



The Economic Impact of Music in Texas (2015)



Texas Music Office
OFFICE OF THE GOVERNOR, GREG ABBOTT



Overview

The return on investment associated with economic development is normally a longer-term payback, as external events tend to drive the fortunes of a regional economy in the near term, per the boom and bust cycle of sectors such as energy and real estate. However, the State can have a more significant influence on its economic fortunes over the longer run. Much of Texas' future will depend on a highly capable workforce, innovation and entrepreneurship, clusters in knowledge industries, the presence of world-class research universities and other institutions of higher learning, and public policy that supports growth and development. Embedded in all of the above is the interrelationship between creativity, innovation, and quality of life. This brief analysis outlines, at least partially, the impact of music within this space, as well as discussing broad areas of additional influence on the state's economy

Inputs and Methodology Used in the Modeling Process

Inputs

Any effort to measure the role of music in a local economy will by definition involve classification decisions by the analyst, since music does not map directly to standard industrial classification patterns. In general, there are three broad categories of activity that comprise the music sector:

- 1) Music business (which includes commercial music, music-related media, music production, distribution and sales, music industry, tour, and recording services, performers, and music-related manufacturing, transportation, and retail activity (including venues));
- 2) Music education (both primary and secondary); and
- 3) Music-related tourism

This analysis focuses on measuring the impacts of the first two, using the most recent edition of the Texas Music Directory produced by the Governor's Music Office as the data source for job estimates. This information is then combined with wage data from the Quarterly Survey of Employment and Wages (QCEW) maintained by the Workforce Commission to estimate annual wages for each segment within the first two broad categories. These annual earnings estimates are then crossed against data from the 2012 Economic Census to derive estimates of annual revenue by sector, allowing an overall assessment of the direct "footprint" of music business and music education in Texas. See Table 1 below for the results.

Table 1: Texas Music Industry Direct “Footprint” (\$Billions)

| | Jobs | Earnings | Revenue/Sales |
|--------------------------------|---------------|----------------|----------------|
| Music-Related Business | 77,624 | \$2.414 | \$7.427 |
| Music-Related Education | 14,244 | \$0.812 | N.A |
| Music-Related Tourism | N.A | N.A. | N.A |
| Total Annual | 91,868 | \$3.227 | \$7.427 |

Source: TXP, Inc.

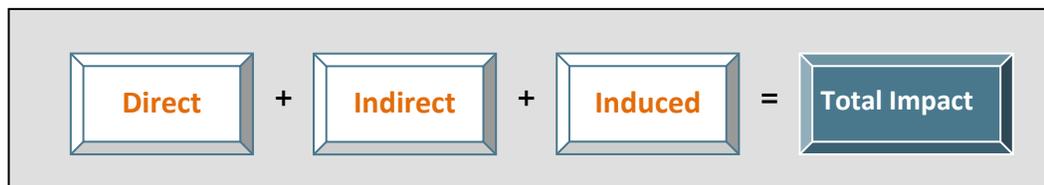
Economic Impact Methodology

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced. Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor’s stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is in turn spent in the local economy.

Figure 1: The Flow of Economic Impacts



Once the ripple effects have been calculated, the results can be expressed in a number of ways. Three of the most common are “Output,” equivalent to sales; “Earnings,” which represents the compensation to employees and proprietors; and “Employment,” which

refers to permanent, full-time jobs that have been created in the local economy. The interdependence between different sectors of the economy is reflected in the concept of a “multiplier.” An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. The higher the multiplier, the greater the interdependence among different sectors of the economy.

Summary Results

Combined, music business and music education directly account for over 90,000 permanent jobs, \$3.2 billion in annual earnings, and just under \$7.5 billion in annual economic activity. The ripple effects associated with the direct injection related to music business and music education bring the total impact (including the direct effects) to over 160,000 permanent jobs, \$5.7 billion in earnings, and \$17.4 billion in annual economic activity. The State of Texas also realizes over \$280 million in tax revenue from these impacts.

Table 2: Texas Music Industry Total Economic Impact (\$Billions)

| | Jobs | Earnings | Revenue/Sales | TX Tax Rev. |
|--------------------------------|----------------|----------------|-----------------|----------------|
| Music-Related Business | 136,949 | \$4.203 | \$14.122 | \$0.210 |
| Music-Related Education | 23,507 | \$1.533 | \$3.230 | \$0.076 |
| Music-Related Tourism | N.A. | N.A. | N.A. | N.A. |
| Total Annual | 160,456 | \$5.736 | \$17.352 | \$0.287 |

Source: TXP, Inc.

Conclusion

The figures outlined above at least partially document the substantial role that music plays in Texas’ economy. However, there is more to the story. Much energy and effort have gone into analyzing the reasons that drive economic growth in Texas, with an exceptional range of activity and opportunity in music and the creative space clearly a major factor. Texas is a place that appreciates creativity and culture in a variety of evolving forms, and the incredible diversity of the local scene undoubtedly serves to both attract and retain talented people. This in turn has a significant impact on business recruitment, retention, and expansion, as well as local entrepreneurship. Moreover, music is a crucial element of “Brand Texas” that draws visitors from across the globe. As Texas looks to its economic development future, creativity is a fundamental comparative advantage – the goal is to identify the key investments, policies, and regulatory changes that can support the infrastructure necessary for sustainability and growth.