Economists tend to have 2020 hindsight. But most of us have difficulty finding clarity in future uncertainty. As we look forward to the rest of this already eventful year as well as a new decade, it is instructive to first review some recent trends that will likely continue to affect our Corpus Christi economy.

Globally, key trends include prolonged U.S.-China trade negotiations, a protracted Brexit resolution, escalating geopolitical tensions in the Middle East, and the explosive outbreak of coronavirus. These ongoing events will have potential impacts on the global economic health that Corpus Christi and the broader South Texas region are exposed to.

National and statewide trends will also impact our local economy. Indeed, our tourism sector—a key economic driver—rely largely on visitors from the rest of the world. Our local housing and labor markets have also been running in tandem with the directions in other parts of Texas.

Background
In his recent State of the Union Address, President Trump lauded the U.S. economy as the best in history. Indeed, key macroeconomic indicators are pointing to a so-called Goldilocks economy that is sustaining steady economic growth along with low inflation.

GDP growth, the broadest measure of a nation’s economic performance, hovered around 2 percent in 2019.

Meanwhile, persistent job growth has pushed the unemployment rate to near record lows below 4 percent. Strong economic momentum has also been eventually supported by a faster growth pace in wage and corporate earnings. Contrary to what typically happens in a booming economy, inflation has remained subdued around the Federal Reserve’s 2-percent target level.

If history is any guide, the performance of the overall economy and financial markets so far strongly support no change in power at the White House. This in turn reduces the threat of disruptive policy changes during this election season. Still given the track record of President Trump, the risk of policy surprises should always be here to stay.

For many investors, another popular prognostication comes from Super Bowl outcomes. The victory of the Kansas City Chiefs, an NFC as opposed to AFC team, foretells a bull stock market in 2020.

Regional Performance
Our Lone Star state has been doing even better. Texas led all states with the largest number of jobs created and business startups in 2019. The state’s current economic momentum
seems to be constrained only by a tight labor market in the view of an average unemployment rate of 3.5 percent over the year. The high-tech sector has become the main economic driver, which has dwarfed the impact of a slowdown in oil and gas production. The state’s labor market has been further tightened by rebuilding activity along its Gulf Coast region in the wake of Hurricane Harvey. One consequence is a rapid pace of home price appreciation across Texas.

For year 2020, the consensus among most economists calls for continued regional growth, albeit at a slower pace. We should be mindful that most tailwinds we experienced during the past two years will likely calm down in time.

Anil Kumar, a researcher at the Federal Reserve Bank of Dallas, estimated that the Tax Cuts and Jobs Act of 2017 boosted GDP in 2018 by 0.8 percentage point and job growth by roughly 0.24 percentage point. The impact of recent tax cuts and increased government spending on consumer spending and business investment will likely wear out soon.

Recession Odds

The U.S. economy entered 2020 on solid footing, but heightened global risks and uncertainty have continued to weigh on investors’ confidence. In the bond market, a short-lived and shallow inverted yield curve near the end of last year raised fears of an impending recession. The yield curve is a graphical illustration of the spread or difference between short-term and long-term interest bond yields.

Historically, a recession almost always followed a negative or “inverted” spread. A yield curve inversion is a signal that investors expect weaker growth, or even a recession, over the near term. Recently, long-term rates have been falling faster than short-term rates as a result of muted inflation, accommodative monetary policy stance with a series of interest rate cuts, and a strong U.S. dollar.

According to an economist at the Federal Reserve Bank of St. Louis, Kevin Kliesen, the odds of a coming recession based solely on the yield spread by late 2019 had risen to levels near those immediately before the Great Recession of 2008-2009.

Although it is inconceivable that business cycles can die of old age, the current economic expansion in its eleventh year—the longest in U.S. history—may not continue indefinitely as it never did.

High levels of uncertainty can trigger a sudden loss in consumer and business confidence that in turn lead to falling consumption and investment. Consumer spending alone makes up about two-thirds of the nation’s economy.

While investors and policymakers alike should be attentive to the accumulation of economic shocks that potentially trigger a recession, an improved trade picture with the latest round of trade resolutions with China and the passage of the U.S.-Mexico-Canada (USMC) agreement almost eliminated the risk of an economic downturn, propelling the stock market to new record highs.

Aggressive interest rate cuts by the Federal Reserve in 2019 have also raised confidence that the U.S. economy can keep growing at least through the rest of this year.
One reliable predictor of near-term economic conditions is the leading economic indicator. The readings of the leading index for the U.S. and Texas dipped to risky levels by the end of 2018, but the threat of a downturn diminished in the following year. Currently, Texas’ leading economic index points to sustained growth throughout 2020, albeit at a slower pace that reflects the potential impacts of depressed oil prices and a slowdown in business investment and hiring.

**Corpus Christi in Focus**

Against this backdrop, which direction will Corpus Christi be headed? Local economic forecasts typically reflect the potential of changing economic dynamics around the world. For Corpus Christi, we should instead be more focused on local factors.

As explained in a recent *Economic Pulse newsletter*, global and national factors together explain no more than one-third of historical employment growth in Corpus Christi, far less than other metro areas in Texas. Instead the ebb and flow of the local economy has been disproportionately exposed to energy shocks, notably oil and gas price changes, and factors that are unique to this region.

Key economic indicators suggest that the Corpus Christi economy has been sustaining moderate job and economic growth. Like the state and nation as a whole, Corpus Christi is currently experiencing record low unemployment around 4 percent. Yet the area was gaining relatively fewer jobs at an average year-over-year growth rate of 1.1 percent in 2019, compared with the state average of 2.7 percent and the national average of 1.4 percent.

The health, education, and hospitality sectors added the most jobs. Job gains in these sectors were offset by losses in the mining and transportation industries in response to a slowdown in oil and gas drilling activity in South Texas.

Though most economic outlooks for this region now have shifted away from upstream oil and gas activities that drove the region’s economic boom until the oil price collapse in 2015. Today the focus is mostly about the potential of exporting crude oil and natural gas from as far as West Texas through the Port of Corpus Christi. Since Congress lifted its 40-year ban on crude exports, outbound oil shipments from the Port have grown exponentially, topping 1.4 million barrels per day by the end of 2019.

Meanwhile, Cheniere Energy, the nation’s largest liquefied national gas (LNG) exporting firm, hit a milestone of 1,000 shipments out of Corpus Christi. As maritime activity at the Port is poised for continued expansion, ongoing and potential infrastructure improvements, including ship channel upgrades and construction of new refining and export facilities, will likely boost local job and income growth in years to come.

This positive outlook is shared by the majority of local business leaders. According to recent business condition surveys conducted by American Bank and Texas A&M University-Corpus Christi, increasingly more respondents have expected their own business and overall local economic conditions to improve in the near future.

**Growth Opportunities**

Behind the scenes, the local economy is widely believed to be resilient to the risk of a slowdown or even recession at the global and national level. Going forward, Corpus Christi will likely continue to leverage the growth opportunities created by the emerging heavy manufacturing and petrochemical export industries.

So far, however, growth opportunities have been constrained by limited infrastructural capacities, regional workforce disadvantages and a tight local housing market, among other things. In particular, like the nation as a whole, Corpus Christi’s official unemployment rate understates the slack in its labor market. As a result of an increasing number of residents who have dropped out of the labor force so that they are not counted as unemployed, the current unemployment rate no longer paints an accurate picture of labor market conditions.

As an alternative to the standard unemployment rate, the non-employment index, which includes not all the unemployed but also those out of the labor force, was 8.6 percent for Corpus Christi in 2019. This means that in addition to the 4 percent of the local labor force that wanted a job but was not able to find one, another 4 percent of the working-age population was not actively looking for work. These individuals, including retirees and students, are potential human resources that the area can utilize in an effort to enhance regional competitiveness.

Despite the variety of headwinds facing the nation and the rest of the world, our local economic outlook hinges on potential dynamics unique to this region. It is therefore important to stay focused. The outlook for Corpus Christi should be conditional on community strategies that aim to strengthen the region’s resilience to imminent economic shocks.

With hindsight, a close look at the performance of San Antonio during the last decade could offer a learning lesson for the future of Corpus Christi.
Corpus Christi Employment Change, 2019

Bubble size represents employment size.

Corpus Christi Employment Change, 2019

Port Corpus Christi Outbound Crude Oil, bpd

Business Cycle Indexes