

At Last, Some Good News for the Energy Market

The spot price for West Texas Intermediate (WTI), the U.S. benchmark for light, sweet crude, closed at \$59.63 per barrel on April 30. The following day, Baker Hughes reported the fleet of drilling rigs working in North America fell to 905, less than half the number of working rigs seven months ago. Both reports were good news for the industry. Oil flirting with \$60 suggests prices may be firming. A cellar-dwelling rig count should gradually force production to decline, balancing supply and demand. Energy markets welcomed these signs of hope. In April, they received several others:

- RigData reported that 2,600 fewer wells were drilled in Q1/15 versus Q1/14. Since the typical shale well delivers 70-80 percent of its production in the first year, a drop in new wells drilled portends a near-term drop in production.
- The U.S. Energy Information Administration (EIA) forecast production in the Bakken, Eagle Ford and Niobrara would drop by 70,000 barrels per day in May. These fields, along with the Permian Basin and the Utica, account for 95 percent of U.S. production growth over the past few years.
- EIA also reported that U.S. refiners have increased their crude purchases. Refinery input always slips in the spring as plants idle capacity for routine maintenance and overhauls. As the summer driving season approaches and repairs are completed, refiners ramp up their crude purchases. EIA reports that U.S. refiners' demand for crude rose by more than 900,000 barrels per day in late April.
- The inventory build at Cushing, Oklahoma, appears to be slowing. From December through March, inventories grew by an average of 2.1 million barrels per week. The pace slowed to 1.0 million barrels in mid-April. In the week ending April 24, inventories actually fell by half a million barrels.
- In its April Short-Term Energy Outlook (STEO), EIA forecast U.S. production to decline May through September before growth, fed by higher oil prices, resumes in October. EIA projects U.S. production will average 9.2 million bbl/d in 2015 and 9.3 million bbl/d in 2016.
- Though supply and demand have a more sustainable impact on prices, the escalating violence between Saudi Arabia and Yemen, Iran's reported firing of shots across the bow of a cargo ship near the Strait of Hormuz, and the continued civil unrest in Libya and Iraq has also helped boost crude prices.

If history is a guide, the North American rig count may also be approaching a bottom. Since 1990, the industry has experienced five down cycles in which the rig count has fallen by 40 percent or more. The sharpest decline occurred from September 2008 to June 2009 when the rig count fell 56.9 percent. The current rig count needs to lose only 74 more rigs to equal the worst percentage decline in the past 25 years.

Over the past few months, many exploration firms have drilled wells but chosen not to complete them, essentially storing oil in the ground until crude prices rose and fracking

costs fell. Now, at \$59 per barrel, a well producing 1,000 barrels per day—typical for an Eagle Ford well—generates \$16,000 more per day in cash flow than it did in mid-March, or nearly \$500,000 more per month. Furthermore, completion costs are down by 10-30 percent. Tudor, Pickering & Holt notes that every 10 percent reduction in well costs lowers the breakeven point of a well by \$5 a barrel. Of course, this figure will vary by well, formation, and the company's internal cost structure. Halliburton estimates as many as 4,000 wells in North America await fracking, about two-thirds of them in Texas. This "fracklog" is a mixed blessing. On one hand, it represents much needed business for oil field service companies. On the other hand, it represents an additional 400,000 to 500,000 additional barrels of daily production that would delay the market's recovery.

Negotiations with Iran might further complicate the situation. Iran is believed to hold at least 30 million barrels in storage, and EIA believes that the nation has the technical capability to ramp up crude oil production to at least 700,000 bbl/d by the end of 2016. The pace and magnitude at which those volumes reach the market would depend on terms of the final agreement.

| STEEPEST DROPS IN THE NORTH AMERICAN RIG COUNT- 1990 TO THE PRESENT | | |
|--|------------------|------------------|
| Time Frame | Rigs Lost | % Decline |
| Dec 1990 –Jun 1992 | -583 | -49.4 |
| Sep 1997 –May 1999 | -520 | -51.2 |
| Jul 2001 –Apr 2002 | -555 | -42.9 |
| Sep 2008 –Jun 2009 | -1,155 | -56.9 |
| Sep 2014 –Apr 2015 | -922 | -53.1 |

Job Growth Weak, But Still Positive

Metro Houston created 82,500 jobs in the 12 months ending March 2014, a 2.9 percent increase. A look at the monthly data is more telling. The region created 5,500 jobs in March, the second weakest March for job growth in the past 15 years. If not for strong growth in May, September and October last year, the running 12-month total would be significantly lower. As Houston moves further into 2015, when more layoffs are anticipated, the 12-month total undoubtedly will trend downward.

Layoffs announced to date in the energy industry have finally begun to appear in the employment data. In March, mining and logging (which in Houston is mainly oil and gas) lost 700 jobs. Wholesale trade, which is closely linked to oil and gas, lost 2,200. Business and professional services, which includes engineering, was essentially flat. Employment services, the sector responsible for temporary and contract workers, fell by 1,800 jobs in March and by 10,500 since August 2014.

The crash in oil prices has impacted local employment in oil and gas, but not to the extent one would imagine from commentary in the national media. The Wall Street Journal and Bloomberg have reported industrywide layoffs of 100,000 and 140,000 respectively, their figures likely derived from adding up all the announcements that have appeared in their publications. To put those numbers in perspective, the U.S.

Bureau of Labor Statistics reports that U.S. employment in oil and gas extraction totaled 201,900 in December 2014. BLS also reports the industry has lost 5,100 jobs since then.

The discrepancy suggests layoffs have been announced but not taken place yet, have taken place outside the U.S., or have been overstated by the media. Simmons & Co. notes that work-force cuts already have reached the point where the industry would have difficulty handling a sudden increase in demand. This situation suggests that late 2015 or early 2016 will see less pressure to control costs by reducing payroll, and that employment growth may return.

Recruiting at Offshore Technology Conference

When oil prices were hovering around \$100 a barrel, GE Oil & Gas pulled out all the stops to lure top talent at the Offshore Technology Conference. It hosted a "speed networking" event for college students to meet GE executives. It invited midcareer prospects to lunch. But this year? GE directs job seekers to a reception desk where employees offer a sheet of job openings in the United States. No private recruiting lounges, speed networking, or on-site interviews.

After a couple of years of frantic recruiting at OTC, companies are pulling back as oil prices have fallen. Instead of hiring, many are focused on paring their payrolls. But job seekers have been out in force at OTC this week, looking for chances to connect with recruiters and get a leg up on the competition in a tighter energy job market.

FMC Technologies still has the touchscreen job board it launched two years ago when it devoted 25 percent of its booth to recruiting. It used the board, along with roaming employees with iPads connected to the company's job site, to boost its talent search. This year the company is focused more on downsizing. In March, it announced it was cutting 20,000 jobs, or about 10 percent of its global workforce.

On Thursday, OTC is opening its doors free of charge to job seekers, the first time it has waived its fees for that purpose. It is also hosting seminars on networking and entrepreneurship. To capitalize on that day set-aside for job seekers, Siemens will have a recruiter on site at its booth from 10:40 a.m. to 2:00 p.m. to meet with potential candidates. Recruiters for engineering and construction company McDermott know the oil market will recover eventually and they want to be ready to go when it does. Their booth features a special career corner staffed with recruiters, just as it did when oil prices were higher. After the oil bust of the 1980s, companies had trouble finding talent when prices rebounded because engineer, geologists and project managers had moved on to more stable industries.

More Job Cuts Hit Houston Companies

Job cuts are prevalent across the board at Houston energy companies. Whether it's manufacturing, construction, or E&P, firms are dealing with less demand for services amid tumbling oil prices. Here are some of the latest numbers.

- Schlumberger revealed in its first-quarter earnings report it has cut 11,000 jobs in addition to 9,000 cuts announced in January. The world's largest oilfield services provider reported its lowest first-quarter profit in four years, which included a \$390 million charge due to the latest round of cuts and an incentivized leave of absence program. In addition, Schlumberger will cut capital spending this year to \$2.5 billion down from its previous forecast of \$3 billion.
- Halliburton revealed it has cut 10 percent of its global workforce, up from 6.5 percent to 8 percent it had previously announced. "Additional actions will likely be required in the second quarter, although we expect further charges will be significantly smaller," Christian Garcia, SV Finance, said in a conference call. Halliburton's earnings included more than \$1.2 billion in impairments and other charges – including a Venezuela currency devaluation loss and costs related to Halliburton's \$34.6 billion acquisition of Baker Hughes.
- Baker Hughes had previously estimated 7,000 job cuts but now that number is up to 10,500, the company revealed in its first-quarter earnings report. It took a \$573 million restructuring charge related to job cuts and other cost cutting – it closed or consolidated 140 facilities during the first quarter. Earlier this month, it permanently closed its office in Bryan, Texas. The moves are expected to reduce costs by \$700 million a year.
- Weatherford International plans to cut 18% of its workforce this year. So far, the energy services giant has reduced headcount from 56,000 at the start of the year to 49,000 at the end of the first quarter. When all of the cuts are done, Weatherford expects to have 39,000 employees in its core business and 6,000 rig employees.
- Linn Energy LLC, a Houston-based upstream company, will eliminate 52 jobs in Colorado when it shuts down its Denver office.
- Nabors Industries Ltd. has cut 5,500 jobs since the end of last year. Nabors, which is based in Bermuda but operates out of Houston, had 29,000 employees worldwide as of December 31, including 4,300 who were employed by unconsolidated affiliates. Since then, it has reduced its global workforce by more than 18 percent. That includes a 41 percent reduction in the company's U.S. drilling segment and a 26 percent reduction in its Canada segment.
- GE Oil & Gas is cutting 149 jobs in Lufkin, Texas. The jobs include manufacturing, sales/services, human resources, sourcing materials, finance, administrative, engineering, and other employees. Florence, Italy-based GE Oil & Gas, which has its regional headquarters in Houston, acquired Lufkin Industries in 2013 for \$3.3 billion.
- Chicago Bridge & Iron Company NV, Netherlands-based firm with operational headquarters in The Woodlands, cut 322 jobs in Texas. Dallas-based Luminant discontinued its contract with CB&I for Luminant's Comanche Peak Nuclear Power Plan in Glen Rose. Luminant awarded the work to another contractor, and many of the affected CB&I employees may be offered employment with the new contractor or with Luminant Comanche Peak directly.

U.S. Economy Barely Grew in First Quarter

Repeating an all-too-familiar pattern, the American economy barely grew during the first three months of the year, but the Federal Reserve said it expected growth to

rebound, suggesting that it still intends to start raising its benchmark interest rate this year. Despite the Fed's optimism, a number of Wall Street forecasters cut their estimates for second-quarter growth as they concluded that the weakness, caused in part by cold weather but also by cautious consumers and the strength of the dollar, could linger. The Commerce Department report helped push the stock market lower. Wall Street, trading close to record levels, is struggling to maintain its upward momentum at the start of the seventh year of a bull-market run. "The U.S. economy stumbled badly in the first quarter", said Scott Anderson, chief economist at Bank of the West in San Francisco. "Modest growth in the fourth quarter of 2014 turned into virtually no growth in the first quarter of 2015." Weak winter growth has become a hallmark of the post-recession economy. The gross domestic product expanded just 0.2 percent during the first quarter, according to an initial government estimate. Strong job growth during the first two months of the year was followed by a disappointing increase of 126,000 jobs in March, and the Fed, in a statement after a two-day meeting of its policymaking committee, said labor market conditions had not improved over the last year.

Sources: Greater Houston Partnership; Houston Chronicle; Houston Business Journal