The South Texas economy is facing an uncertain future in the near term, mainly because of its exposure to oil and gas activity and the devastation from Hurricane Harvey. An understanding of how these two game changers would affect this region going forward can reduce the uncertainty in our economic outlook, especially for local small businesses.

The following is adapted from a talk by the director of South Texas Economic Development Center at Texas A&M University-Corpus Christi to Small Business Development Center’s Entrepreneur Night in Corpus Christi on May 2, 2018.

Entrepreneur
It’s wonderful to speak to you at the Entrepreneur Night for the second year, especially in the Texas State Aquarium. My topic today is the local economy and how it is related to small business owners like many of you.

Again, I must begin by saying I can never be you as a business owner, or entrepreneur. This is because an entrepreneur, by definition, is a person who takes on greater than normal financial risks. In other words, unlike me as an employee who assumes little business risk, you wake up every morning without knowing exactly how much you will earn by the end of the day.

As discussed below, the outlook is now less certain for local businesses. Uncertainty raises the perceived risk of business decisions, and so hiring new employees and investing in capital tend to slow down.
To support economic growth especially in the short term, it is therefore important to have a clear understanding of current economic conditions and new business opportunities going forward.

Economic Anchors

Before I talk about the key economic drivers or developments in Corpus Christi today, I’d like to remind you small businesses that you represent are the backbone of the local economy. Small businesses collectively create more jobs than large corporations and national chains do in a typical year.

But as much as you think your own business is unique, the old saying that “a high tide lifts all boats” means that we all are to different degrees tied to the overall economy in Corpus Christi and elsewhere.

This aquarium is not only a popular tourist attraction in Corpus Christi, but also one of the top places to visit in Texas after USS Lexington. Its presence supports a large number of local businesses, particularly the motels and hotels, and restaurants and bars in the North Beach area. This is why we typically pay more attention to large economic anchors than individual small businesses. Later I will talk about the Exxon/SABIC plastic plant announced last year as an example.

Shocks

How much are local businesses affected by changing economic factors, or shocks, around the world? Three Dallas Fed researchers, Alexander Chudik, Janet Koech, and Mark Wynne recently addressed this question by applying an economic model to employment data of Texas metro areas. For Corpus Christi, they found that global factors explain about 16% of employment changes in its metro economy over time; national factors explain 14%.

The other economic factors are specific to different regions. Not surprisingly, the energy sector, particularly the oil and gas activity, accounts for 37% of the employment fluctuations in Corpus Christi. This also means that about one-third (33%) of employment growth in the metro area is the outcome of other factors specific to South Texas or the metro area.

The relative roles of various economic factors vary widely across metro areas in Texas. On one extreme, local factors collectively explain more than 85% of economic developments in the College Station-Bryan area, which is home to Texas A&M University. On the other extreme, global factors account for about half of employment fluctuations for the Houston-Woodlands-Sugar Land metro area, due largely to its large export sector that depends on developments overseas.

Unlike a typical metro area in Texas or the nation, the lion’s share of economic fluctuations (70%) in Corpus Christi originates from this region as opposed to the nation or overseas.

Business Ties

The next chart plots changes in the number of business establishments in Corpus Christi over time during the past decade. The pattern follows closely changes in U.S. GDP as a broad measure of national economic performance. A large number of local businesses failed during the 2007-2009 Great Recession, and relatively more local businesses were formed during the subsequent nationwide economic recovery. This highlights the influence (30%) of the rest of the world on the local economy of Corpus Christi.

Oil Matters

Despite its ties to the national economy, Corpus Christi has periodically run in the opposite direction of that for the U.S. Oil is responsible for this performance gap.

As for Houston, Corpus Christi belongs to an oil-producing region, but the U.S. as a whole is an oil-consuming region. Falling oil prices, especially in 2015 and 2016, hurt the overall economy in Corpus Christi and much of Texas, but low energy costs helped fuel economic growth.
Historically, changes in oil prices from one year to the next explained more than 40% of changes in Corpus Christi’s personal income, which includes wage and investment earnings, and profit sharing from businesses.

Opportunity Knocks

While South Texas remains heavily exposed to the oil and gas activity, the region has emerged as a major exporter of oil and gas, and petrochemicals including plastics. A total of $50 billion in industrial capital projects are under construction near the Port of Corpus Christi.

In 2017, a plastic plant was announced jointly by Exxon Mobil and SABIC, which expected to take on $10 billion in capital investment.

Even though the site is in San Patricio County, more impact is expected to occur in Nueces County due mainly to its more developed economic makeup. Additionally, even though the construction industry benefits the most during the plant’s construction phase, nearly all other industries benefit from this project.

Likewise, once the plant begins to operate, the area’s businesses, especially retail stores and healthcare facilities, will face increased traffic.

Like this Lexington museum, that world-class industrial facility is an example of new opportunity that will benefit your small business.

Harvey: The Storm

In August 2017, Harvey became yet another game changer for the Coastal Bend. The extent of its damage to properties and infrastructure along much of the Texas coast has created a high level of uncertainty, even the concern whether the directly impacted communities like Rockport and Port Aransas will ever be fully restored.

Despite its devastation, the Rockport-Fulton area in Aransas County, where the storm made landfall, has obviously been recovering at a rapid clip. By March, about six months after the storm, more than half of businesses in that county had reopened.

A speedy recovery among impacted businesses will likely minimize the vicious circle in recovery for the community as a whole. Open businesses will generate sales tax revenues and enable local authorities to rebuild infrastructure earlier.

Rockport is a good example. The City of Rockport’s sales tax collection returned to its pre-Harvey volume before the end of 2017. This contrast with its neighboring city of Port Aransas, which still generated a lower sales tax volume by February.

Business Survey

Your perception and outlook are precursors of the overall economy’s future. For this reason, we’ve conducted a short business survey on local business conditions on a quarterly basis. This survey has proved to be helpful for predicting or simply tracking changes in the Corpus Christi economy.

After 2016, our respondents tended to hold a positive near-term outlook. Harvey did not disrupt this positive trend until this past quarter, when relatively fewer respondents saw improvement in their business or expected future improvement.

The regulatory environment has typically been the primary challenge for business owners in the survey. According to the latest survey, labor cost and availability instead are now the primary obstacles for local businesses moving ahead.

Put differently, Harvey might have exacerbated our region’s long-standing workforce problem.

Yet a hurricane can be viewed as a crisis instead of a disaster. A crisis is a time of danger as well as new opportunity. The post-Harvey rebuilding activities are creating a construction boom greater than any industrial plant ever built in Corpus Christi.
Past Issues:

2018, No. 7: Hotel Performance After Harvey
2018, No. 6: Business Recovery After Harvey
2018, No. 5: Local Housing Outlook
2018, No. 4: Workforce Impact of Construction Boom
2018, No. 3: Harvey’s Impact on Corpus Christi
2018, No. 2: Education System in Corpus Christi
2018, No. 1: Best Recession Recovered Cities
2017, No. 10: Immigrants in Corpus Christi
2017, No. 9: What Levels the Playing Field?
2017, No. 8: Demystifying the $10 Billion Impact
2017, No. 7: Recent Employment Dynamics
2017, No. 6: Economic Diversity Across South Texas
2017, No. 5: Local Business Dynamics
2017, No. 4: Housing Market Downswing?
2017, No. 3: Impacts of Rising Seas
2017, No. 2: Closing Income Gaps with Education
2017, No. 1: Seasonal Employment
2016, No. 12: A Tale of Two Oil Towns
2016, No. 11: Where You Live Matters
2016, No. 10: How Distressed is Our Community?

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