



ECONOMIC DEVELOPMENT SUMMIT

HOUSTON **WEST** CHAMBER OF COMMERCE

WEST HOUSTON ECONOMIC PULSE SURVEY



Holland & Knight

WEST HOUSTON ECONOMIC PULSE SURVEY

Presented by:

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Chairman of West Houston Economic Development Summit

Introduction

In 2016 the Houston West Chamber of Commerce (HWCOC) introduced the first ever West Houston Economic Pulse survey to see how business leaders in West Houston saw their prospects for the coming year and how it would affect their plans.

In order to monitor how those results over time, it was decided to also field a mid-year study which was completed in late summer/early fall. Then, the fall elections seemed to have such an impact on the economic outlook nationally, we wanted to see what West Houston business leaders thought.

So, this year's Pulse survey provides some interesting insight into the evolution of the outlook for West Houston and the impact of the national elections.

Pulse Survey Overview

- ❑ **Objective:** Discover key trends and offer insight to West Houston businesses based on specific time frames throughout 2016 and into 2017
- ❑ **Timeframes:** Three relevant time frames
 - ❑ Flagship 2016 Survey - November 2015 through January 2016
 - ❑ Mid-Year Pre-Election 2016 Survey – July 2016 through September 2016
 - ❑ Year-End Post-Election 2016 and 2017 Survey – December 2016 through January 2017
- ❑ **Respondents:** Key employees of West Houston businesses across all industries
 - ❑ Flagship 2016 Survey - 284 respondents
 - ❑ Mid-Year Pre-Election 2016 Survey – 252 respondents
 - ❑ Year-End Post-Election 2016 and 2017 Survey - 67 respondents
- ❑ **Types of Questions:** Demographic, business and economic outlook and challenges and/or opportunities
- ❑ **Survey Tool:** SurveyMonkey

Pulse Survey Overview

This is the framework for West Houston Pulse survey. Our objective was to be a resource to by providing valuable insight for the coming year as you face your own unique business challenges and opportunities.

It has been a year since we first launched our survey initiative, with the first survey taken between November 2015 and January 2016. Respondents were asked to answer questions on demographics, business outlook, local and US economic outlook as well as highlight their own unique challenges and opportunities relating to several key business factors.

Last year, the sentiment was that although both the U.S. and West Houston economies were improving, the outlook for West Houston economy would experience more of a decline. The same survey was relaunched between July and September 2016. Our goal was to capture the outlook mid-year as oil prices began to move up from approximately \$40/bbl to over \$50/bbl in tandem with the pre-election fury. We received an excellent response rate, gaining over 250 responses in each of these surveys.

We knew last fall was a historical time given Houston's changing landscape with the energy sector combining with one of the most controversial and pivotal shifts in power in the oval office. We kicked off our year end survey to garner insight on the outlook post-election and to get a read on the sentiment going in to 2017.

Which of the following best describes the *principal industry* of your company?

- Key Industries** – The bulk of the responses were from those participants in the following industries in order of significance:
 - Professional and Business Services
 - Healthcare and Pharmaceuticals
 - Education
 - Non-Profit
 - Finance and Financial Services
 - Energy (Oil and Gas)
 - Advertising and Marketing
 - Banking, Finance and Insurance
 - Real Estate Residential
 - Food and Beverages
 - All Other

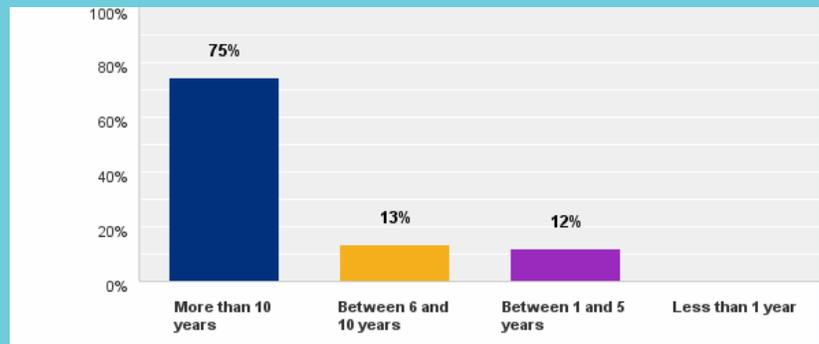
Respondents encompass 21 different industries. The majority of the responses or those greater than 5% came from 10 key industries with the bulk of the responses from Professional and Business Services.

We had good representation from other key industries including Energy, Healthcare, Banking and Education to name a few. Industries that made up the All Other category included, but were not limited to, industries such as Hotel, Retail, Technology, Commercial Real Estate and Government.

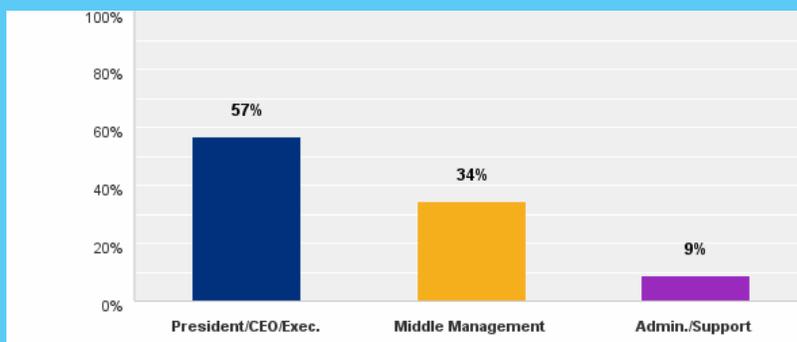
The majority of the respondents came from mature companies or those in business more than 10 years. The representation of mature companies was fairly consistent across each industry and each survey time frame.

These may be companies that have weathered the storm in the past, have experience in managing through leaner times and possibly are better equipped to foretell the future. We shall see.

How long has your company *been in business*?

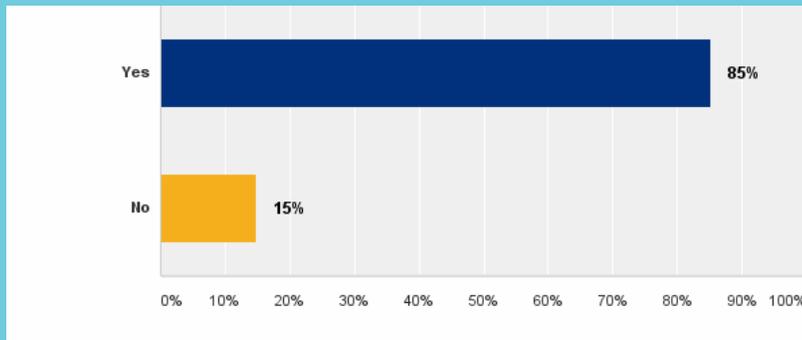


What is your *position* in the company?



We asked our respondents what position they served in their business. The majority of the responses came from upper and middle management, the individuals in the know, on top of the numbers and involved in business planning year round.

Is your business *physically located* in West Houston?



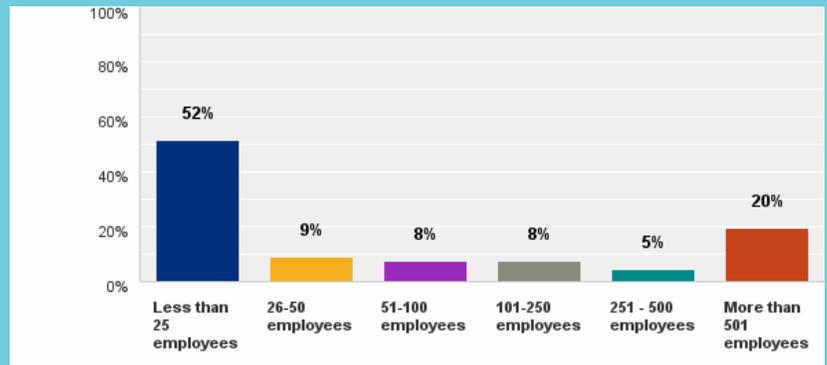
A key element of the survey was to capture responses from business in West Houston. As we expected, the majority of the respondent's businesses are physically located in West Houston.

Not only do we have mature businesses that make up the bulk of the responses but we also have survey results that come from primarily small businesses or those with fewer than 25 employees.

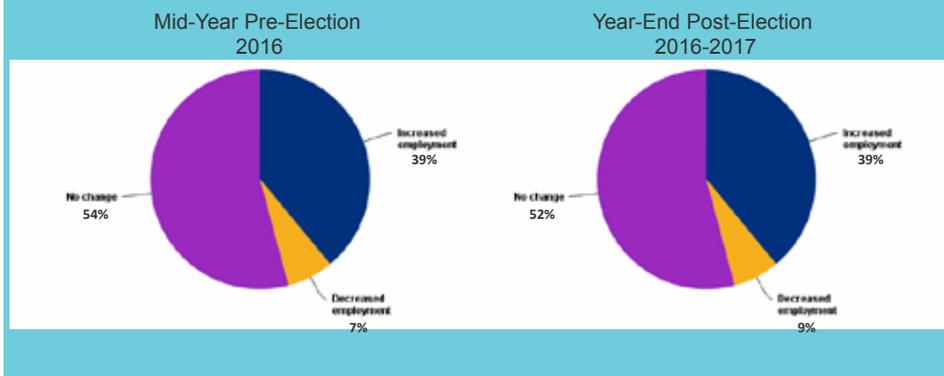
Small businesses are the bread and butter of our economy that drive our economic engine.

On the other end of the scale, we had good representation from large employers. That group made up a fifth of the overall responses.

What is the *size* of your West Houston Business?



Thinking about the market conditions you will face going forward, which best characterizes your plans for *employment*?

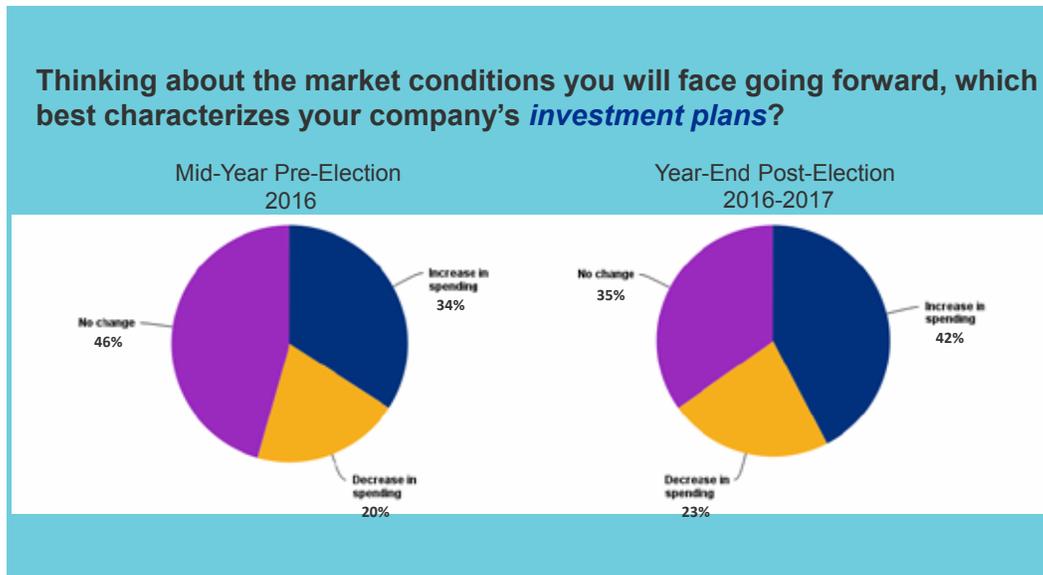


Employment Plans

We asked our respondents their outlook for employment. The outlook for employment across all three surveys was similar. Shown here is a comparison between responses taken from our mid-year pre-election survey and the year-end post-election survey.

Overall businesses appear to continue to either hold the line on current staffing or add to payrolls, indicating an stability in employment in West Houston with a hint of optimism for 2017. Again, the outlook for a drop in employment still remains very low compared to mid-year.

We drilled down into the year-end data to better understand the outlook by industry. Our survey shows Advertising and Marketing, Healthcare and Pharmaceuticals all reflected an increase in employment offset by decreases across the board for Construction, Education, Government and Real Estate Construction.



Investment Plans

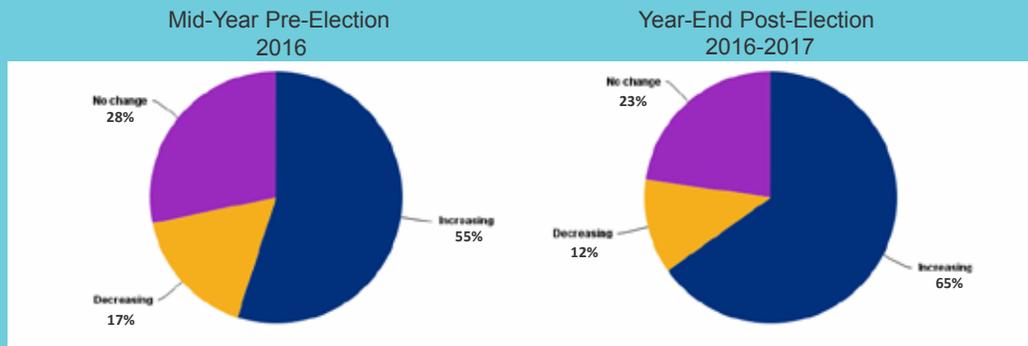
A similar response to the question on employment is that of plans for investment. By mid-year, companies had reduced their outlook on increased spending compared to the earlier flagship survey. With the election around the corner, it appeared as though businesses were standing on the sidelines and exercising caution. That all changed post-election.

Shown here is a comparison between responses taken from our mid-year pre-election survey and the year-end post-election survey. As you can see, increased spending was only 34% mid-year but by year end had rebounded to 42%, a level consistent with the survey last year. The outlook for a decrease in investment spending continues to be low, again another hint of continued optimism.

Looking ahead, a majority of respondents either plan to hold the line on current investment spending or beef up capital expenditures. They are indeed picking up the pieces.

Drilling down into the year-end data to better understand the outlook by industry, reveals that Advertising and Marketing, Healthcare and Non-Profits plan to spend more dollars on capital investments. Education, on the other hand, reflects plans for the most significant drop in investment.

Does your business plan assume that your *sales or revenue* will be...



Outlook for Revenue

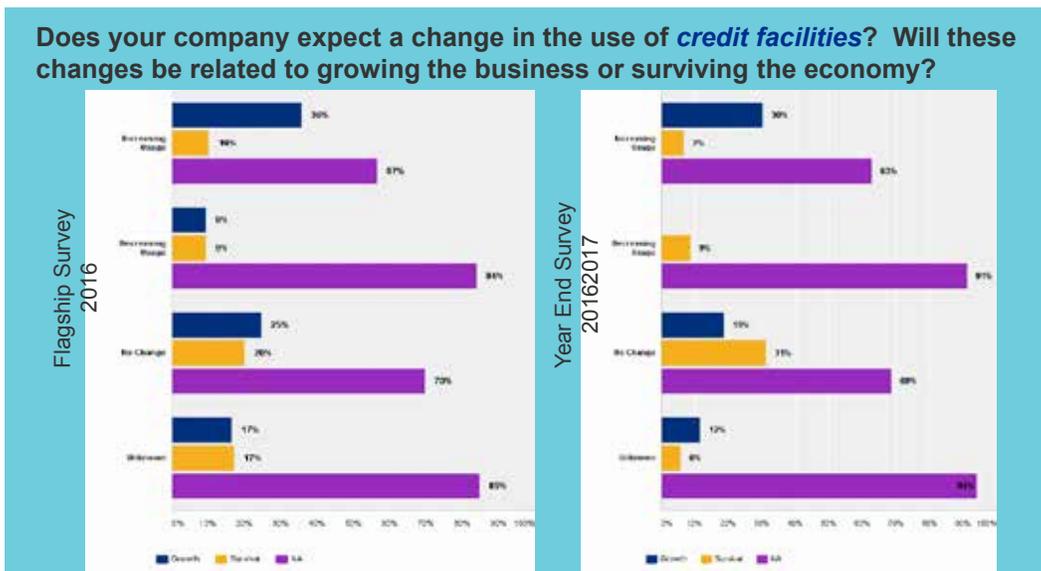
Responses to this question forecasting sales or revenue is very consistent with the responses provided on the previous slide for investment spending.

By mid year, companies had reduced their outlook on increasing sales or revenue compared to the earlier flagship survey from 65% to 55%, respectively. That all changed post-election.

Shown here is a comparison between responses taken from our mid-year pre-election survey and the year-end post-election survey. As you can see the outlook for improved sales or revenue rallied back to 65%, a level consistent with the survey last year. Also, the outlook for a decrease in sales or revenue continues to be low.

Looking ahead to 2017, business plans call for a strong increase in either sales or revenue. That's definitely a trend that supports Houston is in recovery.

Our survey shows again that the bulk of the increases in sales or revenue will be in Advertising and Marketing and Healthcare and Pharmaceuticals. Decreases are expected in primarily Education.



Outlook for Credit Expansion

For the banking industry, this chart is for you. This chart may be challenging to read as there is quite a bit of information packed into this response.

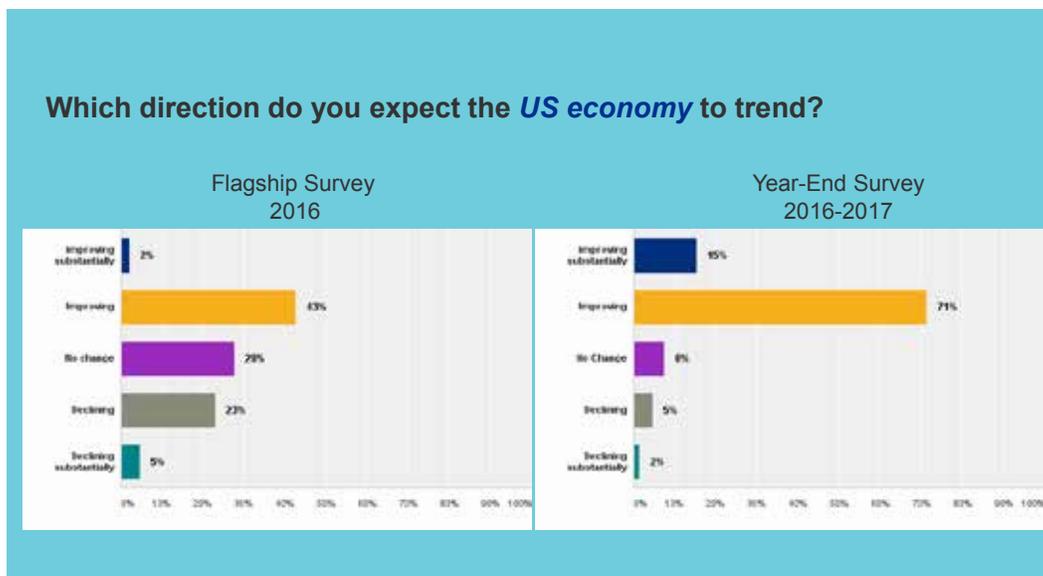
We asked respondents if they would be using more credit via either loans or lines of credit to support their operations. We took it a step further and asked if the change in usage was due to expanding their business, keeping the business afloat or neither. The use of credit to support growth is shown in blue, for survival in orange and not applicable in purple.

Shown here is a comparison of responses taken from our flagship survey and the year-end survey which a year over year comparison and different that previous slides. This is more appropriate given the longer time span involved in securing credit or drawing and/or paying down the line.

The responses in both the 2016 flagship survey and the more recent survey show that the anticipated increase in the use of credit would be for “growing” and not for “survival” mood; however, fewer respondents anticipate using credit to either grow or maintain their businesses compared to last year. Could this mean that the cautious approach taken by businesses last year has resulted in cash heavy balance sheets and surplus funds going into 2017?

The responses for those anticipating a decrease in the use of credit overall plan to hold the line and make no changes going into 2017.

Also, a majority of the responses continue to fall in the category “not applicable”. It would appear that the majority of the respondents don’t currently use credit to manage their operations. The silver lining possibly for the bankers in West Houston is that there may be an opportunity to share the benefits of leverage. More new loans in the forecast?

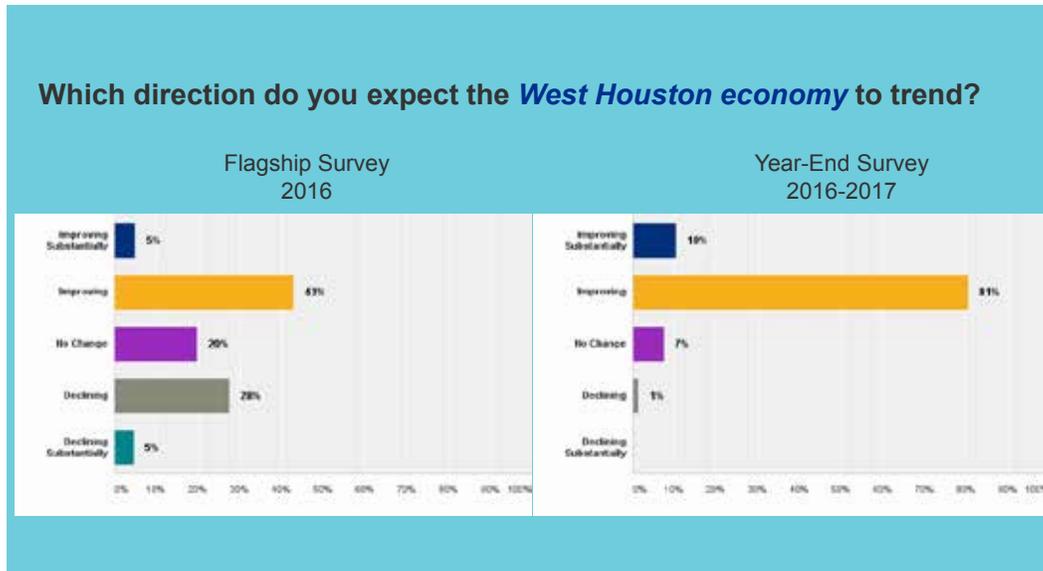


Outlook for the U.S. Economy

This next slide reflects the outlook for the US economy. Shown here is a comparison of responses taken from our flagship survey in 2016 and the year-end survey.

There is a definite swing in the sentiment for the US economy across all categories, with the most significant swing from 42% indicating an improving economy compared to 71% going into 2017. We also see a noticeable increase in the category of substantially improving.

Our survey shows that the sectors seeing the US economy as improving were Advertising and Marketing, Education and Energy. Professional and Business Services is the industry expecting a substantial improvement.



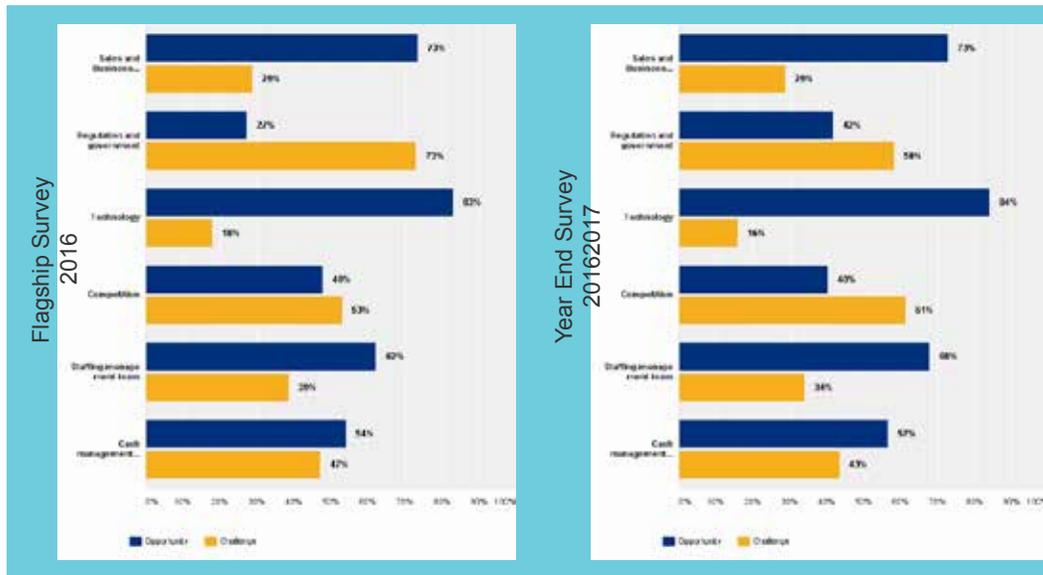
Outlook for the West Houston Economy

The chart reflects a similar outlook using the same time frame for the West Houston economy. There is a definite swing in the sentiment for the West Houston economy across all categories, with the most significant swing from 42% indicating an improving economy compared to 81% going into 2017.

More respondents felt that the chance of a declining economy was almost nonexistent going into 2017 compared to the start of 2016.

This is an indication of that a majority of the respondents are very optimistic about the outlook for West Houston and that the recovery is in motion.

Our survey shows that the Energy, Finance and Financial Services, Government and Real Estate Residential sectors all see Regulation and Government as an opportunity. On the other hand, Advertising and Marketing, Healthcare and Pharmaceuticals, Professional and Business Services sectors still see Regulation and Government as a challenge.



Key Issues for West Houston Businesses

In this question, we attempted to drill down into where the opportunities and challenges exist when looking at a number of business factors, such as sales, regulation, technology, staffing and cash management.

The opportunities are shown in blue and the challenges in orange for each of the different categories to the left. Again we are comparing results from 2016 versus 2017. The responses for all categories, with the exception of one, reflect very little change year over year. Most of the responses fell in blue/opportunity category. That is good news.

The most significant change from last year was in the category of Regulation and Government. This category was seen as the most significant challenge going into 2016, which was no surprise. Last year almost three-quarters of respondents viewed this as a challenge. By mid-year, the outlook was even more negative at 84%; however, the sentiment for 2017 reflects a significant turnaround, dropping to 58%. Also telling was a doubling of responses from the prior year that now view Regulation and Government as an opportunity!

Summary

The 2015-16 year end survey showed optimism that was tempered as the year went on. With the economic momentum shifting from East Houston to West Houston, West Houston business leaders seem to feel that, as they note increased optimism in many areas.

The national elections seem to have boosted that optimism as many businesses report a much more favorable outlook going into 2017.

Outlook on employment, investment plans and revenue growth have all improved from last year and even before the election. Of course, how the energy industry recovers will drive much of the results for 2017, but as we enter the year, business leaders in West Houston are feeling good about their prospects.



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