

**CITY OF EL PASO, TEXAS  
AGENDA ITEM  
DEPARTMENT HEAD'S SUMMARY FORM**

**DEPARTMENT:** City Manager - Office of Management & Budget  
**AGENDA DATE:** February 5, 2018  
**CONTACT PERSON/PHONE:** Robert Cortinas, Interim Director of Municipal Financial Operations, (915) 212-1092  
**DISTRICT(S) AFFECTED:** All

**SUBJECT:**

Presentation on El Paso regional economy by Roberto Coronado (Vice President in Charge, El Paso Branch – Federal Reserve Bank of Dallas).

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**BACKGROUND / DISCUSSION:**

N/A

**PRIOR COUNCIL ACTION:**

N/A

**AMOUNT AND SOURCE OF FUNDING:**

N/A

**BOARD / COMMISSION ACTION:**

N/A

\*\*\*\*\*REQUIRED AUTHORIZATION\*\*\*\*\*

**DEPARTMENT HEAD:** \_\_\_\_\_

*Robert Cortinas*

**DATE:** \_\_\_\_\_

*2/1/18*



Federal Reserve  
Bank of Dallas

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# U.S.-Mexico Economic Relationship

**Roberto Coronado**

Vice President in Charge & Senior Economist

El Paso Branch

February 5, 2018

The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System

## Outline

1. The Federal Reserve System
2. U.S.-Mexico Economic Relationship
3. Concluding Remarks – What's next?: NAFTA renegotiation

# The Federal Reserve System

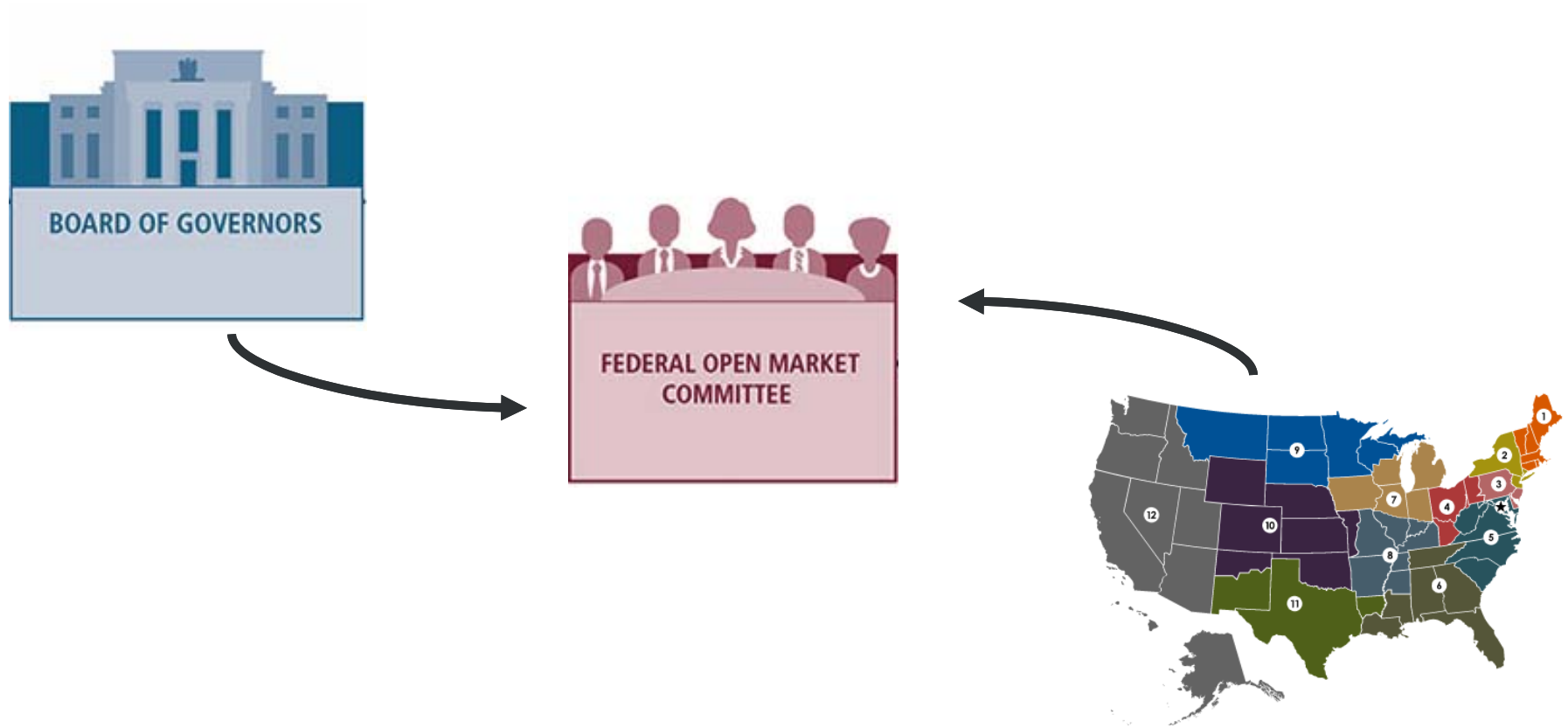
## What is the Fed?

- The Panic of 1907 jolted Wall Street
  - Highlighted need for financial reform
- Created by Congress to provide a safer and more stable financial system
- President Woodrow Wilson signed the Federal Reserve Act on December 23, 1913
- Unique public/private structure allows the Fed to operate independently from government

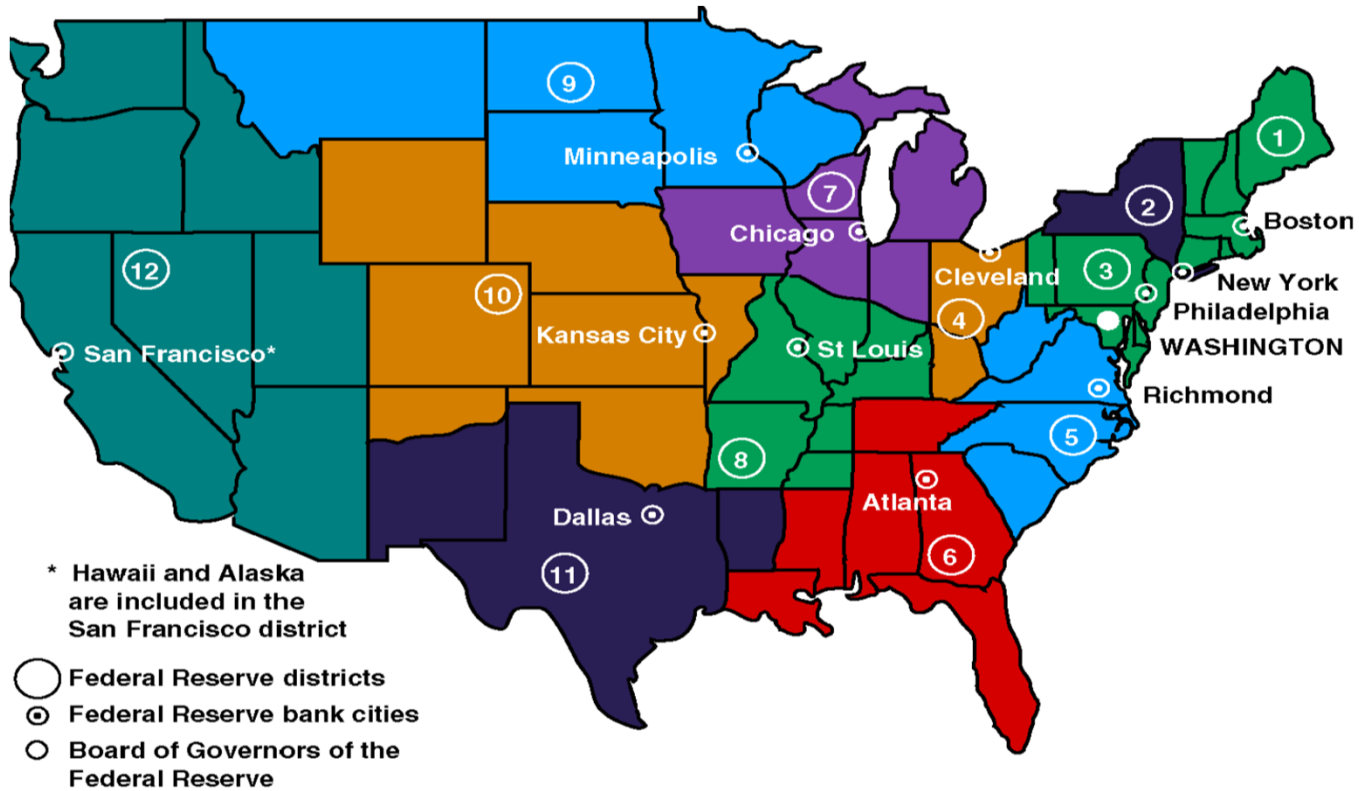
## Purpose of the Fed

- Conduct Monetary Policy
- Supervise and Regulate Banking Operations
- Provide Financial Services

# The Structure of the Fed



# Federal Reserve System



# The Fed seeks advice

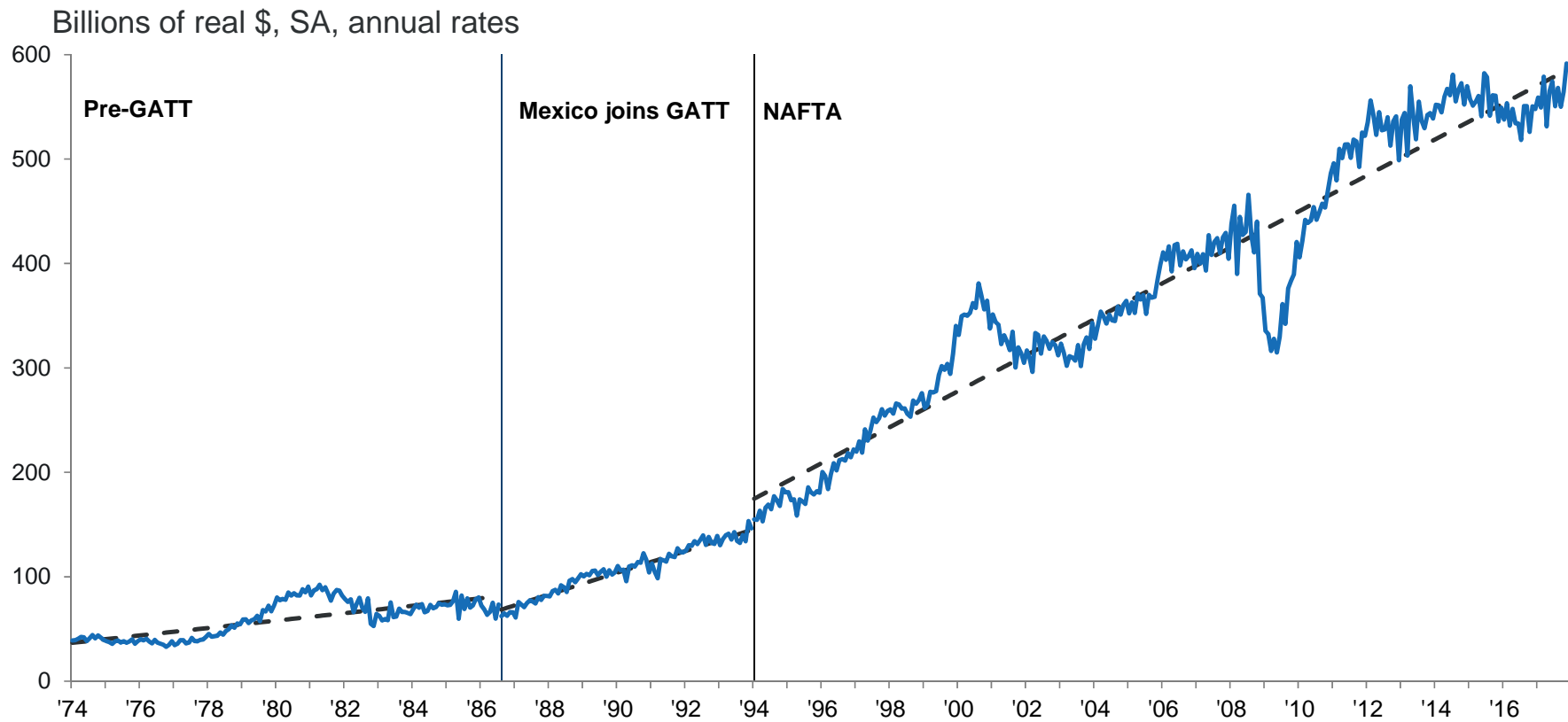
- Board of Directors
- Business and Community Advisory Council
- Community Depository Institutions Advisory Council
- Emerging Leaders Council
- Beige Book
- Business outlook surveys
- Roundtables with business and industry leaders

# U.S.-Mexico Trade

## U.S.-Mexico trade: unique and far reaching

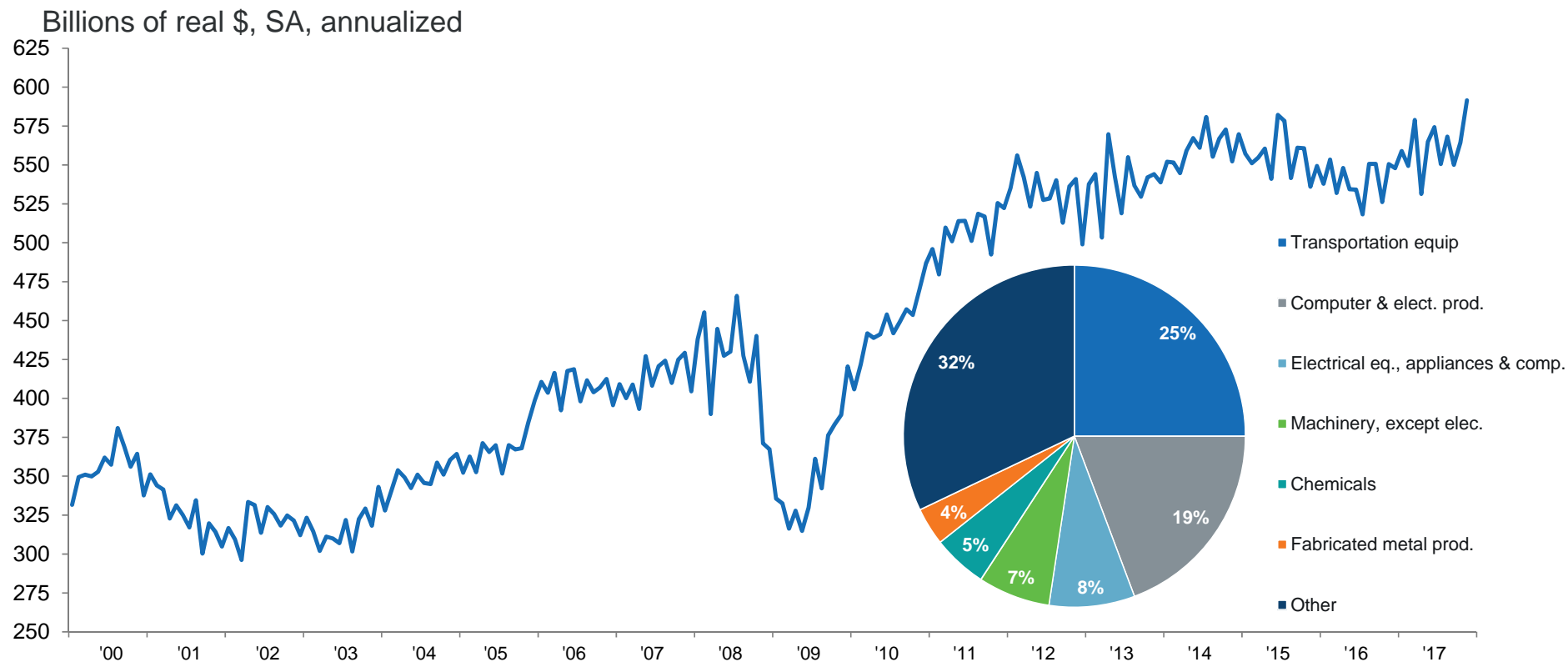
- U.S.-Mexico trade is far reaching:
  - \$1.5 billion/day or \$1 million/minute
- U.S.-Mexico trade is unique:
  - Over 70% of imports from Mexico are intermediate goods
  - Over 40% of imports from Mexico is U.S. content
- Due to intra-industry trade explosion, business cycles are tightly synchronized

# U.S.-Mexico trade



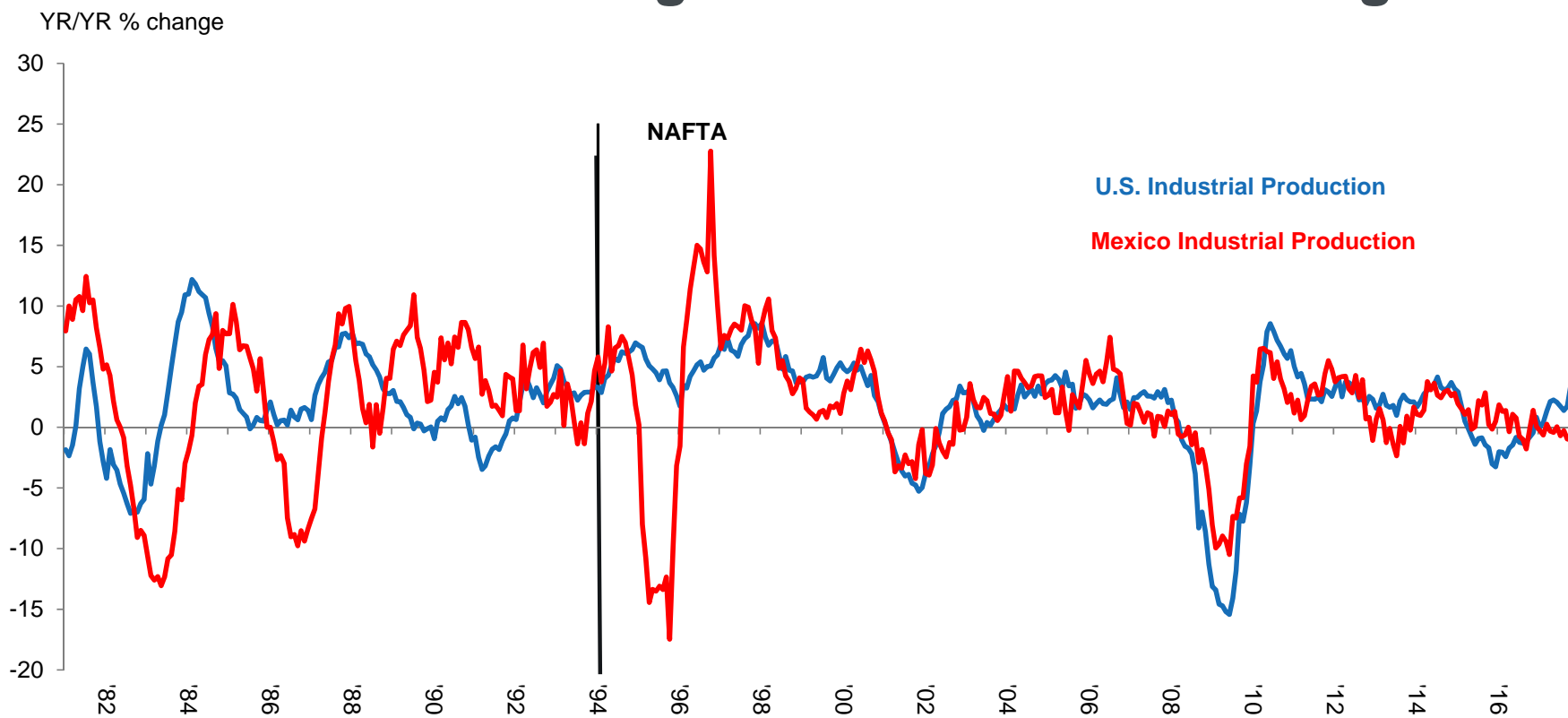
Source: U.S. Census Bureau

# U.S.-Mexico trade gradually picking up



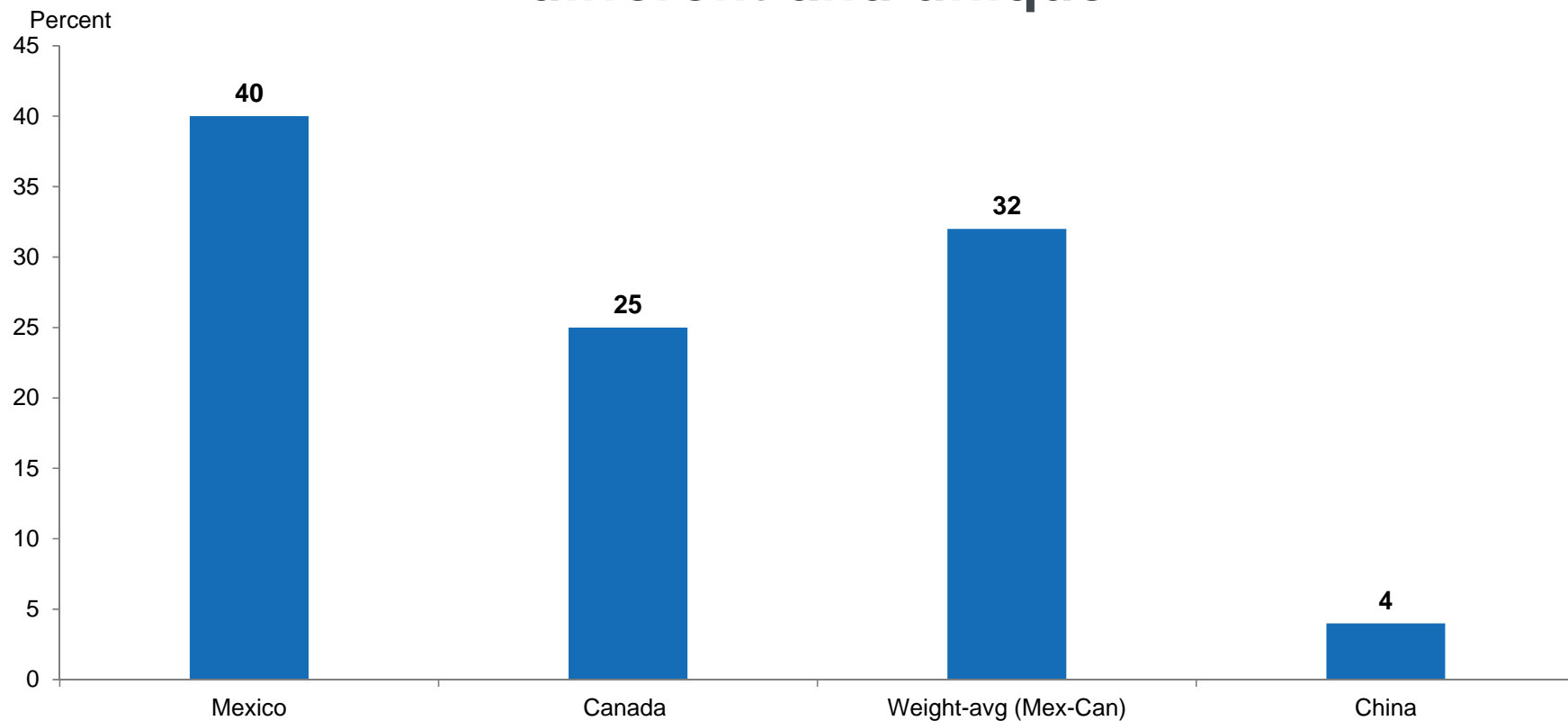
Source: U.S. Census Bureau

# Increased trade brings further economic integration



Source: Federal Reserve Board, Instituto Nacional de Estadística Geografía e Informática

# U.S. trade relationship with Mexico and Canada is different and unique

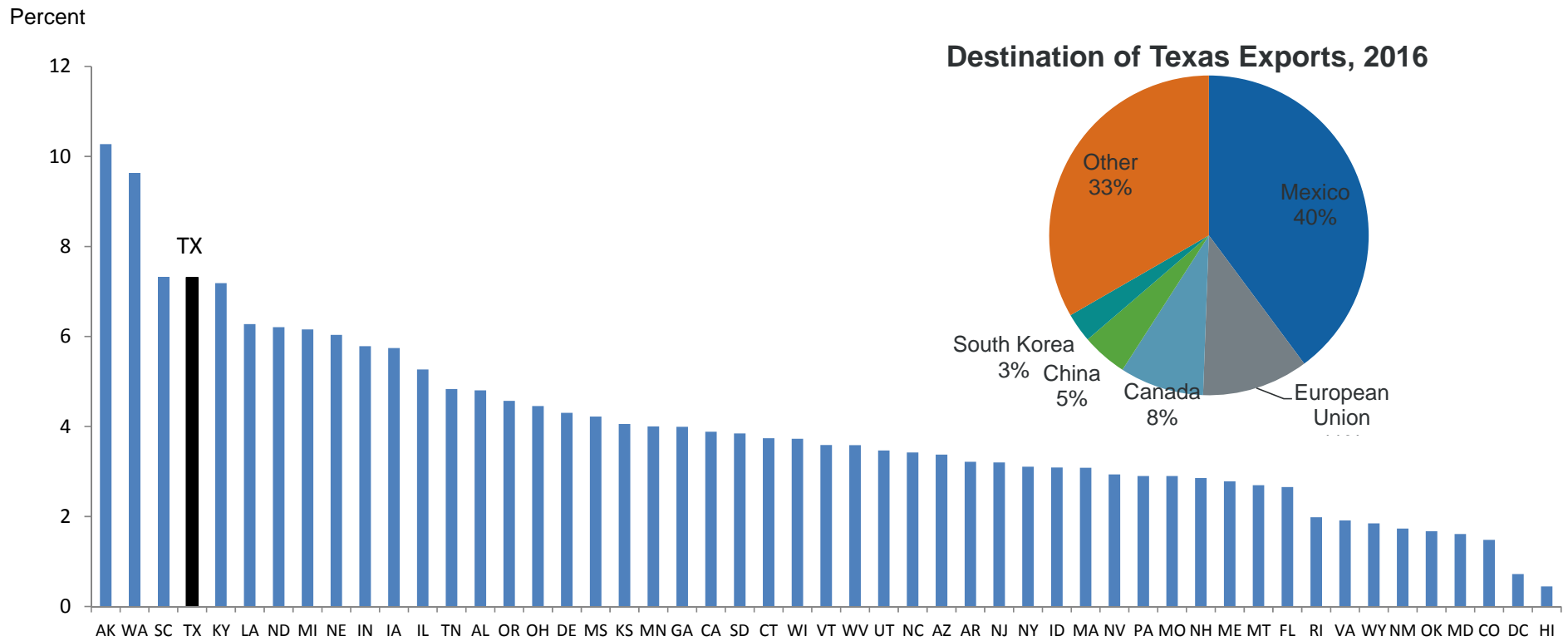


Note: Data is from 2004

Source: Robert Koopman, William Powers, Zhi Wang, Shang-Jin Wei, "Give Credit Where Credit Is Due," NBER Working Paper No. 16426, 2011

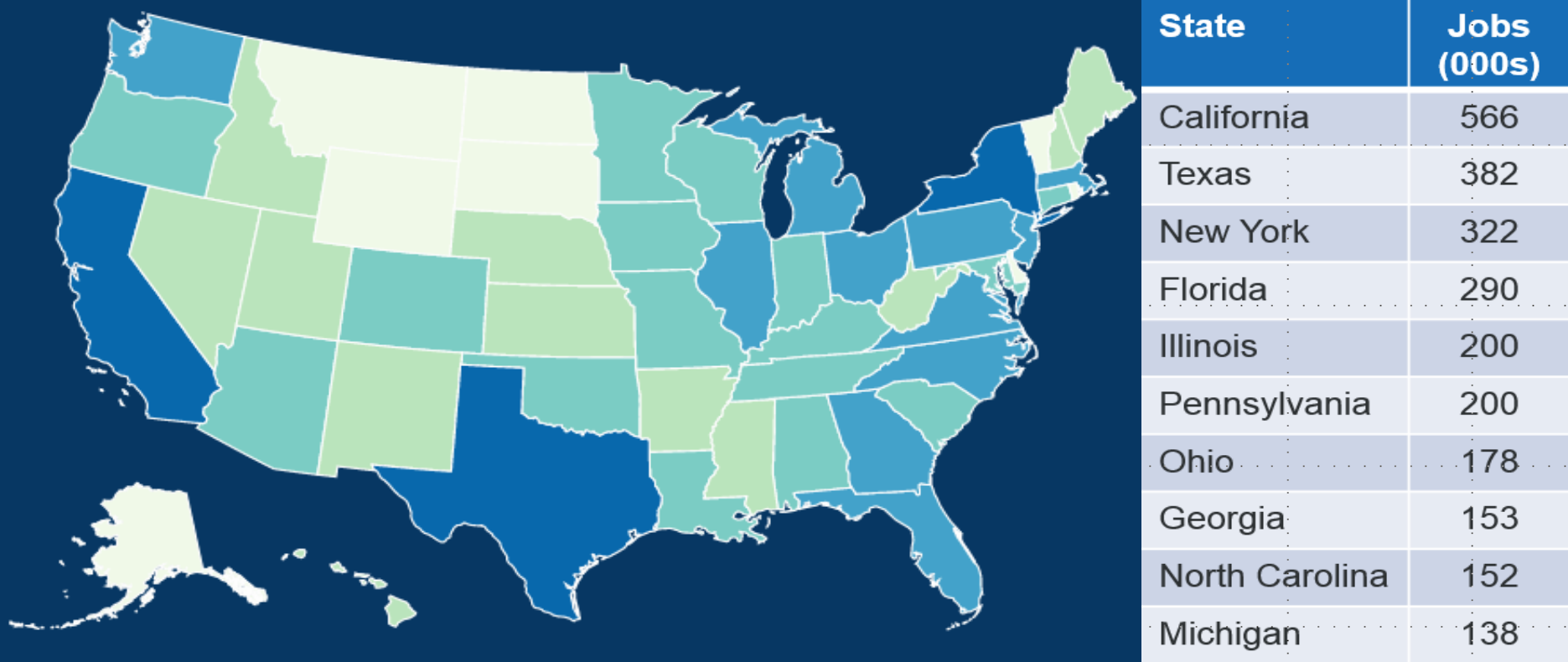
# Texas-Mexico Economic Relationship

# Share of Texas jobs tied to exports, 4<sup>th</sup> highest among states



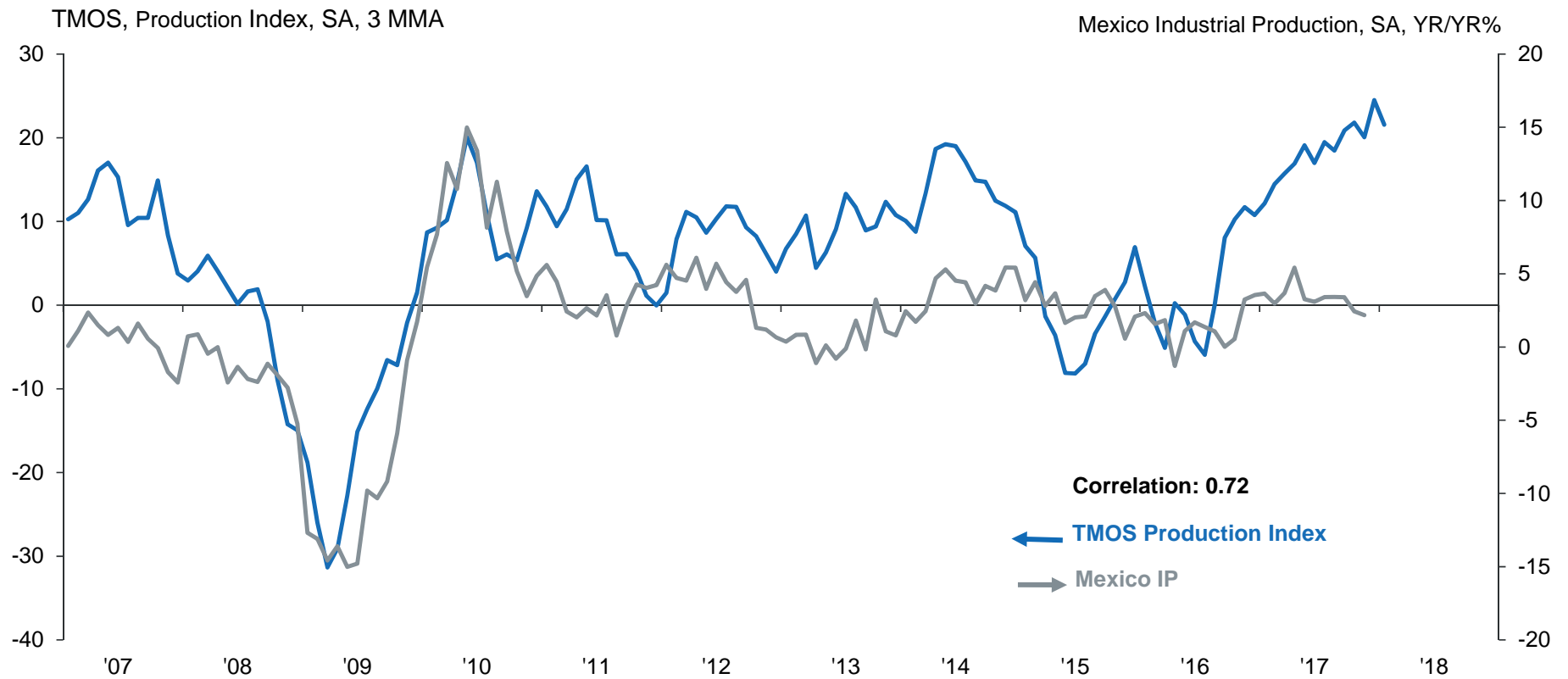
SOURCES: International Trade Administration; WISERtrade; Bureau of Economic Analysis.

# Nearly 5 million jobs depend on trade with Mexico



Source: Mexico Institute at the Wilson Center; data is for 2014

# Texas-Mexico economic integration

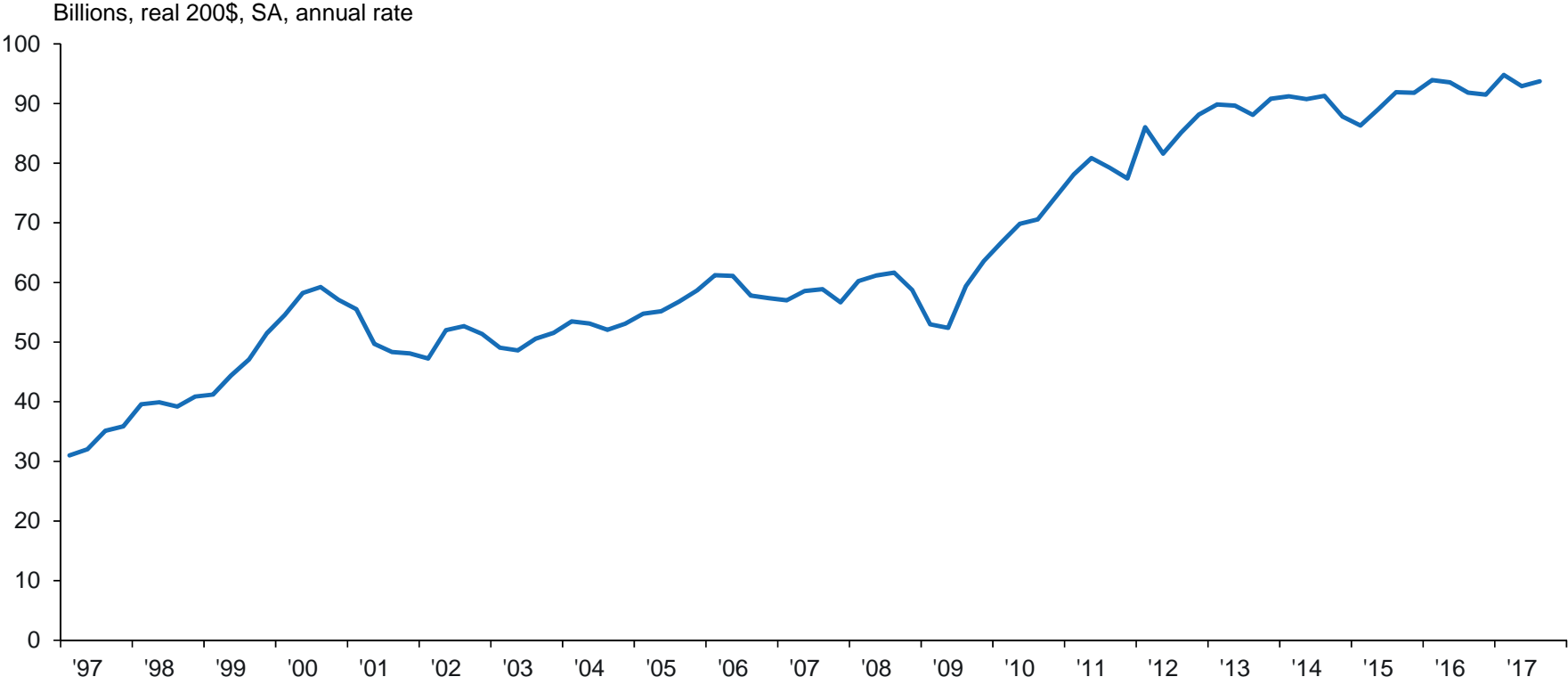


SOURCE: Federal Reserve Bank of Dallas, Texas Manufacturing Outlook Survey; Federal Reserve Board

## Is Mexico important to U.S.-border states' exports?

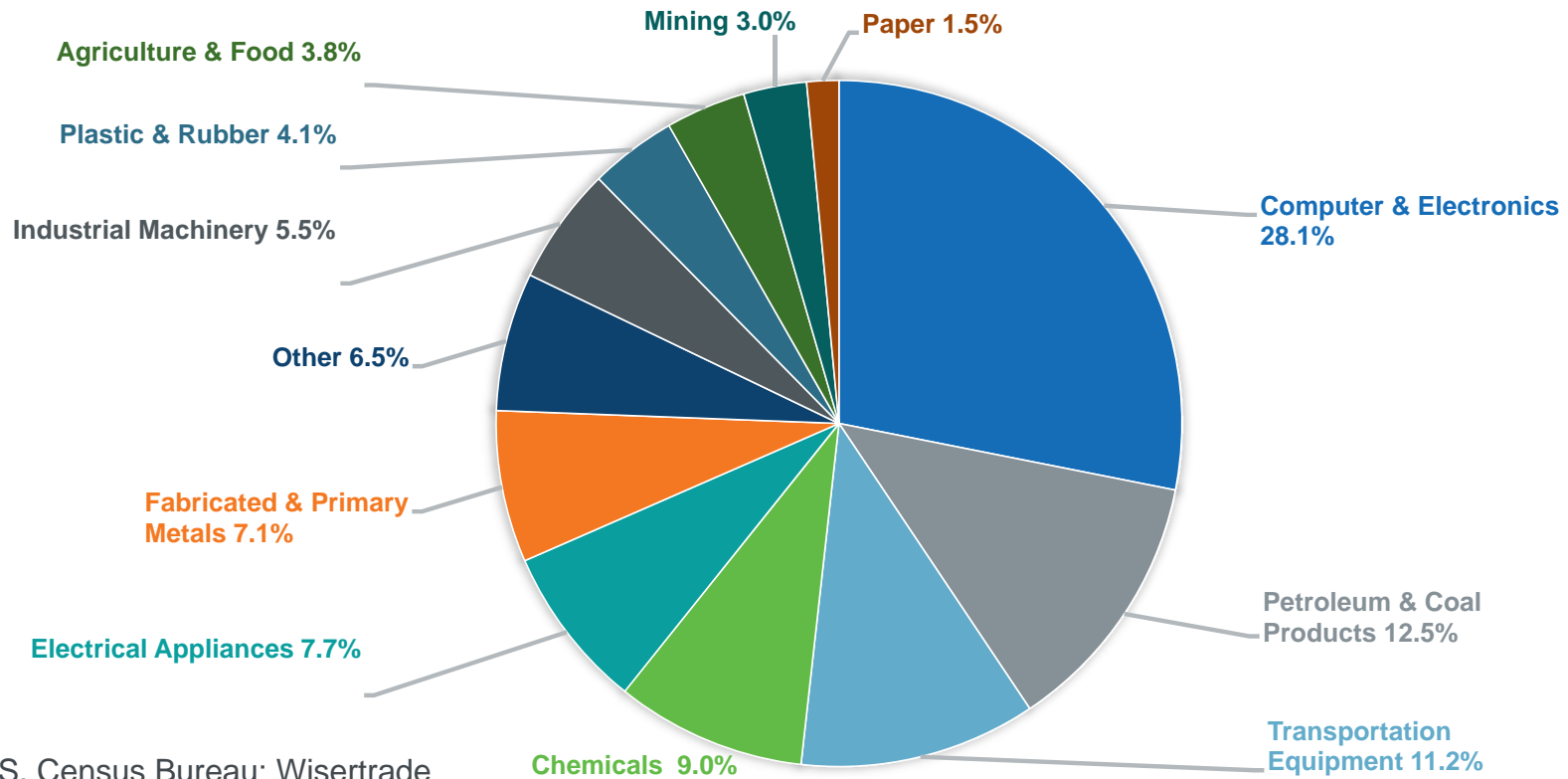
- Mexico is the third most important trading partner for the U.S.
- For U.S. border states, Mexico is a key trading partner:
  - Arizona. . . . . \$8.2 billion (37.8%)
  - California. . . . . \$25.3 billion (15.4%)
  - New Mexico. . . . \$1.6 billion (43.4%)
  - Texas. . . . . \$92.7 billion (39.8%)

# Mexico, the most important export market for Texas



SOURCE: Federal Reserve Bank of Dallas; WISER, U.S. Census Bureau

# Texas' exports to Mexico are well diversified

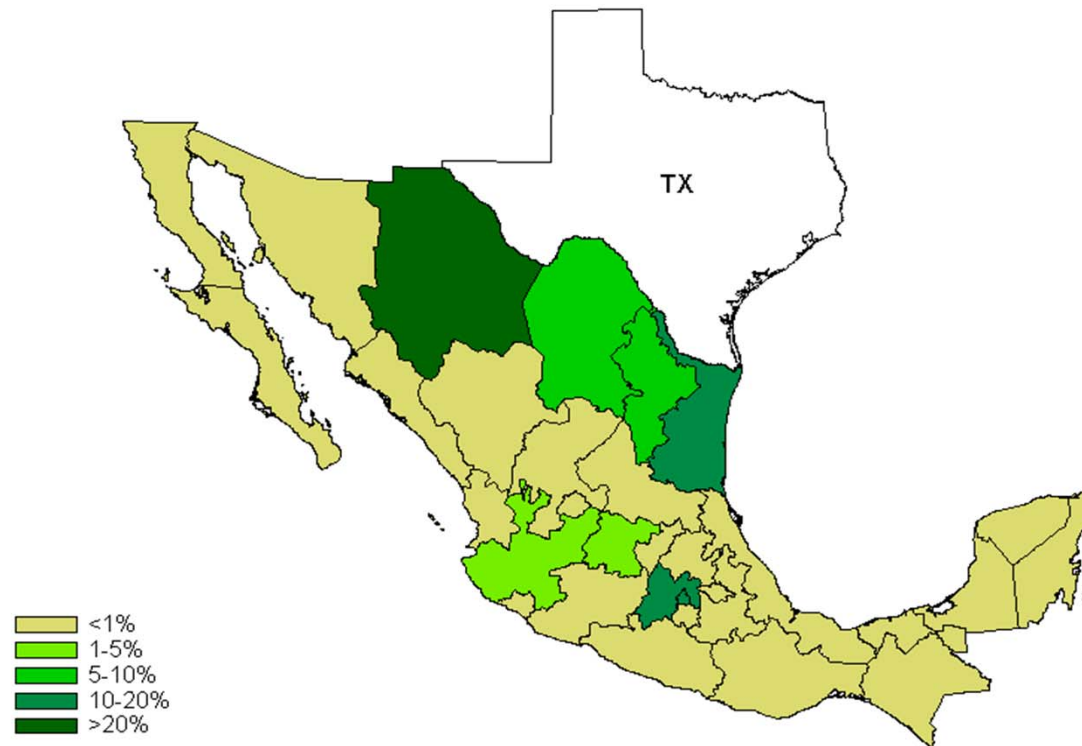


Source: U.S. Census Bureau; Wisertrade

## Texas' Comparative Advantage

- Texas' exports are well diversified
  - Petroleum products and chemicals are among the most competitive
- Competitiveness has increased as Texas industries have become more productive
- Texas is an important player in the global market
  - Gained market share domestically; kept competitive internationally
- Mexico is a strategic partner
  - Gained domestic competitiveness in the auto industry vis-a-vis Ohio and Illinois

## Texas' exports to Mexico mainly concentrated in Northern Mexico



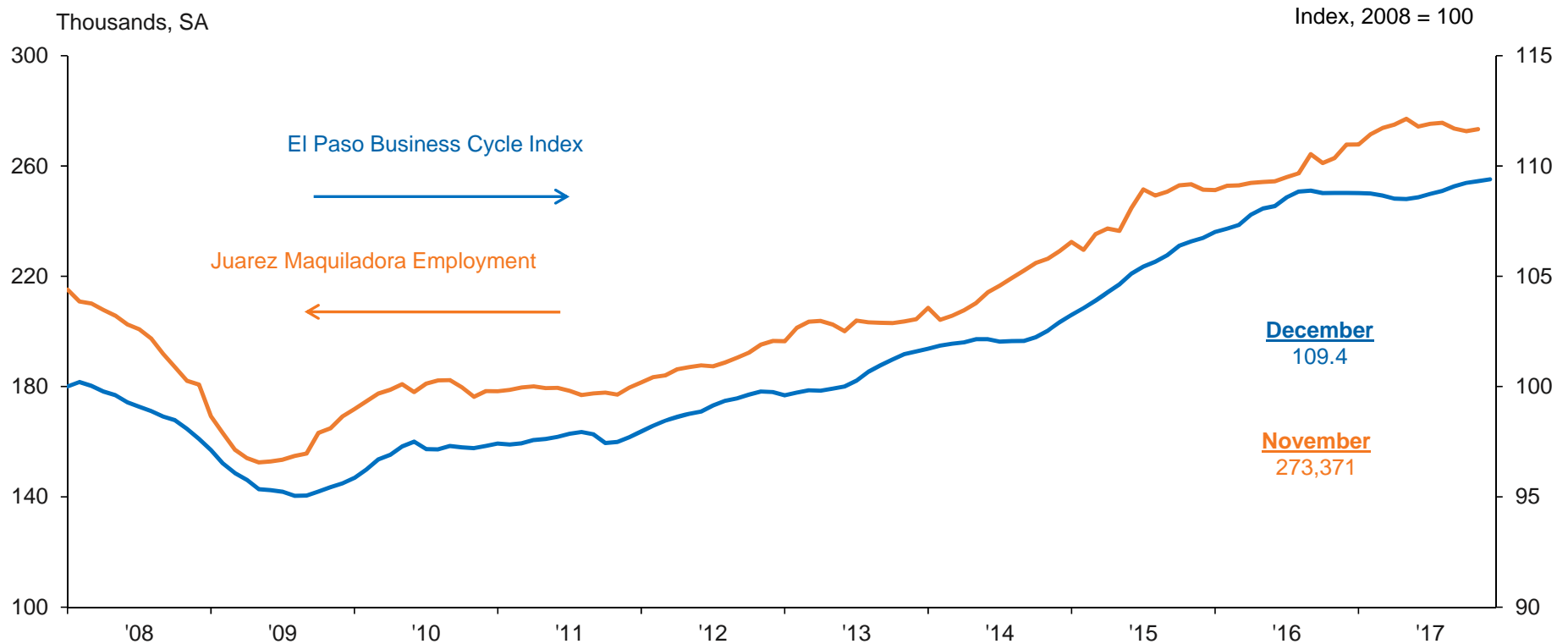
Source: Federal Reserve Bank of Dallas, Jesus Canas

# El Paso and the Ciudad Juarez Maquiladora Industry

## The role of the border region

- The U.S.-Mexico border region has played a critical role as both nations integrate even further
- Maquiladoras are a major vehicle for the cross-border movement of industrial goods
- According to Dallas Fed research, maquiladoras drive significant economic activity in El Paso and other U.S. border cities

# El Paso follows the maquiladora industry



SOURCE: Instituto Nacional de Estadística, Geografía e Informática (INEGI), Federal Reserve Bank of Dallas

## Maquiladoras are quite important for El Paso

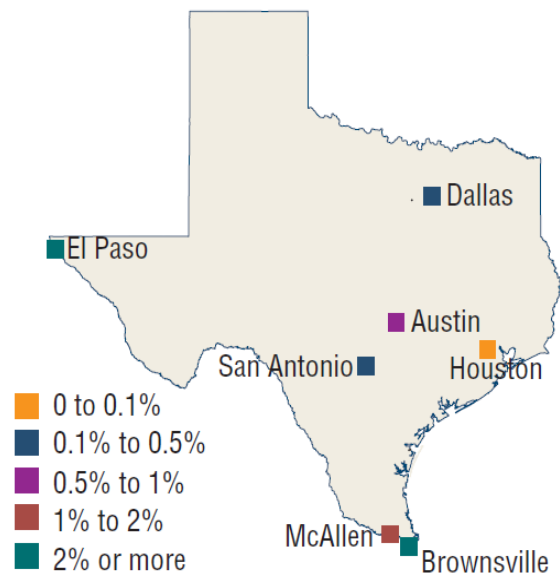
|                       | El Paso Employment |
|-----------------------|--------------------|
| <b>City Level</b>     | <b>2.8*</b>        |
| Construction          | 0.2                |
| Manufacturing         | -1.3               |
| <b>Transportation</b> | <b>5.3*</b>        |
| Wholesale             | 0.4                |
| Retail                | 1.3                |
| <b>FIRE</b>           | <b>2.1*</b>        |
| <b>Services</b>       | <b>1.8*</b>        |

NOTE: 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.

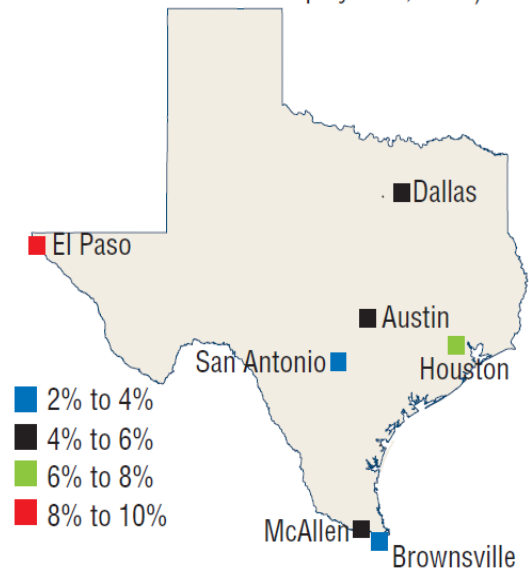
# Early on NAFTA was painful; today it is an important driver of growth

**Workers Displaced by NAFTA**  
(1994–2014 as share of 1994 employment)



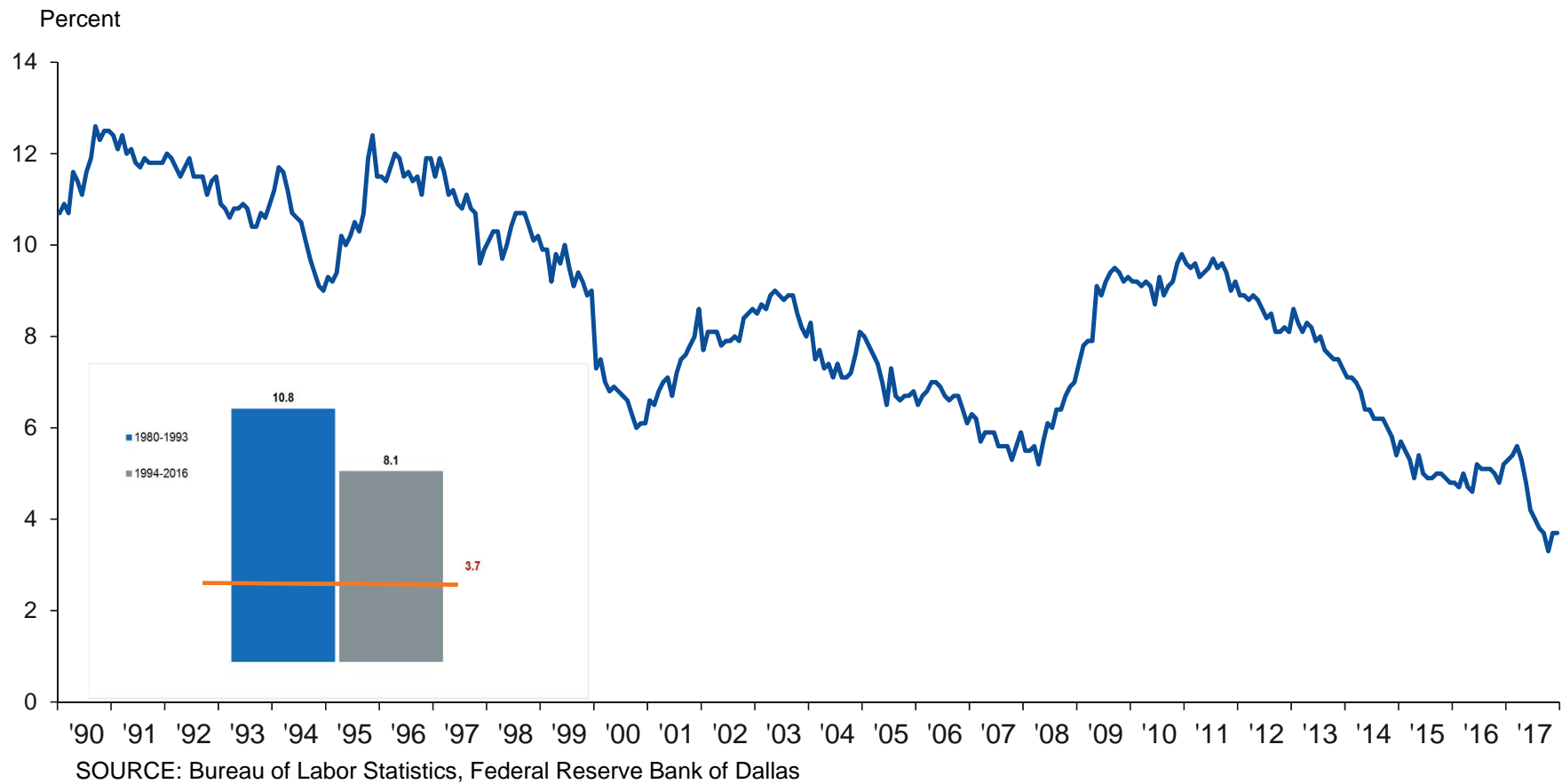
SOURCES: Public Citizen; Bureau of Labor Statistics.

**Foreign-Owned Enterprise Employment**  
(As share of total metropolitan statistical area employment, 2011)

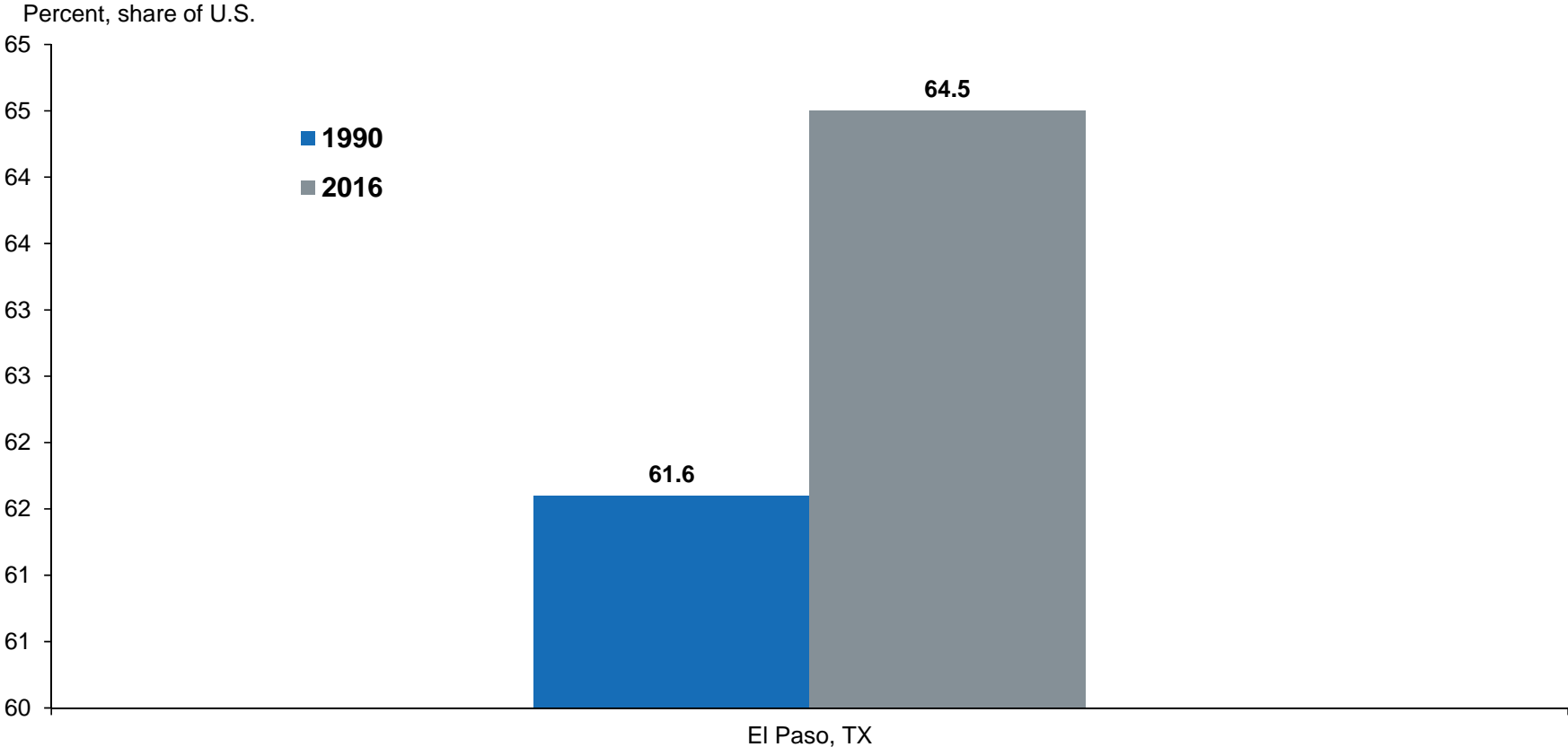


SOURCE: Brookings Institution.

# El Paso unemployment falls after NAFTA



# El Paso per-capita income posts gains



Source: Bureau of Economic Analysis

# What's Next?: NAFTA Renegotiation

# U.S.-Mexico economic relationship going forward?

## NAFTA renegotiation:

- North American economy has changed:
  - Expansion could include services, energy, and e-commerce
  - Research shows that intra-industry trade with Mexico is related to U.S. global exports
- Strong opposing views and measures of success
- Takes time to “formally” renegotiate a trade deal
- Mexico has diversified trade

## In summary

- NAFTA led to strong bilateral economic integration
- Texas' exports have become more competitive due to manufacturing partnership with Mexico
- El Paso benefits from increased trade and cross-border manufacturing
- Uncertainty continues to be the operative word!

**U.S.-Mexico Economic Relationship**  
**For more information visit**  
**[www.dallasfed.org](http://www.dallasfed.org)**