

# InghamEcon, LLC

*Karr Ingham*

P.O. Box 7531  
Amarillo, TX 79114

(806) 373-4814  
karr@inghamecon.com

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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 2016**

**The contraction in the Midland-Odessa combined metro area economy remains in place through May with the Midland-Odessa Regional Economic Index falling again to 200.6 down from 202.5 in April, and down 12.4% from the May 2015 MOREI of 229.0.** Double-digit percentage year-over-year decline remains the prevailing trend in most components of the index, including general spending, auto spending, hotel/motel activity, building, and new housing construction. In addition, the Midland-Odessa combined unemployment rate is up by nearly 30% in May compared to its year-ago level, averaging over 40% higher through May compared to the first five months of 2015.

Crude oil prices increased for the third straight month in May, averaging over \$43/bbl for the month compared to the February 2016 monthly average of \$27.08. Rising prices have begun to positively affect the Permian Basin rig count; however, the monthly average declined again in May – though only slightly – at 121 for Texas Railroad Commission Districts 7C, 8, and 8A, compared to 123 in April and a peak of 467 in November 2014. The rate of decline in the Texas Permian Basin Petroleum Index slowed in May as well; the index fell to 214.1 for the month, down from 216.8 in April, and down nearly 34% from the May 2015 TPBPI of 323.5. Through May, the regional oil & gas activity index has declined for 18 straight months, and is down by 44% compared to the peak level of 381.2 achieved in November 2014.

Real (inflation-adjusted) taxable spending per May sales tax receipts was down by 20% compared to May of a year ago, and the total for the year-to-date is off by 21% compared to the first five months of 2015. Since peaking in 2014 taxable spending is down by about 24% -- a big number in a relatively short period of time. However, general real spending nearly doubled in the five years leading up to that peak, and is not likely to give nearly all of that back in the present contraction.

Auto spending has fallen farther faster, and has been doing so for a longer period of time. Inflation-adjusted sales activity for new and used automobiles has declined by nearly 40% over the last two years, and is down in May by about 21% year-over-year. Auto spending also increased at a faster pace than general spending over the course of the previous expansion, however, growing by nearly 170% from the recession year of 2009 through the peak in 2014.

The sharp decline in construction continues through May with monthly building permit valuations down by 34% compared to the first five months of a year ago, and 40% in May alone. In the 17 months January 2015 – May 2016 real building permit activity has declined (year-over-year) in 15 of those months. New single-family housing construction has generally been in a state of decline over that period as well and that remains the case with the number of permits down by 30% in May and 20% for the year-to-date.

Residential real estate activity has scarcely dropped off at all, and in fact the number of closed housing sales is slightly higher through May than it was in the first five months of 2015. The average price of those sales has yet to falter as well. The May average was down by about 7% compared to May of a year ago; however, the May 2015 monthly average was in turn up by over 9% compared to May of the previous year. Sales declined throughout all of 2015 but leveled a bit in early 2016 and is roughly on par through May compared to the January-May monthly total.

Oilfield activity in the Permian Basin certainly has not ground completely to a halt as a result of low prices. The rig count declined by about 70%, but that means 30% of what was considered the high water mark continues to operate even in the current low-price environment. And again, a few rigs have been added in June as prices have improved. The declining permit and rig numbers have yet to translate to lower levels of crude oil production in the region, with the volume of production up in May (and for the year-to-date) by about 8% thus far in 2016.