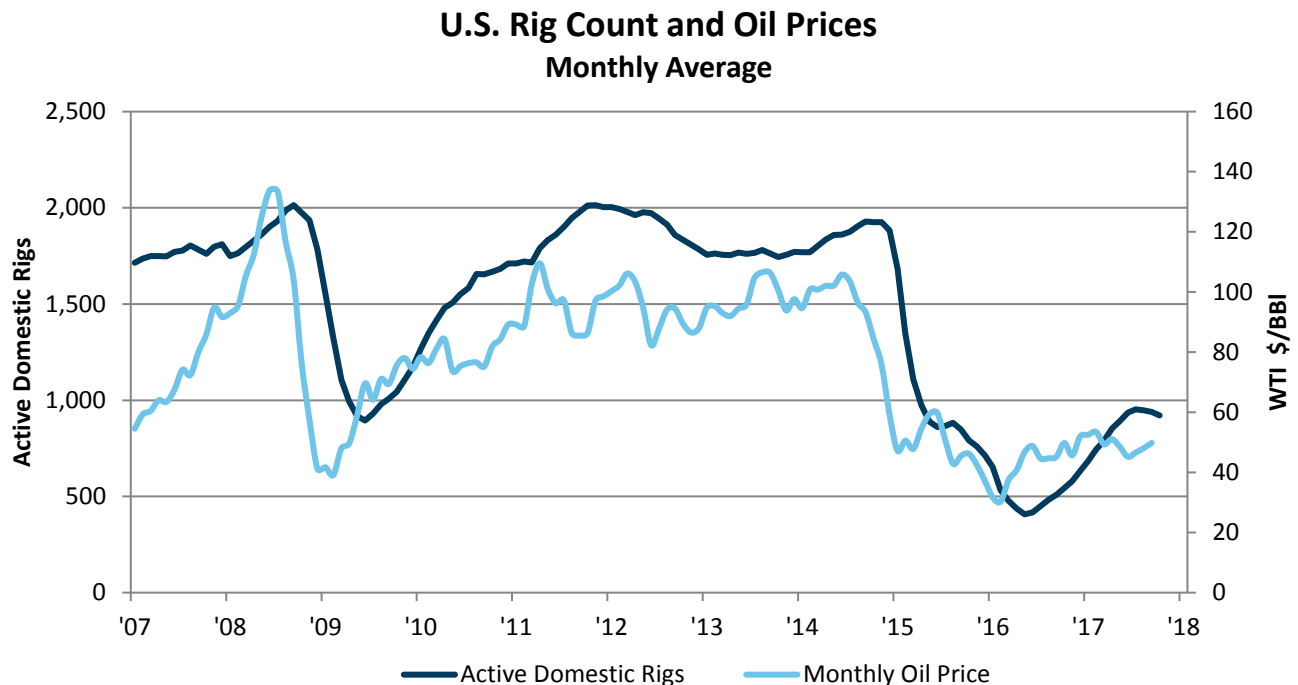


Drilling Activity and Oil Price

The U.S. rig count grew steadily in '17 as oil prices stabilized.



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

- Drilling activity increased significantly in '16 and through the first half of '17, topping out at 958 rigs in July, as oil prices stabilized near \$50 per barrel. The average rig count through the first 10 months of '17 was 867, up 76.6 percent from an average of 493 rigs during the same span in '16. The rebound followed a dramatic fall in exploration activity that began in late '14. The rig count dropped from a high of 1,930 in September '14 to a low of 407 in May '16, a 78.9 percent decline.
- The rise in exploration activity has led to an increase in U.S. production. Domestic crude production averaged 9.2 million barrels a day YTD through October '17, up 5.4 percent from 8.8 million in October '16 YTD.
- The Permian Basin accounts for about half of the rig growth. Of the 378 rigs added in the U.S. since October '16, 174 went to the Permian. As of October '17, the Permian was home to 41.3 percent of the U.S. drilling fleet, up from 38.1 percent the same time last year.
- The total rig count dipped to 909 in October '17, down from a peak of 953 in July '17. Though oil prices have stabilized, they remain too low to spur the kind of capital investment and hiring that would be needed to keep pace with the rig growth seen over the past 18 months.
- Barclay's Upstream Spending Survey forecast North America exploration budgets to increase 31 percent in '17 followed by a more modest 15-20 percent increase in '18, assuming oil prices stabilize around \$50 and \$55 per barrel on average next year.