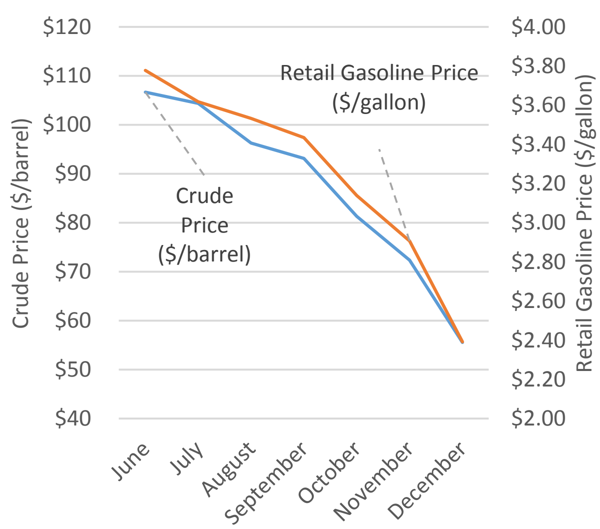
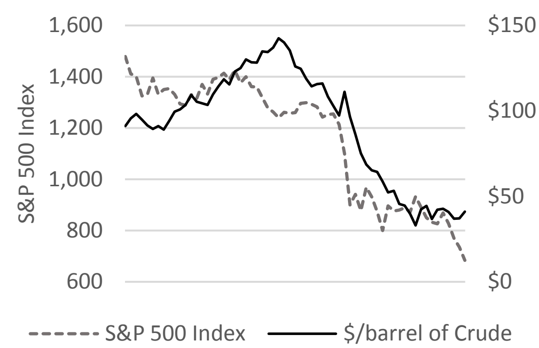
What's happening with oil?

In December 2001 the U.S price of retail gasoline stood at $1.37/gallon while that for crude stood at $19.39/barrel. Twelve years later in December 2013 retail gasoline stood at $3.35 and crude sold for $97. Markets seem to have poor long-term memory as there has been alarm by an ongoing price movement away from the most recent levels. Perhaps the alarm is warranted more so by the pace of the price decline, which would create structural chaos as would a bursting price bubble of any major global asset.



Between June and December of 2014 prices have fallen from $107/barrel to $55/barrel.

But we have seen before such a collapse in the price of oil. Between just July and December of 2008 the price of crude fell from $148/barrel to $32.98/barrel. So why is there concern? Doesn't cheaper oil equate to lower energy related costs, thus making more cash available for other forms of consumer spending, investment, and debt repayments? Well yes. But there is understandable nervousness as the prior experience of such a rapid fall in oil prices occurred in the unravelling of the Great Recession.

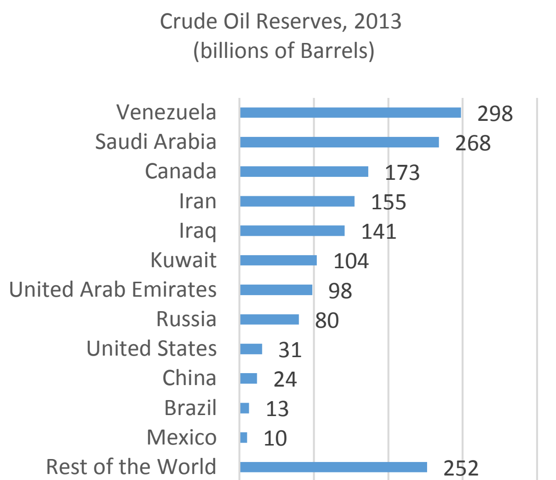


December 2007-February 2009

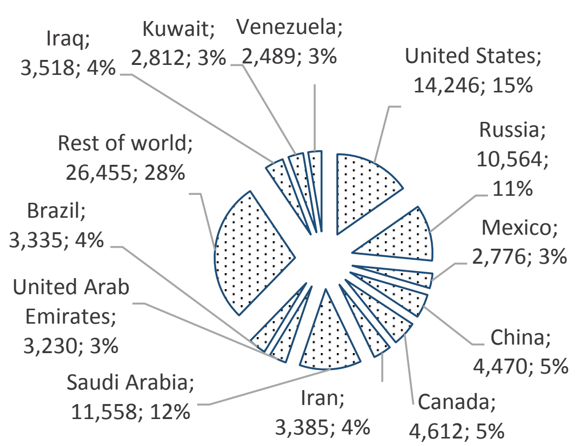
There is one noticeable difference however. Unlike the Great Recession in which the financial crash pre-empted the fall in oil prices, *Wall Street* remained bullish in the latter half of 2014. Amidst a 5 month, 50%, drop in the price of crude, the S&P 500 rose by 7% over the same time period.

So who are the global players?

As of September 2014, total global oil supply stood at 93.4 million barrels of oil per day, only 3.5% higher than one year prior. Over the past two decades global oil production has increased an average of 1.5% annually. Venezuela and Saudi Arabia still make up one third of proven global oil reserves.

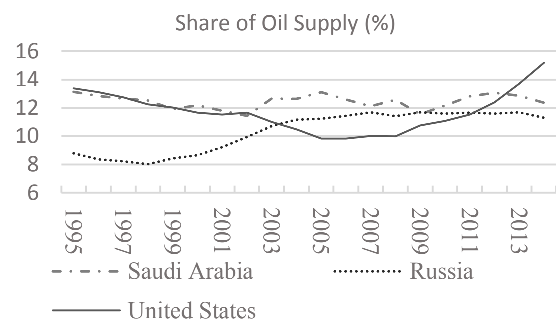


As it relates to oil supply the United States, Saudi Arabia and Russia account for the biggest share of production and imports.



Global Oil Supply 2014
(000's of barrels / day; share of global supply)

In recent history Saudi Arabia's share of global oil supply has remained steady at around 13%. Noticeably the share of global supply accounted for by Russia has increased significantly by 4% since 1999. Of considerable mention is the participation by the United States. Its growth in the share of global oil supply matches that of Russia, but however was accomplished in just the past 4 years, and at over 14,000 barrels of oil per day exceeds that supplied by all other suppliers.



What to expect for the U.S economy.

Air, ground, & water transportation industries demonstrate the greatest use of oil, for which petroleum use accounts for 23%, 20%, and 18% of every dollar of output produced respectively. The petroleum usage requirement is then followed by the mining, utilities, farming, and construction industries. In these industries direct and indirect usage of petroleum, ranges from 5.7% to 3.9% of every dollar of industry output produced. These industries that require the most use of petroleum products for production account for just about 9% of U.S total final value added, while value added from the petroleum industry provides just over 1%. So considering just the decline in the price of petroleum alone, there should be a subsequent net positive impact on production in the U.S economy.

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