

Inflation May 2024



Last month I posted a long article about the origins of Bidenflation. The May CPI report was released a few days ago, long enough for me to dig into it. **This is my analysis of inflation May 2024.**

The top line: **the CPI increased by % in May.** That's easily close enough to zero and undoubtedly within the margin of error. Annualized it's %. The Fed should be hitting the M2 accelerator to get the rate back up to 2%.

Oh, wait, there's noise in the inflation data. It's a good idea to look at the major components. Here's the TL;DR version.



(click for larger image)

The largest increase was medical care, up % (% per year, % year over year). But the real news was the decrease in energy prices. Energy prices fell by % (% annualized, % year over year). Gasoline pulled energy prices down, falling by % compared to April (% annualized, % year over year).

Meet the NGSR

The mystery is why gasoline fell so much. The clue is this story: “**Biden releasing 1M oil barrels to combat summer gas prices.**” But that headline is misleading. **The release was actually from the Northeast Gasoline Supply Reserve (NGSR).**

Releases from the Strategic Petroleum Reserve are carefully documented by the Energy Information Administration. But the NGSR is a different creature. It’s part of the Office of Cybersecurity, Energy Security, and Emergency Response in the EIA. That office describes the NGSR:

In 2012, Superstorm Sandy made landfall in the northeastern United States and caused heavy damage to two refineries and left more than 40 terminals in New York Harbor closed due to water damage and loss of power. This left some New York gas stations without fuel for as long as 30 days. As part of the Obama Administration’s ongoing response to the storm, the Department of Energy established the Northeast Gasoline Supply Reserve (NGSR); the first federal, regional, refined petroleum product reserve containing gasoline.

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Immediately after the Secretary’s June 2014 directive, the Energy Department finalized solicitations to acquire storage service contracts in the Northeast, as well as one million barrels of gasoline stocks. Contracts were awarded in late summer 2014 and the gasoline was soon delivered. The regional reserve has 900,000 barrels of gasoline located in the New York Harbor area and 100,000 in South Portland, Maine.

Unlike the EIA, the Office of Cybersecurity, etc., is not very forthcoming. There is no detailed data that I could find. But we do know one important fact: **the NGSR had 1 million barrels of gasoline.** It was stored in these terminals:

Curiously, the Biden administration decided to release the entire contents of the reserve between Memorial Day and July 4. The idea was to depress gasoline prices during the summer driving season.

Frankly, this is stupid. The election is in November. Choosing July 4 to Labor Day makes much more sense.

But that's just a strategic error. The real question is the impact of an additional million barrels on the price of gasoline. At last, some real economics.

Price Elasticity of Demand

To estimate the impact on gasoline prices, we need to know U.S. gasoline consumption per day, the quantity of gas released from NGSR per day, and the price elasticity of demand. It turns out that finding the elasticity was relatively easy. Two recent papers, using wildly different methodologies, arrive at the same conclusion: the elasticity of demand is .^{[1],[2]}

Data from the EIA shows gasoline consumption is 8.9 million barrels per day. The total release from NGSR is 1 million barrels between May 27 and July 4. That's 38 days. Release per day is million barrels. That's an increase in supply of %. With a price elasticity of demand of -0.2, the change in price should be % / -0.2 = %. In May, the overall price change for gasoline was %. About % / % = 40.4% of the overall price decrease was caused by the release from NGSR.

Conclusion

The Biden administration's release of gasoline from NGSR has had a significant impact on price. The problem is strategic. The price should begin to rise again after July 4. Giving people four months to forget about the temporary decrease. As always, [click here](#) to download my Excel workbook.

1. Mohammad Vesal, Amir Hossein Tavakoli, Mohammad H. Rahmati (2021). "What do one hundred million transactions tell us about demand elasticity of gasoline?" *Empirical Economics* (2022) 62:2693–2711. ↑
2. Lutz Kilian, Xiaoqing Zhou (2024). "Heterogeneity in the pass-through from oil to gasoline prices: A new instrument for estimating the price elasticity of gasoline demand." *Journal of Public Economics*, 2024, , . DOI: ↑