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Petroleum Prices Set Records in 2011

By Geoffrey Styles

Posted on Jan. 12, 2012



Ed. note: This piece first appeared on [Energy Outlook](#), Geoffrey Styles' blog.

Without much fanfare, the Energy Information Agency of the US Department of Energy released a report on [2011 energy commodity prices](#) yesterday. It confirmed that crude oil and key petroleum products set annually averaged price records last year. This largely snuck up on us, because it occurred without the kind of dramatic price spike we experienced in 2008 or in the oil crises of the 1970s. Prices rose early in the year, during the Libyan revolution, and they didn't fall much, subsequently. The situation was also masked by the ongoing [crude oil bottleneck](#) in the US mid-continent, which depressed prices of the grade of US oil that for decades had been regarded as the best indicator of global oil prices, a role in which it has recently fallen short. These record prices for oil and its products are of more than just statistical interest; they help to explain the persistent weakness of the economy, representing an incremental drain of roughly \$100 billion, compared to 2010, based on our [net petroleum imports](#). That's roughly [half the impact](#) of the social security payroll tax holiday over which Congress and the administration have been sparring.

The EIA reported that UK Brent Crude, probably the best gauge of global oil prices at the moment, averaged [over \\$111 per barrel](#) last year. That's 40% higher than in 2010, and \$14/bbl over 2008, the year in which West Texas Intermediate came very close to \$150/bbl before ending the year at \$45. Of even greater interest to most Americans, the pump price for unleaded regular gasoline in 2011 [averaged \\$3.52 per gallon](#). Although in contrast to 2008 it only broke the \$4 mark in a few regional markets like California, New England and Chicago, and even there only for a month or two, it beat the 2008 national average by more than \$0.25/gal. through sheer persistence. And for the most part that didn't happen because the US is now a [net exporter of gasoline](#) and other petroleum products. It happened mainly because the global crude oil market was influenced more by the instability in North Africa and the Middle East than by worries about the US economy and the fate of the European Union and its currency, the Euro.

Of course all of the above prices are in nominal dollars, so I thought it was worth taking a quick look at real prices. After adjusting for [consumer price inflation](#), that \$3.52 mark for gasoline ties 2008's real-dollar all-time annual record, and it exceeds the average for the peak oil-crisis-year of 1981 by about 28 2011 cents. It's a little harder to gauge whether last year's Brent price set a record for crude oil in real dollars, but it seems likely. Either way, what's remarkable about these price levels is that they occurred despite weak economic growth in the developed world and slowing growth in key developing countries like China. That raises ample questions about what we should expect this year.

I've seen a wide range of estimates for where oil prices will settle out this year. The fundamentals of oil itself seem on the bearish side, with US production [growing](#), thanks to unconventional plays like the Bakken and the Eagle Ford shale, and Libyan output gradually returning. Demand growth could also ease, especially if Europe falls into recession. Arrayed against those factors are a fairly cohesive OPEC, which benefits when oil prices are as high as possible without actually throttling the economy, and the standoff brewing between tougher Western [sanctions](#) on Iran and Iran's [threats](#) to close down the Strait of Hormuz, through which something like 40% of global oil exports flow. Election-year politics might have an influence, too, recalling the administration's willingness last year to release oil from the US Strategic Petroleum Reserve for reasons that were rather [less than compelling](#) at the time. All in all, when we've spent the last several years lurching from one crisis to the next, it's not hard to imagine another crisis just around the corner. Let's hope that 2012 surprises

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