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Low oil prices to benefit numerous industries worldwide says Moody’s

Rating agency adjusts oil price assumptions

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Credit rating agency Moody's Investors Service has cut its oil price assumptions for the next couple of years, and details the positive impact on a number of sectors.

Moody's is now assuming average spot prices for European Brent crude of $55 per barrel through 2015, and $65 in 2016. For West Texas Intermediate (WTI) crude, it is assuming $52 per barrel in 2015, and $62 in 2016. For both prices, it assumes $75 in the medium term.

"At the start of 2015, crude prices of about $50 per barrel reflected factors including growing non-OPEC supply, supply outpacing demand worldwide and Saudi Arabia's decision not to keep acting as OPEC's swing producer," says Moody's managing director, Steve Wood. "While we see no catalysts that would change the supply-demand equation in the near term, our long-term oil price assumptions reflect our view that prices will eventually rebound."

In a new report, Moody's also looks at how a sustained period of lower oil prices would affect numerous industries around the world. It concludes that many non-financial, non-energy industries will benefit from lower prices. In particular, Moody's says that the airline, shipping, and packaged foods sectors will benefit most from lower oil prices.

"Passenger airlines' financial performance will improve in 2015 as a result of lower fuel costs," says a Moody's vice president, Jonathan Root. "American Airlines should realize the maximum benefit, but Delta, United, Lufthansa and Air Canada will also be among those that gain."

Yet, at the same time, it says that suppliers of aircraft and components could suffer, as falling prices increase the risk of order cancellations and deferrals. "Oil prices have fallen to a level that significantly reduces the operating cost benefits airline customers will realize from new fuel-efficient aircraft on order compared to when orders were placed, when Brent crude averaged more than $80 a barrel," says a Moody's senior vice president, Russell Solomon. "As a result, we expect order deferrals and cancellations to increase beyond the bump that has recently been anecdotally noted."

The report says that processed food manufacturers such as Nestlé, Mondelez International and Kraft Foods, will see a boost to their margins, as 10%-15% of the cost of their goods is devoted to freight and fuel. Additionally, it says that these companies should also see sales increase "as cheaper oil leads consumers to spend their extra cash on discretionary food items." Similarly, restaurants may also benefit, it says; particularly fast-food chains whose client bases will feel the biggest impact from cheaper gas prices.

Falling oil prices will also be modestly positive for carmakers, Moody's says. In North America, demand will shift toward larger, higher-margin vehicles, such as SUVs, at the expense of smaller, more fuel-efficient models. But sales aren't likely to improve much in the Japanese market, it says, since people there don't drive as much on a daily basis. And, high taxes in both Japan and Europe are likely to blunt the impact of cheaper crude on car sales, it says.