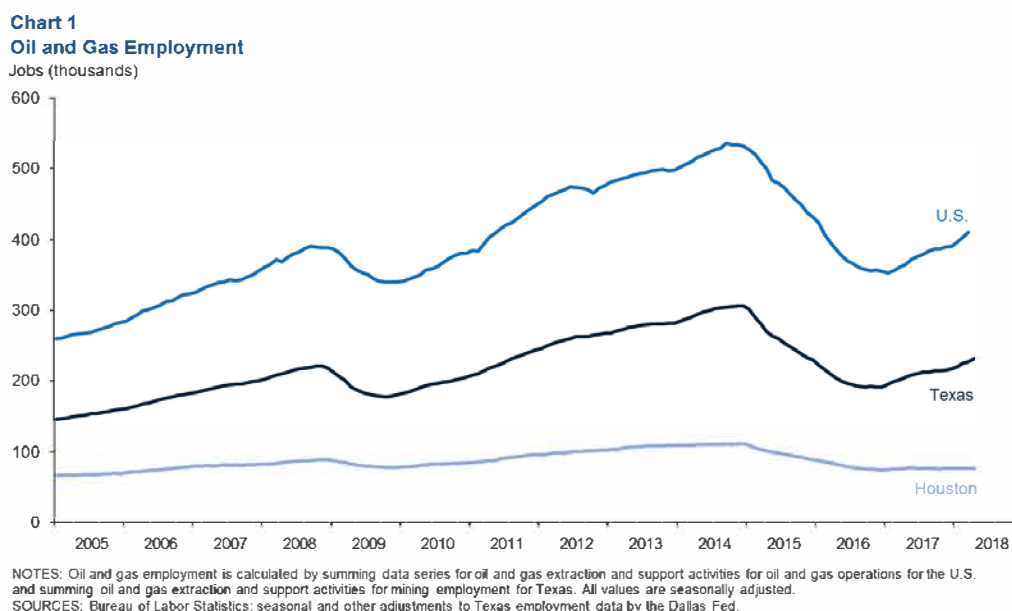


June 2018

The higher price environment is driving production and employment growth in the oil and gas industry. Higher prices for crude are also being passed on to consumer fuel prices, and exports remain elevated. On the other hand, rising gas production in West Texas is driving a wedge between natural gas prices there and the benchmark Henry Hub.

Employment

U.S. oil and gas mining jobs rose a net 6,600 jobs from February to March 2018 (*Chart 1*). Support activities for mining is the more cyclical component of the industry and continues to lead job growth nationwide, increasing by 4,600 jobs in March, while extraction expanded by 2,000. In April, extraction expanded a further 1,200 jobs. (Data for support activities is not yet available.)

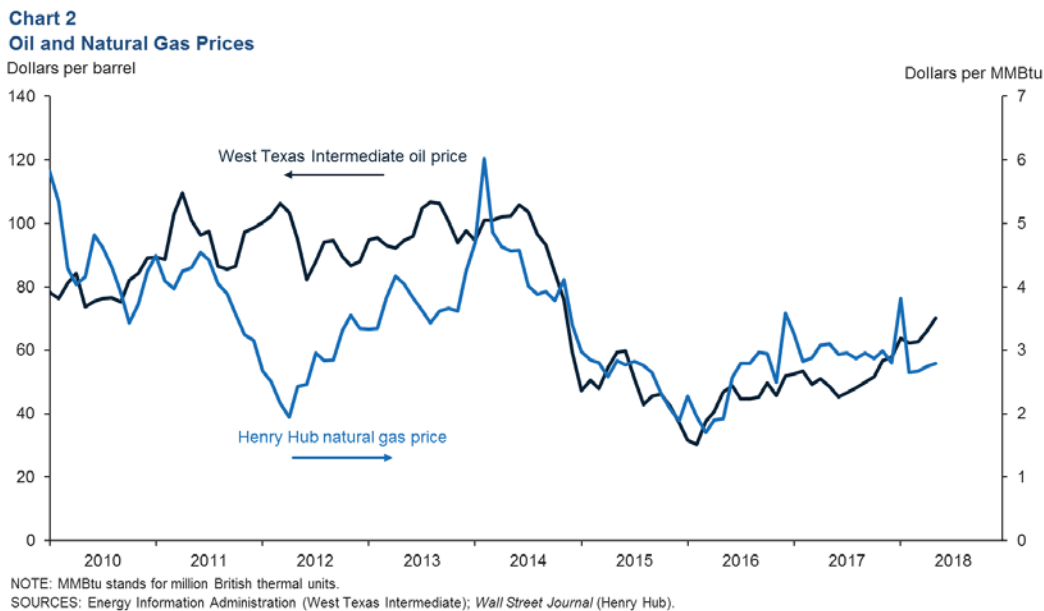


Texas accounted for 1,980 of U.S. mining jobs added in March. April data show a further increase of nearly 4,490 jobs in the state—230 in extraction and 4,260 in support activities.

As robust as industry employment recovery has been, that growth continues to be focused in producing areas and less so in the headquarters in Houston.

Spot Prices

The average price of West Texas Intermediate crude oil priced in Cushing, Oklahoma, extended its bull run in May 2018, rising to \$70.12 (*Chart 2*). The increase was once again supported by geopolitical concerns centered on Iran and Venezuela.

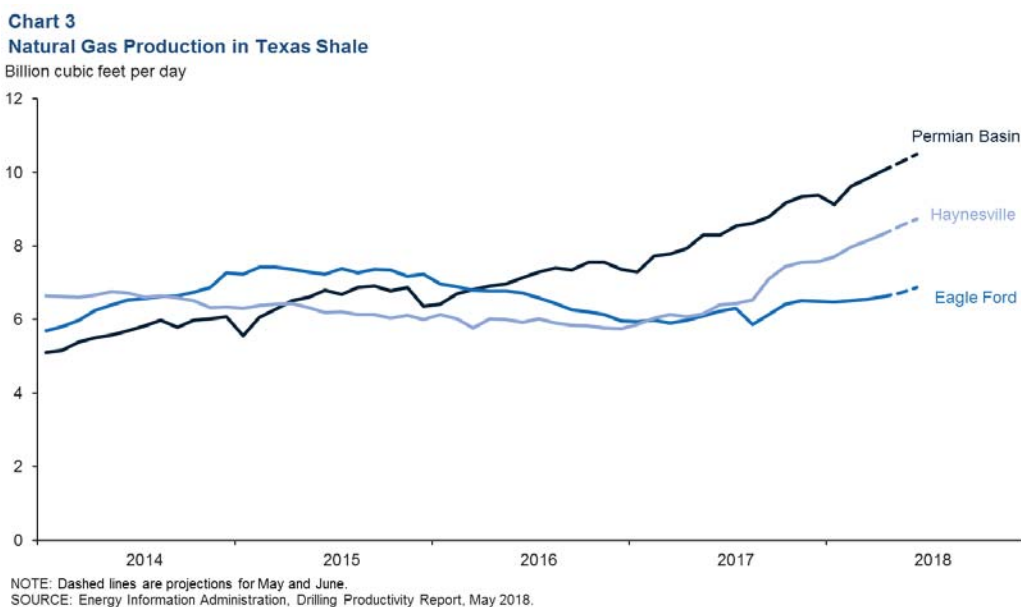


However, the spot prices of WTI and Brent crude eased toward the end of the month in part due to statements by Saudi Arabian and Russian officials that they would be willing to increase crude production to help offset lost supplies from Venezuela and Iran. WTI ended the month of May at \$68.24.

The average spot price of natural gas at Henry Hub was up slightly in May at \$2.79 per million British thermal units (MMBtu), up 4 cents from the April average.

Natural Gas

The recovery of oil production in the past two years drove up the production of associated gas—natural gas that is produced as a byproduct of producing oil—in basins like the Permian and Eagle Ford. Those two regions produced an estimated 16.7 billion cubic feet per day (bcf/d) of natural gas in April 2018 with 6.6 bcf/d coming from the Eagle Ford (Chart 3).

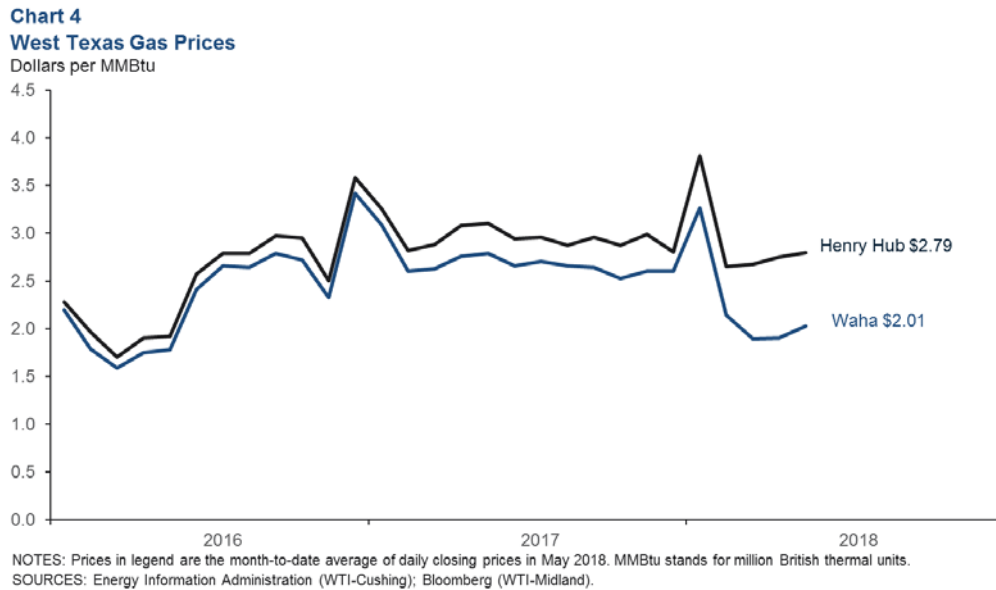


April natural gas production reached an estimated 8.7 bcf/d in the Haynesville of northern Louisiana and east Texas—its highest production level since December 2012.

The three basins are projected to add over 1.1 bcf/d from April to June based on recent drilling activity, according to the Energy Information Administration's May 2018 Drilling Productivity Report.

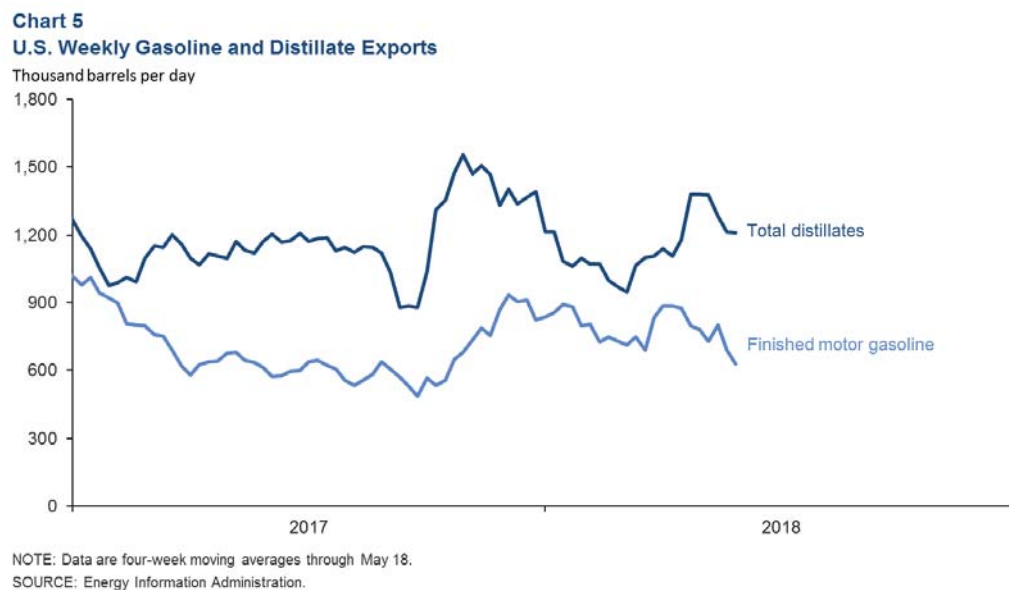
West Texas Natural Gas

Increased natural gas production in West and South Texas is placing strains on pipeline capacity in the region in much the same way as rising crude production. As a result, the spread between West Texas and Louisiana gas has widened. Natural gas priced at the Waha Hub in West Texas was \$2.01 per MMBtu in May, 78 cents below Henry Hub prices in Louisiana and slightly tighter than the 85-cent spread in April (*Chart 4*).



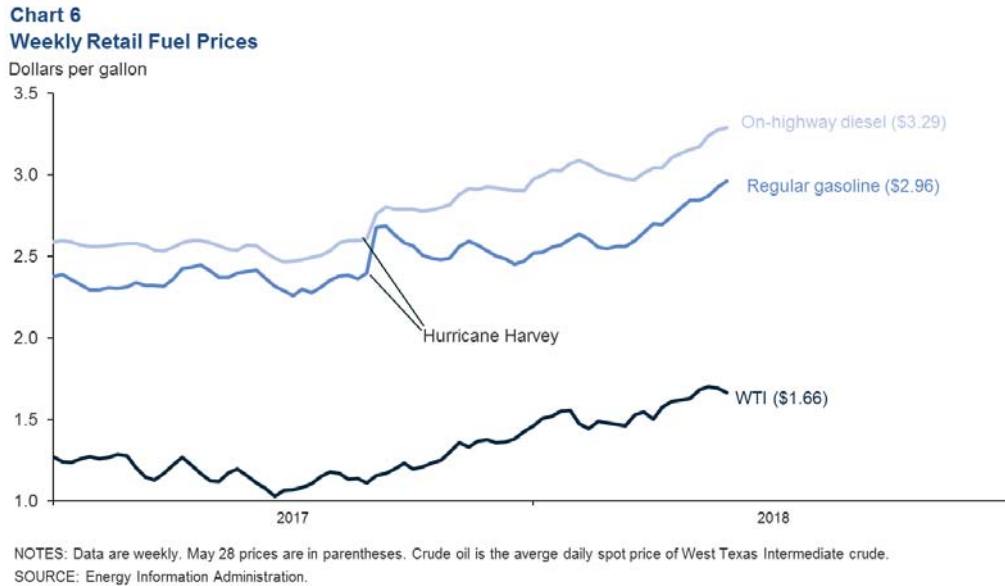
Gasoline and Diesel Exports

Exports of motor fuels declined in recent weeks, although volumes are still up year over year. Exports of distillates were 1,210 thousand barrels per day (kb/d) the four weeks ending May 25 (*Chart 5*). This is 3.3 percent above year-ago levels and aided by strong demand in Latin America, particularly Mexico. Healthy estimates for exports are helping erode domestic inventories of distillate, which had fallen to the bottom of their five-year range by mid-May. Similarly, gasoline exports have slipped over the last several weeks but were 2.6 percent above year-ago levels. The U.S. exported 630 kb/d of finished motor gasoline in the four weeks ending May 25.



Consumer Fuel Prices

The retail price of a gallon of regular gasoline has been rising fairly steadily from \$2.56 in mid-March to \$2.96 at the end of May due to higher crude oil prices, a switch to summer fuel blends and higher consumption (*Chart 6*). On-highway diesel prices similarly increased \$0.31 per gallon over that same period.



About Energy Indicators

Questions can be addressed to Jesse Thompson at jesse.thompson@dal.frb.org. *Energy Indicators* is released monthly and can be received by signing up for an email alert. For additional energy-related research, please visit the Dallas Fed's energy home page.