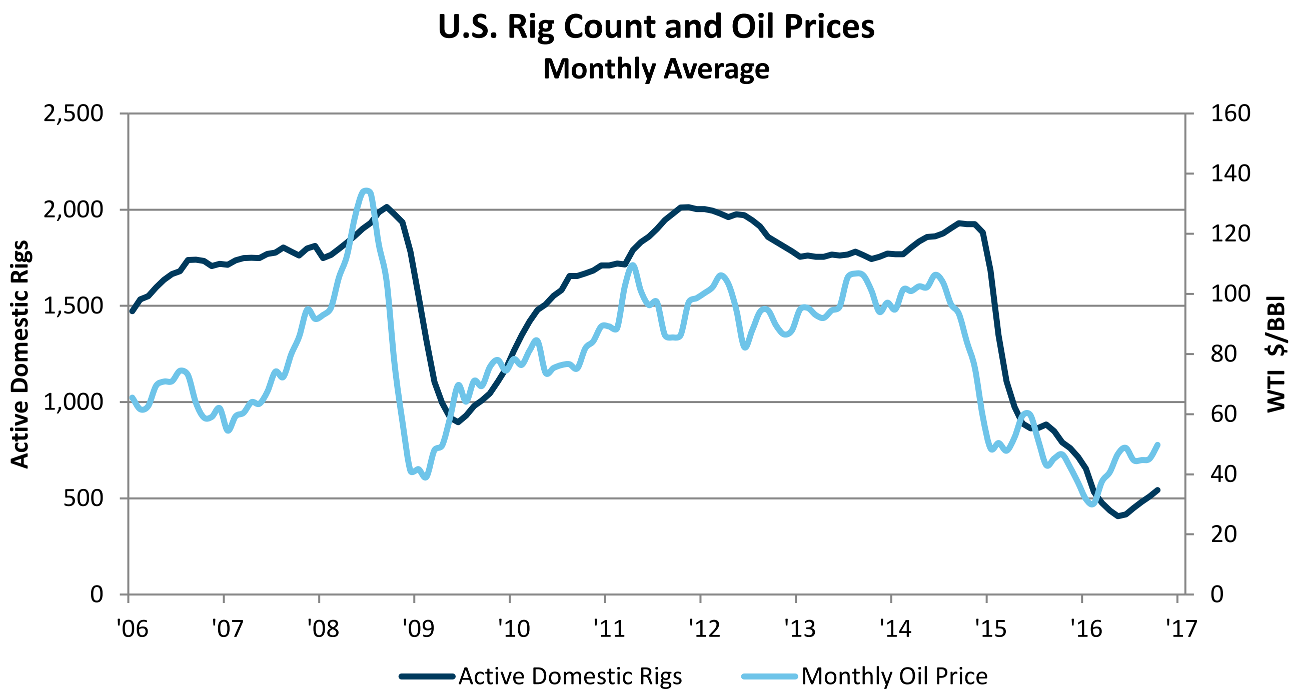
Drilling Activity and Oil Price

After falling nearly 80 percent from its previous peak, the U.S. rig count has begun to recover.



Source: Baker Hughes, Inc.; U.S. Energy Information Administration

- North American oil producers have become victims of their own success. The shale revolution stimulated tremendous oil and gas production, throwing additional supply on the world market. However, global energy demand has been weak and unable to absorb all the new production.
- Oil prices have fallen dramatically—from a peak of $108/bbl in June '14 to a low of $26/bbl in February '16. Drilling activity responded swiftly and the rig count dropped from a high of 1,931 in September '14 to a low of 407 in May '16, a 79.1 percent decline. Since reaching the bottom, nearly 200 rigs have been added to the count.
- Despite the drop in exploration activity, U.S. production has averaged 8.8 million barrels a day through the 12 months ending in October '16, down slightly from 9.3 million in October '15 YTD and still above 8.4 million in October '14 YTD. More efficient drilling and fracking techniques, better understanding of geology associated with shale oil, and steep cost concessions by the oil field service firms have helped to minimize U.S. production declines.
- Based on the Barclay's Upstream Spending Survey, North America exploration budgets are forecasted to decline 37 percent in '16 but increase 17 to 23 percent in '17, assuming oil prices stabilize around $55 and $60 per barrel on average next year.