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Drilling Returns to Pre-Recession Levels, Nears Twenty-Year High

New analysis shows price and technology remain key drivers of oil and natural gas drilling activity

BOZEMAN, Mont. – Oil and natural gas drilling in the United States has returned to pre-recession levels, and the drilling rig count is nearing a twenty-year high according to new [graphical analysis](#) by the independent, research group Headwaters Economics in Bozeman, Montana.

“Oil and natural gas drilling activity has made a strong recovery since reaching a recession-induced low in late 2008,” said Julia Haggerty Ph.D., the report’s author. “Market prices and advancements in drilling technology account for most of the increases in drilling activity.”

By late May 2011, national drilling activity was at 91 percent of a twenty-year high last reached during the 2008 natural gas surge (2,031 rigs). Rig activity plunged in late 2008 in response to the global economic downturn and lower energy prices. Since then, the national rig count has steadily recovered from its June 2009 low (875 total rigs). As of the week of May 27, 2011, the number of active drillings rigs was 1,847. [Note: A Baker Hughes report late June 17, 2011 now places the current rig count slightly higher at 1,860.]

The Headwaters Economics fact sheet graphically analyzes several key indicators: trends in drilling rig counts by energy type compared to market prices; drilling rig activity by technology type; and trends in drilling activity by state, with an emphasis on the energy-producing Rocky Mountain States (CO, MT, NM, UT, and WY) and North Dakota.

“When it comes to land-based oil and natural gas drilling in the United States, there is little evidence that state and federal regulations are hampering industry’s ability to respond to market signals,” added Haggerty. “Price and the “primeness” of resource plays, determined by how well resource qualities fit with drilling and production technology, are the key drivers of the location of drilling. That drilling activity has recovered so quickly, and the location of new activity, suggest strong capacity on the part of industry to respond to market opportunities.”

The recovery has been driven by oil drilling. While only about 15 percent of all active rigs from 2004 and 2008 were drilling for oil, the share of all active rigs drilling for oil has climbed steadily since late 2009 from 30 to more than 50 percent. This corresponds with a tripling in the price of oil between early 2009 and May 2011 (as compared to natural gas price, which has not recovered since the recession).

In addition, the location and pace of drilling is sensitive to a variety of factors, primarily price but also technology and the discovery of new resource plays. Drilling activity can shift quickly between geographies and resource types. The mobility of drilling activity helps to explain why energy-producing areas can be so hard hit by boom-bust cycles of energy development.

The level of drilling activity is a good indicator of trends in oil and natural gas employment. Because a majority of oil and gas industry jobs are associated with the drilling phase, drilling activity (as measured by rig counts) serves as a good proxy for employment trends.

Jim Ives, a retired environmental manager from the energy industry and former executive director of the Rocky Mountain Oil & Gas Association, the predecessor to the Colorado Petroleum Association, agrees with the analysis.

“Drilling is alive and healthy in the West, thanks to high oil prices and the innovation and ingenuity of the oil and gas industry,” said Ives. “There’s a clear lesson to learn from these numbers, conservation and a healthy energy industry can coexist.”

Earlier this spring, Headwaters Economics completed a report, [*Fossil Fuel Extraction and Western Economies*](#), that compares the importance of the fossil fuel economy in the five Rocky Mountain energy-producing states: Colorado, Montana, New Mexico, Utah, and Wyoming—and analyzes the relative success that states and communities have had in maximizing benefits and minimizing the costs of energy development.

About Headwaters Economics

Headwaters Economics is an independent, nonprofit research group that assists the public and elected officials in making informed choices about energy development, <http://headwaterseconomics.org/>.

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