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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 May 2015

The decline in the combined Midland-Odessa metro area economy as registered by the Midland-Odessa Regional Economic Index is beginning to gain some momentum with the index losing a full point from April to May. The MOREI dropped to 234.6 in May down from 235.6 in April, but is still 6.7% improved over the May 2014 index of 219.9. That margin of year-over-year growth is narrowing, however, after peaking at 10.0% in December 2014.

The Texas Permian Basin Petroleum index is losing ground in huge chunks, falling nearly 10 full points to 327.7 down from 337.1 in April. The regional oil & gas index turned negative (year-over-year) in March of this year, and is now down by 9.2% compared to the May 2014 TPBPI of 360.9. The regional rig count (again, we use the total rig count for RRC districts 7C, 8, and 8A) appears to have stabilized in the 190 range, down about 60% from the peak of 467 in November of 2014. The number of drilling permits issued across the region is also off about 60% over the last year in response to the decline in crude oil prices that began in July of 2014. The monthly average posted West Texas Intermediate crude oil actually moved into the mid-\$50 range in May (and June) but have now dipped below \$50 again in terms of daily posted prices.

The general economy of the region has held up reasonably well thus far, particularly in terms of spending and employment. It was only per the May sales tax numbers that real (inflation-adjusted) spending fell below year-ago levels down about 1% compared to May of a year ago, and total payroll employment in Midland-Odessa continues to indicate year-over-year growth of about 6%.

The general spending picture is very likely to worsen in the coming months and the rate of year-over-year decline will widen as the effects of the oil & gas slowdown gain a bigger foothold over the overall economy. The payroll employment data is a bit baffling, both with regard to total employment and oil & gas employment. Both are continuing to indicate fairly strong rates of year-over-year growth, and there is certainly reason to look upon those numbers with some suspicion. One or both of two things is likely to happen in the future – (1) rates of employment growth will narrow rapidly and employment will turn negative in 2015, and (2) employment estimates for 2015 will be revised downward during the annual revision/rebenchmarking process that will take place in February 2016. It is true that rates of year-over-year growth are narrowing, at about 6% in May down from over 9% at year-end 2014 and over 8% in January and February of this year. However, the reasonable expectation would be that more jobs would

have been lost at this point, and the unemployment rate trends would certainly help to suggest that might be the case having reversed course and begun to rise.

Auto sales activity in Midland-Odessa is rapidly on the decline with inflation-adjusted spending on new and used automobiles down by over 22% in May, and over 12% for the year-to-date through May. The most recent hotel/motel data is for activity in the first quarter of 2015 and the numbers remain in positive territory, but that is going to change, probably with the release of second quarter data.

Construction activity per the value of building permits issued by the two cities is down by over 40% in May compared to a strong total in May of a year ago, which was over \$100 million for the month and more than double the valuation in May of the prior year. New housing construction numbers are still reasonably strong, but again are down compared to year-ago levels with the number of new single-family residence permits off by over 20% for the month and 13% for the year-to-date.

The general residential real estate market remains overheated, which is to say the slowdown has yet to affect housing prices. The monthly average sale price in May was over \$260,000, a 10% increase compared to May of a year ago. The average for the year-to-date is only up by about 1.1% compared to the same period a year ago; however, the average through May 2014 was up by over 10% compared to the first five months of the prior year. The number of sales has declined (though the number of closed sales was higher in May), and the total dollar volume of residential real estate sales activity is down by about 13% through May 2015.

The cycle seems to be playing out a bit more slowly than might have been expected going into the year. However, it is playing out and will continue to do so. The Midland-Odessa Regional Economic Index has peaked and is now in decline, and that will likely be the case for the balance of 2015. Again, though, we might have expected the rate of decline to be sharper than it has been thus far, so it appears the economy is holding up reasonably well. Crude oil price recovery may be in some jeopardy based on the notion that Iranian oil may soon be making its way into the market place, further adding to the supply glut and placing a new round of downward pressure on prices. The market has yet to clear as production has not truly begun to fall to any meaningful degree. Production in the Permian bears that out with the volume of crude oil production up by an estimated 16% or so through May compared to the first five months of a year ago.