What's in Store for 2016?

This year has been a challenging one for Houston. Oil prices continued the slide begun in 2014, briefly slipping below $40 a barrel in August. More than half the U.S. drilling rig fleet has been mothballed and now operates at its lowest level since May 2002. The energy industry continues to lay off workers. And the recent construction boom appears to be winding down. The question now on everyone's mind: Is Houston headed for a recession?

Major Projects in the Works for Manufacturing & Transportation Sectors

The Houston-The Woodlands-Sugar Land metro area created 6,400 jobs in September, according to the Texas Workforce Commission (TWC). Houston area employment peaked at 2,992,600 in December 2014, slipped well below that level in the spring, and has struggled to regain that summit ever since.
Several sectors have reported significant losses from the employment peak, while others have reported healthy gains. Sectors with the greatest year-to-date job losses include trade, transportation and utilities (-15,000), manufacturing (-14,200) and energy (-4,000). Sectors with the largest jobs gains so far this year include health care (+11,400), accommodation and food services (+12,500) and arts, entertainment and recreation (+3,000). Unfortunately, the gains have not been enough to offset the losses. Total nonfarm payroll employment in Houston stood at 2,983,400 in September, down 9,200 jobs since the first of the year.

While Houston maintains its status as the Energy Capital of the World, some of its most recent economic growth activity has been in the manufacturing and business services industries, with transportation and logistics not far behind. For example, Japan-based Daikin Industries plans to consolidate its Texas and Tennessee operations at a new $410 million campus in Hockley, which is northwest of Houston. At 4.1 million square feet, the new facility will house thousands of employees and is expected to include one of the largest and most technologically advanced heating, ventilating, and air-conditioning manufacturing facilities in the country. Daikin first entered the Houston area when it bought Houston-based Goodman Global Group for almost $4 billion in 2012. Another big project is Houston-based developer McCord Development's 4,000 acre Generation Park at the northeast corner of Beltway 8 in the Lake Houston area. FMC Technologies, a Houston based oil and gas equipment manufacturer, is building its new corporate headquarters on 173 acres in the business park, which will consolidate its local operations and move up to 1,400 employees there next year.

Cheap natural gas is driving billions of dollars of new chemical investments. Between 2010 and 2023, chemical companies have committed $100.2 billion to new expansion projects in the U.S., according to the American Chemistry Council. The vast majority of these projects are in the Houston area and support manufacturing and small business, adding jobs to the local economy. Some of those projects include Exxon Mobil's investment in a multibillion dollar ethane cracker in Baytown, while Chevron Phillips Chemical Company is investing in an ethane cracker at its Cedar Bayou Plant in Baytown and two polyethylene units in Old Ocean.

In the transportation sector, the Port of Houston Authority's $68 million dredging projects at two container terminals at Bayport and Barbours Cut are expected to attract larger ship containers that come through after the Panama Canal expansion. About $35 billion in public and private investments have been funneled into the channel's infrastructure. George Bush Intercontinental Airport is undergoing a multibillion dollar makeover and has added eight International carriers in the last two years. Hobby Airport added a five gate international terminal funded by Southwest Airlines, which leases four of the gates. Houston continues to prepare for when the 2017 Super Bowl comes to town with renovations of the Gorge R. Brown Convention Center, which will be connected to the city's second convention center hotel, the 1,000-room Marriott Marquis. The Houston Metro also has added 10 miles of new light rail lines, totaling about $1.3 billion.

In the healthcare and technology sector, Texas Medical Center's TMCiX, its new life science accelerator, has invited 22 startups from all over the world to join it first class, which is expected to stimulate innovation and commercialization in an area that has been suggested could form the core of a new Silicon Valley. The companies will be to implement their technologies into one of the largest health care ecosystems in the world. We continue to top the census for adding residents in one of the fastest-growing cities in America.

Two Texas Refiners See Profits Jump

Production companies continue to feel plenty of pain from sharply lower oil prices. But those crude prices have ushered in good times for independent refiners, including San Antonio's Valero Energy and Tesoro. In the quarter ending September 30th, Valero Energy's net income jumped 30 percent while Tesoro's profit jumped 91 percent. Valero attributed the results to higher margins on the gasoline it makes, along with solid demand. CEO Joe Gorder said that so far this year, Valero has invested $1.7 billion back into the business. Analyst Roger Read of Wells Fargo Securities told clients in a note that Valero's "increased devotion" to enhancing shareholder returns has allowed the company "to be among the leaders of the pack among independent refiners over the last 12 months and year to date." Looking ahead, Gorder said there is "seasonal pressure" on margins now, but demand is strong, contributing to his favorable outlook for 2016. At Tesoro, the largest refiner in the Western U.S., net income from continued operations jumped to $759 million or $6.13 a share.

Hiring Surges in U.S.

Hiring at U.S. companies shifted into higher gear in October, helping to lift wages and clearing the path for the Federal Reserve to raise interest rates next month. The 271,000 jump in payrolls reported by the Labor Department on November 6th was much more robust than expected and suggested that the economy had enough strength to allow the central bank to begin its move away from the crisis-level interest rate policy it has been following for nearly eight years. Fed officials were poised to raise short-term interest rates from near zero earlier this year, but they held off as economic conditions overseas worsened and domestic job growth slackened in August and September.

The unemployment rate dipped to 5 percent, from 5.1 percent in September. Average hourly earnings also bounced back, rising 0.4 percent in October after showing no increase in September; that lifted the gain to 2.5 percent over the last 12 months, the healthiest rate since 2009. Despite the increase in pay last month, most workers will need bigger raises for some time to come to make up for ground lost after a long period of wage stagnation. At the same time, many Americans remain on the sidelines of the job market, discouraged by years of lackluster hiring after the Great Recession. The proportion of Americans who are in the labor force, which fell to a 38 year low of 62.4 percent for September, was unchanged last month. Still, at 5 percent, the unemployment rate is very close to what would normally be considered the threshold for full employment by the Fed and many private economists. The slack that built up in the labor market after the recession, however, has changed traditional calculations of how far unemployment can fall before the job market tightens and the risk of inflation rises. The Labor Department's broadest measure of unemployment, which includes workers forced to take part-time jobs because full-time work is unavailable, fell to 9.8 percent in October from 10 percent in September. A year ago, it was over 11 percent.

U.S. Pay Rose at Modest Pace

U.S. workers' paychecks grew at a moderate rate over the summer, showing little sign of accelerating from the sluggish growth that has persisted since the recession ended. The employment cost index, which tracks wages, salaries and benefits, rose 0.6 percent in the July-September quarter from the April-June quarter, the Labor Department said. That is stronger than the second quarter's 0.2 percent gain. Yet in the past 12 months, pay and benefits have risen just 2 percent. That's below the 3.5 percent to 4 percent typical of a healthy economy. The modest annual gain is a sign that companies are still able to find the workers they need without offering much higher pay. That suggests the job market is not yet back to full health.

Federal Reserve officials consider wages a key indicator of the economy's health. A sustained pickup in wages would be a sign that the unemployment rate might not fall much further. As the unemployment rate declines and gets closer to levels consistent with a strong economy, employers typically are forced to raise pay to attract and keep workers. But so far that trend hasn't kicked in. In the past year, employers have added 2.2 million new jobs and the unemployment rate has fallen from 5.9 percent to a seven-year low of 5.1 percent. Even so, wage gains remain sluggish.

Oil & Gas Companies Reported Losses

Some sectors – technology, healthcare, finance – are enjoying conditions that echo the booming 1990s or the housing bubble a decade ago. Things could not be more different in areas of the economy that depend on commodity prices, like the oil and gas industry, which is cutting jobs amid an energy price downturn. Manufacturers, too, have felt headwinds as the strong dollar and weakness in China have hurt sales overseas.

More oil companies on November 5th reported the bleak financial fallout from a big crude price drop in the third quarter, even as the price of a barrel continued a fairly steady streak so far into the final three months of the year. At least four Houston-based independent oil producers – Apache, EOG Resources, Linn Energy and Marathon Oil – reported losses. And offshore driller, Transocean, which like other oilfield services companies draw its customers from the ranks of producers, said it will reorganize to operate as a smaller company with a smaller rig fleet. U.S. benchmark West Texas Intermediate crude exceeded $60 a barrel on several days in May and June, leading to speculation that prices had stabilized after a months-long slump. But it fell as low as $38.24 a barrel during the third quarter, recovering to a narrow range around $45 so far in the fourth quarter.

Balance sheet carnage swept away summer profits for Occidental Petroleum and Anadarko, two Houston-area oil producers, and for Norway's Statoil. The trio took a combined $5.4 billion in pretax impairment charges in the third quarter, writing down the value of the oil fields they've excavated and the ones they're exploring. Company officials said they're bracing for a prolonged downturn, announcing plans to keep cutting costs and describing efforts to drill more efficiently. New York-based Hess said it will cut capital expenditures next year by as much as 29 percent.

Prolonged pain in the oil patch could pry loose bargains in the oilfield services sector at a time only a few companies still have the financial strength to take advantage of the deals. National Oilwell Varco said it is positioning itself for a significant buy as the lingering crude slump opens the door on more opportunities for mergers and acquisitions, a rare announcement in an industry marred by falling oil prices and a collapse in the U.S. rig count. The fourth quarter is expected to bring fresh trouble to companies that already cut back significantly. For larger firms with healthy balance sheets like Houston-based oilfield equipment supplier NOV, it's a prime time to bid on distressed assets and companies. Oil behemoth Schlumberger is another company capable of more deal making, Bill Herbert, an analyst at Simmons & Company International in Houston said. After announcing plans to spend $12.8 billion buying up Houston oil tool maker Cameron International earlier this year, CEO Paal Kibsgaard hinted that it may seek out additional assets. The revelation that NOV may be gearing up for a large purchase comes as oilfield services giants Halliburton and Baker Hughes continue to sell off pieces of their businesses in an effort to gain regulatory approval for their nearly $35 billion merger. Another major oilfield services company, Weatherford, is shying away from deals, announcing it has pulled itself out of the running for acquiring the divested Baker Hughes-Halliburton businesses.

The oil market collapse, which has claimed thousands of Houston jobs and devastated the city's petroleum industry, is practically a comfort zone for Exxon Mobil. So far, they have escaped the worst of the downturn, watching from behind a fortress of cash as its rivals scrap major drilling projects and cut deep into budgets and payrolls. But it isn't corporate voodoo that has kept Exxon Mobil levitating above all of that. The company's structure and culture help it ride out price busts, which almost always follow times of plenty in the global oil market. Among its largest rivals, Exxon Mobil makes the most money and produces the most oil for every dollar it spends, and it puts out the biggest bounty of oil and natural gas- both in absolute terms, and for every worker it employs. Even in good years, it senior managers are required to cut costs out of the business, and it gets more from its expensive projects than all of its Big Oil competitors. The company has avoided mass layoffs, even as its rivals Chevron, Shell and BP plan to cut a combined 18,500 jobs this year.

2015 Houston Chronicle's Top Houston Workplaces

Perks played a role in propelling companies to the top among Houston's places to work. For some employers, that meant offering benefits such as on-site gyms, cash for getting fit, and extending health care coverage to domestic partners. Others offered their employees deals on football tickets, teeth cleaning and apartment rents. Listed below are the top 5 companies in each category.

<u>Large Companies</u>

1. **Anadarko** – on-site physician and medical staff, and cafeteria with healthy foods, laundry services, car-detailing service, basketball court, gym with education reimbursement, and flex work hours with 9/80 schedule
2. **Plains All American Pipeline** – honest approach, solid compensation and benefits, culture encourages employees to speak up, employees feel valued
3. **EOG Resources** – employee buy-in program, employees encouraged to experiment with new ideas, autonomy, employees feel appreciated and allowed freedom for personal and family issues
4. **Insperity** – flexibility to work from home and leave for personal events during work hours, trusted to get work done without being micromanaged, PTO quarterly to volunteer
5. **Southwestern Energy** – free private security for employees, 9/80 schedule, leaves of absence, freedom to use new ideas

<u>Midsize Companies</u>

1. **Neighbors Emergency Center** – company outings (paintball, bowling, go-karts), free meals daily
2. **Edward Jones Investments** – family atmosphere, autonomy, lack of micromanagement
3. **Cheniere Energy** – team environment, training programs
4. **Hunting Energy Services** – Subsea Division – monthly staff meetings, community outreach, student mentoring program, open and clear communication from management, camaraderie
5. **Hilcorp** – bonuses of up to $100,000 regardless of job level, teamwork, employees recognized for hard work

Small Companies

1. **Texas Saffire** – no job titles, play area for employees' children, family atmosphere, Christmas and back-to-school bonuses
2. **King's Biergarten & Restaurant –** 401(k), health insurance, discounted gym membership, employee appreciation outings, giveaways
3. **Realty One Group Lone Star** – supportive, family-like environment, community outreach
4. **Red Door Realty & Associates** – flexibility for schedule/family life, larger cut of sales, warm and nurturing office environment, training sessions
5. **W&B Service Co.** – gift cards/employee incentives, fun atmosphere

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