The macroeconomic impact of lower oil prices

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Lower oil prices big boost for the global economy…

![Bar chart showing savings from lower oil prices in % of GDP for different countries including India, Korea, Japan, Italy, China, Germany, France, US, and UK. The chart notes an estimated reduction in the cost of net oil imports in 2015 from new OWE oil price forecast compared with June 2014 forecast. Source: Oxford Economics/Haver Analytics.](chart.png)
...but global economic news has been disappointing

*World: Citigroup economic surprise indices*

% balance of positive/negative surprises in economic data releases

- US
- Eurozone
- China

01-14  03-14  05-14  07-14  09-14  11-14  01-15  03-15  05-15

Source: Oxford Economics/Haver Analytics
Who should be the winners?

Net energy imports (net importers)
% of domestic energy use, 2011

Emerging economy
Advanced economy

Source: Oxford Economics/Haver Analytics
...and losers?

Net energy imports (net exporters)

% of domestic energy use, 2011

Côte d'Ivoire    Vietnam    Malaysia    Egypt
South Africa    Denmark    Mexico    Canada
Iran           Russia     Indonesia    Bahrain
Kazakhstan     Nigeria     Ecuador    Libya
Australia      Venezuela   UAE      Oman
Saudi Arabia   Algeria     Iraq     Colombia
Kuwait         Azerbaijan  Brunei    Mongolia
Qatar          Angola      Norway    Gabon
Congo, Rep.    -504.3

Source: Oxford Economics/Haver Analytics
Fall in oil prices give US households extra $1,000
But investment down sharply…

**US: Investment structures and machinery**

Source: Oxford Economics calculations
…and further falls likely

**US: Oil price moves lead energy sector investment**

- Red line: Real private investment in oil and gas exploration
- Blue line: West Texas Intermediate crude oil (US$ per barrel)

Source: Oxford Economics/Haver Analytics
Extraction sector employment also hit hard

US: Rig count is leading indicator for payrolls

Source: Oxford Economics
But not all countries have seen lower gas prices.
Contrasting impacts internationally

GDP impact of $30 oil price decline
average impact on level of GDP

Source: Oxford Economics/Haver Analytics
And fiscal challenges for many oil producers

Budget breakeven oil prices

$ per barrel

Source: Oxford Economics
What is the GDP impact of lower oil prices?

GDP impact of $30pb oil price decline, advanced economies
Average impact on level, 2015-17

Source: Oxford Economics/Haver Analytics
What is the GDP impact of lower oil prices?

GDP impact of $30pb oil price decline: emerging markets

Average impact on level, 2015-17

Source: Oxford Economics/Haver Analytics
Chinese industry should be major gainer

Sectoral impact of lower oil prices in the US, Eurozone and China in 2015

% increase from November 2014 baseline

- US
- Eurozone
- China

Source: Oxford Economics/Haver Analytics
Conclusions

- Lower oil prices should give a sizeable boost to world GDP in 2015 and 2016.
- But the context of both low inflation and zero bound on interest rates - together with more price-sensitive oil supply - are mitigating some of the benefits.
- In addition, global growth is being held back by lingering problems associated with the financial crisis.
- Cuts in supply put a floor under oil prices and mean that deflation has been avoided.
- Lower oil prices are forcing faster innovation, cost-cutting and a raft of consolidation across the energy sector, which will strengthen the competitiveness of the US industry.