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Slump in oil shadows regional forecast

By L.M. Sixel

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Bill Gilmer, the director of the University of Houston's Institute for Regional Forecasting, says oil prices aren't likely to rise much anytime soon. (Eric Kayne/For the Chronicle)

While the mounting job losses on the white-collar west side of Houston may feel like a recession to those in the energy industry, **the $50 billion petrochemical building boom on the east side of town is keeping Houston humming**.

"That's like putting up a couple of hundred office buildings," said Bill Gilmer, director of the Institute for Regional Forecasting at the University of Houston. The petrochemical industry is surging because of the continuing low price of U.S. natural gas its plants use for fuel and raw material.

In his semi-annual lunch-hour presentation Thursday on the Houston economy, Gilmer sought to allay the fears of the builders, developers and bankers in the ballroom who are struggling with the effects of low oil prices.

But he also had some tough news.

Many in the oil industry, and the many businesses it supports, have held out hope oil prices will bounce back soon.

That is becoming increasingly less likely.

"This is a very serious downturn in the oil market," said Gilmer. "This has run faster and farther than anything we saw in 2008 and 2009." U.S. benchmark West Texas Intermediate crude fell from a record $145.29 a barrel in July of 2008 to $33.87 in December as the economic slump took hold, but began recovering in 2009.

Business

The population growth that has defined Houston during the boom times will slow by about half in 2016, he said, as word gets out that Houston is no longer the job-producing machine it was in mid-2014 when oil was selling for more than $100 a barrel.

West Texas Intermediate finished Thursday trading at $41.75.

In 2014 and 2015, Houston added about 100,000 new residents each year. But next year, Gilmer predicts, population growth will be closer to 47,500.

Housing demand

That drop in new residents, in turn, will affect demand for multifamily housing, yet there are still 25,000 apartment units under construction.

"You have to really think hard what will happen to rents, he said, pointing to three areas - Katy, Montrose and Memorial - that he said are especially soft.

Gilmer is predicting that the Houston area will add just 20,000 jobs this year and another 20,000 in 2016.

But much of the direction of Houston's economy depends upon when oil prices recover.

That's because for every one energy job Houston loses, four non-energy jobs are at risk.

Jobless rate

Gilmer also noted that Houston's unemployment rate of 4.6 percent should be higher than it is because of the spike in the number of discouraged workers who have given up looking for work.

Houston's labor force participation rate has fallen -a measure of the percentage of adults working in the population -which reflects the fact that many in the oil industry don't see a lot of job opportunities when friends and colleagues are also losing their jobs.

Many are sitting on the sidelines with their severance checks and waiting for the price of oil to increase, said Gilmer.

U.S. economy

Luckily the U.S. economy is strong and shows signs it is continuing to recover from the recession, he said.

That, in turn, is a boost to non-energy corporate giants with large work forces in Houston, including airlines, food manufacturers and insurance companies.

While Houston's oil drillers, equipment manufacturers and producers have cut their payrolls as oil prices have fallen, employment has stayed relatively steady in professional services. Gilmer predicts that is about to change.

Outsourcing

The energy industry outsources many of its professional services including engineering, accounting, legal, consulting and information technology, he said.

Historically, a 1 percent increase in employment drives a 2 percent increase in professional services.

But those jobs will soon become a "prime target" as oil companies continue their cost-cutting, he said.