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2024

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

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Another new high in oil production

November 27, 2024 | 10 a.m.

Overview

The freight market is in the midst of a change as capacity continues to exit the market. The more niche markets are seeing the changes happen faster than the dry van market, but data suggests a transition is underway from an extremely loose freight market to a tighter one.

The macroeconomy continues to be pulled along by consumers, who have shown that they have no plans on slowing down. The industrial side of the economy continues to lag as industrial production was lower once again. The Federal Open Market Committee cut the target range for the federal funds rate for the second time in as many meetings, which could boost capital expenditures in 2025.

Though the industrial side of the economy has slowed, the oil market has been a bright spot. Domestic oil production set a new all-time high in October, surpassing the previous high set in August. At the same time, OPEC+ ministers continue to weigh their options when it comes to phasing out their voluntary production cuts.

Crude oil prices haven't seen a significant catalyst to move higher, which is part of the reason why OPEC+ is hesitant to phase out those cuts. Additionally, demand, especially in China, has been weak, leading to lower global demand and in turn lower prices.

With election results now final and colder weather settling in, it will be interesting to see if that is a catalyst for further domestic production and investment or if prices being impacted by softer global demand will win out in the end.

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	274 (-8.4%)
Gulf Coast Basin	63 (-21.3%)
Anadarko Basin	48 (Unch.)
Total	**596 (-13%)**

Crude oil prices per barrel (y/y change)

WTI crude	$69.20 (-11.01%)
Brent crude	$72.69 (-12.05%)
Brent-WTI Spread	**$3.49 (-26.5%)**

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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 easing of monetary policy continued as the Federal Open Market Committee unanimously decided to reduce the federal funds target range by 25 basis points to between 4.5% and 4.75%. In the FOMC's statement, the committee highlighted that while inflation remains elevated relative to its long-term target of 2%, it has made progress over the past year.

The 25-basis-point reduction in the target range sets the FOMC to continue easing monetary policy at its final meeting of the year, Dec. 17-18. The initial belief is that the FOMC will reduce the target range by another 25 bps in December, as the expectations set forth at the September meeting were for an additional 50 bps in reduction by the end of the year.

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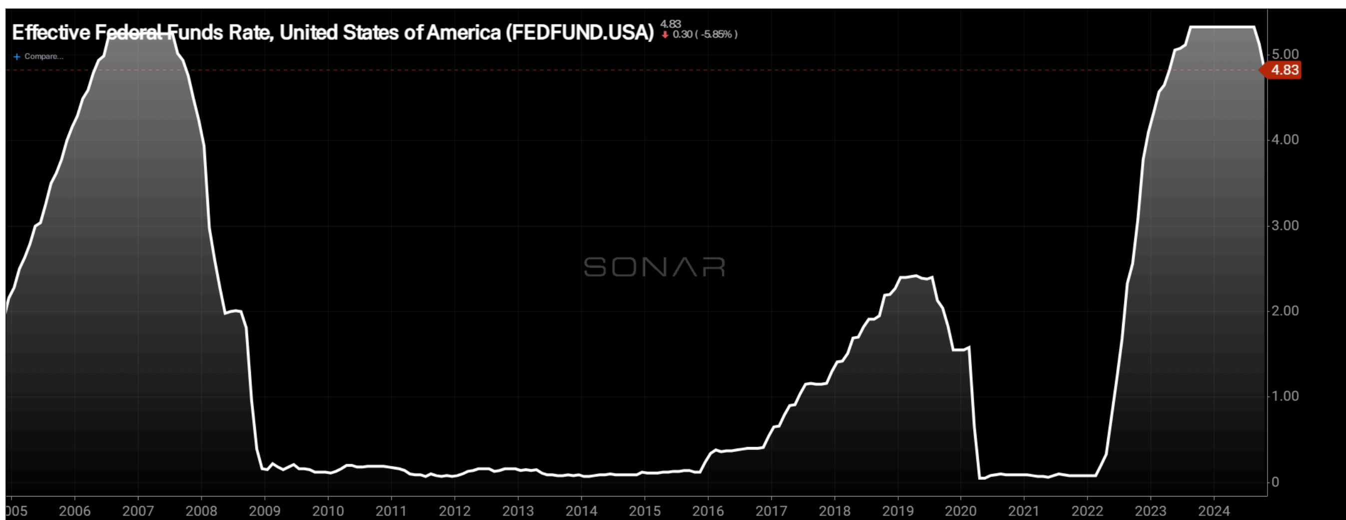

With the election now in the rearview, there are questions about the impacts around potential policies, including the impacts of tariffs. Many economists believe that potential tariff policy could create inflationary pressure. At the same time, President Donald Trump in his first term was hell-bent on having lower interest rates to keep the U.S. competitive in terms of investment, especially when other G7 countries including Japan had interest rates that were near zero or negative in some cases.

This dynamic of potential inflation creates an environment in which the FOMC is going to be in a peculiar position. The Federal Reserve is supposed to be bipartisan and set monetary policy based on data and not political pressures, but if political pressures mount to lower interest rates, it could create

an acceleration in inflation, ultimately leading to tighter lending conditions in the future and higher interest rates.

Until that plays out, however, the FOMC has made it clear that as new data becomes available regarding inflation and employment, it will continue to take a targeted approach to adjusting the federal funds rate.

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The consumer has been pulling the economy forward as the manufacturing sector has been slowing. Consumer spending hasn't faltered meaningfully despite the elevated inflation levels that impacted the economy for the better part of three years. The positive sign, which has allowed the FOMC to make its decision to ease monetary policy, is that inflation has come more into alignment with the long-term target of 2%.

While not the FOMC's preferred gauge of inflation, the Consumer Price Index is a widely used measure of inflation. In October, the Consumer Price Index increased by 0.2% for the fourth consecutive month, matching analysts' expectations. The 12-month running total for the CPI came in at 2.6% in October, also matching analysts' expectations. Core inflation, or the CPI excluding the more volatile food and energy prices, increased by 0.3% m/m and 3.3% y/y.

Food prices slowed their increase in October from September, rising 0.2% m/m. Food prices are up 2.1% y/y. Food-at-home price increases fell back in line with what they've been for much of the year, rising 0.1% m/m, compared to the 0.4% m/m increase in September, which is proving to be an anomaly. Food-at-home prices are up just 1.1% compared to this time last year. Food-away-from-home prices have continued to have stable increases, rising by 0.2% m/m. Food-away-from-home prices are up 3.8% y/y.

Energy prices have been a source of deflation throughout the past year. Overall energy prices were unchanged in October, but they were 4.9% lower y/y. Gasoline prices have arguably been the biggest relief for consumers, falling by 1% m/m and over 12% compared to last year.

Shelter prices, one of the biggest components to core inflation, accelerated in October, rising by 0.4% m/m after a 0.2% increase in September. Shelter prices are up 4.9% y/y.

While inflation is approaching the FOMC's target range, consumers have shown that their ability (or willingness) to spend money hasn't slowed. October's retail sales data came in better than expected. Total retail sales increased by 0.4% m/m, better than analysts' expectations of a 0.3% m/m increase. Retail sales were 2.8% higher than they were this time last year, outpacing the rate of inflation, which is a positive sign compared to earlier in the year. Removing gasoline station sales, which are depressed due to the lower gas prices, retail sales are up 3.7% y/y.

Electronics sales were the primary source of strength in October, rising 2.3% m/m. However, electronics sales were down 2.3% y/y. The strength in retail sales was echoed by Bank of America's card spending report that showed the end of October was one of the strongest periods for electronics spending in recent months but the beginning of October was fairly slow.

Labor market

On the employment front, October was the softest job creation month in quite some time, but numerous factors contributed to this. In October, after seasonal adjustments, just 12,000 jobs were added to nonfarm payrolls, the smallest monthly gain since December 2020. Analysts were expecting job gains to total 100,000 in the month.

Not only was it a soft month, but initially reported figures for both August and September were revised lower by 100,000 total between the two months.

That said, the unemployment rate remained stable at 4.1% during October, matching expectations, which is still historically low.

What created the lowest job creation month in more than three years? Two strikes as well as two hurricanes had significant impacts. The machinist strike at Boeing was the largest detractor for job growth. The manufacturing sector of the economy experienced a reduction of 46,000 jobs during the month, but the Bureau of Labor Statistics attributes the 44,000-job reduction in transportation equipment manufacturing to strike activity.

The growth in payrolls continues to be driven primarily by government and health care hiring. The health care sector added 52,300 jobs during October, while there were 40,000 new government jobs created in October, though most of those were at state and local government levels.

The leisure and hospitality sector, which has been a driver of job growth in recent months, saw a reduction of 4,000 jobs during the month.

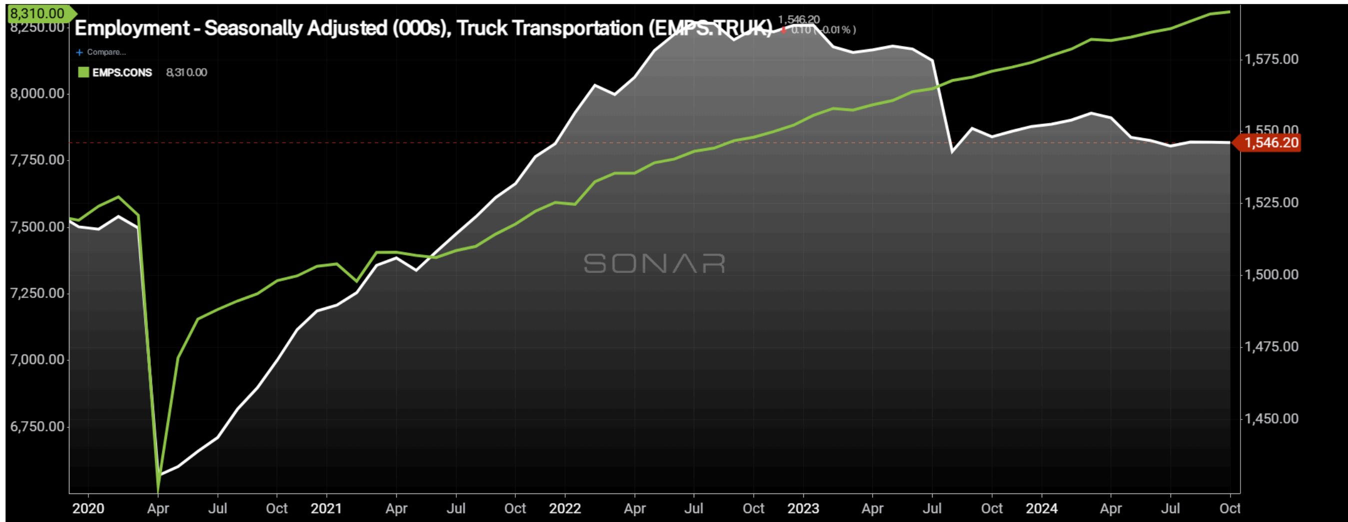
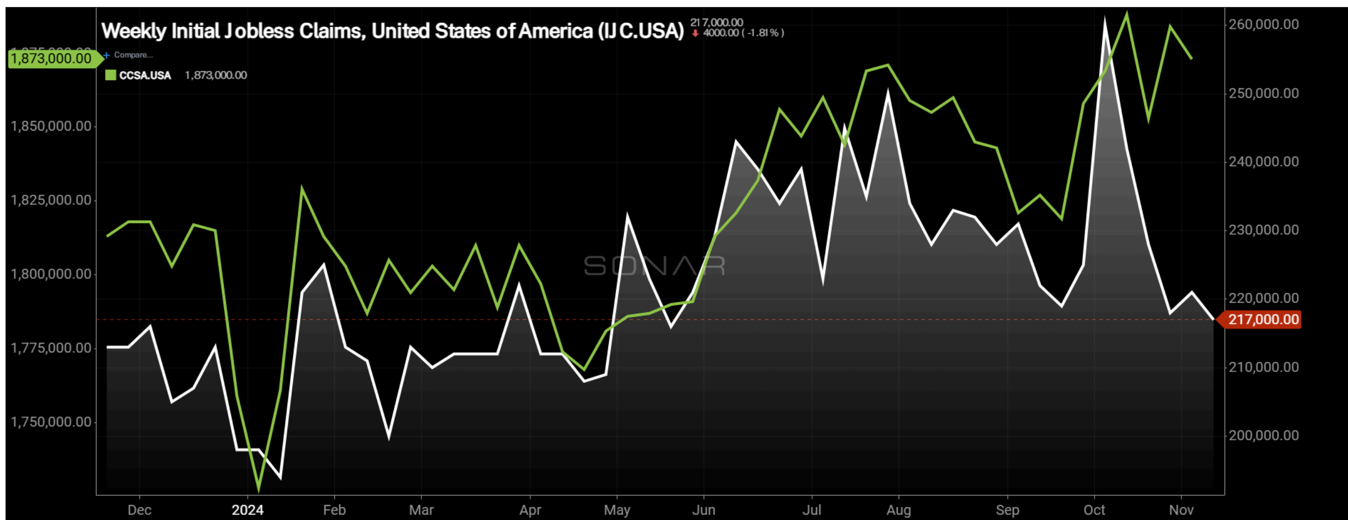


Chart: SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

The construction sector of the economy experienced growth, adding 8,000 jobs during the month. Much of that growth was driven by nonresidential specialty trade contractors, which saw payrolls grow by 14,300.

The transportation industry as a whole experienced contraction, losing 3,700 jobs during October. The primary reason for the decrease was a reduction of 7,000 in warehousing and storage payrolls. Truck transportation payrolls fell by 100 in October.

Payrolls in the oil and gas sector were down in October, falling by 100 m/m. Total oil and gas sector payrolls are currently 119,600, up 1,800 over the past year.



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

Initial jobless claims are showing no significant signs of worry in the labor market. For the week ending Nov. 9, initial jobless claims fell by 4,000 from the week prior to 217,000. Initial jobless claims were down by 11,000 compared to the same week last year.

Continuing claims for the week ending Nov. 2 dropped by 11,000, which is a positive sign moving forward. That said, continuing claims are still nearly 4% higher than they were this time last year.

The broader downturn in the number of job openings continued in September, erasing all of the increases experienced in August. Total openings fell by 418,000 in September even after August's job openings data was revised lower. Total job openings stood at 7,443,000 in September, nearly 2 million fewer than at the same time last year.

The declines in job openings were widespread with nearly every industry experiencing a decline. The construction industry, after showing a fairly sizable increase in openings in August, was back on the decline in September. The construction industry saw a reduction of 40,000 job openings in September to 288,000, down 32% y/y.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — fell by 134,000 in September. Openings in September totaled 997,000, down 316,000 from September 2023. The largest decrease in the sector stems from retail trade, where openings fell by 58,000 m/m.

The quit rate – the number of resignations during the month as a percentage of total unemployment – decreased by 0.1 percentage points in September to 1.9%, after August's quit rate was revised up by 0.1 percentage points. The quit rate for the trade, transportation and utilities sector increased by 0.1 percentage points to 2.1%. The quit rate for the construction sector fell by 0.2 percentage points to 1.4%.

Housing and construction

Two cuts to interest rates haven't been enough to boost the housing market. Since the announcement of the first interest rate cut in September, mortgage rates have been increasing, an indication that banks' risk profiles are changing to some degree. The declines throughout the year up to the first cut were likely driven by optimism that interest rate cuts by the FOMC would be more aggressive, but with Federal Reserve officials opting for a more targeted approach, the optimism is fading.

According to Freddie Mac, the average 30-year fixed-rate mortgage is up 34 bps m/m to 6.78%, up 70 basis points from the low during the last week of September. The third-quarter household debt report from the Federal Reserve Bank of New York showed that mortgage loans that are transitioning into seriously delinquent (90-plus days) were up to 1.08% from 0.72% in the same quarter last year. Total mortgage delinquencies are about 0.7%, which are historically low, but have been rising since the third quarter of 2022.

Despite the higher mortgage rates, sentiment regarding purchasing a home continues to improve. The Home Purchase Sentiment Index produced by Fannie Mae increased by 0.7 points m/m to 74.6, the highest level since February 2022.

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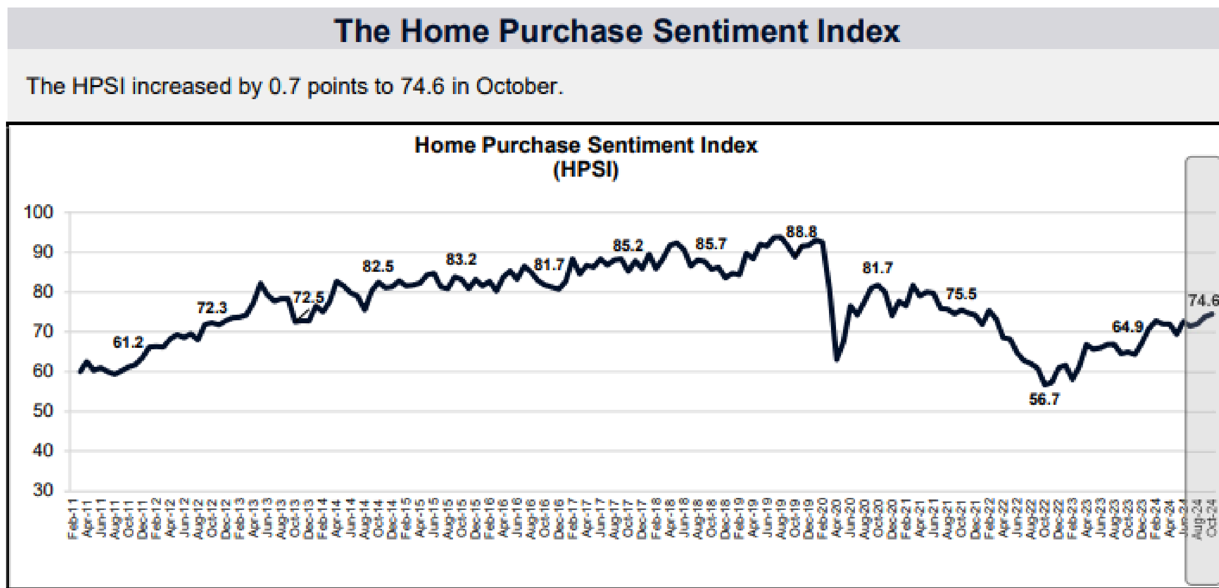

"While we have seen significant improvement in overall housing sentiment over the past two years, consumers' perception of homebuying conditions remains strained, with only 20% believing it a 'good time' to buy a home, primarily due to high home prices," said Mark Palim, Fannie Mae senior vice president and chief economist, in the Nov. 7 release.

Surprisingly, the percentage of respondents who expect lower mortgage rates over the next year actually declined in October. After 42% expected mortgage rates to decline over the next year in September, just 39% expected rates to decline in the October report. The November data will be interesting since mortgage rates have increased, but there have been two cuts to interest rates and another is likely in December.

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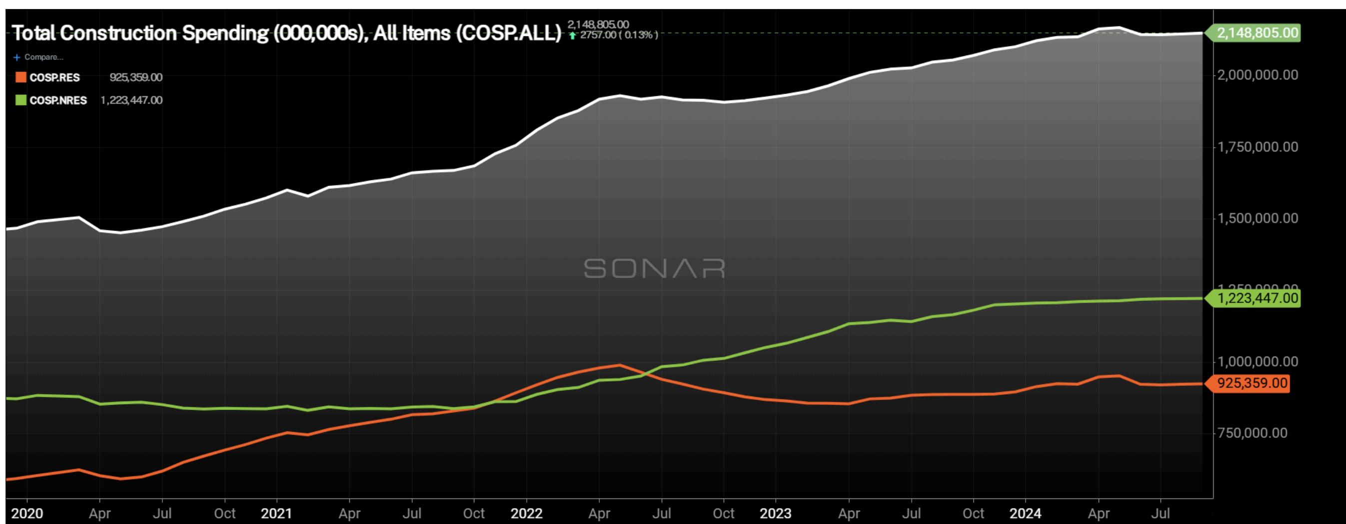


Construction spending rebounded slightly in September after a slight decline in August. Total construction spending rose by 0.1% m/m to a seasonally adjusted annual rate (SAAR) of $2.148 billion. Total construction spending continues to outpace GDP growth, rising 4.6% y/y.

Residential construction spending was able to break its downward slide, rising for the first time in over three months. The residential construction spending SAAR increased by 0.2% m/m in September to $925.4 billion. Residential construction spending was up 4.2% y/y in September.

Nonresidential construction spending grew once again, but it was slower than the residential counterpart. The nonresidential construction spending SAAR increased by 0.1% m/m to $1.223 billion. Nonresidential construction spending is 4.9% higher than it was this time last year. Manufacturing, which is the largest segment of nonresidential construction spending, saw spending fall by 0.2% m/m to $235.3 million, but it is 20.5% y/y.

Looking upstream in housing, activity slowed in October, marking the second monthly decline in housing starts even as the FOMC has eased monetary policy. Housing starts fell by 3.1% m/m in October to a SAAR of 1,311,000 and are down 4% y/y. Single-family housing starts fared far worse than multifamily starts, falling 6.9% m/m and down 0.5% y/y, while multifamily housing starts rose 9.8% m/m, but are still down 12.6% y/y.

Oil market

The conflicts in the Middle East continue to weigh on the oil market as a whole, though oil prices have been fairly stable throughout November. OPEC+ ministers are scheduled to meet Sunday to discuss output policy and if the phasing out of voluntary cuts that started in November 2023 will begin in December as scheduled or if they will delay the phasing out into 2025.

As it stands today, the voluntary cuts total 2.2 million barrels per day and the cuts were originally slated to start being phased out in October. Weak global oil demand has been the primary driver for OPEC+ to continue delaying the increases to production. According to an article published by Reuters, sources surrounding OPEC+ ministers believe that with oil demand weak and with increased production outside of OPEC+ countries, ministers will likely push the phasing out of the cuts into the first quarter of 2025.

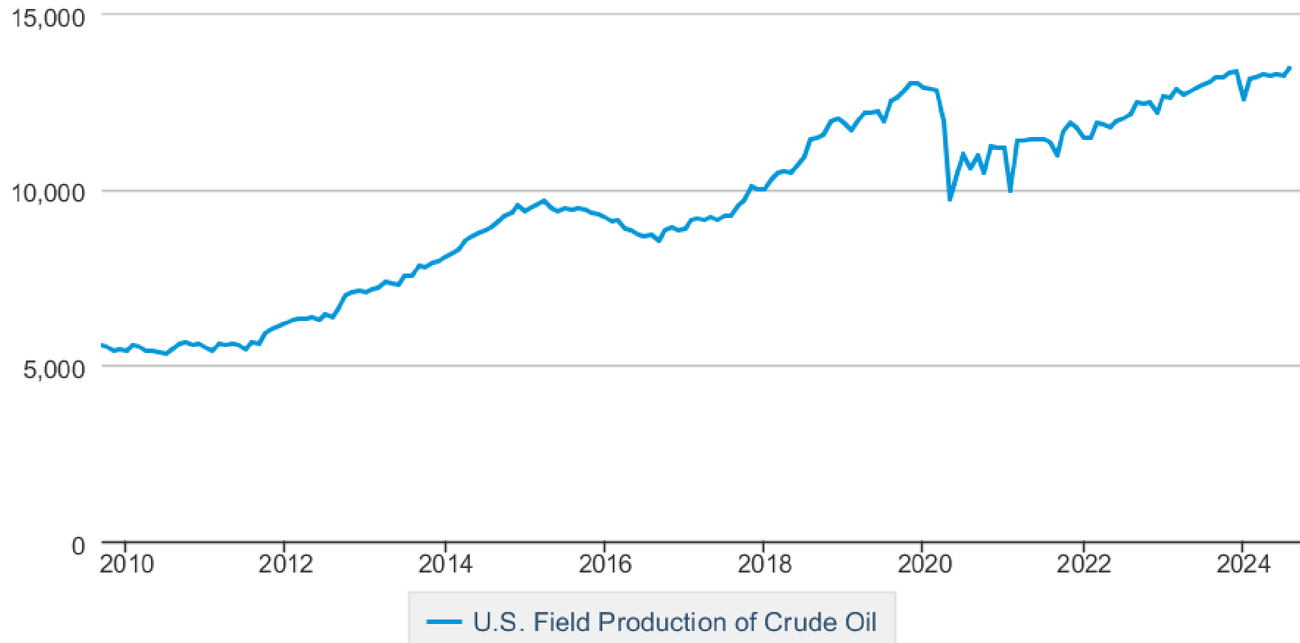
Why does OPEC+ want to limit production?

Oil is the primary driver of the economies in OPEC+ countries, and with the oil market being global, these countries want crude oil prices to be as high as possible to increase production.

Conversely, the U.S. has become a more impactful player on the global stage, but for many of the producers in the U.S., when oil prices are at the levels they are now, producers are able to generate strong corporate profits and cash flows.

So while OPEC+ countries have been limiting output, the U.S. has been seeing production rise to new heights in recent months. Hurricanes in late September and early October derailed production slightly, but expectations are for new all-time highs in domestic oil production throughout 2025.

After September’s domestic oil production figures were revised lower by 40,000 barrels per day (bpd) to 13.21 million, October production set a new all-time high. In October, domestic crude oil production increased 210,000 from September to 13.45 million bpd. October’s production figures surpassed the previous all-time high set in August by 50,000 bpd.



With domestic oil production at an all-time high despite the impacts from multiple hurricanes in early October, expectations are for domestic production to continue to rise. In November's U.S. Energy Information Administration (EIA) Short-Term Energy Outlook, expectations are for domestic crude oil production to slow slightly in November to 13.44 million bpd, down 10,000 from October's figures, but to rebound in December to 13.52 million bpd. The EIA expects oil production to remain around the 13.52 million bpd mark, with the exception of February given there are fewer days, until November 2025, when expectations are for production to reach 13.65 million bpd.

The Baker Hughes active rotary rig count is thought to signal future demand for drilling. The count for the U.S. as a whole totaled 583 rotary rigs as of Nov. 22. The latest count showed a slight decline with one fewer active rig from the previous week and down 39 rigs from the same week last year, a 6.3% decline.

Much of the decline over the course of the past year has stemmed from Texas, where active rotary rig counts are down by 22 from this time last year, or 7.3%. Oklahoma and North Dakota have actually seen the number of rig counts increase over the past year, rising by 15.7% and 9.7%, respectively. While the increases are respectable, the overall number of rigs in the two states combined is just a quarter of the total rigs in Texas and less than 15% of total active rigs in the U.S.

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	48	-1	-2.0%	0	0.0%
Appalachia	31	-1	-3.1%	-11	-26.2%
DJ Basin	10	0	0%	-5	-33.3%
Gulf Coast Basin	63	-3	-4.5%	-17	-21.3%
Permian Basin	274	4	1.5%	-25	-8.4%
Williston Basin	36	-4	-10%	1	3%
Other	134	-11	-7.6%	-32	-19.3%
Total	**596**	**-16**	**-2.6%**	**-89**	**-13.0%**

Source: Enverus daily active rig count as of Monday.

While total active rig counts according to Enverus have declined over the past month and are down by double digits from this time last year, there are some positive takeaways. The Permian Basin, the largest basin in the country by active rig count, saw the total number of active rig counts increase over the past month by 1.5%. It was the only increase of the five other major basins. If there is a positive sign moving into 2025, the FOMC has cut interest rates twice this year and is likely to cut again in 2025, which will probably lead to increased capital expenditures and could boost active rig counts in 2025.

Crude prices bounce on threat of production halts in Libya

Crude oil prices have been fairly stable despite lingering tension in the Middle East. The recently begun ceasefire between Hezbollah and Israel will provide at least short-term relief to tensions in the region, but the initial reaction for crude prices was a slight sell-off.

In the U.S., despite the election results and the incoming administration's stance on oil and wanting to "drill, baby, drill," many executives believe that won't actually happen. For domestic oil producers, executives have stated that they will be more disciplined in drilling than they were during the first Trump administration and focus on the economics of production as opposed to just producing more. With that stance, it is more likely that domestic producers would like to keep crude prices around where they currently are in an effort to continue to generate cash flows and ultimately pass that through to shareholders.

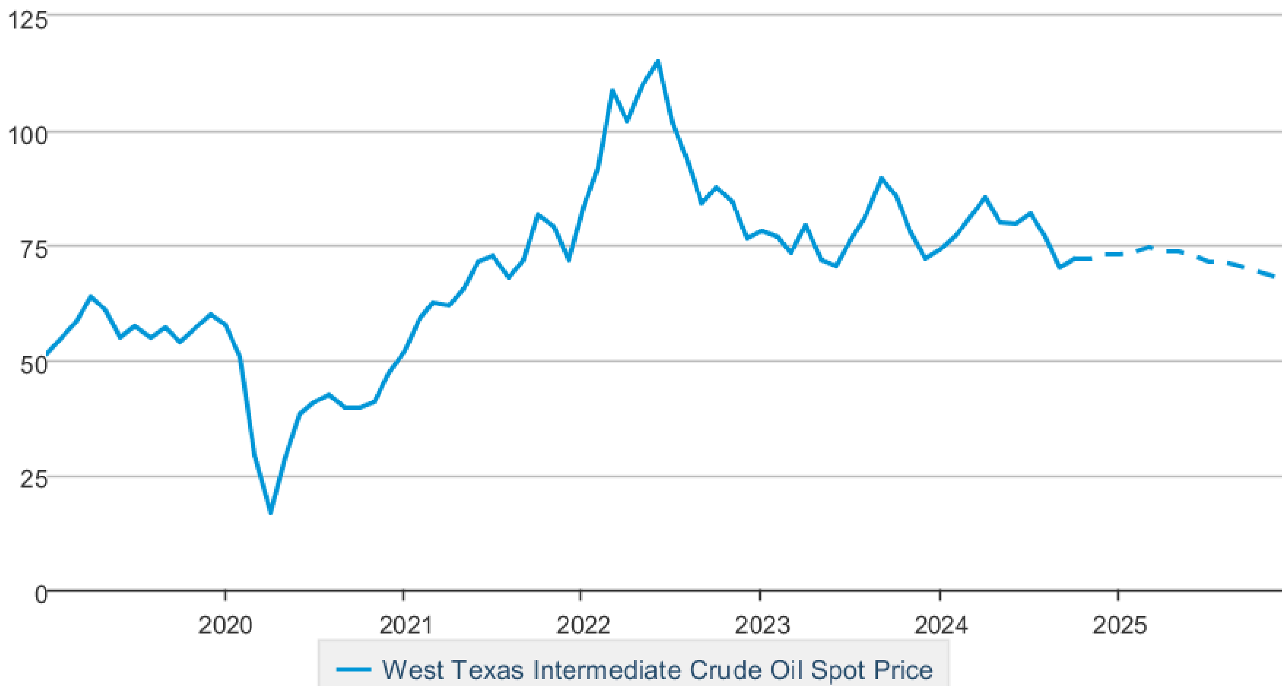
With crude oil prices remaining fairly stable throughout November, crude oil inventory levels have been rising steadily, which is typically a bearish sign for crude oil prices. In the most recent week for which data is available, the week ending Nov. 15, crude oil inventories increased by 545,000 barrels, ahead of the 400,000-barrel forecast but well below the 2 million barrels added in the week prior.

In the OPEC+ Monthly Oil Market Report for November, the organization continued to revise global oil demand lower. In the November report, it lowered its 2024 forecast for global crude oil demand by 107,000 bpd to 1.8 million bpd. The organization did revise its 2024 and 2025 expectations for global economic growth, up to 3.1% in 2024 and 3% in 2025. OPEC+ expects that crude oil demand will also be lower in 2025 than it is in 2024, revising its 2025 forecast by 103,000 bpd to 1.5 million-bpd y/y growth in 2025.

True to form, the International Energy Association remains far more bearish than OPEC+ when looking both at 2024 and 2025. The IEA did revise its forecast for global oil demand slightly higher in November, now expecting growth of 920,000 bpd in 2024, up from 900,000 in October's release. The agency does expect that demand growth in 2025 will be slightly higher than in 2024 but far less impressive than the OPEC+ forecast, which projects global oil demand to grow by nearly 1 million bpd in 2025.

For now, prices of WTI — a domestic benchmark — are up $1.29, to $68.50 per barrel over the past month, but still down 10.5% y/y. Over the past month, WTI prices have declined by 0.66% and are down 17.86% y/y.

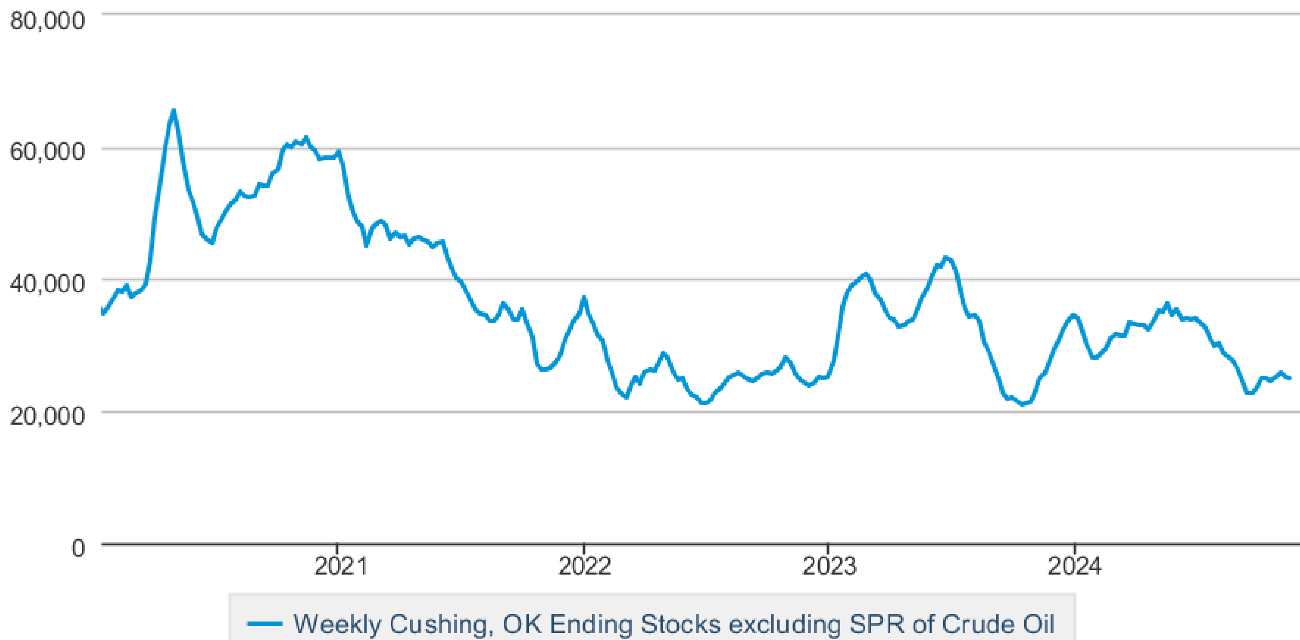
According to EIA projections, crude oil prices, both Brent and WTI, will be higher in the first half of 2025 before retreating in the back half of the year.



Data source: U.S. Energy Information Administration

The EIA's latest Short-Term Energy Outlook, published in early November, captured some of the upward move in October, but isn't forecasting significant changes in WTI throughout the final month of 2024. The STEO forecasts WTI crude spot prices to close out November at $72 per barrel, a nearly 5% premium from where WTI is currently trading. Expectations are for WTI crude prices to peak in March 2025 at $74.50 per barrel before moving lower in the back half of the year.

What else we're watching



Crude stocks in Cushing, Oklahoma, have continued to recover from the recent lows at the end of September. The growth in crude stocks in Cushing slowed from the month prior, growing by 375,000 barrels in November compared to the over 1 million barrels added month over month in October. In the week ending Nov. 15, crude stocks in Cushing totaled 25,051,000 barrels, down 3.2% compared to the same period last year.

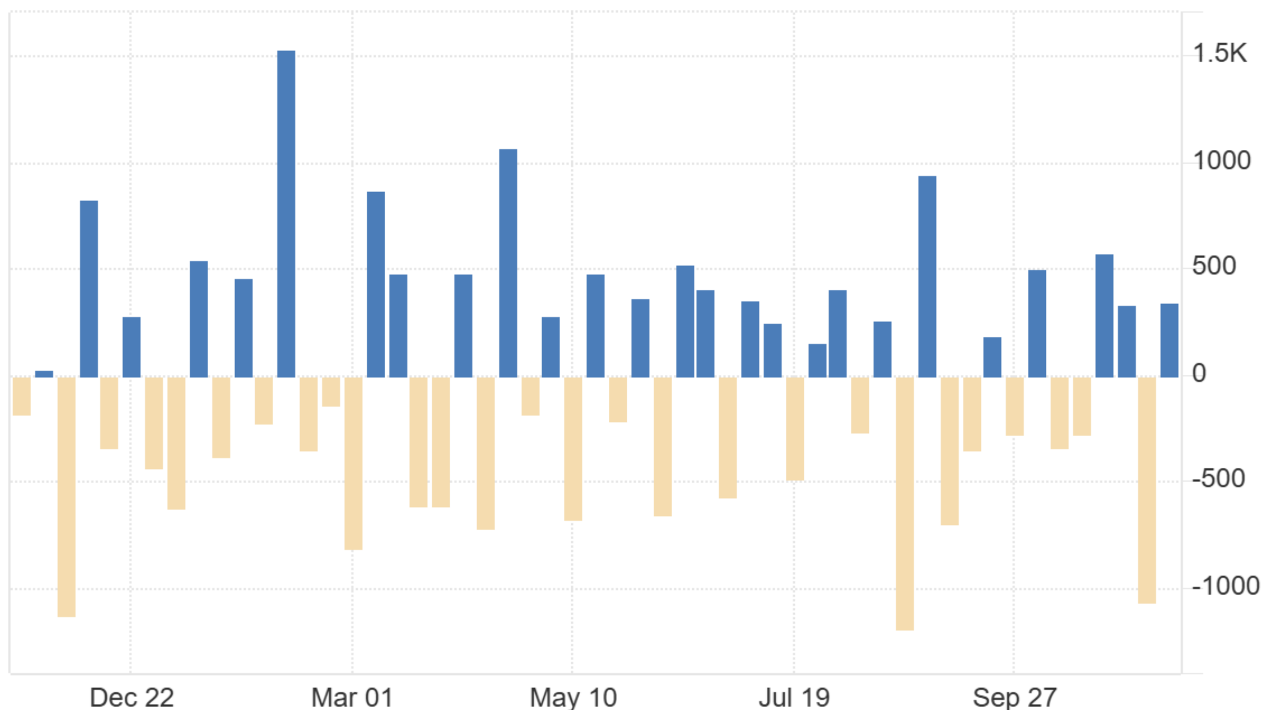
If there is good news surrounding the stocks in Cushing, it is that the situation isn't as dire as it was during the fall of last year. The number to pay attention to is if the crude stocks approach the 20 million-barrel level during the winter months.

Why 20 million barrels?

That is the average daily consumption in the U.S. Additionally, in the Cushing stock, anything under 20 million barrels is effectively not usable for production. So the continued increase in November is important for inventory levels that challenged the 20 million-barrel level in September. At present, there are 1.25 days' worth of inventory in Cushing stocks, up from 1.23 days in last month's report.

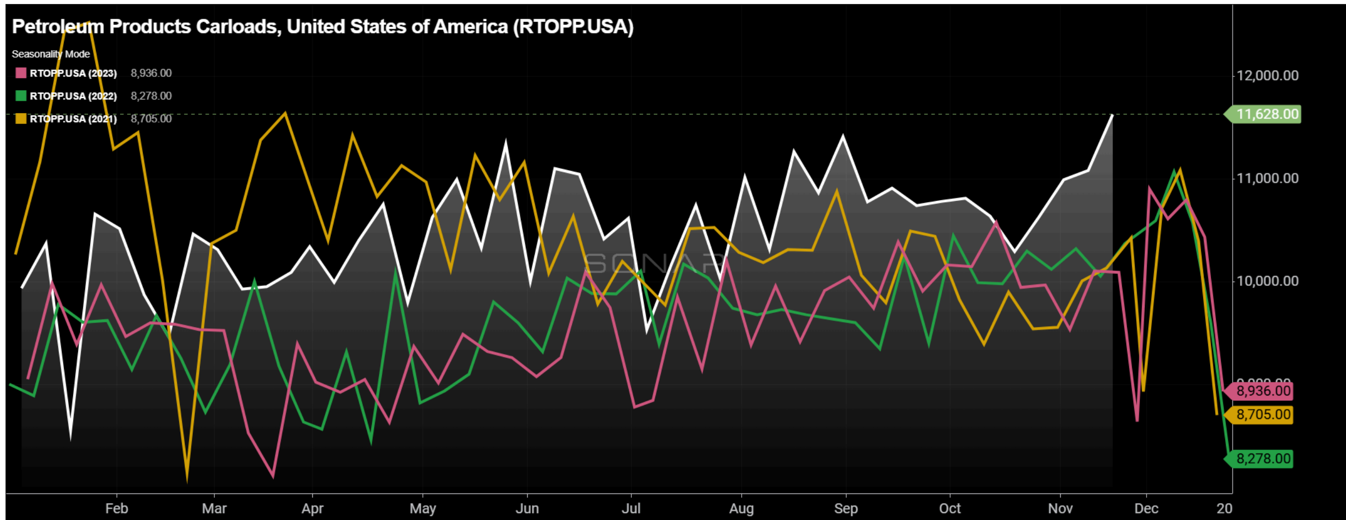
As the colder weather months arrive, that brings challenges to the crude market that aren't present during the warmer months. Colder weather brings more demand, specifically for home heating oil,

which is a competitor with diesel No. 2. One of the ways to measure how strong demand for home heating oil will be is not only by heating oil stock movements, but also by heating degree days. A heating degree day is a measure of how low the temperature was for a given period of time. Colder weather moving in across the country was evident in October as there were 201 U.S. heating degree days compared to just 37 in September. Within the STEO, projections for the next two months are included. For November, expectations are for 420 U.S. heating degree days and 724 in December. If this were to play out, it would represent a milder November than the year prior but a colder December.



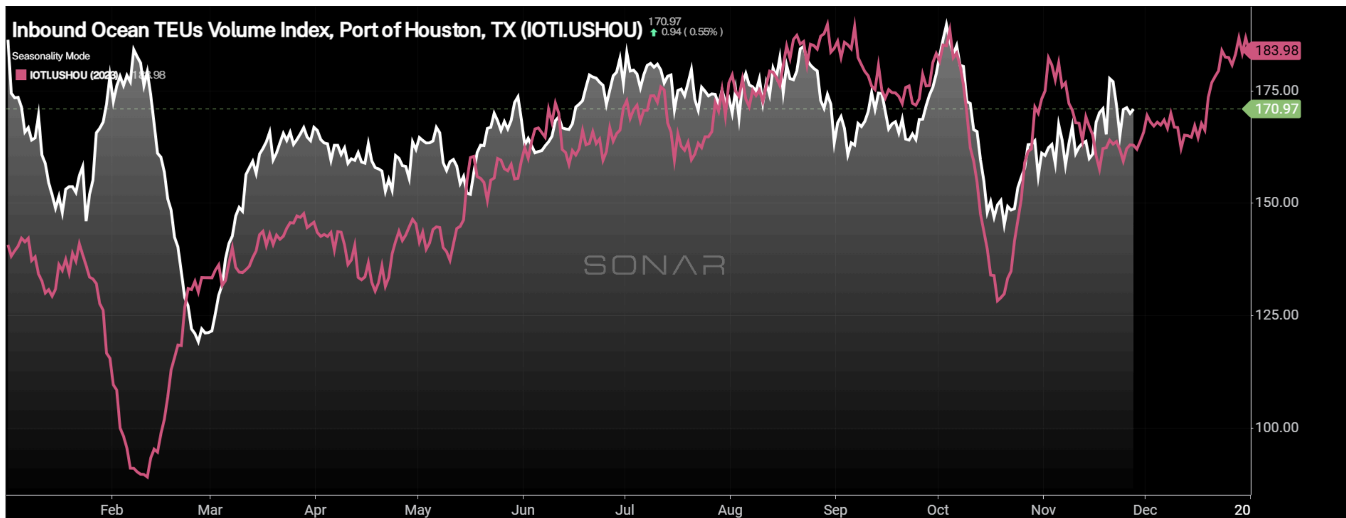
Source: tradingeconomics.com | U.S. Energy Information Administration

U.S. home heating oil stocks have been building on a weekly basis, but it only took a week to nearly wipe out all the recent additions. For the week ending Nov. 15, the most recent week for which data is available, heating oil stocks rose by 342,000 barrels. It was the third increase in stocks in four weeks, but the three increases totaled 1,248,000 barrels. The lone decrease, in the week ending Nov. 8, was 1,060,000 barrels, nearly wiping out all the increases. So far in November, there has been a net reduction in home heating oil stocks of 383,000 barrels. In November 2023, there was a net reduction of 756,000 barrels.



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

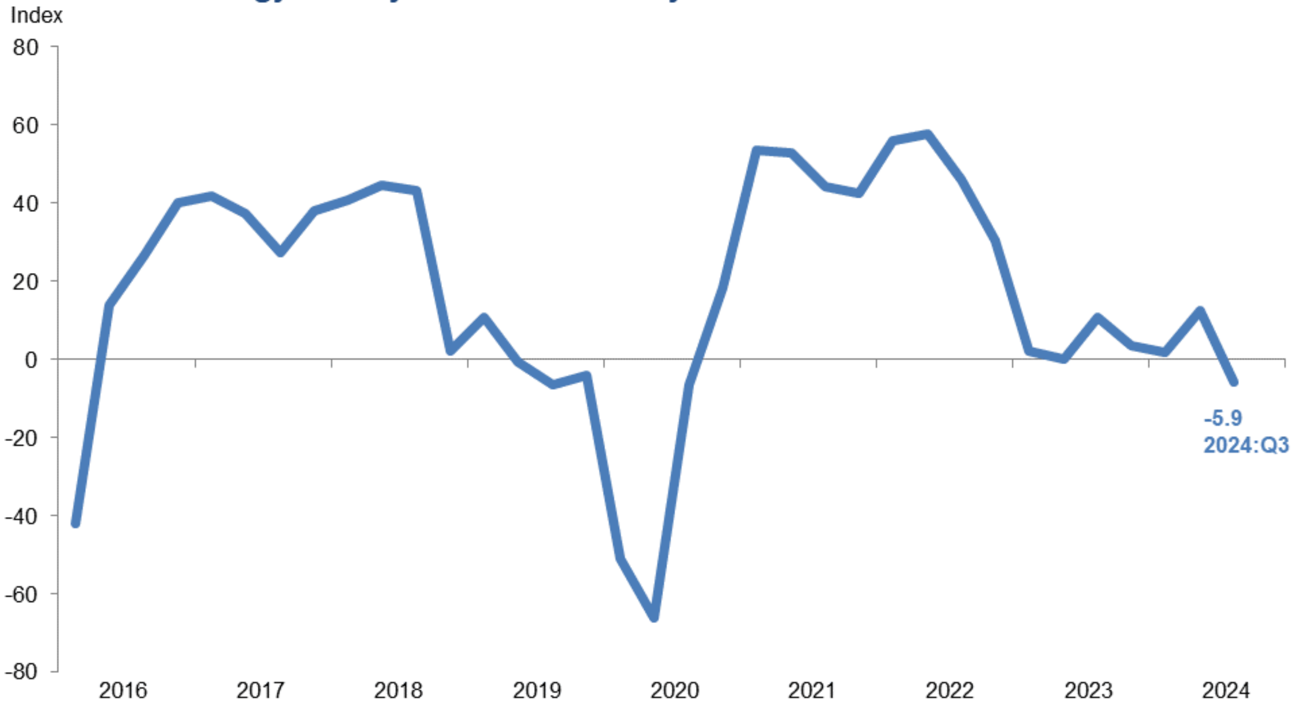
True to form, as domestic oil production recovered, so did petroleum product carloads, reaching the highest level since March 2021. Over the past month, the number of petroleum product carloads has increased by 12.9%. The increase in the final two months of the year is fairly seasonal, but the increases this year are the clear outperformer. Petroleum product carloads are currently 15.2% higher than they were this time last year. Should crude oil production remain strong as anticipated, petroleum product carloads will continue to outperform years prior.



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

Imports into the Port of Houston continue to recover from the short-lived strike by the International Longshoremen's Association (ILA) in early October as well as the Golden Week holiday. The Inbound Ocean TEUs Volume Index, a measure of container volumes from all global ports with the destination being a particular port based on the date of booking, has eclipsed last year's levels. At present, inbound ocean TEU volumes into the Port of Houston are up 4.9%. Challenges could arise at the major Gulf Coast port in the coming months, though, as there is potential for another strike starting

on Jan. 15. An agreement between the ILA and the United States Maritime Alliance has yet to be announced as the hang-ups about automation remain in the master contract.



Source: Federal Reserve Bank of Dallas, Dallas Fed Energy Survey

Business activity turned negative in the third quarter, according to the Dallas Fed Energy Survey. The reading of minus 5.9 was the first reading in negative territory since the third quarter of 2020, when it came in at minus 6.6. A few of the main reasons for the slowdown in business activity have to do with limited capital expenditures, which came in at minus 3.8 compared to positive 8.2 in the prior quarter.

Company outlooks also soured in the third quarter, falling from 10 in the second quarter to minus 12.1. Nearly 30% of respondents reported that company outlooks worsened during the third quarter compared to 17.7% that have more optimistic outlooks.

Energy businesses are far more uncertain about the future as the Uncertainty Index more than doubled quarter over quarter to 48.6, the highest level since the first quarter of 2023. It will be interesting to see if multiple interest rate cuts and final election results impact both uncertainty and business outlooks in the fourth quarter.

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