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STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

SONAR

Oil production sets new high, prices remain stable

December 19, 2024 | 1 p.m.

Overview

The freight market continues to show signs that 2025 will be a tighter environment than 2024 was. The more niche markets are seeing more rapid changes than the overall market. Challenges for those with exposure to oil and gas stem from the Federal Reserve, though a more hawkish Fed could result in capacity exiting faster for those with industrial exposure.

The consumer continues to be the driver of the broader economy as interest rates remain elevated. The Federal Open Market Committee has cut interest rates by 100 basis points in 2024, but expectations are for fewer cuts in 2025, which could present headwinds to the industrial side of the economy.

Despite the potential headwinds, domestic oil production continues to set all-time highs, even during holiday-impacted months. Domestic oil production forecasts suggest that the growth in 2025 won't be as robust as current expectations are for domestic oil production to set another all-time high until December 2025.

Crude oil prices have been remarkably stable following the ceasefire between Hezbollah and Israel that commenced in November. Current expectations are for crude oil prices to be in a fairly tight range throughout 2025, but with the exposure to the global market, geopolitical risks are ever present.

Strong domestic oil production is benefiting the railroads. Petroleum product carloads continue to outperform previous years, but the rate of growth has slowed to close out the year. Part of that has to do with the timing of the holidays impacting production facilities.

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	266 (-3.6%)
Gulf Coast Basin	59 (-20.3%)
Anadarko Basin	48 (-9.4%)
Total	**584 (-10.2%)**

Crude oil prices per barrel (y/y change)

WTI crude	$70.10 (-5.18%)
Brent crude	$72.88 (-8.14%)
Brent-WTI Spread	**$2.78 (-57.8%)**

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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.

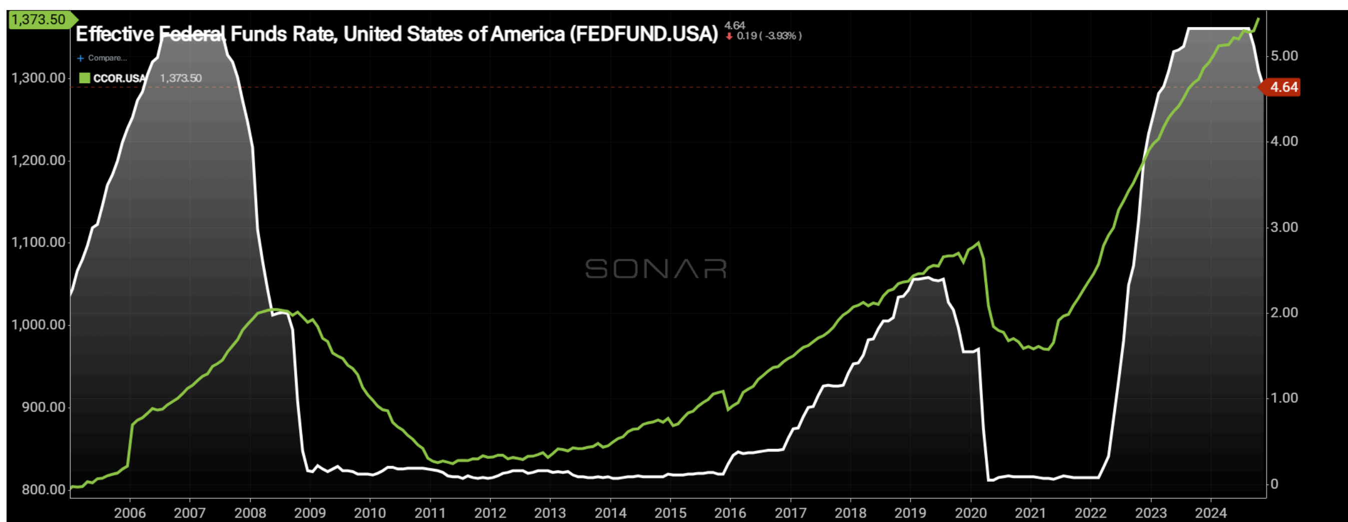
The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

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 Federal Open Market Committee has remained aggressive to close out 2024, with multiple cuts to the federal funds rate, or the overnight borrowing rate for banks. The FOMC has stated at multiple meetings that inflation has been trending in the direction that allows for the fairly aggressive easing of monetary policy. As the calendar is set to change to 2025, the challenge that the FOMC faces is whether it can continue to be aggressive in cuts to the federal funds rate or will have to temper the rate of declines.

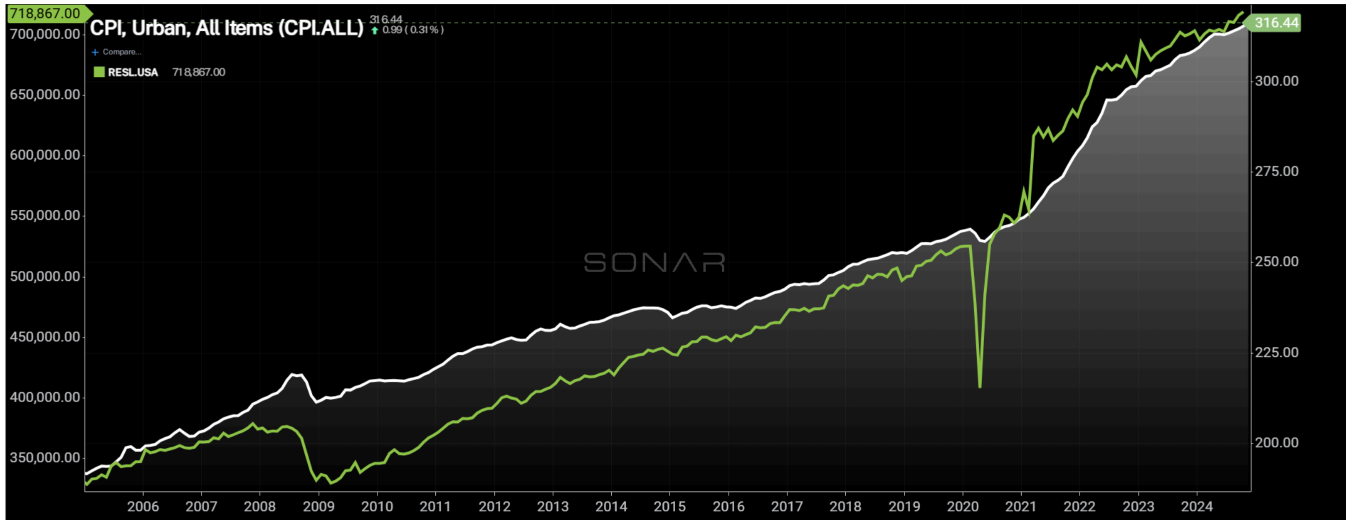
Early expectations are for the FOMC to hold the target range for the federal funds rate unchanged at the Jan. 28-29 meeting. Two factors partially explain the reason for holding steady. First, inflation readings have been in line with expectations, outside of the Producer Price Index, which came in hotter than expected in November, but the progress to the long-term target of 2% has seemingly stalled. Additionally, the effects of interest rate movements, both hikes and cuts, are typically lagging current economic conditions. In other words, Fed officials use past months' data to determine policy decisions, and then the impacts of their decisions take time to flow into the economy. For those reasons, it makes sense for FOMC officials to pause intermittently to determine the impacts of their policy decisions.



Additionally, the uncertainty that the incoming administration brings presents challenges for the FOMC, who is supposed to be void of political influence. With potential tariffs that could be inflationary, it could derail the current direction of interest rates.

The first meeting of the year is also a prime time to pause any policy decisions as new members join the committee and various regional Federal Reserve bank governors exit. This creates a new committee voting on policy decisions, which can cause changes to policy directions.

Rampant inflation has become a talking point of the past as the annual rate of inflation is well down from the 9% experienced in 2022, but that doesn't mean inflation isn't still impacting the overall economy. At the same time, the consumer has been resilient and shown a willingness to spend, even in the face of inflation.



The Consumer Price Index, which is a widely used measure of inflation though it isn't the preferred inflation metric of the FOMC, continued to rise in November. The CPI increased by 0.3% m/m during November, the fastest rate of price increases since April. The 12-month running total for the CPI accelerated by 0.1 percentage points in November, rising to 2.7%. Both the monthly increase and the 12-month total matched analysts' expectations for inflation. The acceleration in the monthly figure as well as an increase in the 12-month total highlights that inflation is still prevalent, despite moving closer to the long-term target of 2%.

Core inflation, which is the CPI excluding food and energy prices due to their volatility, has flattened out over the past three months. Core inflation matched the headline CPI's increase, rising 0.3% m/m during November, the fourth consecutive month of a 0.3% increase. The 12-month running total for core CPI came in at 3.3%, the third consecutive month in which the 12-month total was 3.3%.

Food prices experienced one of the largest increases of the year, rising by 0.4% m/m in November. The increase matched September's, which was the largest since January. The 12-month running total inflation rate for food prices was 2.4%. The rise in November was almost entirely driven by food-at-home prices, which increased by 0.5% m/m. In comparison, food-away-from-home prices increased by 0.3% m/m. Even with the significant increase on food-at-home prices, they are still up just 1.6% y/y, compared to food-away-from-home prices, which are 3.6% higher.

Energy prices, which have been an area of relief for consumers in recent months, were back on the rise in November. Overall energy prices increased by 0.2% m/m in November, the first monthly increase since April. Despite the increase, energy prices are still down 3.2% y/y. Gasoline prices increased by 0.6% m/m during November but were still down 8.1% y/y.

Shelter prices continue to be the main driver of overall inflation, accounting for over one-third of the CPI. Shelter prices increased by 0.3% m/m in November, down from the 0.4% m/m increase in October. Shelter prices are still 4.7% higher than they were this time last year.

With inflation still present in consumers' everyday life, they have shown the ability to continue to spend money despite challenging conditions. Strong retail sales numbers in November highlight that fact. November's retail sales increased by 0.7% m/m, exceeding analysts' expectations of a 0.5%

increase for the month. Total retail sales were up 3.8% year over year in November, even with retail holidays like Cyber Monday moving into December this year.

Motor vehicles and parts sales were a significant portion of the growth in retail sales during November, rising 2.6% m/m. Excluding autos and gasoline station sales, retail sales were up 0.2% m/m and 3.9% from where they were this time last year.

Some positives in the month are that electronics spending as well as home improvement spending were back on the rise. Electronics spending was up 0.3% m/m and is now up 1.2% y/y. Retail sales at building material, garden equipment and supplies dealers were up 0.4% m/m and up 4.1% y/y.

Labor market

For FOMC officials, employment data is one of the indicators along with inflation data that are used to make policies. After a challenging October, the jobs report for November was better than expected. In November, after seasonal adjustments, 227,000 were added to payrolls during the month, better than the 214,000 that analysts were expecting. Even more good news on the jobs front was October's figure was revised higher to 36,000.

Even with the strong report, the unemployment rate inched higher, rising by 10 basis points to 4.2%, which matched analysts' expectations. The evidence of a more challenging labor market for individuals is the impact of the U-6 unemployment rate, which is the rate of total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons. In other words, it is a broader measure of unemployment as it measures those who are also discouraged and holding part-time jobs. The U-6 increased by 10 bps as well to 7.8% and is 80 bps higher than it was this time last year as the labor market has slowed.

The strength in hiring continued to stem from the same industries: leisure and hospitality, health care, and government.

The health care industry added 54,000 jobs during November, while there were 33,000 government jobs added. The leisure and hospitality sector added 53,000 jobs during November, with 28,900 being added by food services and drinking places, also known as bars and restaurants.

One segment that saw a fairly sizable decline was the retail sector, which on a seasonally adjusted basis lost 28,000 jobs during the month. This is a sector where seasonal adjustments have a large impact, and it was even more evident in November as the nonseasonally adjusted jobs figures showed an increase of 280,500 from the month prior.

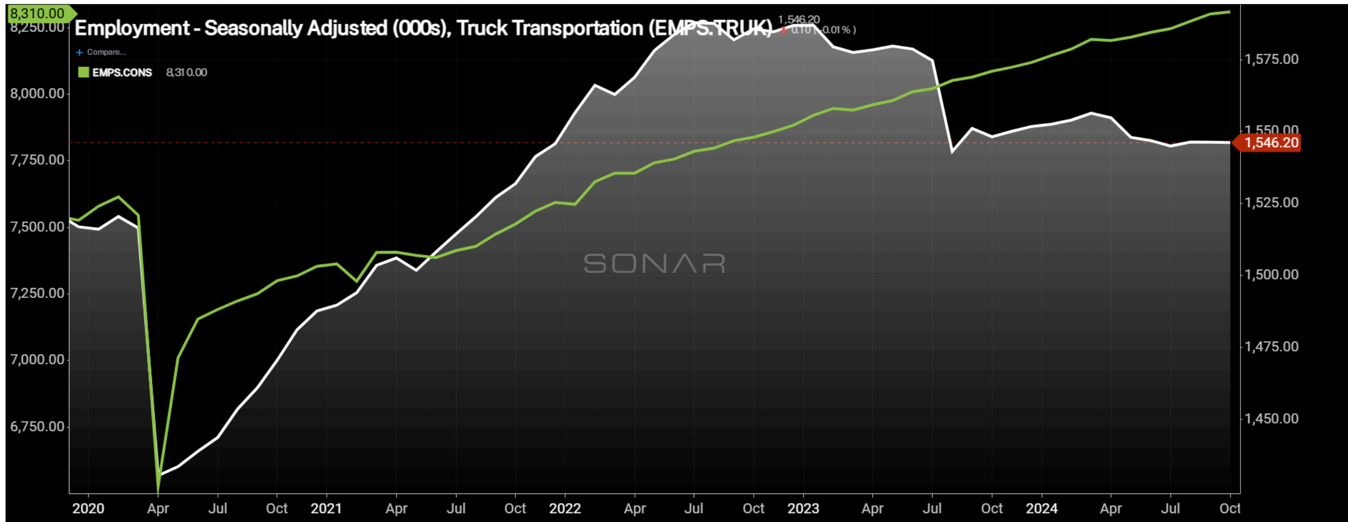
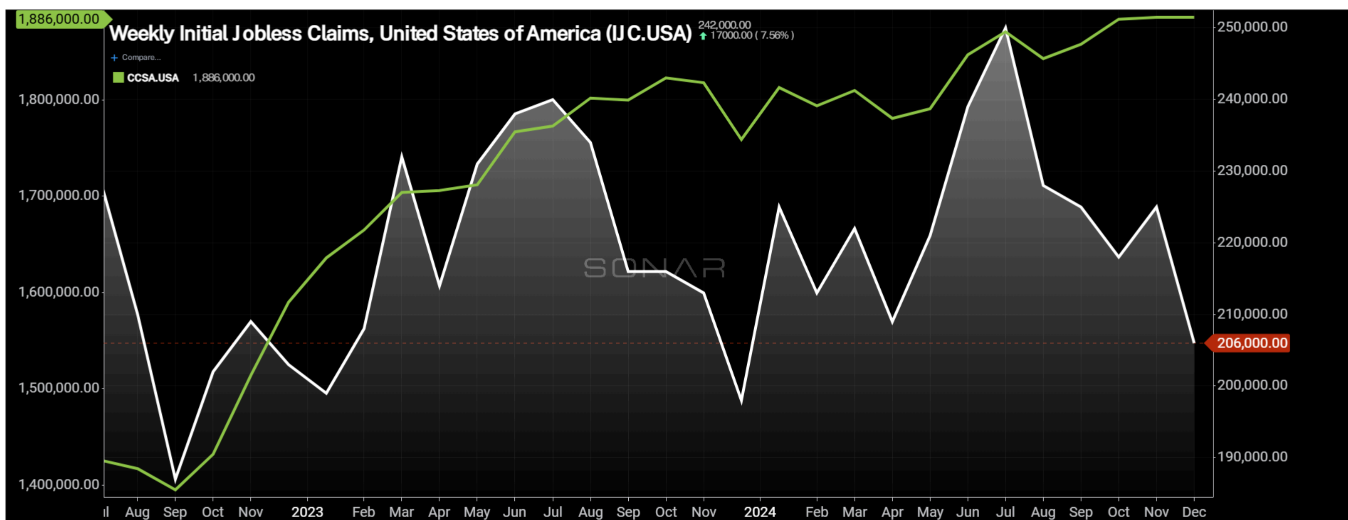


Chart: SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

The construction sector of the economy experienced growth, adding 10,000 jobs during the month. Much of that growth was driven by nonresidential specialty trade contractors, which saw payrolls grow by 7,000.

The transportation industry as a whole experienced growth, adding 3,400 jobs during November. Truck transportation was a primary area of growth, adding 2,900 jobs in November.

Payrolls in the oil and gas sector offset October's decline, adding 100 jobs during November. Total oil and gas sector payrolls are currently 119,700, up 2,300 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 inching higher in recent weeks, but the increase hasn't been a significant cause for concern, at least not yet. In the most recent week for which data is available, the

week ending Dec. 7, initial jobless claims totaled 242,000, up 17,000 from the week prior and up 37,000 from the same week last year.

Continuing claims have been slowly moving up as well. Continuing claims increased by 15,000 in the week ending Nov. 30, the last week for which data is available. Over the past year, continuing claims increased by 68,000.

Job openings increased in October, breaking a significant downward trend, at least in the short term. Total job openings increased by 372,000 in October to 7,744,000. Job openings data for September was revised lower, which makes the increase in October less significant than if there were an upward revision to September's data. Job openings were down 10.8% y/y in October.

The increases in job openings were fairly widespread, but the construction industry wasn't one of the beneficiaries. It continued to see the number of openings decline in October, falling by 9,000 to 249,000, down 40% y/y.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — fell in October as well. Openings in October totaled 956,000, down 350,000 from October 2023. The decrease in the sector stems from wholesale trade, where openings fell by 37,000 m/m.

The quit rate – the number of resignations during the month as a percentage of total unemployment – increased by 0.2 percentage points in October to 2.1%. The quit rate for the trade, transportation and utilities sector was unchanged at 2.2%. The quit rate for the construction sector rose by 0.3 percentage points to 1.8%.

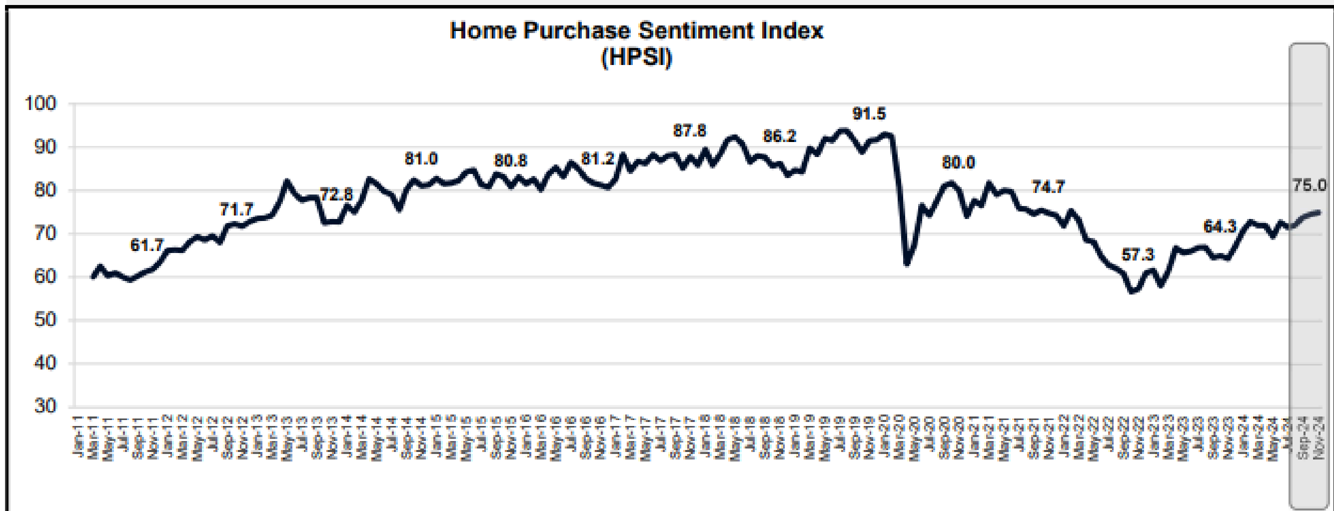
Housing and construction

The housing market hasn't seen a significant boost despite multiple interest rate cuts, but that is because mortgage rates have actually increased rather than declined since the first interest rate cut. The reason for this is that mortgage rates are typically tied to 10-year bond yields, which have increased, a sign that those in the financial sector are having a more cautious outlook over the longer term.

According to Freddie Mac, the average 30-year fixed mortgage rate has been declining since early November but still isn't as low as rates were just ahead of the first cut by the FOMC. Over the past month, the average 30-year fixed mortgage rate declined by 18 basis points to 6.6%. Compared to this time last year, mortgage rates are down 35 bps.

If the FOMC remains aggressive, then mortgage rates will likely move lower, as the spread between which banks borrow and the rates for consumers through mortgages widens. However, if the FOMC becomes more hawkish in 2025, it threatens mortgage rates and the housing market as a whole.

Despite mortgage rates not moving significantly lower, sentiment around purchasing a home continues to improve. The Home Purchase Sentiment Index produced by Fannie Mae increased by 0.4 points m/m to 75, the highest level since February 2022. Compared to this time last year, the index is up 10.7 points, signaling that sentiment has dramatically improved.



"Over the past year, we have seen a significant improvement in general consumer sentiment toward the housing market, largely driven by increased optimism that mortgage rates will fall and improved perceptions of both homebuying and home-selling conditions," said Mark Palim, Fannie Mae senior vice president and chief economist in the Dec. 9 release.

Sentiment around buying conditions has improved at a greater rate than the overall index, though the vast majority of respondents state that it is a bad time to buy. Seventy-seven percent of respondents stated that it was a bad time to purchase a home compared to just 23% who deemed it a good time. That means the net good time to buy came in at minus 54%, (23% good time minus 77% bad time), which is actually 6 percentage points closer to 0 than it was last month and 17 points higher than this time last year.

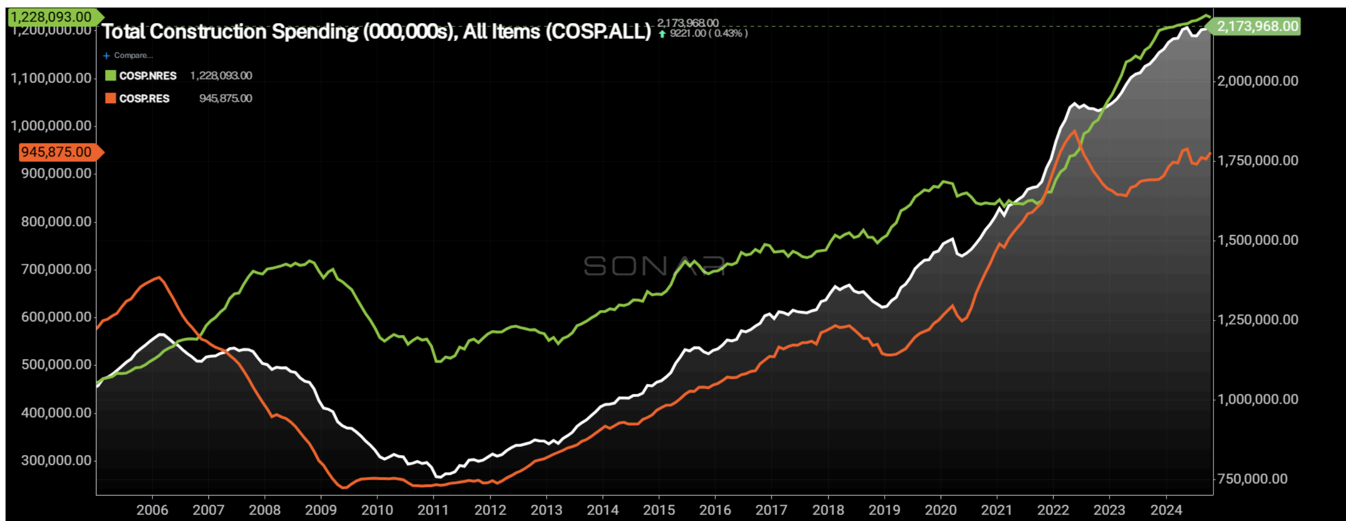
Far more respondents are expecting mortgage rates to go down in the next 12 months than have in the previous few months. Forty-five percent of respondents expect lower mortgage rates over the next 12 months compared to just 25% who expect higher mortgage rates.

The increased sentiment around buying a home is showing up in mortgage application numbers. The weekly mortgage application survey conducted by the Mortgage Bankers Association showed that mortgage applications increased by 5.4% week over week for the week ending Dec. 6, the most recent week for which data is available.

Additionally, existing home sales, which make up the vast majority of home sales, were on the rise in recent months. According to the National Association of Realtors, existing home sales increased by 3.4% m/m in October and were 2.9% higher y/y. It marked the first y/y increase in existing home sales in multiple years.

The increased demand levels, coupled with supply side challenges, have caused the sale price for homes to continue inching higher. The average existing home sale price increased to $407,200 in October, up 4% y/y.

Construction spending continues to accelerate, though the recent months have been more challenging than earlier in the year. Total construction spending grew by 0.4% m/m in October to a seasonally adjusted annual rate (SAAR) of $2.173 trillion. Total construction spending was 5% higher than it was in October 2023.



October's increase in construction spending was driven by the residential side of the sector. Residential construction spending increased by 1.5% m/m in October to a seasonally adjusted annual rate of $945.9 billion. Residential construction spending was 6.4% higher than it was during October 2023.

Nonresidential construction spending took a breather in October, declining by 0.4% m/m to a seasonally adjusted annual rate of $1.228 trillion. Even with the monthly decline, nonresidential construction spending was 3.9% higher y/y. The manufacturing subsegment of nonresidential construction spending fell by 0.1% m/m to a SAAR of $236.1 billion but was up 16.6% y/y. This is a positive sign overall for the U.S. manufacturing sector that there has been significant growth over the course of the past year.

Oil market

The oil market has been an interesting space in recent years as OPEC+ has continued to be aggressive in production decisions to try to boost global oil prices, but the outcome of the cuts hasn't had the desired impact for the OPEC+ countries.

At the beginning of December, OPEC+ ministers met in person to discuss phasing out voluntary production cuts that began in November 2023 and were originally slated to start being phased out in October 2024. Weak demand and depressed oil prices forced the ministers to push back the start of the phasing out process at least until the early December meeting.

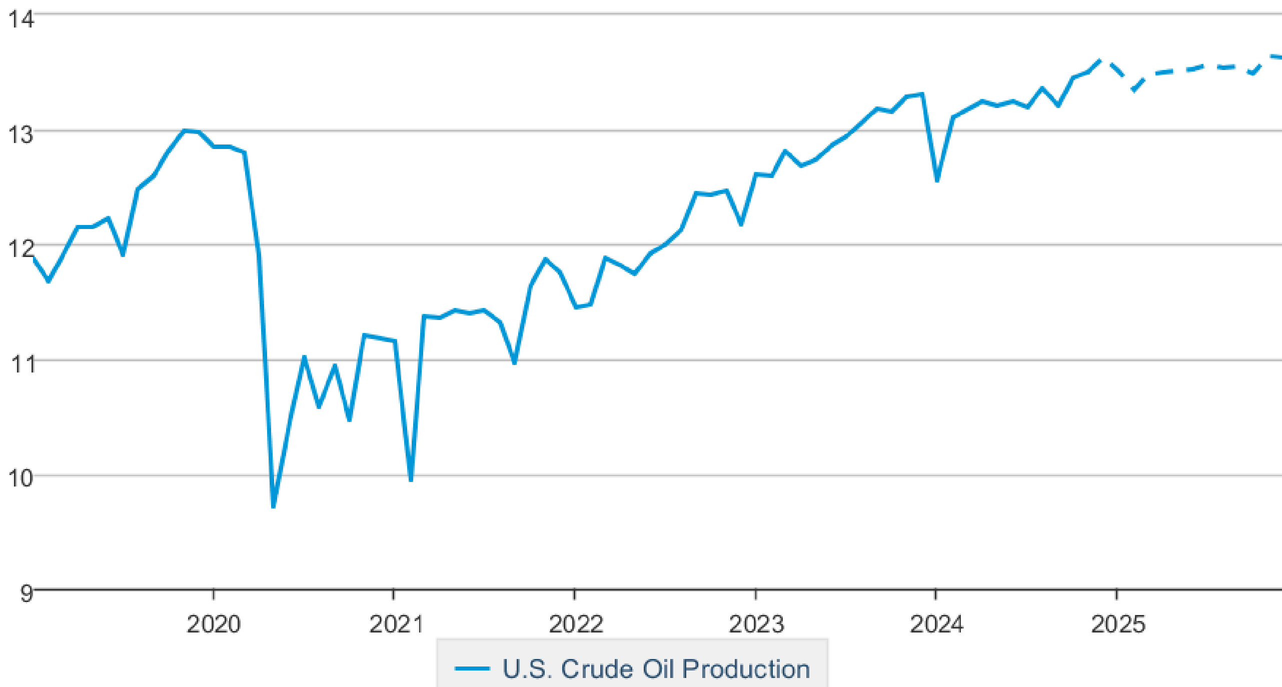
At the December meeting, OPEC+ ministers decided to keep the voluntary production cuts in place until April 2025, longer than analysts were originally expecting. The voluntary production cuts total 2.2 million barrels per day, which is roughly 2% of total global production.

The reason for the continued extension of the production cut is largely due to oil prices being depressed relative to where they were in 2022. Additionally, the U.S. has become a larger player in the global oil market that has impacted OPEC+ power over the oil market that has existed for decades.

According to a recent article published by Reuters, sources close to OPEC+ are paying close attention to the incoming administration's stance on boosting domestic oil production. If the new administration sticks to its mantra of "drill baby drill," that means higher production domestically is likely, thus the more headwinds to OPEC+.

Even if the new administration doesn't go pedal to the metal with drilling, domestic oil production has continued to rise to new heights under an administration that is viewed as more restrictive to domestic production.

After a swift recovery in production in October, U.S. production set another all-time high in November. U.S. domestic oil production increased by 50,000 barrels per day (bpd) in November to the new high of 13.5 million bpd. A positive sign for domestic oil production was that October's figures weren't revised lower, as happened to September's figures.



Data source: U.S. Energy Information Administration

The strength in domestic production in recent months sets up for an interesting 2025. Expectations throughout the year were for domestic production to hit all-time highs throughout the year, with the exception of February due to fewer days in the month. With the increased production in November, the Energy Information Administration (EIA) Short-Term Energy Outlook has adjusted its forecast. Expectations are for domestic production to set a new high in December at 13.62 million bpd, up 10,000 bpd from the previous STEO release. After that, the expectations taper off, with the next expectation for an all-time high coming in November 2025, when expectations are for production to reach 13.64 million bpd, down 10,000 bpd from the prior release.

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. actually increased from December's report, as the count totaled 589 as of Dec. 13, compared to the 583 in December's report. That said, the active rig count is still down 34 from the same time last year, a 5.5% decline.

The declines over the past year primarily stem from a reduction in the number of active rigs in Texas, which are down by 24, or 7.8% y/y. Texas accounts for nearly half of all active rotary rigs in the U.S. Other large producers of oil and gas: New Mexico, North Dakota and Oklahoma have all experienced growth in active rigs over the past year as the three states combined account for 31% of active rig counts in the country.

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	-2	-4.0%	-5	-9.4%
Appalachia	34	1	3.0%	-5	-12.8%
DJ Basin	12	2	20%	-1	-7.7%
Gulf Coast Basin	59	-7	-10.6%	-15	-20.3%
Permian Basin	266	-7	-2.6%	-10	-3.6%
Williston Basin	35	2	6%	5	17%
Other	130	-8	-5.8%	-35	-21.2%
Total	**584**	**-19**	**-3.2%**	**-66**	**-10.2%**

Source: Enverus daily active rig count as of Dec. 18.

Across the country, active rig counts have been under pressure, according to Enverus. The smallest three basins – Appalachia, DJ and Williston – experienced small levels of growth over the past month, but only the Williston Basin had significant enough growth to be positive y/y. Total rig counts were down 3.2% m/m and 10.2% y/y, according to Enverus.

Crude prices remain fairly stable

Crude oil prices have been fairly stable the past month, settling within a fairly tight range as conflicts in the Middle East have eased. The announcement of the latest interest rate cut along with the tapering of expectations for further cuts in 2025 contributed to a dip in oil prices, but it will be interesting to see if that is short-lived. The thought heading into 2025 was that continued easing of monetary policy would create an environment where smaller operators made investments, but if interest rates stay higher longer, it could deter those investments and create a higher floor for crude prices.

With domestic production setting an all-time high in November, crude inventory levels have been depleted over the past month. The decline in crude inventories hasn't been enough to help create a boost in inventories. If domestic demand remains strong, indicated by drawdowns in inventories despite higher production levels, that could create a higher price environment if there were to be the forecasted slowdown in production in 2025.

In the past month, domestic crude inventories have fallen 8.731 million barrels. In the most recent week for which data is available, the week ending Dec. 18, crude inventories fell less than expected: by 934,000 barrels compared to the expectation of a decline of 1.6 million barrels.

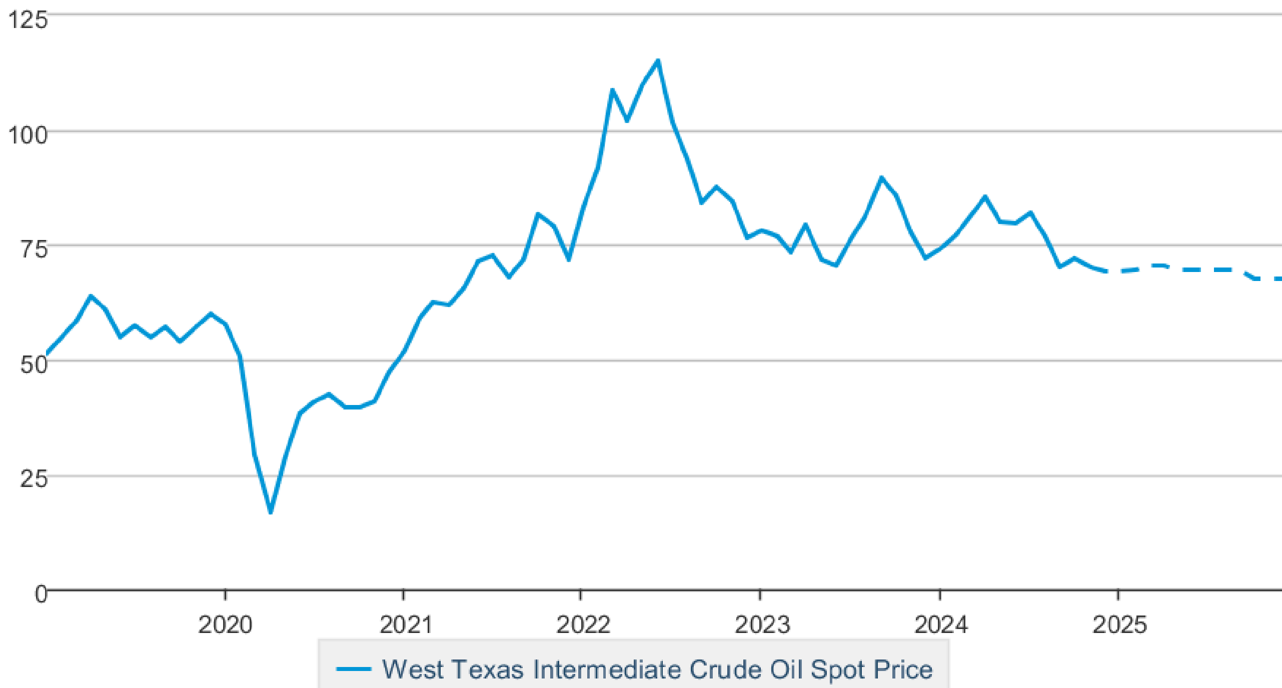
In the OPEC+ Monthly Oil Market Report for December, the organization continued to revise its global demand forecast lower. In the December report, it lowered its 2024 forecast for global crude oil demand by 210,000 barrels per day to 1,390,000 barrels per day. What is interesting from the often more bullish organization is the downward revisions to its 2025 forecast. The 2025 forecast was revised lower by 90,000 bpd to 1.4 million bpd of year-over-year growth, indicating that global oil demand growth is slowing.

The International Energy Agency remains more bearish than OPEC+ in terms of overall growth, but the organization has been revising expectations for 2025 higher. The IEA revised its 2024 forecast

lower to 840,000 bpd, from 920,000 bpd in November, as expected as the organization has been more bullish in recent months. The more interesting figure is that the IEA now expects 2025 global oil demand to grow by 1.1 million bpd, up from under 1 million bpd in November's release.

For now, prices of WTI — a domestic benchmark — are up $1.13 to $70.38 per barrel over the past month but still down 4.8% 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 remain in a fairly tight range throughout 2025.



Data source: U.S. Energy Information Administration

The EIA's latest Short-Term Energy Outlook, published in early December, highlighted the relative stability in crude oil prices over the past few months. Expectations heading into 2025 are for crude oil prices to stay within a $3-per-barrel range throughout the year. Given the directional changes that can happen on a dime, staying within a range of $3 per barrel through an entire year seems unlikely.

What else we're watching

Crude stocks in Cushing, Oklahoma, have faced a new set of hurdles in recent months, challenging the recent lows and just barely above the levels necessary for production. Over the past month, stocks in Cushing have been reduced by over 2 million barrels to just 23,002,000 barrels in the week ending Dec. 13. Compared to this time last year, crude stocks in Cushing are down a resounding 29%.

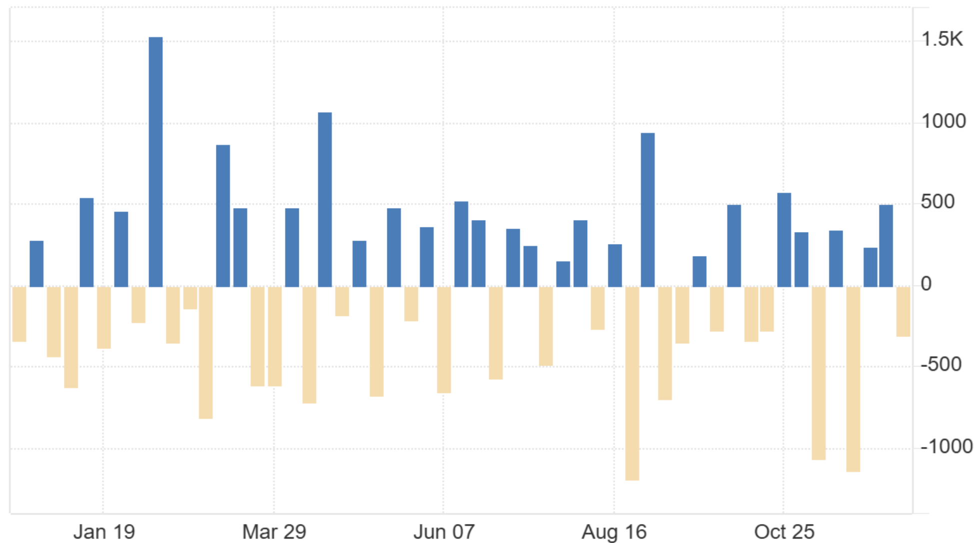
That said, the situation in Cushing isn't as dire as it was at times during 2023 when stocks were just 1 million barrels above the 20 million-barrel threshold. Even though it isn't as critical, the situation isn't something to take lightly as the stocks have been declining since August. The gap with the 20 million-barrel threshold is as narrow as it has been since early November 2023.

Why is the 20 million-barrel level the threshold?

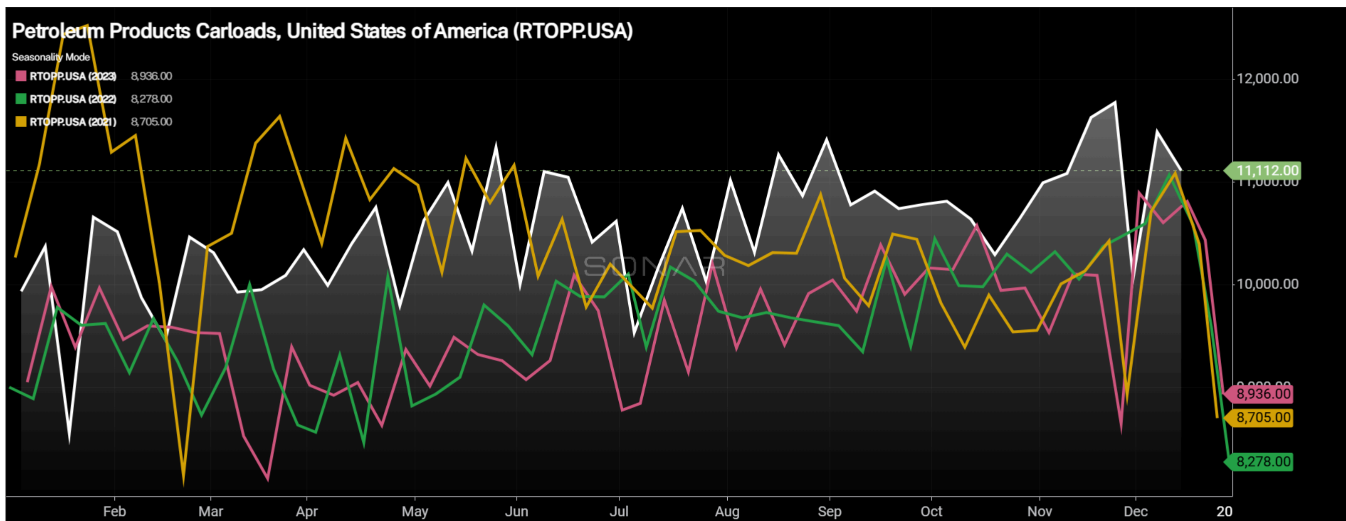
That is roughly the average daily consumption in the U.S. dating back nearly a decade, and it is becoming the level at which the inventory becomes unusable for production. Based on the most recent weekly data for both consumption and Cushing stocks, there is 1.1 days of inventory in Cushing.

The challenge that arises is that even with higher levels of domestic oil production, the colder months are arriving, which creates increased demand in the form of home heating oil. In December's Short-Term Energy Outlook, the EIA produced its Winter Fuel Outlook, which sets expectations for consumption. For the winter months of 2024-25, expectations are for heating oil consumption to be up 5% y/y and natural gas consumption to be up 6% y/y.

The start of the winter months has been milder than last year as the number of heating degree days was down 11% y/y. A heating degree day is a measure of how low the temperature was for a given period of time. Expectations are for heating degree days to pick up in coming months as one would expect, with December 2024 projections to be 772.38 heating degree days, up 24% compared to December 2023.

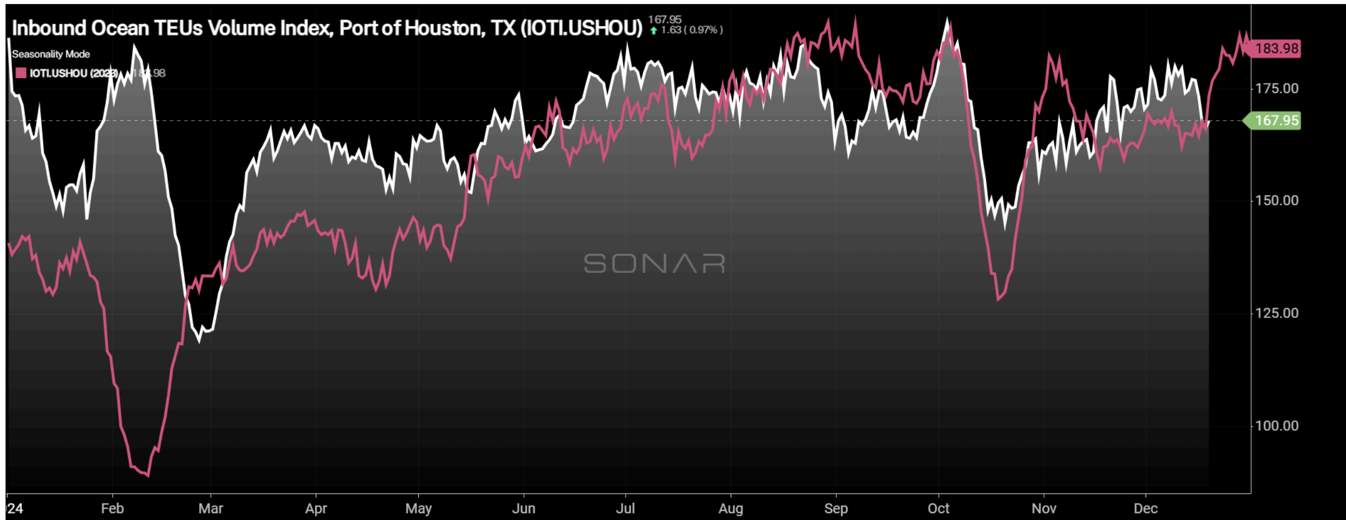


While colder weather hasn't had a significant impact yet, home heating oil stocks have been reacting to the potential lower temperatures. Over the past month, total home heating oil stocks have declined by 346,000 barrels. The most significant drawdown in heating oil stocks happened in the week ending Nov. 22, when stocks fell by 1.13 million barrels.



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

Stronger domestic production and rail infrastructure that has withstood increased demand levels has allowed for petroleum product carloads to continue to show strength over previous years. Over the past month, petroleum product carloads are down 4%, but the decline is being primarily driven by the holidays. Compared to this time last year, petroleum products are up 2.8%. The annual growth will likely continue into 2025 if domestic oil production doesn't suffer a significant slowdown, which is not expected.



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

There continues to be a threat of a strike on Jan. 15 by the International Longshoremen's Association, and as a result there has been a slowdown in imports headed to the Port of Houston. At present, the Inbound Ocean TEUs Volume Index, a measure of container volumes from all global ports headed to the Port of Houston, has actually increased by 1.6% over the past month, though it is down 2.1% since Dec. 1. Import volumes headed for Houston are down 3.3% y/y.

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