



# The Economy at a Glance Houston

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- **Job Growth in '07 Strong, But Slower Than in '06** — Look for job growth in Houston to moderate in '07. The Greater Houston Partnership forecasts a net gain of 65,000 jobs in the 10-county Houston-Sugar Land-Baytown Metropolitan Statistical Area, down from 72,400 expected to be tallied this year. (See first graph.) Even so, Houston's 2.6 percent increase will easily outstrip nationwide growth, generally anticipated at slightly more than 1 percent.

## *What's Driving Houston?*

Evidence is widespread that the national economy is slowing, and Houston isn't immune to the effects. Real Gross Domestic Product growth is widely expected to fall from 3.3 percent this year to something less than 3 percent in '07. Consumer spending, which accounts for roughly two-thirds of GDP, cannot continue to grow as it has: the ratio of household debt to income has risen sharply over the past five years, and deteriorating home equities in many markets preclude refinancing to underwrite further increases in consumption. And housing starts nationally have tumbled sharply in recent months.

While slower national economic growth imposes constraints on Houston, two other exogenous factors should continue to work as stimulants to the local economy. Further weakening of the dollar (Wachovia Economics Group expects a bit more than 5 percent slippage in '07) is a plus for Houston's exports of goods and services, and continued relatively high energy prices benefit Houston's upstream energy sectors.

## *Where the Jobs Are*

In the aggregate, Houston's goods producing industries should show a net gain of 16,500 jobs in '07, up 3.4 percent from '06. (See first table.)

The big story for Houston in '05 was a growing conviction in **upstream energy**—reflected in hiring—that higher oil prices carried an acceptably small downside risk. Support activities for mining (in Houston, almost exclusively oil and gas) saw job growth of 10.8 percent last year, and should end '06 up another 12.2 percent. Growth this year has been hampered by a shortage of qualified workers—a situation expected to persist in '07, when this industry should see job growth slow to some 7.9 percent. Also contributing to this anticipated slowdown are indications that oil supply worldwide is easily meeting demand—witness OPEC's recent efforts to curb production to support prices.

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**Construction** employment locally has jumped nearly 8 percent this year, in large part on the continued strength of the new housing market. Based on this year's level of housing starts—perhaps 50,000 single- and 18,000 multi-family units—additions to housing stock are substantially outpacing growth in the number of households, and a correction is overdue. That downturn should occur in '07, but it should be partly offset by growing commercial construction. Industrial construction in Houston remains strong, bolstered in part by expansions at the Port of Houston, and an improved office market is feeding demand for new space. "'07 should be another good year for Houston commercial construction," says one industry observer, who notes that the cost of construction materials is not likely to rise as much over the coming year as it did over the past year.

**Manufacturing** ekes out a modest gain of 2,700 jobs, or 1.2 percent, in the Partnership's '07 forecast, as continued growth in durable goods production, sparked by solid demand for new oilfield equipment, more than offsets a further decline in nondurable goods. The capital-intensive refining and chemicals industries, which together constitute more than 60 percent of nondurables employment here, manage small gains, but the long-term decline in other nondurables industries—food, beverages, printing, paper products, and so on—continues.

Houston's services providing industries are expected to net a gain of 48,500 jobs, or 2.4 percent, in '07, down 0.4 percentage points from '06.

**Wholesale trade**, helped by continued weakening of the dollar, should add 2,500 jobs in '07, up from 2,200 this year. **Retail trade**, which has been struggling to add workers and increase efficiency simultaneously, adds fewer than 1,000 jobs in this forecast.

**Transportation and warehousing**, boosted by increased trade and expanded port activity, appears on track to add more than 8,000 jobs in '07.

**Professional, scientific and technical services**, bolstered by demand from upstream energy, should gain 6,000 jobs, including 2,000 in architectural and engineering services and 1,000 each in legal services, accounting/tax preparation/bookkeeping services, and computer systems design.

**Administrative and support services**, an industry that includes many activities that were formerly conducted in-house but now are commonly contracted (e.g., payroll, bookkeeping, and servicing and cleaning of buildings), should add 8,000 jobs, reflecting healthy growth in Houston's commercial real estate markets.

**Health care and social assistance**, a sector that seems nearly impervious to fluctuations in the business cycle, is expected to add 7,500 jobs. That 3.2 per-

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cent rise, coincidentally, matches the average annual growth of this sector over the past 10 years.

With Houston poised for the first year in which it enjoys the full fruits of new facilities to host major conventions, *accommodation and food services* should see job growth accelerate to 4,400 jobs, or 2.4 percent, up from 2.0 percent this year.

In Houston, where public education accounts for nearly three in five government jobs, *government* should see 2.1 percent job growth in '07, trailing overall job growth by half a percentage point, but running nearly even with the population growth rate.

“Coach always said, ‘If you can’t do it three times in a row, you’re just lucky,’” said Partnership CEO and president Jeff Moseley. “In that context, next year looks very promising for the Houston region, which should have its third consecutive year of dynamic job growth. No doubt our global status in energy and international trade positions us well to once again outperform the national economy.”

### *An Optimistic Caveat*

In the first quarter of each year, the Texas Workforce Commission issues its annual benchmark revisions of employment estimates for the preceding 21 months. The TWC has a long history of consistently underestimating change in its monthly estimates, and the benchmark revisions often paint a substantially different picture than did the initial estimates. In March '06, for example, Houston's '05 net job growth was revised from 48,000 to more than 75,000.

Data from the *Quarterly Census of Employment and Wages* for the first two quarters of '06 suggest that the data on which this '07 forecast is based are also underestimates, although it's difficult to guess the extent to which the more recent monthly estimates have been influenced by these two *QCEW* reports. Should the forthcoming benchmark revisions push this year's figures higher, it's entirely possible that we'll find out that '06 saw even faster job growth than the 3.2 percent in '05. Such a revision wouldn't affect the *relative* trends indicated for the various industries in this forecast, but it would have some—perhaps most—starting from a higher level.

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The Greater Houston Partnership is the primary advocate of Houston's business community and is dedicated to building economic prosperity throughout the region.

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Contact us by phone at 713-844-3600.

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## 2007 FORECAST

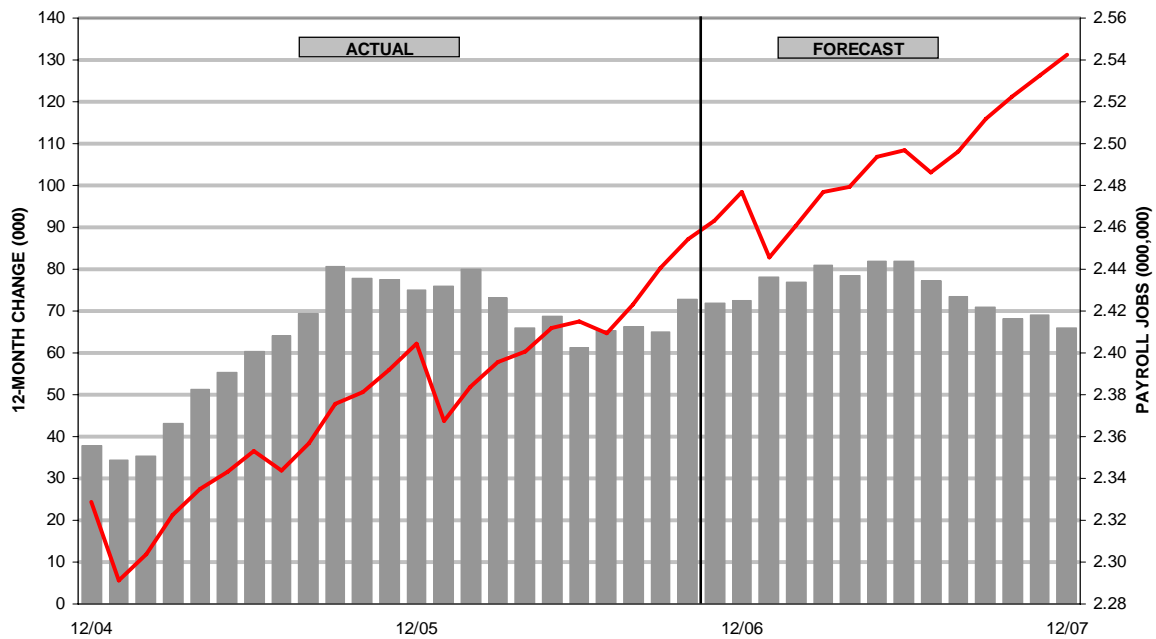
### HOUSTON-SUGAR LAND-BAYTOWN MSA NONFARM PAYROLL EMPLOYMENT (000)

	12/05	12/06	12/07	Change During Year (000)			Pct Change During Year		
				'05	'06	'07	'05	'06	'07
<b>Total Nonfarm Payroll Jobs</b>	<b>2404.1</b>	<b>2476.5</b>	<b>2541.5</b>	<b>75.1</b>	<b>72.4</b>	<b>65.0</b>	<b>3.2</b>	<b>3.0</b>	<b>2.6</b>
<b>Total Private</b>	<b>2056.3</b>	<b>2122.9</b>	<b>2180.6</b>	<b>67.5</b>	<b>66.6</b>	<b>57.7</b>	<b>3.4</b>	<b>3.2</b>	<b>2.7</b>
<b>Goods Producing</b>	<b>462.7</b>	<b>481.7</b>	<b>498.2</b>	<b>18.6</b>	<b>19.0</b>	<b>16.5</b>	<b>4.2</b>	<b>4.1</b>	<b>3.4</b>
<b>Services Providing</b>	<b>1941.4</b>	<b>1994.8</b>	<b>2043.3</b>	<b>56.5</b>	<b>53.4</b>	<b>48.5</b>	<b>3.0</b>	<b>2.8</b>	<b>2.4</b>
Natural Resources & Mining	75.1	79.2	83.1	5.6	4.1	3.9	8.1	5.5	4.9
Construction	171.8	185.1	195.0	6.1	13.3	9.9	3.7	7.7	5.3
Manufacturing	215.8	217.4	220.1	6.9	1.6	2.7	3.3	0.7	1.2
Wholesale Trade	124.2	126.4	128.9	3.1	2.2	2.5	2.8	1.8	2.0
Retail Trade	259.4	260.6	261.3	4.6	1.2	0.7	1.8	0.5	0.3
Utilities	15.5	15.2	15.3	0.1	-0.3	0.1	0.6	-1.9	0.7
Transportation & Warehousing	104.8	111.9	120.0	4.0	7.1	8.1	4.0	6.8	7.2
Information	35.9	34.9	34.5	-0.6	-1.0	-0.4	-1.6	-2.8	-1.1
Finance & Insurance	91.8	95.8	99.0	2.2	4.0	3.2	2.5	4.4	3.3
Real Estate & Rental and Leasing	49.3	50.2	50.5	1.0	0.9	0.3	2.1	1.8	0.6
Professional & Business Services	344.6	365.3	379.3	20.3	20.7	14.0	6.3	6.0	3.8
Educational Services	41.6	41.6	41.9	-0.2	0.0	0.3	-0.5	0.0	0.7
Health Care & Social Assistance	225.1	233.2	240.7	7.0	8.1	7.5	3.2	3.6	3.2
Arts, Entertainment & Recreation	25.1	25.2	25.6	0.1	0.1	0.4	0.4	0.4	1.6
Accommodation & Food Services	181.9	185.9	190.3	3.9	4.0	4.4	2.2	2.2	2.4
Other Services	94.4	95.0	95.1	3.1	0.6	0.1	3.4	0.6	0.1
Government	347.8	353.6	360.9	7.6	5.8	7.3	2.2	1.7	2.1

Sources: Estimates 12/04-10/06, Texas Workforce Commission; forecasts 11/06-12/07, Greater Houston Partnership

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## HOUSTON MSA EMPLOYMENT FORECAST



Sources: Texas Workforce Commission (Actual); Greater Houston Partnership (Forecast)