

Understanding the Evolving Economic Relationship Between the United States and Mexico

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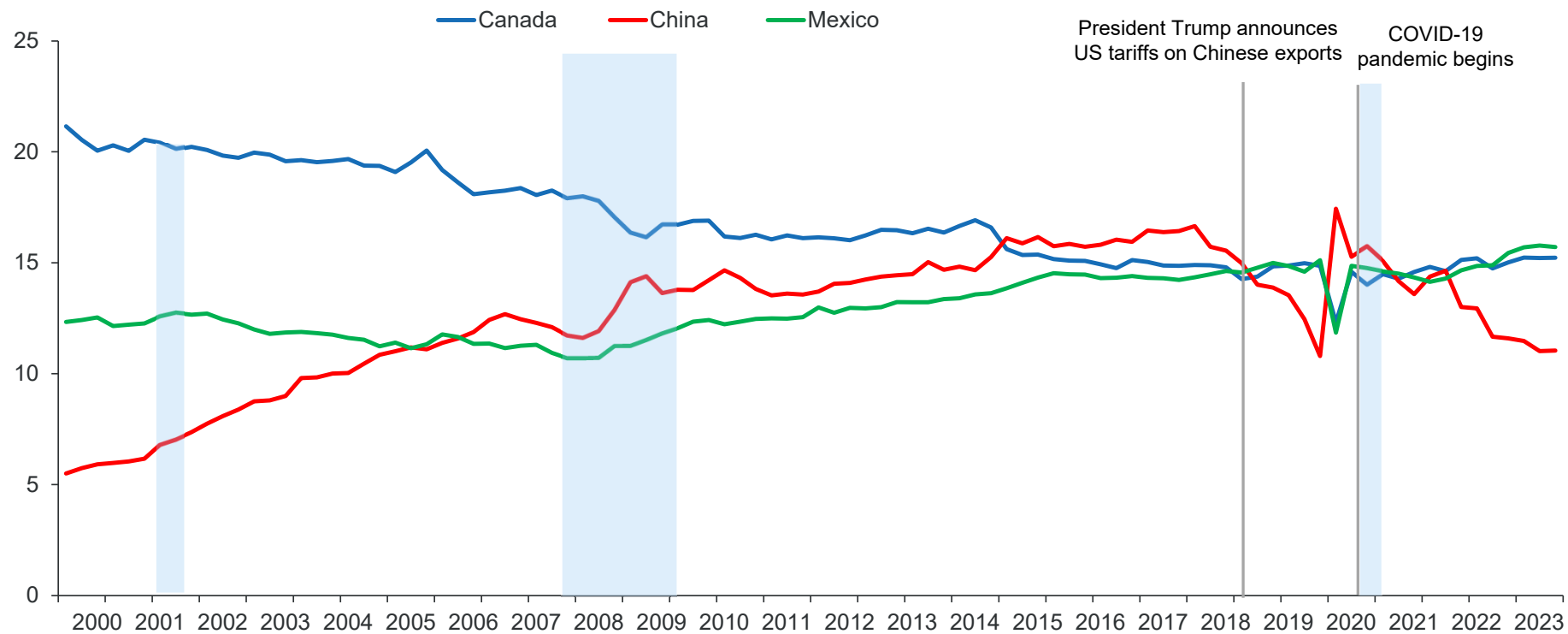
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Our evolving relationship

Over the past 30 years our economic relationship with Mexico has continued to grow and deepen.

- ❑ Mexico is the number one destination for Texas exports. In 2022, trade between Texas and Mexico totaled \$285.6 billion with goods exported from Texas totaling \$144.3 billion.
- ❑ In 2021, over one million jobs were supported by Texas exports. Over three-quarters of the land trade between both countries crosses through Texas ports of entry.
- ❑ Since the passage of NAFTA, trade of goods has grown from \$206 billion in 1994 to \$799 billion in 2023, adjusted for inflation.
- ❑ In 2023, Mexico became the leading source of goods imported to the U.S. The value of goods imported from Mexico rose nearly 5 percent to \$475 billion compared to the value of Chinese imports, which fell 20 percent in that same period.

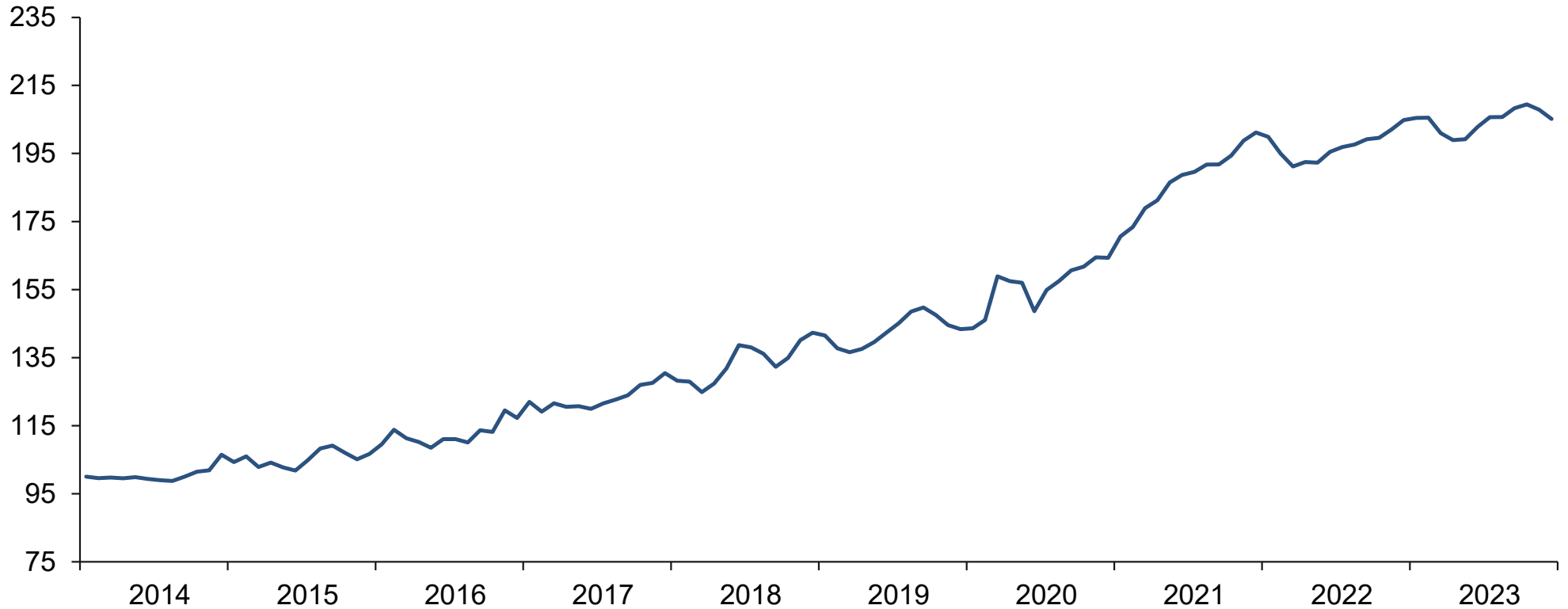
Mexico emerges as the U.S. main trading partner at the start of 2023



NOTES: Seasonally adjusted. Shaded area refers to recessions. Quarterly data. Total trade is the sum of exports and imports. Data through 4Q23.
SOURCES: U.S. Census Bureau.

Remittances reached record high levels in 2023

Index, January 2013 = 100, SA 3MMA

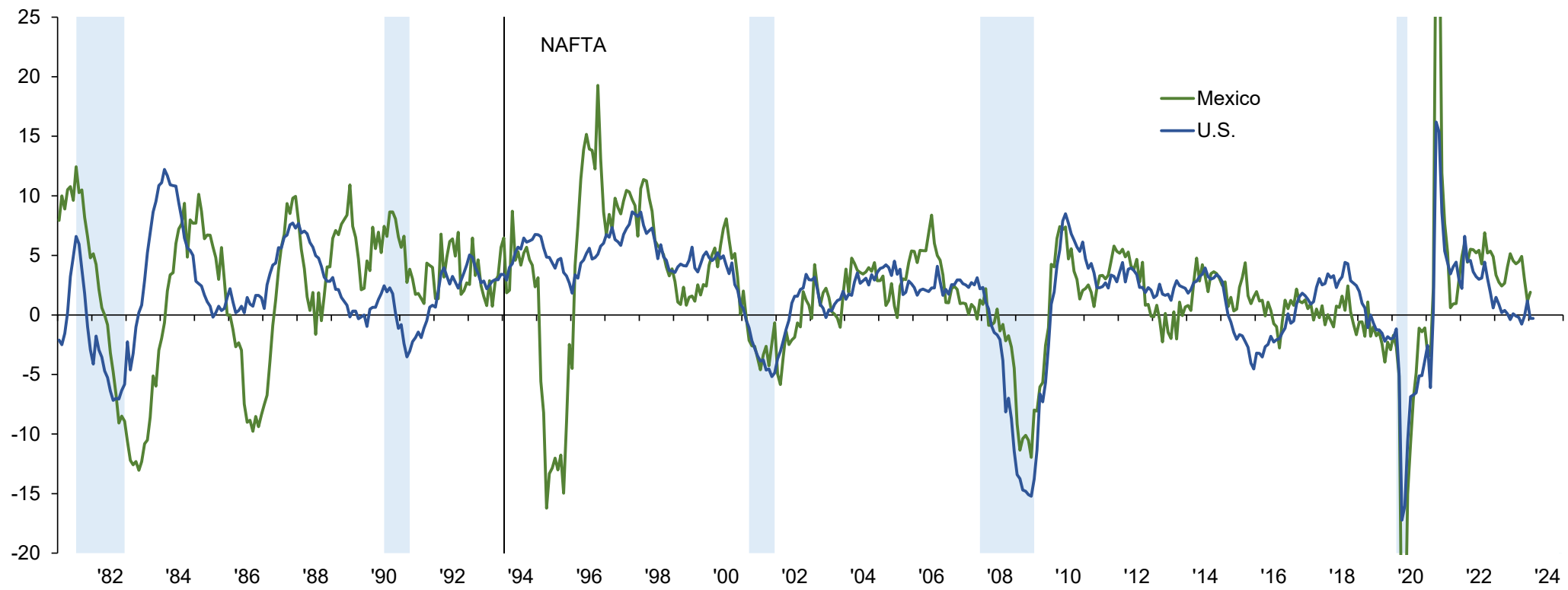


NOTES: Chart shows real remittances sent to Mexico. Data are through December 2023.

SOURCES: Banco de México; Bureau of Labor Statistics.

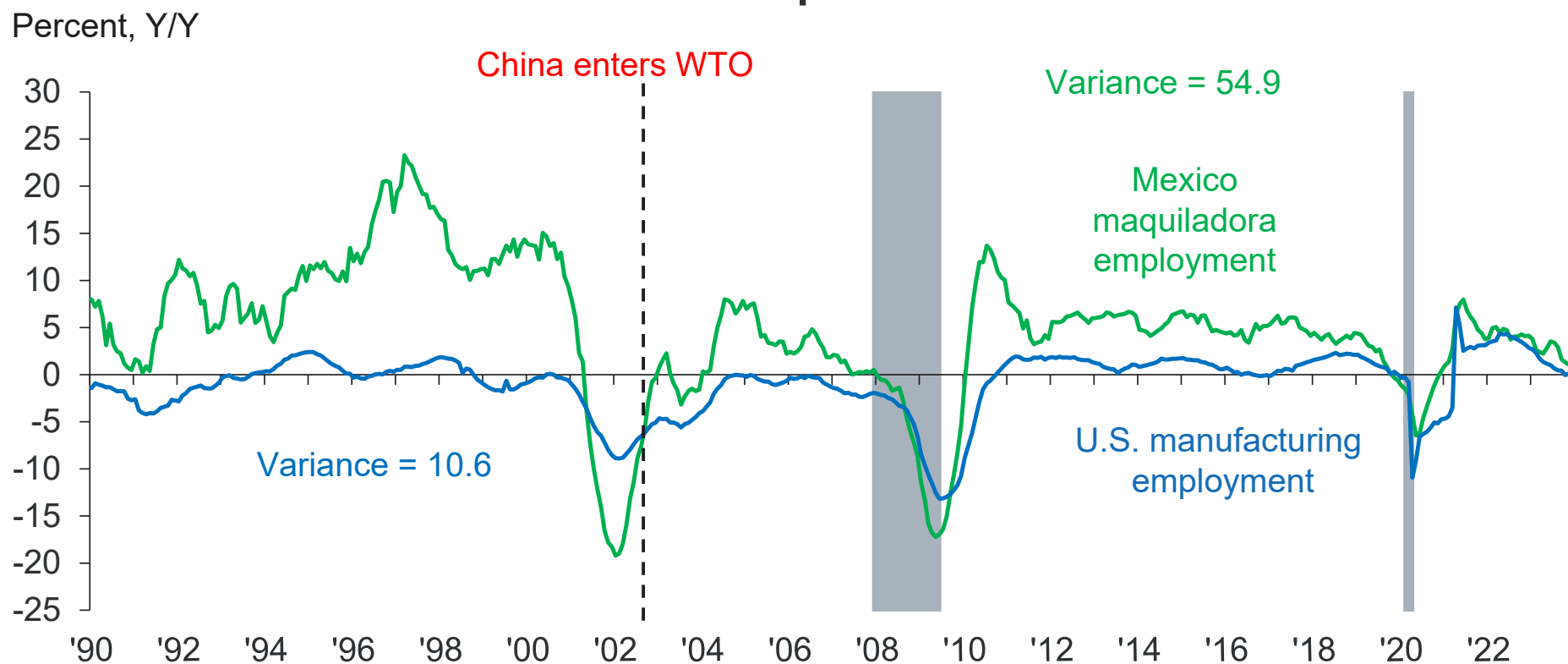
U.S. and Mexico business cycle synchronicity grows post-NAFTA

Percent, Y/Y change in industrial production



NOTES: Data is monthly through January 2024 for Mexico and February 2024 for the U.S. Shaded regions refer to U.S. recessions.
SOURCES: Instituto Nacional de Estadística y Geografía (INEGI); Federal Reserve Board.

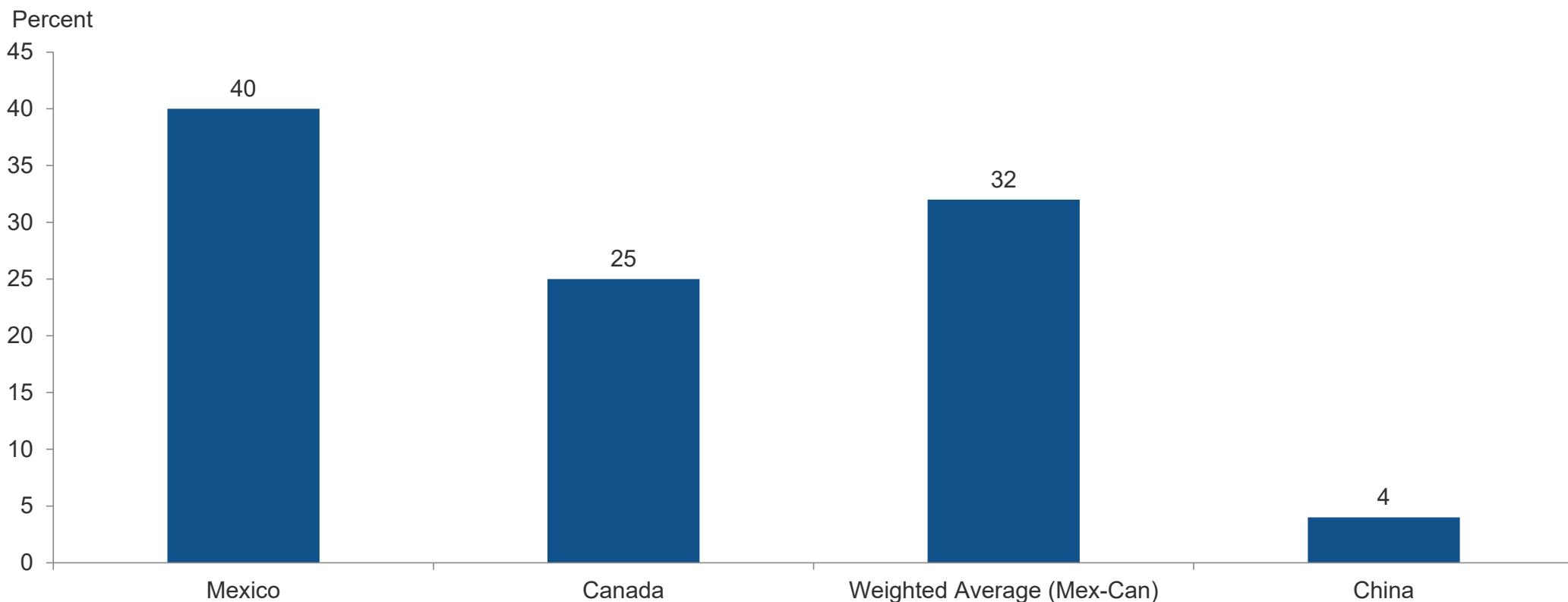
U.S. and Mexico manufacturing employment synchronicity increases post-NAFTA



NOTES: Mexico's employment combines maquiladora and IMMEX. Shading indicates U.S. recessions.

SOURCES: Bureau of Labor Statistics; INEGI; NBER.

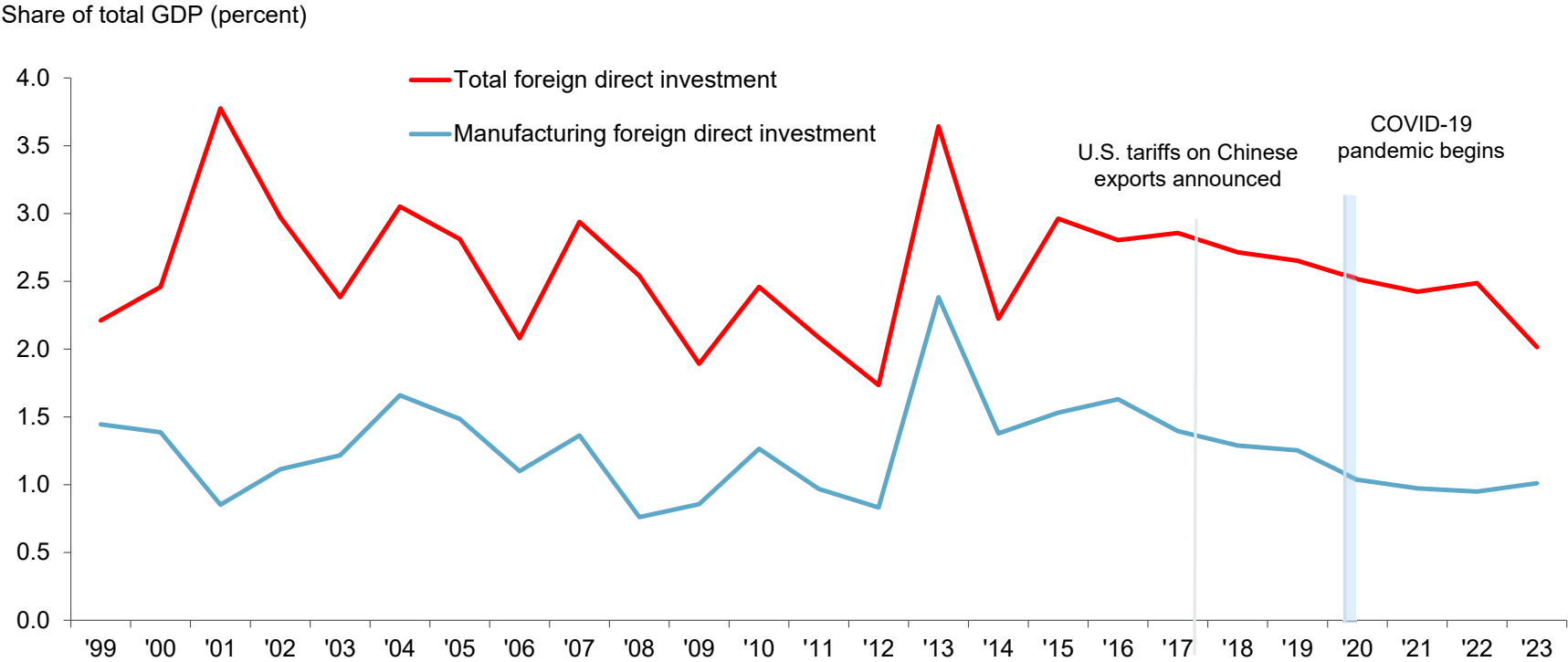
Intra-industry trade high within NAFTA: U.S. content highest in imports from Mexico, Canada



NOTE: Data is from 2004.

SOURCE: Robert Koopman, William Powers, Zhi Wang and Shang-Jin Wei, "Give Credit Where Credit is Due," NBER Working Paper No. 16426, 2011.

2023 manufacturing FDI in Mexico was flat while total FDI fell



NOTE: Calculations use nominal figures.
 SOURCES: Secretaría de Economía (Secretariat of the Economy); adjustments by the Federal Reserve Bank of Dallas.

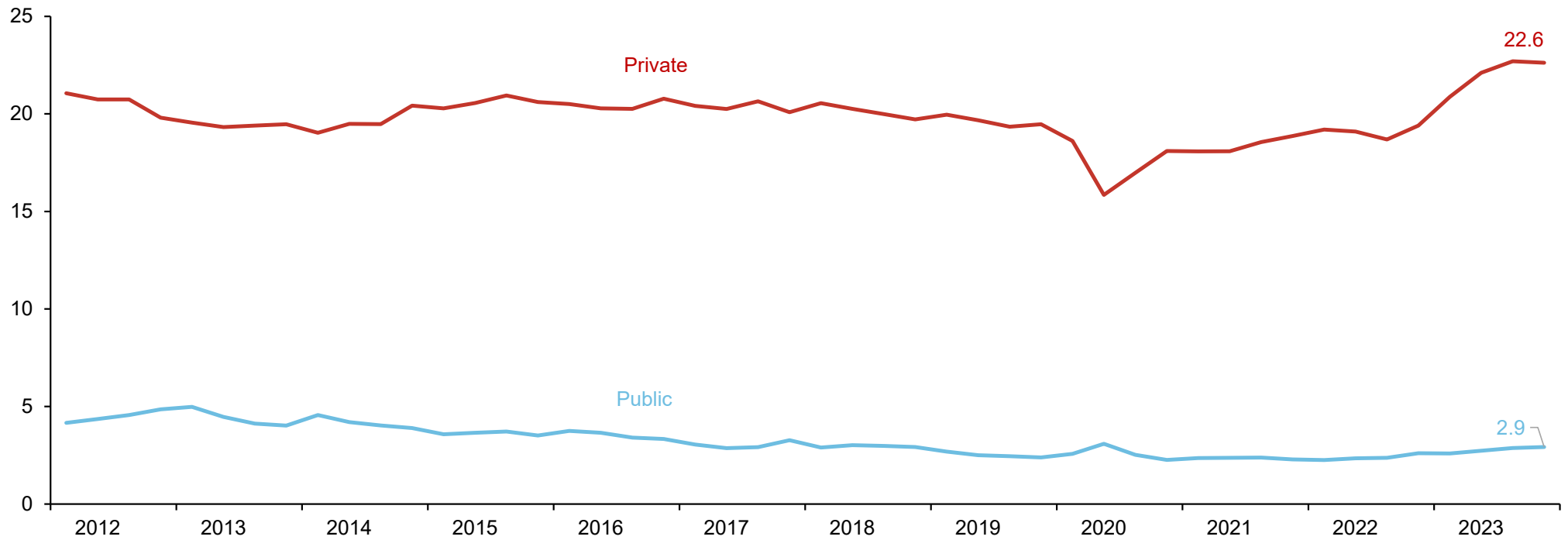
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What we are hearing from our contacts regarding Mexico

- ❑ The “nearshoring trend is real.” Contacts see a realignment of the global supply chains.
 - In our region, real estate net absorption and commercial border crossings are at record levels.
 - Nearshoring is contributing to low industrial vacancy rates of around 5 percent nationally in Mexico and close to zero along the border.
- ❑ Mexico is likely to face some barriers to growth.
 - Wait times at the border can be extensive, leading to increased transportation costs and losses.
 - Labor market remains tight in the advanced manufacturing space in Mexico and the U.S.
 - Contacts report that new skillsets and workforce training remain top of mind for them.
 - Electricity and water utilities will have to adjust production and distribution and investors will expect Mexico’s rule of law to protect their plants and employees.

Mexico's private investment keeps rising

Investment as a share of GDP



NOTE: Data are quarterly through the fourth quarter of 2023.

SOURCES: Banco de México; Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography).

Summary

The U.S.-Mexico economic relationship is dynamic and evolving.

- ❑ Deepening our understanding of the interlinkages between the U.S. and Mexico will be critical to address challenges on both sides of the border.
- ❑ Border states such as Texas will continue to play an important role in the evolution of our economic relationship with Mexico.
- ❑ Stakeholders say the “nearshoring trend is real” and see a realignment of the global supply chains occurring.
- ❑ Mexico is likely to face some barriers to growth such as infrastructure and workforce development.

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