

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 March/1st Quarter 2013

The first quarter of 2013 was a period of continued impressive expansion in the Midland-Odessa combined general economy as chronicled by the Midland-Odessa Regional Economic Index and the various local economic indicators used in its calculation. The index improved to 206.3 in March, up from 205.3 in February, and up 12.0% from the March 2012 MOREI of 184.2. The index increased by about 1.3% in the first quarter, which translates to an annualized growth rate of about 5.4%. That would represent a much slower growth rate for the year, but of course it comes on top of a 14.4% rate of growth in 2012, which in turn was up by over 17% compared to the prior year.

And again, the present rate of index growth through March is about 12% (compared to March of a year ago) but the margin of year-over-year growth is narrowing after peaking at over 18% in March of 2012. That trend is likely to continue in 2013.

The regional oil & gas economy as measured by the Texas Permian Basin Petroleum Index remains flat to slightly on the rise, increasing to 324.6 up from 324.1 in February, and up 2.0% from the March 2012 TPBPI of 318.2. Monthly values for the regional petroleum index were revised upward in the latter part of 2012 and early 2013 as the result of ongoing upward revisions in the volume of crude oil produced in the region which, of course, also raises the value of regional crude production (both the estimated volume and estimated value of regional oil & gas production are components used in the calculation of the Texas Permian Basin Petroleum Index).

On the table of economic indicators for the Midland-Odessa Regional Economic Index, only one year-over-year negative exists, and that is the first quarter number of homes sold in the two metro areas. Again, lower sales numbers do not represent a lack of demand – in fact, quite the opposite. Extraordinary demand means the homes simply are not available to sell, particularly at current high price levels. However, the March number of sales was up by close to 20% compared to March of a year ago, and the March average price was some 4.1% higher than the March 2012 average. For the first quarter, sales were only slightly down compared to year-ago levels, and the average price was up by about 2.5% compared to the first quarter 2012 average.

General spending continues to expand at a double-digit percentage clip, with inflation-adjusted taxable spending per sales tax rebates in Midland-Odessa up by over 15% in March, and about 13.5% for the first quarter (year-over-year). And those increases come on top of a 22% increase in March 2012 compared to the prior year, and an 18% increase in the first quarter 2012 compared to the first quarter 2011 total.

The rate of growth in the auto spending sector appears to be slowing in 2013, but again, spending remains at high levels having increased by huge amounts in the prior three years. March real (inflation-adjusted) auto spending was flat compared to March of a year ago – however, the March 2012 total was up by 23% compared to March 2011, which in turn was up by 33% compared to March of the prior year. The first quarter real auto spending total was up by about 4% compared to the first quarter of a year ago, which in turn was up by 40% compared to the prior year.

The first quarter 2013 building permit total was a big one, at over \$226 million dollars in Midland-Odessa. This marks only the third time ever the quarterly total has surpassed \$200 million, and one of those was the permitting of a new power plant in Odessa in 2001. The second was in the third quarter of 2012, and these last two simply represent exploding construction activity as a result of the oil & gas industry expansion in recent years and the resulting high growth in the general economy of the combined metro area.

The 336 new housing construction permits issued by the two cities in the first quarter *is* a record, however – the highest number of new single-family residence construction permits ever issued over the course of a quarter in the entire history of the index (and certainly long before that, and in fact it is likely an all-time record). So housing is being added to the inventory; however, it is not inexpensive housing, and is not likely acting to alleviate the shortage at the lower end of the income spectrum.

Employment in Midland-Odessa continues to expand at the fastest rate in the state, and in fact at or among the fastest rate in the entire country. The estimated number of jobs in the combined metro area in March is up some 7.6% compared to March of a year ago, the addition of over 11,000 jobs over the last 12 months. Nearly 4,200 of those were directly added to oil & gas company payrolls in Midland-Odessa, with oil & gas employment continuing to expand at a 16% or so year-over-year clip through the first quarter of 2013.

Crude oil prices remain in the \$90/bbl range, which appear to be quite sufficient to support current levels of regional oil & gas industry activity. The regional rig count, having dropped off in the latter half of 2012 has reversed course and is now modestly on the rise once again, but remains below its year-ago level. Drilling permits were down in March (year-over-year), but remain higher for the year-to-date. In short, industry activity at present levels will likely continue to support high aggregate levels of general economic activity in Midland-Odessa.