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Houston Business

A Perspective on the Houston Economy

Victoria: Crossroads of South Texas

Unlike many other small towns and cities, Victoria has found important sources of growth in the job-rich service sector. Apparently, there are many paths to healthy economic growth and development.

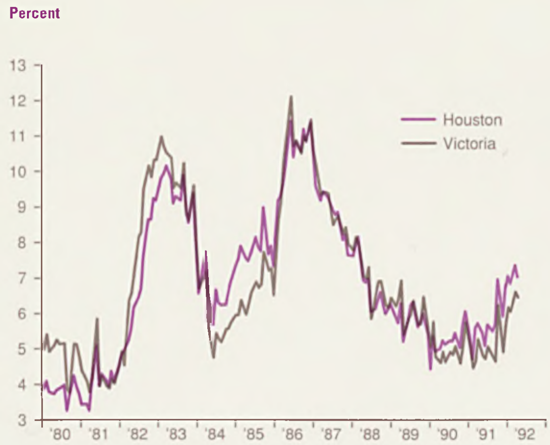
Victoria, with a population of only 74,000, is the smallest metropolitan area in Texas and one of the smallest in the United States. The city is a diversified regional distribution and financial center for the mid-section of the Texas Gulf Coast region. Aptly known as the "Crossroads of South Texas," Victoria is 125 miles by highway from Houston, 115 miles from San Antonio, 125 miles from Austin and 85 miles from Corpus Christi. Victoria's market area includes about 250,000 residents within a 60-mile radius of the city. Its location gives Victoria a strong position in regional wholesaling, retailing, banking, utilities and medical care. Oil, natural gas, cattle ranching and petrochemicals combine to give the local mix of industries a distinctive Texas flavor.

As a small neighbor to the southwest of Houston, Victoria's economy has mirrored Houston's in surprising ways in recent years. Figure 1 plots the unemployment rate for the two cities from 1980 to 1992. The paths are remarkably similar in both their level and timing. The similarity stems from several sources: the common thread of oil, natural gas and chemicals; the startling diversity found in the small metropolitan area of Victoria; and the city's affluence, provided the city by oil and ranching, particularly in relation to its South Texas neighbors.

KEY INDUSTRIES IN VICTORIA

Table 1 lists the private, nonfarm industries in Victoria County with unusually large concentrations of employment. These concentrations are measured with *location quotients (LQs)*, defined as the percent share of local employment in each industry divided

Figure 1
Seasonally Adjusted Employment Rate, 1980–92



SOURCE: Texas Employment Commission.

by the percent share found in that industry in a typical place in the United States. For example, if the LQ is greater than 1, a greater-than-normal concentration is found locally, and if the LQ is less than 1 the concentration is comparatively weak. Table 1 shows LQs for Victoria County greater than 1.2, along with corresponding values for the same industries in Harris County.

Mining—Oil, natural gas, refining and petrochemicals provide a common economic thread along the Gulf Coast from Corpus Christi, through Houston and Beaumont, and on to Lake Charles, New Orleans and Baton Rouge. Victoria is very much a part of this distinctive Gulf Coast economy. The drilling boom and bust of the 1970s and early 1980s was strongly felt in Victoria. The Texas Railroad Commission District 2, which includes Victoria and nine surrounding counties, reported 94 rigs at work at the peak in December 1981; Victoria's oil and gas mining employment peaked in the same month at 4,500, or 14.1 percent of nonagricultural employment.

By mid-1986 only 10 to 15 rigs were working in District 2, and oil and gas employment had fallen by two-thirds. Most current oil and gas employment in the area is tied to production from existing fields. Despite a modest and recent revival of drilling, including some horizontal drilling in the Austin Chalk, oil and gas mining now makes up only 5.5 percent of local employment.

Chemicals—Downstream chemicals and refining are another common economic thread along the Gulf Coast, and petrochemicals are a key to Victoria's recent growth. The petrochemical industry struggled throughout the late 1970s and early 1980s but began to thrive after 1987. Announced plans for new plant construction or existing plant expansions on the Texas Gulf Coast neared $9 billion between 1987 and 1991. Victoria and, especially, neighboring Calhoun County, shared this construction boom.

DuPont, located in Victoria since 1949, remains the area's largest employer, with 1,400 employees. DuPont completed a $64 million dollar expansion in 1991 and is now moving into yet another expansion phase. Rhino X completed a $38 million, high-density polyethylene plant in 1991; a $40 million air separation plant for Big Three Industries was also completed recently.

Calhoun County scored the largest construction coup in the area by attracting the $1.5 billion Formosa Plastics complex to Port Lavaca. Numerous chemical units under construction on 1,600 acres adjacent to an existing polyvinyl chloride plant will ultimately add 850 jobs to the firm's payroll of 270. Formosa Plastics plans to construct more film and plastics operations in nearby Jackson County, which ultimately will add another 1,000 workers. With as many as 5,000 construction workers recently on the Calhoun and Jackson County sites, employment and contracting opportunities have had a powerful ripple effect on nearby Victoria.

Table 1
Significant Concentrations of Employment in Victoria, 1989

Industry	Location Quotient	
	Victoria Co.	Harris Co.
Oil and Gas Extraction	9.64	5.04
Nonmetallic Minerals	7.02	.21
Chemicals	8.54	1.86
Stone, Clay, and Glass	3.97	.49
Transportation Services	2.15	1.73
Electric, Gas, Sanitary Services	2.68	1.42
Wholesale Trade (Nondurable)	1.34	.94
Retail Trade	1.35	.89
General Merchandise	1.51	.85
Food Stores	1.90	.94
Auto Dealers	1.58	.88
Apparel	1.61	.98
Furniture	1.46	.84
Depository Institutions	1.55	.96
Motion Pictures	1.28	.52
Health Services	1.41	.77
Membership Services	1.21	.69

SOURCE: U.S. Bureau of the Census, *County Business Patterns*.

Transportation—Another Gulf Coast feature shared by Victoria is extensive port, rail and trucking facilities. Like Houston, Victoria has inland port facilities. The Victoria Barge Canal serves as a small ship channel, connecting the city with the Intracoastal Waterway 35 miles away. Port Comfort is the nearest deep-water port. The canal was promoted locally as early as 1905, but construction began in 1954 through Calhoun County and, in 1958, to Victoria County. The canal was completed in 1965. Engineering and environmental plans are in place to widen and deepen the canal, but Victoria voters rejected a recent bond issue. The Union Pacific Railroad serves the Canal and connects with the Southern Pacific Railroad in Victoria.

Retail Trade—The large location quotients for nondurable wholesaling and for several retail categories indicate that Victoria is an important regional distribution center. Retailing location quotients generally are expected to have a value near 1 in most towns and cities, indicating that retail services are provided locally with little or no import or export activity. LQ values similar to those shown for Houston are typical. Some modest retail exports to adjacent hinterlands certainly occur (the exports generated by a suburban mall is the best example), but the large values for Victoria are exceptional. Victoria's crossroads position was a defining factor in the earliest days of Texas history as the small city grew up at the intersection of the east–west Goliad Road and the cart road that led from the port of Indianola to San Antonio. Victoria's retailing strength today reflects the continuing power of this South Texas location.

Services—As indicated by the strong LQ for depository institutions, banking is strong in Victoria and an important force in the local economy. This strength stems partly from the same locational advantages that bolster retailing. Also, the region's extensive ranching and oil production help in two ways: These industries generate extensive capital needs and heavy borrowing, while simultaneously generating personal wealth that often produces investment in banking.

The other key service-sector strength in Victoria is medical services. More than 7,000 jobs are found in personal, business and professional services in Victoria, and about 45 percent of them are in the medical sector. Again, locational advantages come strongly into play in providing extensive and high-quality regional patient care.

COMPARISONS WITH HOUSTON

It is a tribute to Victoria's economic diversity that any comparison can be drawn between its work force of 31,000 and Houston's work force of 1.6 million. The economic course of Houston and Victoria—measured, for example, by total employment—traces a path common to all cities along the Texas and Louisiana Gulf Coast. Oil drilling and production, refining and chemicals, and extensive rail, truck and ship connections combine to explain the commonality. Victoria, despite its proximity to San Antonio and Austin, is very much a part of the Gulf Coast economy.

Perhaps the most interesting contrast between Houston and Victoria is the different sources of growth found by each city's service sector. Victoria's strength stems from regional marketing of wholesale and retail goods, gas and electric utility distribution and locally provided medical and financial services. Houston, operating on a much larger and geographically wider scale, shares strong growth only in medical services.[1] Unlike Victoria, however, Houston has moved beyond simply providing local medical care, to concentrating on medical education and research to augment and enhance more traditional medicine. In distribution and banking, however, Houston defers to Dallas as the Southwest's regional leader.

Some of Victoria's *weakest* location quotients are in business, engineering and management services. These sectors have provided Houston with its most powerful sources of growth since 1987. White-collar job growth associated with administration of the oil industry, the engineering and construction firms in the city, NASA's Johnson Space Center, and medical services provided much of Houston's service-sector expansion. Although Victoria shares deep roots with Houston in oil, gas, refining and chemicals, in the engineering, professional and administrative areas, the smaller city fails to compete at all.

However, unlike many other small towns and cities, Victoria *has* found important sources of growth in the job-rich service sector. Apparently, there are many paths to healthy economic growth and development.

[1] The small location quotient for Houston medical services in Table 1 is deceptive. The data reflect only private jobs, leaving out the important public-sector jobs at the Medical Center, such as the Veterans Affairs Hospital, the M.D. Anderson Cancer Center or the various state-operated medical, dental and nursing schools.

The Houston economy continues to drift. First-quarter employment, always weak compared with the rest of the year, showed a very slight increase once statistics were adjusted to account for the normal seasonal decline. Seasonally adjusted figures for April fell to levels of late 1991. Mining, manufacturing, utilities and transportation have sustained the heaviest job losses since last summer. State and local governments are the only major sectors of the economy to show significant job gains.

RETAIL AND AUTO SALES

Retail sales are reported to have weakened since Easter, and May was not a strong month. Heavy rains were a negative factor but are not sufficient to explain sales running 2 percent to 3 percent below last year at several stores. Local respondents with stores located elsewhere reported that Houston sales were lagging the rest of the state, especially along the Mexican border. Auto and truck sales had two good months: March sales were up 7 percent from a year earlier, and April's were up 15 percent. But May sales were down 2 percent. May 1991 was a very strong month, however, and a respectable spring selling season is still under way.

OIL-RELATED PRODUCTION

Wet weather and seasonal slowdowns combined with the current slump in oil and natural gas drilling to push the Baker Hughes rig count to less than 600 for the first time ever. Seasonal factors will improve the rig count over the summer, and expiring subsidies for drilling in tight sands are likely to spur year-end drilling. Apart from these special factors, however, drilling is likely to remain very slow. With billions of dollars of existing oil and gas reserves now on the market, often at prices below the cost of a new drilling program, producers have little incentive to drill.

CHEMICALS AND REFINING

Commodity petrochemical output and sales remain at high levels, and downstream markets for several plastics are reported to be improved. Margins are improved, but they remain very thin. Prices have improved slightly for ethylene, and the cost situation has changed little in recent weeks. Excess capacity for commodity chemicals offers little hope for short-term relief from weak pricing and margins. Refiners report normal inventories and seasonal improvements in demand for product. Margins and demand, however, still lag 1991 levels.

PAPER AND LUMBER PRODUCTS

Sales of lumber, plywood, particle board, gypsum board and virtually all building products improved this spring. Demand stems from a good construction market in all parts of the state. Lumber and plywood prices have fallen as environmental restrictions in the Pacific Northwest were lifted; other building products, however, are maintaining stronger prices. Demand for containerboard and corrugated boxes is reported to be particularly strong, but other lines of paper are also showing good improvement.

REAL ESTATE

The single-family housing market was soft in May. Existing homes sales slipped by 12 percent from May 1991, and the number of existing listings through the Multiple Listing Service rose 4 percent. New home sales were also off 3 percent to 4 percent from May 1991, and starts in May 1992 dropped even more sharply. The inventory of completed homes on the ground remains thin, as builders and lenders are showing caution in a softening local economy.

The number of apartment units expected to be built this year has been revised upward by 30 percent, largely on the basis of more available financing. Rents and occupancy for apartments generally remain good but only slightly better than a year ago.

Commercial real estate is slipping, with bad news on several fronts. Little activity is reported in retail markets; grocery store chains have been the only source of expansion. The industrial market is perhaps keeping pace with last year in terms of overall rental activity. The worst news comes from the downtown and Galleria office markets. The return of several large blocks of space to these markets is already hurting rents, and one respondent predicts a drop of $2 to $3 in effective rental rates by year-end.

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