Southwestern New Mexico—anchored by such cities as Las Cruces, Alamogordo, Deming, Ruidoso, and Truth or Consequences—is a rapidly growing, highly diverse region that has outperformed the larger nearby metro areas of El Paso and Albuquerque in recent years.

The Bureau of Economic Analysis divides the United States into 179 areas, each consisting of a single node that serves as the center of economic activity, plus five or more counties linked to the node through daily commuting patterns and newspaper readership. Chart 1 shows the BEA area that encompasses six counties in Southwest New Mexico, all satellites for the hub in El Paso. El Paso County and two other Texas counties—Culberson and Hudspeth—are also included in the area.

El Paso County (population 710,000) and Doña Ana County (185,000) are single-county metropolitan statistical areas, or MSAs, that share a border on the Texas–New Mexico line. Based on both 2004 population and personal income, the El Paso MSA constitutes about 68 percent of the BEA-defined area and Las Cruces another 18 percent. In third place is Otero County (home to Alamogordo), with 6 percent, leaving 8 to 9 percent for the remaining six counties.

Las Cruces and Doña Ana County dominate Southwest New Mexico, with 55 percent of the population and 57 percent of personal income. But El Paso, only 45 miles from Las Cruces, remains the regional center.

**Economic Drivers**

A list of the key drivers for the Southwest New Mexico economy must include the following: education, defense, agriculture, regional crossroads and distribution center, bedroom community for El Paso, and a recent housing boom fed by relocations from across the country. This diversity, uncommon for a small economy, has been key to the region’s history of stable and steady growth. Education and defense have made notable, specific contributions to stability and generated large numbers of well-paid jobs.
The region is home to two state-supported universities: New Mexico State University in Las Cruces and the much smaller Western New Mexico University in Silver City. NMSU is among the region’s largest employers, with 16,000 students, 700 faculty, 3,400 staff, $500 million in annual revenues, and $135 million in research and public service. Western New Mexico University’s 2005 enrollment was 2,500.

Also among Southwest New Mexico’s biggest employers are Hollomon Air Force Base in Alamogordo (6,500 military and civilian workers) and White Sands Missile Range in Doña Ana County (5,600). Not far away in El Paso, Fort Bliss has 18,600 workers, making it the largest single employer in the BEA region shown in Chart 1.

The importance of these three military installations to the area is illustrated by some recent numbers from the University of Texas at El Paso. Combined, the three bases directly or indirectly account for 23 percent of the region’s wholesale and retail sales; $1 of every $8 of personal income is attributable directly or indirectly to these facilities. Loss of the bases would cut regional municipalities’ tax revenues by $195 million.

Military-base stability can be interrupted by troops coming and going during wartime or, more fundamentally, by base realignment. After reviews in 1988 and 1993, the Base Realignment and Closing Commission recommended many major changes in military facilities across the U.S. After the most recent study was completed last year, recommendations went to Congress in September and were approved in November.

The 2005 realignment leaves the number of personnel at Hollomon and White Sands essentially unchanged. Fort Bliss in El Paso, however, will see a net increase of 11,000 troops (an armored division from Germany), which will mean billions of dollars in spending for Fort Bliss and nearby infrastructure. Southwest New Mexico could be affected as this construction—or new building in a dramatically tighter El Paso housing market—begins to compete with the red-hot Las Cruces homebuilding market.

**Distribution and Agriculture**

The historical basis of the Southwest New Mexico economy is as a regional crossroads and distribution center and an agricultural hub. This is where the southern pass through the Rocky Mountains met the Camino Real that linked Mexico City to Santa Fe. Today, it is (less romantically) where Interstate 10 meets Interstate 25.

The convergence of major highways and distribution center role for nearby smaller communities, combined with tourism, make Doña Ana County an important destination. As a result, Las Cruces has 66 percent more local income generated by gasoline stations than the typical U.S. city, 62 percent more by repair and maintenance businesses, 55 percent more by general-merchandise retail, 35 percent more by auto dealers and auto parts stores, 34 percent more by restaurants, and 34 percent more by health care and social assistance.

Regional agriculture is also increasingly focused on Doña Ana County, where recent years have seen cotton, onions and tomatoes give way to chilies, pecans, grapes and pistachios. Agriculture generated 2.6 percent of New Mexico personal income in 2004. Doña Ana County, in contrast, earned 7.1 percent of personal income from farm labor or ownership, while the other five Southwest New Mexico counties were well below the state share at only 1.6 percent.

Chart 2 shows how irrigation, mechanization, economies of scale and movement to higher
value products have worked in favor of Doña Ana County, allowing it to capture 90 percent of inflation-adjusted farm income in the six-county area by 2004. Note that most of the gains came in the 1980s, however, and that agriculture has not been a significant growth source in recent years. Despite the swing in income to Doña Ana County, the split in farm employment between it and the other five counties has remained near 50–50. The result is that the average Doña Ana County farmworker and owner earn significantly more than workers in other industries—a trend unseen elsewhere in New Mexico or the U.S.3

**Ties to El Paso**

Doña Ana County serves as a bedroom community for many people who hold jobs in El Paso. In 1970, the Census Bureau counted only 803 such commuters, but by 2000 the number had grown to 10,441, or 13.8 percent of all Doña Ana County’s commuters. This makes El Paso County the largest employer for the Las Cruces MSA. Most of these commuters are probably from the southern part of the county, rather than the Las Cruces area. The ongoing residential development of Santa Teresa, N.M., plus the industrial expansion to take advantage of the Santa Teresa–San Jerónimo border crossing, seems certain to continue the trend toward greater integration of El Paso and Doña Ana counties. Under current rules for defining a metropolitan area, the two neighboring counties would become a single metro area when the commuter interchange reaches 25 percent.4

This growing dependence on El Paso jobs injects a new element of instability into Southwest New Mexico. Since 1980, the U.S. has had three recessions (1982, 1990 and 2001), but El Paso has experienced six significant downturns—in 1982, 1986, 1990, 1995, 2001 and 2003.5 This volatility is not surprising, given El Paso’s roots in the low-wage garment and leather industries and its growing ties to the Mexican maquiladora industry. Mexico’s influence has always been strong, with around 11 percent of local retail sales made to Mexican shoppers. And as low-wage apparel manufacturing has declined, the development of many suppliers to the maquiladora industry has brought El Paso new factory jobs in plastic-injection molding and metal stamping. For example, El Paso’s 1995 decline was strictly an import, resulting from the Mexican financial crisis and a deep devaluation of the peso.

**Housing**

Las Cruces has been discovered by the outside world in recent years. Like the winner on *American Idol*, Las Cruces has become famous almost overnight, appearing on numerous lists of the best places to live, start a small business or retire. This fame has spread with the rising tide of homeowners who have cashed out of markets where values have risen steeply (mostly on the East and West coasts) and moved to cities with lower housing prices. Las Cruces is clearly high on the list of low-cost housing markets that offer a relaxed lifestyle like California’s, but without the price tag.

Chart 3 shows the number of single-family permits issued per thousand population in Albuquerque, El Paso and Las Cruces. Tech-rich Albuquerque led much of the 1990s with six to seven permits per thousand, while El Paso and Las Cruces issued between four and six. Las Cruces rocketed upward starting in 2001, issuing 12 permits per thousand by 2005.

Chart 4 shows the value of the typical single-family permit in the three major cities, divided by median family income. The resulting ratio is a measure of affordability, and for El Paso and Albuquerque, it stays near 2 from 1999 to 2005. For Las Cruces, it starts above 3, then rises to near 5. This indicates the city’s housing boom is not driven by local money but by relocations from much more expensive markets.

The result has been an increase in construction-related jobs and income throughout Southwest New Mexico. Be-
tween 2001 and 2005, construction employment rose 8.4 percent in the U.S., 11 percent in Albuquerque and 3.5 percent in El Paso. It jumped 29.8 percent in Doña Ana County and 37.9 percent in the six-county region. The rise in construction-related income was even more dramatic: up 51.7 percent in Doña Ana County and 62.4 percent in the region. This construction boom was doubtlessly a significant element in Las Cruces’ continued economic strength, while Albuquerque succumbed to the tech bust of 2001 and El Paso to a double-dip manufacturing recession.

The question of whether housing bubbles elsewhere are stirring up froth in Las Cruces begins to cool and overheated housing markets that have driven past relocations begin to see stable or even declining prices ahead. Many relocations are without doubt strictly driven by Las Cruces’ reputation as a nice place to live, work or retire. But how big is the equity-driven component?

Even if the Las Cruces market cools significantly, leaving a hole in the Southwest New Mexico construction market, El Paso may be able to pick up the slack. The pending arrival of 11,000 new troops at Fort Bliss has left the city’s housing market strained at the seams. New Mexico construction workers may simply drive a few extra miles to work.

—Robert W. Gilmer

Gilmer is a vice president and senior economist at the Federal Reserve Bank of Dallas.

Notes


2 These calculations are based on the use of location quotients, or concentration ratios. For an explanation and example of this simple measure, see “The Texas Triangle as Megalopolis,” by Robert W. Gilmer, Federal Reserve Bank of Dallas Houston Business, April 2004.

3 Throughout New Mexico, the typical farm proprietor earned $32,343 in 2004 and the farmworker $30,832. In Doña Ana County, the figures are $76,640 and $58,559, respectively.

4 Commuting from El Paso County to Doña Ana County involved only 4,675 people in 2000, or less than 2 percent of El Paso commuters.

5 An index of coincident economic activity for El Paso, which tracks the business cycle for the metropolitan area since 1978, can be found at www.dallasfed.org/data/data/elpcoini.tab.htm.