

# 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  
presents**

## **The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index October 2016**

**The Midland-Odessa Regional Economic Index predictably declined again in October, falling to 194.1 for the month down from 194.9 in September, and down 11.3% from the October 2015 MOREI of 218.7.** Most components of the index continue to reflect the ongoing contraction, which began in February 2015 after the index peak in January. In terms of October monthly results, only building permit activity posted a year-over-year increase, with all other indicators down (or up in the case of the unemployment rate) compared to year-ago levels.

Payroll employment according to the monthly Current Employment Statistics estimate (the primary monthly estimate for employment throughout the year) suggests that employment loss has ceased – the October monthly estimate is unchanged compared to October of a year ago after posting year-over-year declines for 18 straight months. However, we know at this point that that is not the case, and that monthly payroll employment estimates for 2016 (and prior periods, perhaps) are going to be subject to a sharp downward revision in early 2017.

In addition to the monthly Current Employment Statistics (CES) estimate for Texas and Texas metro areas, the Texas Workforce Commission also publishes quarterly data based on employer reports filed with the TWC. The monthly estimates are based on sampling data, and are based on the early-year benchmarks established during the annual revision/re-benchmarking process. However, as has been the case many times in the past in Midland-Odessa, the monthly estimates tend to diverge from actual employment trends during times of rapid transition (from growth to decline, or vice versa). And that appears to be the case in 2016.

Quarterly data from the TWC's Quarterly Census of Employment and Wages (QCEW) is a bit delayed; at this point, QCEW data for Texas metro areas is available only through the end of the second quarter 2016. By comparing the monthly employment estimates contained within the QCEW through June 2016 to monthly CES employment estimates through June 2016, it becomes immediately apparent that these two series are nowhere close to one another. And unfortunately, the QCEW figures are much closer to correct.

For example, the June 2016 monthly CES estimate indicates total payroll employment in Midland-Odessa of 163,900, a decline of 2.4% compared to the June 2015 estimate of 168,000. However, the QCEW series indicates a June 2016 payroll employment estimate of 150,950, 12,950 jobs lower than the CES estimate, and a decline of over 8% compared to the June 2015 monthly estimate of 164,385 (which is also down from the June 2015 CES estimate by some 3,600 jobs, meaning 2015 numbers will also be revised downward).

Based on the QCEW estimates through June 2016, over 25,000 jobs were lost in Midland-Odessa between the employment peak in December 2014 and June 2016. About 12,000 of those jobs were lost in Midland, and 13,000 in Odessa.

Contrary to the CES monthly estimates through October, which again suggest employment loss has essentially ceased, job loss has almost certainly continued through the third quarter and into the fourth quarter. At some point, the Midland-Odessa Regional Economic Index will be revised to reflect these employment realities. Typically, the MOREI is revised to account for employment revisions once a year, when the Texas Workforce Commission issues its revised data and sets the benchmarks for the coming year's monthly CES estimates. But there is little doubt that the MOREI is presently overstated, simply because the employment estimates are clearly overstated at this point.

The Texas Permian Basin Petroleum Index increased in October, the second monthly increase in the last three months, improving to 209.4 for the month, up from 208.1 in September, but still down by over 21% compared to the October 2015 index of 266.2. Crude oil prices were higher in October both compared to year-ago levels, as well as the prior four months. The Permian rig count continues to climb as well, and the 559 drilling permits issued in RRC districts 7C, 8, and 8A in October was the highest monthly total since December 2014 (and was up compared to October 2015 by over 30%).

Oil and gas employment is experiencing similar issues – the monthly estimates are overstated compared to industry-level QCEW data through June, which means the October results are out of whack as well, and the Texas Permian Basin Petroleum Index will be revised at some point to reflect the industry employment realities. That may need to occur sooner rather than later simply because of the need to peg the true bottom in the regional oil & gas economy as quickly as possible.

Even at that, the October monthly increase even under the current employment parameters is encouraging. Growth in the rig count and the number of drilling permits issued suggests that producers are finding a way to drill prospects at current price levels. And those price levels have improved even since then. The November monthly average was below the October average (WTI posted); but the announcement of an agreement among OPEC (and some non-OPEC) countries to reduce production has pushed prices higher in early December.

The table of economic indicators for the Midland-Odessa Regional Economic Index continues to indicate double-digit percentage declines in real spending and auto spending, though again, after years of double-digit percentage year-over-year increases. Hotel/motel activity continues to take a beating as a result of oil & gas industry contraction and the general slowdown in the overall Midland-Odessa economy; real spending on lodging in Midland-Odessa was down by nearly 38% in the third quarter of 2016 compared to 2015.

October housing sales were down only slightly compared to October of a year ago; however, the October 2015 sales total was down by over 30% compared to October of the prior year. Prices declined in October with the monthly average sale price down by over 5% compared to the October 2015 monthly average.

Both the Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index will be subject to considerable data revisions in the coming months. Again, payroll employment data on the whole and for the oil & gas industry in particular will be revised, and the two indexes will be greatly affected. The regional oil & gas index is also revised on an ongoing basis in terms of Texas Permian Basin oil and gas production volumes. In the next few months, both of these tools will provide an increasingly clearer picture of the state of the regional oil & gas economy and the general economy of the combined Midland-Odessa metro area.