

# Local economy again records strong year

■ Region keeps cautious eye on economic events that could dampen energy demand, lower prices.

By Mella McEwen  
Oil Editor

Another year of strong economic growth came to an end December 31, with the Midland-Odessa regional economy recording a 5.9 percent increase over 2006.

Karr Ingham, the Amarillo economist who prepares the Midland-Odessa Regional Economic Index, reported 2007's 5.9 percent increase is the smallest since May 2005.

"We're in the 5-6 percent range now, though the numbers we're looking at are still higher than the year before. But we're looking a little more normal."

The 5.9 percent growth rate comes on the heels of a 13 percent increase in 2006, which is why Ingham said it is important to view the economic growth with a historical perspective, particularly one that separates Midland-Odessa from other communities with similar growth rates.

"It's important to know what 2007 looked like compared

to other regions," he said. "In 2003, the combined economy grew by 3.1 percent, in 2004 by 6.1 percent, in 2005 by 7.9 percent, and in 2006 by 13 percent. In that context, another 6 percent on top of that is simply quite impressive."

In fact, Ingham said, since the general economy 'troughed,' reaching the low point of this economic cycle in the spring of 2003 — following the oil and gas economy's upward move that began in the fall of 2002 — it has grown 42 percent. "To grow 42 percent in that time period is a staggering realization," he said.

Still, he said, the narrowing growth rate recorded for 2007 indicates that the Midland-Odessa economy is meeting expectations and beginning to level off, although at a high and positive level of activity rather than the hectic growth rate of the past.

That narrowing growth rate can be seen in consumer activity, he said, with retail sales rising 10.9 percent over 2006, which were 17 percent above 2005 levels, which were 9.8 percent above 2004 levels, which were 6.3 percent

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above 2004 levels.

Spending on automobiles grew 14.9 percent in 2007 compared to 2006, while 2006 spending was 22.4 percent above 2005 levels, which was 15.8 percent above 2004 spending, which was just a half-percent above 2003 spending.

Another statistic that jumped out at him, Ingham said, was employment growth of 1.9 percent in December over last December. Employment growth averaged 3.5 percent in 2007, compared to growth of 6.6 percent in 2006 and 4.1 percent in 2005. He attributed this slowing job growth to the high rates of previous years and also in part to a very tight labor market and lack of workforce to add to job totals.

The housing market continued to show the effects of a strong economy that brought in workers and boosted demand for housing but was unable to provide enough supply. The number of new home building permits issued in 2007 was down 1.8 percent but that compares to a 38 percent increase in 2006. Sales of existing homes fell 3.9 percent in 2007 over 2006 levels while the average sales price jumped 26.1 percent to \$163,701. The decline in sales activity, Ingham was, was the result of both a shortage of supply and prices that are becoming prohibitive.

Midland-Odessa's economic performance in 2008 will be heavily dependent on various factors, beginning with crude oil and natural gas prices, in which a rise to record levels has helped fuel the area's overall economic expansion, Ingham said. This area, he noted, is particularly sensitive to oil and gas prices.

There had been talk, he observed, of oil prices rising in excess of \$100 or even \$120 in the first quarter or first half of this year, but a national economy that slowed almost to a crawl as 2007 drew to a close has dampened demand and eased upward pressure on energy prices.

Midland and Odessa, he said, will not be immune to economic events across the state, the nation or even the globe, including the subprime mortgage crisis and credit crunch that began last summer and an economic recession, if one occurs.

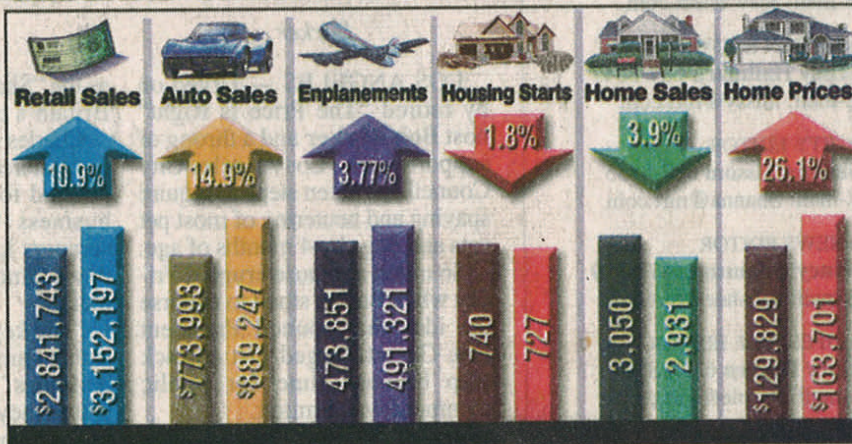
"Midland-Odessa does not exist in a vacuum in the desert," he said. "What occurs on a national level, on a state level, will have an impact on Midland and Odessa. If nothing else, economic events will, and may have already had, an impact on oil prices. This economic unease will have a direct and an indirect impact on the communities."

If commodity prices remain fairly strong — although down from recent highs — then Midland and Odessa will certainly have a leg up on other metro areas in weathering an economic slowdown, he said.

Ingham offered this perspective on a slowing economy: "Everyone talks about an economic slowdown as if it was the worst possible thing, but these fluctuations have great value. They are market-imposed corrections. If it takes a slowdown to initiate a cooling period in energy demand and force a price retreat, that's what the market will impose."

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Year 2006 / 2007