

Houston Region Economic Outlook

Prepared by Patrick Jankowski
SVP Research



GREATER HOUSTON
PARTNERSHIP.

Making Houston Greater.



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PARTNERSHIP



**OPEC meeting ends with market
expecting deep production cut**

BARRON'S

**U.S., China Finally Sign Phase-One
Trade Deal.**



**FOMC votes unanimously to keep rates
steady**



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POLITICO

**Trump signs USMCA trade
agreement into law**

**BBC
NEWS**

**Brexit: UK begins new chapter outside
European Union**

Forbes

**WHO Declares Coronavirus A
Global Public Health
Emergency**



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December 6, 2019

OPEC expands
production cuts

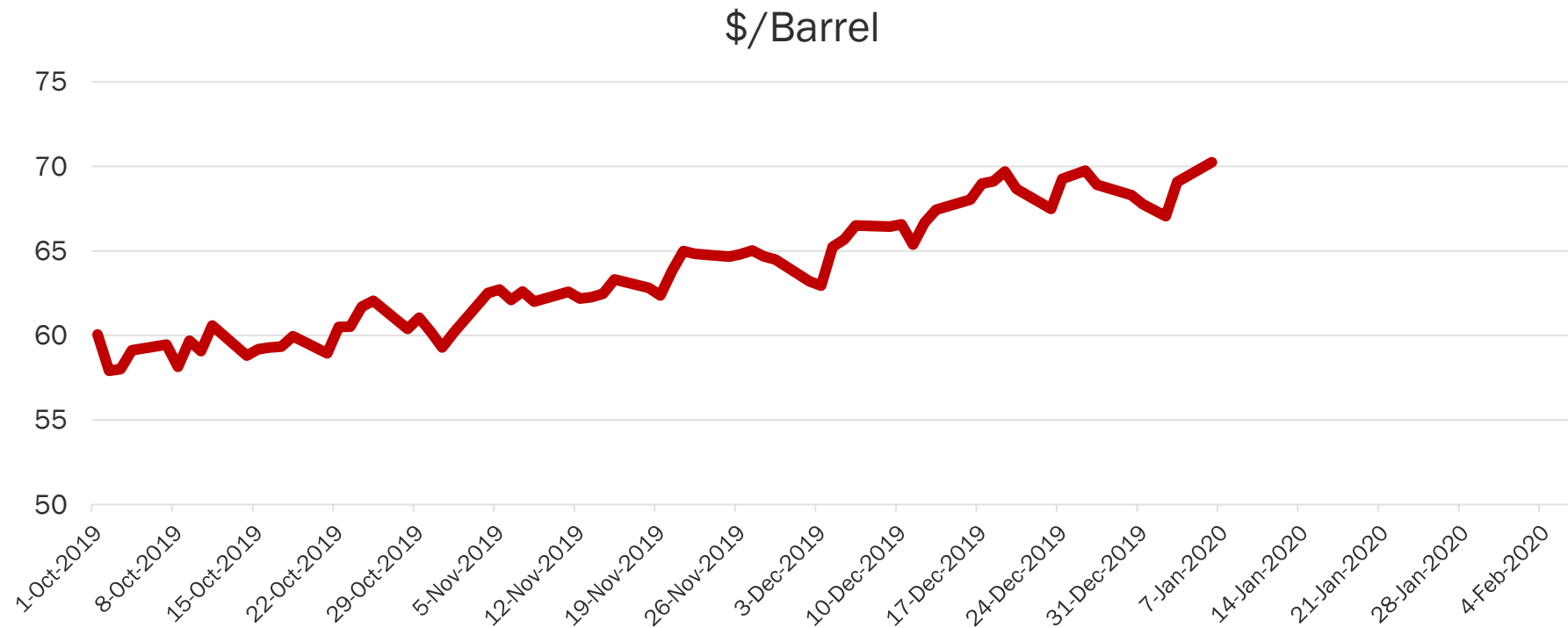




- Production cuts
 - ▶ Additional 500,000 b/d
 - ▶ Now holding back 2.1 million b/d
- Aramco IPO
 - ▶ \$1.88 trillion value



Brent Crude Spot Price



Source: U.S. Energy Information Administration

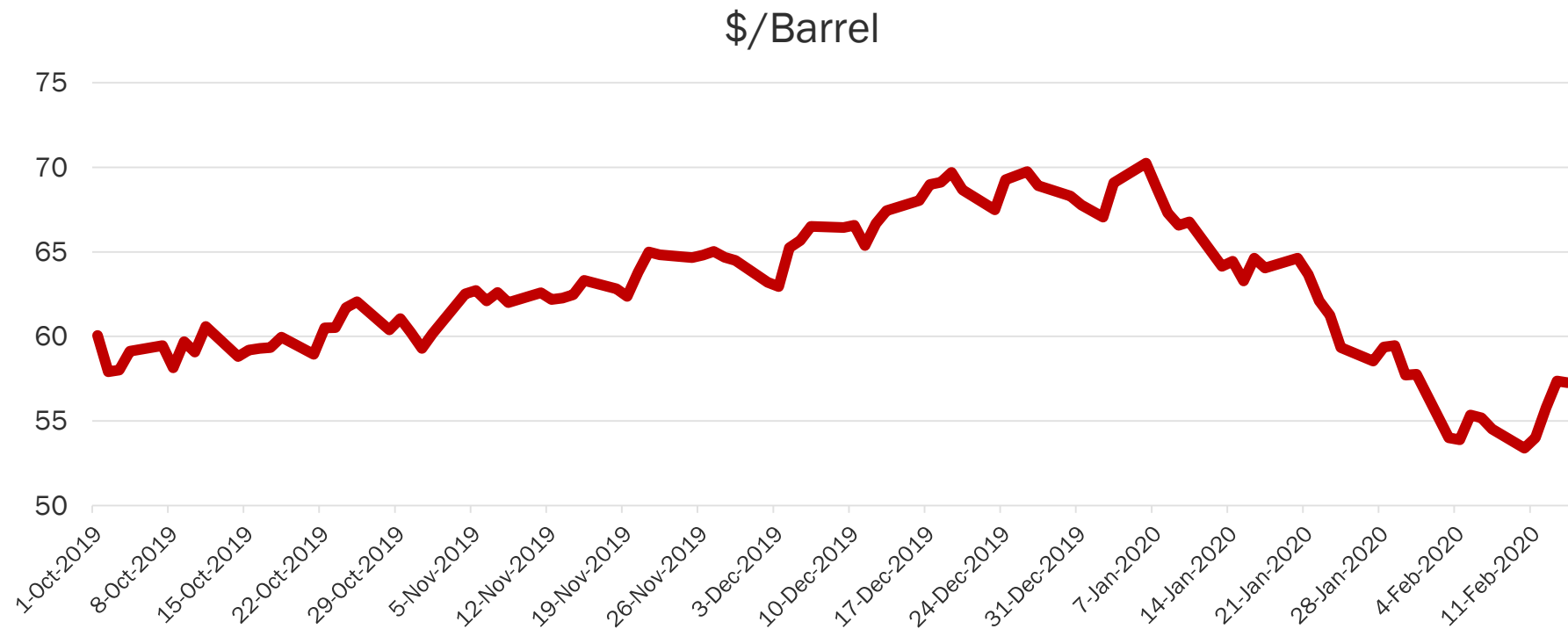


OPEC Meets in Vienna

- Production cuts
 - ▶ Additional 500,000 b/d
 - ▶ Now holding back 2.1 million b/d
- Aramco IPO
 - ▶ \$1.88 trillion value
- Member noncompliance
 - ▶ 7 of 11 OPEC
 - ▶ 4 of 10 Non OPEC
- Who's the boss?
 - ▶ Not Russia



Brent Crude Spot Price



Source: U.S. Energy Information Administration



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THE WALL STREET JOURNAL.

Russia Blocks OPEC Response to Coronavirus

The rejection of the Saudi plan is a setback for the OPEC-Moscow alliance



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January 15, 2020

U.S. signs China
trade deal





➤ U.S. benefits

- ▶ Increased ag, auto, equipment, energy purchases
- ▶ Easier access to financial markets
- ▶ Some IP protections (?)



U.S. - China Deal (Phase One)

➤ U.S. benefits

- ▶ Increased ag, auto, equipment, energy purchases
- ▶ Easier access to financial markets
- ▶ Some IP protections (?)

➤ China benefits

- ▶ Halt in any escalation
- ▶ A few tariff reductions



- To be negotiated
 - ▶ Role of State-Owned Enterprises
 - ▶ Chinese subsidies of exporting industries
 - ▶ Further tariff reductions



U.S. - China Deal (Phase One)

- Things won't get any worse
- Consensus that U.S. *should* challenge China's worst practices
- Win for Trump going into the election

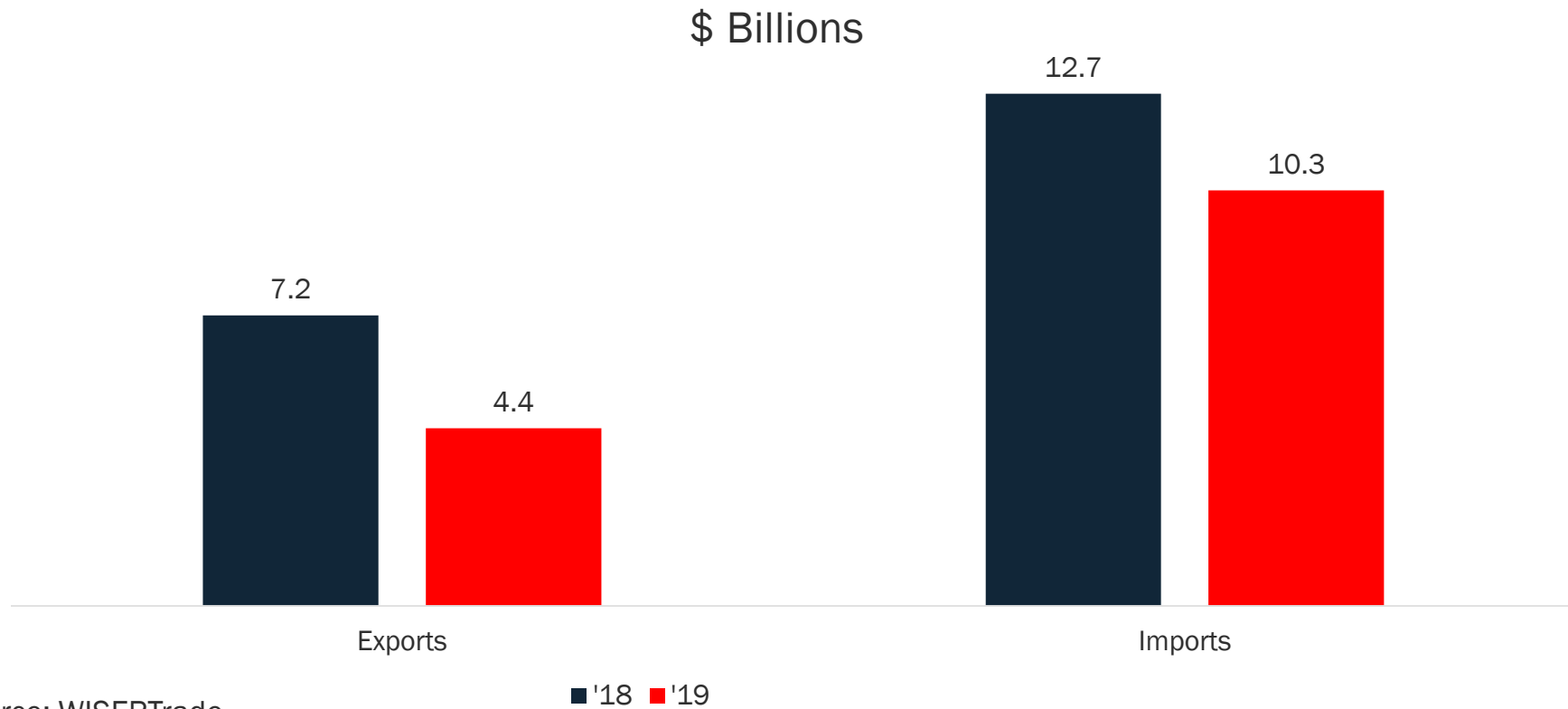


Houston's Top Trading Partners

Rank	Trading Partner	\$ Billions	% Total
1	Mexico	21.7	9.1
2	Brazil	15.4	6.5
3	China	14.7	6.2
4	South Korea	13.5	5.7
5	Netherlands	11.7	4.9
6	India	10.1	4.3
7	Germany	10.0	4.2
8	United Kingdom	9.3	3.9
9	Japan	9.2	3.9
10	Colombia	7.0	3.0
All Others		114.3	48.2
Total		\$237.0	100.0



Houston Trade with China – '19



Source: WISERTrade



January 28, 2020

FOMC leaves
interest rates
unchanged





- Too soon to gauge impact of 2019 rate cuts



- Too soon to gauge impact of 2019 rate cuts
- Growth in consumer spending now “moderate”



- Too soon to gauge impact of 2019 rate cuts
- Growth in consumer spending now “moderate”
- Keeping an eye on impact of coronavirus



- Too soon to gauge impact of 2019 rate cuts
- Growth in consumer spending now “moderate”
- Keeping an eye on impact of coronavirus
- Fed not concerned about a U.S. recession



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January 29, 2020

USMCA signed





➤ “One of the worst trade deals in history”



➤ “One of the worst trade deals in history”

➤ **U.S. benefits**

- ▶ Higher North American content in autos
- ▶ Access to Canadian dairy markets
- ▶ Protections for digital, ecommerce
- ▶ Addresses environmental and union concerns



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- ▶ Higher North American content in autos
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➤ **Canada/Mexico benefits**

- ▶ Ceases negative rhetoric
- ▶ Eases uncertainty



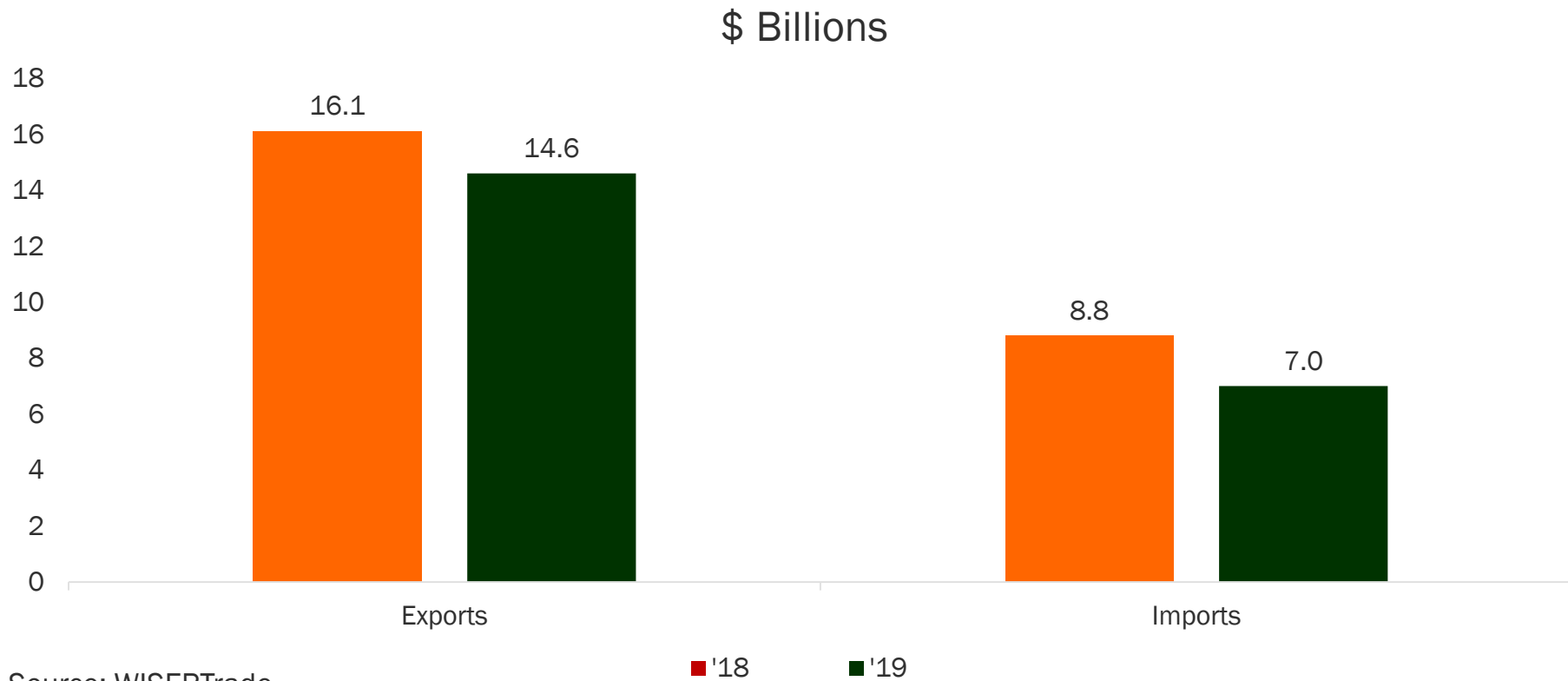
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Canada #12, \$5.6B



Houston Trade with Mexico – '19

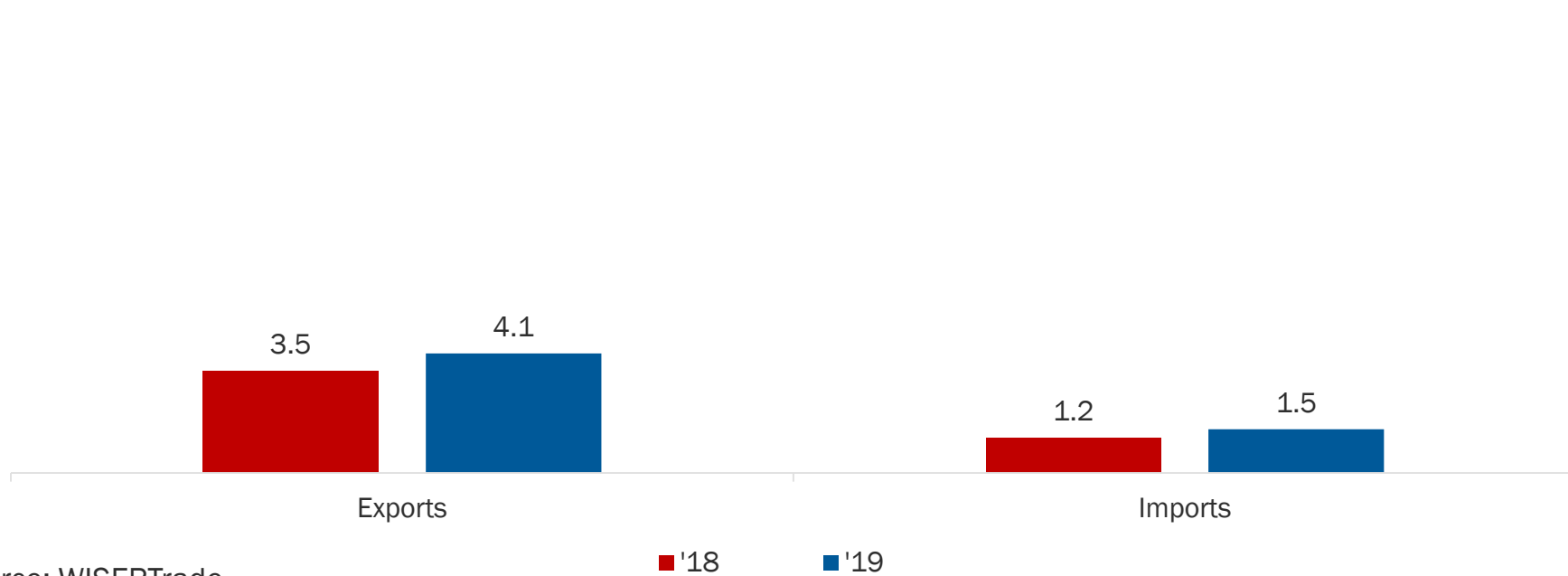


Source: WISERTrade



Houston Trade with Canada – '19

\$ Billions



Source: WISERTrade



January 31, 2020

UK withdraws
from the EU





- Political Union
 - ▶ January 31 exit
- Trade Union
 - ▶ December 31 exit
- Why?
 - ▶ To regain control/sovereignty
- Impact on trade and Investment
 - ▶ TBD

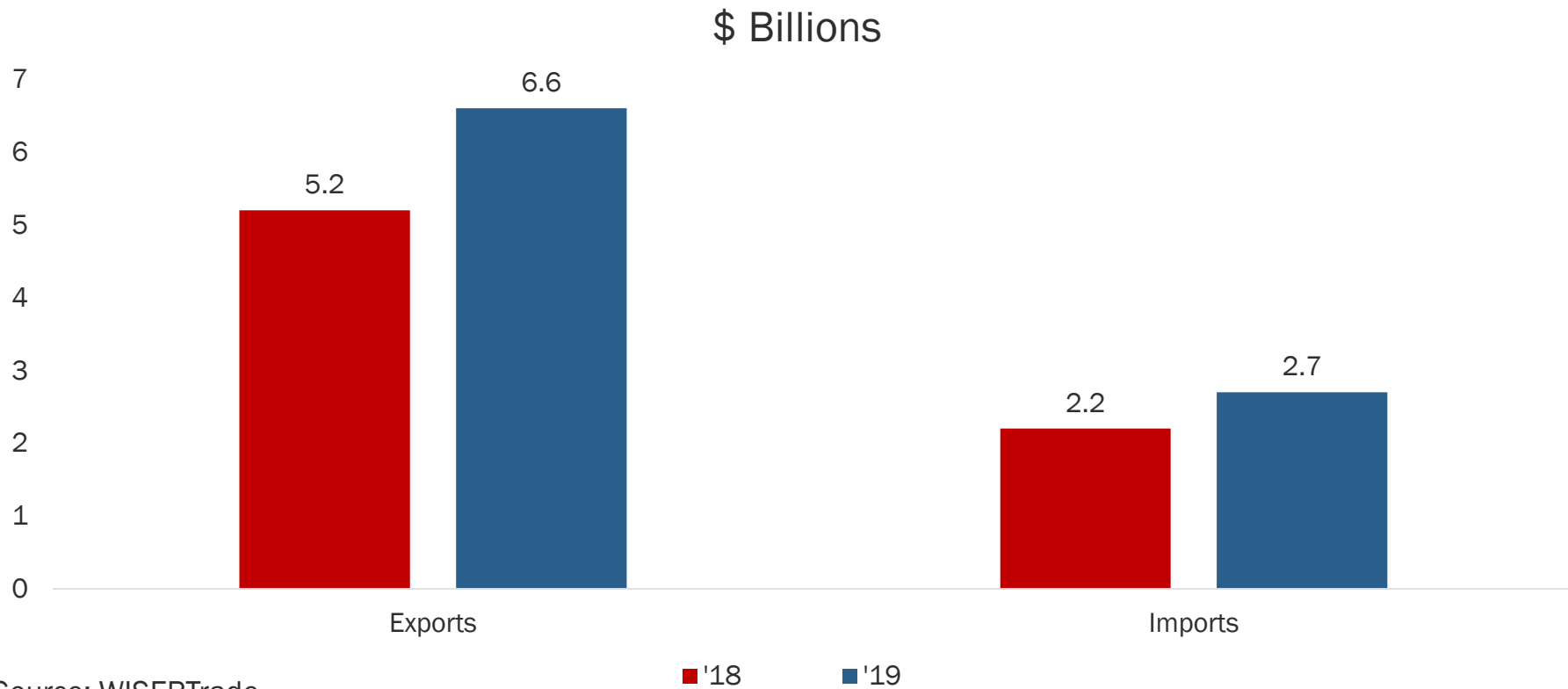


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All Others		114.3	48.2
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Houston Trade with UK – '19



Source: WISERTrade



January 30, 2020

WHO declares
coronavirus
public health
emergency



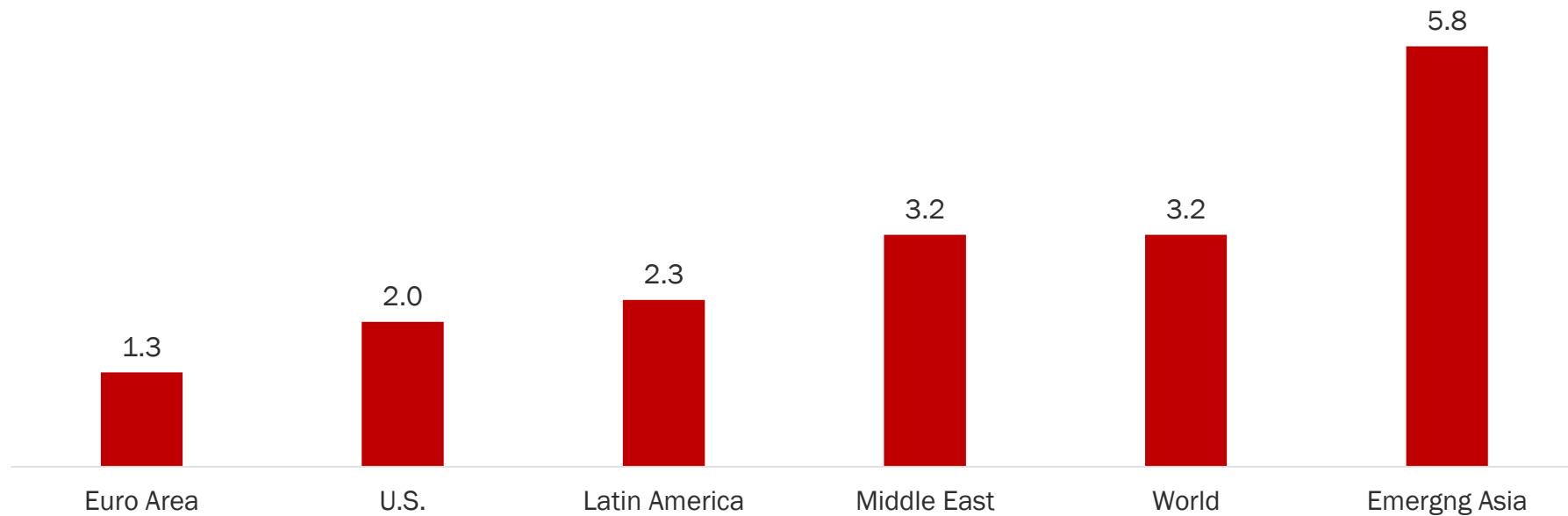


- Extent of outbreak (as of 2/19/20)
- 75,204 cases
 - ▶ 924 outside China
- 25 countries
 - ▶ Mainly Asia
 - ▶ Now Europe and U.S.
- 2,006 deaths
 - ▶ 3 outside China



Projected Growth Rates

% Change from 2019 to 2020



Source: International Monetary Fund



➤ **Spanish Influenza** (January 1918 – December 1920)

- ▶ 500 million infected
- ▶ 50 million deaths



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 - ▶ 50 million deaths
- **Severe Acute Respiratory Syndrome** (November 2002 - July 2003)
 - ▶ 8,098 infected
 - ▶ 714 deaths



- **Spanish Influenza** (January 1918 – December 1920)
 - ▶ 500 million infected
 - ▶ 50 million deaths
- **Severe Acute Respiratory Syndrome** (November 2002 and July 2003)
 - ▶ 8,098 infected
 - ▶ 714 deaths
- **2018-2019 U.S. Flu Season**
 - ▶ 35 million illnesses
 - ▶ 810,000 hospitalizations
 - ▶ 61,000 deaths

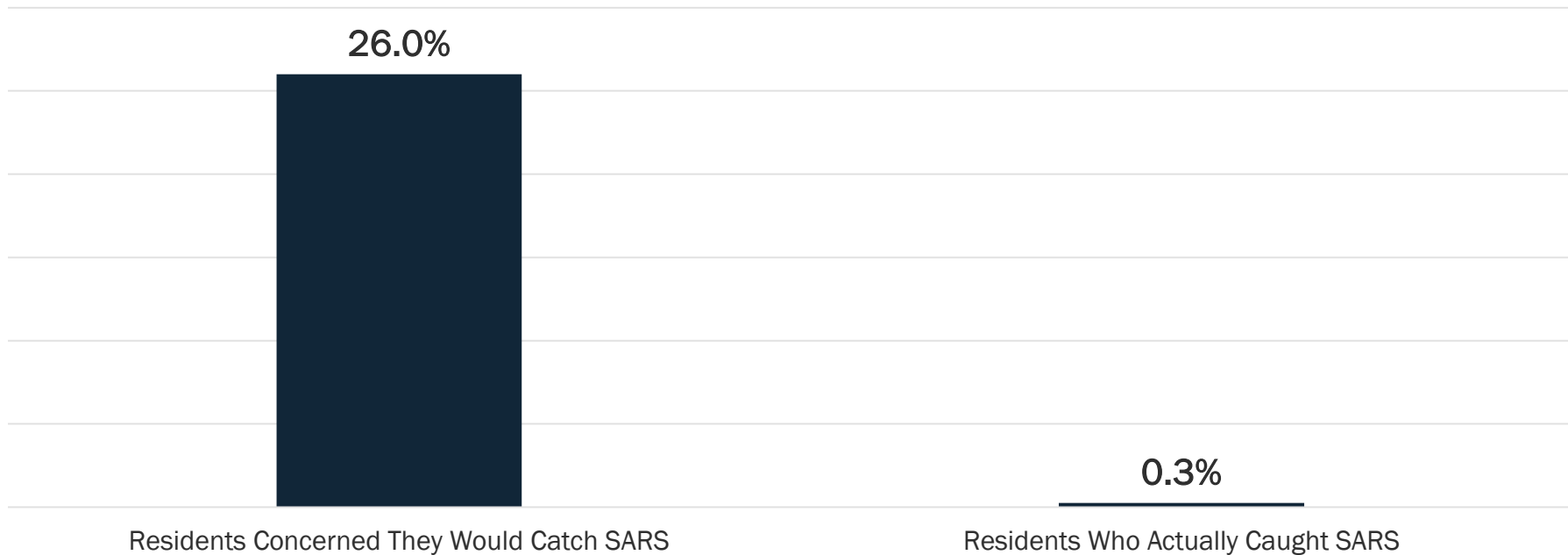


- Initial impacts
 - ▶ Travel
 - ▶ Entertainment
 - ▶ Hotels
 - ▶ Restaurants
 - ▶ Retail
- Delayed impacts
 - ▶ Exports
 - ▶ Commodities



Coronavirus Health Emergency

% of Hong Kong Population



Source: Asian Development Bank



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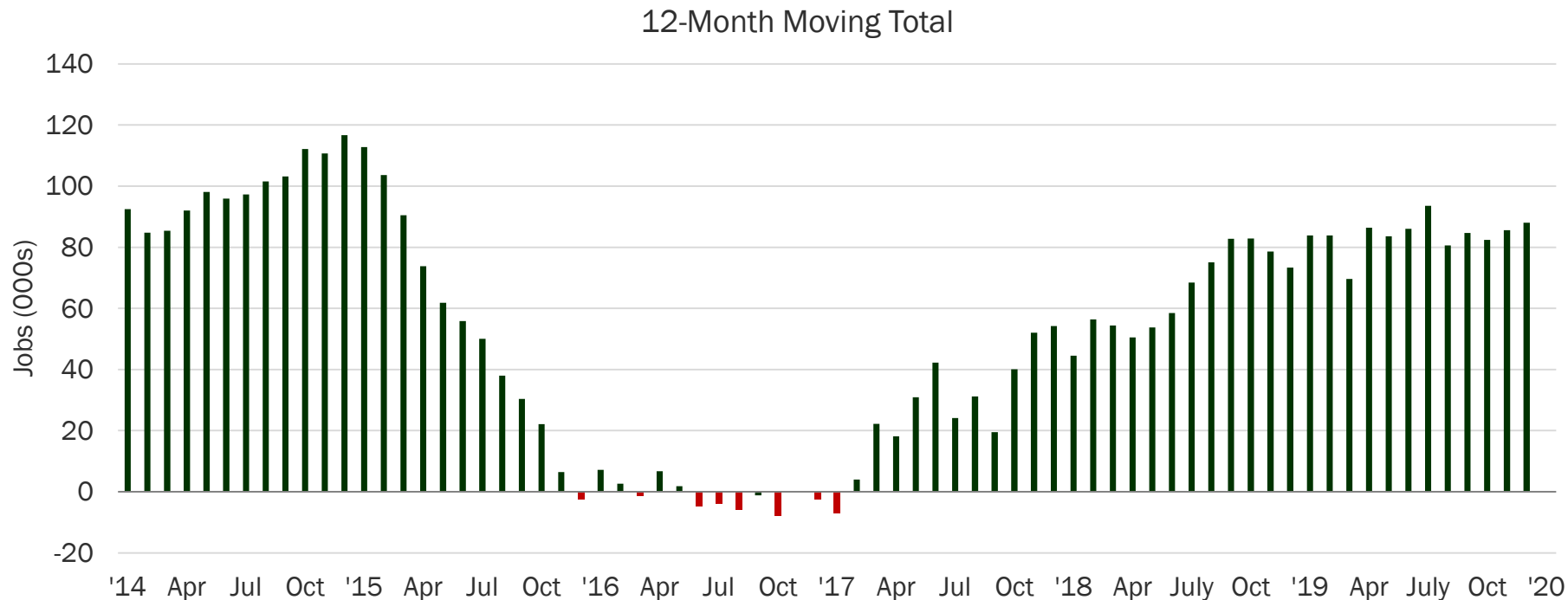
IEA: Oil Demand To Fall For First Time In A Decade

WE ♥ HOUSTON

A large, colorful 3D sign is mounted on a dark wall. The sign features the words "WE ♥ HOUSTON" in a playful, multi-colored font. The word "WE" is in white with green and yellow outlines. The heart symbol is white with a red outline. The word "HOUSTON" is in white with various colored outlines (green, yellow, red, purple). The background shows a clear blue sky and green trees.



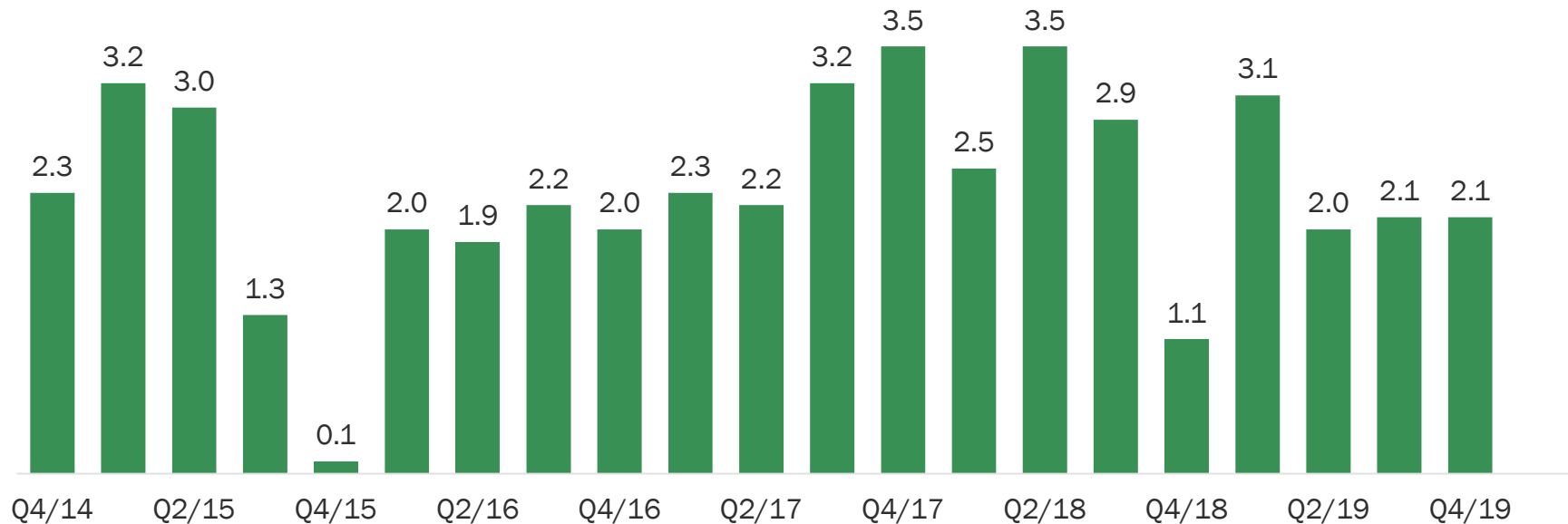
Houston Employment Growth





U.S. Real GDP

Growth Rate, % Change from Previous Quarter

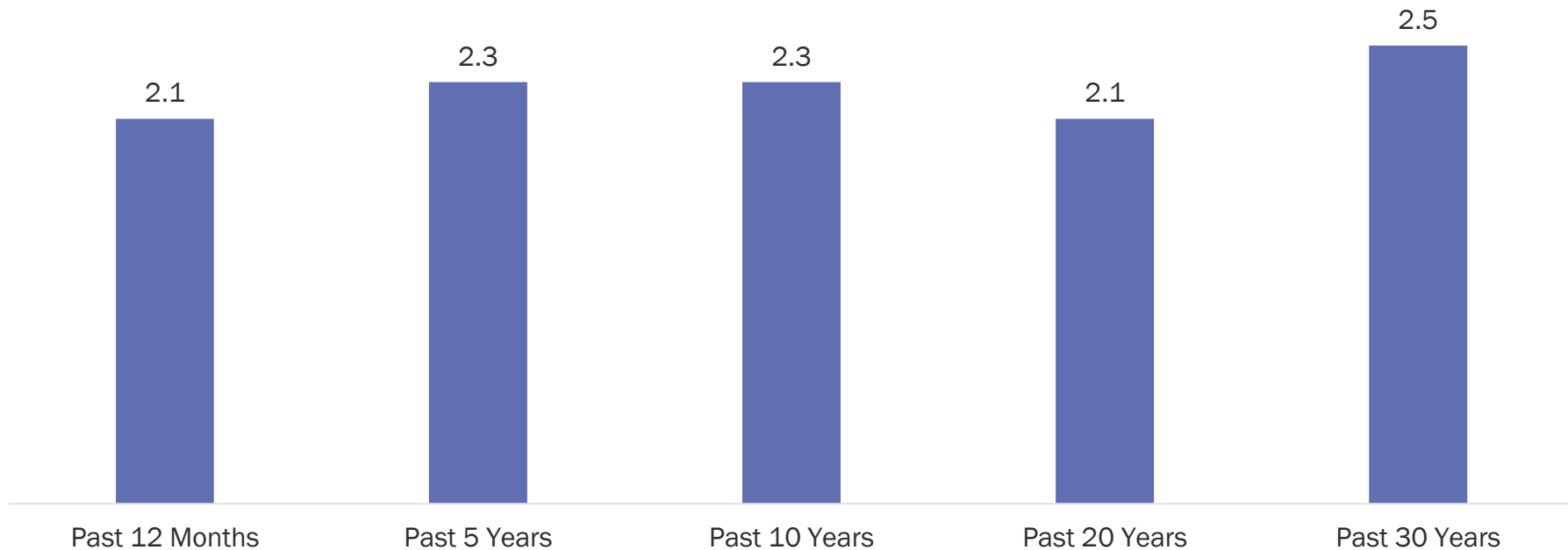


Source: U.S. Bureau of Economic Analysis



U.S. Real GDP

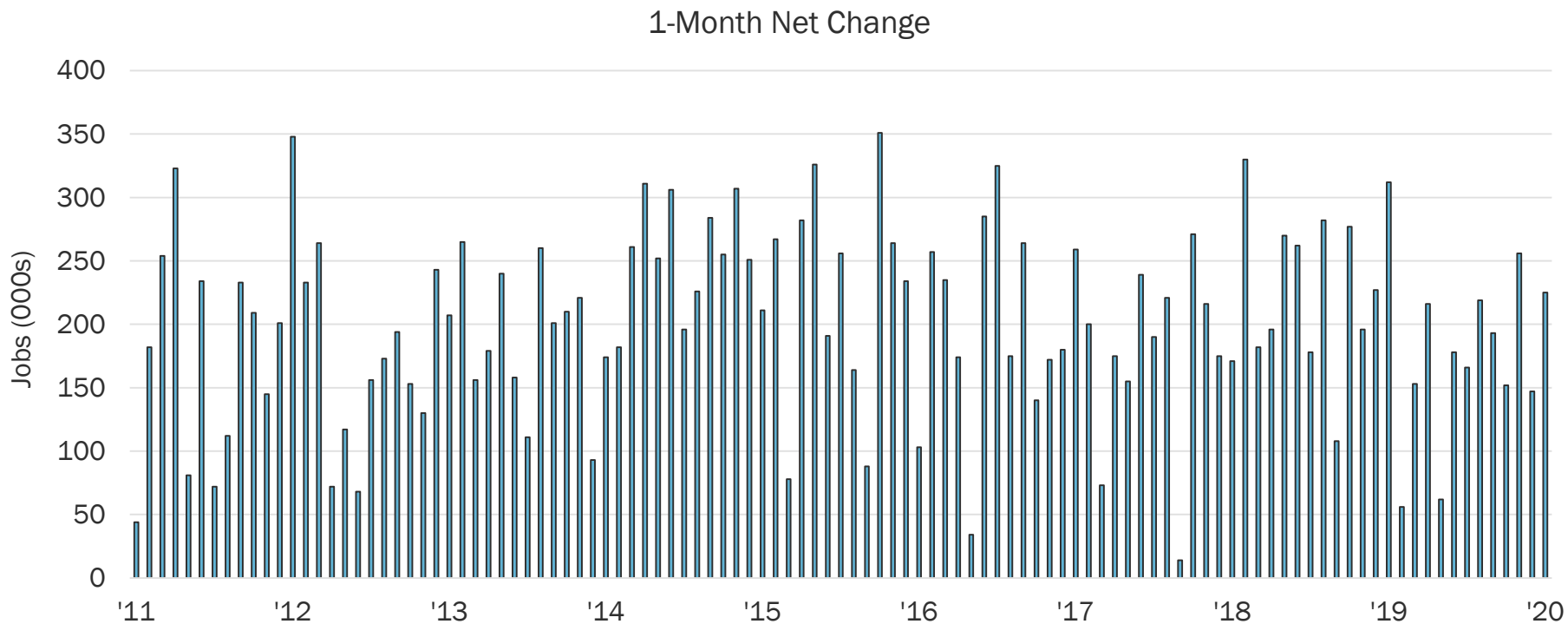
Average Annual Growth, % Change



Source: U.S. Bureau of Economic Analysis data



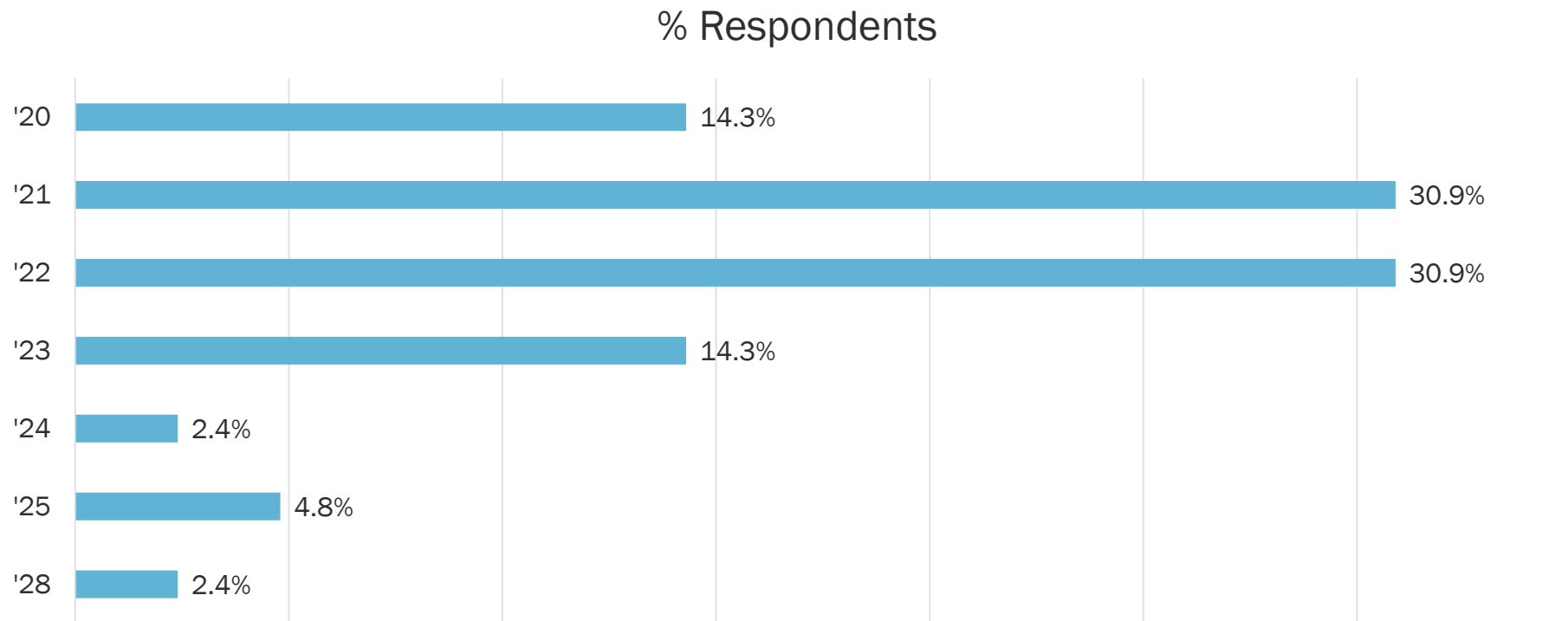
U.S. Job Growth



Source: U.S. Bureau of Labor Statistics



When do you expect the next recession?

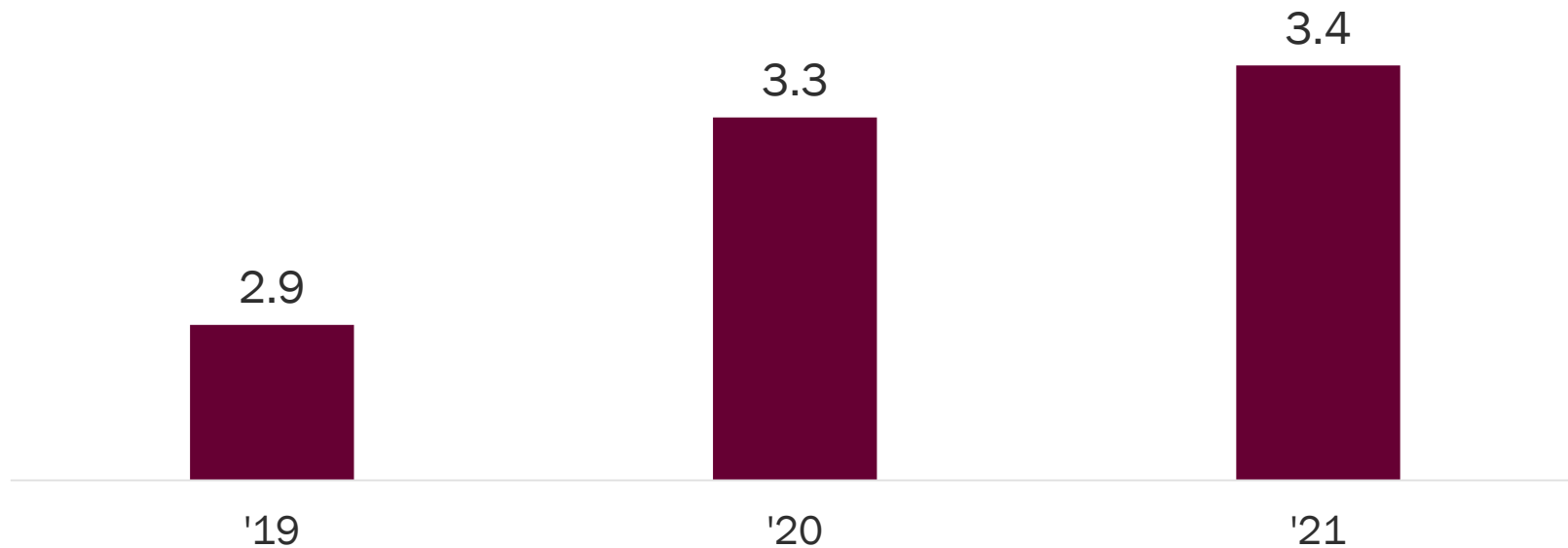


Source: Wall Street Journal survey of 60 U.S. economists



Global Growth

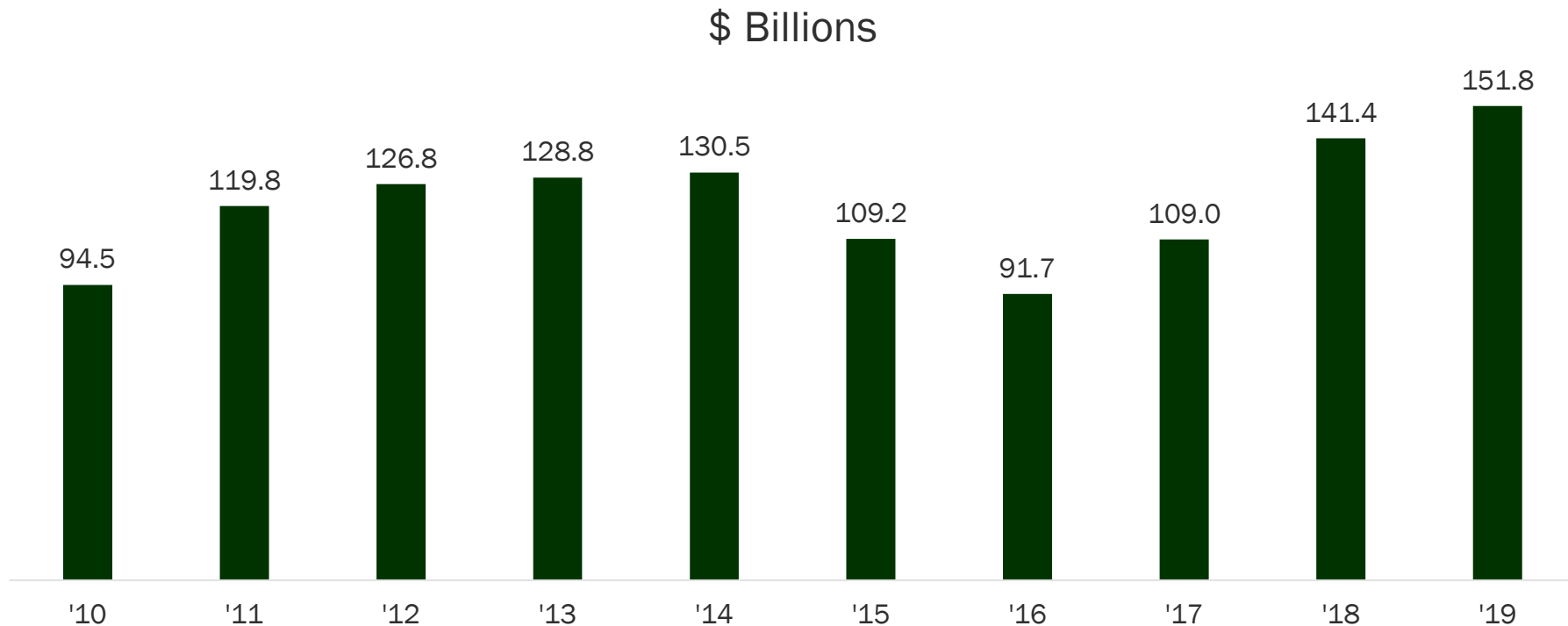
Real GDP, % Change



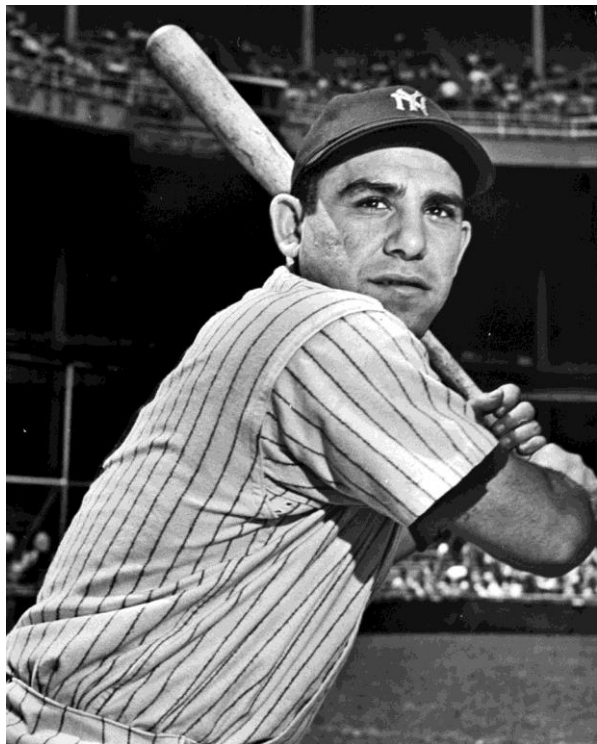
Source: International Monetary Fund, January 2020



Metro Houston Exports



Source: WISERTrade



It's like déjà vu
all over again.
--Yogi Berra



The Washington Post

The World's Oil Glut Is Much Worse Than It Looks

**Bloomberg
Business**

**The World Is Facing Its Longest Oil Glut in
at Least Three Decades**



The global oil glut is squeezing the US shale industry



As Oil Prices Drop And Money Dries Up,
Is The U.S. Shale Boom Going Bust?



The New York Times

*Stock Prices Sink in
a Rising Ocean of Oil*



Oil sector cutting spending as Wall
Street turns its back



Texas energy employment dips amid weak Q4 market outlook



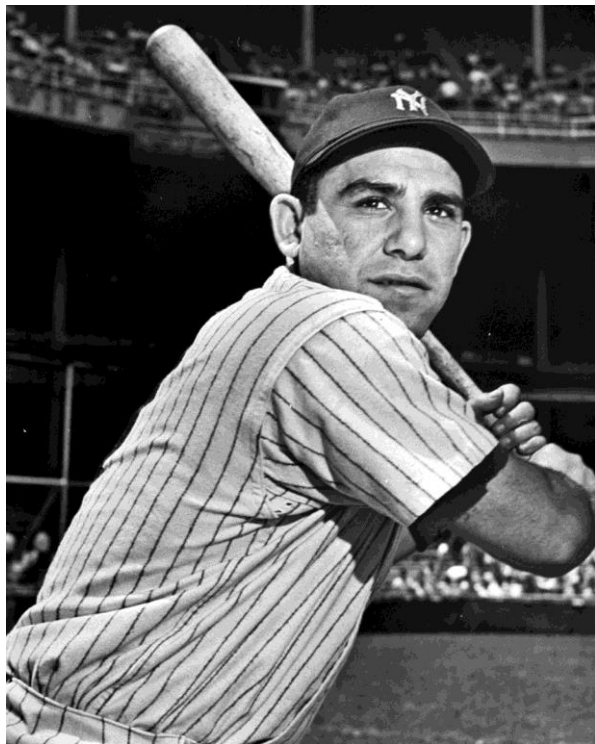
**Oil layoffs could come back to haunt
the industry**



Period	Cause	Oil Prices (\$)		Rigs Lost		Energy Jobs Lost	
		Peak	Trough	#	%	#	%
'82 – '87	Oil Price Bust	30.75	12.05	-3,766	83.3	-53,600	-46.3
'90 – '91	Interest Rate Spike	35.89	14.57	-526	46.3	-13,900	-7.2
'01 – '03	Enron/911	34.55	19.53	-528	41.3	-13,300	-6.9
'08 – '09	Great Recession	136.96	39.51	-1,119	44.4	-11,900	-13.6
'15 – '16	Fracking Bust	106.31	30.32	-1,527	79.1	-92,400	-30.7
'19 – ?	New Reality	70.98	53.84	-286	26.4	TBD	TBD

Note: All losses calculated from the monthly average

Sources: U.S. Energy Information Administration, Baker Hughes, U.S. Bureau of Labor Statistics



It's like déjà vu
all over again.
--*Yogi Berra*



- ▶ 1982 – 1986
 - ▶ New Construction
 - ▶ 71.7 MSF
 - ▶ Vacancy Rates:
 - ▶ ('87): 30.2%
 - ▶ ('96): 16.2%





- 2011 – 2016
 - ▶ New Construction
 - ▶ 33.0 MSF
 - ▶ Availability Rate
 - ▶ (Q4/19): 25.9%





Multifamily Déjà Vu

➤ 1981 – 1984

▶ New Units

▶ 100,500

➤ 1985 – 1991

▶ New Units

▶ 9,309





- 2013 – 2019
 - ▶ New Units
 - ▶ 107,603
 - ▶ Under Construction
 - ▶ 22,690
 - ▶ Proposed
 - ▶ 28,080





► 1983 – 1987

► New Inventory: 48 MSF

► Vacancy Rate:

'87	15.8%
'95	11.4%





➤ 2012 – 2019

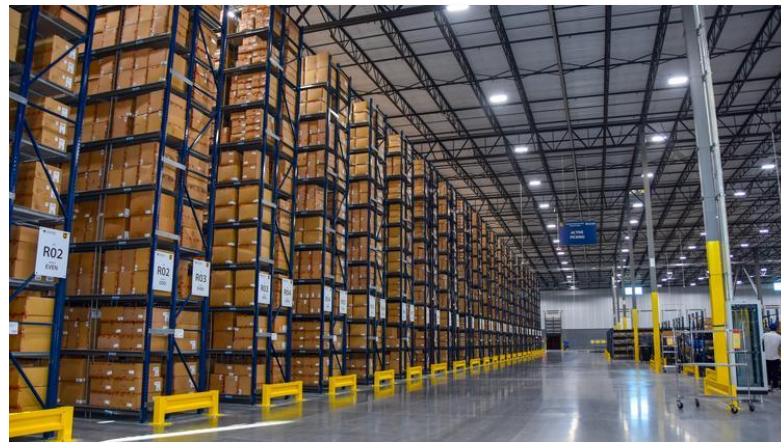
▶ New Inventory

▶ 86.0 MSF

▶ Class A Availability

7.6% Q4/18

13.1% Q4/19



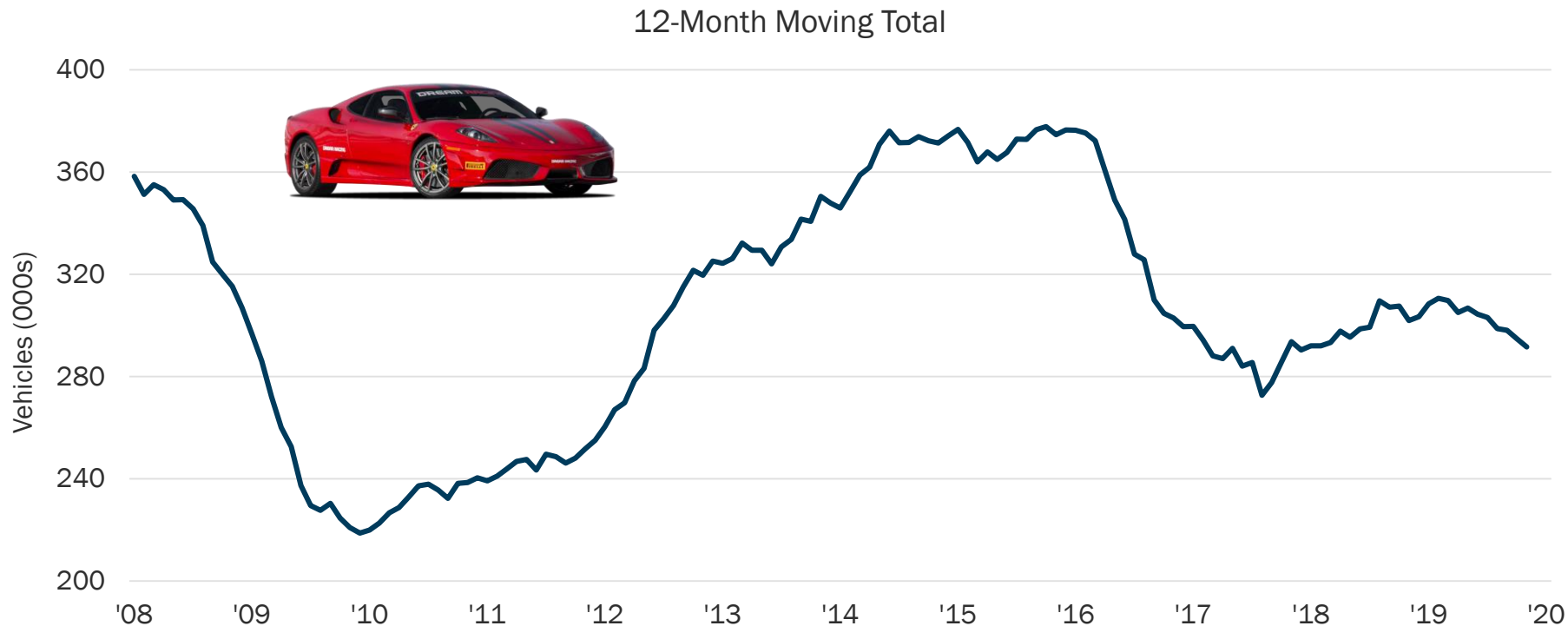


Growth will be
slower than
we'd like.





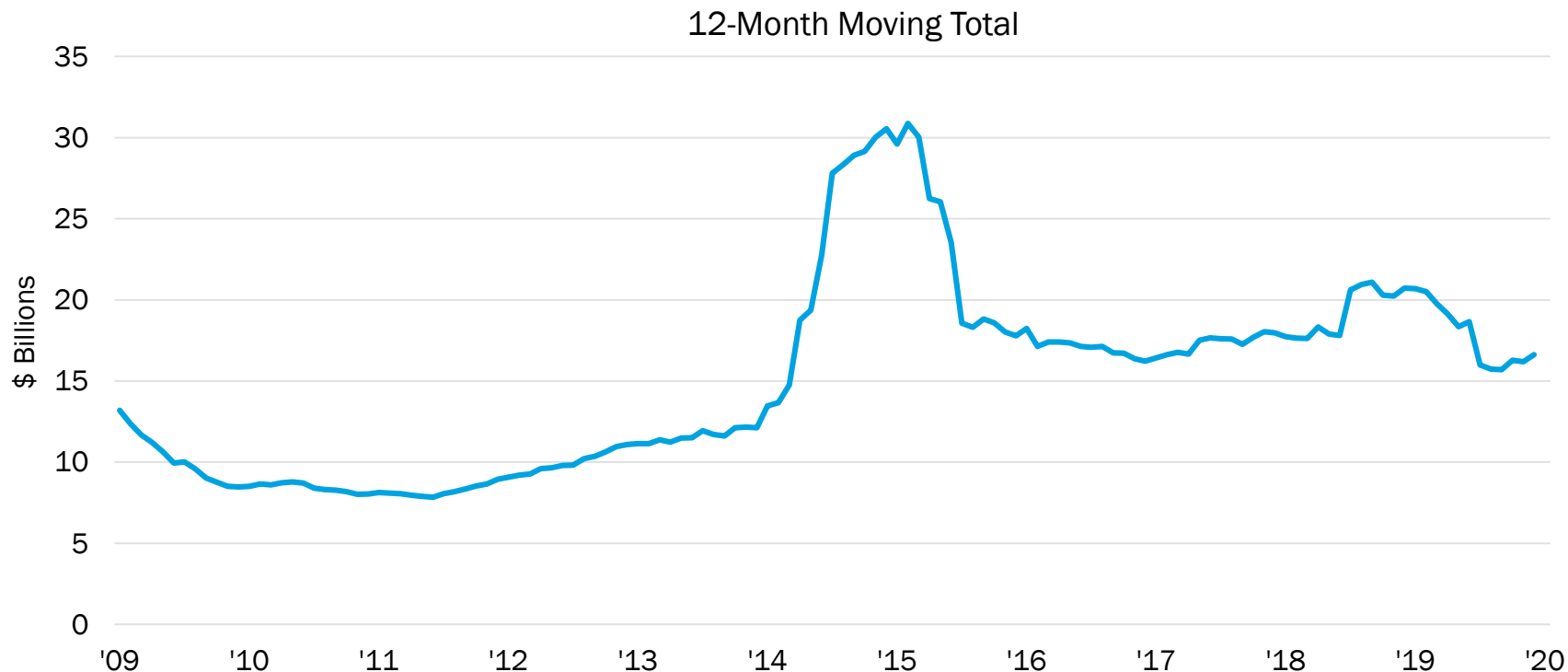
Houston Vehicle Sales



Source: TexAuto Facts by InfoNation



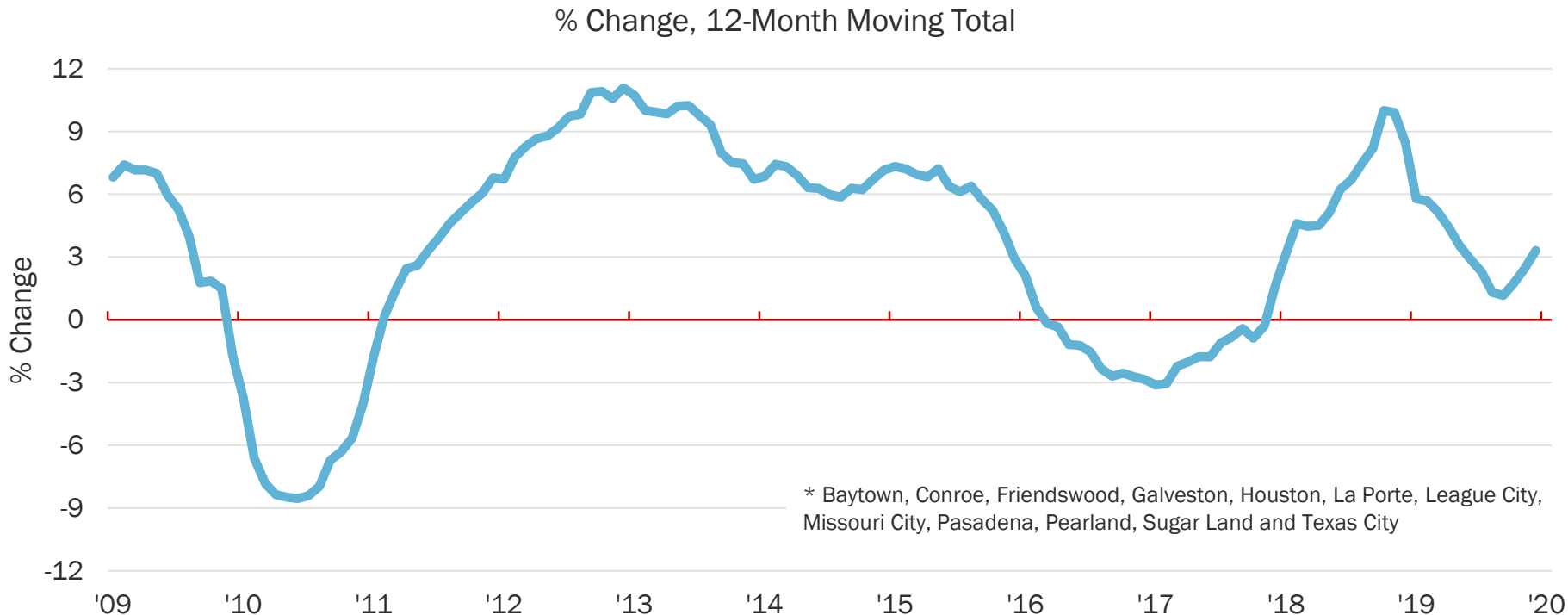
Houston Construction Starts



Source: Dodge Data & Analytics



Sales Tax Collections, 12 Most Populous Cities*



Source: Partnership calculations based on data from the Texas Comptroller of Public Accounts



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Houston Purchasing Managers Index



Source: Institute for Supply Management - Houston

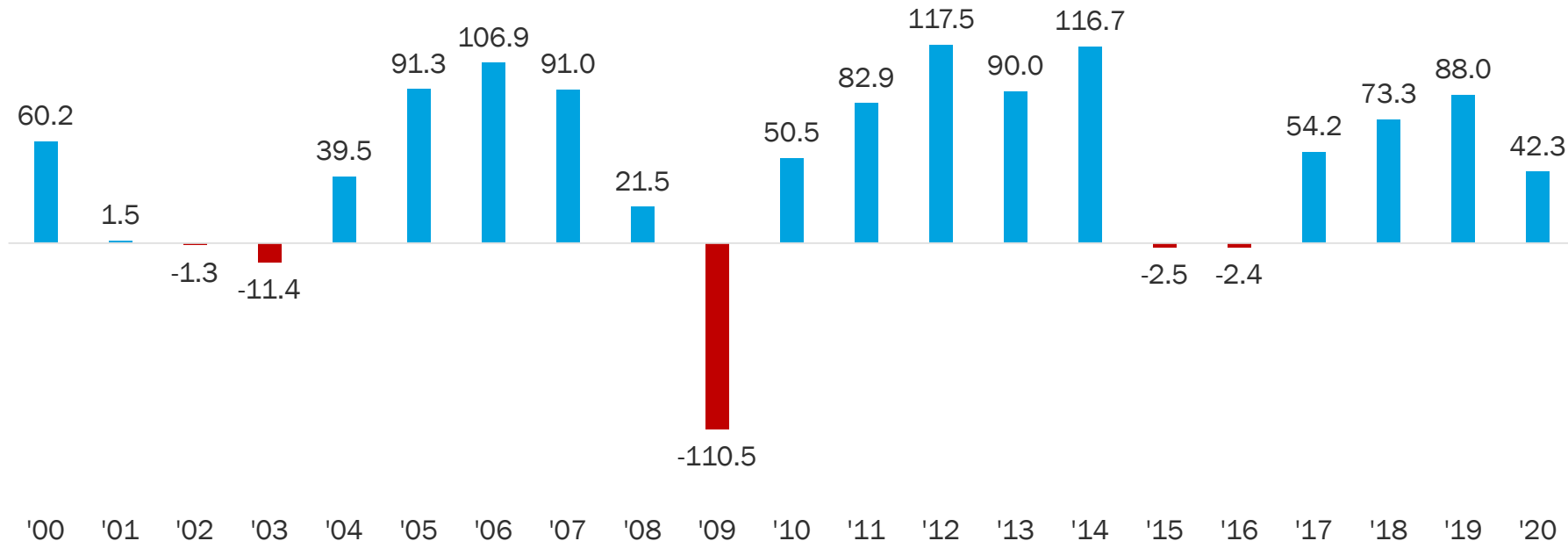


42,300 Jobs



Metro Houston Job Growth

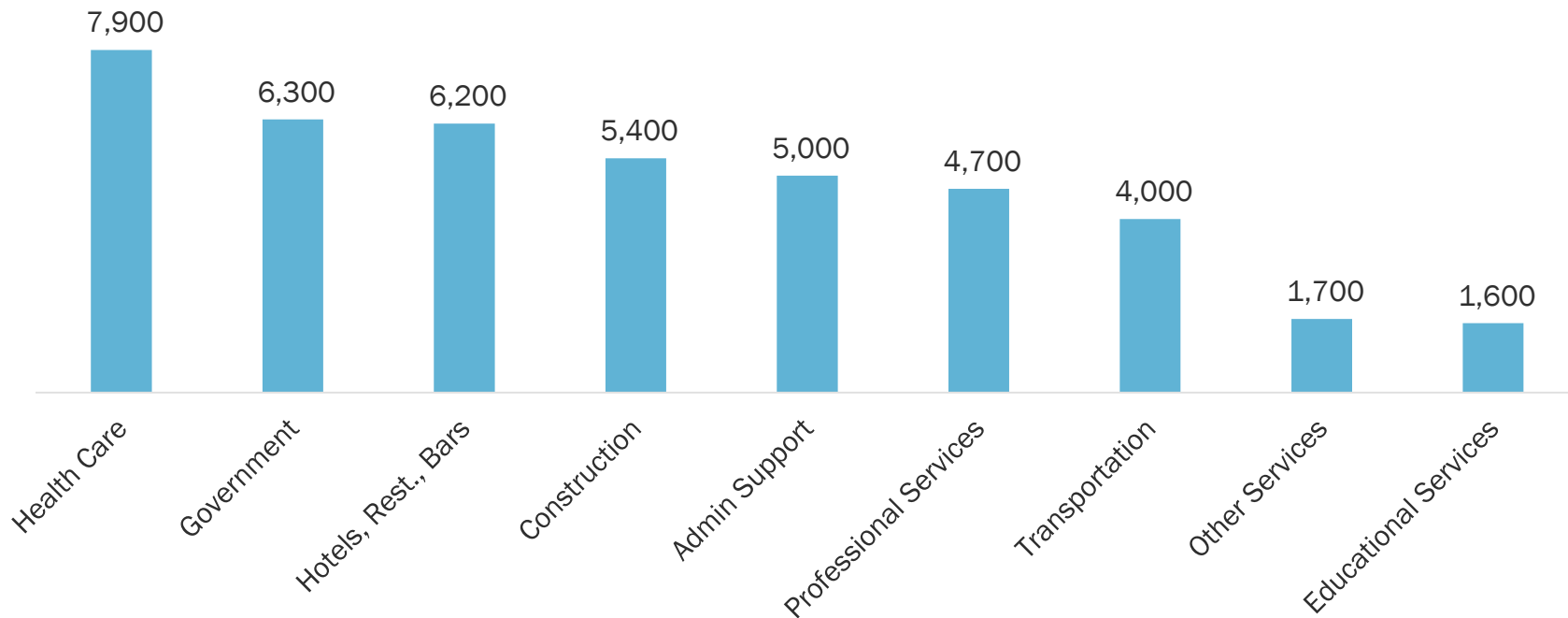
Annual Change from December to December (000s)



Source: Texas Workforce Commission & Greater Houston Partnership forecast

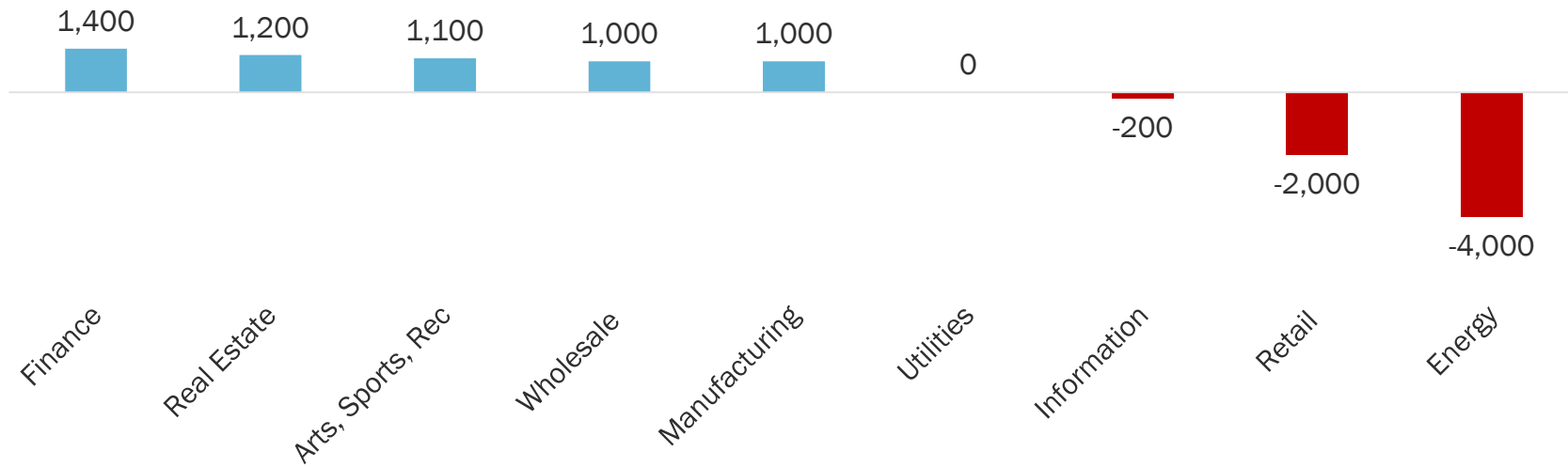


2020 Houston Job Forecast



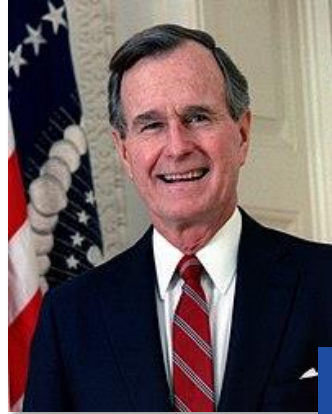


2020 Employment Forecast



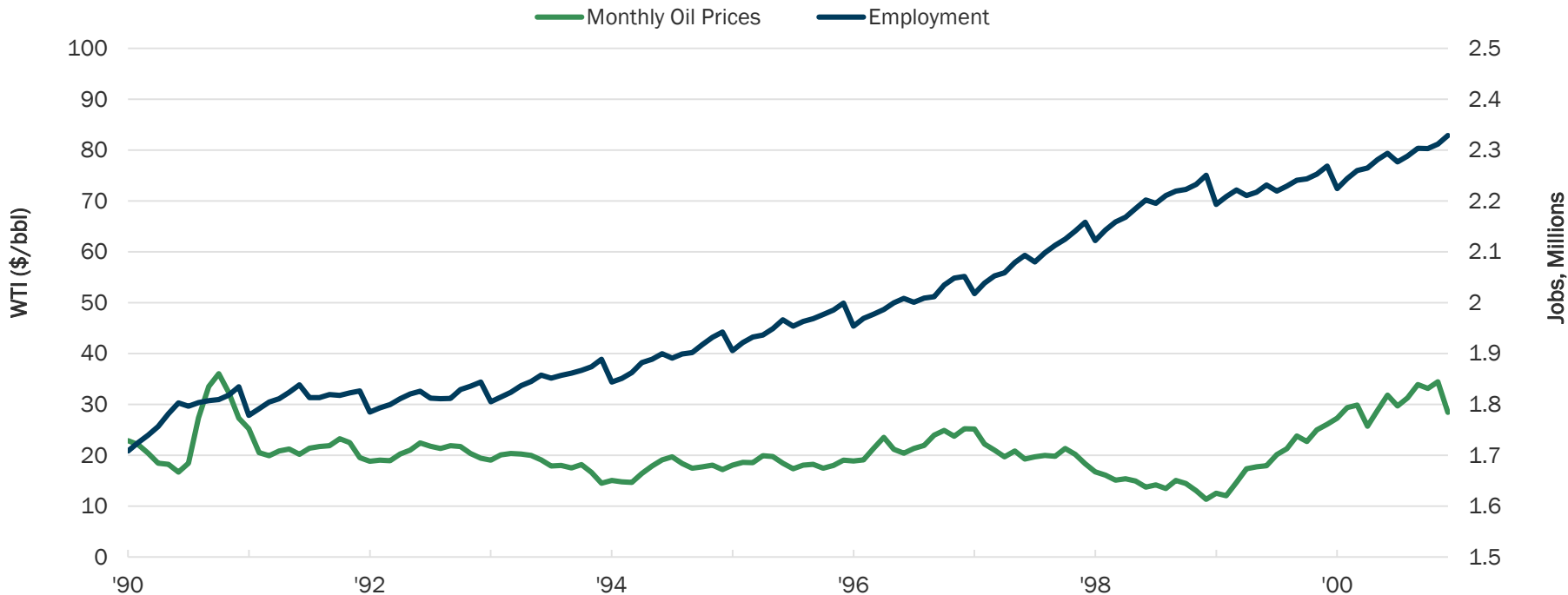


The 2020s are
beginning to look a
lot like the 1990s.





Oil Prices & Houston Employment

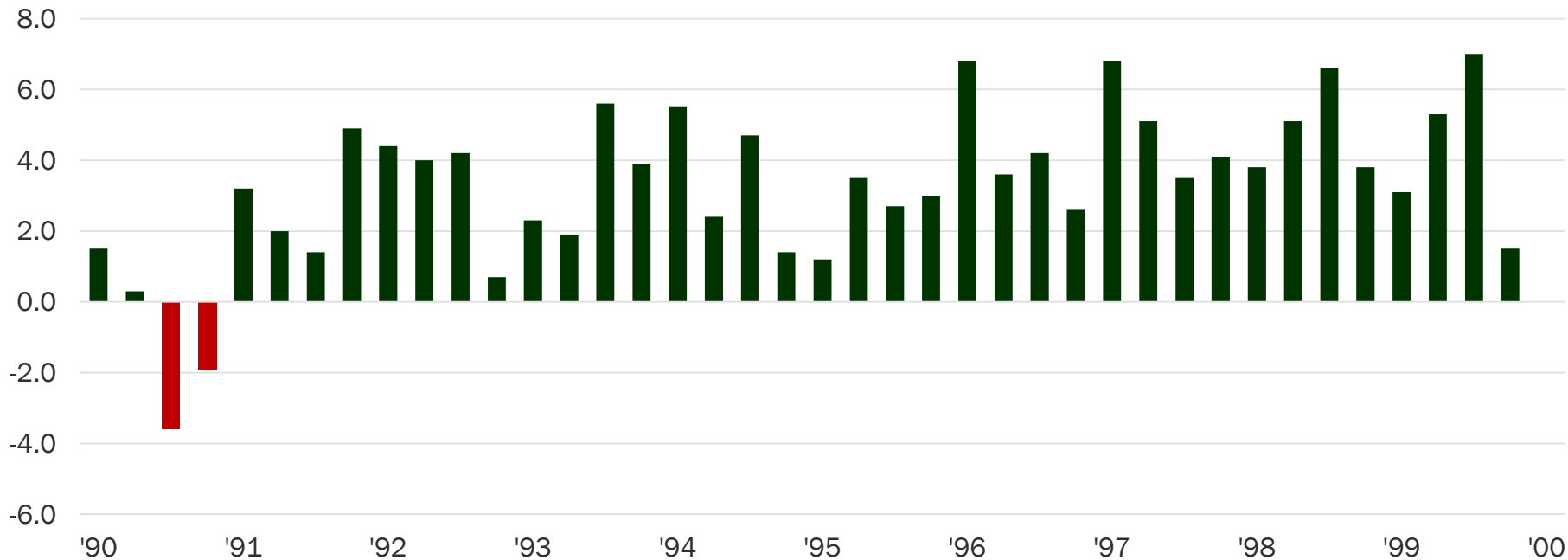


Source: Texas Workforce Commission, U.S. Energy Information Administration



U.S. Real Gross Domestic Product

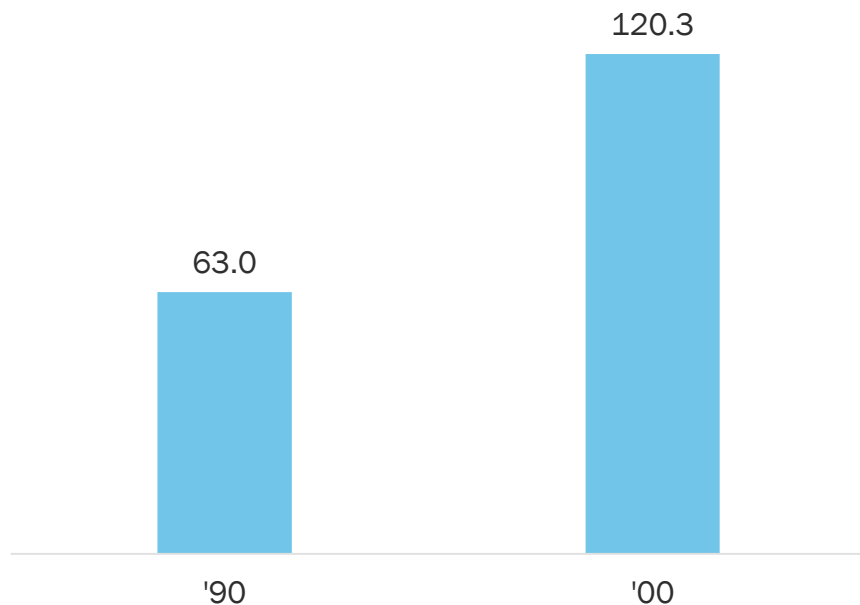
Growth Rate, % Change from Previous Quarter



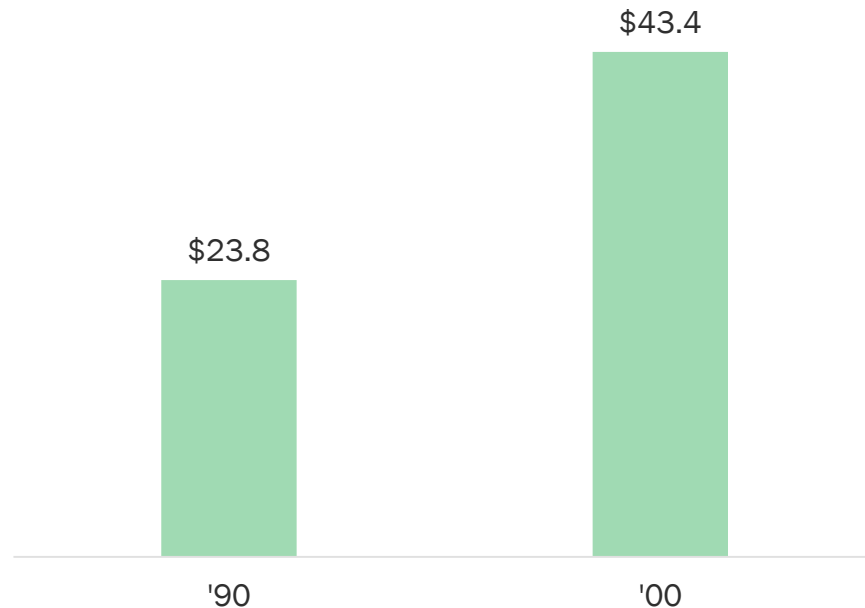


Foreign Shipments – Port of Houston

Million Short Tons



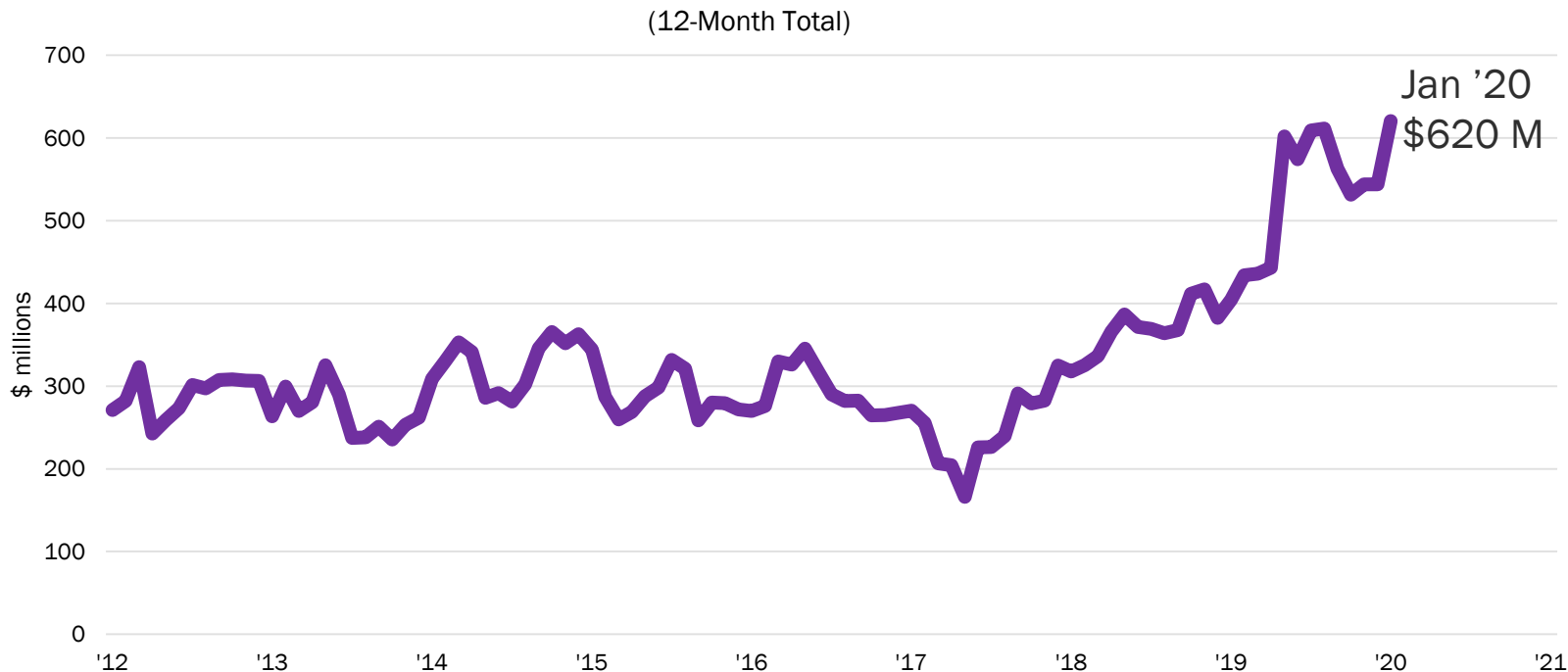
\$, Billions







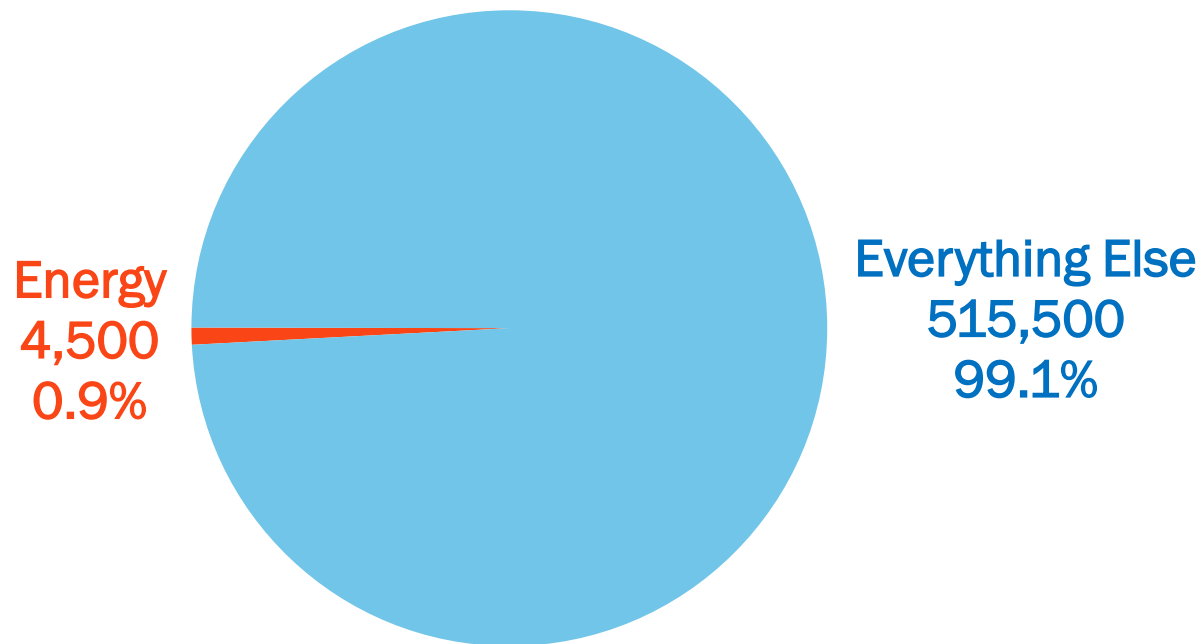
VC Funding in Houston



Source: Partnership Analysis of Pitchbook Data



Job Growth in the 1990s



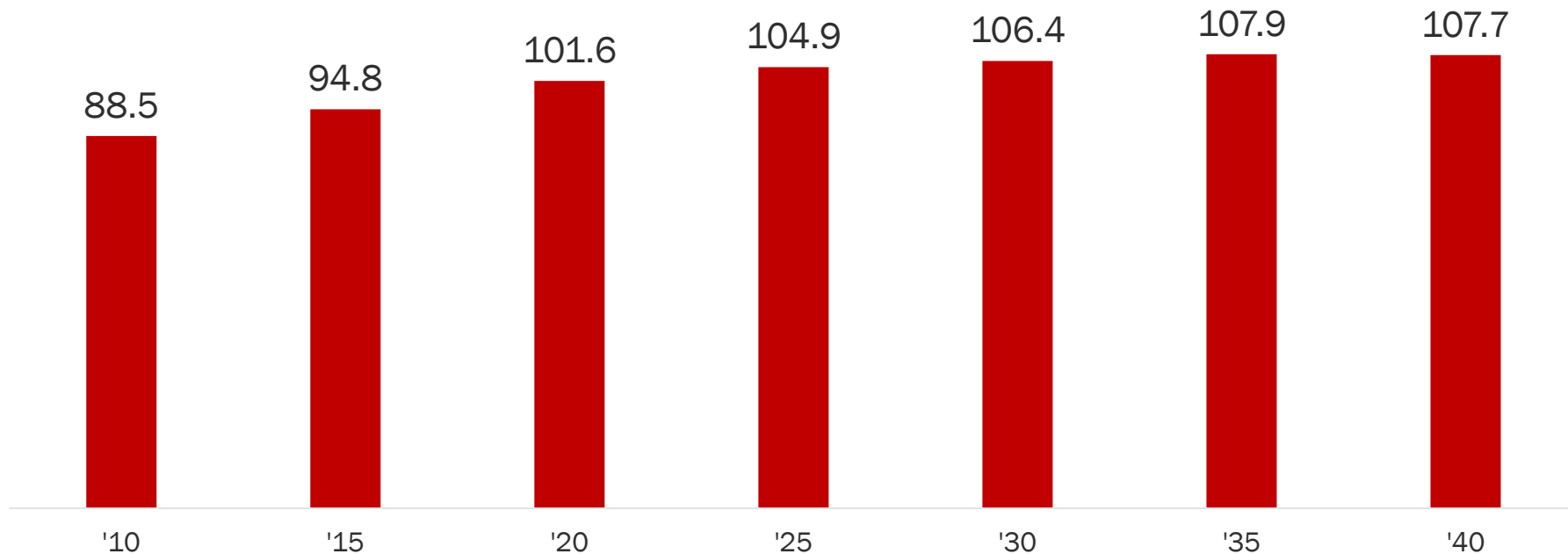


**Don't write off oil and gas
just yet.**



Global Oil/Liquids Demand

Million Barrels/Per Day



Source: BP 2019 Energy Outlook



Houston Economic Outlook

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