



# Corpus Christi and Coastal Bend Economic Pulse

College of Business and EDA University Center  
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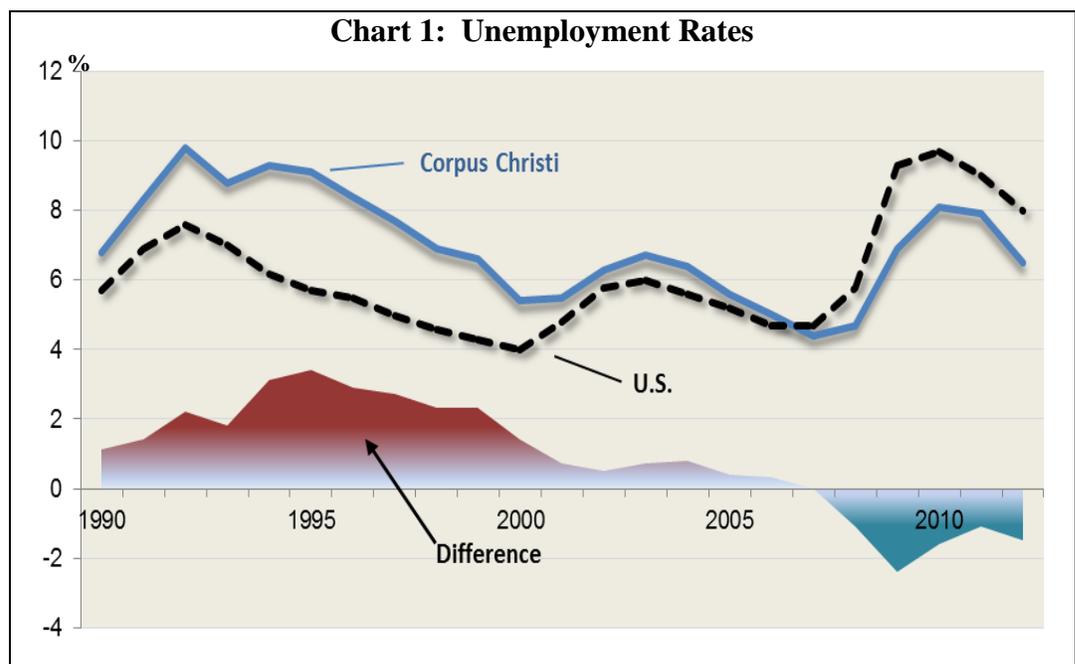
## Reversal of Fortunes for South Texas

By Jim Lee

The South Texas economy has experienced a reversal of fortunes. During the past two decades, the economic gap between the region and the nation as a whole shrank steadily. Today, Corpus Christi outperforms the U.S. in terms of employment and income growth. While development in the Eagle Ford Shale region has played a prominent role in bolstering regional economic activity, the recent growth experience in South Texas might have also been driven by other long-term factors, including persistent upswings in oil prices and a more educated local workforce. An understanding of the major source of regional economic growth bears important policy implications.

Historically, the economy of South Texas trailed behind the U.S. as a whole. The local unemployment rate stayed persistently above the national average, and the opposite was true for household income. Popular suspects for the region's sub-par long-term economic performance include its relatively low educational attainment level and overall workforce skills, and its unique geographical location—near the

Mexican border but distant from other fast growing cities such as Dallas or Houston.



### Long Road of Closing the Gap

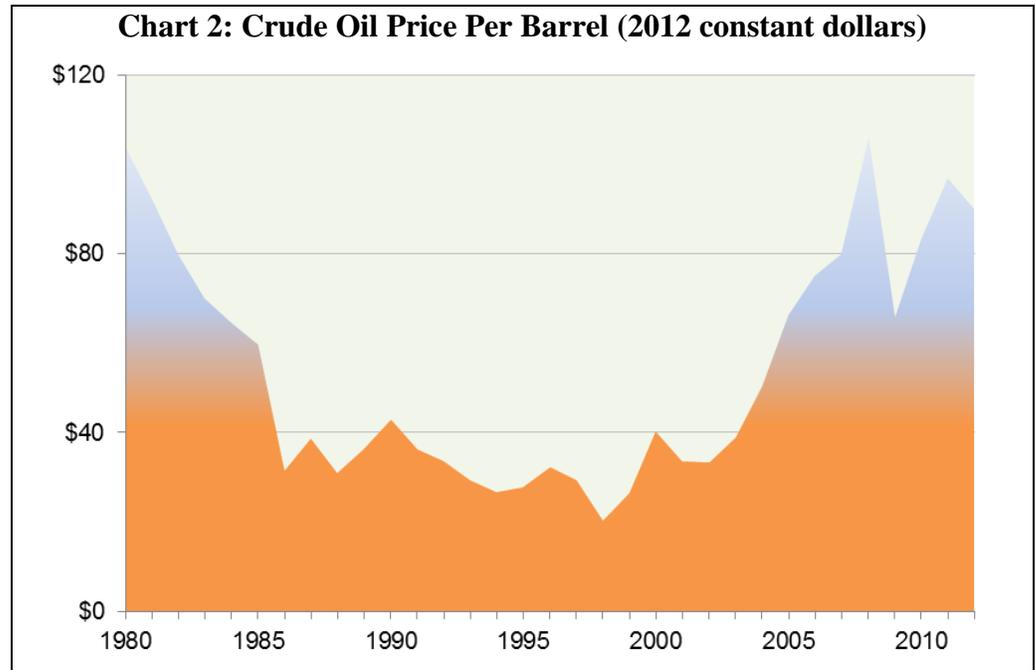
Around the turn of the 21st century, however, this economic gap began to shrink (see *Chart 1*). By 2007, the jobless rate for Corpus Christi had fallen below the U.S. average. Today, the local unemployment rate is nearly 2 percentage points below that for the nation. Employment growth in the region has also accelerated to over 5 percent annually, as compared to the merger 1.5 percent for the rest of the nation. What has contributed to such a reversal of fortune for South Texas?

## Eagle Ford

It is now apparent that Corpus Christi has entered a new economic era that is fueled by the oil and gas drilling activity in the Eagle Ford Shale region. However, the first major oil well in the Eagle Ford Shale, which is located in La Salle County, was not discovered until 2008. As such, the Eagle Ford Shale oil and gas production could not have triggered the long road of closing the economic gap that began some 10 years earlier.

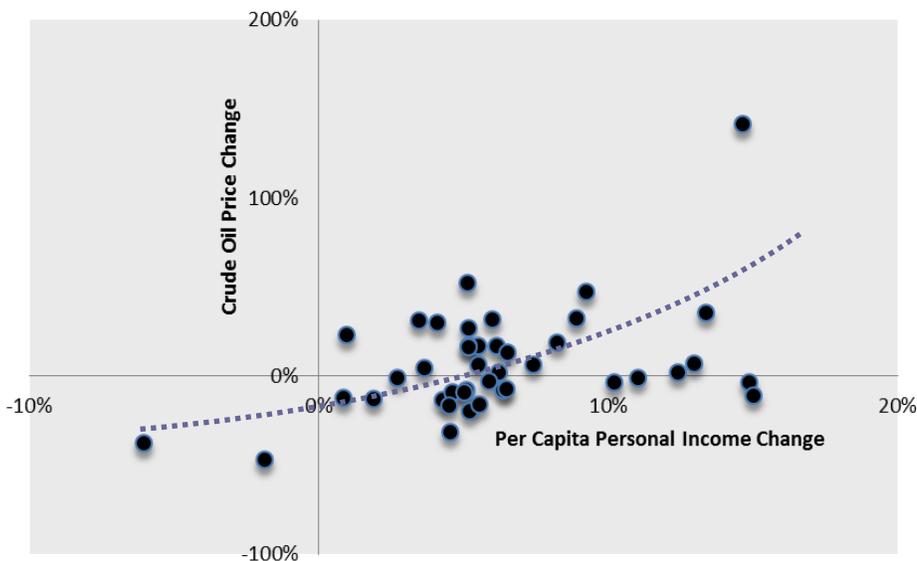
While the Eagle Ford Shale did not happen to be a catalyst for the persistent improvement in the relative performance of the regional economy, the dynamics of oil prices might be the cause. Historically, the South Texas economy has tended to follow the ebb and flow of oil prices over time.

*Chart 2* shows the West Texas crude oil price in today's dollars since 1980. After falling by half between 1980 and 1986, the crude oil price was kept at relatively low levels until 2000.



Since then it underwent a persistent upswing until reaching over \$100 per barrel in 2008, and the global economy subsequently fell into a deep recession. Even though crude oil prices plummeted in 2008, they have quickly returned to levels above \$80 per barrel, which is the level that has made shale oil and gas drilling activities across the U.S. economically feasible.

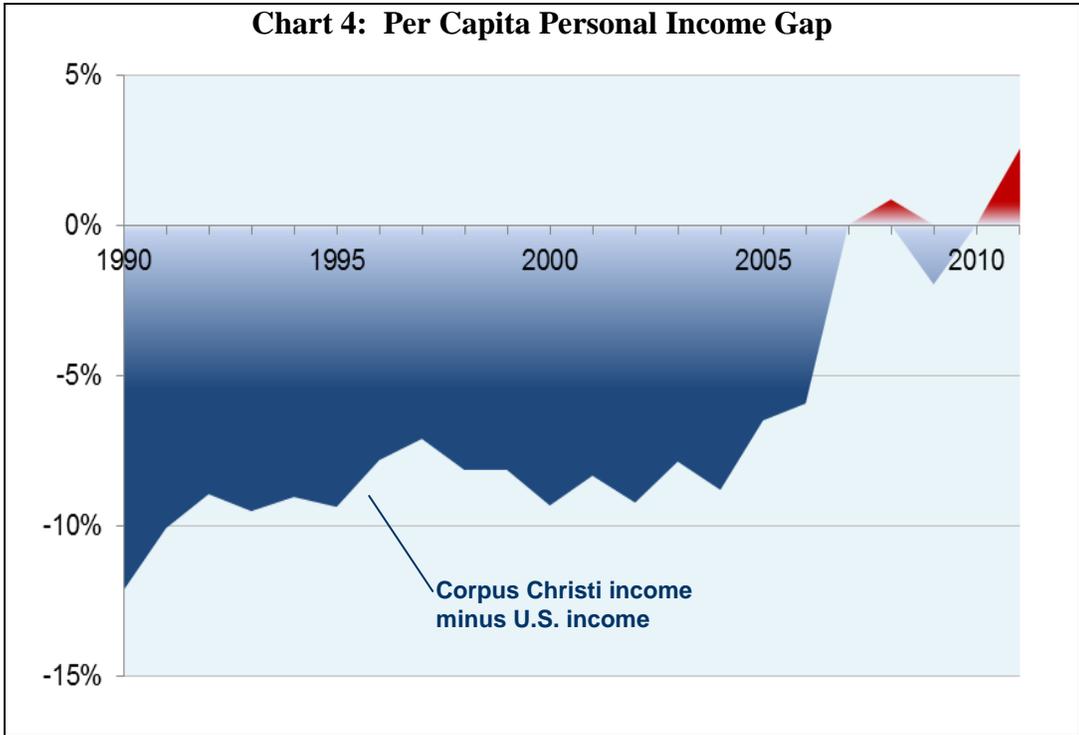
**Chart 3: Corpus Christi Per Capita Personal Income vs. Oil Price, 1970-2011**



### “Oil That is, Black Gold”

To illustrate how the oil market weighs on the South Texas economy, *Chart 3* shows a scatter plot for the percentage change in Corpus Christi's per capita income versus the percentage change of the world crude oil price for the years between 1970 and 2011. According to the positively-sloping dotted line, which is the line that best fits the data points, variations in the oil price explains roughly 20 percent of variations in Corpus Christi's per capita income.

The average income level in Corpus Christi tended to rise more rapidly during the OPEC oil embargo in 1973-74, the period immediately followed the Iranian revolution in 1979, and the Gulf War in 1990-91. These historical episodes led to substantial rises in oil prices that subsequently led to an economic recession in the U.S. Local oil refineries, however, tended to respond to rising gasoline prices by raising production levels. As a result, the prominence of the oil and gas industry in South Texas has often driven the local economy in a direction opposite to that for the nation as a whole.



Since 1990, Corpus Christi’s personal income per capita has converged steadily to the national average. *Chart 4* shows that this income gap diminished drastically between 2004 and 2008 as the world oil price more than doubled. As crude oil and gasoline prices continued to stay elevated while the U.S. economy remained sluggish in recent years, the per capita income level for Corpus Christi inched ahead of the U.S. average.

**Workforce Development**

Other than pure luck due to the windfall in the oil and gas industry, other factors might have also contributed to the improvement of the South Texas economy over the past decade. One of those possible factors is an improvement in the educational attainment of the region, which promotes in a more skilled workforce. The percentage of the local population in Corpus Christi with a high school graduate or better rose 4 percentage points between 2000 and 2010. Similarly, the percentage of the local population with a bachelor’s degree or better rose 1.4 percentage points. The increase in percentage points may not sound significant, but it translates into an addition of over 4,500 local residents with a college degree today as compared to a decade earlier. A more educated workforce is regarded by many economists as a key factor for driving down structural unemployment that persists in an economy over time. Employees with more education and skills tend to be more productive and more mobile.

**Growth Source Matters**

Most community leaders, of course, welcome strong economic growth because it enhances living standards and tax revenues. It is, nonetheless, important to understand the factors behind the observed regional growth. If the recent economic experience in South Texas has been largely spurred by expanding activity in the oil and gas industry, then the prospect of continued growth in the region would hinge on changes in the *global* energy market, which has endured much volatility. If instead the strength of the local workforce has been the primary source of the exceptional economic performance, then sustainable growth ahead seems more secure.

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**Corpus Christi MSA Educational Attainment**

	2000	2010
Age 25+ Population		
High school graduate or better	73.93%	77.91%
Bachelor's degree or better	17.74%	19.13%

Source: U.S. Census.

**The Right Mix**

The regional economy has outperformed the U.S. as a whole in terms of employment and income growth. Knowing whether expansion in one particular industry, as represented by investment in *physical* capital, or improvement in the workforce is the primary economic driver is crucial for understanding the future prospect of the economy. The current growth experience in South Texas is probably the outcome of a mix of both factors. According to textbook economic theory, *human* capital and technological advances are critical to sustainable economic growth. This implies that economic development planners should pay particular attention to workforce development as a vehicle to extend the current growth experience.