

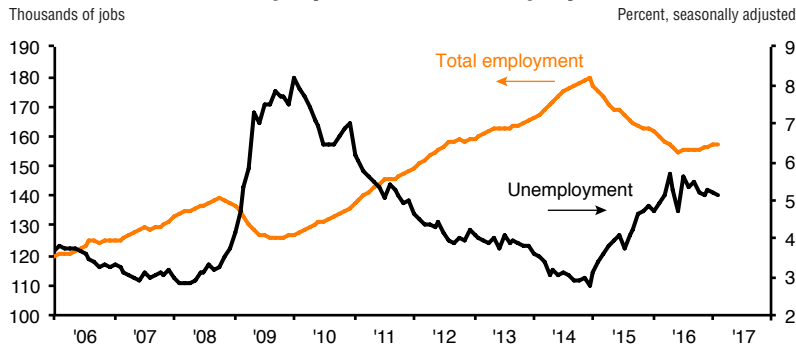
FEDERAL RESERVE BANK OF DALLAS • APRIL 12, 2017

Summary

The Permian Basin labor market has shown signs of improvement over the past few months. The average price of West Texas Intermediate (WTI) crude oil edged down in March, but the Permian Basin rig count continued to grow. Home sales were elevated for the second month in a row, and the housing market continues to work down inventories.

Labor Market

Total Employment and Unemployment



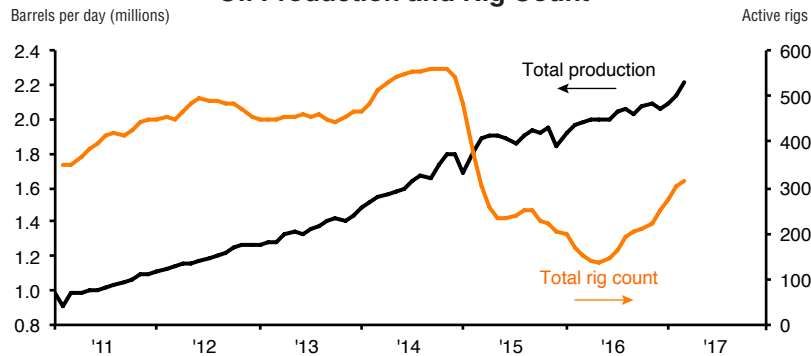
SOURCES: Bureau of Labor Statistics; Dallas Fed.

▶ Though Permian Basin employment is still down from year-ago levels, employment has been inching up since its low point in June 2016. The area has added 2,700 jobs over that time, and employment totaled 157,600 in February 2017. A potential tailwind is the improved outlook of oilfield service firms and exploration and production (E&P) firms as noted in the [first-quarter Dallas Fed Energy Survey](#). Most oilfield service firms and about half of the E&P firms increased their expectations of 2018 capital spending.

▶ The unemployment rate in the Permian Basin ticked down from 5.2 percent in January to 5.1 percent in February. Though the unemployment rate has remained relatively stable in the region since fourth quarter 2016, Odessa's rate remains elevated. In February, unemployment rates were 4.3 percent for Midland and 6.1 percent for Odessa. However, Odessa's rate is down from its peak of 6.7 percent in August 2016.

Energy

Oil Production and Rig Count

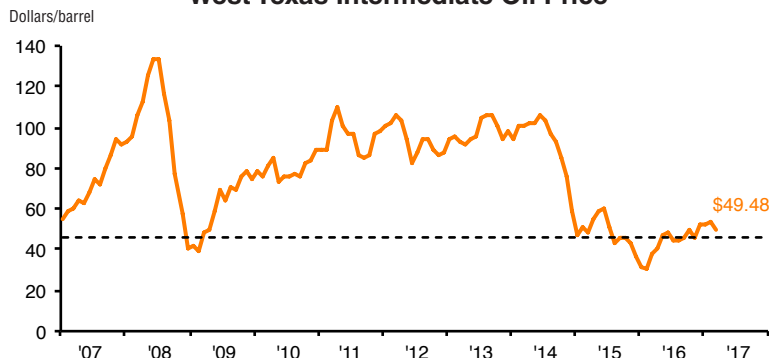


SOURCES: Energy Information Administration; Baker Hughes.

▶ Estimated crude oil production was 2.21 million barrels per day (b/d) in March, up about 700,000 b/d from February. Production levels have been rising for a while in the Permian Basin and were up 10 percent year over year based on the March estimate. The Permian rig count grew to 312 in March, up 11 rigs from February, the smallest monthly gain since October 2016. Since October 2016, the rig count has increased 51 percent.

▶ The monthly average price per barrel for WTI crude oil dropped to \$49.48 in March but has been back above \$50 since the beginning of April. The March drop came as U.S. inventory data showed a buildup at the beginning of the month. The average price for March was still \$3 above the \$46 Permian Basin break-even price for drilling a new well, as reported in the [first-quarter Dallas Fed Energy Survey](#). According to the survey, respondents expect prices to either rise or stay around the same this year. Despite the March price drop, the monthly average for the CBOE Oil Volatility Index came in just above where it was in February.

West Texas Intermediate Oil Price

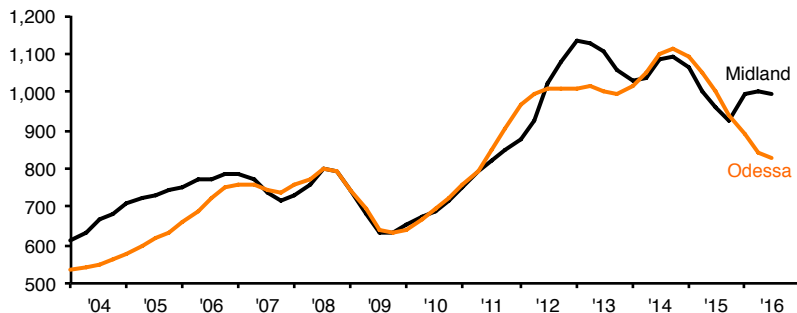


NOTE: The dashed line indicates the mean price needed to profitably drill a new well in the Permian Basin, according to the first quarter 2017 Dallas Fed Energy Survey.

SOURCES: Energy Information Administration; Chicago Mercantile Exchange; Dallas Fed.

Retail Sales

Real dollars (millions)*



*Seasonally adjusted; three-quarter moving average.

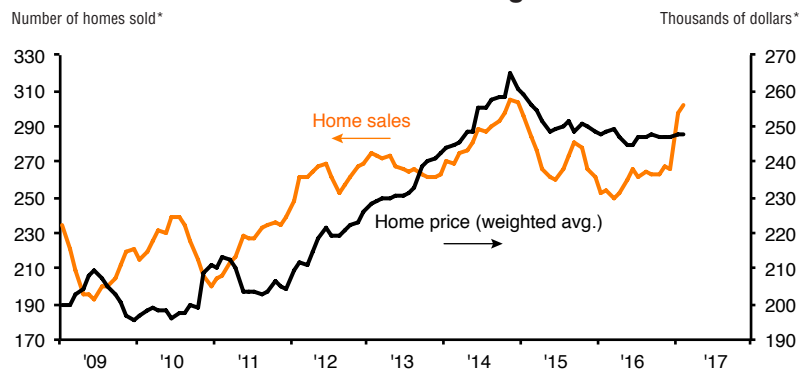
SOURCE: Texas Comptroller of Public Accounts.

► Odessa's retail sales declined in third quarter 2016 (the most recent data available), based on a three-quarter moving average. Quarterly sales totaled \$831 million, down \$13 million from the previous quarter. Retail sales have fallen 24 percent since their peak in fourth quarter 2014. However, the \$13 million drop is the smallest quarterly decline since the sales peak.

► Midland's retail sales remained stable, at about \$997 million in third quarter 2016. Sales have rebounded from a low of \$927 million in fourth quarter 2015.

Housing

Home Sales and Building Permits



*Seasonally adjusted; six-month moving average.

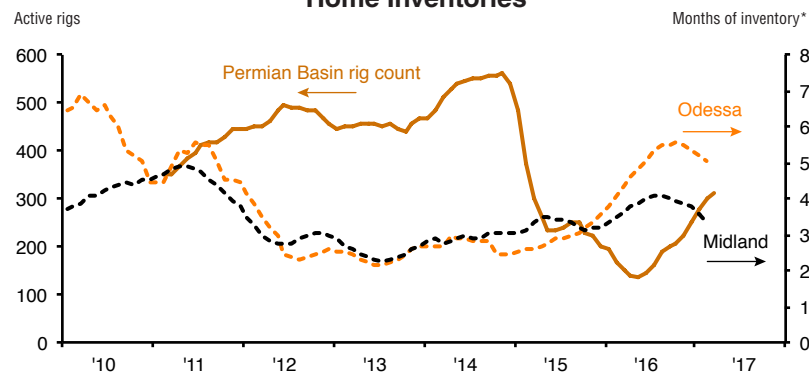
NOTE: The home price is a weighed average for Midland and Odessa. The average is weighted by the number of homes sold in each metropolitan statistical area.

SOURCE: Texas A&M University Real Estate Center.

► The average home price in the Permian Basin remained steady through 2016 and into 2017. Home prices averaged \$248,000 in February 2017, showing no change from January. Home sales continued to rise during February and totaled 302 for the month. Higher sales in the region have been driven by large gains in Midland, which posted another month of elevated sales.

► Housing inventories for Midland and Odessa were 3.4 and 5.1 months, respectively. Inventories in Midland are approaching 2014 pre-bust levels. Though Odessa is working down its inventories, they remain well above where they were at the end of 2014. The rising rig count and optimism of energy companies seen in the Dallas Fed Energy Survey could be tailwinds for the Permian Basin housing market.

Home Inventories



*Seasonally adjusted, six-month moving average.

SOURCES: Texas A&M University Real Estate Center; Baker Hughes.

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 Dylan Szeto at Dylan.Szeto@dal.frb.org.