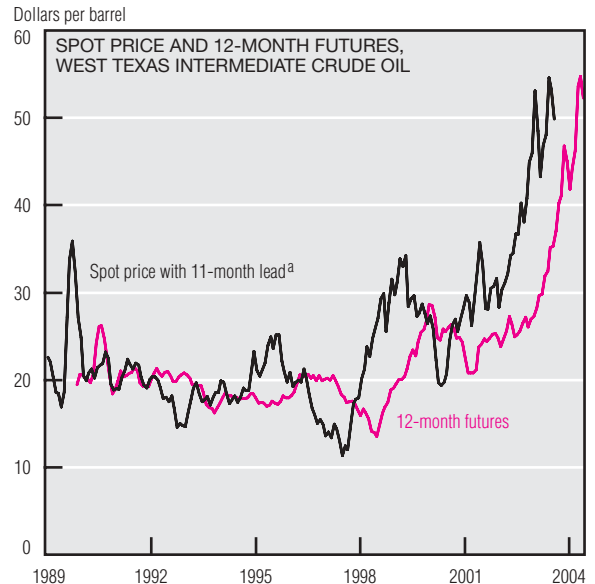
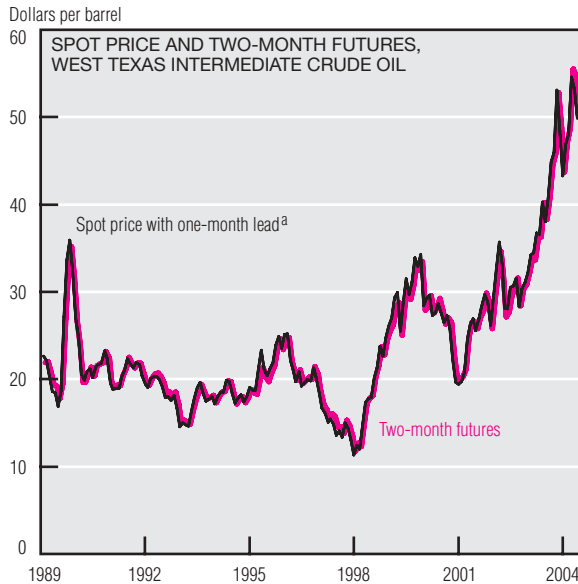
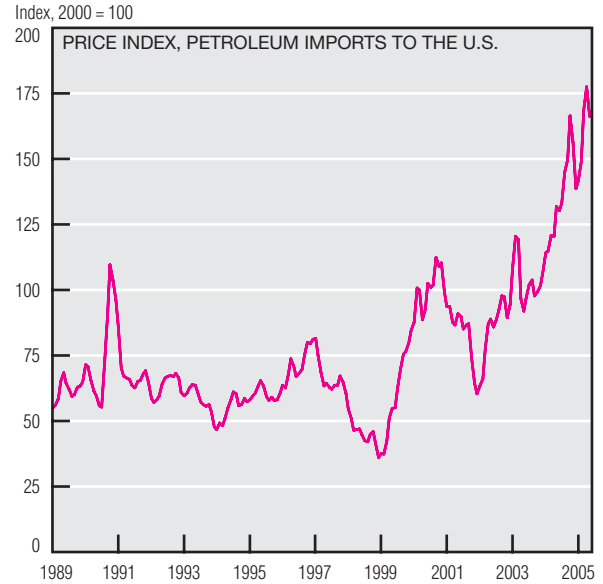
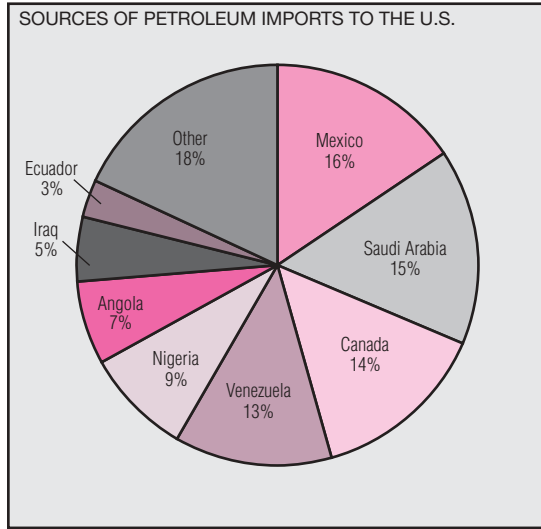


# Oil Prices



a. The one-month NYMEX futures price is also referred to as the spot price of oil.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Energy, Energy Information Administration; and Bloomberg Financial Information Services.

In March 2005, the U.S. imported 65% of all the oil it consumed. About 30% of those imports came from its immediate neighbors: 16% from Mexico and 14% from Canada. Slightly more than two-thirds of U.S. oil imports came from five countries.

Import prices for petroleum products have nearly doubled over the past three years. During the same period, the spot price of a barrel of oil has increased from around \$25 to more than \$60. Oil prices have been more volatile in the past five years than in the mid-1990s.

Oil and oil products are important inputs for many production processes, so it is no surprise that a futures market for oil has developed, allowing buyers to hedge risks associated with oil price movements. The purchaser of a futures contract receives a payout if the spot price of oil turns out to be higher than the contracted futures price; he must give a payout if the spot price turns out to be lower.

The spot price of oil is a misnomer: Because the oil is deliverable in one month, its price is essentially equivalent to the one-month futures

price. The futures market might serve as a barometer for the spot price of oil in the future. This seems to be the case for the two-month futures contract because the futures price tracks the one-month-ahead spot price of oil closely. The 12-month futures contract, however, does not do a particularly good job of predicting the price of oil one year out. On average, the futures price seems to underpredict the spot price.