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

August 2014

The Midland-Odessa combined metro area general economy through August has now been in expansion mode for 4 ½ years – 54 straight months over which the Midland-Odessa Regional Economic Index has been higher compared to the prior month. The August 2014 MOREI improved to 224.5, up from 222.9 in July and up 6.8% from the August 2013 index of 210.3. The Texas Permian Basin Petroleum Index, which registers growth patterns and cycles in the regional upstream oil & gas economy, was also up again for the month increasing to 370.3 up from 367.9 in July, and up 10.3% from the August 2013 TPBPI of 335.9.

Despite the fact that crude oil prices (West Texas Intermediate) fell by about $6/bbl from July to August, and were down by over $10/bbl compared to August of a year ago, *the 1,179 drilling permits issued in August is the highest monthly total on record* and was up by over 70% compared to August of a year ago. The number of permits issued January-August is also a record for the first eight months of the year. The regional rig count declined very slightly from the August record level, but remains very high at over 460.

On the table of general economic indicators for August, only the building permit numbers were down compared to August of a year ago in which the highest monthly total on record was posted. General spending and auto spending remain steadily and sharply on the rise, employment continues to expand at a roughly 5% clip, and the unemployment rate is very low and is still on the decline.

General spending just continues to plow ever deeper into record territory, adding another 8.4% year-over-year in August. For the year-to-date, real (inflation-adjusted) spending is up by over 10% compared to the first eight months of 2013. Real auto spending was sharply higher in August, up by nearly 19% compared to August of a year ago, and is now up by some 15.7% for the year-to-date.

Building permit activity remains very high; however, the $137.7 million in permit valuations in August is being compared to a record month in August of a year ago in which over $227 million in permits were issued by the cities of Midland and Odessa (nearly $202 million of which was in Midland). The year-to-date total remains lower as well compared to last year's explosion in construction activity, with the value of permits issued off by 17% compared to the January-August 2013 total, which in turn was a record by far, and was up by over 70% compared to the prior year.

Housing construction (new single-family residence permits issued) was up just slightly in August with two additional permits issued compared to August of a year ago. Housing construction moved back into record territory last month, and remains so through August – the 913 permits issued in Midland and Odessa is the highest ever for the first eight months of the year, and in fact is higher than all annual totals other than 2012 and 2013.

The number of existing home sales for the month was up modestly compared to August of a year ago, and the number of sales for the year-to-date is up by about 4.7% compared to the YTD through August 2013 total. The August monthly average price was up only slightly compared to August of a year ago; however, the August 2013 monthly average was a whopping 17% higher than August 2012.

Clearly, the continued strength of the regional energy E&P economy is the driving force behind the ongoing expansion in the general economy of the region and metro area. And again, the stronger oil & gas numbers in recent months are likely in response to a set of market conditions based in part on global tensions which pushed prices higher, and those effects on price may well be temporary. And indeed prices have declined notably since peaking in June of this year, and have now fallen by $12/bbl or more. Again, the expectations moving into 2014 were for lower crude oil prices, not higher, and the global events leading to higher prices may simply have been a short-term interruption in the fulfillment of that expectation. In other words, if simply based on market conditions absent these global tensions the pressure on crude oil prices is likely to be downward, not upward.

And that makes perfect sense. The market response to a dramatic increase in production (aka "supply") over time is *supposed* to be downward pressure on price. The intended effect of a relatively higher price is to stimulate production (and stimulate production we have!) and increased production in a perfect market world results in lower prices. We simply cannot discount the possibility that the dramatic and miraculous gains in Texas and US crude oil production may ultimately push prices lower to a significant degree.

Daily WTI prices peaked at $103.75 in June, and were at $90 just last week. Interestingly, the onset of military action by the US and others in Syria and Iraq has thus far done little to push prices higher. These phenomena point to the most incredible of benefits to the US economy and the American household and business consumer derived from increased production in the US and the resulting sharp decline in US imports of crude oil from abroad. Even in the midst of turmoil overseas in areas that typically would raise concerns about potential oil supply shocks, prices for crude oil and gasoline are on the way down, not up. The extraordinary benefits to the American consumer of the US energy renaissance are playing out before our very eyes, though seemingly with little recognition of that fact. This is, in part, what energy independence looks like. And while we are not entirely 'independent' (we still import over 30% of our usage), we are certainly much, much less 'dependent' and that means the effects within the US of these types of events are greatly diminished. Growing US production, with the Permian Basin at the epicenter, has both lowered prices to US consumers and introduced a new and welcome stability to energy markets.