



# The Economy of the Rio Grande Valley

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# Roadmap

- Recent economic trends in the Rio Grande Valley
- Main drivers behind Texas border region economy
  - How relevant is Mexico for the U.S. and Texas?
  - Recent trade trends in the RGV
- Economic landscape in RGV is changing
- Going forward: what is ahead?



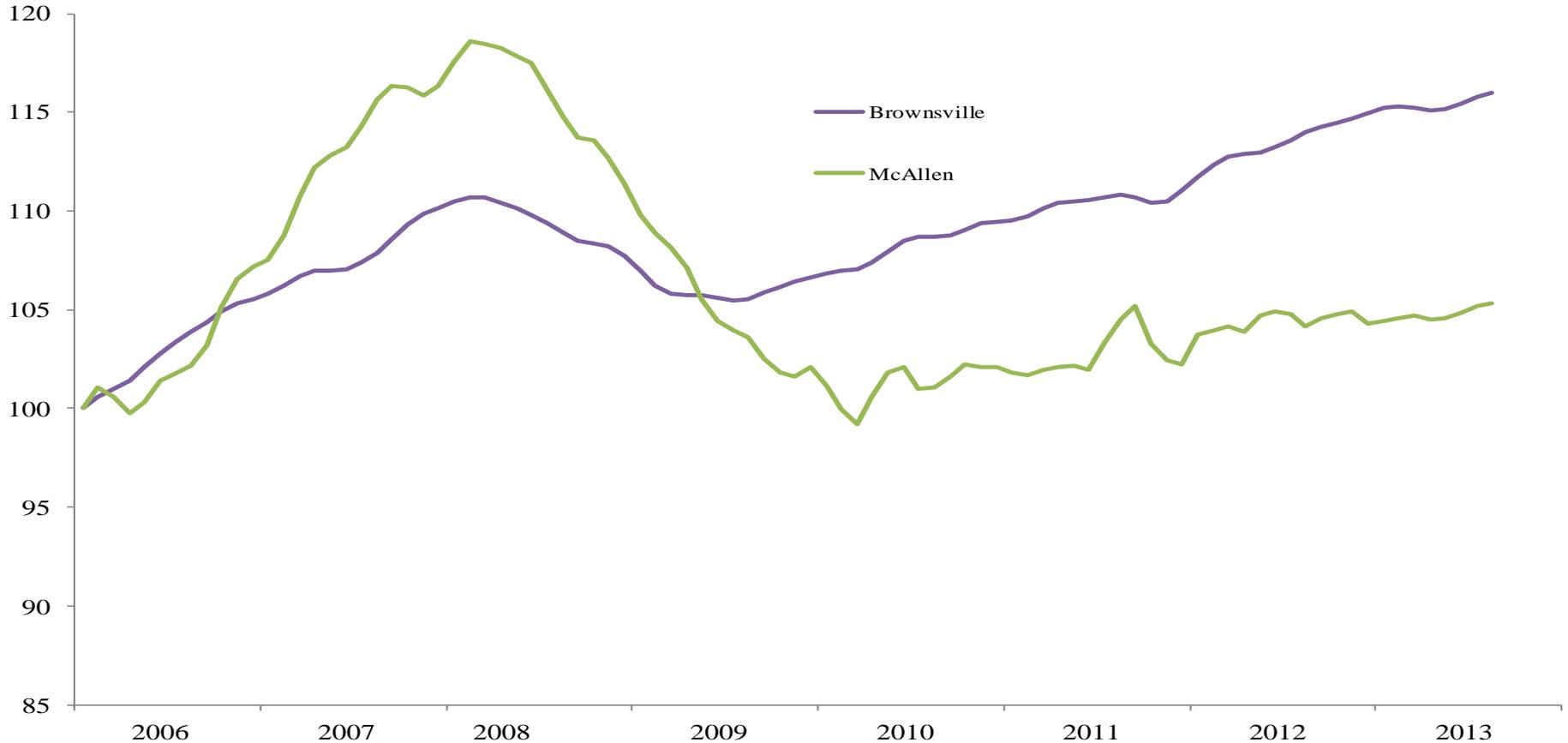
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# Rio Grande Valley growing again

Index, Jan 2006=100



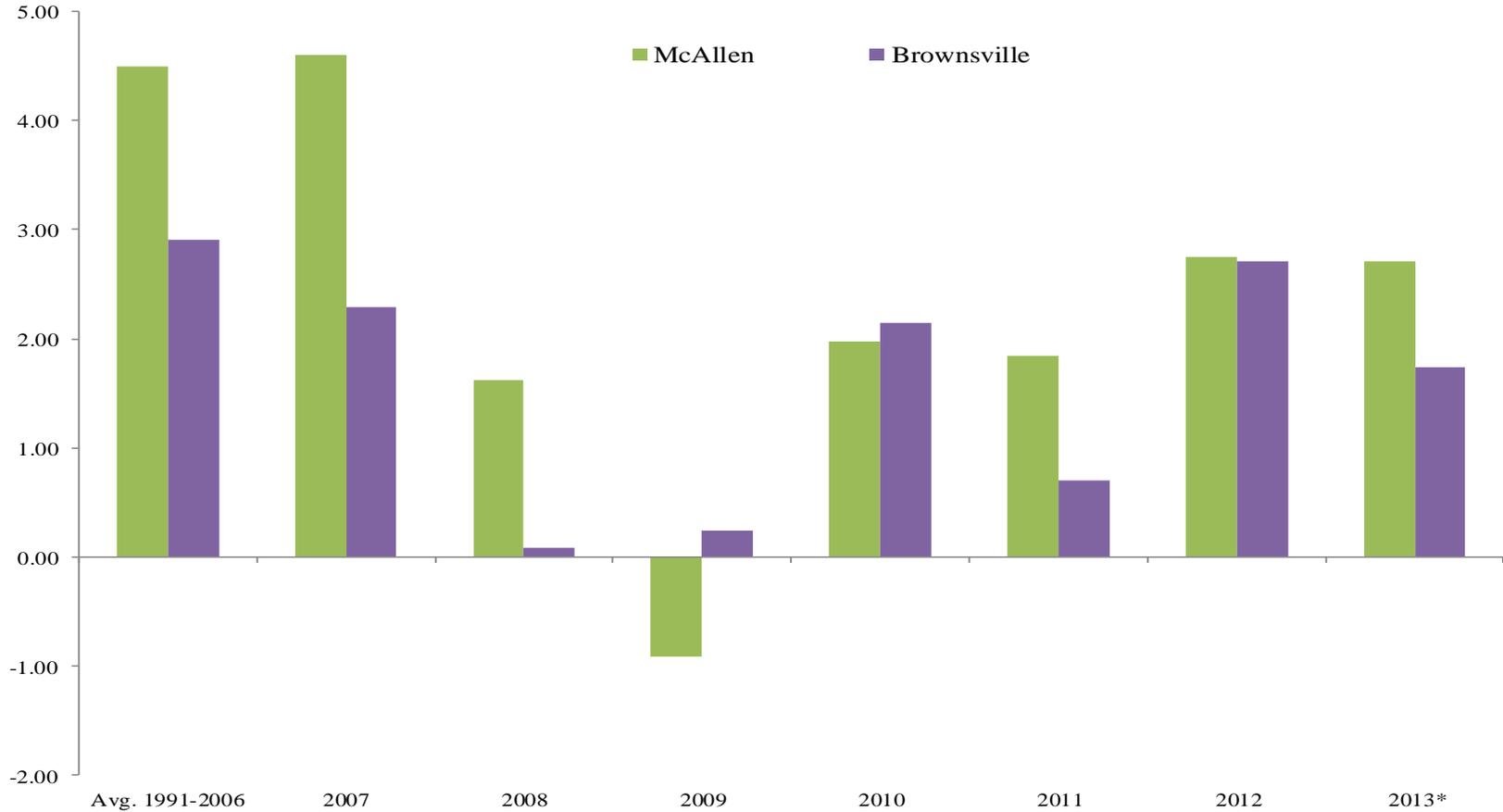
Source: The Federal Reserve Bank of Dallas.

Note: Business Cycle is a composite index that includes employment, unemployment rate, retail sales and wages.



# Employment growth in the Rio Grande Valley

Percent, Dec/Dec, SA



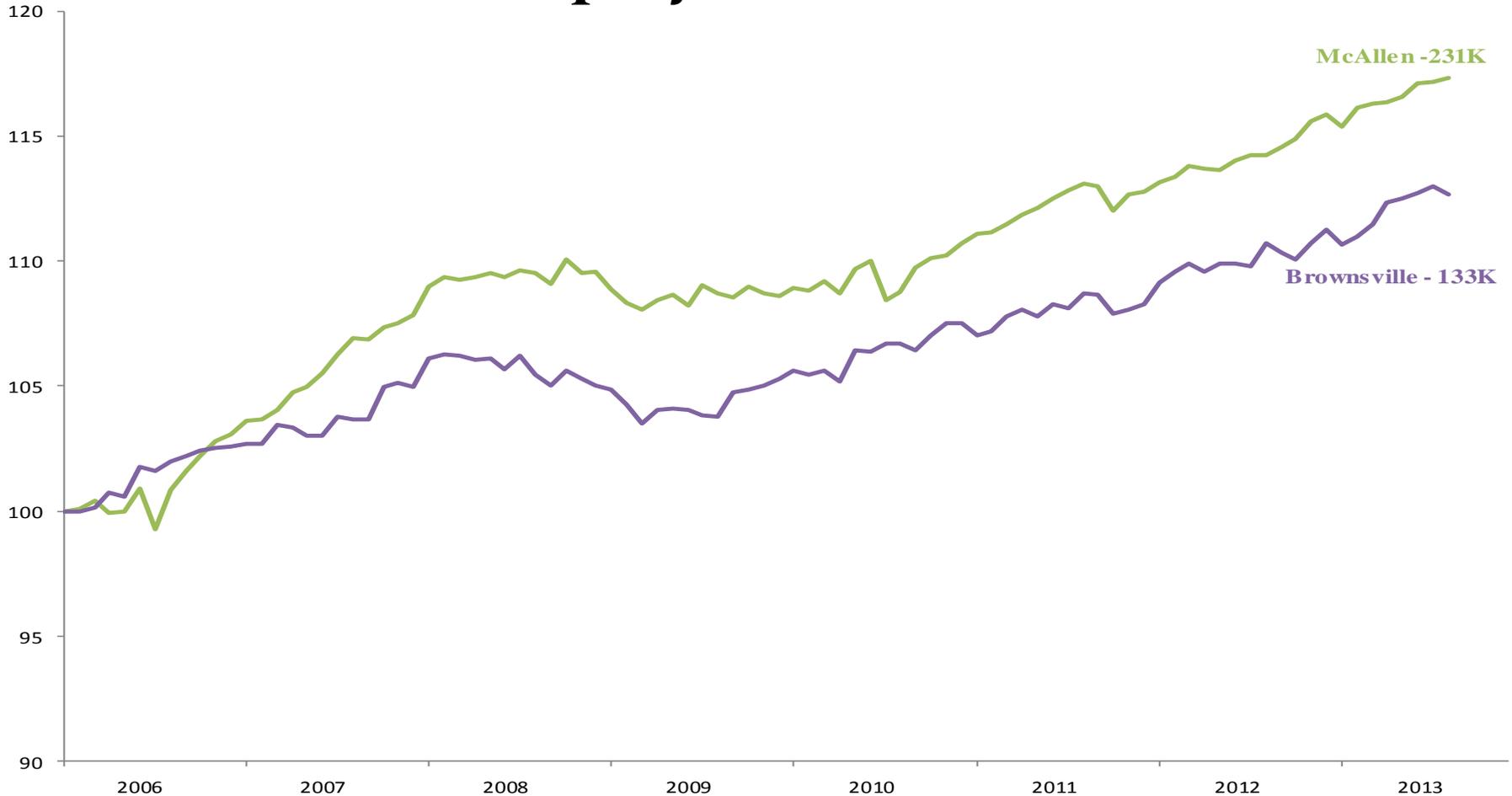
Source: Federal Reserve Bank of Dallas

\*2013 Data are August/August



# RGV well beyond pre-recession peak employment levels

Index, Jan 2006=100, SA

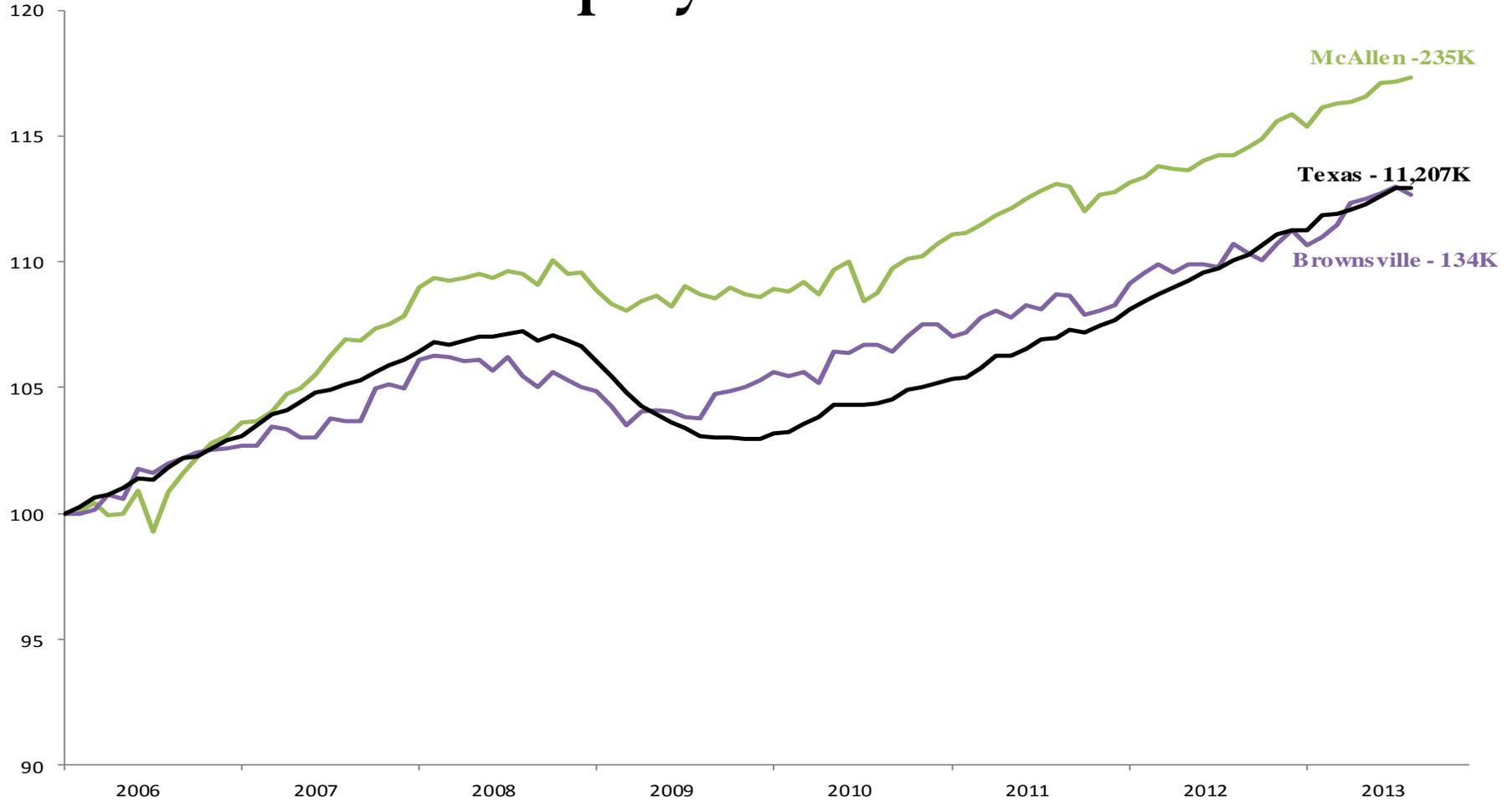


Source: Federal Reserve Bank of Dallas, Bureau of Labor Statistics



# RGV well beyond pre-recession peak employment levels

Index, Jan 2006=100, SA

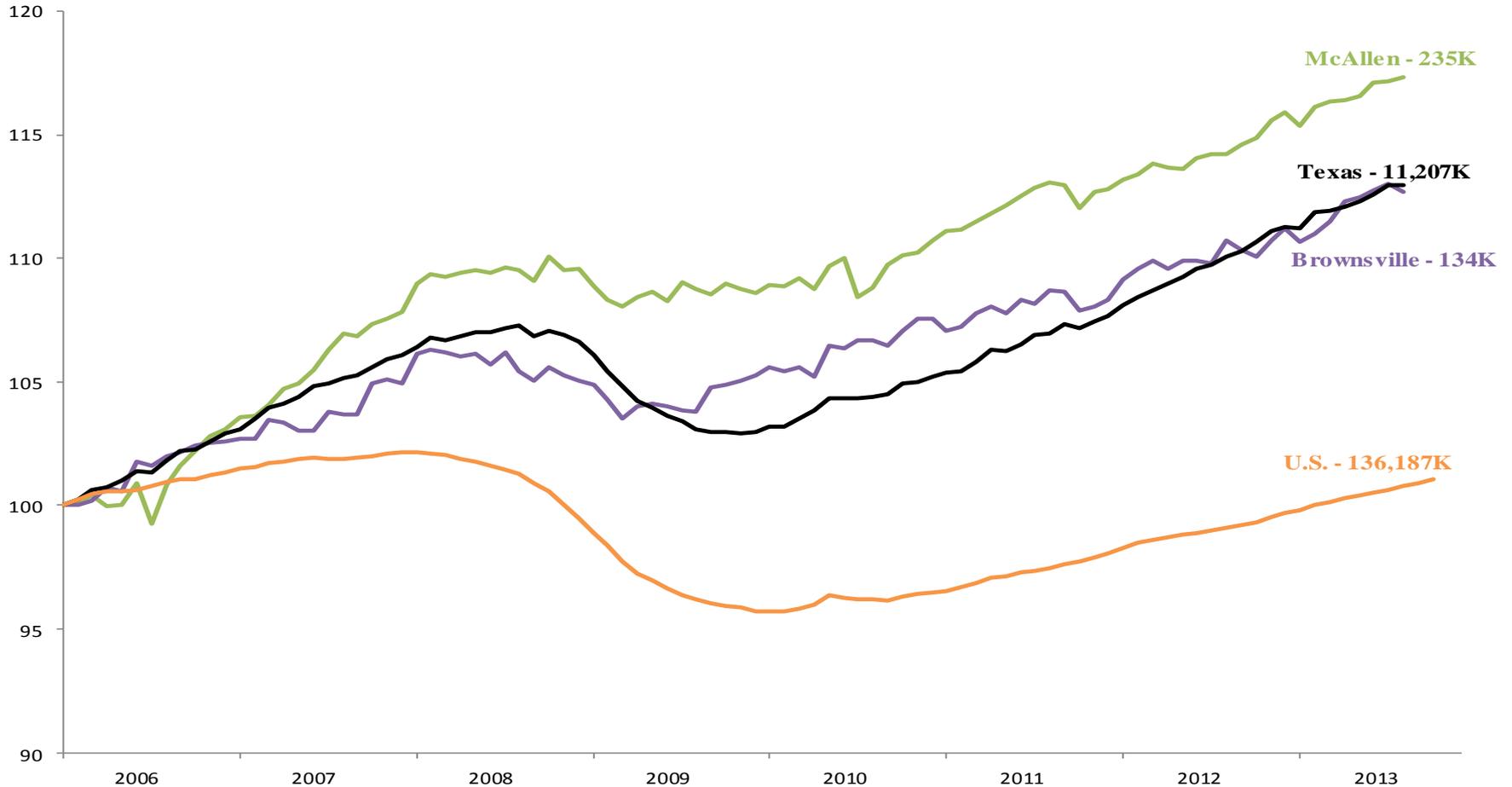


Source: Federal Reserve Bank of Dallas, Bureau of Labor Statistics



# RGV well beyond pre-recession peak employment levels

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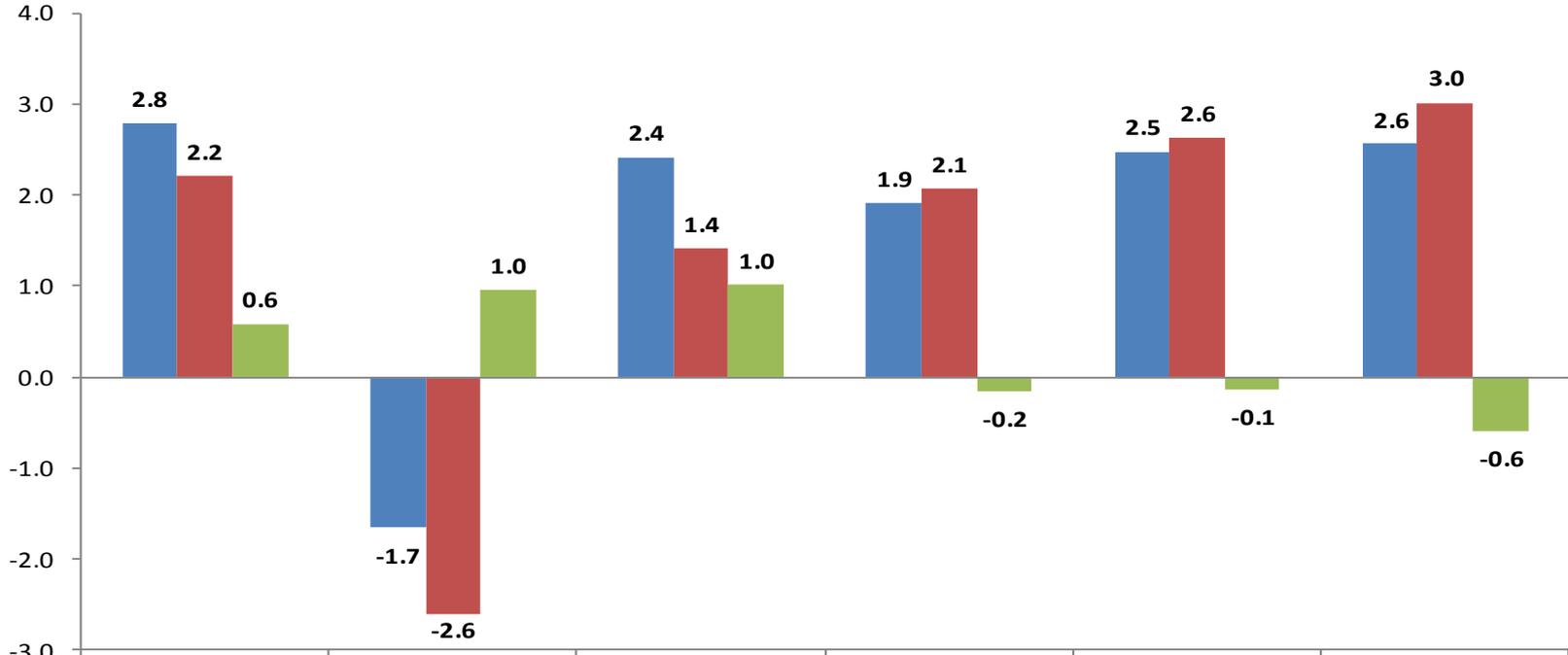
Source: Federal Reserve Bank of Dallas, Bureau of Labor Statistics



# Brownsville Employment Breakdown

Thousands, SA, Change  
Yr/Yr

■ Total ■ Private ■ Government



	1991-2008 Average	2009	2010	2011	2012	2013*
<b>Total</b>	2.8	-1.7	2.4	1.9	2.5	2.6
<b>Private</b>	2.2	-2.6	1.4	2.1	2.6	3.0
<b>Government</b>	0.6	1.0	1.0	-0.2	-0.1	-0.6

2013\* represents year to date annualized rate.

Source: Federal Reserve Bank of Dallas

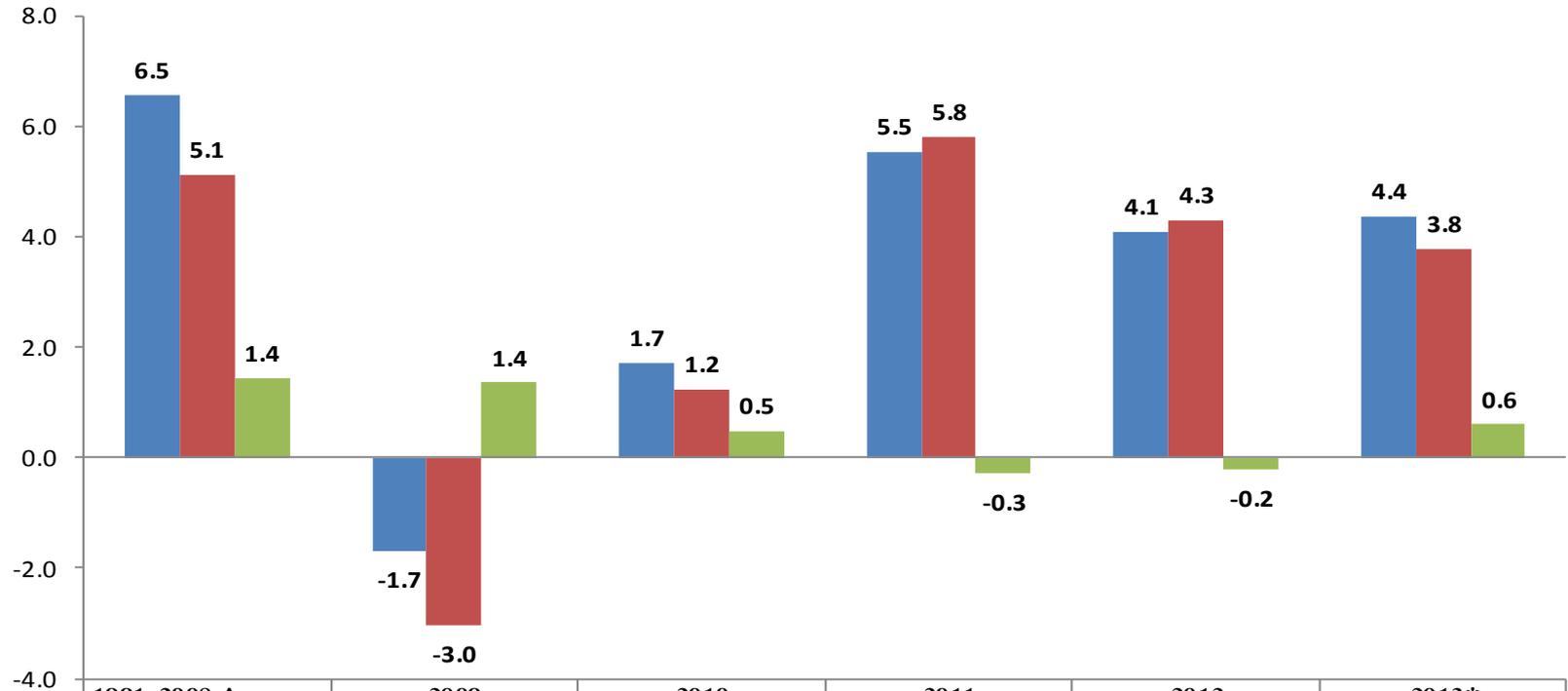
Government employment excludes military employment



# McAllen Employment Breakdown

Thousands, SA, Change  
Yr/Yr

■ Total ■ Private ■ Government



	1991-2008 Average	2009	2010	2011	2012	2013*
<b>Total</b>	6.5	-1.7	1.7	5.5	4.1	4.4
<b>Private</b>	5.1	-3.0	1.2	5.8	4.3	3.8
<b>Government</b>	1.4	1.4	0.5	-0.3	-0.2	0.6

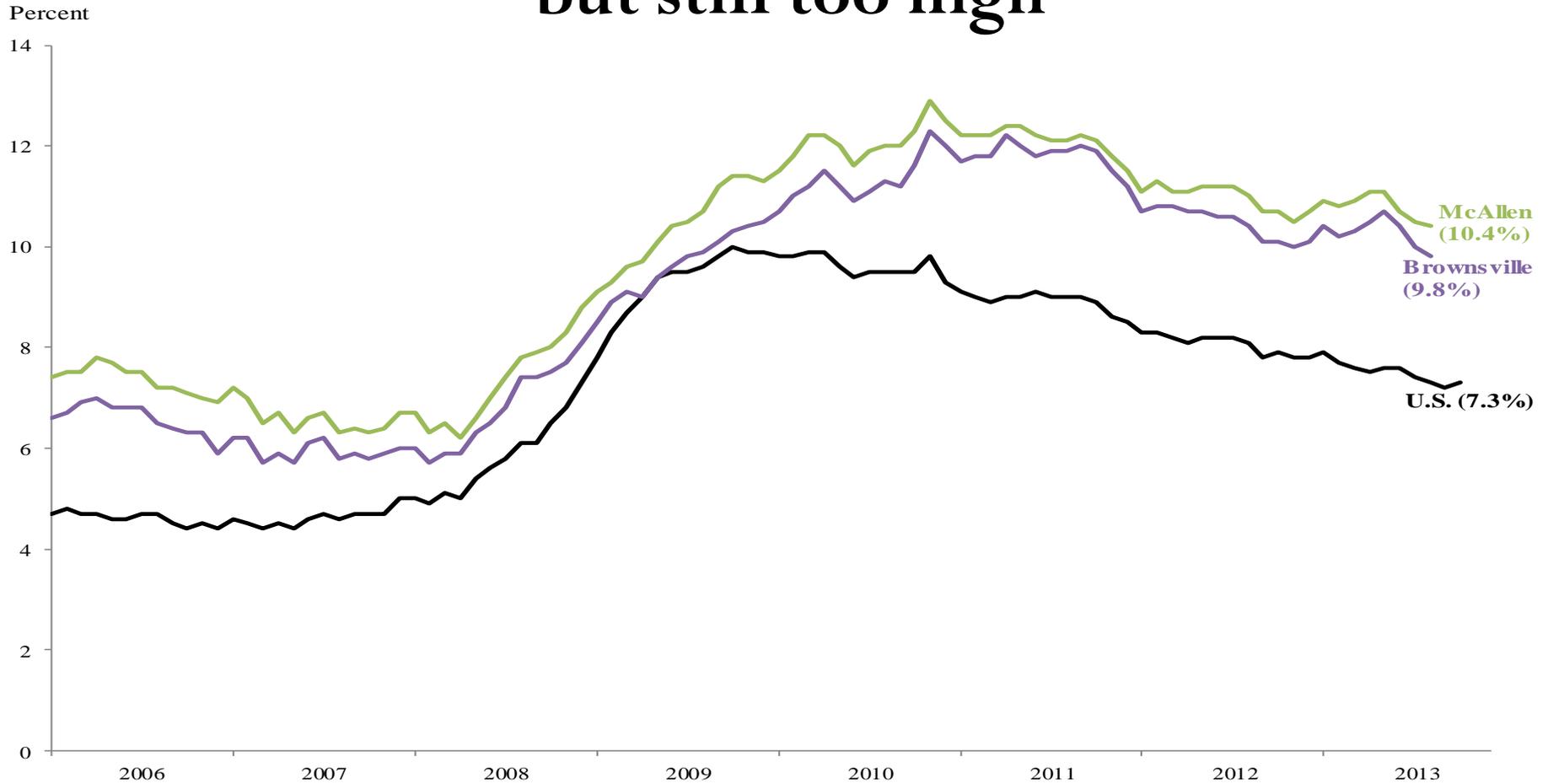
2013\* represents year to date annualized rate.

Source: Federal Reserve Bank of Dallas

Government employment excludes military employment



# RGV unemployment rates trending down but still too high



Source: Federal Reserve Bank of Dallas, Bureau of Labor Statistics.



# RGV weathers the recent recession in different ways

Metro Area	Peak	Trough	Decline (%)	Bottom to Today (%)
Texas	July 2008	November 2009	5.3%	12.6%
Brownsville	February 2008	August 2009	4.8%	10%
McAllen	February 2008	March 2010	16.4%	6.2%



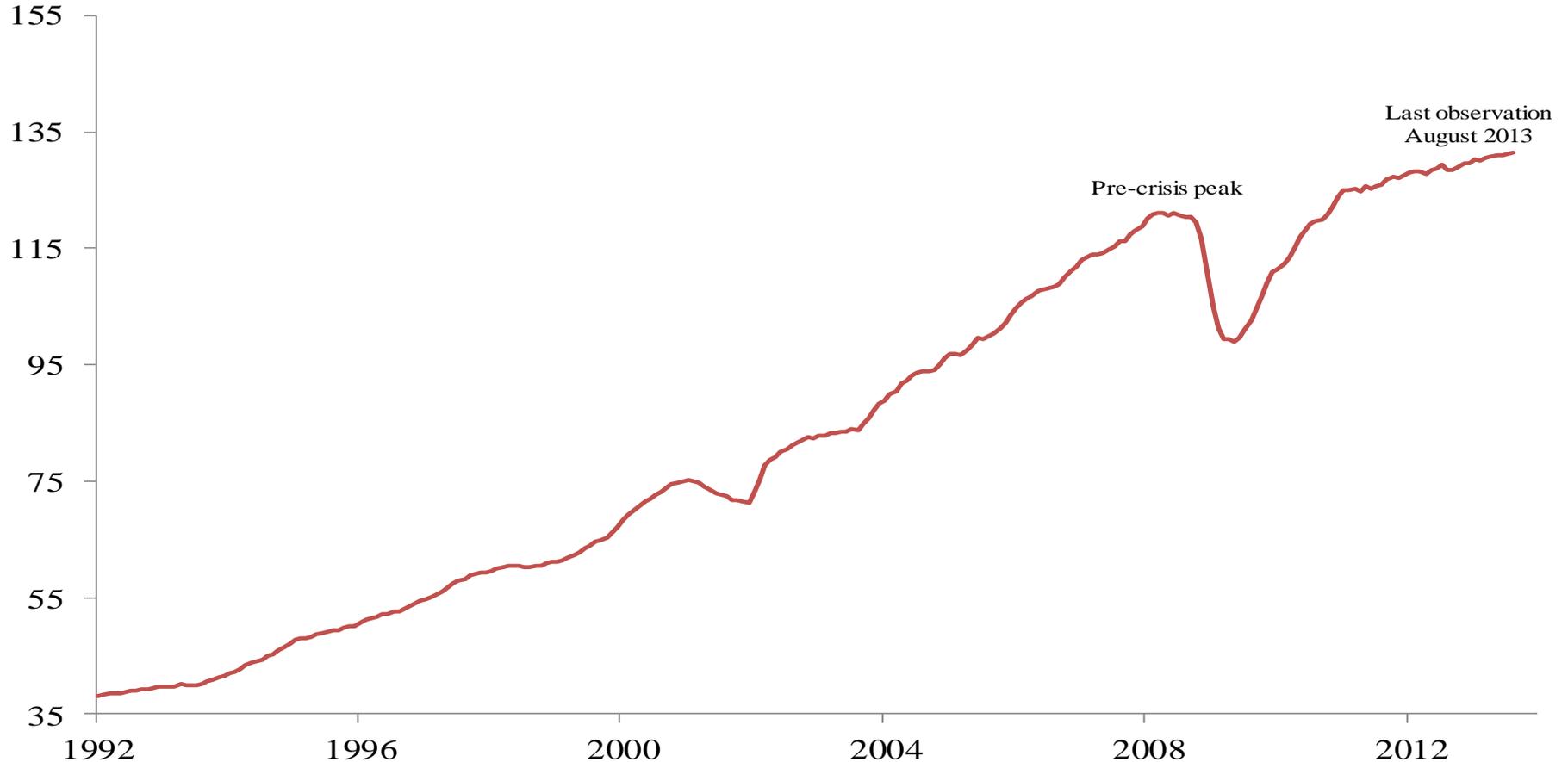
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# World trade now exceeds pre-crisis peak...

Index, 2005=100  
3MMA

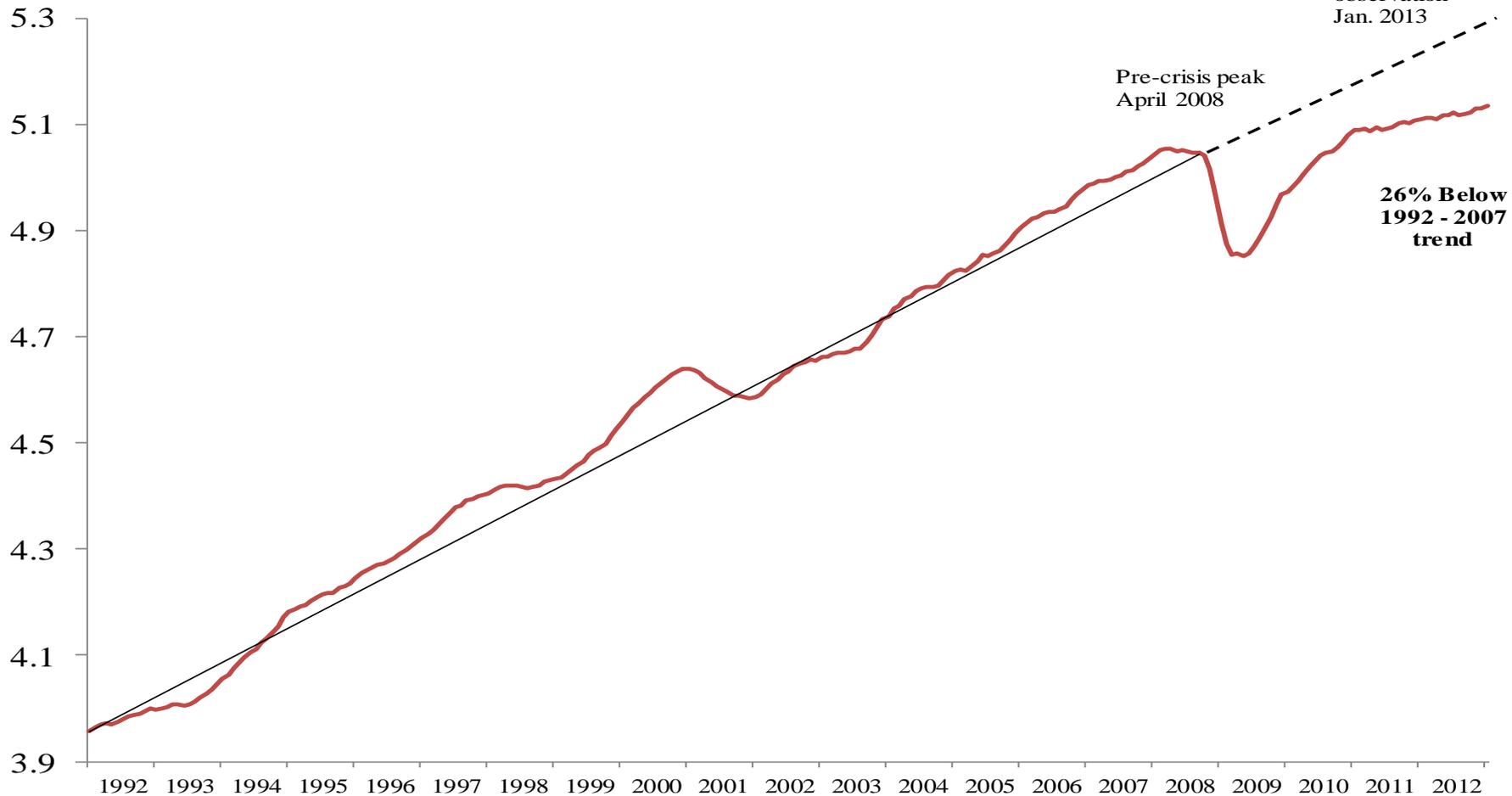


Source: CBP Netherlands Bureau for Economic Policy Analysis



# ...but still below 1992-2007 trend

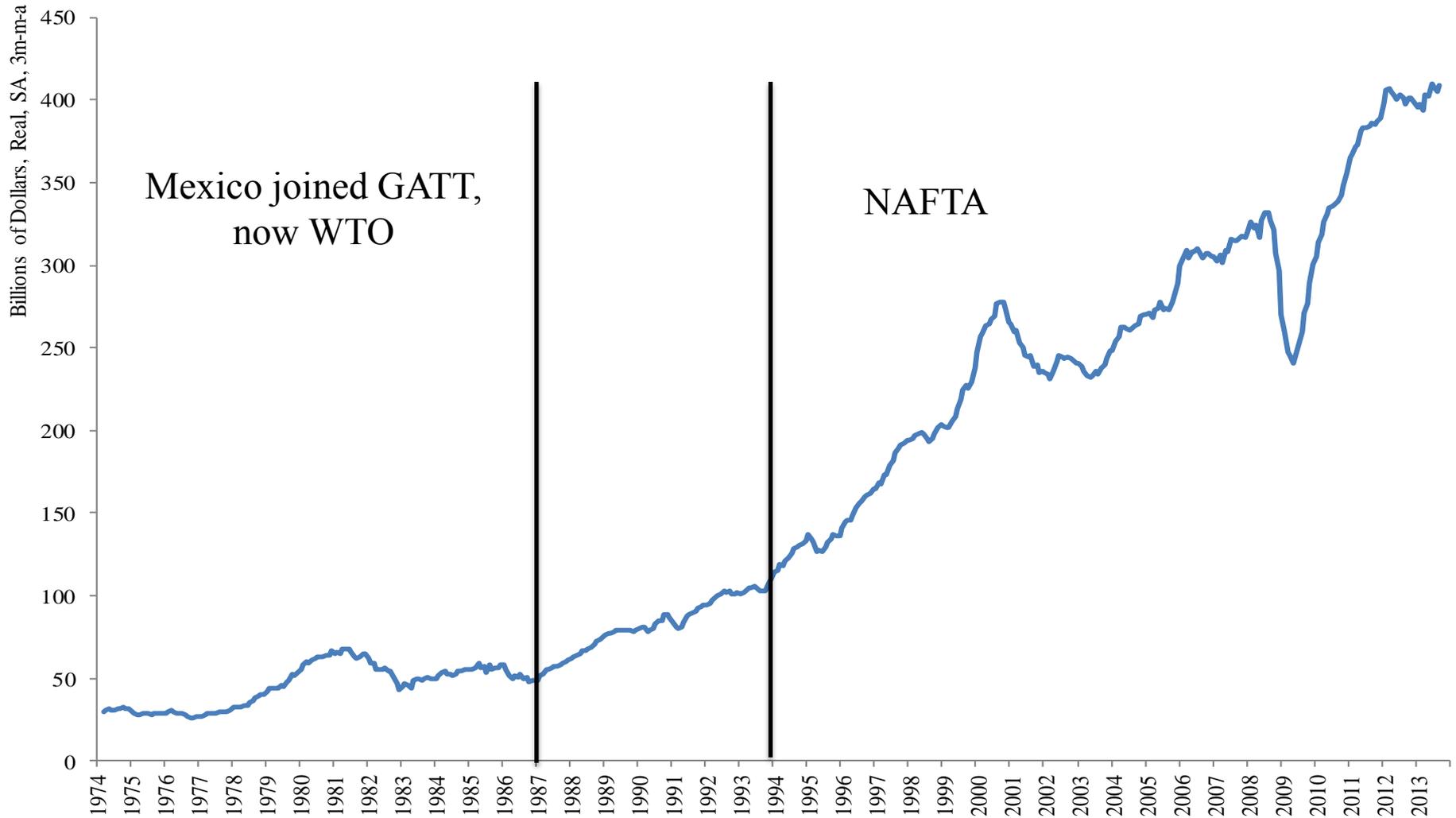
Log Index, 2000=100



Source: CBP Netherlands Bureau for Economic Policy Analysis



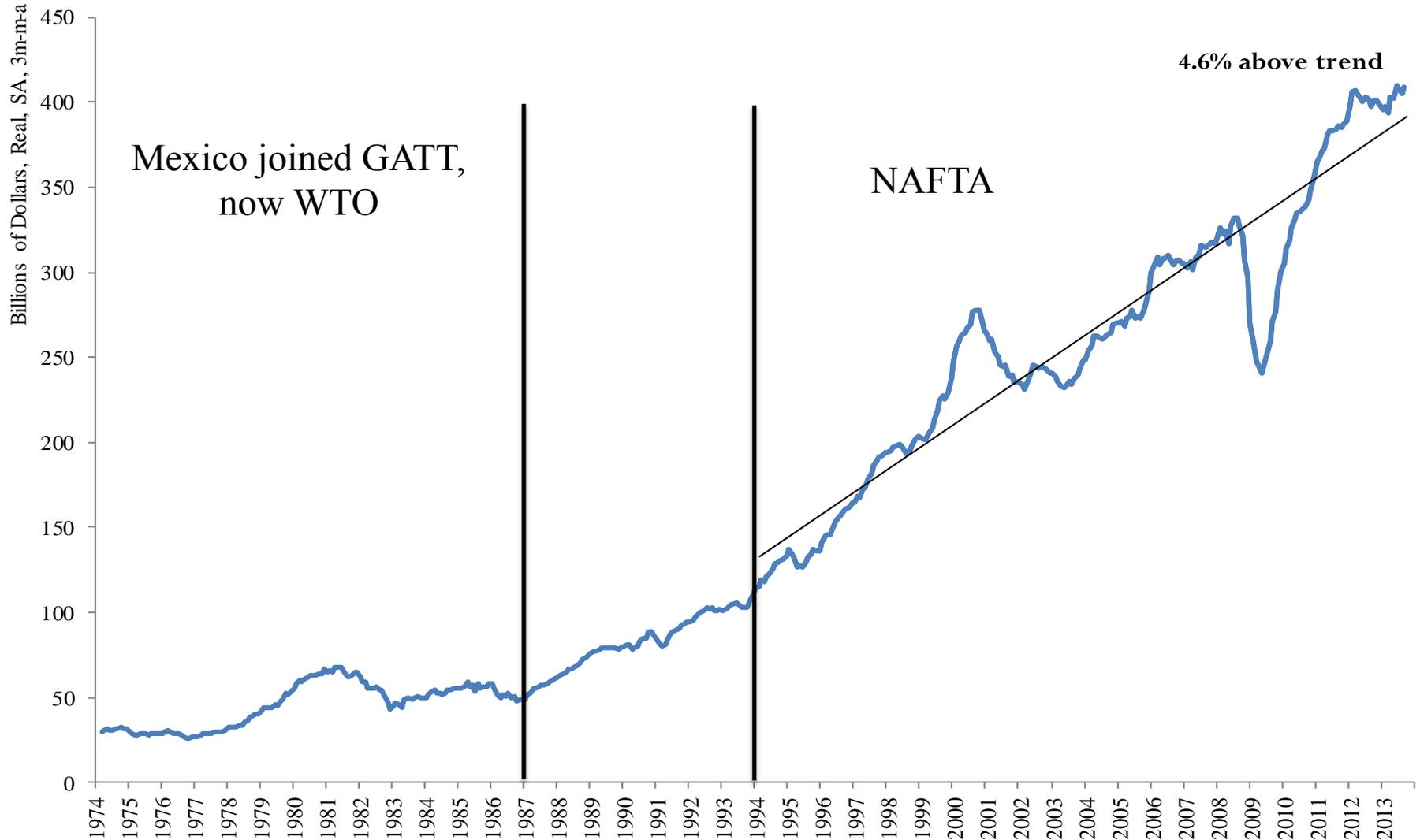
# U.S.-Mexico total trade



Source: U.S. Census Bureau/Haver Analytics



# U.S.-Mexico total trade



Source: U.S. Census Bureau/Haver Analytics



# Autos leading in U.S.-Mexico trade

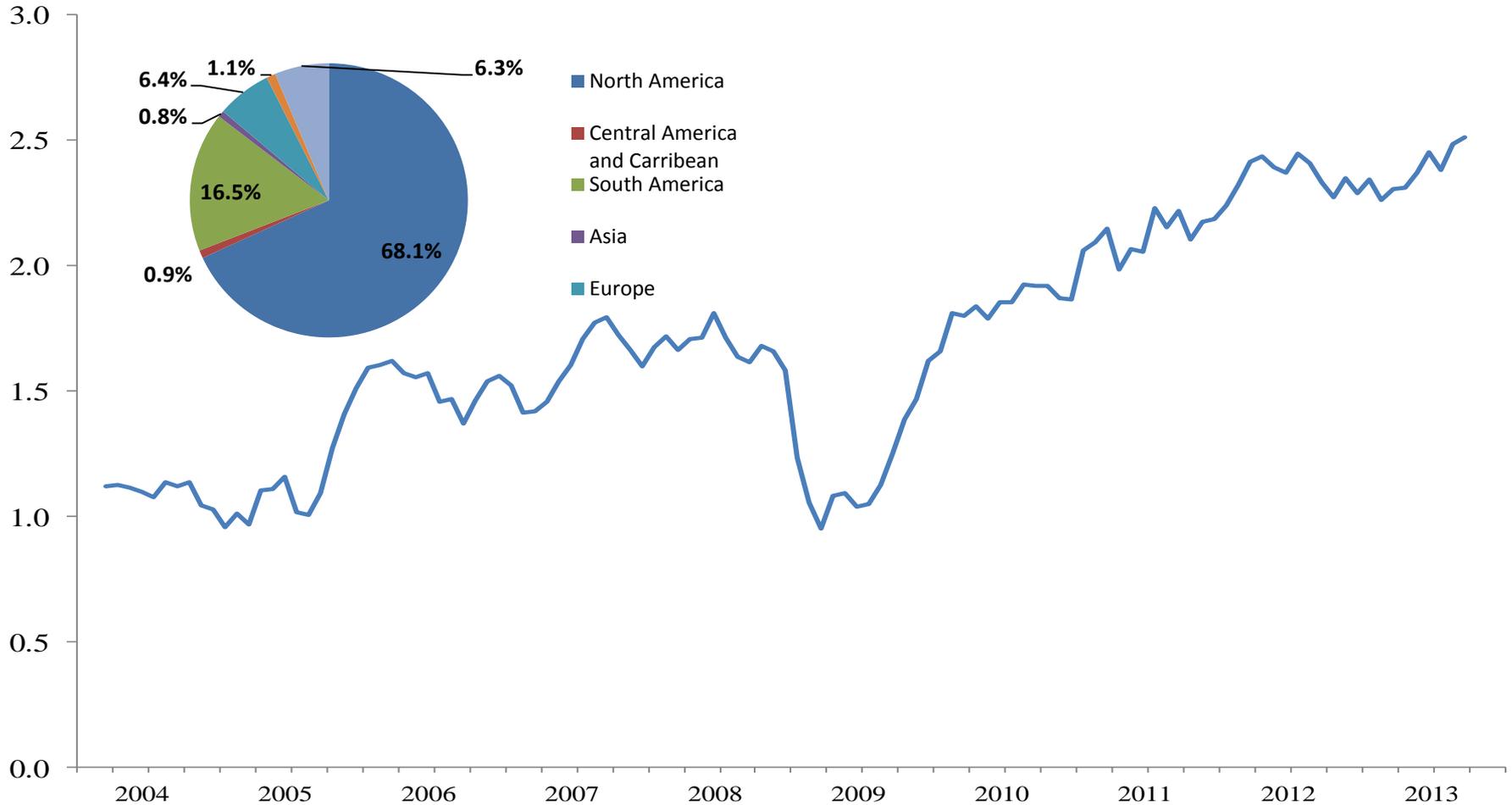
Sector	2012 (Billions)
Road Vehicles	73.4
Petroleum	60.6
Electrical Machinery	50.0
Telecommunications	38.8
Office /Automatic Data Processing	30.4
General Industrial Machinery	24.2
Power-Generated Machinery	18.2
<b>Total Trade U.S.-Mexico</b>	<b>494.0</b>

Source: U.S. Census Bureau



# Mexico auto exports

Millions of units, SAAR, 3-mo moving avg.



Source: Asociación Mexicana de la Industria Automotriz, A.C.



# How relevant is Mexico in the North America auto production?

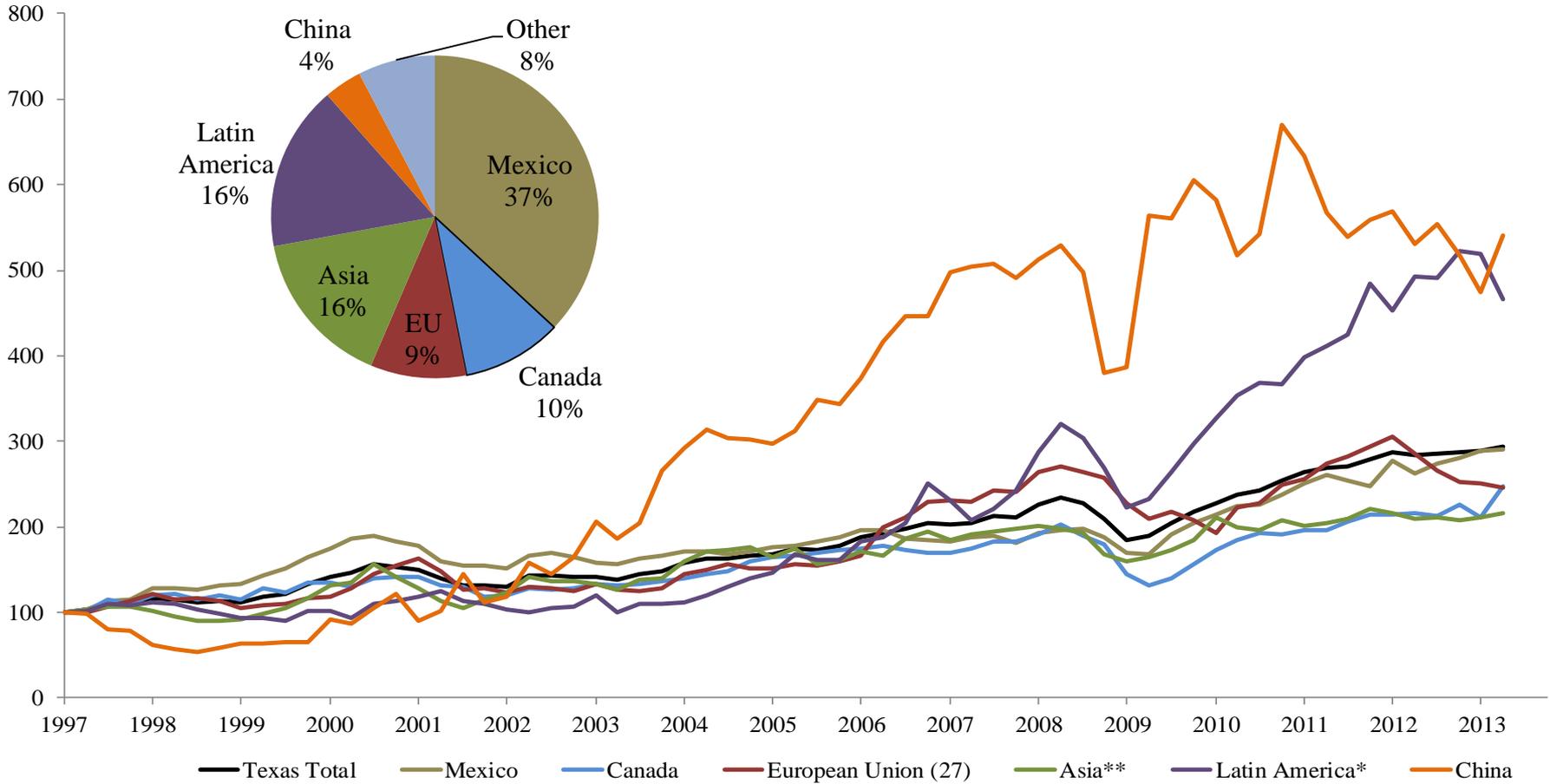
- Today, roughly 1-in-5 light vehicles produced in North America come from Mexico.
- Mexico surpassed Canada as the second largest vehicle producer in North America in 2008.
- Mexico also plays a crucial role in auto parts.
- One-third of the auto parts imported into the U.S. come from Mexico.

**Source:** Thomas H. Klier and James Rubenstein, “The Growing Importance of Mexico in North America’s Auto Production,” *Chicago Fed Letter*, May 2013, No.310.



# Texas Exports by Region

Index, 97Q1=100, Real \$, SA



Notes: \*Latin America excluding Mexico; \*\*Asia excluding China  
 Source: World Institute for Strategic Economic Research, FRB Dallas



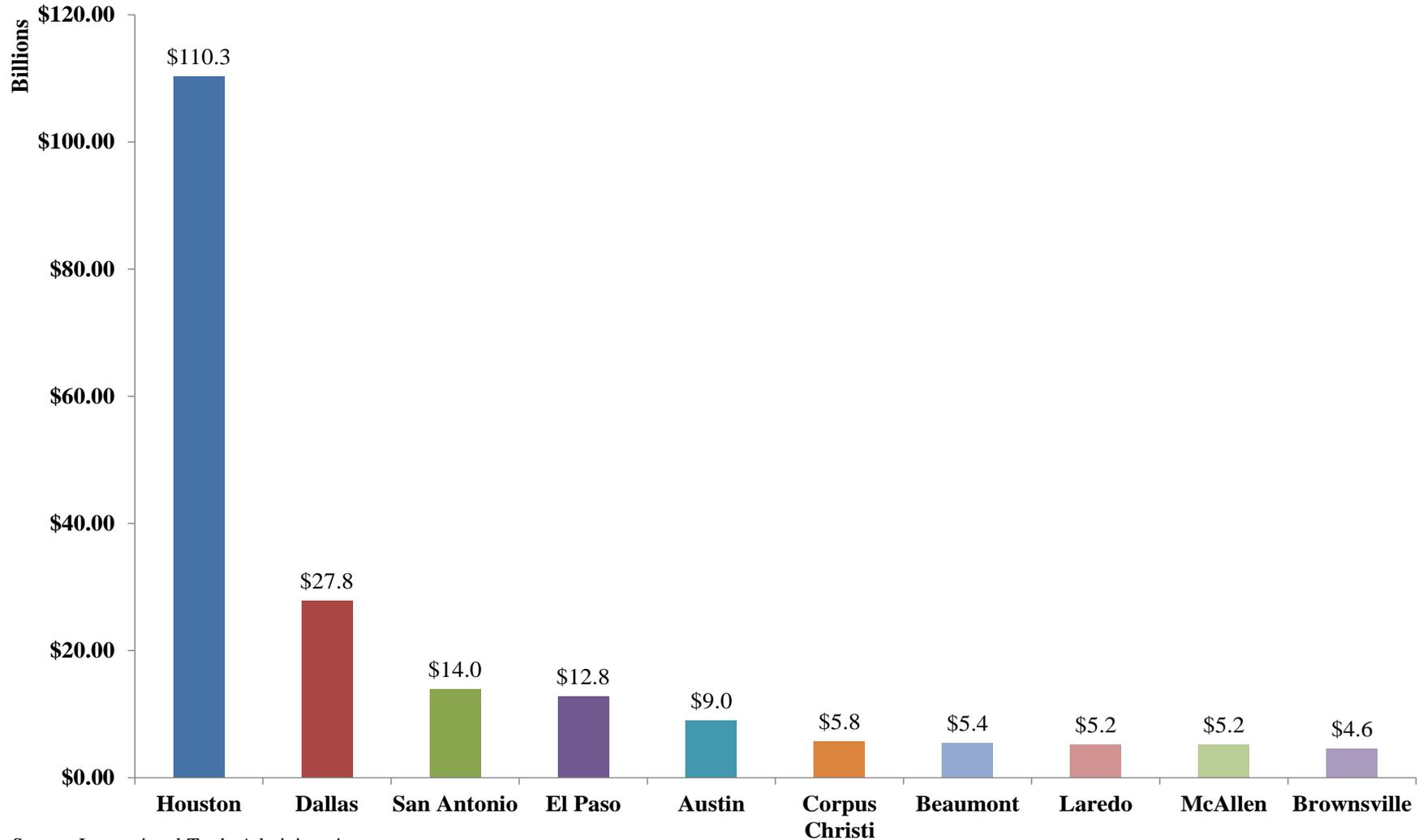
# Texas' top five ports of entry

	Total land trade, 2012 \$ billions	% of total U.S.-Mexico land trade
Laredo	168.8	40.9%
El Paso	66.9	16.2%
Hidalgo/Pharr	26.8	6.5%
Eagle Pass	21.7	5.3%
Brownsville-Cameron	15.4	3.7%
<b>Texas</b>	<b>304.9</b>	<b>73.9%</b>

Source: U.S. Department of Commerce Bureau of the Census, Foreign Trade Division



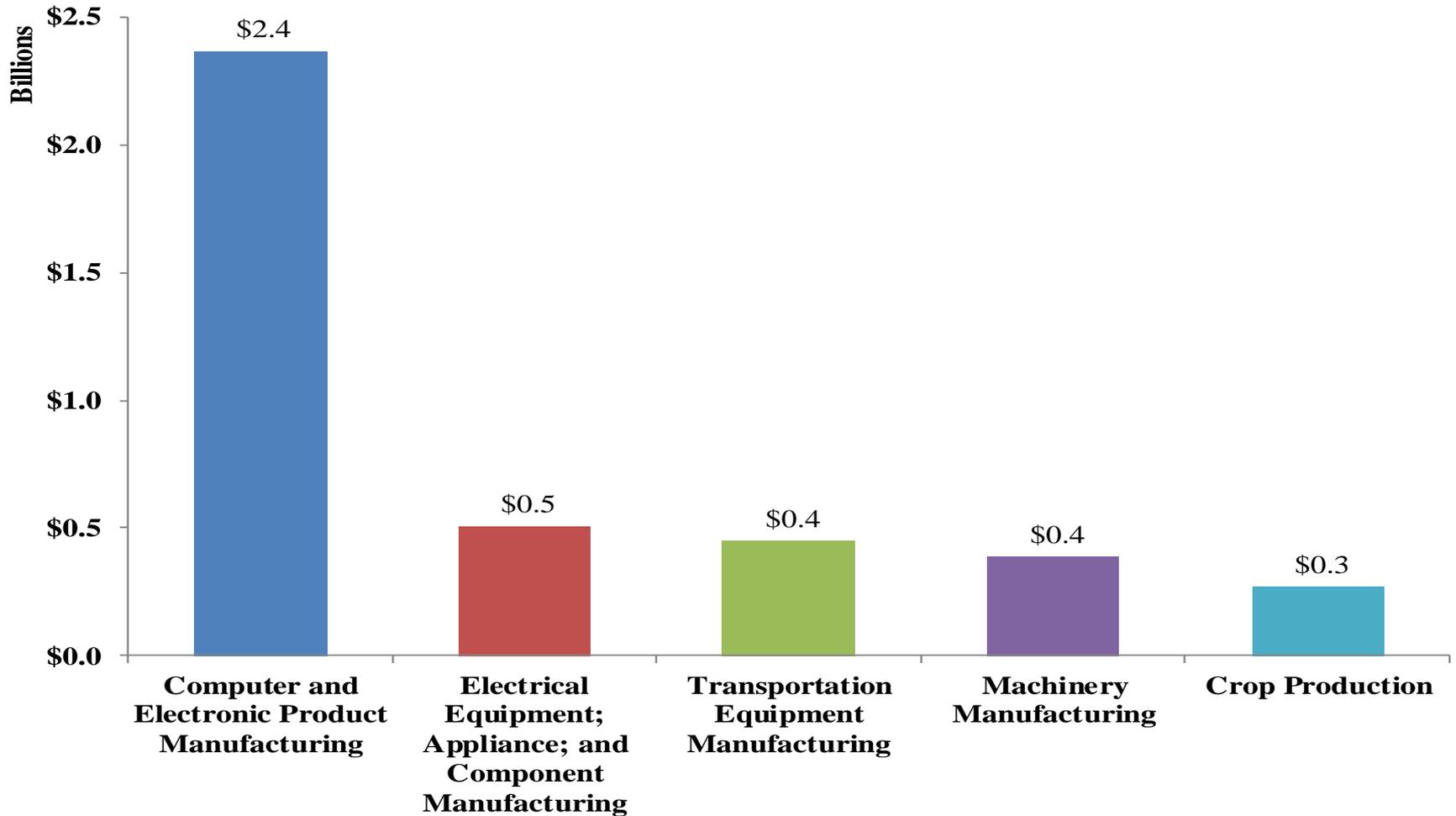
# Top exporting Texas MSAs, 2012



Source: International Trade Administration



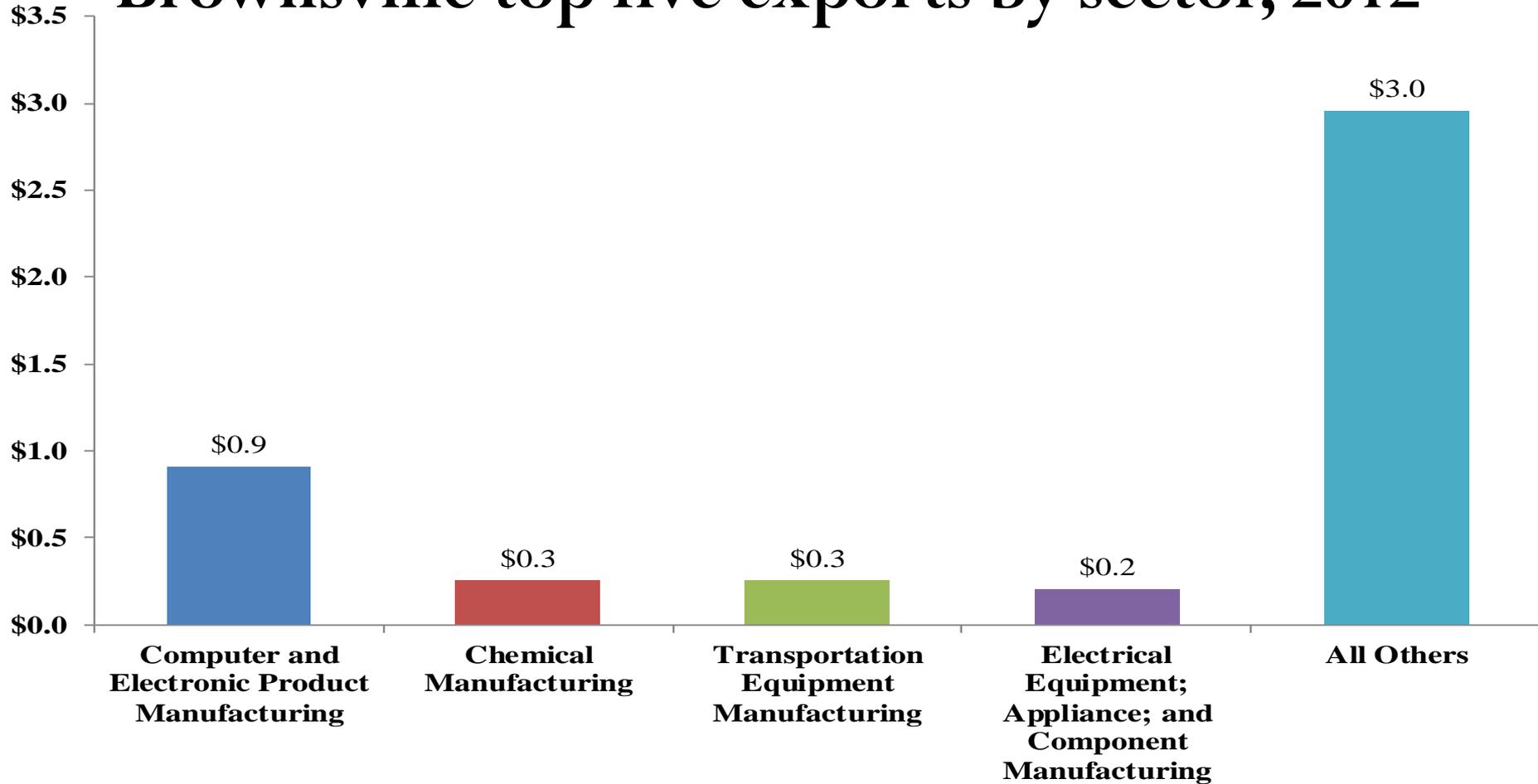
# McAllen top five exports by sector, 2012



Source: International Trade Administration



# Brownsville top five exports by sector, 2012

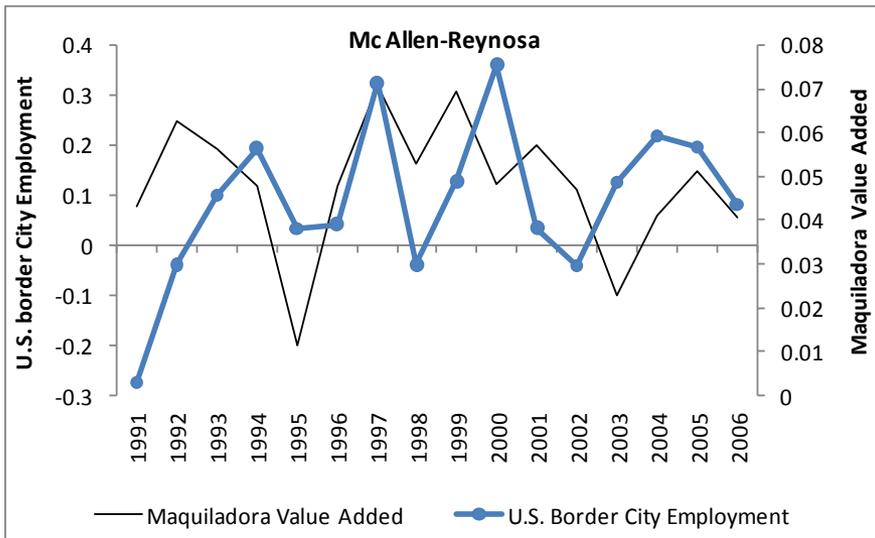


Source: International Trade Administration

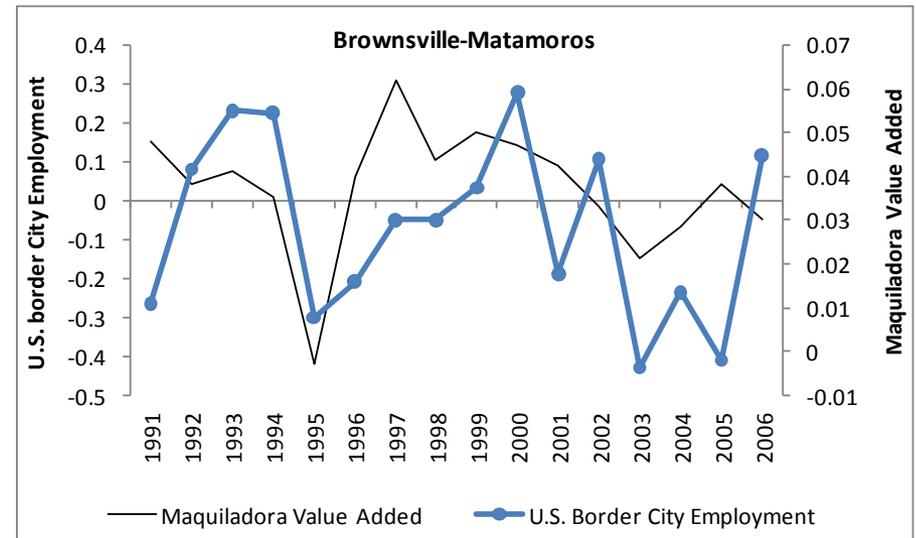


# RGV–Mexico border synchronization

## Mc Allen-Reynosa



## Brownsville-Matamoros



**Notes:** Charts show nonfarm employment annual growth rates (left-axis) for U.S. border cities and maquiladora value-added annual growth rates (right-axis) for Mexican border cities, for the period 2000-2006.

**Sources:** U.S. Bureau of Labor Statistics and Instituto Nacional de Estadística Geografía e Informática.



# Maquiladoras impact by border city

- 10 percent increase in maquiladora output leads to an increase in the adjacent U.S. city as follows:
  - 2.2 percent increase in total employment in Brownsville
  - 6.6 percent increase in total employment in McAllen



# Maquiladoras are quite important for Texas border cities

	McAllen	Brownsville
City Level	6.58*	2.21
Construction	4.04*	1.29*
Manufacturing	1.64	0.66
Transportation	<b>6.63*</b>	<b>4.6*</b>
Wholesale	4.01*	0.84
Retail	3.21*	1.34*
Finance, Insurance and Real Estate	<b>4.63*</b>	<b>0.64</b>
Business, Professional and Personal Services	<b>7.38*</b>	<b>3.89*</b>

**Notes:** This table shows elasticity estimates. That is the table shows the percentage increase in local employment from a 10 percent increase in maquiladora production for each Texas Border Cities. \* indicates significant at the 10% level.

**Source:** J. Cañas, R. Coronado, R. Gilmer, E. Saucedo (2013) “The Impact of Maquiladoras on U.S. Border Cities”, *Growth and Change*, 44(3) 415–42.



# Cross-border retail activity

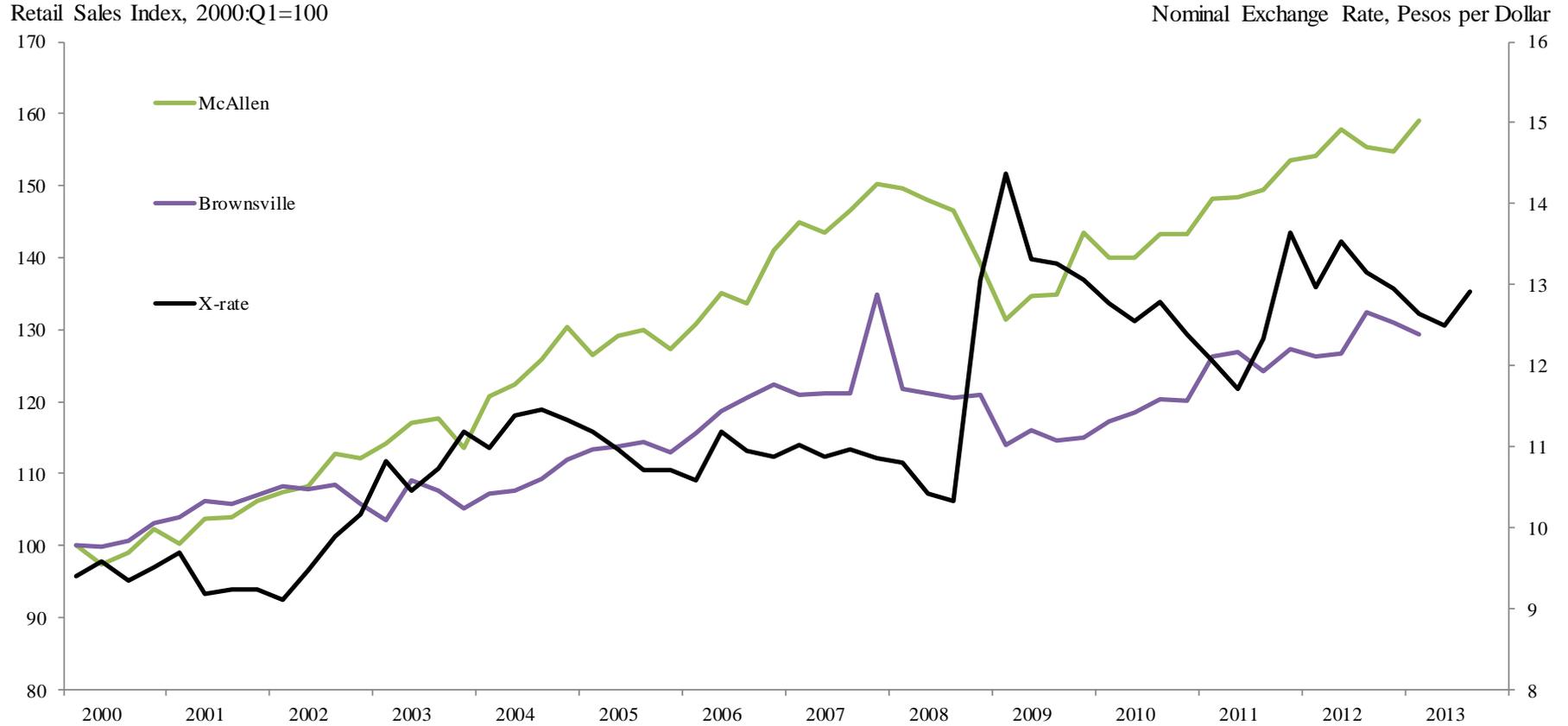
- Mexican citizens logged 72 million border crossings into Texas in 2012.
- On average, Mexican nationals spend around \$4.5 billion per year in Texas border retail

McAllen	35-40 percent
Brownsville	30-35 percent

- Peso dollar exchange rate fluctuations significantly influence cross-border shopping activity



# Real retail sales are responsive to the Peso-Dollar exchange rate



Sources: Texas Comptroller of Public Accounts; seasonal and other adjustments by the Federal Reserve Bank of Dallas



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# RGV economy in transition

- Employment migrating from manufacturing to services

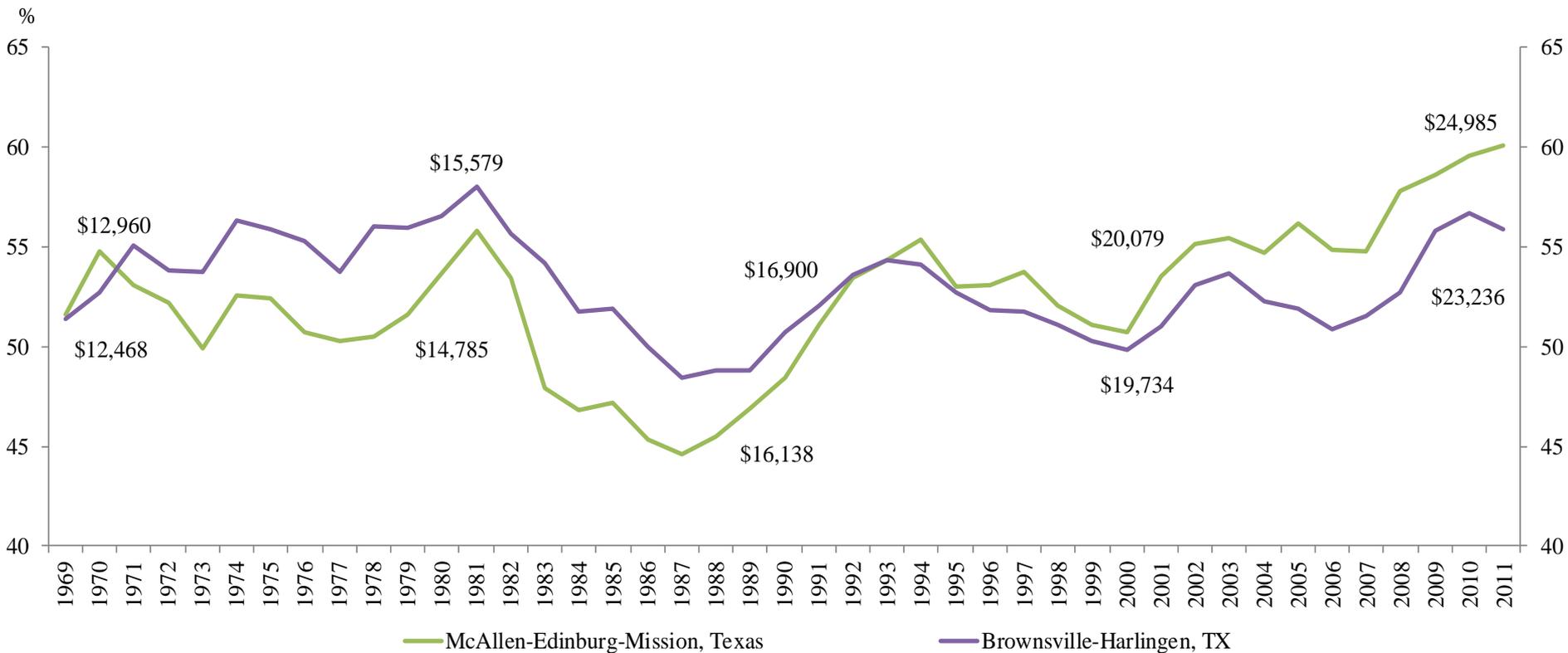
	1990 Mfg.	2011 Mfg.	1990 Services	2011 Services
McAllen	14%	3%	74%	87%
Brownsville	16%	4%	76%	88%

- Source: Bureau of Economic Analysis Per capita income closing gap with national levels



# Per capita income in RGV, 1969-2011

(As a share of the US level)



Source: Bureau of Economic Analysis



# Percentage-point contribution to border-city earnings growth by selected industries, 2001-2010

	Brownsville	McAllen	US
Manufacturing	-6.9	-4.4	-7.3
Health Care	8.8	11.2	4.6
Retail	-0.3	0.2	-1.6
Cross-Border Trade	6.5	5.6	5.2
Transportation	0.1	0.7	-0.2
<b><i>Services</i></b>	<b><i>6.0</i></b>	<b><i>4.8</i></b>	<b><i>5.1</i></b>
Federal Civilian	0.4	0.1	0.3
<b>Total Earnings</b>	<b>5.0</b>	<b>6.8</b>	<b>2.7</b>

Source: *Crossroads* Issue 2: July 2012; Federal Reserve Bank of Dallas, El Paso Branch



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# Clouds ahead....

- U.S. recovery continues to be modest
- Mexico's economy is experiencing a slowdown
- Government budget issues have strong implications to the RGV economy



# ...brighter future!

- RGV continues to grow
- Private sector is doing well
- RGV has been attracting higher paying jobs
- RGV is closing the gap on per capita income
- RGV needs to capitalize on its unique and strategic location
- Education is critical for the RGV future!



# The Economy of the Rio Grande Valley

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