

## 2. Are markets right to fear that this time around, a lower oil price is bad, rather than good news for much of the world economy?

The short answer is that we do not think so. As things stand, we remain constructive for 2016. We now see global economic growth of 3.4% (reduced from 3.5% due to weakness in single emerging markets). We still think that the lower oil price will have a small, positive effect on growth in key economies, such as the Eurozone and the United States. However, we are watching events in financial markets carefully for triggers that would change our view.

When the price of oil falls, households save on their gasoline and heating bills, leaving more disposable income to spend on other things.

Meanwhile, most companies – and countries – are not in the business of extracting oil. For them, a lower oil price mainly means lower costs. It can also bring higher revenues if and when households start to spend some of their savings from lower energy prices.

Of course, a key question is how much of the money that households save thanks to lower energy prices is spent on other goods and services. On our estimates, "Gross domestic product (GDP) in the Eurozone would eventually be boosted by about 0.1 percentage points for every \$10/b that oil prices permanently decrease", explains Bettina Müller, Chief European Economist at Deutsche AM. The picture is similar in the United States. Indeed, lower taxes on oil products than in Europe mean that a bigger part of the decline in oil prices is passed on to consumers. Because the United States also produces a lot of oil, there is a countervailing effect on investment when oil prices fall. However, capital expenditure by energy companies has already halved in 2015, to about 5% of the U.S. total. This limits the impact on GDP going forward. All told, this suggests a slightly more positive effect on GDP than in the Eurozone, perhaps as much as 0.2 percentage points for every \$10/b that oil prices permanently decrease.

So what explains the nervousness in financial markets? And, does the turmoil in financial markets risk becoming a self-fulfilling prophecy? The short answer to the second question is yes, alas.

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