Outlook for El Paso Economy

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The views expressed in this presentation are strictly those of the authors and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or of the Federal Reserve System.
Outline

1. Federal Reserve
2. El Paso economic update
3. Outlook for 2015 and final remarks
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Federal Reserve

• We are the central bank of the United States
• Established on December 23, 1913
• Federal Reserve responsibilities:
  1. Monetary policy
  2. Supervision and regulation of banks
  3. Payment systems
• Main objective is to conduct monetary policy with a dual mandate:
  1. Stable prices
  2. Maximum employment
El Paso Branch

• First Branch established in the 11th District, opened June 17, 1918
• We provide currency and coin to financial institutions in West Texas, El Paso, New Mexico and Southern Colorado
• Regional economic analysis with a special emphasis on Mexico and the border economy
• Offer outreach programs to our constituents both in English and Spanish
Dallas Fed gathers real-time economic intelligence

- Board of Directors
- Business and Community Advisory Council
- Community Depositary Institutions Advisory Council
- Emerging Leaders Council
- Beige book
- Roundtables with business and industry leaders
El Paso Branch Board of Directors

Renard U. Johnson
Chair
President and CEO
METI Inc.
El Paso, TX

J. Eric Evans
Chair Pro Tem
CEO
Providence Memorial Hospital
Sierra Medical Center
El Paso, TX

Teresa Molina
President
First New Mexico Bank
Deming, NM

Richard D. Folger
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Western Refining Inc.
El Paso, TX

Robert Nachtmann
Dean, College of Business Administration
Professor, University of Texas at El Paso
El Paso, TX

Jerry Pacheco
President
Global Perspectives Integrated Inc.
Santa Teresa, NM
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El Paso’s economy continues to expand

Index, Jan 2000 = 100

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 non-farm employment

Thousands, S.A.

December - 292.7 K Jobs

Source: Federal Reserve Bank of Dallas
El Paso employment growth

Percent, Dec/Dec, S.A.

Source: Federal Reserve Bank of Dallas.
El Paso employment gains

Thousands, S.A., Change Yr/Yr

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Private</th>
<th>Government</th>
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<tbody>
<tr>
<td>1991-2008 Average</td>
<td>3.8</td>
<td>2.6</td>
<td>1.2</td>
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<tr>
<td>2009</td>
<td>-3.1</td>
<td>-5.9</td>
<td>0.3</td>
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<tr>
<td>2010</td>
<td>4.8</td>
<td>4.4</td>
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<tr>
<td>2011</td>
<td>4.4</td>
<td>2.1</td>
<td>-0.7</td>
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<tr>
<td>2012</td>
<td>6.3</td>
<td>5.6</td>
<td>0.7</td>
</tr>
<tr>
<td>2013</td>
<td>2.2</td>
<td>3.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>2014</td>
<td>4.4</td>
<td>4.7</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of Dallas

Note: Employment excludes federal military employment
El Paso employment growth by sector
(NAICS Super Sectors, SA by FRB Dallas)

Source: Federal Reserve Bank of Dallas
Comparing the recovery in the El Paso and U.S. labor markets

Source: Bureau of Labor Statistics
El Paso-U.S. unemployment

Source: Bureau of Labor Statistics

El Paso December = 6.1%

U.S. January = 5.7%
Main economic drivers

• U.S. economy
• Mexico’s economy
• Ciudad Juarez and the maquiladora industry
• Cross-border retail activity
• Government sector
U.S. GDP growth moderates

Source: Bureau of Economic Analysis
4\textsuperscript{th}-quarter growth near 2.5 percent

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<thead>
<tr>
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<tr>
<td>Total GDP growth</td>
<td>2.5</td>
<td>2.6</td>
<td>2.3</td>
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<tr>
<td>Personal consumption</td>
<td></td>
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<tr>
<td>Residential investment</td>
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<tr>
<td>Business fixed investment</td>
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<tr>
<td>Inventory investment</td>
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<tr>
<td>Government</td>
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<td></td>
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<tr>
<td>Net exports</td>
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</table>
4th-quarter growth was driven by consumption & inventory investment

<table>
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<tr>
<th>Component</th>
<th>2014</th>
<th>2014:Q4</th>
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<tbody>
<tr>
<td>Total GDP growth</td>
<td>2.5</td>
<td>2.6</td>
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<tr>
<td>Personal consumption</td>
<td>1.9</td>
<td>2.3</td>
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<tr>
<td>Residential investment</td>
<td>0.1</td>
<td>0.1</td>
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<tr>
<td>Business fixed investment</td>
<td>0.7</td>
<td>0.2</td>
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<tr>
<td>Inventory investment</td>
<td>0.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Government</td>
<td>0.1</td>
<td>-0.4</td>
</tr>
<tr>
<td>Net exports</td>
<td>-0.6</td>
<td>-1.0</td>
</tr>
</tbody>
</table>

Contribution to real GDP growth, percentage points

- **2010 – 2013 average**
- **2014**
- **2014:Q4**
The ISM Manufacturing and Non-Manufacturing Indexes have diverged

Expansion average = 54.8

ISM Non-Manufacturing

ISM Manufacturing

Jan.

56.7

53.5
Payroll employment continues to improve

Source: Bureau of Labor Statistics
Unemployment rate trending down

Jan 2015: 5.7

Source: Bureau of Labor Statistics
U.S. manufacturing above pre-recession peak level...

Index: Jan 2007=100, S.A.

1.3%

20%

Source: Board of Governors, Federal Reserve System
...ISM Manufacturing slows as new export orders decline

ISM Manufacturing: New Orders Index

SA, 50+ = Increasing

ISM Manufacturing Index

Source: Institute of Supply Management
Vehicle sales near pre-recession peak levels

Source: U.S. Department of Commerce: Bureau of Economic Analysis, HAVER Analytics
El Paso follows the maquiladora industry

Juarez Maquiladora Employment

El Paso Business Cycle Index

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
El Paso retail sales likely to respond to peso weakness

Retail Sales Index, 2000:Q1=100

Nominal Exchange Rate, Pesos per Dollar

Sources: Texas Comptroller of Public Accounts; seasonal and other adjustments by the Dallas Fed
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El Paso Gross Metropolitan Product

Source: Bureau of Economic Analysis, UTEP Border Region Modeling Project
El Paso Employment Growth

% change


Source: Historical data from Federal Reserve Bank of Dallas; Forecast data from UTEP BRMP based on BLS CES data
Final remarks

• In 2014, job growth accelerated in the U.S. and El Paso
• The drop in energy prices is boosting consumer spending and will likely result in even faster job growth in 2015
• The U.S. industrial sector posted solid growth in 2014. However, leading indicators suggest a slowdown in manufacturing activity in the next few months
• While the outlook for the global outlook continues to pose a downside risk for the U.S., the El Paso economy should benefit from a stronger U.S. economy
Final remarks

• The local economy had a solid performance in 2014
• Economic drivers are in place to continue to boost local economy
• Downside risks:
  – Global economy and its impact on U.S. manufacturing and exports
  – Volatility in FX
  – Mexican economy may continue to be weak
  – Strong dependence in government sector
  – Workforce and education
Outlook for El Paso Economy

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