# How Cheap Energy Spells the End of Rapid Economic Growth

## Description

Never one to mince words, Jeff Rubin has a message for all the economists waiting for zero-interest-rate policies to jumpstart the economy: don't count on it. The advent of permanently high oil prices has shifted economic growth into low-gear.



Jeff Rubin is the former chief economist at CIBC World Markets and author of two bestselling books, *The End of Growth* and *Why Your World Is About to Get a Whole Lot Smaller*. He is also a regular contributor to *The Globe and Mail* and *The Huffington Post*.

In part 2 of my interview with Jeff, we discuss how cheap energy spells the end of rapid economic growth in developed nations. The consequences of these trends could have major implications for the price of oil and related products like the **United States Oil Fund** (NYSEMKT:USO). Below is the transcript of our conversation; it has been lightly edited for clarity.

**Robert Baillieul: If I were going to challenge your thesis, I would point to a lot of reports showing that Americans are driving less, energy efficiencies are growing, and we're finding lots of new energy supplies. Can these trends develop fast enough to allow the economy [GDP] to grow at a 3% to 4% clip?**

**Jeff Rubin:** There's no question that what you said is factually correct. U.S. oil consumption has fallen from almost 21 million barrels per day to 18.5 [million barrels per day]. In my book I predicted it could decline further to about 15 million [barrels per day] and maybe in time even less. I would say, rather than efficiencies, the main reason why oil demand is not growing like it did in the past is because of U.S. GDP.

And in fact that's the whole point of my second book, *The End of Growth,* that no matter where you look around — whether it's the U.S., whether it's the Eurozone, whether it's India, whether it's China — what we found in this world of triple-digit oil prices is that economies have geared down into a much slower rate of economic growth. Despite what are in my view unsustainable stimulus measures like zero interest rates and the Fed's $85 billion per month quantitative easing program.

**Baillieul: Is there any way for governments to steer around these issues, or is it an economic inevitability?**

**Rubin:** Well the reason that oil and hydrocarbon fuels in general have such a pervasive economic impact around the globe is that 80% of all the power that drives global GDP is from coal, natural gas, and oil. With oil being No. 1, Coal being No. 2, and natural gas being No. 3. If we found a way to reduce our reliance on oil as an energy input, the impact of triple-digit oil prices on GDP growth would obviously be a lot weaker.

When we dig down and analyze where we're getting global demand for oil, as you know we've substituted away from oil in many applications. Oil used to be a home heat source in home heating in North America. We've started using much cheaper natural gas. There are a few places in the Middle East still burning oil to generate power. Again, we've substituted for natural gas. We can substitute cheaper natural gas as a feedstock for petrochemicals.

But what we haven't been able to do is substitute away from oil as a transit fuel and that's for reasons of energy density. So when we really look at why oil demand is not going to grow as rapidly in the future as it did in the past, the first place we're going to look at is oil consumption in autos. And what we're finding is U.S. auto consumption peaked years ago. We're wondering even now whether China's economic growth will continue and that government implements restrictions to address the environmental hazards that they're facing.



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*Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.*

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