

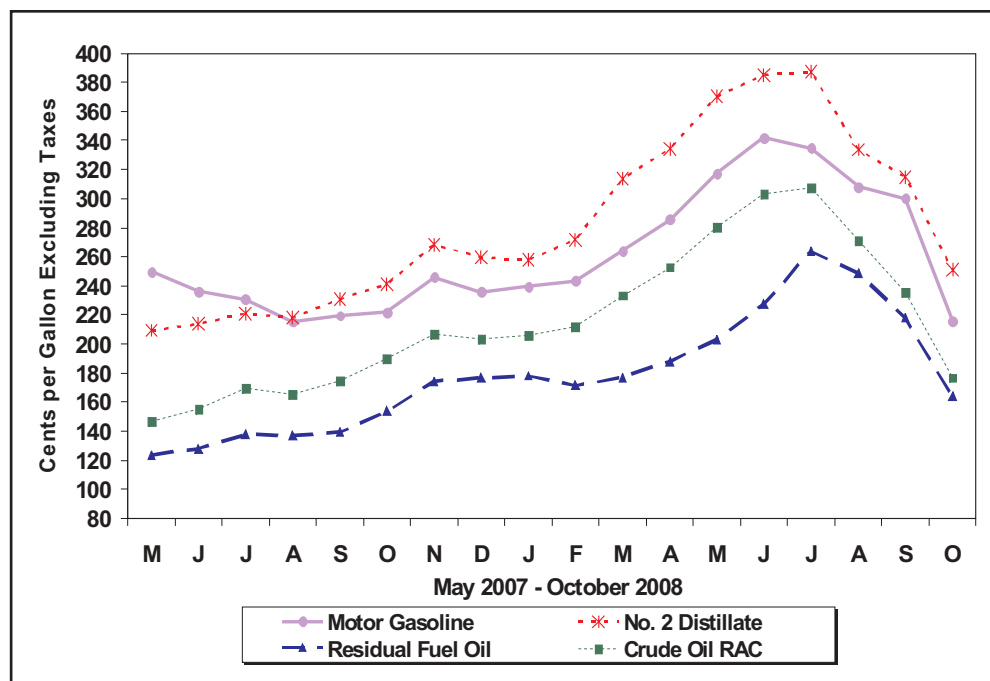
Highlights

Declining demand for oil amid the widening financial crisis and growing fears of economic recession drove international crude oil prices significantly lower in October. More specifically, record-setting high prices for crude oil and refined products throughout world markets earlier this year coupled with the turmoil in financial markets (and its growing impact on national economies) have had a direct, dampening effect on demand for oil. Coupled with ebbing demand, evidence of growing inventories fortified the decline in prices. Although oil production operations in the Gulf of Mexico experienced some delays in recovery following September's hurricanes, stocks in the United States and other markets rose in October. While supply from Organization of Petroleum Exporting Countries (OPEC) was reported to be on par with September's level in October, the group voted to cut production output by 1.5 million barrels per day during an October 24 emergency meeting. They slated the reduction to go into effect on November 1. Despite these production cuts and announced economic bailout measures, prices for key crude oil streams were at half the levels seen during their mid-July highs.

In the United States, slow demand for petroleum products coupled with ongoing credit and economic concerns helped spur prices for crude oil and refined products into a precipitous decline during October. While demand for gasoline is typically lower at this time of year, monthly statistics showed an appreciable decline in demand during September. Although it rebounded during October, gasoline demand remains below the year-ago level. Demand for distillate products rose during

both September and October, supported by demand from the agricultural sector and demand in advance of the coming heating season. Nevertheless, the rate of demand for distillates in both September and October 2008 were below the levels seen last year during the same period. Demand for both of these products, in addition to other refined products, were affected by growing worries and indications of an economic slowdown or outright recession in the U.S. Notably, refining margins contracted during October, although the decrease was largely the result of the dissipation of the threat of hurricanes affecting industry operations in September. Further, reports of problems getting production operations in the Gulf of Mexico back online, often the type of issue that would support higher prices, did not stem the decline in crude oil prices seen over the course of the month. A look at monthly average spot market prices for some of the main petroleum products

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices



Sources: Energy Information Administration. Crude oil refiner acquisition cost: Form EIA-14, "Refiners' Monthly Cost Report"; petroleum product prices: Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	October 2008		September 2008		October 2007		October 2008		September 2008		October 2007	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	254.2	55.8	320.7	53.7	235.0	57.8	215.6	304.8	300.0	291.9	221.8	323.4
Conventional	247.5	35.4	322.5	33.1	233.1	34.9	211.4	211.5	301.0	203.5	220.6	231.9
Regular	245.0	31.3	320.7	29.1	230.8	30.1	210.0	188.0	299.7	180.4	218.9	203.1
Midgrade	260.3	2.0	330.6	2.0	242.5	2.6	211.4	9.9	299.3	9.9	223.0	11.5
Premium	273.7	2.0	341.4	2.0	253.3	2.2	230.1	13.6	320.1	13.2	238.9	17.2
Reformulated	265.7	20.5	317.8	20.5	237.8	22.9	225.1	93.3	297.5	88.4	224.9	91.6
Regular	260.5	15.7	314.2	16.2	233.2	17.8	221.5	79.5	294.8	76.0	221.8	76.4
Midgrade	277.5	1.8	326.7	1.9	247.7	2.4	241.7	2.1	306.4	2.0	232.4	2.8
Premium	286.0	3.0	335.2	2.5	258.8	2.7	247.0	11.8	315.4	10.4	242.4	12.4
Aviation Gasoline	299.2	0.2	383.6	0.1	285.5	0.1	290.3	0.3	370.4	0.3	276.9	0.5
Kerosene-Type Jet Fuel	261.2	38.6	326.5	38.7	237.7	39.0	258.1	14.7	327.8	15.2	235.3	19.9
Propane (Consumer Grade)	176.2	2.4	192.4	1.8	155.5	3.4	124.3	31.8	156.4	30.3	135.2	44.2
Kerosene	299.1	0.1	402.8	0.0	280.1	NA	276.9	1.4	336.5	0.7	252.5	1.6
No. 1 Distillate	288.3	0.1	352.7	0.1	259.1	0.1	264.8	1.0	321.9	0.6	269.9	0.8
No. 2 Distillate	278.4	20.2	332.4	20.2	250.0	23.9	250.9	153.5	314.9	140.6	241.3	164.3
No. 2 Fuel Oil	268.9	0.8	327.5	0.7	NA	0.4	240.5	11.7	300.0	10.1	226.0	13.0
No. 2 Diesel Fuel	278.8	19.4	332.6	19.5	249.9	23.5	251.8	141.7	316.0	130.6	242.6	151.3
Ultra Low Sulfur	280.8	12.9	333.6	12.6	252.3	13.1	253.1	119.4	316.7	111.3	244.0	120.9
Low Sulfur	277.7	4.8	332.8	5.4	249.0	7.9	244.4	21.0	311.7	17.5	236.9	24.9
High Sulfur	267.3	1.7	322.6	1.5	240.9	2.5	252.6	1.3	314.9	1.8	235.7	5.4
No. 4 Fuel^a	W	W	W	W	W	W	W	W	W	W	172.6	0.3
Residual Fuel Oil	185.7	7.7	241.2	7.3	157.3	10.2	164.1	10.4	217.9	7.9	153.6	9.2
Sulfur Content not > 1 %	216.6	1.8	266.6	2.3	166.1	2.6	166.8	3.3	217.5	2.1	164.7	3.2
Sulfur Content > 1 %	176.0	5.8	230.0	5.1	154.2	7.6	162.8	7.1	218.0	5.8	147.5	6.0

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Note: Beginning January 2007, oxygenated gasoline is included in conventional gasoline.

Note: In January 2007, ultra low-sulfur diesel fuel was added.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*. Total volumes may not equal the sum of the components due to rounding.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

reveals the significant downward trend in prices during October. The price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma averaged \$76.61 per barrel during October 2008, down \$27.50 (26.4 percent) from last month's average of \$104.11 per barrel. The average price one year ago was \$85.80 per barrel. The monthly average spot price for regular gasoline at New York Harbor was \$1.920 per gallon this month, marking a change of 88.5 cents (31.6 percent) from September's average of \$2.805 per gallon. The average price for October 2007 was \$2.169 per gallon. The October 2008 average price for No. 2 fuel oil at New York Harbor was \$2.239 per gallon, a difference of 67.2 cents (23.1 percent) from last month's average of \$2.911 per gallon. The average price one year ago was \$2.282 per gallon.

Additional October market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

Facing pressure from spreading financial market and economic woes, the daily spot price for WTI crude oil at Cushing, Oklahoma fell precipitously during October. Following its opening at \$100.70 per barrel, the high point for the month, the price began its steep decline. Amid attempts to stem the unraveling financial market in the U.S., forecasts predicting

lower rates of demand for oil and reports showing the increasing likelihood of economic recession in major markets served to pressure the price lower. The price hit the month's low on October 27 when it reached \$61.92 per barrel. While it regained some ground during the final days of the month, thanks in part to the OPEC decision to cut output and other financial news, the price closed October at \$68.10 per barrel, a noteworthy \$32.60 below its opening level for the month.

- October monthly average crude oil prices showed significant declines from the previous month's levels. The average domestic crude oil first purchase price fell \$25.28 (25.7 percent), to \$73.22 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil dropped \$26.55 (29.0 percent), to \$65.15 per barrel. The average landed cost of foreign crude oil slid \$27.36 (28.4 percent), to \$69.02 per barrel.
- The average refiner acquisition cost for domestic crude oil declined \$22.70 (21.9 percent), to \$81.03 per barrel. The average cost of imported crude oil descended \$22.54 (24.1 percent), to \$70.84 per barrel. The composite refiner acquisition cost for crude oil decreased \$24.69 (25.0 percent), to \$74.22 per barrel.

Petroleum Products

Motor Gasoline

Reflecting the overall trend seen in the complex, the daily spot price for regular gasoline at New York Harbor dropped profoundly during October. Opening at \$2.501 per gallon, the price dropped steadily as evidence of declining demand and rising supplies continued to emerge over the course of the month. The price found some modest, short-lived support from the threat of Hurricane Omar in the Caribbean at mid-month. The price fell to the month's low on October 30 when it dropped to \$1.540 per gallon, its lowest level since February 2007. Closing October at \$1.567 per gallon, the price was 93.4 cents below its opening level for the month.

- Monthly average prices for finished gasoline plummeted in October. The average price for retail sales of motor gasoline by refiners fell 66.5 cents to \$2.542 per gallon, while the average wholesale price declined 84.4 cents to \$2.156 per gallon. Including data reported by a sample of motor gasoline marketers, the

national average price at company-operated retail outlets dropped 67.5 cents to \$2.553 per gallon. The average wholesale price for gasoline tumbled 83.5 cents to \$2.165 per gallon. The average dealer tank wagon (DTW) price fell 75.5 cents to \$2.299 per gallon, while the average rack price plunged 89.5 cents to \$2.095 per gallon. The average bulk sale price fell 74.2 cents to \$2.194 per gallon. Reformulated gasoline prices were 10.8 cents higher than conventional gasoline prices at retail, and 6.3 cents more at wholesale.

- Refiner sales of motor gasoline rose in October. Total sales increased 15.0 million gallons per day (4.3 percent) to an average of 360.6 million gallons per day. Retail sales climbed 2.1 million gallons per day (3.9 percent), while wholesales increased 12.9 million gallons per day (4.4 percent.) DTW sales made up 12.8 percent of wholesales, while rack and bulk sales accounted for 74.0 percent and 13.3 percent, respectively.

No. 2 Distillate

Like other prices in the complex, the New York Harbor daily spot price for No. 2 heating oil experienced a steep decline during October. After opening at \$2.851 per gallon, the highest point for the month, the price immediately began a protracted fall as support from the effects of last month's hurricanes dissipated and the tumult from the financial bailout plan along with wider economic turmoil weighted on the price. Despite forecasts for cooler temperatures and the accompanying expectations for higher demand during the latter part of the month, the price continued to drop. After reaching the month's low of \$1.889 per gallon on October 27, the price closed the month at \$2.085 per gallon, marking a difference of 76.6 cents from its opening level.

- Monthly average prices for No. 2 distillates also fell considerably in October. The national average residential sales price decreased 49.4 cents to \$3.168 per gallon, while the average wholesale price declined 63.5 cents to \$2.530 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets dropped 46.2 cents, while the average wholesale price decreased 63.8 cents. Ultra low-sulfur diesel fuel prices were 3.1 cents lower than low-sulfur diesel fuel prices at retail, but 4.7 cents more at wholesale.

- Refiner sales of No. 2 distillates increased in October. Total sales rose 12.7 million gallons per day (7.9 percent), to 173.6 million gallons per day. Sales of No. 2 fuel oil increased 1.7 million gallons per day (15.6 percent), while sales of No. 2 diesel fuel climbed 11.0 million gallons per day (7.3 percent). Ultra low-sulfur diesel fuel made up 82.1 percent of all refiner diesel fuel sales, while total diesel fuel sales accounted for 92.8 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices fell again in October. Refiner prices for low-sulfur residual fuel oil declined 50.0 cents to \$2.166 per gallon at retail, and 50.7 cents to \$1.668 per gallon at wholesale. Refiner prices for high-sulfur residual fuel oil decreased 54.0 cents to \$1.760 per gallon at retail, and 55.2 cents to \$1.628 per gallon at wholesale. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil slid 50.7 cents to \$2.090 per gallon at retail and 55.1 cents to \$1.662 per gallon at wholesale. Prices for high-sulfur residual fuel oil declined 52.6 cents to \$1.742 per gallon at retail, and 59.8 cents to \$1.581 per gallon at wholesale.

- Sales of residual fuel oil by refiners climbed in October. Total sales rose 2.9 million gallons (19.1 percent) to 18.1 million gallons per day.

Other Products

- Prices for the remaining surveyed products decreased in October. The refiner retail sales price for propane fell 16.2 cents per gallon, while the wholesale price dropped 32.1 cents per gallon. Including data from a sample of propane marketers, the average residential price declined 13.9 cents per gallon, while the average retail price dropped 18.3 cents per gallon. The average wholesale price for propane decreased 30.9 cents per gallon. Prices for aviation gasoline, kerosene-type jet fuel, kerosene, and No. 1 distillate fell at both the retail and wholesale levels, substantially so in some instances.
- For the most part, refiner sales of the products included in this section increased during October. Sales of propane, kerosene, and No. 1 distillate rose at both levels, while sales of kerosene-type jet fuel did the opposite. Aviation gasoline sales climbed at retail but fell at wholesale.