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SURGE IN ENERGY PRODUCTION- A GAME CHANGER FOR U.S.?

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Every president since Richard Nixon has called for the U.S. to wean itself from the need for imported oil. A dozen years after Texas wildcatter George Mitchell commercialized a new gas-drilling technology called hydraulic fracking, a new U.S. energy boom is taking off. **While there are still environment issues to be dealt with**, according to numerous forecasters, the nation’s new found energy riches are likely to bring energy independence closer to reality in the next decade and could have a dramatic impact on the U.S. economy:

- **Production Boom:** In a report issued earlier this year, Citi says U.S. oil and gas production is going to skyrocket in the next six years due to strides in natural resource extraction. This, along with a trend toward declining U.S. energy consumption, will completely transform both the domestic economy and the threats the U.S. will face in the future (i.e. no longer dependent on Middle Eastern oil!). Citi economists expect total liquids production to as much as double for the continent in the next decade, and predict that the U.S. could overtake both Russia and Saudi Arabia in oil production by 2020.
- **Dramatic Drop In Oil Imports:** In a report issued last month by Bentek, an energy analysis firm, the U.S. will see its oil production rise nearly five million barrels a day, or 74%, in the next decade. In that time, reliance on countries outside of Canada will largely disappear. The U.S. today imports 45% of its petroleum, half from OPEC countries. But by 2022, Bentek projects only a million barrels per day will be delivered to the U.S. shore by tanker—down from 6.7 million in 2011 and just 5% of total demand. This Bentek projection, however, is an ambitious one, significantly surpassing the 2022 expectations of the federal U.S. Energy Income Administration (although the EIA forecast is in the midst of an upward revision). Clearly, though, there is a U.S. oil boom, which has come amid a drilling frenzy. Three years ago, 288 U.S. rigs were drilling for oil. Recently, according to data tracked by energy services firm Baker Hughes, 1409 rigs were working, a nearly fivefold increase.
- **Employment Growth:** All this new energy is creating jobs across the country. For instance, North Dakota, now the nation’s fourth-largest oil producing state, boasts a 3% unemployment rate, the nation’s lowest. Projections for new energy-related jobs vary, but are all pretty large. More than two-thirds of Citi’s estimate of 3.6 million new jobs will come from the multiplier effect, as the 550,000 new workers in fossil fuel-related jobs spend their incomes, or as other Americans spend the money they save from cheaper energy. IHS Global Insight says the natural-gas boom alone has created 600,000 jobs and will rise to 1.6 million by 2025.
- **Export Surge:** In a report released last month the Boston Consulting Group, rising U.S. factory productivity, spurred by falling natural gas prices, could help the nation boost exports of products such as locomotives and factory machinery and add between 2.5 million and 5 million manufacturing and support jobs by 2020. High worker productivity and low energy prices, driven by the surge in shale gas production, will give the U.S. a cost advantage in exports against Western European and Japanese rivals. In particular, BCG forecasts that a glut of natural gas production in the U.S. will keep the nation’s prices of the fuel 50% below those of Europe and Japan, as well as hold down electricity costs.

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The bottom line is, rather than worrying about running out of oil and becoming more dependent on OPEC for oil imports, the U.S. is experiencing an oil and gas boom that potentially has very positive implications on the U.S. economy and many U.S. companies.