

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
1. INTRODUCTION	6
2. METHODOLOGY AND DATA	7
3. SOUTH PADRE ISLAND	8
<i>Total Direct Visitor Spending</i>	8
Figure 1: Change in Total Direct Visitor Spending.....	9
<i>Total Direct Earning</i>	9
Figure 2: Change in Total Direct Earning	10
<i>Annual Change in Employment</i>	10
Figure 3: Change in Employment	11
<i>Annual Change in Tax Receipts</i>	11
Figure 4: Annual Change in Tax Receipts	12
Figure 5: Annual Change in Tax Receipts	12
<i>Winter Texans</i>	13
4. SOUTH PADRE ISLAND’S EXTERNAL ECONOMIC DRIVERS	13
STATE FACTORS	13
<i>Texas Leading Economic Index</i>	13
Figure 5: Texas Leading Economic Index	14
Figure 8: Texas Business Outlook	15
<i>Texas Manufacturing Outlook</i>	15
Figure 5: Texas Leading Economic Index	16
Figure 7: Texas Manufacturing	17
<i>Texas Value of the Dollar</i>	17
Figure 8: Texas Value of Dollar.....	18
NATIONAL FACTORS	19
<i>U.S. Leading Economic Index</i>	19
Figure 9: U.S. Leading Economic Index.....	20
MEXICAN FACTORS	20
<i>Mexico Leading Economic Index</i>	20
<i>Exchange Rates Mexican Peso to Dollar</i>	22
Figure 11: Exchange Rates Mexican Peso to Dollar	22

Figure 12: U.S. and Mexico Manufacturing IP	23
<i>Nuevo-Leon, Tamaulipas Manufacturing Employment</i>	24
Figure 13: Nuevo Leon-Tamaulipas Monthly Manufacturing Hours (2013-2015).....	24
Figure 14: Nuevo Leon-Tamaulipas Annual Manufacturing Hours (2013-2015).....	25
Figure 15: Nuevo Leon-Tamaulipas Manufacturing Employment	25
COMPOSITE LEADING ECONOMIC INDEX	26
Figure 15 Composite Leading Economic Index	27
5. SOUTH PADRE ISLAND - INTERNAL FACTORS	27
Figure 16: Visitors Activity in South Padre Island - Port Aransas - Galveston	28
Figure 17: Total Direct Travel Spending 1 Year and 5 Year Change	28
Figure 18: Total Direct Travel Spending 10 Year Change.....	29
HOTEL/MOTEL OCCUPANCY TAX	29
Figure 19: Annual Occupancy Tax Revenue.....	30
Figure 20: Monthly Occupancy Tax Index	31
Figure 21: Annual Occupancy Tax Index	31
SALES TAX.....	31
Figure 22: Annual Sales Tax Revenue	32
Figure 23: Monthly Sales Tax Index	33
Figure 24: Annual Sales Tax Index.....	33
BANK DEPOSIT INDEX.....	34
Figure 25: Annual Bank Deposits	34
Figure 26: Monthly Bank Deposits Index	35
Figure 27: Annual Bank Deposits Index	35
REAL ESTATE IN TEXAS	36
Figure 28: Texas Real Estate.....	36
REAL ESTATE IN SOUTH PADRE ISLAND	37
Figure 29: South Padre Island Real Estate	37
Figure 30: South Padre Island Real Estate	38
BUILDING PERMITS INDEX.....	38
Figure 31: Annual Building Permits	39
Figure 32: Monthly Building Permits Index	39
Figure 33: Annual Building Permits Index	40
6. CONCLUSIONS	40
REFERENCES	42

EXECUTIVE SUMMARY

The external and internal economic factors identified in our previous report are analyzed in our 2014 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 and tourism and real estate continue to improve. South Padre Island's Occupancy tax revenue grew at 5.3 percent in 2014 relative to 2013. 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 Aaron used tourism and hospitality data from Port Aransas Galveston and Texas as benchmarks to evaluate South Padre Island 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 because of the pronounced seasonality at the Island. However, on a yearly basis the Island has outperformed the other Texas Gulf Coast destination in terms of occupancy and sales tax revenue growth. The four performance indicators Aaron 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. The variability might change as the proposed Liquefied Natural Gas projects move to their implementation stage starting in 2017. In addition, Space X project and other proposed project at South Padre Island most notably a marina and an entertainment district could help smooth out some of the off-season variability. Aaron also expect the variability in economic activity to improve as South Padre Island leadership continues to develop strategies to market 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.

1. Introduction

This report provides a summary of the economic performance and forecasts for the city of South Padre Island, Texas. The analysis in this report is based on key local economic indicators such as occupancy tax, sales tax, building permits, bank deposits, and leading external indices and indicators that measure macroeconomic factors that affect the economy of the city of South Padre Island.

Economic performance reports are usually design to inform stakeholders about the periodic economic performance of their city. It helps answer a number of questions including the following: Is the economy of the city expanding or contracting? Is the economic growth rate of the city satisfactory? Does it meet expectations? Are the city's taxes stable or very volatile?

Economic performance report helps in setting economic objectives, tracking and benchmarking performances, identifying underperforming areas, and formulating sound economic planning decisions. In essence, an economic index report helps in assessing a community's opportunities and threats, identify strength and weaknesses in order to position itself to take advantage of identified opportunities and protect itself from threats by leverages its strengths and mitigating its weaknesses. They are road maps that not only guides in framing effective future economic development policies but also in measuring the effectiveness of past policies. An economic index report can be a very valuable management and policy tool.

In evaluating the economic performance of the city of South Padre Island, Texas for 2014 Aaron kept 2007 as a base year for comparative consistency with previous reports. Aaron's emphasis continues to be on the prime economic drivers for South Padre Island as a premier tourist destination, with a special emphasis on hospitality and tourism, and real estate. Aaron also provides a summary 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. South Padre

Island principal is primarily a tourist destination, its vocation is hospitality and tourism, an export industry that relies heavily on overall economic condition of originating regions. The Office of the Governor of Texas' tourism data show that the largest share, approximately two thirds, of visitors to South Padre Island originate from within Texas. While the remaining one third is divided between the rest of the U.S. and Mexico. Aaron uses the Conference Board's LEIs for the U.S., and Mexico, and the Federal Reserve Bank of Dallas' Texas Leading Economic Index as comprehensive indices that forecast the state of the economy in each of these three originating areas. In addition, Aaron reports on a series of other external indicators to complement information contained in the leading economic indices.

The report is divided into an external factors section that discusses the economy of the external drivers and reports their forecast, and an economic performance section that analyzes local performance indicators and provides forecasts for each indicator. The local performance indicators are Occupancy Tax, Sales Tax, Bank Deposits, Mixed Beverage Tax Revenue, and Building Permits Valuation. Aaron also provides a comparative analysis of the Island's economic performance. Comparative analysis offers a useful way to benchmark the island's economic performance to those of Port Aransas, Galveston, and Texas. This benchmarking lets us see if South Padre Island is under-performing, over performing, or performing at the same level as Texas and as the other Texas Gulf Coast.

2. Methodology and Data

In this report, Aaron kept a similar approach to that of our previous reports when analyzing the South Padre Island's impact factors for ease of comparison across different years. In analyzing the local performance indicators Aaron added Mixed Beverage Tax Revenue as a fifth indicator. The local performance comparative benchmark Aaron 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.

Aaron used time series data from the same sources Aaron used in our previous reports to identify trends and make a two year forecast. Aaron corrected for seasonality, and then deflated the data using the Consumer Price Index with 2007 as a base year. The percentage change Aaron 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 Aaron 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 2014.

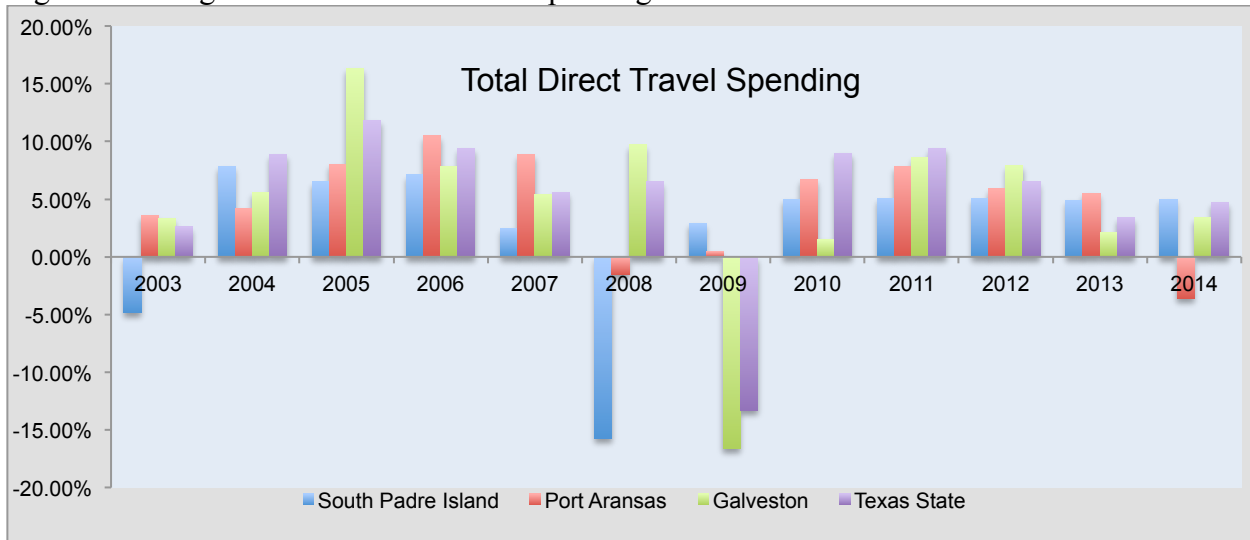
3. South Padre Island

Total Direct Visitor Spending

South Padre Island's total direct visitor spending continues to grow at an average rate of 5 percent in 2014. South Padre Island's total direct visitor spending grew for the sixth year in a row. The growth rate for 2014 is the highest growth rate in total direct visitors spending for all 4 destinations Port Aransas, Galveston, and Texas (-3.6%, 3.4%, and 4.7% respectively). South Padre Island total direct visitor spending increased from \$311million in 2012 to \$343 million in

2013, and to \$360 million in 2014. Total direct visitor spending has surpassed the pre-recession levels of \$325 million in 2007.

Figure 1: Change in Total Direct Visitor Spending

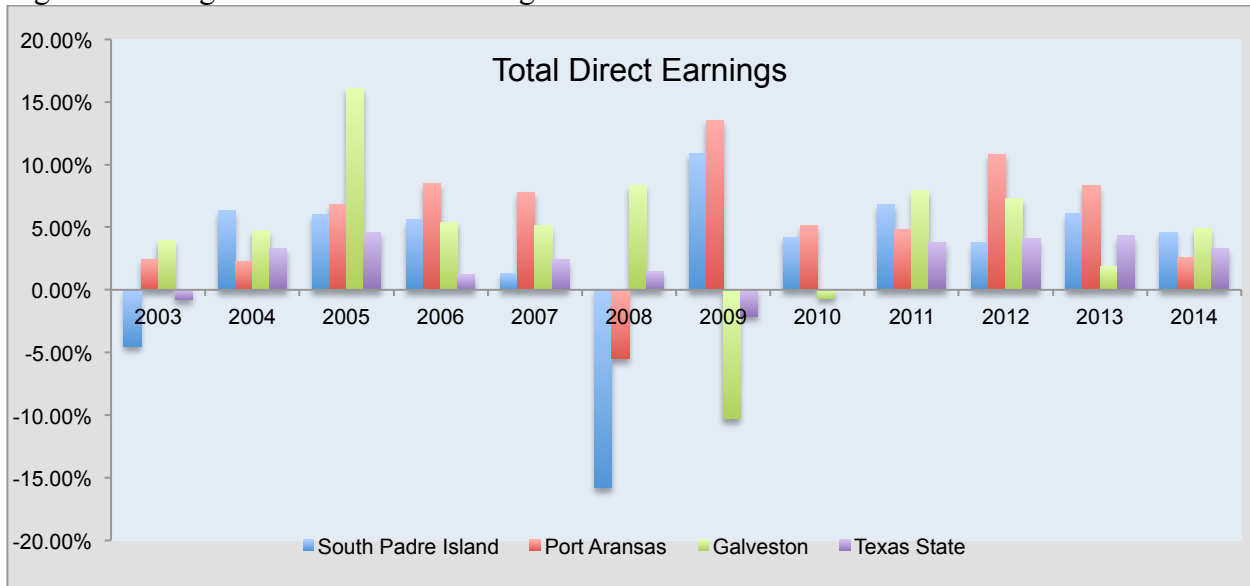


Source: Office of the Governor, Economic Development and Tourism

Total Direct Earning

Total direct earnings in South Padre Island grew for the sixth year in a row at an annual rate of 4.6 percent. The Island's total direct earning growth was the second fastest growth rate for the second year ahead of Texas and Port Aransas but trailing Galveston. South Padre Island's total direct earnings increased from \$82 million in 2012 to \$87 million in 2013, and \$91 million in 2014. Figure 2 shows the change in total direct earning between 2003 and 2014.

Figure 2: Change in Total Direct Earning

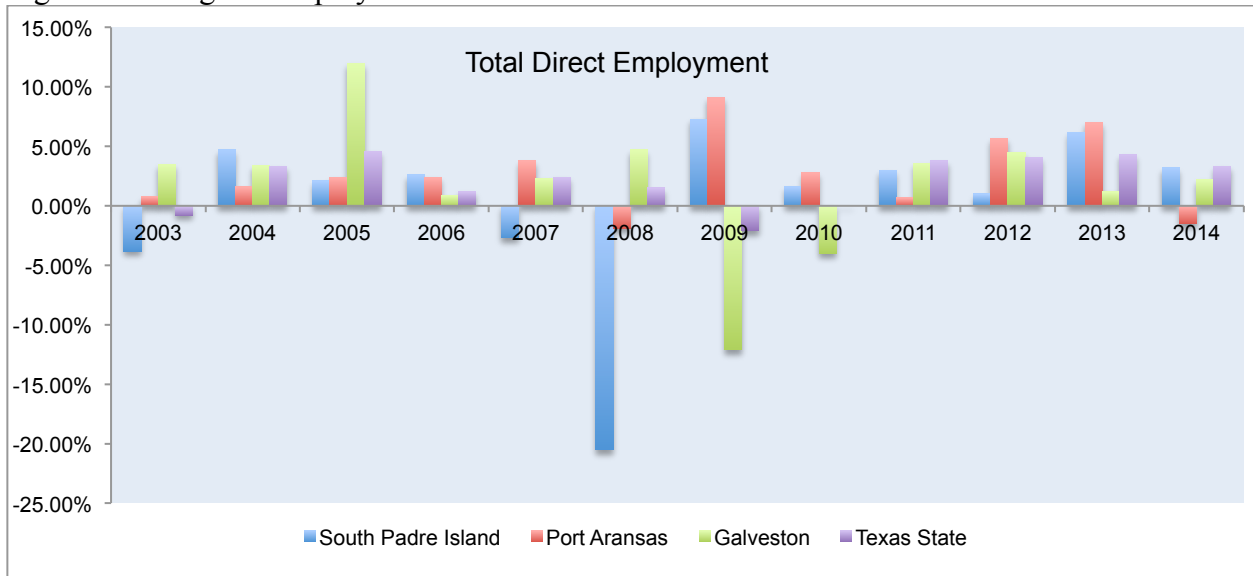


Source: Office of the Governor, Economic Development and Tourism

Annual Change in Employment

Hospitality and Tourism employment in South Padre Island have recovered to their pre-recession levels. After declining from 4,290 jobs in 2007 to 3,410 jobs in 2008, employment grew steadily starting in 2009 at an average rate of 3 percent per year to 4,240 in 2014. Employment in South Padre Island grew at a faster rate than in other Gulf Coast destinations. From 2013 to 2014 it grew by 3.2 percent at the island, -1.5 percent in Port Aransas, 2.2 percent in Galveston, and 3.3 percent in Texas. However, hospitality and tourism employment level is vulnerable to the seasonality of the economic activity in South Padre Island.

Figure 3: Change in Employment

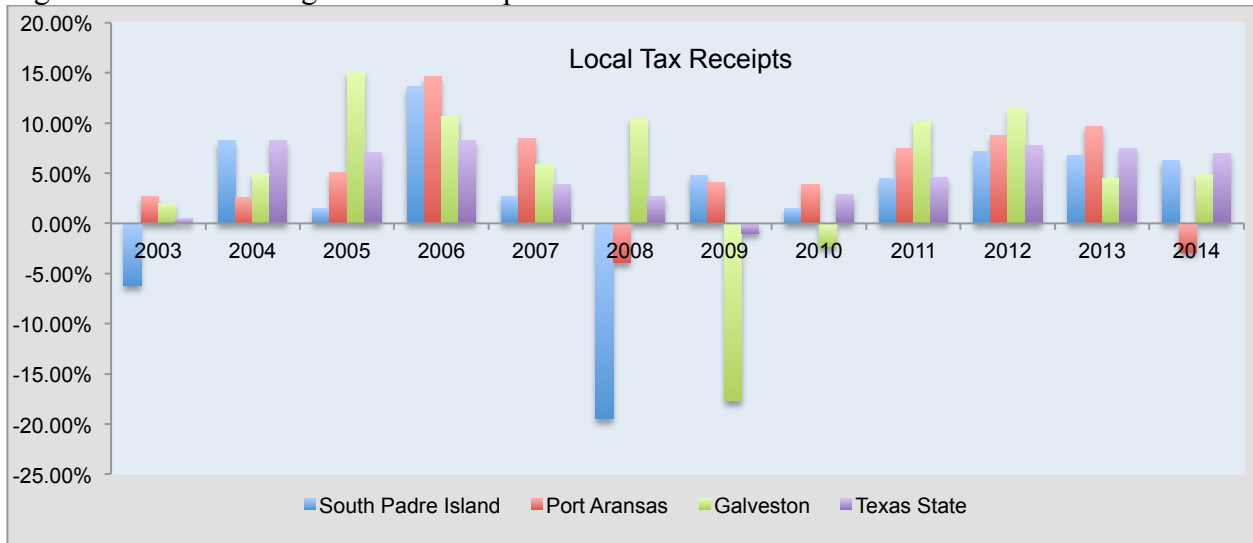


Source: Office of the Governor, Economic Development and Tourism

Annual Change in Tax Receipts

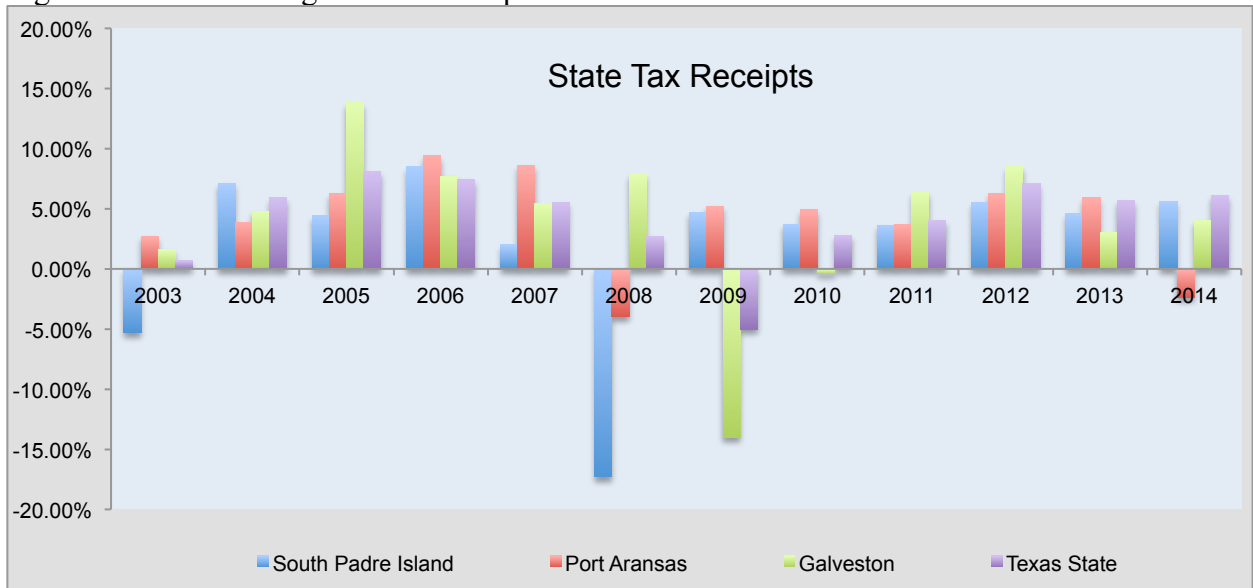
South Padre Island's tax receipts grew by 6.3 percent in 2014, second only to Texas tax receipts' growth rate. Tax receipts grew by 7.2 percent in 2012, 6.8 percent in 2013, and 6.3 percent in 2014. Growth rates in tax receipts for the island went from being the lowest in 2011 and 2012 at 4.5 percent and 7.2 percent, to the second highest in 2014 ahead of Port Aransas and Galveston but behind Texas.

Figure 4: Annual Change in Tax Receipts



Source: Office of the Governor, Economic Development and Tourism

Figure 5: Annual Change in Tax Receipts



Source: Office of the Governor, Economic Development and Tourism

Winter Texans

For decades, Winter Texans have represented and continue to represent an important demographic for the Rio Grande Valley. Although, their contribution to the island's city coffers is not as important as most believe, they are nevertheless an important demographic for the island property rental business during off-peak months. According to a recent report from the University of Texas-Pan American's Business and Tourism Research Center, The number of Winter Texans have decline in recent years. The report states that Winter Texans spent \$710 million in 2013 down from \$800 in 2009-2010 a decrease in spending of more than 11-percent. A number of factors have been cited as the reasons for the decrease in Winter Texans chief amongst them is poor health and border violence.

4. South Padre Island's External Economic Drivers

Leading economic indices are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. Leading economic indices are basically composite averages of several individual leading indicators. They are constructed to summarize and indicate common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

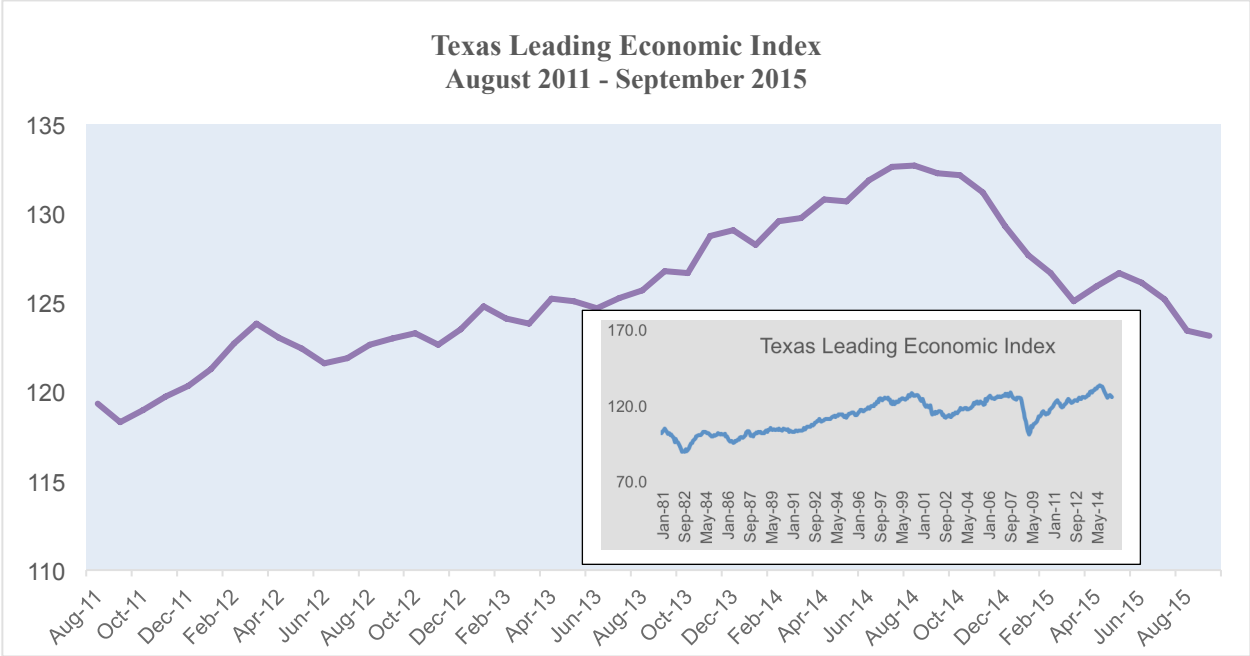
STATE FACTORS

Texas Leading Economic Index

The Texas Leading Index is a composite of eight leading indicators that informs on the future of the state's economy. The eight leading indicators that compose the index, are indicators

that tend to change direction before the overall economy, thus indicating a fore coming change before it happens. They include the Texas value of the dollar, U.S. leading index, real oil price, well permits, and initial claims for unemployment insurance, Texas stock index, help-wanted index and average weekly hours worked in manufacturing.

Figure 5: Texas Leading Economic Index



Source: Federal Reserve Bank of Dallas

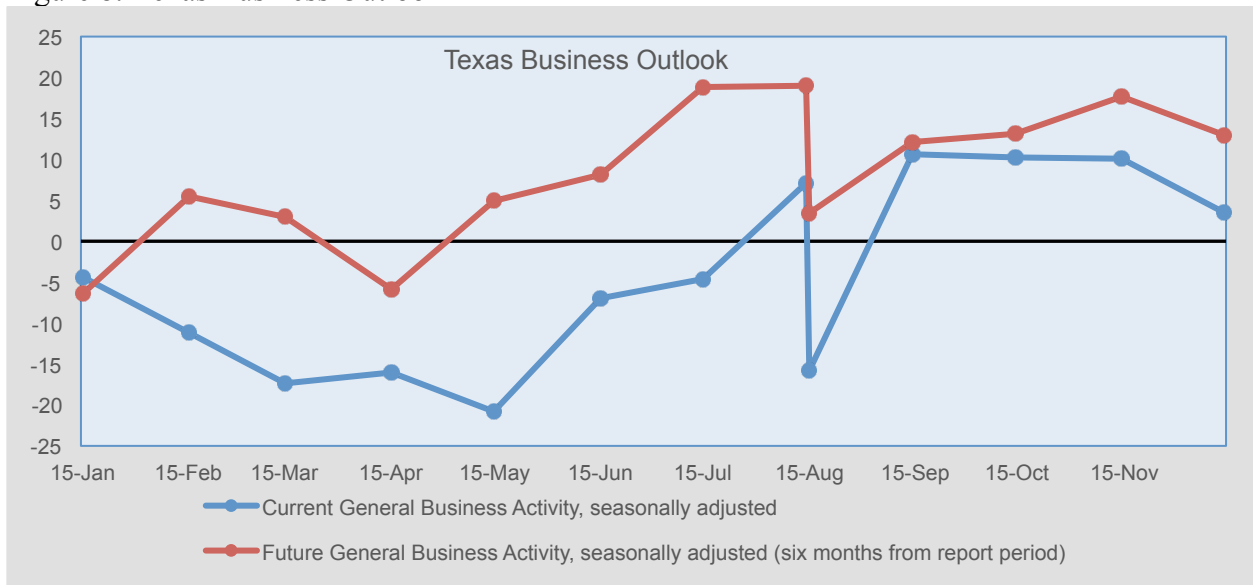
Texas Leading Index in Figure 5 shows that while Texas’ economy trended upward after the recession, the LEI shows that after in August of 2014 the trend has changed which signals a slowing down of rate of economic activity in Texas. This indicates a relatively weaker expected growth for Texas mainly due to falling oil and gas prices and a strengthening dollar.

Texas Leading Index rose by 1.83 percent in 2012, 2.58 percent in 2013, and 4.05 percent in 2014. The Federal Reserve Bank of Dallas employment forecast suggests 116,300 jobs will be added in the state this year, and for a total of 11.9 million jobs in December 2015, a downward

revision from 1.3 percent to 1 percent employment growth due to a three months -2.32 net change in the Texas Leading Index.

Although job growth, building permits, and sales tax collections indicate that Texas economy continues to outperform the national economy, the Texas region's consumer confidence index was 106.9 in August 2015, down 3 percent from July 2015, and 12 percent lower than one year ago. This indicates a less than optimistic business outlook for Texas relative to the previous year.

Figure 8: Texas Business Outlook



Source: Federal Reserve Bank of Dallas

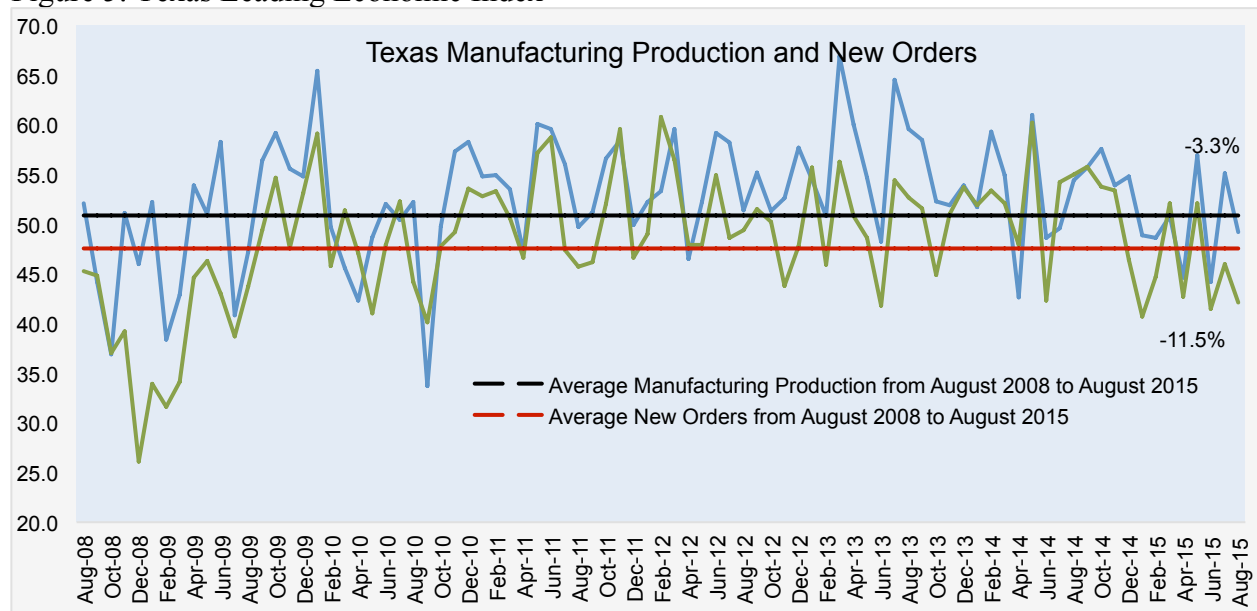
Texas Manufacturing Outlook

The Federal Reserve Bank of Dallas conducts the monthly Texas Manufacturing Outlook Survey (TMOS) to assess factory activity. The production index increased in June 2014 relative

to the previous month but has declined towards the end of 2014 and early 2015. The new orders index also experienced a decline relative to the levels seen the previous year.

Expectations about future business conditions are less optimistic for 2015 and 2016 than for 2014.

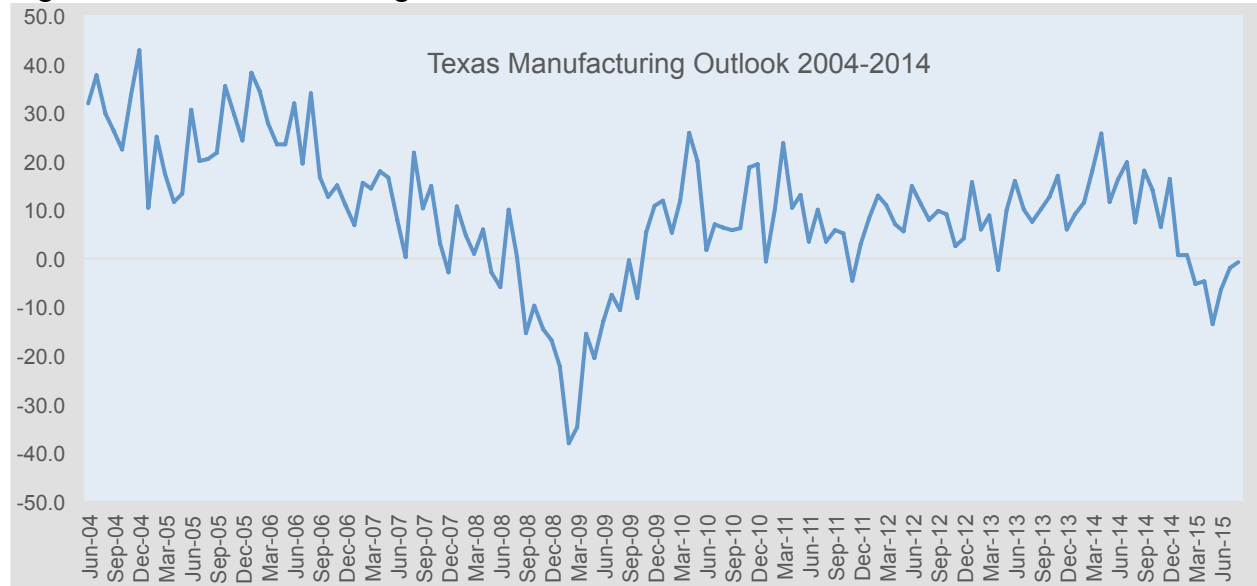
Figure 5: Texas Leading Economic Index



Manufacturing activity has experienced five months of declines. Manufacturing data shows that manufacturing activity in August was flat, as indicated by the near-zero reading of the Texas Manufacturing Outlook Survey production index. While this is an improvement, forward-looking indicators in the survey paint an ominous picture. The new-orders index, a survey's that measures demand dropped 11.5 percent in August.

Texas job annual growth rate was significantly below last year job growth at 1.3 percent through July compared to 3.6 percent last year. The goods-producing sector rebounded in July after experiencing relatively sharp declines in the first half of the year.

Figure 7: Texas Manufacturing



Source: Federal Reserve Bank of Dallas

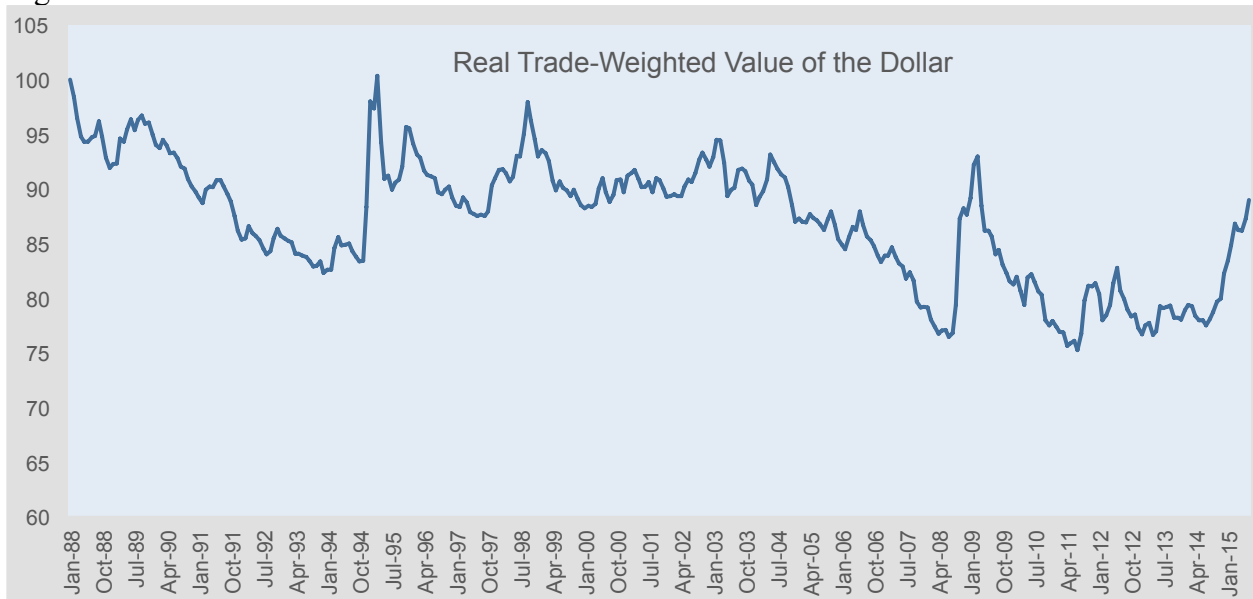
Texas Value of the Dollar

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 each country assigned an index weight based on that country's importance as a Texas trading partner. Mexico, Texas' largest trading partner, is assigned an index's weight of 35.9 percent. Changes in the value of the Mexican peso affect the TXVD more than changes in the currencies of any other single trading partner.

The TXVD is inversely related to the Texas Leading Index. An increase in the value of the index indicates that Texas exports are more expensive, and results in an increase in the volume of Texas exports. Conversely a decrease in the value of the index indicates that Texas

exports are less expensive, and leads to an 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 Federal Reserve Bank of Dallas trade-weighted value of the dollar (TWVD) historical data show that the TWVD increased 12.5% from its post-recession low on July, 2013, to July, 2015. The strengthening of the US dollar has two effect: 1- A strong dollar tends to make the foreign price of Texas products higher, as for foreign consumers must convert greater amounts of their currency to get the same value in dollars. 2- Consequently a strong dollar tends to lower the domestic price of imported goods in the United States, since American consumers need fewer dollars to pay for the same amount of goods or services.

Figure 8 maps historical data of TWVD. TWVD appreciation makes Texas’ exports and destinations relatively more expensive to international importers and visitors. This appreciation of the dollar relative to the value of Texas’ trading partners’ currencies hinders the competitiveness of Texas and in general reduces Texas exports, including tourism, and increases

Texas foreign imports. These effects and the decreased purchasing power of these currencies in the U.S. should have a relatively smaller trickledown effect on the economy of South Padre Island.

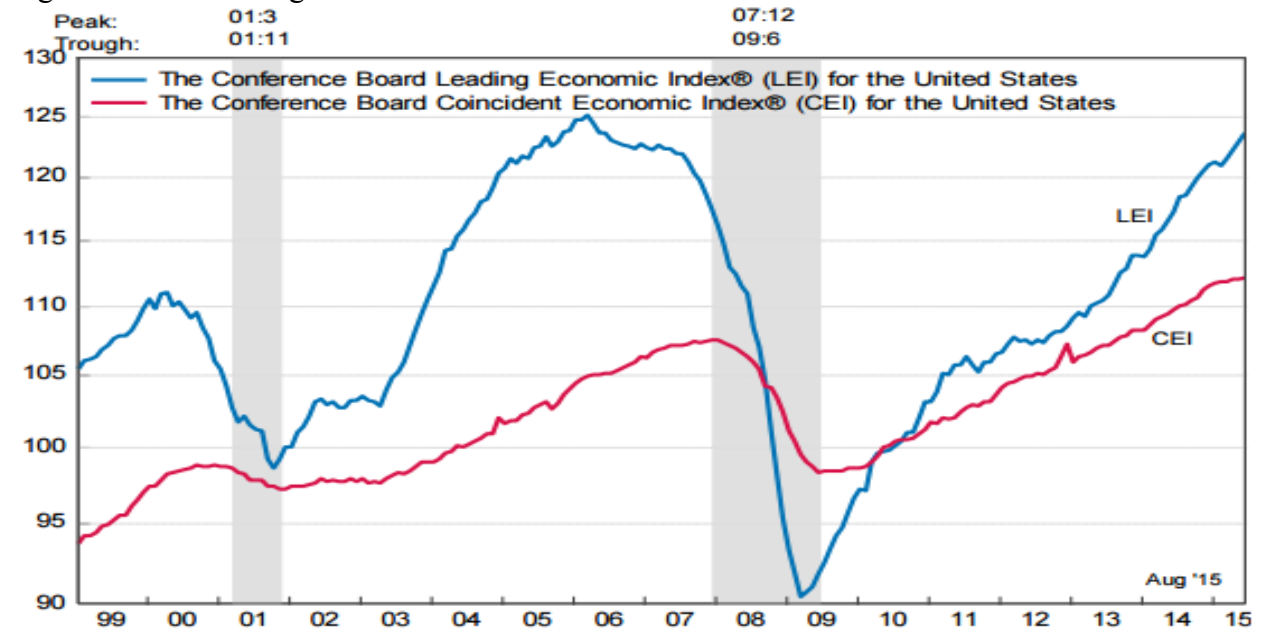
NATIONAL FACTORS

U.S. Leading Economic Index

The conference board LEI increased by 1 percent in March, 0.6 percent in April, 0.8 percent in May, and 0.6 percent in June signaling that the economy will be growing at a more robust rate. In October, The Conference Board Leading Economic Index for the U.S. increased 0.6 percent to 124.1 (2010 = 100), following a 0.1 percent decline in September, and a 0.1 percent decline in August. The U.S. LEI experienced a sharp increase in October due to the yield spread, stock prices, and building permits. Although third quarter growth has been meek, the economic outlook now appears to be improving. While the U.S. LEI's six-month growth rate has moderated, with 5 of the last seven months showing an increase in the U.S. LEI, the U.S. economy is on track for continued expansion heading into 2016.

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

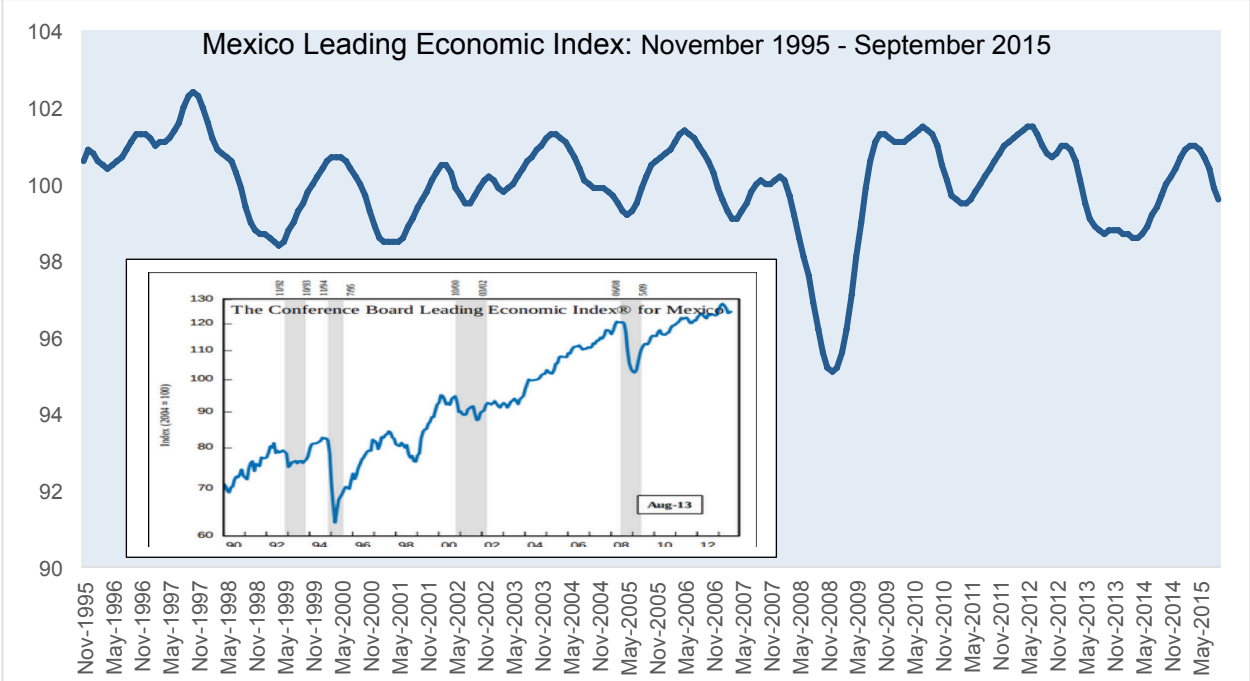
Mexico Leading Economic Index

Mexico's economy continued growing in the third quarter. The government's monthly gross domestic product (GDP) measure increased in July and August. In addition, recent data on exports, employment, retail sales and industrial production are all up. Inflation appears firmly under control despite the peso's depreciation against the dollar. The consensus 2015 GDP growth forecast held steady in September at 2.3 percent.

The Conference Board LEI for Mexico fell by 0.2 percent in September 2015, the fifth consecutive monthly decline with the inverted real exchange rate and oil and stock prices making the largest negative contributions. During the six-month period ending in September 2015, the leading economic index declined by 4.2 percent, or an annualized rate of -8.4 percent. This

decline represent a sharper decline compared to the 3.3 percent decline or -6.5 percent annualized rate over the previous six months. Moreover, the weaknesses among the leading individual indicators that make up the index remained more widespread than the strengths in the last six months. Two of the six components that make up the LEI for Mexico, net insufficient inventories and the industrial production construction components, increased in September. The inverted federal funds rate remained unchanged, while the inverted real exchange rate, the US refiners' acquisition cost of domestic and imported crude oil, and stock prices decreased in September.

Figure 10: Mexico Leading Economic Index



Source: The Conference Board

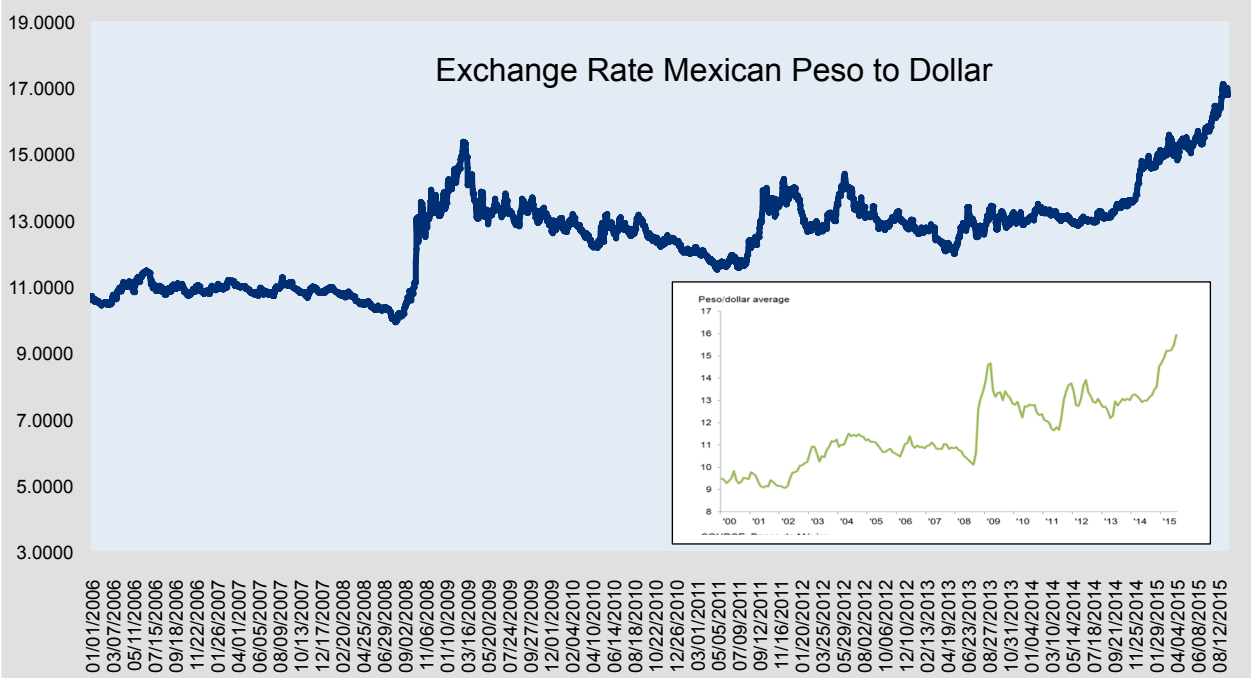
Mexico's LEI is composed of six components. Four of these six components, net insufficient inventories, the US refiners' acquisition cost of domestic and imported crude oil, stock prices, and the (inverted) real exchange rate, increased in May. The other two, Industrial

production construction decreased in May, and the inverted federal funds rate remained unchanged.

Exchange Rates Mexican Peso to Dollar

Between January 2012 and November 2014, the Mexican peso was a relatively stable against the U.S. dollar. The depreciation rate accelerated averaged 16.5 pesos per dollar in August, up from 15.9 pesos in July and about the same as in September and October. However, the peso has lost 23.6 percent of its value against the dollar over the past year. The Mexican currency has been unstable partly as a result of the expectation of an increase in U.S. interest rates and the impact of falling oil prices on Mexico’s government finances. Oil revenues account for about one-third of the federal government budget.

Figure 11: Exchange Rates Mexican Peso to Dollar

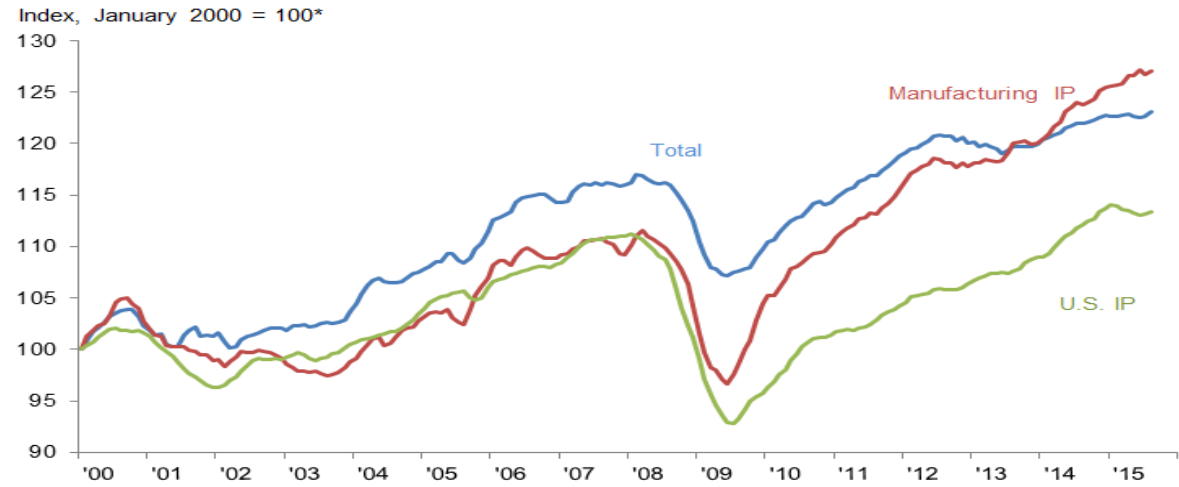


Source: Banco de Mexico

The economy will benefit from a stronger US economy, the depreciation of the peso, and the easing of problems in the construction sector. Mexico’s business climate has improved significantly as a result of important structural reforms that the country, including reforms that address environmental problems and foreign investment in the energy sector. Consequently, both domestic and international investments are picking up, and manufacturing activity is gradually accelerating, supporting a robust formal job market, boosting household incomes and consumption growth. Mexico’s real GDP grew by 2.3% in 2015, and is projected to grow in excess of 3% in both 2016 and 2017.

Mexico industrial production (IP) growth is recovering after pausing earlier in the year. Total IP, which includes manufacturing, construction, oil and gas extraction, and utilities, grew 0.2 percent in August. Three month moving averages show a slowing in total IP, which includes manufacturing, construction, oil and gas extraction and utilities. In contrast, manufacturing IP continues on an upward trend. Meanwhile, U.S. IP grew 0.6 percent in July the second consecutive month of increases after declining for five months in a row. The positive outlook of the Mexican economy will have beneficial spillovers on the economy of Texas and more particularly the economies of U.S. border cities.

Figure 12: U.S. and Mexico Manufacturing IP



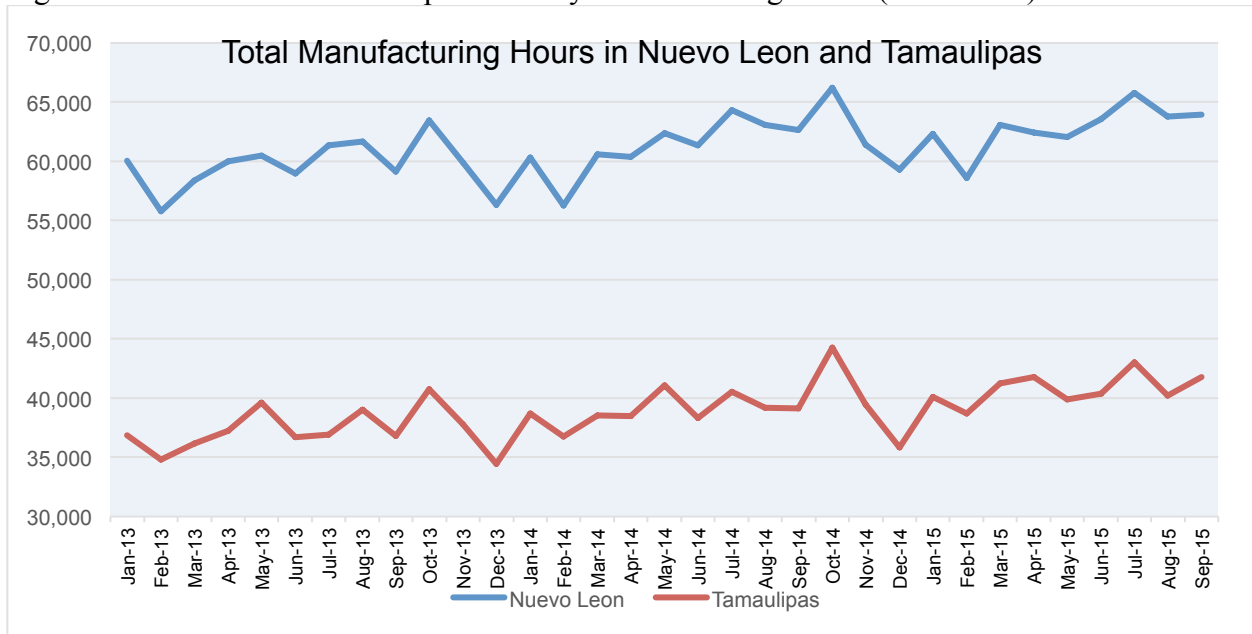
Sources: INEGI (Instituto Nacional de Estadística Geografía e Informática) and Federal Reserve Board

Nuevo-Leon, Tamaulipas Manufacturing Employment

Mexico has been successful in recent years in attracting foreign manufacturing and expanding its industrial capacities and capabilities especially in the interior of the country. Mexico is expected to become the seventh largest economy in the world. Changes in maquiladora employment and hours worked are important indicators of economic health in Nuevo Leon and Tamaulipas, Mexico. Increasing employment levels and number of working hours in the maquiladora has positive externalities on the economies of Texas border cities.

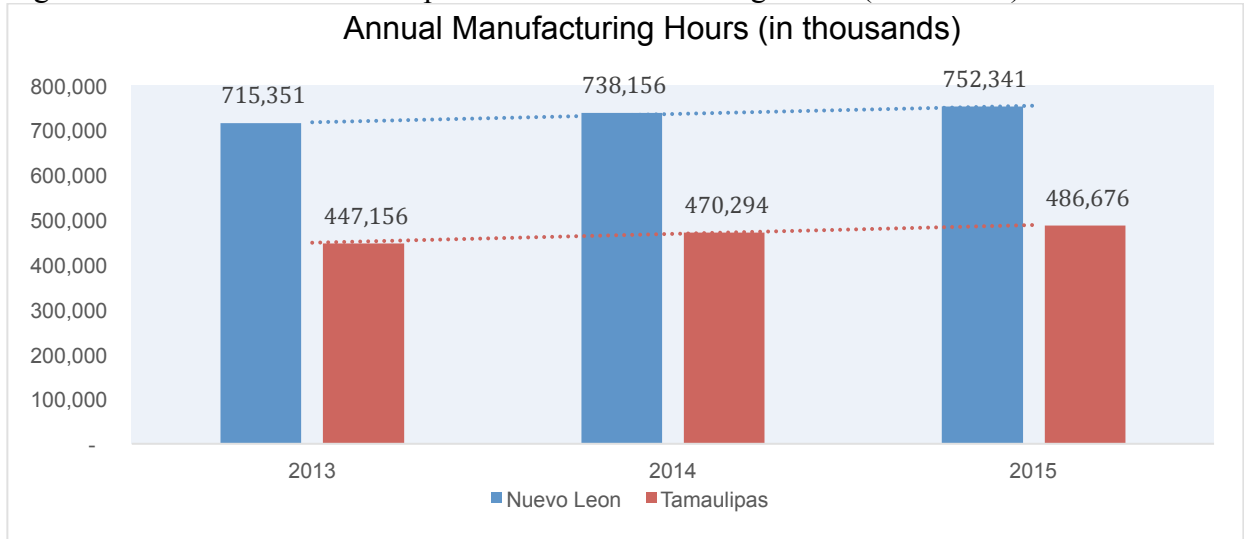
In the states of Nuevo Leon, and Tamaulipas, Mexico the formal-sector employment in manufacturing, jobs with government benefits and pensions, rose at an annualized rate of 2.95 percent in Nuevo Leon and 5.13 in Tamaulipas between January 2013 and November 2015. Year to date, employment is up an annualized 2.45 percent in Nuevo Leon and 5.11 percent in Tamaulipas.

Figure 13: Nuevo Leon-Tamaulipas Monthly Manufacturing Hours (2013-2015)



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

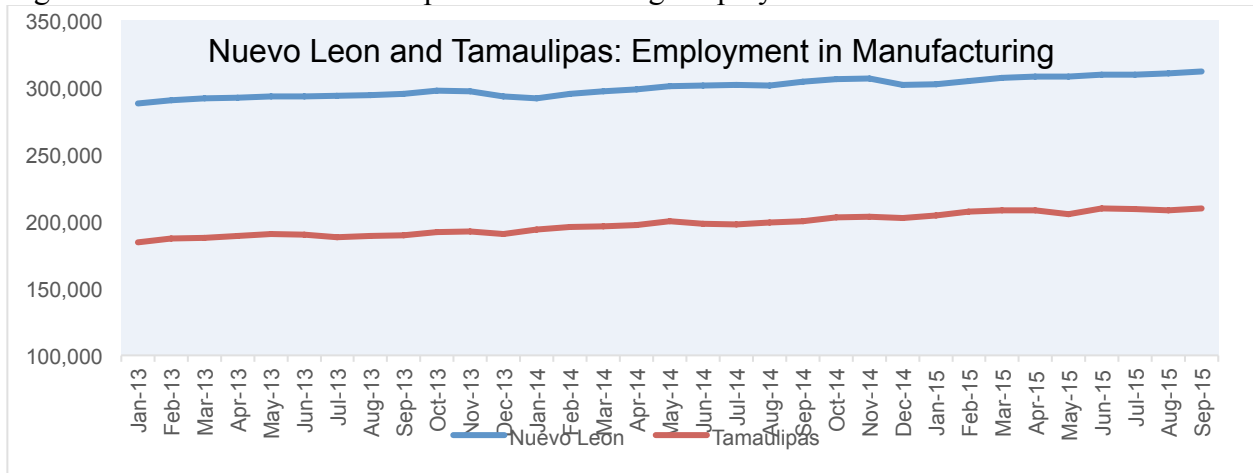
Figure 14: Nuevo Leon-Tamaulipas Annual Manufacturing Hours (2013-2015)



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

In our previous report Aaron selected the states of Nuevo Leon and Tamaulipas because of their immediate proximity and the strong economic, historic, and cultural ties to our area. Figures 13 and 14 show that the level of manufacturing employment has increase between 2013 and 2015.

Figure 15: Nuevo Leon-Tamaulipas Manufacturing Employment



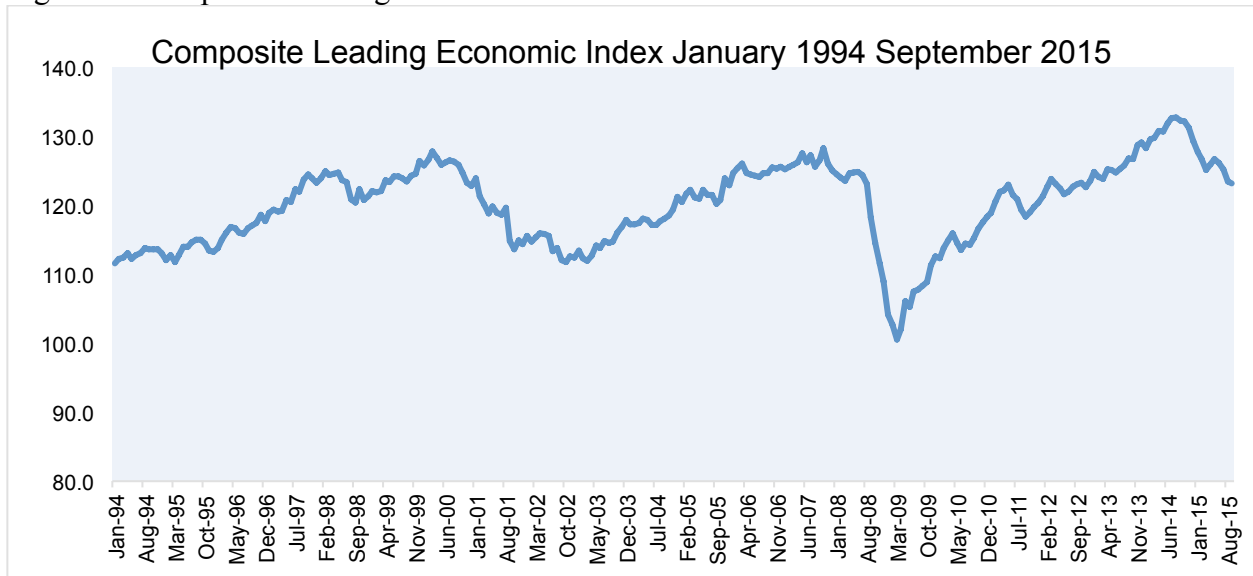
Source: INEGI (Instituto Nacional de Estadística Geografía e Informática)

COMPOSITE LEADING ECONOMIC INDEX

Aaron computes the composite leading economic index using the weighted combined of the three leading economic indexes, U.S., Mexico, and Texas. Although the three LEIs forecast changes of 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 a downturn in the composite LEI starting in the third quarter 2014 signaling another round of deterioration from the recent fall in oil prices, although the slippage is smaller than it was earlier this year. Exports are down year over year, and the strengthening of the U.S. dollar and some global uncertainty pose additional downside risks to the U.S. and Texas economies. However, the positive outlook for Mexico's economy and both the U.S. and Texas still adding jobs, indicates that there will be positive and perhaps moderate growth for the coming year.

Figure 15 Composite Leading Economic Index



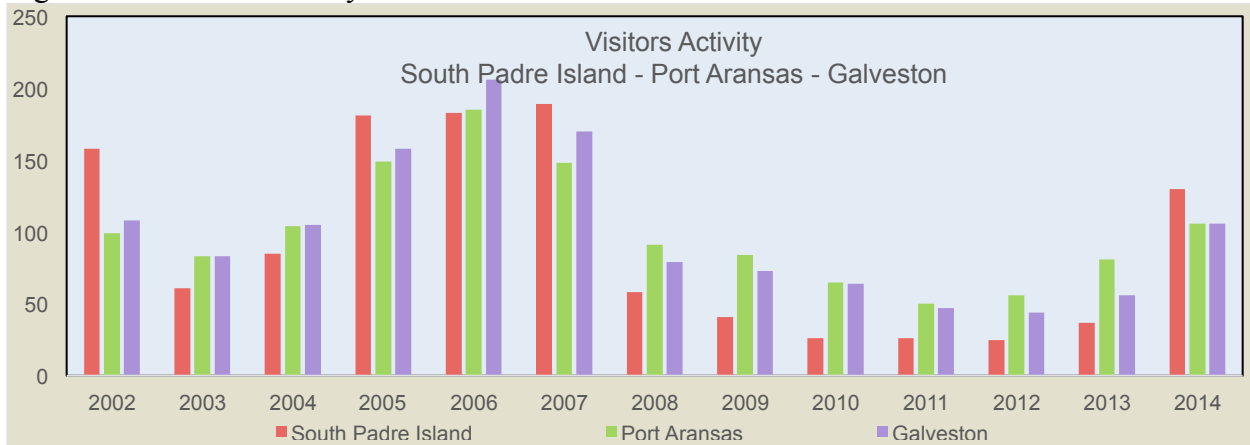
Source: Federal Reserve Bank of Dallas

5. South Padre Island - Internal Factors

South Padre Island's Internal Factors section presents the performance statistic for 2014. Aaron uses current and historical data to present current economic performance, and to identify trends and to forecast economic changes for the next two years. The report also includes comparative data and figures from Port Aransas and Galveston as a mean to benchmark South Padre Island's performance.

To be able to compare economies of different sizes, Aaron standardized the data and created an index that remove the impact of size of each economy and measure economic performance only. Figure 16 shows that South Padre Island outperformed both Port Aransas and Galveston in 2014.

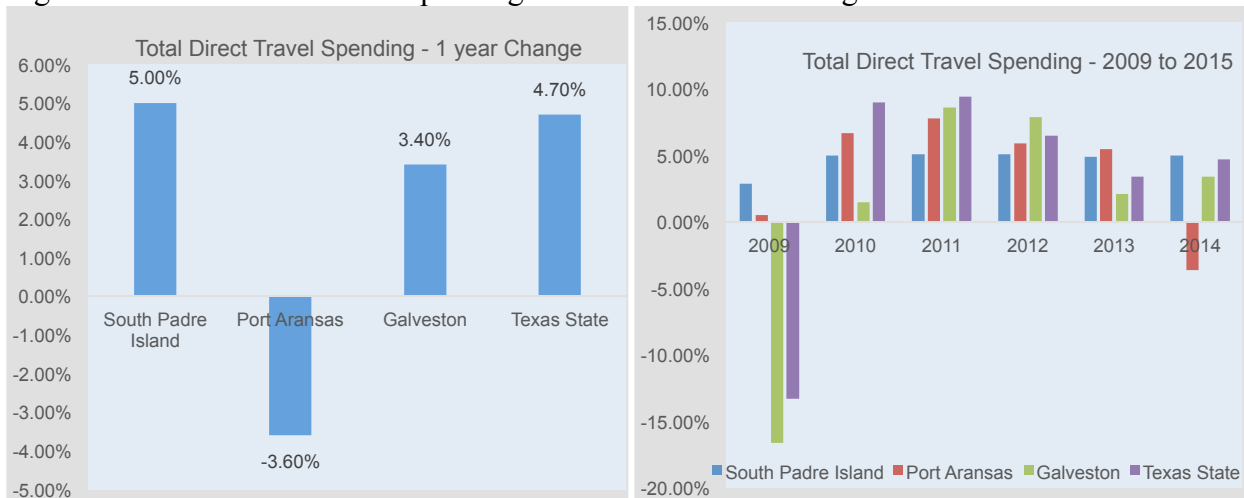
Figure 16: Visitors Activity in South Padre Island - Port Aransas - Galveston



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

Figure 17 shows that in 2014 South Padre Island’s visitor spending grew at 5 percent a faster rate than the other destinations (-3.6 percent in Port Aransas, 3.4 percent in Galveston, and 4.7 percent in Texas). Figure 17 also shows the 5 year change in total direct visitors’ spending. The five years data in Figure 17 shows that South Padre Island experienced a relatively stable and constant growth over the last five year period.

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

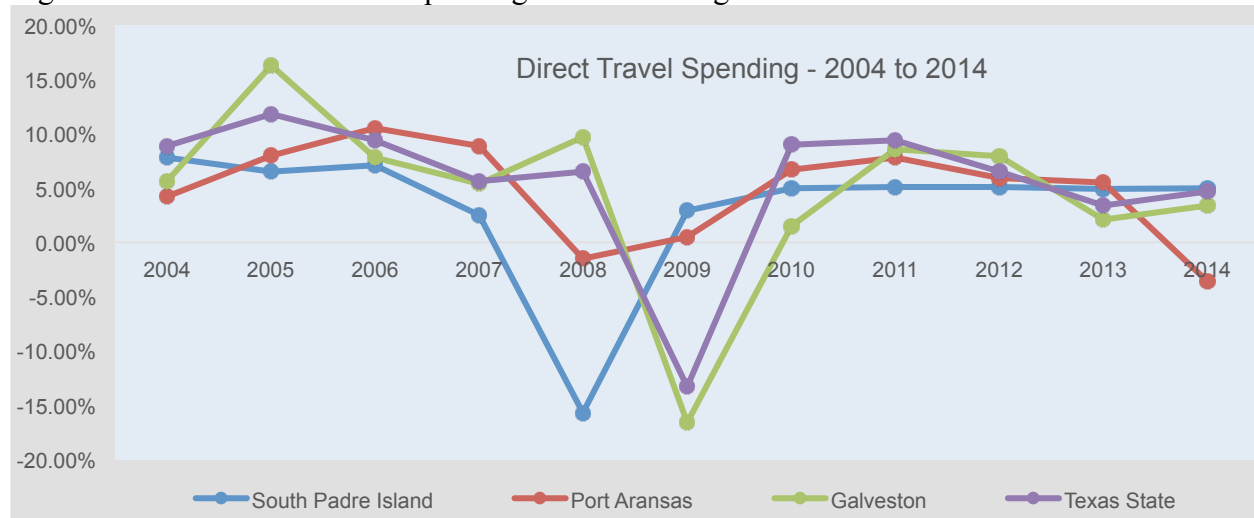


Source: Texas Destinations 2002-2012, Office of Governor, Economic Development Tourism Division

Figure 18 shows visitors' 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 comparable overall comparable growth to Texas and other tourists destination on Texas Gulf Coast but with less growth volatility. After 2009 the growth rate of South Padre Island was stable around 5 percent annually.

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 computing the occupancy tax index, Aaron first deflates the data to remove the effect of changing prices and to isolate the change in economic activity. The resulting real occupancy tax, occupancy tax rate adjusted for inflation, provides a more accurate measure of whether there was an improvement in occupancy tax collection or not. 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 decreased in 2008 following hurricane Dolly and the great recession, and didn't recover to the pre-recession levels until 2011. Occupancy tax revenues increased steadily after the initial drop in 2008 at an average annual rate of 4.15 percent between 2008 and

2014. The occupancy tax index shows a decrease of 17.65% in 2008 relative to the 2007 and an average annual increase of 8.4% from 2008 to 2014. The occupancy tax revenue index for 2014 indicates a 9.3 percent improvement in the nominal occupation tax revenue.

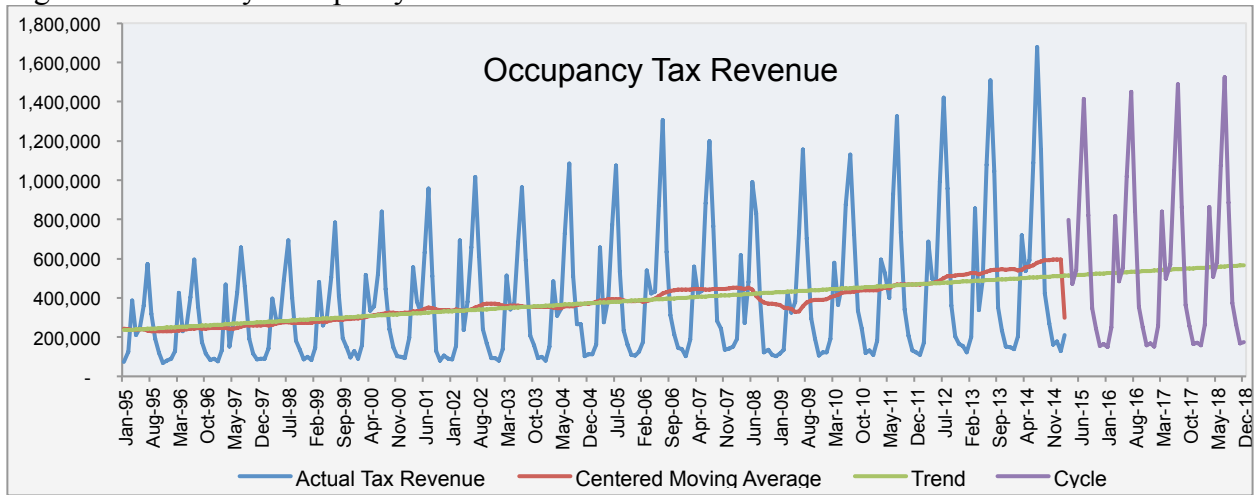
Figure 19: Annual Occupancy Tax Revenue



Source: South Padre Island Economic Development Corporation

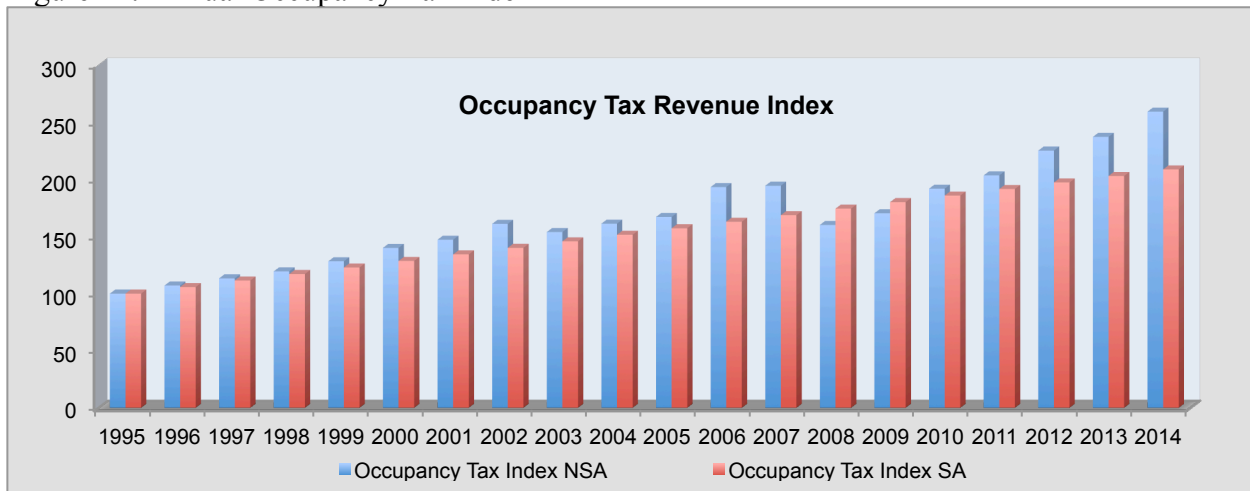
Forecast: The leading economic indexes and other leading indicators suggest a slow growth rate within the next two years. South Padre Island has experienced slightly faster growth in total earnings, employment, and tax receipts than Texas between 2008 and 2014. Aaron expect occupancy tax to increase by about 2 percent in 2015 and around 2.5 percent in 2016. The proposed development of Liquefied Natural Gas (LNG) at the Port of Brownsville could generate additional activity at the Island starting 2017.

Figure 20: Monthly Occupancy Tax Index



Source: South Padre Island Economic Development Corporation

Figure 21: Annual Occupancy Tax Index



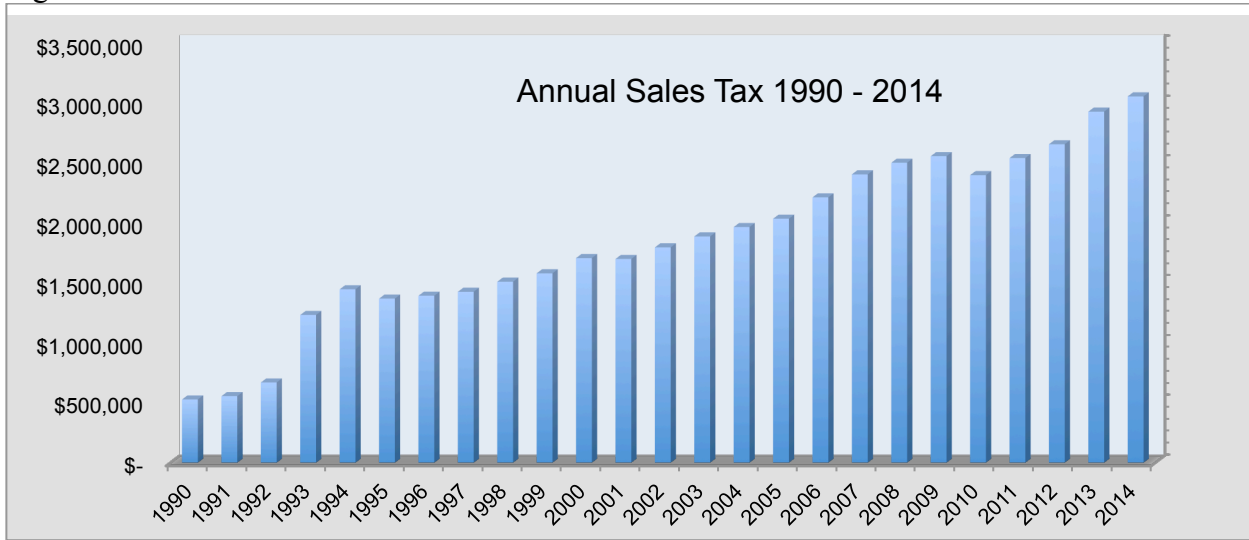
Source: South Padre Island Economic Development Corporation

SALES TAX

Inflation adjusted sales tax revenue increased by 4.4 percent in 2014. While it is below 2013 sales tax growth rate of 10.2 percent it is above the growth rate of Galveston, Port Aransas and Texas. The faster growth rate experienced immediately after the financial crisis of 2008-2009 were a result first of post-hurricane Dolly and after 2009 of post-recession recovery. The

average growth rate of sales tax 1998 and 2007 was 5.04 percent and 4.22 percent from 2008 to 2014.

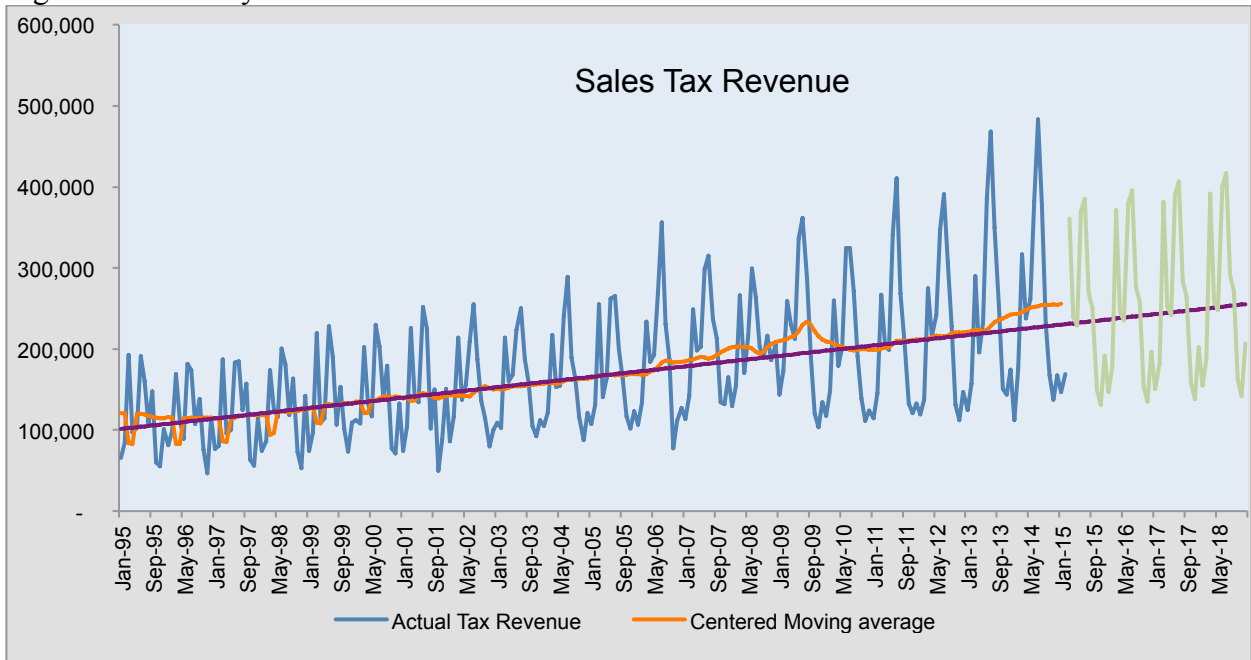
Figure 22: Annual Sales Tax Revenue



South Padre Island Economic Development Corporation

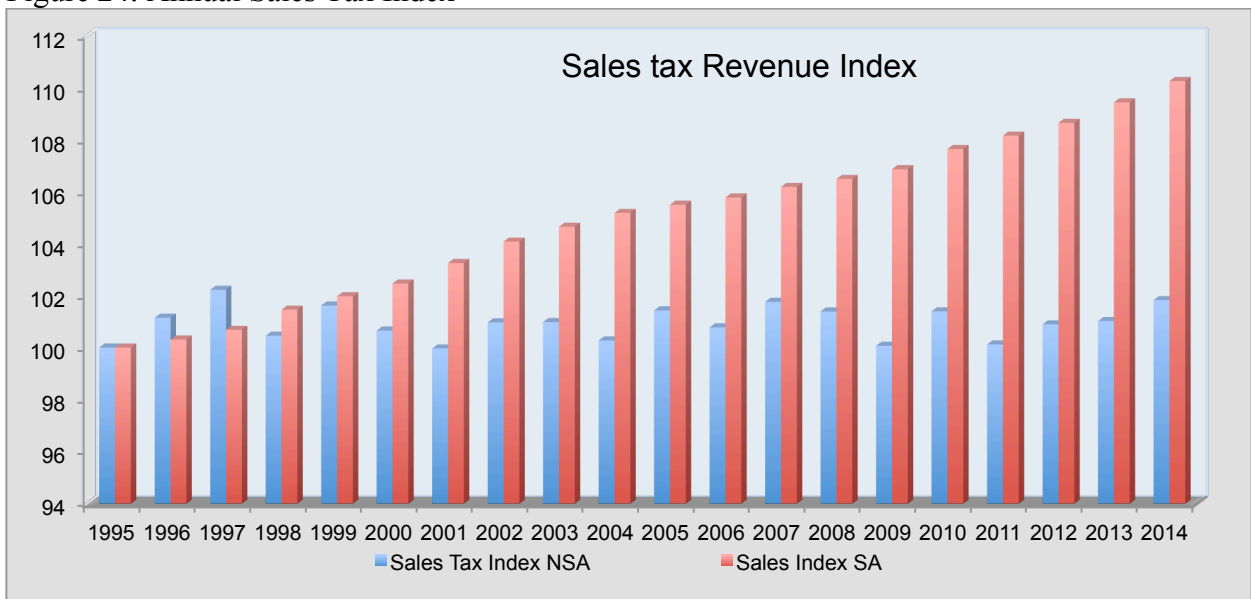
Forecast: Data show that factors that affect the economy of South Padre Island are trending slightly downward suggesting slower growth rate in sales tax revenue for the next two years. Aaron forecast sales tax revenue to increase by about 3 and 3.5 percent in 2015 and 2016.

Figure 23: Monthly Sales Tax Index



Source: South Padre Island Economic Development Corporation

Figure 24: Annual Sales Tax Index

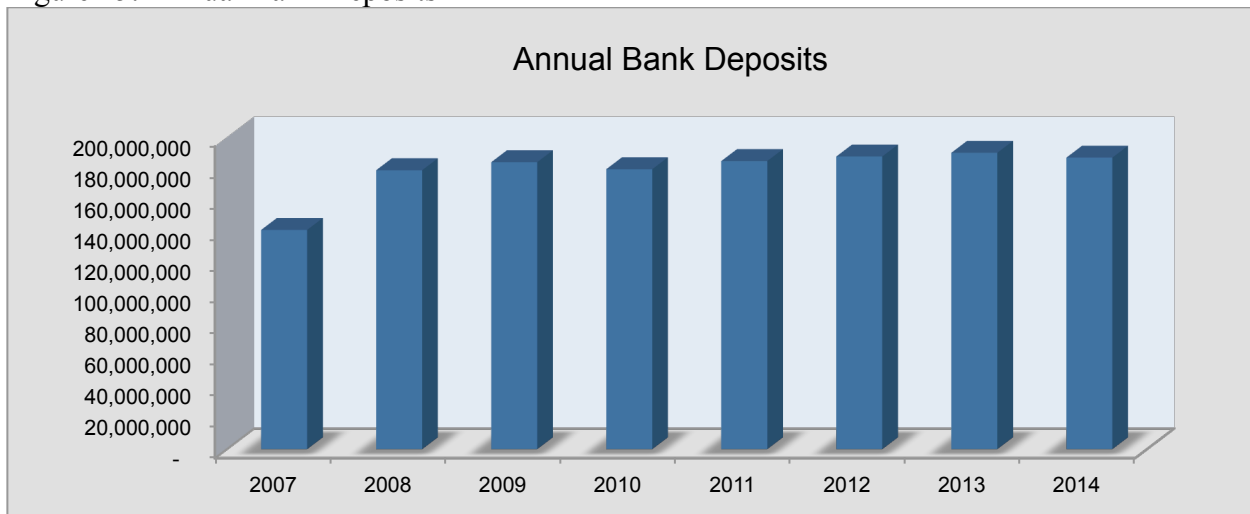


Source: South Padre Island Economic Development Corporation

BANK DEPOSIT INDEX

The pre-recession period was a period of fast bank deposits growth. In fact, during that period bank deposits doubled every 7 years. Bank deposits declined in 2010 because of the financial recession and have not fully recovered their pre-recession growth rate. From 2008 to 2014, bank deposits increased by 4.5 percent or an average annual growth rate of 0.73 percent. During that period alternated between positive and negative growth from one year to the next. The growth rate of bank deposits for 2014 relative to the previous year is -1.63 percent.

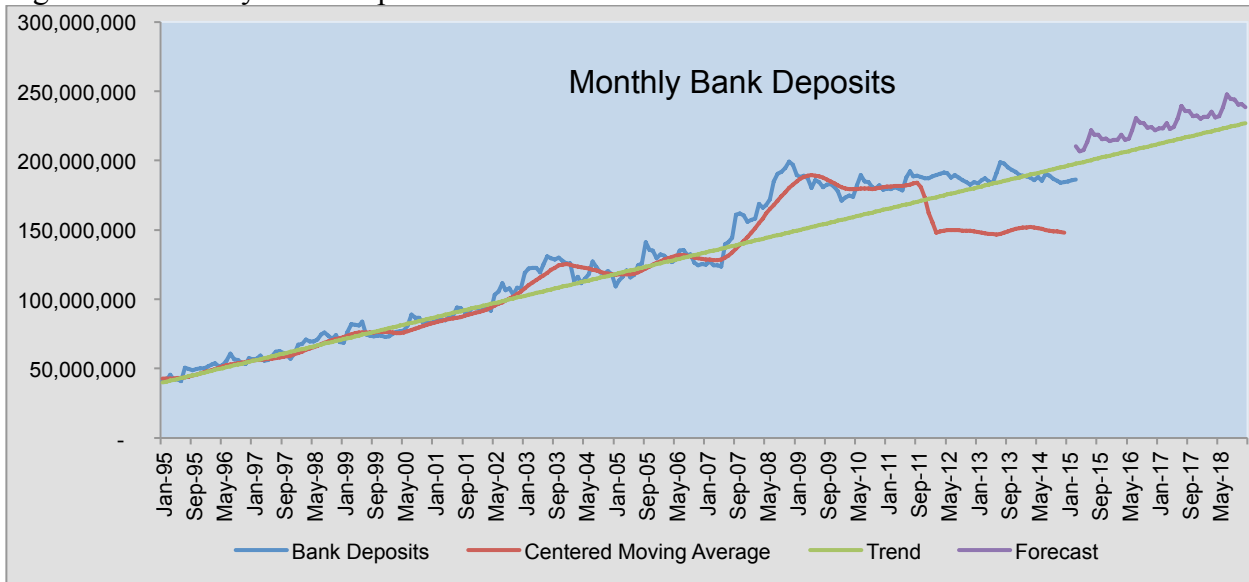
Figure 25: Annual Bank Deposits



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

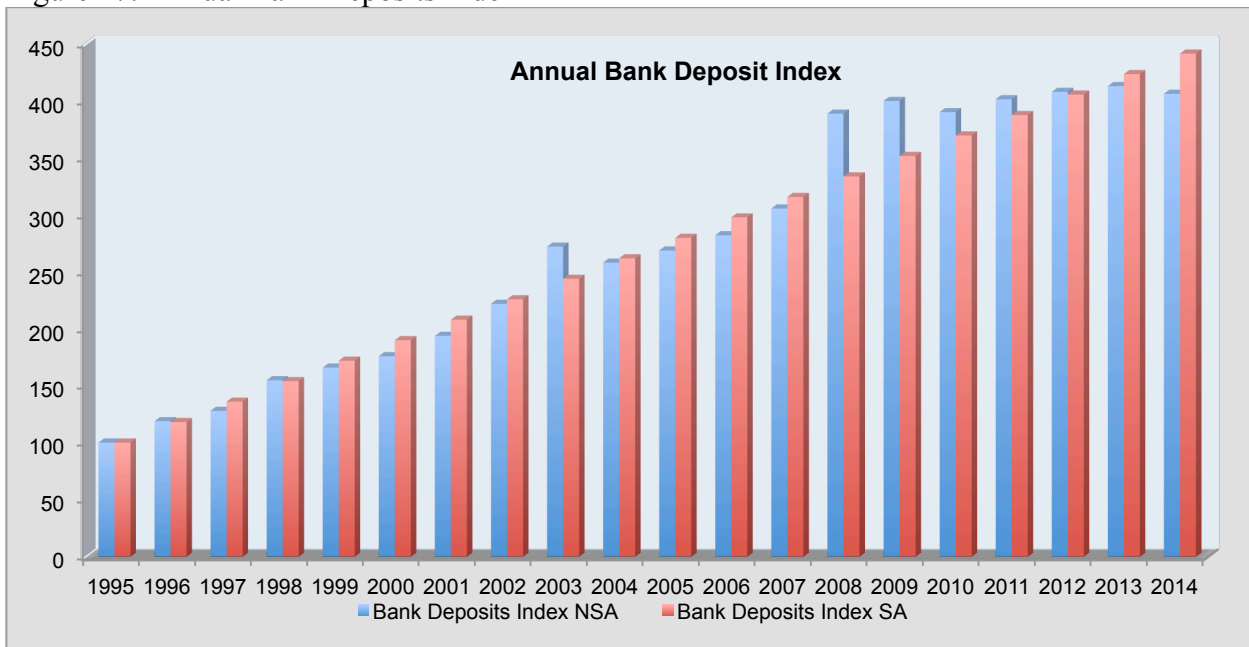
Forecast: Dollar appreciation means that Mexican pesos buy fewer American dollars. Aaron expect bank deposits to decline if the appreciation of the dollar stabilizes and to increase if the appreciation of the dollar continues as Mexican nationals will see converting their pesos to dollars before the appreciation occurs as a way to hedge against a loss in purchasing power. Aaron expect bank deposits to decrease by 2 percent in 2015 and 2016.

Figure 26: Monthly Bank Deposits Index



Source: South Padre Island Economic Development Corporation

Figure 27: Annual Bank Deposits Index

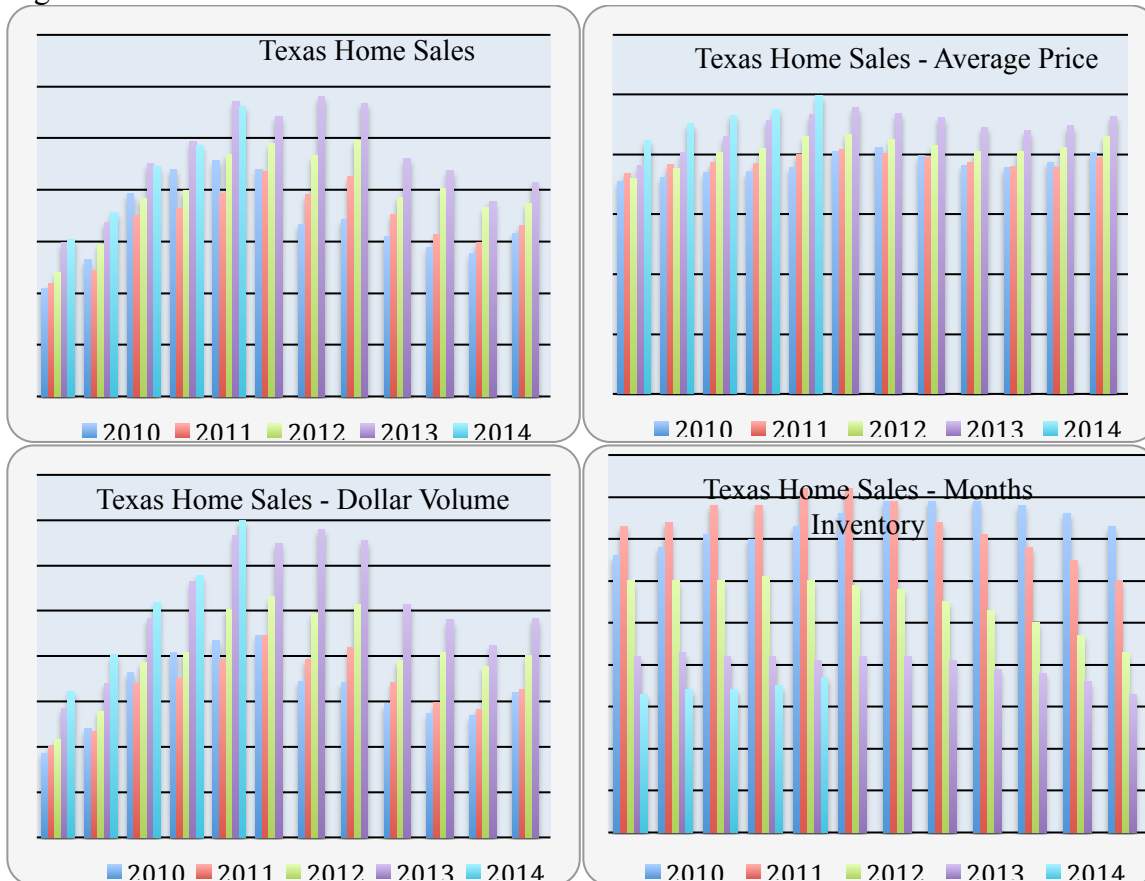


Source: South Padre Island Economic Development Corporation

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 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, months inventory for Texas homes has improved continuously. 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

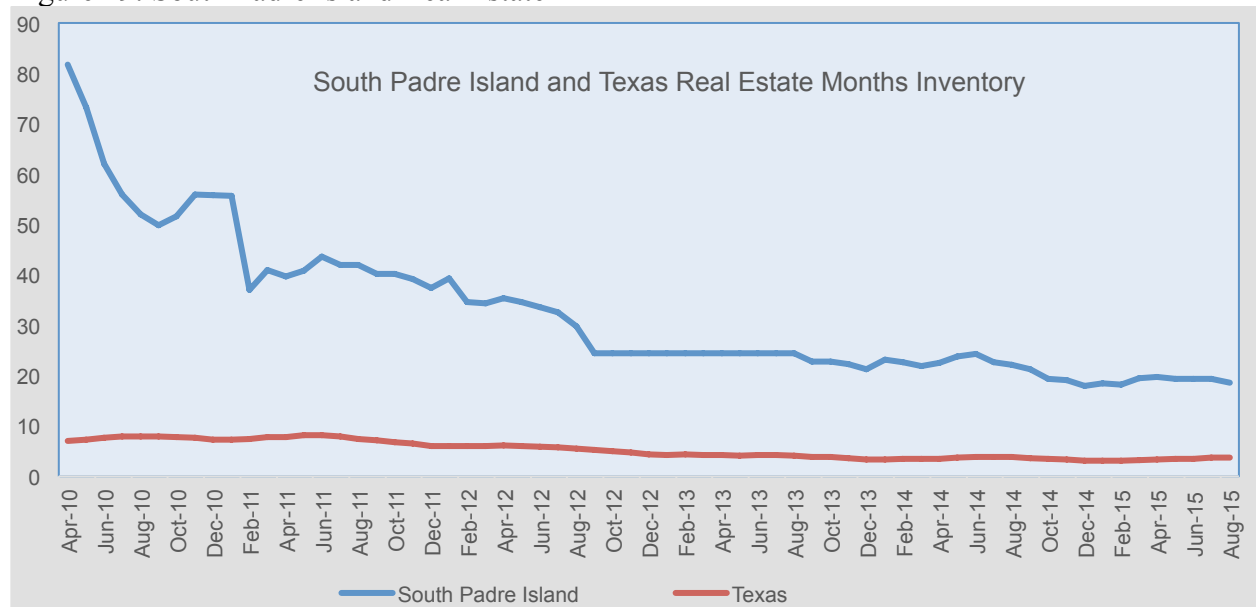


Source: Texas A&M University Real Estate Center

REAL ESTATE IN SOUTH PADRE ISLAND

Texas A&M Real Estate Center data shows that South Padre Island’s real estate market has improved significantly after the recession of 2008-2010. All indicators point to an improving real estate market both in Texas and in South Padre Island, 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 August 2015 average home sales per month increased from 20 to 37 per month, average monthly dollar volume from sales increased from \$4.2 million to 9.2 million, average Months inventory decreased by 67 percent between January 2011 and August 2015.

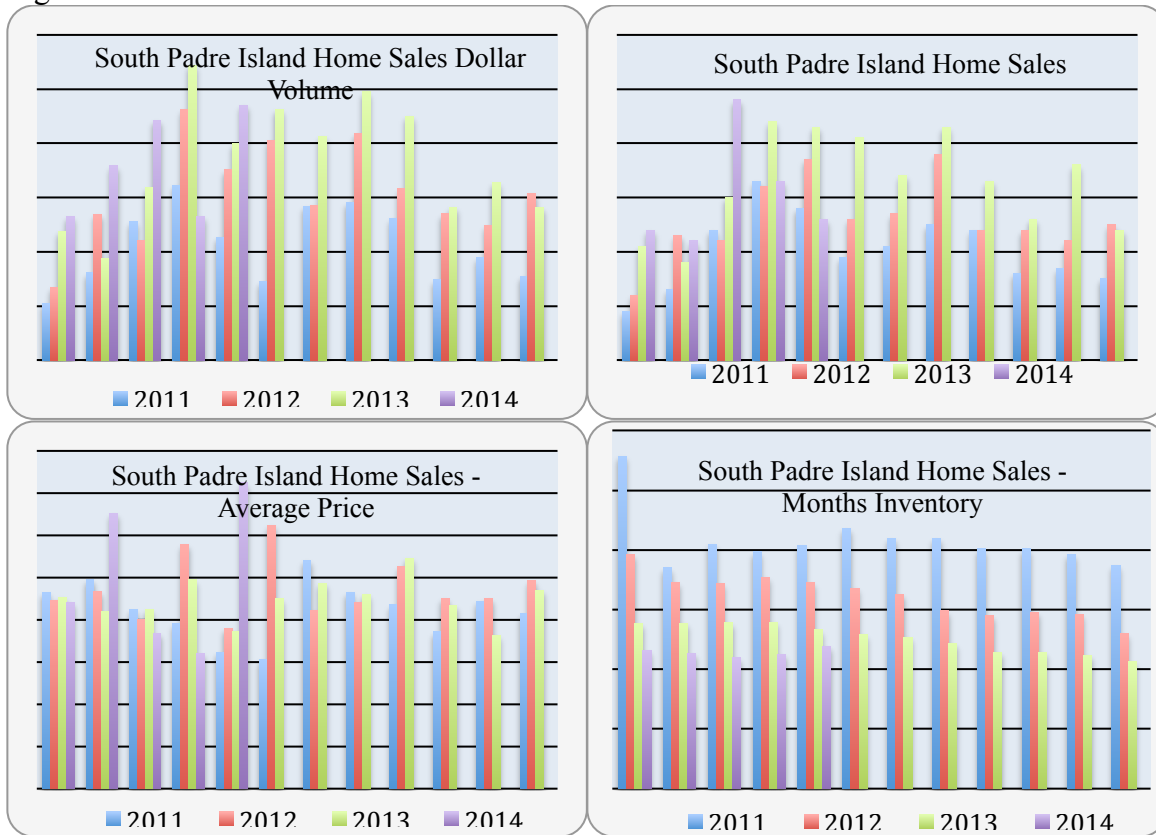
Figure 29: South Padre Island Real Estate



Source: Texas A&M University Real Estate Center

Figure 29 shows that between April 2010 and August 2015, both South Padre Island and Texas month inventory declined dramatically (67 percent and 49 percent respectively). Month inventory in South Padre Island has declined faster than in Texas.

Figure 30: South Padre Island Real Estate



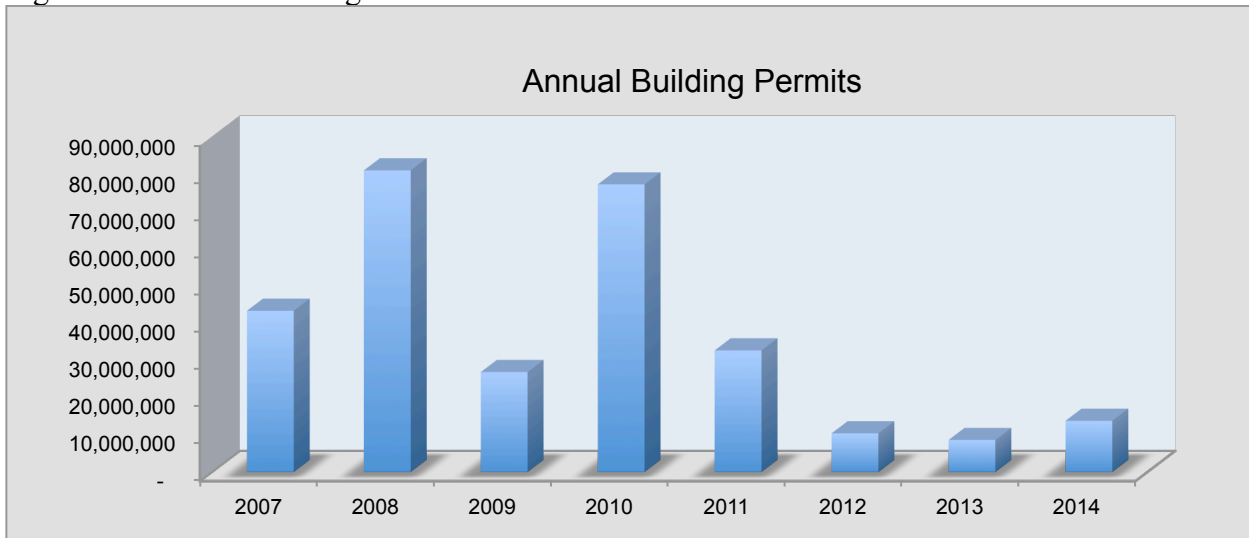
Source: Texas A&M University Real Estate Center

BUILDING PERMITS INDEX

Figure 31 shows that the number of building permits declined after 2010 partly due to a relatively large inventory and a slow recovering economy. Figure 32 shows that from 1995 to 2001 building permits followed a stable and constant pattern with minimal variability. This pattern suggests that real estate projects were small single structures or limited multi-family structures. After 2001 the variability of building permits increased. Figures 31 and 32 show pronounced peaks in 2006, 2008, and 2010. The dramatic change suggests a possible structural shift in real estate sector, and a shift to very large construction and real estate projects and high-rise projects. These periods of high peaks have been fairly clustered together, second half of

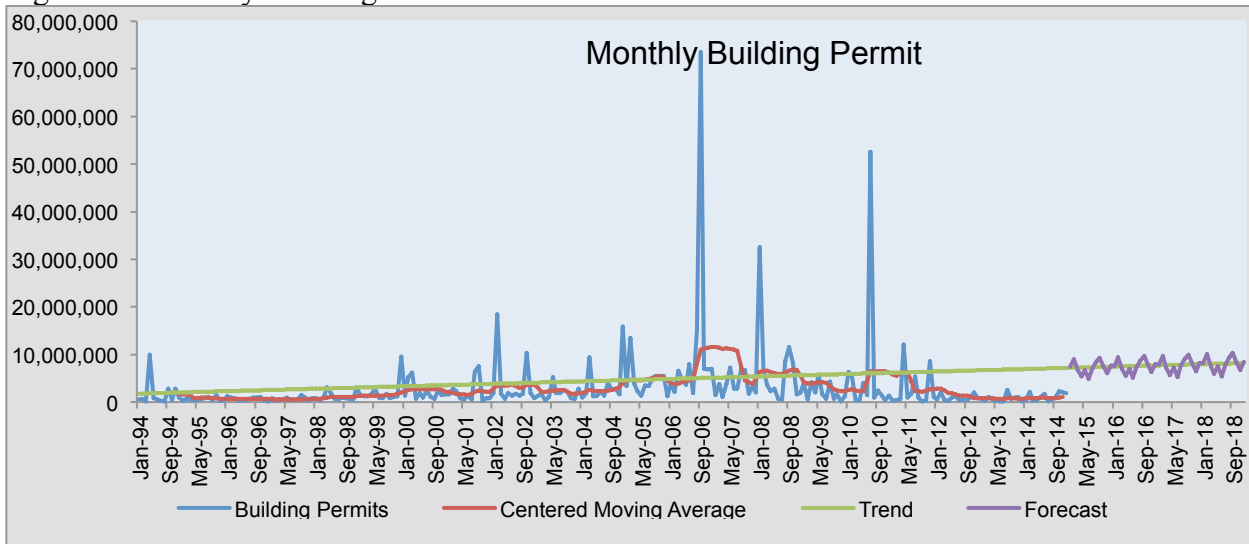
2006, first half of 2008, and second half of 2010. After 2010, there was a decline in the number of building permits. Real estate data for 2014 show that the number of listings declined and average prices increased. These indicators suggest that the decline may be temporary and not as prolonged as the pre-2006 period.

Figure 31: Annual Building Permits



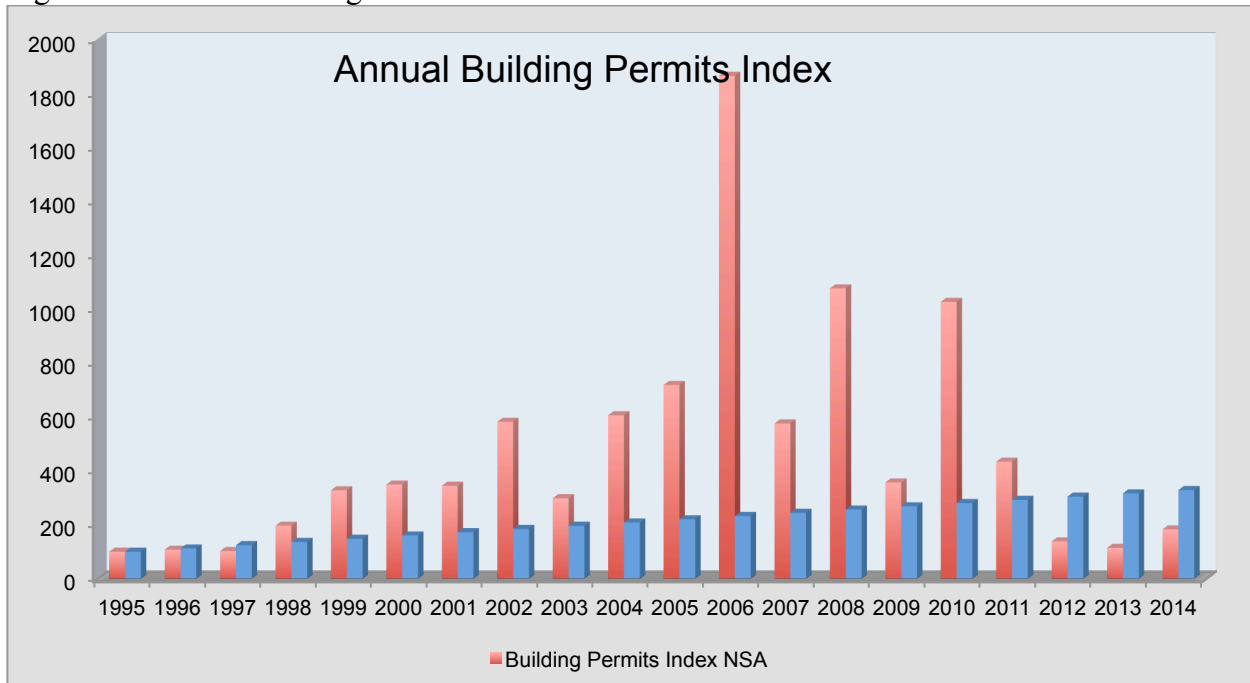
Source: Source: South Padre Island Economic Development Corporation

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

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. Aaron expects the building permits index to remain constant in 2015, and to increase in 2016.

6. 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 an expansion of economic activity in South Padre Island. However, monthly disparities in terms of economic activity will remain 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.

The proposed development of LNG facilities at the Port of Brownsville discussed above could provide a significant boost to the region's economy by showcasing the region to the world. LNG is the second most traded commodity in the world. In addition, a number of other projects are currently being discussed by different stakeholders. The most notable ones are the proposed building of a Marina and an entertainment district in South Padre Island. These two projects could help mitigate the volatility in yearly economic activity at the Island, especially during the off-season months. While data from the Queen Isabella's causeway traffic shows that there is considerable day traffic crossing into the Island, occupancy tax data and sales tax data don't show that those visitors are spending money at the Island. By developing a comprehensive entertainment district, the Island could capture some spending from local visitors.

Sales tax and occupancy tax revenues rose 4.52 percent and 10.67 percent in 2013, and 10.24 percent and 5.32 percent in 2014 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, 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. Aaron 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

Texas A&M Real Estate Center

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www.city-data.com