

InghamEcon, LLC

Karr Ingham

P.O. Box 7531
Amarillo, TX 79114

(806) 373-4814
karr@inghamecon.com

**The Midland Development Corporation
presents**

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index February 2017

The Midland-Odessa Regional Economic Index increased for the third time in four months in February, improving to 191.4 for the month up from 190.6 in January (revised slightly upward from the original 190.5) but still down 7.4% from the February 2016 MOREI of 206.7. The recovery as measured by the index is now four months in the making, even though the January index fell slightly compared to December. The index should continue to climb in the coming months and the rate of year-over-year decline will narrow with each passing month. The Midland-Odessa Regional Economic Index is on pace to surpass its year-ago level and return to positive year-over-year territory in the July-August 2017 time frame.

The Texas Permian Basin Petroleum Index actually achieved that milestone in February, posting its first year-over-year increase since February 2015 when the index was rapidly on the decline. The TPBPI increased to 229.6 for the month up from 223.4 in January, and up 2.4% from the February 2016 index of 224.3. Monthly average posted crude oil prices topped \$50/bbl in February for the first time since June 2015 and the rig count surpassed 250 for the first time since March 2015. The number of drilling permits issued across the region continues to climb sharply, up by 85% through February compared to the first two months of a year ago. Estimated direct oil & gas employment in Midland-Odessa posted a year-over-year increase in February for the first time in two years (February 2015).

The negatives continue to fall off the table of economic indicators with each passing month, though general spending and employment remain below year-ago levels. The gaps are predictably narrowing, but inflation-adjusted spending per sales tax receipts is still down by over 11% for the month and 8% through February compared to the first two months of 2016. Estimated total payroll employment in Midland-Odessa is now down by only about 1% year-over-year as the employment situation continues to improve along with general economic conditions across the combined metro area. The Midland-Odessa unemployment rate was below its year-ago level for the first time in two years (February 2015).

Auto sales activity has posted double-digit percentage increases in the first two months of 2017, including a 14% year-over-year increase in February. Real auto spending is up by about 18% early in the year compared to the January-February 2016 total, which in turn was down by close to 30% compared to the first two months of the prior year.

Midland-Odessa construction activity posted a year-over-year gain in February for the first time in a year (and only the second time since March 2015) with real permit valuations up by 15% in February, pulling the year-to-date total into positive territory early in 2017. After two years of deep declines new single-family housing construction is up sharply through the first two months of the year with the number of new permits up by 75% in February and close to 70% for the year-to-date.

To the extent the residential real estate market in Midland-Odessa endured declines over the course of the contraction a recovery is in the offing in that sector as well with the number of closed home sales up by 17% in February (year-over-year) and over 4% for the year-to-date. The number of sales did decline over the last two years but not terribly deeply and certainly not catastrophically, and again, the numbers are now on the rise. Prices fell by even less (off of some very high levels), falling by only about 3.5% in 2015 and remaining flat compared to that level in 2016. Early on in 2017 the average home sale price is increasing once again, up by 2.1% in February and 4.7% for the first two months of the year.

The recovery in the Midland-Odessa combined metro area general economy is gaining momentum with each passing month. As always, the pace of recovery and expansion in the regional oil & gas economy will dictate the pace of recovery and growth in the general economy simply because it comprises such a large direct share of total economic activity. Absent a significant increase in crude oil prices the sharp recovery in oil & gas activity may slow a bit in the coming months, though it should continue to expand at a rate sufficient to bring about continued general economic growth in 2017.