The COVID-19 pandemic was unprecedented for many reasons, but the energy industry will never forget one first: Negative prices for crude oil. For a short period in the end of April, commodities traders were trying—without luck—to find buyers for May oil futures contracts and resorted to paying people to take the oil. The oil market stabilized over the summer and stayed within a narrow range around $40 a barrel.

The price for oil depends on a balance of supply and demand. It also relies on the economics of oil fields: There are prices so low as to make pumping existing wells unprofitable, and prices so high as to encourage new drilling. The forecast prices for crude oil produced in the U.S. suggest that the petroleum industry will receive neither signal. Until demand for oil rises—which likely won’t happen until U.S. drivers start commuting to work and taking vacations by car—prices won’t support widespread new drilling. These three charts tell the tale.

The Federal Reserve Bank of Dallas serves the largest region of oil production in the U.S. and so has a longstanding interest in the fortunes of the petroleum industry. During a November 2020 presentation, the Dallas bank published dozens of slides outlining the near-term prospects for oil production, and this chart combines two of them. Researchers at the bank asked oil companies in seven broadly defined oil producing regions, including the Eagle Ford and Permian Basin in Texas and the Bakken in North Dakota, what price was needed to support new drilling and what price was needed to cover expenses on existing wells. The average response for each region and the forecast price for 2021 are shown. The expected price falls just under the average needed to support new drilling in all regions, though the Dallas bank survey does show that some companies could profitably drill at that price level. That’s good because existing wells will produce less oil over time, so even steady production at a steady price to meet a steady demand requires some new supply. Just not a lot.

In 2019, the price for domestically produced oil hovered near $60 a barrel, which was strong enough to support new drilling that would increase the oil supply. When the pandemic hit with full force, oil prices plunged to chase the falling demand. (These are month-end prices and so don’t reflect the day-to-day volatility that led to negative oil prices in April.) Over the summer, as oil producers shut in uneconomic wells and some motorists returned to the roads, the price stabilized. The price forecast from the E.I.A. ($45/bbl) suggests that equilibrium will remain throughout next year. Barring unforeseen events, the price of oil—and for petroleum products such as gasoline—in December 2021 will be the same as it is now.

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