Infrastructure construction for both the oil industry and for town improvements continues in south-west North Dakota as projects that were fully funded before oil prices tanked are still being completed. (Les Stone - Corbis)

NORTH DAKOTA'S OIL-HEAVY ECONOMY IS HANGING ON, BUT FOR HOW LONG?

Debbie Carlson

Sep 27, 2015 // TheGuardian.com

Oil prices may be reaching the bottom of the barrel – but for the state that was at the epicenter of the shale-oil boom in the past few years, North Dakota has ridden out this year’s bust. So far.

Mining layoffs hit the self-styled “legendary” state, with about 10,000 total jobs lost over the past 12 months ending in October, but the total unemployment rate in North Dakota is 2.8%, far below the 5% average nationwide.

Home to a large part of the Bakken oil field – one of the largest contiguous deposits of oil and natural gas in the United States – North Dakota is still riding the wave of the biggest oil boom in a generation.

Infrastructure construction for both the oil industry and for town improvements continues in south-west North Dakota where the Bakken oil field is located as projects that were fully funded before oil prices tanked are still being completed.

But if oil prices remain at the current six-year low of around $35 a barrel, 2016 could bring some pain. Low oil prices led Moody's Analytics to forecast that North Dakota "will underperform the nation for the next several years [and] will flirt with recession through early 2016."

The impact of low oil prices on the state is starting to trickle in. News reports citing North Dakota's budget director said as of November, state tax revenues since July are $152m below forecast, with sales tax collections and corporate income tax collections down. Slightly offsetting that are stronger-than-expected individual income tax collections.

Separate news reports say the state is dealing with a record number of unemployment insurance claims this year, mostly from seasonal workers.

Trying to get a firm handle on the impact of the oil bust is difficult because "a lot of the expansion and softening is not fully registered through economic data," said Rob Grunewald, economist at the Minneapolis Federal Reserve Bank who studies the region.

The Bureau of Labor Statistics' data on average weekly wages and employment in the second quarter shows some signs of slipping. At its peak, in the fourth quarter of 2014, average weekly wages in the Bakken region for all industries were $1,505. That's fallen to $1,291 as of the second quarter.

It's likely the first wave of layoffs affected many of the "super commuters", people who temporarily came to North Dakota lured by high salaries paid by oil companies desperate for workers, rather than permanent residents, said David Flynn, director of the Bureau of Business and Economic research at the University of North Dakota in Grand Forks.

Anecdotally there are signs of that, said Al Anderson, commissioner of North Dakota's department of commerce.

Some of the "man camps" that housed temporary workers closed as companies laid off the oil-field workers who installed rigs. The number of operating rigs in North Dakota fell to 64 as of 15 December, down from 184 a year ago, according to the North Dakota Industrial Commission, but total output fell only 5%.

Hotels are no longer booked solid, Anderson said, and rents in towns like Williston, in the heart of the Bakken, are about half of what they were during the boom. During the boom apartment rents rivaled Manhattan because of lack of supply.

The oil industry may be hiring less, but construction job salaries remain high simply because of a still-tight labor market, Flynn said.

But 2016 could bring some reckoning.

Oil companies are used to boom-and-bust cycles, but no one expected prices this low, for this long. Now firms need to make hard decisions that go beyond becoming more efficient and operating their most productive wells, said David Goldwyn, president of Goldwyn Global Strategies and former special envoy for international energy affairs at the US Department of State. One-off moves like issuing debt or selling assets are short-term measures, he said.

The oil industry is resilient, but moves taken in 2015 are “sustainable in a world [with prices] north of $50. That’s not going to be sustainable for a long time in a world that’s south of $40,” he said.

With Iran possibly entering the market in 2016 and supplies from the Organization of Petroleum Exporting Countries continuing, US shale-oil producers will start “to reassess … what a long-term, low-price situation would look like for their organizations. That could result in many different types of actions,” said Alex Fleming, senior manager, oil & gas EY Advisory, including perhaps more layoffs.

This makes it hard for towns like Williston to plan for future development, Flynn said. Grunewald said to gauge for economic troubles, he’s watching for signs such as slowdown in housing construction.

North Dakota is no stranger to boom-and-bust cycles, but most were agriculturally driven. Agriculture prices are low, too, but the hit from that sector is not nearly as severe. The last time there was a joint energy and agriculture meltdown in North Dakota was the 1980s when the farm crisis and oil crisis left the state reeling, Grunewald said.

This time though, the government is running a massive surplus, with a rainy-day fund of $3.5bn collected from oil largesse that can’t be touched until 2017, among other funds.

No one is expecting the shale-oil industry to disappear, like the oil industry did in the 1980s, either. Grunewald said the scale of today’s production is eight times larger versus the 1980s and the industry is more established.

Fleming agreed.

“The fact is we need energy in America and shale is a strong internal source of it. It will remain a part of the portfolio,” he said.