

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 2018

Between the sharp, index-raising upward revisions in Midland-Odessa employment and the hefty monthly increases the Midland-Odessa Regional Economic Index has barreled toward its all-time high, now down by only 5.2 points (2.2%) compared to its record level of 234.7 achieved in January 2015. The index is now easily on target to reach and surpass that level in the next two months, which would put the index into new record territory and begin a new round of real growth as of the April 2018 index.

The Midland-Odessa Regional Economic Index improved to 229.5 in February up 3.6 points from the January index of 225.9, and up 19.6% from the February 2017 MOREI of 192.0. Year-over-year growth in the index components remains spectacular with at least double-digit percentage improvement in all indicators other than employment, which is up by over 8% compared to year-ago levels.

The Texas Permian Basin Petroleum Index remains on the rise as well increasing to 296.8 for the month up from 291.6 in January and posting a 29% increase compared to the February 2017 TPBPI. And again, the regional oil & gas index remains down considerably compared to its all-time peak of 382.2 reached in November 2014. It will be a while before the index reaches that level simply because, again, most of the components used in its calculation remain down compared to the levels achieved in late-2014 in advance of the downturn. There is one exception to that trend, soon to be two. Crude oil production never actually declined over the course of the downturn and is now breaking all-time records. And Midland-Odessa direct oil & gas employment, which did decline during the contraction, is rapidly increasing and has very nearly reached the pre-downturn high point and should do so in the coming month or two.

Other than that, however, the rig count, drilling permits, well completions, and prices remain well below their 2014 peak levels. That is not to suggest the industry is in the midst of a slow recovery as it tries to crawl its way back to the salad days of the previous expansion; it does suggest that efficiencies have improved so greatly that those levels of activity are not presently needed to produce more petroleum in the Permian Basin than has ever been produced before.

Or to push the Midland-Odessa combined metro area economy to new aggregate record levels, which is soon to occur. The increases remain staggering with general spending year-over-year increases of over 35%. Real (inflation-adjusted) spending per February monthly sales tax receipts and for the first two months of the year are the highest ever for those time periods; the moving 12-month average – akin to

an annual total each month – is not quite at a record level but will be either next month or the month after that.

The very same is true of real auto spending in Midland-Odessa – record numbers for February and for the first two months of the year (posting year-over-year increases of 75% and 61%, respectively), and the longer-term average on schedule to surpass its all-time high within the next month or two.

Midland and Odessa continue to occupy the top spots among Texas metro areas in terms of the rate of employment growth (and will for some time to come) at 9.1% and 7.9%, respectively, for the month of February. Total combined metro employment is up by 8.4% in February compared to February of a year ago. Still, employment remains down by about 6,400 jobs compared to its December 2014 peak level, and that record may not be breached in 2018. The combined Midland-Odessa unemployment rate is at or near its all-time low at 2.8% in February compared to 4.6% in February 2017.

Home sales are at record levels by any measure and for every time frame. February preliminary home sales were up by over 20% and set a new February record along with the January-February total at 567, a 12% increase over the first two months of a year ago. The average price of those sales is up significantly as well, up by nearly 13% for the month and over 9% for the year-to-date. The real total dollar volume of home sales activity is up by a sharp 32% in February compared to February 2017, while the total for the first two months of the year is up by 19% -- again record levels all the way around.

The construction numbers set new records in early 2018 with the inflation-adjusted building permit valuation totals well more than double year-ago levels for February and the first two months of the year. New single-family housing construction is soaring with the number of new permits issued in the two cities up by 50% in early 2018, again reflecting record activity for new housing construction activity in Midland-Odessa.

The recovery from the downturn is swift and magnificent. And the “recovery” phase is nearing its end – that will be accomplished when the Midland-Odessa Regional Economic Index reaches and exceeds its prior peak and moves into previously uncharted record territory.