

Border Benefits from Mexican Shoppers

By Jesus Cañas, Roberto Coronado and Keith Phillips

Along the U.S.–Mexico border from Brownsville to San Diego, more than 665,000 people cross from one country to the other every day to work, study, visit family and shop. U.S. citizens travel into Mexico to find bargains, have dinner, get a haircut and go to the dentist. Mexicans venture north to buy items ranging from groceries to high-end fashions.

The Mexican shoppers are big business for U.S. cities on or near the border. Unlike retailers in most interior U.S. cities, stores in Laredo, El Paso, Nogales and other border towns are actually an export industry—in most years contributing to a U.S. trade surplus in cross-border shopping. The retail export industry provides employment for workers with low and moderate skills and helps explain why job growth in some areas along the border has been among the fastest in the nation since the 1980s.

Because cross-border shopping is so important to local economies, businesses, workers and community leaders are interested in such issues as the size of retail activity, its impact on the local economy and the factors that determine its growth. Researchers have studied the close link between the value of the peso and the ebb and flow of cross-border retailing. Another, more recent concern is the impact on retailing of more stringent border controls resulting from America's campaign against terrorism.

These topics formed the core of a January conference in San Antonio that brought together scholars and industry experts on cross-border shopping activity. It was hosted by the Federal Reserve Bank of Dallas, through its San Antonio and El Paso branches, and cosponsored by the Federal Reserve Bank of Chicago's Detroit Branch and the International Council of Shopping Centers.

The presentations shed light on the status of cross-border shopping and identified factors that may shape its future.

Cross-Border Shopping's Impact

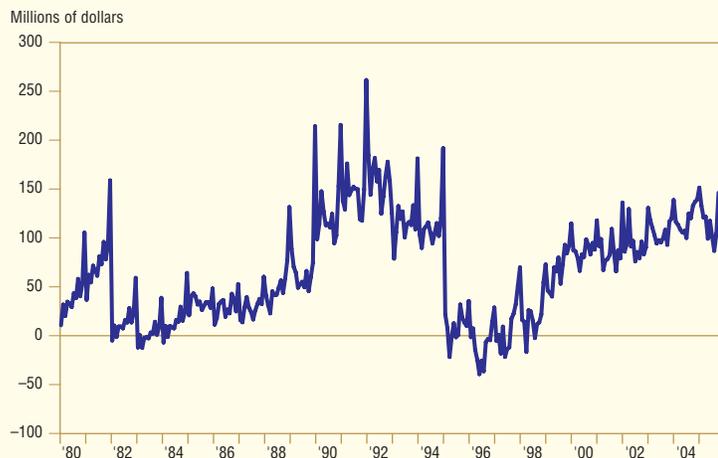
Most sales to Mexican nationals are in cash, making it difficult to measure cross-border shopping activity along the U.S.–Mexico border. To produce an estimate, Banco de México conducts surveys at border crossing points, asking returning individuals how much they spent in the United States or Mexico. In most years, Mexican shoppers spend more money on the U.S. side of the border than U.S. shoppers spend on the Mexican side (*Chart 1*).

Dallas Fed assistant economist Roberto Coronado took a different approach to measuring cross-border shopping. He used local personal income and employment to estimate the purchasing power of local residents. If an area's retail sales are larger than what local residents are spending, the difference is likely due to shopping by Mexican nationals.¹

Coronado estimated net exported retail sales for El Paso, Laredo, McAllen and Brownsville from the late 1970s to 2001. Mexicans accounted for \$2.3 billion a year

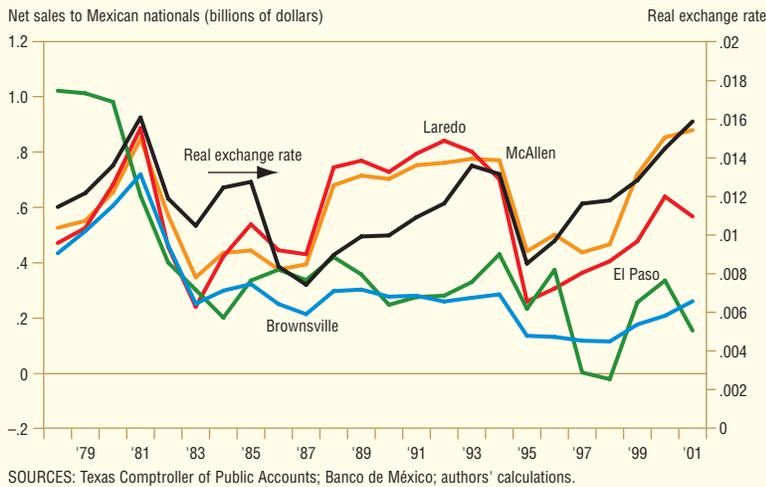
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Chart 1
U.S. Running Surplus in Cross-Border Shopping



NOTE: The trade balance is a six-month moving average.
SOURCE: Banco de México.

Chart 2
Peso Fluctuations Impact Border Retail Sales



in retail spending—26.4 percent of total retail trade in the four border cities and about 2 percent of Texas' overall retail sales. Laredo depended most on cross-border business, with 51 percent of its retail sales going to Mexican shoppers. McAllen followed at 36 percent, Brownsville at 26 percent and El Paso at 11 percent.

Why the large differences? Coronado suggested two reasons. First, Laredo, McAllen and Brownsville get the bulk of their nonresident retail sales from the Mexican interior, mostly shoppers from Monterrey, the country's third-largest city. Second, El Paso is the biggest of the four Texas border cities, and therefore the size of Mexican spending relative to local spending is not as large.

Exchange-rate fluctuations can quickly make goods and services across the border either cheaper or more expensive for international shoppers. As a result, retail sales to Mexican nationals are sensitive to swings in the peso's value (*Chart 2*). The sensitivity, however, isn't uniform across the border cities. Coronado found that retail trade in Laredo, McAllen and Brownsville is highly affected by changes in the value of the peso, while the El Paso retail sector is not.

Suad Ghaddar, an economist with the Center for Border Economic Studies at the University of Texas–Pan American, estimated Mexican visitors' economic impact on South Texas' Rio Grande Valley at \$3

billion in 2004, including both direct and indirect spending.² These expenditures supported more than 64,000 jobs. On the California border, Ghaddar put Mexican nationals' total impact at about \$4.5 billion, supporting 67,000 jobs. Jobs tied to cross-border retail trade account for a large portion of employment in some areas—39 percent in California's Imperial County and 17 percent in Texas' Webb County, for example.

Alberta Charney, research economist with the University of Arizona's Economic and Business Research Center, concluded that direct spending by Mexican visitors to Arizona totaled \$963 million in 2001.³ With ripple effects, the economic impact rose to nearly \$1.6 billion. The visitors came mostly from the adjacent Mexican state of Sonora, and 86 percent of the Mexican spending took place in the Arizona border counties of Pima, Santa Cruz, Yuma and Cochise.

In 2001, Charney conducted a year-long survey of Mexican visitors leaving Arizona at border ports of entry in San Luis, Lukeville, Sasabe, Nogales, Naco and Douglas and international airports in Phoenix and Tucson. She reported that 72 percent of the respondents gave shopping as the primary reason for their trip, followed by work, at 14 percent, and family visits, at 8 percent. All told, 41 percent of their shopping took place in department stores and 25 percent in grocery stores.

Influences on Retailing

Coronado showed that the peso's value creates swings in U.S.–Mexico cross-border retailing. Jeff Campbell, a senior economist with the Federal Reserve Bank of Chicago, indicated the same is true on the U.S.–Canada frontier. According to Campbell, demand shocks from changes in the real exchange rate are more likely to impact the number of businesses than the number of employees per business.⁴ His results highlight the turbulence created on international borders by large exchange-rate movements. For a given loss of employment, the effects on real estate, banking and other sectors are likely to be larger for shocks that put retailers out of business than for those that simply reduce retail employment.

John Hadjimarcou, a marketing and management professor at the University of Texas at El Paso, went a step further, studying not only the consequences of currency devaluations but also the impact of cross-border competition in the retail sector.⁵ Out of a sample of 200 El Paso retailers, 176 completed a survey, with 54.5 percent indicating that at least half their sales were to Mexican nationals.

Hadjimarcou found that retailers concerned about exchange-rate fluctuations tailor their product mix to attract Mexican customers. He was surprised to learn, however, that El Paso retailers don't pay much attention to competitors on the Mexican side of the border. In a follow-up survey, he discovered this is because they believe the Mexican stores cannot offer the same quality, range of merchandise, atmosphere and prices.

Richard Adkisson, economics professor at New Mexico State University, focused on the U.S.–Mexico border in studying retail trade after implementation of the North American Free Trade Agreement in 1994.⁶ Because NAFTA lowered trade barriers between the two countries, more U.S. products and retailers are available in Mexico, reducing the demand for retail goods on the American side of the border. Adkisson found a drop in retail sales of some items on the U.S. side under NAFTA, particularly groceries and furniture. Because a sharp peso devaluation occurred as NAFTA went into effect, however, it is difficult to determine whether the sales decline was due to NAFTA or the devaluation.

Retailing in the Age of Terrorism

The terrorist attacks of Sept. 11, 2001, changed life along the U.S.–Mexico border. Tougher security measures have resulted in long waits at entry points and fewer crossers. The number of people traveling from Mexico into the U.S. declined from 290 million in 2000 to 253 million in 2002. The most recent data available show that number dropped to 242 million in 2004. While the number of people crossing has fallen 16.5 percent since 2000, retail trade along the border has actually increased since 9/11.

Tom Fullerton, economics professor at the University of Texas at El Paso and director of the Border Region Modeling Project, has developed an econometric model to measure the impact of 9/11 on El Paso's economy.⁷ The results indicate that tighter border control has reduced some categories of cross-border bridge traffic, especially passenger vehicles. Retail sales grew over the same period, however, suggesting that fewer trips by Mexican nationals to El Paso may be offset by increased sales per shopper.

J. Michael Patrick, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University, argued that 9/11 had a short-lived, negative impact on cross-border shopping. U.S. border retail sales grew 3.7 percent in 2001, he said, even though northbound traffic by foot fell 17.9 percent and by vehicle 24.4 percent between September and November 2001.

Patrick pointed to other factors with the potential for long-term impact, such as the US-VISIT program, which checks the digital fingerscans and photos of those seeking visas against a database of known criminals and suspected terrorists. When the visitor arrives at the port of entry, the fingerscans are used to verify that person is the same one who received the visa. Entry procedures have been fully implemented since the end of last year, with few major problems. Exit procedures, however, are still being tested. Although the government touts the program as a way to enhance security and facilitate legitimate travel and trade, many worry it will adversely affect the border economy.

Patrick expects retailing along the U.S. border to continue growing, driven mostly by healthy population increases in the region. This growth could be significantly

hampered, however, if US-VISIT exit procedures are inefficient. Patrick estimates that a 10 percent decline in northbound crossings due to US-VISIT would reduce retail sales in Texas border cities by \$760 million, or 2.2 percent.

The Future of Cross-Border Retailing

Deborah Fowler of Texas Tech University, Frances Ortiz Schultschik of the San Antonio Convention and Visitors Bureau, Greg Souquette of H-E-B Grocery Co., Ted Omohundro of Prime Retail and Michael Niemira of the International Council of Shopping Centers sat on a panel to discuss trends in cross-border retailing.

They agreed that Mexico's retail industry is undergoing a major transformation. The number of high-end stores in large Mexican cities is growing, giving their U.S. counterparts more competition. U.S. retailers still have the edge because they carry a greater variety of items, have the latest styles and often sell at significantly lower prices. These advantages may erode as Mexico's retail industry evolves.

To remain competitive with Mexican stores and other U.S. markets, panelists agreed, border cities and retailers seeking cross-border shoppers must focus on customer service. San Antonio and Houston are among the many U.S. cities with tourism bureaus or chambers of commerce that offer travel packages from Mexico that include airfare, hotel, shopping trips, and such extras as tourist activities and health care. Such package deals, combined with personal customer service, will be a necessary component of marketing to the Mexican shopper in the future.

Crossing borders usually involves inconveniences, but shoppers make the trip when retailers in another country offer better prices, selection or service. For the U.S.–Mexico border region, these differences have led to billions of dollars in business. As the gaps between the two economies shrink—and, in particular, as retailing in Mexico becomes more sophisticated—the character of cross-border shopping may change, presenting challenges to businesses on both sides.

Cañas and Coronado are assistant economists at the El Paso Branch and Phillips is a senior economist and policy advisor at the San Antonio Branch of the Federal Reserve Bank of Dallas.

Notes

Presentations from the "Cross-Border Shopping Activity" conference can be found on the Dallas Fed web site, www.dallasfed.org/news/research/2006/06crossborder.html.

¹ "Texas Border Benefits from Retail Sales to Mexican Nationals," by Keith R. Phillips and Roberto Coronado, in *The Face of Texas*, Federal Reserve Bank of Dallas, October 2005.

² "The Economic Impact of Mexican Visitors to the Lower Rio Grande Valley 2003," by Suad Ghaddar, Chad Richardson and Cynthia J. Brown, Center for Border Economic Studies, University of Texas–Pan American, Technical Report, May 2004.

³ "The Economic Impacts of Mexican Visitors to Arizona: 2001," by Alberta H. Charney and Vera K. Pavlakovich-Kochi, University of Arizona, Research Study, July 2002.

⁴ "Real Exchange Rate Fluctuations and the Dynamics of Retail Trade Industries on the U.S.–Canada Border," by Jeffrey R. Campbell and Beverly Lapham, *American Economic Review*, vol. 94, September 2004, pp. 1194–1206.

⁵ "Retailing to Foreign National Consumers in the Border Zone: The Impact of Currency Devaluation and Cross-Border Competition," by John Hadjimarcou and John W. Barnes, *Journal of Global Marketing*, vol. 11, no. 3, 1998, pp. 85–106.

⁶ "Retail Trade on the U.S.–Mexico Border During the NAFTA Implementation Era," by Richard V. Adkisson and Linda Zimmerman, *Growth and Change*, vol. 35, Winter 2004, pp. 77–89.

⁷ "Empirical Evidence Regarding 9/11 Impacts on the Borderplex Economy," by Thomas M. Fullerton Jr., University of Texas at El Paso, Working Paper, 2006.