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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** September/3rd Quarter 2015

The Midland-Odessa Regional Economic Index posted its 8th straight monthly decline in September falling to 230.4 down from 231.6 in August, but still up 1.0% from the September 2015 MOREI of 228.0. While the index remains in positive year-over-year territory in September that will likely not be the case with the release of the October index. Most monthly and third quarter general economic indicators in Midland-Odessa are negative compared to year-ago levels, with the exception of new single-family housing construction, which was higher for the month compared to September of a year ago, existing home sales which were flat for the month and quarter (but down for the year-to-date) and payroll employment.

Though the Midland-Odessa employment estimates continue to reflect higher levels of employment compared to year-ago levels, we now know empirically what we have suspected intuitively, and that is that those numbers are simply not correct, and will be revised downward in early 2016.

The employment estimates utilized in the calculation of the Midland-Odessa Regional Economic Index – and correctly so – are a part of the “Current Employment Statistics” (CES) series, which in fact are the basis for virtually all reported employment data at the national, state, and metro area level in total and by employment category. These numbers and the benchmarks under which ongoing monthly estimates are generated are only revised once a year, and that is usually in February-March. That is why they have wandered off-course and no longer reflect the true employment situation in Midland-Odessa.

However, there is another data set called the Quarterly Census of Employment and Wages based on quarterly filings by companies that is more realistic, and in fact the monthly CES estimates will ultimately be reconciled to these numbers. That data is compiled at the county level and released on a quarterly basis, though with some lag time. These numbers are available only through the second quarter of 2015 but even the second quarter data indicates overall employment loss in Midland-Odessa compared both to year-ago levels, and to the peak employment level which was at year-end 2014. The region almost certainly sustained additional employment loss in the third quarter, of course.

Monthly (CES) employment estimates as currently reported on the table of economic indicators suggests an overall September 2015 employment level in Midland-Odessa that is 2.8% higher than in September 2014. However, the June 2015 QCEW estimates indicate the *loss* of about 4,900 jobs from June 2014 to June 2015, a *decline* of 2.9%. More striking is the job loss from the employment peak in December 2014

to June 2015. Just over that six-month period the QCEW data indicate the loss of nearly 12,000 jobs in Midland-Odessa. And again, additional job loss was likely incurred during the third quarter as well.

The Midland-Odessa Regional Economic Index will continue to use the monthly CES estimates – that is the proper employment indicator to use over time, even though we know it is not presently reflecting the actual employment picture. Ultimately it will, and the MOREI will be revised at that time to reflect the updated employment figures.

The very same phenomenon is occurring in terms of oil & gas employment in Midland-Odessa. The monthly Current Employment Statistics category that contains oil & gas employment (it is called “mining, logging, and construction) has reflected some industry job loss when the oil & gas employment is separated out from the construction jobs (there are very few logging jobs in Midland-Odessa). The quarterly employment and wage data has long been the tool for estimating the portion of those jobs that were direct oil & gas jobs, so now that the QCEW data is showing the sharp drop, we can adjust the employment data we use to calculate the Texas Permian Basin Petroleum Index.

As of the September petroleum index the revised employment numbers have been factored into the calculation of the index, and any affected prior months were revised as well. What was previously estimated as year-over-year job loss of just over 1% in metro area oil & gas employment – not a believable number at all – is now an estimated 15-16% down compared to year-ago levels reflecting the loss of about 5,500 jobs over the last 12 months. Estimated oil & gas employment also peaked in December 2014 and has lost about 5,850 jobs since then. In truth the numbers may be higher than that, and industry job loss will almost certainly continue in the coming months.

The Texas Permian Basin Petroleum Index dropped in September to 278.2, down from a revised 288.3 in August, and down 26.6% from the September 2014 TPBPI of 378.8. That marks the 10th straight month of decline in the index after peaking in November of last year.

The monthly average rig count was above 200 for the month (for RRC districts 7C, 8, and 8A) as it was in August, climbing in response to temporarily higher crude prices in the second quarter of the year. However, as prices have once again slipped into the low-\$40 range the rig count has begun to slide again as well, and is now a solid 60% below its peak in late 2014. The number of drilling permits issued in September was down by nearly 70% compared to the record monthly permit total from September of a year ago.

Non-employment indicators in the general economy of Midland-Odessa are hard numbers, and not subject to revision later on (other than Midland building permit data as the city completes a software conversion) – and again, most are on the decline. General real (inflation-adjusted) spending per sales tax receipts in the third quarter 2015 was down by over 10% compared to year-ago levels, and the September monthly total was off by over 16% year-over-year. Real auto spending continues to fall rapidly with the third quarter total down by a sharp 24% compared to the third quarter of 2014, and now down close to 18% for the year thus far.

Home sales were unchanged both for the month and quarter, but are down by 7% thus far in 2015. Prices have slipped a bit (and registered a 7.3% year-over-year decline in September), and the end result is an aggregate decline in inflation-adjusted activity in the Midland-Odessa residential real estate market of over 10% through September compared to the first nine months of a year ago.