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MONEY

GAS PRICES RISE DESPITE OIL BOOM

Surging U.S. output, Saudi decline attract speculators anew

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Ted Evanoff
USA TODAY

From Texas to the Dakotas, oil output has surged, ranking America once again among the world's top energy producers. But the boom hasn't stopped rising gasoline prices.

Unleaded regular had pushed over $2.60 per gallon nationwide by midweek, up from $2.26 a gallon a year ago, reports AAA's daily price survey.

Analysts expect gas prices could climb another 10 cents by early spring, a gain of almost half a dollar in a year.

For the typical driver putting 250 miles per week on a V-6-powered Ford F-150 pickup truck, the nation's top-selling vehicle, gasoline for the daily commute to work will cost about $39 per week, up from about $31 last spring.

It's the new normal at the pump.

It's happening across the country, and few experts think it could fade away soon. Instead, energy-fed inflation could weigh on Washington policymakers later this year when they mull possible interest-rate increases.

Higher gasoline prices trace in part to the new surge in U.S. gasoline exports. Tankers crossing the Gulf of Mexico are unloading gasoline in South American ports following Venezuela's oil sector collapse and the inability of Mexican refiners to make full use of their own production capacity.

"We've got plenty of crude oil in the United States. Production is blasting through all kinds of records," said Tom Kloza, head of global energy analysis at market researcher Oil Price Information Service. "We've become perhaps the world's biggest exporter of gasoline."

At the same time, oil output by Saudi Arabia has finally eased. This has ticked up oil prices worldwide, attracting speculators and investors back into the commodity futures market to bet on rising energy prices. Kloza estimated these bets account for about a third of the rise in oil prices — and in turn gasoline prices — over the past year.

Investors looking for quick profits had touched off the dramatic rise in oil prices a decade ago. The benchmark U.S. crude oil surpassed $110 per barrel. Unleaded regular gasoline crested in September 2008 at $4.11 per gallon on average. But heavy losses battered money managers by 2015, and they left the market.

That's when surprisingly big finds of U.S. shale oil and new drilling techniques reached refiners in high volume, a glut that filled tank farms and sent prices plummeting to $40 per barrel.

Alarmed by the so-called oil fracking boom in America, Saudi Arabia's leaders marshaled the cartel known as the Organization of Petroleum Exporting

Consumers aren't getting the lower gas prices at the pump that they might expect in light of booming U.S. oil production. JUSTIN SULLIVAN/GETTY IMAGES

Countries in a bid to push up global oil prices by first tearing them apart, trying to drive out U.S. producers. Trying to sustain its huge domestic social programs made possible by oil exports, Saudi Arabia shipped oceans of oil worldwide. At many U.S. gas stations, unleaded fell below $1.90 per gallon.

Although a spate of bankruptcies shook the American Great Plains, home of the largest frackers, survivors learned to produce at lower cost using machines to extract oil from layers of sand and rock. Realizing the frackers were dug in and restoring U.S. oil output to high levels last seen in the 1970s, the Saudis retreated from the price war last year.

As the oil glut eased and speculators pushed in, demand for gasoline held steady as U.S. motorists logged 1.1 trillion miles per year on 300 million cars and trucks. Oil nosed over $71 per barrel in late January and has leveled off around $66, marking the end of the three-year spell of low prices, Kloza said.

"The average family is going to pay $40 to $50 more for gasoline this year than last year," Kloza estimated. "And $90 over what they paid in 2016. That's still $50 to $100 lower than what they paid every year from 2011 to 2014."

Although national gasoline prices have climbed about 40% in two years, economic analyst Joel Naroff said he doubts the higher expense will diminish consumer spending on gas or other items.

"This is now beginning to dig into lower- and middle-income household wallets," said Naroff, co-author of the 2014 book *Big Picture Economics: How to Navigate the New Global Economy*. "But it's really going to be offset by the tax cuts" approved by Congress in December.

> **"This is now beginning to dig into lower- and middle-income household wallets."**
> **Joel Naroff**
> Economic analyst

With families buying ever more products online, rather than driving to the stores, Amazon, UPS, FedEx and other distribution chain companies will be pressed to look for savings in their operating costs, Naroff said.

"Even though it's going to be offset by the tax cuts, I don't think we can dismiss higher gasoline prices," said Naroff, head of Naroff Economic Advisers of Holland, Pa.

If the energy costs ripple through the supply chain and tick up the inflation rate, he said, the Federal Reserve Board perhaps late this year or next year might respond with a rise in interest rates, particularly if wage growth has kicked up and the tax cuts accelerate the economy.

"If we see rises in energy prices and rises in wages, those factors and increasing demand in the economy all lead to rising inflation," Naroff said. "That will translate into higher interest rates. Whether the higher rates cause the next recession will partly depend on how high and fast they are raised."

Amazon eyes new inroads in delivery

Retailer to experiment with business pickup

Elizabeth Weise and Mike Snider
USA TODAY

SAN FRANCISCO – Amazon's planned test of its own delivery service from merchants' warehouses to its fulfillment centers is the first step in a long-term strategy that could change how packages make the final journey to your door, possibly resulting in lower prices and faster shipping times for consumers.

The experiment is expected to launch sometime later this year in the Los Angeles area with a handful of companies that sell goods on Amazon's site, sources familiar with the project who asked to remain anonymous because they weren't authorized to speak publicly told USA TODAY.

The proposed service would allow third-party sellers — whose goods make up the majority of those sold on Amazon — to have an Amazon truck come to their warehouse, pick up pallets of packages and take them to an

Amazon may try bringing packages from third-party merchants to its fulfillment centers. AMAZON

Amazon fulfillment center, where they would be inserted into Amazon's formidable delivery system. Right now they have to ship them to Amazon centers themselves.

By using Amazon to pick up packages, the merchants could shave as much as a day off delivery times, a boon when time equals money and also customer satisfaction.

At least in its initial phase, the test would only involve deliveries between Amazon merchants and Amazon's own fulfillment centers, not delivery to customers' homes.

Once they left the Amazon fulfillment center, the packages would still be delivered by one of several delivery systems Amazon already has in place, including UPS, FedEx, the U.S. Postal Service and local delivery contractors.

In the longer term, the project could expand into a larger, full-service delivery system that would circumvent Amazon's traditional last-mile shippers such as UPS and FedEx.

The Wall Street Journal first reported on Amazon's delivery service plans.

Amazon would not comment on the reports and in a statement to USA TODAY said only that it was always innovating and experimenting on behalf of customers and the businesses that sell on Amazon to create faster, lower-cost delivery choices.

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