EMPLOYMENT AT MID-YEAR

Metro Houston added 22,900 jobs in the first half of 2017, an improvement over the comparable periods in 2015 and 2016, when Houston posted significant losses.

METRO HOUSTON NET JOB GROWTH

Year	Through June	Full Year
2010	+25,400	+50,300
2011	+39,900	+83,100
2012	+61,700	+118,800
2013	+43,000	+90,400
2014	+50,200	+118,200
2015	-10,900	+200
2016	-14,500	+18,700
2017	+22,900	TBD

Source: Texas Workforce Commission

The region will undoubtedly finish the year with net job gains, but still short of the long-term average of 60,000 per year. How short? That depends on how the second half of 2017 plays out, whether current employment trends reflect a cyclical pattern or a fundamental restructuring of the economy, and how accurately the Texas Workforce Commission is measuring current employment trends.

Six sectors account for the bulk of job growth to date—employment services; manufacturing; food services and drinking places; arts, entertainment and recreation; health care; and other services. As a group, they've added 48,900 jobs through June. Three sectors account for the bulk of Houston's losses—retail; transportation, warehousing, utilities; and wholesale trade. As a group, they've cut 27,800 jobs. Lesser gains and losses have occurred in other sectors. Energy remains an enigma.

SECTORS ADDING JOBS

Employment services (primarily contract workers) leads all other sectors, adding 10,600 jobs since January. That's a near-record six-month performance. Employment services has added 16,000 jobs since June 2016. That is a record 12-month performance.

Gains or losses for the sector foreshadow gains or losses for the broader economy. In a downturn, firms lay off contract workers before cutting permanent staff. In a recovery, firms often hire contract workers to handle the increase in business, placing them on the permanent payroll as growth gathers steam.

Employment services has trended upward since November 2016 and now stands at an all-time high. In a normal recovery, growth should have plateaued by now, giving rise to gains in other sectors, but that hasn't happened yet.

Two possible explanations:

- Employers still worry about the recovery's strength and remain reluctant to move contract workers to permanent status, or
- A fundamental shift in staffing patterns is underway. Just-in-time inventory systems have been in place for years. Just-in-time staffing (i.e., reliance on contract workers) may be the next step.

Manufacturing is off to one of the strongest starts on record, adding 10,500 jobs in the first half of 2017. Job growth has closely tracked the recovery in the rig fleet. The 540 rigs added from the downturn to late June is the sharpest recovery in the rig count on record.

Though not obvious in the chart, the rig count appears to have plateaued in July. If exploration firms curtail their spending in the second half, growth in manufacturing employment may also plateau.

There are inconsistencies in the data as well. Machinery manufacturing, which includes oil field equipment, has lost 1,700 jobs; nondurable goods manufacturing, another 1,500. Those losses should be pulling down gains in the other sectors. Traditionally, manufacturing tracks closely with wholesale trade, which continued to shed jobs through mid-year. The losses in wholesale trade may be overstated; however, exports of industrial and electrical machinery, vehicles and articles of iron and steel, which also align with wholesale employment, are down year-to-date. On the upside, the jobs associated with the opening of the Daikin plant in northwest Harris County may finally be showing up in the data. This would explain why fabricated metal products have added 6,200 jobs since January, boosting total manufacturing employment.

Food services and drinking places (i.e., restaurants and bars) added 9,400 jobs through June. While that appears to be robust, from 2011 to 2016 the region added 12,000 to 14,000 jobs over the comparable period. Several factors may be at play—total salaries and wages adjusted for inflation remain below their previous peak; consumer confidence may be flagging (retail and auto sales are down); restauranteurs may be substituting technology for staff; and households may have discovered eating at home is an option to dining out.

Other services include barber shops, beauty salons, funeral homes, dry cleaners, religious groups, nonprofits, professional associations, and maintenance and repair shops. The sector follows a predictable path—significant gains in Q1 and Q2 followed by minor losses in Q3 and Q4. Why the pattern persists is not apparent, but it has held constant since 1991, the earliest year for which data are available. The sector added 6,500 jobs in the first six months of the year. If historic patterns hold, the sector will give back two-thirds of those gains by year's end.

Employment in ***arts, recreation and entertainment*** consistently peaks in the summer, declines in the fall, but still finishes the year in the black. Like other services, the pattern has held constant over time. The 6,300 jobs gained over the first half of 2017 will dissipate as the vacation season ends. By December, job gains will likely be half those currently recorded.

The 5,700 jobs added year-to-date in ***health care*** is the strongest start on record. The uncertain fate of the Affordable Care Act and the financial challenges facing several Texas Medical Center institutions may slow the pace of growth in Q3 and Q4. However, Houston's population continues to add 125,000 or more residents each year and the Baby Boomers continue to age, both driving demand for health care.
Health care adds 6,000 to 10,000 jobs in a typical year. Net gains will fall within that range in 2017. Note: Over the past three decades, health care employment has never finished the year with job losses.

Other sectors with YTD job growth: architectural and engineering services (+ 1,700), finance and insurance (+400) and oil and gas extraction (+200).

SECTORS CUTTING JOBS

Retail employment always declines in Q1 as workers hired for the holiday season are dismissed. The sector has shed 15,000 jobs year-to-date. The losses, however, are steeper than normal.

Transportation, warehousing and utilities lost 5,900 jobs through June. Air transportation, truck, pipeline and utility employment have held steady, suggesting the losses fall in waterborne transportation and warehousing.

Local public education (i.e., school districts) lost 1,000 jobs in June. Another 12,000 or more will be cut in in July. Sector employment always declines mid-year as educators and administrators roll off school payrolls during the summer.

Wholesale trade cut 3,100 jobs in the first half of the year.

Other sectors with YTD jobs losses: construction (-1,000) information (-1,200), and real estate and rental and leasing (-1,400).

THE ENIGMA

The mining and logging sector (in Houston, almost entirely oil and gas) added 200 jobs the first six months of the year. The low point for the industry was October 2016, when TWC reported only 84,800 working in the sector, down 31,100 jobs (26.8 percent) from its December 2014 peak. The sector has recovered 1,700 of those jobs since then, but 1,500 came in Q4/16.

But there's a discrepancy in the data. Through June, the oil and gas extraction subsector cut 2,100 jobs, according to TWC. Oil field services added 3,100 in over the same period. That should net to a 1,000-job gain, not the 200 that TWC reports. Non-energy firms in the sector account for less than 2,000 jobs, so it's doubtful the 800-job discrepancy hides there. A more likely explanation is that with the industry in turmoil, TWC struggles with the quantity and quality of responses when it surveys employers, so the agency has added a bit of a cushion to its estimates. An accurate picture of job gains (or losses) in the sector won't be available until the TWC issues its annual benchmark revisions to the employment data in March 2018.

HOUSTON WAGE GROWTH NEARLY FLAT

Houston's wage growth increased only 0.5 percent year over year in June, according to Glassdoor.com. That's the lowest among the 10 metropolitan areas tracked in Glassdoor's report and significantly less than the national average. Nationwide, wage growth decelerated to 1.7 percent from 2.2 percent, marking a five-month slowdown from January's 3.1 percent, per Glassdoor. U.S. inflation of 1.9 percent also outpaced last month's national wage growth for the first time in three years. The median base pay is greater in all 10 metros than the nationwide figure of $51,324. The median is $54,365 in Houston and $68,119 in San Francisco.

TEXAS PICKS UP PACE

Texas employers added more than 40,000 jobs in June, speeding a slow recovery from the oil downturn as drillers continue to hire rapidly to bring new production online. That robust number brings Texas to an annualized growth rate of 2.7 percent, up from 2.4 percent last month, in line with an acceleration in job growth nationally. The unemployment rate fell to 4.6 percent form 4.8 percent in May. Oil and gas as well as manufacturing again led the state's growth, after a strong month in May, accounting for nearly a quarter of all positions added. Oil and gas jobs are now up 10.3 percent from a year ago. The recent acceleration in job growth led the Federal Reserve Bank of Dallas to boost its forecast for employment growth to 2.8 percent. Growth was not quite as impressive in Houston. Employment grew at an annual rate of 1.9 percent – sluggish compared to the state's fastest-growing cities like Dallas, which posted a 3.4 percent growth. Still, that is an improvement from last month, when the annual growth rate stood at 1.7 percent. June marked five consecutive months in which employers added to payrolls.

In Houston, energy and manufacturing employment continued to struggle in June, as did construction, which has shed 2.4 percent of jobs over the year. Unlike Texas as a whole, the service industries, such as healthcare, are growing faster here than goods-producing industries. The unemployment rate in Houston stands at 5.3 percent, slightly below last year's rate for June. Experts voiced some concern that employment services, which cover temporary staffing companies, still make up such a large chunk of Houston's job growth, accounting for one in four new jobs over the past year. That could indicate that companies are still hesitant to bring people on full-time. Professional and business services, which include many of those white-collar jobs, led employment growth in June, adding 19,000 jobs over the year. Both the Texas and Houston economies face risks, such as weakening oil prices that already have started to deflate the bump in drilling. Over the past week the North American rig count declined by one, after adding 488 since this time last year.

HOW TO ATTRACT AND RETAIN NEW GEN Z GRADS

The class of 2017 – the first crop of Gen Z grads – is entering the workforce this year. These college grads come inspired, willing and prepared. It would be difficult to apply the "entitled" label that managers often attributed to preceding millennials. A national survey of 2,000 new and recent college graduates by Accenture Strategy found the tide may, in fact, be turning. These new grads value job stability after watching their parents struggle financially in an era of economic uncertainty. They dream of meaningful, challenging work that reflects their passion, as well as a clear career path. They accept that working some evenings and weekends is part of the corporate equation. Four out of five grads have completed an internship or the like, showing an appreciation for the need to bring practical skills to employers. In other words, Gen Z comes prepared and willing to roll up its sleeves, asking for a few more than reasonable items in return.

Despite their impressive preparedness, this future workforce realizes they have much to learn, with 84 percent of U.S. college grads from the class of 2017 expecting their first employer to provide formal training. They also place mentoring and a clear career path high on their list. These grads also would rather be at a company with a fun, positive, social atmosphere, even if it means making a lower salary. While Gen Z is willing to be flexible, they expect employers to reciprocate and help maintain work-life balance. Having grown up in an age where technology is pervasive, new graduates swill well in digital waters. Yes, 42 percent of new graduates prefer face-to-face interactions with colleagues, with web communication tools running a distant second (21 percent).

As the much talked about talent shortage looms in Houston and elsewhere, attracting and retaining qualified talent becomes of increasing concern to many employers. The solution lies in being a partner for growth. Gen Z may have traditional values, but no new grad wants to return to the days of corporate hierarchy their parents endured. New grads are looking for a partner to help them build a career, one who is also respectful of life outside of work, a few things to keep in mind as Gen Z comes of age. Gen Z will be a breath of fresh air for many employers. But knowing what this generation values and desires is key to attracting and retaining new talent.

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