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Could lower oil prices be bad news?

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Everybody knows that lower gas prices are good for the economy.

And yet, as prices gently flow downward and experts predict more declines over the next several months, there have been troubling contrarian undercurrents that warn that what has always been good news this time could have a bad side.

To be fair, the majority opinion – the conventional wisdom – is that energy prices this autumn will fall and that the decline will help growth, profits, hiring and household finances – not to mention consumer spending – during the upcoming holidays.

Gas prices are largely dependent on oil prices, and oil prices this week fell to their lowest level in more than two years, down about \$20 a barrel from late spring. Each dollar per barrel can translate to a 2.38 cent dip in the price of each gallon of gas an American driver pumps, according to Tom Kloza, chief oil analyst for GasBuddy.

No, we haven't had the price drop yet, but the change in oil prices is starting to ripple through the system, he said. "We expect nationwide gasoline prices will move to between \$3.10 per gallon and \$3.20 per gallon in November and December. The actual bottom in this current down-cycle may not occur until January."

Adding to that expectation was news Thursday that Saudi Arabia – the dominant oil force in the Middle East – has been hinting it is ready for a price war. That is, that the massive producer would ratchet up pumping.

And that nearly guarantees lower prices.

Dramatic drops in oil prices helped fuel economic growth in both the 1980s and 1990s. After a painful recession and a sluggish expansion, wouldn't lower prices now again be good economic news?

Of course. And yet...

"This time could be different," wrote energy economist James Williams this week in a letter to clients. "While counter-intuitive, it is entirely possible that lower prices could lead the U.S. into recession."

To the AJC, he added: "Another \$10 to \$15 lower and we start to have problems."

Ironically, one of the reasons we might be vulnerable is also one of the reasons prices are falling: Because U.S. oil production has been booming.

Adding about 4 million barrels a day of oil production – fracking and all that – has been a boom for places like North Dakota and Texas, states that have been in the lead for job growth since the Great Recession ended. It has been great for companies that make equipment for oil production or sell services to the sector.

In the past five years, the five largest oil-producing states have added more than 1.35 million jobs – roughly 16 percent of the jobs added by the nation as a whole. And they account for 32 percent of all the private sector jobs.

But new supplies of oil have combined with modest global demand and more efficiency to lower prices that had been floating well above \$100 a barrel. By mid-week, some benchmark markets had prices below \$90 a barrel and falling.

But most of the new production only makes economic sense at high prices. That is, it's expensive to get the oil out of the ground, so if prices fall too much, it will cost more to get it than it's worth.

“At \$80, I suspect a third of planned tar sands projects would not be funded and if it fell \$20 more, it would probably slow drilling in shale, that is, fracking,” said Jon Gabrielsen, president of J.T. Gabrielsen Consulting.

Of course, if production slowed down enough, that could mean an increase in prices. But it could take a while, Gabrielsen said.

In the meantime, the economic boom in the oil fields would shift into full-speed reverse.

It has happened repeatedly to countries that rely on oil production – even some pretty big nations. After all, it was years of dropping oil prices in the 1980s that helped kill the Soviet Union.

“Producing countries, many of which are relatively poor, suffer when prices drop,” wrote the Economist magazine this week, embracing the contrarian view. “A big enough bust could rattle financial markets around the world.”

But the Economist also adds a crucial caveat: “Just how much trouble to expect depends on the scale of the drop.”

And after all, unlike poor producers or the Soviet Union, the United States has a huge, diverse economy that is much less energy-dependent than in decades past.

Gabrielsen, for his part, is a skeptic, which in this case means an optimist.

Lower prices – and shutdowns in production – would hit Texas and North Dakota hard, he said. But consumers would be delighted with still-lower prices and several important industries are heavily dependent on energy, he said, especially steel, aluminum, chemicals and textile mills – which happen to be important to north Georgia's economy.