

# InghamEcon, LLC

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The Midland Development Corporation  
presents  
**The Midland-Odessa Regional Economic Index**  
and the  
**Texas Permian Basin Petroleum Index**  
September/3<sup>rd</sup> Quarter 2018

The Midland-Odessa Regional Economic Index logged another strong increase in September improving to 253.0 for the month up from 250.7 in August, and up 18.8% from the September 2017 MOREI of 213.0. That's the 23<sup>rd</sup> straight monthly increase, and it seems quite apparent that the recovery and expansion will reach the two-year mark with the release of the October index report. The rate of increase is slowing, however, though not unexpectedly; the pace of year-over-year increase topped out at 21.6% in May and has declined modestly with each passing month since then. Further, the index increased at an annualized rate of 12.7% in the third quarter 2018. That still represents a growth rate that no other Texas metro area will likely ever see, but it does suggest the previously scorching rate of expansion is cooling a bit in the second half of the year.

The September/third quarter/year-to-date table of economic indicators remains generally spectacular, however, with continued double-digit percentage year-over-year increases in virtually every component of the Midland-Odessa Regional Economic Index. The only exceptions are payroll employment and the third quarter and year-to-date average home sale price and even at that the numbers are still strong in those categories as well.

The recovery in the regional oil and gas economy reached the two-year mark in September with the 24<sup>th</sup> straight monthly increase in the Texas Alliance of Energy Producers **Texas Permian Basin Petroleum Index**. The index improved to 338.4 in September up from 334.0 in August, and up 24.6% from the September 2017 TPBPI of 271.7. Again, though, the index remains down compared to its all-time peak of 384.9 in November 2014.

Crude oil prices had not yet begun to decline in September, at least in terms of posted prices which averaged over \$66.50 for the month. The rig count added another five working rigs on average in September at 388 rigs operating in Railroad Commission districts 7C, 8, and 8A. The number of drilling permits issued in the region is up by 11% through September compared to the first nine months of a year ago which in turn was up by over 70% compared to the prior year. However, the total through September 2018 is down by over 30% compared to the 9,150 permits issued through September in the peak year of 2014.

Crude oil production in the region (again, the total for 7C, 8, and 8A) continues to push ever deeper into record territory surpassing 2.5 million barrels per day in September, and nearly 75.6 million bpd for the month, an increase of over 20% compared to September of a year ago. Oil and gas employment in the Midland-Odessa combined metro area actually declined slightly from August to September, though that

could easily be a seasonal phenomenon. The rate of industry employment growth is slowing, however, at about 21% (year-over-year) in September compared to over 30% in June of this year.

The same trends are evident in the general economy of Midland-Odessa – growth rates that remain spectacular, certainly compared to any other metro area in the country, but that have cooled a bit compared to peak rates of growth in recent months. General real (inflation-adjusted) spending per September sales tax receipts were up by 26.6% compared to September of a year ago; those growth rates averaged over 40% in the first half of the year and surpassed 50% in March 2018. Third quarter spending growth was up by over 31% compared to year-ago levels, but that compares to growth rates in excess of 40% in the first and second quarters. For the year-to-date, real spending is up by some 37% compared to the first nine months of 2017.

Inflation-adjusted automobile spending improved by nearly 26% in the third quarter compared to year-ago levels, and again that is down from growth rates of 45% and 33% in the first and second quarters. Overall, however, 2018 remains a year of stout growth in auto sales activity with auto spending up by 34% through September compared to the January-September 2017 total.

Construction activity remains on the rise for the second straight year after tanking in 2015 and 2016, with the inflation-adjusted valuation of all building permits issued up by 37% through September compared to the first nine months of last year. The third quarter building permit total is up by over 17% year-over-year, and the September monthly total is up by a sharp 75% compared to lower September numbers in 2016 (and 2015).

Housing construction has only strengthened in 2018 with the number of single-family residence building permits issued at record totals for the third quarter, and the year-to-date 2018 (the September monthly total was not quite a September record). The number of permits issued in Midland-Odessa through September is up by 34% compared to the total through September 2017, which in turn was up by 38% compared to the prior year.

Existing home sales surpassed 400 for the fifth straight month in September, having never done so before May of this year. Housing sales are at a record level for September, the third quarter, and the year-to-date through September, with the January-September total up by 15% compared to the first nine months of a year ago. The nominal (unadjusted for inflation) average Midland-Odessa home sale price exceeded \$300,000 for the first time ever in September and posted a sharp 13% increase compared to September of a year ago.

The inflation-adjusted total dollar volume of residential real estate activity in 2018 is simply blowing away all previous records. The September total is up by over 25% compared to September of a year ago, while the third quarter total is up by over 20%. For the year-to-date real home sales activity is up by 17% compared to the total through September of a year ago, which in turn was up by 35% compared to the first nine months of the previous year.

Crude oil prices have slumped in recent weeks thanks to growing US production, ramped up Saudi production in response to anticipated declining marketed Iranian production which did not really materialize. West Texas Intermediate daily posted prices are off by as much as \$20/barrel compared to prices in mid-October as the sentiment has rapidly shifted to the bearish side. Permian pricing remains discounted to posted prices, meaning a sizable share of Permian production is fetching even less relative to the benchmark pricing. Surprisingly, the lower prices in recent months that are entirely the result of the discounts related to insufficient takeaway capacity have done little to affect the rig count. A \$20/bbl decline will almost certainly knock the regional rig count off its growth track and may begin to affect

other measures of regional activity if it lasts for any length of time – or worsens. Meanwhile, the third quarter 2018 brought continued strong general economic growth with more to come, and record levels of aggregate economic activity in the combined Midland-Odessa metro area.