

Houston Business

A Perspective on the Houston Economy

Texas A&M University has been at the center of the region's past growth, but an enrollment cap and flat spending may limit the school's future role.

Bryan–College Station: More than a College Town?

Three distinctive features characterize the economy of the Bryan–College Station metropolitan area: it perennially has the lowest unemployment rate among Texas metro areas; it has a record of solid economic growth, despite a remote location on the Texas highway system; and it is the home of Texas A&M University. This article examines the economy of the Bryan–College Station (B/CS) metropolitan statistical area (MSA), located just 95 miles northwest of Houston. The MSA consists of Brazos County, population 128,000, with almost all local economic activity concentrated in Bryan and College Station. Texas A&M University has been at the center of the region's past growth, but an enrollment cap and flat spending may limit the school's future role. Indeed, B/CS's future depends on an economic base more independent of Texas A&M, and the region already shows signs of becoming more than a big college town.

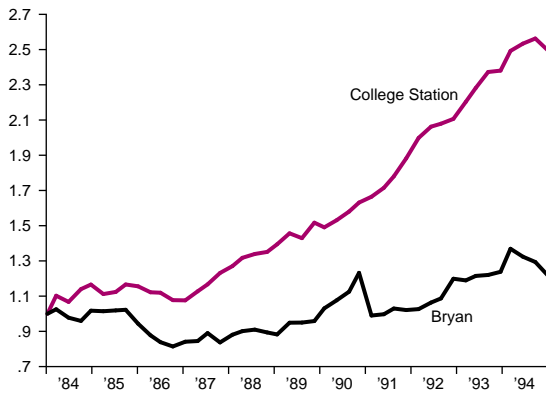
TEXAS A&M UNIVERSITY

In 1865, William Joel Bryan donated land for a projected townsite on an extension of the Houston & Texas Central Railroad, and the following year, the town of Bryan was made the seat of Brazos County. In 1871, the Agricultural and Mechanical College of Texas—located five miles south of Bryan in College Station—became the state's first venture into higher education.

The Agricultural and Mechanical College opened in 1876 with six faculty members and 40 students. The school's original charter offered males a curriculum of agricultural and mechanical arts, without excluding scientific and classical studies and includ-

Figure 1
Total Retail Sales, College Station and Bryan

Index, 1984:1 = 1



SOURCE: Texas Comptroller's Office.

ing military education. In 1963, the school began to offer limited coeducational opportunities for women, and by 1970 it was fully coeducational. It was renamed Texas A&M University in 1963 in recognition of its new and diversified role.

After World War II, enrollment was fixed at about 8,000 men until 1963, but the number of students mushroomed under coeducational policies. By 1980, enrollment had grown to 33,500, and in 1990 an enrollment cap of about 43,000 was imposed. Today, Texas A&M's College Station campus is the fourth largest in the nation and second largest in the state, with women making up 43 percent of enrollment. The local economic impact of this explosion in the number of students was profound, and the B/CS communities spent 20 years coping with university expansion as their first economic priority.

Texas A&M's growth brought two important local results. One was the shift of economic influence from Bryan to College Station. Bryan served as the retail and service center for Texas A&M throughout much of its history, with College Station little more than the rail stop its name implies. However, as Figure 1 shows, College Station's proximity to campus and vibrant economy kept its retail sales growing much faster than Bryan's over the past decade. Despite the long-standing rivalry between the towns, they have put aside their differences enough in recent years to develop such joint programs as a common 911 emergency program, a landfill, an animal shelter and a shared Chamber of Commerce and economic development board.

The second and most important effect of rapid growth at Texas A&M was simply the university's large and growing influence on both communities. One local business and community leader described the relationship as "like sleeping with an elephant." For example, decisions made by the university in past years concerning new dormitories could make or break the local apartment market. A 1994 estimate of the impact of direct spending by Texas A&M on the local community placed it at \$572 million. This includes wages and salaries for 2,500 faculty members and approximately 10,000 staff; the cost of various supplies, utilities and other services; and expenditures by visitors for commencement, conferences and professional meetings. This figure directly makes up 30 percent of total personal income in the B/CS area, and (even allowing for substantial leakages of this income out of a relatively small metro area) as the money is respent, it means that 50 to 70 percent of B/CS income stems directly or indirectly from the school's activities.

THE LOCAL ECONOMY

The B/CS unemployment rate is always among the lowest in the state, near 3 or 4 percent throughout the 1990s and typically half the state average. Why? Partly, this is because the stable government sector makes up 40 percent of wage and salary employment in B/CS. We find nothing comparable in other Texas metro areas; such government centers as Austin, San Antonio and Killeen-Temple have less than 30 percent of total employment in government. Additionally, the volatile goods sectors of mining, construction and manufacturing provide less than 12 percent of B/CS employment, among the lowest shares in the state. In contrast, goods production makes up 19 percent of employment in Dallas, 21 percent in Houston and 29 percent in such small metro areas as Longview or Sherman.

Table 1 shows location quotients that illustrate the concentration of private employment in B/CS relative to private employment in the state. Calculating the distribution of employment in B/CS and in Texas for each private industry sector yields a ratio called a *location quotient*:

$$LQ_i = \frac{\text{percent share of industry } i \text{ in private employment in B/CS}}{\text{percent share of industry } i \text{ in private employment in Texas}}$$

If this ratio is significantly greater than 1, it shows an unusual concentration of employment in B/CS compared with the state.

These ratios show that the region has retained strength in its traditional agricultural sector as part of the rich Brazos Valley, although farming, poultry and cattle have continued to decline in influence in recent years. Otherwise, the only sources of real strength that stand out in these aggregate numbers are retail trade sectors, personal services, movies and amusements, and other local services—all tied to serving a large and transient student body.

LOOKING FORWARD

The imposition of an enrollment cap at Texas A&M has provided the B/CS community with the opportunity to catch up with university growth, as spending per student (apart from inflation) had flattened out a decade earlier. Already, however, the question has become: where will future growth in B/CS come from? One direct approach has been to open a new campus. Blinn College, with its main campus in nearby Brenham, will soon open a new branch in Bryan. The new campus will consolidate several locations now operating in the B/CS area and reinforce Blinn's long-standing ties as a feeder campus for Texas A&M.

Beyond that, the B/CS metro area has already developed two important regional roles that broaden its economic base beyond Texas A&M. First, it has capitalized on the extraordinary concentration of restaurants and retail stores that developed to serve the student population, and it has become a significant retailer for the surrounding region. Second, partly stimulated by the College of Medicine at Texas A&M, B/CS has developed a growing health services complex, with two hospitals and a large clinic. As cost-cutting and reliance on primary care facilities push medical procedures out of big regional medical centers and into local communities, B/CS should see continued growth in health services.

The \$82 million George Bush Presidential Library will provide another immediate boost to the local economy when it opens in 1997. The hospitality industry is already the second largest industry in B/CS, mostly due to Texas A&M campus visitors, alumni, training programs and athletics. Based on other presidential libraries, initial-year visitors could number as

Table 1
Location Quotients for Private Employment
In Bryan–College Station, 1982 and 1992

Industry	1982	1992
Agriculture	1.66	1.94
Mining	.55	.77
Construction	1.26	.86
Manufacturing	.60	.54
Transportation and public utilities	.70	.61
Wholesale trade	.58	.73
Retail trade	1.64	1.49
Building materials	2.05	1.19
General merchandise	1.79	1.54
Food stores	1.82	1.52
Auto dealers and gas stations	1.35	1.29
Apparel stores	1.79	1.39
Furniture stores	1.23	1.58
Eating and drinking places	n.a.	1.63
Miscellaneous retail	n.a.	1.91
Finance, insurance and real estate	1.01	.71
Services	1.00	1.12
Personal services	1.26	1.11
Motion pictures	1.61	1.30
Amusements	1.31	1.41
Social services	1.28	1.91
Membership organizations	1.23	1.27

NOTE: n.a. = not available.

SOURCE OF PRIMARY DATA: *County Business Patterns*, Bureau of the Census.

high as 450,000, with 300,000 visitors per year thereafter. Even a fraction of this number would take the local hotel and restaurant industry to a new plateau.

The B/CS business community has benefited less than might be expected from the presence of a major research university. There are local success stories of new businesses and spin-offs from university research—mostly in consulting and technology—but they are few. Looking to the future, Texas A&M and the B/CS economic development foundation have created a technology transfer program for local economic development. The university scans its research for marketable concepts, and a local incubator program offers free rent, utilities, and marketing and legal advice. Based on successful programs at Stanford, Auburn, Princeton and other universities, the plan is for the talent and initiative of Texas A&M faculty and graduate students to help build local businesses. If successful, the program would provide a substitute for higher Texas A&M budgets and a continued role for the university in local economic growth.

— Robert W. Gilmer
Timothy K. Hopper

The Houston economy continues to draw strength from the national economy and from improved energy markets. Through May, local employment gains totaled 3.1 percent for the previous 12 months, led by advances in goods production. Despite low natural gas prices, oil service and machinery profits have been strong. Chemical markets have slowed but continue to generate excellent profits; refining margins have swung sharply positive in recent weeks.

RETAIL SALES AND AUTOS

Winter goods have cleared out, and retail inventories have been in line for spring and summer. Despite a high dollar value for overall retail sales in Houston and brisk local hiring by retailers, the bottom line is hurt by price reductions made to generate traffic in individual stores.

Auto and truck sales in May rebounded from a weak March and April to register a 10-percent increase this May over a year earlier. The turnaround leaves Houston auto dealers 1 percent ahead of last year's sales pace.

UPSTREAM OIL AND NATURAL GAS

Crude oil prices moved past \$20 per barrel in mid-April and stayed in the \$19-\$20 range much of May and June. Prices fell under \$18 as OPEC met to set production quotas in late June, and Houston-based companies seem to be basing plans for 1995 on prices near \$18 per barrel. Natural gas prices followed a similar pattern, as Gulf Coast spot prices slowly moved up from \$1.55 per thousand cubic feet in April to \$1.70 in mid-June but slipped back to \$1.55 when oil prices fell under \$18.

Oil services and machinery demand remains seasonally flat, with prices soft and inventories up. Companies with good access to international markets have fared best, as improved oil prices have spurred overseas

activity. Activity in the Gulf of Mexico continues to improve. Day rates for rigs drilling in the Gulf remain depressed, despite more rigs going to work and the movement of Gulf rigs to other basins.

REFINING AND CHEMICALS

Gasoline and other oil product prices turned around sharply in April and May, with wholesale gasoline prices rising 25 percent. A heavy driving season and limited imports kept retail gasoline prices at 10-year-high levels through late June. After a poor first quarter, refining margins have strengthened substantially, and refiners are looking forward to a good year in 1995.

Prices for key petrochemical products are flat, and demand has eased slightly in the past two months. Inventories are accumulating, but stocks remain well below usual levels. Despite leveling off, prices remain high enough to provide excellent profits. Several very large chemical construction projects have been announced along the ship channel; industry construction around the world has sharply improved the local market for engineering and construction personnel.

HOUSING

New home sales in May were up 15 percent over May of last year, with lower interest rates and a low unemployment rate given credit. Optimism by local builders was reflected in the year's highest level of housing starts. Despite the positive May results, year-to-date sales lag 1994 sales by 21 percent. Existing home sales also improved from a weak April, but May sales lagged those of May 1994.

Apartment construction is up by one-third from last year, but concerns about overbuilding signal a slowdown ahead. Fewer multifamily starts are planned for the second half of this year, and starts will remain slow through next year.

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