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The future price of oil? Nobody has a clue

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Oil prices could plunge to as low as $10 per barrel. Or they could soar to an unprecedented $200 per barrel.

This is the rather wide range of estimates coming from some of the financial world's most knowledgeable forecasters. Some will turn out to be right, but many will end up being very, very wrong. Predicting something as volatile as oil prices is a fool's errand, of course, yet that doesn't stop analysts from insisting that this time, they really know what's going to happen.

History, however, shows they don't. Here, for instance, are some of the predictions from a year or so ago, for the price of West Texas crude -- the U.S. benchmark -- in 2014:

Goldman Sachs (GS): $90

Barclays (BCS): $97

International Monetary Fund: $102

West Texas crude ended 2014 at about $53, a price hardly anybody foresaw. (Prices for Brent crude, the European standard, are typically $5 to $10 higher.) A few forecasters came in below consensus, such as Citibank's (C) Ed Morse, who at the end of 2013 predicted prices of $80 a barrel from 2014 through 2020. And last May, when oil was around $100, Zach Schreiber of the hedge fund PointState

Capital declared that crude was "going lower, much lower." He didn't specify a price, though.

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Still, most predictions for future prices tend to be in the same range oil is at currently. At the end of 2013, for example, oil traded between $95 and $100, and the consensus forecast, according to Reuters, was about $97. The majority of "experts" simply predict a continuation of the status quo.

So it's not surprising most forecasters today are predicting oil prices to remain more or less where they are, which is around $52 per barrel. The recent volatility in oil markets, however, has generated an unusually wide variance among outlier forecasters, such as:

Economist Gary Shilling, who argues that most producers will continue pumping oil even at superlow prices, causing a huge supply glut that will drive prices down to $20 or even $10 per barrel.

Famed oilman T. Boone Pickens, who sees oil prices returning to typical levels of $90 to $100 per barrel within 12 to 18 months.

OPEC Secretary General Abdell El-Badr, who thinks prices could soar to $200 per barrel as many oil-producing nations fail to build new energy infrastructure, thus hampering supply.

How can these predictions be so wildly different? The answer involves two factors nobody can really predict. The first is how oil producers will react as prices hit different levels. Some will keep pumping because it's still profitable to do so, while others will stop because otherwise they'd lose money. If you're a for-profit company drilling oil, you also have to take into account how long prices are likely to stay at a given level and the costs of stopping and starting production, compared with staying in operation continuously. You also have an incentive to adopt or even invent new technology that lowers costs and allows you to profit at lower prices. Econometric models can spit out accurate price predictions based on supply patterns that occurred in the past, but not on new patterns or innovations that haven't happened yet.

The second factor may be even harder to predict: Saudi Arabia's de facto policy on pumping. The Saudis have typically reduced oil output during gluts, to keep supply tight and prices stable. During the current glut, however, they've kept pumping so as not to lose market share to new North American shale-oil producers. The Saudis could shift course and curtail production any time, without telling anybody in advance. Most current forecasts seem to assume there will be no future surprises from the Saudis—the same assumption that led to many mistaken projections in 2014.

Traders, investors and companies that consume a lot of energy — think airlines, shipping companies and manufacturers — have to make some assumption about future prices, as do consumers planning to purchase a car that might average 20 miles per gallon, or 30. The safest assumption, however, may be that nobody really knows where oil prices are headed. We may not know what oil will cost in a year, but we don't have to be surprised by big moves in either direction.

Rick Newman's latest book is Liberty for All: A Manifesto for Reclaiming Financial and Political Freedom. Follow him on Twitter: @rickjnewman.