

Border Cities Miss Texas Economic Upturn

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Employment growth along the Texas–Mexico border slowed in 2017, as the region dealt with the cross-currents of the strong U.S. economic expansion and a pickup in Texas activity, along with a slowing Mexican economy and weaker peso.

Overall, employment grew 1.5 percent in border metros—El Paso, McAllen, Laredo and Brownsville. The rise amounted to a net increase of about 11,700 net new jobs in 2017, down from the previous year's gain of 14,800. Employment activity ranged from a 0.5 percent contraction in Brownsville to a 2.4 percent expansion in McAllen.

Statewide, excluding border metros, employment grew a healthy 1.9 percent—above the 2016 rate of 1.2 percent (*Chart 1*).

About two-thirds of border employment falls in three broad sectors: government; trade, transportation and utilities; and education and health care services. Government employment was little changed in 2017, while retail and wholesale trade, transportation and utilities jobs declined 1.4 percent. Employment growth in education and health care services, which paced border job gains in recent years, reached 3.9 percent in 2017, down from 4.6 percent in 2016.

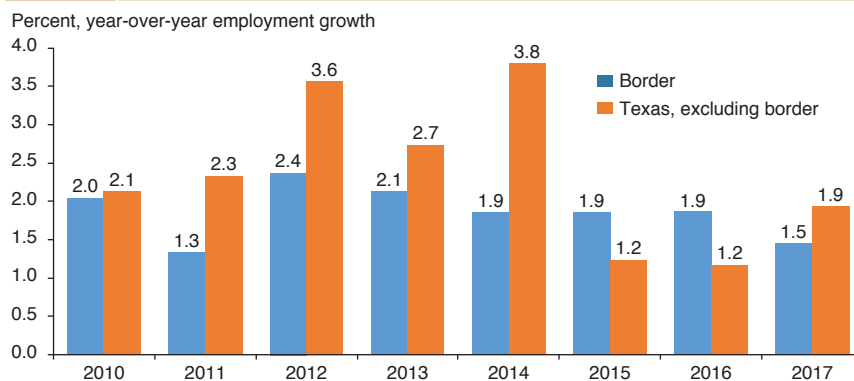
By comparison, all major sectors posted employment increases elsewhere in the state. The border's divergent performance suggests that its proximity to Mexico may be a factor.

Slowing Retail Activity

U.S.–Mexico border cities are linked in many ways, but one of the main connections is through retail trade. Mexican citizens spend more than \$4.5 billion annually on food and retail items in Texas border metros.¹

Mexican purchasing power eroded in late 2016 and early 2017 due to a weaker peso relative to the dollar and rising inflation. The peso eventually

CHART 1 Border Employment Growth Trailed State in 2017



NOTE: Measured as December-over-December change.

SOURCES: Bureau of Labor Statistics; Federal Reserve Bank of Dallas; authors' calculations.

recovered and stabilized, but inflation remained high for much of 2017.

The latest data indicate retail sales contracted in the four Texas border metros. Sales activity along the border fell 4.5 percent in third quarter 2017 on a year-over-year basis. Retail sector employment declined 4.6 percent.

By comparison, statewide retail sales rose 6 percent year over year during the same time period.

Increased violence in Tamaulipas, the Mexican state that includes border communities of Matamoros, Nuevo Laredo and Reynosa, may also be a factor. To avoid traveling through troubled areas, some Mexican citizens may have opted out or chosen to fly into Texas' interior cities for shopping excursions.

Trade Policy Uncertainty

Mexican manufacturing activity also has a strong impact on Texas border cities' economies. Increased manufacturing output in Mexican border cities—particularly Ciudad Juárez, Matamoros, Nuevo Laredo and Reynosa—increases employment, especially for business services, in Texas border communities.²

Mexican manufacturing production expanded at its slowest pace in four years in 2017, and hiring by manufac-

turers in Mexico's border cities was either little changed or slowed significantly from previous years.

U.S. trade policy uncertainty may be constraining manufacturing growth and slowing service sector expansion in Texas-border metros. For example, transportation and warehousing, a sector closely linked to manufacturing, contracted by 0.4 percent in fourth quarter 2017.

While Texas anticipates robust activity statewide through year-end, the border region's outlook is less certain given North American Free Trade Agreement talks and Mexico's presidential election on July 1. The uncertainty has led to recent peso volatility. However, the Mexico gross domestic product forecast envisions a bounce-back this year that would aid U.S. border communities.

Notes

¹ Estimates represent net exportable retail sales. For more details, see "Exported Retail Sales Along the Texas–Mexico Border," by Roberto Coronado and Keith R. Phillips, *Journal of Borderlands Studies*, vol. 22, no. 1, 2007, pp. 19–38.

² See "The Impact of the Maquiladora Industry on U.S. Border Cities," by Jesus Cañas, Roberto Coronado, Robert W. Gilmer and Eduardo Saucedo, *Growth and Change*, vol. 44, no. 3, 2013, pp. 415–42.