

# News Release

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## TENTH DISTRICT ENERGY ACTIVITY DECLINED AGAIN, OUTLOOK WORSENEDED *Federal Reserve Bank of Kansas City Releases 3<sup>rd</sup> Quarter Energy Survey*

KANSAS CITY, Mo. –The Federal Reserve Bank of Kansas City released the 3<sup>rd</sup> 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 and that financing for the sector was tightening.

“As in the spring, firms on average reported needing domestic oil prices to be around \$60 per barrel to be profitable,” said Wilkerson. “They now don’t expect that price until at least 2017 and so many are planning further capital spending cuts and layoffs.”

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 3<sup>rd</sup> 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](http://www.kansascityfed.org).

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# Tenth District Energy Survey

Federal Reserve Bank of Kansas City

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## Tenth District Energy Activity Continued to Decline in the Third Quarter

*Third quarter energy survey results indicated the decline in activity among District energy firms continued. Expectations for future activity also declined after rising in the second quarter. Firms on average expected WTI prices to be \$48 per barrel at the end of 2015 and \$58 at the end of 2016, lower than the \$60 they reported was needed to be profitable. Most firms expected capital spending and employment to be lower in 2016 than in 2015.*

### Summary of Quarterly Indicators

District energy activity posted another large decline in the third quarter of 2015, as indicated by firms contacted between September 14 and 30 (Table 1). The drilling and business activity index fell further from -34 to -37, and the total revenues index slipped to -55 (Chart 1). The employment index fell from -37 to -39 and employee hours edged down further. The wages and benefits index declined strongly.

Compared to a year ago, activity was significantly lower. The drilling and business activity index dropped from -66 to -84. Revenues were also drastically lower than last year. The employment index tumbled to -45, and the employee hours index also decreased further. The capital expenditures index fell sharply from -56 to -82.

Expectations turned pessimistic in the third quarter. The future drilling and business activity expectations index plunged from 16 to -24, and the future revenues index also decreased to -32. Expectations for future employment fell significantly from -6 to -32, and the future employee hours index fell back into negative territory. The wages and benefits index also turned negative. Future capital spending was expected to drop as firms operate within cash flows. Access to credit was also expected to be much less available.

The outlook for oil and gas prices over the next six months weakened but stayed positive. The expected oil prices index fell from 31 to 18, indicating firms expected only slightly

higher prices in the coming months. The expected natural gas and NGL price indexes both fell modestly from the previous survey.

### Summary of Special Questions

Firms were asked what their current profitable price was in the fields in which they were active. The average price was \$60 per barrel, with a range of \$50 to \$80 (Chart 2). This was down slightly from the average of \$62 reported in the first quarter of 2015 and down considerably from the \$79 average in the third quarter of 2014.

Firms were also asked again what they expected the WTI price to be at the end of 2015 and 2016. The 2015 average was \$48 per barrel, down from the \$63 average last quarter. The average expected year-end 2016 WTI price was \$58, also down considerably from the previous quarter's \$70 average.

Firms were again asked how financing from various sources had changed in recent months. Overall, financing was less available from all sources, but private equity remained most accessible (Chart 3). Respondents also commented that capital availability, particularly private equity, was expected to be adequate for firms with strong balance sheets.

Firms were asked about their capital spending plans for 2016. Capital spending was largely expected to be lower next year. Over a third responded that they planned to cut spending by more than 20 percent, and another third expected smaller declines (Chart 4).

Lastly, firms were asked what their average number of employees was in 2015 and what they expected it to be in 2016. Across all firms, employment was expected to be down by 7 percent next year. Services firms expected employment to be about 10 percent lower. Oil and gas extraction firms expected a 6 percent decline while pipeline firms expected employment to remain mostly flat.

## **Selected Comments**

“Because of low prices, several of our projects do not meet necessary hurdle rates. Since we are principally funded by equity, deployment of capital into new wells is reduced.”

“There is still a lot of equity sitting on the sidelines waiting for a strong signal that we have hit bottom and that deals are being priced accordingly.”

“The price of oil is too low to continue drilling and we don’t expect it to recover for 18-24 months.”

“We have a defensive posture with the balance sheet. We stress test every investment for commodity downside. Also dealing with increasingly hostile regulatory environment.”

“We anticipate good capital availability as long as we are conservative in our balance sheet management.”

“Capital markets, while available, are much more expensive. Bank financing has constricted so alternative financing needs are necessary.”

“Our plans are to operate within generated cash flow and adjust activity to meet this level of spending.”

“Currently maintaining as much liquidity as possible with cash on balance sheet and no draw on revolver. We expect any meaningful financing activities outside of this to be difficult in the near term and expensive even through 2016.”

**Table 1**  
**Summary of Tenth District Energy Conditions, Quarter 3, 2015**

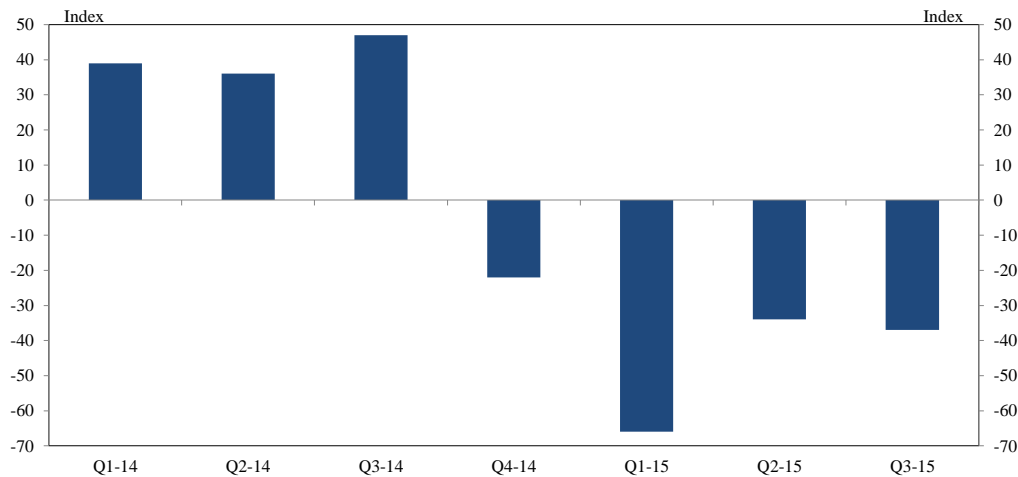
|                                     | Quarter 3 vs. Quarter 2<br>(percent)* |        |          |        | Quarter 3 vs. Year Ago<br>(percent)* |        |          |        | Expected in Six Months<br>(percent)* |        |          |        |
|-------------------------------------|---------------------------------------|--------|----------|--------|--------------------------------------|--------|----------|--------|--------------------------------------|--------|----------|--------|
|                                     | No                                    |        | Diff     |        | No                                   |        | Diff     |        | No                                   |        | Diff     |        |
|                                     | Increase                              | Change | Decrease | Index^ | Increase                             | Change | Decrease | Index^ | Increase                             | Change | Decrease | Index^ |
| Energy Company Indicators           |                                       |        |          |        |                                      |        |          |        |                                      |        |          |        |
| Drilling/Business Activity          | 13                                    | 37     | 50       | -37    | 3                                    | 3      | 87       | -84    | 13                                   | 39     | 37       | -24    |
| Total Revenues                      | 13                                    | 13     | 68       | -55    | 5                                    | 0      | 84       | -79    | 11                                   | 34     | 42       | -32    |
| Capital Expenditures                |                                       |        |          |        | 5                                    | 5      | 87       | -82    | 8                                    | 37     | 45       | -37    |
| Supplier Delivery Time              | 13                                    | 63     | 8        | 5      | 13                                   | 47     | 29       | -16    | 8                                    | 58     | 11       | -3     |
| Total Profits                       | 8                                     | 21     | 66       | -58    | 3                                    | 5      | 84       | -82    | 18                                   | 18     | 53       | -34    |
| Number of Employees                 | 13                                    | 32     | 53       | -39    | 16                                   | 18     | 61       | -45    | 8                                    | 45     | 39       | -32    |
| Employee Hours                      | 11                                    | 37     | 47       | -37    | 8                                    | 26     | 58       | -50    | 8                                    | 53     | 29       | -21    |
| Wages and Benefits                  | 5                                     | 58     | 34       | -29    | 18                                   | 34     | 42       | -24    | 8                                    | 63     | 21       | -13    |
| Access to Credit                    | 3                                     | 53     | 42       | -39    | 8                                    | 39     | 45       | -37    | 5                                    | 55     | 34       | -29    |
| Expected Oil Prices                 |                                       |        |          |        |                                      |        |          |        | 37                                   | 37     | 18       | 18     |
| Expected Natural Gas Prices         |                                       |        |          |        |                                      |        |          |        | 24                                   | 55     | 13       | 11     |
| Expected Natural Gas Liquids Prices |                                       |        |          |        |                                      |        |          |        | 24                                   | 47     | 18       | 5      |

\*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 third quarter survey ran from September 14-30, 2015 and included 38 responses from firms in Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

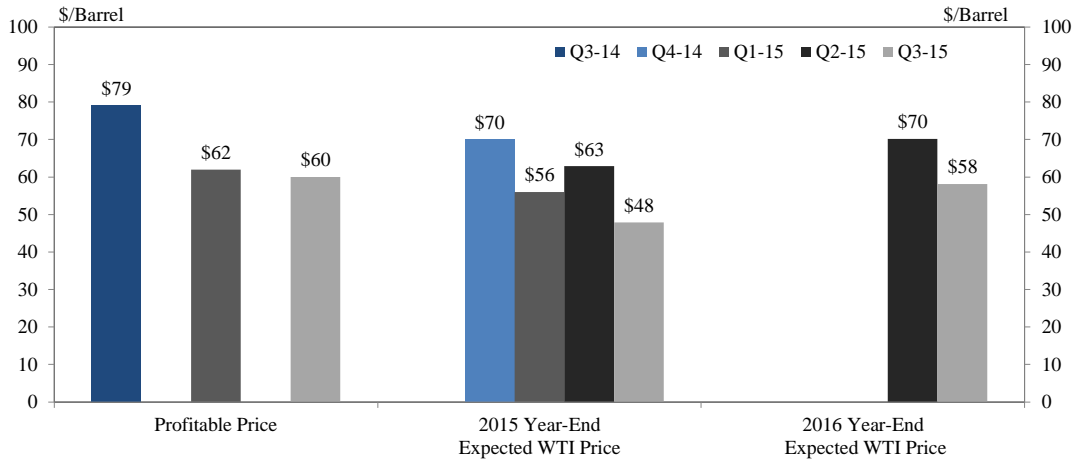
**Chart 1. Drilling/Business Activity Index vs. a Quarter Ago**



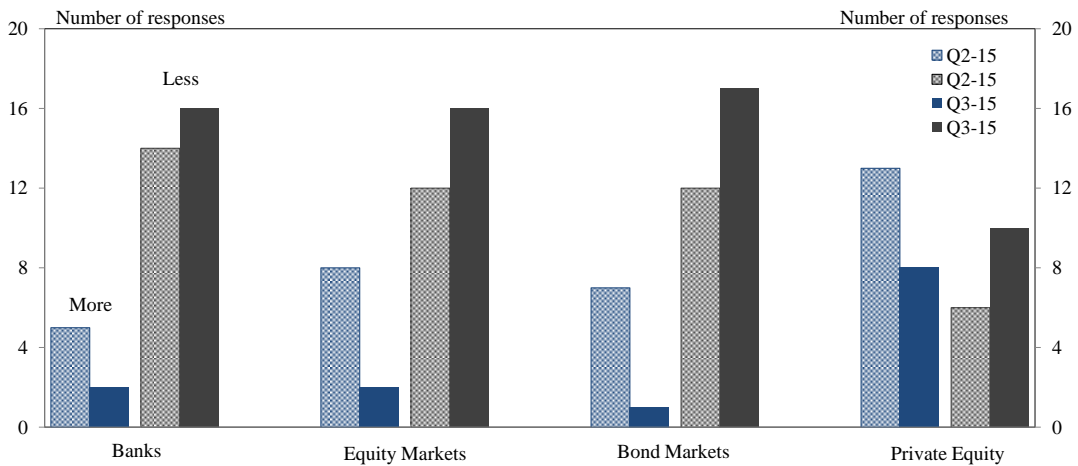
**Table 2**  
**Historical Energy Survey Indexes**

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

**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 and 2016?**



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



**Chart 4. Special Question - How much do you currently expect your capital spending to change in 2016?**

