Houston's Employment Update

The nine-county Houston metro area added 6,000 jobs in April. Over the past 25 years, in boom times April job growth has ranged between 12,000 and 20,000; in bust years the region has lost between 13,000 and 16,000 jobs. The job growth reported in April falls in line with the 25-year average of 5,700 net new jobs for the month. Given the subpar growth in February and March, "average" job growth for April is viewed as something of an improvement.

Since February of this year, the region has created 20,000 jobs. That gain partially offsets the 47,800 jobs lost in January. The region always reports losses in January before hiring resumes in February. January's losses are typically recouped by April or May. The region needs to add another 27,800 jobs to recoup all the jobs lost in January. Last year, Houston didn't recoup January's losses until October.
On a seasonally adjusted basis, growth and losses are a bit more subdued. The region added jobs in January (+1,100) and April (+1,800) and lost jobs in February (-5,900) and March (-2,900). The region remains 7,000 jobs (seasonally adjusted) below its December 2015 peak.

On the Cusp of a Recovery in Houston?

This month marks the second anniversary of the collapse in global oil prices. West Texas Intermediate, the U.S. benchmark for light, sweet crude, peaked in mid-June of 2014, and then tumbled nearly 75 percent over the next 21 months. Brent crude, the European benchmark, followed the same path. Their plunge shredded exploration budgets, decimated the rig count, and triggered a wave of energy company layoffs. In Metro Houston, the industry lost 70,000 jobs.
Two years on, the industry is in the nascent stages of a recovery. Oil prices have trended upward since February. The North American rig count appears to have stabilized in late May. And layoff announcements, once as common as mosquitos in August, have subsided (though not halted completely). The worst may be over for the oil industry, which is welcome news since the broader economy has begun to show signs of stress. A few examples:

- Metro Houston retail sales have slipped from $35.4 billion in Q4/14 to $32.0 billion Q4/15, a drop of 9.8 percent.
- Wage growth has stagnated. The average weekly wage paid to Houston-area workers was $1,300 in Q4/14 and $1,307 in Q4/15. Adjusted for inflation, that represents a 0.4 percent decline. Over the previous 10 years, wage growth averaged a 3.0 percent increase per year.
- April year-to-date, local auto sales are down 13.2 percent compared to the same period in 2015.
- Average apartment occupancy in Houston fell to 89.7 percent in May. Below 90 percent is considered a renter's market. Of the 2,648 apartment communities in

Houston, 341 now offer floorplan specials, 236 offer free rent, and 23 offer other incentives to lure new tenants.
- Through the first four months of this year, City of Houston building permits are$400 million off last year's pace.
- May year-to-date, sales tax receipts have fallen in 38 of the 113 cities in the metro area that collect the tax.
- Local bank deposits fell from $242.6 billion in 2014 to $214.7 billion in 2015, a drop of 11.5 percent.

In spite of the forces aligned against Houston, the region managed to eke out 15,200 jobs in 2015. Momentum from the boom years offset the losses in the oil patch. That momentum, however, has played out. The few big wins Houston has logged so far this year—Daikin's 4-million-square-foot facility in Cypress, FedEx's new distribution hub near Bush Intercontinental, Mitsubishi Heavy Industries' U.S. headquarters in Greenway Plaza—won't reverse the inertia holding back Houston's growth. For Houston to prosper, the oil patch needs to grow again. Fortunately, signs have emerged that the energy industry may be on the cusp of a recovery.

WTI, which fell to $26.19 per barrel in February, rose steadily through the spring, closing above $51 in early June. Research conducted by Wood MacKenzie found a large number of firms would become cash flow neutral, i.e. their incomes match their expenses, once crude reaches $53 per barrel.

The decline in the U.S. rig count has slowed in recent weeks. The fleet lost no rigs the last week of May and added four rigs the first week of June. During Halliburton's Q1 earnings call, Chairman David Lesar said he expected the rig count to bottom out in Q2 and that there would be an upswing in the second half of the year.

In May, daily U.S. crude production dropped by 200,000 barrels. U.S. production is now down one million barrels from its April 2015 peak. The U.S. Energy Information Administration (EIA) forecasts domestic production to fall another half a million barrels next year. Simmons & Company expects non-OPEC supply outside of the U.S. to drop another 600,000 barrels this year, and that's on top of the U.S. production declines mentioned earlier. Granted, some of the declines may be offset by increases in OPEC production. EIA expects global consumption to grow by 1.5 million barrels and significant inventory draws to occur in 2017. Simmons & Company expects the withdrawals to be "cathartic."

Texas is "Top Tier" in Bioscience Industry

Biotechnology continues to grow in Texas, contributing to the state's overall economy by adding jobs, making strides in research and innovation and last year attracting $1 billion in federal funding for research. As the Texas economy struggles under the weight of an oil and gas industry downturn, the biosciences of medical research, treatment innovation and pharmaceutical development are seen as a bright light that stands to soon glow brighter. The Texas bioscience industry reported 81,000 jobs in 2014 across 4,865 businesses, which translates to 1 percent growth since 2012, according to a report released June 7th by the Biotechnology Innovation Organization, the national trade association, which compiled the study along with Teconomy Partners to measure growth over previous years. "Texas is one of the top-tier states in the size of its bioscience and biomedical research and innovation base," the report concluded. "Where we are now based on where we were, the growth is phenomenal," Thomas Kowalski, President and CEO of the Austin-based Texas Healthcare and Bioscience Institute, said in a phone interview from the convention.

The trade association has grown to 4,200 member companies from 500 two decades ago. In that time the state has set its sights on becoming a true competitor with the more established institutions of research and pharmaceuticals on the East and West coasts. "The third coast" has become a popular rallying cry for those working to turn Texas in general and Houston, in particular, into a bioscience destination. "Houston is becoming a major player not just from a research perspective but also in its clinical prowess," said Melinda Richter, head of Johnson & Johnson Innovation JLABS. Nationally, biotechnology exploded in the early 2000s but slowed during the recession years. The report says the industry is now regaining lost ground. In 2014, the industry employed 1.66 million people at more than 77,000 businesses across the country, the report found. Wages continue to be robust with a $95,000 average annual salary. The industry's growth in Texas can also be measured by the sheer number of bioscience patents issued. There were 1,196 last year, up from 980 just three years before. The highest number of patents came from medical and surgical devices and pharmaceutical development. While biotechnology is and may always be in the shadow of the oil and gas industry in Texas, William McKeon, EVP and Chief Strategy & Development Officer for the Texas Medical Center, points to the 10,000 job openings at the Texas Medical Center alone.

Few Jobs Added in May

Hopes for a continued economic recovery turned sour on Friday, June 3rd as the federal government reported near-zero job growth in May, with losses led by sectors considered essential to Texas: construction, manufacturing, and oil and gas. The nation added only 38,000 jobs last month, the worst result in nearly 5 ½ years. The total was depressed by the 35,000 workers who went on strike at Verizon, but add that back and it still amounted to a fraction of the 168,000 that economists had forecast and the nearly 200,000 that the economy has generated monthly on average over the past five years. It wasn't just May – the Labor Department revised downward numbers from the last two jobs reports as well, which means the economy hasn't been as healthy as many economists thought it was. Pia Orrenius, an economist at the Dallas Federal Reserve, noted that job growth has been slowing in Texas since October. Several manufacturing surveys in the southwest as well as other Fed regions turned sharply negative last month, for example, foreshadowing the 18,000-job drop in that sector's payroll nationwide.

Remaining bright spots in the regional economy include service-sector fields such as healthcare, retail and professional services, which continued to add jobs, though barely. But mining and logging (oil & gas) continued its slide, dropping another 10,000 jobs – bringing total losses since the industry's September 2014 peak to 207,000. The construction sector was another big loser nationally, dropping 15,000 jobs. Large industrial projects like petrochemical plants and refineries have buoyed an otherwise weak job market in Houston, and the construction pipeline is still full through 2017. The nation's unemployment rate stayed low, at 4.7 percent, which is what economists consider near full employment, and there has been some wage growth. This is only because 458,000 Americans stopped looking for work and were no longer counted among the unemployed. Many of them had likely grown discouraged over failing to find jobs.

U.S. Job Report Shows Caution

U.S. employers advertised the most open jobs in nine months in April but pulled back on filling them, a sign of caution that may reflect concerns about tepid economic growth. Job openings rose 2 percent to 4.8 million, the Labor Department said, matching a record high last July. Yet hiring slipped for the second straight month to just under 5.1 million. The figures suggest that an annual economic growth rate of just 0.8 percent in the first three months of the year has caused businesses to postpone hiring decisions.

A Shift in Tone in the Energy Sector

The conversation about oil has turned positive as well. Four months ago, the media focused on how low prices would fall. Goldman Sachs garnered headlines in February when it prophesied, in its worst case scenario, that crude would sink below $20 this year. Goldman made headlines again in May when it said crude would soon reach $50 a barrel. Crude was already trading in the mid-$40s when Goldman made the call. What's the expected trajectory for crude? EIA forecasts WTI to average $51.82 next year. Wells Fargo calls for $55.50. Daniel Yergin, the world's leading scholar on energy markets, expects crude to reach $60 by this December. In a May letter to clients, Simmons didn't expect oil to reach $60 until 2018. What's important is that everyone's forecasting rising, not falling, oil prices.

Wall Street also has begun to smile on the energy sector. During the downturn, shares of energy company stocks plunged between 25 and 75 percent in value. The rebound in oil prices has since brought about a recovery in stock prices, some nearly doubling in value from their troughs of just a few months ago. Their share prices, however, still remain well below their previous peaks.

Though the outlook for the oil industry is improving, Houstonians shouldn't expect another boom. The industry has seen false bottoms before. Last June, energy appeared on the verge of a turnaround. Oil prices began to climb, firms renewed drilling contracts, and layoffs were postponed. Then, in early July, Iran agreed to dismantle its nuclear program, the West promised to lift trade sanctions, and the prospect of Iranian crude flooding the market sent oil prices spiraling downward again. Once burned, twice shy, the saying goes. The industry should respond to rising prices more cautiously this time.

Structural constraints will also temper prospects for a quick recovery. Many workers laid off in the downturn have found work elsewhere, either in another industry or another state. Rigs parked for months in equipment yards won't be in optimal condition. Some will suffer from deferred maintenance; others have been cannibalized for spare parts. The initial impact on manufacturing will be muted as well. Any increase in orders will be met by scheduling more overtime. Additional hiring will occur only after a sustained and prolonged increase in orders. Also, a diminished rig fleet will require a smaller manufacturing workforce to supply the parts, consumables and equipment the industry requires. Even if the drilling fleet doubles from where it stood in early June, 800 rigs is less than half the number that were working at the peak.

The impact on exploration and production—in particular, the white collar/office workers—will occur even later in the recovery. Thirty-dollar oil taught E&P firms how to work with leaner payrolls. Any increase in cash flow from higher oil prices will be allocated toward debt reduction, dividend payments and drilling more wells. Hiring will be a low priority. During the downturn, layoffs came in the thousands. In the early stages of the recovery, job gains in the energy sector will be measured by the handful. The nascent recovery may have come too late for some. Planned layoffs will still be carried out. Firms that need $80 and $90 oil to remain solvent will be forced into bankruptcy. Mergers and acquisitions, delayed because no one could agree on asset values, will finally transpire. Such transactions always lead to consolidations, asset sales, and more layoffs.

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