

The Maquiladora Downturn

New foreign shocks? Or just
the downside of business as
usual?

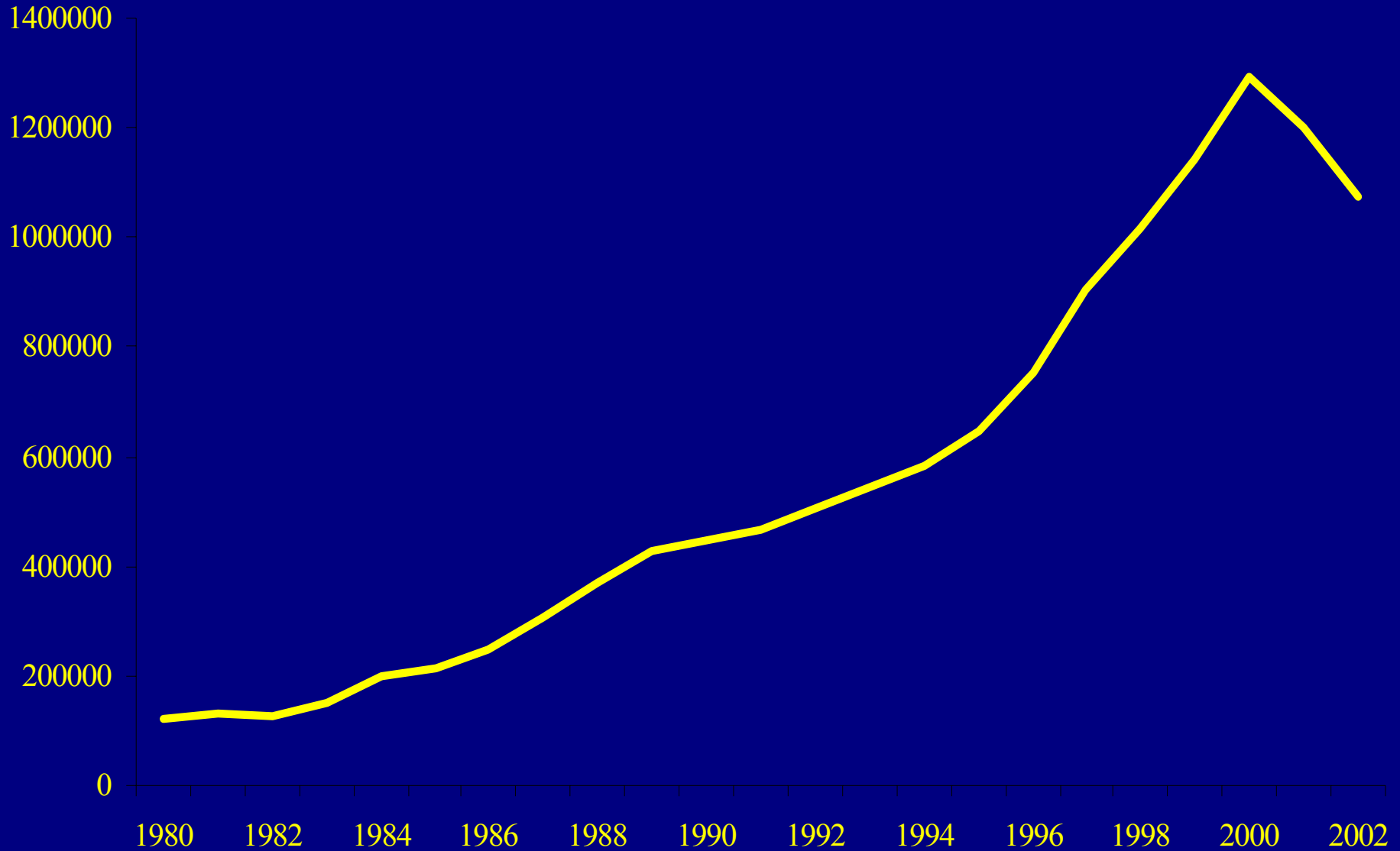
How could this be business as usual?

- A simple model explains most overall maquiladora employment declines so far.
- It ignores all structural change.
- No China
- No Article 303
- No 9802.00.90
- But it explains 82% of all jobs lost.

But big changes in some industries

- Some industry out-of-sample forecasts based on a simple model go all wrong
- Foreign shocks are industry specific
- It's all about policy changes

Maquiladora Employment

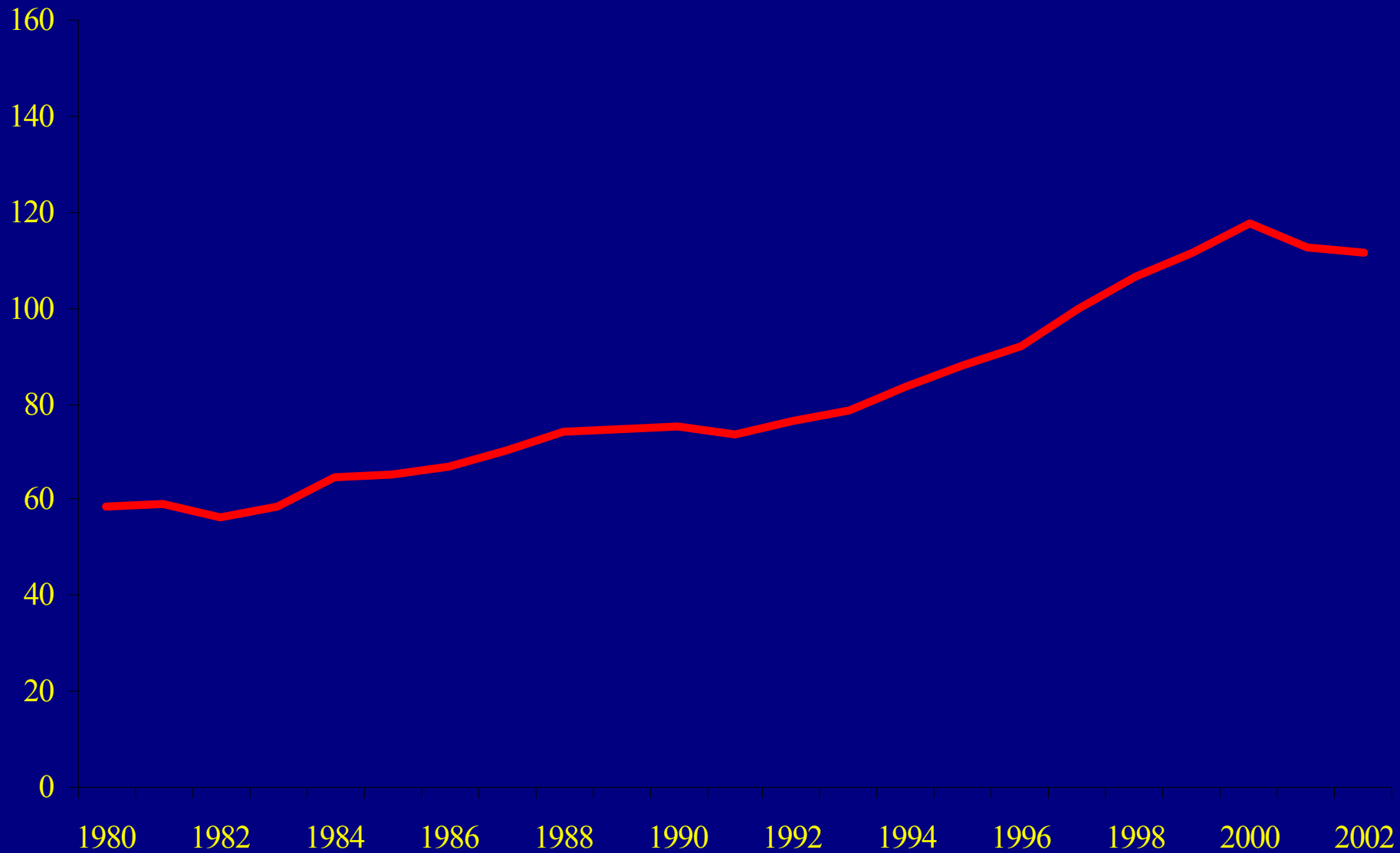


Two factors explain most maquiladora growth

- Demand for output
- Production costs (wages)
- But there's a lot of competition out there

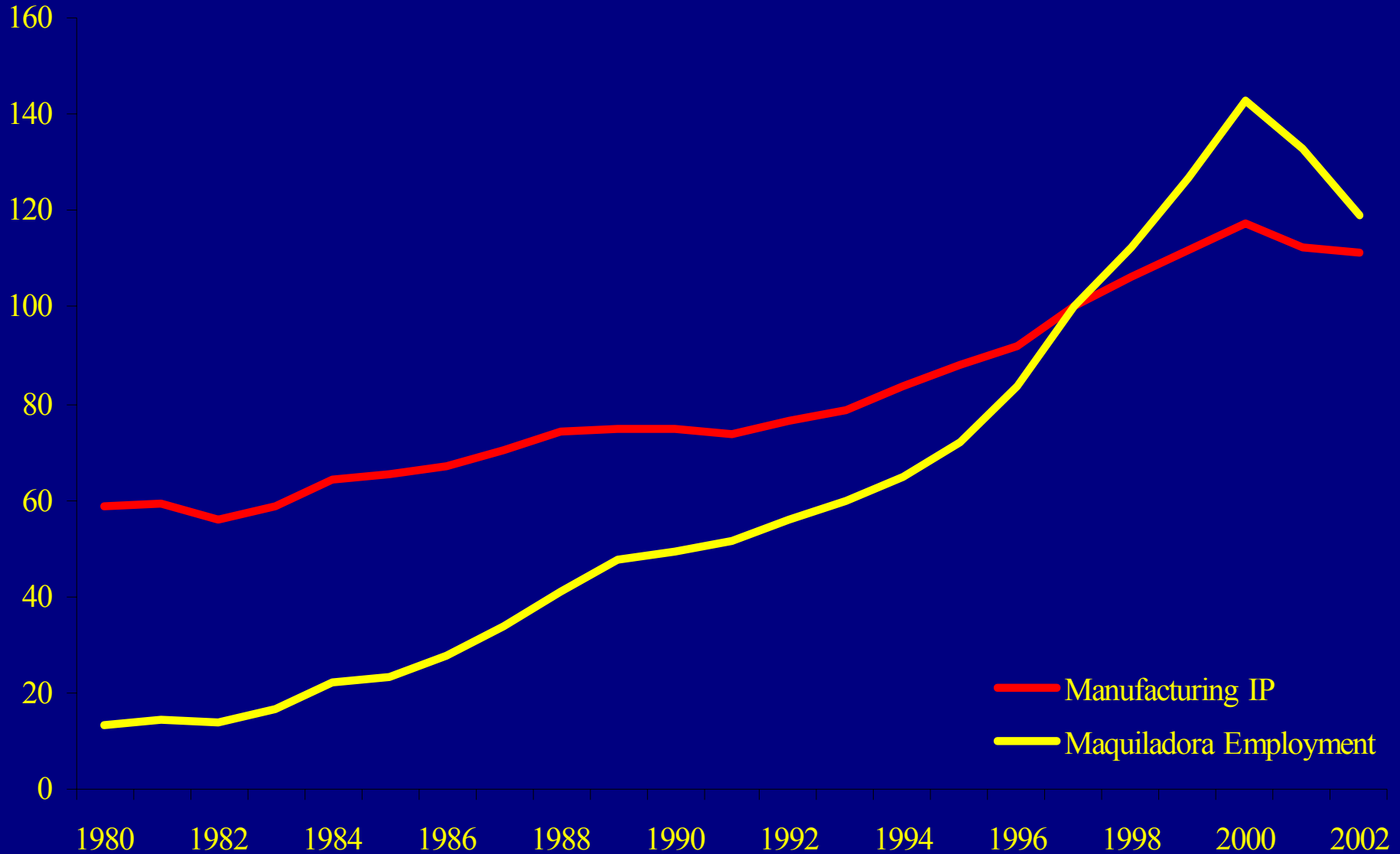
U.S. Manufacturing Production Index

Index,
1997= 100



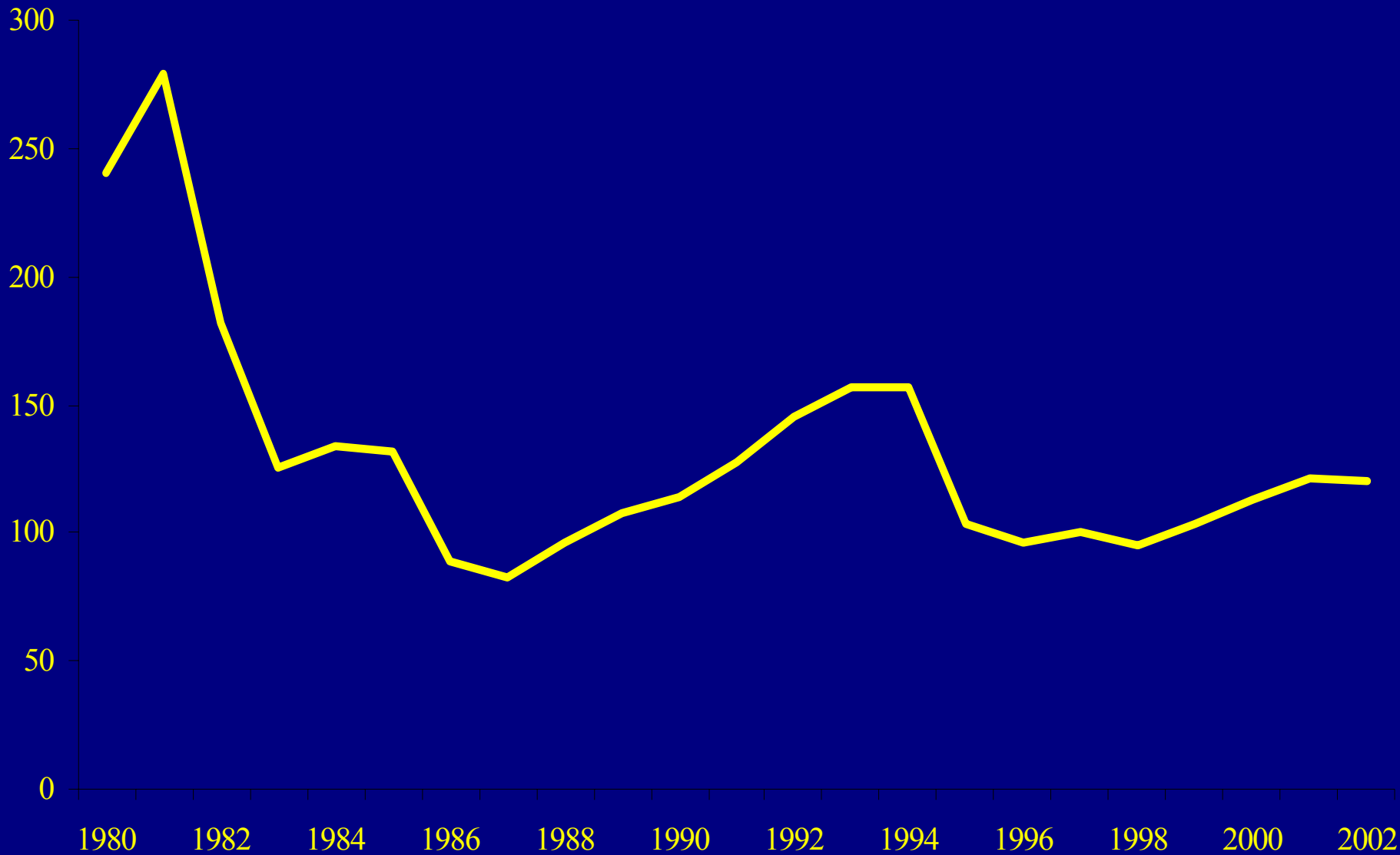
Maquiladora Employment follows U.S. Manufacturing Production Index

Index,
1997= 100



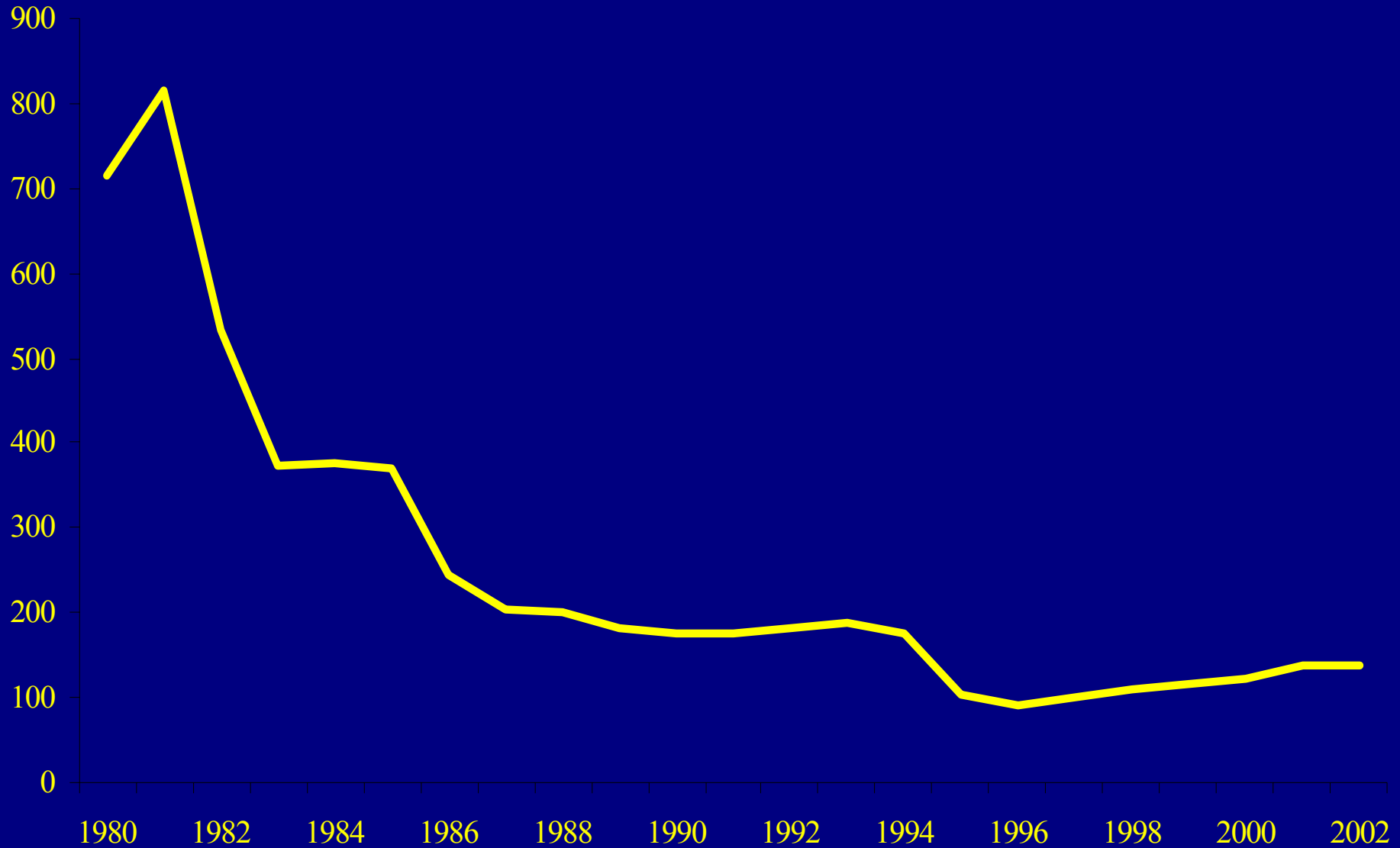
Mexico / U.S. wage ratio

Index,
1997= 100



Mexico / Asia wage ratio

Index,
1997= 100



Index,
1997= 100

If Mexico / U.S. wage ratio falls, employment rises

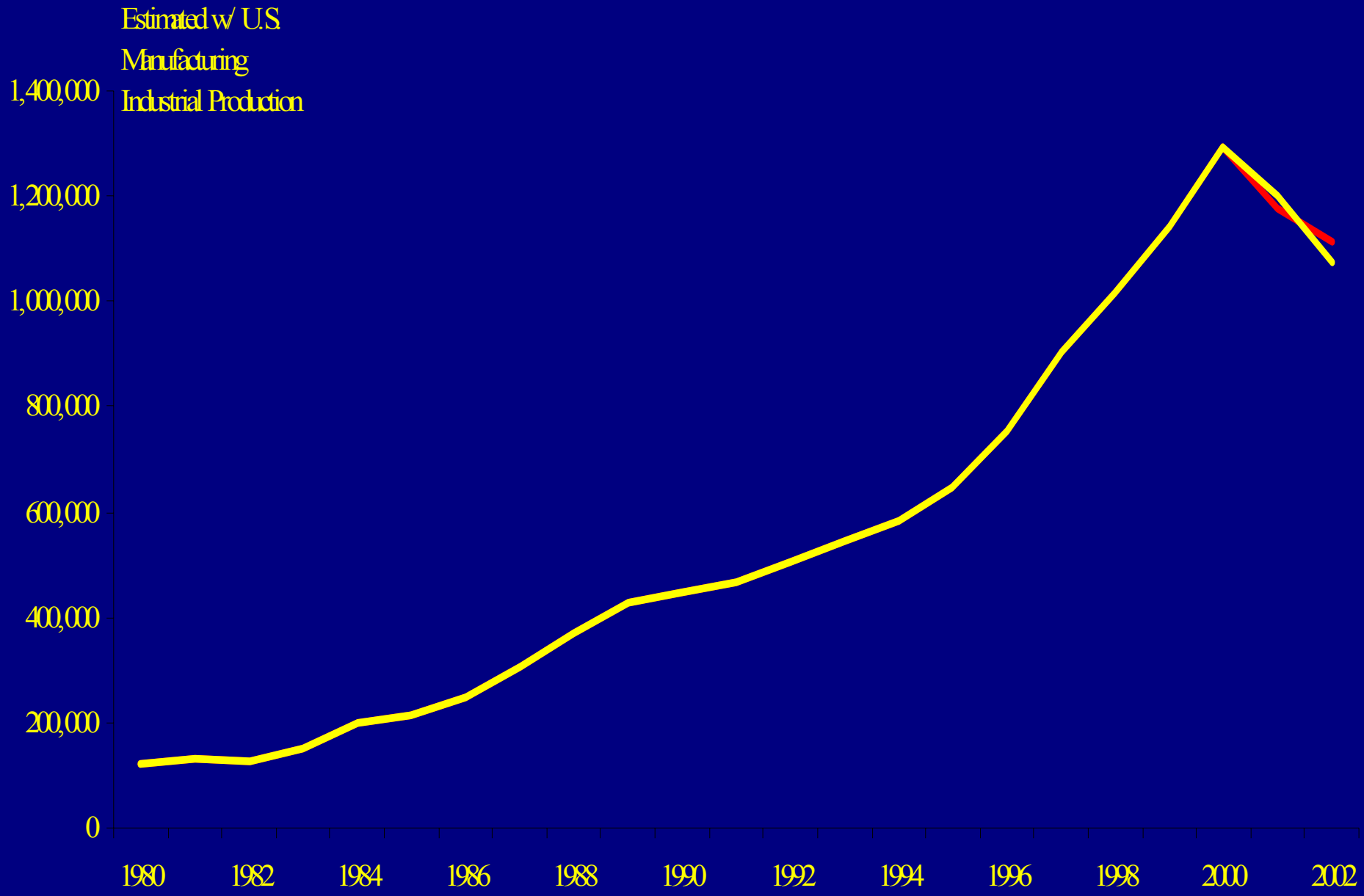
If Mexico / U.S. wage ratio rises, employment falls



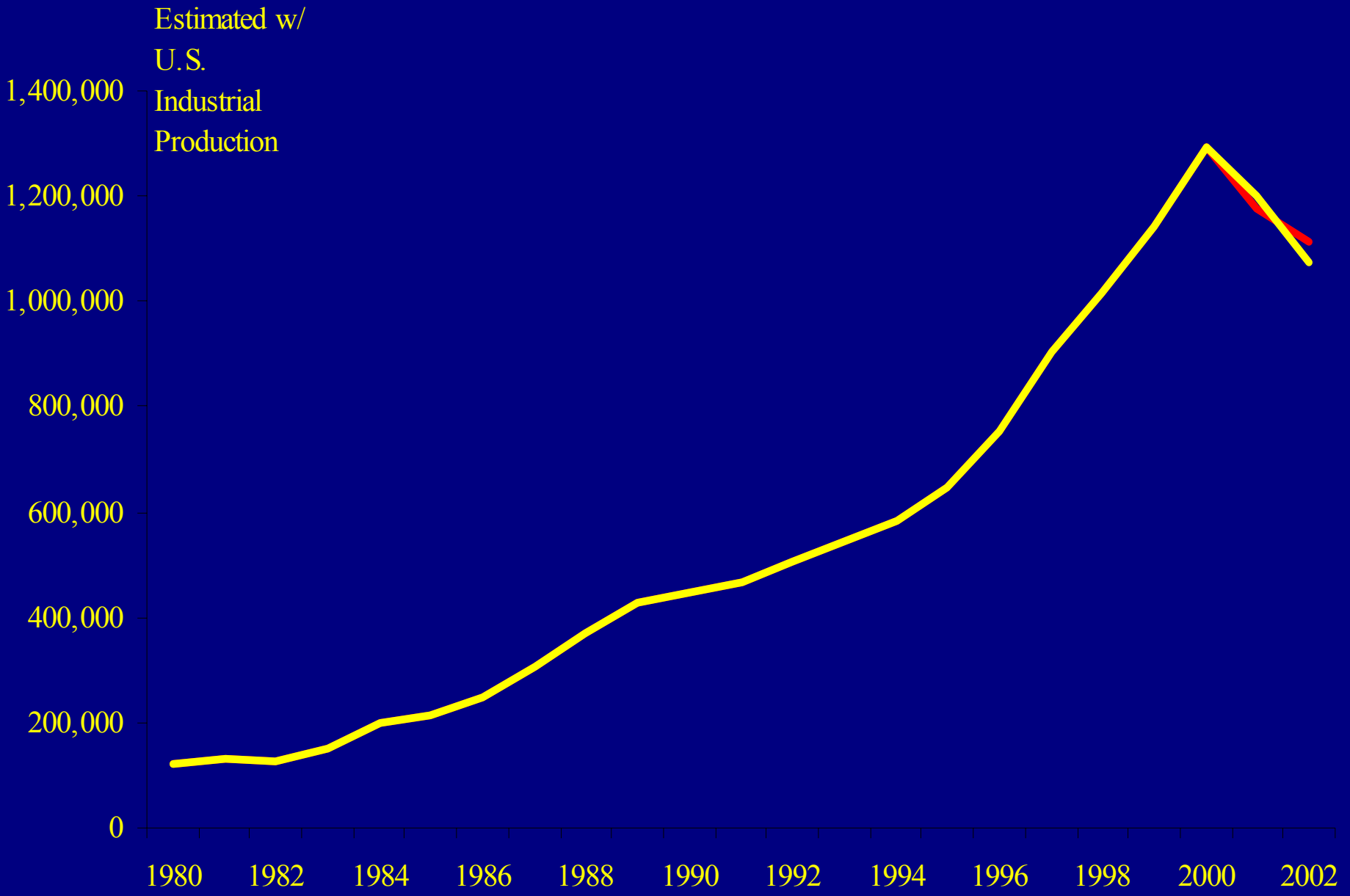
A simple maquiladora model accounts for

- The influence of U.S. demand
- The relation of Mexican wages to non-Mexican wages
- NAFTA
- More than 80% of actual job loss

Maquiladora Employment

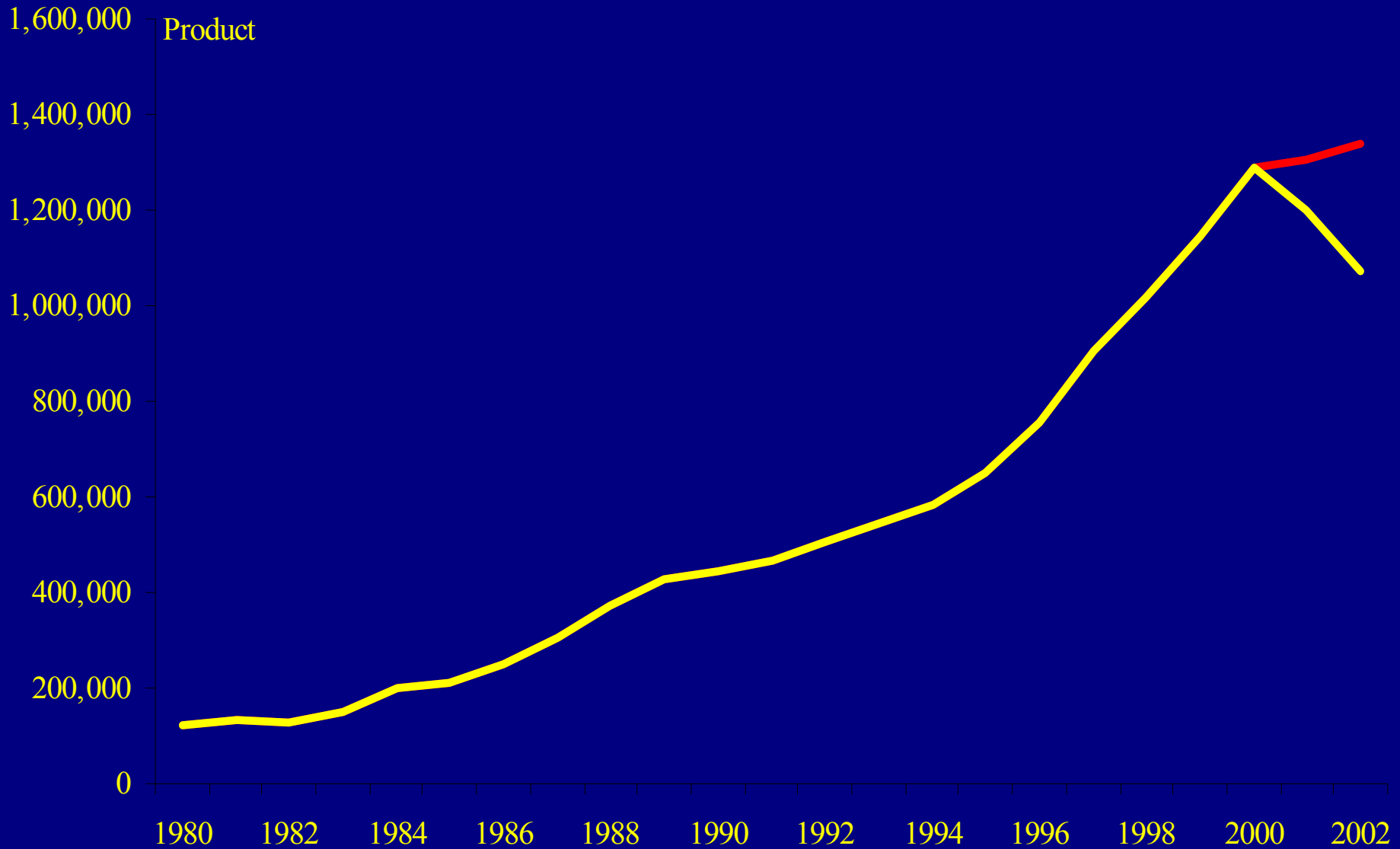


Maquiladora Employment



Maquiladora Employment

Estimated w/ U.S.
Gross Domestic
Product

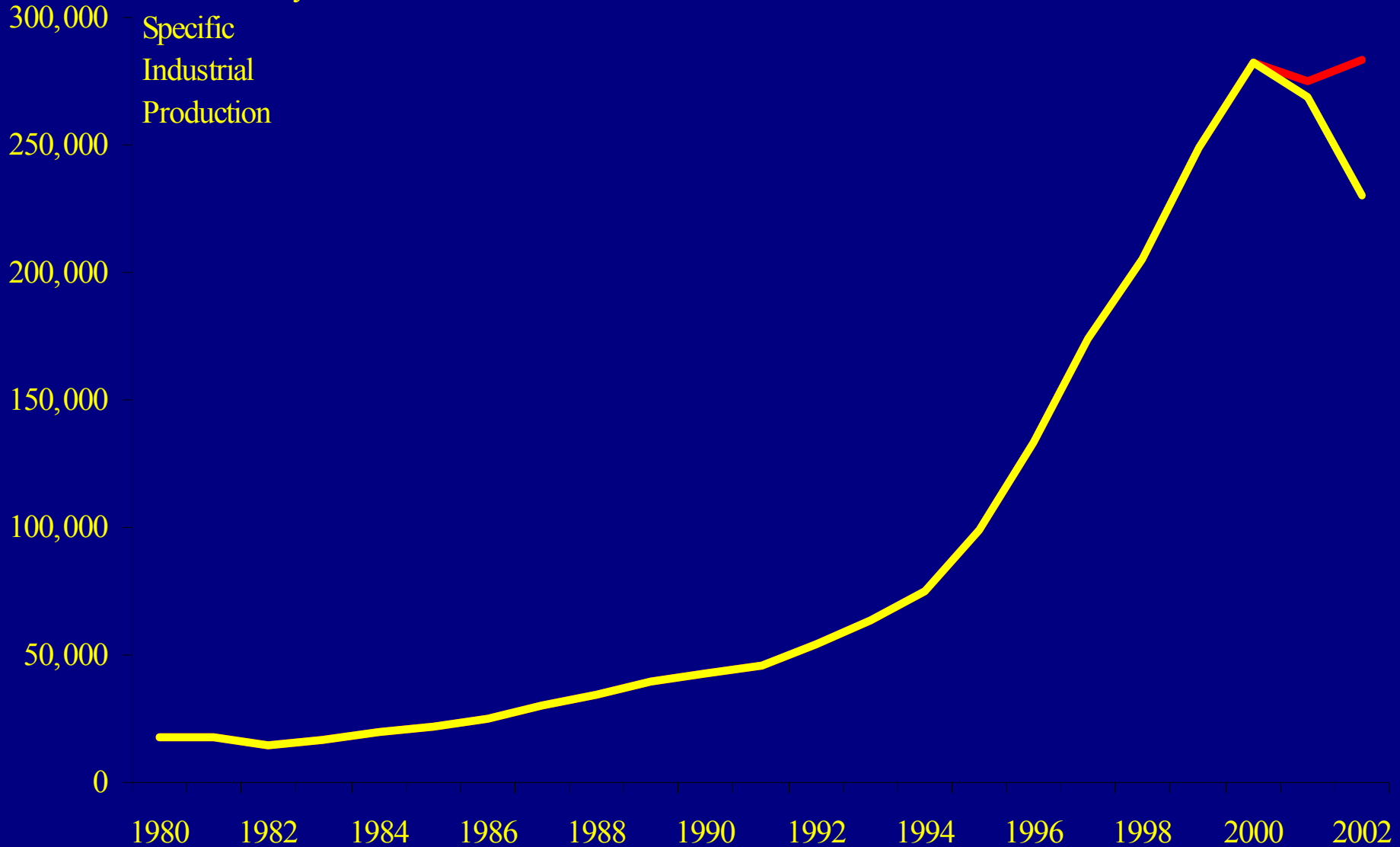


Individual industries: Not always business as usual

- Some industries are still well explained by the standard know-nothing model.
- These industries have not been hit by a radical change in international competition.
- Others live in a new world:
Textiles/Apparel

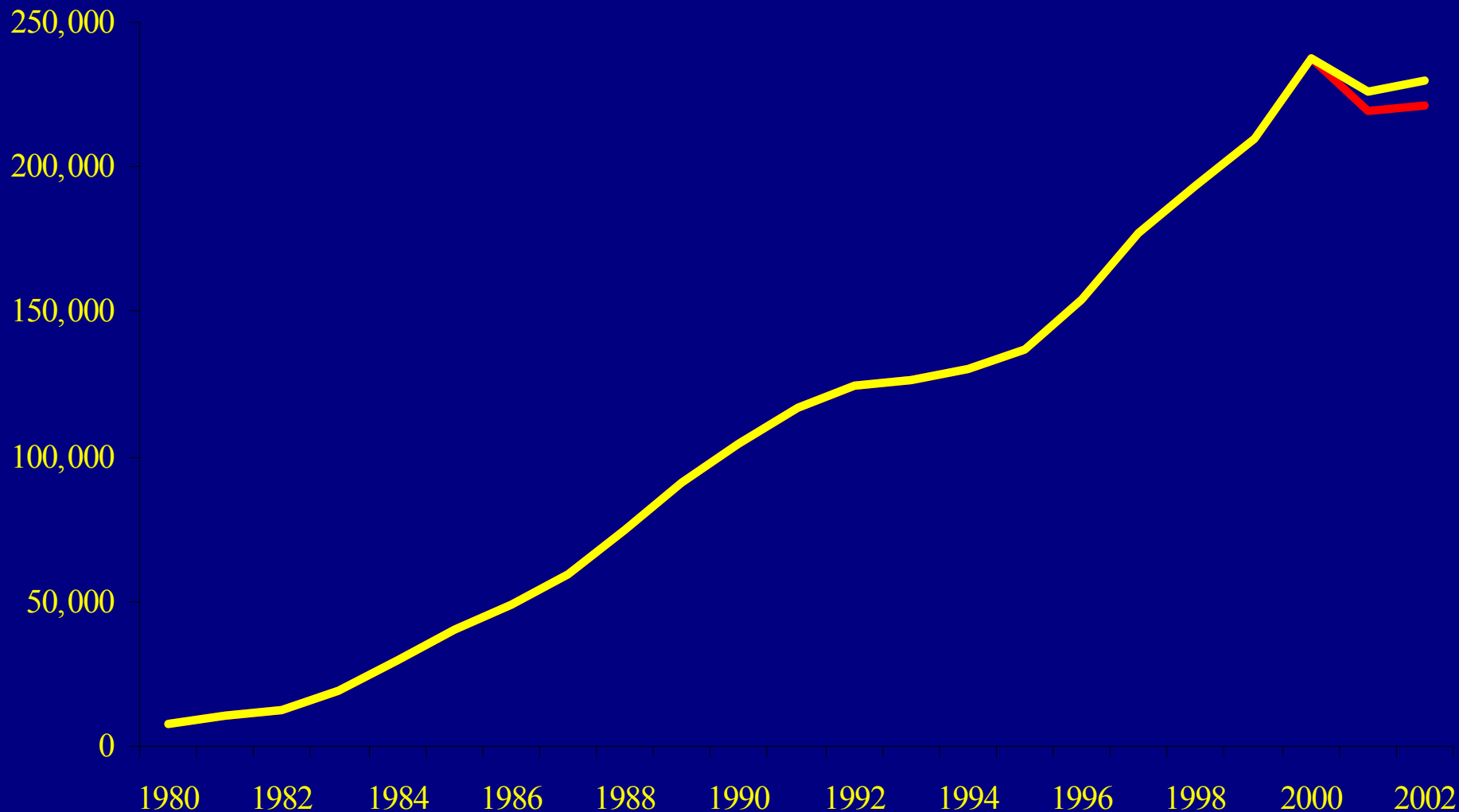
Maquiladora Employment in Clothing/Textiles

Estimated w/
U.S. Industry
Specific
Industrial
Production



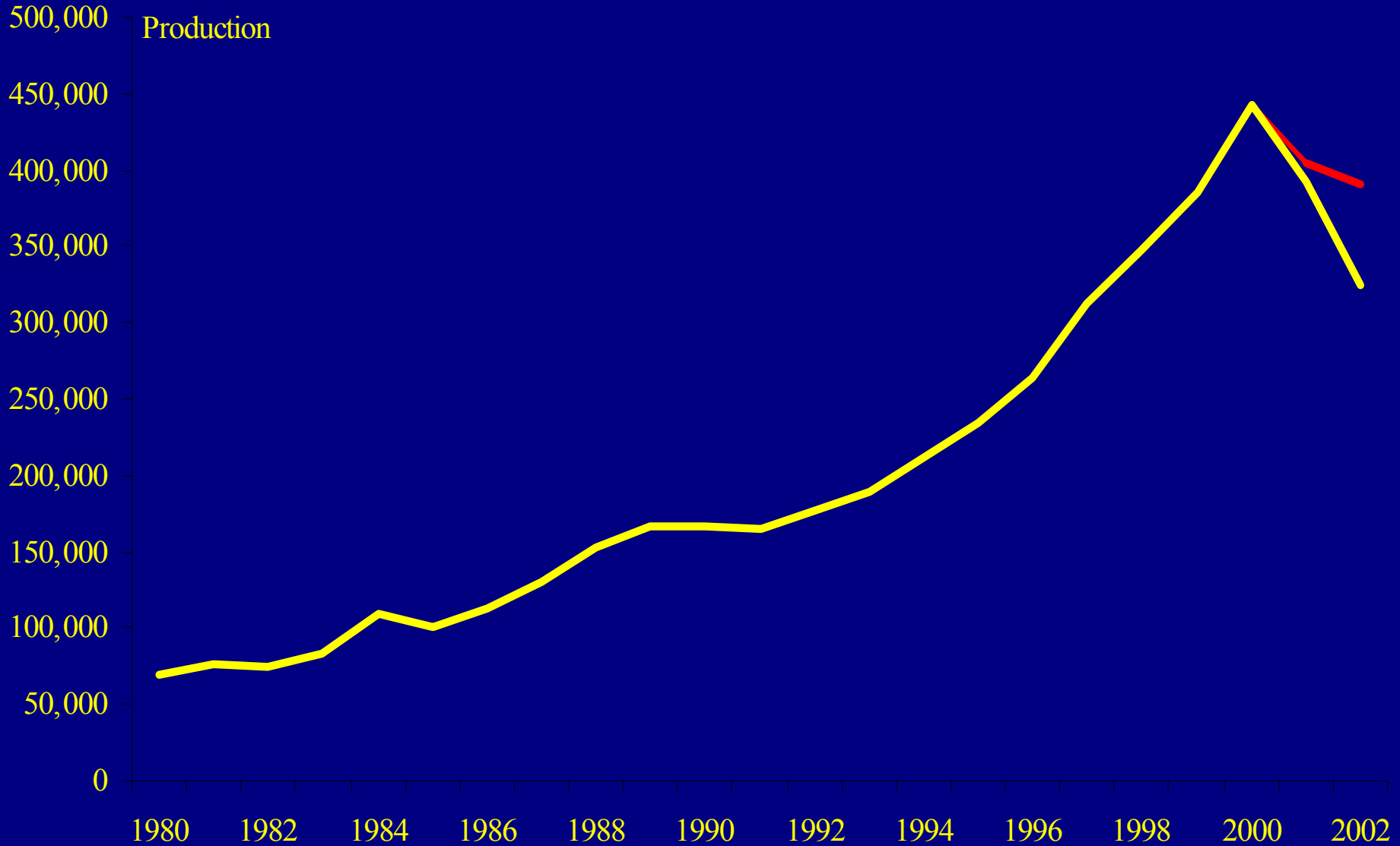
Maquiladora employment in transportation equipment

Estimated w/
U.S. GDP



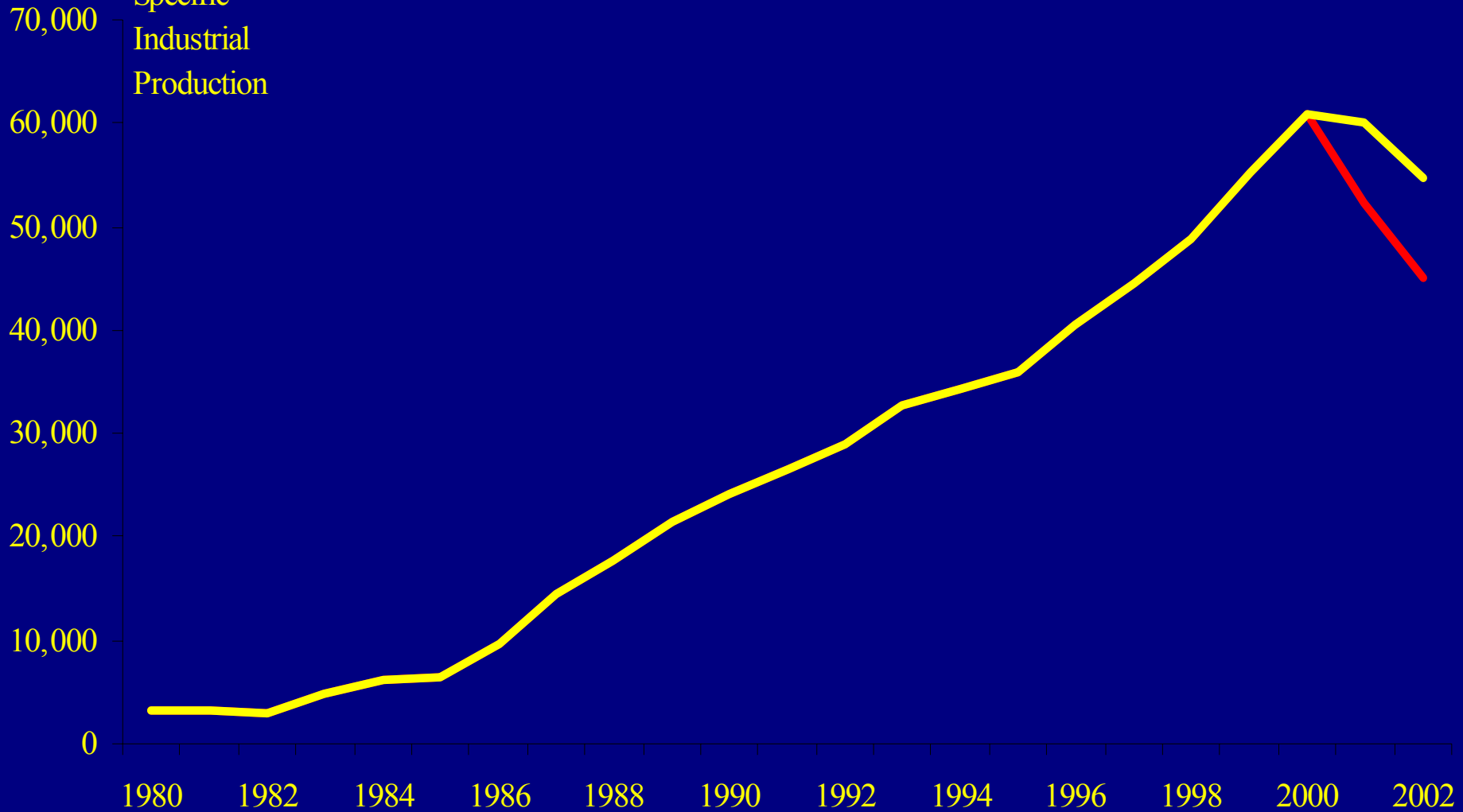
Maquiladora Employment in Electronics

Estimated w/
U.S. Industrial
Production



Maquiladora Employment in Furniture

Estimated w/
U.S. Industry
Specific
Industrial
Production



Old-Time Factors Explain New Downturns

- But not always
- Policies towards individual maquila industries always in flux
- What the U.S. takes away, Mexico will try to give back
- What the U.S. gives Mexico first, it gives competitors second