



UH Bauer College Institute for Regional Forecasting - Robert W. Gilmer, Ph.D., Speaker



ROBERT W. GILMER, Ph.D

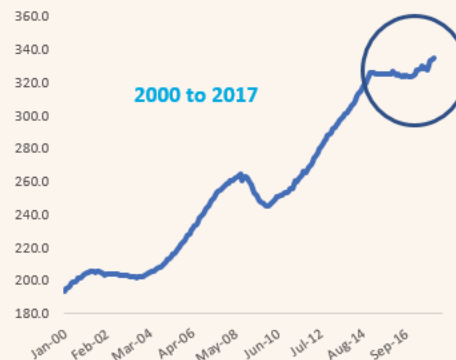
Takeaway: Houston's economy is on a solid footing moving forward, although there is lingering weakness in office and in multi-family as Harvey occupancy dissipates.

Bullets:

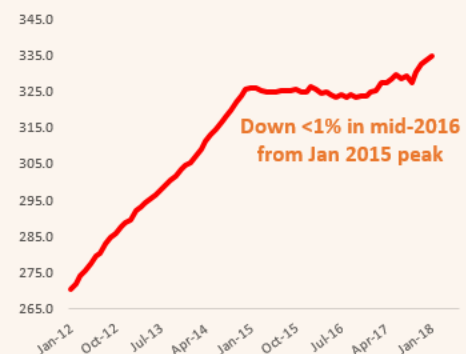
- Houston has moved into a new growth cycle, although oil prices are subject to international political risk, and improved technology can find and produce more oil with fewer rigs and fewer jobs
- Oil jobs are returning, but slowly and the industrial sector has still not gotten over the loss of oil field-related shrinkage of manufacturing space; there is no anticipated return of oil & gas employment to the previous peak
- Global growth is accelerating and with it the growing need for oil & gas
- Most of the big refining and chemical plants are complete or nearing completion; their feasibility was based on lower-cost oil & gas; jobs in that construction sector are shrinking
- Fracking has fundamentally changed American oil & gas production; it has made the industry more competitive and more responsive to demand; it has attracted huge amounts of private equity; shale oil production continues to climb
- Trade is overall good, and tariffs could disrupt Houston's port, logistics, and industrial real estate sectors
- The overall U.S. economy is performing well, with a moderate recovery continuing
- Existing home sales rose with Harvey and oil prices; new home lot supply is in good shape, but recent deliveries are slowing; 36,000 single family permits are expected in 2018
- In multi-family, there are few new projects in the pipeline, and as Harvey victims move out, absorption resumes from job and population growth; there are still lots of Class A units with vacancy rates in excess of 20%
- Outlook for the office market is bleak, although absorption is slowly turning around vacancy rates
- In the retail sector, out-of-state merchants are now claiming more than 10% of taxable sales
- Retail construction shows healthy growth, in line with population growth
- The industrial sector is still being pulled down by less oil-related manufacturing ■

A Rough 2015 - 17 for Houston Brought No Economic Reversal

Dallas Fed BCI tracks local business cycle with four variables



Oil weakness in 2016 did not translate into recession for Houston



Dallas Fed, through January 2017 includes Hurricane Harvey effects