Houston's Employment Growth Tepid

Metro Houston added 5,500 jobs in June, bringing total non-farm employment to 2,998,700, according to the Texas Workforce Commission. While June's job growth is stronger than the 3,500 jobs added in June of last year, it falls below the 25-year average of 7,200 net new jobs for this month. On a seasonally adjusted basis, Houston added 100 jobs in June, far below the 25-year average gain of 3,400 jobs. Since peak employment was reached in December 2015, Houston is down 22,600 jobs (not seasonally adjusted) and down 11,500 (seasonally adjusted).

Service industries provided bright spots in the local economy, particularly healthcare, which added 16,000 jobs over the year, a gain of more than 5 percent. Leisure and hospitality added more than 20,000 jobs since June 2015, an increase of nearly 7 percent. Sectors recording notable growth in June were leisure and hospitality (+9,000 jobs), manufacturing (+1,900), and professional and business services (+1,600). Not only did leisure and hospitality post the largest-ever one-month gain for a June, it was also the largest monthly gain on record for this sector. The 1,900 jobs added in manufacturing were the highest monthly increase since October 2014. Nondurable goods manufacturing added 1,100 jobs and durable goods manufacturing added 800 jobs. Professional and business services grew by 1,600 jobs, the strongest over-the-month gain since June 2015. The sector has never posted job losses in June—not even during the Great Recession.

Government and construction reported the largest losses in June, -6,500 and -4,400 respectively. Declines in government were driven by the temporary shedding of jobs in public education during the summer months. Losses in construction came from specialty trade contractors (-2,400) and heavy and civil engineering construction (-2,400). Construction of buildings grew by 800 jobs.

Job growth in Houston lagged far behind the state and nation in June as the effects of the oil bust continued to weigh on the local economy. Over the past year, Houston had a job growth rate of 0.2 percent, compared with 1.5 percent in Texas, and 1.8 percent nationally. Job growth in Texas rebounded a bit from a disappointing May. The state added 7,200 jobs in June, compared with a revised 6,600 in May. Nationally, the economy roared back to life in June, creating 287,000 jobs after adding only 11,000 in May.

Energy and Related Industries Remain Bleak

But the picture for energy and related industries remained bleak. Statewide, the goods-producing side of the economy, which includes the oil & gas industry and manufacturing, has lost jobs in 17 of the last 18 months. In Houston, the mining and logging sector, dominated here by oil and gas, shed nearly 14,000 jobs over the past year, a plunge of almost 14 percent. Oil field services were particularly hard hit, losing

18.4 percent of jobs since last June, or nearly one in five. Manufacturing which is closely tied to energy here, lost more than 15,000 jobs over the year, a drop of more than 6 percent. The worst of the energy industry downturn, however, may be over, analysts and executives said. Oil field services company, Baker Hughes, reported that 15 more drilling rigs came into operation in Texas. Nationally, the rig count climbed to 462, up from its low of 404 in May. Schlumberger disclosed that it had cut 8,000 jobs in its global workforce in the three-month period that ended in June and 16,000 in the first half of the year. Rival Halliburton said it cut 5,000 jobs during that period. Neither would say how many of those jobs were in Houston. Houston-based FMC Technologies plans to merge with France-based Technip next year. They cut 1,000 jobs in the second quarter.

West Texas Intermediate (WTI), the U.S. benchmark for light sweet crude, briefly reached $50 per barrel in early June, sparking hope for a prolonged price recovery. Since then, prices have settled in the low-to mid-$40s, reflecting concern about oversupply. Crude prices are still up from the low of $26 in February, a point most analysts believe to be the trough. The U.S. Energy Information Administration (EIA) forecasts WTI to average $48 through the remainder of the year and $52 in 2017. Similarly, Goldman Sachs sees prices remaining between $45 and $50 until mid-2017. Supply and demand will need to balance before prices rally to sustained higher levels.

Unemployment Rate Jumped

Houston's unemployment rate jumped more than half of a percentage point from a year ago. It increased from 4.8 percent in May to 5.5 percent in June. The Texas rate rose from 4.2 percent to 4.8 percent and the U.S. rate increased from 4.5 percent to 5.1 percent. The rates are not seasonally adjusted. Unemployment rates typically increase from May to June as public education posts a temporary job loss due to employees on 10-month contracts.

American Jobs Machine Has Moved Back Into High Gear

After months of conflicting signals and economic uncertainty, it became clear that the American jobs machine has moved back into high gear. A report from the Labor Department that said employers added 255,000 jobs in July had been eagerly anticipated on Wall Street, in Washington and on the campaign trail, and the much-better-than-expected showing immediately rippled through all three arenas. The oil and gas sector, however, continued its precipitous decline. Mining and logging, which includes oil and gas extraction and services, shed another 7,000 jobs in July, the only major sector to lose jobs last month. That industry now has lost 220,000 jobs, or more than one in four, since its peak in September 2014. The national figures suggest more bad news for Houston, which has one of the highest concentrations of energy companies in the world. Over last year, the oil and gas industry in Houston shed nearly 14,000 jobs, a plunge of almost 14 percent. The oil field services segment was particularly hard hit, losing 18.4 percent of jobs since last June, or nearly one in five.

Wages are up 2.6 percent over the last 12 months, a much healthier pace than earlier in the recovery, and many economists expect that growth to accelerate this year and into 2017. The July increase in payrolls stands in sharp contrast to numbers released just last week showing disappointing economic growth in April, May and June. One reason for the difference is that parts of the economy are still suffering from the continuing fallout from low oil prices as energy companies cut back on investment. At the same time, companies seem to prefer to hire more workers for now rather than invest in new equipment and increase their efficiency and output. Over the past six months, the economy has added an average of 189,000 jobs a month. In late spring, the government reported that job creation in May was much weaker than what economists had expected, but a big rebound in June similarly caught the experts off-guard. June's gain was revised upward by 5,000 jobs, and May's by 13,000. Wages reflected the signs of stronger demand for employees, with average hourly earnings rising 0.3 percent in July, bringing the 12-month gain to 2.6 percent. As the unemployment rate has fallen, some employers have raised salaries to retain their best workers and attract new ones.

Labor Turnover's Price

Energy companies can lay off thousands of people with a single announcement, but they may not understand or accurately calculate the costs of ramping up employment when business conditions rebound. Just last week, four Houston-based energy companies disclosed some 15,000 job cuts in effects to appease investors and shore up balance sheets. "In this country, they think they can fire workers and hire workers, and it will be just the same," said Eileen Appelbaum, senior economist for the Center for Economic and Policy Research. "We see that it isn't just the same." Companies in energy and other sectors don't always consider the skills and knowledge they send out the door, Appelbaum said. They don't measure the lost productivity of new employees adjusting to the job or being trained for the job. They don't recognize the time other employees will spend to assist newcomers. Nor do they consider the time managers lose to recruiting. John Challenger, CEO of Chicago-based Challenger, Gray & Christmas, said the executives who run publicly traded companies often do know that cutting employees may not be what's best for the company in the long run, but they are pressured by the quarter-by-quarter mentality that drives Wall Street. The damage is hard to assess.

Reports vary on how much it actually costs to hire a new employee. The Center for Economic and Policy Research found that hiring one hourly worker averaged $5,900 or 17 percent of that person's annual pay. Hiring a salaried employee, not including C-suite executives, averaged $14,000, or 23 percent of the person's annual pay. In Houston, energy companies and firms in sectors closely related to energy have shed more than 77,000 jobs since December 2014, according to the Texas Workforce Commission. A separate report from Houston consulting firm Graves & CO. found that roughly 350,000 such jobs have been lost worldwide. As energy prices stabilize, companies eventually will need to ramp up to meet demand. Tracking down former workers, engaging executive search firms and trying to lure talent from other industries can be time-consuming and costly. Some employees, especially those with transferable skills such as chief financial officers or IT personnel, could find jobs in other industries and choose not to return. They may be weary of the sector's feast-and-famine cyclical nature. A survey of about 40 laid-off oil field workers found that 79 percent of those who didn't find new jobs in that industry said they would not return to the sector, according to research firm Evercore ISI.

There's also concern about attracting and retaining the next generation of workers. At the University of Houston, many energy companies have kept a presence on campus, said Jamie Belinee, assistant dean of the Rockwell Career Center at the C.T Bauer College of Business. In previous downturns, they disappeared from college campuses as companies slashed their recruiting teams. Today, companies still want to be known to the students, lest they become a "C choice employer," she said. Students graduating this year with energy-specific degrees are in the worst position. Those just beginning their degrees will be fine as the industry improves over the next four years. There could be a "war for talent at all levels within the energy sector," Stephen Newton, managing direct of Houston and Dallas offices of executive search firm Russell Reynolds Associates.

For To-Be STEM Careerists

Houston, one of the most diverse cities in the U.S., was recently named one of the most diverse in STEM – science, technology, engineering, and mathematics – jobs as well. SmartAsset, a New York City-based financial technology company, named Houston no. 6 in the U.S. for STEM diversity in 2016. The Bayou City didn't crack the top-10 list in 2015. To compile the list, the study examined U.S. Census data and demographics of STEM. Houston was "unique in Texas" for its high percentage of Asian workers in STEM jobs, with 23 percent, the largest minority group in the city's STEM jobs, according to the study. That number increased from last year's 21 percent of Asian workers in Houston STEM jobs. Houston's Asian percentage in STEM jobs outpaced the national average of 16 percent.

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