

## **ECONOMIC ENVIRONMENT – HARRIS COUNTY – JAN 2016**

Harris County has experienced tremendous growth since the start of the twenty-first century with an expanding, diversified local economy that has outperformed most of the rest of the country. The Energy business has played a large part in this growth along with the relatively low cost of housing, low cost of living and an expanding transportation system.

While the population has been steadily increasing, the economic expansion has experienced a few slowdowns tied to oil and natural gas price fluctuations. The impact of high oil prices, above \$70 per barrel, has resulted in the expansion of jobs and growth of companies in the oil and related service and manufacturing sectors. Demand for office space in Houston, unincorporated Harris County and surrounding counties has led to significant expansion in the local tax base for all of the new construction, including commercial, industrial, retail and residential property.

### ***Learning from Recent History***

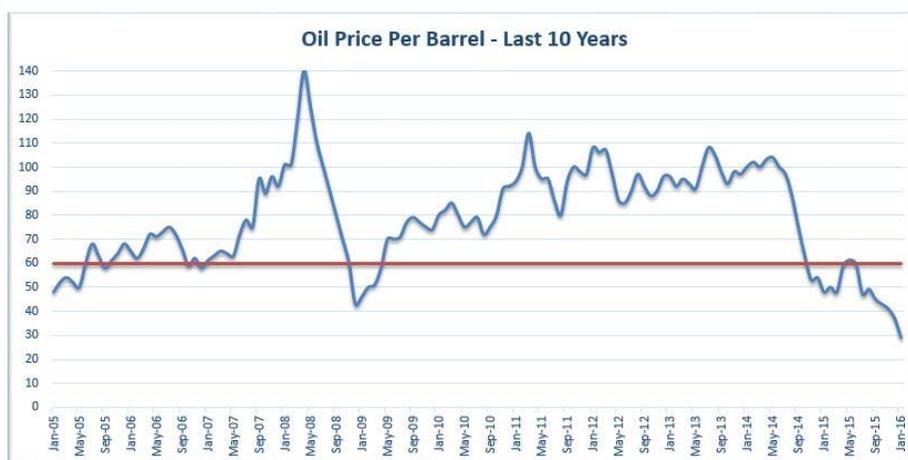
Oil prices declined sharply in late 2008, below the \$70 per barrel threshold, but stayed down for only a few months. While this relatively temporary drop in prices didn't really slow down the population expansion, it did impact the local economic engine by slowing down the growth in construction, vehicle sales and impacted the values of local real estate. The steady growth in the Harris County tax base slowed down in 2009, dropped in value in 2010 and grew slowly for two more years despite the oil prices being above \$70 per barrel for the entire period.

In the last half of 2014, oil prices fell just like they did in 2008, but when they dropped below \$70 per barrel, there was not a rebound like there was six years earlier. This time, oil prices have remained in the \$20 to \$50 per barrel price level for more than a year. It's hard to predict when oil prices will increase, but this low price could be a reality for several more months or even years.

### ***Boom to Slowdown***

The Harris County local economy isn't expected to go from boom to bust like it did during the mid-1980s

when the economy was much more reliant on oil prices and the drop in price hit single digits per barrel. It is more likely to go from boom to a slowdown mode which may result in lower growth in the tax base until oil prices rebound and remain above \$70 per barrel. There is a tail to boom style growth which means that the 2016 values will benefit from assets being built in 2015. It is the 2017 values that have the highest risk of a drop based on history and the fact that, without higher prices, new construction will likely slow down to pre-boom levels.



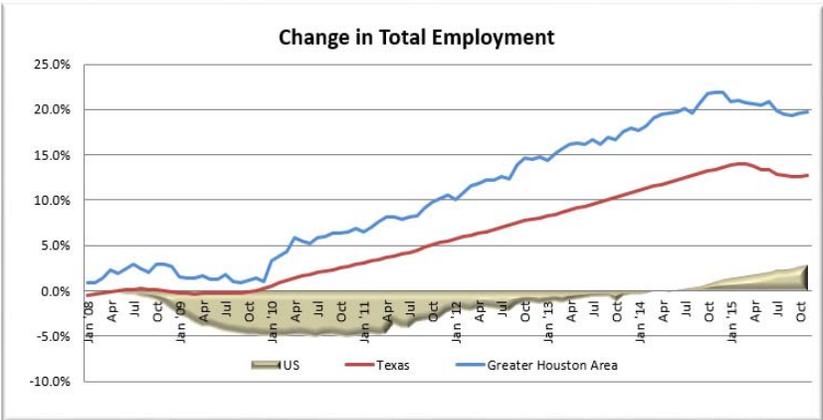
**Conflicting Economic Signs**

All of the energy based measures from drilling rig counts to energy industry employment levels have been impacted fairly significantly by the oil price drop. However, the impact on other local industries has been mixed. Sales tax collections are down but vehicle sales are setting records. The inventory of homes for sale have grown, but prices are holding fairly steady. Office leasing is down, while retail construction is up. Jobs are being added in other sectors of the economy fast enough to offset job losses in energy.

**Local Employment**

The job market in the Houston metropolitan area has been fairly resilient through the oil price collapse of 2015. Total jobs in the Houston MSA actually surpassed the three million mark in October for the first time. An additional 4,800 jobs were added in November representing approximately 1% net increase in local jobs over the last 12 months. Energy job losses in the Houston area have generally been offset by gains in other sectors.

The unemployment rate rose to 4.9% in November which is comparable to the national unemployment rate and above the 4.5% rate for the State of Texas. Historically, the local unemployment rate has been about 1% lower than the national rate. A rate under 5% is still relatively positive considering the national rate averaged over 7% from 2008 to 2015 and peaked at over 10% in 2009.



**Construction**

Key measures of construction activity are all down compared to 2014, but remain higher than they were in 2013. Looking back, it appears that 2014 represented an unusual boom in the local construction industry that is likely slowing down to a more normal pace.

For example, the total building contracts for the Houston area averaged \$1.2 billion per month for the first 10 months of 2015, compared to nearly \$2.5 billion per month in 2014. However, the average in 2013 was just over \$1 billion per month. The dollar value of City of Houston permits issued have declined less dramatically in 2015 compared to 2014, and are also higher than 2013.

**Home Prices**

Sales of single family homes during the first 11 months of 2015 were 81,801, which is down 2.3% from the same period in 2014. The inventory of homes for sale increased from just over a four month supply in 2014 to just over five months in November 2015. However, the median sales price for a single family home remains at \$200,000, which is up 2.2% from a year ago.

**Consumer Activity**

Vehicle sales data are at record levels for both number of units sold and the average price. Trucks and commercial vehicle sales were up 14% in December, offset by a 2% drop in car sales.

Total retail sales are down 14% for the Houston MSA compared to 2014, which is resulting in lower sales taxes for the City of Houston. Harris County does not receive sales tax revenue.

**Conclusion – Impact on Harris County**

The economic outlook for Harris County is focused on property values since 80% of the General Fund revenue comes from property taxes. The impact of low oil prices, primarily on local commercial construction and commercial real estate values, will be important to the County. So far, with employment continuing to grow at a slower pace, the residential market has not been significantly affected by the oil price decline. Retail and industrial construction have also not experienced a slowdown, at least so far.

The markets and values could eventually be impacted if oil prices remain below \$30 per barrel for an extended period.

