

Lafayette, Louisiana

Where Energy Heats the Economy

Asaying in the oil and gas business holds that you can't find a drilling rig anywhere without a Cajun on it.

That's probably an exaggeration—but not by much. Since World War II, the energy industry has become the roux of southern Louisiana's economy, as woven into the culture as zydeco and etouffée.

There's no better example than Lafayette. Known as "The Hub City" for its centrality in the southwest Louisiana region of Acadiana, Lafayette boasts more energy-mining jobs than any other entire state in the Southeast, according to U.S. Bureau of Labor Statistics (BLS) data.

"Oil and gas is important, but it's not all of the economy like it was in the '80s," said C.L. "Rusty" Cloutier, chief executive officer of the Lafayette-based banking company Midsouth Bancorp and a former member of the Atlanta Fed's New Orleans Branch board of directors.

Health care, in particular, has grown. Lafayette is the medical and retailing hub of Acadiana. Plus, the city utility's network of high-speed fiber optic cable reaches every home and business in town, one of a handful of "fiber-to-the-home" networks in the country. The network has attracted considerable publicity and a 20-employee satellite studio of a Hollywood digital arts company. It's also a potential seedbed for more economic development.

But petroleum is king. Directly and indirectly, the oil and gas industry accounts for 40 percent of local economic activity, said Gregg Gothreaux, president and chief executive officer of the Lafay-

ette Economic Development Authority (LEDA). According to LEDA, more than 900 oil and gas companies operate in Lafayette, a metro area of 263,000 people.

Those companies tend to welcome high fuel prices. While hefty gas prices take a bite from drivers there just as elsewhere, expensive oil is among the factors that have buffered Lafayette and south Louisiana from the worst of the national recession. Midsouth Bancorp noted in a recent U.S. Securities and Exchange Commission filing that "high energy prices and continued rebuilding from the storms of 2005 in Louisiana and Texas have partially insulated our markets from the full impact of the national recession."

Elevated prices give energy firms more reason to drill, which means more jobs and higher state permitting and tax revenues, said Anthony Greco, an economist at the University of Louisiana at Lafayette.

To be sure, the recession has not completely bypassed Lafayette. Unemployment has more than doubled since the start of the national downturn in late 2007. Still, the metro jobless rate has remained consistently below state and national levels. As of March, in fact, only one metro area in the Southeast had a lower unemployment rate than Lafayette's 6.3 percent—nearby Houma-Thibodaux, according to the BLS. For all of 2010, Lafayette's jobless rate averaged 6 percent, compared to 7.5 percent statewide and 9.6 percent nationally.

Petroleum power

Lafayette is without question the Southeast's energy industry center. As of March, mining employment, as the BLS categorizes the oil and gas jobs, made up 10.4 percent of the metro area's nonfarm employment, compared to 2.7 percent in Louisiana overall and just 0.6 percent in the United States. Indeed, Lafayette's 15,200 energy mining jobs are the most in any Louisiana metro area, according to the BLS, and more than in many entire states including Alabama, Florida, Georgia,



Lafayette, La.

Population	113,732
(Lafayette Parish)	204,963
Median household income	\$43,475
Median owner-occupied home value	\$152,000

Source: U.S. Census Bureau, 2005–9 American Community Survey

and Mississippi. (Lafayette’s total is almost certainly higher than Tennessee’s as well, but that state’s mining figures include construction jobs and so are difficult to compare.)

The energy industry has fueled prosperity in south Louisiana for decades. Jobs in the industry pay 25 percent above the average local wage, according to a March 2011 report by Mike Zoller of Moody’s Analytics. Even better, Lafayette’s oil and gas employment includes a hefty number of headquarters and back-office positions, such as engineers and administrators. Those are more resistant to industry fluctuations than blue-collar jobs on rigs, said Eric Smith, associate director of the Tulane Energy Institute at Tulane University in New Orleans.

That resilience came into play recently. The federal moratorium on deepwater drilling in the Gulf of Mexico that ended in October 2010 hurt Lafayette less than expected, Gothreaux said. Still, it had an effect: along with most of the population centers in south Louisiana, Lafayette has lost jobs since March 2010, the last full month before the BP oil spill off Louisiana that triggered the moratorium.

Lafayette’s unemployment rate was 5.5 percent in March 2010; it was 6.3 percent a year later. Meanwhile, taxable retail sales in Lafayette Parish in 2010



were down 11 percent from 2008, according to LEDA.

Those economic hiccups are not entirely a result of the moratorium, however. “The moratorium was part of it,” Greco said of the recent slowdown, “and it’s just the economic times catching up with us as things slow down.” He pointed out that wages in the area have stagnated, which combined with higher fuel and food prices to dampen retail spending.

Oil and gas jobs have hardly evaporated. According to LEDA, Lafayette actually gained 200 oil and gas jobs during the May to October 2010 moratorium, because many companies kept workers on to refurbish drilling rigs and to help extract natural gas on land in northwest Louisiana. “In Lafayette Parish,” according to a LEDA report, “the heavy concentration of service companies can provide their services just as easily for onshore activities as they do for offshore activities.”

What’s more, Gothreaux said, Lafayette benefited from harsh lessons learned a quarter century ago. During a punishing slump for local energy companies, Lafayette’s unemployment rate soared above 17 percent in 1986 and 1987, according to Haver Analytics and the BLS. The oil companies cut payrolls so deeply that they essentially lost a generation of workers to other industries and geographic areas, Gothreaux said. It was difficult for the companies to hire again when business improved. They didn’t want to repeat that history during the moratorium, Gothreaux said.

That caution served Lafayette well. The Hub City placed 11th nationally and second in the Southeast on the Milken Institute’s 2010 Best Performing Cities Index, which ranks metro areas by “how well they are creating and sustaining jobs and economic growth.”

Another publication last year recognized Lafayette’s nascent digital media community. *Southern Business and Development* magazine listed Lafayette

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In the last decade, each state in the region has enacted some form of smoking restriction.”

East meets South...America

The expanding role of China in the global economy is a frequent topic of discussion among economists, but its rapidly evolving relationship with Latin America was on the mind of Stephen Kay, senior economist and director of the Atlanta Fed’s Americas Center. Kay foresees a deepening dependence between the two regions in the coming years. “It’s obvious that China’s rapid economic growth has had a profound impact on Latin America, but until I read *The Dragon in the Room: China and the Future of*

Latin American Industrialization, by Kevin P. Gallagher and Roberto Porzecanski, it wasn’t clear to me how much some countries stand to win or lose in this process. While Chinese demand for Chilean or Brazilian exports—primarily in the form of raw materials—has contributed to economic booms in those countries, China may be much more of a competitive threat for Mexico, which relies on manufactured exports. The last 10 years have led to some dramatic changes in the hemisphere, and the trade process is just getting started.” ■

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among 10 digital media centers in the South, along with the likes of Austin, Atlanta, Nashville, and New Orleans.

Pixel Magic, a Hollywood digital effects studio, opened a location in



Lafayette in 2009. The state and local governments are vying to attract more digital media firms, partly piggybacking on Louisiana’s emergence as a popular locale for shooting movies. Just as important, Lafayette’s city-owned fiber network offers unusually inexpensive high-speed data transmission services to every home and business in the city.

Medicine, education sources of job growth

Digital media holds promise for Lafayette. For now, though, local experts cite health care as the first economic staple after energy. Health care jobs account for 13.6 percent of metro area employment, compared to 12.6 percent in the state and 12.9 percent nationally, according to the Louisiana Workforce Commission. Education is another major employment sector. The University of Louisiana Lafayette has 16,000 students and 1,890 employees. And the Lafayette Parish public school system is the area’s largest single employer, with 4,568 workers.

Some of the reasons Lafayette and Louisiana have bucked the recession are

not ideal. For one, neither experienced the boom-gone-bust as places such as Atlanta and much of Florida did. As Tulane’s Smith put it, “We didn’t have the jobs to lose.”

Lafayette’s daily newspaper, *The Advertiser*, opined in an April 2011 editorial that the area still needs to diversify its economy. The paper noted that Lafayette and Louisiana didn’t suffer much from the nation’s loss of manufacturing jobs in the recession because “we have proportionately less manufacturing.” The piece lauded the state for luring some factories recently. “If we can post similar successes in the digital and high-tech area—Pixel Magic in Lafayette is a start,” *The Advertiser* editorial concluded, “we’ll truly be on our way to the transition from an old-style resources economy to a modern, competitive, diversified one.” ■

This article was written by Charles Davidson, a staff writer for EconSouth.