

## Houston's Employment Update

Metro Houston created 88,000 jobs, a 2.8 percent increase, in the 12 months ending December '19, according to the Texas Workforce Commission (TWC). The level of reported job growth is not supported by other economic indicators.

- The Houston Purchasing Managers Index (PMI), a short-term leading indicator for regional economic activity, registered 47.4 in December. Readings below 50 signal contraction in the economy.
- Metro Houston's construction starts totaled \$16.1 billion in the 12 months ending November '19, down 21.1 percent from \$20.4 billion for the comparable period in '18.
- Retail sales in the nine-county region totaled \$30.7 billion in Q2/19, the latest quarter for which data is available, up only 1.3 percent from \$30.3 billion in Q2/18.

TWC typically overestimates job growth in an expansion and underestimates losses in a contraction. That was the case in '18, when TWC originally reported Metro Houston created 108,300 jobs in the 12 months ending December '18, only to revise that down to 73,300 jobs several months later. Likewise, TWC first estimated the region created 23,200 jobs in '15, only to adjust that to a loss of 2,500 jobs in a later report.

## Coronavirus Fears Deal Heavy Blow to Houston Economy

Although there are no confirmed cases of the coronavirus in Houston or Texas, the fears it has stoked are reverberating through the local economy, hitting a wide range of businesses from energy companies to medical offices. The manager of a Houston travel agency that books flights between Houston and China is canceling dozens of tickets. A real estate agent marketing condominiums near the Katy Asian Town shopping district postponed a promotional Lantern Festival event to avoid raising virus concerns among potential buyers. A foot and ankle doctor in Chinatown said half of her clients canceled their appointments after false rumors of a local coronavirus case began circulating on social media. At Asian supermarkets and restaurants all over Chinatown, grocery aisles and dining tables sat empty as customers holed up at home. SARS, a respiratory illness that broke out in China in the early years of this century, was caused by an earlier strain of coronavirus. A new coronavirus believed to have originated in Wuhan, a city of 11 million people in central China, has killed at least 490 people and infected more than 24,000 globally, triggered quarantines and travel bans in China and halted business in the world's second largest economy. Travel between Houston and China has come to a screeching halt. Commercial airlines suspended flights between Houston and China, prompting waves of cancellations at local travel agencies. Several energy companies told employees to avoid business travel to China, and last month, China banned all group tourism travel sales. Travelers from China

represent Houston's fifth largest inbound tourist group, according to Houston First, the city's convention and tourism agency. While other countries send more tourists to Houston, China sends bigger spenders. Chinese travelers to Houston spent \$158 million in 2018, and the average Chinese traveler spends as much as \$5,000 per person per trip, compared with about \$1,200 for Mexican tourists. China is the top foreign buyer of U.S. residential real estate, spending \$13.4 billion nationally in 2019. Chinese investors bought more than 500 homes across Texas last year. As China's economy slows in response to the pandemic, demand for crude is expected to fall, putting more pressure on oil prices and energy companies already cutting spending and jobs. With oil prices hovering between \$0 and \$60 a barrel for much of last year – barely breakeven for many companies – Texas energy firms cut payrolls last year by nearly 10,000 jobs, or 4 percent, according to government statistics. The prospect of weak oil demand sent prices plunging below \$50 a barrel, its lowest level in more than a year. Wood Mackenzie, an energy research firm, this week lowered its forecast for global oil demand in the first quarter by 500,000 barrels per day, half of which could be driven by lower demand in China because of the coronavirus. Economists said the coronavirus impact to both oil prices and Houston's economy will likely be limited to the first quarter, but that could change if the outbreak worsens. Oil prices have fallen about 20 percent over the past month. The rebounded in hopes that OEC will cut production further, setting at \$50,75 a barrel.

As the coronavirus situation continues to evolve, so do companies' and governments' approaches to monitoring and helping avoid the spread of the virus. The intensity and anxiety over this issue is extremely high in Asia. Employers with operations in Asian countries can (i) maintain effective and assuring communication with their workforce; (ii) take steps to promote the safety of their workforce; and (iii) monitor and ensure appropriate application of their leave, travel, and related policies.

The following pertains to businesses in China's jurisdiction.

- A 14-day quarantine is in place for anyone who has traveled to a seriously affected area (such as Hubei Province and Zhejiang Province) or has been in close contact with people from those areas.
- Employers should pay coronavirus patients or suspected patients full pay subject to medical treatment and/or mandatory quarantine.
- Employer's salary obligations to employees who need to take more sick leave days after medical treatment is flexible. If contracting the virus was work-related, then work-related injury benefits and salary apply. If contracting the illness was not work-related, then the leave can be considered sick leave days and sick leave pay will apply.
- An employer's salary obligations during self-quarantine (not imposed by the government) for non-patients is flexible. Employers may ask employees to take full-pay annual leave or work from home, or negotiate with the employees to adjust the working time and salary.
- For employees who cannot work because they are a coronavirus patient, suspected patient, or in close contact with patients and who are subject to the

government's quarantine measures, an employer cannot terminate their employment or subject them to a layoff based on poor performance.

- An employer has the obligation to report any suspected case to the government.
- The employer has the power to prohibit the employee from coming to the office.
- Discrimination based on the coronavirus status is prohibited.

## **Texas Economy to Hold Steady**

A historically tight labor market and strong consumer spending held back by declining business investment and a weakening energy sector added up to a steady, but slower, Texas economy last year. Expect more of the same in 2020. Texas employment will grow 2.1 percent in 2020, according to an annual forecast by the Federal Reserve Bank of Dallas – that's close to the 2 percent rate of job growth the Dallas Fed estimated in 2019. Texas unemployment rate was 3.5 percent in December, near its historic low. Consumers, working and spending in a near full-employment economy, remained confident, helping to prop up the national and state economy from risks such as trade tensions and a struggling oil and gas industry in Texas. But an increasingly tight labor market can constrain job growth. In 2019, job growth in Texas slowed from 2.4 to 2.0 percent as firms found it difficult to add jobs and hire workers.

"The energy sector will remain a drag on Texas' economy in 2020", Keith Phillips, senior economist at the Dallas Fed said. And while trade tensions have appeared to de-escalate in recent months, trade policy remains a risk to Texas and the national economy. "The trade war seems to be winding down, but that could change," he said. "There is some chance of a national recession, but I don't think it's very large." Texas tends to follow the national economy, doing better than the national economy when oil prices are high and worse when oil prices fall. A decline in oil prices would mean a bigger slowdown for Texas this year. The oil and gas industry is already in decline after energy investors tightened their purse strings last year amid meager returns. Oil prices mostly hovered between \$50 and \$60 a barrel, barely a breakeven point for many companies. Mining and logging employment, which in Texas is dominated by the oil and gas industry, shed 9,800 jobs in 2019, down 4 percent. "Suddenly, it's out of fashion to invest in oil and gas companies," Phillips said. "The energy sector is likely to flatten out, and I think will be a slight drag on the Texas economy." In other sectors, business investment, which was constrained through 2019 due to trade uncertainty, is likely to remain cautious due to the 2020 presidential election, Phillips said. Businesses tend to stop investing in projects and expansions during times of policy uncertainty. "The biggest downside risks are a sharp decline in oil prices, trade war escalation or a national recession," Phillips said.

Still, the state's economy is on solid footing. The expansion has resulted in a historically tight labor market in Texas and strong job growth in recent years. In order to continue to grow, however, Texas will need more people. In recent years, domestic migration – those moving to Texas from other areas of the country – has slowed down since a strong national economy means fewer people leaving home to find work. "Jobs can't grow if you don't have workers," Phillips said. "Going forward, it's going to be harder and harder to attract people (to Texas)."

## **U.S. Added 225,000 Jobs in January**

The job market sprang to life in January, kicking off the election year with some good news for a president who has made the economy the centerpiece of his re-election bid. Employers added 225,000 jobs in January, the Labor Department reported. Forecasters had expected a gain of about 164,000. Hiring had slowed somewhat last year amid trade tensions and recession fears, but the job market has proved resilient. Now, with the recent abatement in the trade war, those concerns have eased, and hiring has rebounded. The unemployment rate was 3.6 percent, up from 3.5 percent in December but still near a half-century low. January's numbers may have been helped by unusually warm winter weather in much of the country, which lifted employment in construction, hospitality and other weather-sensitive sectors. There still are some clouds in the economic sky. The shutdown in production of Boeing's 737 Max aircraft is rippling through supply chains, retailers are laying off workers and the coronavirus could have widespread – though still hard to quantify - economic effects. Manufacturers and retailers both cut jobs in January and most economists expect hiring to continue its gradual slowdown this year. And a major annual revision in the jobs report showed that 2018 and early 2019 produced more than half a million fewer jobs than previously reported. Still, this is, by many measures, the best environment for workers in years. Employers are hiring candidates with disabilities, criminal records and other barriers to employment and are offering flexible schedules and other perks to draw workers off the sidelines. Average hourly earnings were up 3.0 percent from a year earlier, with wages rising fastest for people at the bottom of the earnings ladder. Despite the progress for low-wage workers, however overall wage growth remains a disappointment, as it has for much of the decade-long expansion. A brief acceleration in wage growth in 2018 prompted hopes that the tight labor market finally was giving workers more bargaining power with employers. But wage growth has slowed again, although it picked up a bit in January. The unemployment rate ticked up in January to 3.6 percent, but the rise doesn't suggest any trouble in the job market. In fact, the opposite: the rate increased because more people joined the labor force to look for work. Economists aren't sure what is behind the recent cooling in wage growth or whether it will continue. It may be an early sign that the job market is weakening more than the headline jobs numbers suggest. Employers in recent months have posted fewer job openings, and the average workweek has shortened. The industrial slump that began last year continued in January. Manufacturers cut 12,000 jobs, with most of the losses coming among automakers, and employment also dipped in the mining sector. Job growth in freight transportation was also weak, the latest evidence that the ripple effects of the trade war are continuing to spread. The partial trade deal with China announced last month, along with the passage of a new North American trade agreement, should help limit further damage. But it could take time for the benefits to filter through to the job market.

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