

# 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 May 2014**

Regional oil & gas activity appears to be shifting into a higher gear moving into mid-year 2014 with an increase in the number of drilling permits issued and a new record level rig count for the three Railroad Commission districts that comprise the Texas Permian Basin. The effects of this increase in regional exploration and production momentum appear to be virtually immediate on the Midland-Odessa general economy with much stronger increases over the last two months in the Midland-Odessa Regional Economic Index. **The index logged yet another sharp gain in May moving upward to 219.1 up from a revised 118.0 in April, and up 5.6% from the May 2013 MOREI of 207.5.**

The Texas Permian Basin Petroleum Index, a measure of regional oil and gas activity largely comprised of data from Texas RRC districts 7C, 8, and 8A, also improved yet again from April to May, increasing to 360.5 up from 357.1 in April, and up 9.8% from the May 2013 TPBPI of 328.4. (The index figures are in a constant state of revision as regional oil and gas production data is updated.) The Permian Basin oil & gas economy has now been in a state of unfettered growth and expansion for 4 ½ years.

After posting year-over-year declines in the first four months of the year, the number of drilling permits issued in the region was up by a sharp 24% in May compared to May of a year ago, and is now down by only about 3% for the year-to-date. The regional rig count moved to a new record level in April and continued to push yet further into record territory in May, rising to 460 for the monthly average, again higher than at any point dating back to at least 1980.

The monthly table of economic indicators for Midland-Odessa remains very impressive, with only new home building permits posting a decline compared to year-ago levels. General real (inflation-adjusted) spending per sales tax receipts in Midland and Odessa was up by over 16% in May compared to May of a year ago, and for the year-to-date, spending is up by nearly 10% compared to the first five months of 2013. Auto sales continue to push ever higher as well with inflation-adjusted spending on new and used automobiles up by over 5% in May compared to May of a year ago, and the year-to-date real auto sales total is up by an impressive 13.4% compared to the January-May 2013 period.

The construction numbers roared back into positive year-over-year territory in May with the valuation of building permits more than double the May total from a year ago. That strong May numbers pulled the year-to-date total virtually level with the total for the first five months of 2013, which in turn was up by over 32% compared to the same period the prior year.

Single-family housing construction is down modestly compared to some high numbers from a year ago; the number of new home building permits declined in May by about 7.5% compared to May 2013. For the year-to-date through May, the number of new single-family residence construction permits is down by some 6% compared to the January-May 2013 total, which in turn was up by 19% compared to the prior year.

Existing home sales improved for the month with the number of closed sales up by over 7% in May (year-over-year); the year-to-date sales total remains slightly lower compared to the year-ago level which was modestly higher compared to the prior year. Again, though, housing demand in Midland-Odessa clearly remains higher than the numbers would indicate, but the price of those homes – which does reflect current demand – is keeping a lid on sales activity. The monthly average price for Midland-Odessa sales in May was up by over 6% compared to May of a year ago, and the average price January-May is up by over 10% compared to the first five months of 2013.

Rising crude oil prices in 2014 are clearly providing the impetus for Permian Basin producers to ramp up drilling activity in terms of new drilling permit applications and the number of rigs at work in the region. Many had expected crude prices to soften in 2014, and that may well have been the case absent the tensions between Russia and the Ukraine, and most recently, of course, the events in Iraq. The effect of both of these series of events is to raise crude oil prices – neither the first nor the last set of geopolitical occurrences to cause a shift in energy commodity prices, crude oil in particular. Higher crude prices virtually always result in higher levels of exploration and production activity in the Permian and that appears to be the case once again in 2014. And as is typically the case, the expansion in the regional oil and gas E&P economy is taking the general economy of the combined Midland-Odessa metro area upward right along with it.