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**The Midland Development Corporation
presents**

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

The improvement in crude oil prices since the low point in February of this year has turned the rig count around, and the Permian Basin upstream (exploration & production) oil and gas industry is on the cusp the beginnings of recovery as a result. Daily posted crude oil prices fell below \$23/barrel in early February, and the monthly average was below \$30/bbl. Prices have since recovered to the \$40-45/bbl range and activity levels across the basin appear to be responding. The weekly regional rig count bottomed out in May at 120 (for RRC districts 7C, 8, and 8A), a decline of about 75% from the 467 rigs at work in November 2014, but has since added some 50 rigs to the tally.

The monthly rig count was up for the second straight month in July at 139, up from 121 in May and 125 in June. Thus far, however, improvements in price and the rig count have not yet been sufficient to turn the Texas Permian Basin Petroleum Index around, though that will likely occur in the coming few months. The index declined for the 20th straight month in July, and is down by close to 31% compared to July of a year ago. Thus far in the current contraction the regional oil & gas activity index has lost over 45% of its value.

The home sales data for Midland was revised with the release of the July Midland-Odessa Regional Economic Index to reflect Midland County sales as reported by the Real Estate Center at Texas A&M University. Typically, those sales figures are somewhat higher than the figures reported by the Permian Basin Board of Realtors, though the trends over time remain very similar. The higher numbers raised index values modestly over the affected months; again, though, the trends, cycles, and general pattern of change over time remain unaltered.

The Midland-Odessa Regional Economic Index declined for the 18th straight month in July, dropping to 197.4 down from the revised 200.6 in June, and down 12.8% from the July 2015 MOREI of 226.5. Since peaking in January 2015 the index has now fallen by some 17.4%.

General real (inflation-adjusted) spending per July sales tax receipts was down by over 19% compared to July of a year ago, and that has been the case all year long, of course. Through July, spending is down by about 21% compared to the first eight months of 2015. Real auto spending is down by about 15% in July compared to the July 2015 total, which in turn was off by 28% compared to July of the prior year. Thus far in 2016 real auto spending is down by 20% compared to the January-July 2015 total.

Hotel/motel activity in Midland-Odessa continues to register deep year-over-year declines with inflation-adjusted hotel/motel tax receipts based on second quarter lodging (and collected in July) down by 33% compared to the second quarter 2015. The total collected thus far in 2016 is down by nearly 40% compared to the same period from last year. Passenger enplanements at Midland International Airport were sharply lower in July, down by over 17% compared to July of a year ago, and the total for the year-to-date is now down by 9% compared to the first eight months of 2015.

Building activity is predictably lower as well with the real valuation of all permits issued down by 20% in July and over 30% for the year-to-date. New single-family housing construction permits dropped by nearly 50% in July as well.

Existing home sales (again, reflecting some different totals per the change in the Midland numbers, but the same trends) was down by close to 27% in July, the deepest year-over-year decline of 2016 thus far. Through July, however, existing home sales are off by only about 4.5%. The prices of those sales remain stubbornly high, and indicate very little softening due to market and economic conditions. The monthly average price is flat thus far in 2016 with a slight increase in July, and a decline of only about 1.6% on average for the first eight months of the year.

According to current Texas Workforce Commission estimates, the rate of employment loss has slowed significantly in recent months, and if these estimates hold (realizing they are subject to future revision) it may well suggest the period of job loss is coming to an end. The July estimates for Midland-Odessa indicate a year-over-year decline of only about 1.3%, the smallest margin of decline thus far in 2016 and down from over 8% in the fourth quarter of 2015. The unemployment rate continues to rise, and remains sharply higher compared to its year-ago levels, but that typically lags changes in the payroll employment numbers.

The Texas Permian Basin Petroleum Index will likely turn and begin to increase – very slightly – in the coming 1-3 months, assuming crude oil prices remain in the \$40-45 range. In the few months thereafter, the Midland-Odessa Regional Economic Index should do the same, and the regional oil & gas economy and the general metro area economy can then be characterized as economies in recovery, rather than in contraction.