INGHAM ECONOMIC REPORTING

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The Midland Development Corporation

And

Security Bank

Present

The Midland-Odessa Regional Economic Index

and the

Texas Permian Basin Petroleum Index

January 2014

January 2014 employment estimates for Midland and Odessa and other Texas metro areas was released only last Friday, March 7, as a part of the broader annual employment data revision process by the Texas Workforce Commission. That process involves updating employment estimates for 2012 and 2013 (and sporadically for some months in prior years) based on more complete employer records, and using the revised estimates as the benchmark for monthly employment estimates for the balance of 2014.

Total payroll employment – simply the number of jobs estimated to exist in the metro area – was revised downward for the Midland-Odessa combined metropolitan area, primarily in 2013, with very slight downward revisions in 2012. The original employment estimates for 2013 averaged 161,600 for the year, and a year-over-year growth rate of 5.9%. The revised employment estimates suggest an annual average employment level of 158,290, and a year-over-year growth rate (2013 compared to 2012) of 4.1%.

At year-end 2013, the employment level was revised downward by some 4,000 jobs from the original December estimate of 166,300 and a year-over-year growth rate of 4.9%, to the revised estimate of 162,300 and a year-over-year growth rate of 3.9%.

This does not mean, of course, that the Midland-Odessa metro area lost jobs; it simply means that job growth occurred in 2013 at a somewhat slower rate than was indicated by the original estimates. Jobs continue to be added at a very respectable pace, and that comes on top of spectacular employment growth in 2011 and 2012 during which employment increased by 9.3% and 8.2%, respectively.

The revised employment data were factored into the calculation of the Midland-Odessa Regional Economic Index for each affected month, and the numbers were revised downward accordingly in 2013. The December 2013 MOREI per the original employment estimates was 216.8, up 6.5% compared to December 2012; the MOREI per the revised employment estimates stands at 214.2, up 5.5% compared to the December 2012 revised index.

Total oil & gas employment in Midland-Odessa was actually revised slightly upward in 2013 by about 1,100 jobs, and the growth rate remains steady and strong, even though the pace of job growth has cooled compared to the extraordinary rates of industry job growth from 2010-2012. We also took this opportunity to rework the regional oil & gas stocks index. The purpose was to somewhat alter the method of calculation and bring the company list current by adding Concho Resources. The list of companies now includes Concho, Clayton Williams Energy, Inc., Dawson Geophysical, and Patterson-UTI Energy, Inc. The change in the stock index resulted in a lowering of the Texas Permian Basin Petroleum Index values; again, though, this represents no negative occurrence, simply a change in companies and methodology. The pre-revision TPBPI for December 2013, for example, stood at 347.0; per the employment data and stock index revisions (as well as ongoing revisions in regional oil & gas production data), the December 2013 post-revision TPBPI now stands at 342.3.

As a result of the employment data revisions released last Friday, we now have the benchmarks in place for the calculation of the Midland-Odessa Regional Economic Index (and the Texas Permian Basin Petroleum Index) for the balance of 2014, and the January indexes are based on those benchmarks along with the rest of the January economic data.

And not surprisingly, each continues to post month-to-month improvement moving into 2014. The Midland-Odessa Regional Economic Index improved to 215.2 in January up from 214.2 in December, and up 5.5% from the revised January 2013 MOREI of 204.1. That marks the 47th consecutive month of growth in the index, over which time the economy as measured by the index has expanded by some 55%.

The table of economic indicators for the Midland-Odessa Regional Economic Index remains very strong, with year-over-year improvements in every single component used in its calculation. Employment continues to expand in Midland-Odessa though, again, the rate of growth has slowed relative to prior years and relative to the original estimates.

Total payroll employment under the new benchmark is up by 3.8% in January compared to January of a year ago, reflecting the addition of an estimated some 5,800 jobs over the last 12 months. And that comes on top of sharp rates of growth in prior years in which January total employment in 2011, 2012, and 2013 was up by 8.5%, 8.9%, and 6.4%, respectively, for a total addition of about 37,400 jobs since January 2010. The unemployment rate continues to decline as well, falling to 3.3% in January compared to 3.9% in January 2013, and Midland and Odessa continue to boast the lowest unemployment rates of all Texas metro areas.

General real spending improved yet again in January, up by 5.2% compared to January of a year ago, which in turn was up by over 16% compared to January 2012. Auto sales were up sharply in January, posting the largest year-over-year gain in 14 months. Inflation-adjusted spending on new and used automobiles in January was up by over 22% compared to January of a year ago.

Hotel/motel tax receipts have finally begun to flatten on the heels of spectacular growth in recent years. For the quarter ending December 31, 2013, hotel/motel tax collections in Midland-Odessa were up by only about 1.6% compared to the same period a year ago, and that comes on the heels of a slight decline in the previous quarter. Again, though, the rates of growth in recent years have been so dramatic that a flattening at some point was inevitable, and it appears that the sector is finally leveling, albeit at a continued very high level of activity.

Construction activity in the Midland-Odessa combined metro area continues to explode. The $77.2 million in building permit valuations issued by the two cities in January is the highest on record for the month of January, and was up by over 29% compared to January of a year ago (which in turn was up by over 80% compared to January 2012). The 109 new single-family residential construction permits is also the highest on record for the month of January, and outpaced January of a year ago by nearly 6%.

The 201 existing home sales in Midland-Odessa matches the January record achieved in 2005, and was up by over 20% compared to January of a year ago. Prices continue to march steadily upward with the January monthly average sale price up by 5.3% compared to January of a year ago.

So what is the expectation for the Midland-Odessa general economy in 2014? The numbers are already beginning to tell the story, and have been pointing in that direction for some time now. And that direction is most likely – and actually most desirably – a continued slowdown in the rate of economic growth after several years of rapid, high-paced growth, and a flattening of economic activity, albeit at the high levels achieved in recent years.

General spending and employment have been exhibiting those trends for several months now, and indeed for most of the past year, particularly when the revised employment data is factored into the equation. And again, these are the most reliable indicators of the *current* economy. Other indicators that continue to exhibit stronger growth trends moving into 2014 – construction and housing, most notably – are playing 'catch-up' in an economy that is not yet in balance. Simply put, the economy remains in transition from an economy sized to accommodate $20-30 crude oil extracted by traditional means, to one sized to accommodate $90-100 crude oil extracted by extraordinary technological means.

With every new commercial, industrial, office, and retail structure, with every housing unit added (either via single-family residence or multi-family complex), and with every new member of the labor force added to fill a job in the region or metro area, the economy comes closer to being in balance. As that process plays out, the numbers will begin to reflect a cooling in construction activity, housing prices, and so on, first in terms of a slowdown in the rate of growth, and then perhaps by an actual decline at some point.

Hotel/motel activity in the metro area is a near-perfect example. In 2002, total hotel/motel occupancy tax collections were under $2 million for the entire year. By 2011, occupancy taxes collected were in excess of $2 million per quarter and surpassed $11 million for the year in 2013. But it appears that run may be over. Hotel/motel tax receipts for occupancy in the third quarter 2013 were actually slightly lower than the same quarter the prior year, and tax receipts for occupancy in the fourth quarter were up less than 2% compared to the same period the prior year. Activity levels remain high, and at or near record levels, but the rate of growth has diminished from over 50% in recent years (and over 60% for some quarters) to flat by year-end 2013. And this occurred in a very short period of time – hotel/motel tax collections in the fourth quarter 2012 were up by 45% year-over-year, and by over 50% for the year as a whole.

The clear indication is that while growth remains extraordinarily strong in construction and housing moving into 2014, growth rates could easily exhibit the same characteristics when the market begins to come into balance. It seems a plausible notion that could easily be the case for construction in 2014. It seems less likely – though possible – that the housing indicators will begin to slow appreciably in the coming year.

As of March 2014, we can reasonably expect a very sound economy in the region and metro area for the balance of the year, characterized by relatively modest growth in spending and employment, a low unemployment rate, and continued growth in the Midland-Odessa Regional Economic Index. The index, reflecting general economic growth, grew by over 14% in 2012, and by 5.5% in 2013. The pace of growth will likely slow again in 2014, but it will be growth nonetheless, at a rate of perhaps 4-5%.