

INGHAM ECONOMIC REPORTING

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The Midland Development Corporation And Security Bank

Present

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index April 2013

The Midland-Odessa Regional Economic Index took another significant leap upward in April rising to 208.2 up from 206.4 in March (revised slightly upward from the original March value of 206.3 due to a downward revision in the unemployment rate), and up 11.7% from the April 2012 MOREI of 186.4. The construction and housing indicators in particular helped to push the index upward in April. Spending and employment remain strong, though there is evidence of a bit of a slowdown in the pace of growth in those indicators. The April increase marks the 38th straight month of general growth in the Midland-Odessa combined metro area economy as measured by the Midland-Odessa Regional Economic Index.

The Texas Permian Basin Petroleum Index posted its third straight monthly increase after flattening in the latter half of 2012, rising to a record 327.7, a 2.8% increase compared to the April 2012 index of 318.8. Monthly index values continue to be revised upward as regional production data is updated, pushing up the volume and value of crude oil produced in the region. Though the regional petroleum index has flattened over the last nine months or so, it has done so at a high level, and aggregate oil & gas activity certainly remains at levels sufficient to continue to stimulate economic growth in the Midland-Odessa metro area.

General taxable spending (adjusted for inflation) posted a rare single-digit percentage year-over-year increase in April, improving by 7.3% compared to the April 2012 total – which in turn was up by over 34% compared to April of the prior year. For the year-to-date, real general spending is up by just over 12% compared to the first four months of a year ago.

Employment growth remains the strongest not only in Texas, but nationally at 6.5% for the month (year-over-year) and 7.6% for the year-to-date. Employment growth is occurring across virtually all employment sectors in Midland-Odessa, and not surprisingly, oil and gas employment is leading the way with year-over-year employment growth of about 15%. The Midland and Odessa unemployment rates are also the lowest in the nation, averaging 3.3% in April. And unemployment rates are likely to come down yet further as the labor market continues to tighten and remains generally under stress.

Real (inflation-adjusted) auto spending was up by less than a percent for the second straight month (compared to April of a year ago), and the year-to-date total is now up by about 3% compared to the YTD through April 2012 period. Again, however, spending on new and used vehicles in Midland and Odessa has grown by an average 34% per year each of the last two years, and even though auto sales remain extraordinarily strong, and indeed at record levels, a slowdown in the rate of year-over-year growth is inescapable.

Construction activity per building permit valuations in Midland-Odessa posted its fifth-highest month on record at over \$98 million, and the highest ever for the month of April by far. At the time, the April 2012 total held that distinction, but the April 2013 building permit total beat that mark by some 55% (about \$35 million). The monthly average for the last 12 months (ending April 2013) is over \$70 million. At its previous high-water mark, that particular measure (the moving 12-month average) did not exceed \$45 million. These are extraordinary times in terms of construction activity in Midland-Odessa, and that is an understatement by far.

The number of new single-family residence construction permits (the total for Midland and Odessa) exceeded 100 for the month for the fifth straight month, and the 12-month moving average surpassed 100 for the first time in the history of the index analysis dating back to at least 1995, and probably long before that. The April 2013 total was up by over 26% compared to April of a year ago, and the year-to-date total is up by over 20% compared to the January-April 2012 total, which in turn was up by about 38% compared to the first four months of the prior year.

The new homes added to the inventory in recent years mean there is more available housing to buy and sell, and the existing home sales numbers are beginning to reflect these trends, with the number of closed sales up by about 19% in April (year-over-year). The 957 closed sales for the year-to-date represent the third-highest total on record for the first four months of the year. Prices continue to soar ever upward – the April average is up by about 6.6% compared to the April 2012 average, which in turn was up by a whopping 28.7% compared to April of the prior year. The average for the year-to-date is up by 3.6% compared to the same period in 2012, which in turn was up by 13% compared to the prior year. In other words, housing activity continues to reflect the demand that comes with a booming economy and a rapidly expanding labor force. Even though actual closed sales are not presently at record levels, prices certainly are, and the best aggregate measure – inflation-adjusted total dollar volume of residential real estate activity – is easily well into record territory and has been for well over a year now.

Crude oil prices are some 10% lower compared to year-ago levels, and the rig count remains down by over 40 rigs compared to the peak rig count of mid-year 2011. Both appear to have stabilized, at least for the time being, and the number of drilling permits issued across the region through April is the highest January-April total on record. The overall picture could change fairly quickly, of course, and that is the reason for the close month-to-month assessment. At present, however, regional oil & gas activity remains high, with little or no evidence of a change in that scenario.