

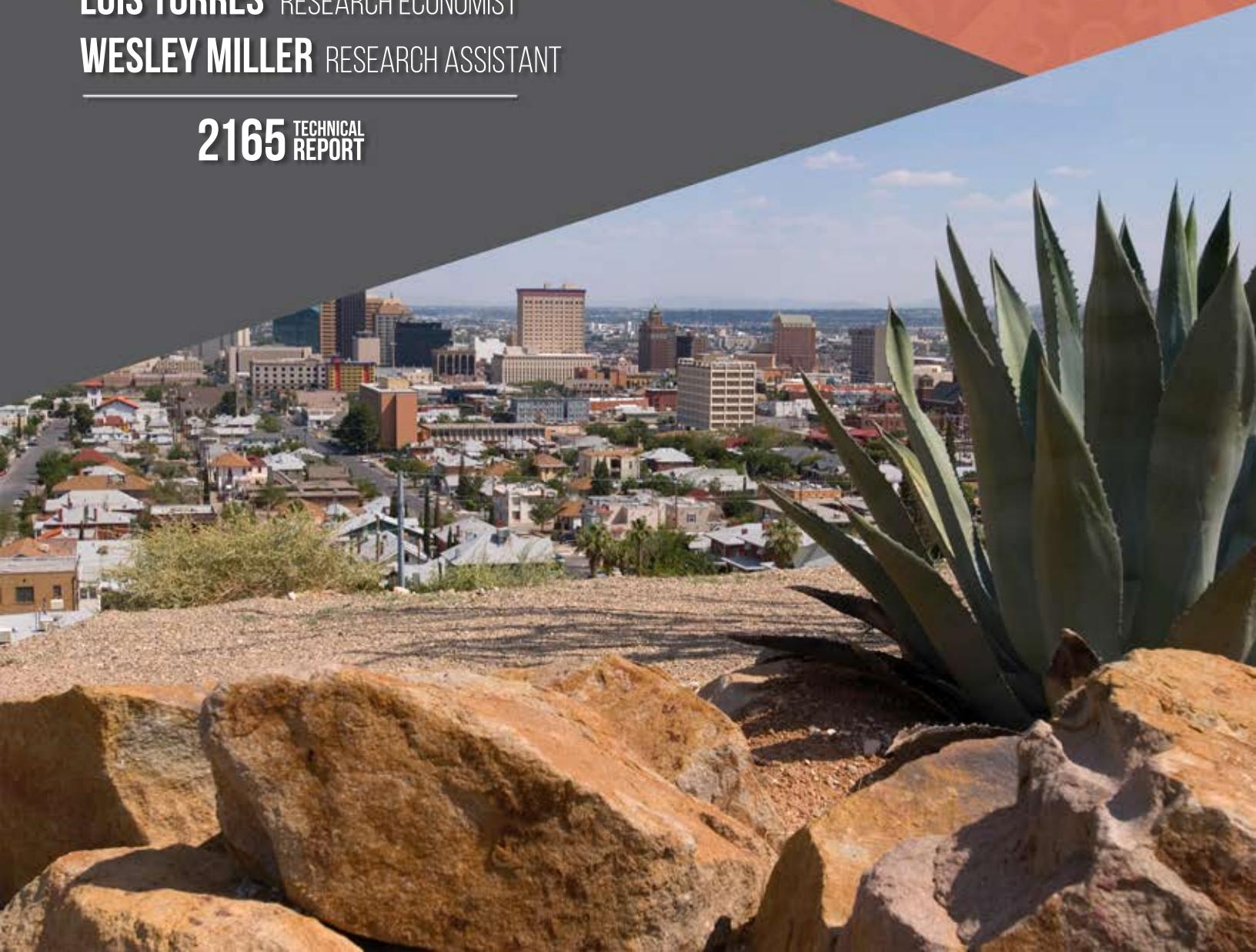
TEXAS BORDER ECONOMY

JAMES P. GAINES CHIEF ECONOMIST

LUIS TORRES RESEARCH ECONOMIST

WESLEY MILLER RESEARCH ASSISTANT

2165 TECHNICAL
REPORT



Contents

About this Report	2
March 2017 Border Summary	3
Economic Activity	6
Business Cycle Index.....	6
Employment Growth Rate.....	6
Unemployment Rate	7
Total Private Employee Hourly Earnings	7
Real Peso per Dollar Exchange Rate	8
Total Import and Export Value	8
Housing	8
Housing Sales	9
Single-Family Housing Construction Permits	9
New Home Months of Inventory.....	10
Existing Home Months of Inventory.....	10
New Home Days on Market	11
Existing Home Days on Market	11
New Home Median Price Per Square Foot.....	12
Existing Home Median Price Per Square Foot.....	12



About this Report

Real Estate Center economists continuously monitor many facets of the global, national, and Texas economies. *Texas Border Economy* is a summary of important economic indicators that help discern trends in the housing markets along the Texas-Mexico border. All monthly measurements are calculated using seasonally adjusted data, and percentage changes are calculated month-over-month, unless stated otherwise.

This monthly publication provides data and insights on the Texas border markets. We hope you find them useful. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

Dr. James Gaines, Dr. Luis Torres, and Wesley Miller

Data current as of March 27, 2017

© 2017, Real Estate Center. All rights reserved.

March 2017 Border Summary

Economic activity along the Texas-Mexico border slowed late last year, particularly in McAllen and Laredo, but has since varied throughout the metros. Poor economic performance in the first quarter dragged down housing demand in both Brownsville and Laredo. In November, McAllen went through the sharpest contraction but rallied recently behind strong employment figures. El Paso remained the most stable border economy, but stagnant wages persisted.

Economy

Economic activity varied along the Texas-Mexico border. The **Business Cycle Indexes** for Brownsville and Laredo continued to slide but trended upward in McAllen. The El Paso index slowed but maintained its two-and-half-year positive trend.

In El Paso, economic conditions were stable; as annualized quarter-over-quarter, **employment growth** surpassed 3 percent for the third straight month. Employment growth was solid in McAllen, rising 2.5 percent and contributing to its business cycle index acceleration. In contrast, Brownsville and Laredo had abrupt decelerations in employment growth during the first quarter: employment growth fell from 2.0 to 0.2 percent in Brownsville and from 3.8 to 0.8 percent in Laredo. Despite slowdowns, the **unemployment rate**, which typically is above the state average, was unchanged in McAllen (8.6 percent), Brownsville (8.0 percent), and Laredo (5.0 percent). Labor force expansion pushed El Paso's unemployment rate to 5.4 percent—the highest level since 2015.

Depressed wages plagued economic conditions in Brownsville and Laredo. Inflation-adjusted **private hourly earnings** collapsed by 26.6 percent in Brownsville from 2012 and were down 8.8 percent year-over-year in Laredo. However, wage decline has not hit McAllen, where hourly earnings were up 8.4 percent year-over-year, and 29.5 percent from July 2015. El Paso continued to post stagnant wages, which are still below pre-recessionary levels.

The **peso per dollar exchange rate**, an important determinant of border economic performance, fell 2.7 percent to 18.77 pesos per dollar. Peso per dollar depreciation hinders border economies because it reduces consumption by Mexican nationals, particularly in the retail sector. The Laredo and Brownsville economies rely heavily on cross-border business transactions and, therefore, are disproportionately affected by currency fluctuations.

A weaker peso does benefit some sectors of the economy, however, particularly those that import large quantities of goods from Mexico. Therefore, fluctuations in the value of the

peso do not necessarily reduce the *aggregate* trade volume crossing the border. In March, the **total value of trade activity** expanded across the border, and the activity in Laredo more than doubled the total amounts of the other three border metros. All of the metros (except Brownsville) recorded higher values of imports than exports.

Housing

The border housing markets varied according to their underlying economic trends. Laredo's economic slowdown disrupted its housing market, dragging first quarter **home sales** down 6.5 percent. Despite a similar economic environment, Brownsville avoided a quarterly sales decline because of higher home inventory levels. Following a strong January, sales in El Paso declined in February and March, resulting in a modest quarterly increase of 1.2 percent. McAllen's recent economic upswing increased sales by 8.3 percent quarterly and 14.3 percent year-over-year.

The glut of new houses in McAllen fueled the sales surge, as the **months of inventory (MOI) for new homes** remained above 12 months and continued to trend upward. The opposite occurred in Laredo, where the lack of new homes contributed to a sales contraction; the new home MOI remained below four months. Brownsville and El Paso posted more typical border inventory levels for new homes at 6.7 and 7.1 months, respectively.

The constricted inventory in Laredo may expand shortly as **single-family residential construction permits** accelerated, increasing in 11 of the last 12 months. However, poor economic conditions could prevent this influx of permits from materializing into new housing construction. As expected, the number of monthly permits fell substantially in McAllen (24.4 percent). On the other hand, residential construction permits spiked 47.7 percent in El Paso, in response to rising demand.

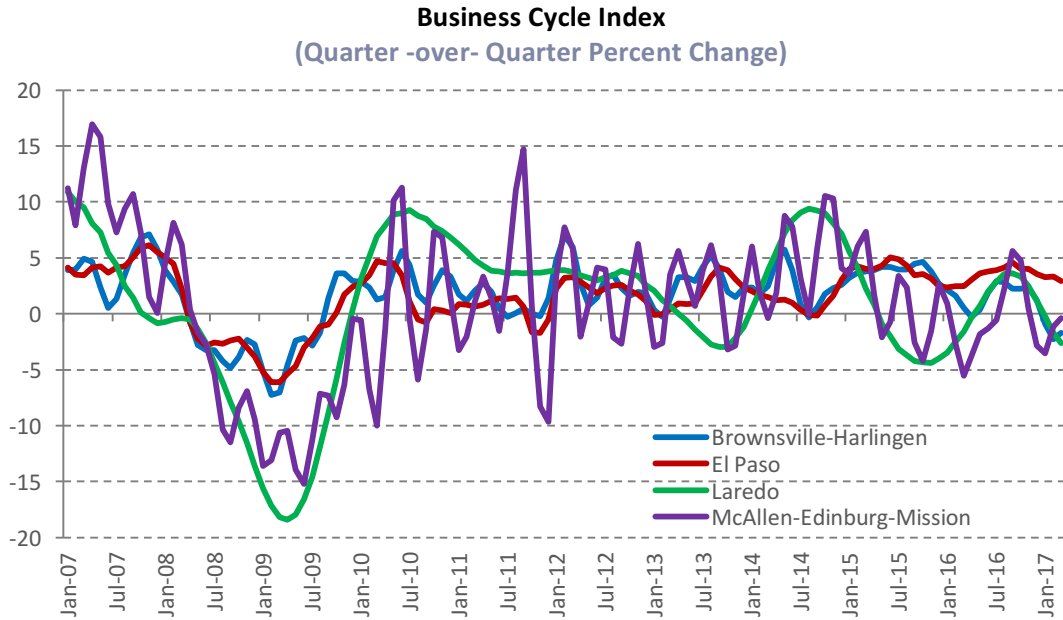
Changes in existing home inventories were more moderate. The **existing home MOI** in Brownsville and McAllen remained strong at 8.6 months and 9.0 months, respectively. Existing inventories expanded in Laredo, where the MOI rose to 5.9 months—the most since last May. Supply pressure heightened in El Paso, as the existing MOI dropped to 5.1 months, a series record low.

Border housing demand exhibited fewer intermarket differences between new and existing homes. For example, the **average number of days on market (DOM)** for new and existing homes was 68 and 67 days in Laredo and 95 and 97 days in McAllen, respectively. El Paso's recent increase in new housing demand continued as the new home DOM fell to 111 days—more than 30 days lower than its peak last July. Additionally, Brownsville had soft

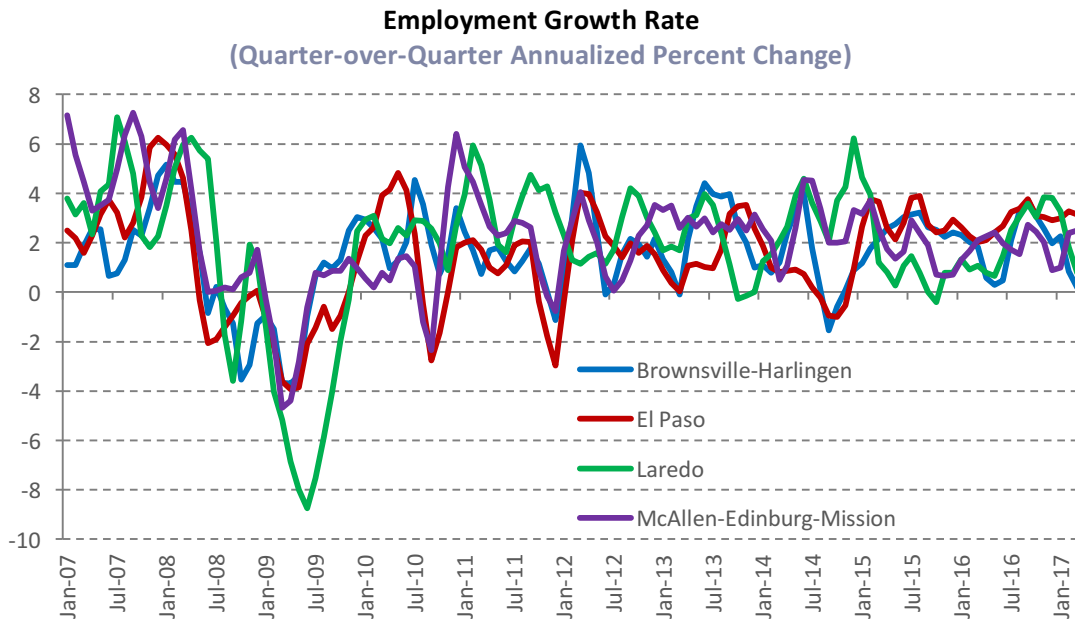
demand in both housing markets, where the new and existing DOM settled at 128 and 116 days, respectively.

Despite the varying housing market conditions, all border metros observed a quarterly increase in the median price per square foot (ppsf) for existing homes. The median price was highest in Laredo at \$90.76 ppsf and jumped more than 3 percent in McAllen to \$79.27 ppsf. Median prices for *new* homes also rose 3.2 percent in McAllen to \$98.52 ppsf. The median price for new homes was highest in El Paso at \$106.35 ppsf, increasing 1.5 percent in the first quarter. Furthermore, Brownsville's new home median prices dropped for the second straight quarter, falling to \$92.87 ppsf.

Economic Activity

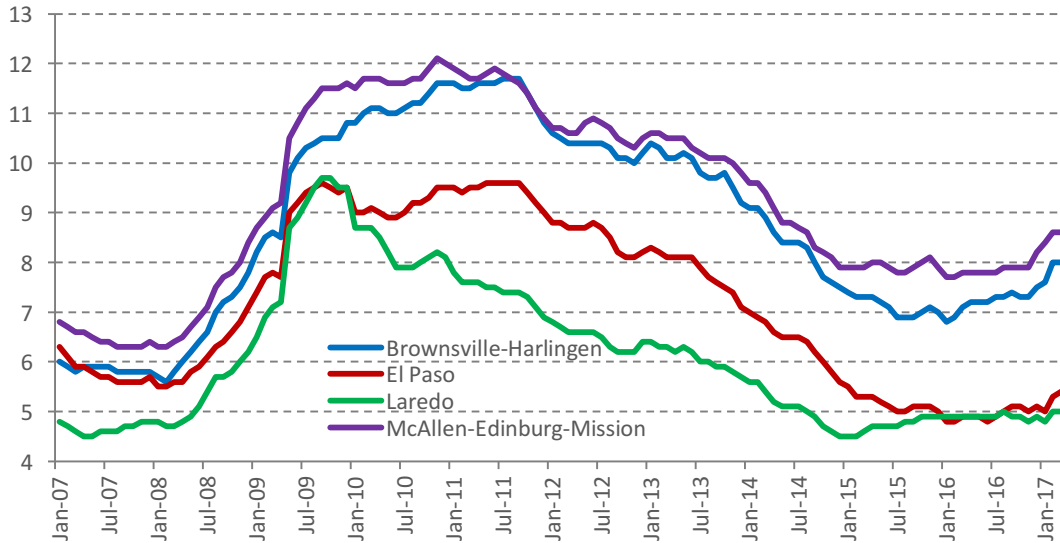


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



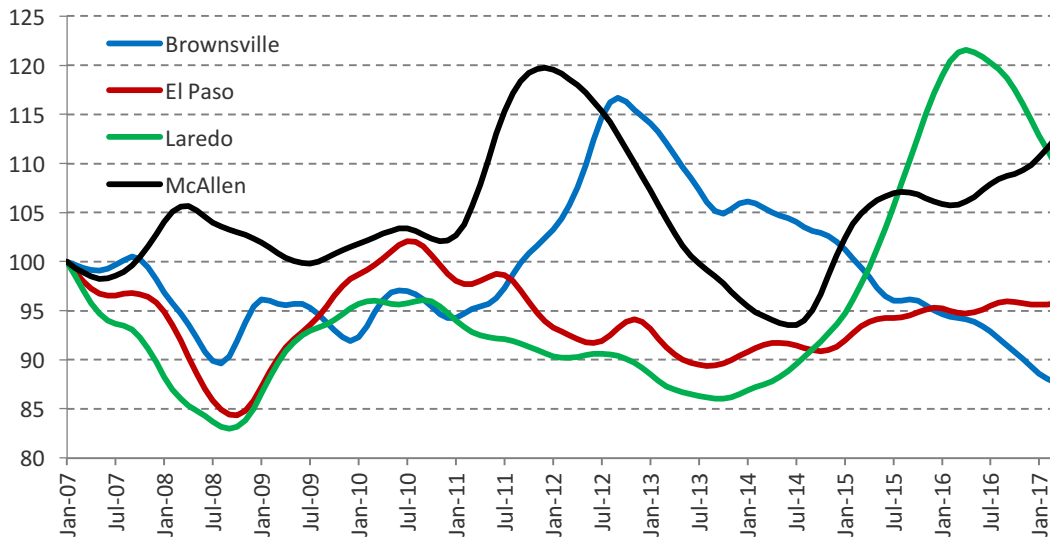
Note: Seasonally adjusted, 3-month moving average. March 2017 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

Unemployment Rate (Percent)



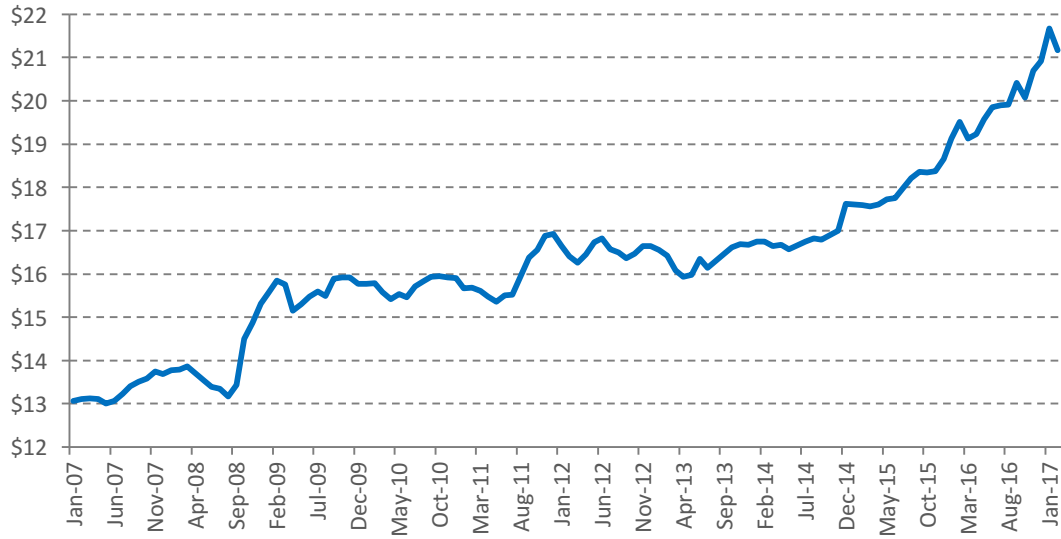
Note: Seasonally adjusted. March 2017 is preliminary. For more information, see [Unemployment Rate](#).
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

Total Private Employee Hourly Earnings (Index Jan 2007 = 100)



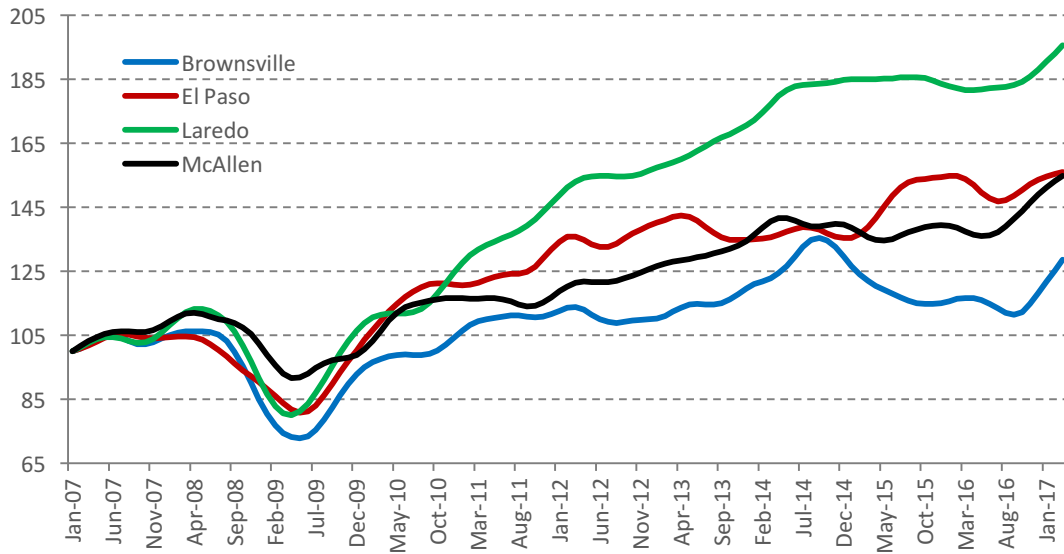
Notes: Inflation adjusted, seasonally adjusted and detrended. March 2017 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Real Peso per Dollar Exchange Rate (\$)



Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

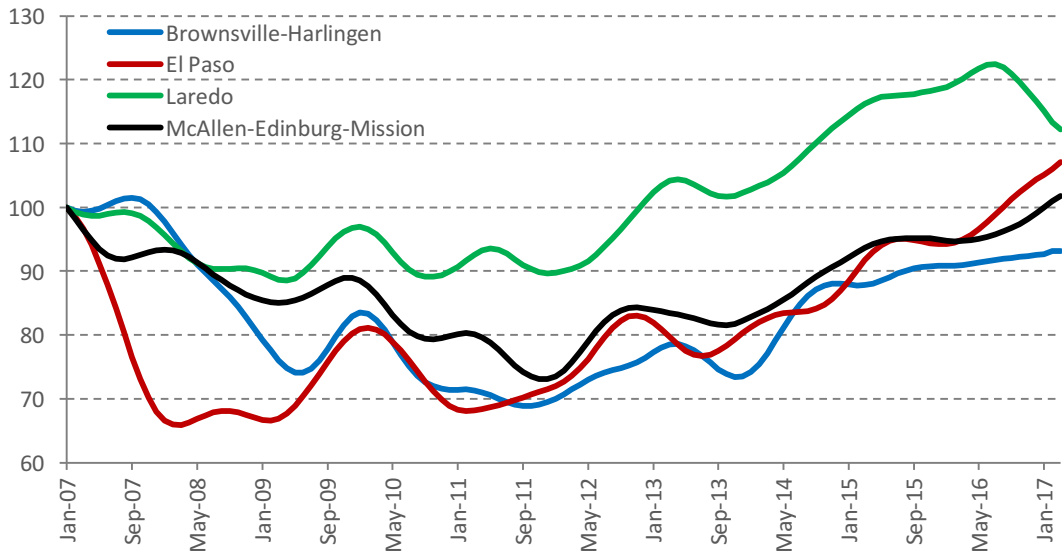
Total Import and Export Value (Index Jan 2007 = 100)



Note: The total dollar value of exports and imports were seasonally and detrended for each port of entry.
Source: Foreign Trade Division and Census Bureau

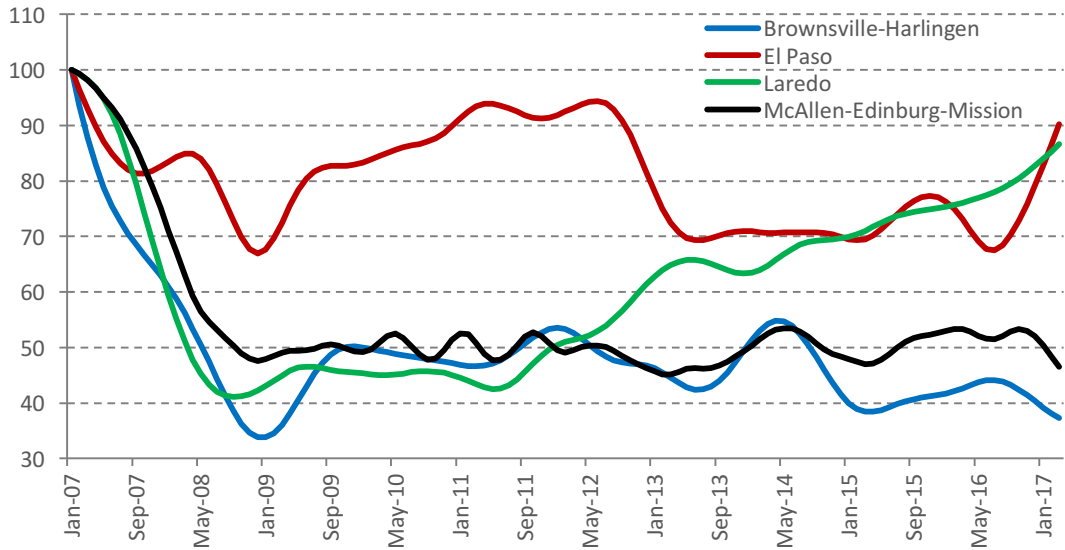
Housing

Housing Sales
(Index Jan 2007 = 100)



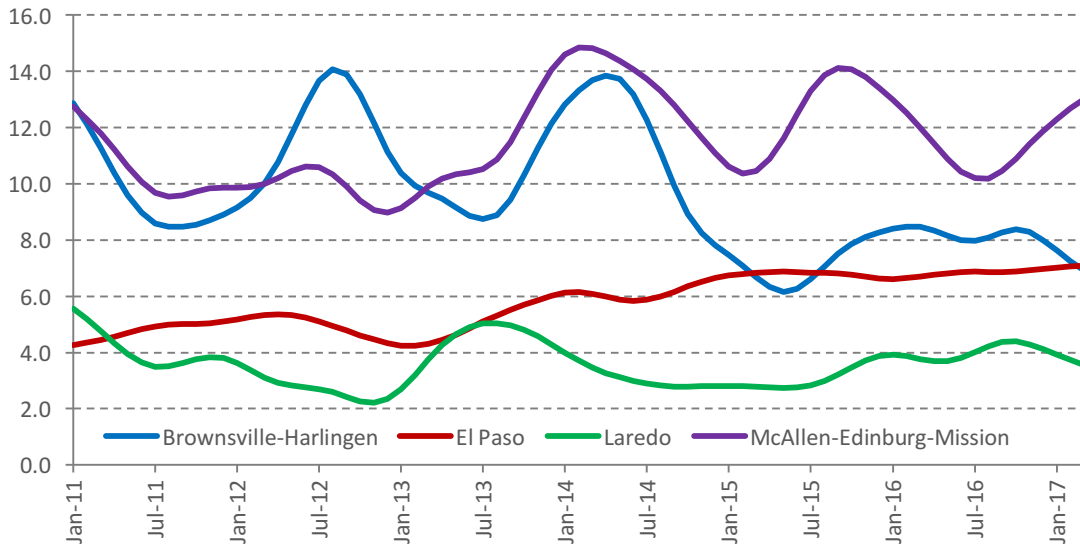
Note: Seasonally adjusted sales reported by MLS and detrended.
Source: Real Estate Center at Texas A&M University

Single-Family Housing Construction Permits
(Index Jan 2007 = 100)



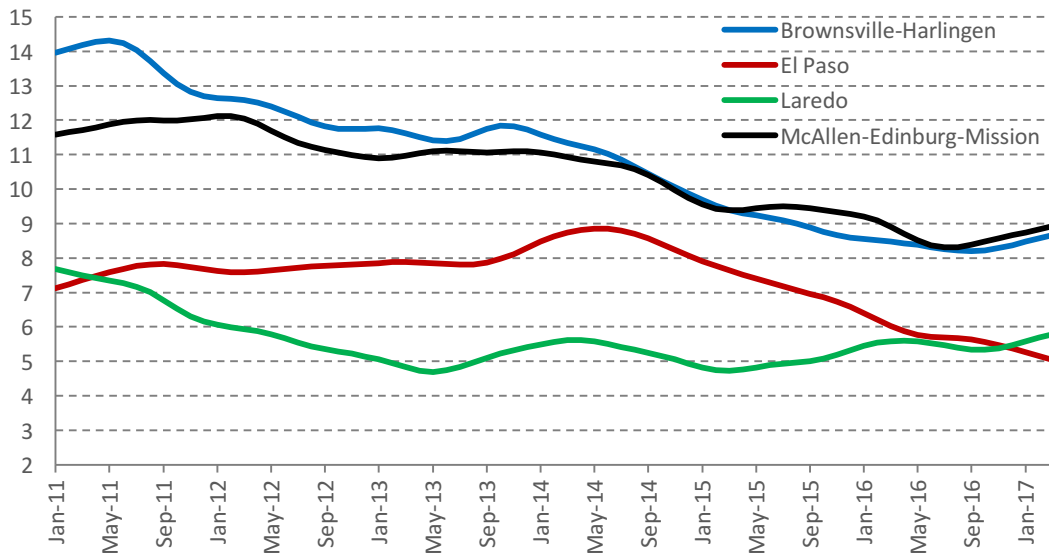
Note: Seasonally adjusted and detrended. Fort Worth is missing data for Somervell County.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

New Home Months of Inventory (Months)



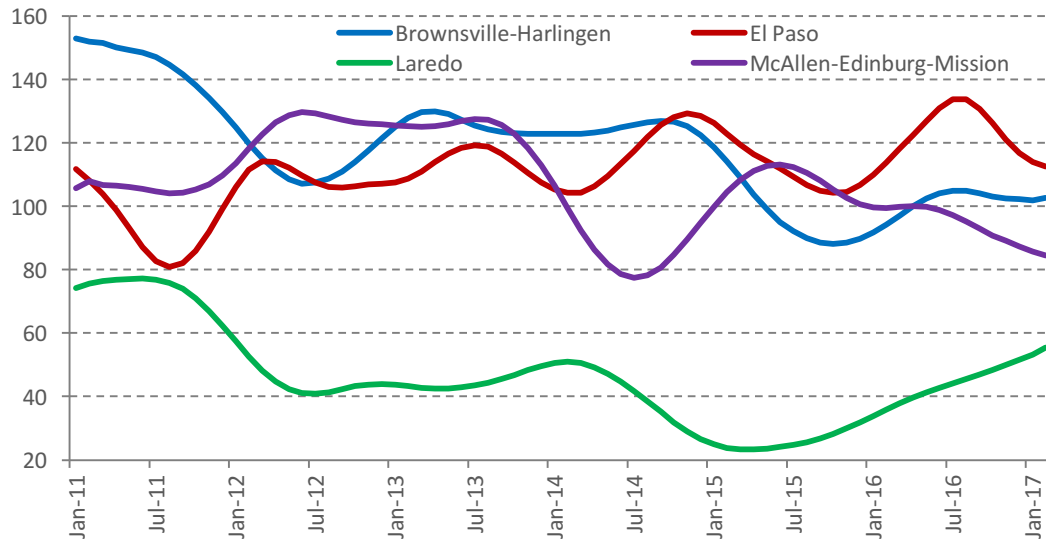
Note: Seasonally adjusted and detrended.
Sources: Real Estate Center at Texas A&M University

Existing Home Months of Inventory (Months)



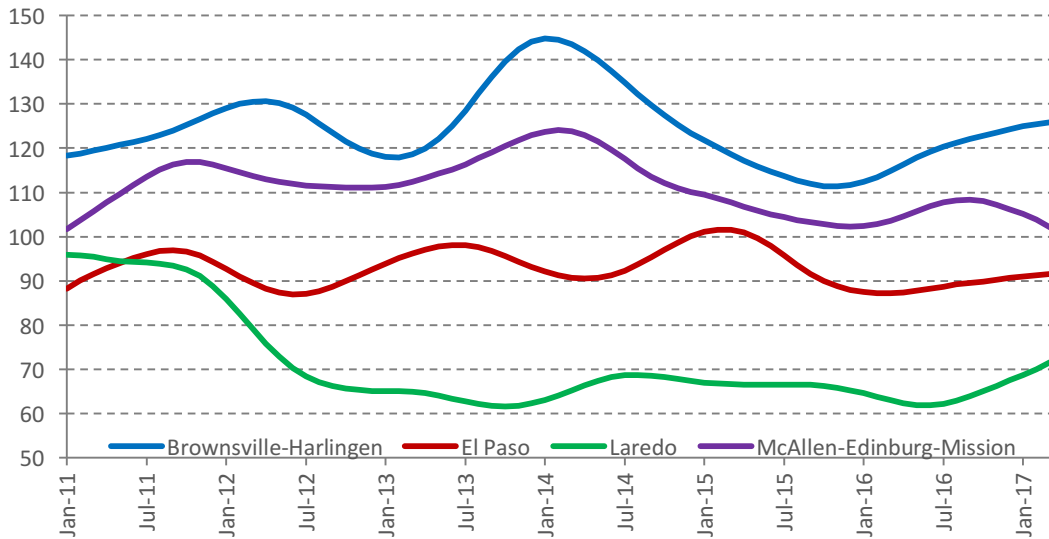
Note: Seasonally adjusted and detrended.
Sources: Real Estate Center at Texas A&M University

New Home Days on Market (Days)



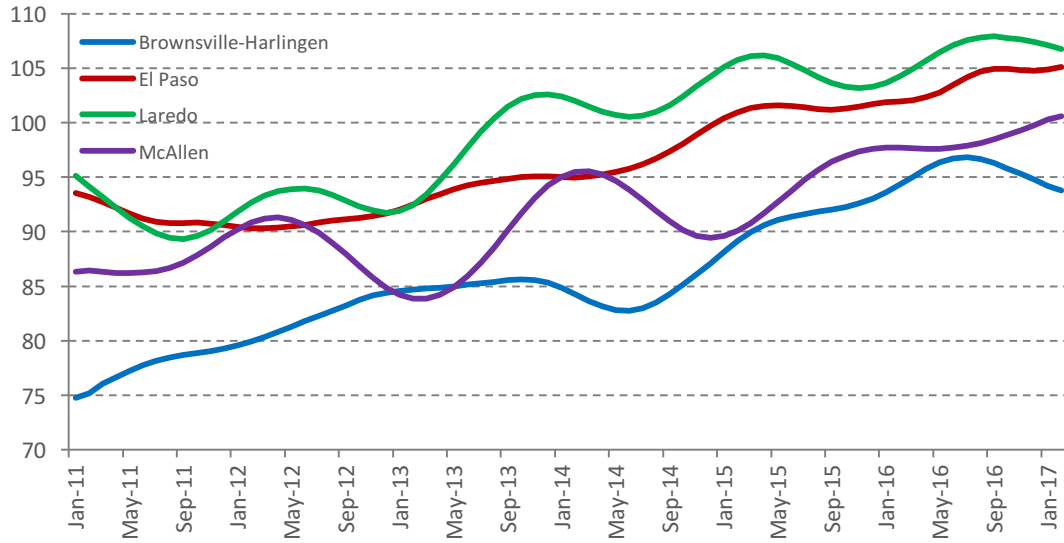
Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Days on Market (Days)



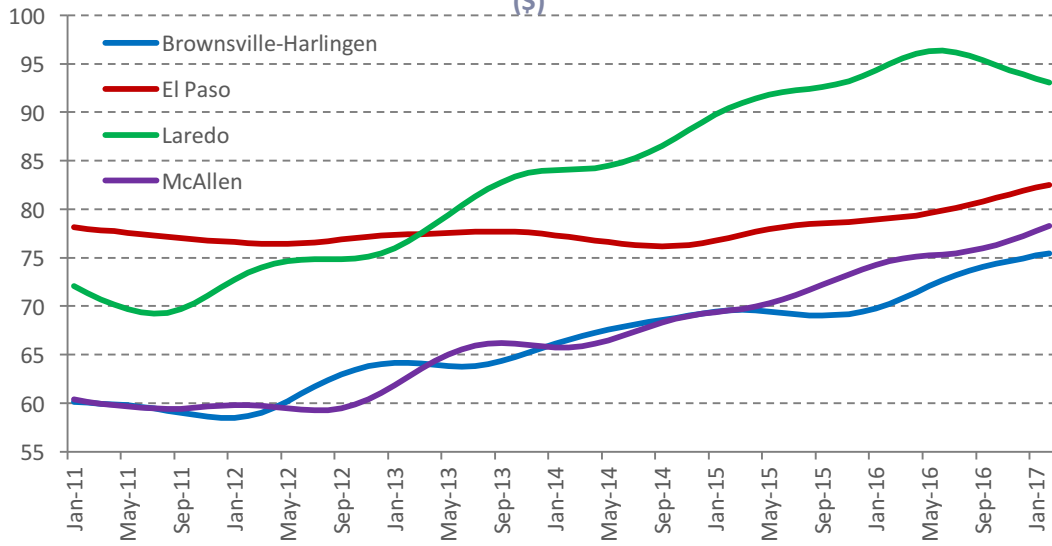
Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Price Per Square Foot (\$)



Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Price Per Square Foot (\$)



Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

DIRECTOR

GARY W. MALER

ADVISORY COMMITTEE

DOUG ROBERTS, CHAIRMAN Austin	DOUG JENNINGS, VICE CHAIRMAN Fort Worth
MARIO A. ARRIAGA Conroe	BESA MARTIN Boerne
RUSSELL CAIN Port Lavaca	TED NELSON Houston
ALVIN COLLINS Andrews	C. CLARK WELDER San Antonio
JACQUELYN K. HAWKINS Austin	BILL JONES, EX-OFFICIO Temple