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**The Midland Development Corporation
presents**

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index August 2017

The Midland-Odessa Regional Economic Index improved for the tenth straight month in August as the recovery continues, increasing to 205.2 for the month up from the July index of 202.5, and up 6.5% from the August 2016 MOREI of 192.8. The numbers are increasingly impressive with double-digit percentage year-over-year gains in general spending and auto spending, hotel/motel activity, airline passenger boardings, building permits, and existing home sales. The unemployment rate continues to fall sharply compared to year-ago levels as jobs are added across the metro area. Only new housing construction (the number of new single-family residence permits issued in Midland and Odessa) posted a year-over-year decline in August, but remains at record levels for the year-to-date.

The Texas Permian Basin Petroleum Index was higher again in August as well improving to 259.7 for the month up from 255.4 in July, and up nearly 24% from the August 2016 TPBPI of 210.1. Once again, only natural gas well completions are down compared to year-ago levels with all other measures of regional upstream oil & gas activity vastly improved compared to the numbers in 2016.

Crude oil prices continue to post year-over-year increases through August, but that is in part because prices had declined in July and August 2016 after increasing to over \$45/bbl (WTI posted) in June on the heels of bottoming out in February. Natural gas prices are averaging much higher through August 2017 but again, that is because prices were sharply lower in 2016 falling by over 20% on average through August compared to the prior year. The Texas Permian rig count (RRC districts 7C, 8, and 8A) is double its year-ago level, and has expanded by about 200 rigs since the rig count low point in May 2016. The number of drilling permits issued continues to post sharp year-over-year increases as well, and upstream industry employment remains on the upswing.

Again, however, there has been little movement in crude oil prices in well over a year now. After recovering to over \$45/bbl in June 2016 posted prices have averaged only about \$45/bbl since then. It is this reason, of course, that the rig count in the Permian has effectively stalled at this point with no net rigs added in about two months now. The Texas Permian rig count in the current recovery peaked at 319 in week four of July, and the count was 317 in the last week of September.

Expansion in the regional oil & gas economy continues to stimulate sharp growth and recovery in the combined metro area general economy, however, with sharp year-over-year increases in virtually every component of the Midland-Odessa Regional Economic Index. General spending per August sales tax receipts was the highest for the month of August since 2014 and was up by over 30% compared to August of a year ago, pulling the total for the year-to-date upward to over 10% improved compared to the first eight months of 2016.

Real auto spending actually established a new record (for the month of August), posting a whopping 41% increase compared to August of a year ago. Auto sales activity through August is now up by over 24% compared to the January-August total in 2016.

The headline Texas Workforce Commission employment data reflect only modest year-over-year employment growth at this point; however, there is reason to believe these numbers are once again understated and are lagging behind the actual trends in payroll employment expansion. The Dallas Federal Reserve Bank calculates metro area employment growth in Texas and makes adjustments along the way to benchmark the estimates to quarterly employment data filed by employers, and these figures suggest actual year-over-year employment growth in Midland-Odessa of about 3.4%. That certainly makes more sense than the 1.9% rate of growth indicated in the current TWC monthly estimates. The rapid decline in the unemployment rate makes perfect sense, of course, falling to 3.7% in August compared to 5.8% in August of a year ago.

Building permit data in Midland-Odessa continues to reflect economic recovery through August with the monthly real (inflation-adjusted) permit total up by 53% for the month and 25% for the year-to-date compared to year-ago levels. New single-family housing construction permits were down by 9% year-over-year (ten fewer permits issued in August compared to August 2016), but the total for the year-to-date remains in record territory – the 994 permits issued through the first eight months of the year is the highest January-August total on record – and is up by over 40% year-over-year.

Residential real estate market numbers continue to post record numbers as well, with new records in monthly and year-to-date closed sales, average prices, and the real dollar volume of existing home sales. The number of home sales was up by about 13% in August compared to the August of a year ago, which in turn posted a 10% increase over August of the prior year. The year-to-date sales total is up by an impressive 27% compared to the first eight months of 2016. The average price of those sales was up by a modest 2.2% in August but is well over 6% higher for the year-to-date. The total inflation-adjusted dollar volume of housing sales is sharply higher in 2017 posting a 32% increase through August compared to the January-August 2016 total, and again, setting new records by large margins.