Better Times Ahead for Houston

The Houston metro area added 18,400 jobs in October bringing total nonfarm employment to 3,022,800, not seasonally adjusted, according to the Texas Workforce Commission (TWC). The reported job growth is higher than the 25-year average of 10,300 net new jobs for October, but in line with the five-year average of 18,500. For the first time this year, the region's total employment surpassed its previous peak.

In October, Houston benefited from strong growth in government (+9,800 jobs), retail trade (+4,000), and manufacturing (+2,100). Government has added an average of 6,500 jobs over the past 25 years and 8,000 jobs over the previous five years, so the sector's most recent gains are higher than normal, but still reasonable. The growth in retail trade is expected given the sector's seasonal hiring for the holidays. Manufacturing posted its strongest monthly gain since the 2,300 jobs added in June 2014. This increase is welcome after the sector experienced monthly cuts between 2,000 and 3,000 jobs in 2015 and the first half of 2016.

Job losses occurred in leisure and hospitality (-3,800), mining and logging (-500), and professional, scientific, and technical services (-200). The drop in leisure and hospitality is not alarming given the typical seasonal shifts in the sector. Losses in mining and logging (i.e., upstream energy) and professional, scientific, and technical services (e.g., engineering) are still expected as oil prices have not been sustained at a high enough level that encourages significant hiring.

The forecast, released by Greater Houston Partnership, projects that the Houston region will add just under 30,000 jobs in 2017, more than double the number generated in 2015 or over the past year, but far below the more than 100,000 new jobs the metropolitan economy averaged annually between 2011 and 2014. "Everyone can uncross their fingers now because the worst is over," the partnership's chief economist, Patrick Jankowski, wrote in his report. "2017 isn't likely to be a banner year for the region's economy, but it should be a further step on the road back to robust growth."

Several indicators show that Houston has turned the corner, including the rising price of oil, a steady increase in the number of oil and gas rigs operating in Texas, and modest job gains over the past several months. Jankowski said the Houston economy has largely stabilized but remains weak in several areas. Commercial real estate is overbuilt with a glut of office space and apartments that is pushing down rents and hurting developers. Oil companies have kept employees on their payroll, even though there is not enough work, to be ready for a recovery. That means hiring will likely come back slowly.

And while employment growth stayed positive – barely – through 2016, the jobs that replaced those lost in the oil industry were at much lower salaries. That cut aggregate wages by about $4 billion annually from their peak in 2014, taking a toll on consumer spending.

Conditions have improved in the energy industry, but only to the point that oil and gas will be less of a drag on the local economy after more than a year of steep job cuts. Jankowski forecast that most job growth in 2017 will come without the help of the oil and gas sector. Oil is back above $50 a barrel, but Jankowski said companies will continue to shrink payrolls in 2017 unless prices rise above $60 a barrel. The rig count has climbed above 600, up 50 percent since bottoming in May at about 400 but still far below the 2014 peak of about 1,900. Since local manufacturing is tightly bound to oil and gas, the industry is also expected to just tread water next year. Construction job growth is expected to stall too, given a sharp falloff in building permits as the petrochemical building boom on the east side of the city comes to an end. The sectors that have done well through the oil bust are expected to lead growth in the recovery: healthcare, retail, accommodations and food services, financial services and government.

Texas Adds Jobs as Oil Industry Slowly Improves

The Texas and Houston economies continued to improve last month, adding jobs at a slow but steady pace as the oil industry stabilizes after a two-year downturn. The state added nearly 21,000 jobs in November, the eighth consecutive month of employment gains, while the unemployment rate slipped to 4.6 percent from 4.7 percent in October. Employment in mining and logging, the sector that includes oil and gas extraction and services, increased jobs for the second consecutive month, adding 3,200 jobs in November, after adding 500 in October.

In Houston, employment growth maintained its slow pace, according to the U.S. Labor Department. The area economy created 16,000 jobs over the past year, a growth rate of about a half-percent, about the same as October. "This is one more brick in the wall of keeping us from having negative year-over-year job growth at any point throughout this downturn," said Parker Harvey, regional economist with Gulf Coast Workforce Solutions. The steady job growth in November is the latest indicator showing that Houston is shaking off the worst of the oil bust and beginning a broad recovery. Oil has moved past $50 a barrel, following agreements by major global producers to cut output, while the number of operating oil & gas rigs continues to climb. U.S. drillers have put thirteen more rigs into operation, the fifth consecutive week of increases, Baker Hughes reported.

How fast the local economy grows will largely depend on the recovery of the oil industry, economists said. In Houston, where executives of major energy companies have declared the worst of the downturn over, job losses have slowed. Mark Vitner, managing director and senior economist at Wells Fargo, said he also expects to see investments in pipeline infrastructure and refinery expansions in the coming years. "The Texas energy sector is going to be a source of growth for a long time," he said. Statewide, the leisure and hospitality sector drove much of the overall growth with 5,700 added jobs last month. Employment in education and health services increased by 4,700 jobs in November.

Job Market Mystery

As the recovery from the Great Recession continues, job growth is solid and the labor force is growing at close to its fastest pace since 2000 because more unemployed workers are coming off the sidelines. Still, the percentage of working-age Americans in the labor force remains stuck near its lowest level since the late 1970s. Although retiring baby boomers are the main reason, there's another troubling factor that experts predict won't be solved by stronger economic growth. Too many men in their prime don't have jobs and aren't even looking. In all, about 7 million men, ages 25 to 54, are neither employed nor "available for work", putting them outside the labor force. Their growing numbers worry and puzzle economists. A little more than half of the men reported they were ill or disabled, according to the Bureau of Labor Statistics. Fourteen percent are going to school and about twenty percent said they were retired or handling home responsibilities.

Economists said increased globalization and the decline in factory jobs has played a major role in pushing prime-age men, particularly those with less education, out of the workforce. But that doesn't explain why the problem is worse in the U.S. than in most other economically advanced nations. The percentage of prime-age men in the U.S. workforce – those with jobs or actively looking – peaked at 97.9 percent in 1954. But since the mid-1960s, the labor force participation rate for those men has steadily declined. The rate bottomed out at 88 percent in 2014 and was 88.6 percent in October. The labor force participation rate for women rose sharply from the mid-1960s through the 1980s as it became more socially acceptable for them to work. But the rate for women has fallen off in recent years too, to 56.8 percent in October.

Job Growth in the U.S.

U.S. companies added a solid, 216,000 jobs in November, the most since June and evidence that the incoming Trump administration is inheriting a solid economy. Payroll provider ADP said nearly all of the gains occurred in service sectors, such as retail, hotels and restaurants, as well as higher-paying professional services. Construction companies added 2,000 jobs, while manufacturing shed 10,000.

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