

Falling Oil Prices Could Spell Serious Trouble

Lower prices mean more cash in the pockets of consumers - but experts say if they stay too low the results could be disastrous.

Paul Kenworthy has been an oilman for more than two decades. He is the owner of 10 wells near Midland West Texas and has seen good times and bad come and go, several times over.

But the precipitous drop in oil prices on what they called Black Friday last month has been painful all the same. Like everyone else he has seen the value of the black gold his pumps pull out of the Texas dirt go down by 40%. He blames OPEC and the Saudis who have refused to cut production despite falling demand in Asia and Europe. But he says he understands what they are doing. "To use a line from The Godfather, 'It's business it's not personal'," he said. "They're trying to maintain market share and they're going to do what it takes to maintain that market share." OPEC, he says, is responding to a massive increase in US oil production because of the revolution in fracking. Hydraulic fracking has brought boom times to places like Midland not witnessed since the 1980s. The average income in the town is the fastest growing in the country, and currently stands at \$82,000 a year. It's not just the oil industry that has been booming. Mark Payne is a homebuilder and says it's been impossible to keep up with demand from people flooding in to take advantage of the oil money. "It's been really all you can get and nobody has been able to keep up. Early on, it was how much can you sell - now it's just how much can you build to meet demand?" But fracking is expensive and not profitable if the price of oil goes below a certain level. From cities like Dallas and Houston they are watching nervously, asking the multi-billion-dollar question: How low will the price go and for how long? The answer is important for people far beyond America. Its economy is the only one that's showing signs of a sustainable recovery currently. Much of that recovery has been driven by the oil boom. Lower oil prices can help that further. They give people more money in their pocket - between \$500 to \$1,000 a year, according to current estimates. That should drive consumption and lower fuel prices make production cheaper too. But if the price stays too low, the oil industry could be in serious trouble. That would threaten the wider economic recovery here and because what happens in America spreads to Europe, including the UK. Bruce Bullock, director of the Maguire Energy Institute in Dallas, says it's a Goldilocks question. The oil price cannot be allowed to get too high or too low. "If it were to rebound up to \$65 or \$70 a barrel, I think on balance it will help the economic recovery. If it were to drop further I think it will harm the recovery. There's a lot at stake here for America and for the rest of the world." Something worth bearing in mind before getting too excited by plunging prices at the pump.