News Release
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TENTH DISTRICT ENERGY FIRM ACTIVITY FELL SHARPLY
Federal Reserve Bank of Kansas City Releases 1st Quarter Energy Survey

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the 1st 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 Tenth District energy firm activity fell sharply in the first quarter and firms on average plan to cut employment by 12 percent this year.

"Firms have sharply cut capital expenditures and many are also reducing employment and hours," said Wilkerson. "However, firms' breakeven oil prices have also fallen considerably the past six months, to an average of $62 per barrel, down from $79 per barrel six months ago."

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 1st 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/index.cfm.

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

Contraction of the Tenth District Energy Sector Accelerated in the First Quarter

First quarter energy survey results showed a faster reduction in activity among District energy firms than in the previous survey. Expectations for future activity were also quite negative but slightly less so than 3 months ago. Firms on average expect 2015 employment to be 12 percent lower than in 2014. The oil price firms said they need to be profitable has decreased considerably over the past six months.

Summary of Quarterly Indicators

District energy activity fell sharply in the first quarter of 2015, as indicated by firms contacted between March 16 and 31 (Table 1). The drilling and business activity index fell from -22 to -66, while the total revenues index sank to -81 (Chart 1). The employment index moved into negative territory, and the employee hours index also dropped as many firms reduced hours and overtime. The wages and benefits index fell to 0.

On a year-over-year basis, activity was significantly lower across the sector. The drilling and business activity index plunged from -19 to -59. Similarly, total revenues were down considerably, and employment was moderately lower than the same quarter last year. The capital expenditures index dropped from -11 to -62, as sizable year-over-year capital budget cuts took effect. Access to credit was also tighter than last year.

Expectations were slightly less pessimistic than in the previous survey. The future drilling and business activity expectations index rose from -70 to -50, and the future revenues index also edged higher to -41. The employee hours index rose to -22. On the other hand, expectations for employment fell further to -28, and the future wages and benefits index tumbled to -25. Capital spending was also projected to continue declining and access to credit was expected to tighten further.

The outlook for oil and gas prices over the next six months was mixed. The expected oil prices index jumped from -48 to 3, indicating that firms expected prices to be marginally higher in coming months. The expected natural gas and NGL price indexes also rose but remained below zero, indicating expected price declines over the summer.

Summary of Special Questions

Firms were asked what their current profitable price was in the fields in which they were active, if it was down from the last six months, and why. Most contacts reported a drop in the price needed to be profitable, primarily as a result of declining drilling costs. The average price needed was $62 per barrel (with a range of $40 to $75). This is down considerably from the average of $79 per barrel reported in the third quarter 2014 survey (Chart 2). Firms were also asked what they expected the WTI price to average by the end of 2015. The average response was $56, down from the $70 average response in the fourth quarter of 2014.

Firms were also asked what their average number of employees was in 2014 and what they expected it to be in 2015. Across all firms, employment was expected to be down by about 12 percent in 2015(Chart 3). Employment at support firms was expected to be down by 19 percent, much larger than at oil and gas extraction or pipeline companies.

Firms were asked what adjustments they were making to employee hours and wages. About a third reported that hours were being reduced, mainly by eliminating overtime. Several others cited slight cuts in wages and bonuses for the year and more layoffs.

Finally, firms were again asked about recent changes in their access to credit. This quarter, half of firms reported tighter credit standards and more difficulties in finding investors. However, production firms with good balance sheets were still able to readily obtain funds.

Selected Comments

“Concentrating on maintenance work and looking for acquisition opportunities.”

“We are lowering capital spending to align with fading cash flow.”

“Oil prices need to improve in order to stimulate recovery in oilfield service and drilling activity.”

“Bank financing of projects seem to have tightened dramatically. That being said, those companies with good balance sheets seem to have the ability to raise money to buy assets at these depressed price levels. Also continuing to hear private equity has funding available for companies to buy assets as well.”

“I continue to hear that there are a lot of opportunities with private equity regarding production purchases. However with drilling rigs and other service sector companies there are no available financing of any type.”

“As service cost has decreased the profitable price has come down. Costs have come down differently across services, but overall costs have decreased approximately 10% since Q4 14 and expected to further decrease.”

“Service costs are heavily discounted in attempt to retain market share (short term response). Better completions technologies have improved production yields thus lowering the required oil threshold price.”

“We are attempting to hold wage levels flat. If we are wrong that oil prices improve late this year, we will revisit.”

“Lower number of active drilling rigs will reduce need for employee hours.”

“We are reducing overtime hours and cutting bonus awards back significantly.”

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

	Quarter 1 vs. Quarter 4 (percent)*				Quarter 1 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	9	13	75	-66	13	9	72	-59	13	19	63	-50
Total Revenues	6	6	88	-81	9	9	75	-66	16	25	56	-41
Capital Expenditures					13	6	75	-62	9	13	72	-62
Supplier Delivery Time	19	50	22	-3	25	47	16	9	22	56	13	9
Total Profits	3	6	81	-78	6	13	78	-72	13	22	63	-50
Number of Employees	16	41	41	-25	31	22	44	-12	13	44	41	-28
Employee Hours	3	47	44	-41	9	31	47	-37	13	38	34	-22
Wages and Benefits	22	50	22	0	34	31	31	3	9	53	34	-25
Access to Credit	6	63	22	-16	3	44	41	-37	9	53	28	-19
Expected Oil Prices									34	34	31	3
Expected Natural Gas Prices									9	59	28	-19
									19	44	31	-12

*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 first quarter survey ran from March 16-31, 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

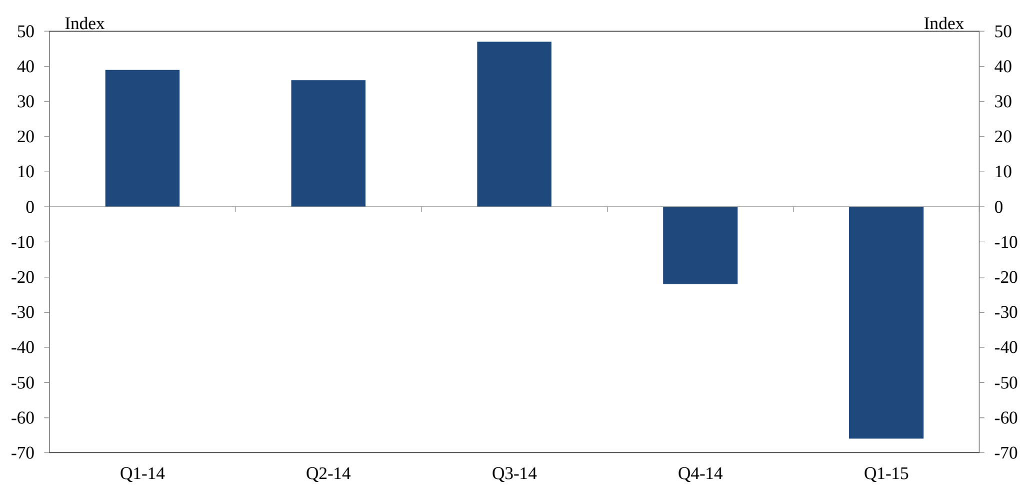

Table 2
Historical Energy Survey Indexes

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

Chart 2. Special Question - What price is currently needed for drilling to be profitable for oil in areas in which you are active, and what do you expect the WTI price to be at the end of 2015?