

# Houston Business

A Perspective on the Houston Economy

*Healthy oil and gas markets and the strong national economy continue to drive Houston's economic expansion. . . . With continued strong local expansion expected through December, Houston can still finish 1996 with its second consecutive year of job growth at 3 percent or better.*

## Houston Economy Shows Endurance And Renewed Strength

**H**ealthy oil and natural gas markets and the strong national economy continue to drive Houston's economic expansion. Between July 1, 1995, and July 1, 1996, Houston's nonagricultural wage and salary employment grew 2.4 percent, but since April seasonally adjusted job growth has accelerated to a 3.1-percent annual rate.

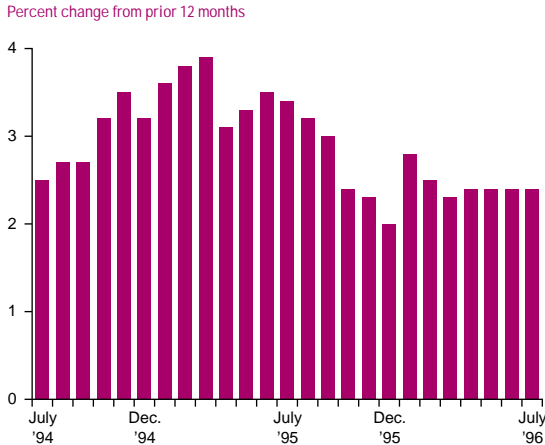
This faster pace coincides with U.S. gross domestic product's second-quarter pickup to a 4.8-percent growth rate and with higher oil and natural gas prices, which benefit Houston's oil extraction industries. With continued strong local expansion expected through December, Houston can still finish 1996 with its second consecutive year of job growth at 3 percent or better.

### RECENT JOB GROWTH TRENDS

The August 1995 issue of *Houston Business* noted Houston's growth over the previous 12 months had been fueled by healthy oil markets, petrochemical expansion and a strong national economy. Changes in the pace or pattern of growth since then result mostly from stronger oil markets or reflect numerous data revisions by the Texas Workforce Commission. Year-over-year job growth reached 2.7 percent in 1994 and 3.1 percent in 1995, but the expansion seemed to lose steam throughout 1995. Figure 1 shows employment growth rates since July 1994, computed each month for the previous 12 months. The pace of Houston's job growth slipped throughout 1995, going from a strong 3.6-percent rate in January to only 2 percent by December. Growth slowly picked back up to 2.4 percent by July 1996.

Seasonally adjusted data for May–July indicate

Figure 1  
Growth in Houston's Nonagricultural Employment



renewed strength and a 3.1-percent annualized growth rate. Leading this renewal are construction (6.3-percent annual growth rate), selected durables such as the machinery industries (a combined 9.6 percent), retail trade (4.1 percent), and finance and services (3.7 percent).

Since July 1995, job growth has been widely distributed throughout Houston's economy; a 2.8-percent growth rate has been shared by manufacturing, construction and private services. Durable manufacturing has grown at 5.8 percent, however, while nondurables have shrunk at a 1.2 percent rate. Strength in durables has been led by fabricated metal (7.6 percent), oil and natural gas machinery (9 percent), and transportation equipment (10.7). Service-sector job growth has come from food stores (3.5 percent), furniture stores (4.8), restaurants (5.4), health services (3.6), social services (4.3), business services (5.8 percent), and engineering, accounting and research management (4.9 percent).

Table 1 compares the number of new jobs created during the three years between July 1993 and July 1996 with two earlier periods—the end of the recovery from the oil bust (1988–91) and the subsequent slowdown (1991–93). Houston has created 47,400 jobs per year since July 1993, a somewhat weaker pace than in the 1988–91 period, when 58,300 were created annually, but almost triple the annual 16,700 created during 1991–93. Looking at selected sectors in this table, the current expansion broadly mimics that of the healthy growth Houston experienced between 1988 and 1991, although current growth is propor-

tionately weaker in mining, manufacturing, health services and government. Government employment growth has disappeared from Houston in recent years, except at the local level.

### GROWTH WITHOUT ENERGY

What is driving Houston's economy right now? In part, the national economy is spilling into Houston. The most important jobs in any city are those in the economic base, associated with the sale of goods and services to other towns, cities and nations. For Houston, this can mean oil services, refined products, medical services and computers. These exports pay for imports from other cities (autos from Detroit, telecommunications from Dallas) and for inherently local services such as laundries, grocery stores, and TV and auto repair.

Two large entries on the non-oil side of Houston's economic ledger are not growing significantly right now. The huge Texas Medical Center (TMC) finds itself under continued pressure to cut health care costs. These cuts include primary care physicians' assumption of more direct responsibility for patients, with fewer referrals to medical specialists. Since the TMC is the chief provider of specialized health services in the southwestern United States, it is not surprising its employment is slowly shrinking. Further, referrals to Houston from across the state are limited by a move to outpatient care and shorter hospital stays. Health care jobs are growing in Houston, but more slowly than in the recent past and with the new jobs more focused on home-based care.

Figure 2  
Houston Oil and Gas Employment by Sector

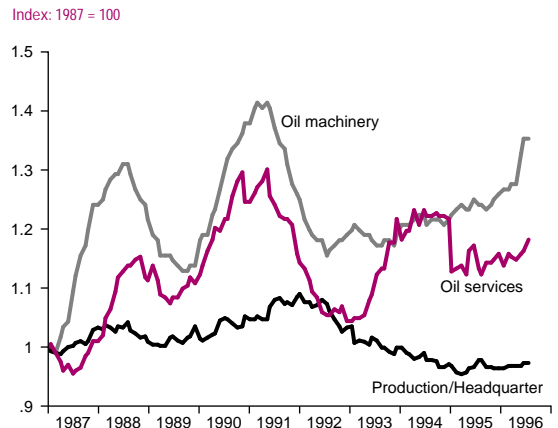


Table 1

Houston Job Growth by Selected Industries  
(Thousands of Jobs Created Per Year)

	1993-96	1991-93	1988-91
Total nonagricultural jobs	47.4	16.7	58.3
Mining	-2	-2.9	1.6
Producers	-5	-1.5	.7
Oil services	.4	-1.4	.9
Construction	5.1	.1	6.4
Manufacturing	4.5	-2.7	8.4
Durables	5.3	-3.3	6.2
Industrial machinery	2.6	-3.3	3.3
Electronic machinery	.5	-.2	.2
Nondurables	-.8	.6	2.2
Chemicals	-.1	.1	1.1
Refining	-.2	.3	.3
Rubber and plastics	.2	.3	.6
TCPU	3.9	-.3	3.8
Wholesale trade	2.2	-3.5	2.8
Retail trade	8.5	7.5	6.2
FIRE	-1.1	-.5	-1.0
Services	18.7	11.5	20.7
Personal services	.3	.6	.5
Business services	7.8	2.3	6.4
Health services	2.5	4.8	5.4
Engineering and management	1.9	1.5	4.0
Government	5.1	7.4	8.4
Local government	5.3	6.8	4.9

NOTE: TCPU is transportation, communications and public utilities; FIRE is finance, insurance and real estate. Figures for 1993-96 are for July 1993 through July 1996.

Similarly, the Johnson Space Center is coping with budget cuts and the attrition of a few hundred jobs per year among its civil service and contractor employees. Like the Medical Center, this is not a major source of weakness in Houston's job market, but neither is aerospace delivering the economic strength and job growth it provided in the late 1980s.

There are plenty of other places for non-oil jobs to grow, of course. Compaq Computer provides 9,300 jobs. Several large environmental and waste management companies make Houston home, such as Browning-Ferris Industries, Allwaste and Sanifill, as do multi-billion dollar companies that are headquartered here, such as American General Life Insurance, Continental Airlines and food distributor Sysco. Jobs generated by a strong national economy are funneled to Houston through all these channels.

#### WHERE ARE THE OIL JOBS?

Figure 2 shows oil employment trends among Houston's producer, headquarter, oil services and oil machinery industries. Services and machinery companies have been adding jobs for several months, a trend that will con-

tinue the rest of the year.

Recent growth in Houston's durable goods sector probably stems from backward linkages from the services and machinery companies. The demand for oil services remains extremely strong, and every effort is being made to expand oil services. Shortages of both equipment and oil field skills are limiting the rate at which the industry can ramp up to higher levels of activity.

About half of Houston's oil extraction employment is in producer and headquarter jobs, a sector that has not expanded since 1990-91. With oil prices over \$20 per barrel and natural gas prices over \$2 per thousand cubic feet much of the summer, with producers' cash flow up sharply and industry profits at their highest levels this decade, why aren't these companies expanding?

The short answer is that they probably are; we just don't know in which industry to look for these jobs. Outsourcing has become a way of life for large oil companies, which rely on outside suppliers for legal, accounting, secretarial and even stockroom services. A marginal increase in oil-related activity is now likely to show up as a new job in business, managerial or accounting services, not in oil extraction itself. As Table 1 shows, despite slower overall job growth, business services added jobs faster over the past three years than from 1988 to 1991.

Finally, when oil is discussed in Houston, we are often quick to think of oil extraction and slow to remember Houston's vast petrochemical complex. This downstream complex of chemical plants and refineries provides large numbers of construction and engineering jobs, particularly when it is expanding. The petrochemical industry enjoyed record profits in 1995, as capacity tightened for a variety of products.

An article early this year in the *Oil and Gas Journal* listed 10 major ethylene facilities with a high or medium likelihood of being built on the Texas Gulf Coast. Seven of the 10 were in Baytown, Sweeney, Deer Park and Channelview and the other three in Beaumont, Port Arthur and Point Comfort. Most of these ethylene projects are now under construction, providing a large number of local construction jobs. A similar list of expansions could be compiled for other petrochemicals, such as propylene, styrene, polypropylene or polyethylene.

**H**ouston's growth accelerated over the second half of the summer, with help from a strong U.S. economy and high oil and natural gas prices. Virtually every sector of the local economy shows gains compared with last year's performance, and the pace of employment, auto sales, construction and home sales has stepped up in recent months.

#### RETAIL AND AUTO SALES

Retailers reported excellent back-to-school promotions, providing a nice pickup in sales from the slow pace earlier this year. Summer inventories cleared out on schedule, with same-store sales improving on the levels experienced a year ago. Retailers report high interest in early fall fashions, an element missing in recent years.

Houston enjoyed its best July ever for auto sales, up 3 percent from an excellent July 1995. July is always a strong month for auto sales, but a combination of manufacturers' rebates, favorable interest rates and strong local job growth had to fall in place to generate such a good month.

#### CRUDE OIL AND NATURAL GAS PRICES

As all the details of the Iraqi food-for-crude deal seemed to be worked out, crude oil prices settled into a range of \$21 to \$22. The collapse of this arrangement, along with the accompanying tensions in the Middle East, quickly pushed crude prices back near \$25. The loss of 700,000 barrels of daily Iraqi production over the winter will keep oil markets tight, with the weather determining exactly how tight.

Mild weather and rising storage levels pushed natural gas prices to six-month lows in late summer. Spot prices moved near \$2 per thousand cubic feet, after spending early summer near \$2.60. July spot prices at Louisiana's Henry Hub still averaged \$2.33, compared with \$1.25 last year. Cool summer weather meant less gas burned by electric utilities for air conditioning and more gas available for storage. Concerns about winter natural gas storage will resurface if winter arrives unusually early or turns bitterly cold.

#### DRILLING AND OIL SERVICES

Oil services and machinery firms report very strong demand. They are hiring, outsourcing, using overtime and turning equipment around as fast as possible to avoid turning customers away. Oil field skills are in short supply, and some companies are paying retention bonuses to keep machinists and geologists.

#### REFINING AND PETROCHEMICALS

High demand for oil products is supporting crude oil prices. Strong economic growth is providing some momentum, but heating oil prices have soared early in the heating season as customers seek to avoid the shortages and price spikes of 1995. Further, airlines postponed purchases of jet fuel, expecting oil prices to fall with the arrival of Iraqi crude, and they now find themselves caught short of adequate supplies.

Gulf Coast refiners have struggled with generally weak margins, as crude oil prices have kept pace with product prices. Profit margins improved in recent weeks but are up only slightly from the poor levels of early summer.

Petrochemical demand continues to improve slowly. Packaging materials continue to provide strength to the market, although synthetic fiber demand is relatively weak. Margins remain weak compared with the records set in 1995, but they have strengthened over the summer to healthy levels. Margins have improved as stronger demand for chemicals has boosted product prices and as the price of natural gas liquids for feedstocks has declined.

#### HOME SALES

Both new and existing home sales flattened in August, but the comparison is with extremely strong late-summer sales in 1995. In both new and existing home markets, sales are strong, inventories are low and prices are rising. Tight markets are pulling up prices, and brisk sales of homes priced at \$500,000 or above are pulling up the median price. This high-end market has been weak in recent years but has improved largely due to corporate relocations from areas with higher priced housing.

For more information, call Bill Gilmer at (713) 652-1546.

For a copy of this publication, write to

Bill Gilmer • Houston Branch • Federal Reserve Bank of Dallas  
P.O. Box 2578 • Houston, Texas 77252

The views expressed are those of the author and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or the Federal Reserve System.