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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 July 2015**

The Midland-Odessa Regional Economic Index declined for the sixth straight month in July, and it was also its biggest monthly point drop thus far in the cycle falling to 233.1 down from 234.3 in June (which was revised slightly upward from 234.2 due to an upward revision in the June employment estimate). The index is up by 4.0% compared to the July 2014 MOREI, and that margin of year-over-year growth continues to narrow each month as well after peaking at 10.1% in December 2014.

From the post-recession index trough in February 2010 of 139.1, the Midland-Odessa Regional Economic Index expanded by a remarkable 69.7% through the peak of 236.1 in January of this year.

The Texas Permian Basin Petroleum Index declined by nearly 12 points in July, falling to 307.1 down from 318.9 in July (revised upward as a result of ongoing upward revisions in regional oil & gas production estimates), and down 17.2% from the July 2014 index of 371.1. The regional oil & gas activity index has now lost about 19.4% of its value from the peak of 381.2 achieved in November 2014.

The monthly average posted West Texas Intermediate crude oil price fell back below \$50/bbl in July after surpassing the \$50 mark in the prior three months (and the August average is actually below \$40/bbl). The rig count is off by close to 60% compared to its year-ago level, as is the number of drilling permits issued for the month.

Production remains on the rise, however, with estimated crude oil production in RRC districts 7C, 8, and 8A up by some 18% thus far in 2015 compared to the same period in 2014. Statewide Texas production is up by an estimated 17% through the first seven months of the year.

General spending (adjusted for inflation) posted its largest year-over-year loss thus far in 2015 with spending per July sales tax receipts down by 11.3% compared to July of a year ago. The year-to-date total remains positive compared to year-ago levels, but not by much and will almost certainly slip into negative territory in the coming month or two.

Employment estimates in Midland-Odessa continue to reflect relatively high employment levels under the circumstances, but assuming the current estimates are to be believed the margin of growth has narrowed to 3.2% in July, the smallest of the year thus far and down from over 9% in late 2014 and over 8% in early 2015. And again, the very real possibility exists that monthly employment estimates in 2015 will be

revised downward with the release of the annual employment data revisions that will take place in early 2016. And at this point the combined Midland-Odessa unemployment rate has clearly reversed course and is steadily on the rise.

Quarterly hotel/motel tax receipts in Midland-Odessa posted the first year-over-year negative of the cycle with lodging taxes in the second quarter of 2015 down by 17% compared to the second quarter of a year ago.

Real auto spending has been down compared to year-ago levels all year long and July is no exception with inflation-adjusted spending on new and used automobiles down by over 28% compared to July of a year ago. For the year-to-date, real auto spending is down by over 16% compared to the first seven months of 2014.

Construction activity (as represented by the valuation of all building permits issued in Midland-Odessa) is down by nearly 55% in July compared to a very stout building permit total in July 2014. Through July, building activity is now down by over 18% compared to the January-July 2014 period. New single-family housing construction is on the decline as well with the number of permits issued down by about 11% thus far in 2015.

Residential real estate market activity rebounded a bit in July with modest year-over-year improvements in the number of homes sold, the average price of those sales, and the total inflation-adjusted dollar volume of home sales activity. On balance, however, the market has drifted lower in 2015, again due primarily to slowing sales rather than dropping prices, with real sales activity down by over 11% for the year-to-date.

Crude oil price forecasts are all over the map with some calling for improving market conditions and some calling for prices to fall to as low as \$20/bbl. All are from theoretically credible sources – the big banks and investment firms in the US and elsewhere, etc. – so trying to sort through these various pieces of information is a bit maddening. However, market conditions have certainly not changed appreciably since last month, and those market conditions remain bearish for crude oil pricing for the balance of 2015 and on into 2016. It is this possibility for which we should be prepared in terms of the resulting economic outlook in Midland-Odessa.