Hundreds of thousands of US layoffs expected as oil boom unravels

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The precipitous drop in the price of oil has prompted oil companies to prepare mass layoffs in 2015 as sections of the industry become unprofitable. According to a variety of sources, hundreds of thousands of jobs in the US alone could disappear this year if oil prices remain low.

The boom led to the addition of some 150,000 jobs in the industry, according to Citi Research. The slowdown could wipe out even more as jobs are slashed in exploration, construction, refining and the tens of thousands of jobs that service the industry and its workers.

The job cuts, which are occurring worldwide, will be most pronounced in regions where "unconventional" oil production has recently developed. In Texas, for instance, where a large oil boom has occurred at the Eagle Ford shale formation, the Dallas Federal Reserve predicts that 128,000 jobs could be lost in the state by mid-2015 if West Texas Intermediate (WTI) crude oil remains around $55.00 a barrel. As of this writing, WTI crude is going for $48.52 a barrel.

"Unconventional" fields, such as shale formations, which require hydraulic fracturing or fracking, tar sands, and deep-sea offshore reserves, have costs of production far higher than "conventional" oil. While the average Saudi Arabian field has a price of production close to $1 a barrel, an average shale field in the United States only begins to break even at $69 a barrel, according to a recent Scotia Bank estimate.

The drop in price has caused oil producers, where they can, to halt or slow down activity at their least profitable rigs. Reuters received data from Drilling Info Inc. that shows approved new oil well permits in the US dropping from 7,227 to 4,520 between October and November, a drop of 37.5 percent in a single month. The *Wall Street Journ* al quotes Susan Murphy, an oil and steel analyst, saying that spending on oil production and exploration will fall by 20 percent in the US this year. Total land rigs will decline by as much as 500 according to Murphy. *Rocky Mountain Oil Journal* quotes Dave Galt of the Montana Petroleum Association, who predicts a 50 percent decline in the drilling of new oil wells this year in the Bakken Shale formation, which underlies parts of Montana, North Dakota, Saskatchewan and Manitoba.

"Demand for rigs is falling off the cliff," Joseph Triepke, a financial analyst and managing director of Oilpro, an industry publishing company, told the *New York Times.* "Exploration and production budgets are down anywhere from 30 to 40 percent and the cuts are happening faster than we thought." Over the next six months, Triepke told the *Times*, the big three land drilling companies—Helmerich & Payne, Nabors Industries and Patterson-UTI Energy—are "likely to cut approximately 15,000 jobs out of the 50,000 people they currently employ."

The oil service giant Halliburton announced in December that it would cut 1,000 jobs from its division in the "eastern hemisphere." Halliburton's multimillionaire CEO, Dave Lesar, sent an e-mail out to employees informing them that further layoffs could follow. The international oil giant BP announced in December it would lay off an unspecified number of workers as part of a $1 billion cost-cutting campaign. A host of other oil companies are shutting down development projects and slashing spending.

In Mexico, 10,000 workers were laid off last week. The majority of the workers operated rigs in the offshore formations of the Bay of Campeche in the Gulf of Mexico. Like many oil workers, they worked for smaller oil service companies that contracted out to a giant oil company, in this case state-owned Petroleo

Mexicanos (Pemex). In a phone interview with *Bloomberg*, Gonzalo Hernandez, the secretary of the Ciudad del Carmen Economic Development Chamber, said job losses could go much higher, all the way to 50,000 this year.

In Bakersfield, California, the Employment Development Department was given notice by Ensign Energy Services that it would be axing 700 jobs. Edgar Salazar, who was fired just before Christmas by the company, spoke to *Bakersfieldnow*. Fighting off tears, he told the news agency, "I've never seen it this bad…. I've got six kids. It's stressful…. I have to support my family some way or another." Edgar had worked in the oil industry for 14 years and, up until now, has always been employed.

The comment section of *Bakersfieldnow* was filled with hundreds of comments expressing the sentiment of oil workers and sympathetic workers. "Kirsty Darren King Clark" wrote, "I have been Human Resources at a drilling company for 13 years…. I have never seen it this bad and I don't expect it to get better…. I was laid off. I hope and pray every oilfield man/women will get through this rough patch…." Arlene Aninion wrote, "Wouldn't it be nice, though, if these oil companies would forego their HUGE profits every now and then so the employees could keep their jobs and provide for their families?"

It is not just oil workers who are affected by the price fall. US Steel, whose most profitable wing has been supplying steel pipes for the burgeoning shale industry in the US, recently fired 756 workers. The company is idling steel mills that specialize in Oil Country Tubular Goods in McKeesport, Pennsylvania; Lorain, Ohio; and Houston and Belleville, Texas. Its stock has fallen by about 20 percent over the past year.

Civeco, which operates camps for oil workers in undeveloped areas, saw its stock plummet by 53 percent on a single day of trading in December. The resultant job loss is not known. Overall, the Energy Select Sector (XLE) stock index, which houses major energy companies, has dropped by more than 25 percent in the past six months.

Many states will be devastated by the decline in oil price. Alaska depends on oil taxes for 90 percent of its revenue and is expected to cut its expenditures by 50 percent to deal with the price decline. Louisiana is expecting a $1.4 billion funding shortfall for the 2015-2016 budget and has begun enacting cuts. Oklahoma, North Dakota, and Texas are the three other states whose budgets will be significantly hurt by the fall in oil prices.

Oil has plunged by more than 55 percent since its previous peak in July 2014. The last time the oil price dropped so starkly was in 2008 during the global financial crisis, when West Texas crude went from $145.29 in July 2008 to as low as $30.81 in December 2008, a 79 percent drop.