

Tapping SPR may provide oil price stimulus for economy

Release of oil from nation's reserves could help jumpstart struggling economy if it can feed the recent slide in prices.

By Chris Isidore

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NEW YORK (CNNMoney) -- Could releasing oil from the nation's reserves be the jumpstart for the economy that President Obama needs?

Some experts believe that was at least part of the motivation behind Thursday's move to release 30 million barrels of oil from the nation's Strategic Petroleum Reserve.

They say that if the move by the Obama administration -- part of a 60 million barrel release announced by the International Energy Agency -- helps to further drive down the price of oil, that could act as a stimulus for the economy.

"What we're seeing are really two things: one is an effort to offset reduction in production from Libya, but the other is another attempt to stimulate growth in the U.S. and Europe," said **Bernard Baumohl** of the Economic Research Group.

But **Baumohl** and others think the release probably won't be enough to significantly lower oil prices and get the economy back on track.

"It's an awfully paltry bit of stimulus and if they did this for that reason, they're just grabbing at straws," said Mike Fitzpatrick, editor of the Kilduff Report Energy Overview.

Oil prices have been in a slide in recent weeks, tumbling 9% in just the two weeks since White House spokesman Jay Carney said that the administration was

considering a release from the reserve. Gas prices are also down about 9% from the peak they hit near \$4 a gallon in early May.

Economists say that if speculators believe there will be additional releases, that in itself could lead to significant declines in oil prices. And falling oil prices could be a major lift for the economy.

"It depends on how fast it translates into prices at the pump," said Brett Ryan, U.S. economist at Deutsche Bank. "But it matters to a lot of Americans. If oil were to retreat and gas fell to \$3 a gallon, that frees up \$100 billion in annualized consumer spending from where we peaked out. That's significant."

When asked if stimulating the economy was a motivation for the action, a senior administration official said Thursday that the SPR was tapped only to address supply disruptions. He refused to comment on what the price impact of the move might be.

The U.S. Chamber of Commerce blasted the release of oil from the reserves Thursday, saying the move was an ill-advised response to "politically inconvenient high prices."

Oil was down about 5% Thursday, breaking below \$90 a barrel for the first time since February before recouping some of the losses. There were other factors driving down oil prices though.

Gloomy comments about the economic outlook Wednesday afternoon by Federal Reserve Chairman Ben Bernanke reinforced growing concerns about a weaker economy, which typically drives down oil prices.

Bernanke's comments that the Fed isn't ready to pump more cash into the economy in the near term helped lift the value of the dollar, which can also lower oil prices.

"I'm sure there is some short-term impact on oil prices from the release from the SPR, but I don't view it as a way to keep prices down for any extended time," said Mark Zandi, chief economist with Moody's Analytics. "But it could have a longer effect if it scares speculators out and keeps them out." ■