

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 February 2015

The Texas Workforce Commission issued revised employment data in March for prior years based on revisions to the methodology and on more complete year-end employer records. Typically this annual process affects the two years prior, with minor revisions to periods prior to that. This year, payroll employment data was revised well back into the 1990's affecting the Midland-Odessa Regional Economic Index over all of its history (the index is based at 100.0 in January 1996).

From 1996 – 2007 monthly payroll employment estimates (the total for Midland and Odessa) were revised upward by an average of 1,775 jobs. Beginning in 2008 the numbers were revised upward by a greater amount, averaging over 2,500 added to each monthly estimate from 2008 – 2011. In 2012, monthly employment estimates were revised upward by an average 3,265 jobs. In 2013 the average monthly upward revision was nearly about 3,940 jobs, and in 2014 payroll employment estimates were revised dramatically upward with monthly employment estimates raised by over 8,000 jobs compared to the original estimates. By year-end 2014, the November and December employment estimates were each revised upward by over 10,000 jobs.

The rate of job growth in 2014, originally estimated to be about 5% mushroomed to 9% by year-end 2014 per the revised data, and averaged 7% for the year as a whole.

The revisions suggest a couple of things: first, jobs were newly apportioned to the Midland and Odessa over a long period of time, which suggests they were perhaps wrongly categorized or were previously attributed to another city or metro area in error (either in-state or elsewhere); second, that the rate of employment growth in 2013, and 2014 in particular was dramatically higher than the original estimates indicated, meaning the economy was performing even better in 2014 than was originally thought, and that job growth remained high and strong even through year-end as crude oil prices were declining in the second half of the year.

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index were each revised over their entire histories to reflect the new employment data estimates, and it is under these new benchmarks that we move forward in 2015 with the monthly calculation of each index.

Under these revisions, the Midland-Odessa Economic Index reached a pinnacle of 236.6 in January 2015; the upward employment data revisions added approximately four points to the index in late 2014.

However, as the previous statement might suggest, *the Midland-Odessa Regional Economic Index declined slightly in February, dipping to 236.4 down from 236.6 in January, and up 9.3% from the February 2014 MOREI of 216.4.*

The February monthly decline is probably not simply a random decline. The January peak in the index and the decline in February very likely represent a cyclical milestone, reflecting the onset of a contraction in the combined Midland-Odessa economy stemming from declining crude oil prices and the resulting deep contraction in regional oil & gas activity now underway.

And indeed the Texas Permian Basin Petroleum Index, also revised to reflect raised estimates for oil & gas industry employment in Midland-Odessa, peaked in November at 378.9 and has been on the decline since then. The index fell sharply in February falling nearly 9 points to 354.8 compared to 363.6 in January. The regional rig count continues to decline – the February monthly average is down by some 24% year-over-year. However, the most recent weekly rig count for RRC districts 7C, 8, and 8A is down by about 50% compared to the weekly peak in late November 2014. And again, the rig count is expected to decline by at least 2/3 compared to its most recent peak, and perhaps more.

The number of drilling permits issued in the Texas Permian Basin is rapidly on the decline as well, down by well over 40% year-over-year, and down by over 70% relative to the September 2014 peak in the number of permits issued.

If the February monthly decline in the Midland-Odessa Regional Economic Index indeed represents the onset of a sustained contraction of some magnitude, the lag time between the peak in the Texas Permian Basin Petroleum Index and the MOREI was a mere two months, compared to the normal 4-6 months.

And indeed the general economy is beginning to show the effects of the decline. General real spending has narrowed, auto sales are down sharply, and housing activity has dropped off sharply in terms of the number of sales in early 2015. Prices remain high, with only a slight year-over-year decline in 2015 but the appetite for the purchase of a home at current price levels is rapidly on the wane under the changing economic landscape.

The employment numbers have yet to be affected to any noticeable degree and even oil & gas industry employment continues to expand for the moment. But the trend of employment growth is short-lived, and the employment numbers will soon be affected by the economic slowdown now underway.

The Permian Basin and the Midland-Odessa metro area have experienced remarkable growth and expansion over the last five years – and in fact the last twelve years or more – vaulting Midland and Odessa to at or near the top of most national metro area categories in terms of job growth, wage growth, output growth, and per capita GDP. The events of 2015 clearly must be couched against the backdrop of these events. It is unlikely that Midland and Odessa will be in the mix in terms of the highest rates of job growth nationwide by year-end. But it will still be true that the region and metro area have outperformed the state, national, and other metro area economies over a long period of time, and that is not about to be undone over the course of the coming cyclical contraction.