



Border Economic Outlook: *More Growth Ahead*

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Border Economic Forum 2006
May 26, 2006
El Paso, TX

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Border Economies

- Share common features as border cities, features that also make them different from other U.S. cities
- In recent years, marked by strong job growth and weak growth in per capita income
- Impacted by changes in national policies such as minimum wage, trade, and the environment
- Border adapts quickly to change, ex: security post 9-11

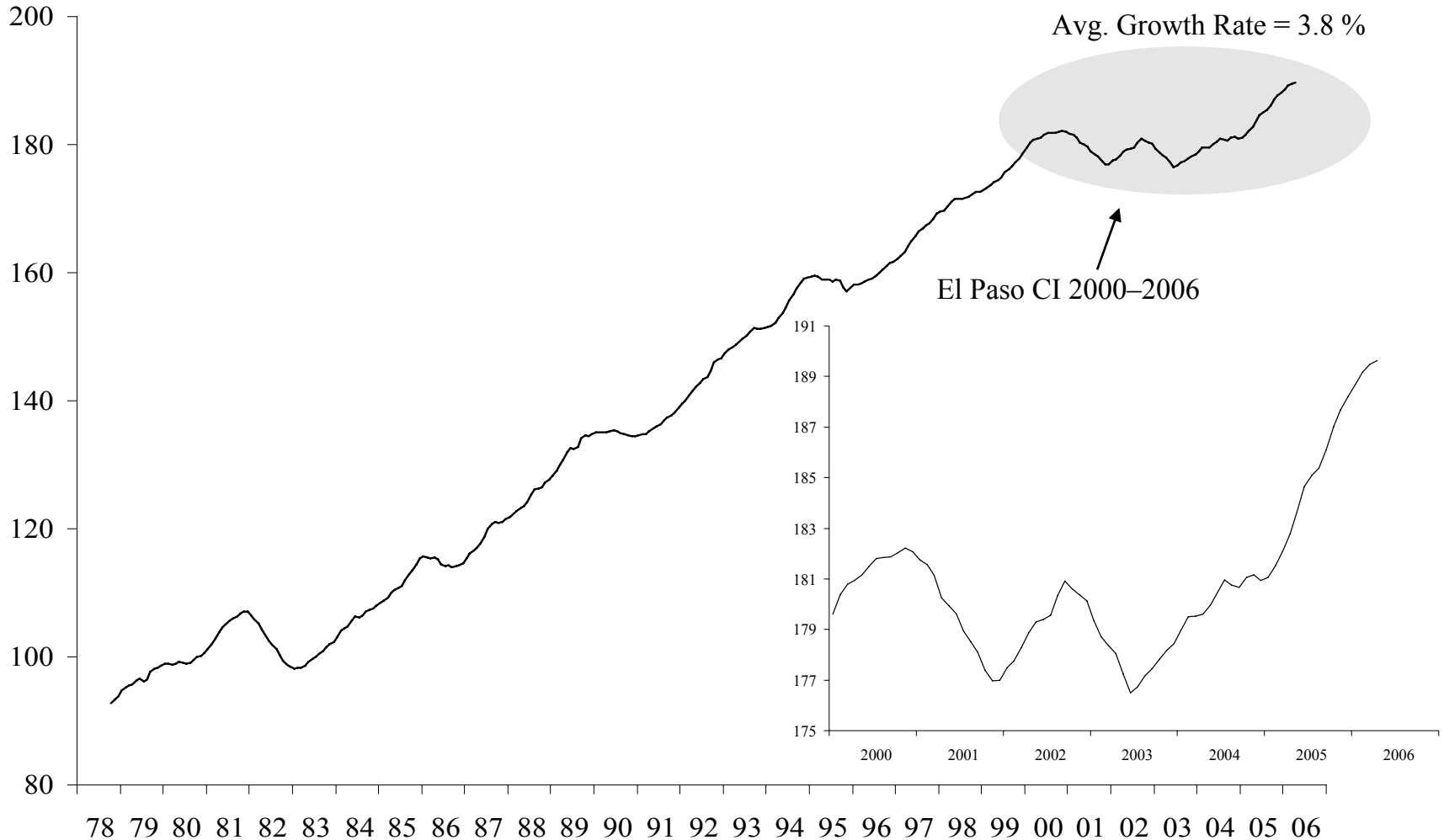


Common Features of Texas Border Cities

- A large transportation and distribution sector due to international traffic
- A large retail sector inflated by serving goods to two cities
- A large government sector because of border enforcement and public programs that address high poverty levels

El Paso Coincident Index of Economic Activity

Index: 1980:10=100



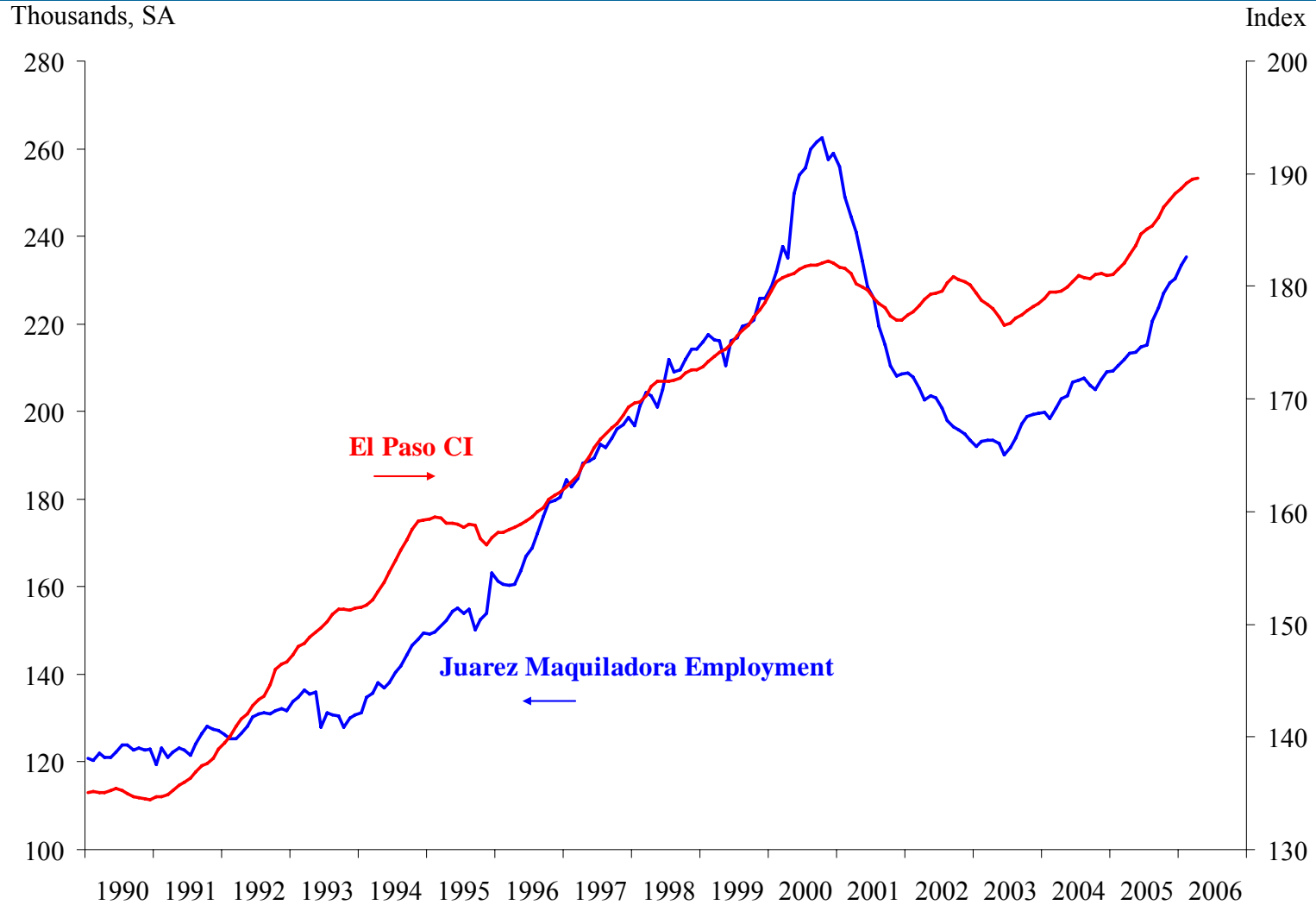
Source: Federal Reserve Bank of Dallas

External Forces that Drive The El Paso Economy

- U.S. economy and industrial production
- Mexican economy and exchange rate
- Cd. Juarez economy and maquiladoras
- Local military spending

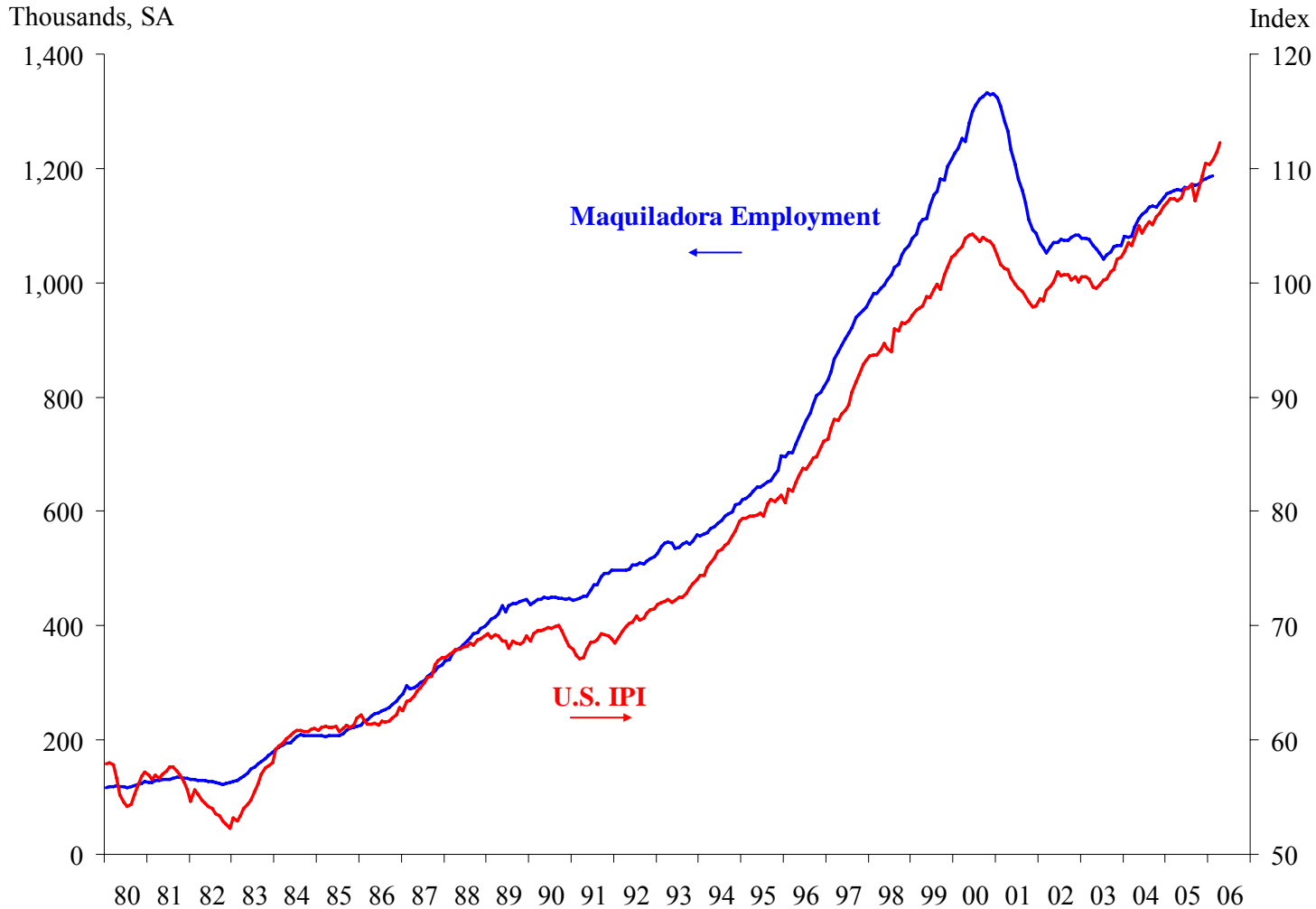


El Paso follows the Maquiladora Industry



Sources: INEGI and Federal Reserve Bank of Dallas

Maquiladora Employment Mirroring U.S. IP



Source: INEGI and Federal Reserve Board of Governors

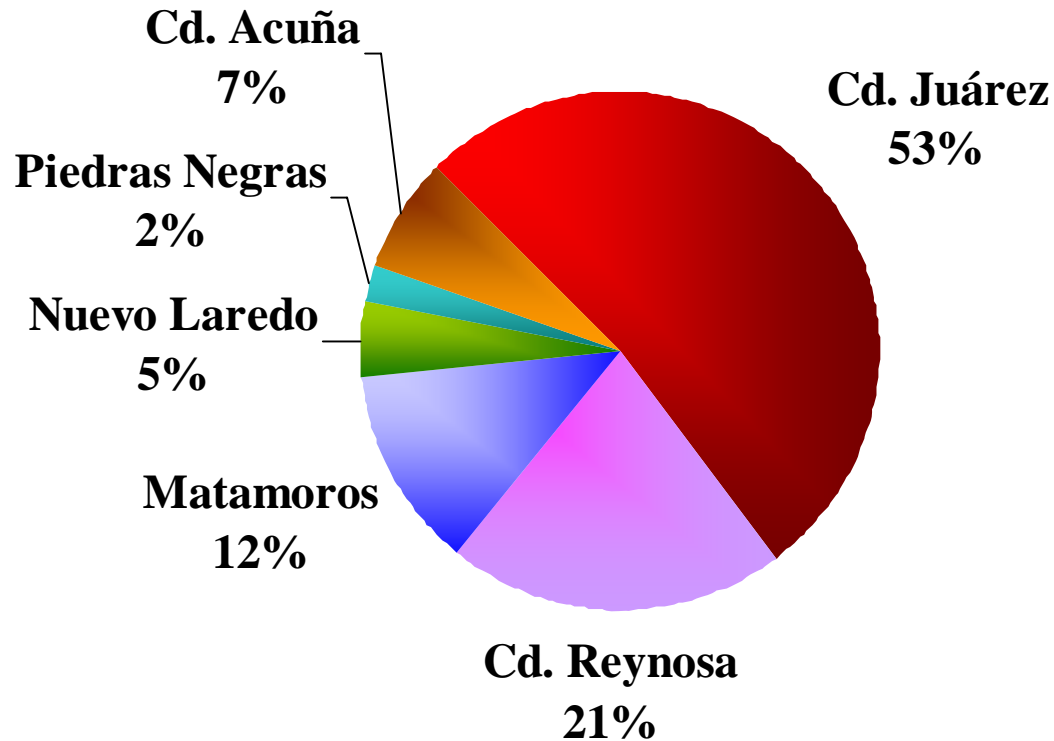
Maquiladora Growth Feeds Back Into Texas Cities in Many Ways

- In general, a 10% increase in maquiladora activity in Mexican border cities, leads to a 1.1% to 2.0% employment increase in U.S. border cities side, and
 - 2.1% to 2.7% increase in wholesale trade
 - 1.7% to 2.7% increase in transportation
 - 1.2% to 2.1% increase in manufacturing
 - 1.0% to 1.8% increase in retail trade

Source: Gordon H. Hanson “*U.S.–Mexico Integration and Regional Economies: Evidence from Border-City Pairs*,” *Journal of Urban Economics*, 2001

Cd. Juarez has Largest Share of Maquiladora Jobs Along Texas–Mexico Border

(2006 average)

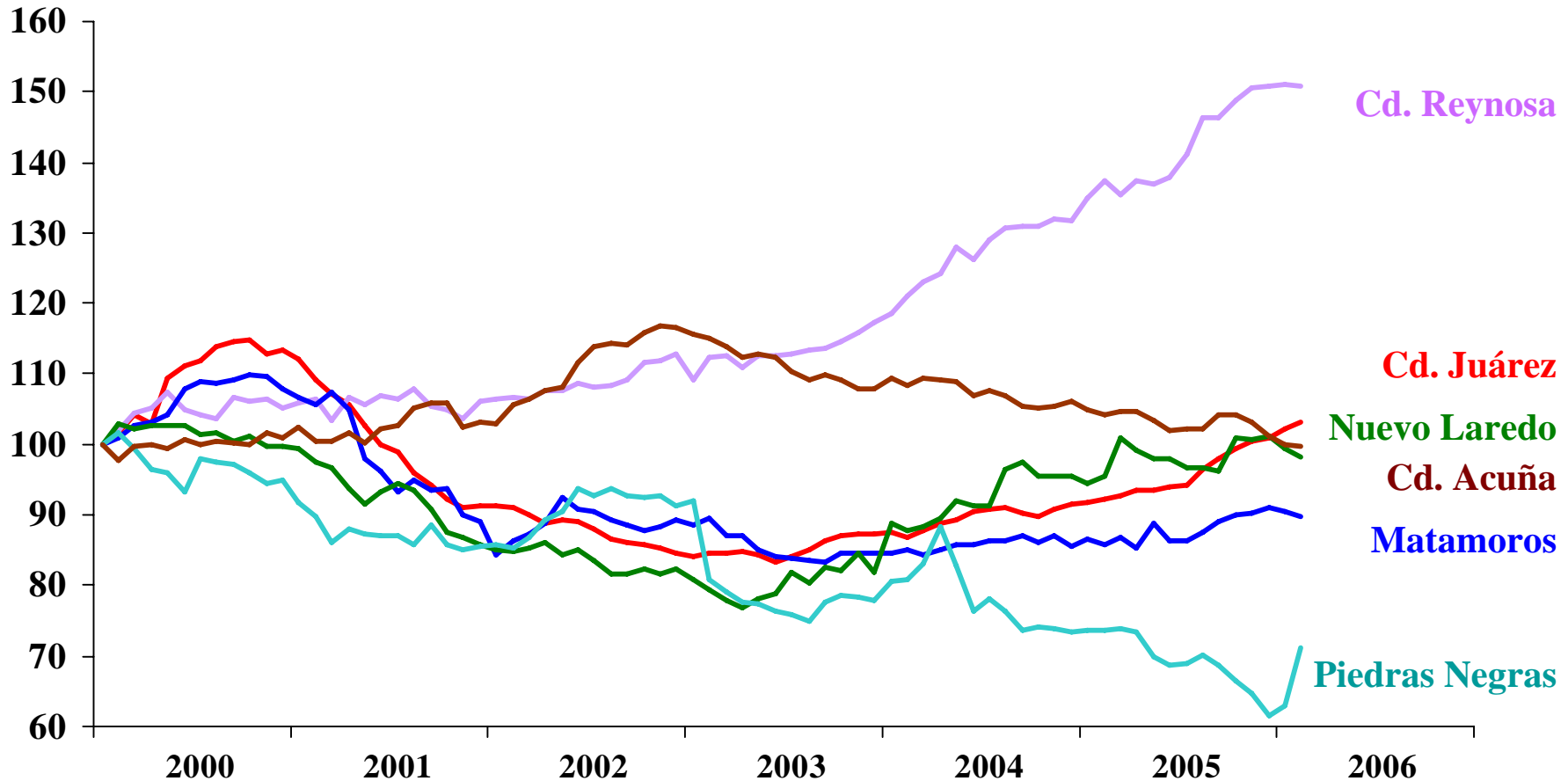


Source: INEGI; seasonal adjustments by FRB Dallas.

<http://www.dallasfed.org>

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

Index, January 2000 = 100 *



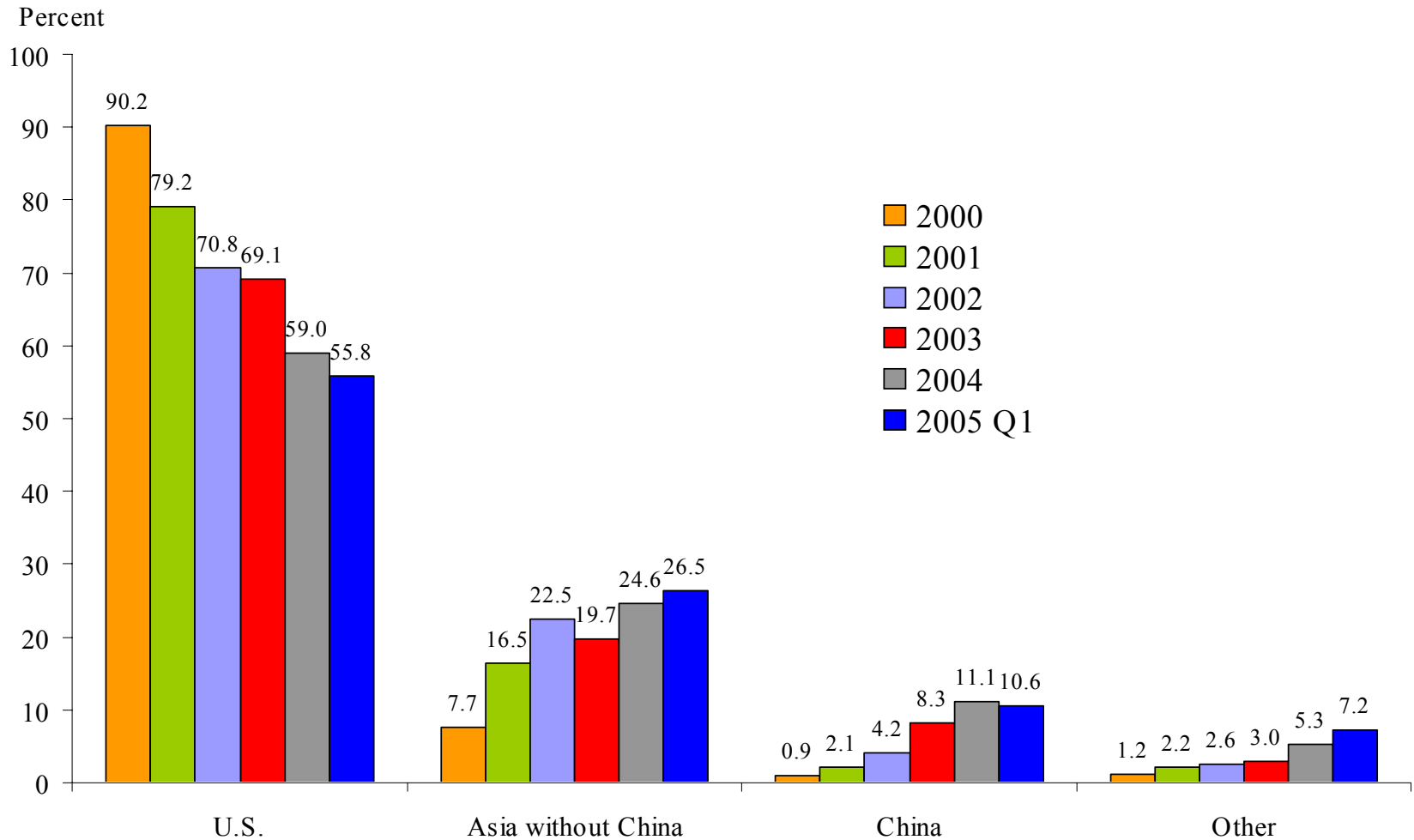
* Seasonally adjusted

Source: INEGI; seasonal adjustments by FRB Dallas.

<http://www.dallasfed.org>

Has this relationship changed?

Mexican Maquiladora Imports by Country of Origin



Source: Federal Reserve Bank of Dallas, El Paso Branch with data from Banco de Mexico



Are border cities complements or substitutes to each other?

- **U.S. Cities**

$$LQ_{ij} = \frac{\text{Percent share of industry (i) in city j}}{\text{Percent share of industry (i) in the U.S economy}}$$

- **Mexican Cities**

$$LQ_{ij} = \frac{\text{Percent share of industry (i) in city j}}{\text{Percent share of industry (i) in the Mexican economy}}$$



Put Cities on a Common Denominator

$$LQ_{ij} = \frac{\text{Percent share of industry (i) in city j}}{\text{Percent share of industry (i) in the U.S and Mexican economy}}$$

Why?

- Can compare adjacent cities side-by-side
- Can add adjacent cities together



Combined LQ's Should Fall in Many Sectors for Adjacent Border Cities

Sector	El Paso	Juárez	Combined
Retail	$LQ > 1$	$LQ < 1$	$LQ \rightarrow 1$
Personal Services	$LQ < 1$	$LQ > 1$	$LQ \rightarrow 1$
Education	$LQ > 1$	$LQ < 1$	$LQ \rightarrow 1$
Real Estate	$LQ > 1$	$LQ < 1$	$LQ \rightarrow 1$

Proposed Rule : A weighted average of variances of El Paso and Juárez location quotients should be greater than the variance of the combined cities if their industrial structures are complements

City Pairs Combined: Location Quotients for City Pairs on U.S. –Mexico Base (LQ>1.05)

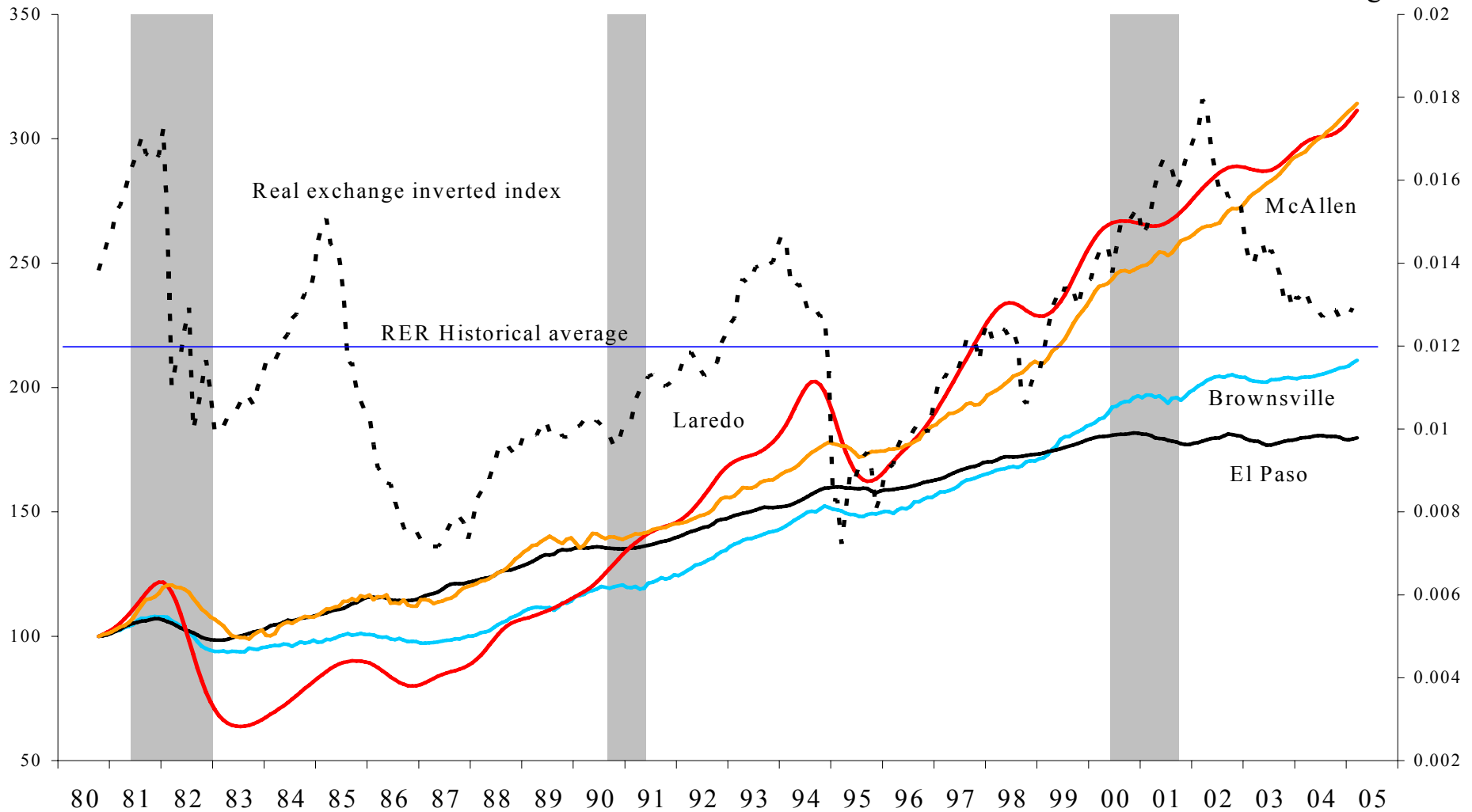
NAICS Code	Sector	El Paso Juárez	Laredo Nuevo Laredo	McAllen Reynosa	Brownsville Matamoros
21	Mining		1.83	3.54	
22	Utilities				
23	Construction			1.22	
31-33	Manufacturing	2.49	1.11	1.33	1.93
42	Wholesale Trade				
44-45	Retail Trade		1.19	1.08	
48-49	Transportation Housing		3.78		
51	Information				
52	Finance and Insurance				
53	Real Estate and Rental and Leasing	1.12	1.24	1.85	1.25
54	Professional, Scientific, and Technical Services				
55	Management of Companies and Enterprises				
56	Administrative and Support and Waste Management				
61	Educational Services	1.7	2.2	2.3	1.8
62	Health Care and Social Assistance				
71	Arts, Entertainment, and Recreation				
72	Accommodation and Food Services				
81	Other Services(except Public Administration)			1.10	
	VARIANCE	0.39	0.94	1.18	0.56

Source: author's calculations.

Exchange Rate Impacts the Valley More than El Paso

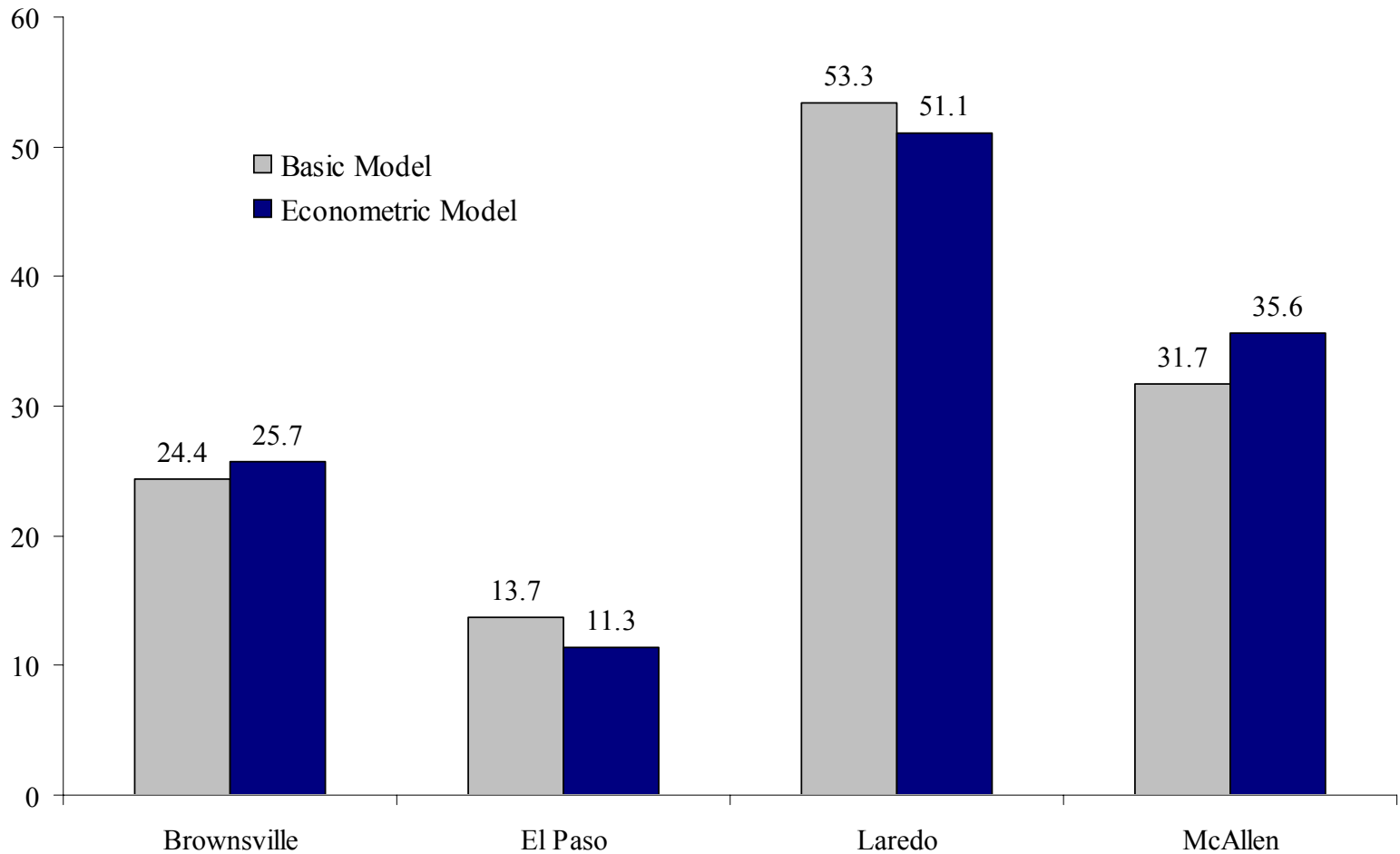
Index, Oct-80 = 100

Real Exchange Rate



Mexican Nationals Impact El Paso Retail Sales

Share of Total Retail Sales,
Average 1978-2001



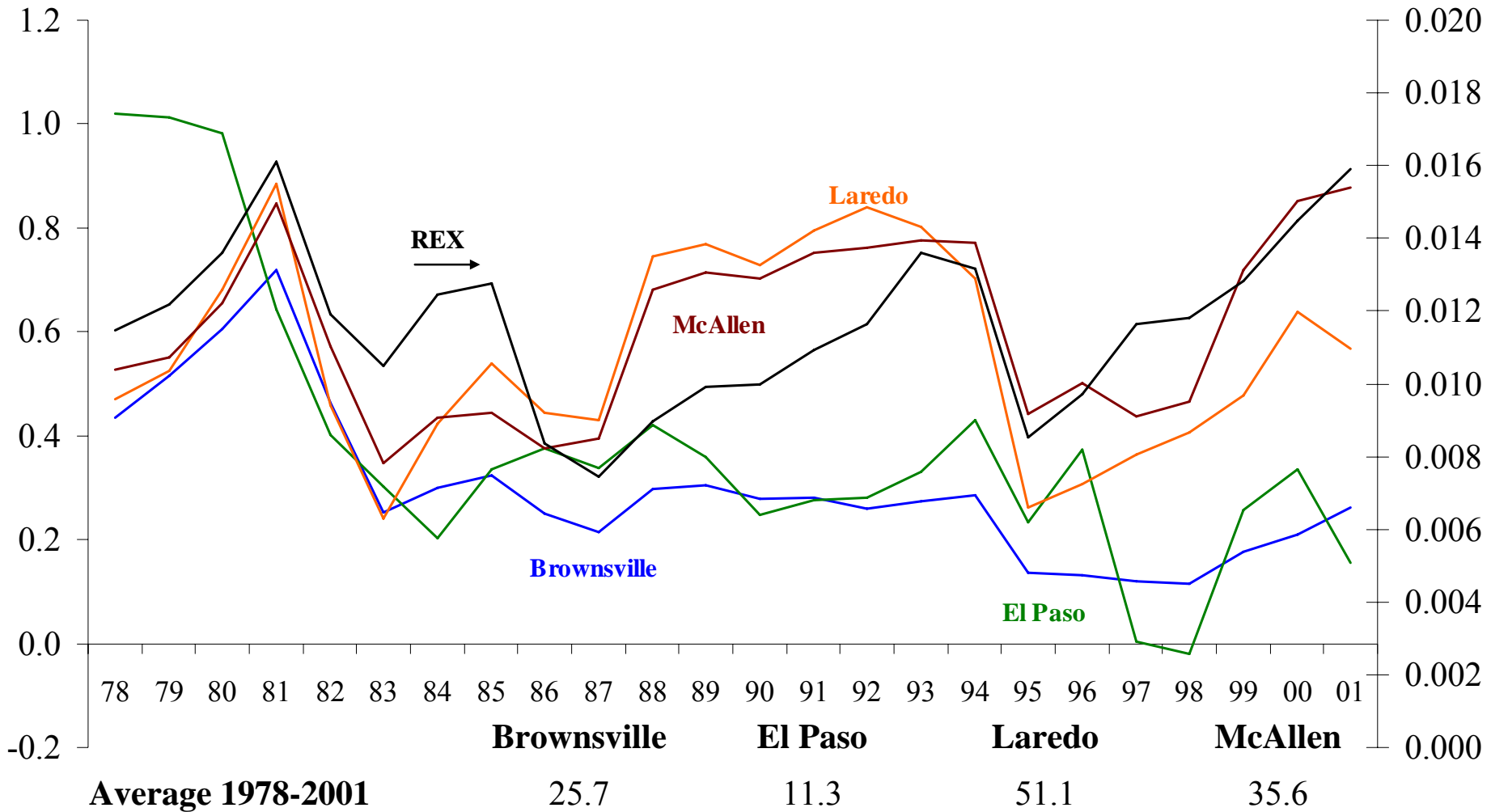
Source: Federal Reserve Bank of Dallas



Exported Retail Sales Very Sensitive to Peso Movements

Net Exported RS, Real, Billions

Real Exchange Rate



Growth in Ft. Bliss

- Ft. Bliss will gain 11,354 new troops and generate 147 civilian federal jobs.
- About 3,800 troops came in late 2005.
- Another 3,800 troops arrived in the first few months of 2006, with the rest to follow over the next five years.

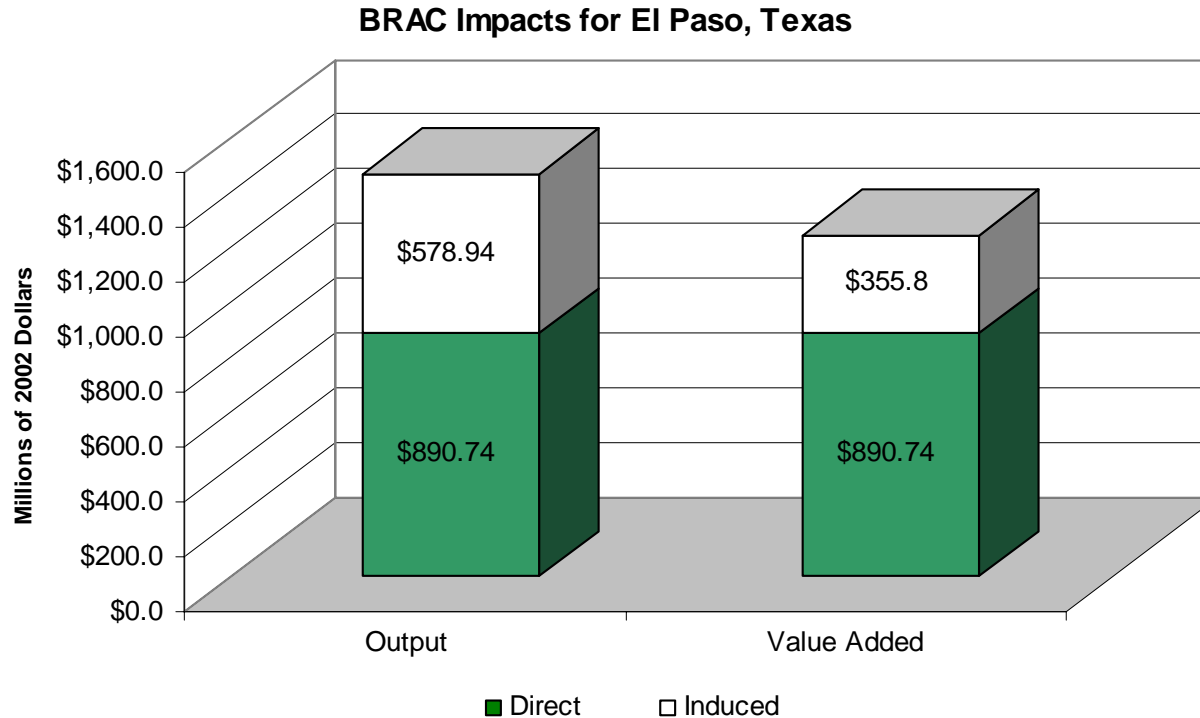


Growth in Ft. Bliss

- The incoming troops are already boosting homebuilding and other activities, and estimates of economic ripples raise the overall impact to as many as 20,198 jobs, or 6.1 percent of El Paso's current employment.
- In recent years, El Paso has been adding an average of 3,767 new jobs per year, so the military boost is equivalent to 5.4 years of job creation.



Estimated Economic Impact for El Paso



Source: Economic Impacts of 2005 BRAC Closure and Realignment on El Paso, Texas, Mathew S. McElroy, MPA and Dennis Soden, Ph. D., Institute for Policy and Economic Development, Summary Report 2005-13, May 2005

Outlook for the Region: More Growth Ahead

- Strong U.S., Mexico economies
- U.S. industrial strength propels maquiladoras
- Stable and healthy military, with growth ahead

