



2024 April
**Midland &
Permian Basin
Economic
Indices**



The

Perryman Group

Effective economics, accessible analysis

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OVERVIEW

The Perryman Midland and Permian Basin Indices were up in April for the third consecutive month, with the important energy segment of the economy continuing its positive trend.

At the beginning of this year, it appeared that the Federal Reserve would be able to cut target interest rates fairly quickly, with multiple reductions possible. However, the job market has proven resilient and inflation, though down significantly from the recent past, remains above the 2% target. As a result, interest rates have not yet been reduced. The job market is sending some conflicting signals, and with inflation not yet fully resolved, the Federal Reserve will continue to take a wait and see approach. Even so, reductions are likely this year.

One challenge for the economy is that consumer spending, which drives 70% of the economy in normal times, appears to be weakening. Extra stimulus cash from the pandemic has been exhausted, and many households are struggling to meet daily needs. Surging expenses for basics as well as insurance, property taxes, home maintenance, and a variety of other items are also putting pressure on family budgets. As a result, many consumers feel negative about the economy and are scaling back on certain types of purchases.

Another challenge is commercial real estate. Many cities across the nation (and, to a lesser extent, in Texas) have high office vacancy rates, and even with return-to-the-office efforts, pre-pandemic patterns may never be achieved. High interest rates and financing difficulties will also likely persist. Even so, in areas with solid economic growth, supply and demand will eventually shift back into alignment.

Texas continues to add jobs at a notable pace, exceeding the national rates for most industry groups. The announcement of the proposed new Texas Stock Exchange (TXSE) and filing of the regulatory paperwork illustrates the state's impressive growth in this arena and is a clear indication of how the financial landscape is changing. In addition to impressive performance, the Lone Star State has had far more major corporate locations and expansions than any other for 12 years in a row and is home to the most Fortune 500 company headquarters. Moreover, Texas and the Sun Belt are rife with firms backed by private equity that will be launching public offerings in the coming years.

In the Permian Basin Region, positive signals include the notable improvement in airline boardings and hotel receipts compared to last year. Oil prices are trending higher than this time in 2023, and unemployment is lower.

Selected economic indicators and April results for the Midland and Permian Basin indices are summarized in the following pages, with additional detail in the accompanying workbook.



SELECTED MIDLAND ECONOMIC INDICATORS: APRIL 2024

Indicator	2022	2023	2024	2023-24 % Change
Permian Basin Rig Count				
April	332	357	317	-11.20%
Average Year to Date	310	354	313	-11.34%
WTI Oil Price				
April	\$ 101.78	\$ 79.45	\$ 85.44	+7.54%
Average Year to Date	\$ 96.29	\$ 76.92	\$ 79.53	+3.39%
Henry Hub Natural Gas Price				
April	\$ 6.60	\$ 2.16	\$ 1.60	-25.93%
Average Year to Date	\$ 5.14	\$ 2.53	\$ 2.00	-21.05%
Housing Permits				
April	45	65	194	+198.46%
Total Year to Date	195	133	456	+242.86%
Average Housing Permit Value				
April	\$ 284,939	\$ 259,376	\$ 201,498	-22.31%
Average Year to Date	\$ 224,750	\$ 260,791	\$ 215,911	-17.21%
Airline Boardings				
March	50,591	56,120	61,781	10.09%
Total Year to Date	125,974	148,828	164,217	10.34%
Hotel Receipts				
April	\$ 9,852,042	\$ 11,542,471	\$ 13,429,751	+16.35%
Total Year to Date	\$ 35,490,746	\$ 45,819,244	\$ 48,199,077	+5.19%
Employment (Seasonally Adjusted)				
April	110,800	119,600	122,200	+2.17%
Average Year to Date	109,100	119,375	121,725	+1.97%
Unemployment Rate				
April	3.09%	2.56%	0.00%	N/A
Average Year to Date	3.33%	2.63%	2.44%	N/A
Midland Index (2021=100)				
April	113.62	116.23	115.97	N/A
Average Year to Date	109.97	115.94	114.39	N/A

Source: Baker-Hughes, Energy Information Administration, Census Bureau, Bureau of Transportation Statistics, Texas Comptroller of Public Accounts, Bureau of Labor Statistics, The Perryman Group



MIDLAND MSA

The Midland Economic Index was up again in April, increasing by +0.5.

Several sectors expanded, including the dominant Energy sector (+0.7) as well as Real Estate (+3.2), Professional and Business Services (+1.9), Retail (+1.5), and Hospitality and Tourism (+0.8). However, the gains were partially offset by declines in several sectors including Construction (-13.2) and Manufacturing (-0.8).

MIDLAND MSA ECONOMIC INDEX

RECENT RESULTS (2012=100)

Current Index Reading	116.0
Change from Previous Month	Up 0.5

MIDLAND MSA ECONOMIC INDEX

RESULTS BY INDUSTRY (2012=100)

Industry	March	April	Change
Energy	106.0	106.7	+0.7
Construction	193.5	180.3	-13.2
Manufacturing	127.3	126.5	-0.8
Retail	123.3	124.8	+1.5
Financial Services	226.6	227.1	+0.5
Real Estate	123.7	126.9	+3.2
Professional & Business Services	122.1	124.0	+1.9
Health Care	120.6	120.3	-0.3
Hospitality & Tourism	158.5	159.3	+0.8
Other Activity	139.1	139.1	+0.0
Midland Composite	115.5	116.0	+0.5

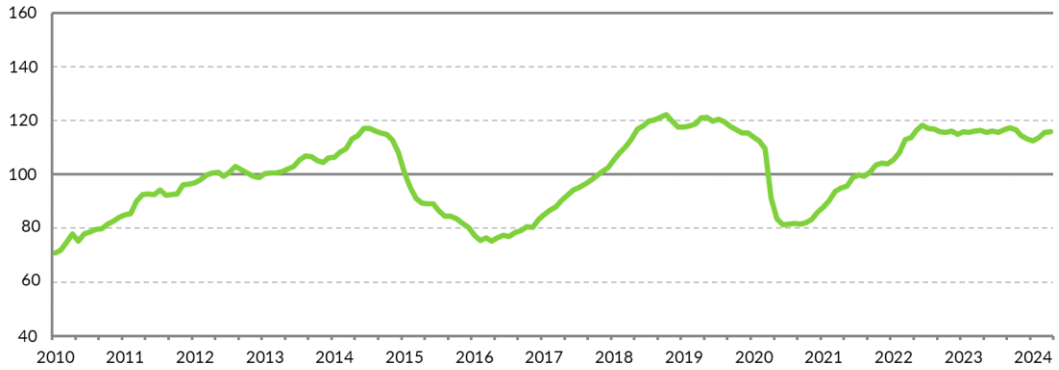
Note: Industries are not weighted equally in calculating the Industry Composite; see the Appendix for further explanation. The Midland Metropolitan Statistical Area (MSA) includes Midland and Martin counties.

Source: The Perryman Group



Midland Economic Index

(Index adjusted such that 100 represents economic status in 2012)

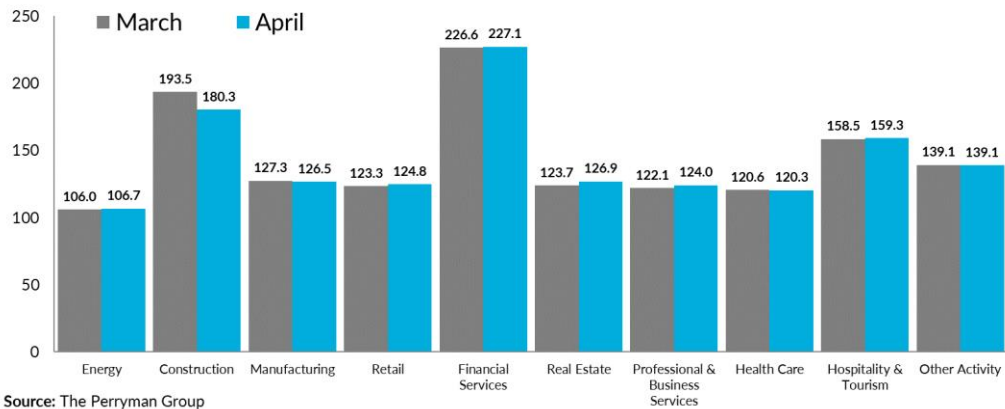


Source: The Perryman Group

Midland Economic Index

Recent values by sector

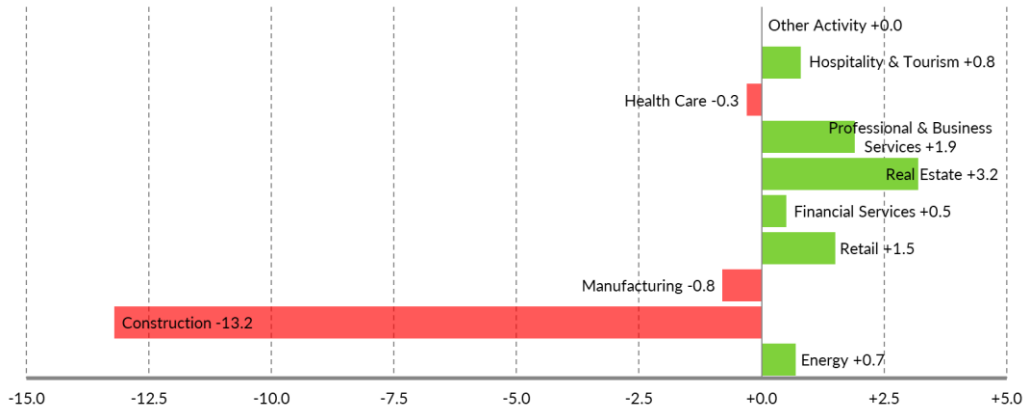
(Index adjusted such that 100 represents economic status in 2012)



Source: The Perryman Group

Midland Economic Index

Change from previous month by sector



Source: The Perryman Group



PERMIAN BASIN REGION

The Permian Basin Economic Index for April increased to 105.8, representing an uptick of +1.0 and the third consecutive month of increase.

Most sectors experienced gains during the period, including, among others, Real Estate (+3.3), Energy (+1.5), and Professional and Business Services (+1.3). Several industry groups did see losses, however, including Construction (-12.9) and Health Care (-0.6).

Current Index Reading	105.8
Change from Previous Month	Up 1.0

PERMIAN BASIN ECONOMIC INDEX

RESULTS BY INDUSTRY (2012=100)

Industry	March	April	Change
Energy	97.1	98.6	+1.5
Construction	183.0	170.1	-12.9
Manufacturing	95.6	95.7	+0.1
Retail	125.3	126.2	+0.9
Financial Services	133.5	133.9	+0.4
Real Estate	122.6	125.9	+3.3
Professional & Business Services	118.3	119.6	+1.3
Health Care	111.7	111.1	-0.6
Hospitality & Tourism	147.5	147.1	-0.4
Other Activity	128.1	128.0	-0.1
Permian Basin Composite	104.8	105.8	+1.0

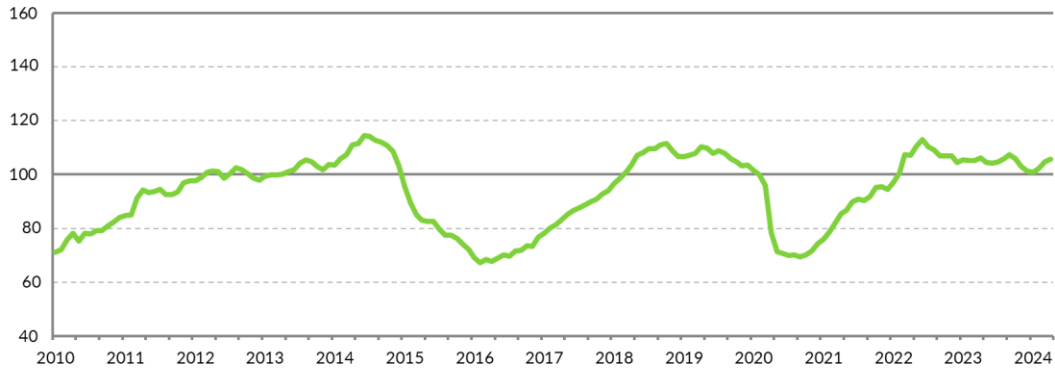
Note: Industries are not weighted equally in calculating the Industry Composite; see the Appendix for further explanation. The Permian Basin Region includes Andrews, Borden, Crane, Dawson, Ector, Gaines, Glasscock, Howard, Loving, Martin, Midland, Pecos, Reeves, Terrell, Upton, Ward, and Winkler counties.

Source: The Perryman Group



Permian Basin Economic Index

(Index adjusted such that 100 represents economic status in 2012)

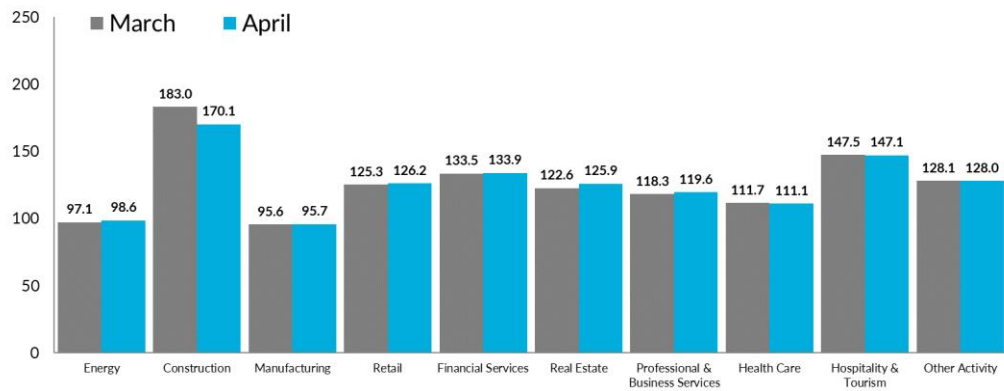


Source: The Perryman Group

Permian Basin Economic Index

Recent values by sector

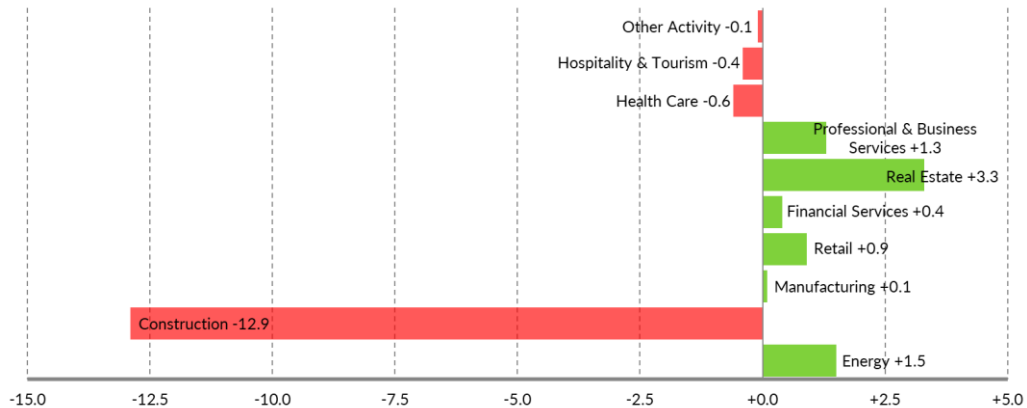
(Index adjusted such that 100 represents economic status in 2012)



Source: The Perryman Group

Permian Basin Economic Index

Change from previous month by sector



Source: The Perryman Group



METHODOLOGY

The goal of the Midland and Permian Basin indices is to encapsulate, in a single measure, the current status of the local and regional economy, how it is changing, and what is driving the change. The indices include measures of industrial performance, with sub-indices for the various components to indicate the role they play in overall performance. The indices are based on complex economic modeling processes, but it provides a simple measure of the health of the local and regional economy and how and why it is changing.

The indices reflect shifts in key industries and performance. The relative weights of each component were determined based on typical patterns in the relationships of variables to overall economic performance. The indices include variables ranging from oil prices to construction which describe the evolving status of key industries. These measures reflect analysis of numerous indicators of the level of activity and how it is changing.

The Midland and Permian Basin indices were developed and are maintained by The Perryman Group, an economic and financial analysis firm based in Waco, Texas with decades of experience in analyzing the local and regional economies. Dr. M. Ray Perryman, President and CEO of The Perryman Group, has more than 40 years of experience in index construction and regional economic modeling. In particular, Dr. Perryman derived the indices of monetary policy that are used by the Federal Reserve System and more than 60 other central banks around the world. He also developed regional and small-area indices of Industrial Production and Unit Labor Costs that are widely

used on a global basis, as well as measures of systematic risk for non-homogenous assets and the degree of trade integration among nations. Dr. Perryman has been an advisor to the US Department of Labor on the Consumer Price Index as well as numerous other governmental entities on index-related issues. He has also developed the world's largest regional econometric modeling system and has been analyzing the economy of Midland and the Permian Basin on an ongoing basis since the mid-1970s. The firm produces a quarterly index for a major financial firm in the state.

Index Construction

Economic indices are typically constructed in one of two ways, both of which are widely used and have been successfully employed by Dr. Perryman over the course of his career. One common method is to identify a set of relevant variables and then use principal component analysis (PCA) or a variation (such as a factor rotation) to assign weights to the individual components on an empirical basis. In essence, this process converts a set of variables into an equal number of new measures such that each of the new variables is (1) a linear combination of the original ones and (2) orthogonal to each of the others. The new measures also have the property of collectively containing all of the information in the original variables. When this approach is used, the first principal component (the one which explains the largest percentage of the variation) is typically used to determine the weights in the indices. This approach has advantages in that (1) weights are empirically generated based on their explanatory power and (2) it is relatively simple to implement. Its

major disadvantages are (1) in many instances, particularly where a large number of variables are being examined (as in the current analysis), spurious correlations with relatively minor factors that are unlikely to be sustained over time can occur; (2) the first principle component, despite exhibiting the largest explanatory power, often accounts for only a small amount of the total variation, thus failing to incorporate a substantial portion of the available information.

The second approach is to rely on economic data, theory, and models to develop an index of the desired phenomena. The primary difficulty with this method is the fact that it can become complex in its execution. The advantages are the ability to (1) systematically incorporate very large sets of variables without loss of underlying information, (2) develop sub-indices to provide a focus on specific index elements, and (3) incorporate specific economic content in a detailed and systematic manner.

In the present instance, the second option appeared to be more appropriate in that the process included the incorporation of a complex multi-dimensional framework which allows both individual and integrated consideration of a variety of segments that span multiple sectoral components. Nonetheless, a principal components model was originally attempted for purposes of completeness and to meet the conditions for statistical efficiency. As anticipated, the resulting assessment across a broad spectrum of variables across industries resulted in both weighting on relatively minor variables which were not stable across sub-periods and relatively little (less than 10 percent) information capture by the primary principal components.



Consequently, the Midland and Permian Basin indices were developed using a more formal and comprehensive data and modeling effort. This process is described below.

Industrial Variations

As noted, the indices seek to encapsulate, in a single measure, the many facets of the local and regional economy. Sub-indices are also generated for key industries in order to examine the various components and the role that they play in overall performance. Aggregates available on a monthly basis are incorporated into the indices in order to permit regular monitoring of changes in business activity. Broader measures (such as total expenditures and gross product by industry) which have greater information content but less frequent periodicity are used in defining the relative weights. In this manner, it is possible to enhance the comprehensiveness of the indices.

The segments of the economy that are included in the indices are:

- Energy,
- Construction (residential and non-residential),
- Manufacturing,
- Retail,
- Financial Services,
- Real Estate,
- Professional & Business Services,
- Health Care,
- Hospitality & Tourism, and
- Other Activity

The relative weights to be applied to each segment were derived based on the stabilized percentage

of each sector of a relevant overall aggregate (gross area product).

The next phase of the analysis is the construction of the various sectoral indices. Measures that were available on a monthly basis were employed and were selected based on their role in being reflective of aspects of the relevant segment. They were then tested relative to one another to assure that they were not subject to excessive multicollinearity. Once the final set was determined, each quarterly series was transformed into a common format in which 2012 was defined as equal to 100. The base year is consistent with most official economic series that are presented either as indices or on a constant-dollar basis. All monetary values were similarly expressed in constant 2012 dollars to avoid artificial growth generated by inflation. In a few instances, quarterly series were converted to monthly aggregates using a regression approach developed by Dr. Perryman that is widely utilized throughout the world.

The variables utilized in the indices include items such as oil and gas prices, rig counts, retail sales, single and multi-family housing permits and values, housing sales and values, bank loans and deposits, employment by detailed industrial category, and numerous other factors. Where appropriate, inputs were adjusted to eliminate seasonal patterns that are not reflective of underlying economic conditions.

In each of the indices, the weights assigned to the individual components are determined based on the relative standard errors of the normalized values. This approach allows greater weight to be assigned to those measures which exhibit more pronounced fluctuations to influence industry performance. These individual

sectoral indices were aggregated into an overall Composite Index using the weighting described above. Separate individual sectoral measures and Composite Index values were generated for the Midland Metropolitan Statistical Area and the Permian Basin Region. It should be noted that the monthly indices always use the latest available economic data. Because much of the information normally is subject to both short-term revisions and periodic benchmarking, historical values will often change from month to month. These variations are typically minor.

Historical Performance

Historical performance of components of the Midland and Permian Basin indices are provided in the accompanying workbook.

Conclusion

The Midland and Permian Basin indices provide a measure of changes in the economy that is easy to grasp and compare over time. Although the modeling process that went into the indices was complex, the result is a simple and straightforward assessment of the direction of patterns in business activity and the reasons for changes in overall performance.



THE PERRYMAN GROUP



The Perryman Group is a focused team of analysts who know how to address complex economic information tasks and present our findings effectively.

Our in-house professionals bring expertise in economics, finance, statistics, mathematics, real estate, valuation, systems analysis, engineering, technical communications, and marketing. Dr. Ray Perryman, President and CEO, has 40 years of experience in developing systems, analyzing complex problems, and communicating effectively. We have considerable pride in what we do. Our enthusiasm is both unbridled and contagious; every day brings a new opportunity for us to tackle a different problem or create a product or service specifically tailored to our clients.

OUR SERVICES

IMPACT ASSESSMENT

We have developed and continually maintain an extensive set of economic impact evaluation models that can be applied in a variety of contexts.

EXPERT TESTIMONY

We help clients analyze and communicate complex information in common-sense terms through comprehensive, objective analyses and clear, concise expert reports and presentations.

FORECASTING

We are at the cutting edge of econometrics and other advanced statistical methods and have provided innovative approaches for many complex applications.

SPEECHES

Dr. Perryman addresses dozens of audiences throughout the world every year, catering to a wide variety of events.

M. RAY PERRYMAN, PH.D.

Dr. Ray Perryman is President and CEO of The Perryman Group, an economic research and analysis firm based in Waco, Texas. His firm has served the needs of more than 3,000 clients, including two-thirds of the Global 25, over half of the Fortune 100, the 12 largest technology firms in the world, 12 US Cabinet Departments, the 9 largest firms in the US, the 6 largest energy companies operating in the US, and the 5 largest US banking institutions.

Dr. Perryman was named Outstanding Young Person of the World for Business and Economic Innovation in 1987 and was designated Texan of the Year by the Texas Legislative Conference in 2012. He received the Baylor University Distinguished Service Medal in 2013, was inducted into the Texas Leadership Hall of Fame in 2014, received the Cesar E. Chavez Conscience Builders Award in 2016 for his

humanitarian efforts, and received the Lifetime Achievement Award for philanthropy from the Association of Fundraising Professionals in 2023. He

dedicates a significant portion of his time to pro bono work aimed at helping to solve pressing social problems such as hunger, indigent healthcare, poverty, and child maltreatment.

