A New Record for Houston

Houston hit a milestone in October, surpassing 3.0 million jobs for the first time in the region's history. Over the past 40 years, the region has hit a series of milestones—1.0 million jobs in July 1975, 1.5 million jobs in March of 1980, and 2.0 million jobs in February of 1997. The region hit the 2.5 million job mark three times, once from the wrong direction. After 12 years of steady job growth, Houston recorded 2.5 million jobs in October of 2006 and continued on to the next milestone. But in the fall of 2008 the Great Recession set in, wiping out job gains of previous years. Employment sank, hitting the 2.5 million benchmark in August of 2009 on the way down and again in March of 2010 on the way up.

TWC won't report November employment data until December 18, but if Houston follows historical patterns, the agency will likely report job growth for November as well as December. Not once in the past 25 years has the region failed to record job growth in those months. This includes 2009 during the depths of the Great Recession. Seasonal layoffs, which occur every January, will likely wipe out some if not all of the jobs gains of the fourth quarter. This would temporarily drop the region below the 3.0 million benchmark. Eventually January's losses will be recouped and Houston will surpass 3.0 million again, hopefully sometime in 2016.

Houston Jobs Grew Despite "Energy Plague"

The Houston region created 20,800 jobs last month, according to the Texas Workforce Commission (TWC). That reflects the second best October in the past 20 years. That's on the heels of September's gain being the month's second worst in the past 20 years. The only worse September was 2008 with a loss of 18,900 jobs in the aftermath of Hurricane Ike. October also helped the region eke out the first positive job growth for the year. Through the first nine months, the region had lost 12,800 jobs. After adding more than 120,000 jobs in 2014, Houston will create close to zero net jobs in 2015, according to the Federal Reserve Bank in Dallas. But hiring in October in construction, retail, finance, health care, accommodations and food services, and government (almost exclusively public education) offset losses in energy, manufacturing, transportation, and administrative support services. As the "energy plague" expands within the labor market, the pattern of steady growth will change, Barton Smith, professor emeritus of economics at the University of Houston, predicted. "This slowdown in energy won't be restricted to energy," he said. "We will see other sectors slow down as well. It will start spreading and we're already seeing it."

While the oil industry has been shedding jobs all year, the rest of Houston's economy has been bolstered by the continued growth of companies that don't live and die each day on the price of crude. Construction hiring on the East Side has yet to reach its peak. Last month's gains also included an unexpected surge of local government education jobs, which added 7,600 jobs last month.

The Slowdown in Houston

The energy sector has laid off 56,000 people in Texas alone, according to the Fed. Many Houston businesses haven't felt energy's pain yet because the lag between when trouble strikes the oil patch and when it shows up at grocery store cash registers is often a long one. But cracks in the region's economy are becoming apparent. Construction workers building petrochemical plant expansions on the East Side could be out of work when the projects are done, said Ross Harvison, business survey chair for the Houston affiliate of the Institute for Supply Management. Many of the projects are expected to be finished in 2016 and 2017. The Houston Purchasing Managers Index concluded earlier this month that the local economy continues to contract.

If job losses aren't strongly registering in the official employment data, the pressure is becoming evident in the commercial and residential real estate markets. Newly built offices and apartments in the Energy Corridor aren't leasing nearly as quickly as they did when oil prices were much higher, said Patrick Jankowski, SVP of Research for Greater Houston Partnership. Class A office occupancy rate in Houston is dropping to 80.8 percent, compared with 88.1 percent last year. Class A or B office space available for sublease in Houston has reached 5.8 million square feet. Houston Association of Realtors announced area home sales have dropped 10 percent in October from a year ago. It was the first double-digit plunge since 2011, when the city was still recovering from the wounds of the Great Recession. The slowdown in Houston also shows up in year-over-year comparisons. This time in 2014, when the price of crude was higher, Houston-area employers had added more than 100,000 jobs over the previous 12 month period. But as cheap oil began defining the new normal for the Houston region over the past year, the area added 33,100 jobs – a year-over-year gain of just 1.1 percent.

More Pain in Oil Bust Looms

The U.S. oil patch is coming unglued as domestic crude slips further below $40 a barrel. Government analysts said the U.S. probably will have lost more than 1.1 million barrels of oil production by next September, as the emerging economics of the oil bust prove untenable for shale drillers that until recently were shifting the energy world's center of gravity to booming plays in South Texas, North Dakota and elsewhere. In South Texas' Eagle Ford Shale, for example, two of every three drilling rigs have gone out of service and the region has lost nearly a third of its daily crude production this year, as oil prices languish well below the average $56 it costs to pump a barrel there. But 18 months in to a downturn that has cost the oil industry a quarter million jobs; the bust isn't over by a long shot. "The second half of 2016 could be the point of maximum pain," said Mark Hanson, an oil equity analyst at Morningstar. Crude prices fell to a fresh seven-year low with markets still reeling after the OPEC last week chose to release its producers from a long-standing output ceiling they often ignored anyway. U.S. Benchmark West Texas Intermediate crude slipped to $37.64 a barrel on the New York Mercantile Exchange on Monday, December 7th, recovering from an early plunge to $36.64, a figure the oil market hasn't seen since the worst days of the financial crisis six years ago. A Dallas driller blamed sunken crude prices for its downfall joining 17 other Texas oil producers in bankruptcy proceedings.

Houston-based oil producer Swift Energy decided to skip an interest payment, one of the latest signs that the sector's hefty debt burden is outweighing meager cash flows. Barclays, a British bank, believes large and midsized U.S. oil producers will strip $28.7 billion from their investment budgets next year, as wary investors rein in capital that had flooded in to prop up drillers in the early days of the downturn. Shale fields centered in South Texas, North Dakota and Colorado have proved how quickly they deplete without constant streams of investments. The U.S. Energy Information Administration predicted by the end of the year, daily production in the three major U.S. shale fields will have fallen 629,000 barrels since April. The only exception has been the Permian Basin in West Texas, where daily production has risen by 144 barrels a day this year. It will take continuing drops in production to begin shrinking a global crude glut that's causing the price slump. Over the next two years, it's likely that worldwide crude production may not decline by much. But companies' decisions to delay scores of projects eventually will have consequences. Without those projects, global supplies could drop by 1.5 million barrels a day in 2018, by 3.5 million barrels a day in 2019 and by more than 5 million barrels a day in 2020, Houston energy investment bank Tudor, Picking Holt & Co. said in a report. OPEC producers like Saudi Arabia and Iraq and some producers outside the international cartel boosted global oil supplies by an estimated 2.4 million barrels a day this year, but in 2016, worldwide supplies are expected to be flat, if not down slightly, according to Wood Mackenzie. "The problem is, we have to get there from here. We have to get through the oversupply period," said Ann-Louise Hittle, an analyst at Wood Mackenzie. She said her firm expects worldwide daily oil demand to slow somewhat next year, by 300,000 barrels to 1.2 million, meaning easing the global oil glut will be slow work. Hittle said crude prices aren't expected to start recovering until late next year. "It's going to take a while," she said.

Another Month of Solid Hiring by U.S. Employers

U.S. employers expanded their payrolls at a robust pace in November, the government reported, all but guaranteeing policymakers at the Federal Reserve will raise interest rates for the first time in nearly a decade when they meet later this year. In additional to 211,000 new hires last month – a bit more than Wall Street had expected – the Labor Department also revised upward its earlier estimate of job creation in September and October by a total of 26,000. The labor market strength evident in the November data removes the last major uncertainty before the Fed decision. The jobs report echoes other recent positive data on job openings, new weekly claims for unemployment benefits and private payroll surveys, said Phil Orlando, equity strategist at Federated Investors. The Labor Department data painted a picture of an economy that is growing steadily and creating jobs at a healthy pace, even as wage gains remain subdued and many Americans are still stuck on the sidelines of recovery. Even after more than six years of economic recovery from the devastating financial crisis, the labor market is still well below its pre-recession levels, and pockets of economic weakness remain. At 62.5 percent, the proportion of Americans in the labor force remains near multi-decade lows. Moreover, the economy is still 2.8 million jobs short of where it would have to be to match pre-recession employment levels while also absorbing new entrants into the workforce. Even if the current trend continues, that "jobs gap" won't be closed until mid-2017. Besides the tempo of hiring and the unemployment rate, Fed policy makers have been paying close attention to the pace of wage increases. In November, the government said wages rose by 0.2 percent, leaving the 12-month change in average hourly earnings at 2.3 percent higher. Despite steady hiring gains and a falling unemployment rate, in recent years wage growth has barely advanced faster than inflation. In October, that trend seemed to improve, with an unexpectedly strong 0.4 percentage point increase in average hourly earnings that pushed the 12-month gain to 2.5 percent even as the pace of inflation has fallen, mostly due to lower energy prices.

Unemployment Rate

Houston's October unemployment rate was 4.8 percent, up from 4.6 percent in September and from 4.4 percent in October 2014. Texas' unemployment rate was 4.5 percent in October, up slightly from 4.4 percent in September and unchanged from 4.5 percent in October 2014. The U.S. rate was 4.8 percent in October, down from 4.9 percent in September and from 5.5 percent in October 2014. October 2015 marked the first month Houston's rate was equal to the U.S. rate in nine years. The rates are not seasonally adjusted.

GHP 2016 Houston Employment Forecast

For the fifth time in 35 years, Houston faces economic uncertainty brought on by collapsing oil prices. West Texas Intermediate, the U.S. benchmark for light sweet crude, has fallen 60 percent from its June 2014 peak. In response, the energy industry has slashed exploration budgets, laid off workers and eliminated everything from business travel to live office plants.

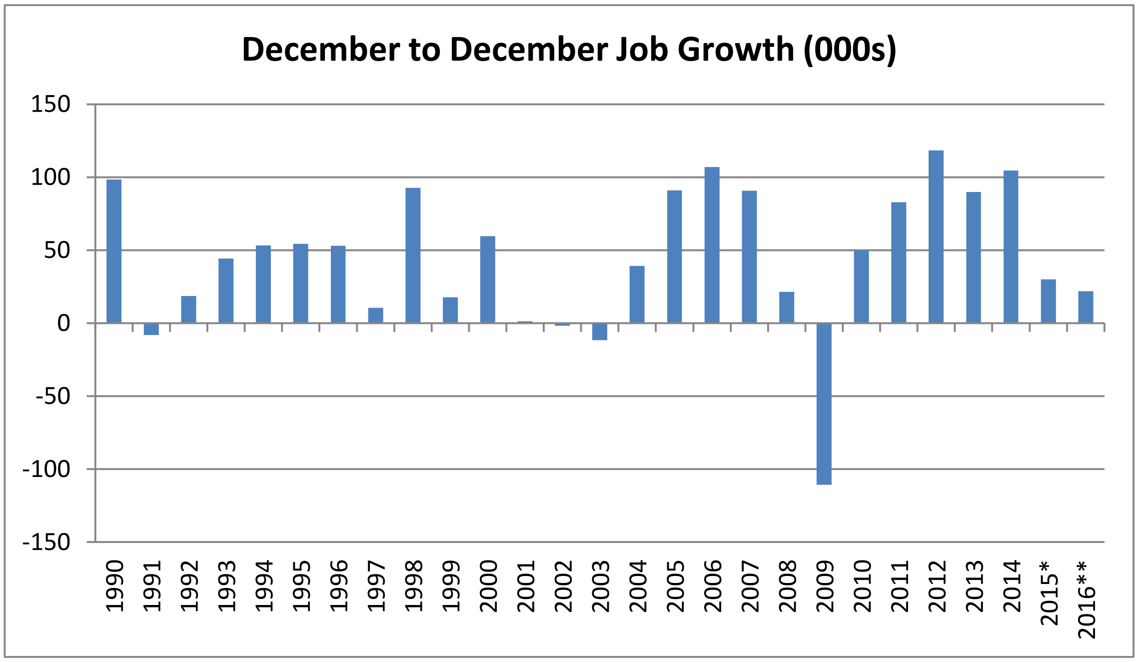
Concerns about a repeat of the 1980s are valid. That downturn, like the current weakness, started with an oil glut that led to a price collapse that rocked the energy industry. Turmoil in real estate and banking soon followed. The region shed population two years in a row. When the dust finally settled, employers had cut 221,000 jobs, or one in every seven in the region. History, however, is not about to repeat itself. The only similarities between now and the 1980s are the oil glut and price collapse. Energy will restructure, but it won't jettison half its workforce as it did back then. Real estate will soften, but it won't turn to mush. Houston banks may have nonperforming energy loans on their books, but those loans won't crater the financial system. Banks today are better capitalized and better supervised.

That's not to say 2016 will be easy. Energy, manufacturing, real estate and wholesale trade will struggle. Margins will be squeezed on everything from drilling mud to dental visits. And weaker firms will slide into bankruptcy or merge with stronger firms. Houston won't sink into recession, but growth will be much, much slower, and to some that might feel like a recession. While energy flounders, other sectors will sail on. More than 8,000 freighters and tankers will dock at the Port of Houston next year. The Texas Medical Center should treat another 7.2 million patients. Area refiners will continue to supply one-fourth of the nation's gasoline, diesel and jet fuel needs.

The outlook for next year isn't as dire as it seemed a few months ago when oil slipped below $40 per barrel and layoffs made headlines every day. Houston will continue to lose jobs in sectors closely tied to energy, but employment overall will grow. That growth will fall well below the recent five-year average of 98,000 per annum, and likely below the 20-year average of 52,800 per annum, but the region will create jobs—just not as many as Houstonians have become accustomed to.

	Spot Price, West Texas Intermediate, $/bbl		**Associated Losses**		
Recession	**Peak**	**Trough**	**Drop in North American Rig Count**	**Energy Jobs Lost in Houston**	**Total Jobs Lost in Houston**
1980s	$39.50	$11.57	-3,867 (-85.4%)	-53,600 (-46.3%)	-221,000 (-13.2%)
Early-1990s	$23.28	$14.51	-583 (-49.4%)	-6,800 (-10.8%)	-18,400 (-1.0%)
Early-2000s	$34.40	$19.33	-555 (-42.9%)	-4,800 (-7.5%)	-35,900 (-1.5%)
Great Recession	$133.93	$39.16	-1,155 (-56.8%)	-11,900 (-13.6%)	-120,900 (-4.6%)
Current Downturn	$105.79	$42.87	-1,187 (-61.5%)	-10,200 (-9.6%)	--

The Greater Houston Partnership's forecast for 2016 calls for growth in construction, retail, information, finance and insurance, business, professional and technical services, educational services, health care, administrative services, arts and entertainment, accommodation and food services, other services, transportation and utilities and government. Losses will continue in exploration and production, oil field services, manufacturing, wholesale trade, and real estate. The Partnership's forecast calls for Houston to create 21,900 jobs in 2016.



*Projected **GHP forecast

Many analysts had expected a short-lived and moderate downturn in the oil patch. They reasoned that the rapid decline rates associated with shale wells would quickly erode U.S. production, supply and demand would rebalance by mid-year, and WTI would trade above $70 by fall. But no one foresaw the resilience of U.S. output. Even with fewer rigs working, crude output continued to rise, peaking at 9.6 million barrels per day in April.

The collapse in crude prices has devastated the industry. Revenues for the 10 largest exploration firms in Houston fell by $382 billion during the first three quarters of 2015. The industry responded by demanding price concessions as steep as 50 percent from the firms that drill and complete their wells. Energy-related manufacturing also suffered. With 1,000 rigs on the sidelines, orders for new rigs and replacement parts plummeted. Equipment and service companies saw their revenues fall by $31 billion the first nine months of the year. The industry looked for ways to cut costs, the most obvious being layoffs. During the first six months of 2015, the fabricated metal and oil field equipment sectors lost a combined 14,500 jobs. Oil field services cut 9,500 jobs. Job losses were slow to come to exploration, however; the sector cut only 1,000 positions in the first six months of the year.

Many thought the worst might be over when oil prices recovered mid-year. By late May, WTI had climbed to the low $60s. The rig count also began to creep up, adding 28 rigs over a 10-week period. But in July, President Obama announced an agreement had been reached on Iran's nuclear program, and as part of the settlement, trade sanctions would be lifted and Tehran would be allowed to sell its oil in the global market. Reports of slower economic growth in China, the world's largest importer of crude, followed soon afterwards. WTI resumed its slide, briefly falling below $40 a barrel in August. Crude hasn't traded above $50 since mid-July. The industry responded with more layoffs, this round focused on the corporate and white collar workforce. Firms strapped for cash began to sell assets.

What the industry needs now is less production, not more, to help reduce the global glut, estimated at 2.0 million barrels per day. At the current rate of U.S. production decline, and with global consumption expected to grow 1.2 million barrels per day next year, supply and demand should balance by the end of 2016.

From peak to trough, the energy sector may cut as many as 19,000 local jobs this cycle—a 16.5 percent reduction in the industry's workforce. That shrinkage would make the current downturn worse than the early 1990s or the Great Recession, but not as bad as the 1980s. Houston has likely seen the bulk of the oil field/blue collar layoffs for this cycle, but the office/white collar layoffs won't be finished until next year. The challenge is determining how much of the restructuring has already occurred and how much will carry over into 2016. If one assumes that 80 percent of the blue collar layoffs, but less than 20 percent of the white collar layoffs, have taken place, the industry is likely to lose another 9,000 jobs in 2016, with 2,000 in oil field services and another 7,000 in exploration and production.

Sources: Greater Houston Partnership; Houston Chronicle