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**The Midland Development Corporation
presents**

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index June/2nd Quarter 2016

The Midland-Odessa Regional Economic Index logged its 17th straight monthly decline in June, falling to 199.8 down from 200.7 in May (which was revised slightly upward from the original 200.6), and down 12.2% from the June 2015 MOREI of 227.6. Nearly a year and a half into the slowdown the index has fallen by nearly 16%, on the heels of a five-year, 70% expansion.

The rate of index decline slowed in June, falling by less than a point from May to June. The index had declined by an average of over two full points prior to that, and by 2.4 points in 2016 alone (through May). In addition, the Midland-Odessa Regional Economic Index declined at an annualized rate of 8.8% compared to the 12.2% rate of decline over the last 12 months.

The Texas Permian Basin Petroleum Index also declined again in June, falling to 212.0 for the month down from 214.2 in May, and down 32.5% from the June 2015 TPBPI of 313.9. The rate of decline in the regional oil & gas activity index has also slowed; the decline of 2.2 points from May to June is the smallest margin of month-to-month decline in the current contraction, over which monthly declines have averaged 9 full points (and averaged over 12 points in the second half of 2015).

Higher crude oil prices had a lot to do with all of that, of course, with the monthly average posted West Texas Intermediate price increasing for the fourth straight month in June and averaging over \$18/bbl higher than the February 2016 monthly average. The result is a turnaround in the regional rig count (Texas RRC districts 7C, 8, and 8A) in June, in which four rigs were added compared to the May monthly average rig count. The number of drilling permits issued also posted a year-over-year increase for the second time in the last three months.

An estimated 9,200 direct oil & gas jobs have been lost in the Midland-Odessa metro area over the course of the current contraction; across the Permian Basin region as a whole an estimated 13,000 jobs have been lost since the fourth quarter of 2014. Higher prices and activity levels have slowed the rate of industry job loss, however, and the June preliminary numbers even suggest that a few jobs were added from May to June. It would be much too soon to proclaim the end of the job loss cycle, however; that could easily be a one-month anomaly, never mind the fact that crude oil prices have retreated significantly since June.

The rate of year-over-year total employment loss (all industries) narrowed to 2.5% in June after surpassing 8% in late 2015 and averaging 4.8% in the first five months of 2016. That suggests the loss of about 4,200 jobs over the last 12 months; since peaking in November 2014, total payroll employment in Midland-Odessa has shrunk by an estimated 14,300 jobs.

Elsewhere across the table of economic indicators for June and the 2nd quarter, most components of the Midland-Odessa Regional Economic Index continue to register year-over-year declines. The exceptions in June were new housing construction permits (which were higher for both the month and quarter compared to year-ago levels) and existing home sales which were slightly higher for the month and the first half of the year.

The spending indicators continue to post sharp year-over-year declines midway through 2016. General real (inflation-adjusted) spending per June and 2nd quarter sales tax receipts in Midland and Odessa were nearly 22% down compared to year-ago levels, and is down by 21% through June compared to the first six months of 2015. Real auto spending is off by over 20% for the first six months of the year, and was down by 21.7% in June, and 15% in the second quarter (year-over-year).

Building permit activity is at its lowest level for June and the second quarter since the recession year of 2009, down by 39% and 35%, respectively, compared to the totals from the same time period in 2015. Thus far in 2016 construction activity per building permit valuations is down by 35% compared to the first six months of 2015.

New housing construction (the number of new single-family residence construction permits) spiked upward in June with 139 permits issued in Midland-Odessa for the month, an increase of 29% compared to June of a year ago and the highest monthly total since July 2015. The second quarter total was up slightly compared to year-ago levels as well; however, the total through June is down by about 11% compared to the January-June 2015 total (which in turn was also down by 11% compared to the prior year).

Existing home sales were slightly higher in June (year-over-year) with the number of closed sales up by 3% compared to June of a year ago. The total for the year-to-date is up modestly compared to the first six months of 2015, though the number of second quarter sales was down by a slight 2.6%. The average price of these sales is predictably (and necessarily) on the decline; the June monthly average price was off by 3.8% compared to June of a year ago, which in turn was down by over 8% compared to June of the prior year. The second quarter average was down by 4% compared to the second quarter 2015, and the average through June is down by a slight 1.2% compared to the first six months of a year ago.

The process of economic contraction is very likely in its latter stages in Midland-Odessa, though an actual reversal in the Midland-Odessa Regional Economic Index may still be months into the future. But clearly the rates of decline in the general economic index and the regional oil & gas activity index are flattening. In the near term, improving crude oil prices and the resulting stabilization of the regional oil & gas economy are the key to bringing about an end to the current downturn in the general economy of the Midland-Odessa metro area.