InghamEcon, LLC

Karr Ingham

P.O. Box 7531 (806) 373-4814
Amarillo, TX 79114 karr@inghamecon.com

The Midland Development Corporation
presents

The Midland-Odessa Regional Economic Index

and the

Texas Permian Basin Petroleum Index

April 2018

The Midland-Odessa Regional Economic Index surged upward to a new all-time record in April, posting its largest single monthly increase of five full points to 237.8 for the month up from 232.8 in March, and up 21.3% from the April 2017 MOREI of 196.1. The previous index record was 234.7 achieved in January 2015 in advance of a 19% contraction during which the index plunged to 190.1. Since that trough in October 2016 the Midland-Odessa Regional Economic Index has expanded by 25.1%. The April increase extends the current expansion to 18 months, completes the recovery phase and moves the combined Midland-Odessa general economy to a new round of real growth and expansion.

With the exception of payroll employment, all components of the Midland-Odessa Regional Economic Index are at record levels through April, including the combined metro area unemployment rate of 2.4% for the month of April. Jobs are being added in large chunks and employment through April is down by only about 2,100 jobs compared to peak employment at year-end 2014. Total Midland-Odessa employment will very likely move into new record territory with the release of the June employment estimates.

The Texas Permian Basin Petroleum Index popped another 7-point (plus) increase in April, rising to 310.8 for the month, up from a revised 303.4 in March, and up by 28% compared to the April 2017 TPBPI. The index was revised upward due to an upward revision in Midland-Odessa oil & gas industry employment estimates based on newly released industry employment data from the Texas Workforce Commission. Continued upward revisions to Texas Permian crude oil and natural gas production also helped push the index higher in prior months.

Oil and gas industry employment in Midland-Odessa is estimated by taking the total monthly estimate for the “Mining, Logging, and Construction” employment sector and carving out the total that is mining only, which in the Permian Basin means oil and gas employment. A Texas Workforce Commission data set called the Quarterly Census of Employment and Wages tells us how many payroll mining jobs exist each quarter, and that number is used to estimate the share of “mining, logging, and construction jobs” that are oil and gas-related. That quarterly data was just updated through the fourth quarter 2017, which means we have updated information with which to estimate monthly oil and gas employment in the combined metro area. The updated data suggests oil and gas employment is comprising an ever-larger share of that total, meaning oil and gas employment was revised upward for much of 2017 and thus far in 2018.

Estimated payroll oil and gas jobs in the Midland-Odessa metro area totaled about 39,640 in April, an increase of nearly 34% compared to April 2017. That means about 14,100 jobs have been added to metro area oil and gas employment since the cyclical low point in 2016, an increase of about 55% since that time. In Odessa alone, of the over 7,000 total jobs added thus far in the current expansion nearly 4,200 of those are direct oil and gas jobs.

The Texas Permian Basin rig count continues to climb at 358 on average for the month of April (RRC districts 7C, 8, and 8A) and 374 this past week. Baker Hughes pegs the basin-wide rig count at an average 449 in April, the highest since January 2015. The number of drilling permits issued through April is the highest since 2013 and is up by about 19% compared to the first four months of a year ago. Crude oil well completions, a lagging indicator, are climbing rapidly and are outpacing year-ago levels by over 60%.

Adding rigs, permits, completions, and employees means production growth at a faster clip and that is exactly what is occurring. Estimated 7C/8/8A crude oil production was up by over 22% in April compared to April 2017, and is up by nearly 20% for the year-to-date. And, of course, these numbers may well be revised yet further upward in the coming months. US Energy Information Agency estimates suggest Permian-wide (including New Mexico) crude oil production surpassed 3 million barrels per day in March and expanded to 3.14 million bpd in April. Estimated daily production in Texas RRC districts 7C, 8, and 8A stands at about 2.24 million bpd in April.

The West Texas Intermediate posted price reached $62.80 on average in April, the highest monthly average since November 2014. However, that is not what crude oil is currently fetching in the Permian due to the ever-widening discount - $15/bbl or more – between posted WTI and localized prices currently paid to Permian producers. There is a glut, pure and simple, because more crude oil is presently being produced in the Permian than can be moved out of the Permian to the marketplace. Think of it as a localized oversupply, and oversupply always pushes prices downward. It does so in order to send the signal to producers to scale back on production, and while that may ultimately happen, production clearly continues to climb at a rapid pace. The likely outcome of that production growth is likely to be yet lower prices (a wider discount) until falling local prices begin to slow production or takeaway capacity is added – however, that is no quick fix and at the earliest it will be well into 2019 before the problem can be alleviated to any significant degree.

The rate of general economic expansion is simply beyond extraordinary at this point with real spending up by over 40% year-over-year, auto spending up by 66% in April and 50% for the year-to-date, and hotel/motel activity well more than double the totals from a year ago. Passenger boardings at Midland International are up by 16% thus far in 2018 and were up by 19% year-over-year in April. Total real building permit valuations are up by over 60% through April and the number of new single-family residence construction permits topped both 500 and 600 for the first time ever through the first four months of the year.

Monthly and year-to-date records were set for existing home sales and prices, and the total dollar volume of residential real estate activity outpaced the total through April 2017 (the previous record) by nearly 14%.

The Midland-Odessa combined metro area economy has experienced periods of extraordinary expansion in the past. It is safe to say, however, that the current cycle of growth and expansion is utterly unrivaled by any of those. And it is certainly unrivaled by any other metro area in the US.