

InghamEcon, LLC

Karr Ingham

P.O. Box 7531
Amarillo, TX 79114

(806) 373-4814
karr@inghamecon.com

October 15, 2015

The Midland Development Corporation And Security Bank Present

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index August 2015

The decline in the combined Midland-Odessa metro area general economy is in full swing at this point as captured by the Midland-Odessa Regional Economic Index. The index posted its largest monthly decline (in the current cycle) in August falling by 1.5 points to 231.6 down from 233.1 in July. The index remains in positive year-over-year territory, up by 2.4% compared to the August 2014 MOREI of 226.3. That will last only a month or two longer and then the index will also be down compared to its year-ago level as well. Seven months into the contraction, the Midland-Odessa Regional Economic Index is down by 1.9% compared to its January 2015 peak.

The Texas Permian Basin Petroleum Index dropped another 12 points in August falling below 300.0 to 294.7 down from 307.2 in July, and down by 21.3% compared to the August 2014 TPBPI of 374.6. This regional measure of oil & gas activity peaked in November 2014 at 381.3.

Taxable spending per the August sales tax numbers (which largely reflect spending activity in June) was down a relatively modest 4.2% compared to August of a year ago; however, that trend is going to worsen in the coming months, and real spending is almost certainly set to move into a sustained pattern of double-digit percentage year-over-year losses. Real (inflation-adjusted) taxable spending remains just slightly in positive territory compared to year-ago levels, but that will cease to be the case with the release of the September data.

Real auto sales activity remains in virtual free fall down by double-digit percentage points for the sixth time in the first eight months of the year, and down by more than 25% for the second straight month. Thus far in 2015 real auto spending is off by 17.6% compared to the first eight months of a year ago.

The \$38 million in building permit activity (the valuation of permits issued in Midland and Odessa in the month of August) is the lowest monthly building permit total since January 2012, and is down compared to August of a year ago by 75%. Thus far in 2015 the building permit total is off by about 30% as construction activity retreats from extraordinary levels of growth over the previous five years. New housing construction is slipping as well with the number of new single-family residence permits issued in Midland-Odessa down by 20% in August (year-over-year) and about 12% for the year-to-date.

Home sales have been generally flat over the last two months compared to year-ago levels, and are down by about 8% through August compared to the first eight months of a year ago. On balance residential real

estate sales activity remains relatively strong given the current economic circumstances, and the price of those sales has yet to suffer at all. Prices have ceased to increase, but are not falling, either. The average price for the month of August is down by a scant .5% compared to August of a year ago. The average for the year-to-date through August is also down by less than a percent compared to the same period in 2014, which in turn was up by 11% compared to the first eight months of the previous year.

On an inflation-adjusted basis, the total dollar volume of residential real estate sales activity in Midland-Odessa was down by 5.5% in August compared to August of a year ago, and is now off by close to 11% for the year-to-date through August.

The rate of year-over-year employment growth continues to narrow with the combined number of payroll jobs in the Midland and Odessa metro areas up by an estimated 3.0% in August compared to August of 2014. It may be a bit baffling that employment loss has not been greater, and that may ultimately prove to be the case. But the trends make sense at some level as the rate of year-over-year growth has fallen from over 9% in the fourth quarter 2014 to about 3% in August 2015. Employment is almost certainly declining in Midland-Odessa and that will register in more defined fashion in the coming months. Meanwhile, the unemployment rate is on the way up with the combined unemployment rate for Midland and Odessa coming in at 3.7% for August compared to 3.2% in August of a year ago.

Crude oil prices have yet to begin to firm up to any discernible degree. Each mini-increase (and it was more significant than that in the April-June time frame) is undone, and in fact the monthly average posted price for August was below \$40 at \$39.67. Prices are not much better than that at this point, remaining generally in the \$40-45 range.

Finally, however, it may be the case that production in the Permian, in Texas, and in the US and North America is peaking – or has already peaked – and that was “job one” in terms of the series of events required to effect any sort of sustainable crude oil price increase. Even assuming that is the case, however, OPEC continues to out-produce its quotas and exploration & production activity is in the process of ramping up. In short, crude oil markets are not yet out of the woods in terms of the supply issues that brought about a 60% decline in price.

Meanwhile, the regional rig count is on the decline once again after rising a bit in response to higher prices in April, May, and June, and has now dipped below the levels reached earlier in the year in advance of that modest increase.

The Texas Permian Basin Petroleum Index is the de facto “leading economic index” for the metro area economies of Midland and Odessa. Until it troughs and begins to go north again the general economy of Midland-Odessa will remain in a state of contraction. And, of course, something well in excess of \$43 crude oil will be required to bring about that change in the regional oil & gas economy.