Why Is the Oil Industry Booming?

High prices and growing demand have helped U.S. oil producers take in record profits despite global efforts to spur greater use of renewable energy and electric cars.


By Rebecca F. Elliott **Photographs by Desiree Rios**
Reporting from Midland, Texas

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For all of the focus on an energy transition, the American oil industry is booming, extracting more crude than ever from the shale rock that runs beneath the ground in West Texas.

After years of losing money on horizontal drilling and hydraulic fracturing, the companies that have helped the United States become the leading global oil producer have turned a financial corner and are generating robust profits. The stocks of some oil and gas companies, such as Exxon Mobil and Diamondback Energy, are at or near record levels.

The industry's revival after bruising losses during the Covid-19 pandemic is due largely to market forces, though Russia's war in Ukraine has helped. U.S. oil prices have averaged around $80 a barrel since early 2021, compared with roughly $53 in the four years before that.

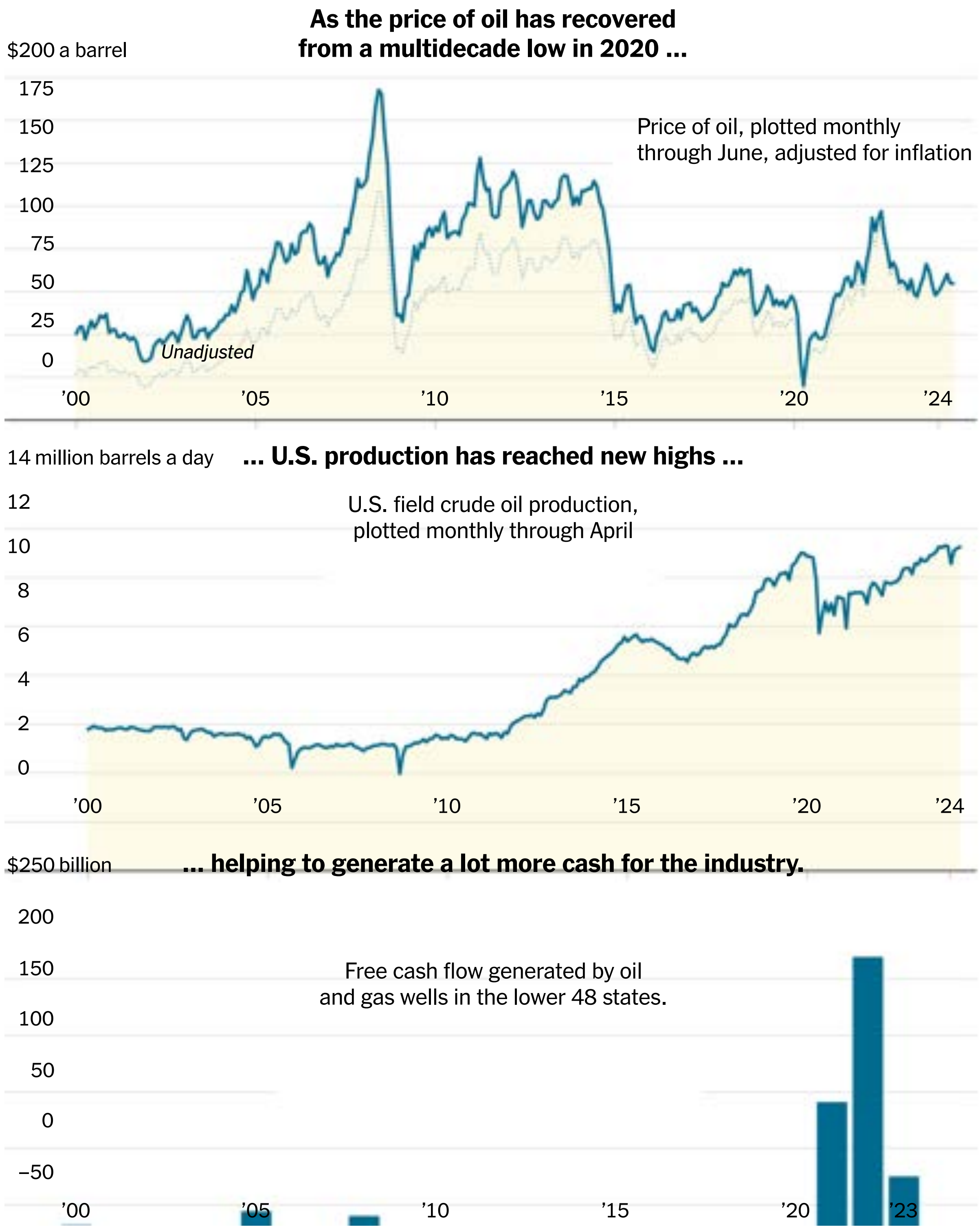
That the price and demand for oil have been so strong suggests that the shift to renewable energy and electric vehicles will take longer and be more bumpy than some climate activists and world leaders once hoped.

Oil companies' success is not just the result of higher prices. Under pressure from Wall Street to improve financial returns, the companies that survived the 2020 oil-price crash generally ditched the debt-fueled growth strategy that had propelled the American shale boom.

Many pared spending and cut costs by laying off workers and automating more of their operations.

Since 2021, oil and gas wells in the lower 48 states have generated more than $485 billion in free cash flow, the money left over after spending on operations and new projects, according to estimates by Rystad Energy, a research and consulting firm. In the decade prior, the industry spent nearly $140 billion more than it took in.

How the Oil and Gas Industry Became Flush With Cash



Sources: U.S. Energy Information Administration; Rystad Energy • By Karl Russell

“People used to call us drunken sailors,” said Steve Pruett, chief executive of the oil and gas producer Elevation Resources, which is based in Midland, Texas, an industry hub in the Permian Basin. “Hopefully we’re shaking off that reputation now.”

In an odd twist, the financial success of American oil companies has been a political orphan, with neither President Biden nor former President Donald J. Trump celebrating the industry’s recent wins.

Mr. Biden has been reluctant to cheer oil companies given the importance he has placed on addressing climate change. The president and his aides have, however, taken credit for the decline in gasoline prices after they spiked in 2022 when Russia invaded Ukraine.

Mr. Trump has largely ignored the industry’s success and has cast it as a victim in need of saving. He has promised, if elected, to undo Mr. Biden’s climate policies and to encourage oil companies to “drill, baby, drill,” which could drive down oil prices and corporate profits.

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While oil makes up a smaller share of the global energy mix than it used to, demand has continued to climb.

The environmental consequences of the oil industry's financial turnaround are mixed. Producing and burning fossil fuels releases greenhouse gases that are warming the planet. But higher oil prices are also making cleaner forms of energy more attractive, said Samantha Gross, a director at the Brookings Institution, a nonpartisan research group.

"We're not going to get out of this business because supply was squeezed, because there's plenty of it," Ms. Gross said. "We're going to get out of the business because demand went down."

That hasn't happened so far. While oil makes up a smaller portion of the global energy mix than it did before the pandemic, partly because of the growth of electric vehicles, thirst for the fuel has continued to climb. Global demand reached a record of more than 100 million barrels a day in 2023, up 2.6 percent from 2022, according to the Statistical Review of World Energy.

The Permian Basin, a vast expanse of oil pump jacks and mesquite shrubs that stretches from West Texas into eastern New Mexico, supplies roughly 6.4 million barrels a day of crude, or nearly half of all U.S. production.

Pump jacks extracting crude oil from wells outside Midland, Texas, the largest city in the Permian Basin region.

An Independence Day celebration in Midland that was sponsored by oil companies, including Permian Deep Rock.

Booms and busts are the norm here, the economy inhaling and exhaling with the price of crude.

With oil trading around $80 a barrel, hotels are filling up, highways are jammed with trucks and unemployment is low — 2.4 percent as of May in the Midland area. The national unemployment rate in June was 4.1 percent.

Average oil production in the region is expected to rise 8 percent this year from 2023, according to federal estimates.

“We’re going to be drilling wells like this for the next 40 years,” said Kyle Hammond, general manager of Permian Deep Rock Oil Company, a small operator that is drilling and fracking dozens of horizontal wells beneath the city of Midland. Towering sound barriers shield the surrounding neighborhoods from the hum of a generator and the beeping of trucks moving in reverse.

Many oil companies are betting big on the Permian. Exxon, now the largest producer in the region, is aiming to increase oil and gas production here by some 50 percent by the end of 2027.

Workers overseeing the fracking process from inside a trailer at a Permian Deep Rock site in Midland.

The company is drilling and fracking dozens of horizontal wells beneath Midland.

“That’s reflective of the fact that there’s demand out there,” said Bart Cahir, who leads the company’s shale division.

Yet the same fiscal restraint and technological improvements that have made many oil producers more profitable have also weighed on the many contractors and vendors that serve them.

In late 2018, companies were running roughly 490 drilling rigs in the Permian and pumping around four million barrels of oil per day, federal data shows. Today, they are cranking out more than six million barrels with around 310 active rigs.

That means less business for the companies that operate drilling equipment and provide housing to the workers who commute into the oil field.

“It’s not like booms of the past where — Katy, bar the door — let’s just go,” said John Odette, chief operating officer of Crew Support Services, which operates a dozen mobile-home complexes throughout the Permian. “People have been a little more reserved.”

The company’s complexes, known as man camps, are around 85 percent full, but rates are much lower than they were before the pandemic, Mr. Odette said. A room that would have fetched $100 a night in 2018 now brings in $50 to $80, he said.

A man camp operated by Crew Support Services, which has a dozen mobile-home complexes throughout the Permian.

The company provides housing for some of the workers who commute in to work on the oil field.

And while oil prices are well above what most companies need to generate a healthy return, natural gas is so plentiful here that at times there has been nowhere to put it. There isn't always sufficient capacity on pipelines to send it to states or countries where there is strong demand for that fuel.

For several days this month, natural gas prices in West Texas were negative, dropping to almost $4 below zero per million British thermal units, a standard unit of measurement for natural gas, according to S&P Global Commodity Insights. That means that instead of being paid for the fuel, producers had to pay other businesses to take it.

Languishing prices have amplified the frustration of many executives with Mr. Biden, who this year suspended approvals of new natural-gas export terminals. This month, a judge ordered the Biden administration to lift the pause, though analysts said the ruling would most likely have little immediate effect. Even in the best of circumstances, new terminals take many years to plan, permit and build.

"We need these terminals desperately right now to make a market for the gas," said Suzie Boyd, a Midland-based consultant who helps producers sell their oil and gas.

Within the industry, the presidential campaign is stoking a simmering anxiety about the future. A large majority of oil and gas executives support Republicans, but some of them acknowledge that their industry often performs better with a Democrat in the White House. Democrats tend to impose tighter regulations, which limit production, keeping prices higher than they would be in a more laissez-faire environment, the thinking goes.

“In the short run, Biden has been better for our industry,” said Chris Wright, chief executive of Liberty Energy, an oil field services company.

Yet many who make a living pumping oil and gas bristle at Mr. Biden’s rhetoric and climate policies and worry that another term for him or another Democrat could hurt their businesses in the long run.

Companies in the Permian are producing more oil with fewer rigs than in recent years.

“A more welcoming investment climate, more confidence in the future of energy thriving here — that’s going to impact investment decisions at the margin,” Mr. Wright said.

A White House spokesman, Angelo Fernández Hernández, said record domestic energy production under Mr. Biden had powered economic growth. He also noted that the United

States was currently the world's largest exporter of liquefied natural gas. "Since Day 1, the president has driven an unprecedented expansion of American clean energy production while working to lower prices for American families," he said.

Karoline Leavitt, a Trump campaign spokeswoman, said no one had done more to damage the oil and gas industry than Mr. Biden, in part by restricting permits to drill for oil and gas on federal lands. If elected, Mr. Trump would clear the way for oil and gas companies to "utilize the liquid gold under our feet to produce clean energy for America and the world," she said.

Whatever happens in the November election, the oil industry's future hinges on a larger question: What will happen to global demand for crude?

The International Energy Agency, a Paris-based multilateral organization, expects global oil demand to peak before the end of the decade as more people and businesses buy electric cars and rely on wind and solar energy. But many oil executives and the Organization of the Petroleum Exporting Countries say consumption will grow well into the 2030s, if not beyond.

If the energy agency's predictions come to pass, the world will be awash in crude come 2030, with production capacity exceeding demand by roughly eight million barrels a day.

In Midland, many share the views of Michael Oestmann, a partner in an oil and gas company, Tall City Exploration IV, who is betting that oil demand will be resilient — and that the constraints being imposed by investors and governments will drive prices higher.

"I see long-term demand going up and supply being limited," Mr. Oestmann said. "We hope to be a player in that."

Rebecca F. Elliott covers energy with a focus on how the industry is changing in the push to curb climate-warming emissions. More about Rebecca F. Elliott

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