



Short-Term Energy Outlook

February 1997 (Released February 6, 1997)

Energy Information Administration

What's New This Month

Here are the highlights of the changes to the forecast that we have made for the month of February, 1997:

Mid Case Prices:

Oil Prices:

Crude oil prices have not started as sharp a fall-off from the December 1996 peak as previously assumed. Thus, we now portray a more gradual decline through the summer, with average imported prices in the United States for 1997 pegged about 50 cents per barrel above our January projections. (See Figure U1).

Gasoline:

Recent prices for retail gasoline appear to be slightly below our last forecast, but the overall outlook for the driving season looks unchanged: spring and summer pump prices should be within a penny or two of the 1996 levels, meaning relatively high prices again this year. It now appears likely that first quarter 1997 prices will be about 10 percent above first quarter 1996 levels, entirely because of higher crude oil costs between the two periods. (See Figure U2).

Heating Oil:

Retail heating oil prices appear to have peaked in January, at about \$1.10 per gallon on a national average basis (see Figure U3). That was about 15 cents per gallon above the January 1996 level, and was strictly in line with higher crude oil costs. Expected crude oil price declines and relative improvements in the inventory situation for distillate fuel (Figure U4) make a steady decline from here through the end of summer likely.

Natural Gas:

Spot natural gas prices proved to be considerably more robust in December and January than depicted in our January Outlook (Figure U5). Nevertheless, weather has remained generally on the mild side since November and the gas storage situation has improved. Thus, a rapid decline from winter peaks is still expected, although average summer wellhead prices much below \$2 per thousand cubic feet seem less likely now. In fact, it is now expected that annual average natural gas wellhead prices will remain in the \$2.10- \$2.20 per thousand cubic feet range in 1997 and 1998.

Demand:

Petroleum:

First quarter heating fuel demand appears to be lagging behind earlier expectations, reflecting relatively mild temperatures and less need for mid- winter restocking at the end-user level. Thus, first quarter petroleum demand, instead of being about even with last year, now appears likely to post a decline of about 200,000 barrels per day. This development enhances the view of 1997 as a year likely to bring weak growth in petroleum demand in the United States. (See

Figure U6).

Natural Gas:

Electric utility demand for gas was strongly discouraged by the steep price run-up this fall and winter. It is now estimated that fourth quarter 1996 demand for gas at electric utilities was 570 billion cubic feet, 180 billion cubic feet below last month's estimate. Recent power plant data show that coal plant utilization made up for the reduction in gas use in October and November. It is assumed that similar displacement continued in December and January. The Outlook now calls for annual electric utility gas demand of about 200 billion cubic feet below previous projections. (See Figure U7).

Coal:

Higher utilization of coal-fired electric power plants this winter has replaced gas use typical of lower natural gas price regimes. It is currently estimated that fourth quarter 1996 coal use at electric utilities was 10 million tons above previous estimates and 13 million tons (6.3 percent) above the fourth quarter 1995. Higher coal use is expected to continue through the winter. Still, unless electricity demand growth proves surprisingly strong this year, relatively slow growth in utility coal demand is expected in 1997 (0.2 percent) compared to the robust performance in 1996 (5.1 percent). (See Figure U8).