

At a Glance

- Retail is among the largest clusters in El Paso. Health services and food services as well as transportation and logistics are also important, reflecting El Paso's proximity to the border of Mexico and its trading relationship with neighboring Ciudad Juárez.
- Government is a major driver of the local economy, especially the federal government. Fort Bliss, the largest employer, is an important generator of local economic activity and is likely to continue to play that role in the foreseeable future.
- El Paso's job growth outpaced the state and nation in 2015 and 2016. Robust manufacturing activity in Ciudad Juárez boosted El Paso's service sector. However, moderating U.S. auto demand combined with uncertainty surrounding cross-border trade could slow manufacturing activity. In addition, a strengthening dollar will temper retail sales north of the Rio Grande.
- El Paso was the most-populous border metro in Texas until McAllen surpassed it in 2015.

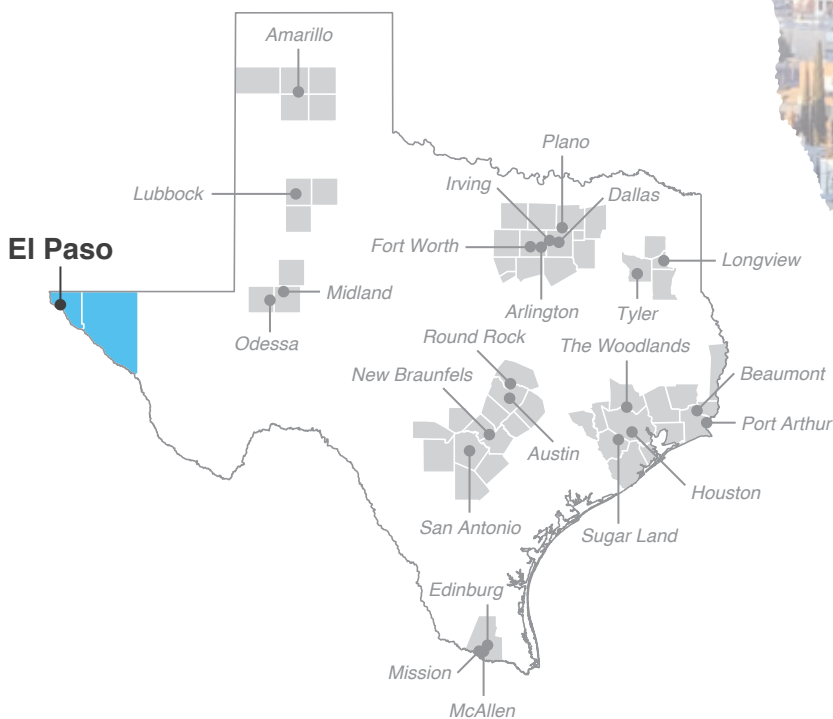
El Paso

Population (2017):
844,818

Population growth (2010–17):
4.7 percent (Texas: 12.1 percent)

Median household income (2017):
\$44,416 (Texas: \$59,206)

National MSA rank (2017): No. 68*



*The El Paso metropolitan statistical area (MSA) encompasses El Paso and Hudspeth counties.



El Paso:

Gateway to Mexico Relies on Commerce, Government

HISTORY: From Agriculture to Trade Hub

In 1848, before the Rio Grande marked the border between the United States and Mexico, the flags of Mexico and Spain flew over what would become El Paso. U.S. Army post Fort Bliss came into existence in 1854, five years before the city was formally established in 1859.

El Paso was a small, quiet village for several decades until the railroad arrived in 1881. It grew into a frontier boomtown called the “Six-Shooter Capital” and “Sin City” because of its saloons and gambling establishments.¹

Over the years, more conventional industries emerged. Augmenting cotton production, copper smelting and oil refining entered the area and expanded the economy in the late 19th and early 20th centuries.

Underscoring the region’s current commercial standing, El Paso is the second-largest port of entry between the U.S. and Mexico after Laredo with \$76.1 billion in total trade in 2017. Cross-border tourism, which drives

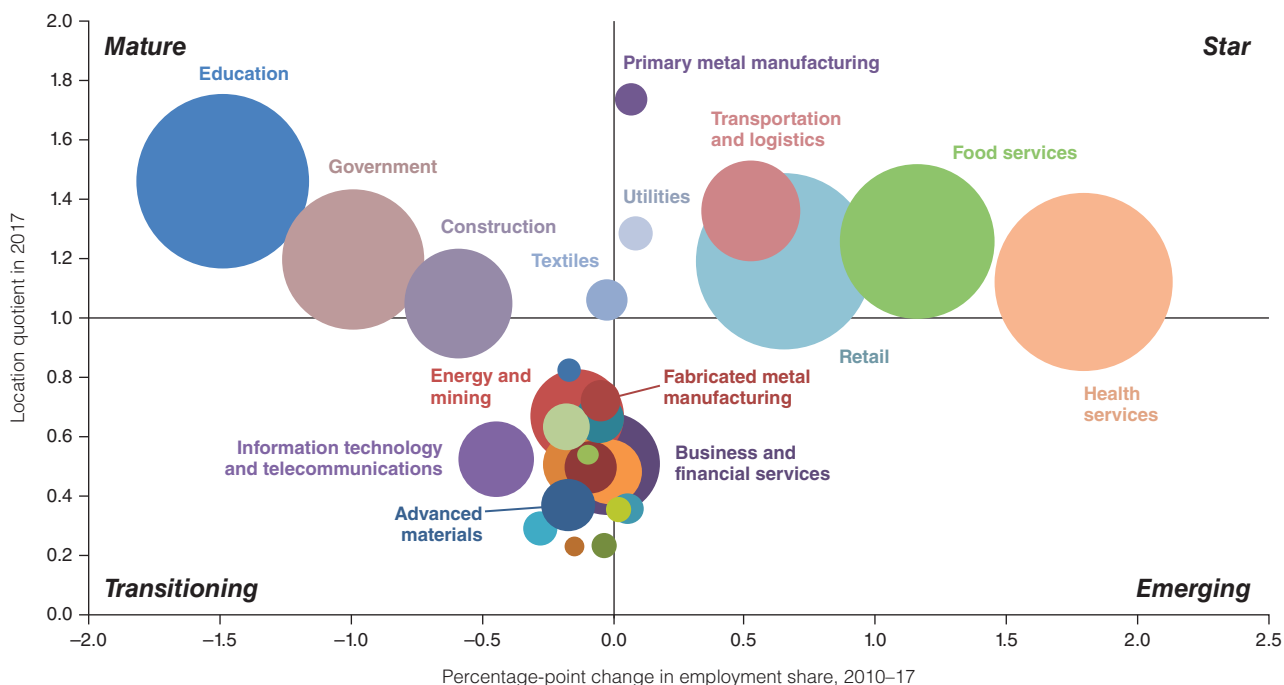
activity in retail, health and food services, is important to the local economy. Government, led by Fort Bliss and large Customs and Border Patrol operations, also plays a major role in the metro area.

INDUSTRY CLUSTERS: Prime Site for Government, Retail

Clusters in Chart 4.1 are organized by location quotient (LQ)—the share of local employment in each industry cluster relative to the nation—and the change in employment share between 2010 and 2017.²

“Star” quadrant clusters, such as transportation and logistics, retail, food and health services, have a large share of employment relative to the nation (an LQ exceeding 1) and are relatively fast growing; “emerging” industries are smaller relative to the nation (an LQ below 1) and fast growing. Industries in the “mature”

Chart 4.1: El Paso's Economy Dependent on Cross-Border Tourism, Government



NOTES: Bubble size represents cluster share of metropolitan statistical area employment. Cross-border tourism refers to activity in retail, health services and food services.

SOURCES: Texas Workforce Commission; Bureau of Labor Statistics.

quadrant, such as education and government, are more concentrated but slower growing or shrinking in size, and “transitioning” industries are smaller relative to the nation and slower growing or declining.

Retail and food services are star clusters of the El Paso economy, driven by the growing binational population and regional income gains. A strong relationship with neighboring Ciudad Juárez is important as Mexican shoppers account for 10 to 15 percent of El Paso’s retail sales.³ Employment in retail, the second-largest sector in El Paso, has grown 17 percent since 2010, to nearly 40,000 workers (*Chart 4.2*).

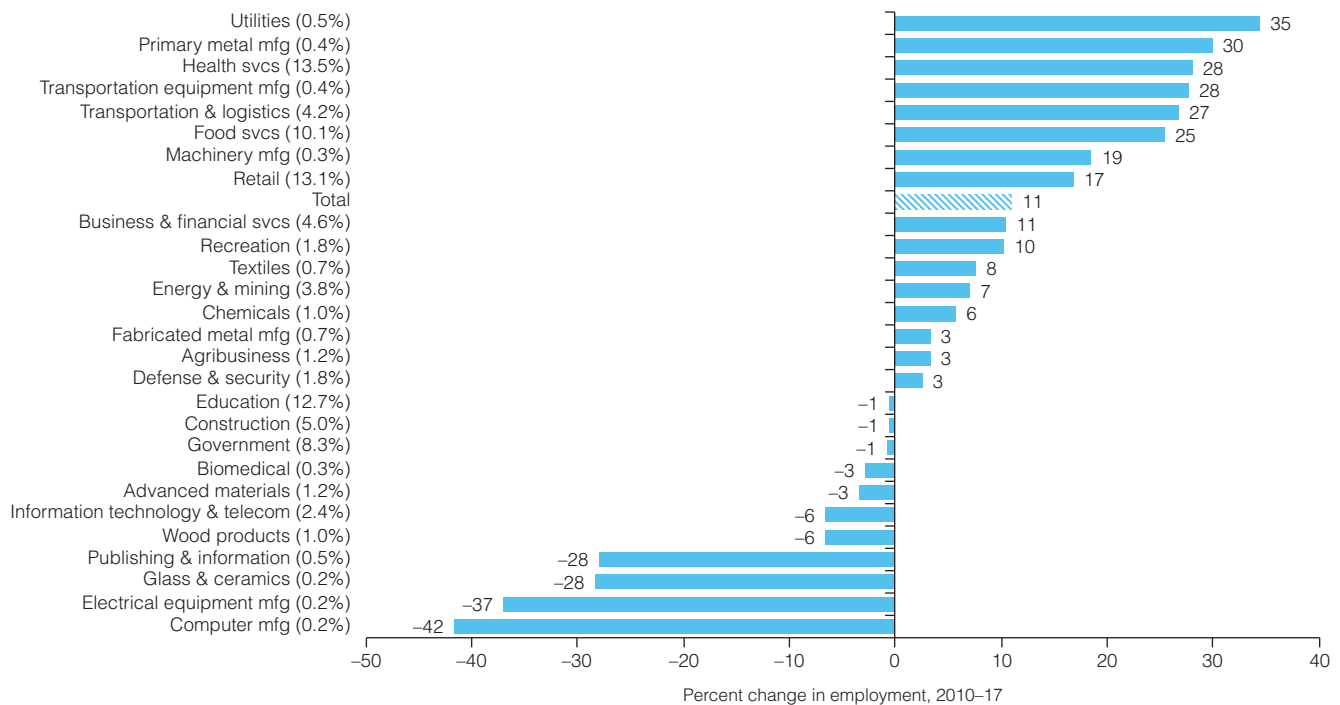
Health services, the largest sector, expanded 28 percent from 2010 to 2017, to more than 40,000 workers. Large, private health care providers such as Tenet Health and Las Palmas Del Sol Healthcare rank among El Paso’s top employers. Growth is also driven by rapidly growing medical programs at the University of Texas at El Paso (UTEP) and Texas Tech University Health Sciences Center. The sector’s expansion bodes well for the region as its wages are slightly higher than average.

Education is the third-largest cluster with more than 38,000 jobs. The sector is fueled by the 12 school districts and private and charter schools, UTEP, El Paso Community College and Texas Tech University Health Sciences Center. Although the sector is one of the area’s largest, employment has changed little since 2010.

Government (excluding public sector health care and education employment) accounts for 8 percent of workers. Fort Bliss is the largest employer in the metro area and, according to the Texas Comptroller of Public Accounts, contributed \$23.1 billion to the Texas economy in 2017.⁴ The Department of Homeland Security’s Customs and Border Protection agency, the city of El Paso and El Paso County, which together employ over 10,700 workers, are also among top government employers.⁵

El Paso is a historically important gateway from both Mexico and the Southwest to the rest of Texas. Border crossings, trade with Mexico and the Interstate 10 corridor through El Paso make transportation and logistics an important sector. About 22.1 million personal-vehicle passengers, 7 million pedestrians and more

Chart 4.2: Growth in Cross-Border Trade and Tourism Drives Job Gains



NOTES: Percent change in employment is shown in whole numbers. Each cluster’s share of total jobs is shown in parentheses (rounded to one decimal place). SOURCES: Texas Workforce Commission; authors’ calculations.

Table 4.1: Low-Paying Sectors Depress Annual Average Earnings in El Paso

Cluster	El Paso					U.S.
	2010	2012	2014	2016	2017	2017
Primary metal manufacturing	56,644	57,371	60,038	55,076	56,285	67,868
Education	42,122	40,480	41,153	41,447	41,568	49,322
Transportation and logistics	44,005	43,011	42,661	42,946	43,490	53,761
Utilities	83,506	89,976	74,994	84,146	86,716	107,188
Food services	15,088	14,861	14,500	15,207	15,106	18,963
Government	57,457	57,264	57,786	59,094	58,626	60,568
Retail	25,595	25,328	25,435	26,139	26,435	31,216
Health services	43,860	42,782	42,109	44,012	43,957	56,001
Textiles	38,244	36,459	37,605	33,623	33,681	50,601
Construction	38,461	37,715	39,481	41,477	41,555	60,742
Clusters with location quotient > 1	36,613	36,885	36,743	37,688	37,769	–
Clusters with location quotient < 1	44,158	43,875	44,924	46,684	46,278	–
Average earnings (total)	37,550	37,176	37,111	37,833	37,924	55,375

NOTES: Clusters are listed in order of location quotient (LQ); clusters shown are those with LQs greater than 1. Earnings are in 2017 dollars.

SOURCES: Texas Workforce Commission; Bureau of Labor Statistics; authors' calculations.

than 530,000 loaded containers crossed the border in 2017.⁶ Additionally, cross-border manufacturing through the maquiladora industry stimulates employment in transportation.⁷ A 10 percent increase in maquiladora output has been shown to increase El Paso's transportation employment 5.3 percent.⁸

Business and financial services have gained importance since 2010. Sector jobs increased 11 percent between 2010 and 2017. Large service employers include staffing firms such as T&T Staff Management, customer service providers such as Alorica and GC Services, and other services providers such as ADP and Datamark.

The dominant sectors do not pay as well as their less-concentrated counterparts, partly because of the type of industries most represented in El Paso (*Table 4.1*). Retail and food services generally employ a large number of part-time workers, driving down overall average earnings, and even full-time employees in these industries are paid low wages. However, inflation-adjusted wages have increased much faster than overall wages in some high-concentration industries. While average wages have grown about 1.0 percent since 2010, wages rose 8.0 percent in construction, 3.3 percent in retail and 2.0 percent

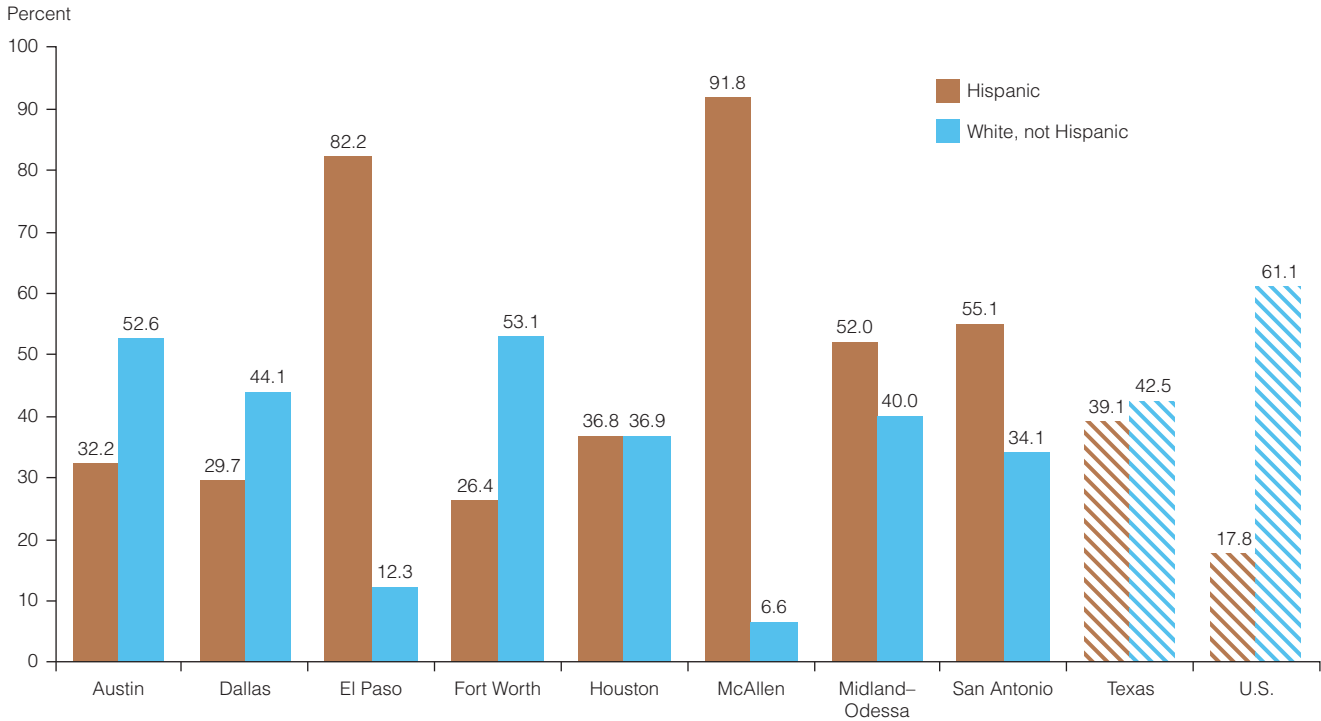
in government. Still, wages in El Paso remain below the national average for each cluster, though cost-of-living differences compensate for some of the disparity.

DEMOGRAPHICS: Population Reflects Border Proximity

El Paso's population is predominantly Hispanic, with 82.2 percent of residents self-identifying as Hispanic, the second-highest percentage among the metros in this report behind McAllen (*Chart 4.3*). A quarter of El Paso's population in 2016 was foreign born and migrated to the U.S., with 90 percent of these immigrants born in Mexico.

El Paso residents trail those of other Texas metros in measures of education. Seventy-seven percent of El Paso adults age 25 and older had at least a high school diploma in 2016. That figure is more than 6 percentage points lower than the Texas average. Only 22 percent of adults had a bachelor's degree or higher, compared with 29 percent for Texas. These education levels are in line with the large immigrant population in El Paso and the composition of its industry clusters; some of the most concentrated clusters do not require highly educated workers.

Chart 4.3: El Paso's Population Is Largely Hispanic



SOURCE: Census Bureau, 2016 American Community Survey 1-year estimates.

Labor force participation in El Paso is relatively low. About 61 percent of the population age 16 and older is in the labor force, 3.2 percentage points lower than the Texas average. This is likely due to demographic differences; for example, El Paso has a higher share of young people 15 to 24 years old who are enrolled in school and, hence, less likely to work.

EMPLOYMENT: Solid Growth Driven by Maquiladora Activity

El Paso’s employment grew only 11.4 percent between December 2010 and December 2017, compared with Texas’ 17.9 percent increase. However, El Paso outperformed the rest of Texas more recently, in 2015 and 2016, suggesting that the slump in the energy sector that suppressed employment growth in the state had little effect on El Paso.

El Paso’s economy is heavily tied to Mexico due to the cross-border trade of goods and services, exemplified by maquiladora activity. Manufacturing in Ciudad Juárez grew robustly from 2014 to mid-2017, when it reached record employment levels. The boom in Ciudad

Juárez manufacturing has in turn boosted El Paso service sector jobs. Increases in trade, transportation and utilities and professional and business services payrolls accounted for 37 percent of the 17,000 jobs El Paso added from December 2014 to December 2017.

Other drivers were education and health services, which added 3,800 jobs from December 2014 to December 2017, representing 22 percent of total job growth. Health services accounts for nearly 1-in-7 area jobs.

With these labor gains, the unemployment rate, which averaged 6.4 percent in 2014, slid to 4.6 percent in 2017, well below the long-term average of 8.5 percent.

OUTLOOK: Ties to Mexico Bring Risks, Benefits

El Paso’s close economic ties to Mexico may be a downside risk in the near future. A relatively strong dollar (weak peso) may continue to negatively affect retail, recreation and food services, which benefit from cross-border tourism. Conversely, a weak peso could boost trade from Mexico by making imported goods cheaper. The exchange rate rose from about 13 pesos

to the dollar in mid-2014 to almost 22 at year-end 2016 before settling at 20 pesos to the dollar by the end of 2018. In addition, improving security in Juárez may shift spending from El Paso to Juárez.

El Paso's economy is heavily reliant on maquiladora activity and international trade. As uncertainty about U.S. trade policy lingers, border investment may slow. Moreover, much of Juárez's manufacturing is auto related, making it vulnerable to tariffs and softening U.S. demand for vehicles.⁹ On the upside, health services, one of the fastest-growing clusters in El Paso, is expected

to continue expanding given the aging population and expansion of local medical programs such as the Texas Tech University Health Sciences Center dental school expected to open in 2020. Fort Bliss is an economic generator, and the recent increase in defense spending should buoy local base operations.

—*Kristin Davis and Marycruz De León*

El Paso Growth Outlook

Drivers

- El Paso's economy is heavily dependent on maquiladora activity, and manufacturing across the border will continue to boost jobs in El Paso.
- A burgeoning health services industry will continue to expand to meet the needs of both an aging local population and Mexicans who cross the border to acquire health services.
- El Paso's education sector will expand with the growth of health-care-related professional schools in the region.
- Fort Bliss is a major contributor to the El Paso economy with little indication that its role will change in the foreseeable future.

Challenges

- Uncertainty regarding U.S. trade policy, tariffs and relations with Mexico may damp investment in the region.
- Since roughly half of maquiladoras in Ciudad Juárez are auto related, change in U.S. vehicle demand may affect manufacturing activity south of the border with a ripple effect on El Paso employment.
- A weak peso relative to the dollar poses a risk for the local retail sector and deters Mexican visitors but could boost trade by making Mexican goods relatively cheaper.

Notes

¹ The history of El Paso has been adapted from the Texas State Historical Association's *Handbook of Texas*, tshaonline.org/handbook/online/articles/hde01.

² The percentage shares of individual clusters do not add to 100 because some industries are counted in multiple clusters, and some industries are not counted at all based on cluster definitions. (See the appendix for more information.)

³ "Dollar-Sensitive Mexican Shoppers Boost Texas Border Retail Activity," by Roberto A. Coronado and Keith R. Phillips, Federal Reserve Bank of Dallas *Southwest Economy*, Fourth Quarter, 2012, www.dallasfed.org/research/swe.aspx.

⁴ See Texas Comptroller's report on impact of Fort Bliss to the Texas economy in 2017, accessed May 25, 2018, www.comptroller.texas.gov/economy/economic-data/military/fort-bliss.php. Fort Bliss employment was 48,000 in 2017.

⁵ Detail on top employers in the El Paso metro area is from the city of El Paso, accessed May 25, 2018, www.elpasotexas.gov/~media/files/coep/economic%20development/top%20employers-2016.ashx?la=en.

⁶ Border crossings data are from the Bureau of Transportation Services, www.bts.gov/transborder.

⁷ Maquiladoras are manufacturing operations in Mexico that assemble imported components into exportable products that are free of import and export duties.

⁸ "The Impact of Maquiladoras on U.S. Border Cities," by Jesus Cañas, Roberto Coronado, Robert W. Gilmer and Eduardo Saucedo, *Growth and Change*, vol. 44, no. 3, September 2013, pp. 415–42.

⁹ "Economic Growth to Accelerate in 2018 and then Ease in 2019 as Auto Sales Downshift," by William A. Strauss and Thomas Haasl, *Chicago Fed Letter*, No. 399, 2018.