INGHAM ECONOMIC REPORTING

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October 1, 2013

The Midland Development Corporation
And
Security Bank

Present

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

The Midland-Odessa combined metro area economy remains on the rise through August with the Midland-Odessa Regional Economic Index (MOREI) improving to 212.3 for the month, up from 211.6 in July, and up 8.7% from the August 2012 MOREI of 195.3. The continued upward movement in the regional oil & gas index suggests these trends are going to continue in the general economy of the region and metro area for the foreseeable future; the Texas Permian Basin Petroleum Index rose to 336.7 in August up from 335.3 in July (revised upward due to ongoing upward revisions on Permian Basin crude oil production), and up 5.5% from the August 2012 TPBPI of 319.3.

The current cycle of general economic expansion in the Midland-Odessa general economy now stands at 42 months and counting (and 45 and counting for the regional petroleum index). The purpose of the ongoing analysis is, of course, to chronicle business cycles and growth rates over time, in both the general economy of the Midland-Odessa metro area, and the Texas Permian Basin regional oil & gas exploration and production economy. Along with that, of course, trends are examined that may affect these trends at least in the short term and the longer term when possible and feasible.

In the short term, crude oil price are expected to finish out the year in excess of $100/bbl, which certainly suggests continued high levels of regional oil & gas production activity, and continued general economic expansion regionally and in the metro area. Beyond that, most forecasts for crude oil prices in 2014 suggest an average in the mid-$90/bbl range, which would do little to dampen a forecast of continued economic growth, though we may well see growth patterns begin to plateau a bit, but again, remaining at a high level.

And in fact the table of general economic indicators for the Midland-Odessa metro area is beginning to reflect slowing rates of growth, and the occasional year-over-year negative (though obviously compared to some stratospheric numbers in prior years).

General spending per sales tax receipts in Midland-Odessa (adjusted for inflation) was up by nearly 6% in August compared to August of a year ago, and is up by over 9% for the year-to-date. General real spending has been growing by double-digit percentages since mid-2010, and 2013 may be the first year in which spending grows at a fairly normal single-digit percentage rate. Auto sales were actually negative for the month, down by nearly 7% compared to August of a year ago in terms of inflation-adjusted spending on new and used automobiles. To be fair, of course, the year-over-year increase in August 2012 was 22% compared to August 2011, which in turn was up by over 65% compared to the prior year. For the year-to-date in 2013, real auto spending is up by only about 2.8% compared to the first eight months of 2012, but again, rates of growth in 2011 and 2012 were beyond extraordinary.

Construction activity surged again in August with the valuation of all building permits issued in Midland and Odessa more than double the August 2012 valuation (which itself was over 75% higher compared to August of the prior year). The August 2013 Midland building permit valuation of $201 million is the largest single month ever recorded in Midland, surpassing the previous Midland monthly record of $152 million in June of this year. Among other things, a hotel, and apartment complex, and two oil company headquarters facilities were permitted in August in Midland.

Also in record territory in August was the monthly average housing prices for closed sales recorded in Midland and Odessa over the month. The average for the two markets surpassed $250,000 for the first time ever, and increase of 17% compared to August of a year ago. And in Midland, remarkably, the August monthly average sale price was in excess of $300,000 for the first time. The number of sales actually declined in Midland, due not to a decrease in housing demand, but a decrease in housing demand *at current price levels*.

For the record, the housing data published in the analysis is not a housing price analysis as such; simply tracking the monthly average is not the proper way to go about it. We publish the monthly average, and it is both easy to understand and instructive; however, the components actually used in the calculation of the Midland-Odessa Regional Economic Index are the number of closed sales (a 12-month moving average), and the inflation-adjusted dollar volume of residential real estate activity, which encompasses both the number of sales and the price of those sales.

A proper housing price analysis is conducted by tracking repeat sales and refinancings so price changes over time in the same property can be tracked and plugged into an accurate price change model. The Federal Housing Finance Agency conducts just such an analysis quarterly for metro areas in the US (and also for the US as a whole, various regions of the country, and at the state level). The most recent FHFA analysis is for the second quarter 2013, and suggests a 7.47% increase in housing prices compared to the second quarter 2012 in Midland, and a 9.53% year-over-year increase in Odessa. Increases in the first quarter were 12.65% and 10.8% respectively, are almost sure to be considerably higher in the third quarter than in the second. Housing price appreciation began to truly soar in the 2005-2008 time frame in which price increases topped out at over 20% year-over-year. A house purchased in Midland in 2005 would sell for 88% more in 2013; a house purchased ten years ago would have well more than doubled in price (a 115% increase).

The metro area continues to experience impressive employment growth and a declining unemployment rate, of course, again the best in the state and among the best in the nation. Employment demand likely continues to outpace supply, however, resulting in an ever-present push-pull in the labor market, which will hopefully begin to correct a bit as growth rates continue to settle.