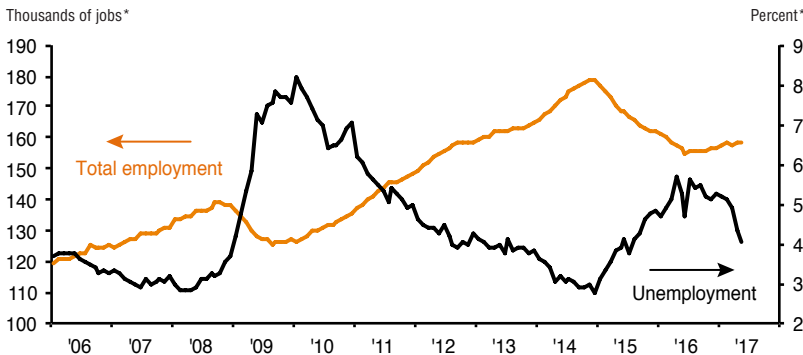


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Summary

In May, Permian Basin employment remained stable with a declining unemployment rate. The average monthly price per barrel of West Texas Intermediate crude oil fell in June, while estimated production and the rig count continued to rise. The housing market continued to show signs of strengthening.

Employment Growth



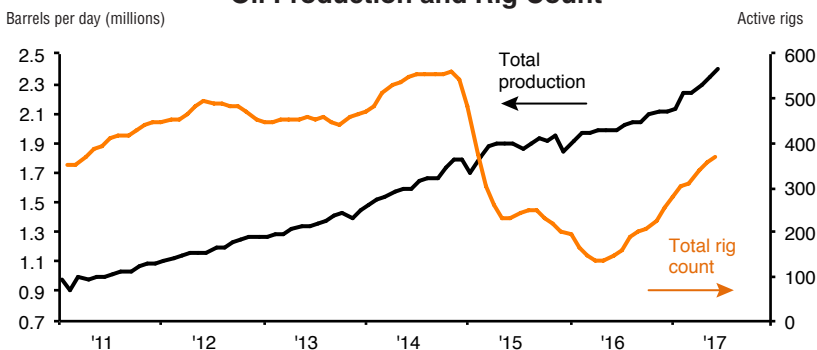
*Seasonally adjusted.
SOURCES: Bureau of Labor Statistics; Dallas Fed.

▶ Total nonfarm employment growth in the Permian Basin was flat between April and May. Employment has remained around 158,000 since February and has grown around 1.3 percent year over year. Since the energy recovery started, Permian employment has been rebounding gradually. A potential tailwind is the outlook of oilfield service firms and exploration and production (E&P) firms in the [second-quarter Dallas Fed Energy Survey](#). The company outlook index, though lower than the first quarter, was still positive at 20.3, and the labor market indexes pointed to rising employment.

▶ The unemployment rate in the Permian Basin ticked down from 4.4 percent in April to 4.1 percent in May. Both Odessa's and Midland's unemployment rates are now below 5 percent. While the unemployment rate and employment have improved since the same time last year, the labor force has shrunk by 5,500 people in the same time period.

Energy

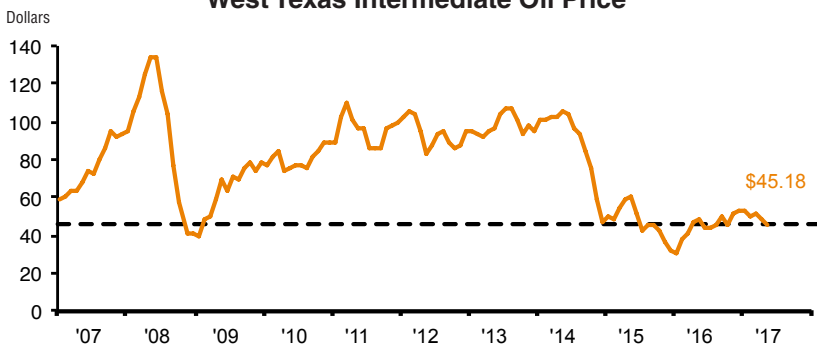
Oil Production and Rig Count



SOURCES: Energy Information Administration; Baker Hughes.

▶ Crude oil production was an estimated 2.41 million barrels per day (b/d) in June, up about 70,000 b/d from May. Production levels have accelerated this year and have been growing at 2.2 percent on average since January. Levels are up about 21 percent year over year in June. The acceleration in the last year can be seen in the second-quarter Dallas Fed Energy Survey, where 45.2 percent of the E&P firms surveyed said they had increased production, and only 27.4 percent said production decreased; 27.4 percent reported no change. The Permian rig count grew to 368 in June, up 11 rigs from May.

West Texas Intermediate Oil Price

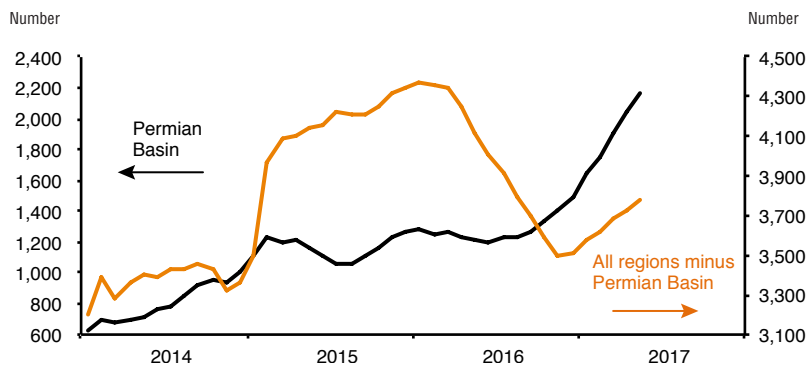


NOTE: Dashed line indicates mean price needed to profitably drill a new well in the Permian Basin, according to the first quarter 2017 Dallas Fed Energy Survey.

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

▶ The average price per barrel of West Texas Intermediate crude oil fell to \$45.18 in June from \$48.48 in May. The average price for May was 82 cents below the \$46 Permian Basin breakeven price for drilling a new well, as reported in the [first quarter 2017 Dallas Fed Energy Survey](#). According to the second-quarter Dallas Fed Energy Survey, respondents on average are forecasting a rise in the WTI price to \$48.79. This is a few dollars lower than average forecasts were for the prior quarter, where they were predicting \$53.49 per barrel.

Drilled but Uncompleted Wells

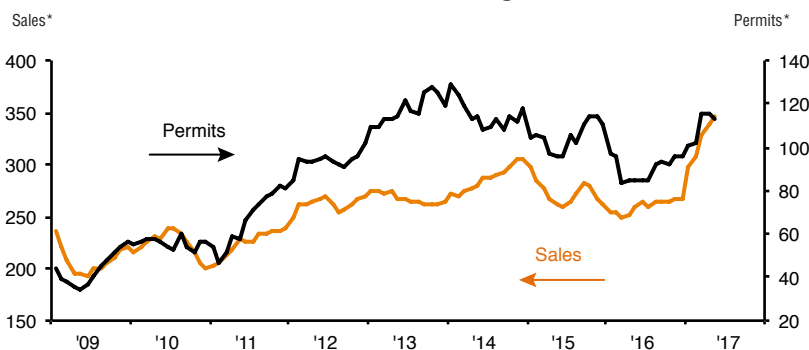


SOURCE: Energy Information Administration.

▶ The number of drilled but uncompleted wells (DUCs) in the United States excluding the Permian Basin rose to 3,783 and in the Permian Basin to 2,163, as wells are being drilled faster than they are being completed. The number of DUCs has risen by about 78 percent in the last year in the Permian Basin, but has fallen 8 percent among other basins. However, the total number of DUCs has risen month over month for the last six months in other basins and for 11 months in a row for the Permian Basin. The number of DUCs can provide some perspective on industry conditions and give clues to the potential amount of supply that could be available to come online.

Housing

Home Sales and Building Permits



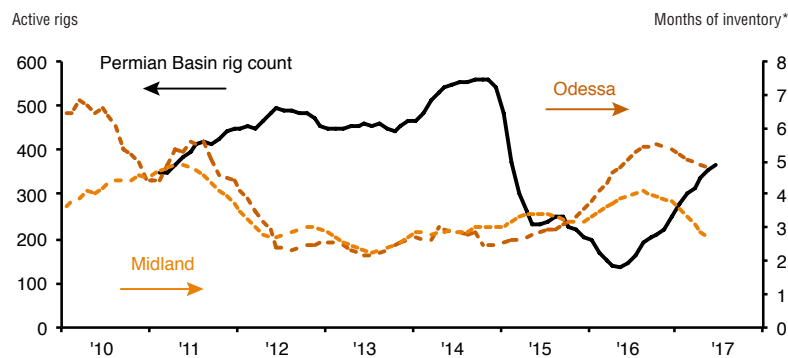
*Seasonally adjusted; six-month moving average.

SOURCES: Real Estate Center at Texas A&M University.

▶ The six-month moving average for home sales has risen sharply since the beginning of 2017, but growth has slowed in the last two months. The six-month moving average for home sales was 345 for May. Other housing variables are showing some strength, with single-family housing permits climbing 18 percent since December 2016 and 36 percent year over year. Total listings (six-month moving average) continue to fall in Midland and Odessa. The six-month moving average for home prices in Midland has risen by about \$13,000 in the last year, while the average has fallen in Odessa.

▶ May housing inventories for Midland and Odessa were about 2.7 and 4.8 months, respectively. Consistent with rising home sales, the level of inventory in each metropolitan statistical area has been dropping, although Odessa's inventory remains well above prebust levels. The rising rig count and optimism of energy companies seen in the second-quarter Dallas Fed Energy Survey could be tailwinds for the Permian Basin housing market.

Home Inventories and Rigs



*Seasonally adjusted; six-month moving average.

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

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