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Abstract

The paper estimates the dynamic impact of structural oil market shocks on the financial position of corporates in the manufacturing, trade and mining sectors, using US industry level balance sheet data. Findings indicate that the impact depends on the interaction between both the structural drivers of oil price fluctuations (i.e. oil supply, aggregate demand, and speculative demand shocks), and the industrial activity of the firm. Oil supply and aggregate demand shocks are found to have opposite effects on both global business activity and corporate financial positions. Interestingly, speculative demand shocks create a ripple effect in the downstream industries, raising demand for petroleum products and chemicals, in contrast to its negative effect on aggregate business activity. The results also add more evidence to the hypothesis that demand shocks have historically played a more significant role in causing fluctuations in oil prices and corporate profits, but find a higher intensity of oil supply disturbances reflected in larger oil price elasticities. Beyond aggregate observations, results vary across industries, and dispute the classic notion that the cost share of oil in an industry determines its level of exposure to oil market shocks.

JEL Classification: G10, E30.
Keywords: Oil Market Shocks; Corporate Balance Sheets; Sign Restrictions SVAR; Speculation; Inventories; Production Smoothing.

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