# InghamEcon, LLC

*Karr Ingham*

P.O. Box 7531 (806) 373-4814
Amarillo, TX 79114 karr@inghamecon.com


**The Midland Development Corporation**
**presents**

## The Midland-Odessa Regional Economic Index
**and the**
## Texas Permian Basin Petroleum Index
**October 2017**

**The recovery in the Midland-Odessa combined metro area economy is now a full year in the making through October with the 12th straight monthly increase in the Midland-Odessa Regional Economic Index. The index increased by three full points to 211.1 in October up from 208.1 in September (revised upward from the original 207.9 due to an upward revision in the September employment estimates), and up 11.1% from the October 2016 MOREI of 190.0.** The Midland-Odessa Regional Economic Index remains down by 10% compared to its peak level of 234.5 achieved in January 2015.

The spending indicators are registering 40-50% year-over-year growth, and hotel/motel revenue in the third quarter (per taxes collected in October and reported in November) was up by over 70% compared to year-ago levels. In fact the monthly new housing permit numbers and the monthly average home sale price are the only negatives on the October table of economic indicators. Virtually all components of the Midland-Odessa Regional Economic Index are sharply improved for the year-to-date compared to year-ago levels, which broadly represented the low point of the contraction.

The October headline monthly employment estimates continue to indicate year-over-year employment growth, but as is often the case during a rapid cyclical transition the evidence increasingly suggests that the current estimates are considerably understated.

The Texas Permian Basin Petroleum Index was revised upward in recent months as well, also due to an upward revision in metro area oil & gas industry employment. The October TPBPI improved to 271.2 up from a revised 267.6 in September, and up 28.5% from the October regional oil & gas index of 211.1. And even at that, the Texas Permian Basin Petroleum Index remains down by some 29% compared to is all-time peak of 381.4 achieved in November 2014.

Crude oil prices began their upward move in October, adding $2/bbl from September to October, though the regional rig count continued its modest decline at 314 for the month down from 318 in August and 314 in September (but still up by over 80% year-over year). Metro area oil & gas employment levels (and rates of employment growth) were revised upward for recent months, and now suggest a 21% rate of year-over-year growth, with perhaps further upward revisions to come in the future.

Total metro area employment according to the Texas Workforce Commission October published monthly estimates is up by 2.3%, quite a modest figure given the spectacular rates of growth in all other components of the Midland-Odessa Regional Economic Index. And indeed it is almost certainly not correct, and is dramatically understated compared to actual employment growth. Quarterly employment and wage data in Texas supports this proposition. The numbers are available only through the second quarter 2017 but suggest, for example, that June 2017 total payroll employment is up by 7.2% compared to June of 2016. And, if anything, the rate of employment growth would have only increased since then, so again, the monthly employment levels and growth rates are very likely not correct, and due for a significant upward revision in early 2018 as these two series are reconciled to one another. The current comparison between Texas metro areas suggests that Bryan-College Station occupies the top spot at 3.9% year-over-year employment growth. Through June, the quarterly data indicates that both Midland and Odessa rates of employment growth are higher than that at 7.9% for Midland and 6.4% for Odessa. So again, it is quite likely that metro area employment growth rates are much higher than is presently indicated, and that Midland and Odessa currently boast the highest rates of job growth among the Texas metros.

Growth rates in other components of the Midland-Odessa Regional Economic Index are utterly fantastic. General real (inflation-adjusted) spending per October sales tax data is up by 45% compared to October of a year ago, and in fact that represents a new record for the month of October, just barely surpassing the previous record logged in October 2014 just in advance of the downturn. Real auto spending was also up sharply in October, posting a 54% year-over-year increase, the second-highest October monthly total on record (behind only October 2014).

Hotel/motel activity continued to swell in the third quarter 2017. Real lodging revenues in Midland and Odessa per third quarter tax receipts (reported in the month of November) are rapidly on the rise, up by well over 70% year-over-year. Hotel/motel spending thus far remains well behind (about 20%) the peak periods in 2014 but is still second only to the third quarter 2014 total. And as was the case in the past, the numbers reflect two phenomena – greatly expanded business travel to the region largely as a result of the rapid recovery in the regional oil & gas economy, and the direct use of hotels and motels as work-week lodging for oil & gas workers.

Construction activity continues to improve relative to year-ago levels with the October real permit valuation total up by nearly 50% compared to October of a year ago, and the total for the year-to-date up by about 22% year-over-year. Even at that, though, the total through October is well below the first ten months of the four years 2012-2015. New single-family housing construction was down a bit for the month, but remains in record territory for the year-to-date at 1,165 permits, the highest on record for the first ten months of the year (and a 34% improvement over the January-October 2016 total).

Existing home sales soared yet deeper into record territory in October with monthly and year-to-date records for the number of closed sales in Midland and Odessa. The 3,477 sales (which could yet be revised slightly upward) represents the first time the number of sales has exceeded 3,000 in the first ten months of the year. The 376 sales recorded in October is easily the highest October monthly total on record, and was up by 45% compared to October of a year ago. The October monthly average sale price was flat compared to October of a year ago; however, the average for the year-to-date is up by a solid 6.6% compared to the January-October 2016 average price. The real (inflation-adjusted) total dollar volume of residential real estate sales activity through October is a record by far, outpacing the total from a year ago by 35% (and over 40% in the month of October).

The October crude oil price increase was followed by yet higher prices, with the WTI posted price surpassing the $50 mark, which has spurred the taking of additional drilling permits and a turnaround in the rig count. While the growth in the Midland-Odessa general economy still has plenty of momentum behind it, the renewed vigor in the regional oil patch will ensure continued rapid expansion in the combined metro area economy well into 2018.