

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 January 2015

The Texas Permian Basin Petroleum Index declined sharply in January, falling by nearly 10 full points to 362.8 down from 372.5 in December. The index remains higher compared to its year-ago level but that margin of growth is narrowing and the regional petroleum index will doubtless enter into negative year-over-year territory in the coming few months.

The January 2015 monthly average crude oil price of \$44.46 (posted West Texas Intermediate) is down by over 55% compared to its June peak, and in fact that is roughly where the price stands today. The number of drilling permits issued in the region is down by nearly 40% in January compared to January of a year ago. The regional rig count (the total for Texas RRC districts 7C, 8, and 8A) monthly average for January was down by only about 13% compared to its November 2014 peak; however, the weekly count at month-end was down by 20% relative to the peak, and the weekly count released last Friday was down by some 38% compared to the November peak in the weekly rig count (about 177 rigs idled). When the weekly rig count is released later today the decline will clearly be down by well over 40%, and the contraction in the rig count is going to continue for months to come. And again, the expectation is that the Texas Permian Basin will likely lose at least 2/3 of the rigs off the November high point over the course of this downturn.

The effects of the industry contraction now underway have not yet turned up in oil & gas industry employment data, which typically occurs on a lag time of a few months beyond the peak in the Texas Permian Basin Petroleum Index. The Texas Workforce Commission will be issuing revised data for 2014 (and perhaps 2013) in early March, and those figures may begin to indicate the effects of lower crude oil prices. Again, though, employment is one of the later dominoes to fall in the process behind price, drilling permits, and the rig count.

For the most part, the effects on the general economy are not yet obvious, though it is possible that the impact is just now turning up in a couple of the numbers. Real auto spending was down slightly in January; however, that has happened now and again over the course of the expansion, particularly when the numbers from the prior year were sharply higher. And in fact the January 2014 real auto sales total was up by over 22% compared to the prior year. Home sales were down for the month compared to January of a year ago, but again the January 2014 total was up by over 20%. Housing will ultimately be affected (and it needs to be, at least in terms of the price of housing), but the January numbers may not yet have much to do with the decline now underway in the regional oil & gas business.

General real spending per January sales tax receipts were strong, and hotel/motel taxes soared to a new record level in the fourth quarter of 2014. Construction and home building were down for the month, but again compared only to some high January numbers in prior years.

So it may well be – and in fact it is likely – that we are witnessing the peak in a number of these various components of the local economy, and those that have not yet peaked will soon do so. And the Midland-Odessa Regional Economic Index itself will achieve its peak in the current cycle and begin to decline by no later than sometime during the second quarter of the year. Through January, however, the index remains on the rise, increasing to 232.4 up from 232.3 in December, and up 8% from the January 2014 MOREI of 215.2. And yes, it is certainly possible that the slight increase from December to January represents the onset of the slowdown that is on the way. But again, it is the peak in the MOREI that we are now watching for, and we know it is coming.

The annual round of data revision by the Texas Workforce Commission is underway, and the first release of that data will take place in early March in which payroll employment estimates in Midland-Odessa and other Texas metro areas will be revised for at least the prior two years. The revised data will be instructive either way, but as of yet we do not yet know what the nature of those revisions will be. When that data is in place, we will revise the indices accordingly and then take a look ahead at what the ultimate outcome of the cycle now underway will be.