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**The Midland Development Corporation
presents**

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index March/1st Quarter 2017

Economic conditions continued to improve in the Midland-Odessa metro area through the first quarter 2017 with the Midland-Odessa Regional Economic Index posting its fourth increase of the last five months in March. The index moved sharply upward in March to 193.1 for the month up from 191.4 in February, but still down 5.1% from the March 2016 MOREI of 203.5. Even though the January index retreated slightly after increasing in November and December, the overall first quarter increase was impressive with an annualized 4.7% rate of expansion in the first quarter 2017.

General spending, auto spending, airline passenger activity, construction, and housing sales were all up by double-digit percentage points in March, and in fact March home sales and March/1st quarter home building soared upward to record levels. The quarterly real spending figure remains slightly negative compared to year-ago levels, and payroll employment is still down year-over-year, but by less than a percentage point now after declines of over 9% in late 2015 and 6.6% on average in 2016.

The Texas Permian Basin Petroleum Index, the de facto “leading economic index” for the Permian Basin regional and Midland-Odessa metro area economies, posted its fifth straight monthly increase in March, improving to 234.3 for the month up from 229.6 in February, and up 5.9% from the March 2016 petroleum index of 221.3. Prices for crude oil and natural gas, the regional rig count, the number of drilling permits issued, and the value of regional oil & gas production are all sharply higher compared to year-ago levels, and local oil & gas employment has turned positive compared to year-ago levels.

General taxable spending in Midland-Odessa, adjusted for inflation, was higher in March (compared to March of last year) by some 11.5%, marking the first year-over-year increase since April 2015. Real taxable spending for the quarter was down by 2.8% compared to the first quarter 2016, which in turn was down by 21% compared to the first three months of the prior year. For the 12 months ending March 2016 spending is still down by about 15% compared to the preceding 12-month period of time.

Employment growth in the metro area has been a bit sporadic and unsteady; however, it does appear as though the employment low point in the downturn occurred in June 2016, and that some 2,000-2,500 jobs have been added since then (through March) in Midland and Odessa combined. Those trends can be gleaned from seasonally adjusted payroll employment data for the two cities from the Texas Workforce Commission and the Dallas Federal Reserve Bank. Non-seasonally adjusted employment data for Midland-Odessa (which is reflected on the table of economic indicators) for March suggests the year-over-year declines in employment have very nearly been erased at only -.3%, a decline of only about 500 jobs compared to March 2016. At its worst, Midland-Odessa employment was down by 9.4% year-over-year in December 2015.

The unemployment rate is also moving in the right direction, having hit its cyclical high point in the third quarter 2016, and then dipping below its year-ago level in February of this year. The March unemployment rate looks even better compared to March of last year at 4.7% for the month, down from 5.3% in March 2016.

Auto sales activity was higher by double-digit percentage points for the third straight month in March with inflation-adjusted spending on new and used motor vehicles up by over 18% in March compared to March of a year ago. The first quarter real auto spending total was also up by about 18% compared to the first quarter 2016.

Construction activity has rebounded with the first quarterly year-over-year growth in two years – since the first quarter 2015. The inflation-adjusted valuation of all building permits issued in Midland-Odessa was up by over 17% compared to the first quarter of a year ago (which in turn was down by a hefty 35% compared to the previous year). The March monthly permit valuation total was up by a sharp 36% year-over-year; again, however, the March 2016 total was off by over 50%.

Surprisingly, the 173 new single-family residence construction permits issued in the month of March is a record total, not just for the month of March (there is always a seasonal trend to these numbers), but for any month eclipsing the 172 permits issued in July 2014. The same is true of the first quarter total which, at 387 permits issued is the highest quarterly total on record as well, and represents an increase of 88% compared to the first quarter 2016.

Moreover, the 388 closed housing sales in Midland-Odessa is also a record, surpassing the 377 sales in June 2014 and July 2015. The first quarter sales total is easily a record for the first quarter of the year, and is up by 45% compared to the first quarter of a year ago. Price growth had moderated over the last two years with the monthly average price declining by 3.5% in 2015 and remaining at that level in 2016; prices have begun to increase, however, with the first quarter average up by 5.7% year-over-year, and the March monthly average up by a sharp 6.8% (and both are nominal records).

The total real (inflation-adjusted) dollar volume of residential real estate sales activity has therefore jumped right back up into record territory and by no small margin, up by 50% in March and the first quarter 2017 compared to year-ago levels.

The contraction was deep – nearly 22% over 21 months from the Midland-Odessa Regional Economic Index peak in January 2015 to its trough in October 2016. A new cycle of expansion is underway, however, with a five-month pattern of growth in the MOREI adding about 1.6% since the index low point in October.