The price of oil going down, down

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In this Dec. 12, 2014, photo, store clerk Roxana Valverde adjusts gasoline prices on a Quick Trip sign in Tolleson, Arizona. Gas prices have tumbled nationwide. Photo: AP Photo/Ross D. Franklin

NEW YORK — The price of oil has fallen by nearly half in just six months, a surprising and steep plunge that has consumers cheering. Oil producers, on the other hand, are upset about lost profits. Economists are studying the situation and trying to figure out whether this is a good or bad thing.

The price of a barrel of oil is just under $58, down from $107 at its highest point in the summer. It is lower than at any time since the U.S. economy was still in recession in the spring of 2009.

So what's going on? There is too much oil and too few buyers of it. In other words, there is too much supply and too little demand. The effects are causing ripples across the world economy, for better and worse.

Years of high oil prices inspired oil drilling companies around the world to scour the Earth for more oil.

They found it.

Supply Surplus Equals Lower Prices

Since 2008, oil companies in the United States, for example, have increased oil production 70 percent, or 3.5 million barrels of oil per day. To put that in perspective, that increase alone is more than the production of any other oil-producing country other than Saudi Arabia. The 12 major oil-producing countries are members of OPEC - the Organization of the Petroleum Exporting Countries. The group of nations, mostly in the Middle East, decide together how much oil to produce.

As U.S. production was ramping up, political conflicts in the Middle East and North Africa reduced supplies from Libya, Iran and elsewhere. Oil supplies from OPEC were not always certain. Increased supplies came from countries outside of OPEC, and from Iraq's recovering oil industry, to help meet rising demand around the world.

But now those OPEC supplies look more certain despite continuing conflicts, and the supplies from countries outside of OPEC have swamped the market. OPEC estimated last week that the world would need 28.9 million barrels of its oil per day next year, the lowest in more than a decade. At the same time, OPEC countries plan to produce 30 million barrels of oil per day next year. The supply surplus will send global prices lower.

Not As Much Demand

Global demand is still expected to grow next year, but by far less than many thought earlier this year. The economies of China, Japan and Western Europe — the top oil consumers after the United States — all appear to be weakening. Oil demand falls when countries' economies stop growing.

The United States is still the world's largest oil consumer. Yet more fuel-efficient cars and changing populations mean demand for oil and gasoline is not increasing. The Energy Department predicts a slight decrease in gasoline demand next year, even though the price is expected to be sharply lower and the economy is expected to grow.

For drivers, shippers, airlines and other consumers of fuel, there's plenty to like about the drop in oil prices.

Extra Money For Holiday Shopping

The national average gasoline price has fallen for 81 straight days to $2.55 a gallon, its lowest level since October 2009, according to AAA, a car and travel group. It is $1.15 a gallon cheaper than its high for the year, saving U.S. families about $100 a month as they shop for holiday gifts.

"Any time gas prices go down that is a good thing," said Randy Daniels, 30, who was shopping recently at the Lenox Square Mall in Atlanta. "An extra 20 or 30 bucks in my pocket goes far."

Diesel and jet fuel prices have also been lower, helping increase the profits of airlines and shippers. Heating oil is the cheapest it has been in four years, reducing home heating prices just in time for winter for many in the chilly Northeast.

Falling fuel prices puts extra money in people's pockets and helps boost consumer spending. Americans' spending in turn accounts for 70 percent of the U.S. economy, so extra shopping gives it a boost. But economists are growing concerned that there are other, more troublesome forces at play.

The depth of oil's plunge could be a signal that the global economy is struggling even more than economists think. A weak global economy could hurt the U.S. economy by reducing exports, employment and spending. When put together, those factors could outweigh the economic benefits of cheaper fuel.

Price Collapse Hurts

For oil companies, oil-producing states, and oil-exporting countries, the oil price collapse is painful.

Oil companies generally keep producing oil from wells they have already drilled, but lower prices sharply reduce the money coming in and force them to cut back spending on new exploration projects. Analysts say it could result in thousands of job cuts at oil companies.

States that rely on taxes from energy production such as Alaska, North Dakota, Oklahoma and Texas will see less money. Some have already had to trim budgets.

Major oil exporters such as Iran, Iraq, Russia and Venezuela rely heavily on money made by the oil companies they own. They use the money from the oil companies they own to run their governments. Many are struggling under major budget shortfalls. For example, Bank of America estimates that every $1 drop in the global price of oil costs Venezuela $770 million annually. Current prices are now $46 below last year's average, putting the country on pace for a $36 billion loss.