The New York Times

# Oil Prices Predicted to Stay Above $100 a Barrel Through Next Year

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**December 29, 2011**

The United States economy managed to cope this year despite triple-digit prices for barrels of oil. The lessons may come in handy, economists say, because those prices will probably be sticking around.

With Iran threatening to cut off about a fifth of the world's oil supply by closing the Strait of Hormuz and unrest in Iraq endangering the ability to increase production there, financial analysts say prices for two important oil benchmarks will average from $100 a barrel to $120 a barrel in 2012.

For consumers, who have been driving less and buying more fuel-efficient cars, weakened demand has helped lower gasoline prices 70 cents since May, to a national average of $3.24 for a gallon of regular unleaded, according to the AAA Fuel Gauge Report.

Now, though, the focus has turned to Iran. On Wednesday, Iran and the United States sharpened their tone over Iran's vow to close the Strait of Hormuz if Western powers tried to stifle Iran's petroleum exports.

The catalyst for the Iranian threats are new efforts by the United States and the European Union to pressure Iran into ending its nuclear program, which Iran has refused to do despite four rounds of sanctions imposed by the United Nations Security Council.

Those sanctions have not focused on Iran's oil exports. But in recent weeks, the European Union has talked openly of imposing a boycott on Iranian oil, and President Obama is preparing to sign legislation that, if fully enforced, could impose harsh penalties on all buyers of Iran's oil, with the aim of severely impeding Iran's ability to sell it.

Rear Adm. Habibollah Sayyari, Iran's naval commander, said in remarks carried by an official Iranian new site that "closing the Strait of Hormuz is very easy for Iranian naval forces." Admiral Sayyari, whose forces were in the midst of ambitious war game exercises in waters near the Strait of Hormuz, was the second top Iranian official to make such a threat in 24 hours.

A spokeswoman for the United States Navy's Fifth Fleet, which is based in Bahrain and patrols the strait, responded: "Anyone who threatens to disrupt freedom of navigation in an international strait is clearly outside the community of nations; any disruption will not be tolerated."

The Strait of Hormuz, with two mile-wide channels for commercial shipping, connects the Gulf of Oman to the Persian Gulf, the principal loading point for oil shipped from Saudi Arabia, the world's largest oil exporter.

A Saudi official told The Associated Press that the other oil-producing gulf nations are prepared to fill any shortfall in Iranian oil supply. But just as unrest in Libya shook the oil market in 2011, concern over Iran could influence prices in 2012.

Markets seemed to shrug off Iran's threats. The price of the benchmark crude oil contract on the New York Mercantile Exchange fell for the first time in more than week, settling at $99.36 on Wednesday, down $1.98.

But several investment banks predict that the price of the benchmark crude on the New York exchange will average about $110 next year while Brent crude oil, which analysts say affects what most of the world pays for oil, will average about $115 a barrel.

"The possibility that there might be a disruption in oil supply at some time in 2012 as Iran retaliates has, I think, permanently embedded a $10 to $20 premium in the price of oil," said **Bernard Baumohl, chief global economist at the Economic Outlook Group.** "The danger is if oil starts to move toward $130 a barrel, or even higher, depending on whether that confrontation will escalate. Then you're really talking about the prospect of the U.S. tipping over into recession in addition to Europe, and that the whole global economy will be facing an economic downturn."

Analysts say that members of the Organization of the Petroleum Exporting Countries, including Iran and Saudi Arabia, have an incentive to keep prices near $100 a barrel. Many governments in the Middle East and North Africa spent heavily on social assistance programs in response to the unrest of the Arab Spring and are depending on higher prices to help meet their budgets.

"It would be nice if prices did come down quite substantially," said Francisco

Blanch, head of commodity strategy at Bank of America Merrill Lynch, who added that the chances were slim. “The idea that oil is going to stay high for a while is pretty well entrenched because this is a premium fuel in the world economy, there isn’t a lot of oil out there and whatever oil is available is pretty much off bounds.”

Economists say they expect prices to remain high despite the relative weaknesses of the American and European economies because global demand for oil — especially diesel — is escalating and outstripping supply.

“There’s a consensus view that high prices will persist through 2012 because of the premise that the rest of the world, the emerging economies, are using a lot more fuel,” said Tom Kloza, chief oil analyst at the Oil Price Information Service.

At the same time, there is uncertainty in the forecasts, with some analysts predicting that prices could end up much lower as production increases in Libya and North America and could even drop sharply if the European economy falls apart. The United States Energy Information Administration, for instance, estimated this month that the price of the benchmark West Texas Intermediate, often called W.T.I., could fall as low as $49 a barrel or rise as high as $192 by the end of next year.

Sustained triple-digit oil prices could threaten the United States recovery, costing jobs, raising the prices of food and other consumer goods and pushing a gallon of gasoline to $5 or more. By one estimate, a $10 increase in the price of a barrel of oil shaves 0.2 to 0.3 percentage points off the economy’s annual growth rate.

Early this year, when W.T.I. crude oil finally reached $100 a barrel — the highest it had been in more than two years — the economy proved more resilient than in 2008, when crude crossed $100 a barrel and the country was mired in recession.

This spring, oil prices peaked at about $114 a barrel and then fell, stabilizing well below many predictions — in part because the Arab Spring did not stop oil from flowing out of the Middle East to the extent that had been anticipated. Gas prices have been declining since May and gross domestic product, while still sluggish, grew throughout the year, according to the most recent Commerce Department estimates.

Before 2008, gas prices had mainly stayed below $3 a gallon, and Americans were less focused on fuel economy, buying larger cars including S.U.V.’s. But after the price shock, when oil soared to $145 a barrel and average gas prices topped $4, many of those habits changed. Since then, gas prices have remained volatile, rising sharply toward the end of 2010 and the early part of this year before beginning to decline.

New figures from the Federal Highway Administration show that Americans cut back on their driving again in October. They logged 2.3 percent less, or 254 billion miles, compared with October a year ago, the eighth consecutive month there has been a decline. A broader measure — the 12-month total of miles driven — shows that motorists fell back to the low of 2.963 trillion miles driven reached at the end of the recession in 2009.

“It’s not just, I don’t have enough money, I don’t want to go out and buy gas,” said John Gamel, a macroeconomic analyst at MasterCard Advisors SpendingPulse. “It’s, I have found ways not to have to buy gas and so I’m going to keep doing that.”

He added that Americans had been doing less discretionary driving because they still perceived gas prices as being high. “Consumers have this belief that prices will either go up or they will remain at elevated levels.”