Houston Area Keeps Adding Jobs

The Houston-area economy is surprisingly strong, even though we have been expecting to see it slow a bit as the region adjusts to lower demand for energy. Houston area employers added 97,700 jobs between June 2012 and June 2013, the Texas Workforce Commission reported. That presents a 3.6 percent year-over-year increase. Barton Smith, Professor Emeritus of Economics at University of Houston, predicted that 2013 would be a year of transition as energy went from a prime economic driver to one in which the non-energy sectors of the economy such as construction, services, and retail trade caught up. There were signs of weakness during the spring, but then energy prices firmed up. While overall growth has slowed, the local economy has stabilized at a really nice rate. Durable Goods Manufacturing gained 600 jobs last month, which shows how well energy is doing and Construction added 1,900 jobs stemming from Houston's housing boom.

Bill Gilmer, Director of the Institute for Regional Forecasting at University of Houston, predicts a slowdown during the second half of the year, largely because of national and international forces. The U.S. economy is showing signs of another "midyear swoon". Houston is also facing a slowing Chinese economy (China is an important trading partner) and high oil prices driving up the cost of gasoline. The slowdown isn't anything drastic, he's predicting Houston will end the year with a gain of about 80,000 jobs. Houston will probably be growing more than twice as fast as the rest of the nation.

Texas Workforce Commission reported Houston area unemployment rate increased to 6.7 percent in June, up from 6.3 percent in May. The rate typically jumps in June as teenagers search for summer jobs and school employees are laid off for the summer. In Texas, the unemployment rate for June was 6.5 percent, the same as in May, and it is adjusted for the seasonal shifts. The statewide rate is below the nation's June unemployment rate of 7.6 percent.

Three Factors Driving Houston's Economy

Three factors drive Houston's economy—oil and gas exploration, U.S. economic growth and international trade. Houston owes much of its current prosperity to the first driver. The exploration boom that began in the Eagle Ford Shale in '10 has spread to other plays, like the Bakken in North Dakota and the Permian Basin in West Texas, in turn driving demand for everything from oil field equipment to engineering services supplied from Houston.

But there are signs that the energy industry has supplied all the oompf! it can for this business cycle. The rig count has stabilized and industry employment, which grew at double-digit annual rates during the peak of the boom, is now rising at a 5 to 6 percent annual rate. Additional stimulus to Houston's growth must now come from the other drivers—the U.S. economy and international trade.

Houston's Economy Going Beyond Energy

Energy was the big driver of the Houston economy in 2012. But this year, the local economy isn't quite as dominated by the region's largest industry. Area employers are adding jobs across a wide swatch of sectors – even in the finance industry, thanks to low interest rates and a growing boom in construction. The catch-up process in Houston's non-energy sectors has been somewhat of a relief after such a wild run in energy-related manufacturing, exploration & engineering. The Houston area is also facing a population surge as newcomers arrive to share in the prosperity. That means more retailers, medical offices, and other services to accommodate the swell.

Texas to Star in Energy Growth

Growth in the energy sector will continue, with Texas taking the lead, according to the latest Texas Petro Index. "We would like to be the 14th-largest oil producing country on the planet, if Texas were a country," said Karr Ingham, a Petroleum Economist for the Texas Alliance of Energy Producers and Creator of the Petro Index. The state is producing almost half the United State's crude oil and a quarter of its natural gas, helped by the production in the Permian Basin in West Texas and Eagle Ford Shale in South Texas. In October 2008, months after the price of crude reached levels it hasn't surpassed since, the index reached its all-time high of 287.5. The domestic economy contracted as the financial crisis deepened at the end of that year, and the index bottomed out at 188.5 in December 2009. It since has climbed steadily, reaching 284.2 in June, just shy of the 2008 record. Areas of Texas where the growth is the most acute, such as Odessa in the Permian Basin, are having a difficult time keeping pace with the growth in production, and demand for employment in areas such as education has soared. The energy sector also contributes about 25 percent of all taxes collected by the State of Texas.

Finding a Job by Degree

Texas is becoming more of a white-collar state, and Houston is a big reason for that shift. Part of it may stem from the population surge that is boosting expected demand for schoolteachers. Or it may stem from the baby boomers who are driving much of the demand for health services. Whatever the reason, more job openings in the Houston area require a post-high school degree and more are management positions. A recent 90-day snapshot of the top 15 most commonly listed job openings in Houston found that nearly half require at least an associate's degree. That includes registered nurses, accountants, computer systems analysts, industrial engineers, computer support specialists, computer network administrators, and mechanical engineers. It's a similar story in Texas, when the same system calculated the number of total openings statewide. Of the 14 most sought after jobs, 7 require degrees. Like Houston, the statewide list includes nurses, accountants, and information technology specialists. That wasn't the case 15 years ago when less than one in five openings in Texas required a post-high school degree. The Texas Workforce Commission estimates that between 2010 and 2020, the fastest-growing occupations percentage-wise in the Houston area will be teachers followed by home health aides, personal care aides, and medical secretaries.

U.S. Employment Remains Below Pre-Recession Levels

Employment growth is important because it drives demand for big ticket items, general consumer spending, and government revenues through growing income and sales tax collections. However, employment in the U.S. remains well below pre-recession levels. Nonfarm payroll peaked at 138.1 million workers in January '08. From peak to trough, the nation lost 8.7 million jobs, or one in every 16 jobs. Those losses do not include the estimated 8.8 million people who at the bottom of the recession held part-time jobs because full-time work was not available.

The U.S. economy is steadily adding jobs – just not at a consistently strong pace. Employment began to rebound in March '10, and the nation has since added 6.6 million jobs—an average of 165,000 per month—in the recovery. Conventional wisdom holds the nation needs to add 200,000 jobs per month to keep up with growth in the civilian labor force. Over the first six months of '13, the nation has met that pace, adding on average 202,000 jobs per month. However, employment remains 2.2 million jobs below its previous peak. At the current pace of growth, the nation won't return to pre-recession employment until early next year. Furthermore, the labor force participation rate has fallen from 66.2 percent to 63.5 percent. While 2.7 percentage points may seem insignificant, if the nation returned to the January '08 participation rate, there would be another 6.7 million people in the labor force, and the unemployment rate, currently 7.4 percent, would be back in double digits.

Another concern is that one in four net new jobs created in the past three years have been part-time, suggesting that these employees are receiving lower pay and minimal benefits packages. The growth in part-time employment may be due to weak demand, or it may reflect a structural change, with U.S. manufacturers embracing just-in-time management techniques for labor that previously were applied only to inventory.

Sources: Greater Houston Partnership; Houston Chronicle; Houston Business Journal