Focus on the Energy Industry

WO YEARS AGO, Texas energy producers were going like gangbusters. Futures markets predicted the price of West Texas Intermediate crude would stay near $20 per barrel for the foreseeable future. Industry contacts reported shortages of rigs and personnel. There was a 12- to 18-month backlog for drill pipe.

Four months later, the price dropped below $19 per barrel and stayed there for nearly two years. In December 1998, as producers were setting their exploration budgets for 1999, the price of West Texas Intermediate hit a 12-year low of less than $11 per barrel.

Today, although the price of oil is again well above $20 per barrel, drilling activity has not recovered. Extraction employment is showing hints of renewal but remains 16,500 jobs below its year-ago level. The Texas rig count has changed direction recently but has only climbed back to its August 1998 level (see chart below). It will need to increase by 40 percent to reach the level it attained the last time prices were this good.

The cautious industry response probably reflects a belief that recent price increases are a temporary windfall. The futures market expects prices to fall to the $18–$19 range next year. However, even with the declines, oil prices are still expected to exceed the levels on which the drilling budgets were based and remain well above the December 1998 level.

—Lori L. Taylor

Further Information on the Data
