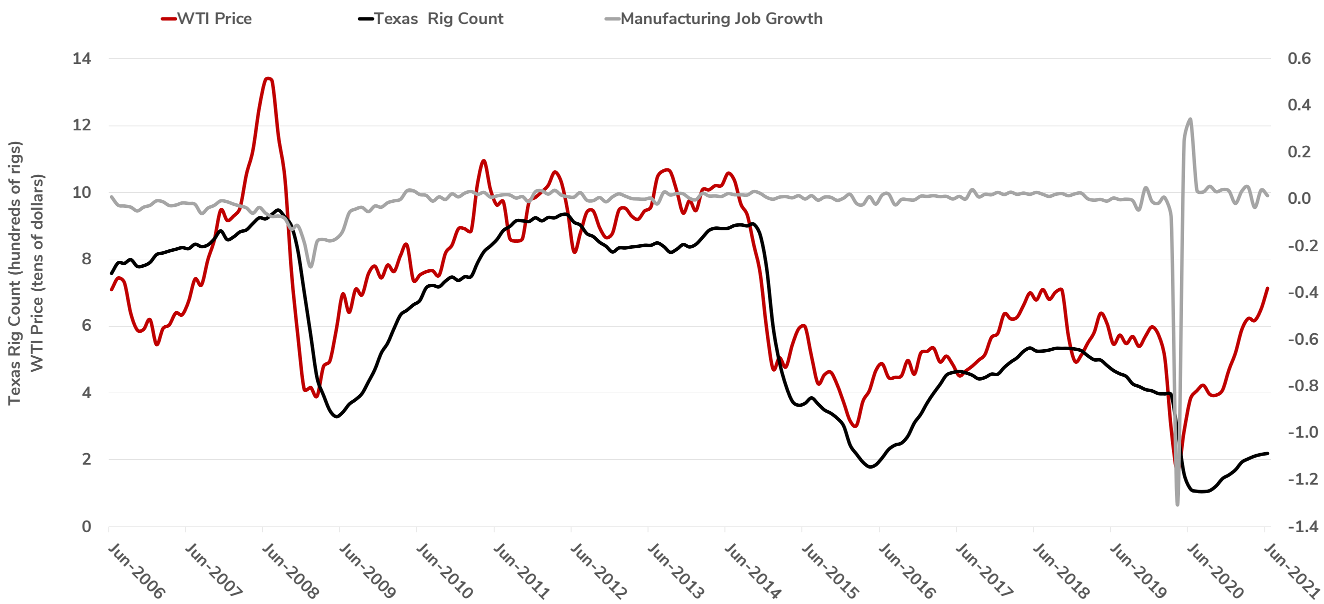
HOUSTON INDUSTRIAL | MANUFACTURING
MARKET INSIGHT

AUGUST 2021

Houston manufacturing waiting on recovery in rig count



KEY TAKEAWAYS

Overview. Due to the close ties with upstream oil, Houston's manufacturing sector is more prone to economic changes arising from the volatility in oil production, particularly in machinery and fabricated metals production. Here, we consider how West Texas Intermediate crude oil prices (WTI), Texas rig counts, and manufacturing employment, are influencing Houston's manufacturing industry.

West Texas Intermediate. The closing spot price for WTI, the U.S. benchmark for light, sweet crude, averaged $70.06 per barrel in June 2021, up from $37.38 for the same period in 2020, according to the U.S. Energy Information Administration. June 2021 marked the first month since October 2018 when prices averaged above $70.

Rig count. Baker Hughes reports 484 drilling rigs were working in the U.S. during the second week of July 2021. That's up from 285 rigs the same week in July last year. The Texas rig count is at a current level of 230, up from 103 one year ago, an 123.3% increase.

Goods-producing jobs. The goods-producing sector (oil and gas production, construction, and manufacturing) shed 41,600 jobs in March and April 2020. Job losses deepened in the summer before beginning a moderate recovery in the fall. As of May 2021, goods-producing losses had mounted to 66,600 jobs, nearly double the initial losses.

Energy industry jobs. The energy industry has shed one in seven workers since February 2020, some 11,600 jobs. Most of the losses in manufacturing (26,300 jobs) and wholesale trade (6,200 jobs) are tied to energy as well. The recent surge in oil prices has not supported an increase in U.S. drilling. Roughly half of U.S. production is hedged at $45 to $50 per barrel this year. Exploration firms are using any increase in cash flow to pay down debt or pay dividends to investors and shareholders. And Wall Street remains reluctant to provide additional capital. As a result, the U.S. drilling rig count has been slow to recover—and along with it, Houston manufacturing jobs, reported the Greater Houston Partnership..

Gross area product forecast. The Perryman Group forecasts sustained economic growth for metro Houston over the next quarter century. Real (i.e., net of inflation) Gross Area Product (GAP) in the Houston region is expected to grow at an average annual rate of 3.9% from 2021 to 2045 in The Perryman Group's forecast. The Houston MSA's real GAP is projected to more than double during this time period. In nominal terms (i.e., not adjusted for inflation), Houston's nominal GAP is forecast to reach one trillion U.S. dollars in 2031. Among the highest rates of compound annual growth in real gross area product from 2021 to 2045 are manufacturing (4.2%), accommodation and food services (3.7%), health care and social assistance (3.7%), and professional and business services (3.7%)..

Healthy industrial market in Houston's future. The industrial real estate sector is an overall winner in our local economy halfway through 2021. Post-Covid, manufacturing deliveries have decreased sharply with an over 67% decrease from the first half of 2020 compared to new manufacturing product being delivered during the first half of 2021. In addition, current manufacturing absorption is a fraction of the total absorption in the greater Houston industrial market which is dominated by the absorption of institutional quality bulk-warehouse product.

NAIpartners BROKERAGE SERVICES
www.naipartners.com
LETA WAUSON
DIRECTOR OF RESEARCH
leta.wauson@naipartners.com
tel 713 275 9618