

Dollar-Sensitive Mexican Shoppers Boost Texas Border Retail Activity

By Roberto A. Coronado and Keith R. Phillips

Mexican citizens logged 70 million border crossings into Texas in 2011. While some came for work, school or family reasons, many traveled to border cities to shop.

Cross-border retail trade is crucial to border-city economies. Mexicans spend more than \$4.5 billion annually on food, clothing, auto parts and other retail items in these cities, primarily El Paso, McAllen, Brownsville and Laredo, Federal Reserve Bank of Dallas research shows. Geographic proximity, border-crossing cards that expedite movement, attractive prices and broad product selection are among the draws.

But shoppers' purchasing power matters, too. On that count, Texas border retailers struggled to attract business during the second half of last year and the first part of 2012 because peso weakness (dollar strength) made goods relatively more expensive. In recent months, the peso has strengthened and lifted retail sales.

Since the 1970s, border scholars have attempted to estimate the size of cross-border retail trade. Because Mexicans' shopping transactions on the U.S. side are mostly in cash, valuing the volume of activity is difficult. To obtain an estimate, we assume that individuals spend a fixed proportion of their income on consumption, or in this case, retail sales.¹ In essence, we estimate the purchasing power of local residents. If an area's retail sales exceed what locals are spending, Mexican visitors' shopping likely accounts for the difference.

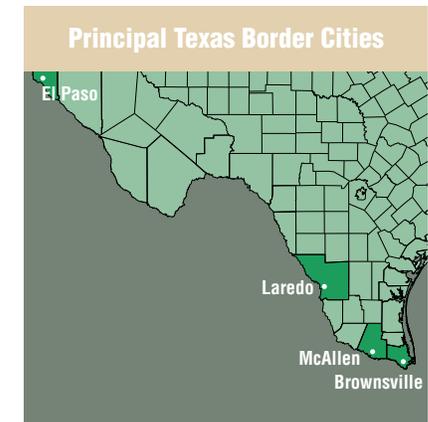
The results suggest that Mexican trade represents a significant share of Texas border-city retail activity, ranging from 40 to 45 percent in Laredo, 35 to 40 percent in McAllen, 30 to 35 percent in Brownsville and 10 to 15 percent in El Paso. While El Paso relies mostly on shoppers from its sister border city, Ciudad Juárez, Rio Grande Valley communities draw to a

greater extent from interior cities such as Monterrey.

Peso-dollar exchange rate fluctuations significantly influence cross-border shopping activity (*see chart*). For instance, the peso began losing value in third quarter 2008, falling from roughly 10 pesos per dollar to almost 15; in turn, border city retail sales contracted almost 15 percent. Conversely, when the peso rose against the dollar during 2009–11, Texas border retail sales quickly inched up.

When the peso lost ground again against the dollar in the first half of this year, Texas border cities—particularly in the Rio Grande Valley—felt the pinch, as evidenced by weak growth in retail-dependent employment. A high crime rate in northern Mexico also likely affected border retail activity. Reports of crime along the highways connecting Monterrey to McAllen and Laredo deterred Mexican shoppers' travels, according to anecdotal evidence.

The good news is that the peso has strengthened almost 10 percent against

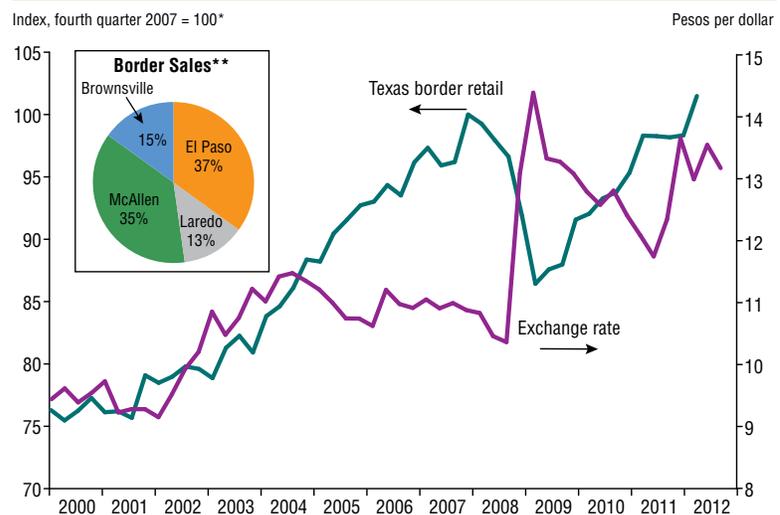


the dollar since June, and some headway has been made on public security. Given these improvements, Mexican shopping in Texas should increase in coming months.

Note

¹ "Cross-Border Retail Activity Along the Texas-Mexico Border," by Roberto A. Coronado, Keith R. Phillips and Eduardo Saucedo, Federal Reserve Bank of Dallas Working Paper, forthcoming 2013.

Border Retail Sales React to Exchange Rate Changes



*Real, seasonally adjusted.

**Reflects each city's estimated share of total sales in the four largest Texas border cities.

SOURCES: Texas Comptroller of Public Accounts; Banco de México.