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Borderplex Business Barometer, Volume 1, Number 5

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BORDERPLEX BUSINESS BAROMETER

May 2017

Border Region Modeling Project

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Border Commerce & Economics

Borderplex Business Barometer, Volume 1, Number 5

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A Momentary Pause?

The Metropolitan Business Cycle Index, produced by the Federal Reserve Bank of Dallas, indicates that the El Paso economy continues to grow at a steady pace. The El Paso Household Economic Stress Index also signals stable conditions in the local economy. The unemployment rate in El Paso County in March 2017 was 5.3 percent, relatively low by historical standards, but slightly above the unemployment rate observed one year ago. Another sign that the local economy is doing relatively well is that Supplemental Nutrition Assistance Program (SNAP) enrollment has decreased in recent months.

The median home price in El Paso County grew to \$144,975 in March from \$137,850 a year earlier. The number of months of housing inventory has recently declined to levels not seen since 2006. Local real estate data suggest that the demand for housing has increased relative to the existing supply. Similar dynamics appear to be at work in the gasoline market. The average price of gasoline in El Paso was \$2.26 per gallon in April 2017, compared to \$1.92 per gallon in April 2016.

Economic conditions in Las Cruces continue to lag behind the nation. The unemployment rate in Doña Ana County was 7.5 percent in March 2017, roughly the same as in March 2016. Fortunately, Las Cruces area SNAP enrollment has declined for the four most recent months for which data are available.

The real peso-to-dollar exchange rate index reached 140.4 in January, reflecting an exceptional degree of undervaluation. Following a 24-month ascent, the currency index has reverted toward a more plausible level as a result of nominal peso appreciation. Residents of the United States border region will continue to enjoy bargains when buying goods and services in Mexico for the foreseeable future. All categories of northbound international bridge crossings continue to fluctuate near 2015 volumes.

Total imports and exports through the El Paso Customs District spiked in March, but remain below the levels observed during the same period last year after adjusting for inflation. While export-oriented manufacturing employment in Ciudad Juárez continues to increase, expansion in that sector is likely to be somewhat subdued as a consequence of uncertainties regarding future trade relations with the United States.

On the southern side of the border, the Northern Mexico Manufacturing Orders Index increased slightly in February and March 2017 relative to one year earlier. The Chihuahua state economy grew by about 3 percent in 2016. A relatively strong expansion in construction activity was one of the factors underlying general economic growth in Chihuahua. The state's retail sector also prospered in 2016. This is probably at least partly attributable to the undervalued peso, which makes shopping destinations within Mexico appear attractive relative to those in the United States due to lost purchasing power.

International Trade and the Economy of Texas*

Thomas M. Fullerton, Jr. and Adam G. Walke

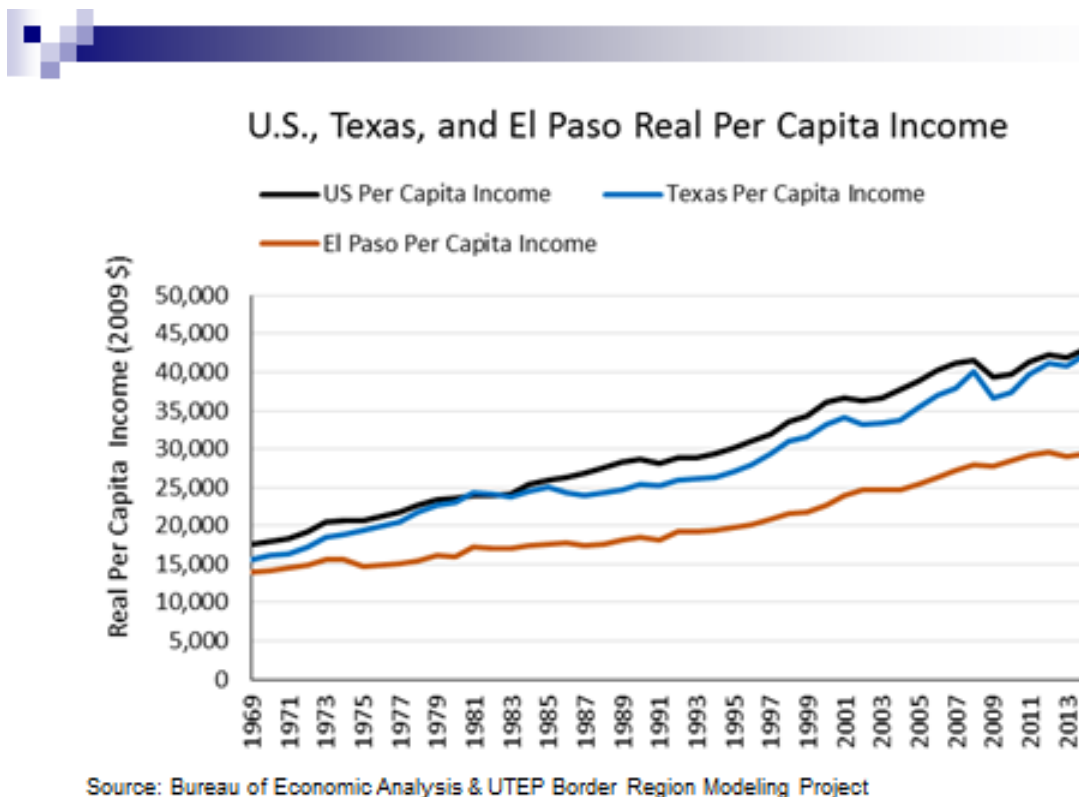
* Reprinted from *BRMP Policy Brief PB17-1*

Acknowledgements

Financial support for this policy brief was provided by El Paso Water, Hunt Companies, City of El Paso Office of Management & Budget, UTEP Center for the Study of Western Hemispheric Trade, and UTEP Hunt Institute for Global Competitiveness. Material in this report is assembled from materials presented as testimony before the Texas House Committee on International Trade & Intergovernmental Affairs regarding trade and a potential border tax in Austin on Monday 24 April 2017. This testimony was provided at the invitation of Texas State Representative César Blanco of District 76 in El Paso. Econometric research assistance was provided by Ernesto Duarte and Omar Solís.

International Trade and the Texas Economy

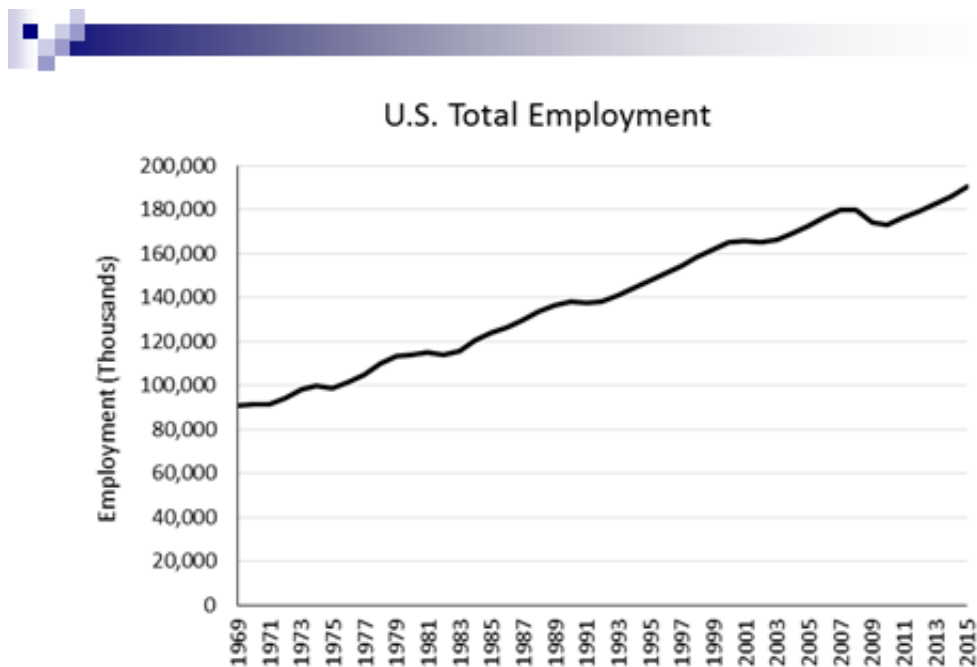
Although many regions of Texas experienced a bumpy transition to the NAFTA era, those difficulties were in large part due to other developments that did not involve the economies of Mexico or Canada, or did not involve international trade policy. Subsequent to the introduction of the North American Free Trade Agreement, no regional economy in the United States has responded more dynamically to the business opportunities fostered by the reduced obstacles to commerce between the three countries. Even after adjusting for population growth and inflation, incomes rose throughout Texas and unemployment rates have declined substantially, especially in border metropolitan economies along the Rio Grande.



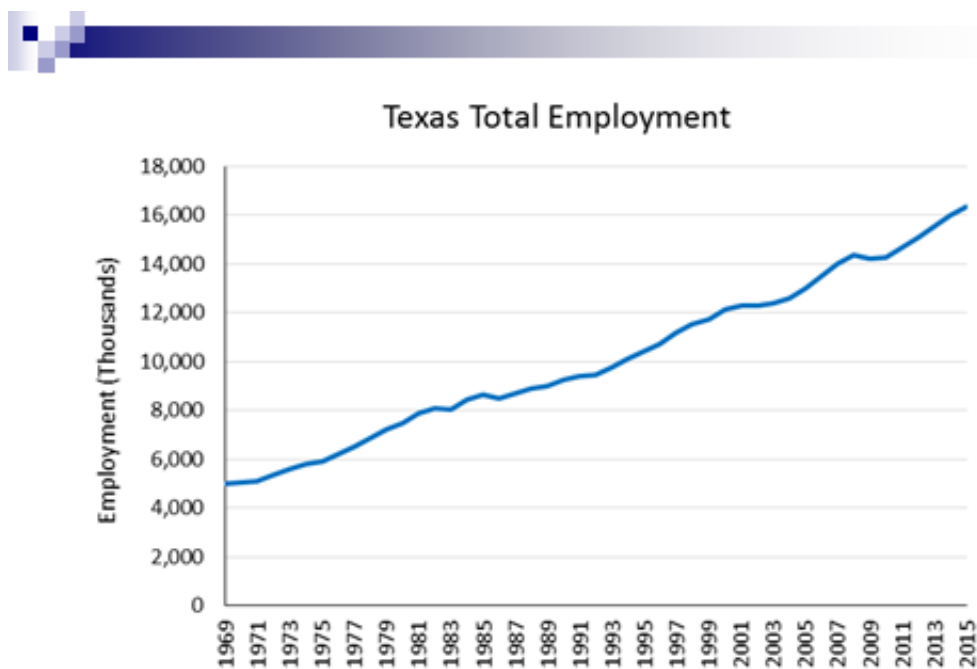
Trade has proven highly beneficial to Texas and the rest of the United States because it allows for greater efficiencies in production, faster rates of innovation, and numerous benefits to households. Regional business opportunities have accrued from greater exports to Mexico such as electronics manufacturing in Austin and San Antonio, petrochemicals in Houston, telecommunications manufacturing near Dallas, fabricated metals production along the border, and transportation in many regions. In fact, Texas employment is higher now than it has ever been and the state unemployment rate is lower now than it was prior to the enactment of NAFTA. That also holds true for El Paso. Agriculture in Texas also benefits enormously from international trade. The top farm and ranching sector exports to Mexico include beef, cotton, sweeteners, and corn.

Manufacturing jobs lost in Texas and elsewhere were sometimes trade related, although generally in conjunction with World Trade Organization changes rather than NAFTA. Many more job losses have occurred as a consequence of technological advances and

greater automation that cause manufacturing output to grow even as payrolls in the sector shrink. That is akin to what has occurred during many consecutive decades in Texas agriculture and elsewhere as farm and ranch employment has declined, but output has increased because sector productivity has strengthened so much. In fact, productivity across all industries in Texas and the nation has increased substantially during the NAFTA era. As a consequence of that very good development, many industries simply require fewer workers to produce more output, but that is not something that can be blamed on NAFTA or the WTO. Not only that, but total employment continues to increase in the USA, Texas, and El Paso.



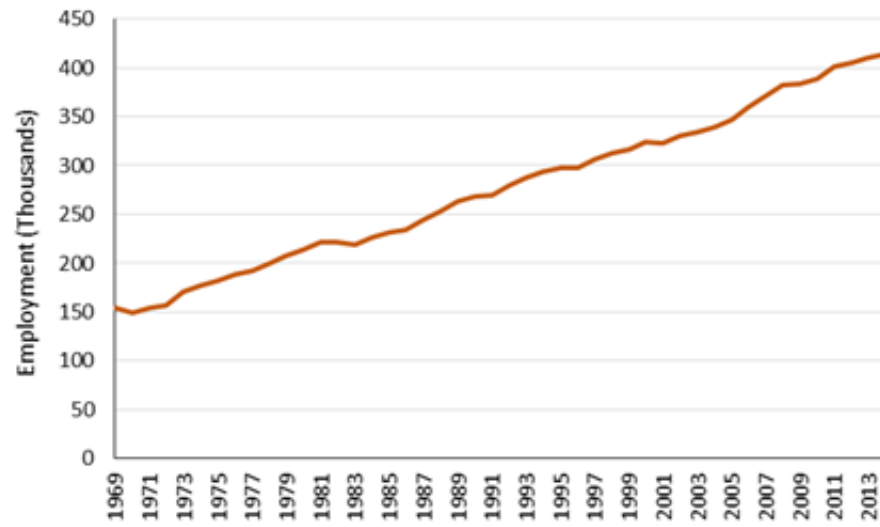
Source: Bureau of Economic Analysis & UTEP Border Region Modeling Project



Source: Bureau of Economic Analysis & UTEP Border Region Modeling Project



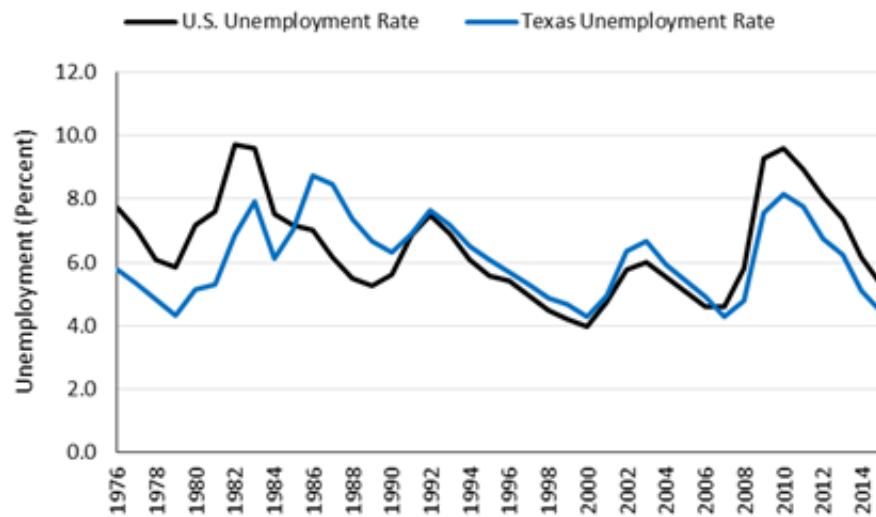
El Paso, Texas, Total Employment



Source: Bureau of Economic Analysis & UTEP Border Region Modeling Project



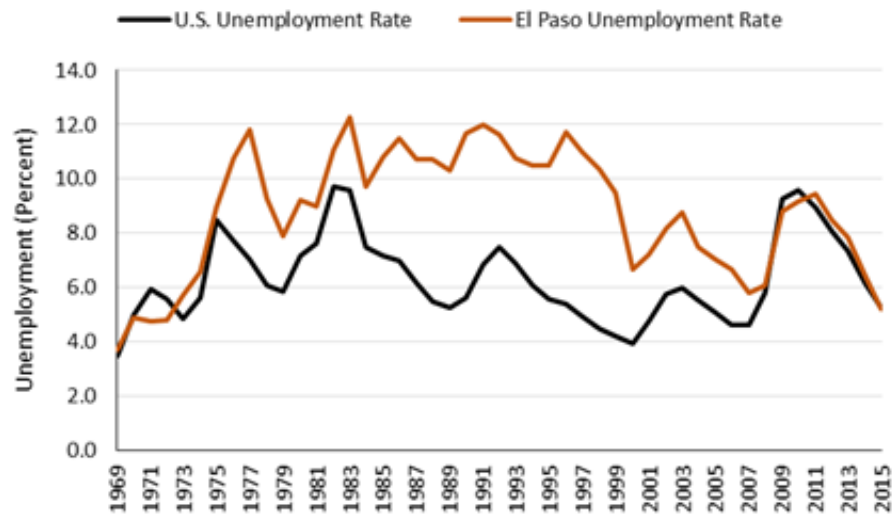
U.S. and Texas Unemployment Rates



Source: Bureau of Labor Statistics & UTEP Border Region Modeling Project



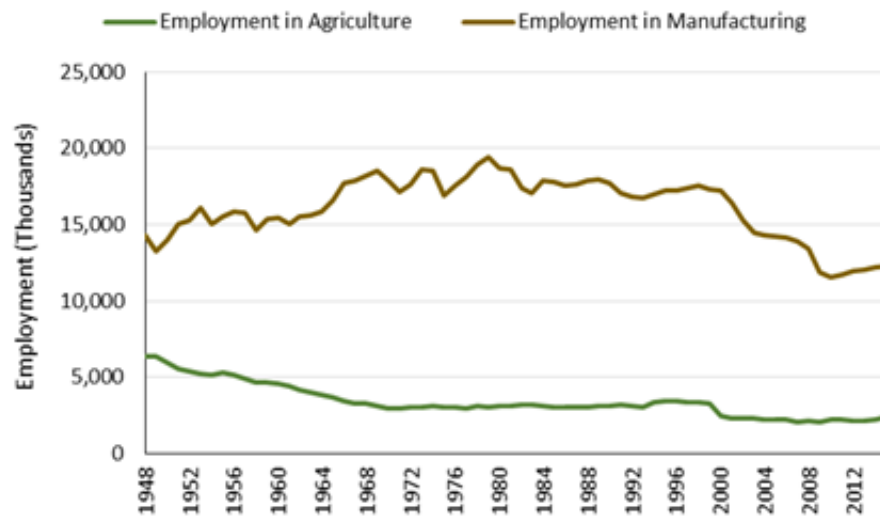
U.S. and El Paso, Texas, Unemployment Rates



Sources: Bureau of Labor Statistics and UTEP Border Region Modeling Project



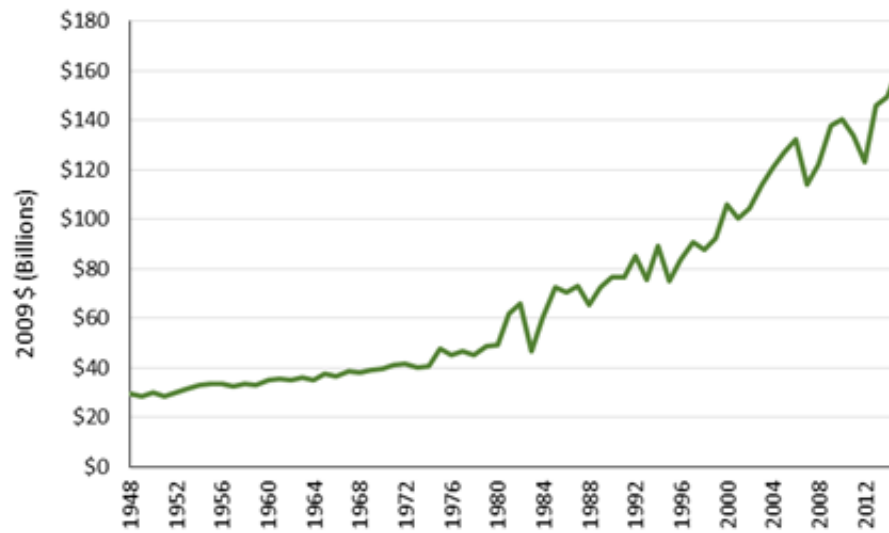
Agriculture and Manufacturing Employment



Source: Bureau of Labor Statistics & UTEP Border Region Modeling Project
Data on U.S. employment in agriculture are from the Current Population Survey and data on U.S. employment in manufacturing are from Current Employment Statistics.



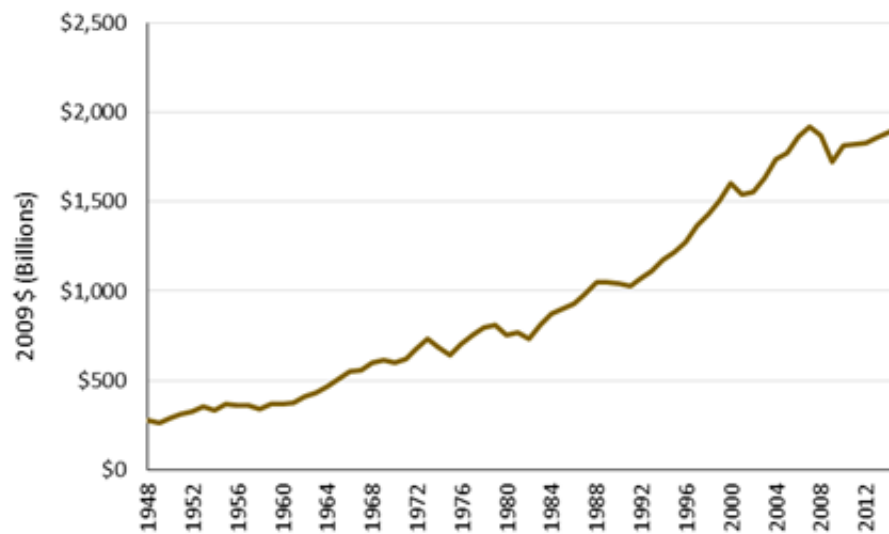
Real Value Added in Agriculture



Source: Bureau of Economic Analysis & UTEP Border Region Modeling Project



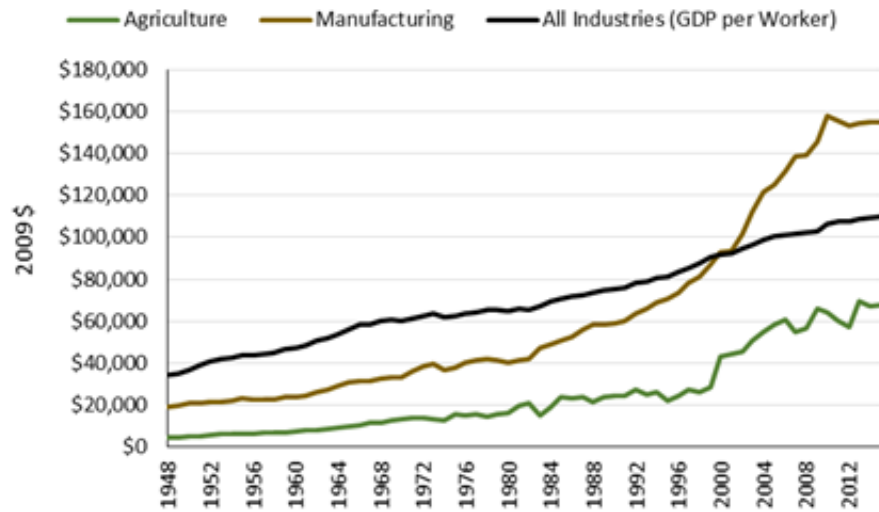
Real Value Added in the Manufacturing Sector



Source: Bureau of Economic Analysis & UTEP Border Region Modeling Project



Value Added per Worker



Sources: UTEP Border Region Modeling Project using BEA data (value added and GDP) and BLS data (agricultural and total civilian employment from the Current Population Survey with manufacturing employment from Current Employment Statistics).

A border tax will, at best, cause minor distortions in trade, transportation, and manufacturing. In the manner originally proposed in early 2017, the border tax would have caused a full-fledged recession in Texas and would likely have precipitated a severe bout of stagflation throughout the United States as a consequence of multiple and far-reaching manufacturing supply chain disruptions. As in Texas, the majority of NAFTA-related trade across the USA is in the form of intra-industry trade that involves intermediate goods and is complementary in nature. That means that international trade between the USA and Mexico, and between Texas and Mexico, is complementary in nature. These two national economies are not economic adversaries. These geographic neighbors, along with Canada, are economic allies in the global economy.

Beyond those important concerns, revoking NAFTA, imposing a Border Tax, or imposing a Border Adjustment Tax will not be conducted in a vacuum. The response, or retribution, from Mexico will be swift. Economists and policy analysts working for Secretary of the Economy Ildefonso Guajardo have already drawn up a list of target industries prioritized by congressional district on which retribution will be exacted via punitive tariffs similar to those enacted during the 2009 trucking sector dispute between Mexico and the United States. Congressional districts that voted most heavily for President Trump in 2016 occupy the highest positions on that list.

Rather than enact a hugely disruptive, or merely inefficient, border tax, it would make better economic sense to upgrade NAFTA. Specific areas where changes could occur include energy, e-commerce, and rules of origin loopholes. A more systematic approach to immigration based on strategic labor force needs would also be helpful to Texas and the rest of the USA. Finally, resurrection of the TransPacific Partnership (TPP) would provide the USA with a powerful negotiating tool for protecting Texas business and labor interests that are negatively impacted by policy decisions taken by other Pacific Rim economies such as China and Russia. TPP would also level the playing field for Texas companies that export goods and services and engage in international commerce throughout the Pacific Basin region with those countries that helped negotiate TPP.



Source: OECD & UTEP Border Region Modeling Project



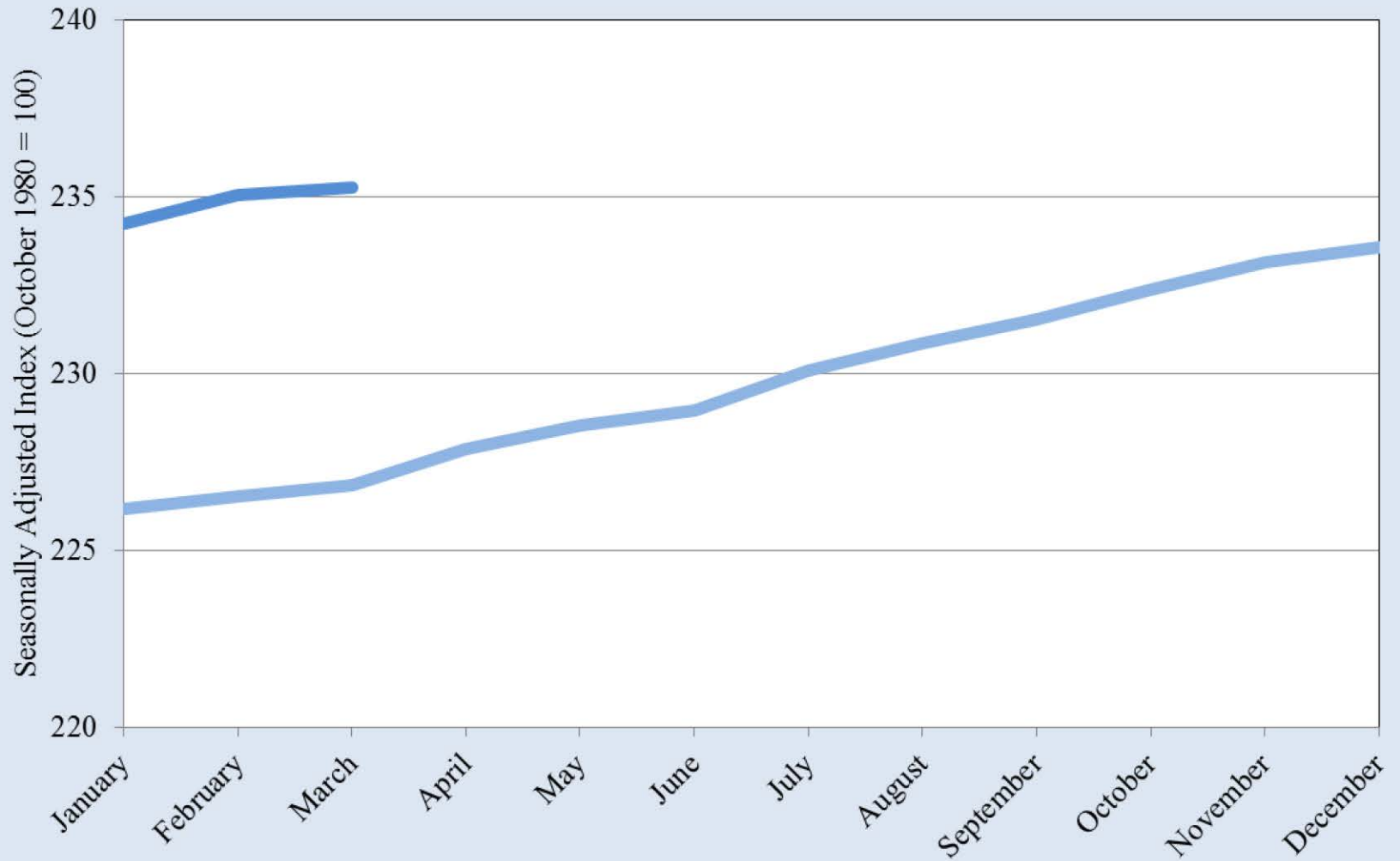
Source: OECD & UTEP Border Region Modeling Project

Conclusion

Texas is one of the most dynamic economies anywhere in the world. A big part of that is due to international commerce. The same is true of the United States as well. El Paso is a prime example of how metropolitan economies can achieve progress by taking advantage of the business opportunities that result from international trade. Rather than impede trade further, policies that embrace it by taking advantage of agreements such as NAFTA encourage faster growth and higher standards of living. Trade has been a source of enormous progress throughout the economic history of Texas and the USA. It will also continue to serve as a catalyst to growth in the future.

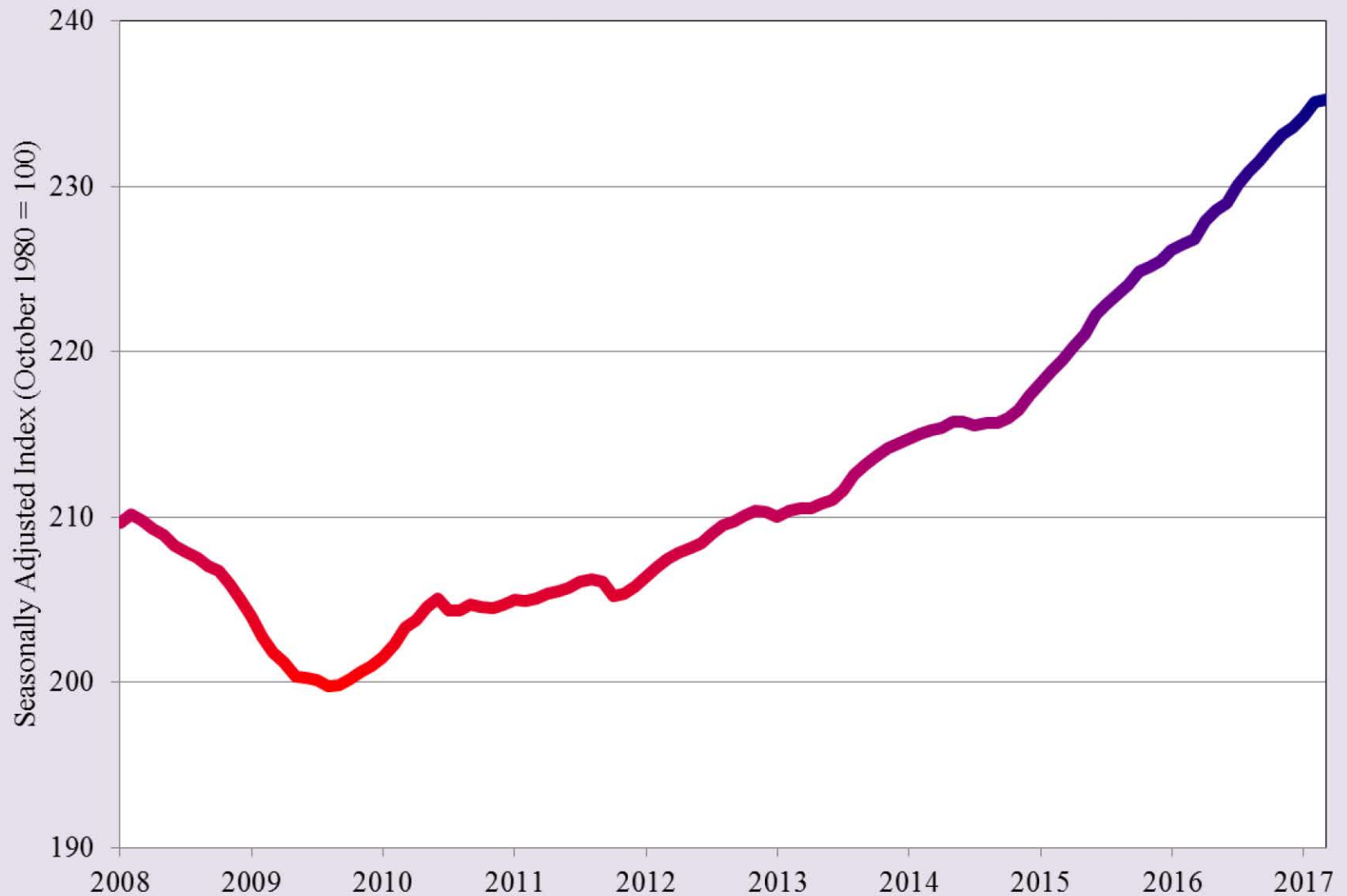
Metro Business-Cycle Index for El Paso

2016 2017



Source: Federal Reserve Bank of Dallas

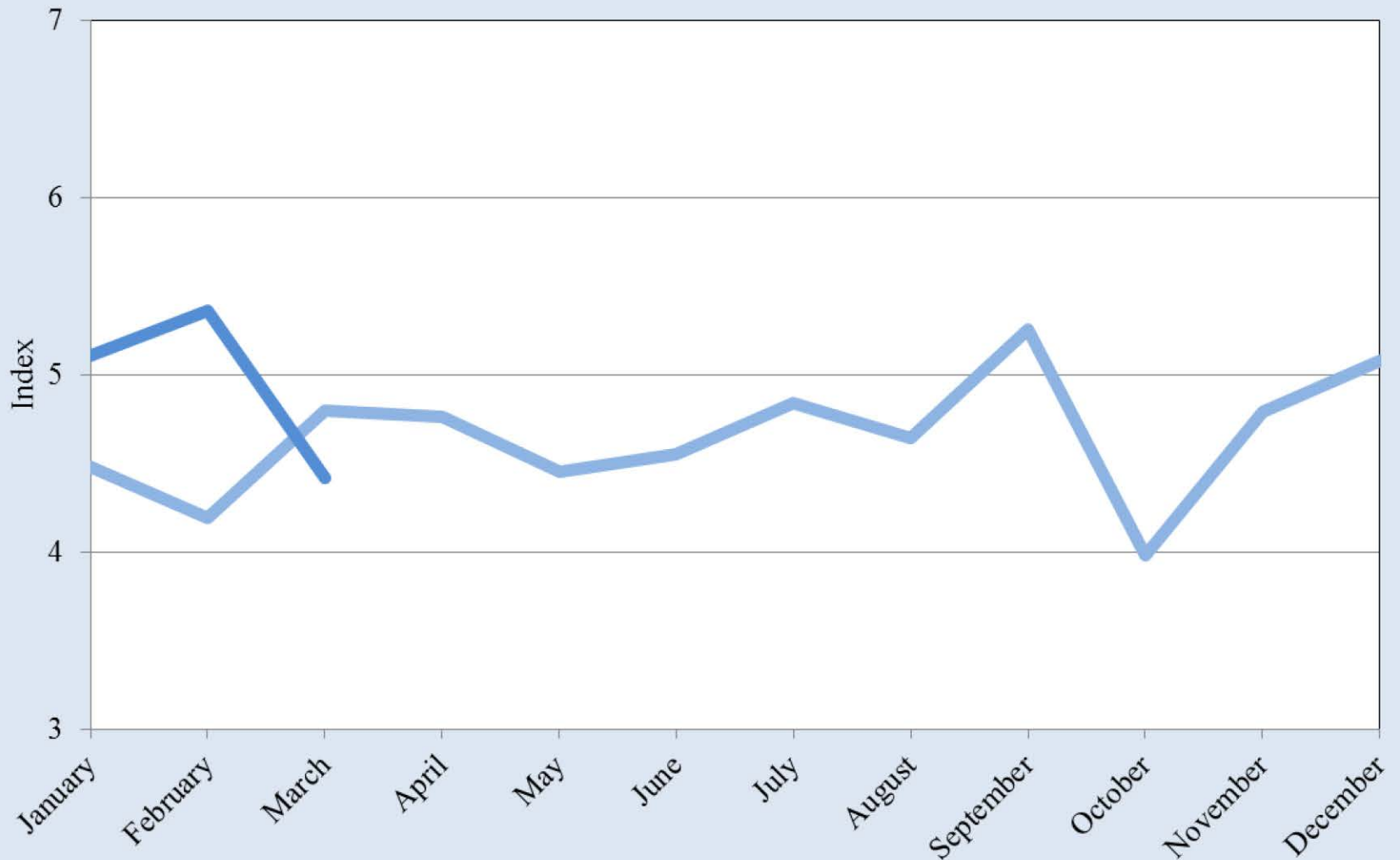
Metro Business-Cycle Index for El Paso



Source: Federal Reserve Bank of Dallas

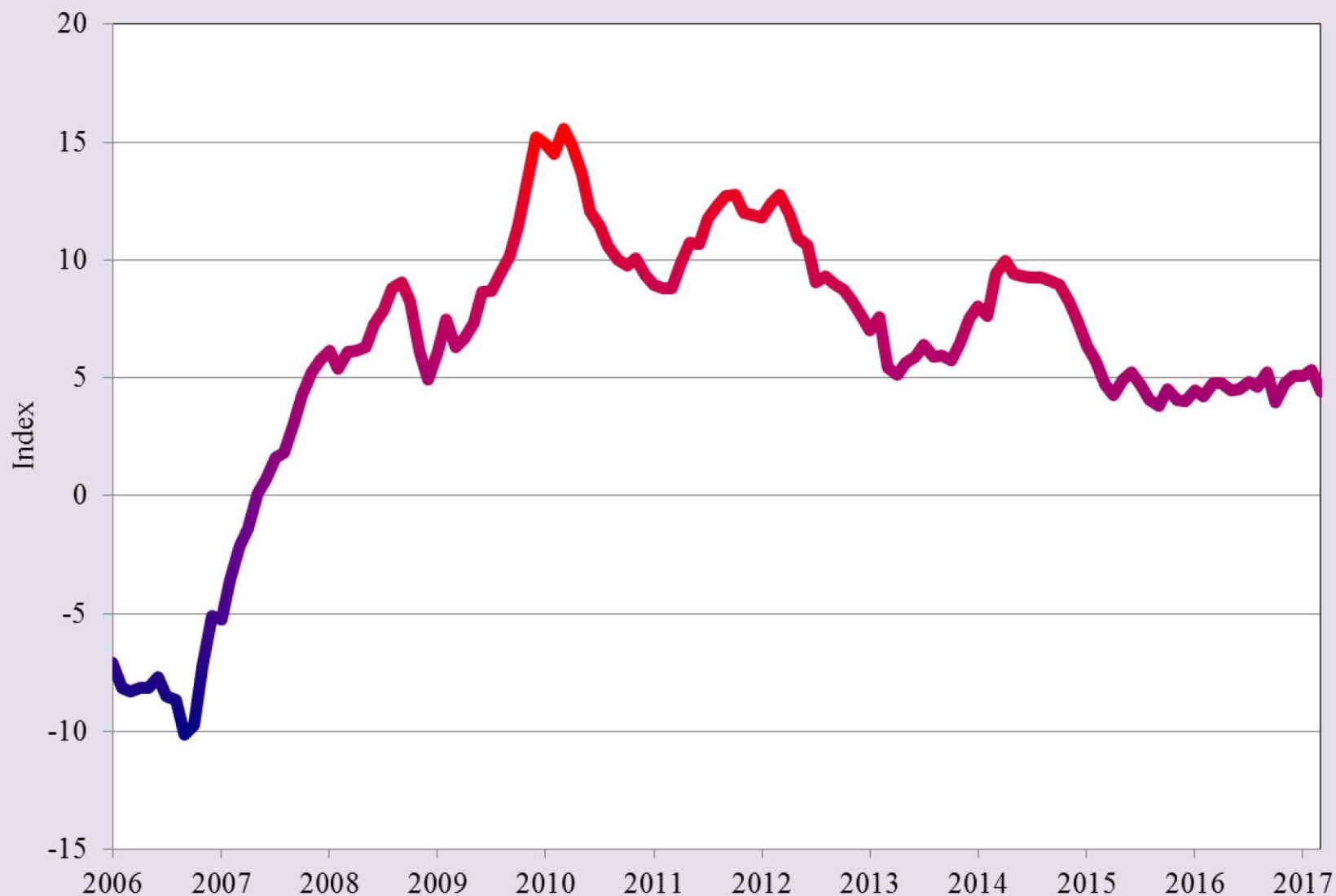
El Paso Household Economic Stress Index

— 2016 — 2017



Source: UTEP Border Region Modeling Project

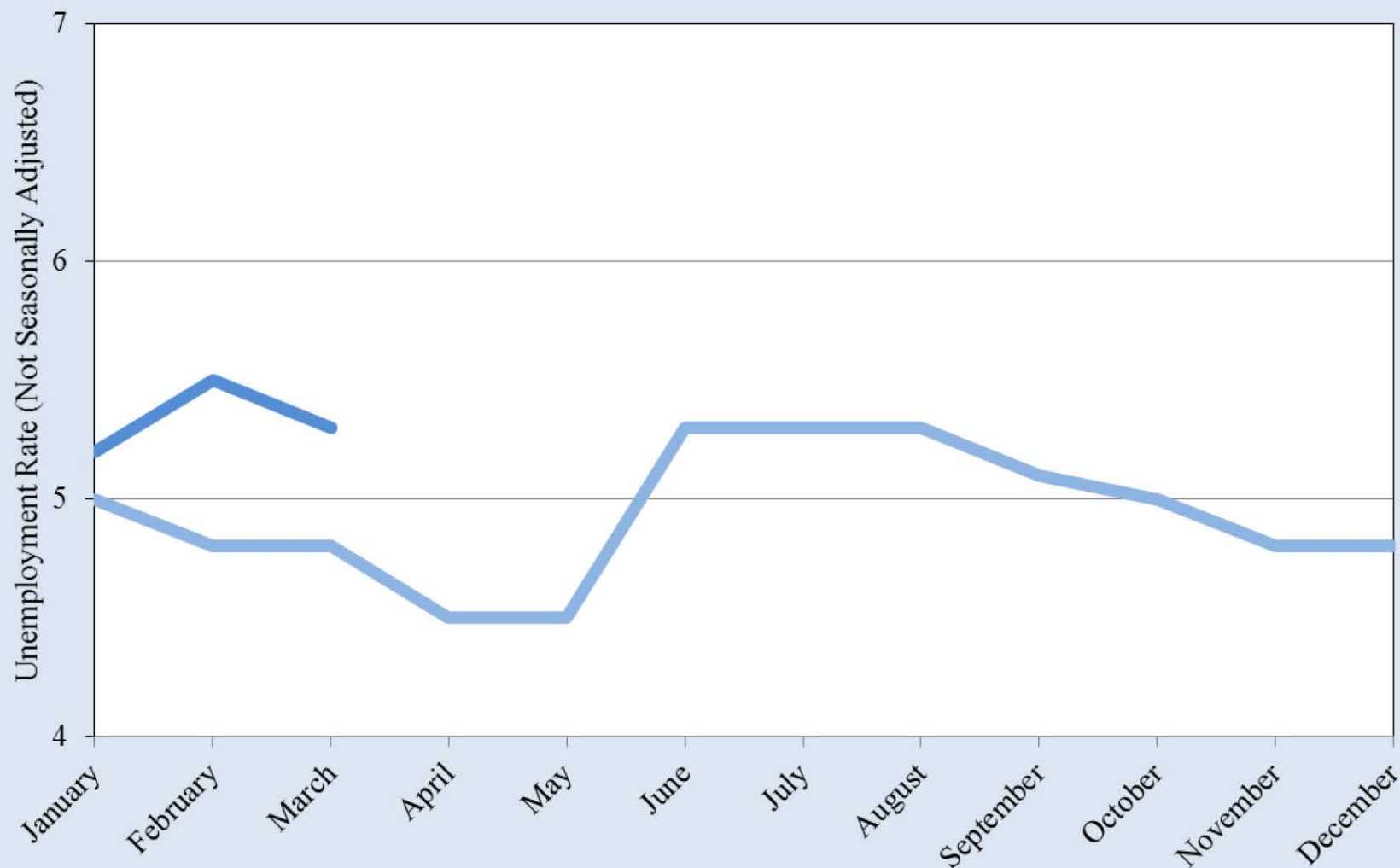
El Paso Household Economic Stress Index



Source: UTEP Border Region Modeling Project

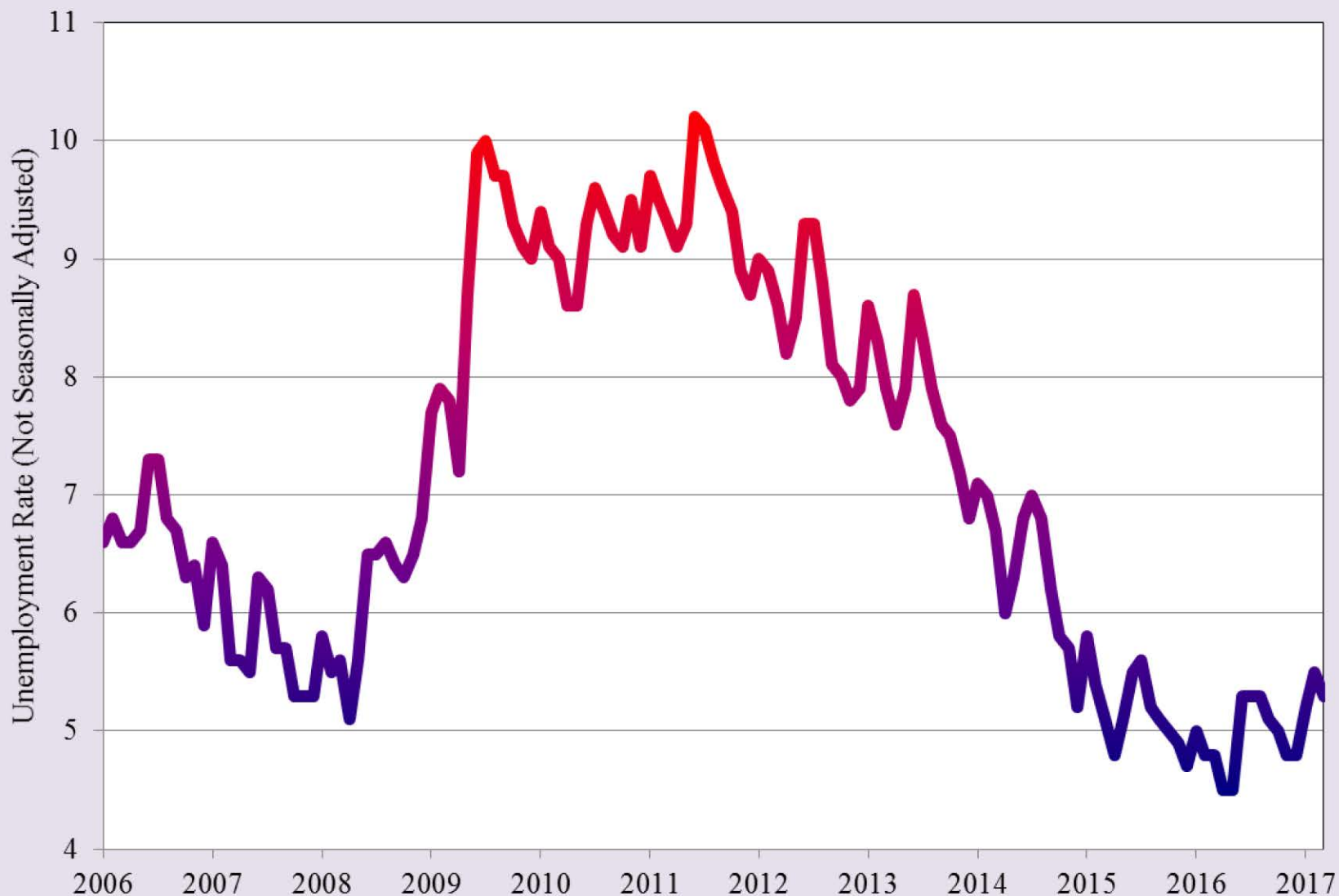
El Paso County Unemployment Rate

— 2016 — 2017



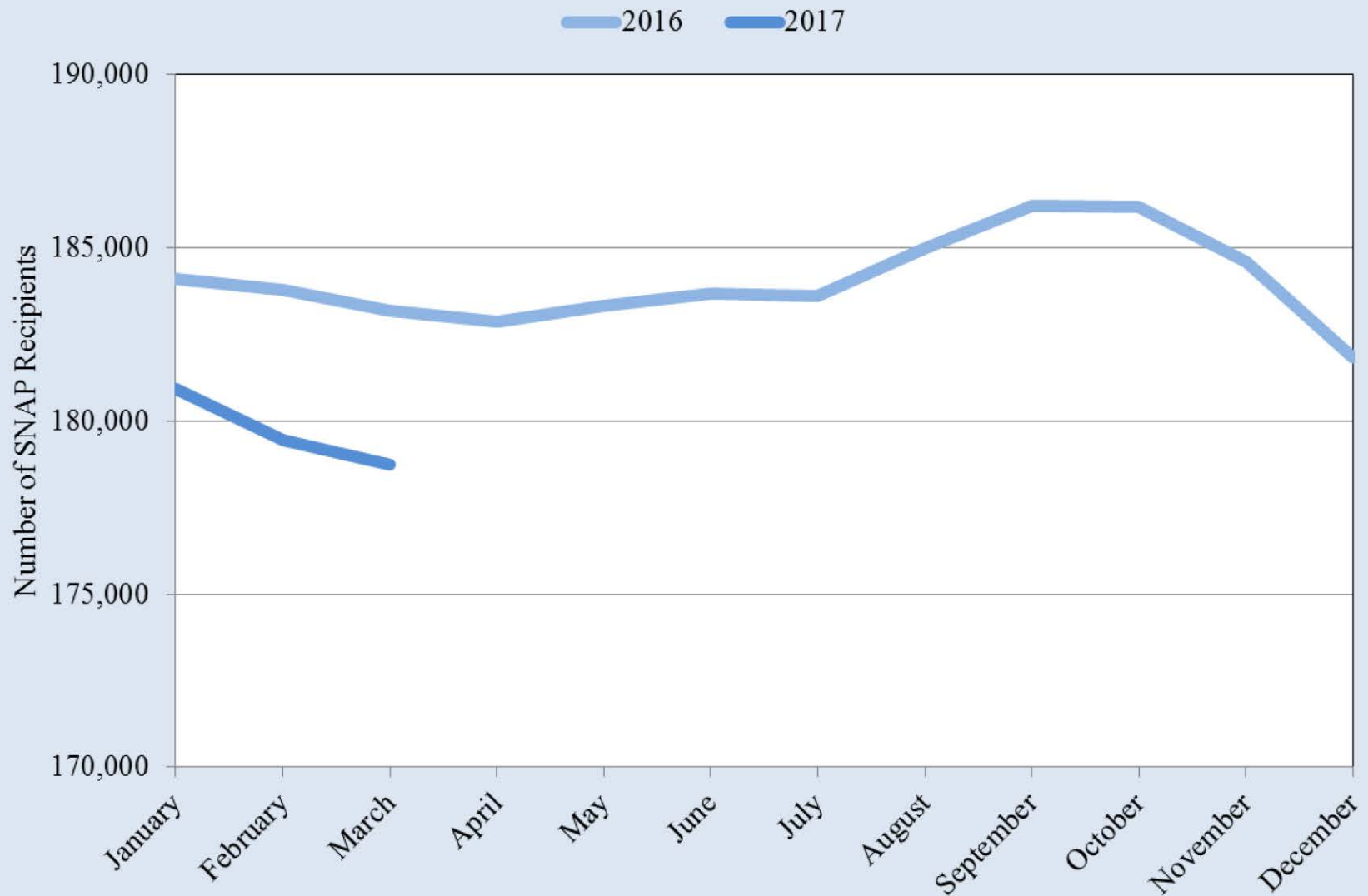
Source: Bureau of Labor Statistics

El Paso County Unemployment Rate



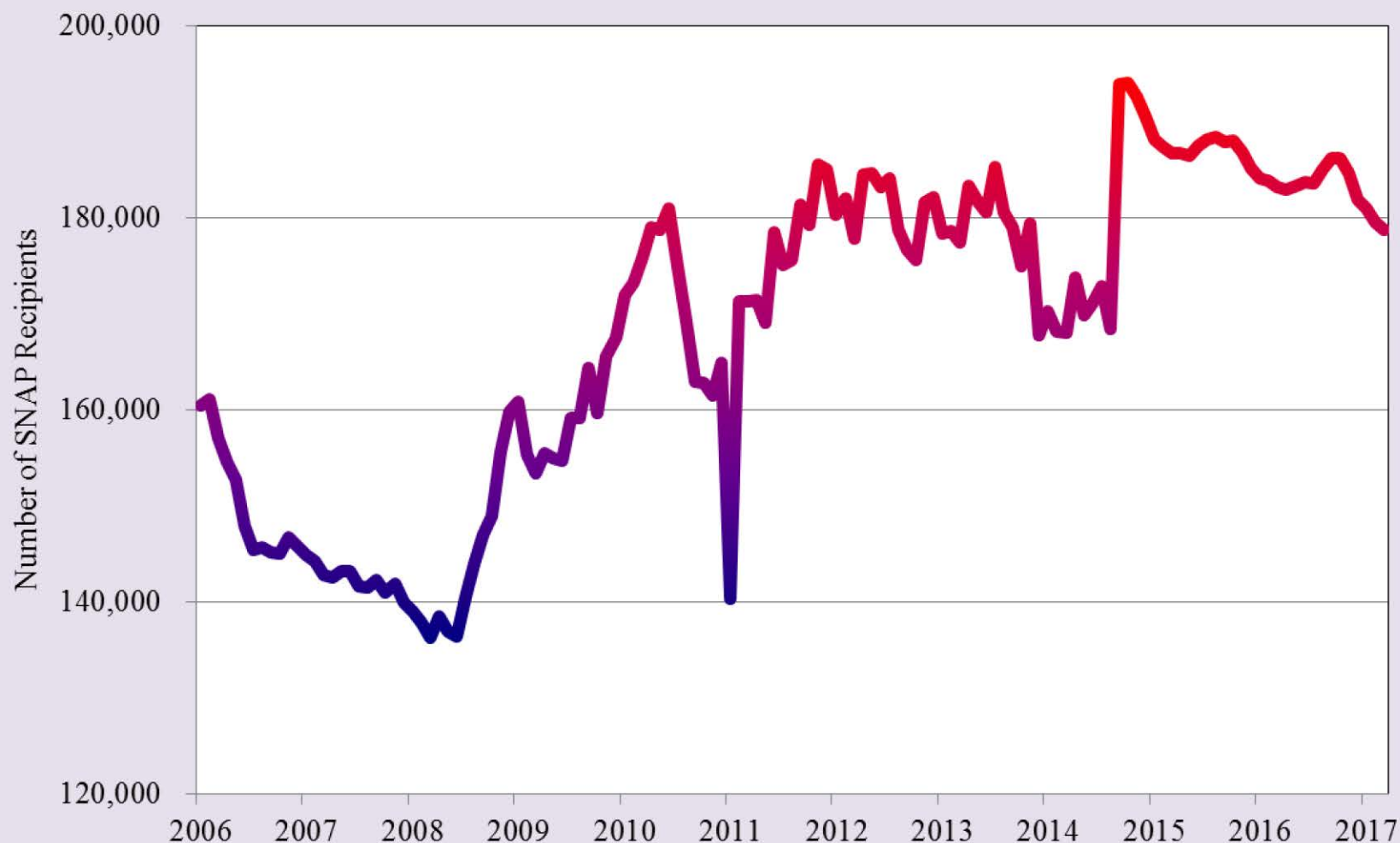
Source: Bureau of Labor Statistics

El Paso County SNAP (Food Stamp) Enrollment



Source: Texas Health and Human Services Commission

El Paso County SNAP (Food Stamp) Enrollment

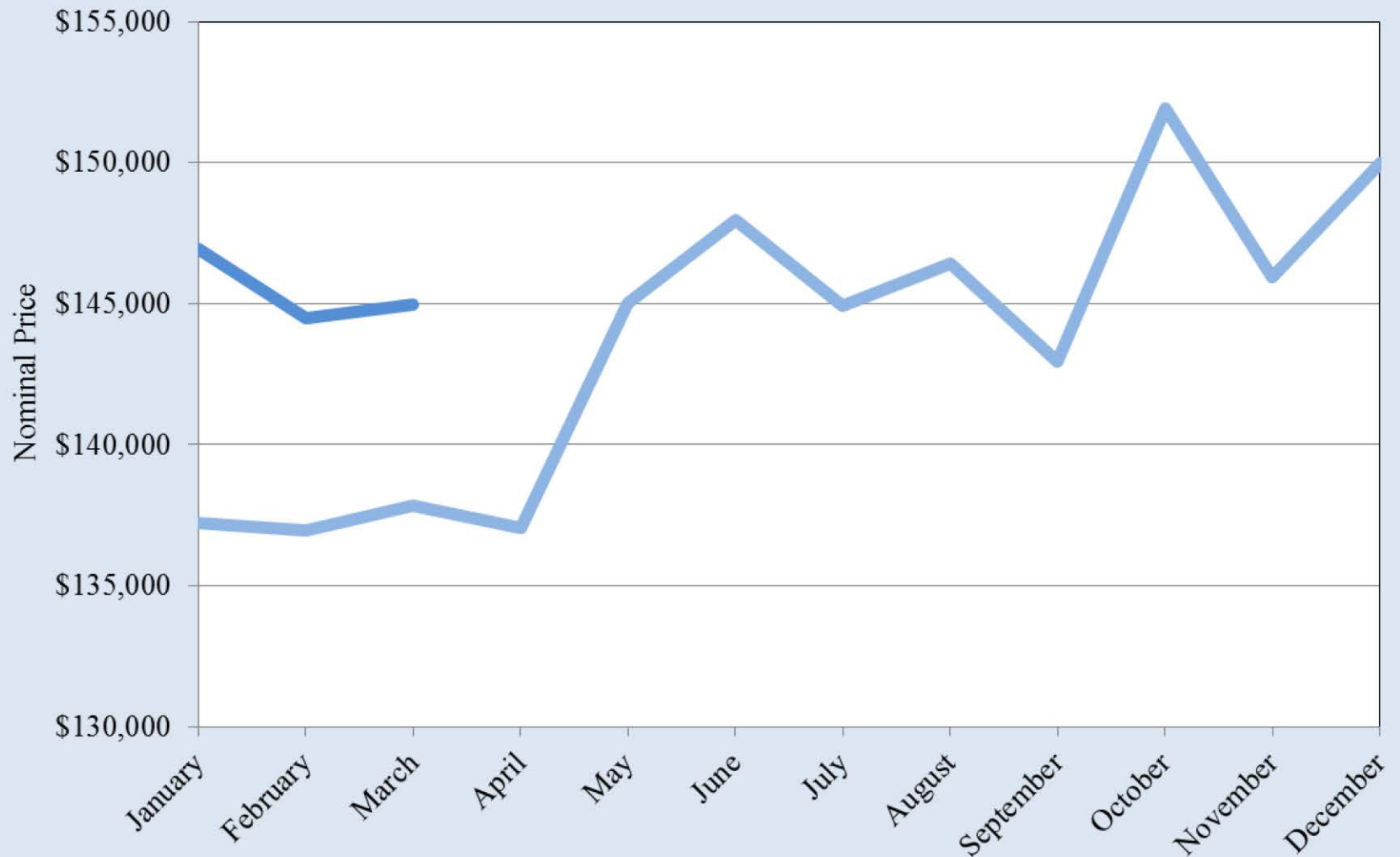


Starting in September, 2014, the number of SNAP recipients is recorded for the end of each month.

Source: Texas Health and Human Services Commission

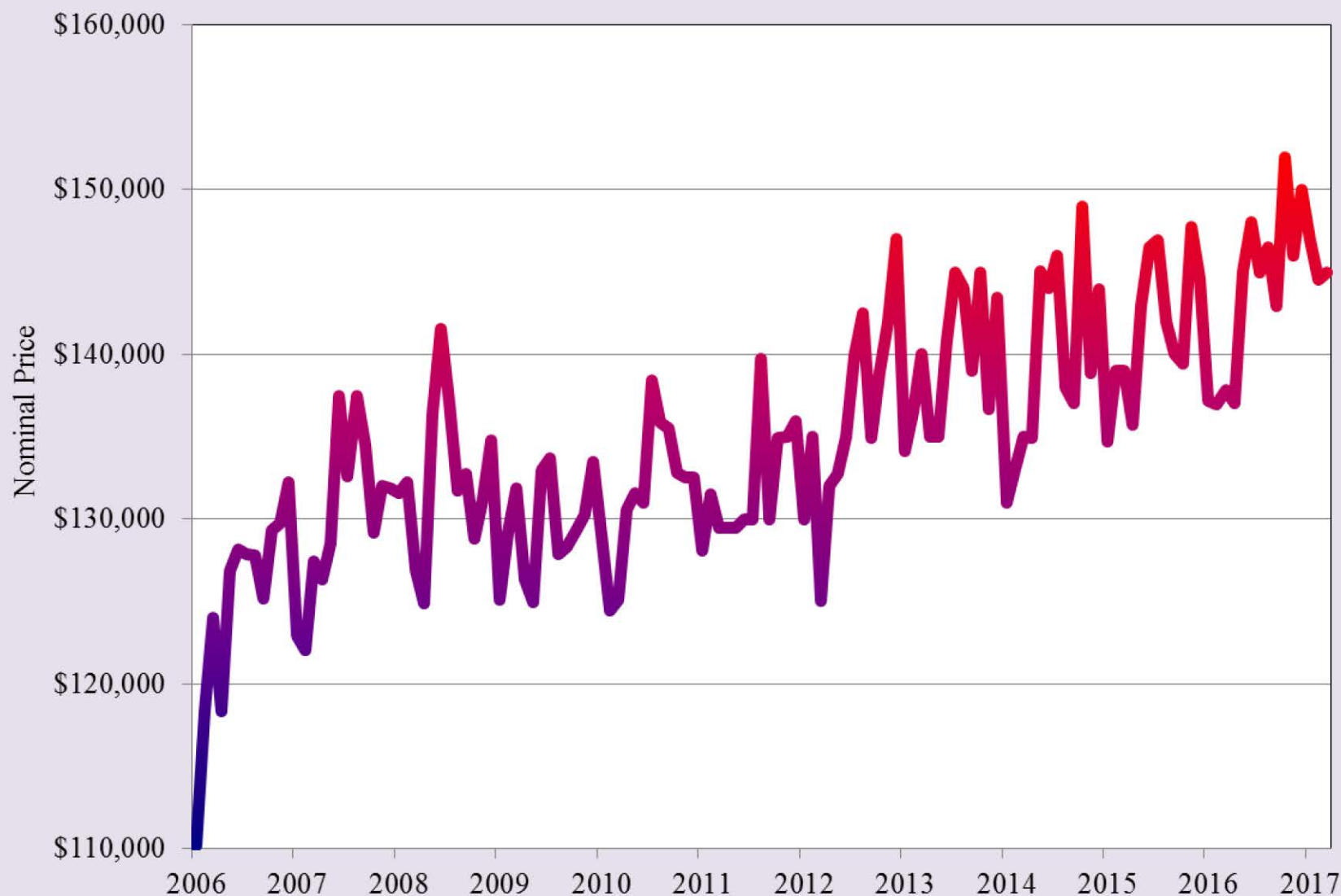
El Paso Median Housing Prices

— 2016 — 2017



Source: Texas A&M Real Estate Center

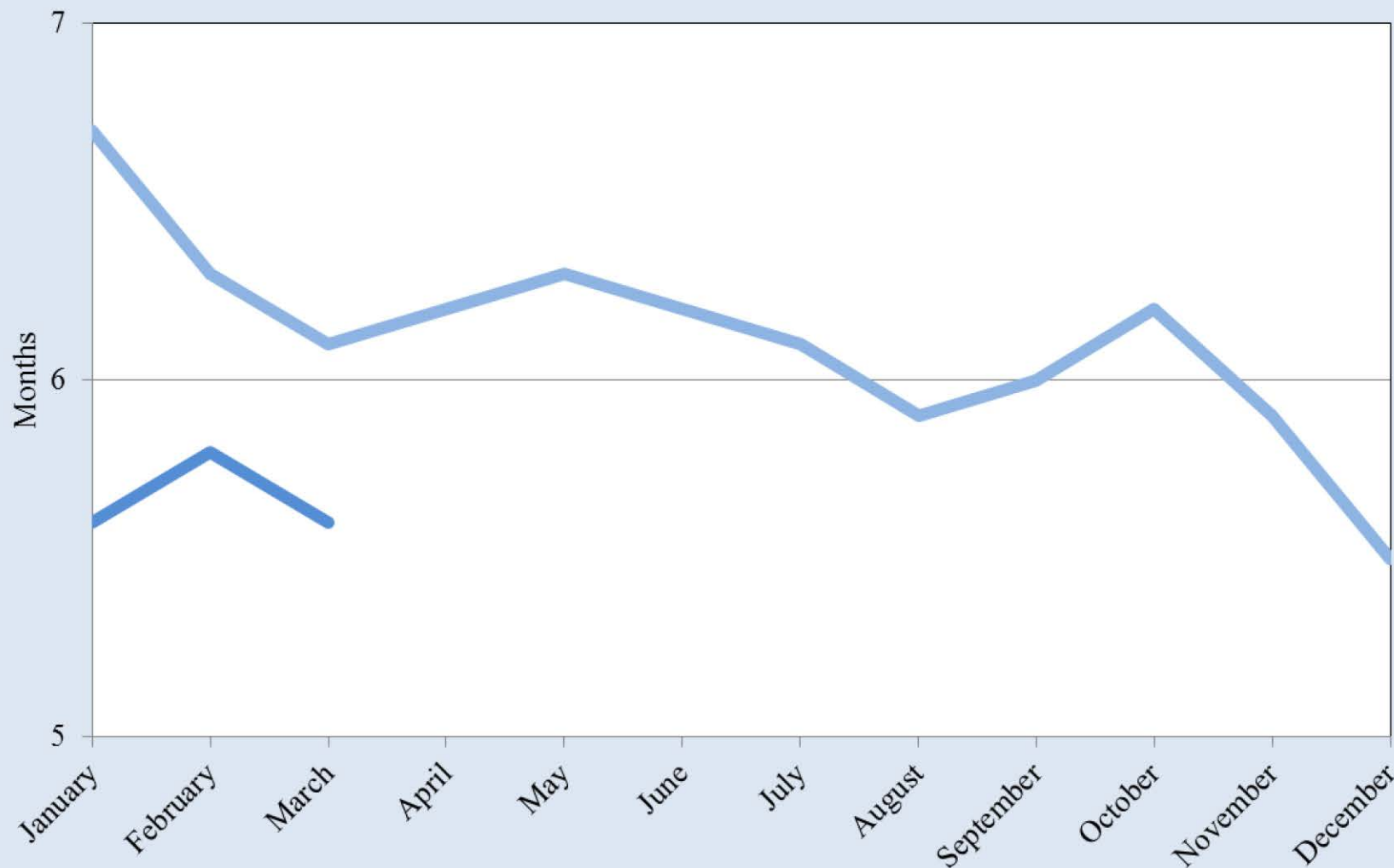
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Source: Texas A&M Real Estate Center

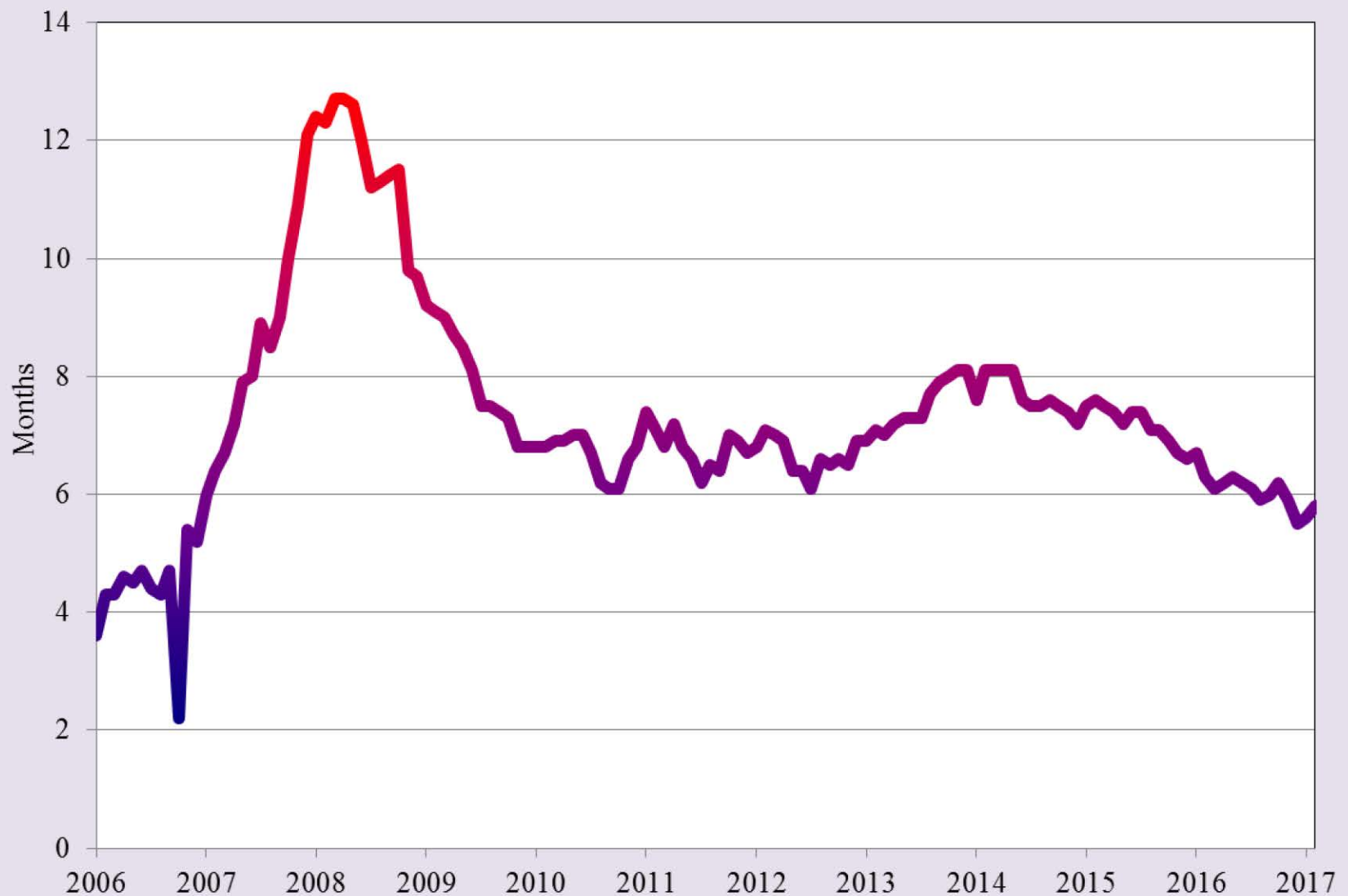
Months of Housing Inventory for El Paso

— 2016 — 2017



Source: Texas A&M Real Estate Center

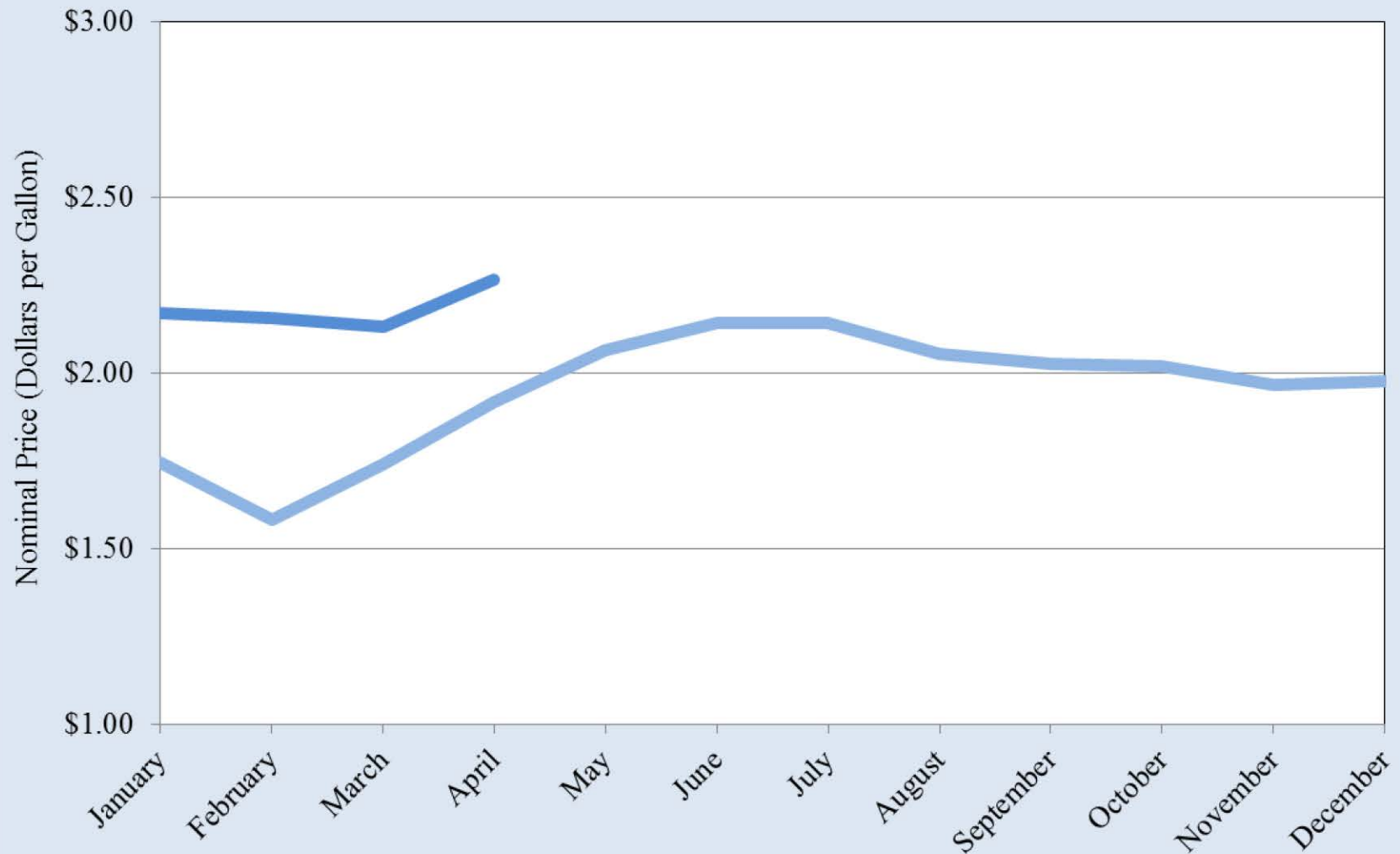
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Source: Texas A&M Real Estate Center

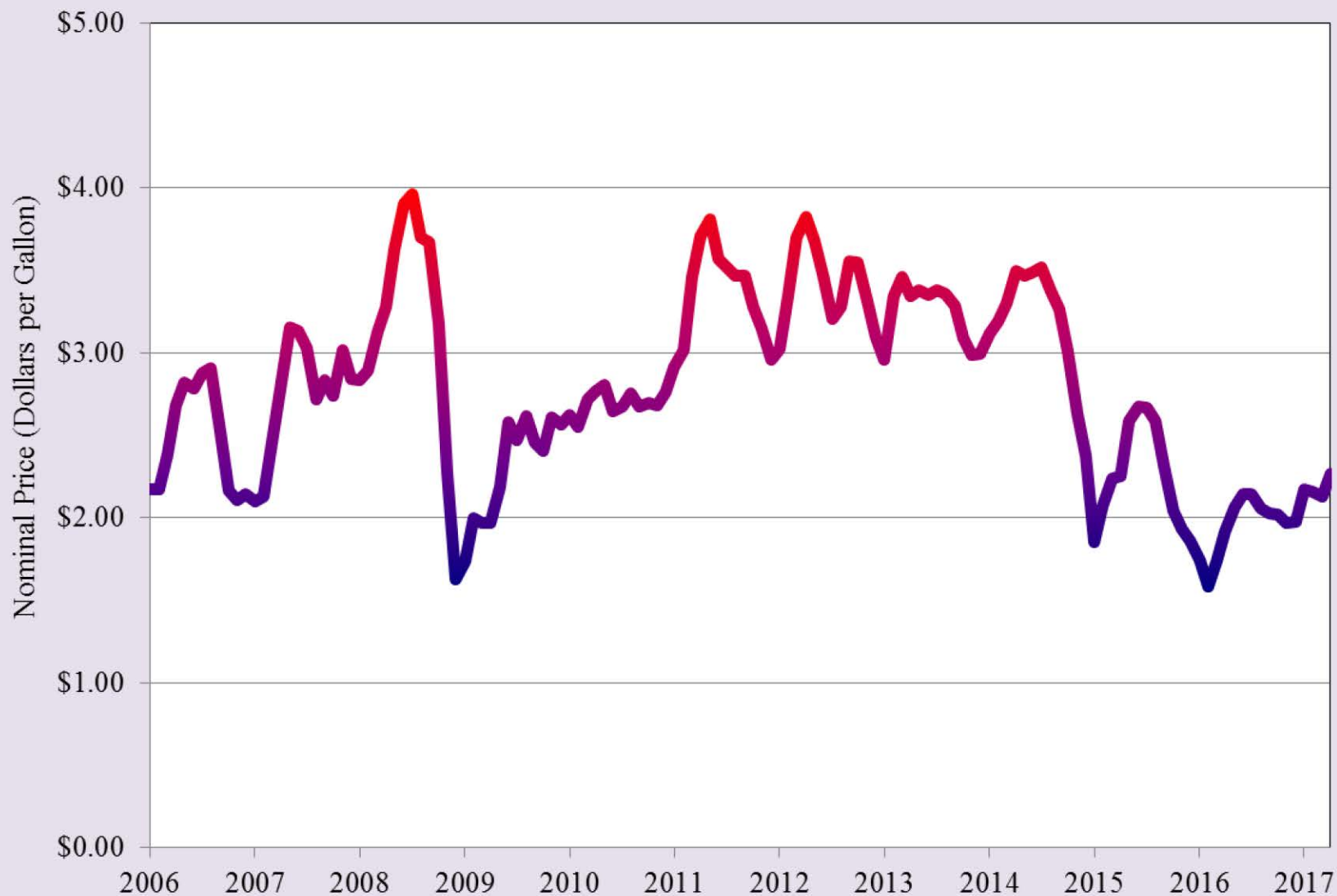
El Paso Gasoline Prices

2016 2017



Source: GasBuddy.com

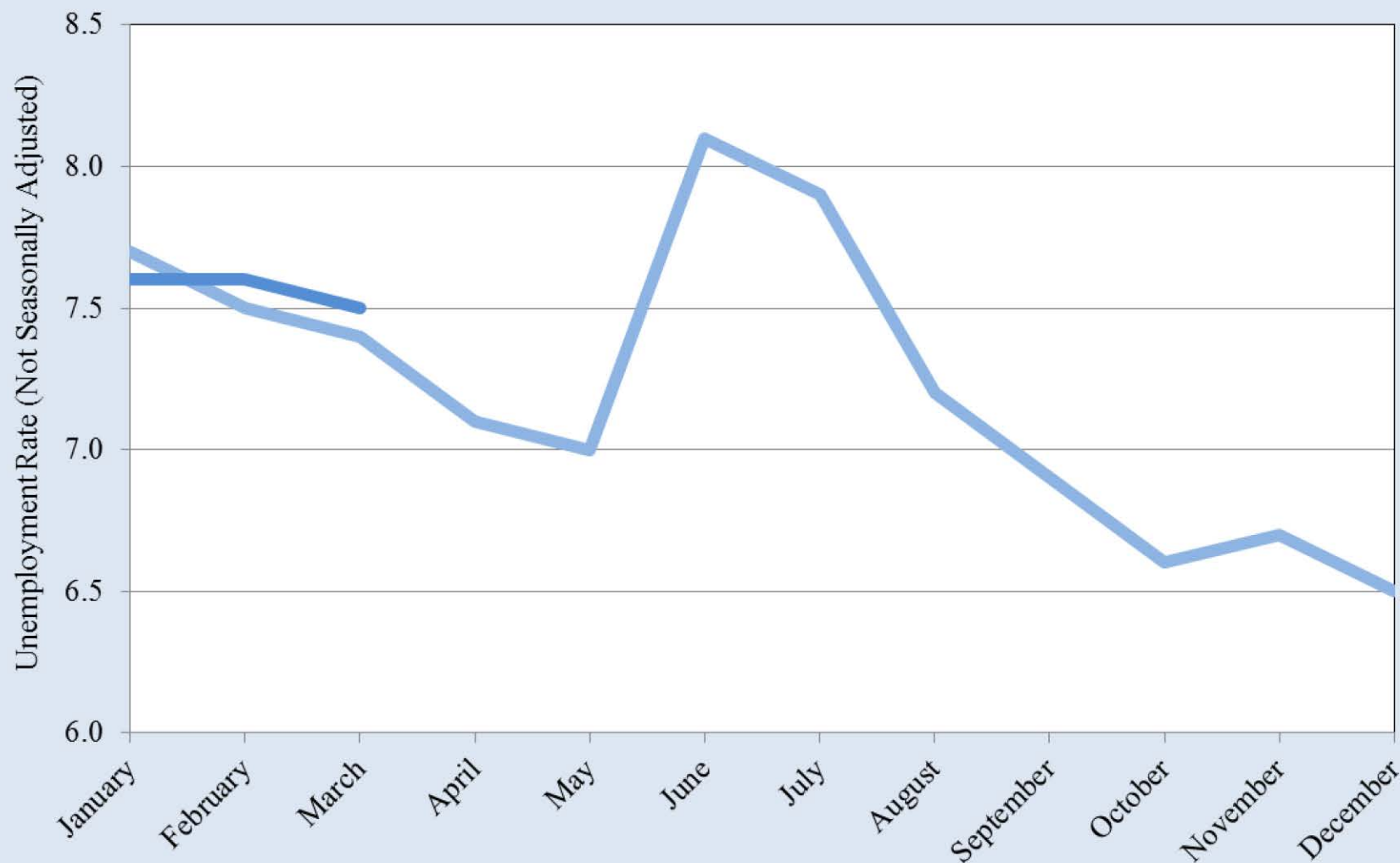
El Paso Gasoline Prices



Source: GasBuddy.com

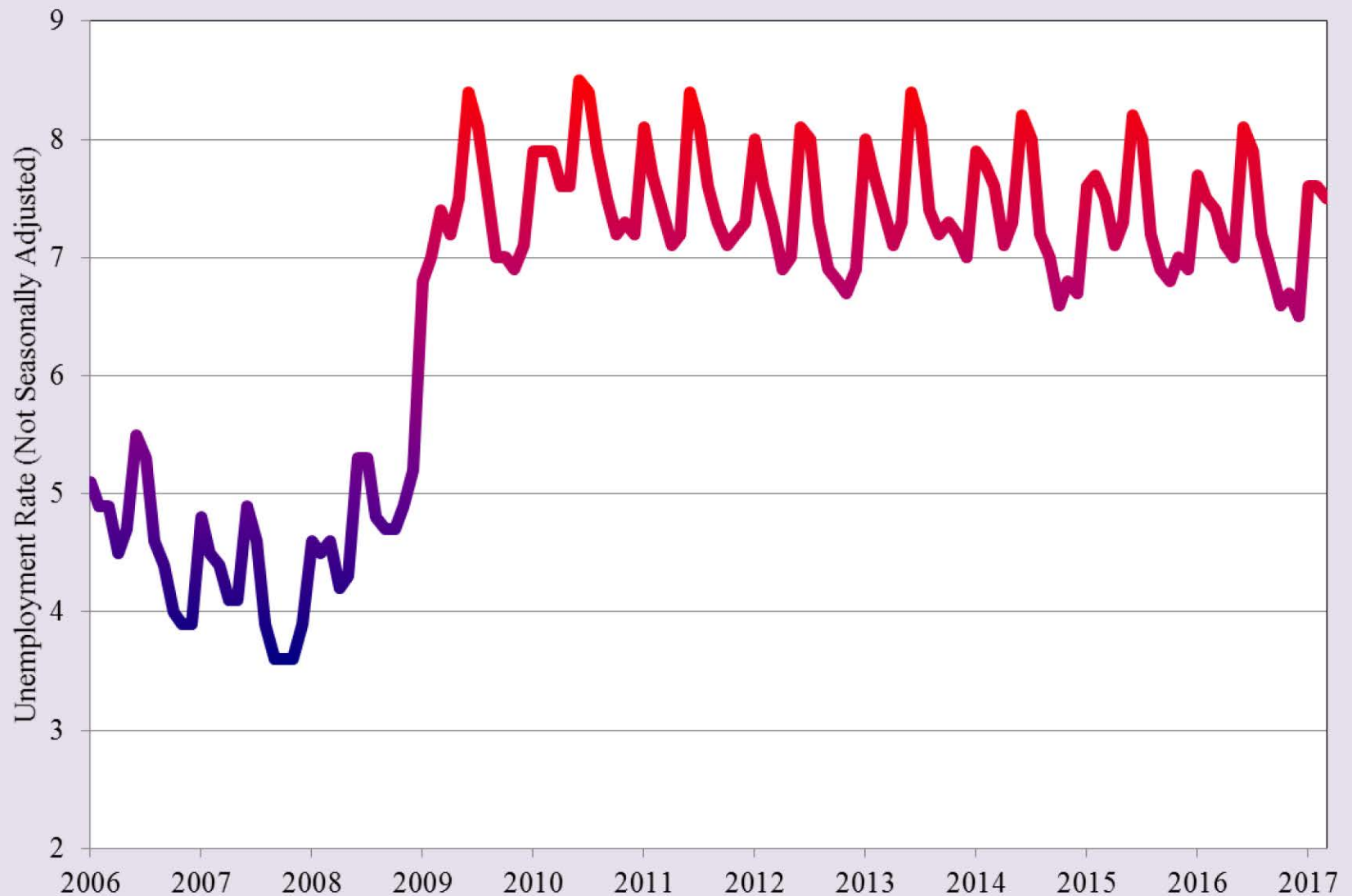
Doña Ana County Unemployment Rate

— 2016 — 2017



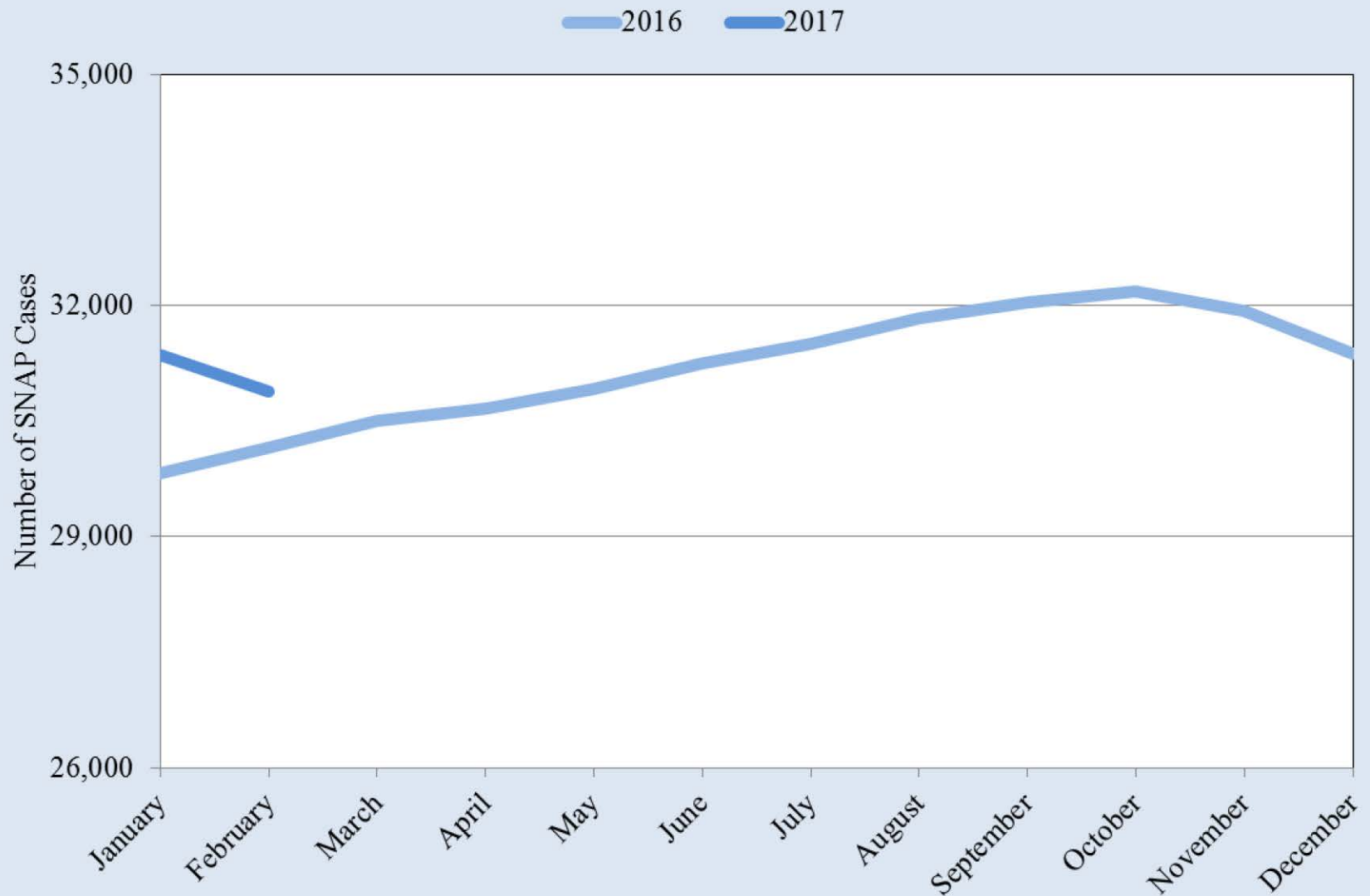
Source: Bureau of Labor Statistics

Doña Ana County Unemployment Rate



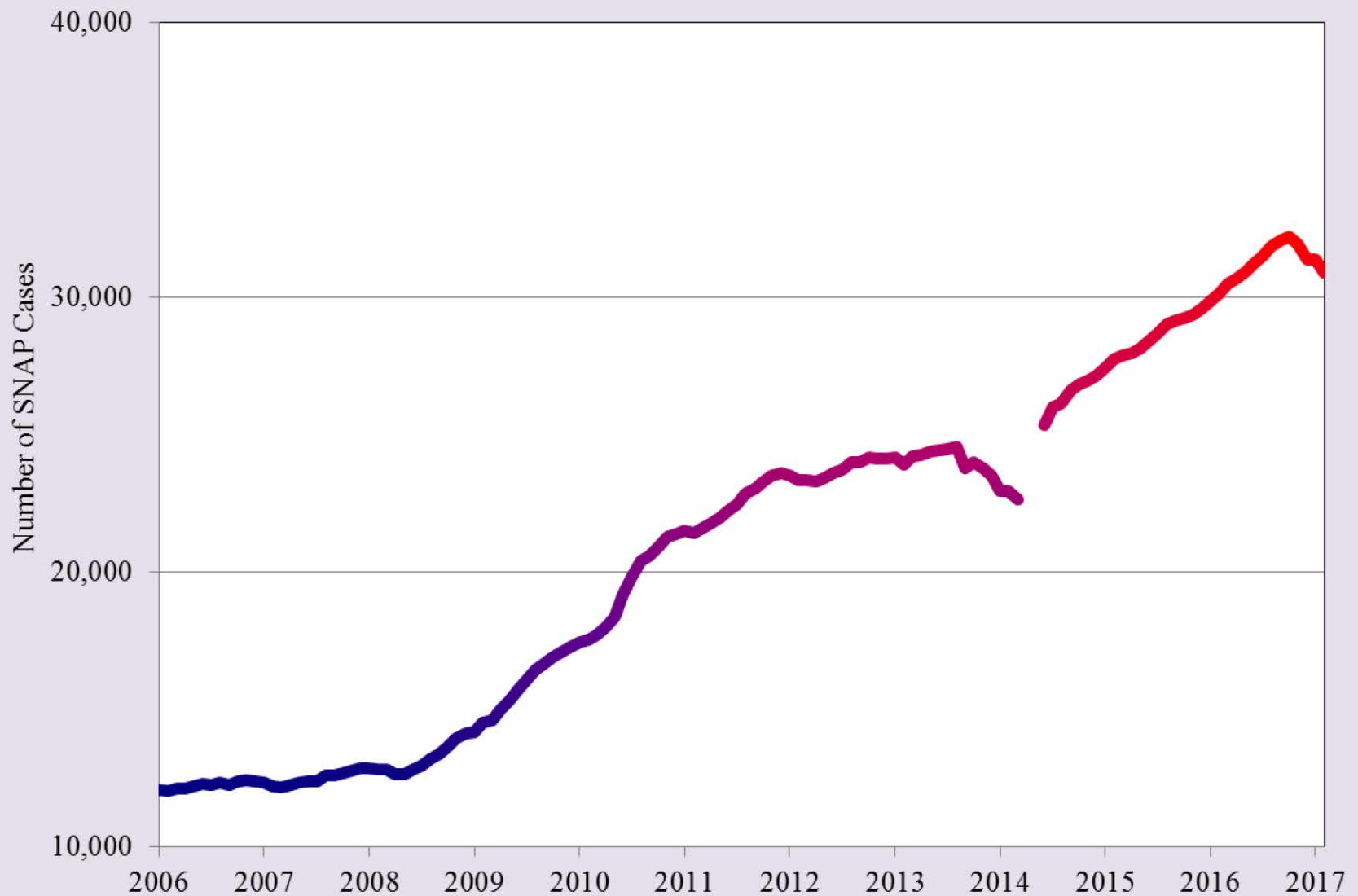
Source: Bureau of Labor Statistics

Las Cruces Area SNAP (Food Stamp) Cases



Source: New Mexico Human Services Department

Las Cruces Area SNAP (Food Stamp) Cases



Source: New Mexico Human Services Department

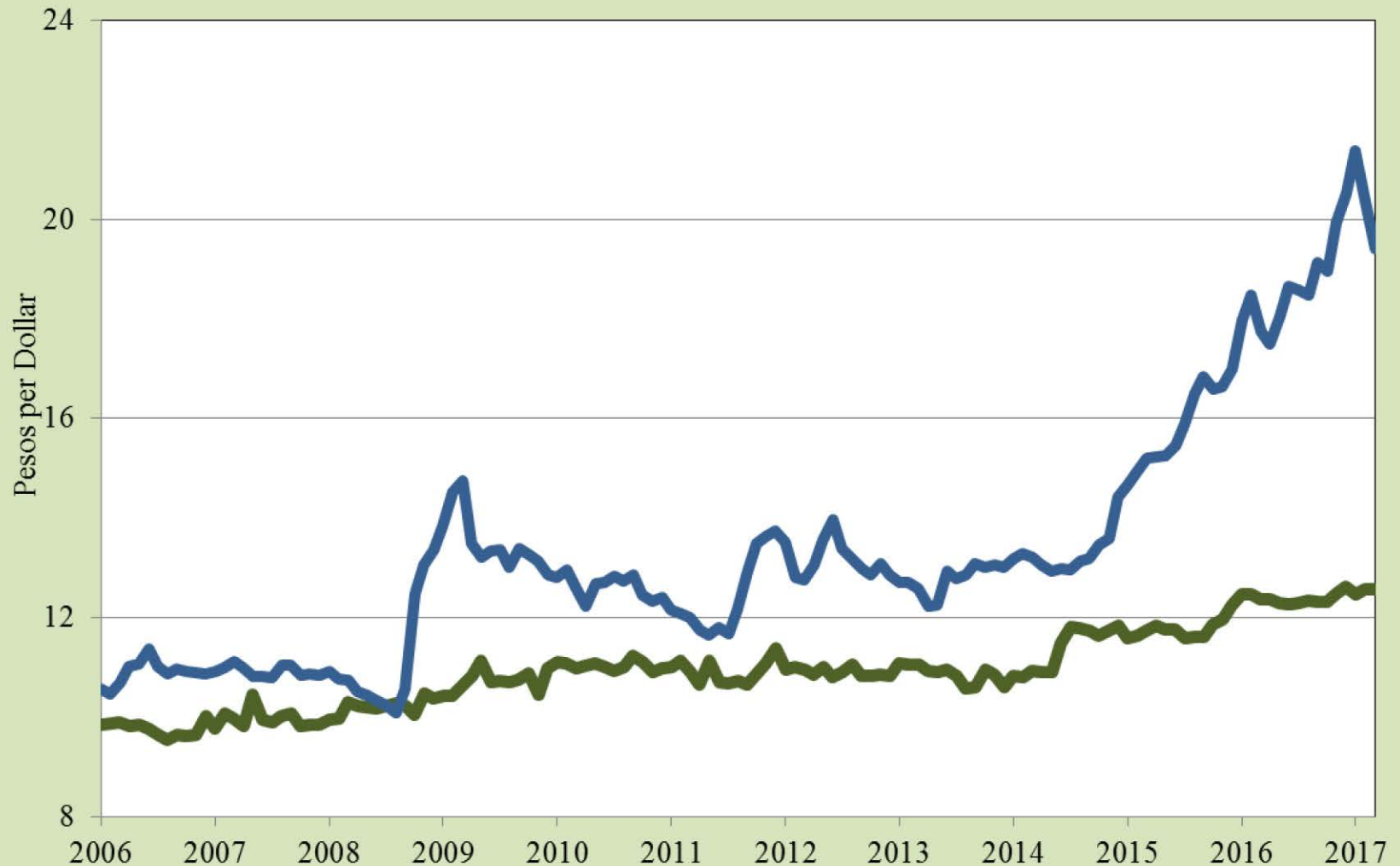
Restaurant Price Ratio and Exchange Rate



Source: UTEP Border Region Modeling Project and Banco de Mexico

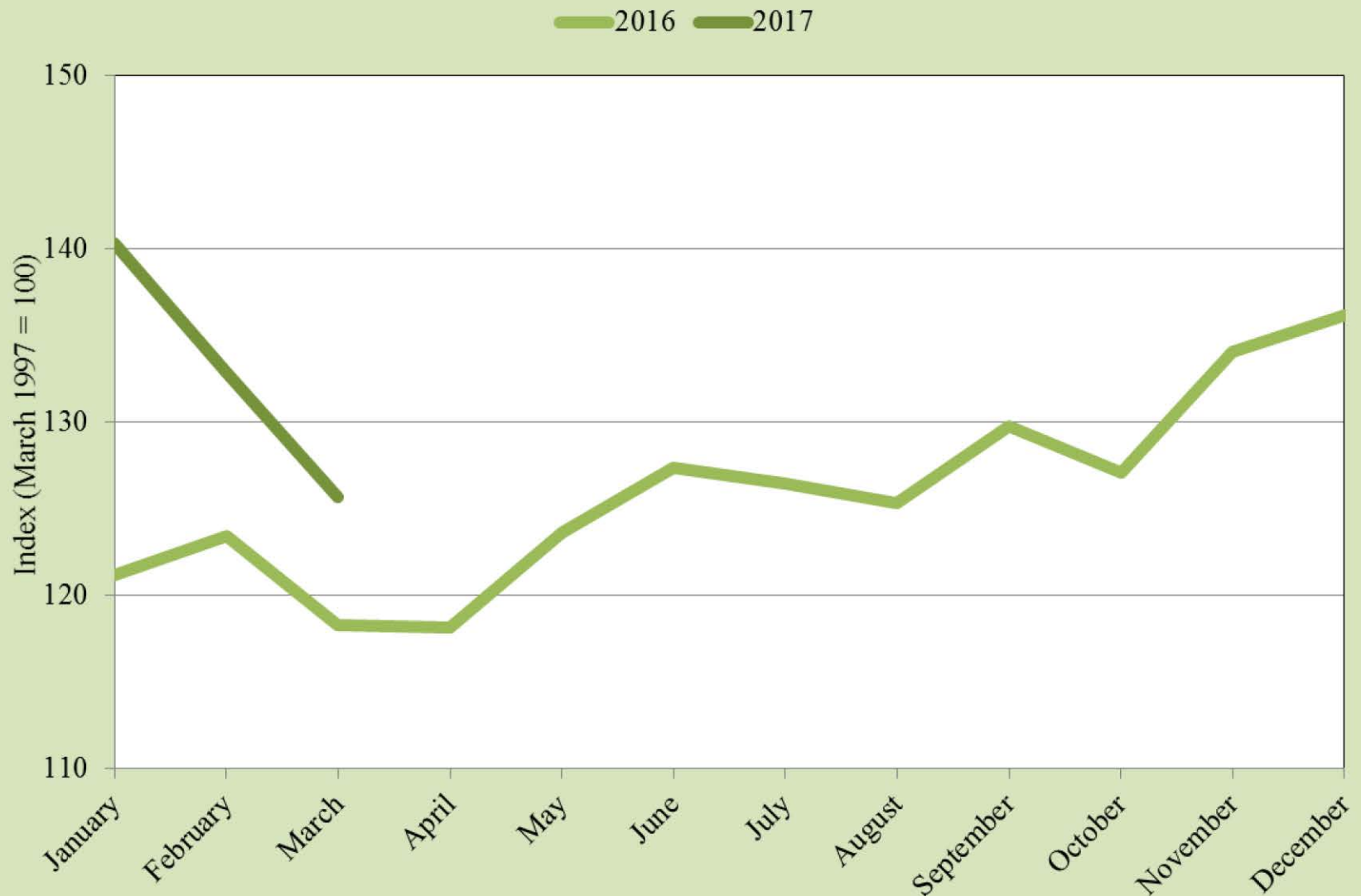
Restaurant Price Ratio and Exchange Rate

— Restaurant Price Ratio — Nominal Exchange Rate



Source: UTEP Border Region Modeling Project and Banco de Mexico

Real Peso/Dollar Exchange Rate Index



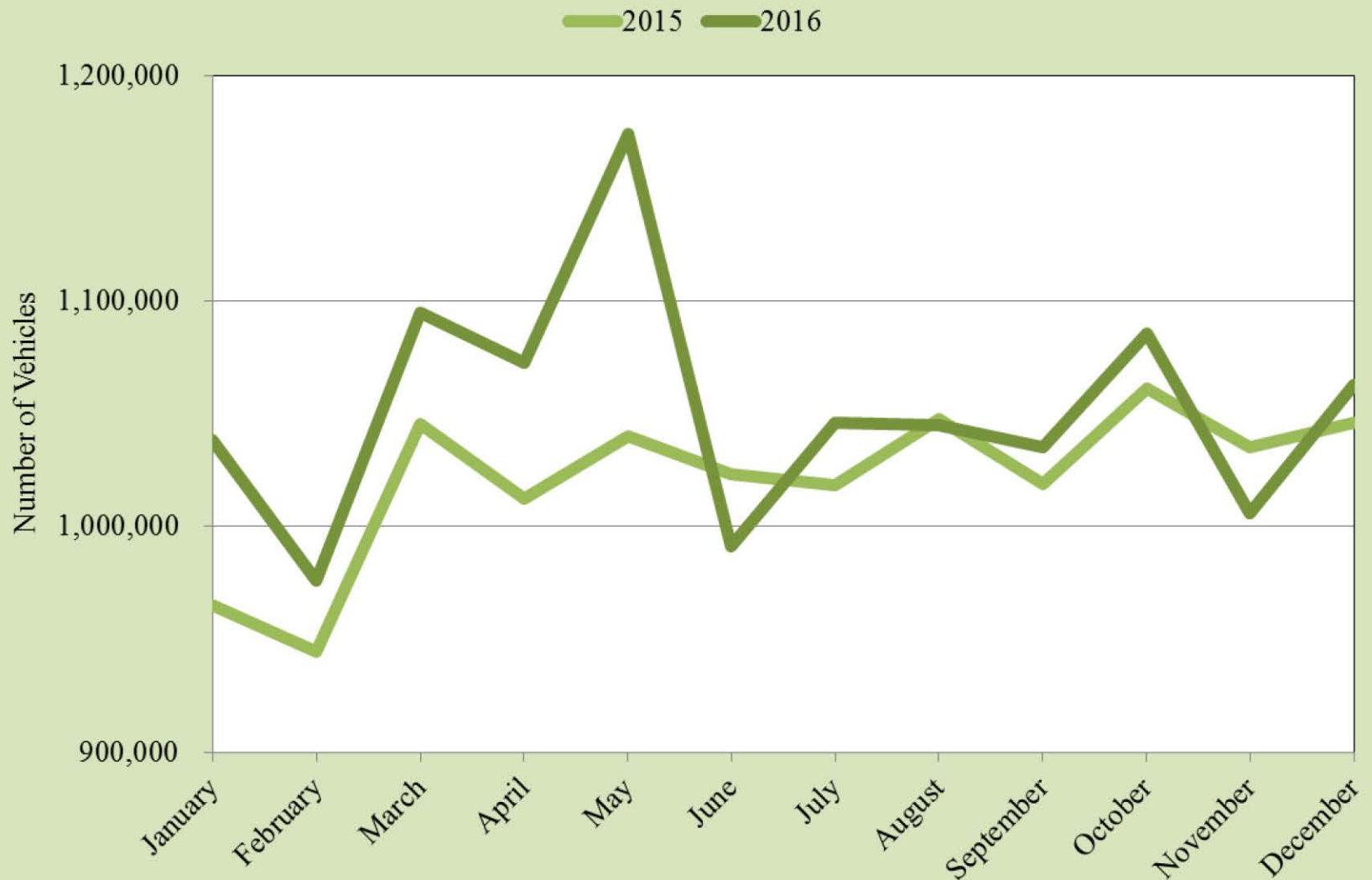
Source: UTEP Border Region Modeling Project

Real Peso/Dollar Exchange Rate Index



Source: UTEP Border Region Modeling Project

Personal Vehicle International Bridge Crossings to El Paso



Source: Bureau of Transportation Statistics and U.S. Customs and Border Protection

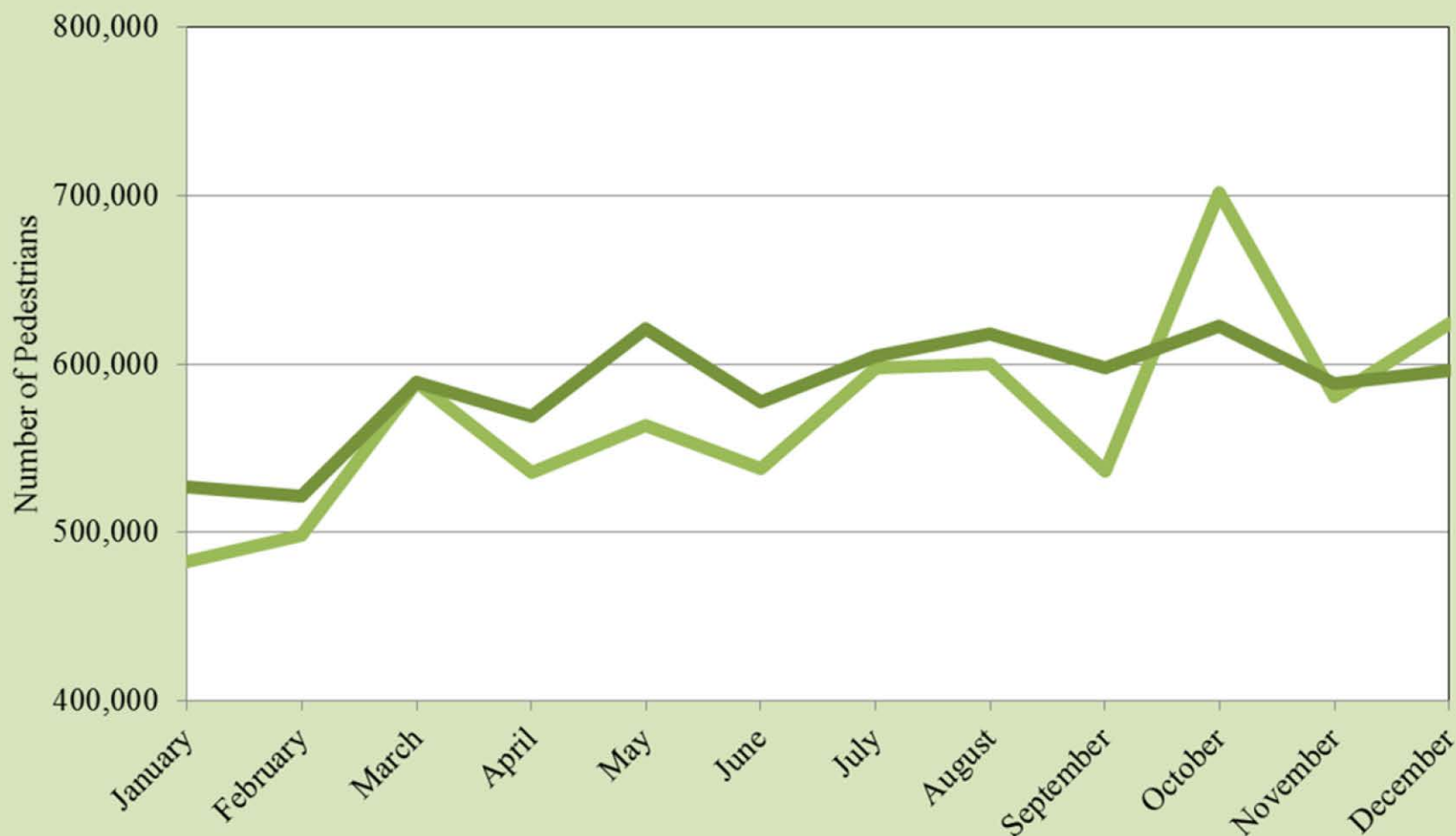
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Source: Bureau of Transportation Statistics and U.S. Customs and Border Protection

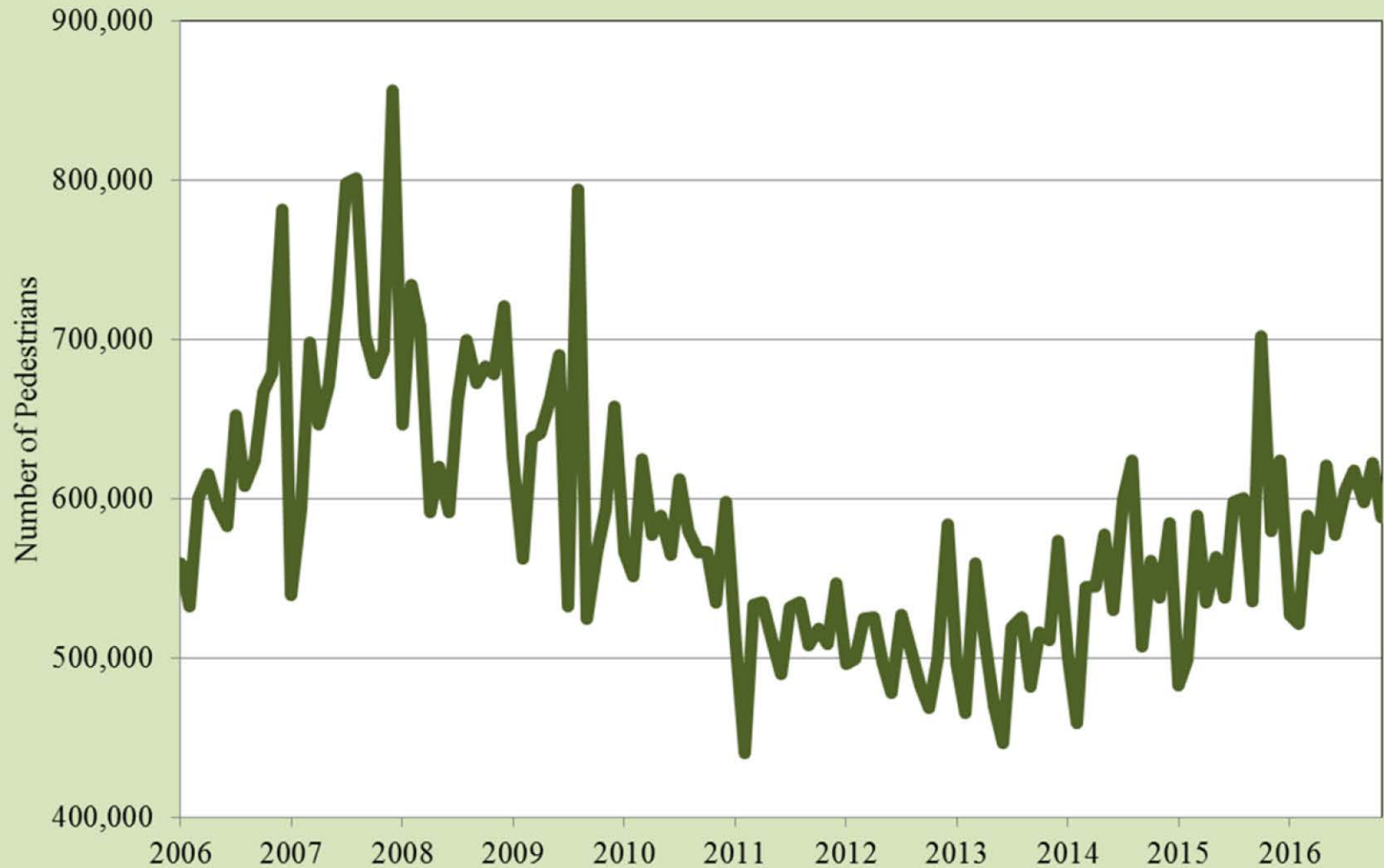
Pedestrian International Bridge Crossings to El Paso

2015 2016



Source: Bureau of Transportation Statistics and U.S. Customs and Border Protection

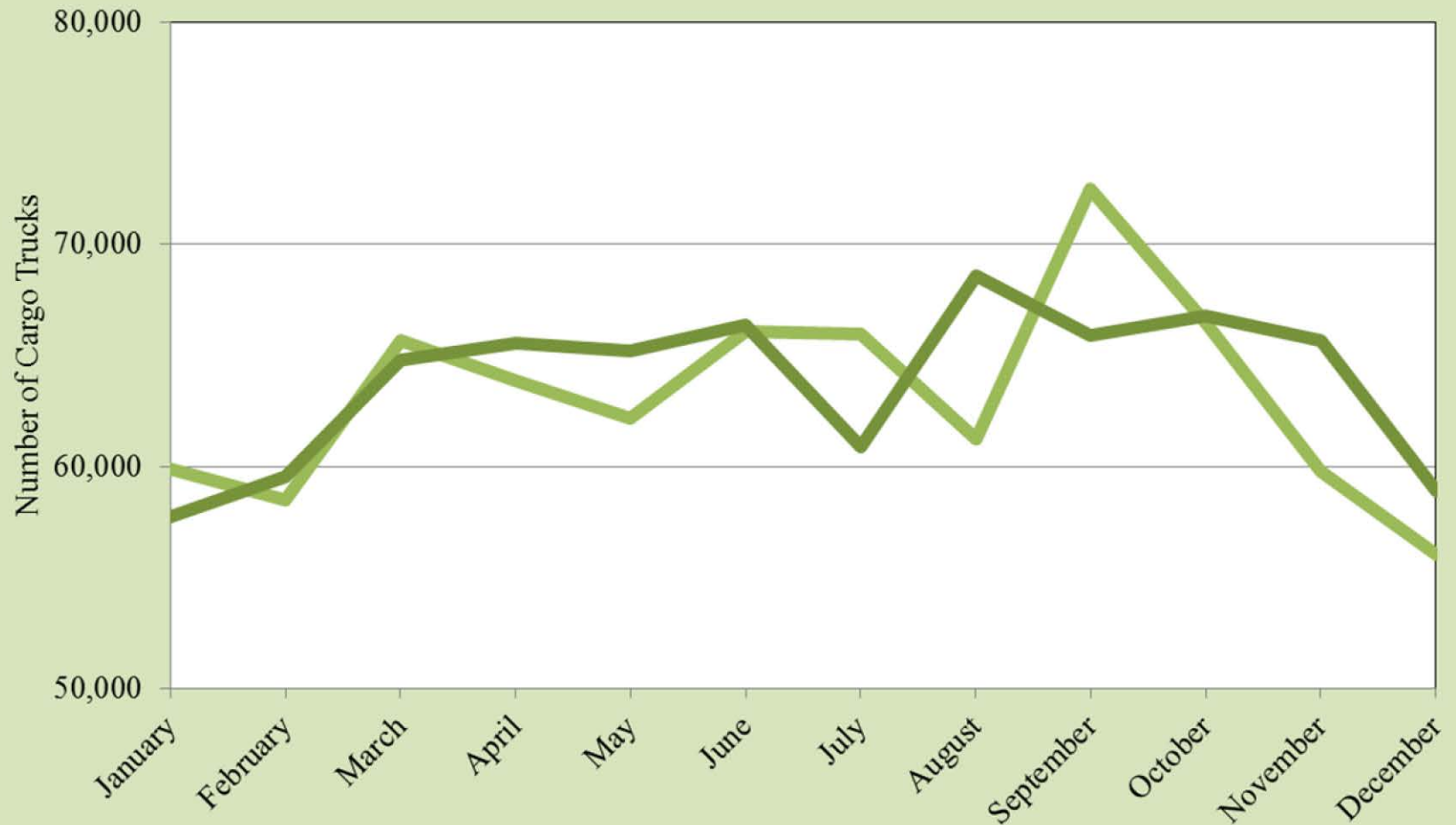
Pedestrian International Bridge Crossings to El Paso



Source: Bureau of Transportation Statistics and U.S. Customs and Border Protection

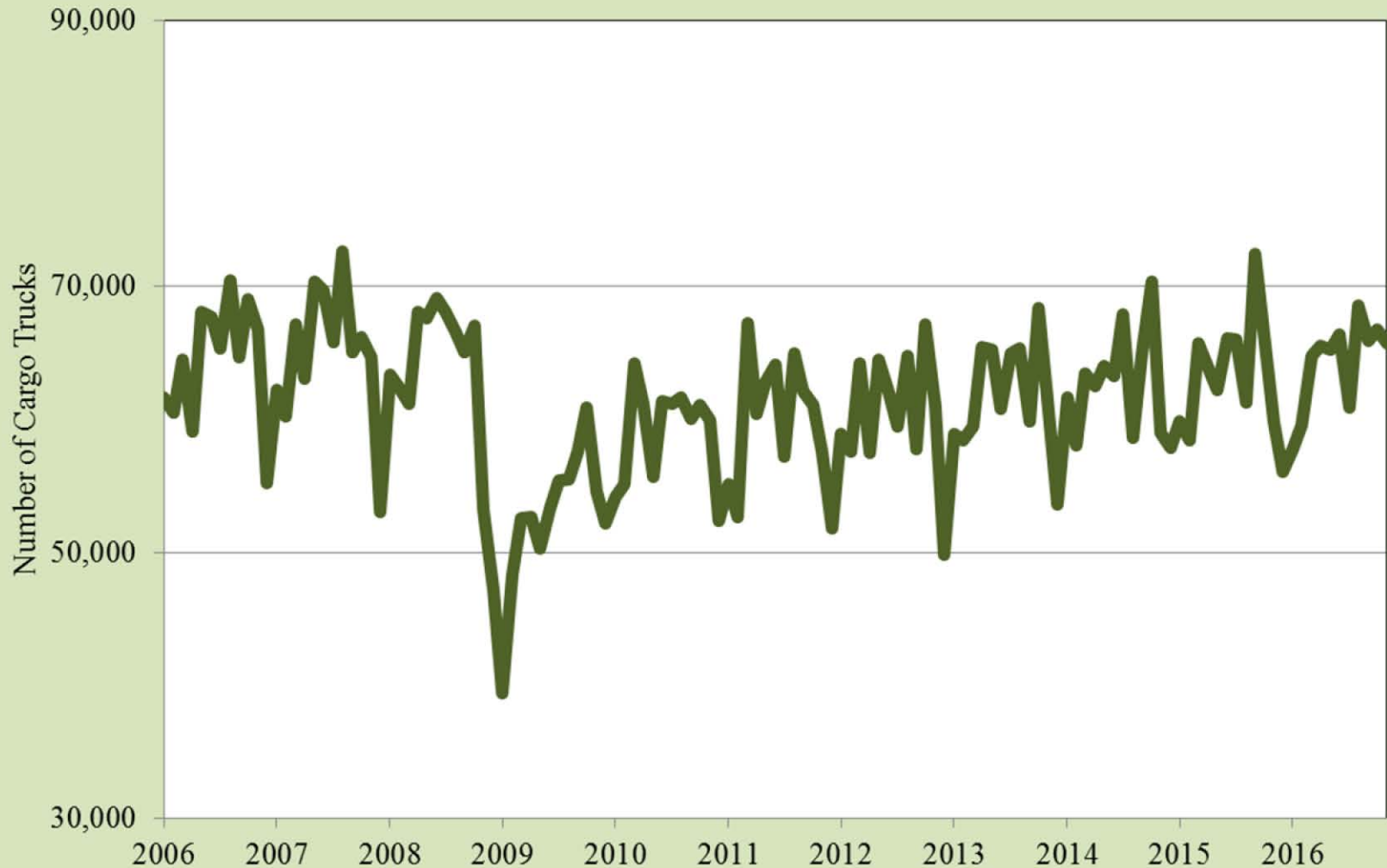
Cargo Truck International Bridge Crossings to El Paso

2015 2016



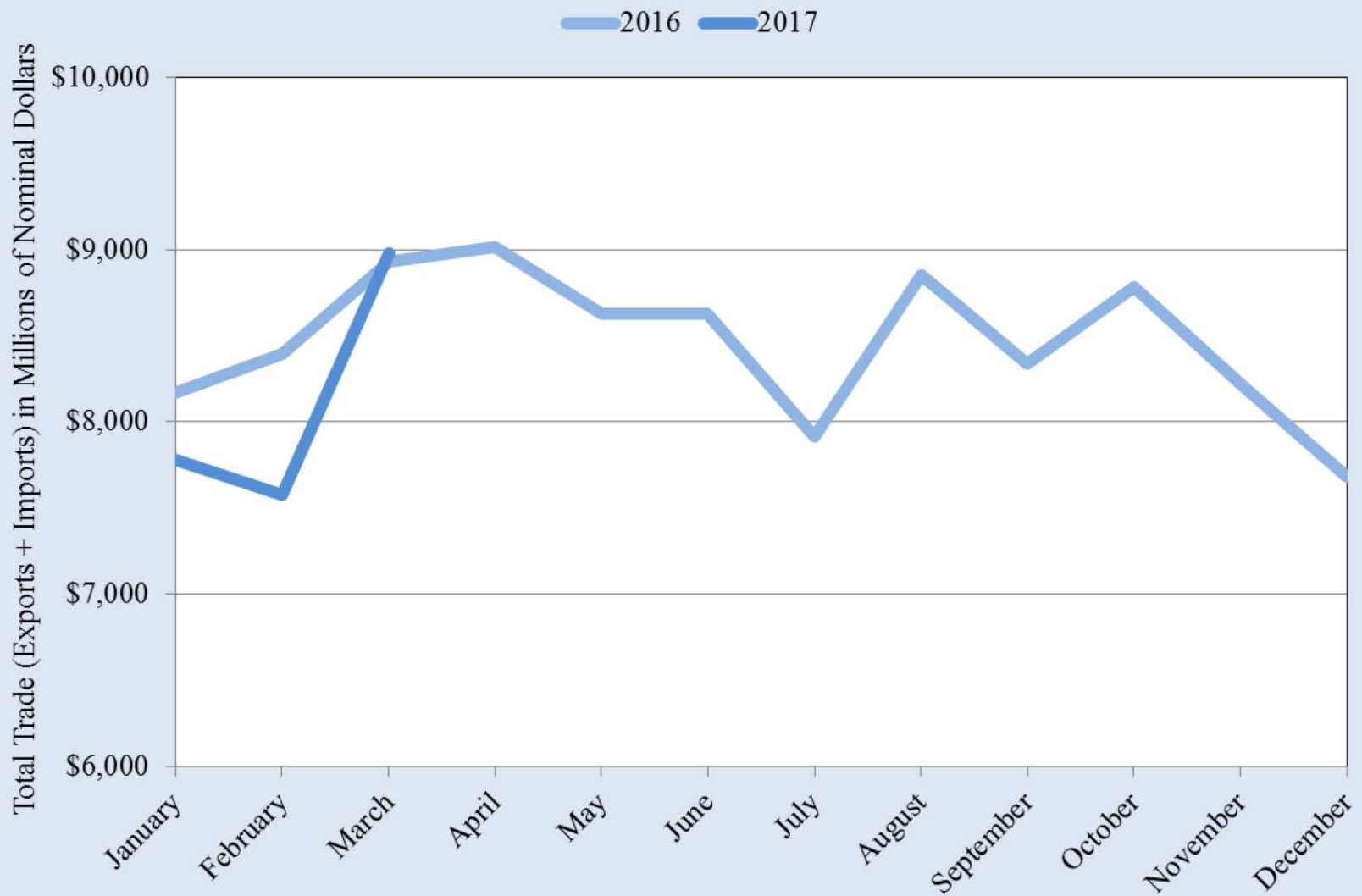
Source: Bureau of Transportation Statistics and U.S. Customs and Border Protection

Cargo Truck International Bridge Crossings to El Paso



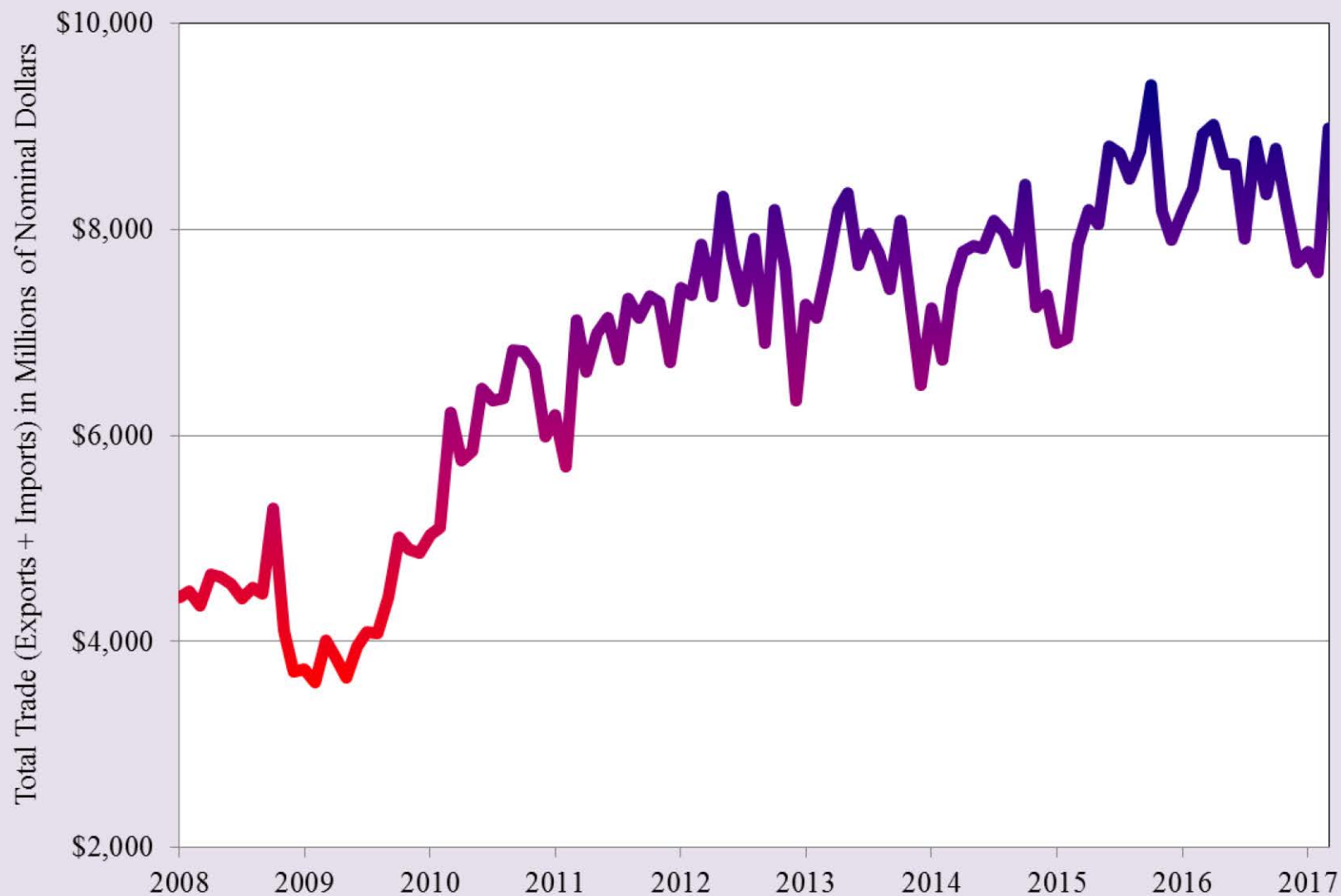
Source: Bureau of Transportation Statistics and U.S. Customs and Border Protection

Total Trade through the El Paso Customs District



Source: U.S. International Trade Commission

Total Trade through the El Paso Customs District



Source: U.S. International Trade Commission

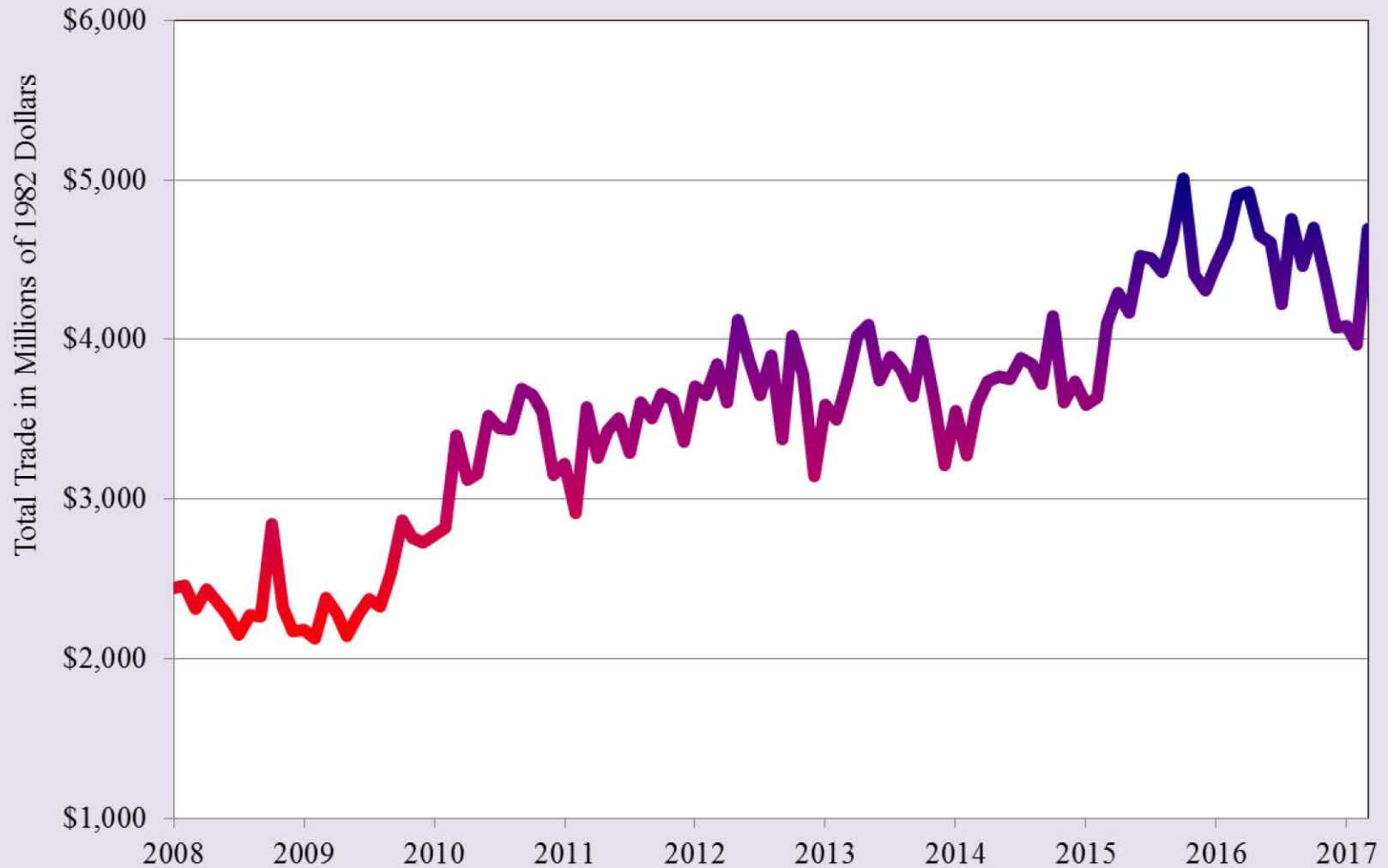
Real Total Trade through the El Paso Customs District

— 2016 — 2017



Sources: U.S. International Trade Commission and Bureau of Labor Statistics

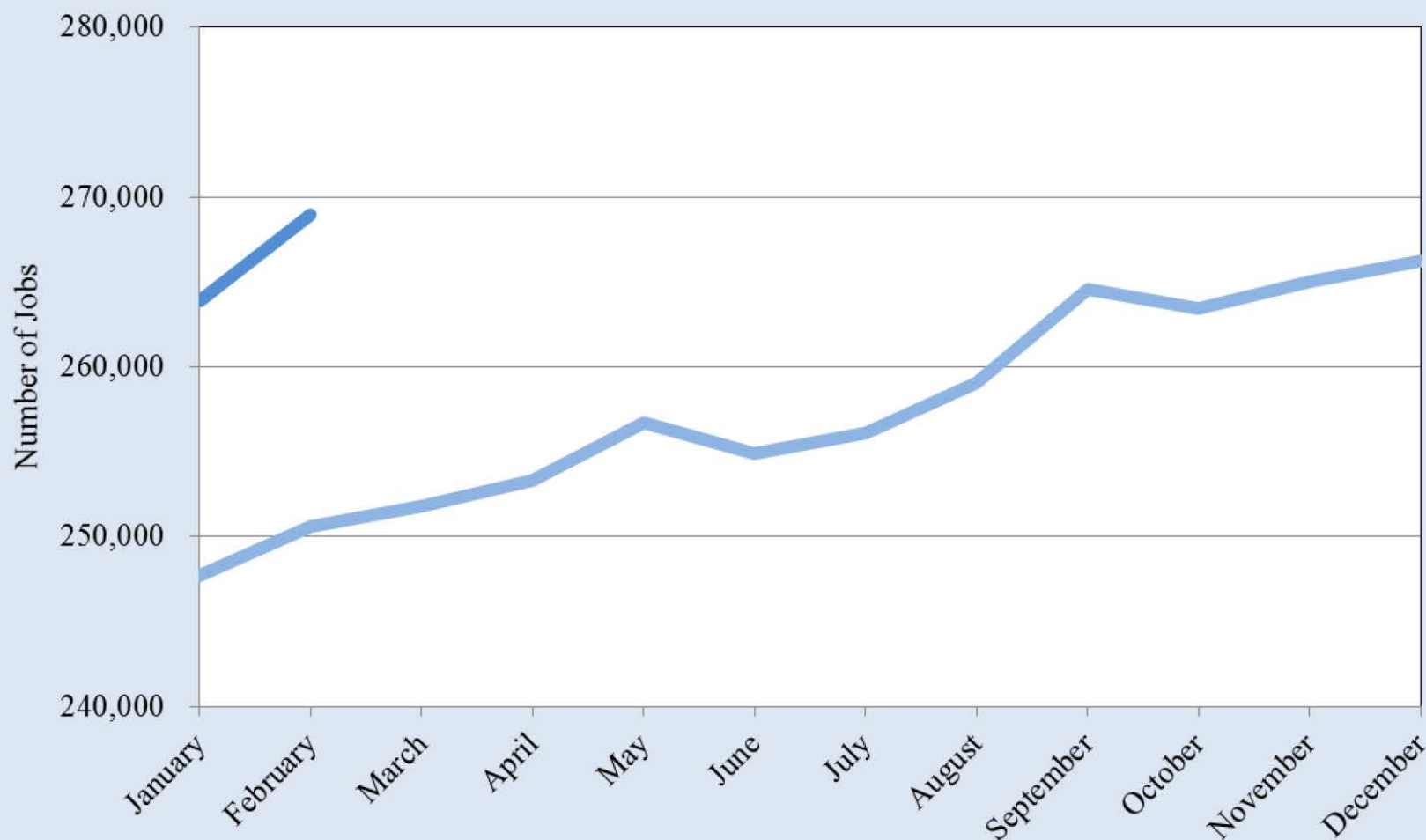
Real Total Trade through the El Paso Customs District



Sources: U.S. International Trade Commission and Bureau of Labor Statistics

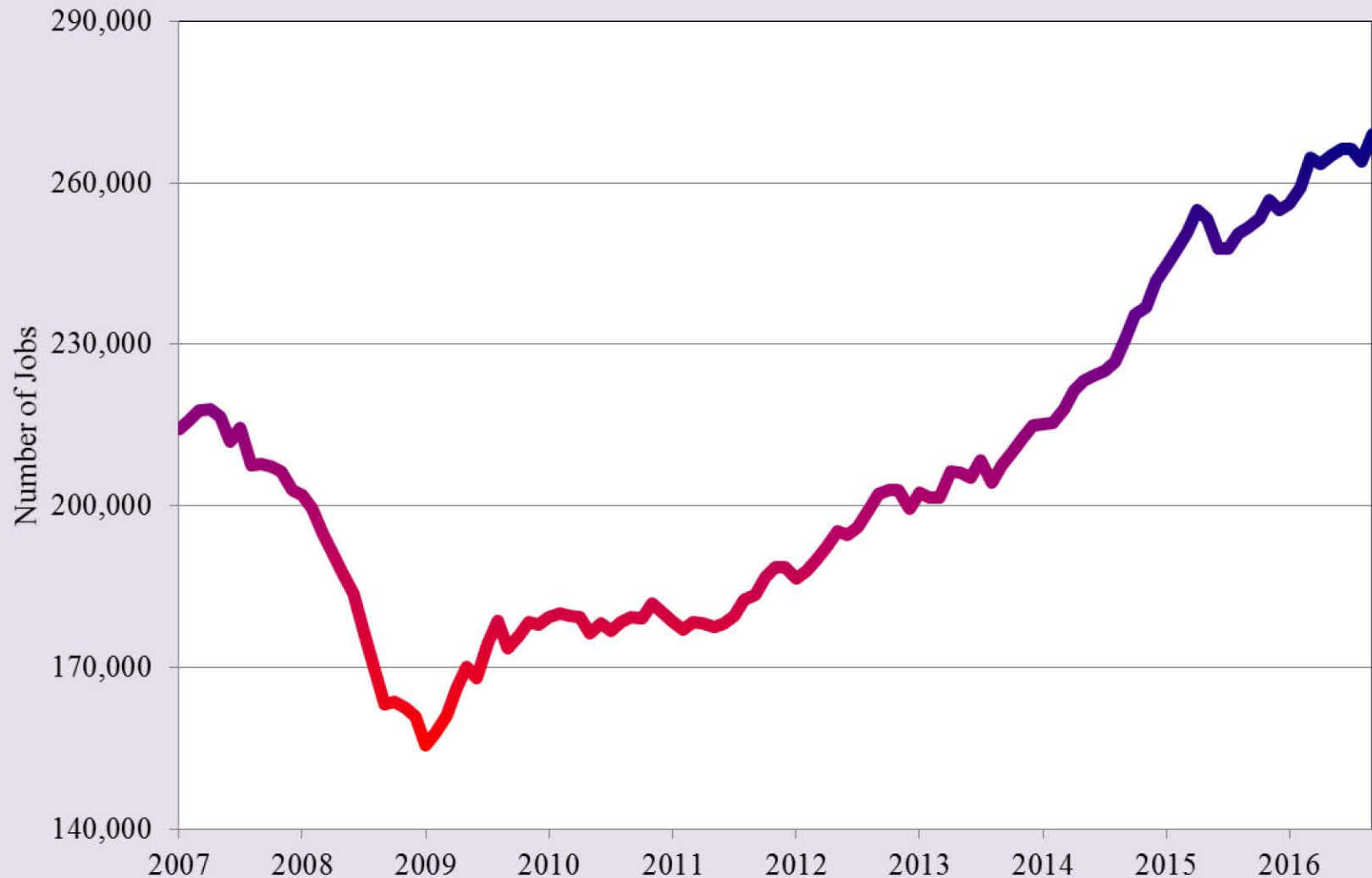
Export-Oriented Manufacturing Employment in Ciudad Juárez

— 2016 — 2017



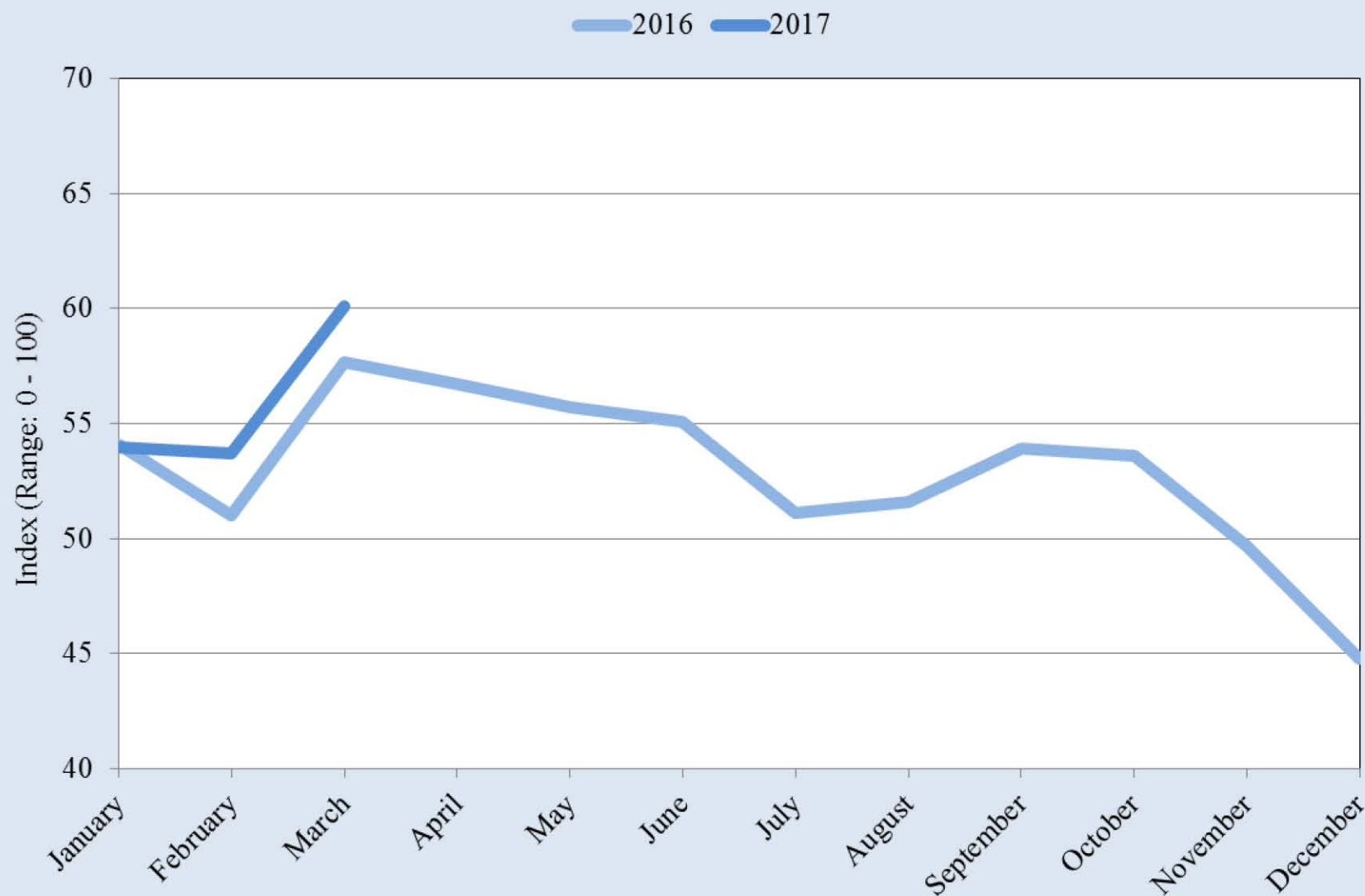
Source: INEGI

Export-Oriented Manufacturing Employment in Ciudad Juárez



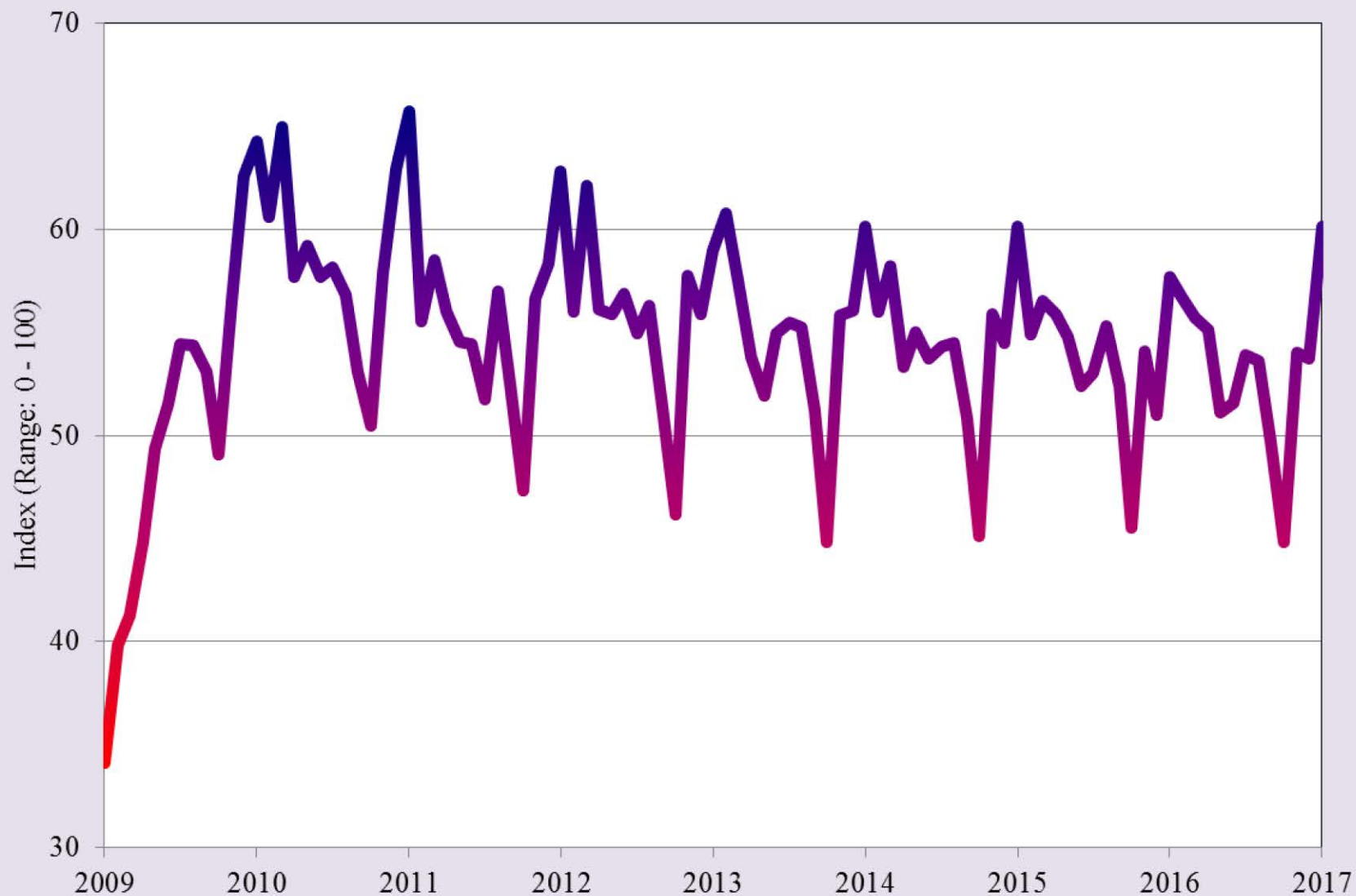
Source: INEGI

Northern Mexico Manufacturing Orders Index



Source: Banco de México

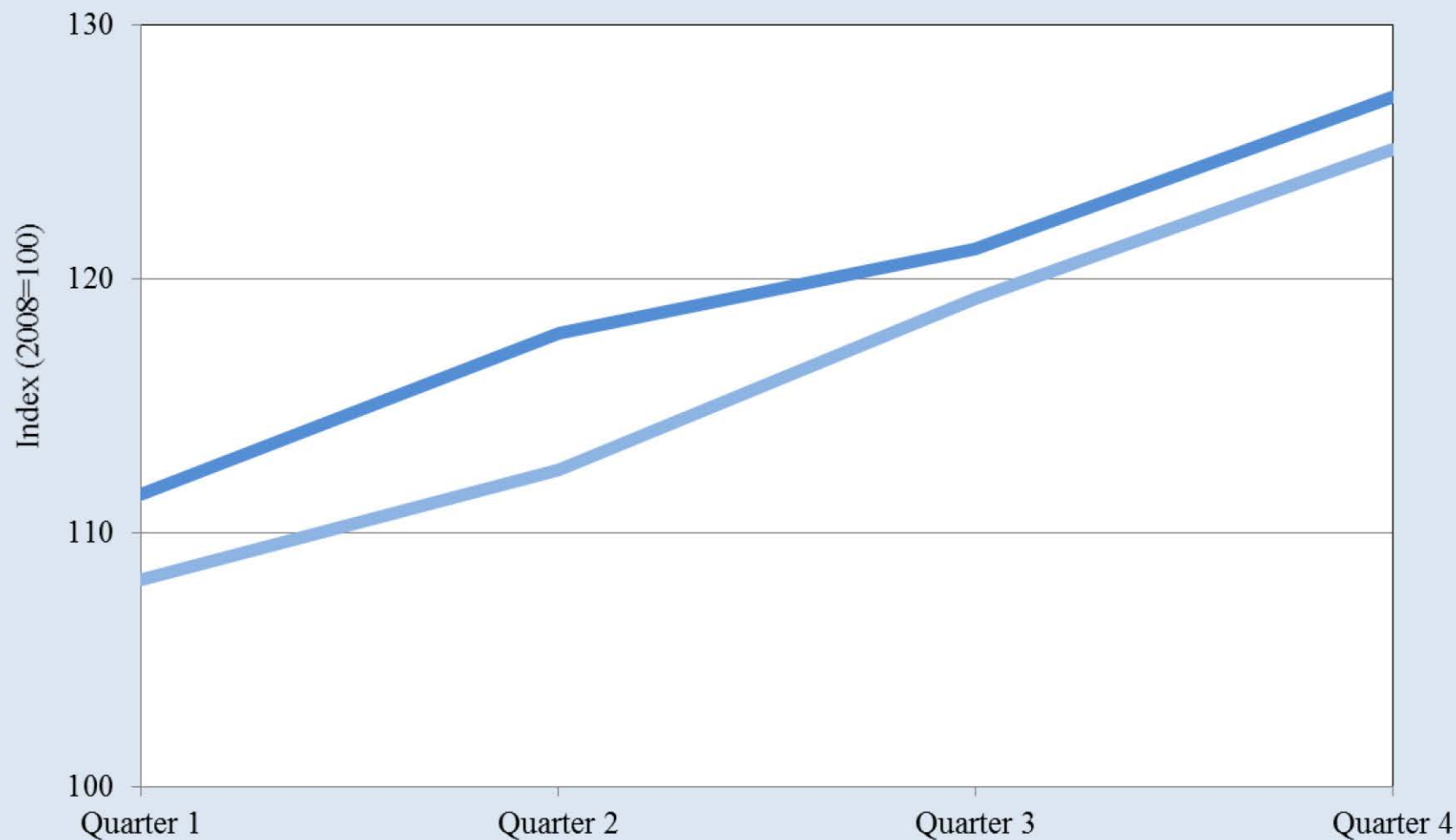
Northern Mexico Manufacturing Orders Index



Source: Banco de México

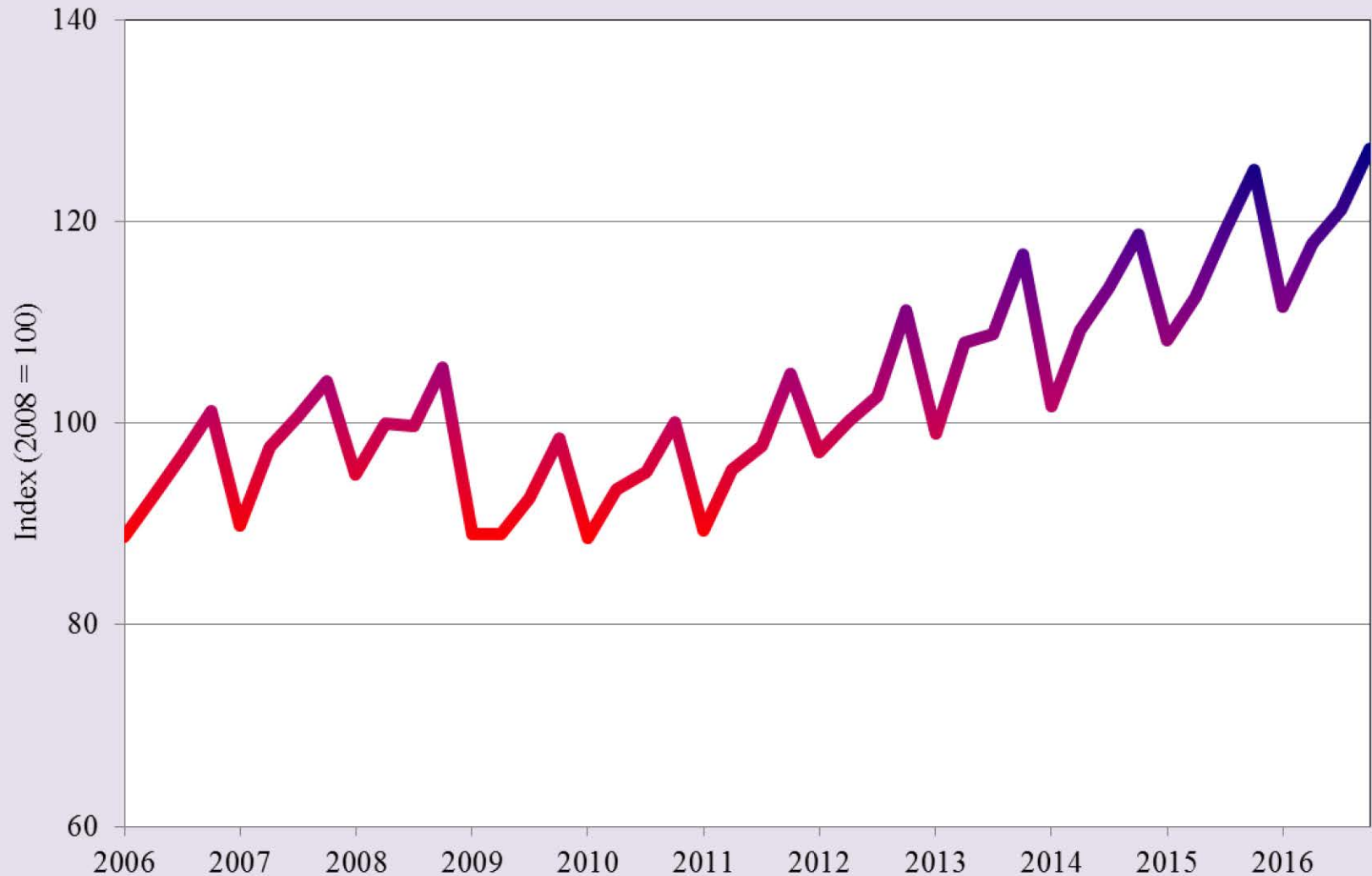
Quarterly Indicator of Economic Activity for the State of Chihuahua

— 2015 — 2016



Source: INEGI

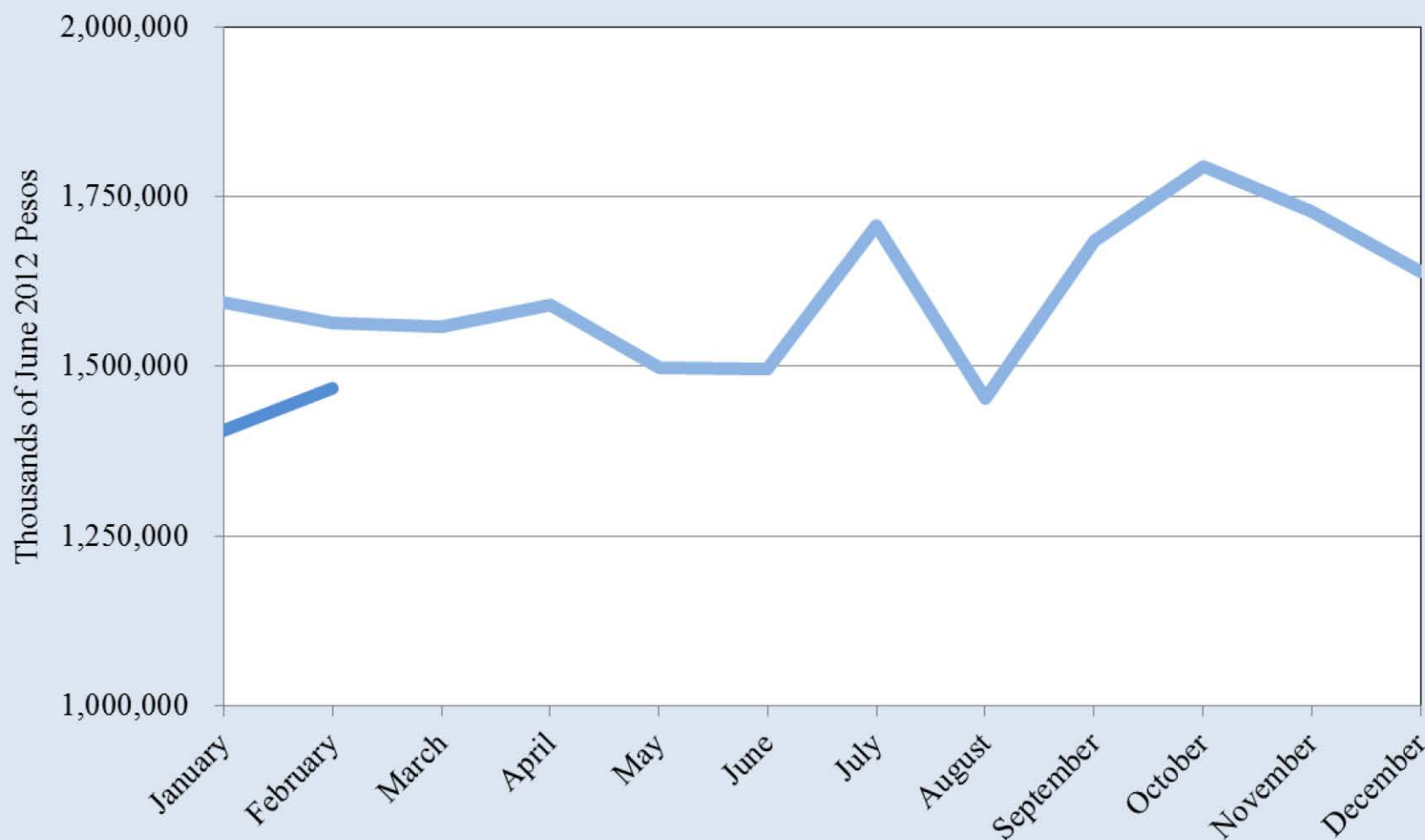
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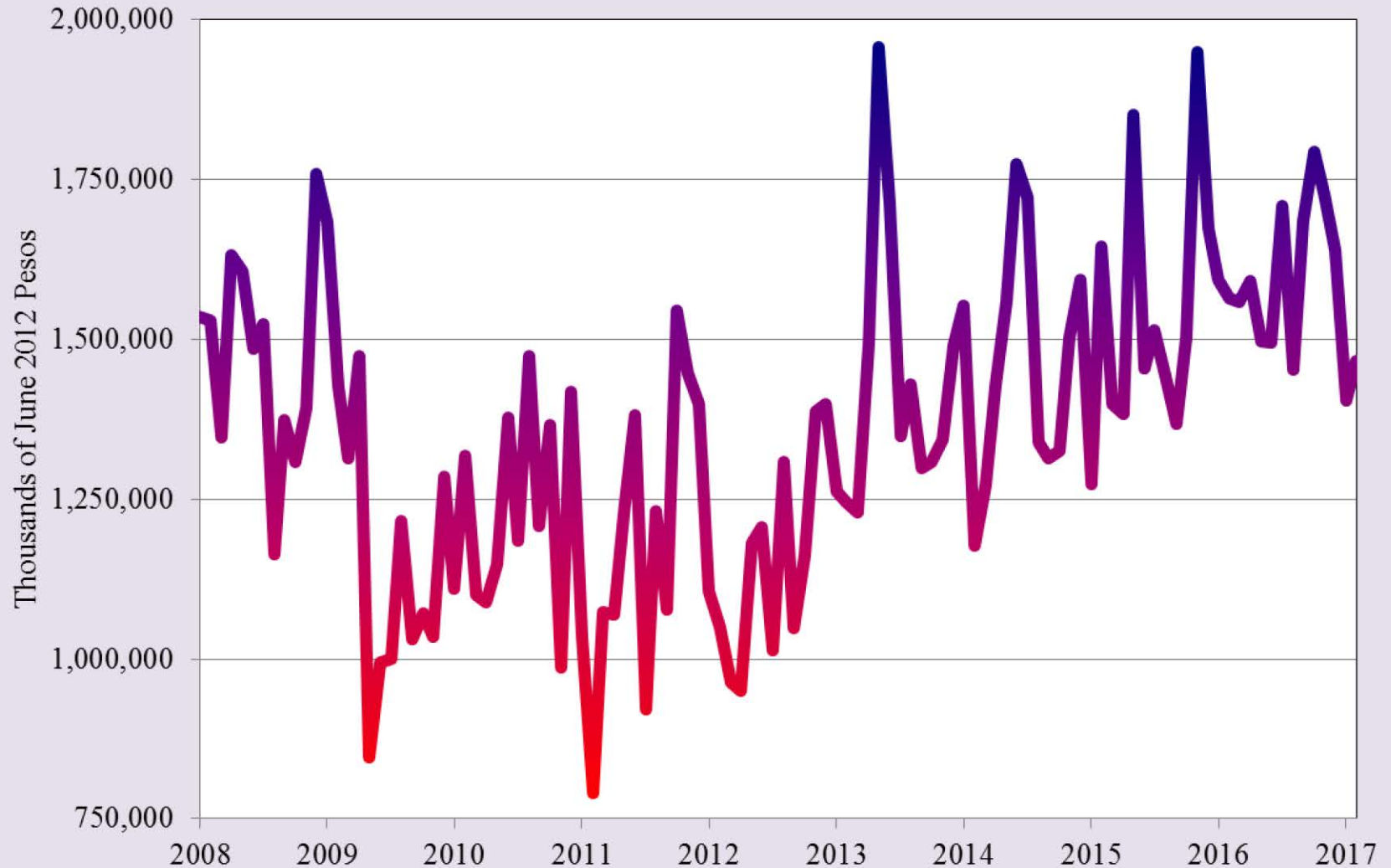
Total Value of Construction in the State of Chihuahua

— 2016 — 2017



Source: INEGI

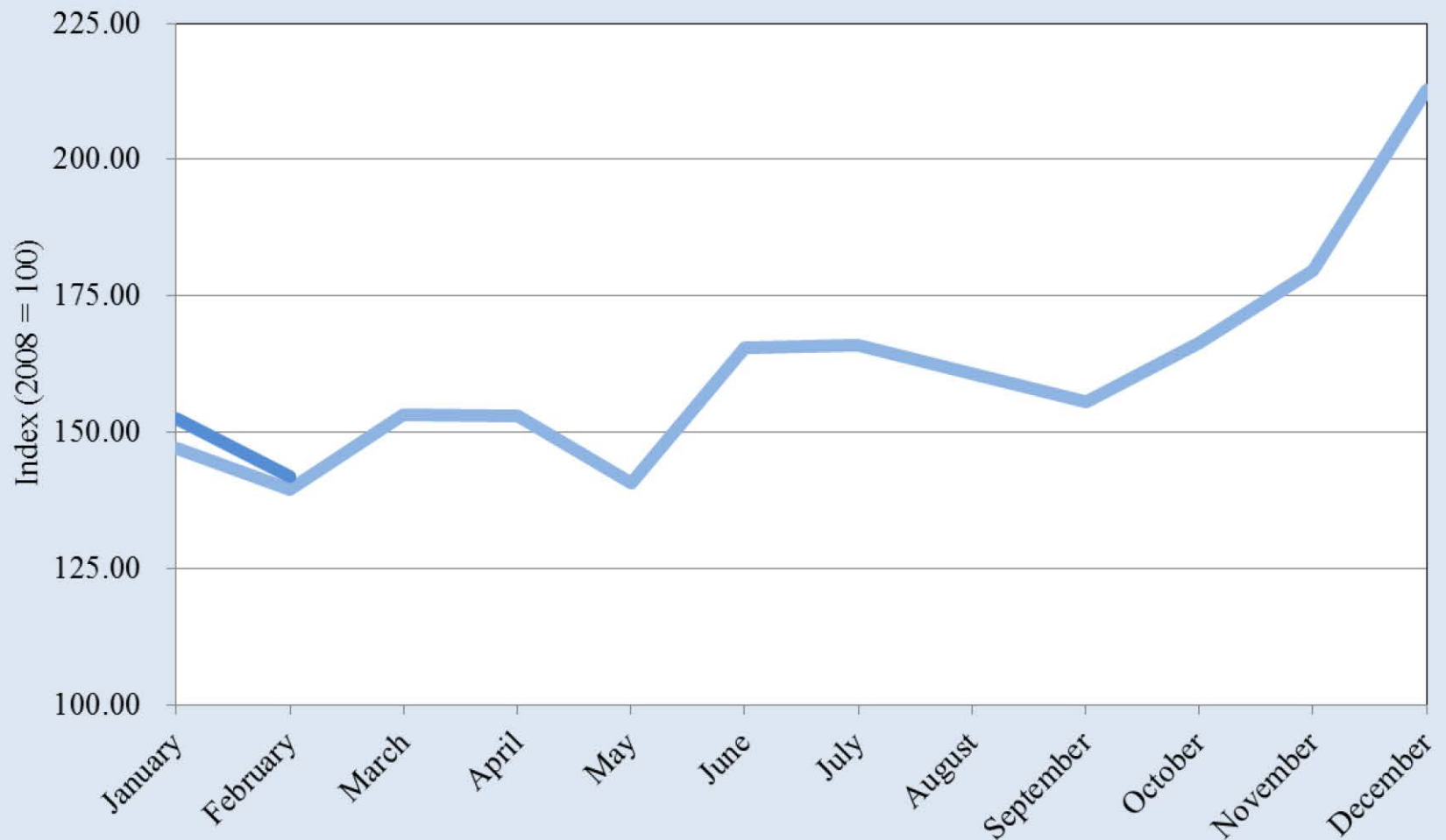
Total Value of Construction in the State of Chihuahua



Source: INEGI

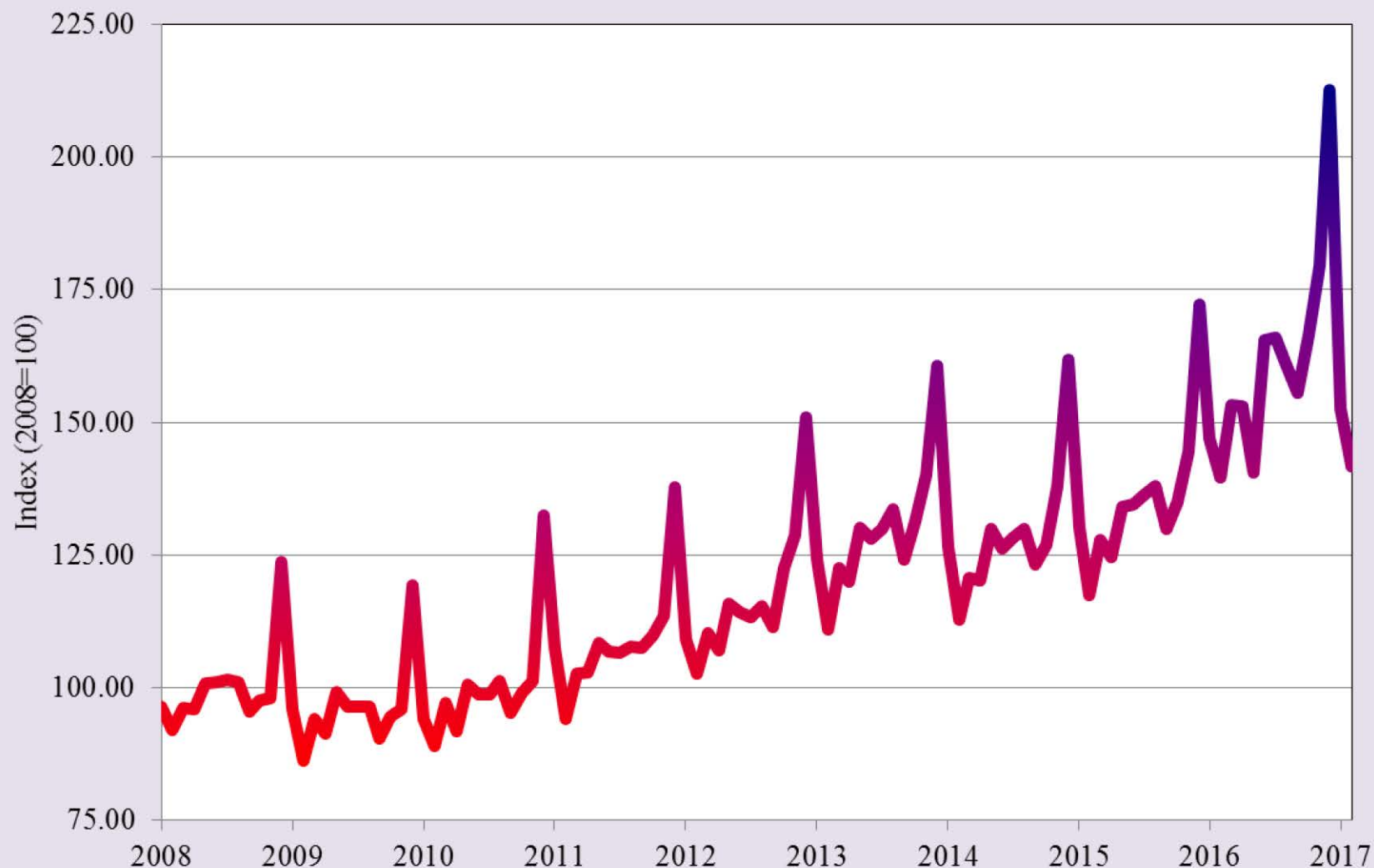
Real Retail Activity Index for the State of Chihuahua

— 2016 — 2017



Source: INEGI

Real Retail Activity Index for the State of Chihuahua



Source: INEGI



BORDERPLEX BUSINESS BAROMETER

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