# 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
**February 2013**

Employment data for Midland and Odessa (and all Texas metro areas) was revised in March; the Midland-Odessa revisions affected primarily monthly employment estimates in 2012, with statistically insignificant revisions to the 2011 data.

The 2012 revisions were very significant, however, as monthly payroll employment estimates were revised massively upward. On average, about 5,100 jobs were added to the original 2012 monthly estimates, and by year-end (December) the monthly estimate for the Midland-Odessa employment total was revised upward by a whopping 9,100 jobs (5,700 in Midland and 3,400 in Odessa).

The year-over-year growth rate in total payroll employment – simply the number of jobs estimated to exist within the Midland-Odessa metro area – per the original employment numbers was 5.2% on average for the year as a whole, and 3.1% at year-end compared to the corresponding 2011 estimates. These are quite respectable rates of growth, particularly on top of the 9% employment growth the metro area enjoyed in 2011 compared to 2010. After the upward revisions, year-over-year growth in employment averaged an incredible 8.5% in 2012 (and 8.3% at year-end), which is even more astounding when added to the 9.3% rate of job growth in 2011.

By year-end 2012, over 12,000 jobs were added in Midland-Odessa from 2011 to 2012 according to the new estimates, and incredibly, nearly 25,000 jobs have been added to the combined metro area economy over the last two years.

Upward revisions in the oil & gas employment sector were every bit as impressive. On average, over 3,400 jobs were added to the original 2012 estimates, and by year-end, 5,000 jobs had been added to oil & gas employment in Midland-Odessa compared to the original December 2012 monthly estimate. Rates of year-over-year growth per the original oil & gas employment estimates were 8.5% for the year on average, but had dwindled to about 2.6% by year-end (which was on top of 20% growth in December 2011 compared to December 2010). Rates of growth per the revised estimates were a staggering 21% for the year as a whole, and nearly 17% at year-end, on top of a 27% rate of year-over-year growth in 2011.

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index were each revised according to the newly released employment estimates for 2011 and 2012, and the obvious result is a significant increase in the index values, particularly in 2012.

Monthly index values were revised upward throughout the year, of course, and the year-end (December) 2012 Texas Permian Basin Petroleum Index was revised sharply upward from the original 308.2 and a year-over-year growth rate of .5% to 320.4 and a year-over-year growth rate of 3.5%.

The Midland-Odessa Regional Economic Index monthly values throughout 2012 were revised upward as well. And at year-end, the December MOREI was revised upward from 199.4 and an original growth rate of 12.4%, to 203.6 per the upward employment revisions and a year-over-year growth rate of 14.4%.

In other words, what were spectacular numbers to begin with in terms of growth in the regional oil & gas economy and the general economy of the metro area were even more spectacular than was indicated by the original employment estimates. Verifiable employment growth is a hallmark of any growing economy. Job growth is occurring in spades in Midland-Odessa, and in fact rates of growth under the revised benchmarks are easily the highest of all metro areas in the US, large or small.

Economic growth and expansion continues moving into 2013, and renewed vigor in the oil & gas numbers early in the year will continue to provide considerable upside support to the regional and metro area economies in the coming months.

The 1,882 drilling permits issued in January and February is by far the highest total issued in the first two months of the year in the entire history of the index analysis. After falling by over 60 rigs in the last six months or so, the rig count reversed course in February and posted the first month-to-month increase since June of 2012.

The Texas Permian Basin Petroleum Index, again simply a monthly tracking device for the regional oil & gas economy, has now increased for two straight months to begin the year after flattening in the latter half of 2012. And in fact, under the new oil & gas employment data benchmarks the regional oil & gas index has moved to new record levels in January and again in February.

**The Midland-Odessa Regional Economic Index has been on a three-year run as of February 2013, the 36th straight month of increase in the index. Under the new employment data benchmarks, the MOREI improved to 205.3 in February up from 204.9 in January, and up 12.8% from the February 2012 index of 182.0.**

The spending and employment numbers continue to provide the power behind the ongoing increase in the index, and again, these are the two areas of local economic measurement that define cyclical economic performance. Other indicators are mixed early on in 2013, but in the cases where the numbers are down compared to a year ago, it usually means the year-ago numbers were extraordinarily high.

General real (inflation-adjusted) taxable spending per February Midland-Odessa sales tax receipts was up by over 10% compared to February of a year ago, and is up by about 13% for the year-to-date. Inflation-adjusted spending on new and used automobiles was up by a seemingly scant 2% in February compared to February of a year ago; however, the February 2012 auto sales total was up by a whopping 62% compared to February of the prior year. The YTD through February total is up by some 5.6% compared to the first two months of 2012, which in turn was up by 50% compared to the same period in 2011.

Building permit valuations in Midland-Odessa were down about 14% year-over-year in February; however, the February 2012 total was up by over 80% compared to the prior year. And for the first two months of the year, construction activity per building permit totals is up by about 25%, and marks the first time the January-February permit valuation total has exceeded $100 million (excluding 2001 in which over $400 million in permits were issued in February for a power plant in Odessa).

Housing construction activity per single-family residence building permits was down just slightly compared to year-ago levels; again, however, the February 2012 permit total was more than double the number of permits issued in February 2011. Thus far in 2013 the housing construction permit total is up by some 18% compared to the first two months of 2012, and is by far the highest number of permits ever issued in the first two months of the year.

Existing home sales were also down year-over-year in February, posting an 18% decline compared to February of a year ago. But again, the February 2012 housing sales total was up by over 40% compared to February of the prior year. Prices continue to rise with the February 2013 monthly average in Midland-Odessa up by nearly 3% compared to February of a year ago, which in turn was up by over 7% compared to the February 2011 average.

Given what we know at this point, particularly given the staggering employment data revisions, there is simply no reason to forecast anything but continued general economic growth in 2013. Or at the very least there is reason to forecast continued high levels of economic activity in the coming year. The “growth” forecast is the more likely scenario, but the “flat but at high levels” is a plausible scenario based simply on the notion that 14% rates of growth (on top of 17% rates of growth) are difficult to repeat for years on end.

However, intuitively it does not yet feel like the booming growth conditions have come to an end. Oil & gas industry activity levels remain high, and are going up, not down in early 2013. Prices have returned to levels that highly favor continued strength in regional industry activity. The anecdotal evidence suggests that companies – big companies – are securing acreage for future drilling activity for years to come. This, in turn, suggests that the industry will continue to bid up general economic activity in the region, and that the industry and the resulting non-industry economy will continue to draw residents and labor force to the region, and the end result is overall real economic expansion.

Commodity prices – and crude oil in particular – will define that outcome. If prices remain generally in the $80-90 range activity levels will very likely remain high, along with the industry’s impact to the overall general economy of the region and the metro area. If rising Texas and US production begin to overwhelm still slack demand, the resulting price decline will potentially reduce activity levels and begin to exert downward pressure on the Permian Basin and Midland-Odessa general economies.

Prices are simply not predictable, and we should always be wary of a scenario under which no one is forecasting a significant price decline for crude oil. The general Midland-Odessa economy is over-heated, and over-heated economies tend to ultimately be self-correcting. At present, however, there is little to suggest that the regional industry economy or the general economy of the Permian Basin and the Midland-Odessa metro area is yet to the point where that seems likely to occur in the near term. So again, with wariness, given current trends and the greater knowledge of the employment scenario, we must forecast continued growth the Midland-Odessa economy in 2013. Most notably, we can reasonably expect that growth to be characterized by continued growth in real spending, perhaps at single-digit percentage rates rather than double-digit, employment growth, and ongoing decline in the unemployment rate.