

NACS

Fuels

What Consumers Think About Gas Prices

Insights from NACS Consumer Fuels Surveys
on consumer perceptions related to gas prices
and the economy overall

April 2018

NACS[®]

What Consumers Say About Fueling & Convenience Stores

There is probably no commodity in the United States talked about more than gasoline, and for good reason. For one, gas factors into how we go about our daily lives, whether it's driving to and from work, picking up our kids from school, and making time to stop and fill-up when its most convenient. From a cost perspective, gas prices are a large part of our expenses and budget planning.

Gas prices are transparent, meaning they are posted daily on signs, websites, social media and apps so consumers can choose where they fill-up. Add to the mix the regular drumbeat of gas prices rising or not falling fast enough in consumers' minds and you can see why refueling is such a regular part of our daily conversations.

No matter if gas prices are \$4 or \$2 per gallon, gas prices also affect how consumers think about broader economic issues, especially since refueling vehicles accounts for about 4% of consumer spending a year.

Since 2013, our monthly NACS Consumer Fuels Surveys have tracked consumer perceptions related to gas prices and the economy overall, and annual surveys have examined other convenience and fuel retailing industry issues for the better part of a decade. These surveys help the more than 122,500 convenience stores that sell 80% of the fuel sold in the United States examine and better understand:

- 1. How gas prices affect economic sentiment**
- 2. How gas prices affect consumer spending**
- 3. Consumer perceptions related to gas prices**
- 4. Consumer perceptions related to convenience stores**

Highlighted Key Findings

ECONOMIC SENTIMENT



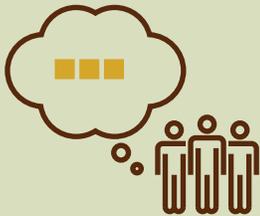
Low gas prices continued to push **CONSUMER OPTIMISM** to high levels throughout 2017. From October through December 2017, optimism was 60% or higher, and jumped to a **new-record 65%** in January 2018.

GAS PRICES AND SENTIMENT



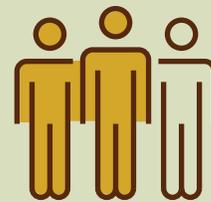
At least **7 IN 10 CONSUMERS SAY THAT GAS PRICES IMPACT THEIR FEELINGS ABOUT THE ECONOMY**, and that percentage rises when gas prices increase.

GAS PRICE PERCEPTIONS



Consumers have adjusted their **GAS PRICE INCREASE EXPECTATIONS DOWNWARD**. They say that gas prices will only rise 30 cents this year, compared to the 76 cents rise they predicted in 2015.

CONVENIENCE STORE PERCEPTIONS



Consumers have a **POSITIVE OPINION** about convenience stores—nearly two in three consumers (63%) say convenience stores share their values.

YOUNGER CONSUMERS AGES 18 TO 34 ARE EVEN MORE LIKELY THAN OLDER CONSUMERS TO SAY THIS.

Economic Sentiment

Consumer sentiment affects all retail channels, especially convenience stores, which conduct 160 million transactions per day for food, drinks or fuels. At the pump, optimistic customers may be less likely to shop solely on price and instead select a store that is the best fit for their overall needs. And inside the store, consumer sentiment affects impulse purchases, since 83% of all items purchased are consumed within the hour (65% are consumed immediately). Simply put, optimistic consumers are more likely to reward themselves with an on-the-go purchase at a convenience store.

Consumers remained wildly optimistic about the economy throughout 2017, extending a streak that began in late 2016. And as 2018 began, consumers were the most optimistic about the economy since NACS began tracking consumer sentiment in 2013. What we've found over the years is that low gas prices can play a role in how consumers feel about the economy, whether that leads to optimism or pessimism.

Five years ago, consumers were more pessimistic than optimistic about the economy. In the December 2013 NACS Consumer Fuels Survey, less than two in five consumers (39%) said they were optimistic about economic prospects, the fourth consecutive month of optimism below 40% as gasoline prices stood at \$3.29.

Eleven months later, gas prices dropped under \$3.00 a gallon (\$2.99 in November 2014) and they haven't reached that level in the ensuing three-plus years. Still, it took a full year for lower gas prices to measurably affect consumer sentiment. In November 2015, half of all Americans (50%) said they were optimistic about the economy.

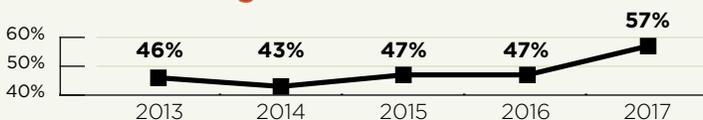
The trendline continued upward in 2016. Nationally, gas prices peaked for the year in June at only \$2.38 per gallon. And a record 60% of U.S. fuel consumers reported feeling optimistic about the economy in December 2016, fueled by a combination of continued low gas prices and a respite from the bruising, negative November election campaigns.

Low gas prices continued to push consumer optimism to high levels throughout 2017. From October 2017 through the end of the year, optimism was 60% or higher, and jumped to a new-record 65% in January 2018.

Then, in February, consumer optimism dipped. A turbulent stock market compounded with a 9-cent increase in gas prices lowered consumer economic optimism by 5 percentage points to 60%—the lowest consumer economic optimism (54%) since September 2017 when Hurricane Harvey shut down one third of the country's refining capacity and gas prices surged 28 cents in a single week—and 30 cents per gallon for the month.

Consumer optimism about the economy

Year-end averages

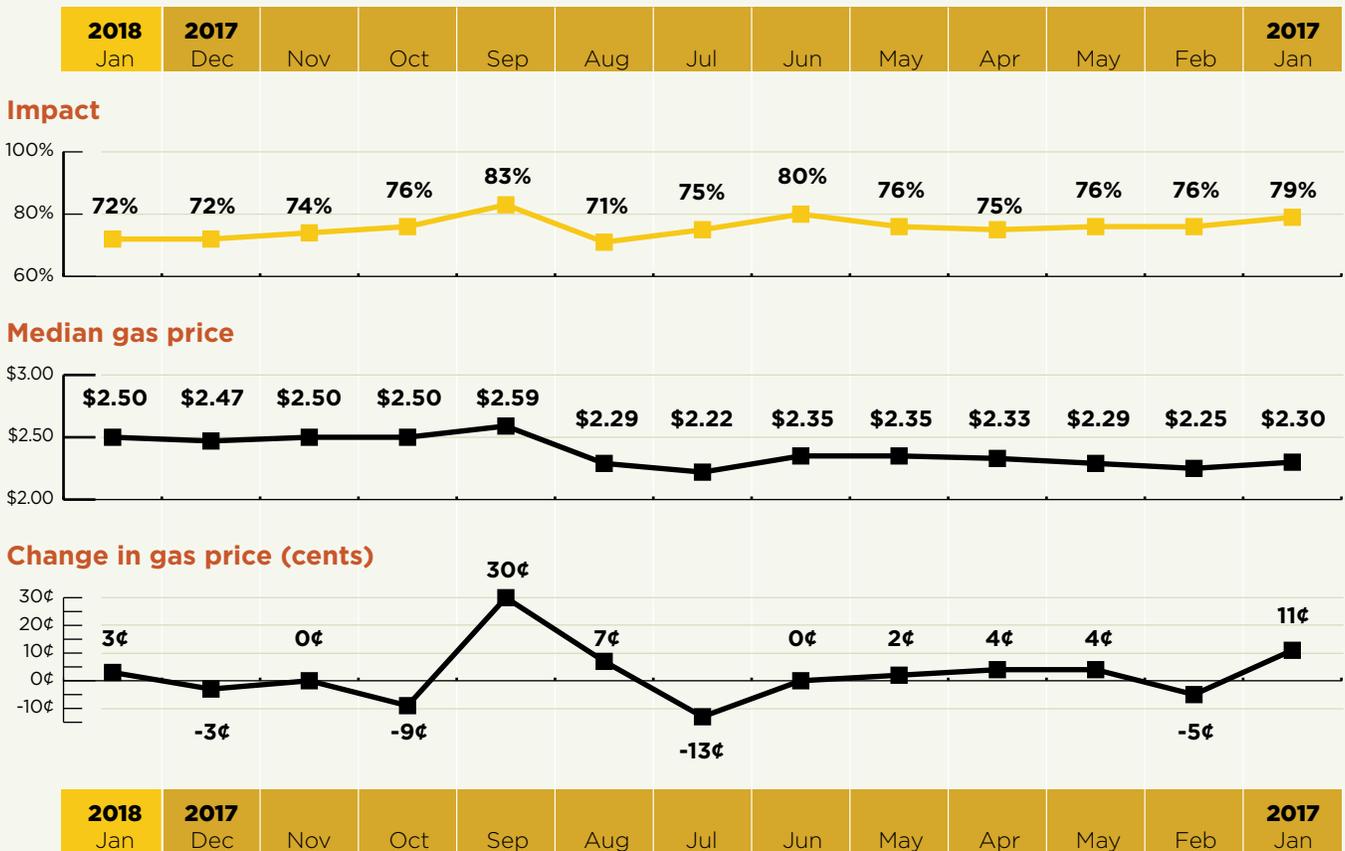


65%
OPTIMISM JUMPED TO
A NEW-RECORD 65% IN
JANUARY 2018.

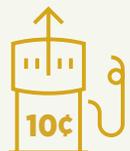
Historically, at least 70% of consumers say that gas prices affect their feelings about the economy, regardless of price or change in price. But that percentage rises when gas prices rise. In looking at the past 13 months, consumers are most likely to say that gas prices have a bigger impact on sentiment when gas prices increase at least 10 cents per gallon.

Gas prices impact feelings about the economy

January 2017-January 2018



CONSUMERS ARE MOST LIKELY TO SAY THAT GAS PRICES HAVE A BIGGER IMPACT ON SENTIMENT WHEN GAS PRICES INCREASE AT LEAST 10 CENTS PER GALLON.



Consumer Spending

Since 2013, NACS has examined whether consumers would change their driving behavior if gas prices reached a certain level. In 2017, gas prices varied from a low of \$2.22 to a high of \$2.59 but the price at which consumers say they would change their driving behavior also shifted along with the price between \$1.07 and \$1.22, except for September 2017, when gas prices spiked 30 cents per gallon after Hurricane Harvey reduced refining capacity and temporarily impacted distribution and supply of gasoline.

It appears that consumers are unlikely to change their driving behavior because of short-term price fluctuations. Consumers generally say prices would have to increase by a dollar per gallon before they would change their behavior, no matter what the current price is. But is there a price at which consumers would significantly change their driving behavior?

Gas price that would cause consumers to drive less

December 2017-January 2018

	2018 Jan	2017 Dec	Nov	Oct	Sept	Aug	Jul	Jun	May	Apr	Mar	2017 Feb
Mean price to change behavior	\$3.37	\$3.56	\$3.61	\$3.55	\$3.41	\$3.49	\$3.44	\$3.40	\$3.49	\$3.50	\$3.48	\$3.44
Mean gas price	\$2.30	\$2.47	\$2.50	\$2.50	\$2.59	\$2.29	\$2.22	\$2.35	\$2.35	\$2.33	\$2.29	\$2.25
Difference between median gas price and mean price for change	\$1.07	\$1.09	\$1.11	\$1.05	\$0.82	\$1.20	\$1.22	\$1.05	\$1.14	\$1.17	\$1.19	\$1.19

It doesn't appear so. Besides September 2017, consumers generally felt gas prices had to increase about \$2 more per gallon before they significantly cut back.

Gas price that would cause consumers to seek alternative to driving or drive drastically less

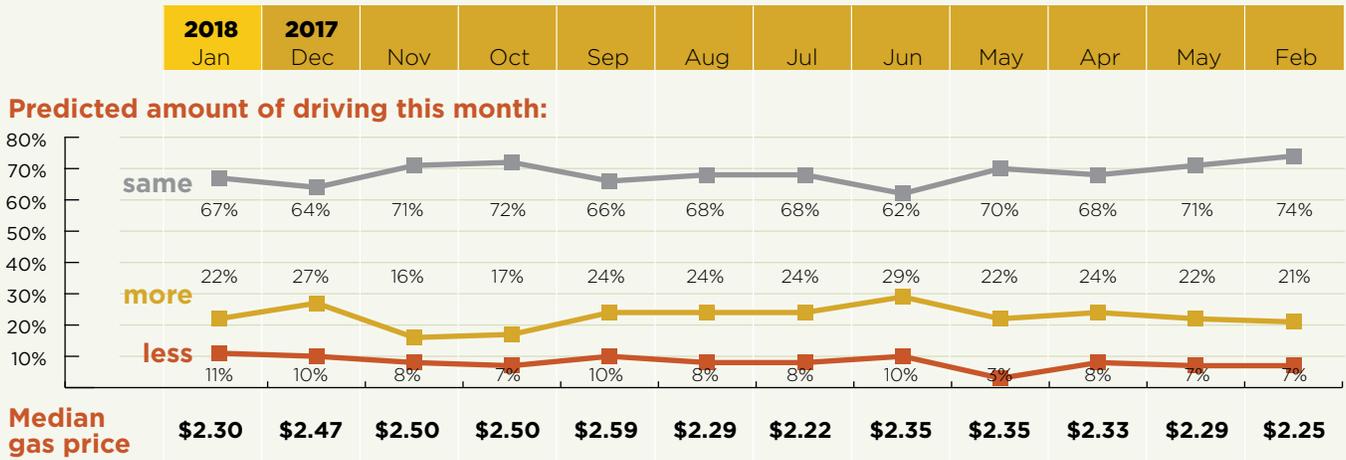
December 2017-January 2018

	2018 Jan	2017 Dec	Nov	Oct	Sept	Aug	Jul	Jun	May	Apr	Mar	2017 Feb
Mean price to significantly change behavior	\$4.43	\$4.59	\$4.60	\$4.53	\$4.48	\$4.52	\$4.48	\$4.38	\$4.53	\$4.50	\$4.46	\$4.45
Mean gas price	\$2.30	\$2.47	\$2.50	\$2.50	\$2.59	\$2.29	\$2.22	\$2.35	\$2.35	\$2.33	\$2.29	\$2.25
Difference between median gas price and mean price for change	\$2.13	\$2.12	\$2.10	\$1.98	\$1.89	\$2.23	\$2.26	\$2.03	\$2.18	\$2.17	\$2.17	\$2.18

Consumers also didn't say they were going to drive much differently as gas prices rose and fell in 2017. More likely, their predicted driving behavior was seasonal. The two peak months for expected travel increases were June, the first full month of summer-drive season, and December when holiday travel surges.

Consumers predict their driving behavior

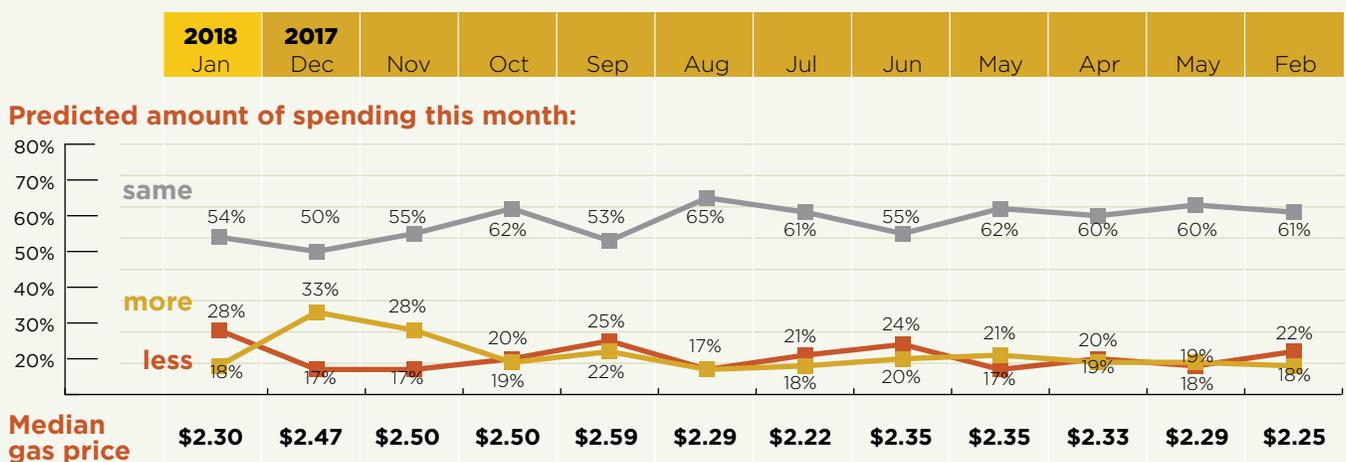
December 2017-January 2018



What about overall spending in 2017? Did consumers tie gas prices to what they say they would spend over the coming month? Again, the results were seasonal. Consumers said they were most likely to spend more in November and December, the traditional holiday shopping months, than any other time.

Consumers predict their shopping behavior

December 2017-January 2018



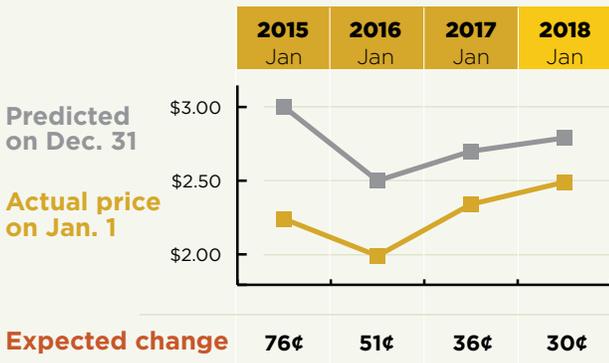
Consumer Perceptions: Gas Prices

Gas prices tend to increase during the first few months of the year as the retail fueling industry undergoes the spring transition to summer-blend fuel. This transition requires the production of unique fuel blends across the United States at a time of increased demand. Since 2000, this transition has led to an average price increase of 51 cents between early February and the seasonal peak, which most often occurs in late May.

And since 2015, consumers certainly believe gas prices will increase throughout the year. However, as prices have remained low and large price differentials have been less common, consumers have adjusted their price increase expectations downward.

Consumers predict gas prices

Gas prices



CONSUMERS HAVE ADJUSTED THEIR PRICE INCREASE EXPECTATIONS DOWNWARD.

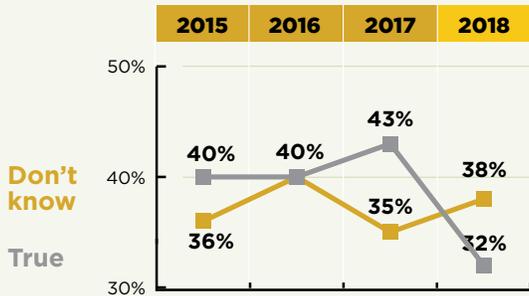
A decade ago, allegations of price gouging were more common as gas prices surged past \$3 and then \$4 per gallon as oil prices zoomed past \$100 and then \$140 per barrel. However, the recent extended period of low gas prices has generally kept discussions of the factors that contribute to prices on the back burner. Because there haven't been as many discussions about what drives gas prices, consumers are more likely to believe that fuel has a higher margin like clothing, where stores can cut prices and have 50%-off sales and still make money.

So, what do consumers think about the profit associated with selling fuel? Gasoline margins can vary wildly over the course of a year but are predictable, and even more so over a longer period. Over the past five years, the average markup (gross margin) on fuel has averaged 20.7 cents per gallon, according to OPIS. After expenses, retailers generally have a profit (net margin) of about 5 cents or so a gallon.

But consumers are less likely to believe fuel margins are that low than they have over the past few years. Those who consider themselves daily convenience store customers are far more likely than gas-only customers who never go inside the store (43% vs. 30%) to say that gas margins are only around 5 cents per gallon.

Do consumers believe fuel margins are low?

Customers asked if “fuel margins are low” answered:



OVERALL, ONLY 8% OF CONSUMERS SAY THAT RETAIL PROFITS ARE 10 CENTS PER GALLON OR LESS—COMPARED TO 45% WHO SAY THAT PROFITS ARE MORE THAN \$2 PER GALLON!

Overall, only 8% of consumers say that retail profits are 10 cents per gallon or less—compared to 45% who say that profits are more than \$2 per gallon!

Consumers estimate gas profits per gallon

Estimated Profit (% gas consumers)	2016	2017	2018
\$0.00	1%	0%	1%
\$0.00 - \$0.10	15%	15%	7%
\$0.10 - \$0.49	21%	20%	16%
\$0.50 - \$0.99	9%	12%	11%
\$1.00 - \$1.99	15%	16%	20%
Greater than \$2.00	37%	37%	45%

But what is a fair profit? It turns out that only 5% of all consumers say that 5 cents or less per gallon is a fair profit. Meanwhile, more than one in three (39%) say that it would be fair if retailers made \$2 or more per gallon.

Consumers define “fair” profit per gallon

Estimated Profit (% gas consumers)	2016	2017	2018
\$0.00	1%	0%	0%
\$0.00 - \$0.10	9%	12%	5%
\$0.10 - \$0.49	26%	25%	23%
\$0.50 - \$0.99	11%	13%	13%
\$1.00 - \$1.99	15%	15%	20%
Greater than \$2.00	34%	34%	39%

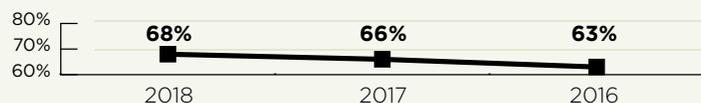
Consumer Perceptions: Convenience Stores

In early 2018, consumer optimism remained high and gas prices continued to remain relatively low—and consumers were increasingly less likely to select a place to fuel up based on gas prices alone. And that presents an excellent opportunity for retailers to tell their story about their business and their offer.

Consumers have a positive opinion about convenience stores, which sell 80% of the fuel purchased in the United States. Nearly two in three consumers (63%) say that convenience stores share their values. Younger consumers ages 18 to 34 are more likely (67%) than older consumers age 50 or more (61%) to say convenience stores share their values. And not surprisingly, 84% of people who shop at convenience stores daily like their values, compared to only 34% who never shop inside the store.

Consumers and convenience store values

Convenience stores share my values:

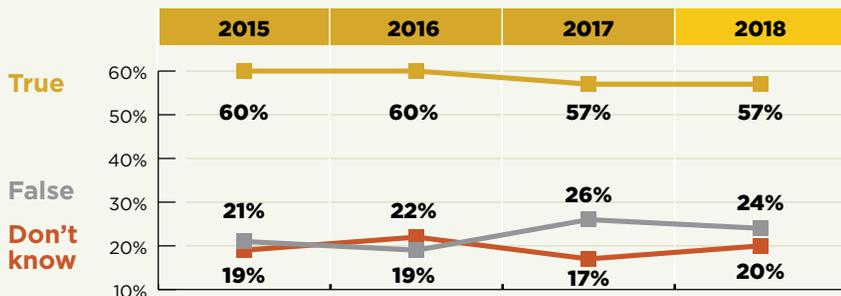


NEARLY TWO IN THREE CONSUMERS (63%) SAY CONVENIENCE STORES SHARE THEIR VALUES.

Who are fuel retailers? Consumers are twice as likely to agree than disagree (57% vs. 24%) that they are small businesses, even if they sell fuel from a national oil brand. Overall, 58% of convenience stores that sell gas are one-store operators.

Consumers agree convenience stores are small businesses

Customers asked if “convenience stores are small businesses” answered:

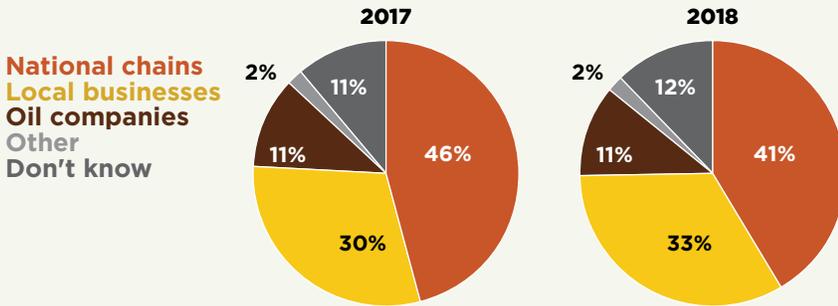


58% OF CONVENIENCE STORES THAT SELL GAS ARE ONE-STORE OPERATORS.

Consumers were a bit more split on the makeup of the convenience store industry, which they believe is a mix of national chains, local businesses and oil companies. Consumers in the Northeast were most likely to think stores were national chains (47%), perhaps because that area is home to several iconic regional chains that may feel “national” to their customer base.

Who consumers say owns convenience stores

Customers asked “who owns convenience stores?” answered:



Consumers also weighed in on what they would tell a convenience store owner to do one thing differently. The good news: The top response was that stores are doing things well and no changes are needed. But for those suggesting change, cleanliness ranked highest among women than men (15% vs. 5%, respectively).

What consumers would tell a store owner

(open-ended responses, top 5 groupings listed)

Nothing/all positives	15%
Keep the store clean / Make sure the restrooms are clean	10%
Improve customer service: Be friendlier/greet the customers that go inside/ treat the customer like they are family, etc.	8%
Have sales/discounts/customer loyalty program/free things	5%
Have higher quality products/healthier snacks/fresh foods	4%

Interestingly, 3% of consumers suggested that they would ask for more convenience like self-checkout and 2% would ask for full-service gasoline. So, what about other services or technologies that convenience stores or other channels offer? Consumers say they are most interested in self-checkout like Amazon Go.

Conveniences of interest to consumers

“Automatic check-out” technologies that allow you to instantly pay without the need to stand in line or interact at all with a cashier	72%
Having food trucks close to your home/work	61%
Having online shopping orders (ex, Amazon; eBay) delivered to physical store location for easy pick up	58%
Ordering drinks or food online/via app for pickup at an in-store location (ex, Starbucks)	56%
Ordering groceries online/via app for pickup at an in-store location (for example, at a supermarket)	55%
On-demand, local food delivery in 30 minutes or less (ex, Uber Eats; Postmates)	53%
Pre-prepared meal kits that can feed a family with minimal prep time (ex, Blue Apron)	53%
Same day grocery delivery (ex, Peapod)	52%
“Smart fridge” technologies that can automatically re-order groceries or other items when supplies run low	47%

Ultimately, retailers who prosper in 2018 will be those who best connect with their customers, whether that means enhancing their operations with new offers and services or finding how new elements of convenience can be implemented in their stores.

NACS

Fuels Resource Center

Survey Methodology: NACS has surveyed consumers about their perceptions related to gas prices since 2007 and has conducted monthly consumer sentiment surveys since 2013. NACS commissioned PSB (formerly Penn, Schoen and Berland Associates LLC) to conduct 1,100 online interviews with adult Americans on January 22-25, 2018. The margin of error for the entire sample is +/- 2.95% at the 95% confidence interval and higher for subgroups. Most of the responses are related to that survey; other results are from previous monthly and annual surveys.

About NACS

NACS (www.convenience.org) advances the role of convenience stores as positive economic, social and philanthropic contributors to the communities they serve. The U.S. convenience store industry, with more than 154,000 stores nationwide selling fuel, food and merchandise, serves 165 million customers daily—half of the U.S. population—and has sales that are 10.8% of total U.S. retail and foodservice sales. NACS has 2,100 retailer and 1,750 supplier members from more than 50 countries.

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