

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 September/3rd Quarter 2013

The Midland-Odessa combined general economy enjoyed solid growth in the third quarter of 2013 with the Midland-Odessa Regional Economic Index increasing by 1.6% over the course of the quarter for an annualized growth rate of 6.3%. The MOREI increased significantly in September, rising to 213.8 up from 212.3 in August, and up 8.6% from the September 2012 index of 196.9.

Not surprisingly, the Texas Permian Basin Petroleum Index, an aggregate measure of oil & gas activity in the region, remained on the rise through September as well, increasing to 338.5 up from 337.2 in August, and up 5.9% from the September 2012 TPBPI of 319.7. Interestingly, however, even though prices continued to be in excess of \$100/bbl, the regional rig count declined for the third straight month and remains off its 2012 peak by some 60 rigs. The number of drilling permits issued in the region also remains modestly on the decline compared to year-ago levels. Gas-directed E&P activity in the Permian Basin is still virtually non-existent, though gas production levels are not in rapid decline thanks in large part to the production of casinghead gas as a by-product of extraordinary levels of crude oil activity and production.

NOTE The release of the September employment data was delayed until November 22 as a result of the federal government shutdown. (The source of these estimates is a state agency – the Texas Workforce Commission – but Texas labor market information originates and is released in partnership with the US Bureau of Labor Statistics.) We can, however, fairly accurately estimate September payroll employment levels and the September unemployment rate by analyzing trends and growth rates thus far in 2013, normal seasonal changes from August to September, etc. So this is what we have done, and we will update the numbers when they are released later in November.

As September represents the end of a quarter, the table of economic indicators for the Midland-Odessa Regional Economic Index this month reflects largely third quarter totals/averages along with the year-to-date data, with the exception of the employment data which reflect September monthly estimates along with the year-to-date averages.

The third quarter table of economic indicators for Midland-Odessa continues to reflect stout ongoing economic expansion, with only airline enplanements and housing sales flat to slightly declining over the quarter compared to year-ago levels. And again, the subdued number of home sales does not reflect weak

housing demand, and one need only look at the rates of housing price increase to understand what's going on in the market.

The benchmark metro level economic indicators of general real spending and employment continued to improve through the third quarter, and these are the most reliable measures of cyclical economic expansion at the local level. Taxable spending per third quarter sales tax receipts (adjusted for inflation) was up by 4.6% compared to the third quarter 2012, which in turn was up by 19.2% compared to the third quarter of the prior year. In fact, since 2011 rates of year-over-year growth have been extraordinary – 11.3% in 2010, 24.3% in 2011, and 19.2% in 2012. The rate of growth has predictably slowed, but again, current-year growth comes on top of spectacular growth in the prior three years. And thus far in 2013, general real spending per sales tax receipts in Midland-Odessa is up by over 8.2% compared to the first nine months of 2012.

Real auto spending is also up “modestly” in the third quarter, posting a 4.1% increase compared to the third quarter of a year ago. Again, though, third quarter year-over-year growth in recent years was 14% in 2010, 44% in 2011, and 21% in 2012. For the year-to-date, inflation-adjusted spending on new and used automobiles is up by 3.4% compared to the January-September 2012 period, which in turn was up by nearly 32% compared to the first nine months of 2011.

Again, we have simply estimated the employment data for September, suggesting a 4.8% rate of year-over-year job growth (on top of 8.5% in September of last year), and an unemployment rate that remains on the decline, dipping to 3.1% on average for Midland-Odessa for the month, compared to 3.5% in September of a year ago.

Construction activity as measured by building permit valuations surpassed \$1 billion for the year in September for the first time ever. The highest annual total prior to 2013 was in 2012 at \$753.6 million, and the total just through September 2013 stands at \$1.02 billion, a 65% increase over the 2012 record total for the first three quarters. In the third quarter alone building permit valuations totaled over \$418 million, an increase of 67.5% compared to the third quarter 2012, which at the time was a record for the third quarter by far.

Housing construction remains well into record territory as well with the number of new single-family residence building permits surpassing 300 for the quarter, as it did in the first two quarters of 2013 (that had occurred only once before, and that was in the second quarter of 2012). The 338 permits issued in the third quarter 2013 was up by nearly 25% compared to the third quarter of a year ago, and the total through September surpassed 1,000 for the first nine months of the year for the first time ever.

Existing home sales declined slightly for the quarter (year-over-year), simply because homes cannot and will not be sold in high volumes at current price levels. The average sale price for the quarter was up by a whopping 16.3% compared to the third quarter of a year ago, and is up by over 8% for the year-to-date. In fact, while the number of closed sales thus far in 2013 is not a record, the total dollar volume of sales activity is, at over \$530 million for the first nine months of the year.

The data contained within this analysis and the way it is used to calculate the Midland-Odessa Regional Economic Index is not, in fact, a housing price analysis, and a simple average price, while instructive, is not the best way to go about that. The correct methodology is to track repeat sales in a market and analyze the price change between the first sale and the second sale of the same property. And in fact, the Federal Housing Finance Agency does just that, though their statistics are a bit delayed. According to that measure, in the second quarter 2013 housing prices in Midland increased by about 7.5% compared to the second quarter 2012, and prices in Odessa increased by 9.5%. In the first quarter, year-over-year housing prices increased by nearly 13% in Midland, and by nearly 11% in Odessa. It is quite likely the increase for the third quarter will be greater than in the second quarter.