

Employment Update

Factors Guiding Houston's Economy

Three factors have guided Houston's economy in recent years— energy prices, the value of the dollar against foreign currencies, and the health of the U.S. economy.

- 1. Energy Prices:** Oil prices held strong in '12, but natural gas prices remained weak. The spot price for West Texas Intermediate, the U.S. benchmark for light, sweet crude, closed at \$91.83 a barrel on the last trading day of the year, down \$9.99 from where it started the year but significantly above the one-year and five-year averages. Natural gas at the Henry Hub closed at \$3.43 per thousand cubic feet (mcf) on the last trading day of '12, up 46 cents from where it started the year and above the one-year average, but well below the five-year average. The number of rigs drilling for oil rose through mid-summer, peaking at 1,432 in early August but began to taper off in the fall. The number of rigs looking for natural gas fell steadily throughout '12. The year finished with 244 fewer total rigs working in North America than when it started. It began with 60 percent of all working rigs in North America drilling for oil and 40 percent for natural gas. By December, 75 percent of all rigs were drilling for oil and 25 percent for gas. The slip in the rig count has slowed growth in energy employment. In January, employment in oil and gas extraction grew at an 8.7 percent annual rate, hit a high of 11.1 percent in May, and by November the rate had slipped to 6.2 percent. Likewise, employment in oil field services grew at a 12.4 percent annual rate last January. By November, the rate settled in at 3.6 percent. While those rates represent slower growth for the energy industry, the rates remain above the 3.2 percent overall employment growth rate for the region. The slower pace does suggest energy will not be as strong of an economic driver in '13 as it was in '12.
- 2. Value of the Dollar:** The value of the U.S. dollar against major currencies ended the year unchanged from where it started the year and 7.5 percent below where it stood four years ago, according to data provided by the Federal Reserve Bank of St. Louis. The weaker dollar is important because it makes the goods and services Houston sells overseas more affordable. Between '09, the bottom of the recession in Houston, and '11, the year Houston recovered, exports through the Houston-Galveston Customs District grew \$44.1 billion or 58.7 percent, according to the U.S. Census Bureau. The International Trade Administration (ITA), with help from the Census Bureau, tracks the value of goods that originate from each metro area. Between '09 and '11, exports of goods manufactured in Houston grew \$38.6 billion, or 58.7 percent, according to the ITA. This does not include the value of services (*i.e.* engineering, design, construction management, IT consulting) that Houston firms sell overseas. The outlook for the dollar is that the trade-weighted value of the dollar will remain unchanged in '13. That

consensus has held constant for the past three National Association for Business Economics (NABE) surveys.

- 3. Health of the U.S. Economy:** The U.S. economy has improved over the past three years. From the lowest point during the recession, housing starts are up 80.1 percent, auto sales up 71.6 percent, retail sales up 11.4 percent, initial claims for unemployment insurance are down 45.4 percent, and the U.S. unemployment rate has fallen from a high of 10.0 percent to a low 7.8 percent in December. The nation has also created 4.8 million jobs over the past three years, though still 4.0 million short of the previous employment peak. Recent reports on U.S. gross domestic product (GDP) reflect an improving economy. Real GDP (*i.e.* growth once inflation has been factored out) increased at an annual rate of 3.1 percent in the third quarter of '12, up from a tepid 1.3 percent rate in the second quarter. GDP growth is important to Houston since strong GDP growth translates into healthy demand for Houston's key products and services—energy, chemicals, plastics, industrial equipment, engineering, and health care. Houston receives an additional stimulus to its economy when U.S. GDP grows at a 3.0 percent or better annual rate. Slower growth doesn't signify a downturn for Houston. Slower growth means that Houston must rely on the other drivers—energy and foreign trade—to create jobs in the region, which has been the case the past three years. The consensus among NABE economists is for real GDP growth to reach 3.0 percent by the fourth quarter of '13.

Job Growth

The Houston-Sugar Land-Baytown metropolitan area added 85,300 net new jobs, a 3.2 percent annual increase, in the 12 months ending November '12, according to data released in December by the Texas Workforce Commission. The private sector added 86,600 jobs, a 3.8 percent annual increase, during the same time frame. Houston continues to lead the state's economy, with no other metro adding as many jobs.

Despite concerns about looming tax increases and government spending cuts, U.S. employers added 155,000 jobs in December. Employees also enjoyed slightly faster wage growth and worked longer hours, which could bode well for future hiring. The job growth, almost exactly equal to the average monthly growth in the last two years, was enough to keep the unemployment rate steady at 7.8 percent, the Labor Department reported Friday, January 4, 2013. The job gains in December were driven by hiring in healthcare, food services, construction, and manufacturing. The last two industries were probably helped by rebuilding after Hurricane Sandy.

Area Jobs Forecast is Positive

The Greater Houston Partnership forecasts the 10-county Houston metro area will create 76,000 jobs in '13. Employment will grow in all sectors, with construction, healthcare, and leisure & hospitality turning in the strongest performances. This year should end with Houston

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at a little more than 2.8 million jobs, a milestone for the region. Several factors will drive job growth—stable oil prices, construction at area chemical plants, healthy demand overseas for Houston’s exports, strong demand for single and multi-family housing, and sustained population and income growth. Houston is steady, stable, a well-balanced economy right now that is on track for continued improvement in 2013, per Barton Smith, Professor Emeritus of Economics at University of Houston. Eight to nine months ago, it was just energy, now nearly all sectors of Houston’s economy are adding jobs. The energy industry – especially oil & gas exploration & production – is coming off last year’s pace of double-digit growth. In November, the industry was growing 5 percent on a year-over-year basis. November marked the third consecutive month in which the construction industry has added jobs. Retailers also are putting on an impressive number of jobs – 9,000 jobs during the past year, for a 3.2 percent gain. Houston has enjoyed the classic recovery cycle – explosive growth early on, which we enjoyed in late 2011 and early 2012 – then settling into a more normal and sustainable level of growth.

Unemployment Rate

Houston's November unemployment rate was 5.8 percent, down from 7.3 percent in November '11. Texas' unemployment rate was 5.8 percent, decreasing from 7.2 percent in November '11. The rate was 6.2 percent in October.

The U.S. rate was 7.4 percent, a drop from 8.2 percent the past November. This is the lowest unemployment rate for Houston, Texas and the nation since December '08. The rates are not seasonally adjusted.

Chevron Will Move up to 800 Jobs to City

Chevron Corp. will move as many as 800 jobs to Houston from its California headquarters to support its exploration and production operations. The oil giant will maintain its headquarters in San Ramon – just east of San Francisco – where 6500 employees work. They have been there more than 100 years and are committed to the state of California. Jobs moving to Houston include employees in support groups involved with technology, procurement and business development and are expected to take place over the next two years to support their growing upstream business. Currently 9,000 Chevron employees and contractors work in the Houston area where it runs the North American, Latin American and African upstream operations.

Increase in Personal Income

Houston is among the top 25 metro areas nationwide for average income growth through 2011. The Houston-Sugarland-Baytown area’s per capita income increased from \$43,065 in 2009 to \$47,612 in 2011, a 10.56 percent change, per U.S. Bureau of Economic Analysis. Houston ranked No. 25 out of 366 markets nationwide and No. 6 among the 25 metros in

Texas. The Midland and Odessa areas took the No. 1 and 2 spots nationwide with increases of 19.66 and 13.58 percent respectively. The analysis attributes the strong growth in Texas – as well as Oklahoma, Wyoming, and North and South Dakota – to the ongoing boom in the oil & gas industry.

Personal income grew faster in Texas than the national average during the third quarter, the U.S. Bureau of Economic Analysis reported. The state's total personal income grew 0.8 percent from the second to the third quarter compared to 0.5 percent nationally. Personal income includes wages, property and payments such as Social Security, food stamps and unemployment benefits. Texas' income growth rate was seventh in the nation during the third quarter. North Dakota's was highest at 1.4 percent, while South Dakota's dropped by 1.6 percent, worst among the states. Nationwide, personal income didn't grow as quickly during the third quarter as it did during the second quarter when it increased by 0.7 percent.

Texas Leads U.S. in Shale, "Tight" Gas Jobs

Texas accounts for almost half the nearly 1.3 million industry jobs associated with unconventional oil & gas production in the 16 producing states this year. Some 576,000 Texans were in jobs linked to unconventional oil & gas in 2012, and that is expected to rise to almost 930,000 by the end of the decade, the IHS Global Insight study said. Unconventional gas refers to the production of gas & liquids recovered from shale gas and "tight" gas, which is called tight because it is difficult to get to because of the nature, or density, of the rock and sand surrounding the deposit. Hydraulic fracturing and horizontal drilling are often used to access the resources. There are big economic impacts from the unconventional oil & gas activity, both for the state and the country. In particular, the study estimates that unconventional oil & gas activity in Texas will generate more than \$22 billion in federal, state and local revenues in 2012, or more than \$790 billion cumulatively through 2035. Overall on a national basis, unconventional oil & gas activity supported more than 1.7 million jobs in 2012. That number will grow to nearly 3 million in 2020.

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