

Another Strong Year for the Eleventh District

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The nation's economy grew very strongly in 1994, but the Eleventh District economy grew even faster, in part by attracting some of the country's most rapidly expanding industries. Eleventh District employment has grown more strongly than the rest of the country for six consecutive years.

The Eleventh District economy marked its eighth year of economic expansion in 1994 with broad-based employment growth in all three Eleventh District states—Louisiana, New Mexico, and Texas.¹ Robust U.S. and global economies stimulated demand for District manufacturing and services. The District's favorable business climate encouraged growth by attracting firms to relocate or expand in the Southwest, and the North American Free Trade Agreement, or NAFTA, bolstered the District's trade with Mexico.

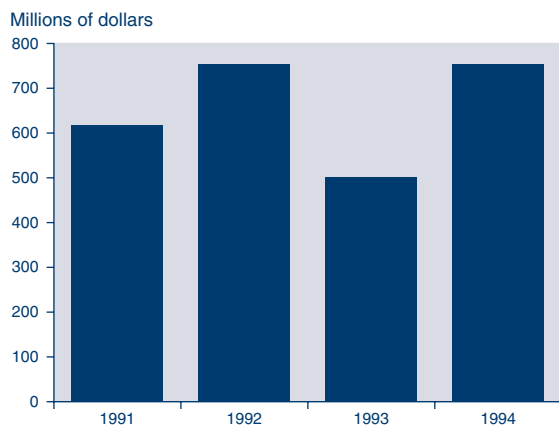
All sectors of the District economy except energy and defense-related industries experienced robust growth in 1994. The construction boom that began in 1993 continued into 1994. Manufacturing and service industries posted strong gains. The region prospered despite continued declines in the once-dominant energy industry. Defense reductions again lowered employment for specific manufacturing and federal government positions, although declines were smaller than in previous years. The sector-by-sector portion of this article elaborates on the 1994 performance of specific industries.

Although 1994 was a year of robust growth, the Eleventh District economy shows signs of slowing in 1995. In the past year, several District industries reported that shortages of inputs and workers were pushing up costs and limiting growth. As the expanding U.S. economy neared full capacity, interest rates rose,² which began to slow District growth. At the end of 1994, the sudden drop in the value of the Mexican peso caused a sharp reduction in demand for retailing and other services along the border. The peso's decreased value will reduce District exports in 1995 and add a heavy dose of uncertainty to the region's economic outlook.

A magnet for fast-growing industries

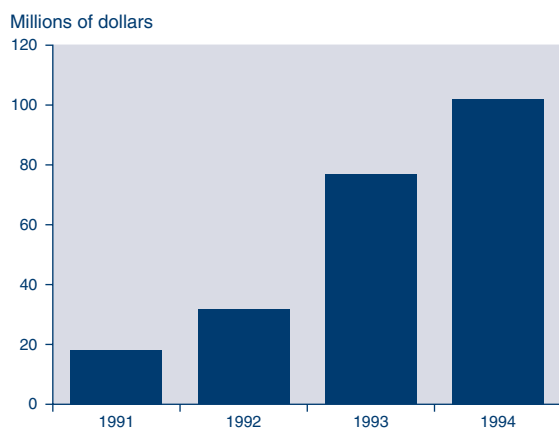
The nation's economy grew very strongly in 1994, but the Eleventh District economy grew even faster, in part by attracting some of the country's most rapidly expanding industries. Eleventh District employment has grown more strongly than the rest of the country for six consecutive years.³ In 1994, employment in the three-state District grew 4 percent, faster than the nation's job growth of 3.1 percent. The District's employment growth in 1994 exceeded its 1993 rate of 3.3 percent and its 3-percent average over the past twenty-six years. As discussed in the box entitled "All Three Eleventh District States Grew Faster than the Nation," Louisiana, New Mexico, and Texas all contributed to the Eleventh District's strong performance in 1994.

Figure 1
Louisiana Merchandise Exports to Mexico



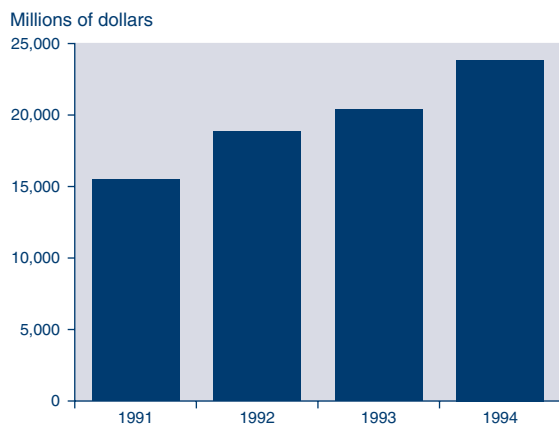
SOURCE OF PRIMARY DATA: Massachusetts Institute for Social and Economic Research.

Figure 2
New Mexico Merchandise Exports to Mexico



SOURCE OF PRIMARY DATA: Massachusetts Institute for Social and Economic Research.

Figure 3
Texas Merchandise Exports to Mexico



SOURCE OF PRIMARY DATA: Massachusetts Institute for Social and Economic Research.

Many factors are attracting firms to the Eleventh District—particularly Texas and New Mexico—but a low-cost business climate is the reason companies relocating to the area cite most often.⁴ The District has relatively low wages, regulation, and tax burden.⁵ With the area's low prices and construction costs, many firms find building a new factory in the Southwest cheaper than refitting an existing building elsewhere in the country. Texas and New Mexico, with research facilities and computer-literate graduates from local universities, have been particularly successful in attracting California firms.⁶ The District's central location reduces the costs of shipping, travel, and communications for companies that operate on both coasts and in Canada and Mexico. In recent years, the District's large population of bilingual residents has been an asset for companies doing business with Latin America.

Low land prices, taxes, and construction expenses also make the Southwest's cost of living desirable to workers, who can buy more goods and services with a given wage than their counterparts in most other areas of the country. In 1993, for example, Austin was the site of more California business relocations and expansions than any other U.S. city.⁷ Companies moving to Austin were able to pay their workers lower nominal wages, and yet, because of lower costs of living, the workers enjoyed higher living standards.⁸

The appeal of the region's business and living costs has helped keep population growth robust. A high birth rate and migration into New Mexico and Texas kept the states among the fastest growing in the country in 1994. Eleventh District states added 1,625,000 residents between July 1, 1993, and July 1, 1994, for a total population of more than 24 million.

Growing trade with Mexico

Trade with Mexico has been an increasing stimulus for the Southwest economy since 1986, when Mexico joined the General Agreement on Tariffs and Trade (GATT) and began liberalizing its economy.⁹ In recent years, Mexican demand for Southwestern retailing, manufacturing, and tourism has helped these industries become among the fastest growing in the United States. In 1992, Wal-Mart opened its largest U.S. store in Laredo, replacing a smaller store that was already the chain's nationwide sales leader. Across the highway is the second largest Target store in the United States.

A strong and growing network of shipping and transportation infrastructure makes the District an important distribution hub. Nearly 75 percent of goods traded between the United States

and Mexico travel on Texas highways. Most of those goods flow through Laredo, the largest inland port on the U.S.–Mexican border. Houston has the largest water port serving Mexico. Ports in Galveston and New Orleans also ship large quantities of Mexican goods, and a new port in Shreveport–Bossier City has opened to help funnel goods between the Midwest and Mexico. In 1994, NAFTA provided a catalyst to U.S.–Mexican trade by reducing the risk and lowering the cost of participation in Mexico's economy. On January 1, 1994, 48.9 percent of U.S. exports entered Mexico duty-free, compared with 17.9 percent in 1993.

NAFTA's implementation was a starting gun for further development of District transportation services, warehousing, and infrastructure. Transportation services employment in the District states grew 6.6 percent in 1994. While Louisiana and New Mexico posted strong increases, the strongest growth was in Texas, where air, trucking, and railroad companies raced to expand their cargo facilities. Texas employment in railroad, trucking, warehousing, and transportation services increased 9.9 percent in 1994.

In addition to transportation services, other industries in the service sector profited by helping companies comprehend changing regulations and unfamiliar laws and tax codes. Accounting, communications, consulting, and legal firms set up new offices to help companies learn how to trade. Legal firms facilitated an increase in joint ventures, mergers, and acquisitions, as firms joined forces to overcome informational and cultural obstacles and speed entry into a new market. A large Hispanic population and already strong ties to Mexico helped make the region's workers valuable to budding international companies.

The strong growth of U.S.–Mexican trade since NAFTA's implementation is particularly startling, given the relative weakness of the Mexican economy. Mexico was in recession when NAFTA became law on January 1, 1994. Although observers expected the Mexican economy to accelerate in 1994, political uncertainty slowed growth and led many investors to move cautiously.

Still, trade and investment in Mexico picked up strongly in 1994. All three states in the Eleventh District profited from rising exports to Mexico. As shown in Figure 1, in 1994 Louisiana merchandise exports to Mexico increased 50.3 percent over 1993.¹⁰ As Table 1 shows, agricultural products, chemicals, and petroleum products are among Louisiana's top export industries. New Mexico's merchandise exports to Mexico rose 32.9 percent in 1994, as shown in Figure 2. Table 2 lists New Mexico's top export industries in 1994, which were computer equipment, oil and gas, electron-

Table 1

Louisiana's Top Ten Merchandise Export Industries to Mexico
(1994 Year-to-Date)

	Millions of dollars	Change from 1993 (Percent)
Agricultural production—crops	\$408.7	160
Chemicals and allied products	109.5	4
Petroleum and coal products	70.3	10
Food and food products	48.9	-32
Industrial machinery, computer equipment	30.9	-1
Paper and allied products	19.9	15
Transportation equipment	14.9	365
Lumber and wood products	6.7	99
Stone, clay, and glass products	5.9	3
Electronics, electric equipment, excluding computers	5.8	-38

Table 2

New Mexico's Top Ten Merchandise Export Industries to Mexico
(1994 Year-to-Date)

	Millions of dollars	Change from 1993 (Percent)
Industrial machinery, computer equipment	\$28.7	111
Oil and gas extraction	21.1	81
Electronics, electric equipment, excluding computers	14.7	-48
Chemicals and allied products	12.9	37
Apparel and other textile products	6.9	92432
Agricultural production—crops	5.3	72
Food and food products	4.1	43
Lumber and wood products	2.7	5
Instruments and related products	.9	168
Rubber and miscellaneous plastic products	.8	-1

ics, and chemicals. Texas has been the most successful U.S. state in capitalizing on the expanding Mexican market. In 1994, 47 percent of all goods exported to Mexico from the United States were made in Texas.¹¹ Figure 3 highlights the steady growth in Texas merchandise exports to Mexico, which increased 17 percent in 1994. Texas' top ten export industries to Mexico, listed in Table 3, include electronics, transportation equipment, computers, and metals. Texas exports to Mexico represent a significant share of the state's economy. In 1993, for example, Texas' \$20.4 billion in merchandise exports to Mexico constituted about 20 percent of the state's total manufacturing sales. Exports to Mexico, while growing in all three District states, constitute a larger percentage of the Texas economy than New Mexico's or Louisiana's. Texas' exports of goods and services to Mexico, as listed in Table 4, represent approximately 6 percent of gross state product.¹²

NAFTA's passage generated great enthusi-

Table 3

Texas' Top Ten Merchandise Export Industries to Mexico

(1994 Year-to-Date)

	Millions of dollars	Change from 1993 (Percent)
Electronics, electric equipment, excluding computers	\$5,799.2	13
Transportation equipment	3,757.4	20
Industrial machinery, computer equipment	2,397.6	23
Fabricated metals	1,514.2	28
Chemicals and allied products	1,430.5	25
Instruments and related products	1,125.1	7
Rubber and miscellaneous plastic products	1,067.5	47
Food and food products	1,009.5	16
Primary metals	1,031.8	17
Apparel and other textile products	727.1	23

Table 4

1994 Exports to Mexico as a Percentage of Gross State Product

	Merchandise exports	Service exports	Total exports
New Mexico	.3%	Miniscule	.3%
Louisiana	.7%	.1%	.8%
Texas	5.0%	1.0%	6.0%

asm for new trade with Mexico and may have stimulated investment in anticipation of rising trade. Many service-sector companies—such as law, consulting, and transportation firms—reported opening or expanding offices designed to attract Mexico-related business. Several cities expanded infrastructure investment to accommodate expected increases in trade with Mexico.

The recent peso devaluation may have taken some of the momentum away from NAFTA and delayed some investment directed at selling to that market. The peso's sudden devaluation reversed a long-held managed exchange rate policy. The policy change was costly to many investors and has increased uncertainty for companies doing business south of the border. Over the long term, however, Mexico remains a burgeoning market for goods and services, and the District is well-positioned as a base for firms that want to export to that market.

Slower growth in 1995

Eleventh District economic expansion is likely to slow slightly in 1995, although growth should remain faster than the national average. A favorable business climate, trucking deregulation, and long-term prospects for growing trade with Mexico will not fully offset the effects of a slowing national economy, higher interest rates,

and the peso's devaluation. After increasing by an estimated 4 percent in 1994, employment in Eleventh District states is likely to grow about 2.5 percent in 1995.

A slower national economy and higher interest rates than in 1994 will likely curb the District's economic expansion in 1995. After nearly four years of U.S. economic expansion, interest rates rose in 1994. Higher interest rates began to slow the District's construction industry in 1994, curbing the region's homebuilding boom.

Although growth will probably slow, many positive factors driving the District economy will continue in 1995 and should help the region grow faster than the national average. The Southwest's relatively low cost of living and doing business will continue to attract firms. The cost of trucking goods within each state will be cheaper in 1995, thanks to the federally mandated deregulation of intrastate trucking that went into effect on January 1. This legislation is expected to have a large impact in Texas, which had one of the most regulated trucking markets in the nation.

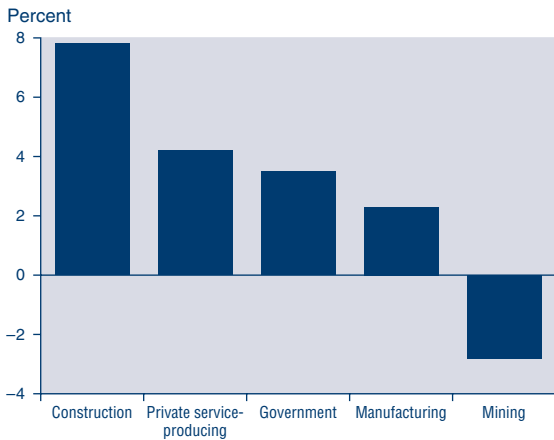
Mexico's economy is an important wildcard in the Eleventh District's economic forecast. At a minimum, Mexicans are likely to purchase fewer Eleventh District goods and services in 1995 because the peso devaluation makes U.S. goods more expensive than they were in 1994. A positive result of the peso devaluation will be that Eleventh District firms and consumers can purchase goods and services from Mexico more cheaply.

**A sector-by-sector overview:
A broad-based expansion**

The District's expansion in 1994 was broad-based, with the exception of energy and defense-related industries. Rapidly expanding service and manufacturing industries helped feed a booming construction sector. As shown in Figure 4, construction had the fastest employment growth. Private service-producing industries, which include transportation, trade, business services, finance, insurance, and real estate, posted the second fastest job gains. The District's manufacturing sector also had relatively strong employment growth, given the sector's weak employment growth nationwide over the past few years. The mining sector continued to decline in 1994. Government employment growth accelerated to 3.5 percent in 1994, but was outpaced by the 4.1-percent rate of the private-sector expansion.

While construction had the fastest employment growth, that sector's employment is relatively small and added only 0.4 percentage points

Figure 4
1994 Eleventh District Employment Growth



SOURCES OF PRIMARY DATA: U.S. Bureau of Labor Statistics; Federal Reserve Bank of Dallas.

to the District's employment increase in 1994. As shown in Figure 5, the service sector added the bulk of new jobs in the Eleventh District in 1994, contributing 2.7 percentage points to employment growth.

Construction booms

Construction employment surged 7.8 percent in 1994, posting its strongest growth since 1978. Booming nonresidential and apartment construction more than offset slower growth in homebuilding. Labor and materials shortages in some areas suggested that capacity constraints limited District construction growth.

Three huge, billion-dollar semiconductor factories led the upswing in nonresidential construction. A new Intel factory was under construction in Rio Rancho, New Mexico, and Motorola and Advanced Micro Devices built factories in Austin. Construction of petroleum refining facilities also was brisk in 1994, driven by heavy demand and regulations. Some construction was necessary to bring refineries into compliance with new regulations under the Clean Air Act, parts of which took effect at the end of 1994. The demise of the proposed Btu¹³ tax reduced uncertainty and stimulated building at several refineries along the Gulf Coast.

Retail and restaurant construction also picked up in 1994. Demand was heavy for retail space large enough to house warehouses, known as "supercenters," as was demand for restaurant space. Growth of gambling-related tourism in Louisiana boosted construction of hotels, restaurants, and casinos there.

Although rising interest rates slowed growth in 1994, District residential construction remained

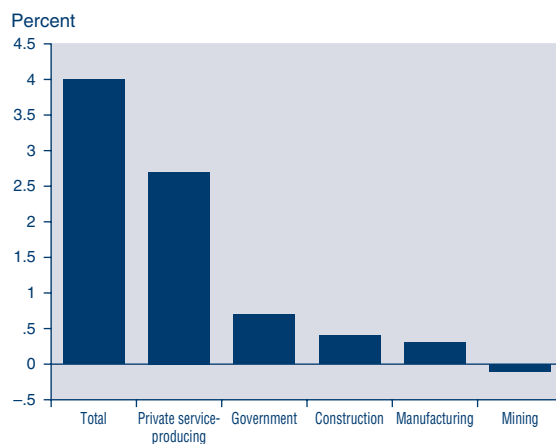
strong. Apartment construction more than doubled during the year. Single-family home building slowed but remained relatively strong after surging in 1992 and 1993.

Manufacturing gains speed

Eleventh District manufacturers were busy in 1994. Booming construction, a strong national economy, and expanding exports spurred heavy demand for District durable goods. Several manufacturing industries reported that they could not expand fast enough to meet demand, and their prices increased. In April, heavy overtime pushed Eleventh District average weekly hours worked in manufacturing to a record 43.8, among the highest in the nation. District manufacturing employment increased 2.3 percent in 1994. While the growth rate appears relatively slow compared with other sectors of the economy, manufacturing employment has been growing faster in District states than in the nation for eight years.

Manufacturing in District states was boosted by strong growth in construction supplies, automotive, and high-technology products. Production was strongest for construction-related industries, such as brick, cement, fabricated metal, steel, lumber, furniture, electrical products, and glass. Despite continued defense industry reductions and layoffs in 1994, District production of electronics, computers, and instruments remained very strong. The Southwest is a growing heartland for high-tech producers, such as computers, semiconductors, and telecommunications industries. Worldwide demand for these products has spurred

Figure 5
1994 Employment Growth by Sector As a Percentage of Total Employment



SOURCES OF PRIMARY DATA: U.S. Bureau of Labor Statistics; Federal Reserve Bank of Dallas.

All Three Eleventh District States Grew Faster than the Nation

Louisiana, Texas, and New Mexico each contributed to the Eleventh District's strong performance in 1994. Employment in all three District states grew faster than the national average of 3.1 percent. As shown in Figure A, employment growth was strongest in Louisiana and New Mexico. Rapid growth of Louisiana's casino industry led to a 5.6-percent employment increase in 1994, after a 3-percent rise in 1993. In New Mexico, rising exports and strong growth of high-tech industries helped boost job growth 5.3 percent in the past year. Both Louisiana and New Mexico posted the strongest job growth since 1978. The Texas economy also grew strongly in 1994, with employment increasing 3.5 percent. Expanding exports boosted employment growth in manufacturing and services in the state.

While employment growth was strong in all three District states, population growth has been more uneven. Population growth in Texas and New Mexico has been much stronger than in Louisiana. Between April 1, 1990, and July 1, 1994, population increased 9.1 percent in New Mexico, 8.2 percent in Texas, and 2.2 percent in Louisiana. All three states had a very high birth rate, but Texas and New Mexico had a large influx of people moving into the state. More people moved out of Louisiana than moved into the state, however.

Louisiana hits a jackpot

Despite its population decline, the Louisiana economy roared in 1994, with the fastest employment growth in more than fifteen years. Louisiana's economic growth had been sluggish since the oil bust in 1986, but in 1994 its employment accelerated to one of the fastest growth rates in the nation. Much of the state's rapid growth can be attributed to Louisiana's gamble on the casino industry. Renewed strength in energy-related manufacturing and services also boosted the state's economy.

Development of the casino industry has spurred growth in the state's construction, manufacturing, and service sectors. In 1994, 26.5 million tourists visited Louisiana,¹ bolstering demand for hotels and restaurants. Building of hotels, restaurants, and casinos led to a 7.9-percent jump in construction employment in 1994, while construction of riverboats was a catalyst for growth in the state's manufacturing sector.

Louisiana's energy industry also had a very good year, as the state benefited from particularly strong demand for petrochemicals and drilling activity in the Gulf of Mexico. Louisiana provides most of the service activity for rigs in the Gulf—a very lucrative industry in the past year.

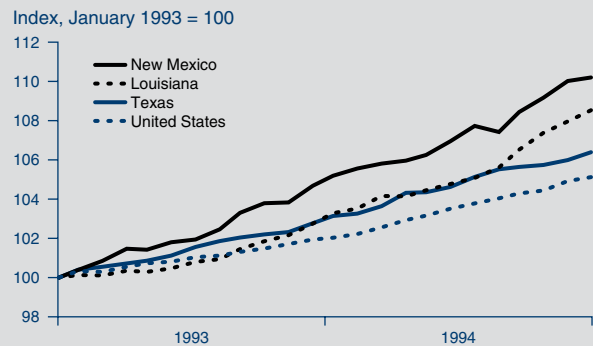
New Mexico: The District's perennial leader

The New Mexico economy continued its solid expansion in 1994. For several years, rapidly growing high-tech industries have given New Mexico one of the nation's fastest rates of employment growth. New Mexico's economy also has benefited from a large growing government sector, including a defense industry that is relatively stable compared with other states.

New Mexico's growing nexus of telecommunication and computer industries has spurred rapid growth in the construction, manufacturing, and service sectors. Much of the state's growth has been in Albuquerque and Rio Rancho, in the semiconductor and electronic equipment industries.

New Mexico's large public sector accelerated in 1994, despite slight reductions in federal government employment.

Figure A
Total Nonfarm Employment



Twenty-five percent of New Mexico workers are employed by the government, mostly at federal research and defense labs in Los Alamos and Sandia. So far, New Mexico has escaped major defense cuts because the state's defense industries focus more on research and development than on procurement.

Mighty Texas continues its solid expansion

Texas is by far the District's largest state. With 18.4 million residents, Texas surpassed New York in 1994 to become the nation's second most populous state.² The Texas economy grew strongly in 1994, thanks to continued expansion of high-tech industries and healthy export growth.

The growth in high-tech industries is reflected in the state's manufacturing and construction sectors. Austin—home of two of the largest microchip manufacturers in the world, Motorola, Inc. and Advanced Micro Devices—is also home to the world's leading producer of wafer fabrications systems, Applied Materials.³ Expansion of these and other computer-related manufacturers has continued to attract other high-tech firms and suppliers. Construction of manufacturing and research facilities and homes in Austin absorbed the area's labor force and stimulated demand for the state's construction materials. Healthy expansion of high-technology industries is not limited to Austin. The Houston economy is benefiting from the strong growth of Compaq, which has become second only to IBM as the largest computer producer. Vibrant growth of telecommunications manufacturers in Richardson (near Dallas) also has stimulated the state's economy.

Last year, Texas' service sector continued its solid expansion despite slower growth in tourism and health care. Restructuring at hospitals and other health service organizations hit Texas' economy relatively harder than other District states because of the industry's size in the state. Texas has a large health research and biotechnology industry and exports many health services to international visitors. A decline in Texas' tourism industry also slowed service growth. The state's tourism industry received heavy competition from Louisiana's thriving casino industry in 1994, reducing demand for hotels and tourist attractions.

¹ Louisiana Department of Culture, Recreation, and Tourism.

² California is the most populous state.

³ Sharp (1993).

expansion of research facilities and construction of huge factories in Texas and New Mexico. Many California firms have relocated to the Eleventh District to be close to these large manufacturers and research facilities.

Strong worldwide demand for District refining, petrochemicals, and oil field equipment and services held energy-related manufacturing steady despite weaknesses in oil and gas extraction. As major refining centers, Texas and Louisiana are the only U.S. states that export large quantities of energy products to other parts of the country—particularly the East Coast. Demand for these products was heavy all year, and capacity utilization at regional refineries was high. However, changing regulations concerning the introduction of reformulated gasolines under the Clean Air Act kept profits volatile and generally weak. Petrochemical production was extremely strong and highly profitable in 1994. The recovery of the international economy and strong national growth improved the market for Gulf Coast petrochemicals, which led to high capacity utilization, low inventories, and six rounds of price increases for basic chemicals such as ethylene and propylene.

The service sector accelerates

Strong growth in communications, transportation, retail and wholesale trade, and business services, along with growing trade with Mexico, stimulated the District service sector in 1994. After several years of restructuring and downsizing, most industries resumed hiring in 1993, spurring broad-based expansion of the service sector in 1994. After a 3.7-percent increase in 1993, private service-sector employment growth accelerated to 4.4 percent in 1994.

The sector's strongest job growth was at business service firms that had heavy demand for temporary, or just-in-time, employees. Employment also grew strongly at District transportation firms, as NAFTA encouraged firms to expand their air cargo, trucking, and warehouse facilities. District cargo firms reported increased shipments for all modes of transportation, including intermodal shipping, which is a combination of carriers, such as trucking and air. Growing U.S.–Latin American trade also helped boost expansion of the District's telemarketing industry because of the region's large bilingual population and location in the Central time zone.

Other fast-growing District services include wholesale and retail trade employment, particularly in building materials, automotive, and eating and drinking establishments. Recent expansion of gambling facilities in Louisiana boosted tourism to

record levels and increased employment at hotels, bars, restaurants, and other tourist attractions.

Not all District service industries are expanding rapidly, however. Employment in health services continued to decelerate in 1994, growing just 4.1 percent after increases of 4.5 percent in 1993, 4.7 in 1992, and an average 6.3 percent per year between 1987 and 1991. Competition from health maintenance organizations (HMOs) and proposals for national health insurance have encouraged health service companies across the nation to restructure. Several hospitals in District states reported job losses after cost-cutting led to more outpatient care.

Continued consolidations and restructuring reduced employment slightly at financial services firms in District states. Banks in Louisiana, New Mexico, and Texas are in good financial shape, however, and loan growth was strong in 1994.¹⁴

The energy industry continues to decline¹⁵

The energy industry declined in 1994, continuing a trend that started in 1982. Dwindling reserves led major companies to turn away from oil exploration in the District—and the United States—which shrank the region's energy sector. In 1994, District oil and gas employment fell 3 percent. Although the sector's employment rose in Louisiana and only declined slightly in New Mexico, Texas lost energy-related jobs, possibly because the state is headquarters for several major oil and gas companies that have been restructuring and downsizing. Although the District economy still is tied to swings in oil and gas prices, the effects of those swings have diminished in recent years.¹⁶

Low oil and natural gas prices contributed to weakness in the energy sector in 1994. Real oil prices at the start of 1994 were at pre-Arab-oil-embargo levels of 1973. Oil prices strengthened during 1994, as the global recovery and strong national expansion continued. A declining dollar also contributed to upward pressure on oil prices. Still, West Texas Intermediate crude oil averaged just over \$17 per barrel in 1994, relatively low compared with prices over the past several years.

In contrast, natural gas prices were very strong at the start of 1994, after one of the coldest winters of the twentieth century. Prices weakened during the year, however, falling to \$1.47 per million Btu in November, the lowest November price since 1986. Large supplies, weak demand, and competition with low oil-product prices helped keep natural gas prices relatively low during the year.

Despite comparatively weak energy prices, drilling activity in District states increased 7.3 percent in 1994. One reason drilling remained strong may have been new technologies that lowered drilling costs and made drilling more attractive at lower prices. Producers can use new seismic exploration technologies to look for oil and natural gas in previously unexplored salt structures. This new capability greatly reduces the cost of drilling in these areas and has spurred a tremendous amount of drilling activity in the Gulf of Mexico, the site of many of the region's most productive wells.

Government employment growth accelerates

While the District's government sector has grown more slowly than the rest of the economy for the past three years, employment growth in the sector has been accelerating despite continued reductions at the federal level. In 1994, government employment in District states increased 3.5 percent, after rising 2.4 percent in 1993.

State and local government employment rose in all three District states in 1994. The strongest growth occurred in Texas, where court-ordered improvements in prisons and mental health facilities contributed to a 4.7-percent rise in state government employment.

Federal government employment in Eleventh District states held steady in 1994, after declining in 1993 and 1992. Defense reductions in New Mexico and Texas cut the federal government's employment of civilians in those states, although such employment increased 2.2 percent in Louisiana.

Agricultural surprises

For Southwest agriculture, 1994 was a year of surprises: unexpectedly good crop and livestock production after very dry conditions in some areas early in the year, a steep and sudden drop in beef prices in the spring, and at year's end, a good harvest—particularly from irrigated fields—and the highest harvest-time prices for cotton in fifteen years.¹⁷ With low prices for livestock products, 1994 farm income is expected to be lower than in 1993.

The increasingly global marketplace is boosting demand for District agricultural products. This year, producers benefited as strong worldwide demand pushed up cotton prices after crop losses in Pakistan and India. NAFTA stimulated demand for many District products, including livestock, animal products, sugar cane, soybeans, grains, and feeds.

Conclusion

Economic growth in Eleventh District states, once dependent on a prominent energy industry, today is driven by a relatively low cost of living and growing trade with Mexico. In 1994, NAFTA and a robust national economy also helped the three District states attract new business and gain employment faster than the national average.

After a strong year in 1994, economic growth in Louisiana, New Mexico, and Texas is likely to slow in 1995. The national economic slowdown and higher interest rates than in 1994 are expected to inhibit employment growth in District states. The diminished value of the peso and continued political uncertainty in Mexico also are likely to restrain the region's economic growth in 1995. Despite these negative factors, however, the Eleventh District will probably remain one of the fastest growing areas in the country.

Notes

Research by Keith Phillips and editing by Rhonda Harris have contributed greatly to this article. The article also benefited from analysis and comments by Steve Brown, Bill Gilmer, Evan Koenig, Lori Taylor, Lucinda Vargas, and Mine Yücel. Whitney Andrew and Michelle Thomas provided excellent research assistance.

- ¹ The Eleventh District includes northern Louisiana, southern New Mexico, and Texas. This analysis, however, is based on data for the entire states of Louisiana, New Mexico, and Texas.
- ² Nationwide capacity constraints, coupled with economic expansion in excess of the natural rate of growth, prompted the Federal Reserve to raise interest rates six times in 1994. Over the business cycle, market forces also push up interest rates.
- ³ This record is based on the growth rate of jobs from December to December each year. Based on the percentage change in the twelve-month annual average, District employment has grown more strongly than the nation for five consecutive years.
- ⁴ For further discussion of the Southwest business climate, see Brown and Anderson (1988).
- ⁵ For the past two decades, Louisiana, New Mexico, and Texas per capita state and local tax burdens have been below the national average, according to the Advisory Commission on Intergovernmental Relations.
- ⁶ The University of Texas at Austin has one of the largest installed bases of MacIntosh computers in the world, making graduates strong candidates for high-tech jobs.
- ⁷ In the past two decades, about two-thirds of Austin's manufacturing relocations have come from metropolitan San Jose, California.
- ⁸ At the end of 1993, the average cost of a home in Santa Clara County, California—the heart of Silicon Valley—was \$252,264. The average cost of a house in Austin was \$114,800.

⁹ The George–Taylor article, also in this issue, concentrates on the average effects Texas exports to Mexico have had on Texas employment between 1987 and 1994. The authors conclude that the dramatic growth in merchandise exports between 1987 and 1994 accounts for only a small fraction of the employment growth in Texas. As they indicate, their analysis describes only part of the total trade picture. In particular, they were unable to measure the effects of increasing trade in services, merchandise imports from Mexico, and any spillovers from increasing exports to Mexico from U.S. states other than Texas. In this article, I use data on U.S. and Texas trade flows and anecdotal information to discuss the broader trade picture.

¹⁰ Adjustments to the data from the U.S. Census Bureau, Foreign Trade Division, were performed by the Massachusetts Institute for Social and Economic Research (MISER). Exports are measured by state of origin; products are measured from the state where they begin the journey to point of export. This measure may attribute goods to the state where they are warehoused prior to beginning the journey to point of export. In the case of Southwest exports to Mexico, this measure is likely to overstate exports.

An alternative measure available from MISER calculates state exports to Mexico from the ZIP code of origin. The ZIP code measure may attribute an export from the ZIP code of the state where the manufacturer is headquartered, rather than the ZIP code of the manufacturing facility. In the case of the Southwest, this measure is likely to understate exports. Based on the ZIP code of origin measure, Louisiana exports to Mexico increased 106.2 percent, New Mexico exports to Mexico declined 10.4 percent, and Texas exports to Mexico increased 10.9 percent in 1994.

¹¹ This statement is based on data from the U.S. Census Bureau, Foreign Trade Division, adjusted by MISER.

¹² Gross state product data are Federal Reserve Bank of Dallas estimates for 1994. Merchandise exports are from MISER. Services are assumed to equal 20 percent of merchandise exports, which is the average percentage of U.S. service exports to Mexico, based on estimates from the U.S. Department of Commerce, Economics and Statistics Administration, Bureau of Economic Analysis. (Total U.S. service exports to the world average 40 percent of merchandise exports.) While service exports are likely to vary by state, Eleventh District states are closer to Mexico and would be expected to export more services than other states. Consequently, estimates for services are likely to understate actual service-sector exports.

¹³ Btu, or British thermal unit, is the quantity of energy required to raise the temperature of one pound of water one degree Fahrenheit at or near 39.2 degrees Fahrenheit.

¹⁴ Clair (1995).

¹⁵ Research by Steve Brown, Bill Gilmer, and Mine Yücel contributed to this section.

¹⁶ Brown and Yücel (forthcoming).

¹⁷ Anderson (1995).

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