Even without the spill, oil prices were likely to head up. The economic recovery in the United States and other global powers, including China, has increased demand. And where demand goes, higher prices follow.

The massive Gulf Coast oil spill and the annual summer run-up in oil prices could have Americans feeling the pinch.

As a giant oil slick oozes into coastal Louisiana -- and threatens the ecosystems of other states along the Gulf of Mexico -- consumers and investors alike should be bracing for the inevitable fallout from this disaster.

Analysts and experts are already planning for higher crude oil prices. Just days after the spill, Standard & Poor's Ratings Services revised its oil pricing assumption for the remainder of 2010 and for 2011 by $10 a barrel. Oil prices had averaged $78 a barrel for most of this year; however, June futures are currently selling for more than $86 a barrel and are expected to rise further.

British Petroleum (BP), the operator of the underwater rig and owner of the oil that is still seeping into the Gulf, announced a $6 billion profit for the first quarter of this year, up from $2.5 billion in the first quarter of 2009. The company has pledged to help pay for the clean-up effort, which will no doubt cost billions and impact its profitability for the foreseeable future.

But BP may not be alone. The widespread effect of this disaster could delay or even quash future offshore drilling projects, hitting a wide swath of companies in the exploration, drilling, refining, and shipping industries. President Obama, who in March signaled a willingness to open up more expanses of the American coastline to further offshore drilling, has announced that no new leases will be approved until a thorough review of the causes of the BP leak is complete.

Even without the spill, oil prices were likely to head up. The economic recovery in the United States and other global powers, including China, has increased demand. And where demand goes, higher prices follow.

Oil's Wild Ride, 2008-2010*

*Source: Standard & Poor's Ratings Direct, U.S. benchmark West Texas Intermediate crude oil prices. Price per barrel quoted as of quarter-end.
What's Next?

With exploration and drilling off U.S. waters now under review, what should investors keep in mind?

- **Oil and gas continue to play an important role in the U.S. economy.** Standard & Poor's projects that U.S. real GDP growth will improve from a decline of 2.5% in 2009, to growth of 2.3% in 2010 and 3.0% in 2011. As the economy improves, consumption is expected to rise.³

- **The Energy sector is cyclical, but those cycles tend to be lengthy.** Standard & Poor's has identified three major boom periods since the end of World War II: from 1947 to 1957, from 1972 to 1981, and from 1996 to the present. S&P forecasts another 25 bullish years of growth and spending in this sector.³

- **Emerging markets are emerging as big consumers.** Demand for oil in China increased by 7.6% from 2008 to 2009 alone, while most other industrialized nations, including the United States, saw a decline during that same period. Latin America, other Asian nations, and the Middle East were other regions that registered gains in demand.³ Look for developing nations' thirst for oil to more significantly influence prices and production going forward.

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