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**The Midland Development Corporation
presents**

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index December/4th Quarter/Annual 2016

The Midland-Odessa Regional Economic Index increased for the second straight month to finish out the year at 195.6 for December, up from 195.0 in November (and the current cyclical low of 194.2 in October), but still down 8.4% from the December 2015 MOREI of 213.4. Under the current benchmarks, the index peaked at 234.6 in January 2015 signaling the end of the extraordinary post-recession economic expansion at the hands of the contraction in regional oil & gas activity. Between peak (January 2015) and trough (October 2016) the Midland-Odessa Regional Economic Index lost nearly 20% of its value and most of its components suffered sharp declines in 2016 compared to 2015.

While the index values themselves are likely to change in the near future due to coming employment data revisions, it seems increasingly likely that the Midland-Odessa general metro area economy has now transitioned from contraction to recovery given the two straight monthly increases in the index, the likelihood that the January index will be higher yet again, and the continued expansion in the regional oil & gas economy which is in turn driving general economic recovery.

The Texas Permian Basin Petroleum Index increased sharply in December rising to 217.9 up from 210.9 in November (revised slightly upward due to upward revisions in regional oil & gas production data), but down 9.9% from the December 2015 TPBPI of 242.0. A number of the components of the regional oil & gas index logged year-over-year improvements in December, including crude oil and natural gas prices, the regional rig count, the number of drilling permits issued, and the volume and value of regional crude oil and natural gas production. And while oil & gas employment remains below year-ago levels, it is quite likely the industry has begun to add a few jobs back across the region and metro area.

The table of indicators for the Midland-Odessa Regional Economic Index remains peppered with year-over-year negatives; however, a few positives are beginning to find their way into the picture, and in fact new housing construction and existing home sales each posted double-digit percentage year-over-year increases in December and the fourth quarter 2016. The spending indicators continue to reflect the deep declines experienced during the contraction, and again, the employment data is very likely overstated and will be subject to a significant downward correction in early March when revisions to that data are issued.

General real (inflation-adjusted) taxable spending is in the process of turning the corner from decline to growth – the December, fourth quarter, and annual totals were all negative compared to year-ago levels, but the monthly margin of year-over-year decline is narrowing as economic conditions continue to improve. For the year as a whole, however, general spending activity was down by nearly 19% in 2016 compared to 2015, which in turn was down by nearly 6% compared to the prior year.

Real auto spending was down by a scant 1% in December and auto sales activity is rapidly closing the gap and is set to go positive in the coming month or two. Fourth quarter auto spending was down by 7% year-over-year, and the total for the year was down by over 15% compared to the 2015 annual total, which in turn was down by nearly 20%.

Construction activity was also down sharply for the year with real building permit valuations in Midland-Odessa down by 26% year-over-year, and in fact the 2015 annual total posted a 41% decline compared to the prior year. The fourth quarter total was down by 8% compared to the fourth quarter 2015, which in turn was down by 50% compared to the previous year. New housing construction was down for the year, but put up a solid set of fourth quarter permit numbers, an increase of 18% compared to the fourth quarter 2015. The number of new single-family residence construction permits issued in December was up by about 12% year-over-year.

The 285 existing home sales recorded in December (and that number could still be revised upward a bit) set a new record for the month of December, and was up by 14% compared to the December 2015 total. The number of fourth quarter sales was not a record, but was still up by 17% compared to the fourth quarter of a year ago. The price of those sales was generally flat in 2016 on the heels of a modest 3.6% decline in 2015 (and that followed a five-year period of time in which the average sale price increased by about 42%).

The real total dollar volume of residential real estate sales activity did not find its way back to the record levels of 2014, but did level off in 2016 and the year-end numbers were strong with increases of over 11% for December and the fourth quarter.

Current Texas Workforce Commission monthly employment estimates suggest that payroll employment in Midland-Odessa has very nearly closed the gap in terms of December and fourth quarter employment numbers compared to 2015. That is almost certainly not the case, however, as other TWC data reflect monthly employment levels that are significantly lower – perhaps as many as 6,000 jobs – than the current published estimates. The purpose of the annual revision process is to reconcile those two data sets to one another and again, the revised data scheduled to be released in early March will be much more accurate than the current numbers. At that time we will revise the Midland-Odessa Regional Economic Index accordingly, and issue a general forecast for the balance of the year 2017. For now, however, the Midland-Odessa Regional Economic Index points to the onset of economic recovery as of November 2016 following the index trough in October.