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**The Midland Development Corporation
presents
The Midland-Odessa Regional Economic Index
and the
Texas Permian Basin Petroleum Index
December/4th Quarter 2018**

The Midland-Odessa general economy finished the year in strong fashion with the Midland-Odessa Regional Economic Index improving to 260.1 in December up from 257.8 in November, and up 16.9% from the December 2017 MOREI of 222.4. That nearly 17% rate of year-over-year growth is down from a high of 21.6% in May of this year; the growth rate slowed a bit further in the fourth quarter with an 11.1% annualized increase over the last three months of 2018. That likely has more to do with the fact that 20%-plus rates of overall growth are probably not sustainable over an indefinite period of time than it does with the unexpected decline in the regional oil and gas economy in the last two months of the year.

That decline did occur, however, and were it to continue then yes, it would ultimately result in a declining general economy but again, that may not turn out to be the case.

The Texas Permian Basin Petroleum Index, a product of the Texas Alliance of Energy Producers, declined for the second straight month in December to 343.8 down from 346.7 in November and its cyclical peak of 349.4 in October. Not once in its history has even a one-month decline in the TPBPI not signaled the onset of a sustained period of industry contraction, thereby leading to general economic contraction in the Midland-Odessa combined metro area and the region as a whole. Again, however, this may be the first.

As was noted in the previous report, posted West Texas Intermediate crude oil prices averaged \$67.19 in October before falling to \$53.33 in November, and \$45.31 in December. The January 2019 monthly average improved slightly to nearly \$48/bbl. Daily posted prices peaked at \$71.75 in October 1 and declined by \$10/bbl by month-end. Prices dipped below \$40/bbl on December 24 at \$39.25, but then began to recover, exceeding \$51/bbl in early February.

The regional rig count (Texas RRC districts 7C, 8, and 8A) declined yet again in December to 382, down from 387 in November and 390 in October. The 475 drilling permits issued in December was the lowest of the year – in fact the lowest monthly total since September 2016. These declines, along with the decline in price itself and the resulting fall in the value of regional petroleum production combined to knock the regional oil and gas index off its growth track.

The table of economic indicators remains very impressive through year-end 2018, with but two year-over-year negatives on the chart – December monthly airport enplanements and December monthly existing home sales. The December 2018 monthly enplanements total was down only compared to a very high number from December 2017 (which was up by over 33% compared to December of the

previous year), and the monthly home sales total was due to what looks like an abnormally low Midland December sales total, which could be revised upward in the future.

Otherwise, virtually every component of the Midland-Odesa Regional Economic Index finished the year at double-digit percentage rates of growth compared to year-ago levels. General spending and auto spending were up by over 30% year-over-year, and hotel motel activity posted a whopping 87% improvement in 2018. Building permit valuations and new single-family residence building permits were also up by well over 30%, and home sales – and the total dollar volume of those sales – were up by over 10% in 2018. Employment growth averaged over 6.5% in 2018, and again, these numbers are almost certainly understated thanks to the Odessa numbers which are not correct, and due for a significant upward revision in early March. The unemployment rate remains on the decline, finishing the year at 2.3% in December (the combined unemployment rate for Midland-Odesa), and averaging a scant 3.0% for the year.

The spending numbers soared to new records in 2018, at the same time outpacing the 2017 annual total by 35% (which in turn was up by 20% compared to the down year of 2016). General real spending set a new quarterly record in the fourth quarter 2018, and was up by 27% year-over-year, while the December monthly total was up by over 30% compared to December 2017. Real auto spending also set new records in 2018 with the annual total up by 32% compared to 2017, which in turn was up by 28% compared to the prior year. Auto sales activity also logged a new quarterly record (for any quarter, not just the fourth quarter) in the final quarter of 2018, at the same time exceeding the fourth quarter 2017 total by over 28%, which in turn was up by some 40% year-over-year.

After two down years in 2015 and 2016, hotel/motel occupancy revenue began to recover in 2017, and then in 2018 positively shattered its previous record from 2014. The taxes in January, April, July, and October, reflecting occupancy from the previous quarter, are converted to the lodging dollars that generated that tax and adjusted for inflation. The occupancy reflected by the total of those numbers for the year 2018 was an incredible 87% higher compared to the 2017 annual total and posted a 62% increase based on the October quarterly collections.

Passenger boardings at Midland International airport were actually lower in December compared to the previous year; however, the December 2017 total was extraordinarily high, even in a time of rapid growth, posting a 33% increase compared to December of the previous year. Even at that, however, the December 2018 numbers were still a bit lower than the monthly trends in 2018 prior to that, which could have been simply an anomaly, or a response to what will hopefully be a temporary contraction in regional oil and gas activity at year-end 2018.

Construction activity continued its rapid recovery in 2018 with the inflation-adjusted valuation of all building permits issued up by 38% compared to the 2017 annual total. The 2018 total was the third-highest on record behind only the incredible numbers from 2013 and 2014. The same is true of fourth quarter permit valuations, which were up by over 40% compared to the fourth quarter 2017. The December monthly total was sharply higher, mostly the result of a low permit total in December 2017, which was the lowest December total since 2010.

New housing construction set new records across the board in 2018, and it wasn't even close. The 1,722 new single-family residence building permits exceeded the previous annual record (2017) by some 34%, nearly 450 permits. A record (for the fourth quarter) 322 permits were issued in the final quarter of the year, an increase of 33% year-over-year, and the December monthly total was nearly double the permit total from December 2017.

Home sales were down just slightly in December compared to year-ago levels, but the fourth quarter and annual 2018 sales totals set new records, outpacing the previous records established in 2017. Over 1,100 homes were sold in the fourth quarter, an increase of 8% compared to the fourth quarter 2017, which in turn posted a 33% increase over the prior year. The 2018 annual total exceeded 4,500 for the first time on record, an increase of over 10% compared to the 4,100 homes sold in 2017. The average price of those sales was up by 9% for the year 2018, including a 10% fourth quarter year-over-year increase. Median prices are significantly higher as well, signaling sharp increases in the value of residential housing in Midland-Odessa.

The total dollar volume of residential real estate activity in the combined Midland-Odessa metro area set new records yet again in 2018 with the inflation-adjusted sales total up by 17% for the year compared to 2017, which in turn was up by 35% compared to the previous year. Fourth quarter real housing sales were up by nearly 16% year-over-year, and again those numbers were high in 2017 with the fourth quarter total up by over 36% compared to the prior year.

The published employment data suggests employment growth at year-end 2018 of about 4.3%. That would be respectable enough, and certainly on the high side of all metro areas in Texas. Again, however, the Odessa monthly estimates are surely not correct, and the expectation is that they will be revised significantly upward in early March as a part of the annual revision process. Estimated monthly employment growth in Odessa at year-end 2018 fell below 1.5%, averaging about 1.2% in the fourth quarter. Conversely, Midland employment continued to expand at a 7% year-over-year rate through the end of the year. The numbers are simply not meaningful at present, and we eagerly await the revised data.

The unemployment data is likely more reflective of the current situation, reaching extraordinary and record lows in 2018, and finishing the year at 2.3% for the combined Midland-Odessa metro area. The average for the entire year fell to an incredible 2.5%, the first time the metro area annual average has been below 3%.

The current cycle of expansion in the Midland-Odessa economy as represented by the Midland-Odessa Economic Index is 26 months in the making and counting, over which time the index has increased by nearly 37%. The MOREI exceeded its prior record high (from January 2015) in April 2018. The coming few months will be telling, principally because the regional oil and gas economy is at something of an inflection point with the regional oil and gas index declining in the last two months of the year. But crude oil prices have recovered a fair portion of what was lost in November and December, which should stabilize activity levels in the Permian and continue to stimulate general economic growth in the metro area.