Houston's Economy

Three factors drive Houston's economy—the price of oil, the value of the dollar, and the health of the U.S. economy. Two of the three are currently struggling at the plate.

The stats show oil to be in a slump. Crude trades at less than half its June 2014 peak. Exploration firms have slashed their budgets 50 percent or more. The rig count has fallen nearly 60 percent. Drilling permits are down 40 percent. Layoff notices appear in the media almost daily. The industry is in transition, with more layoffs, bankruptcies, mergers and acquisitions to come. Oil prices, a catalyst for growth in recent years, are now a drag on Houston's economy. The industry is restructuring, but it's too early to know how long the reorganization will last or what the industry will look like when it's done. Houston is in no danger of losing its role as "Energy Capital of the World," but the industry will look much different in the future—fewer firms, a smaller workforce, greater capital discipline, and even more reliance on technology.

Foreign trade is as important to Houston as energy. The Houston-Galveston Customs District routinely handles $250 billion in trade (exports and imports) per year. More than 5,000 Houston companies do business overseas. And The Brookings Institution estimates that exports account for nearly one-fifth of the region's gross domestic product. Unfortunately, growth has slowed in many emerging markets, reducing the demand for Houston's exports. To make matters worse, the U.S. dollar has appreciated nearly 20 percent in value over the past 18 months, making U.S. goods and commodities more expensive overseas. As a result, exports via the customs district have slipped $10.3 billion (13.3 percent) through August compared to the same period last year. Though data is not available, the strong dollar has undoubtedly hurt the Houston firms that export their services overseas.

The U.S. economy is the only power hitter in the lineup. The Bureau of Economic Analysis estimates that U.S. gross domestic product (GDP) grew 3.9 percent in the second quarter. Employment growth is averaging 250,000 jobs per month. And the nation is on pace to start nearly 1.2 million housing units this year. All of these signs translate into improved domestic demand for the chemicals, plastics, industrial and electrical equipment that Houston produces. The improving U.S. economy helps, but it won't offset the impact of weak oil prices and a strong dollar on Houston. Growth here will sputter along until at least one of the other two—the price of oil and the value of the dollar—swings in Houston's favor.

Houston Area's Jobs Rise

In September, Houston-area employers added 6,400 jobs. "It is a noisy month," said Parker Harvey, senior regional economist with the Houston-Galveston Area Council. Currently, healthcare is the only sector in the area showing robust growth, according to the closely watched survey of area purchasing managers. Several sectors are hovering near neutral, including construction, manufacturing, and transportation and utilities.

The Houston economy also recorded losses in several key sectors, including professional and business services, which cut 6,500 jobs, and manufacturing, which trimmed 1,900 jobs. But oil and gas exploration and production eked out another gain in September, its second consecutive increase. Last month, oil and gas producers added 200 jobs, which comes on the heels of an 800-job gain in August. "I think these numbers suggest we are still shedding jobs but the pace of loss may have declined a bit," said Barton Smith, professor emeritus of economics at University of Houston. Smith said he's encouraged to see back-to-back- months of job growth after months of losses in the all-important mining sector, which includes oil and gas. The fact it has "calmed down" is encouraging, he said, although he'd like to see a few more months of job creation – or at least no losses. The next sign Smith will be looking for is stabilization of the durable manufacturing sector, another key part of the energy industry. "Once that happens, we can say the primary damage is over," he said. Since December, the Houston area has lost 4,000 jobs in oil and gas exploration and production. Over the past 12 months, Houston area employers added 36,200 jobs for a 1.2 percent year-over-year gain. At this rate, Houston will likely end the year with an increase of about 30,000 jobs, said Smith. The TWC reported Houston's unemployment rate was unchanged at 4.6 percent in September. Houston employment remains 22,200 jobs below its December 2014 peak. The sectors that are growing haven't added enough jobs to offset losses elsewhere. The Greater Houston Partnership recently revised its employment outlook to better reflect current economic conditions. The forecast now calls for the region to add 20,000 to 30,000 jobs in 2015. That compares to 104,700 created in 2014 and 89,900 created the year prior.

Local Job Cuts

- TransCanada plans to eliminate about 20 percent of its senior leadership positions according to multiple reports. The company expects to complete the process by the end of November. It currently has more than 6,000 employees in North America.
- National Oilwell Varco will close two more Houston facilities, affecting 85 jobs. The support facilities will close between November 20th and November 26th.
- Hercules Offshore told the TWC it will cut 50 more jobs due to the stacking of multiple rigs. The job cuts are expected to commence on or about November 21st.
- Chesapeake Energy is shedding 740 jobs, or about 15 percent of its workforce, in a bid to trim costs as low oil prices linger.
- GE will cut at least 500 jobs nationwide, including about 100 in the Houston area at the Jacintoport facility in East Houston, where the company currently has 600 employees.
- Boeing plans to cut 70 jobs in Houston. Most of the jobs are tied to the International Space Station operation.
- Adding to the 14,000 jobs slashed, or 16 percent of workforce, Halliburton is planning more cuts, including management positions in North America, where the crude oil price slump has been particularly brutal.
- ConocoPhillips is laying off 1,800 employees about 10 percent of its global workforce, 500 of them in Houston.
- Chevron announced it would chop 1,500 jobs across the company, including 950 of its 8,000 Houston-area employees.

Healthcare Businesses Thriving

Houston's second-most prominent industry, healthcare, is a surging pillar of the local economy. Employing an estimated 290,000 people across the region, health care supports nearly as many jobs as the 305,000 in oil & gas and related fields, said Parker Harvey, senior reginal economist for Workforce Solutions. And the number of healthcare jobs is expected to double locally during the next 10 years. In a typical city, healthcare is purely service, in Houston, it's a basic economic sector. Over the past decade, one in seven new jobs in the Houston area was created in the medical field compared to one in fourteen in energy. But over the past year, the energy industry has been shedding positions, while healthcare organizations can't seem to fill them fast enough. At the Texas Medical Center, Houston's crown jewel city-within-a-city, there are 10,000 current job openings. Competition for those hires, especially in high-demand professions like nursing, has become so fierce that Houston Methodist is offering $10,000 bonuses. At Memorial Hermann Health System employees are being lured with promises of student loan repayment. This all comes at a time when medical executives are breaking ground on more than $3 billion in hospital construction projects. Yet as important as the industry has become important to Houston's economy, it likely never will deliver be economic punch of the global oil and gas industry.

While the number of local jobs in healthcare grew by 43 percent over the past decade, energy jobs expanded by 46 percent in the same period. The oil industry brings in new dollars from around the world by producing and selling oil, chemical, manufactured parts, oilfield services, engineering and architectural design, said Barton Smith, professor emeritus of economics at University of Houston. Smith estimates half of Houston's economic base comes from energy, healthcare contributes only 10 percent. In fact, healthcare owes much of its growth to oil. When more than 1 million people flocked to the city over the past decade, many chasing energy jobs during the boom, the medical community flourished in response to take care of them. "As an economic engine we will never overtake oil & gas," acknowledged Dan Wolterman, president and CEO of Memorial Hermann Health Systems, "But on the other hand, healthcare is immune to the economic ups and downs. People get sick no matter what the economy is doing." In these post-boom days for oil, talk about past busts is inevitable. "In the 1980s, we didn't have much backup," said Smith, the economics professor. Back then, 82 percent of the local economy was energy, today it's about 50 percent.

Lackadaisical 2016 is Ahead for Houston

Houstonians should brace for a lackluster 2016, economists said. "We're going to be short of a lot of things that the economy needs to grow," said Patrick Jankowski, SVP Research at Greater Houston Partnership. These shortages will include construction, exports, and demand for oilfield equipment and services. And while he is confident that Houston will end this year creating at least some jobs, Jankowski said the outlook for 2016 is less certain. "The important caveat to the story is that Houston has attracted a significant increase in population. That population adds stability to the economy," Dye said. He said stability is also provided by the economy's non-energy sectors. Jankowski emphasized that Houston benefits from the overall U.S. economic growth.

Houston's Demographic Profile

From 2005 to 2014, Metro Houston created nearly 650,000 jobs, gross domestic product grew by more than $200 billion, and the region added 1.3 million residents. About 45 percent of the new residents arrived via the maternity ward and 55 percent via the moving van.

The local labor force participation rate has fallen, but not to the same extent as the national rate. In 2005, 68.8 percent of Houstonians 16 and older were in the labor force (i.e., employed or actively looking for work). By 2014, the labor force participation rate had slipped to 67.1 percent. The U.S. rate fell from 66.0 to 62.9 percent over the same period.

More Houstonians work in the energy industry now. That's not surprising given the rise in oil prices and drilling activity from 2005 to 2014. Nine years ago, only 2.5 percent of the region's 2.4 million workers identified themselves as employed in the oil and gas industry. Last year, 4.2 percent of the region's 3.1 million did so.

Houston has grown smarter. The number of adults with a bachelor's degree or higher has grown by more than 380,000, and the number completing high school by more than 850,000. The share of adults without a high school diploma has dropped from 21.3 percent to 18.0 percent over the past nine years.

Fewer Houstonians are self-employed. In 2005, 7.1 percent of the region's population was self-employed. That figure dropped to 6.2 percent in 2014. That number may creep up in coming years as the weaker economy forces many to become entrepreneurs by circumstance, not by choice.

Offshore Sector Still Moving Forward With Key Projects

Companies involved in offshore exploration and production are moving forward with a number of projects, due to the projects being on a multi-decade timeline, and that they can do them in a cost-competitive manner. Hiring and staffing will be in step with this activity. For example, Royal Dutch Shell PLC announced in July 2015 it green-lighted the Appomattox deepwater development, a project that will include building the company's eighth and the largest deepwater platform in the Gulf of Mexico. Start-up is expected sometime around 2020. In addition, One-Subsea, a Cameron and Schlumberger company, was awarded a contract in the second quarter of 2015 to supply subsea processing systems for the Shell Offshore Inc. Stones development in the Gulf of Mexico. Other companies are looking to streamline and eliminate some offshore project costs by the use of a design catalog, which could possibly be the wave of the future to help lower costs. As the multimillion-dollar deepwater projects move forward, there will be jobs during each phase and operations, maintenance and others as the projects become operational. The IHS Global Insight Report stated that the oil and gas industry will need nearly 3 million workers by 2020. This is almost double the demand from 2012. Factors leading to demand are that qualified employees are hard to find as well as the aging population of current employees. Oil and gas now supports almost 10 million workers. Houston, in particular, is expected to add more than 100,000 middle-skill jobs by 2017.

Caution Reigns as Oil Climbs a Little

U.S. oil prices rose modestly as drillers idled more rigs and the government reported that the U.S. economy grew at a stronger clip in the second quarter. The Baker Hughes rig count showed a decrease of four active oil rigs week-over-week reducing the total to 640. Low prices continue to hammer oil and gas workers, with global layoffs now about 200,000, according to an estimate by energy recruitment firm Swift Worldwide Resources. The sharp cutback in drilling also has led to declining U.S. production and at least a long term prospect that lower output will relieve a global oversupply and pull prices up. Payrolls have fallen along with drilling. Swift Worldwide Resources said job losses mounted throughout the summer, with companies shedding 50,000 more positions from mid-June to September as the cuts extended across the industry. While oilfield services companies bore the brunt of the layoffs early in the downturn, the world's largest oil and gas companies began announcing job cuts this summer as they pared back projects and halted new investments amid continued low oil prices, Swift said. "Operators find themselves with a surplus of talent with limited sign of immediate recovery," the company said in a statement. The United States, Canada, and the North Sea have been particularly hard hit, but as the slump lingers, losses are escalating worldwide. While some companies have announced their layoffs publicly, most keep job cuts quiet, making it difficult to measure the effect of the downturn on the global energy workforce. Swift CEO Tobias Read said the company's estimates probably are conservative, and that job losses could surpass 250,000 before the industry recovers. "The industry is coming to the realization that capital expenditure has frozen and as a result, companies are going through two to three rounds of cuts," Read said in an interview.

Texas Will Barely Add More Jobs in 2015

Because of the collapse in oil prices and the strength of the U.S. dollar, Texas barely will add more jobs in 2015, an economist from the Federal Reserve Bank of Dallas reported. The state will create 150,000 jobs, most of them in services and construction, while oilfield layoffs will continue to grow. Houston added more than 120,000 in 2014, about 3.6 percent. Mina Kuhan Yucel, SVP at Federal Reserve Bank predicts the Texas economy will grow at an annualized rate of 1.3 percent in 2015, with healthcare and hospitality services responsible for keeping the state out of recession. In 2014, the Texas economy grew at a rate of 5.2 percent. Houston's economy, meanwhile, will lag behind the rest of the state because of the layoffs in the oil & gas industry. The Texas Alliance of Energy Producers, an industry trade group, says Texas has shed more than 28,000 energy jobs since December. In Texas, the unemployment rate edged higher to 4.2 percent in September, from 4.1 percent in August. The state could lose 140,000 jobs tied to the oilfield this year, a forecast the Dallas branch of the Federal Reserve expects may worsen. The number of drilling rigs working in the Eagle Ford dropped by half in the past year, from 203 to 90. Across the country, more than 1,000 drilling rigs have been stacked.

Oil Jobs Rank High for Benefit Plans

Energy companies have a reputation for higher than average pay. It turns out they also have better than average retirement benefits. BrightScope, a financial information provider than ranks 401K plans, rated the top retirement programs in Houston and twenty two of the top twenty five are with energy companies. They got top ratings for their generosity in matching participant contributions, plan design with a focus on low cost fees, and their ability to attract a high rate of employee participation. Saudi Arabian Oil Co. is at the top, followed by BHP Holdings International, for having the best local tax-deferred 401K or profit-sharing retirement plan. Freeport-McMoran Oil & Gas, ConocoPhillips and Americas Styrenics round out the remainder of the top five. Energy companies hire highly skilled employees and tend to pay them well. BHP Billiton credits its benefit package as one of the reasons it has built such a strong local team. "We want our people to feel valued for the work they do, and we regularly evaluate the marketplace to ensure that our offerings are competitive in the industry," Jen Koury, VP HR for BHP Billiton's petroleum business, said in a statement. This year, all employees receive an 8.5 percent company contribution to their 401K on the first $118,500 in base wages and bonus. The company contribution amount increases to 14.2 percent on earnings higher than $118,500. In addition, employees at BHP Billiton who would like to contribute some of their own earnings to their 401K plan can get a 10 percent match on up to a 6 percent contribution. All contributions are immediately vested.

7 Expectations of Millennials at Work

Millennials are the 18 to 33 year olds that will be moving into more management and supervisory roles in the next five years. They are incredibly valuable to your company and you need to know what they want and how to give it to them. Since they are the largest generation of employees, they are also the largest generation of customers for you to sell to, and they have money. Their opinion of your company matters and they are vocal about in social media. They are the future leaders of every organization and there aren't enough Generation X employees between the ages of 34 to 54 to fill the positions of all the retiring Boomers in the next five years. They are very tech savvy and entrepreneurial. So making work fun, flexible, challenging, and social with training, mentorship and ongoing feedback is good for your future leaders and your bottom line.

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