

THE FALLING PRICE OF OIL IS BOTH GOOD AND BAD

From Newsela.com

NEW YORK — The price of oil has fallen by nearly half in just six months, a surprising and steep plunge. Vehicle drivers, airlines, shipping companies and anyone who buys oil or gas is cheering. Oil producers, on the other hand, are upset about lost profits. Economists are studying the situation and trying to figure out if this is a good or bad thing for countries and their economies. The amount of business activity and whether jobs are lost or created is tied to it.

The price of a barrel of oil is around \$58, down from \$107 last summer. It is lower than at any time since 2009, when the United States was still struggling through a recession and tough economic times. During that time, many people lost their jobs and businesses were not doing well.

Today, there is too much oil and not enough people who want to buy it. The effects are being seen across the world's economies.

Years of high oil prices inspired drillers around the world to search the Earth for more oil.

They found it.

The World Has Extra Oil

Since 2008, oil companies in the United States, for example, have increased production 70 percent. They are now pumping 3.5 million more barrels of oil per day. To put it another way, that increase alone is more than the production of any OPEC member other than Saudi Arabia. OPEC stands for the Organization of the Petroleum Exporting Countries. It is a group of 12 of some of the largest oil-producing countries in the world. Most are in the Middle East and Africa. They work together to decide how much oil to produce and sell.

The United States was beginning to produce more oil while conflicts in the Middle East and North Africa lowered supplies from countries in those regions. Countries outside of OPEC decided to pump more oil to make sure people around the world would still have gasoline to drive their cars, take planes, ship things and more.

Now, OPEC plans to keep pumping oil even with continuing conflicts in the Middle East. In addition, oil supplies from those non-OPEC countries have become more popular. OPEC estimated last week that it will produce more oil next year than the world needs from it. That extra supply is lowering the global price of oil.

Gasoline Prices Have Dropped

People around the world will need more oil this year than they did last year. The top oil consumer is the United States. Its economy is doing fairly well. China, Japan and Western Europe are the next largest oil buyers. Some of those economies appear to be weakening. With a weakened economy, they will not need as much oil.

Even in the United States, demand for oil and gasoline is not increasing. More hybrid or electric cars and changes in population have meant less oil buying. The Energy

Department predicts a slight decrease in gasoline demand next year even though gas is expected to be cheaper.

For drivers, shippers, airlines and other consumers of fuel, there is plenty to like about the drop in oil prices.

The national average gasoline price has fallen to \$2.55 a gallon, its lowest level since October 2009, according to car and travel organization AAA. It is also \$1.15 a gallon cheaper than the highest price it was this year. Those savings mean families have an extra \$100 a month when they shop for holiday presents.

"Any time gas prices go down that is a good thing," said 30-year-old Randy Daniels. He was shopping recently at a mall in Atlanta, Georgia. "An extra 20 or 30 bucks in my pocket goes far," he said.

A Boost to Holiday Shopping

Diesel and jet fuel prices have also plunged, helping to increase the profits of airlines and shippers. Heating oil is the cheapest it has been in four years. It also means that heating homes in the cold winter will cost less.

Falling fuel prices put extra money in people's pockets and help increase consumer spending. Americans' spending accounts for 70 percent of the U.S. economy, so extra shopping gives it a boost. However, economists are growing worried that the low oil prices could still be a bad thing.

The depth of oil's plunge could be a signal that the world economy is struggling even more than economists think. A weak global economy could hurt the U.S. economy by lowering the amount of goods being shipped out of the United States, affecting spending and jobs around the world. If this is true, then those factors will mean the U.S. economy will also struggle, even if fuel is cheaper.

Some Countries Depend On Oil Companies

For oil companies, oil-producing states, and oil-exporting countries, the oil price collapse is painful. Oil companies usually keep pumping oil from wells they have already drilled. Yet lower prices sharply reduce their profits and force them to reduce spending on new exploration projects. Experts say it could result in thousands of job cuts at oil companies. States that rely on taxes from oil production on their lands such as Alaska, North Dakota, Oklahoma and Texas will receive less money. Some have already had to cut their spending.

Countries such as Iran, Iraq, Russia and Venezuela own oil companies. They rely heavily on money from them. They use the money from the oil companies they own to run their governments, but many are struggling.

Bank of America is predicting that every \$1 drop in the global price of oil costs Venezuela \$770 million annually. Current prices are now \$46 below last year's average, putting the country on track for a \$36 billion loss.