Economic Pulse

Economic Diversity Across South Texas

by Jim Lee

Texas is big. So is South Texas. In fact, the size of this region’s economy, valued at $190 billion in 2016, is larger than that of the entire state of Oklahoma. Other than its sheer size, South Texas’s local economies are diverse. Economic performance has varied widely across local communities, especially after the oil price collapse since late 2014.

This article provides an overview of the regional economy, and identifies major factors that help explain recent changes in economic conditions across 41 counties. This is a summary of the 2017 edition of Aqua Book, published annually by the South Texas Economic Development Center.

Recent Performance
The South Texas region as a whole experienced falling unemployment during the shale oil boom between 2010 and 2014. In the wake of remarkably low oil prices, the region’s overall unemployment rate surged by nearly 2 percentage points within the past two years.

Because a large part of South Texas is particularly dependent on oil and gas production, employment growth slowed down dramatically between 2014 and 2015, before returning to the historical norm around 1 percent in 2016.

The falling shale industry has taken a toll on some counties, while other counties less exposed to this industry have continued to perform well. The unemployment rates of counties averaged below 5 percent in 2016 around San Antonio, but exceeded 10 percent for counties in the core region of Eagle Ford.
However, individual counties with persistently high unemployment are those along the U.S.-Mexico border. In 2016, Zavala County experienced the highest average unemployment rate of the region at about 15 percent.

By contrast, McMullen County, despite being part of the Eagle Ford region, continued to see low unemployment rates below 3 percent. Annual employment growth also varied widely between -20 percent and 5 percent across all counties in this region.

Labor market conditions also vary widely across the five metro areas in South Texas. In 2016, areas around San Antonio saw unemployment rates below the statewide average of 4.7 percent. By contrast, the Brownsville-Harlingen and McAllen-Edinburg-Mission metro areas in Rio Grande Valley continued to experience persistently high unemployment above 7 percent.

Within the Corpus Christi metro area, the three counties have also performed quite differently. The monthly unemployment rates in 2016 averaged at 5.5 percent for Aransas and Nueces counties. By comparison, despite the bulk of construction activity near the Port of Corpus Christi, San Patricio County sustained higher unemployment rates above 7 percent throughout the year.

Industry Competitiveness
For the majority of communities in South Texas, the government is the sector with the most employees. The various units of the government sector collectively account for nearly one in five jobs across the region.

Military bases are also the largest employers of some communities, such as the cities of Corpus Christi and Kingsville. Health care is the second largest sector in the South Texas region by employment, followed by retail trade.

In 2016, economic performance across the South Texas region was affected in varying extent by the exposure to the impacts of low oil prices. The mining sector plays an overall relatively significant role in this region. Some 30,000 people work in the region’s mining sector, mostly in oil and gas extraction.

Although oil and gas extraction accounts for only 1.5 percent of the regional workforce, this sector’s Location Quotient exceeding 3 underscores the role of this industry in the regional economy relative to the rest of the nation. Location Quotient measures how concentrated each industry in a region as compared to the national average.

The Location Quotient of the mining sector, which includes the oil and gas industry, is above one for most counties and cities in South Texas. The reading is as high as 105 for Kenedy County, followed by 78 for La Salle County.

Counties with the highest local employment shares from the mining sector, such as Kenedy and Zapata, have suffered a severe economic downturn. On the other hand, more diversified areas, particularly those around San Antonio, have continued to experience job growth.

Income Gaps
In South Texas, the average annual earnings per employee have historically stayed around 85 percent of the Texas state average. This income gap narrowed somewhat during the shale oil boom between 2010 and 2014, when increased oil and gas drilling benefited most local economies in this region.

The region’s income gaps with the state and national averages are associated with its workforce’s relatively lower levels of educational attainment. Slightly more than 20 percent of the adult population in the region holds a Bachelor’s degree or higher, compared
to nearly 30 percent nationwide.

Disparities in educational attainment explain about 15 percent of income variations across all counties in Texas. Both average income and educational attainment levels are the lowest among rural areas and along the U.S.-Mexico border, such as Duval and Zavala Counties. By contrast, income and educational attainment levels are the highest around San Antonio, such as Bexar, Jackson and Guadalupe counties.

Another 20 percent of income variations across counties are correlated with the relative sizes of local employment in oil and gas drilling. Despite its boom-bust cycles, the oil and gas industry has played an overall positive role in the local economies across Texas.

Despite a major cutback in oil and gas employment during 2016, the relative size of this industry, as measured by the Location Quotient, helps explain roughly 20 percent of differences in personal income among all Texas counties. For instance, with the second highest Location Quotient for oil and gas employment, La Salle County’s average personal income at $61,000 was also the second highest in South Texas.

As you can see, the local economies of South Texas are diverse. This aspect of the region makes it difficult to apply any one-size-fits-all type of economic development policy for the region.

References

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