2019 Houston Employment Forecast

The Greater Houston Partnership forecasts the nine-county metro Houston area will create 71,000 jobs in 2019. Employment will grow in all sectors, with health care, construction and administrative services turning in the strongest performances. Energy will continue to recover. Manufacturing output will grow. Construction activity will pick up. Professional services will find new clients throughout the region. And health care will recapture its crown as the region's leading job generator. The year should end with 3.2 million payroll jobs, a net increase of more than 600,000 over the past 10 years. Only New York, Los Angeles and Dallas created more jobs over the same period.

Houston has emerged from one of the worst energy downturns of the past 35 years. Oil prices fell by 75 percent, the rig count by 80 percent, and exploration budgets by 62 percent. One in every four energy jobs in Houston was lost. In previous downturns, a collapse in energy prices would have devastated the entire economy. This time, Houston held up quite well. Job losses in energy were offset by job gains elsewhere. Maybe the jobs didn't pay as well as the ones lost, but they did offer opportunities for employment. Home sales plateaued but never plummeted. Weaker demand helped slow the escalation of home values that had priced many would-be buyers out of the market during the energy boom. The plunge in oil prices didn't precipitate a collapse in commercial real estate. However, some office building owners find themselves with too much empty space on their hands and few good options for filling it. The Federal Deposit Insurance Corporation didn't step in to take over any insolvent Houston banks, unlike the '80s, when all the city's largest banks failed. And while the local unemployment rate rose above the national rate, it never reached the levels of the Great Recession and stayed well below the peak experienced during the '80s. What does all this tell us? Oil is still important, but it no longer determines Houston's fate. We survived the downturn with minimal damage to the overall economy because Houston's ties to the U.S. and global economies are as strong as its ties to the oil and gas industry. In summary, the external factors that drive Houston's growth—energy prices, the ongoing U.S. expansion, and global growth—still align in Houston's favor. The internal factors — net migration, construction, consumer confidence — fall into place as well. Houston should enjoy healthy economic growth in '19, and barring a U.S. or global downturn, or a collapse in oil prices, that growth should continue into '20.

Energy
Oil is in the black again. In Q3/18, the combined profits of the 25 largest exploration, oil field service, and equipment manufacturing firms exceeded $28.5 billion. Though oil has trended downward since its October '18 peak, another period of low oil prices is unlikely to lead to significant layoffs. After three years of job cuts, staffing levels are thin. There's already a worker shortage in the industry, especially in the field. Firms worried about losing their crews or losing their leases will continue to drill wells. Minor job cuts will still occur in '19, but these will be in response to companies selling assets or making strategic decisions to exit certain plays. The layoffs will be offset by hiring elsewhere, especially in oil field services, equipment manufacturing and digital analysis.

Construction
Other than in the office sector, construction activity is holding steady or picking up. Brokerage reports place the amount of vacant office space at 50 to 60 million square feet. Recovery is several years away. Developers have delivered 53 million square feet of industrial space over the past five years, yet the current vacancy rate stands at 5.1 percent. The needs of e-commerce, Houston's growing population and activity at the Port of Houston drive demand. The onslaught of e-commerce hasn't dampened demand for retail space. Over 4.7 million square feet is under construction, of which 75 percent is preleased. As of Q3/18, Houston was second in the nation in single-family housing starts, behind Dallas-Fort Worth. Multi-family construction has begun to pick up again. And in the four elections held since November '17, local voters approved $8.7 billion in city, county and school district construction.

Manufacturing
The forecast sees continued growth in manufacturing tied to upstream energy, but at a slower pace than in '18. Shipments of chemicals, plastics and refined products should expand as plants constructed during the building boom find markets for their products overseas. And the strong U.S. economy should spur further demand for "Made in Houston" goods.

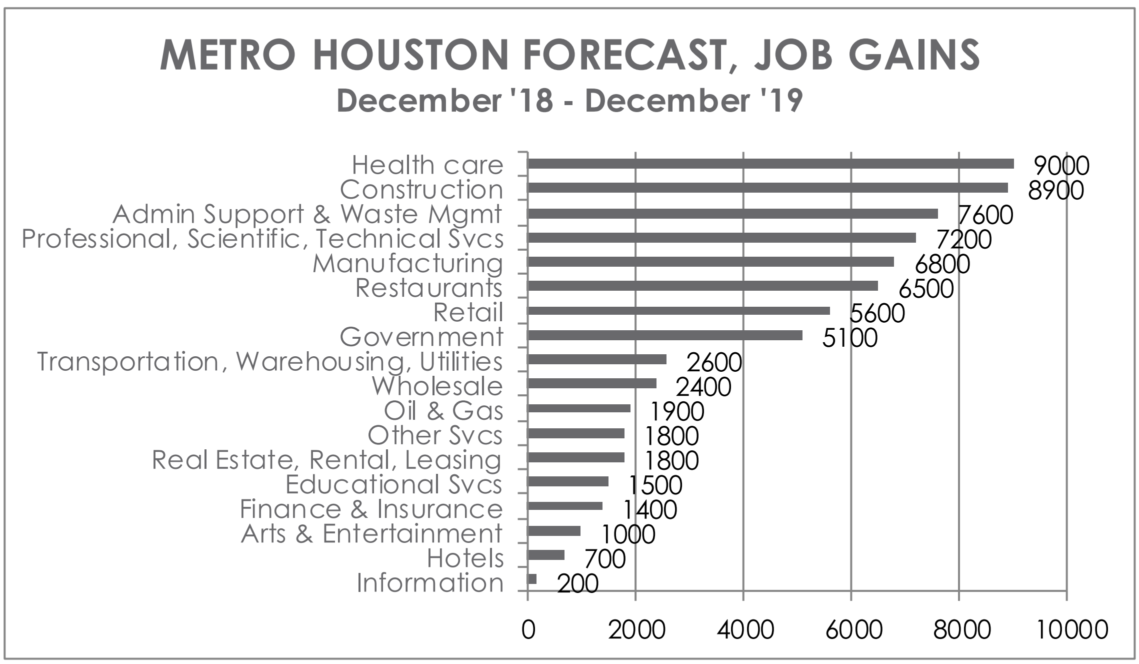
Professional Services
The forecast assumes that U.S. economic growth remains strong, that the energy industry continues to improve, and that local economic growth provides opportunities for firms throughout the sector. Job growth throughout Houston should be better than average next year.

Administrative Support

As Houston's economy continues to expand, firms will hire additional contract workers to handle increasing demand and outsourcing will be expanded.

Health Care

While the industry is under constant pressure to control costs, its patient load continues to expand. The region records 100,000 births each year. Each baby begins a cycle of checkups, vaccinations and treatments for typical childhood illnesses. The region adds population every year through net migration. Each arrival will eventually need to find a doctor, dentist or preferred clinic in this new hometown. Houston's over-65 population expands by 30,000 residents each year. As seniors deal with the maladies of aging, they tend to visit the doctor, the clinic and the hospital more frequently. The forecast assumes population and job growth will continue, U.S. and state legislators make no significant changes to the ACA, Medicare and Medicaid programs, and no mass layoffs at area hospitals.



Oil Patch Update

The spot price for West Texas Intermediate (WTI), the U.S. benchmark for light, sweet crude, rose to $76.40 per barrel in early October, only to fall 33.1 percent over the next three months, hitting $51.70 in early December. Several factors have contributed to falling prices. Crude oil production from the world's three largest producers — the United States, Russia, and Saudi Arabia — were at or near record levels in November. Implementation of sanctions on Iran began on November 5, but the United States granted waivers for some of Iran's largest customers to continue importing limited volumes of crude oil for six months. In addition, concerns about the pace of global economic growth in coming months have led to related concerns about the pace of oil demand growth. Forecasts of demand growth range from 1.3 to 1.5 million barrels per day. In early December, the Organization of the Petroleum Exporting Countries (OPEC) and several non-OPEC countries agreed to reduce their production by 1.2 million barrels per day (b/d) from their October production levels. The cuts are to last six months, beginning in January '19.

U.S. Hiring Slow but Steady

U.S. employers added 155,000 jobs in November, a slowdown from recent months but enough to suggest that the economy is expanding at a solid pace despite sharp gyrations in the stock market. The Labor Department said Friday that the unemployment rate remained 3.7 percent, nearly a five-decade low, for the third straight month. Average hourly pay rose 3.1 percent from a year ago, matching the previous month's figure, which was the best since 2009. The economy is expanding at a healthy pace, but rising trade tensions between the U.S. and China, ongoing interest rate increases by the Federal Reserve and weakening global growth have roiled financial markets. Analysts expect growth to slow but remain solid in 2019 as the impact of last year's tax cuts fade. The jobs figure was less than many economists forecast, but few saw the report as a sign of a broader slowdown. "The economy continues to churn out new jobs and reflects the strong underlying business conditions that point to steady, albeit slower job growth and economic activity in 2019," said Joe Brusuelas, chief economist at consulting firm RSM. "This report strongly implies that a recession is not looming just over the horizon." The report is unlikely to dissuade the Federal Reserve from raising short-term interest rates at its meeting later this month, as expected, Brusuelas said. But it suggests the Fed may not hike rates next year as rapidly as many investors have feared. Stock prices rose in the immediate aftermath of the report but fell in late morning trading. The Dow Jones dropped 225 points or 0.9 percent. The ongoing job gains are pushing down unemployment rates to historically low levels for a variety of groups. The unemployment rate for men ages 20 and above fell last month to 3.3 percent, the lowest in 18 years. And the rate for Americans with just high school diplomas dropped to 3.5 percent, the lowest since December 2000. November's job gains are down from October's robust 237,000. Hiring has averaged 195,000 a month for the past six months, modestly below an average of 212,000 in the previous six. Hiring in November was led by health care firms, which added 40,100 jobs, and professional services such as accounting and engineering, which gained 32,000. Manufacturing companies hired 27,000 new workers, the most in seven months and a sign that trade tensions have yet to weaken factory hiring. Construction firms cut back, however, adding just 5,000 jobs, the fewest in five months. Most recent data have pointed to solid economic growth. Americans increased their spending in October by the most in seven months, and their incomes grew by the most in nine months, according to a government report. Both manufacturing and services companies expanded at a healthy pace in November.

Manufacturing Jobs Continue to Surge

Job openings have surged at U.S. manufacturers of durable goods from machinery to cars in recent months, suggesting factories have plenty of demand despite recent tariff obstacles. The job openings rate for the durable goods manufacturing industry reached 4 percent in October, a record in data back to 2000, according to figures issued by the Labor Department. That's up from 3.7 percent in September and 3.1 percent a year earlier. Total openings were 332,000 compared with about 8 million jobs in the sector. A separate report from the Association for Manufacturing Technology released December 10th noted that machine tool orders from August to October totaling $1.6 billion were the most in 20 years.

Employers Preparing to Tackle 2019's Newest Labor and Employment Laws

As 2018 draws to a close, employers are looking to the next wave of labor and employment laws and regulations that will take effect in 2019 and beyond. On January 1, and throughout the coming year, employers across the nation must address a host of new or amended federal, state, and/or local obligations.

Federal Activity - The majority of labor and employment bills stalled in the 115th Congress. The most significant federal legislative development in 2018 that impacted employment law was Congress's omnibus budget bill, the Consolidated Appropriations Act ("the Act"). The Act amended the Fair Labor Standards Act by addressing rules affecting tipped employees and tip ownership. Specifically, the Act expressly prohibits an employer from keeping tips received by its employees for any purposes (this includes allowing managers or supervisors to keep any portion of employees' tips), regardless of whether the employer takes a tip credit.

The Tax Cuts and Jobs Act, which was signed into law on December 22, 2017, impacts certain deductions and reporting provisions for 2018 in 2019. For example, the law eliminated, at least through 2025, the exclusion for employer-paid relocation expenses, the deduction for employer-paid transportation fringe benefits, and the business deduction for entertainment expenses. This tax law also included a provision that eliminates a business expense deduction related to nondisclosure agreements (NDAs) in connection with the settlement of sexual harassment claims. The law amends section 162 of the tax code, which generally allows businesses to deduct certain business expenses, to provide that no business expense deduction will be allowed for: (1) any settlement or payment related to sexual harassment or sexual abuse if such settlement or payment is subject to a nondisclosure agreement, or (2) attorney's fees related to such a settlement or payment. This exclusion applies to amounts paid or incurred after December 22, 2017, the date the tax bill was enacted. As a practical matter, this new restriction means employers must decide on a case-by-case basis whether any amount paid to settle a sexual harassment claim is significant enough to be worth the tax deduction at the expense of an NDA.

Immigration policy and enforcement remains a Trump administration priority. Although no immigration-related bill advanced in 2018, employers will likely continue to see increased U.S. Immigration and Customs Enforcement activity and U.S. Citizenship and Immigration Services (USCIS) policy initiatives in response to White House directives on immigration. Further changes are anticipated from USCIS in 2019.

For the most part, federal employment law activity has been confined to the regulatory arena. For example, the National Labor Relations Board (NLRB) issued a proposed rule in September that would reverse the NLRB's 2015 *Browning-Ferris Industries* decision and clarify the standard for joint employment. The comment period for the proposed rule will close on December 13, 2018; and a final rule is expected sometime in 2019. The DOL's Wage and Hour Division also may propose its own joint employer rule, a re-vamped "white collar" overtime proposed rule, and a rule clarifying the "regular rate" of pay calculation for purposes of overtime compensation. Some final rules will take effect immediately, while others might afford employers a compliance grace period.

State and Local Activity - While federal legislative developments may have been slow in 2018, state and local lawmakers picked up the slack. States and municipalities have adopted new laws and ordinances that will take effect in 2019 on a variety of topics, including protected time off, sexual harassment training, and salary history inquiries. Many new state and local laws enacted in 2018 have already taken effect. The San Antonio Ordinance requires employers to provide one hour of earned sick time leave for every 30 hours worked within the City of San Antonio. Enforceability may be affected by pending litigation concerning the Austin paid sick law.

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