News Release
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TENTH DISTRICT ENERGY FIRM ACTIVITY DECLINED AT A SLOWER RATE

Federal Reserve Bank of Kansas City Releases 2nd Quarter Energy Survey

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the 2nd 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 that the decline in Tenth District energy firm activity continued but at a slower rate.

"Conditions in the energy sector weakened further in the second quarter, but expectations stabilized somewhat," said Wilkerson. "Still, firms on average said an oil price of $73 per barrel would be needed for a substantial increase in activity to occur, and they expected prices to stay below that level through 2016."

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 2nd 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

Tenth District Energy Activity Declined at a Slower Pace in the Second Quarter

Second quarter energy survey results indicated the decline in activity among District energy firms continued but at a slower rate. Expectations for future activity were slightly positive but cautious given commodity price concerns. Firms on average expected WTI to be $63 per barrel by the end of 2015. Heading into the second half of the year, firms were most concerned about another oil price drop.

Summary of Quarterly Indicators

District energy activity shrank at a slower pace in the second quarter of 2015, as indicated by firms contacted between June 15 and 30 (Table 1). The drilling and business activity index rose from -66 to -34, while the total revenues index picked up to -44 (Chart 1). The employee hours index also ticked up but remained negative. However, the employment index edged lower, and the wages and benefits index decreased to -16.

Compared to last year, activity tapered further in the second quarter of 2015. The drilling and business activity index fell from -59 to -66. Total revenues were also significantly lower than a year ago. Employment in the sector dropped further, but contacts commented that labor was readily available as a result of the layoffs in the first and second quarters. Access to credit continued to be tighter than last year. The capital expenditures index inched higher, but remained considerably below zero.

Expectations stabilized in the second quarter survey. The future drilling and business activity expectations index rose from -50 to 16, and the future revenues index also increased to 16. Expectations for future employment remained negative, but recovered from -28 to -6, and the future employee hours index rose to 0. The wages and benefits index rose to 6. Future capital spending was still expected to tighten but only slightly, and access to credit was expected to improve marginally in the coming months.

The outlook for oil and gas prices over the next six months also improved. The expected oil prices index increased from 3 to 31, revealing that more contacts expected prices to be higher heading forward. The expected natural gas and NGL price indexes also increased back into positive territory.

Summary of Special Questions

Firms were asked what price of oil was needed for a substantial increase in drilling to occur. The average across all firms was $73 per barrel, with a range of $60 to $90 (Chart 2).

Firms were also asked what they expected the WTI price to be by the end of 2015 and 2016. The average response for 2015 was $63 per barrel, up from the $56 average response in the first quarter of 2015, but less than the $70 average in the fourth quarter of 2014. The average response for expected year-end 2016 WTI price was $70.

Firms were asked how financing from various sources had changed in recent months. Overall, private equity was more available, while financing from banks and other sources were less available (Chart 3).

Firms were also asked by how much their oil field services costs have declined since last year. The average reported decline in costs was 24 percent, with a range of 10 to 45 percent.

Firms were asked what they considered to be the biggest driver of the oil price increase during the second quarter. Over a third responded that they thought the main driver was slowing U.S. production, while increasing global oil demand and the stabilization of the dollar were also considered to have helped support oil prices.

Lastly, firms were asked what their biggest concern for the second half of 2015 was. Most firms responded that a further drop in oil prices was their biggest concern, with several citing potential slowing global oil demand growth and others concerned about the outcome of negotiations with Iran potentially increasing global supply.

Selected Comments

“Available cash flow and efficiency gains will control activity.”

“Price increases will prompt shale wells that were already drilled to be fracked.”

“Slowdown in China and rest of the world could push out a price recovery.”

“Product prices will see some moderate improvement later in the year which will begin to increase capital expenditures.”

“There has been an increase in drilled but uncompleted wells which will eventually drive business for us when completions restart.”

“Biggest concern is commodity prices leading into 2016 capital budget planning.”

“Achieving ability to export crude oil to balance Atlantic arbitrage is vital for recovery.”

“We need a continuing increase in demand after the summer driving season for oil and a warm summer with electric demand high for natural gas.”

“Concerned about a second price dip in the fall.”

Table 1
Summary of Tenth District Energy Conditions, Quarter 2, 2015

	Quarter 2 vs. Quarter 1 (percent)*				Quarter 2 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	13	34	47	-34	3	6	69	-66	31	31	16	16
Total Revenues	19	16	63	-44	6	6	69	-62	34	28	19	16
Capital Expenditures					6	22	63	-56	25	38	28	-3
Supplier Delivery Time	22	53	13	9	22	41	25	-3	3	75	13	-9
Total Profits	19	9	72	-53	3	3	88	-84	34	22	38	-3
Number of Employees	9	44	47	-37	22	16	50	-28	13	59	19	-6
Employee Hours	16	50	34	-19	13	31	47	-34	16	59	16	0
Wages and Benefits	9	66	25	-16	13	41	38	-25	19	56	13	6
Access to Credit	9	69	19	-9	3	53	31	-28	13	63	13	0
Expected Oil Prices									44	41	13	31
Expected Natural Gas Prices									28	59	13	16
Expected Natural Gas Liquids Prices									25	53	16	9

*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 second quarter survey ran from June 15-30, 2015 and included 32 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

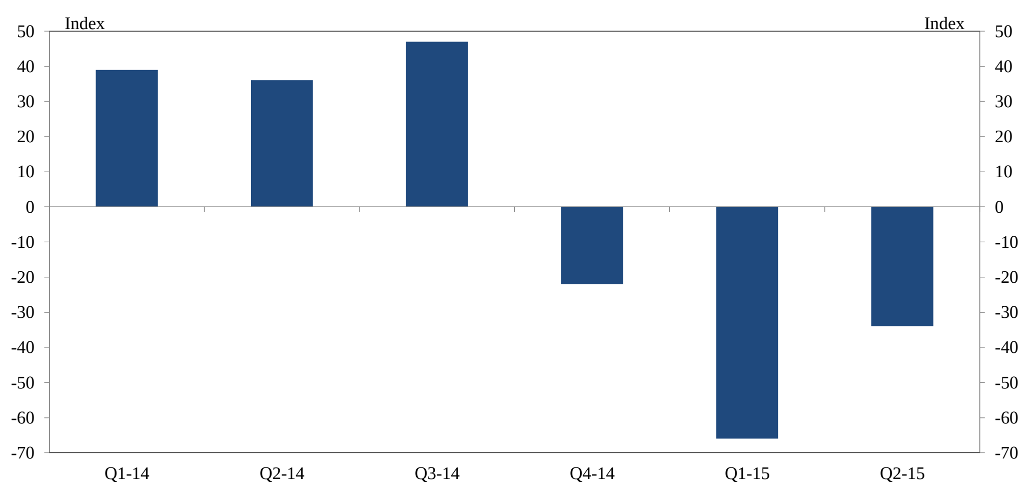

Table 2
Historical Energy Survey Indexes

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

Chart 2. Special Question - What price is needed for a substantial increase in drilling to occur, and what do you expect the WTI price to be at the end of 2015 and 2016?

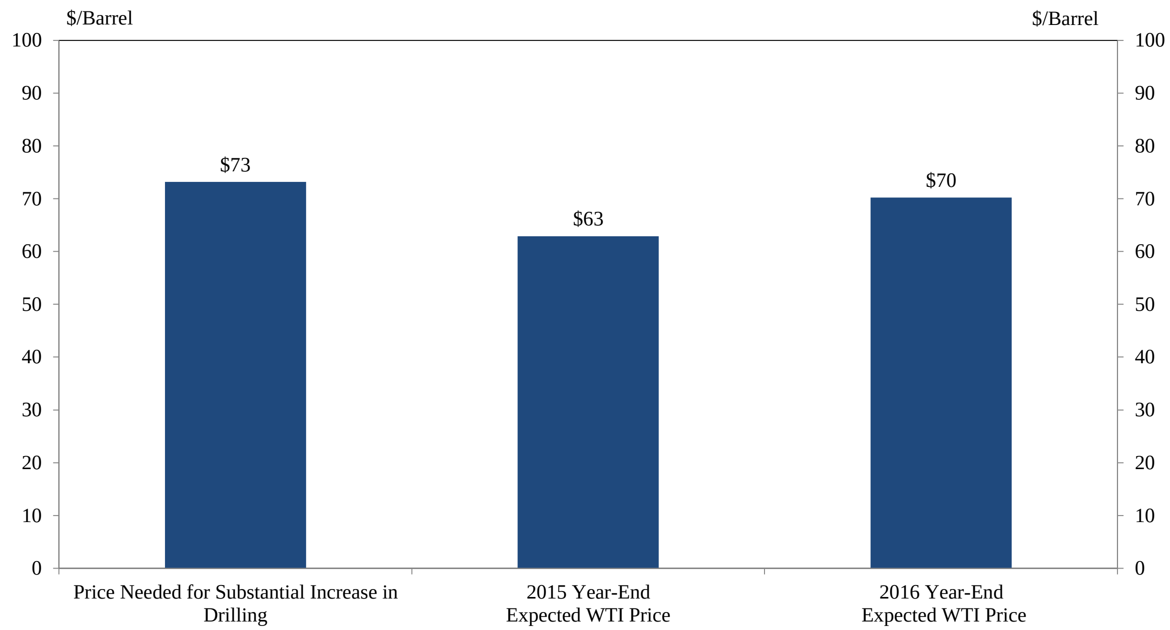

Chart 3. Special Question - Has financing become more or less available from the following sources in recent months?