

Texas Border Outlook

Framing the Future

Tomorrow's Border Economy

December 3, 2004

Keith Phillips

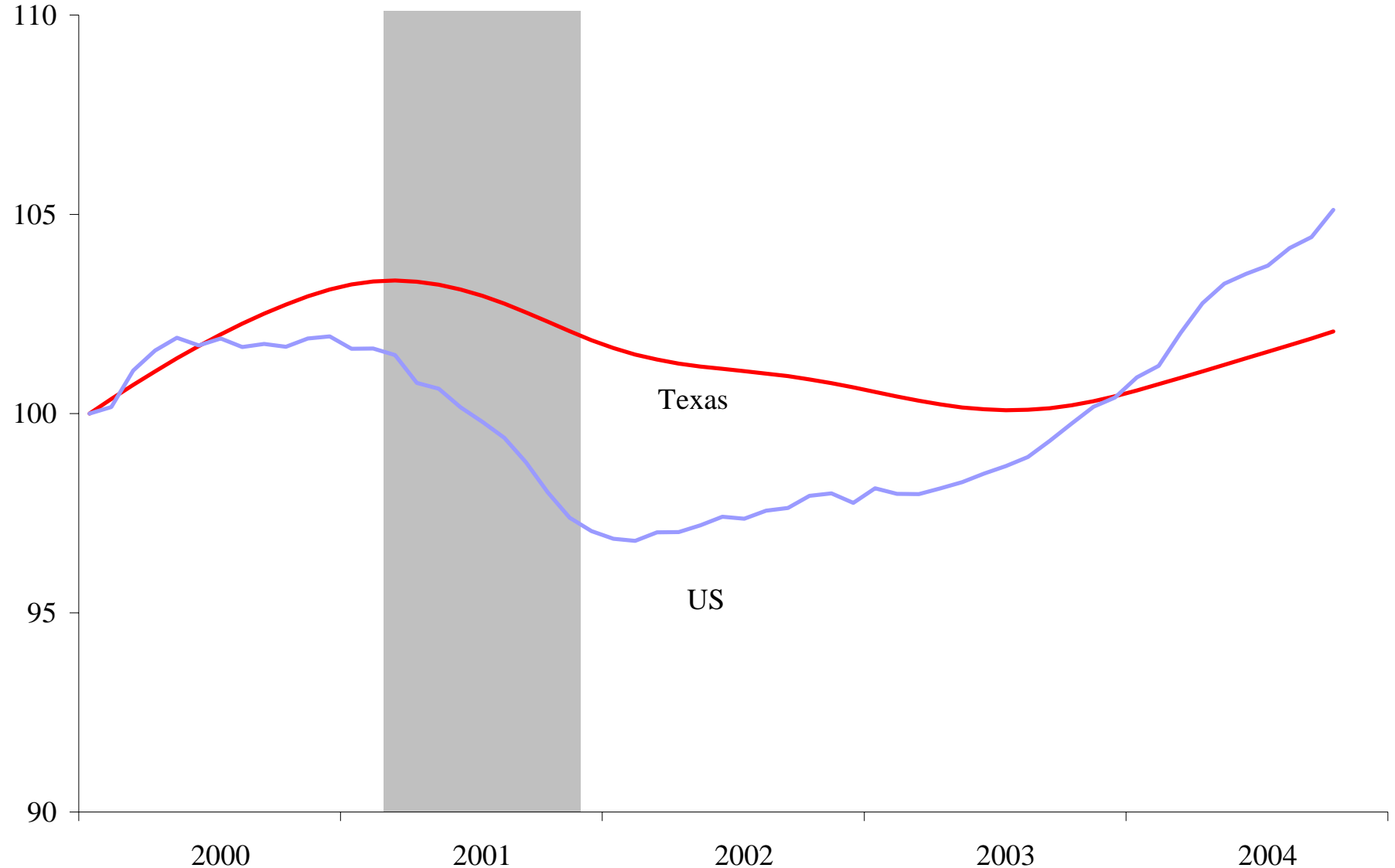
Federal Reserve Bank of Dallas

San Antonio Branch

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US and Texas Business Cycles on Similar Paths (Dallas Fed Stock and Watson Coincident Indexes)

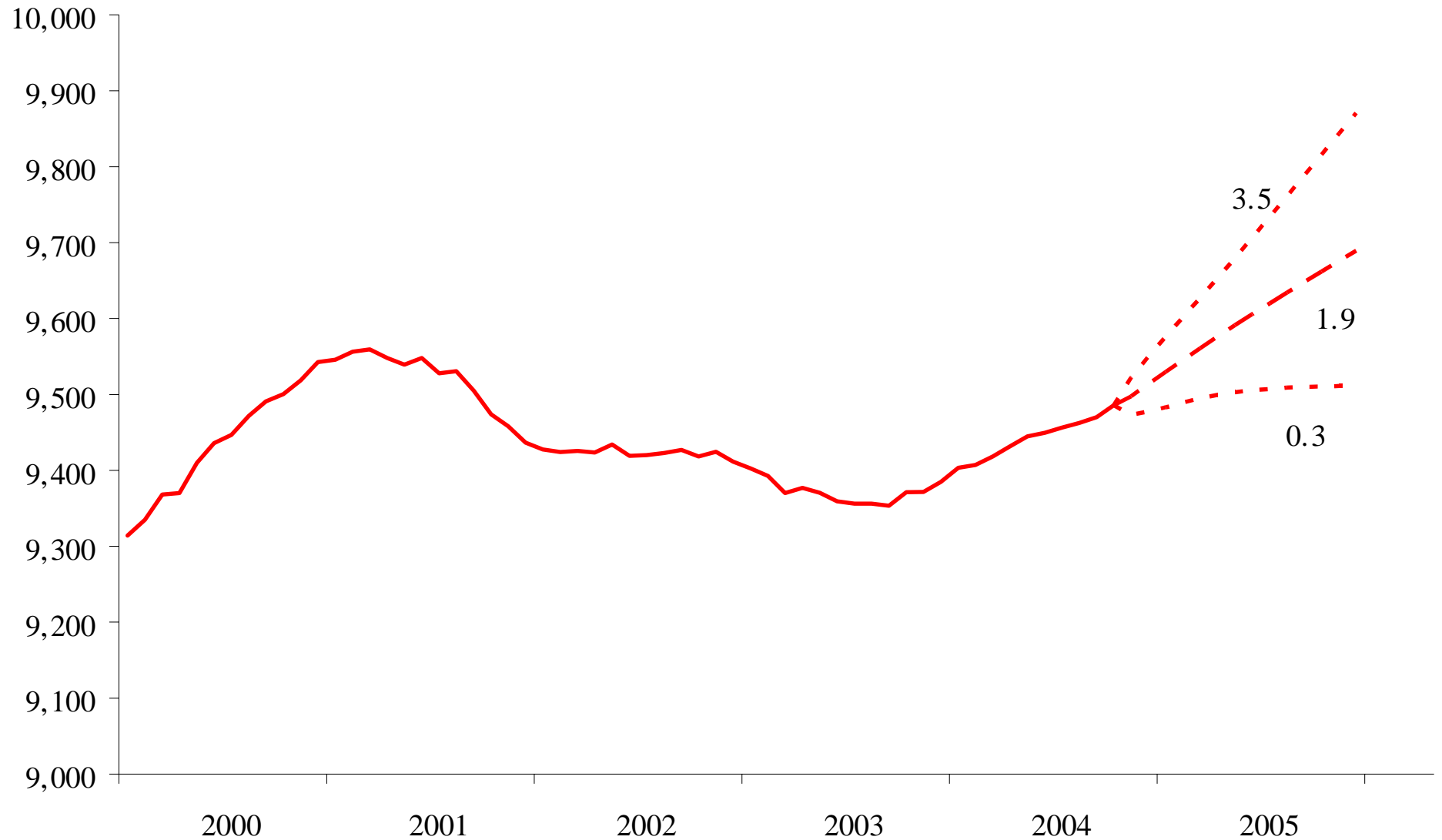
Index, 2000m1=100



Texas Job Growth Likely to Accelerate Slightly

(Forecast with 80% Confidence Interval)

Thousands, SA



Border Economy on the Frontier

- Different from most areas
- Strong job growth and persistently weak per-capita income
 - From 1969 to 1997 annual job growth in low-income border counties averaged 3.4% versus 2.0%, 0.4% and 0.3% in low-income counties in Kentucky, West Virginia, and Mississippi.
- Economies impacted by changes in national policies such as minimum wage, trade, and environment.
- Border adapts quickly to changes
 - Border post-9/11

Despite Progress in the 1990s, Border PCPI Still Lags US

- Minimum wage not the solution
- Education responsible for income gains in the long-run

Per-Capita Income lags in the Border

	Percent of U.S. per capita income				
	1970	1980	1990	2001	2002
US	100.0	100.0	100.0	100.0	100.0
Texas	89.0	97.8	89.1	93.6	94.0
Brownsville	53.2	56.6	50.8	50.4	52.0
Del Rio	67.7	62.4	57.5	57.4	60.0
Eagle Pass	38.4	41.3	36.0	40.3	40.0
El Paso	73.0	64.4	63.4	63.1	65.0
Laredo	55.4	53.8	48.2	51.0	54.0
McAllen	47.7	52.7	47.6	45.3	48.0

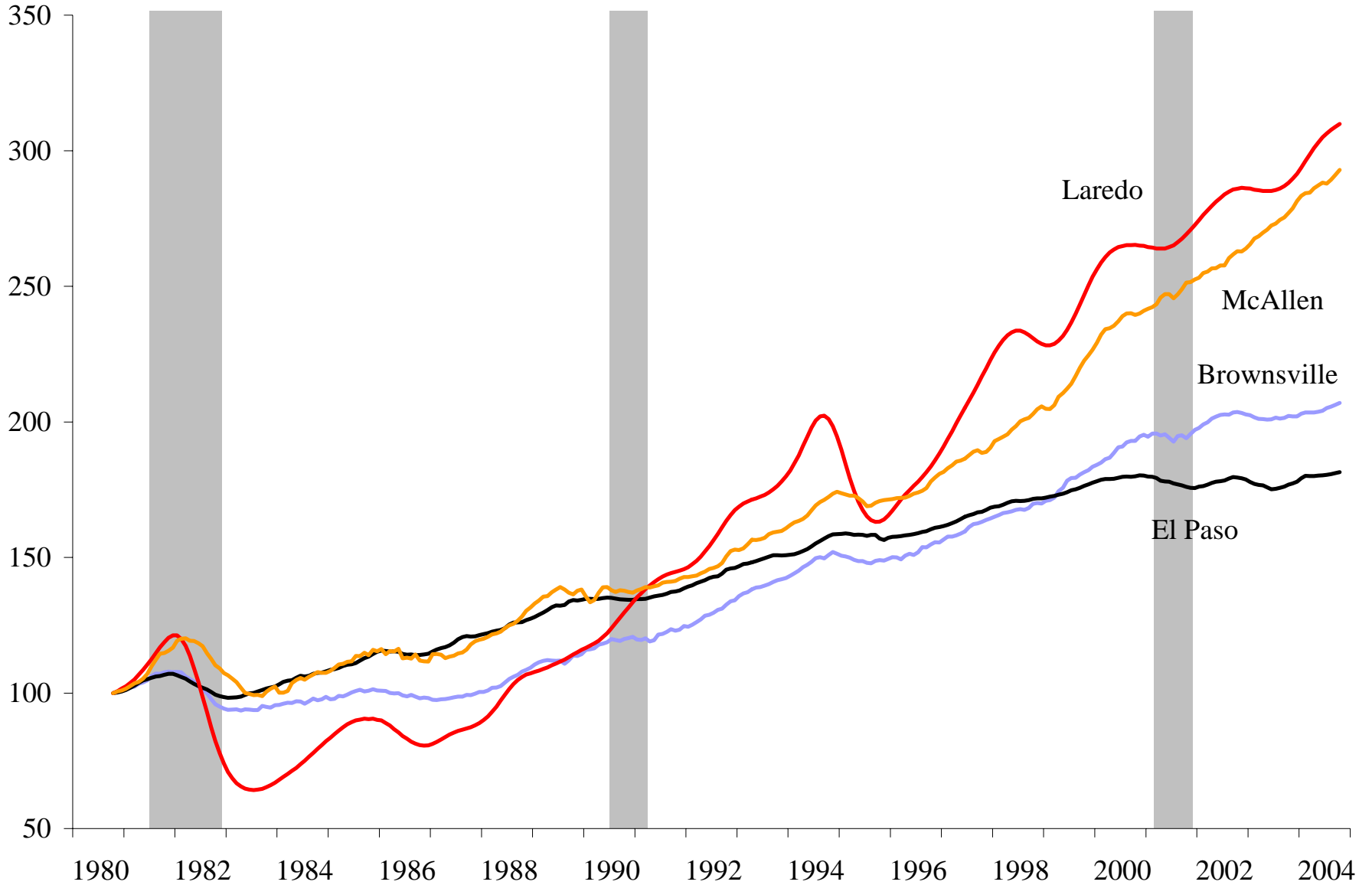
Source: Bureau of Economic Analysis, *Regional Economic Information System, 1969-2001*

Dallas Fed Border Business Cycle Indexes

- Different economic indicators can cause confusion about the underlying direction of the economy. We combine the movements in employment, wages, retail sales, and the unemployment rate in a statistically optimal way to define the underlying direction of the economy.
- The long-term trends in the indexes are set to equal growth in the metros' real personal income.

South Texas Border Strong in Recent Years

Index, Oct-80 = 100



Results of Statistical Analysis

- Ran correlation, cross-spectral, and cluster analysis to study the relationships between border economies and economies of US, TX, and Mexico
- Main conclusions:
 - El Paso more tied to Texas and US
 - Southern Texas Border MSAs (Laredo, McAllen, and Brownsville) more tied with Mexico
 - All four MSAs saw an increase with Mexico since 1994
 - El Paso also saw stronger relationships with US and Texas post 1994

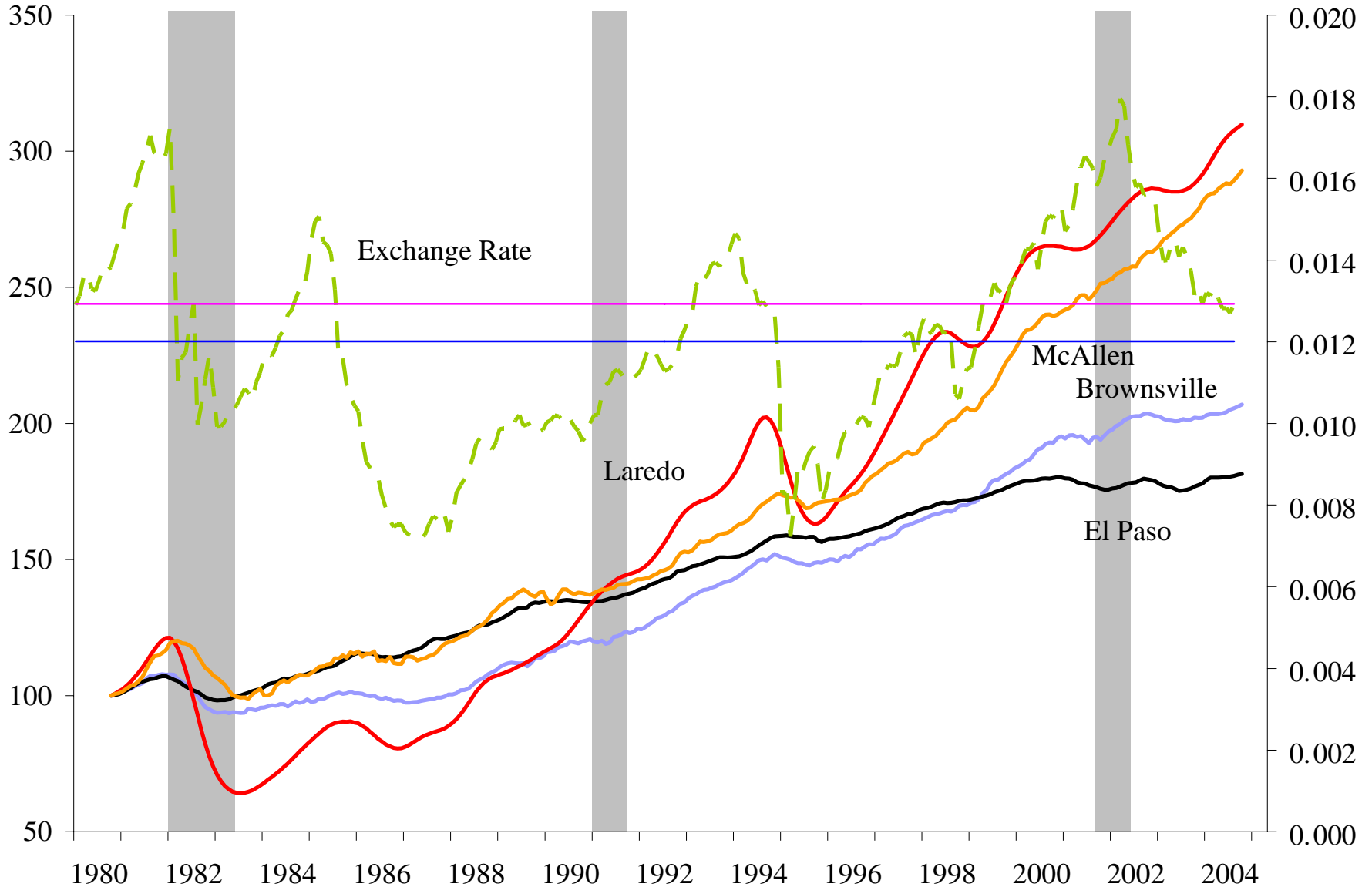
Border MSAs Driven by Factors Other than Macro Economies

Hard to decipher individual impacts but we look at oil prices, trade flows, maquiladora employment and real value of peso.

Exchange Rate Impacts the Valley More than El Paso

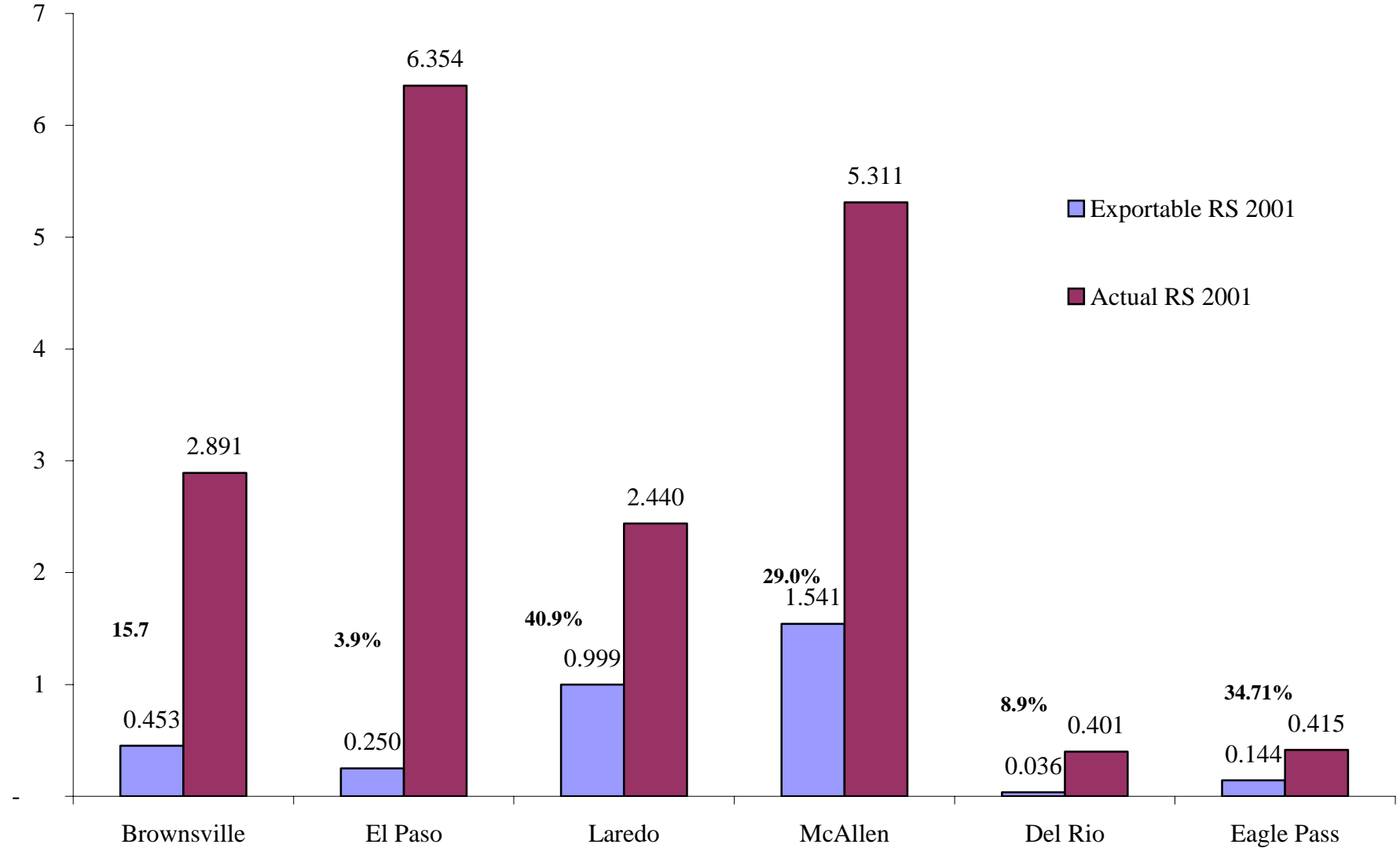
Index, Oct-80 = 100

Real, \$/Peso



Laredo Impacted Most By Net Exported Retail Sales

Billions of \$



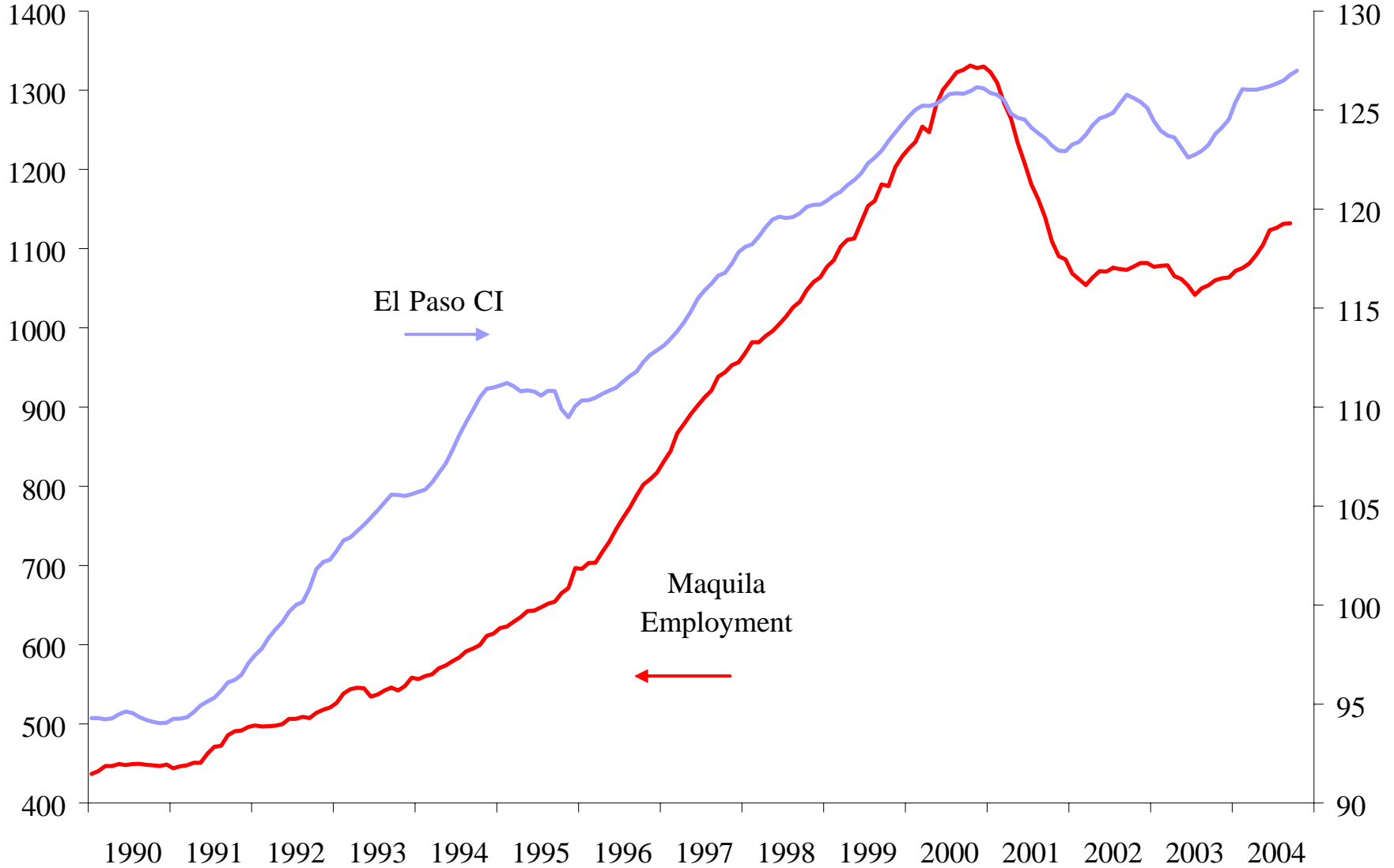
Source: Federal Reserve Bank of Dallas with data from the Texas Comptroller of Public Accounts

Notes: Data at the county level

El Paso Follows Maquiladora Industry

Thousands, SA

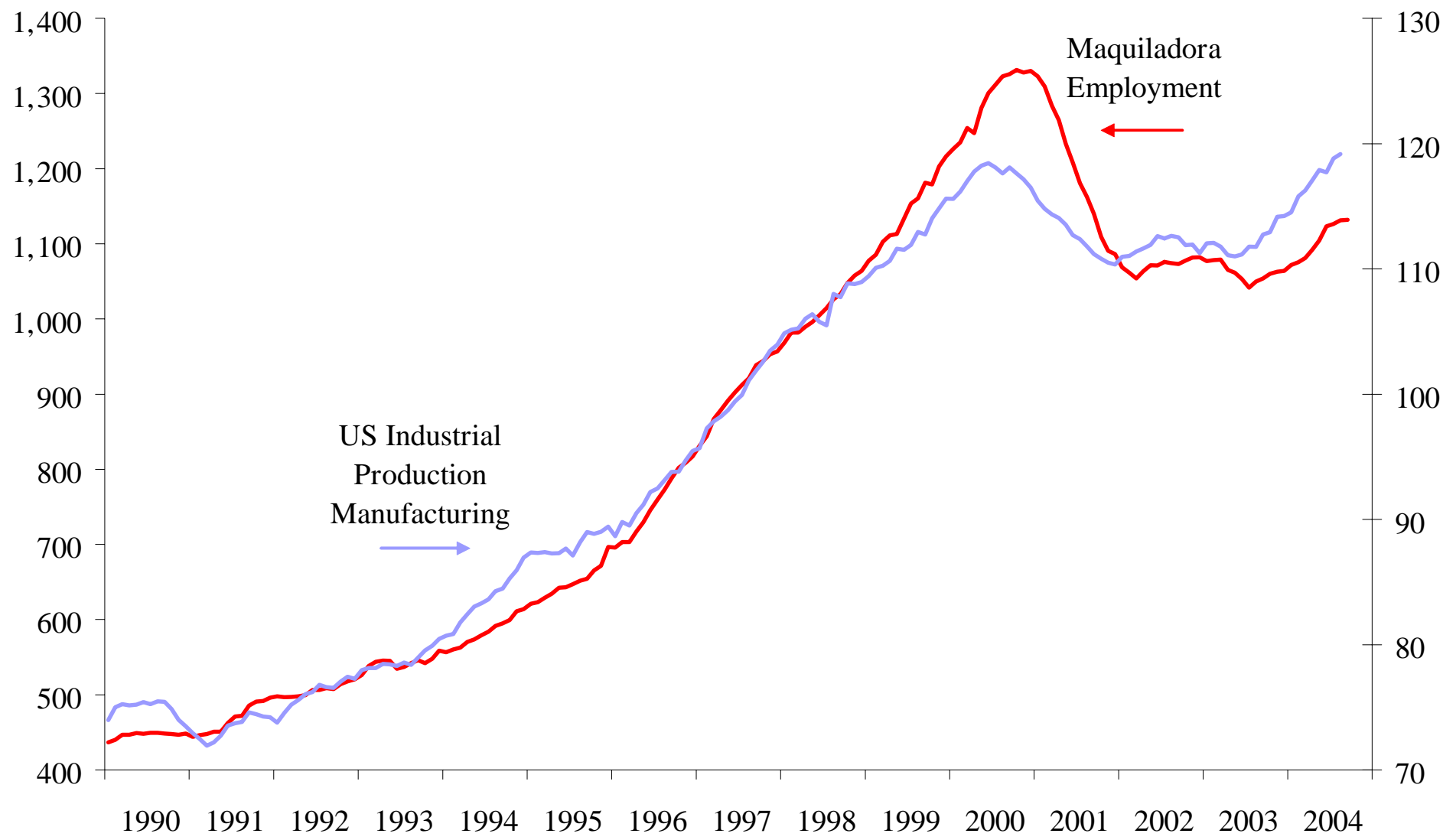
Index
1992= 100



Maquiladora Employment Mirroring US IP

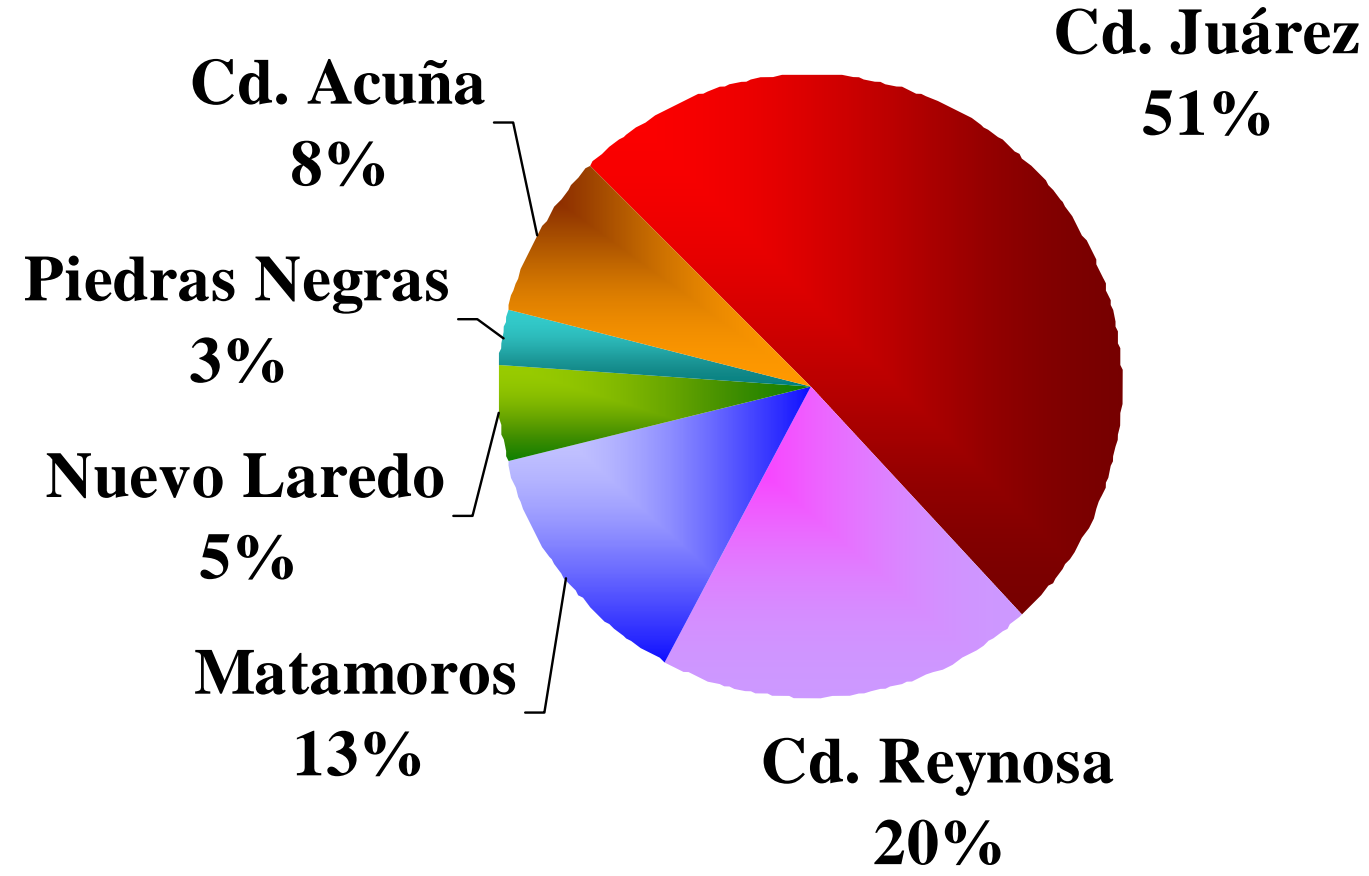
Employment,
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1997 = 100,
SA



Cd. Juárez has Largest Share of Maquiladora Jobs Along Mexico-Texas Border

(Average in 2004)

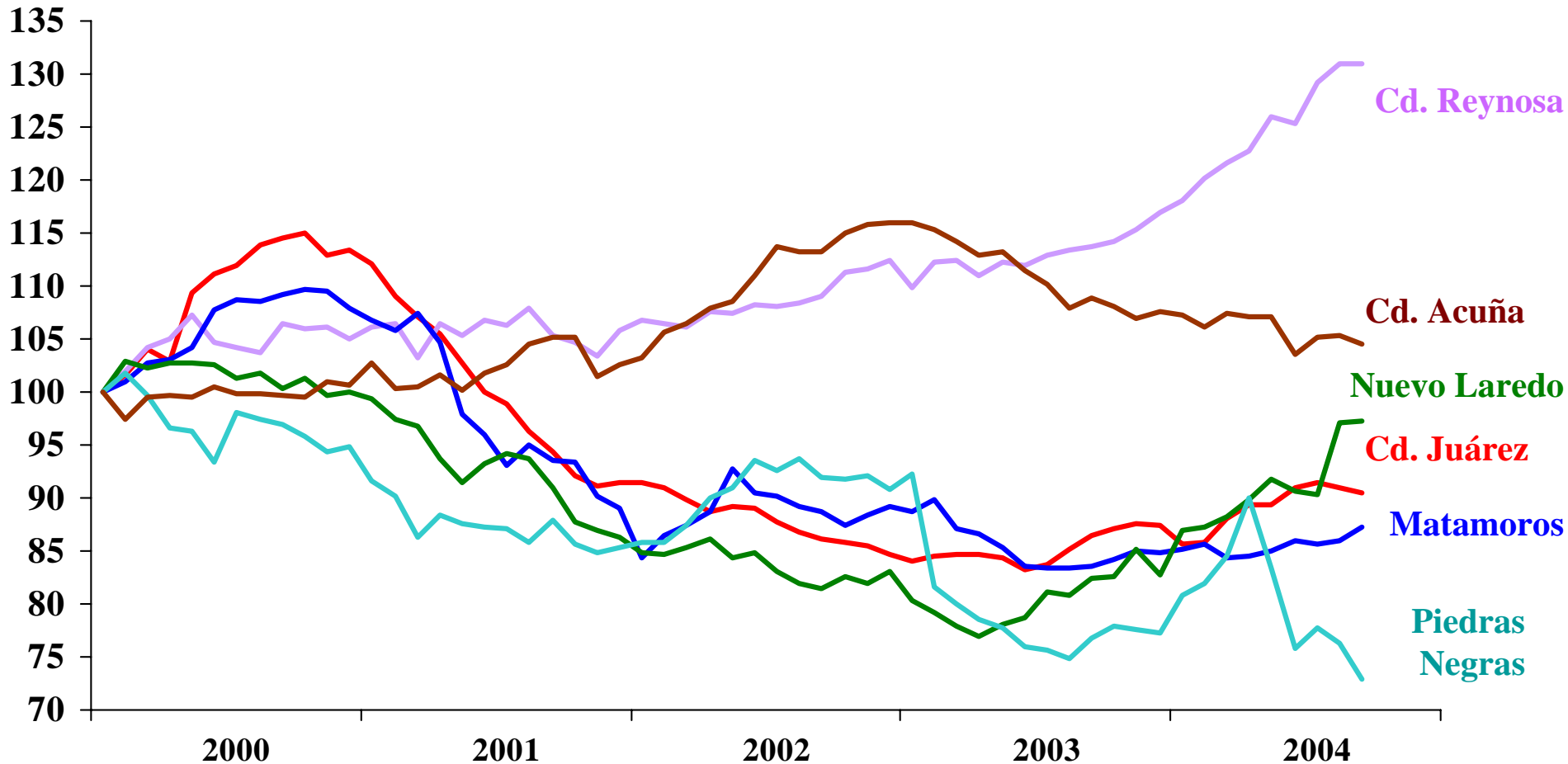


Source: INEGI; seasonal adjustments by FRB Dallas

Most Border Cities Seeing Rebound in Maquila Jobs since mid-2003

(SA data)

Index, January 2000 = 100 *



Source: INEGI; seasonal adjustments by FRB Dallas

Outlook for Border – Continued Strength

- Peso still strong, - Brownsville, McAllen and Laredo doing well
- Maquiladoras improving – El Paso picking up as well as South Texas border
- Texas, US, and Mexico likely to continue moderate pace of growth
- Stability of peso (float) since mid-1990s suggests more stable southern border economy
- El Paso to benefit from military shift to Ft. Bliss
- Rain having positive impact on Valley agriculture
 - Lake levels and cotton and grain yields high, hunting strong
 - Florida hurricanes likely to increase prices for citrus and potentially increase Winter Texans

Long-Term Issues

- Education
- Water
- Homeland security, US VISIT
- Immigration
- Transportation
- Income support payments