News Release
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DENVER • OKLAHOMA CITY • OMAHA

One Memorial Drive • Kansas City, MO 64198 • Phone: 816.881.2683

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CONTACT: Pam Campbell
405-270-8617
Pam.Campbell@kc.frb.org

TENTH DISTRICT ENERGY FIRM ACTIVITY FELL FROM THE PREVIOUS QUARTER

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 that Tenth District energy firm activity contracted moderately, and expectations for future drilling activity fell considerably.

"Last quarter, firms told us that, on average, they needed oil at $79 in order to be profitable in the areas in which they are active," said Wilkerson. "This quarter, firms' average expectation for WTI prices at the end of 2015 was $70. Consequently, we found that about half of firms plan to cut capital spending by more than 20 percent and several anticipate sizeable 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 number of firms indicating increases minus the number 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/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

Tenth District Energy Activity Contracted in the Fourth Quarter Amid Falling Oil Prices

Fourth quarter energy survey results revealed a contraction in activity among District energy firms while expectations for future drilling activity tumbled. The momentum in employment growth seen through most of 2014 pulled back during the quarter. Capital spending was expected to decline sizably in 2015 because of lower projected oil prices than in 2014.

Summary of Quarterly Indicators

Activity at District energy firms contracted in the fourth quarter of 2014, according to firms contacted from December 15-31 (Table 1). The drilling and business activity index declined from 47 to -22, and the total revenues index declined to -71 (Chart 1). The majority of survey respondents anticipated a slowdown in drilling as a result of falling crude oil prices. The drilling and business activity expectations index plunged from 40 to -70 and the future revenues index also moved sharply into negative territory at -56.

The year-over-year capital expenditures index fell to -11, revealing that capital spending was lower than a year ago for the first time in 2014. The future capital spending index fell sharply, from 40 to -59, as contacts expected oil prices to keep falling. Access to credit also weakened compared to the third quarter and a year ago. Credit availability was expected to tighten further in the first half of 2015.

The employment index recorded no growth for the first time in 2014. The employee hours index contracted from 33 to -18, and the wages and benefits index also fell. However, employment remained moderately higher year-over-year.

The expected employment index recorded a sizable downward movement from 56 to -23, and the employee hours and future wages and benefits index also tumbled.

Energy commodity prices were expected to decline further over the next six months. The expected oil prices index dropped from -23 to -48. The expected natural gas prices index tumbled from 36 to -26, and the expected NGL price index fell to -37.

Summary of Special Questions

In light of the continued decline in oil prices during the third and fourth quarters of 2014, firms were asked several special questions about the implications. In the third quarter survey, firms reported that, on average, they needed oil at $79 in order to be profitable in fields in which they were active, with a range of $55 to $95. In the fourth quarter, firms were asked what they expect the WTI oil price to be at the end of 2015, and the average was $70, with a range of $50 to $85. Firms were also asked in the fourth quarter about their capital spending plans for 2015. About half of firms responding said they planned to cut spending by more than 20 percent, and another quarter of firms expected cuts of 10 to 20 percent (Chart 2). Firms were also asked about their employment plans for 2015, and the most common answer was “down slightly” followed by “up slightly” (Chart 3). However, about a quarter of firms anticipated significant cuts in employment in 2015. Finally, firms were asked about recent or expected changes in their access to credit. Slightly less than half of firms reported changes or expected changes in their credit access, with several firms citing borrowing base declines, higher interest rates, and increased required collateral.

Selected Comments

“Volatility in oil markets caused cancellation of last 6 drilling contracts of the year.”

“Waiting to gauge the extent of customer pullback. Sixty-five percent of our fleet is under long term contract (through 2015).”

“Will continue to look at ways to cut costs in our operations to stay competitive to pursue wells that will be drilled in our market.”

“We are seeking private equity to assist us with consolidating our debt.”

“Continued low commodity prices will place pressure on credit to EBIDAX ratios and reduce available credit.”

“Expansion of borrowing base no longer possible. Significant risk of reduced borrowing base.”

Table 1
Summary of Tenth District Energy Conditions, Quarter 4, 2014

	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	11	48	33	-22	29	3	48	-19	0	14	70	-70
Total Revenues	14	25	55	-41	40	7	44	-4	14	7	70	-56
Capital Expenditures					37	14	48	-11	3	25	62	-59
Supplier Delivery Time	7	77	3	4	11	81	3	8	22	66	7	15
Total Profits	11	29	51	-40	33	11	48	-15	7	7	77	-70
Number of Employees	22	51	22	0	48	33	14	34	14	44	37	-23
Employee Hours	11	55	29	-18	29	40	25	4	11	25	55	-44
Wages and Benefits	22	59	11	11	48	37	11	37	14	55	22	-8
Access to Credit	11	55	22	-11	7	51	29	-22	0	55	37	-37
Expected Oil Prices									14	14	62	-48
Expected Natural Gas Prices									14	44	40	-26
Expected Natural Gas Liquids Prices									7	37	44	-37

*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 15-31, 2014 and included 27 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

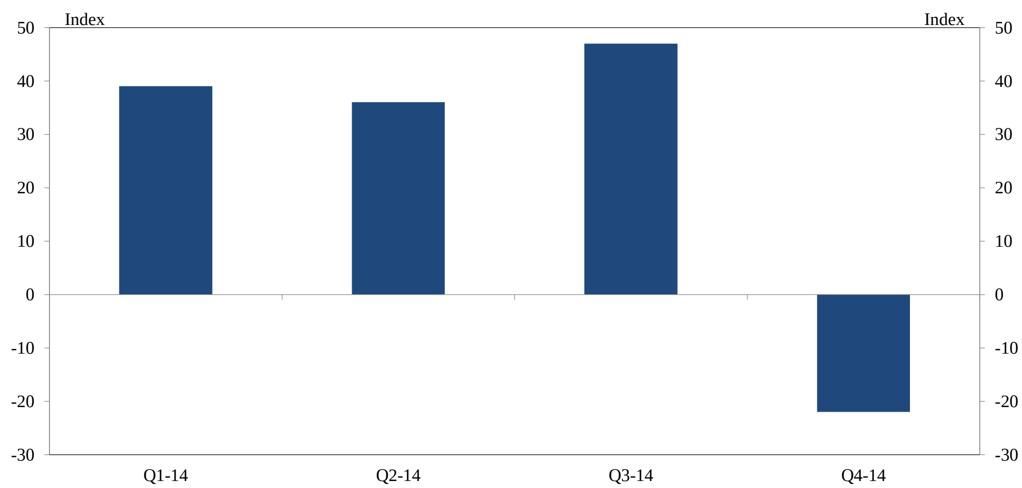

Table 2
Historical Energy Survey Indexes

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

Chart 2. Special Question - How much do you currently expect your capital spending to change in 2015?

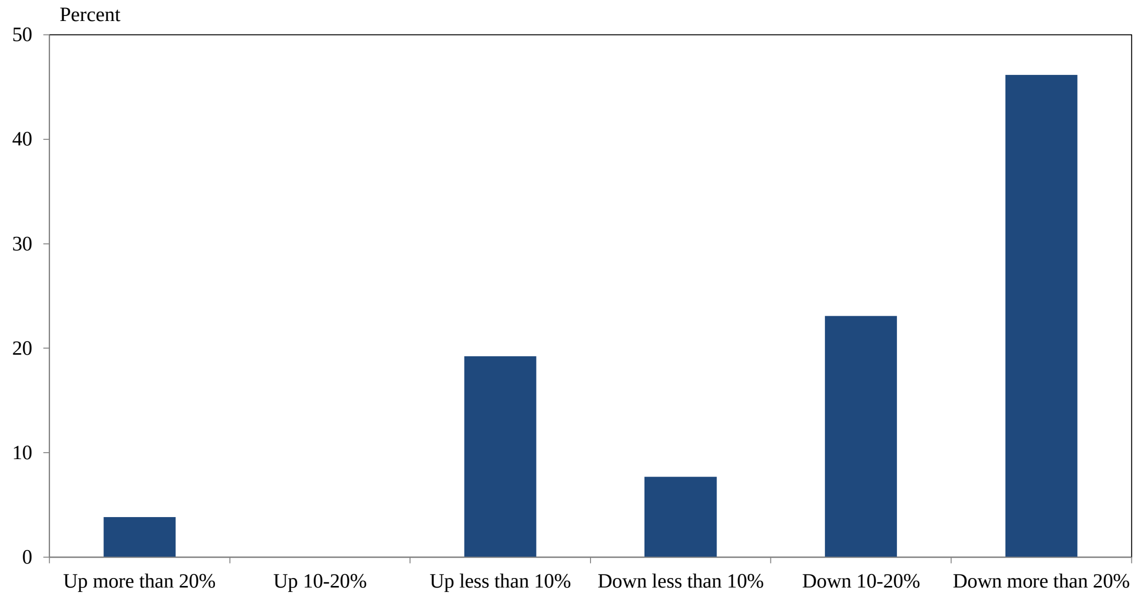

Chart 3. Special Question - How much do you currently expect your employment to change in 2015?