**Houston Faces a Period of Low Oil Prices**

For the third time in as many decades, Houston faces a period of low oil prices and high economic uncertainty. The first episode occurred in the mid-1980s when Saudi Arabia flooded the world with crude, thus driving down prices. The second episode coincided with the Great Recession. Energy demand fell, taking oil prices with it. The most recent drop began in mid-2014 and traces its roots to U.S. overproduction, weak global growth, and the Saudis deciding to put a greater priority on market share than price. On June 23, 2014, West Texas Intermediate (WTI) traded at $107.95 per barrel and on January 13, 2015, the price had fallen to $44.91.

The future depends largely on the price of oil, which has fallen by about 45 percent since this summer as excess crude supply has intersected with weakening demand and a sputtering global economy. Lower oil prices could cause job growth to dip below the current estimates of 50,000 to 60,000 this year. Some of Houston's most important job-creating industries are slicing their budgets. For example, Transocean announced the sale of 10 rigs; Rosetta Resources expects to cut its budget to $700 million or about 16 percent; Marathon Oil will spend $1 billion or about 20 percent less this year; Conoco-Phillips has reported their capital budget fell from $16.7 billion in 2014 to an expected $13.5 billion in 2015; and Exxon Mobil said they would spend less on their capital budget. Energy industry investment banker Tudor, Pickering, Holt & Co. estimated that the 30 oil exploration and production companies it tracks will cut capital expenditures by 22 percent. Overall, more than 500 rigs operating in North America could end up idle this year, a drop of more than 25 percent from current levels, many analysts agree. The construction industry, which has been on a tear putting up office buildings, single-family homes and multifamily apartments, trimmed 700 jobs from its payrolls. And the high-paying, revenue-generating manufacturing industry eliminated 800 jobs between October and November.

When will prices rebound? The consensus is that they won't recover this year. Perhaps in 2016, if two events transpire—current low oil prices drive a significant amount of production from the market and global economic growth heats up, stimulating demand for energy. Given the weakness of the European and Asian economies, the restructuring of the Chinese economy, and slower growth in Latin America, production cutbacks are likely to play a larger role in boosting oil prices.

How low will oil prices fall before they recover? That's anyone's guess. However, the NYMEX futures strip suggests that WTI will trade between $46 and $54 through the end of the year. CitiGroup expects WTI to average in the mid-$50s much of the year. BNP Paribas forecasts WTI to average $55 for the year. The Saudi oil minister, however, has said OPEC will not cut production to prop up prices, even if oil falls to $20 per barrel.

Will Houston see a repeat of the 1980s? Not likely. The region's economy has matured since then. Factors that exacerbated the1980s collapse are not present today. And there's enough impetus from other sectors to support growth, albeit at a much slower pace than in recent years. Houston's economy this year and next will probably look more like a melding of 2004 and 2005, when oil traded at $40 to $60 a barrel and the region still found a way to add 57,000 jobs. The heady growth of 2012, 2013 and 2014 is behind us for now.

| Event | Oil Peak | | Oil Trough | | % Change |
|---|---|---|---|---|---|
| 1980's Recession | August 1980 | $39.50 | March 1986 | $11.98 | 69.9 |
| Great Recession | July 2008 | $145.31 | December 2008 | $30.28 | 79.2 |
| Current Downturn | June 2014 | $107.95 | January 2015 | $44.91* | 58.4 |

*Not the trough but the price as of 8 a.m. January 13

**Houston Led the State in Employment Growth**

The Houston-Sugar Land-Baytown metro area led the state in employment growth, creating a record-setting 125,300 jobs in the 12 months ending November, according to the Texas Workforce Commission (TWC). The monthly jobs numbers show a healthy year-over-year growth rate of 4.4 percent – evidence that crude's dramatic fall has yet to shake the local economy.

The Dallas-Fort Worth-Arlington metro ranked second, adding 111,500 jobs, followed by San Antonio-New Braunfels with 29,100 jobs, Austin-Round Rock-San Marcos with 28,600 jobs, and McAllen-Edinburg-Mission with 7,200 jobs. Since the bottom of the recession, the Houston metro area has added 480,200 net new jobs, or more than three times the 153,800 jobs lost during the recession. With the November employment report, Houston reached a milestone, surpassing 2.95 million jobs.

**Texas' Future Tied to Oil**

The bellwether U.S. rig count is down, and an analysis from JPMorgan Chase raised the possibility the state could slide into a regional recession should oil remain as cheap as it is today. Despite the rise of health care, high technology and other industries in Texas, the state still has about 11 percent of its gross state product tied up in oil and gas the banking giant said. Barton Smith, professor emeritus of economics at the University of Houston and a longtime observer of the local economy, said oil prices would have to remain low for about six months before the energy industry takes a hit.

After a surge in shale energy, the state now bears 40 percent of the nation's oil production, the highest share of any state. And 2.7 percent of Texas jobs are in oil and gas. Compare that to 1986, when sliding oil prices set off a painful chain reaction that extended from the oil industry to real estate and finally to the financial sector, which saw hundreds of banks fail in the late '80s. Back then, 11 percent of the state's economic output and 3.7 percent of its workers were in oil and gas.

In 1986, Texas' jobless rate rose 2.6 percentage points higher than the national rate, to about 9 percent. The impact could take form of 212,000 job losses across Texas, if oil and gas production companies see earnings fall by 20 percent, or $13.5 billion, said Brian Kelsey, Economist and Founder of Austin-based Civic Analytics. Those job losses would wipe out two-thirds of the projected gains expected in Texas next year, Kelsey said, which could translate into 79,500 jobs lost in the Houston metropolitan area.

**See Where Houston's Job Growth is in 2015**

After several years of extraordinary growth, Houston's economy will grow at a slower pace in 2015, the Greater Houston Partnership estimates. It is estimated Houston will add 62,900 jobs in 2015, and the year should finish with more than 3 million total nonfarm payroll jobs. That figure seems significantly less than the 120,000 jobs between October 2013 and October 2014, but GHP calls the current pace unsustainable.

- Energy – GHP anticipates a significant drop in oilfield services (7,900 jobs) and a minor drop in oil and gas exploration (1,300 jobs).
- Construction – Growth expected to slow marginally, with the sector **adding 8,200 jobs**.
- Manufacturing – Expected to lose 3,300 jobs as the decline in oilfield equipment and fabricated metals manufacturing will outweigh the increase in demand for chemicals, plastics and other nondurables.
- Wholesale Trade – Expected to **add 3,500 jobs** though some sectors will struggle.
- Retail – Expected to **add 6,600 jobs**, a slight dip from recent hiring.
- Transportation, Warehousing & Utilities – Expected to **add 2,600 jobs**, though the wide variety of subsectors will be affected differently.
- Healthcare – Expected to **add 9,200 jobs**.
- Information – This sector, which includes new media, movies, software and other subsectors, is expected to **create only 100 jobs**.
- Financial Services – Expected to slow somewhat, **adding 1,900 jobs**.
- Professional, Scientific & Technical Services – Growth will slow, with **9,300 jobs added**.
- Educational Services – Expected to **add 1,200 jobs**.
- Administrative, Support, Waste Management & Remediation Services – Expected to **add 8,400 jobs**, though outsourcing is expected to continue.
- Arts, Entertainment & Recreation – Expected to **add 700 jobs**.
- Accommodation – Expected to **add 1,000 jobs**.
- Food Services – Expected to **add 8,300 jobs**, though growth will be tempered compared to recent years.
- Government – Expected to **add 1,200 jobs**.

**Unemployment Rate is Down**

Fewer Americans filed applications for unemployment benefits in 2014 than at any time in 14 years as the economic expansion strengthened. An average 308,500 workers a week filed jobless claims in 2014, the least since 299,600 in 2000, according to figures from the Labor Department in Washington. Reports showed consumer confidence had its best year since 2007, manufacturing in the Chicago region kept chugging ahead and home sales signaled a rebound in coming months, indicating the world's largest economy is poised to pick up this year. The improvement likely will be driven by gains in hiring that are leading to bigger paychecks. Monthly payroll increases have averaged almost 241,000 in 2014, up from the prior year's 194,000. The addition of 2.7 million workers to payrolls has put the economy on track for the biggest annual gain in hiring since 1999, and the jobless rate is at a six-year low.

Houston's November unemployment rate was 4.5 percent, down from 4.7 percent in October and 5.7 percent in November 2013. Texas' unemployment rate was 4.6 percent in November, down from 4.8 percent in October and 5.8 percent in November 2013. The U.S. rate was 5.5 percent in November, unchanged from October and down from 6.6 percent in November 2013. The rates are not seasonally adjusted.

**Cheap Energy Expected to Fuel the U.S. Economy**

The U.S. is back and ready to energize global growth in 2015. After struggling to claw its way out of the Great Recession, the world's biggest economy is on an extended win streak that is edging it closer to full health. Its expansion from July through September – a five percent annual rate – was the swiftest for any quarter since 2003. That pace will likely ease a bit. Still, the economy is expected to expand 3.1 percent next year, up from 2.5 percent in 2014. It would be the first year of 3 percent growth since 2005.

Capping the best year for job growth since 1999, employers added 252,000 jobs in December, the Labor Department reported. The number of new people put on payrolls last month was above what economists had forecast, consistent with the view that the recovery was finally gaining traction after years of only modest growth. In addition, the number of jobs created in November was revised upward to 353,000 from 321,000. That month, the unemployment rate was 5.8 percent. The pace of overall job growth averaged 246,000 a month last year, up from 194,000 a month in 2013. "We're finally entering that virtuous cycle phase of the expansion" when more jobs lead to higher incomes, which generate more consumer spending and growth, said Brett Ryan, an economist at Deutsche Bank. Though average wage growth has been modest, the number of people with paychecks –and the ability to spend – has soared.

Plunging oil prices are a big reason for the optimism. The drop, along with more fuel-efficient cars, will save the average U.S. household $550 on gas next year. What's more, Americans' finances are in firmer shape. Job growth is accelerating; businesses are investing in buildings and software; and home building is expected to pick up. In the U.S., consumers are the main drivers of growth.

A U.S. Energy Information Administration report said U.S. refineries converted more crude into gasoline and other distillates than they ever have before. Still, they were unable to keep pace with crude production – oil inventories rose by 1.8 million barrels at the storage hub. Depressed crude prices and the resulting cutbacks by producers are expected to dampen the economies of U.S. oil-producing states. We are going to see a significant slowdown in the growth of North Dakota and Texas. But if a flagging oil and gas industry will slow Texas' growth, cheap energy is expected to fuel the wider U.S. economy. In the current fall in crude prices, the U.S. could net 1.2 million more jobs as lower energy costs spur consumer spending and hiring, according to a Federal Reserve Bank model of how oil prices affect U.S. jobs.

Downstream projects, because oil flows from the upstream wells down to these plants, will continue to thrive with low oil prices while absorbing workers who may be laid off because of cuts in upstream spending. The additional work of new petrochemical projects on the east side of Houston will likely balance out the losses on the west side of Houston and result in more mediocre economic growth than Houston has experience d in recent years. Per Bill Gilmer, Director of the Institute for Regional Forecasting at the University of Houston, "If we had not had the help of the downstream jobs, we would have a recession here, we would have lost 25,000 or 30,000 jobs in each of 2015 and 2016." Instead Houston will likely add 40,000 – 45,000 jobs next year.

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