Houston Economy Appears to Stabilize

The Houston economy appeared to stabilize in August as the employment growth rate accelerated – ever so slightly – for the third consecutive month and the oil and gas industry pared job losses. The region gained 14,200 jobs from August 2015, compared with year-over-year growth of 13,300 in July, 8,400 in June, and just 3,200 in May, according to data released by the U.S. Labor Department. Meanwhile, the pace of job losses in the mining and logging sector, dominated here by oil and gas companies, slowed. The sector shed 11,300 jobs from August 2015 following year-over-year job losses of 13,400 in July, 13,500 in June and 14,000 in May. "It's very, very tentative, but you've got June, July, August – enough points there that could be a trend," said Parker Harvey, regional economist with Gulf Coast Workforce Solutions.

The energy sector has shown signs for recovering in recent months as oil prices have rebounded from a low of $26 a barrel in February, recently hovering between $40 and $50 a barrel. Rigs have slowly returned to the oil fields, particularly in the Permian Basin in West Texas. The Texas Workforce Commission said that the mining and logging industry shed just 200 jobs last month, compared with 8,000 in February. Houston relies more heavily on the energy sector than the state or nation as a whole, and the oil bust has left the regional economy lagging behind.

The big losers in the jobs report were the construction (-2,400 jobs) and manufacturing sectors (-1,500 jobs). Construction employment will soften as office and chemical plant work winds down. The big winners were education and health care (+3,600 jobs); trade, transportation, and utilities (+3,200 jobs); and professional services (+1,600 jobs). The job gains in TTU came primarily from retail as merchants began hiring to fill stores recently opened. The job gains in professional services came mainly from employment services (i.e., contract workers), an industry in which job gains and losses are highly correlated with Houston's business cycle. Mining and logging (i.e., oil and gas extraction and oil field services) gained 1,200 jobs. The industry probably didn't create that many jobs in August. More likely, TWC adjusted August employment data to compensate for overestimating job cuts earlier in the year. Government shed 5,100 jobs in August, in line with the five-year average of 5,000 jobs lost in a typical August. The sector usually adds 15,000-20,000 jobs in September as teachers and administrators return to work. Education employment will likely reach a new peak this fall.

The region, however, has not recouped the seasonal loss of 47,800 jobs that occurred in January 2016. Layoffs of this magnitude occur every year as workers hired for the holiday season are dismissed and restructuring decisions made in the fall are acted upon. As growth resumes in February, the region usually returns to its previous employment peak by May or June. That hasn't been the case this year. Though Houston has recorded net employment gains in five of the past seven months, those gains have not been enough to offset January's losses. The region remains 27,500 jobs below its previous peak. September through December are typically strong months for job growth in Houston. Payrolls expand as stores, hotels, restaurants and bars hire additional help for the holidays, transportation firms hire drivers and package sorters for the shipping season, school districts and universities contract for additional staff to handle larger fall enrollments, and businesses take on temporary workers to help meet year-end deadlines. In boom times, Houston may add 40,000 to 60,000 jobs in the latter part of the year. In lean times, 18,000 to 20,000 jobs are typical. Given the historical pattern, and the suggestion from the data in this month's jobs report that the worst of the local layoffs are over, Houston may finish the year with a slight net job gain.

Texas Adding Jobs

The area's unemployment rate has risen nearly a point over the past year to 5.8 percent in August, compared with 5 percent statewide and nationally. Texas experienced another solid month of employment growth in August, adding 21,400 jobs after gaining more than 23,000 in July. The state has added more than 190,000 jobs over the past year, a growth rate of 1.6 percent. The state in August added jobs in both services and the goods-producing sector, which includes the oil and gas industry and manufacturing. Goods-producing industries have shed 3.1 percent of employment over the past year as the plummeting oil market dragged down manufacturing as well. It's unclear whether this uptick signals a sustained recovery – the numbers were also positive at the end of last year before resuming a decline. Financial activities were especially strong statewide, adding 6,200 jobs mostly on the strength of the real estate business, which has been buoyed by rising incomes and low interest rates.

National Economy Showing Signs of Resilience

As an election season defined by fears about jobs and wages enters the final stretch, the U.S. economy looks a bit more resilient than some campaign rhetoric might suggest. Employers added 156,000 jobs last month, the Labor Department said, enough to accommodate new entrants to the labor force and entice back workers who dropped out after the Great Recession. The unemployment rate, which has been stuck at 4.9 percent since the spring, ticked up slightly to 5 percent. For all the anxiety at home as well as turmoil abroad, the U.S. job machine continues to hum along. Average hourly earnings moved higher by 0.2 percentage point last month, bringing the wage gain over the last 12 months to a decent 2.6 percent. Before the report, economists on Wall Street looked for the economy to add 172,000 jobs in September. Revisions for July and August showed that 7,000 fewer jobs were created in those months than the Labor Department first estimated. "There are still plenty of unemployed people out there, enough for employers to continue to hire at a substantial pace," said Michael Gapen, chief U.S. economist at Barclays. "The expansion will end before you run out of labor," added Gapen, who estimates that the unemployment rate could drop to 4 percent by the end of 2017. The participation rate inched up to 62.9 percent, which explains the rise in the overall jobless rate to 5 percent. Moreover, the labor force itself jumped by nearly half a million, a bright spot in an otherwise steady-as-she-goes picture of the economy.

Since the start of the year, the nation has added an average of 178,000 jobs a month, less robust than the average monthly gain of 229,000 in 2015 but still a healthy reading given the longevity of the recovery and the overall unemployment rate. Gapen attributed most of September's dip in job creation, which was below both the consensus forecast and the annual average, to a surprising 11,000 drop in government payrolls. The public sector added more than 50,000 positions in July and August, and Gapen said the private sector's relative strength was what counted, not a slow-down in government hiring. Tens of millions have barely felt the benefits of recovery. And despite robust hiring in late 2015 and much of 2016, notable pockets of economic weakness remain, more than seven years after the start of the current recovery, especially in the oil industry and some industrial sectors. The proportion of Americans in the labor force remains near 40-year lows, a sign that workers who gave up on finding jobs in recent years are only slowly returning to positions at malls, offices, factories and other workplaces. But with many prime-age workers still available to be hired – what experts and policymakers at the Federal Reserve blandly term "labor market slack" – the current pace of hiring should be able to continue without much threat of overheating the economy. Those two contrasting realities – healthy hiring and falling unemployment on the one hand, millions of economically sidelined Americans on the other – sustain the narratives of Hillary Clinton and Donald Trump. Friday's report, which was generally strong, continued fodder for both presidential candidates. The jump in participation, along with healthy gains in higher-paying professional services fields, bolsters Clinton's case that the economy is growing steadily and creating decent-paying jobs. The drop in manufacturing jobs by 13,000 will underscore fears among blue-collar voters that their livelihoods are imperiled, a main factor in Trump's appeal.

Prospect of Job Growth Darkens in Oil & Gas

In a surprise twist from previous projects, oil and gas employment is not expected to rebound over the next decade, according to the latest biannual analysis by the Texas Workforce Commission. While Texas overall is on track to grow by 20.7 percent between 2014 and 2024, little changed from the last forecast, the state agency now estimates that the mining sector will shrink by 16.8 percent over that period. Occupations like drilling rig operators and roustabouts in particular appear headed for a sharp decline, after a prediction two years ago of more than 30 percent growth between 2012 and 2022.

Although the projects can't predict future economic shocks, like geopolitical disruption or breakthrough technologies, they do take into account variables like employment growth and increasing labor productivity. For that reason, professionals like health care and food service are expected to expand by 32.2 percent and 30.5 percent respectively over the decade ending in 2024. For the last few years, the story around oil and gas workers has been hopeful. While layoffs have taken a big toll over the past few years as oil prices plunged, employment would rise again once the industry recovered. Companies would then have to scramble to hire people, paying high wages and mobilizing colleges to pump out more petroleum engineers and platform technicians. But the mining industry has been spending its down time getting dramatically more efficient, developing rigs that pump more oil with fewer people. If current trends continue – and they very well might not – the Workforce Commission anticipates that the state could lose some 50,000 jobs in the mining industry between 2014 and 2024. More than that has already been lost since 2014, meaning that the industry could see slight growth over the next eight years.

In the Houston area, the situation is only slightly less dark, with mining employment expected to drop 14 percent. Local manufacturing, which is closely tied to the oil and gas industry, here, is projected to grow by only 1.9 percent over the same period.

In response to a query, the Texas Oil and Gas Association did not dispute the projections, saying only that the industry is "central to our lives and our economy, supporting some of the best paying jobs in the state and nation."

While oil and gas is still an important driver of the Houston-area economy and Texas overall, it's not the only one. The overall projected 20.7 percent job growth rate in Texas would exceed the record-breaking growth of the decade between 2004 and 2014. The Workforce Commission is expecting a 22.4 percent growth rate for the Houston area, only slightly off its 2014 projection, with big gains in professional and business services and healthcare.

We're Not Who We Once Were

Houston has become smarter, more ethnically diverse, and a bit older in recent years, but we still spend an hour a day commuting to and from work. At least that's what the most recent American Community Survey (ACS) tells us about the region.

Hispanics will soon overtake Anglos as the region's largest ethnic or racial group. The transition should occur within the next two years. On average, the Hispanic population grows by 65,000 residents each year, the Anglo population by 9,000. In 2015, the gap between the two populations was fewer than 55,000 residents. Hispanics have accounted for more than half the region's population growth since 2005, Asians and blacks around 17 percent, and whites just over 7 percent. No single race or ethnic group has represented a majority of the region's population since the late 1990s. Among the U.S. metro areas, Houston has the nation's fourth largest Hispanic population, seventh largest black, seventh largest Asian, and 12th largest Anglo.

Houston is growing older. In 2005, the median age for the region was 32.9 years. By 2015, it had risen to 34.1. Still, Houston has a younger population than the nation, where the median age is 37.8 years. Houston is also the youngest among the ten most populous metros. The population balance has begun to shift. Children, adolescents and teenagers represented 31.2 percent of Houston's population in 2005 but only 29.3 percent in 2015. Seniors (i.e., residents 65 and older) represented only 7.7 percent of the population in 2005 but 10.1 percent of the population today.

Houstonians' average educational attainment is higher today. Ten years ago, 78.7 percent of Houstonians 25 and older either had graduated from high school or had earned their GED certificate. Today, 82.3 percent have. Likewise, in 2005, 27.8 percent held a bachelor's or higher degree. Today, 31.5 percent of the adult population does.

Congestion remains a problem. The ACS reports that 3.0 million Houstonians commute to work each day, up from 2.3 million in 2005. Ten years ago, 78.3 percent of all commuters drove alone to work. Today, 80.7 percent drive alone. Only 2.2 percent of

Houston commuters use public transit, down from 2.8 percent in 2005. The share of Houstonians who work at home rose from 2.9 to 3.7 percent over that period. Average travel time to work in 2015 was 30.2 minutes, up from 28.1 minutes in 2005.

One in every 18 adults served in the U.S. military. The ratio jumps to one in six for adults over 65. Gulf War veterans (115,000) compose the largest group, followed by Vietnam era (91,000), and Korean War (21,000). Fewer than 10,000 World War II veterans still live in Houston.

Disabilities are common among the population. One in ten Houstonians responded to the ACS that they have some form of impairment (e.g., hearing, vision, ambulatory, cognitive, self-care or independent living). That ratio jumps to one in three for residents over 65. Some residents have multiple disabilities.

Incomes have outpaced inflation. The median household income was $61,465 in 2015, meaning half of all households earned more than that amount and half earned less. The median house-hold income for Houston was $46,706 in 2005. Adjusted for inflation, that would be $56,681 in 2015.

Houston has more middle class and affluent households than before. The ACS recorded 494,000 households earning between $100,000 and $200,000 in 2015, up from 273,000 in 2005. The ACS also reported 197,000 households in Houston with incomes of $200,000 or more in 2015, triple the 65,500 households in 2005. Given the recent layoffs in the energy industry, the number of households in the upper bracket will likely slip in the next report.

Fewer Houstonians are uninsured. In 2009, 75.4 percent of Houstonians had health insurance. In 2015, 82.7 percent had coverage. (Insurance data was not collected prior to 2009.)

Houston continues to draw residents from abroad. The 2014 ACS found that nearly 1.6 million Houstonians were born outside the U.S., up from 1.1 million in 2005. Nearly a quarter (23.7 percent) of all Houstonians are foreign born—roughly double, one in eight (13.4 percent) for the nation as a whole. The bulk of immigrants came from Latin America, followed by Asia, Africa, and Europe in that order. About one-third of Houston's population growth over the past 10 years, 460,000 new residents, can be attributed to immigration. But not all growth comes from domestic migration and foreign immigration. The ACS reported that 100,000 births occurred in Houston last year, of which 32.4 percent were to un-married women, compared to 28.2 percent in 2005.

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