Falling oil prices trigger new layoffs, budget cuts in Louisiana and Texas

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Low oil prices have sparked an economic downturn in the state of Louisiana. Reports are already emerging of layoffs and drastic pay cuts throughout all sectors of industry. In one instance reported to the *New York Times*, a tugboat captain took a 90 percent pay cut just to keep his job. The same article describes the economic situation in Louisiana as a "slow strangle."

Oil giant Halliburton hinted late last month that more layoffs are coming this year across North America. Executives said land rig counts have dropped by 250 since December, around 15 percent. Capital budgets for customers are down 25-30 percent and more rigs will be idled.

Halliburton employs around 1,000 workers in southern Louisiana. The company has confirmed recently that "minimal" layoffs have already begun across their operations in Lafayette, Louisiana. This comes after the company's announcement of some 1,000 layoffs overseas late last year. Schlumberger, Halliburton's chief rival in the industry, announced last month it would lay off 9,000 employees—roughly seven percent of its entire workforce.

More layoffs have begun in nearby Texas. GE Oil & Gas has announced that it will lay off 330 workers at its Lufkin Industries subsidiary. The plant, located in Lufkin, Texas, manufactures pumping units, enclosed gear drives, and castings for heavy equipment and machine tools for oil and gas operations.

US Steel Tubular Products is due to lay off 318 workers in Morris County, Texas. Last month, the company laid off 142 workers at its pipeline manufacturing facility near Houston. Lariat Services Inc., an onshore drilling provider, has announced that it will lay off 250 workers across the state. Trican Well Service has announced that it will lay off 125 workers in Gregg County and Sandridge Energy will cut 25 in Ector County.

Shell, ExxonMobil, BP and other energy giants have used the price fall to justify their hard line in negotiations for a new labor agreement for 30,000 oil industry workers. Last Sunday, the United Steelworkers called a limited strike involving 3,800 workers, including thousands of workers at five refineries in the Houston area. Talks between the USW and industry negotiators have resumed with the companies refusing to accept the union's meager wage demands or back down on further cost cutting.

(See: "US oil industry strike enters fourth day as companies resist wage and safety demands").

Goodrich Petroleum Corp. announced last week that it would cut the amount of spending on oil exploration to $80 million to $100 million, down from its initial projection of $150 million to $200 million. The company extracts oil from Tuscaloosa Marine Shale, a geological formation located throughout South Louisiana. Only three rigs are now working in the region, according to the *Times Picayune*, down from nine in the summer of last year. It is speculated that production may soon fall down to two rigs.

Other drilling companies have begun to pull back as well. Comstock Resources has already suspended drilling throughout the area. Sanchez Oil and Gas Corp. claims that it will drill at three locations in the shale formation this year, but has not yet commenced at any of them. The much larger Encana Corporation also has investment in the shale formation. The company has announced plans to freeze drilling in a recent slide show meant for investors. The decision to pull back is described as having "massive upside potential" in the wake of the downturn.

The region of south Louisiana has already begun to react to the slowing economy. Major construction projects throughout the state are currently being frozen. Last Wednesday, plans to build a $14 billion gas-to-liquids plant in south Louisiana were put on indefinite hold. Similar announcements are expected in the coming months.

The year's budget projections are increasingly grim and will likely be used for further cuts to what remains of the social infrastructure. Roughly 14 percent of the state's general fund revenues come from oil and gas. Louisiana's state revenue estimating committee announced that there will be a $104 million shortfall due to the falling prices. It also found that the budget hole for next year will be at least $204 million more than previously projected, bringing it to just over $1.6 billion overall.

Governor Bobby Jindal already cut state spending by $180 million last month, citing falling oil prices as a reason. Even before the prices plummeted, however, colleges throughout Louisiana were told to prepare for more than $300 million in cuts. It is already speculated that some smaller campuses will have to shut down entirely due to the reductions in funding. Health care services will be forced to take a $250 million hit, which could increase to double the amount if the state cannot access certain forms of federal funding. The full extent of dropping oil prices have not yet been felt and it is likely the state government will propose even further cuts.

The economic blowback, not readily apparent at the moment, will be felt in nearly all sectors of the economy. Service companies working for firms related to the oil and gas industry will also be hard hit as they lose business from their main clients. Several hundred people working as "landmen," who negotiate leases and land rights for oil exploration, have already been laid off in Lafayette. Other service firms are beginning to accept dramatically lower contracts with oil companies, which are seeking to cut costs in any way possible. This will inevitably translate to wage cuts and layoffs in these peripheral industries, mainly based around small to mid-sized companies.

Many of these smaller firms faced with the real prospect of going under are being quickly bought up by large corporations. The downturn in the region is leading to an ever-increasing growth of monopolies throughout the industry. In turn, these large corporations are using the crisis as an opportunity to cut costs while often ignoring safety regulations.

In the comment section of Lake Charles local news outlet *KPLC*, residents and workers described the situation. One worker wrote that layoffs had already begun in Louisiana that had not been reported. "Layoffs started in October," he wrote. "I was laid off November 3." Another local resident wrote, "Any lower [oil prices], and my husband will get laid off. He is the main source of income in our home of three adults and a toddler."

Some newspapers have begun to draw comparisons between the current downturn and the oil bust of the 1980s. Louisiana suffered a severe economic catastrophe in 1986, when oil prices plummeted from $27 per barrel to below $10. Entire shopping districts in major cities like New Orleans and Baton Rouge closed, while city centers and commercial hubs became largely vacant. One in eight workers in Louisiana was unemployed, the highest rate in the nation. In small oil-based towns in southern Louisiana, such as Morgan City, the unemployment rate was as high as one in four.