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OIL & GAS SECTOR CAUTIOUSLY OPTIMISTIC AND STARTING TO EYE GROWTH

- More than half of oil and gas firms are planning for growth
- Signs that job cuts are starting to slow
- Low value of sterling and production costs are sector's biggest challenges

The UK's Oil and Gas industry is gearing up for growth as cautious optimism returns to the sector, new research reveals today.

The sixth annual Bank of Scotland Oil & Gas Report, which gathers views from across the industry and its supply chain, analysed the state of the sector and the challenges it faces.

It found that business confidence has grown in the last year, with the net balance of firms that felt optimistic at 39 per cent, up from just two per cent in 2016.

Despite continued low oil prices, growth is also on the agenda for more than half (58 per cent) of companies. The firms anticipating growth said they expect, on average, growth of 26 per cent of their current annual turnover in the next twelve months, up from the 49 per cent who expected an average of 17 per cent growth in the 2016 survey.

Looking ahead to the next twelve months, firms operating in the sector said they are looking to grow by generating organic growth (27 per cent), diversifying operations (22 per cent) and growing through mergers and acquisitions (nine per cent).

Slowdown in job cuts
The survey found that job cuts in the industry over recent years appear to be slowing down.

The percentage of firms anticipating job cuts in the next twelve months is down from a third (32 per cent) in 2016 to a fifth (19 per cent) this year. More than half (55 per cent) of companies said they expect to increase their overall headcount over the coming year.

Reflecting on the past year, a fifth (19 per cent) of firms said they had seen a net increase in staff numbers, hiring in some areas and making redundancies in others. A quarter of businesses (25 per cent) made no changes to their headcount.

A net balance of 17 per cent of firms said they plan to create jobs in engineering and fabrication; 10 per cent said equipment supply and rental; and nine per cent said multi-discipline services. Headcount was expected to reduce in drilling (net balance of -12 per cent) and subsea work (net balance of –5 per cent).

Stuart White, Bank of Scotland regional director, Mid Markets North of Scotland, said: "While the blow from depressed oil prices has been severe for the many businesses and individuals impacted by job losses, the oil and gas sector is proving itself to be among one of the most resilient in the UK.

"The expression of confidence in this year's survey reflects an industry that appears to be turning a corner, with conditions for growth more favourable than they have been in recent times.

"There are still choppy waters to navigate, with political uncertainty at home and abroad, but we remain confident in the sector, and are committed to providing the support it needs as part of our pledge to help Britain prosper."

Challenges

Despite the upturn in optimism, the survey found firms are expecting challenges in the coming year.

Respondents cited the increasing cost of production (48 per cent), value of sterling (44 per cent), volatility of currency exchange rates (41 per cent) and uncertainty because of the EU exit negotiations (35 per cent) as the biggest challenges for the industry.

Low oil prices also remain a challenge, with nearly a third (30 per cent) of firms saying the issue had affected their business severely or quite badly in the past twelve months.

But the sector said it is planning on meeting cost challenges head on. Popular strategies are adopting new processes (68 per cent), embracing new technology (68 per cent) and making day-to-day operational efficiencies (63 per cent). Rationalisation of the supply chain, cited by last year's respondents as the priority for meeting cost challenges, has fallen in favour, from 66 per cent to 44 per cent.

Home and abroad

The number of firms interested in domestic development has increased over the past twelve months. The majority (91 per cent) expect to maintain or increase their exposure to the UK Continental Shelf (UKCS) in the coming year, up from 84 per cent in the previous survey. While one in seven (15 per cent) said they expect to expand operations in the North Sea over the next 12 to 24 months, the intentions of larger firms to expand in the region increased from zero to 17 per cent.

However, the sector's intentions to expand internationally are down year-on-year. Two fifths (43 per cent) stated they had no interest in international expansion, up from a third (33 per cent) in the previous survey.

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Larger global operators were more optimistic, with intentions to expand in South America, the Middle East and Australasia more than doubling year-on-year, in line with increased development activities in these regions.

Despite evidence firms are returning to home ground, almost three quarters (70 per cent) said that the current business climate had presented opportunities outside the UK.

The types of overseas opportunities being eyed by companies are new contracts (46 per cent), new exporting opportunities (33 per cent), diversification (33 per cent), acquisitions (23 per cent) and investment in new technology (15 per cent).

Paul de Leeuw, Director, Oil and Gas Institute, said: "With the oil price more than halving since 2014, the industry had simply no choice but to focus on adjusting its cost base and improving operating efficiency. The relentless focus on cost and efficiency inevitably moved the agenda towards short-term delivery.

"This year's survey is showing a more positive outlook for the UK oil and gas industry. Building on the cautious optimism reflected in the survey, it is encouraging to see that many companies are looking again at returning to profit, growing their business and recruiting new staff."

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Notes to Editors:

1. Field research for this report was undertaken in April and May 2017 by Coleman Parkes Research.
2. To gather representative data from this diverse industry, a broad cross-section of 105 UK oil and gas companies, across Scotland, England and Wales, were interviewed ranging in size, from £0m to £25m, £25m to £750m and more than £750m annual turnover.
3. Business owners, managers, senior managers, directors and department heads took part in the survey, with a higher proportion of respondents.
4. Our survey questions focused on growth and diversification plans, employment, investment, international markets, opportunities and challenges.

Net balance of optimistic firms is calculated as the percentage of businesses that said they felt optimistic minus those that said they felt negative. The net balance of firms expecting to hire additional staff is calculated as the percentage of businesses expecting headcount to increase minus the percentage that expect headcount to decrease.

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