



Demand and Economics, or are we mushrooms?

Posted by [Heading Out](#) on August 13, 2005 - 11:11am

Just as I was sharpening my pencil to begin the post on drilling that will follow, I glanced over at Reuters, to see how oil was doing today. Given the discussion over at [Econbrowser](#), and his apparent demand (as in command) that you can't use the word demand (as in need) without defining that in terms of price (and the post has 203 comments attached in an interesting discussion) my eye was caught by the following quote from the [Reuters article](#)

Oil prices raced to record highs above \$67 a barrel on Friday as investors fretted over the world's strained capacity to refine and pump crude oil.

U.S. oil rose more than 7 percent this week and has climbed 51 percent since the start of the year. The stage could be set for further gains, with no let-up seen in global demand growth and no signs that \$60-plus oil is harming the economy of the world's largest consumer, the United States.

Now what this says to me is that at current prices demand is not being controlled by price. Which would contradict Econbrowser's point, and perhaps suggest that the Hirsch Report was correct in writing the document the way it did?

At the same time the story does not mention a global peak on supply, but rather:

"We're going to have a very strong price environment until the steam is taken out of demand or until investment catches up and restores a spare capacity cushion to production and refining."

The News Hour's expert last night had bought into the CERA prediction of 15 mb of new oil being on its way, and I guess that the Reuter's staff have too. No mention of depletion, or that it may be too late now to make the investments that will raise supply much above its current level. We're mushrooms, that's all, just plain mushrooms.

Herumph! So where's that pencil sharpener?

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