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Hitting the \$30 mark means slump's impact may be growing

Crude prices plunged below \$30 a barrel Friday for the first time in a dozen years, deepening an oil-market rout that could trigger yet more rounds of oil-spending cuts and cost Houston thousands of jobs.

Though the fortunes of Houston and its key industry depend on how long crude prices stay where they are or lower, the stakes have risen as Wall Street adopts the flagging oil market as a barometer of global economic health, especially in China, the world's secondlargest consumer of the black gold that's processed and shipped from Houston and other ports.

The Dow Jones industrial average followed China's financial markets and oil prices in a steep downward arc on Friday, dropping 2.4 percent. "At this price range, nothing is safe," said Jesse Thompson, an economist at the Federal Reserve Bank of Dallas.

The 20 percent collapse in crude prices this new year alone has broken through a critical psychological threshold nearly certain to spur more bankruptcies and force corporate boards to rethink their approach to the U.S. shale oil fields, which had spurred a renaissance in domestic crude production over the last few years.

U.S. benchmark West Texas Intermediate crude fell \$1.78 to \$29.42 a barrel on the New York Mercantile Exchange, the first time the price settled under \$30 a barrel since late 2003. It's an ominous price for the U.S. shale industry because it's the price at which even the best wells, the ones that produce the most oil at the lowest cost, stop making money.

Deeper cuts possible

If oil prices languish around \$30 a barrel for several months, domestic drillers would likely cut their North American oil-spending budgets in half in 2016 — nearly twice as deep as cuts projected last year, according to Barclays investment bank. That would bring North American oil spending down to about \$66 billion this year from \$202 billion in 2014, the year oil prices began falling from more than \$100 a barrel.

Each 25 percent cut in oil capital expenditures translates into the loss of 30,000 energy-related Houston jobs, before adding growth from other sectors, according to the Federal Reserve's Thompson.

Last year, Houston lost about 25,000 jobs in the first half of 2015, including oil field services, manufacturing, and exploration and production, according to the most recent government data available, which lags by several months.

Swift Worldwide Resources, a top energy-industry recruiter that has tracked 250,000 job cuts worldwide since the oil slump began, believes the figure could rise to 300,000 by midyear.

It's a painful process, but industry fallout from the oil-price collapse could set the stage for a recovery. In recent months, crude prices have kept falling in part because independent U.S. oil producers have avoided cutting oil production enough to make a dent in the world's oil supplies.

Without a major supply response by the U.S. oil industry, crude prices will simply keep falling, until the market finds the right pressure point, said John Kilduff, an oil analyst at Again Capital.

But Goldman Sachs, which has predicted since early last year that oil could fall as low as \$20, said it believes it sees the birth of a new bull market that will help lift crude prices in late 2016.

Economists mostly have remained optimistic about Houston's outlook, even as crude continued its descent into territory reminiscent of the devastating 1980s bust, but oil's fresh collapse below \$30 Friday started to give some of them pause.

"I think people need to be realistic," said Michelle Michot Foss, chief energy economist at the University of Texas' Bureau of Economic Geology. "I understand all the efforts to make the case that this won't matter so much for Houston, but it is going to matter — for Houston and for Texas."

Keith Phillips, a senior economist at the Federal Reserve Bank of Dallas, has forecast that Texas will add more than 160,000 jobs this year, with employment growing at a third the rate of 2014. But that's only if crude prices recover to \$40 to \$50 a barrel.

Texas could lose jobs this year if ultra-cheap crude prices hold, though it would likely be a shallow dip, he said.

"There's this underlying strength and diversity in the Texas economy that makes it harder for oil price declines to bring Texas into negative growth," Phillips said. "But \$20-\$30, given the cost of shale drilling, it's going to have a pretty dramatic effect on the energy sector — maybe enough to bring in slightly negative job growth."

Stemming the losses

Growth in Houston's health care, education and transportation sectors, coupled with a population boom in recent years, has helped diversify the city's economy and protect it from the steep energy job cuts that wounded the metro area more than three decades ago.

In addition, a multibillion-dollar building spree of chemical plants and refineries along the metro area's industrial corridor has helped stem the losses in exploration and production and oil-related manufacturing.

With the Organization of the Petroleum Exporting Countries, a Saudi-led cartel of mostly Middle Eastern oil producers, continuing to crank out more production at a time when worldwide demand

growth appears to be slowing, there are few reasons to believe crude prices will rise. That spells trouble for the world's producers.

"I doubt you can sustain the world's output at anything like its current level at \$30 a barrel, much less at \$20," said George Littell, a longtime Houston-based oil analyst.

While some analysts have continued to maintain that oil markets could rebound, the continued crash in prices makes it unlikely the U.S. will see \$60 oil again by the end of 2016, Littell said. Rather, the industry should brace for crude that remains in the \$50-a-barrel range or lower.

Bankruptcies foreseen

Foss, the UT economist, said that with oil trading where it is now, or lower, companies that have stayed afloat through heavy borrowing no longer will be able to make their debt payments, which could trigger the rash of bankruptcies and takeovers that has been predicted since soon after the downturn began in June 2014. "It's just going to be more and more difficult for people to ignore the hard decisions," Foss said.

Companies that have tried to hold on to their best people in anticipation of an eventual rebound may not be able to wait any longer, said Sean Heinroth, a Houston-based, energy-focused principal in the consulting firm A.T. Kearney.

"Oil and gas companies have cut almost to the bone in trying to weather this storm," he said. "What I suspect is going to happen next within these companies is a reconfiguring on how they do business."