

## Houston “Has Gotten Juice Again” in Job Growth

With energy and professional service firms leading the way, May was another strong month for job growth in Houston. Employers across the region added 93,300 jobs over the past year, the Texas Workforce Commission reported. The job gains between May 2013 and May 2014 represent a year-over-year increase of 3.3 percent. Houston grew at a 2.8 percent annual rate in December, 2.9 percent in March, 3.2 percent in April and 3.3 percent in May. Houston's job growth remains above the long-term trend. Over the past 10 years, nonfarm payroll employment has grown at a 2.4 percent compound annual growth rate. On a seasonally adjusted basis, the first five months of 2014 have created 49,900 new jobs. If that pace continues for the rest of the year, Houston would be on track to add 120,000 jobs in 2014, a gain of 4.5 percent. While it isn't likely Houston's growth would remain that robust for the rest of the year, it's a pleasant surprise to some of the economists who track the local economy.

Houston's 3.3 percent overall growth rate is second fastest among the nation's 20 most populous metro areas. The Dallas-Fort Worth Metro ranks first, growing at a 3.7 percent rate, and Miami-Fort Lauderdale third, with a 2.9 percent rate. Since January 2010, the bottom of the recession for Houston, the region has gained 407,300 jobs, or 2.6 jobs for every one lost in the recession. Total nonfarm payroll employment stands at 2,883,000 jobs, the highest point in Houston's history. Employment typically experiences a seasonal drop in the summer and then recoups the losses, usually 10,000 to 20,000 jobs, by early fall. The region should surpass 2.9 million jobs by October 2014 and 3.0 million in late 2015 or early 2016.

The economic base – the critical part of the economy that brings in revenue from outside of the region – is back to healthy growth. The economic base includes oil and gas exploration and production, energy support services, fabricated metal and oil field machinery manufacturing, chemicals, refining and engineering. Earlier in the year, the economic base had slowed to a 3-4 percent annualized growth rate but now it's back up to 4-7 percent. Professional services is one of Houston's hottest growth areas. The sector, which includes engineering, computer design and accounting, added 8,900 jobs since December. That represents a 4.5 percent annualized growth rate. Oil and gas exploration and production is also on a robust path, adding more than 1,000 jobs each month this year. Because the sector pays so well – about four times more than the average job in Houston – job gains there have an outsized effect on Houston's economy. Construction, however, has flattened over the past three months. Construction is still growing strongly in utilities, lot development and other infrastructure which is good because we clearly need it.

## NONFARM PAYROLL EMPLOYMENT Houston Metro Area



Here's an overview of job growth by sector:

- **Professional, Scientific, and Technical Services:** Professional, scientific, and technical services added 12,900 jobs, a 6.4 percent increase (vs. 3.8 percent long-term average.) Engineering contributed 6,600 of those jobs, an increase of 9.7 percent (vs. 4.0 percent long-term average.) That suggests that nearly one in every 10 engineering jobs in Houston was added within the past 12 months. The construction boom along the ship channel and in the oil patch continues to drive the demand for engineering services. Computer systems design and related services added another 1,900, a 6.5 percent increase (vs. 3.3 percent long-term average). The need to upgrade networks and invest in IT continues to drive job growth in this sector. Employment services lost 200 jobs in the past 12 months. Since firms tend to take on temps as recovery begins and then convert them to permanent status as confidence in recovery strengthens, a decline in employment services could reflect--at least in part-- recognition that Houston's recovery is well-established.
- **Energy:** The mining and logging sector (in Houston, primarily oil and gas) added 6,100 jobs in the 12 months ending May 2014, a 5.8 percent increase, not far from the 5.9 percent compound annual growth rate (CAGR) of the past 10 years. Exploration and production gained 3,500 jobs, a 6.1 percent increase (vs. a 5.4 percent long-term average). Oil field services added 2,400 jobs, a 5.1 percent increase (vs. a 6.6 percent long-term average). Oil field services employment is growing again, having stagnated toward the end of last year. The harsh winter caused natural gas prices to rise, and unrest in the Middle East lifted crude prices; both events boosted the cash flow of exploration and production companies. The industry used the funds to expand drilling operations. The Texas Railroad Commission reports 13,279 wells were completed in Texas in the first five

months of 2014, up 31.5 percent from 10,437 wells during the same period in 2013.

- **Construction:** The construction sector added 7,300 jobs, a 3.9 percent increase over May 2013 (vs. 1.8 percent 10-year average). McGraw Hill reports that \$11.4 billion in construction contracts were awarded in the metro area January through May 2014. Chevron Phillips, ExxonMobil and Dow Chemical started construction on multi-billion-dollar ethane crackers in recent months. CBRE reports 16.3 million square feet of office space, 7.3 million of industrial, and 2.4 million of retail are currently under construction. These projects should sustain employment in this sector for some time.
- **Manufacturing:** The sector added 7,200 jobs, a 2.9 percent annual increase (vs. 2.2 percent 10-year average). The bulk of the growth (4,800 jobs) occurred in nondurables, including 1,800 in chemicals and refining. Oil field equipment added 1,000 jobs, a 2.4 percent increase, but well below its 6.6 percent long-term average.
- **Financial Services:** The sector created 2,500 jobs, a 1.8 percent increase (vs. 0.6 percent long-term average). Gains in real estate (1,900 jobs) and securities (400 jobs) helped offset losses in banking (-1,000 jobs) and insurance (-400 jobs). Residential brokers sold more than 89,000 homes in the Houston market since last May, and according to data compiled by CBRE, commercial brokers have leased more than 4.5 million square feet of industrial, 7.6 million square feet of office and 455,000 square feet of retail space from Q2/13 through Q1/14.

### Houston Slowing But in a Good Way

Houston fell out of the top 10 in terms of job creation in April, but that's a good thing, believe it or not. Houston ranked 12<sup>th</sup> out of the more than 300 MSAs that are measured by the U.S. Bureau of Labor Statistics' Household and Establishment Surveys. The last time Houston wasn't in the top 10 in job creation was last August. "We are already seeing a slowdown in Houston from incredibly high levels of job growth (last year), but that's a good thing," said Patrick Jankowski, VP Research at Greater Houston Partnership. "Creating 115,000 jobs a year is not normal, not sustainable and not desirable. At 75,000 jobs a year, we can build the homes and pave the roads to support that kind of job growth." The biggest drop in the most recent statistics came in the retail sector, which declined by 2.5 percent compared with a year ago. "In 2012-2013, there was more concentrated job growth in oil and gas and mining," Boyd Nash-Stacey, an economist at BBVA Compass said. "Now it's more spread across a number of sectors."

## Foreign Owned Companies Play an even Greater Role in Houston

Nearly one in every 12 private sector employees in Houston worked for a foreign-owned firm in 2011. That's up from one in 17 workers in 1991. The data was extracted from the *U.S. Metro Areas: The Geography of Jobs in Foreign- Owned Establishments* report for the nation's 20 most populous metros.

Houston ranks:

- First in the share of private jobs (8.0 percent) at foreign owned companies
- Fourth in total private sector jobs at foreign-owned companies
- Fourth in the number of foreign-owned companies

The top five industries for Foreign Direct Investment in Houston (as measured by employment): oil field services (20,100 jobs), petroleum refining (19,100 jobs), architecture and engineering services (16,500 jobs), basic chemicals (11,500 jobs) and management consulting (4,700 jobs). The top five source countries for FDI in Houston: England (45,600 jobs), Switzerland (16,300 jobs), Netherlands (15,100 jobs), France (13,000 jobs) and Canada (11,200 jobs). The study notes that while FDI accounts for only 5.0 percent of U.S. private sector employment, it accounts for 6.7 percent of total compensation, 12.0 percent of productivity growth, 15.2 percent of capital investment, 18.9 percent of corporate research and development expenditures, and 20.3 percent of goods exports. FDI also facilitates the spread of new knowledge, ideas and technology—flows critical to competitiveness and innovation in the global economy. And given the recent surge in FDI—two dozen foreign-owned companies have announced relocations or expansion in Houston since 2011—FDI will play an even greater role in Houston's future.

## Houston Area is Home to Half the Fortune 500 Giants in Texas

Houston handily claimed the most Fortune 500 companies in Texas, according to the magazine's new ranking. Half of the 52 Texas firms on the annual list of the biggest U.S. companies are based in the Houston area. The companies are ranked by annual revenue in 2013 or the most recent fiscal year.

<b>6</b>	Phillips 66	<b>202</b>	Anadarko Petroleum Corp.	<b>368</b>	FMC Technologies
<b>47</b>	ConocoPhillips	<b>203</b>	EOG Resources	<b>395</b>	Targa Resources Corp.
<b>56</b>	Enterprise Products Partners	<b>206</b>	Kinder Morgan	<b>396</b>	Quanta Services
<b>63</b>	Sysco Corp.	<b>207</b>	Waste Management	<b>414</b>	Calpine Corp.
<b>70</b>	Plains GP Holdings	<b>286</b>	Cameron International Corp.	<b>461</b>	Spectra Energy Corp.
<b>103</b>	Halliburton Co.	<b>307</b>	Group 1 Automotive	<b>478</b>	MRC Global
<b>131</b>	NationalOilwell Varco	<b>333</b>	CenterPoint Energy	<b>485</b>	Buckeye Partners
<b>179</b>	Apache Corp.	<b>360</b>	KBR	<b>491</b>	Noble Energy
<b>188</b>	Marathon Oil Corp				

## **Houston's Economy is Closing in on Half a Trillion**

The size of the Houston-Sugar Land-Baytown metro economy is projected to exceed \$500 billion next year. That's the conclusion of two separate studies, one released in June, the other released in January. Houston's economy is expected to grow at an average annual rate of 4.0 percent, reaching \$532.2 billion in 2015, according to a study prepared by IHS Global Insight on behalf of the U.S. Conference of Mayors and released at the Greater Houston Partnership's June meeting. IHS projects Houston to have the eighth fastest growing economy among the nation's 100 largest metro areas. Two other Texas metros made the top 10. Austin placed first with a 4.4 percent growth rate and McAllen-Edinburg (also tied for eighth) with 4.0 percent growth. The Perryman Group is more bullish and forecasts Houston's gross regional product to hit \$627.9 billion in 2015. The firm believes Houston already passed the half trillion dollar mark, with GRP hitting \$532.9 billion in 2013. The report, part of Perryman's semi-annual study of Texas' major metro areas, was released in January. According to IHS, four metro areas account for 76.0 percent of Texas \$1.456 trillion economy: Houston 32.1 percent; Dallas-Fort Worth 30.2 percent; Austin 7.2 percent; and San Antonio 6.5 percent.

## **Unemployment Rate Low**

Houston's May unemployment rate stood at 5.0 percent, among the lowest in the nation. This is up from 4.6 percent in April. The last time Houston's unemployment rate was 5.0 percent was in June 2008. The rate typically ticks up in June and remains elevated in July as teens, college students and educators seek summer jobs. The rate drops again in the fall as they return to school. That pattern is expected to repeat itself again this year.

Statewide, the unemployment rate dipped to 5.1 percent in May from 5.2 percent in April.

## **Jobs May Be Icing on U.S.'s Birthday Cake**

ADP estimates private payrolls grew by 281,000 jobs in June, the biggest jump since 2012. That was up sharply from 179,000 a month earlier and well above expectations. Tweaks to ADP's formula have helped it track official reports more accurately in the past several months. Even so, ADP has missed the government's estimate of total employment growth for five months in a row by 32,000 on average. Before ADP's report, economists polled by the Wall Street Journal saw nonfarm-payroll growth of 215,000 for June. Tacking on the average 32,000 extra jobs seen in the government report to ADP's result on Wednesday would produce the first nonfarm payrolls growth with a three in front of it since January 2012.

## **U.S. Payrolls up as Confidence Returns**

U.S. companies are finally getting comfortable enough with the economy's prospects to add workers at a very healthy pace, after years of saying they lacked the confidence to hire people aggressively amid a fitful recovery. Employers added

288,000 jobs in June, the Labor Department said Thursday, the fifth month in a row that hiring has topped the 200,000 mark. The unemployment rate dipped to 6.1 percent last month, the best reading since September 2008, when the collapse of Lehman Brothers turned what had been a mild recession into an economic rout. Since then, many segments of the U.S. economy have rebounded – including corporate profits, Wall Street and the housing market – even as payroll inched higher at a grindingly slow rate. Now, these broader economic gains are prompting businesses to hire significantly more workers in response to growing demand, rather than taking half steps, like adding hours to stretch existing workforces. The recent healthy level of hiring looks more sustainable now than it has in years. Factoring in June's increase and upward revisions for estimated hiring in April and May, employers added an average of 231,000 workers a month in the first half of 2014, the best six-month run since spring 2006. "We're clicking on all cylinders in terms of job growth," said Dean Maki, chief U.S. economist at Barclays.

### **Skills Shortage means many Jobs go Begging**

Growing numbers of small-business owners say unfilled job openings are thwarting their growth at a time of high confidence in the economy. About 33% of 848 small-business owners and chief executives said they had unfilled job openings in June because they couldn't identify qualified applicants, up from 31% of 811 owners nearly two years ago, according to The Wall Street Journal. During this period, the owners' confidence in the economy increased. The tightening of the labor market is one factor, according to economists. The unemployment rate in June was 6.1%, down from 8.2% two years ago. A shortage of workers with the right skills and experience is also a major impediment. In the latest WSJ survey, 35% of 270 services businesses said they couldn't identify qualified candidates, versus 12% of the 135 manufacturing firms, and 8% of 85 wholesale trade businesses. Overall, 43% of small-business owners said unfilled jobs were impeding their businesses from growth or expansion, compared with 39% in 2012. At establishments with fewer than 250 employees, the average open position was vacant for more than 20 days as of February, a duration 15% longer than two years earlier, according to the most recent data from Dice Hiring Indicators, a provider of specialized career websites that uses Labor Department data for its analysis.

**Sources: Greater Houston Partnership; Houston Chronicle; Wall Street Journal**