Tepid Job Growth in Houston

Houston's once-booming job growth came to an abrupt end in 2015 amid the worst oil bust in decades, but the metro area still added 23,200 more jobs than it did a year ago, even as energy layoffs mounted. That's a dramatic slowdown from the 104,700 created in the Houston area during 2014, when oil prices spiked above $100 a barrel, fueling a domestic drilling renaissance and drawing thousands of new people to the region. Crude has since collapsed to about $30 a barrel, and any job growth amid troubling times for the oil and gas industry is considered good news for the energy capital, underscoring its economic diversity and signaling that the metro area continues to play catch-up with the recent population surge. Whether Houston can maintain that job momentum through another difficult year remains a mystery. "The good news is that there is still job creation, but it's a whole lot less and the questions is: What's going to happen in 2016" said Rocky McAshan, SVP with the Frost Bank system and a board member of the Houston Economics Club. Robust hiring last year among the region's hospitals, restaurants, schools and other governmental agencies helped buffer the energy capital from the deeper pain felt at exploration and production firms, oil services companies and factories that churn out rigs and other tools, according to numbers from the Texas Workforce Commission. The Greater Houston Partnership anticipates the metro area will create approximately 21,900 jobs in 2016.

Houston finished the year with 3,015,800 payroll jobs, a record for the region. That record won't hold, though. Payroll employment always plunges in January: the region typically loses 45,000-60,000 jobs in the month, the losses stemming from layoffs of temporary workers hired for the holiday season and management acting on decisions postponed until after the first of the year. This year's January dip may be deeper than normal due to ongoing layoffs in the energy industry.

Overall, the metro area's workforce expanded just 0.8 percent last year. The metro area gained 8,500 nonagricultural jobs in December, mimicking the same modest job growth of 4,800 the month prior, according to TWC. Not surprisingly, the deepest cuts happened in the energy sector, where a combined 24,500 oil extraction and manufacturing jobs were shed between December 2014 and 2015, as oil patch activity slowed and energy companies scrambled to cut costs. But those layoffs were offset in part by expansion elsewhere. Leisure and hospitality added 19,600 jobs, a 6.8 percent surge from the prior year. In addition, education and health services posted an increase of 19,100 jobs for the year, a 5.3 percent uptick. Other sectors reported growth—construction; retail trade; administrative support; health care; accommodations and food services; and government. Collectively, they added 64,000 jobs. The metro area may be bemoaning the oil and gas slowdown, but hospitals and clinics are showing no signs for slowing their hiring. The ongoing surge of employment in healthcare institutions across the city underscores how much more diversified Houston is than it was three decades ago, when its economy got clobbered by a crippling oil bust.

But it seems unlikely Houston can continue staving off tough times as word leaks that the metro area no longer offers the same amount of job opportunity it once did. As energy companies continue paring back to cope with crude prices at anemic levels, the troubles that started in oil and gas companies are bleeding into other sectors of the workforce, with losses appearing in the financial and professional sectors. Last year, the finance and insurance industry lost 1,600 jobs; legal services shed 700; and architectural, engineering and related services lost 4,500 jobs. Other sectors reported losses in 2015—manufacturing; wholesale trade; transportation, warehousing and utilities; real estate; professional and technical services; and management of companies. Collectively, these sectors cut 40,800 jobs.

With more energy layoffs expected through the middle of the year, the tumult that defined 2015 likely will play out again in 2016, creating a prolonged regional slump that could discourage new residents from moving here. "Energy should begin to stabilize sometime this year, but the rest of the economy is going to have to adjust to this new economic reality" said Barton Smith, professor emeritus of economics at the University of Houston. That trend will eventually put the brakes on other bright spots of Houston's workforce, including retail, leisure and hospitality, which have benefitted from the tens of thousands of new people who flocked to Houston during the heydays of the shale boom. "I would guess the net migration into Houston is zero right now," Smith said. We're down to just natural population growth, births over deaths." The 2015 jobs numbers will likely get revised downward in March, because the government often overestimates employment numbers during economic downturns, Smith said. Still, he still expects the metro area to close the year with a small job gain, which is in line with what most economists have predicted.

Economist Says Other Sectors Will Start to Feel Oil's Decline

Parts of Houston's economy not directly tied to upstream energy should expect a slower year ahead as the economic downturn will begin to affect industries that have held up amid the oil price collapse, a prominent economist said. Industries that are slower to feel the effect of low energy prices or those that have been enjoying the lingering momentum from years of strong job and population growth are starting to adjust their expectations, Bill Gilmer, direct of the University of Houston's institute for Regional Forecasting, told a group of commercial real estate professionals. "Most of the damage so far has been oil and gas," he said. "A lot of other sectors are really going to begin to feel the slowdown with another year of no help from the oil industry." He cited healthcare, retail, restaurants, construction, real estate, leisure and government as industries that will experience more softness as job and population growth slow. "The local contractors association here has warned their contractors that backlogs are running out and by midyear they should be putting plans together on exactly who they want to keep on their team and how they're going to deal with the coming sharp shrinkage of construction here in Houston area," Gilmer said. The exception – for the short term, at least – is Houston's east side, where a $50 billion petrochemical building boom is underway.

In commercial real estate, Gilmer expressed the most concern about apartments and office space. There are 30,000 apartment units expected to open over the next two years amid weak job growth. Landlords are offering tenants two-month free rent and waiving security deposits. The office market on the west side has more supply than demand. While developers have not overbuilt like they did in the 1980s, companies are subleasing space they no longer need and vacancies have doubled in some areas. "The greatest oil boom ever is over for now," he said. The east side will benefit from the influx of workers there for construction jobs, but those jobs will not be permanent. "Jobs will add up, but they won't provide big linkages to the housing market, they won't be renting luxury apartments inside the Loop or buying luxury retail on the west side," Gilmer said. Houston-area employers added 23,000 jobs last year, down sharply from the 104,700 jobs created during 2014, when oil prices spiked above $100 a barrel.

Underreporting Unemployment

The Houston metro area finished the year with a 4.6 percent unemployment rate, slightly above the state's 4.2 percent but below the nation's 5.6 percent. As recently as March 2015, Houston's unemployment rate stood at 4.0 percent, the lowest point in the business cycle. During the Great Recession, Houston's unemployment rate peaked at 8.8 percent. During the oil bust of the 1980s, unemployment hit 12.9 percent.

The current rate, however, might not reflect Houston's true unemployment picture. The region's labor force has lost more than 43,000 workers since it peaked at 3,289,820 in November 2014. Some of the lost workers may have become discouraged and stopped looking for employment, others may have retired, still others may have returned to school for additional training. If all the lost individuals were still in the labor force and without work, Houston's true unemployment rate would likely be above 5.5 percent.

Energy Continues to Struggle

The story of the energy industry in 2015 can be summed up in four points:

- West Texas Intermediate, the U.S. benchmark for light sweet crude, opened the year at $52.72 and closed the year at $37.13. In the current cycle, WTI has fallen nearly 80 percent from its June 2014 peak of $107.95 per barrel.
- The North American rig count traced a similar path, opening the year at 1,811 and ending the year at 698. In the current slump, the North American drilling fleet has fallen more than two-thirds from its September 2014 peak of 1,931 working rigs.
- The industry drilled only 19,503 oil and gas wells in Texas last year, 10,000 fewer than it drilled in 2014, the peak for the recent boom.
- Energy industry consultant Wood Mackenzie estimates the oil price collapse has cancelled or delayed more than $380 billion in upstream energy projects.

The decline in oil prices, sharp reductions in cash flow, the cutback in drilling activity, and dozens of project cancellations forced job cuts.

- Oil field services behemoth Schlumberger, which has main offices in Houston, announced that it had cut another 10,000 jobs worldwide, bringing the total number of corporate losses to 34,000, although it did not say how many were slashed in Houston.

- Tenaris, a Luxembourg-based steel pipe company that has its North American headquarters in Houston, will suspend operations at its Texas Arai facility on or about March 31st. The suspension will affect 166 employees, but some of those workers could be transferred to other facilities before March 31st.
- Maersk Drilling USA will cut about 80 offshore rig jobs that are based out of Houston. The company, part of Danish shipping and energy giant A.P. Moller-Maersk Group, planned to notify employees beginning January 25th and workers will remain employed for 60 days following notification.
- Houston-based National Oilwell Varco plans to close a Houston manufacturing facility between May 31st and June 15th and has already begun to cut jobs. NOV also cut its global workforce by about one-fifth in 2015. They have already shuttered 75 facilities worldwide.
- London-based BP will cut about 4,000 staff and contractor roles in its upstream segment this year alone, and it plans to cut up to 3,000 positions from its downstream segment by the end of 2017.
- Weatherford, an oil field services company with a big Houston presence, announced plans to cut 6,000 more jobs, or 14 percent of its workforce.
- Southwestern Energy, the third-biggest independent U.S. natural gas producer plans to cut 1,100 jobs, more than 40 percent of its workforce.

The near-term outlook for the industry isn't much better. Barclays expects North American exploration budgets to fall another 27 percent this year. The U.S. Energy Information Administration doesn't expect crude to breach $40 per barrel until sometime next year.

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