

Oil prices and economic growth

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The aim of this paper is twofold. Firstly, we give some insights into the evolution of crude oil prices. We do not focus on well known factors such as OPEC behaviour and technological progress. We analyze some specific points including refining and logistics bottlenecks as well as hedge fund positions. We discuss the effects of prices and economic cycles considered as exogenous variables.

In the second part, we present a survey and some novel observations on the oil price-macroeconomy relationship. The negative correlation between the fluctuations of oil prices and the growth of GDP in most industrialized countries has led to suspect the oil shocks to be responsible for the Great Stagflation. On a longer term perspective, the oil crises are also accused of having caused the productivity slowdown that occurred in the mid-seventies. Some theoretical mechanisms have been identified, which explain how a rise in the price of a so widely used commodity can affect the macroeconomy as a whole. They range from the supply side to the demand side, with some foreign trade and labour market imbalance effects. Empirical work tried to validate these mechanisms and to assess their relative importance in the framework of the real business cycle theory. Granger causality tests and impulse analysis performed on compact macroeconomic models showed that oil price rises had a harmful and delayed impact on the GDP growth while aggregate (positive) and sectorial (negative) effects were offsetting each other when the prices were falling. But as new data became available in the 90's, the relationship identified in the 80's seemed to become unstable. Neoclassical economists specialized in growth accounting usually give a small weight to the oil crisis in their analysis of the productivity slowdown while monetarist ones point out the stop- and- go politics of the central banks at the end of the sixties and the beginning of the seventies as an explanation of the stagflation. The paper discusses this debate which is still going on.