

[MUSIC PLAYING]

NINA MOINI: Well, if you filled up your car this week, you've probably noticed gas prices are on the rise again. According to AAA, Minnesota's average today sits at \$4.14. That's \$0.20 higher than a week ago and higher than the current national average.

Our next guest says it's unlikely prices will significantly fall anytime soon, unless there are long-term solutions to ongoing global conflicts and issues. Tyler Schipper is a professor of economics at the University of St. Thomas and joins me now. Thanks for your time today, Professor.

TYLER SCHIPPER: Thanks for having me, Nina.

NINA MOINI: Well, this is something a lot of people care about right now and are really noticing when they're headed to the pump. We're seeing gas prices were below \$4 for a brief moment, it seemed like. And now they're climbing again. In the Twin Cities metro here where I am, prices are above \$4.20 in some instances. Give us what you about what's behind this latest increase.

TYLER SCHIPPER: This mostly goes back to what's happened in the Middle East with the conflict with Iran. Over the last couple of days, we saw an expiration of the MOU, the Memorandum of Understanding, that just kind of signaled this deterioration of any hope for a meaningful peace agreement, at least in the next couple of weeks. And so

I think that has been a realization for global oil markets that this could be a new reality that the Strait of Hormuz is not going to be an easy place to ship oil out of for the coming weeks, months, maybe even longer.

NINA MOINI: Yeah, a lot of people know there's a lot of conflict going on in the world and that that is impacting people directly. But Minnesota right now is higher than the national average. I think a lot of folks are wondering about that. How unusual is that, and do you have an idea as to why Minnesota would be seeing higher prices than the average?

TYLER SCHIPPER: Yeah. So I can talk about a few things that I would typically look at that aren't necessarily showing up right now. But you're absolutely right that Minnesota tends to be a little bit below average national gas prices. I often talk about us being middle of the road, where our taxes are kind of middle of the road.

But some of the things that are unique to us is that we get a lot more of our oil supplies from Canada than are refined here in Minnesota. And that sometimes can lead to gas prices adjusting at the retail level a little bit faster or a little bit slower.

So I wouldn't necessarily be surprised if by next week, we are actually a little bit below the national average because a lot of the things that I would typically look at to have these Minnesota gas prices be higher, as if there was some disruption from oil supplies in Canada, or if there was some issue at one of our local refineries, like the Pine Bend Refinery.

And at least from what I right now is that I don't see either of those playing a role. So I think it's just differences in how retail gas stations are raising their prices in response to changing oil prices.

NINA MOINI: How about diesel? How's that being affected?

TYLER SCHIPPER: Yeah, and diesel is super important for everything else in the economy because so much of what people buy on the shelves at every single store is based on a truck getting those items there. And so diesel has also been affected by global oil markets, particularly some of the things that are actually happening in a different conflict in Ukraine and Russia.

One of the ways that Ukraine has been fighting back against a much bigger country has been using drones to attack Russian oil capacity and oil refining, and that has put renewed pressure on both diesel prices and gasoline prices. So it's another piece to this puzzle about why we're seeing higher prices. And the longer those prices are higher, the more they bleed into other prices in the economy.

NINA MOINI: You mentioned some of the costs to get around and to deliver goods. What are you seeing in terms of how this all might affect inflation and cost of other goods and other things?

TYLER SCHIPPER: Yeah, so I think so far we've been somewhat lucky that. There was an initial big price increase in some of the normal expected places like grocery store prices when the conflict originally broke out, and that was passed on pretty quickly to consumers.

But the longer this goes on, the more likely that more of these gasoline and diesel prices get passed on to consumers in grocery store prices and other retail prices. And a big one that we're seeing right now is airfare prices that are up almost 25% since this time last year.

So we do feel this in lots of other ways. It just tends to be that gasoline at the pump tends to be a very visible one because we see those prices every day when we drive to work.

NINA MOINI: And I didn't know this, but apparently, gas prices tend to drop at the end of summer, and we're obviously seeing the opposite. Can you explain why that is and, I mean, if you see any relief coming any time soon?

TYLER SCHIPPER: Yeah, there's a couple reasons for that. One of the reasons is people tend to drive a little bit more in the summer. We go on those summer road trips and summer vacations.

NINA MOINI: Sure.

TYLER SCHIPPER: The other one is that there tends to be a shift to a winter blend of gasoline. And I'm not a petroleum engineer, so I don't the difference. But that tends to put a little downward pressure on gasoline prices.

We're still a little bit early for that transition, as I understand it, so that might help a little bit. But the effect of switching blends, it's going to be marginal compared to getting some kind of resolution to the conflicts both in the Middle East and Ukraine and Russia.

NINA MOINI: Other than resolution to those conflicts, are there other factors that might help those prices to drop back to perhaps where they were a year or so ago, which was below \$3 per gallon? Is that possible?

TYLER SCHIPPER: I'm not hopeful that we'll get there within the next year to even two years. The supplies of oil out there are sufficient to get us back there. It's mostly about getting that oil to refineries and to consumers, and that's where the pain points are going to be.

In addition to that, even if there is some resolution to the conflict with Iran, you've had a bunch of countries the world over that have dipped into their strategic reserves. So in the US, we have the Strategic Petroleum Reserve, that we've been using that to blunt some of the effects of oil price increases, as have other countries.

For instance, China has really used their reserves to make sure that they didn't have to import oil at unreasonably high prices. And so those countries will want to replenish their reserves once we see some more normalization in oil markets. And that's going to put upward pressure on oil prices even after the conflict of Iran kind of gets resolved in some way, shape, or form.

NINA MOINI: How about ways that state or federal officials, lawmakers could help ease some of this pinch people are feeling?

TYLER SCHIPPER: I wish there was better ideas here. There's a state gas tax. And the state gas tax is about 33%, so about double what the federal gas tax is. It could be a quarter a gallon, and the state could go on a gas tax holiday.

The downsides of that are a couple fold. One is that gas tax goes into a fund specifically for infrastructure and road construction projects. And so you rob that fund in order to pay for a gas tax that is actually relatively small compared to the overall increase in gasoline prices that we've seen from the conflict in Iran.

So it might help at the margin, and certainly some people might be rooting for that. But I think we might also curse that decision later once you hit a pothole and you have to get your tire repaired. So it's one of those things where the state doesn't have a lot of ways to try and address this issue. It's more at a national and international level.

NINA MOINI: Thanks so much for this great information, Professor. We really appreciate your time.

TYLER Happy to be here.

SCHIPPER:

NINA MOINI: Tyler Schipper is a professor of economics at the University of St. Thomas.