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EL PASO BRANCH

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A Look at Texas Border Economies

The U.S.–Mexican border stretches almost 2,000 miles, marking the northern boundary of six Mexican states—Baja California Norte, Sonora, Chihuahua, Coahuila, Nuevo Leon and Tamaulipas—and the southern edge of four U.S. States—California, Arizona, New Mexico and Texas. However, the longest stretch of the border—some 1,250 miles through Chihuahua, Coahuila, Nuevo Leon and Tamaulipas—Mexico shares with Texas.

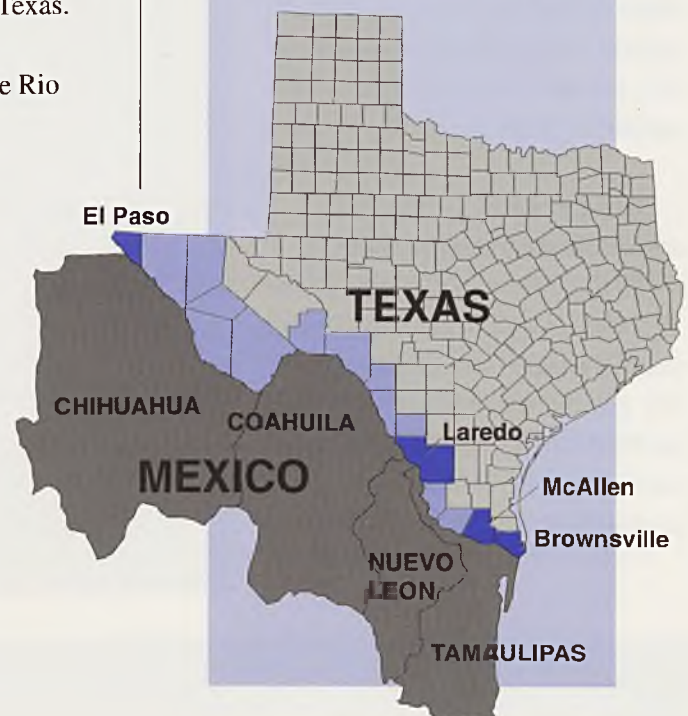
Texas' border region follows the Rio Grande past 16 counties and 53 cities. Four of these cities—El Paso, McAllen, Brownsville and Laredo—have populations greater than 100,000. The economic profiles of these cities show how their proximity to Mexico gives them common characteristics but also influences their differences.

AN ECONOMIC OVERVIEW

El Paso. Located across the border from Ciudad Juarez, Chihuahua, El Paso is the largest of the major border cities, with an estimated population of over 653,000. As shown in Table 1, slightly more than three-quarters of El Paso's labor force was employed in service-producing areas in 1994. Trade represented the largest share of employment within services at 24.3 percent, although most of these

Mexico plays a larger role in explaining Laredo's economic performance than El Paso's since El Paso enjoys a more diverse economy.

Texas Border Region



jobs—19.2 percent—were in retail.

In 1994, government and general services contributed almost equal shares of total employment, with 21.6 percent and 20.8 percent, respectively. Transportation, with a 5.2-percent employment share, was El Paso's next most important industry, followed by finance, insurance and real estate (the FIRE category), which employed 3.7 percent of El Paso's labor force last year. Nearly one-fourth of El Paso's workers were in goods-producing sectors in 1994, while one-fifth worked in manufacturing.

El Paso, like most border cities, has been characterized over the years by double-digit unemployment rates. In recent years, however, the city's unemployment rate has slowly dropped. In 1994, for example, El Paso's unemployment rate was just under the two-digit range at 9.9 percent. This figure is down from 10.1 percent in 1993 and 10.8 percent in 1992.

So far in 1995, the monthly unemployment rates have been in single digits. In fact, El Paso has had 10 consecutive months of single-digit unemployment from August 1994 (9.2 percent) through May 1995 (8.7 percent). Chart 1 shows monthly unemployment rates for the major border cities.

Table 1

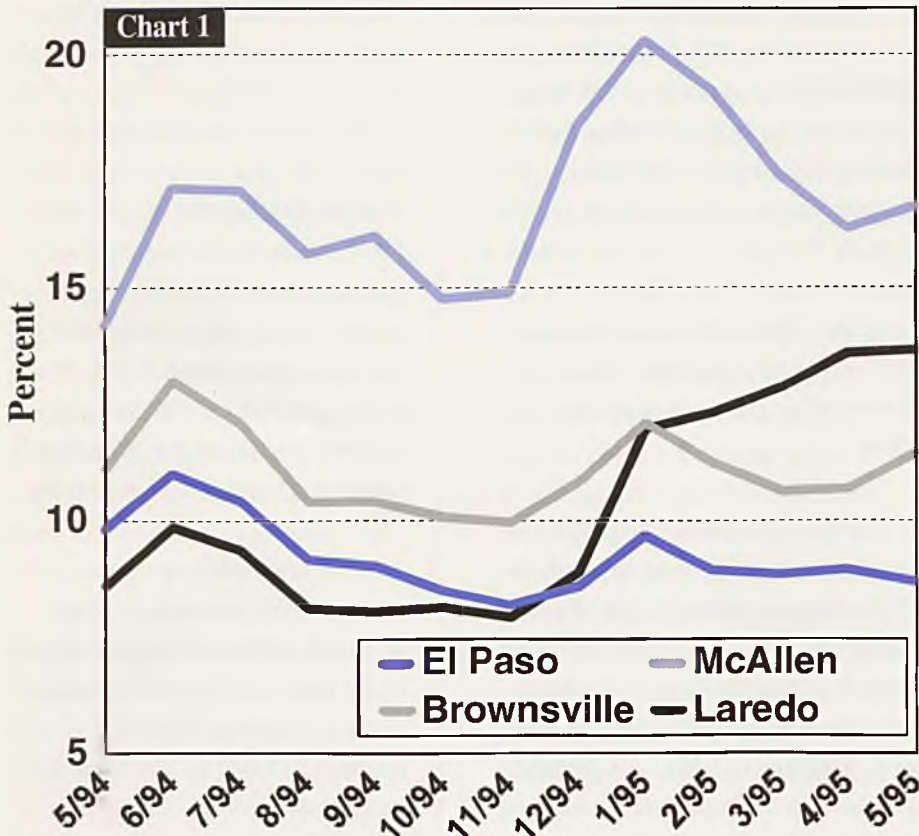
Texas Border Economies Major Metropolitan Statistical Areas (MSAs) 1994

	EL PASO	McALLEN/ Edinberg/ Mission	BROWNSVILLE/ Harlingen/ San Benito	LAREDO
Population	653,088	433,088	286,256	150,730
Civilian Labor Force	282,533	178,617	121,509	66,570
Total Employment	254,615	149,720	107,538	60,666
Nonagricultural Employment (% Share of Total)	230,100	117,300	90,000	56,300
Goods-Producing	24.4	16.3	17.6	11.4
Manufacturing	20.4	11.0	14.7	3.0
Durable Goods	6.5	2.2	5.1	1.4
Nondurable Goods	13.9	8.8	9.6	1.6
Construction and Mining	4.0	5.3	2.9	8.3
Service-Producing	75.6	83.7	82.4	88.8
Transportation and Public Utilities	5.2	3.5	4.4	16.3
Trade	24.3	30.0	26.2	30.0
Wholesale Trade	5.2	5.5	4.2	5.0
Retail Trade	19.2	24.6	22.0	25.2
Finance, Insurance, Real Estate	3.7	3.6	3.9	3.7
Services	20.8	19.2	24.4	16.9
Total Government	21.6	27.6	23.4	21.8
Federal	3.9	1.6	1.6	2.1
State and Local	17.7	26.0	21.9	19.9
State	2.7	3.2	3.9	2.1
Local	15.0	22.8	18.1	17.8
Unemployment Rate (%)	9.9	15.9	11.4	8.8
1993 Per Capita Income (PCI)	\$12,790	\$10,085	\$11,042	\$10,757
TEXAS	\$19,145			
UNITED STATES	\$20,800			

SOURCES:

- Population figures are estimates by the Texas Comptroller of Public Accounts.
- All employment data are from the Texas Employment Commission.
- Per capita income figures for the MSA's are the latest available from the Texas Department of Commerce.

Unemployment Rates



SOURCE: Texas Employment Commission.

The most recent figures available show that in 1993, El Paso's per capita income (PCI) was \$12,790, a 2.5-percent gain over 1992. In the longer 1988-93 period, El Paso's PCI came up by nearly 26 percent. This improvement, however, was below the near 30-percent PCI gain for Texas as a whole for the same period.

McAllen, Brownsville and Laredo. East of El Paso and across

from the state of Tamaulipas are Texas' three other major border cities: McAllen, with an estimated population of over 433,000; Brownsville, with a population above 286,200; and Laredo, the smallest of the four cities, with a population of over 150,000.

As Table 1 shows, these three cities had a higher concentration of workers than El Paso in service-producing areas in 1994: nearly 84

percent in McAllen, around 82 percent in Brownsville and almost 89 percent in Laredo. In addition, trade represented a larger share of employment within services than in El Paso. Brownsville's trade employment share was 26 percent last year, while McAllen's and Laredo's stood at 30 percent each.

This pattern of higher trade employment relative to El Paso held for retail trade. Brownsville's retail employment represented a 22-percent share of its total, while McAllen's and Laredo's shares were around 25 percent. In contrast, less than 20 percent of El Paso's work force was employed in retail trade.

Employment in transportation and public utilities represented relatively small shares of total employment for El Paso (5.2 percent), McAllen (3.5 percent) and Brownsville (4.4 percent). However, this category played a much larger role in the economy of Laredo, contributing 16.3 percent of total employment.

In goods-production categories, both McAllen and Brownsville had important shares of employment in manufacturing, 11 percent and 14.7 percent, respectively. El Paso's manufacturing employment represented an even larger share of its total, at 20.4 percent. In contrast, only 3 percent of Laredo workers

***During 1988–93,
Laredo ranked no. 1
in per capita income
improvement among
all cities in Texas.***

had manufacturing jobs last year.

Laredo's unemployment rate in 1994 was the lowest among the four cities. It reached 8.8 percent last year, down from 9.1 percent in 1993 and 9.4 percent in 1992. McAllen and Brownsville, on the other hand, recorded double-digit unemployment rates in 1994 of 15.9 percent and 11.4 percent, respectively. The previous year, McAllen's unemployment rate was lower (15.7 percent), while Brownsville's rate was the same as in 1994.

Laredo's improving record in unemployment has since reversed in 1995. After recording single-digit unemployment rates for all but three months during the 1993–94 period, since the start of 1995, the city has been recording successively higher double-digit unemployment rates. From an 8.9-percent rate in December 1994, unemployment jumped to 12 percent in January, 12.3 percent in February, 12.9 in March and 13.6 percent in April. Laredo's unemployment in May (the latest month available) was 13.7 percent and, though it still showed an increase over the previous month, this rate at least did not show as pronounced a deterioration over April's rate as it had during developments in the first four months.

Recent figures show a similar pattern of unemployment for the other two eastern border cities. Unemploy-

ment rates in McAllen and Brownsville jumped in December and January, came down in February, March and April but went up again in May (*Chart 1*).

In general, unemployment rates at the border are worse than state and national averages. In 1994, while Texas recorded an unemployment rate of 6.4 percent—slightly higher than the national average of 6.1 percent—the *lowest* rate recorded among the four major border cities that year was Laredo's at 8.8 percent.

Like unemployment, per capita income (PCI) shows a bleaker picture in all border cities relative to the state and national averages (*Table 1*). Brownsville PCI reached \$11,042 in 1993, up 3.8 percent over 1992. During the 1988–93 period, the PCI gain for Brownsville was 35.6 percent, higher than El Paso's gain for the same period. McAllen's PCI in 1993 equaled \$10,085, a 2.6 percent increase over 1992. McAllen's PCI gain during 1988–93, at 30.2 percent, was also above El Paso's.

Laredo, with a 1993 PCI of \$10,757, has recorded the greatest improvement over the years in this variable. Thus, while the 1992–93 gain in Laredo's PCI was 2.8 percent, the city came up nearly

43 percent in PCI during 1988–93. In fact, Laredo ranked no. 1 in PCI improvement in this five-year period among all cities in Texas. Brownsville's PCI improvement ranked no. 4, McAllen's no. 11 and El Paso's no. 22.

THE MEXICO FACTOR

As would be expected, border cities have strong economic ties to Mexico. The degree of interdependence with Mexico, however, varies from one city to another and depends on the data and estimates used to measure this relationship.

Mexican economic developments—such as the December 1994 peso devaluation—have had a far-reaching impact on some border indicators.

• Pedestrian Border Crossings.

The number of Mexican pedestrians crossing into Texas is down this year relative to 1994. Due to the peso devaluation, Mexicans' dollar-based purchasing power has contracted at least 50 percent. This has forced them to reduce or even eliminate any purchases of U.S. goods. During the January–April 1995 period, pedestrian traffic into the four major border cities was down 9.6 percent, compared with the year-earlier period.

McAllen showed the worst drop

(15.1 percent), followed by Brownsville (13.1 percent), Laredo (9.4 percent) and El Paso (6 percent). Mexican shoppers who cross into the United States by foot tend to represent lower-income groups relative to the shoppers crossing by car. Thus, the devaluation could be expected to hurt pedestrian Mexican shoppers the most.

• **Retail Sales.** Although actual retail sales data recent enough to measure the peso devaluation's impact are not available, what is available are retail sales rebates. Through the first four months of 1995, retail sales rebates were down 6.8 percent in Laredo, compared with the year-earlier period. Retail sales rebates were down 5.1 percent in Brownsville and 4.6 percent in McAllen but were up 1 percent in El Paso.

Preliminary findings of a Texas A&M International University survey of Laredo retailers show that the peso devaluation had a negative impact on more than 80 percent of the community's retailers. Some 65 percent reported sales drops of 50 percent or more during the months immediately following the devaluation.

In El Paso, retailers in suburban areas reported sales drops of 30 to 40 percent after the peso devaluation. However, downtown retailers, who

The degree of interdependence with Mexico varies from one border city to another and depends on the data and estimates used to measure this relationship.

depend on Mexican shoppers for as much as 99 percent of their business, reported sales drops of as much as 70 to 80 percent. In fact, 50 stores in downtown El Paso have closed since the peso devaluation.

• **North-South Commercial Traffic.**

Southbound commercial traffic has decreased since the peso devaluation, but northbound traffic is up. During January–April 1995, export shipments from Texas into Mexico decreased 14.9 percent by truck and 12.7 percent by rail. By contrast, northbound traffic was up for the

same period: Mexican import shipments into Texas by truck were up 13.5 percent, and rail shipments were up 30 percent. Behind these higher Mexican import levels are two factors: (1) After the peso devaluation, Mexican goods overall are less expensive in the United States and, therefore, demand for them has increased, and (2) Maquiladora products— assembled and manufactured in Mexico but destined mainly for the United States—have gained momentum as maquiladora operations have become more cost-effective in the wake of the peso

devaluation (*See Maquiladora Update on the next page*).

Among Texas' border cities, Laredo handles the bulk of U.S.–Mexican merchandise trade (about 40 percent). Since the devaluation, Laredo has shown the greatest rise in northbound rail traffic (35.1 percent) as well as the greatest drop in southbound loaded-truck traffic (21.6 percent).

• **Employment/Unemployment.**

Obviously, the peso devaluation has *Continued on last page.*

Table 2

Texas Border Employment Major Metropolitan Statistical Areas (MSAs) May 1995

	EL PASO		McALLEN		BROWNSVILLE		LAREDO	
	Thousands	% Change Year Ago	Thousands	% Change Year Ago	Thousands	% Change Year Ago	Thousands	% Change Year Ago
Nonagricultural Employment	238.6	4.1	120.3	1.7	93.1	3.1	55.5	-1.9
Goods-Producing	58.8	5.9	19.8	2.6	16.4	3.8	6.0	-4.8
Manufacturing	48.6	4.7	13.3	1.5	13.7	3.8	1.5	-6.3
Construction	10.2	12.1	5.5	5.8	2.7	3.8	2.0	5.3
Mining	—	—	1.0	0	—	—	2.5	-10.7
Service-Producing	179.8	3.6	100.5	1.5	76.7	3.0	49.5	-1.6
Transportation and Public Utilities	12.5	5.0	4.2	0	4.0	2.6	8.8	-5.4
Trade	57.0	1.8	35.1	-0.3	23.8	0	15.9	-7.0
Finance, Insurance, Real Estate	8.8	3.5	4.3	4.9	3.6	0	2.1	0
Services Miscellaneous	50.8	6.5	23.8	4.8	23.0	3.1	9.7	0
Total Government	50.7	2.4	33.1	0.9	22.3	6.7	13.0	7.4
Unemployment Rate (%)	May 95	May 94	May 95	May 94	May 95	May 94	May 95	May 94
	8.7	10.0	16.7	15.9	11.4	11.7	13.7	8.9

SOURCE: Texas Employment Commission.

Maquiladora Update

Because maquiladora companies in Mexico have dollar-denominated budgets but pay costs in pesos, the overnight effect of the December 1994 peso devaluation for these companies was a substantial reduction in their peso costs. In this sense, the maquiladora industry in 1995 has received a boost through the higher value of the dollar relative to the peso, as evidenced by first-quarter employment numbers.

During January–March 1995, maquiladora employment grew almost 10 percent relative to the year-earlier period (*see table*). Since the beginning of this decade, employment growth in the industry had slowed relative to the 1980s. The available 1995 figures, however, indicate a rebound in the industry so far. Moreover, this latest spurt of maquiladora-employment growth comes at a time when many companies in Mexico are laying off workers and even shutting down operations in the midst of recessionary conditions triggered by the peso devaluation. Official estimates place the number of unemployed workers in Mexico at 2 million since the start of the devaluation. This makes the maquiladora industry's current job creation all the more important.

Border-city maquiladora companies have the largest share in employment (73.2 percent). The Mexican counterparts to Texas' major border cities—Ciudad Juarez (across from El Paso), Matamoros (across from Brownsville), Reynosa (across from McAllen) and Nuevo Laredo (across from Laredo)—employ over 41 percent of the maquiladora industry's workers.

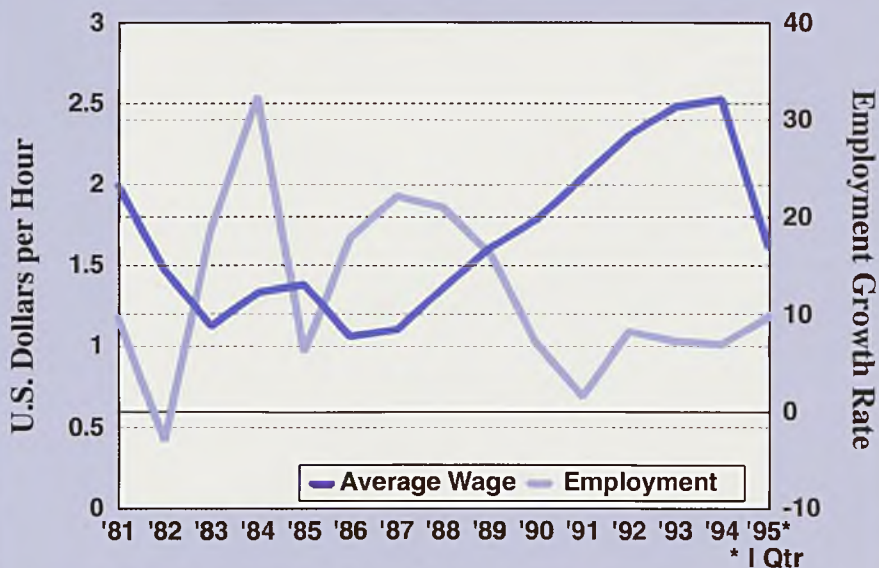
As 1995 dollar-stated maquiladora wages are lower relative to previous years—even when considering the peso-adjustments to wages that came after the devaluation—the industry should continue growing this year. There's a marked inverse relationship

Maquiladora Industry Employment Total and Selected Border Cities

	Jan–Mar 1995	% Change Year Ago	Annual Growth (%)	
			1994	1993
TOTAL	610,053	9.8	6.9	7.2
Juarez	150,566	12.5	6.1	2.2
Tijuana	86,715	5.7	9.8	13.0
Matamoros	44,168	10.7	9.2	0.9
Reynosa	38,905	12.0	12.2	11.1
Mexicali	23,342	19.1	4.2	2.8
Nogales	20,034	9.1	2.7	-1.4
Nuevo Laredo	18,605	12.5	11.5	-3.1

SOURCE: El Paso Branch – Federal Reserve Bank of Dallas with data from the Instituto Nacional de Estadística, Geografía e Informática (INEGI).

Maquiladora Average Wage and Employment



SOURCE: El Paso Branch – Federal Reserve Bank of Dallas with data from the Instituto Nacional de Estadística, Geografía e Informática (INEGI).

between the level of dollar wages in the industry and employment growth (*see graph*). The 1982 and 1986–87 peso devaluations, as well as first-quarter 1995 figures, clearly point to a rebound in employment following a drop in dollar-stated wages.

It's important to keep in mind, however, that the net gain for maquiladoras in 1995 will not equal the rate of devaluation since inflation, especially through peso-wage pressures, will have eroded some of the gains obtained through devaluation.

not struck all border cities equally; the differences in cities' economic structure have led to different impacts. Laredo seems to be the city most vulnerable to Mexican economic developments. According to Texas A&M International University, "Close to 60 percent of the labor force in Laredo is employed in trade, transportation and service activities tied to commerce with Mexico." Indeed, recalling the data in Table 1, Laredo is the least diverse economy of the four major border cities. Also, it can be argued that the deterioration in Laredo's unemployment rates since the beginning of the year is directly related to the Mexican crisis. The flip side to this also holds true for Laredo. Before 1995, when the Mexican economy was growing, Laredo consistently maintained a single-digit unemployment rate.

Table 2 shows May 1995 employment data for the four major border cities. Relative to May 1994, total employment contracted only in Laredo. However, both McAllen and Laredo lost trade-related jobs, while Brownsville showed no gain. El Paso managed to show positive growth in trade-related employment, but this gain was the lowest in any sector of the city's economy.

Both El Paso and Brownsville recorded important growth in manufacturing. McAllen's gain in this sector was lower but still positive. Laredo, which has a low concentration of workers in manufacturing, lost jobs in this sector.

Construction employment picked up in all cities but was especially robust in El Paso (12.1 percent). This may, in

part, be due to the greater warehousing, distribution and manufacturing needs associated with Mexico's thriving maquiladora industry. All four cities have a strong maquiladora presence across the border, but El Paso sits across Ciudad Juarez, which has the largest concentration—about one-fourth—of maquiladora employment in Mexico.

CONCLUSION

The extent to which the Mexico factor plays a role in the performance of border indicators differs according to each city and, in any case, cannot be fully measured. Mexico is more of a factor in Laredo's economic performance than El Paso's, for example, since El Paso enjoys a more diverse economy. However, even if a precise gauge of Mexican economic impact across border cities were unobtainable, it is safe to say at this point that Laredo's economy—to the extent it is more in tune with Mexico's—may stand to benefit the most as Mexico recovers.

— Lucinda Vargas
Economist

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