Gas Prices Predicted To Top $6.00 Per Gallon In 2009

As of the day of this writing, the national average price for gasoline is $3.55 per gallon in the US. When gas was under $1.00 the prediction was made by this author it would go to $3.00 per gallon. Here we are with gasoline priced well over $3.00 per gallon, and I am now convinced that the cost of gasoline will reach $6.00 per gallon in the United States at some point during 2009.

There is not much that can be done to prevent that from happening. To understand why, we need to look at the factors that are the causes of the price rise. Basically there are three: supply, demand, and the value of the currency.

Supply is near or at 100% of capacity. There is only so much oil that can be pumped out of the ground. The amount of crude oil that can be pumped daily out of the giant Cantarell oil field in Mexico is declining rapidly. After peaking at 3.82 million barrels per day in 2004, Mexico's total daily production is falling by as much as 8% per year. North Sea oil output peaked in 1999 at 2.91 million barrels per day. Daily production has since fallen to 1.81 million barrels per day. Similar reductions in daily output have occurred in the United States, Russia, Iran, Argentina, Peru, Columbia, Australia, Turkey, Libya, Egypt, South Africa, Spain, France, Algeria, Pakistan, Yemen, and a host of other countries.

However, not all countries have reached peak. Some analysts claim that Saudi Arabia will not reach peak production for a few more years, while others claim Saudi Arabia is at peak now. Regardless of which analyst is correct, Saudi Arabia is getting close to peak. Brazil, Venezuela, and Iraq have yet to reach peak oil output. However, the amount of spare capacity available in countries that have yet to reach peak oil production does not exceed the declines experienced in countries experiencing declining oil production.

While supply remains constant, demand continues to grow at a steady pace.

For decades, giant US corporations have been moving their manufacturing plants to foreign countries to take advantage of lower wage costs. Since the source of any country's wealth is it's natural resources and manufacturing ability, all those countries which have created manufacturing plants are now becoming wealthy. Citizens of those countries are moving from poverty to middle class. In the last 2 years alone Brazil has lifted 20 million citizens from poverty to middle class. China and India have done ten times that amount.

All these new middle class consumers want the lifestyle enhancements common to the middle class: more meat in their diets, better homes, and a means of personal transportation for more distant and frequent travel. All of those require energy.

If supply and demand figures were not enough to cause energy prices to rise significantly, there is another factor as well: the value of the US dollar.

The international value of the dollar has been declining for the past few years. The decline is accelerating due to the subprime mortgage crisis. While this is a topic that requires an entire article to itself, the short version is that the Federal Reserve is diluting the value of the US dollar by creating billions of dollars out of thin air in order to bail out the giant Wall Street firms which have created a financial quagmire.
While the subprime mortgage crisis is very serious, it pales in size compared to the real crisis, which is a result of artificial valuations of structured financial packages that include trillions of dollars of derivatives.

The worlds financial system is freezing up and crumbling as a result. The Federal Reserve has already stated in the recent Bear Stearns case that these firms are too big to fail and will be "rescued". They are too big to fail because of the derivative contracts that they have issued. If one of these giant firms fails, all of their derivative contracts also fail. That would create a domino effect throughout the world, and the world's financial system would instantly seize up. This is no small matter.

The Federal Reserve has no choice but to continue to bail out these firms. And the method of "rescue" is to create money out of nothing and loan it into existence to these firms. In the past several months alone, over a quarter of a trillion dollars have been created in bailout money in the United States. This will continue. The result is a constant diluting of the value of the dollar.

When currency is created out of nothing and injected into an economy, it takes a while for the dilution process to occur. The lag time is typically 5 to 8 months. Therefore, the money that has already been created in the spring of this year will cause the negative effects to be felt in the fall and winter of this year.

More bailouts are coming, but I cannot accurately predict the size and speed of those bailouts at this time. Therefore I do not know how high gasoline and energy prices will go. It is a matter of constant monitoring in order to view the current rate of dilution of the currency, and forecasting the results 6 to 9 months into the future.

Based upon what is happening right now, $6.00 gasoline in the US in 2009 is better than an even bet.

About the Author

Stromsteen has many years experience in the finance, real estate, and insurance industry. Besides her own website, Cheap Auto Insurance, she contributes to the website Bush's Depression as well as first time home buyer to provide up to date information on the unfolding real estate and financial crisis.