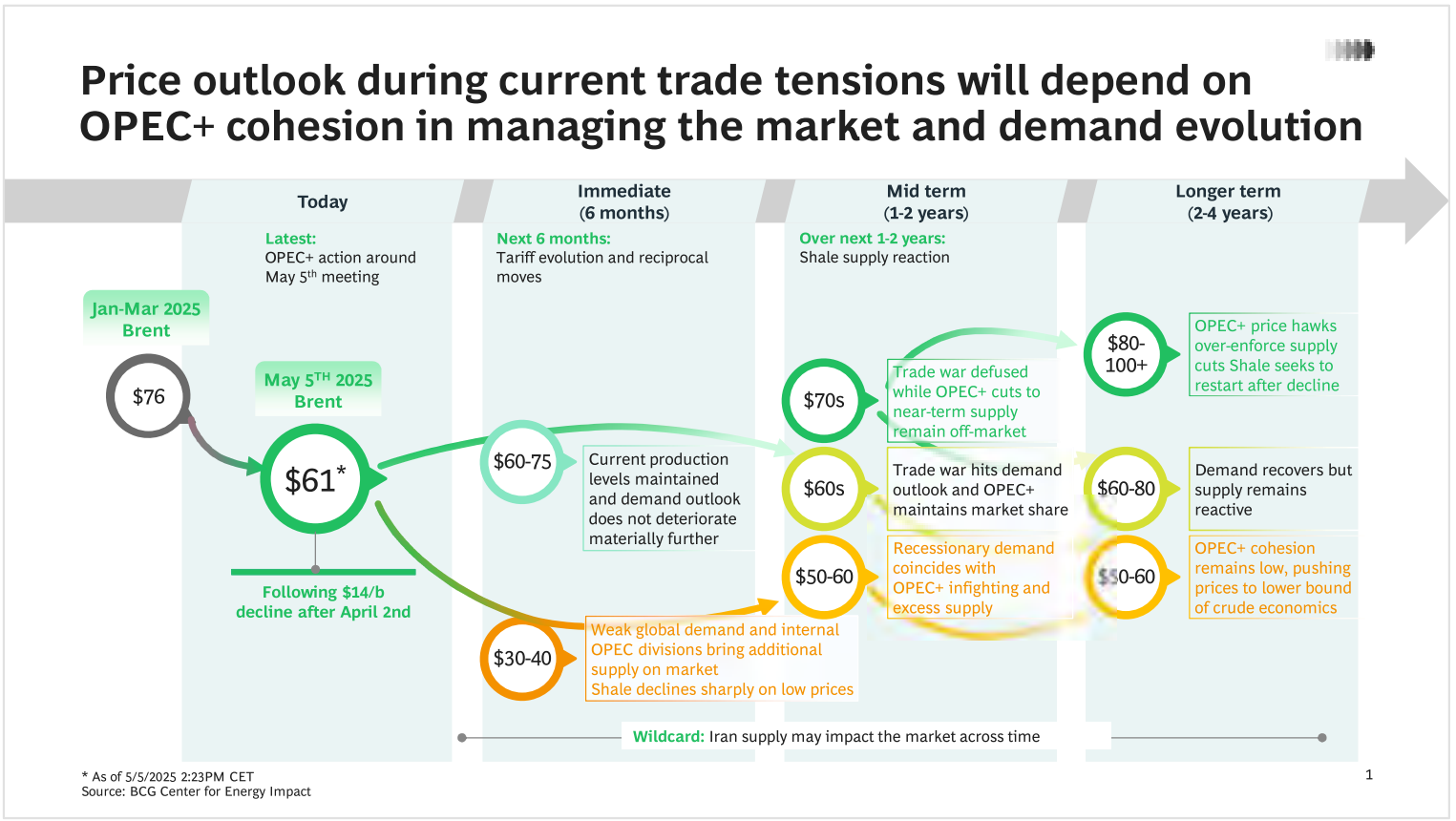
Amidst the macroeconomic turmoil—collapsing confidence, volatile asset prices, and distorted macro data—one conspicuous macro variable is moving in a helpful direction: oil. Following additional production hikes announced by OPEC+ on the weekend, oil is down 24% from its 2024 average, and even more for many non-U.S. importers given the cheaper U.S. dollar. With such as steep fall, it is a valid question whether lower oil is a silver lining in the macroeconomic storm unleashed by the trade war.

We teamed up with our colleagues from the Center for Energy Impact, part of BCG's Energy Practice, to answer the following questions:

- What is a plausible path for oil prices and how low could prices go?
- How deflationary is lower oil and can that offset the inflationary impact from tariffs?
- How big a role does oil truly play in the economy's output, consumers' wallets, and interest rates?
- Who are the winners and losers from lower oil, both by geography and sector?

As we highlight across this Macroscope, though lower oil is a tailwind to the macroeconomy, its fall should not be seen as the inverse of say the Ukraine energy shock, when spiking gas prices brought Europe to the brink of recession. In the U.S., the tailwind from lower oil is unlikely to offset the headwind from tariffs (though it helps). In other economies, such as the Eurozone, where tariff-driven inflation is modest, and the drop in the oil price is bigger in local currency terms, the net impact may be positive.



Oil price path—scenarios from Center for Energy Impact point to lower oil than past 5 years

Oil prices have fallen materially in 2025, and specifically since early April, owing to two forces:

- Demand (macro) shock: Tariffs have dimmed growth expectations and raised fear of recession.
- Supply (producer) shock: Evolving series of OPEC+ production hikes, starting with the April 3rd announcement to add 411k bpd of production, May 3rd statement of a new 411k hike, and expectations for additional hikes throughout 2025, up to 2.2m bpd (to unwind previous voluntary production cuts of 2.2m bpd dating back to 2022.

What oil price should executives expect over the short (next 6 months), medium (1-2 years), and longer run (2-4 years)? In the chart above, we bring in **scenario analysis from our colleagues at the Center for Energy Impact** to highlight the main drivers underpinning their price scenarios.

The thrust of the analysis **suggests that oil prices will be lower than in the post-Covid and pre-tariff economy** (below the average of $76/bbl on Brent in 1Q25):

- *6 months*: The immediate future poses the most downside for prices ($30-40) if they are hit by a global macroeconomic downturn delivering weak demand and compounding internal division inside of OPEC+ that keeps supply flowing. If the economy holds up on the other hand, remaining in the $60-75 range would be more likely.
- *1-2 years*: Over the medium term, while the macro path remains critical, oil fundamentals will remove the sharpest downside from the table. A $30 price would drive supply off the market, particularly shale investment and supply (where lower prices were already having an effect; see appendix), delivering a rebalancing toward a floor of $50. However, if the economy holds together (or recovers quickly) and OPEC+ cuts prove more durable, the price may end up in the $60-70s.
- *2-4 years*: In the longer term the cohesion and investment incentives of supply are key. If OPEC+ price hawks deliver significant supply cuts, prices of $80-100 may arrive (which will spur shale production), if supply is reactive to cyclical speedbumps, then $60-80 may prevail. If a weak economy spurs tough competition for revenue, a $50-60 range may prevail.

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How low can oil prices plausibly go?

Brent oil prices ($ per barrel)

Note: Real deflated by GDP deflator into 1990$. Data through 5/2/2025.
Source: NBER, EIA, Bloomberg, CME, BEA, BCG Center for Macroeconomics

Price metric	Relative to history
Current price $61/barrel	Recent fall is a return to pre-Covid oil prices
$50/barrel scenario	$50 would be near the lows of 2010s—below $50 would be akin to a world before China's economic rise
Current real price: $28 in 1990 dollars	In real terms, current oil price is already quite low...
Real price of the $50/barrel scenario: $23 in 1990 dollars	... suggesting less room to durably fall?

How low can the oil price—plausibly—go? A macroeconomic take

Some may call into question the $50 floor in the medium-to-longer run suggested on the prior page. Historically we've seen significantly lower oil prices, so what speaks against such downside?

Skipping the hard work of looking deeply into supply, demand, and marginal cost of production, we take a macroeconomic short-cut. Looking at nominal prices misses changes in the aggregate price level over time. Real (i.e., inflation-adjusted) oil prices should be considered when evaluating the plausibility of a durably low $50 scenario.

Does history suggest it can go lower than $50? In brief, no—or at least not for long. In our chart above, a $50 price today may not look implausible, but adjusting for inflation it turns into a $23 real price (in constant 1990 dollars – green dotted line)—an oil price equivalent to the early 2000s. That would be remarkably low: the early 2000s were a demand environment when China was not yet a material part of the global economy, and the supply mix was substantially different (pre-shale, when the U.S. was a significant importer).

Put simply, a macroeconomic cross-check concurs with our colleagues' scenario analysis on the prior page that oil prices, already quite low today, should have a medium-run floor not dramatically lower.

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How deflationary is a fall in oil price?

Oil and inflation

Note: Impact on inflation = difference between Y/Y % chance in CPI x energy vs. headline CPI.
Oil price is based on Brent.
Source: BLS, EIA, BCG Center for Macroeconomics

Estimates for significant price falls

Oil deflation scenarios

Change in oil price (%)	Equivalent oil price (vs. 2024 average)	Estimated inflation impact
-20%	$64.4/bbl (May 5*: $60.54)	-51bps
-35%	$52.3/bbl	-79bps
-50%	$40.3/bbl	-106bps

* As of 5/5/2025 2:23PM CET
Note: Brent average $80.53 in 2024.

Yes, lower oil prices are deflationary. The question is whether it'll be enough to change the story

There is little doubt that lower oil prices will temper headline inflation and thereby boost real incomes and consumer spending power. The question is: "by how much?" An answer to this question will allow us to net oil's disinflationary impact with tariff inflation in the next step.

Our analysis looks at 45 years of oil price changes and correlates that with the impact on inflation (we isolate the energy component by taking the difference between inflation including and excluding the energy component). While the relationship is not precise (the price of a barrel of international oil is not the only source of energy and not the only thing that determines the price consumers pay), it is clear: sharply lower oil prices help deliver meaningfully lower inflation.

Already, compared to the average price during 2024, the price of oil is about 20% lower. This may help inflation drop by around 50bps in the United States. If the drop gets closer to the $50/bbl mark, then around a 80bps disinflationary impulse could be expected, and a 50% collapse in prices could deliver over 100bps of disinflation.

Is that oil deflation enough to change the inflation narrative? To answer that we must look at the likely tariff-driven inflation before comparing the two effects directly.

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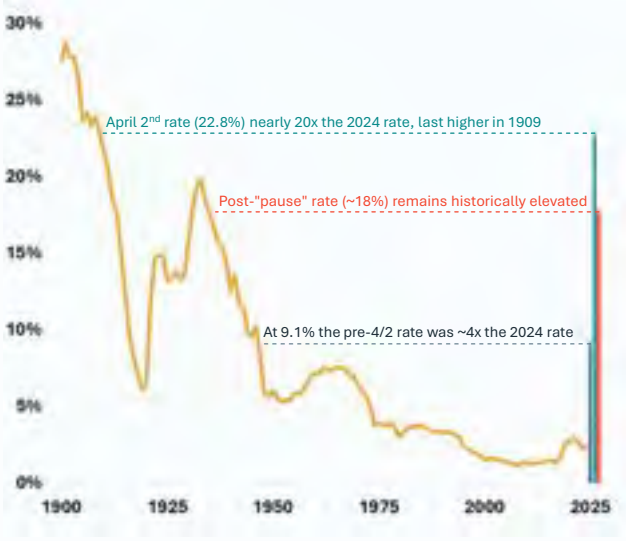
Where tariffs end up is unknown—but sharp increase coming

U.S. average effective tariff rates



Note: Post-pause assumes large fall (80%) in trade with China given the 145% tariff rate. NTM = next twelve months
Source: United States International Trade Commissions, BCG Center for Macroeconomics

Estimates of U.S. tariff-driven inflation

Tariff inflation scenarios

New average effective tariff rate	Inflation given 50% price pass through (NTM)	Inflation given 80% price pass through (NTM)
9.1%	+56bps	+89bps
22.8%	+168bps	+268bps
17.7%	+126bps	+202bps

Oil deflation would have to overcome tariff inflation—how high is that?

The main driver of inflation in the year ahead will be the substantial increase in the tariff rate. While the ultimate tariff levels and scope are unknowable today, it appears certain that the average effective tariff rate will be materially higher than in the past, adding significant inflationary pressures. (See also our recent tariff coverage here, here, and here).

To be clear, even if a final average tariff rate were known, the precise impact on inflation would still be uncertain as that would not remove the need for speculative judgements about the changes in trade volumes and the pass through of tariffs to consumer prices. In our chart above we show various combinations of tariff rates and pass-through rates, adding anywhere from around 56bps of inflation if the rates are negotiated down to something more like before the "reciprocal" shock and the pass-through is light, or as high as 268bps if the pre-pause rates take hold and are largely passed through to prices.

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Some oil deflation to be expected, but this...

Oil deflation scenarios

Oil fall in %	Equivalent to X today vs. 2024 average	Estimated disinflation impact NTM (U.S.)
-20%	$64.4/bbl	-51bps
-35%	$52.3/bbl	-79bps
-50%	$40.3/bbl	-106bps

Note: Oil inflation impact based on historical relationship between the change in oil price and the difference between headline inflation and Xenergy inflation (see p3), tariff impact on inflation based on increase in tariff rate, size of import relative to the consumer basket, and magnitude of pass through.
Source: BCG Center for Macroeconomics

...will not offset U.S. tariff-driven inflation in most scenarios

Tariff inflation scenarios

New average effective tariff rate	Inflation given 50% price pass through (NTM)	Inflation given 80% price pass through (NTM)
9.1%	+56bps	+89bps
22.8%	+168bps	+268bps
17.7%	+126bps	+202bps

Oil deflation vs. tariff inflation: Oil not likely to offset the tariff impact in the U.S.

Putting it all together, our chart above juxtaposes the two countervailing forces of oil deflation and tariff inflation and highlights some key scenarios (red boxes) for the U.S. economy. A full offset of tariff-driven inflation would require a further fall in oil prices and tariffs more like those before the “reciprocal” shock. Of note, if much of the tariff shock were to be taken back, presumably much of the downward demand pressure on oil would unwind as well, limiting its scope to fall further.

Nonetheless, oil price disinflation is a significant macroeconomic effect even if it is not enough to change the likely path of accelerating inflation amidst a weakening economy.

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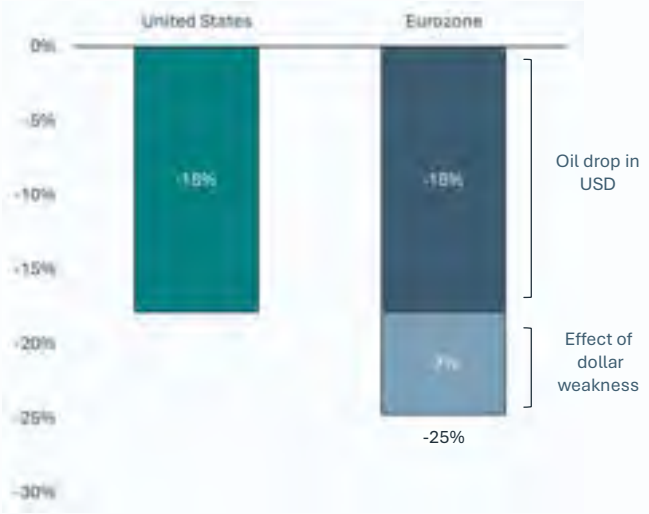
Dollar weakness provides additional tailwind to non-US oil buyers...

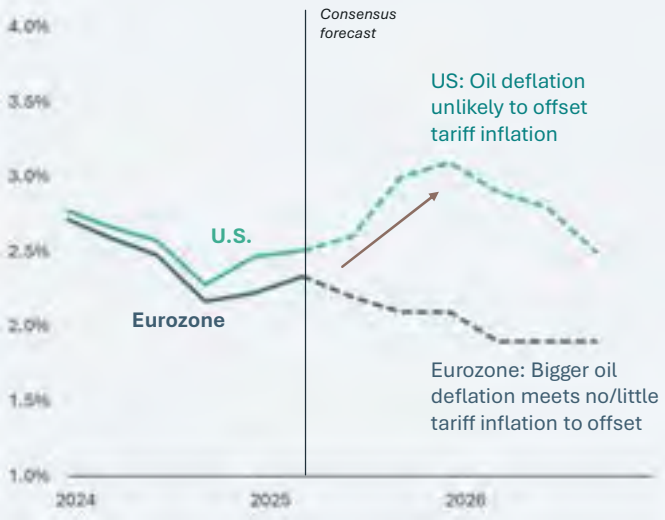
Year-to-date % change in Brent crude oil price



Note: Brent crude oil and exchange rates as of 5/2/2025
Source: Bloomberg, BCG Center for Macroeconomics

...where oil deflation has little tariff-driven inflation to overcome

Inflation rates (year-over-year % change)



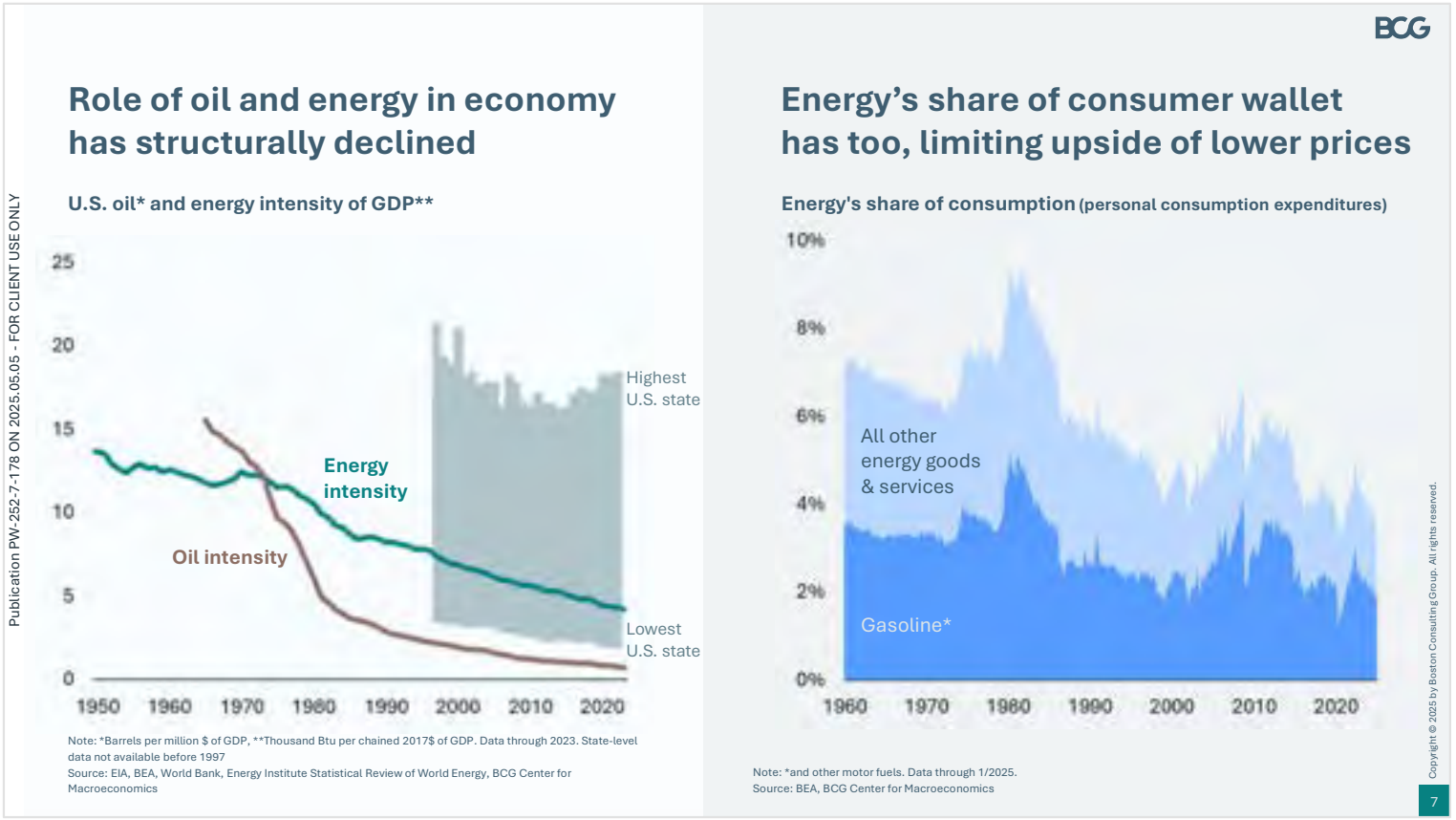
Note: US: PCE; Eurozone: CPI
Source: BLS, Eurostat, BCG Center for Macroeconomics

Europe diverges from U.S. as oil price fall is bigger in EUR-terms and inflation is lower

While oil deflation is unlikely to offset tariff-induced inflation in the US, the calculation is more hopeful for the Eurozone, owing to two factors.

- **FX:** Given the weaker dollar in the wake of the tariff turmoil, the oil price drop is significantly bigger in Euro-terms (-25% vs. -18% in the US). And because 60% of LNG contracts are indexed to oil the impact reaches far beyond just oil (whose use is essentially limited to transportation today).
- **Tariff-inflation:** Eurozone inflation is already lower than in the U.S. today and because the Eurozone isn't putting tariffs on all its imports (though perhaps on the portion coming from the U.S. in a retaliatory move), oil deflation has far less inflation to offset.

As our chart shows (right side), Eurozone inflation is likely to fall further, owing partly to lower oil, and possibly below the ECB's 2% policy target. This would allow the central bank to cut rates further, an additional tailwind to growth.



In assessing oil's impact on economy, must also keep structural backdrop in mind

Besides the deflationary role of lower oil prices in the economy (and of energy more broadly), oil's structural context also matters.

As we show in the chart above, energy and oil intensity of U.S. output has structurally declined over past decades. While there is a significant range among U.S. states (shaded area on left), the downtrend is unmistakable.

This also shows up in consumer spending, the key engine of the U.S. economy (about 70% of GDP): energy's share in consumer spending has more than halved from its peak during the oil crisis. That said, even today gasoline still commands about 2% of household spending.

These facts notwithstanding, energy and particularly oil prices get a great deal of attention because they are volatile and they have an **outsized effect in consumer psychology**: consumers buy few other items regularly, in a single transaction, while staring at the meter rolling higher. And we cannot think of any other consumption item whose price is advertised as ubiquitously or politicized as much as gasoline.

None of that takes away from the fact that the weight of oil, gasoline, and energy more broadly plays an ever-smaller role in U.S. production and consumption. This is not a US-specific structural fact. It looks much the same for other advanced economies.

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Passthrough from lower oil to interest rates is tenuous…

Source: BCG Center for Macroeconomics

As argued in a February 2025 Macroscope *(Would lower energy prices pull down interest rates?)* we are skeptical of sustained lower interest rate driven by lower oil prices

- **Rates are a composition of real average short rate, term premium, and inflation expectations.**
- **Oil is unable to influence long term inflation expectations because the effect on inflation is transitory**
- **A "higher but healthy" rate world is unlikely to be altered by oil**

Will lower oil pull down interest rates? Not really.

The case has been made, including by Treasury Secretary Scott Bessent, that lower oil will allow interest rates to fall. Will it? We recently answered that question in another edition of the Macroscope—see here—and found little compelling evidence of a strong direct link.

In brief, oil would need to impact long-term interest rates by lowering long-term inflation expectations that are baked into yields. While oil influences consumers' short-run inflation expectations, its influence on long-term (market-based) expectations is modest as seen over 20 years of empirical data.

Regarding interest rates, we have argued elsewhere that the higher rate environment is the by-product of a strong economy, rather than the result of unanchored inflation expectations (a "higher-but-healthy" interest rate environment). The oil price is unlikely to change those dynamics.

Country perspective

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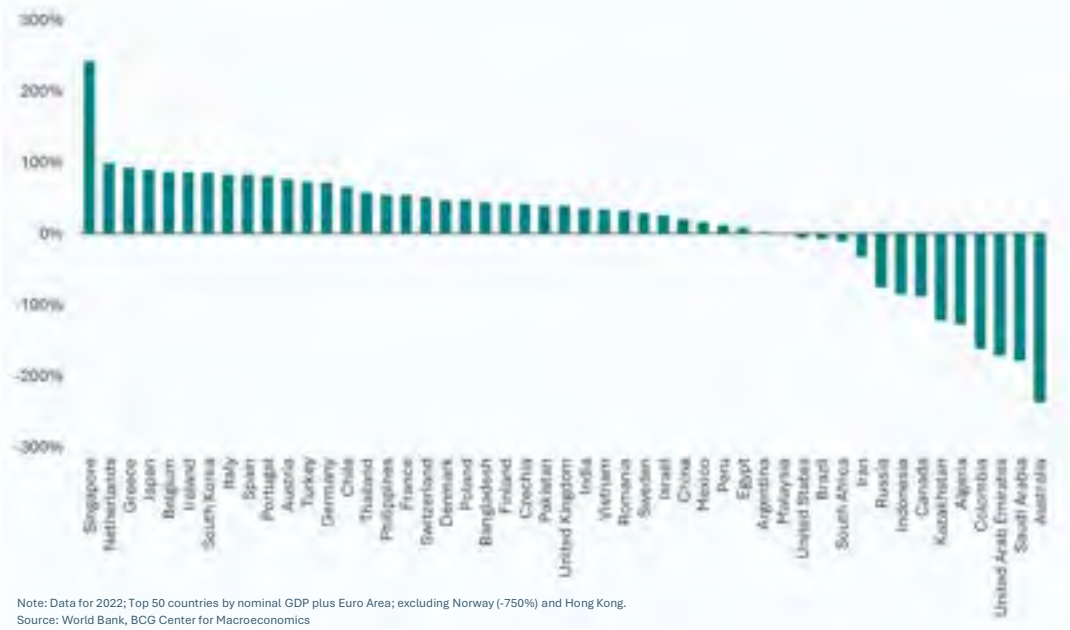
Winners and losers of lower energy prices (Geography)

Net energy imports as a % of energy use



Note: Data for 2022; Top 50 countries by nominal GDP plus Euro Area; excluding Norway (-750%) and Hong Kong.
Source: World Bank, BCG Center for Macroeconomics

Countries that are net importer can see growth tailwind as prices fall

And the price fall is larger for many as the US Dollar has weakened as well (see p. 6 and appendix)

Which countries are winners from falling oil prices?

For some economies the fall in oil prices is particularly helpful as they are dependent on imports but for others the fall in prices is not, as they are large energy producers and exporters. We show a simple country ranking based on net energy imports as a percentage of total energy use.

The direction of impact is not surprising but it's easy to forget that the drop in oil prices is not the same for everyone. As highlighted earlier, the commodity is priced in dollars but ultimately will be paid for in local currency (see appendix for FX-adjusted oil price fall for 16 economies). Thus, while the fall is material in the U.S. and in USD terms, the fall is even greater in much of the rest of the world given the material move lower in the USD. For example, in the U.S. brent prices have fallen 18% YTD; for the UK it is -22% in GBP terms, and -28% for Sweden in SEK.

That said, it is important to remember that while the fall may be larger for some—Europe is a clear beneficiary—the starting point remains critical. *Europe contends with structurally higher energy prices* (in some cases 4-6x) and the bigger drop in oil prices will not close that disadvantageous price differential. While energy prices remaining low helps around the margin, the challenges of industrial competitiveness will remain.

Sector perspective

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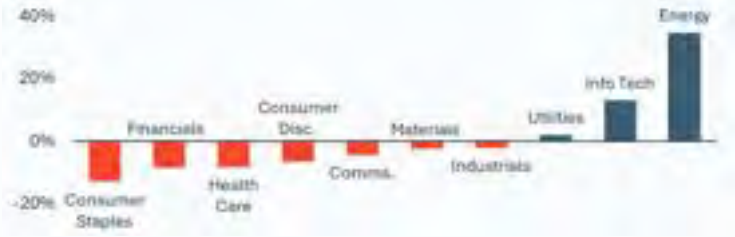
Winners and losers of oil price changes...

When oil prices fall

Average sector price change vs. S&P 500 during 5 large oil price decreases

When oil prices rise

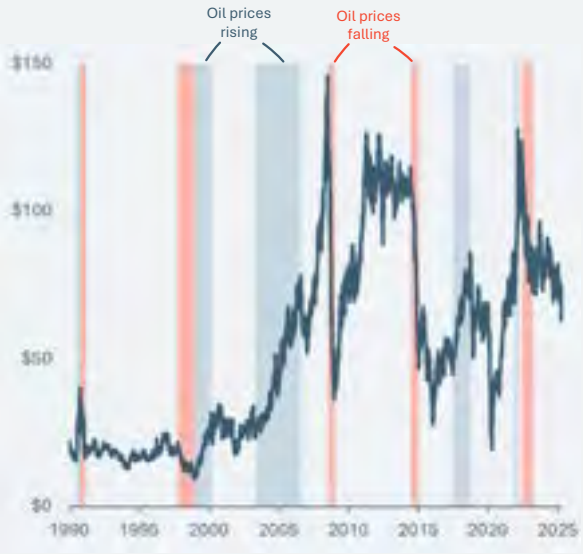
Average sector price change vs. S&P 500 during 5 large oil price increases



Note: Based on Brent prices increases during the 5 following periods (7/6/1990-10/10/1990; 12/21/1998-3/7/2000; 4/29/2003-8/7/2006; 6/21/2017-10/3/2018; 12/2/2021-3/7/2022) and Brent price falls during the 5 following periods (10/10/1990-2/15/1991; 10/6/1997-12/11/1998; 7/11/2008-12/24/2008; 6/19/2014-1/13/2015; 6/14/2022-3/20/2023)

...based on history of major oil price falls and rises

Brent crude oil ($ per barrel)



Source: Bloomberg, BCG Center for Macroeconomics

Which sectors win, which lose from oil price drop? Look at relative equity performance

Equity price moves given large swings up or down in oil prices can be used to gauge typical winning and losing sectors—as shown above these are largely intuitive given each sector's exposure to oil.

Direct exposure: A fall or rise in oil hits producers directly, so it is no surprise that energy underperformance is the greatest when oil falls, and its outperformance is the largest when it rises. *And such firms will respond quickly to significant moves as is already seen with lower Capex guidance coming out of the 1Q reporting season.*

Indirect exposure: Others are impacted indirectly but show a relationship with the directional move in oil. Consider the consumer sectors (discretionary and staples) each outperform when oil prices fall and underperform when oil prices rise. As oil prices rise, they squeeze consumer budgets and other household spending gets trimmed—and as they fall consumers find extra money to spend on other goods and services.

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Appendix

Sharp equity market sell-off and oil prices

Oil price change around the world (including FX impact)

OPEC producers trade off volume and price

Some member are price focused, other volume focused

Lower prices incentivize member to exceed quotas

Lower prices having effect on production of oil and gas

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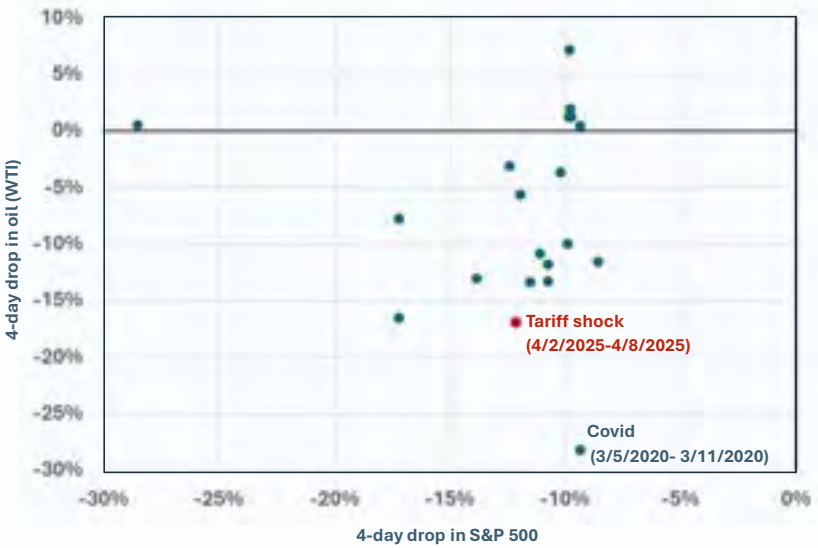
Change in oil prices vs. change in equity prices – largest distinct 4-day drop since 1980



Source: Bloomberg, BCG Center for Macroeconomics

The April tariff (demand) shock coincided with OPEC+ supply increases—which effect drove oil down more?

It's unknowable, but large equity market falls often come with falls in oil price

The fall in early April was larger than normal – suggesting that both supply and demand were significant

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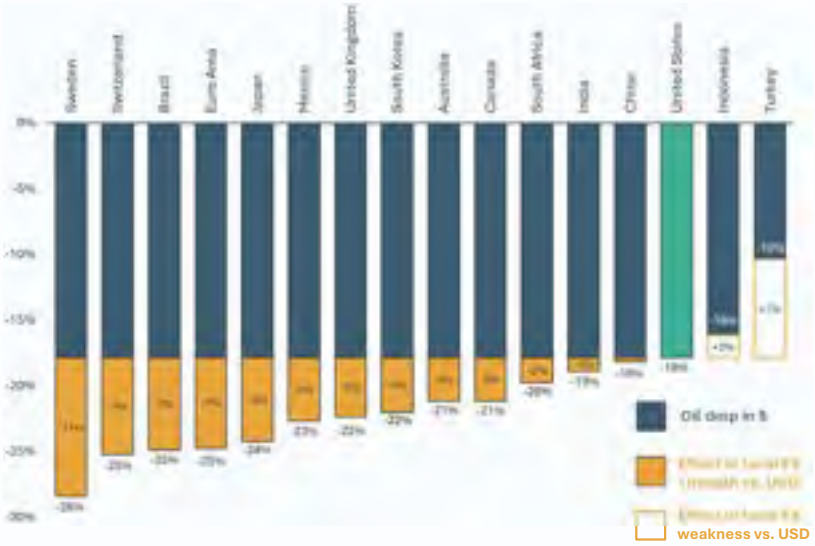
Change in local currency oil price (Brent, YTD % change)



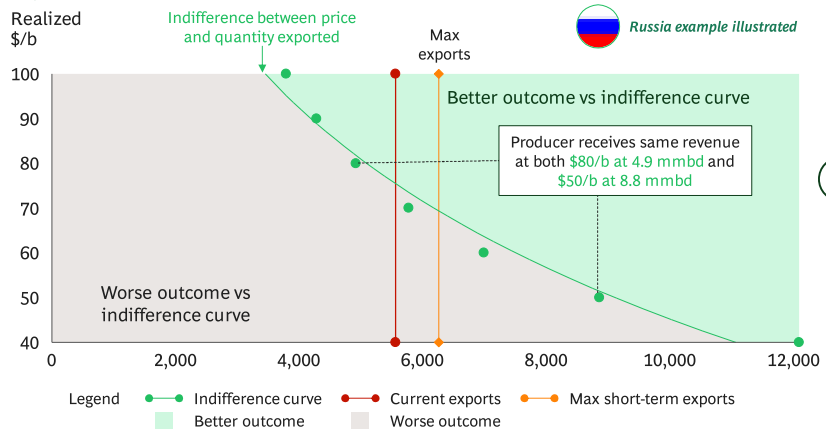
Note: Brent crude oil and exchange rates as of 5/2/2025
Source: Bloomberg, BCG Center for Macroeconomics

The drop in dollar oil price hides the wide dispersion of moves in local currency terms

OPEC direction

For producers a tradeoff between price and volume

Producer indifference between realized price and exported crude volume



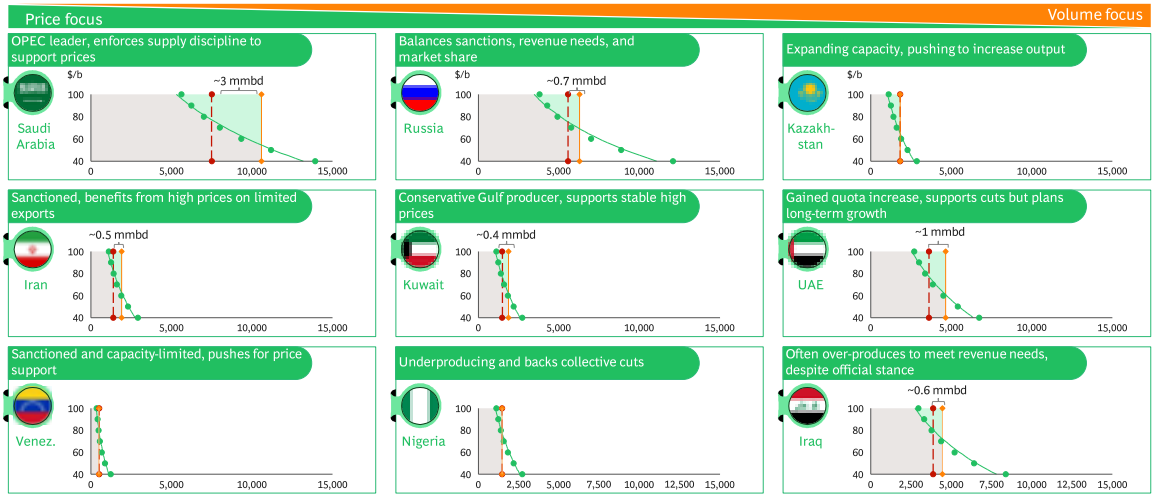
Main takeaways

- Producers prefer higher revenues, but need constant revenues to cover current accounts and state budgets
- Producers are indifferent between any two points on the curve because they yield the same revenue
- Producers have incentive to shift market to green area (higher revenue vs curve)
- However, market price moves and production constraints may cause non-optimal outcomes

Source: IMF, Argus, IEA, BCG Analysis

OPEC direction

OPEC+ coalition composed of volume and price focused members

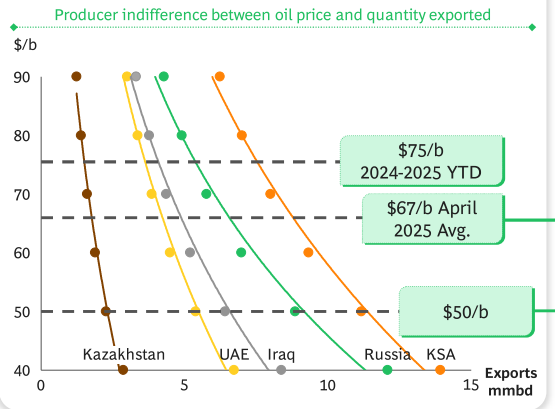


Source: IEA; Refinitiv; IMF; BCG analysis

OPEC direction

Lower prices incentivize members to exceed quotas adding to downward price pressure

Key producer revenue indifference[1]



Outcomes across price levels

$67/b = +1.7 mmbd — Incremental exports required to generate same revenue as $75/b Brent

Impact: Achievable volume growth, but significant incentive to exceed quotas

Outcome: If price level maintained, producers can hold over mid/long-term → Price neutral

$50/b = +14.4 mmbd — Incremental exports required to generate same revenue as $75/b Brent

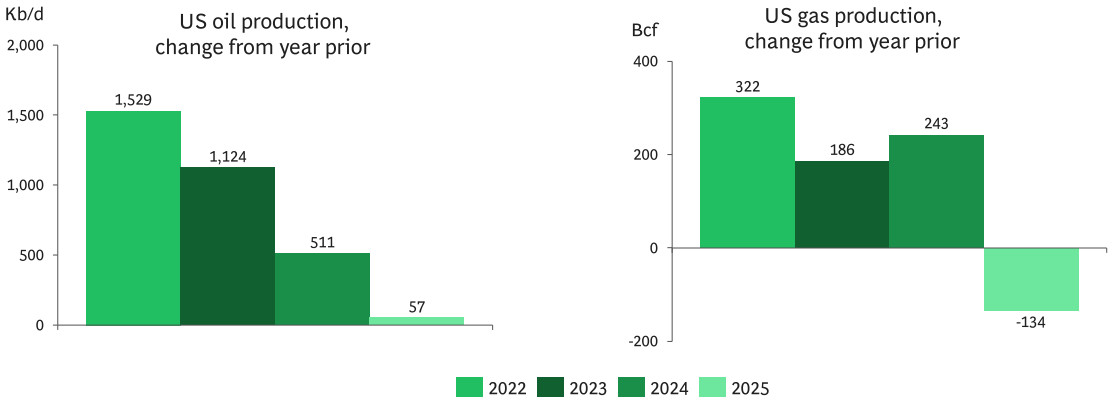
Impact: Producers unable to meet volumes and unable to sustain long-term current account deficits

Outcome: Near term price plunge on volume growth and mid-term correction → Near-term bearish → Mid-term correction

1. Curve shows producer indifference between price and quantity; Points along the line bring same revenue to producer on exports and retain current account funding

Source: IMF, Argus, IEA, BCG Analysis

Two years of declining prices causes US oil production to turn down- with a knock-on effect on gas production



Note: Data compares February on February volumes for each year. Oil is in thousands of barrels per day, Gas in billions of cubic feet for the month
Source: EIA

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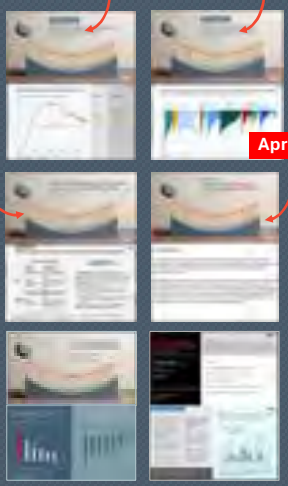

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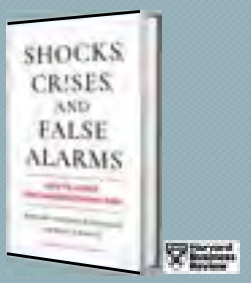

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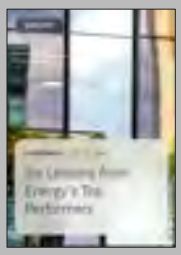


Rapid Response Perspectives

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