

COMMENTS

Recessions and Oil

John Donnelly, JPT Editor • jdonnelly@spe.org

Steep or sudden oil price spikes and recessions often have gone hand in hand. Some economists contend that a causal relationship exists between oil price shocks and global recessions, noting that nine of 10 post-World War II recessions were preceded by oil price run-ups, although the timing of the two has varied.

The global recession of 1958 curtailed oil demand and job prospects and contributed to a dramatic decline in student interest in petroleum engineering schools. However, SPE membership continued to grow during this time and it was then that the Society launched some of its most important initiatives, including the Distinguished Lecturer Series and its first technical journal. The student decline would continue to 1963 as the industry faced some of the same challenges it does today—competition from seemingly more glamorous professions, the cyclical nature of supply and demand, a weak public image, and reports that the world might no longer rely on oil in the near future. The resulting industry staffing shortage that occurred in the mid to late 1960s gave many young professionals opportunities and prosperous careers they otherwise might not have had.

In 1973, the so-called Arab oil embargo that occurred during the Arab-Israeli War led to a sudden price spike that plunged industrial nations into recession and caused steep inflation. The 1974–75 recession would cause petroleum demand to drop by 4.5%. Then the Iranian revolution and Iran-Iraq War caused another price spike in 1979. The inflation of the 1970s led to tighter monetary policies, which contributed to the deep recession of the early 1980s and significantly lower oil demand. Oil's share of global energy consumption fell to under 50% by 1985. By 1986, oil prices had plummeted to USD 9/bbl, leading to major layoffs and industry consolidation.

Subsequent recessions have had less impact on worldwide petroleum demand. The recession of 1992 saw consumption fall by about 3.5% and the recession of 2001–02 had little effect on demand. Asia's recession in the late 1990s and OPEC's slowness in reacting to it is largely blamed for the steep collapse in prices to USD 10/bbl in 1998. That price collapse helped touch off a wave of megamergers that ended the existence of such well-known companies as Arco, Amoco, and Mobil.

Economic downturns and price drops have caused significant structural changes in the oil and gas industry in the past. The shift in research and development from operators to the service sector, the loss of personnel that has led to today's shortage of technical talent, the swings in petroleum engineering enrollment, and the dramatic consolidation that occurred in the 1990s all were products to some degree of price volatility and supply/demand corrections. Some analysts caution that sharp cutbacks in capital spending, R&D, and personnel this time may only complicate things for the industry in the future. How the industry reacts to the current economic downturn will no doubt help determine its future as well.

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