

Houston's Economic Outlook Remains Bright

Over the past decade, Houston has endured two economic downturns (Great Recession and Fracking Bust) and two major storms (Hurricanes Ike and Harvey), yet the region has demonstrated remarkable growth and resiliency over that period. From '08 to '18, Houston has gained 1.4 million residents, created more than 500,000 jobs and added \$100 billion to its gross domestic product (GDP). Houston lost 120,000 jobs in the Great Recession but was among the first to recover, recouping all the jobs lost in less than two years. Houston went on to lead the nation in job growth, averaging 100,000 per year during the height of the fracking boom ('10-'14). Population growth exceeded 170,000 new residents in some years. Oil prices fell from over \$100 per barrel in June '14 to \$26 per barrel in February '16 and the energy industry proceeded to shed nearly 93,000 jobs. Construction, retail, health care, business and professional services, and hospitality grew, but not enough to offset the layoffs in oil and gas. Houston lost 4,900 jobs in the downturn, by any standards a relatively mild recession. Population growth responded in a like manner, dropping to around 93,000 residents in '17 and 92,000 in '18, the gains coming solely from the net natural increase (births minus deaths) and international migration. Job growth resumed mid '17, aided by a healthy U.S. economy and strong ties to a growing global economy. The current economic outlook remains bright for Houston. The region is on pace to add 71,000 jobs in '19. Population growth always lags job growth by one to two years, so Houston probably won't return to its long-term average of 125,000 new residents per year until '20 or later. Though population gains have slowed, Houston consistently ranks among the top five metros for growth.

TWC's Forecast

Metro Houston created 44,400 jobs in the first six months of '19, according to the Texas Workforce Commission (TWC). That puts Houston on track to gain 80,000 to 90,000 jobs this year. But TWC has a history of overestimating gains, often by wide margins. The agency initially reported Houston created 108,300 jobs in '18, only to later revise that figure to 73,300 jobs. TWC struggles to capture losses as well. The agency initially reported a gain of 23,200 jobs in '15, the first year of the fracking bust, only to revise that to a loss of 2,500. The agency is likely missing the mark again this year. A host of data suggest much slower growth. The Greater Houston Partnership estimates June year-to-date (YTD) estimates are off by 10,000 to 15,000 jobs. If the estimates prove accurate, the region is on track to create 65,000 to 75,000 jobs in '19, a figure more in line with our forecast of 71,000 for the year.

Tightening Labor Market in Houston

Companies in Houston have open positions, but not enough skilled workers to fill them. The U.S. adding 164,000 jobs is solid growth, but in 2018, the nation added an average of about 220,000 a month. The U.S. is experiencing historically low unemployment rates,

with the rate holding steady at 3.7 percent during July. Employment in the mining sector across the nation fell by 5,000 jobs during July, according to BLS figures. Patrick Jankowski, SVP Research at Greater Houston Partnership, said that is a bit concerning. He's heard anecdotally that oil and gas companies, primarily in oil field services and exploration & production, are quietly laying off workers. For instance, Houston-based oil field services giant Halliburton cut its North American headcount by some 8 percent in the 2nd quarter. "One third of all manufacturing jobs in this region service upstream oil and gas," Jankowski said. Damien Garza, President of the Greater Houston Manufacturing Association, has observed slowed hiring growth in Houston's manufacturing sector during recent months.

Jobless Rate in Texas at Historic Low

Texas' unemployment rate fell to a new record low in June as a strong national economy, robust job gains and slowdown in population growth continue to tighten the local labor market to an unprecedented level. The unemployment rate slipped to 3.4 percent last month from 3.5 percent in May, the Texas Workforce Commission reported. Nationally, unemployment averaged 3.7 percent in June. The state added 45,000 jobs in June and more than 315,000 over the past year. Houston's labor market also tightened last month. Employers in the region have added jobs for 16 consecutive months, and the unemployment rate was 3.8 percent in June, down from 4.6 percent in June 2018. The region added 10,400 jobs from May and more than 80,000 over the past year. Jobs in both Houston and Texas are growing at a significantly faster pace than the nation as a whole. Employment in Houston grew 2.7 percent over the year, compared with 2.5 percent in Texas and 1.5 percent nationally. "Employment growth has been stronger here", Pia Orrenius, a senior economist at the Federal Reserve Bank of Dallas, said. "We have standout performance in our region of the economy."

Houston's manufacturing sector, one of the largest and most important industries to the region, had a particularly strong month of hiring despite signs of slowing in recent months as tariffs bite and a strong dollar, which raises prices in foreign market affects exports. The sector added 11,000 jobs in June from the same month in 2018, the largest year-over-year job growth in June for the sector since 2011. In particular, petroleum and coal products manufacturing jobs, which mostly includes refineries, grew 13 percent from June of last year.

The oil & gas sector also had healthy employment gains despite its own slowdown. As the rig count, an indication of oil and gas production, continues to decline each month, and oil prices struggle to gain momentum, economists and Wall Street have sounded the alarms for oil markets due to the ongoing U.S. China trade war and retreating global economic growth that has cut the gains of crude consumption. The Houston region added 2,000 jobs in oil & gas extraction from the same month last year. Since February, year-over-year job growth in the industry has been positive for the first time since the oil bust.

Strong job growth and falling unemployment is making it harder for companies to hire workers. Since 2017, a majority of firms surveyed by the Federal Reserve Bank of Dallas have reported difficulty in finding qualified applicants to fill positions, and some have noted it is a constrain on their businesses' growth. Slower migration to Texas from other

parts of the country is making a tight job market even tighter. In the past, such migration has helped provide a healthy supply of workers for Texas businesses but the share of the state's population increase attributable to domestic migration, or those moving to the state from other areas of the U.S. has been cut nearly in half. Economists attribute this to a strong national economy – fewer people are inclined to move to Texas for a job if they can find jobs elsewhere. A tighter labor market could be good for workers if it continues to pressure employers to raise wages to attract or retain employees.

Energy Sector

The recovery in oil and gas remains shaky and the sector may actually be contracting.

- The North American rig count has fallen from 1,075 the first week of January to 934 the second week of August.
- The price of West Texas Intermediate peaked at \$76.40 in early October '18 and has slipped to \$54.63 the first week of August.
- The Texas Railroad Commission has issued 7,166 drilling permits through July of this year, 1,166 fewer than this time last year.
- The International Energy Agency has lowered its global oil demand growth forecast to 1.1 million barrels per day in '19 from 1.4 million, its initial forecast this year.

A Closer Look at the Jobs Data

Five sectors account for most of the YTD job growth: food services, specialty trade contractors, mining and logging, architecture and engineering, and health care and social assistance. Combined, they've created 35,700 jobs. Those gains have helped offset losses in retail, public education, employment services, building construction, and information. Combined, those sectors have cut 27,200 jobs since the beginning of the year.

LEADING SECTORS, JOB GAINS AND LOSSES
Metro Houston, YTD June '19

Sector	Job Gains
Food Services and Drinking Places	11,600
Specialty Trade Contractors	8,300
Mining and Logging	6,000
Engineering and Architecture	5,700
Health Care and Social Services	4,100
Sector	Job Losses
Retail	11,300
Local Education	6,200
Employment Services	5,800
Building Construction	2,800
Information	1,100

Over the past five years, food services (i.e., restaurants and bars) have averaged 11,900 jobs over the first six months, so TWC's estimates seem reasonable. The concern, however, is that these are low-paying jobs. Compensation in the sector averages \$20,300 per year compared to \$66,800 for all sectors of the economy. The 8,300 jobs added YTD in specialty trade contractors (e.g., plumbing, electrical, drywall work) is more than double what Houston gains in this sector for an entire year. Though employment in specialty trades is up, employment in construction of buildings is down 2,100 jobs YTD. This suggests that many ongoing projects are in their late stages of development. YTD gains in mining and logging (i.e., in Houston, energy) and architecture and engineering are outpacing the boom years of '11 - '14, yet the rig count, oil prices and permit activity have declined since the first of the year and layoffs are quietly underway at several firms (e.g., Halliburton, Wood, Baker Hughes). The 4,100 jobs gained YTD in health care puts the sector on pace to add 8,000 to 10,000 jobs this year, a gain in line with recent trends. An aging population, a growing population, and jobs gains in industries with strong benefits packages are driving growth in health care. The YTD losses in retail and public education are on par with previous years. Retail hiring is cyclical, ramping up in the fall and plummeting immediately after Christmas. Public education suffers job losses when educators are on summer break but always recoups those losses in the fall. The losses in employment services likely result from firms converting contract workers to full-time employees so they don't lose them to other firms. Other services (e.g., hair salons, repair shops, non-profits) created 9,300 jobs since the first of the year, the largest gain on record. A more normal pace would be 1,500 to 2,500 jobs. TWC will likely revise this sector downward in the benchmark revisions next March.

Sources: Littler Mendelson P.C.; Houston Chronicle; Houston Business Journal; Wall Street Journal; Greater Houston Partnership