

THE TEXAS ECONOMY

O'NEIL CENTER FOR GLOBAL MARKETS AND FREEDOM ★ SMU COX SCHOOL OF BUSINESS ★ SECOND QUARTER 2017

Cities v. Suburbs in Texas Job Growth

By W. Michael Cox and Richard Alm

The yardstick for nations' economic performance is usually total output of goods and services, or GDP. Statisticians do measure GDP for metropolitan areas, but the economic health of urban America usually centers on jobs.

Mayors of both big cities and suburbs often crow about their successes in growing employment—and few states have more to crow about than Texas. It has created 2.9 million jobs since 2000, more than any other state by a wide margin.

Most of Texas' employment growth took place in the state's major metropolitan statistical areas (MSAs). From January 2000 to January 2017, the Dallas-Fort Worth (DFW) region increased total employment by 854,000 jobs, a gain of 31 percent. The Houston area did nearly as well by adding more than 845,000 jobs, an increase of 37 percent. Among Texas' four largest MSAs, Austin had the biggest relative increase—55 percent, representing an increase of about 384,000 jobs. San Antonio managed a gain of 40 percent, or about 312,000 jobs. The O'Neil Center's "Wealth of Cities" report linked high MSA employment growth to greater economic freedom.

The state's Big Four MSAs accounted for nearly 84 percent of Texas' overall employment growth from 2000 to 2016. Their dominance in job creation points to a prosperity gap between the state's booming urban centers, roughly aligned in a triangle formed by Interstates 35, 45 and 10, and the small towns and rural areas of the rest of the state.

This issue of *The Texas Economy* focuses on another employment gap—

The state isn't unusual. Core cities all over the country are struggling to compete with their suburbs in creating, attracting and holding onto jobs.

the one within metropolitan areas, between core cities and their suburbs. Dallas itself accounted for only 7 percent of DFW's new jobs since 2000 (see chart below). Add in Fort Worth as a second central city, and the DFW figure more than doubles to about 15 percent. Houston proper added just 21 percent of its MSA's net employment gains.

In the Austin area, the city captured 43 percent of the MSA's new jobs. For the San Antonio MSA, the split of employment gains has been virtually even between the core city and its suburbs. Overall, it's not too much to say that recent employment growth in the biggest Texas MSAs has

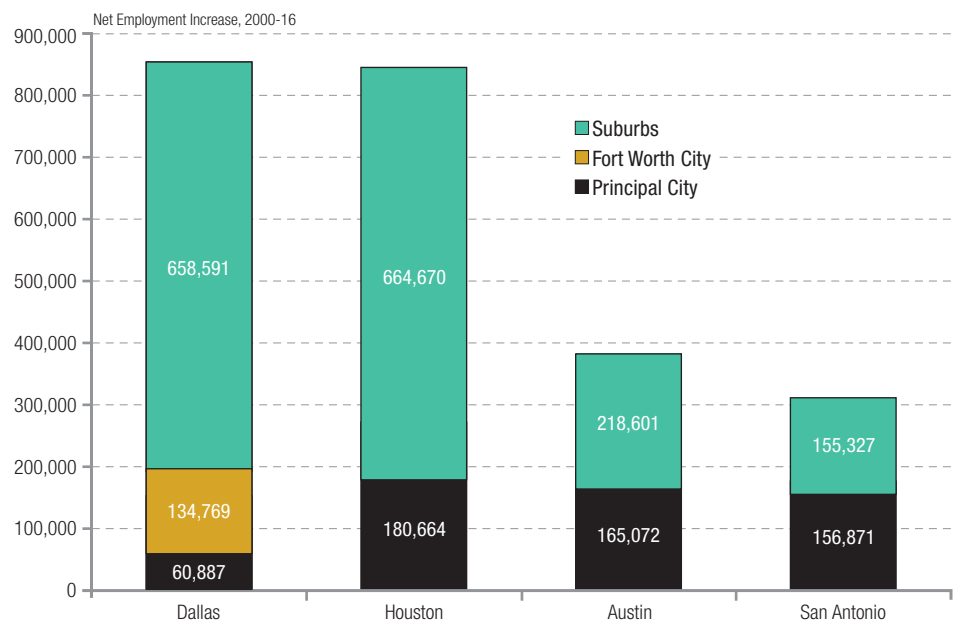
been decidedly suburban.

The state isn't unusual. Core cities all over the country are struggling to compete with their suburbs in creating, attracting and holding onto jobs. Since 2000, only two of the nation's 37 largest MSAs saw core cities generate more than 60 percent of their region's employment growth—financial-services powerhouse New York City (69 percent) and tech-driven San Jose (61 percent). Next comes San Antonio's 50 percent.

From there, it falls off quickly: 28 of the core cities failed to gain even a third of their MSAs' new jobs, with 17 of them joining DFW at below 15 percent (see chart, next page). New Orleans and five core cities in the Rust Belt, including Chicago and St. Louis, employed fewer workers in 2016 than they did in 2000.

America's core cities can't afford to be indifferent to the suburbanization of job growth. Increasing employment means a growing population, more investment

HOW TEXAS' 4 LARGEST MSAs STACK UP IN JOB GAINS



Continued on page 2

in housing and new business facilities, rising retail sales and greater tax revenue. Suburbs and central cities are competing for these benefits. With a few exceptions, the data show the suburbs have been winning—both in Texas and across the nation.

Moving to the suburbs

America’s exodus to suburbia began in earnest after the long, lean years of the Depression and World War II. The 1950s return to prosperity meant jobs, rising incomes, the Baby Boom and households on buying sprees.

More families could afford cars, reducing the need to live close to work. More cars meant a demand for more roads and highways, many of them heading out of town. By the end of the 1950s, home builders in Texas and the rest of the country were catering to families disenchanted with the hubbub of the cities, creating acres of affordable single-family homes in quiet subdivisions,

Over the next few decades, middle-class American households moved to the suburbs in droves, hollowing out parts of the inner cities and eroding their tax bases.

right off the new highways.

Suburbanization began with a relatively strict division between core cities and their surrounding municipalities. The cities were where people worked and shopped during the day. Suburbs were where the workers lived, raised families and slept at night—hence the dismissive nickname “bedroom communities.”

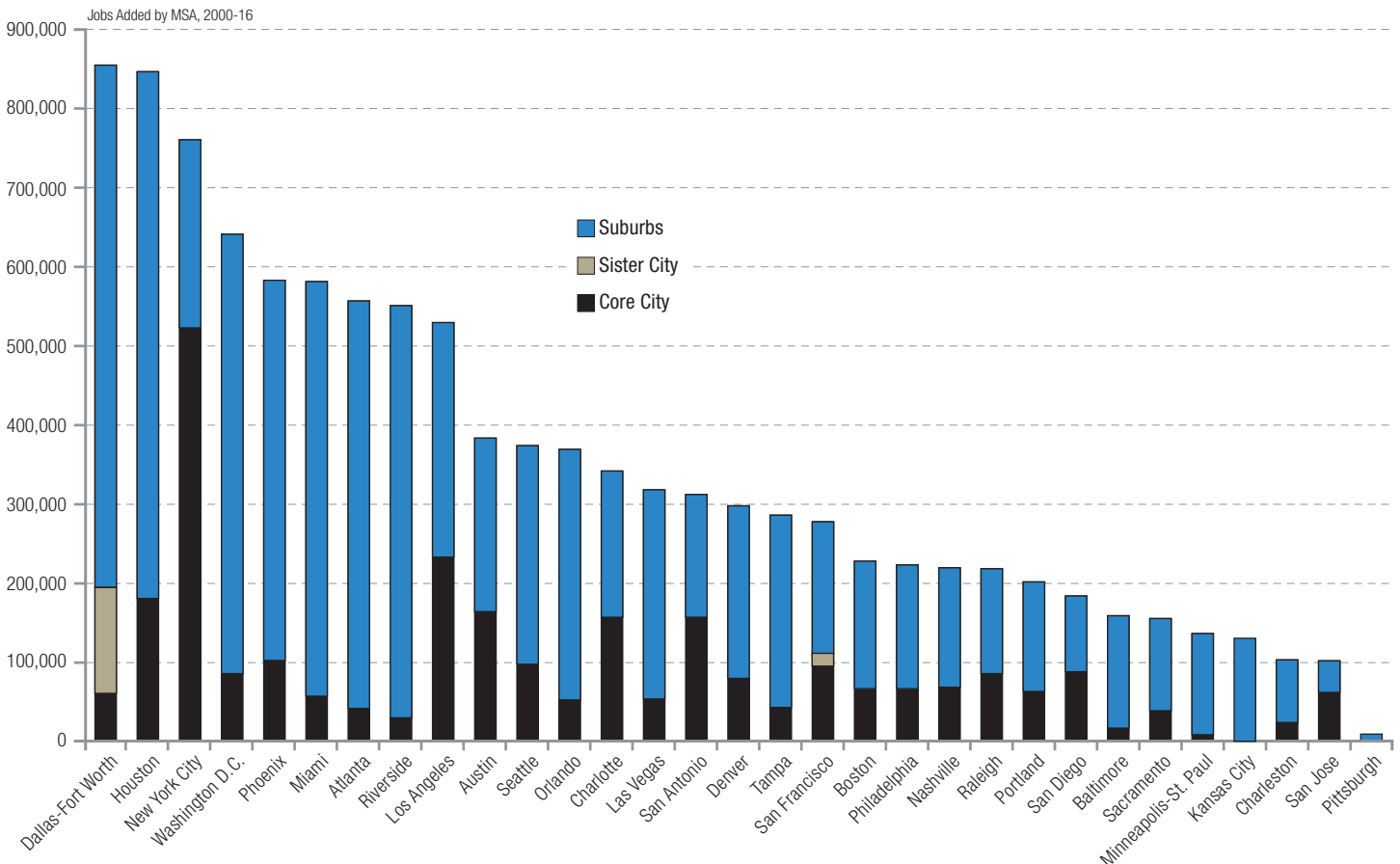
Over the next few decades, middle-class American households moved to the suburbs in droves, hollowing out parts of the inner cities and eroding their tax bases. Bureaucratic and cash-strapped, cities found it harder to maintain services and infrastructure. Tax and regulatory burdens increased.

Decaying neighborhoods, rising crime and deteriorating schools became national crises by the 1970s, convincing more families to forsake core cities for the suburbs.

These “push” factors making the core cities *less* attractive combined with “pull” factors making the suburbs *more* attractive to American families. Smaller communities outside the urban core typically offered more affordable housing and better schools than inner cities. Crime rates were lower. In many places, suburbs even developed the kind of amenities once found only in big cities—sports, dining, shopping, entertainment and recreation.

As places to do business, core cities’ traditional advantage—particularly in the age of making things—was easy access to workers, suppliers, shipping networks and other inputs. A typical manufacturer’s labor force was blue collar, with little formal education beyond elementary or high school. Wages started low but eventually rose high enough to

SUBURBS DOMINATE JOB GROWTH IN MOST U.S. MSAs



buy a Ford or Chevy sedan—the very automobiles that started the stampede to the suburbs.

In today's post-industrial economy, the labor force has become increasingly college-educated, producing services rather than goods. Workers are mobile, willing to commute long distances and stay connected on their laptops and phones. For many companies in the digital age, being near suppliers and shipping routes no longer carries the weight it once did.

Just as important, suburbs have their own “pull” factors for businesses. They often offer an edge in cost, starting with cheaper real estate. Local taxes are likely to be lower, too. Suburban governments may be more business-friendly, eager to bend over backwards to accommodate new employers by cutting red tape and offering financial incentives. Office parks may locate near airports. Highways are newer. Buildings and digital capacity may be state-of-the-art. Some companies might even give weight to where their workers prefer to live.

Today's suburbs are a far cry from bedroom communities of the 1950s and 1960s. Shopping malls and office parks comingle with housing developments—all connected by roads and highways that don't necessarily lead to the MSAs urban core. The suburbs have grown up, becoming cities in their own right, capable of competing with their larger neighbors as a place for doing business and creating jobs.

Geography of Texas jobs

From higher living standards to changes in the way we work, interconnected forces contributed to the rise of American suburbs in the second half of the 20th Century. The migration from core to periphery unfolded in more or less the same way all across America, and Texas' big cities didn't buck the trend.

Tectonic shifts in the broad economy affected the state's Big Four MSAs—but each has its own story. The split of job growth between core city and suburbs has been shaped by the timing of the suburban push, the size, number



and location of suburbs, the layouts of highways and roads, and the possibilities for annexation to bring outlying job creation into the city limits.

The four maps on the next two pages show the distribution of job gains for each Texas MSA from 2000 to 2015—the 2016 data for many smaller suburbs isn't out yet. Reds indicate places with the fastest job growth; blues denote places with below-average employment gains.

Dallas-Fort Worth MSA. Job growth pushed toward the north, with Prosper, Frisco, McKinney, Allen and nearby suburbs more than doubling employment. Above-average performance stretches into Tarrant and Denton counties to the west. Mansfield and Midlothian led a cluster of fast-growing suburbs southwest of Dallas and southeast of Fort Worth.

Dallas itself lagged over the 2000-15 period. However, the city made significant strides in recent years in revitalizing downtown and its environs. Since 2011, it has matched the suburban job-growth rate, ending two decades of being a drag on overall MSA employment.

Fort Worth's job creation has been helped by a push northward along Interstate 35 West, where the city has annexed land for such enterprises as Alliance Airport and Texas Motor Speedway. Existing suburbs border Dallas on all sides, preventing it from capturing at least some of the suburban job growth by annexing unincorporated land.

Houston MSA. Conroe and The Woodlands, just off Interstate 45 to the north, are large suburbs that doubled employment since 2000. To the south and east, Pearland and League City stood out among a cluster of suburbs with job gains well above the MSA average.

The Houston MSA doesn't have as many suburbs as the DFW area. The sprawling core city's outsized footprint has meant less competition from smaller

neighbors for jobs. Houston proper hasn't been encircled by suburbs—so opportunities remain to expand by annexation, particularly to the west.

Austin MSA. The smallest core city among the Big Four, Austin had until recent decades kept most new jobs within the city limits. Employment has begun to move to the suburbs, centered along the Interstate 35 corridor, both to the north and south.

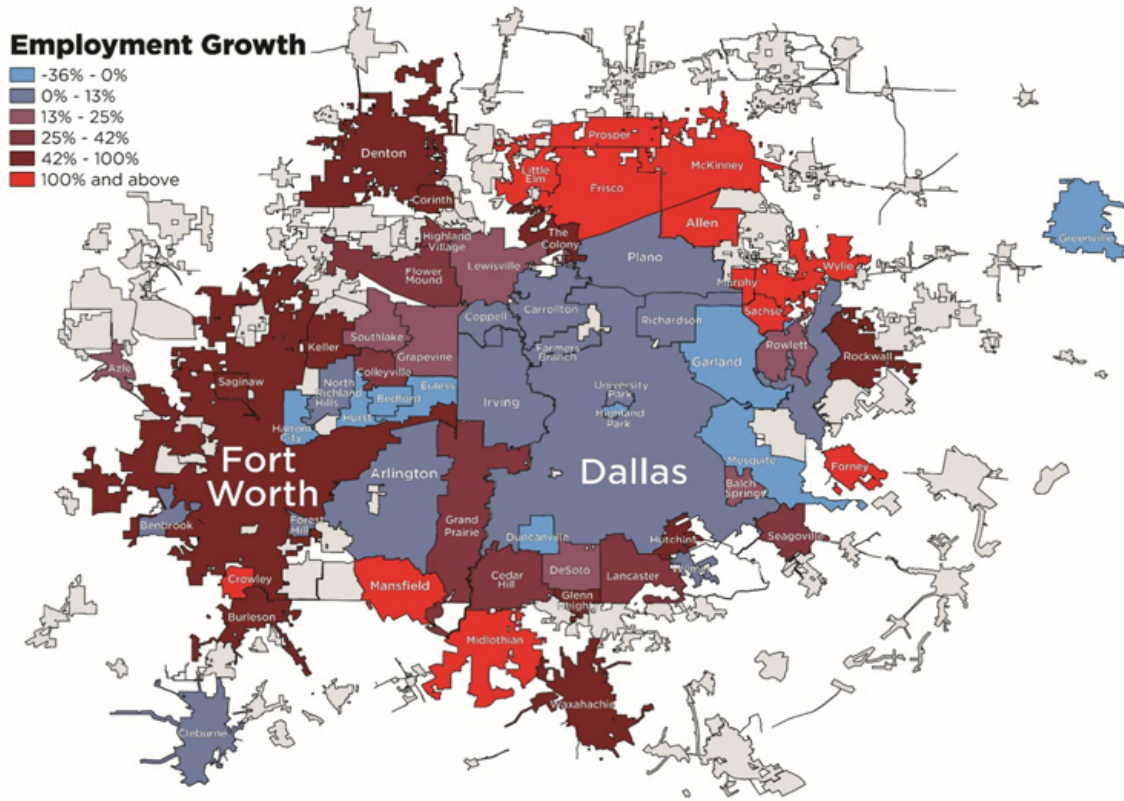
Round Rock, the largest suburb in terms of jobs, continued strong employment growth but didn't keep pace with its smaller neighbors in the northern suburbs—Cedar Park, Leander and Pflugerville. To the south, Kyle boomed, increasing jobs by more than 500 percent and closing the gap between San Marcos and Austin. The core city could expand in all directions except north.

San Antonio MSA. Like Houston proper, San Antonio itself sprawls over a vast area, with even fewer established suburbs to compete for jobs. As employers, the MSA's suburbs are relatively small, with only five exceeding 10,000 jobs, led by New Braunfels (33,677) and Schertz (16,867). By contrast, at least two dozen DFW suburbs employ more than 20,000 workers, topped by Arlington's 191,898 and Plano's 147,871.

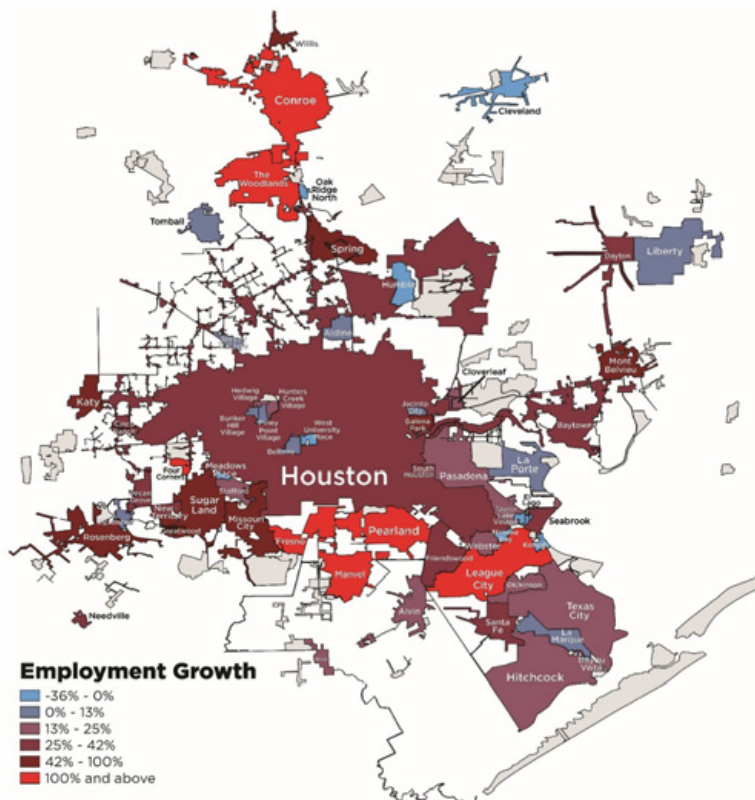
Since 2000, the San Antonio MSA's suburban job growth has thrust to the north and east, toward Austin. Three suburbs stood out—Cibolo at 675 percent, Timberwood Park at 370 percent and Boerne at 112 percent. The city's footprint has room to grow.

In today's economy, where companies can do business just as well in core city or suburb, the competition for jobs will remain intense. In most places, the suburbs have been winning. The urban centers can help their cause by making it easier and more affordable to do

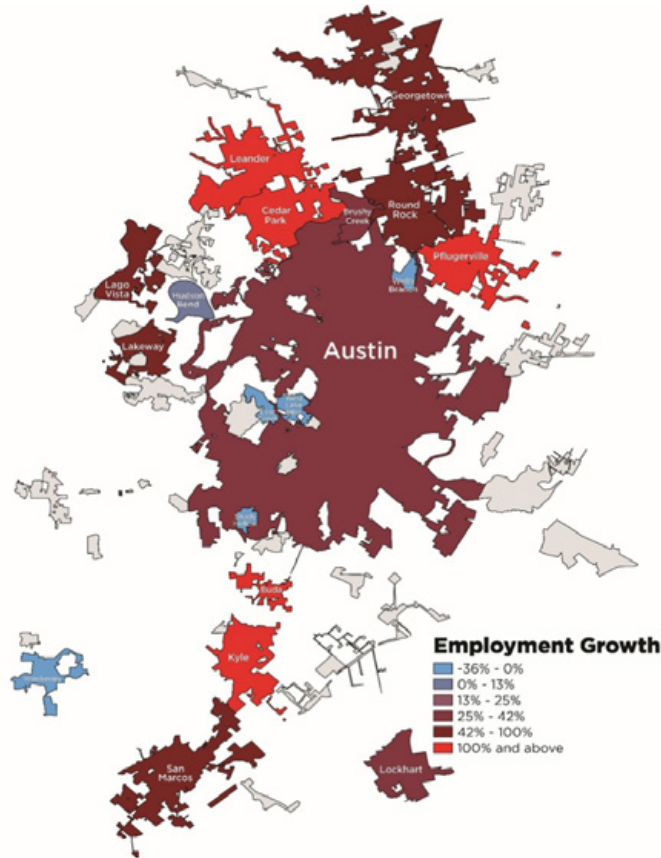
DFW: NORTHERN SUBURBS STAND OUT IN ADDING JOBS



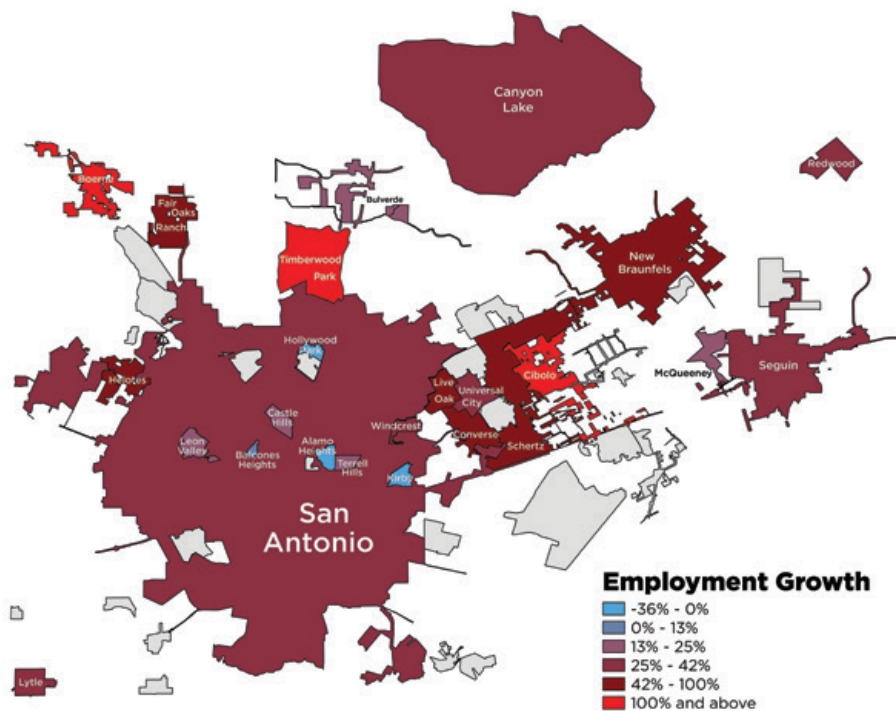
HOUSTON: HOT SPOTS NORTH, SOUTH OF CORE CITY



AUSTIN: PUSHING NORTH, WITH SOUTHERN TAIL ALONG I-35



SAN ANTONIO: RELATIVELY FEW FAST-GROWING SUBURBS



business within the city limits. They also need to address urban ills, perceived or real, that push families and businesses toward the suburbs.

Employment data: U.S. Department of Commerce, Bureau of Labor Statistics. Available at bea.gov.

Next issue: A report on the Dallas-

Fort Worth area’s prospects for technology-led growth, taken from the O’Neil Center’s Texas Economic Forum on “The Innovation Economy.”

References

Cox, W. Michael and Alm, Richard, “The Secret Behind DFW’s Job-Creating Machine.” *D CEO*, July/August 2015.

Cox, W. Michael and Alm, Richard, “The Wealth of Cities,” O’Neil Center Annual Report, 2014-15.

About the Authors



Michael Cox

W. Michael Cox is founding director of the William J. O’Neil Center for Global Markets and Freedom at Southern Methodist University’s Cox School of Business. He is economic advisor to MPACT Financial Group.



Richard Alm

Richard Alm is writer in residence at the William J. O’Neil Center for Global Markets and Freedom at Southern Methodist University’s Cox School of Business.

CHARTING THE TEXAS ECONOMY

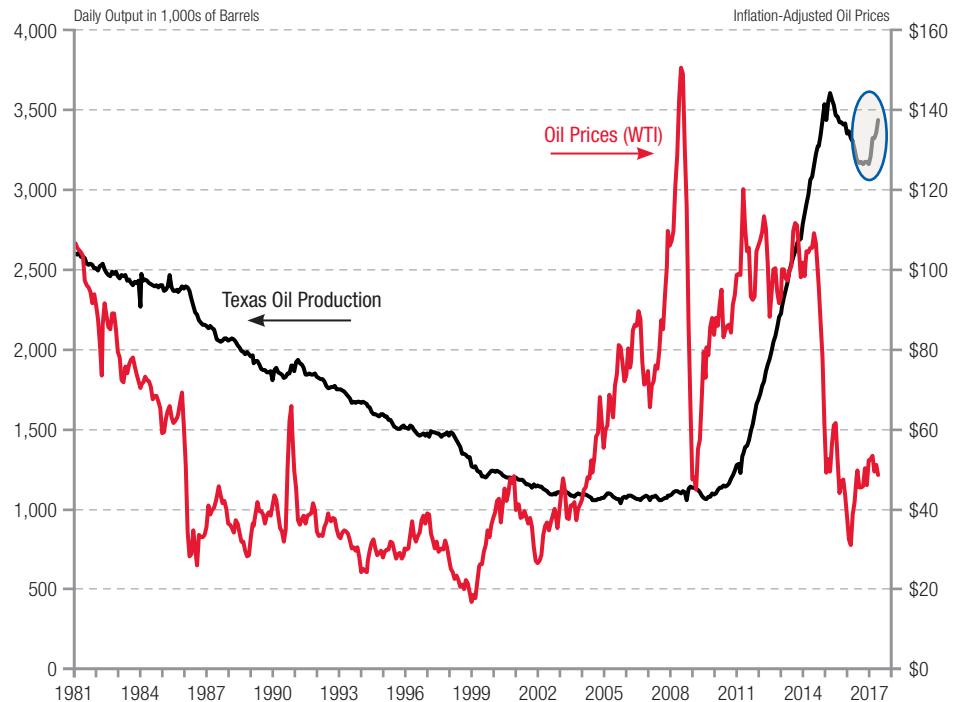
With Technology Improving, Texas Oil Production Turns Up—Without Big Price Increases

Texas oil production had been falling for decades when a Texas-developed technology turned the industry around. Hydraulic fracturing, or “fracking,” helped increase the state’s output from around 1.1 million barrels a day in 2009 to more than 3.5 million in 2015 (*black line*).

Global oil prices then plunged by more than 50 percent (*red line*). Many feared the low prices would put an end to the fracking-driven oil boom.

That’s not how it played out. Texas production fell, of course, but it remained above 3.2 million barrels. So far this year, the state’s oil output has shown signs of rebounding (*circled area*)—even though crude prices have remained relatively low.

The fracking revolution has been more resilient than expected in the face of low oil prices. Efficiency gains have allowed the industry to make a profit at \$50-60 a barrel, down from \$70 or more just a few years ago.



ABOUT THE TEXAS ECONOMY AND THE O’NEIL CENTER

The Texas Economy is an electronic publication of the William J. O’Neil Center for Global Markets and Freedom, a research institute in the SMU Cox School of Business.

The center was founded in 2008 with an initial grant from William J. O’Neil, a 1955 SMU business school graduate, and his wife Fay C. O’Neil. Its broad mission is the study of why some economies prosper and others do poorly, focusing on two critical issues for the 21st Century economic environment—globalization and economic freedom.

The center’s programs promote understanding of how capitalism works among the general public, policy makers, business managers and the next generation of business leaders. To these ends, the O’Neil Center teaches SMU Cox students, conducts economic research, publishes economic reports, sponsors conferences and educates the public through the media and speeches.

For more information, see our web site at www.oneilcenter.org, e-mail us at oneilcenter@cox.smu.edu, or call 214-768-4210.