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**The Midland Development Corporation
presents**

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

The Texas Workforce Commission released revised employment estimates in March for 2016 and 2017. This annual event reconciles the original monthly estimates with more accurate quarterly and annual payroll employment records, and sets the benchmarks for the monthly estimates moving forward in the year ahead.

The revisions were nothing short of stunning. The expectation was for sharp upward revisions in both Midland and Odessa monthly employment estimates in 2017, and the results were even more dramatic than may have been anticipated, especially in Midland.

In Midland, employment per the original estimates finished the year 2017 at 90,200, an increase of 3.1% compared to the December 2017 estimate. Employment averaged about 88,500 for the year, up by 1.3% compared to the 2016 annual average. Per the revised employment data the year-end 2017 original estimate was revised upward by an astonishing 7,600 jobs, and the average monthly estimate was revised upward by some 4,900 jobs. The newly released revised estimates set the year-end (December) payroll employment estimate at 97,800, an increase of a whopping 10.5% over the revised December 2016 estimate. The revised data also reflect an average monthly employment level of about 93,400, an increase of 7.0% compared to the revised 2016 monthly average.

In Odessa, the December/year-end 2017 monthly employment estimate was revised upward by 4,400 jobs according to the latest revisions, and the annual average for 2017 was revised upward by about 3,100 jobs. The original monthly estimates reflected a monthly average of about 70,100 for the year 2017, which was up by only 0.7% compared to the 2016 monthly average. The revised estimates raised the 2017 average to 73,200, an increase of 4.6% compared to the revised 2016 monthly average. At year-end, the December 2017 monthly estimate was revised upward to 74,600 compared to the original December estimate of 71,200 up by 1.6% year-over-year, was revised upward to 75,600, an increase of 7.6% compared to the December 2016 revised monthly estimate.

The combined Midland-Odessa employment total, then, was revised upward by an incredible 12,000 jobs, from the original December 2017 estimate of 161,400 to the revised estimate of 173,400. The year-over-year growth rate (at year-end) was raised from the original 2.4% to 9.0% per the revised data. The 2017 average monthly employment level increased from 158,600 per the original data to 166,600 according to the revised data, an increase of 5.9% compared to the 2016 annual average as opposed to the original 1.0%.

The Midland-Odessa Regional Economic Index was updated to reflect the revised employment data, and not surprisingly the index values in 2017 increased significantly as a result. The original MOREI for December 2017 was 215.5, a 12.9% year-over-year increase, and the index at year-end per the revised employment data was raised to 222.4, an increase of an astonishing 16.3% compared to the revised December 2016 MOREI.

Thanks to the upward revisions Midland and Odessa once again occupy the top two spots in terms of year-over-year employment growth among the 26 metro areas in Texas. The January 2018 employment estimates under the new benchmarks continue to reflect extraordinary employment growth at 8.9% for the combined Midland-Odessa metro area – 10.3% for Midland, and 7.2% for Odessa.

Due to the methodology of estimating monthly oil & gas employment data in Midland and Odessa, those monthly estimates are to some degree revised on an ongoing basis; however, the data was still revised upward by about 1,660 jobs at year-end 2017, raising the original growth rate of 20.3% to 25.0% under the revised numbers.

The growth continues moving into 2018 with the Midland-Odessa Regional Economic Index improving to 225.9 for the month up from the revised December 2017 MOREI of 222.4, and up 18.3% from the January 2017 index of 190.9. Under the new data benchmarks the Midland-Odessa Regional Economic Index troughed at 190.1 in October 2016 and has now expanded by some 18.8% over the last 15 months. The data revisions helped to close the gap considerably between the current monthly index and its all-time high – the January 2018 MOREI is now down by only 3.8% compared to the index record of 234.7 in January 2015. It now seems likely the Midland-Odessa Regional Economic Index will reach and surpass that peak sometime in the first half of 2018.

The Texas Permian Basin Petroleum Index increased sharply in January fueled by a sizable monthly increase in crude oil prices, rising to 290.2 for the month up from the revised 283.2 in December, and up nearly 30% from the January 2017 TPBPI of 223.8. The regional oil & gas index remains some 24% (about 92 points) below its all-time peak of 382.2 in November 2014.

Posted crude oil prices (the field producer price benchmark, typically some \$3-4 lower than futures prices) averaged over \$60/bbl in January for the first time since November 2016, up from \$54.57 in December and up 22% compared to January 2017. After languishing a bit in September and October the rig count increased for the third straight month in January to 329 (the monthly average for RRC districts 7C, 8, and 8A). The 656 drilling permits issued in that same region is the highest January monthly total since 2014 and is up by about 35% compared to January of a year ago.

Crude oil production continues to climb rapidly with 7C/8/8A production is approaching 63 million barrels for the month of January, a record total and a nearly 18% increase compared to January of a year ago.

The general economic indicators for the combined Midland-Odessa metro area continue to exhibit rapid growth as well. General taxable spending per January 2018 sales tax receipts in the two cities set a January record, outpacing the previous high mark in January 2015, and surpassing the January 2017 real spending total by nearly 34%. January real (inflation-adjusted) auto sales activity also set a January record besting the prior record from January 2014 and was up by a sharp 48% year-over-year. Hotel/motel activity in the fourth quarter 2017 (collected in the January 2018) did not quite match its prior record (from 2015) but is rapidly closing that gap with an 82% increase compared to year-ago levels.

The January combined real building permit total was also a record for the month of January and was some 150% higher compared to the January 2017 total. The 150 permits issued by the two cities to build a new single-family residence marks a January record as well, and in fact only on four prior occasions has the total for any month of the year surpassed 150.

Home sales in 2017 were also revised upward somewhat; the number of closed sales for the year per the original data was 4,059 but that figure was revised upward to 4,092 (monthly sales data is generally subject to some modest revision as additional data is reported), a hefty increase of 29% compared to the 2016 sales total. The number of sales in January 2018 totaled 249 compared to 242 in January 2017; and once again, the January total of 249 represents a January monthly record. The average price of those sales was 5.1% higher than the January 2017 monthly average, which in turn was up by 8.8% compared to January of the previous year.

The total real dollar volume of housing sales activity is deep into record territory at this point, after posting an annual record (and 35% year-over-year increase) in 2017 and beginning the year up by 5.2% in January compared to January of a year ago.

The Midland-Odessa economy is on pace to complete the recovery from the downturn of 2015-16 and begin a new chapter in real economic growth sometime in the first half of 2018, perhaps even as early as the second quarter of the year. The elements for continued strong economic expansion in 2018 are in place with improved crude oil prices, upside support for crude pricing from global demand growth and the extension of the OPEC/non-OPEC production limitation agreement through the end of the year, and continued expansion in the Permian Basin regional oil & gas economy. The only potential landmine – record Permian, Texas, and US crude oil production. However, when prices began to decline in 2014 the production limitation agreement was of course not yet in place, and demand growth was generally tepid or non-existent. Therefore, based on current knowledge there is every reason to believe the regional general economy will continue to grow throughout the year, and establish new records for the Midland-Odessa Regional Economic Index and every individual economic indicator along the way.