

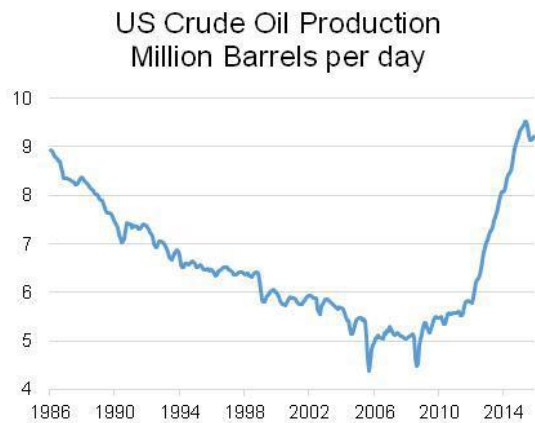
Oil Price Decline – A Positive?

The volatility in equity markets continues with oil seemingly the most important factor. Share markets have been moving in line with daily movements in the oil price so far this year.

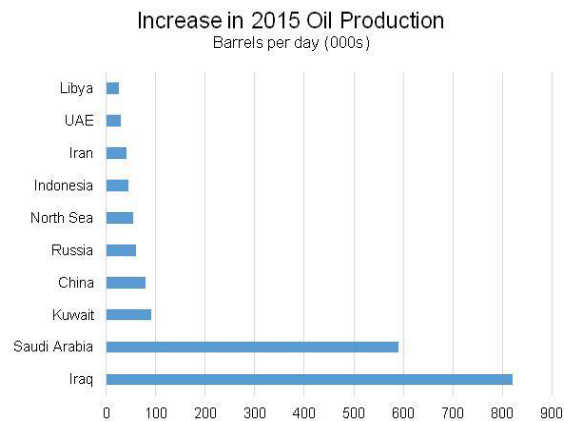
It is generally considered the current collapse in oil prices is not being caused by a deterioration in demand so is not signalling a material change in the economic outlook. The problem seems to be all on the supply side.

As shown in the following charts, oil supply has surged since 2010 led by a doubling in US production as a persistently high oil price encouraged innovation in extraction methods.

Supply is also increasing in other regions. In 2015 the big increases came from Iraq and Saudi Arabia. The return of Iranian exports will add further to supply in 2016 as its export embargo is lifted.



Source: Datastream



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Lower oil prices are generally good for most economies.

Cuts to petrol prices mean motorists have more money to spend elsewhere. Australian consumers spent \$4 billion less on petrol in 2015 than 2014, and it's anticipated they will spend another \$3 billion less in 2016 than 2015, if current prices are sustained.

The current low oil price does not seem to be a signal of a deterioration in economic conditions and should ultimately be a positive.

Source: Westpac Financial Services Limited 2016

Information current as at 29 January 2016.