

# Houston Economic Outlook for 2012

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According to the Federal Reserve, the national economy is expected to grow at a 2% rate in 2012 with a moderate increase in consumer spending and greater business investments while government spending is expected to keep falling. Despite record profit levels, businesses remain very cost conscious and weary of the high level of uncertainty that characterizes the near future. Europe is likely to experience a double dip recession due to their financial and debt crisis which is likely to affect US exports and financial sector. The current political climate also represents a significant impediment to the recovery, as Congress is unable to agree on a budget and a set of economic policies and as the upcoming presidential campaign is likely to prevent needed legislative reforms. Consequently, job creation has been very slow and the unemployment rate is likely to remain relatively high in 2012. Consumers faced with unfavorable job prospects and still tight credit conditions are spending moderately more but not enough to greatly boost demand and create significant growth. Inflation is forecasted to remain moderate at 2.4% in 2012. Local government budgets are shrinking having a negative impact on jobs and growth, while budget cuts are being debated in Washington.

The Houston area has already recouped the 152,800 jobs lost during the recession and should continue on its path to expansion and should see the creation of 84,600 jobs in 2012 according to the Greater Houston Partnership. The Texas State Data Center forecasts that the Houston metro area will add 600,000 new residents in the coming 5 years which should boost our long term growth.

The volume of trade, imports and exports in Houston is projected to keep increasing. The Port of Houston is growing and planning to invest \$3 billion over the next 15 years improving its wharves and cranes and upgrading container terminals to accommodate larger ships which will be able to access the Gulf of Mexico within 2 years when the widening of the Panama Canal is finalized.

According to the U.S. Energy Information Administration (EIA) global demand for oil is expected to rise over the coming years and oil prices are forecasted to increase to an average of \$98.00 a barrel in 2012. High oil prices will benefit the oil industry which is likely to keep creating jobs (a 12.5 percent increase in 2011). Even though the oil and gas sector represents only 3.5% of the total workforce, it drives employment in other industries that are somewhat related to oil and gas. The hydraulic fracturing is promoting growth in the exploitation of new gas fields.

The Education and Health Care sector has continuously added jobs despite the recession and will continue to do so. In 2011, this sector created 11,600 jobs. The Health Care sector is responsible for most of the growth, and as the population grows and ages in the Houston area, and as Health Care reforms require the state to provide more care in the future, the demand for health care will keep increasing.

The construction and financial sectors which were at the heart of the recession are improving slowly. The number of foreclosures in the Houston area is down since November last year as well as the number of properties for sale, but the volume of building contracts is down and many commercial buildings are still vacant. The construction sector, which experienced only a 3 percent growth in jobs in 2011, is expected to add 9,800 jobs in 2012. The financial sector only added 2,400 jobs in the last 12 months and is far from complete recovery. The mortgage industry is still in difficulty and new complex regulations and looming financial crisis in the Euro zone add to the uncertainty in this market which is expected to add only 1,600 jobs in 2012 according to the Greater Houston Partnership.

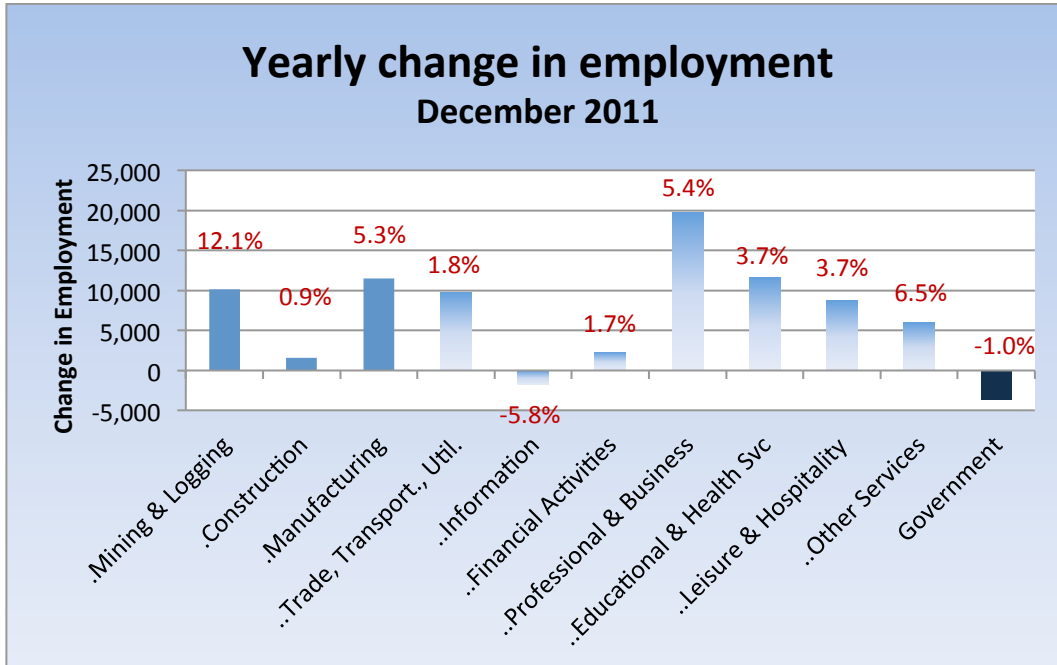
## Changes in the Job Market

In January 2012, the national unemployment rate fell to 8.3 percent, a 0.8 percent decrease since August 2011, due to a sizable increase in the number of employed. This job growth was

experienced across many sectors especially in professional and business services, leisure and hospitality and manufacturing. The number of job losers and temporary jobs fell to 7.3 million. All these factors led to an increase in the labor force participation rate to 63.7 percent. The only unfavorable indicator in January was the number of long term unemployed (more than 27 weeks) which did not decrease.

In December 2011, the unemployment rate in the Houston Metropolitan area dropped to 7.3 percent; a one point reduction from a year ago. In the Houston area, 75,800 jobs were added during 2011. The largest increase took place in the Professional and Business Services, Manufacturing, and Mining and Logging.

Houston - The Main Numbers		
	December 2011	2011
<b>Unemployment</b>	<b>7.3%</b>	<b>8.3%</b> (preliminary)
<b>Job growth</b>	<b>-500 jobs</b>	<b>75,800</b>
<b>Inflation</b>	<b>-0.5%</b>	<b>3.1%</b>



Notable job growth occurred in Health Care with 10,800 jobs; a 4 percent jump, and Administrative and Support and Waste Management with 12,000 jobs, an increase of 7.1 percent.

Source: Texas Workforce Commission

For additional data go to the Texas Workforce Commission website:

<http://www.twc.state.tx.us/customers/rpm/rpmsub3.html>

For more information on the North American Industry Classification System (NAICS) used here go to:

<http://www.census.gov/eos/www/naics/index.html>

## Where the jobs are?

The Houston Economy is very much a service economy with 81 percent of the jobs currently in the service sector. However during 2011, the goods producing sector has increased its share of economic activity in Houston because of rising production and employment in the Mining and Logging and in the Manufacturing sectors. The private sector has also grown in importance in Houston as the local government is shrinking in terms of jobs and activity.

Mining and Logging is the sector that grew the fastest in 2011 with a 12.1 percent increase in the number of jobs (10,100 jobs); growing global demand throughout most of 2011 and strong oil prices fueled activity and job growth in this sector.

Trade, Transportation and Utilities activities account for 20.6 percent of the jobs and added 9,800 jobs since December of last year. *Trade activity* is booming and has broken the annual record set in 2008 according to the Houston Galveston Customs District. Cargo value reached \$242.2 billion in November 2011, which represents a 27.2 percent jump compared to the same period last year. A weaker dollar is fueling our exports and the *Port of Houston's* level of activity is rising. As of October 2011, the Port of Houston has seen a 10% increase in tonnage, 12% increase in revenue and 35% increase in net income compared to last year.

*International air traffic and airfreight* continue to grow with a 1.5 percent increase in international passenger traffic, a 0.8 percent rise in domestic passenger traffic, and a 5.7 percent jump in air cargo (tonnage).

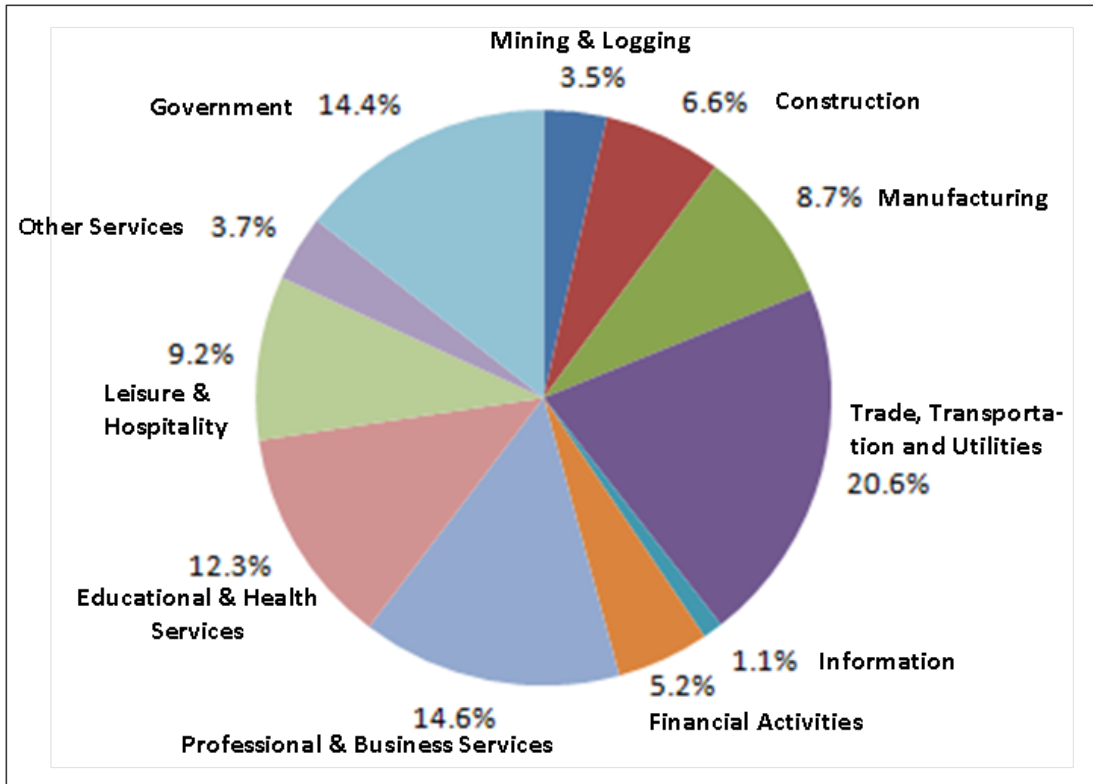
Professional and Business Services accounted for 385,900 jobs in December 2011 with the bulk of those jobs in Professional, Scientific and Technical Services and Administrative and Support Services.

The Government sector is a significant job supplier with 381,300 jobs in December 2011 with the bulk of those jobs in Local Government. This sector has lost 3,700 jobs over the past year.

The Education and Health Services represent a large and growing sector with 324,700 jobs in December 2011. Over the last 12 months, 11,600 jobs were created in this sector with notable growth in the Ambulatory Health Care Services with 11,000 jobs created; an 8.8 percent jump.

## Job Distribution – Houston Area

December 2011



Source: Texas Workforce Commission, Greater Houston Partnership, Houston Airport System

## Changes in the cost of doing business

Inflation as measured by the Consumer Price Index rose 3.1 percent in 2011 (December 2010 to December 2011) in the Houston area. In the same time period, Food and Beverage prices increased by 4.7 percent while the energy index rose by 7.7 percent as gasoline prices jumped 10.1 percent.

In November and December 2011 Inflation fell 0.5 percent in the Houston area, the decline is attributed the two-month reduction in the indexes for energy (-1.6 percent) and all items less food and energy (-0.4 percent)

Nationally, inflation also reached 3 percent before seasonal adjustment from December 2010 to December 2011, a significant jump from the 1.5 percent of 2010, and also the highest increase since 2007. The energy index increased 6.6 percent in 2011 compared to 7.7 percent in 2010 while the household energy index saw a greater increase in 2011 (1.8 percent) than in 2010 (0.8 percent). The increase in food prices was also greater in 2011 with 4.7 percent compared to 1.5 percent in 2010. The same pattern applies to the index for all items

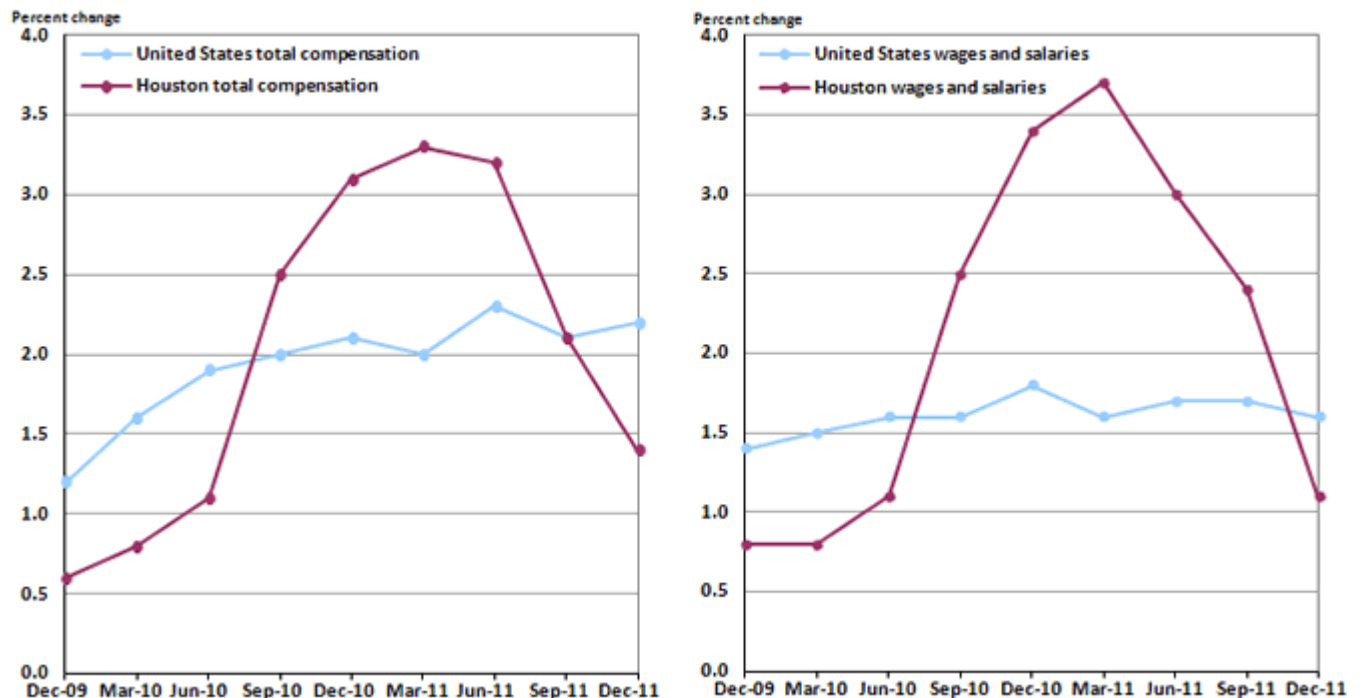
less food and energy, which posted the largest gain since 2007 with a 2.2 percent increase in 2011, compared with 0.7 percent in 2010.

The energy price index decreased in December (-1.3 percent) as it did in the previous two months (-2.0 and -1.6 percent) while food prices rose moderately by 0.2 percent. Price indexes for shelter, recreation, medical care and tobacco all went up while those of used cars and trucks, new vehicles and apparel fell in December 2011.

Source: Bureau of Labor Statistics - <http://www.bls.gov/ro6/>

Total compensation costs for private industry workers that comprise salaries, wages and benefit costs, increased 1.4 percent in the Houston-Baytown-Huntsville metropolitan area during 2011. This increase is lower than the national average that stands at 2.2 percent. Wages and salaries, the largest component of total compensation costs, rose 1.1-percent for the 12-month period ended in December 2011, also lower than the national increase of 1.6 percent.

**Chart 1. Twelve-month percent changes in the Employment Cost Index for total compensation and for wages and salaries, private industry workers, United States and the Houston area, not seasonally adjusted, December 2009 to December 2011**



Source: U.S. Bureau of Labor Statistics

Nationally, productivity increased at a 0.7 percent annual rate (seasonally adjusted) for the fourth quarter of 2011 as output increased by 3.6 percent while hours worked rose by 2.9 percent. From the fourth quarter of

2010 to the fourth quarter of 2011, the gain in productivity was 0.5 percent as output increased 2.3 percent while hours worked rose 1.8 percent.

Since productivity increased 0.7 percent in the fourth quarter of 2011 while hourly compensation increased 1.9 percent, labor costs rose 1.2 percent. Over the last four quarters, a similar pattern emerges, hourly compensation increased more than output causing unit labor costs to rise 1.3 percent.

The manufacturing sector is not performing as well as productivity fell 0.4 percent in the fourth quarter of 2011, however the yearly numbers are better with a productivity increase of 1.7 percent. Unit labor cost rose 1.6 percent in the fourth quarter of 2011 but decreased 1.1 percent from the same quarter last year.

Source: Bureau of Labor Statistics – Southwest

[http://www.bls.gov/ro6/eci\\_hou.htm](http://www.bls.gov/ro6/eci_hou.htm)

<http://www.bls.gov/news.release/prod2.nr0.htm>

Labor productivity, or output per hour, is calculated by dividing an index of real output by an index of hours worked of all persons, including employees, proprietors, and unpaid family workers. Unit labor costs are defined as the ratio of hourly compensation to labor productivity; increases in hourly compensation tend to increase unit labor costs and increases in output per hour tend to reduce them.