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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
March/1st Quarter 2019

The Midland-Odessa Regional Economic Index increased to a record 270.3 in March, up from 270.1 in February (and 270.2 in January), and up 14.4% from the March 2018 MOREI of 236.4. While the rate of year-over-year growth remains stout at over 14% that's down from as high as 24.0% in May 2018. And the index has certainly flattened in recent months with an annualized growth rate of only 0.9% in the first quarter 2019.

The numbers on the March/1st quarter table of economic indicators remain solid, and certainly would be impressive for any other metro area in Texas. Spending and employment growth remain firmly in place, the very essence of economic expansion at the local level. New first quarter records were also set in auto spending, construction, and existing home sales. While activity levels remain high, setting records in most cases, the rate of year-over-year growth has slowed dramatically through the first quarter of the year in most components of the Midland-Odessa Regional Economic Index.

The cooling can be easily be attributed to the slowdown in regional oil and gas activity as reflected by the Texas Alliance of Energy Producers ***Texas Permian Basin Petroleum Index***. This monthly measure of regional oil and gas activity peaked in October and has generally been in a state of modest decline since then. The TPBPI dipped to 345.2 in March down from 348.3 in February (and the all-time index peak of 351.6 in October 2018), but still up 11.6% compared to the March 2018 index of 309.4. Crude oil prices continued to recover from the fourth quarter 2018 meltdown averaging \$54.56 in March (WTI posted) compared to \$45.31 in December 2018. The rig count has continued to decline, however, with some 34 rigs going by the wayside on average through March compared to the October high point of 390 (for RRC districts 7C, 8, and 8A). Permian (Waha Hub) natural gas pricing averaged well below \$1/MMBtu at a paltry 69 cents for the month. The number of drilling permits was slightly higher for the quarter but down by 12% in March compared to year-ago levels.

Oil and gas employment in Midland-Odessa was essentially flat from February to March and is down by some 1,900 jobs compared to the December 2014 peak employment level. Production growth remains robust through the end of the first quarter 2019, with crude oil production in the same three RRC districts up by over 26% through the first three months of the year, and natural gas production up by a whopping 29% year-over-year.

The Midland-Odessa general economy put the brakes on in the first quarter, at least in terms of the fantastic rates of growth observed over the last two years. General taxable spending, adjusted for inflation, per sales tax receipts in Midland and Odessa was up by 14% in the first three months of the

year compared to the first quarter 2019, which would be extraordinary for virtually any other metro area in Texas. However, spending increased at a 35% rate in 2018, including a 41% increase in the first quarter of a year ago, and it is these lofty totals to which the current numbers are compared. The March monthly total was up by over 8% compared to March of a year ago, which in turn was up by a whopping 54% compared to March of the previous year.

First quarter real auto spending was up by only about 2.2% compared to the total through March of a year ago; again, however, the first quarter 2018 auto sales total was up by 45% compared to the first three months of the prior year. And March monthly auto spending was up by over 11%, so clearly the growth pattern continues in that segment of the combined metro area economy.

The first quarter real (inflation-adjusted) building permit valuation is the highest quarterly total on record, not simply for the first quarter but for any quarter, breaking the record in the first quarter of 2018 by a narrow 1.2%. And yet again, the first quarter total from a year ago was up by over 70% compared to the first three months of the previous year. As is the case in a number of Midland-Odessa economic indicators, the actual levels are high, but the rate of year-over-year growth is slight, especially compared to recent history.

The number of new single-family housing construction permits issued posted year-over-year declines in each of the first three months of 2019, and the first quarter total was off by 32% compared to the record 497 permits issued January-March 2018. Still, it represents the third-highest first quarter on record and marks only the fifth time that the number of permits issued in the first quarter was in excess of 300, all in the past six years.

Existing home sales set a new first quarter record with a preliminary 957 closed sales in the first three months of the year, outpacing the previous record from a year ago with six additional sales (the numbers are subject to some minor revisions going forward). The average price of those sales, up by 7.0% in 2017 and 9.0% in 2018, continues to climb through the first quarter 2019 with the average sale price of those 957 sales up by 12% in the first quarter and 22% in March compared to year-ago levels.

Slightly higher numbers of sales at sharply higher average prices means record totals for the total dollar volume of housing sales. The first quarter inflation-adjusted total is up by 10% compared to year-ago levels, pushed upward by the 21% year-over-year increase in the March monthly average sale price.

The trajectory in the growth pattern of the Midland-Odessa combined metro area economy has clearly flattened in recent months but the cycle of expansion certainly remains in place through the first quarter 2019. The direction of the aggregate oil and gas economy in the region continues to exert swift and primary influence over the Midland-Odessa general economy as evidenced by the rapid response of the Midland-Odessa Regional Economic Index to the slowdown in Permian Basin oil and gas activity.

The flat to slightly declining Texas Permian Basin Petroleum Index does not necessarily signal the end of the cycle of growth and recovery in the regional oil and gas economy. The nature of oil and gas production is changing in that both crude oil and natural gas production are at record levels and still rapidly climbing while other measures of activity continue to languish below the peak levels established in the previous cycle. The economic implications are not yet entirely clear but the combination of oil and gas prices along with other non-production measures of regional oil and gas activity are clearly quite sufficient to exert strong influence over the general economy of the region and metro area.