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**The Midland Development Corporation  
presents**

## **The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index May 2017**

**The Midland-Odessa Regional Economic Index posted another big gain in May increasing to 196.4 for the month up from 194.6 in April, and down by only 1.3% from the May 2016 MOREI of 199.0.** The 1.9-point gain from April to May is the largest monthly increase since December 2014 just in advance of the index peak and the ensuing deep contraction.

On the May table of economic indicators, only the May monthly building permit total, hotel/motel spending for the year-to-date, and average monthly employment through May remain in negative year-over-year territory; all other economic indicators reflect solid improvement compared to year-ago levels. Those negatives will be erased in employment and hotel/motel activity in short order; building permit activity is a bit more volatile, and in fact tends to be higher much later in a given cycle of expansion.

The Texas Permian Basin Petroleum Index logged its eighth straight monthly increase in May improving to 246.7 up from a revised (upward) 241.0 in April, and up 15.6 from the May 2016 regional petroleum activity index of 213.5. Sharp year-over-year gains in natural gas wellhead prices (and the corresponding increase in the value of regional gas production), the regional rig count, and the number of drilling permits issued continue to drive index growth through May, along with the regional upstream oil & gas stock index and industry employment growth.

Total real spending per Midland and Odessa sales tax receipts has been a tad volatile in the recovery thus far (the Midland numbers in particular), and the double-digit percentage year-over-year growth was temporarily interrupted in May as a result. General inflation-adjusted spending per May sales tax data was up by 5.7% (compared to 11% and 15% in March and April, respectively) over the May 2017 total, keeping the year-to-date gain in check, up by only about 2% through the first five months of the year. Spending will soon gain its footing, however, and general spending growth in the coming months will likely start to put up some big numbers as the sector recovers from the deep declines of the past two years.

After faltering a bit in April, auto sales activity spiked upward in May with inflation-adjusted spending on new and used motor vehicles up by nearly 38% compared to May 2016 auto sales. That pulled the year-to-date total to over 18% higher through May compared to the first five months of 2016, which in turn was down by 20% compared to the January-May total from the prior year.

The uptick in regional economic and business activity is turning up in the airport data with a 14% year-over-year improvement in passenger boardings at Midland International Airport.

Construction activity per building permit data was down for the second straight month in May with the inflation-adjusted valuation of those projects down by about 15% compared to May of a year ago, which in turn was down by 40% compared to May of the previous year. The total for the year-to-date remains positive but by a narrowing margin, up by about 5% compared to the first five months of 2016. Again, however, total permit valuations, the commercial and multi-family projects in particular, tend to lag the cycle and are usually higher much deeper into a long cycle of general economic expansion. It makes sense, then, that those numbers were at record levels in 2013 and 2014, and have yet to return to strong growth early on in the current recovery.

Single-family housing construction is the opposite, however, and is generally considered a “leading” (as opposed to “lagging”) cyclical indicator, and in fact is a component in the US national Index of Leading Economic Indicators. Indeed, housing construction numbers are sharply higher thus far in 2017 with the number of new permits issued by the cities of Midland and Odessa up by over 40% in May (year-over-year), and 60% for the year-to-date. And in fact the 594 permits issued through May 2017 is a record total for the first five months of the year, a remarkable turn of events on the heels of the deep general economic contraction of 2015-2016.

The residential real estate market is equally impressive with record number of sales at record prices through May. The nearly 1,600 closed sales in the first five months of the year is a record by far for that time period, and the May monthly sales total is the second-highest on record for the month of May behind only the 354 sales recorded in May 2005. The average price of those sales continues to climb with the May monthly average up by over 10% compared to May of a year ago, and the average January-May average up by over 8% compared to the first five months of 2016 (and these are record numbers by far).

Not surprisingly, then, the total real (inflation-adjusted) dollar volume of home sales activity is deep into record territory for the month of May and the year-to-date through May, up by 29% for the month and a whopping 41% for the year-to-date.

The general metro area economy will continue to expand in the coming months simply on the momentum of the current recovery and the vast improvement in the regional oil & gas economy compared to the events of the last two years. But again, crude oil prices in May were only slightly higher in terms of year-over-year growth, and have now fallen back from those levels. The basin rig count has continued to climb but the growth rate has slowed and will very likely flatten absent additional upside support for crude oil prices.