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## The Outlook for Oil and Natural Gas Markets

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### Abstract

This paper presents the official projections for U.S. energy markets, drawing upon the publications of the Energy Information Administration of the U.S. Department of Energy. Focusing on oil and natural gas markets, this covers the short-term and longer-term outlook for oil and natural gas prices, supplies, and consumption in the United States and world oil markets.

### Introduction

The Energy Information Administration (EIA) of the U.S. Department of Energy routinely published three reports that project the future of energy markets. The first is the *Short-Term Energy Outlook*, which is published each month and contains monthly projections of U.S. energy markets and global oil markets through the end of the next calendar year. The second is the *Annual Energy Outlook*, which includes annual projections of U.S. energy markets, currently to 2030. The reference case is generally released in December, with the full report containing many additional sensitivities and analyses published in February. The final recurring report is the *International Energy Outlook*, with the same time horizon as the *Annual Energy Outlook*, including projections of world energy markets. This is generally released in June.

The projections presented here are from the *Short-Term Energy Outlook*, January 2007, released January 9, 2007,<sup>1</sup> and from the reference case of the *Annual Energy Outlook 2007 (AEO2007)*, released December 5, 2006.<sup>2</sup>

<sup>1</sup> [www.eia.doe.gov/emeu/steo/pub/contents.html](http://www.eia.doe.gov/emeu/steo/pub/contents.html).

<sup>2</sup> Energy Information Administration, *Annual Energy Outlook 2007*, DOE/EIA-0383(2007) (Washington, DC, February 2007), [www.eia.doe.gov/oiiaf/aeo/index.html](http://www.eia.doe.gov/oiiaf/aeo/index.html).

Because analyses by EIA are required to be policy-neutral, the projections generally are based on Federal and State laws and regulations in effect at the time the projections are formulated. The potential impacts of pending or proposed legislation, regulations, and standards or of sections of legislation that have been enacted but require implementing regulations or appropriations that are not provided or specified in the legislation are not reflected in the projections. The projections then serve as a baseline against which the impacts of proposed legislation can be analyzed. EIA is frequently called upon by members of the U.S. Congress or other agencies of the Administration to analyze possible legislative initiatives, and these analyses are published as Service Reports, based upon the requestor's assumptions.

EIA is the independent statistical and analytical agency within the Department of Energy. EIA provides timely, high-quality energy information and prepares objective, transparent analyses for use of Congress, the Administration and the public. EIA does not, however, take positions on policy issues. Because of EIA's statutory independence with respect to the content of its energy information program, the analysis presented herein is strictly its own and should not be construed as representing the views of the U.S. Department of Energy or the Administration.

### Short-Term Energy Trends

In 2007 and 2008, total U.S. energy demand is expected to increase at annual rates of about 1.2 and 1.7 percent, respectively.

### Oil Markets.

The price of West Texas Intermediate (WTI) crude oil, which averaged \$66.02 per barrel in 2006, is projected to average \$64.42 per barrel in 2007 and \$64.58 per barrel in 2008. Decisions made by members of the Organization of Petroleum Exporting Countries (OPEC) to cut output in the fourth quarter of 2006 reduced inventory levels and contributed to WTI prices remaining at about \$60 per barrel on average in the fourth quarter. OPEC members' crude oil production in the fourth quarter averaged 0.7 million barrels per day below third quarter levels, with Saudi Arabia accounting for half of this reduction. Preliminary data suggest commercial inventories in Organization for Economic