THREE ON THURSDAY

First Trust

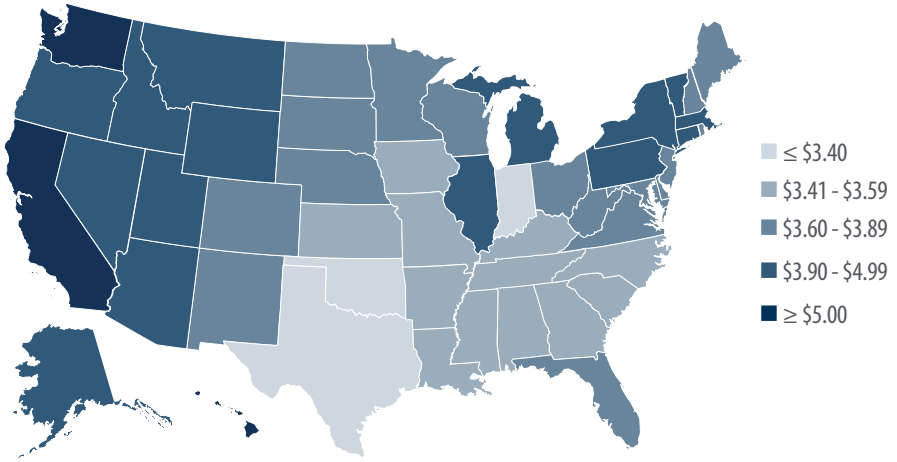
FIRST TRUST ECONOMICS

July 2, 2026

Why are Gasoline Prices Still High?

This week's "Three on Thursday" takes a closer look at gasoline prices in the United States. The U.S. consumes more than 130 billion gallons of gasoline annually, more than any other nation, making fuel prices an important issue for consumers and the broader economy. While gasoline prices spiked after the war with Iran began and remain roughly 30% above pre-war levels, the reopening of the Strait of Hormuz and the resumption of global oil flows have not brought prices back down. The charts below explain why, examining the key drivers behind gasoline prices and the factors that continue to keep them elevated.

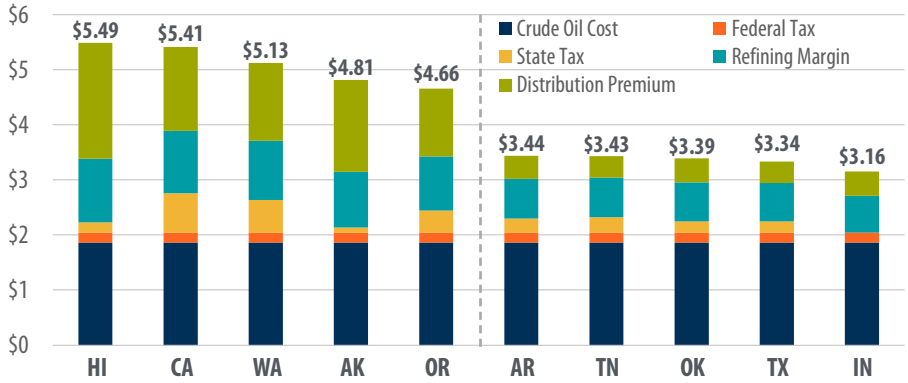
Average Gasoline Prices in Each State



Source: AAA, First Trust Advisors. Retail price of a regular gallon of gasoline as of 6/30/26.

Hawaii, California, and Washington currently have the highest average gasoline prices in the nation, at more than $5.00 per gallon, while Indiana, Texas, and Oklahoma have the lowest, at roughly $3.30 per gallon. In general, gasoline prices are highest along the West Coast and in the Northeast, while the South and Midwest enjoy lower prices. One of the primary reasons is transportation. Most U.S. refining capacity is concentrated along the Gulf Coast, particularly in Texas and Louisiana. If gasoline blendstock—the base fuel before additives such as ethanol are mixed in at the distribution terminal—cannot be transported by pipeline, it must be shipped by rail, truck, or marine vessel, increasing costs. As a result, the farther a region is from major refining centers, the higher gasoline prices tend to be. In the most expensive states, these transportation costs are further amplified by higher state fuel taxes and more stringent environmental regulations, which require specialized fuel blends that are more costly to produce.

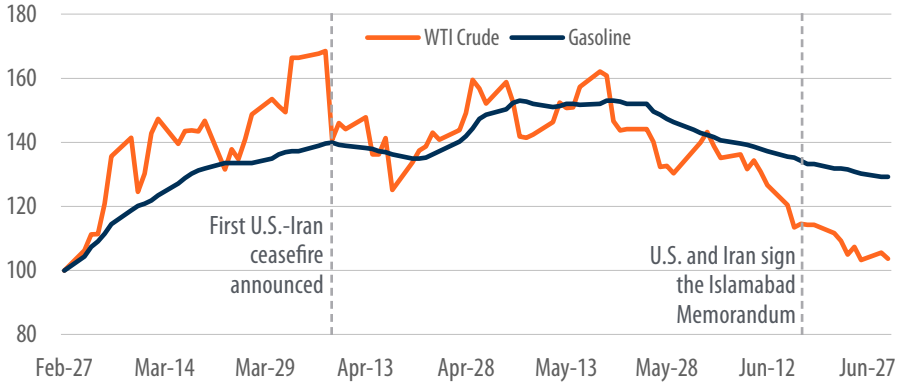
Cost per Gallon of Gasoline in the Most Expensive and Cheapest States



Source: AAA, U.S. Energy Information Administration (EIA), First Trust Advisors. Gasoline price is the price of a retail regular gallon of gasoline as of 6/30/26. Cost of crude oil is derived from the price of WTI crude on 6/30/26. Refining Margin estimated for each state as the most recent national average of 21% reported by the EIA for 3/2026. Distribution Premium includes all other costs not stated elsewhere.

The price of a gallon of gas is driven by different factors, depending on the state. While gasoline prices in most states are primarily determined by the cost of crude oil, distribution and state tax policy play a major factor in many as well. For example the cost of distribution in Hawaii is greater than the cost of the crude oil itself. In states with high environmental regulation (i.e. California and Washington), tax rates play a larger role than in states with less red tape. In order to tame rising prices, some states have even suspended their gasoline taxes. Indiana has suspended state gasoline taxes until July 7, saving residents about $0.25 per gallon since April and pushing their fuel prices to the lowest in the nation. Other states like Kentucky and Utah have also passed tax cuts or freezes in response to rising prices.

Index of Gasoline and Crude Oil Prices Since the Start of the War



Source: U.S. Energy Information Administration, CME, First Trust Advisors. Daily data from 2/27/26-6/30/26.

While differences in gasoline prices across states are driven largely by transportation costs and taxes, changes in gasoline prices *nationwide* are primarily driven by crude oil prices. Because crude oil is traded in a global market, swings in its price affect every state similarly. From February to March, the average U.S. gasoline price rose from $2.91 to $3.64 per gallon, with crude oil accounting for roughly 76% of the increase. Retail gasoline prices typically lag changes in crude oil because oil must first be refined, transported, and delivered to retailers, who price fuel based largely on wholesale replacement costs rather than the spot price of crude oil. As a result, although crude oil prices have largely returned to pre-war levels, gasoline prices remain elevated but are beginning to move lower. If tensions in the Middle East continue to ease, we expect prices at the pump to continue trending downward.

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.