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Short-Term Energy Outlook – December 2004

December 7th, 2004 Release (Next Update: January 11th, 2004)

Short-Term Energy Outlook

Winter Fuels Update (Figure 1)

Lower petroleum and natural gas prices in this *Outlook* marginally reduced our projections of winter heating fuel prices and winter household heating fuel expenditures. Heating oil expenditures by typical Northeastern households are now expected to average 34 percent above last winter's levels, with residential fuel prices averaging \$1.85 per gallon for the October-to-March period. Expenditures for propane-heated households are expected to increase about 22 percent this winter. Expected increases in expenditures for natural gas-heated households have also been lowered in this *Outlook* to 9 percent. The reduction expected in expenditures for all three fuels, relative to last month's estimates, reflects reductions in both prices and projected usage.

Crude Oil and Petroleum Products (Figures 2 to 8)

During the last 3 weeks, U.S. spot prices for crude oil (West Texas Intermediate (WTI)) have ranged from over \$50 per barrel to about \$43 per barrel. The projected average WTI price for the fourth quarter of 2004 is \$49 per barrel, about \$18 per barrel

higher than in the fourth quarter of 2003 but nearly \$2 per barrel below the projection for the fourth quarter provided in the previous Outlook. WTI prices eased sharply in November. According to the Minerals Management Service, in early October about 500,000 barrels per day of Gulf of Mexico oil output was shut in due to Hurricane Ivan; this situation improved to less than 200,000 barrels per day still shut in at the end of November.

World petroleum demand growth for 2004 has been revised downwards slightly from the previous *Outlook* to 2.6 million barrels per day over 2003 levels, but still shows a strong 3.3-percent growth for the year. Global oil demand growth is expected to slow to 2 million barrels per day (2.5 - percent growth) in 2005 as global economic growth slows toward more sustainable rates, influenced in part by high world oil prices. Lower global oil demand growth in 2005 also reflects the fact that Chinese oil demand growth in 2005 is expected to moderate from its 2004 rate, which reflected a dramatic increase in demand for oil-generated power that is not likely to be repeated.

In response to the strong oil demand growth this year and expected in 2005, U.S. oil inventories and inventories in the other industrialized countries remain relatively low compared to historical standards. These lower inventories, together with limited prospects for large increases in production from outside the Organization of Petroleum Exporting Countries (OPEC) in the near term, suggest that oil prices will remain in the mid-\$40s range through 2005, even though OPEC crude oil production remains high at about 30 million barrels per day. OPEC (and world) production capacity remains about 0.5-1.0 million barrels per day above current output levels, implying a global utilization rate of about 99 percent.

U.S. crude oil production is expected to increase next year (by 160,000 barrels per day), something that has not happened on an annual basis since 1991. This expected growth is partly due to recovery from Hurricane Ivan but also due to rising production in the Federal Offshore Gulf of Mexico (see "Gulf of Mexico Oil and Gas Production Forecast, 2004 - 2013," Minerals Management Service, MMS OCS Report

2004-065, October 2004).

U.S. petroleum demand in 2004 is projected to average 20.5 million barrels per day, up 2.1 percent from the 2003 level. An additional 1.4-percent growth is anticipated for 2005. Motor gasoline, the largest component of petroleum demand, is projected to rise 1.3 percent this year and 1.8 percent in 2005. Jet fuel demand, buoyed by continued recovery in both capacity and utilization, is projected to climb nearly 3 percent in both 2004 and 2005. Distillate fuel demand, which has grown by about 4 percent per year for the last 2 years, is expected to grow more slowly in 2005 (1.4 percent) as industrial growth slows. The slower overall growth rate in petroleum demand expected for 2005 stems from slower economic growth and market adjustments to higher prices.

On December 6, 2004, the U.S. monthly average pump price for regular gasoline was \$1.91 per gallon, down 11 cents per gallon from one month ago. Until recently, spot gasoline prices were rising in response to higher crude oil prices. In the first 2 days of December, both crude and gasoline prices plunged. The drop in spot gasoline prices has been stimulated by robust gasoline inventories, which are close to the upper end of their normal range for this time of year. Still, current and projected crude oil costs suggest that gasoline prices will likely rise 10-15 cents per gallon by May 2005, reflecting the typical seasonal increase.

Natural Gas (Figures 9 to 10)

The average Henry Hub natural gas spot price was \$5.15 per thousand cubic feet (mcf) in September and \$6.54 per mcf in October. However, as Gulf of Mexico production recovered from the impact of Hurricane Ivan and mild November weather restrained heating demand, spot prices for natural gas fell to under \$5.00 per mcf on November 19. Still, with the peak winter weather closing in, natural gas prices are poised to rise over the next several months. Henry Hub prices are expected to average \$6.03 per mcf in 2004 (compared to \$5.64 in 2003) and \$6.01 per mcf in 2005. These price projections are lower than last month due to continued high natural gas

inventories.

Working gas in storage is estimated to have reached 3,280 billion cubic feet at the end of November. This is 8 percent higher than one year ago and 11 percent higher than the five-year average.

In response to continued economic growth, natural gas demand is projected to increase by 3.7 percent in 2005. As high rates of drilling for natural gas in North America continue, 2005 domestic natural gas production is projected to increase by 1.9 percent. Steady increases in liquefied natural gas imports, restrained export growth, and carryover from the robust storage levels noted above are expected to contribute to moderate improvement in the supply picture in 2005.

Electricity and Coal Outlook (Figures 11 to 13)

Electricity demand is expected to increase by 2.8 percent in 2005, following estimated growth of 1.7 percent in 2004. Coal demand in the electric power sector is expected to show a solid gain of 3.1 percent in 2005. Power sector demand for coal continues to increase as oil and gas prices remain high. U.S. coal production is estimated to grow by 3.1 percent in 2004 and is expected to continue to grow by another 2.7 percent in 2005. Hydroelectric power availability is expected to rebound in 2005, provided more normal weather prevails.

	Year				Annual Percentage Change		
	2002	2003	2004	2005	2002-2003	2003-2004	2004-2005
Real Gross Domestic Product (GDP) (billion chained 2000 dollars)	10075	10381	10837	11184	3.0	4.4	3.2
Imported Crude Oil Price a (nominal dollars per barrel)	23.71	27.74	36.74	40.62	17.0	32.4	10.6
Petroleum Supply (million barrels per day)							
Crude Oil Production b	5.75	5.68	5.43	5.59	-1.1	-4.3	2.9
Total Petroleum Net Imports(Million Barrels per Day)	10.54	11.24	11.78	11.91	6.6	4.9	1.0
(including SPR)							
Energy Demand							
World Petroleum							

(million barrels per day)	78.4	79.8	<i>82.4</i>	<i>84.4</i>	1.7	3.3	2.5
Petroleum (million barrels per day)	19.76	20.03	<i>20.45</i>	<i>20.73</i>	1.4	2.1	1.4
Natural Gas (trillion cubic feet)	23.00	21.93	<i>21.94</i>	<i>22.74</i>	-4.6	0.0	3.7
Coal ^c (million short tons)	1066	1095	<i>1102</i>	<i>1133</i>	2.7	0.6	2.8
Electricity (billion kilowatthours)	3463	3500	<i>3556</i>	<i>3658</i>	1.1	1.6	2.9
Retail Sales ^d	177	174	<i>178</i>	<i>182</i>	-1.7	2.7	2.3
Other Use/Sales ^e	3639	3674	<i>3735</i>	<i>3841</i>	0.9	1.7	2.8
Total Total Energy Demand ^f (quadrillion Btu)	97.4	97.4	<i>98.2</i>	<i>100.9</i>	0.1	0.8	2.7
Total Energy Demand per Dollar of GDP (thousand Btu per 2000 Dollar)	9.66	9.39	<i>9.07</i>	<i>9.02</i>	-2.9	-3.4	-0.5
Renewable Energy as Percent of Total ^g	6.4%	6.4%	<i>6.7%</i>	<i>6.7%</i>			

^aRefers to the refiner acquisition cost (RAC) of imported crude oil

^bIncludes lease condensate

^cTotal Demand includes estimated Independent Power Producer (IPP) coal consumption

^dTotal of retail electricity sales by electric utilities and power marketers. Utility sales for historical periods are reported in Energy Information Administration (EIA) *Electric Power Monthly* and *Electric Power Annual*. Power marketers' sales for historical periods are reported in EIA's *Electric Sales and Revenue*, Appendix C Data for 2003 are estimates

^eDefined as the sum of facility use of onsite net electricity generation plus direct sales of power by industrial- or commercial-sector generators to third parties, reported annually in Table 75 of the *Monthly Energy Review (MER)*. Data for 2003 are estimates

^fThe conversion from physical units to Btu is calculated by using a subset of conversion factors used in the calculations performed for gross energy consumption in EIA's *MER*. Consequently, the historical data may not precisely match those published in the *MER* or the *Annual Energy Review (AER)*

^gRenewable energy includes minor components of non-marketed renewable energy, which is renewable energy that is neither bought nor sold, either directly or indirectly, as inputs to marketed energy. EIA does not estimate or project total consumption of non-marketed renewable energy.

SPR: Strategic Petroleum Reserve

Notes: Minor discrepancies with other published EIA historical data are due to independent rounding. Historical data are printed in bold; estimates and forecasts are in italics. The forecasts were generated by simulation of the Short-Term Integrated Forecasting System.

Sources: Historical data: Latest data available from Bureau of Economic Analysis and Energy Information Administration; latest data available from EIA databases supporting the following reports: *Petroleum Supply Monthly*, DOE/EIA-0109; *Petroleum Supply Annual*, DOE/EIA-0340/2; *Natural Gas Monthly*, DOE/EIA-0130; *Electric Power Monthly*, DOE/EIA-0226; and *Quarterly Coal Report*, DOE/EIA-0121; *International Petroleum Monthly*, DOE/EIA-0520; *Weekly Petroleum Status Report*, DOE/EIA-0208. Macroeconomic projections are based on Global Insight Model of the US Economy, November 2004.

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