

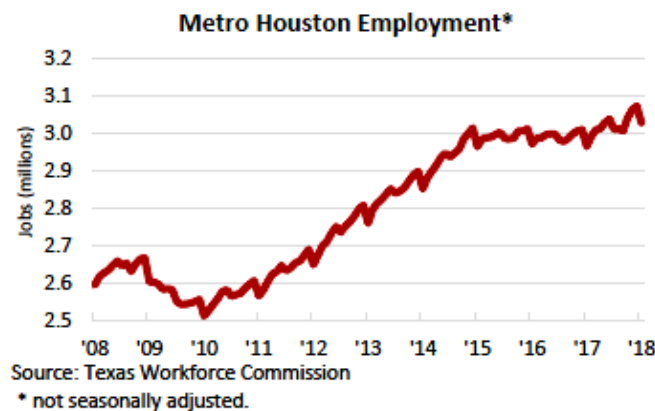
January Employment in Houston

Metro Houston lost 45,400 jobs in the month of January. The seasonal loss was to be expected. Job losses occur every January without exception due to the conclusion of holiday-related seasonal jobs and adjustments to population estimates by the Bureau of Labor Statistics. Historically, Houston loses an average of 43,900 jobs in January, indicating this year's loss was on par with the long-term average.

TWC Revises Job Growth

Metro Houston created 62,900 jobs in '17, according to the benchmark revisions released in early March by the Texas Workforce Commission (TWC). That's up from 46,000 jobs in TWC's original estimate. The revisions included minor adjustments to '13 and '14 and major adjustments to '15, '16 and '17. Earlier estimates showed Houston created jobs in '15 and '16. The revisions now show Houston suffered minor job losses in those years. The sobering reality made evident by the revisions is that employment in Houston was flat for more than two years. The good news is that the region has begun to grow again, albeit at a much slower pace than Houstonians are accustomed to.

The peak in energy employment remains unchanged (December '14) and the losses were revised only slightly upward (-86,400 vs. -85,200). That equates to one in four Houston energy jobs disappearing in the downturn. Though the U.S. rig count has rebounded from its low of 404 in May '16 to 984 in early March '18, the energy sector has recouped only 7,400 of the lost jobs. The gains have been in oil field services and oil field equipment manufacturing. Exploration and production continued to cut workers through the end of '17. Given that the industry continues to grow U.S. production (up 1.2 million barrels per day since December '16) while cutting staff, Houston's energy sector is unlikely to see significant job growth in the near future.



TWC revised job growth in five sectors significantly upward, indicating they performed much better in '17 than first reported:

- Trade, transportation, and utilities (+11,000 jobs)
- Construction (+8,900)
- Professional and business services (+7,200)
- Leisure and hospitality (+6,700)
- Mining and logging (+2,600)

TWC revised job growth downward in four sectors, indicating they performed worse than first reported:

- Educational and health services (-9,000)
- Manufacturing (-5,400)
- Government (-4,300)
- Financial activities (-1,200)

Job growth was tepid through much of '17, the region having created only 2,400 jobs by August. In a normal year, Houston should have created 10,000 to 20,000 jobs by then. In a boom year, growth would be 30,000 to 50,000 jobs by August. Activity always picks up in September, even in a recession. Teachers return to their schools. Merchants hire for the holidays. Firms, slow to act in the summer, add to their payrolls in the fall. Houston should create 5,000 to 10,000 jobs in a typical September, but not in '17. Hurricane Harvey came onshore in late August. Little business was transacted in Houston leading up to landfall and for at least two weeks after. The result: Houston posted a loss of 5,700 jobs in September and employment growth turned negative for the year. Once the storm passed, businesses reopened, employees returned to work, and recovery efforts were underway. Houstonians started rebuilding their homes and replacing storm-damaged furniture and clothing. Families living in hotels and house holds without kitchens ate at local restaurants and cafés. Businesses took on contract workers to help with the cleanup. And wholesale filed their warehouse and added to their payrolls to better serve the growing retail and construction trade.

Q4/17 proved to be the best fourth quarter on record for overall job growth in Houston. The region added 66,200 jobs the last three months of the year. Construction, retail, restaurants, wholesale trade and employment services set records for job growth in the quarter. Granted, some of the Q4 job growth resulted from hiring that didn't occur in September being rolled into October. But even if one subtracts anticipated September growth (10,000 jobs) from Q4/17, the region experienced its second best quarter.

FOURTH QUARTER JOB GROWTH
Metro Houston, Selected Sectors

Sector	Q4/17	Previous Q4 Peak	Q4 Avg.* '92 - '16
Region Total	66,200	57,500 ('14)	32,900
Construction	7,000	4,900 ('07)	2,500
Retail	21,500	18,500 ('12)	15,800
Wholesale Trade	2,800	2,800 ('14)	1,300
Employment Svcs	4,500	900 ('92)	400
Restaurants	7,400	3,500 ('08)	1,000

* Calculated using only years in which jobs were created in Q4.
Source: U.S. Bureau of Labor Statistics, Partnership calculations

How many jobs can we attribute to Harvey recovery efforts? If one simply subtracts long-term average Q4 job growth from Q4/17 job growth, the result suggests that Harvey accounted for 33,300 jobs. It also suggests that without Harvey, the region might have added as few as 29,600 jobs, which is pretty close to the Greater Houston Partnership's forecast of 29,700 jobs for '17. Robert W. Gilmer, director of the UH Bauer Institute for Regional Forecasting, estimates the job impact from Harvey could be as high as 36,000 jobs and that job growth in '17 driven by fundamentals may have been only 27,000 jobs. Clearly, Harvey provided a boost to the economy—a common occurrence in the wake of a major disaster.

The long decline in manufacturing has ended. From the December '14 peak to the October '17 trough, the sector lost 45,800 jobs. Manufacturing finished '17 with a net gain of 3,400 jobs. The gains came in the manufacture of oil field equipment and fabricated metal products. Transportation, warehousing and utilities reported a net gain of 2,300 jobs. The sector typically adds 3,000 to 4,000 jobs a year, so the subpar growth underscores that Houston's economy has not fully recovered. Real estate added 3,000 jobs, its strongest performance on record. Half of the growth came in Q4, likely the result of apartment owners hiring staff to handle the influx of tenants displaced from their homes by Harvey. The outlook for architectural and engineering services began to improve early in the year, the sector finishing '17 with the first net gain since '14. The 12,500-job gain in employment services (*ie.*, contract workers) equates to one in every five jobs created in '17. Health care services reported a loss of 1,400 jobs, a sharp turn for a sector that created more than 50,000 jobs over the previous five years. It's also the first time health care ended the year with fewer jobs than when it started. Loss at area hospitals more than offset gains in ambulatory health care (clinic, outpatient centers, etc.) Reasons for the losses: uncertainty over the fate of the Affordable Care Act, pressure from both insurance firms and patients to control costs, the loss of energy jobs with generous benefits packages, and turmoil caused by the resignation of several high-profile CEOs who managed local health care systems.

While 2017 ended up with stronger job growth than first thought, the revisions also showed that oil bust took an even bigger toll on local economy in 2015 and 2016. Instead of the small gains reported earlier, the region shed jobs in both 2015, when oil prices collapsed, and 2016, when prices bottomed at \$26 a barrel and a tentative recovery began. The region lost 2,500 jobs in 2015 and 2,200 in 2016. "While oil was stabilizing at the end of 2016," said Harvey, "we were still losing oil and gas related jobs." The Texas Workforce Commission also reported that Texas added 16,000 jobs in January, after gaining just 400 in December and 54,000 in November. Texas added 240,500 jobs over the past year, an increase of about 2 percent.

The Long Term Outlook

The Peryman Group, a Texas-based economic and financial analysis firm, recently released its latest GDP, population and employment forecasts. The group expects the Houston metro area's GDP to grow at a compound annual growth rate (CAGR) of 3.1 percent from '15 to '40 and reach \$998.8 billion in '40. The fastest growing sectors during this period are projected to be in management of companies and enterprises (4.3 percent CAGR), administrative and support and waste management (4.0 percent), and health care and social assistance (3.9 percent). Houston will continue to account

for approximately 30 percent of the state's GDP throughout the forecast period. The Peryman Group expects Texas' GDP to grow at an annual rate of 3.2 percent from '15 to '40, outpacing the U.S. rate of 2.7 percent. The firm sees Houston's population growing at a CAGR of 1.6 percent from '15 to '40, reaching 9.9 million in '40. Wage and salary employment is expected to increase 1.7 percent annually to 4.7 million in '40. The Houston metro area is forecasted to add 3.3 million residents and an additional 1.6 million jobs during this period, accounting for 28.0 percent of Texas' population growth and one-fourth of the state's employment gains.

Unemployment Rate Dropped

Houston's unemployment rate was 4.8 percent in January, up from 4.3 percent in December but down from 5.8 percent in January '17. Texas' unemployment rate was 4.2 percent in January, up from 3.7 percent in December but down from 5.0 percent in January '17. The U.S. rate was 4.5 percent in January, up from 3.9 percent in December and down from 5.1 percent in January '17.

Hiring Surge in U.S.

Whether you work on Wall Street or in a warehouse, behind a cash register or on a construction site, the jobs report released by the government Friday offered some good news. A winning combination of hefty job creation and a swelling workforce signaled the economy's fundamental strength. At the same time, modest wage growth defused concerns that competition for workers was driving up salaries and igniting inflation. In all, the nation added 313,000 jobs in February, the most since July 2016, with impressive gains across low, middle and high wage industries. For the fifth month in a row, the jobless rate remained unchanged. And hundreds of thousands of people streamed into the job market, confounding analysts who have insisted that the pool of potential workers has been depleted. And on Twitter, President Donald Trump relayed the news in a capital letter: "JOBS, JOBS, JOBS!" The U.S. economy added 313,000 jobs in February, according to the latest employment report from the Bureau of Labor Statistics, smashing analysts' expectations. But the strong growth did not boost wages. For workers, the modest 0.1 percent rise in average hourly earnings was disappointing. Some of those gains were reversed in February, leaving the 12-month average at 2.6 percent, higher than last year's average, but still below what many economists think a tight job market should yield.

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