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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 January 2016**

The Midland-Odessa Economic Index was updated in January to reflect sweeping downward revisions in monthly employment estimates in 2015. What had previously been reported as slight year-over-year gains in total employment in Midland-Odessa were revised downward (as expected) to indicate the loss of an estimated 14,500 jobs in 2015, a decline of about 8% over the year. Monthly employment estimates in the latter part of 2014 were revised slightly downward as well.

The index was further revised in January to purify the methodology for its calculation. Previously, only the retail sales, auto sales, and dollar volume of home sales were adjusted for inflation; now, every component of the Midland-Odessa Regional Economic Index that is stated in dollar form is adjusted for inflation, including hotel/motel tax receipts and building permit valuations. On the table of monthly economic indicators, the monthly average home sale price continues to be indicated in nominal terms (not adjusted for inflation), but the calculation of the index is fully inflation-adjusted.

The revised Midland-Odessa Regional Economic Index now indicates a peak of 233.7 in January 2015, and a decline in the index of over 10% since then. Not surprisingly, the index declined each month February 2015 through January 2016, and that will continue to be the case in the coming months. However, that comes on the heels of a 70% expansion in the index from its post-recession trough in February 2010 through the January 2015 peak.

**The January 2016 Midland-Odessa Regional Economic Index of 209.8 is down from the revised December 2015 MOREI of 212.5, and is down by 10.2% compared to the January 2015 index of 233.7. The Texas Permian Basin Petroleum Index continued its sharp decline in January as well, falling to 233.3 for the month down from 242.7 in December, and down 36% compared to the January 2015 TPBPI of 365.3. The Texas Permian Basin Petroleum Index peaked at 381.2 in November 2014 and has lost about 39% of its value since then.**

Only the housing sector managed to post slight year-over-year gains in January with homes sales in Midland-Odessa up slightly compared to January of a year ago. The monthly average price was up by about 2.6% as well, and the real dollar volume of residential sales activity was up by about 2%.

Every other sector continues to reflect deep declines compared to year-ago levels. Real (inflation-adjusted) retail spending by households and businesses in Midland-Odessa was down by 22% in January compared to January of a year ago, and real auto spending is down by about 38%. Hotel/motel activity has fallen off sharply over the last 12 months with January lodging tax collections (for fourth quarter occupancy) down by over 40% compared to January of a year ago.

Current employment estimates indicate the loss of 12,600 jobs over the last 12 months in Midland-Odessa (6,000 in Midland, and 6,600 in Odessa). The unemployment rate reversed course in early 2015 and has been on the rise ever since. The January 2016 combined Midland-Odessa unemployment rate of 4.6% is up by nearly 50% compared to the January 2015 unemployment rate of 3.1%.

Regional oil & gas indicators continue to reflect deep declines in activity as well. The monthly average posted price for West Texas Intermediate dropped below \$30 in January at \$28.44/bbl, the lowest since November 2003. The monthly average rig count for RRC districts 7C, 8, and 8A dropped to 171 in January, and has continued to worsen since then. The weekly count last Friday, March 4 dropped to 143, a decline of about 70% from its peak and the lowest since early 2006. Drilling permit numbers suggest the rig count will continue to fall – the 255 permits issued in January 2016 is the lowest monthly total since December 2002.

Crude oil prices have improved in recent days, and that is certainly reason for cautious optimism. However, it is important to note that crude oil inventories continue to rise, both nationally and at the WTI hub of Cushing, Oklahoma. Production has peaked in Texas and in the US but has not dropped appreciably thus far; however, clearly we can anticipate the rate of production decline to accelerate in 2016.

It is safe to assume the general economy of Midland-Odessa will continue to endure downward pressure in 2016, reflected by continued declines in spending, employment, and other measures of economic activity. The regional oil & gas index will provide the strongest indication of a turnaround in the general economy, but that seems poised to continue its decline for at least the first half of 2016 and perhaps beyond, depending on crude oil price recovery.

The Midland-Odessa metro area and the Permian Basin region as a whole are well-positioned to benefit from long-term increases in global energy demand as economies improve around the world and lesser-developed economies continue down the path of economic development which will increase energy demand in a big way. But that's the longer term. In the short run, the metro area and Permian Basin regional economies continue to suffer from the effects of a major oil & gas industry contraction that is not yet complete.