THE ECONOMY AT A GLANCE
HOUSTON

GREATER HOUSTON PARTNERSHIP
Making Houston Greater.

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JOBS, JOBS, JOBS

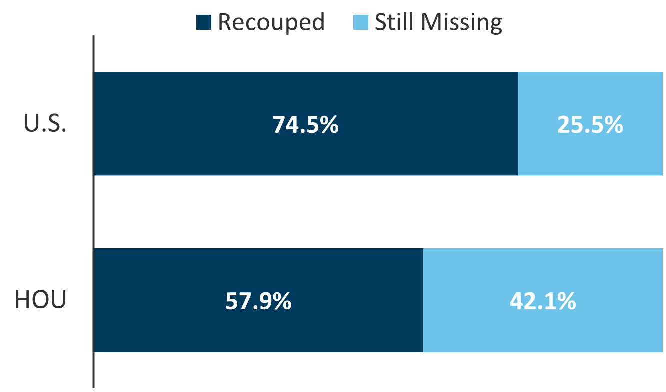
Houston lost 7,100 jobs in July, which was better than expected. The region typically loses 15,000 or more in the month, the losses associated with educators being away from campus during the summer break. This year, Houston shed 16,700 education jobs. Those losses were offset by gains in professional and business services (+7,500 jobs), manufacturing (+3,700 jobs), restaurants, cafes, and bars (+3,000), and finance and insurance (+2,000).

The sectors most impacted by social distancing early in the pandemic are now at or near full recovery. Restaurants and bars have recouped 100 percent of their losses, retail 90 percent, other services (*i.e.,* personal services), 80 percent.

Construction continues to struggle, cutting another 2,000 jobs in July. The boom in home-building hasn't offset the slowdown in industrial, office and retail construction. The energy industry continues to restructure, laying off 500 workers in July, and will likely shed more jobs over the next few months. The gains in manufacturing came in fabricated metal products, presumably driven by energy companies placing new orders for pipes, valves, and flanges.

As of July, Houston had recouped 209,400 (57.9 percent) of the 361,400 jobs lost in the pandemic. Employment remains 152,000 below February '20 levels. Houston's recovery lags that of the nation, which has replaced 16.7 million (74.5 percent) of its 22.3 million lost jobs.

PERCENT OF JOB LOSSES RECOUPED, U.S. AND HOUSTON



Source: Partnership calculations using Bureau of Labor Statistics data

The data reflects employment as of mid-July—before the Delta variant began to surge. Delta's impact won't appear in the employment data until the August report is released, which won't be until late September. If consumers, out of fear, stop dining out, visiting bars, and attending events, that will impede Houston's recovery. The region might backslide a bit, but significant losses like those of last March and April are unlikely. Consumers want to get out of the house and be with family and friends. For some people, it's a calculated risk. Others just don't care.

The Next Four Months

If the economy follows historic patterns, Houston should add 40,000 to 60,000 jobs through the remainder of '21. That suggests a net gain of 80,000 to 100,000 jobs for the year, which would be one of the better years on record. It would still leave the region 90,000 to 110,000 jobs below pre-pandemic employment levels. A full recovery is not likely until early-'23.

TRAILING THE NATION

The unemployment rate for metro Houston continues to improve but remains above that of Texas and the U.S.

PERCENT LABORFORCE UNEMPLOYED*

	Houston	Texas	U.S.
Feb '20	3.8	3.5	3.8
Apr '20	14.0	12.7	14.4
Jan '21	8.2	7.3	6.8
Jul '21	**6.8**	**6.0**	**5.7**

* Not seasonally adjusted
Source: Texas Workforce Commission

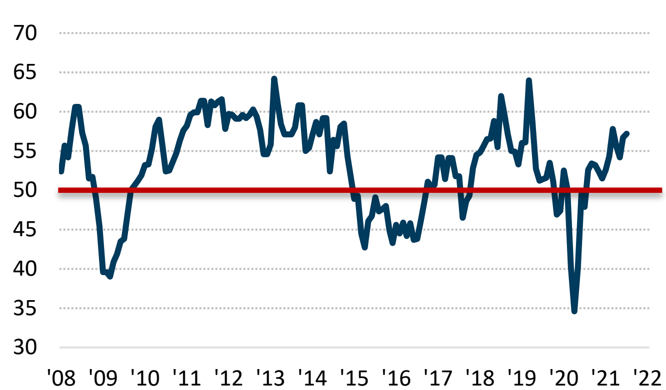
The Texas Workforce Commission (TWC) estimates there are 240,000 Houstonians who are unemployed and actively looking for work, a dramatic improvement from the 470,000 out of work in April '20.

That, however, understates the true level of unemployment in the region. Partnership calculations based on TWC data suggests there are 50,000 to 85,000 fewer Houstonians in the workforce today compared with prior to the pandemic. They've dropped out for a variety of reasons: fear of catching COVID in the workplace, lack of day care for their children, generous unemployment benefits, early retirements, wanting time off to be with family, or needing time off for personal growth. If the dropouts were included in the calculations, Houston's unemployment rate would likely exceed 9.0 percent.

THE BIG PICTURE

The region's outlook continues to improve, according to the latest Houston Purchasing Managers Index (PMI). The July '21 PMI of 57.2 was up from 56.7 in June. Readings above 45 correlate with expansion of the service side of Houston's economy, readings above 50 Houston's goods producing sectors. July marked the 12th consecutive month with Houston's PMI above 50.

HOUSTON PURCHASING MANAGERS INDEX



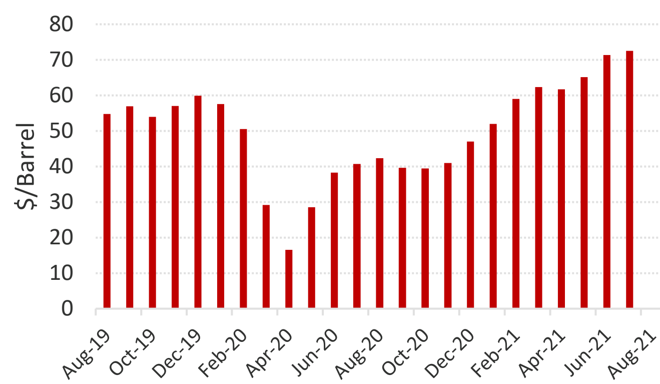
Source: Institute for Supply Management-Houston

Over the past 16 months, movements in the PMI have tracked Houston's response to the pandemic. In April '20, the PMI fell to 34.6, the lowest reading on record. The index has pointed toward expansion since August '20, though the strength of the expansion has fluctuated. Despite a recent surge in infection rates, vaccine rollouts have improved the near-term economic outlook. July's PMI registers as the second highest reading of the past 24 months.

RAYS OF HOPE FOR OIL AND GAS

The spot price for West Texas Intermediate, the U.S. benchmark for light, sweet crude, has traded above $52 a barrel since the first week of January, the price at which most U.S. energy companies can profitably drill a well, according to the Federal Reserve Bank of Dallas. WTI has traded above $60 since mid-April.

WTI MONTHLY AVERAGE SPOT PRICE, $/BARREL

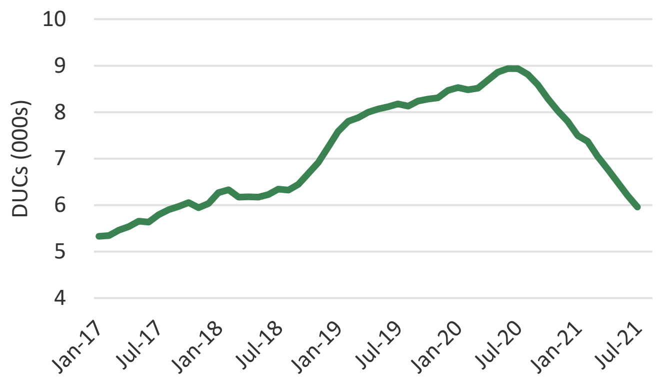


Source: U.S. Energy Information Administration

Higher prices haven't driven a surge in exploration, though. The industry has added only 157 drilling rigs to the North American fleet this year. As of late August, the U.S. fleet remained 285 rigs below pre-pandemic levels and 575 below its December '18 peak.

Several factors account for the weak rebound. Investors are reluctant to lend to the industry, forcing firms to fund their drilling programs from internal cash flow. Before the year started, many oil companies signed contracts to sell their production at $50 to $55 per barrel, hedging against potential losses if oil prices collapsed. They haven't benefitted from the recent run up in prices. Shareholders are pressuring energy firms to invest in non-traditional energy ventures, limiting their opportunities to expand their drilling programs. And many firms had a large inventory of drilled but uncompleted wells, referred to as DUCs in the industry. They've focused on bringing those well online rather than drilling new ones. Since the first of the year, the inventory of DUCs has fallen by one-third and now approaches levels not seen since mid-'17.

U.S. INVENTORY, DRILLED BUT UNCOMPLETED WELLS



Source: U.S. Energy Information Administration

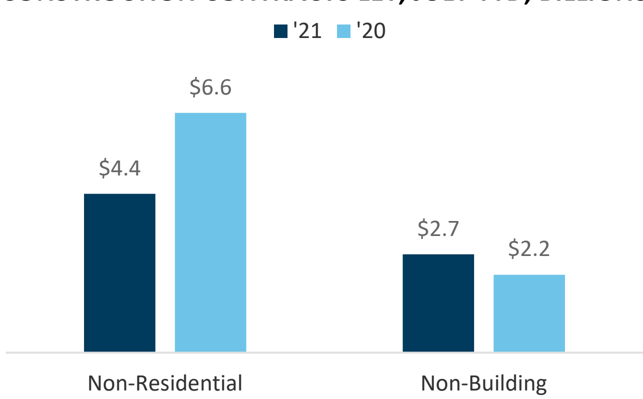
This bodes well for service companies and equipment manufacturers. Exploration firms now need to drill more to maintain production. And manufacturers are seeing uptick in orders as equipment wears out and firms replace old gear with systems that are more efficient and environmentally friendly.

The Energy Information Administration (EIA) estimates U.S. production averaged 11.3 million barrels per day (b/d) in June. In its August *Short-Term Energy Outlook*, EIA forecast production to reach 11.4 million b/d in December '21 and 12.2 in December '22. EIA expects WTI to average $68.75 through the end of this year and $62.40 much or next year.

CLOUDY DAYS FOR CONSTRUCTION

Houston's construction industry continues to struggle. Dodge Data & Analytics reports new contracts for non-residential projects are off 33.8 percent compared to this time last year. Contracts for non-building projects, like roads, bridges, and water treatment plants, are up 26.0 percent, but that's off a much smaller base and not enough to offset losses elsewhere.

CONSTRUCTION CONTRACTS LET, JULY YTD, BILLIONS



Source: Dodge Data & Analytics

Dodge Data reports a YTD drop across all non-residential sectors: commercial buildings, manufacturing plants, schools, hospitals, government structures and houses of worship.

Reports from the various commercial brokerages show office construction slipped from last's pace, which was at an already depressed level. Multi-family construction has slacked off, though it remains at an elevated pace. Same for industrial/warehouse projects. Retail construction has nudged down as well.

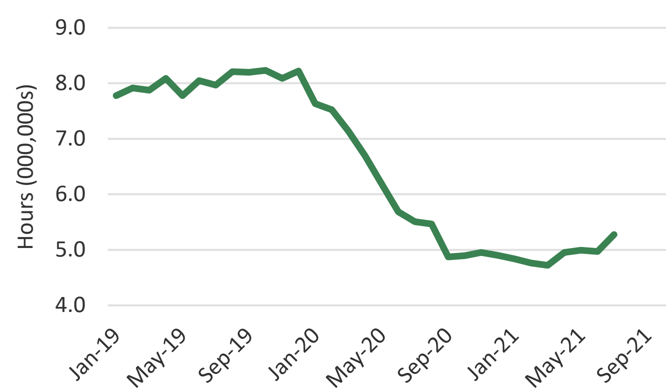
The slump in commercial construction began prior to the pandemic. Employment remains 35,900 jobs below its October '19 peak. Since then, one in every six jobs in the sector has been lost.

MAKING STUFF AGAIN

The worst may be over for manufacturing. Employment bottomed out in January, the sector adding 7,100 jobs over the past six months. That would be phenomenal growth in any year, but especially welcome considering the sector lost 11,500 jobs March/April '20 and those losses continued over the next eight months. The sector remains 23,600 jobs below pre-pandemic levels.

One sign of manufacturing's nascent recovery, total hours logged by production workers, a proxy for manufacturing output, have trended up since March of this year.

HOURS WORKED BY PRODUCTION WORKERS



Source: Texas Workforce Commission

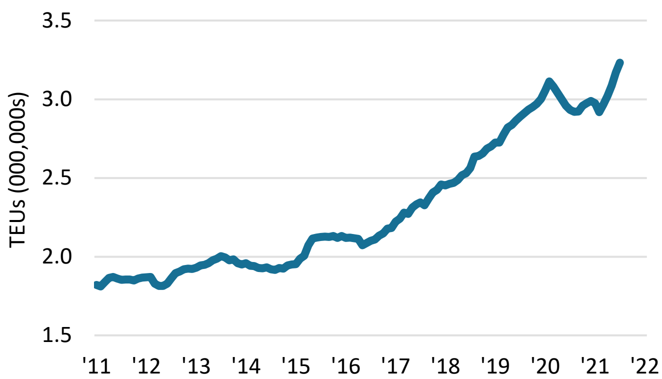
Statewide, factory activity expanded in July, according to a survey of business executives by the Federal Reserve Bank of Dallas. Expectations regarding future manufacturing activity remained optimistic as well.

The Partnership is concerned, however, that there is noise in the data and the job gains may be overstated. Responses to the Houston PMI survey indicate sales, production and employment slipped marginally in July compared to June.

NOT ENOUGH BOXES

Container traffic at the Port of Houston is on track to set a record this year. Through the first seven months of '21, the port handled 1.9 million twenty-foot equivalent units (TEUs). If the current pace holds, the port will handle close to 3.3 million by January 1. The previous record was just over 3.0 million set in '19.

CONTAINER TRAFFIC, PORT OF HOUSTON, 12-MONTH TOTAL



Source: Port of Houston Authority

A surge in imports from Asia and Europe is driving the trend. U.S. merchants are restocking shelves and manufacturers are replenishing inventories drawn down during the early stages of the pandemic. Through the first six month of this year, the value of containerized imports through the Port of Houston topped $21.9 billion, $5.0 billion ahead of last year's pace.

Despite the surge in imports, exporters are having difficulty finding empties in which to ship their own products. Congestion on rail networks plus a shortage of truck chassis, drivers and warehouse workers has led to backups at inland cargo facilities. Add to that the push by shipping lines grab every available empty and return it to Asia where they charge more. This has helped to drive up global shipping costs. According to *The Wall Street Journal*, the average price world-wide to ship a 40-foot container has more than quadrupled from a year ago to $8,399.

It's standard practice for shipping lines to reposition boxes where they're most needed. In a typical month, Houston handles about 35,000 empty containers, 16 percent of the total TEU volume. This July, the port handled 85,000 empty containers, nearly 30 percent of its total volume. Of those, 9,000 were empty imports, 76,000 empty exports.

Despite the shortage, Houston firms are finding ways to ship their products overseas. Containerized exports via the Port of Houston topped $15.2 billion the first six months of this year, $1.0 billion ahead of last year's pace.

CONTAINERIZED EXPORTS VIA PORT OF HOUSTON

	June YTD, $ Millions		Change	
Commodity	'20	'21	$	%
Plastics	4,250.8	4,324.5	73.7	1.7
Industrial Machinery	1,941.8	2,141.5	199.6	10.3
Chemicals	2,010.1	2,317.9	307.8	15.3
Vehicles and Parts	597.1	653.4	56.3	9.4
Electric Machinery	620.0	529.0	-91.0	-14.7
All Others	4,801.2	5,194.5	393.4	8.2
Total	**14,221.0**	**15,160.9**	**939.9**	**6.6**

Source: WISERTrade

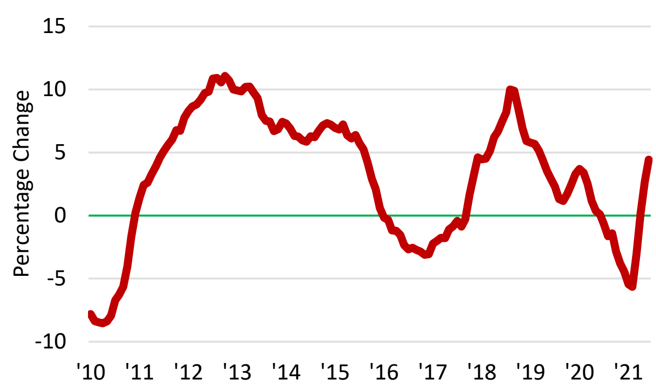
The top five destinations for Houston containerized exports July '21 YTD are Brazil ($1.3 billion), China ($1.1 billion), Belgium ($922 million), Germany ($895 million) and Netherlands ($762 million).

CHA-CHING!

U.S. food service and retail sales were up 21.9 percent the first seven months of this year compared to last year. Comparable data for Houston isn't available, however. The Texas Comptroller of Public Accounts only posts data quarterly, and the most current available is for Q4/20. Houston's economic prospects have improved significantly since then, as has the outlook for the region's retail sector.

In the four quarters ending June '21, sales tax collections for the region's 12 most populous cities are up $43.5 million, or 4.4 percent, compared to the same period last year. This is an imperfect indicator, though, since many non-retail services (*e.g.,* haircuts, massages, restaurant meals, tree trimming) are also taxable. Businesses pay taxes on their purchases as well.

12-MONTH % CHANGE IN SALES TAX COLLECTIONS
Most Populous Metro Houston Cities



Source: Texas Comptroller of Public Accounts

Also, Houston has 270 more stores, shops and boutiques in Q1/21 than it did in Q1/20, according to the Quarterly Census of Employment and Wages (QCEW).

And retailers paid $72.9 million more in wages and salaries in Q1/21 than they did in Q1/20, according to the QCEW.

Only eight national firms declared bankruptcy August YTD, according to *RetailDive*. That compares to 26 for the comparable period in ’20. Of the eight, only three have Houston stores: L'Occitane, Paper Source, and Solstice Sunglasses.

Houston’s retail sector has recovered 36,000 of the 40,000 jobs lost in the pandemic. Hiring will begun to pick up as the holiday shopping season approaches. Retail employment should top pre-pandemic levels by late fall.

DEFYING GRAVITY

Houston home sales continue to soar. Brokers closed on 75,330 single-family homes, townhomes, condos and duplexes the first seven months of this year. That’s the highest level of January-to-July closings on record.

The demand for homes has reduced listings, driven up prices, and slashed the time it takes to sell a home. The median price for an existing home sold through the Houston Association of Realtors Multiple Listing Service (MLS) rose 31.2 percent over the past three years, the supply of homes has been cut nearly in half, and it now takes three weeks to sell a home, down from seven a year ago.

July Existing Single-Family Home Sales Data

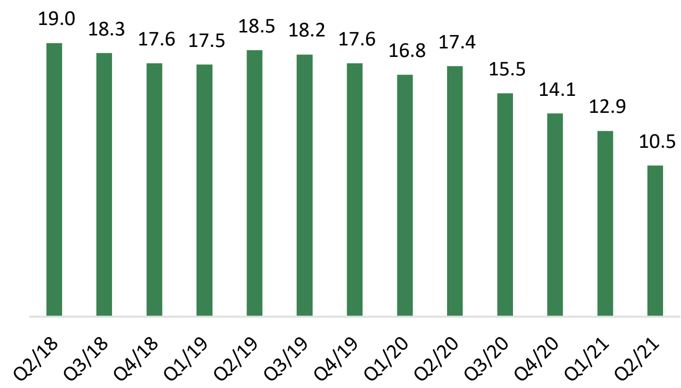
	Active Listings	Median Sales Price	Avg. Days on Market
’18	21,641	$232,500	42
’19	22,597	$239,900	43
’20	15,408	$264,500	49
’21	11,913	$305,000	21

Source: Houston Association of Relators

Home builders are struggling to keep up with demand. According to market research firm Zonda, there were 18,024 single-family homes under construction in Q2/21, the highest level that Zonda, and its predecessor, MetroStudy, has ever recorded. Nearly three-fourths of all homes under construction in Houston are priced between $200,000 and $400,000, what builders consider to be the “sweet spot” for home prices in the region. As of late July, builders had roughly one month of completed inventory available at that price range.

The supply of new homes remains tight due to shortages of lumber, labor, appliances, and vacant lots on which to build. In the 12 months ending July ’21, just over 33,400 vacant lots came on to the market; builders absorbed 42,700 lots over the same period. The available lot supply has shrunk to 10.5 months in Q2/21. In a balanced market, inventory would be 18 to 24 months.

MONTHS OF SUPPLY, VACANT DEVELOPED LOTS



Source: Zonda

Houston has always prided itself on being the most affordable U.S. major metro in which to live. That’s largely based on the region having a substantial supply of inexpensive housing. That claim may be in jeopardy.

Historically, Houston home prices have appreciated three to four percent a year, but the current trend has homes appreciating at double-digit rates (15.3 percent since last July). Anecdotes from builders suggests some would-be homeowners are being priced out of the market.

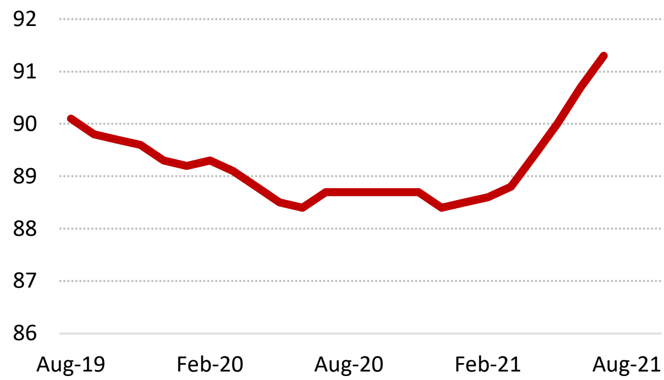
John Burns Real Estate Consulting calculates the income necessary to qualify to purchase a home across in six different scenarios, from entry-level to move-up buyers. The scenarios account for prevailing prices, down payments, the cost of mortgage insurance and interest rates. At the lowest entry-level scenario, 53 percent of Houston households can now qualify for an FHA loan, down from 61 percent in July of last year.

ANOTHER BOOM

Houston is setting another record, this one for multi-family absorption. In the 12 months ending July ’21, tenants have leased 30,584 units. That’s more than double the typical level of absorption for Houston.

An industry rule of thumb holds that when overall occupancy falls below 90 percent, the apartment market is “tenant friendly” and landlords face difficulty raising rents. When the occupancy rate tops 90.0 percent, the market is “landlord friendly” and they find it easier to pass along rent increases. From October ’19 to April ’21, occupancy remained below 90.0 percent, hitting 90.0 percent in May, and nudging up to 91.3 in July. That’s the highest occupancy since June ’14, the height of the fracking boom, when the rate hit 91.4 percent.

OVERALL APARTMENT OCCUPANCY, %



Source: Apartment Data Services

Rents have risen across all property classes, but the increases have been most dramatic with Class A and B properties. Since the first of the year, the average rent for a Class A unit has risen from $1,430 per month to $1,621 per month, a $191 increase. Class B rents have gone from $1,044 to $1,131, an $87 increase. "A" and "B" properties account for roughly 60 percent of the market.

Several factors are driving the surge in demand. Escalating single-family prices have forced would-be home buyers to become apartment renters. Roommates who shared a unit during the early stages of the pandemic are splitting up and leasing separate units. The recently expired rent moratorium has kept renters in place who would have otherwise moved in with family or friends. And in-migration to Houston growth may be stronger than what is being reported by the Census Bureau.

MY BAGS ARE PACKED

The Houston Airport system handled 23.5 million passengers through June of this year, a significant improvement over the 14.8 million handled over the comparable period in '20. Domestic traffic is recovering faster than international traffic, manly due to the restrictions that countries have placed on foreign visitors.

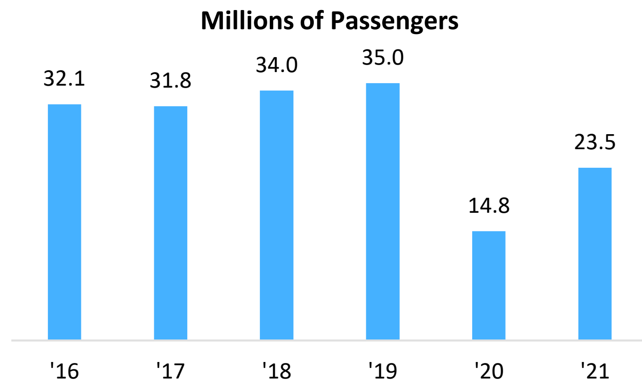
HOUSTON AIRPORT SYSTEM PASSENGER TRAFFIC, JULY YTD
Current and Pre-Pandemic

	Million Passengers		Change, '19 – '21	
	'21	'19	#	%
Domestic	19.7	27.9	-8.2	-29.3
International	3.8	7.1	-3.3	-46.7
Total	**23.5**	**35.0**	**-11.5**	**-32.8**

Source: Houston Airport System

Most of the improvement has been in leisure travel. Corporate travel has been slow to recover as firms continue to limit visits to clients and satellite locations. Initial reports suggest the recent Delta surge has slowed bookings and led to more cancellations.

HOUSTON AIRPORTS PASSENGER TRAFFIC, JULY YTD



Source: Houston Airport System

BEEP BEEP YEAH

Houstonians continue to visit showrooms despite the shortage of vehicles and escalating sticker prices. Local dealers sold 173,862 new vehicles through July of this year, up from 139,543 during the comparable period in '20. Truck/SUV sales were up 26,101 units (24.7 percent) while car sales were up 8,218 units (24.2 percent).

The average price paid for a new vehicle was $45,835 in July '21, up 11.6 percent from $41,061 in July '20. Trucks and sport utility vehicles (SUVs) accounted for 76.0 percent of all sale in July. The average truck/SUV price was $48,785. Cars accounted for 24.0 percent of all July sales, the average price being $36,397.

Elizabeth Balderrama, Heath Duran, Annaissa Flores, Patrick Jankowski, Roel Martinez and Josh Pherigo contributed to this issue of Houston, The Economy at a Glance.

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The Key Economic Indicators table is **updated whenever any data change** — typically, six or so times per month. If you would like to receive these updates by e-mail, usually accompanied by commentary, click here.

HOUSTON MSA NONFARM PAYROLL EMPLOYMENT (000)

	July '21	June '21	July '20	Change from June '21	Change from July '20	% Change from June '21	% Change from July '20
Total Nonfarm Payroll Jobs	**3,040.2**	**3,044.3**	**2,903.8**	**-4.1**	**136.4**	**-0.1**	**4.7**
Total Private	***2,647.7***	***2,635.1***	***2,513.6***	***12.6***	***134.1***	***0.5***	***5.3***
Goods Producing	***481.5***	***479.0***	***485.2***	***2.5***	***-3.7***	***0.5***	***-0.8***
Service Providing	***2,558.7***	***2,565.3***	***2,418.6***	***-6.6***	***140.1***	***-0.3***	***5.8***
Private Service Providing	***2,166.2***	***2,156.1***	***2,028.4***	***10.1***	***137.8***	***0.5***	***6.8***
Mining and Logging	68.4	66.8	63.4	1.6	5.0	2.4	7.9
Oil & Gas Extraction	34.0	33.1	34.1	0.9	-0.1	2.7	-0.3
Support Activities for Mining	32.5	31.8	27.9	0.7	4.6	2.2	16.5
Construction	202.2	204.0	209.2	-1.8	-7.0	-0.9	-3.3
Manufacturing	210.9	208.2	212.6	2.7	-1.7	1.3	-0.8
Durable Goods Manufacturing	128.6	127.2	131.7	1.4	-3.1	1.1	-2.4
Nondurable Goods Manufacturing	82.3	81.0	80.9	1.3	1.4	1.6	1.7
Wholesale Trade	161.4	164.6	158.9	-3.2	2.5	-1.9	1.6
Retail Trade	297.1	295.7	286.6	1.4	10.5	0.5	3.7
Transportation, Warehousing and Utilities	170.6	169.1	155.1	1.5	15.5	0.9	10.0
Utilities	17.3	17.3	17.1	0.0	0.2	0.0	1.2
Air Transportation	18.4	18.4	18.8	0.0	-0.4	0.0	-2.1
Truck Transportation	27.1	27.0	26.5	0.1	0.6	0.4	2.3
Pipeline Transportation	11.5	11.4	12.2	0.1	-0.7	0.9	-5.7
Information	29.0	28.8	27.9	0.2	1.1	0.7	3.9
Telecommunications	12.5	12.5	12.8	0.0	-0.3	0.0	-2.3
Finance & Insurance	107.1	105.0	103.8	2.1	3.3	2.0	3.2
Real Estate & Rental and Leasing	56.4	59.2	59.7	-2.8	-3.3	-4.7	-5.5
Professional & Business Services	501.2	494.1	481.3	7.1	19.9	1.4	4.1
Professional, Scientific & Technical Services	242.2	240.5	232.9	1.7	9.3	0.7	4.0
Legal Services	*28.7*	*28.6*	*28.0*	*0.1*	*0.7*	*0.3*	*2.5*
Accounting, Tax Preparation, Bookkeeping	*23.9*	*23.9*	*24.0*	*0.0*	*-0.1*	*0.0*	*-0.4*
Architectural, Engineering & Related Services	*67.7*	*67.1*	*67.4*	*0.6*	*0.3*	*0.9*	*0.4*
Computer Systems Design & Related Services	*36.9*	*36.0*	*34.3*	*0.9*	*2.6*	*2.5*	*7.6*
Admin & Support/Waste Mgt & Remediation	213.5	208.1	203.3	5.4	10.2	2.6	5.0
Administrative & Support Services	*200.2*	*195.0*	*191.8*	*5.2*	*8.4*	*2.7*	*4.4*
Employment Services	*73.3*	*72.9*	*67.7*	*0.4*	*5.6*	*0.5*	*8.3*
Educational Services	61.6	61.8	58.8	-0.2	2.8	-0.3	4.8
Health Care & Social Assistance	339.7	340.4	330.0	-0.7	9.7	-0.2	2.9
Arts, Entertainment & Recreation	34.1	34.8	27.8	-0.7	6.3	-2.0	22.7
Accommodation & Food Services	295.1	291.7	237.9	3.4	57.2	1.2	24.0
Other Services	112.9	110.9	100.6	2.0	12.3	1.8	12.2
Government	392.5	409.2	390.2	-16.7	2.3	-4.1	0.6
Federal Government	30.9	30.8	31.0	0.1	-0.1	0.3	-0.3
State Government	89.2	91.2	88.1	-2.0	1.1	-2.2	1.2
State Government Educational Services	*50.8*	*52.6*	*50.5*	*-1.8*	*0.3*	*-3.4*	*0.6*
Local Government	272.4	287.2	*271.1*	-14.8	1.3	-5.2	0.5
Local Government Educational Services	*179.8*	*192.4*	*179.0*	*-12.6*	*0.8*	*-6.5*	*0.4*

SOURCE: Texas Workforce Commission