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### **Crude Oil Prices Staying High – Don't Blame OPEC, Blame The Fed**

Today OPEC announced that it was cutting its production by 9% in order to keep the price of crude oil relatively high. The Bush administration expressed its displeasure with OPEC over this supply cut. But is OPEC to blame or the Fed? I think the Fed is culprit for high crude oil prices because the Fed has sat idly by as the U.S. dollar has depreciated in the 36 months ended January 2004 by about 35% vs. the euro and 24% vs. sterling (and, oh yes, by about 56% vs. gold). Now, if OPEC residents buy all of their imported goods and services from the US of A, then the greenback's depreciation is no big whoop. But they don't. They sometimes like to consume some of the finer things in life like French wines, German automobiles, and British leather goods. A depreciating dollar against the euro and sterling mean that a barrel of oil no longer buys as much of these European luxury goods as before. So, OPEC is attempting to keep the U.S. dollar price of crude oil high in order to compensate for the decline in the purchasing power of the coin of the global realm. Perhaps this move by OPEC will awaken Americans to the fact that their standard of living is being eroded by a depreciating dollar. They now have to give up more goods and services to get the same amount of goods and services from the rest of the world as before.

Why do I blame the Fed for this? Because the Fed controls the supply of dollars in existence. And a depreciating dollar implies that there are too many dollars in existence. So, if the Fed had printed fewer dollars in the past, the dollar would not have depreciated and the price of oil would be coming down, not staying high.

Will this continued high price of crude oil slow down the U.S. economy? Well, if OPEC were not cutting production, the U.S. economy could probably grow faster without putting additional upward pressure on aggregate price indexes. But not to worry. The Fed will probably respond by printing even more money in hopes of "fooling" OPEC into selling us the same amount of oil for dollars that are worth even less. Wow! It's that 70s Show again!

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