

# 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 November 2014**

The decline from October to November in the Texas Permian Basin Petroleum Index was slight – just half a point – but it likely represents the end of a five-year expansion in oil & gas exploration and production activity in the Permian Basin and the onset of a significant cyclical contraction in the regional upstream oil & gas economy. If the October index stands as the peak in the cycle – and there is every reason to believe it will – the expansion will have lasted 59 months and the Texas Permian Basin Petroleum Index will have doubled over that period of time. The index fell to 376.8 in November, down from 377.3 in October, but still up 10.7% from the November 2013 TPBPI of 340.3. That margin of year-over-year growth will narrow in the coming months, and ultimately the index will enter into a state of year-over-year decline.

Crude oil prices peaked in June of this year at \$101.68 for the June monthly average and \$103.75 for the daily high on June 20 (Plains Marketing, L.P. West Texas Intermediate posted price). Prices have declined continuously since then, averaging \$72.12 in November, and \$55.52 in December. On Wednesday, December 31 2014 the price fell below \$50/bbl for the first time in the current slide to \$49.75.

The regional rig count and drilling permit numbers held up well through October, but the armor began to show some significant cracks in November and December. The number of drilling permits issued in November in Texas RRC districts 7C, 8, and 8A declined by nearly 50% compared to the September and October monthly totals, and was the lowest monthly number since October 2013. The working rig count for the same region, still averaging well over 460 in November and in fact matching its all-time record level of 467, began to decline in December averaging 452 for the month and falling to 441 in the final week of the month.

The regional oil & gas stock index, based on stock prices for Clayton Williams Energy, Inc., Dawson Geophysical, Patterson-UTI, and Concho Resources, peaked in September and is now in decline as well. It is but a matter of time until oil & gas employment begins to suffer, which is likely to become apparent in the first half of 2015.

And it is also just a matter of time until the general economy of the Midland-Odessa metro area peaks and begins to contract based as a result of the oil & gas industry contraction now underway. Again, historically the Midland-Odessa Regional Economic Index has peaked as few as three months after the oil

& gas index, and as many as seven months after. The peak in the Texas Permian Basin Petroleum Index is now almost certainly dated in October 2014, and it's a safe bet that by the second quarter of 2015 (and perhaps sooner) the general economic index will peak and begin to register a contraction of some magnitude in the metro area general economy.

**As of yet that is not the case with the Midland-Odessa Regional Economic Index improving to 230.4 in November up from 228.3 in October, and up 8.0% from the November 2013 MOREI of 213.3.**

The numbers remain incredibly stout with general real spending per November sales tax receipts up by 19% year-over-year, and real auto spending up by nearly 32%. Employment growth remains tops in the state at 5.5% compared to year-ago levels in the combined Midland-Odessa metro area, and the Midland and Odessa unemployment rates are the lowest, and in fact are the only two of Texas' 26 metro areas in which the unemployment rate is now below 3%.

Only construction and homebuilding are down compared to year-ago totals, and the year-ago totals were high, particularly for the building permit valuation total. The total for November of this year is down some 11% compared to November of a year ago, which in turn was up by over 80% compared to November of the prior year.

Housing sales remain sharply higher, and the monthly average price in November was up by a whopping 19% compared to November of a year ago, pulling the average for the year-to-date to over 11% compared to the YTD through November 2013 average.

These trends may remain in place for another few months, and could certainly very easily remain strong through year-end 2014 and on into 2015. But make no mistake about it – a contraction in the Midland-Odessa general economy and that of the Permian Basin region as a whole is in the offing.