InghamEcon, LLC

Karr Ingham

P.O. Box 7531 (806) 373-4814
Amarillo, TX 79114 karr@inghamecon.com

The Midland Development Corporation
presents

The Midland-Odessa Regional Economic Index

and the

Texas Permian Basin Petroleum Index

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The Texas Permian Basin Petroleum Index – the de facto leading economic index for the Midland-Odessa and Permian Basin general economies – turned upward in August, posting its first monthly increase since the onset of contraction in regional oil & gas activity in late 2014. The increase was slight at just a tenth of a point, but it marks the first increase since the onset of contraction in late 2014. It is therefore a significant milestone, and with a couple of caveats may signal the technical end of the contraction in Permian Basin regional oil and gas exploration & production activity.

Should the August increase in the Texas Permian Basin Petroleum Index ultimately hold up, the contraction in the regional oil & gas E&P economy will have lasted 20 months, with the index peak in November 2014, and the index trough in July 2016. However, a little more time is required to determine whether or not the July 2016 index low point indeed represents the turning point from industry contraction to expansion. First and foremost, obviously, prices and activity levels could stall and retreat at some point in the near future, which might possibly send the index back into contraction. Beyond that, some of the current index data could be revised at some future point which would result in a recalibration of the index at that point. The most likely candidate is the oil & gas employment data, which is subject to slight revision next month, and may potentially undergo a major revision in early 2017.

Again, though, this particular very slight turn upward is encouraging, and the likelihood is that it does indeed signal the cyclical low point in the current contraction. The index is designed to minimize month-to-month volatility and only experience turning points when the change from contraction to expansion (or vice versa) is the real deal. The change in crude oil prices from the February low point and the resulting response in the Permian Basin rig count suggest that that is the case.

The Midland-Odessa Regional Economic Index continued its decline in August, however, falling to 196.7 for the month down from a revised 197.6 in July, and down 12.2% from the August 2015 MOREI of 224.0. Through August, the Midland-Odessa Regional Economic Index has fallen by 18% compared to its peak of 235.6 in January 2015, on the heels of a 70% expansion that took place between February 2010 and January 2015.

A couple of year-over-year positives crept into the table of economic indicators in August; the number of new single-family housing construction permits was up for the month compared to year-ago levels, and existing home sales logged a year-over-year increase as well. The combined Midland-Odessa monthly average home sale price just continues to increase, pushed upward by the Midland monthly average which surpassed $300,000 for only the second time.

The rate of employment loss continues to narrow, suggesting the cycle of contraction in the metro area labor market is nearing its end. The August employment estimates indicate a 1% year-over-year decline, the smallest margin of employment loss thus far in 2016 and down from a peak of over 8% in late 2015. The unemployment rate is up significantly compared to year-ago levels, however, at 5.6% for the month, compared to 4.3% in August of a year ago, and an August low point in the recent employment/economic expansion of 3.2% in August 2014. Again, however, the employment data for Midland, Odessa, and other Texas metro areas will undergo a revision in early 2017 that may turn all of this on its head, but for now the estimates certainly suggest a significant easing in terms of the rate of employment loss.

General real (inflation-adjusted) spending per August sales tax receipts in Midland-Odessa continues to reflect year-over-year declines in excess of 20%, and the same is true of the total through August compared to the first eight months of 2015. Auto sales activity was down only slightly in August with inflation-adjusted spending on new and used motor vehicles off by only about 1.3% compared to August of a year ago.

For the most part, crude oil prices have been flat since May (the July and August monthly averages were slightly lower than May and June, actually); the rig count increase across the Permian has largely been in response to the upward move in price that occurred from February to May. That means the rig count will likely stall in the coming weeks absent another upward move in price. In fact, prices have improved somewhat in recent days on yet another round of rumor and discussion about what Saudi Arabia and other OPEC countries may or may not do with regard to crude oil production cutbacks.

The substantive reduction in Texas and US crude oil production continues – every bit as important an occurrence as any OPEC move, perhaps even more so – and that will continue to be the case for the foreseeable future. Meanwhile, the economy of the Permian Basin appears to be on the cusp of stabilizing after a long and deep contraction.