Sustained low oil prices since the beginning of 2015 have prompted increasingly more local government officials in South Texas to emphasize economic diversification as a long-term planning priority. A more diversified economy, other things being equal, tends to be more stable over time as it is less dependent on the rise and fall of individual industries like oil and gas drilling.

One way to understand the extent of economic diversity is to look at the distribution of employment across industries. A recent *Economic Pulse* article (2015, Issue 3) focuses on the oil and gas industry, we now look at all local industries. **Chart 1** shows the relative scores of employment diversity for five major cities in South Texas. The benchmark is a score of 100, which indicates perfect evenness of employment across all industries classified under the North American Industrial Classification System (NAICS).

A low diversity score implies high employment concentration in only a few industries. Instead of employment by industry, the column chart also shows corresponding diversity scores measured by employment across a list of nearly 100 occupational groups, such as farm...
workers, business executives, and engineers and architects. Again, a score of 100 implies a perfectly even distribution of jobs across occupations, and a low score implies employment concentrated in only a few occupations.

According to Chart 1, San Antonio and Corpus Christi are highly diversified in terms of employment either by industry or occupation. The diversity score in terms of employment by industry is 95 for San Antonio and 90 for Corpus Christi. In terms of occupations, their diversity scores are relative lower as about one-quarter of the individual cities’ workforce belongs to the semi-skilled service occupational group.

Economic diversity appears to be smaller for smaller cities, which tend to have a smaller variety of industries and businesses. With an employment size smaller than one-tenth of San Antonio’s, Laredo has the lowest level of employment diversity. Its relative diversity score by occupation is 28. Laredo has the largest inland port on the U.S.-Mexican border. Nearly every other employee in Laredo works in distributive service, and about 30 percent of that city’s workforce belongs to the semi-skilled service occupations.

Brownsville has an employment size similar to that of Laredo, but its workforce is relatively more diversified. As for Laredo, distributive service is the largest industry in Brownsville, making up nearly one quarter of the local workforce. However, other service industries, such as health care, finance, insurance and real estate, are also relatively large, each accounting for more than 10 percent of the city’s overall employment.

Chart 2 shows the relative roles of major economic sectors in the five major cities of South Texas. The chart lists the distributions of employment across 21 economic sectors in 2014. Each ring shows a particular city’s economic sectors by employment in different colors. Clearly, the economic landscape varies remarkably across the five cities.

The government sector is clearly a major employer as well as income generator in South Texas, contributing to more than one-fifth of the total income earned in Brownsville, Laredo and McAllen. Despite its military base, Corpus Christi has the smallest share of the public sector.

Instead of employment, Chart 3 on the next page shows the corresponding distributions of industries by Gross Regional Product (GRP) as a measure of an area’s total output and income. For the private sectors, the patterns differ in varying degrees across the two charts. For a particular economic sector, a larger share of GRP (Chart 3) relative to its respective share of local employment (Chart 2) implies that...
the typical worker in that sector generates relatively more output. This is especially true for the mining sector, which includes oil and gas extraction.

Conversely, a larger share of local employment relative to its respective share of GRP implies that a given level of output involves more workers. This appears to be the case for the sectors of accommodation and food services, and health care and social assistance.

Another interesting case is the manufacturing sector in Corpus Christi. This sector accounts for about 5 percent of Corpus Christi’s overall employment, but more than 25 percent of the city’s GRP. Such a contrast reflects the relatively high capital intensity of manufacturing industries as well as the relative significance of those industries to Corpus Christi’s economy. As discussed in recent Economic Pulse newsletter (2015, Issue 5), this sector is poised to expand further, given current capital developments around its port.

For San Antonio, Brownsville and McAllen, oil and gas extraction (shown in red in Chart 2) is a relatively small part of the local economy. This implies that the direct impact of any cutback in oil drilling activity would be rather mild. The role of oil and gas extraction in Corpus Christi and Laredo is, however, evident in Chart 2. In 2014, the mining sector contributed to about 8 percent of the total income earned in those two cities.

Other than providing some perspectives on the regional economic outlook, the economic diversity data are informative about the historical performance of South Texas’s local economies. For instance, Laredo’s economy suffered the most during the Great Recession of 2007-2009. Substantial reductions in the trade flows between the United States and Mexico during that period affected to a great extent Laredo’s distributive service sector.

By contrast, San Antonio’s highly diversified economy has been historically most stable among all cities in South Texas, especially during national economic downturns.
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