

CITY OF SOUTH PADRE ISLAND ECONOMIC INDEX

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PREPARED FOR
SOUTH PADRE ISLAND ECONOMIC DEVELOPMENT CORPORATION
BY



TABLE OF CONTENT

TABLE OF CONTENT	- 2 -
EXECUTIVE SUMMARY	- 4 -
INTRODUCTION	- 5 -
METHODOLOGY AND DATA	- 7 -
SOUTH PADRE ISLAND	- 8 -
<i>Total Direct Visitor Spending</i>	- 8 -
Figure 1: Change in Total Direct Visitor Spending	- 8 -
<i>Total Direct Earning</i>	- 9 -
Figure 2: Change in Total Direct Earning.....	- 9 -
<i>Annual Change in Employment</i>	- 9 -
Figure 3: Change in Employment	- 10 -
<i>Annual Change in Tax Receipts</i>	- 10 -
Figure 4: Annual Change in Tax Receipts	- 11 -
<i>Winter Texans</i>	- 12 -
SOUTH PADRE ISLAND’S EXTERNAL ECONOMIC DRIVERS	- 12 -
STATE FACTORS	- 12 -
<i>Texas Leading Economic Index</i>	- 12 -
Figure 5: Texas Leading Economic Index	- 13 -
Figure 6: Brownsville Harlingen Business Cycle Index	- 13 -
<i>Texas Manufacturing Outlook</i>	- 14 -
Figure 7: Texas Manufacturing	- 15 -
<i>Texas Value of the Dollar</i>	- 15 -
Figure 8: Texas Value of Dollar	- 16 -
NATIONAL FACTORS	- 17 -
<i>U.S. Leading Economic Index</i>	- 17 -
Figure 9: U.S. Leading Economic Index.....	- 18 -
MEXICAN FACTORS	- 18 -
<i>Mexico Leading Economic Index</i>	- 19 -
Figure 10: Mexico Leading Economic Index.....	- 19 -
<i>Exchange Rates Mexican Peso to Dollar</i>	- 20 -
Figure 11: Exchange Rates Mexican Peso to Dollar	- 20 -

Figure 12: Mexico and U.S. Manufacturing IP	- 21 -
<i>Nuevo-Leon, Tamaulipas Manufacturing Employment</i>	- 21 -
Figure 13: Nuevo Leon-Tamaulipas Manufacturing Employment	- 22 -
Figure 14: Nuevo Leon-Tamaulipas Manufacturing Hours	- 23 -
COMPOSITE LEADING ECONOMIC INDEX	- 23 -
Figure 15: Composite Leading Economic Index	- 24 -
SOUTH PADRE ISLAND - INTERNAL FACTORS	- 24 -
Figure 16: Visitor Activity in Corpus Christi- Galveston-South Padre Island	- 25 -
Figure 17: Total Direct Travel Spending 1 Year and 5 Year Change	- 26 -
Figure 18: Total Direct Travel Spending 10 Year Change	- 26 -
HOTEL/MOTEL OCCUPANCY TAX	- 27 -
Figure 19: Annual Occupancy Tax Revenue	- 28 -
Figure 20: Monthly Occupancy Tax Index	- 29 -
Figure 21: Annual Occupancy Tax Index	- 29 -
SALES TAX	- 30 -
Figure 22: Annual Sales Tax Revenue	- 30 -
Figure 23: Monthly Sales Tax Index	- 31 -
Figure 24: Annual Sales Tax Index	- 31 -
BANK DEPOSIT INDEX	- 32 -
Figure 25: Annual Bank Deposits	- 32 -
Figure 26: Monthly Bank Deposits Index	- 33 -
Figure 27: Annual Bank Deposits Index	- 33 -
REAL ESTATE IN TEXAS	- 34 -
Figure 28: Texas Real Estate	- 34 -
REAL ESTATE IN SOUTH PADRE ISLAND	- 35 -
Figure 29: South Padre Island Real Estate	- 35 -
Figure 30: South Padre Island Real Estate	- 36 -
BUILDING PERMITS INDEX	- 36 -
Figure 31: Annual Building Permits	- 37 -
Figure 32: Monthly Building Permits Index	- 38 -
Figure 33: Annual Building Permits Index	- 38 -
CONCLUSIONS	- 39 -
REFERENCES	- 40 -

EXECUTIVE SUMMARY

The external and internal economic factors identified in our previous report are analyzed in our 2013 report. External economic drivers indicate that the economies of Texas, the U.S. and Mexico will continue to grow in the short and medium term. The Conference Board Leading Economic indices for the U.S. and Mexico and the Federal Reserve Bank of Dallas Leading Economic index show that the U.S. will grow at 2.3 percent in 2014 and 3% in 2015. The medium-term (2014-2019) forecast for the U.S. is 2.4 percent. The economic outlook for Mexico is 3.1 percent growth in 2014 and 2.9 percent average growth between 2014 and 2019. Texas' is expected to grow at 2.3% in 2014 and 2.4 percent in 2015.

South Padre Island's most important internal drivers – hospitality & tourism and real estate continue to improve. South Padre Island's occupancy tax revenue grew at 5.3 percent in 2013 relative to 2012. Current data show that the real estate sector in Texas and South Padre Island continues to improve. Average home sale prices for 2014 have been trending upward, sales increased from January to March and declined in April and May. However, home sales and dollar volume sales have increased. The real estate data also show continuous decline in month inventory since 2011.

In our previous report we used tourism and hospitality data from Corpus Christi, Galveston, and Texas as benchmarks to evaluate South Padre Island's economic performance. Our analysis shows that the Island outperforms the other Texas destinations during the summer peak months and during March and April because of the spring break vacation and underperforms during off-peak months. The four performance indicators we use to measure the Island's performance are expected to continue to show short and medium term overall annual growth with the marked disparities between peak and off-peak months to remain unchanged in the short term. We also expect the variability in economic activity to improve as South Padre Island's leadership continues to develop strategies to market to and attract a different

demographic during the off-peak months. The expected change in the four indicators will vary between 4 and 6 percent for the occupancy tax revenue, between 3 and 5 percent for Sales Tax revenue, and between 3 and 5 percent for bank deposits. Building permits are expected to increase in 2015.

Introduction

In evaluating the economic performance of the City of South Padre Island, Texas, for 2013 we use 2007 as a base year for comparative consistency; consistent with last year's reports. In this report some of the economic performance factors for South Padre Island are analyzed over one year, and others are for five-year, or ten-year periods. Our emphasis is on the prime economic drivers identified in our previous reports – hospitality & tourism, and real estate. We also report on the state of three external macroeconomic factors that impact the economy of South Padre Island: the state of the economy in Texas, in the U.S, and in Mexico. We used the Conference Board's Leading Economic Index for the U.S., and Mexico, and the Federal Reserve Bank of Dallas' Texas Leading Economic Index as representative indices for each of the three external factors. We also use the three leading economic indicators (LEIs) to generate a weighted composite index. The weights are based on the importance of each factor on the economy of South Padre Island. In addition, we used the Texas Value of the Dollar (TXVD), the Mexican Peso-Dollar exchange rate, and *maquila* activity in the northern Mexican states of Tamaulipas and Nuevo Leon. Our analysis is divided into an external factors section that discusses the state of the external drivers and reports their forecast and economic performance section that analyzes five local performance indicators. The local performance indicators are Occupancy Tax, Sales Tax, Bank Deposits, Mixed Beverage Tax Revenue, and Building Permits Valuation. We also compared the Island's economic performance to that of Corpus Christi, Galveston, and Texas. Comparing the economic performance of South Padre Island to those of Corpus Christi, Galveston, and Texas provides a context and a way to benchmark the Island's economic performance. This benchmarking allows us to see if South Padre Island is performing at the same level as the other Texas Gulf Coast destinations, and at the same level as the whole state of Texas. We present the results in graphical format for easy inspections.

Methodology and Data

In this report, we maintain a similar approach to that of our previous reports when analyzing South Padre Island's impact factors. In analyzing the local performance indicators we added Mixed Beverage Tax Revenue as a fifth indicator. The local performance comparative benchmark we introduced in last year's report provides South Padre Island officials information about the economic performance of South Padre Island relative to other Gulf Coast tourist destinations, but more importantly a tool to measure the effectiveness of policies.

We used time series data from the same sources we used in our previous reports to identify trends and make a two year forecast. We corrected for seasonality, and then deflated the data using the Consumer Price Index with 2007 as a base year. The percentage change we computed for all indicators are relative to base year 2007. An index of 90 indicates a 10 percent decline in that economic activity, whereas an index value of 110 shows a 10 percent increase of economic activity measured by the index.

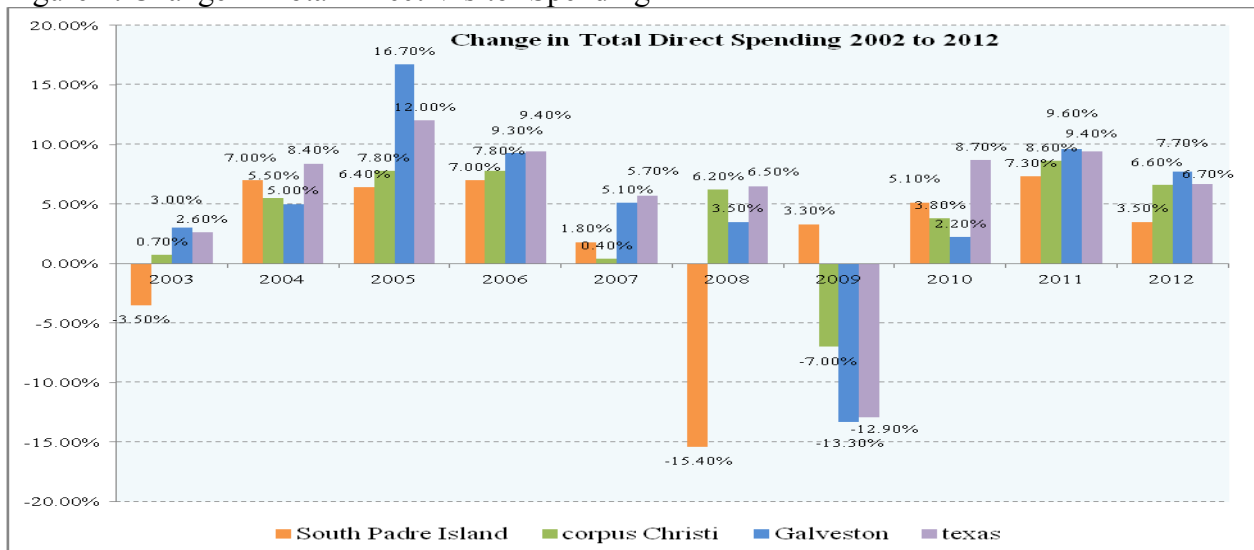
To analyze the external factors we obtained data from The Conference Board, the Federal Reserve Bank of Dallas, the Bureau of Labor Statistics, the U.S. Department of Commerce, Bureau of Economic Analysis, and www.city-data.com, INEGI, Banco De Mexico. Local performance data was obtained from South Padre Island Economic Development Corporation (Occupancy Tax, Sales Tax, Bank Deposits, and Building Permits), Texas Department of Tourism, Texas A&M Real Estate Center, the National Association of Realtors, and the Federal Reserve Bank of Dallas. The data is for the period January 1994 to December 2013.

South Padre Island

Total Direct Visitor Spending

South Padre Island’s total direct visitor spending grew by 3.5 percent in 2012. South Padre Island’s total direct visitor spending grew for the third year in a row. The growth rate for 2012 is below those of Corpus Christi, Galveston, and Texas (6.6%, 7.7%, and 6.7% respectively). South Padre Island’s total direct visitor spending increased by \$11 million in 2012 **from \$310.7 million to \$321.7 million**. Total direct visitor spending has surpassed the pre-recession levels (\$309.6 in 2006 and \$315.4 in 2007). However, the growth in total direct visitor spending at South Padre Island will be limited by the disparities between peak and off-peak months. Figure 1 shows the change in total direct visitor spending between 2003 and 2011.

Figure 1: Change in Total Direct Visitor Spending

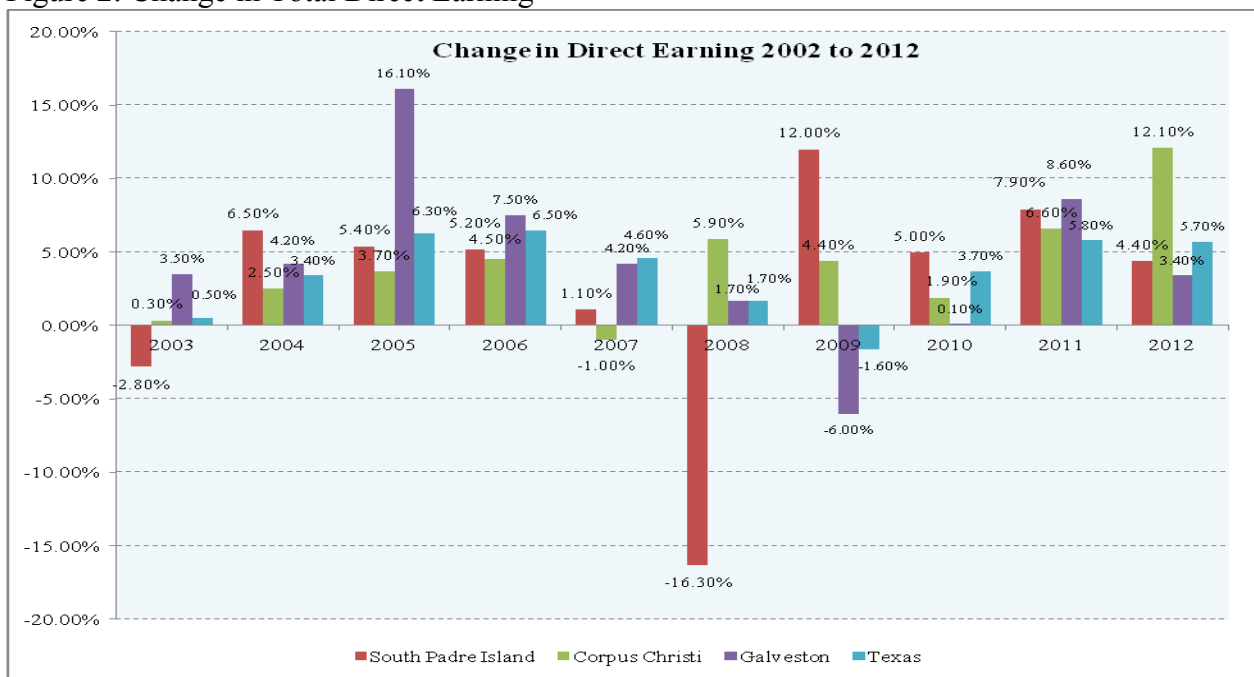


Source: Office of the Governor, Economic Development and Tourism

Total Direct Earning

South Padre Island’s direct earnings continue to grow. The Island’s total direct earning **grew by 4.4 percent in 2014**, ahead of Galveston but trailing Corpus Christi and Texas. South Padre Island’s total direct earnings increased from \$78 million in 2011 to \$81.4 million in 2014. Figure 2 shows the change in total direct earning between 2003 and 2012.

Figure 2: Change in Total Direct Earning



Source: Office of the Governor, Economic Development and Tourism

Annual Change in Employment

Hospitality & tourism employment in South Padre Island has recovered to 2007 pre-recession levels. After declining from 4,083 jobs in 2007 to 3,257 jobs in 2008, employment grew steadily starting in 2009 at an average rate of 3 percent per year. Employment levels remained relatively unchanged from 2011 and 2012. Employment in South Padre Island grew at

a faster rate than in other Gulf Coast destinations. From 2009 to 2012, it grew by 3 percent at the Island, 2.8 percent in Corpus Christi, 0.1 percent in Galveston, and 2 percent in Texas.

Figure 3: Change in Employment



Source: Office of the Governor, Economic Development and Tourism

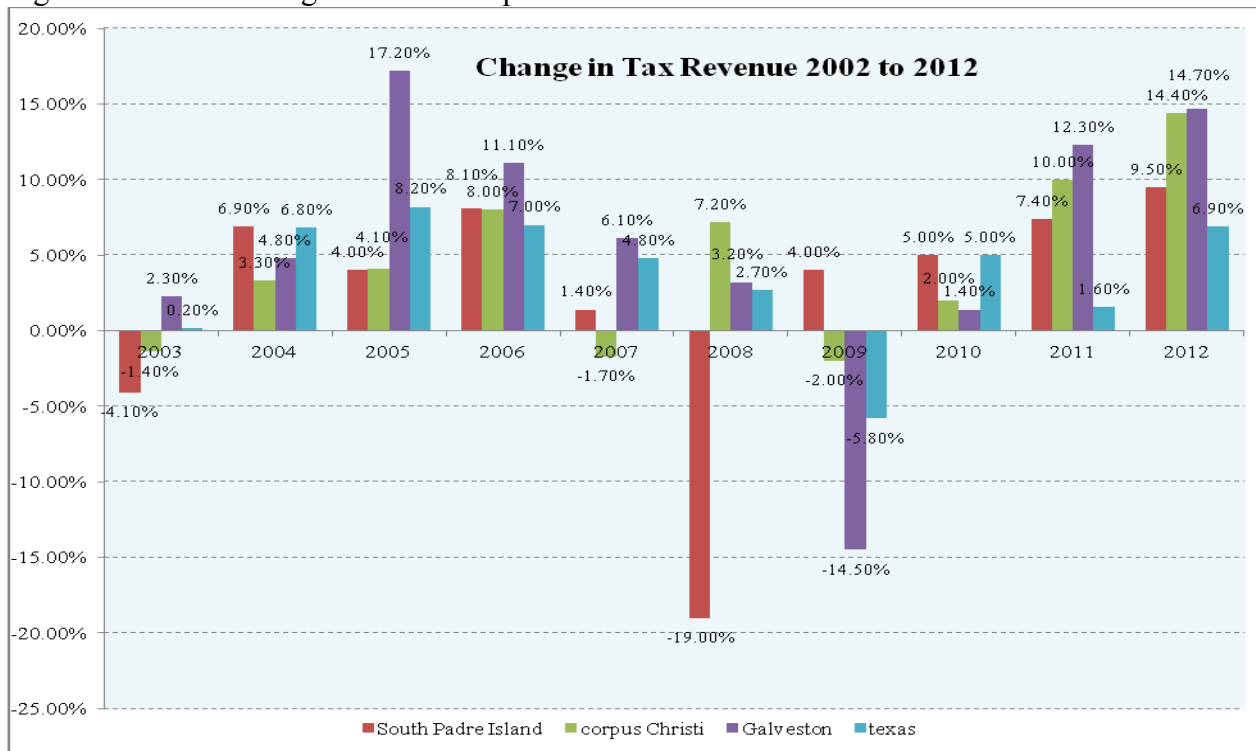
The employment level is driven by the seasonality of the economic activity in South Padre Island.

Annual Change in Tax Receipts

South Padre Island’s tax receipts grew by 9.5 percent in 2012; 2.6 percent above the Texas tax receipts’ growth rate. The growth of South Padre Island tax receipts was steady between 2010 and 2012 relative to those of Texas and other Gulf Coast Tourism destinations. Tax receipts grew by 5 percent in 2010, 7.4 percent in 2011, and 9.5 percent in 2012. In 2010, tax receipts in Texas grew faster than those of the Gulf Coast region with the exception of the

Island, while the Gulf Coast region experienced faster growth in its tax receipts in 2011 and 2012. Growth rates in tax receipts for 2010, 2011, and 2012 were 5 percent, 1.6 percent, and 6.9 percent respectively for Texas, 5 percent, 7.4 percent, and 9.5 percent respectively for South Padre Island, 2 percent, 10 percent, and 14.4 percent respectively for Corpus Christi, and 1.4 percent, 12.3 percent, and 14.7 percent respectively for Galveston.

Figure 4: Annual Change in Tax Receipts



Source: Office of the Governor, Economic Development and Tourism

The one-year lag in terms of visitors spending, earning, and employment experienced by Texas and the Gulf Coast Tourism region relative to South Padre Island seems to have faded. The lag was due to the effect of Hurricane Dolly (2008) and the red-tide algae bloom that affected the southern Gulf Coast (2009).

Winter Texans

A 2008 study conducted by the University of Texas Pan-American found that the weather is the most attractive feature of the Rio Grande Valley for Winter Texans. The report states that the typical Winter Texan spends an average of \$2,500 per month. Their typical stay in the Valley is around 4 months. A majority of Winter Texans (83%) live in residences they own. Winter Texans represent an important segment of South Padre Island visitors and the most important off-season visitors¹. However, their spending propensity is lower than conventional South Padre Island visitors and most of their spending is done in surrounding communities. Their impact on the economy of the Island during off-peak months is not very significant as shown by the disparity in occupancy tax and sales tax revenues between peak and off-peak months.

South Padre Island's External Economic Drivers

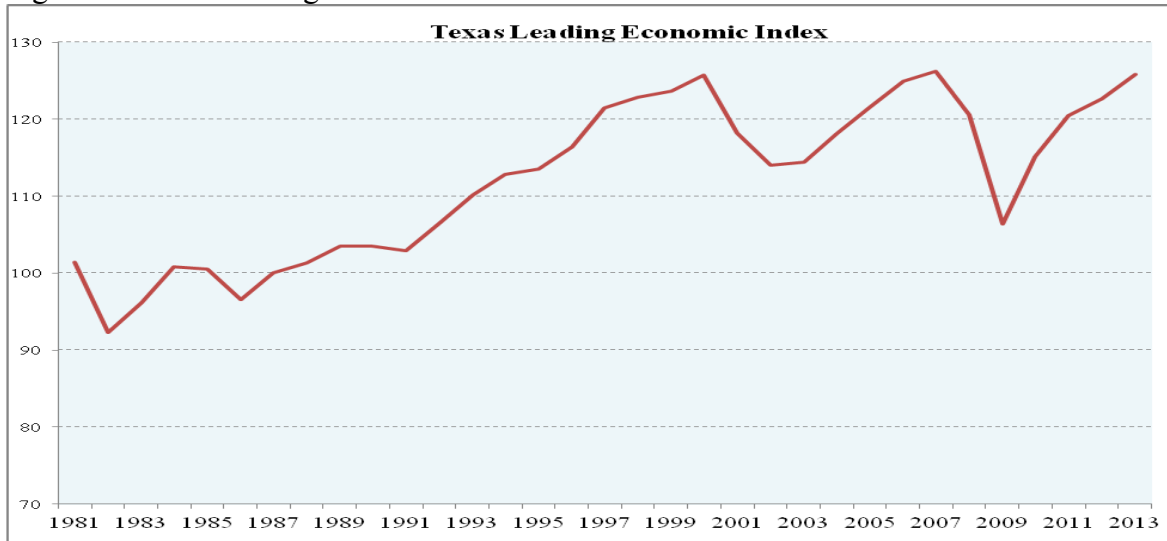
STATE FACTORS

Texas Leading Economic Index

Texas Leading Economic Index signals changes on the future of the state's economy. The index is composed of eight leading indicators – Texas Value of the Dollar, U.S. leading index, real oil price, well permits, initial claims for unemployment insurance, Texas stock index, help-wanted index and average weekly hours worked in manufacturing – that signal economic changes before they happen.

¹ Valley Markets & Research Center

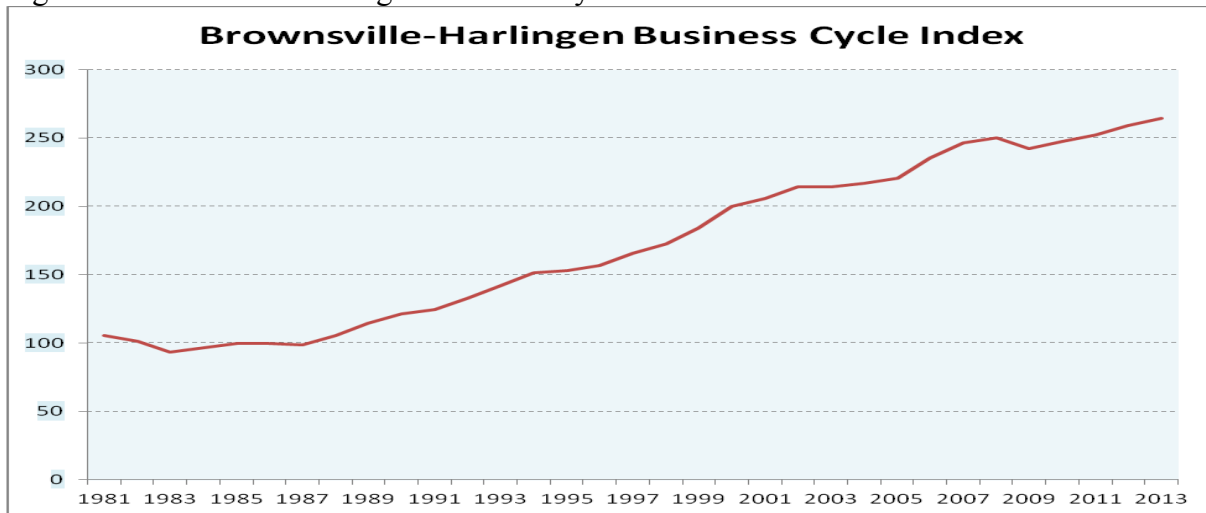
Figure 5: Texas Leading Economic Index



Source: Federal Reserve Bank of Dallas

Texas Leading Economic Index in Figure 5 shows that Texas' economy continues to trend upward. The figure also shows that the slope of Texas Leading Economic Index between 2012 and 2013 is relatively steeper than the slope between 2011 and 2012. This indicates a relatively stronger expected growth for Texas. As in 2011, Texas' economic statistics for 2012 and 2013 are stronger than the rest of the U.S.

Figure 6: Brownsville Harlingen Business Cycle Index



Source: Federal Reserve Bank of Dallas

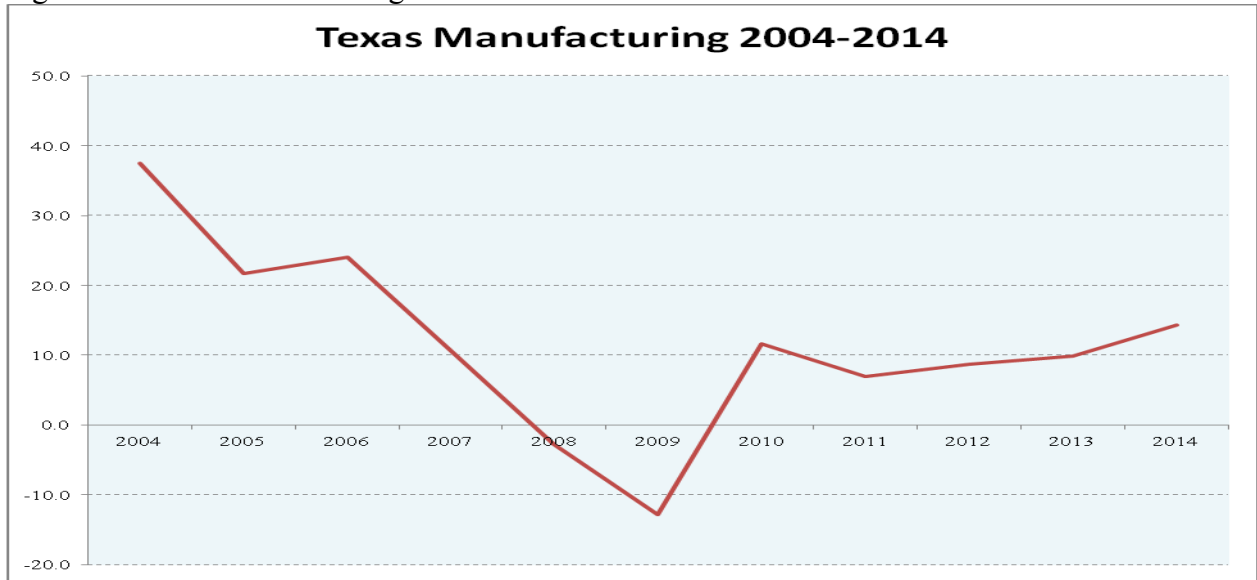
Texas Leading Economic Index rose by 5.05 percent in 2010, 1.74 percent in 2011, 2.64 percent in 2012, and 4.48 percent in 2013. The index indicates positive change in the outlook for Texas' economy. The unemployment rate in Texas continues to drop. It decreased from 7.4 percent in December 2011 to 6.0 percent in December 2013 and to 5.1 percent in May 2014. Texas added 58,973 jobs in 2012 and another 99,031 in 2013.

Texas Manufacturing Outlook

The Federal Reserve Bank of Dallas conducts the monthly Texas Manufacturing Outlook Survey (TMOS) to assess factory activity. The production index in June 2014 rose from 11 to 15.5 indicating output grew faster than in May. Other measures of current manufacturing activity also reflected growth in June. The new orders index rose from 3.8 to 6.5 but remained below the levels seen earlier in the year. The capacity utilization index and shipments index for June 2014 held steady at 9.2 and 10.3 respectively, with a third of manufacturers experiencing an increase in volumes.

Expectations about future business conditions were more optimistic in June. The index of future general business activity increased by 7 points to 18.7, while the index of future company outlook increased by 14 points to 33.8, reaching its highest level since 2011. Indices for future manufacturing activity also increased.

Figure 7: Texas Manufacturing



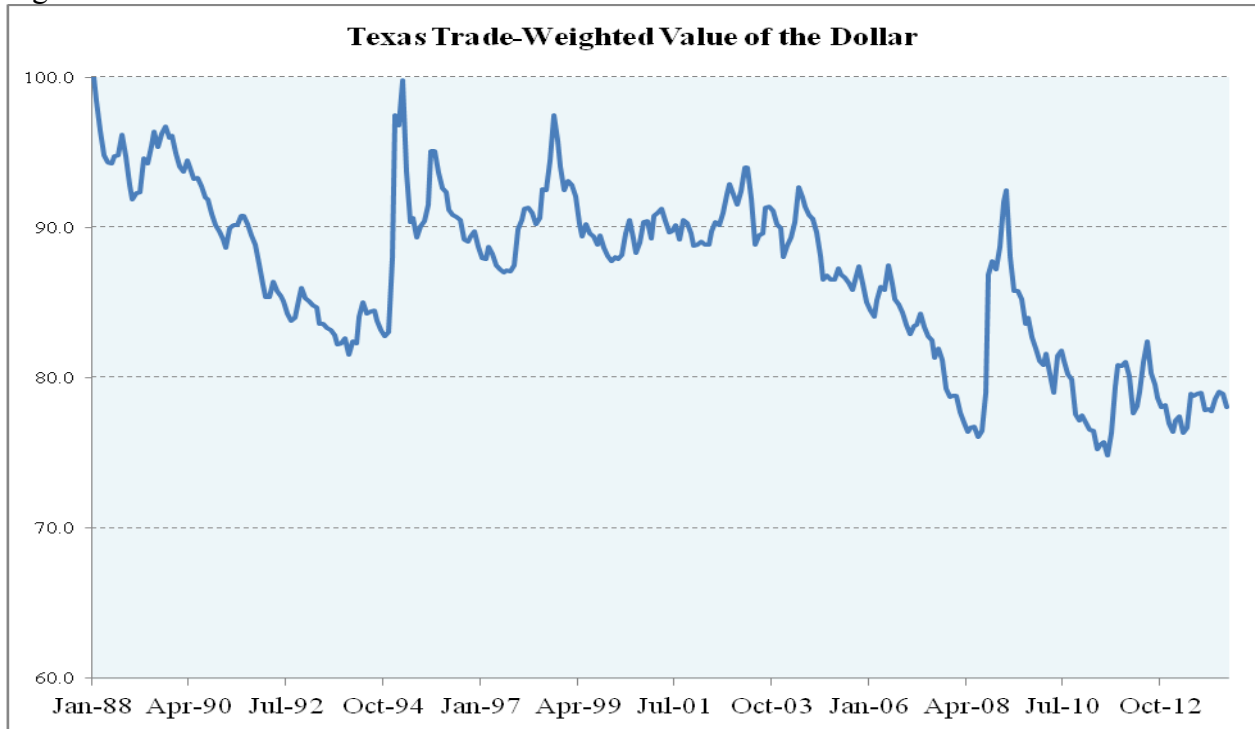
Source: Federal Reserve Bank of Dallas

Texas Value of the Dollar

The Texas Value of the Dollar (TXVD) is an effective exchange rate index that assigns a fixed weight based on the size of each country's exports history with Texas. The TXVD index includes data from 48 countries with Mexico (Texas' largest trading partner) assigned 35.9 percent of the index's weight. Changes in the value of the Mexican peso affect the TXVD more than changes in the currencies of any other trading partners.

The TXVD is inversely related to the Texas Leading Index. An increase (decrease) in the value of the index indicates that Texas exports are more expensive (less expensive) and results in a decrease (increase) in the volume of Texas exports. The TXVD is the Texas equivalent of the U.S. Trade-Weighted Value of the Dollar (TWVD).

Figure 8: Texas Value of Dollar



Source: Federal Reserve Bank of Dallas

The TXVD continues to decline (March 2009 to April 2014). TXVD appreciated in the last three months of 2011. Figure 8 shows historical data of Texas Value of the Dollar. The continued decline in the TXVD makes Texas' exports and destinations attractive to international importers and visitors. This depreciation of the dollar relative to the value of Texas' trading partners' currencies improves the competitiveness of Texas and has a positive impact on the economy of Texas. These effects and the increased purchasing power of these currencies in the U.S. should have a trickledown effect and ultimately benefit South Padre Island.

NATIONAL FACTORS

U.S. Leading Economic Index

The Conference Board computes the U.S. Leading Index (LEI) using ten key leading economic indicators with predictive power that signal directional change in the economy. The economic indicators included in the computation of the leading economic index are:

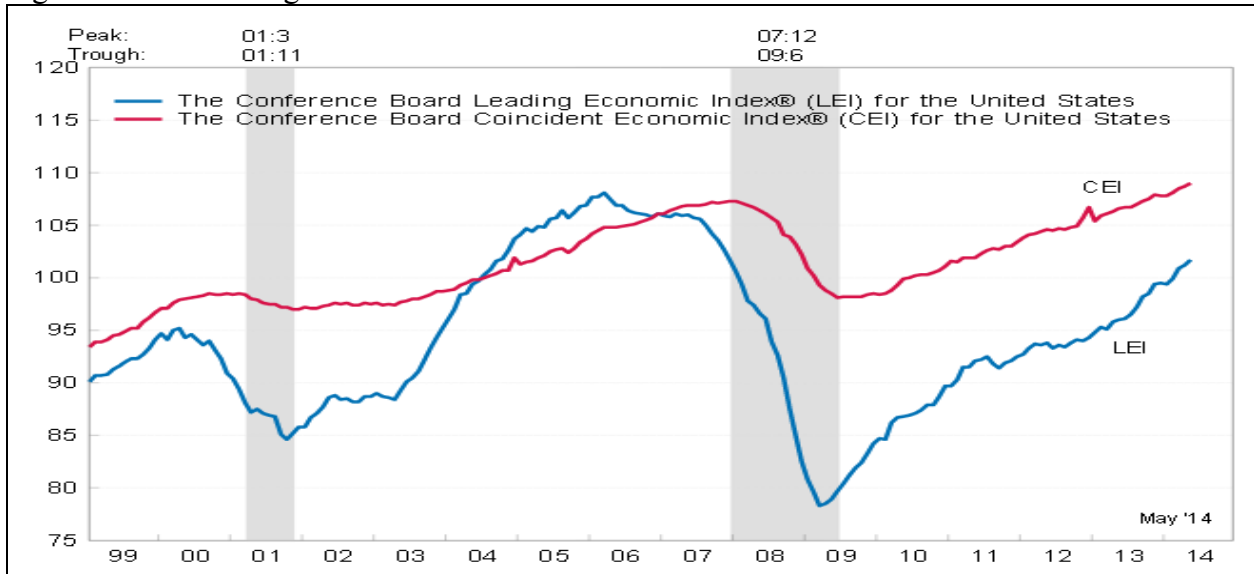
<ul style="list-style-type: none">• Average weekly hours of production workers in manufacturing• Average weekly initial claims for state unemployment insurance (inverted)• Manufacturers' new orders for consumer goods/materials (constant dollar)• Vendor performance-slower deliveries diffusion index	<ul style="list-style-type: none">• Contracts and orders for plants and equipment• New private housing authorized by local building permits• Yield curve• Stock prices, common 500 stocks• Money supply M2• Index of consumer expectations
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Analysts monitor changes in the direction and duration of the index to forecast economic change. For instance, three consecutive declining months in the index signal a looming recession.

The conference board LEI increased by 1 percent in March, 0.3 percent in April, and 0.5 percent in May signaling that the economy will be growing at a more robust rate.

The conference Board Consumer Confidence Index (CCI) continues to improve. The CCI increased in May and in June from 82.2 in May to 85.2 in June. The Present Situation Index increased from 80.3 to 85.1 and The Expectation Index increased from 83.5 to 85.2.

Figure 9: U.S. Leading Economic Index



Source: The Conference Board

MEXICAN FACTORS

The Conference Board Leading Economic Index for Mexico increased 0.7 percent while the Coincident Economic Index (CEI) increased 0.4 percent in May. Although the six-month change in the LEI for Mexico remains negative, the rate of decline has been easing rapidly from earlier this year. The index increased in April and May. In addition, the LEI rose for two consecutive months (April and May) while the CEI continued on its upward trend with its components strengthening. The combined improvement in both the LEI and the CEI indicate that economic expansion rate of Mexico will likely increase in the coming months.

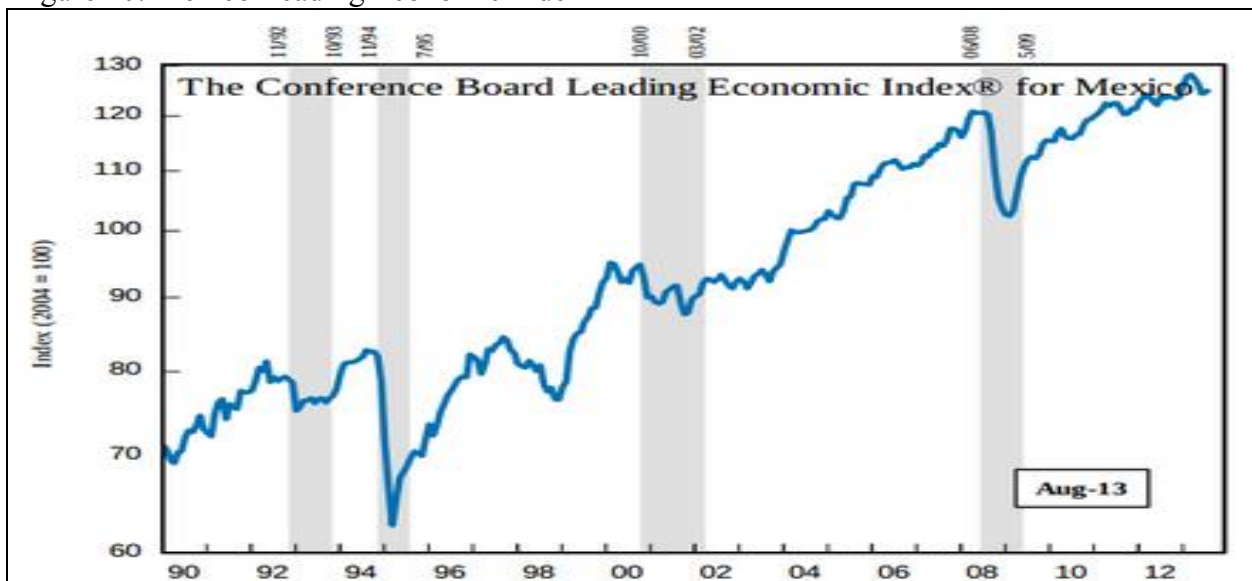
Mexico Leading Economic Index

Mexico's LEI is composed of six components. Four of these six components, net insufficient inventories, the US refiners' acquisition cost of domestic and imported crude oil, stock prices, and the (inverted) real exchange rate, increased in May. The other two, industrial production construction decreased in May, and the inverted federal funds rate remained unchanged.

The Conference Board LEI for Mexico the increase 0.7 percent in May and now stands at 122.7. The Conference Board revised data show that the index increased 0.8 percent in April and declined 0.1 percent in March. During the previous six-month period – December through May, the overall index decreased 0.8 percent, while three of the six components increased.

The Conference Board CEI for Mexico three components, number of people employed, industrial production, and retail sales, increased in May. The Conference Board revised data show that the index increased 0.4 percent in April and increased 0.3 percent in March. During the previous six-month – December through May, the overall index increased 1.5 percent, with all three components increasing.

Figure 10: Mexico Leading Economic Index



Source: The Conference Board

Exchange Rates Mexican Peso to Dollar

Although, the Peso to Dollar exchange rate is still below 2008 levels, it continues to appreciate vis-à-vis the dollar. The Peso/Dollar exchange rate averaged 13.51 in 2009 and 12.97 Pesos per Dollar in 2014. The Peso to Dollar exchange rate has remained stable at around 13 Pesos to the Dollar. The exchange rate is highly correlated with bank deposits, which we discuss in the South Padre Island – Internal Factors section below.

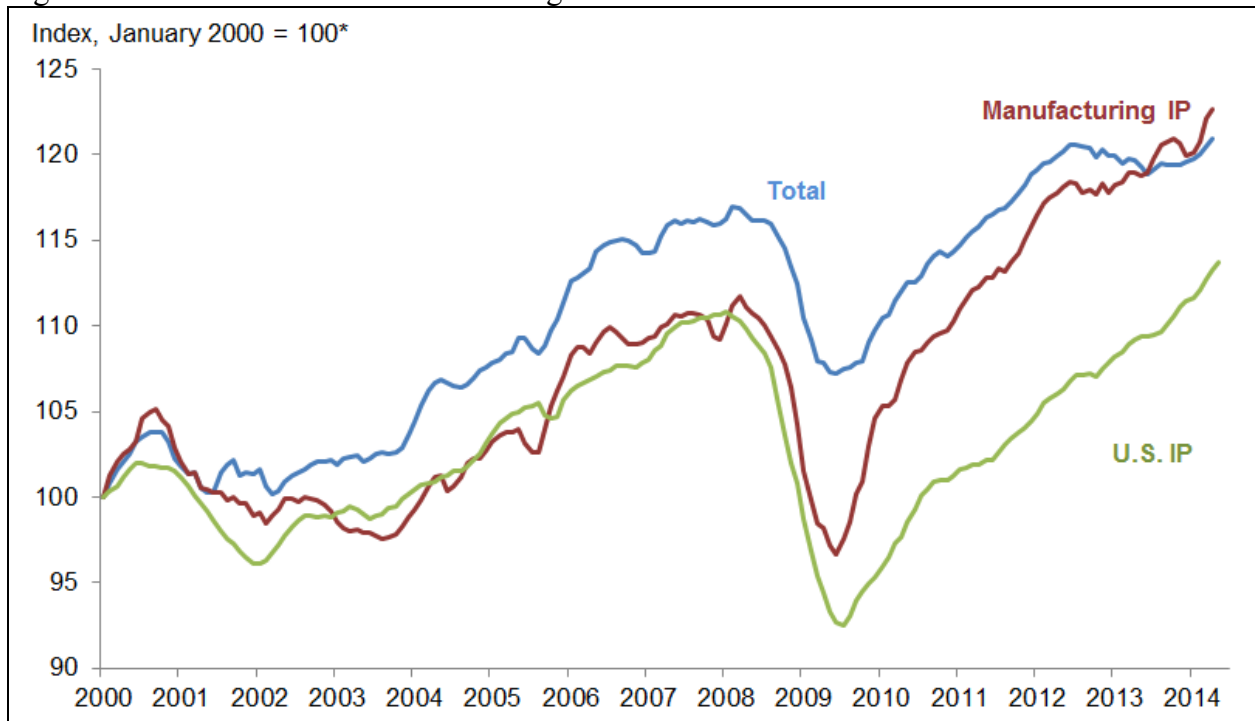
The Mexican economy’s expansion has beneficial spillovers on the economies of U.S. border cities in general and South Padre Island in particular, especially the tourism and hospitality cluster.

Figure 11: Exchange Rates Mexican Peso to Dollar



Source: Banco de Mexico

Figure 12: Mexico and U.S. Manufacturing IP



Sources: INEGI (Instituto Nacional de Estadística Geografía e Informática) and Federal Reserve Board

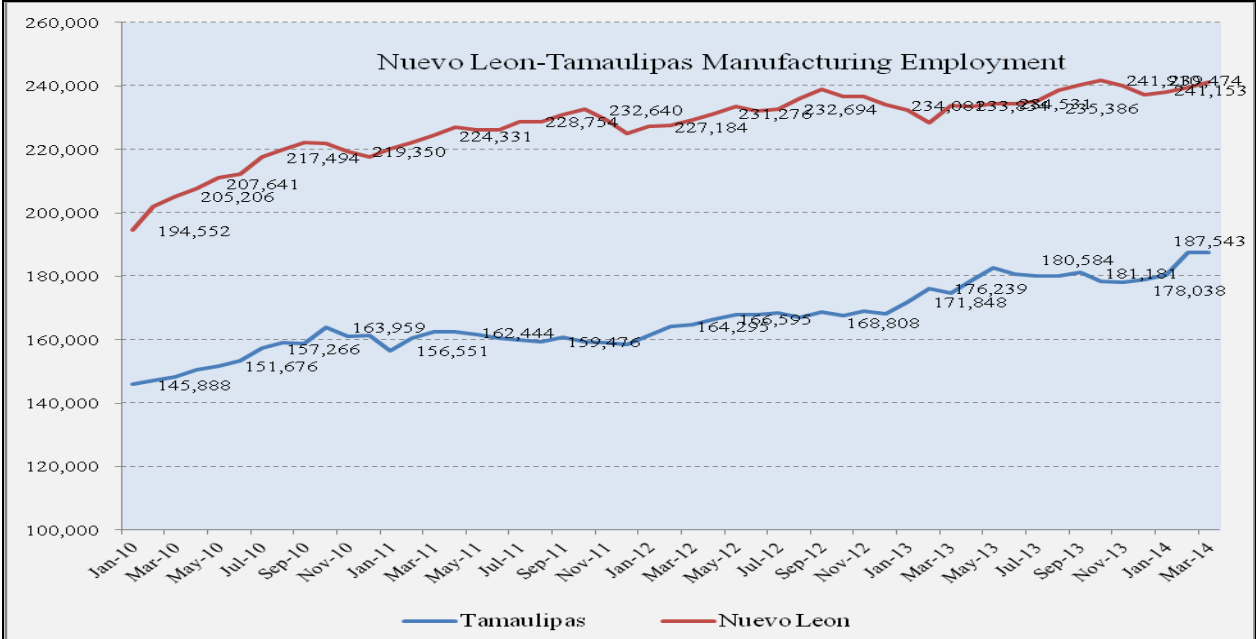
Nuevo-Leon, Tamaulipas Manufacturing Employment

Maquiladoras are some of Mexico's leading economic drivers and one of its biggest employers. The maquila industry especially along the U.S. Mexico border has been an engine of growth and stability for Mexican border economies. Because of proximity, cultural and historical ties, the growth of the maquila industry have made Mexico Texas' most important trading partner. Mexico accounts for one-third of all trade with Texas. In addition, Mexico has been successful in attracting foreign manufacturing and expanding its industrial capacities and capabilities most notably in the interior of the country. Mexico is expected to become the seventh largest economy in the world. Communities along the border are repositioning themselves to capture some the resurgence of industrial activity. Changes in maquiladora

employment and hours worked are important indicators when evaluating the economy of south Texas and Texas in general. Increasing employment levels and number of working hours in the maquiladora has positive externalities on the economies of Texas border cities.

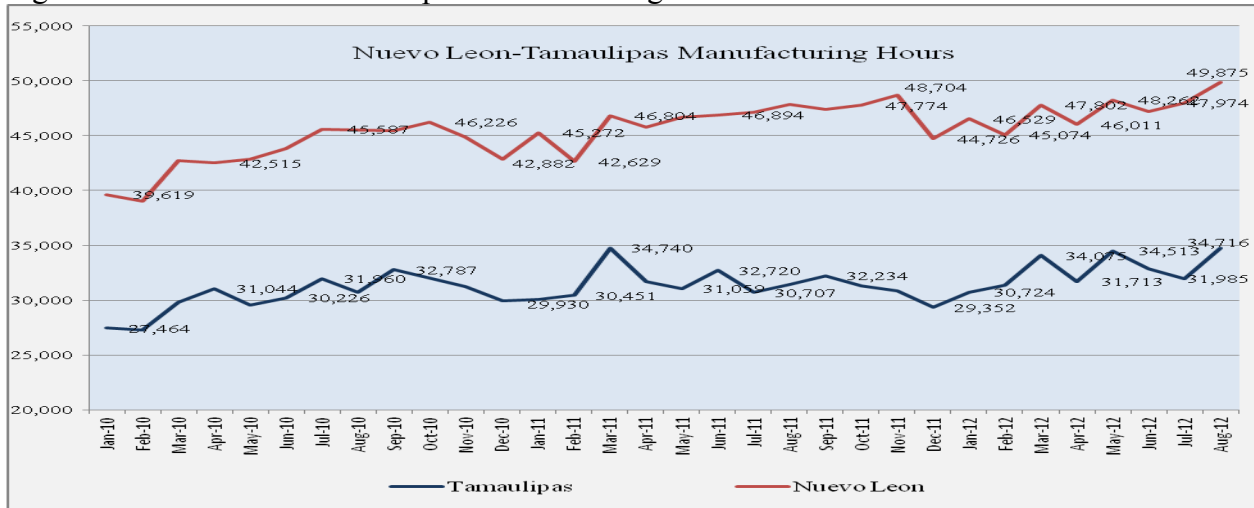
In our previous report we selected the states of Nuevo Leon and Tamaulipas, because of their immediate proximity and the strong economic, historic, and cultural linkages to our area. Figures 13 and 14 show the level of manufacturing employment and work hours in Nuevo Leon and Tamaulipas. While manufacturing employment has declined in both states between 2007 and 2010, it increased after 2010. From March 2010 to March 2014, maquila employment increased by 22.9 percent in Tamaulipas and 14.2 percent in Nuevo Leon. Work hours in maquila manufacturing have increased faster than employment, signaling an increase in productivity and competitiveness. Between March 2010 to March 2014, work hours in maquila manufacturing increased by 26.6 percent in Tamaulipas and 17.5 percent in Nuevo Leon.

Figure 13: Nuevo Leon-Tamaulipas Manufacturing Employment



Source: INEGI (Instituto Nacional de Estadística Geografía e Informática)

Figure 14: Nuevo Leon-Tamaulipas Manufacturing Hours



Source: INEGI (Instituto Nacional de Estadística Geografía e Informática)

COMPOSITE LEADING ECONOMIC INDEX

We compute the composite leading economic index by combining the weighted average of the three leading economic indices – U.S., Mexico, and Texas. Although the three LEIs forecast changes of the three different economies, the economy of Texas has the biggest impact on the City of South Padre Island. The Island’s economic activity contracts and expands at rates closer to those of Texas.

Texas’ Leading Economic Index influences the shape of the composite leading economic index. Figure 15 shows an upward sloping composite LEI starting in 2010. The composite index slope is relatively steeper after 2012 compared to 2011. This indicates a slightly faster expected growth rate for the economy of South Padre Island in 2015 and 2016.

Figure 15: Composite Leading Economic Index



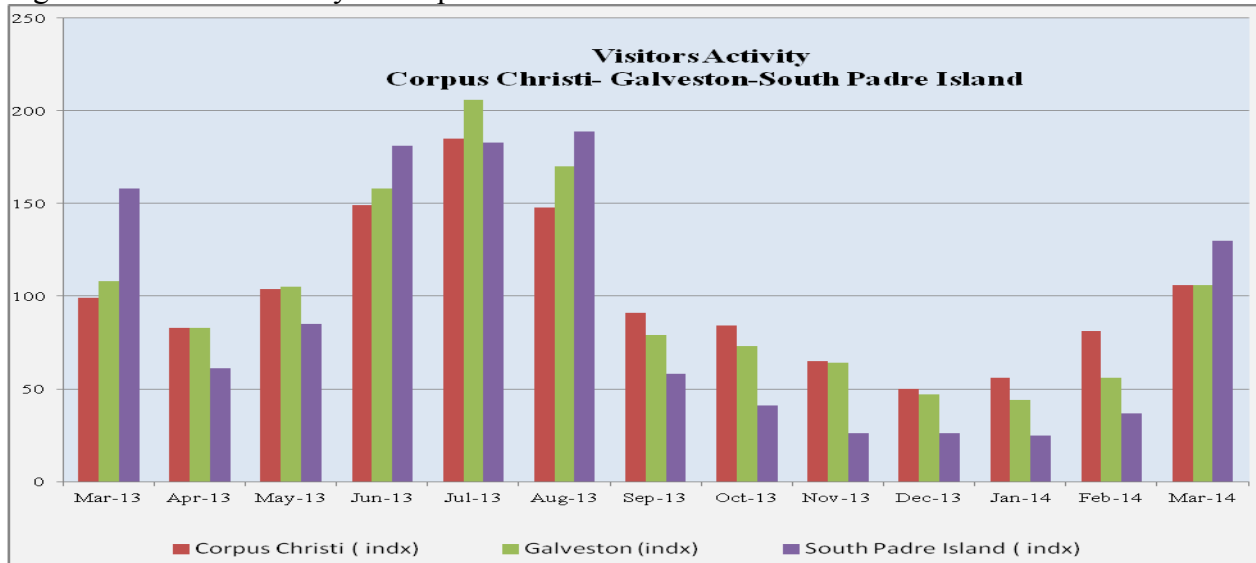
Source: The Conference Board

South Padre Island - Internal Factors

This section presents the performance results of South Padre Island. We use historical data from 1995 to the present, when available, to identify trends and to forecast economic changes for the next two years. We have also included, as in our previous report, comparative data and figures from Corpus Christi and Galveston as a means to benchmark South Padre Island's performance.

We standardized the data in Figure 16 to remove the impact of the size of each economy and to allow for comparison of the performances of different Gulf Coast destinations. Figure 16 shows that South Padre Island outperforms both Corpus Christi and Galveston during the month of March (Spring Break) and peak months except for July 2013 and underperforms them during off-peak months. The figure shows the high variance in month-to-month visitors to South Padre Island.

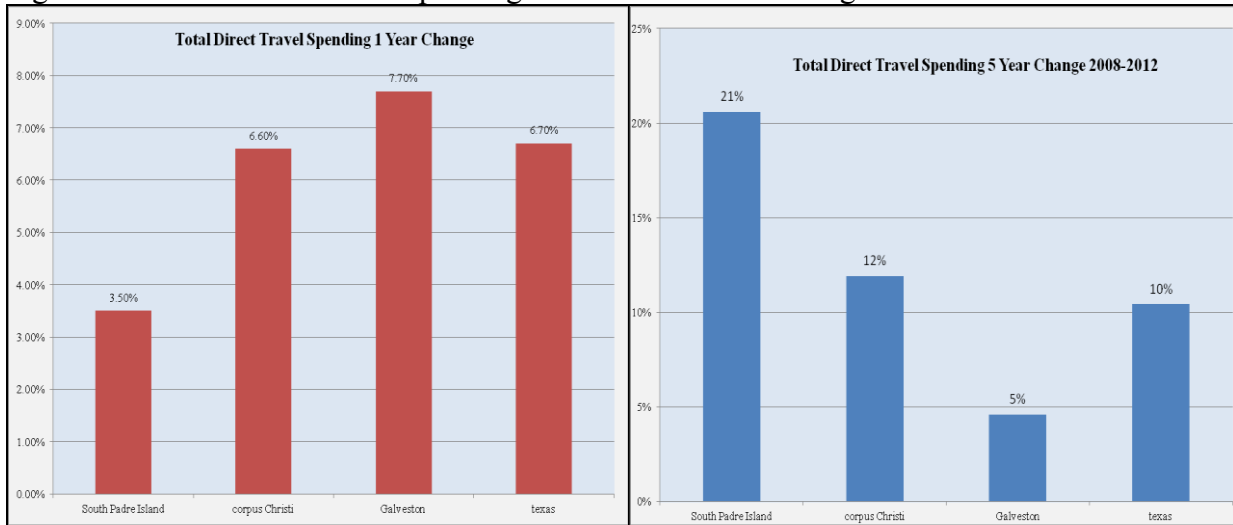
Figure 16: Visitor Activity in Corpus Christi- Galveston-South Padre Island



Source: Texas Destinations 2011-2012, Office of Governor, Economic Development Tourism Division

Figure 17 shows that in 2012 South Padre Island’s visitor spending grew at 3.5 percent, a slower rate than the other destinations (6.6 percent in Corpus Christi, 7.7 percent in Galveston, and 6.7 percent in Texas). Figure 18 shows the 5 year change in total direct visitor spending. The one year pattern in Figure 17 is reversed in Figure 18. Over a five year span South Padre Island experienced faster growth (21 percent) in visitor spending than Corpus Christ (12 percent), Galvested (5 percent), and Texas (10 percent).

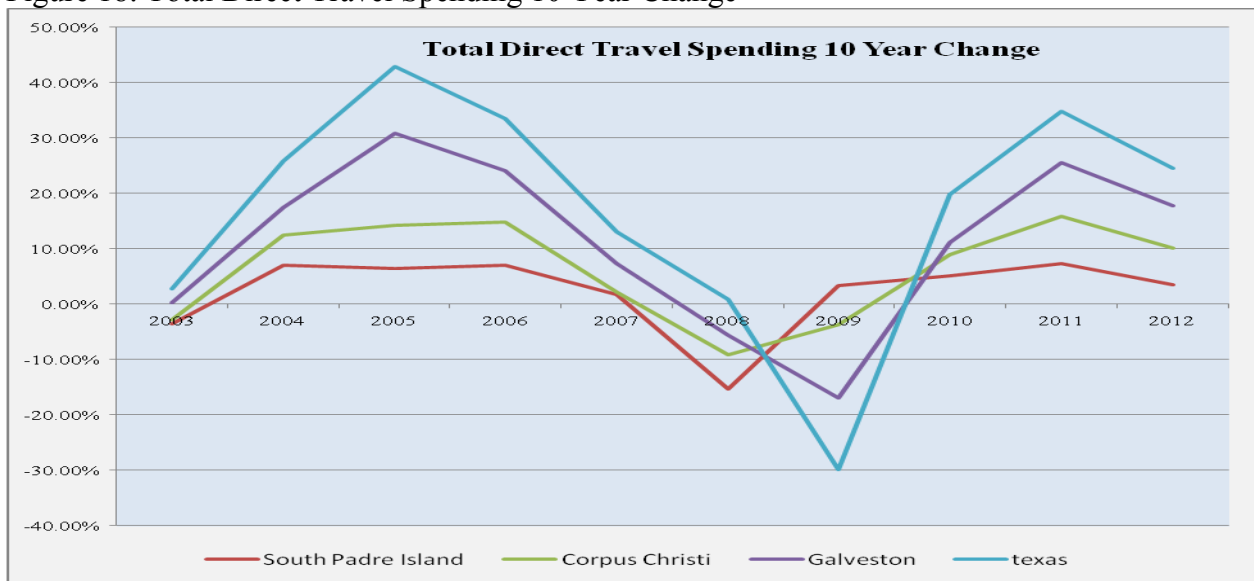
Figure 17: Total Direct Travel Spending 1 Year and 5 Year Change



Source: Texas Destinations 2002-2012, Office of Governor, Economic Development Tourism Division

Figure 18 shows visitor spending change over a 10 year period. The sharp drop in the data for the Island (Hurricane Dolly and recession) preceded drops for the other regions (recession). Figure 18 shows a moderate impact of the recession on the economy of South Padre Island relative to other destinations because the 2008 hurricane mitigated the effect of the recession.

Figure 18: Total Direct Travel Spending 10 Year Change

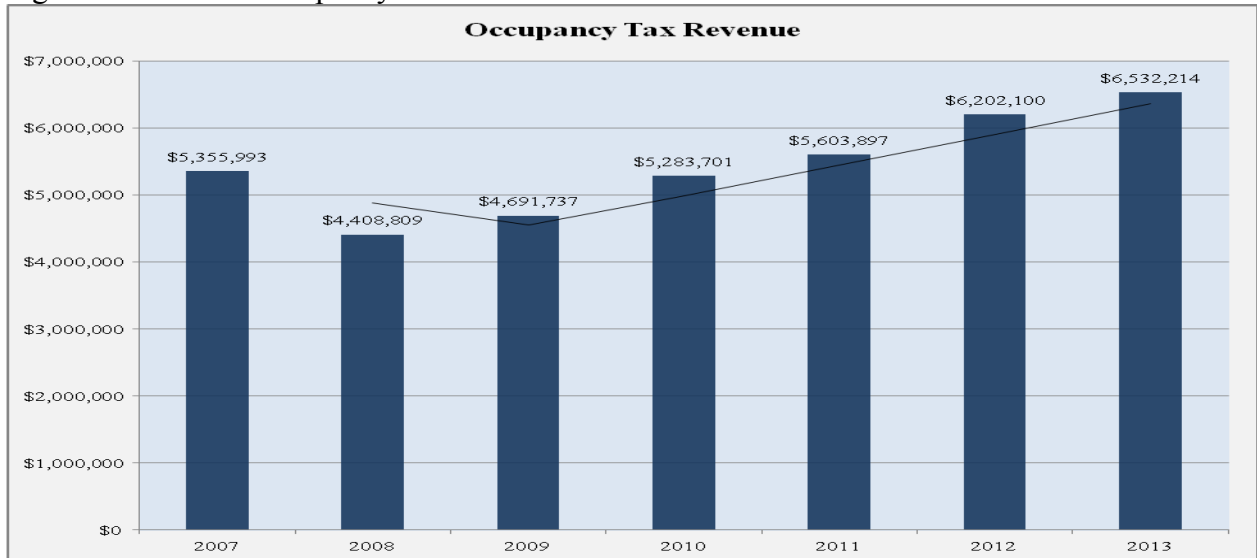


Source: Texas Destinations 2002-2011, Office of Governor, Economic Development Tourism Division

HOTEL/MOTEL OCCUPANCY TAX

In this report we deflate the occupancy tax revenue as we did in previous reports. By deflating the occupancy tax revenue we remove the effect of changing prices and isolate the change in economic activity. Real occupancy tax provides a more accurate measure of economic performance. Between 1995 and 2007, the occupancy tax index shows that hotel and motel occupancy annualized real growth rate was 2.1 percent. The occupancy tax revenue increased by 12 percent between 2007 and 2013 and the price adjusted revenue increased by 9 percent or an annualized growth rate of 1.44 percent. Between 2008 and 2012, the real occupancy tax revenue dropped below the 2007 level because of Hurricane Dolly and the economic and financial crisis. In 2008, the occupancy tax index decreased by 17.68 percent and started to recover in 2009 in spite of the economic recession. In 2009, the occupancy tax revenue increased by 6.42 percent, 12.62 percent in 2010, 6.06 percent in 2011, 10.67 percent in 2012, and 5.32 percent in 2013. The index values for 2007 to 2013 are 100, 82, 88, 99, 105, 108, and 112 respectively. The occupancy tax revenue index for 2013 (112) indicates a 12 percent improvement in the nominal occupation tax revenue. The inflation-adjusted index for the same year was 109.

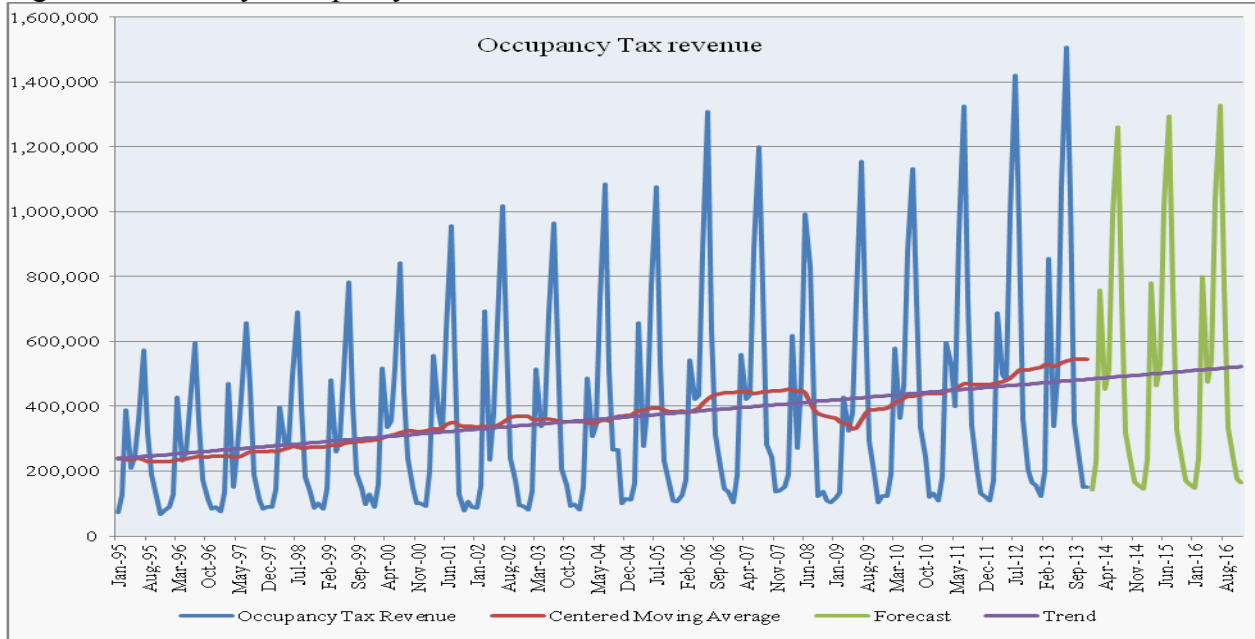
Figure 19: Annual Occupancy Tax Revenue



Source: South Padre Island Economic Development Corporation

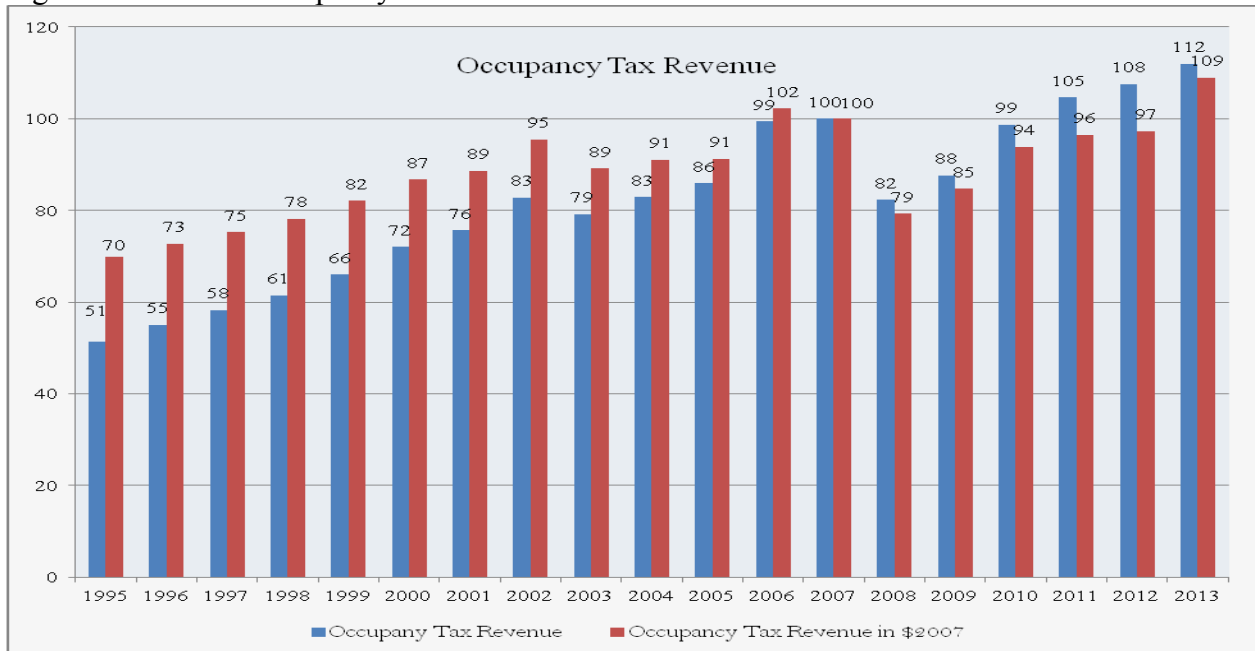
Forecast: The leading economic indices and other leading indicators suggest a relatively accelerated growth in the near future. South Padre Island has experienced slightly faster growth in total earnings, employment, and tax receipts than Texas between 2008 and 2013. We expect occupancy tax to increase by about 3 percent in 2015 and around 3.5 percent in 2016.

Figure 20: Monthly Occupancy Tax Index



Source: South Padre Island Economic Development Corporation

Figure 21: Annual Occupancy Tax Index

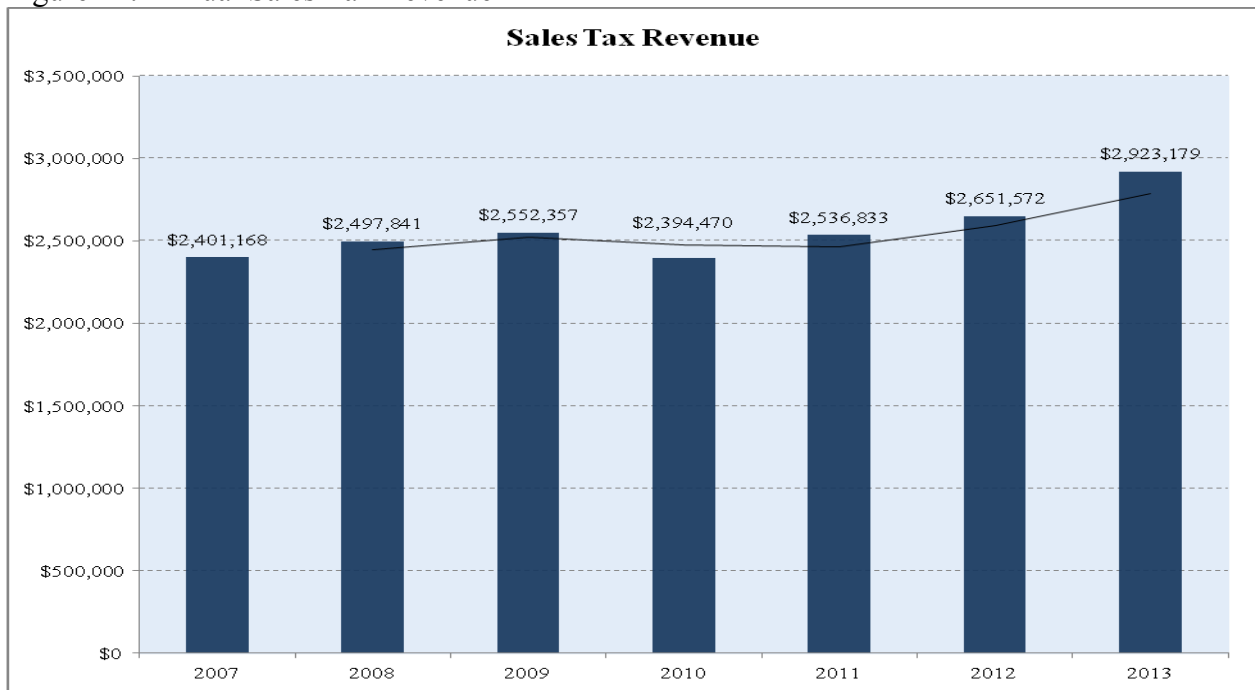


Source: South Padre Island Economic Development Corporation

SALES TAX

Between 2007 and 2008, inflation adjusted sales taxes were relatively unchanged. While Texas sales tax revenue increased in 2009 by 2.18 percent they decreased in 2010 by 6.19 percent. Between 2010 and 2013, sales tax revenue grew at an average annual rate of 6.87 percent with the fastest growth in 2013 at 10.24 percent.

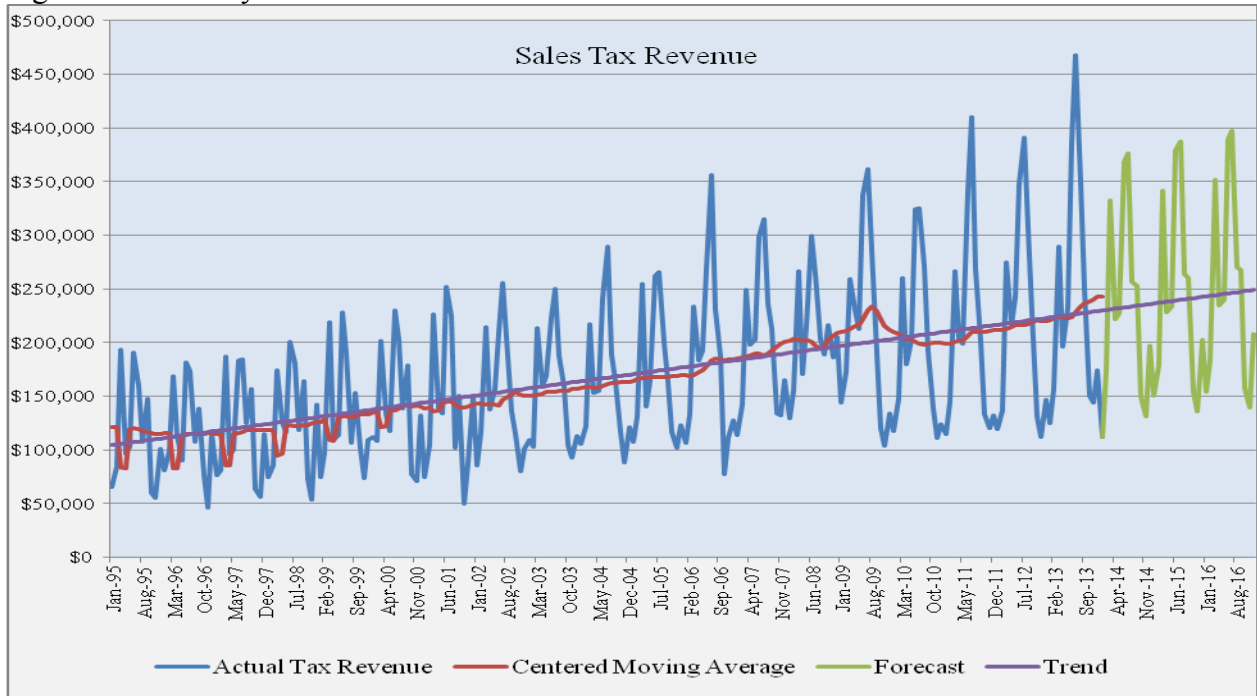
Figure 22: Annual Sales Tax Revenue



South Padre Island Economic Development Corporation

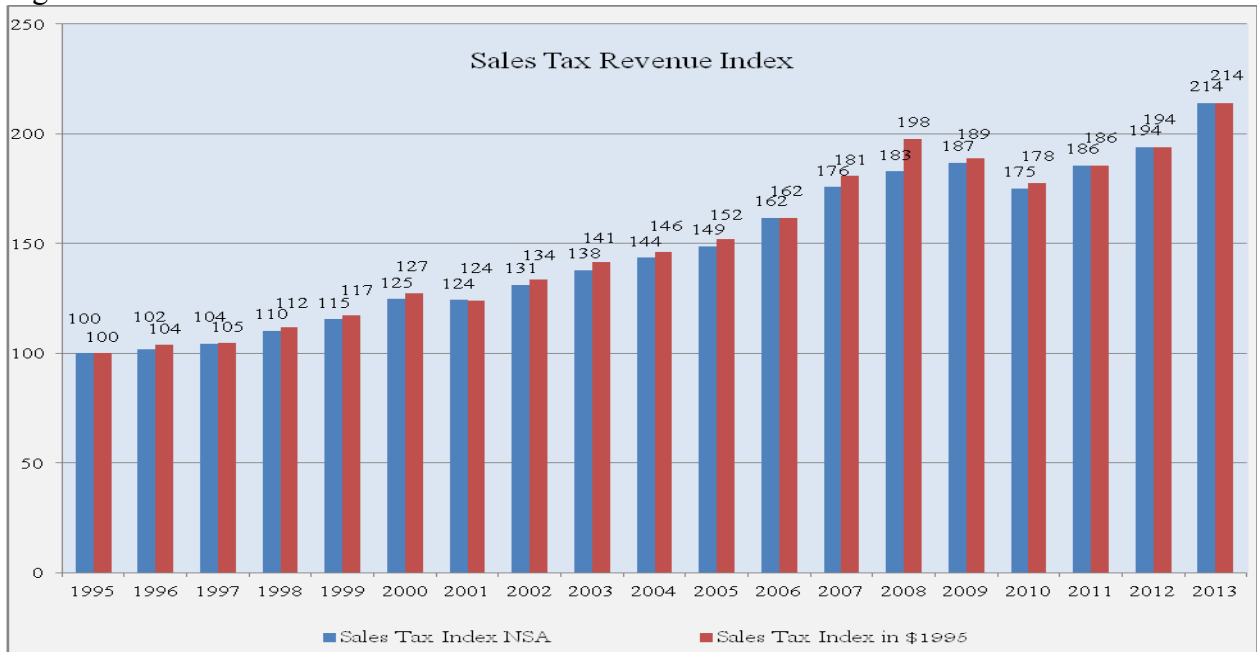
Forecast: Data show that factors that affect the economy of South Padre Island are trending upward. In addition sales tax revenue is increasing. We forecast sales tax revenue to increase by about 7 percent in 2015, around 9 percent in 2016.

Figure 23: Monthly Sales Tax Index



Source: South Padre Island Economic Development Corporation

Figure 24: Annual Sales Tax Index

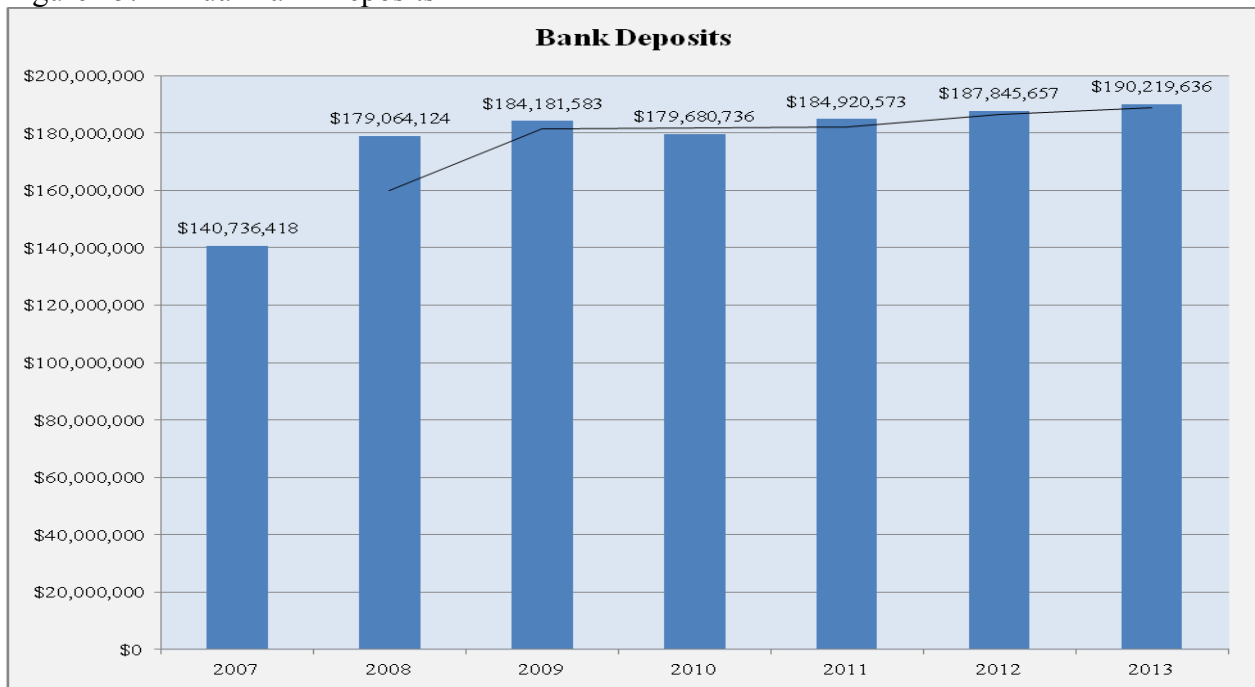


Source: South Padre Island Economic Development Corporation

BANK DEPOSIT INDEX

Between 1995 and 2008, bank deposits experienced a fast growth period, doubling every 7 years. The average annual growth rate during that period was more than 10 percent. Bank deposits declined in 2010 because of the financial recession before resuming their upward trend in 2011. Bank deposits increased by 5.67 percent between 2010 and 2013.

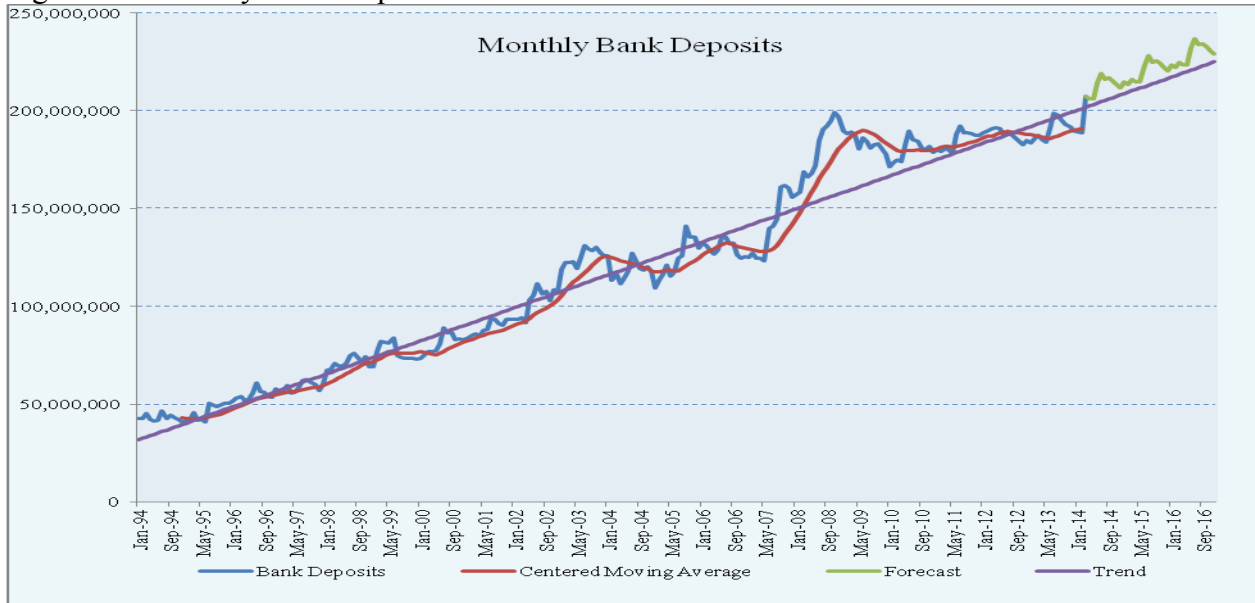
Figure 25: Annual Bank Deposits



Source: Texas Destinations 2007-2008, Office of Governor, Economic Development Tourism Division

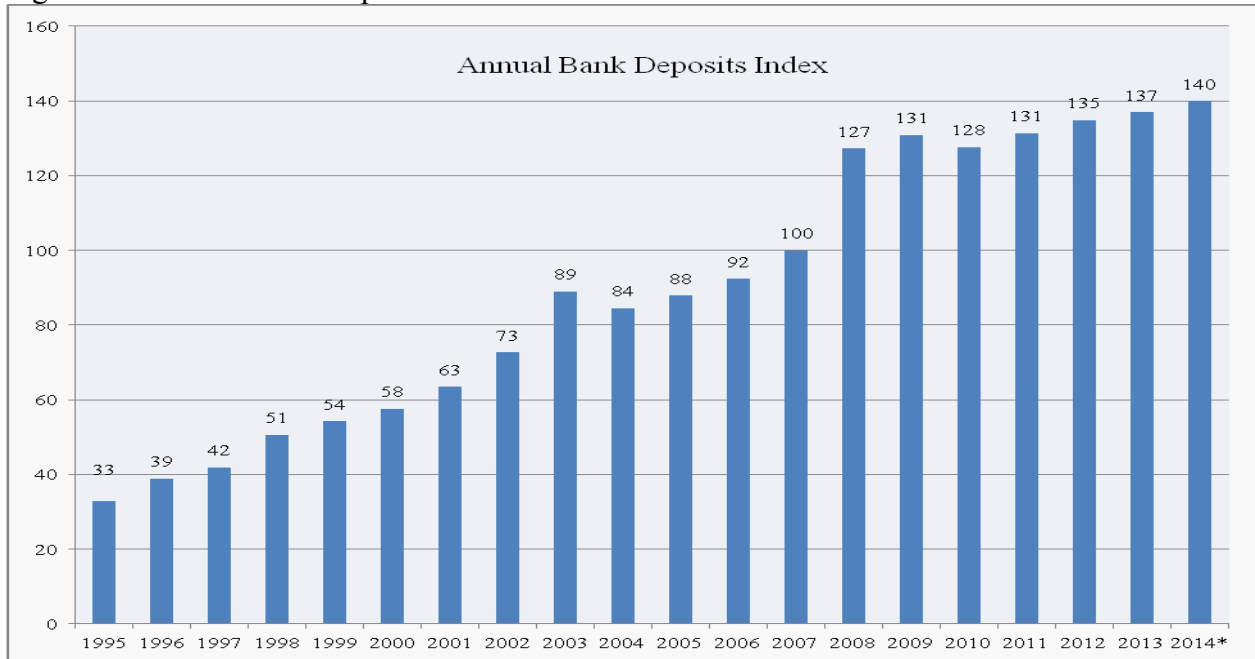
Forecast: We expect bank deposits to continue to grow but at a faster pace than the previous 3 years as the economy’s growth rate increase. We expect bank deposits to increase by 4 percent in 2015, and 6 percent in 2016. A growing economy and a stable Peso-Dollar exchange rate will drive the increase in 2015 and 2016.

Figure 26: Monthly Bank Deposits Index



Source: South Padre Island Economic Development Corporation

Figure 27: Annual Bank Deposits Index

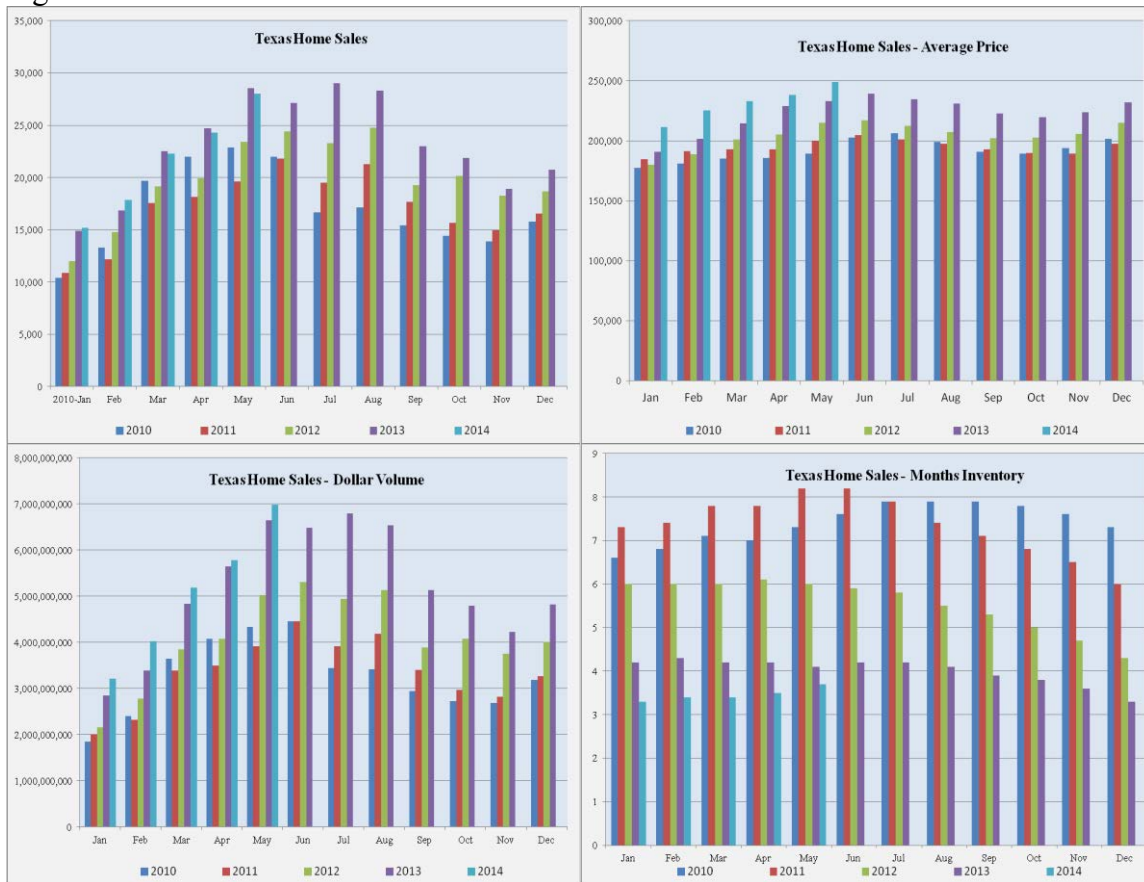


Source: South Padre Island Economic Development Corporation

REAL ESTATE IN TEXAS

According to the Real Estate Center at Texas A&M University, monthly home sales in Texas have increased significantly in 2013 and the first five months of 2014 relative to sales for the same months in 2010, 2011, and 2012. In addition, average prices, dollar volume from home sales have also increased in 2013 and 2014. Starting in June 2011, Texas homes sales experienced a continuous decline in months inventory. Months inventory decreased from 8.2 months in June 2011 to 3.7 months in April 2014. Figure 28 shows key statistics for the Texas real estate market.

Figure 28: Texas Real Estate

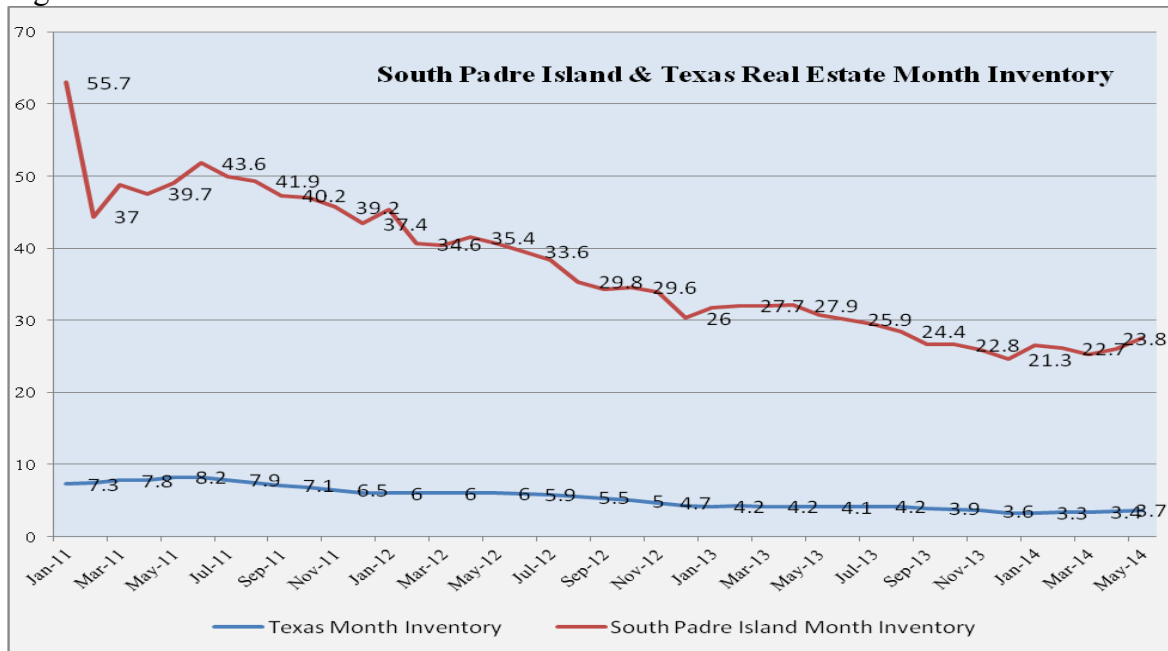


Source: Texas A&M University Real Estate Center

REAL ESTATE IN SOUTH PADRE ISLAND

South Padre Island’s real estate market has improved markedly since 2011. Home sales, average prices, and dollar volume sales have increased every year since 2011 while number of listings and months inventory have decreased. From 2011 to 2014, average home sales per month increased from 20 to 31 per month, average monthly dollar volume from sales increased from \$4.2 million to \$7.2 million, average months inventory decreased by 47 percent between June 2011 and May 2014. Between 2011 and 2014, average prices increased from \$211,000 to \$250,000. Average monthly dollar volume from home sales increased from \$4.3 million to \$7.2 million.

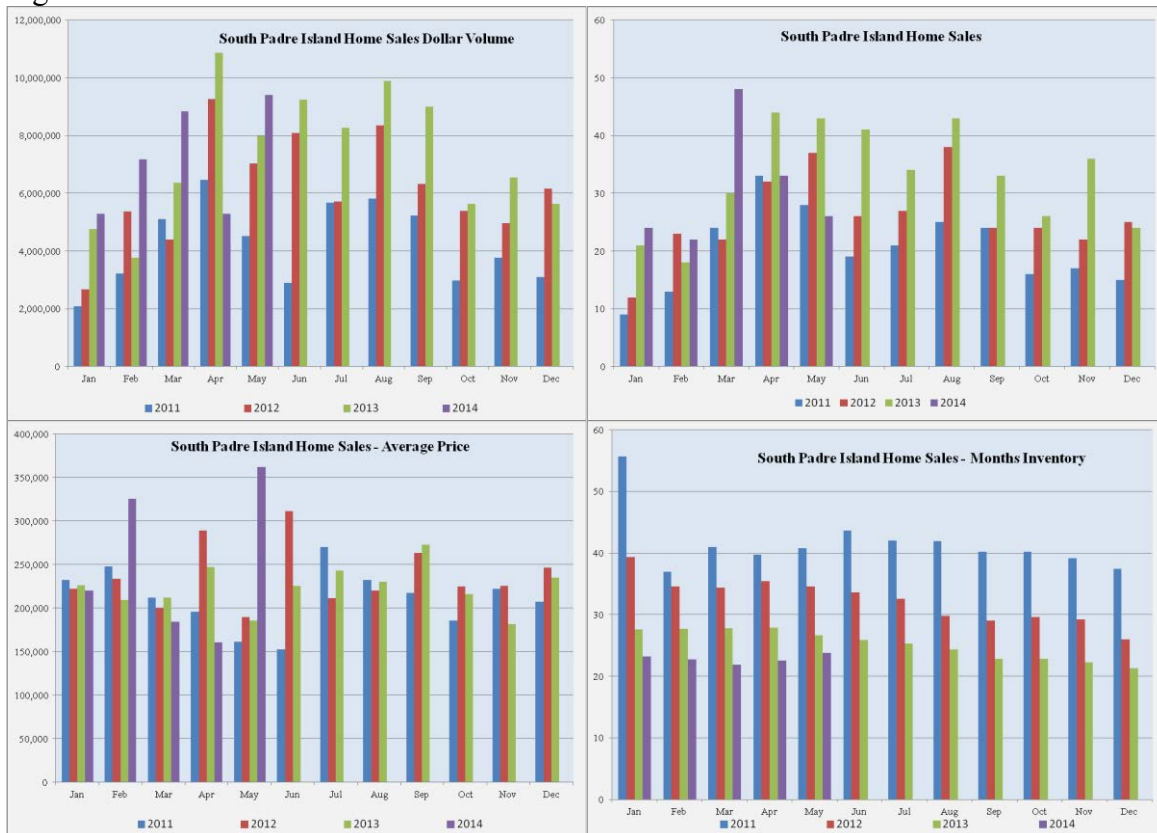
Figure 29: South Padre Island Real Estate



Source: Texas A&M University Real Estate Center

Figure 29 shows that between 2011 and 2014, both South Padre Island and Texas months inventory declined dramatically (45.24 percent and 54.88 percent respectively).

Figure 30: South Padre Island Real Estate



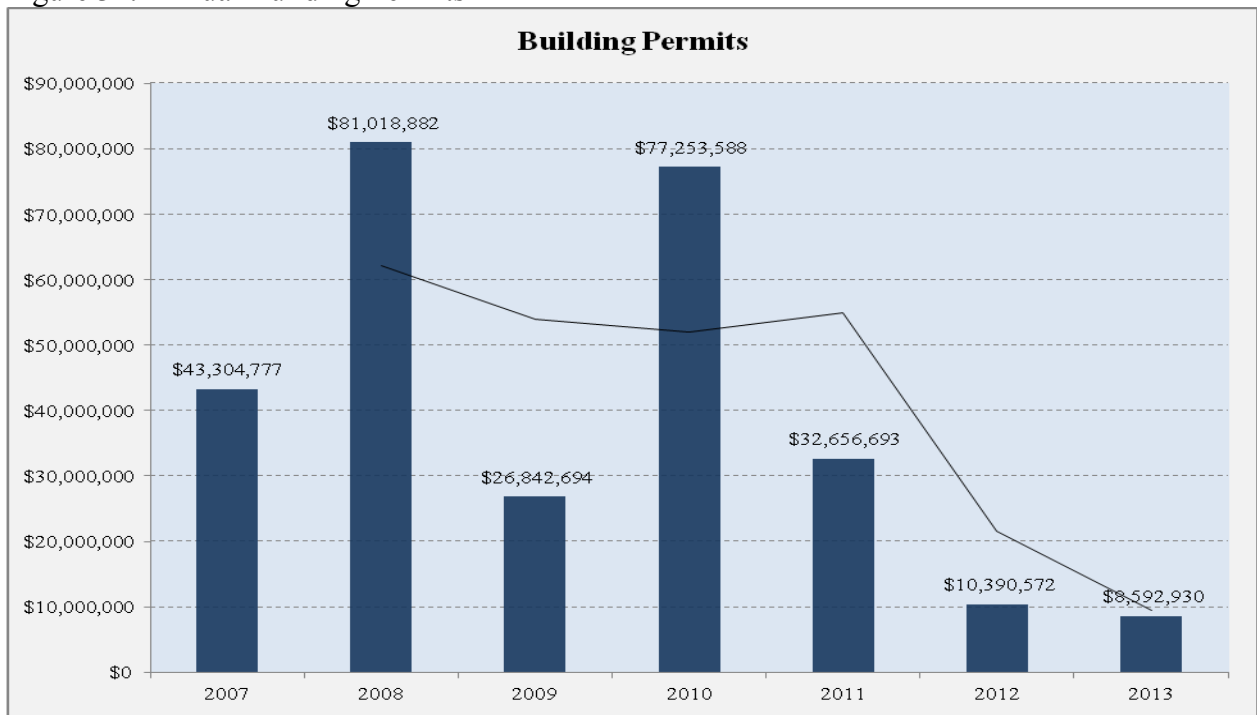
Source: Texas A&M University Real Estate Center

BUILDING PERMITS INDEX

Figure 31 shows that the number of building permits declined after 2010. Figure 32 shows that from 1995 to 2001, building permits followed a stable pattern with minimal variability. After 2001, the variability of building permits increased. The figure shows very pronounced periodic peaks especially during the period 2006 and 2010. The changes shown in Figure 32 suggest a possible structural shift in real estate sector. In the pre-2006 period, building permits were relatively stable and did not fluctuate significantly. This pattern suggests that real estate projects were small single structures or limited multi-family structures. The post-2006

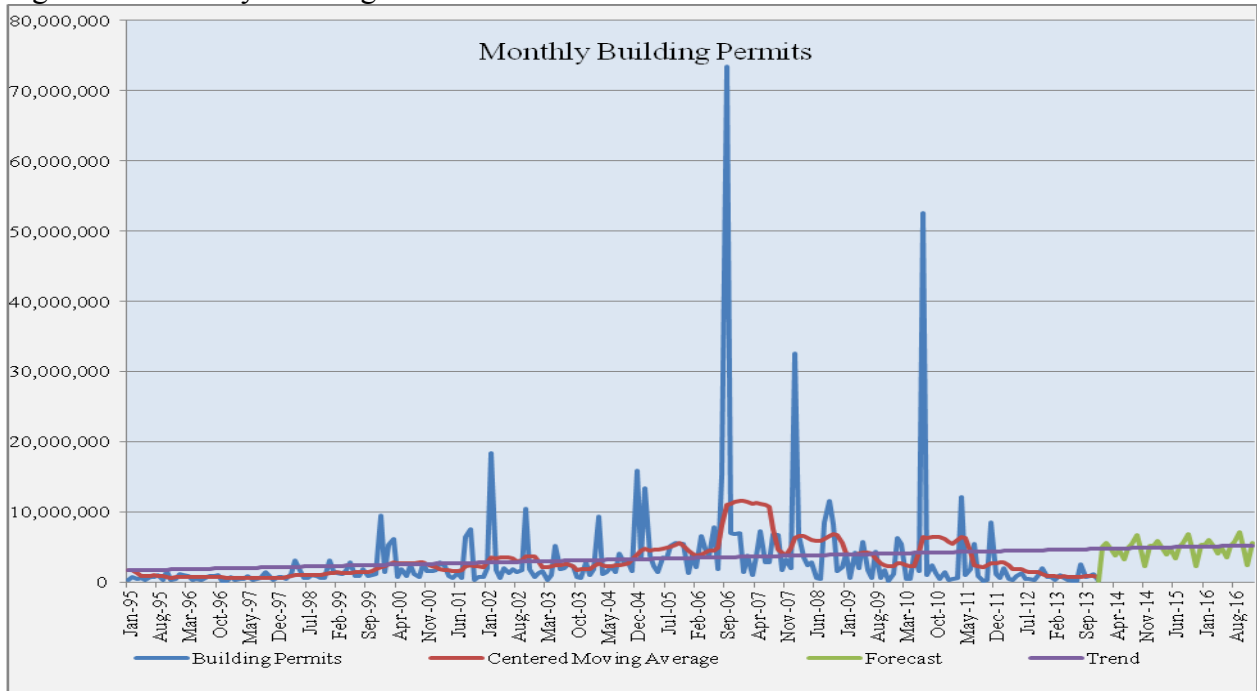
period was characterized by steep peaks, suggesting very large construction and real estate projects and high-rise projects. These periods of high peaks have been fairly clustered together, second half of 2006, first half of 2008, and second half of 2010. Such large time-clustered projects signal increased optimism about the economy of South Padre Island. After 2010, there was a decline in the number of building permits. Real estate data shows that the number of listings declined and average prices increased. These indicators suggest that the decline may be temporary and not as prolonged as the pre-2006 period.

Figure 31: Annual Building Permits



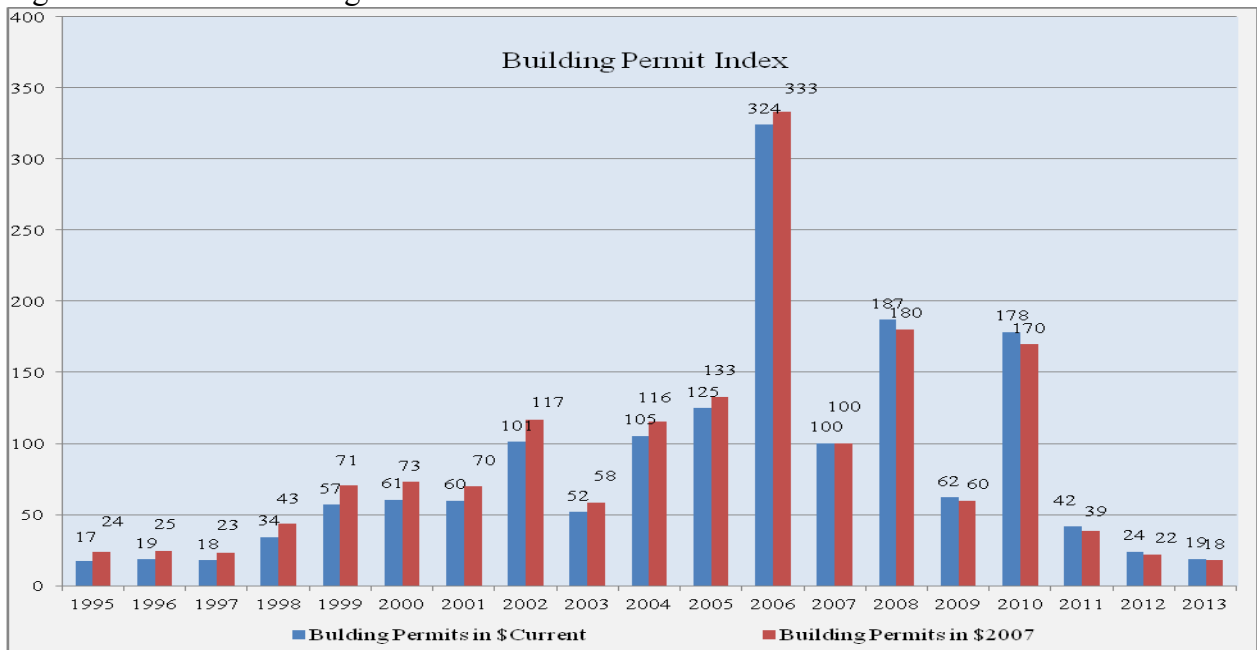
Source: Source: South Padre Island Economic Development Corporation

Figure 32: Monthly Building Permits Index



Source: South Padre Island Economic Development Corporation

Figure 33: Annual Building Permits Index



Source: South Padre Island Economic Development Corporation

Figures 32 and 33 show a seesaw building permits pattern. Peaks in the data show that large projects are undertaken which lead to a short-term increase in supply of real estate on the Island. The peaks are followed by periods of decreasing building permits, which in turn are followed by another sharp increase in building permits.

Forecast: Building permits index shows a decline after 2010 the data shows that the number of listing is declining and the average prices increasing. We expect the building permits index to decrease in 2014, and to increase in 2015 and 2016.

Conclusions

The current economic outlook for the U.S. is accelerated economic growth relative to the previous three years at around 2.5 percent in the short term and 3 percent in medium term. Texas economy is forecasted to grow at 3 percent and Mexico is forecasted to grow at 3.5 percent. The optimistic outlook for the U.S. and Texas, and the fast expanding Mexican economy point to expanded economic activity in South Padre Island. However, monthly disparities in terms of economic activity will continue in the short run and the magnitude of these variations will depend on the success of South Padre Island in attracting visitors during the off-peak months.

Sales tax and occupancy tax revenues rose 4.52 percent and 10.67 percent in 2012, and 10.24 percent and 5.32 percent in 2013 respectively. South Padre Island's tax revenues are expected to continue to grow at a relatively faster rate than the three previous years.

Texas and South Padre Island real estate data show that home sales, prices, and months inventory have surpassed pre-crisis levels indicating that the real estate market has completely recovered. Although the real estate market has recovered, the number of building permits is relatively low compared to previous years. We expect the number of permits to remain unchanged for the short run and to increase significantly in the medium term.

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The Conference Board

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