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Lower oil prices, Texas, and the national economy

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In the summer of 2014, analysts predicted the price of a barrel of oil would remain above $100 until early 2015. They were wrong, and the opposite happened: oil prices dropped by more than 50 percent over the next 6 months. A combination of factors led to the price decline. Demand fell, and the supply of oil from both the Organization of the Petroleum Exporting Countries (OPEC) members and non-OPEC countries increased. Shale oil production in the United States increased concurrently.

Although some nations benefitted from the decline in oil prices, the impact of lower oil prices on national economies is not uniform the world over. For the countries that produce and supply oil, the impact is negative. For oil-importing countries, price declines are beneficial. In "Plunging oil prices: a boost for the U.S. economy, a jolt for Texas," (*Dallas Federal Papers,* vol. 10, no. 3, April 2015) economists Anthony Murphy, Michael Plante, and Mine Yücel say the macroeconomic effect to the U.S. economy was positive, but in eight states that have a high concentration of energy-related jobs—including Texas and North Dakota—lower oil prices adversely affected employment and tax revenues.

In terms of employment, Wyoming fared the worst because its percentage of jobs in energy industries is the highest of any state. Alaska's state budget similarly was hit hard as oil and gas account for 80 percent of its tax revenue.

In contrast, Texas has a diversified economy, so the impact of falling oil prices is not as damaging to the state's employment and revenue as it is for some other oil-producing states. Despite a weakening Texan economy since late 2014, the authors assert that Texas is probably not on the brink of a recession reminiscent of the one the state experienced in the mid-1980s. The current Texan economic structure is different from the one in the 1980s. In 1982 oil and gas related employment was 4.7 percent of total employment in Texas, and in 2014 it was 2.6 percent. A major contributing factor to the recession in the 1980s was the savings and loan crisis, which tightened credit. The factors that shaped the savings and loan crisis no longer exist.

The authors conclude that both the nation and the overall global economy benefit from lower oil prices. Disposable income increases, and firms' overhead for energy decreases. The addition of increased demand to these conditions stimulate economic activity. Most obvious is the uneven benefits that accrue to the 50 states. Those whose economies are mostly driven by oil and gas, such as Alaska, and Wyoming, will experience a negative impact, but the nation as a whole will benefit.