# An alternative approach to private sector crude oil forecasting for explaining the dynamics of exploration in Canada

**Scott Legree**
**Department of Economics**
**University of Guelph**

**Abstract**

Depletion of crude oil inventories has led to a greater need for new reserve generation in the world. This paper analyses the relationship between exploration activity and the oil price in Western Canada. Firms are interested in the permanent movements in the crude oil price for the purpose of investing in exploration. I model the nominal oil price, and a state space estimate of the oil price to determine if there are statistically alternative ways of determining the permanent components of oil price movements. The results suggest that there is a positive effect of the oil price on exploration activity in Western Canada; however, the way in which the price is introduced into the equation does not seem to matter. Issues with a lack of data granularity and general data availability make it challenging to draw any conclusions regarding how Western Canadian firms are reacting to the recent rise in the nominal oil price.