

## Briefs

**Ag Economy****Gush in Oil Prices to Exert Modest Impact on U.S. Economy**

No farmer, truck driver, or automobile driver could overlook the rise in petroleum fuel prices of the last 13 months. No other farm input or major consumer price has risen as much as fuel in the past year. Retail diesel fuel prices reached \$1.50 per gallon in mid-March, up from a national average of 95 cents in February 1999. Gasoline prices shot up 60 cents per gallon, reaching more than \$1.60 per gallon in some areas.

Crude oil prices have driven the rise in fuel prices. On December 10, 1998, the crude oil price closed at \$10.76 per barrel (West Texas Intermediate)—the lowest since March 1974. A year later the crude price had climbed to \$25.23, peaking at \$34.13 on March 7, 2000. By late March, prices retreated to around \$27 at news that the Organization of Petroleum Exporting Countries (OPEC) would expand production to offset part of the past year's shortfall.

Crude oil prices had risen as OPEC, in cooperation with other major oil producers, reacted to very low oil prices by sharply cutting production. The production shortfall caused a drawdown of crude oil stocks at the rate of 1 million barrels per day over the last 13 months.

In late March, OPEC expanded official production quotas by 1.45 million barrels per day—short of the expected 1.75 million. During the OPEC meeting, Iran refused its expanded quota of 300,000 barrels per day. Nevertheless, Iran has expanded production since March, so the increases in oil supplied should amount to a daily quota expansion of 1.75 million barrels. This expansion, together with an increase in production by non-OPEC producers, will allow inventories to be replenished and demand for products to be met.

Many analysts expect gasoline prices to rise as much as an additional 10 cents per gallon in early summer, even as crude oil production expands and crude oil prices

recede. The normal seasonal spike in gasoline demand (associated with summer vacation travel) will keep gasoline prices high into mid-summer, as this source of crude oil demand competes with the need for inventory restocking to meet fall demand for heating oil. However, gasoline prices are expected to decline to \$1.35 by early August as summer gasoline demand recedes and supply expands.

As diesel fuel becomes more plentiful, national diesel prices could slip to \$1.40 per gallon by the time harvest begins this fall, down from \$1.45 per gallon at the end of March. But diesel fuel prices could be up sharply again by the end of the year if heavy vacation driving or cold winter weather results in an insufficient inventory buildup of crude oil. This would result in higher fuel costs at spring planting.

The impact on the U.S. economy is likely to be minimal this year and in 2001, even under a tighter supply scenario than currently expected. First, the recent crude oil

price rise, when adjusted for inflation, is a smaller percentage rise than in the major runups of 1974, 1979, and 1990.

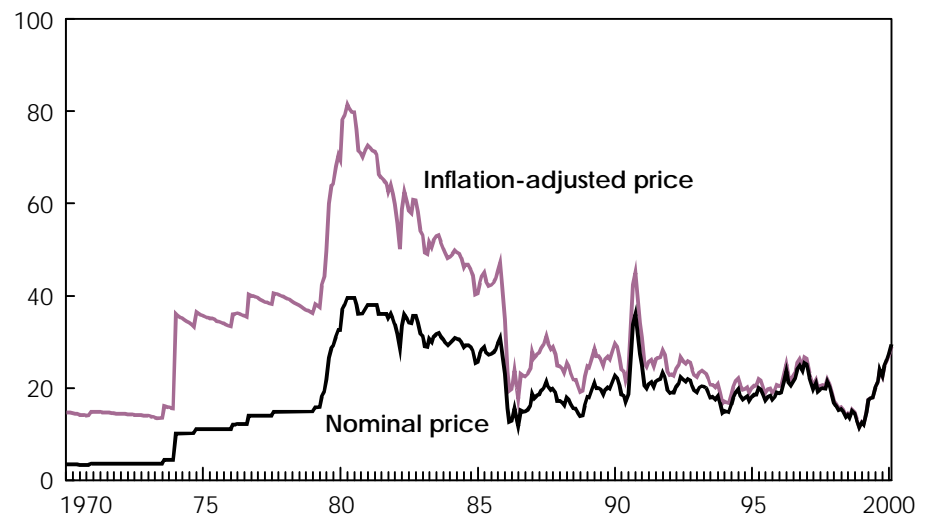
Moreover, deregulation and increased international competitiveness have limited the ability to pass on increases in raw material prices. Second, the goods-producing sectors of the economy, such as manufacturing and agriculture, have become more fuel-efficient in the last 30 years. Third, a larger share of U.S. output is in the service sector than in the 1970's, and this sector generally uses less energy per dollar of output than the goods industries. Finally, a large share of recent growth has occurred in the technology sectors (both goods and services), which also use proportionately less energy compared with "old economy" industries.

The overall rise in U.S. core consumer price inflation (excludes fuel and energy) as a result of higher oil prices should be less than 0.2 percentage points per year for 2000 and 2001. Growth in U.S. Gross Domestic Product (GDP) attributed to high oil prices is expected to be 0.1 percentage points lower in 2000.

The impact will be more noticeable for U.S. farmers than for the general economy. U.S. farmers—particularly producers of energy-intensive crops such as corn

**Real Price of Oil Remains Well Below Levels of Late 1970's And Early 1980's**

\$/barrel



Spot prices for West Texas intermediate crude.  
Source: Alaska Revenue Service and Haver Analytics.

Economic Research Service, USDA

## WINDOW on the PAST

Excerpts from USDA publications

### Fuel Price Levels Uncertain

While gasoline prices are up slightly from a year ago, price movement over the next several months will reflect actions taken by the oil exporting countries.

The OPEC countries have been advocating price increases ranging from 0 to 30 percent with 10 to 15 percent being the most common increase discussed. Until this issue is settled, it is difficult to estimate fuel price increases for 1977.

Price and allocation regulations on No. 2 heating oil, diesel fuel, and other middle distillates ended June 30, 1976. Price response to this action is uncertain, but the Federal Energy Administration assured Congress that action would be taken if prices for this winter's heating oil rose more than 2 cents per gallon. It seems doubtful that diesel fuel prices will rise by more than 1 or 2 cents per gallon for the remainder of 1976 and early 1977.

*Agricultural Outlook, December 1976*

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and cotton—should see substantial increases in production costs as output prices remain relatively unchanged (see farm income brief). Although the agriculture sector has become more petroleum-efficient with use of improved equipment and less energy-intensive cultivation practices, the sector must absorb much of the cost increases because it has limited ability, in the short run, to pass them on to consumers in the form of higher output prices.

Nevertheless, if crude oil prices remain in the current range of \$25-\$26 per barrel, U.S. agricultural output in 2000 will be relatively unaffected, and the impact on the consumer price index for food will be negligible. But in the longer run, higher costs would dampen agricultural production and farm income.

Fertilizer producers will see their production costs rise modestly. Production of ammonia-based fertilizer is extremely natural gas-intensive, and natural gas prices tend to move up and down with petroleum prices. But with plentiful supplies of natural gas, the rise in natural gas prices should be modest in 2000 and 2001, and fertilizer prices will be relatively unaffected by energy prices in 2000 and up only moderately next year. **AO**

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Watch the ERS Issues Center at [www.ers.usda.gov](http://www.ers.usda.gov) for more information on the impact of higher oil prices on U.S. agriculture.

### May Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

#### May

- 1 Crop Progress (4 pm)
- 2 Weather - Crop Summary
- 3 Broiler Hatchery
- 4 Dairy Products  
Egg Products
- 5 Dairy Products Prices (8:30 am)  
Poultry Slaughter  
Sheep & Goats Predator Loss
- 8 Crop Progress (4 pm)
- 9 Weather - Crop Summary
- 10 Broiler Hatchery
- 12 Cotton Ginnings - Ann.  
(8:30 am)  
Crop Production ((8:30 am)  
Dairy Products Prices (8:30 am)  
Turkey Hatchery
- 15 Potato Stocks  
Crop Progress (4 pm)
- 16 Weather - Crop Summary  
Milk Production
- 17 Agricultural Chemical Usage -  
Field Crops  
Broiler Hatchery
- 19 Dairy Products Prices (8:30 am)  
Cattle on Feed  
Cold Storage  
Farm Labor  
Livestock Slaughter
- 22 Chickens & Eggs  
Crop Progress (4 pm)  
NASS Facts Newsletter
- 23 Weather - Crop Summary  
Catfish Processing
- 24 Broiler Hatchery
- 26 Dairy Products Prices (8:30 am)
- 30 Peanut Stocks & Processing  
Crop Progress (4 pm)
- 31 Weather - Crop Summary  
Agricultural Prices  
Broiler Hatchery