

Activity in oilfields kick economy into high gear

By Mella McEwen
Oil Editor

Amarillo Economist Karr Ingham has decided to stop predicting the state of the Midland-Odessa economy.

For more than a year, Ingham, who prepares the Midland-Odessa Regional Economic Index, has expected the area economy to flatten, leveling off at a high level. Indeed, the index has slowed from

double-digit growth compared to the previous year to single-digit growth. But record oil prices in the first quarter have, he said, kicked the economy into a higher gear. According to Ingham, the index is what he called a "stout" 7.2 percent higher than the March 2007 index.

"Until we see a longer-term trend of flattening to slight

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(From 1A)

decline, who knows where the end will be?" he said.

The general economy, he pointed out, is powered by the strength of the petroleum economy, and several factors converged in the first quarter to lift both the petroleum and general economies. "Not the least of which is oil prices," he said, which averaged \$101.62 in March, up 77.1 percent from \$57.39 last March and averaged \$94.42 in the first quarter, up 71.9 percent from \$54.93 in last year's first quarter. High oil prices were joined by rising natural gas prices, which averaged \$8.36 per Mcf in March, up 22.2 percent from \$6.84 last March and \$7.43 for the quarter, up 16.3 percent from \$6.39 a year ago.

The rig count for the three Railroad Commission districts that comprise the Texas portion of the Permian Basin hit a record for the index, averaging 202 rigs in March, a gain of 8 percent from last March. For the quarter, the rig count has averaged 195 rigs, up 7.1 percent from 182 in the same quarter a year ago. Also setting a record for the index was the number of drilling permits, with the commission issuing 556 permits in March, up 10.3 percent from 504 last March and 1,651 permits in the first quarter, up 15.2 percent from 1,433 issued in the first three months of 2007.

As a result of the increase in activity, the value of oil produced from the West Texas portion of the Permian Basin was \$6.02 billion in the first quarter, up 70 percent from \$3.5 billion in the first quarter of 2007. The value of natural gas production was just shy of \$2.2 billion in the first quarter, up 13.2 percent from \$1.94 billion a year ago.

"That represents not only expansion in oil field activity but economic activity from \$6 billion in oil being pulled from the ground in just the three Railroad Commission districts that we consider the Texas portion of the Permian Basin, and Midland-Odessa is certainly the center of that area," he said.

He went on to add the \$6 billion in production value "is what continues to drive general economic growth in Midland-Odessa." He cited a Bureau of Economic Analysis statistic that for every exploration and production job created in Texas, eight more are generated as a result. Some are created in the industry — drilling, service or supply jobs — and others are created in the general

economy.

"When the decision is made to drill a well in the Permian Basin, it sets in motion tremendous process, a chain of activity that is job creating and impacting the entire economy," he said.

Employment in the energy industry continues to grow in excess of 9 percent, he said, while general employment growth remains above 4 percent and both Midland and Odessa have the lowest unemployment in the state.

Strong employment boosts consumer activity, and Ingham said March sales tax rebates were 12.7 percent above the previous March and are up 6.7 percent in the quarter over last year's first quarter. That current growth, he pointed out, comes on top of several years of impressive growth so that 6.7 percent quarterly increase, "impressive enough in any year, is even more so given prior levels of consumer growth."

Spending on automobiles was the only component to post a decline, its first since December 2005, and it was a marginal 0.4 percent drop in March from a year ago. For the quarter, Ingham noted, spending was up 14.7 percent compared to the same three-month period of 2007.

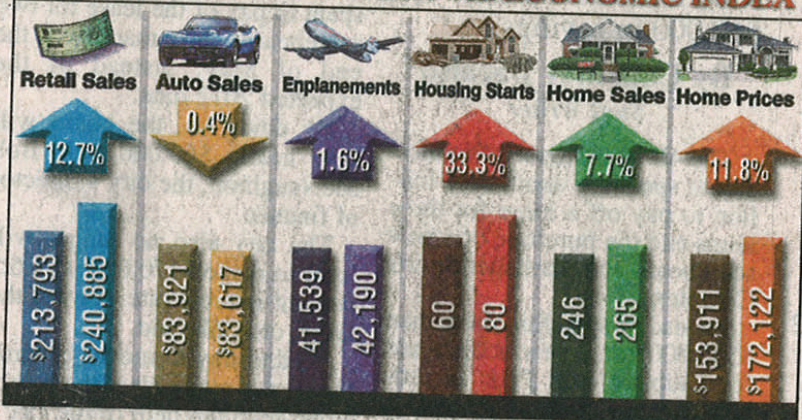
Construction also is booming, with the valuation of all building permits issued in Midland and Odessa 37.7 percent higher than last March and up 13.1 percent for the quarter compared to last year. Also up sharply is new home construction, with 80 permits issued in March — 62 of them in Midland — for a gain of 33.3 percent in March over the previous March. For the quarter, 214 permits have been issued, 21.6 percent more than the 176 issued in the first quarter of 2006.

Sales of existing homes rose 7.7 percent in March but are down 0.2 percent for the quarter compared to last year. The average sales price of \$172,122 in March is 11.8 percent higher than \$153,911 last March and the first quarter average of \$168,468 is 13.6 percent higher than the \$143,353 averaged in the first quarter of 2007.

Hotel/motel tax receipts were 13.1 percent higher than a year ago and enplanements at Midland International are up 6.9 percent for the first quarter.

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MIDLAND-ODESSA REGIONAL ECONOMIC INDEX



March 2007/2008