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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
March/1st Quarter 2016

The first quarter 2016 was predictably a quarter of broad contraction in the Midland-Odessa combined metro area economy. The Midland-Odessa Regional Economic Index logged its 14th straight monthly decline in March, falling to 204.3 down from 207.0 in February, and down 11.7% from the March 2015 MOREI of 231.5. Over the course of the first quarter 2016, the index declined at an annualized rate of 15.4% (which means the pace of contraction hastened in the first quarter compared to the last 12 months as a whole). Since peaking in January 2015, the Midland-Odessa Regional Economic Index has fallen by 13.2% through March 2016.

Crude oil prices improved in March averaging \$34.58 for the month (posted West Texas Intermediate) compared to \$27.08 in February. That helped to slow the pace of decline in the Texas Permian Basin Petroleum Index for the month; however, the index registered its 16th straight monthly decline, falling to 221.4 in March down from 224.1 in February, and down 35.4% from the March 2015 TPBPI of 342.8.

The Texas Permian Basin rig count remained on the decline in March, and has fallen yet further since then. The number of drilling permits issued across the region in the first quarter is the lowest first quarter total since 2003. Over 8,900 oil & gas jobs have been lost in the Midland-Odessa metro area alone. Thus far, oil & gas industry employment in Midland-Odessa has fallen back to early 2012 levels, with more to come before this cycle of contraction is complete.

And until the cycle of contraction in the regional oil & gas industry is complete, the general economy of the Midland-Odessa metro area will remain under downward pressure, so again, the Texas Permian Basin Petroleum Index truly serves as the leading economic index for Midland-Odessa and for the Permian Basin region as a whole.

General spending continues to register sharp year-over-year declines through the first quarter with inflation-adjusted taxable spending per March sales tax receipts down by 25% compared to March of a year ago. The first quarter real spending total is down by over 20% compared to the first three months of 2015. Auto sales activity remains sharply on the decline as well with inflation-adjusted spending on new and used automobiles down by 18% in March, and by over 25% for the quarter.

Frankly, the estimated pace of job loss could be steeper given the depth of decline in spending, in oil & gas employment, and other indicators; the March payroll employment estimate in Midland-Odessa is down by 4.5% compared to March of a year ago, and the first quarter average is down by 5.8% year-over-year. During the years of rapid economic expansion year-over-year job growth routinely exceeded 8% at times, so it seems as though the pace of job loss is at least somewhat lower – at least so far – than the strongest rates of job growth over the expansion years.

Construction activity declined sharply in March with the real valuation of building permits issued in Midland-Odessa down by over 50% for the month, and down by 35% for the first quarter. Home building numbers were also down by double-digit percentage points with the number of new single-family residence permits off by 18% in March, and nearly 28% for the quarter compared to the first quarter of a year ago.

The housing numbers in Midland-Odessa were higher again in March and the first quarter, but again compared to lower numbers from early 2015. Residential real estate sales in March outpaced the March 2015 total by some 10%, and were up by over 7% for the first quarter of the year. The March average sale price was up by 2.5% year-over-year, and the first quarter average was up by over 3.5%. The inflation-adjusted total dollar volume of housing sales was up by a stout 11% in March; first quarter real home sales activity was up by over 9% compared to the first quarter of 2015, which in turn was down by over 22% compared to the first three months of the previous year.