THE ECONOMY AT A GLANCE
HOUSTON

GREATER HOUSTON PARTNERSHIP
Making Houston Greater.

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EVEN WITH REVISIONS

Metro Houston has created 108,600 jobs through the first nine months of ’22. That already makes this the fifth-best year on record for job growth.

10 BEST YEARS FOR METRO HOUSTON JOB GROWTH

Year	Jobs	Year	Jobs
'21	159,700	'06	106,700
'81	126,900	'97	106,600
'12	117,400	'90	98,400
'14	116,700	'98	92,400
'22 YTD	108,600	'05	91,700

Source: Texas Workforce Commission

The region added 14,800 jobs in September ’22, in line with expectations for the month. In years with strong growth, the region typically creates 10,000 to 16,000 jobs in September.

Those numbers are deceiving, however. The government sector, specifically state and local education, added 16,800 jobs in September. Several other sectors—restaurants and bars, and business, scientific and technical services—showed uncharacteristically large increases as well. Those gains helped offset significant losses in other sectors.

Restaurants and bars added 5,300 jobs in September, a month in which the sector typically loses 1,000 to 2,000. Over the last two months, restaurants and bars have hired 8,700 workers. That’s nearly a full year’s worth of job growth. At the pace of the last few months, the sector is on track to add over 33,000 jobs this year, or three times what’s typical for a year. The Partnership suspects TWC is overestimating job growth and will eventually revise these gains downward.

Professional, scientific, and technical services added 3,900 jobs in September. The sector typically sheds a few hundred jobs in the month. Only three times in the past 30 years has the sector recorded growth in September, and then no more than 500 to 600 jobs. The Partnership suspects TWC is overestimating here as well and will later revise the gains downward.

Sectors recording notable losses in September were construction (-3,000 jobs), retail (-2,800), wholesale trade (-2,200), transportation and warehousing (-2,200), other services (-2,100), and nondurables manufacturing (-1,200). It’s too soon to tell whether the losses reflect slower growth or whether TWC is compensating for overestimating gains earlier in the year by subtracting jobs later in the year.

Historically, the region adds 20,000 or more jobs in Q4, even in recession years. The gains often top 40,000 in boom years. Businesses typically boost hiring to handle the holiday rush and meet year-end deadlines. Even with a weak finish to the year, Houston should end ’22 with a net gain of 130,000 or more jobs.

However, these gains could be revised downward when TWC issues its benchmark revisions in March ’23. The data TWC releases each month derives from a survey of employers, the sample selected to represent employers from all sizes and industries in the economy. Like all surveys, the results are subject to sampling, response, and processing errors. In some years, TWC has underestimated growth by as many as 45,000 jobs. In other years, TWC has overestimated by as many as 33,000. The Partnership suspects TWC may have overestimated job growth in April, May, and June of this year, reporting the region created 30,000 or more jobs each month, well above the long-range average and the previous records for those months.

HISTORIC COMPARISON, MONTHLY HOUSTON JOB GROWTH

	April	May	June
Average since ’00*	8,500	13,600	11,000
Previous Record	20,800	18,700	20,600
Reported in ’22	30,900	30,800	35,800

* Excludes recession years of ’03, ’09 and ’20.
Source: Partnership calculations based on Texas Workforce Commission data

If growth is later revised downward by 20,000 or more jobs, ’22 will still prove to be remarkable. In a normal year, one in which high oil prices aren’t over-stimulating growth or low prices haven’t sedated it, the region creates 60,000 to 70,000 jobs. Even after the March ’23 revisions, the Partnership expects job growth to finish well above “normal.”

Pandemic Update

Thirteen of the 18 major sectors tracked by TWC had fully recouped their pandemic losses as of September ’22.

HOUSTON EMPLOYMENT SECTORS FULLY RECOVERED

Industry/Sector	Initial Losses	Recovered
Total Payroll Employment	359,400	452,800
Restaurants and Bars	99,500	125,700
Retail Trade	39,800	56,100
Health Care	36,800	52,100
Admin Support	28,100	43,700
Construction	23,900	26,900
Arts, Entertain, Recreation	17,300	20,200
Prof, Sci, Tech Services	13,200	23,000
Wholesale Trade	8,700	13,200
Educational Services	8,200	16,600
Government	7,200	9,400
Real Estate	6,000	6,800
Transport, Warehousing	3,300	15,300
Finance and Insurance	1,400	7,000

Source: Partnership calculations based on Texas Workforce Commission data

As of September ’22, five sectors have yet to fully recover their pandemic job losses.

Leisure travel has recovered, and event bookings have soared, but business travel has yet to return to pre-pandemic levels and that’s delayed the recovery of Houston’s hotel sector.

Other Services includes barber shops, beauty salons, repair shops, and similar small businesses. These were among the hardest hit businesses during the pandemic. They are also among some of the most difficult to survey. The Partnership suspects recovery is much further along than TWC has reported.

The downturn in energy began prior to the pandemic when Wall Street curtailed lending to the sector. The pandemic compounded the sector’s woes. Now it deals with labor and materials shortages, a hostile regulatory climate, and pressure to adjust business models brought on by the need to address climate change.

Manufacturing’s woes are tied to energy. Almost all the missing jobs involve the manufacture of equipment used for the exploration and production of oil and gas.

The information sector is dealing with structural changes in how we send and receive information that began two decades ago and were compounded by the pandemic.

HOUSTON EMPLOYMENT SECTORS YET TO RECOVER

Industry/Sector	Initial Losses	Gap to Close
Other Services	30,400	6,300
Manufacturing	11,300	7,200
Hotels	11,500	2,200
Energy*	6,300	10,200
Information	4,400	400

* The energy sector continued to shed jobs after the economy reopened.
Source: Partnership calculations based on Texas Workforce Commission data

Houston’s recovery compares well against that of the nation and major U.S metro areas. As of September, Houston ranked sixth among the nation’s 20 most populous metros in percent of jobs recovered.

PANDEMIC LOSSES RECOUPED, MOST POPULOUS U.S. METROS

Metro	% Recovered	Metro	% Recovered
Dallas	168.2	Baltimore	105.5
Tampa	138.5	Philadelphia	102.6
Phoenix	135.5	Boston	101.0
Riverside	135.0	San Diego	100.1
Atlanta	132.5	Minneapolis	98.5
Houston	126.0	Detroit	98.5
Denver	122.9	New York	93.4
Miami	111.9	Los Angeles	92.0
Chicago	109.4	Washington	91.9
Seattle	108.7	San Francisco	88.9

Source: Partnership calculations based on Bureau of Labor Statistics data

BEWARE OF AVERAGES

Overall occupancy for the metro Houston apartment market peaked at 91.5 percent November ’21 and has trended down since. Average monthly rents peaked in August ’22. Overall absorption turned negative this September.

But averages can be misleading, especially in a metro as large as Houston with 42 submarkets, over 3,000 properties, and more than 720,000 units. Focusing on the average fails to account for the different trends in the four apartment classes, A, B, C, and D.

HOUSTON MULTIFAMILY MARKET, OCTOBER ’22

	Class A	Class B	Class C	Class D
Properties	707	1,059	850	429
Units	191,729	255,137	200,477	72,188
Avg. Rent ($/mo.)	1,760	1,250	957	750
Avg. Occupancy (%)	87.5	92.3	91.8	90.6

Note: Class A properties are newer, better built, and have the highest level of amenities. Most Class B were once Class A but slipped over time.
Source: Apartment Data Services

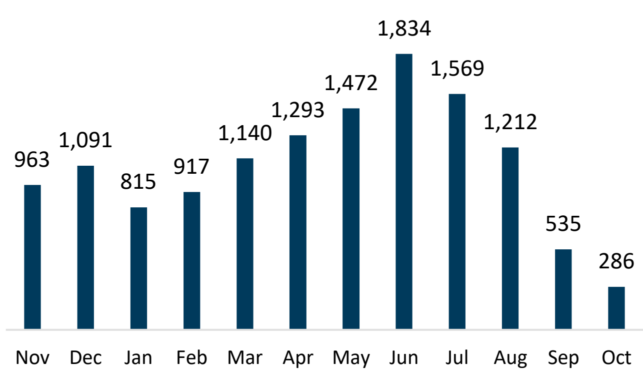
Class A Doing Well

Class A has two categories—*existing* properties and those open less than a year and in their initial *lease-up* stage.

- The occupancy rate for *existing* properties hit 93.5 percent in October, up from 89.9 percent in October ’20.
- The occupancy rate for units in *lease-up* hit 43.2 percent, up from 26.1 percent two years ago.
- The average rent for *existing* Class A was $1,765, up from $1,439 in October ’20.
- The average rent for Class A in *lease-up* was $1,888, up from $1,546 two years ago.

The best indicator, however, is absorption. In the year ending October ’22, the market has absorbed 13,100 Class A units, as many as Houston absorbs across all classes in a typical year.

CLASS A ABSORPTION, METRO HOUSTON MARKET



Source: Apartment Data Services

The Class A category is benefitting from escalating home prices and rising interest rates. The two have combined to put homeownership out of reach for many would-be buyers. They’re opting to lease new Class A apartments instead. Also, job creation remains strong in sectors which tend to pay well, like health care, professional services, and finance and insurance. This has also driven demand. Absorption has slowed in recent months. That typically happens in the fall as families are reluctant to move their children to a different school in the middle of the fall semester. But this year’s drop off is more pronounced and may reflect an overall slowing economy.

B, C, and D Not so Well

Class B, C, and D apartments have performed poorly over the past 12 months, with all three segments reporting negative absorption, declines in occupancy, and more recently, falling rents. They are pulling down the market average.

HOUSTON MULTIFAMILY, CLASS B, C, AND D HISTORY

	Class B		Class C		Class D	
	Occ %	Absorb	Occ %	Absorb	Occ %	Absorb
Nov ’21	94.3	-188	92.6	81	90.9	29
Dec ’21	94.3	-6	92.8	373	90.9	-6
Jan ’22	94.2	-270	92.7	-65	91.1	151
Feb ’22	94.0	-466	92.7	-52	91.0	-59
Mar ’22	93.8	-256	92.7	14	90.9	-33
Apr ’22	93.5	-442	93.0	497	90.8	-88
May ’22	93.4	-424	92.7	-330	90.7	-101
Jun ’22	93.3	-341	92.6	-64	90.7	19
Jul ’22	93.0	-776	92.4	-352	90.6	-90
Aug ’22	92.9	-187	92.3	-352	90.6	25
Sep ’22	92.6	-776	92.1	-347	90.5	-74
Oct ’22	92.3	-771	91.8	-638	90.6	72
Totals	-	*-4,903*	-	*-1,235*	-	*-155*

Source: Apartment Data Services

The occupancy decline has only recently impacted rents.

- Class B peaked at $1,265 in August, slipping to $1,250 in October.
- Class C peaked at $959 in August, slipping to $957 in October.
- Class D peaked at $752 in September, slipping to $750 in October.

Three factors have contributed to the slide in absorption, occupancy, and rents. The eviction moratorium imposed in the early stages of the pandemic ended in August of last year. Extra unemployment benefits paid to workers laid off during the pandemic ended last September. The last of the Economic Impact Payments of the pandemic were delivered in December ’21. No longer able to afford their rents, many low-income renters moved out or were evicted.

There are six markets where the average monthly rent exceeds $1,500 and five where rents fall below $900. The two markets with the lowest rents also claim the highest occupancy levels. Downtown, with the highest average rent, has the lowest occupancy.

RENTS & OCCUPANCY, SELECTED MARKETS

Submarket	Rent ($)	Occup (%)
Most Expensive		
Downtown	2,281	79.9
Highland Village/Upper Kirby	1,969	90.9
Montrose/Midtown	1,946	90.8
Heights/Washington Ave	1,798	88.8
Woodlands/Conroe South	1,515	91.7
Katy/Cinco Ranch	1,511	89.8
Least Expensive		
Braeswood/Fondren SW	917	90.9
Northline	886	91.5
Greenspoint/Aldine	874	89.6
U of H/I-45 South	874	92.8
Westpark/Bissonnet	857	93.9
Sharpstown/Westwood	843	94.1

Source: Apartment Data Services

There were 19,600 units in 65 apartment communities under construction as of late October. Approximately 5,600 are scheduled to open by the end of ’22, roughly 12,600 in ’23, and the remainder in ’24.

HOUSTON APARTMENT CONSTRUCTION, NOV ’22

Submarket	Units
Katy/Cinco Ranch/Waterside	3,744
Bear Creek/Copperfield/Fairfield	2,072
Heights/Washington Ave	1,251
Conroe North/Montgomery	1,191
Montrose/Museum/Midtown	1,060
Lake Houston/Kingwood	1,047
All Others (17 submarkets)	9,220
Total	*19,585*

Source: Apartment Data Services

Apartment Data Services has identified another 35,000 units in 113 communities that have been proposed but not yet broken ground.

OUTLOOK FOR ’23

There’s a growing consensus among economists that the U.S. will slip into recession in ’23. If the U.S. stumbles down that path, Houston will follow. There’s some hope that the U.S. may avoid a downturn, but the odds grow slimmer each day. An October survey of economists by The Wall Street Journal placed the probability of a recession within the next 12 months at 63 percent, that’s up from 49 percent in the July survey and 16 percent in October 2021. A similar survey by Bloomberg places the odds at 60 percent.

What does this mean for Houston? Will the local housing market collapse? Will the region suffer significant job losses? Will there be a surge in bankruptcies? Will energy prices collapse? Join us on Thursday, December 8, at the Royal Sonesta Hotel, to hear the Partnership’s ’23 forecast which will answer these questions.

The event begins at noon with a panel discussion among experts from Houston’s major industries. The panelists and their areas of expertise include:

- *Health Care:* Doug Lawson, President and CEO, CHI Texas Division, St. Luke's Health
- *Finance:* Isaac Johnson, President & CEO, TDECU
- *Retail:* Armando Perez, Executive Vice President, H-E-B
- *Construction/Engineering:* Leslie Duke, President and General Manager, Burns & McDonnell

Following the discussion, Patrick Jankowski, Senior Vice President of Research and Chief Economist, will present the Partnership’s forecast for ’23. All attendees will receive a printed copy of the Partnership’s forecast as they leave the event.

To register for the December 8 luncheon and forecast, go to the Events section of the Partnership’s webpage, www.houston.org, or click here.

Patrick Jankowski and Clara Richardson contributed to this issue of Houston, The Economy at a Glance.

KEY ECONOMIC INDICATORS

Aviation — The Houston Airport System (HAS) handled 4.5 million passengers in September '22, up 17.3 percent from 3.8 million in September '21. This was a record for September passengers in Houston.

Construction — Metro Houston construction starts totaled $26.2 billion through September of this year, up from $15.6 billion over the comparable period in '21, according to the latest data from Dodge Data & Analytics. Nonresidential activity increased from $6.7 billion to $14.8 billion and residential activity from $11.2 billion to $11.4 billion.

Crude Oil — The closing spot price for West Texas Intermediate (WTI), the U.S. benchmark for light, sweet crude, averaged $87.55 per barrel in October '22, up from $81.48 for the same period in '21. WTI dropped below $90 in early September for the first time since February '21. The U.S. Energy Information Administration forecasts WTI to average $95.74 per barrel this year and $88.58 in '23.

Foreign Trade — The Houston-Galveston Customs District handled 185.3 million metric tons of goods and commodities through September of this year, a 10.7 percent increase over the comparable period in '21. Those shipments were valued at $223.2 billion, a 46.3 percent increase over '21. This year-over-year increase was largely due to increased shipments of mineral fuels, oil, and refined products; organic chemicals; and plastics.

Home Sales — In the 12 months ending in September, Houston area realtors closed on 126,946 homes, compared to 128,869 for the 12 months ending in August, and 130,767 for the 12 months ending in July. In September '22, active listings of all property types (single-family, townhomes, condos, duplexes) were up 31.0 percent over September of '21. They are still 16.9 percent below where they stood five years ago.

Inflation — Inflation, as measured by the Consumer Price Index for all Urban Consumers (CPI-U), rose 8.2 percent nationwide in the 12 months ending September '22. This is slightly down from June's 9.1 percent. The peak of the last 50 years was in March '80 when the annual rate topped 14.6 percent.

Natural Gas — October's natural gas prices averaged $5.66 per million British thermal units (MMBtu), up 2.7 percent from October the year before. Prices briefly topped $9.56 in August and have trended down since.

Purchasing Managers Index — Economic activity in Houston expanded in September at the same rate as August, according to the most recent Houston Purchasing Managers Index (PMI). The September '22 PMI registered 54.2, down from 59.5 percent in '21. Readings over 50 generally indicate expansion in the economy, below 50, contraction.

Retail — Retail sales in Metro Houston topped $43.0 billion in Q4/21. That represents a 13.9 percent nominal jump and an inflation-adjusted 6.8 percent bump from the $37.7 billion consumers spent in Q4/20. Note: Retail sales data typically lags by several quarters.

Rig Count — The Baker Hughes count of active domestic rotary rigs hit 770 the first week of November, up 220 rigs from the same week the year before, according to data recently released by the company. The rig count is 22 shy of where it stood in mid-March '20 prior to the pandemic. However, the rig count peaked at 1,083 the last week of December '18. The pandemic only accelerated the decline.

Unemployment — The unemployment rate for metro Houston was 4.2 percent in September '22, down from 4.6 percent in August '22 and 5.7 percent in September '21. The Texas rate was 3.8 percent, down from 5.1 percent the year prior. The U.S. rate was 3.3 percent, down from 4.6 percent in '21. The rates are not seasonally adjusted.

Vehicle Sales — New car, truck, and SUV sales are up 11.5 percent through September of this year compared to the same period in '21. Truck and SUV sales continue to dominate the market, accounting for one in four (76.7 percent) of all vehicles sold to date.

The Partnership sends updates for the most important economic indicators each month. If you would like to opt-in to receive these updates, please click here.

HOUSTON MSA NONFARM PAYROLL EMPLOYMENT (000)

	September 22	August 22	September 21	Change from August 22	Change from September 21	% Change from August 22	% Change from September 21
Total Nonfarm Payroll Jobs	**3,285.6**	**3,270.8**	**3,097.2**	**14.8**	**188.4**	**0.5**	**6.1**
Total Private	***2,855.0***	***2,859.6***	***2,669.9***	***-4.6***	***185.1***	***-0.2***	***6.9***
Goods Producing	***535.9***	***539.7***	***483.5***	***-3.8***	***52.4***	***-0.7***	***10.8***
Service Providing	***2,749.7***	***2,731.1***	***2,613.7***	***18.6***	***136.0***	***0.7***	***5.2***
Private Service Providing	***2,319.1***	***2,319.9***	***2,186.4***	***-0.8***	***132.7***	***0.0***	***6.1***
Mining and Logging	68.2	68.4	59.2	-0.2	9.0	-0.3	15.2
Oil & Gas Extraction	32.8	33.0	28.8	-0.2	4.0	-0.6	13.9
Support Activities for Mining	33.7	33.5	29.0	0.2	4.7	0.6	16.2
Construction	240.4	243.4	211.3	-3.0	29.1	-1.2	13.8
Manufacturing	227.3	227.9	213.0	-0.6	14.3	-0.3	6.7
Durable Goods Manufacturing	142.1	141.5	130.7	0.6	11.4	0.4	8.7
Nondurable Goods Manufacturing	85.2	86.4	82.3	-1.2	2.9	-1.4	3.5
Wholesale Trade	174.3	176.5	162.3	-2.2	12.0	-1.2	7.4
Retail Trade	318.4	321.2	305.6	-2.8	12.8	-0.9	4.2
Transportation, Warehousing and Utilities	169.0	171.2	165.5	-2.2	3.5	-1.3	2.1
Utilities	17.6	17.7	17.3	-0.1	0.3	-0.6	1.7
Air Transportation	19.1	19.4	17.8	-0.3	1.3	-1.5	7.3
Truck Transportation	29.1	29.3	27.5	-0.2	1.6	-0.7	5.8
Pipeline Transportation	12.7	12.7	12.2	0.0	0.5	0.0	4.1
Information	32.3	32.2	30.7	0.1	1.6	0.3	5.2
Telecommunications	12.4	12.4	12.3	0.0	0.1	0.0	0.8
Finance & Insurance	110.3	110.8	108.7	-0.5	1.6	-0.5	1.5
Real Estate & Rental and Leasing	65.3	64.3	61.8	1.0	3.5	1.6	5.7
Professional & Business Services	537.2	534.1	511.1	3.1	26.1	0.6	5.1
Professional, Scientific & Technical Services	257.3	253.4	242.6	3.9	14.7	1.5	6.1
Legal Services	*30.5*	*30.5*	*28.9*	*0.0*	*1.6*	*0.0*	*5.5*
Accounting, Tax Preparation, Bookkeeping	*26.5*	*26.5*	*25.5*	*0.0*	*1.0*	*0.0*	*3.9*
Architectural, Engineering & Related Services	*73.5*	*73.3*	*66.5*	*0.2*	*7.0*	*0.3*	*10.5*
Computer Systems Design & Related Services	*39.3*	*39.4*	*37.8*	*-0.1*	*1.5*	*-0.3*	*4.0*
Admin & Support/Waste Mgt & Remediation	235.0	235.6	225.4	-0.6	9.6	-0.3	4.3
Administrative & Support Services	*224.3*	*224.9*	*213.8*	*-0.6*	*10.5*	*-0.3*	*4.9*
Employment Services	*88.5*	*88.1*	*85.6*	*0.4*	*2.9*	*0.5*	*3.4*
Educational Services	74.5	73.6	65.6	0.9	8.9	1.2	13.6
Health Care & Social Assistance	363.6	364.5	346.2	-0.9	17.4	-0.2	5.0
Arts, Entertainment & Recreation	38.4	39.1	32.9	-0.7	5.5	-1.8	16.7
Accommodation & Food Services	323.0	317.5	285.1	5.5	37.9	1.7	13.3
Other Services	112.8	114.9	110.9	-2.1	1.9	-1.8	1.7
Government	430.6	411.2	427.3	19.4	3.3	4.7	0.8
Federal Government	32.1	31.9	31.5	0.2	0.6	0.6	1.9
State Government	94.6	94.5	92.7	0.1	1.9	0.1	2.0
State Government Educational Services	*54.1*	*53.8*	*53.0*	*0.3*	*1.1*	*0.6*	*2.1*
Local Government	303.9	284.8	*303.1*	19.1	0.8	6.7	0.3
Local Government Educational Services	*209.0*	*192.5*	*208.8*	*16.5*	*0.2*	*8.6*	*0.1*

SOURCE: Texas Workforce Commission