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The Midland Development Corporation
presents

The Midland-Odessa Regional Economic Index

and the

Texas Permian Basin Petroleum Index

September/3rd Quarter 2016

The Midland-Odessa Regional Economic Index declined for the 20th straight month in September, falling to 194.9 for the month down from 196.6 in August (revised slightly downward from the original 196.7), and down 12.0% from the September 2015 MOREI of 221.5. Since peaking in January 2015 at 234.6, the Midland-Odessa Regional Economic Index has lost 19.1% of its value through September 2016. The pace of decline slowed only slightly in the third quarter, with the index falling at an annualized rate of 11.4% over the course of the quarter. As a matter of context, the Midland-Odessa Regional Economic Index increased by 71% in the five-year expansion that took place between February 2010 and January 2016.

The increase in the Texas Permian Basin Petroleum Index in August – the first in 21 months since the regional oil & gas economy entered into contraction in late-2014 – was indeed *not* followed by another increase in September. The TPBPI, a cyclical measure of regional oil & gas activity, returned to its declining ways in September retreating to 208.0, down from 208.7 in August and down 25.3% from the September 2015 index of 278.2. The clock starts ticking on the turnaround in the general Midland-Odessa economy as represented by the Midland-Odessa Regional Economic Index when the true bottom is reached in the regional oil & gas economy, and as of September 2016 that has not yet been established.

Crude oil prices remained in the low-$40/bbl range for the third straight month in September (the monthly average posted WTI), while the regional rig count continued to increase adding another nine rigs on average (for Texas RRC districts 7C, 8, and 8A). That represents an increase of 48 rigs in terms of the monthly average rig count from May to September, and the rig count has continued to climb since then. The number of drilling permits issued remains near its low point in this cycle, well completions are still in the tank, and the industry continues to lose jobs, though the rate of job loss from month-to-month has slowed considerably.

General real (inflation-adjusted) spending per sales tax receipts logged another 20% year-over-year decline in the third quarter, and is down by close to 21% through September compared to the first nine months of a year ago. Spending began to decline in the second quarter 2015, and began to decline sharply in the third quarter. From the fourth quarter 2015 through the third quarter 2016, general spending has posted year-over-year declines of 19.2%, 20.6%, 21.6%, and 19.9%, respectively.

Auto sales activity remains in double-digit percentage decline territory as well, falling by 13% in the third quarter compared to the third quarter 2015, which in turn was down by 24% compared to the third quarter of the prior year. Inflation-adjusted spending on new and used automobiles is down by 18% through September compared to the first nine months of 2015.

Construction activity remains at generally respectable levels, but is certainly down sharply compared to the huge numbers put up over the course of the expansion. Third quarter real building permit valuations were down by 20% compared to the third quarter 2015 total, and permit activity in Midland-Odessa for the year-to-date is off by 30% compared to the January-September 2015 total. Home building (new single-family residence construction permits) is off by some 17% through September, and posted a 27% year-over-year decline in the third quarter.

Existing home sales are down as well, but by a lesser amount; the number closed sales in the third quarter declined by 10% compared to the third quarter of a year ago, and the total for the year-to-date is down by a modest 3.5% compared to the number of sales through September of a year ago, which in turn was down by 6% compared to the first nine months of the prior year. Astoundingly, the price of those sales is on the rise, increasing by over 6% for the month, and 4.5% for the quarter. The Midland median average price according to the Real Estate Center at Texas A&M increased by a whopping 12% in September compared to September of a year ago, and the Midland monthly average was up by nearly 7% year-over-year in September.

The Permian Basin is attracting national and indeed global interest in terms of oil & gas activity, acreage lease rates, and other factors that suggest the Permian is faring better (and recovering faster) than most other production regions in the US. And this is probably the case; however, the rig count still declined by 75%, the number of drilling permits fell by about 70%, and oil & gas operators, drilling companies, and service companies shed literally thousands of jobs in Midland-Odessa and elsewhere across the region that have yet to begin to come back. Until these things begin to occur – and indeed when the Texas Permian Basin Petroleum Index reverses course for good and begins to increase – the regional oil & gas economy will not be providing sufficient stimulus to return the region to general economic growth. While this may not be far off, it has not yet occurred and the watch continues for the ultimate trough and origins of recovery in oil & gas activity in the Permian Basin.