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First Report of Job Losses in Houston

Metro Houston lost 400 jobs in April 2015, according to the Texas Workforce Commission (TWC). This modest slippage marks the beginning of the anticipated downturn in total nonfarm employment precipitated by the drop in oil prices that began last fall. Over the 12 months ending April 2015, the region created 69,100 jobs. However, the 12-month total is still propped up by the healthy job growth in the late months of 2014. As Houston moves deeper into 2015, the 12-month total will continue to decline.

Mining and logging (i.e., energy), manufacturing, transportation/warehousing/utilities, finance, real estate and professional and business services all showed significant job losses in April. Healthcare, usually a stalwart, lost jobs as well. Only the retail sector, food services and drinking places, and government showed significant jobs gains. Food services and drinking places added 6,700 jobs in April. However, over the past 25 years the sector has averaged only 2,700 net new jobs in the month of April, so job gains likely are overestimated and will be revised downward, making overall April jobs losses larger than initially reported.

A review of data for the past 12 months suggests that employment in the energy, manufacturing and construction sectors peaked in the fall. From their peaks, energy has lost 4,600 jobs, manufacturing, 5,800 jobs, and construction, 3,800 jobs. Employment services, which includes contract workers, is highly sensitive to downturns in the economy. The sector peaked in August 2014 and has since shed 11,300 jobs.

If one seeks a bright side in the report, Houston's April unemployment rate was 4.0 percent. In the past 35 years, Houston has experienced lower monthly unemployment rates only 20 times. The unemployment rate is a lagging indicator, and if job losses continue, the rate will rise, but right now it's at a near historic low.

Job Creation Machine Presses Harder on Brakes

Houston-area employers are expected to generate a third as many jobs as were predicted earlier this year. Bill Gilmer, Director of the Bauer Institute for Regional forecasting at the University of Houston, said in a semiannual speech on the health of the local economy that after several years of blistering hot job growth, as few as 13,000 local jobs could be created in 2015. That is down considerably from the 40,000 job figure Gilmer was citing publicly earlier this year, reflecting the realities of a precipitous drop in oil prices that have whiplashed the local economy, shuttering drilling rigs and causing thousands of layoffs at some of Houston's largest employers. "We're looking at a longer and deeper drilling downturn than we anticipated," he said. While growth will be limited, Houston should be able to skirt an economic recession, thanks largely to an unprecedented boom in petrochemical plant construction, on the east side of the area, Gilmer said. Still, the slowdown in the upstream energy industry is concerning, said Patrick Jankowski, SVP of Greater Houston Partnership. While white-collar job growth

falls, affecting the west side of Houston's restaurants and gleaming office towers that multiplied during the boom, construction activity on the east side should counteract some of the damage. Gilmer noted some $30 billion worth of petrochemical projects underway in Freeport, Baytown and other nearby areas.

Houston's commercial real estate markets will likely be a mixed bag. While the retail and industrial sectors should remain stable, office and multifamily will feel some pain amid overbuilding. Apartment analyst Bruce McClenny said the dim outlook on job growth does not bode well for the multifamily market. Leasing velocity in new properties has fallen, and landlords have started offering free rent, as thousands of units come online. By year's end, the office market could see its vacancy rate rise to 14.3 percent from 11.1 percent at the end of last year, Gilmer said. Even though a lot of space is new buildings under construction is already spoken for, the companies moving in are leaving empty space elsewhere. With lower job creation, housing demand will moderate, but there are still perhaps 20,000 people who want to buy homes who haven't been able to because of the supply crunch and rising prices. Houston could see annual job growth back at around 60,000 next year if oil prices strengthen and fracturing "remains a healthy industry," Gilmer said. The alternate scenario would be another year at around 15,000 new jobs. "It's a solid long-term growth picture for Houston even if we struggle in the short term," Gilmer said.

Houston Area's Economy Keeps Slowing

A closely watched barometer of Houston's economic health shows further signs of a coming slowdown. The Houston Purchasing Managers Index, which predicts likely shifts in production three to four months in advance, reported Monday that six of the eight underlying economic indicators surveyed are predicting potential contraction. It marked the fourth consecutive month of slower economic activity. Those indicators include sales, production, employment, purchases, lead times and inventory. The index, which in January slipped below the 50-point threshold that generally marks the difference between economic expansion and contraction, fell to 42.7 in April from 44.5 in March. The scale ranges from 1 to 100. The Houston area hasn't seen numbers this low since 2009 when the region was coming out of the last big downturn, said Ross Harvison, Chairman of the Business Survey Committee. The low rig count and drop in investments in exploration and production are contributing to the dip. While the oil and gas portion of the Houston area economy is suffering, the non-energy portion is doing better. Healthcare, for example, was strong in April, according to the survey. And non-energy related manufacturing and construction companies reported relatively little change from the previous month, which indicates a potential for moderate expansion. However, growth in those sectors is not nearly as strong as it was in the middle of last year, said Harvison. It's difficult to know for certain, he said, but some of the non-energy parts of the local economy could be suffering from the slowdown in the energy portion.

Strong Job Growth Figures in U.S. Ease Concerns for Recovery

Blunting worries about the economy's momentum after a stretch of lackluster growth, the government reported Friday that employers added 280,000 jobs in May, well above the average monthly totals logged over the past year. The official unemployment rate

ticked up slightly to 5.5 percent from 5.4 percent, as more Americans dived back in to the labor pool and started actively looking for work. Higher hourly wages, which rose 0.3 percent last month, may have helped lure back some sidelined workers while providing those already on the job with some long-awaited gains. The return of stronger job growth is also likely to strengthen the resolve of the Federal Reserve officials who are hoping to start raising interest rate from their near-zero level later this year. "This is a confirmation that the economy is performing well and the first quarter was an aberration," said Carl Tannenbaum, Chief Economist at Northern Trust. He added that he was encouraged by the growth in wages, which have now risen 2.3 percent over last year. "It's good for workers and also a sign that capacity in the labor market is being utilized more fully," Tannenbaum said. Although the report provides just a snapshot of the economy and is subject to revision, analysts looked to this freshest set of figures to help pierce the confusion over whether the economy's contraction of 0.7 percent during the first quarter of 2015 was a blip, partly a casualty of the harsh winter, or evidence of a more fundamental slowdown. The proportion of the working-age population that is employed – which some economists consider a bellwether of how the economy is performing – rose to 59.4 percent, the highest point since the recovery began six years ago. Still, a broader measure of unemployment, which includes part-timers who want full-time jobs and those who are too discouraged to even search, remained at 10.8 percent, a potent sign that the recovery's gains have not been spread evenly. As a survey in October on families' financial well-being by the Fed showed when it was released recently, nearly two-thirds of respondents said they were either "doing OK" or "living comfortably" with the rest reporting they were "just getting by " or struggling.

Oil Job Cuts Hit 150,000 Worldwide

The oil industry continues to smart from the sting of the global crude collapse as U.S. drillers idled more rigs this week and new data revealed that job losses reached an unwelcome milestone. Crude prices have mounted a modest recovery in recent weeks to stabilize around $60 per barrel from a six-year low of $43-46 in March, but the rebound hasn't been enough to stem the tide of cuts in the oil patch. "The very steep cuts are behind us, but that doesn't mean that we're necessarily at the bottom," said Jim Burkhard, head of oil market research at IHS. U.S. oil fields lost seven more rigs this week, plunging 61 percent from the peak in October and extending the drilling slowdown for a 27th consecutive week, according to weekly data from oil services firm Baker Hughes. Oil companies have responded by slashing budgets and cutting workers. The industry's job cuts reached 150,000 worldwide by the end of May, with the U.S. seeing the "fastest and steepest decline," energy recruiting firm Swift Worldwide Resources said. Hammered even harder is the offshore industry, where projects take longer and are more expensive than in the more-nimble onshore U.S. shale business. Houston-based Helix Energy Solutions this week announced that it will delay taking delivery of a $350 million well intervention vessel by a year until 2017, the latest sign of how the slump continues to diminish the appetite for expensive deep-water projects that take decades to develop. "Everybody is totally rethinking their projects, and the demand for rigs is waning," said Marshall Adkins, Director of Energy Research at Raymond James in Houston, who projects that the offshore industry is about 18 months from rebounding.

With oil prices hovering around $60 per barrel since late April, the market has been trapped in a state of limbo, said R.T. Dukes, a senior Analyst energy research firm Wood Mackenzie. Sustained prices above that point give drillers confidence to press forward with plans for more activity, but anything less than $60 makes them nervous, he said. Still, the dramatic pull-back has yet to slow overall output as companies continue to figure out faster and cheaper ways of pulling crude from dense rock formations by focusing on the sweet spots of shale plays and tweaking their processes. "There's not just one thing, it's a million moving parts, and if you can improve a few of them just a little bit, it ends up being hours off your drill time, Dukes said. The rig count began plummeting last fall after oil prices collapsed and producers began to pull back from marginal or frontier shale plays where the cost to drill outweighed the price they could fetch on the market for crude pumped from the ground. As 974 oil-drilling rigs have gone dark since the peak in October, the industry has learned to wrangle more oil with fewer rigs. "We're seeing costs fall and efficiency rise," Burkhard said. "U.S. production has been pretty resilient in the face of these cuts." Crude demand has started to swell as economies improve and buyers soak up barrels of cheap oil, according to the latest data by the International Energy Agency, but the world still remains oversupplied as the U.S. and OPEC continue to pump more than can be used. The agency this week said global oil supplies will swell again this year, a prediction fueled by data that production by the OPEC grew to a three-year high to 31.33 million barrels per day as Saudi Arabia, Iraq and the United Arab Emirates pump record levels of oil. Unless the supply-demand imbalance begins to change, process probably won't budge much either. "The future is never business as usual," Burkhard cautioned. But absent dramatic events that increase demand or reduce prolific U.S. and OPEC oil output, he expects prices to hover in the $50 to $70 range for the next two years.

Houston Can Still Manufacture Some Jobs

Amid a year of job cuts and oil slump ripple effects, Houston just made the high-end of an encouraging list. Houston ranked as the fifth-highest city in net growth in manufacturing sector employment, according to data prepared by Headlight, a data information system. According to the data, 5,200 new manufacturing jobs came to the Bayou City between 2014 and 2015. Dallas, which grabbed the No. 2 spot, had 6,700 new manufacturing jobs created last year. Detroit experienced the highest manufacturing job growth in the nation with 17,800 jobs created. Of the 322 metros measured, 212 of them grew their manufacturing employment base.

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