

Oversupply Of Oil And Gas Creates Decline In Industry In 2015

The oversupply of crude oil and natural gas dropped commodity prices in January to levels not seen in 15 years. As prices declined in Texas, so did the rig count, drilling permits, well completions, and employment.

And the pain is not over, according to Petroleum Economist Karr Ingham, who presented his summary of oil and gas activity in 2015 in Houston on Jan. 26.

“Texas wells yielded an estimated 1.27 billion barrels of crude oil in 2015,” Ingham said, “and that will be a record.”

As 2016 begins, Ingham sees a global market glutted with supply--crude production at unexpectedly elevated levels, large volumes of crude in storage, and the imminent return of Iranian oil to the marketplace. “At this point,” he said, “it seems quite safe to assume the Texas Petro Index will remain in decline for at least the first half of 2016 and perhaps most of the year.”

The first sign of recovery will be significant production decline in Texas and the U.S. “The pace of production decline in Texas and the U.S. should accelerate in 2016, and when that begins to occur, we should start watching for crude oil in storage in the U.S. to decline on a real and sustained basis, not just seasonally,” Ingham said.

The Texas Petro Index, which declined 38 percent in 2015, shows that virtually every economic indicator for the oil and gas industry in Texas in 2015 is down.

- The statewide working rig count averaged 430, 51.3 percent less than in 2014 when on-average 882 rigs were drilling.
- The Texas Railroad Commission issued 10,549 drilling permits, 59.1 percent fewer than in 2014, when 21,792 permits were granted.
- Producers recovered an estimated 1.267 billion barrels of crude oil, an 11.5-percent year-over-year increase and the eighth consecutive year in which statewide production increased.
- With crude oil wellhead prices declining 49.3 percent to average \$45.35/bbl, the estimated value of Texas-produced crude oil declined 43.1 percent to about \$57.5 billion.
- With natural gas prices declining 20.5 percent to average \$3.45/Mcf, the estimated value of Texas-produced natural gas decreased 39.5 to an estimated \$22.4 billion.
- About 263,105 Texans on average were employed in the oil and gas production, drilling and service sectors, about 60,000 (10.9 percent) fewer in 2014.

The crisis has been building momentum for 18 months, and Ingham said there is little indication that demand will turn around soon. On the crude oil side, the economy of the U.S. and European countries has languished since the recession of 2008. Economic growth has slowed in China and India. Natural gas demand has increased recently with the arrival of in cold weather in the Midwest and Northeast.