Oil vs. Natural Gas: Prices and US Economy Wide Factors

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Abundant Natural Gas

Has it been a game changer?

• Substantial increase in the quantity of U.S. shale gas resources available to be produced
  – Technological change
• Reduced U.S. reliance on imported natural gas
• Substantially lower natural gas prices
• How has natural gas consumption responded?
• Will natural gas prices remain low relative to oil?
• Brown and Yücel (2008); Huntington (2007)
Conclusions

• U.S. natural gas prices have diverged sharply from oil prices since early 2009

• Total U.S. energy consumption down since Great Recession—all end-use sectors

• Natural gas use up since before Great Recession
  – Gains in electric power generation; industrial use; commercial use; transportation
  – No gains in residential use

• Gains in natural gas use are relatively moderate
  – Absent substantial exports of natural gas, natural gas prices don’t seem likely to resume link to oil prices