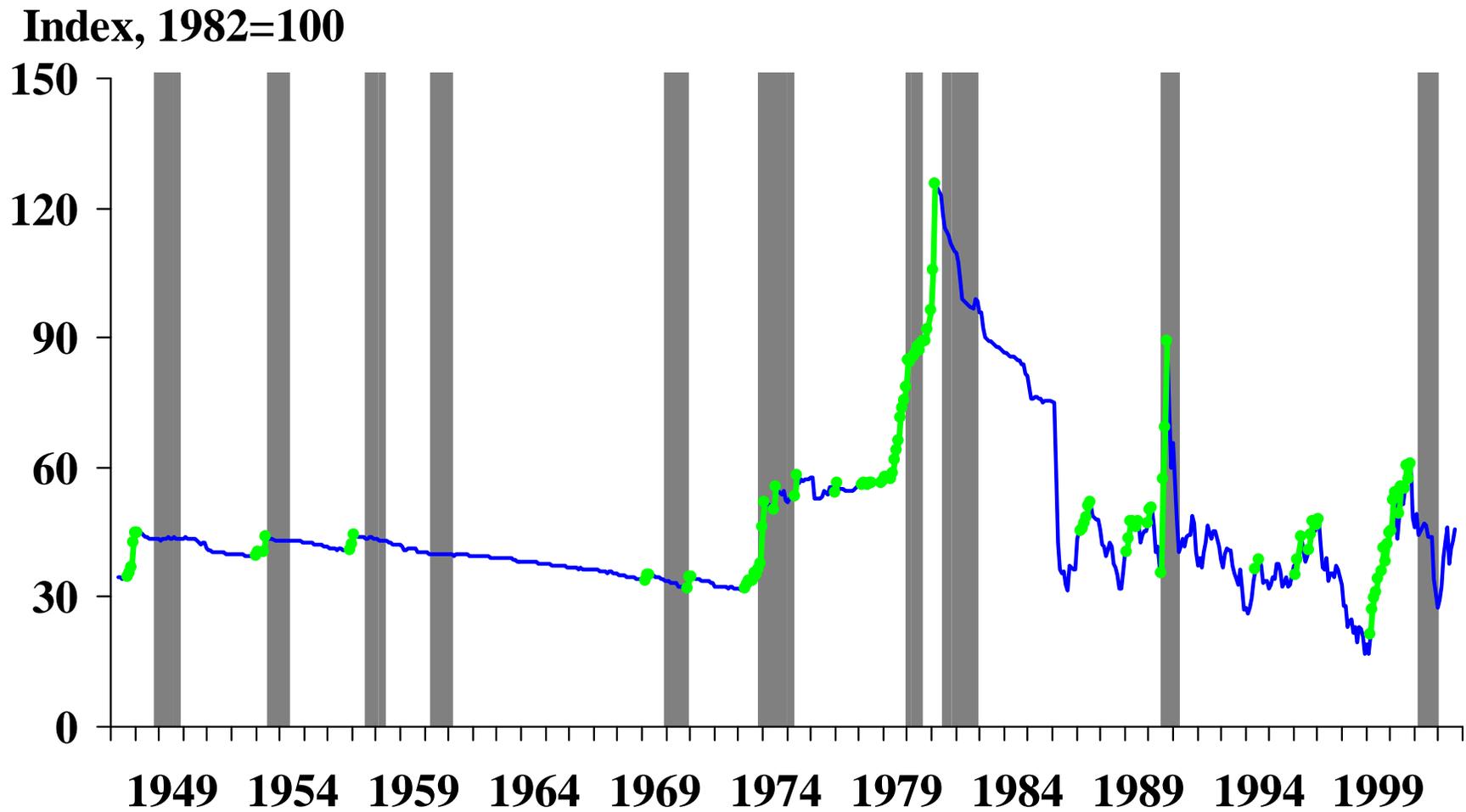


Natural Gas Prices and the Economy

Stephen Brown

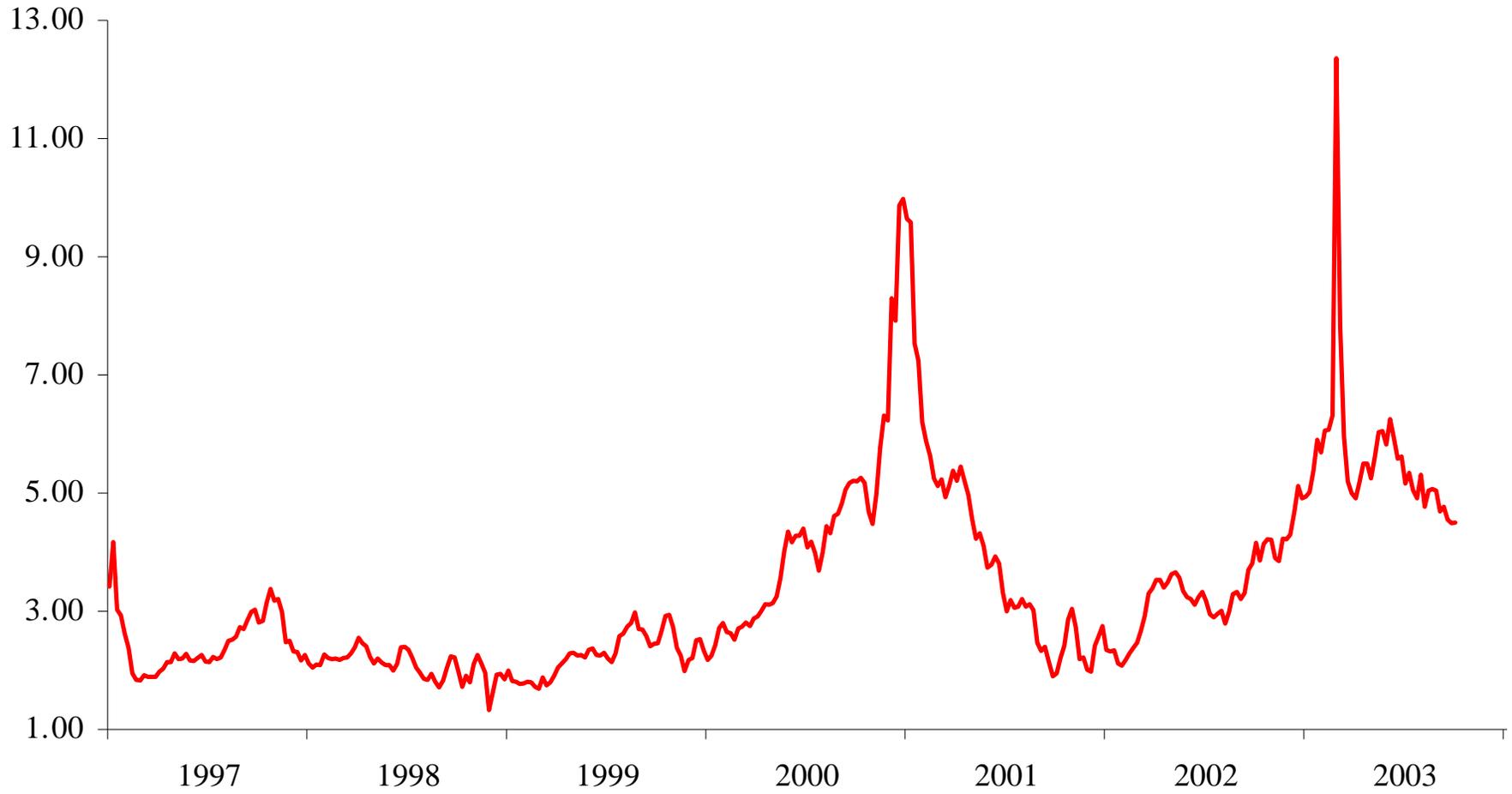
Federal Reserve Bank of Dallas

Oil Prices and U.S. Recessions



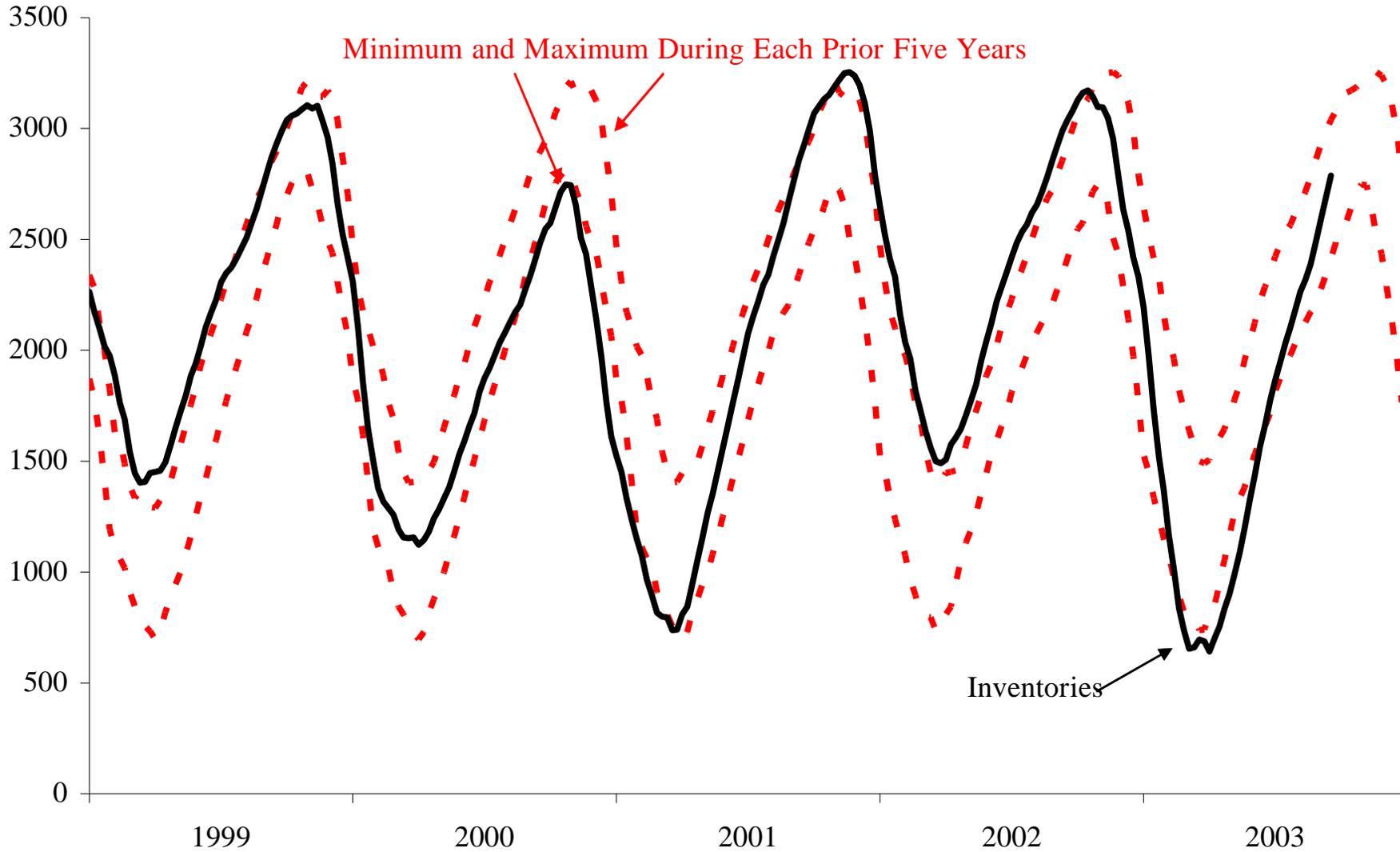
Natural Gas
\$/MMBtu
(Henry Hub)

Natural Gas Prices Rise Sharply

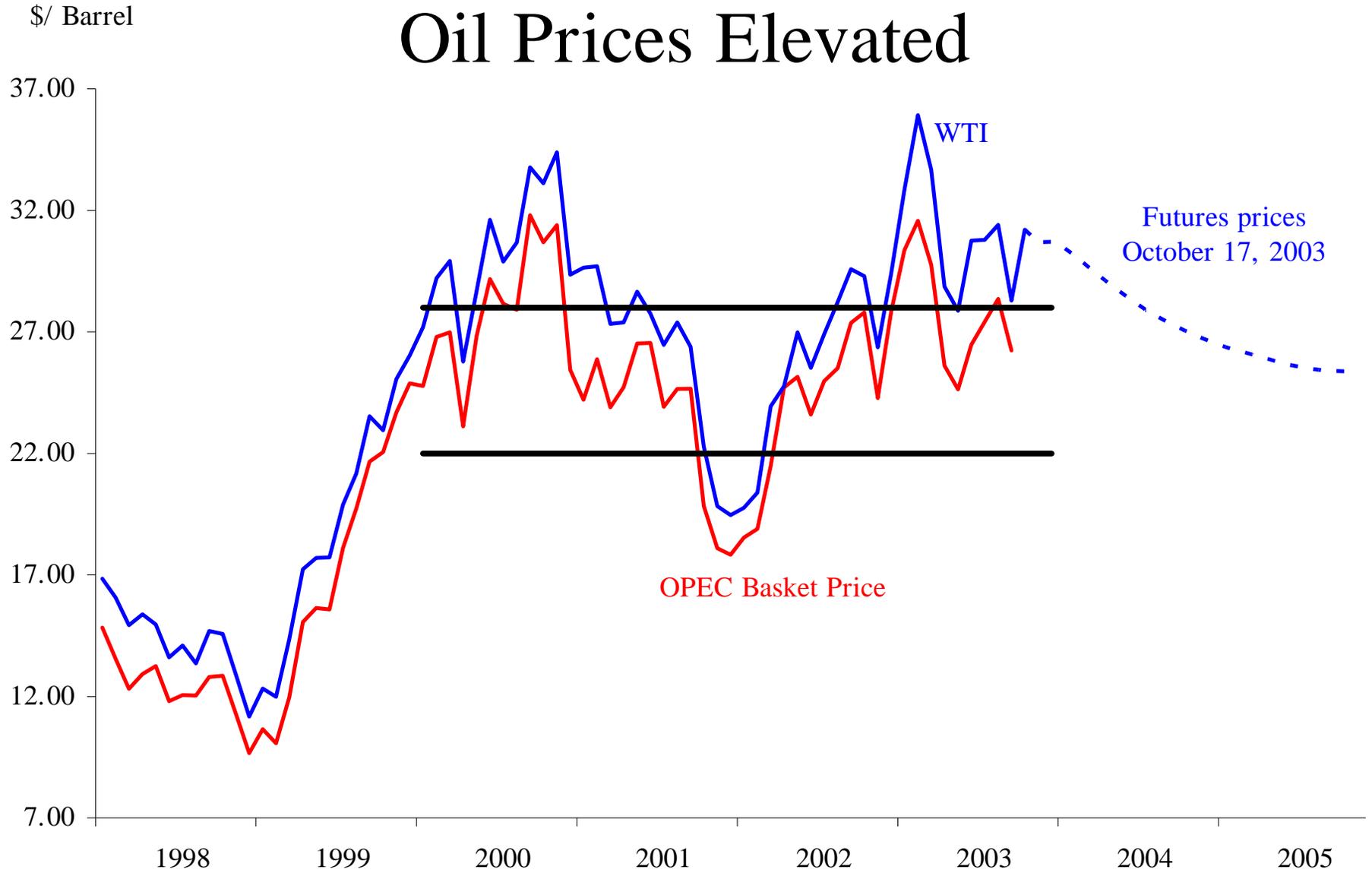


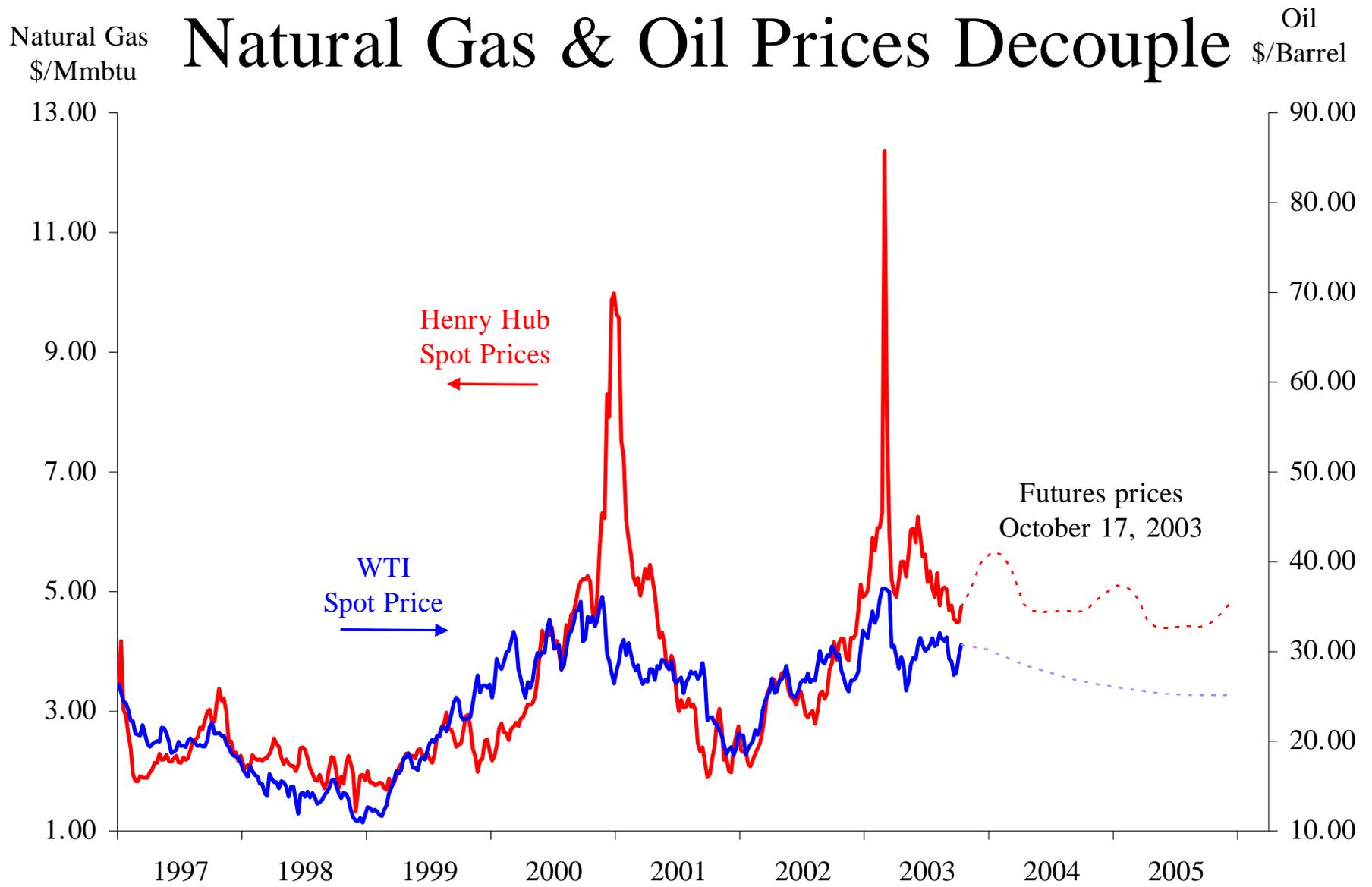
Billions of
Cubic Feet

Natural Gas Inventories Rising



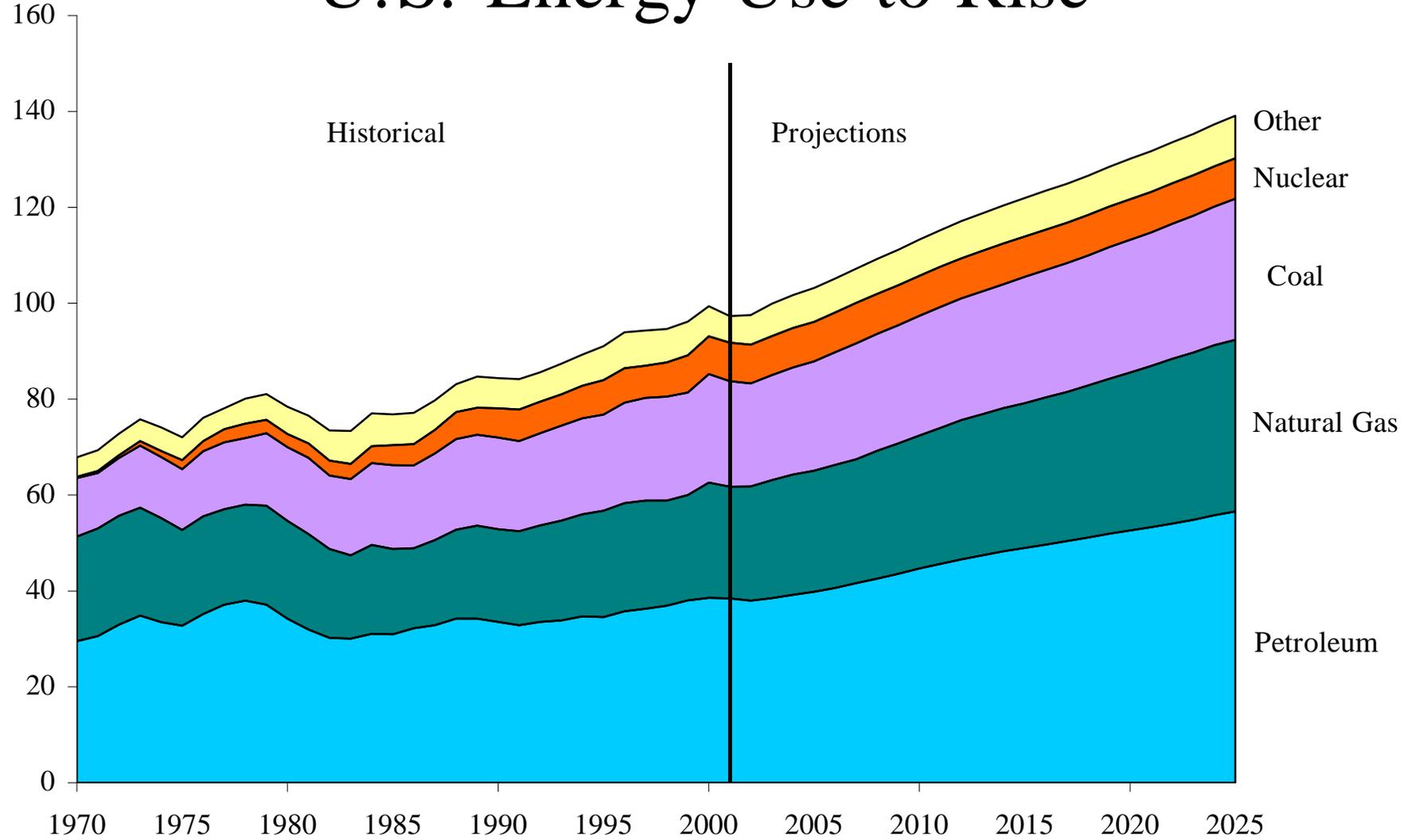
Oil Prices Elevated



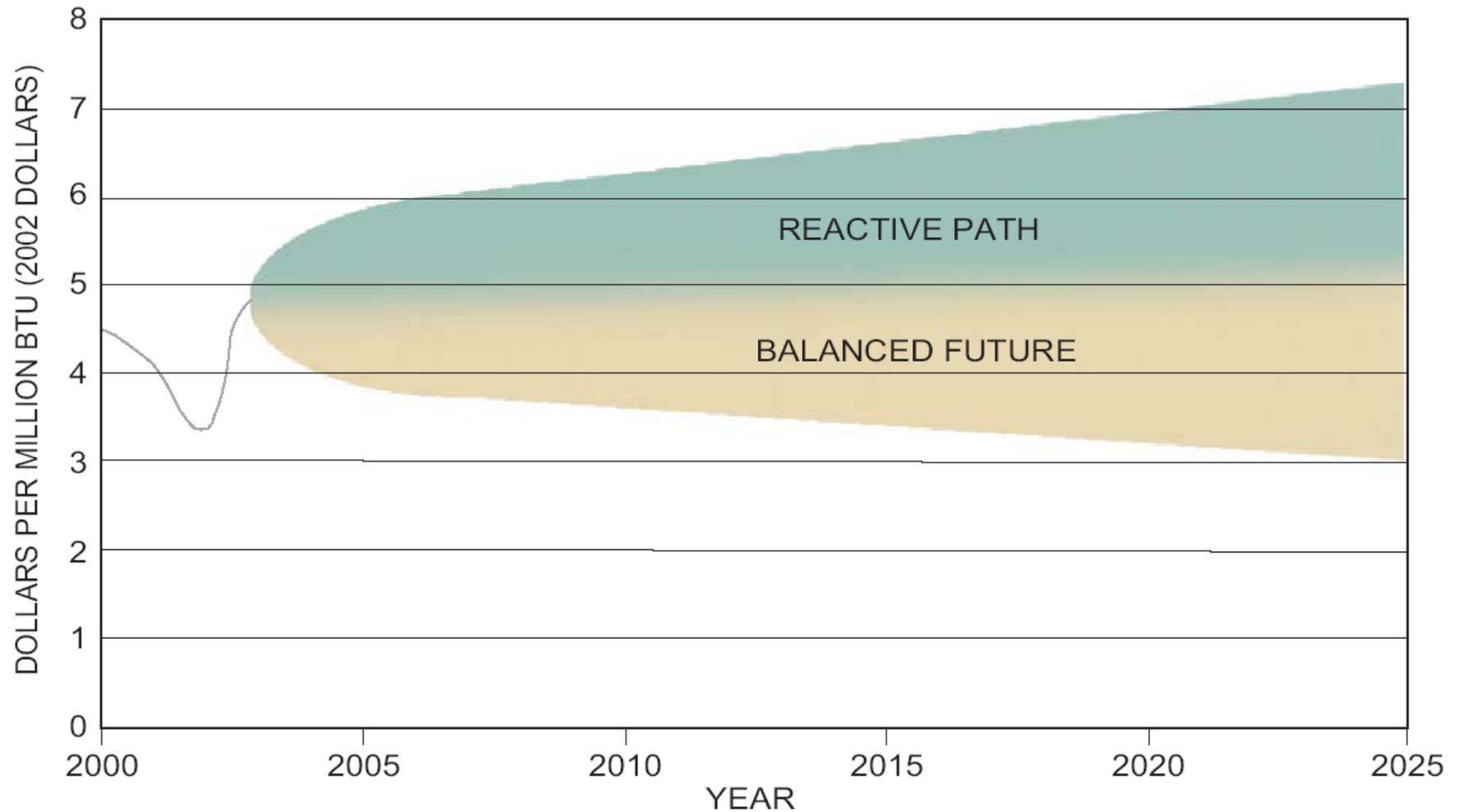


Quadrillion Btu

U.S. Energy Use to Rise



Range of Potential Natural Gas Prices



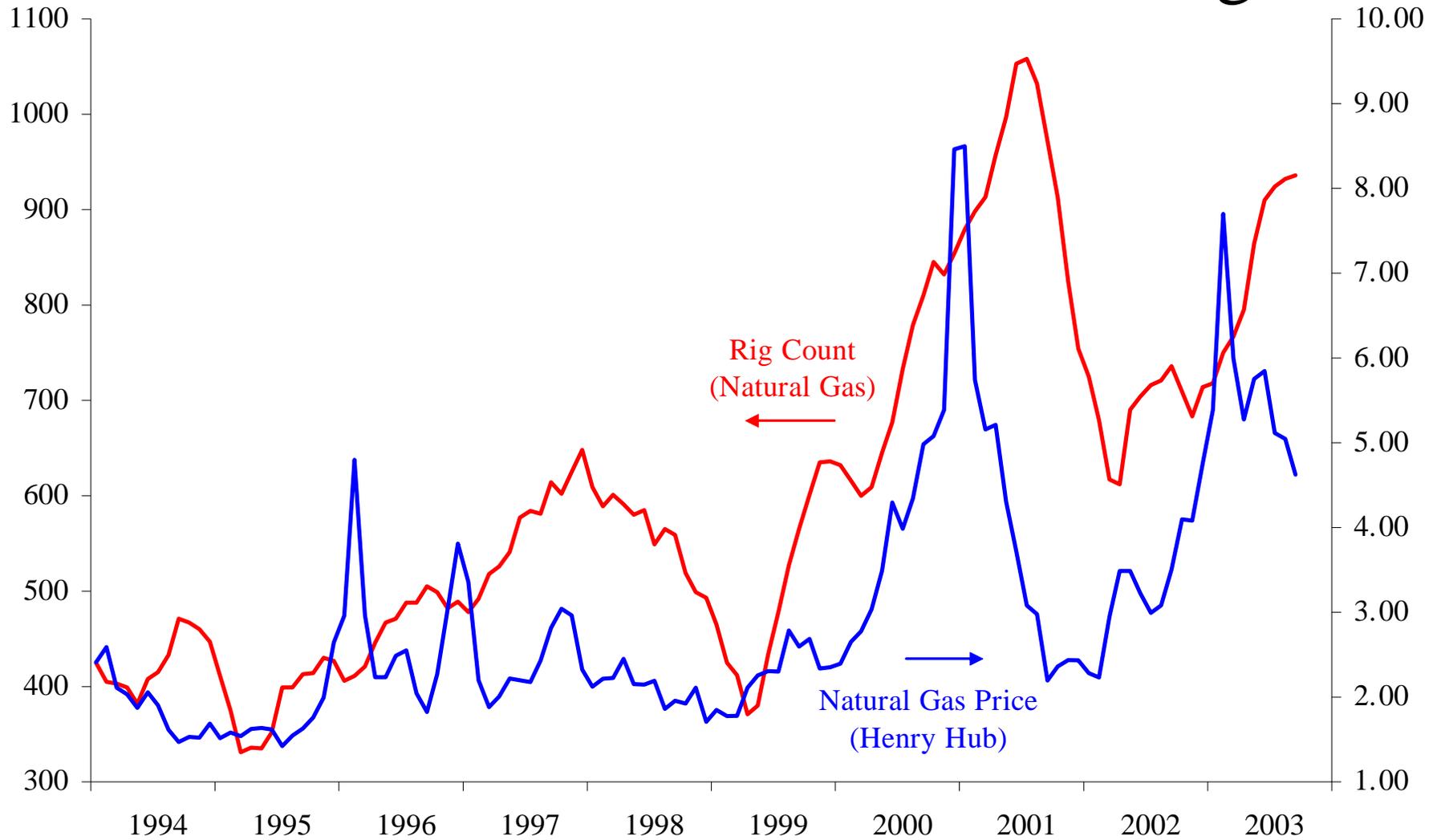
Natural Gas Prices

- Most Likely to Remain Elevated Relative to Crude Oil Prices
- The likely range is \$3.50-6.50 per million Btu (Henry Hub)
- The most likely range is \$4.50-5.00 per million Btu.

US Rig count,
(sa)

Natural Gas Prices Boost Drilling

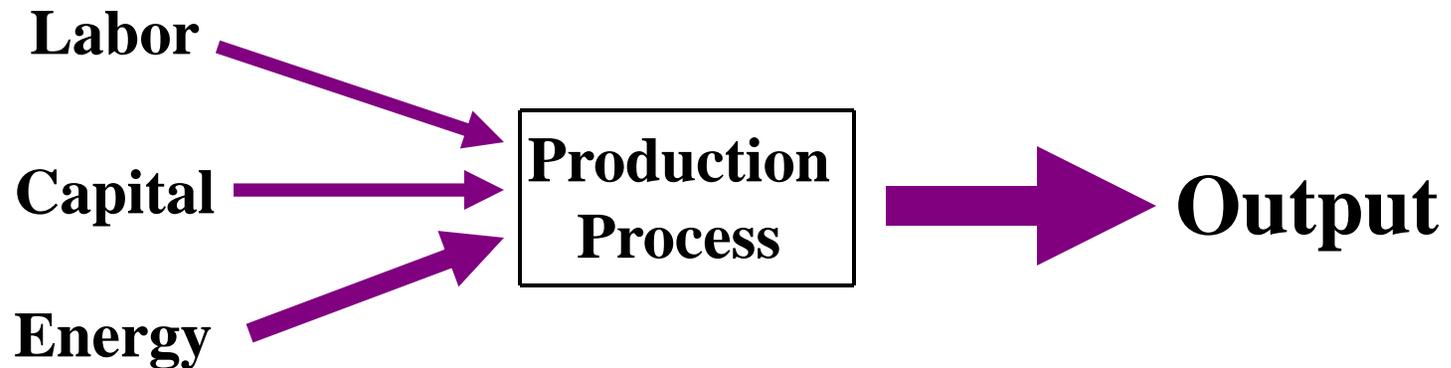
\$/mmbtu



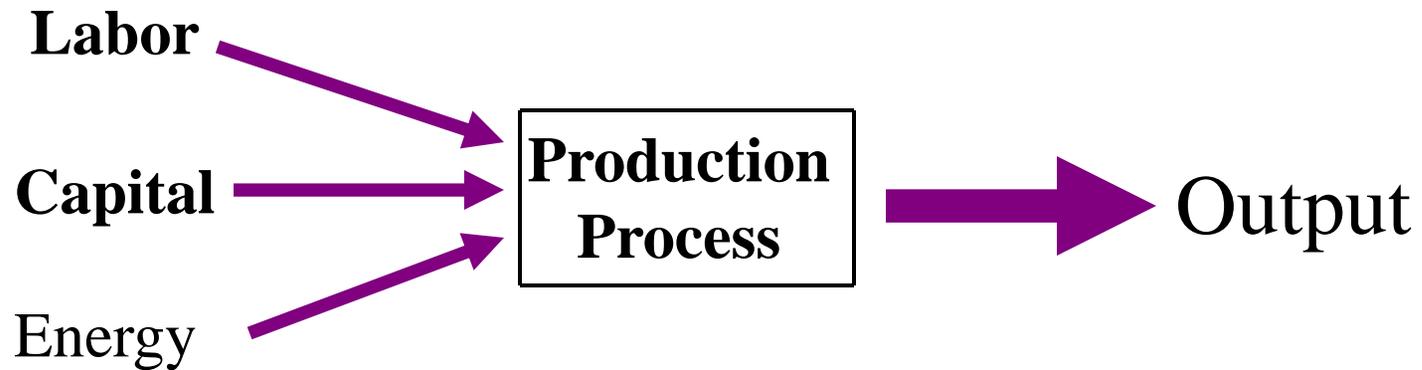
Higher Natural Gas Prices Hurt Other Economic Activities

- Petrochemicals
- Fertilizer Producers
- Aluminum Producers
- Electric Utilities
- Their customers

Classic Supply Shock



Classic Supply Shock

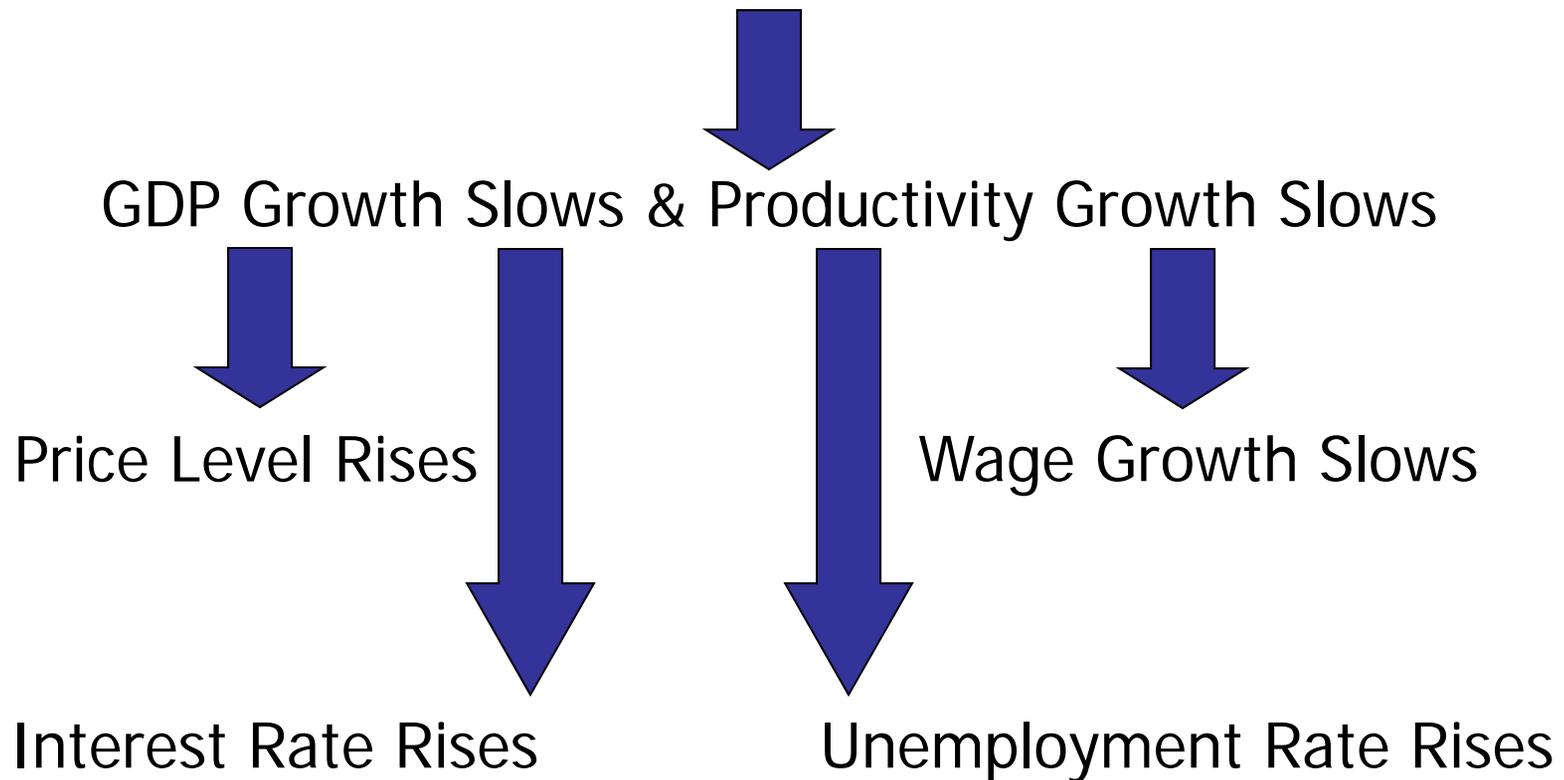


Aggregate Economic Effects

Economy-Wide Aggregation of
Classic Supply Shock

An Unfavorable Supply Shock

Input Scarcity (Higher Natural Gas Prices)



Estimating the Aggregate Effects of Higher Natural Gas Prices

- Natural gas prices about 45 percent above historical relationship with crude oil prices
- No empirical research on the economic effects of natural gas price movements
- US GDP reduced by 0.2-0.8 percent
- GDP deflator increased by about the same
- Very slightly gain in interest rates

Natural Gas Prices and Economic Activity

- Natural gas prices likely to remain high relative to crude oil prices
- Higher natural gas prices will act as a slight drag on U.S. economic activity
- Effects uneven across industries and regions of the country