## Houston's Future Economic Growth

Houston's growth will outpace the nation and the state over the next five years. 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. According to Perryman:

- Houston's economy will grow 4.11 percent annually over the period, compared to 4.01 percent for the state and 2.89 percent for the nation. The figures are adjusted to account for inflation.
- Houston's population will grow 1.67 percent versus 1.47 percent for the state and 0.71 percent for the nation.
- Employment will grow 2.14 percent in Houston versus 2.05 percent for the state and 1.55 percent for the U.S.

The longer-term outlook is more impressive. Houston's economy will nearly double in size over the next 20 years. The region will add nearly 2.6 million residents, more than 1.3 million jobs, and $650 billion in personal income. Even after accounting for inflation, Houston's prospects look good, with real Gross Regional Product growing 89.3 percent, real personal income 102.5 percent, and retail sales growing 98.2 percent over the next two decades. Perryman calls for shifts in the region's composition over the next two decades, with the contribution to Gross Regional Product from energy, construction real estate and government slipping, while manufacturing, administrative support and professional, scientific and technical services account for larger shares. By 2045, Houston's GRP will exceed $2.45 trillion, employment will exceed 5.0 million, and the region's population will hit 10.7 million.

## Houston's Job Growth

Houston-area employers added jobs for the ninth consecutive month in June, reflecting an uptick in overall hiring as the region continues to recover from the oil bust and the aftermath of Hurricane Harvey. The metropolitan area created 23,200 jobs in June, according to the US. Bureau of Labor Statistics, which was the largest ever one month gain in June since records began in 1990. Professional and business services led the hiring followed by construction, leisure and hospitality. Houston is also catching up with the rest of Texas after lagging behind for the past few years as Houston energy-based economy stumbled when oil prices dropped in 2015 and 2016. Over the past year, the Houston region added 94,600 jobs for an annual growth rate of about 3 percent, nearly identical to the annual growth rate statewide. Houston's unemployment rate was 4.6 percent in June compared to 5.1 percent on year earlier. Job growth is accelerating in Houston and it's happening faster than anyone expected. Some of the gains are clearly coming from an improved oil and gas sector which has added engineers, scientists and other professionals over the past year.

For the 12 months ending June '18, metro Houston created 94,600 jobs, a 3.1 percent increase—a significant jump from the 81,200 jobs created in the 12 months ending May '18. Three sectors account for more than half the region's job growth:

- Administrative and support and waste management services (contract workers, janitorial staff, security guards) added 24,700 jobs, 26.1 percent of the gains,
- Construction, 19,300 jobs, 20.4 percent of the gains,
- Retail, 9,100 jobs, 9.6 percent of the gains.

**Texas Job Growth May Back Off**

The Houston and Texas economies grew briskly in the first half of the year, but the pace is expected to slow as trade tensions, labor shortages and rising wages weigh on the expansion, according to the Federal Reserve Bank of Dallas. Economists at the Dallas Fed described the rate of job growth as "blistering" in the first six months of 2018. Employment in Texas grew at an annual rate of 3.6 percent, the strongest job growth in the nation, according to the Dallas Fed. Houston added jobs even faster, growing at an annual rate above 4 percent, according to U.S. Labor Department data. The robust growth was supported by the strengthening oil and gas industry and the booming U.S. economy. In the second quarter, the U.S. economy grew 4 percent for the first time since 2014 while employers continued to add jobs month after month.

Texas added 27,200 jobs in June, the 24th consecutive month of employment growth, according to the labor bureau. The statewide unemployment rate for June dipped to 4 percent, near its record low of 3.9 percent in November. Any slack in the labor market has been largely absorbed, according to the Federal Reserve Bank, which is putting pressure on companies to raise wages. The bank is receiving anecdotal reports of worker shortages across industries and skills. Such shortages and higher wages that employers may have to pay to attract workers are expected to contribute to slower growth in the second half of the year, according to the Dallas Fed. But even with the slowdown, Texas is still expected to grow faster than other states in the second half of 2018. In Houston, economic activity expanded for the ninth consecutive month, according to a survey of businesses.

**Robust U.S. Job Market**

U.S. employers posted slightly more openings in June than the previous month, resulting in more available jobs than unemployed people for the third straight month, signaling a solid economy. The Labor Department said job openings barely increased, rising 3,000 to 6.66 million. That's more than 6.56 million people who were searching for work in June. It's also close to April's figure of 6.8 million, a record high. Overall hiring slipped to 5.65 million from 5.75 million, and the number of people quitting their jobs declined slightly to 3.4 million from nearly 3.5 million in May. The figures reflect a robust job market. The unemployed typically outnumber job openings, but that reversed this spring amid strong demand from employers. Businesses are optimistic about the outlook and stepping up hiring in anticipation of solid future growth. The economy expanded at a 4.1 percent annual rate in the April-June quarter, the fastest pace in four years. The government said that employers added 157,000 jobs in July and the unemployment rate fell to 3.9 percent, near an 18-year low. That figure represents a net gain, while the Job Openings and Labor Turnover survey (JOLTS) measures total hiring before resignations, layoffs and retirements. The proportion of workers quitting their jobs is at the highest level in nearly 13 years. With job openings, outnumbering the unemployed, companies should be bidding up wages to attract and keep workers. Yet average hourly pay gains, while slowly grinding higher, remain modest. Average hourly wages rose 2.7 percent in July from a year earlier, the Labor Department said. Yet rising inflation has offset that gain. Consumer prices increased 2.9 percent in June from a year, ago, lifted in part by more expensive gas. There are many possible reasons pay isn't rising faster. One explanation is that worker productivity, or output per hour worked, is increasing at a historically sluggish rate. That suggest workers aren't getting much more efficient, which makes it harder to win higher pay. Productivity can rise when companies invest in more machinery, computers and software to boost output.

**U.S. Oil Production at All-Time High**

The downturn in the oil industry is finally over. More companies are reporting profits than losses. Fewer firms are filing for bankruptcy. Oil now trades above break-even cost for most producers. Exploration budgets continue to grow. The North American rig count has rebounded. Permits to drill have risen dramatically. Layoffs have slowed to a trickle. Crude inventories have fallen. U.S. production is at an all-time high. And global demand continues to grow.

In Q2/16, only five of the 25 largest energy firms in Houston earned a profit. That's not surprising, given that oil sank to $26 per barrel the prior quarter. Share prices took a beating as well. By mid-'16, they'd fallen 30 to 90 percent from their peaks, with a 66 percent drop being the average. The expression that oil prices would be "lower for longer" was heard so often it became trite. But companies heeded the warning, reducing headcounts, slashing budgets and focusing on only the best prospects in their portfolios. These steps helped the industry to regain its health. In Q2/17, 16 of the 25 largest companies reported profits. In Q2/18, 20 of the 25 largest were in the black.

Haynes and Boone began tracking bankruptcy filings early in the downturn. The law firm's *Oil Patch Bankruptcy Monitor* follows exploration companies, its *Oil Field Services Bankruptcy Tracker* watches service companies, and its *Midstream Report* compiles data on companies that gather, transport, process, or store oil and natural gas.

According to the firm, 335 North American energy companies filed for bankruptcy between Q1/15 and Q1/18. This figure includes 144 exploration, 167 service, and 24 midstream firms. Their combined debt exceeded $169 billion. About half the filings (162) were in Texas, followed by 43 in Delaware courts. A substantial number of Delaware filings were for companies with significant operations in Texas. The data show that bankruptcies peaked in in Q2/16 then quickly tapered off. By Q2/17, fillings were down 65 percent. By Q1/18 (the date of the most recent report), filings were down 83 percent. Each quarter, the Federal Reserve Bank of Dallas surveys energy firms in the Eleventh Federal Reserve District, *i.e.,* Texas, northern Louisiana and southern New Mexico. In the Q1/17 survey, 12.7 percent of respondents reported conditions for their companies were improving and 72.7 percent reported conditions were getting worse. A year later, the responses flipped. In the Q1/18 survey, only 11.6 percent said their outlook had worsened and 76.9 percent said conditions had improved. The shift suggests there will be fewer bankruptcies and layoffs in the near future.

Prior to the downturn, conventional wisdom held that a typical well drilled in the Eagle Ford or Bakken, the hottest oil plays at the time, would be profitable as long as crude remained above $70 per barrel. Two months into the downturn (January '15), the price of crude fell below $50 per barrel. Twelve months later, the price fell below $30. Prices recovered, thanks to growing global demand, OPEC production cuts, inventory drawdowns, and civil unrest among exporting countries that kept production off the market. At the same time, cost-cutting, layoffs and better drilling techniques lowered the threshold for profitably. In its Q1/18 survey, the Dallas Fed asked executives: "*In the top two areas where your firm is active, what WTI [West Texas Intermediate] oil price do you need to profitably drill a well?*" Based on the responses, most firms in the 11th district can profitably drill at $52 per barrel. The breakeven point varies by region and company. Some firms need only $20 per barrel in the Permian to make a profit while others need at least $70 per barrel in non-shale plays elsewhere. However, 88 percent of the respondents indicated they could profitably drill at then-current prices. WTI averaged $66 per barrel the week of the survey. A few naysayers expect crude to fall below $45 per barrel by December as global supply again outpaces global demand. A few optimists believe crude will top $100 per barrel next year, driven by low-sulfur fuel mandates, civil unrest in several producing nations, and sanctions limiting Iran's ability to export crude. Most forecasters, however, call for oil to track between $60 and $70 per barrel through the end of next year. The U.S. Energy Information Administration (EIA) concurs. EIA forecasts WTI to average $66 this year and $64 though the end of next.

**Fifth Energy Downturn Completed**

Houston has now completed its fifth energy downturn in the past 40 years. The other four downturns occurred from '82–'86, '90–'91, '01–'02 and '08–'09. The most recent was on par with the '80s for energy but not for the region as a whole. In the '80s, oil prices fell 60 percent; in the most recent recession they fell 76 percent. In the '80s, the rig count fell 83 percent, in the recent downturn it fell 79 percent. But the '80s were far worse for Houston because the energy collapse coincided with widespread bank failures, and the implosion of the local real estate market. In contrast, over the past five years the FDIC has rescued only one Houston-area bank. And although Houston office market is vastly overbuilt, the industrial, retail, multi-family and single-family sectors fare quite well. One final comparison: In the '80s, Houston lost 221,000 jobs, one in every seven. In the most recent downturn, Houston lost 5,000 jobs, or one in every 600. The downturn leaves several legacies, but two stand out. First, the energy industry has become leaner and more efficient. Though local employment remains well below its peak, U.S. output continues to set records. Second, Houstonians should have a better appreciation for the region's ties to the U.S. and global economies. U.S. payroll growth has averaged 200,000 since the end of the Great Recession and global growth has averaged three percent since the beginning of the energy downturn. Both helped to mitigate the impact of the energy downturn. Robust growth has finally returned to Houston. The region is creating jobs at the fastest pace in almost five years. But after four years of being a burden, the energy sector has once again begun to contribute to the region's prosperity.

**Energy Employment has Stabilized**

Energy employment in Houston peaked at 300,100 jobs in November of '14. Over the next two years, the industry shed 86,400 jobs, or 28.8 percent its local workforce. Not until exploration activity picked up in late '16 did hiring resume, and then only in services and equipment manufacturing. Exploration continued to shed workers through early '18 and has only recently begun hiring again. Only a handful of companies have announced staff cuts since the first of the year, and only one involved more than 250 employees—a far cry from '15 and '16, when a typical announcement involved 1,000 or more employees. Research by the Dallas Fed suggests that employment has stabilized. In its Q1/18 survey, the Fed asked, "*How do you expect the number of employees at your company to change in 2018?*" Only 4 percent of respondents expect employment to drop, 51 percent expect it to grow, and the remainder expect no change.

**Forbes "Best Employers for Women" List**

Nearly a year after the #MeToo Movement caught the corporate world by storm, Forbes has released it's first-ever "Best Employers for Women" list. Six Houston-area companies found themselves on the recently released list that ranked 300 U.S. firms. In total, 23 Texas-based employers earned a spot in the ranking. These are the locally based companies deemed the best employers for women:

- No. 11: Texas Children's Hospital
- No. 57: Fort Bend Independent School District
- No. 75: Royal Dutch Shell
- No. 210: Chevron Phillips Chemical Co.
- No. 215: Academy Ltd.
- No. 235: Schlumberger Ltd.

**Fortune's "Best Workplaces for Millennials" List**

Three Houston-based companies were rated among Fortune's 2018 "Best Workplaces for Millennials" list. Once again, David Weekly Homes, Camden Property Trust, and Hilcorp Energy Co. earned a spot on this year's list of the 100 best places to work for those born between 1981 and 1997. David Weekly jumped five spots, but Camden and Hilcorp fell in the rankings.

- No. 18: David Weekly Homes
  - No. of millennial employees: 530, which is 33 percent of total workforce.
- No. 95: Camden Property Trust
  - No. of millennial employees: 766, which is 48 percent of total workforce
- No. 95: Hilcorp Energy Co.
  - No. of millennial employees: 366, which is 22 percent of total workforce.

**CNBC's "America's Top States for Business 2018"**

Texas landed the top spot in CNB'S "Americas Top States for Business 2018," making it the first four-time winner in the 12-year study. However, this is the first year Texas ranked No. 1 since 2012. The state has never ranked below No. 5 overall, and it took the No. 4 spot last year. CNBC cites the long-awaited rebound in oil prices, which increased around 60 percent in the past year to the $70 per barrel range in June, as a major factor in this year's ranking. The report notes that the state added more than 350,000 jobs in the past year, with the energy sector driving the biggest increase. Texas saw solid economic growth last year, especially in the fourth quarter, when state GDP increased 5.2 percent, per CNBC. That boosted Texas' rank in the economy category to No. 1 this year, up from No. 25 last year, when oil prices were around $40 per barrel, per CNBC.

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