ABSTRACT:
This newsletter provides evidence in support of the widely held argument that current developments in industrial projects can more than offset the negative economic effect of falling oil production on South Texas. Employment data suggest that the regional economic impact of the shale oil boom already peaked out in 2012. Since then, the so-called New Economic Paradigm has shifted, with the construction industry as the new game changer for the Corpus Christi economy.

Plunging oil prices since late-2014 has raised concerns about the future course of the Corpus Christi economy. As explained in a previous issue of Economic Pulse (2015 Issue 3), oil and gas employment in South Texas has expanded gradually since the early 2000s, following a decade of sharp declines in the aftermath of the oil market collapse of 1986. In the midst of the oil boom in the Eagle Ford shale formation, the share of oil and gas employment in Corpus Christi has returned to the pre-1986 levels of about 6 percent. Relatively high concentration of oil and gas employment makes its economy particularly vulnerable to the potential fall in oil production.

As detailed in another issue of Economic Pulse (2015 Issue 4), even if most local jobs directly associated with oil and gas extraction in the Eagle Ford shale were to disappear, Corpus Christi would still be able to plow ahead given the current momentum in industrial construction. This argument was supported with data projections given certain hypothetical scenarios.

This newsletter provides additional evidence to support this claim, which is widely held among community leaders.

To understand the role of construction relative to oil and gas extraction in Corpus Christi, Chart 1 displays monthly employment growth of those two sectors since 2011 along with overall employment in the area. Corpus Christi’s overall employment growth reached its historic high of nearly 4 percent in 2012, followed by periods of declining growth before the labor market perked up again in early 2014.

As apparent in Chart 1, such developments in the local labor market were the outcomes of a paradigm shift between the oil and gas industry and the construction industry. Oil and gas employment expanded at a rapid pace of nearly 30 percent year-over-year in 2012, followed by precipitous...
declines through mid-2014. The slowdown in oil and gas employment was associated with declines in the number of operating oil rigs in the Eagle Ford formation.

Since early 2013, the construction sector has picked up the slack in the oil and gas industry. Monthly construction employment has grown at a year-over-year rate of 10 percent on average in 2014.

So, what was the underlying source of growth in the construction sector? To answer this question, Chart 2 shows the local monthly employment growth of four construction industry segments. The patterns vary drastically across the four plots. Employment in residential construction, including home and apartment building, fluctuated significantly from one year to the next. This industry segment has been on the upswing since mid-2014. On the contrary, employment for constructing commercial buildings has been on the downswing in the past year after two years of strong growth.

The pattern of employment in constructing industrial buildings appears to run contrary to the pattern for commercial buildings. Employment in this industry segment rose more than 30 percent year-over-year in early 2012 and then it has picked up again since early 2014.

In contrast to all other construction industry segments, employment in highway and street construction had remained stagnant until early 2014. Expansion in the construction of industrial buildings and streets are attributable to the development of a large number of industrial sites around the Port of Corpus Christi. Chart 3, which replicates a chart in the previous newsletter (2015, Issue 4), shows the locations of major industrial sites under development. The majority of those projects are slated for completion by the end of 2017. Unlike oil production, those industrial facilities would not be negatively affected by the currently low oil prices as long as...
regional oil and gas production continues. Record employment growth in Corpus Christi in 2011 and 2012 has added substantial wage pressure for local employers. According to the Bureau of Labor Statistics, Nueces County was ranked 13th in wage earning growth at 5.5 percent by the end of 2014, as compared to the U.S. average of 2.9 percent. Texas counties that outperformed Nueces County were all in the Permian Basin.

Chart 4 shows the sources of growth in Corpus Christi’s total wage earnings since 2011. Wage earnings growth comes from two sources: (1) an increase in employment, and (2) an increase in the wage rate. The first plot in Chart 4 shows that employment growth (bottom portion) tended to be more stable than growth in the wage rate (top portion). The total percentage changes, as indicated inside the bars, are the combined outcomes of these two sources of earning growth.

The other two plots show the corresponding data for the oil and gas industry and the construction industry. Labor can move from one industry to other industries that are growing more rapidly. As a result, employment growth fluctuated relatively more over time within one sector than in the entire region.

With more than 20 percent employment growth in 2011 and 2012, the oil and gas industry appears to be a key driver of the area labor market. Employment growth in construction, which includes pipeline construction, also peaked in 2012, but it has remained solid since 2012 while growth in oil and gas activity has slowed down.

Although in relative terms of employment growth (Chart 4), the construction industry is behind the oil and gas industry, the former is substantially larger in absolute terms. The role of construction relative to oil and gas activity is illustrated in Chart 5. The first pie chart of Chart 5 shows that in Nueces County, the construction industry is more than double the oil and gas industry by employment size. Construction employment is even more concentrated in San Patricio County, accounting for more than one in five local jobs.
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