



Outlook for Natural Gas Demand

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The U.S. Economy in Recession

- **The housing crash, credit crunch, and high oil prices have pushed the U.S. economy into recession**
- **Home sales, prices, and construction will fall further**
- **Consumers and businesses will spend cautiously**
- **Yet, a bright outlook for exports**
- **Fiscal and monetary stimuli will help to revive growth**

The major risk is a double-dip recession.



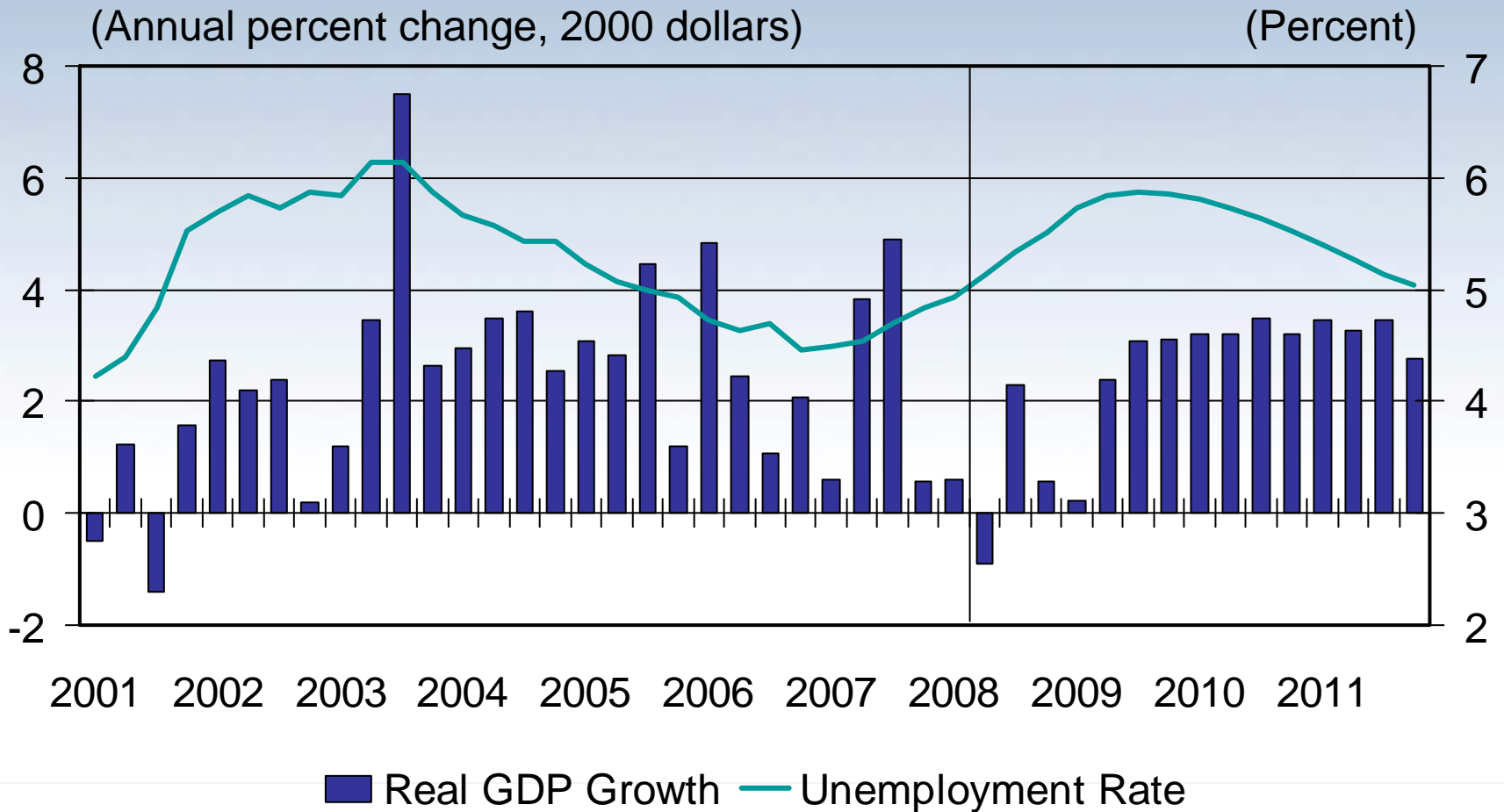
The “Double-Shock” Economy

- **Shock One: Housing and the Credit Crunch**
- **Shock Two: \$120 Oil**

**The combination is likely to produce a mild recession –
can Washington policy-makers ride to the rescue?**

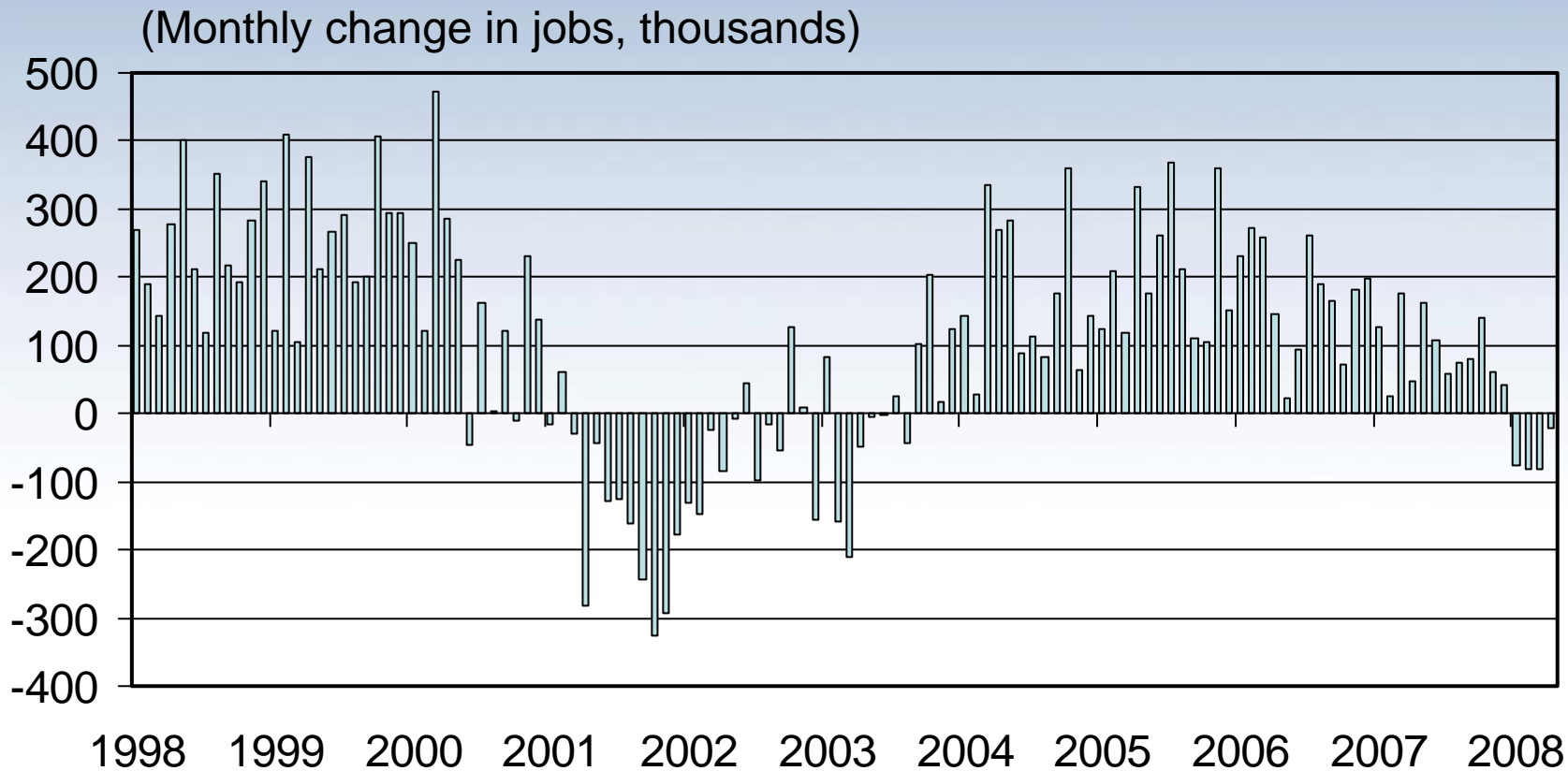


A U.S. Recession Is Under Way



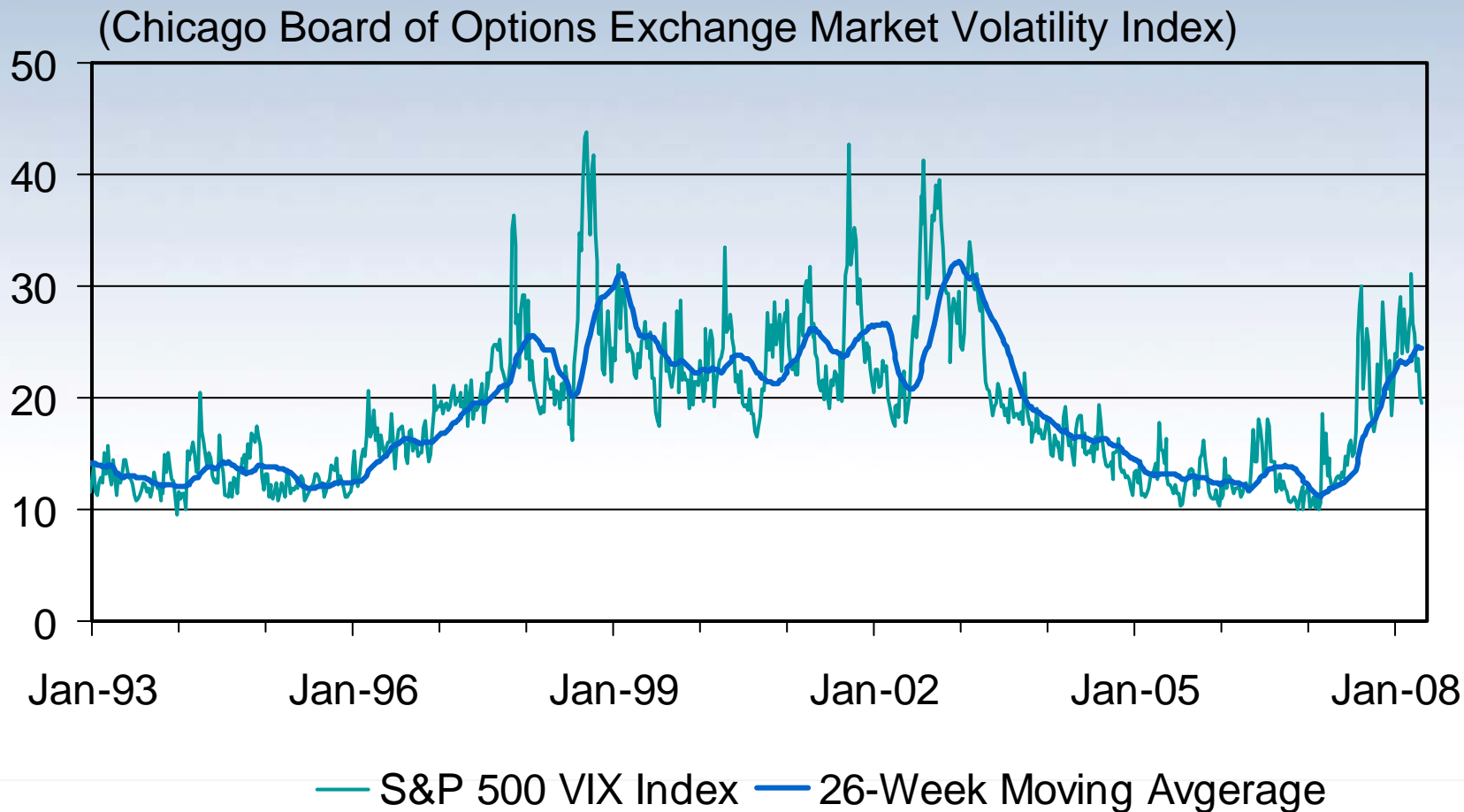


Payroll Employment Is Declining



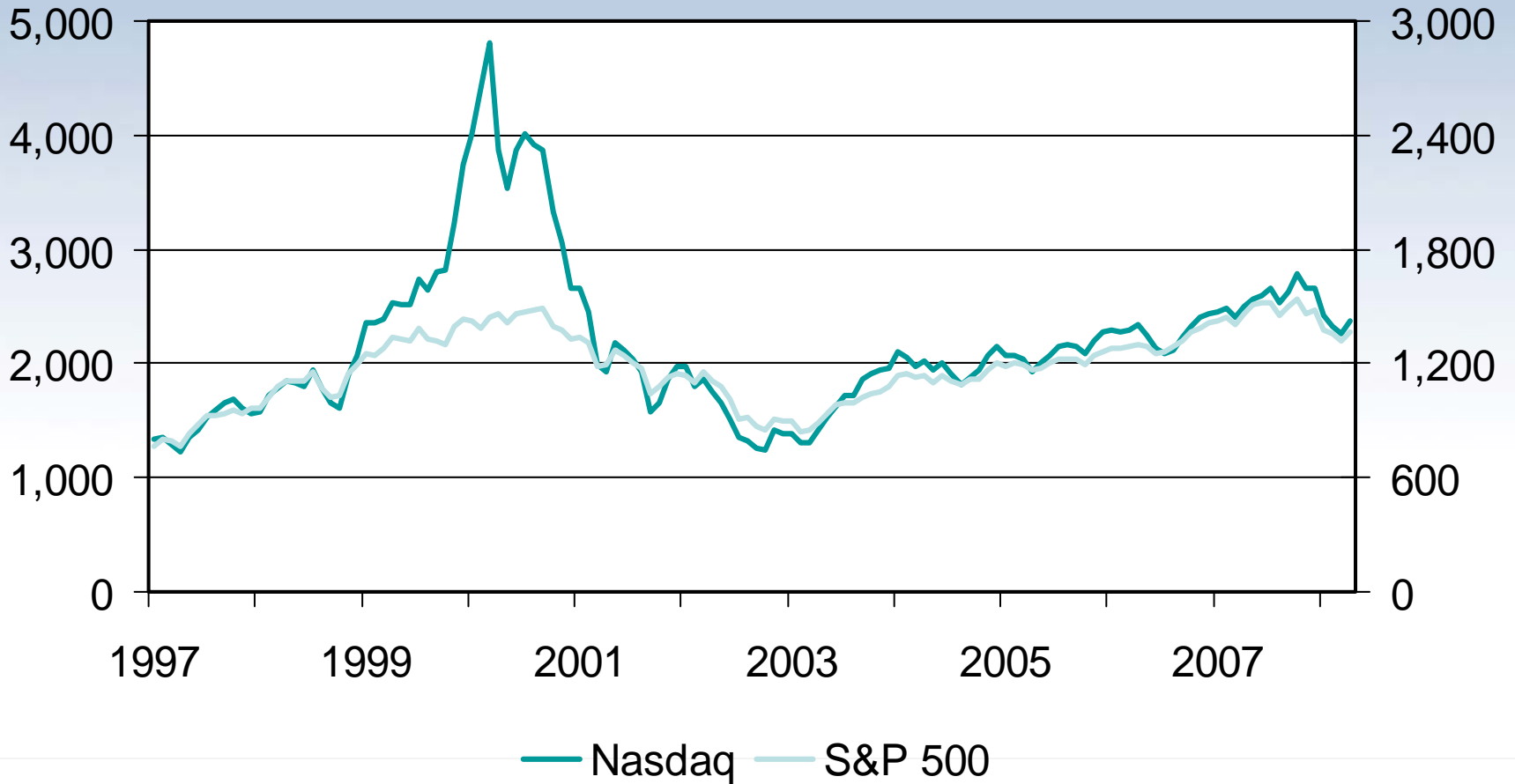


Stock Market Volatility Has Returned



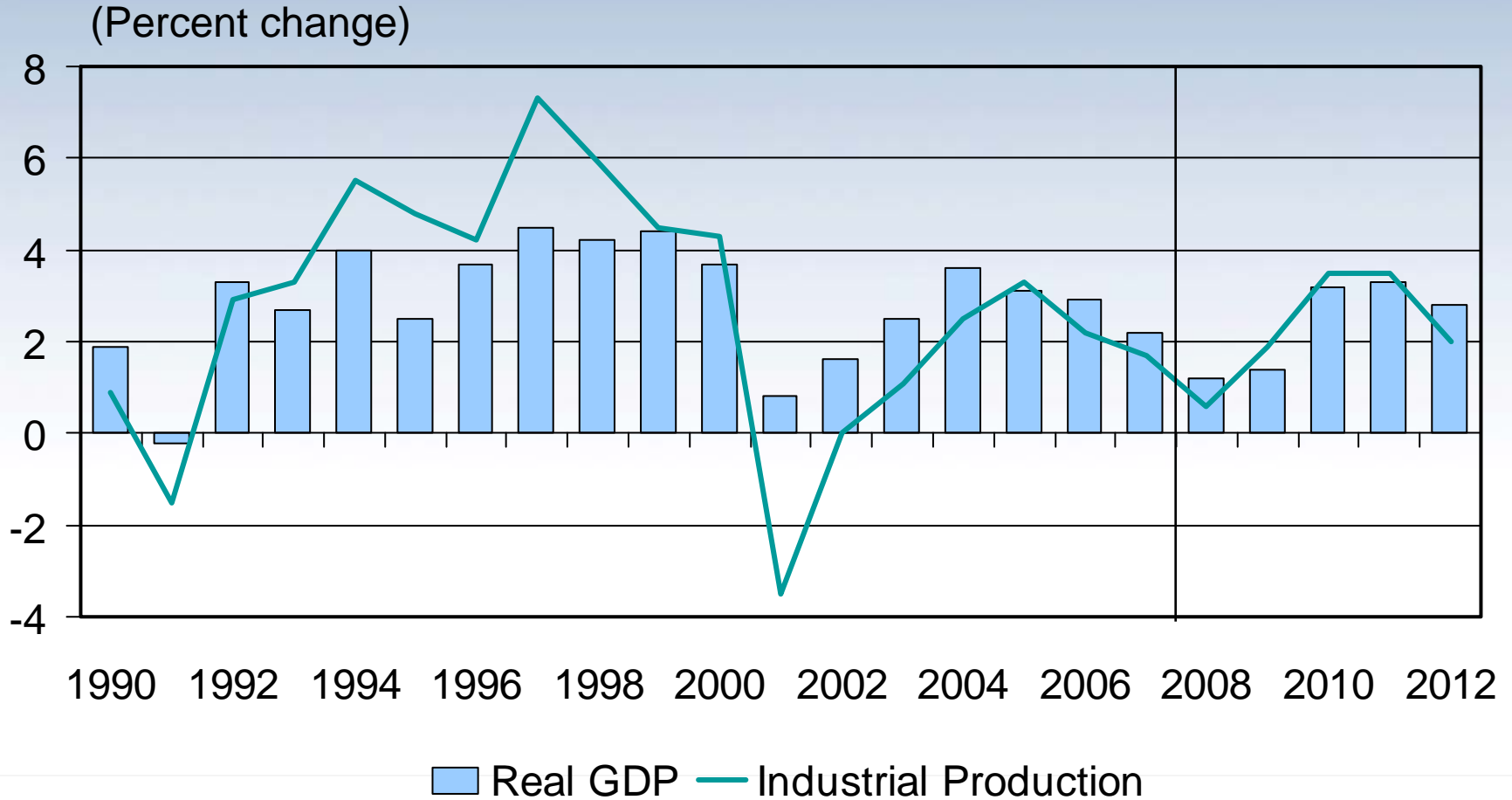


Stock Markets Before and After the Internet Bubble



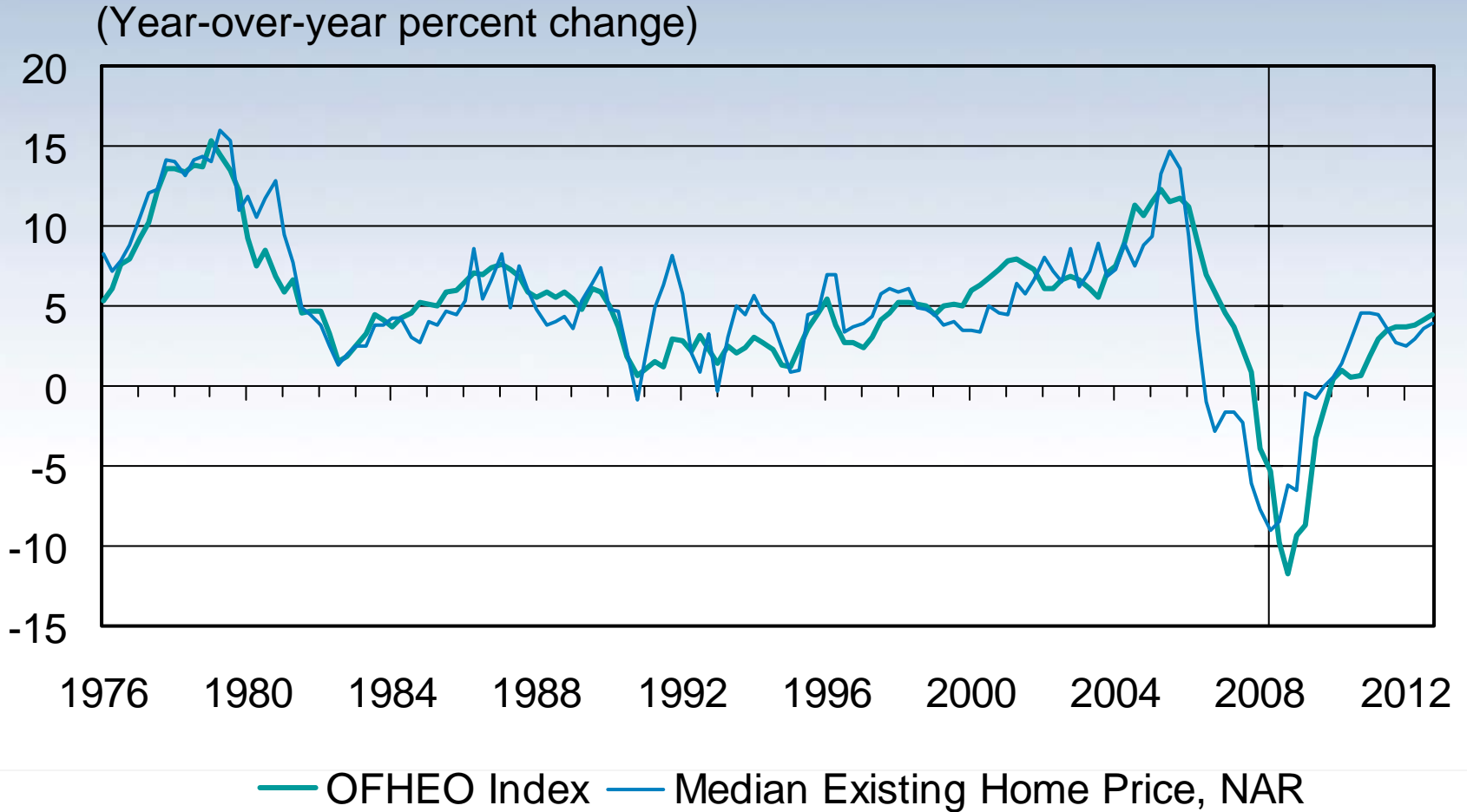


U.S. Economic Growth Will Revive by 2010



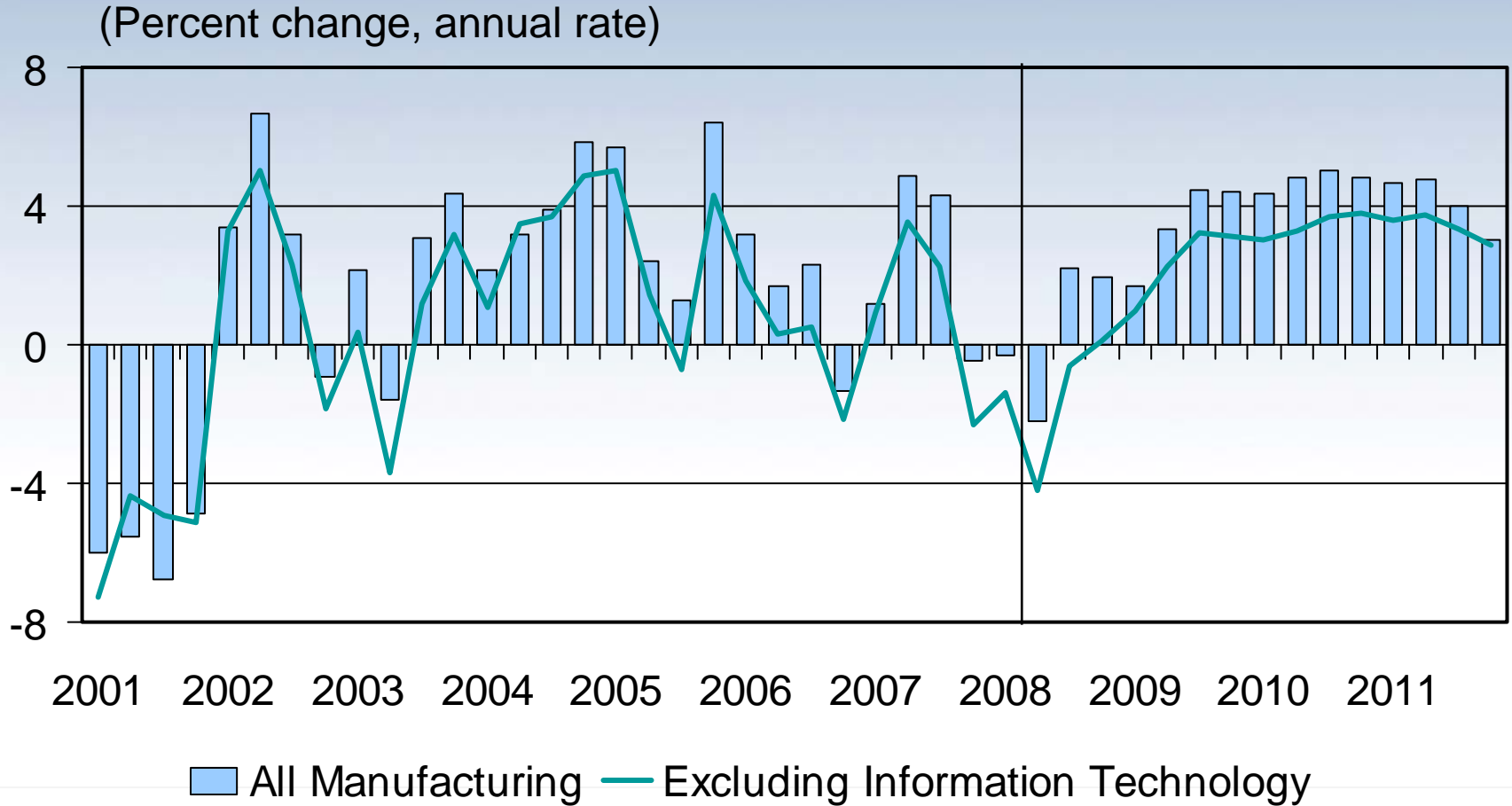


The Home Price Decline Will Extend into 2009





Manufacturing Production Is Pulled Down by Weak Housing and Automotive Markets





U.S. Industrial Production Growth by Sector

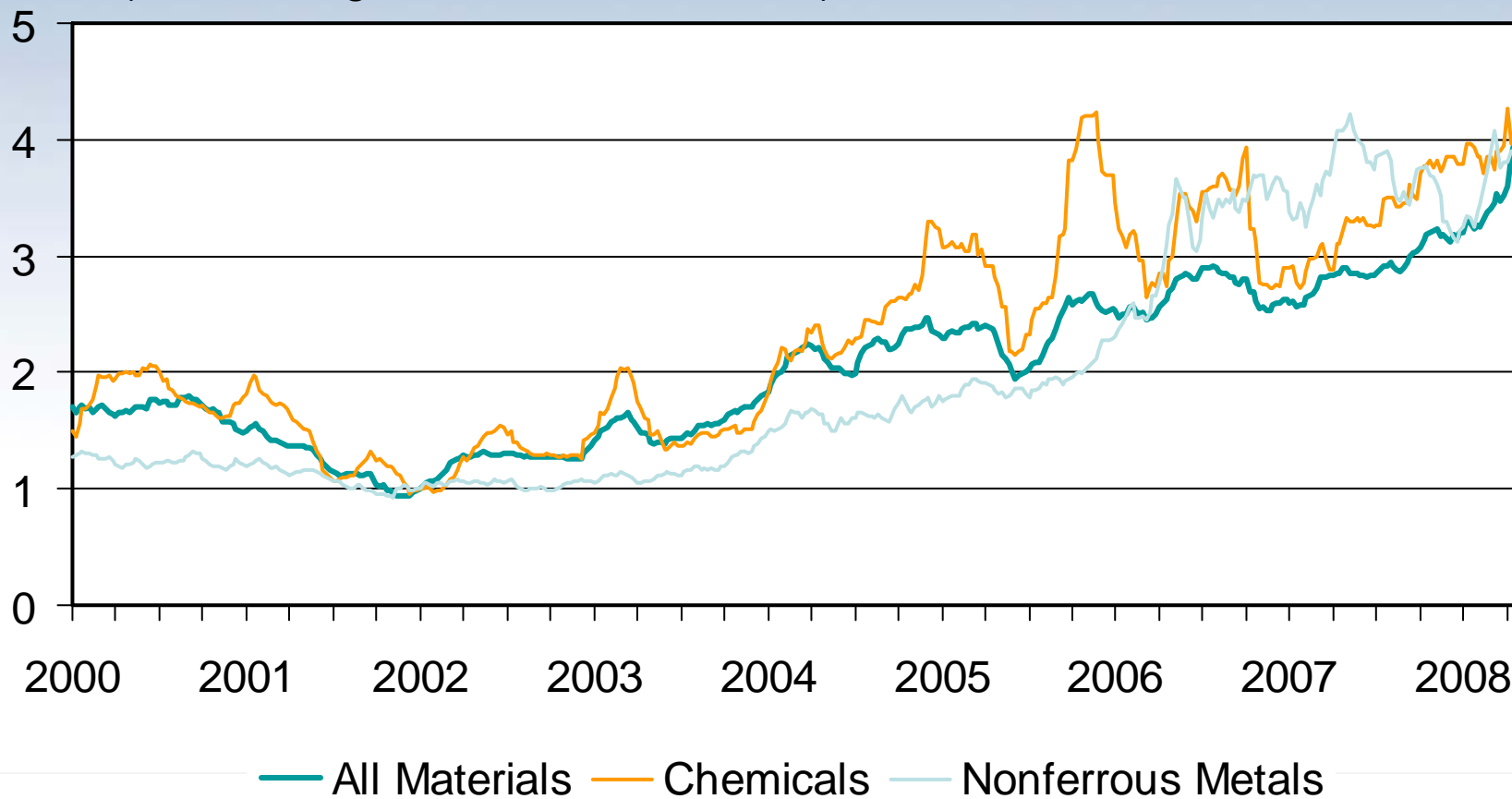
(Percent change)

	2007	2008	2009	2010
All Manufacturing	1.8	0.6	2.4	4.5
Motor Vehicles & Parts	-3.0	-8.1	0.5	1.3
Computers & Electronics	11.3	16.7	13.6	12.4
Elec. Equip. & Appliances	3.6	-1.7	-3.2	3.2
Textiles	-6.2	-7.4	-5.6	-1.3
Apparel	0.4	-4.7	-6.2	-6.1
Furniture	-2.2	-8.4	-2.1	3.7
Chemicals	1.4	0.6	1.5	2.9



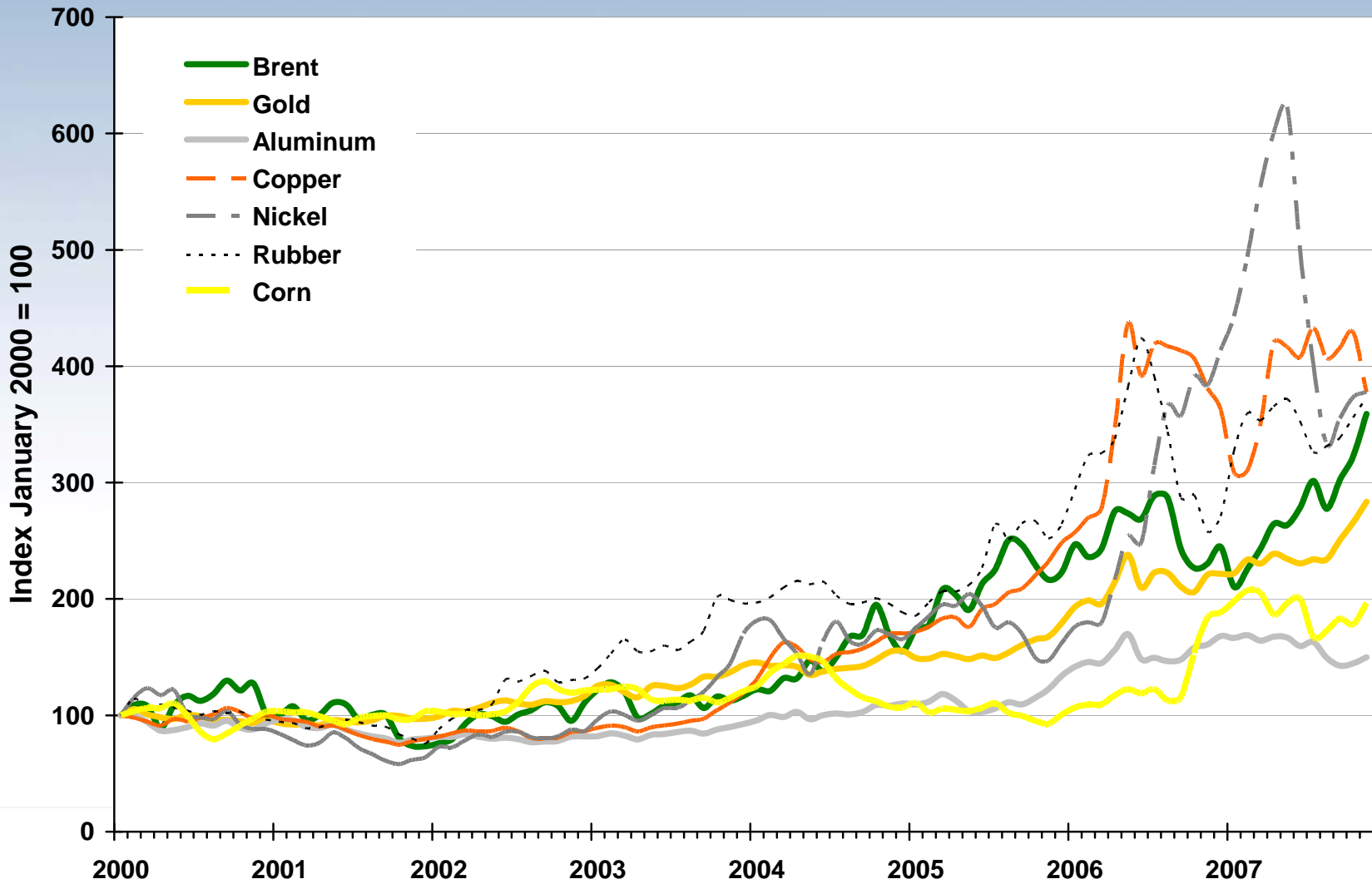
Industrial Materials Prices Remain High

(Global Insight Indexes, 2002:1=1.0)





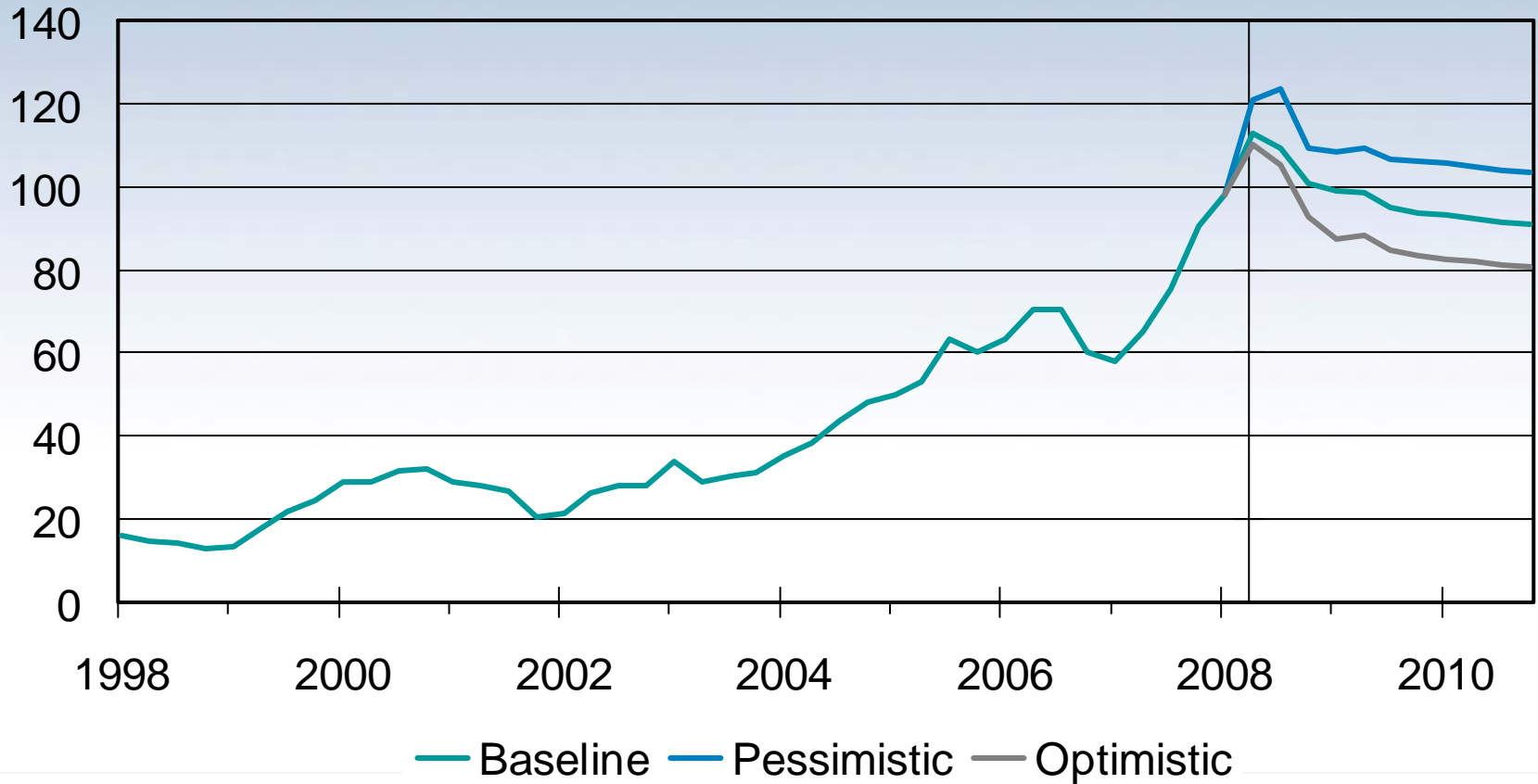
Is Oil Finally a True Commodity?





Little Relief from High Crude Oil Prices

(West Texas Intermediate price, dollars per barrel)





Risks to the Forecast

Double-Dip Recession (30% Probability):

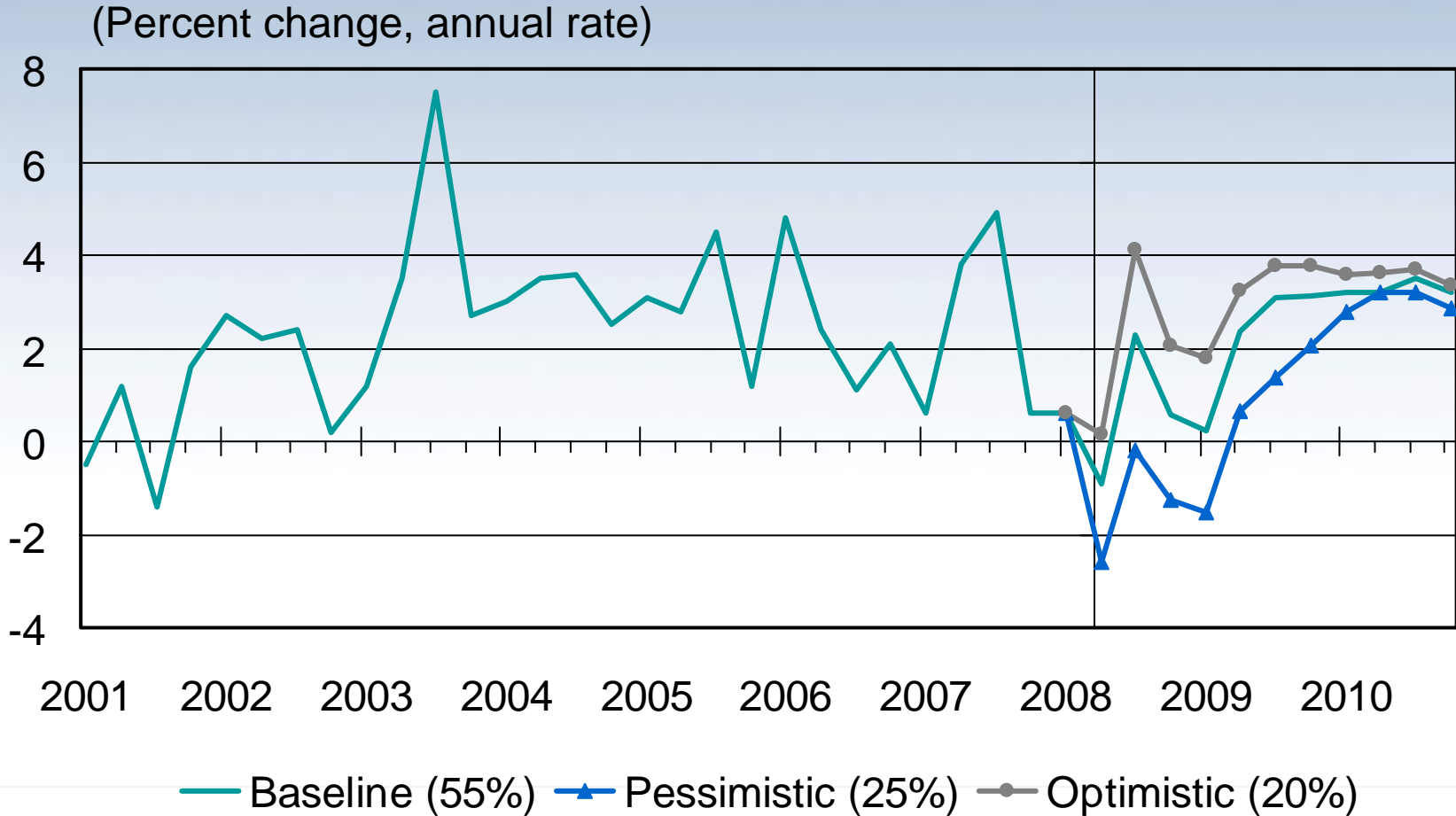
- Home prices, sales, and construction fall more sharply
- Higher inflation and a weakening dollar force the Federal Reserve to raise interest rates in late 2008
- As the fiscal stimulus wears off, the economy slips back into recession in early 2009

Touch and Go (15% Probability):

- Business investment and exports show more robust growth
- Housing markets rebound more quickly
- Lower oil prices and stronger productivity gains lead to milder inflation, keeping long-term interest rates low



Real GDP Growth in Alternative Scenarios





Bottom Line

- The U.S. economy is in recession
- Weakness in consumer spending and investment will be cushioned by strength in exports
- Tax rebates will boost activity this summer
- Home sales and construction should hit bottom later this year, but prices will fall into 2009
- Inflation will settle near 2% after 2008



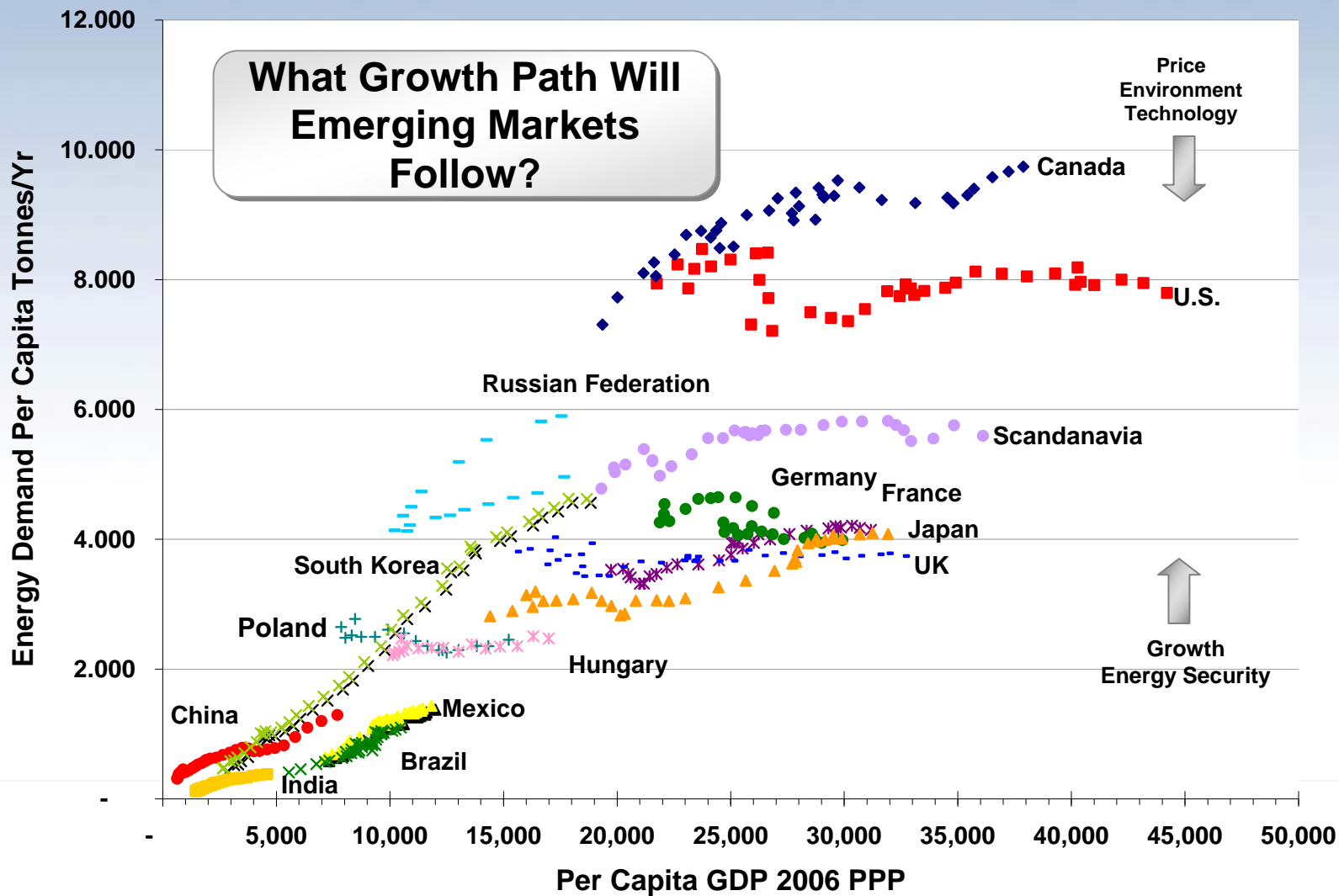
Natural Gas Outlook:

Two Scenarios for US Energy Demand

- Slow - Business as Usual
- Policy - Mandates reduce demand growth

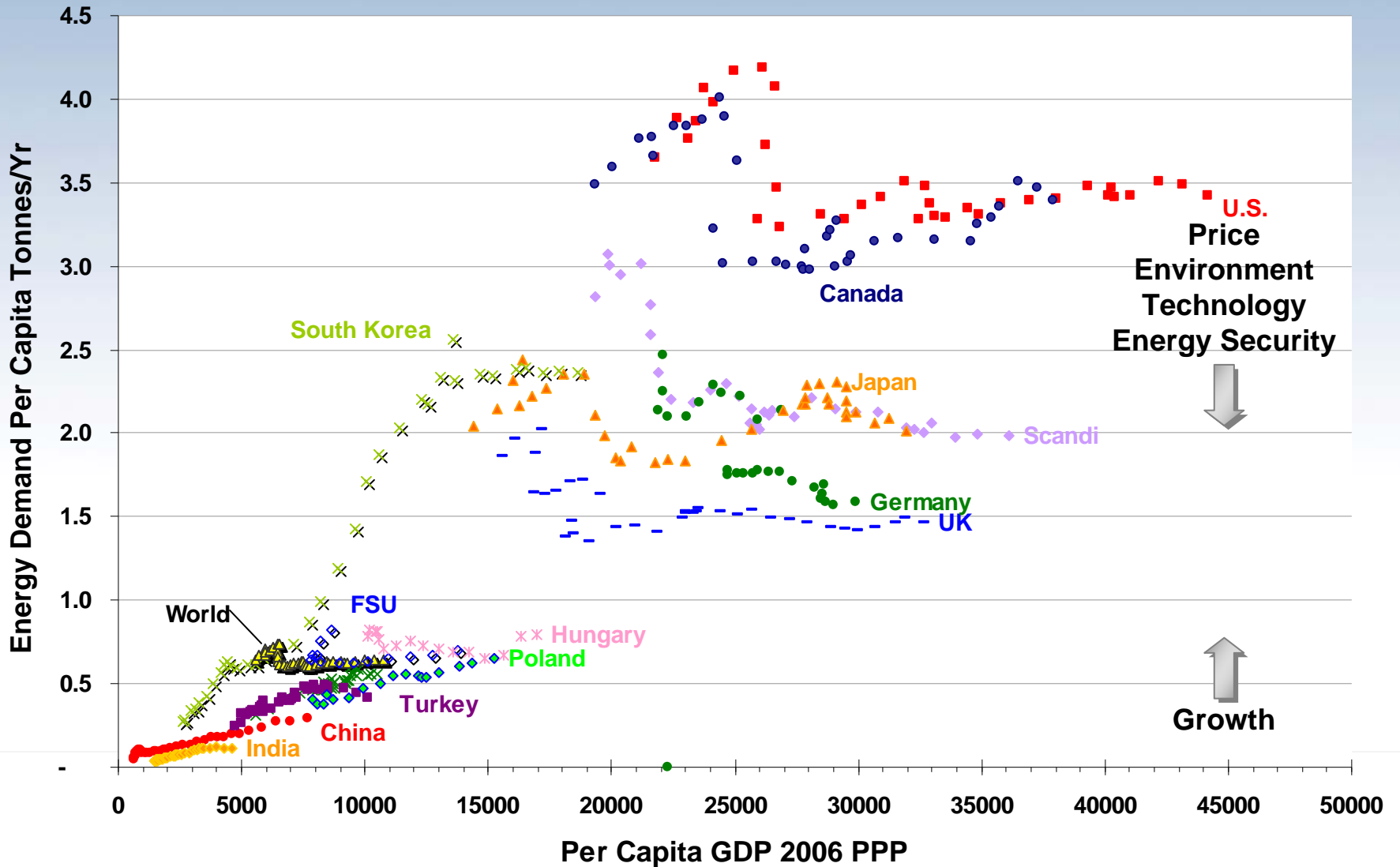


Per Capita Energy Demand and GDP





Oil Demand in Emerging Markets: How High Will They Go?





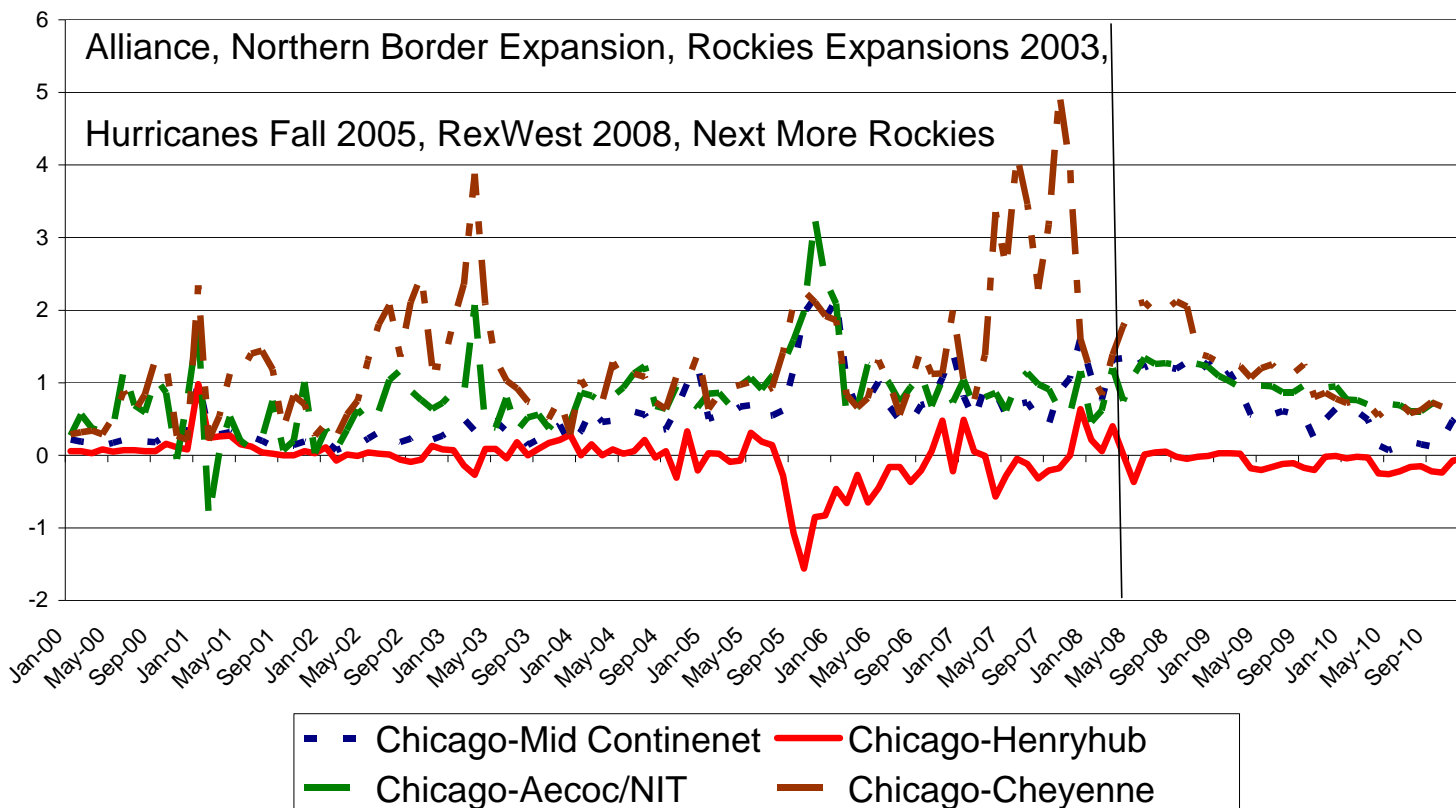
Short-Term Natural Gas Outlook

- **Rex-West Brings Wyoming Gas Closer to Henry Hub, earning producers \$3.00 from the lowest 2007 levels**
- **The many pipeline projects bring all prices closer to Henry Hub (Convergence)**
- **Henry Hub ranges between \$9 and \$10 in the next two years**
- **New England remains a premium market when winter temperatures fall**
- **US production increase in 2008**
- **2008 economic slowdown but demand sustained**
- **2009 demand rebounds, rising 0.3 TCF above 2007 demand**



Chicago has Converged with Henry Hub

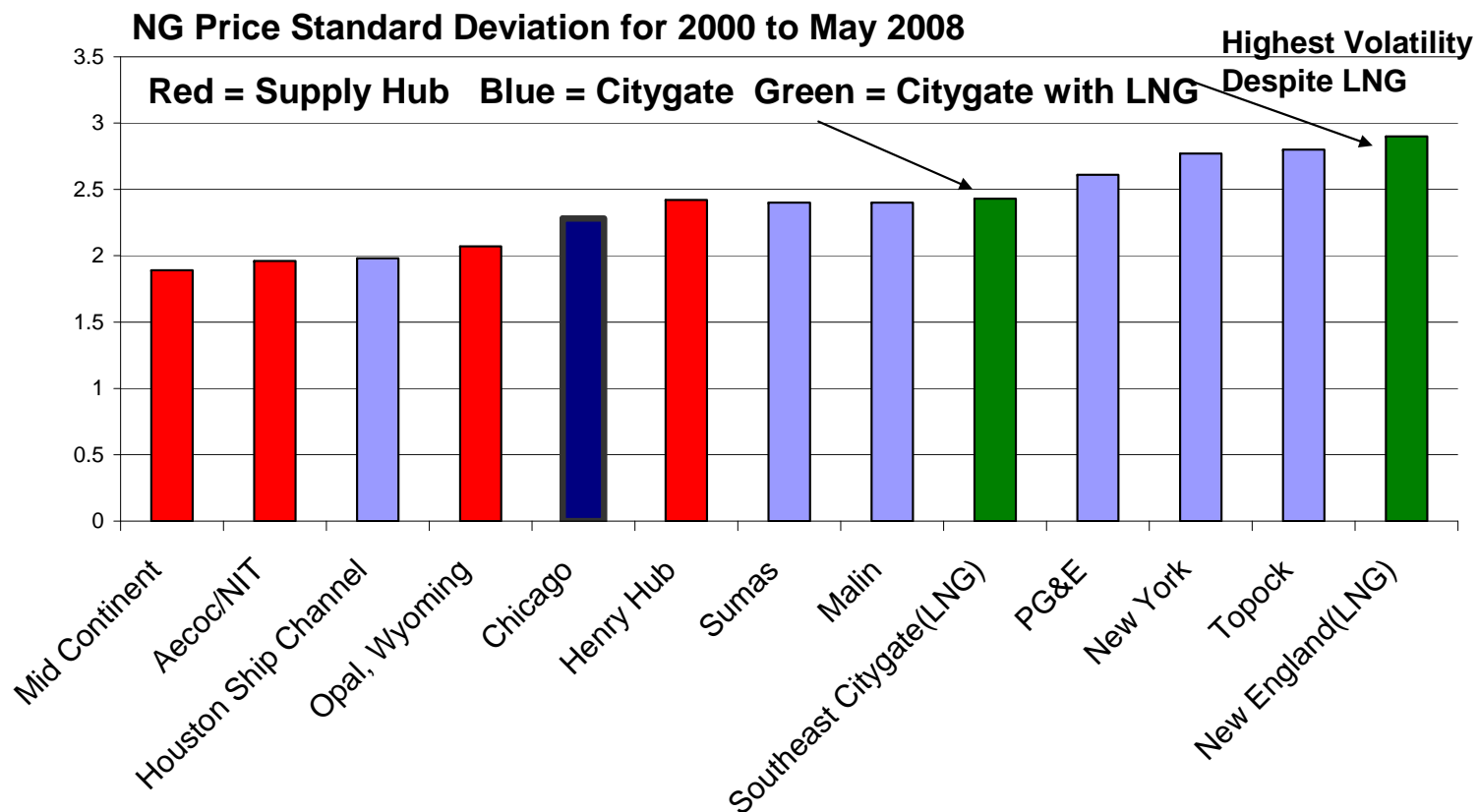
Volatile Basis for Chicago Despite Adding Pipelines to Supply Regions





Price Volatility Highest in Citygates With LNG?

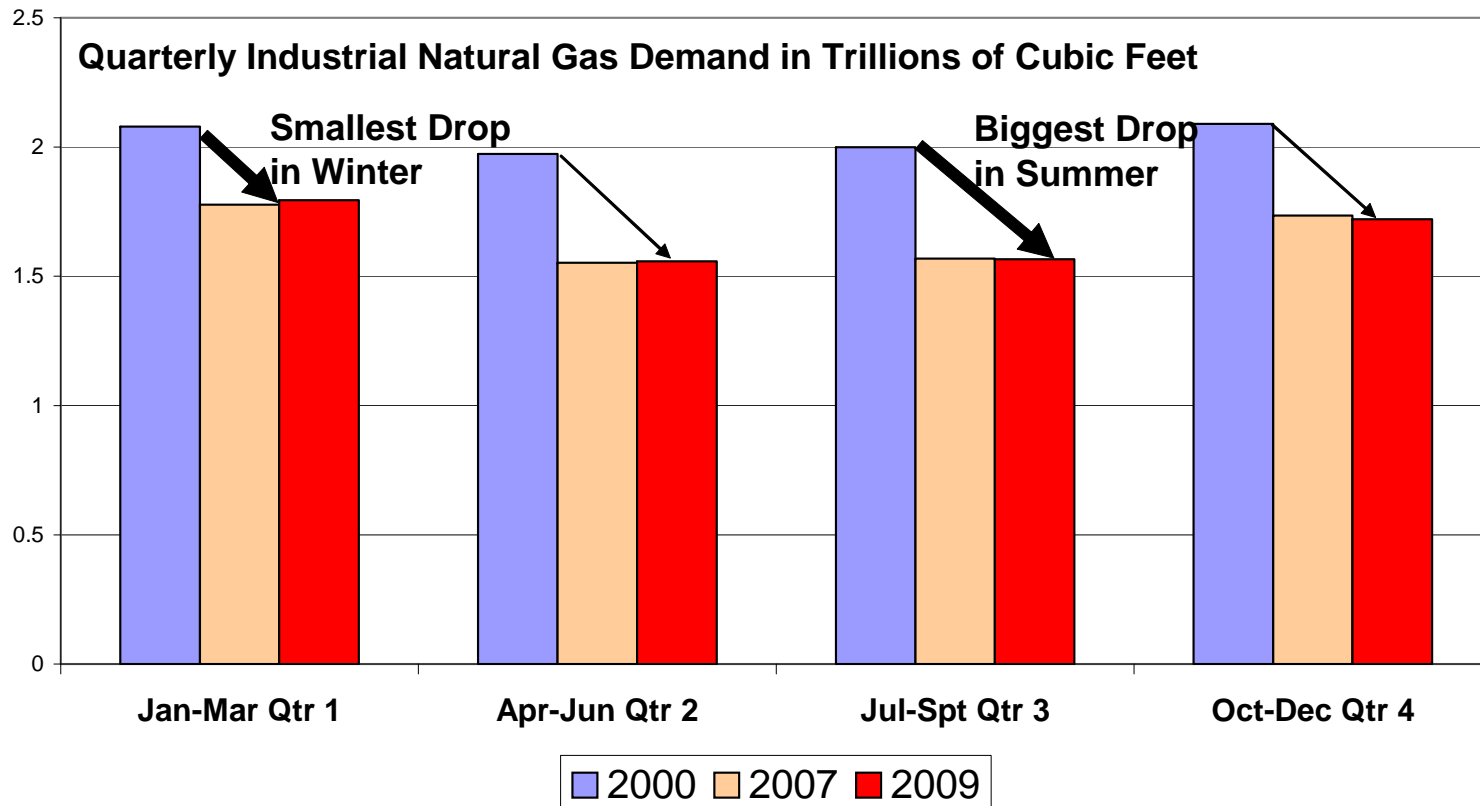
Prices at Citygates Are More Volatile than Prices at Supply Hubs





Industrial Demand is Declining

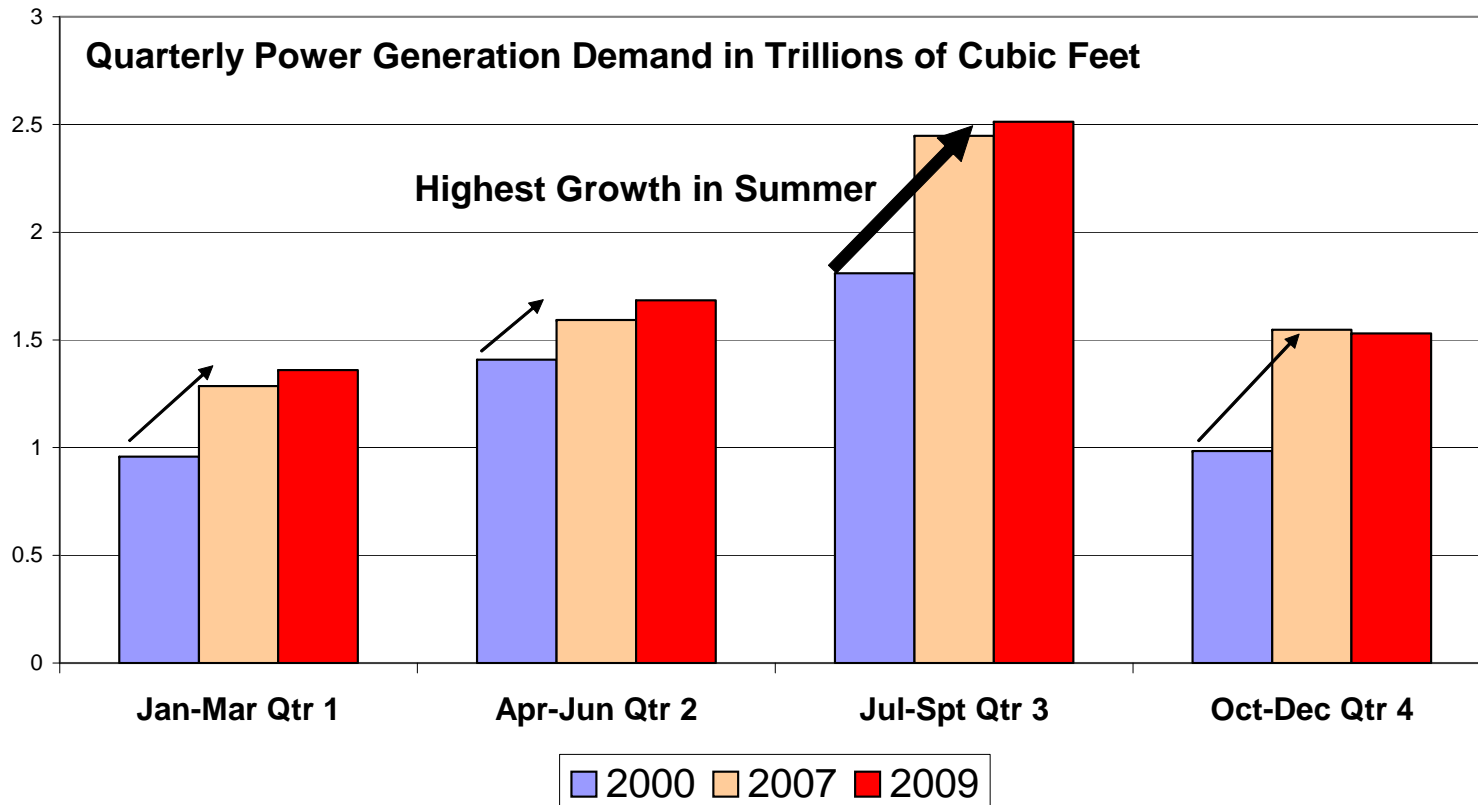
**Industrial Natural Gas Demand Decreased 18%
or 1.5 Trillion Cubic Feet Since 2000**





Power Sector Demand is Growing

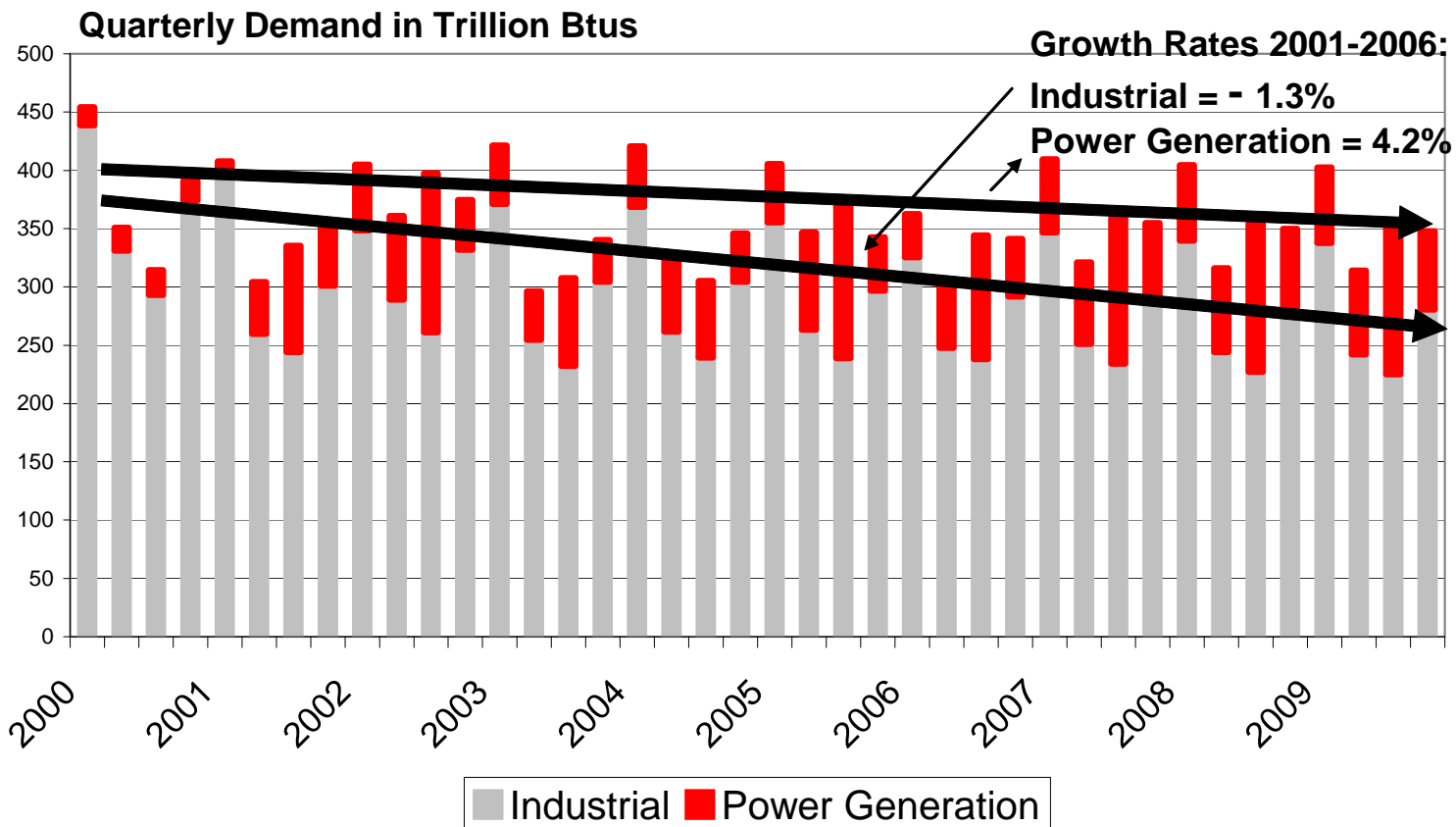
**Power Generation Natural Gas Use Increased
37% or 1.7 Trillion Cubic Feet Since 2000**





East North Central Demand is Changing

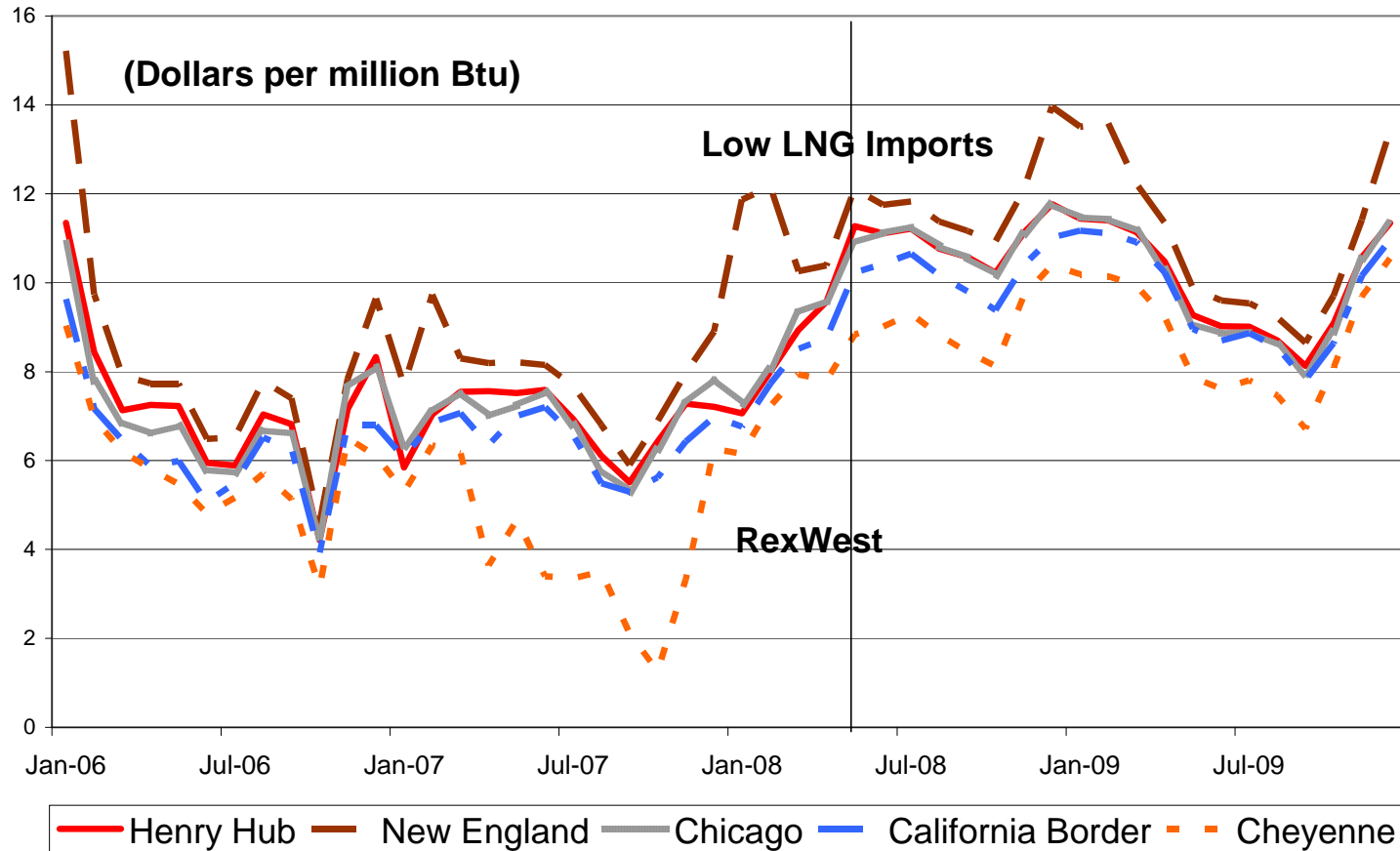
Power Sector Natural Gas Demand Growing in East North Central





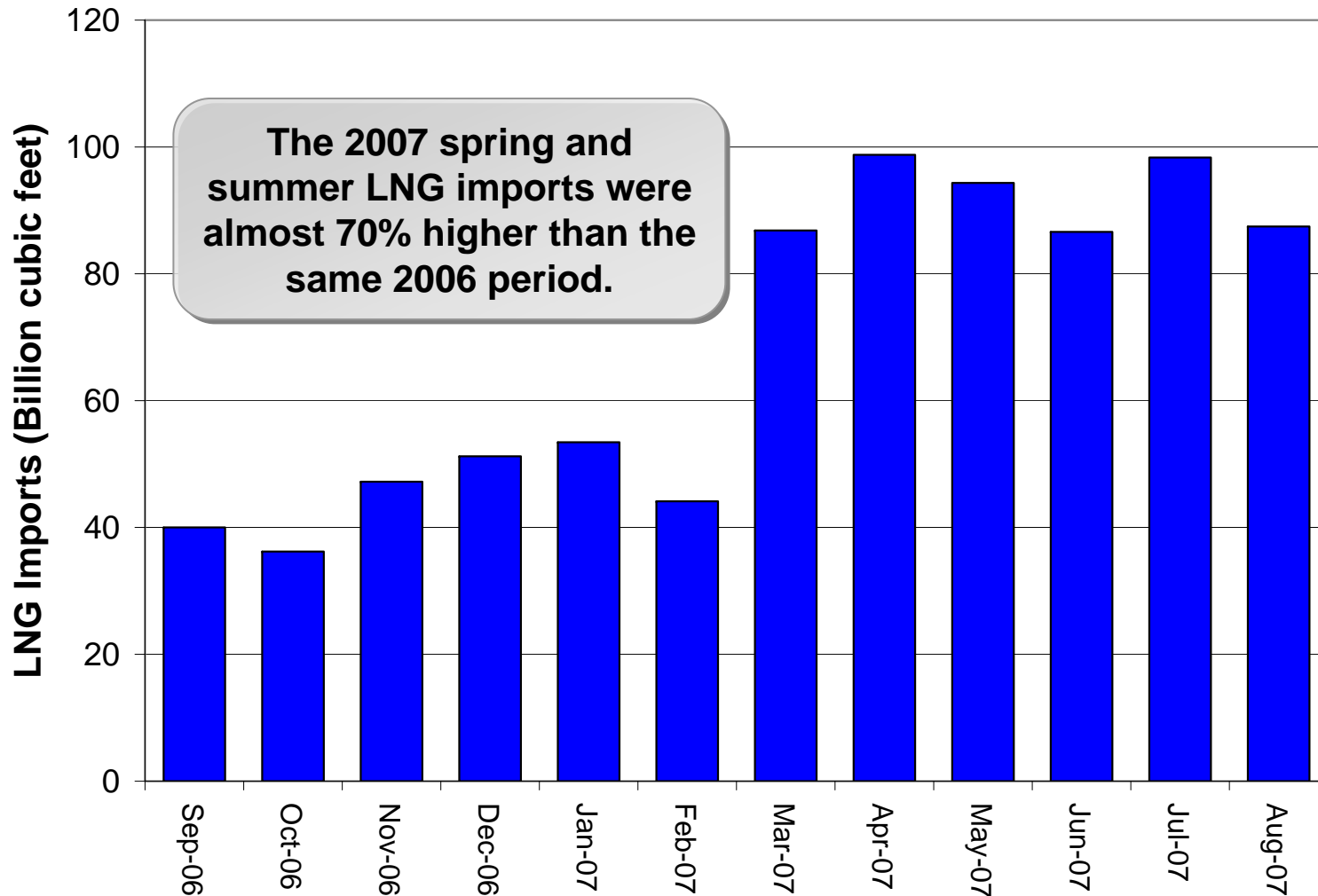
Price Volatility Reflects Changing Market

Short Term Price Forecast



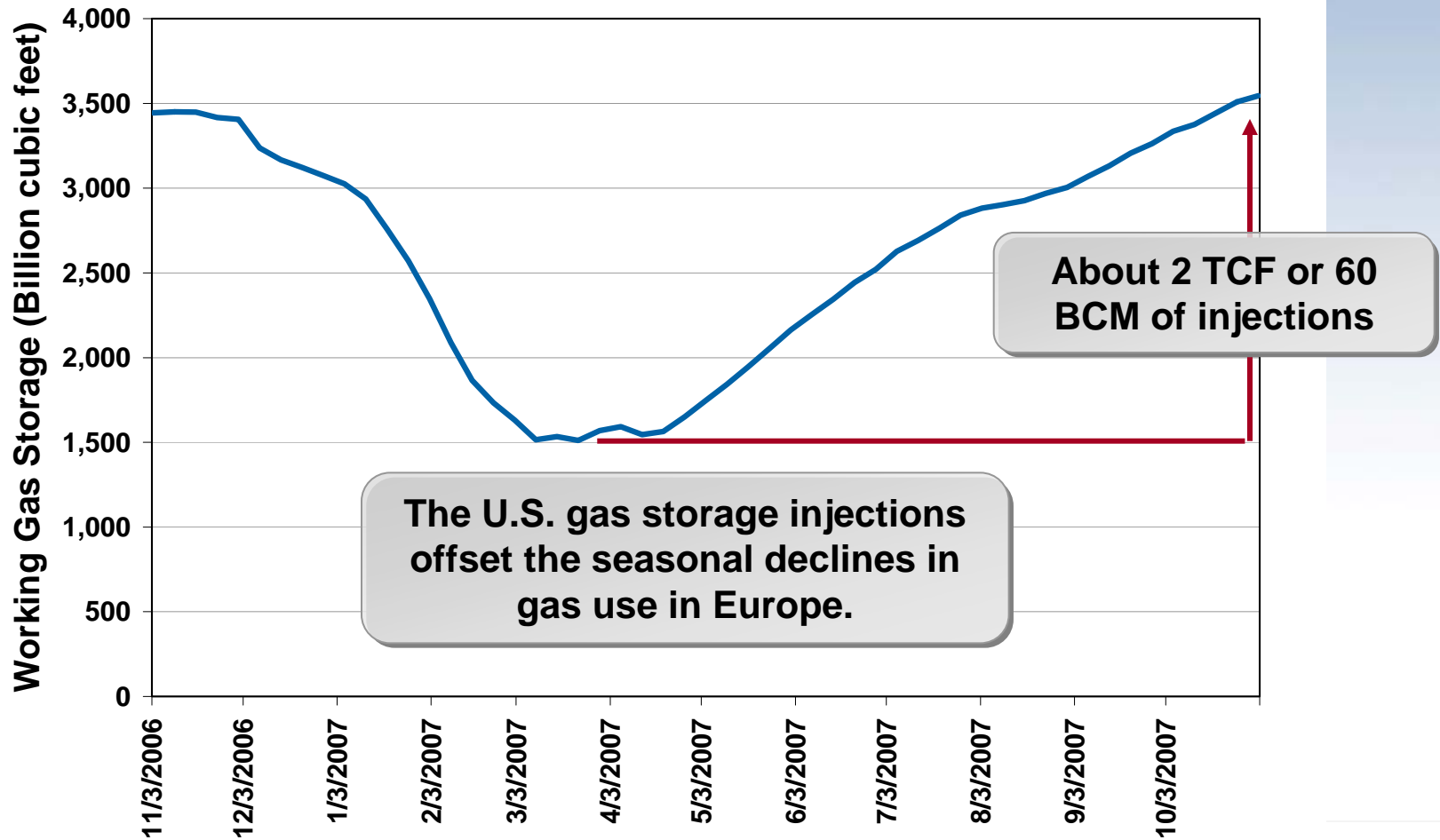


The US LNG Importers are Competitive In Summer





US Storage Is Equal To All Of Europe's 2007 LNG Deliveries





US Storage Levels Are The Key Factor US LNG Competitiveness

- **When North Atlantic LNG supplies are greater than European demand, US storage will absorb the excess – helping to moderate US prices.**
- **When the US needs LNG to meet demand, storage levels will not keep up with the five-year trend, causing prices to rise until the US attracts LNG.**
- **Therefore, via storage, the U.S. market price will compete with Europe, as needed, to attract LNG**



Thank you!

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