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**The Midland Development Corporation
presents**

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index August 2018

The Midland-Odessa economic expansion is barreling toward the two-year mark through August, extending to 22 months per the latest increase in the Midland-Odessa Regional Economic Index. The index improved to 250.7 for the month up from a revised 247.8 in July, and up 19.6% from the August 2017 MOREI of 209.6. Other than the average home sale price and payroll employment, every single index component on the table of economic indicators is improved by double-digit percentage points for the month of August and the year-to-date compared to year-ago levels.

The Texas Permian Basin Petroleum Index was revised and updated a bit and was rolled out as a product of the Texas Alliance of Energy Producers in October. The Alliance is a statewide upstream (exploration and production) oil and gas association with about 2,500 members including operators and producers, service companies, and affiliated businesses. The Texas Permian Basin Petroleum Index expanded to 333.9 in August up from a revised 330.6 in July, and up by 25% from the August 2017 TPBPI of 266.9.

Crude oil prices retreated a bit in August to a posted price (West Texas Intermediate) of \$64.28 compared to \$67.40 in July, though prices are still over 40% higher compared to year-ago levels. However, Permian producers are not receiving the full posted price due to the well-known takeaway capacity constraints with prices discounted by over \$15/bbl in some cases.

The rig count, having declined in July compared to June – at least conceivably in response to localized lower prices for crude oil and natural gas – increased again in August to 383 on average for RRC districts 7C, 8, and 8A, a 20% rise over the August 2017 regional rig count. The number of drilling permits issued in the Texas Permian was down in August compared to year-ago levels at 603 for the month down by over 12% compared to the August 2017 total.

Direct oil and gas employment in Midland-Odessa continues to climb having surpassed 40,000 in June, at an estimated 40,850 in August, an increase of some 23% compared to August of a year ago.

And of course production itself remains on the rise, seemingly unfazed by pinched takeaway capacity and the resulting lower prices in the Permian. An 80% decline in crude oil prices and the resulting 75% decline in the rig count did nothing to slow production growth in the Permian during the downturn, and it's certainly not going to happen now. That fact alone has implications that may not yet be fully understood, and it makes plausible the forecasts that call for Permian production to exceed 5 million barrels per day by 2023. As of October Permian-wide crude oil production stands at about 3.5 million

bpd according to the US Energy Information Administration, and production in RRC districts 7C, 8, and 8A is an estimated 2.5 million according to our estimates. These may be revised upward in the future simply because New Mexico production is insufficient to make up that million barrels per day difference in EIA-estimated Permian production and our estimates of Texas Permian production.

General real (inflation-adjusted) spending per Midland-Odessa sales tax receipts was up by about 29% in August compared to August of a year ago; that is actually the lowest rate of year-over-year spending growth since June 2017, falling below 30% for the first time since then. For the year-to-date general spending by households and businesses in the combined metro area is up by nearly 40% compared to the first eight months of a year ago.

Auto sales growth slowed markedly in August with inflation-adjusted spending on new and used motor vehicles up by about 11% compared to August 2017, the lowest rate of monthly year-over-year growth since April 2017. Real auto spending for the year-to-date remains some 36% higher compared to the January-August 2017 total.

After two straight months of decline construction rebounded in August with the valuation of all building permits issued up by 78% for the month compared to August of a year ago. The August monthly total is the highest since 2014 – permit totals were huge in the years 2012-2014, the August monthly numbers in particular. The total for the year-to-date is up by a solid 35% but has not yet returned to the record totals achieved in 2013. Housing construction continues to set records, however. The 160 new single-family residence construction permits issued in August is the highest ever for the month of August, and the total for the year-to-date is also a record for the first eight months of the year.

Existing home sales activity continues to shatter all previous records as well with the number of closed home sales surpassing 3,000 through the month of August for the first time ever. August monthly home sales also set a new record, not just for the month of August but for any month at 441 closed sales. The average price of those sales was a modest (at least for Midland-Odessa) 4.5% higher compared to the August 2017 monthly average, but the average for the year-to-date remains over 8% higher compared to the average through August of a year ago.

Employment in the combined Midland-Odessa metro area expanded by an estimated 6.2% in August compared to August of a year ago. The overall rate of growth is constrained by rates of growth in Odessa, however, which have been slowing in recent months and fell to 2.3% in August compared to 9.2% in Midland. The Odessa numbers do not quite make sense; rates of growth in other Odessa economic indicators remain robust and there is little reason to think employment growth would be putting on the brakes at this point. This means these numbers may be revised upward at some future point, but no major revisions will occur until March 2019.

The Midland-Odessa unemployment rate remains sharply on the decline at an eye-popping 2.5% in August, down from 2.4% in August of a year ago.