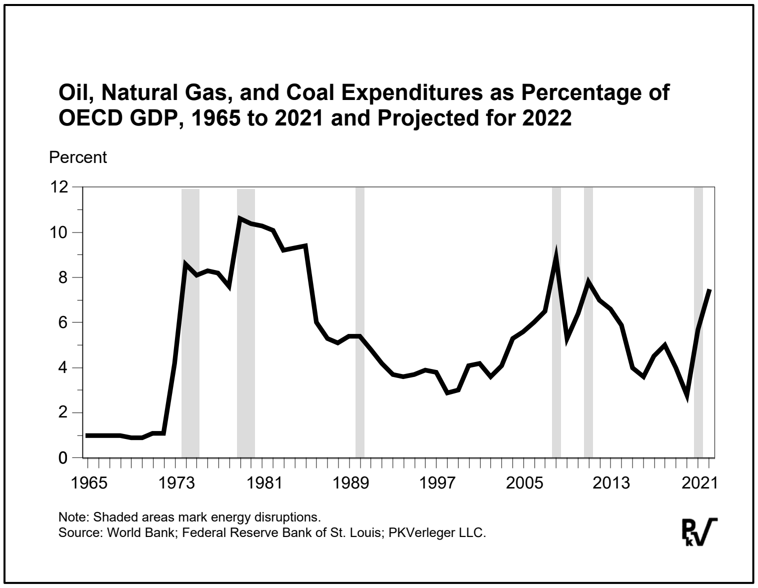
Our View: This Time Is Different – The Potential Energy Recession/Depression
Philip Verleger, October 11, 2021

The last few weeks have seen unprecedented rises in coal and natural gas prices along with higher oil prices. China's aggressive buying seems behind much of the increases. However, my point here is not to focus on the source. Instead, I am interested in the macro impact.

The table below shows my rough (and I emphasize the word *rough*) estimates of global expenditures on oil, gas, and coal in 2020 and 2022 if prices do not decline. (Note: several analysts who focus on energy markets say prices will continue to increase.)

One can observe from the table that "this time is different." Past energy crises have been driven by rising oil prices. In this episode, expenditures on oil will increase by one hundred forty percent from 2020 if oil prices remain at current levels. Natural gas expenditures rise by four hundred thirty-five percent (yes, four hundred thirty-five), while coal expenditures rise by two hundred thirty-six percent. This is an "all of the above" crisis, as the figure here illustrates.



The problem for economic growth is that the increase in energy expenditures in 2022 will likely exceed the increase in global nominal GDP unless governments and central banks revert to the 2020 strategy of boosting spending and aggressively pushing money into the economy. Absent such an effort, it looks like the non-energy portion of global GDP must decline in 2022. My estimate for that decline is three to five percent.

As I said, this time is different.

Rough Estimates of World Expenditures on Oil, Gas, and Coal: 2020 vs. 2022 ($ Billion)

	Oil	Natural Gas	Coal	Total	Global GDP	Energy as a % of Global GDP
2020	1,351	568	600	2,519	84,537	3.0
2022	3,219	3,039	2,200	8,458	96,000	8.8

Source: PKVerleger LLC.