U.S. Unconventional Oil and Gas Revolution to Increase Disposable Income by More than $2,700 per Household and Boost U.S. Trade Position by More than $164 billion in 2020, New IHS Study Says

Release Date:  
Wednesday, September 4, 2013 12:01 am EDT

Terms:  
Energy  Federal Markets

Dateline City:  
WASHINGTON

More than 3.3 million jobs will be supported in 2020 as the unconventional oil and gas revolution boosts industry competitiveness and manufacturing growth

WASHINGTON--(BUSINESS WIRE)--The economic and employment contributions from U.S. unconventional oil and gas production are now being felt throughout the U.S. economy, increasing household incomes, boosting trade and contributing to a new increase in U.S. competitiveness in the world economy, a new study by IHS finds.

Unconventional oil and gas activity increased disposable income by an average of $1,200 per U.S. household in 2012 as savings from lower energy costs were passed along to consumers in the form of lower energy bills as well as lower costs for all other goods and services. That figure is expected to grow to just over $2,000 in 2015 and reach more than $3,500 in 2025, the study says.

U.S. trade position will continue to improve, owing to the significant reduction in energy imports and the increased global competitiveness of U.S.-based energy-intensive industries, the study says. Driven by a rise in domestic production and manufacturing that will displace imports, as well as a favorable export position for these industries, the trade deficit will be reduced by more than $164 billion in 2020—equivalent to one-third of the current U.S. trade deficit.

The new study, entitled America’s New Energy Future: The Unconventional Oil and Gas Revolution and the Economy – Volume 3: A Manufacturing Renaissance, builds on previous IHS research on the economic contributions of unconventional oil and gas activity. The previous studies focused solely on upstream unconventional activity and found that that sector of the energy value chain currently supports more than 1.7 million jobs and will grow to nearly 3 million by the end of the decade.

The new study widens the breadth of the research to include the full energy value chain (upstream, midstream and downstream energy and energy-related chemicals) and the overall macroeconomic contributions on the manufacturing sector and broader U.S. economy. Midstream and downstream unconventional energy and energy-related chemicals activity currently support nearly 377,000 jobs throughout the economy, the study finds. Combined with upstream activity, the entire unconventional oil and gas value chain currently supports more than 2.1 million jobs. Total jobs supported by this value chain will rise to more than 3.3 million in 2020 and reach nearly 3.9 million by 2025, the study says.

“The unconventional oil and gas revolution is not only an energy story, it is also a very big economic story that flows throughout the U.S. economy in a way that is only now becoming apparent,” said Daniel Yergin, IHS Vice Chairman and author of The Quest: Energy, Security and the Remaking of the Modern World. “In addition to significant job and economic impacts from energy production and its extensive supply chains, the growth of long-term, low-cost energy supplies is benefiting households and helping to revitalize U.S. manufacturing, creating a competitive advantage for U.S. industry and for the United States itself.”

Energy-related chemicals and other energy-intensive industries such as petroleum refining, aluminum, glass, cement, and the food industry are some of the primary beneficiaries from secure supplies of low-cost energy from unconventional production, the study says. More than 70 percent of the cash cost of producing energy-related chemicals—which include major commodity petrochemicals such as olefins, methanol and ammonia—is the cost of raw materials and energy feedstocks.

The chemical manufacturing industry accounted for 13 percent of all U.S. merchandise exports ($198 billion) in 2012—compared to $152 billion in 2007. This trend is expected to continue as energy-intensive industries benefit from lower energy prices, lower electricity prices and increased demand for their products as growth in investment spurs domestic consumption, the study says.

In addition to measuring jobs supported by the full unconventional value chain, the study also quantifies the additional manufacturing jobs attributed to the broader macroeconomic contributions that begin with unconventional oil and natural
gas. More than 460,000 combined manufacturing jobs (3.7 percent of all manufacturing jobs) will be supported in 2020, rising to nearly 515,000 (4.2 percent of total manufacturing jobs) in 2025. The manufacturing sector will become increasingly connected to unconventional development as a primary source to create and sustain jobs over the course of the study period. Manufacturing jobs will represent one out of every eight jobs supported by unconventional oil and gas development during that time, the study says.

“This study illustrates the extended contributions of the unconventional revolution to the U.S. economy as energy intensive industries move to capitalize on this newfound abundance and the contribution to overall competitiveness that it brings,” said John Larson, Vice President, IHS Economics. “It puts the unconventional revolution in context as an important, but little understood pocketbook issue for all Americans.”

Other Key Findings

- The entire unconventional oil and gas value chain and energy-related chemicals will contribute $284 billion in value-added contributions to GDP in 2012, a figure that will increase to nearly $533 billion annually in 2025.
- The full value chain of industrial activity and employment associated with unconventional oil and natural gas contributed more than $74 billion in federal and state government revenues in 2012. Tax receipts will rise to more than $125 billion annually by 2020 and reach $138 billion by 2025.
- Workers’ earnings from all unconventional energy and chemicals activity were nearly $150 billion in 2012. This total will rise to $207 billion in 2015 and will be nearly $269 billion in 2025.
- Industrial production increases directly resulting from lower feedstock prices and energy costs associated with the full value chain of unconventional activity will be $258 billion (3.5 percent increase) by 2020 and rise to $328 billion (3.9 percent increase) in 2025.
- Between 2012 and 2025, IHS projects a cumulative investment of nearly $346 billion across the midstream and downstream energy and energy-related chemicals value chains. Close to $216 billion of this will come in the midstream and downstream segments of the unconventional value chain, including 47,000 miles of new or modified pipeline infrastructure.
- More than $31 billion in new capital investments will drive the addition of more than 16 million tons of chemical capacity by 2016. Cumulative investment will grow to more than $129 billion to support nearly 89 million tons of capacity by 2025.
- Employment contributions from the midstream and downstream sector are at their greatest in the near term (currently supporting nearly 324,000 jobs), as expansions and other capital expenditures are made to increase capacity connecting the resource base with broader end-users.
- Energy-related chemicals (currently supporting more than 53,000 jobs) will support a growing number of jobs in the long term. By the end of the decade, energy-related chemicals will support more than 277,000 jobs—a fivefold increase— and rise to nearly 319,000 by 2025.

America’s New Energy Future also includes a Low Production Case which measures the potential loss of economic contributions from a more restrictive regulatory environment than currently exists today. The results of this Low Production Case include:

- 1.4 million less jobs supported by 2015 than otherwise expected. Nearly 2.8 million less by 2025.
- $127 billion less in value-added contributions to U.S. GDP in 2015 and $300 billion less by 2025.
- $29 billion less in federal and state revenues in 2015. The loss would grow to $72 billion by 2025. The cumulative loss for federal and state revenues over the entire 2012-2025 study period would be nearly $535 billion.
- The benefit to U.S. trade position would be reduced to $94 billion— 57 percent of what is currently expected.
- On average, disposable income per household would be $1,730 less per year than is otherwise expected.

“The availability of a long-term supply of low-cost feedstock derived from unconventional resources is revitalizing the petrochemical industry in North America,” said Mark Wegenka, Managing Director, Chemical Consulting at IHS, and a contributing author of the study. “Prior to the recent expansion of unconventional gas, the outlook for the industry was bleak—it was suffering from significant plant shut-downs and capacity reductions. However, as a result of these unconventional oil and gas supplies, we’ve witnessed a complete turnaround. The industry is not only competitive again, but it is attracting significant domestic and foreign investment and adding capacity that is resulting in more high-quality U.S. jobs that pay well.”

About The Report

America’s New Energy Future: The Unconventional Oil and Gas Revolution and the U.S. Economy is a three-volume series based on IHS analyses of each play, which calculates the investment of capital, labor and other inputs required to produce these hydrocarbons. The economic contributions of these investments are then calculated using the proprietary IHS economic contribution assessment and macroeconomic models to generate the contributions to employment, GDP growth, labor income and tax revenues that will result from the higher level of unconventional oil and natural gas development. This research was supported by the American Chemistry Council, America’s Natural Gas Alliance, the American Petroleum Institute, the Fertilizer Institute, the U.S. Chamber of Commerce – Institute for 21st Century Energy, the National Association of Manufacturers, the Natural Gas Supply Association, Rio Tinto and the Society of the Plastics Industry. IHS is exclusively responsible for all of the analysis and content.

Note: The “full value chain” refers to the entire range of economic activity that begins with the development of oil and gas production (upstream), flows into the transportation of these resources (midstream), and then into their transformation into products (downstream) and then into industrial uses, such as the production of petrochemicals.

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