

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 March/1st Quarter 2014

The Midland-Odessa Regional Economic Index continues to post modest but steady month-to-month improvement as the combined metro area economy moves into its fifth straight year of uninterrupted expansion. The index improved to 215.8 in March up from 215.4 in February, and up 5.2% from the March 2013 index of 205.1. The pace of growth has clearly moderated, however, with the annualized rate of economic (index) increase in the first quarter of 2.9%. But again, those rates of growth are in addition to phenomenal rates of growth in prior years, and both the metro area economic index and the regional oil & gas index remain in record territory and continue to climb.

Employment growth remains strong in the Midland-Odessa metro area, though job growth is occurring at a slower pace in 2014 compared to prior post-recession years, and the Midland and Odessa unemployment rates are still the lowest among all Texas metro areas. Construction is down thus far in 2014 compared to some extraordinarily high numbers in early 2013, and housing (single-family) construction was flat in the first quarter compared to year-ago levels. Existing home sales were down for the month, and are flat to slightly lower relative to the first quarter 2013, but the average price of those sales is sharply higher.

Regional oil and gas exploration & production activity continues to expand as well with the Texas Permian Basin Petroleum Index recorded its 52nd straight month of growth in March rising to 353.3, up from 348.3 in February, and up 9.4% from the March 2013 TPBPI of 323.0. And the pace of growth in the oil and gas index has quickened in the first quarter of the year with month-to-month index growth of about five full points in both February and March.

The regional rig count is climbing, and stands at 426 in March, the highest monthly average since August of 2012. Prices remain favorable to increasing activity across the region, gas prices got a boost from the winter weather in other parts of the country, and the volume of crude oil produced in the Texas Permian Basin continues to increase sharply. Drilling permits have declined in early 2014, however, and in fact the 2,420 permits issued thus far is the lowest first quarter total since 2010, which may suggest a bit of a cooling in the pace of oil and gas activity growth in the coming months.

General spending per sales tax receipts (again, among the most important of local economic indicators) returned to double-digit percentage year-over-year growth in March, increasing by nearly 11% compared to March 2013, which in turn was up by over 15% compared to March of the prior year. First quarter real (inflation-adjusted) spending was up by a solid 7.6% compared to the first quarter of 2013, which in turn was up by 13.5% compared to the first three months of 2012.

After very modest rates of growth in 2013 (after unbelievable rates of growth in 2010, 2011, and 2012), auto sales gained some momentum in the first quarter with inflation-adjusted spending on new and used automobiles up by 12.6% compared to the first quarter of 2013.

An estimated 5,700 jobs were added to the Midland-Odessa combined economy over the last 12 months, posting a year-over-year growth rate of about 3.6% (and averaging 3.8% for the first quarter). What would be a stout rate of employment growth in virtually any other Texas metro area looks simply very normal in Midland-Odessa, and in fact that represents the lowest rate of employment growth in some four years. However, the number of jobs added in Midland-Odessa in recent years, and certainly since the recession of 2009, easily trumps every other metro area in Texas and elsewhere around the country.

Midland and Odessa continue to boast the lowest unemployment rates among all Texas metro areas, averaging 3.0% for the month of March compared to 3.5% in March of last year (and a high in the most recent cycle of 7.0% in March 2010). Low unemployment rates, particularly compared to other regions and metro areas, suggest rapid economic and employment growth in recent years, of course, and during that time there was high competition for labor, which raised the price of that labor considerably. Unemployment rates of 3% or lower reflect a very tight labor market, which will only continue to exert upward pressure on local wages and salaries.

The \$66 million in building permit valuations for the month of March is actually a quite respectable total; however, it pales in comparison to the March 2013 total of over \$123 million, and in fact it will be very difficult to match last year's phenomenal pace of construction activity. The total for the quarter was down by 8.7% compared to the first quarter 2013, which in turn was up by some 30% compared to the prior year.

The number of new single-family residential construction permits was higher for the month, and down just slightly compared to a strong total in the first quarter of 2013. Existing home sales faltered in March compared to a high total (over 19% higher year-over-year) in March of a year ago. Further adding downward pressure to the number of closed sales is simply the price of those properties. The monthly average home sale price in Midland-Odessa spiked to over \$247,500 in March, and increase of about 23% (and some \$47,000) compared to March of a year ago. The average for the quarter was up by a sharp 12% compared to the first three months of 2013.

Even though the number of sales declined in the first quarter, the total real (inflation-adjusted) dollar volume of residential sales activity soared yet further into record territory simply because of the price of those sales, and was up by over 8% compared to the first quarter of a year ago.