Long-Term Outlook for Houston Remains Bright

By 2023, Houston's gross regional product (GRP) will approach $1.1 trillion, more than double where it stands today. The region will add nearly 1.2 million residents, more than 700,000 jobs, and $300 billion in personal income. Even after accounting for inflation, Houston's prospects look impressive, with real GRP, personal income, and retail sales growing 35 to 55 percent over the decade. The region's growth will outpace that of the nation and the state, as well. Houston's economy will grow 4.5 percent annually over the decade, compared to 3.3 percent for the nation and 4.3 percent for the state. That's the latest forecast by Ray Perryman, the Waco-based economist who has studied the U.S., Texas and metro economies since the '70s.

Perryman's forecast calls for every sector in Houston to expand over the next 10 years, with the greatest output gains in mining (i.e., oil and gas) and services, and the greatest employment gains in services and trade (i.e., retail and wholesale). The long-term outlook is equally bright. By 2040, Perryman expects Houston's GRP to approach $2.8 trillion, personal income to exceed $1.7 trillion, wage and salary employment to exceed 4.7 million, and the region's population to stand at 9.9 million.

First Half of 2014 was One of the Best Starts for Houston

The Houston-Sugar Land-Baytown metro area created 46,400 jobs in the first half of 2014, one of the best starts on record, according to the Texas Workforce Commission (TWC). This pace comes as something of a surprise since employment growth had slowed considerably toward the end of last year, especially in key parts of Houston's economic base—exploration, oil field services, manufacturing and engineering. Several events reversed that trend earlier in the year. The harsh winter caused natural gas prices, which averaged $3.70 per million BTU in 2013, to spike above $8.00 on the spot market in February, creating a windfall that local energy firms plowed into exploration activities. Chevron Phillips, ExxonMobil and Dow Chemical started construction on multi-billion-dollar ethane crackers, spurring growth in construction employment. Health care employment held steady in spite of changes brought on by Obamacare. Local engineering firms added staff to handle growing project backlogs.

Local Job Creators Hit the Gas in the Construction, Architectural, & Engineering Sectors

In July, Houston's regional economic engine accelerated, sparked in part by the building construction and architectural, engineering and related sectors. In all, nonfarm employers added 112,200 jobs in the metropolitan area during the past year. This gain, not adjusted for seasonal factors such as school schedules, represents a 4 percent increase from July 2013. In June, jobs were up 3.1 percent from a year earlier. The region has clearly moved past any periods of weakness seen during the second half of last year, per Bill Gilmer, Director for the Institute for Regional Forecasting at C.T. Bauer College of Business at the University of Houston.

Across the state, non-farm employers added 46,600 jobs in July and 396,200 in the past year, the TWC reported. "Texas employers continue to propel the Texas economy's expansion by adding jobs at a 3.5 percent annual growth rate over the last year. The Texas economic engine is strong, with every major industry posting positive annual growth in July", per Andres Alcanta, TWC Chairman. Professional and business services added 10,600 jobs in July and over the year has grown by 5 percent. The only major industry to post a higher year-over-year statewide growth was oil and gas exploration and production with a 7.8 percent seasonally adjusted increase from July 2013 to July 2014. Regionally, the construction of buildings sector posted the largest year-over-year percentage increase by adding 6,600 jobs for a 13.6 percent growth rate. It was closely followed by architectural, engineering and related services. That sector added 9,200 jobs for a 13.2 percent boost. The construction of commercial office space is driving the numbers and engineering is benefiting from construction along the Houston Ship Channel and the needs of the oil & gas industry.

Texas Energy Jobs and Salaries are Rising

Exploration activity remained strong in much of the U.S., especially in Texas. The number of wells drilled in the Eagle Ford and Permian Basins, the state's two largest plays, rose significantly during the first half of the year. The activity in the field was felt here in Houston as well. In the 12 months ending in June 2014, the region added 3,500 jobs in exploration, 2,800 in oil field services, and 1,100 in oil field equipment manufacturing. Reports for Houston-area oil field service companies suggest exploration and production activities should remain strong through the end of the year.

The energy sector in Houston and nationwide continues to thrive and job candidates are getting choosier and seeking more money. Due to the shale boom, the number of energy-related jobs is increasing at a rapid speed. Young engineers have their pick of job opportunities, and more companies are having to match incentive bonuses to retain top employees. Houston outpaced every city in the nation in annual wage growth during the second quarter, thanks largely to a bump in oil & gas industry pay, according to PayScale. The city's 3 percent rise in annual wages beat the national average of 1.8 percent from April to June. That's the second consecutive quarter that Houston wage-earners beat the national average, after a sluggish 2013 that saw pay in the energy capital flatten. Pay in Houston's biggest industry, oil and gas, has climbed 20.5 percent since 2006, the highest total wage growth of any industry in the last eight years. Still Houston's recent wage growth hasn't reached the heights it did before the economy slumped starting in 2008. In the April-June period of 2007, Houston's annual wages shot up nearly 6 percent, towering over the national average's 2 percent growth, and higher than Houston's 5 percent growth in the final quarter of 2012. Before the recession, one of the biggest drivers of wage growth was inflation.

Petrochemical Surge Feeds Area Job Growth

Area employers added more than 80,000 jobs in the past year, partly because of a renaissance in petrochemical manufacturing – a Houston job-maker for decades that had slowed because the industry stopped building as many of the capital-intensive plants. Employment in non-durable goods – which include petrochemicals and other businesses in the downstream energy sector – surged 5.8 percent from June 2013 to June 2014 according to TWC. That is 4,700 new jobs during that one-year period. "We haven't seen this type of growth since the late 1960s" said Barton Smith, professor emeritus of economics at the University of Houston. During the past 10 years, the non-durable goods sector has grown its workforce by an average of 0.2 percent each year, per Greater Houston Partnership. It still hasn't brought back all the jobs it cut during the Great Recession. But now the sector is booming as chemical makers are starting to bring their new plants online. Smith pointed to the growth of the U.S. economy as well as demand from overseas for plastics made from polypropylene. Low U.S. natural gas prices, which make the chemicals inexpensive to manufacture and therefore boost the bottom lines of U.S. producers, are spurring production.

U.S. Job Openings at Highest since 2001

U. S. employers in June advertised the most monthly job openings in more than 13 years. Employers posted 4.67 million jobs in June, up 2.1 percent from May's total of 4.58 million, the Labor Department reported Tuesday. The number of advertised openings was the highest since February 2001, a positive sign that points to a strengthening economy. The report "provides further confirmation that the U.S. labor market has indeed shifted to a period of stronger growth," said Jeremy Schwartz, an analyst at the bank Credit Suisse. Known as Job Openings and Labor Turnover survey, or JOLTS, the report provides a detailed look at where employment might be heading. It records job postings, overall hiring and the number of workers who either quit or were laid off. By contract, the monthly employment report shows the net total of job gains or losses. The June figures indicate that employers are looking to expand, yet actual hiring has not increased as significantly in recent months. Roughly the same percentage of Americans quit their jobs in June as did in May, though the rate has increased over the past year. Quit rates usually rise when employees are finding new jobs. Hiring rose in June to 4.83 million, up from 4.74 million in May. Still, the hiring rate has not risen over the past year as quickly as the number of positions being advertised. Job openings have increased 17.6 percent during the past 12 months, while hiring has risen 9.3 percent during the same period. This suggests a mismatch in the jobs market. Some economists interpret the slower pace of hiring as a sign that workers lack the necessary skills. The other possibility is that companies are offering low wages that fail to attract the workers they want. If companies offered higher salaries, which could cause more openings to be filled and boost wages, which have barely matched inflation since the recession ended more than five years ago. But the pressure on employers to offer more generous wages could be increasing. On average, there are 2 unemployed workers for every one job opening. That's down from an average of 2.6 unemployed people per opening at the start of the year. As the ratio continues to fall, employers will likely have to boost salaries.

As the U.S. economy has improved and employers have regained confidence, companies have been steadily shedding fewer workers. Which is why applications for unemployment benefits have dwindled to their lowest level since February 2006 – nearly two years before the Great Recession began. The trend means greater job security and suggests a critical turning point in the economic recovery. It raises the hope that workers' pay will finally accelerate after grinding through a sluggish recovery for the past half-decade. When the economy sank into recession at the end of 2007, employers cut deeply into their staffs. But in recent months, the picture has brightened Employers have added 200,000-plus jobs for five straight months, and the unemployment rate has reached 6.1 percent, the lowest since 2008.

Jobless Claims Increase More than Expected

Initial applications for unemployment benefits nationwide rose more than expected last week but still hovered at pre-recession levels. Claims for jobless benefits increased 21,000 from the prior week to 311,000, the Labor Department said August 14, 2014. Economists had expected a rise to 295,000 during the week that ended August 9th. Last week's applications jumped to a six-week high, but analysts said the trend is toward an improving labor market with fewer layoffs.

The Houston-Sugar Land-Baytown metro area's unemployment rate was 5.5 percent in July, up slightly from 5.4 percent in June but down from 6.5 percent in July 2013. The statewide seasonally adjusted unemployment rate remained steady at 5.1 percent in July, below the national unemployment rate of 6.2 percent.

Campus Recruiting Update

Once companies get to a certain size, they have to build a pipeline of new employees. One of the best places to find that new talent is on college campuses. In the past, companies have focused their efforts on setting up booths at job fairs, hosting information sessions at career centers and posting sign-up lists for on-campus interviews. But those old-time recruiting methods are no longer as efficient or effective as they once were. Companies are getting a lot more mileage hosting field trips for interested students, sending company representatives to campus to speak on panels, and tapping into their alumni networks, according to college counselors on a recent panel discussion sponsored by University of Houston's Bauer College of Business. At a time when the economy is hot, especially in the energy industry, companies are turning to more inventive ways to attract new business school graduates. Like many schools, Rice University has a wide range of clubs from finance, petroleum geology, or biomedical engineering. Career Services teams up with the clubs to bring in guest speakers for panel discussions about a particular industry. Company-sponsored "happy hours" are another good way to bring employers and students together. The setting is more informal, which makes it easier for students and employees to have more relaxed conversations outside of a traditional interview experience.

What you study – math and science are a plus – seems to matter more than whether your alma mater is public or private when it comes to finding a high paying job after college, according to a report by the National Center for Education Statistics. The survey of the class of 2008 provides an interesting snapshot of the nation's educated elite following a crushing economic recession. Overall, college grads reported lower unemployment rates compared with the national average. College grads from private four-year schools earned about the same as those from public four-year schools, about $50,000 a year. But while a paltry 16 percent of students took home degrees in science, technology, engineering or math (STEM disciplines), those who did were paid significantly better – averaging $65,000 a year. The findings are based on a survey of 17,110 students conducted in 2012 about four years after the students obtained their bachelor's degrees. More than 95 percent of grads who studied computer and information sciences earned $72,600 on average. Engineering students reported similar salary prospects. That's compared with humanities graduates, who were more likely to report working multiple jobs and earning a full-time salary averaging only $43,100.

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