

El Paso Economic Growth in Perspective


**Robert W. Gilmer, Director
Institute for Regional Forecasting
University of Houston
rwgilmer@uh.edu**

Disclaimer


The following presentation was prepared by Dr. Robert W. Gilmer. Dr. Gilmer is not an employee or agent of El Paso Electric Company and is not authorized to speak on behalf of the Company. The views expressed are solely his own, and do not necessarily represent or reflect the views and opinions of El Paso Electric Company. El Paso Electric Company has not, and is not in a position to, confirm the data and research methodologies presented herein, and disclaims any responsibility for the accuracy or completeness thereof.

Today's Presentation

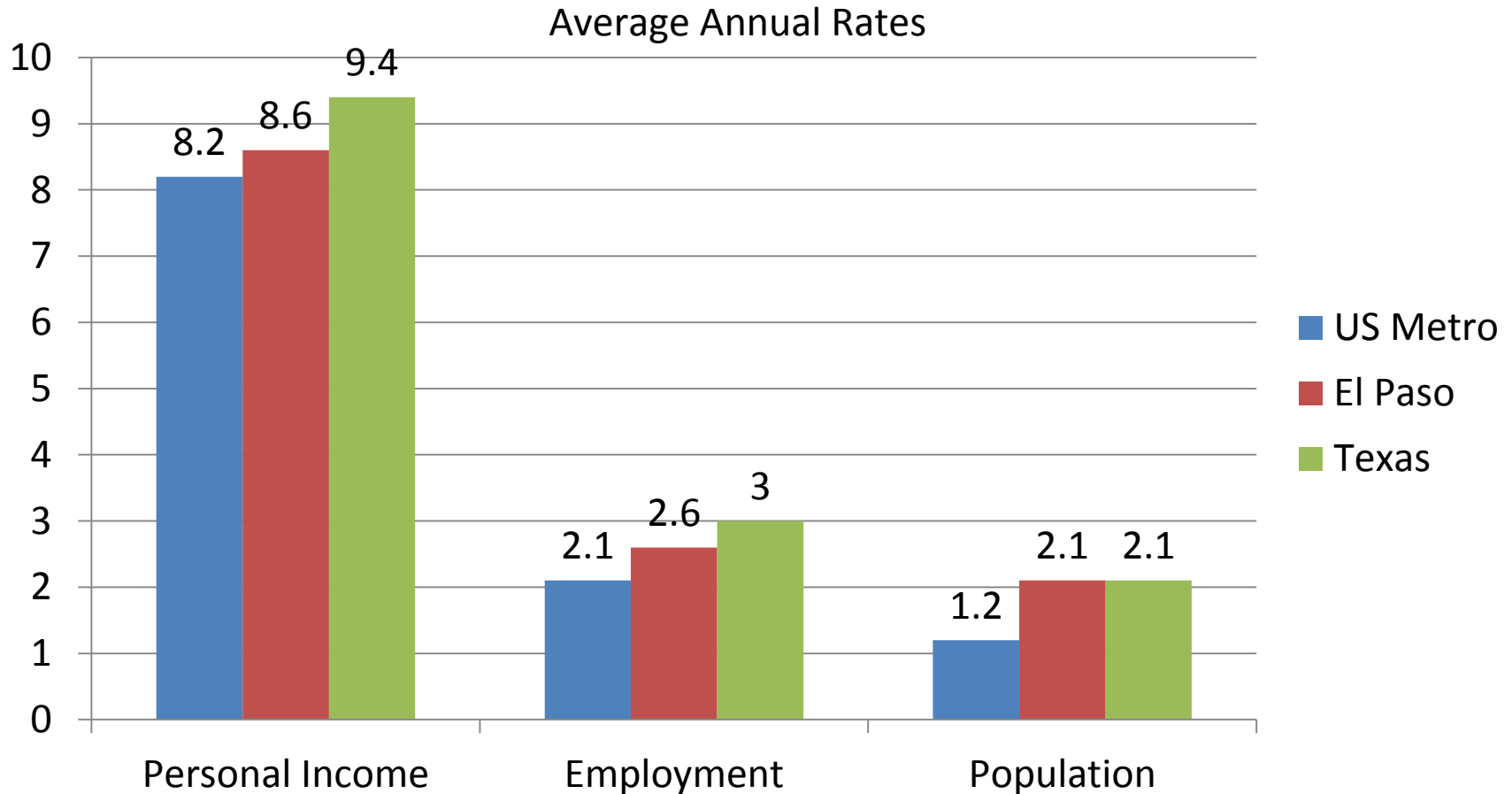
- Long-term growth trends have been strong in El Paso for many years
- El Paso's performance in the Great Recession and after
- Cyclical outlook in 2013
- Some thoughts on what carries El Paso's growth into the future



Long-term economic trends in El Paso have
been strong for many years, and remain
strong today

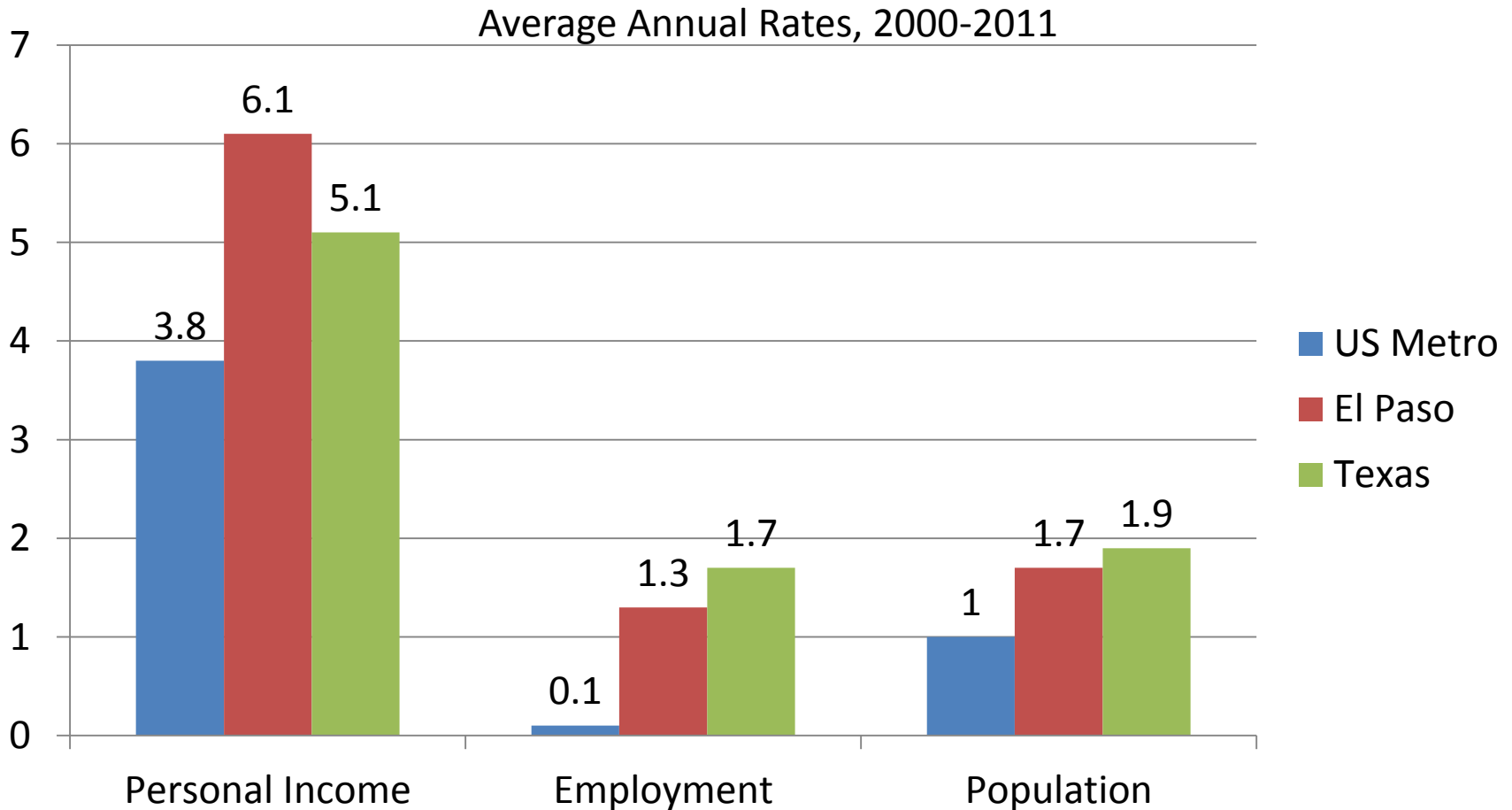


From 1970 to 2000, El Paso and Texas have lead other US metropolitan areas in growth



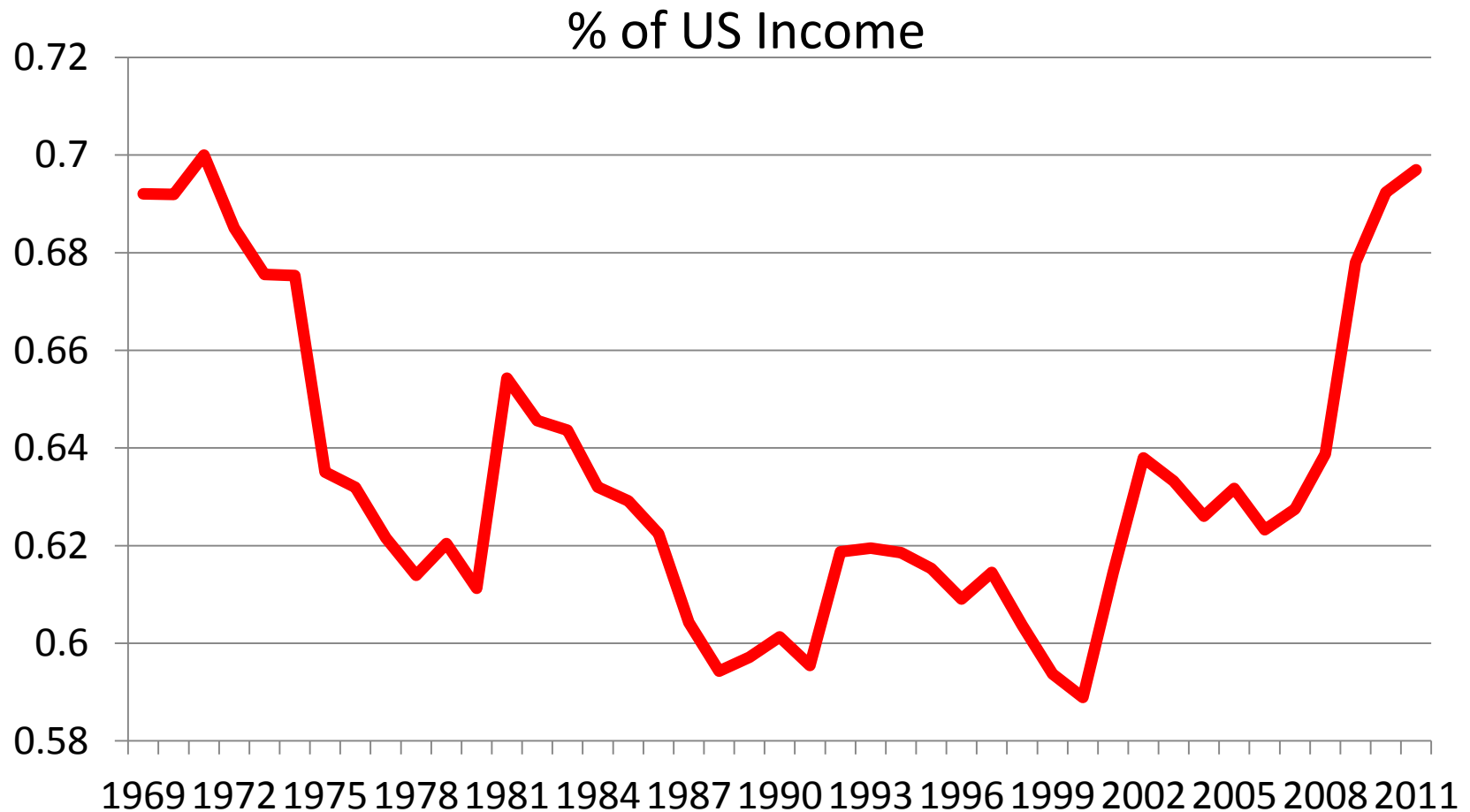
Source: Bureau of Economic Analysis

Since 2000, overall growth has slowed, but the gap between Texas/El Paso and the US has widened



Source: Bureau of Economic Analysis

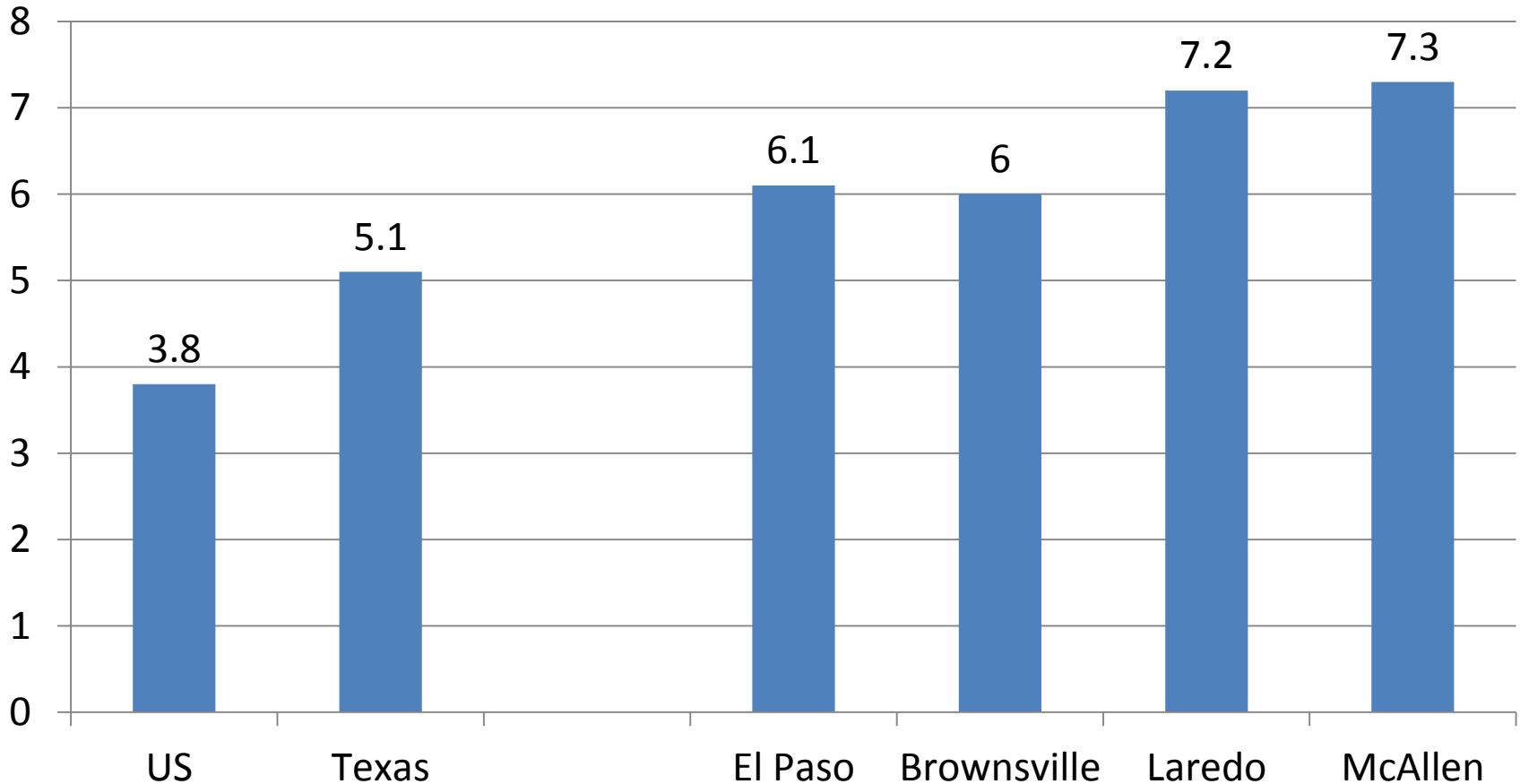
El Paso per capita income has risen quickly relative to US metros



Source: Bureau of Economic Analysis

The 2000-2011 surge in income growth shared along the Texas-Mexico border

Personal Income Growth at annual rates



Source: Bureau of Economic Analysis

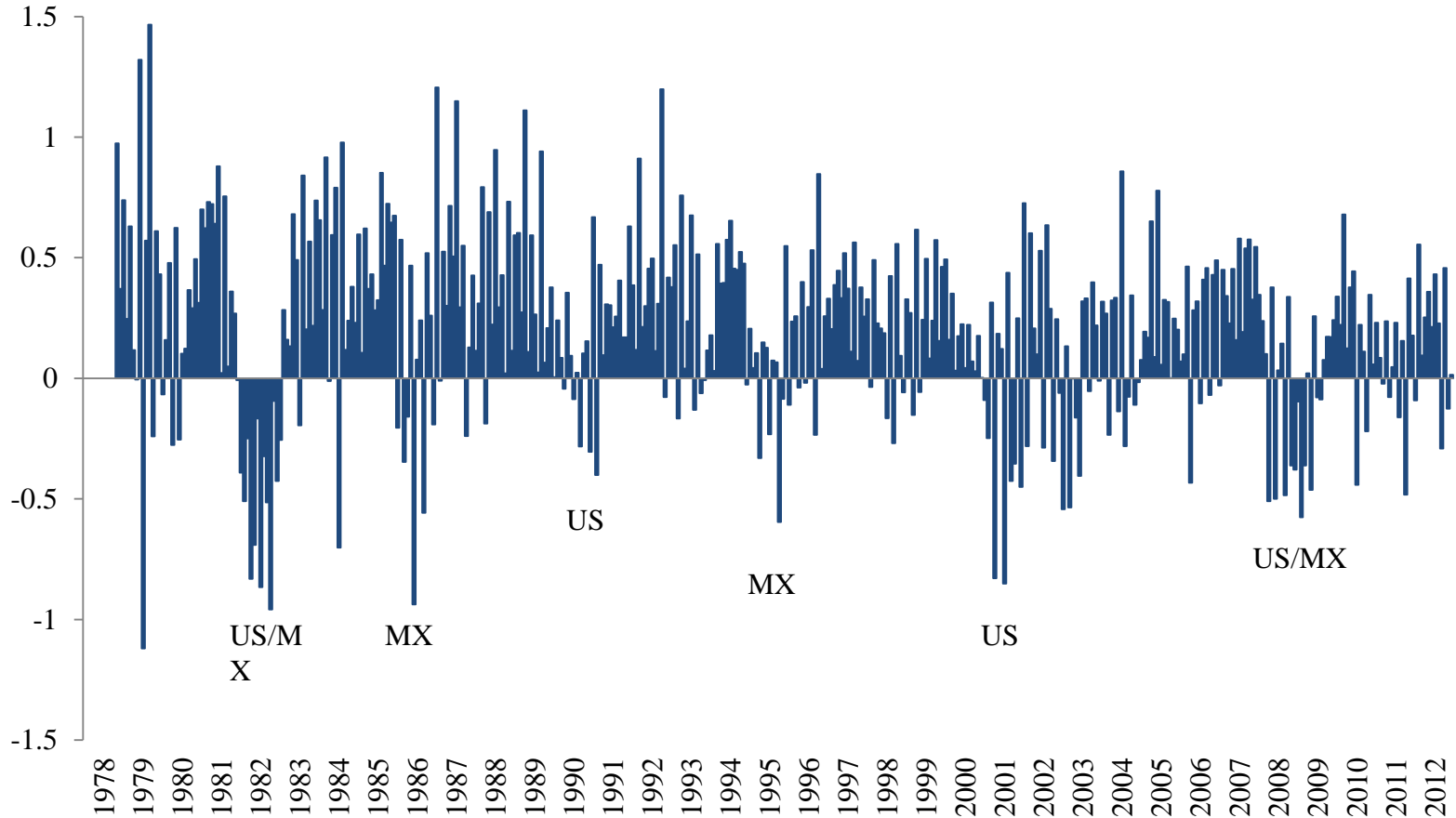


El Paso fared better than other cities
through the Great Recession and after



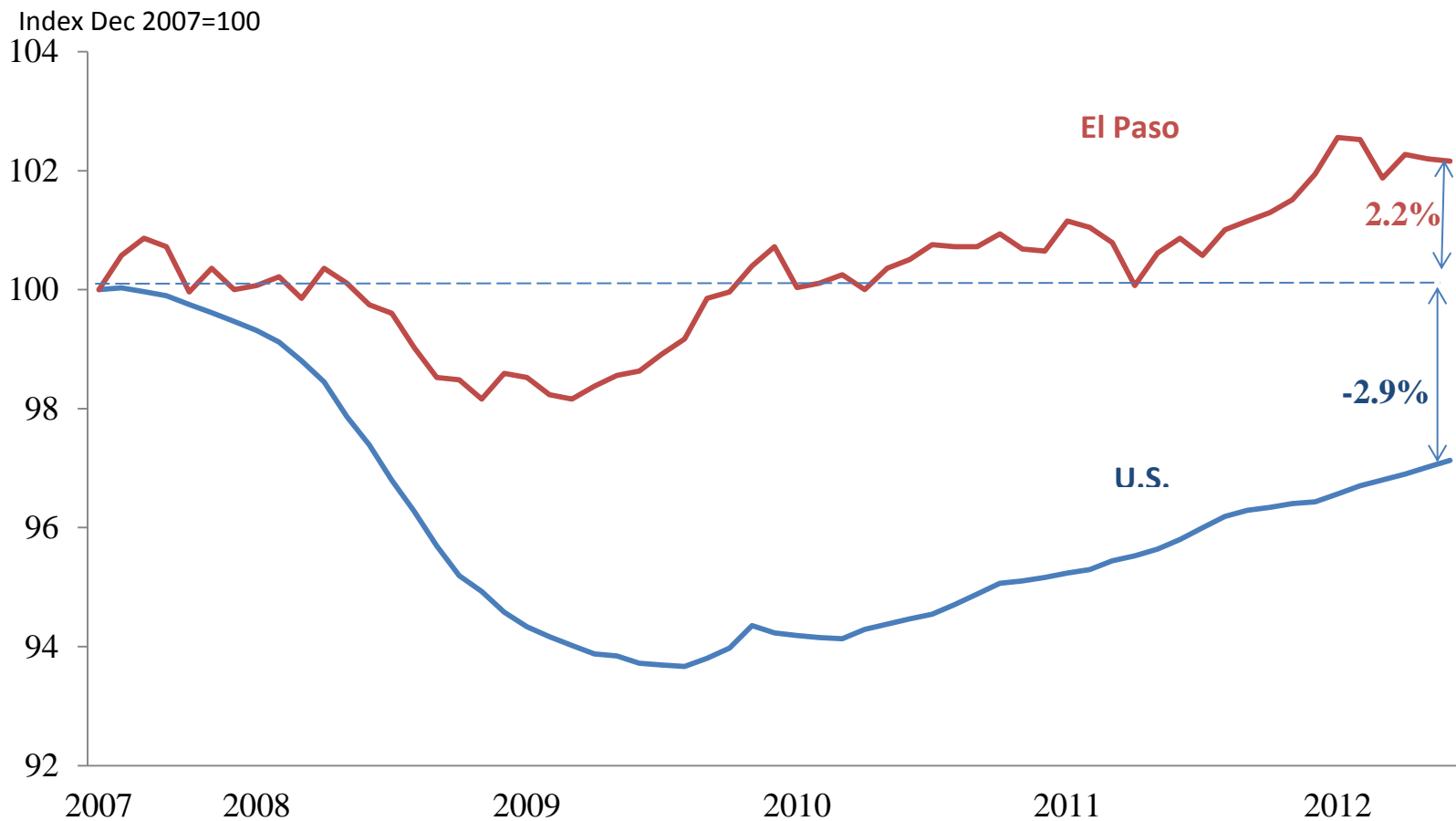
El Paso is highly cyclical, importing recessions from US and Mexico

El Paso Business Cycle Index, Percent, m-



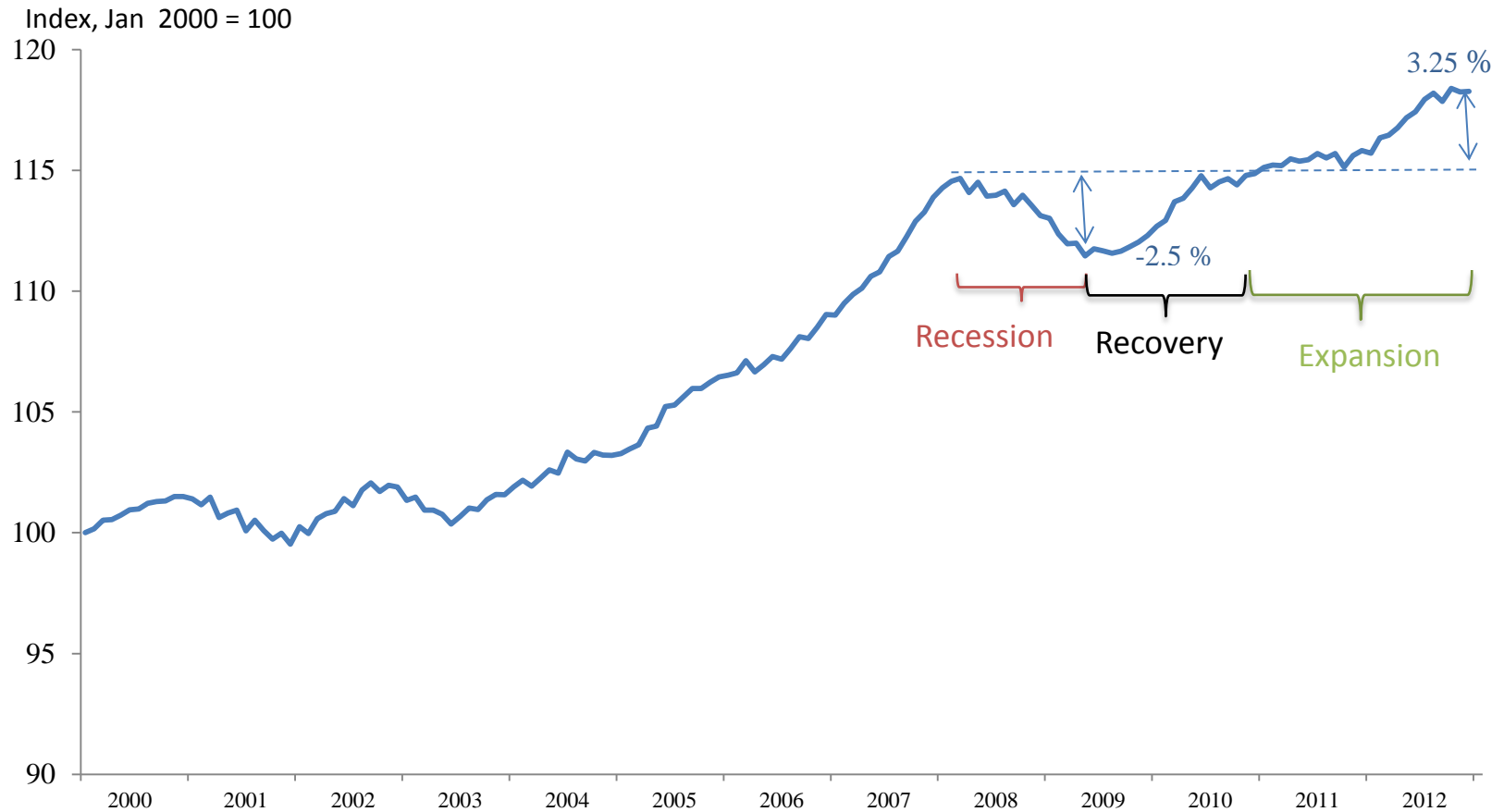
Source: Federal Reserve Bank of Dallas

Comparing recession and recovery in the El Paso and U.S. labor markets



Source: Bureau of Labor Statistics

El Paso's recession ended and a new recovery began in late 2010



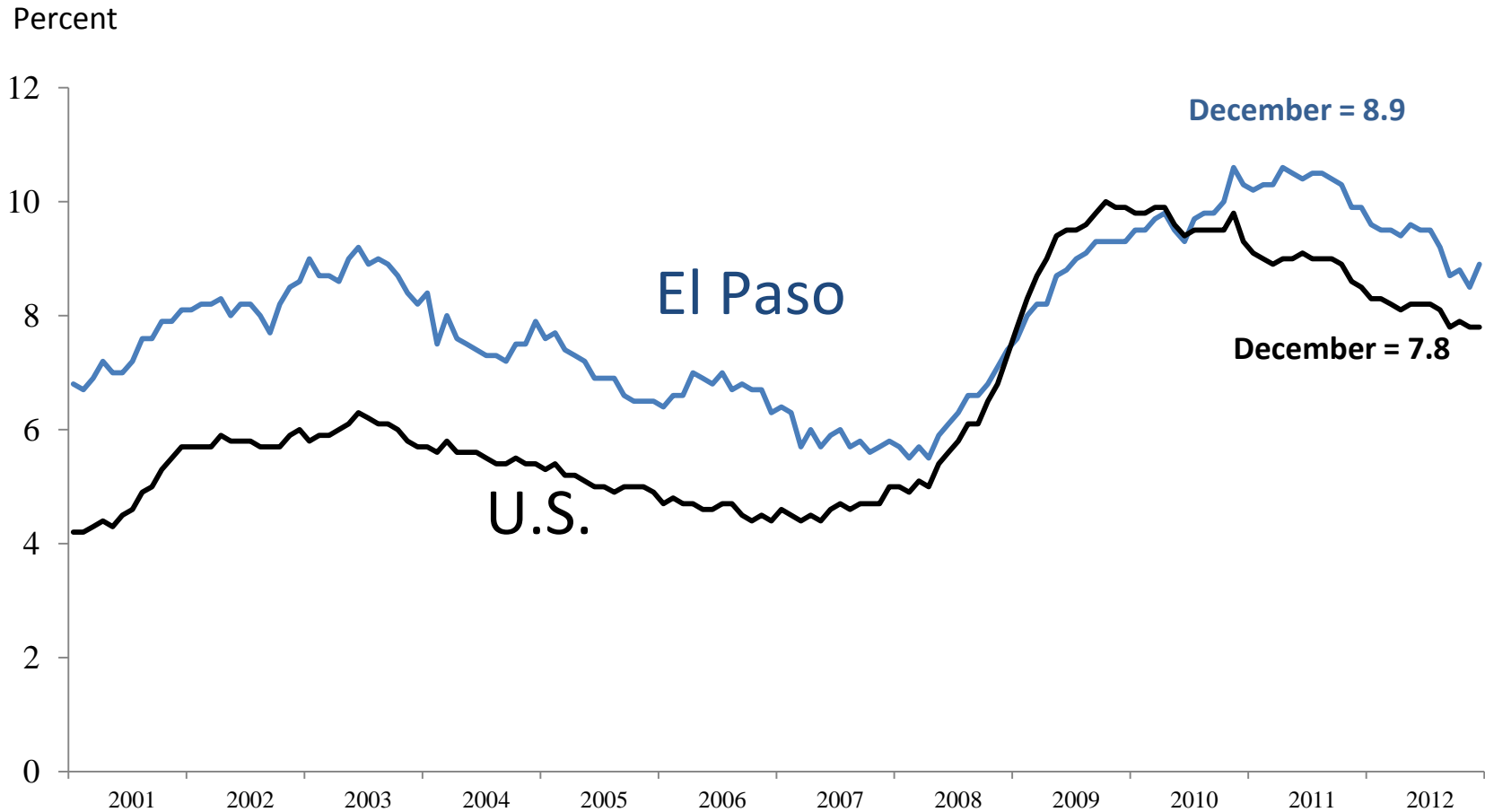
Note: El Paso Business Cycle is a composite index that includes employment, unemployment rate, retail sales and wages.
Source: Federal Reserve Bank of Dallas

El Paso's recession milder than other border cities

Metro Area	Peak	Trough	Decline (%)	Bottom to Today (%)
Texas	July 2008	November 2009	5.3%	10.1%
El Paso	February 2008	September 2009	2.5%	5.9%
Brownsville	February 2008	August 2009	5.0%	1.5%
Laredo	August 2007	October 2009	18.9%	14.6%
McAllen	February 2008	March 2010	15.6%	8.5%

Based on business cycle index from FRB Dallas

El Paso-U.S. unemployment



Source: The Federal Reserve Bank of Dallas and the Bureau of Labor Statistics



What set El Paso apart during the Great
Recession?



Targeted and timely spending came from a variety of sources

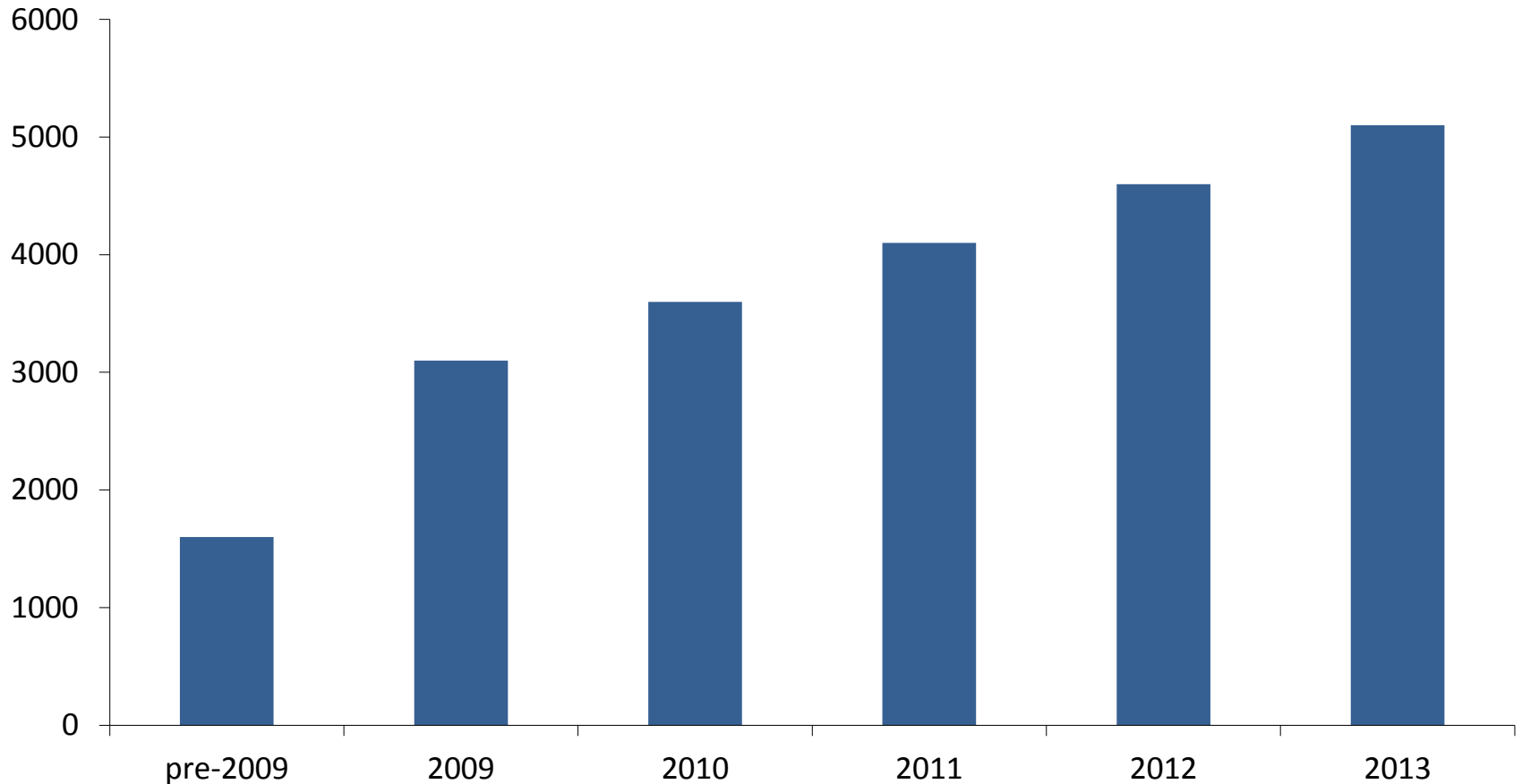
- New medical school and teaching hospital
- State spending on highway and university infrastructure
- Federal stimulus from fiscal and monetary policy
- **ESPECIALLY** the expansion of Fort Bliss

Ft. Bliss brings short-term construction and long-term gains in population

- Ft. Bliss expansion represents over \$5 billion in investment in El Paso over 2006-2013
- Population growth associated with Ft. Bliss expansion is about 50,000 people (soldiers, spouses, children). This a 6 percent increase in population.
- Both population gains and construction have peaked. But construction and population gains continue through 2013.

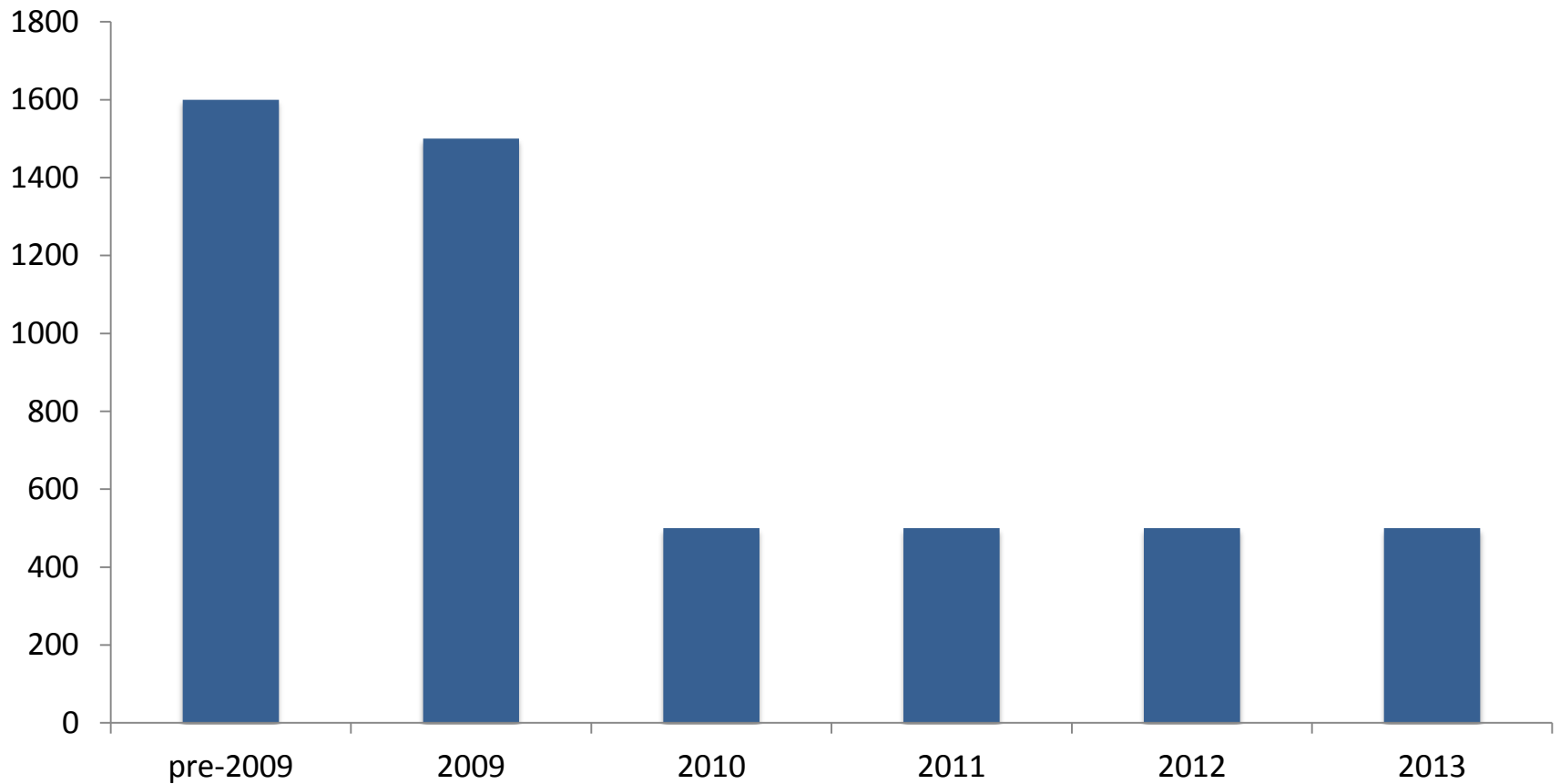
Cumulative construction spending at Ft. Bliss will reach \$5 billion between 2008 and 2013

\$Million

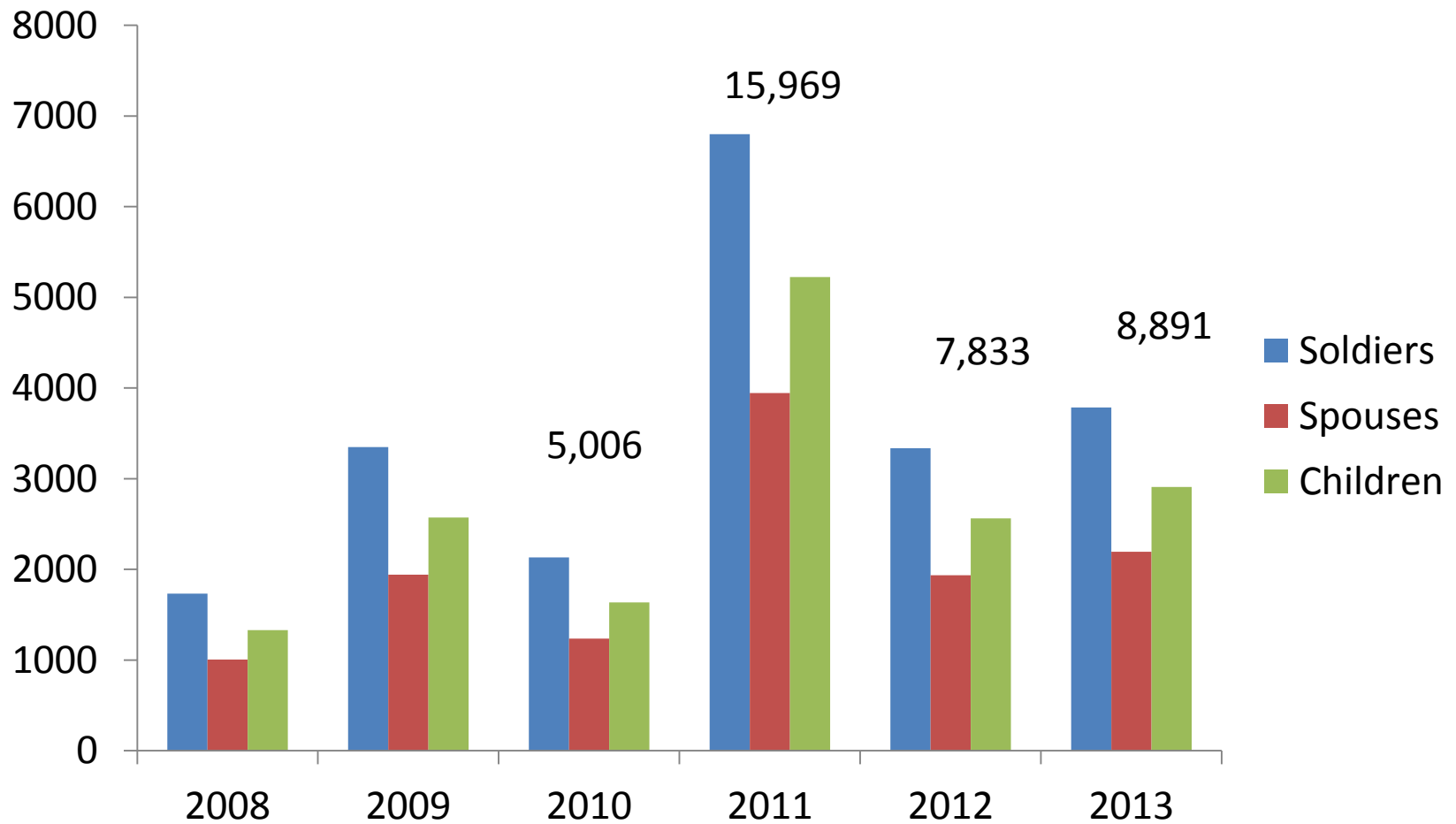


The biggest years for military construction spending are now behind us

\$ Million




Net additions to Ft. Bliss population saw a peak in 2011




Old stimulus reduced, but new stimulus in the pipeline

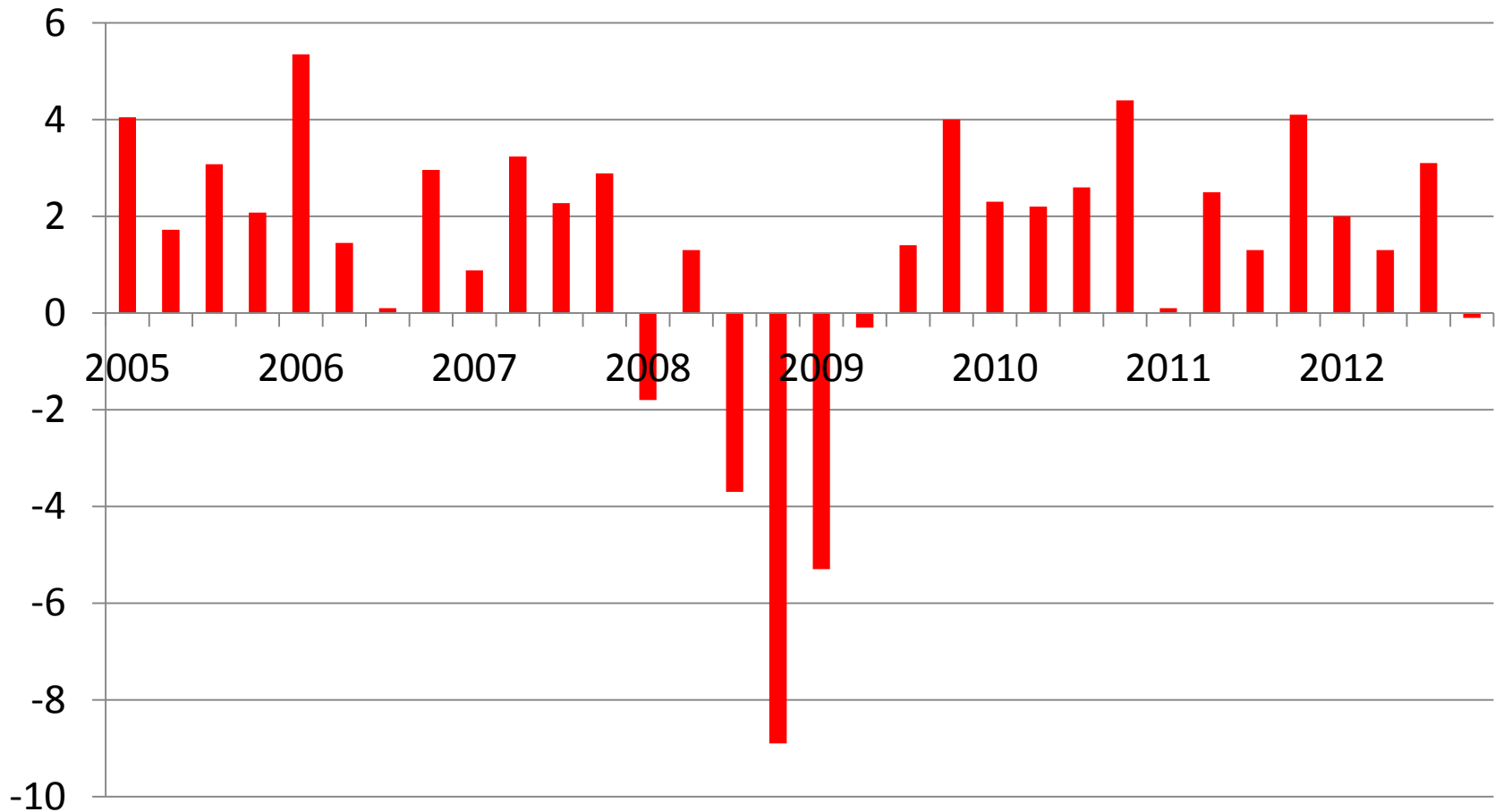
- New William Beaumont Army Medical Center brings \$669 million in additional construction spending by 2016
- New El Paso Community College campus to be built on Fort Bliss for 3,000 or more students. Completed by 2014.
- New school of nursing to be completed by 2014
- New downtown AAA baseball stadium opens for 2014 season



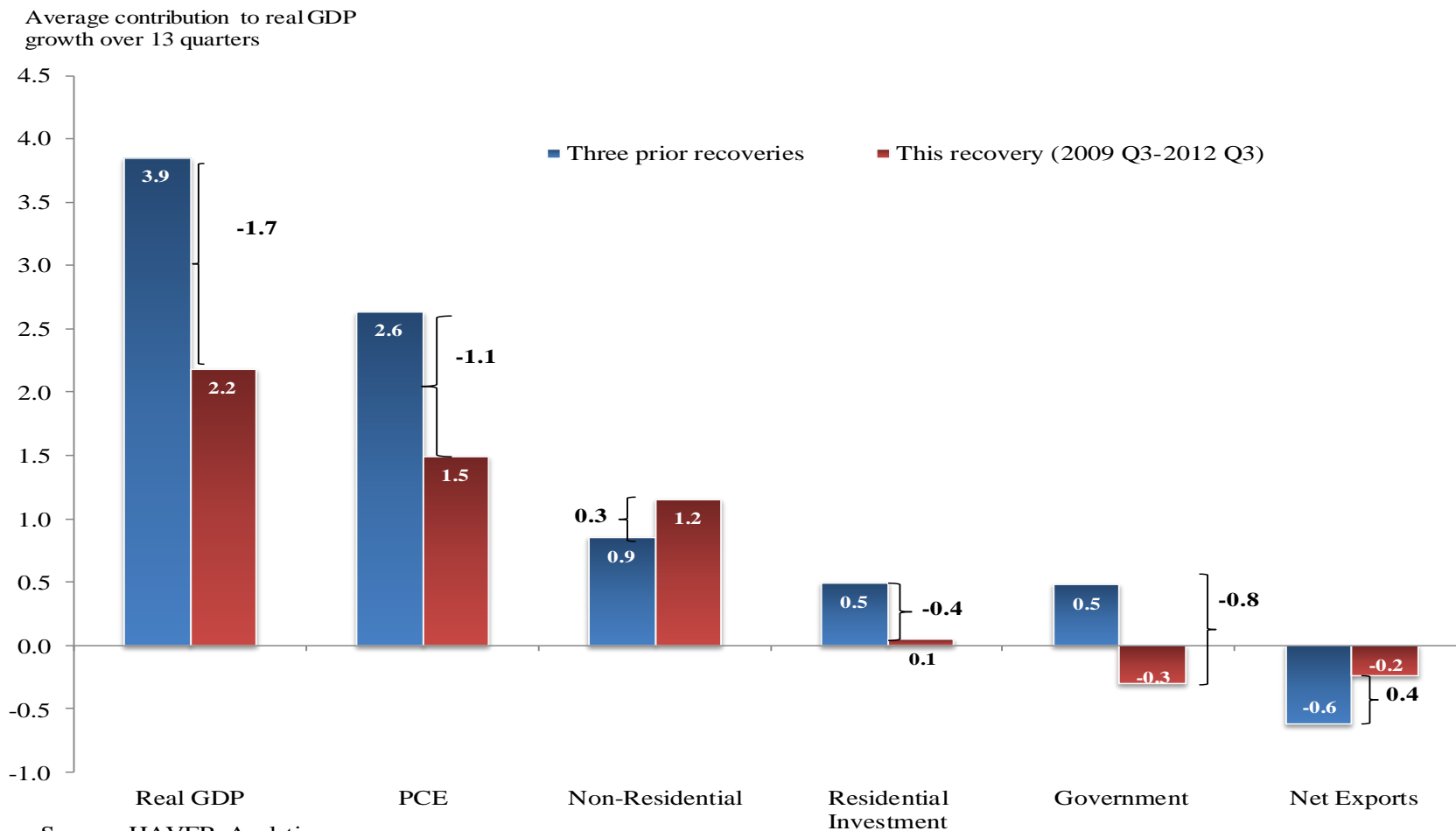
During the downturn, Fort Bliss and other stimulus filled key holes in local construction, spending and housing



Gross domestic product (%-change, annual rates)

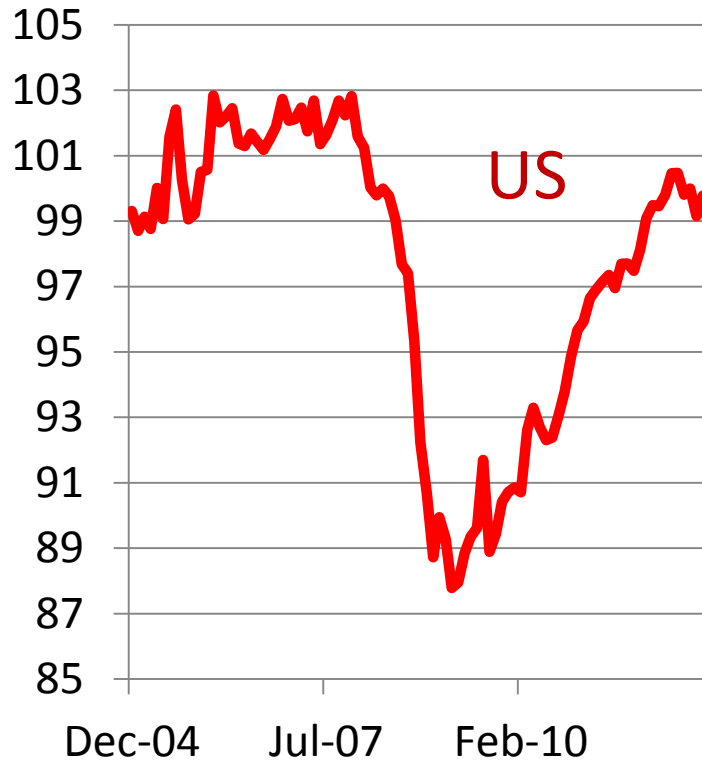


Why such a sluggish recovery?

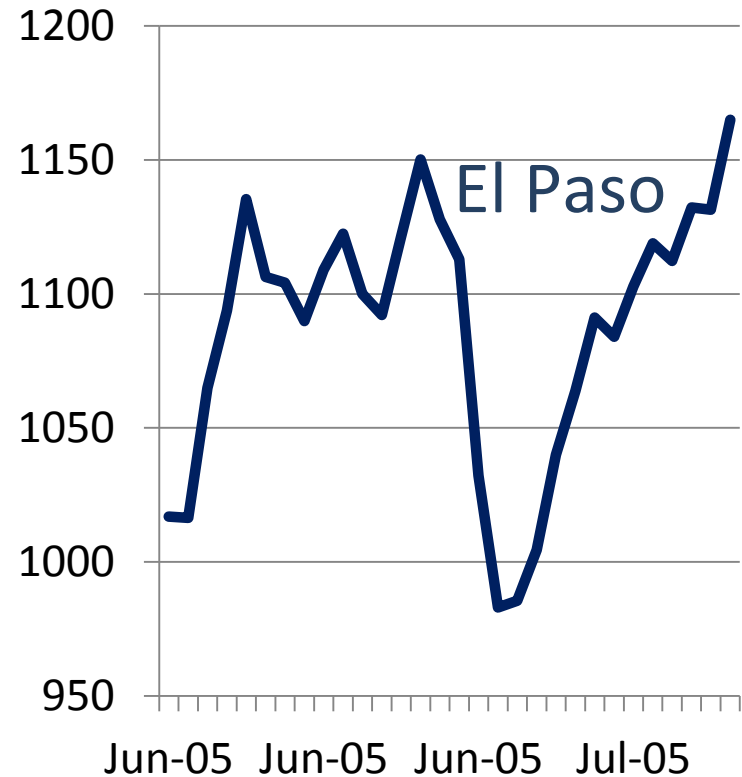


Retail sales have recovered better in El Paso

Monthly sales (2005=100)

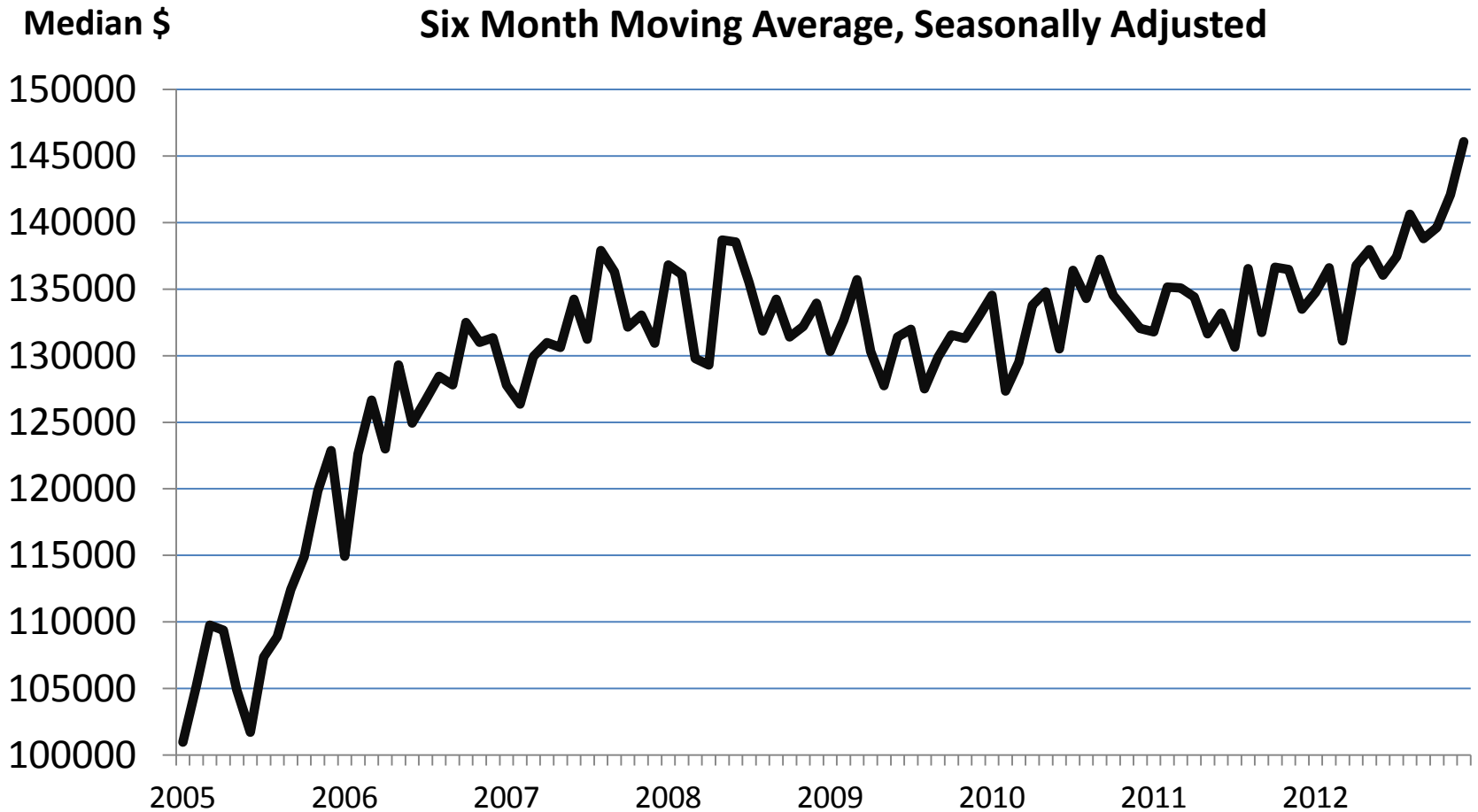


mil\$, Quarterly, 1978 =100

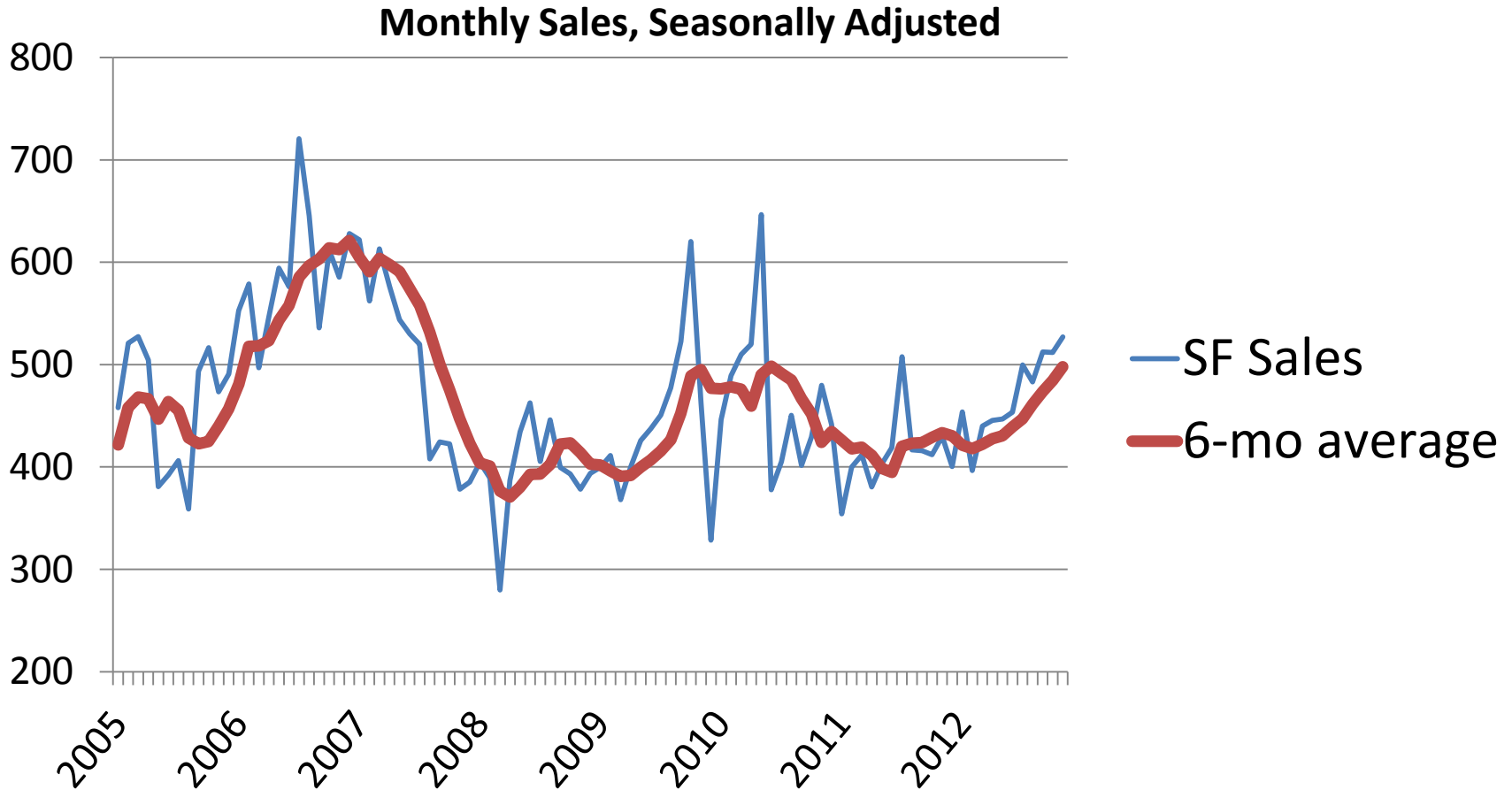


Seasonally adjusted data

El Paso single-family home prices hold in the downturn, now rising

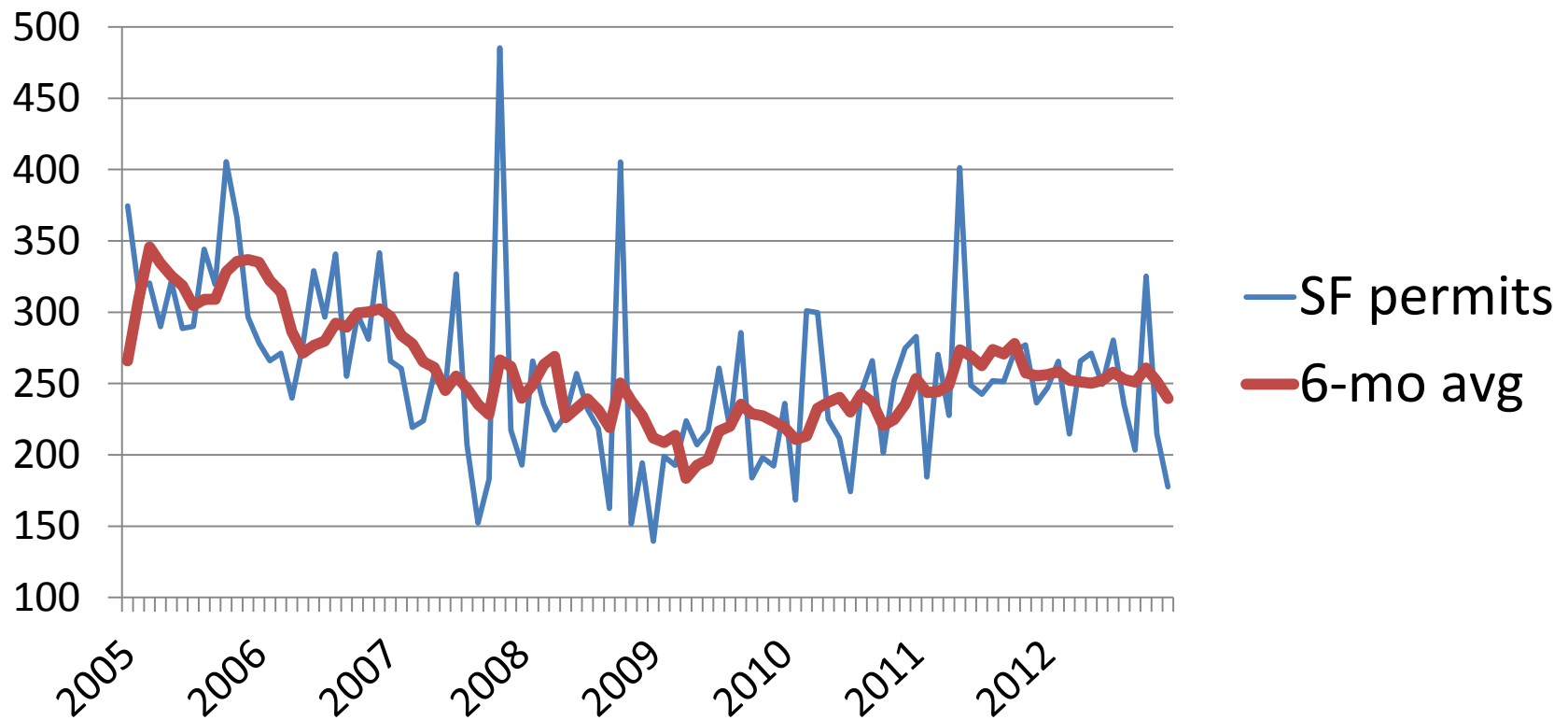


Single-family sales now pushing upward and driving price gains

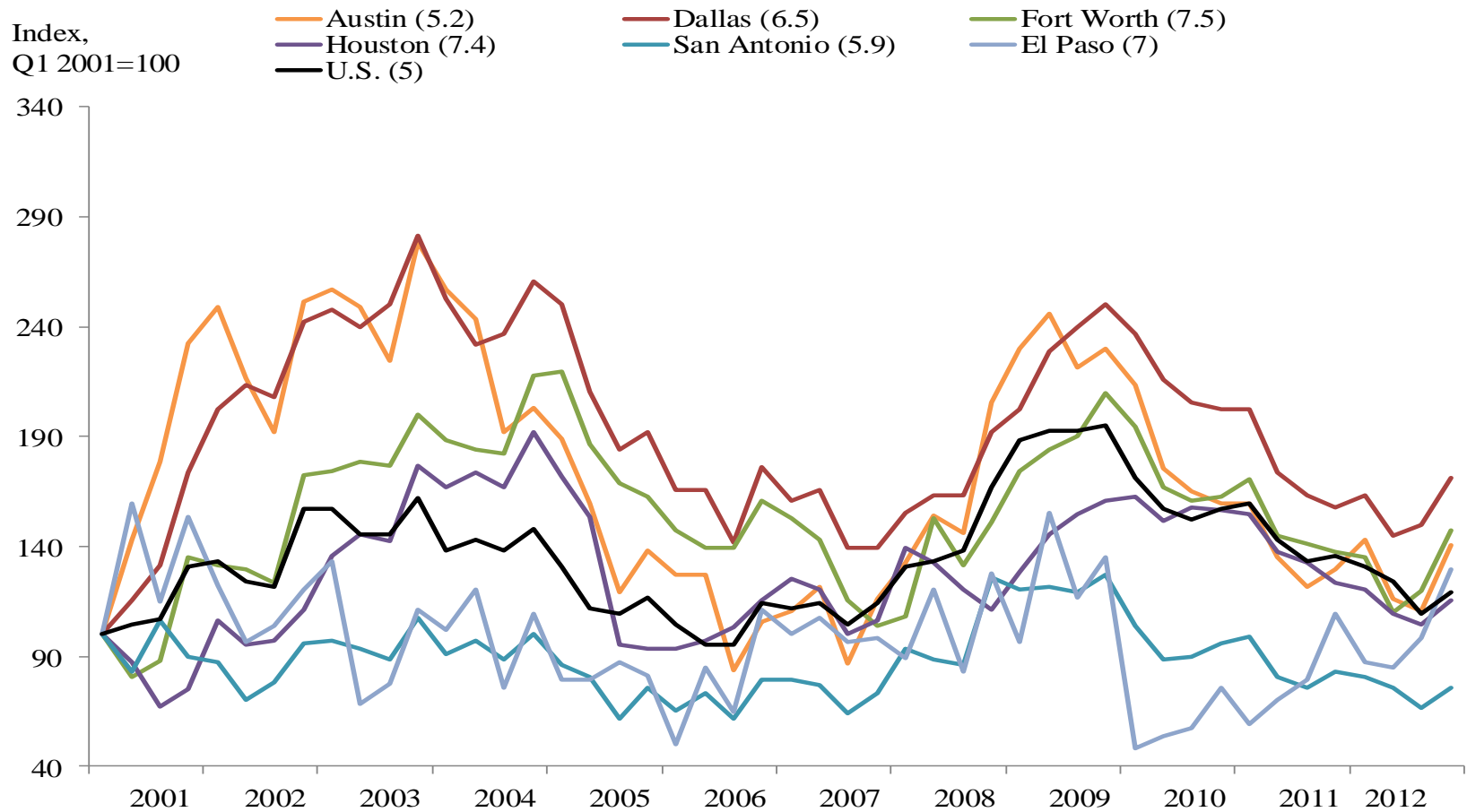


Single-family permits follow existing home sales upward

Monthly Data, Seasonally Adjusted



El Paso has the lowest apartment vacancy rate in Texas

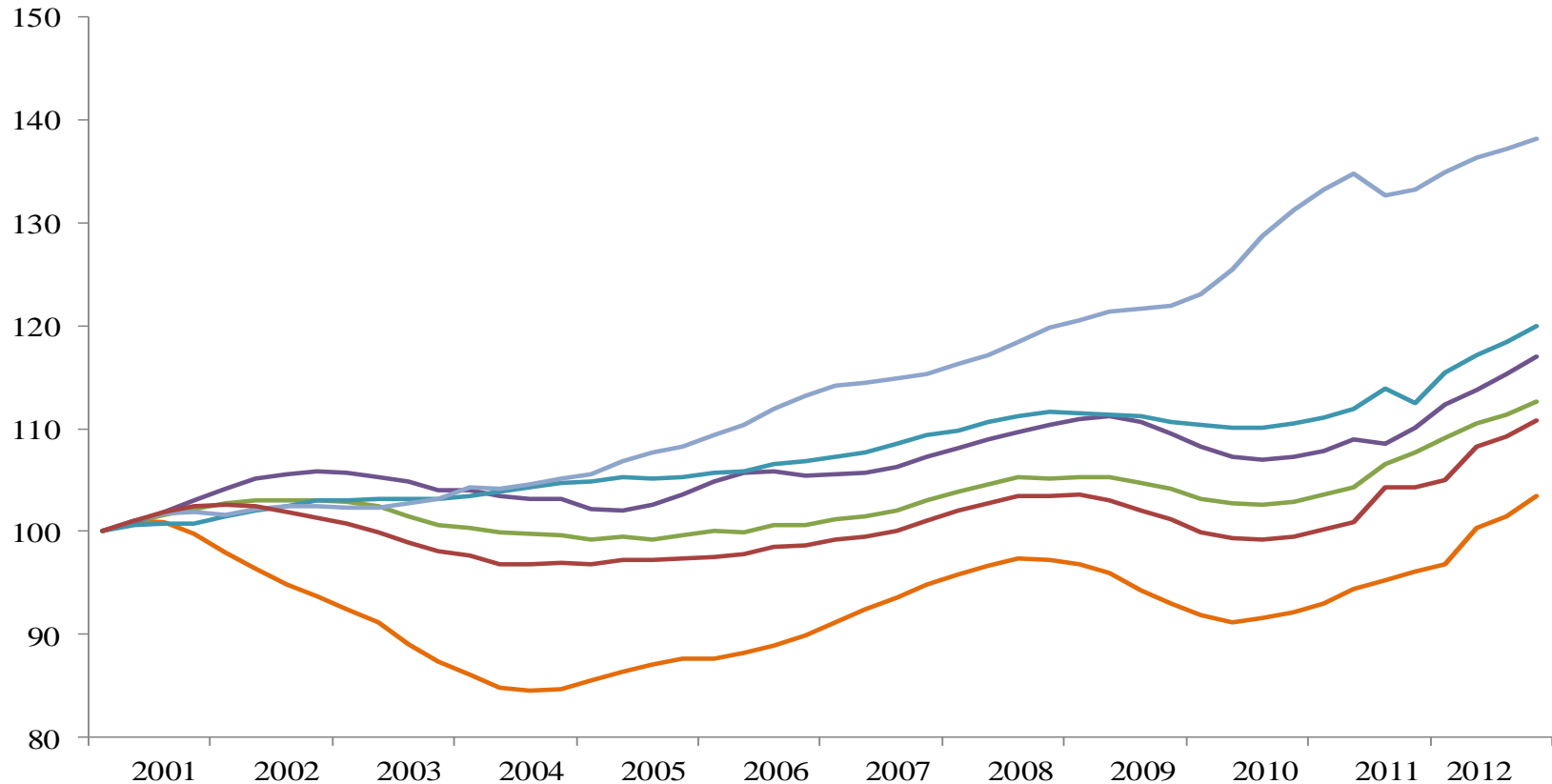


Source: CBRE Econometric Advisors

El Paso apartment rents outgrow other Texas cities

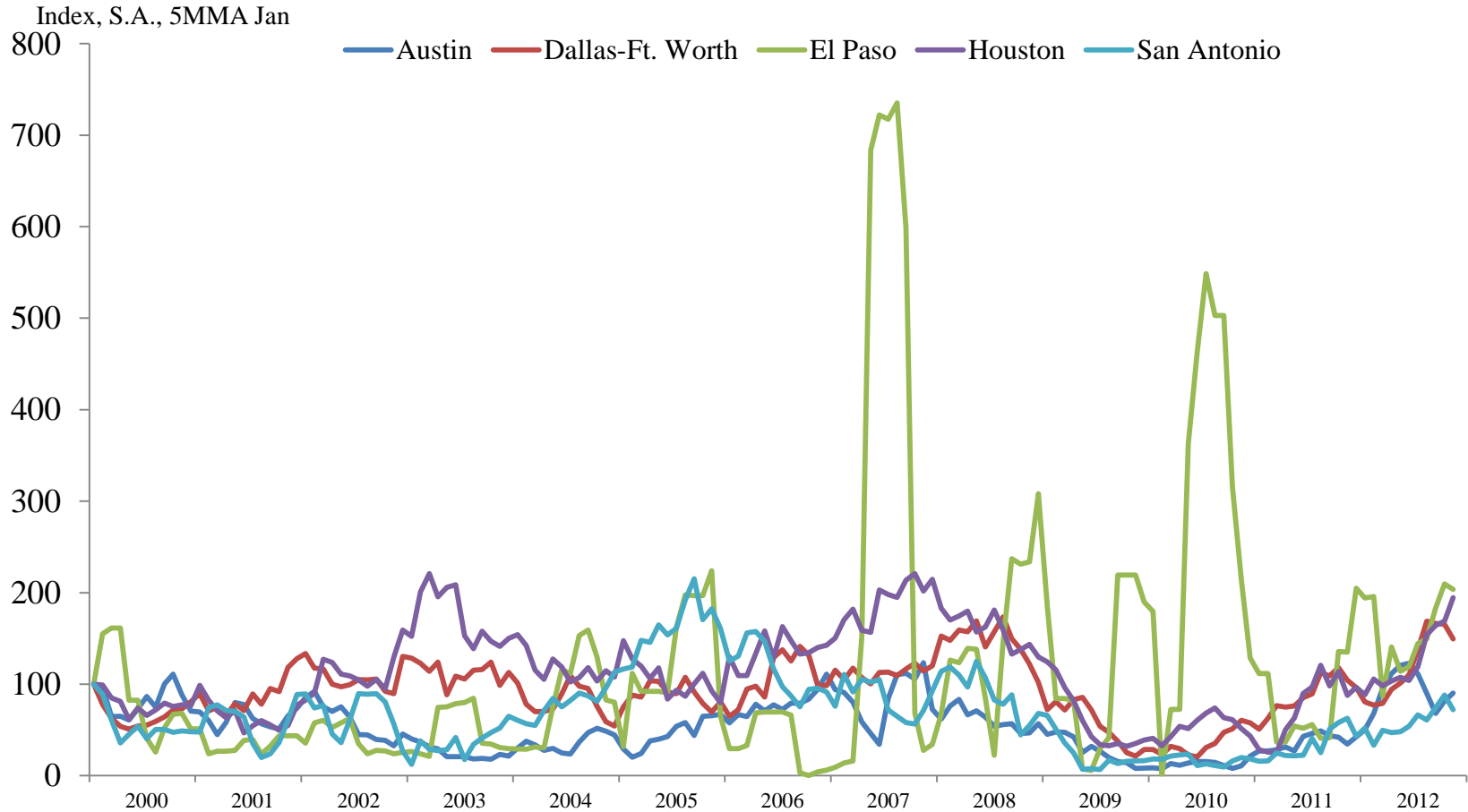
Index,
Q1 2001=100
\$/unit/month

Austin (973.7) Fort Worth (754.1) Houston (883.3)
San Antonio (808.8) El Paso (737) Dallas (867.7)




Source: CBRE Econometric Advisors


El Paso sees activity in multi-family permits as troops arrive



Source: HAVER Analytics



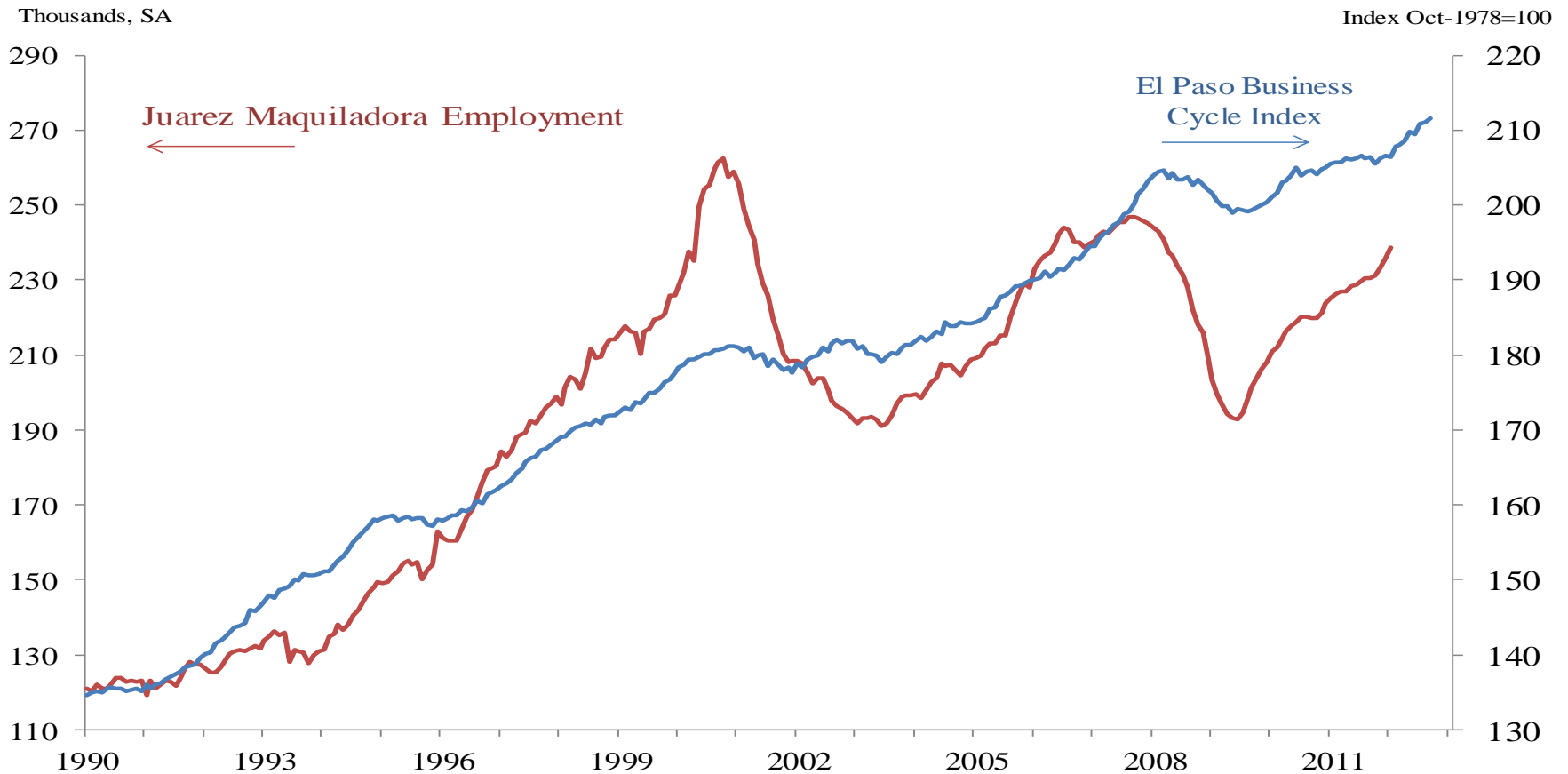
As Fort Bliss expansion ends,
manufacturing will again take the lead in El
Paso's business cycle



Manufacturing's role has changed through the decades

- In the 1960's and 1970's textiles and apparel, much tied to men's slacks, dominated the economy
- The end of import protections led to a long decline, culminating extensive losses with NAFTA
- Today it is not local manufacturing that drives the local economy, but the maquiladora in Mexico.
- El Paso manages the cross-border trade associated with the maquila

El Paso follows the maquiladora industry



Note: El Paso Business Cycle is a composite index that includes employment, unemployment rate, retail sales and wages. Juarez maquiladora employment after January 2007 corresponds to Federal Reserve Bank of Dallas, El Paso Branch estimates.

Source: INEGI and Dallas Fed

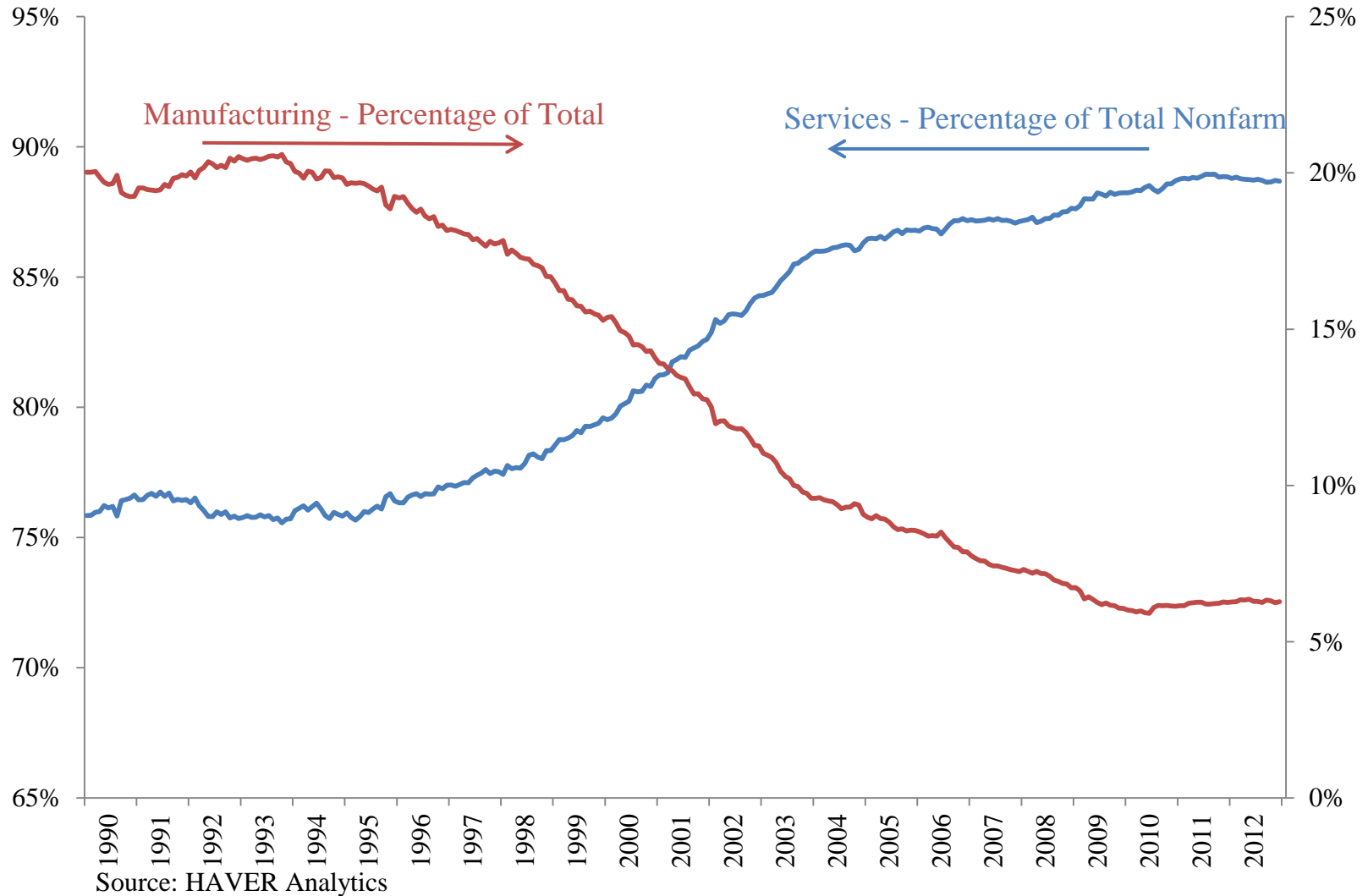
Maquiladoras impact on El Paso

- 10 percent increase in maquiladora output in Ciudad Juarez leads to an increase in El Paso employment as follows:
 - 2.8 percent increase in total employment
 - 5.3 percent in transportation employment
 - 1.3 percent in retail trade employment
 - 2.1 percent in finance, insurance and real estate (FIRE) employment
 - 1.8 percent in services employment
 - (-) 1.3 percent in manufacturing employment

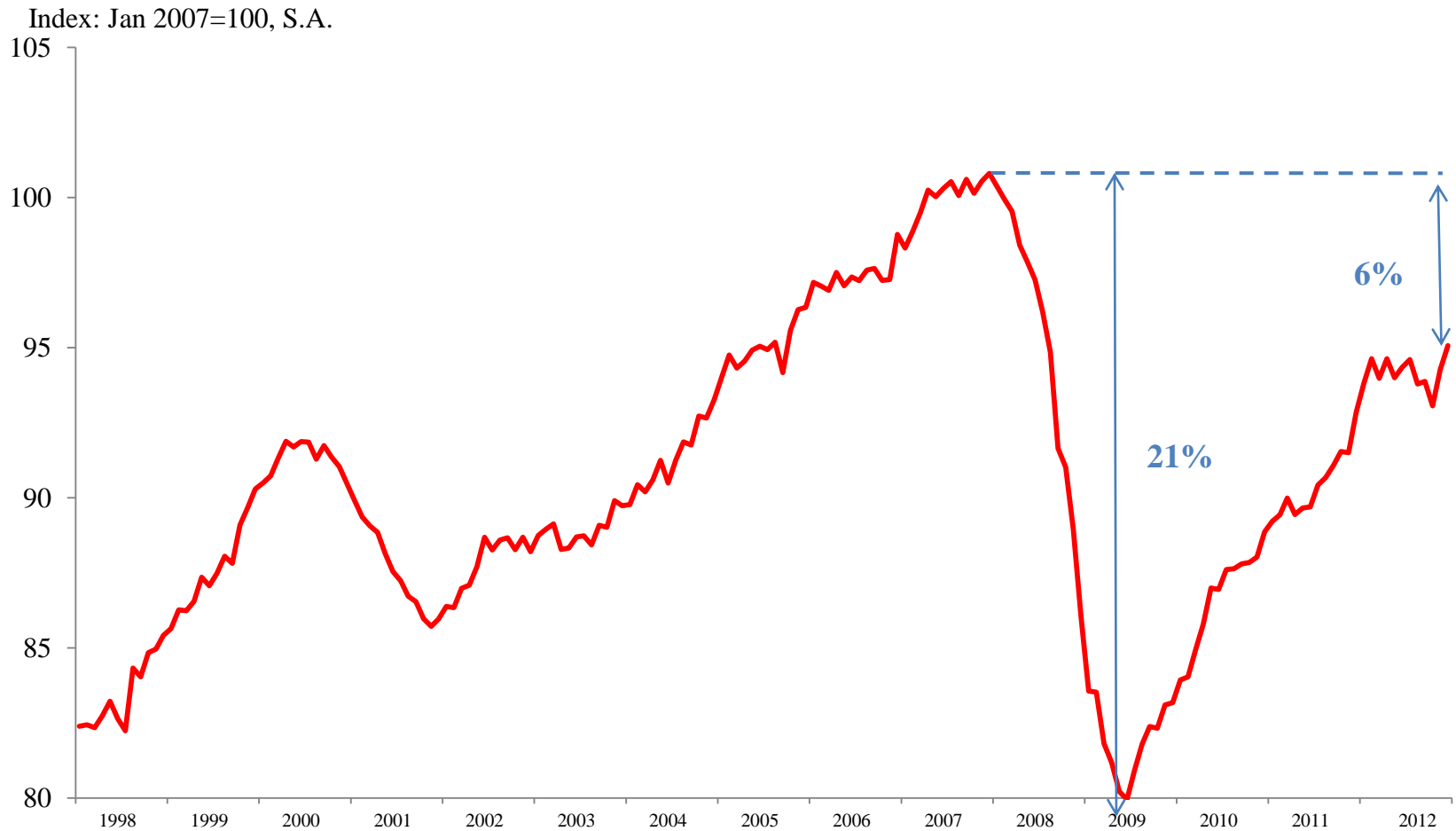
The maquiladoras' impact on the El Paso economy has changed over time

- Over the years, the impact has moved from manufacturing to the service sector
- El Paso continues to be a supplier to the maquiladoras in Juarez, but we now supply business services and border protection
- This is good news because these new jobs pay higher wages than many nondurable manufacturing jobs

El Paso manufacturing losses have stabilized, as services grow

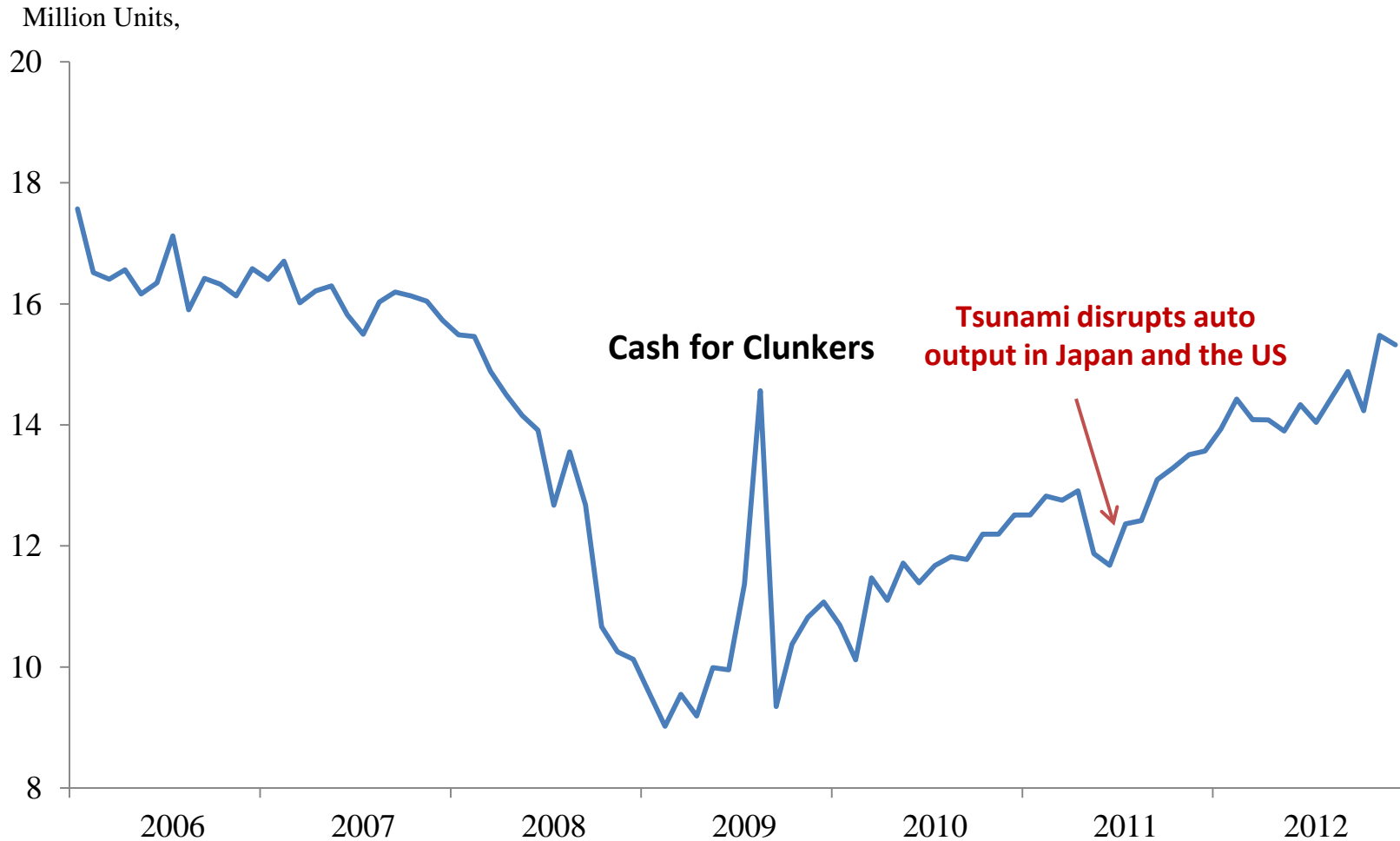


U.S. manufacturing recovery stalls



Source: Board of Governors, Federal Reserve System

Vehicle sales continue to improve



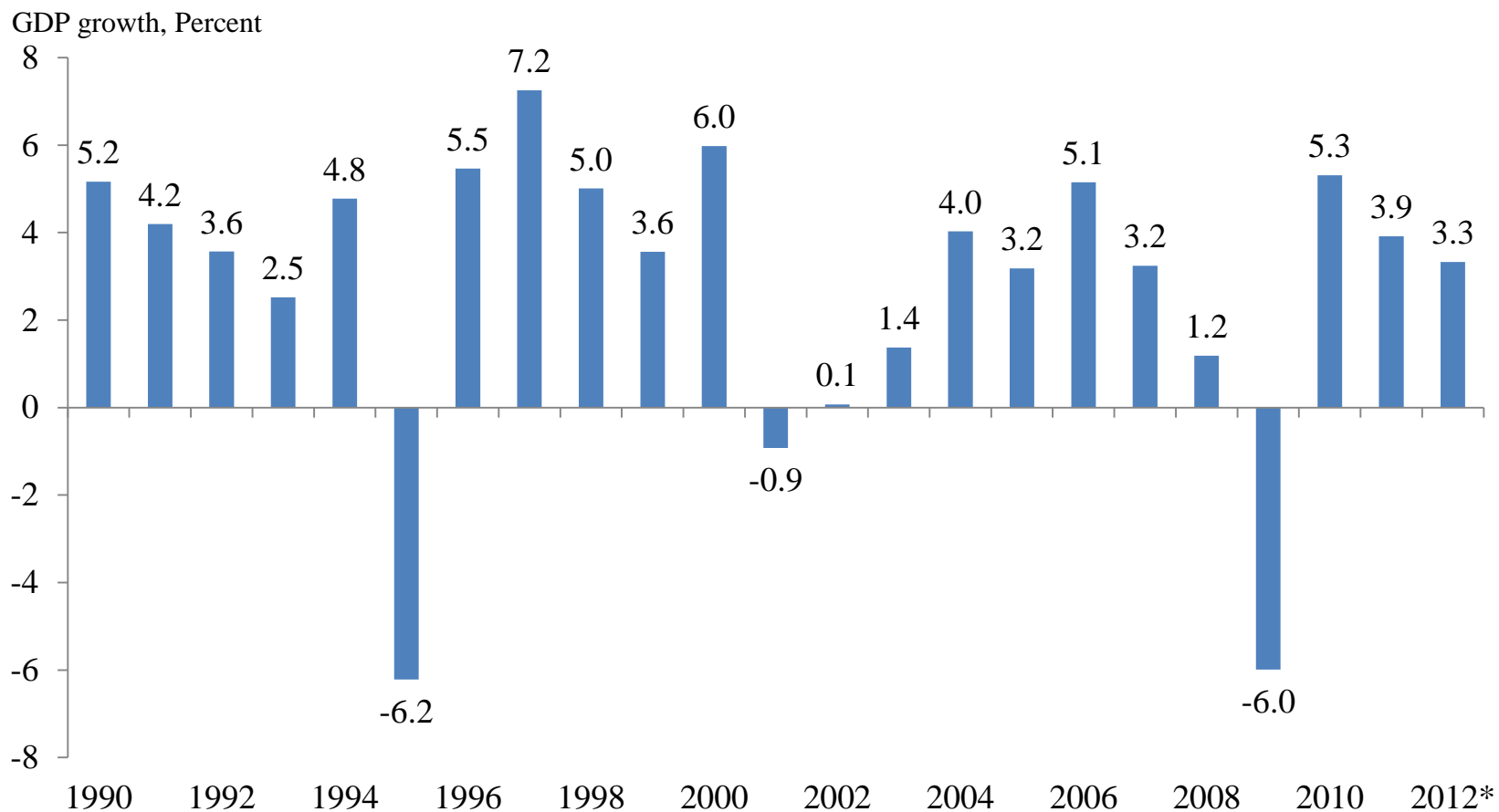
Source: Bureau of Economic Analysis/HAVER



Mexico's recovery still going strong



Mexico's still growing at over 3%



Source: Instituto Nacional de Estadística Geografía e Informática.

*2012Q3/2011Q3

What is driving Mexico's strong recovery?

1. External sector

- Mexico tapped into the strong growth of emerging economies, around 20% of its exports go to EM
- U.S exports have also grown, especially autos

2. Internal sector

- Formal employment posted strong gains
- Healthy banking system
- Jobs + Lending = Strong consumption

3. Capital flows

- FDI bouncing back after the “Great Recession”
- Portfolio investment taking the lead

Mexico's recovery going forward

- The 2011-12, economic growth moderated to 3-4%.
- The strength of the recovery going forward depends on the U.S. industrial sector, autos in particular
- The domestic market continues to strengthen with retail sales and consumer confidence picking up.
- International reserves now stand at \$161 billion
- Mexico set up a contingent credit line with the IMF in the amount of \$73 billion
- As emerging economies have slowed, and Europe fell into recession, the peso has lost ground against the dollar (\$13.25 pesos per dollar)

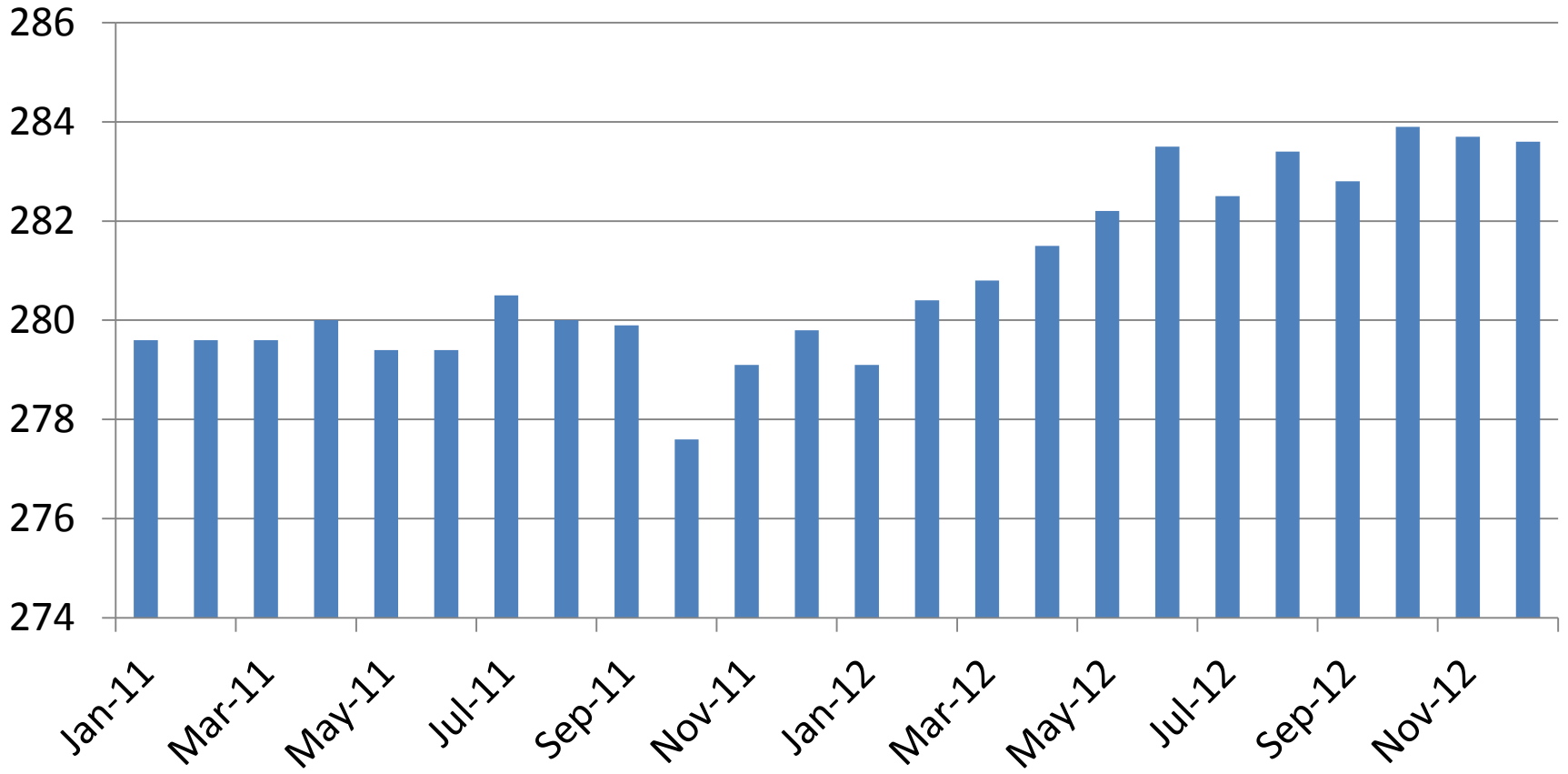
Outlook for the Mexican economy


	2012 GDP Forecast (%)	2013 GDP Forecast (%)	2014 GDP Forecast (%)
Banxico (12/12)	3.87	3.45	N/A
Banamex (1/13)	3.9	3.8	3.8
Bancomer (11/12)	3.7	3.0	N/A
IMF (10/12)	3.8	3.5	N/A
Blue Chip (1/13)	3.8	3.4	4.1
UTEP BRMP (Q4/12)	3.7	3.4	N/A

Payroll employment in El Paso 2011-12

(000's)

Jobs, Seasonally Adjusted

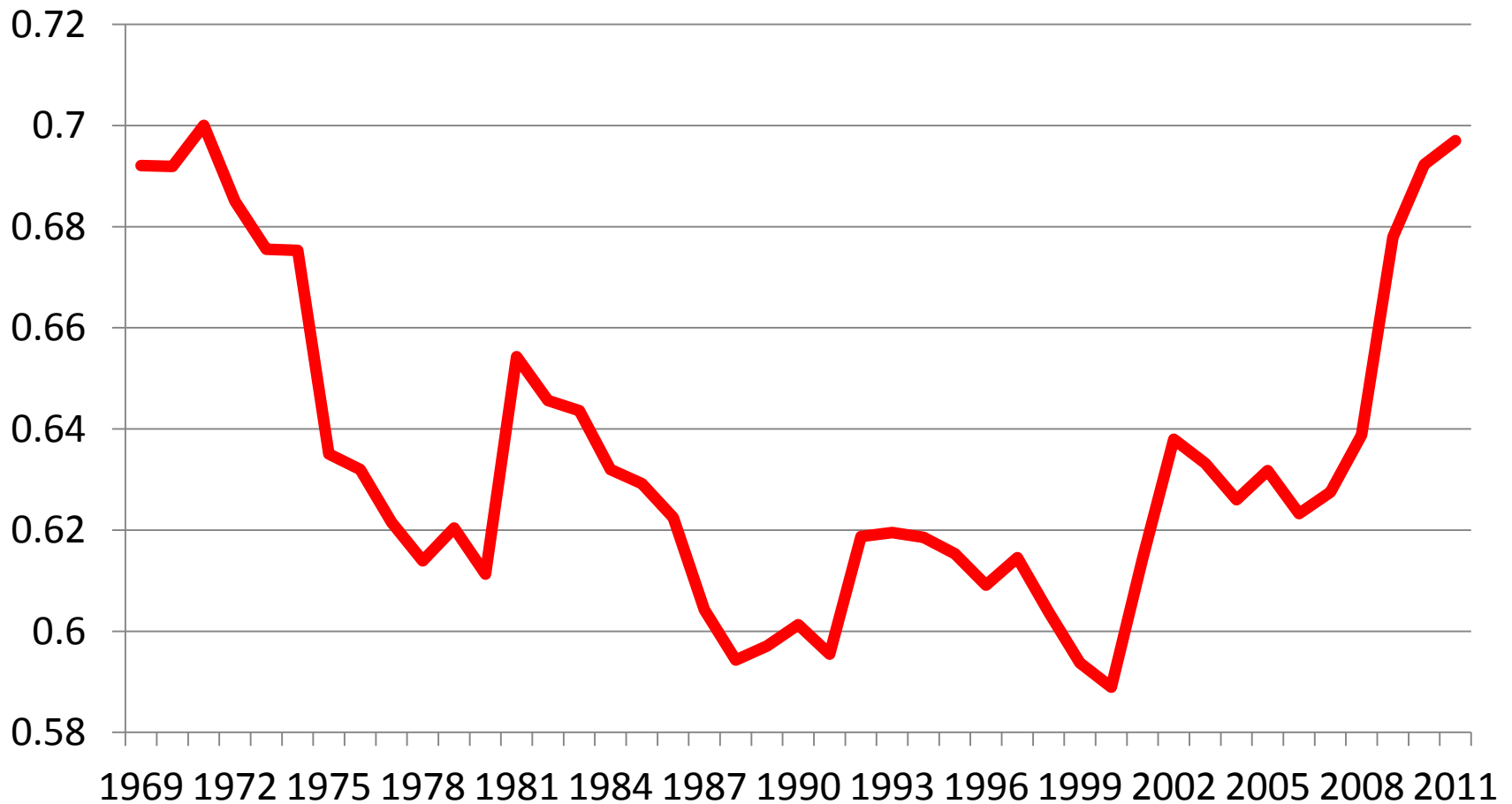




El Paso's future will be led by
cross-border trade



El Paso per capita income has risen quickly relative to US metros



Crossroads

ECONOMIC TRENDS IN THE DESERT SOUTHWEST

El Paso and Texas Border Cities Close the Gap in Per Capita Income

El Paso's per capita income rose to \$28,698 in 2010, or 71.9 percent of the U.S. level, marking another year of progress in bringing local per capita income closer to the U.S. average. Between 1969 and 2000, the city's per capita income fell steadily relative to the rest of the country, slowly declining by about half a percentage point per year from 73.1 to 62.0 percent. In 2000, however, this ratio found a bottom, and as seen in Chart 1, most of the losses of previous decades are now restored. Since

Key factors in recent income growth in El Paso

- Fort Bliss
- Health care
- The decline of manufacturing
- Cross-border trade
 - Transportation
 - Six service sectors
 - Civilian federal government

Fort Bliss from 2007 to 2010

- In this period, Fort Bliss kept the construction sector from reducing local income, while construction in the US subtracted 8.8 percentage points from US earnings each year.
- Military earnings added only 0.2 percentage points to US earnings, but added 9.1 percentage points to El Paso income.
- This extraordinary annual 17.9 percentage-point contribution to earnings by Fort Bliss was a one-time event. It was timely and targeted spending at a critical time. But Fort Bliss contribution to growth ends in 2013.

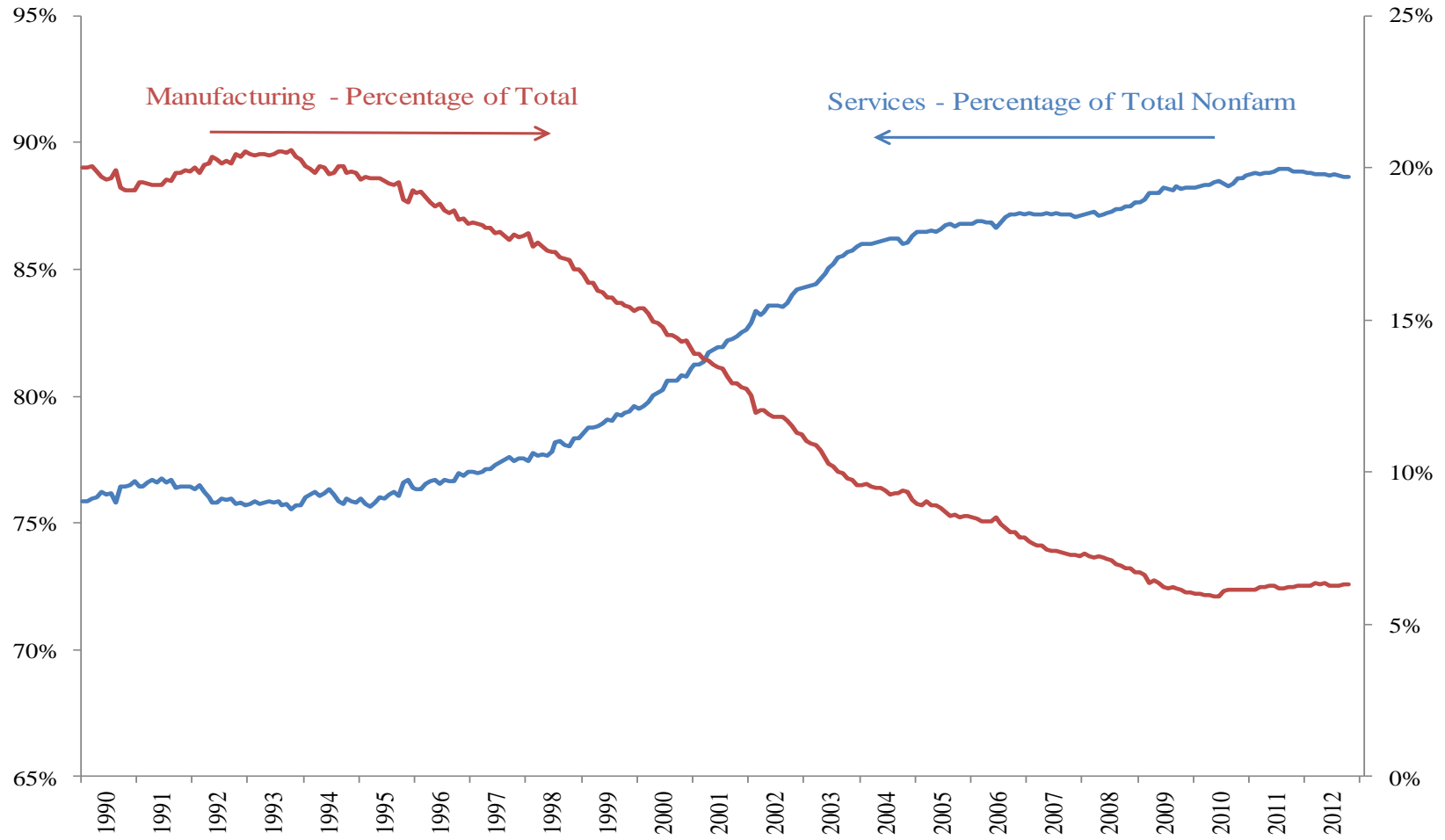
Health care

- We could not parse out specific data on the contribution of the Medical School or the University Medical Center
- Bigger trends in medical spending are dominated by Medicare and Medicaid – especially in poor border cities
- El Paso health care spending has grown more slowly than other border cities – and the comparison is enmeshed in a controversy over possible abuse of Medicaid in South Texas
- Health care reform probably benefits these poor cities, but it also muddies any conclusions about its long-run economic contribution

The decline of manufacturing

- The decline of manufacturing subtracted 10.3 percent from El Paso's earnings each year between 2001 and 2010. This was higher than the 7.3 percent in the US, and higher than other border cities.
- Higher security standards slowed shipments, and pushed suppliers to the maquiladora industry into Mexico
- The last recession seems to mark the end of this long-term decline in local manufacturing activity.

El Paso employment



Source: HAVER Analytics

Cross-border trade

- Cross-border trade added 7.8 percentage points to El Paso's earnings from 2001-2010. In Brownsville, it was 6.5 percentage points, 5.6 in McAllen, and 1.5 in Laredo.
- Transportation and the growth of federal civilian employment for border protection and customs was relatively small.
- Most of the growth comes from six service sectors: information, finance, real estate, professional services, management of enterprises, and administrative services.
- These sectors remain relatively small in Texas border cities, but mark the evolution of "higher-order" and high-wage services in El Paso.

El Paso's long-run future

- El Paso's past was a tariff-protected apparel industry that was lost as trade barriers fell.
- The worst came with the advent of NAFTA in 1994, as El Paso became ground zero for NAFTA transition and retraining funds. Benefits of economic integration were overwhelmed by the transition losses.
- By 2000, the shock of the adjustment was over, and the benefits of free trade were increasingly realized. The evolution of higher-order and professional service industries is a watershed event on the border.
- Texas border cities are no longer lost at the edge of the US economy, but are strategic portals in a North American economy. This is the competitive advantage that can carry El Paso successfully into the future.

El Paso Economic Growth in Perspective

**Robert W. Gilmer, Director
Institute for Regional Forecasting
University of Houston
rwgilmer@uh.edu**
