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**The Midland Development Corporation
presents
The Midland-Odessa Regional Economic Index
and the
Texas Alliance of Energy Producers
Texas Permian Basin Petroleum Index
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The Texas Workforce Commission in March released revised employment estimates for Midland, Odessa, and other Texas metro areas as a part of the annual process in which previous monthly estimates are updated and reconciled to more complete year-end employer records. The revisions typically affect the previous two years, with the year just completed most heavily affected. Minor revisions may also be made in prior years as well. January 2019 employment estimates were released only in March along with the release of the revised data for prior time periods.

Monthly payroll employment estimates in both Midland and Odessa were revised dramatically upward for 2018 – less so for 2017, though the upward revisions for 2017 were quite significant as well.

For 2018, combined Midland-Odessa employment estimates were revised upward for every single month of the year, with the upward revisions beginning at 6,600 in January (the non-seasonally adjusted estimates), and then increasing throughout the year. By year-end 2018, the original monthly December employment estimate was revised upward by a whopping 14,800 jobs – an incredible upward revision of over 8% compared to the original monthly estimate for December. On average for the year, monthly employment estimates were revised upward by nearly 11,100 jobs.

Upward revisions in 2017 averaged only about 1,600; however, by year-end 2017 the original December monthly estimate was revised upward by 5,500 jobs. In the second half of 2017 the upward revisions averaged nearly 3,000 jobs, and the average revision in the fourth quarter was a positive 4,600, so it was clearly in the latter part of the year 2017 in which the bulk of the upward revisions occurred. And, of course, this marks the second annual revision for 2017, this same process having played out in March 2018.

The effect on the Midland-Odessa Regional Economic Index was utterly stunning. The original year-end (December) 2018 MOREI of 260.1, an increase of 16.9% compared to the original December 2017 index, was revised upward by 9.6 points to 269.7, an increase of 20.4% compared to the year-end 2017 MOREI, which was also revised upward.

The upward revisions in Odessa were fully expected; the original employment estimates for 2018 showed total employment growth in Odessa slowing throughout the year, falling to below 2% in the last four months of the year. That made little sense, and certainly did not square with growth rates in other non-estimated economic indicators in Odessa.

While some upward revision may have been expected in Midland, the magnitude of those revisions was surprising, though pleasantly so. The original monthly employment estimates in Midland, reflecting a 6.7% rate of growth at year-end 2018 were revised upward by 8,300 jobs, resulting in a 10.9% rate of growth at year-end. In March and April 2018, the revised employment estimates outpaced the same months in 2017 by over 16%.

Direct oil and gas employment in Midland-Odessa underwent the same annual revisions; however, the process for estimating those numbers throughout the year incorporates some revision on an ongoing basis by factoring in another data set that must be used to arrive at oil and gas employment only from the larger “natural resources and mining” employment category, which contains a number of jobs that are not oil and gas related.

Still, direct oil and gas employment was revised upward by nearly 2,200 jobs at year-end 2018, with upward revisions in other months of the year as well.

These revisions, along with continued upward revisions in regional (RRC district 7C, 8, and 8A) crude oil production pushed the Texas Alliance of Energy Producers Texas Permian Basin Petroleum Index higher as well, with the post-revision index at year-end 2018 of 346.8 adding 3.0 points to the original index of 343.8.

The revisions help to paint a clearer picture as to the nature of cyclical employment growth and decline in recent years, particularly in light of the downturn in 2015-16. According to the current estimates, total employment in Midland-Odessa peaked in December 2014 at 179,100 in advance of the loss, incredibly, of 23,800 jobs through July 2016. Since then, the combined metro area economy has added some 39,500 jobs through December 2018, an expansion of over 25% in that 29 months.

Employment actually declined a bit in January 2019, however, with the estimates in the seasonally adjusted data losing about 500 jobs from December to January. That trend continued in February as well; however, it is unlikely this two-month period of employment loss represents the end of economic and employment growth in Midland-Odessa in 2019.

The revised Midland-Odessa Regional Economic Index continued its expansion momentum through year-end 2018, with another 3.0-point increase from November to December. The rate of growth faltered a bit in January, though the index improved once again for the month. The January 2019 MOREI increased to 270.2, an increase of just half a point from the revised December 2018 index of 269.7. The slowdown may well be related to the decline in oil and gas activity in the fourth quarter of the year as reflected by declines in the Texas Permian Basin Petroleum Index in November and December. Or, it could just as easily be simply some random volatility in those numbers, which is to say that even in times of steady growth there may be at times the odd monthly decline in those estimates.

Crude oil prices continue to recover from that year-end 2018 anomaly, however, and the regional oil and gas indicators are beginning to respond with a turnaround – finally – in the weekly rig count in response to improving prices. Current market conditions certainly suggest continued oil and gas activity expansion in 2018, which in turn should bring general economic growth, though both may occur at a slower pace in 2019 than has been the case in the last two years.

General real (inflation-adjusted) spending per January sales tax receipts remains strong at some 25% improved over the January 2018 total, though the growth rates have slowed since then. Real auto spending expanded at a slower pace in January as well, with inflation-adjusted spending on new and

used motor vehicles up by about 6% in January compared to January 2018, which in turn was up by nearly 50% compared to the previous year.

Under the new employment data benchmarks, the rate of employment growth narrowed a bit in January as well, posting an 8.5% year-over-year growth rate, which is the smallest since June 2016.

Following two straight months of decline, the Texas Alliance of Energy Producers Texas Permian Basin Petroleum Index increased in January to 347.9 for the month up from the revised 346.8 in December, and up 17.2% from the January 2018 TPBPI of 296.8. Again, this marks the first time in the history of the analysis that even a one-month decline in the index did not signal the onset of a sustained contraction in the regional oil and gas economy.

That it did not, and that crude oil pricing has returned to levels that would indicate a year of continued general expansion in regional oil and gas activity suggests there is every reason to believe that growth and expansion will continue to be the case for the Midland-Odessa general economy as well.