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High oil and natural gas prices: very different effects in the United States and the European Union

The war in the Middle East has led to a sharp rise in oil and natural gas prices.

Since the United States is an exporter of oil and natural gas, rising oil and natural gas prices lead to higher income in the United States. The problem may be that this rise benefits businesses and capital holders, while households are penalised by the rise in the price of the energy they consume.

The European Union imports significant quantities of oil and gas. Rising oil and gas prices therefore reduce the European Union's income, affecting the income of businesses and households alike, and that of governments should they intervene to subsidise energy purchases.

Real GDP growth will not decline in the United States if elevated energy prices persist, whereas, in this scenario, it will be significantly reduced in the European Union.

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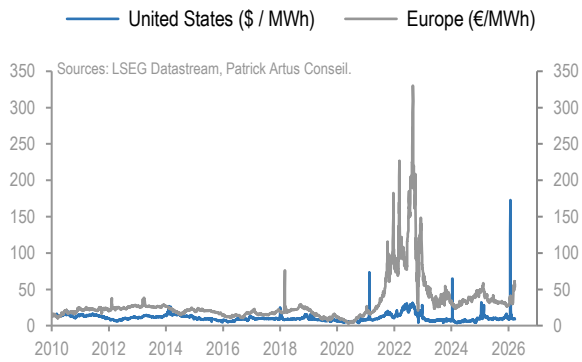
Sharp rise in oil and natural gas prices due to the war in the Middle East

Since the outbreak of war in the Middle East, particularly due to the closure of the Strait of Hormuz, **oil and natural gas prices have risen sharply** (**Charts 1A/B**); natural gas prices have risen in Europe, but not in the United States, which produces natural gas in excess of its needs.

Chart 1A
Oil price (Brent, $/bbl)



Chart 1B
Natural gas price



We want to compare the effects of rising oil and natural gas prices in the United States and the euro zone.

In the United States, a redistributive issue

The United States is an exporter of oil and natural gas (**Charts 2A/B**).

Chart 2A
United States: Crude oil exports (million bbl/day)

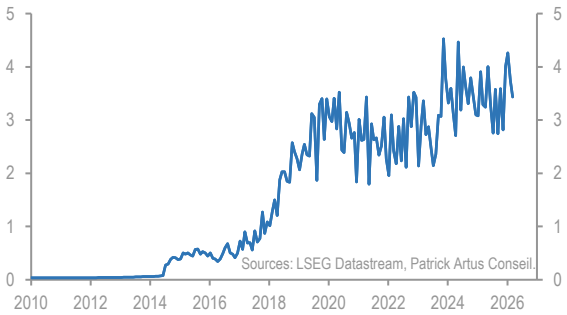


Chart 2B
United States: Natural gas exports (billion cubic feet)



Consequently, **rising oil and natural gas prices boost US revenue** (the value of fossil fuel exports increases).

The problem in the United States may be one of **income distribution**. Indeed, rising oil and natural gas prices **increase the profits of oil companies**, reduce the profits of businesses that consume oil and natural gas, and **reduce household income** due to higher prices for transport fuels (**Chart 3**) and gas used for domestic purposes (heating).

Chart 3
United States: Retail gasoline price (USD/gallon)



However, we know that, overall, **the effect on the income of all economic agents in the United States of a rise in oil and natural gas prices is positive**.

In the European Union, a levy on income

The European Union is an importer of oil and natural gas (**Charts 4A/B**).

Chart 4A
European Union: Crude oil imports
(monthly, million short tons)

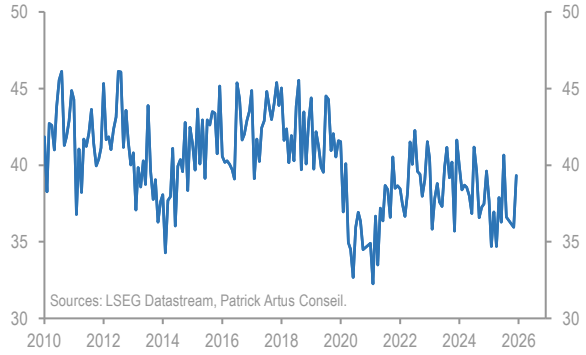


Chart 4B
European Union: Natural gas imports
(monthly, million terajoules)



The rise in oil and natural gas prices therefore **reduces the European Union's income** – including corporate income, household income and government revenue – as the public deficit increases, particularly if governments step in to subsidise energy purchases by households and businesses.

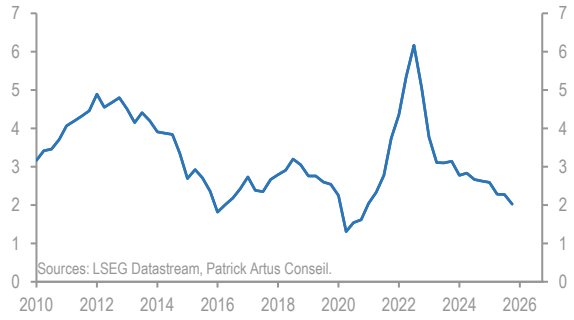
Summary: effects on GDP

Energy exports currently account for 1.2% of US GDP (**Chart 5A**); energy imports account for 2% of the European Union's GDP (**Chart 5B**).

Chart 5A
United States: Energy exports (as % of nominal GDP)



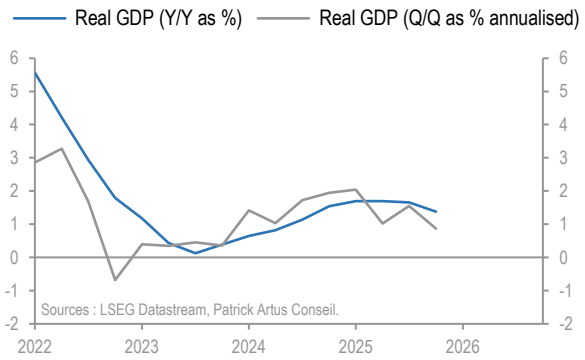
Chart 5B
European Union: Energy imports (as % of nominal GDP)



The volume-weighted price of oil and natural gas combined has risen by 56% since the start of the war in the Middle East. This rise in fossil fuel prices has consequently led to a 0.8% increase in GDP in the United States and a 1.4% decrease in GDP in the European Union.

The levy on Europeans' income is therefore very high. At the start of the war in Ukraine, with energy prices rising sharply across Europe (**Charts 1A/B**), the strong growth seen in late 2021 and early 2022 morphed into economic stagnation by the end of 2022 (**Chart 6**).

Chart 6
European Union: Real GDP



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