



IEA Revisions--The 2006 Forecast

Posted by [Dave Cohen](#) on December 28, 2005 - 10:50am

Topic: [Supply/Production](#)

Tags: [demand](#), [forecast](#), [iea](#), [non-opec](#), [oil market report](#) [[list all tags](#)]

Every month, the IEA publishes its [Oil Market Report](#). Today, Adam Porter (thanks, [Peaknik](#)) of Resource Investor [reported](#) that

The International Energy Agency (IEA) however has slightly less excuse. Energy is their raison d'etre, not political power. Or at least that is what they say. They predicted that in 2005 non-OPEC output growth would be 1.38 mbpd. That figure has now been revised. It now stands at 0.1 mbpd. That in itself may yet be revised, downwards.

So currently the IEA's non-OPEC output growth forecast is only just out. If you could say that an error of 92.75% is 'just out'....

Reassuringly the IEA have revised upwards their non-OPEC output growth figure for 2006. Next year they assure us it will now be 1.39 mbpd, not 1.32 mbpd that they had already called. Mind you they do not have to go far to beat this year's prediction.

American 'demand destruction' was also in vogue just a few weeks ago. Yes, the IEA told us it was happening. Yet a few weeks later American demand for gasoline rose by 600,000 barrels in one week, to stand at 22.156 mbpd. That is not just a lot. That is a record high, ever.

partially based on IEA's [December 13th](#) report. Since IEA publishes monthly, they constantly revise their reports to reflect their current view of reality. But as far as longer term (yearly) forecasting goes in recent years, there seem to be two major discrepancies the IEA makes as the forecast period actually arrives in time versus the IEA predictions made a year or more earlier.

1. Forecast demand revisions go upward year-on-year
2. Forecast non-OPEC supply revisions go downward year-on-year

Stuart [plotted](#) IEA raw data versus IEA revisions. Let's take a closer look at trend #2, the IEA year-on-year estimates for non-OPEC liquids supply.

First, let's look at the IEA's current December forecast ([link above](#)).

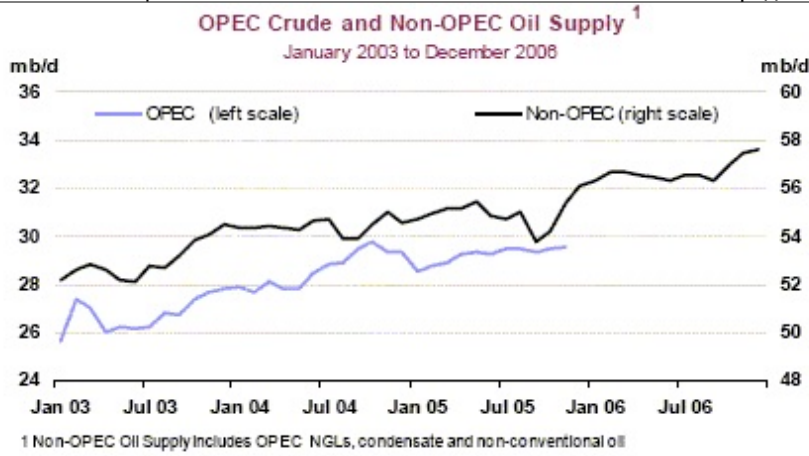


Figure 1 -- OPEC versus non-OPEC (all liquids) Supply

Observe the flat non-OPEC supply curve from 4th quarter 2003 through fall of 2005. Now, look at Figure 2.

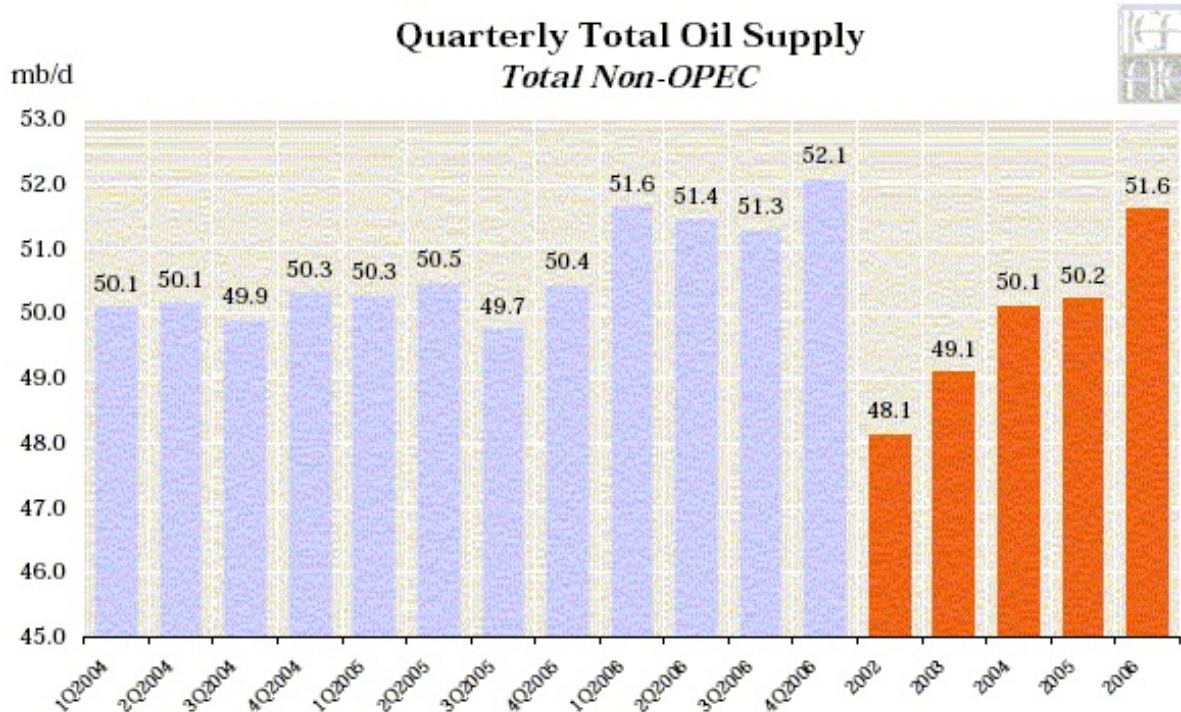


Figure 2 -- [Click to enlarge](#)

Note that as reported by Porter and here by [Forbes](#), the IEA has got non-OPEC production up 1.4/mbd in 2006 over 2005 levels. Given the history from late 2003, is this large forecast increase in 2006 credible?

Using the [December 2004 forecast](#), the IEA reported at that time that the non-OPEC oil (*not all liquids*) supply was 50.13/mbd and this is confirmed in their latest numbers for that year in Figure 2. As the latest IEA December 2005 report and Porter confirms, non-OPEC oil supplies are just 0.1/mbd over 2004--these were forecast to be +1.02/mbd in December 2004. The highest IEA forecast for 2005 I found in 2004 was +1.31/mbd (in [October 2004](#)), so I can't quite verify Porter's 1.38/mbd figure. Nonetheless, there is a large revision downwards of forecast non-OPEC oil supply numbers from 2004 to 2005.

Browsing around, an interesting article called [The Crude Story, Part I](#) came up written by a stocks analyst named Brian Trumbore President/Editor of StocksandNews.com. In this story, Trumbore [published 7/23/2004] found some

...information from a recent internal report generated at a large money management firm. I am not able to identify the author, but for those of you who are energy junkies it's terrific research.

Obviously, I can not vouch for the source but there's some very interesting information in this article claiming that downward revisions of non-OPEC supply numbers has been going since the year 2000.

Most oil analysts base their supply-demand models on data generated by the International Energy Agency (IEA), the organization set up by the industrialized economies in the mid- 1970s to monitor global oil markets in the wake of the 1973 oil crisis. Since 2000, the IEA has forecasted that future non-OPEC supply would increase faster than global demand. However...the IEA data has consistently underestimated global oil demand and overestimated non-OPEC oil supply....

The IEA's biggest problem is consistent overestimation of non- OPEC, and particularly non-OPEC / non-FSU (Former Soviet Union) oil production. Over the last four years, the IEA's downward revisions of non-OPEC / non-FSU production from its original estimates have been impressive.

The IEA's original 2001 estimate was revised down by 500,000 barrels per day, and its 2002 estimate was revised downward by 400,000 b/d. Its 2003 estimate was revised downward by 900,000 b/d, and its 2004 estimate has already been revised downward by 700,000 b/d. On a four-year cumulative basis, the IEA has overestimated non-OPEC / non-FSU production by almost 3.7 billion barrels....

It is necessary to go back through previous IEA OMR documents to confirm all this--which I am in the process of doing--but it would seem on the face of it that this is a consistent and erroneous trend in IEA's non-OPEC data reporting. As always, I recommend reading Trumbore's original article and looking at the monthly IEA reports.

Using my 1.31/mbd downward revision (from October 2004) of IEA's non-OPEC supply for the year 2005 and the numbers quoted in Trumbore's article by an anonymous source, we see that the IEA has overestimated non-OPEC oil supply by 4.18 billion barrels over the last 5 years. As for upward revisions of demand trends (also discussed in the Trumbore article), this calls for further research.

So, these trends in IEA forecasting tend to cast doubt on their current 2006 non-OPEC number of 51.6/mbd (Figure 2) and their all liquids forecast (Figure 1). It appears right now that we can feel somewhat confident that this number will be revised downward as the year 2006 actually goes along. At least, that's the trend we've seen. In the 2005 world, supply & demand have remained on a razor-thin edge. If recent history is any guide, numbers from the IEA give us little reason to believe that excess capacity will become available to change that trend in 2006.



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