Job Growth in Houston Slower than First Reported

Metro Houston created 15,200 jobs in 2015, according to data revisions released in early March by the Texas Workforce Commission (TWC). That's down from the 23,200 jobs TWC previously reported for the year. TWC also revised employment growth for 2014, noting the region created 117,800 jobs at the tail of the recent boom, up from the 104,700 previously reported. The revisions indicate 2014 was the third best year on record for job growth, the two better years being 1981 (126,900 jobs) and 2012 (118,600 jobs). The revisions to 2014 also underscore the momentum which carried Houston well into 2015.

The adjustments came from the annual benchmark revisions, a review that TWC starts each fall, culminating with the release of updated employment data in March. The jobs reports that TWC releases throughout the year are based on a survey sample of area employers. The revised jobs counts released in March are based on data from unemployment insurance accounts, and are therefore more accurate.

Winner and Loser Sectors

Seven sectors reported job losses in 2015—administrative support and waste management; information; mining and logging; manufacturing; professional, scientific, and technical services; real estate; and wholesale trade. The group lost more than 50,000 jobs. Eleven sectors reported job growth—accommodation and food services; arts and entertainment; construction; educational services; finance and insurance; government; health care; transportation; warehousing and utilities; other services; and retail. This group created over 65,000 jobs, more than enough to offset losses in the other sectors.

The revisions confirmed that employment in mining and logging (i.e., energy exploration and oil field services) peaked in December 2014 and that layoffs were steeper than previously reported, the sector cutting 17,700 jobs, a 15.8 percent loss, by the end of the year. Energy lost another 1,900 jobs in January, bringing total losses this down-cycle to 19,600 jobs, a decline of 17.5 percent. So far, oil field services has taken the biggest hit, having lost 14,500 jobs, a 27.5 percent decline from peak, while exploration and production has cut 3,500 jobs, a 6.4 percent decline. Closely tied to energy, engineering has cut 6,700 jobs and wholesale trade has lost 2,400 from December 2014 to January 2016.

Manufacturing employment also peaked in December 2014, having lost 23,800 jobs in 2015. Losses continued in January, with another 1,800 job cuts, bringing total manufacturing job losses this cycle to 25,600, a 9.8 percent decrease. Almost all the losses came in the two sectors closely tied to energy—fabricated metal products, down 10,800 jobs, and oil field equipment, down 10,700 jobs from their peaks. The losses in

fabricated metal equates to one in every six jobs and in oil field equipment one in every four jobs in their respective sectors.

If one sums the jobs losses in mining and logging; manufacturing of fabricated metal products and oil field equipment; wholesale trade; and engineering, energy-related job losses top 50,000. In an economy with approximately 3.0 million jobs, that's about 1.6 percent of total employment.

Several sectors performed well in 2015. Houstonians continued to dine out; food services and drinking places added 18,900 jobs. The health care sector continues to benefit from a growing and an aging population, adding 15,000 jobs last year. The chemicals construction boom continued unabated. Heavy and civil construction added 7,100 jobs and specialty trades contractors (e.g., pipefitters, welders, and electricians) added another 5,700. And local school districts hired an additional 6,200 educators and administrators.

TWC has also reported employment data for January 2016. The Houston metro area lost 50,800 jobs in the month, a 1.7 percent decline. The losses were expected. The region always reports job losses in January, as workers hired for the holiday season are laid off, projects with year-end deadlines are finished, and personnel decisions made in the fall are acted on after the first of the year. Losses in January typically range between 35,000 and 65,000 jobs, with 45,000 being the 25-year average.

Energy Update

The U.S. Energy Information Administration's (EIA) March 2016 Short-Term Energy Outlook projects West Texas Intermediate (WTI) to average $34 a barrel in 2016 and $40 in 2017. Last March, EIA expected crude would now trade near $70 a barrel. EIA wasn't the only forecaster to miss the mark. In January of last year, the NYMEX futures market priced crude for March 2016 delivery at $56 a barrel. As recently as August 2015, Wells Fargo expected Brent, the global equivalent to WTI, to now trade near $59 a barrel. On March 1, WTI on the NYMEX spot market closed at $32.74.

When prices began falling from their June 2014 peak, conventional wisdom held that as exploration firms drilled fewer wells, U.S. production would quickly decline, supply and demand would quickly re-balance, and prices would recover. Conventional wisdom failed to account for improvements in methods and technology, a better understanding of shale geology, increased efficiencies of rigs and crews, and the industry concentrating on only prospects with the highest potential. As a result, initial output from shale wells has tripled and in some cases quintupled in recent years, which explains why U.S. production has not declined as rapidly as initially anticipated.

But the North American rig count has recently fallen to such a low level that even with improvements in methods and technology, production has begun to decline. Baker Hughes reports that the U.S. rig count fell to 489 the first week of March. Of those, only 389 were drilling for oil. That's down from 1,601 at the September 2014 peak. The permit data reflects a similar decline. The Texas Railroad Commission issued 510 drilling permits in January, down from 1,102 issued in January 2015 and 1,791 issued in January 2014. EIA now forecasts U.S. production to average 8.7 million barrels per day (b/d) in

2016 and 8.2 million b/d in 2017. EIA reports that crude oil production in February averaged 9.1 million b/d which was 80,000 b/d below the January level.

Global production and consumption will likely rebalance sometime in 2017, but that won't necessarily translate into a significant increase in prices. The International Energy Agency estimates that global inventories exceed 3.0 billion barrels and those inventories must be drawn down significantly before the markets tighten and prices increase.

More Cutting in the Oil Patch

Sagging oil prices spurred a fresh round of layoffs and spending cuts at major Houston energy companies. Halliburton will cut 5,000 more jobs worldwide, while Apache announced it will slash capital spending by 60 percent over last year after posting a $7.2 billion quarterly loss. EOG Resources reported losses as well and revealed a plan for cutting capital spending by 45 to 50 percent over last year. Cobalt International Energy will cut 50 jobs at its headquarters in the Memorial City area. The news comes on the same day that the company reported a net loss for both the fourth quarter and the year, while indicating more job cuts likely are coming. Affected employees will be given 60-days' notice and severance assistance. The job cuts will begin no earlier than April 30th.

Anadarko Petroleum, a resilient U.S. oil company that barreled through the 2009 oil-market crash with its payroll fully intact, is finally giving in to market forces and cutting about 1,000 jobs companywide. Those employees, about 17 percent of Anadarko's workforce, are the latest casualties of an energy downturn that has cost the industry more than 320,000 jobs worldwide since late 2014. Oil producers have contributed to a fifth of the global energy cuts, joining oil equipment makers, rig contractors, refineries and pipeline operators. Earlier this month, Anadarko said it would cut its U.S. rig count by 80 percent to just 5 drilling rigs, and it would cut its capital spending in half, which would force its oil and natural gas production down 3 percent this year. Anadarko became the biggest employer in The Woodlands with more than 3,800 local employees after moving there fourteen years ago.

As oil producers grapple with stubbornly low commodity prices amid a worldwide supply glut of crude, they are scrambling to save money. That means everything from job cuts to squeezing oil field services companies for price cuts. Services companies, in turn, face reduced demand for their products and continue to shed jobs. "We are faced with the difficult reality that reductions are necessary to work through this challenging market environment," Halliburton said. After the cuts, Halliburton projects it will have reduced its global head count by as many as 27,000 employees since its peak in 2014. Halliburton's latest round of belt tightening will target benefits instead of jobs. The Houston-based oil services company will trim retirement packages, executive bonuses and other office perks. The shift is intended to preserve an already-diminished workforce that will be key to reviving business when oil prices eventually rebound. Halliburton will reduce its contribution program for 401K plans. The company will still fully match the first 4 percent of an employee's contribution and half of the next 2 percent. It will eliminate an additional 4 percent contribution that it had been making at the end

of each year. Halliburton said its managers will face other cuts. Base salary cuts for executives and senior managers made in 2015 will continue into 2016, and bonus opportunities for managers have been cut sharply or eliminated.

Similar cuts could be coming to other energy companies, said Michael Abbott, a partner at Gardere who specializes in employee benefits. A 401K contribution is "the one thing that they can cut that's not as painful as an employment termination, and certainly not as painful as a direct compensation cut," Abbott said. Halliburton reported a loss of $28 million for the three-month period ending December 31st due to impairment charges from asset write-offs and severance pay for laid-off workers. Apache noted that it slashed spending, trimmed day-to-day expenses and reduced debt. Apache had about 20 percent fewer workers at the end of 2015 than it did at the conclusion of 2014.

Employment Lawsuits Jump in the Oil Patch

Lawsuits related to layoffs and job reductions in the oil patch have dramatically increased during the past 10 months, creating a boom for labor and employment attorneys. Employment complaints filed in the Southern and Western federal court districts of Texas hit all-time highs in 2015. And job-related filings in the first six weeks of this year in federal courts in Texas are up as well. "Any time there is a termination of employment, there is a risk of litigation," said Ron Chapman of Ogletree Deakins. "Given the layoffs in the industry, it's not a surprise that employment litigation has increased." Chapman and other labor and employment lawyers say the increase in suits over back wages, age discrimination, unpaid overtime and the status of independent contractors directly tracks layoffs by oil and gas companies.

Complaints filed under the Fair Labor Standards Act started spiking early last year. The number of FLSA lawsuits filed in the Western District, which has jurisdiction over the major drilling towns in the Eagle Ford Shale and Permian Basin, nearly tripled from the first quarter of 2015 at 31 to the second quarter with 90 and have remained at the heightened pace since. But in raw number, no region in Texas has seen more actual employment lawsuits filed than the Southern District of Texas which is headquartered in Houston. This district saw a record-breaking 515 FLSA cases in 2015 up from the previous high of 467 such cases in 2013. Already, 74 complaints were filed in the first six weeks of this year.

The growing use of independent contractors by oil and gas companies, especially those in the services sector, is a significant source of litigation. Lawyers for workers contend that employers misclassify many employees as independent contractors as a means to avoid basic employment laws in order to save money. "When they're labeled as contractors, they get no overtime, benefits, health insurance, social security and FICA taxes and the government is getting less tax revenue than it would" Said Allen Vaught, a lawyer at Baron & Budd in Dallas. Lawyers say they also have seen a rise in litigation under the Workers Adjustment and Retraining Act, a 1988 law that requires an employer of 100 or more employees to provide workers a 60-day notice of mass layoffs or plant closures so they have ample time to search for other jobs. Nick Spiliotis, a partner in Jackson Walker's Houston office who represents businesses, said he has seen a jump in employment litigation against construction and hospitality businesses with significant operations in communities where oil and gas is a major employer.

U.S. Jobs Report Show Hiring's Been Brisk

The government reported employers added 242,000 workers in February, a hefty increase that highlighted the labor market's steady gains. Four years ago, at this point in the last presidential election cycle, the jobless rate was 8.3 percent and the economic recovery was in a relatively early stage. Now, the recovery is in its seventh year, the unemployment rate is holding steady at 4.9 percent and the private sector has chalked up 72 months of uninterrupted job gains, the longest streak on record. Oil prices may still be causing ulcers, but this time it is primarily producers who are feeling the pain because prices have plunged.

The shadow on the otherwise positive Labor Department report was that wages fell 0.1 percent in February, a disappointment after January's promising 0.5 percent increase. That put the yearly growth in wages at 2.2 percent, only slightly ahead of the inflation rate. The average length of the workweek declined by 0.2 hours last month. Perhaps the most encouraging sign in the monthly statistics was evidence that people who had long been sidelined were being lured back to the job market. The overall share of Americans in the labor force ticked up 0.2 percentage points to 62.9 percent. Robust demand for hospitality and service workers has been helping keep total job growth count up despite losses in manufacturing, transportation, warehousing and energy industries that also tend to be dominated by blue-collar white men. The manufacturing sector, for example, lost 16,000 jobs last month.

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