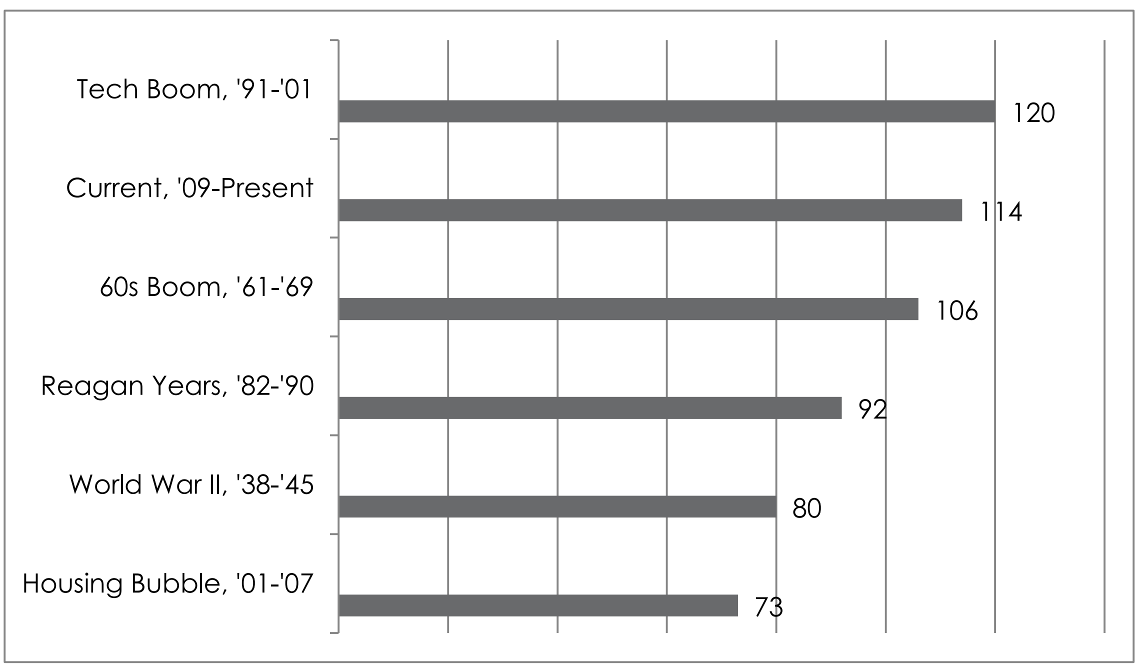
Slower Growth, Not No Growth

The current U.S. expansion is now in its 114th month, making it the second longest on record. The longest expansion, which ran from '91 to '01, lasted 120 months. If the economy continues to grow through July of this year, the current expansion would become the longest on record. The length of the expansion raises the question, "Is the U.S. overdue for a recession?" When a reporter once asked then Federal Reserve Chairman Janet Yellen the same question, she gave a terse reply: "Expansions don't die of old age." Typically, something dramatic kills an expansion. In the early '70s, the Arab oil embargo, a dizzying hike in oil prices and a stock market crash tipped the economy into recession. In the early '80s, the Iranian Revolution, an oil price spike and higher interest rates, choked off growth. In the early '90s, consumer pessimism, high interest rates and yet another oil shock pushed the U.S. into recession. In the early '00s, the dot-com bubble burst, business investment plummeted, and the 9/11 attacks ended a decade of growth. And most recently, the subprime mortgage crisis brought on the Great Recession.

Longest U.S. Expansions (Months)



Economists worry that history may be about to repeat itself. The Dow Jones Industrial Average peaked in late January '18 and finished the year down 12.5 percent. Single-family housings starts have been trending downward since August. And the Federal Reserve has raised the Federal Funds Rate, a benchmark for interest rates on various loans, nine times since the end of the

Great Recession, four times in '18 alone. Of all the recession precursors, the Fed's actions have garnered the most attention. The Fed likely will raise interest rates twice this year. Many fear higher rates will stifle business investment. Any increase in the Federal Funds Rate would lead to higher mortgage rates and a further drop in residential construction. Higher rates would also impact auto sales and discretionary consumer purchases. At a recent conference in Atlanta, however, current Federal Reserve Chairman Jerome Powell said the central bank would be patient and see how the economy develops before policymakers raise rates again. Powell's comments have helped shift the dialogue from "we're overdue for a recession" to "slower growth is more likely." That's in line with what forecasters at the National Association for Business Economics (NABE) said in December. The NABE consensus is that U.S. growth will slip from 2.9 percent in '18 to 2.7 percent. Wells Fargo is a bit less optimistic and expects GDP to grow 2.6 percent this year, down from 2.9 percent last year. And a recent Wall Street Journal survey of 60 prominent economists placed U.S. growth at 2.2 percent in '19, down from an expected 3.1 percent in '18. The outlook for "slow" versus "no" growth is good news for Houston. The robust U.S. economy of the past three years helped to offset weakness in the oil and gas industry. Should the U.S. economy reverse course, Houston would suffer as well.

Heading into '19, the U.S. economy is in good shape, and by extension, so is Houston. Key reasons:

- Real GDP, *i.e.*, GDP adjusted for inflation, grew at a 3.8 percent annual rate in Q3/18, the second highest growth rate since Q3/14. Various forecasts call for growth between 2.4 and 3.0 percent in Q4/18.
- Employers nationwide added 312,000 jobs in December, among the strongest monthly performances of the past 10 years.
- At 3.9 percent, the U.S. unemployment rate is near a historic low. The rate has been 4.1 percent or lower for the past 12 months.
- The U.S. labor force participation rate rose to 63.1 percent in December '18, up from 62.4 percent in September '15. The increase suggests the strong economy is pulling reluctant and discouraged workers back into the job market.
- The U.S. Industrial Production Index, which measures activity at all U.S. factories, mines and utilities, shows output rose 0.6 percent in November '18 and was up 3.9 percent since November '17.
- Delinquencies on mortgages have fallen to 3.0 percent, on credit cards to less than 2.5 percent and on commercial and industrial loans to just above 1.0 percent—all rates that are at or near historic lows.

However, two areas of concern remain for Houston: oil prices and a weakening Chinese economy that could become a serious drag on global growth. Crude prices, as high as $70 per barrel in October '18, fell to $45 in mid-December but recovered to $52 in early January. Conventional wisdom holds that the industry needs oil at $50 or higher to sustain a drilling program. Officially, economic growth in China has fallen to around 6.5 percent. Most analysts suspect the rate is much lower, and some speculate it may even have turned negative. China is Houston's #2 trading partner. The U.S.-China trade dispute appears to be impacting China more than the U.S. However, the Trump Administration has agreed to postpone imposing additional sanctions while both sides talk.

Entrepreneurial Houston

More than 103,000 firms with paid employees operated in metro Houston in '16, up from around 97,000 in '14, the peak of the previous business cycle. The region ranked ninth in the number of employer firms in '16, behind Atlanta (105,000) and ahead of San Francisco (101,000). The rankings are based on the Greater Houston Partnership's analysis of the U.S. Census Bureau's Annual Survey of Entrepreneurs. Some Houston highlights:

- About one-third (31.6 percent) of all firms in Houston are minority-owned. Asians own 17.6 percent, Hispanics 10.1 percent, Blacks 3.5 percent, and Native Americans, Hawaiians and other groups 0.4 percent.
- One in five firms (20.5 percent) is female-owned and one in seven (13.8 percent) is equally male/female-owned.
- Nearly two-thirds (63.6 percent) of all Houston employers have been in business six years or more.

Among the nation's 50 most populous metros:

- Houston ranked eighth in number of female-owned businesses (21,160). New York ranked first (95,731), Los Angeles second (63,850), Chicago third (39,322).
- Houston ranked seventh in firms equally male/female-owned (14,202). New York ranked first (40,246), Los Angeles second (39,250), Miami third (20,553).
- Houston ranked fifth in Hispanic-owned firms (10,104). Miami ranked first (49,550), New York second (33,101), Los Angeles third (31,209).
- Houston ranked eighth in Black-owned businesses (3,622). New York ranked first (11,980), Atlanta second (7,683), Washington third (6,987).
- Houston ranked sixth in Asian-owned businesses (18,199). New York ranked first (86,358), Los Angeles second (77,156), San Francisco third (25,026).
- Houston ranked eighth in percent of businesses owned by foreign-born residents (27.0 percent). San Jose ranked first (41.2 percent), Miami second (41.0 percent), Los Angeles third (36.8 percent).
- Houston ranked 15th in family-owned businesses (30.9 percent). Phoenix ranked first (38.0 percent), Sacramento second (36.6 percent), Riverside third (35.6 percent).

2018 A Good Year for Jobs in Houston and Texas

The Houston and Texas economies extended their streaks for creating jobs in December, capping off the strongest year for employment growth since 2014. Buoyed by the oil industry recovery and solid national expansion, Houston area employers added jobs for 15 consecutive months, helping to push the unemployment rate to 3.9 percent, the lowest December level since 2000. Texas gained jobs for the 30th consecutive month as the state jobless rate held at its record low of 3.7 percent, the Texas Workforce Commission reported. For the most part, 2018 was the year that the Houston economy regained its momentum after a brutal oil bust that began in late 2014 and had a painfully slow recovery. The metropolitan area added 101,000 jobs last year, approaching gains at the height of the last oil boom four years ago, according to preliminary estimates. Employment grew at a rate of 3.6 percent in 2018, exceeding the growth rate of both the state (3.2 percent) and the nation (1.8 percent). The state gained nearly 400,000 jobs in 2018, including 38,000 in December. Texas payroll employment reached a new high of 12.7 million jobs. Houston added 3,700 jobs in December. Over the year, job growth in the region was spread across 10 of the 11 major sectors. The sector that captures the oil and gas industry grew by 4,500 jobs, or nearly 6 percent, in Houston, led by energy services companies. Oil prices mostly rose in 2018, reaching a peak of $76 a barrel in October before plunging 40 percent to $42 a barrel at the end of the year. Oil settled January 18, 2019 at $53.80 a barrel. Manufacturing, which is closely linked to the oil and gas industry, added nearly 16,000 jobs over the year, a 7 percent gain. As the rebuilding after Hurricane Harvey continued, construction employment jumped by more than 19,000 jobs, or 8 percent. Professional and business services added more than 28,000 jobs over the year, an increase of nearly 6 percent, while jobs in education and health services rose by nearly 13,000, or 3 percent. In Texas oil and gas industry employment surged by 18 percent, or more than 40,000 jobs. Construction added more than 47,000 jobs in 2018, an increase of more than 6 percent. Manufacturers added nearly 40,000 jobs over the year, boosting payrolls by 4.5 percent. Economists expect the pace of economic growth across the state and nation to slow by still advance steadily in 2019. Tariffs, higher interest rates and labor shortages are likely to contribute to the slowdown. Analysts also expect a slowdown in the energy industry as prices recover slowly from the recent rout.

Industries That Will Drive Houston’s Projected Job Growth in 2019

As the city continues its recovery from the oil downturn and the effects of Hurricane Harvey, Houston is expected to see a year of solid job growth in 2019. The region is slated to add 71,000 new jobs in 2019, according to the Greater Houston Partnership. That’s up from a year ago, when GHP forecast expected the Bayou City to add only 45,500 jobs during 2018. In spite of the forecast, Houston is coming off of a strong year of actual job growth. From October 2017 to October 2018, the nine-county Houston metro area created 117,800 jobs. In fact, the Bayou City led the nation in job creation during that time frame. Some of the job growth can be attributed to Hurricane Harvey recovery, which stimulated Houston’s economy and created temporary positions that might not be consistently available going forward. As of October 2018, the Houston area added some 85,400 jobs.

Houston's health care industry will see the largest job growth in 2018. The sector is slated to add 9,000 new jobs this year for a number of reasons. Many of the 9,000 health care jobs expected to be created in 2019 won't require the employee to be a doctor or a nurse. "One in nine people in Houston work in health care," Patrick Jankowski, SVP Research at GHP said. The main driver of demand: Houston's population is growing, so more people are in need of health care. Another reason for job growth predictions is the status of the Affordable Care Act. After Election Day in November, the U.S. House of Representatives is now controlled by the Democratic Party, which is unlikely to overturn the Obama-era legislation that mandates individuals to buy health insurance. Texas is also the least insured state in the country, according to data from PolitiFact. There were 4.5 million people living without health insurance in Texas in 2017, according to a report from the Texas Tribune.

The Bayou City is expected to add around 8,900 new construction jobs during 2019. Some of these jobs can be attributed to Hurricane Harvey, as Houston continues to bounce back from the devastation caused by the storm in 2017. In August, more than 85 percent of Harris County voters approved a $2.5 billion bond measure aimed at increasing the city's flood-mitigation efforts and resiliency against future storms. Area voters also approved several school bonds in around Houston to fund building and facility improvements, including a nearly $1 billion measure for Fort Bend ISD. Jobs in the industrial real estate market will continue to be in high demand. Developers in the warehousing, distribution and manufacturing spaces delivered 52 million spare feet of space over the past five years, and more than 11 million square feet of space is currently under construction. Some reasons driving the projected industrial real estate demand include the needs of e-commerce, Houston's growing population and activity at the Port of Houston. The office construction market is not expected to fare as well as its industrial counterpart in 2019.

The Houston energy job market continues to recover from the oil downturn that began in 2015. The downturn resulted in over 86,000 lost jobs in Houston – about one in every four energy positions. But, recovery from the downturn is expected to continue, as the oil and gas industry is slated to add around 1,900 jobs in 2019. The U.S. Energy Information Administration, or EIA, forecasts the U.S. will produce 1.2 million more barrels per day than it did in 2018. But oil prices are low, with WTI prices hovering around the mid $40s so far in 2019. A survey by the Federal Reserve Bank of Dallas found that most oil and gas companies drilling in West Texas can make a profit at $52 a barrel. However, the EIA expects oil prices to average around $65 a barrel in 2019. There will likely be some job cuts in the energy industry in 2019 – due to firms getting involved in asset acquisitions or strategically exiting certain operations – but hiring is expected to offset those losses. The city's recovering energy sector is also bolstering the manufacturing industry in Houston. Increased oil and gas exploration and upstream activity is driving demand for more oil field equipment, and Houston is on track to add 6,300 manufacturing jobs in 2019.

The Professional, Scientific and Technical Services sector is expected to add 7,200 jobs in 2019. Typically identifying with white-collar jobs, the sector includes accounting, engineering, architecture, law, computer systems design, management consulting, research labs, advertising, marketing, and public relations firms. Cloud security and cyber security were the two top tech skills in demand in Houston.

Texas Growth Slows to "Normal"

After booming in the first half of 2018, Texas' economy appears to be putting on the brakes. Manufacturing production in December was the lowest since August 2016, according to the Federal Reserve Bank of Dallas. Overall, the Dallas Fed sees the state's healthy economy, which added about 45,576 jobs in August alone, beginning to slow. With oil headed for its first annual loss since 2015, economists believe Texas' job growth may decelerate if prices don't recover from around $50 per barrel. In manufacturing, which is heavily driven by the oil and gas sector in Texas, a moderation is somewhat expected after the massive gains in the first half of the year, said Emily Kerr, senior business economist at the Federal Reserve Bank of Dallas. Texas manufacturing set post-recession records in the summer, driven by both a strong national economy that helped out the real estate and construction sector, as well as a boom in oil and gas production in West Texas that needed pipelines and oil field equipment built as fast as possible. A slowdown in manufacturing isn't necessarily concerning for the economy as long as the sector continues to have net positive growth, Kerr said. Production is still increasing, but December's index of 7.3 shows a second month of braking after the index dropped 9.2 points from October to November. Exports are likely to weaken as well into the New Year, after a massive expansion. Coinciding with slowing growth, perceptions of business conditions in Texas turned negative for the first time since September 2016. More than 20 percent of manufacturers reported that their outlook worsened in December attributing it to declining oil prices, higher interest rates, reduced activity in housing and energy sectors, labor constraints, and political uncertainty. Kerr noted that the survey was taken during the lead-up to the government shutdown, which could have amplified political anxieties. While manufacturers still expect general business conditions for the next six months to improve overall, confidence is much rockier than last month – the survey showed a 22.5 point decrease in longer term expectations compared to November. Adding to businesses' challenges is a tight labor market that keeps getting tighter. The state's unemployment rate was 3.7 percent in November, the lowest ever recorded since the Dallas Fed started keeping track in 1976. Texas job growth is up 2.4 percent since the beginning of 2018, led by the energy, manufacturing and financial sectors. Job growth in energy alone is up 11 percent. Still job growth has slowed in recent months, mostly attributed to the leisure and hospitality, health care and financial services sectors. Manufacturing's new orders rose in December, showing that the industry might be more pessimistic than necessary if some long-term factors – like oil prices and international trade policies – are able to be resolved in 2019. "There are, to some extent, some mixed signals," Kerr said. "Outlooks are dampened . . . but, we're not only seeing weakened indicators going forward, we are seeing some bright spots."

Fewer U.S. Jobs Open in November

Any fears of an impending recession were likely dispelled January 4, 2019 after the Labor Department reported the biggest monthly job gains in 10 months and a wage climb that was the fastest in nearly a decade, showing the near-record economic expansion still has plenty of momentum. U.S. employers added a mammoth 312,000 jobs in December, shattering expectations tamped down by a turbulent stock market that has had analysts raising the "R" word and investors running for safety. Wages, long seen as the missing piece of the expansion, increased 3.2 percent over the year, the biggest gain since 2009. The Labor Department also reported that the nation added nearly 60,000 more jobs in October and November than initially estimated. December's job gains were broad-based, spared across all major employment sectors. Health care added more than 50,000 jobs. Construction, aided by mild weather, gained 38,000. Manufacturers added 32,000 jobs.

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