of travel season and right after travel season (Labor Day Weekend). We further controlled for trends in the price data.¹ We found the gasoline prices increase, on average by about \$0.04 per gallon the week before Memorial Day Weekend and declined by \$0.01 the following week. We did not find a change in prices approaching or following Labor Day Weekend. Further when comparing prices for the weeks 15 to 16 weeks of summer, to the rest of the year, the prices tended to be similar, if not slightly declining as the summer progresses. For those counties that switch to RFG, however, summer time prices are likely to increase by \$0.08 to \$0.20 per gallon in the summer months to accommodate the relatively more expensive and less harmful blends.



¹ Using ARIMA univariate analysis resulting in a (p,d,q) specification of ((1,3),1,0) for all formulations.