

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 March/1st Quarter 2015

The Midland-Odessa Regional Economic Index declined for the second straight month in March falling to 235.9 down from 236.4 in February, and the index peak of 236.6 in January. The MOREI remains 8.7% improved compared to March of a year ago, but that margin of year-over-year improvement will steadily narrow in the coming months.

The onset of contraction in the Midland-Odessa general economy – of whatever magnitude it may ultimately be – is of course the result of the dramatic slowdown underway in the Permian Basin regional oil & gas economy. The Texas Permian Basin Petroleum Index declined again sharply in March, falling by over 10 full points to 344.2 down from 355.4 in February, and the index peak of 379.1 in November 2014. The March monthly average rig count in the Texas Permian Basin is down by over 40% compared to March of a year ago; of greater significance is the decline in the weekly rig count of nearly 60% from the November 2014 peak (and the decline continues to deepen). The number of drilling permits issued in the region (in Texas) has fallen by about 70% from its October 2014 peak. Oil and gas industry job loss has yet to begin to register in the monthly estimates from the Texas Workforce Commission, but that day is coming, and coming soon. At the statewide level, upstream oil & gas employment is falling rapidly, and some 10,000 jobs have been lost at this point with thousands more yet to come.

If the January turning point holds, and it seems reasonable to expect that it will, the expansion in the Midland-Odessa general economy will have lasted 59 months from February 2010 to January 2015. Over that period of time the Midland-Odessa Regional Economic Index increased by 70%, an average of 14% growth per year. General real (inflation-adjusted) spending literally doubled over that period of time, posting a 100% increase. Growth in auto spending was even more impressive with inflation-adjusted spending on new and used vehicles up by 158%. Most impressively, the number of jobs in Midland-Odessa expanded by a whopping 42% reflecting the addition of 54,500 payroll jobs just in a five-year period of time. These impressive achievements are not about to be undone by the cyclical occurrence now playing out in the Permian Basin and the Midland-Odessa combined metropolitan area.

Most Midland-Odessa economic indicators remain higher compared to year-ago levels, with the exception of auto spending, home building, and existing home sales. General real spending was up by a solid 10.3% for the quarter but the margin of year-over-year improvement is narrowing with each passing month. Employment remains sharply higher compared to year-ago levels though it does appear the rates of year-over-year growth are just now beginning to narrow as well.

Home sales numbers are leading the decline in the Midland-Odessa Regional Economic Index with the number of homes sold down by 20% in the first quarter, and the real total dollar volume of those sales down by 24% compared to the first quarter of 2014. Prices have declined only slightly, however, with the first quarter average sale price down by only about 2% compared to the first quarter 2014, which in turn was up by over 12% compared to the first quarter 2013 average. And in fact the median price in both Midland and Odessa increased in March compared to March of a year ago, so housing prices have not truly begun to moderate as of yet.

After two straight months of year-over-year decline to begin the year, construction activity soared in March with the valuation of all building permits issued up by over 60% compared to March of a year ago. The strong permit total in March pulled the first quarter total into record territory for the first quarter, posting a 16% increase over the first quarter of a year ago.

The unemployment rate turned the corner in March, posting a higher unemployment rate (compared to the same month the prior year) for the first time in the current cycle of events, suggesting that job loss in the metro area is underway and is beginning to turn up in the unemployment numbers.

Crude oil prices have improved, and in fact West Texas Intermediate posted prices are presently some \$15/bbl higher than the lowest point in the present contraction. That will not keep this process from fully playing out, however. The rig count will very likely continue to decline along with other measures of regional oil & gas activity, and for that reason the Midland-Odessa economy is still early on in this process of contraction, with the Midland-Odessa Regional Economic Index having declined for only two months now.