

Crossroads

ECONOMIC TRENDS IN THE DESERT SOUTHWEST

Low-Wage Occupations Remain a Hallmark of El Paso Economy

El Paso has followed national trends in job growth with a steady shift of employment out of manufacturing and into services. It has been a sometimes painful transition for the city, with the number of manufacturing jobs cut nearly in half, from 41,100 to 22,100, between 1990 and 2006. Losses were concentrated in traditional economic mainstays such as textiles, apparel and leather goods.

Meanwhile, services have grown to make up 82.9 percent of private jobs in El Paso, up from 69.7 percent in 1990. Indeed, service-sector employment has risen fast enough to keep the city's private-sector job growth close to national trends since 1990, at annual rates of 1.3 percent versus 1.5 percent for the U.S.

The transition to services, however, has not brought improvement in one key indicator of economic progress. A city's per capita income is often seen as a good measure of relative economic welfare, in comparison with either the U.S. average or other metro areas. The rate of economic progress is sometimes measured by making this comparison over time, with an expectation that poor areas will move closer to the national average.

El Paso's income level is disappointing—standing at only 67 percent of the U.S. average in 2005 (Texas was at 94 percent). So is its lack of sustained progress toward U.S. norms. El Paso was at 64 percent of the U.S. average in both 1995 and 1980. It is a poor city that has made little progress in closing the gap between itself and the rest of the state and the nation.

This lack of progress in relative per capita income can be examined from many directions: the mix of high- and low-wage industries in the city,

Mexico Regulatory Change Redefines Maquiladora

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Table 1
Per Capita Income Among El Paso's Peer Cities, 2005

	Per capita income (dollars)	Rank	Adjusted for cost of living	
			Per capita income (dollars)	Rank
Raleigh, N.C.	47,900	1	51,066	1
Albuquerque, N.M.	43,810	2	45,305	5
Little Rock, Ark.	43,761	3	45,919	4
Tulsa, Okla.	43,528	4	47,992	3
Knoxville, Tenn.	43,392	5	49,591	2
Charleston, S.C.	43,180	6	44,562	7
Greensboro, N.C.	43,095	7	*	*
Columbia, S.C.	42,567	8	44,760	6
Baton Rouge, La.	42,344	9	41,473	10
Greenville, S.C.	42,313	10	44,494	8
Sarasota, Fla.	40,670	11	38,476	11
El Paso, Texas	37,440	12	41,926	9
McAllen, Texas	30,761	13	37,017	12

*ACCRA data unavailable in 2005.

SOURCES: Bureau of Economic Analysis; Council for Community and Economic Research, ACCRA Cost of Living Index; Bureau of Labor Statistics; authors' calculations.

the low educational achievement level of the workforce or the sustained out-migration of high achievers. This article focuses on only one manifestation of a low-wage economy: the city's occupational mix compared with the U.S. and peer cities. El Paso jobs are concentrated in low-wage occupations, and these jobs pay poorly compared with similar jobs in cities of comparable size and geography.

Per Capita Income and Wages

Table 1 compares per capita income in El Paso with 12 peer cities, selected on the basis of similar population size (600,000 to 1 million) and a common Southern or Southwestern location. Neighboring Albuquerque, N.M., and fellow Texas border city McAllen have particular relevance among these comparisons. Cities are ranked by per capita income level, with Raleigh, N.C.; Albuquerque; and Little Rock, Ark., at the top of the list and El Paso and McAllen at the bottom. Adjusting for the cost of living, using the Council for Community and Economic Research's ACCRA index, does little to change El Paso's or McAllen's position relative to the

other medium-sized cities or the conclusions of this article. As a result, the cost-of-living adjustment is not used in the rest of this analysis.¹

Per capita income is personal income per person, made up of wages and salaries, proprietors' income, property income (rent, interest and dividends) and government transfers. The dominant factor determining the local income level is almost always wages, salaries and employer-paid benefits per worker. Table 2 shows progress in the growth of wages, salaries and benefits per worker among all U.S. metropolitan areas and the selected peer

cities from 1999 to 2005. Overall, the peer cities saw real wages and salaries grow at annual rates of 2.7 percent, compared with 2.3 percent for the U.S. During this period, job growth was relatively weak and the contribution of gains in real wages and salaries per worker dominated the growth of total wages and salaries—except in the two border cities. In El Paso and McAllen, we see bigger contributions to income from job growth than rising wage rates.

Note the very different paths to growth taken by El Paso, McAllen and Albuquerque. McAllen employment rose at a remarkable 4.6 percent annual rate, and while El Paso and Albuquerque trailed McAllen, both grew faster than the U.S. or peer-city averages at 1.3 and 1.2 percent per year, respectively. McAllen and Albuquerque registered increases in real wages per worker that also exceeded the U.S. and peer-city averages, while El Paso lagged far behind all areas in its ability to raise real wages per worker. In fact, what sets El Paso apart in these comparisons is the slow growth in compensation per worker.

Occupational Pay and Mix

El Paso's problem in recent years has been less one of job creation and more one of rais-

Table 2
Increases in Real Wages, Salaries and Benefits per Worker, 1999–2005

	U.S. metros	Peer cities	El Paso	McAllen	Albuquerque
Real wages per worker 1999	\$47,387	\$38,702	\$29,408	\$23,243	\$39,347
Real wages per worker 2005	\$51,877	\$42,533	\$30,913	\$24,830	\$43,269
Percent of U.S. average 2005	100	82.0	59.6	47.9	83.4
Annual percentage increase					
Nominal wages	4.5	4.9	4.6	8.9	5.4
– Inflation	2.2	2.2	2.2	2.2	2.3
= Real wages	2.3	2.7	2.4	6.8	3.1
– Employment	.5	.9	1.3	4.6	1.2
= Real wages per worker	1.7	1.9	1.1	2.2	2.0

NOTES: Real wages are in 2005 dollars; percentage changes may not add up due to rounding.

SOURCES: Bureau of Economic Analysis; Bureau of Labor Statistics; authors' calculations.

ing worker wages to the level of other peer cities. Table 3 looks at this problem from the perspective of occupational mix. It shows 22 occupations for the group of peer cities in 2005, ranked by pay level and divided into seven high-paid, seven medium-paid and eight low-paid occupations.² The differences in peer-city average pay are shown for El Paso, McAllen and Albuquerque. Neither El Paso nor McAllen does well in the comparison. El Paso pays higher wages than average in only five of 22 categories, while McAllen pays more in only three. Albuquerque, in contrast, pays higher wages in 12 of 22 occupations, including five of the top seven.

How many employees fall into each category of high-, middle- and low-paid occupations? Table 4 shows concentration ratios for the peer cities overall and for El Paso, McAllen and Albuquerque.

Concentration ratio is defined as the percentage share of an occupation in the city divided by the percentage share of that occupation in the U.S. The dividing line for this calculation is 1, with values greater than 1 indicating that a city is overrepresented in an occupation compared with a typical place in the U.S. and values less than 1 indicating that it is underrepresented.

Table 4 shows that these medium-sized Southern and Southwestern cities are not magnets for the highest-paid occupations, with only management and health care practitioners overrepresented among the best-paid occupations. As a group, these cities fall significantly short of U.S. averages in computers and math, business and finance, the sciences, the arts and farming. They exceed the U.S. by a significant margin in construction and extraction, installation and repair, and health care support. Their bread and butter in terms of occupational mix lies mainly in

the bottom half of the table.

If the group of peer cities focuses its collective energy in the bottom half of the table, it is even truer for El Paso and McAllen because they are more heavily represented in the lowest-wage occupations. Albuquerque has strong positions among the highest-paid occupations, especially legal, architecture and engineering, sciences and health care practitioners. Tables 3 and 4 combined tell us that Albuquerque pays higher wages and salaries than peer cities in more than half the occupations and does a better job of concentrating workers in these well-paid positions.

A simple way to summarize the results is to look at the

El Paso's transition from manufacturing to services was a move from one group of low-paid occupations to another.

Table 3
Average Wages by Occupation:
El Paso, McAllen and Albuquerque vs. Peer Cities, 2005 (Dollars)

	Peer cities	Difference from peer cities		
		El Paso	McAllen	Albuquerque
Management	76,539	-5,319	-5,579	-839
Legal	69,435	6,525	-10,535	-5,105
Computers and math	55,581	-3,291	-9,251	7,989
Architecture and engineering	55,568	-6,068	-12,468	9,342
Business and finance	49,310	-160	-7,980	1,660
Life, physical and social science	49,876	-2,976	-7,476	8,304
Health care practitioners	55,558	6,112	1,662	2,792
Arts, entertainment and media	36,792	-4,972	-7,402	-542
Education, training and library	37,321	1,719	-1,361	2,609
Community and social services	34,555	3,345	2,665	-1,235
Construction and extraction	29,925	-6,275	-7,815	565
Installation, maintenance and repair	33,980	-3,610	-7,880	1,320
Protective services	30,075	4,745	715	-225
Sales and related	29,146	-5,106	-7,386	-706
Office and administrative support	26,543	-2,523	-4,443	467
Production	28,072	-6,722	-6,392	218
Transportation and material moving	25,635	-3,025	-5,895	2,715
Health care support	21,492	-2,222	-4,762	2,008
Personal care and services	18,728	-3,608	-4,848	-318
Building and grounds	18,900	-2,450	-2,440	-750
Farming, fishing and forestry	21,103	-5,343	-7,793	-2,973
Food preparation and serving	16,065	-1,105	-1,345	-685

NOTES: Shading indicates that Albuquerque pays a wage premium in many more occupations than El Paso or McAllen. Values are not adjusted for cost of living.

SOURCES: Bureau of Labor Statistics, Metropolitan Area Occupational Employment and Wage Estimates, May 2005; authors' calculations.

Table 4

Concentration Ratios by Occupation: El Paso, McAllen and Albuquerque vs. Peer Cities, 2005

	Concentration ratio			
	Peer cities	El Paso	McAllen	Albuquerque
Management	1.04	.77	.70	1.06
Legal	.94	.64	.62	1.26
Computers and math	.80	.45	.22	.84
Architecture and engineering	.96	.61	.27	1.87
Business and finance	.80	.61	.45	.83
Life, physical and social science	.84	.41	.43	1.09
Health care practitioners	1.05	.91	1.04	1.08
Arts, entertainment and media	.80	.63	.46	.86
Education, training and library	.97	1.38	1.75	.95
Community and social services	.93	.81	.83	1.22
Construction and extraction	1.09	.83	.79	1.40
Installation, maintenance and repair	1.11	1.07	.88	1.04
Protective services	1.04	1.64	1.29	1.13
Sales and related	1.01	1.04	.99	1.06
Office and administrative support	1.00	1.01	.96	.96
Production	.99	1.04	.58	.53
Transportation and material moving	1.02	1.21	.94	.78
Health care support	1.07	.84	2.02	.96
Personal care and services	.98	1.28	2.90	1.20
Building and grounds	1.00	.87	.91	1.15
Farming, fishing and forestry	.76	.40	4.92	.37
Food preparation and serving	1.04	1.13	1.08	1.12

NOTE: Shading indicates occupations in which cities have a high concentration ratio (the percentage share of an occupation in the city divided by the percentage share of that occupation in the U.S.).

SOURCES: Bureau of Labor Statistics, Metropolitan Area Occupational Employment and Wage Estimates, May 2005; authors' calculations.

share of employment by city in the seven highest-paid occupations (Table 5). Raleigh (24.4 percent), Little Rock (21) and Albuquerque (20.9) stand at the top of the list. A ranking of the eight lowest-paid occupations shows El Paso is No. 4 (52.5 percent) and McAllen No. 2 (54.3), compared with a national average of 49.7 percent. Low-wage workers in Albuquerque make up only 45.4 percent of the workforce.

Three Cities Compared

The occupational tables show El Paso's transition from manufacturing to services was a move from one group of low-paid occupations to another. El Paso can no longer count itself as a manufacturing city. Factory jobs made up only 10.8 percent of private employment in El Paso last year, less than the 12.1 percent U.S. average. Services grew to 82.9 percent of private employment, higher than the U.S. share. The city's new service jobs, however, remain concentrated in low-wage occupations.

Albuquerque, in contrast, has had significant success in building a knowledge-based economy by capitalizing on the presence of government facilities like Sandia National Laboratories. Albuquerque used these jobs to build an initial pool of highly trained and qualified workers in math, science and engineering. This, in turn, attracted tech-oriented companies to the city to produce semiconductors, aircraft, aircraft avionics and engines, medical instruments and electrical equipment, adding to a workforce with one of the highest levels of Ph.D.'s per capita in the nation. Momentum in these industries was slowed by the 2000–01 tech bust, but the footprint of these skilled jobs remains clear in Albuquerque's occupational mix. Even with the tech downturn, job growth in Albuquerque nearly matched that of El Paso.

McAllen stands at the other

Table 5

Employment in High- and Low-Wage Occupations for El Paso and Peer Cities, 2005 (Percent)

	High wage		Low wage
Peer city average	18.4	Peer city average	50.1
National average	19.5	National average	49.7
Raleigh	24.4	Greensboro	55.5
Little Rock	21.0	McAllen	54.3
Albuquerque	20.9	Greenville	53.6
Columbia	20.3	El Paso	52.5
Knoxville	20.2	Sarasota	52.5
Tulsa	20.1	Knoxville	50.9
Baton Rouge	19.5	Columbia	50.5
Charleston	18.8	Tulsa	50.4
Greenville	17.0	Charleston	50.0
Greensboro	16.2	Little Rock	49.3
Sarasota	15.3	Baton Rouge	45.7
El Paso	13.7	Albuquerque	45.4
McAllen	12.2	Raleigh	40.9

SOURCES: Bureau of Labor Statistics, Metropolitan Area Occupational Employment and Wage Estimates, May 2005; authors' calculations.

end of the wage and occupational spectrum, with rapid job growth fueled by an ample supply of low-wage labor that in recent years has increased the concentration of local employment in low-wage occupations. McAllen might be described as much like El Paso but without El Paso's heavy losses in manufacturing employment.

McAllen's job growth has been shared by fellow Texas border towns Laredo and Brownsville, helped by the North American Free Trade Agreement and growing cross-border trade due to the maquiladora industry and by financial stability and growth in Mexico. These trends have also been seen in El Paso, but the other border towns have an additional advantage due to their locations between the Texas Triangle, formed by the state's largest cities, and Monterrey, an important industrial center for Mexico. El Paso is twice as far as the other border cities from the Texas Triangle—the state's economic engine. This has been a handicap as low-wage labor has become scarce elsewhere in the state in recent years and businesses have turned first to cities closer to the Triangle.

The key to moving up the occupational ladder is preparation through education and experience. This is as true collectively for a city or metropolitan area as it is for an individual. The role of education is starkly visible in Table 6, which shows the educational attainment of those 25 years and older in the metropolitan areas under discussion.

Looking at the percentage of the population with college training, for example, we find Albuquerque well above the national norms for those who have attended some college, as well as for those who received bachelor's and advanced degrees. El Paso and McAllen fall far short of the U.S. standard in all categories.³ El Paso's inability to better capitalize on the fac-

tory-to-services shift and bring in higher-paying occupations is based squarely on the poor educational achievement of its labor force. McAllen's recent income and employment gains—remarkable as they were for the number of jobs created in recent years—have also been due to the expansion of low-wage jobs rather than a move up the occupational ladder.

The occupational and educational data suggest that a return to the basics—building a more highly educated and better trained workforce—is the key to raising wages in El Paso and McAllen.

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Notes

¹ This is in contrast to marked differences in the cost of living for the nation's largest metropolitan areas. See "Income Growth Shows Houston's Economic Strength and Maturity," by Robert W. Gilmer and Charles L. James, Federal Reserve Bank of Dallas *Houston Business*, December 2006.

² Data on the occupational distribution and wages paid by metropolitan area recently became available for 2006 but show no changes that would significantly affect the conclusions of this article. We left Tables 3 and 4 with 2005 data to better match the personal income data for 2005 shown in Tables 1 and 2. The 2005 personal income data are the latest available for that data set.

³ The other two Texas border cities—Laredo and Brownsville—have educational attainment similar to that of McAllen.

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Table 6
Educational Attainment by Metropolitan Area (Percent)

	High school diploma	Some college	Bachelor's degree	Advanced degree
Albuquerque	24.1	30.0	18.4	13.4
El Paso	22.6	21.6	11.0	5.6
McAllen	20.3	14.4	8.4	4.5
United States	28.6	27.4	15.5	8.9

SOURCE: 2000 census.