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Louisiana Energy Topic

Department of Natural Resources

Technology Assessment Division

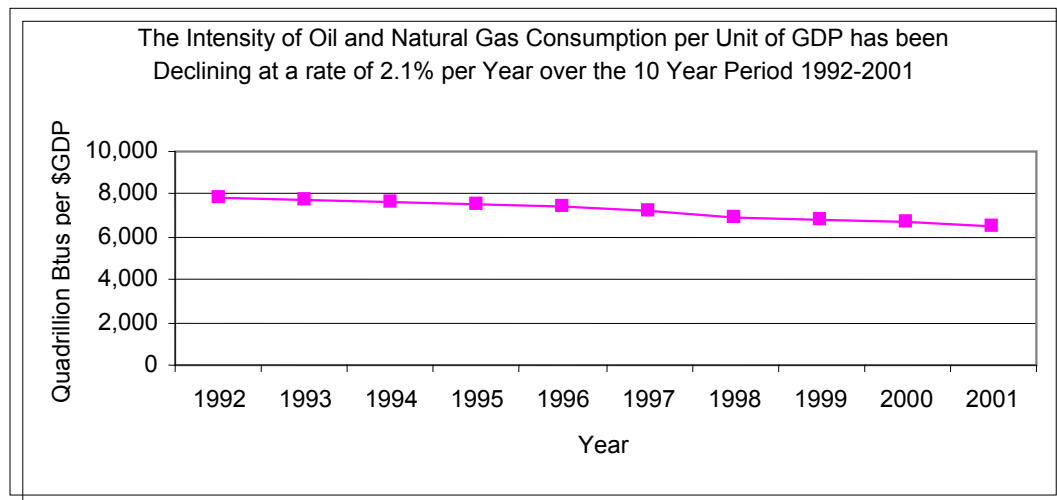
A Supplement to LOUISIANA ENERGY FACTS on Subjects of Special Interest

“NEW MYTHS AND OLD REALITIES”

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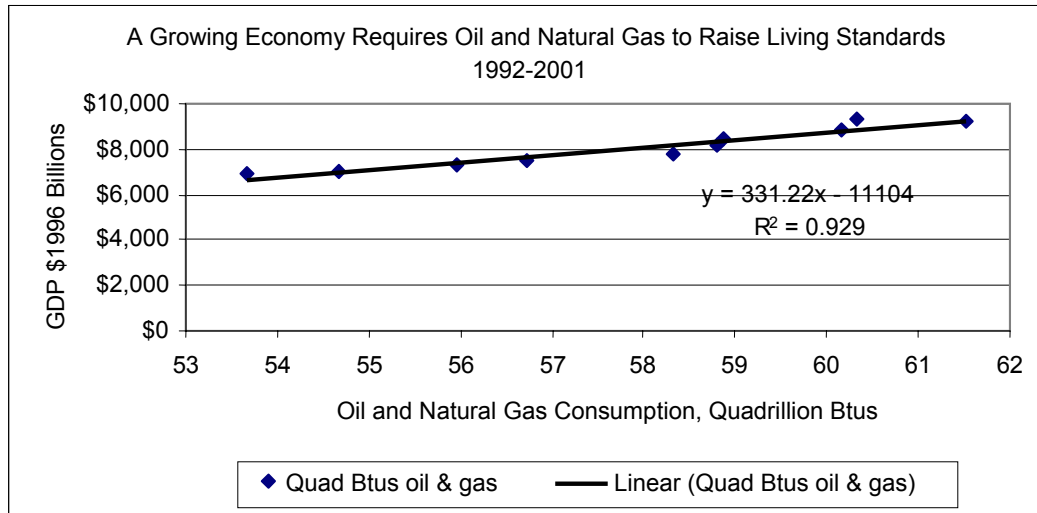
The U. S. economy dropped into recession in 2001. The economy experienced three consecutive quarters of downturn. According to the National Bureau of Economic Research (NBER), the organization charged with the responsibility for dating the start and ending of U. S. recessions, we may not yet be out of this recession. The current reasoning is that employment has yet to recover at a pace suggestive of economic recoveries.

The topic of a possible war with Iraq, and of how oil prices may impact a potential economic recovery, is a “hot topic” for authorities and experts of the chattering class on the TV talk shows. Many of these authorities and experts point to two economic factors: first, the economy is much less dependent on oil than it has been in the past, therefore any run up in oil price is expected to have a minimal impact on the pending economic recovery. Second, the proximate cause of the current recession was the decline in business investment. Once that recovers, so the story goes, the economy will resume its growth.

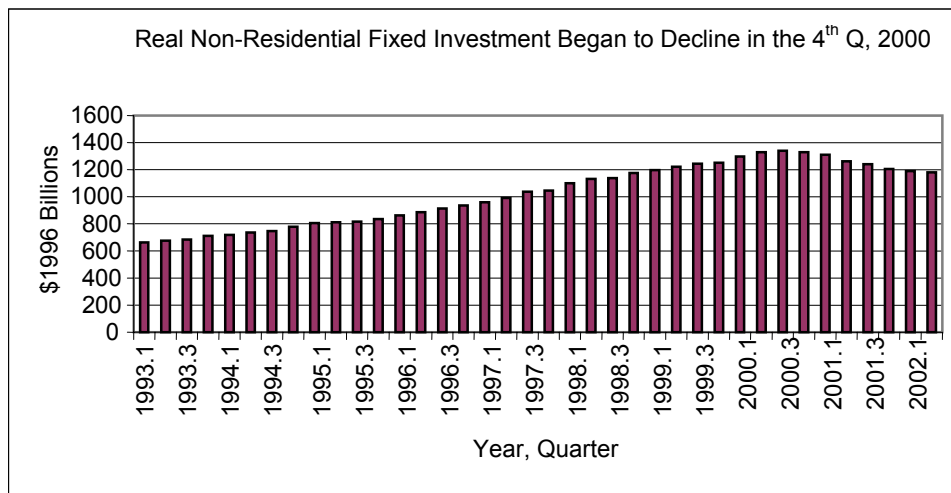


It is accurate to say the economy is less dependent on oil. U. S. Department of Energy, Energy Information Administration (EIA) statistics on the consumption of oil and natural gas per unit of Gross Domestic Product (GDP) are commonly cited.

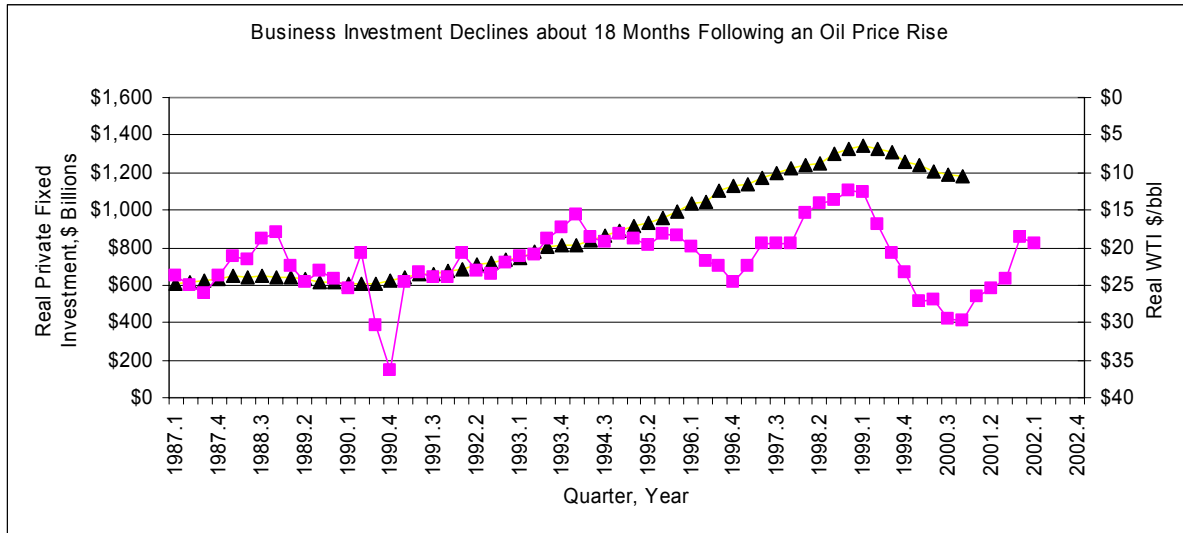
But, it is also accurate that energy leverages our physical and intellectual capital to increase living standards. And as those living standards rise, so too does the consumption of oil (as a proxy for energy use).



The chattering class may well have created a “New Myth” that the price of oil is no longer of inordinate concern to our economic recovery. While oil and natural gas intensity per unit of GDP declined at a compound annual rate of 2.1% between 1992 and 2001, GDP growth has increased at a 3.4% compound annual rate over the same time period. The result: an increase in oil and natural gas consumption.



Likewise, business investments (Source: U. S. Department of Commerce) began to decline in the last quarter of 2000 following a sustained rise over a prolonged period of years. Recession followed in 2001.



Another possible “New Myth” the chattering class may be projecting is that a decline in business investments was the proximate cause of the most recent recession.

Oil (energy) price volatility increases the uncertainty of the economic payoff of business investments. There is a respectable correlation between the direction of oil price (note the rise beginning in 1999) and the direction of business investment. Note how investment lagged oil prices by 18 months in the figure above. With today’s price of oil remaining near \$30 per barrel, business investment may be slow to recover.

It may also be that the “New Myths” cite accurate data, but “Old Realities” remain true; the U.S. economy is dependent on abundant, affordable energy.

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ENERGY STAR[®] HOME IMPROVEMENT TOOLBOX

ENERGY STAR offers businesses and consumers energy efficient solutions -- helping to save money while protecting the environment for future generations.

For your home, ENERGY STAR offers you the Home Improvement Toolbox. It has an array of tools that can help consumers spend their home improvement dollars more wisely, select energy-saving equipments, make cost-effective upgrades to their homes, and protect the environment. These tools could potentially help consumers lower their utility bill expenses up to 30 percent, or approximately \$400 per year, for a home using \$1,400 in energy per year. The Home Improvement Toolbox has 4 tools and they are:

The Home Energy Yardstick This tool provides an energy performance score for consumer homes. It determines how much energy their homes use in comparison to others. Consumers are prompted to input their zip code, square footage, number of occupants and basic information from their utility bills to receive an energy performance score for their homes. If the score is less than 86, consumers can use the other tools in the Home Improvement Toolbox to improve upon their Yardstick score. A score of 86 or better indicates that the house insulation were carefully installed, its windows are well insulated, its heating and cooling ducts are tightly sealed, its heating and cooling (HVAC) system is efficient, and air infiltration is low.

The Home Improvement Advisor This tool delivers a list of valuable statistics on cost of improvement projects. It also helps consumers select the ones that will give them the most in return-on-investment and amount of energy saved.

The Home Doctor This tool offers solutions that alleviate drafty rooms and cold floors problems, increase energy efficiency, and lower utility bills.

The Home Remodeler This tool helps consumers to select energy-efficient upgrades into their home improvement plans.

The Home Improvement Toolbox can be found at

www.energystar.gov/homeimprovement

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