

INGHAM ECONOMIC REPORTING

Karr Ingham

P.O. Box 7531
Amarillo, TX 79114

(806) 373-4814
karr@inghamecon.com

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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 June/2nd Quarter 2014

The combined Midland-Odessa metro area general economy clearly remains in strong growth mode with no signs of a slowdown through midyear 2014. **The Midland-Odessa Regional Economic Index improved in June to 221.2 up from 219.1 in May, and up 5.8% from the June 2013 MOREI of 209.1.** The rate of growth gained considerable momentum in the second quarter of the year with annualized growth in index of 10.1% over the quarter.

The recent momentum uptick in regional oil and gas activity remains in place through June as well with the Texas Permian Basin Petroleum Index increasing to 363.5 up from 360.9 in May, and up 9.6% from the June 2013 TPBPI of 331.8. Crude oil prices averaged over \$100 for the month, the rig count continues to climb, and the number of drilling permits issued in June was once again up by double-digit percentage points compared to June of last year. Industry employment is growing at a faster pace and production levels continue to climb along with the value of that production.

The renewed vigor in the regional petroleum economy is virtually immediately translating into more pronounced rates of growth in the general economy and the various components used to calculate the Midland-Odessa Regional Economic Index. Spending was up sharply in June and in the second quarter, and the rate of employment growth ticked upward in June to its highest year-over-year growth rate thus far in 2014. Construction is down only compared to some otherworldly levels from 2013, and housing activity – prices in particular – exploded upward in June and in the second quarter.

General real spending per second quarter sales tax rebates was up by 12.7% compared to the second quarter of a year ago, and was up by over 13% in June. Midway through 2014, general real spending is up by over 10% compared to the first six months of 2013, which in turn was up by over 10% compared to the prior year. Since the recession low point, inflation-adjusted taxable spending in the Midland-Odessa metro area has increased by over 80% just in the last four years.

Auto sales are rising at a much faster pace as well with inflation-adjusted spending on new and used automobiles up by over 16% in the second quarter, and over 14% for the first six months of the year. Growth in auto sales had slowed in 2013 with only about 2% growth for the year compared to 2012, but is clearly gaining considerable new momentum in 2014.

Construction activity per building permits issued in Midland-Odessa was down by about 26% in the second quarter compared to the second quarter of a year ago; however, the quarterly total in 2013 was a second quarter record by far, and was very nearly double the second quarter 2012 total. For the year-to-date, building permit valuations are down by nearly 20% compared to the midway point in 2013, which in turn was up by well over 50% compared to the first six months of the prior year.

Housing construction is some lower compared to strong numbers from a year ago as well. The number of new single-family residence construction permits issued by the two cities in the second quarter was down by about 11% compared to the second quarter of a year ago; again, though, the second quarter 2013 total was a record, not just for the second quarter but for any quarter, and was up by over 18% compared to the prior year. For the year-to-date 2014, the new housing permit total is down by a modest 5% or so compared to the first six months of last year, which in turn was also up by over 18% compared to the January-June 2012 period.

The 915 home sales in the second quarter was the highest second quarter total since 2005, and was the third-highest for any quarter on record behind only the second and third quarters of 2005. Prices continue to soar ever higher – the second quarter average price was up by over 15% compared to the prior year (the June monthly average was a whopping 25% higher compared to June 2013), and the average through the first six months of the year is up by over 14% compared to the first six months of a year ago. Incredibly, the June monthly average in Midland alone spiked upward to over \$340,000. The inflation-adjusted total dollar volume of residential real estate activity in the combined Midland-Odessa metro area is up by over 15% through June compared to the midyear 2013 total, and continues to push ever further into record territory with rising sales and skyrocketing prices.

The general Midland-Odessa economy has obviously been on an uninterrupted expansion for several years now; however, the nature of that growth has become more frenzied just in recent months with the injection of new vigor from the renewed momentum in the regional oil & gas economy.