FOCUS · Oil: a look at demand

Over the past few years, discussions regarding the oil price trend have tended to focus on the supply of this «black gold». An understandable emphasis given the recent importance of supply factors on the movement of the price of crude oil, particularly the rise in shale. But what about demand? What are the recent changes in this side of the equation and the likely developments in the near future? What effect will the trend in demand have on the price of oil?

Recently, demand has being showing signs of getting stronger. The year-on-year increase in 2Q 2017 was 2.4%, reaching 97.9 million barrels per day (mb/d). This strong growth in demand has led the International Energy Agency (IEA) to raise its forecast for world oil demand in 2017 by 1.6 mb/d (up to 97.7 mb/d on average for the year as a whole). This revision is based mainly on the higher demand coming from the OECD and particularly Europe and the US. Steady growth in world oil demand is expected in 2018, exceeding 100 mb/d by the end of the year.

Taking a longer term view, the trend in demand depends largely on one country in particular whose share in world demand has grown sharply on the past few years: China. Between 2005 and 2015, China's oil consumption rose by 4.8 mb/d, representing almost half the total increase in oil demand, while China's share of world oil consumption has reached 12%.

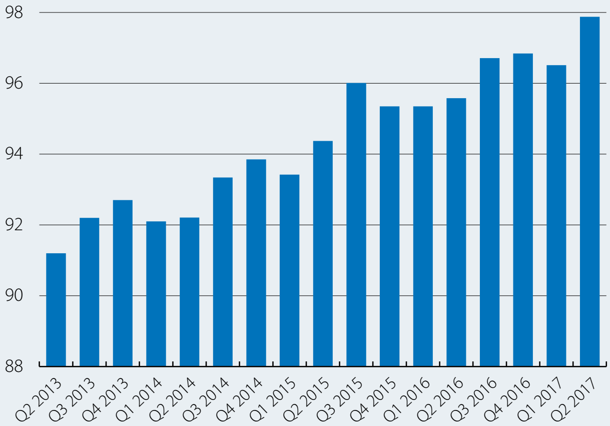
Moreover, the Asian giant's share is likely to continue increasing significantly over the coming years. For example, in a scenario of around 4% economic growth per year, which is lower than the past few years, as well as a moderate increase in demand sensitivity to GDP growth, oil demand would go from 11.5 mb/d in 2015 to 15.2 mb/d in 2025. But if economic growth remains high (around 7%) and demand continues its historically observed pattern, China's demand could reach 20.8 mb/d in 2025, more than the total demand by the US at present.

This second, more extreme case could have a considerable impact on the price of oil. For instance, recent estimates by the Federal Reserve Bank of San Francisco suggest that oil prices could reach USD 172 if China's demand goes on increasing significantly and there is only a moderate rise in supply. This estimate is based on an extreme scenario and is therefore not very likely but it illustrates just how important Chinese demand will be.

Finally, it is important to remember that long-term estimates of demand's impact are notoriously uncertain. China's oil demand in particular and world demand in general will depend on the country's economic growth but also on its energy policy decisions. China's economy is expected to go on growing quite rapidly, which should boost its demand for oil, but there are more doubts regarding its energy policy. The increase in oil consumption could vary greatly depending on the path taken. One sign of this are the recent announcements by the Chinese government regarding its intention to gradually phase out the sale of traditional vehicles as from 2019.

World oil demand

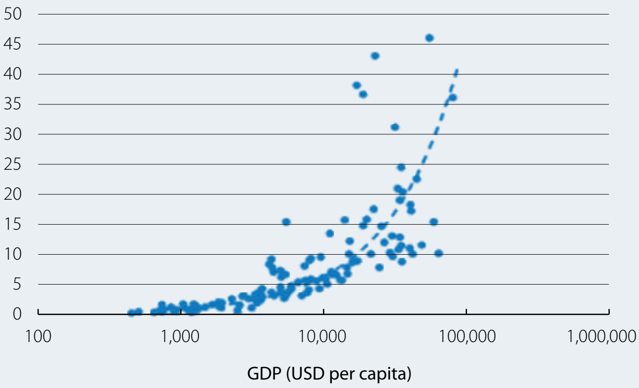
(Millions of barrels per day)



Source: *CaixaBank Research, based on data from the International Energy Agency (IEA).*

Oil consumption and wealth in 2015

Oil demand (barrels per capita)



Note: *Each point on the chart represents a country's oil demand and its GDP per capita.*
Source: *CaixaBank Research, based on data from the Federal Reserve Bank of San Francisco, International Energy Agency and IMF.*