

A Reprint from *Tierra Grande*

PESO POWER

By M.A. Anari and Mark G. Dotzour



Literally millions of Mexican nationals cross the Rio Grande to shop and do business in Texas every year. They come on foot and in vehicles (see table), bringing disposable income with them. When the peso is strong, so is their buying power. When the peso weakens, they have less to spend.

Changes in Mexico's economy no doubt affect the Texas economy. So what is known about the relationship between the peso-dollar exchange rate and retail sales in Texas?

In the past, peso devaluations have often been followed by negative or smaller retail sales growth rates in several Texas metropolitan statistical areas (MSAs). For example, after the December 1994 peso devaluation, 1995 retail sales in the Brownsville-Harlingen-San Benito metro area fell by 7.4 percent, compared with an increase of 6.8 percent the previous year. The McAllen-Edinburg-Mission area's retail sales grew 6.6 percent in 1994 and decreased by 7.4 percent in 1995.

This correlation between Texas retail sales and the peso-dollar exchange rate is an outcome of increased integration of the U.S. and Mexican economies. During the 1980s, Mexico removed or reduced a number of restrictions on foreign trade and investment. The passage of the North American Free Trade Agreement (NAFTA) in January 1994 further reduced trade barriers.

How the liberalization of trade and investment brought about by NAFTA has affected the U.S. economy has been the

subject of academic research and intense public debate. Research has focused on regional economic integration, distribution of costs and benefits of economic integration and the impact of trade policies on the location of industries.

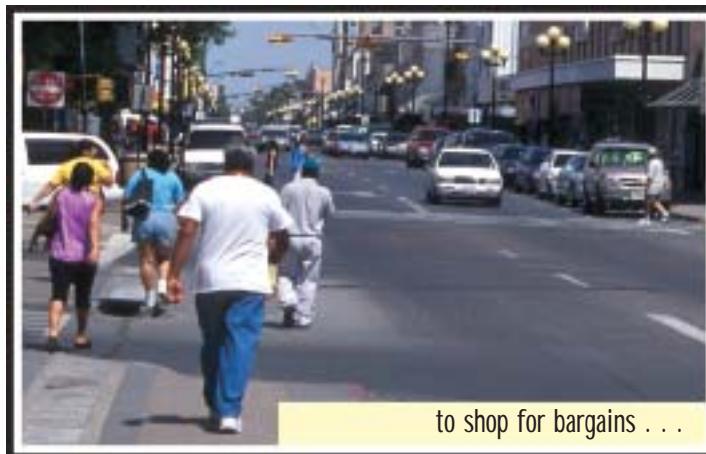
In 1996, Gordon Hanson investigated whether the growth of export manufacturing in Mexican border cities affects demand for goods and services produced in neighboring U.S. border cities. Noting that border city pairs are natural laboratories for studying trade policy, Hanson analyzed 1975-1989 data on the six largest U.S.-Mexico border-city pairs (Brownsville-Matamoros, El Paso-Ciudad Juarez, Laredo-Nuevo Laredo, McAllen-Reynosa, Imperial-Mexicali and San Diego-Tijuana). He found the growth of export manufacturing in Mexico accounted for a substantial portion of the economic activity in U.S. border cities during the period.

In a study using data from 1988 to 2001, the Real Estate Center examined the impact of the peso-dollar exchange rate on retail sales in all 27 Texas MSAs (see Center report 1468, *Impact of Mexico's Peso-Dollar Exchange Rate on Texas Metropolitan Retail Sales*).

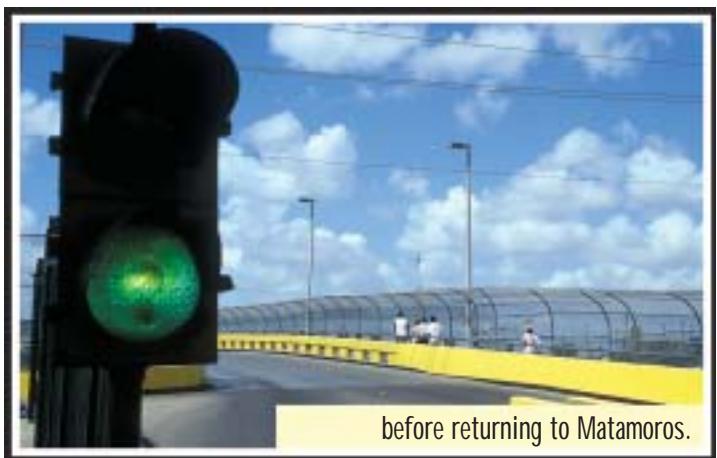
The study revealed that an increase (or decrease) in the peso-dollar exchange rate is associated with an increase (or decrease) in retail sales in five Texas MSAs: McAllen-Edinburg-Mission, Brownsville-Harlingen-San Benito, Laredo, El Paso and San Antonio. The first four MSAs have a common border with Mexico, and San



Mexican nationals visit Brownsville . . .



to shop for bargains . . .



before returning to Matamoros.

Antonio is a significant partner in trade with Mexico. Retail sales in the 22 remaining Texas MSAs were not influenced to a significant degree by the peso-dollar exchange rate.

The Laredo MSA's retail sales have been most affected by changes in the exchange rate. An increase of 10 percent in dollars per peso can be expected to increase Laredo's retail sales by 4.4 percent. The McAllen-Edinburg-Mission metropolitan area was second. This region draws Mexican consumers from nearby Reynosa and Monterrey. An increase of 10 percent in dollars per peso can increase retail sales by 2.9 percent.

The corresponding retail sales increase in San Antonio is 1.8 percent; in Brownsville-Harlingen-San Benito, 1.6 percent; and in El Paso, 1.2 percent. The Brownsville area draws customers from Matamoros and nearby Monterrey as well. El Paso is a retail destination for over 1.5 million people living across the Rio Grande in Juarez. Some of the highest-producing stores for Dillard's, JCPenney and Payless Shoes have been located in Texas border cities.

San Antonio is a favored destination for shoppers from all over Mexico. Anecdotal evidence suggests that Mexican nationals do a lot of shopping in Dallas and Houston as well, but the retail market in those areas is so large and diverse that swings in the peso's value do not have a significant effect.

The proximity of the McAllen-Edinburg-Mission, Brownsville-Harlingen-San Benito, El Paso and Laredo MSAs to Mexican markets and manufacturing centers and the significant influence of the peso-dollar exchange rate on area retail sales support Hanson's findings that increased U.S.-Mexico economic

integration may cause more economic activity in the U.S.-Mexico border region. In recent years, American retailers have expanded their presence in Mexico, which will reduce the need for Mexican shoppers to visit Texas. However, there is still a keen interest in buying goods from stores located in America.

Clearly, fluctuations in the value of the Mexican peso can strongly impact retail sales in these five Texas MSAs. Commercial real estate investors must be aware of both the risks and the rewards that can come from retail property investments in these areas. When the value of the peso declines, sales can drop precipitously. But when the peso is strong, the retail sales potential is enormous.

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2001**MEXICO-TO-TEXAS CROSSINGS****PEDESTRIAN****VEHICLE**

El Paso	7,307,850	8,370,987
Laredo	4,596,023	7,657,231
Brownsville	3,198,168	6,991,739
McAllen-Hidalgo	1,768,897	5,401,575
Progresso	1,228,247	1,137,123
Eagle Pass	820,105	3,315,583
Pharr	—	2,547,896
Roma	204,045	1,191,862
Del Rio	93,207	1,956,960
Presidio	30,329	736,933
Rio Grande	15,686	661,918

Source: Texas Center for Border Economic and Enterprise Development at Texas A&M International University in Laredo. [www.tamia.edu](http://tamia.edu)

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