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**The Midland Development Corporation
presents**

The Midland-Odessa Regional Economic Index and the Texas Permian Basin Petroleum Index June/2nd Quarter 2018

The Midland-Odessa Regional Economic Index added another 3.6 points in June rising to 245.0 for the month up from 241.4 in May, and up 21.0% from the June 2017 MOREI of 202.4. All components of the index posted year-over-year increases in the second quarter, most impressively so, and remain higher midway through the year as well. In fact, only the monthly building permit valuation total was lower compared to its year-ago level, which was the second-highest June monthly total on record.

Second quarter growth in the Midland-Odessa general economy was certainly impressive with the Midland-Odessa Regional Economic Index expanding at a 20.8% annualized rate for the quarter. That is right in line with year-over-year growth rates in the index which have been in excess of 20% since February of this year.

Through the first six months of the year every single indicator for the index is at a record level, including the unemployment rate which is the lowest combined Midland-Odessa unemployment rate ever, both for the month of June and the average for the year-to-date through June.

General real (inflation-adjusted) taxable spending growth continues at a white-hot pace with over 40% growth in June, the second quarter, and the first six months of the year compared to year-ago levels. Incredibly, the January-June 2018 real spending total is nearly 50% higher (48.6%) compared to the total through June 2016, just two years ago, in the depths of the general economic contraction induced by an 80% decline in crude oil prices. The recovery in auto sales activity is even more stunning with inflation-adjusted spending on new and used motor vehicles up by 68% through the first six months of the year compared to the January-June 2016 total, again the low point in auto spending during the contraction.

Passenger enplanements at Midland International Airport are up by nearly 39,000 through June compared to the first six months of 2018, an increase of over 15%, and again, the January-June total is the highest on record.

Real building permit valuations posted through June are actually the second-highest on record, bested only by the total through the first six months of 2013. The June monthly total represents the only year-over-year negative on the table of economic indicators, down by over 55% compared to June of a year ago, which was the second-highest June total on record, again topped by the June 2013 monthly valuation. New housing construction shattered the previous records for the month of June, the second quarter, and the first half of the year. The 970 permits issued midway through 2018 represents a 33%

increase compared to last year, which in turn was the previous January-June record and was up by over 42% compared to the first six months of the previous year. The 2018 6-month total is higher than the annual total for each year up to and including 2011.

Existing home sales in Midland-Odessa through the first six months of the year surpassed 2,000 for the first time ever, outpacing the January-June 2017 sales total by some 9%. Existing home sales surpassed the 400 per month mark for the first time ever in May and June; quarterly home sales have exceeded 1,000 only a handful of times, and only relatively recently, occurring for the first time in the third quarter 2014 and then each of the last three quarters in 2017. The 1,214 closed sales recorded in the second quarter of 2018 is easily a record quarterly total and outpaced the second quarter 2017 by nearly 12%.

The monthly nominal (unadjusted for inflation) average home sale price exceeded \$300,000 in May and June, again for the first time ever. Rapid growth in average pricing continued midway through the year with monthly and quarterly averages up by close to 10% compared to year-ago levels, and the average through the first six months of the year up by 8.6%.

The real (inflation-adjusted) total dollar volume of residential real estate sales activity reflects a booming market – record sales at record prices – with 15% growth through the first six months of the year and second quarter growth of over 19% compared to 2017 levels, which in turn were sharply higher (over 30%) compared to the prior year.

Estimated payroll employment in Midland-Odessa totaled 178,200 in June, the highest June monthly total on record. The seasonally adjusted data continue to indicate total employment is down by about 900 jobs compared to the peak levels of 179,100 established in December 2014. That gap will close in the coming months and employment will be in record territory by every measure. The combined Midland-Odessa unemployment rate is already there – June 2018 marks the first time the June unemployment rate (not seasonally adjusted) has fallen below 3%. The unemployment rate average is also well below 3% for the second quarter and first half of the year.

The Permian Basin regional oil and gas economy remains the driver behind the sharp growth and record levels in the Midland-Odessa general economy. The Texas Permian Basin Petroleum Index improved for the 21st straight month in June, rising to 322.5 for the month up from 317.4 in May, and up 27.0% from the June 2017 TPBPI of 254.0. Again, however, the index remains well below its peak level of 382.4 established in November 2014.

A small crack began to appear in the armor in June, however, with the regional rig count (and RRC District 8 in particular) peaking and beginning to decline slightly, a trend that continued in July. That decline is almost certainly tied to growing production relative to takeaway capacity and the resulting discounts for Permian-produced crude oil and natural gas. Crude oil price discounts remain at \$15 or higher in some locations, and natural gas prices are off by as much as 1/3 (over a dollar) compared to other pricing locations. As the Permian Basin producing community awaits additional pipeline capacity the markets are signaling producers to reign in production growth in the meantime. There has been little evidence thus far that activity levels have been affected and production growth remains vigorous; however, lower prices were almost certain to bring about some observable decline in activity and it appears as though June is the time in which that becomes noticeable.

The performance of the Midland-Odessa metro area combined economy is truly in rarified air midway through 2018 – and that's saying something for an economy that has been the most interesting and cyclically active in the country, especially since around 2002 or so.

National and global supply and demand conditions continue to suggest relatively strong crude oil pricing, but the localized discounts represent something of an immediate threat to the extraordinary growth rates. At present, however, there is little reason to believe the takeaway capacity issues depressing oil and gas prices in the Permian will knock the general economy of the metro area off its growth track. And thankfully, help is on the way with projects underway to expand pipeline capacity dramatically in 2019.