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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 October 2015

The Midland-Odessa Regional Economic Index fell below its year-ago level for the first time in the current contraction dipping to 228.5 in October down from 230.4 in September, and down 1.0% from the October 2014 MOREI of 230.8. The Midland-Odessa Regional Economic Index peaked at 236.1 in January and has now declined for nine straight months with more to come.

The crude oil price situation continues to worsen; the October monthly average posted West Texas Intermediate remained above \$40, and in fact was slightly improved compared to September. However, the November monthly average fell below \$40/bbl and the daily posted prices this very week have fallen below \$35. The regional rig count slipped below 200 again in October at 193 (the monthly average for RRC districts 7C, 8, and 8A), and has continued to decline since then totaling 179 last Friday. That's the lowest since January 2010 – when the rig count was on the way up following the recession-induced decline of 2008-2009.

The Texas Permian Basin Petroleum Index continues to reflect the deep contraction in regional oil & gas activity falling sharply again in October to 266.1 down from 277.9 in September, and down over 30% from the October 2014 index of 381.4. (And again, the Texas Permian Basin Petroleum Index monthly values are continually adjusted and revised over time to reflect revisions in regional oil and gas production and estimated industry employment.)

Most indicators of regional oil & gas activity (the components used to calculate the Texas Permian Basin Petroleum Index) are down sharply compared to year-ago levels, with the exception of the two that most *need* to be in decline – crude oil production and natural gas production. Production volume estimates in the Permian are indicative of the broader market problem in the US and indeed globally as Texas and US production volumes remain high. While it is true that production probably has begun to decline in the Permian Basin, in Texas, and in the US, the peak in production is a recent phenomenon has production has yet to decline to a significant enough degree to begin to provide any upside support to prices. And in fact crude oil storage volumes remain on the rise, and OPEC countries continue to produce at high levels with no end in sight. The OPEC meeting last Friday provided no relief, and in fact the lack of action on the part of OPEC or its individual countries to reduce production is providing the downward pressure on crude oil prices this week.

All this to say there is no end in sight. The recently adopted mantra of 'lower for longer' is rapidly evolving into 'even lower for even longer.'

The general economy of the Midland-Odessa metro area will remain in contraction for the foreseeable future. As history very strongly suggests, the general economy of the region and metro area expands when the regional oil & gas economy is in expansion mode, and contracts when oil & gas activity declines. Until the Texas Permian Basin Petroleum Index troughs and begins to increase once again, there is little reason to expect a turnaround in the general economy. And there is little reason to expect a turnaround in regional oil & gas activity until there is definitive evidence of correction in the market imbalances (oversupply and high levels of production) that continue to push prices lower.

That will happen. A decline in the rig count of over 60% will ultimately lower production volumes in the Permian, in Texas, and in the US and North America. Hopefully demand will continue to improve as that is occurring and that is the recipe for higher crude oil prices. That's not right around the bend, however, and currently the most optimistic outlook calls for some improvement in crude oil markets in perhaps the latter half of 2016.

Meanwhile, general economic activity remains on the decline in Midland-Odessa. Every single component of the Midland-Odessa Regional Economic Index is negative compared to year-ago levels. The false exception on the table of economic indicators is employment, the monthly estimates for which continue to indicate payroll employment levels that are higher compared to a year ago; again, though, we know to a certainty these numbers are not correct, and we await the downward revision to these numbers in early 2016.

General real (inflation-adjusted) spending per October sales tax receipts in Midland and Odessa was down by 18% compared to October of a year ago, and is now down by 2.7% for the year-to-date having dropped into negative year-over-year territory in September. Auto spending remains sharply on the decline as well, down by 26% for the month and 18% for the year-to-date. Hotel/motel activity, airport passenger numbers, construction, and home building are all down compared to year-ago levels.

Housing sales numbers plunged in October compared to October of a year ago with the number of closed sales down by over 28%. The average price of those sales remains high, however; the October monthly average was down by 4.1% compared to October of a year ago, which in turn was up by over 12% compared to October of the prior year. The inflation-adjusted total dollar volume of home sales activity was off by a sharp 33% in October compared to October of a year ago, and is now down by over 13% for the year-to-date.