



Arizona-Mexico Border Strengthens North America

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Outline

1. U.S.-Mexico trade flows and business cycle synchronization
2. U.S.-Mexico manufacturing
3. Regional impact of U.S.-Mexico trade
4. The role of the border
5. Concluding remarks

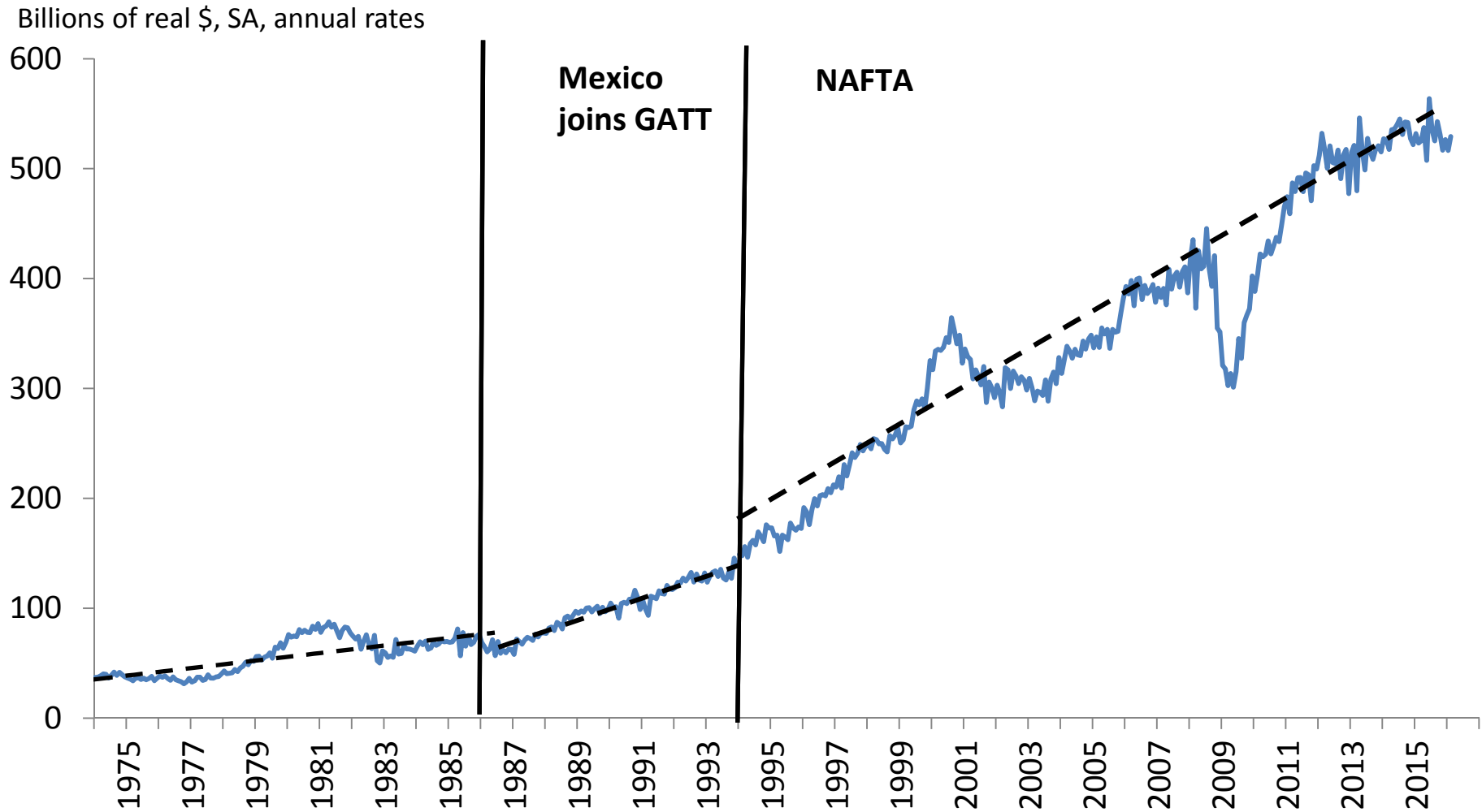


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U.S.-Mexico trade

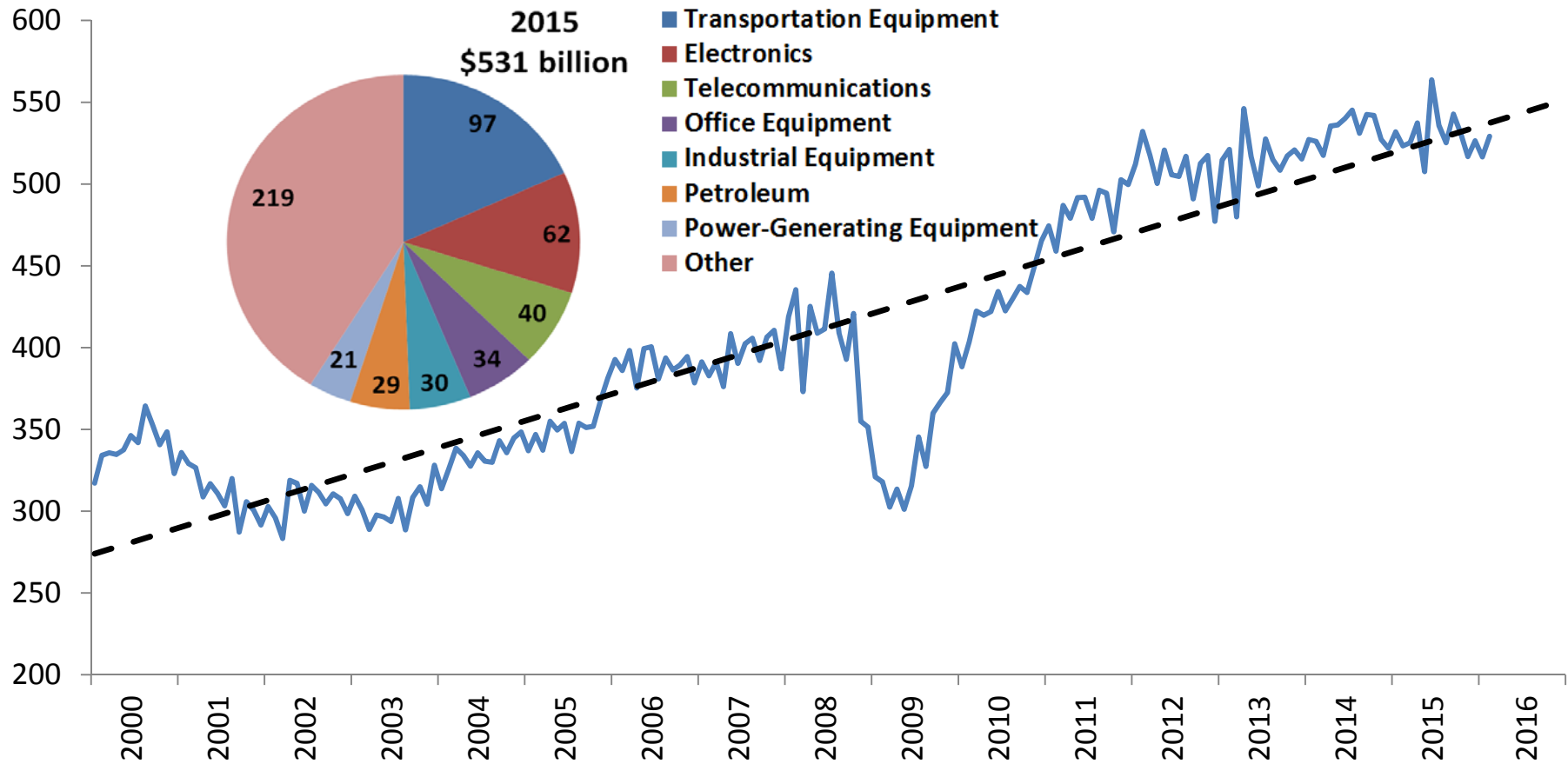


Source: U.S. Census Bureau, Bureau of Labor Statistics



U.S.-Mexico trade slows...

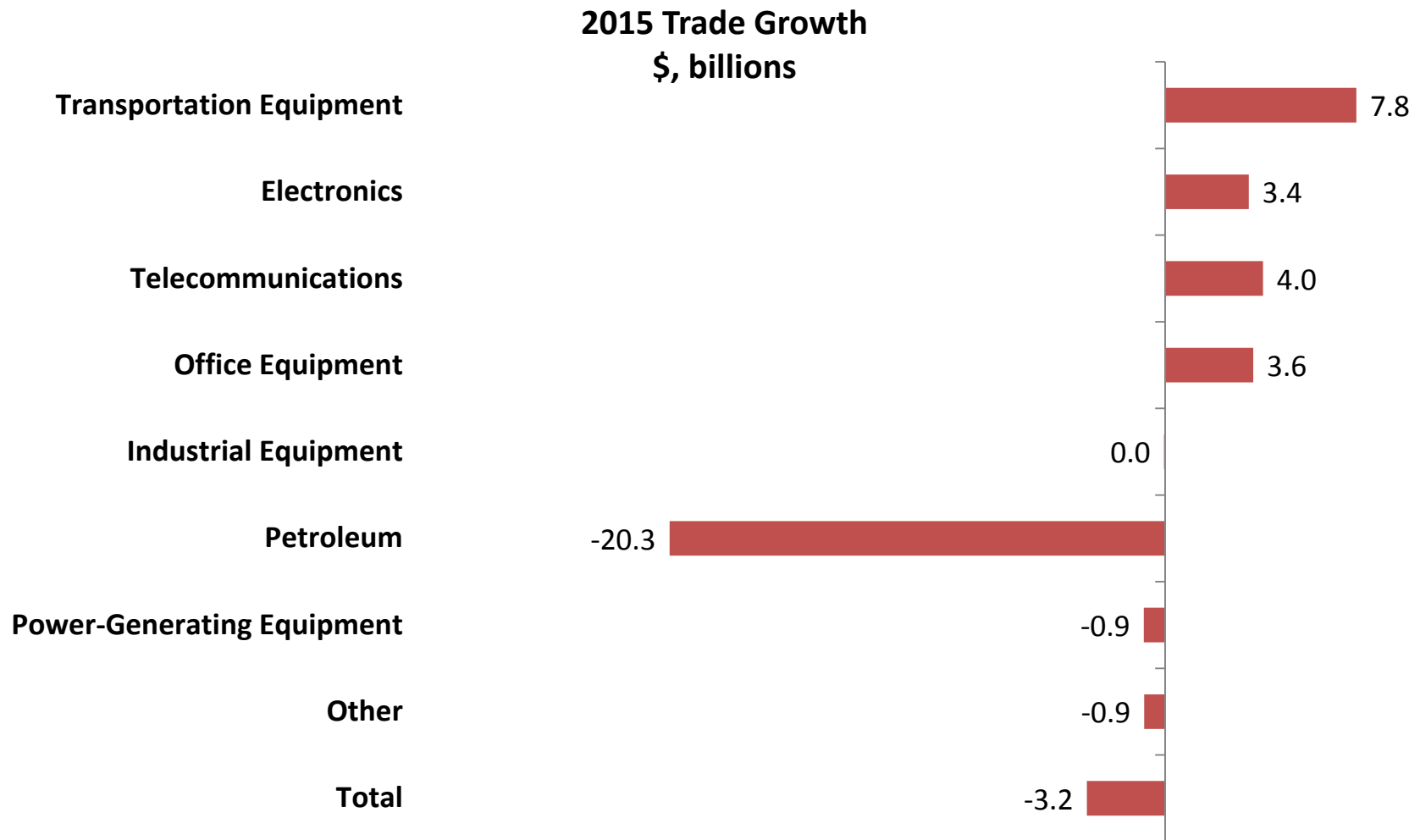
Billions of real \$, SA, annual rates



Source: U.S. Census Bureau, Bureau of Labor Statistics

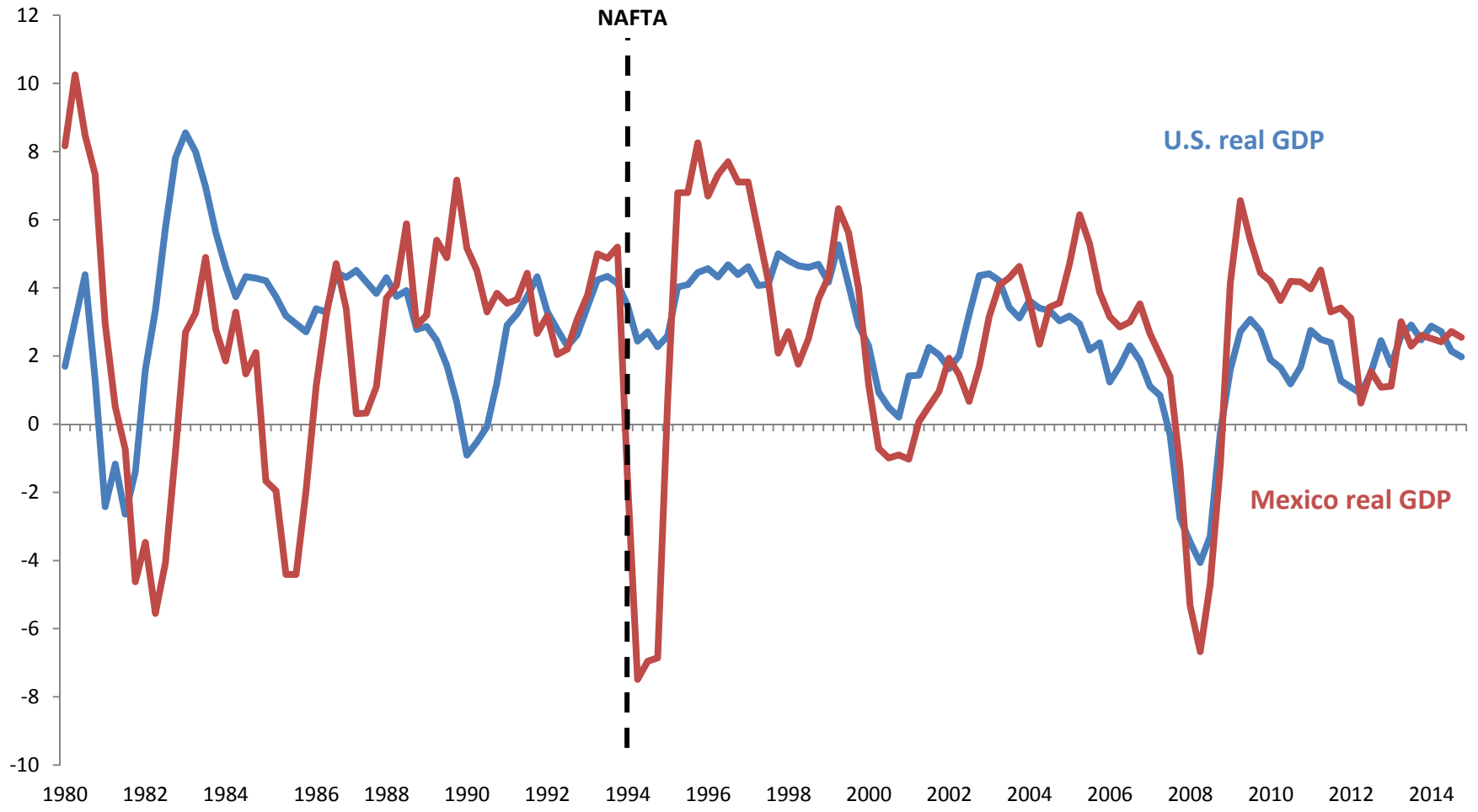


...As petroleum trade plunges



NAFTA brought stronger economic integration

yr/yr % change



Source: Bureau of Economic Analysis, Instituto Nacional de Estadística y Geografía



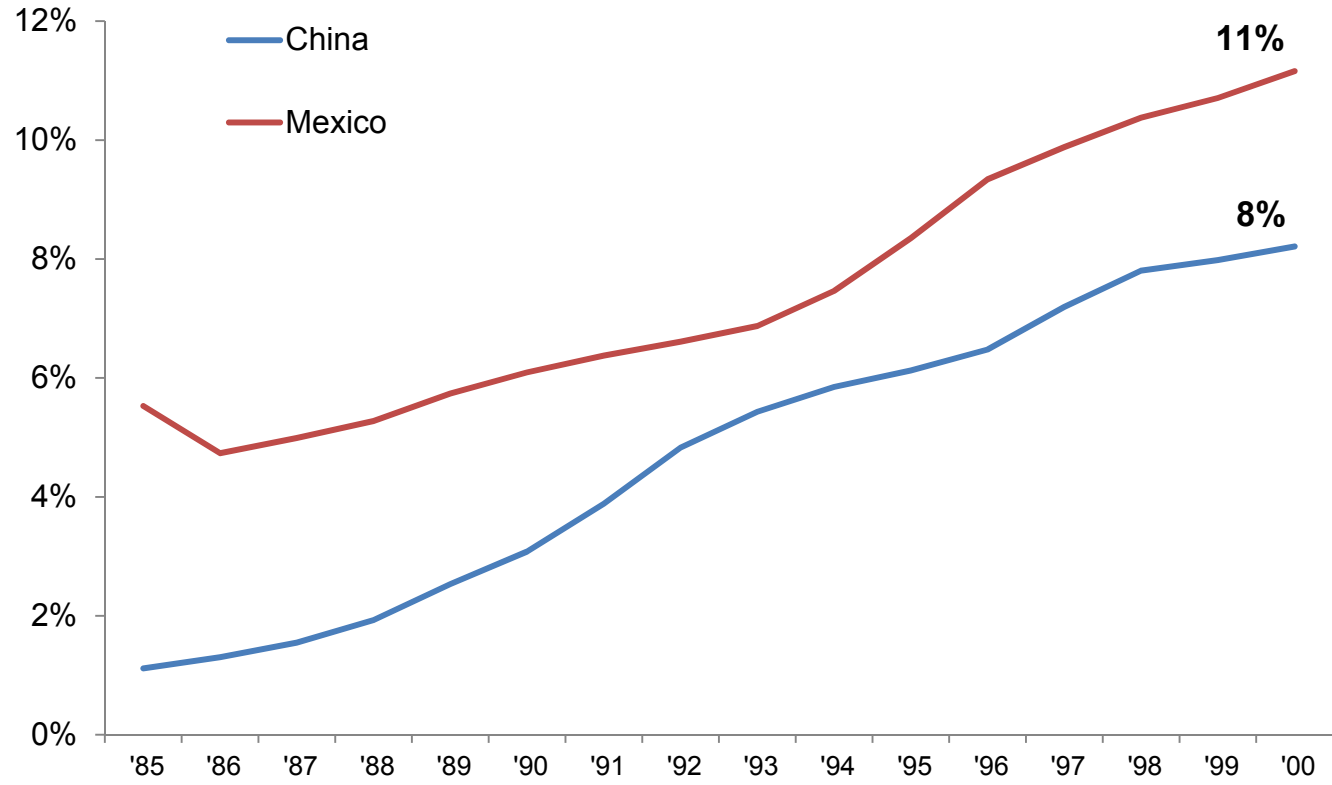
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U.S. Market Share – China vs Mexico

Percentage of total U.S. imports

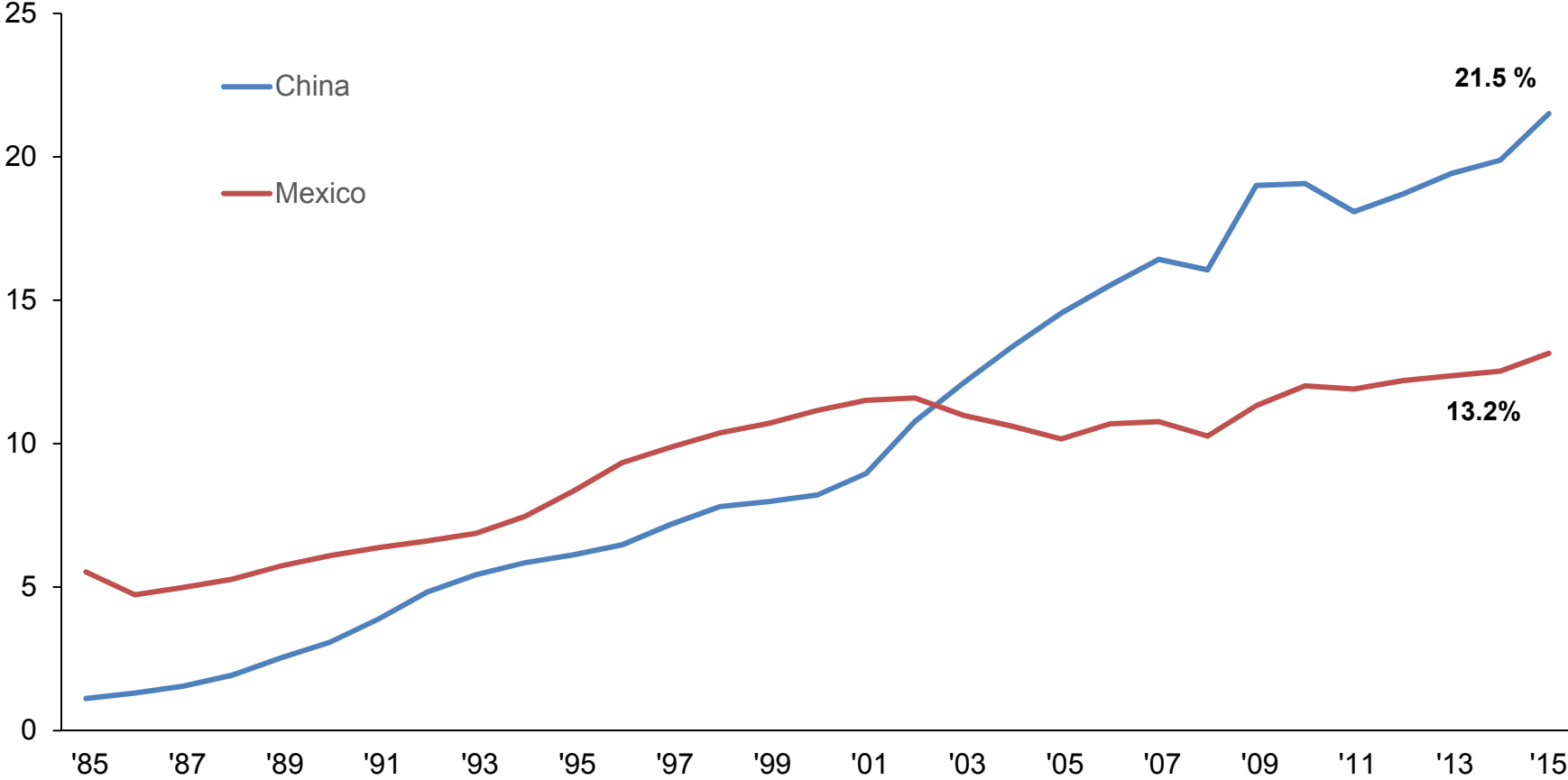


Source: U.S. Census Bureau



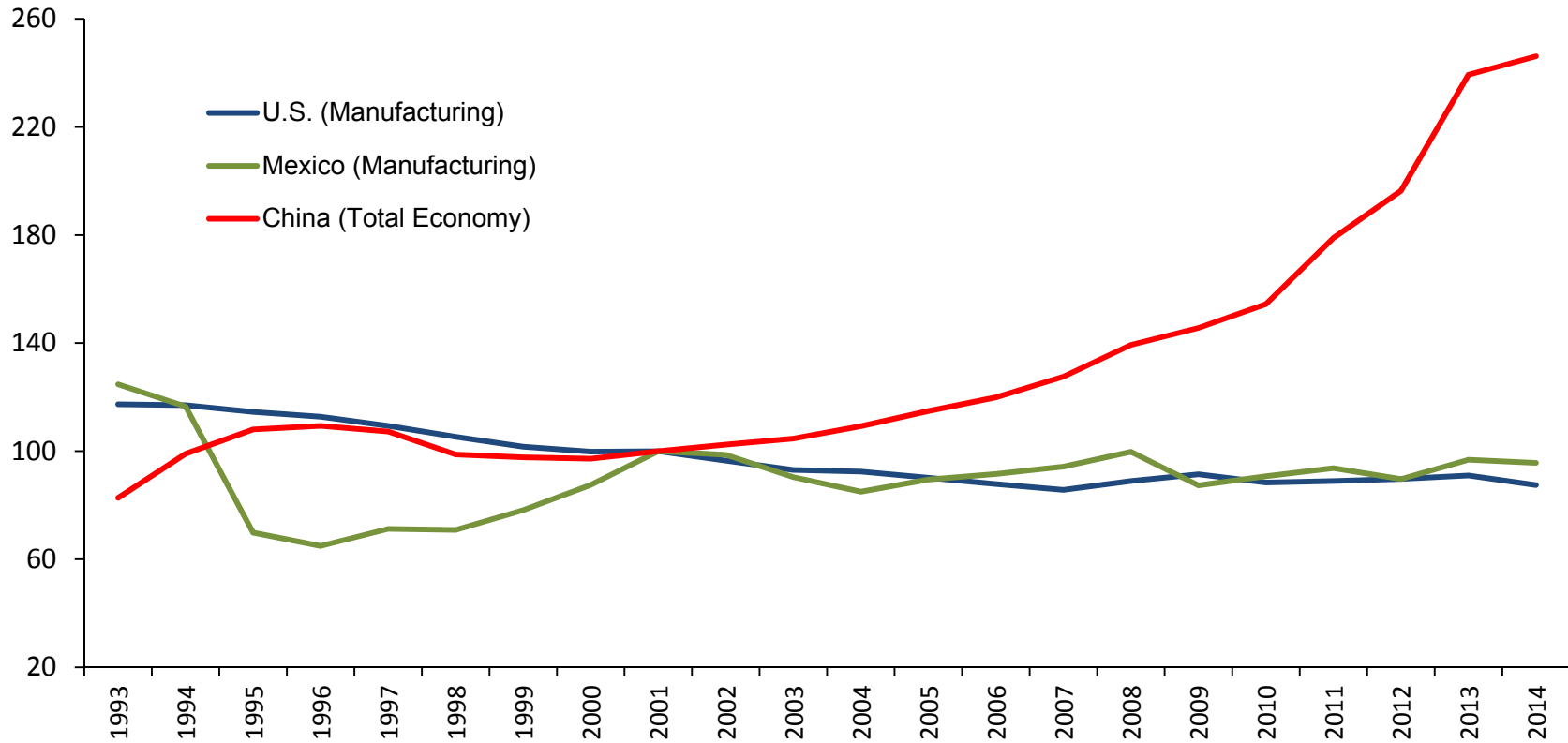
U.S. Market Share – China vs Mexico

Percentage of total U.S. Imports



China is pricing itself out of global manufacturing

Unit Labor Cost Index 2001=100



Source: INEGI, Banco de México and Haver Analytics.



U.S. – Mexico manufacturing landscape has changed

- U.S. and Mexico have gained competitiveness due to:
 - Productivity gains
 - Lower energy costs
 - Structural reforms in Mexico
 - Peso depreciation
- China has lost some ground due to:
 - Higher labor costs
 - Higher transportation costs
- U.S. –Mexico Manufacturing: Back in the race?



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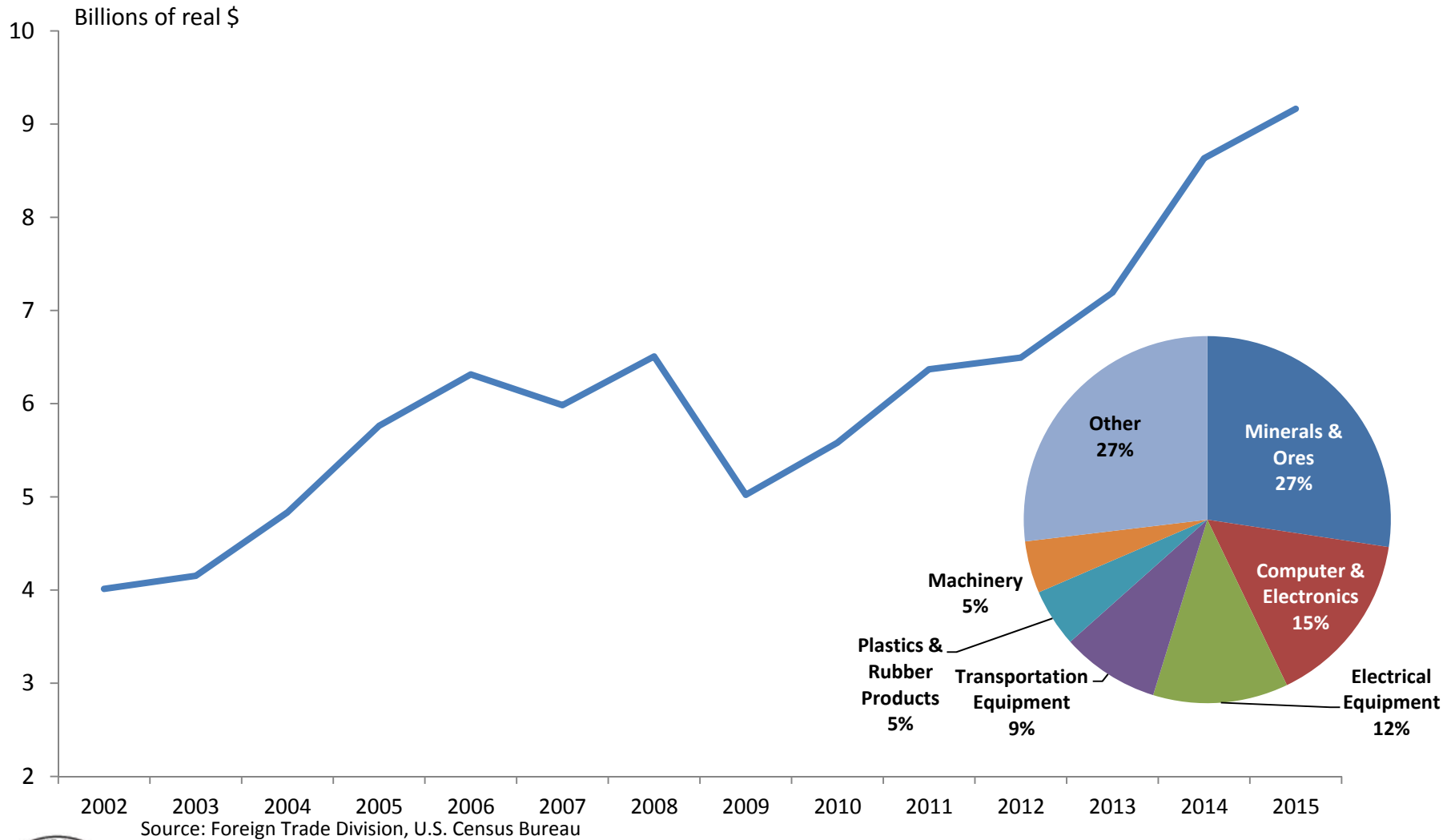


Is Mexico important to U.S. border states?

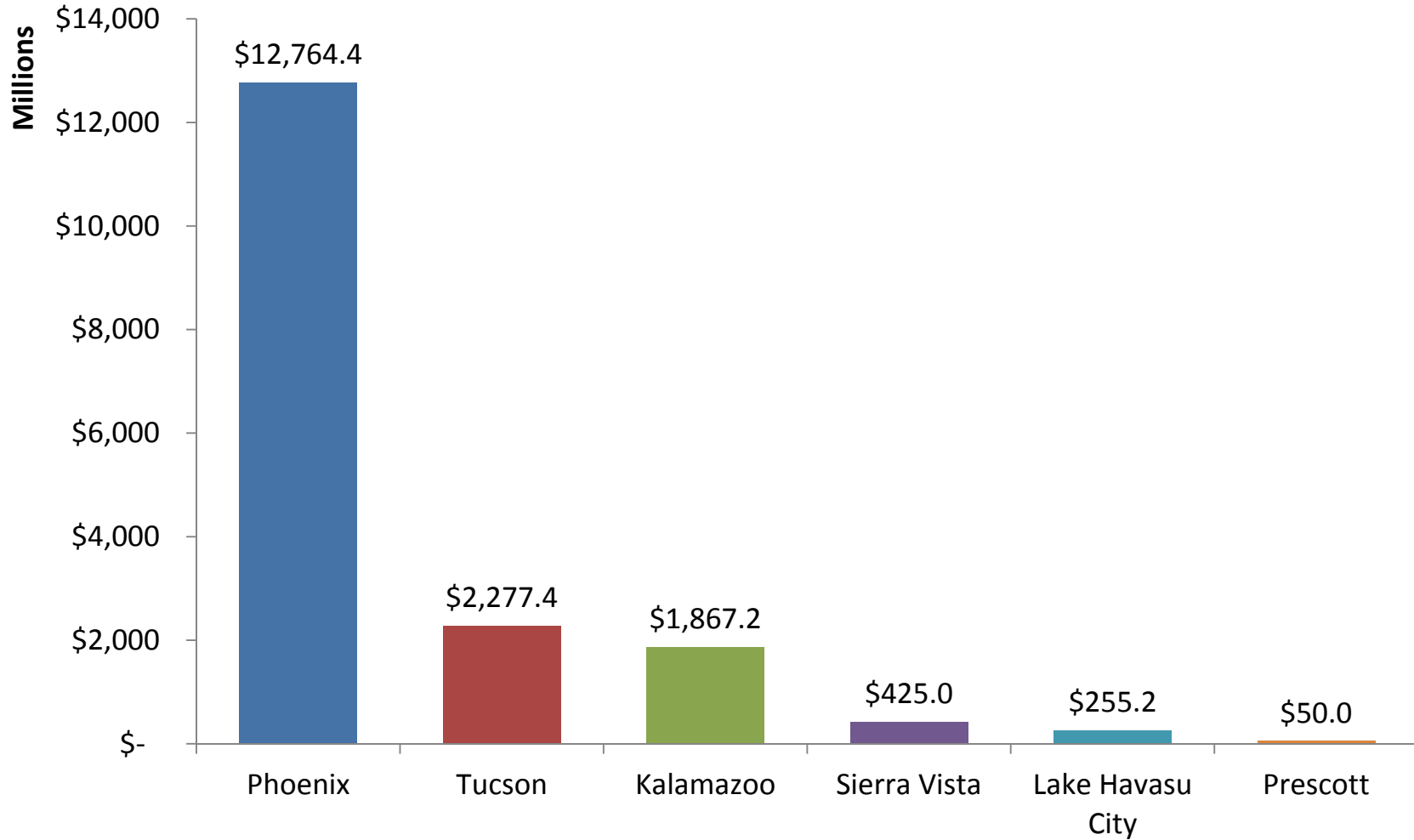
- Mexico is the third most important trading partner for the U.S.
- For U.S. border states, Mexico is a key trading partner:
 - Arizona ---- \$9.2 billion (40.6%)
 - California ---- \$26.8 billion (16.2%)
 - New Mexico ---- \$1.7 billion (44.6%)
 - Texas ---- \$94.5 billion (37.7%)



Arizona exports to Mexico



Arizona exports by MSA, 2014



Source: International Trade Administration



Trade also has regional impacts in Mexico

Distribución Geográfica de los *Clusters* ^{1/}



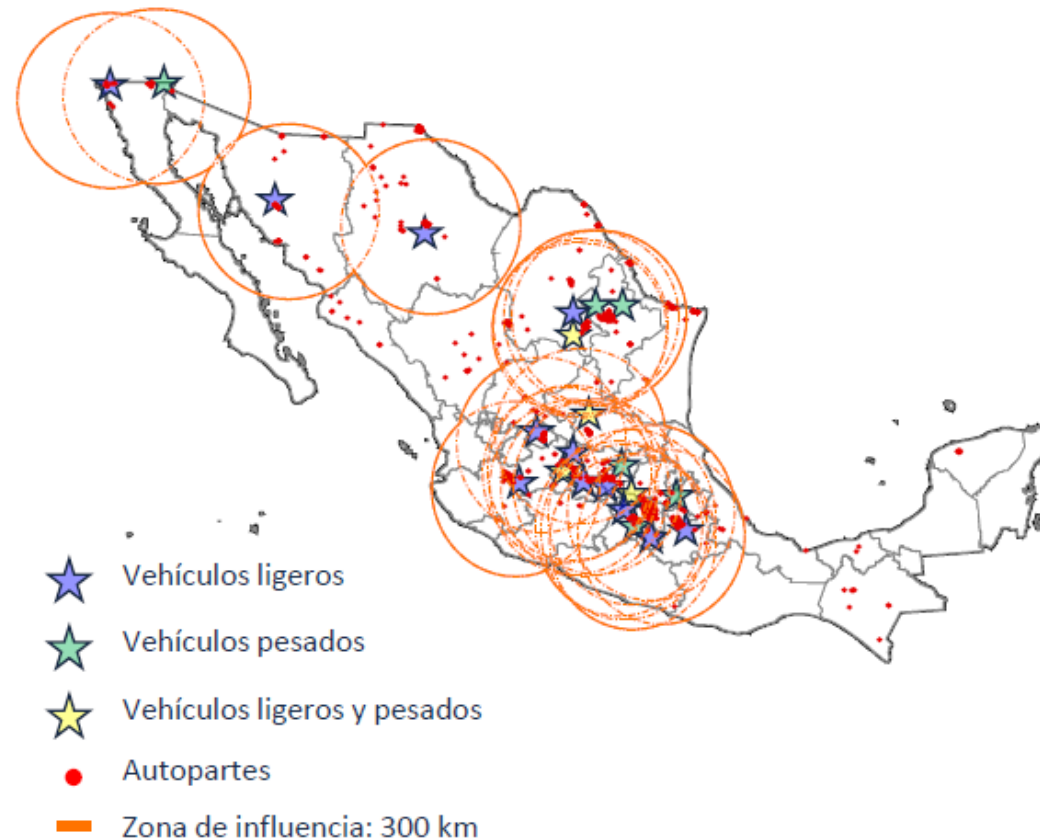
1/ Estados que cuentan con al menos un *cluster* en alguno de los sectores referidos.

Source: Banco de Mexico, Reporte Sobre las Economías Regionales Enero-Marzo 2014



Mexico's automotive clusters

Distribución Geográfica de las Unidades de Producción en la Industria Automotriz



Source: Banco de Mexico, Reporte Sobre las Economías Regionales Julio-Septiembre 2013

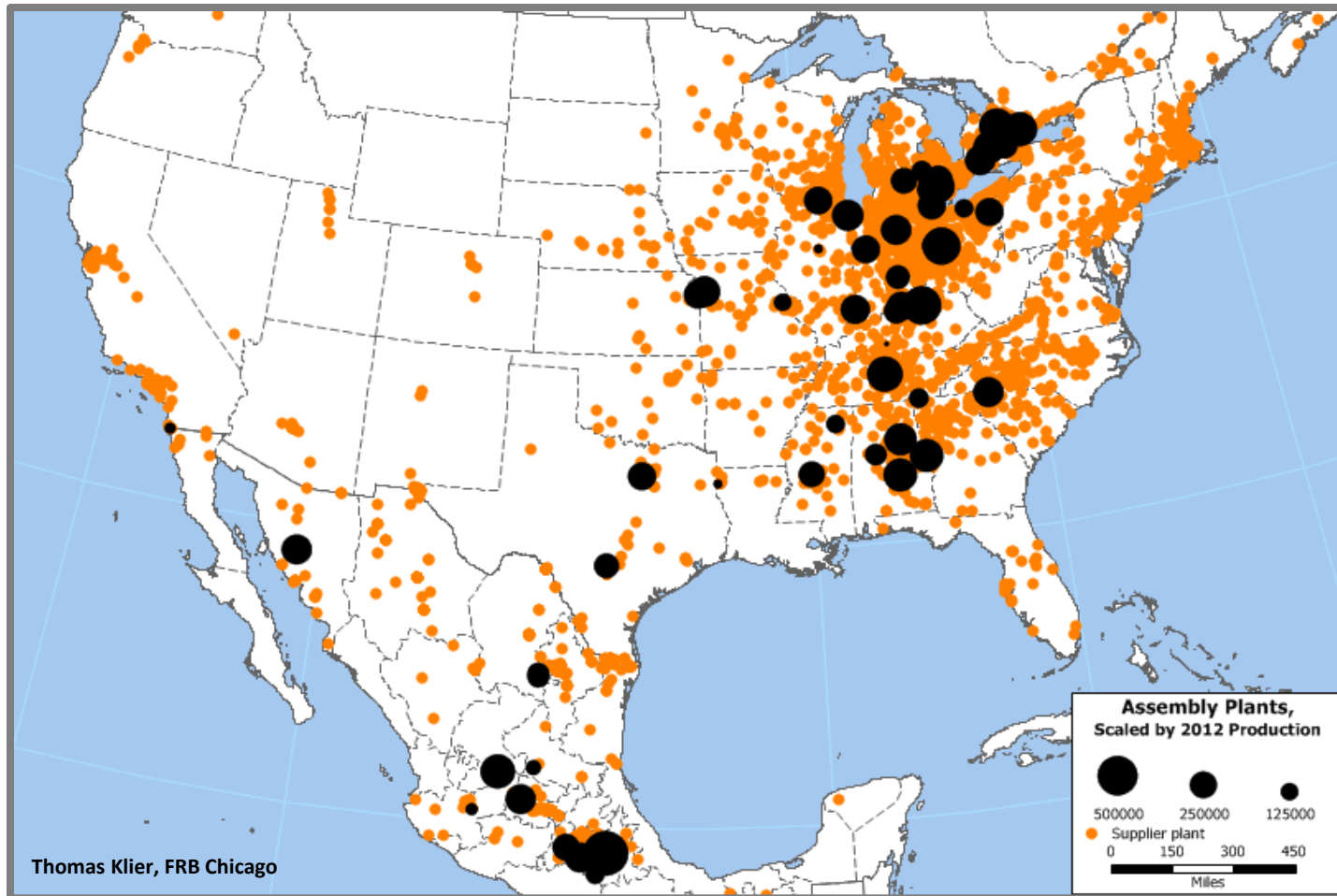
Autos drive U.S.-Mexico trade and manufacturing

- In 2015, transportation equipment accounted for \$97 billion in bilateral trade
- Mexico displaced Canada in 2008 as the second largest auto producer in North America
- Mexico exported 2 million units to the U.S. in 2015
- One-third of auto parts imported by the U.S. come from Mexico



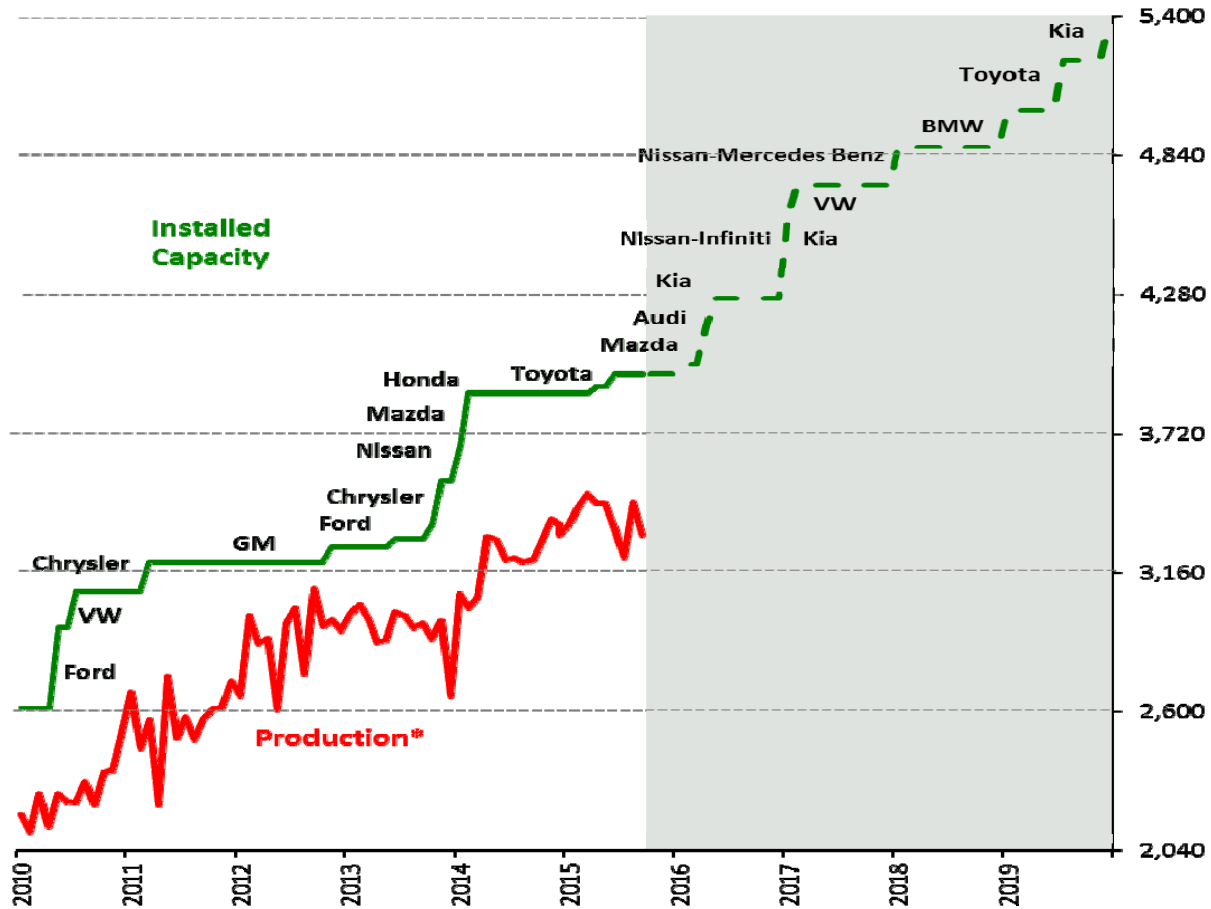
Vehicle assembly and parts in U.S.-Mexico

2013



Mexico's bright auto future

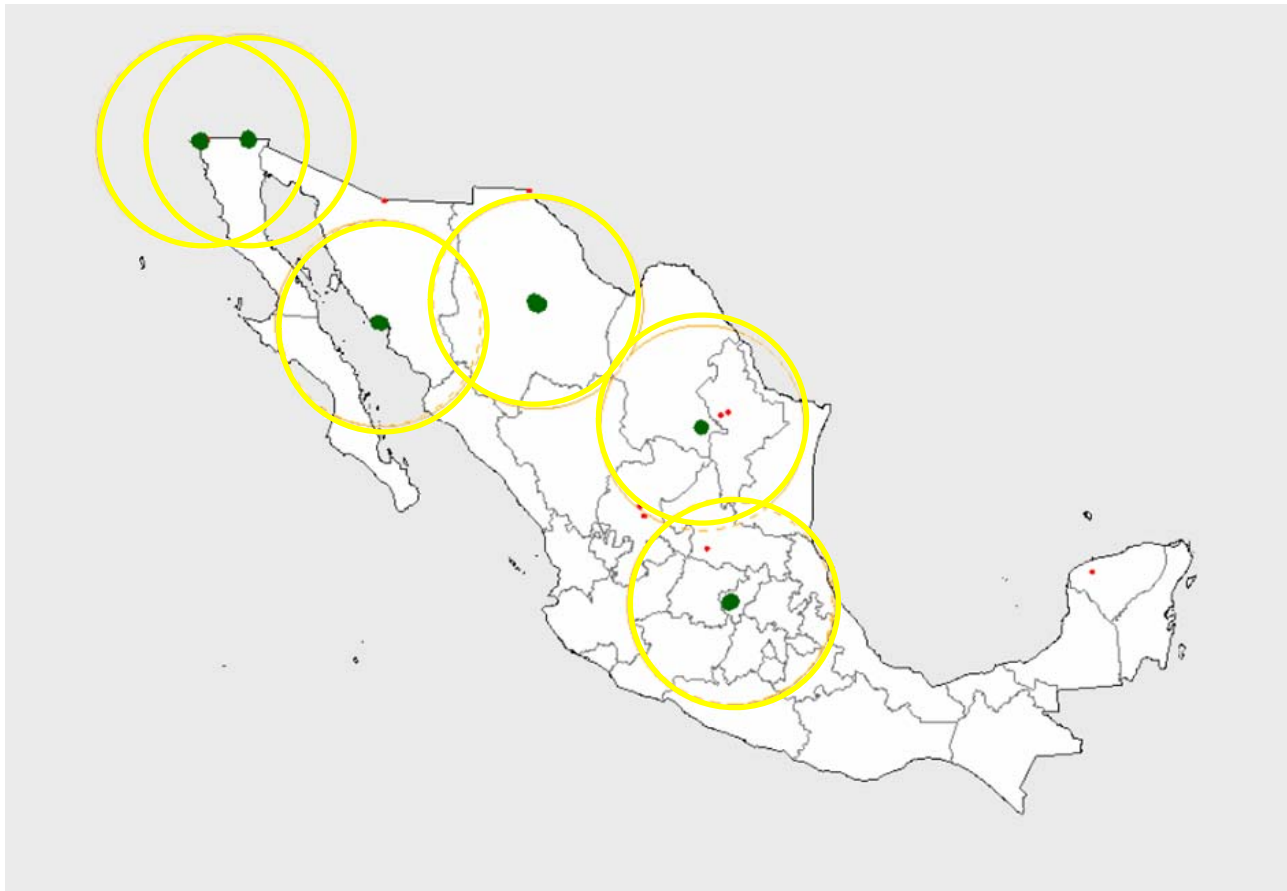
Light Vehicles Production and Installed Capacity
 Thousand units, SA, annualized



Source: "Overview of the Mexican Economy" Alejandrina Salcedo 10/9/15



Mexico's aerospace industry



Source: Banco de Mexico, Reporte Sobre las Economias Regionales Marzo 2014



Aerospace industry in Mexico

- New industry with impressive record:
 - Over 300 production plants
 - Employs +43K in 18 states
 - Exports: \$6.4 billion
 - 6th place as supplying country to U.S.
 - 30% Mexican value added
- In 2015, it is expected it will grow to +52K jobs and \$7.5 billion in exports
- Goals for 2020: +110K jobs, exports \$12 billion, and 50% Mexican value added



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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 U.S. border cities



Common features of border cities

- A large transportation and distribution sector due to international traffic
- A large retail sector inflated by serving goods to two cities
- A large government sector because of border enforcement and public programs that address high poverty levels
- Typically, marked by strong job growth and weak growth in per capita income



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Concluding Remarks

- U.S.-Mexico trade flows and business cycle synchronization have increased tremendously
- U.S.-Mexico manufacturing is gaining global competitiveness
- The border region now plays a critical role in the North American market



Concluding Remarks

- Opportunities ahead:
 - Growth in bilateral trade
 - Growth in U.S.-Mexico manufacturing
 - Manufacturing clusters in Northern Mexico: automotive and aerospace
 - Demographics
- Challenges ahead:
 - Weakness in U.S. industrial sector as the dollar continues to be strong
 - Weakness in Mexico's economy
 - Volatility in peso/dollar exchange rate
 - Infrastructure changes in Mexico
- Outlook for Arizona-Mexico border region is positive



Arizona-Mexico Border Strengthens North America

Please go to

www.dallasfed.org

for data and regional information.

