

TEXAS BORDER ECONOMY



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2165

SEPTEMBER 2019 DATA

TECHNICAL REPORT

About this Report	2
September 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	11
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 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 November 5, 2019

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Border Summary

BORDER EMPLOYMENT

▲ 0.8% SAAR

PESO/DOLLAR EXCHANGE RATE

▼ 19.55

TOTAL TRADE VALUES

▲ 0.4% QOQ

BORDER HOUSING SALES

▼ -2.3% MOM

September 2019

Weakening labor market conditions and meager GDP growth in Mexico slowed economic growth along the U.S. side of the Texas border. Unemployment rates remained at historically low levels, but hiring waned, decreasing upward pressure on wages. Falling mortgage rates failed to stimulate housing sales amid labor-market struggles; construction activity, however, remained strong, contributing to the boost in single-family inventories. Housing demand remained healthy, as indicated by the downward trend in average days on market. Total trade values increased during the third quarter but flattened through 2019, highlighting the need for ratification of the United States-Mexico-Canada Trade Agreement to calm concerns of uncertainty. Much of the trade between the border communities and Mexico are manufacturing products; therefore, the decline in U.S. manufacturing weighs heavily on the local economies. The slowing global economy and political gridlock in Washington regarding immigration reform and trade remain the most prominent challenges along the Texas-Mexico border.

Economy

Economic activity was modest in the border metros, according to the **Dallas Fed's Business-Cycle Indices**. In Brownsville and El Paso, end-of-quarter payroll expansions pushed growth into positive territory, but the indices increased only 0.7 and 0.6 percent on a seasonally adjusted annualized rate (SAAR). McAllen's metric rose 0.3 percent after stumbling to start the second half of the year as the retail sector improved, while Laredo's index steadied at 0.7 percent growth.

After two consecutive quarters of above-average payroll expansion, border **nonfarm employment** decelerated to 0.8 percent SAAR growth, adding just 3,000 jobs during the third quarter. In Brownsville and El Paso, employment increased by only 100 and 200 new employees, respectively. Professional/business services and trade/transportation/utilities contractions weighed on gains in the leisure/hospitality and goods-producing sectors. Laredo added 300 positions in the three months ending in September as leisure/hospitality services contributed to most of the payroll expansion, correcting for a slow second quarter. Steady hiring in mining/logging/construction led to improvement every quarter this year. McAllen employment rose by 2,400 jobs, with growth concentrated in the education/health, retail, and professional/business sectors.

On the southern side of the border, the slowing global manufacturing environment weighed on Mexican **manufacturing and maquiladora employment**¹, which contracted by 2,400 jobs in August. Juarez and Nuevo Laredo employment fell 0.6 and 2.7 percent year to date (YTD) after registering net layoffs for the fifth and sixth month this year, respectively. Reynosa and Chihuahua shed more than 300 jobs each but maintained 1.3 and 6.9 percent YTD growth. On the other hand, Matamoros added 400 jobs, increasing 9.8 percent YTD. Maquiladora employment may continue to fall due to decreased U.S. manufacturing production in September. The decline was largely a result of the General Motors strike. Nevertheless, output remained above the YTD low reached in April.

Unemployment rates along the border hovered at historical lows. Joblessness in Laredo matched the national average of 3.5 percent while El Paso's unemployment rate stabilized at 3.7 percent. In the Rio Grande Valley, the metric posted 5.3 and 5.9 percent in Brownsville and McAllen, respectively.

Average real private hourly earnings, however, decelerated in the Rio Grande Valley. Although Brownsville's inflation-adjusted wages jumped 6.6 percent year over year (YOY), the improvement was down from double-digit increases seen earlier in 2019. Average real wage growth slowed to 1.6 percent in McAllen while El Paso earnings fell slightly after adjusting for inflation. Laredo was the exception, increasing 2 percent YOY following a two-month stagnation.

Continued investment in the nonresidential sector boosted YTD **total construction values** 7.2 percent above January through September levels of last year. El Paso's school and hospital investment increased during the third quarter, although warehouse construction took a step back. Office construction strengthened in Brownsville but fell in McAllen, along with hospital, warehouse, and school-building investment. Residential construction decelerated compared to second-quarter growth but remained positive. Single-family activity accelerated in El Paso and Laredo, while apartment investment in McAllen picked up after a slow start to the year.

In the currency market, the **peso per dollar exchange rate** ticked down to 19.55, making domestic goods slightly less expensive to Mexican buyers. The inflation-adjusted rate², however, increased for the third straight month to a YTD high. Monthly total trade values passing through the border decreased, but overall trade values increased 0.4 percent quarter over quarter (QOQ). Laredo exports sank for the fifth consecutive quarter, but the decrease was offset by the other border metros. McAllen was the only trade hub along the Texas-Mexico border where import values increased in the three months ending September.

Housing

Border housing sales fell 2.3 percent in September for the fourth decrease in five months amid moderate economic conditions. Although El Paso's monthly sales stumbled due to weakness in the

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.

\$100,000-\$300,000 price range, the West Texas metro was the only border locale to register a quarterly increase in sales, rising 0.6 percent. Sales continued to trend upward in the Rio Grande Valley; McAllen transactions, however, fell 5.6 percent in September amid recent softness in the labor market. Activity in Brownsville corrected upward for homes priced less than \$200,000 following subdued sales the previous four months. In Laredo, positive momentum showed signs of slowing across the price spectrum after elevated sales volumes to start the year.

On the supply side, the border metros issued a total of 666 **single-family housing construction permits**, increasing 8.1 percent from January through September 2019 compared with the same period last year. El Paso and Laredo permits climbed for the third consecutive month to 234 and 97, respectively. Brownsville matched its year-long average, issuing 77 monthly permits, while McAllen activity normalized at 257 permits after reaching a post-recessionary high of 432 permits in June.

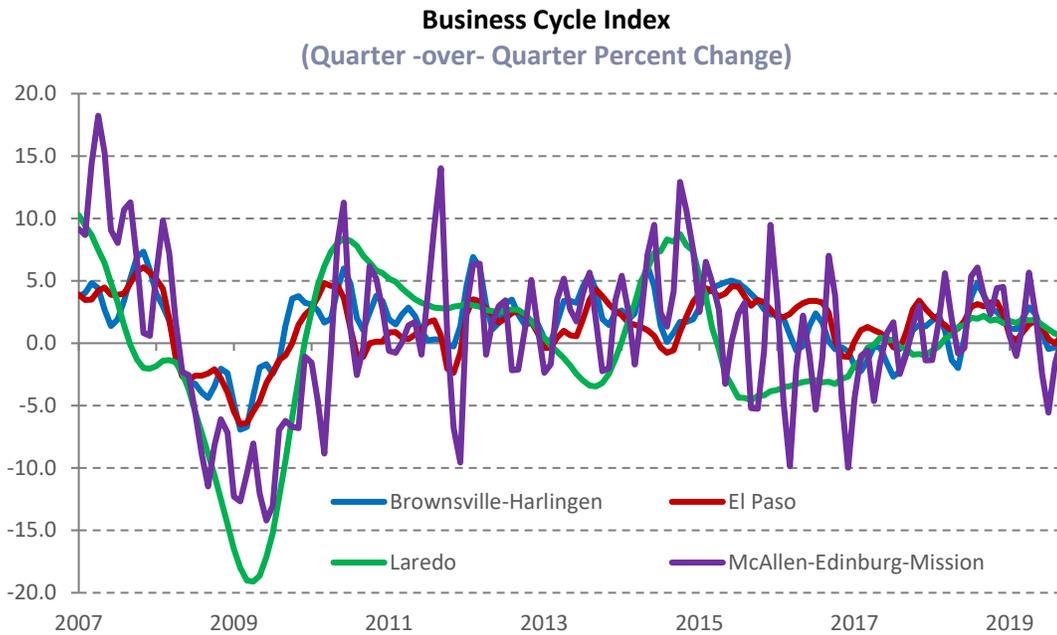
Private single-family construction values rose 6.2 percent QOQ after adjusting for inflation. McAllen values tracked permits, returning to more normal levels after considerable growth during the second quarter. Brownsville and Laredo hovered around long-term averages, while El Paso values flattened.

Months of inventory (MOI) of homes for sale increased amid accelerated activity at the early stages of construction. Laredo's MOI extended a four-month increase to 5.9 months, mostly attributable to a sharply increasing supply of active listings. El Paso and McAllen inventories ticked up to 3.5 and 7.4 months, respectively. The exception was Brownsville, where dwindling listings pushed the metric ticked down to an all-time low of 6.8 months.

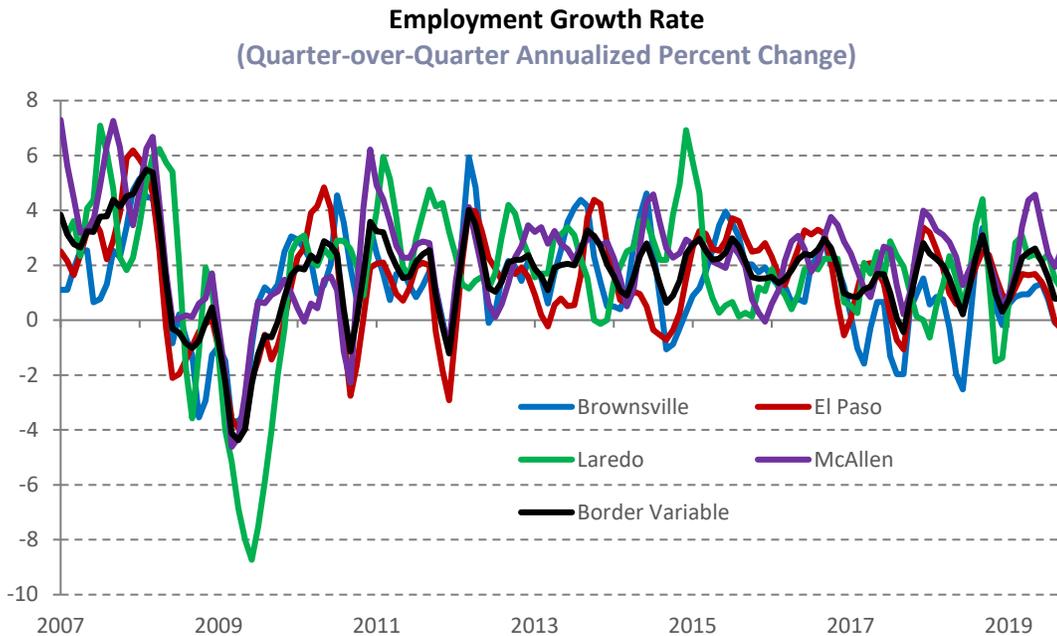
Movement in the **average number of days on market (DOM)** varied along the border. Laredo's and McAllen's DOM extended steady downward trends, decreasing to 53 and 86 days, respectively. The metric in Brownsville increased to 115 days but was relatively unchanged from year-ago levels. On the other hand, the average home in El Paso sold nearly four weeks faster than in September 2018, remaining 74 days on the market.

The El Paso **median home price** rose \$1,800 to \$165,000 as the share of homes sold for less than \$200,000 continued to fall. The metric in Brownsville and McAllen flattened at \$159,700 and \$155,600, respectively. Ongoing inventory expansions in Laredo pulled the median price down to \$170,600. Despite a pause in home-price appreciation, median home prices are rising at a faster pace than earnings. This environment decreases home affordability, which is increasingly becoming a challenge to the border metros' housing markets.

Economic Activity

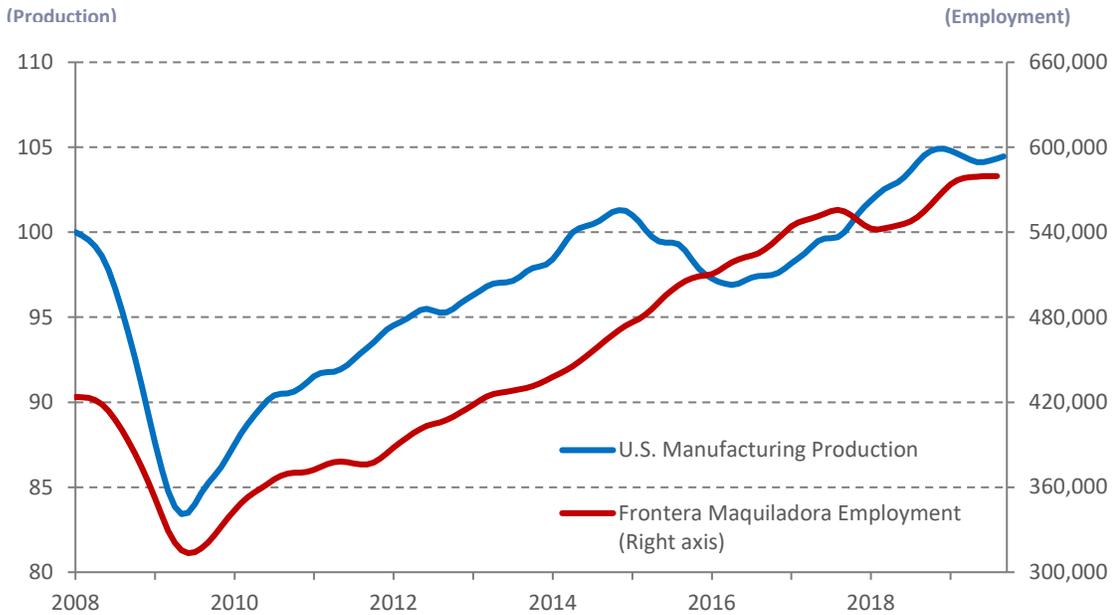


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



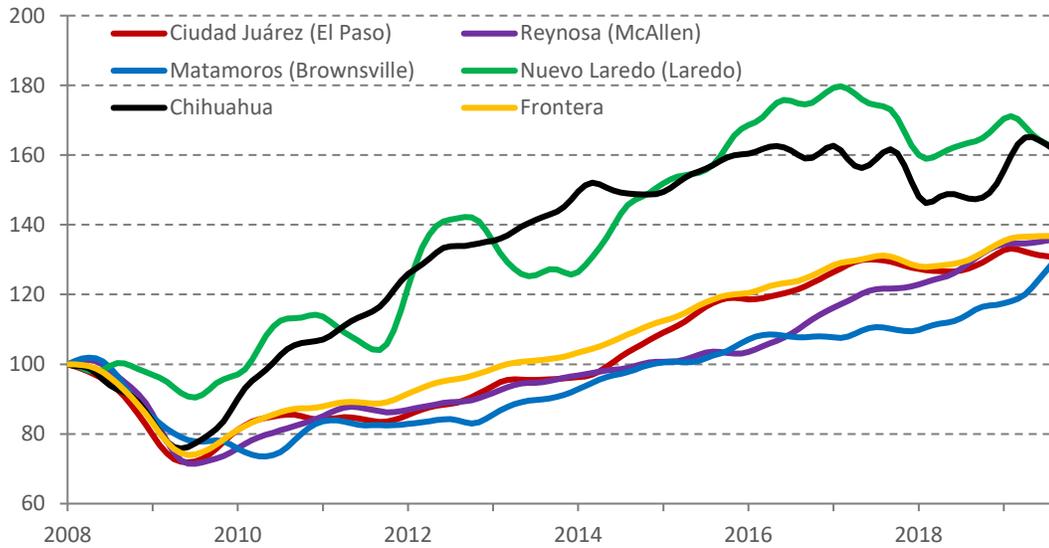
Note: Seasonally adjusted, three-month moving average. September 2019 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

U.S. Manufacturing Production (Index Jan 2008 = 100; Number of Employees)



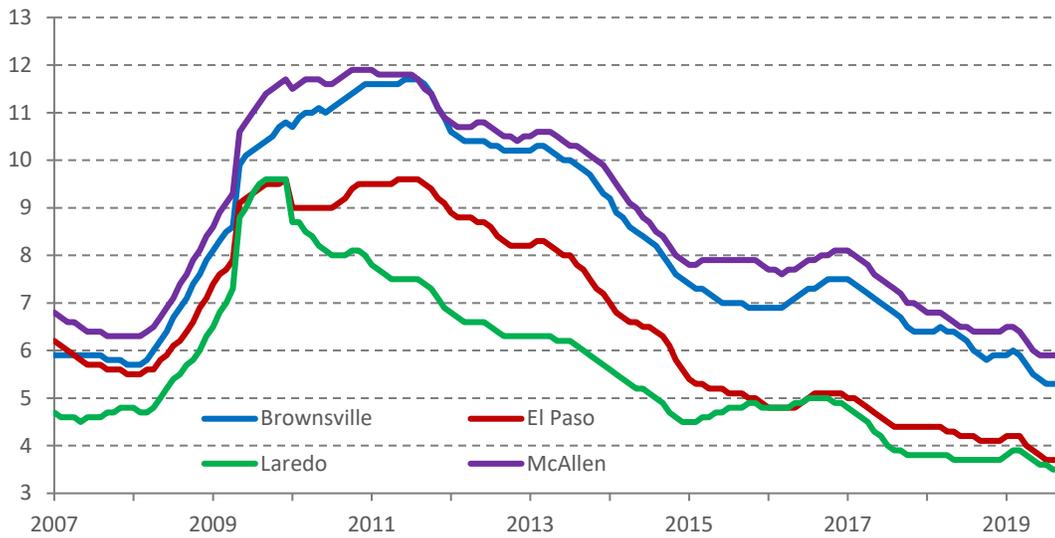
Note: Trend-cycle component.
Sources: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



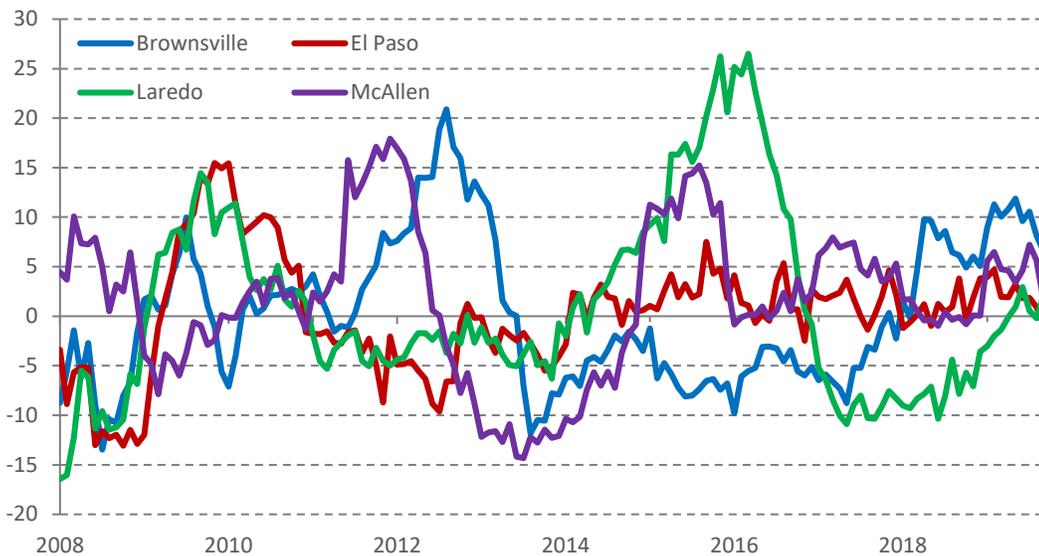
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate (Percent)



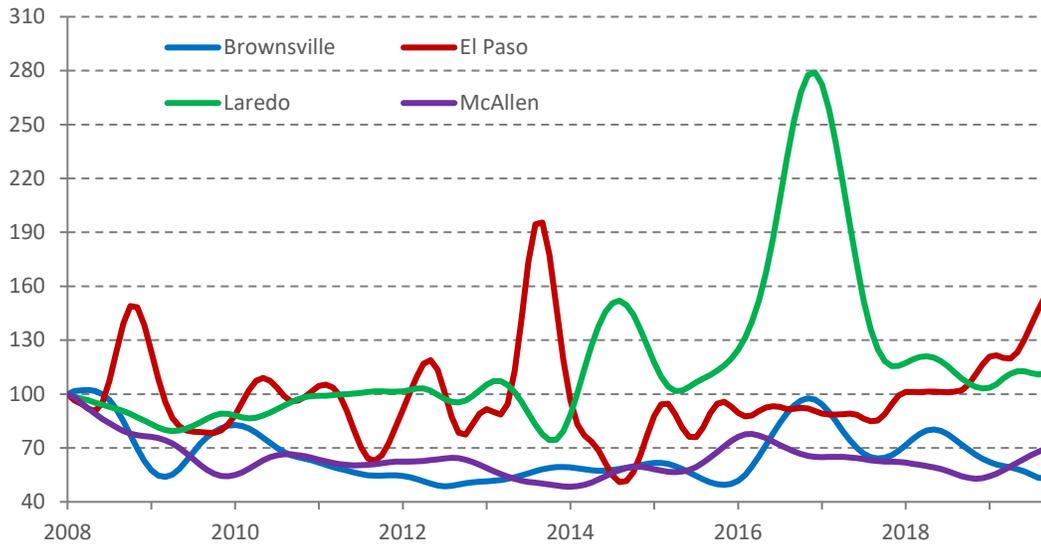
Note: Seasonally adjusted. September 2019 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



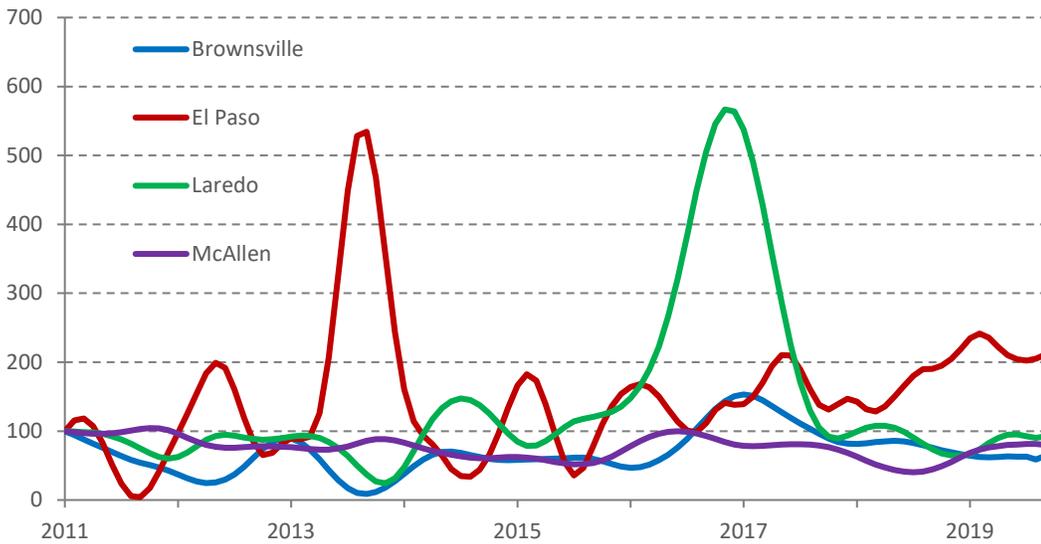
Notes: Inflation adjusted, seasonally adjusted. September 2019 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values
(Index Jan 2008= 100)



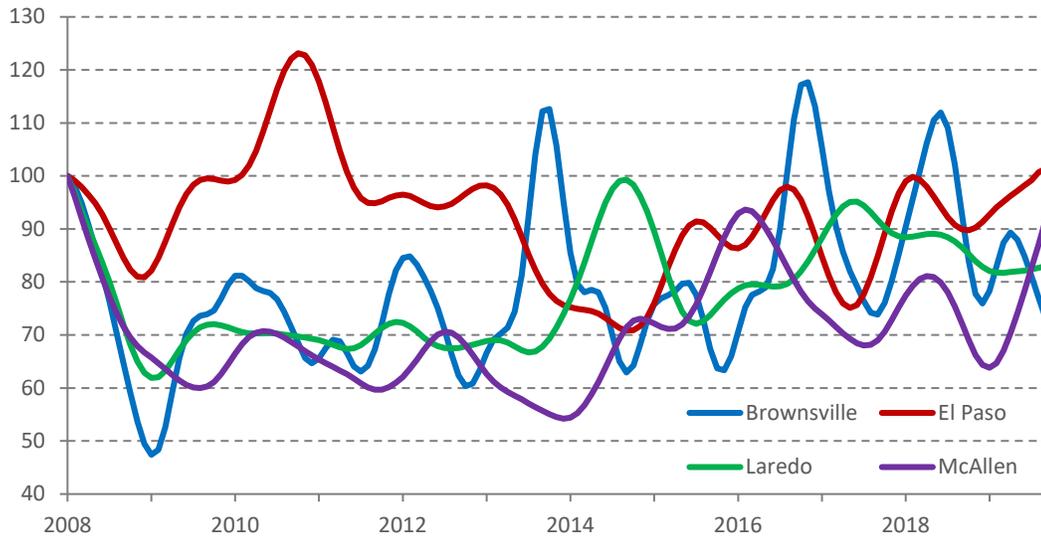
Note: Inflation-adjusted Trend-cycle component.
Source: Dodge Data & Analytics

Nonresidential Construction Values
(Index Jan 2011 = 100)



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

Residential Construction Values
(Index Jan 2008 = 100)



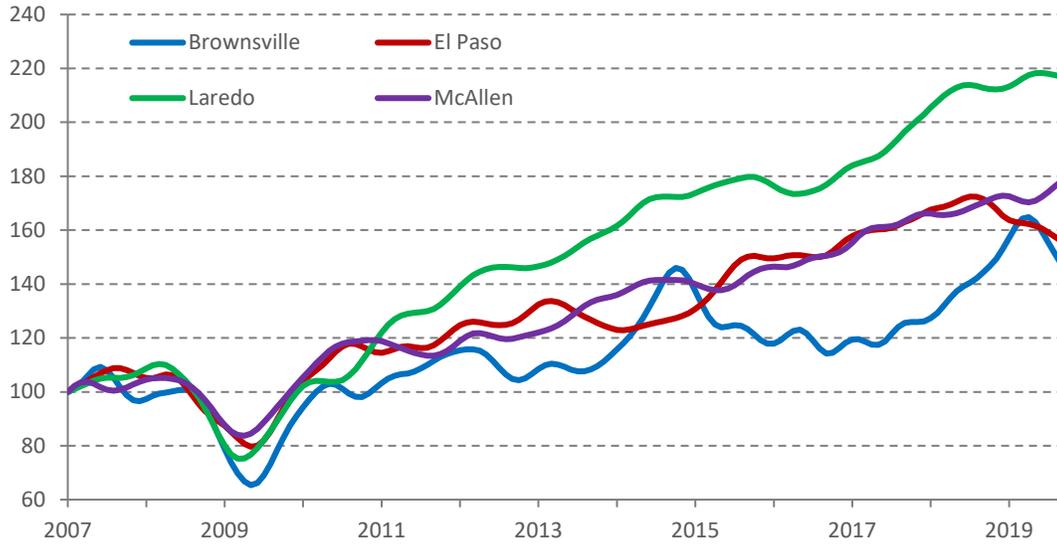
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate
(\$)



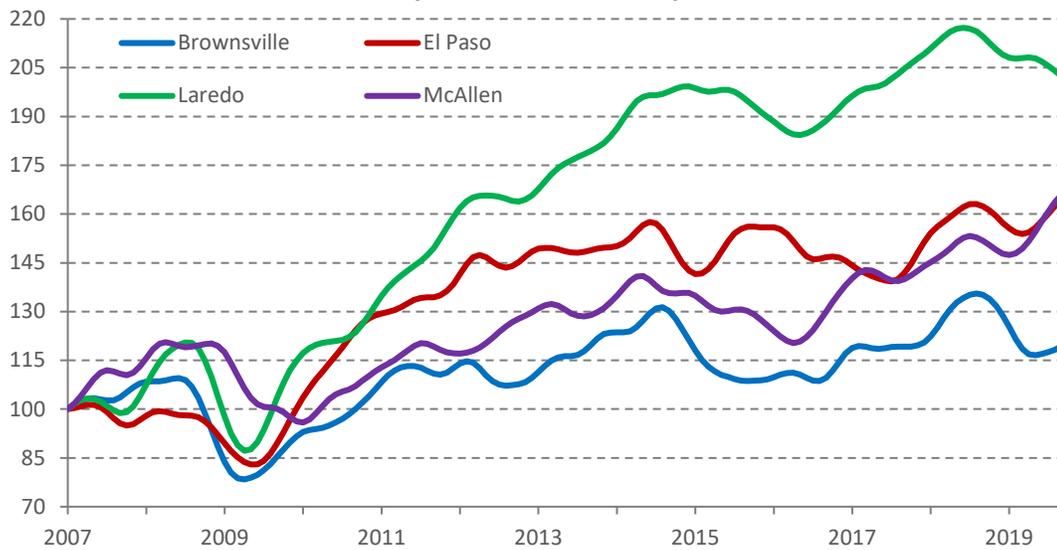
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values
(Index Jan 2007 = 100)



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

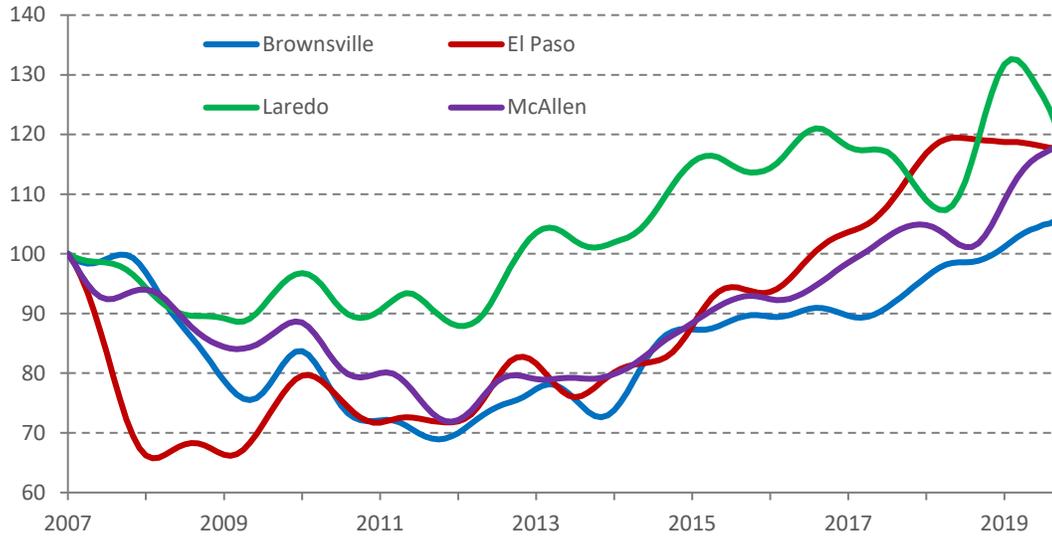
Export Values
(Index Jan 2007 = 100)



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

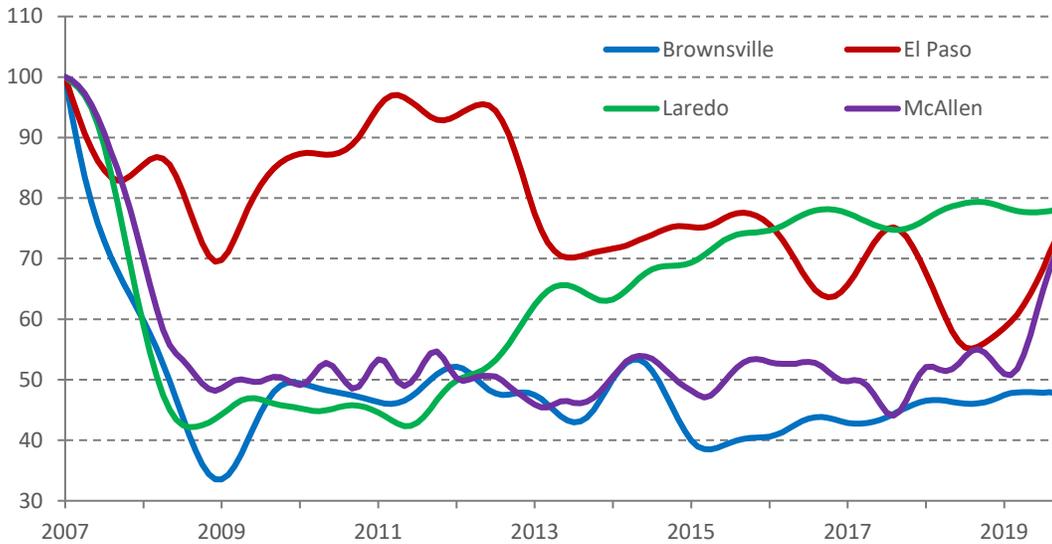
Housing

Housing Sales
(Index Jan 2007 = 100)



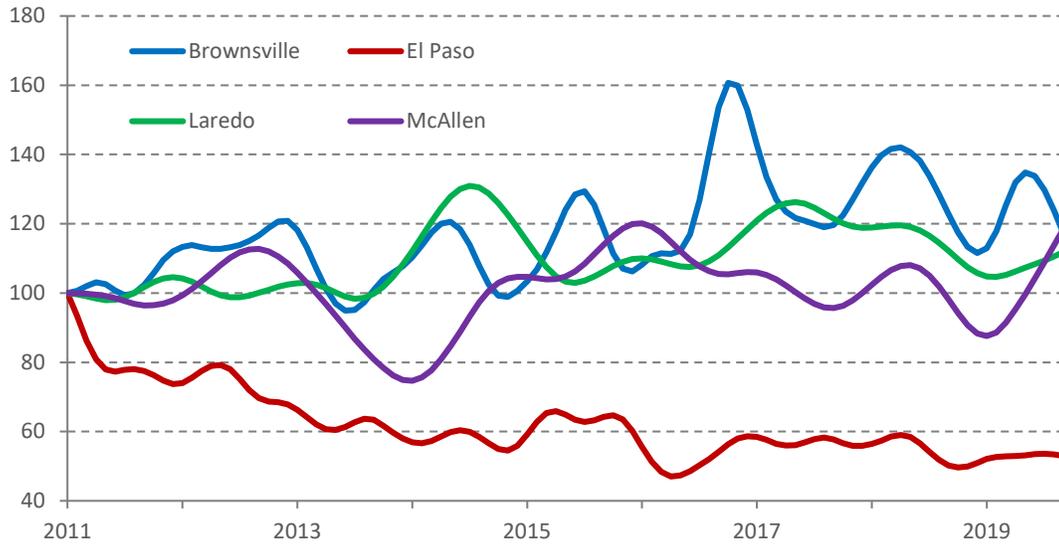
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

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



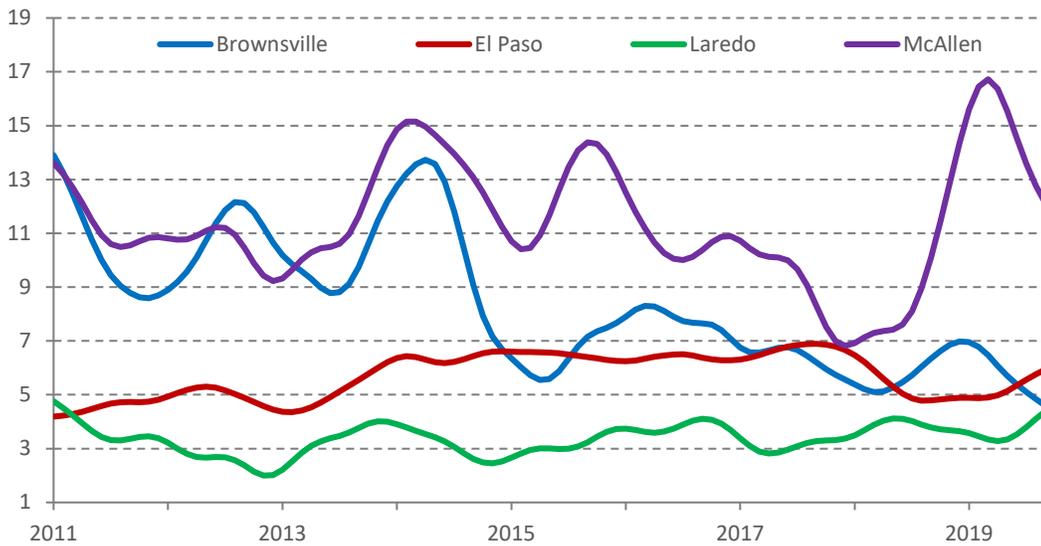
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Total New Private Single-Family Construction Value
(Index Jan 2011 = 100)



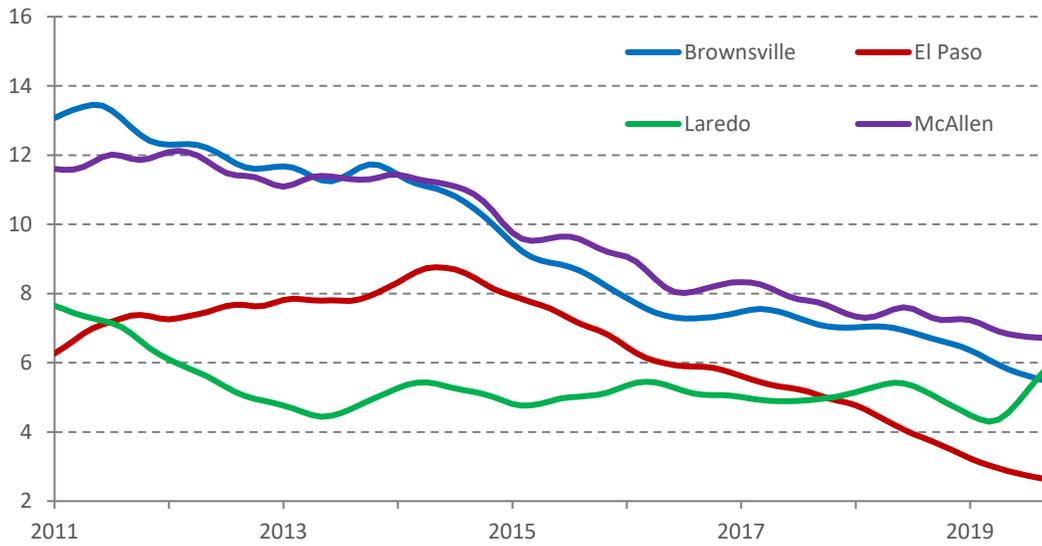
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory
(Months)



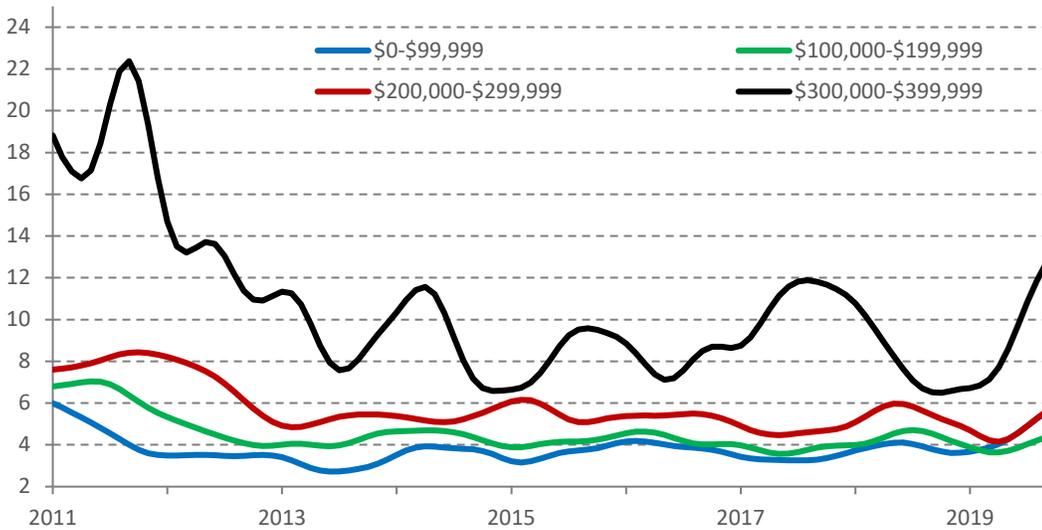
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Existing Home Months of Inventory (Months)



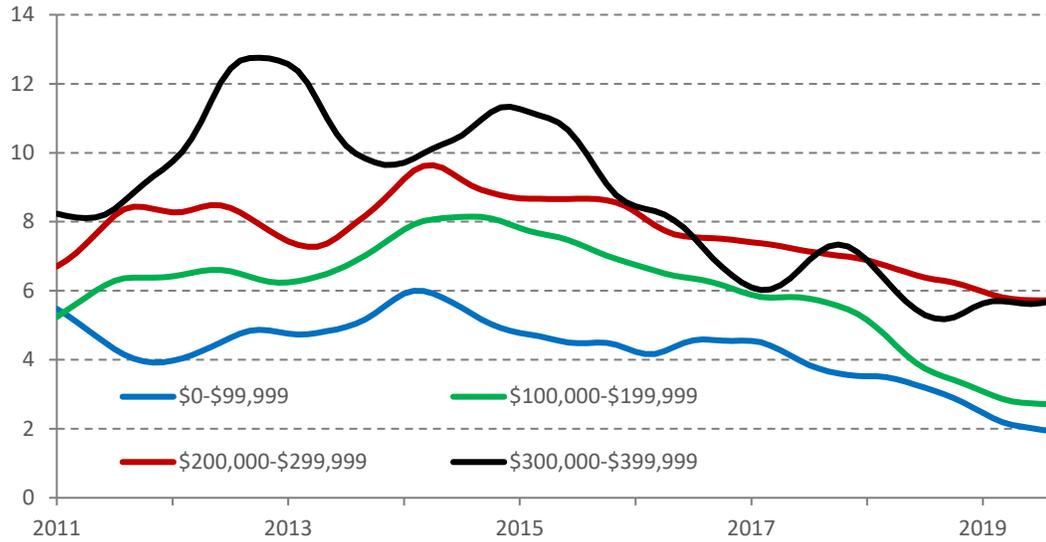
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Laredo Months of Inventory by Price Cohort (Months)



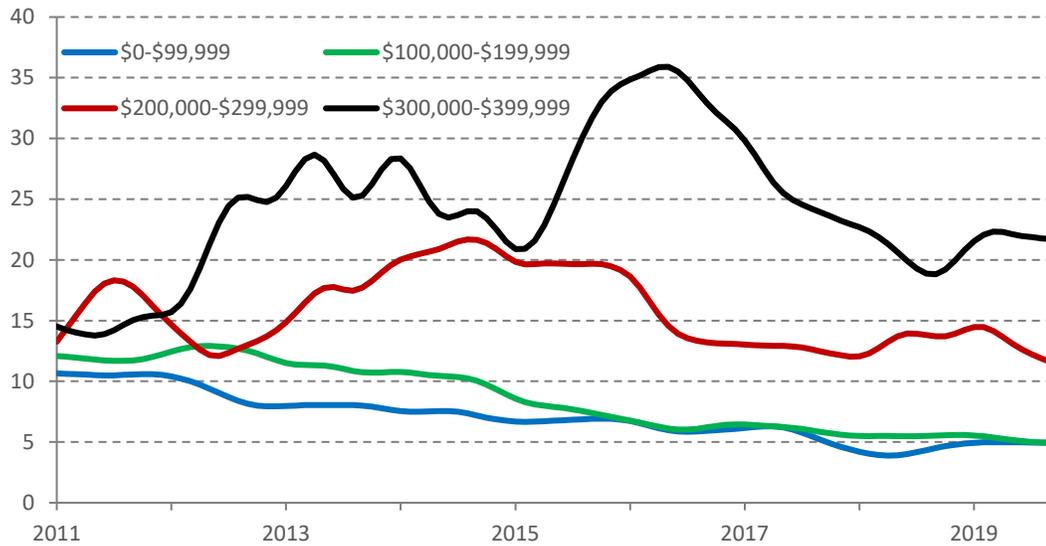
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

El Paso Months of Inventory by Price Cohort (Months)



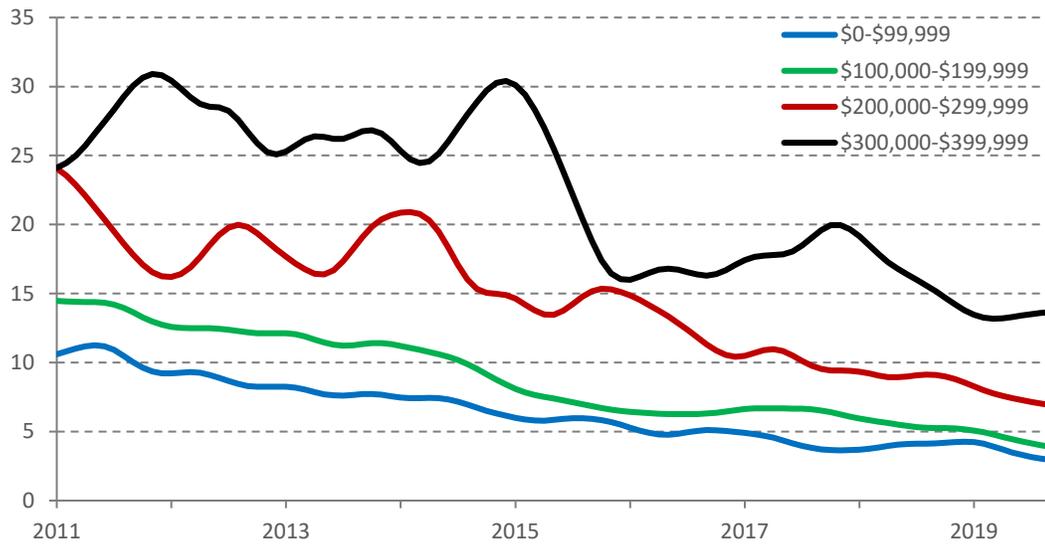
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



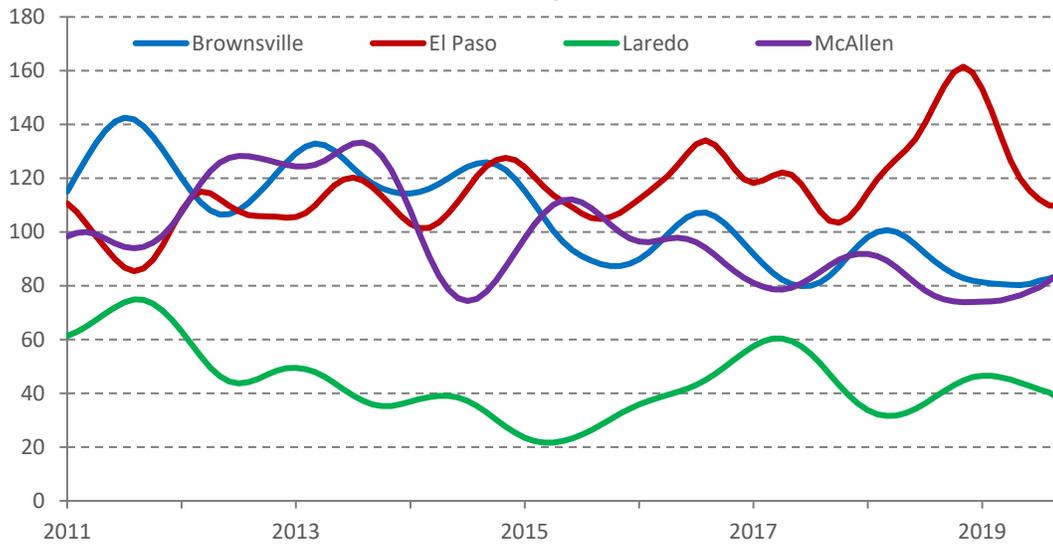
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



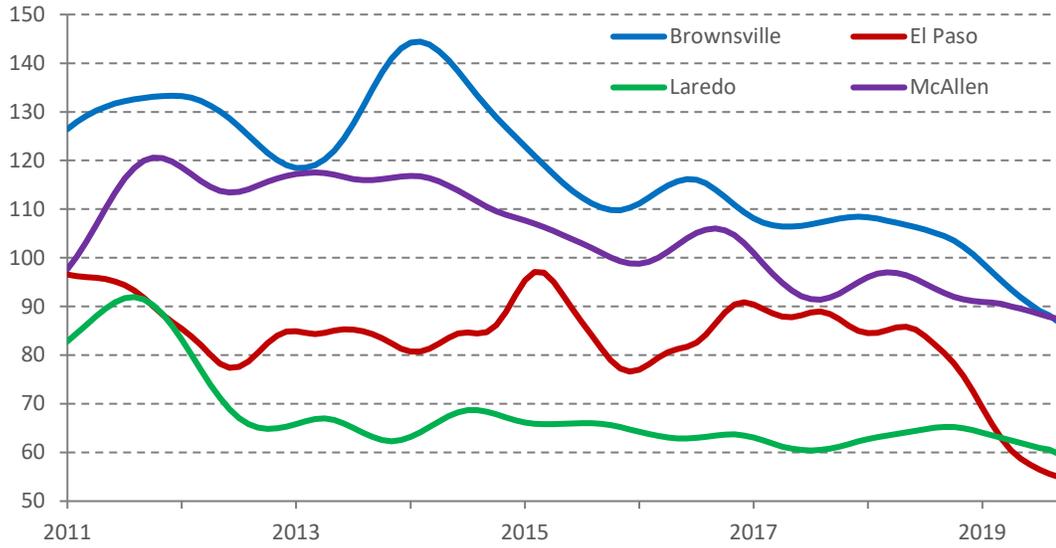
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

New Home Days on Market (Days)



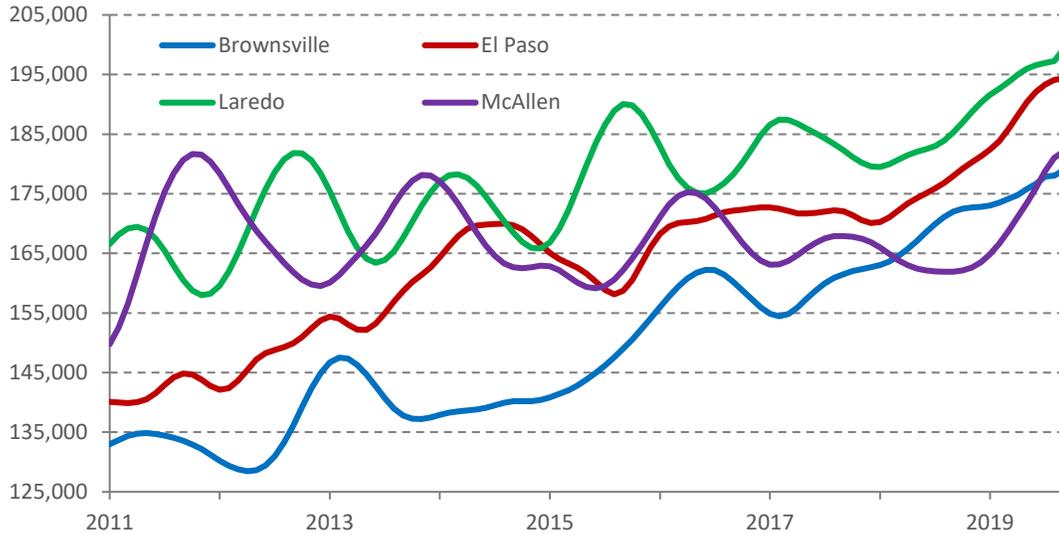
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Days on Market (Days)



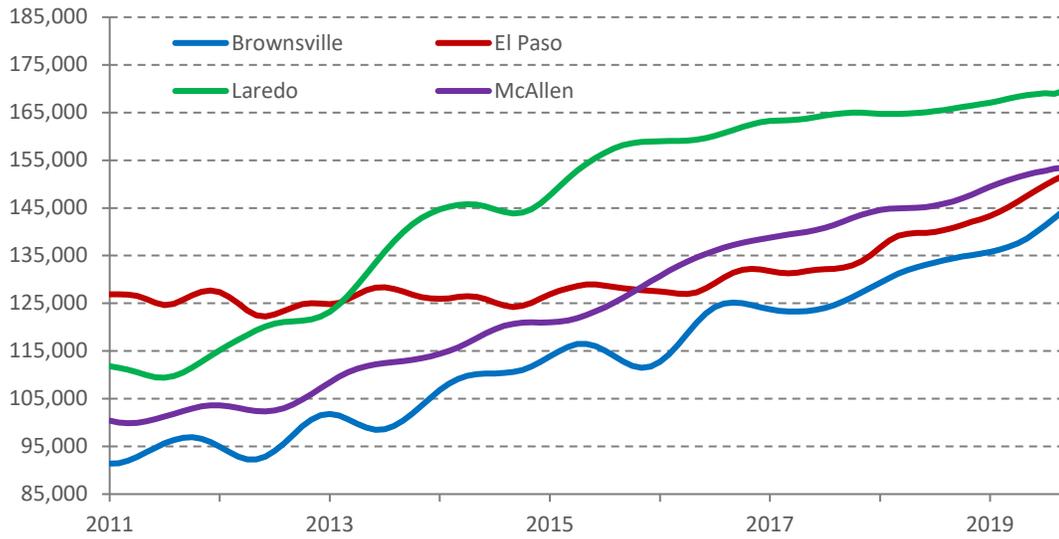
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Sales Price (\$)



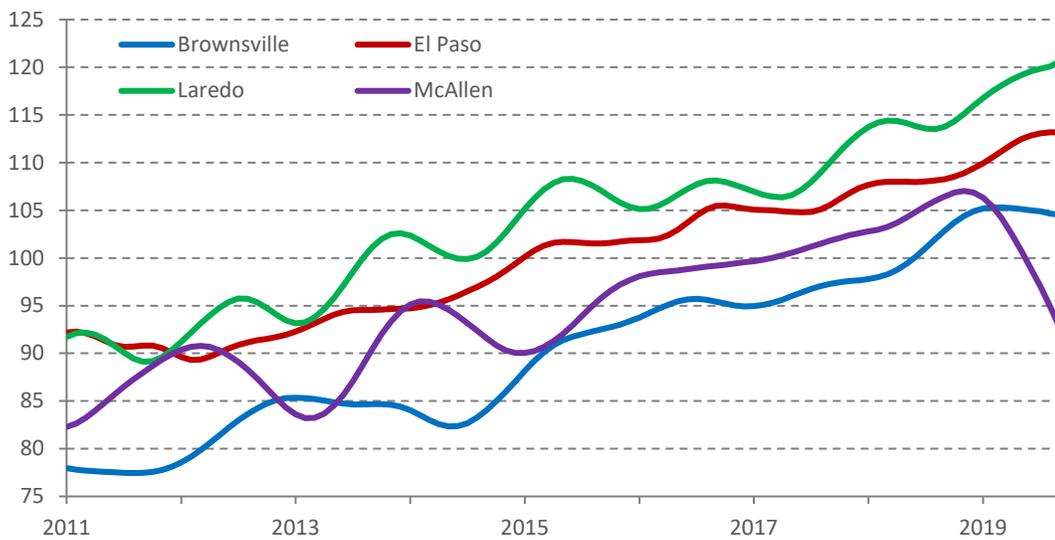
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Sales Price (\$)



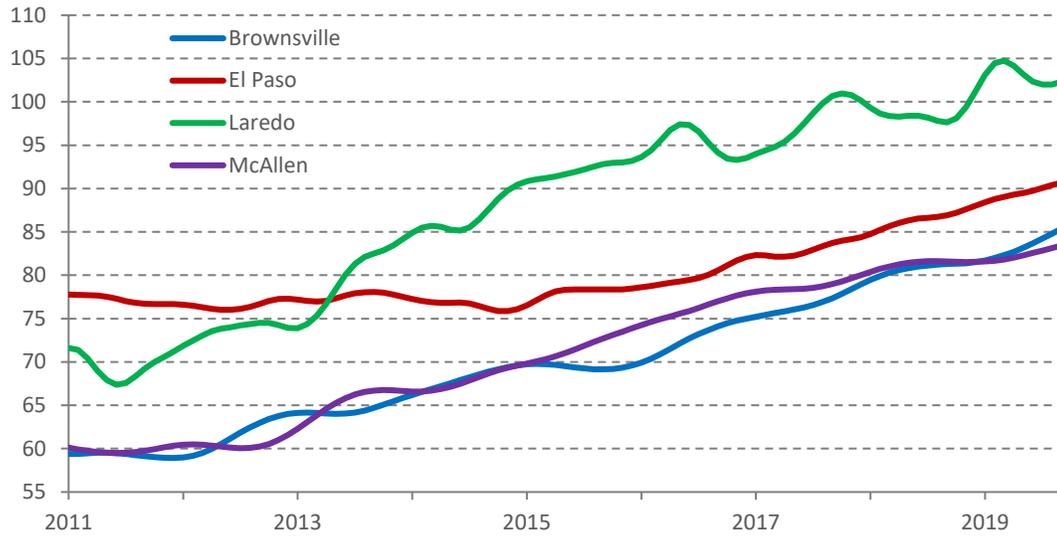
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Price Per Square Foot (\$)



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

Existing Home Median Price Per Square Foot (\$)



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



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