Better Times Ahead?

The worst may be over for the energy industry. The price of crude has more than doubled from its February trough. The North American drilling fleet has added more than 150 rigs over the past five months. Announcements of layoffs in the oil patch are less frequent.

But other sectors of Houston's economy continue to struggle. Construction has tapered off. Retail sales have slipped. Vehicle purchases are at their lowest level in five years. Sales tax collections trail last year's pace. Fewer passengers are flying out of Bush Intercontinental Airport. And million-dollar homes go unsold in The Woodlands.

Local Job Growth above Historic Patterns

The Houston metro area added 14,500 jobs in September, according to the Texas Workforce Commission (TWC). While the reported job growth is a bit above historic patterns, it's not substantially higher. Over the past 25 years, September job gains have ranged from 5,000 to 18,000, averaging 10,000. The average of the past five years is 13,100. In the 12 months ending September 2016, the region has created 20,100 jobs. The data suggest that the low point of the current downturn occurred May 2016, when the region's 12-month gain was just 3,200 jobs. Not once in the recent downturn has the 12-month change been negative.

The bulk of the September growth (18,800 jobs) occurred in local public education, a subsector of local government. Over the past 10 years, local education has added an average of 16,500 jobs in the month. Given Houston's recent population growth and the current stage of the business cycle—public education always lags every other sector by a year or two—September's robust job growth is not surprising. Houston benefited from the 1,600 jobs added in health care in September. That sector continues to generate employment opportunities. As long as people continue to move here, have babies here, and grow old here, that sector should continue to add jobs. Construction also added 1,600 jobs in September, but growth in the sector will taper off in the coming months as the office, multi-family and chemical plant construction booms wind down. The loss of only 300 jobs in manufacturing, a sector that cut 2,000 to 3,000 jobs a month in 2015 and early 2016, suggests the worst may be over for manufacturing. Job losses in wholesale, retail trade, finance, insurance, real estate, and other services partly offset gains in the other sectors. Retail always loses jobs in September before adding them back in October, November and December. The weakness in wholesale is symptomatic of the weakness in the energy sector and energy-related manufacturing. The drop in finance employment is part of ongoing restructuring as the industry tries to remain profitable in a low-interest environment.

The losses in accommodation and food services are no surprise. Like retail, the sector always loses jobs in September before adding them back over the remainder of the year. A common misconception is that TWC's employment data reflect full-time/40-hour-a-week jobs. In reality, the data only reflect individuals on payroll, whether they work 20, 40 or 60 hours in a week. The employment loss in accommodation and food services may reflect the departure of part-time help, primarily high school and college students, who leave the payroll when they return to school in the fall.

Job Creation Picks up the Pace in Texas

Job creation accelerated in Texas in September as the oil industry started to shake off its slump, indicating that the state's economic engine might be revving up again after two years of slowing growth. The Labor Department reported Friday that Texas added about 38,000 jobs last month, the biggest monthly gain in two years, and boosted the rate of job growth over the past year to 1.7 percent from 1.5 percent in each of the past four months. The unemployment rate edged up a tenth of a percent to 4.8 percent, below the national rate of 5 percent in September.

The leisure and hospitality sector led the state's growth with 17,900 more jobs, after contracting in August, followed by government employment, adding 6,700 jobs, and professional and business services, which added 6,000. Oil and gas employment remained essentially flat. Nationally, oil and gas employment was also flat, ending two years of steady declines. "It looks that we're getting multiple confirmations of a bottom here," said Parker Harvey, regional economist with Gulf Coast Workforce Solutions. "We're on the road to turning positive." The energy sector appears to have hit bottom this summer and begun a slow recovery as oil prices have risen from a low of about $26 a barrel this winter to more than $50. Production companies returned another 14 drilling rigs to U.S. oil and gas fields boosting the rig count.

U.S. Delivered Solid Job Growth

The U.S. economy delivered another month of solid job growth in October, continuing a long and steady expansion that is finally boosting the wages of American workers and even helping the sluggish Texas economy pick up the pace. In its last report before the presidential election, the Labor department said that the economy generated 161,000 new jobs in October, the 74th consecutive month of job growth since the labor market began expanding near the end of 2010. Unemployment slipped to 4.9 percent while increased competition for workers helped push wages up nearly 3 percent over the past year – the fastest rate of growth in seven years. Nationally, oil and gas employment has essentially held steady over the past four months, according to the Labor Department. In earnings reports over the past few weeks, energy executives have called a bottom to the oil bust, saying that the industry appears to have hit bottom in around mid-year and begun a slow, tentative recovery. The Fed also revised its growth forecast for 2016 through the end of the year up to 1.5 percent, which would exceed the rate for 2015. It's a quick turnaround from earlier in the year, when economists were forecasting that the energy recession would drag down the state well into 2017. Much of Dallas Fed's optimism comes from broader trends that are positive for manufacturing, the service sector, retail and energy.

Workers' Pay Climbing Nationally

Workers at construction sites, hotels and restaurants have enjoyed solid pay raises in the past 12 months. So have employees of utilities and telecom firms. Finally, after years of stagnant pay, more American workers are receiving meaningful raises – a trend driven home by the government's October jobs report. Average hourly pay surged 10 cents an hour last month to an average of $25.92. Earnings rose 2.8 percent year-over-year, a level not reached since 2008. The job market appears much healthier now, a sign that the plodding seven-year recovery is now providing some critical relief for workers. "The main reason it took a long time for this to show up is that the recession was so deep," said Stephen Stanley, chief economist at Amherst Pierpont Securities.

Unemployment is a low 4.9 percent. For a sixth straight year, the country is on track to add more than 2 million jobs. After years of such steady job gains, fewer people are seeking work. As a result, many employers have felt compelled to raise pay to attract or keep staff. Some sectors of the economy are exceeding the national average for pay raises. Hotel and restaurant workers are earning 4.6 percent more than a year ago. Employees in the information sector – which includes telecommunications and data processing – are taking home 5.2 percent more. Utility jobs are paying 4.2 percent more. Construction wages are up 3.2 percent. "It's clear that wage growth is accelerating," said Stuart Hoffman, chief economist at PNC Financial Services, who estimated continued gains as employers set their budgets for the start of 2017. Still not all categories of employers are handing out big raises. Pay at retailers is up just 1.4 percent this year – just half the increase for the economy as a whole. The retail industry cut 1,100 jobs during October. But analysts said that was due mostly to hurricanes and other storms that caused stores to close and lay off workers. From September to October, average hourly wages fell slightly for rank-and-file workers. This suggests that wage gains may be favoring managers instead of, say, cashiers.

Still, the momentum points to wage growth across the broader economic spectrum because fewer people are searching for work. The vast generation of baby boomers has begun retiring, and the growth of the workforce has slowed. During the first month of 2010, there were roughly 5.5 unemployed people for each job opening. That figure has since declined to 1.3 people for each job opening, thereby strengthening the bargaining power of workers. At the same time, rising minimum wages have boosted incomes for the lowest-paid workers. The result is that pay is rising for the bottom 40 percent of earners for the first time since the Great Recession.

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