



Happier Days Ahead

AS TEXAS MAKES HUGE ENERGY ECONOMY REBOUND

By Alan Lammey

By taking full advantage of the current wave of rising oil prices and the job growth that goes with it; Texas has managed to claw its way back to become one of the top destinations for business in the entire lower 48 states after coping with several years of struggling through a downturn in energy prices. This time around, the upside growth in the State's economy looks to be much longer-lasting because, for the first time ever, the Lone Star State has become a net exporter of crude oil; which is a total game-changer in terms of providing greater stability for the regional economy.

Financial success is not an unfamiliar story for Texas. However, this particular economic rebound has been a long time coming ever since West Texas Intermediate (WTI) Crude Oil—the State's most important export—peaked at just over \$108 per barrel in 2012 before proceeding to fall off a cliff in subsequent years.

In fact, WTI plummeted more than 74 percent, cascading down to the upper \$20-per-barrel range in early 2016. Since then, oil prices have recovered, climbing

around 60 percent in the last year alone and charging through the \$70-per-barrel mark over the course of the 2018 summer. This rebound in oil prices has been a major shot in the arm for the \$1.6 trillion Texas economy.

Texas Becomes Oil Net Exporter for the First Time Ever

As part of a new age gold rush of sorts for Texas, U.S. energy producers are capitalizing on the vast shale oil deposits in the Permian Basin of West Texas, which is presently the hottest oil field in the world. However, one of the biggest challenges that producers are dealing with is the fact that they're running out of pipeline to accommodate the massive volumes of oil the fields are producing. In a nutshell, the industry is essentially struggling with a "capacity constraint issue" to get the oil supply out of the ground and then transport it to market. Without enough "take-away" pipeline capacity to get the produced oil volumes to various destinations, this set of circumstance has limited the amount of oil that can be produced. However, this is not a bad problem to have and the industry is working day and night to build

additional infrastructure to solve this conundrum. And in fact, this situation is creating a tsunami of jobs in the Lone Star State on all kinds of levels, including a boost in orders from raw material manufacturers, pipe manufacturers, welding companies, trucking companies, engineering firms, home builders, auto dealerships, retailers, as well as a surge in the hotel and restaurant business.

Who is Buying all of this Texas Oil?

The U.S. Energy Information Administration (EIA) reported on August 20, 2018, that, as of April of this year, Texas became a net exporter of crude oil for the first time in its history. Texas is currently on track to become the third-largest producer of oil, trailing only Russia and Saudi Arabia. Estimates show that Texas will see almost six million barrels per day by 2019.

Texas Gulf Coast oil terminals sent abroad more crude oil than they received in April 2018, according to the recent EIA data. During that month, crude oil exports from the Houston-Galveston port district exceeded imports by 15,000 Barrels Per Day (BPD). Over the next month, the amount of

exports over imports welled further, to an impressive 470,000 BPD. Total U.S. oil exports in May hit a record of 2 million BPD, with Houston-Galveston's share of the total at a record-breaking 70 percent, from an average of about 50 percent since the middle of 2017, according to the EIA.

While there is indeed a surge in global markets opening for Texas-produced oil, skyrocketing growth in the regional economy is also creating significantly more consumption of oil and petroleum-based products. In fact, Texas experienced one of the largest population increases in the nation between July 2016 and July 2017, adding 399,734 residents according to U.S. Census Bureau estimates. This was enough to push Texas over 28 million residents. Recent stats show that about 1,458 families per day are moving to Texas because roughly 1-in-7 jobs created in the U.S. in the past year was created in Texas.

In addition to the oil and gas industry, Texas is home to 39 major companies in the Standard and Poor's 500 Index, including AT&T, ExxonMobil and Texas Instruments. And Texas also boasts some of the nation's largest privately-held companies, including supermarket operator H-E-B, Neiman Marcus Group and Hunt Oil.

Even though Texas had solid economic growth in 2017, which included an impressive 5.2 percent State GDP increase in the fourth quarter, the Lone Star State is on pace to see even better annual growth at the end of 2018, thanks to rising oil prices that seem to be settling in the \$60-to-\$70-per-barrel range.

LNG Exports Will Underpin the Texas Economy Even More

Thanks to the shale boom, the U.S. has moved from a position of energy scarcity to a position of strength and abundance. While oil is definitely a part of the overall success story, the runner-up is definitely natural gas. While demand for the home-heating, power generation and industrial fuel is climbing aggressively in the U.S., it's also catapulting higher around the globe. By liquefying surplus natural gas supplies and exporting it to countries overseas,

Texas is able to solidify its place as a global energy provider, while at the same time creating jobs at home and strengthening the domestic economy.

In fact, Texas is uniquely positioned to become a leader in the next chapter in America's energy transformation due to the abundance of natural gas supply, infrastructure and access to deep water ports. According to recent studies, liquefied natural gas (LNG) exports will create another 155,000 Texas jobs in construction, operations, exploration and production by 2035 and contribute up to \$31.4 billion to local economies.

The benefits of LNG exports are not just confined to Texas. LNG exports are expected to generate as much as \$86 billion in net benefits to the U.S. economy and help create up to 2.4 million American jobs by 2035, according to U.S. government stats. Helping to solidify longer-term economic stability

for the Texas natural gas supply is the fact that other countries outside of the U.S., including Spain, Lithuania and France, among others, are clamoring for multi-decade supply agreements of U.S. natural gas.

During this time of uncertainty in commodity prices, the new era of oil and LNG exports is forecast by economists to provide a bright spot for the energy industry that will create economic growth opportunities for Texas residents and businesses for many years to come. **N**

Alan Lammey has 19 years experience as an energy markets analyst and journalist. He has also helped Texas businesses of all sizes improve their bottom-line on energy expenditures. He can be reached via his website, www.TexasEnergyAnalyst.com or alammey@TexasEnergyAnalyst.com.