Houston Leading the State in Job Growth

The Houston-Sugar Land-Baytown Metro Area led the state in employment growth, creating 120,600 jobs in the 12 months ending October, according to the Texas Workforce Commission (TWC). The Houston economy has continued creating jobs at a strong pace with a year-over-year employment gain of 4.3 percent in October. The Dallas-Fort Worth-Arlington metro ranked second, adding 111,900 jobs, followed by Austin-Round Rock-San Marcos with 29,600 jobs, San Antonio-New Braunfels with 23,500 jobs and McAllen-Edinburg-Mission with 7,700 jobs. Since the bottom of the recession, the metro area has added 463,800 new jobs, or more than three times the 153,800 jobs lost during the recession. With the October employment report, Houston reached a milestone, surpassing 2.93 million jobs.

Local employers created new jobs in a variety of sectors, including construction, oil and healthcare. "Everything's on pace for what we'd expect to be a really good year for Houston," said Boyd Nash-Stacey, senior economist for BBVA Compass. Jobs in building construction grew 18.7 percent during the year ending in October. Ambulatory healthcare jobs – mostly outpatient services – jumped 8.2 percent year over year. A positive indicator for sustainable growth, Nash-Stacey said, is the 4 percent year-over-year increase in professional and business services. These well-paying jobs include lawyers, engineers, accountants and architects. Those employees are more likely to put money into the economy by buying houses and dining out, he said.

Oil Prices Slipping

This year began with great promise. Houston had finished four years of robust job growth. Home, auto and retail sales were near record levels. And traffic through the Houston Airport System and the Port of Houston continued to grow. But in June, oil prices began to slip. Houstonians, always optimistic, shrugged off the decline as a temporary phenomenon. But then oil prices continued to fall, and by November they had lost 40 percent of their mid-year value. Now everyone in Houston, from the geologist to the retail clerk, asks how much lower oil prices will fall and what this means for Houston?

Crude oil prices in Texas have dipped below $65 a barrel, and major exploration and production companies like ConocoPhillips and BP have already started scaling back budgets and jobs for 2015. Bobby Tudor, Chairman and CEO of Houston-based Tudor, Pickering, Holt & Co. energy investment banking firm, said bigger energy companies are cutting costs while smaller ones are more ripe for mergers and acquisitions. "The question is not whether they're going to cut spending. It's how much they're going to cut spending" Tudor said, noting that a "little bit" of doom and gloom is setting in. "I think there's a big difference in people's minds psychologically between $60 and $70 (oil prices)." The reality is the major energy companies would rather cut their spending than cut back on dividends, which the investors want to maintain.

Lower oil prices continue to weigh on the future employment picture of Houston, where the oil and natural gas industry is a huge employer. Boyd Nash-Stacey, senior economist for BBVA Compass, was already expecting the drop in oil prices to hit October's job numbers, while Patrick Jankowski, VP Research for Greater Houston Partnership, thinks any fallout won't show up until early next year. Parker Harvey, senior regional economist for Workforce Solutions, which manages job services and training for a 13-county Houston-area region, isn't alarmed yet. "I think we need to see sustained lower prices before we start to see any observable impacts on the economy," he said. Houston has been growing so fast it can withstand a slowdown, said Jesse Thompson, business economist with the Houston branch of the Federal Reserve Bank of Dallas.

Several oil companies have announced plans to trim drilling budgets as prices fall to their lowest levels in years, but they still plan to pull more oil and gas from the ground as they shift their focus to the best parts of the best shale plays and continue to figure out how to drill and complete wells faster and cheaper. While speculation abounds that slumping oil prices could curtail the U.S. shale boom, analysts aren't ready to write off the nation's growing role as a key player in the global oil market. As companies piece together their spending plans for next year, analysts are expecting reductions in capital spending but increases in oilfield output. Production will grow but not at the same feverish pace, they say. "We still expect growth, just not as much as if we'd stayed in the $90 to $100 range," said John England, Vice Chairman and U.S. oil and gas leader for consulting firm Deloitte. R.T. Dukes, a senior analyst at Wood Mackenzie, said he's expecting to see spending drop 10 to 20 percent next year but production to climb by double digits, signifying a resilience among shale drillers to plunging prices. Moody's Investors Services predicts that exploration and production companies will slash their capital spending by 20 percent next year, possibly more depending on how long weak oil prices persist, as their enthusiasm wanes for risky plays and fringe regions outside of the "sweet spots" in lucrative shale plays.

Despite those pullbacks, Moody's still predicts North America will produce about 10 percent more oil in 2015 than this year. The U.S. pumps 8.6 million barrels per day, up 59 percent in five years, thanks to recent advances in hydraulic fracturing and horizontal drilling that allowed drillers to unleash vast new supplies of oil and gas from shale rock. The U.S. Energy Information Administration says the country is on track to pump 9.5 million barrels per day by 2016, nearly reaching the nation's 1971 peak of 10 million barrels, according to Deloitte. Oil prices have plunged more than 30 percent in four months as the surge in U.S. production collided with relatively flat global demand. Historically, the Organization of the Petroleum Exporting Countries stabilized prices by agreeing to cut supply, but the cartel has allowed global prices to slump rather than risk losing market share. Because shale drilling is so expensive, drillers have already been scrambling to cut costs in the oil patch and rein in spending that left many companies with heavy debt loads.

Texas Economy Continues to Add Jobs

The Texas economy added 35,200 jobs in October, pushing employment up 3.7 percent over the past year. The unemployment rate ticked down to 5.1 percent. Texas has added 421,900 jobs over the past year. This is the largest number of jobs added in a 12-month span in the state's history, topping last month's record. The unemployment rate fell 0.1 percentage points to 5.1 percent on the month.

In October, trade, transportation & utilities led the way, adding 17,500 jobs. Construction, education & health services, and leisure & hospitality also showed strength on the month. Employment in the mining & logging sector increased 1.3 percent in October and is up 11.3 percent over the past year.

The energy boom has been a huge boon for the Texas economy. Oil prices have been falling throughout autumn, but WTI did not drop below $80 until the end of October. These lower prices may eventually be a drag on employment in the coming months, as some projects may not be viable with the lower oil prices.

Unemployment Rate

Unemployment in the Houston area dropped to 4.7 percent in October, down from 4.9 percent a month earlier and 5.9 percent in October 2013. Local numbers are not seasonally adjusted for factors like school schedules and major holidays, which can affect hiring and firing patterns. The state, however, does seasonally adjust its data. The unemployment rate in Texas fell to 5.1 percent in October, down from 5.2 percent in September, and down from 6.2 percent in October 2013. The U.S. rate was 5.5 percent in October, down from 5.7 percent in September and from 7.0 percent in October 2013. The U.S. rate is not seasonally adjusted.

U.S. Employment Outlook

The Labor Department reported Friday, December 5, 2014 that employers added 321,000 jobs in November – a much stronger number than expected – but perhaps even more significant was the biggest gain in average hourly earnings since June 2013.

Hourly earnings rose 0.4 percent in November, double what economists had been expecting. That gain in hourly pay wage significantly above the 0.1 percent increase in October, let alone the unchanged number in September. At the same time, the number of hours worked ticked up by one-tenth. The pickup in wage growth is coming as gasoline prices are plunging providing a double boon for consumers and retailers with the holiday shopping season underway. For the year as a whole, the gain in jobs, with one month still to go, is shaping up as the best in 15 years.

Oil and gas jobs helped U.S. employment numbers claw back from steep losses over the last decade, according to a report from the Small Business & Entrepreneurship Council. From 2005 to 2012, U.S. employers shed 378,000 jobs, but over the same period, five oil and gas sectors – extraction, drilling, operations, pipelines and equipment manufacturing – added a combined 293,000 jobs, the Washington small-business advocacy group said. Employment at oil and gas operations businesses more than doubled during that span, and equipment manufacturing and pipelines each grew 66 percent.

Sources: Greater Houston Partnership; Houston Chronicle; Houston Business Journal; Wells Fargo Securities Division