Job Growth in Houston Area Loses Steam

Houston doesn't top the list of job creators anymore, thanks to mounting losses in manufacturing and finance. The Houston metro area gained 4,300 jobs in June and 55,700 jobs in the 12 months ending June 2015, according to the Texas Workforce Commission (TWC). The corresponding 1.9 percent twelve-month growth rate is the slowest since November 2011. That's a sharp reversal from the 3.7 percent year-over-year job growth Houston was reporting as recently as January. The employment numbers are somewhat misleading, since all the job gains occurred in the latter half of 2014. Since December, the region has posted a net loss of 5,600 jobs. In a typical June, Houston creates about 8,100 jobs, but this year, it was only about half that, per Patrick Jankowski, SVP Research for the Greater Houston Partnership. After taking off like a rocket in 2010, Houston's annual job creation performance has fallen almost half since the beginning of this year and now is below the national average of 2.1 percent. Houston, which was No. 1 as recently as October, is now ranked No. 9 among the 12 largest metro areas. Other cities racking up more impressive job creation numbers than Houston were Dallas, Atlanta, Boston, Los Angeles, Miami, Phoenix, San Francisco and Washington D.C.

In the Houston area, manufacturers shed 8,300 jobs during the past year, the result of sizable losses in durable goods, which includes the making for oil field equipment. Those losses would have been worse if they hadn't been offset by gains in nondurable manufacturing, a sector dominated by companies that make component pieces for energy companies. The local 3.3 percent drop in manufacturing employment was in sharp contrast to the U.S. increase of 1.3 percent. In June, the Houston area lost 2,300 durable goods manufacturing jobs. When the rig count has fallen more than 50 percent like it has since last fall, there isn't much demand for new oil field equipment, per Barton Smith, professor emeritus of economics at University of Houston. "I don't think it's over," said Smith, who believes that before the year comes to an end, Houston will lose 18,000 durable goods manufacturing jobs.

Financial firms in the Houston area also reported job losses of 0.9 percent during the past year, compared with a nationwide gain of 2 percent. Houston added jobs in some sectors. Leisure and hospitality was the "super sector" that added the most positions, 18,800 since June 2014, a 6.4 percent year-over-year gain which was more than double the national rate of 2.9 percent. Education and health services added 14,300 jobs, a 4.1 percent jump from a year ago and notably better than the 2.7 percent increase nationwide. Local gains were especially strong in health care services and hospitals. Trade, transportation and utilities added 12,600 new jobs, a 2.1 percent increase from a year ago. Professional service firms added 6,500 new jobs. Employment gains in the service sectors so far this year have not been able to offset losses in the goods producing sectors. Some of the losses date back to the fall of last year. The employment numbers reflect the weakness in the oil patch. The sectors still adding jobs are those which depend heavily on population growth, activity outside the energy sectors, or are benefiting from the momentum built up over the past five years of robust economic expansion. Smith speculated that Houston has another three to six month of losses in energy-related employment. But if its other sectors hold up, Houston should finish the year with 25,000 to 38,000 new jobs, which would represent a gain of between 1 and 1.5 percent.

The commission reported on July 17th that the Houston area unemployment rate rose to 4.5 percent in June, up from 4.2 percent in May. The rate typically rises in June as students and school employees flood the labor market and dips again in August as they head back for the new school year. The statewide rate fell to 4.2 percent in June, down from 4.3 percent in May.

Crude Price Fell Significantly in July

After two months of relative stability, crude prices fell significantly in July. West Texas Intermediate (WTI), the U.S. benchmark for light, sweet crude, opened the month at $59.30 on the NYMEX spot market. When the final bell rang and markets closed on July 31, WTI had slipped to $47.20, a decline of $12.10, or 20.4 percent.

Crude prices fell for a variety of reasons:

- *Growing concern over slowing growth in China:* The International Monetary Fund (IMF) forecasts the Chinese economy will grow 6.8 percent in 2015, down from 7.4 percent in 2014 and from double-digit growth as recently as 2010. Slower growth translates into weaker demand for oil. China's oil consumption is slated to increase only 2.5 percent this year, compared to 3.3 percent last year and 16.8 percent in the boom year of 2004.
- *Anxiety over the lifting of Iranian sanctions:* Iran will likely boost exports by 500,000 barrels per day once sanctions are lifted later this year or early next. Within a year, exports could climb to 1 million barrels per day. Iran also has 40 million barrels of crude in storage that could quickly flood the market once sanctions are lifted.
- *Marginal declines in domestic production:* The North American rig count has been cut in half, but the reduction has not impacted crude output. The U.S. Energy Information Administration (EIA) estimates the nation produced 9.6 million barrels of oil per day in June, up from 8.9 million barrels when the rig count peaked in September.
- *Stubbornly high inventories:* Analysts had expected crude stockpiles to shrink as refineries revved up for the summer driving season. The inventory reductions have been marginal, however. Crude in storage peaked at 483 million barrels in April, slipping to 466 million barrels in June. That's still well above the 384 million barrels in June last year. As vacations end and refineries begin their fall maintenance programs, inventories are likely to rise again.

A World Awash in Crude

EIA estimates the world currently produces 95.7 million barrels, consumes 93.1 million barrels, and generates a surplus of 2.6 million barrels of oil per day. Ironically, the 2.6 million barrel surplus equates to U.S. production growth over the past two years. Production continues to flow despite low prices. Collectively, Angola, Canada, China, Egypt, Iraq, Libya, Nigeria, Saudi Arabia and the United Kingdom pumped 2 million barrels more in April 2015 than they did in April 2014. For some, it's a case of holding onto market share; for others, the need to offset in volume what they've lost in price. A similar story is playing out at home, with several firms (e.g., Anadarko, Marathon, Noble Energy) reporting they've managed to boost production even though they've slashed their exploration budgets. And even though the rig count has plummeted 57 percent from the peak in the Eagle Ford, 56 percent in the Bakken, and 64 percent in the Permian, output in the nation's three most prolific basins has fallen less than 2 percent. The reason: better technology, more experience drilling and fracking, and a keener understanding of the geology associated with tight oil. Five years ago, initial production from an Eagle Ford well averaged 102 barrels per day. In June this year, initial production averaged 717 barrels per day, according to data from the EIA.

The increased production has not flowed to the bottom line, however. Exxon, the biggest U.S. energy producer, recently reported its lowest quarterly profit since 2009. Chevron posted its worst quarter in 12 years. Earnings from Shell Oil's upstream business fell 80 percent compared to the same quarter last year. And many independents such as ConocoPhillips, Marathon, and Chesapeake reported outright losses for the quarter. Prior to the downturn, conventional wisdom held that the typical well in the Eagle Ford would be profitable as long as oil remained above $70 per barrel. Oil hasn't traded above that level since November 2014. As prices fell, exploration firms demanded price concessions from the service firms, and the break-even point fell as well. Some E&P companies boasted their wells could make a profit at $50 and even $40 per barrel. The importance of that metric has begun to fade, however. The new focus is on corporate overhead, cash flow, debt service, capital discipline, and cost-cutting measures. Investors realize that even though individual wells are profitable, the company overall may be losing money.

A gradual realization seems to be emerging that the price of oil will remain low for the foreseeable future. Baker Hughes, in its second quarter earnings report, said headwinds from tumbling oil prices will persist for the rest of the year. The NYMEX futures market shows oil not trading above $56 a barrel until late in 2017. In its earnings report, Shell Oil stated crude prices may remain depressed for the next five years. The industry continues to sell assets and reduce headcounts to better function in a low-price environment. This commodity cycle is following the typical pattern—the first wave of layoffs in the field and on the shop floor, impacting blue-collar and hourly workers; the second wave in the corporate offices, impacting white collar and professional staff. It's too soon to tell what impact these layoffs will have outside the energy sector. The energy sector—exploration, oil field services, and oil field equipment manufacturing—accounts for 5.0 percent of total nonfarm payroll employment and 14.3 percent of total wages and salaries in the region. Two other sectors closely aligned with energy—fabricated metal products and engineering—account for another 4.5 percent of total employment and 4.9 percent of total wages. These sectors are part of Houston's economic base and as such support a significant number of jobs in the secondary sectors—retail, restaurants, real estate, etc. These jobs are at risk as well. The impact of the downturn on these sectors won't be apparent until the end of this year or early next year.

Oil Prices Hurt Wage Gains

The U.S. Bureau of Labor Statistics' report that shows local residents who work in private industry, and not for a government agency, saw a 2 percent bump in wages during the past 12 months. When benefits are included, areas residents received a 2.1 percent increase in total compensation during the past 12 months ending in June. "Houston is basically chugging right along," said Cheryl Abbot, regional economist with the bureau in Dallas. A year ago, Houston residents got a 2.3 percent raise in wages. The boost in pay would likely have been higher if oil prices hadn't taken a nosedive in late 2014, said Patrick Jankowski, SVP Research for the Greater Houston Partnership. The negative first half of 2015 offset the mostly positive second half of 2014. While the latest 2 percent raise might not seem like a lot – unless you're one of the folks in Houston who haven't received any sort of pay boost during the past year – consider it in context. Local consumer prices dipped 0.4 percent during the same 12-month period ending in June, thanks largely to double-digit drops in the cost of gasoline and electricity. The modest boost in pay coupled with lower consumer prices means the average Houstonian had a little more money in his or her pocket during the past 12 months. The Houston area didn't fare as well as other parts of the country; nationwide, average wages grew by 2.2 percent. In June, the group that saw the biggest hit in wages were "incentive paid occupations" – generally, that means sales employees. At the same time, construction and manufacturing companies reported wages rising four times faster compared to overall U.S. wage packages. Financial service providers posted larger-than-usual wage gains. The bureau gathers its data by surveying employers in a wide variety of industries about compensation for their most common job. Each fall the nation's big employee benefit consulting firm release surveys of their clients and other companies about what sort of pay raises they're planning for the following year. The surveys tend to focus on big companies, the ones that hire compensation consultants. Last year, consulting firm Mercer predicted average base raises would be in the neighborhood of 3 percent during 2015. That was a bump over the past few years, which Mercer attributed to the strengthening economy and expanding job market. Of course, that was before anyone knew how low oil prices would fall. It's anyone's guess what to expect from here into 2016.

Prospect of More Layoffs

For the first time in more than three months, U.S. oil prices closed below $50 per barrel as rising crude stockpiles and stubbornly higher production combined to push the price of Houston's most important commodity through another bearish milestone. As prices have dropped almost 20 percent recently, analysts have been more grim in their outlooks, raising the specter of more layoffs across the energy industry for the rest of the year. "There's a huge difference between $50 and $60," said Dave Purcell, an analyst at Houston energy investment bank Tudor, Pickering, Holt & Co. "The reality is the industry doesn't work at $50." Amid a persistent glut of oil in the global market, the U.S. Energy Information Administration reported the domestic crude oil stockpiles unexpectedly climbed. Analysts had predicted a decline in inventories as refineries continue to convert crude to gasoline at near record levels to fuel the summer driving season. The economic pain has been acute in Houston and across the state, where energy companies have announced waves of job cuts. Executives at oil field service company FMC Technologies said they will have to cut more jobs beyond the 2,000 layoffs announced in February. Weatherford International announced plans to increase its job cuts from 10,000 to 11,000 with the increase coming mostly from its U.S. support staff. Cal Dive, which filed for Chapter 11 bankruptcy protection in March, told the TWC it is closing two facilities, one in Houston and another in Port Arthur, and it will lose 126 employees. National Oilwell Varco said its well bore technologies unit is closing a facility in Willis over the next few months, laying off 150 employees starting in mid August. Houston-based oil industry recruiter Swift Worldwide Resources estimates worldwide oil field layoffs have reached 176,100 so far. That's up from its previous estimate of 150,000 in mid June. Giants like Halliburton and Baker Hughes keep cutting. Halliburton is acquiring Baker Hughes, but the companies say the job losses are not related to the merger. Halliburton has cut nearly 14,000 jobs, and Baker Hughes has laid off 13,000 employees since they began trimming last year to cope with the oil market crash. Halliburton's latest lay-off estimate exceeds its April figure by 5,000 jobs, bringing its cuts up to 16 percent of its workforce. Baker Hughes' estimate is up by 2,500 jobs, up to 21 percent of its headcount. Schlumberger, the world's biggest oil field service company, saw net income fall nearly 30 percent in the second quarter compared to the same period last year. Schlumberger said the company will not comment on plans for layoffs. It laid off 11,000 people in the first quarter, on top of the 9,000 it cut in the fourth quarter of 2014. All told, that's about 15 percent of its workforce. That means the world's top four oil field service companies – Schlumberger, Halliburton, Baker Hughes, and Weatherford International – have cut or planned to cut 58,000 jobs this year in response to the collapse of crude prices. Still another Houston oil service company, Oceaneering International, said its profit fell 40 percent in the second quarter as its fleet of more than 300 underwater robots found less work at offshore oil projects. Oil field services companies have been among the hardest hit so far, but the pain could spread if crude prices remain low and banks tighten lending standards, Moody's Investors Services said Monday. "The bears are back out," said Jeff Dietert, an analyst at Houston investment banking firm Simmons & Company International. Dietert remains optimistic prices will have to bounce back somewhat next year, if only to ensure that drillers keep pumping enough oil to run the global economy, adding: "Our supply just doesn't work at $50." The Houston area is on track to create about 16,000 jobs in 2015, Bill Gilmer, an economist at the University of Houston's C.T. Bauer College of Business said, down from the city's longtime average of 65,000 a year. Without an oil price recovery by early next year, it could see only about 20,000 jobs created in 2016.

Houston's Long-term Outlook

Despite the current slump in the energy industry, Houston's long-term outlook remains bright. The metro area's real (i.e., net of inflation) gross area product (GAP) is projected to more than double between 2015 and 2040, according to the recently released forecast by Ray Perryman, the Waco-based economist who has studied the U.S., Texas and metro economies since the 1970s. Perryman forecasts Houston's real GAP to grow from $504.1 billion in 2015 to $1.15 trillion in 2040—an average annual growth rate of 3.4 percent. The industries with the fastest annual growth rates from 2015 to 2040 are: services (3.9 percent), manufacturing (3.8 percent), and mining (3.3 percent). These fastest-growing industries are also the largest industry sectors by dollar value. Mining is the largest contributor to Houston's GAP in 2015 at $138.8billion (23.1 percent of total GAP) followed by services at $113.4 billion (18.9 percent) and manufacturing at $109.5 billion (18.2 percent). "While the end of the oil surge will affect performance in the near term," the Perryman report states, "the Houston area's economy is far more diversified than in decades past and the downturn in oil prices is not likely to derail economic performance for an extended period of time." The report also notes the importance of growth in non-energy sectors to compensate for the negative impact from lower energy prices. Over the next quarter-century, the metro area is expected to add 3.4 million residents—an average annual growth rate of 1.7 percent. Wage and salary employment is forecasted to gain 1.5 million jobs—an average annual rate of 1.6 percent. The region is expected to account for one-fourth of Texas' job growth during this period.

U.S. Job Growth Steady in July

The U.S. economy delivered pretty much what was expected last month in terms of hiring. The pace of employment growth was steady, if not spectacular; the economy added 215,000 jobs in July. While not as robust as the gains recorded in May and June, Friday's Labor Department report came in within 10,000 jobs of what forecasters had predicted, a notable feat of consistency in an economy that employs nearly 150 million people. The unemployment rate was unchanged at 5.3 percent. If the current pace of job growth can be maintained, economists expect the jobless rate to sink below the crucial 5 percent level by late 2015 or early 2016. Over the last 12 months, wages have risen at an annual rate of 2.1 percent, not much more than the already-low underlying rate of inflation. The public sector added 5,000 jobs, while private employers increased payrolls by 210,000. Strongest areas for hiring included health care, retailing, and professional and business services. Manufacturers added 15,000 jobs in July, the biggest monthly increase for the sector since late 2014.

U.S. Growth Rate for Wages Slows to a Crawl

U.S. wages and benefits grew in the spring at the slowest pace in 33 years, stark evidence that stronger hiring isn't lifting paychecks much for most Americans. The slowdown also likely reflects a sharp drop-off in bonus and incentive pay for some workers. The employment cost index rose just 0.2 percent in the April-June quarter after a 0.7 increase in the first quarter, the Labor department said. The index tracks wages, salaries and benefits. Wages and salaries alone also rose 0.2 percent. Both measures recoded the smallest quarterly gains since the second quarter of 1982. Salaries and benefits for private sector workers were unchanged, the weakest showing since the government began tracking the data in 1980. The slowdown suggest companies are still able to find the workers they need without boosting pay, a sign the job market is not yet back to full health. Employers have added nearly 3 million jobs in the past year, lowering the unemployment rate to 5.3 percent in June from 6.1 percent twelve months earlier. The employment cost index figures now match the sluggish pace of growth reported in the average hourly pay data that is part of the monthly jobs report. Average hourly wages were up just 2 percent in June from a year earlier, the Labor Department said earlier in July.

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