


## Flash Economics

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### The considerable importance of the oil price

The importance of the oil price in explaining changes in the economy is often underestimated. We will take two examples of this key influence of oil price fluctuations:

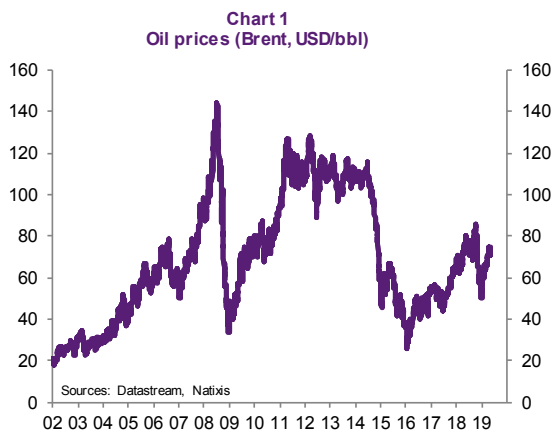
- The rise in the oil price in 2007-2008 was one of the key causes of the subprime crisis, with the resulting rise in inflation and interest rates;
- The effect of oil price fluctuations on the euro zone's economic cycle since the 2008-2009 crisis.

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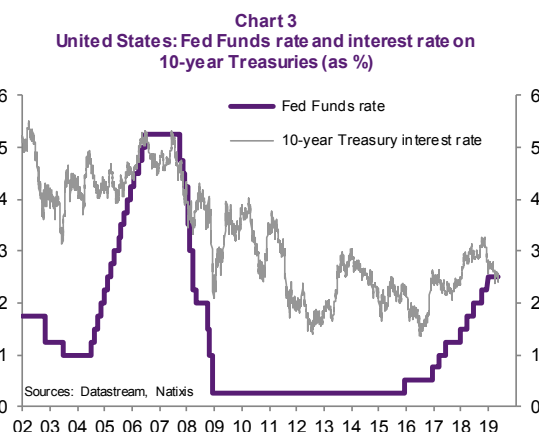
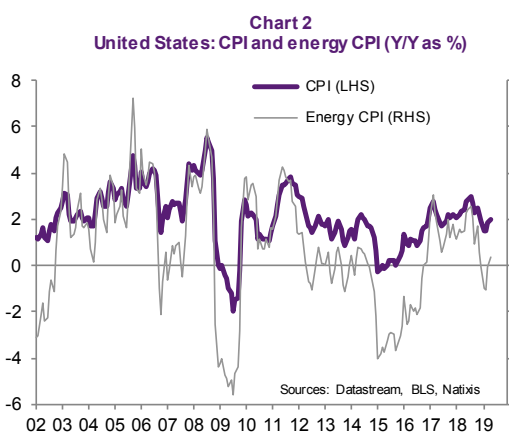
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## First example of the key effect of oil price fluctuations: The outbreak of the subprime crisis in 2008

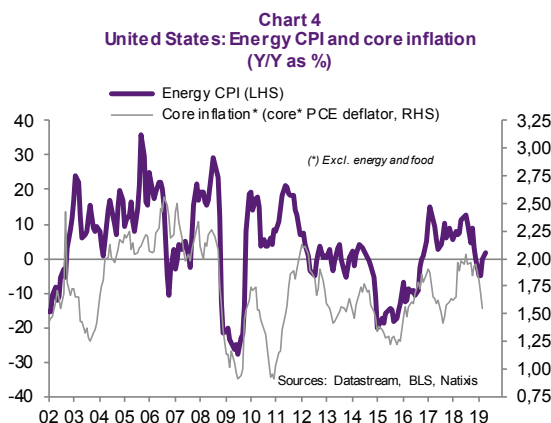
The oil price rose considerably in 2006-2008 (Chart 1).



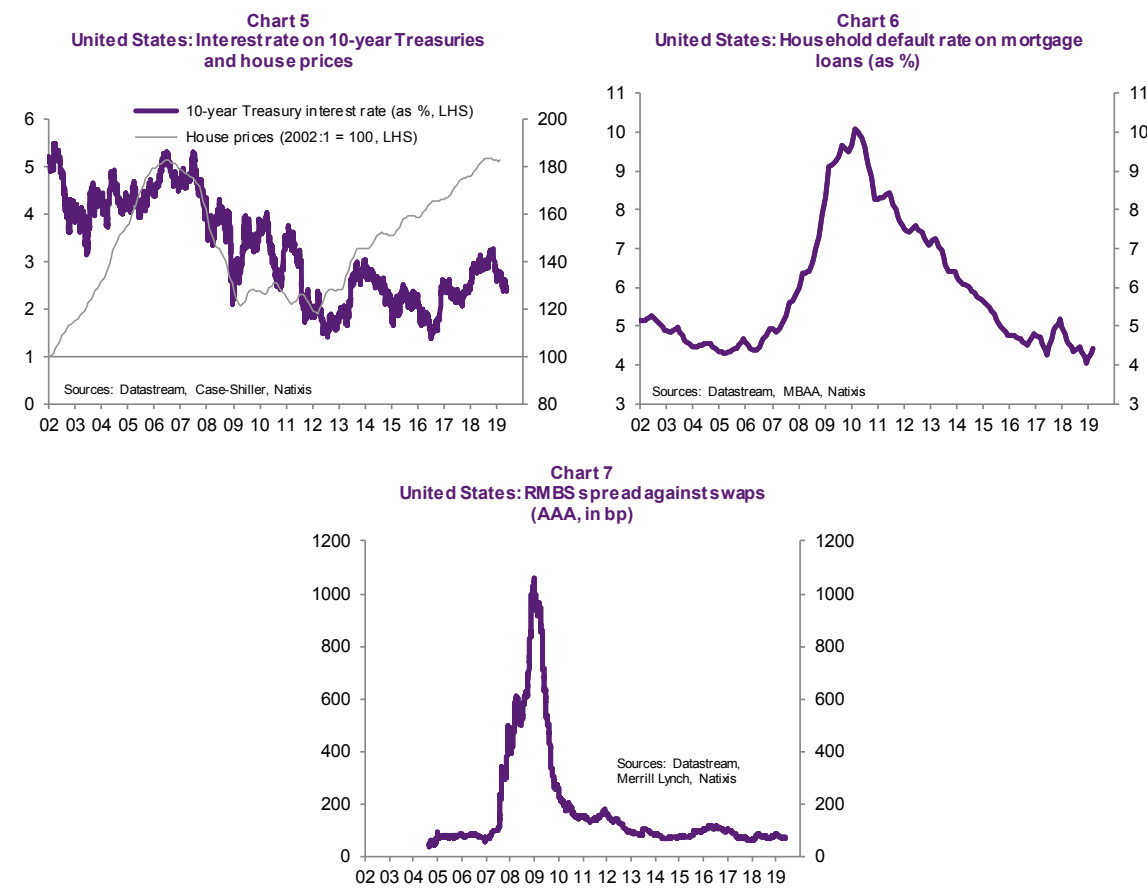
This led to a **sharp rise in inflation in the United States (Chart 2)**, which explains the Federal Reserve's reaction as it **raised its interest rates sharply**, which also led to a rise in long-term interest rates (Chart 3).



We should not forget that a rise in the oil price **also has an impact on core inflation** (via its impact on the prices of goods for which the production uses oil or energy, and via wage increases), **Chart 4**.



The rise in long-term interest rates triggered a decline in property prices (Chart 5), leading to a rise in household defaults on mortgage loans (Chart 6), and a decline in prices of real-estate related securitised assets (Chart 7), triggering the subprime crisis.



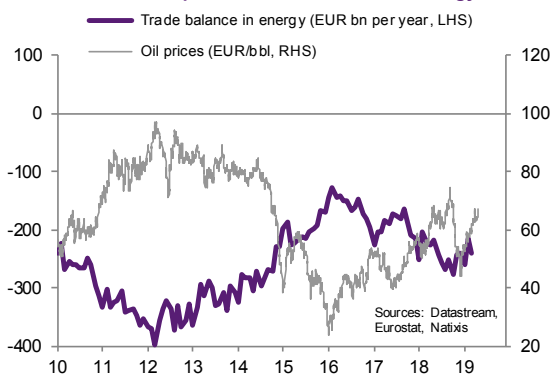
Inflation caused by the rise in oil prices between 2006 and 2008 was therefore one of the main causes of the subprime crisis.

## Second example of the key effect of oil price fluctuations: The euro zone's cycle

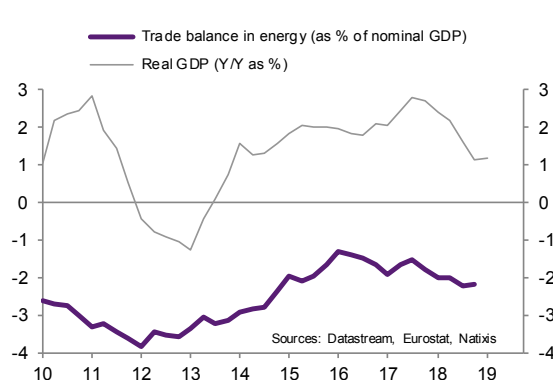
We look at the effect of oil price fluctuations on the euro zone's cycle since 2010. We can look at this from two viewpoints: by looking at the trend in the trade balance for energy, and therefore at the loss of income caused by the rise in the oil price; or by looking at trends in inflation, and therefore in the purchasing power of income.

Charts 8A and B show that an increase in the oil price of 10 euros per barrel reduces the euro zone's income by 0.4 percentage point of GDP, which has an obvious effect on euro-zone growth.

**Chart 8A**  
Euro zone: Oil prices and trade balance in energy

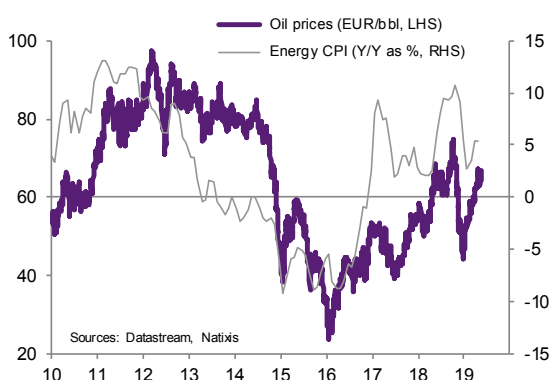


**Chart 8B**  
Euro zone: Trade balance in energy and real GDP

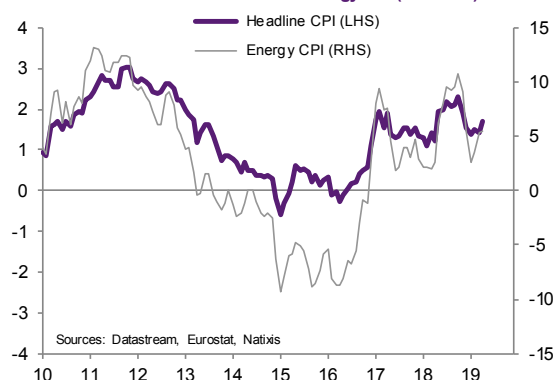


Charts 9A, B, C and D show that an increase in the oil price of 10 euros per barrel increases euro-zone inflation by 0.6 percentage point and reduces the real wage by 0.4 percentage point.

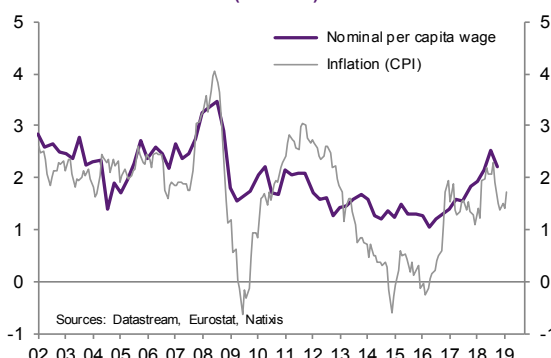
**Chart 9A**  
Euro zone: Oil prices and energy CPI



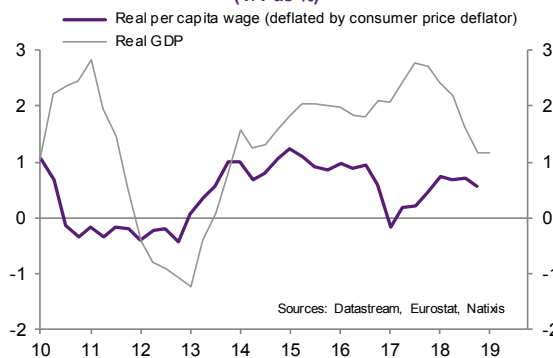
**Chart 9B**  
Euro zone: Total CPI and energy CPI (Y/Y as %)



**Chart 9C**  
Euro zone: Nominal per capita wage and inflation (Y/Y as %)



**Chart 9D**  
Euro zone: Real per capita wage and real GDP (Y/Y as %)



## Conclusion: The oil price is a key determinant of economic cycles

Based on the examples of the United States and the euro zone, we have shown that oil price fluctuations are a major explanatory factor of recessions, financial crises and economic cycles.

It is, therefore, worth spending a lot of time on trying to understand oil price fluctuations.

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