TEXAS BORDER ECONOMY

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JULY 2019 DATA
TECHNICAL REPORT

About this Report 2
July 2019 Border Summary 3
Economic Activity 6
Business Cycle Index 6
Total Construction Values 6
Nonresidential Construction Values 7
Residential Construction Values 7
Employment Growth Rate 8
Mexico Maquiladora and Manufacturing Employment 8
Unemployment Rate 9
Total Private Employee Hourly Earnings 9
Real Peso per Dollar Exchange Rate 10
Import Values 10
Export Values 11
Housing 12
Housing Sales 12
Single-Family Housing Construction Permits 12
Total New Private Single-Family Construction Value 13
New Home Months of Inventory 13
Existing Home Months of Inventory 14
Brownsville Months of Inventory by Price Cohort 14
El Paso Months of Inventory by Price Cohort 15
Laredo Months of Inventory by Price Cohort 15
McAllen Months of Inventory by Price Cohort 16
New Home Days on Market 16
Existing Home Days on Market 17
New Home Median Sales Price 17
Existing Home Median Sales Price 18
New Home Median Price Per Square Foot 18
Existing Home Median Price Per Square Foot 19

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 P. Gaines, Dr. Luis B. Torres, Wesley Miller, and Paige Silva

Data current as of September 4, 2019

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Border Summary

BORDER EMPLOYMENT	PESO/DOLLAR EXCHANGE RATE	TOTAL TRADE VALUES	U.S. MANUFACTURING PRODUCTION
▲ 1,000	▼ 19.05	▲ $31.6 Billion	▼ 0.4%

July 2019

Slowing employment growth led to a less optimistic outlook on the Texas border, although unemployment hovered at historically low levels. Real wages improved, but labor market conditions failed to bolster housing sales. Single-family permits and construction activity, however, remained stable. Peso appreciation and the ratification of the U.S.-Mexico-Canada Agreement (USMCA) by the Mexican Senate increased consumer confidence, boosting total trade values. Threats to the border metros include the slowing global economy and political gridlock at the U.S. Capitol regarding immigration reform and trade.

Economy

Economic activity decelerated along the border, sinking below post-recessionary averages as indicated by the **Dallas Fed's Business-Cycle Indices.** Hiring in Brownsville and El Paso eased pace, slowing to 0.2 and 0.7 percent, respectively, on a seasonally adjusted annualized rate (SAAR). Activity in McAllen contracted 1.9 percent amid a struggling retail sector. Laredo fared the best, registering 1.2 percent SAAR growth as inflation-adjusted wages showed signs of improvement.

A rebound in nonresidential activity boosted **total construction values** above their four-year average: however, total values year to date (YTD) were 2.2 percent behind the same period last year. Office investment increased for the fourth consecutive month while school-building construction accelerated in El Paso and Brownsville. On the residential side, McAllen's single-family activity normalized after spiking in June, but increased apartment construction in El Paso sustained the border's upward trend.

The border metros expanded **nonfarm employment** by just 1,000 positions in July after a 100-job contraction the previous month, slowing growth to 1.9 percent SAAR. McAllen added 1,300 jobs. Most of the gains were in the education/health sector, bumping up the industry's YTD increase to more than 5,000. Retail trade employment, however, fell for the first time this year in McAllen and continued to decrease in Brownsville. On the bright side, leisure/hospitality services in Brownsville expanded payrolls for the seventh consecutive month, boosting the metro's nonfarm employment growth into positive territory. Meanwhile, Laredo and El Paso employment declined. Both locales extended steady increases in mining/logging/construction; but several service-providing sectors contracted in Laredo, outweighing other gains. El Paso shed 300 jobs, registering the locale's first decrease this year as retail and professional/business services employment decreased for the

second consecutive month. The El Paso shooting in August may have ripple effects that negatively impact retail activity—and thus, employment—in the upcoming months.

Mexican manufacturing and maquiladora employment[1] netted 700 jobs in the past three months after shedding 2,000 to start the second quarter. U.S. industrial production drew back following June's small improvement, while manufacturing output decreased 0.4 percent in July. After three consecutive declines, maquiladora employment in Juarez added 900 jobs but remained 0.3 percent below year-end levels. Nuevo Laredo extended a four-month reduction, falling 3 percent YTD. Growth in Reynosa stagnated in the first half of the year, increasing only 0.5 percent YTD. On the other hand, Matamoros and Chihuahua employment jumped 9.7 and 9.3 percent YTD, respectively.

Unemployment rates along the border hovered at historical lows. Joblessness in El Paso and Brownsville ticked down to 3.7 and 5.3 percent, respectively. McAllen's unemployment rate stabilized at 5.9 percent. The metric in Laredo remained below the nationwide average (3.7 percent) for the second straight month at 3.6 percent.

Real private hourly earnings rose along the border as hiring moderated. McAllen, the highest paying metro, extended a six-month stretch of year-over-year (YOY) improvement as wages climbed 7.2 percent after adjusting for inflation. Real earnings in El Paso increased YOY for the ninth consecutive month with a 1.6 percent gain. Although growth moderated in Brownsville after double-digit hikes in the first half of the year, wages continued to recover from a four-year decline between 2013 and 2017. Laredo earnings flattened after breaking a 30-month streak of falling wages; however, the trend remained optimistic.

In the currency market, the **peso per dollar exchange rate** ticked down to 19.05, making domestic goods less expensive to Mexican buyers. The inflation-adjusted rate[2], however, rose to its highest level this year. After sinking 6 percent in June, total trade values passing through the border metros exceeded $31.6 billion for a record high. Trade passing through Laredo, accounting for 32 percent of Texas trade values, increased 5.6 percent. Brownsville exports remained negative YTD but showed improvement as mineral fuel/oil products lifted after falling through most of the year. Although increasing wait times still challenged trade activity along the border, the ratification of the USMCA by the Mexican legislature in June calmed some trade uncertainty concerns.

Housing

Border housing sales flattened after falling to a YTD low the previous month. Sales in Laredo and El Paso declined amid labor market contractions. The West Texas metro extended a nine-month downward trend as falling transactions for homes priced less than $200,000 continued to outweigh increasing activity in the $200,000-$400,000 price range. Brownsville sales volumes steadied after

[1] Mexican manufacturing and maquiladora employment is generated by the Instituto Nacional de Estadística y Geografía. Its release typically lags the *Texas Border Economy* by one month.
[2] The real peso per dollar exchange rate is inflation adjusted using the Texas Trade-Weighted Value of the Dollar. Its release typically lags the *Texas Border Economy* by one month.

falling two consecutive months. McAllen was the bright spot, with YTD sales increasing 14.3 percent compared with 2018 sales through July.

On the supply side, the border metros issued a total of 661 **single-family housing construction permits**, increasing 4 percent from January through July 2019 compared with the first seven months last year. Activity in McAllen continued to pick up after falling in 4Q2018 and 1Q2019. Brownsville and El Paso permit issuance sustained slow, but stable, growth, although Laredo permits flattened. **Private single-family construction values** steadied along the border but showed signs of improvement.

Movement in the **months of inventory (MOI)** of homes for sale varied along the border. The MOI in the Rio Grande Valley ticked down to 7.1 and 7.6 months in Brownsville and McAllen, respectively. On the other hand, El Paso inventories inched up for the third consecutive month, reaching 3.5 months. Ample supply and suppressed sales in Laredo pushed the MOI to a two-year high at 5.5 months.

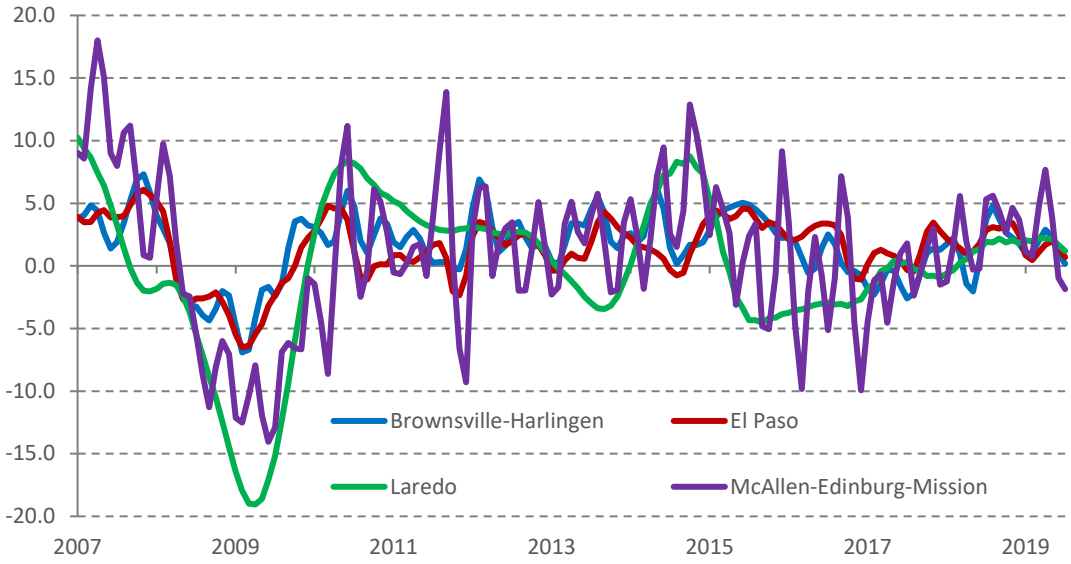
Demand remained healthy as indicated by the **average number of days on market (DOM)**. Having fallen every month this year, El Paso's DOM reached a post-recessionary low at 65 days. Homes in Laredo averaged 56 days on the market, selling more than a week faster than last July. The metric in the Rio Grande Valley stabilized at 100 and 93 days in Brownsville and McAllen, respectively.

Laredo and El Paso home-price appreciation relaxed following double-digit YOY growth in **median home prices** during the first quarter. The West Texas metro's median price stabilized at $162,200 while Laredo's median price ($170,700) remained unchanged from last July. The metric in Brownsville fell $3,500 to $144,300. McAllen's median price rose to an all-time high at $159,900 amid a surge in sales for homes priced above $300,000.

Economic Activity

Business Cycle Index

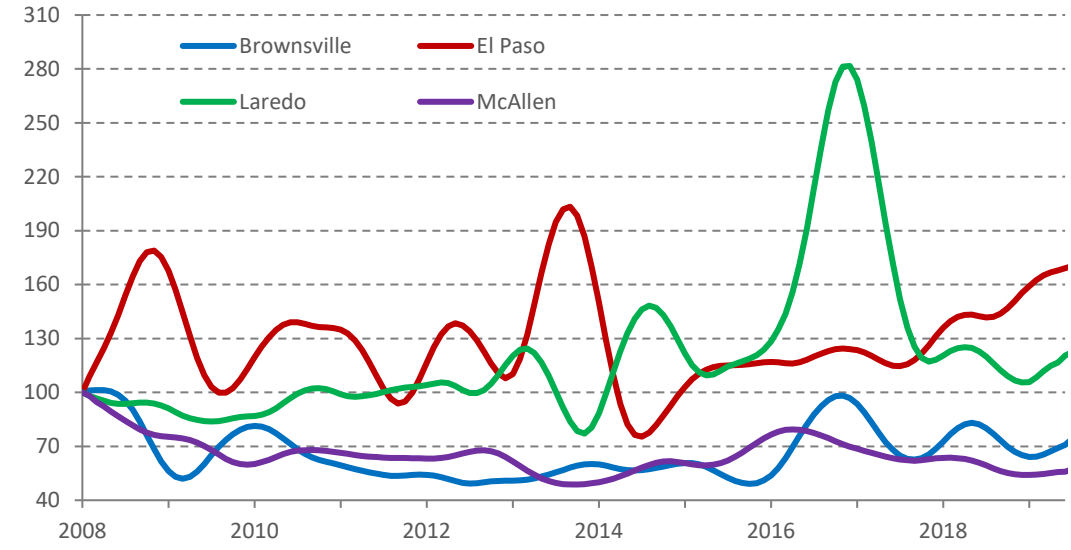
(Quarter -over- Quarter Percent Change)



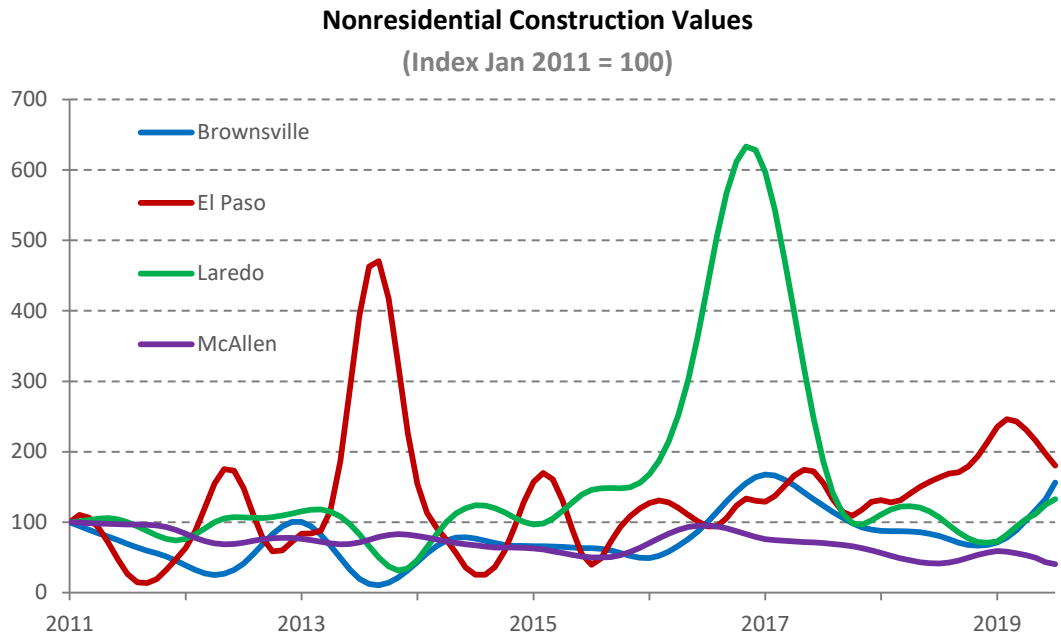
Note: Seasonally adjusted. For more information, see Texas Business Cycle Index.
Source: Federal Reserve Bank of Dallas

Total Construction Values

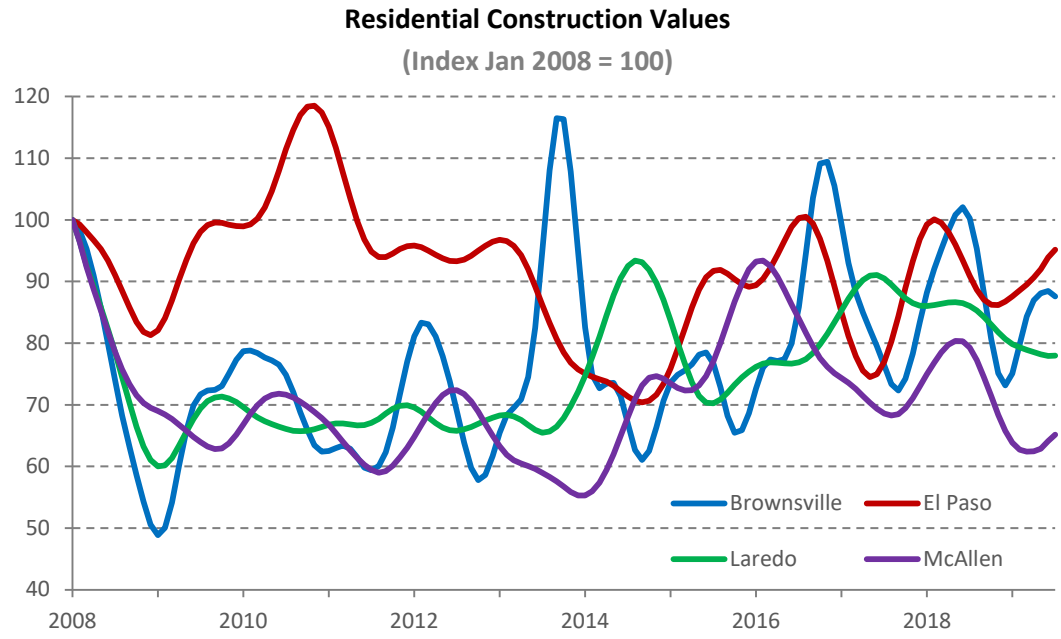
(Index Jan 2008= 100)



Note: Inflation-adjusted Trend-cycle component.
Source: Dodge Analytics

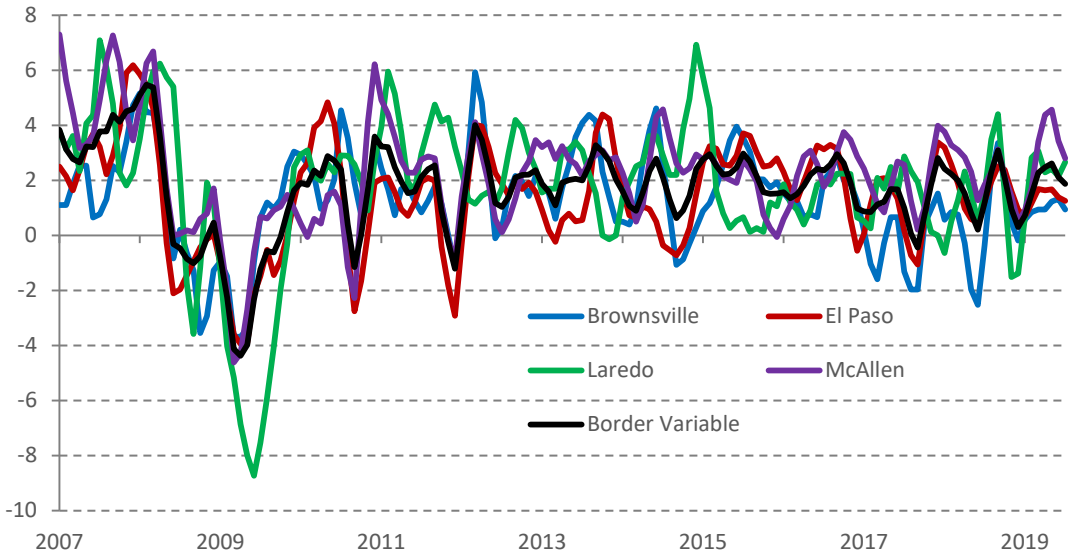


Note: Inflation-adjusted Trend-cycle component.
Source: Dodge Analytics



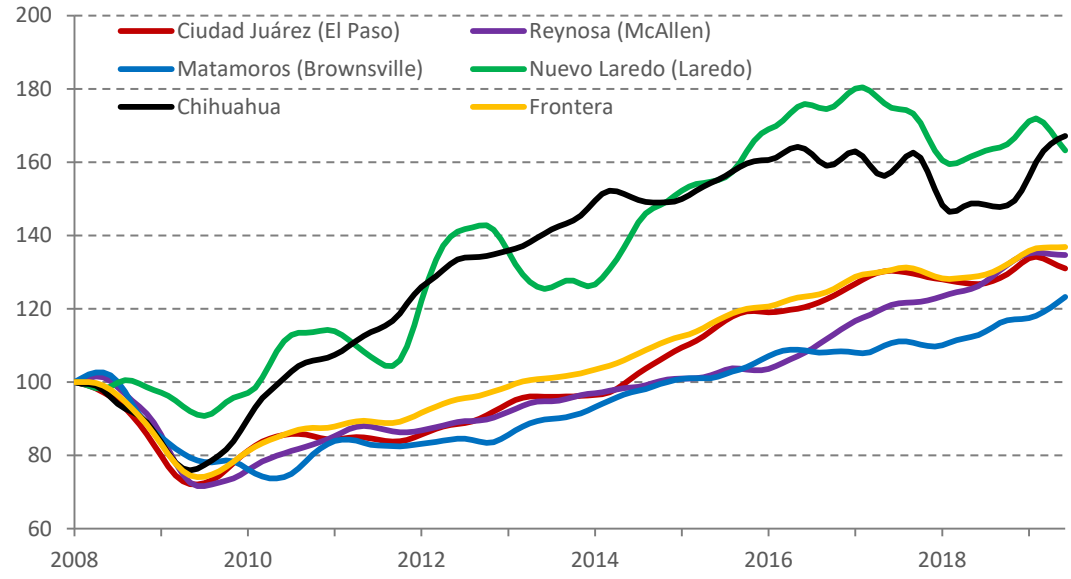
Note: Inflation-adjusted Trend-cycle component.
Source: Dodge Analytics

Employment Growth Rate
(Quarter-over-Quarter Annualized Percent Change)



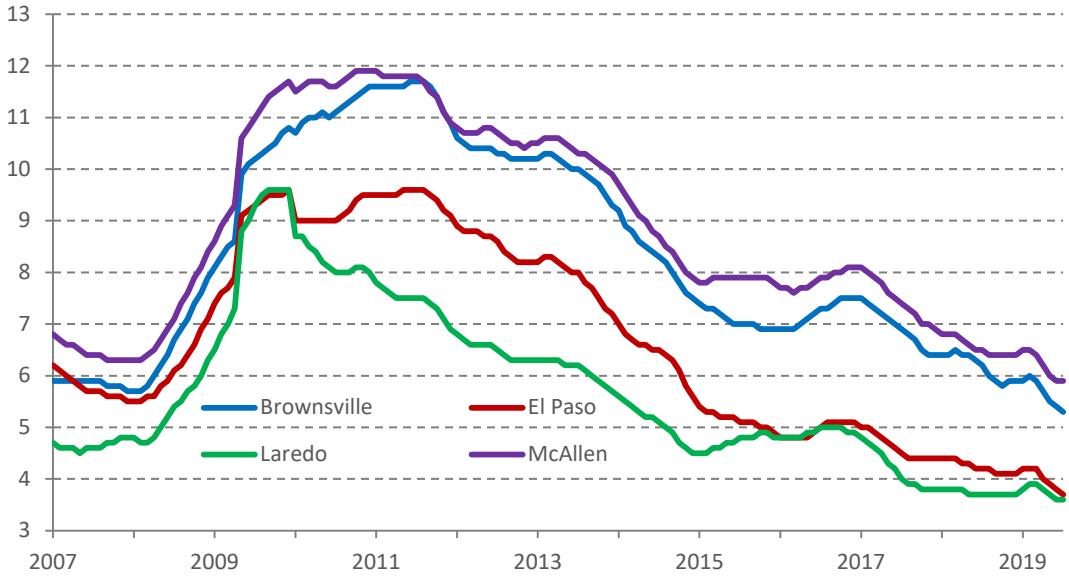
Note: Seasonally adjusted, three-month moving average. July 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Mexico Maquiladora and Manufacturing Employment
(Index Jan 2008 = 100)



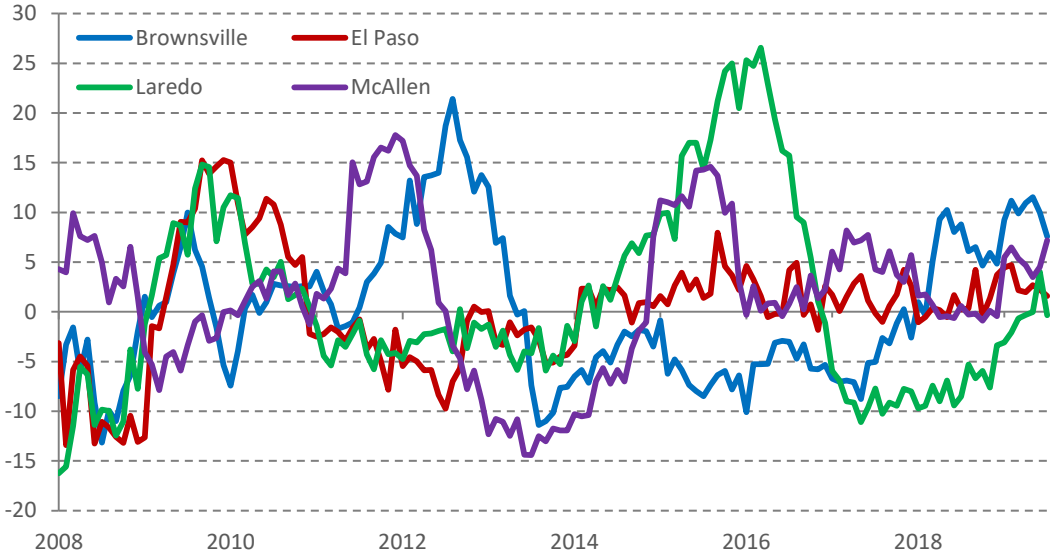
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografiía

Unemployment Rate
(Percent)

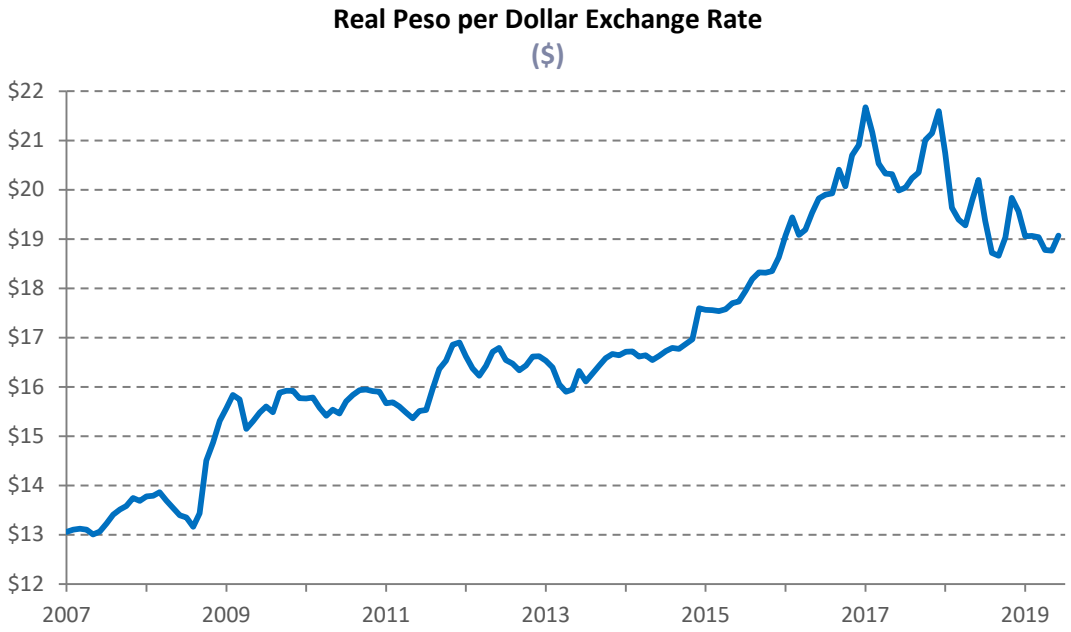


Note: Seasonally adjusted. July 2019 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics

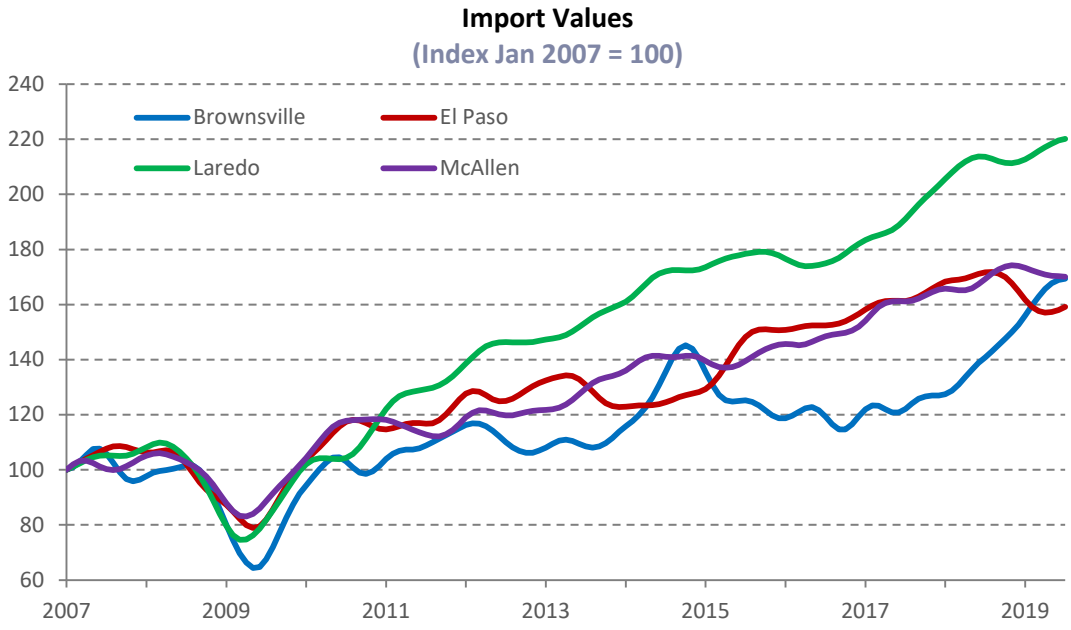
Total Private Employee Hourly Earnings
(Year-over-Year Percent Change)



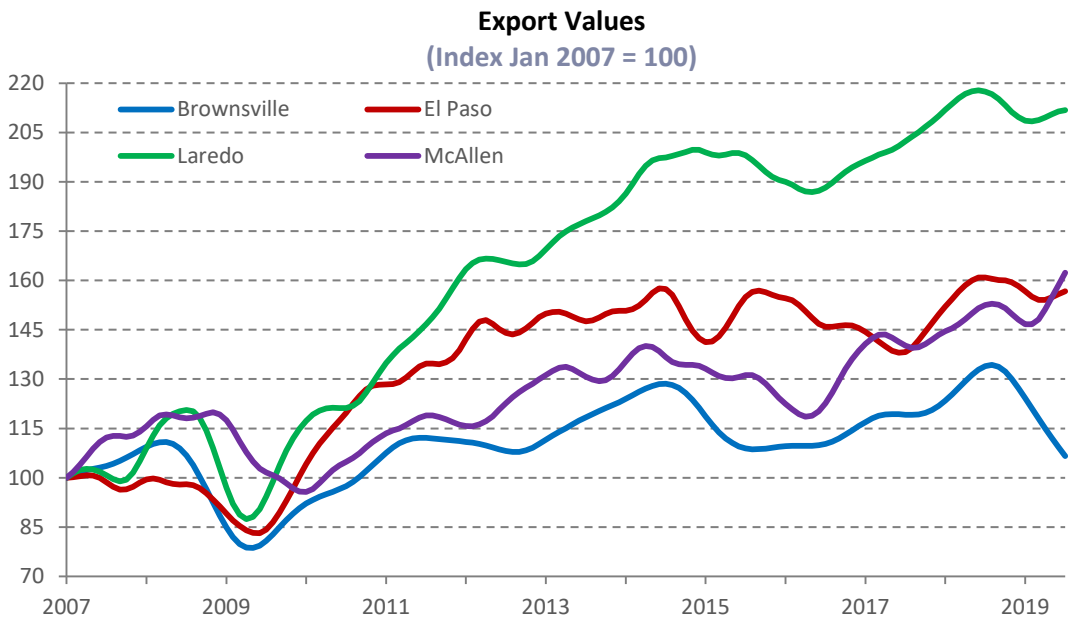
Notes: Inflation adjusted. July 2019 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics



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



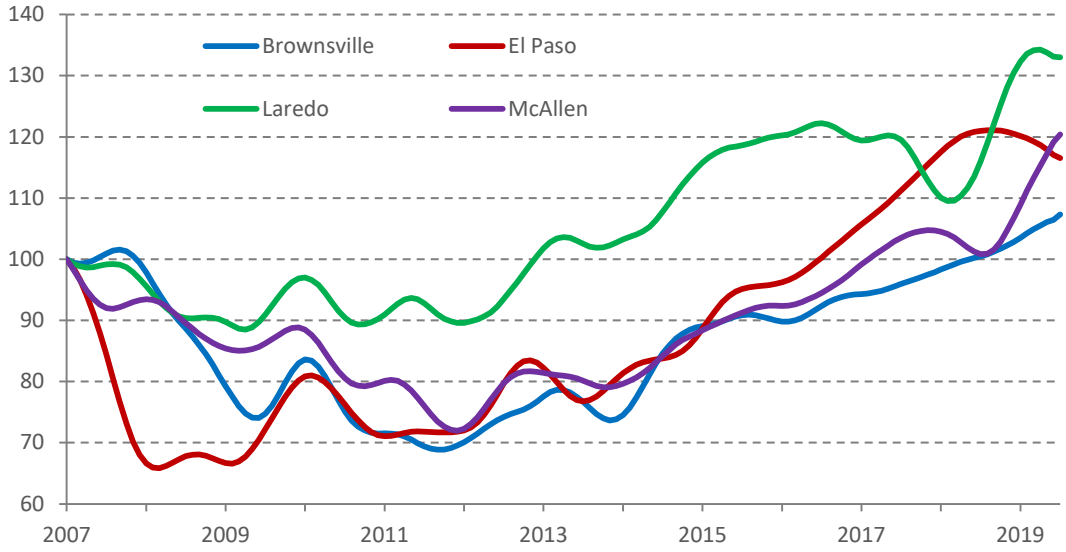
Note: Trend-cycle component.
Sources: Foreign Trade Division and U.S. Census Bureau



Note: Trend-cycle component.
Sources: Foreign Trade Division and U.S. Census Bureau

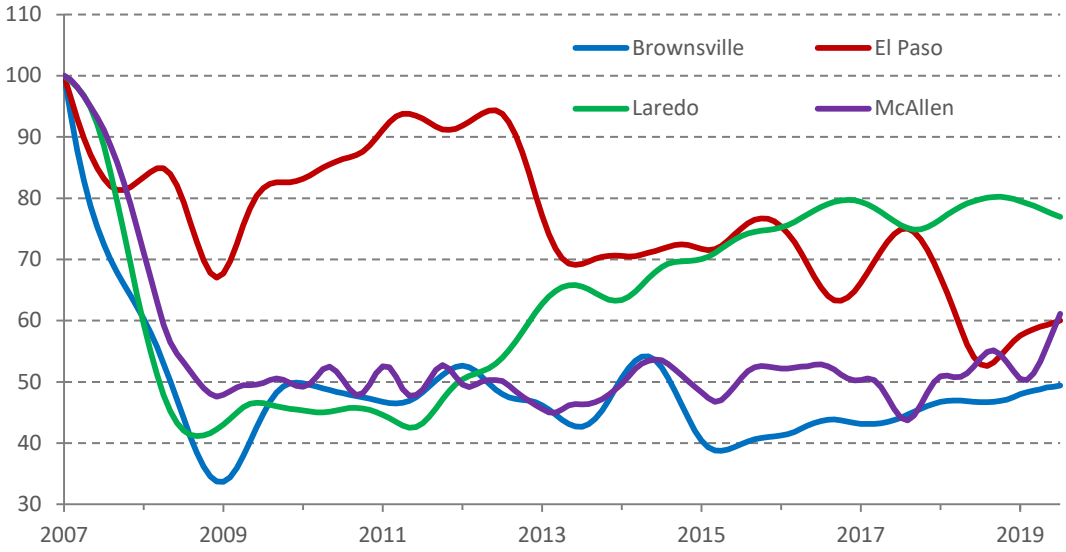
Housing

Housing Sales
(Index Jan 2007 = 100)



Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

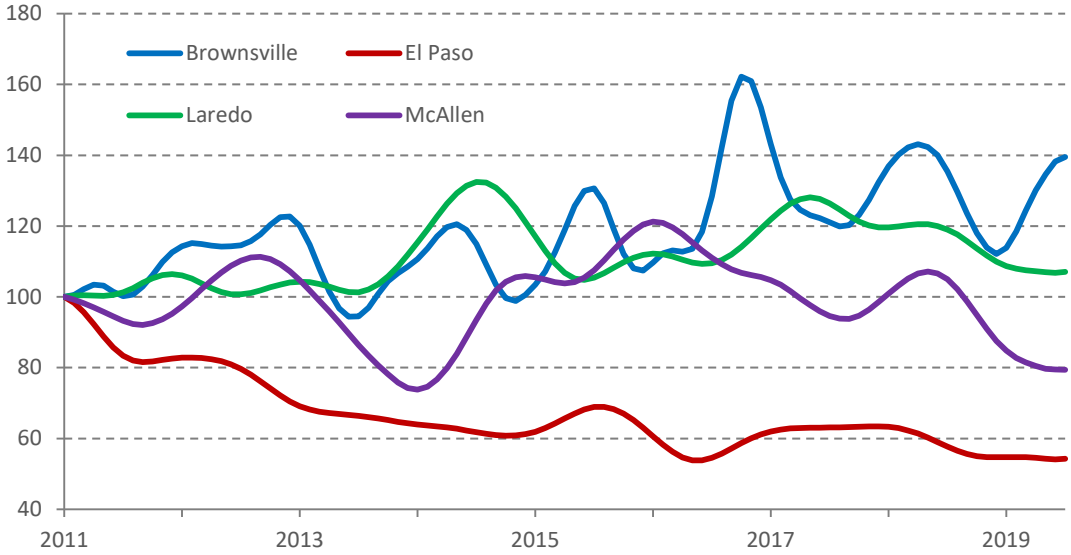
Single-Family Housing Construction Permits
(Index Jan 2007 = 100)



Note: Trend-cycle component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Total New Private Single-Family Construction Value

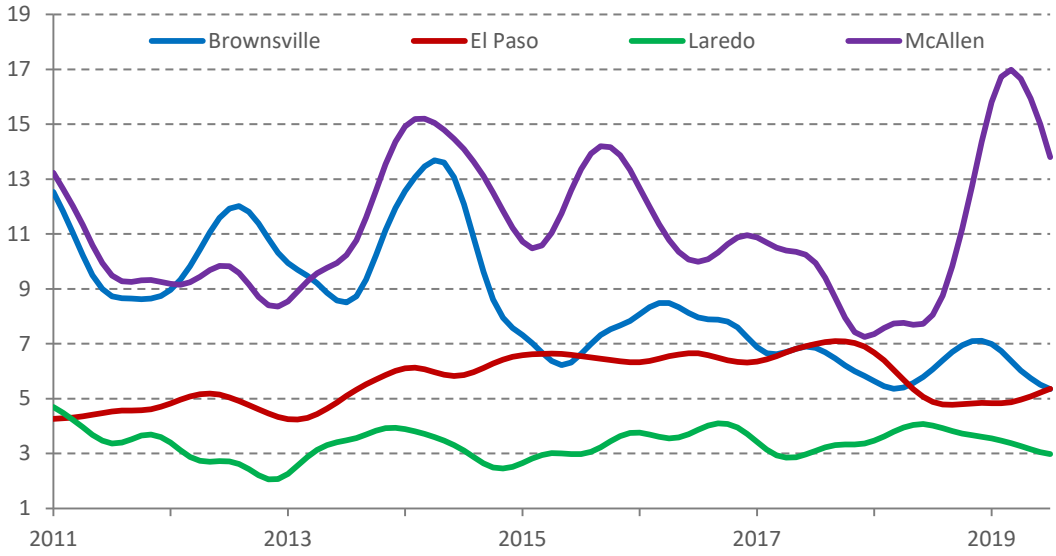
(Index Jan 2011 = 100)



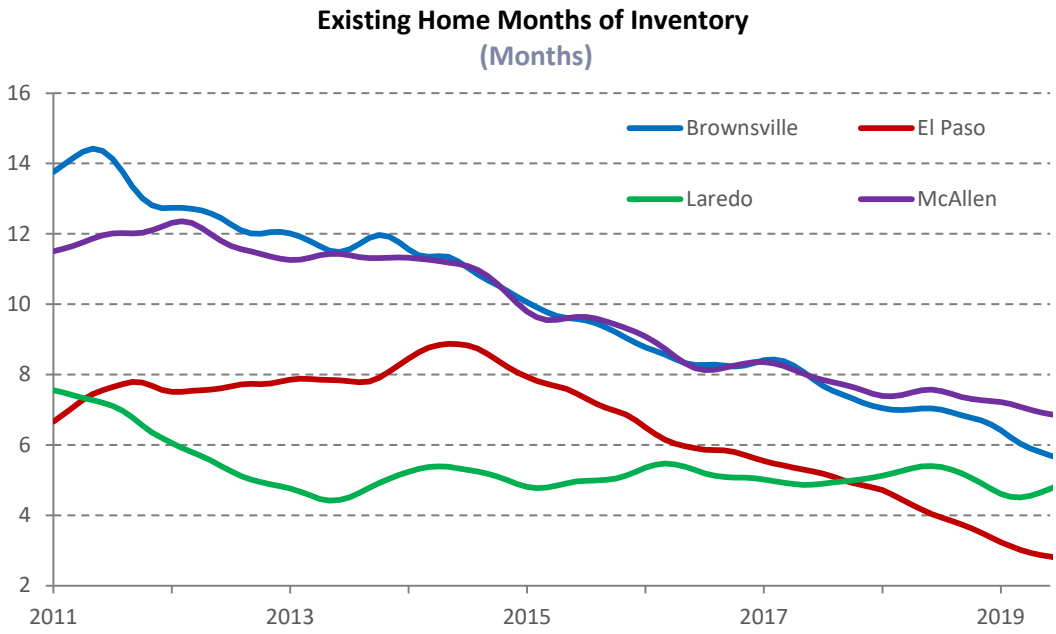
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Analytics

New Home Months of Inventory

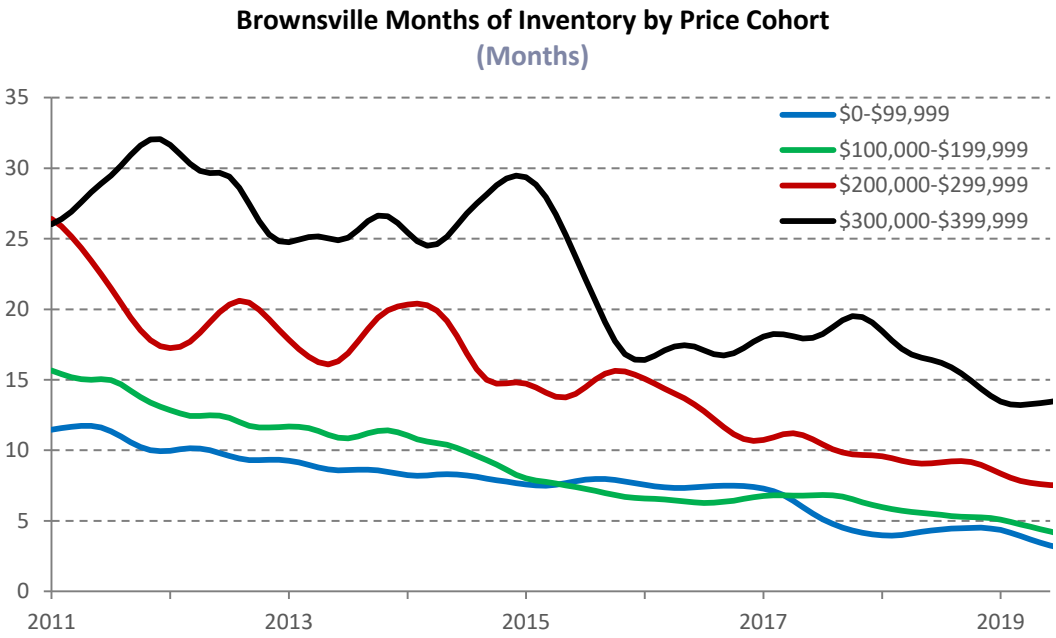
(Months)



Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University



Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University



Note: Trend-cycle component.
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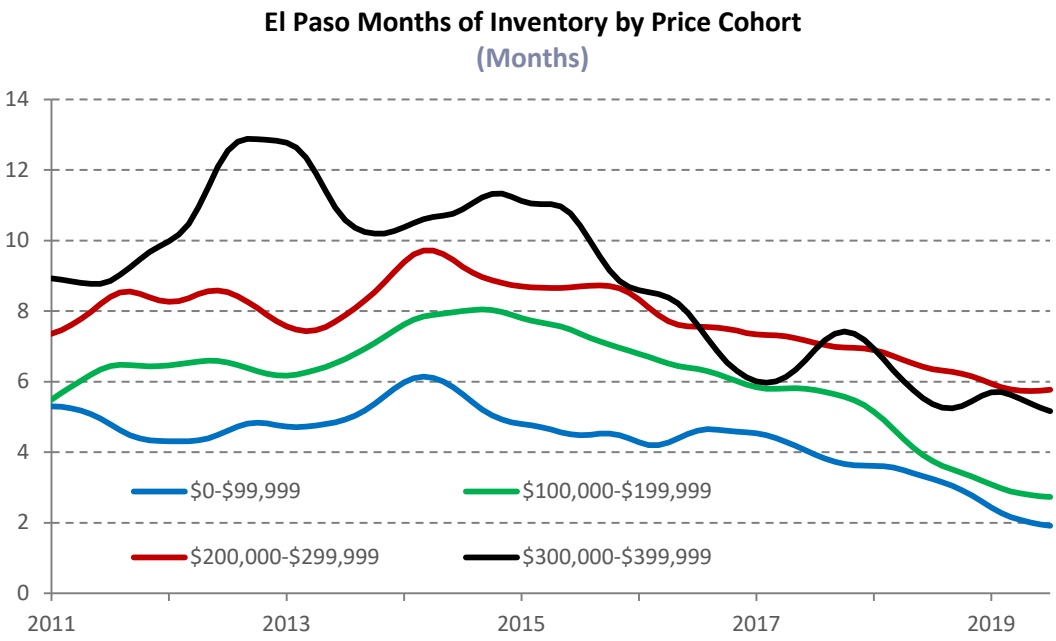

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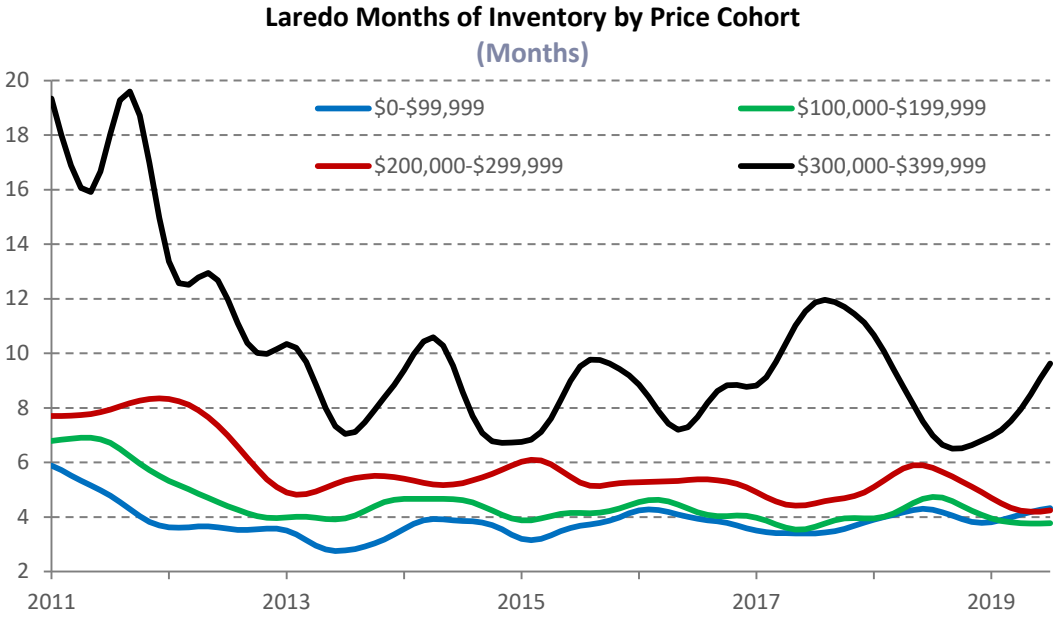

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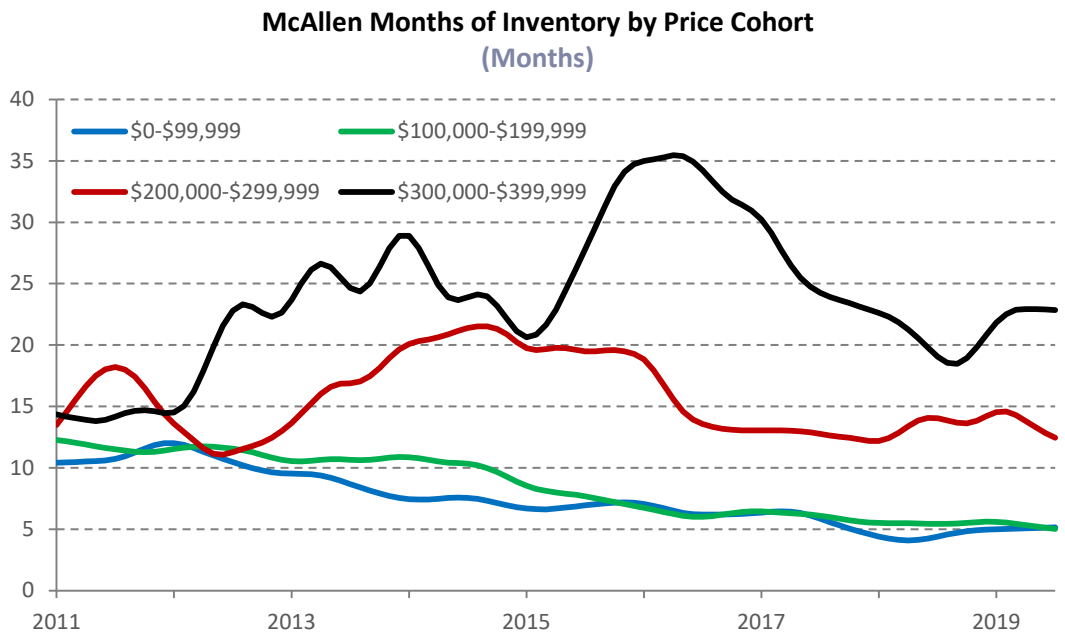
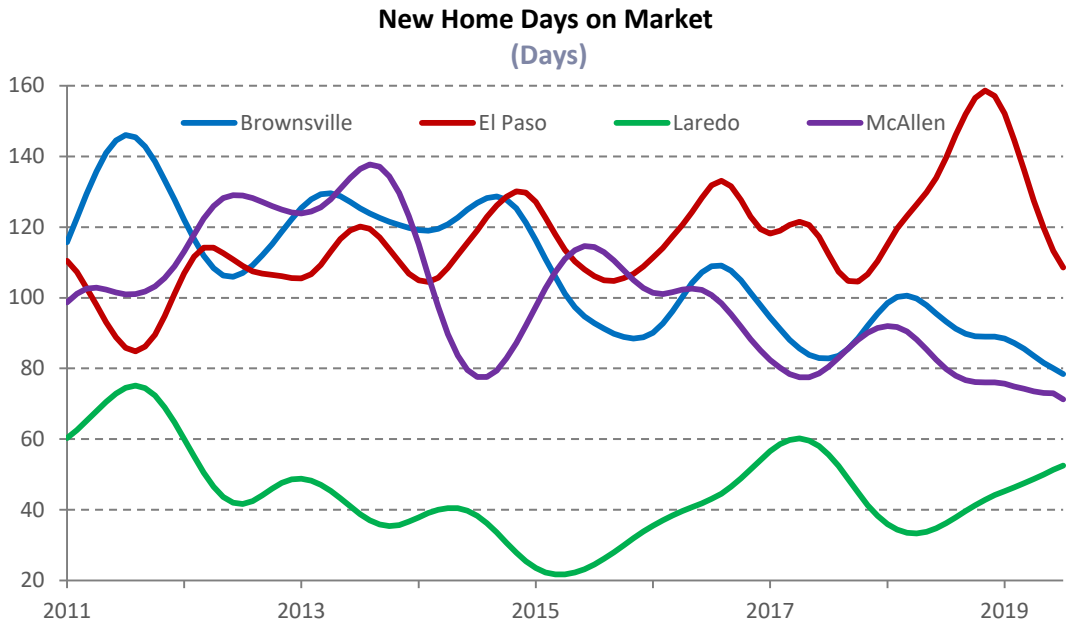
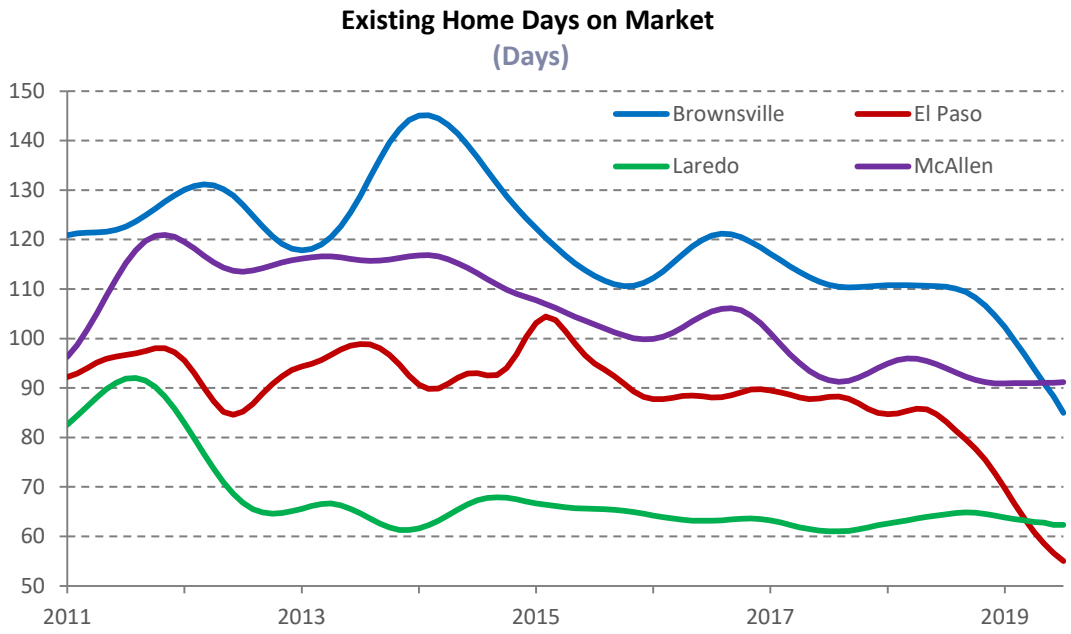


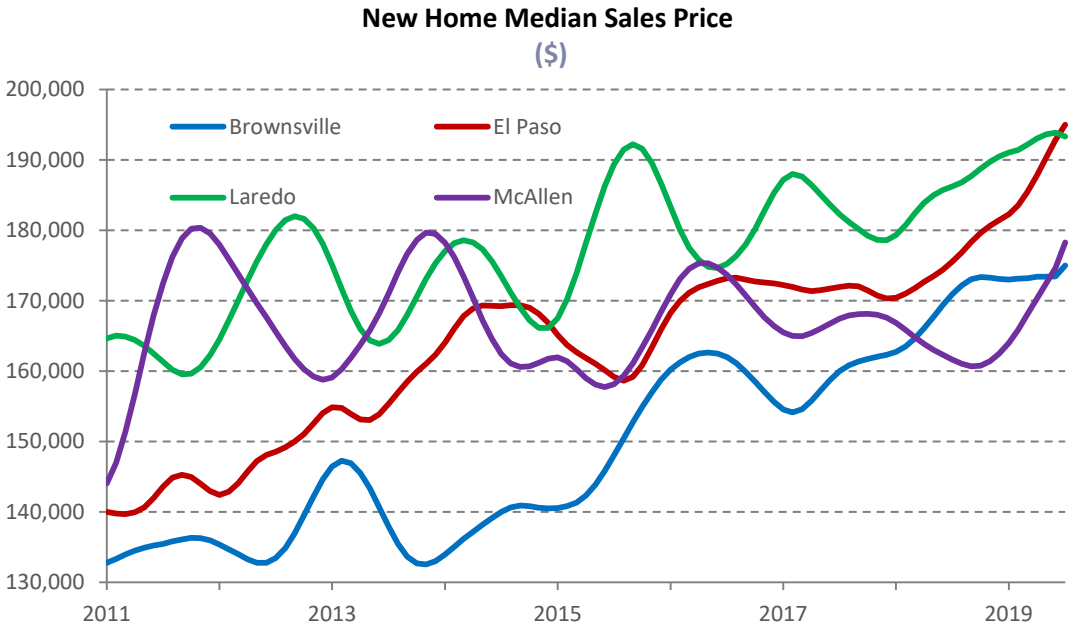
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University



Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University



Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University



Note: Trend-cycle component. For single-family homes.
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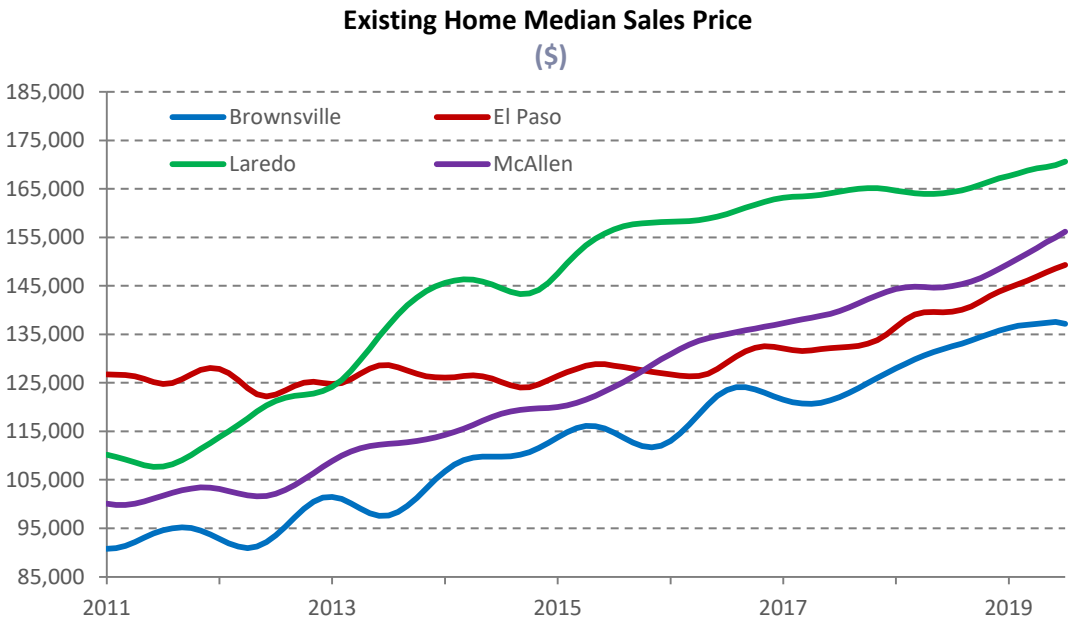

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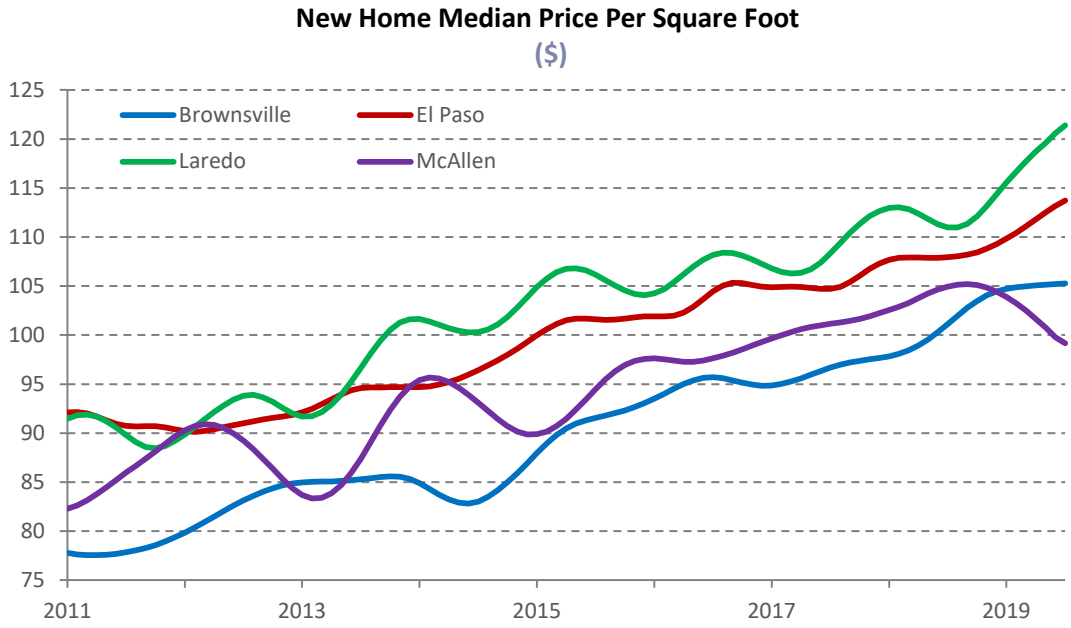

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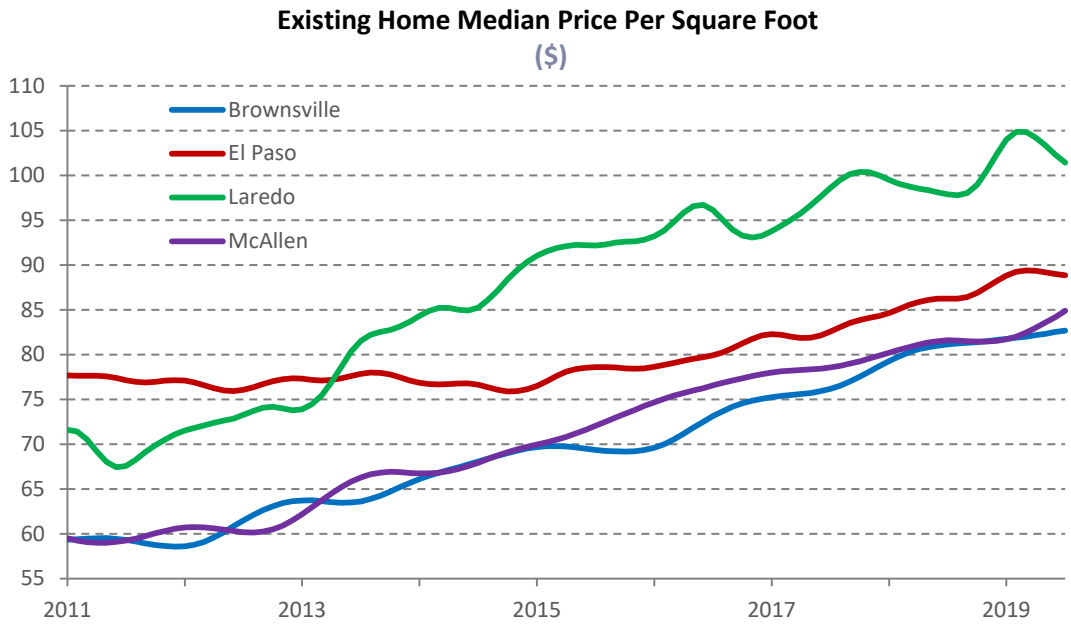
Source: Real Estate Center at Texas A&M University



Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

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