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Small N.M. cities learn boom-bust lessons



These pumpjacks are busy in the oil patch near Hobbs in southeastern New Mexico. (Journal File)

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I recently returned from a business trip to the southeastern New Mexico communities of Carlsbad and Hobbs. I was happy to see how well each of these cities is doing, based on their good fortune to be established on or near commodities that are in high demand on the world market.

Carlsbad is near rich deposits of potash, which is used in fertilizers, recycling operations and various industrial operations. Potash mines, located east of Carlsbad, are churning out this commodity and supplying good-paying jobs for people living in the area.

Hobbs is a city that is blessed to be in the petroleum-rich Permian Basin. Oil pumpjacks, bobbing up and down like some sort of prehistoric birds, are pulling up petroleum for an energy-thirsty world. All around

Hobbs, it seems as though these pumpjacks have taken over the landscape. In parts of Hobbs, these machines are at work in close proximity to buildings and other commercial enterprises.

The booming oil industry has spurred economic growth that is resulting in good-paying jobs, new construction, and local government coffers being filled by a larger tax base. In Hobbs, I was told that the local McDonald's are offering new hires up to \$12 an hour because general labor is scarce and in high demand, as the oil fields are gobbling up all available labor. Housing is scarce because of the influx of workers, and many people have resorted to living in hotels. I imagine that this must be tough, because I paid \$233 a night for lodging in Hobbs at what was a decent, but hardly luxurious, hotel. One of my business contacts told me that it was hard to consistently find certain staple goods in the stores because of the influx of people.

In both Carlsbad and Hobbs, new hotels are being built to try to accommodate incoming traffic. The same is true for other oil-field towns such as Midland, Texas. One of my colleagues told me of a recent trip to Dallas where he stayed at the Ritz Carlton Hotel. The next day he traveled to Midland, where he stayed at the Comfort Inn. His hotel bill was higher at the Comfort Inn than at the Ritz Carlton because of the oil boom in and around Midland. To catch up with demand, there are 25 new hotel complexes being constructed in this city, and much of the financing is coming from outside interests because local banks are scared about being burned again if the petroleum boom starts a cyclical decline.

It's great to see such economic momentum and the vibrancy and employment opportunities that are created in rural communities. However, it is also a striking reminder how small communities such as Hobbs and Carlsbad can be affected by the global economy, for better or worse. The petroleum and extractive industries go through cycles of hitting peaks and falling into troughs, depending on pricing that is set on the global market. A myriad of factors in various parts of the world can affect prices for these commodities on world markets.

The challenge is to capitalize on the momentum that these markets have in good times, while managing the inevitable decline that comes at the end of an economic cycle, when there is less demand for the commodities. This leads to less demand for labor, housing and other supplies.

One only has to look at what has happened in communities producing commodities for the world market that haven't planned for the end of a cycle. I have driven through Hobbs when the price of a barrel of oil on world markets fell to the point that this area was not competitive with other places such as the Middle East in producing petroleum. Businesses closed, housing prices fell to rock bottom and the community struggled. The same was the case for similar communities such as Grants, which for many years depended on uranium mining.

During my trip, it was encouraging to see that business leaders in Carlsbad and Hobbs were cognizant of the fact that the time for diversifying their communities' economies was not when the end of the cycle occurs, but when times are good and money is available to explore new avenues. The current oil and potash boom cycles could continue for a longer time period than has occurred in the past – people in these communities certainly hope so. However, the rewards of being tied into products that are demanded on a world market are also tempered by the factors and risks that are beyond the control of local communities. Lessons should have been learned in past cycles to be prepared when the current cycle changes.

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