RAY'S BUZZ

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Houston's Economy in 2019: "Sorting Out the Right Path Forward as Growth Returns"

UH Bauer College of Business Institute for Regional Forecasting Annual Presentation

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Takeaway: With some mildly qualifying caveats in selected commercial real estate segments, the overall light is green in Houston's economy for 2019.

- Economic growth in Houston was very weak 2014-17 but the economy was sustained by fracking momentum, a Ship Channel chemical boom, and post-Harvey retail and construction
- Job losses matched the '80s here during recent oil downturn, but have stabilized without a big upward bounce
- Nine service sectors carried our economy post-slump: retail, health care, finance, bars & restaurants, local gov't, private education, state gov't, arts and entertainment, lodging
- Ship Channel boom continues but at lower levels
- Negative impact from Harvey is behind us; relief and infrastructure investments from the storm will help our economy
- Job growth has returned to Houston with 122,000 new ones forecast for 2018, although not many high-paying ones like we lost in the recent oil recession
- The oil sector jobs recovery is somewhat lackluster, which may be explained by increased efficiency in the Oil Patch through technology; 74,000 jobs were lost in the bust but only 15,000 have returned so far
- 1022 rigs are drilling now as compared to 1855 rigs in 2011, which is partially explained by more efficient utilization of today's rigs through technology
- Rigs are fewer but jobs in Houston do not fall proportionately with rigs because of the need for Houston-based engineering, oil services, machinery & fabricated metals does not fall nearly as fast as the number of rigs
- Geopolitics play a big factor in oil prices and therefore affects Houston jobs in the sector; global growth has slowed but not demand for oil and gas; there is no sign of a demand peak, and demand should reach 100 million barrels per day for first time this year
- Political risk from Iran, Venezuela, Iraq, Russia, and other countries can always affect supply, demand, prices, and, by extension, Houston jobs; Iran sanctions may not change the supply demand ratio much when all is said and done
- Since January '15 oil prices have fluctuated between $54 and $66 per bbl; this year the U.S. will out-produce both Saudi Arabia and Russia
- Fracking has fundamentally changed American oil production, and is able to rise and fall quickly to keep supply and demand in equilibrium; shale oil production through fracking continues to soar
- Many factors affect oil prices and there is no clear way to predict their direction; it would take a prolonged supply disruption in the world to drive prices significantly higher and create a commensurate bump in local jobs; no return to prior to 2014 oil employment
- The U.S. economy is performing well by every measure, ensuring ongoing strength; some hindrances could be a messy Brexit; a strong dollar; a trade war; or an overly aggressive Fed fiscal policy
- Faster U.S. growth may be capped by current full employment, rising fiscal deficits from overly heavy tax cut, accelerated Fed rate increases, or inflation; there is a minimal chance for a recession in the near term
- 30 year fixed rate mortgage stands at 4.6% interest, which is low by historical standards, and interest rates are expected to gently continue their rise
- 2018-19 forecasts 25-30,000 new people moving to Houston, and this number will be directly proportional to job creation here
- Mortgage rates and labor and material shortages in Houston have led to lessening affordability in housing here, and nationwide as well, with positive implications for multi-family occupancy; new home sales are off
- Change of sales mix to smaller homes has led to lower prices for the average new home; focus in our area is on development of entry-level homes; the lot supply has tightened, but is correcting
- Apartment occupancy is back to 90% overall and tenant concessions are shrinking; the apartment construction cycle is resuming
- Recovery has begun in the office market but has a long way to go; rents are being cut and other incentives are being offered by landlords; limited new product and slow absorption will gradually bring office back to equilibrium, but very slowly
- The retail market continues to tighten, with a big bounce in sales in 2018; rising rents and low vacancy characterize this sector; 90% of new retail construction is in the suburbs; most online sellers are now required to pay taxes in the state and this levels the playing field for brick and mortar stores
- Industrial real estate is hitting on all cylinders: upstream, downstream, and e-Commerce; rents are rising on both sides of town, with oil & logistics leading on the west side