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Fitch: US Energy States Are Recovering; Resiliency Weakened.

Fitch Ratings-New York-25 January 2018: The rising price of oil and crude oil production increases are improving the economic and financial stability in most oil-producing states, Fitch Ratings says. However, the natural resource (NR) states' revenue growth prospects remain constrained and, for many, financial resiliency has become weaker.

The US oil industry's rise has benefitted Alaska, Louisiana, New Mexico, North Dakota, Oklahoma and Texas (natural resource states). Economic growth and tax revenues tied to higher prices and production have risen. However, financial operations for many could remain tight as the fallout from successive one-time actions, including substantial reserve use, applied in recent budgets in response to the multi-year price and production downturn continue to challenge them. Fitch also expects the recent oil bust could temper these states' expectations of a long-term turnaround in the industry.

The US oil industry's recovery is underpinned by strong production growth. It grew by 11% in 2017 on the expansion of shale companies' production after organization retrenchments necessitated by the late-2014 price plunge that bottomed at $26.21/barrel (bbl; West Texas Intermediate [WTI]) in February 2016.

Prices have been rising as well. An OPEC/Russia agreement to limit production and growing global demand have pushed oil prices up beginning in 2017 from $52.33/bbl to $59.64/bbl by year's end. The 2017 acceleration boosted US rig counts to 930 at the end of the year; up 36% from January 2017, but still far below the 1,904 rigs in service in September 2014.

Fitch and the US Energy Information Administration (EIA) forecast a 1 million bbl/day increase in US oil production in 2018 from 2017. The EIA expects a 2018 average of 10.3 million bbl/day in production, rising to 10.8 million bbl/day in 2019. Growth regions identified by the EIA include the Permian region in Texas and New Mexico and the federal Gulf of Mexico. Production in Alaska is expected to remain flat in both 2018 and 2019. Fitch's forecast for the WTI price is $50.00/bbl for 2018 and $52.50/bbl for 2019; the long-term forecast is a subdued $55.00/bbl, reflecting the high level of market uncertainty and lower global production costs that are unlikely to result in a sustained period of materially higher prices.

Many factors could have an impact on these expectations, including deteriorating compliance within the OPEC/Russia production cuts and US producers' response to recent price increases.

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