Coronavirus (COVID-19) Outbreak

With the mortality rate of the disease around 2 percent, the number of deaths will exceed that associated with the seasonal flu, which has a mortality rate around 0.1 percent. The disease has spread quickly. Chinese officials identified the first case in Wuhan Province on December 1; Houston recorded its first case on March 4. The journey from China to Houston took only 94 days. Houstonians have responded quickly to threat, stocking up on canned goods and toilet paper, cancelling public events, and preparing to work from home. Some have likened stockpiling to preparing for a hurricane. The comparison stops there. Meteorologists know when a hurricane will make landfall, the likely intensity when it does, and how long the storm will linger over Houston. COVID-19 has already arrived in Houston, but no one knows how long the outbreak will last nor how severe it will be. Nor can we expect aid to rush in from other states once the virus subsides. The entire country, indeed, the world, is facing the same pandemic.

Coronavirus at a Glance

	March 14, 2020	March 15, 2020	March 16, 2020	March 17, 2020
Confirmed cases worldwide	137,445	156,159	169,316	182,815
Confirmed cases in U.S.	2,030	2,726	3,734	4,661
Cases in Texas	46	59	77	85
Deaths worldwide	5,088	5,830	6,512	7,154
Deaths in U.S.	48	58	68	86
Deaths in Texas	0	0	0	1
Houston-area cases	14	32	34	30

Economic Impact

The Greater Houston Partnership has received numerous inquiries about the impact COVID-19 will have on Houston's economy. Frankly, it's too soon to tell. As recently as mid-February the U.S. stock market was setting records and crude was trading near $54 a barrel. Social distancing didn't start until early March. Almost all the data that is available, both local and national, reflects conditions prior to the outbreak. Since

March 1, only two reports specific to Houston have been released—the February Purchasing Manager's Index (PMI) and the February sales report from the Houston Association of Realtors. Each tells a different story. The Houston PMI fell from 52.4 in January to 50.2 in February, according to the Institute for Supply Management. Readings above 50 indicate the local economy is expanding, below 50 that it's contracting. February's reading suggests Houston was on the cusp of a downturn before the outbreak began. Two subcomponents of the PMI, employment and sales, are signaling an economic downturn may have already begun. Several respondents indicated in the comments section of the survey that the COVID-19 virus is negatively affecting their business.

Without current data on local job growth, construction starts, sales tax collections, airport traffic, port tonnage and vehicle sales, it's not possible to assess the impact of COVID-19 on the economy. March reports won't be available until mid-April or early May. By then the pandemic will hopefully have peaked and its impact already fading.

A few things are certain, however. Fear and social distancing will keep consumers away from restaurants, bars, theatres, hair salons, stores and malls. In early February, Coresight Research conducted a national internet survey of consumers 18 and older and found over half reluctant to venture in public if the outbreak worsens. Houstonians whose livelihoods depend on face-to-face customer interactions, earn at the low-end of the wage scale, or are without health insurance will suffer the most. The Greater Houston Partnership estimates, there are more than 250,000 workers in food and hospitality whose livelihood will be impacted. Nearly 800,000 workers in Houston (one in four) earn less than $15 an hour. And nearly 20 percent of all Houstonians lack health insurance. The uninsured are also less likely to have paid sick leave or have occupations that are not conducive to working from home. Missing a paycheck due to illness could drive many households deeper into debt. The lack of insurance will be a financial burden for Houston's hospital system as well.

Anxiety over the virus has sapped investor confidence. The Dow Jones Industrial Average, the S&P 500, the NASDAQ Composite Index and the Russell 2000 have fallen 30 percent or more from their peaks. Individuals in or nearing retirement, seeing how much their nest eggs have shrunk, will pull back on their spending. This reduction will last beyond the virus outbreak and have a lingering effect on future hiring and capital investment.

While the direct impacts are obvious, the indirect are not. For example, faced with a decline in passenger traffic, airlines have pared back their advertising budgets. The current drop in Chinese exports foreshadows a future shortage of shipping containers. Houston exports will need those containers to ship their own products overseas. The slump in exports of building materials from China may delay the start of local construction projects, or drive up costs, or both. The U.S. has banned all visitors Europe and China; builders and brokers catering to foreign buyers face a dearth of customers, at least in the short run. Entrepreneurs, seeing the change in consumer behavior, will likely postpone the opening new restaurants and bars. Houstonians with occupations not conducive to working at home will lose income and may fall behind on their rent. The general business slowdown will strain cash flows; loan defaults, business failures and foreclosures will rise.

The first and second quarters will be difficult for Houston, but a recession is not inevitable. If one does occur, it's likely to be brief. The region may be able to shrug off a recession if U.S. growth remains positive and global growth resumes, even with the recent drop in oil prices. Any growth will be significantly slower than Houston experienced in '19.

U.S. and Global Outlook

Mark Zandi, chief economist with Moody's Analytics, believes the U.S. can avoid a recession if Washington enacts an aggressive stimulus package and the Federal Reserve continues to lower interest rates. Without those measures a recession is inevitable. The Fed has announced it would cut interest rates by a full percentage point, effectively lowering borrowing costs to near zero. As this enewsletter is sent to subscribers, the White House and Congress are still negotiating a deal. The Conference Board believes COVID-19 will hurt the U.S. economy but not cause a recession. Real gross domestic product (GDP) growth will contract 1.0 percent in Q2, with consumer spending down 1.7 percent. Growth should resume in Q3 as consumer spending rebounds. The board forecast the U.S. economy to grow 1.4 percent in '20, down from 2.3 percent in '19. Its forecast is predicated on the COVID-19 outbreak peaking in the U.S. by the end of April. Wells Fargo forecasts nearly flat consumer spending in Q2, a 5.3 percent decline in industrial production, and 0.6 percent contraction in real GDP. The bank sees a tepid recovery starting in Q3, with U.S. GDP growth also averaging 1.4 percent for the year.

Trade and political tensions had already weakened global growth prior to the outbreak. Containment measures and lower consumer confidence will be a further drag. Economies dependent on commodity exports and tourism will suffer the most. Economies already experiencing low growth may slip into recession. This includes Germany, Italy, Japan, Mexico, South Africa and the United Kingdom. The Organisation for Economic Cooperation forecasts global growth at 2.4% this year, down from 2.9% last year. Under any scenario, global growth in '20 will drop below last year's level, according to the International Monetary Fund (IMF). How low it will fall and for how long, the IMF won't predict since everything depends on the severity of the epidemic and the timeliness and effectiveness government actions to stimulate the economy.

Oil Woes, Again

West Texas Intermediate (WTI), the benchmark for light sweet crude, closed at $31.01 per barrel on Friday, March 13. That's a 51 percent drop from $63.27 the first week of January. The plunge began on March 6 when OPEC ended its spring meeting without a deal to cut production. The world was already oversupplied, and with the global economy slowing the glut is expected to worsen. The International Energy Agency (IEA) forecasts global demand to fall by 2.5 million barrels per day (b/d) in the first half of this year, with demand slowly picking up in the second half. Even with a recovery, global demand will finish the year at least 90,000 b/d below last year's level. Russia and Saudi Arabia, two of the world's largest exporters, have decided to flood the market with crude rather than curtail production. Russian aligned with OPEC in '16 hoping that by cooperating with the cartel crude prices would gradually rise. But Moscow has grown frustrated. As the alliance has curtailed production, U.S. firms have boosted output and grabbed market share. Since Russia aligned with OPEC in '16, daily U.S. production has grown by 3.4 million barrels while Russian production has remained flat. "The U.S. has added millions of barrels to the global market while Russian companies have kept wells idle. Now it's time to squeeze the Americans," explained Alexander Novak, Minister of Energy of Russia. The Russians have set out to punish the Americans and the Saudis have set out to punish the Russians. Houston is caught in between. Shale producers were able to continue drilling after the price collapse in '15 because they had access to the capital markets. That's no longer the case. For the past year or so Wall Street has demanded the industry exercise capital discipline and focus on growing profitability, not growing production. With the capital markets closed, firms looked to cash flow to fund their drilling operations in '20. But with oil selling for half of what it sold for two months ago, that cash flow has dried up as well. The energy industry has responded by slashing exploration budgets.

Apache will reset capital investment this year to $1.0 – $1.2 billion, down from $1.6 – $1.9 billion previously announced. Marathon will cut $500 million from its original budget of $2.4 billion. Noble Energy will cut capital expenditures by $500 million. And Occidental Petroleum plans to cut spending for the year by $1.0 billion. More cuts to exploration budgets are expected over the next few weeks. The U.S. rig count has trended downward since December '18, and with declining exploration budgets that trend is likely to continue. During the '15 – '17 bust, upstream energy (exploration, production, and oil field services) lost 42,500 jobs, roughly one-fourth of peak employment. The industry is much leaner now. Fewer than 10,000 of those losses have been recouped. If oil prices remain in the low-$30s for a pro-longed period of time, layoffs will resume. The Greater Houston Partnership's employment forecast for '20 (released in December '19) called for the energy industry to cut 4,000 jobs. That assumed that capital budgets would fall 10-15 percent this year. Reports so far suggest capex may fall 20-30 percent this year. If that holds true, layoffs in energy will double, and perhaps be even higher, than the Partnership's original forecast.

Oil Price Wars by Bobby Tudor

Stock prices for several public companies in Houston were in free fall March 9 as an oil price war and coronavirus fears weighed heavily on investors. The oil price crash was fueled by Saudi Arabia's decision to launch a price war over the weekend. The drop represented crude oil's largest single-day price drop since the Gulf War in 1991, according to the Financial Times. Houston-based energy firms are feeling the sting of the market woes, as energy stocks react to much lower projected levels of global demand for oil amid the coronavirus outbreak, said Bobby Tudor, chairman of Houston-based energy investment banking firm Tudor, Pickering, Holt, & Co. Shares for Apache closed at $9.55 per share March 9, down over 53 percent. Targa Resources Corp. saw its shares drop around 52 percent to close at $13/12 per share March 9. Occidental Petroleum Corp. was trading at $12.51 when markets closed March 9, down from $26.07 per share at the prior close. One of the largest energy employers in the Houston metro region, Occidental acquired Anadarko Petroleum Corp. in a $55 billion deal that closed in August 2019. The market volatility extended down the energy value chain to oil field services – shares for Halliburton fell from $13.07 per share March 6 to close at $8.15 per share March 9. Noble Midstream Partners, Marathon Oil, and EOG Resources – saw notable stock price drops Monday, according to Yahoo Finance. Monday's market volatility is making headlines across the globe, but the downward trend in stock prices for Houston's public energy firms has been going on for a while, Tudor said. "I think what's easy to miss in light of today's carnage is the fact that we've had a very weak year-to-date for energy companies in general in the markets. Most of the companies have seen their stock price decline 20 percent to 40 percent before today," Tudor told the Houston Business Journal. "On the heels of that, today is obviously a lot worse in percentage terms, but in the aggregate, it's just a continuation of a trend." The price of oil collapsed at a time when investors are increasingly demanding more free cash flow generation and returns on their investments from energy companies. With West Texas Intermediate (WTI) crude oil prices currently hovering in the low $30s, it makes it very difficult for any company in the energy business to generate free cash flow, Tudor said. "If these prices are sustained for any meaningful period of time, I think you will see a higher degree of financial restricting required," Tudor said.

2019 Metro Houston Created Jobs

Metro Houston created 62,200 jobs in '19, according to the benchmark revisions released mid-March by the Texas Workforce Commission (TWC). TWC, which surveys employers throughout the year, originally estimated 88,000 jobs for '19. The agency was off by 25,800 jobs. The Greater Houston Partnership's forecast for '19, issued in December '18, and based on data through October '18, was for 71,000 jobs. The Partnership's forecast was off by only 8,800 jobs. The benchmark revisions included adjustments to employment in '18 and '19 but none to prior years. The lack of revisions to data for ’15 – ’17 suggests we have a final picture for how devastating the fracking bust was for the oil and gas industry. Exploration and production, oil field services, oil field equipment manufacturing, fabricated metal products and engineering lost 92,400 jobs, roughly 30 percent of Houston’s total energy workforce. By ’18, Houston had fully recovered from the fracking bust and the devastation of Hurricane Harvey. Growth in ’18 exceeded the long-term annual average of 60,000 jobs. Even though energy weakened mid-year, ’19 was prosperous for Houston. Job growth nearly matched the long-term average. Since the end of the fracking bust, through December ’19, Houston has created 199,300 jobs. To put that in perspective, that’s more than the current total employment of metro Corpus Christi. The benchmark revisions show that largest job gains in Houston last year came in professional, scientific, and technical services (12,900); construction (12,200); and health care and social assistance (9,700). Job losses occurred in oil field services (-2,500); employment services, which includes contract workers (-4,700), and retail trade (-5,000).

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