

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 November 2013

The Midland-Odessa Regional Economic Index was up in November for the 45th straight month, rising to 215.8 up from 214.9 in October, and up 7.1% from the November 2012 MOREI of 201.5. Continued improvements in general real spending and employment continue to power the upward movement in the index, along with construction and housing prices. The housing indicators were lower for the month, however, and auto sales experienced a double-digit percentage year-over-year decline for the first time since early 2010.

The Texas Permian Basin Petroleum Index, a monthly tracking of the regional oil & gas economy, continued to climb as well in November increasing to 342.2 up from 340.6 in October, and up 7.0% from the November 2012 index of 319.8. The November average crude oil price was the lowest monthly average price thus far in 2013, though prices remain well above year-ago levels. The rig count is flat compared to last year, while crude oil well completions remain sharply higher. Crude oil production continues to rise, and the industry continues to add jobs with oil & gas employment in Midland-Odessa with employment up by over 10% year-over-year. Regional oil & gas activity remains high, the index continues to increase, and the clear indication is that the Midland-Odessa metro area economy will continue to expand as a result.

While there are a few negatives creeping into the table of metro area economic indicators, the core measurement areas of general real (inflation-adjusted) spending and payroll employment remain on the rise. Inflation-adjusted general taxable spending in November up by 7.4% compared to November of a year ago, and real spending for the year-to-date up by over 8% compared to the YTD through November 2012 total. Again, rates of year-over-growth have settled into single-digit territory, but the preceding rates of growth were nothing short of fantastic. In real terms (meaning when inflation has been accounted for), the November 2013 general spending total was over \$200 million higher compared to the November monthly low point in the recession year of 2009.

The Midland-Odessa metro area added an estimated 8,100 jobs over the last 12 months, a year-over-year growth rate of about 5.1%. Some 40% (over 3,300) of those jobs were added directly to oil & gas company payrolls, and of course industry activity and industry jobs result in the addition of most of the other 60% of the jobs added over the last 12 months.

The rate of decline in the unemployment rate has slowed as the unemployment rate has approached 3%, but actually continues to come down slightly at about 3.2% (and should continue to do so assuming ongoing expansion in the local and regional economy). The slack in the labor market from the recession is all but gone at this point, of course, but it seems quite plausible the unemployment rate will dip below 3% in 2014 should the economy continue to grow.

Auto sales actually declined in November, a rare occurrence indeed, with inflation-adjusted spending on new and used automobiles in Midland and Ector counties down by nearly 18% compared to November of 2012. The decline – and the rate of decline – may appear a bit shocking at first glance, but let's not forget just what has happened in the auto spending sector in recent years. In 2010, 2011, and 2012, the November real auto spending total was up by 57%, 41%, and 22%, respectively, compared to November of the prior year. Real auto spending in November 2013 was nearly \$45 million higher than in November 2009, the November low point as a result of the recession. Year-to-date real auto spending has leveled compared to year-ago levels, up by only about 1.5% compared to the January-November 2012 total.

Construction activity in the Midland-Odessa metro area continues to increase spectacularly in 2013 with the November building permit valuation total up by over 80% compared to November of a year ago. For the year-to-date, building permit activity is over 70% improved compared to the same period in 2012. The \$77 million permit valuation total in November 2013 is well over \$30 million higher than the next highest November total of about \$43 million in 2007 (and is nearly \$35 million higher than the November 2012 total).

Residential housing construction (single-family) activity remains high, but declined compared to year ago levels with the number of new housing construction permits issued in Midland-Odessa off by about 10% compared to November of a year ago. For the year-to-date, however, the number of new single-family residence building permits is up by over 17% compared to the first eleven months of a year ago.

Existing home sales also declined relative to year ago levels, falling by 12.7% compared to November of a year ago. Home sales are flat for the year-to-date, but again, not as a result of flat housing demand. Prices certainly suggest continued high demand relative to availability (and affordability) with the November monthly average up by over 8% compared to November of a year ago, which in turn was up by a whopping 16% compared to the prior year. For the year-to-date, the average home sale price is up by 8.2% compared to the YTD through November 2012 period.

As we have suggested in recent months, we are almost surely going to witness the beginnings of more normalized rates of growth, and indeed that is now the case with narrowing year-over-year rates of growth in the Midland-Odessa Regional Economic Index, now at 7.1% compared to close to 14% at the beginning of 2013. The decline in auto sales, while not cause for concern, is also reflective of that phenomenon – it is just not possible to sustain the extraordinary rates of growth indefinitely. Again, though, absent any evidence of a peak and decline in the regional oil & gas economy, the general economy of the Midland-Odessa metro area is on track to move into 2014 with continued growth momentum.