

# Houston Business

A Perspective on the Houston Economy

## Brenham and Washington County: Rural Neighbor Finds Diversity and Growth

*Washington County shows surprising diversity and more independence from Houston than we expected. Ties to Houston are destined to grow, however.*

**W**ashington County is a special place for Houston and for all Texas. The county is on U.S. 290, halfway between Houston and Austin and on the shortest route from Houston to the Texas Hill Country. During the spring wildflower season, the entire county—including the county seat in Brenham—becomes a popular stop for Houston tours. The county's location makes it a center for weekend farms and ranches, competing for Houston's leisure and retirement living market with cabins in the East Texas forest and bay houses near Galveston. For all of Texas, Washington County holds two distinctions. First, the Declaration of Independence and the Constitution of the Republic of Texas were signed in the town of Washington-on-the-Brazos, located in the eastern part of the county. The town, now called Washington, served twice as capital of the Republic. Second, the Blue Bell Creamery in Brenham provides modern Texas with about half of the ice cream it consumes, and it now markets ice cream products as far away as Kansas City and northern Florida.

This article is about the economy of Washington County. It is a small, rural county with a population of 26,154 in 1990; current wage and salary employment is 11,000 jobs. Part of our story is one of predictable linkages between Washington County and nearby Houston and of Brenham's modest role as a central distribution point for nearby small communities. Less predictable are the linkages between Washington County and the state and national economies. This small county's economic diversity is unexpected, and its broader economic



ties to the state and nation shape the local economy as much as its relationship to Houston.

### WHAT DOES WASHINGTON COUNTY DO?

To isolate unusual concentrations of economic activity in Washington County, we computed location quotients (LQs) for each local industry. Location quotients are based on personal income, with the income each industry generates in Washington County compared with the income each industry generates in Texas as a whole. The calculation is as follows:

$$LQ_i = \frac{\text{percent of Washington County income from industry } i}{\text{percent of Texas income from industry } i}$$

If the LQ is greater than 1, there is a greater than normal concentration of activity in this industry in Washington County.

Table 1 compares Washington County with Texas for selected sectors. Viewed broadly, the results are typical of a rural county, with a high concentration of farm income, retailing and manufacturing and with weak services overall. We also, however, contrasted Washington County with 30 other nonmetropolitan counties with similar populations that are located along the Gulf Coast or in Central Texas. These comparisons change the denominator in the calculation given above to 30 selected counties and let us compare Brenham with similarly situated places.

Although the farm earnings LQ is large compared with that of the rest of the state, Washington County is not a farming center like other rural counties. The breakup of a traditional German farming community began in the 1960s, and the number of family farms has dwindled to a handful. Row crops, once plentiful along the Brazos River bottoms near Washington, have all but disappeared. High land costs have been a major contributor to farming's decline. A strong second home/retirement home market has been the cause, with land worth more if broken into smaller parcels.

General building construction is at high levels in Washington County because of new residential expansion. The new home and apartment market is extremely tight. About 75 percent of new construction remains outside Brenham, reflecting the attraction of rural lifestyles.

Manufacturing is important to Brenham and Washington County. A dozen different employers provide jobs for 100 or more workers. The figures are not available to show specifics for food processing, but with 735 workers, the Blue Bell Creamery is the county's largest plant. Two clusters of activity account for a similar number of workers and explain the local concentration of rubber, fabricated metal, furniture and printing. One is a group of three paper plants producing business forms and computer ribbons; the other is a group of three unrelated bedding plants producing foam rubber, mattresses and bedsprings.

For many years, Brenham has served as a center of retail and wholesale activity for sur-

**Table 1**  
Location Quotients for Washington County Personal Income

Industry	Texas base	Similar-sized county base
Farm earnings	1.29	.35
Ag services, forestry	2.30	1.00
Mining	.42	.24
Construction	1.08	.91
General building	1.59	2.66
Special trade	1.31	.99
Heavy construction	.28	.26
Manufacturing	1.37	1.17
Nondurables	1.65	1.25
Printing	1.38	2.74
Rubber and plastic	4.40	12.56
Durables	1.14	1.10
Furniture	21.49	4.13
Fabricated metal	2.65	2.17
Machinery	1.13	1.21
Miscellaneous manufacturing	3.92	5.41
Transportation and utilities	.32	.35
Wholesale	1.69	2.15
Retail	1.12	.98
Building materials	1.49	1.23
Food	1.24	.80
Auto sales	1.51	1.09
Miscellaneous retail	1.44	1.39
Finance and insurance	.90	1.72
Insurance carriers	2.16	29.42
Insurance agents	1.46	1.30
Services	.66	1.20
Personal	1.28	2.72
Business	.41	1.11
Legal	.25	1.13
Health	1.10	1.59
Engineering and management	.46	1.52
Private housing	1.28	2.72
Miscellaneous services	1.24	2.10
Government	1.28	1.07
State government	1.69	1.13

SOURCE: Bureau of Economic Analysis, Regional Economic Information System.

rounding communities. Personal services are strong in both LQ comparisons. Wholesale activity is very strong, but this is not just because of Brenham's local distribution sector. A major grocery wholesale distributor that operates throughout the state and provides 220 jobs boosts this sector substantially.

A strong LQ for health care shows another local niche filled by Brenham—providing care to surrounding communities. There is a 99-bed hospital, and the Brenham Clinic has grown to 25 doctors and 60,000 patient files. Complementing medical services is care for an aging population, either at home or in special facilities. In part, Washington County's popularity as a retirement center has made these needs more acute.

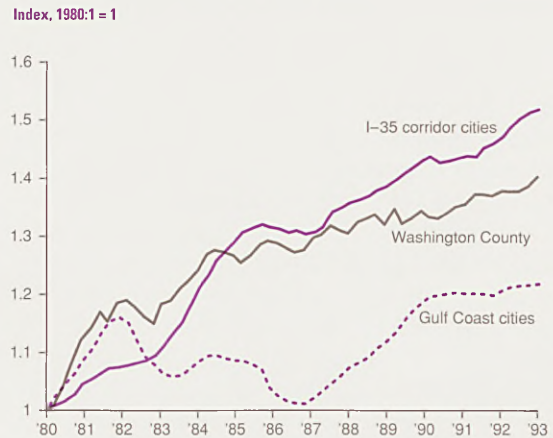
One company that has developed a special niche by selling life and home insurance in rural areas throughout Texas accounts for the strong figure for insurance carriers. This company has expanded to provide credit union and various investment services to its customers. Also, two of Washington County's largest employers are in the public sector. The Brenham State School, which provides special vocational and rehabilitation training for 525 mentally handicapped students, employs more than 1,100 people. Blinn College, the first county-supported, two-year institution in Texas, now enrolls 8,000 students. Blinn has boosted its enrollment by developing programs that complement those of Texas A&M in neighboring Brazos County.

## HOW IT ADDS UP

Figure 1 compares employment growth in Washington County with that of several Texas cities along the Gulf Coast and in the Interstate 35 corridor, with employment indexed so first-quarter 1980 equals 1. With Washington County halfway between Houston and Austin, we thought both groups of cities might play a role in the economies of Brenham and Washington County. Since growth on the Gulf Coast and in the I-35 corridor ran counter to each other throughout the 1980s, we speculated that the intermediate pattern of growth in Washington County might be an average of the two regions.

Discussions with Washington County business people did not support this view. They pointed to Houston as the key regional influence on the local economy, and this largely through the local land market. Time series analysis bears this out: Houston is the only regional city with

**Figure 1**  
**Employment Growth in Washington County,**  
**I-35 Corridor and Texas Gulf Coast**



employment growth that significantly influences Washington County construction employment. Local business people see influences from Austin as small and remote, and they regard the notion of influence from Dallas or San Antonio as unrealistic. Yet, our statistical analyses show correlations between economic conditions in Washington County and the I-35 corridor.

The answer probably lies in the unexpected number of ties from this small county into state and national markets—ice cream, bedding, paper products, insurance, wholesale groceries and others. Certainly, growth in the I-35 corridor is more synchronized with state and national economic conditions than is that of the Gulf Coast. As the state and national economies expand or contract, the effects reach both Washington County and the I-35 corridor. Rather than reaching Washington County *through* the I-35 corridor, however, they reach the county directly through a number of local companies.

Washington County shows surprising diversity and more independence from Houston than we expected. Ties to Houston are destined to grow, however. Already, a few hearty commuters drive to Houston from Brenham, many of them making the hour-long trip to Katy and West Houston. As improvements on U.S. 290 are completed, particularly near Hempstead, this commuting trend will probably grow. The quality of life in a small, Hill Country community like Brenham compares favorably enough to the crime and congestion of the big city to exert a pull of even 70 miles.



**D**ownstream oil and natural gas provide the major economic stories in Houston. First, there is the strength of a revived petrochemical sector. And second, there are the logistical, regulatory and technical problems that continue to plague refiners as they introduce environmentally friendly reformulated fuels. Upstream energy is stable, and other sectors in Houston show results generally consistent with moderate sustained growth.

### RETAIL SALES AND AUTOS

Retail sales were slow most of November, the result of unseasonably warm weather. No cold snap materialized to create the proper mood for buying fall fashions and other seasonal merchandise. Thanksgiving marked a turnaround, however, and retailers registered solid holiday gains of 5 percent or more. Promotions and advertising will continue to be very heavy throughout the holiday season, partly as retailers try to make up for a slow November but also because of the very competitive Houston retail market. Auto sales were very weak in October, off 7 percent from last year, in part the result of floods that meant the loss of a week's business for many dealers. Reports in November were largely of business as usual.

### UPSTREAM OIL AND GAS

A stable and healthy market continues for oil and gas drilling, but the market has been flat for several months. Healthy profits continue to be led by substantial cost-cutting. The domestic rig count continues to improve seasonally but to lag 1993 levels by 5 or 6 percent. Activity in the Gulf of Mexico has been strong but flat for the past year, and Canadian drilling has recently flattened out as well. International activity is slowly improving overall, led by activity among newly privatized companies in Latin America.

### DOWNSTREAM OIL AND GAS

Refiners faced declining demand and weak margins in November, conditions typical of the

end of the driving season. The pipeline break on the San Jacinto briefly improved margins, but the gasoline distribution system proved more flexible than anticipated. Product was barged around the break, exports weren't made, imports briefly surged, and storage terminals on the East Coast were already brimming with reformulated gasoline. Margins on early shipments of reformulated fuels have been highly profitable but are expected to narrow as the market matures.

Petrochemicals are in very short supply, prices are rising sharply, and profits are strong. Polypropylene was described as virtually unobtainable without an existing contract. Inventories were extremely thin for most major petrochemicals, including ethylene, propylene and styrene. Substantial price increases went into effect for polyethylene and polypropylene following the flooding on the San Jacinto River, marking the fifth round of price increases this year. Old capacity is being reopened, projects initiated to relieve bottlenecks, and new capacity is being planned. In some cases, limited manufacturing capacity is slowing these capacity expansions.

### REAL ESTATE

Houston housing starts were down for the second straight month in October, as builders continued to adjust their inventories to higher interest rates and slower demand. Sales of existing homes were similarly off 7 percent from October of last year, and active listings were down 2 percent. The best markets for existing homes continue to be in the lowest price ranges.

Houston's other major real estate markets remain on the same track of slow improvement they have exhibited all year. The office market slowly stabilized in rents and occupancy over the course of 1994. The industrial market has also been stable in rents and occupancy but with a very active warehouse/distribution-center component. Rental rates are improving nicely in both the retail and apartment markets, with occupancy flat for apartments and up for the retail sector.

For more information, call Bill Gilmer at (713) 652-1546.

For a copy of this publication, write to

Bill Gilmer • Houston Branch • Federal Reserve Bank of Dallas  
P.O. Box 2578 • Houston, Texas 77252

The views expressed are those of the author and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or the Federal Reserve System.