

[November 14, 2008]

Economist sees a harder ride as Houston loses "energy cushion"

(Houston Chronicle)

Houstonians, brace yourselves. Economic oracle Barton Smith sees trouble on the horizon.

"We're about to lose our energy cushion," said Smith, director of the University of Houston's Institute for Regional Forecasting, who presented his annual economic forecast to 1,000 developers, bankers and other business leaders at a luncheon Thursday.

When that happens, he said, Houston will look more like the rest of the U.S. economy.

Smith predicts the Houston area will lose jobs in 2009. How many will depend on the intensity of the economic slump.

In his best-case scenario, the area will lose 11,000 jobs, a 0.4 percent drop, he said. But if the global downturn deepens and draws in more countries that, in turn, will use less energy, Smith projects losses of 37,500 jobs, a 1.4 percent drop.

The price of oil, which soared to near \$150 a barrel in July and helped push a boom in Houston's energy economy, has fallen to below \$60 in just four months. Light, sweet crude for December delivery settled at \$58.24 in trading Thursday on the New York Mercantile Exchange.

And even before oil prices plunged, Houston was losing jobs in the non-energy sectors, Smith said.

"But energy remained our stalwart and tipped Houston above the fray," he said.

Smith warned his audience to watch the prices of natural gas as well as oil. It would be good news for Houston next spring if natural gas prices are in the neighborhood of \$7 per thousand cubic feet.

"But if they fall to \$4 to \$4.50 per thousand cubic feet, my story isn't pessimistic enough," Smith said. Gas futures closed at \$6.32 Thursday in New York.

Houston also has been rocked by foreclosures, said Smith, adding that 39 percent of all pending sales are foreclosed homes.

"If we slow down next year and foreclosures don't slow down, it will be progressively harder to unload those properties," he said.

Problems have been exacerbated by low consumer and business confidence, said Smith, pointing to the volatile stock market.

"The biggest worry is fear," he said.

Smith called the change in fortunes a "wake-up call" for Houston, which he said seemed almost immune from the nation's economic woes until just a couple of months ago.

"We've been pretty cocky," he said. "It will be a startling change for most people."

Ike a 'one-month drag'

At his forecast presentation last year, Smith predicted that Houston employers would create about 55,000 new jobs in 2008, a 2.2 percent increase. He now believes Houston will finish the year ahead of his forecast with about 65,000 new jobs, a 2.6 percent increase, despite Hurricane Ike's impact, which he called a "one-month drag" on the local economy.

But in 2007, Houston added 103,400 new jobs, a 4.2 percent increase from the previous year.

"Houston has to be a lot more worried about the national economy in 2009 than in 2008," he said.

Another economist said Thursday that he still expects Houston to outperform other cities next year.

Even though Houston will lose some of the "turbo-charge" from the energy sector, the city won't be hurt as much as other cities by the retrenchment in the housing market, said Dana Johnson, chief economist for Comerica Bank in Dallas. And people are still moving into Houston and Texas.

Johnson expects to see flat employment growth in Houston next year, compared with nationwide job loss of 2 percent to 2.5 percent.

Can't remain immune

Gary Dahse, senior vice president of Moody Rabin Interests, a large commercial real estate firm, also sees a flat local job picture.

"Everybody is being very cautious and just taking a wait-and-see attitude until we get into the new year. We do think everybody has stopped hiring," he said.

"I don't think we'll see any negative job growth in Houston. It just won't be as positive as it has been."

Energy cushion or no, Houston hardly could remain immune forever from what is shaping up to be the worst economic downturn since at least 1982.

Nigel Gault, chief U.S. economist for Lexington, Mass.-based IHS Global Insight, believes the recession began in late 2007 and will continue into the third quarter of next year.

One bit of bright news: Smith estimates that lower prices will save the average household \$2,250 a year.

"It's like another tax rebate, but taxpayers aren't paying for it," he said.

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