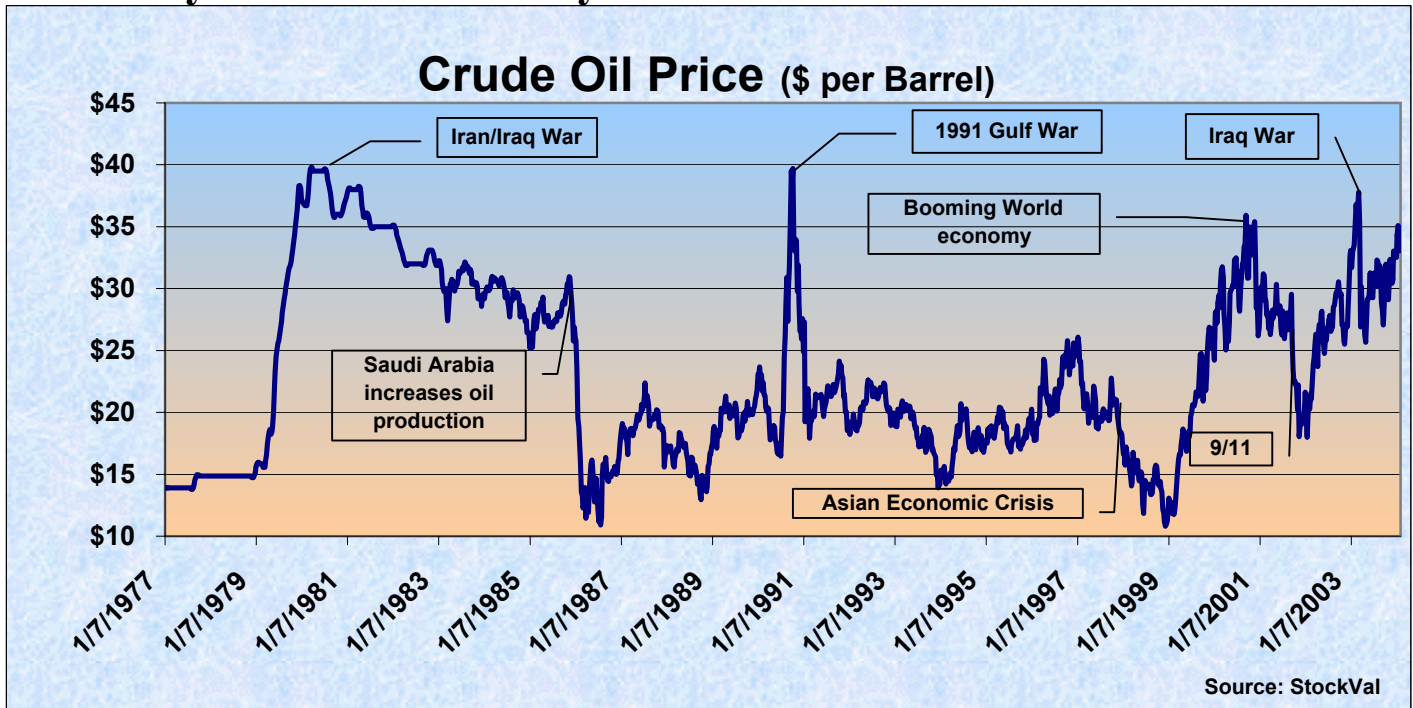


# February 2004 Commentary

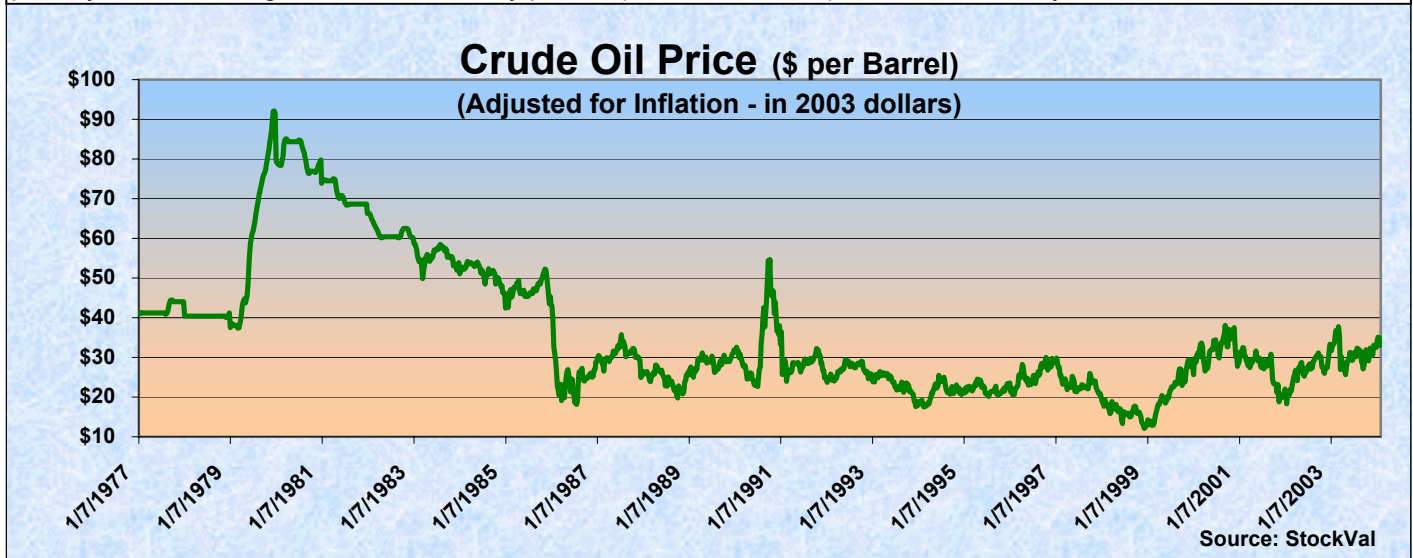


**"Oil prices have fallen lately. We include this news for the benefit of gas stations, which otherwise wouldn't learn of it for six months."**  
 Bill Tammeus, in Toronto's National Newspaper, 1991

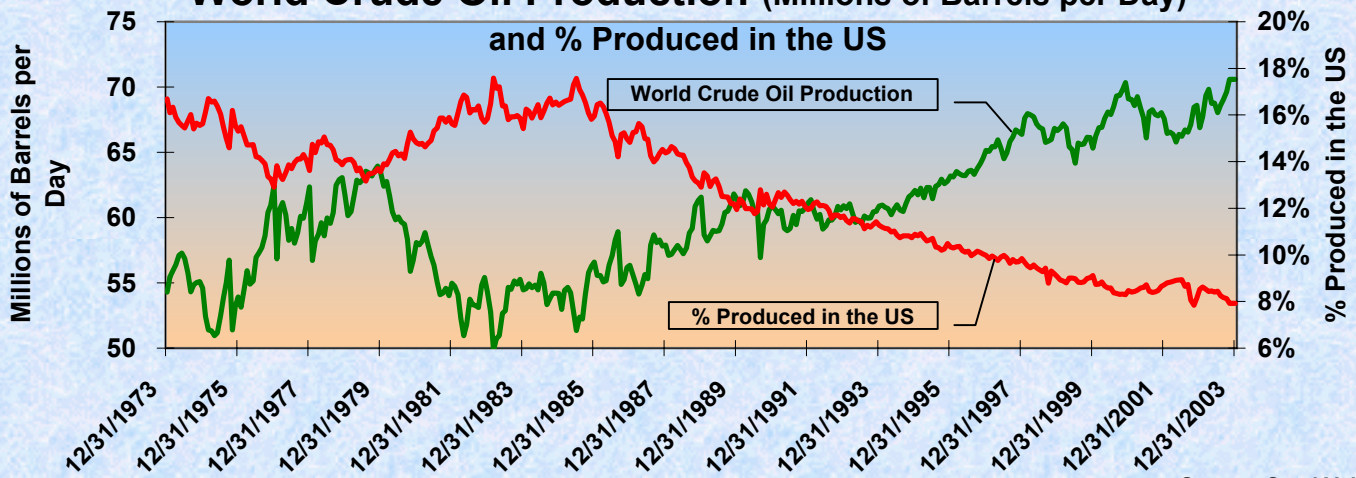
The price of a barrel of oil recently reached \$35. The price of oil has only reached these levels four other times in the last 27 years. In three of the four occurrences, events in Iraq were largely responsible for the price hikes. In 1981 the first major fighting began in the Iran-Iraq war, in 1991 it was the Gulf War, and in 2003 the US invaded Iraq. It just goes to show how important stability in the Middle East is to oil prices. The fourth occurrence was due to strong world oil demand, OPEC production cutbacks, low inventories and weather related factors in 2000. Today, lagging production from Iraq and strong global demand appears to be the major reason for \$35 oil prices.

Are oil prices really that high? It is important to place historical prices in the proper context. After adjusting for the effects of inflation, the current price of oil doesn't seem that high relative to the price spikes experienced in 1981 and 1991. Since 1987 the price of oil (in 2003 dollars) has largely traded between a range of \$20 to \$30 per barrel.

As of January 2004 the global daily production of oil was about 82 million barrels per day. That's a lot of oil: to place it in some perspective, there are 42 gallons in a barrel of oil, thus global production of oil equals about 3.5 billion gallons per day or about 200 gallons of oil for every person (about 6.35 billion) in the world each year!



## World Crude Oil Production (Millions of Barrels per Day) and % Produced in the US



Source: StockVal

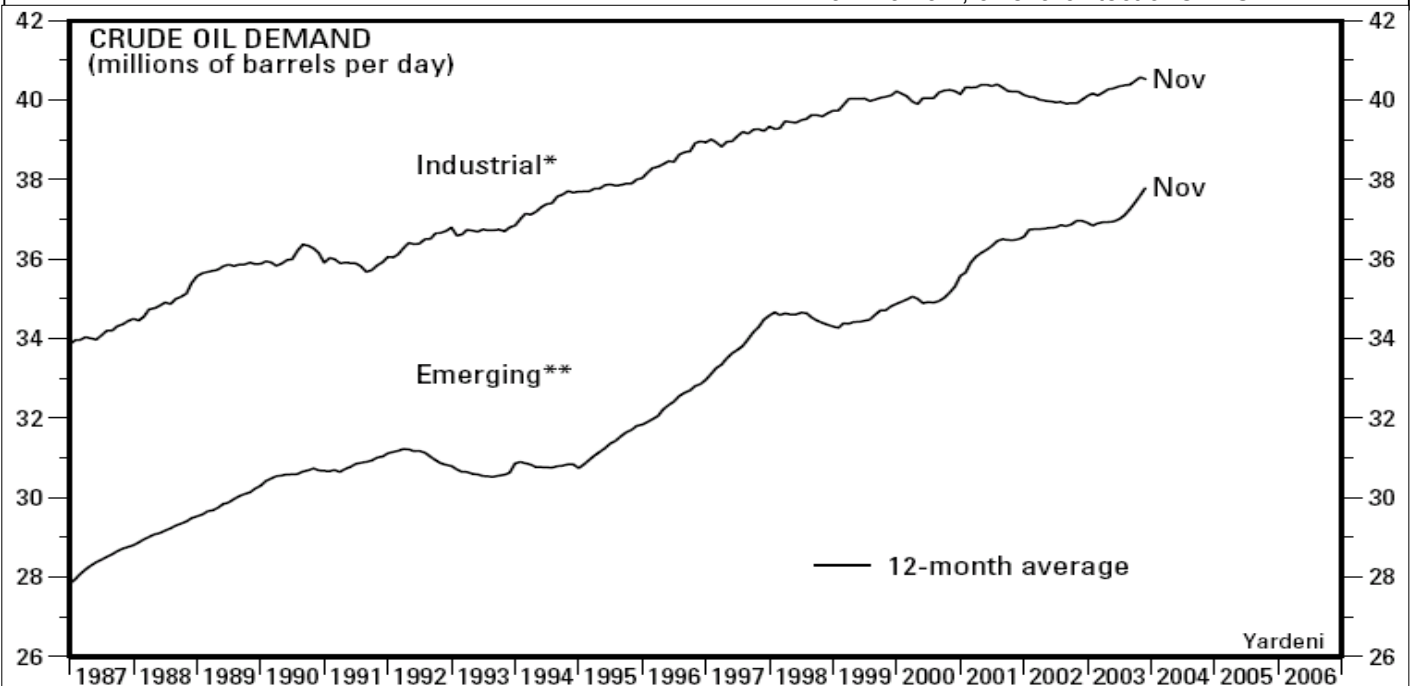
The United States currently produces about 6 million barrels per day, accounting for only about 8% of global oil production (chart above). OPEC nations produce about one-third of the World's daily oil production. Russia produces about 8.5 million barrels per day, and Mexico and China each produce about 3.5 million barrels per day.

The World's thirst for oil continues to grow. As of January 2004 the global daily demand for oil was 81 million barrels per day. The US is the world's single largest consumer of oil, guzzling about 25% of the total or 20 million barrels per day. The next largest single consumer of oil is now China (recently passing Japan), consuming about 7% of the total oil supply or 5.5 million barrels per day. Canada, Mexico, France, Germany, Italy and United Kingdom each consume about 2% to 3% of the World's oil supply.

Much of the growth in oil demand is coming from emerging economies (i.e. all countries other than the US, Western Europe and Japan). Demand from these nations, largely China and other Asian nations, is rapidly catching up to the demand from the Industrial nations (chart below). In the near term the price of crude oil may remain elevated, at least until existing oil fields, like those in Iraq, can produce more oil.

**"The Stone Age came to an end not for a lack of stone, and the oil age will end, but not for a lack of oil."**

Zaki Yamani, chief architect of OPEC



\* US, Western Europe, and Japan

\*\* Total excluding US, Western Europe, and Japan.

Source: Oil Market Intelligence.

**Madison Financial Advisors**

Cincinnati - Washington, DC - Tel: (888) 943-4198 - [www.madisonadvisors.com](http://www.madisonadvisors.com)