

Houston is Back on Top

The Houston economy has large recovered from the two-year oil downturn that began in 2014 and economic indicators suggest solid growth ahead for the region, according to analysis by a University of Houston economist. The local economy, after struggling in recent years, is again adding jobs at a strong pace, supported by oil prices and a robust national expansion, said Bill Gilmer, an economist with the university's Bauer College of Business. The metropolitan economy has picked up speed since the end of last year, when tens of billions of dollars in federal aid and insurance payments flooded into the region to rebuild after Hurricane Harvey hit in August 2017. Gilmer said the biggest plus for Houston's recovery was a strong U.S. economy, which has created jobs for 97 consecutive months and pushed the unemployment rate to 3.7 percent, the lowest in almost 50 years. The local economy is now much more closely linked to the U.S. economy, Gilmer said, and as long as the U.S. economy performs well, so will the economy in Houston.

The nine-county metro Houston area created 117,800 jobs in the 12 months ending October '18, a 3.9 percent increase. That's the largest gain of any U.S. metro area over the corresponding period. Dallas-Ft. Worth ranked second, followed by New York, Phoenix and Seattle. The U.S. added 250,000 jobs in October and 2.5 million jobs over the past 12 months, a 1.7 percent increase. Since the end of the Great Recession, payroll employment in the U.S. has grown by more than 20 million. The Houston jobs data should be taken with a grain of salt, however. First, the October 12-month total includes November and December '17, months in which Harvey recovery efforts stimulated the local economy. Construction, retail, restaurants, wholesale trade and employment services set records for growth at the end of '17. As Houston moves into '19, those months won't be included in the 12-month calculations and the Texas Workforce Commission (TWC) will likely report lower numbers. Second, other indicators suggest a less-robust economy.

- A rule of thumb holds that Houston absorbs one apartment for every six jobs created. Houston has absorbed only 12,000 apartment units in the 12 months ending October '18, a period which also includes a surge in apartment leasing driven by Hurricane Harvey evacuees.
- Office leasing activity should also be stronger. Through the first nine months of '18, the market logged 1.7 million square feet of negative absorption.

- The employment component of the Houston Purchasing Managers Index, a leading indicator of regional economic activity, is trending downward. In May, the employment index was 61.7, in October 53.6. Readings above 50 signal expansion, below 50 contraction.

Metro Houston has added 646,000 jobs since the end of '09. Job growth was stronger immediately after the Great Recession, plateaued during the energy downturn and resumed again post-Hurricane Harvey. Sectors adding the most jobs in Houston since January '10 include food services, administrative support services, construction, healthcare and social assistance and professional scientific and technical services. Not all sectors have grown. Today, Houston has 10,000 fewer jobs in oil and gas extraction than it did in January '10, 4,800 fewer in computer and electronics manufacturing, and 4,100 fewer in telecommunications.

Tight Labor Market Could Pose Threat

As wages rise and workers grow harder to come by, companies have no choice but to pay them more. That has implications for the local economic expansion, which could decelerate as the low 3.8 percent local unemployment rate makes qualified workers harder to hire. Plus, with wages climbing, the Federal Reserve Bank of Dallas is concerned that increased costs will hurt growth. With the local economy in growth mode, metropolitan Houston is a haven for job seekers. More than 100,000 jobs have been created this year alone. In all, the area offers more job opportunities than 35 states, according to the Greater Houston Partnership. But the Dallas Fed reported in its recently released Beige Book that although widespread job growth continues in Texas, "labor markets remained very tight, with most contacts reporting difficulty hiring and several saying the lack of qualified candidates was impeding growth. The closely watched report, released in October, found that labor shortages spanned most sectors and all skill levels, with the greatest prevalence in mid-skilled positions such as blue-collar workers in manufacturing, construction and energy, as well as truck drivers.

Manufacturing activity in October in the Houston region expanded for the 13th consecutive month, according to a report released last week by the Institute for Supply Management. Wages for manufacturing jobs have been climbing steadily for several years. Since January 2016, average hourly manufacturing wages locally have increased from \$19.17 to \$22.40, almost 17 percent, according to the GHP. The petrochemical manufacturing sector estimates it will need to hire at least 4,500 workers over the next four years to operate and maintain the petrochemical manufacturing plants in the region. Construction companies in Texas are especially feeling the pinch. Seventy-eight percent are having trouble finding qualified craft workers as local construction employment

reached record levels, according to a survey this year by Associated General Contractors. Wages have increased 10 percent over the year. Competition for hiring and retaining employees at the Texas Medical Center is fierce. There are about 10,000 open positions and half of those jobs require less than a bachelor's degree. The Medical Center is notorious for job-hopping as a higher salary can be just steps away. For years, hospitals have struggled to find enough nurses, but now technical positions such as lab technicians and even information technology workers are getting harder to fill. Memorial Hermann has expanded a tuition reimbursement program it developed initially to recruit nurses and is now using it to fill lab technician and information technology positions. Lori Knowles, CHRO at Memorial Hermann, said that 95 percent of employees who take advantage of the tuition reimbursement program stay at Memorial Hermann. Meantime, health care pay continues to rise. "Wages have increased 2.5 to 3 percent, but nurses are going 4 to 6 percent per year higher," Knowles said. Memorial Hermann has about 1,850 job openings.

Texas Economy Slowing Down

The Texas economy, once growing at a blistering pace, is showing signs of slowdown, according to a survey by the Federal Reserve Bank of Dallas. While both the manufacturing and retail activity continued to expand in November, they advanced at a notably slower pace. The Texas economy, still one of the fastest growing in the nation, has slowed in recent months, in part because it just couldn't maintain the sizzling pace of earlier this year as labor markets have tightened and made it more difficult to find workers. Manufacturers also cited political uncertainty after Democrats won control of the US House, and tariffs imposed on steel and aluminum imports weighing on their outlook. The state's factory activity continued to expand in November, but at a markedly slower pace. The production index has been positive since July 2016, but shipments and new orders fell to a 20-month low. More than two-thirds of manufacturers said they weren't getting qualified applicants and had to increase pay and benefits to recruit or retain workers, compared to 49 percent a year ago.

Feds Find U.S. Labor Market at Capacity

The U.S. labor market doesn't have much more room to tighten, according to a new study from the Federal Reserve Bank of San Francisco that examines trends in the number of Americans who are working or looking for jobs. "Our estimates indicate that the aggregate labor force participation rate is at its trend as of 2018," the region Fed bank concluded in an Economic Letter published November 19, 2018. "Combined with the low unemployment rate, this argues that the U.S. labor market is operating at or beyond its full potential." Labor force participation measures the share of people aged 16 or older who are in

work or seeking employment. It started declining in the U.S. around 2000 and the trend accelerated during the 2007-2009 recession, though the rate has since steadied. The gauge offers a hint of where the economy is operating relative to full employment: if it had room to increase, that would give employers a wider pool of potential candidates to hire and the labor market would be less tight than the jobless rate suggested. Central bankers care about that because an overly tight labor market could spur higher wage gains that eventually show up as unwanted inflation. U.S. unemployment is currently three percent, the lowest level since 1969, though inflation remains at the Fed's two percent target. The study noted the labor force participation rate since 2015 had stabilized around 62.8 percent. After examining the underlying changes in the U.S. population, including in terms of age and of education attainment, it concluded this level represents the long-run trend level of labor force participation. The study also predicted this would decline about 2.5 percentage points over the next 10 years.

2 Houston CEOs Make Fortune's 2018 Most Powerful Women List

Two top executives from the greater Houston area have been named to Fortune's 2018 Most Powerful Women list. Rising four spots on the ranking of 51 women, Vicki Hollub, President and CEO of Occidental Petroleum Corp, came in at No. 28. Meanwhile, Lisa Davis, a member of the managing board of Germany-based Siemens AG and chair of the company's U.S. business unit, is a newcomer to the list and ranked No. 31. This year's list of the most powerful women in the U.S. was compiled by Fortune editors and they considered four factors: the size and importance of the woman's business in the global economy, the health and direction of the business, the arc of the woman's career (resume and runway ahead), and social and culture influence.

Sources: Littler Mendelson P.C.; Houston Chronicle; Houston Business Journal; Wall Street Journal; Greater Houston Partnership