U.S.-Mexico and El Paso Economic Update

Prepared for El Paso Summer Professional Development for Educators

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The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.
Overview

- Fed 101
- U.S. economic update
- Mexico economic update
- U.S.-Mexico trade relationship
- El Paso economic update
Fed 101
Structure of the Federal Reserve

1. U.S. Central Bank
   - The Federal Reserve System

3. Key Entities
   - Federal Reserve Board of Governors
   - 12 Federal Reserve Banks
   - Federal Open Market Committee

5. Key Functions
   - Conducting the nation's monetary policy
   - Helping maintain the stability of the financial system
   - Supervising and regulating financial institutions
   - Fostering payment and settlement system safety and efficiency
   - Promoting consumer protection and community development
District Outreach

- Inform, engage and build relationships with the public
- Increase knowledge of the Federal Reserve System and its purposes and functions
- Communicate information about the Dallas Fed and the region it serves to internal and external audiences
Inform

- Economic Indicators
- Economic Letters
- Economic Updates
- Classroom Resources
- Professional Development
- Conferences & Seminars

[Images of various publications and resources] dallasfed.org
Engage & Build Relationships

- Dialogue With the Fed
- Industry Roundtables
- Global Perspectives
- Environmental Scans
- Banco de México
- Signature Conferences
U.S. Economic Update
Contributions to real growth, annual rate, percentage points

- Real GDP: 2.3, 6.9, -1.5
- PCE: 1.4, 1.8, 2.1
- Business Fixed Investment: 0.2, 0.4, 1.2
- Residential Fixed Investment: 0.1, 0.0
- Government Spending: 0.2
- Net Exports: -0.5, -0.5, -0.2, -1.3, -3.2
- Private Inventories: 2.2, 5.3, -1.1

SOURCE: Bureau of Economic Analysis.
Consumption Patterns

Index, Feb = 100

- Consumption (Real PCE)
- Goods
- Services
- Trend

NOTE: Trend growth is equal to average over 2008-2019.
Labor Market

All Employees: Total Nonfarm (SA, Thous.)

NOTE: Shaded areas indicate recession.
Unemployment, Labor Force Participation, & Employment to Population Ratio

NOTE: Shaded areas indicate recession.

Federal Reserve Bank of Dallas, El Paso
Inflation

12-month percent change

-4 -2 0 2 4 6 8 10 12 14


PCE: Chain Price Index
PCE less food & energy
Dallas Trimmed Mean PCE

Apr. '22
6.27

4.9

SOURCE: Bureau of Economic Analysis; Federal Reserve Bank of Dallas.
Long-term inflation expectations

- University of Michigan: Expected Inflation Rate, Next 5 Years (%)
- Treasury Breakeven Inflation Rate: 10 Years (AVG, %)
- Common Inflation Expectations Index Projected onto SPF 10Y PCE Inflation (%)

SOURCE: University of Michigan; U.S. Treasury; Federal Reserve Board.
## Outlook

<table>
<thead>
<tr>
<th></th>
<th>Dallas Fed</th>
<th>Blue Chip Jun. 10</th>
<th>FOMC Jun. 15</th>
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<tbody>
<tr>
<td><strong>GDP Q4/Q4</strong></td>
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<td></td>
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</tr>
<tr>
<td>2022</td>
<td>1.6</td>
<td>2.5</td>
<td>1.7</td>
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<tr>
<td>2023</td>
<td>2.7</td>
<td>1.9</td>
<td>1.7</td>
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<tr>
<td><strong>Unemployment Q4</strong></td>
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<tr>
<td>2022</td>
<td>3.5</td>
<td>3.6</td>
<td>3.7</td>
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<tr>
<td>2023</td>
<td>3.4</td>
<td>3.7</td>
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<tr>
<td><strong>PCE inflation Q4/Q4</strong></td>
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<td>5.3</td>
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<td>4.3</td>
</tr>
<tr>
<td>2023</td>
<td>3.5</td>
<td>3.0</td>
<td>2.7</td>
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</tbody>
</table>
Summary

- U.S. output growth remains solid but more muted than last year
  - Constrained by labor, supply-chain disruptions, rising oil prices, and elevated inflation
  - Fading effects of pandemic stimulus
- Labor market very tight: characterized by robust demand, limited supply
- Inflation up sharply over past year
  - Initially limited to specific goods; has broadened since mid-2021
  - Continuing upward pressures on input, energy and output prices
  - Inflation expected to moderate by end of 2022 but will likely remain above 2%
- Monetary policy is removing accommodation
- Russia-Ukraine war and new COVID outbreaks are hurting the global outlook
Mexico Economic Update
Gross Domestic Product

2011–21 quarterly average growth = 2.5%

*Quarter/quarter, real pesos; seasonally adjusted, annualized rate.
NOTE: Data are through first quarter 2022.
Economic Activity Index

Index, January 2009 = 100*

2010–21 year-over-year average growth = 1.5%

Global economic activity index (IGAE)

Index’s year-over-year change

Year-over-year growth (percent)

*Seasonally adjusted, three-month moving average; real pesos.

NOTE: Data are through March 2022.


Federal Reserve Bank of Dallas, El Paso
Exports

Index, January 2010 = 100*

*Seasonally adjusted, three-month moving average; real dollars.

NOTE: All data are through April 2022. Pie chart reflects the share of total exports year to date in 2022.
Industrial Production and Manufacturing Trends

Index, January 2010 = 100*

*Seasonally adjusted, three-month moving average.

NOTE: Data for Mexico's industrial production (IP) are through April 2022. Data for U.S. IP are through May 2022.

SOURCE: Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography); Federal Reserve Board.

Federal Reserve Bank of Dallas, El Paso
Inflation

12-month percent change in CPI

NOTE: The shaded region indicates the range of variability established by the Banco de México (±1 percentage point). Data are through May 2022. CPI refers to the Consumer Price Index.

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

2010–19 monthly average employment growth = 3.8%

*Month/month, seasonally adjusted, annualized rate.
NOTE: Data are through May 2022.
SOURCE: Instituto Mexicano del Seguro Social (Mexican Social Security Institute).
Retail Sales

Index, January 2010 = 100*

*Seasonally adjusted, three-month moving average; real pesos.
NOTE: Data are through March 2022.
Exchange Rate

Peso/dollar average

20.0

NOTE: Data are through May 2022.
SOURCE: Banco de México.
April’s consensus forecast compiled by Banco de México for various indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>April 2022</th>
<th>March 2022</th>
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<tbody>
<tr>
<td>GDP growth Q4/Q4</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>GDP average year/year growth</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>CPI Y/Y growth</td>
<td>6.8</td>
<td>5.8</td>
</tr>
<tr>
<td>Exchange rate pesos/dollar</td>
<td>21.1</td>
<td>21.3</td>
</tr>
</tbody>
</table>

NOTE: The above forecasts are compiled by Banxico from several independent analysts. The survey period was April 22–28, 2022.
SOURCE: [Encuesta sobre las Expectativas de los Especialistas en Economía del Sector Privado: Abril de 2022](https://www.banxico.org.mx), Banco de México, April 2022).
Summary

- Mexico’s economic recovery from the pandemic is uneven (goods vs services sector)

- Inflation remains above Banxico’s goal of 3%
  - Rising commodity prices, change in consumption patterns from services to goods, supply and logistics issues

- Headwinds to growth:
  - COVID variant waves
  - Russia’s invasion of Ukraine, global energy prices, exchange rate fluctuations
  - Tightening monetary conditions globally and domestically

- However, lockdowns in China and related supply-chain disruptions may benefit Mexico’s manufacturers
U.S.-Mexico Trade Relationship
U.S.-Mexico trade: far reaching and unique

- Mexico passed China as the 2nd top trading partner with U.S.
  - YTD Mar. 2022: $182.2 billion
  - Canada is #1 trading partner with U.S.

- U.S.-Mexico trade is far reaching:
  - $1.81 billion/day or $1.25 million/minute in 2021

- U.S.-Mexico trade is unique:
  - Over 70% of imports from Mexico are intermediate goods
  - Over 40% of imports from Mexico is U.S. content

- Due to intra-industry trade explosion, business cycles are tightly synchronized
U.S.-Mexico trade above trend

NOTE: Data are annualized and inflation and seasonally-adjusted as a three-month moving average.
SOURCE: U.S. Census Bureau.
Mexico first in share of U.S. motor vehicle imports

NOTE: 2022 data is through April and is annualized.
Mexico largest U.S. supplier of motor vehicle parts

NOTE: 2022 data is through April and is annualized.
El Paso Economic Update
NOTE: Data reflect daily new COVID-19 cases based on a 7-day moving average at the county level.
SOURCE: John Hopkins University, adjustments by Dallas Fed.
COVID-19 daily deaths

NOTE: Data reflect daily new COVID-19 deaths based on a 7-day moving average.
SOURCE: John Hopkins University, adjustments by Dallas Fed.
NOTE: Data reflect resident population who are fully vaccinated.
SOURCE: Johns Hopkins University; CDC.
NOTE: The Google Mobility metric summarizes the information in three variables based on geolocation data collected by Google. It is computed as a weighted average of Google metrics for residential mobility, workplace mobility, and grocery-store mobility, with weights selected to match the MEI data from January 2020 through March 2021 at the state level. Our mobility metric is scaled so that mobility in January and February of 2020 averages 0 and the trough in early April equals -100. A value of -50 indicates that mobility has reversed half of its initial decline. The Google Mobility metric is shown as a 7-day moving average.

SOURCE: Google; adjustments by Dallas Fed.
NOTE: All data are the percentage change in seasonally-adjusted job postings relative to February 1, 2020, using a seven-day trailing average and are seasonally-adjusted based on historical patterns in 2017, 2018, and 2019.
SOURCE: Indeed Hiring Lab.
NOTE: Seasonally adjusted, monthly. The index reflects broad movements in local economic conditions. It is constructed based on the aggregated movements in the local area unemployment rate, nonagricultural employment, inflation-adjusted wages, and inflation-adjusted retail sales.

SOURCE: Federal Reserve Bank of Dallas
Employment recovery timeline

NOTE: Data reflect monthly, seasonally-adjusted changes in employment relative to February 2020.
SOURCE: BLS, TWC, adjustments by Dallas Fed.
Employment by sector

- Total nonfarm employment
  - May 2022: -8.5
  - May 2022/May 2021: -2.2
  - May 2021: 2.4

- Trade, transp. & utilities (21.4)
  - May 2022: -9.9
  - May 2022/May 2021: -3.3
  - May 2021: 6.9

- Government (20.9)
  - May 2022: -0.2
  - May 2022/May 2021: 0.1
  - May 2021: 1.5

- Education & health svcs (14.9)
  - May 2022: -3.8
  - May 2022/May 2021: 3.5
  - May 2021: 3.8

- Leisure & hospitality (11.8)
  - May 2022: -5.5
  - May 2022/May 2021: 4.5
  - May 2021: 4.5

- Prof. & business svcs (11.8)
  - May 2022: -6.4
  - May 2022/May 2021: 10.3
  - May 2021: 6.9

- Construction & mining (5.4)
  - May 2022: -0.1
  - May 2022/May 2021: 1.7
  - May 2021: 1.7

- Manufacturing (5.3)
  - May 2022: -3.8
  - May 2022/May 2021: 1.4
  - May 2021: 1.4

- Financial activities (4.2)
  - May 2022: 0.6
  - May 2022/May 2021: 1.7
  - May 2021: 1.7

- Other services (2.8)
  - May 2022: 0.7
  - May 2022/May 2021: 4.5
  - May 2021: 4.5

- Information (1.6)
  - May 2022: 0.7
  - May 2022/May 2021: 10.3
  - May 2021: 10.3

NOTE: Data show seasonally adjusted and annualized percentage employment growth by sector. Numbers in parentheses represent the share of total employment and may not sum to 100 due to rounding.

Unemployment rate

- Texas
- El Paso
- U.S.

Note: Data through May 2022.
Source: BLS, adjustments by Dallas Fed.
Wage Growth

Index, Q1 2020 = 100

NOTE: Quarterly wages are indexed relative to Q1 2020.
SOURCE: Texas Workforce Commission; Quarterly Census of Employment and Wages; Dallas Fed.
Migration to large Texas metros fuels job growth

NOTES: Data shown are net in-migration (out-migration) figures for Texas metros. Residents living in micropolitan areas or rural areas are dropped due to quality of the geocoding in the data.

SOURCES: Federal Reserve Bank of New York Consumer Credit Panel, Equifax.
Home Sales

Index, Feb. 2020 = 100*

*Seasonally adjusted, six-month moving average.

SOURCE: Real Estate Center at Texas A&M University; adjustments by the Dallas Fed.
Home Prices

Index, Feb. 2020 = 130

- Texas
- El Paso

*Seasonally adjusted, six-month moving average.

SOURCE: Real Estate Center at Texas A&M University; adjustments by the Dallas Fed.
*Six-month moving average.

SOURCE: Real Estate Center at Texas A&M University; adjustments by the Dallas Fed.
*Seasonally adjusted, monthly.

SOURCE: Census Bureau; adjustments by the Dallas Fed.
Northbound Crossing Volumes

Six-month moving average (millions)

'96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21

NOTE: Data reflect millions of seasonally adjusted northbound crossings from pedestrians, bus passengers, personal-vehicle passengers, train passengers and trucks through the ports of entry in Columbus, New Mexico; El Paso, Texas; Presidio, Texas; Santa Teresa, New Mexico; Tornillo, Texas; and Ysleta, Texas, based on a six-month moving average.

SOURCE: U.S. Department of Transportation, Bureau of Transportation Statistics; adjustments by the Dallas Fed.
Southbound Crossing Volumes

Six-month moving average (millions)

May 2022 0.675 million

NOTE: Data reflect millions of seasonally adjusted southbound crossings for pedestrians, personal vehicles and cargo trucks through the Paso del Norte, Stanton and Ysleta ports of entry based on a six-month moving average.

SOURCE: City of El Paso International Bridges Department; adjustments by the Dallas Fed.
El Paso MSA Retail Sales

Real Retail Sales (SA, bil 2022:Q1$)

Retail Sales
Q2 2021
$4.91 bil

Nominal Exchange Rate
Q1 2022
20.5032

Peso/$

'00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17 '18 '19 '20 '21 '22

NOTE: Retail sales are the sum of sales from NAICS sectors 45-45 and 722.
# Top 5 Retail Trade Sectors Along Texas-Mexico Border

<table>
<thead>
<tr>
<th>Rank</th>
<th>NAICS Code</th>
<th>Industry</th>
<th>Avg. LQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>448</td>
<td>Clothing and Accessories Stores</td>
<td>2.18</td>
</tr>
<tr>
<td>2</td>
<td>447</td>
<td>Gas Stations</td>
<td>1.87</td>
</tr>
<tr>
<td>3</td>
<td>443</td>
<td>Electronics and Appliance Stores</td>
<td>1.83</td>
</tr>
<tr>
<td>4</td>
<td>452</td>
<td>General Merchandise Stores</td>
<td>1.81</td>
</tr>
<tr>
<td>5</td>
<td>445</td>
<td>Food and Beverage Stores</td>
<td>1.55</td>
</tr>
</tbody>
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Summary

- Outmigration a continued headwind for El Paso, along with:
  - Tight housing inventory
  - Energy prices
  - Enrollment declines
- Supply-chain disruptions and labor shortages expected to be a continued drag on growth
  - El Paso economic performance also dependent upon Juarez IMMEX’s performance
- Further outbreaks of COVID remain a downside risk to the outlook, but tend to constrict supply, not demand.
  - Price pressures likely to remain elevated
Dallas Fed Resources

Publications and Surveys:
- Texas Employment Forecast
- Metro Economic Indicators
- Regional Economic Updates
- Southwest Economy
- Heart of Texas
- Dallas Fed Blog
- National Economic Updates
- International Economic Updates
- Texas Business Outlook Surveys
- Energy Survey

COVID-related:
- Real-Time Population Survey
- Weekly Economic Index
U.S.-Mexico and El Paso Economic Update

For more information visit www.dallasfed.org