

Slightly More at Work than In 2015

Employment grew slightly in Greater Houston over the past year as moderating job losses in oil & gas were offset by gains in services such as health care, hotels and restaurants, the Labor Department reported. Overall, the metropolitan area gained 13,300 jobs over the 12 month period that ended in July, an annual growth of 0.4 percent – an improvement from June's year-over-year increase of 0.2 percent and better than analysts expected. Drilling activity has increased modestly in Texas, following a rebound in oil prices, and many oil company executives have suggested that the worst is over, after reporting abysmal earnings in the quarter that ended in June. "It appears that the hemorrhaging is slowing, and we may be on a path to an even keel," said Parker Harvey, an economist at Gulf Coast Workforce Solutions, a regional workforce development agency. The two-year oil bust has still battered the local economy, with the unemployment rate rising nearly a point from a year ago, to 5.8 percent from 5 percent in July 2015. Job growth is also lagging the state and nation. In Texas, jobs grew 1.5 percent while national employment grew 1.7 percent in the 12 months ending in July, according to the Labor Department.

Metro Houston lost 8,600 jobs in July, according to data from the Texas Workforce Commission. Houston always experiences significant job losses mid-year as educators on 10-month contracts are without work during the summer. This year's loss fell well below the typical loss of 15,000 jobs for the month. July's job losses will likely be recouped when September data is released, which will reflect the resumption of school.

Analysts noted other hints of improvement in the Houston area. Sectors recording notable growth in July were professional and business services (+5,100 jobs), construction (+2,100), and trade, transportation and utilities (+1,500). Sectors recording notable job losses included local government education services (-14,400) and health care (-1,200). Professional and business services, which have shed 2.3 percent of jobs over the year, experienced noticeable gains in July. That included an increase in architectural and engineering jobs, which can foreshadow gains in construction and population growth. The mining and logging sector, which has averaged losses of 1,500 jobs per month since January 2015, lost only 300 jobs in July. From early June to mid-July, crude prices averaged \$48 per barrel. Over the same period, the U.S. drilling fleet added 54 rigs. Those two trends suggest the energy industry may have seen the worst of the downturn. As a result, energy-related job losses have begun to moderate.

Other sectors, however, are showing signs of softening. Healthcare has driven Houston's employment growth through the oil and gas downturn, but it was a source of concern in the latest purchasing manager's index, a comprehensive measure of business activity. An unusual number of job losses in July came from ambulatory care centers, the outpatient clinics that mushroomed everywhere around Houston. A spokesman for Harris Health System, the public entity that operates 43 such clinics, said the area has seen tremendous expansion in such facilities as health policy moves

towards primary care rather than expensive hospital-based procedures. Overall, health care added 12,000 jobs over the year. Despite the relatively positive jobs numbers in July, analysts are hesitant to call it a recovery until the same thing happens for several months in a row. Other indicators, such as home sales and auto sales, turned down sharply this month. Any real bounce back will depend on whether oil prices continue to rise.

Healthy Growth in the Texas Labor Force

Statewide, Texas managed a seasonally adjusted increase of 23,600 jobs last month. The unemployment rate ticked up to 4.6 percent – still below the national rate of 4.9 percent in July. The numbers parallel national unemployment statistics for July, which showed healthy growth in the labor force, a sign that more people are looking for jobs. Over the past year, Texas added 173,000 jobs, substantially below the state's five-year average of 301,100 positions. The service sector drove increases, adding 235,000 jobs over the year, while goods-producing industries dropped 62,000 jobs – their 15th consecutive annual decrease. Construction employment stopped its slide, adding 7,800 jobs in July, after two negative months. Robert Dye, chief economist for Comerica Bank, says his outlook for the state has gotten more optimistic in recent months.

Not Just Birkenstocks and Garages

Startups and new businesses grab headlines for their relaxed company culture or generous employee benefits, but they are also important drivers of economic growth. According to the Kauffman Foundation, new and young companies are the primary source of job creation in the American economy and spur innovation. The Houston metro area was home to 24,116 firms that have been in business three years or less as reported by the inaugural 2014 Annual Survey of Entrepreneurs from the U.S. Census Bureau. These young firms represented 6.3 percent of total employment and 24.8 percent of total firms, more than the 22.2 percent share of young firms nationwide. Among U.S. metro areas, Houston ranked seventh in its share of entrepreneurial firms, below Austin (27.0 percent) and barely edging out Silicon Valley (24.7 percent).

Some sectors were more prone to entrepreneurial activity than others. A third of the firms in accommodation and food services were in business three years or less. Within the oil and gas sector, 29.3 percent of its firms were entrepreneurial, and 27.0 percent of professional, scientific, and technical services firms were young. The Annual Survey of Entrepreneurs reflects data collected in 2014, the last year of the energy boom, which may have supported strong entrepreneurial activity in the oil and gas sector. Future releases of the survey will show how young firm activity changed during the energy downturn. Sectors with lower concentrations of entrepreneurial activity were manufacturing (17.1 percent of firms were in business three years or less) and wholesale trade (16.6 percent). These industries tend to have higher costs and more barriers to entry that inhibit start-up activity.

Energy Snapshot

West Texas Intermediate (WTI), the U.S. benchmark for light sweet crude, opened the first trading day of August at \$40.06 and closed the last trading day of the month at \$46.97. Since WTI hit bottom at \$26.19 in mid-February the price has jumped 79 percent. The U.S. Energy Information Administration's (EIA) September 2016 Short-Term Energy Outlook projects WTI to average \$51 a barrel in 2017. That's an improvement from March 2016, when EIA forecast WTI to average \$40 a barrel next year.

The last week of August saw 497 drilling rigs working in the United States, up from the late-May trough of 404 but down from 864 the same week last year. Through the first eight months of this year, 17,390 drilling permits were issued for onshore, shallow offshore and the deep waters of the Gulf of Mexico. That compares with 30,666 permits issued over the same period last year.

EIA expects global consumption to increase by 1.4 million barrels per day (bbl/d) in 2017, mostly driven by growth in countries outside of the Organization for Economic Cooperation and Development. EIA expects non-OPEC production to decline by 0.2 million bbl/d in 2017, and for OPEC crude oil production to drop by 0.5 million bbl/d.

Millennials Take the Lead

Millennials came of age this year. The youngest will vote in their first presidential election, the oldest will mark a dozen or more years in the workforce. In Houston, Millennials now outnumber Baby Boomers, Generation X and the Greatest Generation. Only Generation Next outnumbers Millennials, which makes sense considering Generation Next is composed of their children and the children of GenXers. Houston's Millennial population will continue to grow. For decades, the region has attracted college grads and young adults seeking to launch careers or start a new business, though the pace of immigration may slow with the weak economy. And young immigrants will continue to move here from abroad, lured by opportunities not available in their home countries. Millennials and GenXers will have more babies; Generation Next will continue to grow.

But Houston's Boomer population will shrink; the flow of older migrants into the region is not enough to offset the losses due to death or the outmigration to communities favored by retirees, such as Kerrville, Wimberley, and Georgetown. Because they constitute the second largest share of Houston's population, Millennials have an outsized influence on Houston's economy, politics and cultural scene, just as the Baby Boomers did 30 years ago. But the two generations followed different paths before assuming the role. Boomers came of age with the Vietnam War, the scandal of Watergate, and the success of the Apollo program. Millennials came of age with the 9/11 attacks, the devastation of the Great Recession, and the birth of the Internet. The fight for civil and women's rights dominated Boomers' early adulthood. Global climate change and LGBT issues now hold Millennials' attention. When Boomers entered the workforce, the U.S. economy grew four to six percent a year. Today, the nation struggles to grow at two percent. Inflation topped fourteen percent early in the

Boomers' careers. Millennials have never known more than very modest inflation. Many Boomers grew up with stay-at-home moms; many Millennials were raised in single-parent households.

POPULATION ESTIMATES – METRO HOUSTON – 2014			
Generation	Year of Birth	Current Ages	Population
Generation Next	1999 – 2016	0-17	1,774,900
Millennials	1982 – 1998	18-34	1,615,100
Generation X	1967 – 1981	35-49	1,374,000
Boomers	1946 – 1966	50-70	1,446,400
Greatest Generation	Prior to 1945	70+	376,900

Source: U.S. Census Bureau, 2014 American Community Survey 1-Year PUMS

The Generation Gap

To a large extent, Boomers pull the region's profile one way, the Millennials another, with Houston's overall profile falling somewhere in the middle. For example, among Boomers, whites outnumber all other racial and ethnic groups. Among Millennials, Hispanics are the largest group. As a result, the Anglo and Hispanic populations are balanced today, but as the Boomer population declines, Hispanics will represent a larger share of the metro Houston population.

Boomers tend to be better educated than Millennials, with a higher share of the Boomer population holding associate's, bachelor's or graduate degrees. This difference is likely due to the trailing edge of the Millennial generation still being enrolled in school. Most Boomers completed their education decades ago. It may also result from the larger number of Hispanics, who tend to have lower levels of educational attainment, in the Millennial population. Nearly one-third of Millennials have some college, including those currently enrolled plus those who started but never graduated. When those currently enrolled eventually complete their educations, the population of degree-holding Millennials should grow. Surprisingly, a larger share of Millennials than Boomers has graduated from high school. Several factors may account for this difference. For one, society now places a greater emphasis on completing high school than when Boomers were young. Second, local businesses and institutions have programs to help struggling students earn their diplomas, resources not available when Boomers were young. And third, many Boomers grew up in an era when a high school dropout could work in a factory or at a construction site and still earn a decent wage.

Millennials now outnumber Boomers in the local workforce. Two factors account for the gap. The Millennial population is simply larger and the leading edge of the Boomer generation has already retired. However, Boomers in the workforce are more likely than

Millennials to be employed. The data does not suggest why this is the case, but a Brookings Institution survey provides some insight. In a national survey of Millennials, 64 percent of respondents said they would rather make \$40,000 per year at a job they like rather than \$100,000 per year at a job they consider boring.

Boomers still represent the bulk of the workforce in Houston's mining, manufacturing, transportation, warehousing and utility, education, health care and public service sectors. Millennials dominate employment in construction, retail trade, information, professional services, hotels, food services, and other services. In some sectors, it's obvious why Boomers outweigh Millennials, or vice versa. For example, from the late 1980s to the mid-2000s, when oil prices seemed perpetually low, the mining (i.e., energy) sector hired few workers. As a result, the sector is now top-heavy with Baby Boomers. Manufacturing and health care require high-level skills, through either on-the-job training or formal education, so these sectors are more likely to employ older workers. Construction requires both strength and stamina, so these occupations are more suited to younger workers. Retail sales and food services require minimal training or experience, making occupations in these industries more suited to those entering the workforce or those with little schooling beyond high school. The information sector includes both media and software development, both the domain of many Millennials.

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