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Relative oil prices and differential oil profits

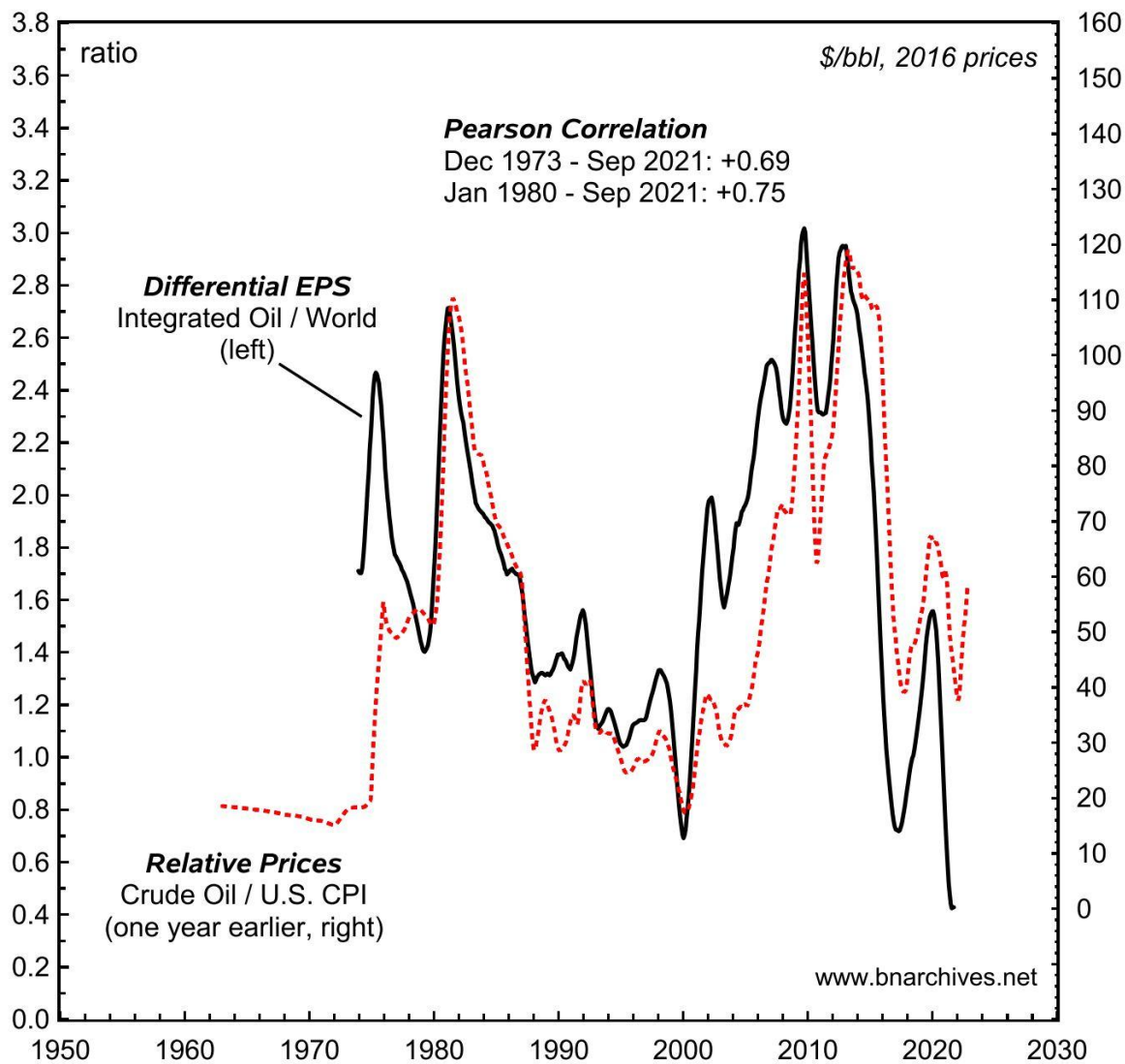
December 30, 2021 [Editor](#) [Leave a comment](#) [Go to comments](#)

from **Shimshon Bichler** and **Jonathan Nitzan**

If you thought that oil profits are about producing oil, think again.

The enclosed chart, updated from our 2015 *Real-World Economics Review* paper, [‘Still About Oil?’](#), shows that the main determinant of oil profit — and specifically of *differential* oil profit — is not output, but prices.

The figure shows the correlation between two series: (1) the differential oil profits of the world’s integrated oil companies, computed as the ratio between their earnings per share and the earnings per share of all listed firms; and (2) the relative price of oil one year earlier, measured by the \$ price of crude oil relative to the U.S. consumer price index. (The reason for the annual lag is that ‘current’ profits represent a trailing average of earnings recorded over the past 12 months.)



Differential Earnings per Share and the Relative Price of Crude Oil

NOTE: Series show monthly data smoothed as 12-month trailing averages. EPS denotes earnings per share and is calculated by dividing the stock price index by the price-earnings ratio. Differential EPS is calculated by dividing the EPS of the integrated oil index by the EPS of the world index. The relative price of oil is the average crude price deflated by the U.S. CPI. The last data points are September 2021 for the differential EPS and October 2021 (October 2022 lagged) for the relative price of oil.

SOURCE: Updated from Shimshon Bichler and Jonathan Nitzan, 'Still About Oil?' *Real-World Economics Review*, No. 70 (February), 2015, Figure 3, p. 12. Datastream (series codes: TOTMKWD(PI) and TOTMKWD(PE) for the price index and price-earnings ratio of all listed firms, respectively; OILINWD(PI) and OILINWD(PE) for the price index and price-earnings ratio of all listed integrated oil firms, respectively). OPEC via IHS Markit (series code: WORNCOPOPEC for OPEC spot basket crude oil reference price in \$US); IMF International Financial Statistics through IHS Markit (series codes: L64@C111 for the U.S. CPI).

When we wrote the article in 2015, differential oil profits and the relative price of oil were both at record highs; nowadays, they brush against record lows. And that pattern is to be expected. As the chart shows, the correlation between these two measures remains positive and tight, with a Pearson coefficient of +0.69 for the entire period since Dec 1973, and +0.75 since January 1980.

Inflation is always and everywhere a re-distributional phenomenon.

(And expect differential oil profits to rise next year.)

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1. Ken Zimmerman
January 1, 2022 at 9:53 am
[Reply](#)

If the relationship is not supply and demand, then why do prices increase and decrease? In this instance largely in coordination?

2. [Jonathan Nitzan](#)
January 2, 2022 at 6:05 pm
[Reply](#)

About oil prices, read 'Still About Oil?'

[Click to access t3.asp](#)

About demand, supply and equilibrium, or rather their total absence, read 'The 1-2-3 Toolbox of Mainstream Economics: Promising Everything, Delivering Nothing'.

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o Ken Zimmerman
January 4, 2022 at 9:47 am
[Reply](#)

On oil, I don't disagree with the story you've assembled. But I believe you've omitted one major element, political accommodation. I've not carried out interviews or direct observations since I changed jobs doing such research in 2012. But that research from 1989 forward clearly shows an ongoing effort by sellers, buyers, re-sellers, and brokers to reduce political fallout for one another from changes in oil prices. All complex, low key, and guarded. You might want to consider carrying out some interviews and direct observations to look at whether this remains a factor in oil prices. And, if so how much of a factor?

3. [Jonathan Nitzan](#)
January 4, 2022 at 4:26 pm
[Reply](#)

Thank you Ken.

We have researched the topic since 1989, so maybe others should pick it up from here....

For a partial list of our works on this subject, see:

The Political Economy of Armament and Oil – A Series of Four Articles (1989)
<https://bnarchives.yorku.ca/136/>

Bringing Capital Accumulation Back In: The Weapondollar-Petrodollar Coalition – Military Contractors, Oil Companies and Middle-East "Energy Conflicts" (1995) <https://bnarchives.yorku.ca/13/>

Putting the State In Its Place: US Foreign Policy and Differential Accumulation in Middle-East "Energy Conflicts" (1996) <https://bnarchives.yorku.ca/11/>

The Global Political Economy of Israel (2002) <https://bnarchives.yorku.ca/8/>
It's All About Oil (2003) <https://bnarchives.yorku.ca/38/>

Dominant Capital and the New Wars (2004) <https://bnarchives.yorku.ca/1/>

New Imperialism or New Capitalism? (2006) <https://bnarchives.yorku.ca/203/>

Still About Oil? (2015) <https://bnarchives.yorku.ca/432/>

Profit Warning: There Will Be Blood (2017) <https://bnarchives.yorku.ca/432/>

Still in the Danger Zone (2020) <https://bnarchives.yorku.ca/634>

- o Ken Zimmerman
January 10, 2022 at 2:20 am
[Reply](#)

Thanks for the information. I've discussed this with colleagues I worked with at DOE and DOD. They're not enthusiastic about the work right now. And all my data, notes, and drafts are in their archives. Maybe we can circle back later.

4. [Jonathan Nitzan](#)
January 10, 2022 at 10:13 pm
[Reply](#)

Thank you.

1. No trackbacks yet.

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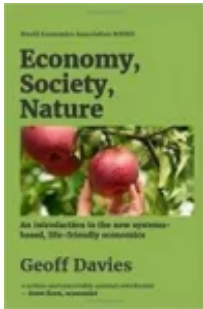
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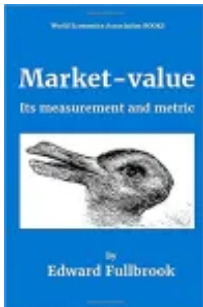
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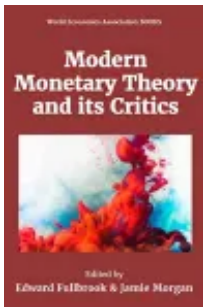
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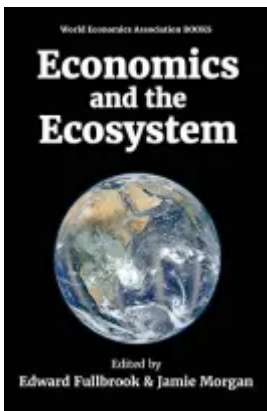
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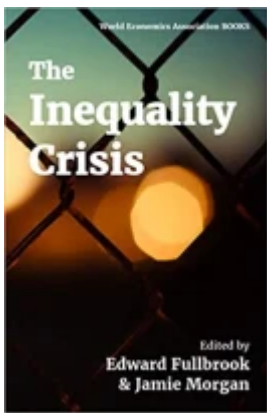
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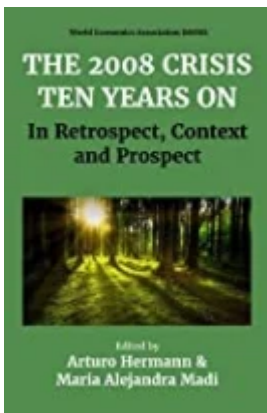
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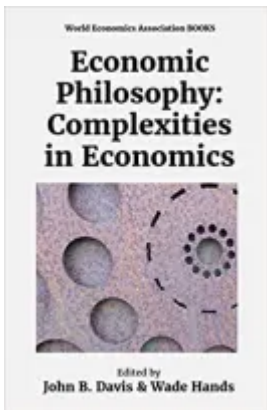
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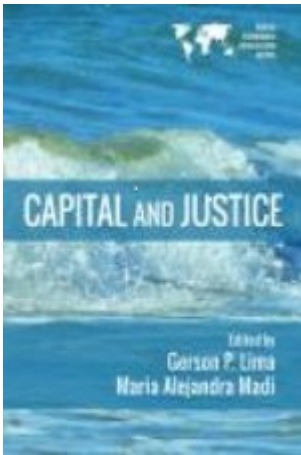
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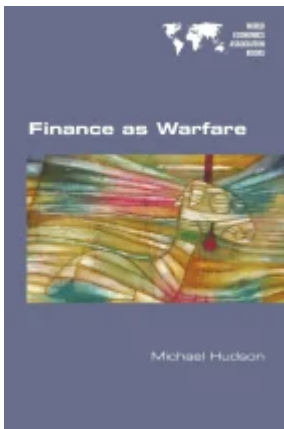
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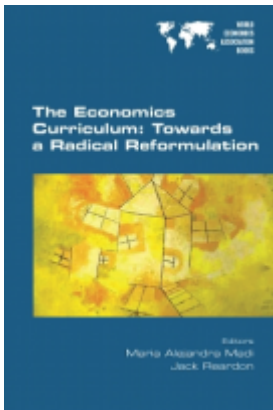
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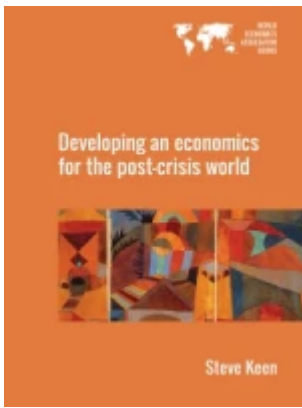
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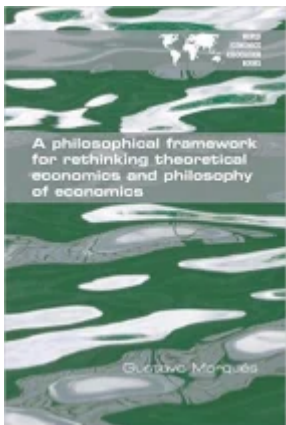
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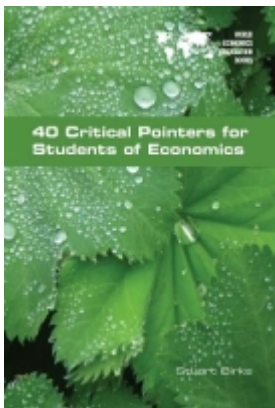
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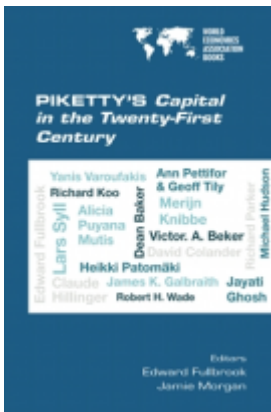
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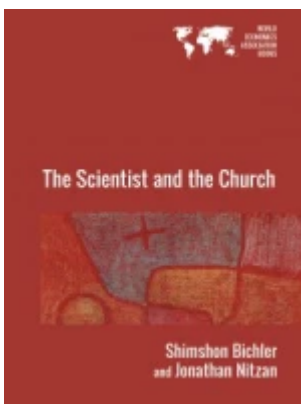
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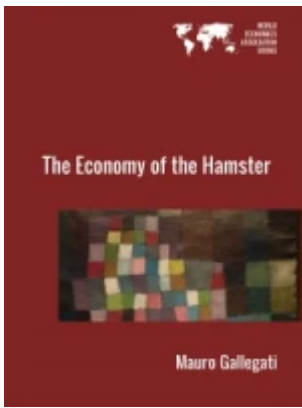
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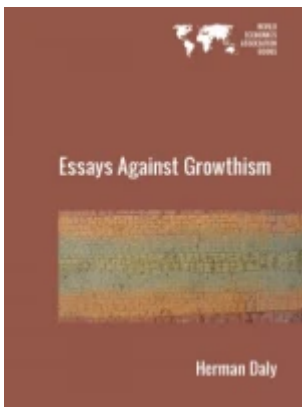
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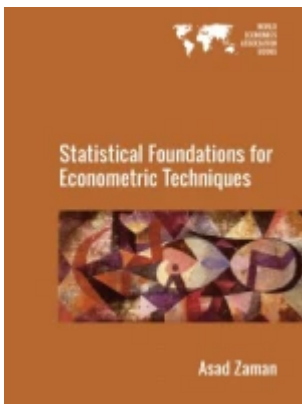
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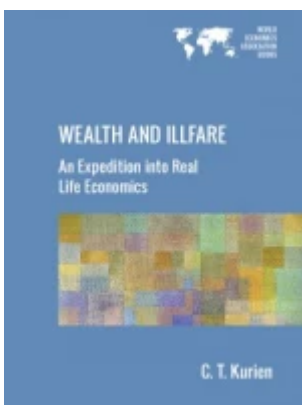
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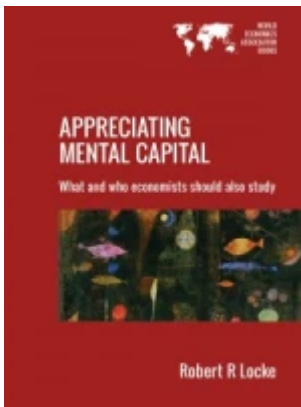


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