InghamEcon, LLC

Karr Ingham

P.O. Box 7531 (806) 373-4814
Amarillo, TX 79114 karr@inghamecon.com

The Midland Development Corporation
presents

The Midland-Odessa Regional Economic Index

and the

Texas Permian Basin Petroleum Index

June/2nd Quarter 2017

The Midland-Odessa Regional Economic Index leaped upward in June, increasing to 199.4 for the month up from a revised 196.5 in May (the original May index was 196.4), and up 1.0% from the June 2016 MOREI of 197.5. And in fact that marks the first year-over-year increase in the Midland-Odessa Regional Economic Index in the current recovery – the last time was in July 2015 when the index was on the way down. Further, the 2.9-point increase in June marks the largest monthly increase since November 2011. The recovery is now eight months in the making after the index trough in October 2016; and again, the Midland-Odessa Regional Economic Index declined by 22% during the preceding contraction following a five-year, 70% expansion.

The pace of recovery and expansion obviously gained considerable momentum in the second quarter of the year with an annualized growth rate in the MOREI of 13% over the course of the quarter.

The regional oil & gas economy continued to improve through midyear as well with the Texas Permian Basin Petroleum Index increasing for the ninth straight month to 250.5 up from 246.8 in May, and up nearly 19% from the June 2016 TPBPI of 211.0. Crude oil prices declined in June, however, with the monthly average West Texas Intermediate crude oil price falling below $42/barrel. The rig count continued to increase with the 7C/8/8A total improving to 309 in June, nearly 150% higher than June 2016. The rig count by that measure bottomed out at 121 in May 2016. The number of drilling permits issued across the region is up by over 80% through the first six months of the year, and about 2,600 employees have been added directly to upstream company payrolls in Midland and Odessa thus far in the current recovery.

The components of the Midland-Odessa Regional Economic Index are now indicating sharp year-over-year improvement as the recovery continues to gain momentum. Real (inflation-adjusted) taxable spending per June sales tax receipts was up by nearly 20% compared to June of a year ago (which in turn was down by 22% compared to June of the prior year). The second quarter real spending total was up by 13% year-over-year, and the year-to-date total is now up by 4.5% compared to the first six months of 2016.

Real auto spending was up by a whopping 41% (year-over-year) in June, and was some 25% improved in the second quarter. Midway through 2017 inflation-adjusted spending on new and used motor vehicles is up by 22% compared to the January-June 2016 total, which in turn was down by over 20% compared to the first six months of the previous year.

Second quarter hotel revenue won’t be updated until next month, but again, there is every reason to expect those numbers will look dramatically better as well.

The $107 million in June monthly building permit valuations was the highest monthly number since 2014, the record year for construction in Midland-Odessa, and was nearly 150% improved over the June 2016 permit valuation total. For the second quarter real building permit activity was up by a stout 38%, bringing the year-to-date total to some 27% improved over the first six months of a year ago. June single-family residence construction permits were actually down slightly compared to June 2016; however, the June 2016 total was fairly strong, up by nearly 30% year-over-year. And the numbers are higher for the quarter with a 12% year-over-year improvement, and the number of permits issued midway through the year is up by a strong 42% compared to the January-June 2016 total *and in fact is a record total, the highest ever for the first six months of the year.*

Also in record territory – for June, the second quarter, and the first six months of the year – is home sales activity. The monthly number of closed sales in the Midland-Odessa metro area surpassed 400 for the first time ever, and the number of sales in the second quarter surpassed 1,000 for the first time. At the midway point in 2017 the number of homes sold is up by 28% compared to the first six months of 2016. The average price of those sales was up by nearly 10% in the second quarter, and is up by over 7% for the year-to-date. The combination of those two sets of numbers is the total dollar volume of home sales activity in the combined metro area (which we then adjust for inflation), which is a record by far, and is up by 35% compared to the average through June 2016.

The employment situation continues to improve as well; the seasonally adjusted data for Midland and Odessa suggests the addition of an estimated 2,700 jobs through June compared to the employment low point in the contraction, which as it turns out was June 2016. Again, however, nearly 24,000 jobs were lost just in the combined metro area over that period of time. The Midland-Odessa unemployment rate is falling rapidly at this point with the June unemployment rate of 4.0% down significantly compared to 6.1% in June 2016.

The recovery is impressive, bordering on spectacular at the midpoint of 2017. And that will almost certainly continue in the coming months. But again, crude oil prices have not exhibited any sustained improvement in over a year at this point, and that is beginning to affect rig count growth. Barring a significant price decrease activity levels should remain generally strong, but it may well be the case that expansion plans in 2017 were based on price expectations that have not materialized. Oilfield drilling and service costs have fallen dramatically over the course of the contraction, however, and have not increased materially thus far in the recovery. Given that scenario, $45 oil can very likely continue to stimulate economic growth and recovery in the Midland-Odessa general economy in the coming months, and sustain solid economic improvement over the longer term should that turn out to be the case.