Energy Decline Not Harmful to US, Some Producing States Might Suffer

Experts forecast that low energy commodities prices won't impact US economy, but oil, gas and coal-producing states might face problems on local level.

February 2, 2015

WASHINGTON (Sputnik) — Low energy commodities prices won't impact US economy, but oil, gas and coal-producing states might face problems on local level, experts told Sputnik News Agency.

"I do not anticipate that the energy decline on net will be harmful to the American economy," Professor of Economics at Ball State University Cecil Bohanon said on Monday. "But the effects are different depending on where you are at."

Energy commodities prices have recently dropped rapidly due to increased production from advanced technologies, such as fracking, and the discovery of excess energy reserves, Senior Research Fellow at National Center for Policy Analysis Lloyd Bentsen explained, adding that "all of this is good for the energy sector in the United States."

Professor of Applied Economics at The Johns Hopkins University Steve Hanke pointed that past research shows that large swings in oil prices do not affect overall GDP very much.

"Changes in oil prices don't have much effect at the overall economy. But if you go down to regional levels, micro levels, it can have a very large effect," Hanke said.

Experts agree that some energy commodity producing regions will face harder times.

"I think you have to look at that region by region, state by state, almost county by county to see what the impact is," Professor Cecil Bohanon said. "One man's crisis is another man's boom. That's, unfortunately, the way price changes occur."

There are two sides in any major price change for commodity, expert explained. On the one hand, producing companies whose business plans were built based on high commodity prices, will find themselves in a difficult situation.

“In the short-term, energy firms that relied on higher energy prices, will have to adjust their businesses so that they can continue to make a profit or just break even,” Senior Research Fellow at the National Center for Policy Analysis Lloyd Bentsen said. “We will expect layoffs with lower prices and strong hiring periods when the prices go back up,” he added.

Professor Steve Hanke says the oil sector is in a lot of turmoil and change right now.

“You can see it by just looking at any major oil company, they are reducing their capital expenditure plans almost every week,” he pointed.

Despite harder time for producers and some workers, consumers will benefit from lower commodity prices, Professor Cecil Bohanon said.

“So you have one part of the economy expanding and other part of the economy contracting,” he explained, adding that the situation is in favor of Indiana and Michigan, but not so much for oil-producing states like North Dakota and Texas.

Coal industry might be in an especially vulnerable position, as it is currently taking a hit due to competition from the lower natural gas prices and a push back from environmental protection groups and regulations, experts pointed out.

On January 30, a large US producer of coal Alpha Natural Resources announced intentions to idle production at three mines in West Virginia and cut jobs at two more, affecting about 100 workers.

“I suspect coal for a lot of reasons in the United Sates is not a growth industry,” Bohanon said. “Coal prospect is not very good. That’s really bad for parts of West Virginia and parts of Eastern Kentucky.”

On Monday US Senate Majority Leader Mitch McConnell of Kentucky announced that he has joined the panel that oversees the Environmental Protection Agency and intends to fight back against President Obama Administration’s “anti-coal jobs regulations,” according to the statement released by McConnell’s press office.

According to the US Energy Information Administration, in 2012 Texas, Wyoming, Pennsylvania, Louisiana and West Virginia were top five states in total energy production.