Houston Led Nation in Population Growth

The Houston metro area led the nation in population growth last year, adding nearly 157,000 residents. Since the April 2010 census, Houston has added nearly 570,000 residents, the largest gain of any U.S. metro over that period. The U.S. Bureau of the Census estimated Houston's population at 6.5 million in mid-2014. Based on recent trends, Houston's population will likely exceed 6.6 million by mid-2015.

A number of factors have spurred Houston's recent population growth:

- *A booming economy:* The region's gross domestic product—the value of all goods and services produced in the region—has grown by more than $114.8 billion since 2010.

- *Corporate moves:* More than 1,500 companies have announced significant relocations or expansions here over the past five years.

- *Robust job growth:* From April 2010 through July 2014 (the period covered by the population estimates), Houston added 375,000 jobs.

- *A better image:* In recent years, Forbes has ranked Houston as the "coolest city in America," the New York Times listed the metro in 2013 as a top 10 "place to go" for travelers, and Credit Donkey rated Houston as the "Best City in America for Young Couples."

- *In situ growth:* Nearly 400,000 babies were born in Houston between April 2010 and July 2014. Subtract the approximately 150,000 deaths over the same period and "natural increase" added 250,000 residents to Houston's population.

While Houston's growth is impressive, it's not out of character. With few exceptions, the region's population has grown steadily throughout its history. From 1850 to 1990, Houston's population nearly doubled every 20 years. Only recently, when the region's population became exceedingly large, did that rule of thumb no longer hold true. Since 2000, Houston has added 1.8 million residents, an average of 1.28 million per decade. This suggests a new rule of thumb: Houston grows by about 10,000 residents per month, faster in boom times and somewhat slower in lean times.

As Houston's population has grown, the region has climbed in the rankings. In 1970, a few months after man set foot on the moon, Houston was the nation's 14th most populous metro. Today, the energy capital of the world is the nation's fifth. Over that period, three metros—Cleveland, Detroit and San Francisco—have slipped from the top 10 and three metros—Atlanta, Miami and Houston—took their places.

Local Economy Loses More of its Zing

The humming in Houston's economy continues to soften, and economists say it's likely to grow quieter still. Houston-area employers are still adding jobs, the Texas Workforce Commission reported, but at a much slower rate. The key manufacturing and specialty trade contracting sectors pared their payrolls in February, no doubt in reaction to slumping oil prices and a strong dollar that makes U.S. made goods more expensive overseas. Local employers added 96,700 jobs in the 12 months ending February 2015 for a 3.4 percent year-over-year gain. That is substantially below the heady 100,000 plus gains being reported as recently as January. Those year-over-year job numbers reached a high of 125,300 in November for a staggering growth rate of 4.4 percent.

Economists are predicting job growth to slow further, as the rig count continues to fall and oil prices show no movement back toward the peaks of last summer. The region could exit 2015 with as few as 20,000 new jobs, said Jesse Thompson, business economist for the Houston Branch of the Federal Reserve Bank of Dallas. "Houston will do a little worse than the rest of Texas," he said. "The more closely you're tied to energy, the harder your regional economy will be hit." The area will likely add 20,000 to 45,000 jobs in 2015, Thompson said. Barton Smith, professor emeritus of economics at the University of Houston and a longtime student of the local jobs scene, said the regional should expect to lose at least 20,000 energy jobs by year's end. About 15,000 of those will be in energy-related durable goods manufacturing, and 5,000 and 8,000 will be in oil & gas exploration and production. But he said Houston should add enough jobs in other areas of the economy to finish the year with a net increase of 30,000. The oil field services industry has trimmed its payrolls as the number of working oil rigs has fallen by about 50 percent since October. Boyd Nash-Stacey, senior economist at BBVA Compass in Houston applied a seasonal adjustment factor to the Texas Workforce Commission data and said he believes the Houston area lost 3,000 manufacturing jobs in February. The Texas Workforce Commission reported that the local unemployment rate fell to 4.3 percent in February down from 4.5 percent in January. In Texas, the jobless rate was 4.3 percent in February, down from 4.4 percent in January. Houston's overall employment picture has yet to reflect the anticipated weakening from the drop in oil prices.

How has Houston's jobs report remained positive while news headlines and anecdotal knowledge suggest otherwise? Three factors figure prominently. First, headlines reporting layoffs typically refer to cuts throughout a company's worldwide operations. It is unclear the extent to which the reductions will occur in Houston. Second, there are lags from the announcement of layoffs to action taken by the company and from the action to the subsequent report in employment data. The data will not reflect current events until the June or July jobs report. Third, total employment should grow throughout the year. The region will benefit from the momentum of extraordinary economic growth in recent years. Non-energy sectors will expand throughout 2015, particularly those benefiting from population growth like healthcare and retail. However, as expected, energy-related sectors will lose jobs. Jobs data from the first two months of 2015 indicate a slowdown in energy-related sectors.

- Mining and logging, which includes oil and gas extraction and support activities, reached 115,500 jobs in December 2014, marking the sector's highest level of employment on record. Since then, employment declined by 2,000 jobs to 113,500 in February 2015.

- Durable goods manufacturing, which represents machinery and equipment used in production activities, fell from a historic high of 177,500 jobs in December 2014 to 173,100 in February 2015. This sector will remain vulnerable to job cuts as energy sector capital expenditures shrink and rig counts continue to fall.

- Architectural, engineering, and related services employment has fluctuated between 76,000 and 77,000 jobs since October 2014. The sector experienced a loss of 700 jobs since December 2014. Further declines are anticipated because the elimination of engineering positions usually occurs near the end of the cycle. During past periods of oil price declines, job cuts started in the field and then worked their way back to the corporate office.

- Employment services, which includes job placement agencies and temporary help services, reported two consecutive months of job losses: 3,700 in January and 2,200 in February. Although this industry is not specifically energy-related, it leads employment cuts in other sectors. Companies typically eliminate temporary and contract workers before reducing headcount from their own payroll.

Non-energy sectors continued to add jobs in the first two months of the year. The subsectors with notable job growth include health care (+1,000 jobs), educational services (+800), leisure and hospitality (+1,200) and government (+3,700). The accounting and tax preparation sector reached a record high employment of 25,300 as 2,200 jobs were added in January and February. However, those jobs are expected to be shed as tax season ends.

Energy Update

A quick summary of recent activity:

- Baker Hughes reports the number of rigs working in North America fell to 1,028 the first week of April, a drop of 903 rigs, or 46.7 percent, from the 1,931 working late September 2014.

- The U.S. Energy Information Administration (EIA) reports that West Texas Intermediate (WTI), the U.S. benchmark for light, sweet crude, traded between $43.39 and $51.53 per barrel in March, averaging $47.81 for the month. In March 2014, WTI averaged $100.80 per barrel.

- RigData reports that 11,819 U.S. wells (onshore and offshore) were permitted in Q1/15, down 37.0 percent from the 18,772 permits issued in the Q1/14. The firm also reports that 6,830 wells were started the first three months of this year, down 29.3 percent from 9,651 started in same period last year.

With the slowdown in activity, U.S. production should soon decline helping balance supply and demand and bring some stability to the industry. EIA's most recent Drilling Productivity Report suggests production has begun to slip in three key regions, the Eagle Ford, Niobrara, and Bakken. The decline in three of the industry's hottest oil plays gives hope that U.S. production will peak this year or early next. However, increases in Permian Basin crude production has somewhat offset those declines. In its March 2015 Short-Term Energy Outlook, EIA forecasted WTI to average $52.15 in 2015 and $70.00 in 2016. Wells Fargo, in its March Monthly Economic Outlook, forecasted Brent crude, the European benchmark, to average $58.60 in 2015 and $66.30 in 2016. Brent typically trades at a slight premium to WTI. The NYMEX futures market, however, suggests WTI won't top $60 per barrel until late 2016.

Texas Not Totally at Oil's Mercy

Texas' economic diversity has insulated it from at least some of the pain that's hit other regions as crude prices have fallen. Texas, home to half the country's land rigs, will feel the financial burden of reduced oil drilling, but the state's economy is so large that it won't face the same degree of economic pain as other producing states including North Dakota, Oklahoma and Alaska, according to consulting firm HIS Energy. "There will be an impact, but growth in Texas will remain relatively strong this year, HIS U.S. regional economist Karl Kuykendall said. Overall, Texas has nearly 400,000 jobs directly affiliated with the oil and gas industry, which represents about 4 percent of total private employment in the state. That makes Texas less susceptible than other oil-producing regions to oil prices that have fallen by half since last summer and may be posed to decline even further, IHS said. In November, IHS projected that Texas would enjoy job growth of 2.3 percent over the course of 2015. It now has reduced that forecast to 2.1 percent. But for the nation as a whole, the firm recently revised its 2015 job growth projections up from 1.7 to 2.1 percent, suggesting the economic trajectory of Texas is less positive than for the country at large. HIS also cut its 2015 job growth forecast for the Houston area to 1.6 percent. A few months ago, it expected job growth of 2.7 percent this year.

The study said of all the states, North Dakota is most exposed to the effects of low oil prices due to heavy dependency on oil production. Its 2015 job growth projection was cut from 2.1 to 0.9 percent. The IHS job forecasts are based on the firm's projection that oil prices will level out in the second quarter of 2015 before gradually increasing. The recovery will take several years, and HIS predicts that oil prices won't return to $90 per barrel until late 2019. "It's going to be a slow climb back," Kuykendall said. "As oil prices recover, so too will Texas' oil industry. It think it's clear . . . oil production in Texas is a long-term play. It's just a matter of prices getting to the point that its economic again for employers." Today, about 15 percent of Texas' total economic output is due to oil and gas activity. The slump continued to take a toll on jobs. The TWIC reported that Canadian oil field services company, Trican Well Services, would cut 137 jobs from its Odessa facility. The company said the cuts resulted from Anadarko's discontinuation of operations with Trican there. The impact on the Permian Basin could worsen. In Midland, IHS expects the employment count to decrease by 0.5 percent this year, a dramatic reversal of the 3.2 percent growth forecast it made in November. The Odessa forecast was cut from 2.4 percent to 0.4 percent job growth.

Growth of Jobs in U.S. Slows Sharply

The yearlong streak of robust monthly job creation was broken on Friday with the Labor Department's report that employers added just 126,000 workers in March, a marked slowdown in hiring that echoed earlier signs that sluggish business investment and punishing weather were exacting a toll on the economy. Analysts blamed the plunge in oil prices as well as the pall cast by a difficult winter across the Northeast and Midwest, a combination that put a crimp on spending in the energy patch and held back consumer spending and construction. Still, this new report presents only a limited snapshot, and many said they expected the economy to regain at least some of its momentum later this year. "The American energy industry is adjusting very quickly to low oil prices, and we've seen this in the counts of the number of rigs that are active, " said Carl Tannenbaum, chief economist at the Northern Trust Co. "The bad news is we're losing some jobs. The good news is, we hope, that the average consumer is saving a tremendous amount of money in lower gasoline prices."

The unemployment rate held steady at 5.5 percent. Hourly wages, in one of the few bright spots in the report, rose 0.3 percent for private sector workers in March, after a meager 0.1 percent rise in February. But hours worked were down slightly, so overall paychecks were left essentially flat. The slowdown in job creation reinvigorated the debate about when the Federal Reserve will raise interest rates above their near-zero level, where they have remained since 2008. Many Wall Street analysts argued that the murky jobs picture was likely to reinforce the view among the Fed's more dovish policymakers that rates should stay put at least until the end of the summer because the economy may not be strong enough to stand on its own. Thomas Perez, the Secretary of Labor, said that if someone told him last year, when the unemployment rate was 6.6 percent, that it would now be at 5.5 percent, "I would have said that's an April Fool's joke." After a year in which job gains averaged 269,000 a month, the sharp slowdown brought a mix of dismay and puzzlement.

U.S. LNG Future Looks Bright

Since 2008, America's natural gas industry has changed due to shale gas activity. The increase in domestic natural gas has resulted in a drop in prices to the point that U.S. natural gas prices are among the lowest in the world. The abundance of natural gas means the U.S. gas market should become a source for LNG export. Bill Cooper, president, Center for LNG, agreed and said, "As a result (of the abundance), we are able to export a small percentage of our resources to our trading partners abroad while simultaneously bringing wealth into the country. Each LNG export project represents a multibillion dollar investment in the U.S." Exporting LNG will continue to create thousands of jobs, not only at the construction site, but also in manufacturing, trucking, drilling, pipelines and many others throughout the supply chain. In 2013, ICF International completed a study for the American Petroleum Institute, and reported that the export LNG represents one of the most promising economic opportunities. The exports could reduce America's trade deficit, increase government revenues, grow the economy, and support millions of U.S. jobs in engineering, manufacturing, construction and facility operations. "In states that are producing and building export terminals, there will be approximately 3,000 jobs per terminal during construction. There will also be permanent operating jobs at the terminal and 200-300 jobs that support the terminal," said Harry Vidas, VP, ICF International. Opportunities associated with LNG exports will extend beyond the natural gas-producing states, as noted in the ICF International report: LNG exports could contribute as much as $10 to 31 billion per state to the economies of natural gas producing states, such as Texas, Louisiana and Pennsylvania. Non-natural-gas producing states also will benefit, partly due to the boost in demand for steel, cement, equipment and other goods. According to the U.S. International Trade Administration, each $1 billion of exports could result in 5,555 new jobs, meaning that $13-25 billion worth of LNG exports could create between 70,000 and 140,000 new jobs for the American workforce.

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