

INGHAM ECONOMIC REPORTING

Karr Ingham

P.O. Box 7531
Amarillo, TX 79114

(806) 373-4814
karr@inghamecon.com

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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 April 2015

The Texas Workforce Commission has now completed its revisions to Texas metro area labor force and unemployment data, and as was the case for the estimates to metro area payroll employment estimates, the labor force data (which also contain unemployment rate estimates) were revised back to at least the starting point (January 1996) of the Midland-Odessa Regional Economic Index. The result is fairly minor changes to monthly MOREI values over time, including the recent months. Under the newly revised unemployment rate data the Midland-Odessa Regional Economic Index peaked in January 2015 at 235.8, compared to the prior (pre-revision) peak in the index of 236.6, also in January. The index declined to 235.7 in February, and 235.3 in March.

The Midland-Odessa Regional Index in April declined slightly for the third straight month under the new post-employment data revision benchmarks, dipping to 235.2 down from 235.3 in March, but still up 7.8% from the April 2014 MOREI of 218.2. The change in direction is unmistakable and expected; however, the declines are quite small thus far and it is a bit of a pleasant surprise that the loss in index value is not more significant. It is certainly possible the rate of decline may gain some momentum in the coming months, and in fact this is almost certain to be the case simply because spending and employment loss as a result of the sharp contraction in the regional oil & gas industry has yet to register to any noticeable extent.

At this point the region has lost 60% of the rigs that were at work in late November. The rate of decline in the regional rig count has slowed in recent weeks, and only three rigs were idled during the week ending last Friday. The forecasted 2/3 decline in the rig count may or may not fully materialize as the count appears to be stabilizing somewhat and oil prices have improved; however, a 60% decline in the rig count and the contraction in activity that it represents will obviously cut fairly deeply into the general regional and metro area economy.

The Texas Permian Basin Petroleum Index continues its rapid descent falling by another 7.6 points in April to 336.9 down from 344.5 in March, and down 5.6% from the April 2014 TPBPI of 356.9. The year-over-year declines in oil & gas prices, the rig count, drilling permits, and production values are readily evident. Not so evident is any decline in the volume of crude oil produced in the region, or job loss (industry or otherwise) as a result of the decline in E&P activity. However, the numbers are beginning to indicate the beginnings of that process, as it *appears* the rate of year-over-year growth in both crude oil production volume and oil & gas industry employment in Midland-Odessa has begun to

narrow. These trends are much more difficult to discern in terms of crude oil production because the numbers are being revised with each passing month, sometimes wildly so over time. What looks to be slowing production now may be revised upward in future months.

In the general economy, rates of growth in general real spending remain in positive territory, but not by much, and have narrowed considerably in recent months. Year-over-year growth per the month of the sales tax rebate was as high 19% in late 2014, and 15% in January 2015, and has now fallen to 2.6% in April. The rate of year-over-year employment growth, over 9% in the last three months of 2014, now stands at an estimated 6.3% in April. The unemployment rate for the combined Midland-Odessa metro area, which had been steadily declining since 2010, has now reversed course and begun to increase once again.

Real spending on automobiles, which was up by over 17% in 2014, is now down by nearly 10% thus far in 2015 with year-over-year negatives in each month January-April. Airline travel has dipped fairly sharply as well; hotel/motel activity in the first quarter of the year was still strong but again rates of year-over-year growth are beginning to decline from over 30% in the third and fourth quarters of 2014 to about 13% in the first quarter 2015.

Housing activity is on the decline, both in terms of sales transactions for existing homes and the construction of new single-family housing. The monthly average sale price for existing homes was down by about 2.7% in April compared to April of a year ago; however, the April 2014 monthly average was up by nearly 12% compared to the prior year, so it is probably not yet the case that true relief in terms of housing prices has arrived in Midland-Odessa.

This is clearly a transition time in the Midland-Odessa general economy, and it will be at least a number of months before it has fully run its course. Historically, periods of contraction in the metro area economy have lasted anywhere from 14 months to 18 months (14 months in both 2002-2003 and 2008-2009). At this point the current contraction is three months in the making after the January peak in the Midland-Odessa Regional Economic Index. The downturn is mild thus far, and again no matter the length and depth of the contraction the aggregate level of activity in the economy will have been raised considerably compared to the previous cycle – the peaks and troughs in the current economy are higher than previous peaks and troughs – and this will continue to be the case as the local economy continues to register impressive net economic expansion over time.