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FINANCIAL SERVICES

Oil prices, black gold

Snapshot

Civilian uprisings in North Africa and the Middle East have sent oil prices soaring above US$100 a barrel for the first time in over two years, putting added strain on the global economy and the consumer's hip pocket.

While Saudi Arabia and other OPEC (Organisation of the Petroleum Exporting Countries) have pledged to cover any shortfall in oil supplies from strife-torn Libya, it will take time for new capacity to filter through to western petrol pumps. If the calls for greater democracy flow through to Saudi Arabia and other major producers, then oil prices could spike dramatically.

Oil price shocks are not new. The oil crisis of the early 1970s, the Iranian Revolution of 1979, and the more recent price hike of 2008 all coincided with global recessions.

But supply is only part of the equation. Demand for oil is increasing, to fuel the economic boom in China and India and to power all the new cars and gizmos their newly-prosperous citizens are demanding.

All this is happening at a time when most developed economies are struggling from the economic fallout of 2008–2009, with budget deficits and austerity measures that have added to the cost of living. Rising oil prices add to the strain on family budgets, from Tripoli to Tamworth.

Unlike an iPad or a pair of runners, oil is a commodity and prices change by the second on markets in New York, Singapore and elsewhere. Rising oil prices trickle through to everything from the manufacture of plastics to agricultural fertilizers and the cost of food. But rising oil prices hit hardest and fastest at the fuel pump.

Petrol prices on the rise

In Australia, the price of unleaded petrol has increased by more than 12c a litre since January with further rises almost certainly on the way.

Snapshot

CommSec chief economist, Craig James, says filling up the car with petrol is likely to be the single biggest outlay Australian households make each week, apart from mortgage repayments or rent. He estimates the average Australian household is paying almost $30 a month more on petrol compared with six months ago.

Oil is the biggest factor in petrol prices. It accounts for between 50 and 70 per cent of the cost. The key international oil price for Australians to watch is Tapis crude, which is the benchmark for the Asian region, rather than West Texas Intermediate which is the US benchmark. According to the Australian Institute of Petroleum, there is generally only a short time lag of 1–2 weeks between the time prices are set in Singapore and changes are seen in the wholesale prices in Australia. Shipping, taxes and other costs make up the balance of the price you pay at the pump.

Because oil is traded in US dollars, the strong Australian dollar has helped cushion the impact of rising oil prices on Australian motorists, but only a little.

Pricing at street level

While local motorists understand the connection between disruptions to oil supplies and rising prices, it is much harder to understand a pattern behind fluctuations in petrol prices from day to day or from one service station to the next. For example, on one day in March the average price of unleaded petrol in Sydney was $1.43 a litre, 15c higher than the price at the start of the year. But on that day some service stations were selling a litre of unleaded for as little as $1.34 while others were selling it for as much as $1.50, a difference of 16c a litre.

Petrol prices also tend to be cheaper on certain days of the week. The ACCC (Australian Competition and Consumer Commission) keeps track of prices and publishes the cheapest and dearest days on its website (accc.gov.au). For example, in early March petrol tended to be cheapest on Friday in all capital cities except Perth, where it was cheapest on Wednesdays, and prices tended to peak on Sundays. Prices went from an average of $1.35 one Friday in Sydney to $1.46 two days later.

Prices are more expensive on average in regional areas but they are also more stable because of the absence of heavy discounting.

Some commentators are talking about oil prices reaching US$200 a barrel. That may be unduly alarmist, but with no end in sight to the turmoil in North Africa and the Middle East, and the full impact of the Japanese disasters still unknown, oil and petrol prices could be volatile for some time.

While the impact on households is significant, the strength in our national economy — re-inforced by strong commodity prices and Asia's rapid development — means we are well-placed to deal with the jump in oil prices. And companies involved in the local oil and gas sector will see the increase in prices as a good news story.

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