

InghamEcon, LLC

Karr Ingham

P.O. Box 7531
Amarillo, TX 79114

(806) 373-4814
karr@inghamecon.com

June 3, 2016

The Midland Development Corporation And Security Bank Present

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index April 2016

The Midland-Odessa general economy endured its 15th month of contraction in April with the Midland-Odessa Regional Economic Index declining to 202.5 down from 204.3 in March, and down 12.2% from the April 2015 MOREI of 230.6. The index peaked in January 2015 at 233.7. Just as strong double-digit percentage year-over-year increases were the norm during the most recent expansion, the table of economic indicators remains peppered with double-digit percentage declines through April. The housing-related numbers appear to be outperforming other sectors of the economy with activity levels in terms of homebuilding and existing home sales flat to slightly improved compared to year-ago levels.

Crude oil prices improved again in April with the West Texas Intermediate posted price averaging \$37.51 for the month compared to the monthly low of \$27.08 in February of this year. Assuming prices remain significantly higher than the February low point it will still take some time to stabilize and then reverse the activity declines in the regional oil & gas economy. And in fact the Texas Permian Basin Petroleum Index declined again in April as well, falling to 216.6 down from 221.5 in March, and down 35% compared to the April 2015 TPBPI of 333.7.

According to Texas Workforce Commission data, an estimated 15,000 jobs have been lost across the Midland-Odessa metro area economy, and about 9,300 of those are oil & gas jobs. Job loss will likely continue for at least several months into the future; even direct oil & gas employment takes a number of months to respond to a sustained and real increase (or decrease) in crude oil prices.

The rate of year-over-year job loss in Midland-Odessa appears to have slowed in April, however, registering a 3.8% decline for the month compared to April of a year ago. As recently as the fourth quarter 2015 employment declines averaged over 8%, and frankly the quick improvement to -3.8% year-over-year makes very little sense in the current economic climate. For this reason, these numbers may ultimately be revised at some point.

The patterns in the spending numbers look very much the same as they have for a number of months now with general real (taxable) spending down by 24% per April sales tax receipts, and real auto spending down by 15% in April. Both are down by over 20% for the year-to-date compared to the first four months of a year ago.

After soaring upward for a number of years, hotel/motel activity in the combined Midland-Odessa metro area continues to slow rapidly. Business-related travel to the region is down, of course, but in addition to that the use of area hotels and motels as housing for drilling and service crews has largely evaporated at this point. Real hotel/motel tax receipts in the two cities is down by 40% for the quarter ending March 31 and for the two collection periods (January and April 2016) total receipts are down by 41.5% compared to last year.

Building permit valuations in April were off by about 23% compared to April of a year ago; that marks the 11th of the last 12 months for double-digit percentage year-over-year declines in this indicator of construction activity in Midland-Odessa. For the year-to-date, permit valuations have declined by 33% compared to the first four months of 2015.

Housing construction (new single-family residence permits) posted its first monthly gain of 2016 in April with the number of permits up by over 12% compared to April of last year (which in turn was down by about 10% compared to April of the previous year). Thus far in 2016, however, the number of permits is down by about 18% compared to the January-April 2015 total.

In the first four months of 2015 the number of existing homes sold in Midland-Odessa promptly declined by about 15% compared to the previous year; through April of 2016 housing sales have improved compared to last year with the number of closed sales up by 5% year-over-year. The average price of those sales also dropped modestly in early 2015, but have actually increased in 2016, up by 2.2% for the year-to-date. Median home sale prices are falling, but are doing so very slowly. In short, the housing market remains surprisingly strong given the softer conditions in the local and regional economy.