THE ECONOMY AT A GLANCE
HOUSTON

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2024 HOUSTON FORECAST

Editor's Note: The following summarizes the Partnership's '24 employment forecast released December 7, 2023. The summary includes several economic indicators that have been updated since the forecast was first released. The updates did not change the outlook. The full forecast can be found at www.houston.org/economy.

Growth will be slower in '24 than '23. Higher interest rates, ongoing labor shortages, reductions in government spending, tighter lending standards, and turmoil in commercial real estate will weigh on the economy. If the U.S. slows, so will Houston.

Signs of a local slowdown have already emerged:

- Through November of '23, metro Houston created 57,300 private sector jobs. That's down from 121,100 over the comparable period in '22.
- The Baker Hughes U.S. rig count slipped to 622 the last week of December '23, down from 779 the same week in '22.
- Adjusted for inflation, sales tax collections in the region's twelve most populous cities were up 2.0 percent through October. At the same time in '22, they were up 5.1 percent.
- Construction activity peaked in '22 and has trended down since. City of Houston building permits through October are down 8.9 percent compared to '22, after adjusting for inflation. Initial reports from Dodge Data & Analytics suggest activity outside the city is down by as much as 20 percent.

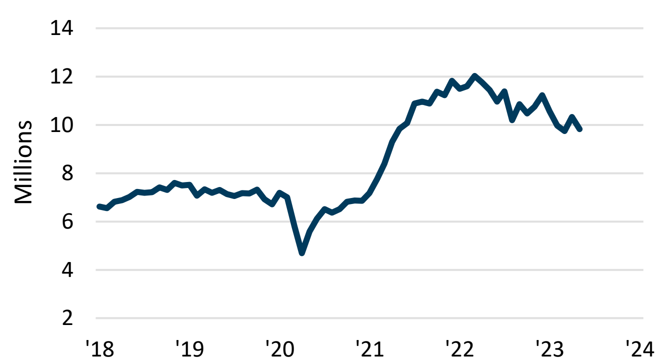
A recession might still occur, but it would be triggered by events beyond the Fed's control, like a global trade war, an extreme weather event, direct conflict between China and Taiwan, a prolonged U.S. government shutdown, an oil price spike, the Israel-Hamas war spreading to other countries, and the Ukraine-Russia war spiraling into a global conflict. The Partnership assigns no probabilities to these events but acknowledges any one of them could dramatically alter this forecast.

Three factors will temper growth in '24—a tight labor market, persistent high interest rates, and turmoil in commercial real estate.

Tight Labor Market

The U.S. labor force will continue to grow but not fast enough to keep pace with the demand for workers. The Bureau of Labor Statistics estimates 3.7 million Americans joined the labor force between November '22 and November '23. In November, there were 8.8 million job openings.

U.S. JOB OPENINGS



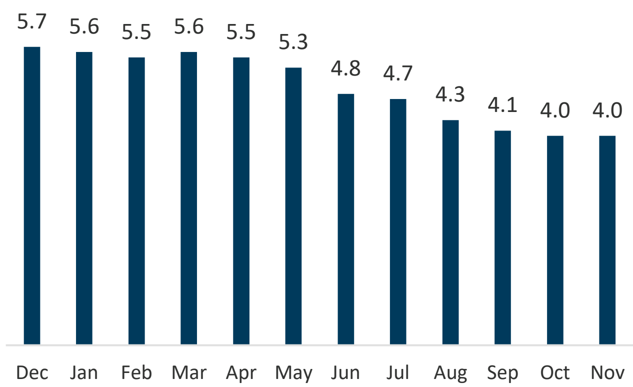
Source: U.S. Bureau of Labor Statistics

Employers always have open positions. Some workers quit, others retire, or the firm needs the extra hands to expand operations. The current level of openings, however, is 37 percent above the average number of openings in the five years prior to the pandemic. Unless more workers come off the sidelines or the U.S. allows more legal immigration, chronic worker shortages will prevail.

Interest Rates and Inflation

The annual inflation rate was 3.1 percent in November. The core rate, which excludes volatile food and energy, was 4.0 percent. Most forecasts call for core inflation to track 2.5 percent or better for most of '24. As long as the inflation rate tracks above the Fed's preferred 2.0 percent target, the bank is unlikely to lower interest rates despite what the financial markets suggest.

% CORE INFLATION, ANNUAL RATE, DEC '22 – NOV '23



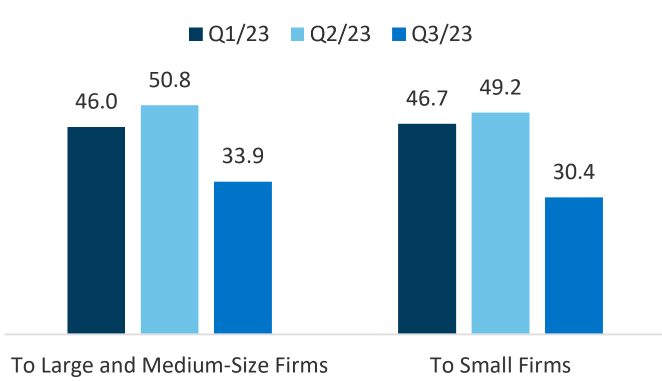
Source: U.S. Bureau of Labor Statistics

Commercial Real Estate Woes

Turmoil in commercial real estate will also impede growth. A recent study by Newmark Group, a real estate firm, determined that $1.2 trillion of U.S. commercial real estate debt is highly leveraged while property values are falling. Office buildings account for more than half of the at-risk debt set to mature within the next two years.

Banks are setting aside reserves to cover potential losses. They have also reduced lending. Half of all respondents to the Fed's Senior Loan Officer Opinion Survey indicated they tightened lending standards to small, medium-sized, and large firms in Q2/23 and a third did so in Q3/23.

PERCENTAGE OF BANKS BY QUARTER TIGHTENING LENDING STANDARDS FOR COMMERCIAL & INDUSTRIAL LOANS



Source: System Senior Loan Officer Opinion Survey on Bank Lending Practices, Board of Governors Federal Reserve

Pension funds, private equity groups, and insurance companies have also become more careful with their lending and acquisitions. Across the board, access to capital will be limited and impede growth.

Forecast Assumptions

The forecast for '24 is based on the following assumptions:

- Real U.S. GDP growth averages 1.5 percent or higher.
- Job growth averages 150,000 or better per month.
- Consumers continue to spend at their current pace.
- Inflation tracks above 3.0 percent early in '24 but falls to 2.5 percent by December.
- The Fed maintains interest rates at their current levels through mid-year, then initiates its first cuts to spur growth in the latter half of '24.

Those assumptions align with *Bloomberg*, the National Association for Business Economics, *Wall Street Journal*, and Survey of Professional Forecasters expectations. The forecast is also based on the following assumptions about the local economy:

- Oil averages $80 per barrel all year, spurring a marginal increase in drilling.
- Houston sees no reduction in purchases of the goods and services it exports to its major trading partners.
- Overall inventory drawdowns bottom out and demand for manufactured goods picks up mid-year.
- The region welcomes another 120,000 residents, half arriving via the moving van, half by the maternity ward.
- Demand for new single- and multi-family housing slips only slightly from current levels.
- Houstonians remain confident about the future and there's no pullback in local spending.

If only one or two assumptions prove wrong, the Partnership's forecast should still hold. But if three or more prove wrong, the forecast would need to be revised.

What can Houstonians expect in '24? Job growth below the current pace. More vehicles on the freeways. Record passenger volumes at the region's airports. Fewer housing starts, but at a still healthy level. Energy prices high enough to spur an uptick in drilling. Minor reductions in inflation. No relief on interest rates until mid-year. And a slump in commercial construction.

The Partnership's forecast calls for growth in administrative services, arts, entertainment, and recreation, energy, government, health care, hotels, manufacturing, other services, private education, professional services, restaurants and bars, retail, transportation, and wholesale trade. Job losses will occur in construction, finance and insurance, information, and real estate. A detailed explanation of the factors driving job losses or gains can be found in the forecast document.

The region is projected to add 57,600 jobs in ’24, a subpar performance compared to recent years but still a healthy gain. Houston should finish the year with total employment surpassing 3.4 million, a new record for the region.

METRO HOUSTON '24 EMPLOYMENT FORECAST

Industry/Sectors	Job Gains/Losses
Health Care	10,000
Government	7,800
Restaurants & Bars	7,200
Professional Services	6,800
Retail	6,500
Manufacturing	6,300
Wholesale Trade	4,300
Administrative Services	4,200
Transportation	4,100
Energy	3,000
Private Education	1,800
Arts, Entertainment, Rec	1,100
Other Services	1,100
Hotels	1,000
Information	-300
Real Estate	-1,000
Finance & Insurance	-1,500
Construction	-4,800
Total	*57,600*

Source: Greater Houston Partnership Research

The past two years have seen records set for job growth, home sales, construction starts, sales tax collections, and port traffic. The region couldn’t maintain that pace indefinitely. A slowdown was inevitable—but not a recession. Houston will see subpar growth in ’24, but the region should return to its long-term trend in ’25.

NOVEMBER EMPLOYMENT UPDATE

Houston added 13,300 jobs in November, according to the Texas Workforce Commission (TWC). Employment is now 212,600 jobs above where it stood prior to the pandemic.

Houston has witnessed several booms and busts over the past 20-plus years.

- The collapse of Enron and the uncertainty brought on by 911 resulted in nominal job losses early in the decade (’02-’04).
- Post Enron, when oil prices surged to near $150 a barrel, job gains averaged 95,000 per year mid-decade (’05-’07).
- The worst year of the Global Financial Crisis (’09), the region lost over 100,000 jobs.
- During the Fracking Boom (’11-’14), job gains averaged 100,000 per year.
- The ensuing Fracking Bust (’15-’16) saw annual losses, albeit small ones.
- Job gains were tepid (roughly 60,000 a year) after the bust and prior to COVID.
- Houston lost 360,00 jobs in the first two months Mar-Apr ’20) of the pandemic.
- Coming out of the pandemic, growth surged, and the region saw its two best years on record—172,100 jobs in ’21 and 145,700 in ’22.

ANNUAL JOB GAINS AND LOSSES, METRO HOUSTON

Year	Jobs	Year	Jobs
'03	-11,400	'13	89,900
'04	39,400	'14	116,600
'05	91,700	'15	-2,500
'06	106,700	'16	-2,300
'07	91,000	'17	54,400
'08	21,500	'18	82,800
'09	-110,600	'19	54,500
'10	50,700	'20	-183,900
'11	83,000	'21	172,100
'12	117,400	'22	145,700

Source: Partnership calculations based on Texas Workforce Commission data

Given the swings in Houston’s fortunes, it’s difficult to know what’s normal and sustainable for the region. One can attempt to define both by removing the outliers, i.e., the region’s five best and five worst years over the past two decades. This produces a range of roughly 50,000 to 90,000 jobs per year, which is a more realistic assessment of what the region should expect when high oil prices aren’t driving growth, or a national recession isn’t dragging it down. The mid-point of the range, 70,000 jobs, should be considered normal and sustainable for Houston.

December’s exact job count won’t be known until TWC releases its estimates later this month. The region typically adds 5,000 to 15,000 jobs every December. Again, that’s after removing the outliers of the past 20 years.

Through November, Houston has added 68,800 payroll jobs. The region will likely finish ’23 with a net gain of roughly 74,000 to 84,000 jobs. The Partnership’s forecast (released in December ’22) called for the region to add approximately 79,000 jobs in ’23.

SOLID GDP GROWTH

Houston's gross domestic product (GDP), the broadest measure of economic activity, hit $633.2 billion in '22, according to recent estimates by the U.S. Bureau for Economic Analysis. That ranks metro Houston as having the seventh largest economy in the U.S., ahead of Boston but behind Washington, D.C.

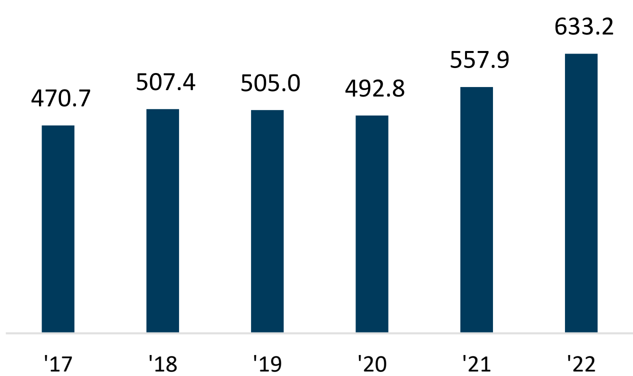
GROSS DOMESTIC PRODUCT, TOP 20 METROS, '22

Rank	Metro	GDP*	Rank	Metro	GDP*
1	New York	2,163.20	11	Seattle	517.8
2	Los Angeles	1,227.5	12	Miami	483.8
3	Chicago	832.9	13	San Jose	403.5
4	San Francisco	729.1	14	Phoenix	362.1
5	Dallas-Ft Worth	688.9	15	Minneapolis	324.0
6	Washington	660.6	16	Detroit	305.4
7	Houston	633.2	17	San Diego	295.6
8	Boston	571.7	18	Denver	288.8
9	Atlanta	525.9	19	Baltimore	241.4
10	Philadelphia	518.5	20	Riverside	237.9

*Billion dollars
Source: U.S. Bureau for Economic Analysis

In nominal dollars, Houston's GDP has grown 34.5 percent since '17. Adjusted for inflation, the region's GDP has grown 9.1 percent over the period.

METRO HOUSTON GDP, $ BILLIONS



Source: U.S. Bureau of Economic Analysis

Readers should note the data reflect BEA's ***estimates*** of regional GDP, not an actual measure of economic activity. As such, the data is also subject to frequent revision. BEA revised its '21 estimate for Houston GDP from $537.1 billion to $557.8 billion. BEA also declined to publish data reflecting the contribution of Houston's key industries to GDP. For example, BEA did not disclose its estimates for the size of Houston's energy, wholesale trade, real estate, and health care sectors.

Though the data has flaws, it does help put in perspective the enormous size of Houston's economy. If Houston were an independent nation, it would have had the 23rd largest economy in the world in '22, ahead of Argentina and just behind Poland.

NATION/METRO GDP, '22

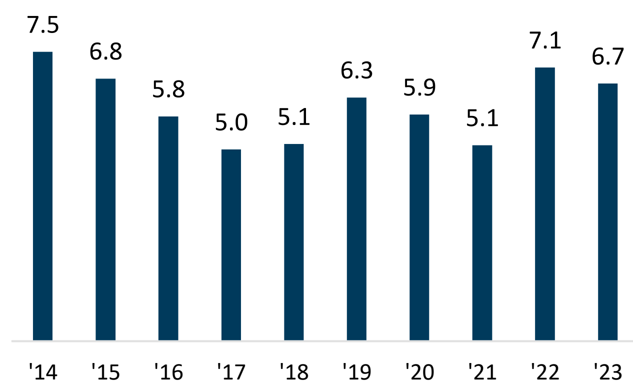
Rank	Country/Region	$ Billions
20	Switzerland	818.5
21	Taiwan Province of China	760.5
22	Poland	690.7
23	**Metro Houston**	633.2
24	Argentina	630.6
25	Sweden	591.2
26	Norway	579.4

Source: International Monetary Fund and U.S. Bureau of Economic Analysis

BUILDING WOES

Construction activity in the region continues to slow. The City of Houston issued $6.7 billion in building permits through the first ten months of '23, down 6.0 percent from $7.1 billion over the comparable period in '22. Adjusted for inflation, nonresidential permits are down 49.6 percent, residential permits are up 7.2 percent, and alterations and additions are up 6.0 percent compared to last year.

CITY OF HOUSTON BUILDING PERMITS, $ BILLIONS



Source: City of Houston * Nominal Dollars

Project awards (which reflect construction activity in the near future) are down significantly. Dodge Data & Analytics reports contracts totaling $28.022 billion were issued in the first ten months of '23, a 20.1 percent decrease from $35.061 billion over the comparable period in '22. If not for an increase in non-building (i.e., infrastructure projects), awards would have fallen even further.

Construction employment never fully recovered from the losses incurred in the early stages of the pandemic. As of November '23, the sector had 19,000 fewer jobs than it did in February '20. Given the ongoing drop in permits and awards, the sector will likely continue to lose jobs in '24.

Key Economic Indicators

Clicking on the hyperlinks below will provide additional details on that indicator.

Aviation — The Houston Airport System (HAS) handled 59.7 million passengers in the 12 months ending November ’23, up 11.0 percent from 53.8 million handled over the comparable period in ’22.

Foreign Trade — Trade through the Houston seaports—Freeport, Galveston, Houston, and Texas City—was valued at $218.5 billion through October of ‘23, a 7.9 percent drop from $237.3 billion over the comparable period in ’22. Exports are down $15.1 billion (11.1 percent). Imports are down $3.7 billion (3.6 percent).

Energy — The Energy Information Administration (EIA) forecasts U.S. crude output to grow from 12.9 to 13.1 million barrels per day in ’24. EIA expects the spot price for Brent, the global crude benchmark, to average $82.57 per barrel in ’24, essentially unchanged from $82.40 in ’23. West Texas Intermediate (WTI) typically trades $3-4 per barrel below Brent.

Home Sales — Houston realtors closed on 102,788 homes (single-family, duplexes, condos, and townhomes) in the 12 months ending November ‘23, the slowest annual rate since October ’19. Home sales have fallen 23.8 percent from their peak of 134,844 during the 12 months ending March ’22. November data suggests the market may be stabilizing. Monthly, sales and listings were up in November while prices slipped marginally. Local inventory expanded to a 3.5-month supply, up from 2.8 months a year ago.

Inflation — Inflation, as measured by the Consumer Price Index for all Urban Consumers (CPI-U), rose 3.1 percent nationwide in the 12 months ending November ’23. That’s down from November ’22 when prices were rising at a 7.1 percent annual rate. On a monthly basis, U.S. consumer prices rose 0.1 percent this November compared to 0.2 percent last November.

Purchasing Managers Index — Economic activity in Houston showed mixed results in November with nonmanufacturing activity expanding at a faster pace and manufacturing continuing to report weakness, according to the Houston Purchasing Managers Index (PMI). The overall PMI rose 2.1 points to 52.0 in November, up from 49.9 in October. Readings above 50 indicate overall expansion of the economy, below 50, contraction. Regarding the two major subcomponents:

- The manufacturing PMI rose 0.9 points to 46.8, providing a modestly weaker signal for contraction in this sector.
- The nonmanufacturing PMI rose 2.3 points to 53.1, showing a stronger indication of expansion for the industries in this sector.

Sales Tax — Sales and use tax collections in the 12 most populous Houston-area cities totaled $1.056 billion through October of ‘23, up 4.7 percent from $1.009 billion in the comparable period in ’22. Adjusted for inflation, year-to-date collections are up only 2.0 percent over last year.

Unemployment — The unemployment rates for metro Houston, Texas, and the U.S. fell in November. Houston’s unemployment rate slipped from 4.1 percent in October to 3.8 percent in November, Texas’ rate from 3.8 to 3.5 percent, and the U.S. rate from 3.6 to 3.5 percent. The rates are not seasonally adjusted.

Vehicle Sales — Houston-area auto dealers sold 331,695 cars, trucks, and SUVs through the first 11 months of ’23, a 15.9 percent increase over the 286,309 sold during the comparable period in ’22. Sales have surpassed pre-COVID levels but remain short of the Fracking Boom peak.

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

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HOUSTON MSA NONFARM PAYROLL EMPLOYMENT (000)

	November 23	October 23	November 22	Change from October 23	Change from November 22	% Change from October 23	% Change from November 22
Total Nonfarm Payroll Jobs	**3,404.4**	**3,391.1**	**3,326.6**	**13.3**	**77.8**	**0.4**	**2.3**
Total Private	***2,946.7***	***2,937.7***	***2,878.2***	***9.0***	***68.5***	***0.3***	***2.4***
Goods Producing	***522.4***	***523.4***	***518.6***	***-1.0***	***3.8***	***-0.2***	***0.7***
Service Providing	***2,882.0***	***2,866.6***	***2,808.0***	***15.4***	***74.0***	***0.5***	***2.6***
Private Service Providing	***2,424.3***	***2,414.3***	***2,359.6***	***10.0***	***64.7***	***0.4***	***2.7***
Mining and Logging	69.8	70.2	67.3	-0.4	2.5	-0.6	3.7
Oil & Gas Extraction	29.7	29.8	29.1	-0.1	0.6	-0.3	2.1
Support Activities for Mining	38.5	38.7	36.7	-0.2	1.8	-0.5	4.9
Construction	218.4	218.0	223.3	0.4	-4.9	0.2	-2.2
Manufacturing	234.2	235.2	228.0	-1.0	6.2	-0.4	2.7
Durable Goods Manufacturing	145.4	146.2	139.2	-0.8	6.2	-0.5	4.5
Nondurable Goods Manufacturing	88.8	89.0	88.8	-0.2	0.0	-0.2	0.0
Wholesale Trade	179.4	179.6	175.0	-0.2	4.4	-0.1	2.5
Retail Trade	328.7	323.1	323.1	5.6	5.6	1.7	1.7
Transportation, Warehousing and Utilities	202.1	199.6	193.8	2.5	8.3	1.3	4.3
Utilities	21.1	20.8	20.1	0.3	1.0	1.4	5.0
Air Transportation	20.9	20.8	19.8	0.1	1.1	0.5	5.6
Truck Transportation	31.6	31.5	30.8	0.1	0.8	0.3	2.6
Pipeline Transportation	13.3	13.1	12.7	0.2	0.6	1.5	4.7
Information	33.0	33.0	33.0	0.0	0.0	0.0	0.0
Telecommunications	11.8	11.9	11.9	-0.1	-0.1	-0.8	-0.8
Finance & Insurance	116.7	117.0	114.9	-0.3	1.8	-0.3	1.6
Real Estate & Rental and Leasing	72.1	72.4	67.0	-0.3	5.1	-0.4	7.6
Professional & Business Services	564.8	562.6	554.3	2.2	10.5	0.4	1.9
Professional, Scientific & Technical Services	280.8	279.6	270.0	1.2	10.8	0.4	4.0
Legal Services	*33.5*	*33.5*	*31.5*	*0.0*	*2.0*	*0.0*	*6.3*
Accounting, Tax Preparation, Bookkeeping	*29.2*	*29.0*	*27.9*	*0.2*	*1.3*	*0.7*	*4.7*
Architectural, Engineering & Related Services	*80.4*	*79.3*	*73.0*	*1.1*	*7.4*	*1.4*	*10.1*
Computer Systems Design & Related Services	*44.7*	*44.6*	*42.6*	*0.1*	*2.1*	*0.2*	*4.9*
Admin & Support/Waste Mgt & Remediation	237.2	236.3	238.5	0.9	-1.3	0.4	-0.5
Administrative & Support Services	*223.0*	*222.2*	*225.5*	*0.8*	*-2.5*	*0.4*	*-1.1*
Employment Services	*85.5*	*84.9*	*89.8*	*0.6*	*-4.3*	*0.7*	*-4.8*
Private Educational Services	73.8	73.8	73.2	0.0	0.6	0.0	0.8
Health Care & Social Assistance	388.0	386.0	365.2	2.0	22.8	0.5	6.2
Arts, Entertainment & Recreation	40.4	40.6	36.4	-0.2	4.0	-0.5	11.0
Accommodation & Food Services	306.8	307.1	306.5	-0.3	0.3	-0.1	0.1
Other Services	118.5	119.5	117.2	-1.0	1.3	-0.8	1.1
Government	457.7	453.4	448.4	4.3	9.3	0.9	2.1
Federal Government	34.3	33.6	32.9	0.7	1.4	2.1	4.3
State Government	96.8	96.3	95.1	0.5	1.7	0.5	1.8
State Government Educational Services	*55.2*	*54.7*	*54.3*	*0.5*	*0.9*	*0.9*	*1.7*
Local Government	326.6	323.5	*320.4*	3.1	6.2	1.0	1.9
Local Government Educational Services	*228.0*	*225.6*	*223.7*	*2.4*	*4.3*	*1.1*	*1.9*

SOURCE: Texas Workforce Commission