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**The Midland Development Corporation
presents
The Midland-Odessa Regional Economic Index
and the
Texas Alliance of Energy Producers
Texas Permian Basin Petroleum Index
June/2ndQuarter 2019**

The general economy of the Midland-Odessa combined metro area continued to expand through the second quarter of 2019, even doing so at a faster pace compared to the first quarter, even as the regional oil and gas economy remained in contraction, and in fact the rate of decline deepened in the second quarter.

The Midland-Odessa Regional Economic Index improved to 273.8 in June up from 272.5 in May, and 271.1 in April (and 270.3 in March). The MOREI increased at a 5.1% annualized rate over the course of the second quarter compared to a 0.9% rate of annualized growth in the first quarter of the year. Neither of these, of course, compare to the fantastic rates of growth in 2018. The June 2019 Midland-Odessa Regional Economic Index is up by 9.2% compared to the June 2018 MOREI; these year-over-year rates of growth have narrowed considerably through mid-2019 having finished the year 2018 at over 20%.

Most metro area economic indicators remain in positive year-over-year territory with the exception of hotel/motel activity and new single-family housing construction. The only other negative on the table of economic indicators is a slight year-over-year decline in the June monthly home sales total, even as the quarterly and year-to-date sales total are at record levels. Other components of the Midland-Odessa Regional Economic Index are, for the most part, improving but at a much slower rate compared to extraordinary growth throughout 2018. This is true of general spending, auto sales, home sales and prices, and employment.

The June monthly building permit total was sharply higher helping to push the index upward for the month along with general spending, payroll employment, and continued unemployment rate decline.

The Texas Permian Basin Petroleum Index declined for the fourth straight month in June (and the sixth of the last eight months), falling by nearly 7 full points to 332.0 for the month down from 338.9 in May, but still up a narrow 0.7% from the June 2018 TPBPI of 329.6. The Texas Permian Basin Petroleum Index was again revised to reflect updated regional crude oil and natural gas production data, and direct oil and gas industry employment in Midland-Odessa. The revised TPBPI achieved its recent cyclical peak in October 2018 at 352.4, and through June has lost some 5.8% of its value. Crude oil and natural gas prices in June were lower compared to year-ago levels along with the regional rig count, the number of drilling permits issued and crude oil well completions. The value of Texas Permian-produced natural gas is sharply lower due to regional pricing issues. The rate of crude oil and natural gas production growth in RRC districts 7C, 8, and 8A is slowing compared to peak growth rates last year, but are up by 28% and

33%, respectively, through the first six months of the year compared to year-ago levels. The regional rig count (also for RRC districts 7C, 8, and 8A) averaged 341 in the month of June, having fallen virtually every month (it was unchanged from March to April since peaking during the previous expansion cycle at 390 in October 2018).

In terms of general economic numbers in Midland-Odessa, the two mainstay economic indicators of general real (inflation-adjusted) spending and employment continue to improve though again, at slower rates compared to peak growth periods in mid-2018. General real spending per June sales tax receipts in Midland-Odessa was up by a solid 10.6% compared to June of a year ago, while the second quarter total was up by 9.3%. Through the first six months of the year spending is up by 11.7% compared to the January-June 2018 total. By contrast, the numbers in 2018 were spectacular with spending for June, the second quarter, and first half of the year all over 40% higher compared to the prior year.

Rates of employment growth peaked in the second quarter of a year ago with payroll employment – simply the number of jobs estimated to exist in the Midland-Odessa metro area, up by an average 13.8% compared to the second quarter 2017. The monthly rate of year-over-year employment growth peaked at 14.4% in April 2018. Since then, those numbers have gradually been declining. The metro area continues to add jobs, but the rate at which those jobs are added has slowed considerably. The actual level of employment continues to push ever deeper into record territory, but the rate of growth has narrowed to 2.4% in June compared to June of a year ago (which in turn was up by over 13% year-over-year).

The combined metro area unemployment rate continues to go ever lower at 2.3% in June compared to 2.6% in June of a year ago and averaging 2.0% for the quarter down from 2.3% last year. The unemployment rate (not seasonally adjusted) slipped below 2.0% in April before making a normal seasonal upward move in June, marking the first time on record the combined Midland-Odessa metro area unemployment rate was below 2.0% for any month.

Auto sales activity is up just slightly for the second quarter and year-to-date posting year-over-year increases of 1.9% and 1.6%, respectively, and again, the numbers from a year ago were up by 30-40% compared to the prior year. June monthly inflation-adjusted spending on new and used motor vehicles was up by close to 10% compared to June of a year ago, which in turn was up by nearly 20% compared to the previous year.

Real hotel/motel lodging revenues posted a year-over-year negative for the first time in over two years. Occupancy spending per taxes collected in April and reported in May were off by 14.5% compared to the same period a year ago; however, these numbers were big and getting bigger last year and hotel/motel spending in that same time frame in 2018 were up by 124% compared to the prior year. Even at that, the fact that these numbers are now falling is instructive, particularly as a reflection of declining oil and gas activity. At the same time, significant capacity has been added to oilfield worker housing across the region, which may be cutting into metro area hotel/motel activity as well.

Building permit totals were high in the month of June at nearly \$79 million in Midland and \$71 million in Odessa. The combined total was up by 172% compared to June of a year ago, which in turn was down by 55% year-over-year. The June 2019 monthly total is the second highest on record for the month of June and is one of the higher monthly totals for any month over the history of the index. Neither the monthly, second quarter, or first half of the year permit totals are records, but they are solidly improved compared to year-ago levels.

New single-family housing construction is on the decline in 2019, however, with the number of new permits issued down by 20% through June compared to the record 968 permits issued in the first six months of 2018. In fact, the June 2018 monthly and second quarter totals were records by far, and the 2019 numbers are down modestly compared to those lofty numbers.

Home sales numbers continue to set records midway through 2019; second quarter home sales were up by about 6% year-over-year, while the midyear sales total is up by 3.6%. Closed sales for the month of June were down just slightly compared to the record number from June 2018, but the sales totals will likely be adjusted upward in the coming months and June may well end up at a June monthly record when all is said and done.

The average price of those sales continues to increase, with the June average up by 6.4% compared to year-ago levels, and the second quarter and year-to-date up by 5.2% and 8.0%, respectively. The aggregate reflection of sales and prices, the total dollar volume of residential real estate sales, easily remains at record levels, then, posting a 9.1% year-over-year increase through the first six months of the year.

In the past, a decline in the regional oil and gas economy as measured by the Texas Permian Basin Petroleum Index has always led to decline in the general economy as measured by the Midland-Odessa Regional Economic Index. In recent cycles, the lag times have shortened. However, the nature of the current decline is different in that it has not been driven by, nor characterized by, rapid and deep decline in the price of crude oil. While prices are certainly lower compared to the recent cyclical peak in October 2018, prices had generally stabilized in the \$50-55 per barrel range leading up to the recent Saudi attacks. So, while the rig count and other measures of regional oil and gas activity have fallen and continue to decline, the nature of the slowdown appears to be staving off the rollover and decline in the general economy of the metro area. It remains likely this will occur at some point if the contraction in the oilfield continues, but midway through 2019 the economy clearly remains in a state of modest expansion, though the rate of growth continues to slow with each passing month.