

Commentary

What the 2014 Oil Crash Means

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Oil prices are in free-fall. That's good economic news for the United States, even if it ends up meaning a serious hit to the shale drilling bonanza. Whether you cheer or boo the plunge, though, depends a lot on where you live and what work you do.

A barrel of Brent crude – the most important global oil price – costs almost \$30 less than its late-June high, a decline of more than 25 percent. Nearly half of that drop has come in the last two weeks.

The last time oil prices seemed this unhinged was during the 2008 financial crisis (though prices actually fell further during early 2012). That's unnerving to many. But the U.S. energy scene has changed dramatically since then. An oil boom has cranked up U.S. production and slashed imports, challenging conventional wisdom on the economic and geopolitical fronts. It used to be clear that falling oil prices were great news for the United States. But it's not obvious that that's still the case.

Falling crude prices will crimp oil producers' profits and, eventually, deter them from drilling. That hurts the U.S. economy. But the benefit to consumers still outweighs that. Amid all the excitement about the rise of U.S. oil production, many appear to have forgotten the United States still consumes far more oil than it produces. A sustained \$30 decline in oil prices translates into more than \$200 billion a year of savings for U.S. consumers through lower prices for gasoline, diesel, jet fuel and home heating oil.