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Time for the EIA prediction for 2006

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The December EIA Short-term Energy Outlook reports that total US energy demand has remained flat this year, but is expected to grow by some 2% next year. Which is a cue to an observation. In the discussion on demand destruction generated by increased fuel prices, the usual assumption has been that the poorer countries are the first that will see the impact. But, as the recently changing situation in regard to US gas demand is starting to show, demand destruction will also happen here. It is beginning with industries that depend on a cheap source of natural gas for their feed stock. To a degree it is not an absolute destruction yet. One imagines that the fertilizer shortage, generated as plants close in the US, will be met by new plants, built in countries that still have an abundance of natural gas. The industries that rely on cheap feedstocks for plastic manufacture may well be next. And as these industries leave, so the demand (and unfortunately also the employment) will decline with it. The EIA report anticipates that this drop in demand will be 7.5% this year, though they expect 4.6% of this to come back next year.

The EIA report is now predicting that by March some 0.66 bcf of GOMEX natural gas (6.5% of production) and 297,000 bd of GOMEX crude oil (19% of production) will still be shut-in relative to the pre-hurricane status. All three of refineries that are still down are anticipated to be on line at the end of February, bringing back some 804,000 bd of production, just in time for the end of the heating season.

The report also discusses the increased costs of home heating, though it does not note the developing shortage of pellets.for pellet stoves. I mentioned that concern to a friend of mine in biofuels, and he noted that as pellet prices head toward $300 a ton, it would be cheaper to go out and buy corn, which would work just as well. (If corn is at $2.00 per bushel, and a bushel weighs 56 lb then it would cost around $72 per ton). Do we want to go there?

World oil demand is anticipated to grow some 1.7 mbd, higher than this year's projected 1.3 mbd increment, with US leadership of this growth. For those wishing to place bets on accuracy they anticipate an absolute growth (ie. accounting for declines) in spare capacity (i.e. over demand) of around 1 mbd. Which, when the increase in demand is factored in, means that they are expecting supply to increase by around 2.7 mbd. 0.8 mbd of this is projected to come from outside OPEC - 400 kbd from the Caspian, 450 kbd from the West (including Canada and Brazil) and 150 kbd from West Africa. The balance of the increase I assume is expected to come from OPEC, i.e. around 1.9 mbd. The average price for a barrel next year is expected to be around $63.

In regard to natural gas supply the US will increase by almost 5% next year, with imports of LNG rising to around 1,000 bcf. Of course that will depend to an extent on how many terminals will be available.

There are lots of "if's" in this prediction. We'll just have to wait and see how it works out.