News release

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Low oil price could boost output in Eurozone and US

But full effects could take time to feed through

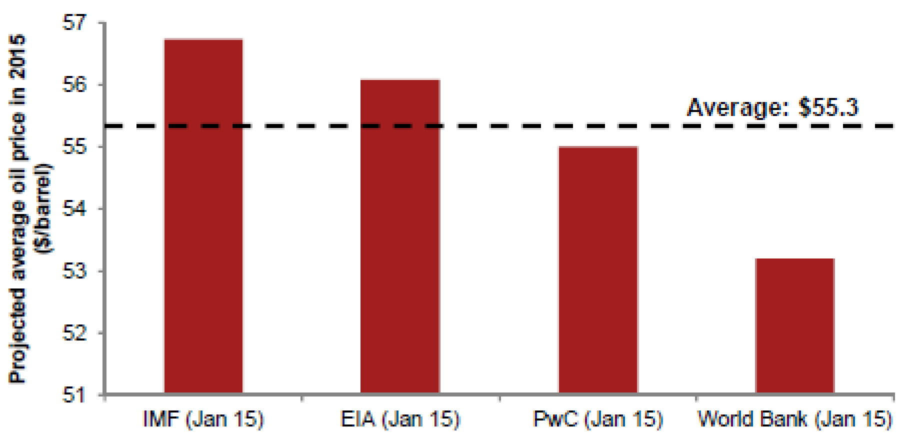
London, 12 Feb 2015--Net oil importing economies like the Eurozone, Japan and the US are set to be the winners of lower oil prices; but the effects will not be felt evenly across economic sectors, warn PwC economists.

They assume that the average price of a barrel of oil in 2015 is likely to be around $55 (see figure 1), which is around 50% lower than in June 2014.

Says PwC senior economist Richard Boxshall: “Some large corporations may not feel the benefits straight away due to having hedged against higher oil prices or being bound by long-term contracts with their suppliers.

“Households may also have to wait for oil price cuts to be passed on down the supply chain to consumers.”

Fig 1: The price of oil is projected to be around $55 on average in 2015, more than 40% lower than last year

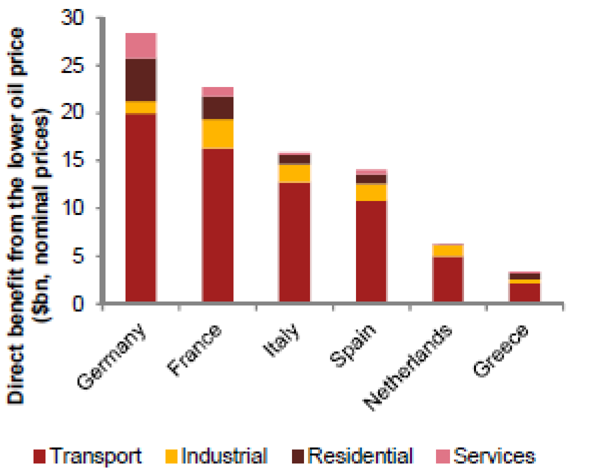


Note: The oil price here is defined as the average of Brent and WTI except for the IMF and World Bank numbers which are for the average of Brent, Dubai and WTI
Sources: PwC analysis, IMF, US Energy Information Administration (EIA), World Bank

PwC has estimated the direct first-order benefit of a low oil price for the industrial, residential, transport and services sectors in the US and key Eurozone economies. The analysis shows that:

- the US transport and industrial sectors could benefit by nearly $300 billion in 2015. The drop in operating costs could lead to an increase in production levels, which in turn should push prices down and stimulate consumption
- the transport sector should also be the big winner in the Eurozone to the tune of about $65 billion (see figure 6), but the full effects could take time to feed through – for example, many airlines hedge against the cost of fuel, and
- due to its lower energy efficiency, Greece could benefit relatively more than Germany from lower oil prices.

Fig 6: In the Eurozone, the transport sector is expected to benefit the most from the oil price fall



Sources: PwC analysis, Eurostat, Datastream

And on the announcement of the €1.1 trillion quantitative easing (QE) programme in the Eurozone, PwC economists warn this could lead to a further depreciation of the euro against the dollar. And doubt about Greece's future in the Eurozone could also put downward pressure on the single currency.

Warns Richard Boxshall: "We expect QE to provide a short-term boost to the Eurozone economy through increased borrowing and net exports. But structural reforms to labour and product markets are still essential for improving the long-term potential growth rate of the Eurozone."

Notes:
The February edition of PwC's *Global Economy Watch* can be found at www.pwc.com/gew

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