HOUSTON REGION economic outlook

GREATER HOUSTON **PARTNERSHIP**

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INTRODUCTION

The U.S. economy is doing well despite reports to the contrary. In the 12 months ending October '24, the nation has created 2.2 million jobs. The unemployment rate has held steady at 4.1 percent. Construction activity has ticked up. Inflation is trending down. And real gross domestic product (GDP) has grown 2.8 percent over the past 12 months. In fact, the U.S. has led all developing nations in recovering from the pandemic. U.S. GDP increased by 10.7 percent since the end of '19, versus 5.9 percent for Canada's GDP, 3.9 percent for the Eurozone, 3.0 percent for Japan, and 0.2 percent for Germany.

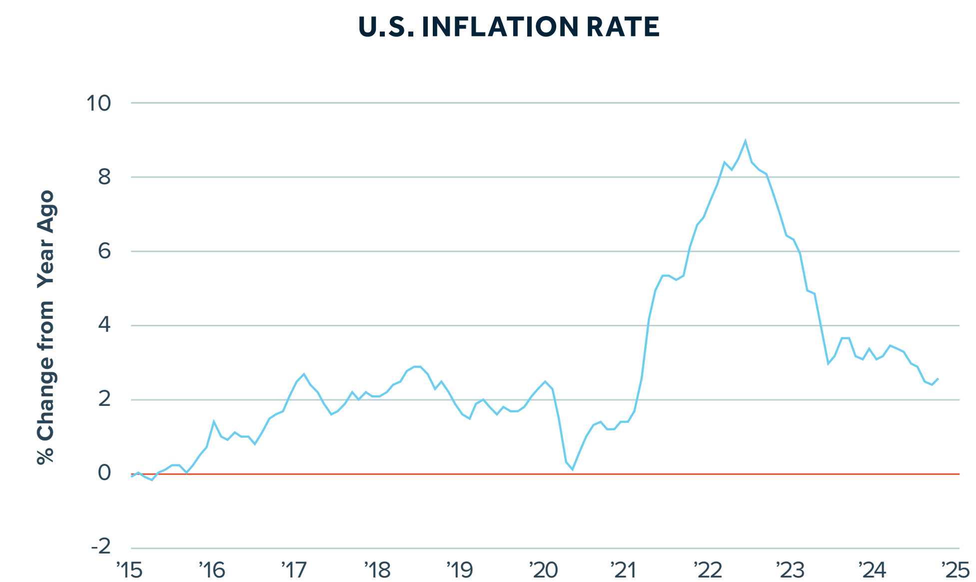
Houston is no laggard, either. The region created 60,000 jobs in the 12 months ending October '24. The local unemployment rate has averaged 4.3 percent over the year. Initial claims for unemployment benefits, a proxy for layoffs, have fallen to pre-pandemic levels. Passenger traffic through the Houston Airport System (HAS) is on track to set a record in '24. Container traffic at Port Houston is on the same path. And people and businesses continue to flock to the region.

Both the U.S. and Houston are poised for growth in '25. Whether that growth stalls or accelerates depends on the path of inflation, the level of U.S. interest rates, consumer confidence, and actions taken by Washington in the spring.

INFLATION

The annual rate of inflation peaked at 9.1 percent in June '22 and has trended down since, slipping to 2.6 percent in October '24. Various economic surveys forecast inflation to track between 2.0 and 2.5 percent next year. The Partnership expects inflation at the lower end of that range.

A lower inflation rate is important for several reasons. For one, it affects consumer sentiment. The effective federal funds rate may be a difficult concept for most Americans to grasp, but everyone knows how much they pay for gas, bread, and blue jeans today versus three years ago. When inflation declines, consumers feel better about the economy and open up their wallets.



Source: U.S. Bureau of Labor Statistics

INTEREST RATES

To combat inflation, the Federal Reserve began hiking the federal funds rate in the spring of '22. In the fall of '24, seeing that inflation was nearing the Fed's 2.0 percent target, the bank began to lower the rate. Many business and consumer loans are pegged to the rate, so its decline should make buying a car, purchasing a home, or financing equipment more affordable, thus boosting economic growth.

CONSUMER CONFIDENCE

The Conference Board's October '24 Consumer Confidence Index surged to its highest level since March '21. The same month, the University of Michigan's Survey of Consumer Expectations hit its highest level since July '21. In the Kinder Institute for Urban Research's spring '24 survey of Houston residents, 72 percent of respondents indicated they were excited about the future. All of this bodes well for consumer spending in the coming months.

ACTIONS BY WASHINGTON

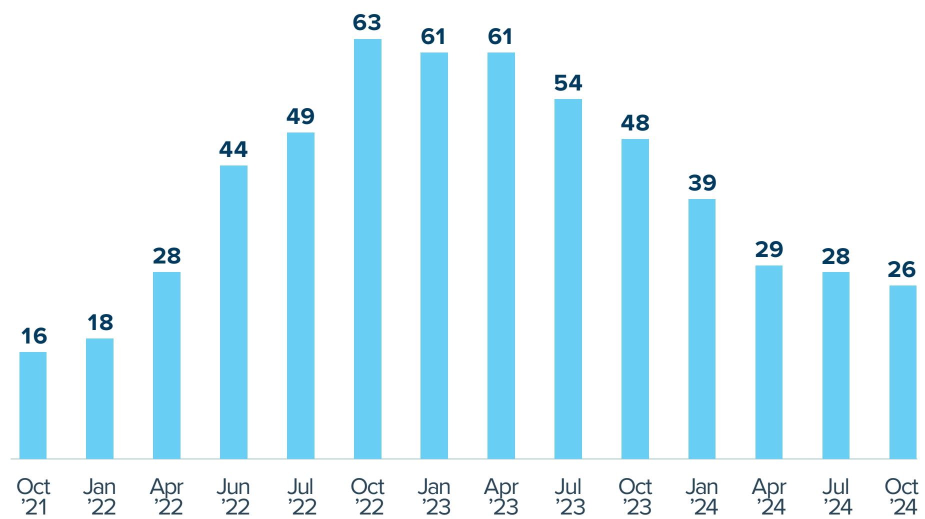
The biggest unknown is what impact Congress and the White House will have on the economy in '25. A more aggressive trade policy could result in higher prices on imported goods and retaliatory actions by our trading partners. Tax cuts and spending increases would compel the U.S. Treasury to issue more debt potentially raising interest rates. Reducing the immigrant workforce significantly would cause a severe labor shortage. Another budget impasse would shut down the government, reduce spending, and slow economic growth. Those are possibilities, however, not probabilities.

Baring a "black swan" event, the U.S. is unlikely to slip into recession in '25. The Wall Street Journal's October survey of prominent business economists rated the probability of a recession over the next 12 months at 26 percent. That's down from a 63 percent probability in the October of '22 survey. The consensus from the Blue Chip Survey, another poll of the nation's economists, is for U.S. GDP to grow 2.1 percent in '25. When the National Association for Business Economics surveyed its members about the next recession, only 10 percent responded that a recession might occur in '25, while 63 percent responded '26 or later. If the U.S. avoids a recession, so will Houston.

Where does Houston stand toward the end of '24?

- Over $32.8 billion in construction contracts have been awarded through October '24. That's up from $24.7 billion over the comparable period the year before.

% PROBABILITY OF A RECESSION IN THE NEXT 12 MONTHS



Source: The Wall Street Journal

- The HAS handled 47.0 million passengers through September '24, up 4.7 percent over the comparable period in '23.
- Over 2.8 million loaded TEUs (twenty-foot-equivalent units) passed through Port Houston in the first nine months of '24, a 6.2 percent increase over '23.
- Through the first nine months of '24, the Partnership has identified over 500 companies that have relocated, expanded, or started a business in Houston or announced plans to do so.
- Total wages and salaries paid to area workers were up $12.9 billion (5.1 percent) for the year ending June '24 compared to the same period in '23.
- Sales and use tax collections in the 121 Houston-area cities that collect the tax totaled $1.2 billion during the first nine months of '24, up 1.9 percent from last year after adjusting for inflation.
- October YTD, 84,717 homes have been sold through the Houston Association of Realtors (HAR) Multiple Listing Service (MLS). That's down 3.3 percent from '23. Listings are up 23.5 percent over last year. Home prices have been relatively stable for the past 18 months.
- Through births and in-migration, the region has added 265,000 residents over the past two years ('22 and '23) and should add an equal number over the next two.

THE FORECAST

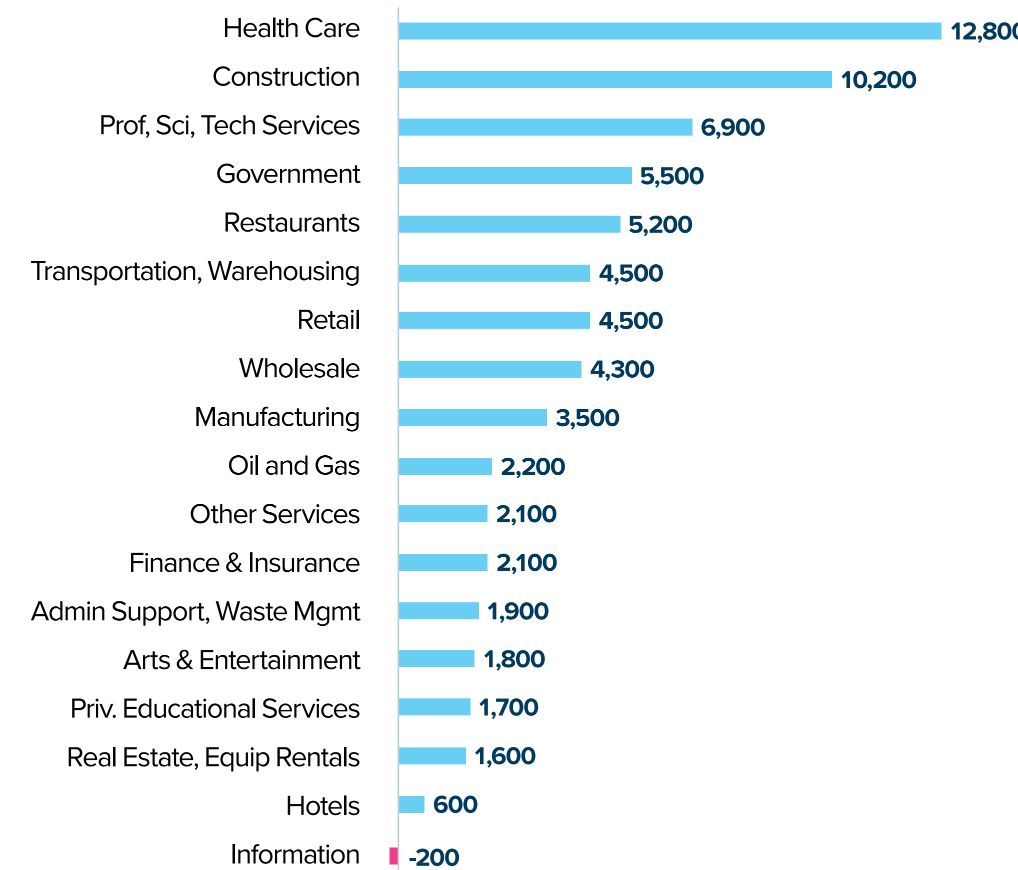
The Partnership's forecast calls for Metro Houston to create 71,200 jobs in '25. The sectors with the greatest gains (in order) will be health care, construction, professional and technical services, government, and restaurants and bars. Houston should finish '25 with over 3.5 million payroll jobs, a record for the region.

Several factors will support that growth—the ongoing U.S. expansion, the continued decline in interest rates, increasing consumer confidence, a steady stream of domestic and foreign companies establishing operations in Houston, a deep backlog of construction projects, and local income and population growth.

All forecasts are based on assumptions. The Partnership's is based on the following:

- Real U.S. GDP growth averages 2.0 percent or better in '25.
- U.S. job growth averages 150,000 or better per month.
- The annual rate of inflation slips to 2.0 percent by December '25.
- Net gains in real income spur additional consumer spending.
- The Fed continues to lower interest rates, boosting capital expenditures.
- Any tariff imposed by Washington has only a marginal impact on economic growth.
- Any appreciation of the dollar against other major currencies has a negligible impact on trade.
- Any tax law changes or environmental and business regulations that emanate from Washington have a minimal impact on the industries that drive Houston's economy.
- Oil never falls below $60 per barrel.
- People continue to move here from other cities, other states, and other countries.
- Demand for new single-family housing holds steady.

METRO HOUSTON, FORECAST JOB GAINS/LOSSES
December '24 - December '25



Source: Greater Houston Partnership Research

- Houstonians remain confident about the future and there's no pullback in local spending.
- And the region avoids another natural disaster like the May '24 derecho or the July '24 Hurricane Beryl.

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.

A FINAL NOTE

The purpose of this forecast isn't to score a bullseye, though the Partnership would be pleased if it did. Rather, the purpose is to highlight the forces shaping Houston's economy. A clearer understanding of the trends driving gains or losses should help the business community make better investment, staffing, and purchase decisions. Given the uncertainty surrounding commercial real estate, energy demand, consumer spending, geopolitics, and the climate in Washington, the more insight, the better. Now, the details behind the numbers.

ENERGY

The U.S. will produce over 13.4 million barrels of crude per day in the waning months of ’24, four million barrels per day more than it produced 10 years ago. And it will achieve that with 70 percent fewer rigs and 240,000 fewer workers.

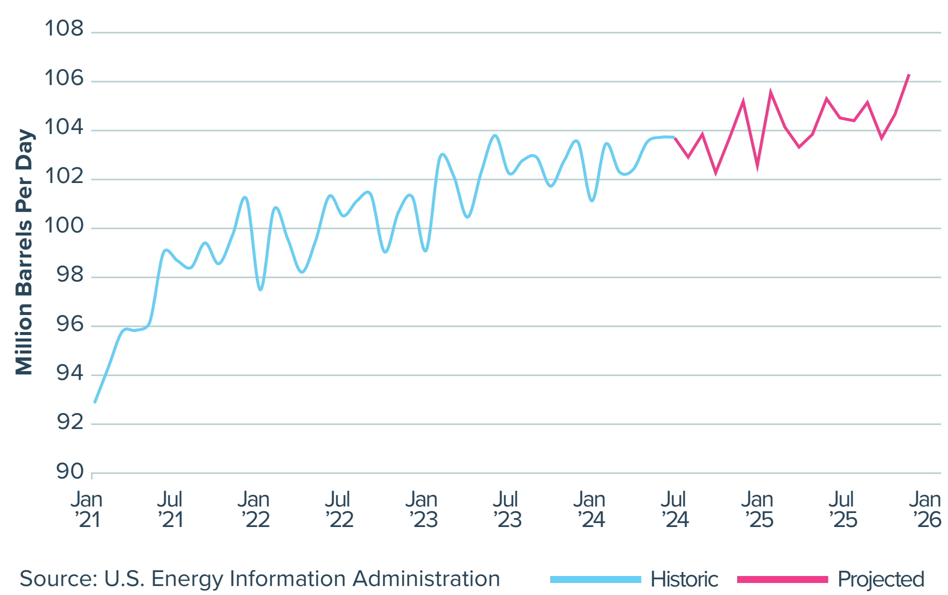
That’s possible because the industry has become extremely efficient at finding and producing oil and gas. Initial production per well in the Permian Basin today is seven times what it was 10 years ago. With each new well, the operators gather reams of data to analyze and feed into engineering models so the next well is drilled more efficiently. As a result, the industry doesn’t need to expand the rig fleet or add headcount to grow production.

The industry is also more disciplined these days. After years of financing wells anywhere and everywhere, investors insist firms focus on growing profits, not production. A surge in oil prices won’t induce them to change that behavior. U.S. exploration budgets will likely be flat in ’25.

The world is unlikely to see a price spike in ’25, barring an event that pulls a significant volume of crude off the market. It’s hard to see what that event might be. As of this writing, Russia has been at war with Ukraine for over two and half years and Israel has been at war with Hamas for 13 months, yet a barrel of West Texas Intermediate trades for $17 less than it did three years ago.

Daily global production has grown by more than 4.6 million barrels over the past three years (Q4/21 to Q4/24), according to the U.S. Energy Information Administration (EIA). The majority of that has come from countries outside of OPEC, particularly Brazil, Canada, Guyana, and the United States. Demand has grown but at a slower pace. EIA estimates that daily global consumption has grown by 3.8 million barrels since Q1/21. The difference has presumably gone into inventory. To prevent prices from sliding further, OPEC has cut back on production. The cartel’s excess capacity tops 4.3 million barrels per day, according to EIA.

DAILY GLOBAL CRUDE CONSUMPTION



Source: U.S. Energy Information Administration

OPEC remains optimistic, however. It projects daily global demand to increase by 1.6 million barrels in ’25. The International Energy Agency (IEA) is less optimistic, expecting demand to grow by only 1.0 million barrels. Either increase in demand can easily be met by production from outside of OPEC.

The Houston Story

Over the past 10 years, the industry has suffered significant job losses. Upstream employment (exploration and production, oil field services) peaked at 111,200 jobs in December ’14. As of October ’24, the industry employed 70,500 Houstonians, a loss of nearly 41,000 jobs from its peak. Expanding the definition of “energy” to include oil field equipment manufacturing, fabricated metal products, and engineering, the loss totals 74,000 jobs. As a result, energy employment in Houston today is 25 percent smaller than it was a decade ago.

The industry has seen a spate of mergers and acquisitions in recent years—Exxon/Pioneer, Chevron/Hess, ConocoPhillips/Marathon, Occidental/CrownRock, Chesapeake/Southwestern. Whenever a Houston company acquires an out-of-town company (i.e., Exxon/Pioneer), that brings jobs to Houston. But when one Houston company acquires another (Chevron/Hess), the consolidation typically results in job losses. So far, the mergers appear to be a net plus for Houston. In August, Chevron announced it would relocate its headquarters to Houston from San Ramon, CA. Senior leadership will arrive first, followed by managerial and support staff over the next few years.

Chevron isn’t the only company relocating to Houston. The Partnership’s New Business Announcements database has identified over 30 energy-related companies so far this year with plans to relocate to or expand operations in Houston. This should more than offset losses elsewhere in the sector.

The forecast assumes increased efficiencies and better knowledge of the underlying geologies will help boost U.S. production. Any increase in demand for oil field services will be met by existing staff. Energy companies will continue to relocate to Houston. And the ongoing spate of mergers and acquisitions will result in more of the industry being consolidated into Houston producing a net gain, albeit marginal, for the region. The forecast calls for a net gain of 2,200 jobs in ’25.

MANUFACTURING

Manufacturing employs 239,500 workers, 6.9 percent of all jobs in the region. It’s the single largest contributor to GDP, accounting for $1 in every $7 of Houston’s economic output.

The industry is divided into durables and nondurables manufacturing. Durables are goods with a lifespan of three or more years, like machinery and equipment. Nondurables have shorter lifespans or become components of durable goods. Examples include paint and chemicals.

Durables account for one-fourth (24.4 percent) of the region’s manufacturing output and just under two-thirds (62.5 percent) of its jobs; nondurables account for three-fourths of the industry’s output (75.6 percent) and a little over one-third (37.5 percent) of the jobs. Chemicals and refining, highly capital-intensive industries, dominate nondurables, thus the higher output per worker.

During the pandemic, manufacturing lost 11,300 jobs, the losses spread across all sectors with machinery and fabricated metal products suffering the most. Manufacturing has since recovered all its pandemic losses, but it has never recovered the jobs lost in the ’15 -’16 Fracking Bust. The sector has 17,500 fewer jobs tied to manufacturing oil field equipment and 13,500 tied to fabricated metal products (pipes, valves, and flanges) than it did 10 years ago. With the rig count operating well below where it was a decade ago, those jobs are unlikely to ever come back.

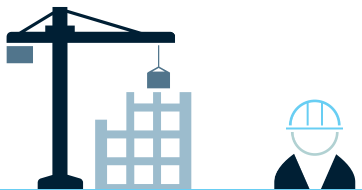
A few sectors—food processing, beverages, and petrochemicals—consistently add jobs each year, food and beverages due to population growth, chemicals due to the plant expansions in the region. Textiles and apparel, wood products and furniture,

METRO HOUSTON MANUFACTURING, Q2/24

Industry	Plants	Employment
Fabricated Metal Products	1,796	53,117
Chemicals	686	42,230
Machinery	851	39,954
Food Processing	728	18,253
Plastics and Rubber	230	11,323
Wood, Paper, Printing	680	9,652
Petroleum Products	93	7,960
Nonmetallic Minerals	316	8,503
Computers and Electronics	412	13,865
Electrical Equipment	215	7,616
Transportation Equipment	187	6,304
Primary Metals	123	3,342
Furniture	185	3,270
Textilles and Apparel	197	2,368
Misc. Manufacturing	550	11,743
Total	**7,249**	**239,500**

Source: Texas Workforce Commission and Partnership estimates and miscellaneous manufacturing add jobs through organic growth.

The forecast assumes that cooler heads will prevail in Washington and the U.S. does not enter a trade war with the rest of the world, that the value of the dollar versus other currencies strengthens only marginally, that consumer and business confidence remains strong, that Houston's population continues to grow, and that the U.S. chemical industry continues to invest in Houston. The sector is expected to create 3,500 jobs in '25.



CONSTRUCTION

Construction was supposed to stall in '24. Banks, worried about their under-performing loans, would be reluctant to issue new ones. Applications for any loan would face tighter scrutiny. High interest rates would make the cost of borrowing prohibitive. The market already had a surplus of office space and apartments, and if not careful, would soon have too much retail and industrial space. On the residential side, high mortgage rates coupled with rising house prices would keep the dream of homeownership out of reach for many Houstonians.

None of that seemed to matter. Over $32.8 billion in construction contracts have been awarded in Houston October YTD. That's up $8.1 billion from the same period last year. The surge has led to the hiring of nearly 15,000 construction workers over the first nine months of '24, more than the previous two years combined. How long can Houston maintain that pace? It helps to understand the factors influencing construction in each sector.

Office

The Houston office market has struggled for nearly a decade. First came the Fracking Bust and then came the pandemic. The "Bust" brought massive layoffs to the energy industry. Once offices emptied out, the firms threw the space back on the market.

The pandemic ushered in the era of hybrid work. Firms reassessed their office needs and downsized their footprints. If they relocated to a new building, they typically leased less space than they left behind.

As a result, Houston has logged negative net absorption (more space vacated than leased) for 22 of the past 40 quarters. The vacancy rate has risen from 12.5 percent in Q4/14 to 24.5 percent in Q4/24. In nominal terms, asking rents have been flat over the period. Adjusted for inflation, they're down 25.7 percent. The value of many buildings has plummeted, some selling for the price of the dirt they sit on.

There are a few bright spots, however. The trend of office downsizing is tapering off and white-collar (i.e. office-using) job growth remains strong.

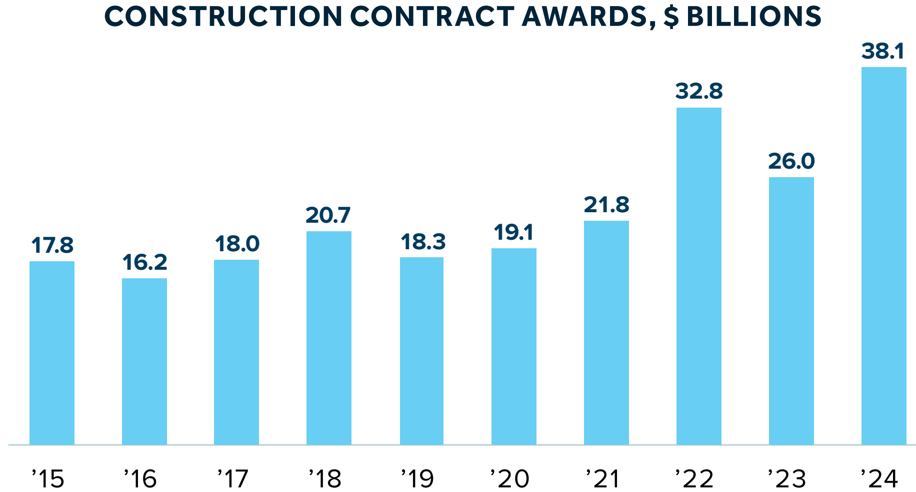
Only 2.6 million square feet of office space was under construction at the end of '24 and most was pre-leased. A few buildings may break ground in '25, but Houston is unlikely to see an upswing in office construction.

Industrial

Houston is at the tail end of an industrial construction boom. The market has added over 112 million square feet of inventory over the past four years, nearly exceeding the total for the seven years prior.

Through the first nine months of '24, Houston led the nation in absorption, driving vacancy down to 7.1 percent.

CONSTRUCTION CONTRACT AWARDS, $ BILLIONS



Source: Dodge Data & Analytics ('15 - '23), Partnership forecast ('24)

By comparison, San Antonio had a 10.2 percent vacancy rate, Dallas-Fort Worth an 11.6 percent rate, and Austin 14.7 percent. Developers broke ground on 8.4 million square feet of industrial space Q3/24 YTD, far less than the 16.6 million square feet absorbed, so construction may pick back up in '25.

Demand for industrial space should remain strong. Houston's population continues to grow. Each year, Port Houston handles more shipping containers than it did the previous year. Houston is firmly established as a major logistics/distribution hub. And there's been an increase in overseas firms looking to establish operations in Houston.

Retail

Retail describes a type of property, not the function that occurs within it. A retail center might include an eye clinic (health care), branch bank (finance), pizza parlor (restaurant), fitness center (recreation), and a dry cleaner (personal services). The flexibility of the space helps landlords to find tenants.

The vacancy rate was 5.2 percent in Q3/24, marginally above the 5.0 percent logged in Q3/23 and about on par with the 5.3 percent average of the past four years. Only 3.4 million square feet was under construction in late September, down from 4.5 million square feet in September '23.

There's a common phrase in the industry, "retail follows rooftops," and the housing boom underway in Houston's suburbs will continue to draw clinics, banks, restaurants, and retailers to those new developments. Over half the construction underway in late '24 was in Brazoria, Montgomery and far west Harris County.

Multifamily

Multifamily is overbuilt. Developers have delivered 100,000 units since '19, but the market has absorbed only 80,000. As a result, occupancy has fallen, taking rents with it. According to MRI Apartment Data, 49.0 percent Class A apartment units have leasing incentives (i.e., free rent, security deposit waivers, floorplan upgrades) attached to them.

The building boom has begun to wind down. There were only 16,000 units under construction in Q4/24, down from 24,000 at the same time the previous year. But the number of proposed units topped 35,800 in Q3/24, up slightly from the 34,700 proposed in Q3/23.

Single-Family — Existing

In the 12 months ending September '24, brokers closed on 98,700 homes (single-family, duplexes, condos, and townhomes.) That's a 4.0 percent drop from the comparable period in '23 and a 22.3 percent drop from '22. The decline has eased some of the pressure on home prices. The median price of an existing single-family home was $335,000 in October '24 up only 2.7 percent from October the year prior.

The average interest on a 30-year fixed-rate mortgage was 6.8 percent in November '24, down from 7.4 percent the previous November. That's reduced the monthly payment on a $335,000 home by $120. Unfortunately, that's had little impact on sales.

As of late October, there were over 31,000 single-family homes listed for sale through the HAR's MLS database. That's up 27.3 percent from September '23. The 30,000 homes equate to a 4.4-month supply. A 4.0-month supply is considered a balanced market, where neither seller nor buyer has an advantage. With inventory exceeding four months, Houston has shifted from a seller's market to a buyer's market.

Single-Family — New

Houston led the nation in single-family building permits (40,557) through the first nine months of '24. Dallas-Fort Worth ranked second (36,830) and Phoenix ranked third (23,648). The demand for new homes has been driven by population growth, job growth, and builders' ability to adapt designs and financing to meet homebuyers' needs.

The pace of new home construction will slow only marginally in '25. Community Builder Advisor Services expects 37,100 starts next year, down from 40,200 this year. This still tracks well above the long-term average of 31,800.

The forecast assumes no increase in office construction, a minor increase in industrial construction, retail construction holds steady, multifamily construction holds steady, the dip in single-family construction impacts delivery times not staffing levels, the volume of public sector work increases, and that firms still need to hire to deal with their backlogs. The forecast calls for construction to add 10,200 jobs in '25.

ADMINISTRATIVE AND SUPPORT AND WASTE MANAGEMENT

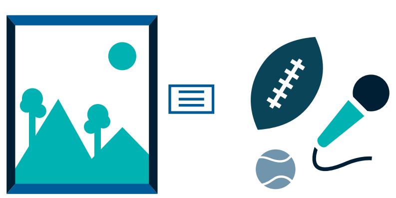
The full title for the sector is administrative and support and waste management and remediation services. The sector includes employment services (i.e., contract workers, executive search firms, placement agencies), services to buildings (i.e., janitorial, landscaping, pest control), investigation and security services (i.e., guards, watchmen, locksmiths, security systems), administrative and business support services (i.e., document prep, call centers, collection agencies,) waste collection and treatment (i.e., garbage collection, recycling, and disposal), and several miscellaneous services (travel agencies, tour operators, trade show organizers, and packaging services.)

Admin support/waste management employed over 220,000 toward the end of '24, or 6.8 percent of all jobs in the region. It accounted for 3.7 percent ($23.7 billion) of Houston's GDP in '23. Over the decade, it's added 13,600 jobs.

Four subsectors account for the bulk of the jobs today—employment services, 34.0 percent; building services, 23.7 percent; security, 12.4 percent; and back-office support, 12.1 percent. These four also account for 85 percent of the sector's gains over the past 10 years. That's not surprising, considering businesses have outsourced many non-core functions to focus on their mission. One subsector bucking this trend is business support services, which has 22 fewer firms and 2,600 fewer employees than it did 10 years ago. This may be the result of customer service functions (i.e., call centers) being outsourced to foreign countries.

Job gains through the first nine months of '24 were weaker than the comparable period the previous year, which suggests a slower pace of growth but not a contraction. That aligns with data from other sectors of Houston's economy as well.

Businesses will continue to outsource non-core functions, but at this stage in the business cycle, they will rely less on contract workers and more on permanent staff. The forecast calls for the admin services/waste management sector to create 1,900 jobs in '25.



ARTS, ENTERTAINMENT, AND RECREATION

This sector includes amusement parks, arcades, botanical gardens, bowling alleys, fitness centers, golf courses, marinas, museums, music groups, parks, performing arts companies, racetracks, spectator sports, theater companies, and zoos. This is the "leisure" part of Houston's leisure and hospitality industry. The "hospitality" part which includes bars, restaurants, and hotels is discussed later.

Arts, entertainment, and recreation is one of three sectors with both non-profit institutions and for-profit businesses. The other two are education and health care. Arts and rec includes many well-known non-profits like the Museum Fine Arts, Houston Grand Opera, Houston Holocaust Museum, and DACAMERA Houston, alongside many well-known for-profits like the Texans, Astros, Rockets, Dynamo, and Dash.

Though the arts and sports institutions have a high profile, they account for a fraction (18.6 percent) of the sector's jobs. Gyms, fitness centers, golf courses, and bowling alleys account for nearly half of all jobs (49.6 percent) in the sector. The remainder are sprinkled across other subsectors.

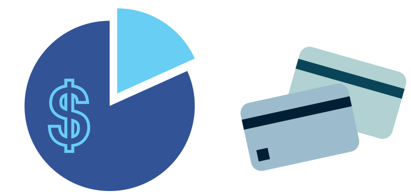
Though a minor employer, arts and rec has a major impact on the region, both economic and psychological. The city swells with pride whenever one of our professional sports teams makes the playoffs, as the Astros have in recent years. Houstonians are offered a unique perspective on the world whenever a major traveling art exhibit visits Houston. The Museum of Fine Arts will be the only U.S. venue showcasing the work of French Post-Impressionist artist Paul Gauguin. Dean Runyon Associates, a travel consultancy, estimates out-of-town visitors spent $1.9 billion on arts, recreation, and entertainment purchases in '23, the latest year for which data is available.

As with most consumer-oriented sectors, the arts benefit from employment, population, and income growth which were documented earlier. Rising education levels and shifting demographics influence ticket sales as well. A recent study by Americans for the Arts found the typical arts patron in Houston is between 42 and 76 years of age.

The sector also depends heavily on discretionary income. Consumers are more willing to splurge on tickets to the opera or sign up for a gym membership when their financial outlook is bright, and they cut back on these purchases when times are lean.

New Year's resolutions also come into play. According to a survey done by Statista, more than half of Americans make goals related to weight loss or eating habits each year, which drives gym membership. The region has added 310 fitness centers over the decade, accounting for over half of all new businesses in the sector.

All factors that supported growth over the past 10 years will remain in place next year. The forecast calls for the sector to gain 1,800 jobs in '25.



FINANCE AND INSURANCE

Nearly 125,000 Houstonians work in financial services, 3.5 percent of the region's total employment. The sector accounts for 3.1 percent of all wages and salaries and 4.7 percent of the region's GDP. Financial services include commercial banking, credit unions, consumer lending, insurance, investment advice, securities brokerages, and portfolio management. Over 6,100 firms operate in the sector, or 4.3 percent of the region's total businesses.

Houston has 170 fewer bank branches today than it did 10 years ago. Branches aren't needed when there's an ATM in every gas station, grocery store, and nightclub. Many functions once handled at a branch can now be handled via cell phone or over the internet. Banks also face stiff competition from non-traditional rivals (e.g., crowdsourcing, digital currencies, internet payment systems, online lenders, peer-to-peer platforms).

Additionally, many households have moved their deposits from traditional checking accounts to money market funds at brokerages which pay higher interest. As a result, banking has seen limited employment growth over the past 10 years, adding only 4,500 jobs, less than 1 percent of all jobs added over the decade.

The brokerage/financial advisory sector has performed better, adding more than 800 offices and 7,000 employees since Q1/14. A recent Gallup poll found 62 percent of all U.S. adults own stock directly, through their retirement accounts, or in a college fund. That's up from 52 percent 10 years earlier. As more Millennials and Gen-Zers think about their children's education or their own retirement, that percentage is likely to grow.

METRO HOUSTON BANKS

Year	Branches	Deposits in $ Billions*
'24	1,345	314.4
'23	1,355	324.3
'22	1,372	374.8
'21	1,409	333.7
'20	1,419	305.9
'19	1,417	249.6
'18	1,420	245.6
'17	1,450	240.9
'16	1,483	219.2
'15	1,492	215.2
'14	1,514	242.5
'13	1,526	208.0
'12	1,530	179.1
'11	1,534	154.0
'10	1,558	137.1

*As of June 30
Source: Federal Deposit Insurance Corporation

Houston has an additional 400 insurance-related firms and the sector employs 17,000 more than it did 10 years ago. Houston's population growth has expanded the pool of auto, home, life, and health insurance clients. And the region has added more than 25,000 new businesses over the decade, driving the need for more commercial insurance.

The forecast assumes the opening of a few bank branches to serve clients in Houston's newest suburbs. Most hiring will focus on programmers, analysts, and customer representatives. And as more families plan for college, retirement, or rainy days, the demand for financial advice and brokerage services will increase. That population and business growth will support the need for more insurance agents, adjusters, and claim processors. The forecast calls for the sector to add 2,100 jobs in '25.

FOOD SERVICES AND DRINKING PLACES

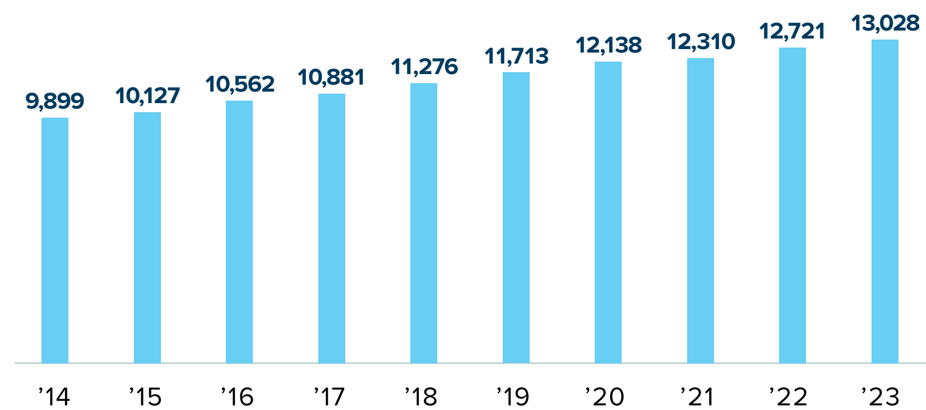
Inspectors for the Michelin Restaurant Guide visited Houston in the summer of ’24. They discovered what locals already knew. Houston is a foodie’s paradise. The region has more than 13,000 restaurants, cafes, and bars that offer more than 80 varieties of cuisine, from Afghani to Italian to Mexican to Vietnamese.

Surprisingly, restaurants and bars comprise one of Houston’s more resilient sectors. Only twice in the past 30 years (’08 and ’20) has the sector recorded job losses. The former was due to Hurricane Ike, the latter due to the pandemic. Likewise, the sector has added bars and restaurants every year for the past 30 years, except for ’08, again due to Ike. Restaurants, bars, and hotels, i.e., the hospitality sector, accounted for 2.6 percent ($16.6 billion) of the region’s GDP in ’23.

The sector employs over 300,000 Houstonians and supports one in every 11 jobs in the region. The majority of those jobs don’t require education beyond high school, providing career options for those unable to attend college, community college, or a vocational training program. That’s one reason why a healthy hospitality sector is important to the region.

Because restaurant jobs often involve low pay, long hours, and working weekends, hiring also poses a challenge. Nationally, the industry had the second highest rate of job openings, 5.4 percent in September, tied with health care and second only to professional and business services at 6.2 percent.

HOUSTON-AREA RESTAURANTS, BARS AND FOOD SERVICES



Source: Texas Workforce Commission

Over the past three years, the cost of dining out has risen 24.1 percent in Houston, according to the U.S. Bureau of Labor Statistics. The cost of groceries hasn’t risen quite as much, 21.4 percent over the same period.

Consumers are looking for ways to cut costs. A recent survey by Lightspeed, an e-commerce company, found that:

- 36 percent of respondents are taking advantage of happy hour specials,
- 39 percent are choosing value meals over regular menu items,
- 43 percent are using coupons,
- 44 percent indicated inflation has limited their ability to tip, and
- 45 percent of respondents ask for to-go boxes to enjoy leftovers at home.

Despite these challenges, the long-term outlook for the sector remains bright. As with retail and health care, population growth continues to expand Houston’s consumer base. Employment and wage growth ensure they have the income to enjoy dining out.

Other factors will come into play as well. Restaurants also follow rooftops. Each new master-planned community begets the need for fast, casual, and formal dining establishments nearby. A recession in ’25 seems highly unlikely. Consumers now seem to grasp this. That should boost consumer confidence and thus spending. And Houstonians are always willing to try new concepts, which provide opportunities for new fusion cafes and restaurants. The forecast calls for the sector to gain 5,200 jobs in ’25.

GOVERNMENT

The public sector employs over 450,000 Houstonians, making it the region’s largest employer. Over half (59.9 percent) work at state-funded universities, community colleges, and school districts. Cities, counties, and state and local agencies employ about a third (32.4 percent). And fewer than 35,000 Houstonians, only 7.7 percent of all government workers, are on the federal payroll.

Two factors influence the size of the public sector: population growth and tax revenues. Other factors come into play—federal mandates, state regulations, grants from the private sector, attitudes toward government—but people and taxes trump all other factors.

Since ’18, the region has added more than 500,000 residents. Houston is likely to add at least as many over the next five years. That’s driving the need for additional police and fire protection, water and sewer services, libraries, and road repairs. The region’s school-age population (i.e., residents between the ages of five and 19) grew by more than 100,000 since ’18 and is likely to grow as much over the next five years. School districts will need to hire more teachers, teachers’ aides, and administrators to educate them.

The region’s booming economy, influx of population, and surge in construction have boosted property values across the region. According to the Partnership’s analysis of Texas State Comptroller’s office data, the market value of all properties in Austin County have jumped $2.7 billion since ’19. In Harris County, they are up $270 billion, though taxable values are up somewhat less. Cities and school districts have enjoyed similar gains. Total appraised values have jumped by 30 to 80 percent depending on the municipality or ISD. Of the 109 cities in the region that levy a property tax, only one has seen property values decline. The same holds true for the 66 independent school districts in the region.

Sales tax revenues track the business cycle. The 121 cities and municipalities in the region that collect the tax enjoyed a surge in receipts immediately after the pandemic. Revenues grew at double-digit rates from mid-’21 to late ’22. In ’24, however, the growth rate fell below 2.0 percent, not enough to keep up with inflation. This may crimp the budgets of a few cities overly dependent on sales taxes.

The forecast calls for the public sector to add 5,500 jobs in ’25.

HEALTH CARE AND SOCIAL ASSISTANCE

Health care and social assistance is the region’s second largest employer. As of September ’24, 400,000 Houstonians worked in the sector, more than worked in energy, finance, and transportation combined. An estimate of health care’s contribution to regional GDP is not available.

The sector has proved remarkably resilient, adding nearly 100,000 jobs over the past 10 years, even during the pandemic when severe restrictions were imposed on the industry. Job growth will likely remain healthy well into the next decade.

The same forces that drive retail (population, income, and employment) drive health care, plus a few forces unique to the sector.

Population Growth: Metro Houston has added 1.2 million residents over the past decade. Gains have accelerated recently, with the region adding 265,000 in the past two years. Barring a devastating natural disaster or deep local recession, the region will likely add 1.3 million over the next 10 years. Each new resident represents a potential new patient for the region’s health care providers.

Job Growth: Houston has created nearly 500,000 jobs since the fall of ’14 and did so despite two recessions. The strongest growth has been in finance, government, professional services, and transportation, sectors that typically offer benefits packages that include health insurance.

Income Growth: Over one million households in Houston reported incomes of $100,000 or more in ’23, up from 600,000 households 10 years ago. Households with higher incomes are more likely to seek treatment when an illness or medical condition arises.

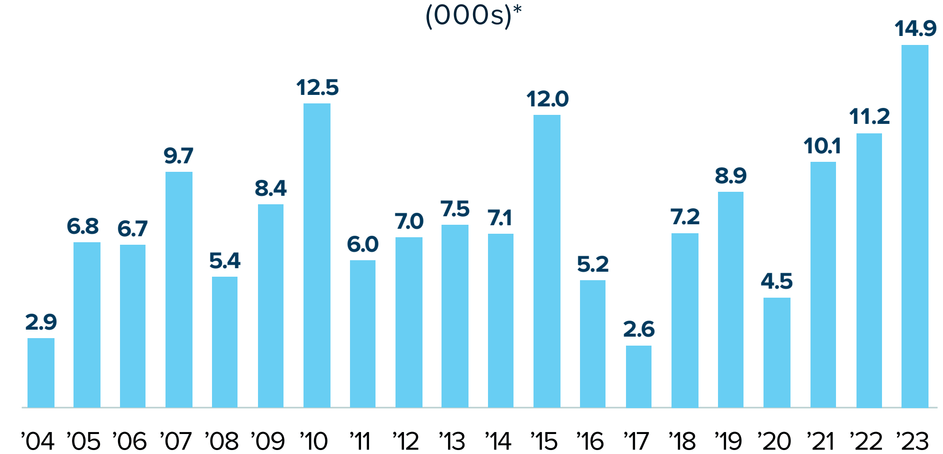
High Birth Rates: Houston doctors delivered 95,000 babies in '23 and just under one million over the past 10 years. Each baby is a new health care consumer. They will frequent pediatricians for checkups, vaccinations, and school physicals well into their teens.

Aging Populations: The cohort of residents over 65 has increased from around 600,000 in '13 to more than 950,000 in '23 (latest data available). The afflictions that come with aging (e.g., cataracts, heart disease, osteoporosis, type 2 diabetes, hypertension, and Alzheimer's) require regular visits to the doctor and sometimes the hospital.

Longer Life Expectancies: According to the Centers for Disease Control and Prevention, Americans who reach the age of 65 can expect to live another 20 years. Longer lifespans translate into more years as a health care consumer.

Increases In Chronic Diseases: Latest data from the Texas Department of State Health Services indicate 5.2 percent of all Texans over 18 have heart disease, 6.0 percent have chronic obstructive pulmonary disease (COPD), 8.4 percent have asthma, 11.5 percent have diabetes, 18.6 percent have mental health issues, 34.8 percent are obese, and 130,000 Texans receive a cancer diagnosis each year. Billions are spent to treat these maladies.

ANNUAL JOB GAINS, HOUSTON HEALTH CARE
(000s)*



Source: Texas Workforce Commission

*excludes residential care and social assistance

Increases in the Insured Population: The Affordable Care Act (ACA) requires most employers to offer health insurance and individuals without an employer-sponsored plan to buy it of their own accord. The U.S. Census Bureau estimates that 81.9 percent of all Houstonians were covered by health insurance in '23 (latest data available), up from 77.2 percent 10 years earlier.

Though the Texas Medical Center garners much of the region's attention, its 120,000 employees represent less than a third of the health care/social service professionals in Houston. The remaining two-thirds work at clinics, doctors' and dentists' offices, and labs throughout the region. To refine matters further, 24 percent work outside a health care setting—9 percent in a nursing home, 6 percent in a daycare facility, and 9 percent provide social services (counseling, food assistance, vocational rehabilitation).

Health care faces a number of challenges: pressure from insurance companies to control costs; lower reimbursements by the federal government for patients treated under Medicare and Medicaid; consumers facing higher deductibles being more selective about when and how they seek treatment; and competition from health care providers outside traditional settings, like pharmacies and grocery stores.

The Partnership doesn't see a change in the demand for health care services. The forecast calls for '25 to align with trends of recent years, with the sector adding 12,800 in '25.

HOTELS

Houston's lodging industry is one of the smallest employment sectors in the region, with only 27,100 jobs, yet it anchors Houston's travel industry and plays a key role in the local economy.

Over 87 million people visited Houston in '23, according to Dean Runyon Associates, a travel consultancy. Those same visitors spent over $21.9 billion at local restaurants, bars, stores, museums, and on transportation services. That spending supported over 130,000 jobs across all sectors of the economy.

The benefits extend beyond those who work in the travel industry. Anyone booking a room or an Airbnb pays the hotel occupancy tax. Seven percent goes to the City of Houston, 6 percent to the State of Texas, 2 percent to Harris County, and 2 percent to the Houston Sports Authority. The city uses its portion to fund the Houston Arts Alliance, the Houston Museum District Association, Miller Theater, the Theater Improvement District, and Houston First, the agency responsible for marketing the region to conventions, trade shows, and tourists. In fiscal year '23, the tax generated over $104 million in revenues for the City of Houston.

Greater economic stability, pent-up demand, and a revival of in-person meetings and conferences helped business travel to recover in '24. While consumers remain eager to travel, inflation of the past two years has forced them to become more budget conscious. Tourists are now exploring longer booking windows and seeking more affordable destinations.

Hotel occupancy averaged 63.8 percent in '23 and should average 68.0 percent in '24, according to McCaslin Hotel Consulting. The May derecho and Hurricane Beryl helped boost occupancy mid-year. Out-of-town utility crews needed places to stay as they repaired the power grid and families booked into hotels until the power came back on at home. Barring another weather event, McCaslin forecasts occupancy to average 67.0 percent in '25.

The sector remains one of the few to not fully recover its pandemic losses and is still 1,400 jobs below February '20 levels. This is because hotels now outsource many services once performed in-house. That trend will continue in '25.

McCaslin Consulting expects demand to grow 2.0 percent for upper-priced hotels in '25, to remain flat for mid-priced hotels, and to decline slightly for low-priced hotels. The firm also sees an additional 1,000 rooms coming on the market in '25, equivalent to 1.1 percent of current inventory. All of this suggests nominal employment growth for the sector. The forecast calls for the hotel sector to add 600 jobs in '25.

INFORMATION

The information sector includes broadcasting (radio and television), cable services, data processing and hosting, internet-related businesses (hosting, publishing, broadcasting, cloud storage), news syndicates, libraries, archives, information services, production studios (motion picture, sound, video), publishing (directories, books, greeting cards, magazines, newspapers), software publishers and telecommunications carriers (wired, wireless and satellite), and movie theaters.

The sector has lost jobs in 12 out of the last 20 years. Technology improvements and changing consumer preferences have greatly impacted the sector. Social media reduced the roles of print and broadcast media, streaming services reduced the need to visit movie theaters, and technology has replaced labor in telecommunications.

Even in non-recession years, employment growth is shaky at best. The forecast assumes staffing at traditional media outlets continues to slip and fewer consumers return to the movie theaters. The new data processing centers that arrive in Houston don't offset losses elsewhere. The forecast calls for the sector to shed 200 jobs in '25.

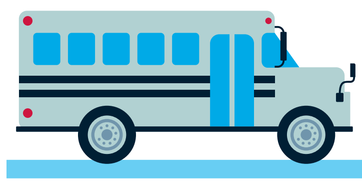
OTHER SERVICES

Other services is a catchall for anything not included in the other 17 sectors. This includes repair shops (appliance, auto, electrical, and industrial machinery), personal care (barber, beauty, nails), miscellaneous businesses (dry cleaners, funeral parlors, parking, pet grooming, weight loss clinics), nonprofits (business, civic, political, professional, social advocacy), and religious organizations (churches, synagogues, temples, mosques).

Over 133,000 Houstonians work in "other services," accounting for 3.9 percent of all jobs in the region. There are over 14,800 firms in the sector, most being typical small businesses with fewer than 20 employees. According to Partnership estimates, those businesses accounted for 2.0 percent ($13.2 billion) of the region's GDP in '23.

The sector's fortunes tend to track the business cycle. In a strong economy, workers don't hesitate to fix what's broken, splurge on salon visits, and give generously to charity. In a weak economy, workers postpone repairs, visit salons less often, cancel memberships, and reduce their charitable donations. Growth has been strong in recent years, the sector adding 14,800 jobs since May '20. To put that in perspective, one in every nine jobs in "other services" was created over the past four and a half years.

With overall activity resetting to a more sustainable level, job growth in this sector will, too. The forecast calls for other services to gain 2,100 jobs in '25.



PRIVATE EDUCATIONAL SERVICES

The sector focuses on private education. School districts and community colleges are part of local government. The University of Houston, Texas Southern University, and Prairie View A&M are part of state government. Their outlooks are discussed elsewhere in this forecast.

Private education employed over 74,000 Houstonians toward the end of '24, or 2.1 percent of all jobs in the region. The sector has added 20,000 jobs over the decade, outperforming wholesale trade, real estate, energy, and the arts. Estimates of the sector's contribution to GDP are not available.

Private and parochial elementary, middle, and high schools comprise the bulk of institutions and employment in this sector. There are over 450 such schools in Houston accredited by the Texas Private School Accreditation Commission (TPSAC). The sector also includes nearly 2,000 career and leisure learning opportunities such as art classes, athletic training, barber colleges, bartending academies, computer training, cosmetology courses, culinary arts classes, dental hygienist training, driving schools, exam prep, flight training, language classes, martial arts studios, tutoring, testing services, and vocational training. Almost all are classic small businesses. Two-thirds (69.9 percent) have fewer than 10 employees, many working part-time.

The educational services sector tends to perform better than the economy as a whole. Enrollments rise for several reasons: a growing school-age population, workers seeking to upgrade their skills, and parents seeking alternatives to public education. Growing enrollments require more instructors, administrators, and tutors. Parents who want their children to perform better on the soccer fields, make better grades in school, and score higher on SATs and ACTs seek out exam prep services and coaching schools.

The region has endured four recessions over the past three decades, but in only four of the past 30 years has the sector shed jobs, and only during the COVID-19 recession were the losses significant. In normal times, educational services can be relied on to add 1,000 to 2,000 jobs per year. Growth has picked up recently as more parents seek alternatives to public schools and adults look for ways to improve their career potential. The forecast assumes nothing to derail this trend and calls for the sector to add 1,700 jobs in '25.

PROFESSIONAL, SCIENTIFIC, AND TECH SERVICES

Identified with white-collar jobs and billable hours, professional, scientific, and technical services includes accounting, engineering, architecture, law, computer systems design, management consulting, research labs, advertising, marketing, and public relations firms. The Houstonians who work at these firms tend to be college-educated, well-paid, and hold professional certifications.

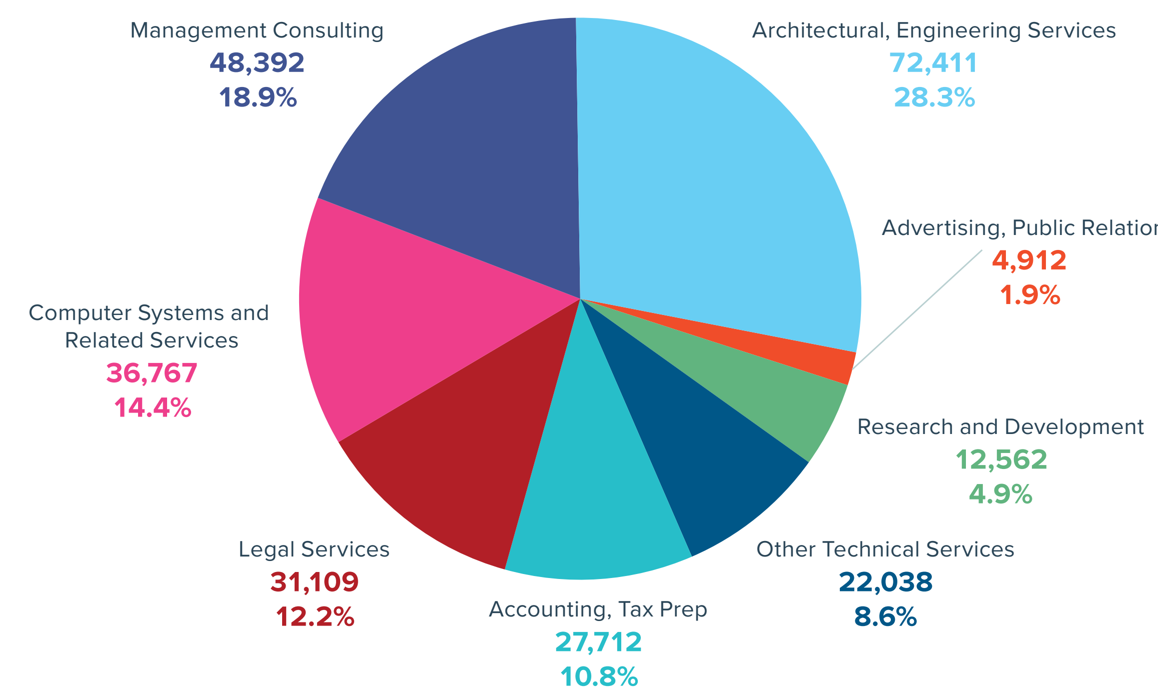
Professional services employed over 280,000 toward the end of '24, or 8.2 percent of all Houston job holders. It accounted for 8.3 percent ($53.4 billion) of the region's GDP in '22, the latest year for which data is available. The sector has enjoyed considerable growth since emerging from the pandemic, adding over 46,000 jobs in the past three years, almost as many as it added in the previous 10.

A half dozen factors are driving that growth—a spate of mergers in the oil and gas industry, a rebound in construction, increased cyberattacks, the consumer market becoming more fragmented, energy firms preparing for a low-carbon future, companies looking to incorporate AI into their operations, and the need to catch up on projects put on hold during the pandemic.

Many of those projects are well-suited for large firms with deep talent pools. But 90 percent of employees in the sector work at smaller firms (typically with fewer than 20 employees) and perform the bread-and-butter functions of their profession—bookkeeping, tax filings, wills and contracts, web design, and basic marketing. Those smaller firms benefit from Houston's overall growth.

The forecast assumes that U.S. growth remains strong, that additional energy industry mergers occur, cybersecurity threats continue unabated, and an overall healthy economy provides opportunities for firms throughout the sector. The forecast calls for professional, scientific, and technical services to add 6,900 jobs in '25.

PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES EMPLOYMENT



Source: Texas Workforce Commission

REAL ESTATE AND EQUIPMENT RENTALS

Real estate and rental and leasing includes the sale, leasing, and management of real property (single-family homes, apartments, office buildings, warehouses) plus the rental of vehicles, appliances, furniture, and construction and industrial equipment. The sector employed 68,800 workers as of September '24, accounting for 2.0 percent of all jobs in the region. Over two-thirds (70.0 percent) of the jobs are in real estate and one-third (30.0 percent) are in equipment rentals. Accurate estimates of the sector's contribution to GDP are not available.

Leasing activity across all sectors of real estate has slowed in recent months.

- In Q3/24, the office market saw the fewest lease transactions (3,326) since Q1/16. Leases involving 10,000 or more square feet were their lowest level of the past eight years.
- The industrial market saw only 412 leases signed in Q3/24, the fewest signed since Q4/19. Many firms have begun to reassess their distribution strategies.
- Retail saw only 498 leases signed in Q3/24, the fewest since Q2/20. Some of the drop may be due to Hurricane Beryl.
- For nearly two years, multifamily occupancy has struggled to top 90 percent, the point where Houston shifts from a tenant-friendly to a landlord-friendly market.

HOUSTON COMMERCIAL REAL ESTATE LEASE TRANSACTIONS

	Office		Industrial		Retail	
Year	Deals	Sq. Ft.	Deals	Sq. Ft.	Deals	Sq. Ft.
'24	2,459	8,992,015	1,465	28,026,024	1,686	5,958,711
'23	2,185	9,104,486	1,518	30,983,714	1,835	6,194,229
'22	3,039	13,140,238	1,713	41,103,917	1,997	7,183,216
'21	3,436	10,844,953	1,751	40,058,541	2,061	6,077,194
'20	2,738	12,884,867	1,320	22,145,145	1,522	5,229,578
'19	3,674	15,230,653	1,461	24,515,332	1,850	5,923,650
'18	3,855	16,387,039	1,425	24,565,729	1,960	6,226,173
'17	2,703	13,016,005	1,339	22,201,774	1,988	5,678,445
'16	2,738	11,503,164	1,118	20,529,736	2,082	7,362,377
'15	2,036	10,946,837	1,119	20,657,688	1,380	4,897,657
Avg '15 - '23	**2,934**	**12,562,027**	**1,418**	**27,417,953**	**1,853**	**6,085,835**

Source: CoStar
*SEP YTD

On the bright side, a recent KPMG survey of global CEO's found that 83 percent expect their employees to be in the office full-time within the next three years, up from 64 percent in a previous survey. That should lift the need for office space. The region continues to see a steady stream of companies from China, Vietnam, and other Asian-Pacific countries seeking to establish manufacturing or distribution operations in Houston. That should support additional leasing in the industrial sector. The Fed is poised to gradually lower interest rates, which should make it easier for would-be buyers to qualify for a home mortgage. The pace of multifamily construction is cooling, which should help the sector return to a more balanced market.

The forecast assumes commercial leasing activity will pick up, apartment owners will hire additional staff to manage properties coming online, the pace of existing home sales will improve, car rental activity will pick up along with business travel, and local businesses continue to rent rather than purchase equipment to control costs. The forecast calls for the sector to add 1,600 jobs in '25.

RETAIL TRADE

There are over 19,500 stores, boutiques, outlets, and shops in metro Houston, the most common being gas stations, grocery stores, clothing shops, warehouse clubs, and purveyors of beauty products. Florists and bookstores are the least common.

The sector employed over 280,000 toward the end of '24, or 8.2 percent of all Houstonian job holders. Only government and health care employ a larger share of the local workforce. Retail accounted for 5.2 percent ($31.2 billion) of the region's GDP in '22, the latest year for which data is available.

The sector is dominated by positions at the low end of the wage scale. The typical stock clerk earned $37,300 in '23, the latest year for which data is available, the typical retail salesperson, $33,750, and the typical cashier, $28,230, all well below the average of $63,510 for all occupations in Houston that year.

Retail, however, plays a key role in meeting the region's workforce needs. Many teenagers land their first job stocking shelves or bagging groceries. Retail provides career opportunities for those with limited education or training. And for professionals between jobs, a short stint in retail helps bridge the gap between paychecks.

Pundits have been premature in predicting the sector's demise. Retailers have opened more than 800 shops, boutiques, and stores and employment grew by more than 19,000 jobs over the past three years. The sector's total salaries and wages are up $430 million over the period. Developers have added 10 million square feet of retail space to the market and the vacancy rate still declined from 6.3 percent in Q1/21 to 5.1 percent in Q4/24.

That's not to say the sector isn't facing challenges, the primary being inflation reducing consumers' purchasing power. Since early '21, the cost of home furnishings has jumped 8 percent, clothing 13 percent, new cars 14 percent, housing 17 percent, and groceries 26 percent.

Outdated business models, bad real estate decisions, lack of customer service, and poor management have forced many well-known retailers to scale back operations in recent months, seek protection under a bankruptcy filing, or shut their doors altogether. Recent announcements include 99 Cents Only (liquidation), Big Lots (Chapter 11), Conn's (liquidation), CVS (300 store closures), Family Dollars (677 store closures), Foot Locker (113 store closures), Lumber Liquidators (100 store closures), True Value hardware (Chapter 11), and Walgreens (1,200 store closures). The closures noted above are nationwide but impact Houston operations.

Despite the challenges facing the industry, the fundamentals that drive retail—job, population, and income growth, growing consumer confidence, home construction, and a general sense of financial well-being—continue to favor Houston.

Job Growth: Houston has created more than 270,000 jobs over the past three years. Employment is forecasted to grow at a healthy pace in '25 and, barring a national downturn, should continue well into '26.

Population Gains: The region has added more than 1.3 million residents over the past 10 years, half via the moving van and half via the maternity ward. Each new resident is a potential new customer for Houston retailers.

Income Growth: While inflation has sapped many consumers' wallets, aggregate purchasing power in Houston is at an all-time high. From '21 to '23 (latest data available), total wages and salaries paid to employees in the region jumped by $42 billion (19.6 percent).

METRO HOUSTON POPULATION GAINS

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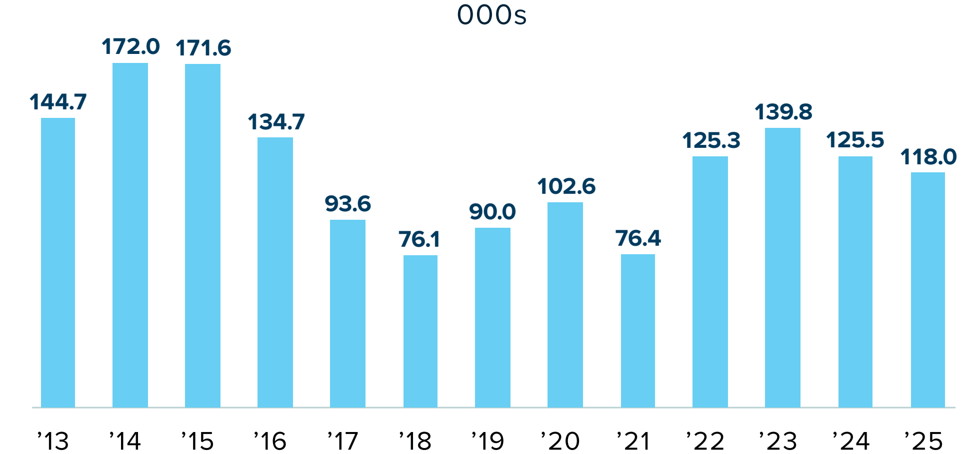


Source: U.S. Census Bureau ('13-'23), Partnership projections ('24 - '25)

Consumer Confidence: In October ’24, the Michigan Consumer Sentiment Index rose to its highest level in six months. The survey found that most have ratcheted down their inflation expectations for the next 10 years.

Home Construction: Over the last three years, developers have delivered more than 100,000 single-family homes. As the adage goes, “Retail follows rooftops.” Most of the new retail centers have been built in Houston’s suburbs.

Financial Well-Being: In Houston, home values are up 26 percent over the past three years, according to the Federal Housing Finance Agency. As of late October, the Dow Jones Industrial Average was up 58 percent from five years ago. Houstonians have more money in their retirement accounts, more value in their homes, and a more positive outlook on the future.

The forecast assumes that population growth will maintain its pace, consumer confidence continues to improve, household incomes catch up with inflation, builders deliver 37,000 or more single-family homes, and consumers continue to spend. The forecast calls for the sector to add 4,500 jobs in ’25.

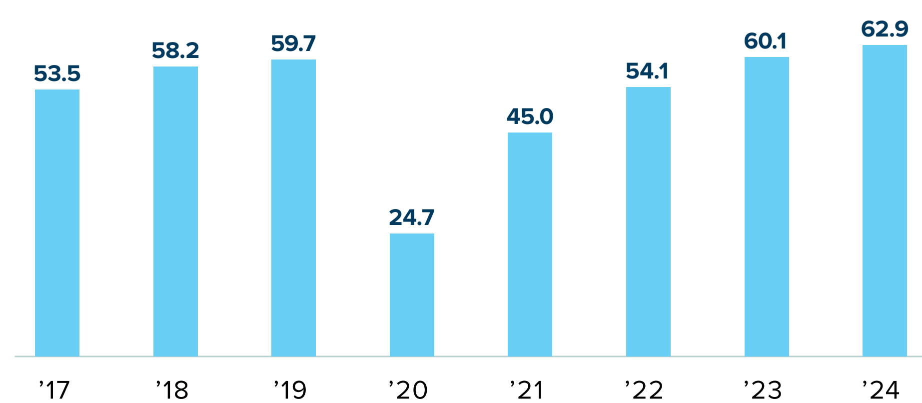
TRANSPORTATION, WAREHOUSING, UTILITIES

The sector includes air, rail, water, and trucking services; freight forwarders and customs house brokers; crude, gas, and refined product pipelines; warehouses and bulk storage terminals; courier and delivery services; and electric, gas, and water utilities. It employed 190,000 Houstonians toward the end of ’24, 5.5 percent of all job holders. It accounted for 4.8 percent ($30.3 billion) of the region’s GDP in ’22, the latest year for which data is available. The sector has added more than 36,000 jobs over the past five years, with the majority of the gains in warehousing, followed by air, pipelines, trucking, and utilities.

The latest indicators show that Houston’s transportation sector is doing well.

- Houston’s airports are on track to handle a record 62.5 million passengers in ’24, up from 60.1 million passengers the year before.
- The four Houston-area ports (Freeport, Galveston, Houston, Texas City) will handle a record 270 million metric tons this year, up from 240 million five years ago.

HOUSTON AIRPORT SYSTEM PASSENGER TRAFFIC, $ MILLIONS



Source: Houston Airport System (’17 - ’23), Partnership forecast (’24)

- Port Houston is on track to handle 4.1 million containers (loaded plus empties), up from 3.0 million in ’19.
- Through the first nine months of ’24, Houston led the nation in industrial/warehouse space absorption.
- If rush hour traffic is any indicator, Houston’s trucking industry is also doing well.

Several challenges face the sector in ’25. The strike by U.S. dockworkers at East and Gulf Coast ports has been suspended, but if the longshoremen return to the picket line (January 15 is the deadline for a new contract), that will impact trucking, stevedoring, and port operations. If the U.S. decides to impose tariffs on all imported goods, other nations will retaliate which would impact exports, imports, and the businesses that handle them. If inflation accelerates, cost-conscious consumers will pull back on air travel.

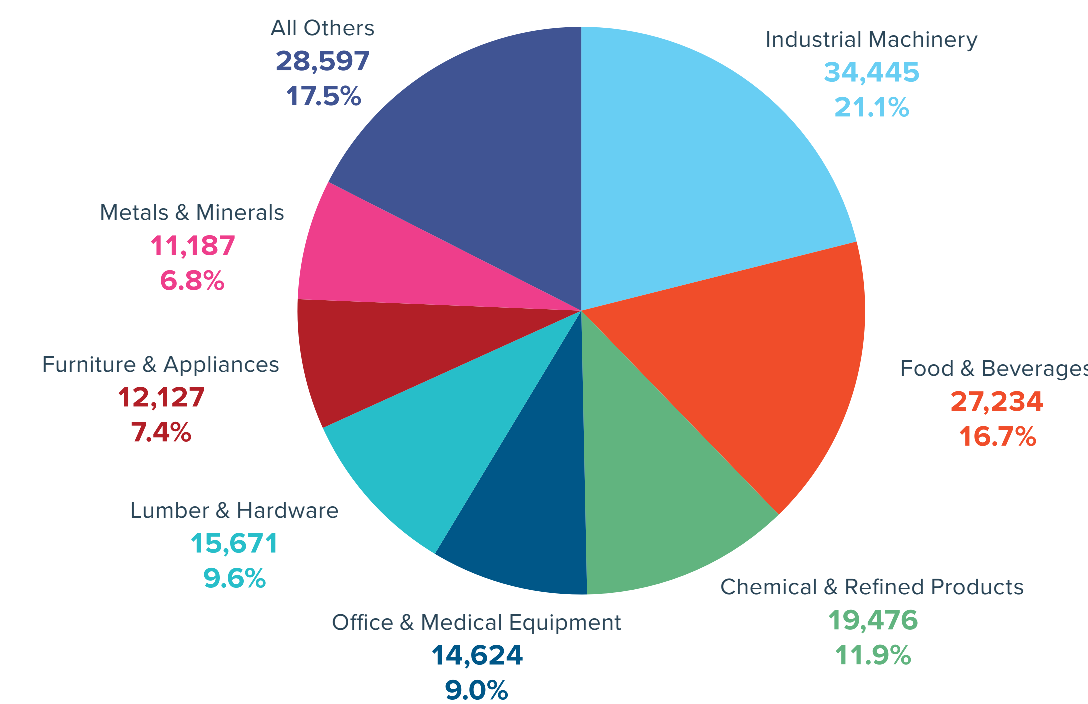
The Partnership sees nothing in the near term that would reduce air traffic, port tonnage, container movements, or the number of utility customers in Houston. Developers continue to build warehouses and distribution centers. Online retail grabs a larger share of consumer spending each year, boosting the need for courier and delivery services. And Houston remains the headquarters for the nation’s crude and natural gas pipeline network. Accounting for all this, the forecast calls for the region to create 4,500 transportation jobs in ’25.

WHOLESALE TRADE

Wholesalers are the classic middlemen, buying in bulk from manufacturers, consolidating purchases into a warehouse, then repackaging and reselling in smaller quantities to retail, industrial, and commercial customers. Wholesalers add value by providing access to hundreds, sometimes thousands, of suppliers in one location, thereby providing a broader selection to the local market.

The sector employed 184,000 Houstonians toward the end of ’24, 5.3 percent of all jobs in the region. It contributed to 12.3 percent ($77.3 billion) of Houston’s GDP in ’22, the latest year for which data is available. The sector has grown considerably in recent years. Developers have added 197 million square feet of industrial/warehouse space over the past decade. Wholesale trade has added 18,000 jobs over the same period.

WHOLESALE TRADE EMPLOYMENT



Source: Texas Workforce Commission

The wholesale trade sector falls into two categories, durables (goods lasting three or more years), and non-durables (goods which are quickly consumed or that are components of a larger durable good). And within each category, there are consumer- and business-oriented goods.

In Houston, the fortunes of durable goods wholesalers track those of durable goods manufacturers, which in turn follows oil and gas and the construction industry, which source their materials from wholesales or directly from the manufacturers. Non-durables tend to track population, income, and job growth.

About 21 percent of all wholesale jobs in Houston are tied to the distribution of industrial machinery and equipment, 17 percent to supplying food and beverages, 12 percent to chemical and refined products, 10 percent to lumber and hardware, 9 percent to office and medical equipment, and just over 7 percent to providing household furniture and appliances. The remaining jobs are scattered among various sectors (auto parts, clothing, farm products, paper, pharmaceuticals, etc.).

Wholesale trade faces several challenges. Nationwide, new orders for manufactured goods have been flat since June '22. In Houston, many firms that sell directly to the oil field service firms manufacturers of oil field equipment are facing a declining rig count.

On the positive side, manufacturers' inventories have been flat for over two years. Once demand picks up, they will need to tap their supply chains to boost production. The Federal Reserve will likely continue to lower interest rates, reducing the cost of purchasing and carrying inventory. And the Dallas Fed's October Survey of Texas Manufacturers found that 47 percent of respondents expect production to grow over the next six months. Only 5 percent expect output to shrink.

The forecast assumes that manufacturing activity will pick up nationwide in '25, that there will be enough growth in manufacturing outside of energy to offset the declining rig count, and that Houston's population continues to grow, supporting consumer-oriented wholesale trade. The sector is projected to add 4,300 jobs in '25.

CONCLUSION

Houston has been on an incredible journey the past 40-plus years. The region has experienced six economic downturns and 16 weather-related events and still managed to grow into one of the nation's largest and most prosperous communities.

The first recession occurred in '83, brought on by falling oil prices, a collapse in the state's banking system, and changes to the nation's tax laws. "Stay alive 'til '85" was a common mantra. Growth picked up early in '85 but a second recession hit midyear. The region shed 226,000 jobs before bottoming out.

The collapse of Enron, the events of 9/11, and the loss in business and consumer confidence brought on a mild recession in '01, with the region cutting roughly 30,000 jobs.

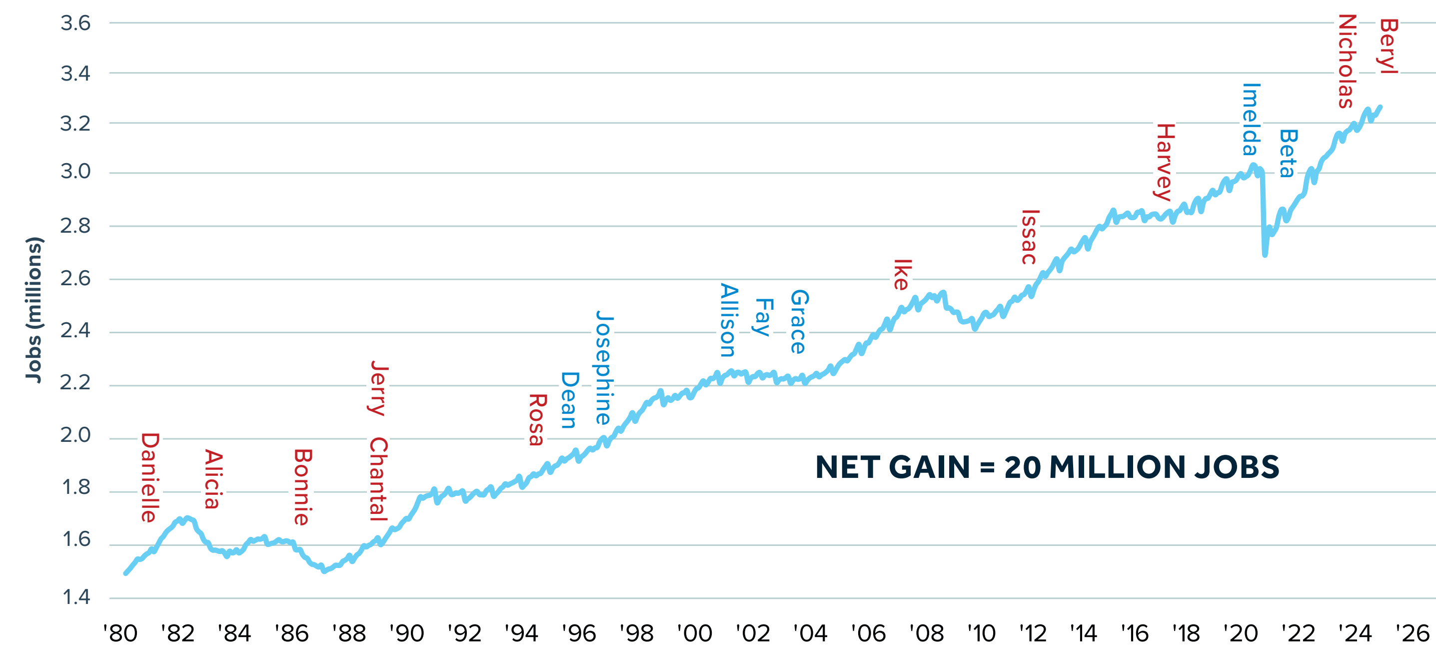
Subprime lending and lax banking supervision led to The Great Recession ('08-'09) and the loss of 123,000 Houston jobs.

The Fracking Bust ('15 -'17) cost the energy industry over 80,000 jobs. Growth in other sectors helped offset energy losses. Houston shed only 2,500 jobs in '15 and 2,300 in '16. The COVID-19 pandemic ('20) forced businesses around the globe to shut down. The pandemic cost Houston 360,000 jobs, or the equivalent of five years' worth of growth lost in just two months.

The weather has beaten up Houston over the decades as well. Tropical Storm Allison ('01) devastated the Texas Medical Center. Hurricane Harvey ('17) damaged or destroyed nearly 100,000 single-family homes. Winter Storm Uri ('21) left many Houstonians in the dark for nearly a week.

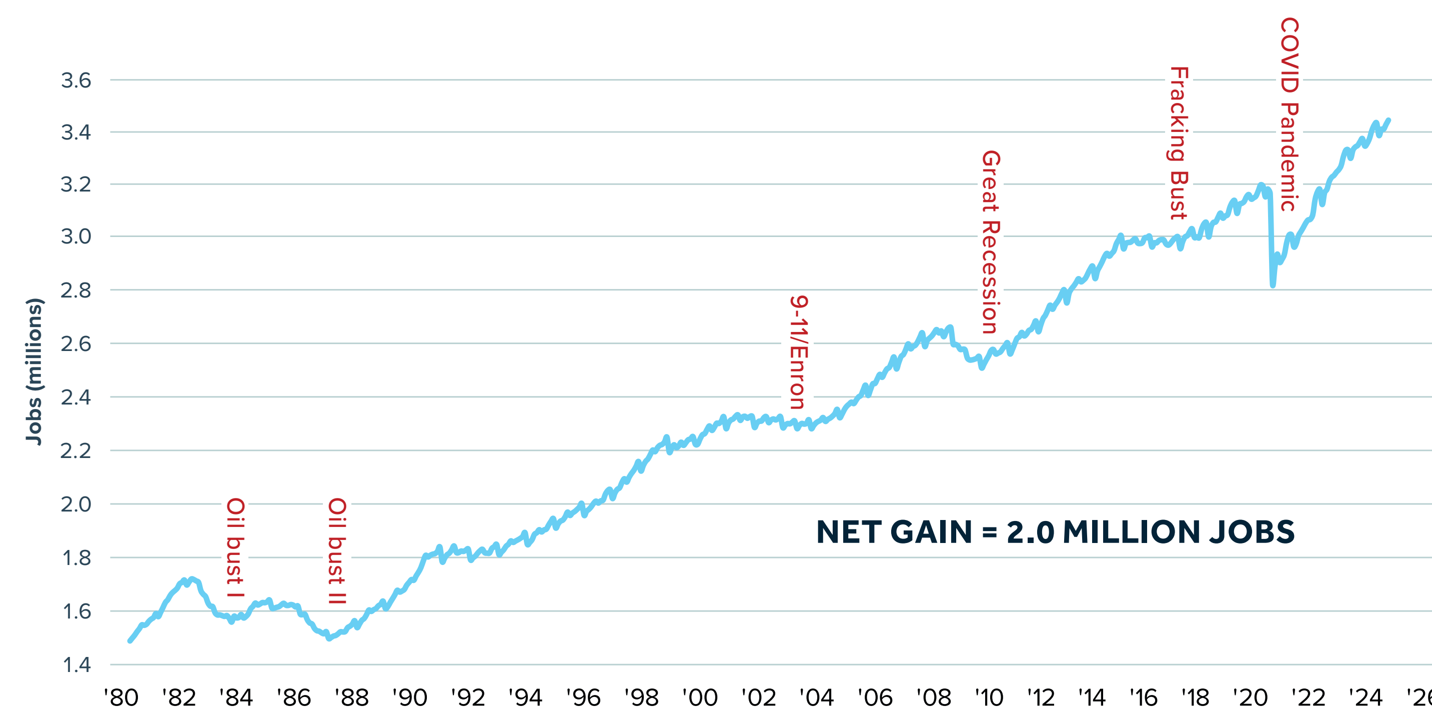
Yet none of these events have been a major setback for Houston. The metro area has added 2.0 million jobs since the early '80s, its population has more than doubled, passenger traffic at the region's airports has quadrupled, and home sales have more than quintupled. Over the past two decades, Houston's GDP has grown 70 percent after adjusting for inflation. The long-term trend is clear. Houston is resilient. Tropical storms, frozen pipes, or falling oil prices won't prevent the region from growing next year or well into the next decade.

NAMED STORMS AND METRO HOUSTON EMPLOYMENT



Tropical storms in blue, hurricanes in red.
Source: Texas Workforce Commission and National Oceanic and Atmospheric Administration

RECESSIONS AND METRO HOUSTON EMPLOYMENT



Source: Texas Workforce Commission and Greater Houston Partnership

SOURCES

Data used in the analysis and forecast came from the following sources: American Chemistry Council, Americans for the Arts, Apartment Data Services, Associated Builders & Contractors, Associated General Contractors of America, Baker Hughes, Biznow Commercial Real Estate News, Bloomberg, CenterPoint Energy, Chemical Week, City of Houston Aviation Department, Colliers International, CoStar, The Conference Board, Dodge Data & Analytics, Federal Deposit Insurance Corp., Federal Reserve Bank of Dallas, Federal Reserve Bank of Philadelphia, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, Federal Reserve Bank of Philadelphia, Federal Reserve Bank of San Francisco, Forbes, Freddie Mac, Houston Association of Realtors, Houston Business Journal, Houston Chronicle, Houston First, Houston: The Economy at a Glance, Houston Facts, Institute for Supply Management, International Energy Agency, JLL, John Burns Real Estate Consulting, Korn Ferry, McCaslin Hotel Consulting, Moody's, Morning Consult, Mortgage Bankers Association, National Association for Business Economics, National Association of Manufacturers, National Restaurant Association, Office of the Teas Governor, Organisation for Economic Co-operation and Development, Oil & Gas Journal, Organization of Petroleum Exporting Countries, Piper Sandler, Port Houston, Rigzone, RSM, TexAuto Facts, Texas Comptroller of Public Accounts, Texas Workforce Commission, The Wall Street Journal, Transwestern, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Energy Information Administration, Wells Fargo, WISERTrade, World Trade Organization, and various company websites.

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