

U.S. Energy Production: *Almost* Independent

Key Takeaways

- The U.S. is the world's leading producer of crude oil, but we **still import oil** based on our refinery needs and the differences in oil quality and composition.
- Oil is **priced globally** so that international events can drive U.S. gasoline prices despite strong domestic production.
- Today, the U.S. uses far less energy per unit of economic output; while prices at the pump are painful, oil price spikes **matter less to the overall economy** than in the past.

The war in Iran has caused the biggest oil price spike in 20 years. Consumers and investors are rightfully very focused on the fluctuating price of oil. Oil prices show up in many parts of everyday life – most visibly at the gas pump – but the forces behind those prices are more complex than they appear. Many investors assume that because the United States produces so much oil, it should be insulated from global price swings. In reality, oil is part of a global system shaped by technology, geography, and decades-old infrastructure. Understanding a few key ideas can make the behavior of oil prices feel much more intuitive.

Is the U.S. Energy Independent?

The U.S. produces more oil than any country in the world, largely due to advances in shale technology, such as fracking and horizontal drilling. Over the past decade, these technologies have unlocked vast reserves that were previously too difficult or expensive to access, driving a surge in domestic oil production.

However, being the world's top producer doesn't mean the U.S. is fully "energy independent." The country still imports oil because not all crude is the same, and the type produced domestically doesn't always match what U.S. refineries are built to use.

Importantly, oil is a globally traded commodity, and its price is set in international markets. This means that events anywhere in the world – sanctions on Russia, OPEC production decisions, a war in Iran – can influence the price of oil in the United States, even if domestic production is strong.

Light, Heavy, Sweet, and Sour

Crude oil isn't all the same, and it comes in different types that vary in quality and how easy they are to use. "Light" oil is thin and flows easily, while "heavy" oil is thicker and more like molasses. Oil is also described as "sweet" or "sour" based on its sulfur content (sweet oil has less sulfur and is easier and cheaper to refine, while sour oil requires more processing).

These differences matter because each type is better suited for making different types of products. Light, sweet oil is ideal for producing gasoline, jet fuel, and diesel – products that most consumers are familiar with. Heavy oil, on the other hand, is often used to make products such as asphalt for roads, roofing materials, and heavy industrial fuels used in shipping and manufacturing. Sour oil can still be used for many of these products, but it requires more refining to remove impurities before it's usable.

The U.S. produces large amounts of light, sweet oil, which is of high quality and in high global demand. However, many U.S. refineries were built several decades ago to process heavier, sour oil from Canada, Mexico, and the Middle East. Because of this mismatch, the U.S. often exports the oil it produces to Europe while importing the types of oil its refineries are designed to handle.

The Price of Oil Still Matters, But Less Than It Used To

The U.S. economy is much less dependent on oil than it was in the previous oil price spikes in the 1970s. Today, it takes about 70% less oil to produce a unit of economic output than it did in the 1970s, as the economy has shifted away from heavy manufacturing toward services and technology. For example, industries like software, healthcare, and finance require far less energy than producing steel or running large factories.

At the same time, everyday energy use has become much more efficient. Cars today can travel roughly twice as far on a gallon of gas as they could in the 1970s, meaning consumers need less fuel even if they drive the same distance. Homes and buildings are also more efficient, with better insulation, LED lighting, and modern appliances that use less energy overall. Even air travel has improved, with newer airplanes using significantly less fuel per passenger.

The increase in U.S. oil production means higher oil prices can also act as a tailwind for U.S. energy producers. As prices rise, shale companies are more likely to ramp up

drilling, which supports employment, local economies, and capital investment across energy-producing regions.

Finally, the country has diversified how it produces energy. For example, oil is no longer a major source of electricity generation, with natural gas, renewables, and nuclear power now doing much of that work. As a result, a spike in oil prices mainly affects transportation costs, rather than causing a broad increase in energy bills across the entire economy.

Conclusion

The key takeaway is that oil prices are still important, but they don't carry the same weight they once did. The U.S. produces more energy than ever, but remains connected to global markets because of how its refineries and supply chains are built. At the same time, the economy has evolved to use less oil and rely on a more diverse energy mix. For investors, this means oil price spikes can still create volatility, but they are less likely to derail the broader economy than in the past.

AssetMark, Inc.

1655 Grant Street
10th Floor
Concord, CA 94520-2445
800-664-5345

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