

The Economy at a Glance Houston

A publication of the Greater Houston Partnership

Volume 24 Number 1 • January 2015

Here We Go Again — For the third time in as many decades, Houston faces a period of low oil prices and high economic uncertainty. The first episode occurred in the mid-'80s when Saudi Arabia flooded the world with crude, thus driving down prices. The second episode coincided with the Great Recession. Energy demand fell, taking oil prices with it. The most recent drop began in mid-'14 and traces its roots to U.S. overproduction, weak global growth, and the Saudis deciding to put a greater priority on market share than price. On June 23, 2014, West Texas Intermediate (WTI) traded at \$107.95 per barrel. At market open on January 13, 2015, the price had fallen to \$44.91.

When will prices rebound? The consensus is that they won't recover this year. Perhaps in '16, if two events transpire—current low oil prices drive a significant amount of production

SPOT PRICES WEST TEXAS INTERMEDIATE, \$/BBL

Event	Oil Peak		Oil Trough		% Change
'80s Recession	Aug '80	\$39.50	Mar '86	\$11.98	69.9
Great Recession	Jul '08	145.31	Dec '08	30.28	79.2
Current Downturn	Jun '14	107.95	Jan '15	44.91*	58.4

* Not the trough but the price as of 8 a.m. January 13
Source: U.S. Energy Information Administration

from the market and global economic growth heats up, stimulating demand for energy. Given the weakness of the European and Asian economies, the restructuring of the Chinese economy, and slower growth in Latin America, production cutbacks are likely to play a larger role in boosting oil prices.

How low will oil prices fall before they recover? That's anyone's guess. However, the NYMEX futures strip suggests that WTI will trade between \$46 and \$54 through the end of the year.¹ CitiGroup expects WTI to average in the mid-\$50s much of the year. BNP Paribas forecasts WTI to average \$55 for the year. The Saudi oil minister, however, has said OPEC will not cut production to prop up prices, even if oil falls to \$20 per barrel.

Will Houston see a repeat of the '80s? Not likely. The region's economy has matured since then. Factors that exacerbated the '80s collapse are not present today. And there's

¹ NYMEX stands for New York Mercantile Exchange, the commodity futures market where fuels, metals and agricultural products are traded.

enough impetus from other sectors to support growth, albeit at a much slower pace than in recent years. Houston's economy this year and next will probably look more like a melding of '04 and '05, when oil traded at \$40 to \$60 a barrel and the region still found a way to add 57,000 jobs. The heady growth of '12, '13 and '14 is behind us for now.

Then vs. Now — The differences between Houston today and in the '80s were discussed in the November '14 issue of *Glance*, but they're worth revisiting here. Office and housing are not overbuilt, banking is better regulated and better capitalized, and Houstonians with memories of the '80s knew high oil prices wouldn't last forever and planned accordingly. A few examples of the differences:

Additional insights into the drop in oil prices and the impact on Houston can be found in the Partnership's [2015 Employment Forecast](#) available on the economy tab at www.houston.org/

- From '82 to '86, developers built more than 100,000 single-family homes, most on “spec,” *i.e.*, without a signed contract from a purchaser. And they continued to build homes while the region lost more than 200,000 jobs. Today, few homes are built on spec, the resale market has half the inventory needed to meet demand, and the region is still creating jobs, just not in energy.
- In the early '80s, developers added more than 71.7 million square feet of office space at the same time companies were laying off staff and declaring bankruptcy. The office market is much tighter now. JLL reports only 16.2 million square feet under construction at the end of '14, of which 56.0 percent is preleased. Overall vacancy rates may rise from 14.6 percent (Q4/14), but they won't approach anywhere near the 30.0 percent rate of July '87.
- In the mid-'80s, many Texas banks made questionable real estate and energy loans that quickly turned sour and led to the institutions' demise. Texas banks are now part of the banking networks of JP Morgan Chase, Wells Fargo, Bank of America, Comerica and BB&T, thus providing a larger cushion for any nonperforming loans that may emerge. The banks are also more closely supervised now than they were in the '80s, and thus less likely to overstretch on loan commitments.
- In the '80s, corporate functions included champagne and caviar. Businessmen crossed town via helicopter. “Drive 90 and freeze a Yankee” appeared on bumper stickers around town. Oilman Eddie Chiles appeared on television shouting, “If you don't have an oil well, get one.” The world saw John Travolta in *Urban Cowboy* as the image of the typical Houstonian. Many of today's business leaders began their careers in the '80s, remembered the excesses, and didn't let things get out of hand during the recent boom. The image Houston now projects to the world is the work ethic of J.J. Watt and the humility of Craig Biggio.

That's not to say Houston won't face challenges in the coming months. Even if crude stabilizes at \$50 a barrel, energy companies will face severe restrictions on cash flow.

Exploration budgets have already been slashed, sources of outside capital are drying up, banks are starting to audit reserves, orders for oil field equipment have fallen off, and service companies have begun quietly handing out pink slips. Don't expect to see a flood of press releases announcing the layoffs. One's more likely to hear of them at the soccer field, in the checkout line, or on the church parking lot before the trend appears in the data reported by the Texas Workforce Commission.

As of early January, more than 40 energy companies have released their exploration budgets for '15, according to Tudor Pickering Holt. Overall, spending will be down approximately 40 percent from last year. Exploration firms are trying to stretch those budgets by demanding price concessions from service firms. The requested cuts range from 10 to 50 percent, reports Tudor Pickering Holt. Agreeing to the cuts will compress margins for some firms and result in outright losses for others. A few will accept short-term losses, hoping to keep crews together until oil prices rebound and margins improve, but most are likely to release their crews, hoping to rehire them later.

A drop of 40 percent in exploration spending suggests 9,000 to 12,000 fewer wells will be drilled this year than last. Fewer new wells will lead to slower production growth and eventually an outright decline in crude output. The recent surge in U.S. production comes from oil shale formations tapped by horizontal drilling and hydraulic fracturing. Seventy percent of their production occurs in the first year, so any slowdown in U.S. drilling will impact the global oil glut. It's not just U.S. production that's under pressure, but high-cost production throughout the world. Production in Canada (oil sands) and Russia (older fields) is thought to be especially vulnerable.

With exploration tapering off, Houston will need to look to other sectors for growth.

- The U.S. economy should expand at 4.0 percent or better this year. Houston's economy benefits whenever U.S. economic growth exceeds 3.0 percent.
- Dodge Data & Analytics reports that \$28.7 billion in construction contracts was awarded in the metro area in the first 11 months of '14, more than double the contract value awarded during the same period the previous year. Much of that work is concentrated in chemicals plants along the Houston Ship Channel, across Galveston Bay, and in Brazoria County. This should continue to provide opportunities for blue collar workers.
- Houston's expanding population (via births and relocations) and aging population (via baby boomers) continues to drive the need for health care.

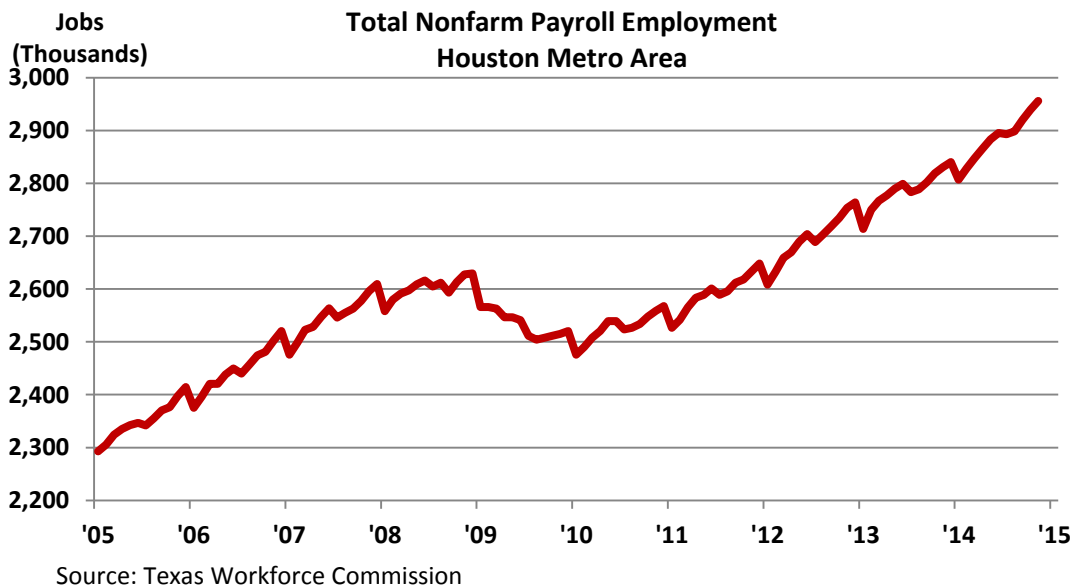
The Partnership's employment forecast calls for growth in all sectors except oil field services, oil field equipment manufacturing, and oil field exploration. Losses may be a bit steeper in energy (a net loss of 9,200 jobs), and growth may be a bit slower (net gain

of 62,900 total jobs) than originally forecast, but the Partnership still expects to see employment growth in '15—just not at the pace of recent years.

Employment Update — The Houston-Sugar Land-Baytown metro area led the state in employment growth, creating 125,300 jobs in the 12 months ending November, according to the Texas Workforce Commission (TWC). The Dallas-Fort Worth-Arlington metro ranked second, adding 111,500 jobs, followed by San Antonio-New Braunfels with 29,100 jobs, Austin-Round Rock-San Marcos with 28,600 jobs, and McAllen-Edinburg-Mission with 7,200 jobs. Since the bottom of the recession, the Houston metro area has added 480,200 net new jobs, or more than three times the 153,800 jobs lost during the recession. With the November employment report, Houston reached a milestone, surpassing 2.95 million jobs.

 Follow me on
Twitter [@PNJankowski](https://twitter.com/PNJankowski)
 Subscribe to my blog
[The Glass Half Full](http://www.houston.org/economy)
also posted at
www.houston.org/economy

Houston's November unemployment rate was 4.5 percent, down from 4.7 percent in October and 5.7 percent in November '13. Texas' unemployment rate was 4.6 percent in November, down from 4.8 percent in October and 5.8 percent in November '13. The U.S. rate was 5.5 percent in November, unchanged from October and down from 6.6 percent in November '13. The rates are not seasonally adjusted.



SNAPSHOT — HOUSTON'S KEY ECONOMIC INDICATORS

Building Permits — Construction permitting in the City of Houston totaled \$8.7 billion for the 12 months ending November '14, a 47.7 percent increase from the \$5.9 billion issued during the same period in '13. For the 12 months ending November, residential permit values rose 42.9 percent—from \$2.1 billion to \$3.1 billion. Nonresidential permits grew from \$3.7 billion to \$5.6 billion, a 50.4 percent increase.

Inflation — The cost of consumer goods and services, as measured by the Consumer Price Index for All Urban Consumers, increased 1.3 percent nationwide from November '13 to November '14, according to the U.S. Bureau of Labor Statistics. Core inflation (all items less the volatile food and energy categories) rose 1.7 percent over the 12 months.

Home Sales — Houston-area realtors remained busy through the fall, selling 6,639 single-family homes in October, a 12.3 percent increase from the 5,912 sold October '13. The Houston Association of REALTORS® (HAR) reports that home prices reached record highs for an October. The average price of a single family home rose 9.8 percent year over year to \$262,013, and the median price of a single family home increased 8.3 percent to \$192,000.

Purchasing Managers Index — The Houston Purchasing Managers Index (PMI), a short-term leading indicator for regional production, registered 51.5 in December, down from 54.3 in November, according to the latest report from the Institute for Supply Management-Houston. The December PMI is the lowest reading for Houston production since November '09.

Vehicle Sales — Houston-area auto dealers sold 27,693 vehicles in November, down 3.1 percent from November '13, according to *TexAuto Facts*, published by InfoNation, Inc. of Sugar Land. Vehicle sales fell for the second straight month, but produced the second highest November in the past 15 years. In the 12 months ending November '14, 371,331 vehicles were sold in the Houston region, up 6.0 percent from the 350,454 sold during the prior 12 months.

Patrick Jankowski and Jenny Philip
contributed to this issue of
Houston: The Economy at a Glance

To access past issues of *Economy at a Glance*, please click [here](#).

If you are a nonmember and would like to receive this electronic publication, please email your request for *Economy at a Glance* to echambers@houston.org. Include your name, title and phone number and your company's name and address. For information about joining the Greater Houston Partnership, call Member Services at 713-844-3683.

The Key Economic Indicators table is updated **whenever any data change** — typically, 11 or so times per month. If you would like to receive these updates by e-mail, usually accompanied by commentary, please email your request for **Key Economic Indicators** to echambers@houston.org with the same identifying information. You may request **Glance** and **Indicators** in the same email.



Follow me on
Twitter [@PNJankowski](https://twitter.com/PNJankowski)



Subscribe to my blog
[The Glass Half Full](http://www.houston.org/economy)
also posted at
www.houston.org/economy

HOUSTON—THE ECONOMY AT A GLANCE

HOUSTON MSA NONFARM PAYROLL EMPLOYMENT (000)

	Nov '14	Oct '14	Nov '13	Change from		% Change from	
				Oct '14	Nov '13	Oct '14	Nov '13
Total Nonfarm Payroll Jobs	2,955.9	2,939.7	2,830.6	16.2	125.3	0.6	4.4
Total Private	2,565.6	2,551.8	2,449.6	13.8	116.0	0.5	4.7
Goods Producing	584.3	586.5	550.4	-2.2	33.9	-0.4	6.2
Service Providing	2,371.6	2,353.2	2,280.2	18.4	91.4	0.8	4.0
Private Service Providing	1,981.3	1,965.3	1,899.2	16.0	82.1	0.8	4.3
Mining and Logging	117.0	117.7	106.9	-0.7	10.1	-0.6	9.4
Oil & Gas Extraction	63.4	63.2	59.2	0.2	4.2	0.3	7.1
Support Activities for Mining	53.5	53.9	47.0	-0.4	6.5	-0.7	13.8
Construction	205.4	206.1	189.2	-0.7	16.2	-0.3	8.6
Manufacturing	261.9	262.7	254.3	-0.8	7.6	-0.3	3.0
Durable Goods Manufacturing	173.2	174.6	171.9	-1.4	1.3	-0.8	0.8
Nondurable Goods Manufacturing	88.7	88.1	82.4	0.6	6.3	0.7	7.6
Wholesale Trade	155.7	156.6	154.4	-0.9	1.3	-0.6	0.8
Retail Trade	300.2	292.3	293.7	7.9	6.5	2.7	2.2
Transportation, Warehousing and Utilities	142.5	139.3	132.8	3.2	9.7	2.3	7.3
Utilities	16.6	16.4	16.0	0.2	0.6	1.2	3.8
Air Transportation	23.3	23.3	23.3	0.0	0.0	0.0	0.0
Truck Transportation	25.1	25.1	24.0	0.0	1.1	0.0	4.6
Pipeline Transportation	9.9	9.8	9.5	0.1	0.4	1.0	4.2
Information	33.8	33.3	32.6	0.5	1.2	1.5	3.7
Telecommunications	15.2	15.1	14.9	0.1	0.3	0.7	2.0
Finance & Insurance	92.0	92.9	89.8	-0.9	2.2	-1.0	2.4
Real Estate & Rental and Leasing	54.0	54.9	52.3	-0.9	1.7	-1.6	3.3
Professional & Business Services	449.0	447.7	431.8	1.3	17.2	0.3	4.0
Professional, Scientific & Technical Services	222.8	221.8	205.0	1.0	17.8	0.5	8.7
Legal Services	24.2	24.2	23.9	0.0	0.3	0.0	1.3
Accounting, Tax Preparation, Bookkeeping	21.0	20.9	20.5	0.1	0.5	0.5	2.4
Architectural, Engineering & Related Services	80.7	79.7	70.1	1.0	10.6	1.3	15.1
Computer Systems Design & Related Services	32.8	32.4	30.3	0.4	2.5	1.2	8.3
Admin & Support/Waste Mgt & Remediation	201.0	200.9	202.5	0.1	-1.5	0.0	-0.7
Administrative & Support Services	189.5	188.9	191.8	0.6	-2.3	0.3	-1.2
Employment Services	80.7	80.7	74.6	0.0	6.1	0.0	8.2
Educational Services	53.5	53.4	50.9	0.1	2.6	0.2	5.1
Health Care & Social Assistance	311.3	310.6	287.7	0.7	23.6	0.2	8.2
Arts, Entertainment & Recreation	29.1	29.4	28.0	-0.3	1.1	-1.0	3.9
Accommodation & Food Services	257.2	252.0	245.2	5.2	12.0	2.1	4.9
Other Services	103.0	102.9	100.0	0.1	3.0	0.1	3.0
Government	390.3	387.9	381.0	2.4	9.3	0.6	2.4
Federal Government	27.7	27.3	27.3	0.4	0.4	1.5	1.5
State Government	73.7	73.6	73.4	0.1	0.3	0.1	0.4
State Government Educational Services	40.0	39.8	39.8	0.2	0.2	0.5	0.5
Local Government	288.9	287.0	280.3	1.9	8.6	0.7	3.1
Local Government Educational Services	203.8	201.8	196.9	2.0	6.9	1.0	3.5

SOURCE: Texas Workforce Commission

HOUSTON—THE ECONOMY AT A GLANCE

Houston Economic Indicators

A Service of the Greater Houston Partnership

MONTHLY DATA

YEAR-TO-DATE TOTAL or YTD AVERAGE*

	Month	Most Recent	Year Earlier	% Change	Most Recent	Year Earlier	% Change
ENERGY							
U.S. Active Rotary Rigs	Dec '14	1,882	1,756	7.2	1,862 *	1,762 *	5.7
Spot Crude Oil Price (\$/bbl, West Texas Intermediate)	Dec '14	60.23	97.07	-38.0	93.38 *	98.00 *	-4.7
Spot Natural Gas (\$/MMBtu, Henry Hub)	Dec '14	3.45	4.23	-18.4	4.31 *	3.71 *	16.2
UTILITIES AND PRODUCTION							
Houston Purchasing Managers Index	Dec '14	51.5	55.4	-7.0	56.5 *	58.4 *	-3.3
Nonresidential Electric Current Sales (Mwh, CNP Service Area)	Nov '14	4,639,848	4,392,870	5.6	49,829,340	48,034,538	3.7
CONSTRUCTION							
Total Building Contracts (\$, Houston MSA)	Nov '14	1,562,009,000	965,565,000	61.8	28,675,379,000	11,546,460,000	148.3
Nonresidential	Nov '14	928,509,000	339,864,000	173.2	19,615,557,000	3,573,055,000	449.0
Residential	Nov '14	633,500,000	625,701,000	1.2	9,059,822,000	7,973,405,000	13.6
Building Permits (\$, City of Houston)	Nov '14	557,555,813	376,587,045	48.1	8,045,099,536	5,517,636,311	45.8
Nonresidential	Nov '14	339,118,105	216,736,377	56.5	5,226,119,177	3,459,875,050	51.0
<i>New Nonresidential</i>	<i>Nov '14</i>	<i>222,121,104</i>	<i>90,666,974</i>	<i>145.0</i>	<i>3,020,860,894</i>	<i>1,774,008,338</i>	<i>70.3</i>
<i>Nonresidential Additions/Alterations/Conversions</i>	<i>Nov '14</i>	<i>116,997,001</i>	<i>126,069,403</i>	<i>-7.2</i>	<i>2,205,258,283</i>	<i>1,685,866,712</i>	<i>30.8</i>
Residential	Nov '14	218,437,708	159,850,668	36.7	2,818,980,359	2,057,761,261	37.0
<i>New Residential</i>	<i>Nov '14</i>	<i>203,537,825</i>	<i>145,848,450</i>	<i>39.6</i>	<i>2,518,213,975</i>	<i>1,850,993,759</i>	<i>36.0</i>
<i>Residential Additions/Alterations/Conversions</i>	<i>Nov '14</i>	<i>14,899,883</i>	<i>14,002,218</i>	<i>6.4</i>	<i>300,766,384</i>	<i>206,767,502</i>	<i>45.5</i>
Multiple Listing Service (MLS) Activity							
Property Sales	Oct '14	8,106	7,182	12.9	69,635	67,920	2.5
Median Sales Price - SF Detached	Oct '14	196,000	182,000	7.7	196,544 *	178,723 *	10.0
Active Listings	Oct '14	28,946	32,457	-10.8	28,759 *	32,787 *	-12.3
EMPLOYMENT (Houston-Sugar Land-Baytown MSA)							
Nonfarm Payroll Employment	Nov '14	2,955,900	2,830,600	4.4	2,884,836 *	2,783,700 *	3.6
Goods Producing (Natural Resources/Mining/Const/Mfg)	Nov '14	584,300	550,400	6.2	571,491 0	546,773 *	4.5
Service Providing	Nov '14	2,371,600	2,280,200	4.0	2,313,345 0	2,236,927 *	3.4
Unemployment Rate (%) - Not Seasonally Adjusted							
Houston-Sugar Land-Baytown MSA	Nov '14	4.5	5.7		5.1 *	6.2 *	
Texas	Nov '14	4.6	5.8		5.3 *	6.4 *	
U.S.	Nov '14	5.5	6.6		6.2 *	7.5 *	
TRANSPORTATION							
Port of Houston Authority Shipments (Short Tons)	Oct '14	3,937,011	3,726,758	5.6	39,197,949	37,552,953	4.4
Air Passengers (Houston Airport System)	Oct '14	4,464,317	4,206,141	6.1	44,255,514	42,273,901	4.7
Domestic Passengers	Oct '14	3,764,899	3,542,097	6.3	36,035,518	34,791,694	3.6
International Passengers	Oct '14	699,418	664,044	5.3	8,219,996	7,482,207	9.9
Landings and Takeoffs	Oct '14	71,482	68,236	4.8	682,547	671,626	1.6
Air Freight (metric tons)	Oct '14	42,810	36,842	16.2	365,823	344,350	6.2
Enplaned	Oct '14	23,424	19,347	21.1	193,329	183,285	5.5
Deplaned	Oct '14	19,386	17,495	10.8	172,494	161,065	7.1
CONSUMERS							
New Car and Truck Sales (Units, Houston MSA)	Nov '14	27,693	28,569	-3.1	348,470	324,998	7.2
Cars	Nov '14	10,916	12,239	-10.8	149,891	144,041	4.1
Trucks, SUVs and Commercial	Nov '14	16,777	16,330	2.7	198,579	180,957	9.7
Total Retail Sales (\$000,000, Houston MSA, NAICS Basis)	2Q14	29,665	29,545	0.4	57,177	55,326	3.3
Consumer Price Index for All Urban Consumers ('82-'84=100)							
Houston-Galveston-Brazoria CMSA	Nov '14	214.8	207.8	3.4	213.500 *	207.200 *	3.0
United States	Nov '14	236.151	233.069	1.3	236.911 *	232.949 *	1.7
Hotel Performance (Houston MSA)							
Occupancy (%)	2Q14	74.7	71.9		74.0 *	71.2 *	
Average Room Rate (\$)	2Q14	111.81	104.65	6.8	109.49 *	102.55 *	6.8
Revenue Per Available Room (\$)	2Q14	83.52	75.25	11.0	81.05 *	73.00 *	11.0

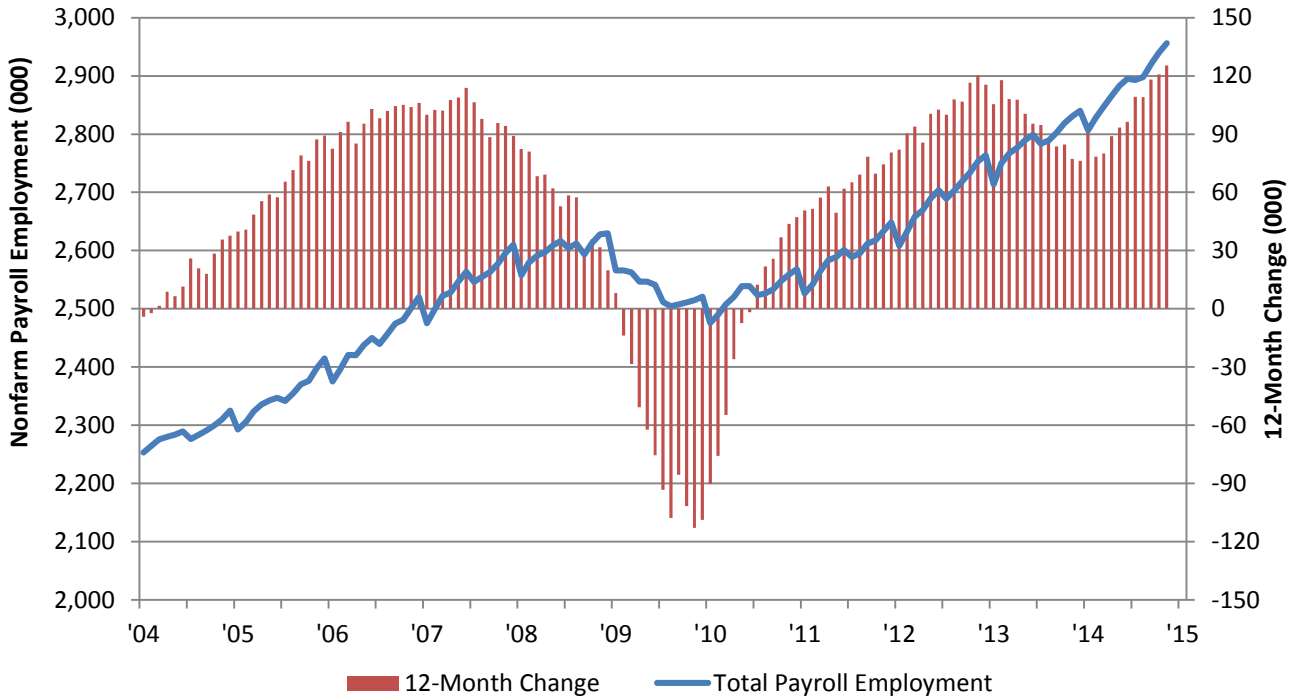
HOUSTON—THE ECONOMY AT A GLANCE

Sources

Rig Count	Baker Hughes Incorporated	Port Shipments	Port of Houston Authority
Spot WTI, Spot Natural Gas	U.S. Energy Information Admin.	Aviation	Aviation Department, City of Houston
Houston Purchasing Managers Index	National Association of Purchasing Management – Houston, Inc.	Car and Truck Sales	<i>TexAuto Facts Report</i> , InfoNation, Inc., Sugar Land TX
Electricity	CenterPoint Energy	Retail Sales	Texas Comptroller's Office
Building Construction Contracts	McGraw-Hill Construction	Consumer Price Index	U.S. Bureau of Labor Statistics
City of Houston Building Permits	Building Permit Department, City of Houston	Hotels	PKF Consulting/HospitalityAsset Advisors International
MLS Data	Houston Association of Realtors®	Postings, Foreclosures	Foreclosure Information & Listing Service
Employment, Unemployment	Texas Workforce Commission		

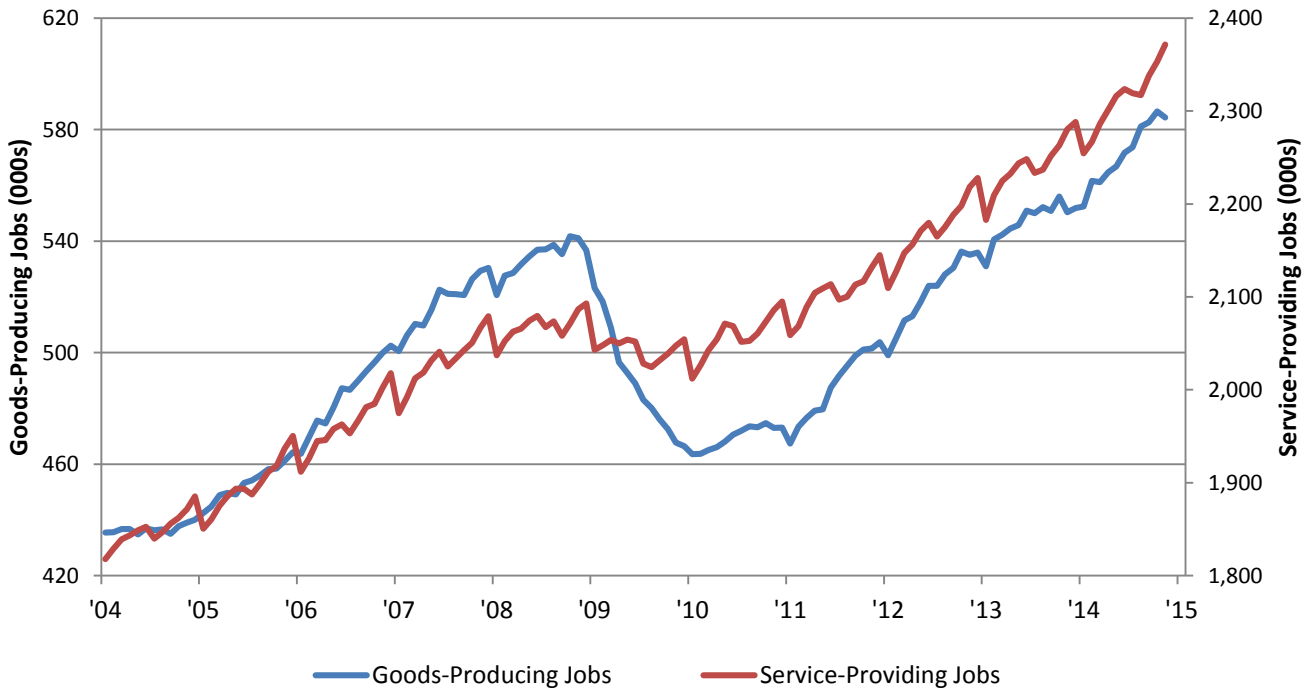
HOUSTON—THE ECONOMY AT A GLANCE

Nonfarm Payroll Employment, Houston MSA



Source: Texas Workforce Commission

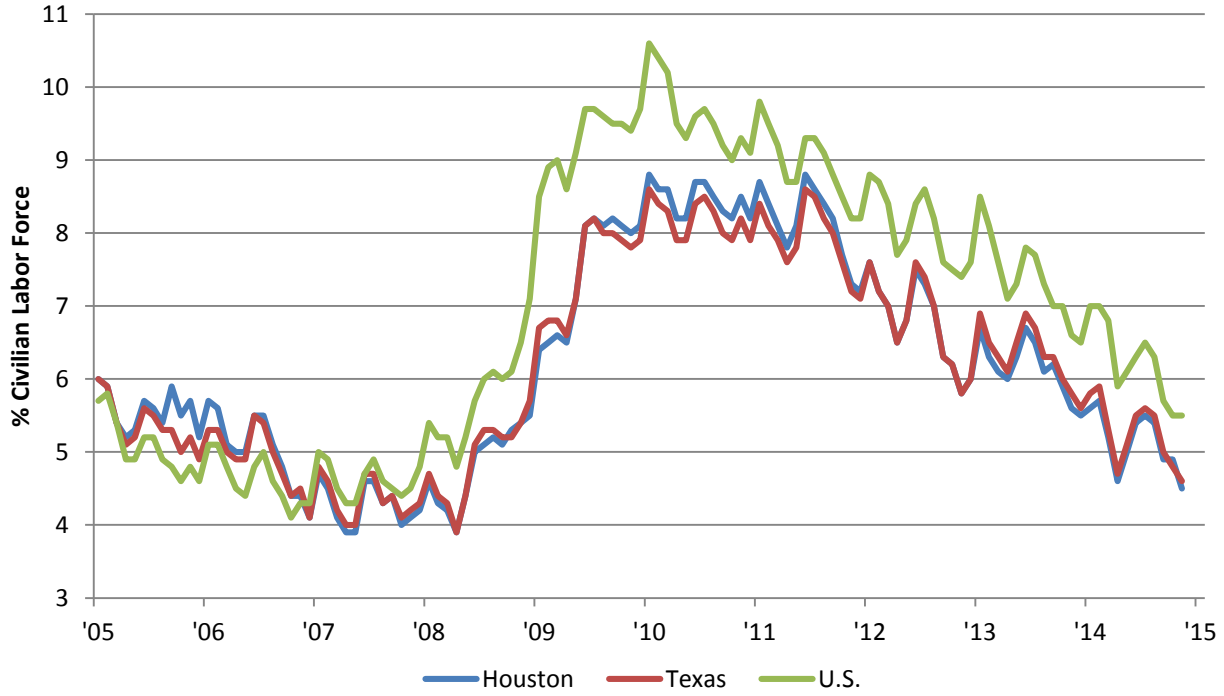
Goods-Producing and Service-Providing Employment Houston MSA



Source: Texas Workforce Commission

HOUSTON—THE ECONOMY AT A GLANCE

Unemployment Rate - Houston, Texas and U.S.



Spot Crude and Natural Gas Prices Monthly Averages

