

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 April 2014

The Midland-Odessa Regional Economic Index surged upward in April, improving by more than two full points to 218.1 up from 215.8 in March, and up 5.4% from the April 2013 MOREI of 206.8. The April increase marks 50 straight months of growth in the index, and is the largest month-to-month increase (2.3 points) since October 2012. There are some year-over-year negatives on the chart, but they were offset by strong gains in spending, auto sales, hotel/motel tax receipts, employment, housing prices, and a sharp decline in the combined metro area unemployment rate compared to April of last year.

The Texas Permian Basin Petroleum Index rose in October as well, the 53rd straight month of increase, improving to 356.5 up from 353.4 in March, and up 9.6% from the April 2013 TPBPI of 325.4. The regional petroleum economy continues to benefit from high crude oil prices (and gas prices that are improved compared to year-ago levels), a regional rig count that is once again on the rise, and extraordinary increases in the value of regional oil & gas production. The industry continues to add employees at a steady and impressive pace as well.

General real (inflation-adjusted) spending per April sales tax receipts in Midland-Odessa is up by 7.5% compared to April of 2013, and the total for the year-to-date is up by 7.6% compared to the first four months of a year ago. This critical local economic indicator is moving into its fifth straight year of virtually unfettered expansion with – at least at this point – no end in sight.

Auto spending spiked upward again in April with inflation-adjusted spending on new and used automobiles up by over 25% compared to April of last year. For the year-to-date, real auto spending is up by nearly 16% compared to the first four months of 2013.

After slowing over the last couple of quarters, hotel/motel tax receipts in the first quarter of 2014 returned to double-digit percentage growth, up by 11.7% compared to the first quarter of 2013. Passenger enplanements at Midland International Airport were up by a stout 6.7% in April, and are up by 5.5% thus far in 2014.

Construction activity in the metro area continues at a high level, but is going to have some difficulty going toe-to-toe with the extraordinary numbers logged in 2012 and 2013. And indeed the \$61.8 million in building permit valuations in April is down by some 37% compared to April of a year ago. But again, the April 2013 number was very high at over \$98 million, an increase of 55% compared to April 2012, which in turn was up by nearly 80% compared to April of the prior year. The year-to-date total slipped into negative territory in March and remains that way in April, down by about 17% compared to the first four months of a year ago.

New single-family housing construction was down for the month as well, with 94 permits issued, a year-over-year decline of some 18% compared to April of a year ago. For the year-to-date, new home building permits are down by about 6% compared to the first four months of 2013, which in turn was up by over 20% compared to the prior year.

Existing home sales were down modestly compared to a strong sales total in April of a year ago, down by about 4%. For the year-to-date, home sales are down just slightly, about 2.3%, compared to the January-April 2013 total. Prices continue to move upward by leaps and bounds, however, with the April monthly average price up by over 11% compared to April of last year. For the first four months of the year, the average home sale price is up by over 11% as well compared to the same time period in 2013.

The number of home sales in the metro area is not a record in 2014; however, due to the upward surge in prices, the total dollar volume of activity is well into record territory at this point, even when adjusted for inflation. Through April, the total real (inflation-adjusted) dollar volume of residential real estate activity is up by 7% compared to the first four months of a year ago.

The metro area employment situation continues to improve as well, with the steady addition of jobs and a sharp decline in the combined Midland-Odessa unemployment rate in April compared to April of a year ago. Payroll employment in the metro area expanded by an estimated 3.8% in April compared to April of last year, reflecting the addition of 6,000 jobs over the last 12 months. Well over a third of those were added directly to oil and gas industry payrolls. The labor market continues to tighten with the Midland-Odessa unemployment rate dipping well below 3% in April to 2.6%. A rate of unemployment below 3%, and certainly one approaching 2.5%, represents “full employment” in which there is virtually no slack in the labor market. While economists will argue the finer points of that theory from now to kingdom come, the practical experience in Midland-Odessa will suggest qualified labor is very difficult - and increasingly expensive - to come by.