

Economic Update

Houston entered the recession in August 2008 (eight months after the U.S.) and it appears to have ended in September 2009 (three months after the U.S.) based on the Purchasing Managers Index (PMI), rig count, air passenger traffic, vehicles sales, home sales, and employment. The recovery in employment did not begin until February 2010. This does not suggest that conditions are ideal or that the economy is operating near capacity. Houston's recovery has been much like that of the U.S. so far – a clear bottom but only a gradual return to growth. Given that oil has generally traded between \$70 and \$80 a barrel for the past 13 months, it's somewhat surprising that Houston's recovery hasn't been stronger. Nationally, the Great Recession has been exacerbated by the Great Uncertainty – the unknown impacts of healthcare reform, new financial regulations, possible cap-and-trade carbon legislation, and the pending expiration of the Bush-era tax cuts. Houston continues to deal with uncertainties of its own – the impact of the offshore drilling moratorium and potential layoffs at NASA. In spite of all that, Houston's recovery has begun. The question remains: how long before consumers feel comfortable spending and businesses feel comfortable investing and hiring again?

The Texas Workforce Commission reports that the 12-month job loss for the Houston-Sugarland-Baytown Metro Area fell to 900 jobs, or less than .1 percent, from August 2009 to August 2010. As recently as November 2009, the 12-month job loss stood at 103,800 jobs. The loss has declined consistently over the past eight months and if the trend continues Houston's 12-month job count should turn positive next month.

Employment in Houston peaked at 2.62 million jobs in August 2008, declined for 16 months to 2.51 million in January 2010 and began to slowly improve in February 2010. Employment now stands at 2.54 million jobs.

Private sector employment continues to recover. The region added 5,700 private sector jobs in August 2010. The 12-month loss has fallen to 6,300 jobs this year compared to a 12-month loss of 71,500 jobs the same time last year. Since January 2010, the private sector has added 49,600 jobs. The economy is into recovery and employment is beginning to rebound.

Several sectors continue to perform well. Healthcare added 8,700 jobs over the past 12 months and 22,500 jobs since the recession began. Oil & gas extraction added 2,500 jobs over the past 12 months and 4,200 since the recession began. Manufacturing continues to recover, having added 4,500 jobs since the first of the year. Demand is especially strong for manufacturing workers, including engineers, welders and machinists.

Nationally, consumer spending rose in August and incomes increased by the largest amount in eight months. The income gain was propelled mostly by the government's short-term extension of unemployment aid, not wage gains. A big jump in government building projects lifted construction spending in August that offset the weakest level in private construction

spending in 12 years. Manufacturing activity expanded in September for the 14th straight month although it was the slowest pace in 10 months. The reports point to an economy that is growing, but at a sluggish rate and not fast enough to drive down the 9.6 percent unemployment rate. Consumer spending rose .4 percent in August. Consumer spending accounts for 70% of total economic activity so until it returns to a stronger pace, the rebound from the recession will be held back. Spending isn't likely to see a big gain until income growth accelerates. Consumers are spending, saving, and making money moderately which points to a moderate economic growth. The overall economy grew at an annual rate of 1.7 percent in the 2nd quarter 2010 and economists expect it to be 2 percent for the remainder of the year. Applications for unemployment benefits in Houston fell the past four weeks which is a sign of declining layoffs. Private-sector layoffs in August were at the lowest monthly total in more than four years.

The Princeton Review and Entrepreneur Magazine rate University of Houston as the No. 1 undergraduate entrepreneurship program in the country. The Wall Street Journal ranks Rice University's MBA program No. 19 among the Top 25 in the nation.

Veros Real Estate Solutions projects Houston as having the nation's strongest home price appreciation over the next year. It attributes Houston's relatively low unemployment to an increase in home prices in the third quarter and sees that trend continuing. Houston-Sugarland-Baytown is expected to see a 3.8 percent increase in home prices over the next year, more than any other U.S. city.

Legal Update

Are You Saving On Wages Costs By "Rounding" Work Time?

For many years, some employers have chosen to "round" non-exempt employees' work time in computing wages. This is emerging as another recurring claim in the continuing flood of lawsuits filed under the FLSA. As an enforcement policy, the U.S. Labor Department says that it will not challenge an employer's practice of rounding starting and stopping times to the nearest 5 minutes to the nearest tenth or quarter of an hour in calculating an employee's pay. However, Department of Labor cautions that this is acceptable only if the practice averages out so that employees are properly paid for all of the time they actually work. The DOL's position is that, under any rounding system, employees must be paid for at least as much time as they have actually worked overtime over the long-term.

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