

Low Oil Prices: Blessing or a Curse?

Written by Rob Copeland

Monday, 12 January 2015 11:06 - Last Updated Wednesday, 11 February 2015 19:16

As anyone who drives a gas-powered car knows, fuel prices have plunged.

In just seven months, the price of oil has dropped by more than 50%, due to the combination of rising production and falling demand. Gas, which is derived from oil, has gone down with it. For consumers who use oil to heat their houses or gas to fuel their cars, this is welcome news.

But economists and investors, are debating whether lower oil prices are ultimately good for the market and the economy.

Lower oil prices are usually seen as having a largely positive impact. When consumers have to pay less for fuel, they historically have spent the savings in other areas. That increased consumer spending, in turn, has helped to stimulate the economy, boost corporate earnings and drive stocks higher.

But the story may not be playing out the way it's expected to this time around, at least when it comes to consumer behavior. Consumer spending indicators have been mixed at best, which leads most economists to conclude that Americans are using their savings at the pump to pay down debt rather than to buy more goods and services.

Beyond that, many observers are concerned about the potential long-term impacts of low oil prices. Cheap oil diminishes a major incentive for companies to create alternative energy sources, and it also dries up the incentive to create and run oil and gas fields. A shrinking industry means fewer jobs. And it may ultimately mean that less energy is available, which could send costs soaring once global demand revives.

Cheap oil also raises the likelihood of debt defaults by companies in the oil industry—or even by a nation, such as Venezuela—which could hurt the financial sector. What's more, a lengthy period of low prices could help to foster instability in oil-producing nations around the world. This could lead to conflict and prompt the United States to increase aid to those countries.

Low Oil Prices: Blessing or a Curse?

Written by Rob Copeland

Monday, 12 January 2015 11:06 - Last Updated Wednesday, 11 February 2015 19:16

One potential upside to low oil prices is the fact that energy-related stocks have fallen dramatically in price. If investors can successfully pick the stocks that will survive plummeting prices, those investors figure to be richly rewarded.

How long will oil prices stay low? The truth is that it's hard to predict. Even sophisticated investors and oil companies didn't see the current price plunge coming, so there are few confident predictions about what comes next. Still, if oil stays too low for too long, those bargain prices at the pump may not feel quite as good as they do now.