Not So Shocking

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June 30th, 2014

I read an interesting article in the *Wall Street Journal* last week entitled *"Upshot of Domestic Oil Boom: Fewer Shocks."* The gist of the article was that due to advanced technologies such as hydraulic fracking, the United States has boosted US crude oil production by 47% since late 2010. 47%! Domestic oil production in October surpassed imports for the first time in two decades. Canada has also made significant gains in oil production, and now the US imports about as much oil from Canada as all of the OPEC exporting countries combined.[1]

In short, what this signals is that the United States is now less vulnerable to oil price shocks which, as we know, can have a significant impact on economic growth. With an increase of $10 per barrel, the price of oil over three months can reduce US gross domestic product by 2/10 of 1% according to Joseph LaVorgna, Chief US Economist at Deutsche Bank. When you factor in the positive impact of more efficient cars, it means that we have reduced one of the major risks of economic (stock market) volatility. This is particularly important when we consider the amount of unrest in the Middle East, something that I don't envision ending any time soon.

The United States is witnessing a renaissance in energy production, which will have a meaningful, positive impact not only on price stability but supply, enough so that we are beginning to see the return of manufacturing and other energy-intensive businesses to the United States.

While the subject of fracking is controversial, pitting environmentalists against business and economic interests, it's important that we recognize the structural changes and investment implications that this trend signifies as well as the possible outcomes of not sending as much money to countries who may not share our view of what the world should look like in the future.

[1] *Wall Street Journal*, Wednesday, June 18, 2014