

FEDERAL RESERVE BANK OF DALLAS • FIRST QUARTER 2016

Summary

The Permian Basin economy is slowing as the rig count continues to decline. Payrolls stagnated over the first quarter, and the unemployment rate edged up. Home sales and retail sales slowed while housing affordability was mixed.

Labor Market

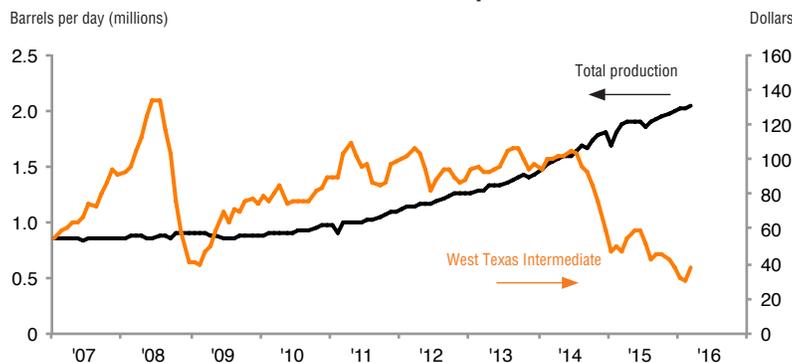


SOURCES: Bureau of Labor Statistics; Dallas Fed.

- ▶ After shedding 15,000 jobs in 2015, employment in the Permian Basin held steady near 164,000 in the first quarter.
- ▶ The unemployment rate continued to inch up over the first quarter and stood at 5.1 percent in March, compared with 4.3 percent in Texas and 5.0 percent in the U.S. Unemployment in the Permian Basin has not reached this high since 2011 and is 1.1 percentage points higher than year-ago levels.

Energy

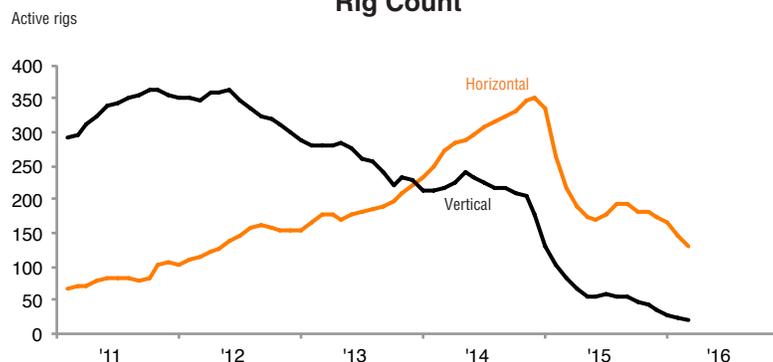
Oil Production and Spot Price



SOURCES: Energy Information Administration; World Bank.

- ▶ West Texas Intermediate (WTI) crude oil continued to fall in January and February but rebounded in March to an average of \$37.77 (see the Dallas Fed's [Energy Update](#) for more information).
- ▶ Production in the Permian Basin remains resilient and continues to increase. In March, production rose to 2.03 million barrels per day.
- ▶ The decline in WTI has hit both the vertical and horizontal rig counts in the Permian Basin. The vertical rig count totaled 21 in March, continuing its downward trend in the first quarter. The horizontal rig count also continued to decline and in March totaled 130. Horizontal rigs are expected to lead any recovery in the rig counts due to their increased efficiency and production capability.

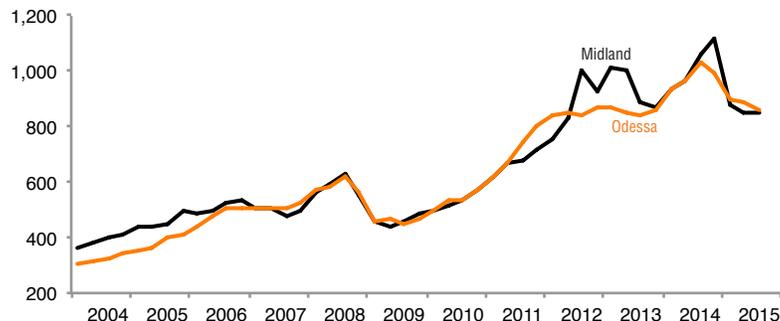
Rig Count



SOURCE: Baker Hughes.

Retail Sales

Real dollars (millions), seasonally adjusted

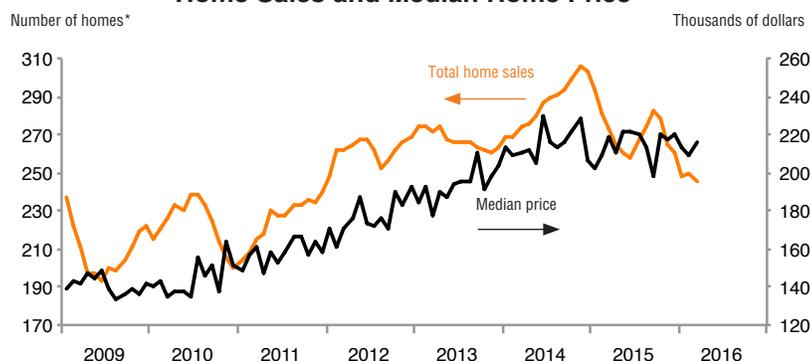


SOURCE: Texas Comptroller of Public Accounts.

▶ Retail sales in Midland and Odessa have continued to slow as the regional labor market has continued to weaken. In third quarter 2015, the latest period for which data is available, Midland retail sales totaled approximately \$854 million, down nearly 20 percent from the same quarter a year earlier. Odessa retail sales totaled \$859 million, decreasing 16 percent over the same time frame.

Housing

Home Sales and Median Home Price



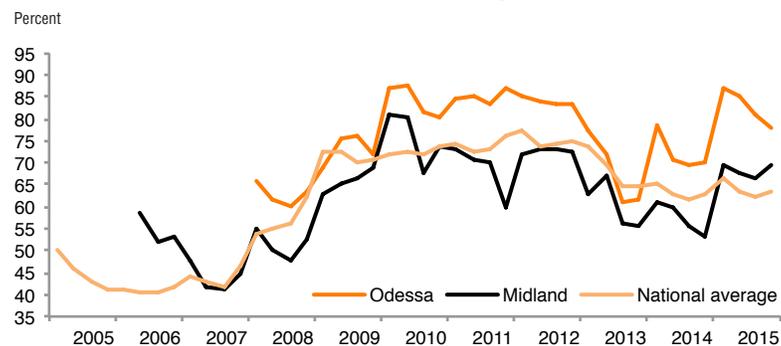
*Six-month moving average for Midland and Odessa, seasonally adjusted.

SOURCE: Texas A&M University Real Estate Center.

▶ Permian Basin home sales remain on a downward trend. In March 2016, home sales totaled 245 based on a six-month moving average—down 1.5 percent from February sales and down more than 10 percent from year-ago sales. While home sales are falling, the median home price is holding steady. In March, the price stood at \$216,579, down 0.7 percent from a year ago and up 3.4 percent from last month.

▶ As demand in existing-home sales has fallen, so has new-home construction. Midland and Odessa new housing permits totaled an annualized 889 in March, down 10 percent from February and down 24 percent from a year ago.

Home Affordability



SOURCE: National Association of Homebuilders/Wells Fargo.

▶ Home affordability has diverged in the Permian Basin. The National Association of Home Builders/Wells Fargo Housing Opportunity Index represents the share of homes sold that are considered affordable to a family earning the median income. In Odessa, the index has declined in every quarter since its peak of 87 in first quarter 2015. Meanwhile, affordability in Midland has fluctuated around 69 over the same time frame. Despite the sluggish labor market and variance between Midland and Odessa, both metros are considered more affordable than the U.S. average. In fourth quarter 2015, the index stood at 69.5 for Midland and 77.9 for Odessa. This indicates that seven to eight of every 10 homes sold in the two cities were considered affordable.

NOTES: Data are for the Midland–Odessa metropolitan statistical area (Martin, Midland and Ector counties), except for energy data, which cover the 55 counties in West Texas and southern New Mexico that make up the Permian Basin region. Data may not match previously published numbers due to revisions.

CONTACT: Questions regarding *Permian Basin Economic Indicators* can be addressed to Marycruz De León at marycruz.deleon@dal.frb.org.