

Our View: Oil – Into the Abyss

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In 1931, oil prices had declined eighty-four percent from their 1926 peak. They did not recover to 1926 levels until 1948, seventeen years later. Like many other commodity-oriented firms, oil producers fell victim to the Great Depression caused by trade wars and terrible global economic policies.

The same fate likely awaits producers of oil, natural gas, and other commodities today, thanks again to trade wars and catastrophic economic policies. A downward cycle for oil has begun that could take crude to \$20 per barrel and natural gas to under \$1 per million cubic feet. The following economically detrimental developments are driving the cycle.

A trade war that is leading to a world recession or worse

Recession-caused declines in global oil and gas demand

Oil output increases by fringe oil-exporting nations that prompt the largest exporters to raise production

A decline in the dollar's exchange rate tied to falling oil prices and lost confidence in the US government

Interest rate hikes in the United States caused by foreign investors losing confidence in the US and abandoning US government bonds

A fall in the value of US exports that exacerbates the Trump administration's obsession with the country's merchandise trade deficit

Further trade war escalation by President Trump, who is determined to eliminate the trade deficit and/or retaliation by other nations intent on protecting their interests.

Economists are only just now noticing the deteriorating situation. On April 12, *The Wall Street Journal* issued its quarterly survey of economic forecasts. The *Journal* conducted the poll after President Trump's "Liberation Day" speech in which he introduced "reciprocal tariffs" on most world nations.

Reviewing the sixty-four responses, the *WSJ* authors exclaimed, "What a difference three months make!" The difference can be seen in Figure 1, which shows the evolution of the average of the GDP growth projections from 2023 to 2025. From January 2023 to January 2025, forecasters consistently expected US growth to be between 1.9 and 2.2 percent. That projection has now dropped to 0.78 percent.

This will not be the last reduction. In 2008, the economists surveyed by the *Journal* began marking down forecasts following the Bear Stearns bankruptcy. However, even six months into the year, they did not see the coming collapse in economic activity. We expect the story will repeat in 2025. Indeed, the collapse of consumer sentiment shown in Figure 2 warns of the possibility of a slowdown or worse.

The economic policies introduced by the Trump Administration, which include widescale dismissals of federal employees, massive deportations of undocumented individuals, and deep cuts in key services, combined with a trade war that is crippling the agricultural sector while exacerbating inflationary pressures, promise to accelerate the downturn. Falling oil prices will hasten the decline by adding to pressure on the dollar, reducing the value of US energy exports and depressing energy sector investment. Meanwhile, promised investments in US manufacturing will not materialize as firms making the pledges realize they must postpone or cancel projects to stay solvent and placate investors demanding dividends.

The world teeters on the edge of an abyss. The oil and gas industries and oil and gas exporting countries may lead us into it.

