News Release
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TENTH DISTRICT ENERGY ACTIVITY FELL AGAIN, OUTLOOK DETERIORATED FURTHER
Federal Reserve Bank of Kansas City Releases 4th Quarter Energy Survey

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the 4th quarter Energy Survey today. According to Chad Wilkerson, vice president, economist, and Oklahoma City Branch executive at the Federal Reserve Bank of Kansas City, the survey revealed another sizable decline in Tenth District energy firm activity.

"Firms reported another bad quarter and are expecting further cutbacks in 2016," said Wilkerson. "Most respondents also expect a large increase in bankruptcies and merger activity this year."

The Kansas City Fed's quarterly Tenth District Energy Survey provides information on current and expected activity among energy firms in the Tenth District. The survey monitors oil and gas-related firms located and/or headquartered in the Tenth District, with results based on total firm activity. Survey results reveal changes in several indicators of energy activity, including drilling, capital spending, and employment. Firms also indicate projections for oil and gas prices. All results are diffusion indexes – the percentage of firms indicating increases minus the percentage of firms indicating decreases. A summary of the 4th quarter survey is attached. Results from past surveys and release dates for future surveys can be found at https://www.kansascityfed.org/research/indicatorsdata/energy.

The Federal Reserve Bank of Kansas City serves the Tenth Federal Reserve District, encompassing the western third of Missouri; all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming; and the northern half of New Mexico. As part of the nation's central bank, the Bank participates in setting national monetary policy, supervising and regulating numerous commercial banks and bank holding companies, and providing financial services to depository institutions. More information is available online at www.kansascityfed.org.

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Tenth District Energy Survey

Federal Reserve Bank of Kansas City

Energy Activity in the Tenth District Fell Again in the Fourth Quarter

Fourth quarter energy survey results revealed another drop in activity among District energy firms. The outlook for future activity also continued to decline. Firms on average projected WTI prices to be $50 per barrel by year-end 2016 and $60 by year-end 2017. Firms indicated that on average $60 per barrel was needed to increase drilling. Most firms expected a large increase in mergers and acquisitions and defaults/bankruptcies in 2016.

Summary of Quarterly Indicators

Energy activity in the District dropped further in the fourth quarter of 2015, as reported by firms contacted between December 14 and 31 (Table 1). The drilling and business activity index tumbled from -37 to -53, and the total revenues index fell to -79 (Chart 1). The employment index declined from -39 to -47 but employee hours remained flat. The wages and benefits index fell modestly.

Year-over-year activity continued to be drastically lower. The drilling and business activity index was mostly unchanged at -82. Revenues fell further from one year ago. The employment index sank to -53. However, the employee hours index rose moderately but stayed negative. The capital expenditures index increased from -82 to -66.

Expectations declined again in the fourth quarter. The future drilling and business activity expectations index decreased from -24 to -39, and the future revenues index dropped to -53. Expectations for future employment fell to -47, and the future employee hours index slumped further. The wages and benefits index fell modestly. The future capital spending index tumbled to -58. Access to credit was also expected to be moderately tighter.

Oil and gas price expectations for the next six months fell into negative territory. The expected oil prices index dropped from 18 to -8, suggesting that firms expected prices to continue falling over the coming months. The expected natural gas and NGL price indexes both declined to -13.

Summary of Special Questions

Firms were asked what oil price was needed for drilling to increase substantially. The average price was $60 per barrel, with a range of $45 to $75 (Chart 2). This was down moderately from the average of $73 reported in the second quarter of 2015.

Firms were also asked what they expected the WTI price to be at the end of 2016 and 2017. The average expected year-end 2016 WTI price was $50. This was down from the $58 average expected in the third quarter, and also significantly lower compared to the second quarter's $70 average. Firms projected an average price of $60 by year-end 2017.

Firms were also asked by how much their number of employees had changed over the past 12 months and were expected to change in the next 12 months. For the past 12 months, over half of firms reported employment being down more than 10 percent (Chart 3). In the next 12 months, most respondents projected employment to be down, but by somewhat less than in the previous 12 months.

Firms were asked how they expected mergers and acquisitions (M&A) and defaults/bankruptcies to evolve in 2016 and why. Overall, M&A activity and defaults/bankruptcies were expected to increase considerably, especially defaults/bankruptcies (Chart 4). Several respondents stated that large debt loads would limit M&A activity and would instead lead more firms to defaults/bankruptcies.

Firms were also asked what their biggest concern for the first half of 2016 was. Most firms said continued low oil and gas prices and the downside effects on cash flows, employment, capital spending, and credit.

Finally, firms were asked about their fall bank borrowing base redetermination outcome. Half of the firms reported that redeterminations went as expected while the other half reported that credit was cut less than expected. Several firms mentioned that the spring redetermination would see larger cuts if commodity prices do not increase.

Selected Comments

“Small independent companies continue to shut down and leave the market with no replacements willing to come in. Most pressing is the experienced drillers and their crews who have been let go.”

“We are managing our organization amidst low cash flow. We are belt tightening and trying to forestall significant job cuts.”

“We could see more credit line reductions in first half of 2016. Depends on prices, banks will react to price changes but do not want to control assets.”

“US supply will continue to decline due to reduced spending. World supply/demand balance is forecast to occur by the end of 2017.”

“Supply is not dropping fast enough and demand is not growing fast enough.”

“The credit squeeze on smaller producers may lead to more defaults/bankruptcies. Also previous placed hedges are rolling off and cash flow from 2016 hedges will be less than 2015.”

“Continued low commodity prices will eventually force credit downgrades and further reduction in spending. This will impact the industry’s ability to replace reserves and put added pressure on jobs.”

“Oil and gas prices have further weakened, making it necessary to slash capital expenditures and manage overhead.”

“Banks will want companies to sell assets and reduce debt levels as the year progresses. Still seems to be considerable amount of private equity available, this money will be able to purchase assets cheaply in 2016.”

“Spring borrowing base redetermination might be the event that triggers industry consolidation. The end of year reserve reconciliation (particularly as it relates to the SEC allowance of Proved Undeveloped Reserve bookings) may also be a trigger event.”

Table 1
Summary of Tenth District Energy Conditions, Quarter 4, 2015

	Quarter 4 vs. Quarter 3 (percent)*				Quarter 4 vs. Year Ago (percent)*				Expected in Six Months (percent)*			
Energy Company Indicators	Increase	No Change	Decrease	Diff Index^	Increase	No Change	Decrease	Diff Index^	Increase	No Change	Decrease	Diff Index^
Drilling/Business Activity	8	26	61	-53	0	11	82	-82	8	37	47	-39
Total Revenues	0	13	79	-79	0	8	87	-87	11	21	63	-53
Capital Expenditures					8	5	74	-66	5	18	63	-58
Supplier Delivery Time	8	68	13	-5	21	45	24	-3	11	55	18	-8
Total Profits	5	13	79	-74	0	8	87	-87	11	13	68	-58
Number of Employees	5	39	53	-47	13	16	66	-53	3	39	50	-47
Employee Hours	5	47	42	-37	11	34	47	-37	3	45	39	-37
Wages and Benefits	0	63	32	-32	13	42	37	-24	8	47	32	-24
Access to Credit	3	45	50	-47	3	37	55	-53	5	45	42	-37
Expected Oil Prices									26	32	34	-8
Expected Natural Gas Prices									18	39	32	-13
Expected Natural Gas Liquids Prices									21	32	34	-13

*Percentage may not add to 100 due to rounding
^Diffusion Index. The diffusion index is calculated as the percentage of total respondents reporting increases minus the percentage reporting declines.

Note: The fourth quarter survey ran from December 14-31, 2015 and included 38 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

Chart 1. Drilling/Business Activity Index vs. a Quarter Ago

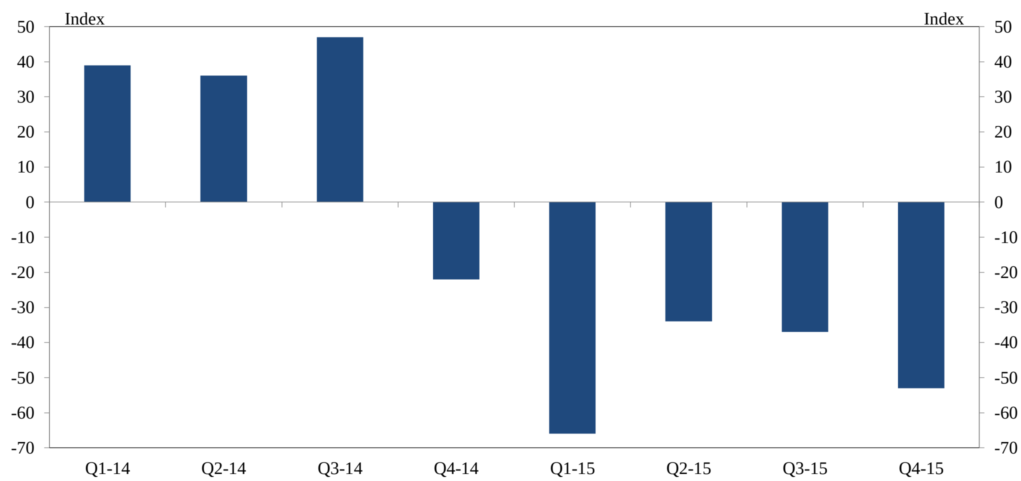

Table 2
Historical Energy Survey Indexes

	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15
Versus a Quarter Ago								
(not seasonally adjusted)								
Drilling/Business Activity	39	36	47	-22	-66	-34	-37	-53
Total Revenues	33	57	70	-41	-81	-44	-55	-79
Supplier Delivery Time	-3	10	-13	4	-3	9	5	-5
Total Profits	30	33	46	-40	-78	-53	-58	-74
Number of Employees	42	27	40	0	-25	-37	-39	-47
Employee Hours	18	13	33	-18	-41	-19	-37	-37
Wages and Benefits	45	33	44	11	0	-16	-29	-32
Access to Credit	6	13	14	-11	-16	-9	-39	-47
Versus a Year Ago								
Drilling/Business Activity	24	17	47	-19	-59	-66	-84	-82
Total Revenues	48	57	57	-4	-66	-62	-79	-87
Capital Expenditures	18	26	46	-11	-62	-56	-82	-66
Supplier Delivery Time	-3	10	-13	8	9	-3	-16	-3
Total Profits	36	44	53	-15	-72	-84	-82	-87
Number of Employees	33	27	60	34	-12	-28	-45	-53
Employee Hours	18	10	30	4	-37	-34	-50	-37
Wages and Benefits	51	37	60	37	3	-25	-24	-24
Access to Credit	3	10	23	-22	-37	-28	-37	-53
Expected in Six Months								
(not seasonally adjusted)								
Drilling/Business Activity	33	50	40	-70	-50	16	-24	-39
Total Revenues	51	67	60	-56	-41	16	-32	-53
Capital Expenditures	18	26	40	-59	-62	-3	-37	-58
Supplier Delivery Time	-3	4	-10	15	9	-9	-3	-8
Total Profits	45	53	57	-70	-50	-3	-34	-58
Number of Employees	39	47	56	-23	-28	-6	-32	-47
Employee Hours	27	23	37	-44	-22	0	-21	-37
Wages and Benefits	30	30	66	-8	-25	6	-13	-24
Access to Credit	12	23	23	-37	-19	0	-29	-37
Expected Oil Prices	3	23	-23	-48	3	31	18	-8
Expected Natural Gas Prices	21	30	36	-26	-19	16	11	-13
Expected Natural Gas Liquids Prices	24	24	-3	-37	-12	9	5	-13

Chart 2. Special Question - What price is currently needed for a substantial increase in drilling to occur, and what do you expect the WTI price to be at the end of 2016 and 2017?

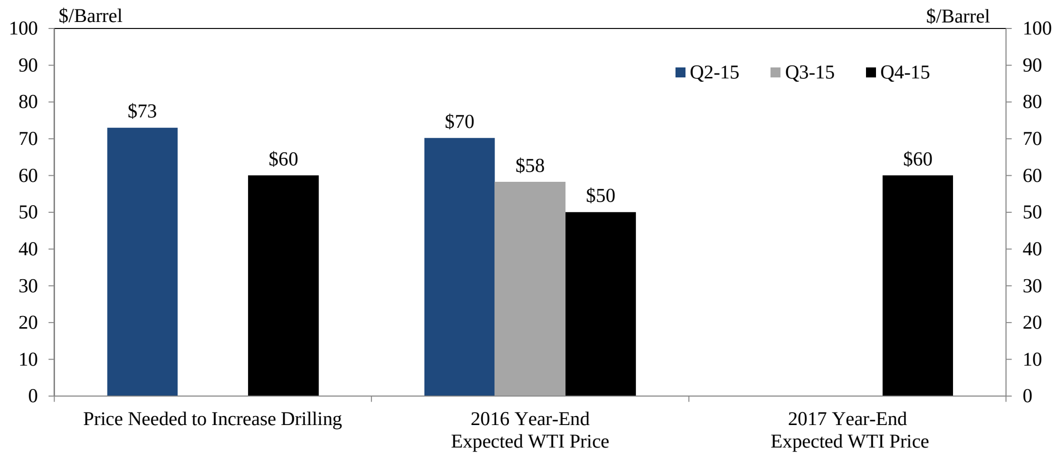

Chart 3. Special Question - By how much have you changed your number of employees over the past 12 months and what is expected in the next 12 months?

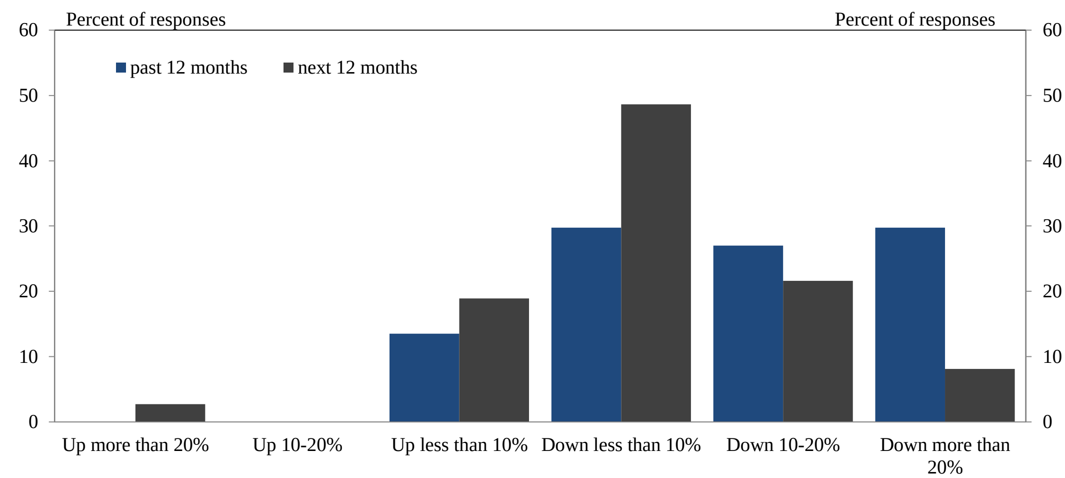

Chart 4. Special Question - How do you expect mergers and acquisitions (M&A) and defaults/bankruptcies in the energy sector to evolve in 2016?