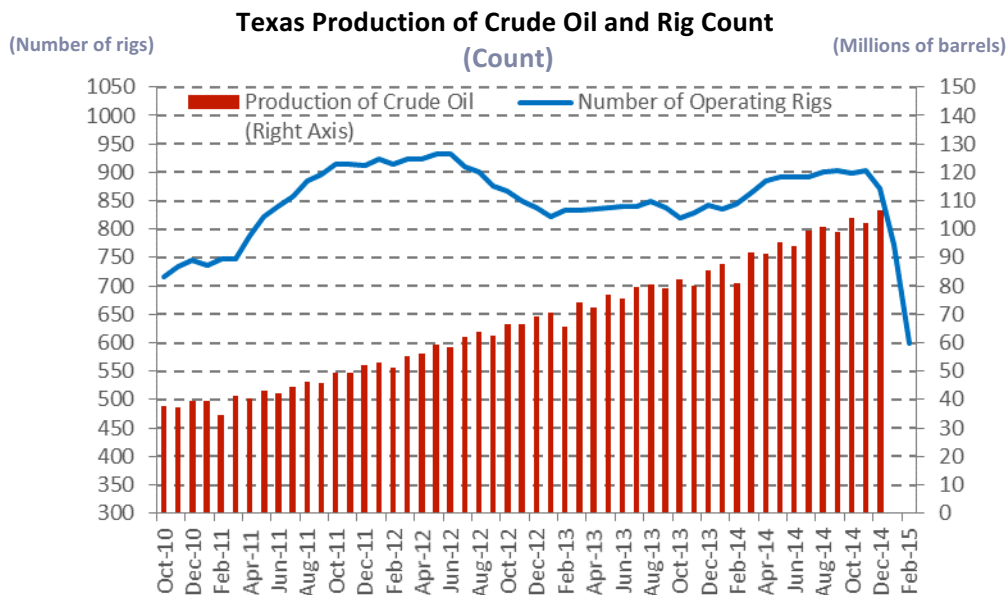


About this Reference Document

This document helps you understand and interpret a particular economic indicator that is part of the larger *Outlook for the Texas Economy*. Note that all data, charts, and explanations presented are from prior reports and thus are not current. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

Dr. Luis Torres and Wayne Day

Energy



Source: Baker Hughes and U.S. Energy Information Administration

Baker Hughes has published rotary rig counts as a service to the petroleum industry since 1944, when Hughes Tool Company began weekly counts of U.S. and Canadian drilling activity. The rig counts are a leading indicator of demand for products used in the oil extraction industry. They have been a consistent indicator for the oil drilling industry and its suppliers for the past 60 years. When drilling rigs are active, they require goods and services supplied by the oil service industry.

A rotary rig rotates the drill pipe from the surface to drill a new well (or sidetrack an existing one) to explore for, develop and produce oil or natural gas. To be counted as active, a rig must be at a drill site and engaged in the drilling process. A rig is considered active from the moment the well is "spudded" (breaks ground) until it reaches target depth.

The North American rig count is released weekly at 1 p.m. eastern time on the last day of the work week. It is published by major newspapers and trade publications and frequently referred

to by journalists, economists, market analysts and government officials as a leading indicator of future economic activity in the oil industry.

The number of operating rigs in Texas fell to 599 in February. It reached its highest value of 904 active rigs in November 2014 and dropped consistently the following three months. The decline in the number of operating rigs was caused by the fall in oil prices to approximately \$50 a barrel. This is another sign that points toward a decline in the Texas oil industry. The last time the number of operating rigs fell this abruptly was during the Great Recession. Even though the U.S. economy is not in a recession, the global supply of oil is greater than demand, pushing international oil prices downward, cutting into the profit margins of Texas shale producers and lowering the number of active rigs.

Source: Baker Hughes

<http://www.bakerhughes.com/rig-count>

