

Houston Economic Indicators

DALLAS FED

FEDERAL RESERVE BANK OF DALLAS • NOVEMBER 29, 2016

Summary Recent data continue to affirm a more positive outlook for Houston. Several leading indicators for the region have improved, and service sector job growth is accelerating. Employment has grown in each of the past four months, though recent gains in energy have been offset by losses in construction. The health care industry continues to grow, and construction activity for that sector is likely to expand. While recent data can be revised significantly and thus should be interpreted with caution, Houston is showing broad signs of improvement.

Business-Cycle Index

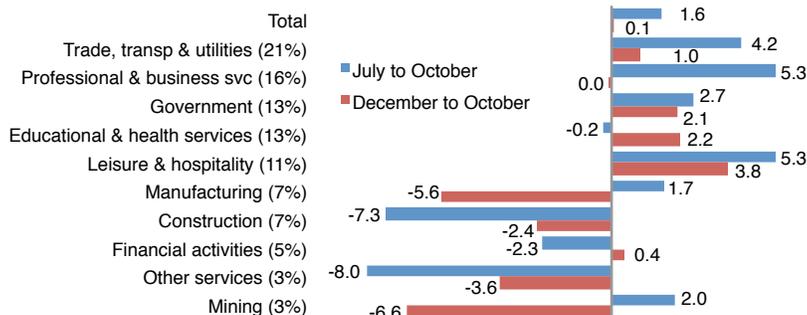


*Annualized month-over-month growth rate.
SOURCE: Dallas Fed.

- ▶ The 2015–16 oil bust drove Houston into the red more quickly than previously measured, according to recent data revisions to the second half of 2015. That means the [Houston Business-Cycle Index](#) contracted 0.9 percent last year as opposed to the 0.5 percent contraction reported [last month](#). Revisions also indicate the metro did better in first quarter 2016 than previously estimated.
- ▶ The index is now much less negative for the year, and the most recent data suggest Houston may have turned a corner: The annualized growth rate of the index was 2 percent in October—the fourth consecutive month of growth.

Employment

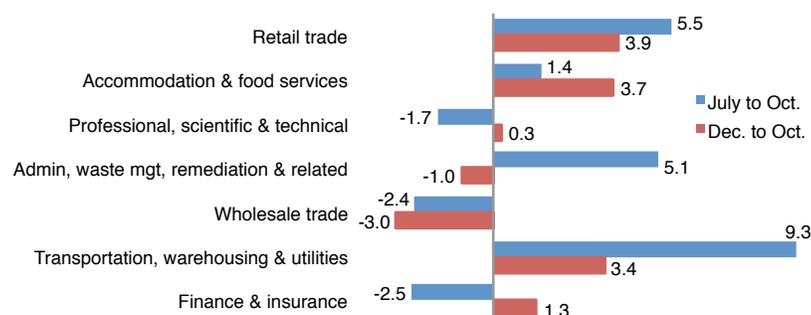
Employment Growth



NOTES: Data show seasonally adjusted and annualized percentage growth by industry supersector. Numbers in parentheses represent share of total employment and may not sum to 100 due to rounding.

SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

Selected Services Employment



NOTE: Data are annualized and seasonally adjusted percent changes. Industries are listed from largest to smallest.

SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

- ▶ Total nonfarm employment in [Houston](#) grew an annualized 1.6 percent from July to October. Growth came mostly from trade, transportation and utilities (6,300), professional and business services (6,000 jobs) and leisure and hospitality (4,000). Construction led job losses (-4,100), followed by other services (e.g., auto mechanics, dry cleaning and animal boarding). Manufacturing and mining both saw growth for the first time since the oil bust began.

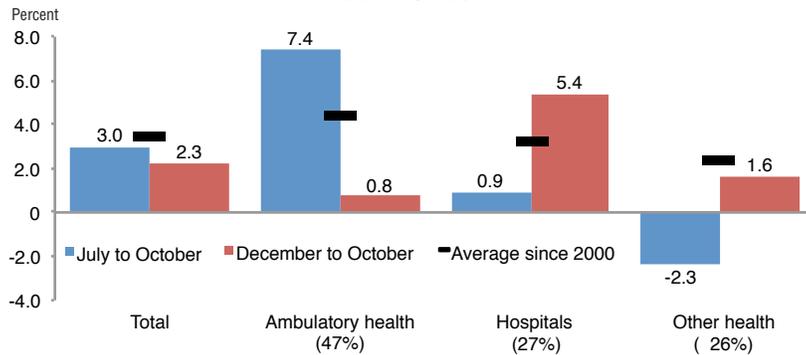
- ▶ From December 2015 to October 2016, job growth was just above zero, thanks to recent gains and an upward first-quarter [revision](#).

- ▶ Houston's unemployment rate fell to 4.6 percent in October as the local labor force contracted. The rate has averaged 4.7 percent since June, and the labor force has effectively been flat over that time. The October unemployment rate was 4.9 percent for the U.S. and 4.7 percent in Texas.

- ▶ Job growth has been picking up in services since the first quarter of this year. Retail (4,100 jobs), transportation, warehousing and utilities (3,100) and administrative jobs (2,500) were growth leaders among nonhealth industries. Wholesale trade (-900 jobs), professional, scientific and technical (-900) and finance and insurance (-600) led declines.

Health Services

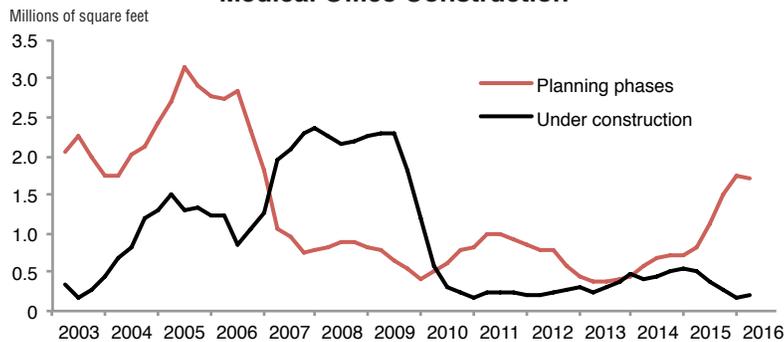
Health Jobs



NOTE: Data show seasonally adjusted and annualized percentage employment growth. Numbers in parentheses represent share of total health employment and may not sum to 100 due to rounding.

SOURCES: Bureau of Labor Statistics; adjustments by the Dallas Fed.

Medical Office Construction



NOTE: Data are centered three-quarter moving averages, not seasonally adjusted. Medical office construction does not include hospitals.

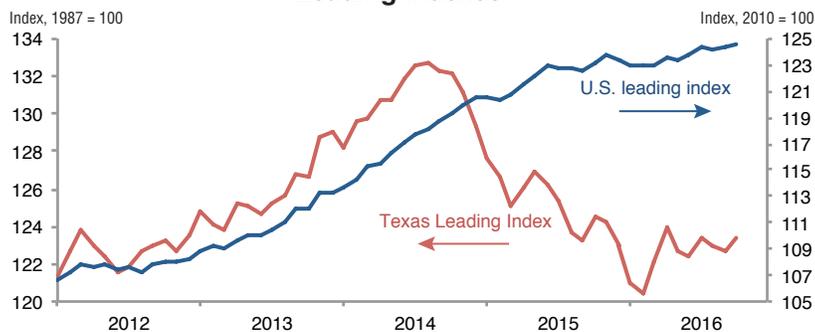
SOURCE: CBRE-EA.

▶ Total private health employment growth has improved since June but hasn't regained the strength that persisted in 2014 and 2015. Ambulatory health (e.g., physicians' offices, dentists and private clinics) grew strongly from July to October (2,700 jobs). Hospital employment has slowed considerably the past few months (200 jobs) but remains above its historical annual rate of 3.2 percent this year to date.

▶ The square footage of medical office space under construction ticked up in third quarter 2016 and equals over \$360 million in value. The amount of space in planning phases had risen 135 percent since the end of 2014 before hitting a plateau earlier this year. That rise in planned space suggests an increase in medical office construction for 2017 and 2018, mostly in the Houston Medical Center. This activity is running parallel to the more than 5 million square feet of hospital space planned or under construction around the Houston area.

Leading Indicators

Leading Indexes



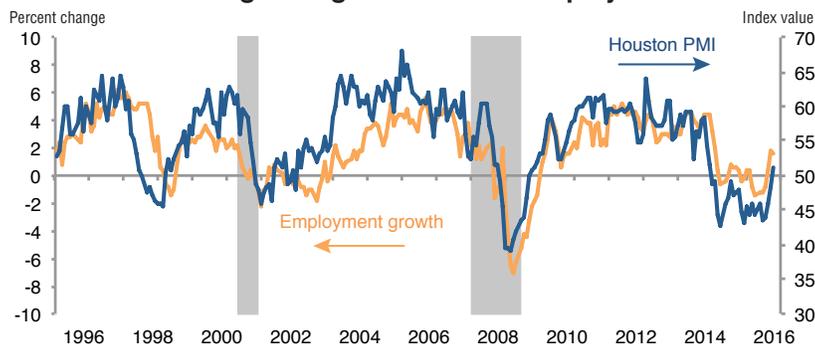
NOTES: November's Texas Leading Index data point is an estimate.

SOURCES: Conference Board; Dallas Fed.

▶ The U.S. leading index increased marginally in October, extending a trend that began in April. This implies improvement in Houston employment growth over the next three to six months, particularly for service sector jobs. The [Texas Leading Index](#) also ticked up in October and is generally supportive of a modest improvement in Houston employment growth, especially in the next two to five months.

▶ The Houston Purchasing Managers Index (HPI) has moved upward the past two months to reach 51.1 in October. This is the first reading above 50 since the oil bust began. Since its inception in 1995, the HPI has had a strong relationship with employment growth in the metro and has tended to lead turning points in the broader local economy. Two components of the index have driven improvement the past two months: sales and production. Production in particular has a strong leading relationship with employment and suggests improved job growth over the next one to four months.

Purchasing Managers Index and Employment



NOTES: Employment growth is a three-month percent change. Gray bars indicate U.S. recessions.

SOURCES: Institute for Supply Management; National Bureau of Economic Research; Bureau of Labor Statistics; Dallas Fed.

NOTE: Data may not match previously published numbers due to revisions.

CONTACT: For questions or information, contact Jesse Thompson at jesse.thompson@dal.frb.org.