

NATIONAL

Pumped UP

**Why Americans are
(mostly) cheering the
plunge in oil prices**

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Gas prices haven't been this low in a decade; a station in Missouri.

The Law of Supply & Demand

The price of oil is determined by how much is available and how much the world wants to buy

WHY IS SUPPLY UP?

- Fracking and other new drilling technologies have nearly doubled the amount of oil the U.S. has produced in the last six years.
- OPEC, the cartel of oil-producing countries, decided in December *not* to cut back on oil production.

WHY IS DEMAND DOWN?

- People have bought higher-mileage cars that need less frequent fill-ups.
- Conserving energy at home has reduced the amount of oil needed for heating and cooling.
- Slower economic growth in China has reduced its need for imported oil.

Alanah Rogers, 18, drives about 30 miles a day. She uses her car mostly to travel between her parents' house in St. Louis, Missouri, her classes at a community college, and her job at a restaurant downtown. Last year, when she filled up the tank of her 2005 Cadillac Escalade, it typically cost her at least \$80.

"Before, I was very selective of the places I went," she says. "I never filled my tank all the way up unless someone else offered."

But in the past few months, the national average price of gas has dropped. It's gone from \$3.68 a gallon in June to \$2 in late January. That has made a huge difference for Rogers. Now, she pays about \$55 for a full tank, and she's been driving way more.

After years of steady increases, the price of oil has gone down by more than 55 percent in the past six months. That's good news for most Americans. It means cheaper gas, lower heating bills, and more money. The extra money can be used to pay the rent, eat out, buy

new clothes, or splurge on a new TV.

That has ripple effects throughout the U.S. economy. As spending in stores and restaurants increases, more waiters and sales clerks are hired. More jobs means a lower unemployment rate. Economists say the drop in oil prices is almost like a \$125 billion tax cut.

The federal Energy Information Administration estimates that the typical American household will save \$750 this year because of lower gas prices. Millions of people in the Northeast and Midwest depend on oil and propane to heat their homes. They'll save an additional \$750 this winter.

"If you're earning \$30,000 or \$40,000 a year and drive to work, this is a big deal," says Guy Berger, a U.S. economist at Royal Bank of Scotland.

The drop in gas prices doesn't just affect us here at home. Its impact is global. Lower

oil prices are hurting oil-producing countries like Russia, Venezuela, and Iran that are against U.S. interests (*see box, p. 10*). ISIS, the Islamic militant group that now rules a large part of Syria and Iraq and has been beheading Western journalists, could also suffer. It's been using income from captured oil wells to finance its operations.

U.S. Oil Boom

Why have oil prices dipped so far and so fast? As with the price of anything, it has to do with the law of supply and demand (*see box above*). When the supply of oil increases or demand falls off, the price drops. On the other hand, when the supply shrinks or demand goes up, prices rise.

In the last few years, the amount of oil being produced has surged. The game-changer has been American oil production, which has nearly doubled in the past six years. In fact, it's increased so much that the U.S. is now the world's leading oil producer, having

\$750

Estimated amount a typical American household will save in 2015 because of lower gas prices.

SOURCE: ENERGY INFORMATION ADMINISTRATION

7,624 miles

Average distance American teens drive per year.

SOURCE: AAA

surpassed longtime leader Saudi Arabia (see charts, p. 11).

The boom has been made possible by two new drilling technologies that have allowed the extraction of shale oil and natural gas once considered too difficult and too expensive to reach.

The first is hydraulic fracturing, known as fracking. The process uses highly pressurized water, sand, and chemicals to force oil and gas out of shale rock formations. That's why oil captured this way is sometimes called shale oil. The second is horizontal drilling. To retrieve oil, a drill goes down 100 feet or so, then turns sideways to extend a well out horizontally. This enables the extraction of oil and gas from a much larger underground area. Sometimes these areas are more than a mile wide.

Environmentalists have concerns about these new technologies. They're particularly worried about fracking, which they say contaminates water supplies and causes air pollution.

But the increase in production, coupled with shrinking demand, has brought the U.S. incredibly close to the long-elusive goal of energy independence.

"American shale oil has become the decisive new factor in the world oil market in a way that could not have been imagined five years ago," says energy expert Daniel Yergin. "It has proved to be a truly **disruptive technology**."

While U.S. oil production is greater than ever, demand has been declining in the U.S. and abroad. Americans have been driving fewer miles. They've also been replacing older cars that consume a lot of gas with more-fuel-efficient vehicles. The push to increase energy efficiency and weatherize old homes has also helped lower oil use. And the sagging economies of most European countries have further reduced demand for oil. So has China's recent slower growth.

Losers as Well as Winners

The excess in supply is another factor. OPEC, the cartel of mostly Middle Eastern oil-producing countries, has long influenced the price of oil. In December, it



Renewable energies like wind and solar could suffer as a result of low oil prices.

decided not to decrease production. A cut-back might have stopped the price drop.

But the falling price of oil isn't all good news. While low energy prices help the economy overall, certain regions and industries are suffering. Layoffs have already started in the oil industry and

related fields. Texas and North Dakota, which have huge numbers of fracking oil rigs and boomed when oil prices were high, are now feeling the pinch. States like Alaska, Oklahoma, and Louisiana that depend heavily on taxes from oil revenues to help balance their budgets will have to cut back spending.

Alternative-energy producers aren't too happy either. High oil prices spur investments in renewable energies like wind and solar. But those investments make less sense when oil prices are low.

For similar reasons, environmentalists fear that falling oil prices could slow down the fight against climate change. Many people may start using more energy if it's less expensive. In fact, that shift is already under way. U.S. sales of less-fuel-efficient trucks and S.U.V.s are already up 10 percent over last year, according to Autodata. And fewer Americans are using public transportation now that driving is cheaper. That means there are more cars on the road emitting the car-

Good For Us, Bad For Them

Cheap oil is hurting some U.S. adversaries who are big oil producers

Russia As the world's third-largest oil producer, the Russian government depends heavily on oil revenues. Falling prices have devastated Russia's economy and tied the hands of President Vladimir Putin (right). The question is whether these economic woes will put the brakes on Putin's recent aggression in Ukraine and elsewhere.



Iran Sanctions, put in place in response to Iran's suspected nuclear-weapons program, have severely limited Iran's oil sales. But oil remains a critical source of government funding. The U.S. hopes low oil prices will pressure President Hassan Rouhani (left) to make a deal on Iran's nuclear program.

Venezuela Plummeting oil revenues have created a financial crisis for this socialist, anti-American regime. Venezuela has long used its oil wealth to fund social programs like free healthcare and to subsidize the cost of food. Now, it faces dire shortages of food and medicines, and people are becoming increasingly angry.



BLOOMBERG/GETTY IMAGES (WIND TURBINES); ATTA KENARE/AFP/GETTY IMAGES (HASSAN ROUHANI); DIMITRY LOVETSKY/AFP/GETTY IMAGES (VLADIMIR PUTIN)

U.S. Gas Prices, Then and Now

Average price per gallon over the last 20 years



Who Drills For Oil, Who Guzzles It

The U.S. is now the top oil producer and consumer

Top 5 Oil Producers

Millions of barrels produced per day

1. **United States** 12.3
2. **Saudi Arabia** 11.6
3. **Russia** 10.5
4. **China** 4.5
5. **Canada** 4.1

SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION (EIA), 2013 DATA

Top 5 Oil Consumers

Millions of barrels consumed per day

1. **United States** 19.0
2. **China** 10.1
3. **Japan** 4.5
4. **India** 3.5
5. **Russia** 3.3

SOURCE: U.S. ENERGY INFORMATION ADMINISTRATION (EIA), 2013 DATA



Oil wells near McKittrick, California

\$460 billion
Amount Americans spent on gasoline in 2014, which works out to about **\$3,800 per household.**
SOURCE: AAA

bon dioxide that contributes to global warming.

“The strangest effect of low energy prices is that for every dollar off the cost of a barrel of oil, Americans seem to lose an **I.Q.** point,” writes John Schwartz, who covers climate change for *The New York Times*. “We turn away from economical, fuel-saving cars and go back to our beloved gas-guzzlers, as if we believe low prices will last forever.”

‘Up and Down’

But they don’t. In fact, the very nature of the energy industry is that prices go up and down in an inevitable cycle.

Consider the fracking boom. Just as

high oil prices encouraged a torrent of new drilling, low prices are starting to force producers to pull back. If prices stay low for long, it won’t

make economic sense to continue drilling at the same rate. And if the amount of oil from American fracking operations falls significantly, the global oil supply could shrink enough to make prices start rising again.

Many Americans are enjoying lower energy prices now. But they’re also being realistic about how long they might last. April Smith of Lewiston, Maine, a home health aide, and her husband, Eddie, who works in auto-ser-

vices at a Walmart, make about \$42,000 a year. For them, the decline in energy prices has meant being able to put meatloaf on the table instead of serving their four children hot dogs, ramen noodles, and macaroni and cheese.

Smith’s fear is that prices will turn back up, squeezing the household budget again.

“Us small people, we just see it go up and down, up and down,” she says of energy prices. “We throw a party when it’s down, but not too much of a party, because we know it’s going up.” •

With reporting by Diane Cardwell, Nelson B. Schwartz, Clifford Krauss, and Gretchen Morgenson of *The Times*; and by Gabriel Tyler.