TEXAS A&M UNIVERSITY CORPUS CHRISTI
SOUTH TEXAS ECONOMIC DEVELOPMENT CENTER

Economic Pulse

A More Diversified Economy?

by Jim Lee

ABSTRACT:

By standard measures, Corpus Christi is *less, not more,* economically diverse today than in the past. Despite this reality against the popular myth regarding local industries, the relative size of the mining sector has diminished considerably across South Texas since the oil market crash of the mid-1980s. This finding alone implies that the South Texas regional economy would probably be less vulnerable to the effects of the recent plunge in oil prices, although more economic diversity is not the underlying reason.

Notes: The author thanks Mack Ray of American Bank for some of the data presented in this article.

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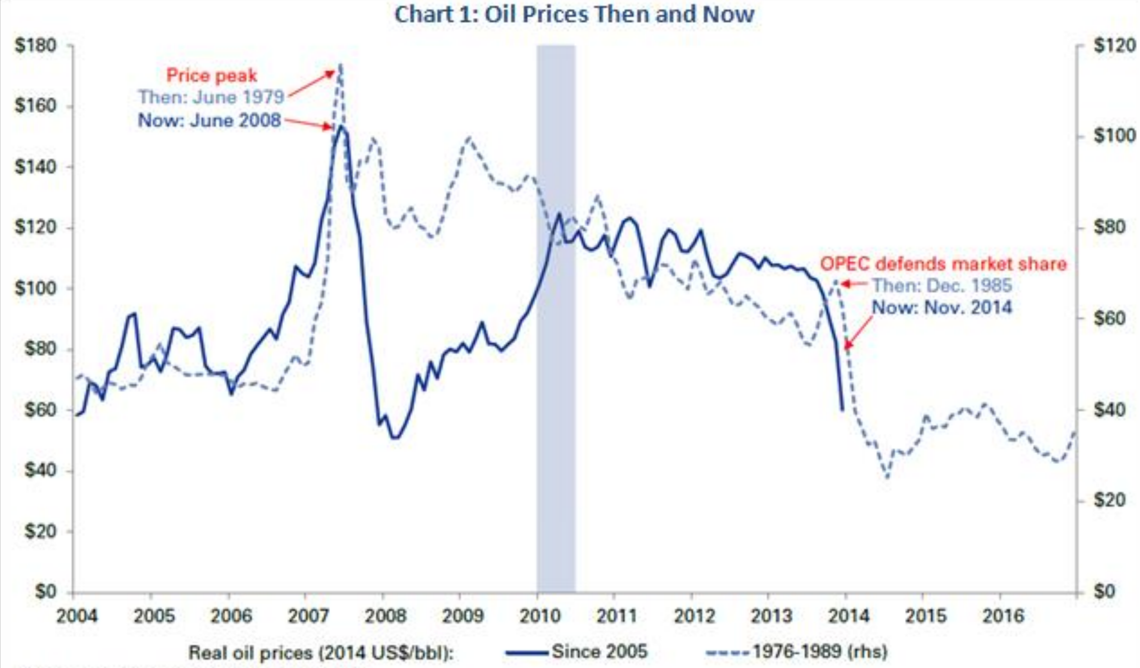
The plunge in oil prices in recent months has prompted concerns about how the South Texas region can weather the headwinds resulting from the imminent cutback in shale oil production in the Eagle Ford region. Current developments in the global oil market echo closely what happened in 1986, which led to much economic upheaval in Corpus Christi and some other metro areas in South Texas.

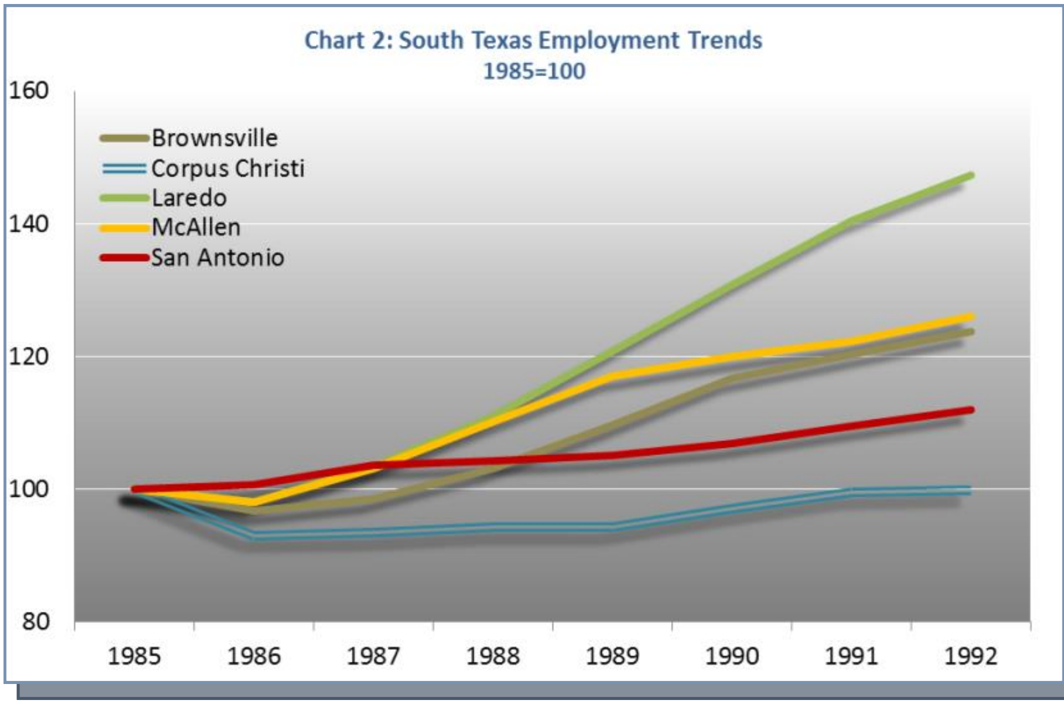
Given the volatile nature of the global crude oil market, concerns about its future direction are warranted. The following chart (**Chart 1**) of Goldman Sachs Global Investment Research clearly shows that falling crude oil prices beginning in late 2014 as well as its preceding 10-year period paralleled the historical developments leading to the oil market crash in the mid-1980s. If history does repeat itself, then oil prices could stay near current levels for years to come due to the glut of oil supply worldwide.

Should oil prices remain close to the current depressed levels for an extended period, what's in store for the South Texas economy? To address this question, let's first look at the historical records of the regional economies in the wake of the oil debacle in the mid-1980s. **Chart 2** shows the employment trends of the five metro areas in South Texas during the 10-year period following 1985. The data are scaled to 100 for 1985.

Chart 1: Oil Prices Then and Now



Source: Goldman Sachs Global Investment Research.



2012. By 2013, this sector had completed a full cycle with employment returning to the 1985 level.

Chart 3 also shows that the experience of Corpus Christi was quite unique in South Texas. Mining employment in other South Texas metro areas either did not suffer similar setbacks, like the case of San Antonio, or in fact it grew, like the case of Laredo.

So, how significant is oil and gas production to the South Texas economy? **Chart 4** shows the share of mining in total area employment for the five metro areas since 1970. For Corpus Christi, even though the mining sector has gained back most of its jobs lost during the oil debacle in the mid-1980s, this sector now accounts for just over 5 percent of total area employment, or about half of that during its peak three decades ago.

The data for Laredo follow a similar ebb and flow pattern over time. Its share of mining employment has also reduced by nearly half from its peak of 7 percent.

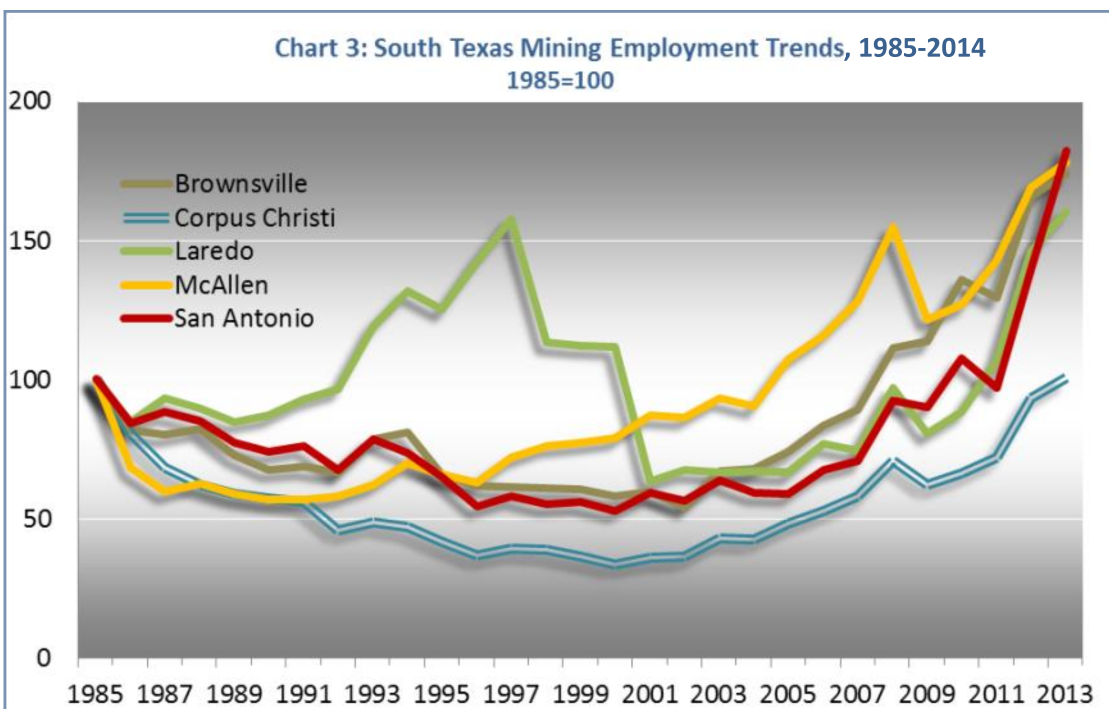
The smaller relative size of the mining sector in Corpus Christi today has

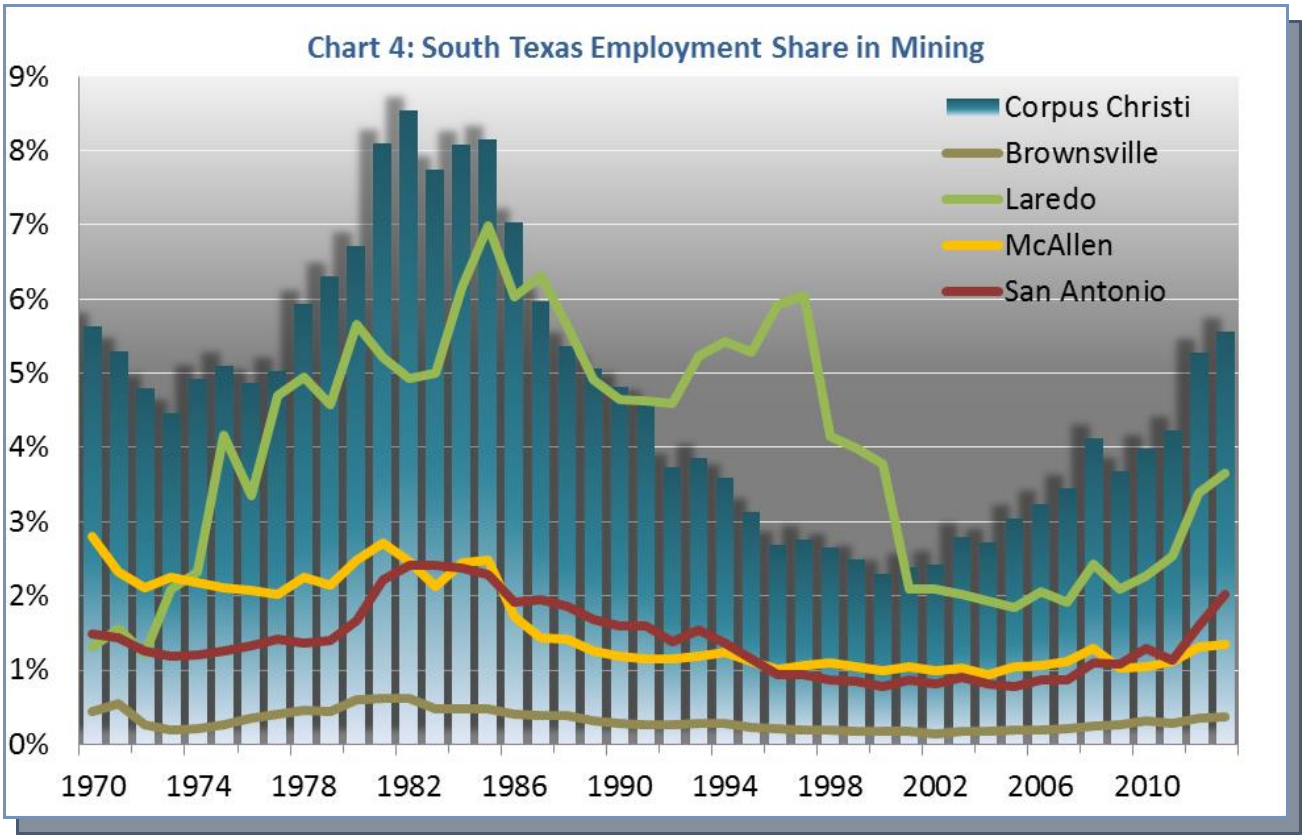
Chart 2 highlights the varying impacts of the plunging oil prices on different communities in the region. All data are scaled to 100 in 1985. Corpus Christi felt the most impact, shredding more than 7 percent of its local employment in 1986 and 1987. Employment did not return to the 1985 level until eight years later in 1993.

On the contrary, the oil debacle apparently did not affect San Antonio at all. Its employment continued to grow after 1985. For Laredo, the impact was short-lived. The metro area lost 2 percent of its employment in 1986, but since grew at an annual rate as much as 10 percent through 1992.

One suspect for the varying impacts of falling oil prices on different local economies is the extent of dependence on the oil and gas industry. Employment in the mining sector, including oil and gas exploration and extraction and their support services, are directly affected by developments in the oil and gas markets. **Chart 3** shows the mining employment trends for the five metro areas since 1985. For Corpus Christi, it appears that job losses in the mining sector were responsible for much of the setback in its local labor market. In the aftermath of the oil market crash, mining employment continued on a downtrend through the beginning of the new century.

By 2000, Corpus Christi's mining employment had shrunk by about 70 percent as compared to its peak in 1982. As a result of the booming activity in the Eagle Ford Shale region, mining employment expanded at a rapid pace of over 10 percent in 2011 and





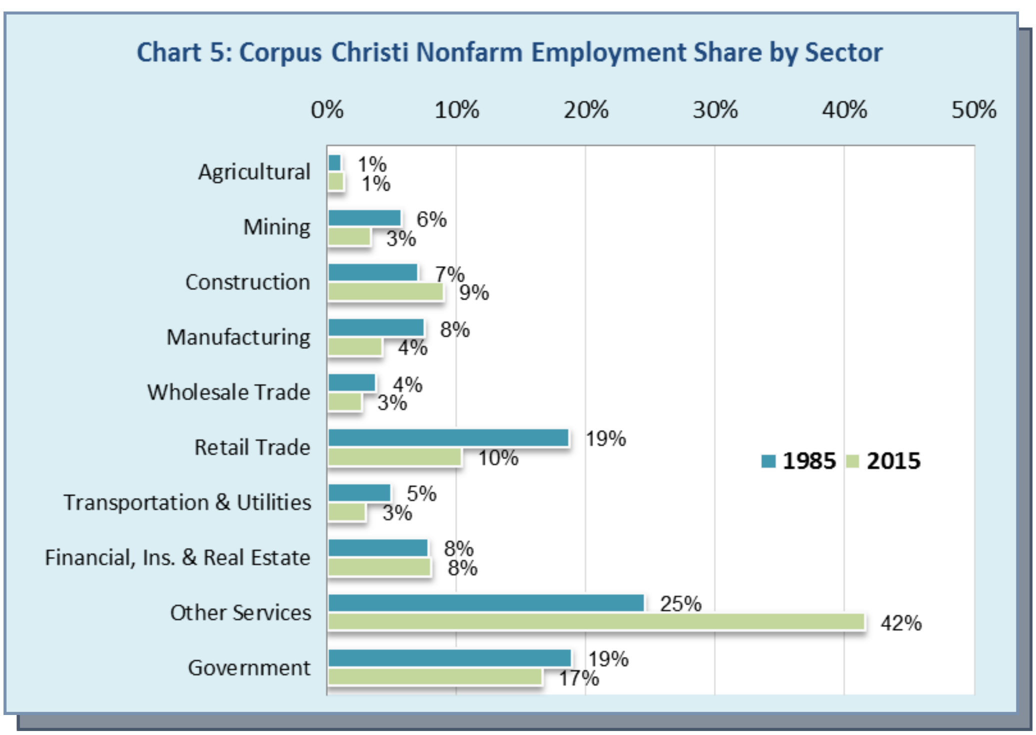
led to the common perception that the area is now more diversified. Based on standard measures of economic diversification, this is more a myth than reality. For instance, based on a popular measure called the Entropy Index, the relative degree of diversity in the area with 10 economic sectors has dropped from 88 in 1985 to 79 today. A reading of 100 implies perfect diversity, or equal size, in employment across the 10 sectors. The readings for an alternative index, called the Herfidahl Index, generate the same conclusion: Employment across major sectors in Corpus Christi has overall become less diverse.

Chart 5 highlights how Corpus Christi's economic landscape has shifted by showing the changes in different sectors' share of total employment between 1985 and 2015. During this 30-year period, the employment share of the mining sector reduced by half. Retail trade also witnessed a similar reduction. On the contrary, the so-called "other services" sector gained prominence in the Corpus Christi economy, with a local employment share doubling over that period. Industries in that sector include hospitality, education, business management, and health care.

Still, the Corpus Christi metro area has a highly diverse economy as compared to most local communities in the nation. According to the University of Illinois at Urbana-Champaign's Regional Economic Applications Laboratory, Nueces County ranks at the top 10 percent among all U.S. counties in industry diversity.

With more concentration in manufacturing and construction, San Patricio county is placed at the 51st percentile (see also *Aqua Book*, 2014).

Local officials have made economic diversification a development priority. Regardless of the overall degree of economic diversity, the area is less vulnerable to developments in the oil market today than in the past. Yet like the rest of the nation, its economy is now more service oriented.



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