Business formation and growth of existing businesses are the key sources of long-term economic growth. According to popular surveys, such as those reported by Forbes, Thumbtack, and WalletHub, Texas provides an exceptionally favorable business environment. Corpus Christi has also been ranked as one of the top U.S. cities particularly for Hispanic entrepreneurs and small businesses.

Despite an overall business friendly climate, nearly one in 10 local businesses leave the Corpus Christi metro area during a typical year for different reasons, while about the same number of new businesses enter this market. In this article, we take a close look at this churning process by slicing and dicing the longitudinal database of Census Bureau Business Dynamics Statistics for Corpus Christi. Year 2014 is the most recent year for which Census data are available.

By the Numbers: How has the number of local businesses changed historically?
The number of business firms in Corpus Christi nearly doubled within the past 30 years. However, the vast majority of them are businesses without paid employees, or non-employer firms. These businesses have accounted for most of the growth in business starts historically. Their share of the total expanded rapidly during the past decade, especially following the 2007-2009 nationwide recession. In 2014, 81 percent of local business entities did not have any paid employees, compared to 77 percent in 2000.

Firm Sizes: What is the breakdown of local businesses by size?
Firms with paid employees are best represented by those with a physical storefront or office. For employer firms, business growth in terms of employment or payroll has historically tilted toward larger firms. In 1980, firms...
with fewer than 5 employees made up 50 percent of all firms in Corpus Christi. That share slipped to 43 percent by 2014. During that same period, the share of firms with more than 1,000 employees increased from 3 percent to 4 percent as a result of a nearly two-fold increase in the number of these firms.

**Firm Size by Age: How do young firms compare with established firms in size?**

Firms tend to expand over time, as long as they continue to survive market competition and other changes in the economy. The average number of employees among local firms running no more than five years is 6.4, but that figure rises to 16 for firms with an age between 6 to 10 years. Firms that have been in operation more than 25 years in Corpus Christi have an average of 42 employees.

**Job Impact: Younger firms are typically smaller. Do they also have relatively smaller impacts on new job creation?**

Most business startups are small. Even though small businesses do not generate the bulk of new jobs, new firms do. New firms are defined as businesses less than one year old. In a typical year, new firms collectively create about one in 10 new jobs in Corpus Christi. The total number of jobs created annually tends to increase for local firms that have been running more than 5 years.

**Net Job Creation: How do firms’ job impacts stack up if job destruction is also taken into consideration?**

Jobs are destroyed locally when a firm reduces its payroll or exits the area altogether. The amount of net job creation is the difference between the number of jobs created and the number of jobs destroyed. In 2014, new firms in Corpus Christi together added nearly 800 more jobs, or 86 percent of additional jobs created locally during that year.

The extent of net job creation within that year declined dramatically for older firms, even though they have more employees. Because a large proportion of firms typically fail within the first few years in operation, the amount of net job creation was negative, meaning a net loss of jobs collectively, for local firms one to five years old.

**Business Cycle: How has business activity changed historically in Corpus Christi?**

The number of employer firms has followed the rise and fall of the overall direction of the economy, or what economists refer to as the business cycle. The area lost a total of 463 firms during the local economic downturn between 2007 and 2011. Despite an increase in the overall size of the local economy, the number of employer firms in Corpus Christi today is about the same as that in the 1990s. On the other hand, the average firm size, gauged by the number of employees, has grown steadily from about 16 in 1990 to more than 23 today.

**Entry and Exit: Since the number of employer firms hasn’t increased much in recent years, have we been seeing more or less the same businesses locally?**

Although the number of employer firms in Corpus Christi has stayed about the same in the past 20 years, their makeup has changed. Each year more than 8 percent of business establishments in Corpus Christi are new.

As a measure of new business formation, the entry rate is the proportion of new businesses less than one year old relative to the total. The annual firm entry rate for Corpus Christi was about 11 percent in the 2000s, slightly below the national average. During the 2007-2009 U.S. recession, the entry
rates for both the metro area and the nation slipped dramatically. Since then, these rates have stayed flat.

Each year, a large number of businesses leave the area as result of either failure or reallocation. Like the entry rates, Corpus Christi and the nation’s exit rates, which measure the proportion of businesses that leave an area, also trended down over the past decade. More businesses exit an area when the overall business condition is less favorable, such as the depths of the last U.S. recession in 2009. The falling exit rates in recent years reflected steady business growth in South Texas as well as across the nation.

The reasons for the declining trends in both entry and exit rates are not immediately clear. Jack Wang and Michael Weiss of the Federal Reserve Bank of Dallas suggest that the same factors that have contributed to business consolidation have benefited the development of large, established firms but hurt small, young businesses. For instance, in the retail sector, “big box” stores, such as Walmart, have replaced mom-and-pop businesses. According to these two economists, technological advances and increased globalization have raised the advantages of economies of scales for bigger, national corporations.

Local business formation is indicative of an area’s economic health and future growth. For this reason, the patterns of entry and exit rates reflect vibrancy of an economy. As with other communities in South Texas, Corpus Christi’s business entry and exit rates have persistently stayed below the Texas averages. By comparison, the business formation rates are remarkably higher for the metro area of Austin-Round Rock-San Marcos, which has experienced rapid economic growth. Their entry and exit rates were respectively 12.8 percent and 8.7 percent in 2014. The contrasts in the business formation rates between Corpus Christi and Austin highlight the role of business formation in long-term economic growth.
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Economic Pulse

is a joint publication of the South Texas Economic Development Center, the College of Business, and the EDA University Center at Texas A&M University-Corpus Christi. Material may be reprinted if the source is properly credited.

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