Notes at the Margin

Philip K. Verleger, Jr. **Volume XIX, No. 21** **May 12, 2015**

The Data Must Really Be Wrong

Economists at the Federal Reserve examined our comments in yesterday's *Notes at the Margin* and pointed out an error. The effect of the error is to change the sign of the Energy Information Administration's miscalculation of US crude oil production.

It turns out that EIA is underestimating US oil output. Figure 1 (page 2) shows the volume reported by EIA as well as the volume derived from inventory data, refinery runs, imports, and exports. The lines in the updated graph are closer. The details show the average differences in thousand barrels per day as follows.

	Average	Standard Error
Jan 2008 to Nov 2014	104	167
Nov 2014 to Apr 2015	276	132
Feb 2015 to Apr 2015	344	65

Figure 2 (page 2) shows the variance. Apparently, the US produced more than the amount EIA reported.

The question, then, is why is contango shrinking? Why are markets acting as if supply and demand are in balance?

As we noted correctly in our May 11 report, companies in the oil industry have day-to-day information on oil production. The government has the authority to ask for the data rather than provide "best guesses" based on models. EIA, though, has not yet asked for the data.

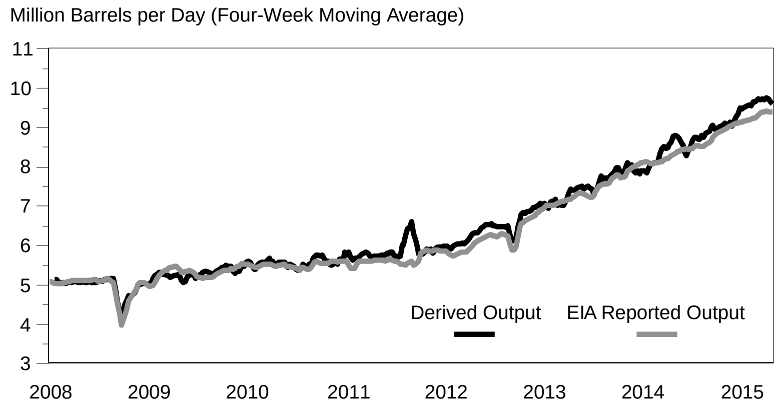
Furthermore, there is strong evidence that East Coast refiners are not purchasing Bakken crude. There is also good evidence from the bidding of buyers that need to fill tank cars that Bakken supply is down. Supply in Utah is down. The citations for these reports can be found in the May 11 issue.

Yet the Department of Energy figure shows as much as a three hundred thousand barrel per day increase in output since the first of the year.

We leave it to the reader to ask why there is so much uncertainty about our data. The market statistics—returns to storage and the shape of the forward price curve—tell a story that varies sharply from the one told by EIA. We leave it to the reader to choose.

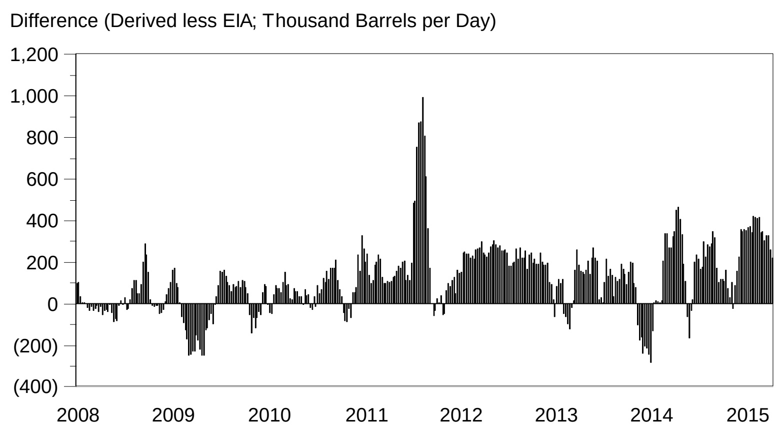
Notes at the Margin is an email service published by PKVerleger LLC (www.pkverlegerllc.com). Please direct all inquiries to Dr. Philip K. Verleger, Jr. at phil@pkverlegerllc.com.

Figure 1
US Derived Crude Oil Production Volume* vs. Output Reported by EIA in Weekly Petoleum Status Report



*Derived from data on US crude stocks, refinery inputs, imports, and exports.
Source: EIA; PKVerleger LLC.

Figure 2
Difference between Derived Calculations of US Crude Oil Production and US EIA's Published Estimates of Output



Source: US EIA; PKVerleger LLC.