Greater Houston Partnership's Jobs Forecast

Last December, the Greater Houston Partnership forecast the nine-county Houston metro area would create 62,900 jobs by year's end. If the year had ended on Memorial Day, the forecast would be near the mark. For the 12 months ending May 2015, Houston created 62,300 jobs, a 2.1 percent annual increase. However, the year is barely halfway over and only five months of jobs data have been released to date. More importantly, economic conditions have changed dramatically since the Partnership issued its original forecast. Those changes warrant the Partnership revising its jobs outlook for this year.

The original forecast was based on several assumptions:

- *The North American rig count would fall by 500 rigs this year.* It has lost more than 1,000 since its September 2014 peak.
- *The energy industry would cut exploration expenditures by 25 percent.* The cuts now approach 40 percent.
- *Exports would continue to grow.* Through April of this year, exports via the Houston-Galveston Customs District slipped 13.1 percent compared to last year.
- *Houston's population growth would continue.* Judging by the out-of-state license plates in the IKEA parking lot on Saturday night, that hasn't changed.
- *And other sectors had sufficient momentum to sustain job growth well into 2015*. Judging by the various indicators, that momentum has somewhat abated.

Houston will not experience job growth to the extent the Partnership originally forecast for this year, but the region will create jobs. Details of the revised outlook follow.

- The Texas Workforce Commission (TWC) monthly reports don't reflect trends, and 12-month totals can be misleading, especially if growth in the early months differs greatly from that in the later months. Though the area created 62,300 jobs in the 12 months ending May 2015, most of those jobs came in the second half of 2014.
- Employment in most sectors peaked late last year. In some cases, the losses from the peak are significant. Only leisure and hospitality, health care, government and information continue to add jobs.
- Total nonfarm payroll employment peaked in December 2014, then lost 47,000 jobs in January 2015. All sectors(save one) report losses the first month of the year, but six bear the brunt of the layoffs: retail, finance, business services, administrative support, leisure and hospitality, and public education. Only the accounting sector consistently adds jobs in January, as CPA firms gear up for tax season. TWC released data for May, Houston remained 7,300 jobs below December's total. At this point in the cycle, Houston should be 12,000 to 15,000 jobs above its previous peak. Year-to-date employment growth is at least 20,000

jobs short of where it should be. In robust years (2011, 2012 and 2013), the region adds 10,000 to 12,000 jobs. In weak years (2004, 2005, 2008), the region adds 6,000 to 8,000. Expect payroll employment to lose ground again in July. The education sector, where 10-month contracts are common, always incurs losses as teachers, instructional aids and cafeteria workers fall off school district payrolls in the summer. Combined with smaller seasonal losses elsewhere, July's cuts have averaged 13,600 jobs over the past 10 years.

- Over the past decade, 50 to 60 percent of Houston's job growth has occurred between September and December. That's not surprising given the seasonal job losses earlier in the year. Even in 2009, the worst recession since the 1980s, Houston added 17,300 jobs in the final months of the year. Houston should enter the fall of 2015 in better health than it entered the fall of 2009.
- Retailers always ramp up for the Christmas shopping season. Employment in oil field services may inch up as lease terms require production companies to drill new wells before year's end. But don't expect an increase in manufacturing jobs. Plant managers are more likely to pay overtime than hire additional staff.
- So what does job growth look like in the second half of the year?
  - ✓ In a booming economy, Houston might create 50,000 to 60,000 jobs in the fall.
  - ✓ In a recovering economy, Houston might create 30,000 to 40,000 jobs in the waning months.
  - ✓ In a soft economy, the region might add 20,000 to 30,000 jobs.
- Weakness in various sectors, not just energy, indicates a soft economy and that suggests the lower of the three ranges of job growth this year. Local auto dealers sold fewer vehicles in the first five months of 2015 than in the comparable period in 2014. City of Houston construction permits peaked in the 12 months ending in February and have trended downward since. Realtors sold fewer single-family homes in May of this year than last. And the Houston Purchasing Managers Index (PMI), a leading indicator for regional production, registered 46.1 in May. Readings below 50 suggest contraction in the near term. May's PMI does reflect an improvement from April's reading of 42.7.
- Not all is gloom and doom, however. Oil prices have stabilized. The fall in the rig count appears to have hit bottom. The fleet actually added rigs the third week of June. CenterPoint continues to sign up new customers and electricity consumption is up for the year. Traffic through the Houston Airport System continues to grow. With only a 3.1 month supply of homes on the market there's little danger of near-term overbuilding (a 6.0 month supply is considered a balanced market). Apartment occupancy and lease rates are holding firm (good news for landlords but bad news for tenants). At 4.2 percent, Houston's May unemployment rate is well below the 5.3 percent national average.

Given the softness in the local economy, the Partnership anticipates the region will gain 20,000 to 30,000 jobs this year, not as robust as previous years but still in positive territory. As with the Partnership's earlier forecast, the revised outlook is based on a number of assumptions. Oil prices, though they may experience short-term volatility, average $60 or above the remainder of the year. The rig count has bottomed out. The majority of the energy-related layoffs have taken place. Local business confidence holds firm. Consumer spending slows only moderately. The U.S. economy expands at an annual rate of 2.5 percent or better the remainder of the year. And any geopolitical events that occur—Greece exiting from the Eurozone, a downturn in China's economy, major terrorist attack overseas—have a limited impact on the U.S. economy.

Those who have lived and worked in Houston for a quarter century or more recognize the resilience of the local economy. Since 1990, Houston has experienced only four years of net job losses. With the exception of 2009, a global recession that no industry, metro or nation could avoid, Houston's losses in a downturn tended to be mild. Even with the downturns, Houston has compiled an impressive history of growth. From January 1990 to the present, Houston has added more than 1.2 million jobs, gained 2.7 million residents, and quadrupled the size of its gross regional product. Houston accomplished this as oil prices went from $22.86 per barrel (Jan 1990) to $11.35 (Dec 1998) to $133.88 per barrel (June 2008) to $59.29(December 2014). Houston now faces a short period of uncertainty—perhaps 6 to 18 months—but the region has a long track record of impressive growth. The factors that supported that growth remain intact, assuring that this year's slowdown is a lull, not a new normal.

Houston Adds Positions, but Energy-related Jobs in Retreat

At first glance, it's encouraging that Houston area employers added 13,700 jobs in May but many of the new jobs reflect typical seasonal summer hiring patterns. Texas Workforce Commission reported Houston gained thousands of new jobs in leisure & hospitality, retail trade, and professional and business services. At the same time, the area continued to lose energy –related manufacturing and oil & gas exploration and production jobs. Population gains have also spurred demand for new grocery stores, health care services, and other consumer services. Leading sectors of energy, manufacturing, engineering services and wholesale trade combined, are down about 11 percent for the year. In a typical May, Houston would add 18,000 jobs, which includes not only typical season hires but year-round permanent positions in a wide variety of sectors, Patrick Jankowski of Greater Houston Partnership said. "We're adding jobs in low-paying sectors and we're losing them in well-paying sectors." By Jankowski's calculation, the Houston area has lost 16,300 jobs in oil and gas exploration and production and manufacturing since the start of the year. But Barton Smith, professor emeritus of economics at the University of Houston, believes the non-energy portion of the local economy is holding up quite well. Smith, who expects the energy bleeding to end by fall, said the big questions is whether retail and construction will hold up later in the year.

Texas has gained jobs in May, adding 33,200 jobs. Only two other states – California and New York – added more jobs, according to the U.S. Department of Labor. In Texas, the seasonally adjusted unemployment rate roses lightly to 4.3 percent in May, from 4.2 percent in April. The comparable nationwide unemployment rate is 5.5 percent. The area's unemployment rate edged up slightly to 4.2 percent in May, from 4 percent in April. The local rate typically begins to rises in May and June as university and high school students and school employees look for summer jobs.

Houston's Oil Slump

Houston's economy has been spoken of in a wide variety of scenarios ever since oil prices began to drop last summer and the effects began to show themselves in the fall. Energy insiders, analysts, economists and academics have offered assessments ranging from optimism to bleakness that is to last for at least another year. The most recent economic forecasts from the Bauer College of Business at the University of Houston fall squarely in the latter category. The local Purchasing Managers Index, a leading economic indicator for Houston, has turned sharply negative and is now pointing to a significant decline in the economy. PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.
For Houston, the loss of 1,072 working rigs through June amounts to an ultimate loss of over 240,000 drilling related jobs. As a result of the attrition, The Federal Reserve Bank of Dallas is now forecasting statewide job growth to fall below 1 percent in 2015. What in particular affects Houston's outlook is that one job loss that is directly energy related results in four additional job losses that are indirectly dependent on energy. We have now reached the point where hopes for a short or moderate drilling downturn are behind us, as oil markets have turned down faster and plunged deeper than expected. And while a boom in petrochemical construction is expected to offset some of the negative impact of the decline in rig count, the jobs created in petrochemical sector are not expected to be permanent. Adding the petrochemical construction jobs into the mix probably keeps Houston out of recession, but not by much.

U.S. Unemployment at 7-Year Low

The economy added a healthy 223,000 jobs last month, the Labor Department reported but other indicators, showing wages growing slowly and jobless Americans remaining on the sidelines, painted a grayer picture. The unemployment rate fell to 5.3 percent, the lowest in seven years, but that was driven largely by an exodus of people from the workforce, rather than more Americans finding work. Moreover, the strong job gains for April and May, which had led many analysts to predict that the economy was picking up steam, were revised downward by 60,000 jobs. Despite, the drop in the unemployment rate, from 5.5 percent in May, average hourly earnings stayed flat, disappointing hopes that wages were finally increasing for many workers and suggesting that the labor market still has plenty of slack. The share of American adults either working or looking for a job, which in many ways is a better gauge of economic robustness than the off-cited jobless rate, fell 0.3 percentage point in June to 62.6 percent. With June's drop, the so-called labor participation rate is now at its lowest level since 1977. White collar workers have been in high demand lately, a turnaround from the early days of the recovery when many new jobs tended to be in low-wage sectors like retailing and restaurants. Despite these signs of health, the U.S. economy still has a feast-or-famine quality. For example, wage growth has picked up slightly this year but gains remain relatively restrained. Over the last 12 months, earnings are up 2 percent, just ahead of inflation, which is running at around 1.5 percent. As the pool of college graduates has grown, younger workers have been forced to take jobs they once would have turned down cold.

Incomes Rise Nationwide for the Bottom 99%

Solid job growth is finally boosting paychecks for the rest of us. Incomes for the bottom 99 percent of American families rose 3.3 percent last year to $47,213, the biggest annual gain in the past 15 years. "For the bottom 99 percent of income earners, this marks the first year of real recovery from the income losses sparked by the Great Recession, "Saez, a professor at the University of California-Berkley, said in a summary of his findings. The increase likely reflects robust hiring last year when employers added 3.1 million jobs – the most since 1999. That lowered the unemployment rate to 5.6 percent from 6.7 percent a year earlier. Strong job gains and a falling unemployment can help broadly raise incomes as businesses are forced to offer higher pay to attract workers. Most Americans still have a long way to go to recapture the sharp losses they suffered during the 2008 – 2009 recession. Average incomes for the bottom 99 percent plummeted 11.6 percent to $45,269 in those two years. They have so far recovered just 40 percent of their losses. Saez's figures are compiled from IRS tax data, using pre-tax income that excludes government transfer payments, such as Social Security retirement income.

Same-Sex Marriage to Change Benefit Options

LGBT rights have received a great deal of attention in the courts in the past couple years, with high-profile Supreme Court cases including 2013's United States v. Windsor, the decision that overturned part of the Defense of Marriage Act (DOMA), and this year's Obergefell v. Hodges, in which the court addressed the constitutionality of same-sex marriage bans in the U.S. Though the Supreme Court ruling made same-sex marriage legal, it seems employers have already taken steps to make their workplaces more inclusive. Per Littler Mendelson's Executive Employer Report, nearly 50 percent of the respondents indicated they had not instituted changes to make their workplaces more inclusive because their companies already had inclusive policies in place. This response is consistent with recent surveys showing that 89 percent of Fortune 500 companies prohibit discrimination based on sexual orientation and 66 percent prohibit discrimination based on gender identity or expression. Fifteen percent of respondents also indicated they had made changes, but not because they were required by law. A majority of respondents had some LGBT-inclusive policies already in place (47 percent), had made recent changes (26 percent), or were looking to make changes to their policies in the near future (13 percent). With same-sex marriage legalized, employers will want to review their policies and benefits plans to make sure they are treating all married couples equally and are using gender-neutral language. They should pay close attention to leave policies, health benefit plans, retirement plans and other benefits offered to spouses of employees. If they have not already done so, employers may want to consider revising their non-discrimination policies to include sexual orientation and gender identity or expression. Employers may also want to revisit prior practices involving benefits for domestic partnerships. Now that all couples can marry, unless such coverage is required by law, some employers may choose to eliminate domestic partner coverage, with its inherent tax and payroll difficulties.

Sources: Greater Houston Partnership; Houston Chronicle; Houston Business Journal; Kerry Notestine, Shareholder at Littler Mendelson

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