



The Impact of Oil Price Fluctuations on the Global Economy

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Introduction

When sharp drop in the crude oil market , oil consumers around the world may benefit for a short period of low crude oil prices, but global consumption will eventually outpace or exceed global production, which would raise oil prices sharply.

A sharp drop in the crude oil market has already led to a significant increase in demand for oil. The current decline in oil prices may lead to the emergence of a future oil crisis within the coming years.

However, the global economy cannot adapt itself to low oil prices for a long time, because the main components that make up the global economy, such as global investments, the oil industry, and the economies of the oil producing countries, will fail.

Historical Oil Price Fluctuations

A-The period between 1970-1999

The price of oil on the global oil market has been affected from the 1970s until now by a series of shocks . According to the following years:

1- In 1973 October war: Where prices jumped from US\$ 3 to US\$ 12 per barrel in the end of 1974.

2- The Oil Crisis of 1979 and then the Iraq-Iran war in 1980: Prices increased from US\$ 14 in 1978 to US\$ 35 per barrel 1981

3- Recession in the American Economy: 1990 – 1991

4- The Oil Crisis of 1986: Oil prices fell less than US\$ 13 per barrel (Increasing production and changing OPEC policy: 1985-1986.)

5- In 1998, the world oil market experienced a second shake that led to the decline of oil prices to the lowest level below US \$ 10 per barrel.(The East Asian Financial Crisis: 1997 – 1998)

B-The period between 2000-2019

The average price of oil increased significantly during the period 2000-2019.The price of a barrel in 2000 was US \$ 30.38 per barrel

1- In 2001, it decreased to US\$ 25.98 per barrel (The Recession in the American Economy: 2001)

2- In 2002, it increased to US \$ 26.19 per barrel compared to the previous year.

3- The increase started from 2004 to 2008, when it reached approximately US \$ 100 per barrel.

4- In 2009 the average price fell to less than US \$ 62 per barrel (The Global Financial Crisis: 2007-2009).

5- In years , 2011, 2012 until 2014, the average global oil prices have not fallen below US \$ 93 per barrel.

6- As for the prices after 2014 until 2019, oil prices fluctuated up and down between US \$ 43.58 per barrel in 2016 to reach US \$ 64 per barrel in 2018.

7- Now, due to the global crisis of the Corona virus, prices have fallen to less than US \$ 20 per barrel.

Year	Average Price	5 years Average Price
2000	30.38	
2001	25.98	
2002	26.19	31.03
2003	31.08	
2004	41.51	
2005	56.64	
2006	66.05	
2007	72.34	71.33
2008	99.67	
2009	61.95	
2010	79.48	
2011	94.88	
2012	94.05	91.91
2013	97.98	
2014	93.17	
2015	48.72	
2016	43.58	
2017	50.84	53.02
2018	64.9	
2019	57.05	

Chart. 1 Annual Average of World Oil Prices For the Period 2000-2019

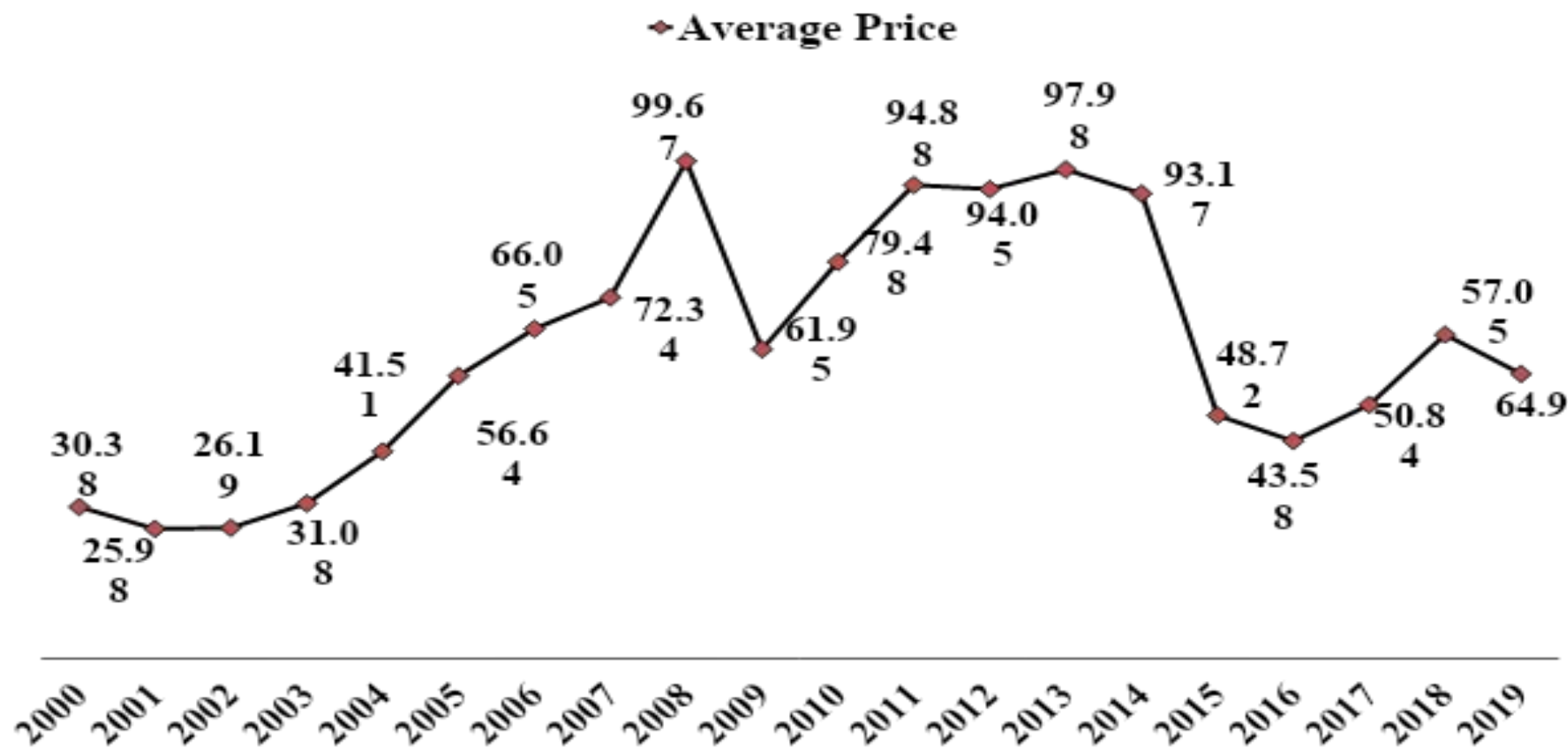
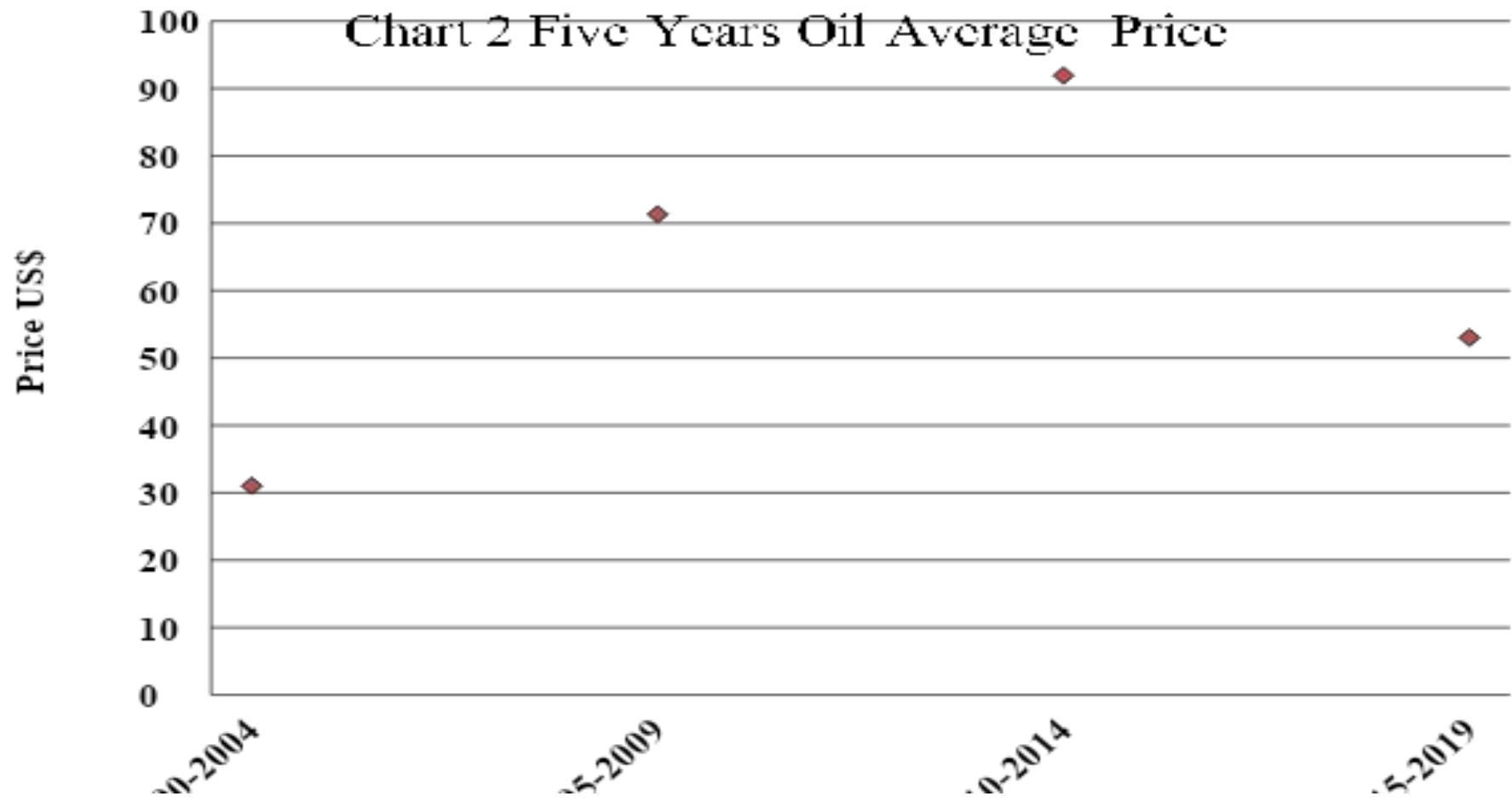


Chart 2 Five Years Oil Average Price



Causes of the Disturbances in Oil Prices

The reasons for the disturbances in oil prices are not limited to supply and demand like other consumer goods because oil is characterized by being strategic commodities, as it is used as fuel and it is used in many industrial and agricultural commodities in addition to the political dimension. It is possible to summarize the most important reasons that result in fluctuation in oil prices in the following:

1-The surplus in the global oil market caused by the increase in US production of shale oil.

2-Excess production by members of the Organization of Petroleum Exporting Countries (OPEC) that exceed production quotas

3- Slow economic growth in USA, China and the European Union

4-The unstable situation in the Middle East in particular, including the oil producing countries like Iraq, Iran, Libya, Syria , Yemen as well as Nigeria, Venezuela

5-The level of oil reserves in consuming countries.

6-The volume of oil stocks in the open sea for the purpose of commercial speculation in future market.

7- Underground global oil reserves discovered

8- Conflicts between oil-exporting countries inside and outside

The Impact of Fluctuating Oil Prices on the Producing Countries

1. The standard of living of citizens was negatively affected in the oil producing countries.

20% of housing income. 25% of food income. 10% off clothes.

20% for personal expenses. 15% for household items.

5% for the doctor and medications. 5% savings

2 . The per capita income of oil states and the profits of oil companies significantly.

3. The deterioration of the economic growth rates.

4 . Low foreign exchange reserves.

The Effects of Oil Prices on the Global Economy

Oil price increases are generally thought to increase inflation and reduce economic growth. In terms of inflation, oil prices directly affect the prices of goods made with petroleum products. As mentioned above, oil prices indirectly affect costs such as transportation, manufacturing, and heating. The increase in these costs can in turn affect the prices of a variety of goods and services, as producers may pass production costs on to consumers. The extent to which oil price increases lead to consumption price increases depends on how important oil is for the production of a given type of good or service.

Oil price increases can also stifle the growth of the economy through their effect on the supply and demand for goods other than oil. Increases in oil prices can depress the supply of other goods because they increase the costs of producing them. In economics terminology, high oil prices can shift up the supply curve for the goods and services for which oil is an input.

High oil prices also can reduce demand for other goods because they reduce wealth, as well as induce uncertainty about the future . One way to analyze the effects of higher oil prices is to think about the higher prices as a tax on consumers . The simplest example occurs in the case of imported oil.

The two aforementioned large oil shocks of the 1970s were characterized by low growth, high unemployment, and high inflation

However, in the past decade research has challenged this conventional wisdom about the relationship between oil prices and the economy. The late 1990s and early 2000s were periods of large oil price fluctuations, which were comparable in magnitude to the oil shocks of the 1970s. However, these later oil shocks did not cause considerable fluctuations in inflation , real GDP growth or the unemployment rate

- 1- The low cost of transportation and industrial production in industrialized countries, but studies have shown that a 10 percent drop in oil prices affects inflation by 4 percent.
- 2-Transferring part of the economic growth in the oil countries to the industrialized and developed countries
- 3-The weak ability of the global economy to produce jobs
- 4- Positive effects on lower export prices and increased competitiveness in industrialized countries.

Namicus, Brant and West Texas

As a consumer, you may already understand the microeconomic implications of higher oil prices. When observing higher oil prices, most of us are likely to think about the price of gasoline as well, since gasoline purchases are necessary for most households. When gasoline prices increase, a larger share of households' budgets is likely to be spent on it, which leaves less to spend on other goods and services. The same goes for businesses whose goods must be shipped from place to place or that use fuel as a major input (such as the airline industry). Higher oil prices tend to make production more expensive for businesses, just as they make it more expensive for households to do the things they normally do

A caveat is in order, however, because simply observing the movements of inflation and growth around oil shocks may be misleading. Keep in mind that oil shocks have often coincided with other economic shocks. In the 1970s, there were large increases in commodity prices, which intensified the effects on inflation and growth. On the other hand, the early 2000s were a period of high productivity growth, which offset the effect of oil prices on inflation and growth. Therefore, to determine whether the relationship between oil prices and other variables has truly changed over time, one must go beyond casual observations and appeal to econometric analysis (which allows researchers to control for other developments in the economy when studying the link between oil prices and key macroeconomic variables).

Thank You