

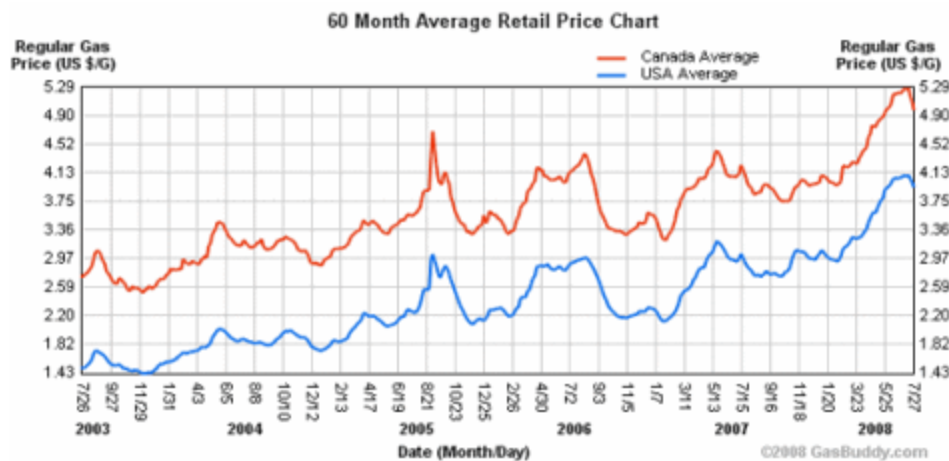
The Oil Price Slide - Think Long-Term

Markham Lee, July 29, 2008

Oil prices have been declining for several days now. I'm sure some will begin talking as if the world has changed, and that the days of oil at \$140.00/barrel and gasoline above \$4/gallon are gone for good. I've even seen those proclaiming a return to \$3.50/gallon gas and \$90/barrel oil.

While both are nice ideas and are actually within the realm of possibility, it's important to note that the overall pattern for energy prices has been one of jumping to a new high, falling back to a plateau that would've a high in the past and then moving back up again.

For instance take a look at the chart below depicting the five-year change in gas prices:



Graphic courtesy of GasBuddy.com

As you can see from the above in mid '06 gas prices jumped up to \$2.97 before falling back down to \$2.20, a level that was a high in 2004/2005 (if you exclude Katrina), before moving up past \$3.00 in 2007. Now here we are one year later and analysts are tossing around the possibility of \$3.50/gallon gas (higher than the average gas price for most of last year and part of this one) as if that's a level that will ease the pain being felt from high gas prices, when all that would do (if it even happens) is make things slightly less painful while not fixing the core problem.

If you look at the five year oil chart you can see that the same pattern plays out with oil prices: a rise to a new high, a fall to a plateau that would've been a high in the past, followed by a brand new increase.



Graphic courtesy of thisismoney.co.uk

When gas was at \$3.50 the airlines were losing money, SUV sales were sliding rapidly, and households were adjusting their habits to account for high gas prices, how exactly is that any different from the way things are now and/or before oil prices began their slide? While \$3.50/gallon gas would be an improvement over current prices let's not forget that a lot of the changes brought by high gas prices began at the \$3-\$3.50/gallon level, so a return to those price levels is unlikely to cause any marked changes to the economy.

Until the overall pattern significantly changes there is little point in seeing drops in oil and gas prices as anything more than temporary relief. Slightly less unbearable is still unbearable.