

THE BROOKINGS PODCAST ON ECONOMIC ACTIVITY

"Why oil price spikes no longer guarantee a recession"

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Episode Summary:

For decades, oil price spikes were followed by U.S. recessions. A new BPEA paper finds that this link has weakened as the United States shifted from a major petroleum importer to a net exporter, with consumer spending, stock valuations, and employment responding more favorably to oil shocks. On this episode of the *Brookings Podcast on Economic Activity*, Ben Harris talks to the paper's authors, Diego Känzig of Northwestern University, James Stock of Harvard University, and Luca Zanotti of Northwestern University, about why oil shocks hit the U.S. economy differently now.

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EBERLY: Welcome to season nine of the *Brookings Podcast on Economic Activity*. I'm Jan Eberly, the James R. and Helen D. Russell Professor of Finance at Northwestern University. And this season, we'll be listening to discussions about papers from the fall 2026 *Brookings Papers on Economic Activity* conference, hosted by Brookings in September.

STEINSSON: And I'm Jón Steinsson, Marek Professor of Public Policy and Economics at the University of California, Berkeley. We are the co-editors of the *Brookings Papers on Economic Activity*, a semi-annual conference and journal that pairs rigorous research with real-time policy analysis to address the most urgent economic challenges of the day.

EBERLY: Once again, we have a great lineup of timely topics, energy markets, inflation, migration's effects on labor and housing markets, financing AI, and more. Over the course of this season, we'll hear a lot more about the conference papers and importantly, how decision-makers should be thinking about the topics they explore.

[1:11]

On this episode, we're diving into a paper on oil markets and the U.S. economy, a topic that feels perennial, but this one comes with a genuinely new twist. Ben Harris, director of the Economic Studies Program at Brookings, speaks with the authors, Diego Känzig of Northwestern University, Jim Stock of Harvard University, and Luca Zanotti of Northwestern University, about their new paper, "From Importer to Exporter: Oil Shocks and the U.S. Economy."

STEINSSON: For much of the post-World War II period, spikes in oil prices have been strongly associated with recessions. As macroeconomist James Hamilton has documented, most of the major recessions since 1970 were preceded by large jumps in oil prices. But over the past decade or so, it seems as though this may have changed. Oil prices spiked in 2022 following Russia's invasion of Ukraine, and again this year when the U.S. and Israel attacked Iran, but no recessions have followed.

EBERLY: Yes. Traditionally, the U.S. has been heavily dependent on imported oil, but the shale revolution changed this. The U.S. has gone from being one of the world's largest oil importers to being a net exporter. This transformation seems to have fundamentally changed how oil shocks affect the U.S. economy.

STEINSSON: Exactly. The much larger domestic oil industry in the U.S. means that many more people in the U.S. actually benefit from higher oil prices when it comes to employment and stock prices. These people consume more, which then benefits the broader economy. As a consequence, the overall effect of oil price spikes on the U.S. economy seems to have become much more muted relative to what it was 20 years ago.

EBERLY: Except, of course, that oil price spikes still lead to an increase in inflation.

STEINSSON: Yes, that's true. That part unfortunately hasn't changed as much.

EBERLY: Let's turn it over to Ben.

[3:13]

HARRIS: Thank you, Jan and Jon. So, let's say hi to our authors. Hey, Diego.

KÄNZIG: Hi, Ben.

HARRIS: Hey, Jim.

STOCK: Hi, Ben. It's great to be here. Thanks.

HARRIS: Of course. And hello, Luca.

ZANOTTI: Hey, Ben.

[3:24]

HARRIS: So, let's just dive right into your very, very interesting paper. I'm gonna start off by asking a question to Jim. So, Jim, for decades, an oil price spike meant a looming recession. This kind of gets to the conclusion of your paper from the outset, but why doesn't this rule seem to hold anymore?

[3:42]

STOCK: Let me just just back up just a little bit and then underscore the main point there, which is that there really seems to have been a change in the business cycle dynamics associated with oil price shocks. So, back in the '70s, there were major oil price shocks, and there were substantial recessions. Right before the 1990 recession, there was the invasion of Kuwait by Iraq, and that resulted in an oil price spike. There were oil price spikes later in the 2000s, including right before the, right before the dot-com bubble. And so those, there was this really established pattern that oil price spikes, typically from supply shocks, end up meaning that we're gonna have a recession.

That just doesn't seem to have happened in the last 15 years. So, there was the Arab Spring that jumped oil prices over $100 in December of 2010 and into 2011, yet that didn't really result in a recession. And more recently, there was the invasion of Ukraine by Russia, and that jumped oil prices as well, and it didn't seem to result in a recession.

Of course, there's other things going on, so it could just be coincidence, but that's why we had to sit down and look at the numbers and do some regressions and do some statistical analysis and try to sort that out.

[4:59]

So, to your point, yes, there does. The main purpose of the paper is to show that there has in fact been this change. And then the question is, why is that? We think that it is related to the shift of the United States from a net oil importer to a net oil exporter.

And this has been a really big shift from 10, 12 million barrels per day around 2005 of imports, to recently, it's been in the five million barrels per day of exports. So, we have stopped looking like, say, Europe, and we started looking like an oil-producing country. And that just changes a lot.

It it means that there's more, you know, reasons that oil is something that's going to spur economic activity in the United States rather than retard it.

[5:50]

HARRIS: Thanks, and we'll get to some of the explanations you guys advance later on, and some of the nuance which I think is really interesting. But Diego, maybe we can turn to you now and ask, looking at Russia's invasion of Ukraine in 2022 and then the war in Iran more recently, many expected these geopolitical events to cause a sharp economic downturn, if not a full-blown recession. So, what insight does your research provide on these two experiences?

[6:16]

KÄNZIG: Excellent. Yeah, no, that's that's exactly what motivated essentially our paper. Right? That we had, like, these big oil shocks in recent years, and if you were just guided by historical experience, we would have expected big consequences for the U.S. economy and for the global economy as a whole, but it just hasn't happened. So, that's why we really wanted to understand this and did a rigorous statistical analysis.

And one other piece of evidence I think that speaks a bit to our finding is if you look at the impact of oil shocks across countries, and there you also find that typically big oil-consuming nations, oil-importing nations, they are negatively affected if oil prices soar. But if you look at big oil producers like Russia, Saudi Arabia, Norway, these countries they typically benefit from higher oil prices.

So, that's why when we looked at the U.S., and given the stark transformation, as as Jim has mentioned from petroleum importer, one of the biggest petroleum importers, to a net petroleum exporters, we wanted to see that is it actually the case that now, given that the U.S. is now the biggest oil producer in the world and net petroleum exporter, that it's also positively affected by higher oil prices, similarly to other big oil producers across the globe. And and that's actually the case.

And that has big implications for these recent episodes. Right? So, basically, oil prices soar. Now they're again around $90, but we don't see yet very severe consequences for the U.S. economy.

[7:46]

HARRIS: And so let's let's turn to Luca now to sort of elaborate on the point which you just made, which is that the U.S. is now a net oil exporter and may now benefit from higher oil oil prices. So, Luca, is the U.S. now more like Norway and Saudi Arabia in the sense that from a macroeconomic perspective, we should be rooting for oil price shocks?

[8:09]

ZANOTTI: Yes, thanks. So, as as Jim and Diego already said, our evidence points to a substantial change in how the U.S. economy responds to higher oil prices at the aggregate level. So if you compare it with the past, we see different responses by different measures of aggregate economic activity. We looked at industrial production, payroll employment, the unemployment rate, and the response does seem more muted.

And in fact, when we evaluate the response to higher oil prices of these variables at the 2025 U.S. petroleum trade position, we do see that actually these responses flip sign and they now respond positively.

So, the answer would be that, yes, at the aggregate level, the U.S. seems to respond a little bit more like Norway or Saudi Arabia might. At the same time though, it is true that this positive aggregate effect does not mean that every sector and everybody in the economy benefits from higher oil prices.

So, maybe we'll get more into that. But so we do find that gains are fairly broad-based. They extend well beyond the oil sector and states that produce oil. But at the same time, it is true that there are several sectors in the economy that still are harmed by higher oil prices. So, we we see similar decline in consumption of energy goods and services that is the same now as it was in the past.

And for example, we also see the same decline in food consumption, consistent with the idea that food consumption is complementary to energy in household spending.

So, to go back to your your original question, probably at the aggregate level the answer seems to be yes, but these aggregate effects still mask substantial heterogeneity in the U.S. economy.

[10:01]

HARRIS: So, let me ask you a few follow-up questions. You model this around a 10% increase in oil prices, as an oil shock. So, for example, if, let's say Brent, which is one of the global benchmarks around oil is at $70, and the shock means it goes up to $77.

But when we looked at least 2022, for example, the shock was much higher than that. The shock went from, I don't quite remember, but you know, orders of magnitude larger. And in fact, at the time, there were bank notes like those coming out of Morgan Stanley that were projecting that if you saw a complete shutoff of Russian oil production we might be at around $285 per barrel, which was, like, a 300% shock to global energy prices.

So, how should we be thinking about your conclusion relative to the size of the shock? Does this hold for just a 10% shock or, you know, do you think it holds for for bigger shocks as well?

[10:52]

STOCK: I think we need to be careful econometricians, and for something like $285 oil, we haven't been there. That's not in our data. That would be an incredible shock to the world economy. Surely there would be major spillovers to the United States,

massive disruptions. We haven't run that experiment yet. But it would— I think that that's, that's beyond this.

But I think that, you know, the the scope of what we've seen, so what we've seen in Ukraine and what we've seen in the current episode with Iran is, you know, suggestive that these results of it being at least not recessionary and possibly expansionary are theirs.

[11:29]

HARRIS: And can I dig in a bit more on one of the figures in your paper? So, figure seven framed this trade-off between pre- and post-shale boom responses. And so, if you look at pre-2010, the way I would characterize it is you get a modest hit to industrial production, and then a slightly elevated rise in CPI for about 20 months, at which the shock turns negative. So, prices actually decline relative to baseline.

After the shale boom, you get just as large of a a change in industrial production, but it's positive now. So, production goes up, but the change in CPI is elevated throughout the whole window, so, we're talking about several years. And it's, you know, markedly larger than the pre-2010 shale boom.

So, it seems like pre-2010, pre-shale boom, if I was gonna characterize a trade-off, I'd say you're gonna produce moderately less, and you're gonna have somewhat higher prices for about a year, and then lower prices thereafter. After the shale boom, you're gonna produce somewhat more, but elevated prices are gonna be a bit of an issue for the next couple years.

Is that a fair characterization?

[12:45]

KÄNZIG: I think that's that's fair, even though the price response is not very precisely estimated. In fact, if you look at the difference across the two period, that's not statistically significant, so, I think we have to be a little bit cautious.

We were actually surprised that we didn't find much of a more of a difference between regimes in the price response. And I think one reason, and I think we're gonna talk about this more, is is monetary policy, because we do find that monetary policy responds more in the more recent periods to these shocks by raising interest rates more, so, reacting to these inflationary pressures, and that helps contain prices.

[13:23]

STOCK: Let me just jump in with one overarching comment here, and this is, this echoes some wording that Luca used and some wording that Diego used, and then this particular question at hand. We try to be very careful not to use the words "good" or "bad," like, this is, like, oil price shocks are now "good" for the economy or "bad" for the economy.

The word Luca used is things have "changed," and our purpose is to document that change. So, oil price shocks are still inflationary, and folks who are at the gas station

today, or certainly if you're filling up your tractor with diesel today, boy, those are really high prices.

And we're not saying that these oil price shocks are "good" for you. That's not the purpose here. The purpose is really just to document these changes.

[14:11]

HARRIS: And so, maybe we can, we can dig into some of those nuanced changes, Jim, without without sort of prescribing any sort of value judgment to them. But in your paper, you find that it's not just about rising exports, consumer spending, and even stock prices in energy intensive sectors like airlines respond better too.

I will say I found that airline finding quite surprising. I would have thought the exact opposite. So, can you maybe talk about the five hypotheses that you guys test and the and the one that you put the most value in? And so, that's the first question. And maybe the second question is, can you talk about specifically the finding around rising stock prices in energy intensive sectors? I found that really surprising.

[14:53]

STOCK: Sure. I'll start here, and then Luca and Diego, you should just feel free to jump in. So, we do consider five different mechanisms. One is just an accounting mechanism, which is that if you have more value of exports, you're gonna have more net exports, and so, that is a interest positively in an accounting sense to GDP. We we looked at that. That doesn't seem to be numerically anywhere close to the to a full explanation.

Second one is that there could just be regional shifts. So, because the oil sector is now producing more, maybe it's great for regions that are producing oil, and it's not so good for the other regions, but it's now especially great for regions that are producing more oil.

But that doesn't seem to account for it either. In fact, it's quite interesting because employment, say employment in manufacturing, goes up both in regions that are oil exporters and in regions that are not oil exporters. So there really seems to be broad across the economy changes.

[15:53]

Another mechanism is a is a sectoral shift. Well, a sectoral shift between fossil fuel now. So that's the the counterpart of the regional shift. So, it's a sectoral shift where fossil fuel is outweighing the other sectors. But that's not the case because these gains tend to be very broad-based.

I want to say it's not like magic. There are certain sectors that you would think shouldn't really change that much, like government employment, for example. And government employment didn't used to change in response to oil prices, and it still doesn't change in response to oil prices. So, it does kind of make sense.

We also look at whether the Fed policy seems to have changed, and maybe Diego can talk to that in a minute. The one that we settle on, because things are so broad-

based and because there's a large effect on stock prices, or a relatively large effect on stock prices, is that, you know, the U.S. has this oil, these oil reserves, these oil activities. U.S. is now gonna be better off in some net present value sense, and that then creates higher stock prices and a wealth effect that then filters through to consumption.

Not everybody's gonna be consuming the same amount, but that would be an important mechanism.

I want to underscore that these are our thoughts, and, you know, we welcome more people doing more research on this. But Diego, maybe you want to say something about the Fed response part.

[17:07]

KÄNZIG: Yes, absolutely. Let me just add, like, uh, on, on the mechanism, I think it's similar to what you expect also for other countries. For instance, in Norway, maybe it's a bit more explicit because they have this wealth fund and some of these resources that can then get redistributed explicitly.

In the U.S., it's more implicit because it happens through the market. Right? Because people have now more purchasing power, they can buy more foreign goods, so they're better off than before. There may be impacts through the labor market because we do find sort of these reductions in unemployment and increases in employment, which benefits broad, parts of society. So, it's just a bit more indirect. But basically it operates the same way as as basically in in Norway, where it's much more explicit.

We also looked at monetary policy because historically that was also one of the main channels that people thought oil prices transmit to the economy. Because oftentimes central banks would would lean against these inflationary pressures, and that has also the consequence that this slows economic activity and may even cause a recession. So, this is, this is one big concern.

And and that's a very challenging situation to be in for a central bank if if oil prices soar because it's a stagflationary shock, or at least it used to be. Right? Because it creates these inflationary pressures and at the same time, it slows economic activity. So, this creates this trade-off on how to best respond to this type of shock. Should you lower rates? Should you raise interest rates?

[18:29]

But but now given that the transmission has changed so much, and actually these oil shocks transmit now more like demand shock in that activity increases and prices increase, monetary policy is no longer faced with this difficult trade-off. Right?

And that's also what we find empirically. So, we find that in these more recent periods, the Federal Reserve seems to rise interest rates a little bit more when faced with these oil shocks than in earlier periods. Even though, I mean, I would also caveat these findings a little bit. They're not super precisely estimated, but just looking at the at the baseline estimates, that seems to be the case.

[19:06]

HARRIS: So, let's dig in a little bit deeper on this monetary policy question, Diego. Let's say that you're a staff economist at the Fed and you're advising a governor on the board, and we get this 10% increase in crude oil prices owing to the Iran war. What's your direct advice to the governor?

[19:28]

KÄNZIG: That, that's a great question. I mean, to be able to respond to that, right, we need to be able to forecast what happens to to the economy when faced with, like, an increase in oil prices. And I think that's, that's where basically our evidence can be useful, because we show that the historical experience may not be the best guide to infer what happens after oil shocks in the U.S. economy today.

So, for the Fed, it's just really important to to be able to forecast these prices, and I think maybe our paper can contribute a little bit to the understanding of how these shocks propagate through the U.S. economy. And then based on this evidence, obviously a governor can make a more informed decision.

[20:11]

STOCK: To put a to put a little bit more of a gloss on that than maybe Diego is willing to say, if you think about oil price shocks in the past, they're the classic supply shock that's stagflationary, and that just makes a really tough situation for the Fed because what are you gonna do? You, if you worry about the inflation piece, you raise interest rates, it's gonna make the output side even worse.

And it seems to have changed so that the oil price shocks now are positive on output, and they're also positive on inflation. And that kind of means these correlations are a little bit more like a demand shock in the sense of how monetary policy might be able to respond.

So, what that means is that perhaps monetary policy can respond a little bit more aggressively to to deal with the inflation problems in the context of an oil price shock.

HARRIS: So, the advice is 100% different than it would have been 15 years ago?

STOCK: Yeah.

[21:01]

HARRIS: So, can we maybe wrap up by going back to the question around equity prices for energy intensive stocks and the counterintuitive finding that oil price shocks raise equity prices for these for these industries. What's driving that?

[21:20]

KÄNZIG: We were also surprised by that finding. I mean, it's it's quite striking, but I think it chimes well with some of the other results that we have that we just document these broad-based gains across sectors, across states.

So even in these sectors most exposed directly, obviously there is a negative effect for these because they pay more for their fuel and for these fuel expenses.

But there is an indirect effect because the U.S. economy now is doing better, so there is more demand. Maybe customers want to fly more, and obviously this this helps. And if this indirect effect is strong enough, it can even flip the sign, and that's what we seem to find, at least in the very recent periods.

But yeah, definitely I think it's a striking finding. But it underscores what we emphasize, that there are, like, these, these indirect effects that that operate through changes in demand, consumption demands that that affect basically also sectors that are very negatively impacted directly by this shock.

[22:17]

HARRIS: So, can I try to parse this out and and kind of give my summary, and you guys can tell me if you think it's wrong? Which is that it seems like, as you guys point out, when we go from a net importer of oil of 5 million barrels a day to a net exporter of oil of 5 million barrels a day, and you get a shock that rises the price of oil by, let's say, $10 a barrel, you're talking about an extra $50 million flowing into the U.S. that wouldn't have already happened, versus $50 million flowing out before the shale boom.

And that extra $50 million really drives everything. I mean, that's a big wealth effect. We're richer, and it overcomes any of the pass-through prices. It, well, it actually dominates any sort of negative employment impact that might happen from terms of trade. We're just a wealthier country, and it seems like that wealth effect is really dominating everything.

Is that a fair kind of general summary, or am I being too blunt with my with my conclusion here?

[23:14]

KÄNZIG: More research needs to be done to basically get to the bottom of all the mechanisms that operate. But based on the analysis that we have done, that seems to be one of the dominant mechanisms. Yeah. That this creates basically this income and wealth effect.

So, so actually the terms of trade impact, that's also a great point that you're raising that because historically oil shocks, they transmitted to the U.S. economy as negative terms of trade effects. Right?

So, basically, export prices would raise less than import prices. Right? So, basically the terms of trade would fall, but now actually that response has flipped. So so, that means basically that you can afford more goods abroad.

HARRIS: So, let me just conclude by saying I think this is an incredibly important paper. I've had multiple stints in the White House, one of which was working for one of the best bosses that I ever had in Jim Stock. And that I think the policymakers will pay close attention to this. I mean, I'm sure, you know, as we're having this podcast, there are probably people gathered in the White House and Treasury and maybe

even the State Department who are wondering about the economic impacts of elevated crude prices associated with the Iran war.

And, you know, this is an incredibly counterintuitive finding that could alter the advice given to the cabinet and and top policymakers. So, I think this is really important, and I'm grateful that you guys wrote it. I thought it was a fascinating paper. It's very careful and and like I said, I think it's a really important paper.

So, let me just conclude by thanking the three of you for writing it, for being on this podcast, for being part of BPEA. So Diego, Jim, Luca, thanks so much. Appreciate you guys being on

STOCK: Thanks very much for having us.

KÄNZIG: Thanks so much, Ben. This was really fun.

ZANOTTI: Thanks. It was great. Thank you very much.

[music]

STEINSSON: Once again, I'm Jón Steinsson.

EBERLY: And I'm Jan Eberly.

STEINSSON: And this has been the *Brookings Podcast on Economic Activity*. Thanks to our guests for this great conversation.

EBERLY: As always, you can find the full papers and the Brookings Papers on Economic Activity conference proceedings on our website at Brookings dot edu slash BPEA.

STEINSSON: And thank you to the team that makes this podcast possible: Ike Blake, supervising producer; Fred Dews, senior producer; Ranga Krishnamurthy, co-producer; Teddy Wansink, video editor; Chris Chang, audio editor. Show art was designed by Katie Merris, and promotional support comes from our colleagues in Brookings Communications.