Pumped Up Predictions

Network warnings of ever higher gas and oil prices
leave out a key point – they are usually wrong

Full Report

A study from the Business & Media Institute

By Dan Gainor

Executive Summary

Even in the midst of an election and Wall Street crisis, oil and gas prices have been front and center in 2008. The huge spike in both commodities was followed by a greater collapse in those prices in recent months.

When the year began, gas was already $3.04 a gallon. It dropped a bit to $2.95 by February 11. Oil started the new year at nearly $100 a barrel and followed a similar track.

After that, it was off to the races for both. In just a week, gas topped $3 a gallon again and began an expensive march to record territory. Summer driving season spurred increased demand and pushed prices even higher. By the end of May gas was nearly $4. It topped that magic number on June 9 and stayed above $4 for a month.

Consumers struggled as high gas prices ate into their wallets. The cost of nearly every product depended on oil or gas for shipping and many of those prices rose as well. The evening news was filled with stories of families on strapped budgets or truckers battling to stay in business "at over $1,000 a fill-up."

What goes up must come down – except for gas and oil, viewers were told. Over and over reports said there was no relief in site. Indeed, things would only get worse. The evening news shows said gas would hit $5 or $6 and oil would shoot to $200 a barrel. On May 21, NBC's sister network, CNBC, quoted Robert Hirsch, a Management Information Services Senior Energy Advisor, saying: "others who watch this very closely forecast that we're going to be hitting $12 and $15 per gallon, and then, after that, when oil – world oil production goes into decline, we're gonna talk about rationing."

That prediction, like most of the others, proved to be wildly incorrect. But only ABC of the three broadcast networks would go back and look at how the price spike was covered. As both gas and oil prices declined, the mainstream media lost interest. There were 114 stories on oil or gas in July when prices hit record levels. By the end of November, those prices had collapsed. Gas was at $1.82 and oil at about $50 a barrel. But news coverage had collapsed as well. The issue that had caused a global energy crisis was then largely ignored by the evening news shows. There were just 26 stories in November.

On Dec. 4, Gulf Oil CEO Joe Petrowski said that oil could fall to $20 per barrel and gas could plummet to $1 a gallon by early 2009. Whether Petrowski's comments prove accurate is It's anyone's guess. But the recent track record says its unlikely. Whether it was oil experts, government officials or journalists, predictions about energy prices in 2008 have been wrong nearly two thirds of the time.

The Business & Media Institute analyzed 548 evening news stories about oil and gas during 2008, from Feb. 11, when gas prices hit an early season low point, to the end of November. The results show that supposed experts were wrong about how high prices would go and then about the price collapse that followed.

On Dec. 13, after declining for 86 straight days, gas prices ve touched bottom at $1.66 a gallon, at least temporarily. They had fallen $2.45 a gallon, or 60 percent of their cost. That price loss is more than the total price ABC predicted would never be reached again.

Worse Than Flipping a Coin

When journalists don't know something, they turn to experts. In the case of oil and gas stories it didn't help much. Journalists, government officials and outside experts were all typically wrong. Out of 65 predictions with a discernible result, the Big Three networks were wrong 63 percent (41 out of 65). Even tossing a coin should generate a 50-percent result.

It didn't matter whether the predictions were big or small. They were equally incorrect. Newscasts hyped fears of $5, $6 or $7 gasoline. And oil predictions were crude indeed – ranging from $150 to $200 a barrel.

One of the biggest mistakes was the assumption that high gas prices had become a permanent condition. Ben Tracy of CBS "Evening News" took that attitude during the March 10 broadcast. "Economists say the economic slowdown and the rude awakening that high gas prices are here to stay are finally changing behavior," he said. Gas had already hit $3.22 – though it would fall about $1.40 per gallon later in the year.

ABC's Dan Harris followed on May 17 with another prediction of doom that was safer than most such warnings, because it might take years to prove it right or wrong. "People who study the oil industry say the summer road trip may be going the way of the Edsel," cautioned Harris.

Harris was more specific and more obviously wrong just two days later. "So when will the price of gas come down?" he asked. "Well, one analyst told me today maybe July or August, toward the end of the summer driving season. But the price will probably never go back down to the $2.35 that made so many people so angry three years ago as we saw at the top of the broadcast." Never came early in 2008 – on Nov. 6 when gas hit $2.34.

But ABC wasn't through. On July 11, "World News with Charles Gibson" namesake Charles Gibson said $4 was the new floor for prices. "We told you earlier that crude prices hit another new record today, which has analysts warning that $4 a gallon gas may become a permanent fact of life." Gas prices began to decline just a week later and dropped below $4 a gallon before the month was out.

Gibson wasn't ABC's only host to make dramatic predictions. Evening show host George Stephanopoulos stirred fears of a 72-percent price spike in a June 26 report. "Now to the economy. And here's a number for you. $7 a gallon. That stunning new prediction on gas prices rocked the markets today," he told viewers.

Both other major networks reported similar outlandish claims. During a May 21 NBC appearance, CNBC's Jim Cramer, responded to the idea that gas might hit $12 a gallon. "I think that $12 isn't in the cards. I do see $5 to $6 a gallon by end of the summer," he explained.

CBS "Evening News" anchor Katie Couric made two predictions that will take until 2010 to prove right or wrong. "And a new energy report predicts $200-a-barrel oil in two years. Now, if that happens, gas would likely go up to $7 a gallon, and that would have an enormous impact on the way we live," she said on June 26.

While ABC was wrong 60 percent of the time, it did take pains to correct the record as prices dropped. An Oct. 14 report explained how wrong analysts had been. Correspondent Sharyn Alfonsi showed the flawed reporting for what it was. "As oil prices skyrocketed this summer, analyst after analyst predicted the worst," Alfonsi said. She detailed how markets changed behavior, explaining that prices fell because of a drop in demand. "Today, many analysts see the barrel as 'half-full.'"

Government predictions didn't fare any better. ABC's Gibson cited one example on July 8 that proved almost instantly wrong. "Tonight, the government says gas prices are gonna keep going up and up and up. Right through Election Day," said Gibson. Gas prices dropped within a week.

Even when oil reached the pinnacle of its meteoric rise, analysts were still wrong about its peak price. NBC's Jim Forman made two mistakes in his June 7 report. "Analysts now say it's only a matter of time before oil hits $150 a barrel. Here at the pumps, that translates into $5 gas," he explained. Oil hit $147, not $150 and gas never came close to $5. Economy.com's Mark Zandi made a similarly inaccurate prediction on ABC June 8 about gasoline. "It will be at $4.50 by July 4th." He was off by nearly 10 percent.

Even when the predictions were right, they often understated price moves. Two CBS appearances by oil expert Phil Flynn of Alaron Trading Corp. underline that reality. On Aug. 5, Flynn was optimistic that prices would drop. "We could see this market fall as fast as it rose, maybe even faster." But he didn't vaguely foresee how far. "And so if we keep our fingers crossed, you know, maybe we'll be talking about $3-a-gallon gasoline again and we could be talking about $90-a-barrel crude," he added.

As prices fell, Flynn returned on Oct. 20 to revise his predictions and again understate how far the prices would fall. "If OPEC, you know, stands out of the way, you know, we could have been talking about gasoline at $2.50 a gallon nationwide. Right now, even if OPEC cuts production, I think we'll see gasoline prices get near $2.75," Flynn concluded. Even his lowest estimate was nearly $1 too high.

Was President Bush a Big Factor in Lower Prices?

Did President George Bush help spur the huge drop in oil and gas prices? We might never know. But here are the facts. Bush had argued for increased domestic oil production, though he got nowhere with Congress. On July 14, Bush issued an executive order ending the prohibition against offshore drilling.

Oil closed at $145 that day and promptly started dropping. In a week, $14 had been shaved from the cost of a barrel. In two weeks, that rose to $20. By the presidential election, oil had fallen more than 50 percent and was still dropping, to end close to $50 a barrel by Nov. 30 – a 66-percent decrease.

Only GOP presidential candidate Sen. John McCain credited Bush with any impact on prices. On the July 23 CBS "Evening News," McCain said the Bush plan was a success. "The president of the United States announced that we would be – a week or so ago – that we would be lifting the moratorium on offshore drilling. The price of oil dropped $10."

Journalists ignored it. Out of 548 stories, no journalist credited the Bush move with a positive impact on prices. NBC "Nightly News," came closest. Correspondent John Yang reported on the issue the day after Bush ended the moratorium on offshore drilling. Bush, he said, "beat the drum again on offshore oil drilling. There's no quick fix to high gas prices, he said, but more drilling would, as he put it, change the psychology of oil markets by promising more supply."

That report left out how Bush had moved to end the moratorium, leaving further action on the topic to Congress. But even the July 15 Washington Post admitted "Bush's move carries symbolic and political significance."

ABC's reporting on the plan to drill didn't even agree with itself. On June 18, ABC "World News with Charles Gibson," said increasing the oil supply could impact prices. "Just the expectation of increasing domestic production at a time of tight supplies could drive down prices," said reporter Betsy Stark.

Just four days later, Lara Setrakian said plans by Bush to open the continental shelf to drilling would have no effect. "Analysts say that even if the continental shelf is open to drilling, that would not reduce prices in the short term," she told viewers.

A Bad News, Bad News Story

Oil and gas prices were among the most reported stories in 2008. But as the negative news about gas and oil evaporated, so did the news coverage.

Journalists focused mostly on the negative news from the price increases. When those same concerns went away and gas prices hit a four-year low, network news shows sliced their reporting more than 50 percent.

Early in the year, negative news about energy was a staple of evening news shows. Viewers were told how cities were going to four-day work weeks to survive the gas crunch. NBC started a series called "Running on Empty" to detail how Americans were coping with mega-prices.

Viewers were constantly told how outrageous gas prices had become and how it had rippled into other prices – especially food. At the same time, it could always be worse. On June 1, the first day of Hurricane Season, NBC's Lester Holt warned the nation was "one powerful storm away from another big shock at the pump."

Even as recently as September 10, NBC was cautioning about the harm gas was having on schools. NBC's Brian Williams detailed how one Rhode Island school district was paying $50,000 more than last year. "Think about the cost of just moving students to school on field trips, teachers' commutes. It all costs more these days," he said.

Only it didn't cost much more, much longer.

Each network repeated the theme. Over at CBS, Hari Sreenivasan's June 9 report explained that "getting to work has been getting too expensive." Sreenivasan told viewers how in the South and Midwest "fuel prices can eat up about 15 percent of a family's budget."

But fuel prices were only news when they were high. When prices first returned to recent levels and soon surpassed them, journalists turned to other downbeat topics such as Wall Street.

With a few notable exceptions, the networks mostly ignored lower gas prices and their positive impact on consumers. ABC's Gibson made the impact clear on Oct. 14. "There is good economic news to report tonight, that affects almost every American. It is the price of gas, which fell dramatically," he said.

In two separate October reports, NBC found room for the good news. Reporter Trish Regan told her Oct. 11 viewers the advantages of the decline in oil prices. "All of this is very good news for consumers at home because it means lower prices at the gas pumps, lower home heating costs." She added, "Maybe a little extra money in everyone's pockets as we head into the holiday shopping season."

One week later, on Oct. 18, analyst Scott Cohn gave the dollars and cents. “Moody’s estimates every $1 drop in the price of oil saves consumers $1 billion.” That means the decline in oil has saved U.S. consumers nearly $100 billion in just four months.

Conclusion

Oil and gas stories have long been a media staple. In the last four years, as the price of both commodities has risen significantly so has media attention. The increased focus has given rise to all manner of inaccurate stories and misreporting. So-called “record” highs were reported for years – incorrectly. Some reports even gave serious treatment to the theory that the drop in gas prices prior to the 2006 election was somehow an oil company conspiracy.

But the 2008 experience was much different. Certainly, there were inaccuracies. The journalistic reliance on predictions that turn out to be incorrect was one major phenomenon. While all three networks ran stories of predictions that turned out wrong, only ABC made a point of correcting the record. The bottom line was troubling: the “news” media had no understanding of the oil industry, period.

The big oil and gas story of 2008, however, was a classic case of how journalists only dwell on bad news. Just as Iraq War coverage has declined since “the surge” helped conditions improve, oil and gas stories declined precipitously as prices dropped. When oil and gas skyrocketed in May, June and July, journalists reported 272 stories involving those two topics. As the price dropped like a stone in September, October and November, the number of stories was cut in half.

But the newsworthiness of the story was equal. When prices went up, journalists made a compelling and accurate case that the story had sweeping impact on the U.S. and global economies. A hike of more than a dollar per gallon from February to July meant that gas prices for ordinary Americans were a struggle. The pain rippled through the economy into everything reliant on gas and oil. Food prices went up and so did just about everything else. Workers began to telecommute or use mass transit and employers – even major cities – switched to four-day work weeks.

If high costs had such real, dire consequences, the decline in gas prices had the equally real positive effect on all of those concerns. Despite other economic worries, ordinary employees could get to work without emptying their wallets. The supply of goods was no longer strained by excess energy costs. And as a nation prepares for winter, the high price of fuel won’t keep homes dark and cold.

Journalists told only the first of those two stories with zeal. The second earned significantly less coverage. Journalists should have revisited every one of the crisis stories from the high-priced months. Truckers who struggled with $1,000 fill-ups should have been profiled as those fill-ups first became affordable and then turned cheap.

The good news of gas prices at a four-year low is the kind of consumer confidence issue that can have enormous ripple effects in a time of economic turmoil. Journalists chose to ignore those stories.

Methodology

The Business & Media Institute analyzed every “gas” or “oil” story from February 11, when, at $2.95, gas prices began the climb to their July peak, to November 30, when gas had lost more than $2 per gallon from the record high. Only stories where oil or gas prices received a casual mention were excluded from the study.

All gas or oil predictions were tallied and any that had a discernable result were included in that section’s tally. Predictions with longer time horizons or that had a vague result were not included as either right or wrong,

Recommendations

BMI has four recommendations to help the media improve energy coverage in the future:

- **Beware Predicting the News:** Journalists aren't fortune tellers. They are supposed to report the news in a neutral fashion. When they or guests make predictions, they should do as ABC did and point out how wrong, or right, they prove to be.
- **Be Consistent:** Hyping high oil prices one day and discussing a drop in gas prices the next is confusing to viewers. Network news shows should create a consistent template and include both pieces of news and show them regularly whether they are up or down.
- **Follow up the Story:** High gas and oil prices have a sweeping negative impact on the economy and are newsworthy. Similarly, a decline in those prices has a positive economic effect and is just as newsworthy. Journalists need to figure out a way to cover both.
- **Report Good News:** The theme of high energy prices was one of consistent consumer pain. High gas prices forced workers to telecommute, hiked food prices and caused a ripple effect through the economy. When gas prices plummeted, the media moved the discussion on to other negative topics – such as home foreclosures or Wall Street. When gas prices were good news, they received nowhere near the same attention they had when they were bad news.