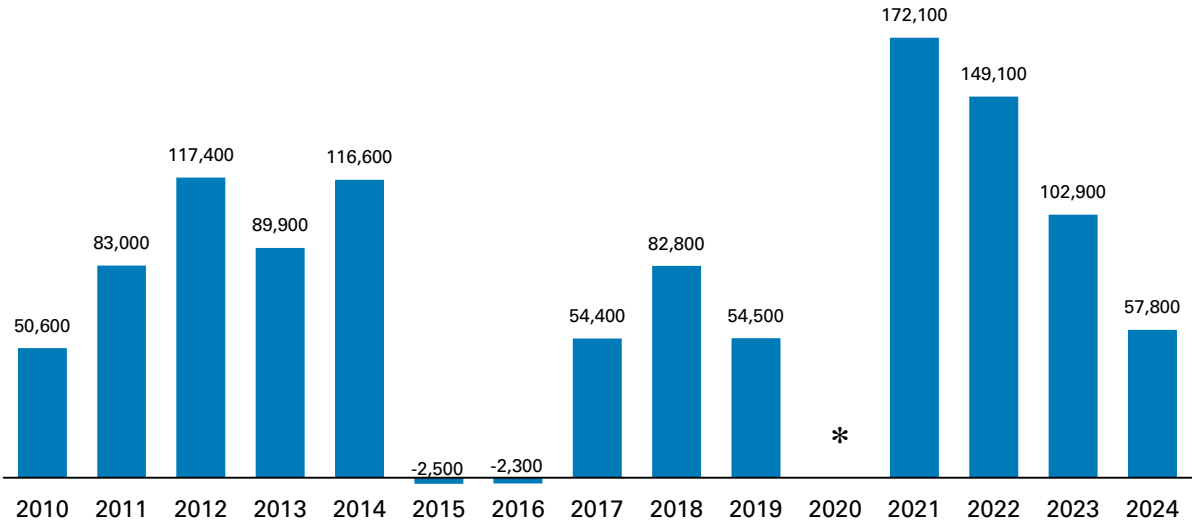




A Look at Economy February 2025

Workforce Solutions is an affiliate of the Gulf Coast Workforce Board, which manages a regional system that helps employers solve their workforce problems and residents build careers so both can compete in the global economy. The workforce system serves the City of Houston and the surrounding 13 Texas Gulf Coast counties including: Austin, Brazoria, Chambers, Colorado, Fort Bend, Galveston, Harris, Liberty, Matagorda, Montgomery, Walker, Waller, and Wharton.

Houston's economic landscape in 2024 reflected a transition from the rapid post-pandemic recovery period of 2021-2023 to a more stabilized growth trajectory. The Houston Metropolitan Statistical Area (MSA) experienced significant job growth, adding 57,800 jobs throughout the year (Fig. 1). While this figure is significantly lower than the more than 100,000 jobs gained annually in the previous three years, it aligns closely with pre-pandemic employment trends, particularly those observed in 2019. The monthly employment data indicated fluctuations, with November contributing 18,300 jobs (not seasonally adjusted), exceeding the historical average of 11,900. However, when seasonally adjusted, the increase was a more modest 5,400 jobs. December followed a



similar pattern, with 5,700 jobs added in an unadjusted format and 3,000 after seasonal adjustments. These figures, while not remarkable, surpassed the averages seen since 2015, a period marked by the shale bust and subsequent shifts in Houston’s job market dynamics.

Figure 1: Houston MSA Total Nonfarm Employment (NSA) Annual Net Change

A sectoral analysis of employment trends in 2024 reveals that job growth was widespread across various industries (Fig. 2). The construction sector led the way, contributing 15,200 jobs, followed by private education and health services, which saw an increase of 10,100 jobs. Financial activities and leisure and hospitality added 8,400 and 6,700 jobs, respectively. While these numbers indicate a broad-based economic expansion, some figures may be subject to revisions.

A closer examination of employment data highlights potential discrepancies in job growth estimates. The Current Employment Statistics (CES) estimates from the Bureau of Labor Statistics reported that, as of June 2024, Houston’s total nonfarm employment had grown

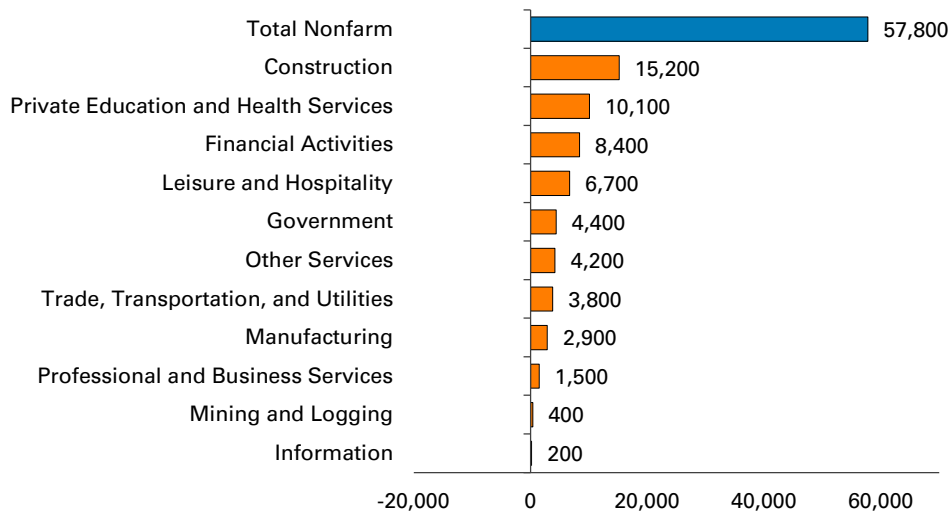


Figure 2: Houston MSA Supersectors, Over-the-year Net Change, Dec. 2023 – Dec 2024

by 76,100 jobs over the previous year. However, the Quarterly Census of Employment and Wages (QCEW), which provides a more accurate measure of employment but operates with a time lag, recorded only 34,300 jobs added in the same period. This suggests that CES figures may have overstated job growth by nearly 42,000 jobs (See Houston Employment Situation Report, February 2025). Historical trends indicate that revisions to employment estimates are common, and the true extent of Houston’s job growth in 2024 will not be fully understood until further benchmarking occurs in March 2025.

Despite the moderation in job growth, Houston’s labor market remained relatively stable. The unemployment rate stood at 4.1% in December 2024, down from 4.5% in November but slightly higher than the 3.8% recorded a year earlier. This rate was above both the Texas state average of 3.7% and the national average of 3.8%. Even though job growth decelerated, the labor market remained close to full employment conditions. A noteworthy trend observed in the latter half of 2024 was the gradual increase in the

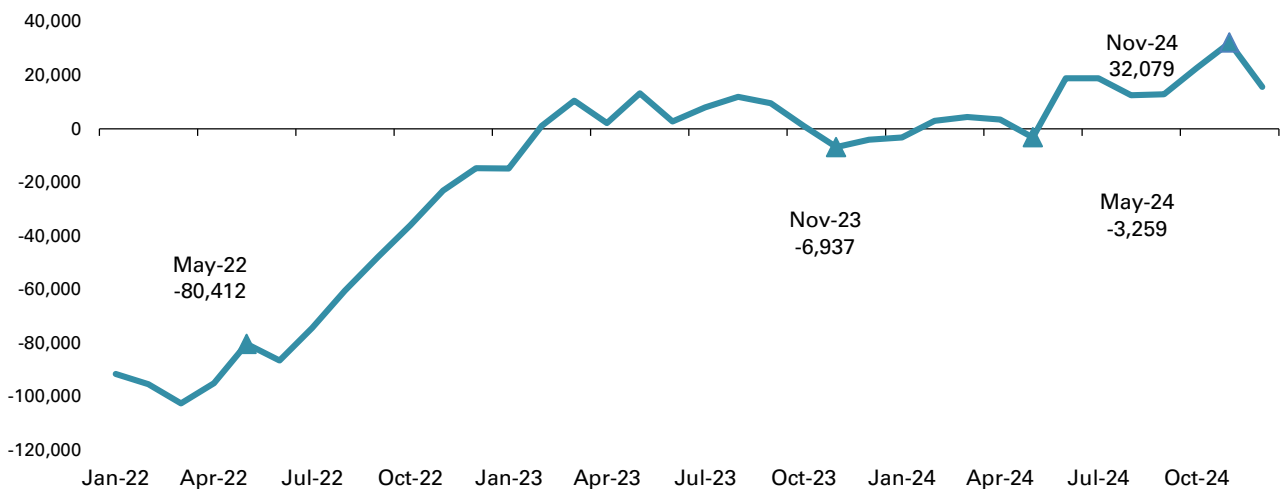


Figure 3: Houston MSA Unemployment Level Over-the-year Net Change

number of unemployed workers, which rose by approximately 20,000 compared to the previous year (Fig. 3). However, this shift is more indicative of an economy settling into a sustainable equilibrium rather than a warning sign of severe economic distress.

Looking ahead, Houston's economic trajectory in 2025 will be influenced by several key factors. National economic conditions will play a critical role, particularly in relation to inflation, interest rates, and fiscal policies. The Federal Reserve has indicated a cautious approach toward interest rate cuts, citing limited progress in controlling inflation in its final stages. Additionally, potential policy changes related to tariffs and government spending could shape the broader economic environment. The Philadelphia Fed's Survey of Professional Forecasters projects a soft landing for the U.S. economy, with expected monthly job growth ranging from 100,000 to 125,000 jobs. Houston's economic has moved at a faster pace than the national average, as evidenced by its 57,800 job gains in 2024, which were in line with long-term regional trends. A similar level of job growth is anticipated for 2025.

The energy sector remains a crucial component of Houston's economic framework. However, upstream oil production is expected to be relatively neutral in 2025. Fracking operations require oil prices to remain at or above \$65 per barrel to be economically viable. Unlike previous periods of rapid expansion, such as the pre-2015 boom when oil prices exceeded \$100 per barrel, the current market environment suggests limited growth potential. Additionally, global economic conditions, particularly China's financial challenges and slowing growth, 2025 appears to be shaping up as a year of stagnation for domestic oil production rather than a period of significant expansion.

Beyond oil and gas, Houston's economy continues to diversify. Industries such as healthcare, professional and business services, and transportation and warehousing have seen robust expansion in recent years. This diversification has reduced Houston's historical reliance on energy, providing the region with greater economic resilience. Another defining factor of Houston's economic strength is its population growth. Over the past decade, the city has added more than 120,000 new residents annually, a trend expected to continue. This steady increase in population contributes to the expansion of the local labor force, consumer spending, and demand for housing, education, and essential services. However, potential immigration restrictions could present challenges, exacerbating labor shortages and limiting workforce availability across key industries.

Overall, Houston's economic performance in 2024 reflected a shift from rapid post-pandemic job growth to a more sustainable, steady-state expansion. While employment

gains slowed, the region remained resilient, avoiding the severe economic downturns that some had predicted following the Federal Reserve's aggressive rate hikes. As Houston moves into 2025, its economic prospects appear stable, with expectations of continued job growth, a soft landing for the labor market, and ongoing diversification across industries. However, factors such as federal policy changes, global economic headwinds, and labor market constraints will shape the region's trajectory in the coming months. Houston's ability to adapt to these evolving economic conditions will be instrumental in maintaining its status as a key economic hub within the United States.