FEBRUARY
2025

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

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Oil production sets new high, prices fluctuate

January 28, 2025 | 1 p.m.

Overview

The freight market continues to shift as capacity is remaining tighter longer following the holiday season. Niche markets will generally feel these tighter dynamics more strongly than the general market.

The macroeconomic conditions are in an interesting place, especially after three consecutive interest rate cuts. The new administration is calling for the Federal Reserve to cut interest rates further, but Fed officials have stated that inflation and unemployment are their focus in making policy decisions and that politics won't cloud their judgment. If interest rates were cut further, it would likely help boost industrial activity, though the economics have to make sense – especially in the oil and gas space.

Even so, domestic oil production hit yet another all-time high in December, though it fell short of initial expectations. The "drill baby drill" mantra doesn't align with what oil and gas companies have been focusing on: doing more with less to generate strong returns for shareholders.

There has been increased volatility in oil prices in January. There are a couple of reasons for this: Extreme cold swept across the country for multiple weeks, creating stronger demand, and geopolitical risks have created uneasiness among commodity traders.

Looking ahead, 2025 appears on track to be one of the strongest, if not the strongest, years for domestic oil production, but prices will be the focal point of the Trump administration. That will likely lead to prices heading lower this year, but the extent of that decline is still uncertain.

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	273 (-8.4%)
Gulf Coast Basin	62 (-17.3%)
Anadarko Basin	47 (-9.6%)
Total	**587 (-12.8%)**

Crude oil prices per barrel (y/y change)

WTI crude	\$73 (-6.2%)
Brent crude	\$76.09 (-7.21%)
Brent-WTI Spread	**\$3.09 (-52%)**

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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

With the Federal Open Market Committee remaining aggressive with rate cuts to close out 2024, it might appear that the FOMC has become more dovish based on recent data. But that may not actually be the case, and it isn't out of the question for the FOMC to turn hawkish at some point in 2025. The first meeting of the year is scheduled for Jan. 28-29. Expectations are for the FOMC to pause interest rate reductions at the meeting.

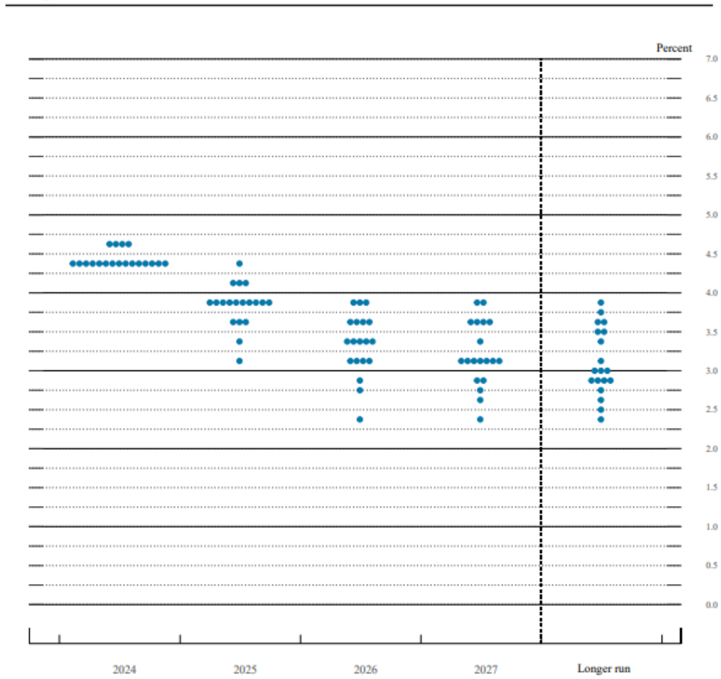
The reason for the pause is likely that the FOMC wants to wait for new data to continue to roll in, giving the economy time to catch its breath after three consecutive cuts. The FOMC has stated its main two objectives in determining monetary policy: Achieve maximum employment and have inflation remain near a long-term target of 2%.

The employment situation closed out 2024 stronger than expected, and the inflation metrics were better than expectations, but that doesn't mean the FOMC is going to just continue cutting rates when there is still uncertainty surrounding inflation and labor.

As it does once per quarter, the FOMC releases the expectations for future policy decisions in multiple forms, but the one most widely talked about is the dot plot. The dot plot is effectively a measure of what each FOMC participant expects as the midpoint of the target range for the federal funds rate at the end of each year.

In the September dot plot, the median projection was for the target range of the federal funds rate to end between 3.25% and 3.5%, with a true median of 3.4%, implying 100 basis points worth of cuts during 2025.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

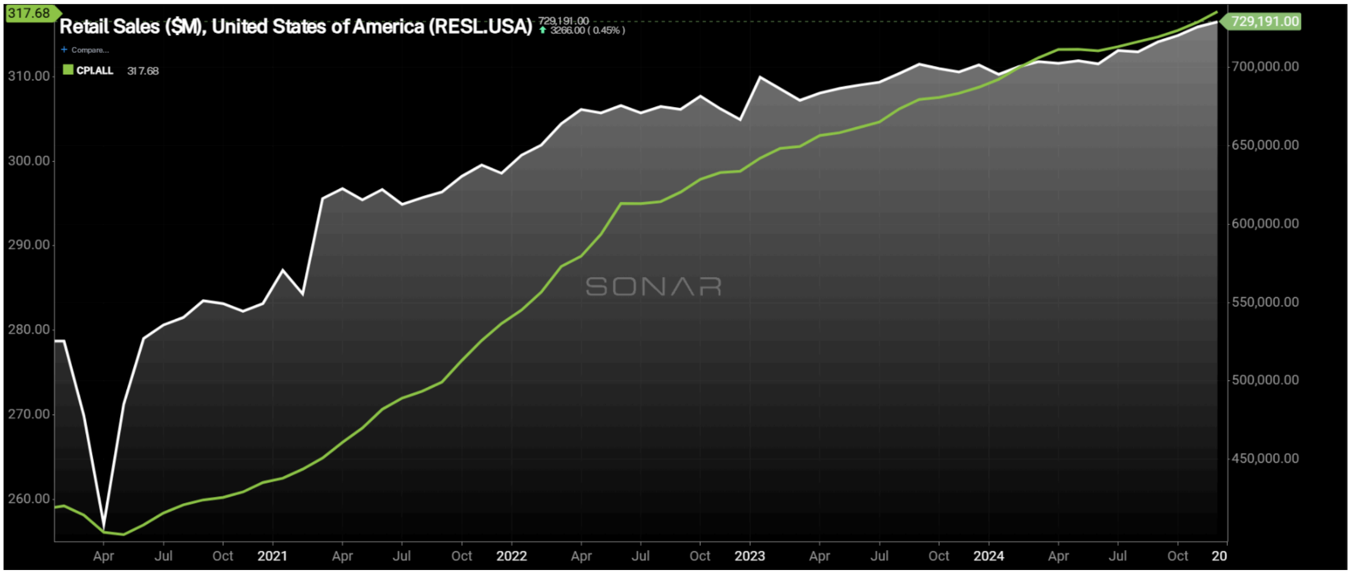


Source: Federal Open Market Committee's Summary of Economic Projections

In December's publication, the median projection moved 50 basis points higher, to a median range between 3.75% and 4%, with a true median of 3.9%. This implies that FOMC officials now expect just 50 basis points worth of cuts throughout the entirety of 2025 based on recent economic data.

What will be interesting is how much political influence the new administration has over the Federal Reserve, which is supposed to be apolitical and make policy decisions based on data. In the first Trump administration, there was pressure on the Federal Reserve to hold interest rates as low as possible to compete globally with countries where interest rates in some cases were negative. The question would be, if there were more cuts than initially expected in 2025, does that derail the progress on the inflation front, and what impacts do the potential tariffs being floated by the incoming administration have on inflation.

Inflation has been a hot topic – and rightly so as it isn't retreating as quickly as many would like. Even though inflation readings were better than expectations to close out 2024, it is still a prevalent challenge for consumers moving into 2025.



The Consumer Price Index increased by 0.4% in December, accelerating from the 0.3% increase in November. The increase in December was the largest monthly increase since April. The 12-month running total for the headline CPI was 2.9%, approaching the Fed's long-term target of 2% for inflation, though the CPI is not the Fed's preferred method of inflation. Both the monthly and 12-month totals for the CPI were in line with analysts' expectations.

The challenge for consumers is that inflation has accelerated for two consecutive months, indicating that it is still very much present in everyday life. Now if there was some semblance of good news from the CPI report, it is that much of the inflation was driven by energy prices, which were still down y/y. Overall energy prices increased by 2.6% m/m in December, the largest increase in more than six months. Why is that good? Energy closed out the year down 0.5% y/y, so even with the volatility, the long-term trend is that energy prices are falling. Gasoline prices increased by 4.4% in December but were still down 3.4% y/y.

The rate of increase in food prices slowed slightly in December, rising by 0.3% m/m, down from the 0.4% m/m increase in November. Food prices, which typically are volatile in nature similar to energy prices, were surprisingly stable throughout 2024, with steady increases on a monthly basis. The 12-month running total for food prices was up 2.5% during the year. Both food-at-home and food-away-from-home prices increased by 0.3% m/m in December, though food-at-home prices had a less severe increase throughout the entirety of 2024. Food-at-home prices increased by 1.8% during the 12 months ending Dec. 2024, while food-away-from-home prices rose by 3.6%.

Core inflation, or the CPI excluding food and energy prices due to their volatile nature, remains elevated, though December's figures bested expectations. Core inflation increased by 0.2% m/m in December, a tenth of a percentage point better than what analysts projected. The increase in December was also the slowest rate of price increases since July. The 12-month total for inflation came in at 3.2%, also a tenth of a percentage point below analysts' expectations.

Shelter prices continue to be the main driver of inflation, representing more than 30% of the overall CPI. Shelter prices increased by 0.3% m/m for the third consecutive month. Shelter prices are up 4.4% y/y.

While inflation's impact on consumers remains, it hasn't stopped them from spending. December's retail sales continued to show that consumers are willing to spend, though sales growth slowed in December. Total retail sales released by the U.S. Census Bureau grew by 0.4% m/m in December, down from the 0.8% m/m growth in November. Some of the slower growth is likely a result of a later-than-normal Thanksgiving holiday, which created a shorter timeline for the retail holiday season. December's growth in retail sales fell short of analysts' expectations of 0.6% m/m growth, but again some of the spending was likely pulled forward into November. Even with the slower growth, retail sales were up 3.9% y/y, continuing to outpace the rate of inflation.

There were several bright spots in the retail sales report, including an uptick at: furniture stores, sporting goods, hobby, musical instrument and bookstores, and clothing stores. All three of the categories saw sales grow by over 1.5% m/m in December. In essence, more discretionary purchases were made in December than in previous months, which isn't necessarily a surprise given the holidays during the month.

Gasoline station sales also accelerated by 1.5% m/m in December, likely a result of the aforementioned inflation in gasoline prices.

As expected during the winter months, sales of building materials and dealer sales of garden equipment and supplies were muted in December, falling by 2% m/m. This decline was the largest of the categories tracked within the retail sales report. Sales at these stores were down 1.2% y/y. In the months ahead, this will be an area to pay attention to see if consumers continue to spend on discretionary purchases or if they retreat following the holiday season.

Labor market

On the employment front, the labor market continues to be relatively strong, with the jobs report besting analysts expectations once again. Total nonfarm payrolls increased by 256,000 in December, compared to the expectations of 155,000 added jobs during the month. The unemployment rate ticked slightly lower during the month, falling by a tenth of a percentage point to 4.1%. While the unemployment rate is certainly higher than it has been for much of the past three years, it is still historically low relative to pre-pandemic levels.

The growth in December continued to be led by the segments of the economy that have been pushing forward: leisure and hospitality, health care, and government. The leisure and hospitality sector added 43,000 jobs in December, up 1.9% year over year. Much of that increase was from increased hiring at food service and drinking places, better known as bars and restaurants, which added 29,800 jobs during the month. The health care sector added 46,100 jobs in December.

Government payrolls expanded by 33,000 in December, but there is nuance to that figure, as it captures hiring at all levels: local, state and federal. The growth in December was largely at the local and state levels, adding 17,000 and 10,000 jobs, respectively.

One bright spot outside of the three segments mentioned above that have arguably carried the labor market forward throughout the past year was the growth in retail trade payrolls. While December tends to be a month when retailers do hire seasonally, the seasonally adjusted payrolls increased by 43,400 during the month. Much of that growth was in general merchandise, which added 12,700, and clothing, which added 22,600.

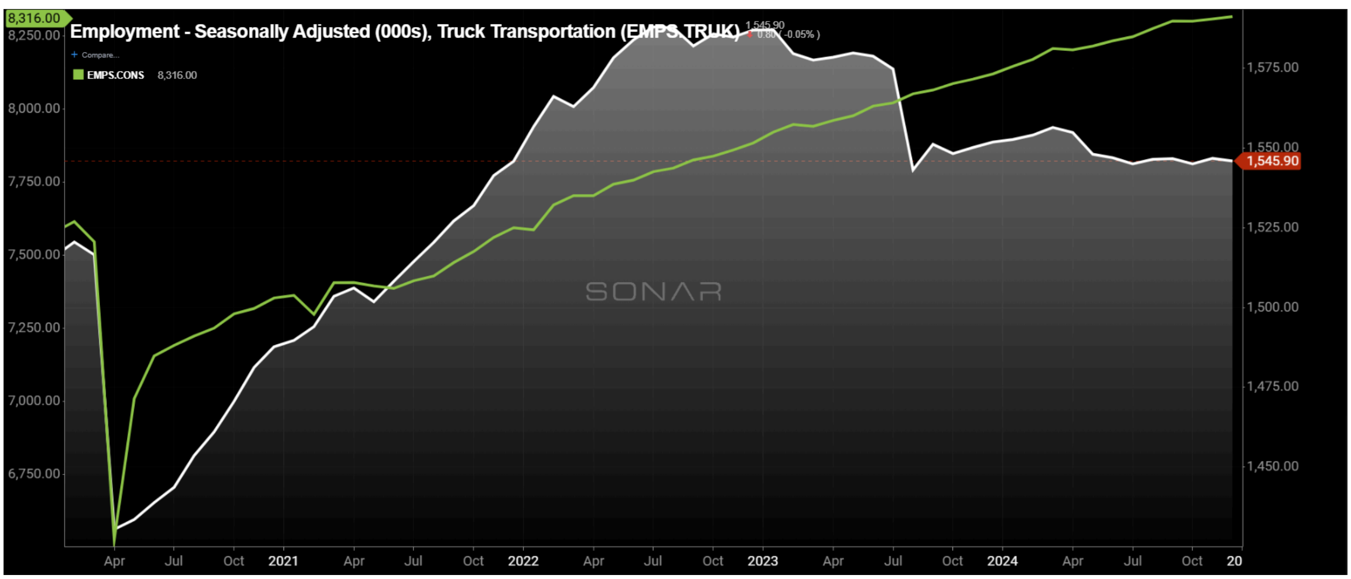
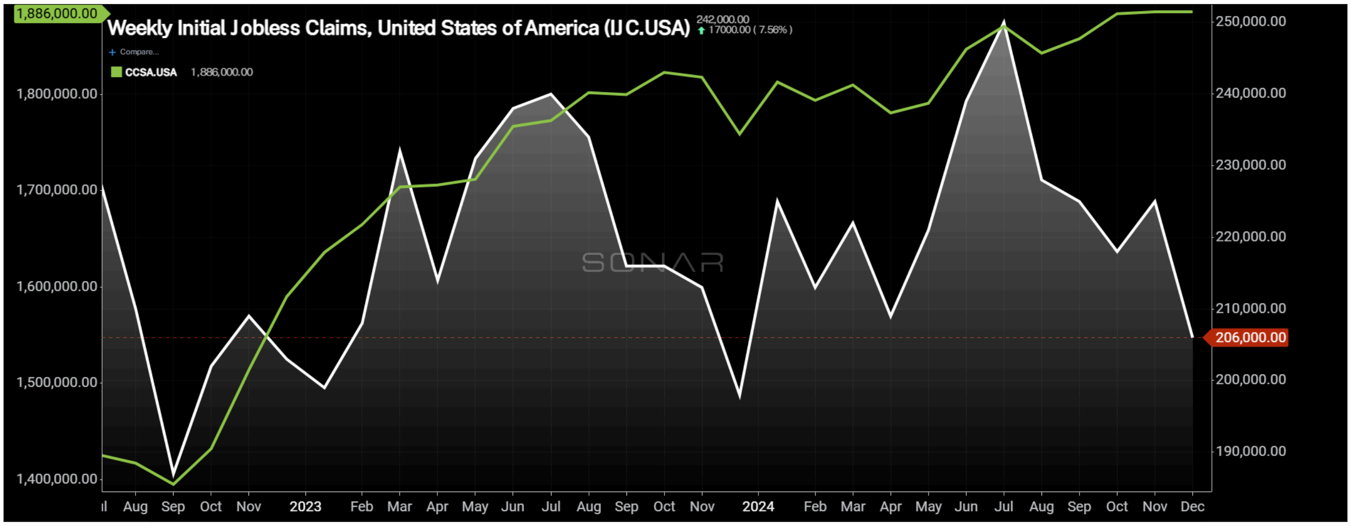


Chart: SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

The construction sector of the economy continues to grow payrolls, setting up for a resumption of activity when weather conditions improve. The sector expanded payrolls by 8,000 in December, with the growth stemming from residential building construction and nonresidential specialty trade contractors (i.e., plumbers, electricians and painters).

The transportation industry experienced growth for the second consecutive month, adding 9,600 jobs during December. The growth was fairly widespread, though the truck transportation sector saw payrolls contract by 800 jobs during the month.

Payrolls in the oil and gas sector were back on the decline in December, falling by 900 during the month. Total oil and gas sector payrolls are currently 118,700, up 600 over the past year.



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

Initial jobless claims have been fairly steady in recent weeks, causing no significant concern in the labor market. In the most recent week for which data is available, the week ending Jan. 18, initial jobless claims totaled 223,000, up 6,000 from the week prior and up 2,000 for from the same week last year.

Continuing claims are still trending higher, inching up to the 2 million mark. Continuing claims increased by 46,000, to 1,899,000, in the week ending Jan. 11, the last week for which data is available. Over the past year, continuing claims have increased by 138,000.

The number of job openings rebounded in November, eclipsing the 8 million mark once again. Total job openings increased by 259,000 in November to 8,098,000. Job openings data for October was revised higher by nearly 100,000, so the increase in November is a continued positive sign around businesses' views on hiring. Even with the increase in November, there were 833,000 fewer openings than in November 2023.

While the overall number of openings saw a sizable increase, the growth in openings in the construction industry was even more significant. Job openings in the construction industry increased by 17,000 in November. While that isn't anywhere near the overall increase across the entire economy, it was a 6.6% increase m/m, compared to the overall increase of 3.3%.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — fell again in November. Openings in October totaled 975,000, down 361,000 from November 2023. The decrease in the sector stems largely from transportation, warehousing and utilities, where openings fell by 36,000 m/m.

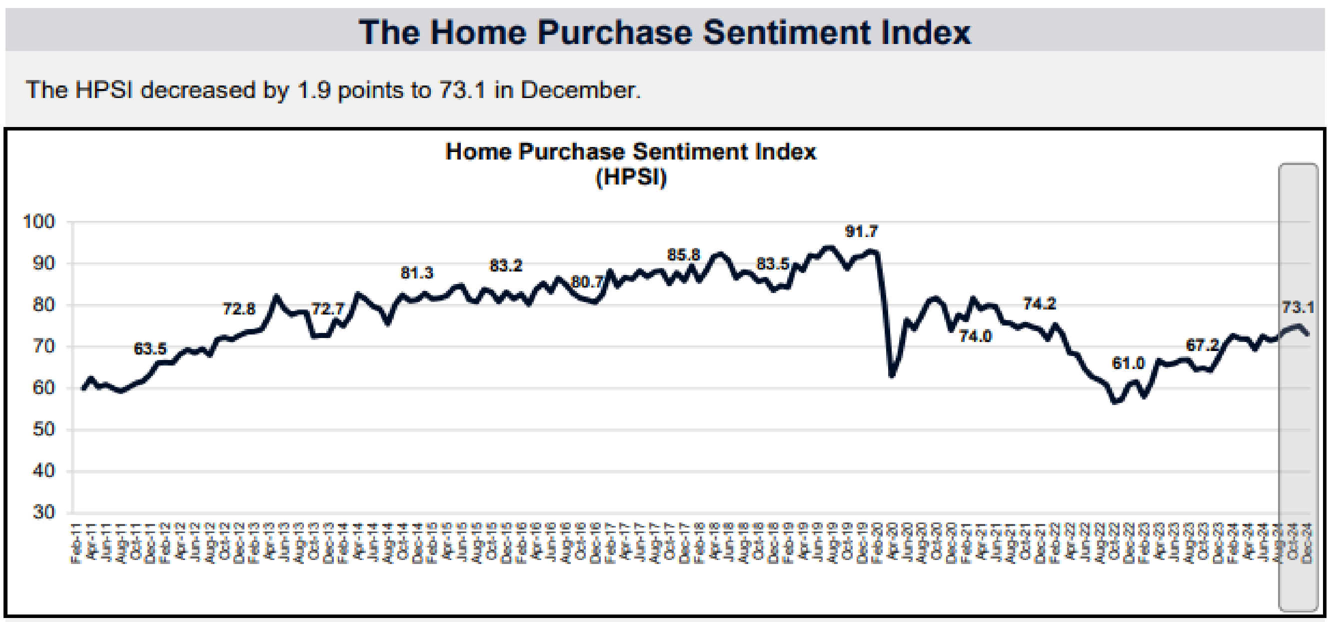
The quit rate – the number of resignations during the month as a percentage of total unemployment – decreased by 0.2 percentage points in November to 1.9%. The quit rate for the trade, transportation and utilities sector increased by 0.2 percentage points to 2.4%. The quit rate for the construction sector was unchanged at 1.7% after October's figure was revised lower by 0.1 percentage points.

Housing and construction

The housing market continues to face pressures, especially from higher mortgage rates. While the Federal Reserve has been cutting rates, mortgage rates have actually been rising. This has more to do with the fact that mortgage rates are closely tied to long-term treasury yields, namely the 10-year treasury.

The average 30-year fixed rate mortgage has once again eclipsed 7% according to Freddie Mac. The current 30-year fixed mortgage rate sits at 7.04%, 32 basis points higher than it was this time last month and 44 basis points higher than it was this time last year. It also marks the highest the rate has been since the week ending May 9.

With mortgage rates on the rise, home purchase sentiment is starting to suffer after improving over the course of the past two years. The Home Purchase Sentiment Index (HPSI) produced by Fannie Mae fell by 1.9 points m/m in December to 73.1. Compared to this time last year, the HPSI is up 5.7 points, signaling that home purchase sentiment is still vastly improved over the course of the past year.

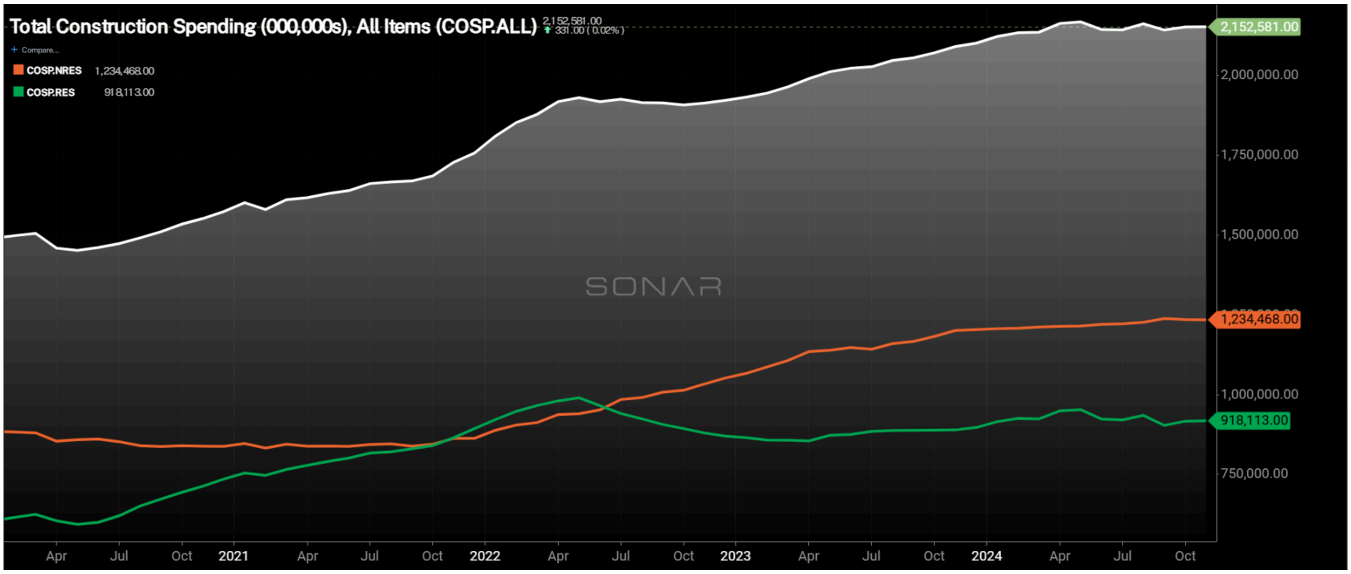


"Even though the HPSI fell to end the year, consumer sentiment toward the housing market finished 2024 substantially above year-ago levels, attributable in part to respondents' ongoing expectations that mortgage rates will decline," said Mark Palim, Fannie Mae senior vice president and chief economist, in the Jan. 7 release.

Of the respondents to the HPSI survey, 78% stated that they believe it is a bad time to purchase a home, compared to just 22% who believe it is a good time. The percentage who believe it is a bad time to buy has been trending slightly lower since May 2024, when 81% of respondents believed it was a bad time to buy.

Even with consumers feeling like it's a bad time to buy, mortgage applications were on the rise to start 2025. Mortgage applications increased by 33.3% week over week for the week ending Jan. 10, against a figure that was adjusted to offset the New Year's holiday, according to the Mortgage Bankers Association.

In addition to increased mortgage applications, existing home sales have been improving. In November, the most recent month for which data is available, existing home sales increased by 4.8% m/m and were 6.1% higher than last year, according to the National Association of Realtors. The median existing home price also increased, rising by 4.7% y/y to $406,100.



While the housing market is in a state of "think one thing, do another," the construction industry as a whole has continued to outperform year-ago levels. In November, the most recent month for which data is available, total construction spending was flat m/m. Total construction spending came to a seasonally adjusted annual rate (SAAR) of $2.153 trillion, up 3% y/y.

Residential construction spending was a source of growth in November, rising 0.1% m/m to a SAAR of $918.1 billion. Residential construction spending was up 3.2% y/y during the month.

Nonresidential construction spending offset the growth in residential construction spending, falling by 0.1% m/m to a SAAR of $1.234 trillion. Nonresidential construction spending was still 2.8% higher y/y even with the slight slowdown in the month. The manufacturing sector, the largest sector of nonresidential construction spending, fell by 0.2% m/m to a SAAR of $235.9 billion, up 11.3% y/y.

Oil market

The energy sector of the economy is one of the areas the new administration targeted within the first few days of taking office. The Trump administration almost immediately went after OPEC+ to demand lower oil prices, though OPEC+ has yet to respond. In fact, OPEC+ countries are continuing the voluntary production cuts through the first quarter of the year.

The challenge for OPEC+ as well as the Trump administration is that oil prices are a function of supply and demand, though there is some influence from speculation among commodity traders. So while the hope from the administration is for lower oil prices, do the economics allow for lower prices on a global scale?

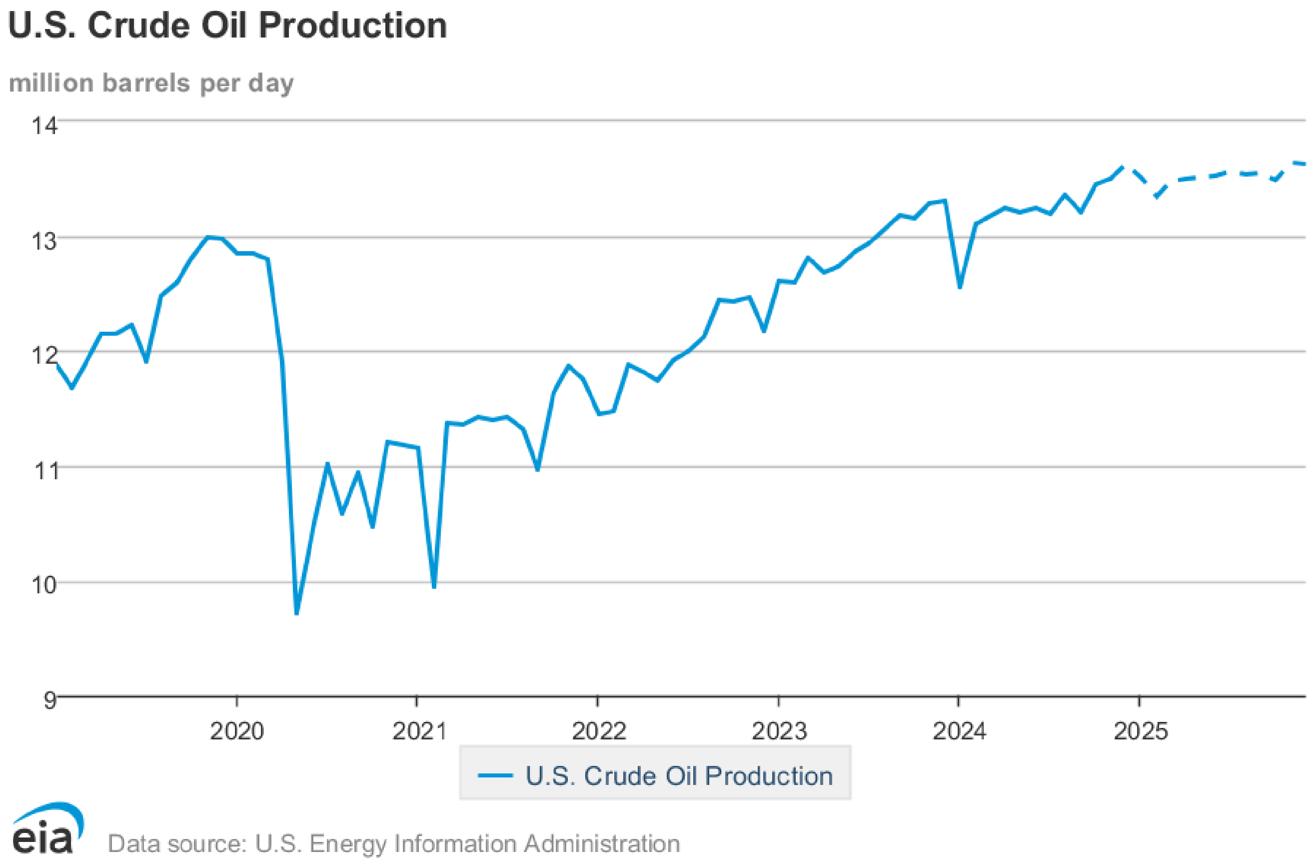
Those same economics are what have management teams at oil and gas companies likely to keep the proverbial lid on the well in the short term. Management teams have focused heavily on generating shareholder returns in recent years, and significantly lower oil prices minimize the potential returns.

As the first quarter continues, it'll be interesting to see if there is a shift in mindset both by oil and gas executives and OPEC+ that would lead to an increase in global production before the voluntary cuts are set to expire.

Chinese manufacturing data has continued to be weak, and the Lunar New Year is set to begin at the end of January and last a couple of weeks, stymieing any growth in the near term. This weakness is one of the main reasons why OPEC+ was reluctant to start phasing out voluntary production cuts back in October and is now looking to April.

While Chinese manufacturing is weak, U.S. manufacturing hasn't been much better as the industrial side of the economy has been in contraction for the better part of two years. Even so, domestic oil production has remained strong throughout this period of contraction, setting all-time highs in terms of production in two of the past three months.

November's domestic oil production figure was revised lower slightly, after the initial figures set an all-time high during the month. The November figure was revised lower by 170,000 barrels per day (bpd) to 13.33 million. In December, that figure was back on the rise with domestic oil production totaling 13.51 million bpd, eclipsing October's record of 13.46 million bpd. Even though it was an all-time high in December, it fell short of the Energy Information Administration's (EIA) expectations for production to reach 13.62 million bpd.



The real positives come when looking at the future. In the EIA's Short-Term Energy Outlook, forecasts for production remain extremely strong. In the January STEO, expectations are for the first quarter of the year to see a slowdown in production, likely associated with winter weather in January followed by the shortest month of the year that always limits production. But after February, the rest of the year looks strong in terms of production, with levels setting all-time highs in five of the 10 remaining months. For the full year, the average forecast production level is 13.54 million bpd, a 2.5% increase y/y.

The Baker Hughes active rotary rig count is often thought of as a signal for future demand for drilling. The count for the U.S. fell slightly from the January report, totaling 576 for the week ending Jan. 24, compared to the 589 in December's report. The active rig count is still down 45 rigs y/y, or 7.2%. With production up, this is a sign of what management teams are searching for: "Doing more with less."

The biggest declines over the past year in rig counts stem from Texas, where Baker Hughes tallied 277 active rig counts for the week ending Jan. 24, down 27 y/y. New Mexico, which has the second most active rig counts in the Lower 48, with 102, was up three rigs y/y, one of the only states that experienced growth year over year.

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	47	1	2.2%	-5	-9.6%
Appalachia	31	-5	-13.9%	-14	-31.1%
DJ Basin	10	0	0%	-4	-28.6%
Gulf Coast Basin	62	5	8.8%	-13	-17.3%
Permian Basin	273	5	1.9%	-25	-8.4%
Williston Basin	36	-1	-3%	1	3%
Other	128	12	10.3%	-26	-16.9%
Total	**587**	**17**	**3.0%**	**-86**	**-12.8%**

Source: Enverus daily active rig count as of Jan. 27.

The past month has been positive for rig counts, according to Enverus. Overall rig counts are up 3% m/m, with growth in the two largest basins. The Permian Basin and the Gulf Coast Basin increased rig counts by five apiece m/m, but both are down significantly y/y. It will be interesting to see throughout 2025 if there is a recovery in rig counts, though the initial reads are that exploratory and production companies will be disciplined throughout the year.

Crude prices face volatility intramonth, stable overall

Crude oil prices have experienced some volatility over the past month as winter weather likely added some demand to the market, and the risks around tariffs (or lack of follow-through) grew. When the Trump administration threatened tariffs on Colombia, over 40% of whose oil exports go to the U.S., then didn't invoke them, crude oil prices fell. The risk of tariffs by the administration as a bargaining chip will likely create volatility within the oil market, in terms of price, which largely stayed within a tight window throughout 2024.

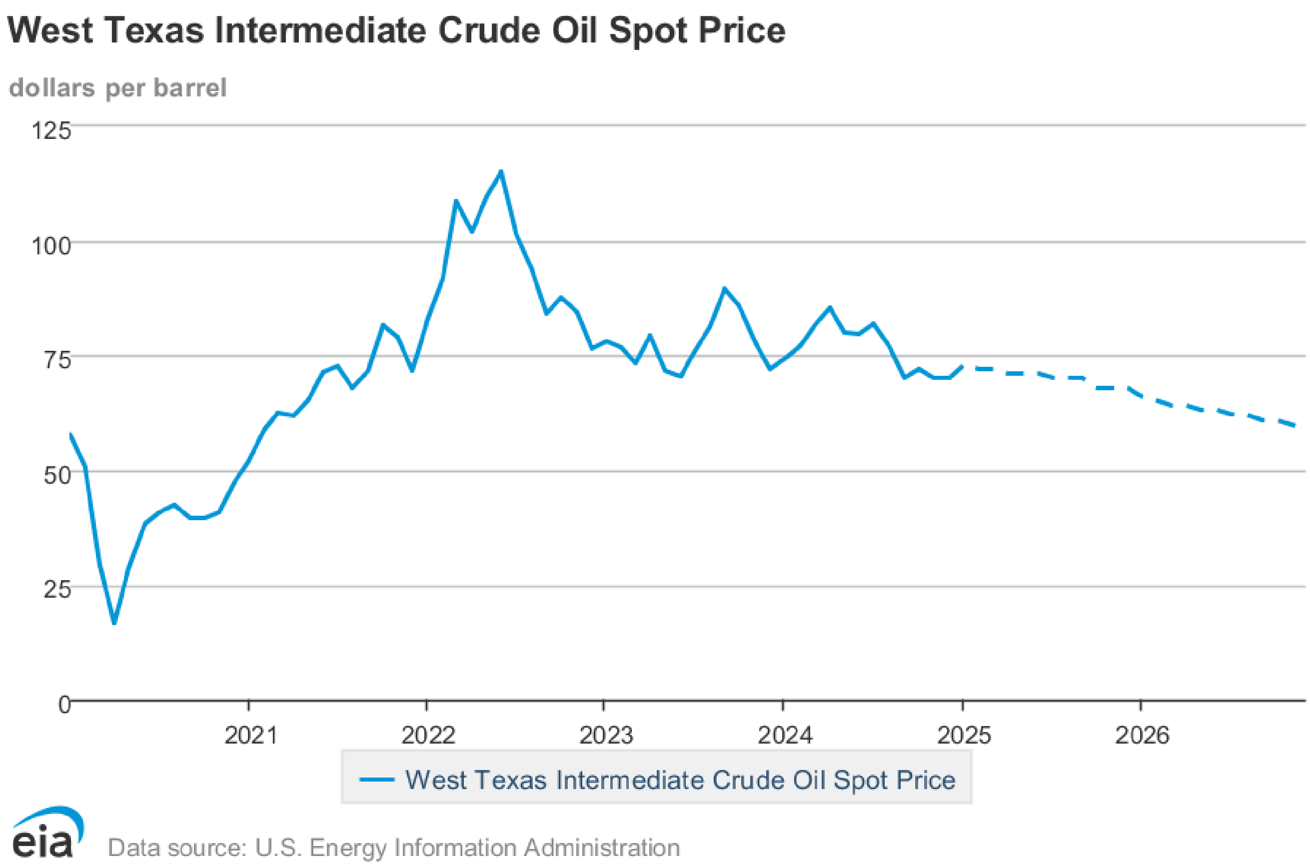
Even with domestic oil production reaching an all-time high, crude inventory levels have been dropping. December and January tend to be periods when crude inventories are depleted on a regular basis, due to increased demand in both home heating oil and consumer travel. Over the past month, crude inventory levels fell by 9.353 million barrels, but expectations are for larger drops (10.5 million barrels).

In the OPEC+ Monthly Oil Market Report for January, the organization held its forecast for 2025 demand stable at 1.4 million bpd. That was one of the first times in recent months that the organization hadn't revised its forecast lower. One of the reasons for holding the demand steady was the expectation around U.S. economic growth, which was revised higher to 2.4%.

On the other side of the market, the International Energy Agency, which tends to have more bearish undertones than OPEC, highlighted how the global oil market outperformed during the final quarter of the year. The IEA showed that global oil demand grew at an annual rate of 1.5 million bpd, the highest level since the fourth quarter of 2023 and 260,000 bpd above the organization's expectations. Looking ahead, the IEA expects global oil supply to increase to 1.8 million bpd, more than double the increase experienced in 2024.

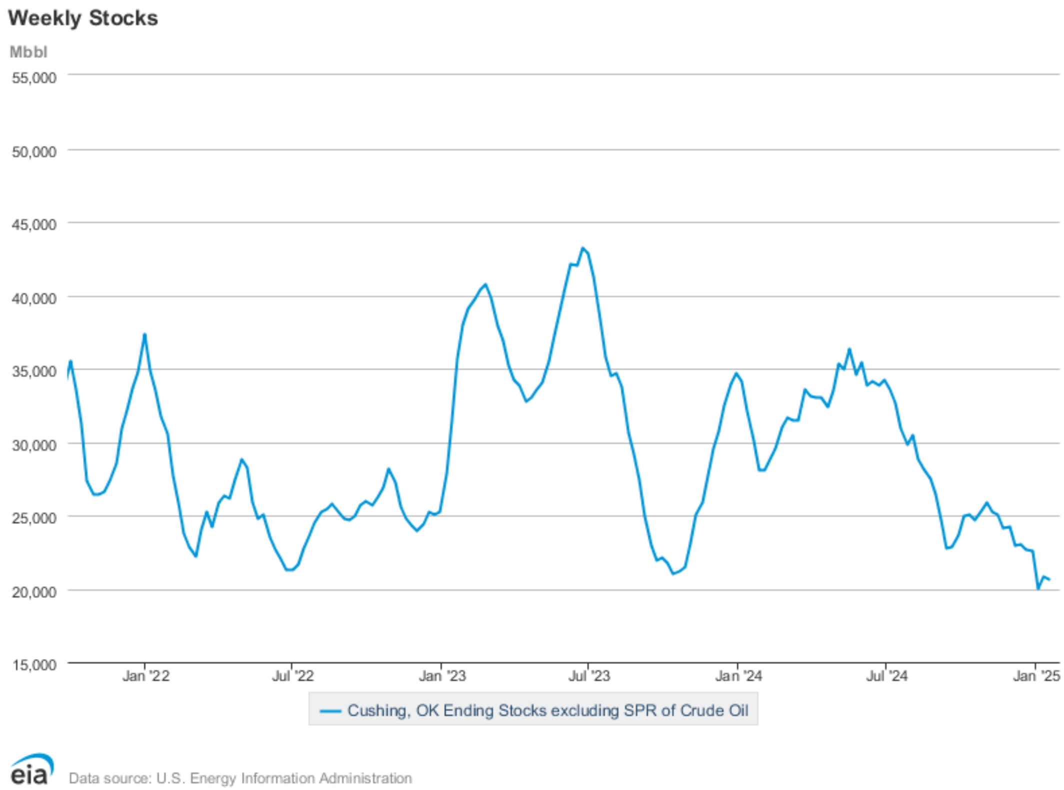
For now, prices of WTI — a domestic benchmark — are up $1.28 to $73 per barrel over the past month but are still down 6.2% y/y.

According to EIA projections, crude oil prices, both Brent and WTI, will slide throughout 2025.



The EIA's latest Short-Term Energy Outlook, published in early January, didn't capture some of the upward movement that came at the beginning of January, but it does paint a challenging picture in the year to come. The expectations are for WTI prices to fall throughout 2025, though the decline from where they finished 2024 to the projections for December 2025 is just $2 per barrel. The real dip in expectations for crude prices happens in 2026, when early projections are for crude prices to drop below $60 per barrel by the end of the year.

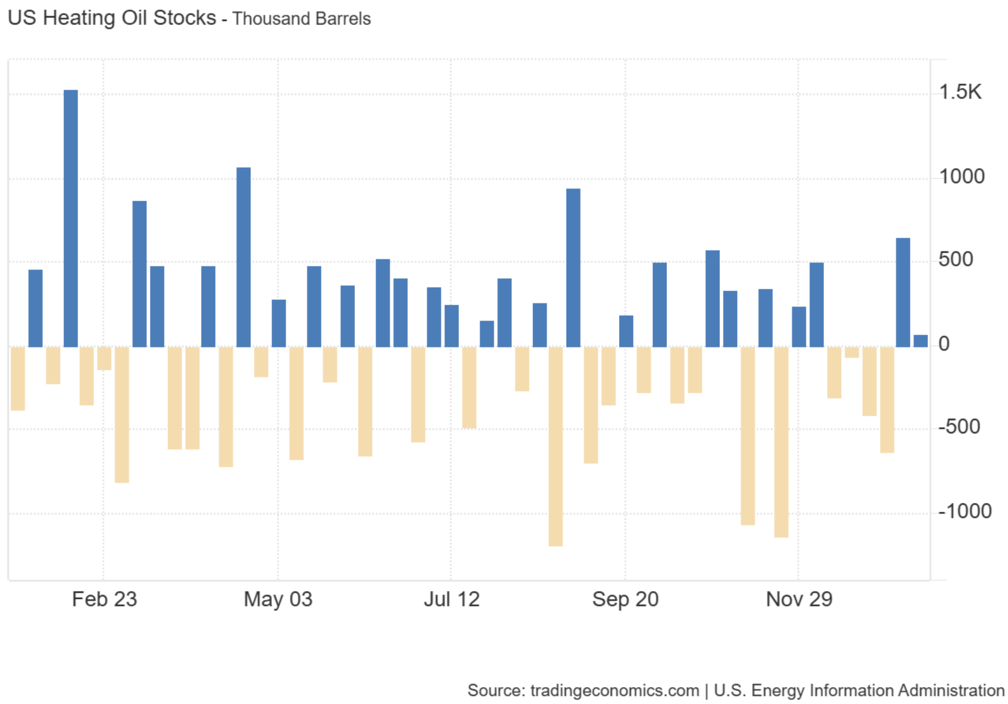
What else we're watching



Crude stocks in Cushing, Oklahoma, remain under pressure to begin the year, now near the lowest levels in the past few years. Over the past month, stocks in Cushing have been reduced by over 2 million barrels to 20,655,000 barrels in the week ending Jan. 17. Compared to the same week last year, crude stocks in Cushing are down over 30% and are rapidly approaching a critical situation.

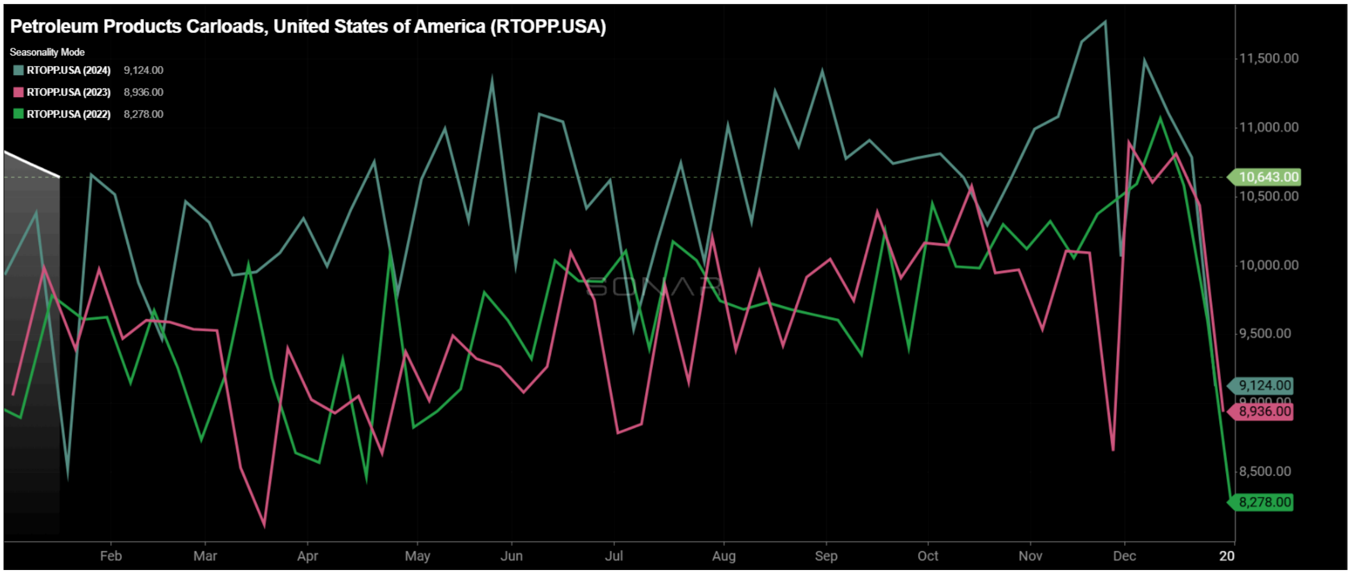
The threshold for Cushing stocks is right at 20 million barrels: the level which matches U.S. consumption on a daily basis dating back more than a decade, but also the level at which the inventory becomes unusable for production. Some of the challenges that Cushing stocks faced were related to challenges in production levels in December and early January, but it is a sign that strong domestic production is needed to avoid a worst-case scenario in Cushing. At present, there is just 1.03 days of inventory in Cushing.

With low temperatures hitting most of the country throughout January, demand for home heating oil is likely to show up in a major way. December was milder than the EIA was expecting in its Winter Fuel Outlook: The number of heating degree days fell short of expectations, 723.31 compared to expectations of 772.38. A heating degree day is a measure of how low the temperature was for a given period of time. Current expectations for January are for there to be 822 heating degree days, which would be slightly below 2024 levels but the third-highest level in the past five years. With the low temperatures hitting much of the country throughout a good portion of January, it wouldn't be a surprise to see January heating degree days exceed expectations.



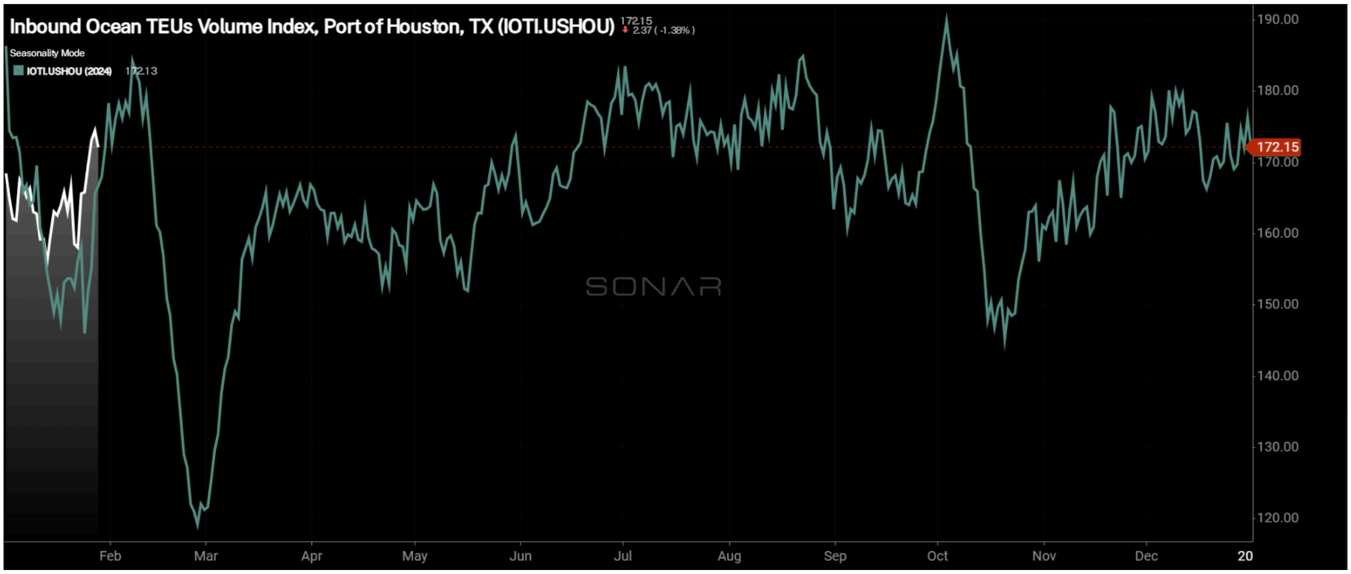
The expectations of lower temperatures created drawdowns in home heating oil stocks throughout December, and there has been an increase in stocks in January. Another round of cold weather could wipe out all of the increase felt during January. Over the past month, total home heating oil stocks have been reduced by 396,000 barrels.

One other telling sign around demand is that there has been an uptick in home heating oil prices, both residential and wholesale. Both figures have closed the gap with year-ago levels, a sign that the colder weather has created more demand for home heating oil as January has progressed.



SONAR: Petroleum Products Carloads. 2025 (white), 2024 (green), 2023 (pink), and 2022 (dark green).

Strong production levels in the final quarter of the year have helped the railroads maintain some positive momentum on the petroleum product side of their business. Total petroleum product carloads are off the highs established in late November, but the seasonal declines in January haven't been as severe as in years past. Over the past month, total petroleum product carloads are down just 1.3%, the smallest m/m decline in January in over three years. Compared to this time last year, total petroleum product carloads are up nearly 25% and the strongest January levels in the past three years.



SONAR: Inbound Ocean TEUs Volume Index, Port of Houston. 2025 (white) and 2024 (green).

Inbound ocean twenty-foot equivalent unit volumes into Port Houston continue to outperform year-ago levels, though an earlier Lunar New Year is probably the cause of some of the outperformance. Over the past month, the Inbound Ocean TEUs Volume Index for Port Houston has declined by 1.5%, even with volumes accelerating into the Lunar New Year. Inbound ocean TEU volumes are currently up 3.3% y/y.

If the Trump administration targets the Panama Canal as has been discussed, it could create some short-term volatility in volumes headed to the East and Gulf coasts, but it could also create long-term opportunities for ports like Port Houston to capture even more volume.

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