Memorial Day Has Come and Gone While US Mogas Demand Has Simply Gone

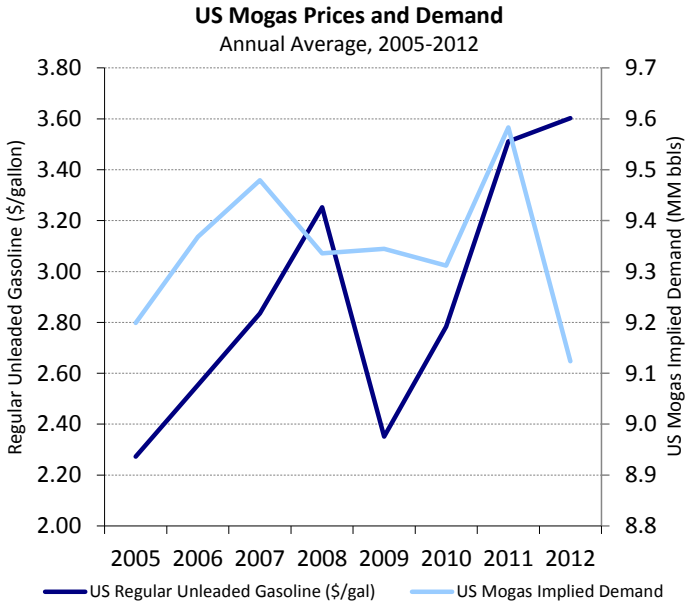
Summer has sprung

Memorial Day brought in the unofficial start to Summer 2013 in the United States, a line of demarcation that has historically meant increased driving by American families. The American consumer has been demanding less and less motor gasoline, though, as increasing vehicle efficiency standards and higher prices have dampened and then reversed decades' worth of demand growth.

The US consumer, though, has less disposable income for recreational driving

Prices are indeed cramping consumption. A *Wall Street Journal* piece by Liam Denning noted earlier this week that "Bureau of Economic Analysis energy economist Phil Verleger calculates that fixed costs such as rent, loan payments and medical insurance now swallow more than 80% of total consumer expenditures. Of the remaining sliver of discretionary spending, he says gasoline has jumped from about one-tenth to one-fifth over the past decade. Little wonder people will limit driving if they can."

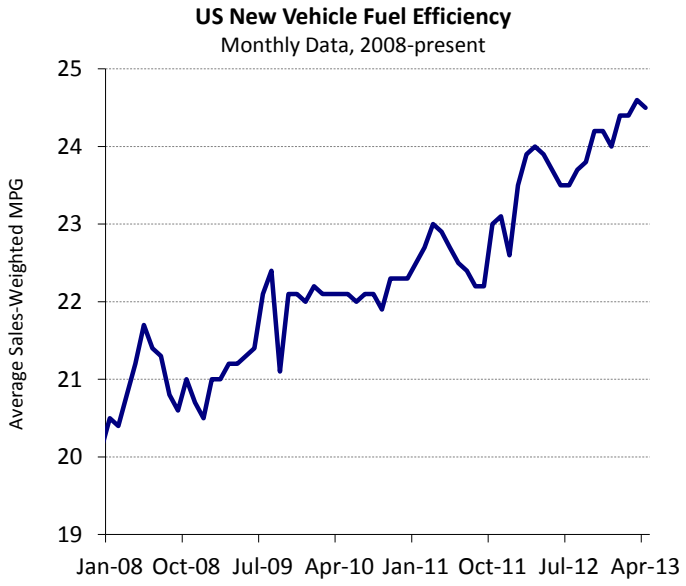
Demand has fallen in turn



Source: AAA, API, Bloomberg

New vehicles entering the US automobile fleet are becoming exceedingly efficient. Although older vehicles are staying on the road for longer, those that are replacing them are consuming less gasoline.

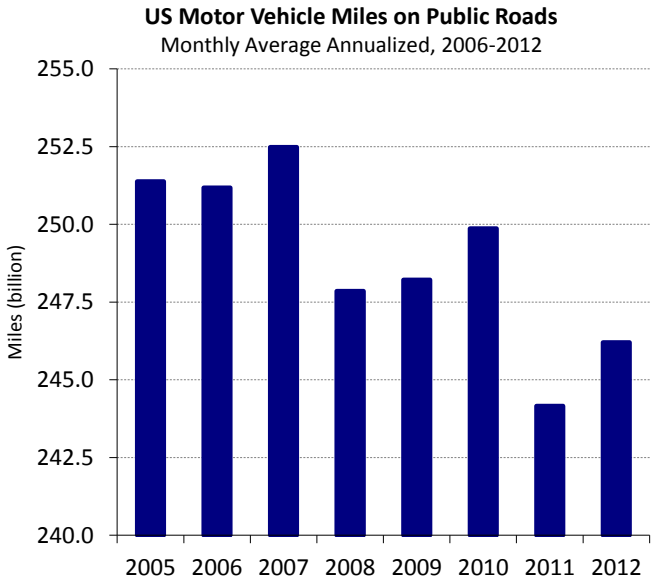
Vehicle efficiency has increased approximately 20% over the past four and a half years…



Source: University of Michigan

In addition to consuming less gasoline for every mile driven, US motor vehicles are being driven less as well. More dense population centers, which also have superior public transportation options have accounted for much of this decline. As noted in the aforementioned *Wall Street Journal* article: "Vehicle miles traveled in Northeast and South Atlantic states in year ended in March were 4.2% lower than in the same period ended in September 2007."

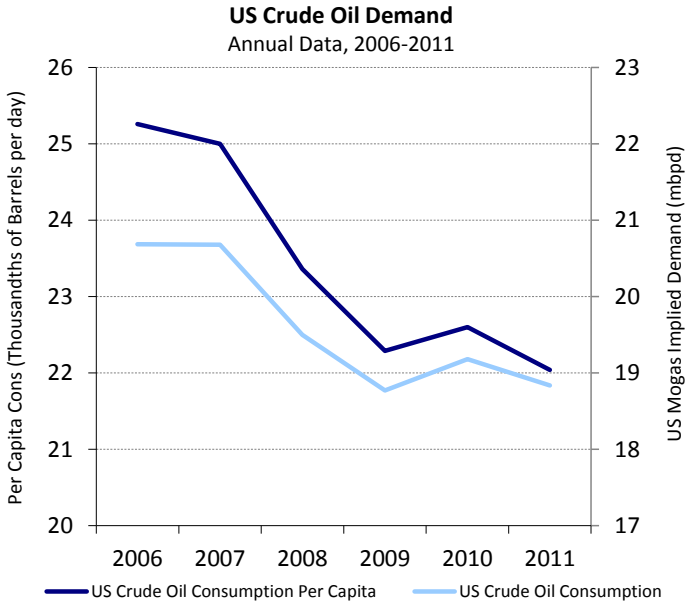
…while vehicles have been driven less at the same time



Source: Federal Highway Administration

Not surprisingly, this had led to declining crude oil demand per capita in the US. Perhaps less intuitive (at least before viewing the previous chart), though, is that the nominal amount of US oil demand is also falling.

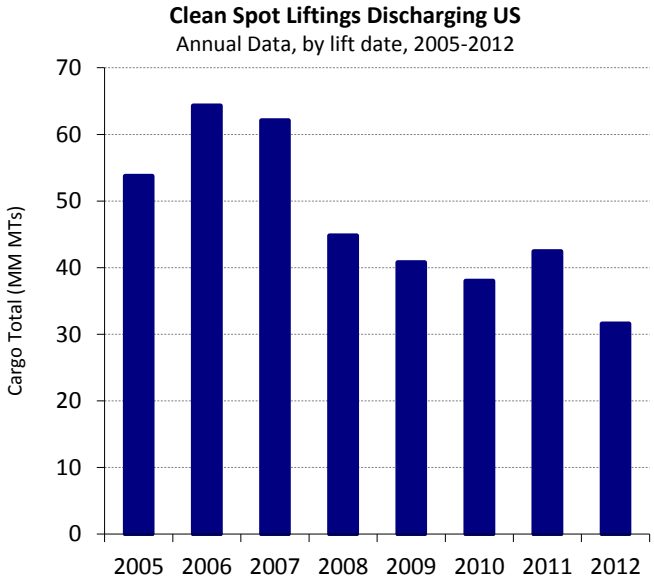
US crude oil demand down in turn…



Source: Bloomberg, BP

This dynamic has induced fewer clean imports into the US at a time when captive crude oil production has expanded rapidly. The second order effects of this have been covered in recent *Opinions*: the US is increasingly playing the role of energy exporter (see 26 April 2013 *Opinion*) at the expense of refineries in Europe (see 17 May 2013 *Opinion*).

…and there is less need for refined product imports



Source: Poten

US mogas demand is facing a market with higher prices, more efficient vehicles, and fewer miles driven. It is possible that improving consumer sentiment in the US can provide some resistance to these headwinds, but the general trend continues to loom. On the positive side, such a combination could lead to positive ton-mile generators for clean sectors as exports increase from the US or for dirty sectors if the situation causes a shift in US policy towards crude oil exports.

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