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# Fuel Focus

*Understanding Gasoline Markets in Canada  
and Economic Drivers Influencing Prices*

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Canada 

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## National Overview

### Canadian Retail Gasoline Prices Increased 2 Cents per Litre from Last Week

Canadian retail pump prices, for the week ending February 17, 2015, increased by nearly 2 cents per litre to \$1.03 per litre—a nine-week high. However, this represents a 26 cent-per-litre decrease from last year's level at the same time.

Diesel fuel prices increased by 3 cents per litre to \$1.14 per litre compared to the previous week. This is a decrease of 30 cents per litre from the same period last year. Furnace oil prices increased by 2.5 cents per litre from the previous week to an average of \$1.10 per litre.

Average retail gasoline prices rose on higher wholesale gasoline prices, which in turn reflected higher crude oil prices.

### Recent Developments

• **Canadian Outlook-Winter 2015:** According to the Conference Board of Canada's Canadian Outlook-Winter 2015, Canada's economy is expected to grow by just 1.9 per cent in 2015 as the collapse in oil prices takes its toll on business investment and corporate profits. This rate of growth represents a substantial downgrade from the Conference Board's previous Canadian Outlook of 2.4 per cent (released in November 2014). The highlights of the report are: business investment will be the weakest part of the Canadian economy in 2015; the drop in oil prices will cost producers more than US\$40 billion in lost revenues; and the trade sector will be the bright spot in the Canadian economy because of a strong U.S. economy and a lower dollar. (Source: The Conference Board of Canada, <http://www.conferenceboard.ca/press/newsrelease/15-02-09/canadian-economic-growth-slides-with-decline-in-oil-prices.aspx>)

• **Outlook for Crude Oil Prices:** The recent crash in oil prices will cause the oil market to rebalance in ways that challenge traditional thinking about the responsiveness of supply and demand, the International Energy Agency (IEA) said in its annual Medium-Term Oil Market Report. The US light, tight oil (LTO) revolution has made non-OPEC production more responsive to price swings than during previous market selloffs, the report said, adding that this would likely set the stage for a relatively swift recovery. At the same time, lower oil prices will not provide as strong a boon to oil demand growth as might be expected. (Source: IEA, <http://www.iea.org/newsroomandevents/pressreleases/2015/february/a-business-as-unusual-outlook-for-oil-in-the-medium-term.html>)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

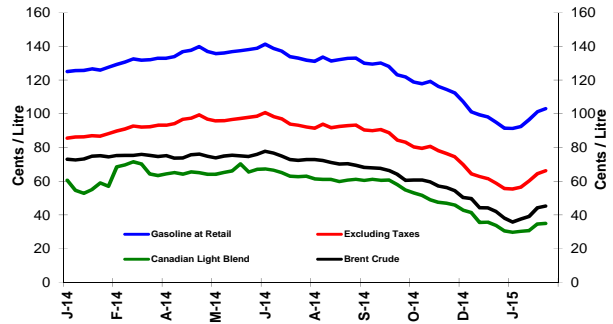
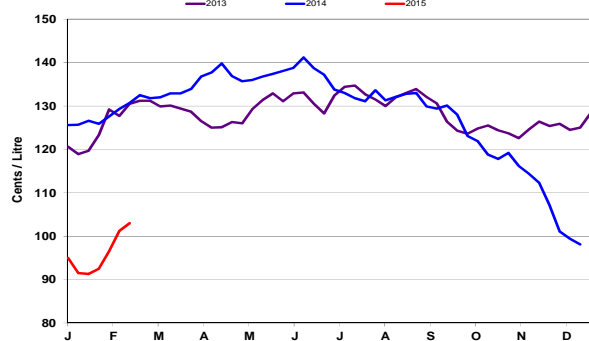


Figure 2: Weekly Regular Gasoline Prices



### Changes in Fuel Prices

¢/L	Week of:	Change from:	
	2015-02-17	Previous Week	Last Year
Gasoline	103.0	+1.8	-26.3
Diesel	114.3	+2.9	-30.2
Furnace Oil	109.6	+2.5	-22.2
Natural Gas Prices in \$/GJ			
Alberta (NGX)	2.63	-0.2	-1.97
Ontario (Dawn)	4.00	-0.9	-10.3

Source: NRCan, Bloomberg, NGX

### Natural Gas Prices for Vehicles

2015-02-17	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.5	75.5	78.3
Edmonton	115.0	75.9	78.7
Toronto	128.4	84.7	87.8

Source: ¢/kg Kent Marketing Services Limited

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## Retail Gasoline Overview

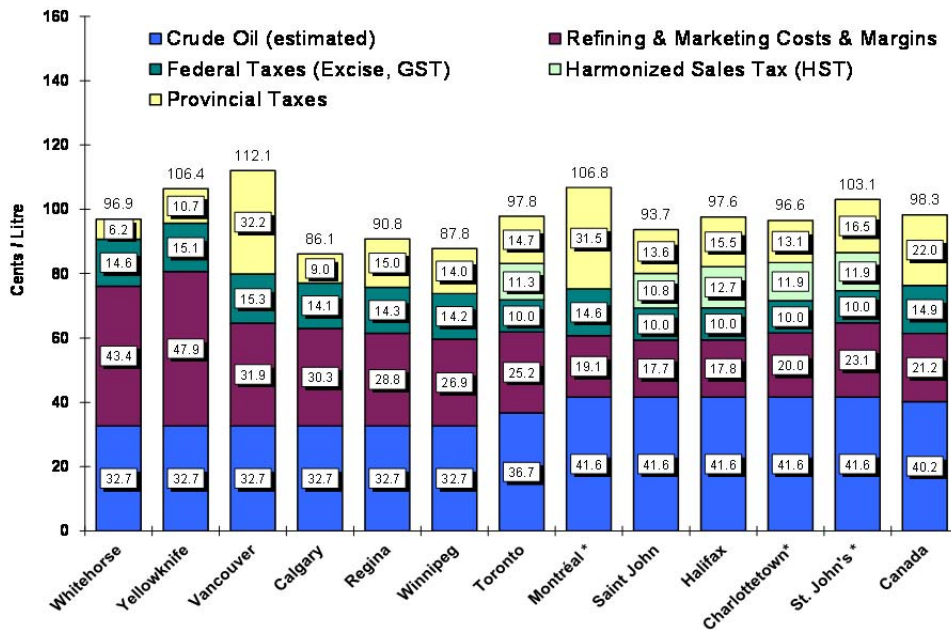
The **four-week average** regular gasoline pump price in selected cities across Canada was 98 cents per litre for the period ending February 17, 2015. This is an increase of 7 cents per litre since the last report on February 6, 2015.

The **four-week average** crude oil price component of gasoline registered at 40 cents per litre, up by 3 cents per litre from two weeks ago. Compared to the same period in 2014, the crude oil price component of gasoline is nearly 26 cents per litre lower.

Retail gasoline prices in most Western centres increased, on average, by 8 cents per litre when compared to the previous report and ranged from 86 cents per litre to \$1.12 per litre. Prices in Eastern cities rose, on average, by 5 cents per litre and ranged from 94 cents per litre to \$1.07 per litre.

At the national level, refining and marketing costs and margins increased by 3 cents per litre to 21 cents per litre from the last report. This represents a decrease of 1 cent per litre compared to the same period last year.

**Figure 3: Regular Gasoline Pump Prices in Selected Cities  
Four-Week Average (January 27 to February 17, 2015)**



Source: NRCan

\* Regulated Markets

Note: Toronto crude oil cost includes pipeline tolls of \$4 per barrel for light crude oil from Edmonton to Sarnia, Ontario.

### Increased Gasoline Demand Forecast

In the February Short-Term Energy Outlook (STEO), the Energy Information Administration (EIA) forecasts motor gasoline consumption in 2015 to increase by 80,000 barrels/day (bbl/d), or 0.9%. Forecast growth in highway travel, which is attributable to increases in population, employment, and disposable income, and retail gasoline prices substantially below those in 2014, more than offset improvements in the fuel economy of the vehicle fleet.

All other things equal, lower gasoline prices increase gasoline demand. The short-term impact of prices on gasoline demand is quite modest. However, the impact of gasoline price changes on demand grows over time, as fuel prices affect consumers' vehicle purchase decisions and where they choose to live, which affects commuting distances.

EIA's STEO uses a short-term price elasticity of -0.033—for every 10% decrease in the price of gasoline there is a corresponding short-term 0.33% increase in gasoline consumption. With average gasoline prices forecast to be 31% lower in 2015 than in 2014, this elasticity suggests that lower prices alone will increase short-term gasoline demand by about 1%.

Source: U.S. EIA, This Week in Petroleum, <http://www.eia.gov/petroleum/weekly/>





## Wholesale Gasoline Prices

For the week **ending February 12, 2015**, wholesale gasoline prices increased in all Canadian and American centres compared to the previous week.

Wholesale gasoline price changes ranged from an increase of 2 to 5 cents per litre, with prices ending in the 54 to 59 cent-per-litre range.

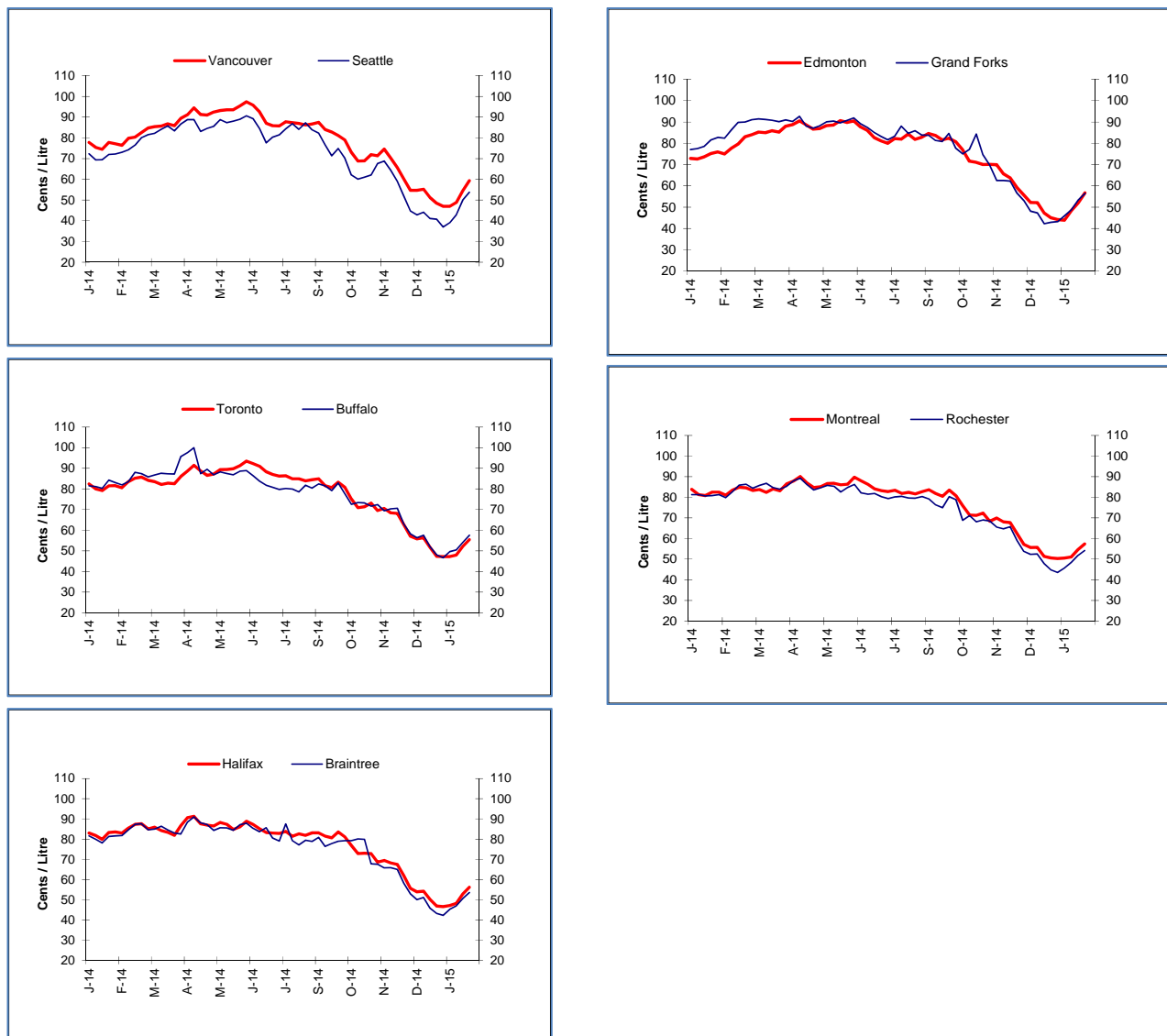
In the Eastern markets of Canada and the U.S., wholesale gasoline prices, compared to the previous

week, registered increases ranging from 2 to 3 cents per litre. Prices for the period ended in the 54 to 57 cent-per-litre range.

Wholesale gasoline price changes in Western centres ranged between increases of 3 to 5 cents per litre, with prices ending in the range of 56 to 59 cents per litre.

In the **last four weeks**, wholesale prices in all selected Canadian and American centres have increased in the range of 7 to 17 cents per litre.

**Figure 4: Wholesale Gasoline Prices**  
Rack Terminal Prices for Selected Canadian and American Cities Ending February 12, 2015  
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide





## Gasoline Refining and Marketing Margins

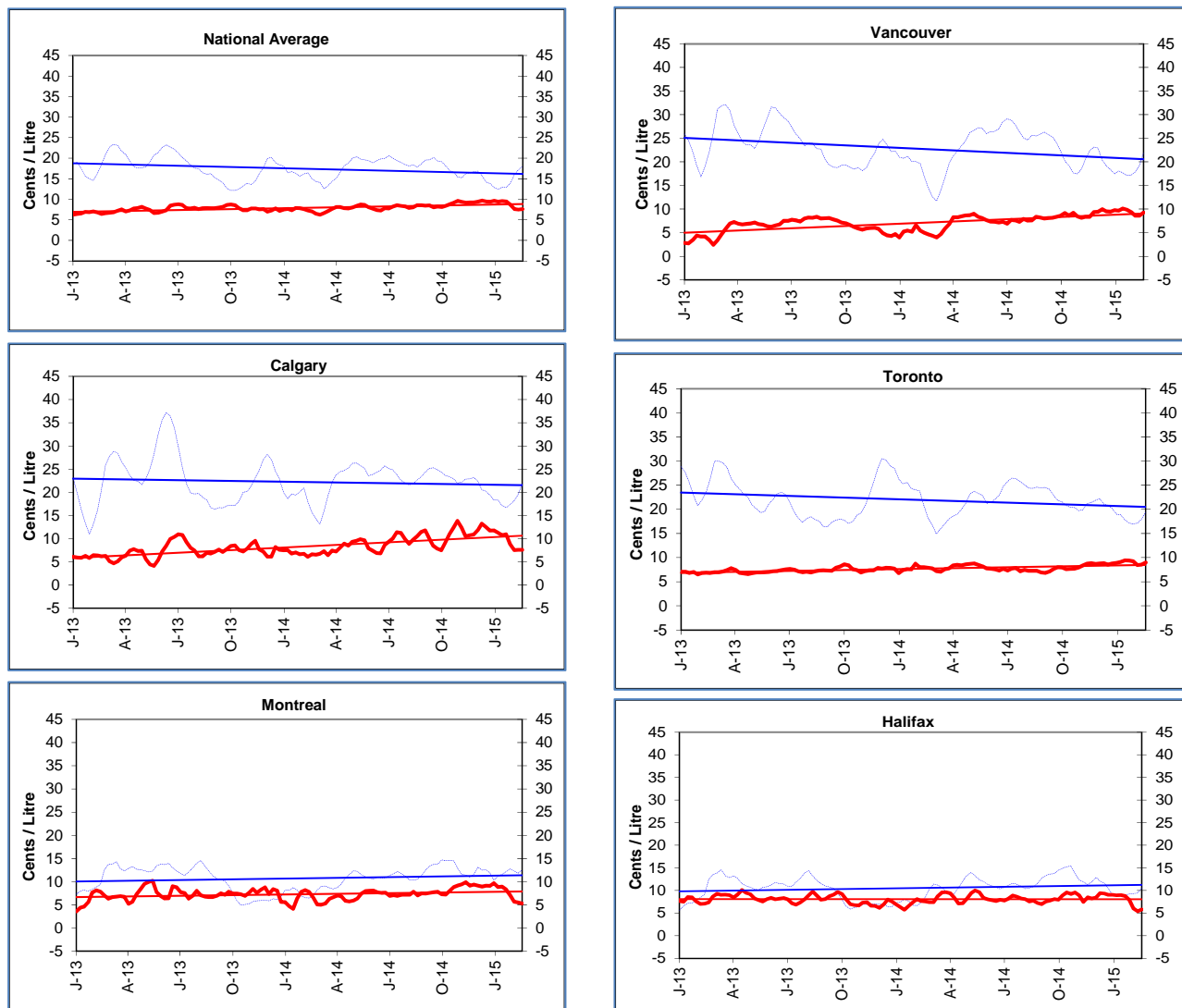
**Four-week rolling averages** are used for gasoline refining and marketing margins.

Refining margins moved upward, reaching 18 cents per litre for the week ending February 17, 2015. This represents a 3 cent-per-litre increase from last year at the same time. The rise in refining margins for gasoline reflects the fact that wholesale gasoline prices have been increasing faster than crude oil prices.

Overall, marketing margins showed no gains and hovered at around 7.6 cents per litre. For the five centres, marketing margins ranged from a low of 5.3 cents per litre in Montreal to a high of 9.3 cents per litre in Vancouver.

Marketing margins have to cover the costs associated with operating an outlet and generating a profit for the station owner. These margins can vary significantly depending on the region, volume sold, and availability of other product offerings. Most of the costs of operating an outlet are fixed and do not decline with lower gasoline prices.

**Figure 5: Gasoline Refining and Marketing Margins**  
Four-Week Rolling Average Ending February 17, 2015  
----- Refining Margin      — Marketing Margin



Source: NRCan





## Crude Oil Overview

### Oil Prices Appear to Have Bottomed Out

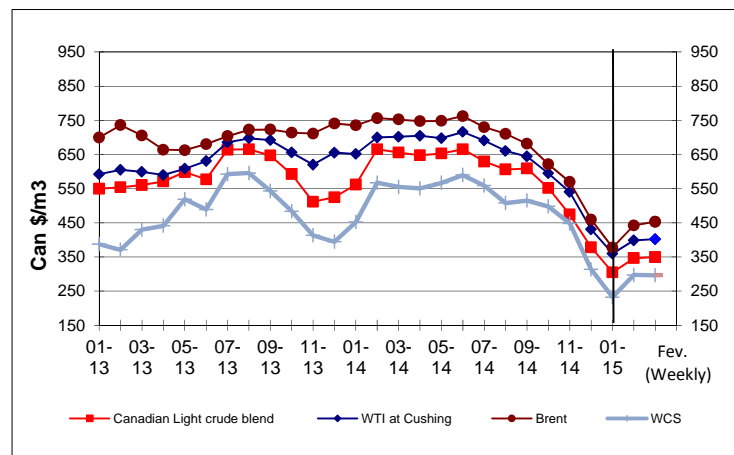
For the week ending February 13, 2015, prices for the three marker light crudes averaged between \$350/m<sup>3</sup> and \$453/m<sup>3</sup> (US\$44 to US\$58 per barrel). This is an increase of \$3 to \$10/m<sup>3</sup> (US\$0.42 to US\$1.36 per barrel) from the previous week.

Oil prices remained relatively flat over this past week. Brent settled at \$453/m<sup>3</sup> (US\$58 per barrel) for the week ending February 13, 2015, compared to \$442/m<sup>3</sup> (US \$56 per barrel) in the previous week, while WTI

was \$402/m<sup>3</sup> (US\$51 per barrel), compared to \$398/m<sup>3</sup> (US\$47 per barrel) last in the previous week.

Prices do appear to have bottomed out for the moment. Prices have now been in a fairly narrow range since the beginning of 2015. Brent daily prices in 2015 has ranged between \$350/m<sup>3</sup> and \$482/m<sup>3</sup> (US\$47 - US\$62 per barrel), and lately has been bouncing around near the top of this range.

Figure 6: Crude Oil Price Comparisons



### Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2015-02-13		Change From:			
	\$Can/ m <sup>3</sup>	\$US/ bbl	Previous Week	Last Year	\$Can/ m <sup>3</sup>	\$US/ bbl
Canadian Light	349.83	44.49	+3.12	+0.42	-335.41	-54.50
WTI	402.18	51.14	+3.68	+0.49	-291.22	-49.03
Brent	452.96	57.60	+10.47	+1.36	-299.78	-51.14
WCS	296.39	37.69	-1.15	-0.13	-239.59	-39.73

Source: NRCan

