Prices for gasoline and other petroleum products were volatile in Japan in 2008. After remaining stable above 150 yen per liter from the beginning of 2008 to March, retail gasoline prices (at gas stations) plunged 22 yen on the expiration of an extra gasoline tax in April and shot up 30 yen on its revival in May. In and after May, gasoline prices soared fast in response to crude oil spikes. The nationwide average price peaked at 185.1 yen per liter for gasoline on August 14, at 167.4 yen for diesel oil on the same day, and at 132.1 yen for kerosene on August 11. Retail prices of petroleum products declined fast later as crude oil prices turned down with gas stations intensifying their price-cutting race amid slowing demand. The market environment turned around.

Changes in retail prices of gasoline and diesel oil
In cases of Nippon Oil Corp. and Idemitsu Kosan Co, those who have just switched their method of whole sale pricing from conventional cost-basis monthly pricing to newly adopted market-linked weekly pricing, in the beginning of October, revision of their wholesale prices for petroleum products in and after October had resulted in 12 consecutive weeks reduction, while crude oil prices continued to plunge. Coupled with anticipation of lower prices, the consecutive wholesale price reduction led to acceleration of retail price drops. The average gasoline price declined every week during the 20 weeks between the peak in the first week of August and December 22. On that day, the average gasoline price stood at 110.6 yen per liter, the lowest since the Oil Information Center began to release prefecture-by-prefecture average prices in June 2004. The decline during the 20 weeks turned out at 75 yen. The average price fell by 61 yen to 106.0 yen for diesel oil and by 60 yen to 71.8 yen for kerosene. As the retail gasoline price declined faster than crude oil prices, the gasoline price fall was some 15 yen larger than for diesel oil and kerosene. The gasoline price might have dropped excessively.

On the demand side, gasoline price drops have failed to stimulate demand recovery as economic deterioration and sluggish new vehicle sales have been coupled with consumers' prolonged reluctance to buy gasoline. The gasoline demand slump has become more serious than earlier expected. While kerosene is now in seasonal peak demand, heating demand even in Hokkaido and Northeastern Japan has been unexpectedly sluggish due to unusually high temperatures for the whole of Japan. Consumers' growing shift away from kerosene has also worked to cap kerosene demand. Profitability of diesel oil exports has deteriorated on a prolonged recession and a downturn in overseas prices, signaling slack demand for diesel exports.

While crude oil prices are expected to remain at around $50 per barrel in 2009, according to the U.S. Energy Information Administration's outlook released on December 9, 2008, demand for petroleum products in Japan is unlikely to recover. Oil refiners have reduced production of petroleum products since November, but the production cut has yet to affect the market. In the absence of factors boosting petroleum product prices in Japan, their prices are expected to weaken for the immediate future after the turn of the year.

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