

# **Impact of Cross-Border Retail Activity on the Rio Grande Valley Economy**

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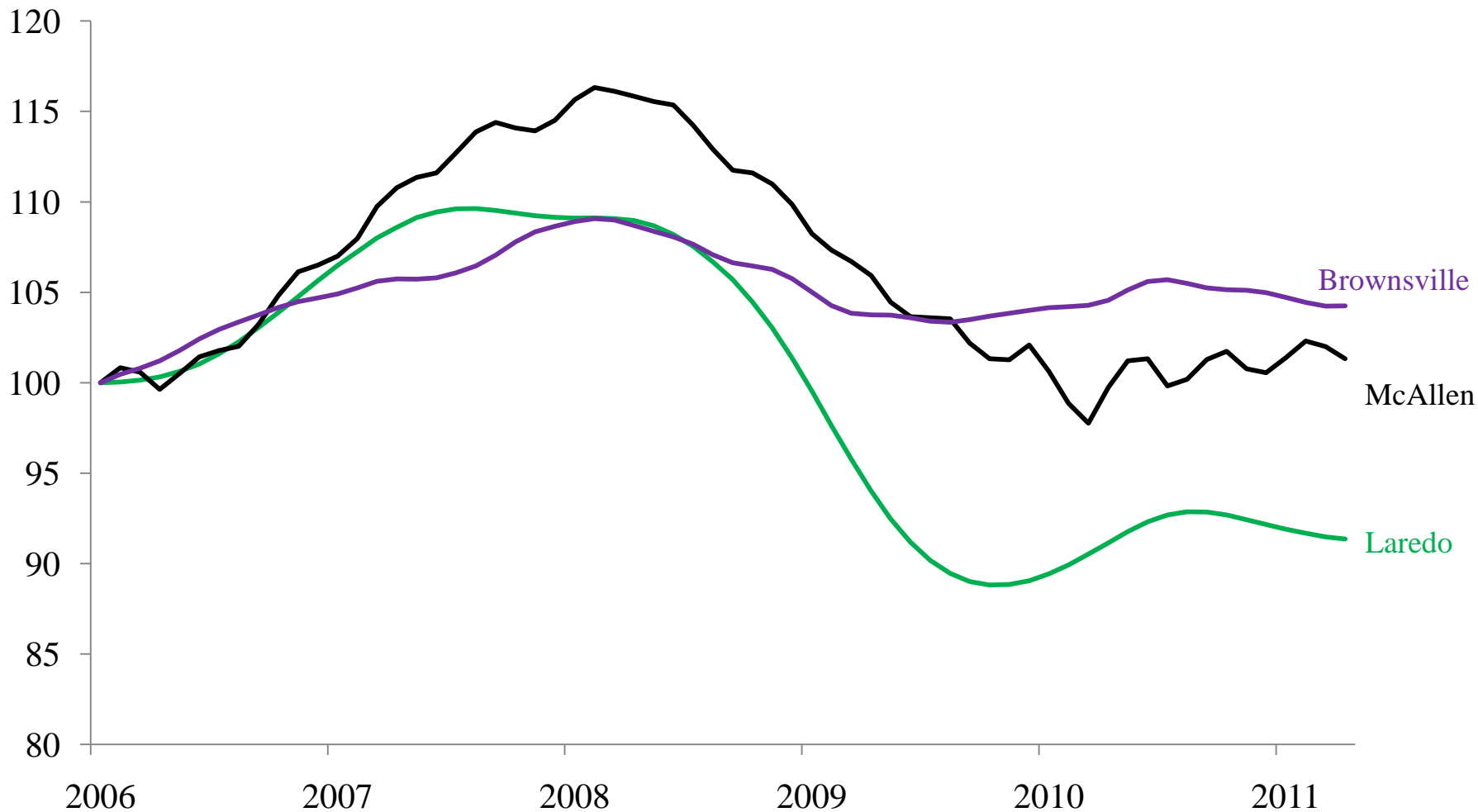
International Council of Shopping Centers  
Hispanic Market — McAllen Program

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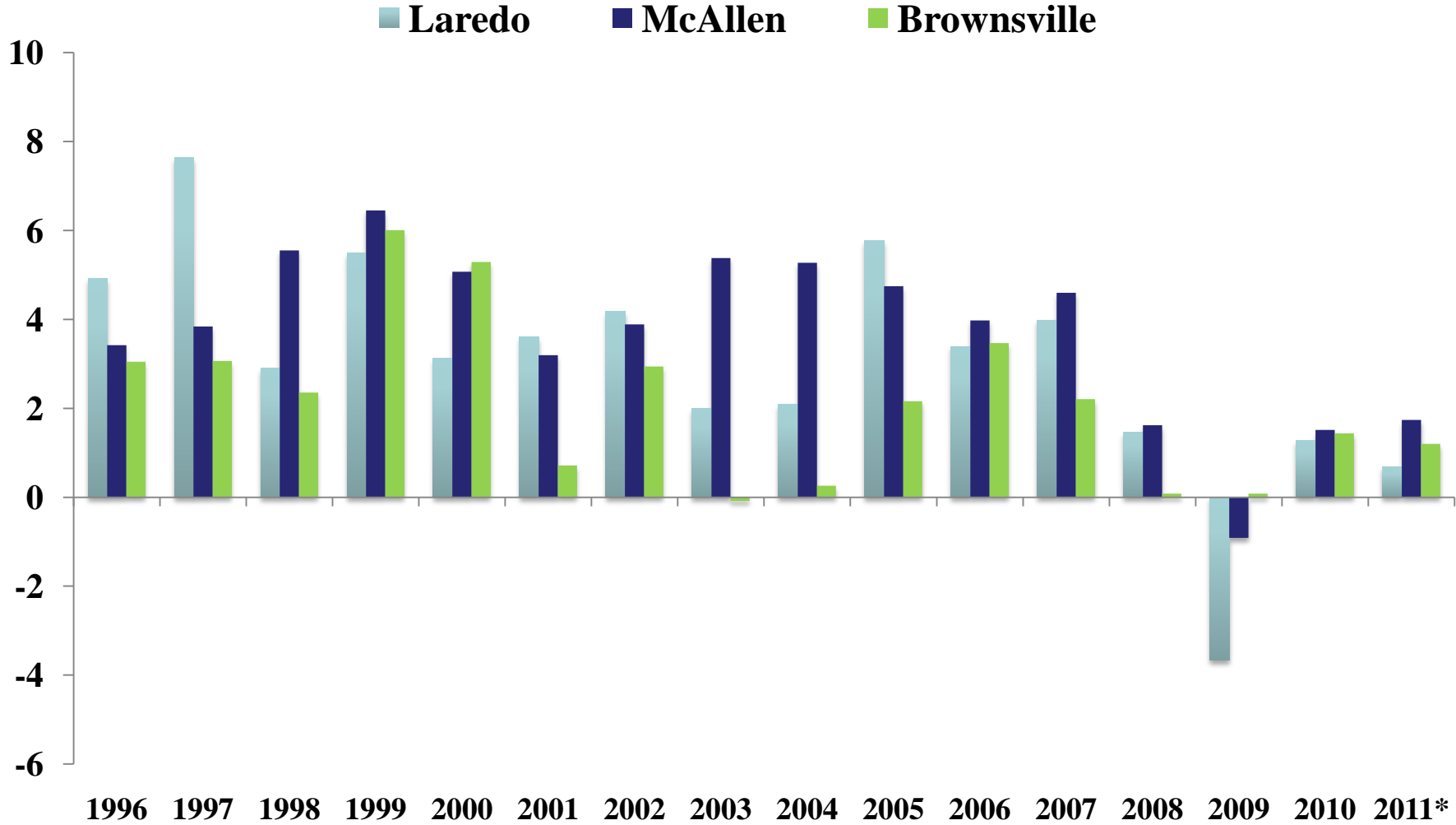
# Border business cycles are still bouncing around the bottom...

Index, Jan 2006=100



Source: The Federal Reserve Bank of Dallas, with data from Haver Analytics

# Percent Change in the Rio Grande Valley Employment (Dec/Dec)

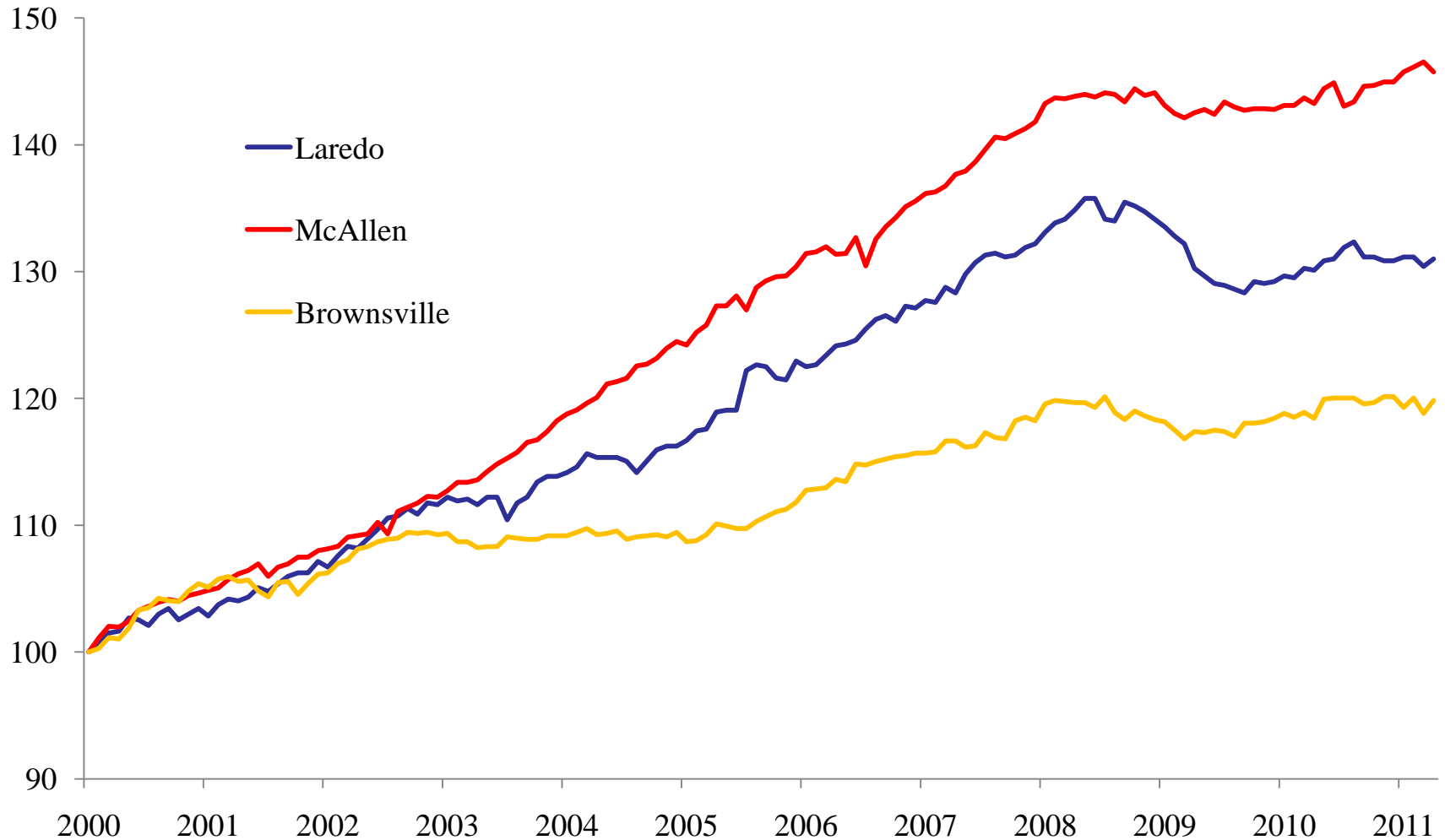


Source: Federal Reserve Bank of Dallas

Note: 2011\* is Apr 2011/Apr 2010

# Border Employment 2000-Present

Index, Jan 2000 = 100



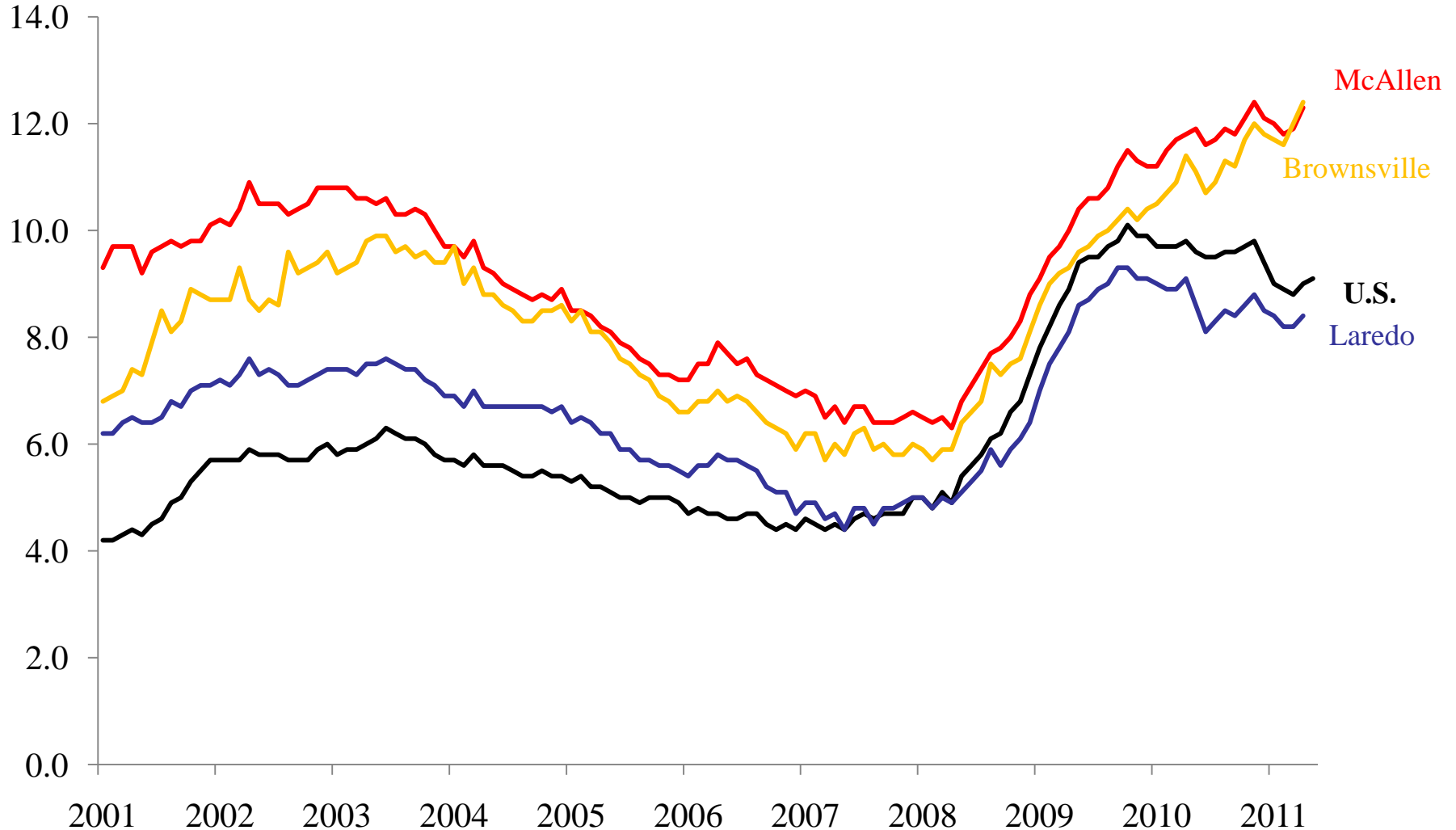
Source: Federal Reserve Bank of Dallas

# Recovery On The Brink Of Beginning

<b>Metro Area</b>	<b>Peak</b>	<b>Trough</b>	<b>Decline (%)</b>	<b>Bottom to Today (%)</b>
Texas	July 2008	November 2009	-5.3	3.8
Brownsville	February 2008	August 2009	-5.3	0.9
Laredo	August 2007	October 2009	-19.0	2.9
McAllen	Feb 2008	March 2010	-16.0	3.7

# Border Unemployment Rates Leveling Out Still Too High

Index, Jan 2006=100



Source: The Federal Reserve Bank of Dallas, with data from Haver Analytics

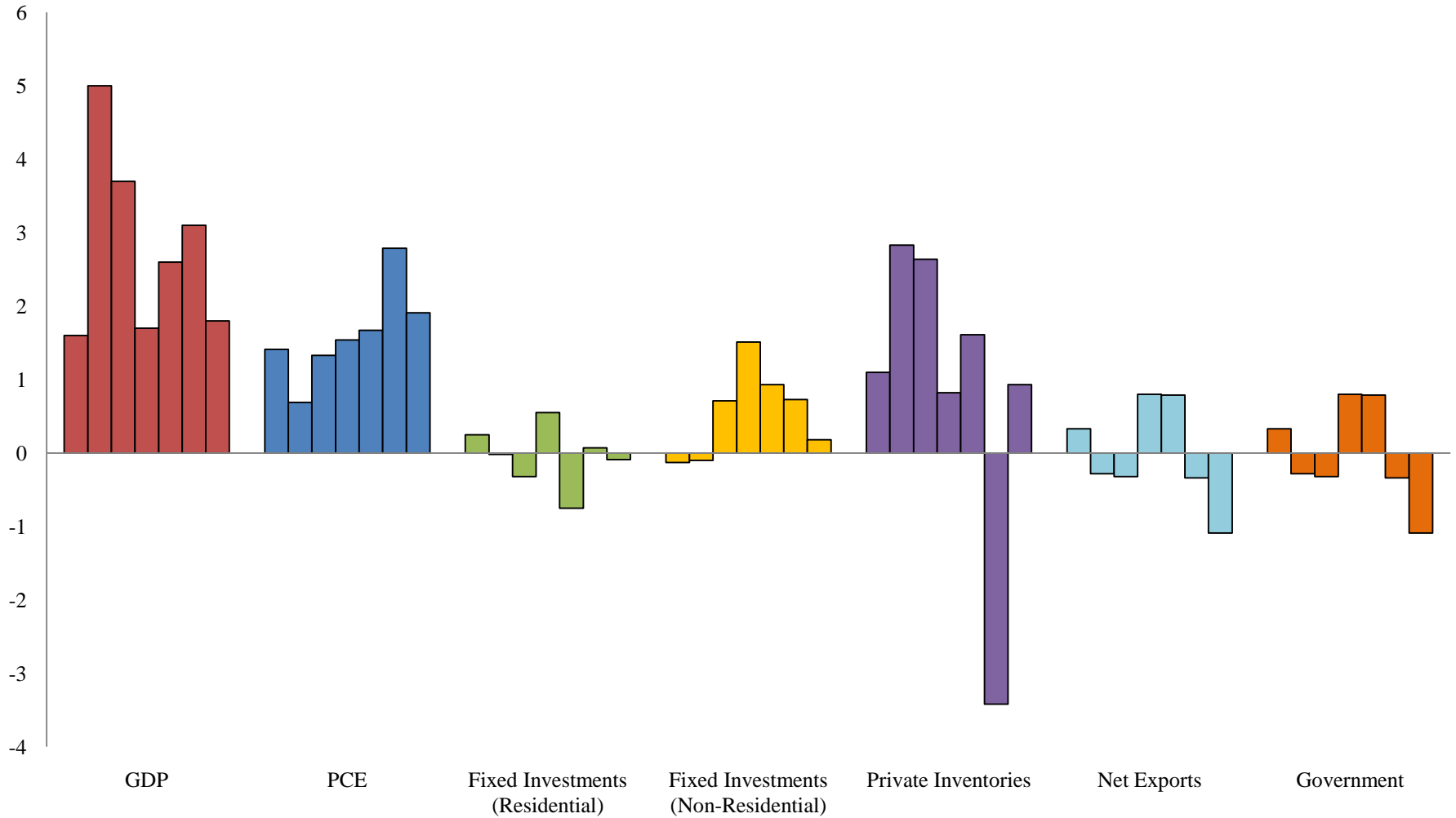
# What Makes the Rio Grande Valley Economy Work?

- U.S. economy, in particular industrial sector
- The Mexican economy and the exchange rate drive
  - Wholesale trade, and
  - Retail trade
- Maquiladoras

The recession took a big hit on  
consumption...



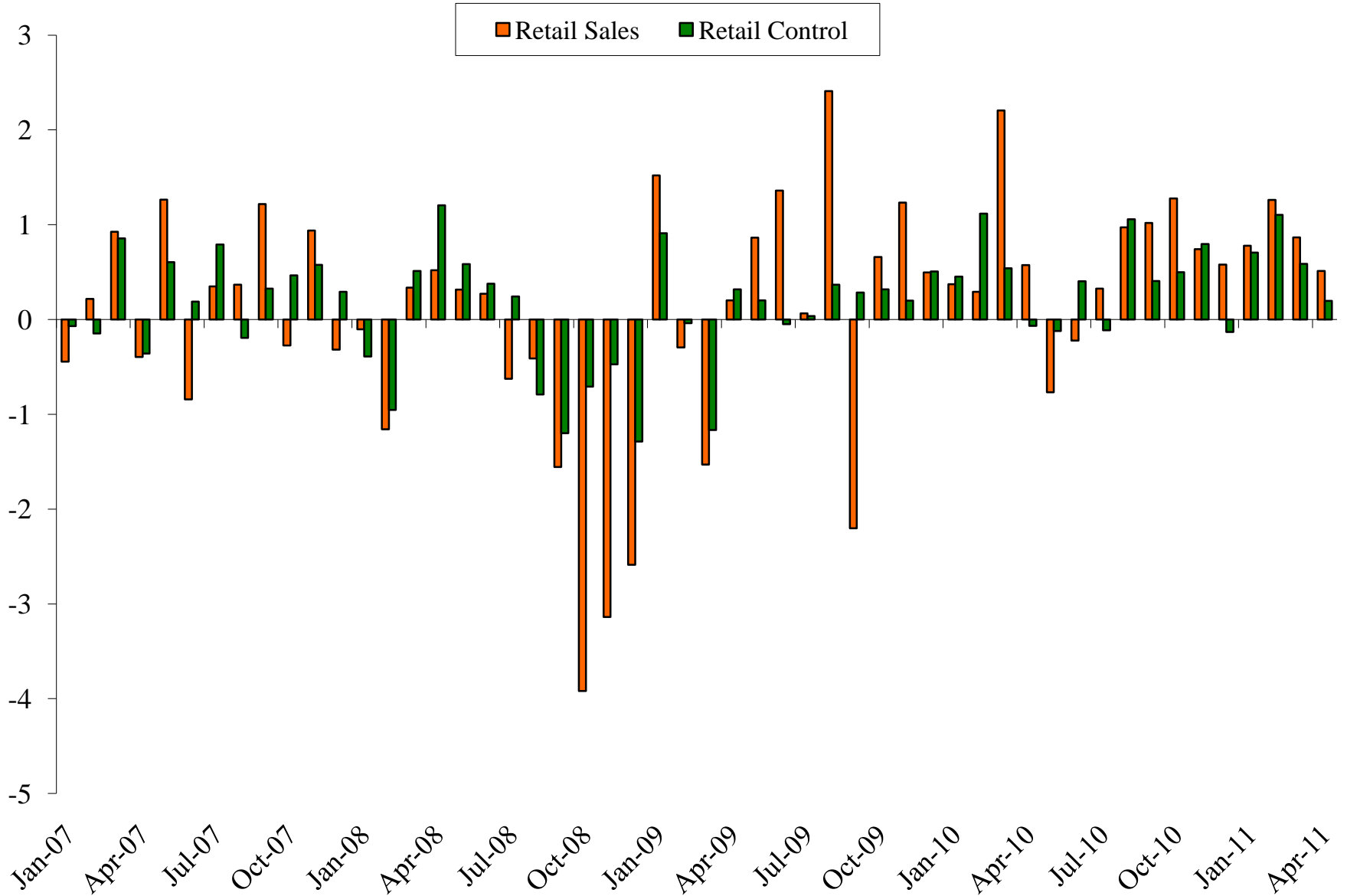
## Contributions to GDP 2009-Q3 to 2011-Q1



Source: Dept. of Commerce and Bureau of Economic Analysis

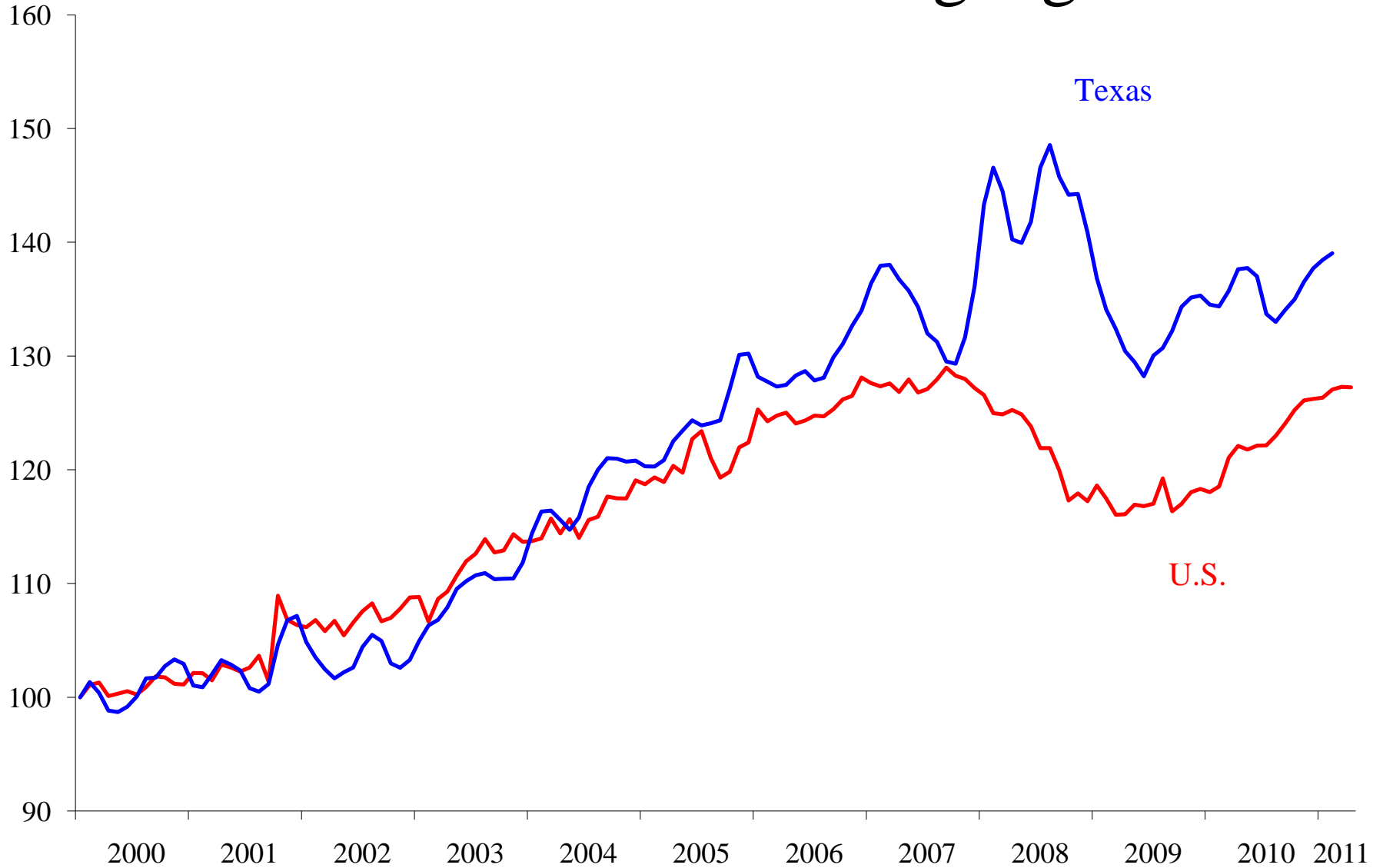
# Retail Sales Surged in the Spring

SA, 1-month % change



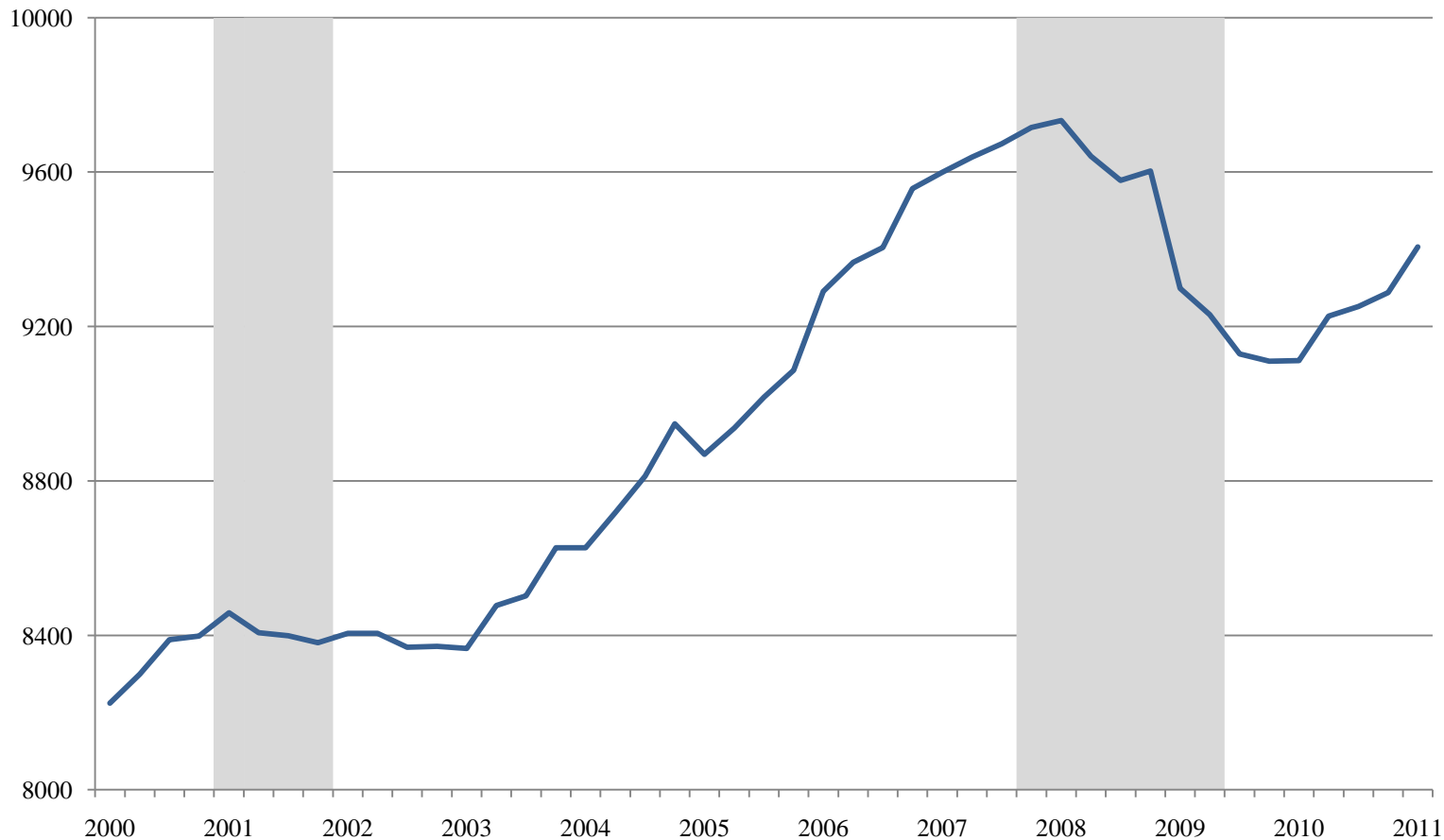
Index, SA, Real \$  
Jan. 2000=100

# Texas Retail Sales Rising Again



# U.S. personal income begins to recover

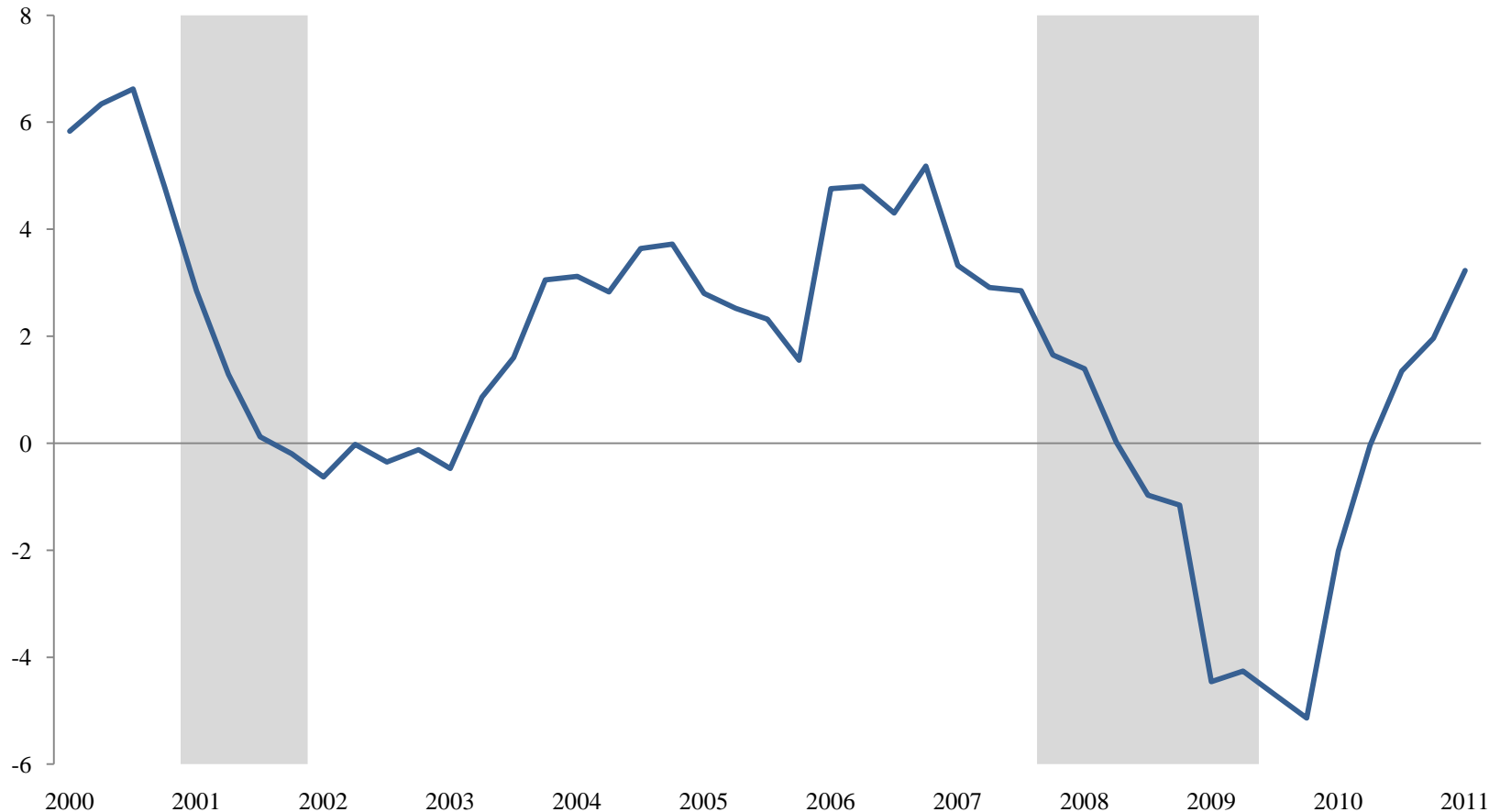
**Personal Income Excluding Current Transfer Receipts  
SAAR, Bil. Chn. 2005\$**



Source: Bureau of Economic Analysis / Haver Analytics

# U.S. personal income experienced a significant contraction during the last recession

**Personal Income Excluding Current Transfer Receipts  
% Change - Year to Year. SAAR, Bil. Chn. 2005\$**

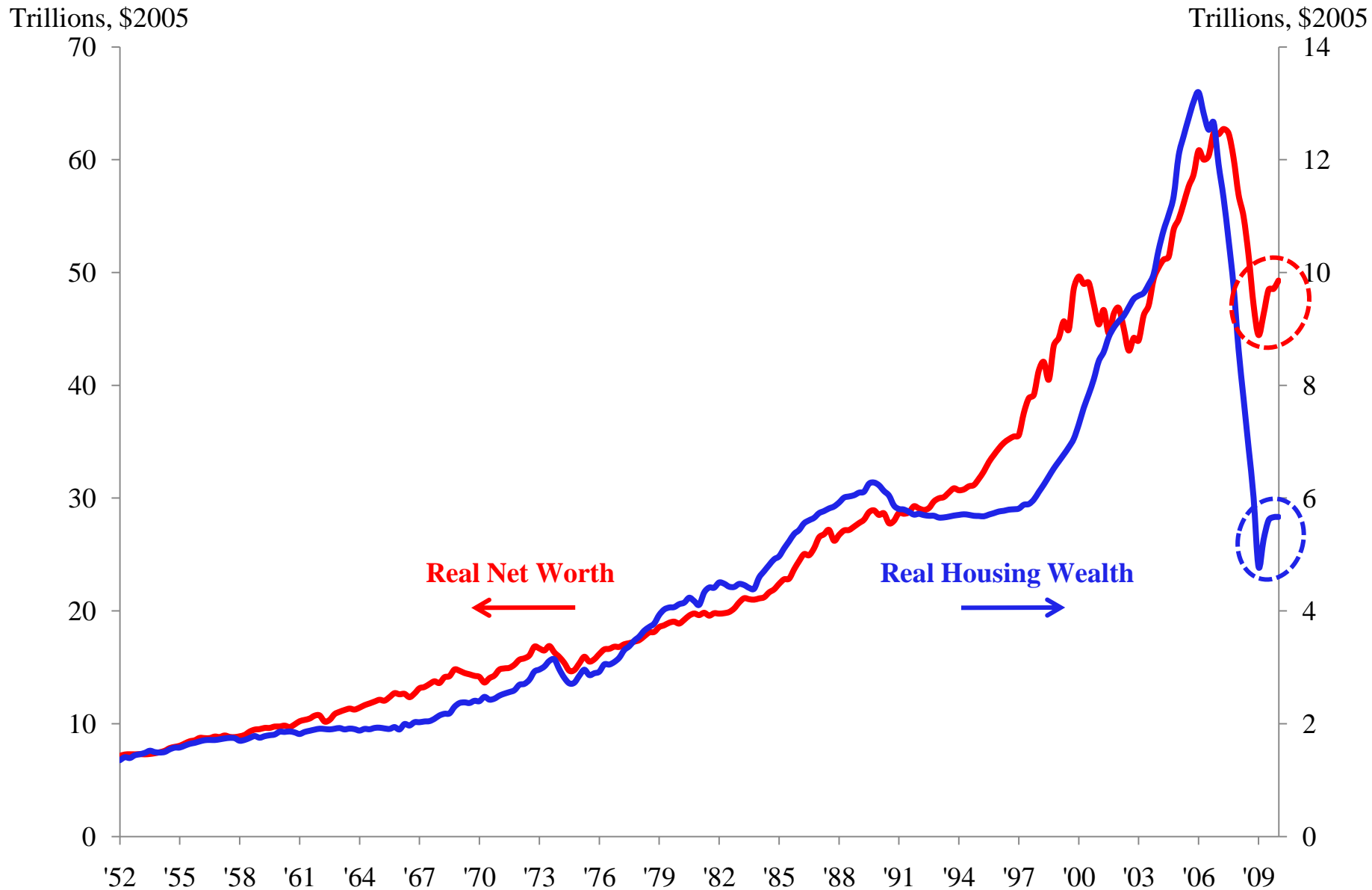


Source: Bureau of Economic Analysis / Haver Analytics

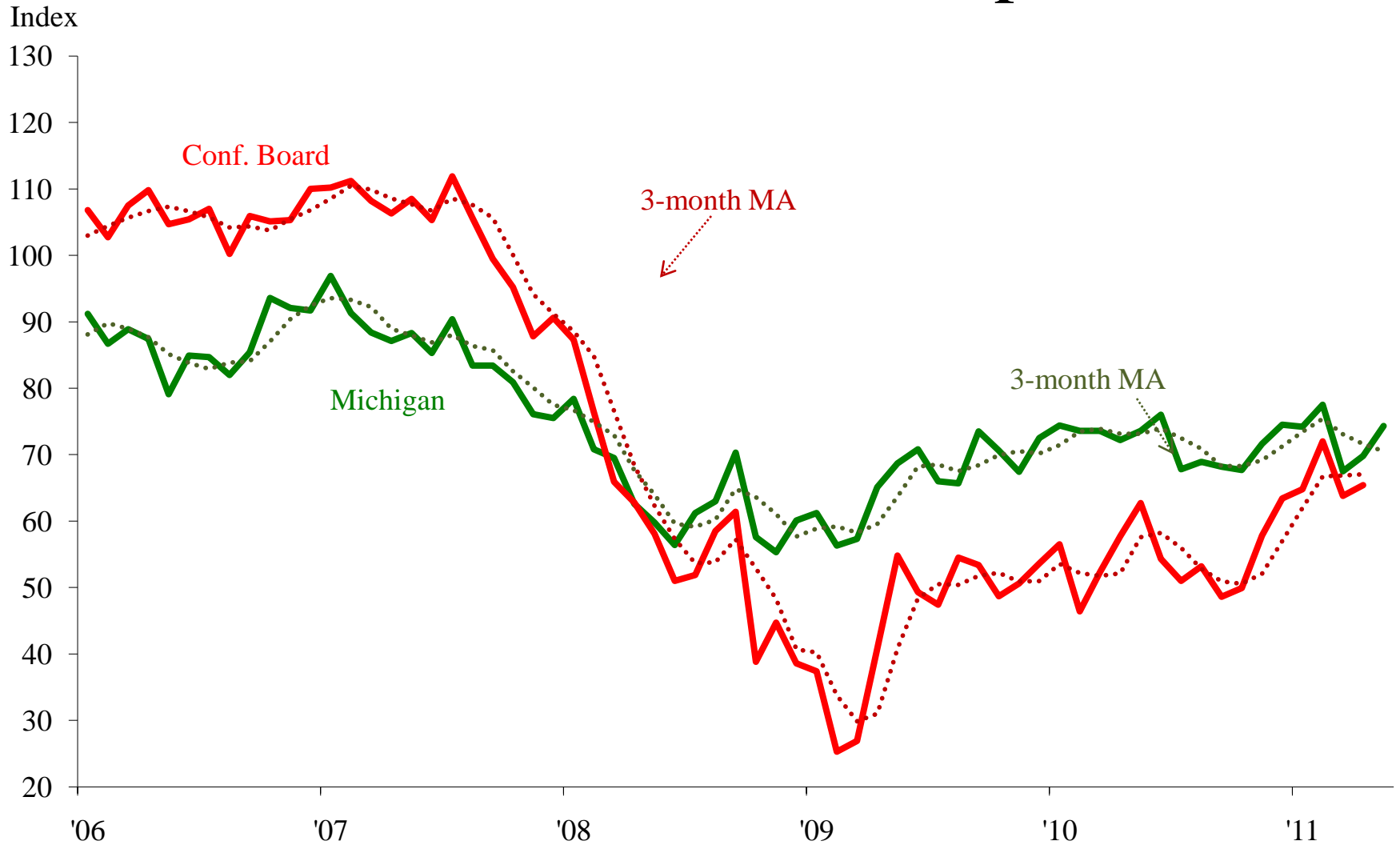
# Episodes of Declining Real Net Worth

	<u>% decline net worth</u>	<u>home equity</u>	<u>stocks and mutual funds</u>
	1968:4-70:2	+7.7	-41.0
<b>Episodes of declining stock <u>and</u> housing wealth</b>	1973:1-74:3	-8.3	-54.9
	1989:4-90:3	-5.6	-19.4
	2000:1-02:3	+27.6	-51.1
	2007:2-09:1	-36.6	-45.8

# Good News: Stock and Housing Wealth Stabilize



# Consumer Confidence Improves



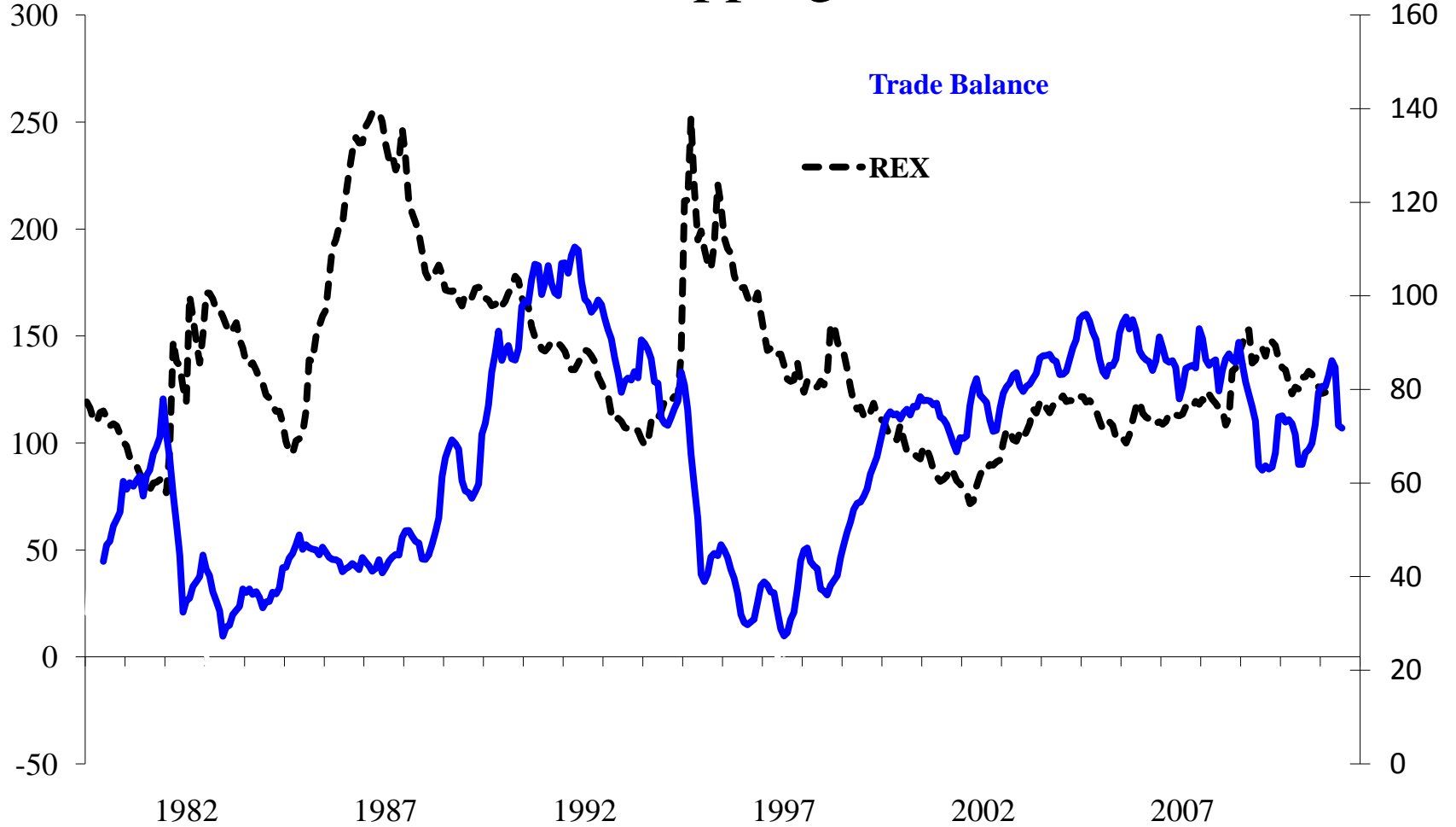


# The impact of cross-border retail on Rio Grande Valley's economy

# U.S. Running Surplus in Cross-Broder Shopping

6-mo. Moving Average  
Balance in 000,000s of Dollars

REX, Index, 1990=100



Source: Banco de Mexico

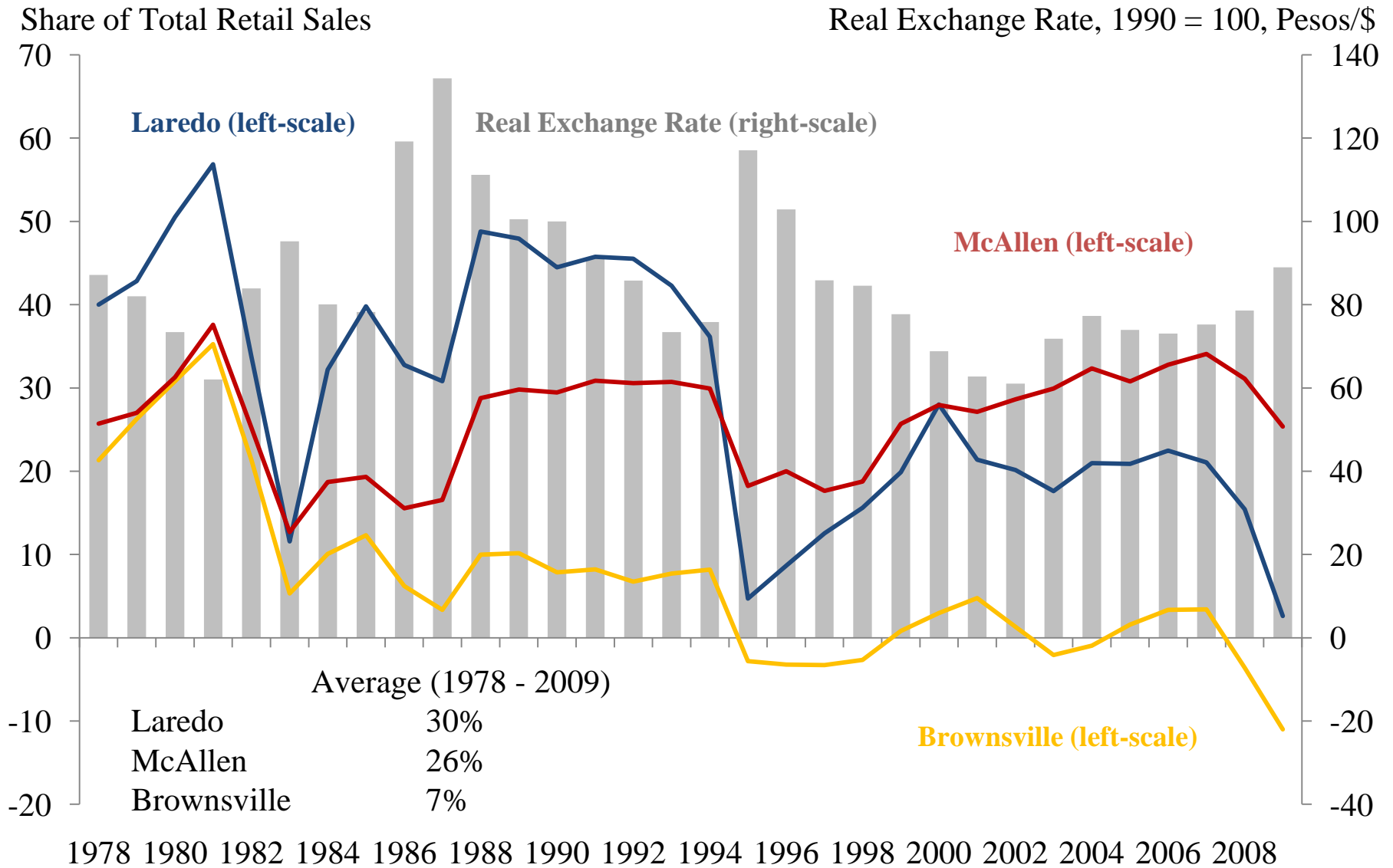
# Our model to estimate exportable retail sales to Mexican nationals

- We estimate the proportion of income that locals spend on retail trade across 20 Texas MSAs (excluding the border) and then apply this to border cities:

$$\text{Exportable RS} = \text{Total RS} - \text{RS by Locals}$$

- **Advantages:**
  - Consistent estimates across time and across border cities
  - Easy to estimate and update (vs. surveys)
  - Provides “sensible” results
- **Disadvantages:**
  - Only able to estimate net exportable retail sales
  - Excludes wealth effects

# Rio Grande Valley retail sales to Mexican nationals (Net of exportable retails sales)



# Three main lessons behind cross-border shopping activity

1. Mexican nationals spend a significant amount of money in the Rio Grande Valley region.
2. Cross-border retail shopping responds significantly to fluctuations in exchange rate.
3. There appears to be a significant change in consumption patterns by Mexican nationals after NAFTA

LESSON 1: Mexican nationals  
spend a significant amount of money  
in Rio Grande Valley

# What do Mexican nationals purchase in the Rio Grande Valley?

$$LQ_{i,MSA} = \frac{\frac{Retail\ Sales_{i,MSA}}{Retail\ Sales_{MSA}}}{\frac{Retail\ Sales_{i,US}}{Retail\ Sales_{US}}}$$

If  $LQ=1$ , sales exports and imports are balanced

If  $LQ>1$ , city exports sales

If  $LQ<1$ , city imports sales

# What do Mexican nationals purchase in McAllen?

NAICS Code	Description	LQ	Sales in Millions
441	Motor vehicle and parts dealers	1.01	\$14
443	Electronics and appliance stores	1.28	\$60
447	Gasoline stations	1.14	\$124
448	Clothing and clothing accessories stores	1.57	\$249
451	Sporting goods, hobby, book, and music stores	1.03	\$5
452	General merchandise stores	1.28	\$322



# What do Mexican nationals purchase in McAllen?

NAICS Code	Description	LQ	Sales in Millions
<b>441</b>	<b>Motor vehicle and parts dealers</b>	<b>1.01</b>	<b>\$14</b>
44111	New car dealers	0.92	(\$116)
44112	Used car dealers	1.52	\$69
44121	Recreational vehicle dealers	1.09	\$3
44122	Motorcycle, boat, and other motor vehicle dealers	0.56	(\$40)
44131	Automotive parts and accessories stores	2.20	\$104
44132	Tire dealers	2.20	(\$6)

# What do Mexican nationals purchase in McAllen?

NAICS Code	Description	LQ	Sales in Millions
<b>448</b>	<b>Clothing and clothing accessories stores</b>	<b>1.57</b>	<b>\$249</b>
44811	Men's clothing stores	1.07	\$1
44812	Women's clothing stores	1.18	\$15
44813	Children's and infants' clothing stores	1.73	\$14
44814	Family clothing stores	1.98	\$166
44815	Clothing accessories stores	1.11	\$1
44819	Other clothing stores	1.04	\$1
44821	Shoe stores	1.83	\$44

# What do Mexican nationals purchase in Brownsville?

NAICS Code	Description	LQ	Sales in Millions
445	Food and beverage stores	1.04	\$21
446	Health and personal care stores	1.02	\$5
447	Gasoline stations	1.12	\$56
452	General merchandise stores	1.50	\$288

# What do Mexican nationals purchase in Brownsville?

NAICS Code	Description	LQ	Sales in Millions
<b>445</b>	<b>Food and beverage stores</b>	<b>1.04</b>	<b>\$21</b>
44511	Supermarkets and other grocery (except convenience) stores	1.09	\$41
<b>446</b>	<b>Health and personal care stores</b>	<b>1.02</b>	<b>\$5</b>
44611	Pharmacies and drug stores	1.01	\$3
44612	Cosmetics, beauty supplies, and perfume stores	1.07	\$0.74
44613	Optical goods stores	1.25	\$2
44619	Other health and personal care stores	0.93	(\$0.98)
<b>447</b>	<b>Gasoline stations</b>	<b>1.12</b>	<b>\$56</b>
44711	Gasoline stations with convenience stores	1.38	\$129

# What do Mexican nationals purchase in Laredo?

NAICS Code	Description	LQ	Sales in Millions
443	Electronics and appliance stores	1.33	\$26
445	Food and beverage stores	1.20	\$81
447	Gasoline stations	1.40	\$133
448	Clothing and clothing accessories stores	2.10	\$176
451	Sporting goods, hobby, book, and music stores	1.30	\$18
452	General merchandise stores	1.45	\$191

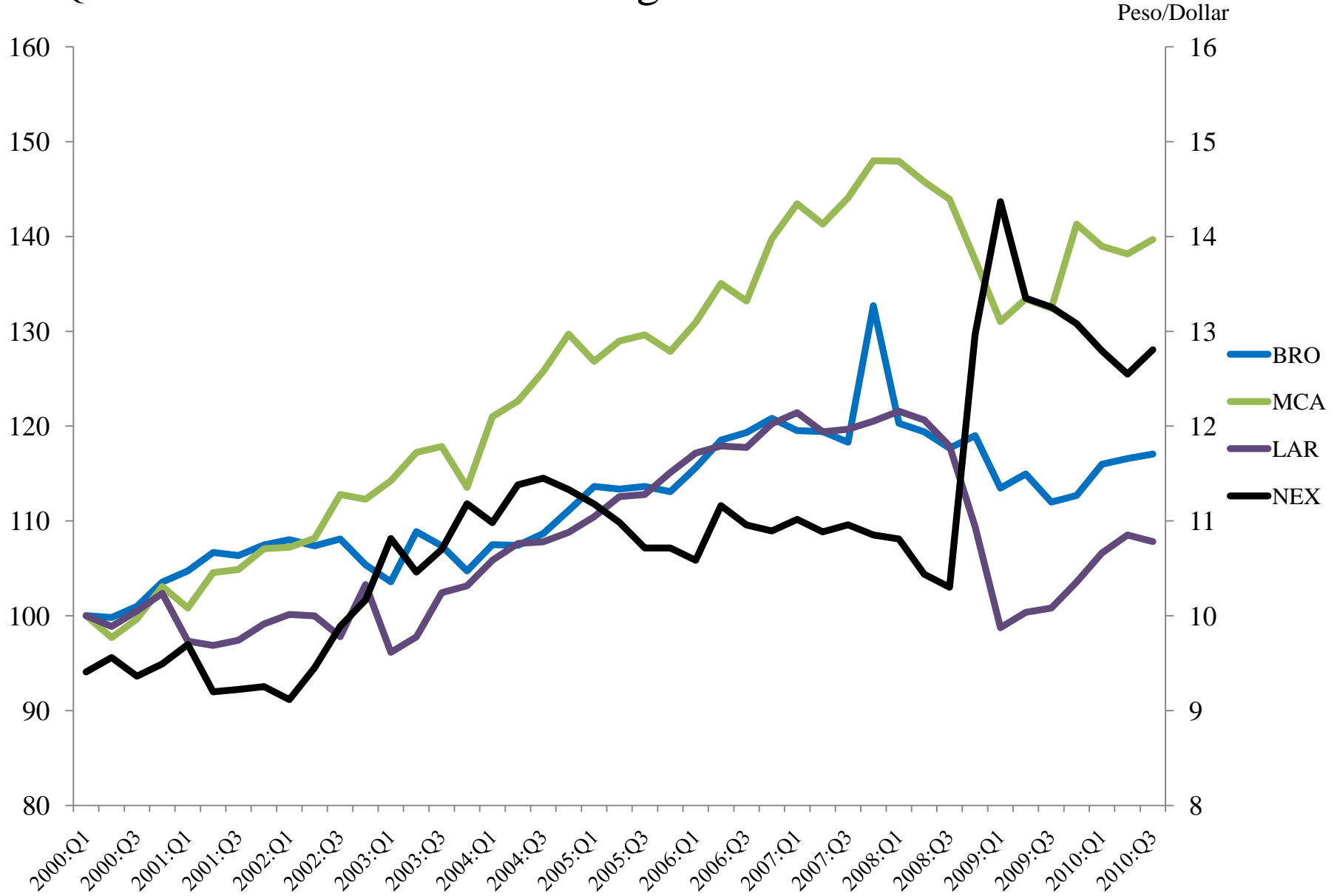
# What do Mexican nationals purchase in Laredo?

NAICS Code	Description	LQ	Sales in Millions
<b>445</b>	<b>Food and beverage stores</b>	<b>1.20</b>	<b>\$81</b>
44511	Supermarkets and other grocery (except convenience) stores	1.21	\$73
44531	Beer, wine, and liquor stores	1.60	\$16
<b>448</b>	<b>Clothing and clothing accessories stores</b>	<b>2.10</b>	<b>\$176</b>
44813	Children's and infants' clothing stores	1.91	\$6
44814	Family clothing stores	2.54	\$96
44815	Clothing accessories stores	1.74	\$3
44819	Other clothing stores	1.07	\$1
44821	Shoe stores	2.63	\$32
44831	Jewelry stores	1.41	\$9

# LESSON 2: Exchange rate fluctuations drive cross-border retail shopping

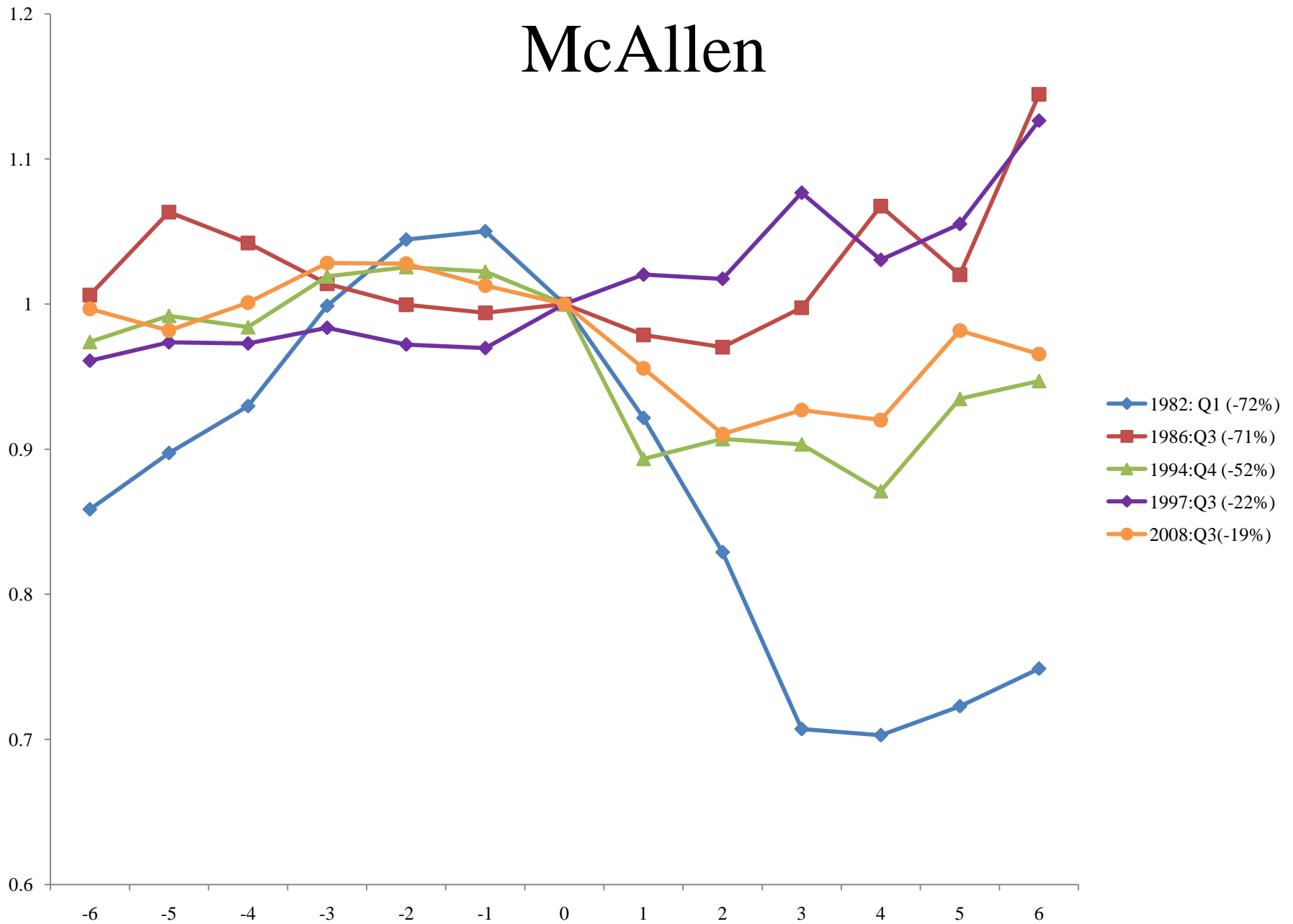
2000: Q1 = 100

# Real Retail Sales Plunge with Decline of Peso

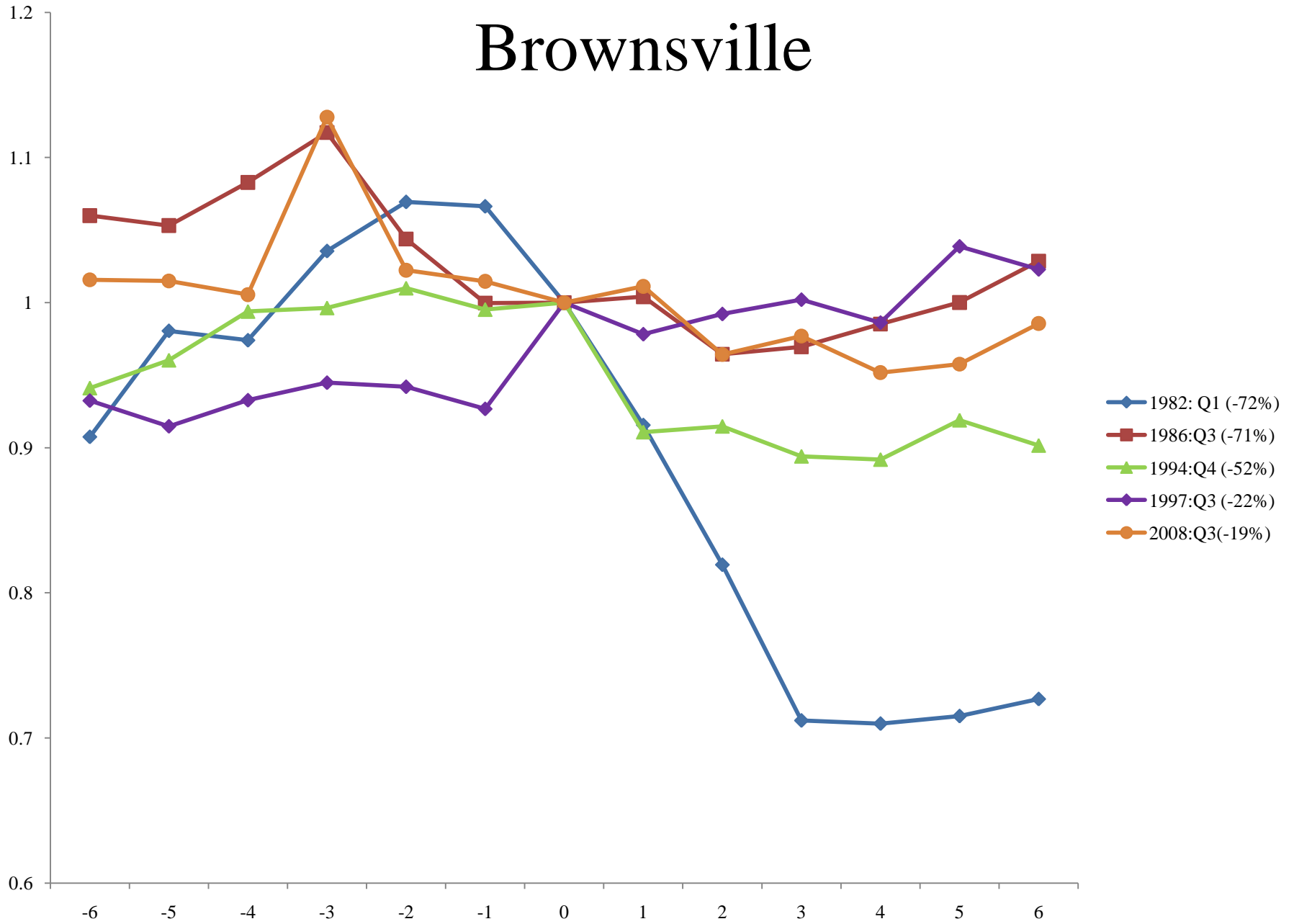




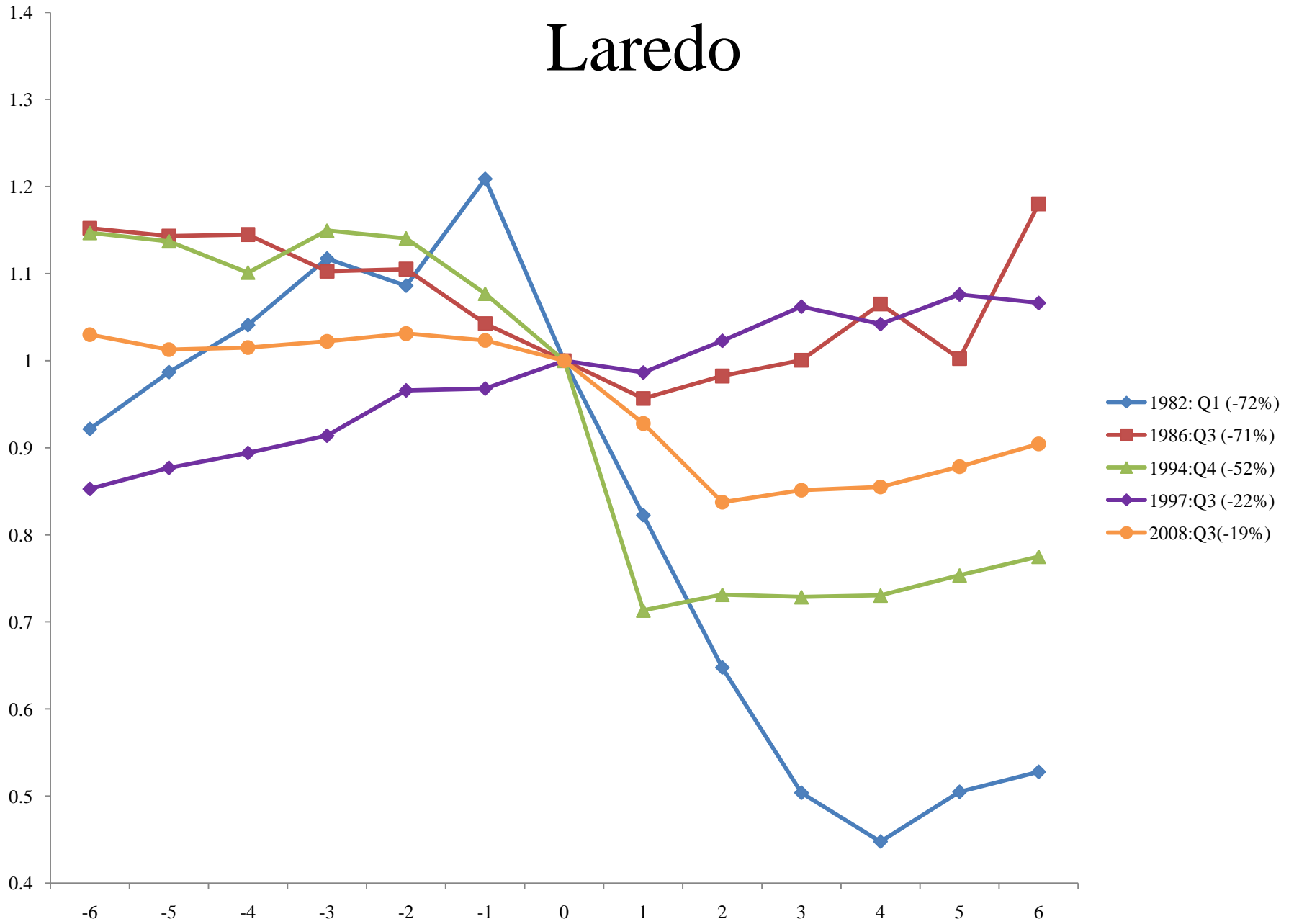
# McAllen



# Brownsville



# Laredo



# Why Has Peso Strengthened?

- Economy growing again.
- US continues zero interest rate policy, encouraging capital flows to Mexico.
- Mexico has pursued good fiscal and monetary policy.
- Mexico seen as part of the developing world which leads the world's economic growth.

	Exchange Rate Against U.S. \$	
	2011	2012
Mexican Peso	11.83	12.05

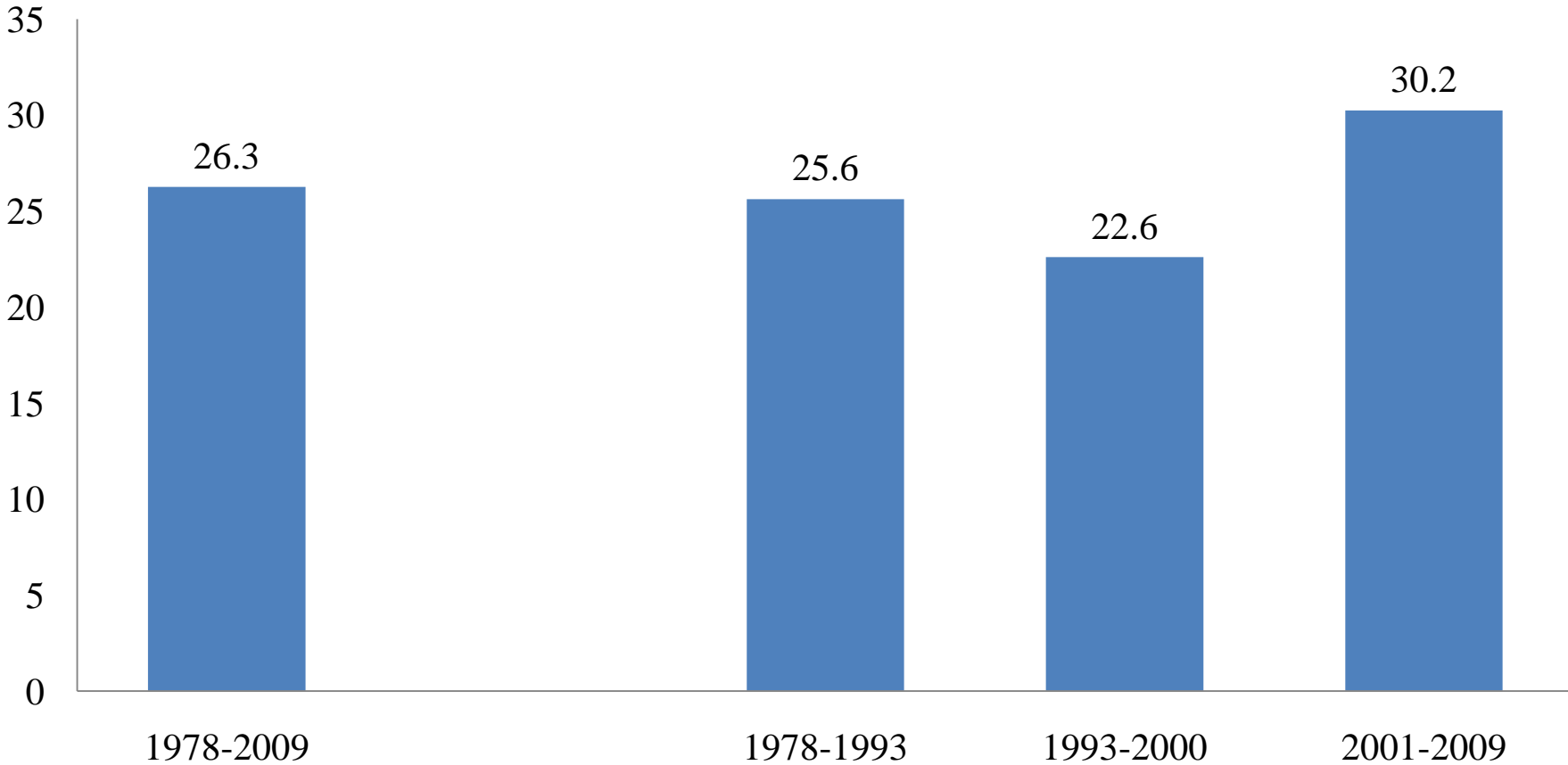
Source: Blue Chip Economic Indicators, May 2011

# LESSON 3: Significant change in consumption patterns after NAFTA

# Influence of retail sales has declined with NAFTA and perhaps higher security

## McAllen

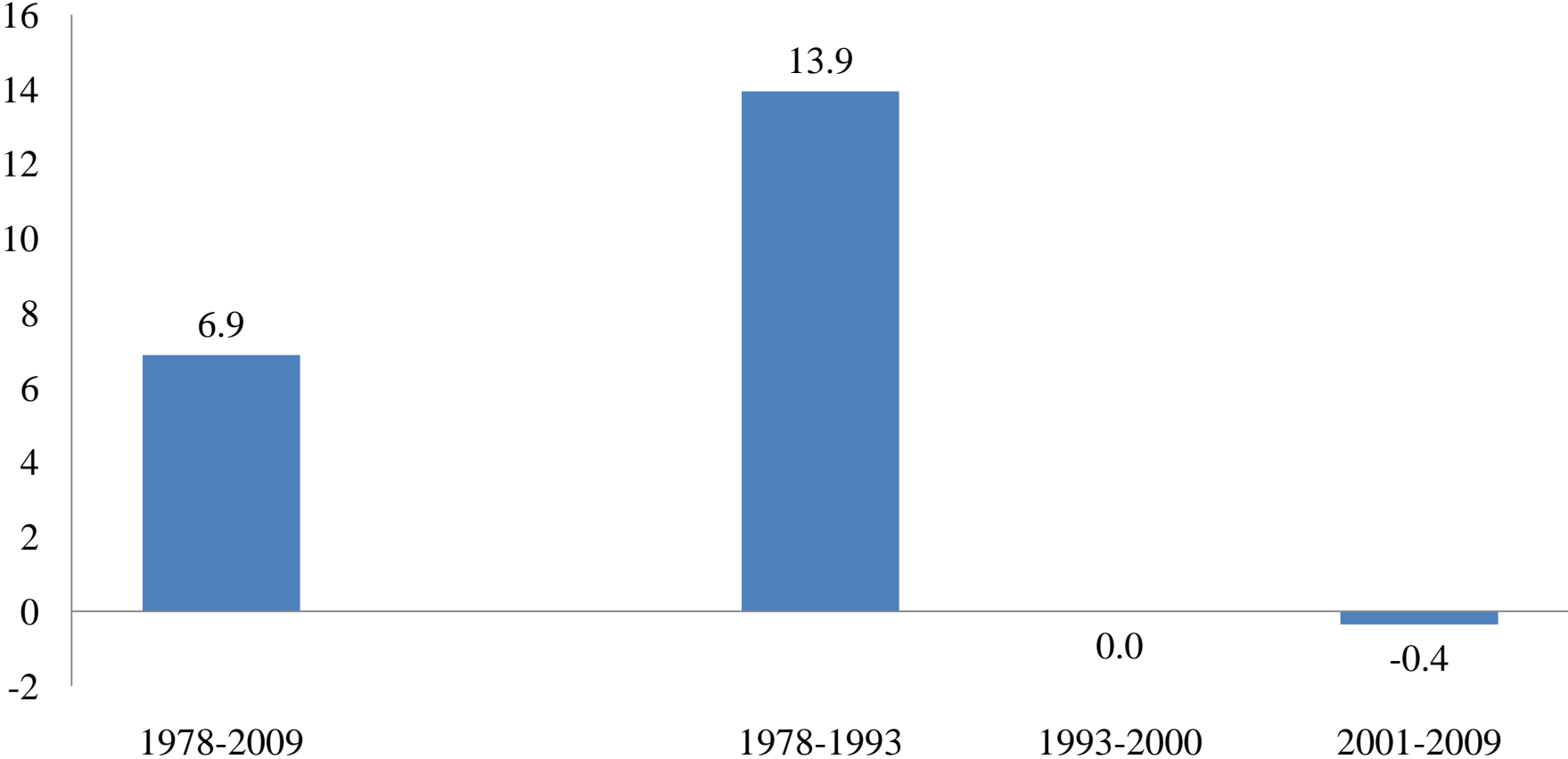
Share of Total Retail Sales



# Influence of retail sales has declined with NAFTA and perhaps higher security

## Brownsville

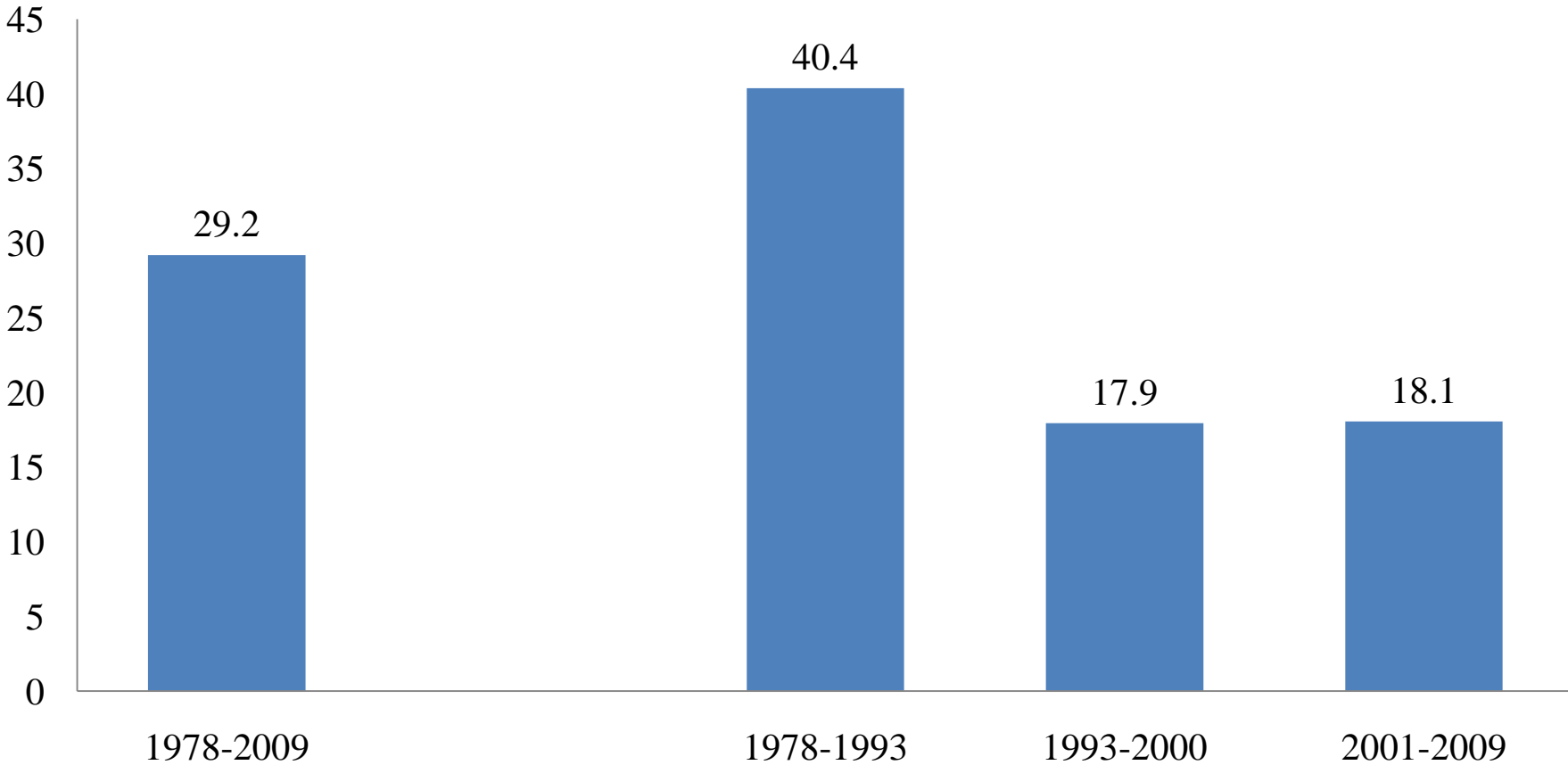
Share of Total Retail Sales



# Influence of retail sales has declined with NAFTA and perhaps higher security

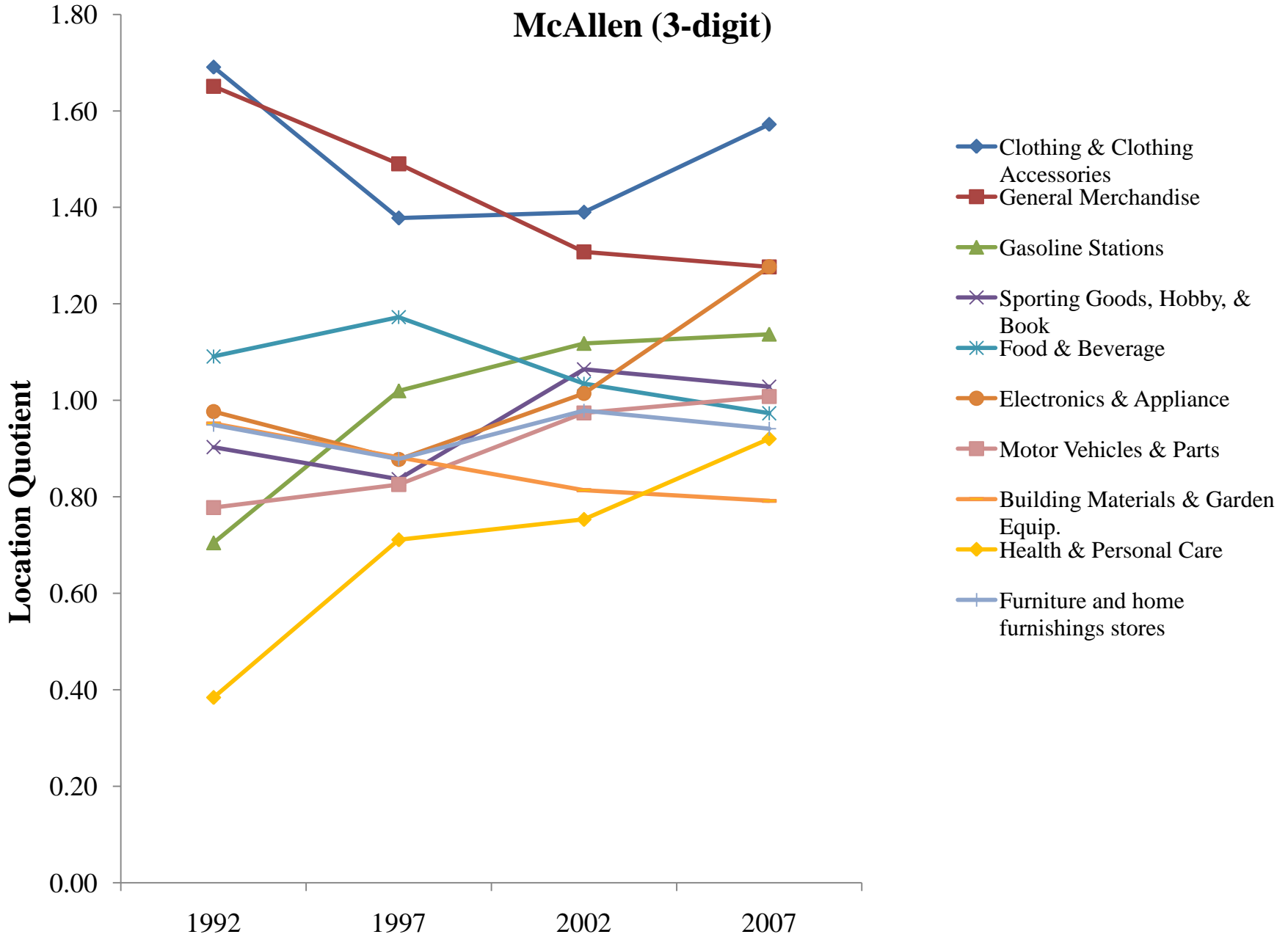
## Laredo

Share of Total Retail Sales

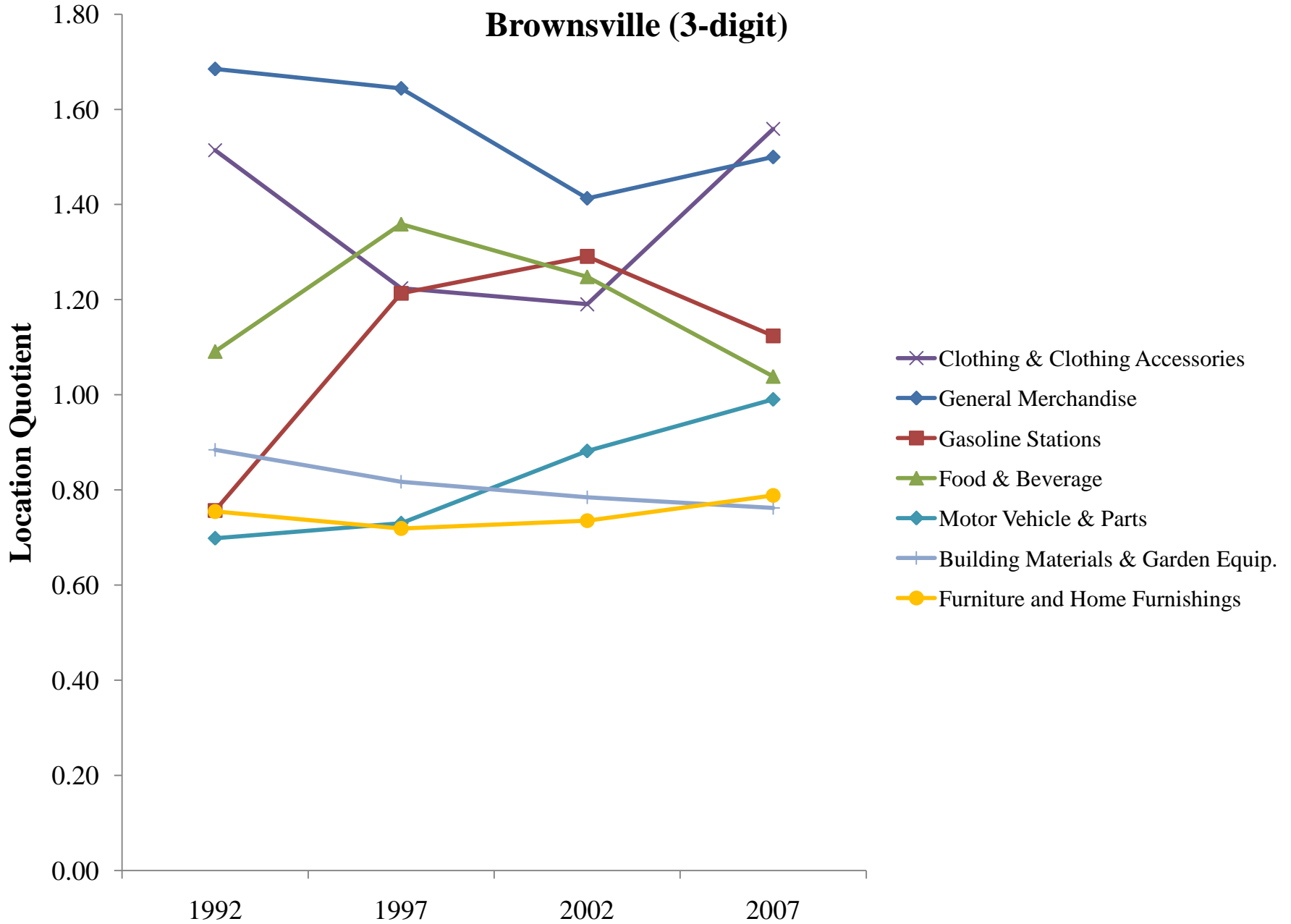




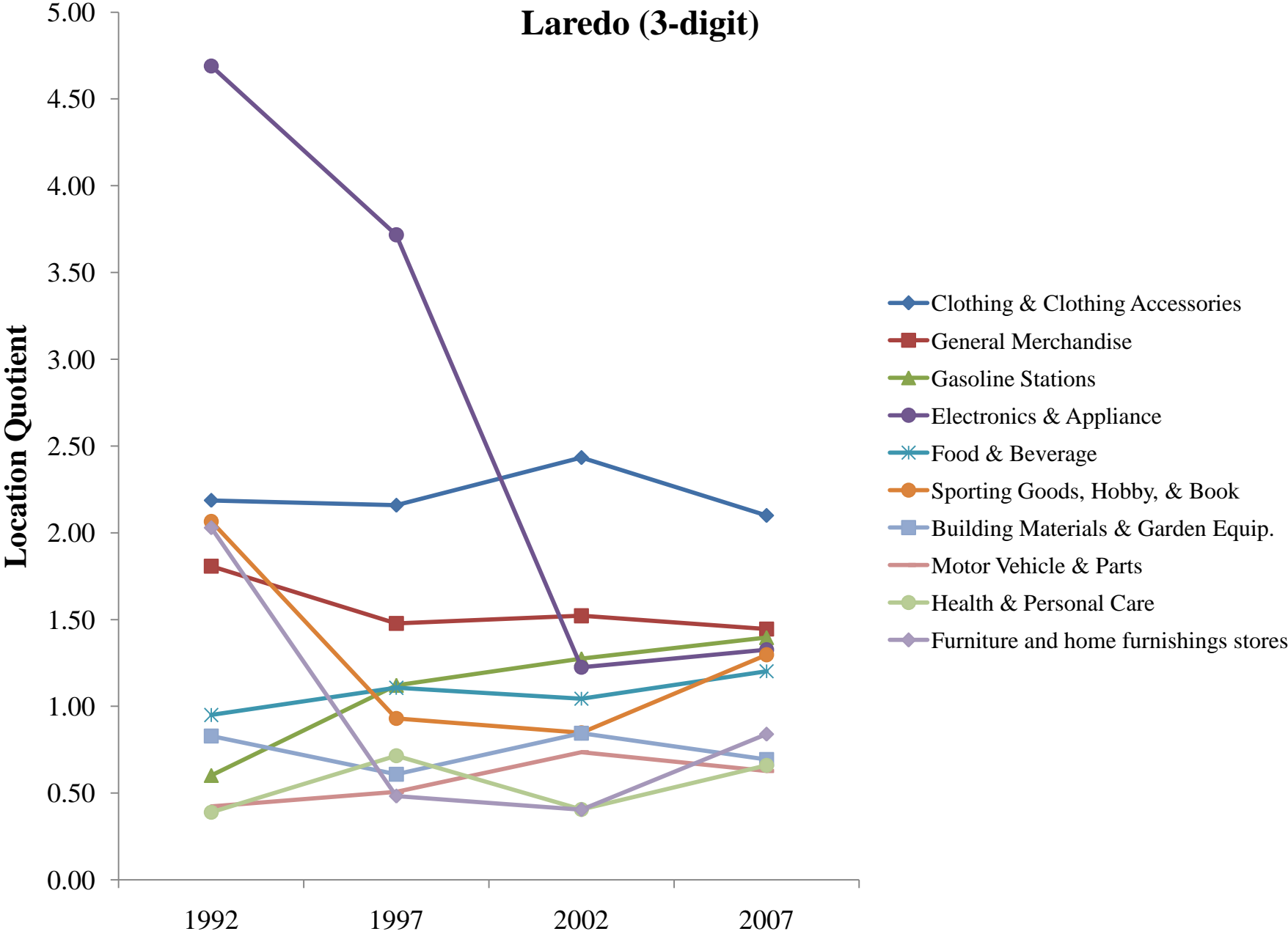
# McAllen (3-digit)



# Brownsville (3-digit)



# Laredo (3-digit)



# Outlook for the Rio Grande Valley

# Outlook for the Rio Grande Valley Economy

- The U.S. economy is coming out of the worst recession in decades, recovery is still sluggish.
- Mexico's recovery is also underway and more importantly a strong peso will bring economic growth to the Rio Grande Valley's retail sector.
- The maquiladoras' turnaround is good news for Rio Grande Valley job growth.

# **Impact of Cross-Border Retail Activity on the Rio Grande Valley Economy**

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