

Houston's Economic Growth Accelerated in 2012

Houston's economic growth accelerated in '12, according to data recently released by the U.S. Bureau of Economic Analysis (BEA). Adjusted for inflation, Houston's gross domestic product (GDP) grew 5.7 percent in '12. That's on top of 3.7 percent growth in '11, and it's more than double the U.S. growth rate in both years. Since '09, the bottom of the recession in Houston, the local economy has grown by \$92.9 billion. At the end of '12, after inflation has been accounted for, the region's economy was 12.7 percent larger than it was three years earlier. This should surprise no one. Houston added 81,200 jobs in '11 and another 105,900 in '12. Oil and gas exploration, oil field services, and manufacturing accounted for 58 percent of the region's growth in '12. These three sectors accounted for one in five jobs created in '12. Wholesale and retail trade accounted for 17.4 percent of GDP growth, that sector added 11,300 jobs. Professional and business services accounted for 12.5 percent of the region's growth and added 15,000 jobs. Construction accounted for 8.8 percent and added 9,300 jobs. Houston's 5.3 percent GDP growth was second fastest among the nation's 20 most populous metros. San Francisco, which grew 7.4 percent based on a surge in IT investments, ranked first. Midland and Odessa recorded the fastest annual growth rates, 14.4 and 14.1 percent respectively, but their combined economies are one-seventh the size of Houston's. The nine-county metro now has the fourth largest economy in the nation, behind New York, Los Angeles and Chicago. With 2.0 percent of the nation's population, Houston accounted for 3.2 percent of the nation's GDP in '12. Houston's economic might is impressive in a global context as well. If the nine-county Houston metro area were an independent nation, it would have the world's 25th largest economy. At the rate Houston's expanding, the region should continue to move up the list of the world's largest economies.

Houston's Labor Force Participation Rate Drops

Houston's population 16 years old and older grew by approximately 400,000 between '08 and '12, according to the U.S. Census Bureau's recently released *American Community Survey (ACS)*. Economists refer to the percentage of the over-16 population employed or looking for work as the labor force participation rate. Between '08 and '12, Houston's rate fell 2.2 points. The drop has occurred across all race and ethnic groups and all age groups but one. The share of the population in the workforce over 65 years of age ticked up, presumably the result of the Great Recession impacting nest eggs and forcing some to delay retirement. While 2.2 points may seem like a small drop, it has significant implications for the region. If the rate hadn't slipped, Houston might have an additional 93,000 residents in the labor force. Depending on how many were employed, that could mean an unemployment rate in the double digits, a region with nearly 2.9 million jobs, or something between those two extremes. There's a paradox here. Houston has created 306,100 jobs since the bottom of the recession in January '10. It has one of the strongest economies in the nation. Total employment is higher now than ever before. And employers complain about worker shortages. Yet the labor force participation rate is lower now than in the depths of the recession. The U.S. labor force participation rate (seasonally adjusted) peaked at 67.3 percent in January '00, was 65.8 percent at the recession's onset, and

stood at 63.2 percent in August. Economists attribute the national decline to several factors, all of which apply in Houston to some extent.

- The Baby Boom generation has begun to retire. In Houston, the population over 65 years of age grew by 97,000 between '08 and '12.
- The share of the population collecting long-term disability, to which some turn when unemployment benefits expire, has expanded. The number of Houstonians between 18 and 64 claiming a disability grew by more than 40,000 between '08 and '12.
- Enrollments in colleges and universities have soared. In Houston, the number of students enrolled in post-high school education grew by more than 100,000 between '08 and '12.
- A segment of the population has given up looking for work. BLS estimates nationwide there are 2.3 million discouraged workers and workers marginally attached to the workforce. Nationwide, BLS estimates one in every 60 workers fits the definition.

The drop in labor force participation impacts Houston in various ways. It limits the region's growth; shifts the tax burden to a smaller share of the population; quality of life for labor force dropouts declines. The Perryman Group forecasts the Houston region to outpace the nation in job growth over the next 25 years. Bottom Line . . . those seeking employment have a better chance of finding a job here than almost any other place in the U.S.

Houston Area is Hitting it's Stride Again

After a summertime lull, the Houston-area economy is picking up steam. Houston employers reported a jump in employment and a drop in inventory levels during September, indicating a stronger economy, the Institute for Supply Management – Houston reports. The group surveys about 80 companies across a wide variety of industries each month in the Houston area. The index is based on eight factors including sales, production, employment, prices and inventory. Employment in Houston had already been at a high level earlier in the year but it dropped in May and again in July but now appears to be on the rebound. Another good sign is that purchased inventory levels are falling. A dip in purchased inventory levels (materials used to build something else) indicates supplies are being used faster than they can be replaced. Sales of finished products are also coming up slowly over the last couple of months.

Local Economy Expands Faster than U.S.

The latest round of data makes it increasingly apparent that the Houston economy is slowing down. Houston-area employers added 80,700 jobs between August 2012 and August 2013, the Texas Workforce Commission reported. That represents a 3 percent year-over-year gain. While that is healthy growth, it's not the same kind of growth Houston experienced last year. 51,000 jobs were created during the first eight months of 2012 compared to 26,000 new jobs during the same period this year. Other evidence reinforcing the trend includes a local unemployment rate that is stuck in the 6 percent range; several months of lackluster data from

an influential purchasing managers' survey; and a dip in the number of work hours in manufacturing. Oil & Gas has slowed down, it was growing 8.2 percent this time last year but is growing only 4.2 percent now. The economic base (driver that brings new money into the region) includes oil & gas exploration & production and support activities that are required to run those businesses; manufacturing of equipment and chemicals; and architectural & engineering services. Bill Gilmer, Director of Institute for Regional Forecasting at University of Houston, predicts Houston will finish the year with about 74,000 new jobs, for a 2.6 percent growth rate. Next year, he's looking for 65,000 new jobs which would be a 2.3 percent gain. That's still much better than the U.S. trend which is closer to a 1 percent year-over-year increase.

Unemployment Claims

U.S. unemployment claims fell close to their lowest level in six years. Applications for unemployment benefits fell 5,000 to a seasonally adjusted 305,000 the week of September 16, 2013. This is the fewest since September 2007, three months before the Great Recession began. In addition, the National Federation of Independent Business has said the percentage of small businesses that plan to add workers rose this month to the highest level since January 2007. The U.S. unemployment rate in August was 7.3 percent. The Texas Workforce Commission reported the Houston area unemployment rate dipped to 6.1 percent in August down from 6.5 percent in July. The rate typically dips when students go back to school in August. The unemployment rate in Texas fell to 6.4 percent in August down from 6.5 percent in July. The rate is not seasonally adjusted.

Bigger Raises Make it a Good Year

The good local economy is paying off for Houstonians, who can expect higher than average raises next year. The average raise in Houston will be 3.6 percent next year, compared to 2.9 percent for the national average, according to Mercer that surveyed nearly 1500 large and midsize companies. This year, Houstonians got an overall 3.7 percent bump, compared to the nationwide average of 2.8 percent. The data includes white and blue collar workers. A significant driver is the predominance of the oil & gas industry, which is on top when it comes to salary increases. Nationwide, the oil & gas sector will pay the biggest raises, 4.1 percent next year. For employees in oil & gas exploration and production nationwide, average raises will be 4.7 percent. It's a supply and demand phenomenon, petro-technical employees are in short supply and companies are recruiting from each other. A continued wave of foreign investment in the upstream markets is also pushing up wages. The money is being used to launch new companies that need to acquire talented workers, and that is having an inflationary effect on wages. 99 percent of companies report they are giving their employees raises, while less than 1 percent have said they're not.

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