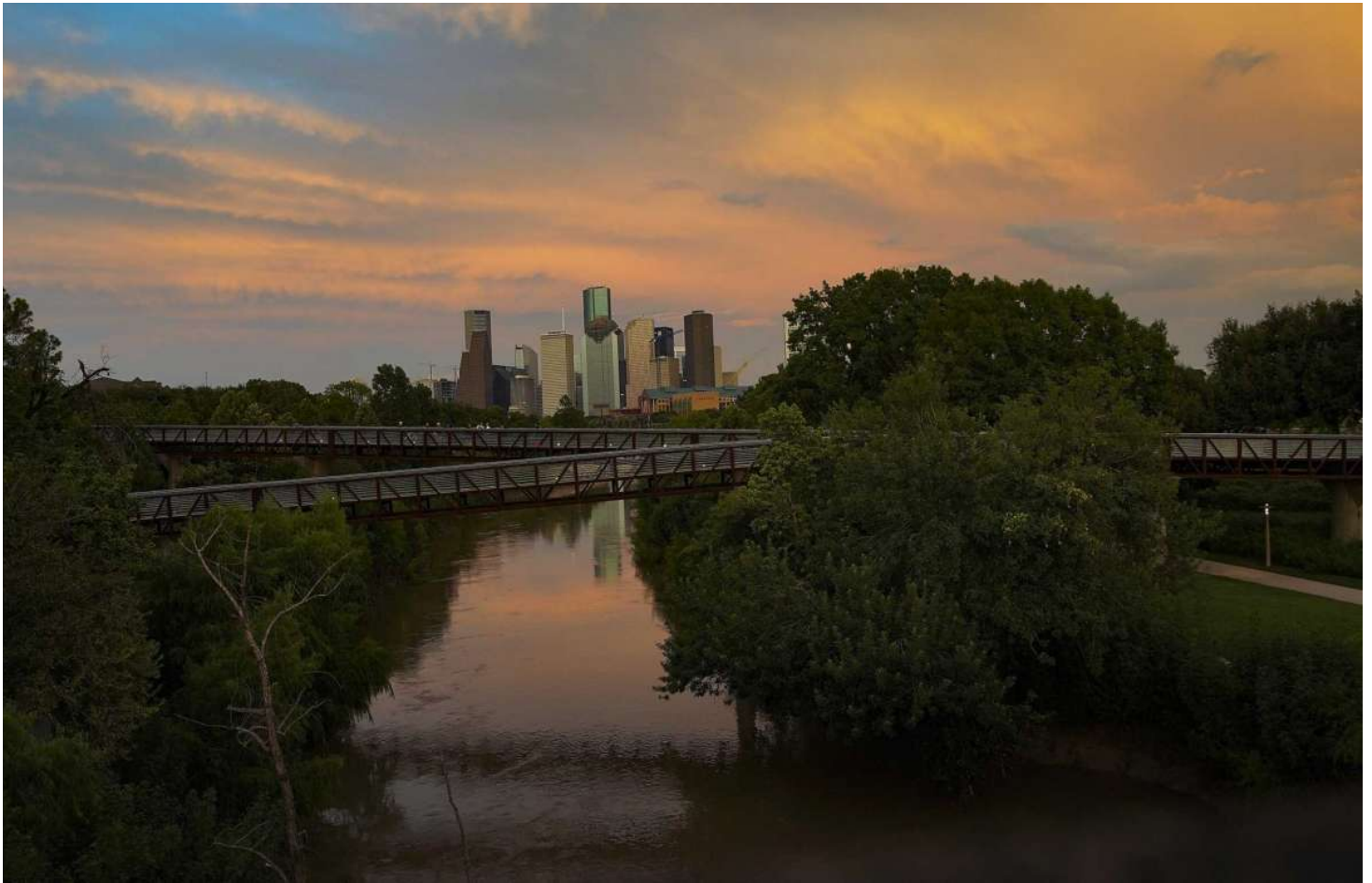


# Is a return to normalcy in the cards for Houston's economy in 2022?

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The outlook for the Houston economy is brightening.

Elizabeth Conley, Houston Chronicle / Staff photographer

In the record books, 2021 is set to go down as Houston's best year ever for job growth. But the statistics mask the ups and down, fits and starts, despair and hope that characterized the economy last year.

Will 2022 move us close to normal? We asked three local economists, Bill Gilmer of the University of Houston, Patrick Jankowski of the Greater Houston Partnership and Parker Harvey of Workforce Solutions, for their forecasts for the coming year.

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The outlook looks bright. The engines that drive the local economy are starting to hum again. But, of course, there's wild card: COVID-19. Since the outbreak first shut down the economy in the spring of 2020, economists have said the course of the economy would largely be set by the course of the pandemic.

That relationship will remain in place in 2022. Here's what the forecasters see ahead:

## Strong gains, but still recovering losses

Houston's job growth in 2021 ranks among its best years ever, and 2022 will match or exceed it.

Through November, Houston added about 130,000 new seasonally adjusted payroll jobs, and since the early 2020 lockdowns it has added a total of 273,700. Yet, in these unusual times, the metro area has lagged much better performances by the state and nation.

We remain well short of replacing those lockdown losses suffered in early 2020, bringing back only 73.7 percent of them. Contrast this to 82.5 percent of 2020 losses returned by

the U.S., while the state of Texas restored all these losses this fall. The Austin and Dallas-Fort Worth metros areas led the state in this return to pre-pandemic employment levels, while San Antonio stands only 4.9 percent short.

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What is Houston's problem? Certainly oil stands in the middle of it. We only need to know that a combined Midland/Odessa so far have regained just 700 jobs or 2.6 percent of their early 2020 job losses. Houston's large upstream oil sector has behaved only a little better than west Texas, losing 37,600 jobs in 2020 and to date returned only 10,400.

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The leisure and hospitality sector, which rebounded strongly after getting hard hit by the pandemic, should return to more normal pace of job growth in 2022, according to forecasts.

Marie D. De Jesús, Houston Chronicle / Staff photographer

And expect oil's recovery to be different this time. The fracking industry has now taken \$300 billion in assets through three rounds of bankruptcy since 2014. Producers have finally recognized that fracking is a high-cost source of oil, and that the go-go days of 2003-2014 are finished.

A fracking recovery will help Houston out this year, but don't set expectations very high. It is a smaller, chastened, and slower-growing industry for the foreseeable future.

The partial lifting of public health restrictions that followed on the heels of the 2020 lockdowns provided limited relief for local job losses, but by this past spring a significant surge in Houston's economic activity was finally underway led by bars, restaurants, retail, health care, barbers, and nail salons. These are jobs sensitive to close personal contact and

social distancing, and vaccine distribution and lifting of many public health restrictions provided consumers with the confidence to engage in the economy.

A short list of nine large contact-sensitive sectors accounted for 42 percent of Houston's total employment in 2019, but also accounted for 67 percent our peak job losses. But more than 80 percent of these jobs were back by summer, making the vaccines the most important cure so far for COVID-related economic problems.

The vaccines were easy part of fixing the economy, with the return of jobs now and in 2022 more dependent on a healthy national and global economy. This is not about Houston businesses engaged in close local contact, but those that sell their goods and services to the rest of the nation or world.

These jobs - called the economic base - drive the local business cycle and return revenue and profits to the metro area. We see a struggle underway to restore local base jobs while the global economy faces COVID-driven plant closings and supplier disruptions, transportation breakdowns, and workers still falling ill or reluctant to return to work.

One rule of thumb suggests that Houston lost 85,000 of its base jobs in 2020 and only 26,500 have returned so far. So, there is still plenty of room for base jobs and the business cycle - including oil - to spur solid growth next year and beyond. Progress, however, must overcome the current economic chaos seen across many industries and countries.

The current and projected job growth in Houston is exciting, with a likely increase of 150,000 new jobs this year and another 137,000 in 2022. Along with broad progress in the business cycle, meaningful help from oil should also arrive in 2022 and then continue to spill into 2023, allowing even 2023 to see above-trend growth near 80,000 jobs.

Only then does normality settle in with around 60,000 new jobs each year. But be careful interpreting these large gains in 2021 and 2022, as they follow on the heels of a deep and unprecedented downturn. It will be the middle of next year before all the COVID job losses

are back and we return to where we began the cycle in February 2020. The greatest economic cost of the pandemic for Houston and the rest of the world was the loss of nearly 2 1/2 years of healthy economic expansion.

— *Bill Gilmer, director, Institute for Regional Forecasting at the University of Houston*

## 2022 Houston job growth forecasts:

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Parker Harvey: +71,200

Patrick Jankowski: +75,500

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## More normal pace

Through the first 11 months of this year, the region created more than 130,000 jobs. 2021 will be the best year for job creating. The previous record was 1981 when the metro area created 126,900 jobs.

2022 will be another good year for Houston, though job growth will slow to a more normal pace. The Partnership's forecast calls for the region to create 75,500 jobs. In a year in which growth is not overstimulated by high oil prices or spiked by low oil prices, the region creates 60,000 to 70,000 jobs. Bottom line: 2022 will be a better than average year for job growth in Houston.

The region will see growth across all sectors of the economy. The greatest job gains will occur in administrative services (primarily outsourcing and contract workers), professional services (legal, accounting, management consulting, public relations, IT), and health care.



Construction, energy, manufacturing, and wholesale trade struggled prior to the pandemic and they continued to shed jobs as the economy reopened. We're starting to see improvement in those sectors, however. Rather than being a drag on Houston's recovery, as they have been the last 12 to 18 months, they will provide some lift to job growth next year.

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A stronger energy industry in 2022 should help lift job growth in Houston.

Elizabeth Conley, Houston Chronicle / Staff photographer

Several factors will drive growth in 2022: the ongoing U.S. expansion, growth in the global economy, the need to restock inventories drawn down during the pandemic, the return of global oil demand to pre-pandemic levels, and an influx of newcomers to Houston. I'm seeing more out-of-state license plates on Houston's streets than I've seen in several years.

The greatest threat to Houston's economy next year remains the COVID-19 virus. We're currently dealing with the delta and omicron variants, but we could see a new strain pop up in 2022. It's unlikely that local officials would call for another shutdown, but a surge might delay hiring and investment decisions or make consumers reluctant to open their wallets. This would slow Houston's growth, but it wouldn't derail it.

A more likely headwind to growth is the lack of available workers. It seems every other shop, restaurants, and warehouse has a "Help Wanted" signs posted outside. Job growth would be even stronger if more residents entered the workforce.

— *Patrick Jankowski, senior vice president of research, Greater Houston Partnership*

## Putting distance from the pandemic

Looking back at 2021, the Houston metro has seen its share of ups and downs as we navigate our way back to full recovery. So, what does the future hold, particularly next year as we approach the start of year three of the pandemic? 2022 will stand as the first year since 2019 that job growth for the region returns to normal.

Professional and business services will lead the way with over 17,000 jobs next year as the professional, scientific and technical portions that support oil and gas continue to build on the early momentum that they've shown this year.

Leisure and hospitality, after seeing massive over-the-year gains throughout 2021, will start to revert back to a more normal pace of growth of around 11,000.

Likewise, transportation, warehousing, and utilities will also start to see its growth moderate after setting multiple records this year. Mining and logging, the sector comprising the oil and gas industry, will start to participate more fully in the recovery, building on the improvement that we've seen in the past few months.



Health care and social assistance will continue to be the steady reliable source of job growth that it's almost always been. And with the rebound of the energy industry, we can expect manufacturing to finally see some improvement next year.

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Other services, with businesses such as beauty salons and repair services will also start to moderate after a tremendous rebound throughout much of this year. Construction, after being down every month on a year-over-year basis since the start of the pandemic will end the year up 2,100 jobs.

Lastly, the remaining sectors will post a mixture of modest growth and even a few declines with retail, the most notable one, resuming its pre-pandemic downward trend as

consumers continue the shift to online shopping. The pandemic only accelerated that trend to the detriment of traditional brick-and-mortar establishments.

Overall, by next December Houston's over-the-year job growth will come in at 71,200. This is admittedly a much lower number than the 143,000 added in the 12 months ending in November.

The 100,000-plus year-over-year growth that we've seen throughout 2021 is a byproduct of the extreme drop in 2020 rather than true reflections of our job market's health. Consequently, as we get further and further from year one of the pandemic, we will begin to see more reasonable growth.

As a bonus, if we manage to stay the course, this will also get us back to our pre-pandemic level of 3.2 million jobs by next December and with it, the single-most important milestone in the recovery thus far.

— *Parker Harvey, principal economist, Workforce Solutions*