Local Economy Not as Hot as Thought

The Houston economy likely created jobs at a much slower pace than initially estimated as weakness in the energy and manufacturing sectors weighed on growth, according to the Federal Reserve Bank of Dallas. The Dallas Fed calculated a huge downward revision to employment data reported in the second quarter, particularly in Houston. The revised figures show that employment in the Houston metropolitan region grew at anemic rate of less than a half percent, compared to initial estimates of nearly 4 percent. Early job growth estimates from the U.S. Labor Department are based on small samples, and data is often revised when more information is available, but the changes typically are not so dramatic. The Dallas Fed, for example, estimated that job growth in Texas from the beginning of the year is closer to 1.7 percent – still a healthy pace – but slower than the 2.1 percent originally reported. The Dallas Fed's calculations provide an early look at the annual revisions by the U.S. Labor Department to state and local employment data. The Labor Department releases the revisions in March.

The energy sector, which has struggled with lackluster oil prices and limited availability of capital, is largely responsible for the Dallas Fed's cuts to economic growth estimates. The biggest revisions in jobs data occurred in the mining and logging sector, which in Texas is dominated by the oil & gas industry. The Dallas Fed estimated the mining and logging sector contracted by 2.8 percent in the second quarter, compared to an earlier estimate that sector grew at a 5.5 percent rate. Houston is more exposed to the oil and gas industry than the state as a whole. Oil prices have been stuck below $65 per barrel for much of the year and Wall Street investors have reined in oil exploration and production companies/ spending. Several companies have cut back on payroll and activity; producers have pulled more than 270 drilling rigs from operation in U.S. oil and gas fields since the start of the year, a 25 percent decline. Related sectors, such as manufacturing, are hurting, too, as fewer orders come in from oil companies. "Texas job growth has slowed this year due to weakness in the energy sector and some slowing of the manufacturing sector," said Keith Phillips, assistant vice president and senior economist at the Dallas Fed. "Overall, however, Texas remains strong with historically tight labor markets." Across the state, job growth in Texas picked up in October to 2.5 percent rate from an average of 1.9 percent in the prior three months, as accelerating health care, housing and transportation sectors helped compensate for a slowing energy sector and weakened manufacturing activity.

Houston's Economy Will Slow with Energy in 2020

Two local predictions for Houston's economy came out in December 2019. The first from Bill Gilmer, economist and director of the Institute for Regional Forecasting at the University of Houston's Bauer College of Business. The second from Patrick Jankowski, chief economist of the Greater Houston Partnership, a business financed economic development group. Gilmer puts job growth in 2020 around 61,200. Jankowski puts it lower, at 42,300 (which would be a pretty significant slowdown of more than 22,000 jobs from what Jankowski estimated Houston would add in 2019). But the one thing these two local economists agree on? Houston's economy is about to slow down. Both Gilmer and Jankowski agree that the Texas Workforce Commission's estimates of employment growth in 2019 likely overstated the strength of the local economy and will almost surely by revised downward by the U.S. Labor Department in early 2020. "It's not as strong as we would like to be, but it's still growth," Jankowski said. Jankowski compared Houston's economy to the aftermath of the 1980s oil bust, when the real estate market had been oversaturated and the industrial market overbuilt. It's a similar pattern, though hopefully this time we can avoid the banking collapse. But like the 1980s, a major factor holding Houston's economy back is the slumping energy sector, which makes up 9% of the local economy, according to the Greater Houston Partnership, and is headed for another downturn. This time, it's due to Wall Street investors who have tightened capital spending for exploration and production companies and a slowing global economy that has hurt demand for fuel products. But fewer wells are being drilled, and the rig count is down to its lowest level since March 2017. The slump will almost certainly mean job losses in Houston's energy sector in 2020. ConocoPhillips chief economist Helen Currie, speaking at a Greater Houston Partnership event in December 2019, said the oil major expects global oil supplies to grow in 2020. More supply typically means lower prices, and Currie said she sees the oil market as largely balanced. Jankowski expects the Houston region to lose a net 4,000 energy jobs in 2020. The big "but" in these forecasts are the small matters of oil geopolitics and a raging trade war. As Currie pointed out, OPEC is always a factor that can drastically shift the outlook for the oil market. But absent something that bumps oil prices back up past $65 per barrel, it seems the Houston business community can confidently plan for a slowdown in 2020.

Job Cuts

Three Houston oil and gas companies said they would slash nearly 600 jobs in Texas, a day after Occidental Petroleum began a massive staff reduction. Apache Corp. said it would eliminate more than 270 positions as it closes its regional San Antonio office. Enterprise Offshore Drilling said it would lay off around 60 workers, part of a planned release of a Gulf of Mexico oil rig. Valerus Field Solutions said it's closing an oil and gas equipment plant in Sealy, west of Houston, in March and eliminating about 250 jobs. Houston oil field service company Halliburton laid off 650 employees in the four western states from New Mexico to North Dakota as demand for drilling and hydraulic fracturing services remains week amid lackluster oil prices. Modest oil prices and spending cuts have contributed to the loss of nearly 5,000 oil and gas jobs in Texas from June through November 2019, according to Texas Workforce Commission.

Oil and Gas Bankruptcy Wave

The oil and gas industry is in the midst of a resurgence of bankruptcies- and many expect them to continue in 2020. Although the sector enjoyed a lot of interest from investors for a long time, it hasn't managed to turn around satisfactory results, said

Bobby Tudor, chairman of Houston-based Tudor, Pickering, Holt and Co. Tudor was speaking on a Houston Business Journal panel on November 5. And as investors demand that the companies they back start providing free cashflow instead of growth, those in the upstream are having to shift their business models away from the rapid growth engines on which many of them have depended for the entire decade. The companies that haven't been able to do that have found themselves cut off from sources of capital, often while carrying a large quantity of debt. "The results have been poor. One great thing about capitalism and markets is that when people get poor results over a long period of time, they quit giving you money." Tudor said. "The tap has been turned off."
All of this adds up to a recipe for accelerating bankruptcies in the upstream business.

Texas Saw an Increase in Jobs

Despite mounting job losses in the sluggish energy sector, Texas employers added 37,500 jobs in November from October. The state's unemployment rate remained at 3.4 percent November, the sixth consecutive month that Texas' jobless rate has sat at that record low. The tight unemployment rate has helped boost wages for employees but also created some headaches for employers unable to find enough workers to fill jobs. More than 80 percent of Texas employers are having trouble finding qualified workers, according to the Federal Reserve Bank of Dallas. Job growth was strong in Texas in November. Sectors such as health, education and manufacturing continued to see job gains despite the energy slowdown that has caused employers in the mining and logging sector, which in Texas are primarily oil and gas companies, to shed 2600 jobs since the start of 2019. The energy sector fell into a slump through the second half of 2019 as oil prices have been stuck below $65 per barrel for much of the year. At the same time, Wall Street investors lost patience with high spending by oil exploration and production companies and have stopped the free flow of capital that energy companies had grown to rely on. As a result, they have cut both jobs and production. U.S. oil producers have pulled more than 260 drilling rigs from operation since the start of the year, a 25 percent decline.

In Houston, the local economy added 9,400 jobs in November, a slowdown from October but still a strong pace. Much of the gain was attributable to the trade, transportation and utilities sector, which includes retailers and warehouse operations. The sector added 16,000 jobs from October, the most for any November on record, indicating that holiday hiring was stronger in 2019 than usual and helped to offset declines in other sectors. The sluggish energy industry continued to pose challenges for oil and gas related industries in Houston. Manufacturing, Houston's largest sector, shed 100 jobs in November, which was somewhat unusual. Typically, Houston adds an average of 590 manufacturing jobs in November. In Houston, manufacturing is heavily tied to the oil and gas industry, while statewide, the sector is more diverse. The local jobless rate was 3.6 percent.

Manufacturing Sees Year-End Rebound

Growth in the Texas manufacturing sector rebounded in December, according to a survey of business executives conducted by the Federal Reserve Bank of Dallas. After dipping into negative territory in November, the manufacturing production index, a measure of the state's manufacturing conditions, was up to 3.6 in December. The rate of growth in the sector had been slowing since the fall of 2019, as manufacturers in Texas and across the U.S. were hit particularly hard by the U.S.-China trade war, which disrupted supply chains, raised costs, and stoked uncertainty among customers.

Solid U.S. Labor Market After Volatile Season

Filings for U.S. unemployment benefits fell to a three-week low in December, reflecting a solid labor market and indicating the data are emerging from recent bout of seasonal volatility. Jobless claims declined to 222,000 in the week ended December 21, 2019 from 235,000, according to the Labor Department figures that were in line with the median forecast in Bloomberg's survey of economists. The decrease in filings, and gradual return to the longer-term trend, underscores recent signs of strength in the labor market. Companies may be less likely to let employees go amid an elevated level of job openings and difficulty luring talented and experienced personnel. The number of available jobs jumped in October after hitting an 18-month low the previous month. The Labor Department said the number of available positions rose 3.3 percent to nearly 7.3 million. The figures provide the latest evidence that employers have largely shrugged off the uncertainty surrounding the U.S.-China trade war and slowing global growth. While the number of open jobs has declined from a record high of 7.6 million a year ago, they are still at a historically high level. For roughly a year and a half there have been more job postings than unemployed people. The figures follow a healthy jobs report in December that showed a surprisingly robust gain of 266,000 jobs while the unemployment rate fell to a 50-year low of 3.5 percent.

Shining a Light on Key Employment Concerns for 2020

The start of a new year always brings a fresh batch of employment concerns. While some workplace issues are evergreen, 2020 will present some unique challenges for employers. This highlights some significant issues employers should keep in mind for the coming year.

- Minimum Wage Increases - While Congress remains deadlocked on increasing the federal minimum wage, dozens of states and localities across the country will implement new minimum wages in 2020, not all of which will take effect on January 1. These increases vary not only by location, but also by employer size and industry.
- Minimum Exempt Salary Increases - The DOL's new "white collar" overtime exemption rule, with an increased minimum salary level of $684 per week, takes effect on January 1. In addition, some states have minimum exempt salary levels

that will continue to exceed the federal minimum, and those rates will rise on January 1 in Alaska, California, Colorado, Maine, and New York.

- Patchwork of State and Local Employment Laws - Over 100 new employment laws and regulations will take effect in various states and major cities this year. These laws cover a range of topics, including salary history inquiries, hairstyle discrimination, paid leave, worker misclassification, and the use of artificial intelligence in hiring. Employers operating in multiple jurisdictions will need to take particular notice of these changes.
- New Federal Rules - Despite the dearth of legislative action at the federal level, federal agencies continued to issue final rules, some of which will become operative in 2020. On January 15, the DOL's new rule clarifying which employment perks must be factored into the regular rate of compensation for overtime purposes will take effect. In April, the National Labor Relations Board (NLRB)'s revised representation elections rule will come into force. In the fall regulatory agenda, the DOL's Wage and Hour Division and Occupational Safety and Health Administration, and the Equal Employment Opportunity Commission, also outlined a host of other rulemaking initiatives they intend to roll out in 2020.
- It's a 27 Payday Year (For Some) - If your organization pays biweekly on Fridays, and has a payday on January 3, 2020, you will have 27 paydays in 2020 instead of the usual 26. This scenario occurs every 11 or 12 years for all biweekly payrolls and happens because 26 biweekly payroll periods pays for 364 days of employment, whereas a calendar year includes 365 days— or, in a leap year like 2020, 366 days. This one-day or two-day shortage each year catches up every 11 or 12 years, causing a 27th payday to fall within a single calendar year. Employers facing this issue need to consider how the extra payday will impact payroll deductions for health benefits, flexible spending accounts, and other employee benefit contributions, as well as the cash flow and financial statement impacts of this "bunching" of an extra payday into 2020. Some employers may also wish to consider "dividing by 27," which produces a cut in pay rates of 3.7%. If that possibility is on the table, be sure to consider all issues that are implicated by a pay rate cut, including advance notice requirements under state law, wage theft notice obligations, contractual guarantees in employment contracts or offer letters, and minimum biweekly salary rates required to maintain exempt status.
- And an Election Year - In our current climate, political tensions will invariably seep into the workplace. Employers may be forced to address arguments among employees with different political opinions, conflicts with clients or vendors, or perhaps an increase in complaints of discrimination or harassment. The stakes are high for employers this year as they seek to proactively address and defuse these charged situations. To this end, employers can consider implementing policies to promote workplace civility. In 2017, the NLRB approved as lawful the maintenance of workplace rules promoting "harmonious interactions and relationships," and requiring civility in the workplace. Note, however, that the National Labor Relations Act generally protects political discussion in the workplace that relates to labor or working conditions, and some states grant employees a level of protection to engage in political expression at work

(subject to reasonable time, place and manner regulations). In addition, activities taking place outside of work time are governed by different rules and standards. State laws in several jurisdictions, for example, prohibit employers from taking adverse action against employees for lawful, off-the-clock political activities.

Microsoft Four-Day Work Week Boosts Productivity

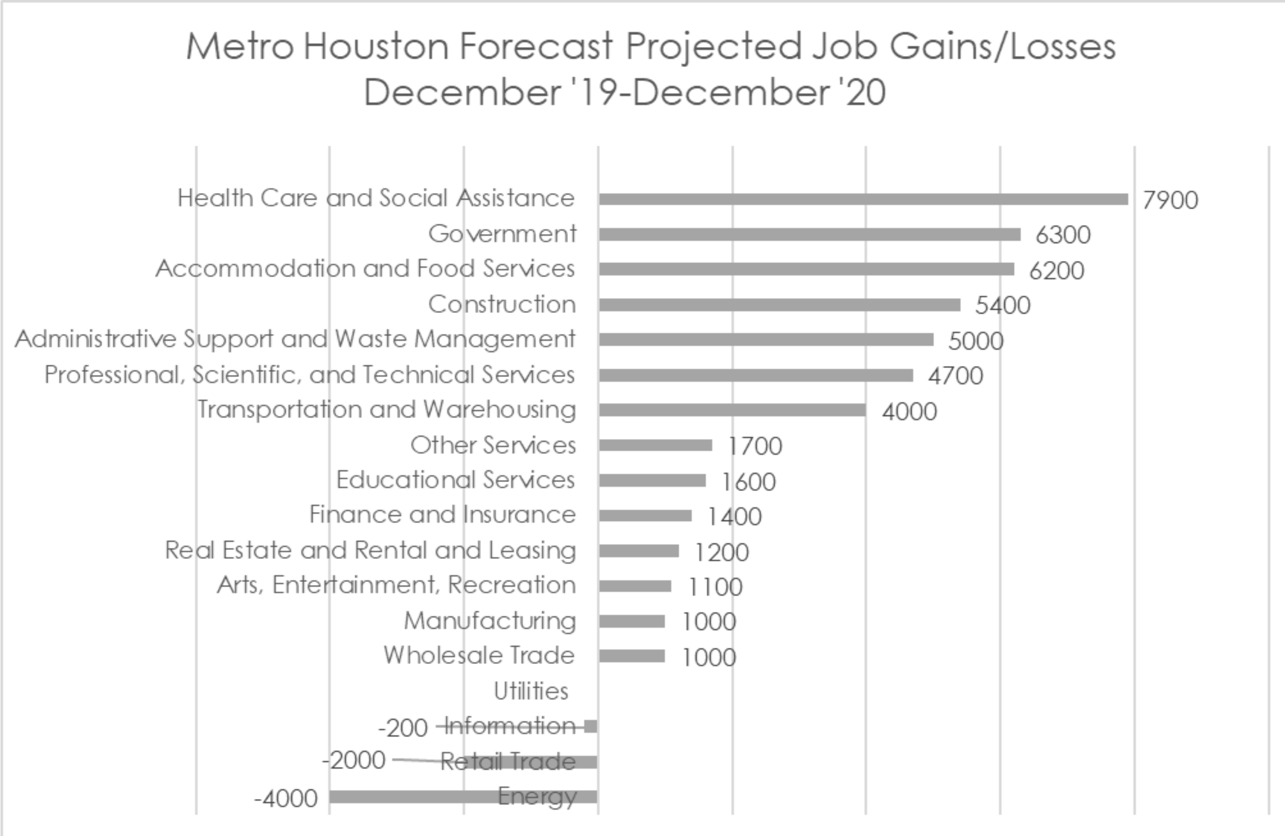
Microsoft Japan said sales had been boosted by nearly 40% during an experiment in which staff worked a four-day week on full pay. Offices were closed on every Friday of August 2019 and full-time staff were given "special leave", which was paid. Meetings were restricted to a maximum of 30 minutes and online discussions were encouraged as an alternative to face-to-face. Japan has some of the longest working hours in the world.

A 2017 survey suggested nearly a quarter of Japanese companies had employees working more than 80 hours overtime a month, often unpaid. Microsoft's Work Life Choice Challenge 2019 Summer experiment was popular with 92% of the staff it surveyed after the event. During the month-long trial, electricity consumption had been reduced by 23% and paper printing by 59% compared with August 2018, Microsoft said. The technology giant said it was planning to implement a second Work Life Choice Challenge this winter but would not be offering the same "special leave". Staff would, however, be encouraged to take time off to "rest smartly", it said.

In contrast, Jack Ma, co-founder of Chinese online shopping giant Alibaba, has championed 12-hour working days. In April 2019, he described the "996" pattern, in which workers do 09:00-21:00 shifts, six days a week, as "a blessing". A report commissioned by the Labour Party in the UK suggested a four-day working week would be "unrealistic". "Even though some people are compelled to work shorter hours than they want to, most people are compelled to work longer hours than they want to," the report said. Many workers find going part-time or reducing their days means they end up having to squeeze the same amount of work into the time they do have.

Greater Houston Partnership's Forecast

Houston's growth in 2020 will occur outside of energy, especially in sectors tied to population, the U.S. economy, and global growth. Economic activity and employment are forecasted to expand in accommodation and food services; administrative support; arts, entertainment and recreation; educational services; finance and insurance; government; health care end social assistance; other services; professional, scientific and technical services; real estate and rental and leasing; and transportation and warehousing. Manufacturing and wholesale trade will struggle to create jobs but not turn negative. Utilities will remain flat. Energy, information and retail will lose jobs. The region to create 42,300 jobs in 2020.



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