

InghamEcon, LLC

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 November 2015

The Midland-Odessa Regional Economic Index fell sharply again in November dropping by over two full points to 226.3 down from 228.5 in October, and down 3.0% from the November 2014 MOREI of 233.2. The Texas Permian Basin Petroleum Index fell by nearly 12 points in November dropping to 254.5 for the month, down from 266.3 in October, and down 33.3% from the November 2014 TPBPI of 381.5. The Midland-Odessa Regional Economic Index has now declined for 10 straight months, and the Texas Permian Basin Petroleum Index has fallen for a full year – 12 consecutive monthly declines – after peaking in November 2014.

All components of the Midland-Odessa Regional Economic Index continue to indicate sharp year-over-year deterioration as deep declines in regional oil & gas activity (and in regional oil & gas production revenue) reverberate throughout the general economy of the region and metro area. While the declines are seemingly quite drastic, it is important to remember that the metro area economy is now just giving back some of the spectacular gains achieved over the five years of extraordinary growth 2010-2014. For most of that time, the growth rates were every bit as dramatic as the current (and coming) rates of decline. Still, it is worrisome because economic contraction causes difficulty and upheaval no matter the level from which that decline occurs. The most troublesome outcome is, of course, the loss of jobs and the associated pain that comes with it.

The employment estimates for Midland and Odessa continue to indicate year-over-year growth but again it must be noted that we know at this point these estimates are simply not correct, and will be revised downward with the release of data in early March 2016.

General real (inflation-adjusted) spending per November sales tax receipts in Midland-Odessa declined by 17% compared to November of a year ago (which, by the way, was *up* by 19% compared to November of the prior year). General spending is now negative for the year as well with spending through November down by over 4% compared to the first eleven months of a year ago. Real auto spending in November was down by 32% compared to November of last year. Again, though, the November 2014 auto spending total was up by 32% over November of the prior year. Through November 2015 real auto spending is down by about 20% compared to the year-to-date through November 2014 auto sales total.

The construction numbers continue to be a bit of a moving target as the City of Midland works through its building permit software conversion issues, and in fact the numbers have been revised based on some

updated data. While there may yet be some revision to the city building permit data, the current figures (combined for Midland and Odessa) suggest a decline in November building permit valuations of close to 40% through November compared to the first eleven months of 2014. New housing construction is on the wane as well with new single-family residence construction permits down by a relatively modest 8% or so through November.

Existing home sales are dropping sharply at this point with the number of closed sales in November down by 38% compared to November of a year ago, and about 12% for the year-to-date. Prices are declining as well – and they needed to – with the November monthly average down by over 7%. The average price for the year-to-date through November is down only by just over 2% compared to the January-November 2014 average, which in turn was up by over 11% compared to the first eleven months of the previous year.

The total dollar volume of residential real estate sales (adjusted for inflation) is down by 43% in November compared to November of a year ago. To repeat a common theme, however, the November 2014 total in terms of inflation-adjusted residential real estate activity was up by 44% compared to November of the prior year. Through November 2015 real residential real estate sales are down by 16% compared to the total for January-November 2014.

The regional rig count continues to decline, and is now off by about 63% compared to its November 2014 peak level. The monthly average posted crude oil price fell below \$40 in November; as of last week, the daily posted price for West Texas Intermediate fell below \$30/bbl and remains below \$30 this week. The number of jobs within the Midland-Odessa metro area classified directly as oil and gas jobs is down by an estimated 20% in November 2015 compared to November 2014. Oil & gas production in the region is emblematic of the broader supply problems – stubbornly high even in the face of sharp declines in the rig count, drilling permits, and well completions, with overall production this year set to surpass 2014 levels by a considerable amount.