SEPTEMBER
2024

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Domestic oil production reaches a new high

August 26, 2024 | 9 a.m.

Overview

The freight market continues to undergo changing market conditions, just at an extremely slow pace that hasn't necessarily been felt by market participants. Those exposed to the industrial side of the economy have probably been hit the hardest as a result of the higher interest rate environment.

The good news is that lower interest rates are on the horizon after Jerome Powell, chairman of the Federal Reserve, spoke at the annual Jackson Hole, Wyoming, retreat. Powell said it was time for policy to change.

The questions that remain are how many interest rates are coming before the end of the year and how large they will be.

Domestic oil production increased in July, eclipsing the previous all-time high, which is a positive for the market. Expectations are for production to continue to rise into December 2025.

Pricing was slightly lower in July than August even though inventory drawdowns continued during the month, likely as a result of the uptick in production.

Eyes in the oil market turned to Libya, the world's 16th-largest producer of crude oil, after the government of the eastern part of the country announced it was going to shut down oil fields. This created a surge in oil prices immediately following the announcement.

For importers and exporters along the Gulf Coast, the next few weeks will be worth watching the negotiation between the International Longshoremen's Association and the United States Maritime Alliance as the current contract expires Sept. 30.

Fleet counts (six-month change)

Total for-hire fleets	300,027 (+8.8%)
Total private fleets	158,865 (+1.2%)
For-hire oil field specialization	20,190 (+1.4%)
Private fleet oil field specialization	8,256 (-1%)

Tractor counts (six-month change)

Total for-hire tractors	1,810,000 (+2.3%)
Total private tractors	766,799 (+0.6%)
For-hire oil field specialization	326,544 (-1%)
Private fleet oil field specialization	53,747 (+1%)

Active daily rig count (y/y change)

Permian Basin	275 (-9.5%)
Gulf Coast Basin	63 (-11.3%)
Anadarko Basin	49 (+4.3%)
Total	**627 (-8.2%)**

Crude oil prices per barrel (y/y change)

WTI crude	$75.76 (-6.84%)
Brent crude	$78.85 (-5.95%)
Brent WTI Spread	**3.09 (+6.4%)**

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Flatbed safety is exacting but essential

Given the open nature of flatbed trailers, it is arguably more important for flatbed drivers to follow best safety practices than for drivers in any other mode. This is compounded by the fact that flatbed drivers are uniquely responsible for ensuring that their loads are properly secured and, if necessary, covered by tarps. Otherwise, cargo can shift or even fall in transit, harming not only drivers and their equipment but also fellow motorists.

Thus, drivers should first choose high-quality straps, chains and binders that are designed to withstand the weight and type of cargo being transported. When loading, drivers must be careful to confirm that cargo is distributed evenly across the deck to maintain stability and to prevent excessive stress on specific areas of the flatbed. If applicable, drivers should employ edge or corner protectors to protect straps from sharp edges as well as sensitive cargo from damage caused by undistributed downward force.

Flatbeds also serve a vital role for the domestic oil and gas industry, in part because safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection be fully carried out, not only with regard to the vehicle and trailer but also to the rigging equipment used, checking for frays or other signs of excessive wear.

Finally, special attention should be paid to the surroundings when the flatbed is not in use, particularly during loading and unloading. Trucks should be parked on a surface that is as flat as possible, taking care that the truck is not only level from front to back but also untroubled by side grades. To be sure, side grades need special attention when the truck is in motion, such that a heavy object does not suddenly shift forward into the cab or backward into any traffic. When dealing with hazardous materials, drivers should be aware of potential obstacles during loading and unloading that could impede an evacuation route.

Truck capacity outlook

The trucking capacity outlook is showing signs that capacity is exiting the market, which is needed to firm up pricing, but at a relatively slow rate. The back half of the year is traditionally a period when capacity tightens across modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2023.

The interesting growth areas haven't necessarily been in carriers or tractors but in the number of trailers added over the past few years. When the market reacted to the COVID-19 pandemic, semiconductor shortages prevented new truck order backlogs from being worked through. This led to fleets investing elsewhere, namely in trailer counts, which was one of the first areas addressed when the increased rates were sustained throughout the back half of 2020 and early '21.

With rates falling rapidly, the growth in capacity will likely return to levels closer to 2019 until some of the capacity added over the past year is removed from the market.

Total Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	498,170	2,780,000	4,298,588	5.75%	1.83%	14.34%
Feb-22	471,102	2,730,000	3,759,410			
Total For-Hire Fleets, Tractors and Trailers				**Percent Change since February 2022**		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	300,027	1,810,000	3,022,330	8.76%	2.26%	1.00%
Feb-22	275,856	1,770,000	2,992,449			
Total Private Fleets, Tractors and Trailers				**Percent Change since February 2022**		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	158,865	766,799	1,147,612	1.20%	0.63%	49.63%
Feb-22	156,979	761,967	766,961			

Source: Federal Motor Carrier Safety Administration monthly census data.

Since February 2022, the total number of fleets, which is filtered to those that report having at least one tractor and 20,000 or more annual miles per tractor on their MCS150 forms, has increased by 5.75%. Carriers have to report the data only once every two years, so the growth over the past two years is evident from the rise in July's numbers compared to February's. The average fleet size (number of tractors divided by fleet count) declined from 5.8 to 5.5, which indicates that growth is stemming from smaller carriers entering the market.

Growth in carrier and tractor counts is emerging from for-hire carriers, which is expected as the number of owner-operators has increased dramatically over the past two years. Overall, the number of carriers has jumped by 8.8% since February, but the number of tractors has increased by only 2.3%. This signals that owner-operators are the largest group to experience growth between February and July 2022.

While the for-hire side of the trucking industry is experiencing gains in carriers and tractors, private fleets are where most of the growth in trailer counts is originating. Between February and July 2022, private fleet trailer counts increased by 49%. Again, it is important to note that carriers have to report this number only biennially, so it really shows the growth over the past two years.

The for-hire market may see some consolidation — and bankruptcies — over the next six to 12 months, but it may not actually show up in the data, with carriers having to report only once every two years and new carriers always entering the market. As the freight market softens, the difference is that drivers will return to the umbrella of large enterprise carriers and thus may actually be double counted at some point in the future.

Total Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	28,446	380,291	1,074,897	0.7%	-0.5%	0.9%
6 months ago	28,260	382,131	1,065,222			

Total For-Hire Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	20,190	326,544	923,705	1.4%	-0.7%	1.2%
6 months ago	19,906	328,902	912,408			

Total Private Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	8,256	53,747	151,192	-1.2%	1.0%	-1.1%
6 months ago	8,354	53,229	152,814			

Source: FMCSA monthly census data.

The capacity landscape for carriers with oil and gas exposure was relatively unchanged from six months ago as their numbers have increased across the board. The largest rise is in the for-hire market, where the number of carriers has risen by 1.4%.

Even with additional carriers in the market, the number of available tractors has declined by nearly 1%, indicating a couple of things: Smaller carriers are entering the market, and larger carriers with exposure to oil and gas are thinning out their fleets.

While the number of tractors has declined in the past six months, for-hire carriers have added trailer capacity to their fleets, increasing the number of available trailers by 1.2% in the six-month span.

Private fleets haven't experienced the same fate, as there were 98 fewer private carriers operating in the oil and gas space over the past six months. Those continuing to operate have added to their fleets, however, as the number of available tractors has increased by 1%.

Total Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	993	15,858	11,629

Total For-Hire Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	549	3,651	5,262

Total Private Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	395	11,799	5,967

Source: FMCSA monthly census data.

Nearly 1,000 carriers based in California were operating in oil field services or liquid/gas specialization as of last July. The vast majority, in both the overall trucking industry and the oil and gas industry, were for-hire carriers. More than 55% of the fleets in California that operate in the space are for-hire carriers, whereas private fleets make up just under 40% of carriers.

Private fleets do make up the vast majority of tractors in California. Of the 15,858 total tractors that operate in the oil and gas industry, 11,799 are from private fleets, which is roughly 75%. For-hire fleets have an average of 6.65 tractors, compared to private fleets with nearly 300 tractors in operation.

The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

Ultimately, the capacity outlook appears quite different than it did at the beginning of 2022. The extreme growth over the past two years has passed its peak and is slowly starting to correct itself. However, having to report counts to the FMCSA only once every two years may mean the data does not show the capacity exiting the market as quickly as it actually does.

National economic outlook

The time for interest rate cuts is finally here as Jerome Powell, chairman of the Federal Reserve, stated that it was time for policy to change. Positive inflation data over the past few months coupled with a labor market that is seeing unemployment inch higher, has led Powell to effectively, if not explicitly, say that an interest rate cut is happening in September.

The questions that now arise as a result: How many interest rate cuts will there be in 2024, and how large will the cuts be?

Will the Federal Open Market Committee opt to take an aggressive stance on dropping rates, similar to how it increased rates throughout 2022 and 2023? If so, does that mean a 50-basis-point decrease is on the table in September, or will the FOMC proceed with more caution and have a 25-bp cut, with the possibility of another in November?

There will be some clarity Sept. 18 when the FOMC statement is announced at the conclusion of the two-day meeting, but for now eyes turn to the upcoming inflation and employment data releases that might give insight into how the FOMC may move forward.

The trend of positive inflation data continued in July, though prices were in aggregate slightly higher than in June. The increase in prices in July still brought the headline inflation number below 3%, while the core CPI remains slightly above that level. Forecasts are for the core Personal Consumption Expenditures Price Index, the Fed's preferred metric for inflation, to show continued progress toward the long-term goal of 2% inflation.

The Consumer Price Index rose 0.2% m/m in July, marking the first monthly increase since April, after prices fell in June and were unchanged in May. The headline figure matched analysts' expectations, a positive sign that inflation as a whole is moving in the right direction. The 12-month running total for the CPI came in at 2.9%, the lowest total since March 2021.

Core inflation, which is the CPI excluding the more volatile food and energy prices, matched the headline number, increasing by 0.2% m/m. The 12-month running total for core CPI is 3.2%.

For the first time this year, energy prices, which had been living up to their volatile reputation, were stable in July. The overall energy price index was unchanged in July but was 1.1% higher than it was during the same period last year. Gasoline prices were also unchanged in the month after two consecutive 3% m/m declines. Gasoline prices remain 2.2% lower than they were in July 2023.

Food prices increased at the same rate as the headline CPI, rising 0.2% m/m, but are up just 2.2% y/y. Food-at-home price increases continue to be fairly small, if there are any increases at all. Food-at-home prices matched June's increase, rising 0.1% m/m, and are up just 1.1% y/y. Food-away-from-home continues to rise, but the increase in July was the smallest monthly increase since February. Food-away-from-home prices increased by 0.2% m/m but are still 4.1% higher than they were this time last year.

The primary driver of core inflation has been the significant increase in shelter prices. Overall, shelter prices increased by 0.4% m/m, up from the 0.2% m/m increase in June, matching the increases from February through May. Shelter prices are 5.1% higher than they were this time last year.

Besides inflation data, another positive sign for the consumer side of the economy is that consumers are continuing to spend. Headline retail sales bested expectations, but in recent months the advanced retail sales release has been revised lower in subsequent releases.

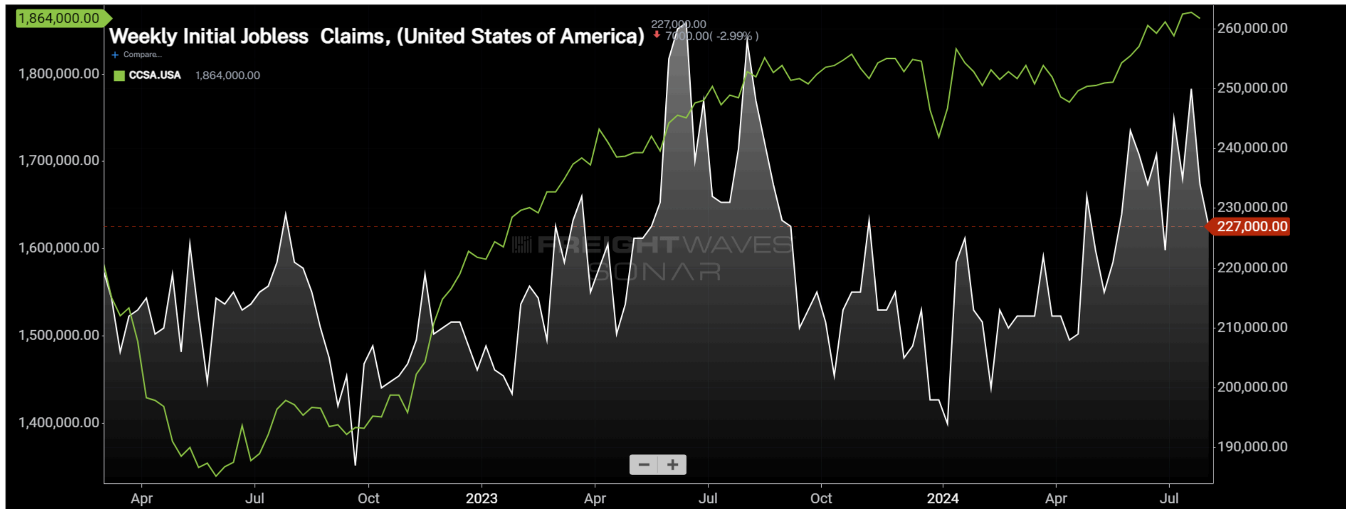
Headline retail sales grew by 1% m/m in July, well ahead of expectations of a 0.3% increase in retail sales during the month. Total retail sales were 2.7% higher y/y in July, falling just short of the CPI reading, so there is still some pressure on real retail sales. When you remove autos (both motor vehicle and gasoline station sales), the increase is less robust, just 0.4% m/m but up 3.4% y/y.

July was a positive month for motor vehicle and parts sales as they increased by 3.6% m/m and 0.8% y/y. This has been a sector that was under pressure, especially in a higher interest rate environment.

General merchandise stores increased sales by 0.5% m/m in July and were 2.7% higher y/y. This increase in consumer spending could explain why this sector of the economy has been hiring. Walmart, the country's largest retailer, reported that second-quarter U.S. comparable sales excluding fuel were up 4.2% in the quarter. The company cited a flight to value for the consumer for the strong sales metrics.

Other retailers aren't faring quite so well. The Home Depot reported that U.S. comparable sales fell by 3.6% in the second quarter, which aligns with the slowdown in home improvement spending as signaled in Bank of America's card spending reports. Retail sales data for building materials and garden equipment and supplies dealers did increase by 0.9% m/m in July but is only 0.4% higher y/y.

Labor market



SONAR: Weekly Initial Jobless Claims (white) and 4-week moving average of initial jobless claims (green).

Initial jobless claims for the week ending Aug. 10, the most recent week for which data is available, fell by 7,000 week over week to 227,000. The four-week moving average fell by 4,500 from the prior

week to 236,500. Analysts were expecting jobless claims to come in at 235,000. Initial jobless claims were 8.5% lower than they were in the same week last year.

Continuing jobless claims, for which the overarching trend is higher, did fall in the most recent week. For the week ending Aug. 3, continuing claims totaled 1,864,000, down 7,000 from the prior week but up 61,000 compared to the same week last year.

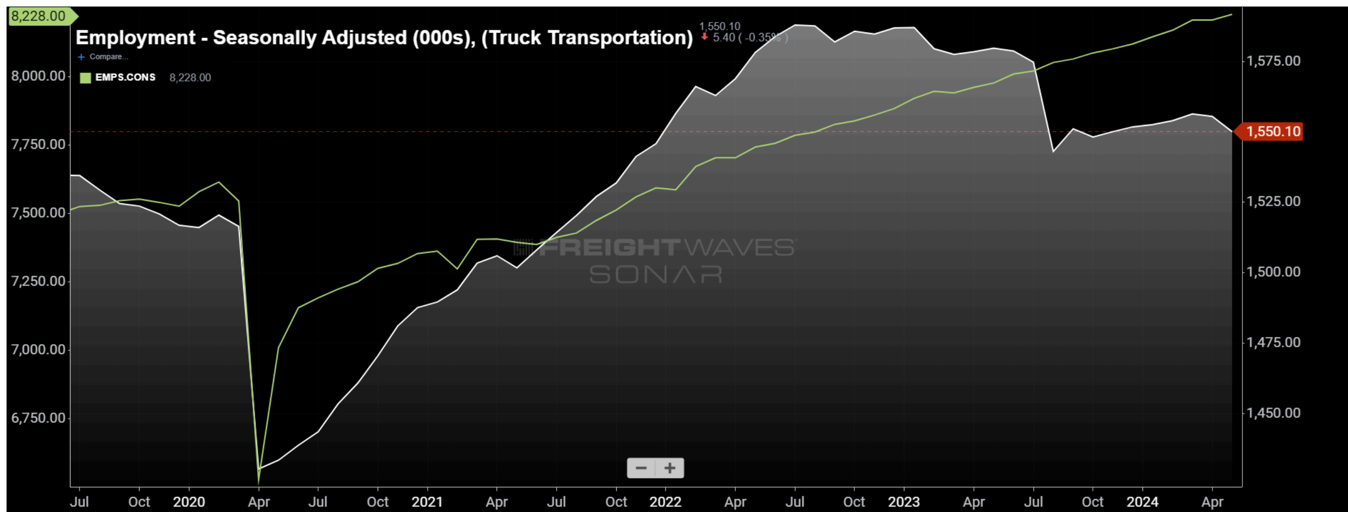


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

A hot topic in the macroeconomy has been the labor market. The Federal Reserve has been stating that it has two goals when making monetary policy decisions: Maintain maximum employment and limit inflation. With the rapid increases in interest rates throughout 2023, it has taken time for the effects to really impact the overall economy, but from a labor perspective, the market is clearly slowing. Aside from the underwhelming July jobs report, the downward revision to the 2024 benchmark by 818,000 was the largest such revision to the jobs number since 2009.

The evidence of a slowing labor market was present in July as the employment report was severely underwhelming. Nonfarm payrolls in July increased by 114,000, falling short of June's downwardly revised figure of 179,000 and well short of analysts' expectations for 185,000 added during the month. Additionally the unemployment rate increased to 4.3%, the highest level since October 2021.

The increase in the unemployment rate triggered the Sahm Rule, named after former Fed Economist Claudia Sahm. The Sahm Rule is when the three-month moving average in the unemployment rate moves 50 basis points above the 12-month low unemployment rate. This rule has been used as a recession indicator in past economic cycles. Sahm herself stated that just because the rule was triggered, the U.S. economy was not necessarily entering a recession, but she voiced concern that if the Fed were too slow to cut rates, it would lead to even greater odds of the U.S. entering a recession.

Why the uptick in the unemployment rate, especially in the latest report where it jumped 20 bps?

There has been an influx in the number of individuals in the labor force. The labor force increased by 420,000 people during July while the number of unemployed increased by 352,000. The increase can in part be attributed to the increase in foreign-born workers in the labor force. Over the past year, the foreign-born labor force has increased by 1.65 million, while the native-born labor force has decreased by 279,000. Even more eye-opening is that the number of foreign-born workers increased by 1.273 million, while the number of native-born workers has decreased by 1.217 million.

Additionally, the trend in the number of part-time workers, specifically for economic reasons, continued. The total number of part-time workers for economic reasons in nonagricultural industries increased by 353,000 (or 8.5%) month over month. That number is 576,000 higher than it was in July 2023, up 14.7%.

While jobs growth was underwhelming, it continued to stem from just a handful of industries.

Health care sustained its growth, adding 55,000 to payrolls during the month. Both leisure and hospitality and government also experienced increases of 23,000 and 17,000 in the month, respectively.

Retail trade didn't see a significant change, but there was growth in general merchandise retailers, which added 7,100 jobs during July. But 6,300 of those came at supercenters, warehouse clubs and other various general merchandise stores as opposed to department stores.

Construction hiring was a bright spot in July, adding 25,000 to payrolls during the month. Most of the growth stemmed from specialty contractors, which added 18,700 jobs.

The transportation sector added 14,000 jobs in July, but the truck transportation segment saw a reduction of 2,400 jobs in the month, 1.9% lower than it was during the same month last year.

Payrolls in the oil and gas sector were unchanged in July. Total oil and gas sector payrolls are currently 120,600, up 2,600 over the past year.

Job openings were on the decline again in June. Total openings fell by 46,000 during the month to 8,184,000. The number of job openings is down by nearly 1 million over the past year.

The construction industry experienced a significant decrease in the number of job openings in June. The number of job openings in the industry decreased by 71,000 m/m. The construction industry had 295,000 openings in June, down 119,000 from June 2023.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — increased significantly in June. Openings in June came in at 1,200,000, rising 153,000 m/m from May.

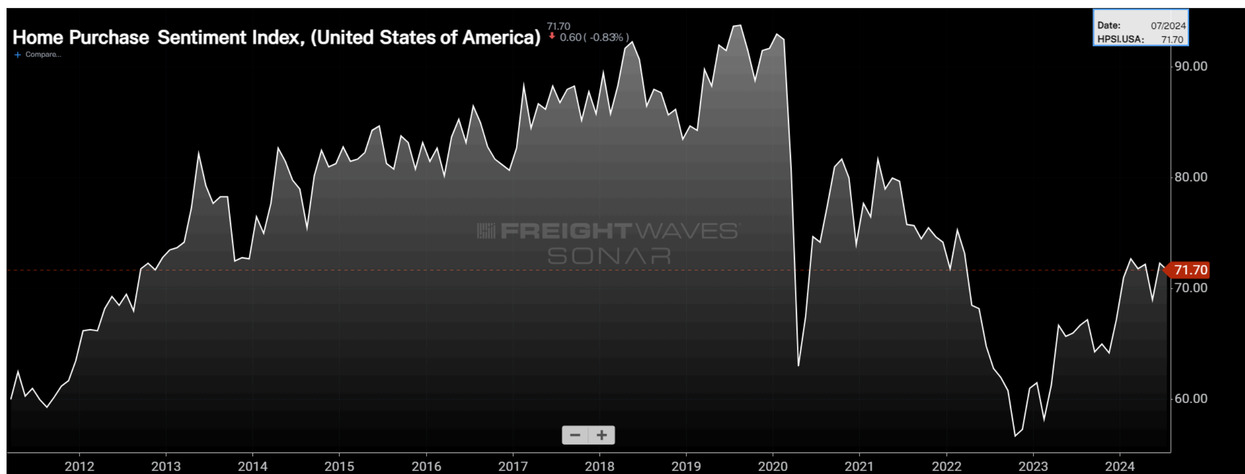
The quit rate, which is the number of resignations during the month as a percentage of total unemployment, remained stable at 2.1% in June. The quit rate for the trade, transportation and utilities sector was also unchanged at 2.5%. The quit rate for the construction section fell by 0.8% m/m to 1.5%.

Housing and construction

Continued positive inflation data along with the belief that interest rates will be lower in the coming months has created more positivity around the housing market. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending Aug. 14, mortgage applications increased by 16.8% w/w. Joel Kan, the Mortgage Bankers Association's vice president and deputy chief economist, stated in the release that "Rates on both 30- and 15-year fixed rate mortgages decreased for the second consecutive week, and combined with the previous week's rate moves, spurred another strong week for application activity as borrowers with higher rates took the opportunity to refinance." The Refinance Index from the survey increased by 35% w/w.

After the underwhelming jobs report allowed for the overwhelming assumption that lower interest rates were on the way soon, mortgage rates quickly declined. According to Freddie Mac, the average 30-year fixed rate mortgage was 6.49% for the week ending Aug. 15. It was just 2 basis points higher than it was the week prior. But even with the slight increase, the 30-year mortgage rate is at the lowest level since May 2023.

Mortgage rate declines throughout July were not enough to boost sentiment around home purchases. The Fannie Mae Home Purchase Sentiment Index (HPSI) fell 1.1 points m/m to 71.5. Even with the decline in July, the HPSI was 4.4 points higher than it was last year.



SONAR: Fannie Mae Home Purchase Sentiment Index.

Doug Duncan, Fannie Mae senior vice president and chief economist, said in the Aug. 7 release: "While we're seeing signs that affordability may be improving in certain parts of the country as supply slowly comes online, household incomes remain stretched relative to would-be mortgage or rent payments, and our latest survey once again reflects real consumer frustration with the housing market."

In the HPSI survey, 82% of respondents believe that it is a bad time to purchase a home, which is 1% more than in June's survey. Conversely, 65% of respondents believe that it is a good time to sell their home, down 1% m/m.

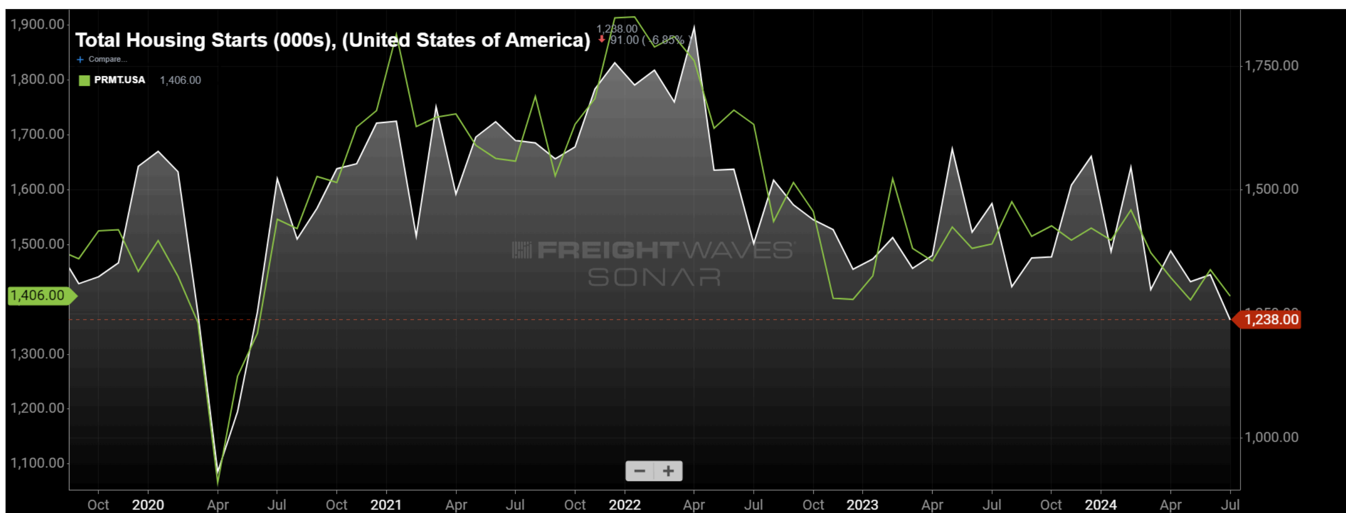
Sentiment around mortgage rates moved more to equilibrium as there was an increase in the number of respondents who expect lower interest rates over the next year. Twenty-nine percent of respondents expect that mortgage rates will go down over the next year, up 5 percentage points from June. At the same time, sentiment around housing prices turned slightly sour. Forty-one percent of respondents expect that housing prices will increase over the next year, down 4 percentage points from June. Twenty-one percent of respondents expect housing prices to decline over the next year. This is interesting, given that typically declining interest rates put upward pressure on housing prices as well as the supply constraints that continue to hamper the market.

Existing home sales dominate the housing market, but they have been challenged in recent months. Existing home sales dropped 5.4% m/m in June, according to the National Association of Realtors, after two fairly sizable drops in April and May. Compared to this time last year, existing home sales were down 5.4% as well. Inventory of existing homes for sale increased by 3.1% m/m as total supply sits at 4.1 months, up from 3.7 months in May.

Sales dipped across the four regions in June, but on a year-over-year basis only the West saw existing home sales remain stable.

Existing home prices reached another all-time high in June, rising to $426,900, up 4.1% y/y.

June's construction spending report was underwhelming, especially during the period when construction spending tends to gain momentum. Total construction spending fell by 0.3% m/m, accelerating from the 0.1% m/m decline in May. The seasonally adjusted annual rate (SAAR) for total construction spending totaled $2.148 trillion. Even with the slowdown in June, total construction spending was 6.2% higher y/y.



SONAR: Total Housing Starts (white, right axis) and Building Permits (green, left axis).

The higher interest rate environment continues to drag on housing starts as they have now fallen to the lowest level since the onset of the COVID-19 pandemic in mid-2020. Total housing starts fell by 6.8% m/m in July to a SAAR of 1,238,000. Total housing starts were down 16% y/y in July.

The decline was even more pronounced in single-family housing starts. Single-family housing starts declined by 14.1% m/m in July to a SAAR of 851,000, the lowest level in the past year and the lowest level since April 2023. Single-family housing starts were down 14.8% y/y in July.

Multifamily housing starts increased in July, marking the second consecutive increase. Multifamily housing starts increased by 11.7% m/m in July to a SAAR of 363,000. Despite the monthly increase, multifamily housing starts were 21.8% lower than they were last year.

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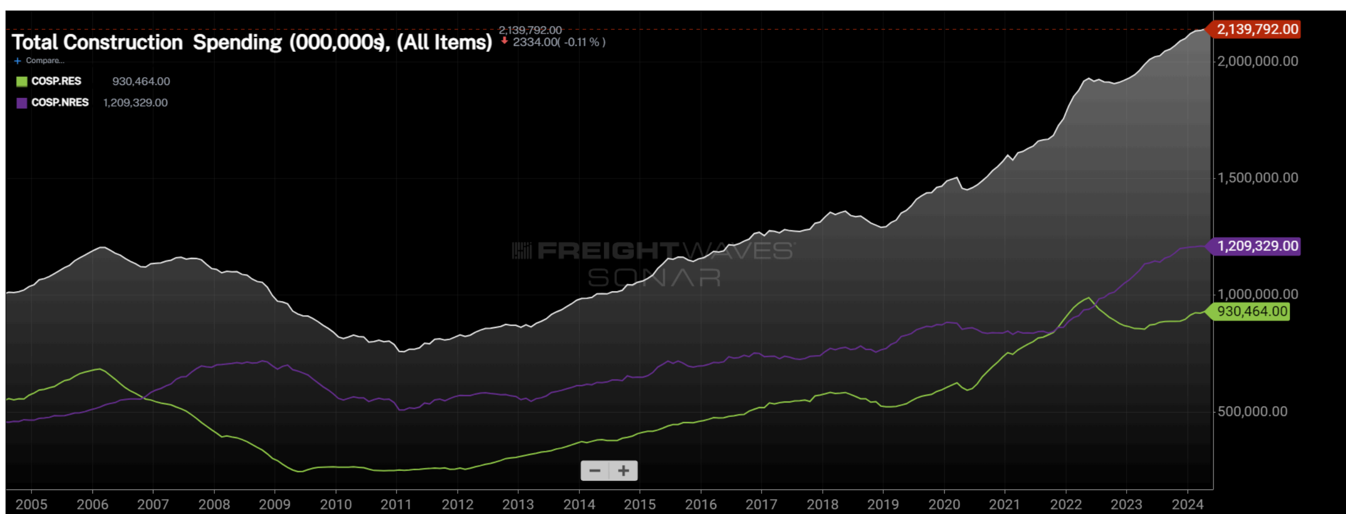


SONAR: Total construction spending (white), residential construction spending (purple) and nonresidential construction spending (green).

Residential construction spending fell again in June, by 0.4% m/m. The SAAR for residential construction spending came in at $939.8 billion in June. Residential construction spending remains well above last year, 7.3% higher y/y in June.

Nonresidential construction spending fell, but the decline was smaller than the overall drop in construction spending and residential construction spending. Nonresidential construction spending fell by 0.2% m/m to a SAAR of $1.209 trillion. Nonresidential construction spending was 5.3% higher than it was in June 2023. Manufacturing construction spending continued to rise, up 0.1% m/m and 19.1% y/y, to a SAAR of $235.5 billion.

Oil market

The oil market has been focused on unrest in the Middle East, and justifiably so. The conflict around the Red Sea doesn't appear to be slowing down anytime soon. Combined with the risks of Iran entering the conflict with Israel, the unrest creates uncertainty in the region.

But on Aug. 26, a North African country took the spotlight from an oil production standpoint. Libya's eastern government, the 16th-largest producer of crude oil in the world, announced that all of the oil fields will be closed. This means that both production of oil and exports would be stopped.

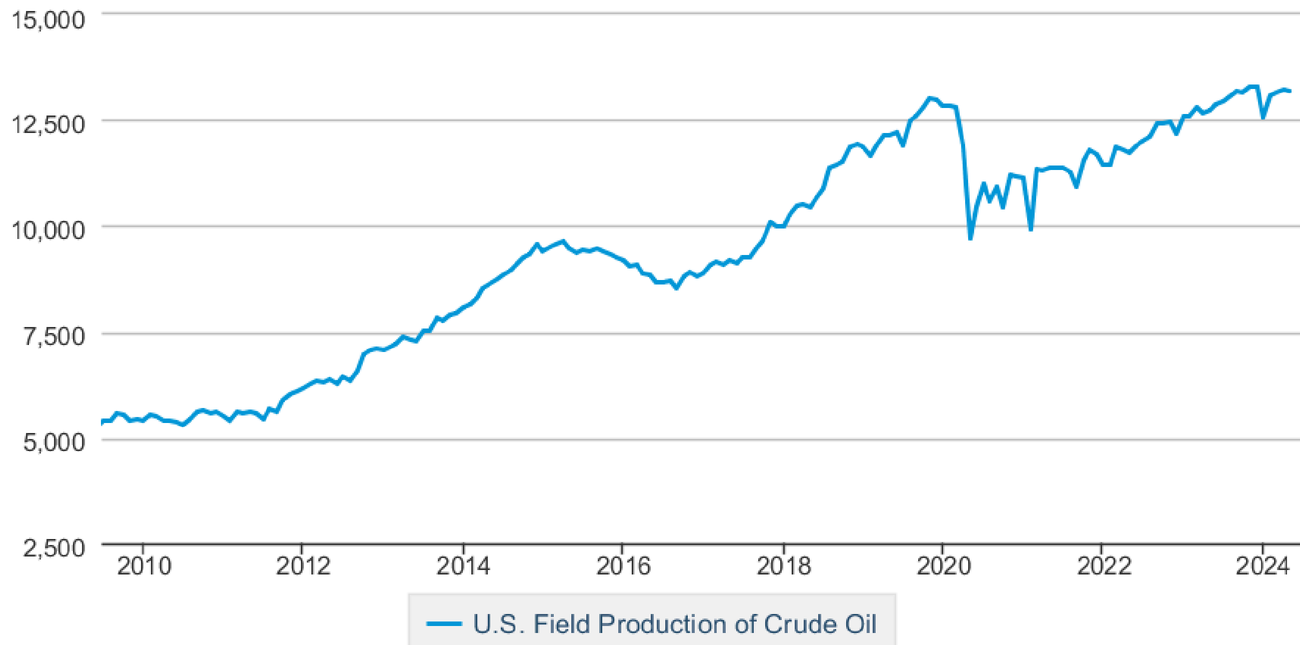
While nothing was released from the officially recognized government bases in Tripoli or the National Oil Corp., both the Waha Oil Co. and Sirte Oil Co., subsidiaries of the National Oil Corp., did come out stating they have planned to cut output.

The situation in Libya is an interesting one as the eastern portion of the country is effectively run by a separate government, led by Khalifa Haftar, supreme commander of the Libyan National Army. Nearly all of the country's oil fields are in the eastern part of the country, which makes the situation far more interesting.

In an article by Reuters, two sources working at two different oil fields in the eastern half of Libya have not been ordered to reduce output as of Aug. 26.

A bright spot for oil production moving forward came from Exxon, which released the most optimistic outlook for oil demand among the largest producers. Exxon's most recent forecast expects crude oil demand to remain above 100 million barrels per day through 2050, roughly in line with current demand. The forecast is extremely bullish compared to rival BP's forecast, which expects oil demand to fall under 80 million barrels per day.

In July, gross domestic oil production rose to 13.33 million barrels per day (bpd) from June's 13.19 million, increasing 140,000 bpd m/m. Production figures from previous months continued to be revised, as May's data was dropped to an initial reading of 13.18 million bpd.



Data source: U.S. Energy Information Administration

The recent increase in domestic oil production has created an environment in which domestic crude oil production will continue to reach all-time highs. The EIA's original forecast was for domestic production to surpass December 2023's all-time high in August, but that actually occurred in July. Now, the EIA expects domestic oil production to rise throughout the next year, reaching 13.92 million barrels per day by December 2025.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The count for the U.S. as a whole totaled 585 rotary rigs as of Aug. 23. The latest count continues to highlight the slowdown in the exploration and production space as active rig counts are down by 7.4% y/y. With production higher and rig counts down, it shows there have been efficiency gains and rigs are running harder than in previous years.

Breaking that down into basins, Enverus, a leading SaaS company focused on the energy market, releases daily active rig counts.

Basin	Daily Active Rig Count	1-mo. Change	M/M Percent Change	1-yr. Change	Y/Y Percent Change
Anadarko Basin	49	9	22.5%	2	4.3%
Appalachia	33	3	10.0%	-7	-17.5%
DJ Basin	12	1	9%	-4	-25.0%
Gulf Coast Basin	63	1	1.6%	-8	-11.3%
Permian Basin	275	9	3.4%	-29	-9.5%
Williston Basin	37	-1	-3%	5	16%
Other	158	5	3.3%	-15	-8.7%
Total	**627**	**27**	**4.5%**	**-56**	**-8.2%**

Source: Enverus daily active rig count as of Aug. 26.

The Dallas Fed's Energy Survey showed that the oil and gas sector grew throughout the second quarter. The Business Activity Index increased by 10.5 points quarter over quarter to 12.5. Production in the quarter was effectively unchanged, according to the survey as the Oil Production Index turned positive to 1.1 in Q2, up from minus 4.1 in Q1.

In the special questions section of the survey, firms were asked to forecast production if the exploration and production sector experienced continued consolidation. Forty-eight percent of the respondents stated that they would expect slightly lower production if that were to continue, compared to just 22% who believed production levels would be slightly higher.

Crude prices bounce on threat of production halts in Libya

Oil price volatility remains at the forefront for many as the unrest in and around OPEC+ countries continues to have large impacts on oil prices. When the eastern government in Libya announced the halt to oil production, global oil prices reacted positively, as one would expect when significant levels of supply are pulled offline.

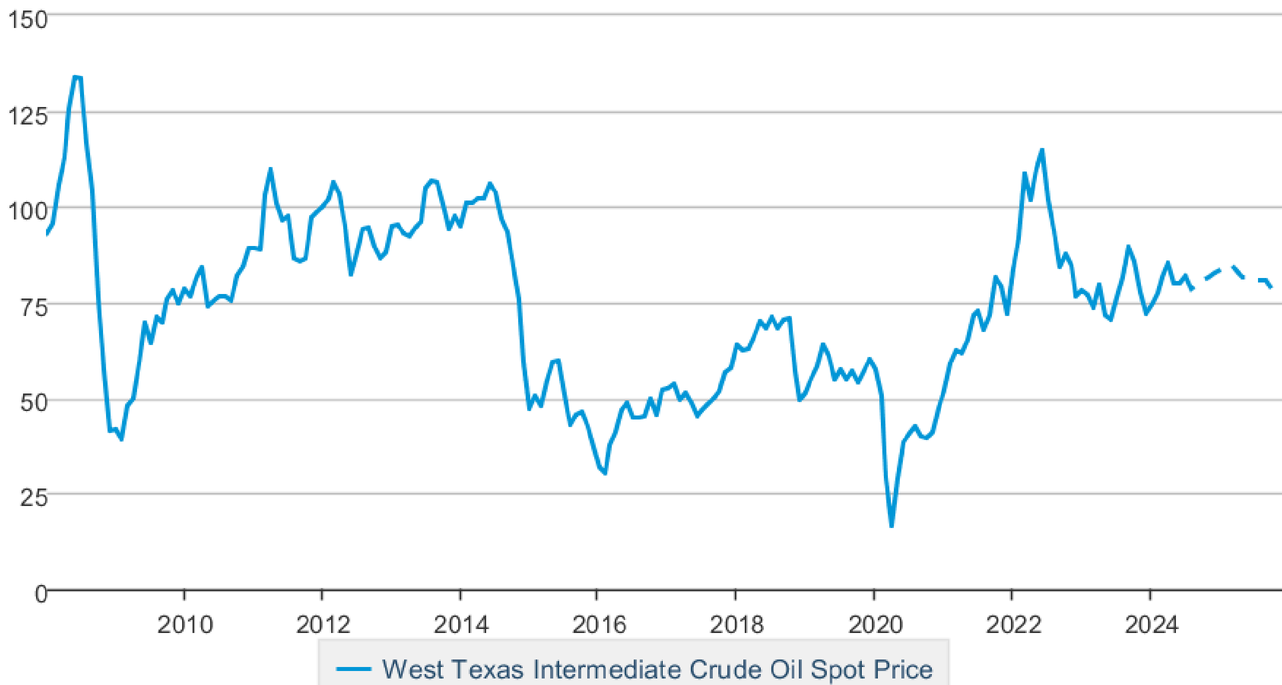
U.S. crude inventories have been falling since the week of June 23 and are now down to the lowest level since early January. U.S. commercial crude oil stocks fell by 4.6 million barrels week over week in the week ending Aug. 16, to 416 million barrels. Based on consumption estimates within the U.S. (20.6 million barrels per day), current crude oil stocks represent just over 20 days of supply.

The International Energy Agency's oil market report for August saw global oil demand increase by 840,000 barrels per day, highlighting China's continued drag on global oil demand. The IEA has largely held its forecast for global oil demand fairly stable, with growth being under 1 million barrels per day, which is well below the 2.1 million barrels-per-day growth experienced in the past year.

OPEC+, which tends to be quite bullish on global oil demand, has turned bearish, also highlighting the weakness in China. In the most recent forecast, OPEC+ revised its 2024 global oil demand forecast lower by 135,000 barrels per day. That said, OPEC+ expects growth of 2.1 million barrels per day during the year, well above the IEA's forecast.

For now, prices of WTI — a domestic benchmark — are down $1.50 a barrel from the beginning of August at $77. Since the Fourth of July, the market has been in decline, and as a result WTI is now below where it was this time last year. WTI is 3.9% below where it was at this time in 2023.

According to EIA projections, crude oil prices, both Brent and WTI, will be higher in the back half of 2024 despite short-term pressure.



Data source: U.S. Energy Information Administration

The EIA's latest Short-Term Energy Outlook, published in early August, highlighted near-term pressure on oil prices, but throughout the second half of the year, Brent crude spot prices should rise. The EIA is forecasting the uptick in prices due to falling inventories, which the agency expects to accelerate their decline in the back half of the year.

While expectations are for Brent crude prices to increase in the back of the year, expectations are also for WTI prices to rise. The EIA expects that WTI spot prices will peak in February 2025 at $84.5, down $2 per barrel from the July forecast.

What else we're watching

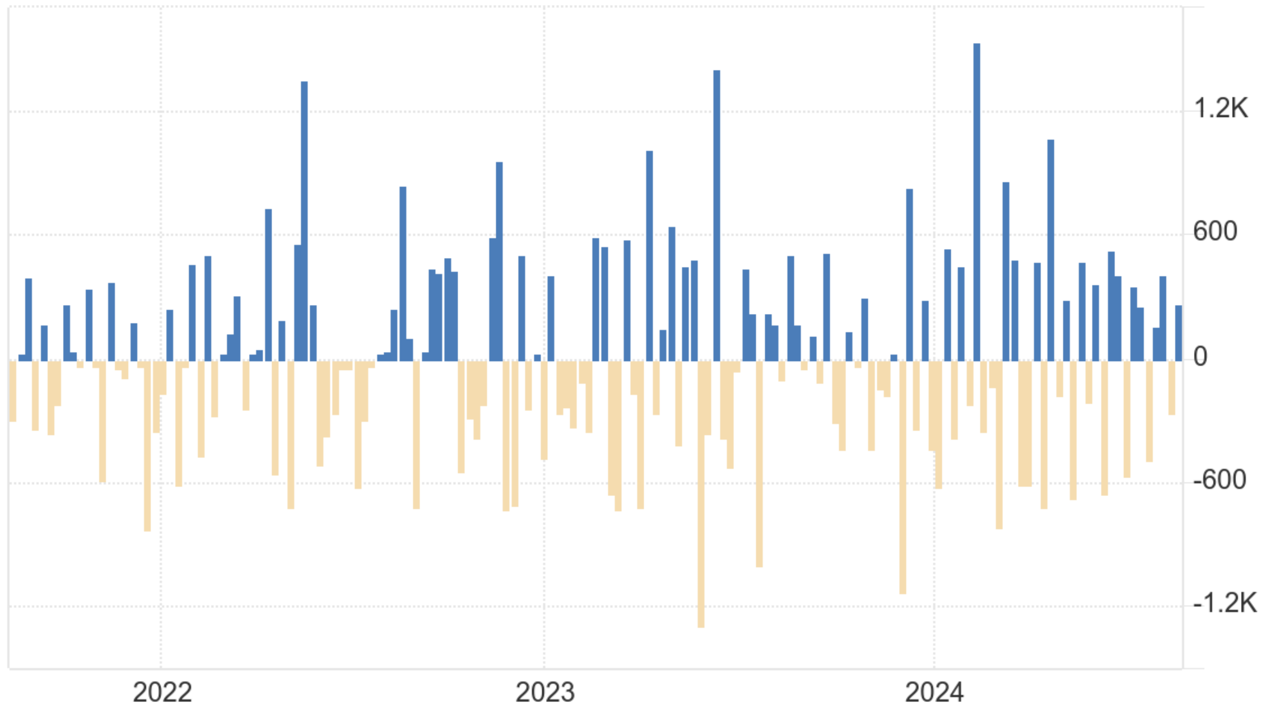
While the first half of the year was a time in which crude stocks were building, starting in mid-June, stocks have been on the decline in Cushing, Oklahoma. This trend follows the overall U.S. inventory trend as the past two months have seen fairly sizable drawdowns in inventories. For the week ending Aug. 16, the most recent week for which data is available, Cushing stocks were at 28.2 million barrels, down almost 2 million barrels in a month.

The days of inventory in Cushing, based on the assumption that U.S. consumption is roughly 20 million barrels per day, currently stands at 1.41 days, down from 1.67 days this time last month. Cushing inventories are down 8% from where they were this time last year, but if a similar trend continues into the autumn months, there could be cause for concern.

Last year, Cushing stock fell to its lowest level during the week ending Oct. 13 at 21.03 million barrels. From mid-August to mid-October, Cushing stock fell by over 30%. If that same decline were to happen this year, Cushing stock would fall below the 20 million barrel level to around 19.8 million barrels.

Why is that level so important?

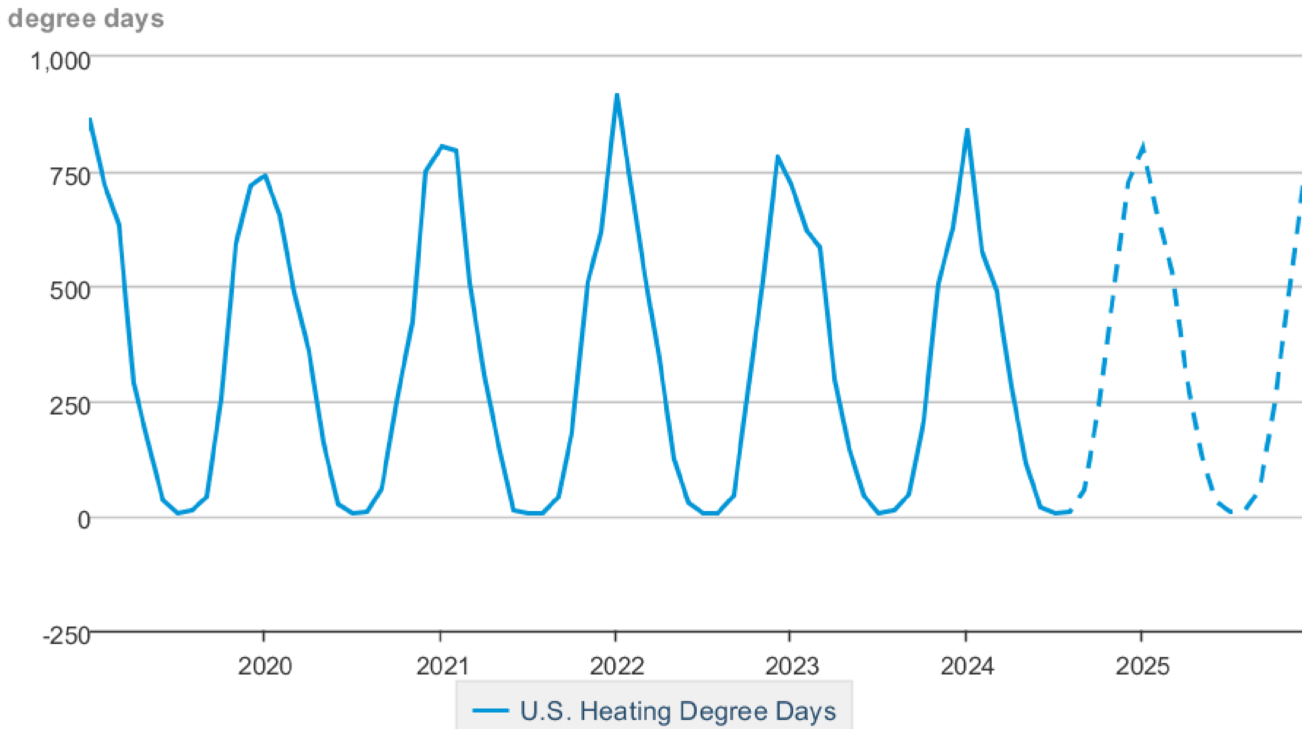
The 20 million barrel number is important, as anything below that metric in Cushing would be considered "operational lows" and would likely not be usable for production of distillates.



As the calendar is set to turn to the colder months, demand for home heating oil will intensify. Throughout the summer months, home heating oil stocks have been fairly volatile on a weekly basis, but in aggregate throughout the year, they haven't changed too much. As the calendar turns to September, it will be the last time to largely build inventories before reducing them until April.

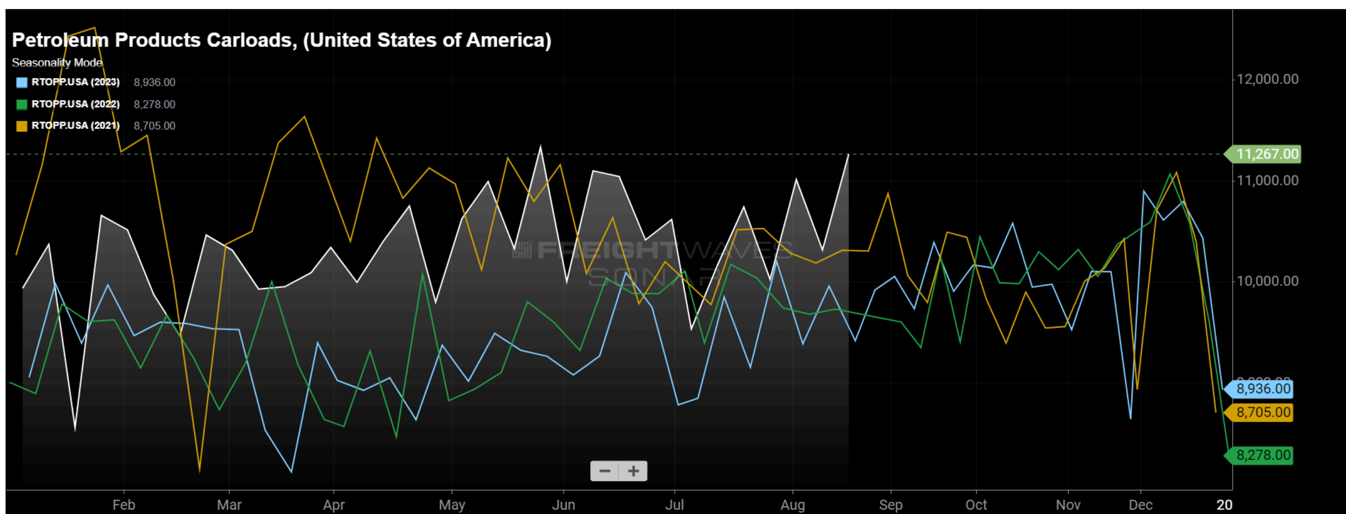
Now what could have significant impacts to home heating oil stocks in the coming months is the number of heating degree days. Heating degree days are a measure of how low the temperature on a given day (or for a period of time) was compared to a standard temperature, typically 65 degrees Fahrenheit. The more extreme cold the temperature, the higher the number of heating degree days.

U.S. Heating Degree Days



Data source: U.S. Energy Information Administration

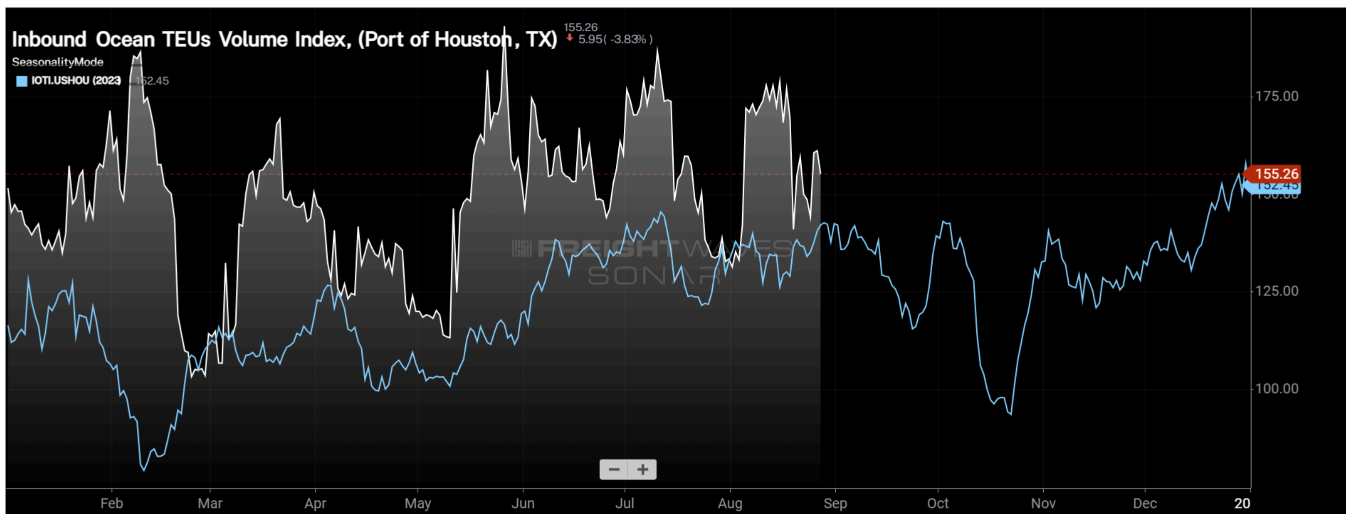
The EIA is forecasting a slightly milder winter this year than last year. The agency forecasts the number of heating degree days to total 802.6 in January 2025. The forecast is for the heating degree days to be down by 4.5% y/y in January.



FreightWaves SONAR: Petroleum Product Carloads. 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

On the heels of stronger production figures in July, petroleum carloads have been gaining momentum throughout August. In the most recent week for which data is available, the week ending Aug. 17, petroleum products were up 4.9% m/m and 19.6% y/y.

Even with a 17-hour lockout, petroleum product carloadings originated in Canada reached their highest level since March. Over the past month, petroleum product carloadings in Canada increased by 3%. Petroleum product carloadings in Canada are 12.6% higher y/y.



FreightWaves SONAR: Inbound Ocean TEU Index to the Port of Houston. 2024 (white) and 2023 (blue)

The next month could be quite interesting around the Gulf Coast. The International Longshoremen's Association, the labor union for the majority of the East and Gulf Coast ports, and the United States Maritime Alliance are in an ongoing labor dispute that could lead to a strike at the ports come Oct. 1 if a new contract is not agreed upon ahead of the expiration of the current agreement on Sept. 30.

As that time frame approaches, there will be diversions from these ports as importers (and exporters) opt for certainty in their supply chains. While any strike would likely not last very long, given the impacts to the U.S. economy, it would likely create disruptions at the East and Gulf Coast ports that would take some time to work out.

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