

Economic Update

Houston's economy is doing well in spite of the weakness in the nation's economy. Employment continues to improve. The 10-county Houston-Sugar Land-Baytown Metropolitan Statistical Area gained 65,100 jobs, growing 2.6 percent, from July 2010 to July 2011, according to estimates released by the Texas Workforce Commission (TWC). Several items stand out in the data:

- This was the strongest 12-month job performance since May 2008.
- Houston's 2.6 annual growth rate exceeds that of the state's other major metro areas – San Antonio-New Braunfels (2.4 percent), El Paso (2.3 percent), Dallas-Fort Worth-Arlington (2.3 percent), and Austin-Round Rock-San Marcos (1.8 percent).
- Over the past 12 months, the private sector has created 67,900 jobs for an annual growth rate of 3.1 percent, more than offsetting losses in the public sector over the same time.
- Since January 2010, when the recession ended in Houston, the private sector has created 125,200 jobs, recouping 75.7 percent of all private sector jobs lost during the recession.

Houston's record of job growth during the recovery continues to attract the attention of media, businesses, and job seekers around the nation. An often cited statistic is that roughly a fifth of all jobs created in the nation's recovery were created in Texas. Also cited: one out of over four jobs created in Texas was created in Houston. To put that in a broader context, Houston is responsible for one out of over 20 jobs created in the U.S. during the recovery.

From the first quarter of 2010 to the first quarter of 2011, seven sectors have added 59,471 jobs: professional/business services; education/health services; trade/transportation/utilities; leisure/hospitality; natural resources/mining; manufacturing; and other services. Four sectors have reported job losses during the same period: construction; public administration; information; and financial activities. Five of the industries creating jobs tend to be high-paying industries and contributed 86.9 percent of the new jobs created.

The Houston-area economy is adding jobs faster than the other major metro areas in Texas, according to data released August 19, 2011 by the Texas Workforce Commission. Strong growth in energy exploration, manufacturing, and health care helped Houston area employers create jobs. Houston is even doing better than Midland, which is red hot with all that drilling activity. The local unemployment rate dipped slightly to 8.9 percent in July. Statewide the unemployment rate rose to 8.4 percent in July, the first time the rate has been that high since 1987. Despite the increase in the statewide unemployment rate, Texas added jobs for the 10th consecutive month in July. People are working more hours than they were a year ago.

Layoffs during the most recent economic downturn, coupled with unexpected growth in shale plays, have left many oil & gas companies with lots of jobs, but not enough skilled people to fill them. Energy companies weren't prepared for the increased demand and were caught short of people, said Joe Hill, a director in the oil service research division at Tudor Pickering Holt & Co. in Houston. Unemployment in Texas inched up but many of the workers counted in those statistics don't possess the skills and training needed to work in the oil patch. A new worker hired as a roustabout will require two weeks of classroom training, plus additional training at the well-site and platform. From the initial hiring it takes 180 days to prepare a roustabout for service in the field. Compounding the difficulty of securing a complete & skilled team, is that much of the shale activity occurs in remote places that don't have a ready pool of skilled workers. In addition to the impact of shale-play production, much of the new hiring is also based on the retirement of more experienced hands in the field. The demand for skilled workers is pushing salaries back up to their pre-2009 levels. In some cases, salaries for workers with high-demand skill sets and in technically complex projects may grow 10 to 15 percent above 2009 levels. Worker demand currently exceeds supply, and if it's not mitigated, labor inflation is likely as those who are willing to train and perform the work can command premium compensation, Tudor Pickering's Hill said.

The U.S. economy slammed into a wall in August, failing to add any jobs for the first time in nearly a year and ratcheting up pressure on President Barack Obama to find a way to kick-start the sputtering recovery. Underscoring the political problem posed by the dearth of hiring, Mr. Obama on Friday, September 2, 2011, asked the EPA to withdraw an air-quality proposal that Republicans and business groups said could kill thousands of jobs and costs hundreds of billions of dollars a year.

A new survey says salaried U.S. workers can expect another year of modest raises in 2012. After increasing salaries by 2.6 percent this year and last year, companies are planning a 2.8 percent bump in 2012, Towers Watson reported. From 2000 to 2006, salaries rose an average 3.9 percent for workers who were not executives. They're being conservative with permanent salary hikes because of uncertainty about the economy and memories of the deep cuts during the recession.

The American Staffing Association (ASA) recently released figures showing growth in staffing employment of 18% in 2010. This is the 2nd largest growth on record. Temporary and contract workers made up 2.6 million workers on an average day in 2010, which is an increase of 18.4% over 2009. In the first quarter of 2011, employment of temporary and contract workers was up 14.3% over the same period of 2010. The U.S. Bureau of Labor Statistics has projected that the staffing industry will be one of the top ten industries with the greatest growth over a ten year period. An increase in temporary staff typically signals a resurgence of the economy. Employers remain cautious about hiring employees directly, and are therefore more inclined to bring in temporary employees to ensure they are a good fit for a position without the liability of full-time employees.

Facts about Houston

- 23 companies on the 2011 Fortune 500 list are headquartered in Houston.
- Of the 23 Fortune 500 companies in Houston, about 10 are located Downtown.
- Houston ranks third among metropolitan statistical areas in the number of Fortune 500 headquarters.
- At 634 square miles, Houston could contain the cities of New York, Washington, Boston, San Francisco, Seattle, Minneapolis, and Miami.
- Houston has been Texas' most populous city since 1930.
- The population of Harris County is 4,092,459.
- Houston is the fourth most populous city in the nation.
- If Houston were an independent nation, the city would rank as the world's 30th-largest economy.
- More than 90 languages are spoken throughout the area.

Employment Law

The Fair Credit Reporting Act has added an amendment which requires employers to disclose to a potential employee if the employee's credit information was used in employment making decisions. Prior to taking an adverse action, an employer is required to provide the potential employee with a copy of the report and a written explanation of his or her rights. If the employer chooses to take adverse action against a potential employee, the credit score and reporting agency must be revealed to the employee. The amendment went into effect July 21, 2011.

Investigations & Compliance

Investigating Inappropriate Material in the Workplace

Chances are your organization currently has or will receive an allegation that an employee is viewing or sending inappropriate material (pornography) in the workplace. Whether you have conducted investigations of this type before or if this is your first investigation, there are several reasons that you want to have a qualified professional conduct the investigation, AND, you implement consistent disciplinary action post investigation. Here are the top six risks associated with a weak environment that doesn't appropriately handle employees who view pornography in the workplace.

- Sexual Harassment and Hostile Work Environment Lawsuits – Settlements alone can range from \$100,000 to well over \$1,000,000 depending on the circumstances of the case. These amounts do not include the legal costs necessary to defend the case.
- Lost Productivity and Time Theft - According to a study by The Industry Standard, 70% of Internet porn traffic occurs between 9 a.m. and 5 p.m., when most people are at work. I've personally conducted investigations where employees openly admitted that they spent 6-8 hours a day surfing for pornography. Over time, this can add up to big dollars of lost productivity.
- Increased Vulnerability to Hacking – Using the above mentioned statistics, hackers and cyber criminals know that employees will download videos and images while at work. Hackers can imbed viruses or Trojan horses into

downloaded content and infect the organization's network when the employee plays or views the file.

- Child Pornography and Seizure of Assets – What is worse than having an employee removed from the premises for downloading child pornography? Having law enforcement seize the computer(s) and server(s) where the material resides. They do not make backup or convenience copies for you and they do not allow you to transfer your files off. The hardware is considered tainted and is destroyed after the completion of their investigation. Imagine if the seized server housed your entire payroll and benefits information.
- Reputation Risk – Employees who send inappropriate material via email also run the risk of damaging the reputation of their employer. Forwarded email chains very seldom have the originator's information removed, so it is very easy to see who is sending what material. This could be especially damaging to governmental agencies or businesses engaged in legal or financial disputes. It's hard to argue for more resources or employees when your current employees are identified as sending pornography out across the internet.
- Increased IT Costs – The pervasive viewing of pornography in the workplace also put a strain on an organization's IT infrastructure. Saved pornography can eat up server space and cause scans and maintenance to take longer. Downloading and streaming video can eat up bandwidth and create bottle necks during peak usage time. And viruses and hacking intrusion attempts can cause networks to fail, the loss of sensitive information, or strain IT resources to keep up.

If the above mentioned risks aren't enough, the lack of consistent disciplinary action in pornography viewing cases can significantly increase an organization's exposure and legal costs in the long run. If disciplinary action is decided solely by management, or is issued without the use of a structured scoring methodology, the disparities in disciplinary actions could result in a wrongful termination claim. This is why it's imperative that a single group or individual be responsible for conducting pornography allegations and recommending the appropriate disciplinary action.

If you'd like to know more about Investigating Inappropriate Material and Implementing Consistent Disciplinary Action, you can attend the September HR Houston Special Interest Group Meeting on September 13th, 2011. For more information about Employee Investigations and Compliance, you can contact Ryan Hubbs CFE, CIA, PHR, CCSA, Senior Manager, Matson Driscoll & Damico LLP at rhubbs@mdd.com or 713-621-3010.

Sources: Greater Houston Partnership; Wall Street Journal; New York Times; Houston Chronicle; Houston Business Journal; Society for Human Resource Management; Ryan Hubbs, Senior Manager, Matson Driscoll & Damico LLP