Hiring Source

November 2014

eNewsletter

Houston Leading the Nation in Job Growth

Employment in the Houston-Sugar Land-Baytown Metro Area grew 4.3 percent in the 12 months ending September 2014, leading the nation's major metro areas in the pace of job growth. According to the U.S. Bureau of Labor Statistics, the Houston metro area created 120,700 jobs on a seasonally adjusted basis, a close second to the 129,100 jobs added in the New York metro area during the same period. That was aided by the addition of 23,600 jobs last month, a figure that included the annual return of school workers to campus. This level of job creation is remarkable given that Houston is home to 2.9 million jobs, a third of New York's 8.8 million jobs.

A prolonged hiring spree in several key sectors – with construction and oilfield services leading the way – has bolstered Houston's dominant position as an economic powerhouse. The Houston region experienced growth in all major industry sectors from September 2013 to September 2014. Educational and health services led the super sectors, adding 21,300 jobs and a 6.3 percent increase, its fastest growth since April 1997. The majority of new jobs occurred in ambulatory health services (up 9,400 jobs, 6.8 percent) and hospitals (up 4,000 jobs, 5.2 percent). Strong growth also occurred in educational services, which added 2,400 jobs, or 4.8 percent. Workforce Solutions cautions that current estimates for educational and health services may undergo large revisions as they did in 2013. The report did not indicate in which direction the revisions might occur. Professional and business services grew 4.5 percent adding 19,300 jobs. Within this super sector, architectural, engineering and related services reported the strongest increase, adding 8,200 jobs, or 11.7 percent.

Houston's September unemployment rate fell to 4.9 percent, only the second time the region's unemployment rate fell below 5.0 percent since the start of the Great Recession. Texas' unemployment rate was 5.0 percent in September, down from 5.5 percent in August and 6.2 percent in September 2013. The U.S. rate was 5.7 percent in September, down from 6.3 percent in August and 7.0 percent in August 2013. Prior to the recession, 4.5 percent was considered the structural unemployment rate. However, given shifts in the economy and technology that occurred during the Great Recession, it is uncertain what is deemed the new level of structural unemployment. Regardless, as the unemployment rate falls and the labor market tightens, the structural mismatch will become more pronounced between the type of workers employers are seeking and the skills possessed by the unemployed.

U.S. Job Numbers Improve Again

Only days after many voters complained that the economy was getting worse, the latest government report on jobs, released November 7, 2014, provided fresh evidence that it was getting better. Employers added an estimated 214,000 jobs in October, the Labor Department found, and the official jobless rate, bolstered by a big rise in the number of people finding jobs, dropped to 5.8 percent, down sharply from 7.2 percent last October. It was 5.9 percent in September. The increase, combined with a revision

that showed 31,000 jobs were added to the number previously reported for August and September, puts the average monthly employment gain for the past six months at 235,000 – an indication analysts said, that the economy's progress was gaining momentum. More than 683,000 people reported that they found a job last month, according to a separate survey by the Labor Department. And the number of people walking away from the labor market has halted, while the average number of hours worked ticked up.

The primary disappointment was the lack of wage growth. Hourly average earnings have remained stuck, rising only 0.1 percent in October, on the heels of no gain in September. That's likely to cause the Federal Reserve to move cautiously before raising interest rates. Still, several economists were encouraged by the October numbers. "Labor force participation actually rose" to 62.8 percent, said Carl Tannenbaum, chief economist at the Northern Trust Co. "We didn't see a drop in employment because people dropped out of the workforce." Yet Election Day exit polls found that 78 percent of those surveyed were very or somewhat worried about the future direction of the economy, while two-thirds said they believed the economy was getting worse. For many Americans, it still is. Even though the recovery from the recession is in its sixth year, stagnant wages, an economy generating jobs mostly at the bottom and the top rather than in the middle, and vast disparities between the rewards bestowed on the rich and on ordinary workers have left many people disenchanted with their economic prospects. The lack of wage growth helps explain why ballot measures to raise the minimum wage in Alaska, Arkansas, Nebraska, Illinois, and South Dakota all passed despite widespread losses among Democrats in those states who supported such measures. Some analysts now see signs that a tighter labor market may lead to higher wages in the near future. "The job market is steadily picking up pace," said Mark Zandi, economist at Moody's Analytics. Faltering global growth could create trouble for the U.S. economy in the months ahead.

Why Texas Is the Place to Be

Texas is home to just 8 percent of the U.S. population, but over the past 14 years, 35 percent of all new private sector jobs in America were created right here in the Lone Star State. Fortune 500 corporations, along with countless new start-ups and small businesses, call Houston home. Why are such companies as AT&T, Toyota, Apple and Charles Schwab bringing major expansions and thousands of jobs to Texas? The answer is multi-faceted: low taxes, a predictable regulatory environment and common-sense lawsuit reforms. Together, these factors are driving investment and innovation all across our state.

In looking at the four largest Texas regions – Houston, Dallas, San Antonio, and Austin – each has its own unique features and economic drivers, while all share common threads that make Texas appealing for business. Some of the key drivers are business friendly environment, quality of life, availability of a skilled talent pool, low cost of living, low tax burden, the absence of a state income tax, a strong diverse economy, and a central location with easy international access.

Texas ranks No. 1 in location desirability for job seekers and is also the top destination in the U.S. for oil and mining job-related searches. Location desirability rankings are based

on the total number of external job searchers. The more external searches a state has, the higher it appears in the desirability rankings. Rankings are based on a normalized scale with Texas equal to 100. The Lone Star State also had the highest total number of searchers from outside the state. Data gathered shows that people in California, Florida, Illinois, New York and Louisiana are all actively looking for jobs in Texas, with people in California and New York searching the most.

According to The State of Women-Owned Businesses, a 2014 report published by American Express OPEN, there are more than 178,500 women-owned businesses in the Houston metro area, representing 24 percent of all women-owned businesses in Texas. Between 2002 and 2014, the number of women-owned businesses in Texas increased 52 percent, the fifth-fastest in the nation. Texas ranked as the ninth best state for women-owned businesses, tied with Utah. The rankings were based on the number of WOBs in the state, the revenue growth between 2002 and 2014, and growth in number of employees in the same period.

Low Crude Price and the Potential Impact

The U.S. is currently enjoying an energy renaissance. Crude production averaged 8.7 million barrels per day (bbl/d) in September, the highest monthly production since July 1986. Production continues to grow, and the Energy Information Administration (EIA) forecasts output will average 9.5 million bbl/d in 2015. If reached, that would be the highest monthly production since 1970. The increase in domestic production has reduced U.S. dependence on foreign oil.

The natural gas story is equally compelling. The Potential Gas Committee (PGC) estimates the U.S. has 2,384 trillion cubic feet (Tcf) of technically recoverable natural gas reserves. Much of the growth stems from the combination of directional drilling and hydraulic fracturing, the pumping of water, sand and chemicals into a well under extreme pressure to shatter oil-bearing rock and release the hydrocarbons trapped inside. This tight oil accounts for one-third of U.S. crude output and almost all U.S. production growth.

Most of the growth in consumption occurred in the emerging markets. Strong demand and high prices provided the incentive for the industry to develop deepwater resources, explore in harsher climates, and invest in new technologies such as horizontal drilling and hydraulic fracking.

The recent slowdown in global economic growth, however, has diminished the need to find and produce more oil. EIA expects global oil demand to grow by only 650,000 bbl/d in 2014, down from an annual average rate of 1.1 million bbl/d from 2009 to 2013. Prospects remain dim for global growth to accelerate and oil prices to rebound anytime soon. Europe teeters on the edge of recession; growth in Africa, Latin America and the Middle East remains tepid; and industrial production growth in China has decelerated to its slowest pace since 2008. EIA forecasts U.S. liquids fuel consumption will grow only 170,000 bbl/d in 2015, far less than the 1.0 million bbl/d expected increase in U.S. crude production.

Analysts see three scenarios in which supply and demand might rebalance—OPEC cutting production, a Middle East flare-up disrupting supply, and low oil prices squeezing high-cost production out of the market. The next OPEC meeting is scheduled for November 27, Thanksgiving Day. Saudi Arabia traditionally serves as OPEC's swing producer, adjusting its production to balance global markets. The Saudis could take action prior to the November meeting but have refrained from doing so. Many analysts believe the Saudis want prices to continue falling to destroy as much marginal crude production as possible. It costs the Arab nation less than $10 to produce a barrel of oil, compared to $40-$80/bbl in the U.S. A more likely scenario is that low prices will force marginal production off the market. The International Energy Agency (IEA) estimates that 2.6 million bbl/d, volume almost equal to current estimates of excess capacity, needs a price of $80/bbl or higher to break even. This includes production from certain fields in China, Indonesia, Malaysia and Nigeria, some offshore and oil sands production, and some North American production brought on by horizontal drilling and hydraulic fracturing.

An oft-cited rule of thumb is that production in the Eagle Ford remains viable as long as crude is priced $70/bbl or higher; in the coming months, that rule will be tested. On the last day of October, contracts on the New York Mercantile Exchange (NYMEX) for crude delivered in 2015 hovered at $80 per barrel. Most analysts expect WTI will eventually settle in a $75 to $85/bbl range next year. Goldman Sachs, the least optimistic prognosticator, suggests oil could fall as low as $70/bbl in Q2/15. The drop in oil prices comes at the worst time possible for the industry. Autumn is when most firms set exploration budgets for the coming year. With most expecting prices in 2015 to be lower than in 2014, capital expenditures at best will remain flat or decrease slightly. In a recent industry survey conducted by Tudor Pickering Holt, 48 percent of the respondents indicated they would cut capital expenditures if WTI averaged $79 or less in 2015. When asked how much they'd reduce capex, about one-third replied between 10 and 20 percent.

For the sake of argument, assume a 10 percent reduction in capex results in a 10 percent reduction in wells drilled and a 10 percent reduction in the rig count. A 10 percent drop, or approximately 175 rigs, would cause discomfort but not pain for the industry. The drawdown would be spread across numerous basins and the negative impact in any one locale would be limited. Demand for oil field equipment would shrink, and since much of that equipment is produced locally, manufacturing employment in Houston would be impacted. A 20 percent drop in exploration budgets suggests a 20 percent drop in the rig count and a loss of 350 or more rigs. This would bring pain to the industry. Revenues would fall and layoffs would likely ensue. Though Texas production is up over last year, the price of oil is down, and current Texas production is worth $1 billion less per month than this time last year. The drop has reduced cash flow, trashed rates of return, and reduced the industry's appeal to private equity investors. Any drop in exploration activity wouldn't occur immediately. Most companies make investment decisions well in advance, and rigs under contract would work until expiry. A prolonged period of sub-$80 oil will force all firms to focus on their balance sheets. Even with a downturn, EIA expects North American production growth in 2015 and 2016 as programs underway now come on line next year and the following. After that, production could quickly fall.

Commodities are cyclical in nature, and Houston may be on the cusp of a down cycle. However, the region is better poised now to manage a downturn than it was 30 years ago. Why?

- Prices slip but they're unlikely to plummet as they did in the 1980s. When oil collapsed then, prices fell from a peak of $42/bbl in 1982 to $12.50/bbl in 1986, a 70 percent drop. For a similar decline today oil would have to drop to $32.40 a barrel.
- Job growth will slow but it's unlikely to turn negative. During the 1980s recession, the region lost 221,000 jobs, one in every seven in the region. If Houston were to suffer a comparable loss today, the region would lose 418,000 jobs, almost every job gained since the end of the Great Recession. That's not going to happen. The region has enough momentum from the construction boom along the ship channel, the pent-up demand for housing, the recent surge in population, growth in health care, and ties to the expanding U.S. economy to support continued job growth, albeit at a slower pace.
- Houston's office market is not overbuilt. From 1982 to 1986, the metro area added 71.7 million square feet of office space, a 61.8 percent increase, much of it built on spec. Since Q1/10, the region has added about 11.1 million square feet of office space with another 17.3 million square feet under construction. The space added and under construction represents a mere 14.3 percent increase in the market and two-thirds of the space under construction is pre-leased.
- The local housing market remains tight. From 1982 to 1986, the region added 187,760 apartment units and single-family homes while the region was shedding 221,000 jobs. Since Q1/10, Houston has built 189,575 apartment units and single-family homes while adding 446,000 jobs. Houston is not in danger of gross overbuilding as it did in the 1980s.

That's not to say weak oil prices won't affect the region.

- Employment growth will slow from its current pace of 4.3 percent to a more sustainable pace, perhaps 2.4 percent. At that rate, the region would still create 70,000 jobs per year.
- Office construction likely would slow, and vacancies in Class B and C space would rise as tenants move to new Class A space.
- Houston's overheated housing market will cool a bit. More supply would be available and prices would ease.

HBJ Best Places to Work 2014

Every year, the Houston Business Journal compiles its Best Places to Work list recognizing top-performing businesses in areas like leadership, compensation, advancement opportunities and communication. Fair compensation and benefits are top concerns for potential job seekers, but finding a satisfying job relies on other factors, too, such as company culture, opportunities for advancement, and work-life balance.

Top Four Trends

- Valuing Values – Workers would rather take a job with goals that fit their values. It's all about company culture. The most important part of an organization's culture is its people. Company leadership is a driving force behind culture. One business may have managers with open-door policies, another may have formal

evaluations, and another may use both. Continuing education and training may be a necessary budgetary item for one boss and may be seen as a frivolous company expenditure for someone else. Attractive talent looks to move up in an organization, grow skills, and take on more responsibilities.

- Your Friends, Your Coworkers – Today's employees want to interact with their bosses and coworkers, they expect their employers to facilitate the interactions. Companies provide outlets for personal growth to alleviate job stress. Half day Fridays, community outreach and gym access are just some ways Houston companies provide opportunities for personal growth and overall well-being. An increasingly popular perk is telecommuting, which means more quality time with family. Millennials want to be able to have their time to themselves, and it's equally as important as the time they spend to dedicate to their profession, which is a bit different from the Baby Boom era, which was compensation package and retirement opportunity.

- Benefiting from Benefits – Aside from salaries and bonuses, and in addition to ping pong tables and happy hours, workers these days demand more from their employers. The recession hit the U.S. in 2008 and health care costs started escalating so employers cut benefits. For the past few years, companies have scrambled to provide the best health care coverage at the best possible price. Many workplaces now offer other perks, such as free health screenings and wellness programs.

- Back to Basics – Yes, at or above market-value compensation is still critical in determining a best workplace fit for a candidate. Compensation, wellness and benefits packages, perks and other add-ons all come down to one simple fact: an employee's determined value.

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