Houston-area Economy Trying to Gain Traction

The Houston metropolitan area made it through 2016 with positive employment growth, adding jobs slowly as it began to shake off a two-year oil bust. The region added 14,800 jobs last year – an anemic growth rate of just a half percent – compared with 15,200 in 2015 and 117,800 in 2014, the peak of the oil boom, according to U.S. Labor Department data. Growth in sectors such as health care and retail more than offset the losses in the oil and gas industry. "Maybe the most striking thing about Houston's recent job growth is the difference between the performance of the oil market and Houston's economy", Bill Gilmer a regional economist at the University of Houston's Bauer School of Business, wrote in a recent forecast. "This is arguably the worst downturn ever for U.S. oil – but certainly not a serious downturn for Houston." Still the economy is far from humming.

Greater Houston added just 400 jobs in December, compared with 5,900 new jobs created in December 2014. The area unemployment rate rose to 4.8 percent from 4.2 percent a year ago. That's slightly above the national unemployment rate of 4.7 percent. Job gains last year were led by services. Education and health services, which include universities and hospitals, added nearly 14,000 jobs over the year, an increase of 3.7 percent. Leisure and hospitality employment grew by 4.2 percent, or nearly 13,000 jobs.

But goods-producing sectors like construction, manufacturing, and oil and gas extraction took hits. Most of the construction job losses came in the industrial building sector, which lost 9.7 percent over the year as work on major petrochemical refinery projects finished up. That trend is set to continue, $22.7 billion in industrial construction projects will wrap up in 2017, followed by less than $5 billion in 2018, according to Gilmer's forecast. Another 12,500 industrial construction jobs are projected to disappear this year. The mining and logging sector, which includes oil and gas extraction and services, lost another 7,100 jobs last year, a decline of 7.5 percent. Machinery manufacturing, which along with many other sectors is highly tied to the oil and gas industry, declined 14.1 percent or 6,900 jobs.

Their continued recovery will depend on oil prices going forward; the price of crude has climbed above $52 a barrel since bottoming out at about $26 last February. The past year looked stronger statewide, led by strong growth in Dallas and Austin. Service sector employment grew 2.5 percent, while goods-producing jobs shrank 2.5 percent. But, since the service sector is larger, overall employment in the state grew 1.8 percent, or 210,000 jobs. December, however, proved a slow month for hiring in Texas. The state unemployment rate was 4.6 percent, unchanged from November.

Oil, Gas Jobs Rise Again in Texas

Jobs in Texas' oil and gas industry rose at the end of 2016 for the first time in more than two years, another sign that the long-awaited recovery in the state's energy sector is gaining traction. Texas added an estimated 3,000 oil and gas jobs in November and December, after shedding more than 100,000 during the industry downturn that began in mid-2014, said Karr Ingham, an economist who studies the state's oil and gas sector. "For the first time in three years," Ingham said, "there's optimism". The job gains are the latest indicator that the oil and gas industry is rebounding after an extended bust. Drillers have returned nearly 140 rigs to operation in Texas oil and gas fields since May, when the rig count hit bottom. Companies are flocking to the productive and lucrative Permian Basin in West Texas, spending billions to acquire land and drilling rights. But Ingham, who released his analysis for the Texas Alliance of Energy Producers, cautioned that the industry shouldn't expect to see a boom anytime soon. Despite recent gains, both the rig count and drilling permits are down about two-thirds from their peak in 2014, when prices were above $100 a barrel. The state, for example, issued more than 3,000 drilling permits in both September and October 2014; in December the state issued just over 1,000. Oil production is still down from a year ago. And it could take years for the state to recover the jobs lost in the bust. "Essentially, all we've done is stop bleeding at this point", Ingham said, "but at least we aren't continuing to bleed."

The outlook for the energy industry has improved since the OPEC and other major producers, such as Russia, agreed to cut crude oil production by about 1.8 million barrels a day, pushing prices above $50 a barrel and restarting drilling activity. Ingham said he expects conditions to improve this year, but only modestly. He expects prices to hover between $50 and $60, which will keep many oil companies struggling. "Oil and gas services have really taken a beating, and everyone needs $60 per barrel of oil to make a difference," said Ingham, who doesn't expect prices to reach that level this year. While oil continues to make a sluggish recovery, natural gas prices are on the rise, possibly indicating a shift in the focus of Texas' production, Ingham added. Following a year of the lowest natural gas prices in nearly 20 years, natural gas prices are expected to rise in 2017 to their highest level in three years.

Burst of Hiring Nationwide

President Donald Trump has inherited a healthy-looking job market from his predecessor, with the U.S. economy registering a burst of hiring in January and an influx of Americans looking for work. U.S. employers added 227,000 jobs last month, the Labor Department said. That's the biggest gain since September, and it exceeded last years' monthly average of 187,000. Unemployment ticked up to a still-low 4.8 percent from 4.7 percent in December. But it rose for an encouraging reason: More Americans started looking for work last month. The unemployment rate counts only those people who are actually trying to find a job. All told, more than a half-million Americans began looking in January, and the vast majority landed a job. That suggests the job market could grow more quickly than expected in the coming months. "You could have a faster pace of job growth, because you have more people out there looking for work," said Michelle Meyer, chief U.S. economist at Bank of America Merrill Lynch.

U.S. Businesses Add Jobs

U.S. companies ramped up hiring in January, adding the most new workers since June. Payroll provider ADP said businesses added 246,000 jobs last month, up from 151,000 in

December. The hiring was widespread, with the construction, manufacturing, health care and shipping industries all adding jobs at a solid pace. The figures suggest that job gains have accelerated after a sluggish patch in the second half of last year. With the unemployment rate already low, at 4.7 percent, employers may be forced to offer higher pay to attract workers, which could create broader income growth. Manufacturers added 15,000 jobs, the most in more than two years, ADP's report said. Other measures of manufacturing output have indicated that factories have rebounded from headwinds, such as the strong dollar and slower overseas growth that had caused job losses for nearly two years.

2017 Energy Outlook

BP recently released its 2017 Energy Outlook, outlining what it considers the most likely path for global energy markets through 2035. The outlook attempts to account for future changes in policy, technology and economic growth. Highlights follow.

- BP expects the size of the world's economy to nearly double over the next two decades. The world's population is projected to increase by around 1.5 billion people and reach nearly 8.8 billion. Growth in population and the economy will require growth in energy consumption, but not at the same pace as economic growth. Global GDP doubles over the period whereas energy demand increases by only 30 percent.
- Virtually all the growth comes from emerging economies, with China and India accounting for more than half the increase. Energy demand in North America and Europe barely grows.
- Renewables, along with nuclear and hydroelectric, account for half of the growth in energy supply. Even so, oil, gas and coal remain the dominant sources of energy, accounting for more than 75 percent of energy supplies in 2035, down from 85 percent today.
- Oil use grows at 0.7 percent per year. Natural gas use is expected to grow faster than oil or coal, with consumption increasing 1.6 percent per year between 2015 and 2035.
- Increases in the supply of liquids are driven by holders of large-scale, low-cost resources, especially in the Middle East, U.S. and Russia. OPEC is expected to account for nearly 70 percent of global supply growth, increasing by 9 million barrels per day (MMbbl/d), while non-OPEC supply grows by just over 4 MMbbl/d by 2035, led by the U.S.
- Renewables in power are set to be the fastest growing source of energy at 7.6 percent per year, more than quadrupling over the outlook period. Renewables account for 40 percent of the growth in power generation, causing their share of global power to increase from 7 percent in 2015 to nearly 20 percent by 2035.
- Carbon emissions are projected to grow at 0.6 percent per year, less than a third of the rate seen in the past two decades (2.1 percent per year). This scenario would see the slowest rate of emissions growth since record keeping began in 1965.

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