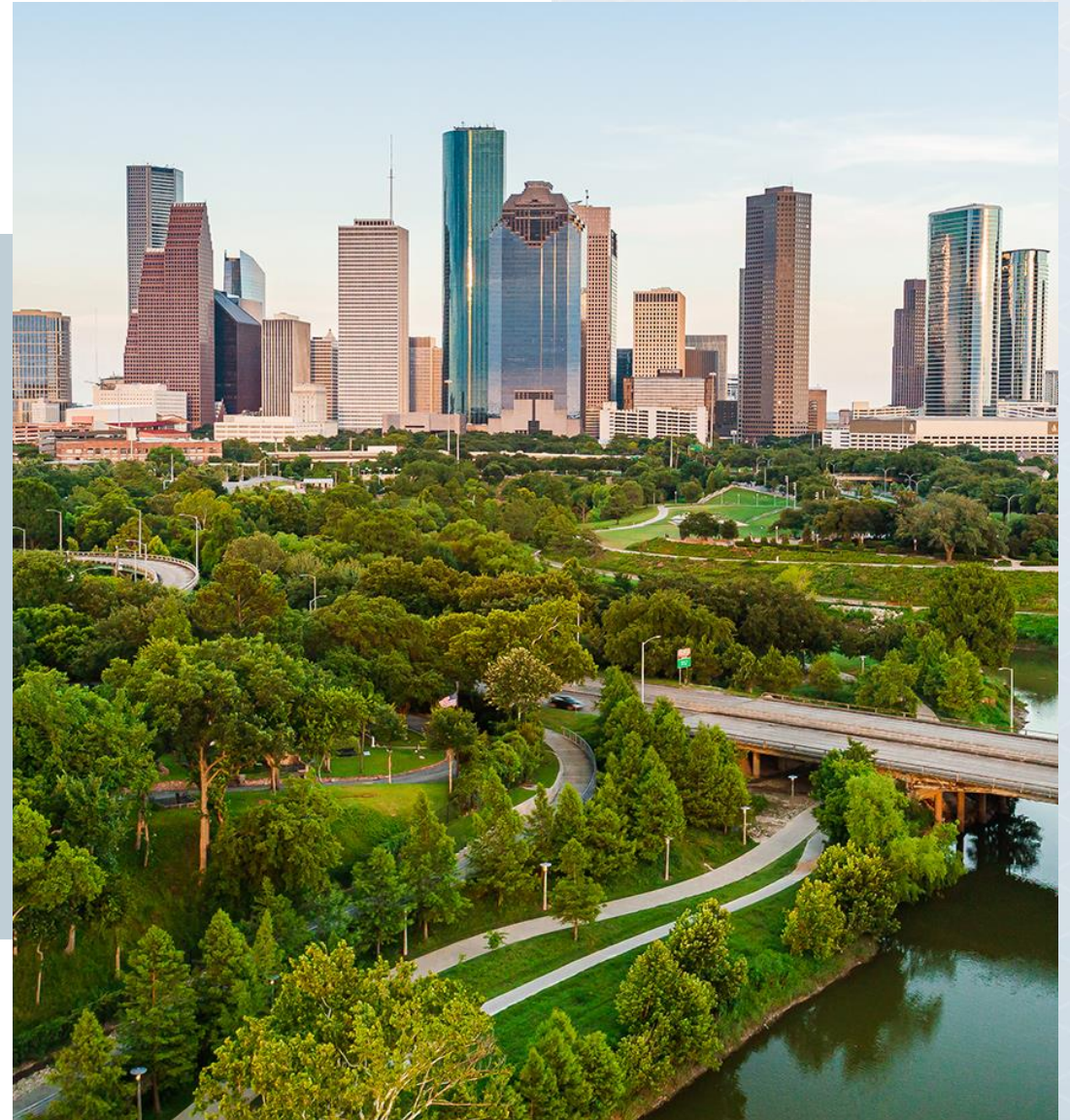


# Metro Houston Outlook

Patrick Jankowski

Chief Economist and SVP, Research

October 12, 2023



# THE ECONOMY AT A GLANCE HOUSTON



A publication of the Greater Houston Partnership

Volume 31 Number 2 – February 2023

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## THE YEAR IN REVIEW

Economic data for the final months of '22 continue to stream in. With each report, a clearer picture of the year emerges.

Job growth set a record last year. Unemployment fell to a near-historic low. Inflation surged in the spring but began to abate mid-year. Oil prices rose with Russia's invasion of Ukraine then fell as supply concerns eased. The domestic rig count approached pre-pandemic levels. Commercial construction continued at a torrid pace. Home sales peaked in the spring before rising interest rates pummeled would-be buyers. Only the Class A segment of the apartment market fared well, and lately even that's showing signs of weakness. The Port of Houston set a record for container traffic. Air passenger traffic continued to recover. And as the year closed, the Houston Purchasing Managers Index indicated growth was slowing but the local economy was not yet in recession. Details on how each sector fared in '22 follow.

### Employment

The region created 179,000 jobs in '22, according to the Texas Workforce Commission (TWC). That's the best year on record for metro Houston. The previous record was set in '21 when the region created 159,700 jobs. With the December jobs report, payroll employment topped 3,356,000. Total employment now stands at a record high for the region.

## METRO HOUSTON PAYROLL EMPLOYMENT



Source: Texas Workforce Commission

The numbers should be taken with a grain of salt, however. These are preliminary estimates based on surveys of employers that TWC conducts throughout the year. As with any survey, the results are subject to sampling, non-response, and structural errors. TWC is currently adjusting the estimates by comparing its survey data with unemployment insurance tax records that all employers must file. In March, TWC will issue its annual "benchmark" revisions to the data, adjusting job growth for the past two years. The revisions could be significant.

- Twice the commission overestimated growth by 30,000 or more jobs. The biggest miss was in '08 when it shaved 36,000 jobs off earlier estimates.
- Three times in the past 20 years, TWC reported growth when the region was contracting.
- Twice, TWC grossly underestimated losses, the biggest gap in '20 when TWC missed by over 40,000 jobs.
- Five times in the past 20 years the commission has underestimated job growth by 30,000 or more jobs. The biggest miss was in '05 when TWC low-balled growth by nearly 50,000 jobs.
- Only seven times in the past 20 years has TWC adjusted its estimate by 10,000 or fewer jobs.



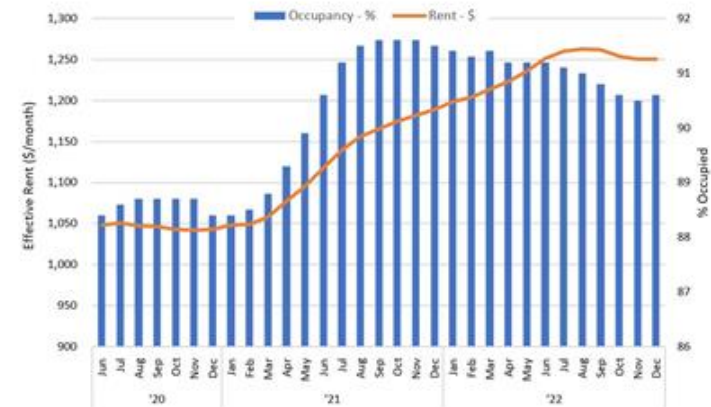
KEY ECONOMIC INDICATOR

## MULTIFAMILY

Apartment occupancy in Houston peaked in the fall of '21 and has trended down since. From September '21 through November '21, average occupancy held steady at 91.6 percent. It began to drop in December '21 and by December '22 occupied units stood at 90.6 percent. The market is considered landlord-friendly whenever occupancy tops 90.0 percent and tenant-friendly when it slips below that level.

To view the full report, click [here](#).

## OCCUPANCY AND EFFECTIVE RENTAL RATES, METRO HOUSTON



Source: ApartmentData.com

Multifamily Report

[pjankowski@houston.org](mailto:pjankowski@houston.org)



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# Patrick Jankowski

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Greater Houston Partnership



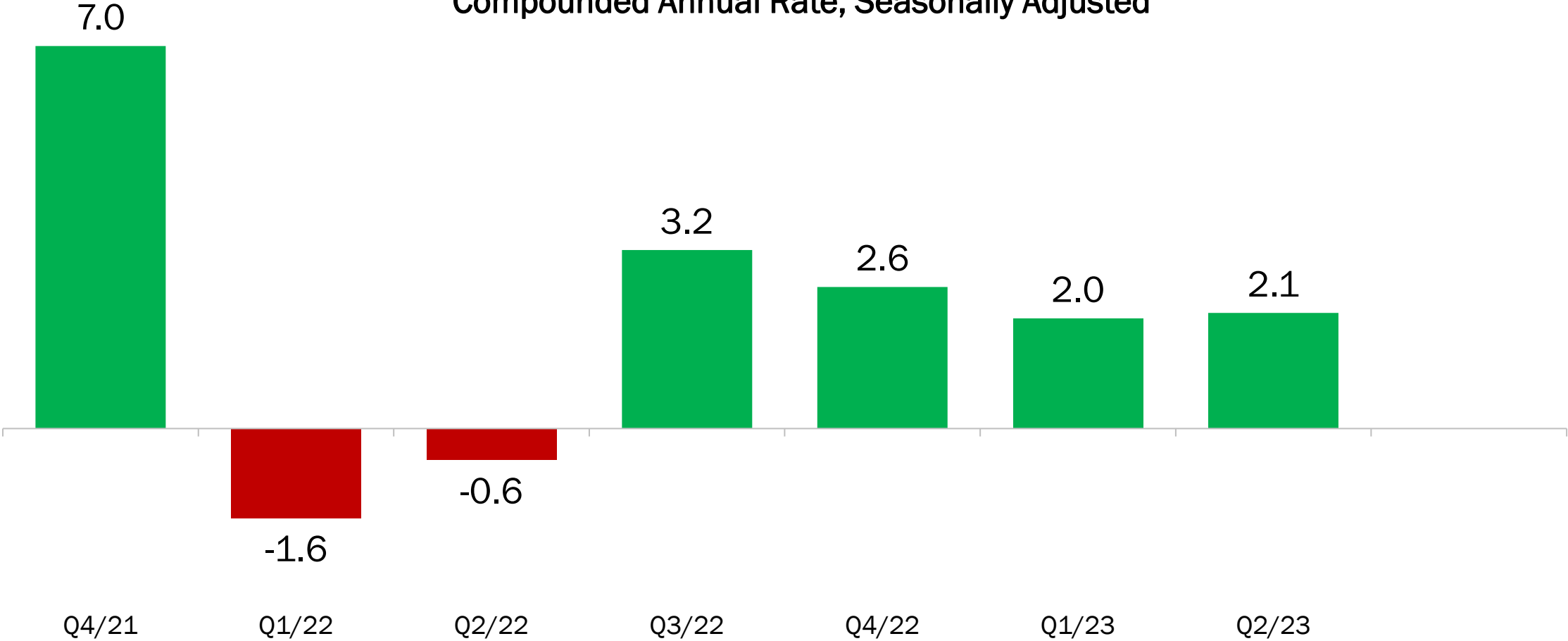
The University of Texas at Austin





# Change in Real Gross Domestic Product

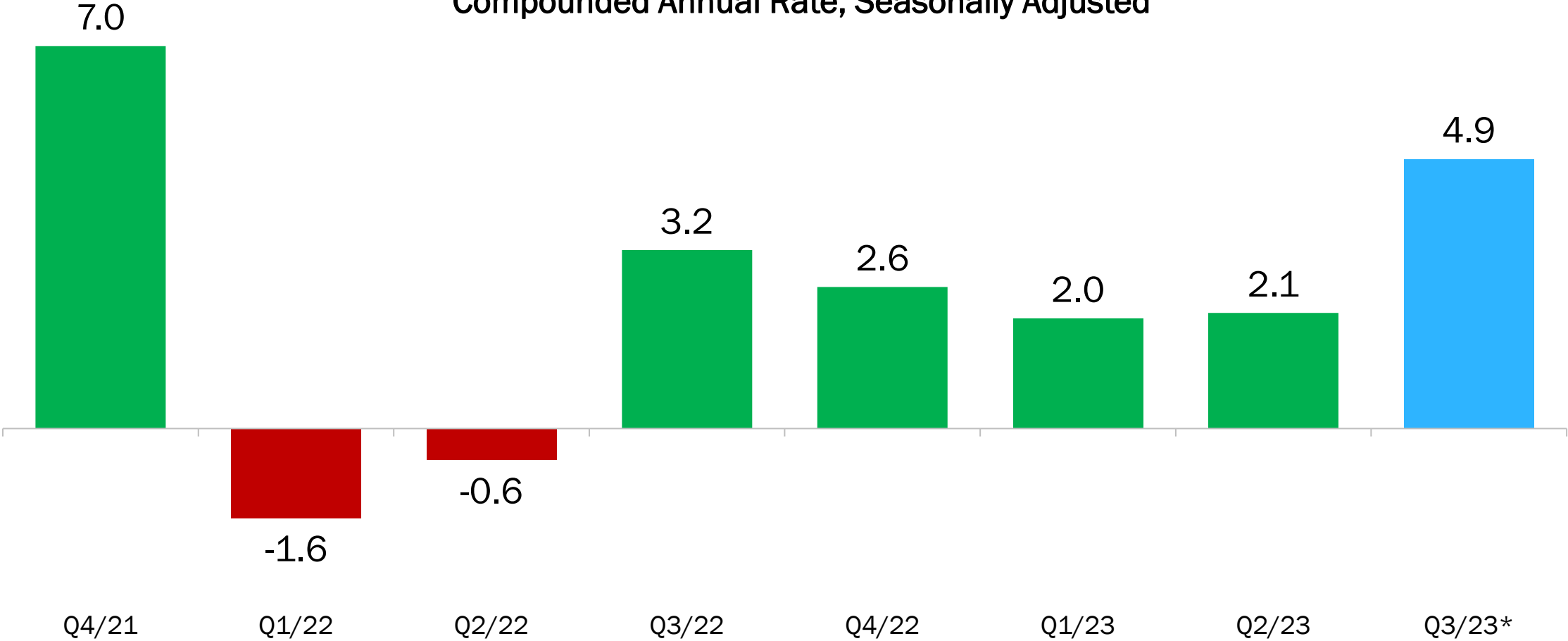
Compounded Annual Rate, Seasonally Adjusted



Source: Bureau of Economic Analysis

# Change in Real Gross Domestic Product

Compounded Annual Rate, Seasonally Adjusted



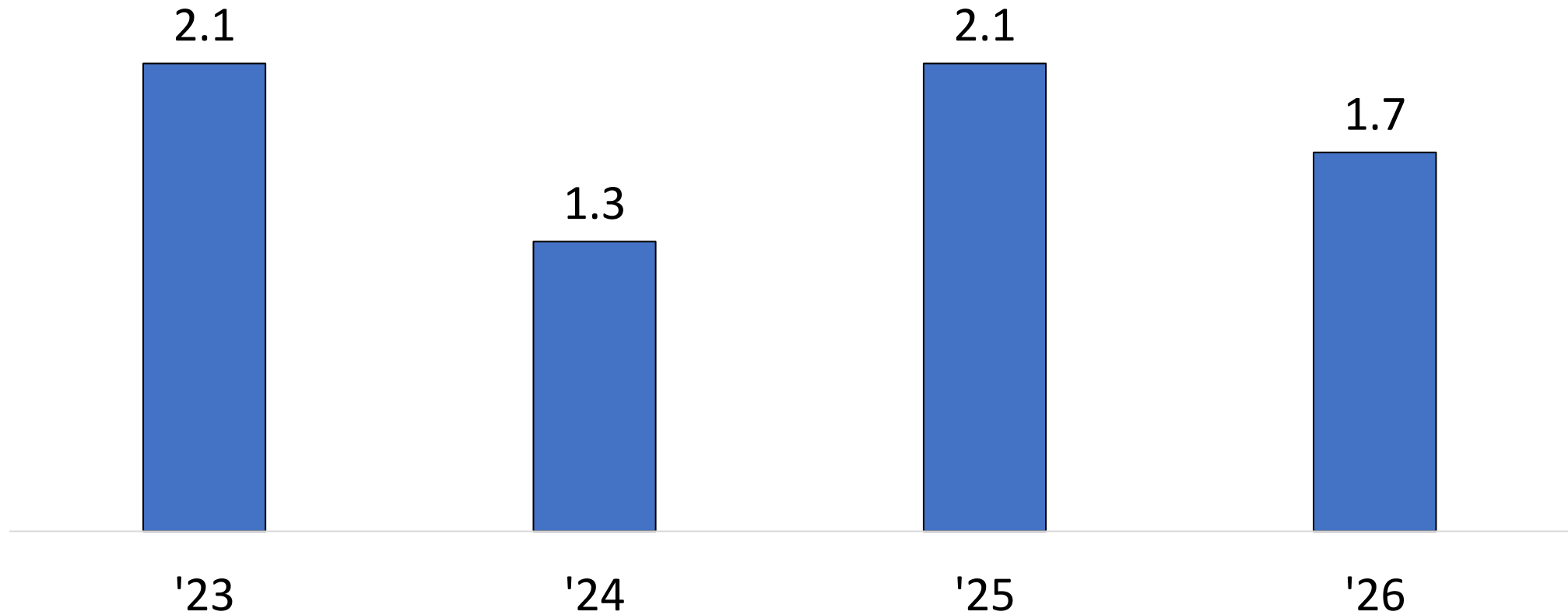
\* Atlanta Fed GDPNow forecast

Source: Bureau of Economic Analysis



# Projected Real GDP Growth

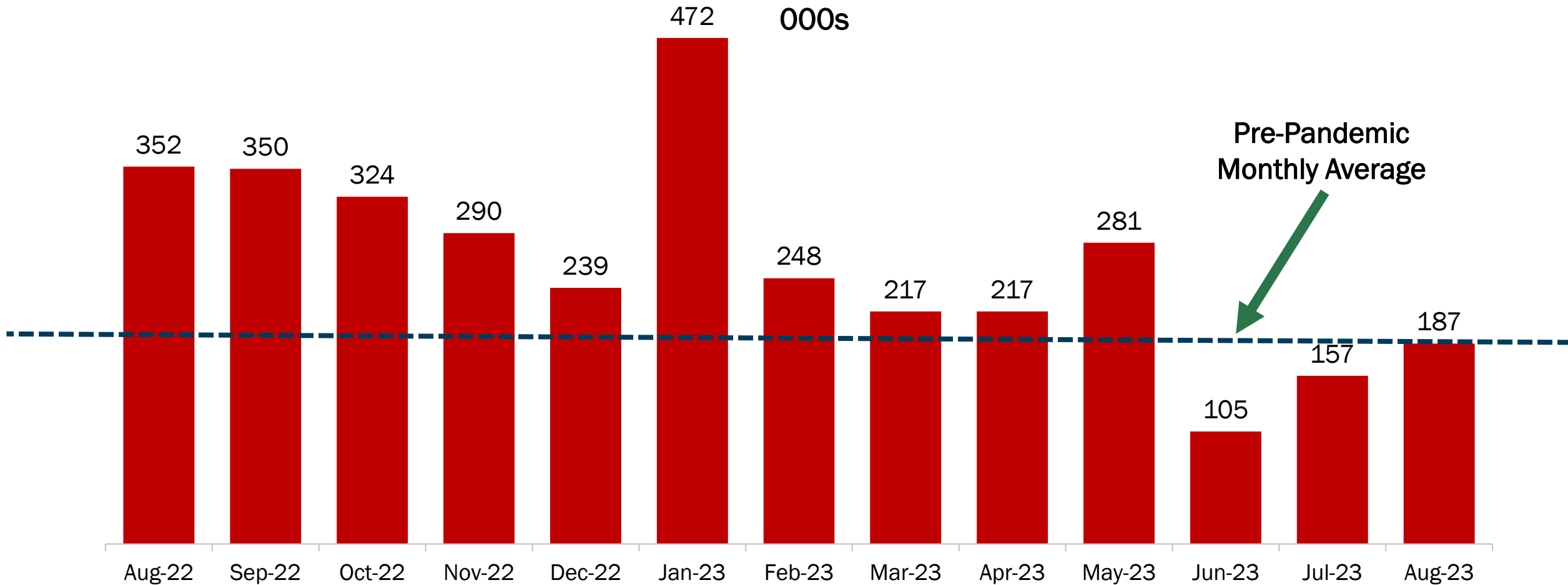
% Change in Annual GDP



Source: Survey of Professional Forecasters, August '23



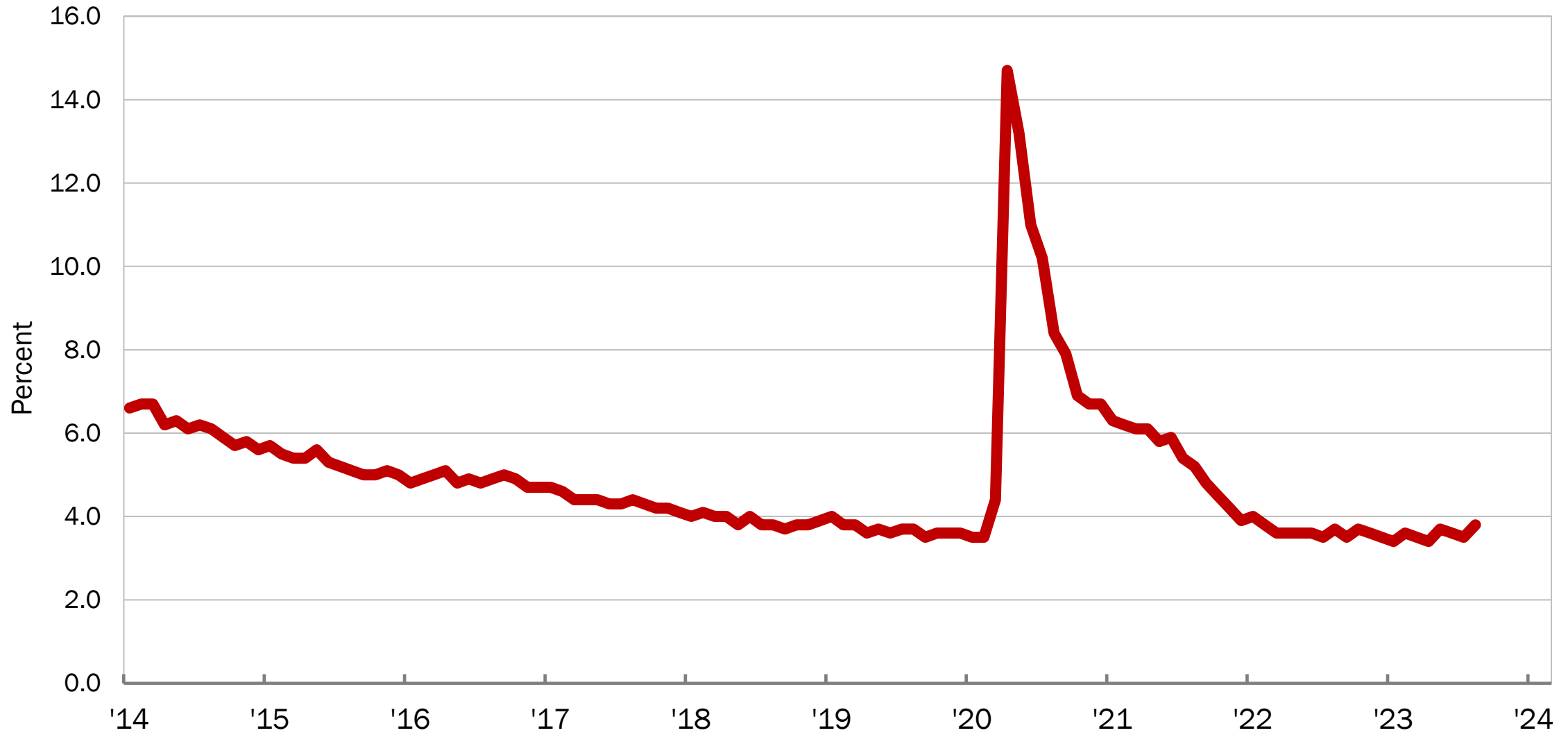
# Change in Nonfarm Payroll Employment



Source: U.S. Bureau of Labor Statistics



# U.S. Unemployment Rate



Source: U.S. Bureau of Labor Statistics

# Initial Claims for Unemployment Benefits\*



Source: U.S. Bureau of Labor Statistics





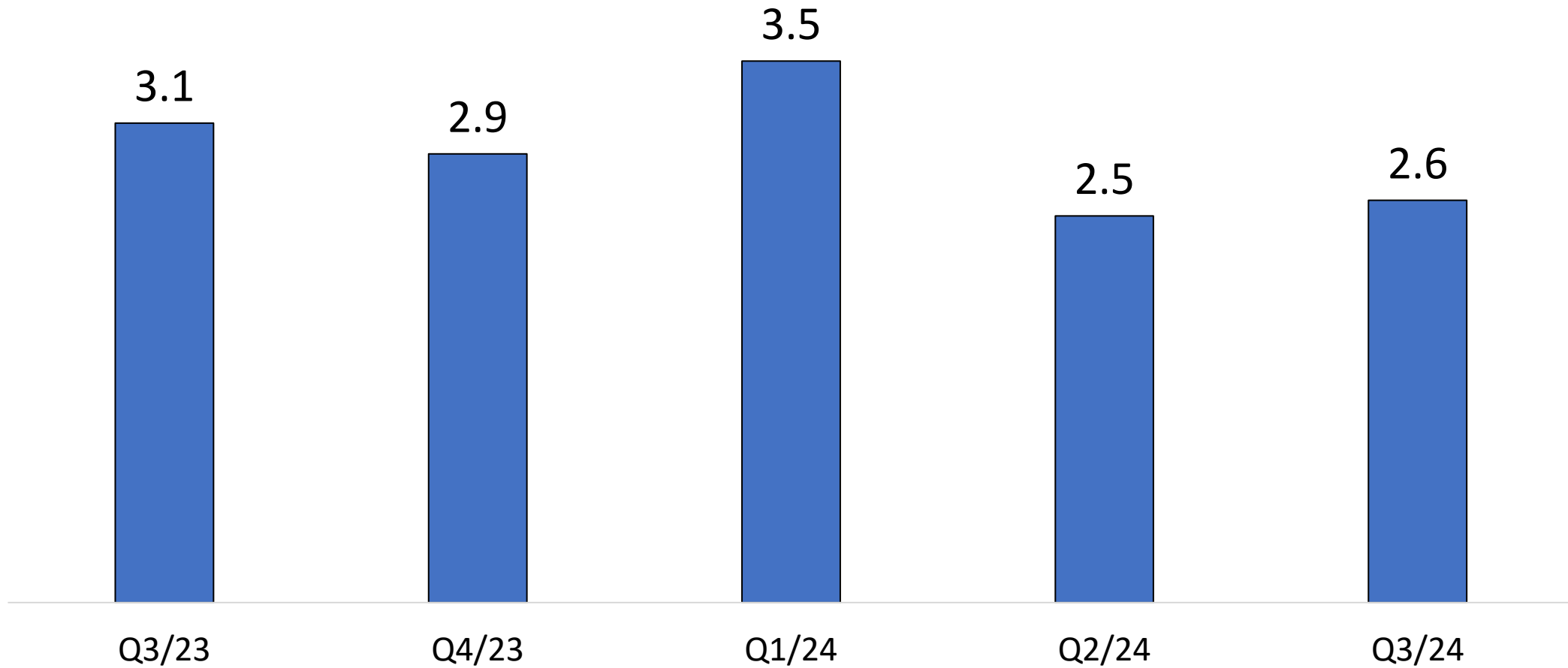
# U.S. 12-Month Inflation Rate



Source: U.S. Bureau of Labor Statistics

# U.S. Inflation Forecast

Annual Rate of Price Change - %



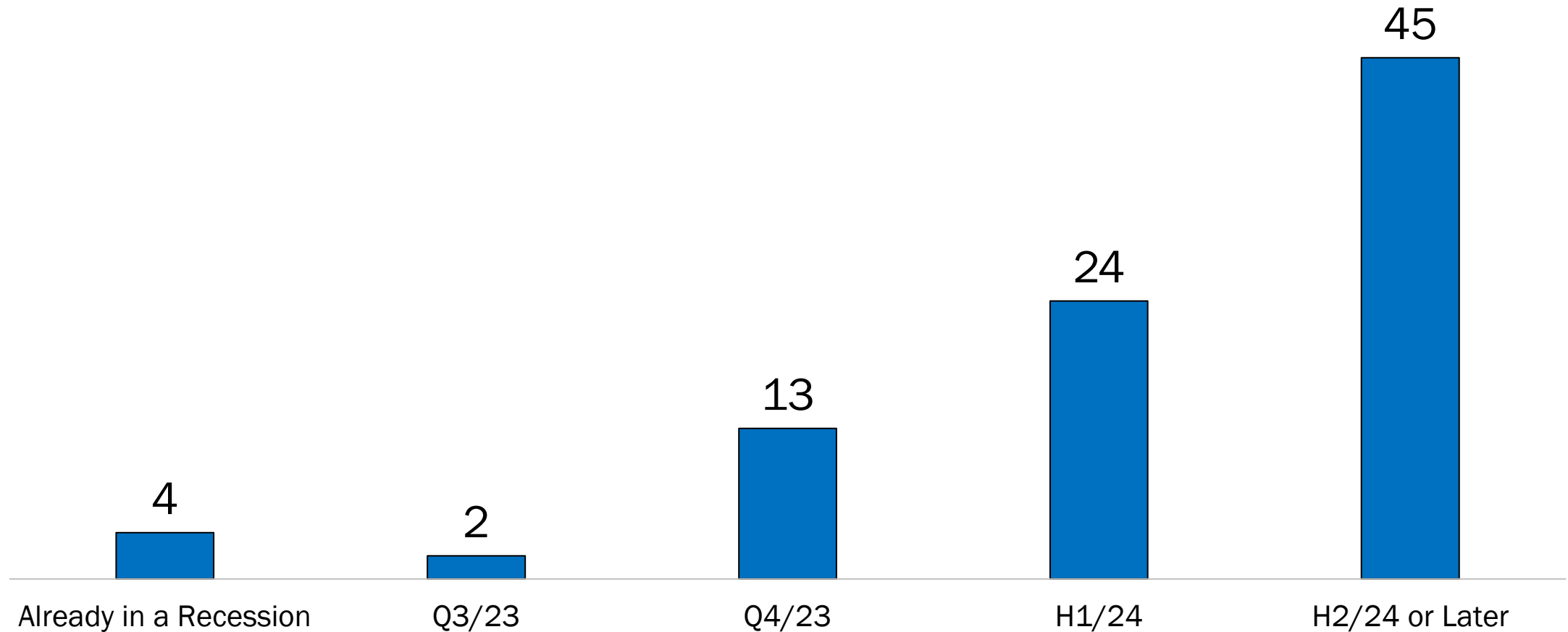
Source: Survey of Professional Forecasters, August '23





# When will the next U.S. recession start?

% of Survey Respondents



Source: National Association for Business Economics, August 2023

# U.S. Business Cycles of the Past 50 Years

Peak	Trough	Duration (Months)	Next Expansion (Months)
Nov '73	Mar '75	6	58
Jan '80	Jul '80	6	12
Jul '81	Nov '82	16	92
Jul '90	Mar '91	8	120
Mar '01	Nov '01	8	73
Dec '07	Jul '09	18	128
Feb '20	Apr '20	2	40+
<b>Average</b>		<b>9.1</b>	<b>80.5</b>

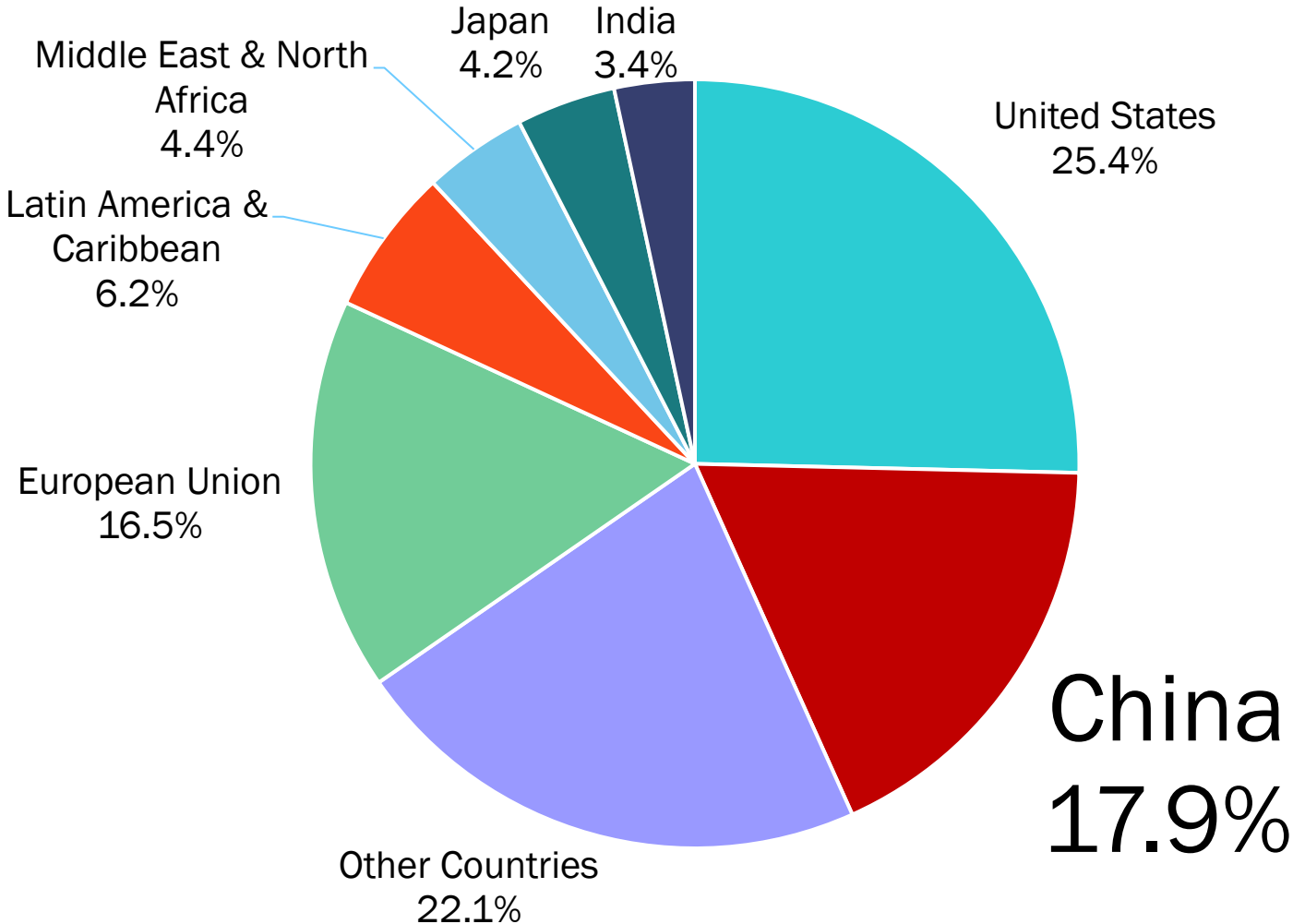








# Share of Global GDP



Source: Partnership calculations from WISERTrade data

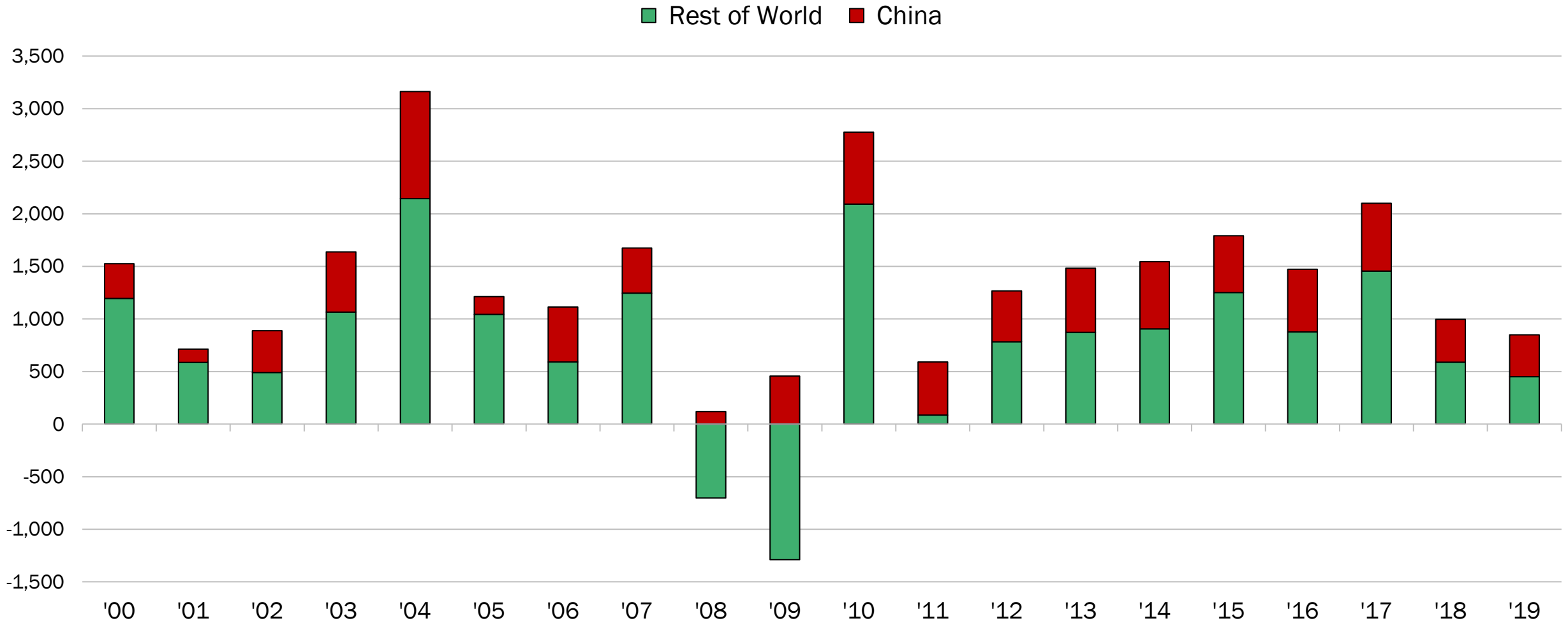


## Houston's Top Export Destinations, '22

Rank	Country	\$ Billions
1	Mexico	8.6%
2	Netherlands	6.7%
3	Korea, Republic Of	6.4%
4	Brazil	5.9%
5	United Kingdom	5.2%
6	Singapore	5.1%
<b>7</b>	<b>China</b>	<b>4.5%</b>
8	Japan	4.0%
9	France	3.9%
10	India	3.6%

Source: Partnership calculations from WISERTrade data

# Change in Demand for Refined Products\*



Source: U.S. Energy Information Administration

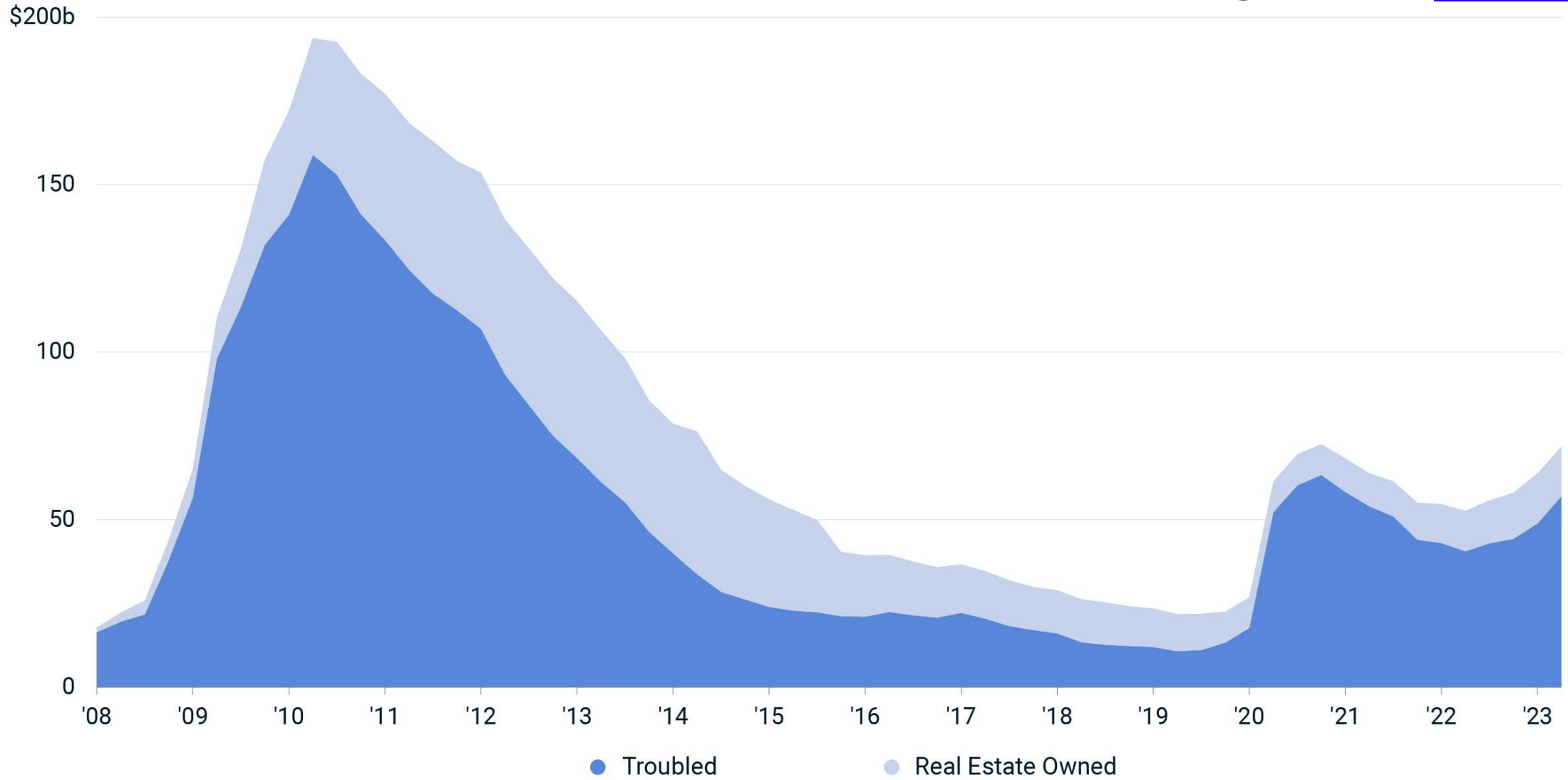
# Landlords With \$1.2 Trillion of Debt Face Rising Default Risks



**Bloomberg**

# Commercial Distressed Property

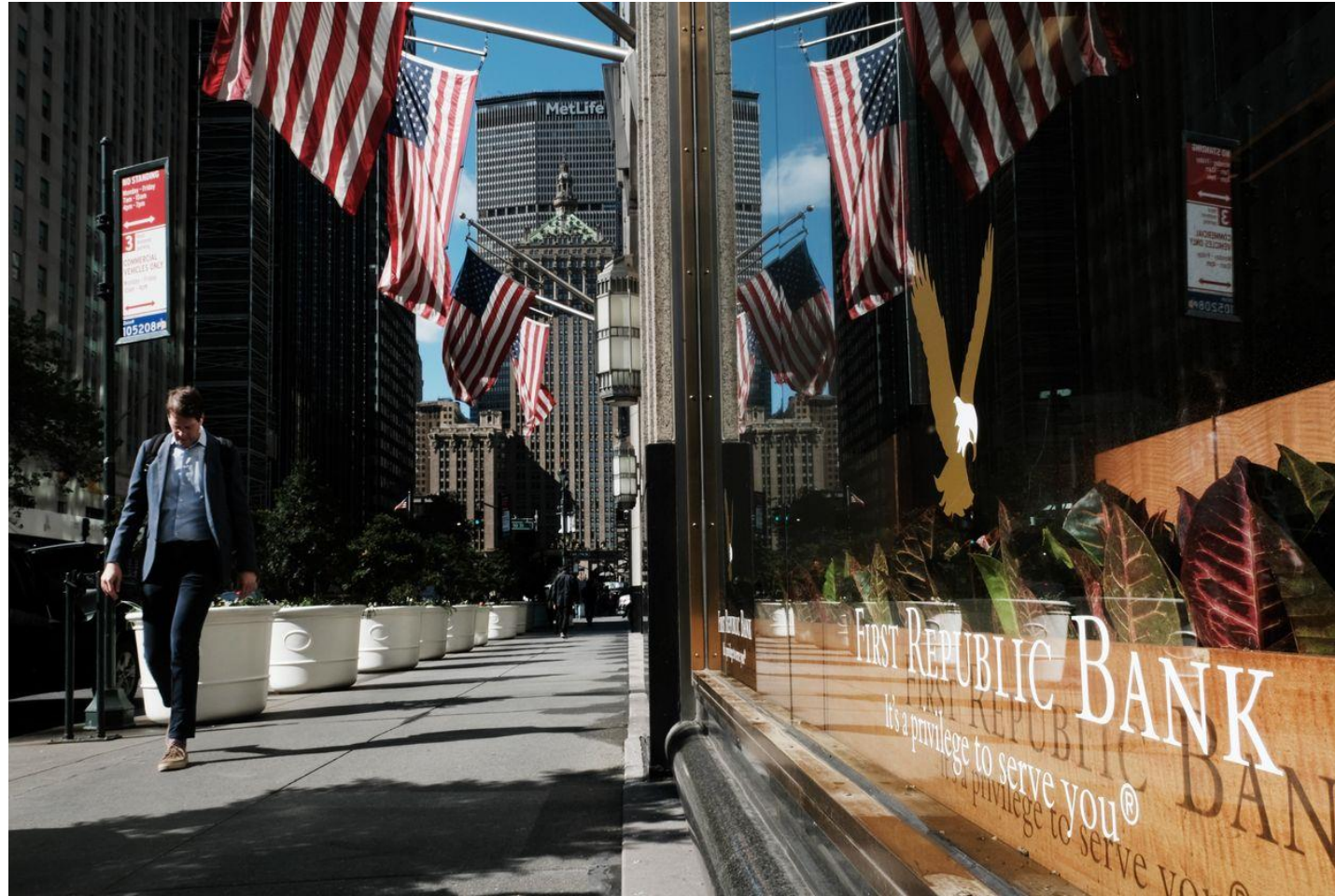
Bloomberg





# Real-Estate Doom Loop Threatens America's Banks

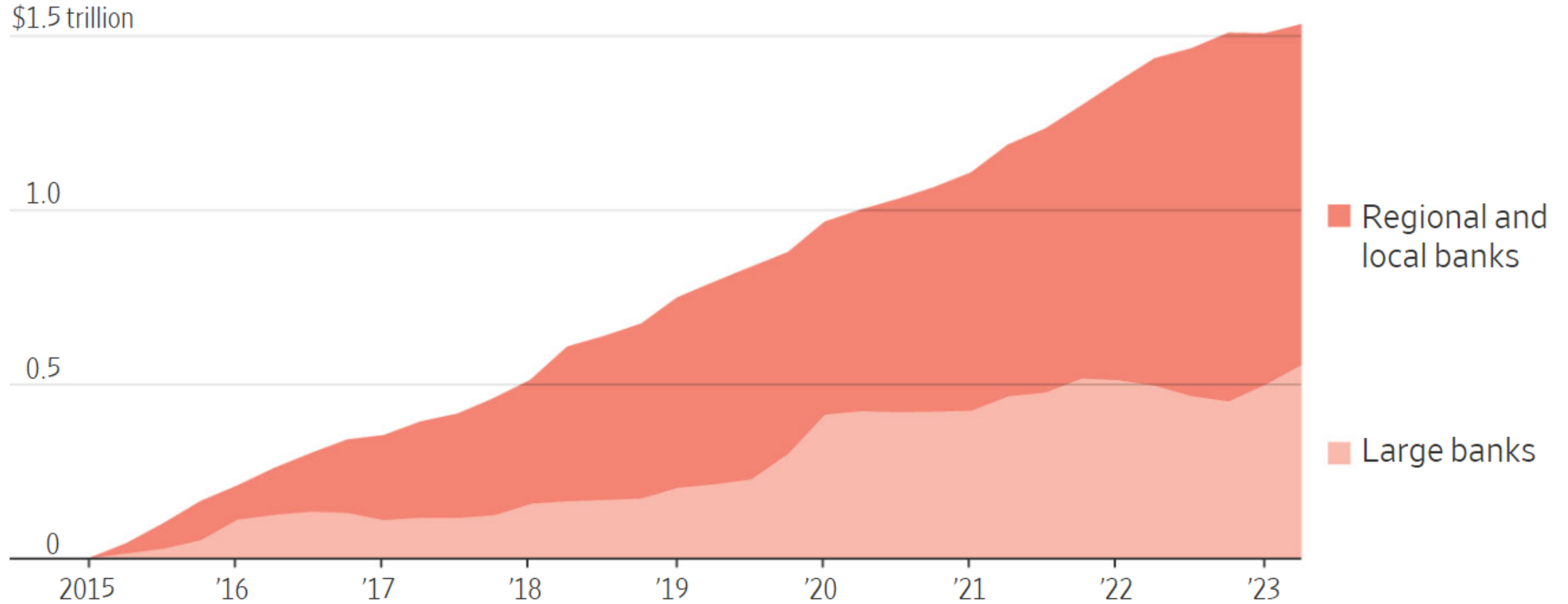
Regional banks' exposure to commercial real estate is more substantial than it appears



THE WALL STREET JOURNAL.



## Cumulative change in commercial real-estate exposure since March 2015, by bank size



Source: Wall Street Journal analysis of FDIC data

# Commercial lending fell 52% in second quarter

Originations sink across asset types as lenders more selective

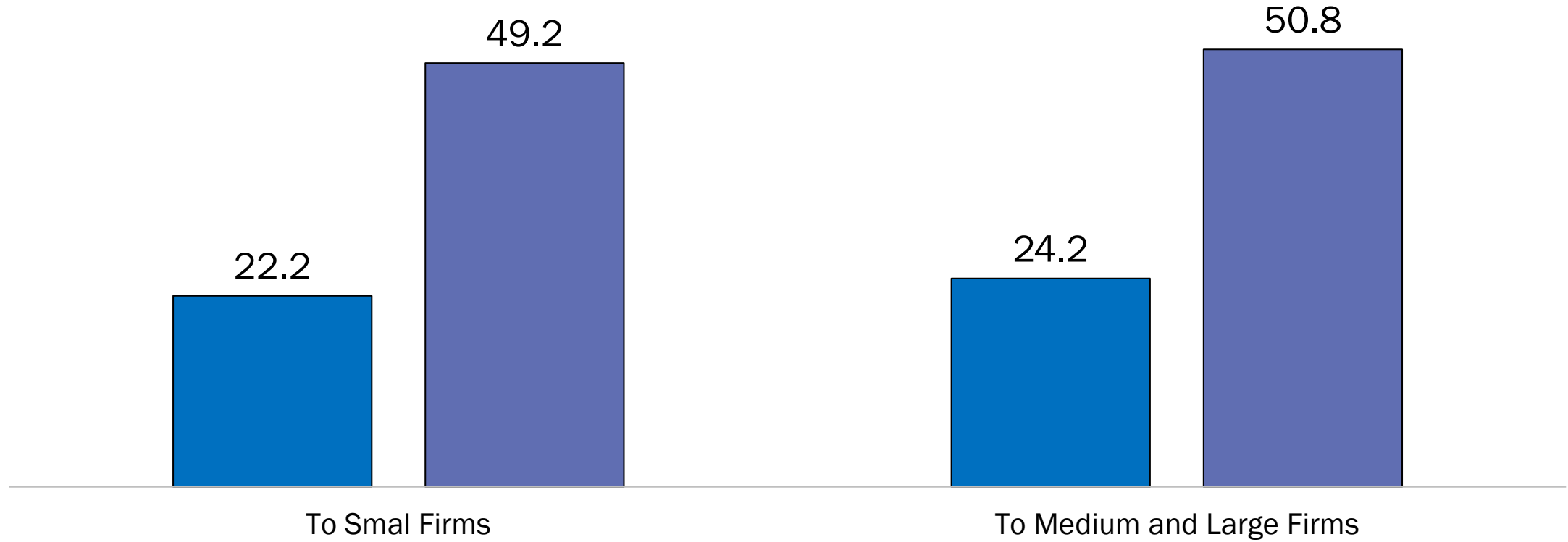


**THE REAL DEAL**  
REAL ESTATE NEWS

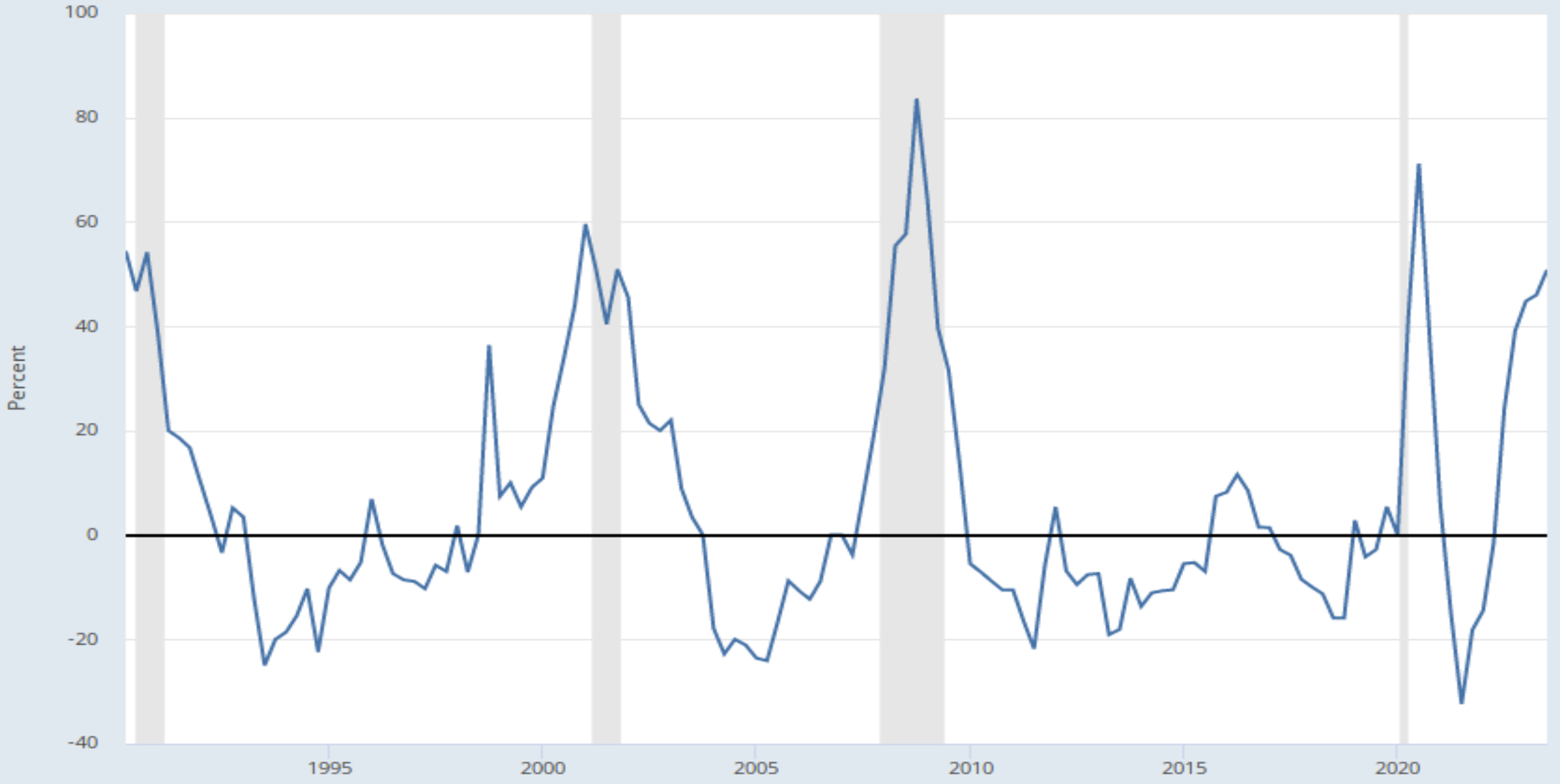
# Commercial Banks Tightening Lending Standards\*

% of Survey Respondents

■ Q3/22     ■ Q3/23



Source: Board of Governors Federal Reserve System



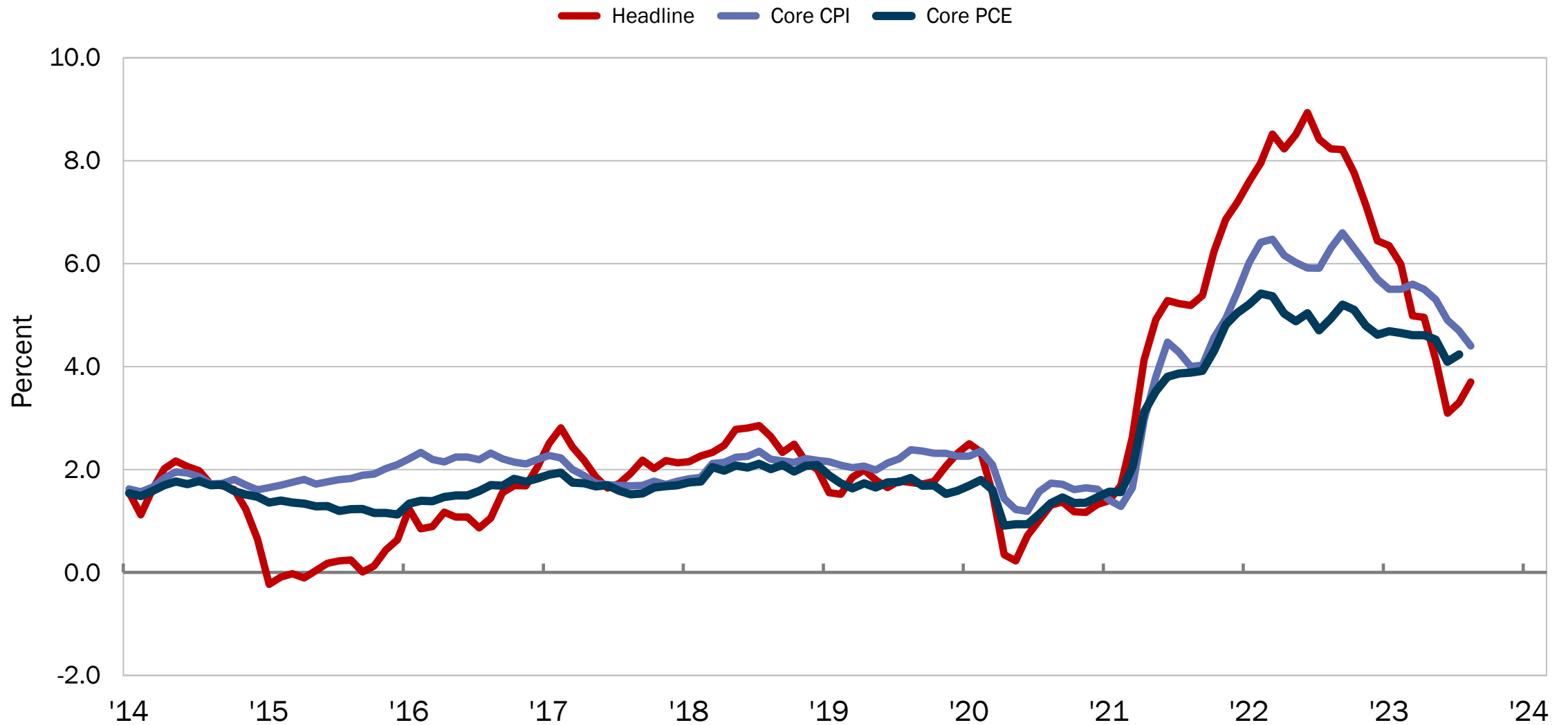


# US Core CPI Picks Up, Keeping Another Fed Hike in Play This Year



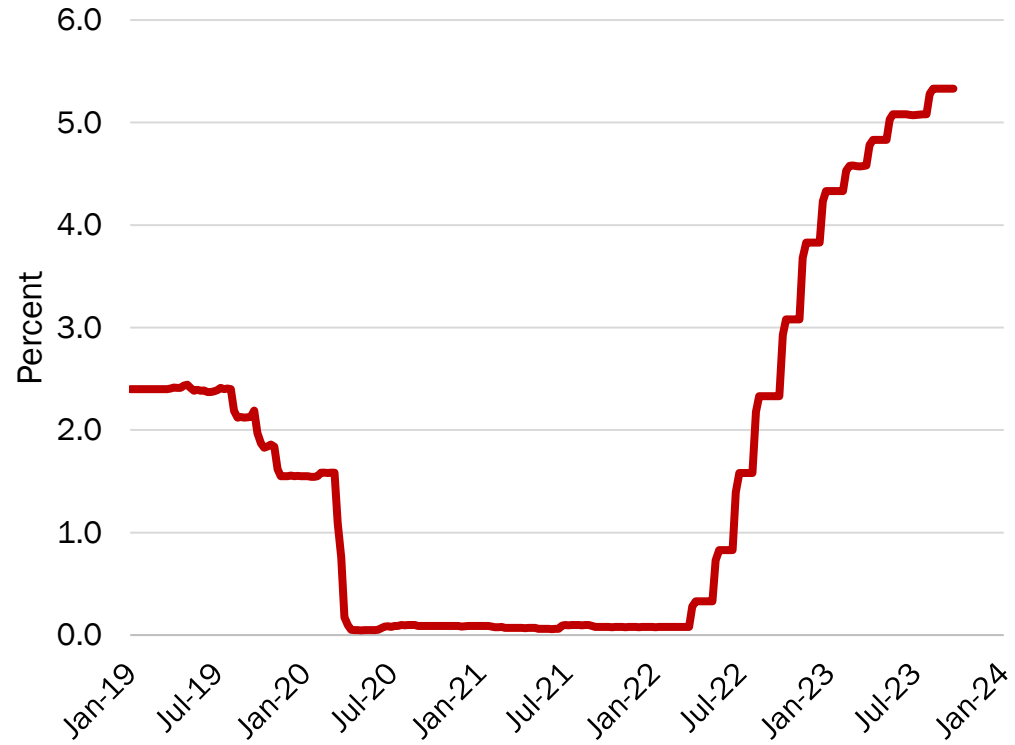


# U.S. 12-Month Core Inflation Rate



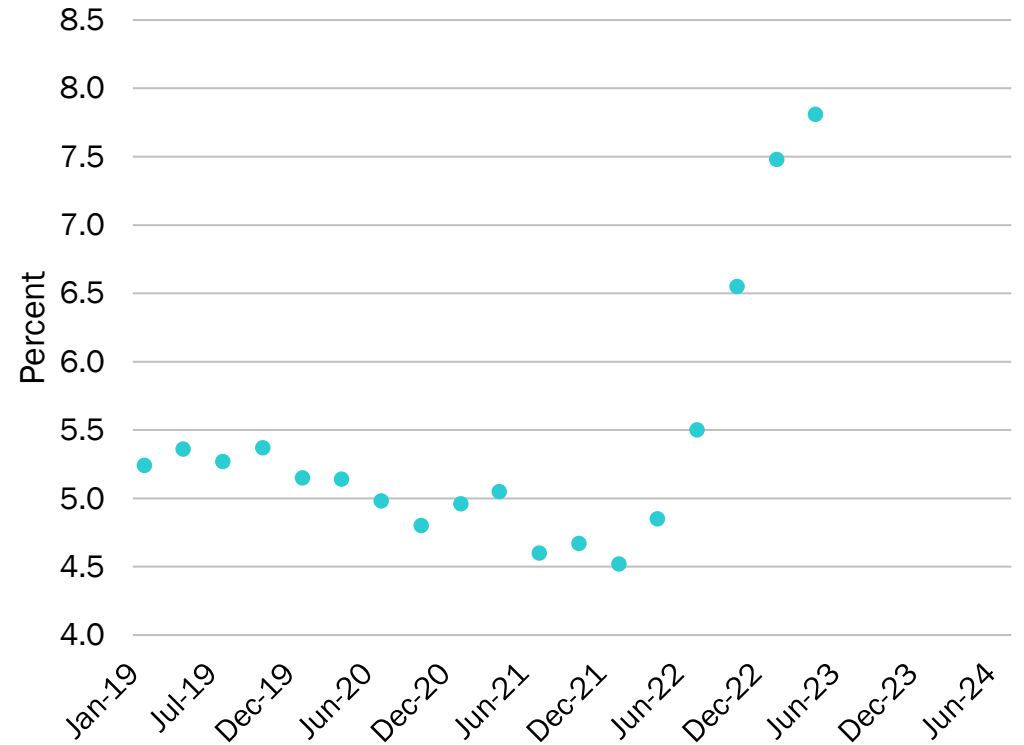
Source: U.S. Bureau of Labor Statistics

## Effective Federal Funds Rate



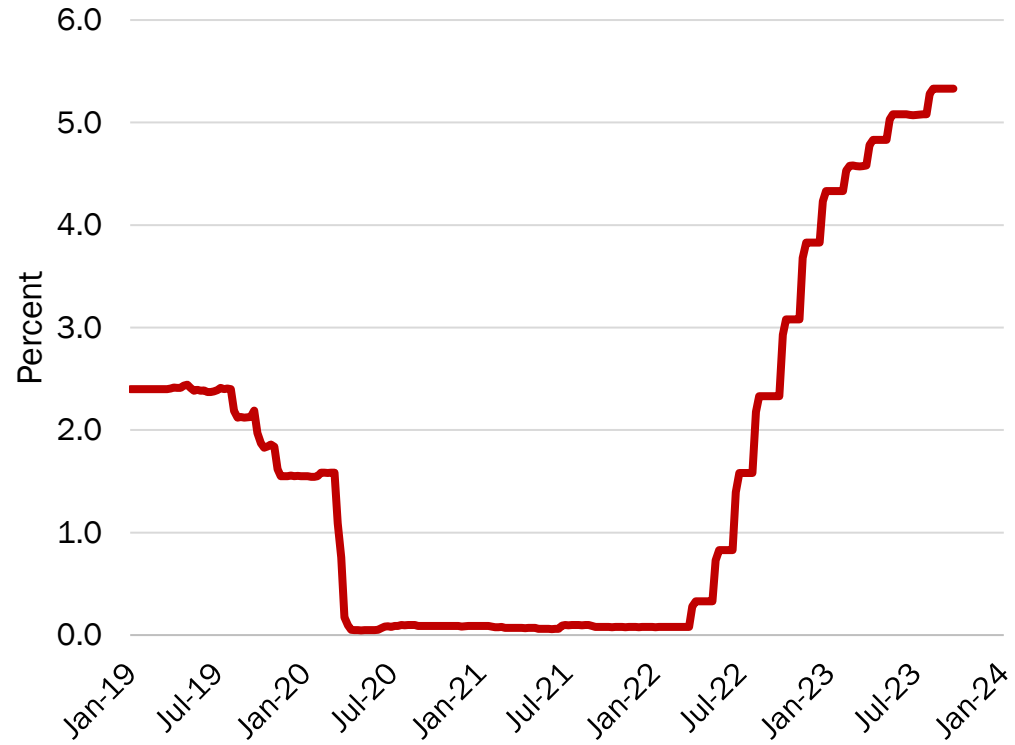
Source: Board of Governors of the Federal Reserve System (US)

## Interest on 60-Month Auto Loan



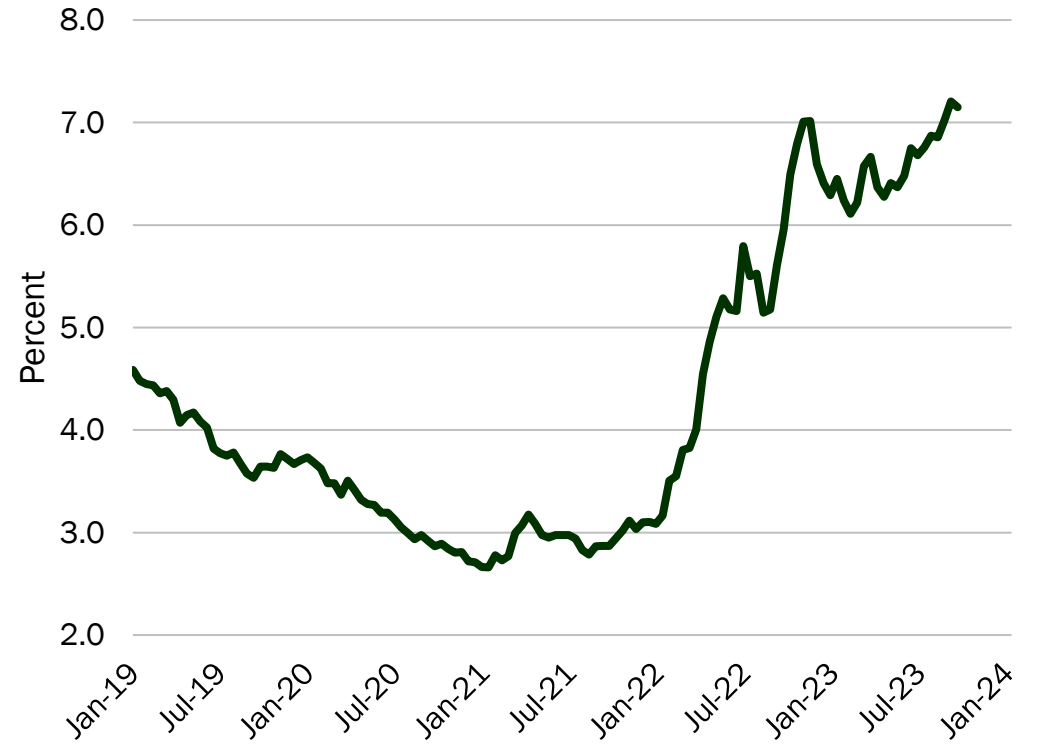
Source: Freddie Mac

## Effective Federal Funds Rate



Source: Board of Governors of the Federal Reserve System (US)

## Avg. 30-Year Fixed Rate Mortgage

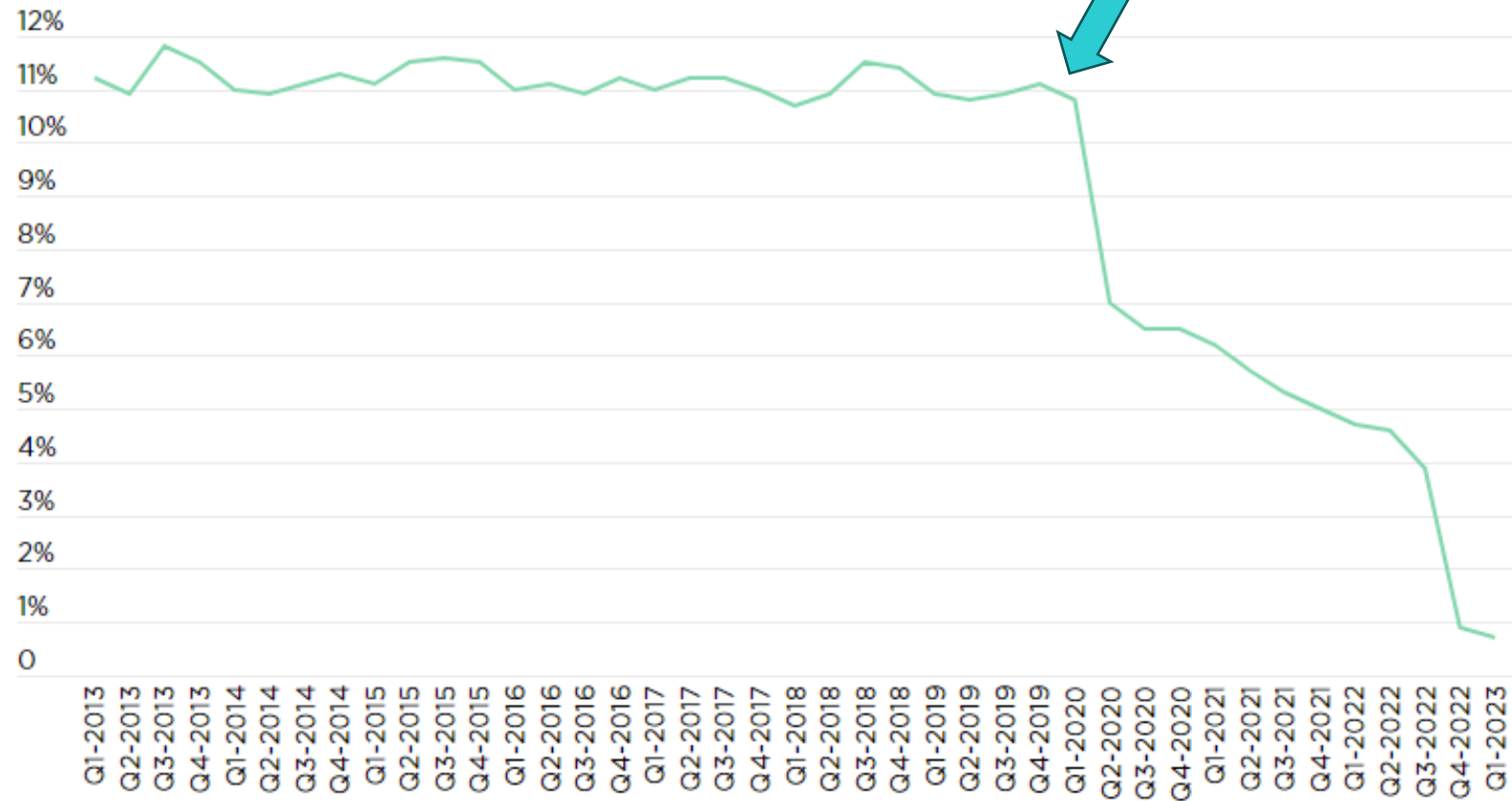


Source: Freddie Mac

# Student-Loan Restart Threatens to Pull \$100 Billion Out of Consumers' Pockets



## Student loan delinquency rate



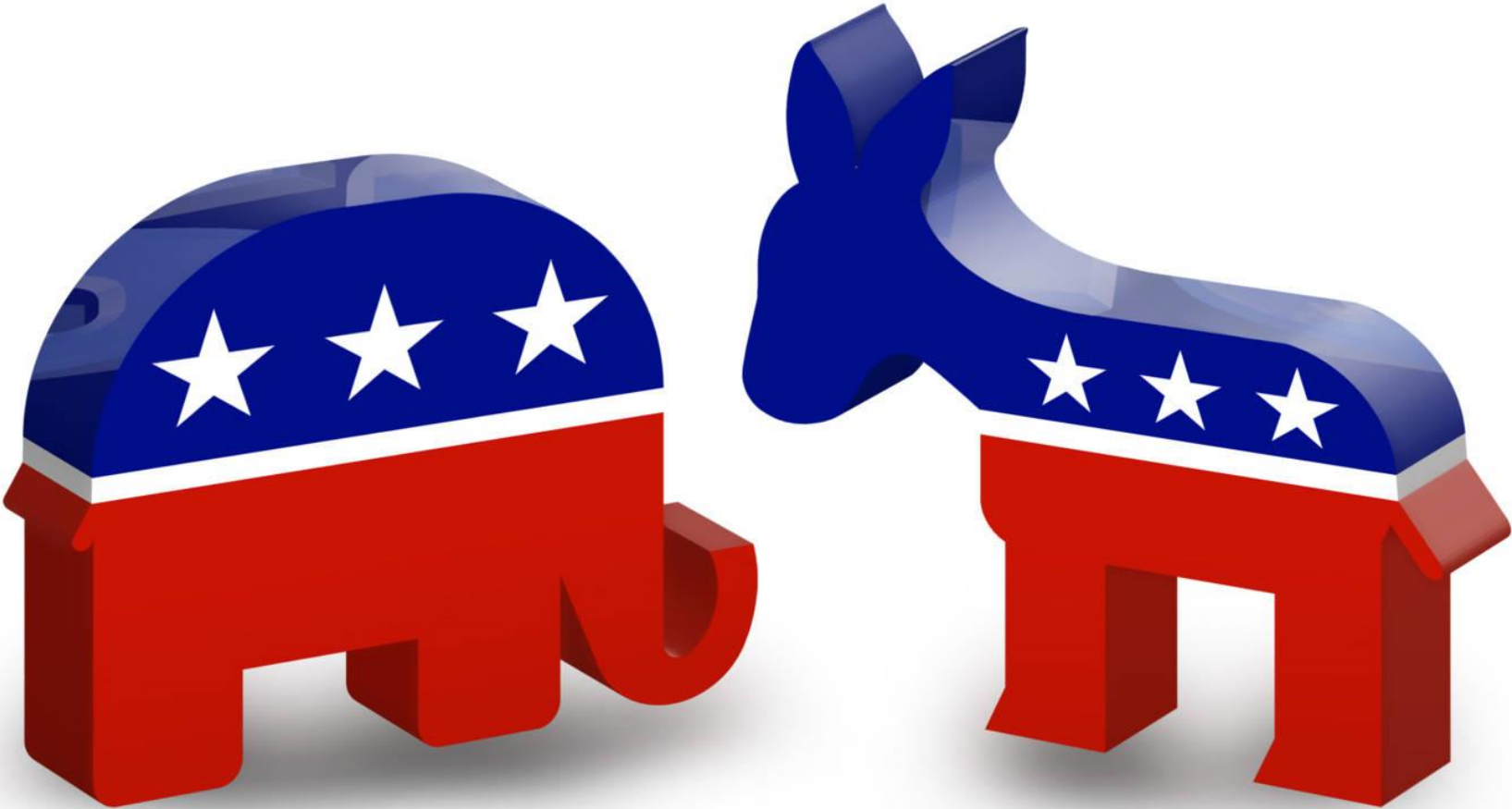
Source: Household Debt and Credit Report - Q1 2023. New York Fed Consumer Credit Panel/Equifax. Rates represent percentage of student loan debt 90 or more days delinquent.



# Big Three automakers idle thousands of workers as UAW strike rages on



November 5, 2024



DonkeyHOTY



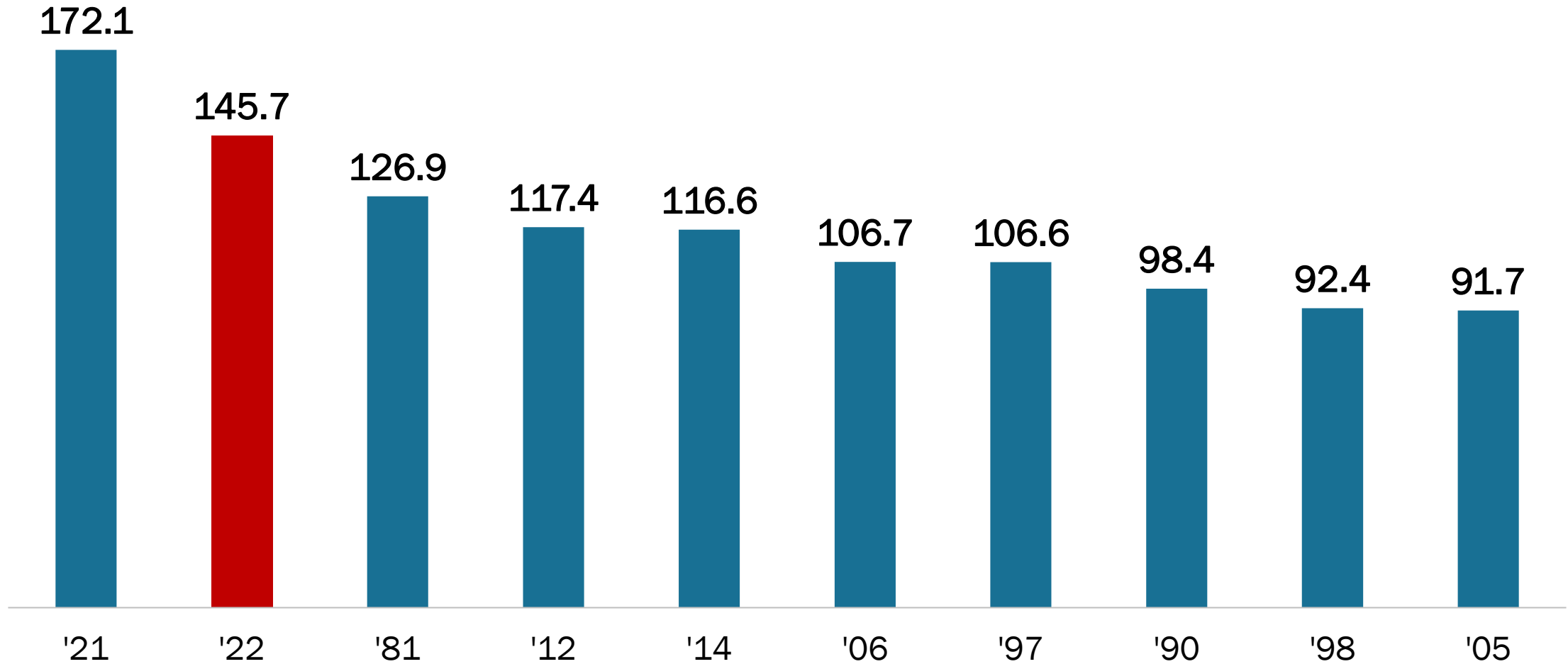


# How is Houston holding up?





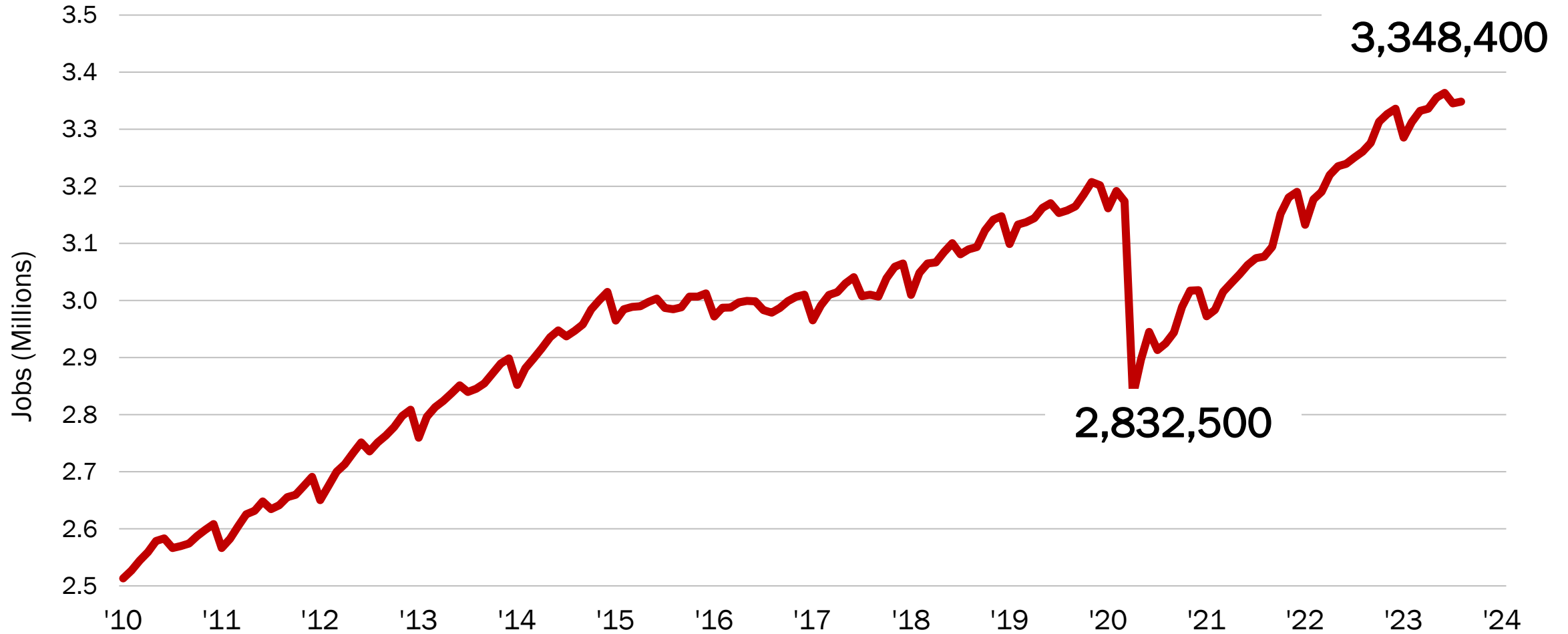
# Annual Job Growth, 10 Best Years\*



\* Since 1980

Source: Texas Workforce Commission

# Metro Houston Employment\*



Source: Texas Workforce Commission

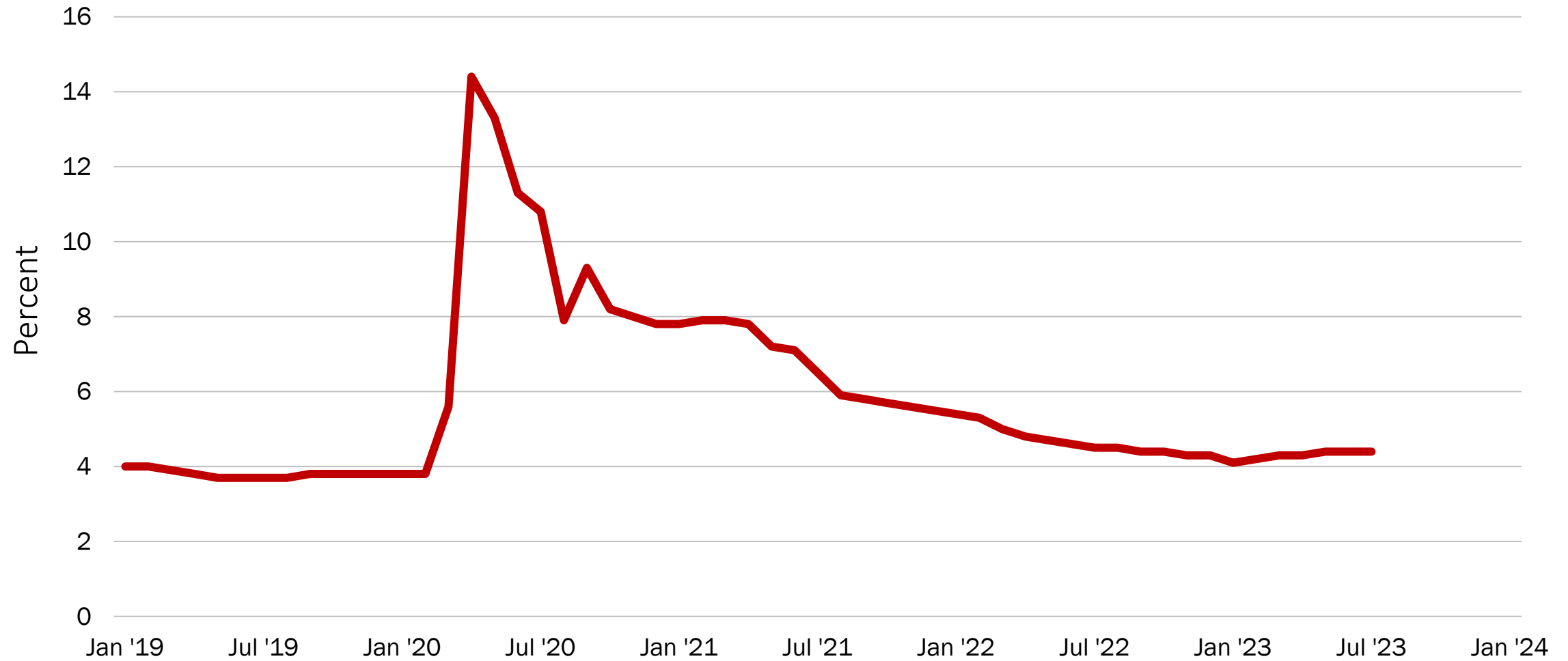
\* Not seasonally adjusted

## Job Gains/Losses, 12 Months Ending Aug '23

Sector	Gains	Sector	Losses
Health Care	16,600	Arts, Entertainment, Recreation	2,100
Prof, Sci, Tech Services	12,700	Local Education	1,800
Wholesale Trade	10,000	Private Education	1,800
Transportation/Warehousing	9,400	Hotels	1,400
Manufacturing	7,200	Federal Government	1,100
Retail Trade	7,000	Restaurants, Bars	400
Energy	3,500	Finance/Insurance	100
Administrative Support	3,500	Information	-
Real Estate, Equipment Rentals	3,300	Other Services	-1,800
State Government	2,500	Construction	-6,800

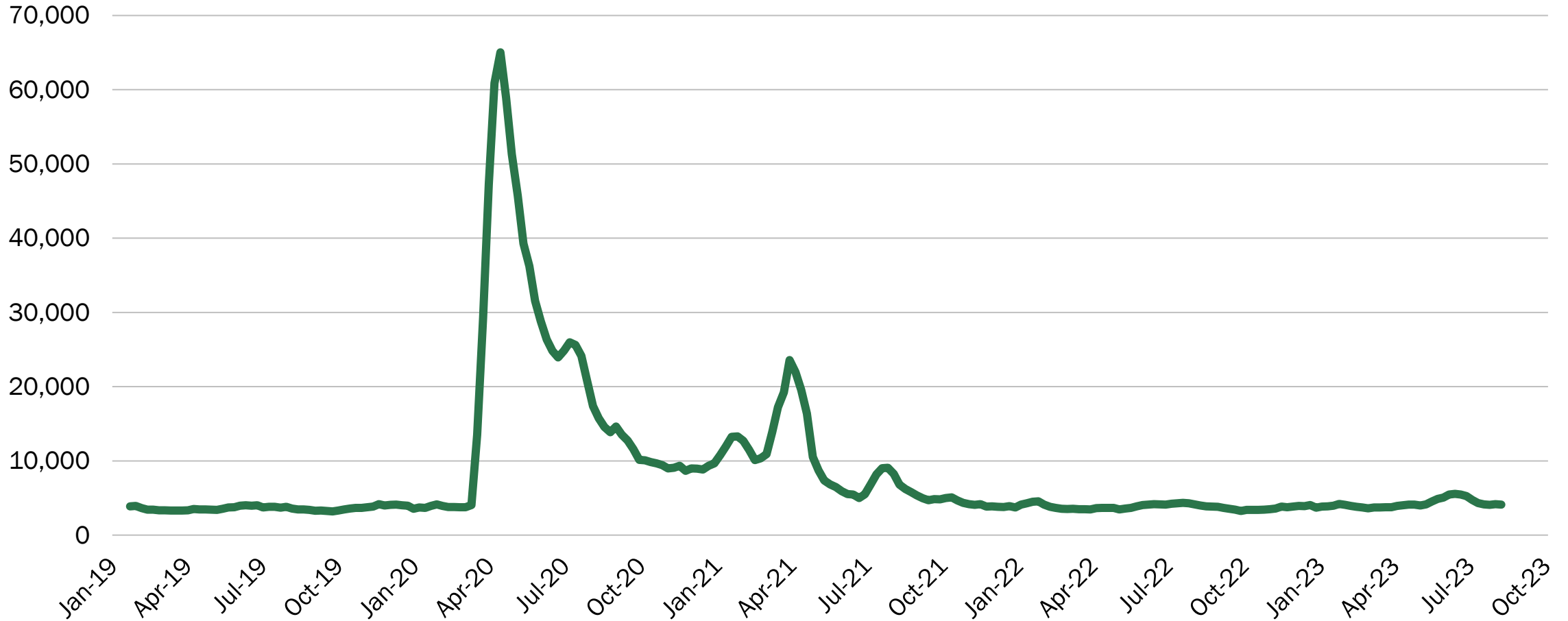
Source: Texas Workforce Commission

# Houston Unemployment Rate\*





# Initial Claims for Unemployment Benefits



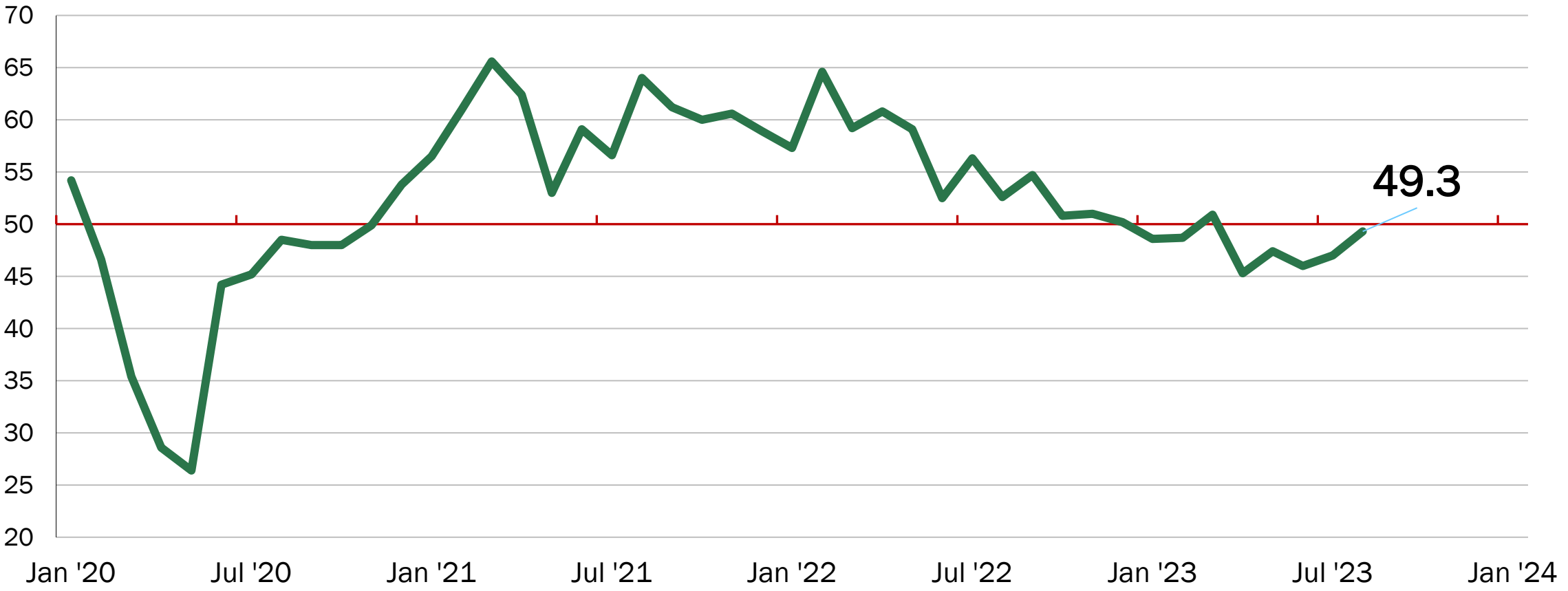
Source: Texas Workforce Commission



# Manufacturing

# Houston Purchasing Managers Index - Manufacturing

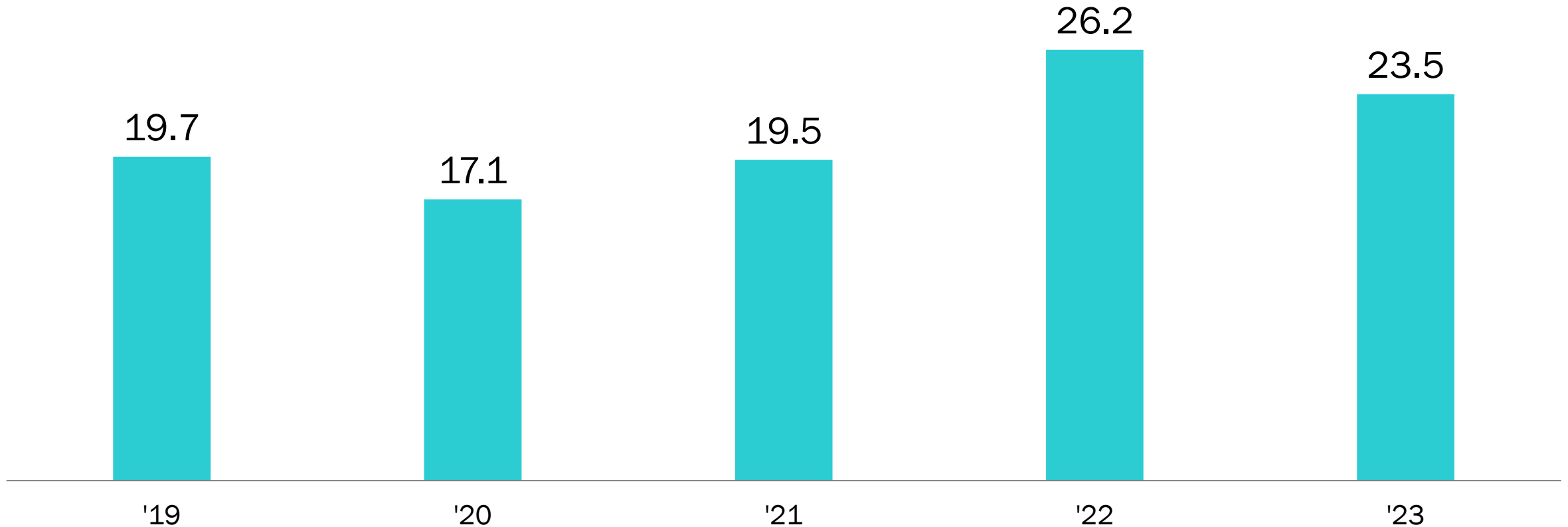
< 50 = Contraction



Source: Institute for Supply Management - Houston

# Houston Exports, July YTD, Leading Manufactured Goods\*

\$ Billions

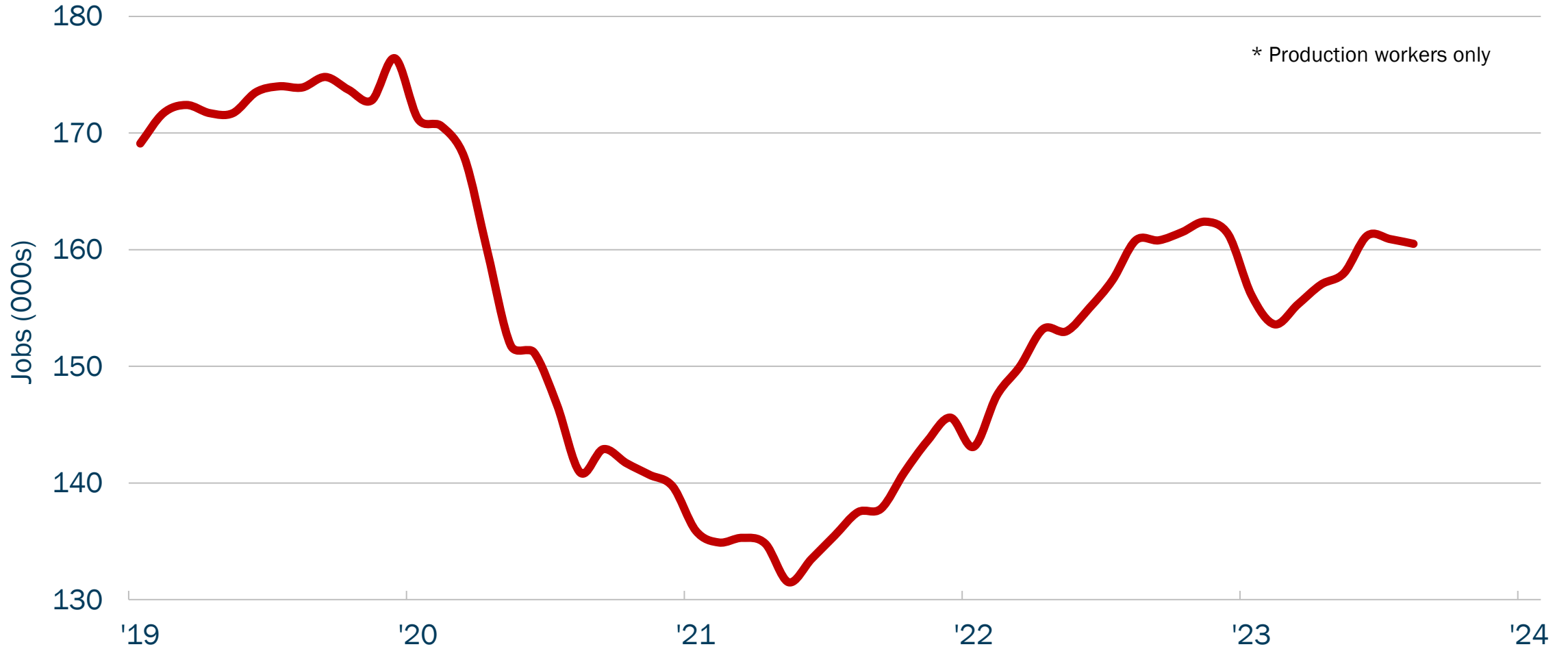


\* chemicals, plastics, industrial and electrical machinery via Freeport, Galveston, Houston and Texas City

Source: Partnership calculations from WISERTrade data



# Manufacturing Employment, Metro Houston\*



Source: Partnership calculations based on Texas Workforce Commission data

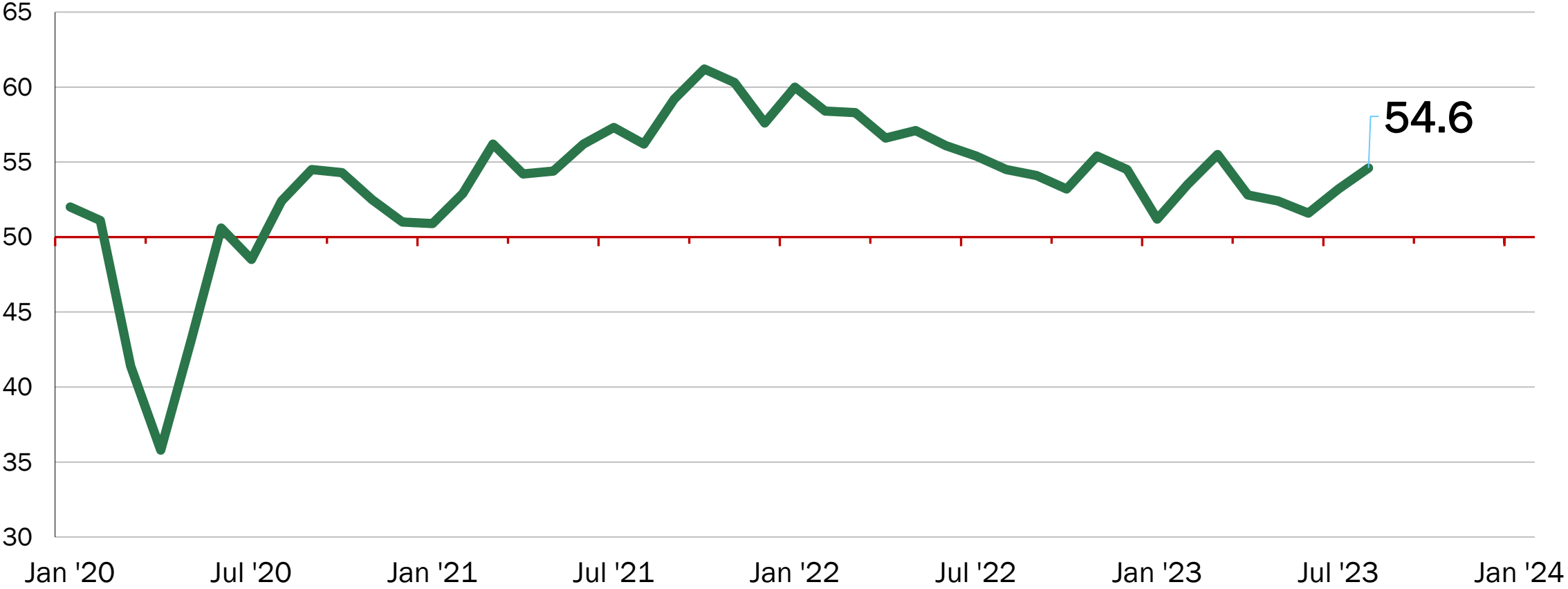


# Services



# Houston Purchasing Managers Index – Non-Manufacturing

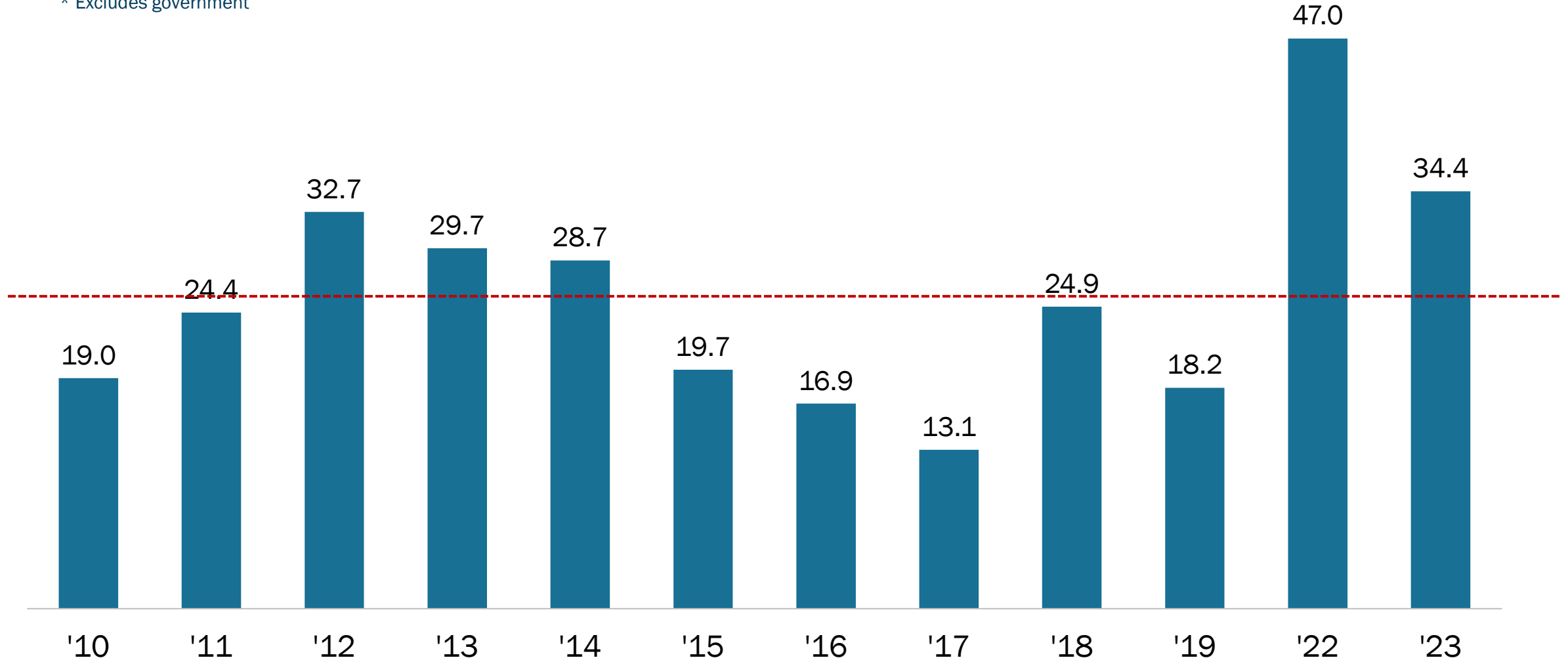
+ 50 = Expansion



Source: Institute for Supply Management - Houston

# Jobs Gains, Service Sector, 3-Months Ending August\*

\* Excludes government



Source: Partnership calculations based on Texas Workforce Commission data

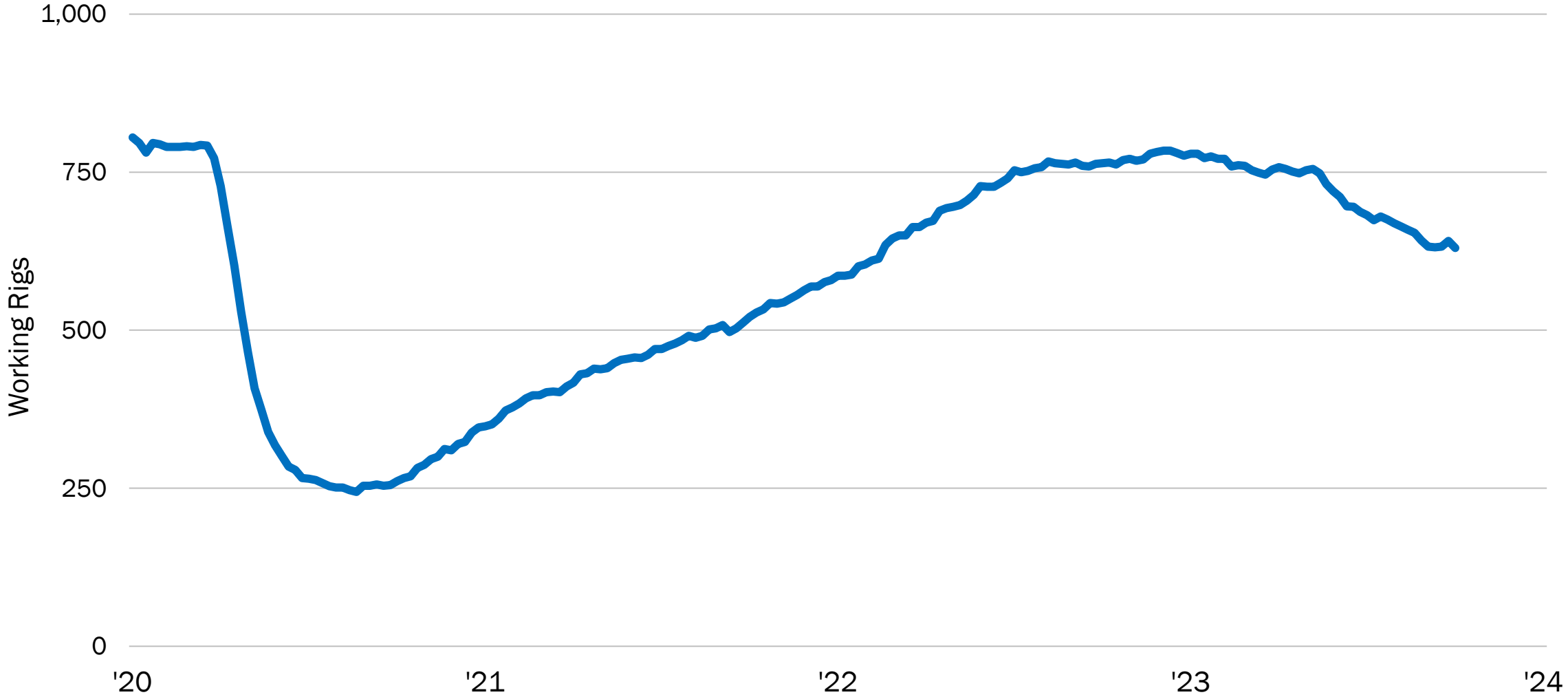




# Oil and Gas

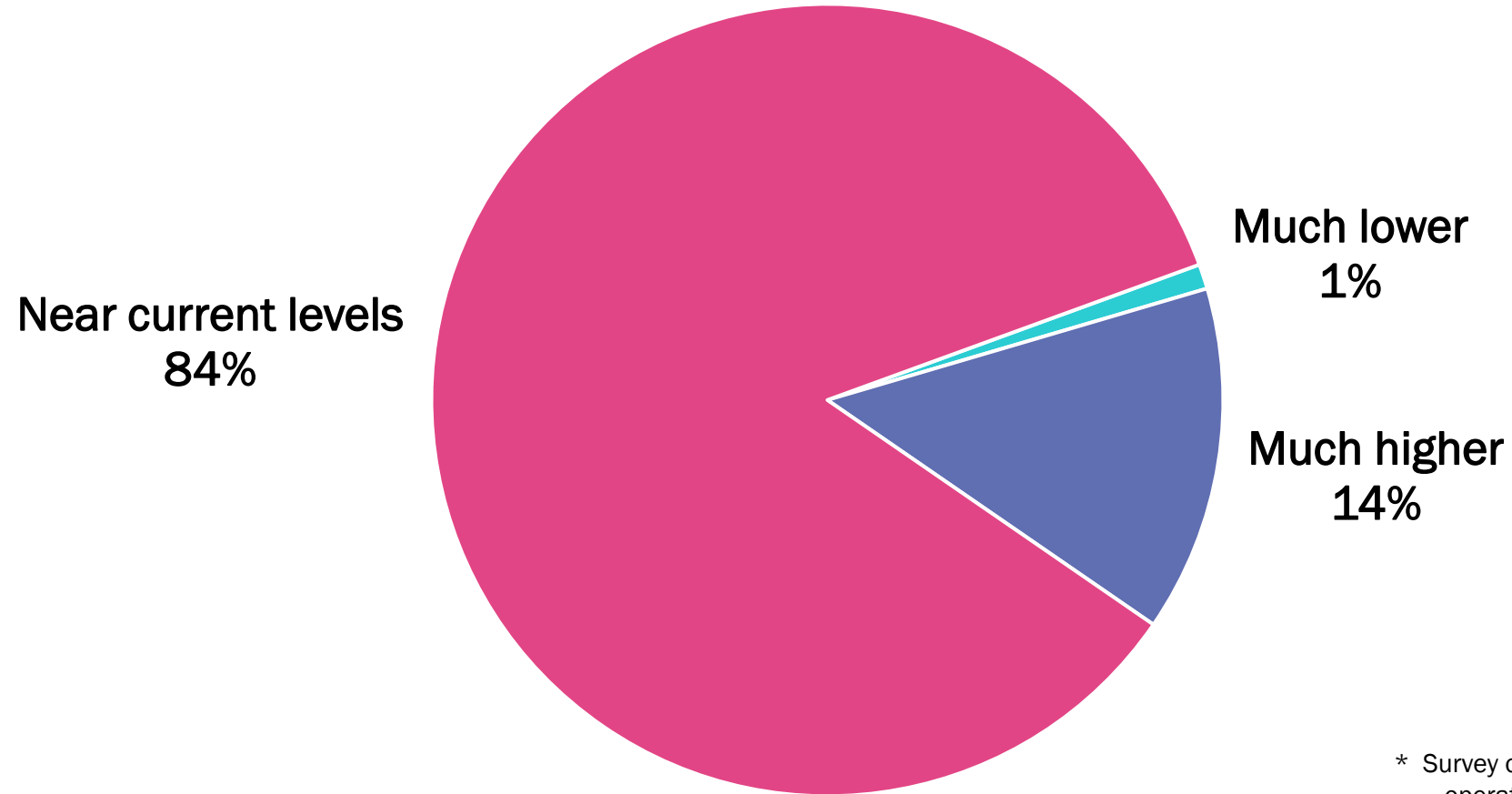


# U.S. Active Rig Count



Source: Baker Hughes

# Where do you expect the U.S. rig count to be in six months?



\* Survey of 138 industry executives operating in southwest U.S.

Source: Federal Reserve Bank of Dallas survey of industry executives operating in Southwestern U.S.





# Construction

# Construction Contract Awards, Metro Houston, July YTD

	\$ Billions		Change, '22 – '23	
	'23 YTD	'22 YTD	\$ Billions	%
Non-Residential	6.67	7.49	-0.82	-10.9
Residential	7.43	9.23	-1.80	-19.5
Non-Building	4.11	3.79	0.32	8.4
Total	18.22	20.48	-2.26	-11.0

Source: Dodge Data & Analytics



# Construction Employment, Metro Houston



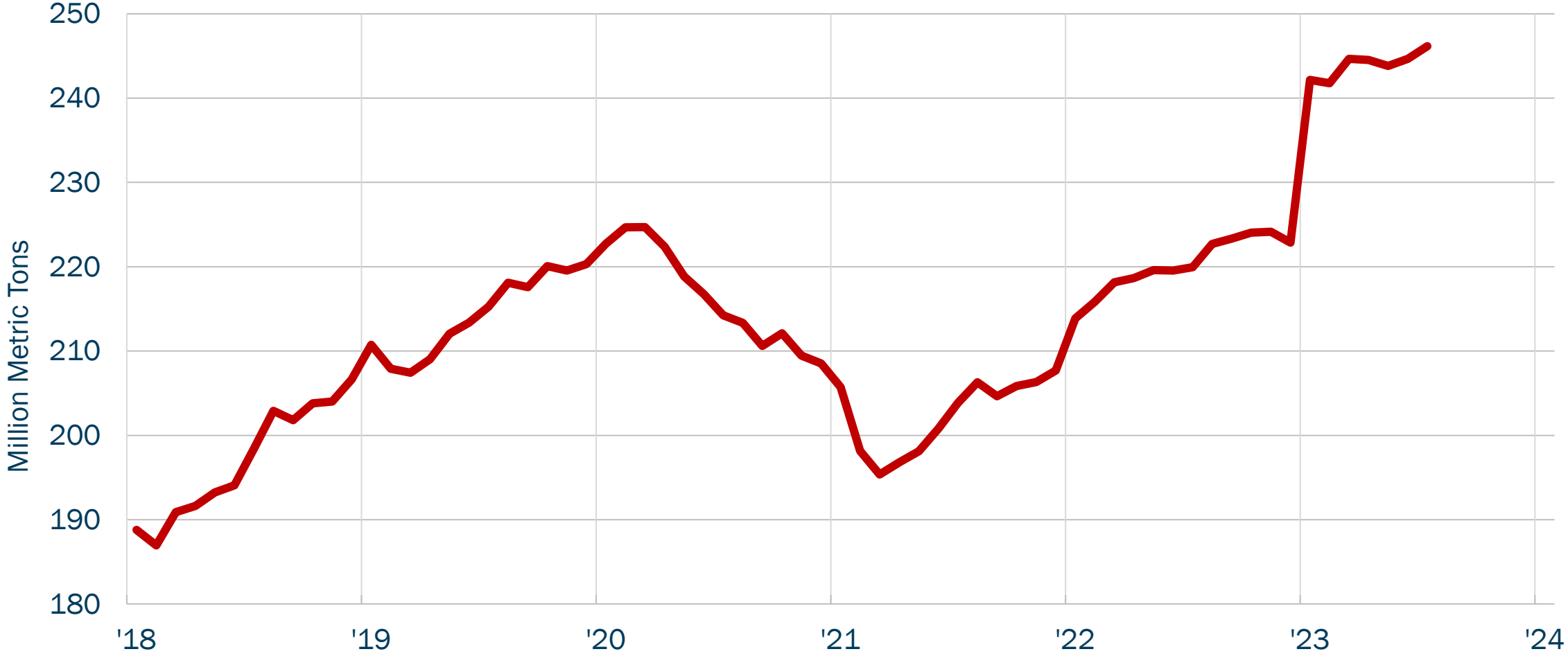
Source: Partnership calculations based on Texas Workforce Commission data



# Transportation & Logistics



# Tonnage, Houston Area Ports, 12-Month Total\*



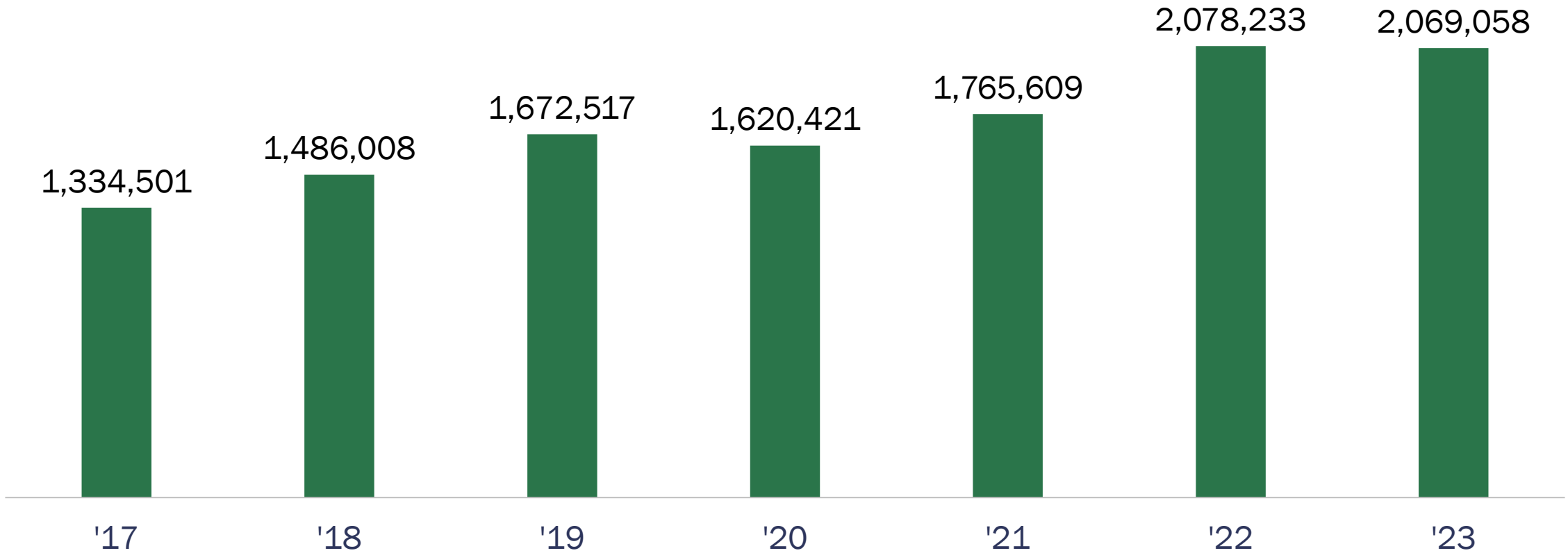
\* Freeport, Galveston, Houston, Texas City

Source: WISERTrade



# Port Houston Container Traffic, August YTD

Loaded TEUs



Source: Port of Houston

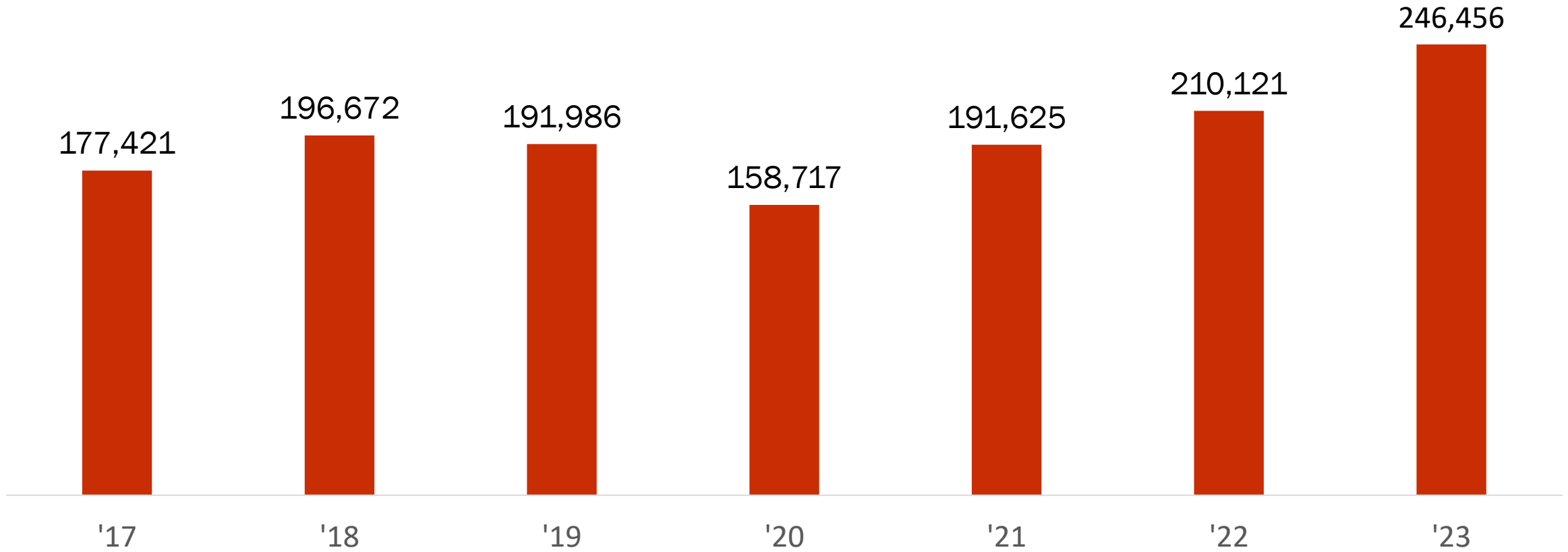




# Consumers

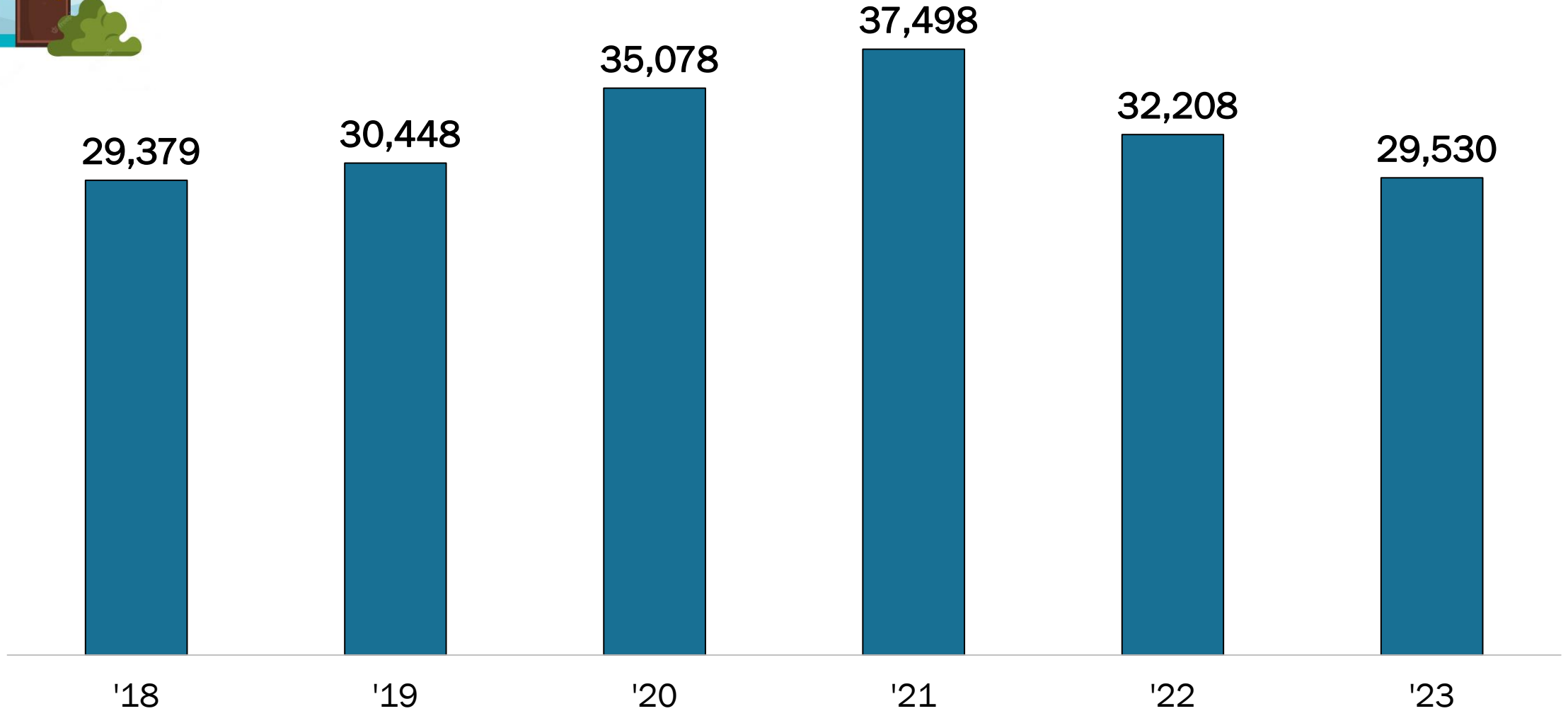


# Houston Vehicle Sales, August YTD



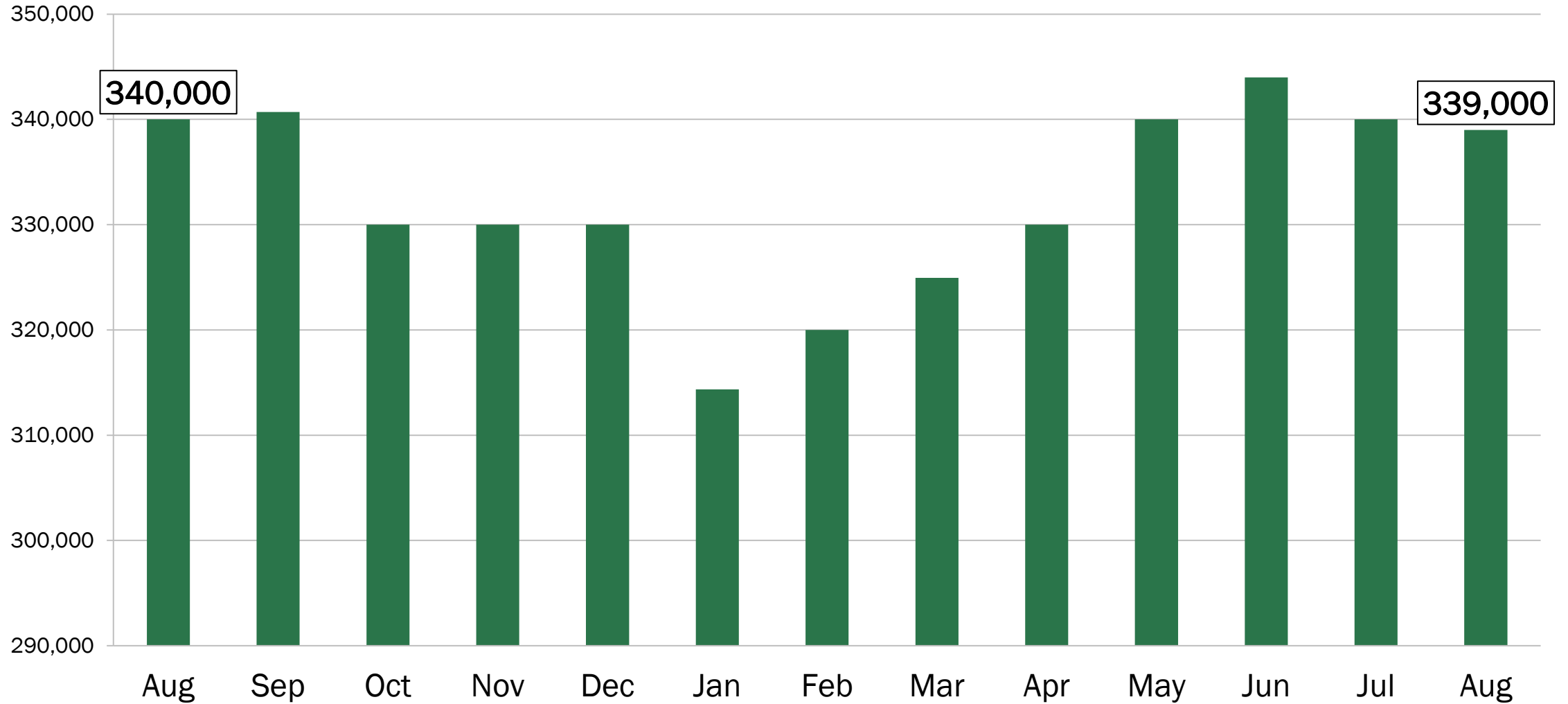


# Single-Family Home Sales, June through August



Source: Houston Association of Realtors

# Median Single-Family Home Price



Source: Houston Association of Realtors



Houston - September 18, 2023

## Overview

### Operating Supply

3,115 Apartments

737,825 Units

### Recently Opened (Past 12 months)

89 Apartments

23,773 Units

### Rental Rate & Occupancy

1,281 \$/mo

1.44 \$/sf/mo

89.4%  
occupied

### Under Construction

92 Apartments

24,147 Units

### Performance (Past 12 months)

5,109 Units Absorbed

▲ 1.8% Rental Rate  
Growth

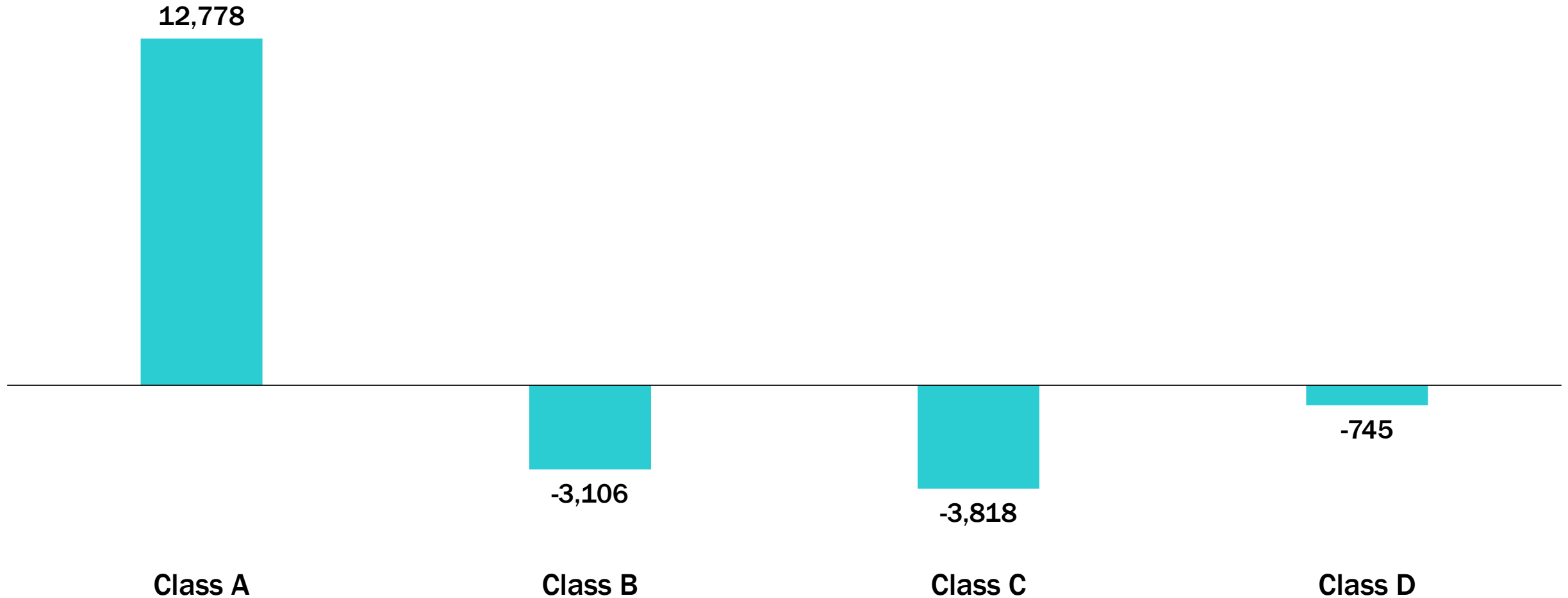
### Proposed

110 Apartments

34,085 Units

# Multi-Family Units Absorbed, Metro Houston

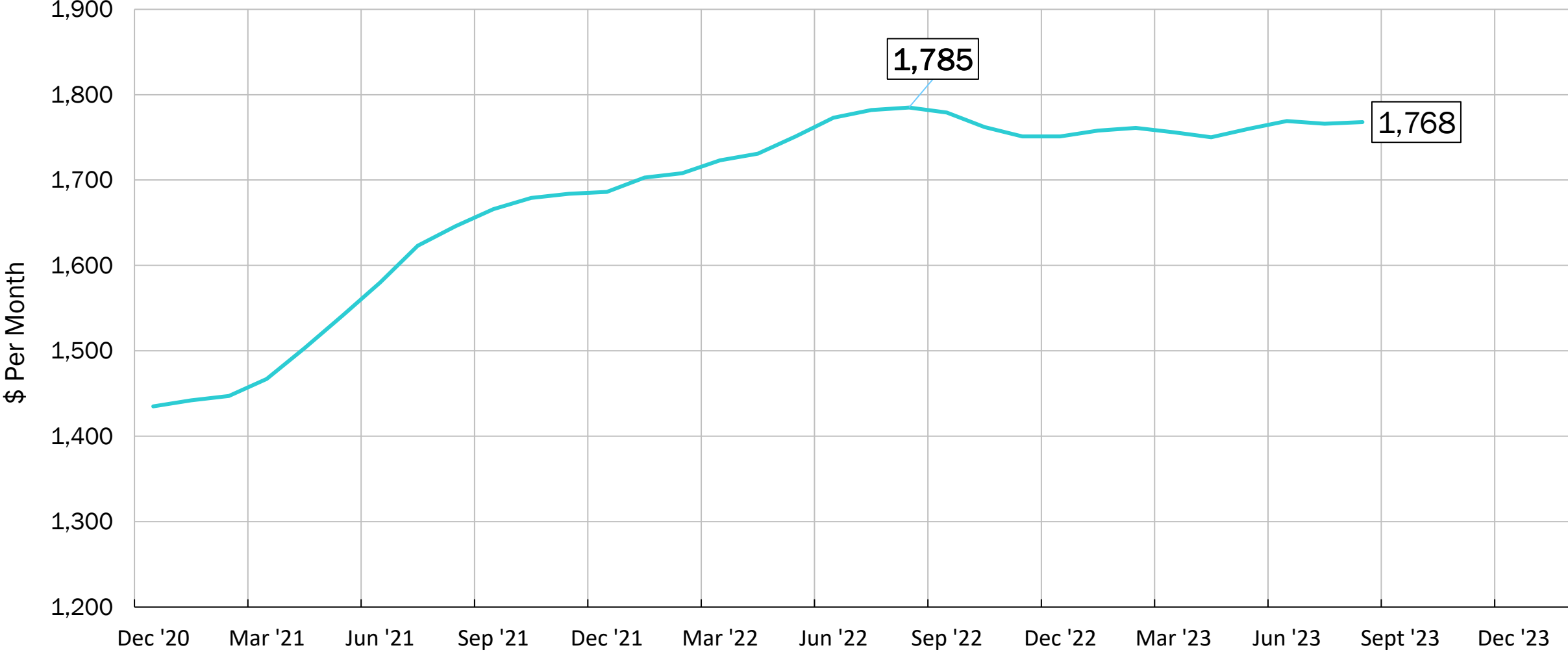
12 Months Ending Aug '23



# Multi-Family Concessions, Metro Houston

Class	Units w/Concessions	Share of Class (%)	Impact on Rent (%)
A	81,472	41.0	-6.2
B	84,960	32.0	-4.5
C	64,890	31.0	-5.1
D	5,614	9.0	-3.4
<b>Total</b>	<b>236,936</b>	<b>32.0</b>	<b>-5.4</b>

# Average Rent, Class A Apartment, Metro Houston





# Near-Term Outlook?













# Near-Term Outlook?

# Near-Term Outlook?

***Growth, but at a much slower  
pace.***

# Metro Houston Outlook

Patrick Jankowski

Chief Economist and SVP, Research

October 12, 2023

