Murky Employment Picture for Houston

Houston-The Woodlands-Sugar Land metro created 10,100 jobs in February, according to the Texas Workforce Commission (TWC). The 25-year February average is 17,100 jobs, so this year's performance reflects the overall weakness in Houston's economy. On a seasonally adjusted basis, TWC reported the region lost 5,500 jobs in February, resulting in a 0.2 percent dip. Total nonfarm payroll employment stands about where it was last fall, just shy of 3.0 million jobs.

Almost all of February's growth occurred in the government sector, primarily in school districts and state-funded universities. Several subsectors—building materials, accounting and tax preparation, private education, health care, arts and recreation, hotels, restaurants and bars—added a handful of jobs as well.

Job losses continue to mount in sectors tied to the oil and gas industry. Collectively, mining and logging, durables goods manufacturing, durables wholesaling, and architecture and engineering have lost 64,100 jobs since December 2014, the peak for the aforementioned sectors.

Total nonfarm payroll employment remains only 37,700 below its December 2015 peak, which falls in line with the normal seasonal pattern of January layoffs. The economy typically recoups those losses in February and March, reaching a new employment peak in April or May. Given the current economic weakness, Houston may not return to its previous employment peak until fall. Last year, Houston didn't recoup its early-year job losses until November.

The Houston area endured another net loss of jobs in March, prompting University of Houston economist Bill Gilmer to predict for the first time that the region could reach the end of 2016 with fewer jobs than it started with. The rate of those losses accelerated over the first quarter, with a seasonally adjusted drop of 4,400 jobs in January and February combined, followed by 2,600 net jobs cut in March, Gilmer said.

The area's unemployment rate also climbed by 0.2 percent in March, the Texas Workforce Commission reported Friday, to 4.9 percent. While that remains lower than the national rate, the trends have opposite trajectories. "This has just been a brutal quarter for the energy sector," Gilmer said. "As tough as it's been in energy up until this last quarter, this last quarter set a new mark."

The Baker Hughes rig count, which has tracked the number of oil and gas rigs since 1944, hit a record low on Friday, April 15th of 440, down 77 percent since it peaked in 2014.

After previously predicting Houston would add 10,000 to 15,000 jobs in 2016, Gilmer now thinks the area will have that many fewer by the end of the year. The situation is worse

than he expected, but he thinks the bottom may be near. "When we go into recovery, we're starting from a later and deeper point than I anticipated," he said. Once the industry hits bottom, it'll take about six months for the rig count to start rising again and another six months after that before employment picks up, he said. As a result of the energy downturn, one in three oil field services jobs has been cut, and one in five jobs lost in the energy sector more broadly, said Patrick Jankowski, SVP Research for Greater Houston Partnership. Jankowski said it is too soon for him to determine whether Houston will end up with positive or negative job numbers, but he estimated that oil and gas industry layoffs will peak at midyear. "Then we'll see how the secondary sectors do after that," he said.

While parts of the economy more closely tied to consumers, like retail and restaurants, are still faring well, he's noticed a slowdown in areas that have remained strong up until this point. "I'm amazed that with the depth of job losses in the oil and gas industry that Houston's economy continues to perform as well as it does," Jankowski said. "And that's a function of, we are more diversified or we just have incredible resilience, or maybe the effects are still lagging." Many in the Houston area still have yet to feel the oil and gas industry's pain. The career counselor at the University of Houston's Conrad N. Hilton College of Hotel & Restaurant Management, Colleen Gleeson, said students graduating from the school still have plenty of options; 93 percent of last falls' graduates found jobs within three months. "Our placement rate has continued to climb, so our students certainly have not felt the brunt of that," she said. Typically half a graduating class will stay in Houston, Gleeson said, where hiring in the hospitality industry still seems stronger than in much of the U.S. "With the Super Bowl coming in 2017 and with all the properties going up . . . I don't think they're worried about their job prospects for the next few years," she said of her students. Leisure, hospitality and health care have carried Houston's job market, offsetting some of the losses in the energy-related sectors, Texas Workforce Commission data found.

Over the past year, mining and logging employment has dropped more than 13 percent, as did durable goods manufacturing, which represents oil field equipment that was in high demand two years ago. Architectural and engineering services – including many of the Energy Corridor's white-collar jobs - shed nearly 8 percent of its jobs from a year ago and 1,100 positions last month alone. Jankowski said he thinks energy-related companies are about done cutting blue-collar workers, but he expects layoffs to continue in office jobs.

Meanwhile, some 4,000 jobs were created last month in leisure and hospitality, a sector where employment has risen 6.6 percent over the last year. Educational and health services grew jobs by 4.4 percent from a year earlier. Hospitals have been a major source of hiring as they add and expand locations, but economists say the health care field may still be enjoying momentum from the oil and gas boom and subsequent population growth.

	JOBS IN HOUSTON MARCH 2016	ONE YEAR CHANGE
Leisure & Hospitality	313,300	6.6%
Education & Health Services	378,800	4.4%
Construction	217,800	1.3%
Financial Activities	152,000	1.3%
Professional & Business Services	458,200	-2.4%
Architectural, Engineering, etc.	68,000	-7.9%
Manufacturing	235,400	-7.8%
Mining & Logging	90,900	-13.1%
Total nonfarm jobs	2,987,800	0.3%

Will the Region See a Repeat of the 1990s?

One of the most frequently asked questions by Houstonians in the past 18 months has been, "Is the region going to experience a repeat of the 1980s?" A less prevalent question, but also worth mentioning is, "Will the region see a repeat of the 1990s?"

During the 1990s, Houston's employment grew by a third, adding 559,400 jobs from January 1990 to December 1999. Meanwhile, the price of West Texas Intermediate (WTI) averaged $20 per barrel and fluctuated between $11 and $36. Even in a prolonged period of low oil prices, Houston found avenues of economic growth separate from energy. Approximately two-thirds of Houston's job gains since 1990 resulted from growth in the national economy, according to the University of Houston's Institute for Regional Forecasting.

Every industry sector added jobs in the 1990s except for, predictably, oil and gas extraction (-3,700 jobs), refining (-1,100 jobs), and chemicals manufacturing (-100 jobs). The professional and business services sector experienced the strongest growth, adding 124,200 jobs, an increase of 63.8 percent. More than half of the new jobs came from administrative and support services, and about 40 percent came from legal services, accounting, engineering, and computer systems design.

Sectors dependent on population growth also performed well in the 1990s. Public education, retail trade, leisure and hospitality, and health care all benefited from the 763,000 new residents, a 20.4 percent increase, in the metro from 1990 to 1999. Just as "past performance does not guarantee future results," the region may not see trends from the 1990s recur. For example, the information sector added 10,900 jobs (30.7 percent increase) in the 1990s, but changes in technology and digital media preclude that same pace of growth today. In contrast, chemicals manufacturing lost 100 jobs in the 1990s, but with $50 billion in expansion projects underway, the sector will experience employment growth this time around.

One in Five Oil Jobs Lost in U.S.

The U.S. oil industry handed out 23,200 pink slips in the first three months of the year as companies began cutting their once-flush spending budgets deeper than in the ferocious mid-1980s oil bust. The latest round of layoffs, including recent cuts by

Chevron, BP and Anadarko has brought oil and gas job cuts across the nation to the nearly 118,000 since the beginning of 2015. That's more than one in every five workers the industry had when crude prices began to tumble, the Federal Reserve Bank of Dallas said Friday, April 8th. "You won't see job cuts bottom out until the middle of the year, if then," said John Graves, a Houston oil consultant who has tracked the industry's layoffs. The dramatic and ongoing exit of more than a fifth of the industry's workforce comes as drillers sideline three-quarters of the drilling rigs they used to power the nation's biggest oil boom in decades. Analysts expect the number of active U.S. drilling rigs to continue dropping for the next few months, even after a recent fall to the lowest level ever recorded. Each U.S. land rig keeps about 30 oil field workers employed. The workforce is also tied to the industry's decline in exploration and production spending, Cowen & Co., a financial services company that has tracked oil company spending since 1982, says domestic drillers are trimming budgets 51 percent compared to 2014, slashing investments more than in the mid-1980s bust.

Still, domestic drillers and their equipment suppliers haven't cut as many jobs this time around. In the earlier bust, the first round of oil industry layoffs claimed 172,000 jobs from early 1982 to mid-1983, about the same proportion of the oil and gas workforce that companies cut over the past 15 months. But another series of cuts came from 1984 until early 1987. It cost the industry 224,000 jobs, all told. But automation and the rise of computer technology have replaced many of the jobs that were necessary 30 years ago. For example, a small oil company Graves worked for in the mid-1980s had nine accountants managing the company's books manually. By the time the industry had recovered a few years later, the same company needed only two accountants. The current oil slump is affecting new regions like in North Dakota, where drillers have tapped into once-inaccessible shale rock. In Texas, where oil companies are probing similar shale formations, the oil company head count fell by a fifth last year. In the first two months of this year, oil producers and service companies have laid off 7,300 across the state. "We're going to see further cuts in Texas employment," said Michael Plante, a senior research economist at the Federal Reserve Bank of Dallas. "We've seen a general slowdown in oil producing areas out in West Texas and in the Eagle Ford. Those places are really dependent on this activity." Graves estimates that worldwide, the oil industry's job cuts have reached 342,000 since the downturn began.

Beyond the oil industry, falling crude prices haven't hit the state of Texas nearly as hard as during the 1980s bust, economists say. Some big companies including Exxon Mobil have kept up their recruiting efforts at many college campuses, recognizing "they can't have a complete break in hiring for a whole generation," said Jamie Belinne, assistant dean for career services at the C.T. Bauer College of Business at University of Houston. "We still see the hiring. It's just in much, much smaller numbers than we were seeing before," she said.

Another oil giant is making sharp payroll cuts in Houston as industry cost-cutting shifts from the rig platform to the office floor. Chevron is shedding 655 oil exploration and production jobs in Houston, more than 8 percent of its local workforce. The cuts target the company's four offices in downtown Houston and likely affect many high-salaried employees there. The cut is part of a companywide reduction of 4,000 positions planned last October and it comes as the No. 2 U.S. oil company slashes billions from its spending budget to cope with the two-thirds drop in crude prices. Chevron said it will

pay laid off employees at least six weeks transition pay, severance and provide them career transition services.

BP and Anadarko, both of which have U.S. headquarters in the Houston area, have also announced local job cuts in recent weeks. The British oil giant told state regulators it has axed 500 oil exploration and production workers in Harris County, a small part of the 4,000 upstream jobs it plans to cut this year. Anadarko released a portion of the 1,000 employees it let go companywide in early March. The company resisted making deep cuts throughout most of the downturn, but finally relented after crude prices fell below $30 a barrel.

Houston-based Exterran and a joint venture started by Phillips 66 said they will collectively cut more than 340 Texas jobs as the oil and gas downturn drags on. Exterran recently began terminating 241 Texas employees as it prepares to shutter its Alleytown manufacturing plant west of Houston by the end of June. The gas compression and oil field equipment manufacturing company will cut the jobs in six phases that began March 31st and will end June 30th. Denver-based DCP Midstream is eliminating 300 positions nationwide, including 20 in Houston and 80 closer to the Texas oil and gas fields. The pipeline and gas processing joint venture between Phillips 66 and Spectra Energy, both Houston-based companies, began an overall downsizing about 18 months ago. After the 300 cuts, DCP will still employ about 2,900 overall, including 280 in Houston and nearly 1,000 more nearer the Texas oil fields.

The Dallas Fed says if crude sinks below $30 a barrel for long this year, the state's employment could actually shrink. But as it is, with U.S. oil prices around $37 a barrel, the Fed believes Texas' employment will come in flat or rise 1.5 percent this year. Last year, Texas lost 19.4 percent of its oil and gas sector jobs. And this year additional oil job cuts are still expected. Oil market observers believe that even when oil prices do recover, it will be some time before the oil industry needs to rehire the workers it let go. And the longer the downturn lasts, the harder it will be to refill those positions.

Energy XXI's retreat into bankruptcy court on April 14th could start a new chapter in the U.S. oil industry's cash crisis as midsize drillers find they can no longer hold out against the worst oil bust in decades. Most of the 60 North American oil companies that filed for bankruptcy over the past 18 months have been small, privately held firms. But Energy XXI, one of the biggest U.S. drillers in the shallow waters of the Gulf of Mexico, could be the first in a series of larger U.S. oil companies to seek bankruptcy protection as they seek to reorganize under the section known as Chapter 11. Energy XXI, which employs more than 300, is by far the largest oil company bankruptcy of the year with $2.9 billion in debt. The 17 companies that have filed this year had a combined $1.7 billion in debt, according to Haynes & Boone. The U.S. oil industry's financial problems stem from its success in bringing about the biggest domestic oil boom in four decades. With money flowing, markets growing, and prices holding strong, the nation's oil companies borrowed more than $200 billion to fuel their expansions, selling risky bonds and high interest rates to investors. The prices crashed as global demand weakened and new supplies flooded markets and companies could no longer pay off debts.

Houston based Goodrich Petroleum filed bankruptcy April 15th. Houston's Ultra Petroleum and LINN Energy as well as Oklahoma drillers SandRidge Energy and

Midstates Petroleum have warned they could seek bankruptcy protection. The 60 companies that have already filed for bankruptcy since the beginning of 2015 held a combined $20 billion in debt. Nearly half of those companies are headquartered in Texas.

U.S. Job Growth has Big Jump

After years of economic desperation, American workers are finally regaining some of the ground they lost in the last decade's recession and the pallid recovery that followed. Companies have been hiring in recent months at a pace not seen before in this century. Wages are rising faster than inflation. Joblessness is hovering near the low levels last reached in 2007 before the economy's downturn. And perhaps most significantly, the army of unemployed people who gave up and dropped out of the job market is not only looking for work, but actually finding it. The 215,000 jump in payrolls in March reported by the Labor Department capped the best two-year period for hiring since the late 1990s, while the proportion of Americans in the labor force – which had been on a downward trajectory since 2001 and an even steeper slide since 2008 – hit a two-year high. The underlying strength apparent in the report for March reinforces growing evidence that the economy, despite a host of remaining ills, is consistently moving in the right direction. "This is close to a Goldilocks scenario," said Scott Clemons, chief investment strategist at Brown Brothers Harriman. He noted that hiring and wage gains were healthy in March, but not so robust as to ignite inflation fears and tempt the Federal Reserve to move more quickly to raise rates and temper growth.

To be sure, the damage from the financial crisis and the severe recession it spawned is still not fully healed. Even with improvement of the past six months, the proportion of Americans in the labor force remains significantly below where it was when the recession began at the end of 2007. The U.S. economy still faces fundamental headwinds that are not likely to abate soon – like a persistent trade gap, low productivity and the long-term erosion of factory jobs that provide an economic lifeline to workers without a college degree. In fact, the manufacturing sector was one of the few weak spots in the economy last month, losing 29,000 jobs. The overall unemployment rate rose to 5 percent last month from 4.9 percent in February. But even that was a positive indication, analysts say, since it was the uptick in new entrants to the labor force that mostly accounted for the rise rather than job losses.

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