Natural Gas Prices Plunge, Oil Drifts Lower

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Natural gas prices fell to levels not seen in a decade after a government report showed weak demand and high supplies.

The price of natural gas slid 6.1 percent to $2.32 per 1,000 cubic feet Thursday after the Energy Department said the nation's supplies were 21 percent above the five-year average. It's the lowest price since February of 2002.

Supplies have been growing in recent years as drillers have learned to use a controversial drilling technology called fracking to tap vast reserves of natural gas trapped in shale formations under several states. Extreme weather during the last two summers and winters pushed demand for the fuel higher and kept prices from falling sharply.

Now a mild winter across much of the country has crimped demand and created a glut. In the Northeast, December was the fourth warmest in the last 117 years, according to the National Weather Service. Natural gas prices have fallen 23 percent since the beginning of the year.

About half of U.S. homes use natural gas for heating, and natural gas is used to generate about a quarter of the nation's electricity.

Changes in natural gas prices can take up to a year to trickle to customer bills because of the way gas and electric utilities purchase the fuel. Still, lower natural gas prices of recent years are saving residential customers about $200 per year, according to a study by Navigant Consulting.

Low natural gas prices are also a boon to chemical companies that use it as a feedstock and to manufacturers who use it to fire boilers.

The price of benchmark U.S. oil ended a little lower on Thursday following a series of reports that pointed to an improving U.S. economy.

Jobless claims fell, consumer prices were steady and the dismal home construction market showed more signs of life at the end of 2011.

A stronger economy means demand for energy products should improve. However analysts say oil prices will continue to swing between gains and losses until there is more certainty about the direction of the global economy.

Benchmark oil fell 20 cents to finish at $100.39 per barrel in New York on Thursday. It was as high as $102.06 earlier in the day. Brent crude, which is used to price many varieties of foreign crude sent to U.S. refineries, rose 89 cents to end at $111.55 per barrel in London.

The Labor Department said the number of people seeking unemployment benefits fell last week to the lowest level since April 2008. The drop is more evidence of a strengthening job market. A department spokesman said that the number can be volatile this time of year because it reflects temporary hires in the holiday season.

The government also reported that consumer prices were unchanged last month, as the inflation rate remains at a low.

Builders began construction on nearly 607,000 homes last year. That is about half of what economists say is needed for a healthy market. The numbers rose over the course of 2011, raising expectations that the collapse of the housing industry has at last hit bottom.

The Energy Department said Thursday that the nation's crude oil supplies declined about 1 percent last week. Gasoline supplies rose 1.7 percent and demand over the past four weeks is down 6.1 percent from a year ago.

Worries about Europe's debt crisis and future energy demand receded as France and Spain staged successful bond auctions, indicating that investors have not been scared off by S&P's recent downgrades of eurozone countries.

Gas pump prices in the U.S. are at the highest level they've ever been for this time of year. The national average remained at $3.38 a gallon on Thursday, according to AAA, Wright Express and OPIS. That's about 17 cents more than a month ago and 27 cents more than a year ago.

Fred Rozell, retail pricing director at Oil Price Information Service, expects gasoline prices to be around $4 a gallon by spring.

Heating oil rose 2 cents to end at $3.04 per gallon and gasoline futures fell 1 cent to end at $2.82 per gallon.

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