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Oil price drop means US$1 trillion boost for GDP and IT spending in H1 2015

- **Importing countries to benefit over the next six months if prices stay at US$50 per barrel**

Shanghai, Palo Alto, Singapore and Reading (UK) – Monday, 26 January 2015

Canalys expects business and consumer IT spending will be boosted by the current oil shock, as prices remain below US$50 per barrel. Continuing oversupply and weakening demand have resulted in the value of Brent crude oil falling sharply since mid-2014, with prices down by more than 50%. Media coverage and analysis has primarily focused on the negatives, in particular, the potential effects of deflation and currency fluctuations, and the impact on government budgets of oil exporting nations as well as the oil producing multinational companies. But Canalys believes the reduction in prices will also provide a short-term economic stimulus equivalent to a large tax cut, boosting corporate profits and consumer disposable incomes, which will filter into IT spending.

Oil remains the largest energy source in the worldwide economy, and is pivotal to all industrial activity, including commodity extraction, processing, manufacturing and transportation. It is a major expense for most businesses and consumers. 'Price falls translate into a transfer of wealth from producers to importers. Oil producers received approximately US$340 billion less in the second half of 2014 compared with the first half of the year, based on average monthly production and prices,' said Canalys Principal Analyst Matthew Ball. 'The difference will be even more significant if prices remain at US$50 per barrel and production continues at the same level for the next six months. If this scenario happens, producers will receive almost US$1 trillion dollars less compared with the first half of 2014.'

The IMF's decision to reduce its global GDP forecast for 2015 from 3.8% to 3.5% is wrong, as the lower oil price is estimated to increase the rate by an additional 0.5% to 0.7%. This is relatively conservative given the assumption that a 10% fall in oil prices will lead to a 0.2% rise in GDP. 'Increasing GDP has historically resulted in greater IT spending but there will be clear winners and losers. The winners are the net importing countries, particularly manufacturing-based economies, such as China, Germany, Japan, South Korea and Turkey. Those countries that have been subsidizing to offset high oil prices, such as India and Indonesia, will also benefit strongly,' Ball added. 'Of course the losers are the net exporters, especially those that have high production costs and depend on oil income, such as Libya, Venezuela, Yemen, Algeria, Iran, Bahrain and Russia. Recession, debt default and further political instability are distinct possibilities.'

Canalys has raised growth forecasts for 2015 in key technology segments, including smart phones (16%), PCs (4%), x86 servers (4%), enterprise networking (5%), IT security (7%) and unified communications (4%).

But the benefits of the oil shock will be short lived. The mean oil price in the first half of 2015 is expected to rise to between US$60 and US$70 per barrel, before rebounding to US$80. An upward price shock is anticipated later. 'The current low price means exploration and investment in developing new sources will be cancelled or delayed until it is economically feasible,' said Canalys Analyst Phill Pexton. 'This affects investment in shale oil and gas outside of the United States, leading to lower supply and higher demand in the future. Innovation will be affected, especially in developing new technologies to drive energy efficiency in sectors such as renewable energy, data centers and automobiles.'

About Canalys

Canalys is an independent analyst company that strives to guide clients on the future of the technology industry and to think beyond the business models of the past. We deliver smart market insights to IT, channel and service provider professionals around the world. Our customer-driven analysis and consulting services empower businesses to make informed decisions and generate sales. We stake our reputation on the quality of our data, our innovative use of technology and our high level of customer service.

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