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Houston's economic fate no longer solely tied to oil and gas, Moody's report says

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Houston remains the energy capital of the country, but a new Moody Analytics report indicates the Bayou City has diversified its industry portfolio enough to no longer rely solely on oil and gas.

That's good news when there's a downturn in oil prices. It also means that while oil prices are high, like they are right now, Houston will not see as strong of a production, economic and employment boom as it has historically.

"Houston should have a lot of close links to whatever is happening within the oil price — or if it's not the oil price directly, what's happening with U.S. production with oil," said Moody's Economist Thomas LaSalvia said. "And we see those links, at least subtly within things like the income of the residents there or the general changes to employment, but the magnitude of those [links] has shrunk."

As oil prices rebounded from the historic lows of the pandemic, the energy industry did as well, of course. According to the Texas Independent Producers and Royalty Owners Association's latest report, Texas added 26,700 upstream jobs between April 2021 and April 2022, including 7,700 in Houston.

However, Houston’s energy sector only accounted for 7.9% of the region’s employment and 3.5% of its firms as of 2020, according to Greater Houston Partnership data. And while oil production has ramped up in the past decade, industry employment hasn’t, according to Moody's analysis of Bureau of Labor Statistics data.

After the oil price downturn that started in 2014, "oil companies have become really conservative in making that decision" to increase production and employment, said Moody's Senior Economist Lu Chen, co-author of the report.

Since it can take up to a year from decision-making to drilling, oil companies want to know that prices will remain high before the drilling companies respond with higher production. In addition, labor and material costs associated with oil exploration and production were already high before the oil price surge and have become even more burdensome due to supply chain constraints, labor shortages and inflation caused by the pandemic, the Moody's report stated.

The report mentioned that half of Houston’s local economy is closely correlated with oil and gas related industries, while the other half is influenced by the national business cycle.

Sectors in commercial real estate, like multifamily construction, historically had a strong link to oil and gas employment, according to Moody's analysis of U.S. Energy Information Administration data. In the past, an oil boom would lead to more companies leasing office space, people moving to Houston and purchasing homes, and workers occupying hotel rooms during travel and short-term work visits, Chen said.

But now, as Houston diversifies its economy, these commercial real estate sectors have withstood the volatility of oil and gas and are less likely to crumble when there is a bust, Chen added.

"Hotels are the most sensitive to changes in the oil price, followed by industrial," the report stated. "Retail was the most insulated from oil shock, as many other factors are also reshaping its fundamentals. Multifamily and office do exhibit higher volatilities during each oil boom and bust, but the relationship is fading, especially for the office sector where long leases require more long-term planning that a short-lived fluctuation in oil price may not move the needle."