

Houston's economy called not bad, bucking U.S. trend

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The Houston-area's dominance in the energy industry and its strong job growth would help the region avoid major effects of a recession, should one actually occur, according to economist Barton Smith.

His comments came Thursday, a day when recession was a hot topic from Houston to Washington, D.C.

A U.S. recession — two consecutive quarters of declines in the Gross Domestic Product — would have to be deep enough to create a global recession that, in turn, would reduce the demand and price for oil, he said. Only then would the area see a significant economic downturn next year.

Smith, director of UH's Institute for Regional Forecasting, addressed the concerns about recession at his annual economic forecast luncheon to 1,000 developers, bankers and other business leaders.

And on Capitol Hill, Federal Reserve Chairman Ben Bernanke had to fend off tough questioning about the prospects of a coming recession.

"I think we are at a moment of economic crisis," Sen. Charles Schumer, D-N.Y., told Bernanke who appeared before the Joint Economic Committee. "I'm not surprised to hear experts, such as your predecessor Alan Greenspan, warn about the threat of a recession. I have begun to worry about it, too."

Though the economy will "slow noticeably in the fourth quarter," Bernanke said, he didn't foresee "anything approaching the period of the 1970s."

Back in Houston, Smith said the area would escape a major slowdown because the Houston economy is much better off than the rest of the nation, largely because of its dominant energy industry. Also, local home prices are more affordable than in other major cities, job growth is good and it still makes sense to buy a house rather than rent, he said.

Some segments vulnerable

But that doesn't mean Houston is totally isolated, said Smith. The non-energy part of the local economy will face some challenges, much like the rest of the nation, and it's not immune to the problems in the mortgage market.

Those same worries were clearly on the minds of investors this week. After falling 360.92 points on Wednesday, the Dow Jones industrial average dipped 33.73 points on Thursday to close at 13,266.29.

It also didn't help that Morgan Stanley warned that its fourth-quarter profit could fall \$2.5 billion due to write-downs from credit market problems.

In his annual presentation that was part economic history lecture and part prediction, Smith said that many of the problems today with sub-prime lending are similar to panics in 1837, 1907 and 1927.

During those times, easy credit, excess speculation of land or stocks, highly leveraged borrowing and unrealistic expectations that the party would never end resulted in recessions or worse.

Today, he said, the nation is vulnerable to the high rate of foreclosures that won't peak until March, housing prices that are still too pricey and the high rate of consumer credit.

The next big crisis

Smith predicted consumer debt will be the next big financial crisis. Consumers have been ratcheting up their spending and the amount of bad debt is growing, he said.

But like many of the sub-prime loans, much of the debt isn't controlled by banks anymore, he said. It's packaged as bonds and sold to investors, and when the default levels rise, the value of the bonds will fall.

Smith predicts that Houston employers will create about 55,000 new jobs in 2008, a 2.2 percent increase. That's about half the number of new jobs Houston area employers will create this year.

"That's not bad for a year when the national economy is trying to keep itself out of a recession," Smith said.

Even in the event of a mild U.S. recession next year, Houston will add about 1.2 percent more jobs, he speculated.

While the energy industry is bolstering Houston, it's also changing the complexion of the local economy.

During the great diversification efforts in the 1990s, 95 percent of the growth came from the non-energy sectors such as electronics manufacturing, health care and software.

But during this decade, 71 percent of the growth is energy related such as oil-field equipment manufacturing and energy-related engineering, Smith said.

Population to expand

As for population, Smith predicted Houston will add 2.5 percent more residents in 2008, which represents 42,000 new households. About 30,000 of them will be qualified home buyers, he said, cautioning the home builders to hold back on starting new projects.

Housing starts are already down 27 percent from two years ago when builders were building 55,000 houses a year.

It's also going to take the nation quite a while to work through the excessively high real estate prices, he said.

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