

TEXAS BORDER ECONOMY



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2019 ANNUAL SUMMARY

TECHNICAL REPORT

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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 annually, 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, Wesley Miller, and Paige Silva

Data current as of February 13, 2020

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Border Summary

BORDER EMPLOYMENT

▲ 1.7% YOY

REAL CONSTRUCTION VALUES

▲ 4.0% YOY

TOTAL TRADE VALUES

▼ -1.2% YOY

HOUSING SALES

▲ 4.8% YOY

2019 Annual Summary¹

The Texas border economies expanded in 2019 despite headwinds such as the slowing global manufacturing sector and tepid GDP growth in Mexico, where the border communities have strong ties. Although maquiladora employment slumped, Texas' border employment posted a record year, pulling unemployment rates to historical lows. Housing sales accelerated in the first half of the year amid healthy labor market conditions but steadied thereafter. The trade industry, on the other hand, slipped in 2019. The peso-per-dollar exchange rate stabilized, but increased traffic times at border crossings likely weighed on the retail sector, while total trade values declined as machinery shipments decreased. The U.S. passage of the U.S.-Mexico-Canada Agreement (USMCA) should reaffirm North American trade relationships, but uncertainty remains regarding its impact on the U.S. automobile industry. Challenges to the border locales in 2020 include immigration reform uncertainty and supply-chain disruptions due to the coronavirus in China.

Economy

Border economic activity started the year with positive momentum as U.S.-Mexico-Canada Agreement negotiations ended 2018 on a strong note. However, slowing global manufacturing activity and retail struggles weighed on the **Dallas Fed's Business-Cycle Indexes**, which measure current levels of economic activity, during the second half of the year. Brownsville's and Laredo's indexes got off to a solid start, supporting 2.9 and 1.3 percent annual growth, but struggled during the second half of the year as payrolls contracted and the retail sector floundered. The McAllen index fell on an annual basis for the fourth consecutive year amid year-end labor market woes. On the other hand, El Paso's metric increased 3.4 percent after hiring picked up in the fourth quarter.

The border metros added 14,000 **nonfarm employment** jobs in 2019, accelerating 1.7 percent on an annual basis. McAllen's workforce gained 6,800 positions for 2.6 percent growth, the greatest improvement since 2013. Education/health services hired nearly 4,400 new employees during DHR Health expansions. The retail sector started the year with positive momentum, but a sluggish second half stopped the industry from recovering to peak 2016 levels. El Paso and Laredo employment increased by 1.5 percent each. In the West Texas metro, mining/logging/construction jumped 7.8 percent, constituting a quarter of the metro's annual hires. Growth in education/health services and leisure/hospitality remained stable, but professional/business services fell for the first

¹ All measurements are calculated annually, unless stated otherwise.

time in seven years, while retail jobs decreased for the second straight year. Laredo's retail sector also struggled, although gains in professional/business services and transportation/utilities offset the losses. In Brownsville, education/health services and leisure/hospitality rebounded from a lackluster 2018, accounting for most of the 1,000 jobs created. Retail employment, however, contracted for the fourth consecutive year.

After near-zero growth in 2018, **Mexican manufacturing and maquiladora employment**² grew steadily in first half 2019 before slowing U.S. manufacturing activity and negative economic growth in Mexico weighed on payrolls. Maquiladora employment in Nuevo Laredo fell 3 percent year to date (YTD) in November while Reynosa employment flattened. Juarez, home to the largest maquiladora workforce along the Texas border, registered a 1.1 percent YTD decrease, although the city's increased number of homicides may help explain the contraction. On the other hand, maquiladora jobs in Chihuahua rose 5.1 percent YTD. Matamoros started the year negative after thousands of workers went on strike but soon recovered, rising 7.1 percent YTD. Tentative improvement in the U.S. manufacturing sector to start 2020 bodes well for Mexico's border employment.

The Texas border metros tend to experience joblessness at higher rates than the state as a whole. Although this remained true in 2019, **unemployment rates** along the border decreased during the first half of the year, setting new annual record lows. Laredo matched the national level at 3.7 percent joblessness, while El Paso hovered just above at 3.8 percent. Annual unemployment in the Rio Grande Valley dropped to 5.5 and 6.2 percent in Brownsville and McAllen, respectively, but year-end upticks erased nearly all progress in the latter.

As unemployment declined and hiring increased, **real private hourly earnings** improved. McAllen wages averaged \$19.58 per hour in 2019, climbing 4.9 percent after accounting for inflation. Brownsville's real earnings (\$17.40) rose 9.3 percent but remained 8 percent below record levels attained before a five-year fall between 2013-17. El Paso wages (\$19.41) improved 1.8 percent in real terms, while Laredo (\$17.31) posted its first inflation-adjusted gain since 2016.

Border **construction values** reached \$2.5 billion, increasing 4 percent after adjusting for inflation, but were unable to recover to 2016 levels prior to the two-year drop between 2017-18. Nonresidential values accounted for most of the gap despite a 7.5 percent improvement in real terms. Stores/restaurant construction rose for the first time since 2015 but was offset by falling office-building and hotel/motel values. School construction in El Paso skyrocketed due to 2016 bond projects but slid in Laredo and McAllen after elevated levels between 2015-17. Residential values ticked up 2.3 percent for the second consecutive annual increase as two-family construction in McAllen nearly tripled. Meanwhile, single-family activity along the border stabilized.

The **peso-per-dollar exchange rate** steadied at 19.24 in 2019 but fell after adjusting for inflation, making domestic goods cheaper to the Mexican buyer. The **total value of border trade activity**,

² 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.

however, fell 1.2 percent to \$366.3 billion as global manufacturing activity slowed and wait times at the border increased. Exports from Laredo in particular dropped 5.3 percent, largely due to decreased electric machinery and plastics shipments, but hovered around their three-year average. Brownsville and El Paso exports normalized after elevated levels the previous year, while McAllen export values set a new annual record at \$13 billion as outgoing oil rose mid-year. In terms of imports, El Paso was the only border metro to register an annual decrease, slipping 4.5 percent. Electric machinery was the main culprit, falling to a four-year low during 2Q2019. The passage of the USMCA by the U.S. reaffirms North American trade relationships; there are some concerns, however, that the pact's regulatory mandates may hurt the U.S. automobile industry and curtail vehicular-related trade, which comprises a fifth of total border trade values. Trade remains an integral component to the border economies.

Housing

Border housing sales jumped 4.8 percent, outpacing statewide and national growth despite slowing from nearly 6 percent growth in 2018. Amid improved labor market conditions to start the year, Laredo's monthly sales were 20 percent greater than their four-year average during the first half of 2019 before normalizing, pushing annual growth to 9.3 percent. The deceleration was concentrated for homes priced less than \$200,000. McAllen sales constituted much of the border's annual improvement, accelerating 16.2 percent after sluggish activity the previous year, while Brownsville maintained 5.6 percent growth. On the other hand, El Paso sales plateaued as transaction for homes priced between \$100,000 and \$200,000 slumped for the first time in six years amid supply constraints and decreased affordability.

On the supply side, **single-family housing construction permits** increased 12.9 percent to the greatest level since 2007 after three consecutive annual declines. McAllen permits rose 14 percent in 2019, but momentum slowed after reaching a post-recessionary monthly high in June. Issuance in Brownsville and Laredo extended upward trends, rising 7.5 and 2.4 percent, respectively. In El Paso, 2019 permits recovered after dropping more than 20 percent the previous year but persisted beneath the post-crisis average.

The **months of inventory (MOI)** of homes listed for sale fell but remained elevated above the statewide level. El Paso's MOI slid below 3.2 months as sharp decreases in lower-priced active listings offset sluggish sales volumes. Inventory in Brownsville and McAllen fared around 6.4 months each. Laredo was the outlier as the supply of active listings continued to surge even after sales activity cooled during the second half of the year, pushing the MOI above 7.6 months.

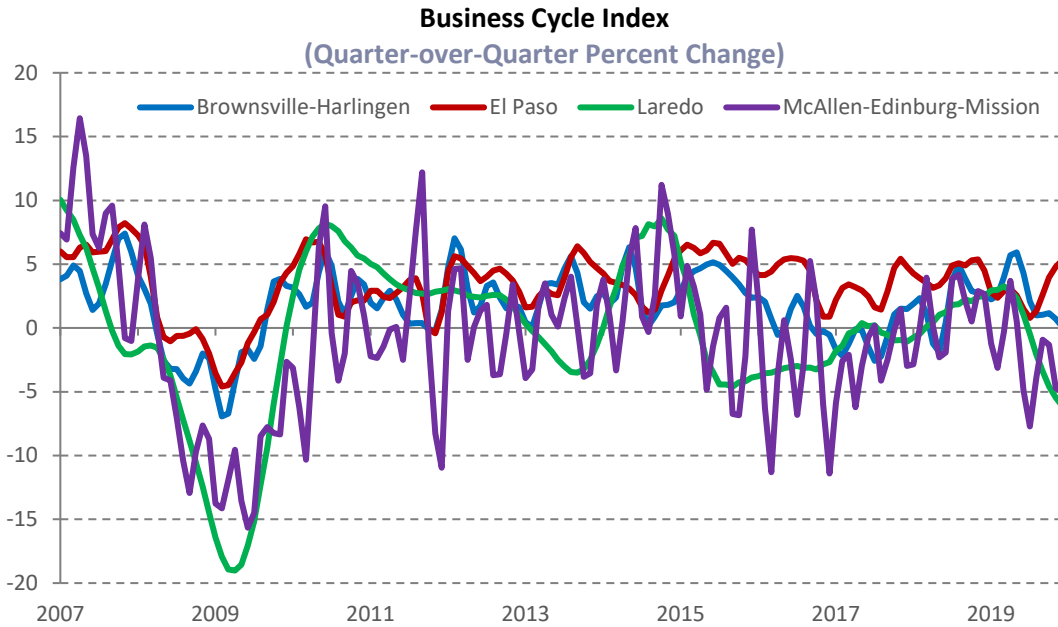
After ticking up slightly in 2018, the **average number of days on market (DOM)** fell to record lows along the border, corroborating healthy demand. Homes in Laredo sold faster than the statewide level, averaging just 57 days on the market. The DOM in Brownsville hovered above that of its Rio Grande Valley counterpart in McAllen, but both metrics trended downward over the year to 108 and 87 days, respectively. The El Paso DOM fell from 97 to 74 days but increased during the fourth quarter.

Rising costs and reduced inventory for lower-priced homes applied upward pressure on the **median home price**. El Paso's median price accelerated 5.2 percent to \$162,500. A notable shift in Laredo's sales distribution pushed the metric up \$11,000 to \$175,000, while McAllen's median price rose 6.5 percent to \$155,000. Price appreciation in Brownsville moderated from double-digit levels in 2018 after near-zero growth the previous year, pulling the median price up only \$6,000 to \$150,000.

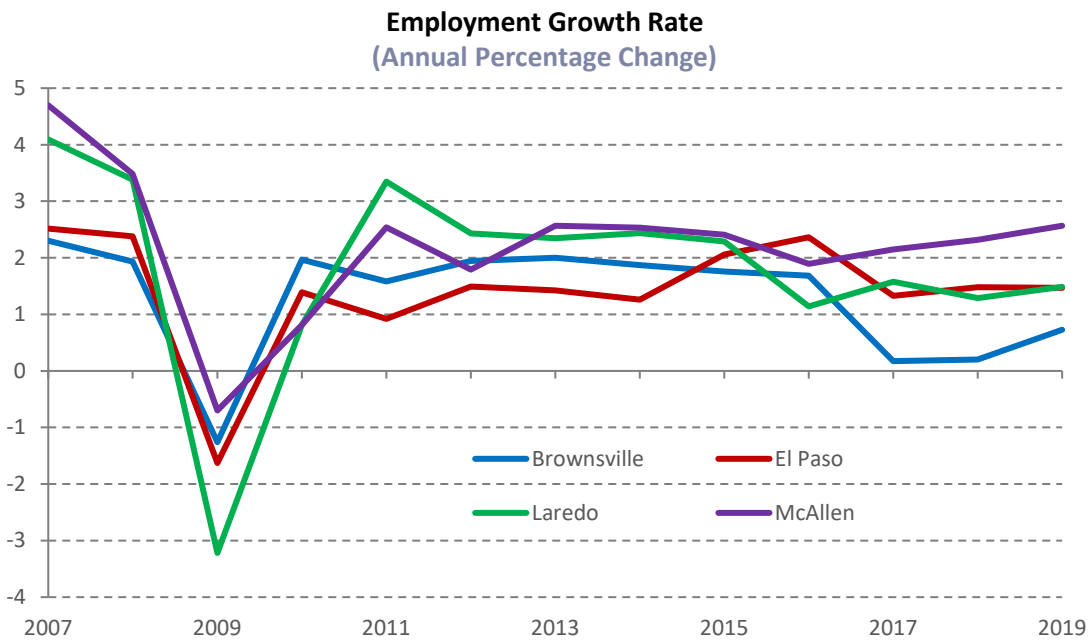
The **Federal Housing Finance Agency's House Price Indexes**, which measure the average price changes in repeat sales or refinancings, corroborated an upward trend in values. Laredo's and McAllen's index rose 10.3 and 7.1 percent, respectively, in 3Q2019 relative to 3Q2018. In Brownsville and El Paso, the indexes increased 6.7 and 4.0 percent year over year (YOY), respectively, decelerating in pace from the start of the year but remaining elevated compared with 2018.

In the Texas border economies, lower-priced housing generally offsets below-average earnings, thereby managing affordability pressures. Home-price appreciation, however, outpaced income and lower interest rates, weighing on housing affordability. The **National Association of Home Builders/Wells Fargo Housing Opportunity Index** measures the share of homes sold that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria. Laredo was the least affordable Texas metro in 4Q2019 with an index value of only 32.1 percent. El Paso's metric fell 8.4 percentage points YOY to 55.1 percent. The share of affordable homes sold in McAllen ticked up slightly but remained low at 51 percent. Brownsville was the exception with decreased median home price appreciation and rising wages pulling the index up to 64.9 percent, its greatest value in five years. Affordability has gradually decreased over the years, becoming more and more of a challenge to the border housing market.

Economic Activity

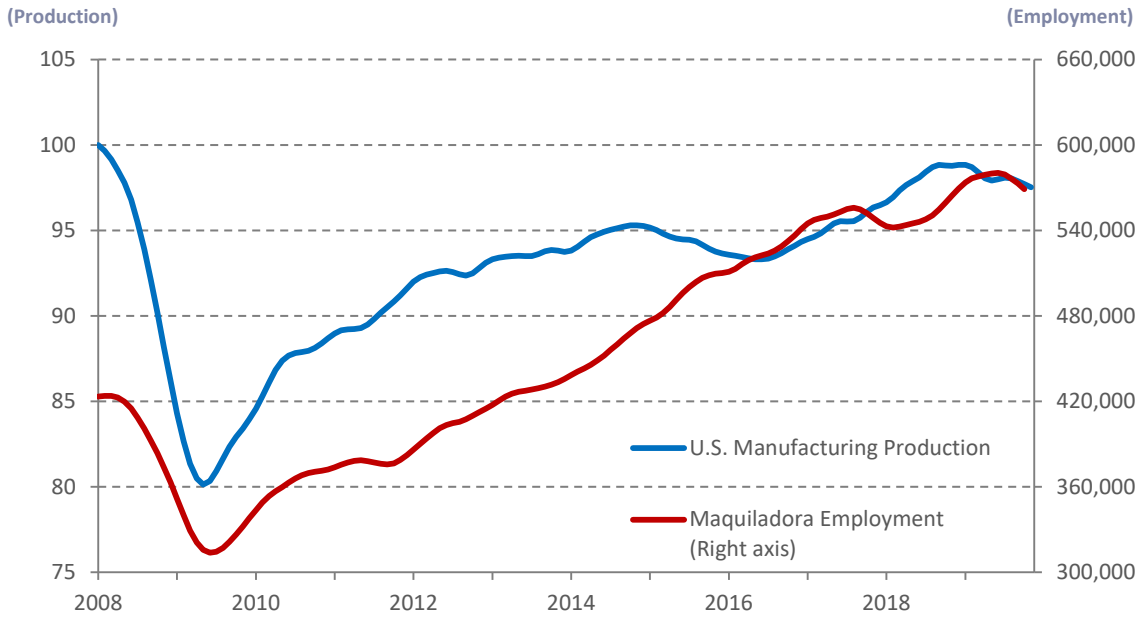


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



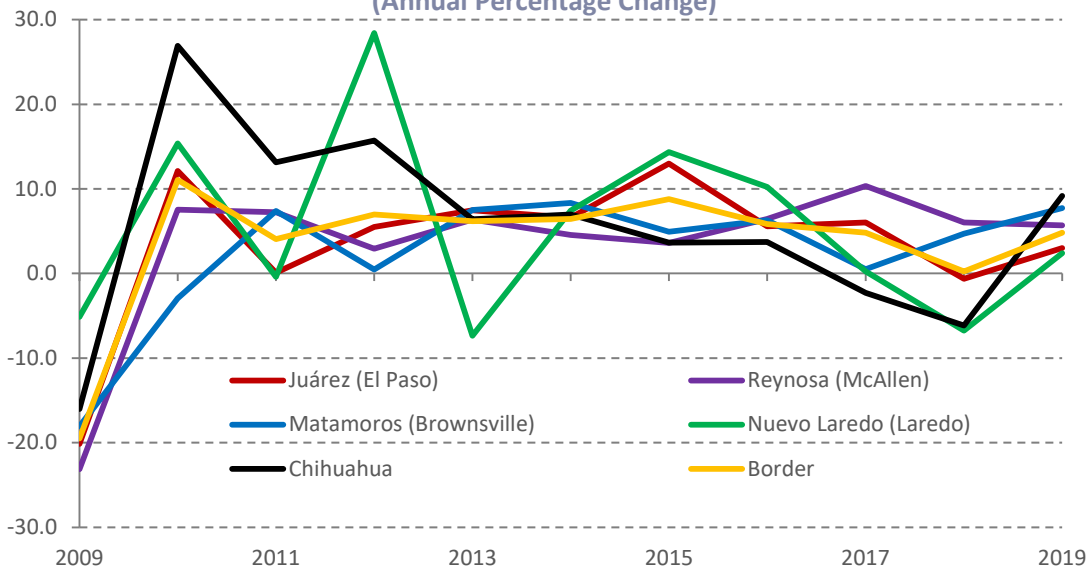
Note: Annual average. December 2019 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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

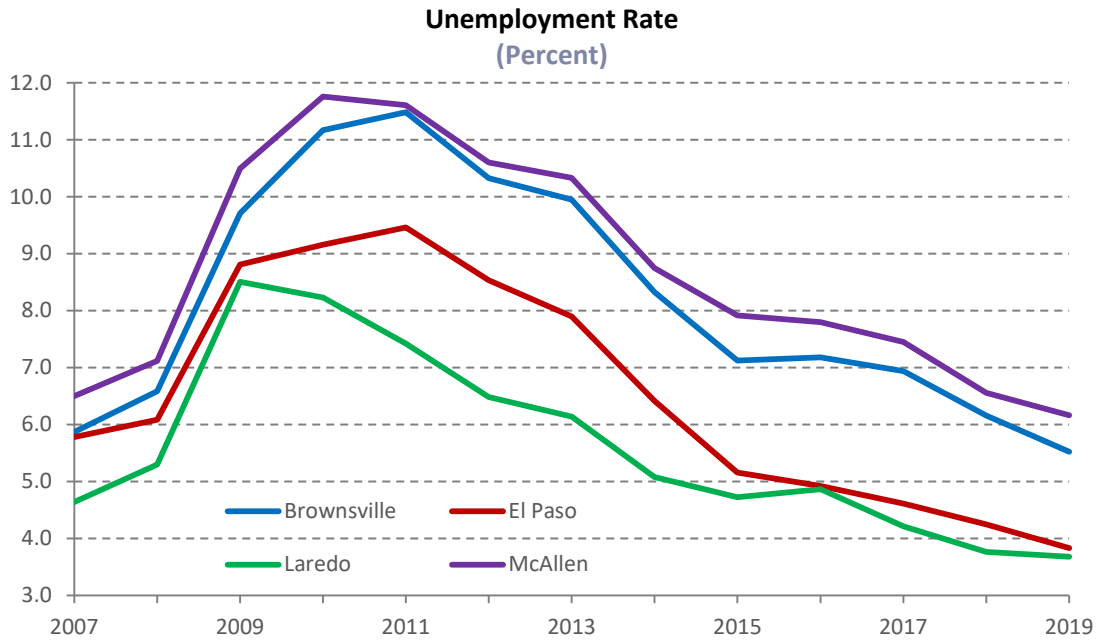


Note: Trend-cycle component.
Sources: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

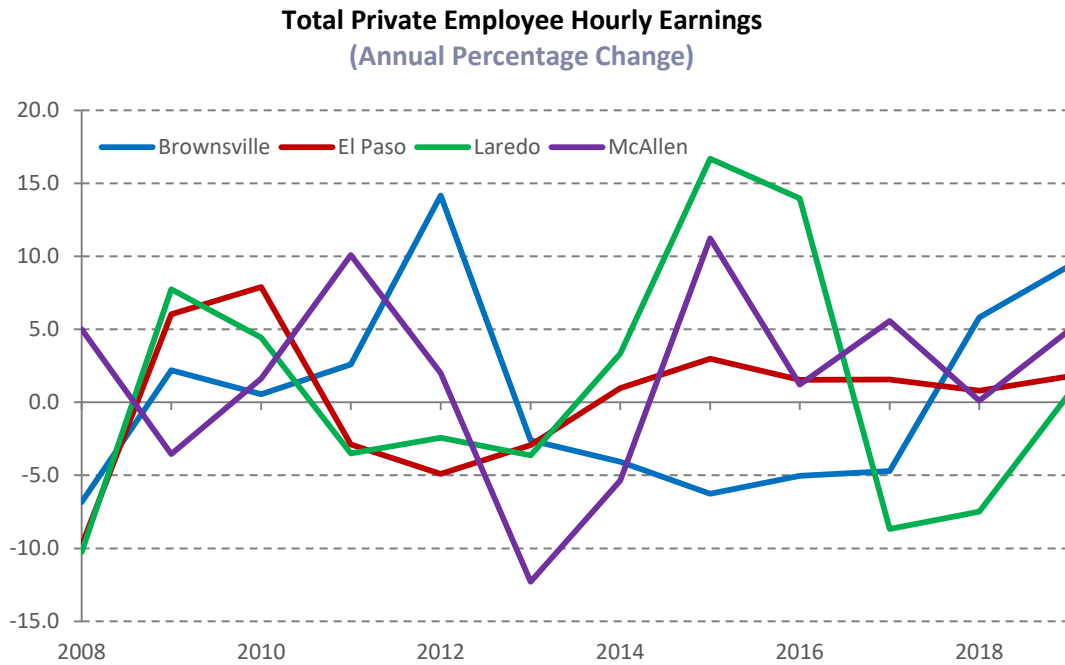
Mexico Maquiladora and Manufacturing Employment (Annual Percentage Change)



Note: Annual average. December 2019 estimated.
Source: Instituto Nacional de Estadística y Geografía

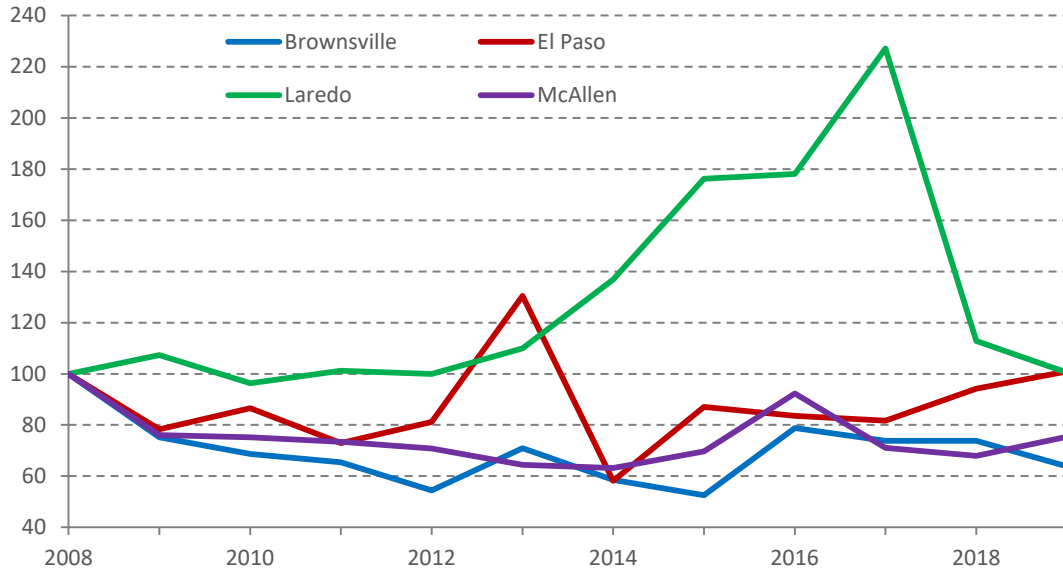


Note: Annual rate. December 2019 is preliminary. For more information, see [Unemployment Rate](#).
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University



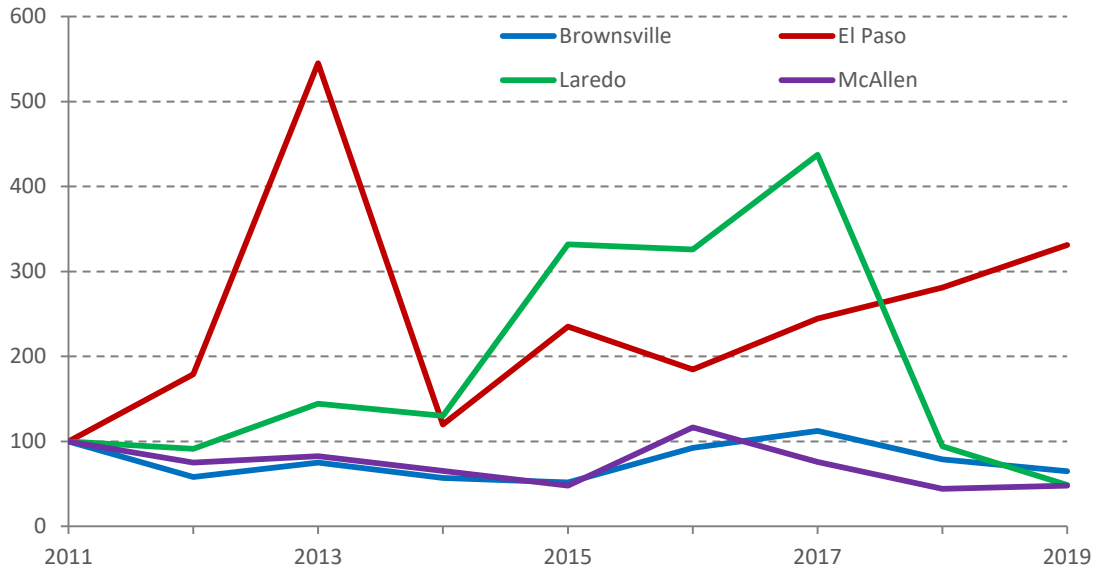
Note: Annual average. December 2019 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values
(Index Jan 2008= 100)



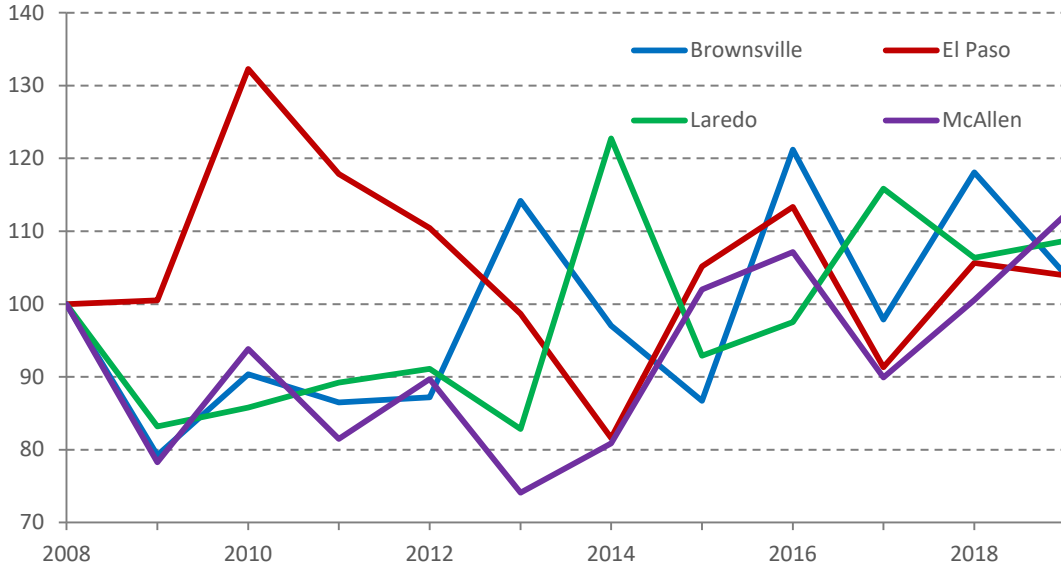
Note: Inflation adjusted. Annual sum.
Source: Dodge Analytics

Nonresidential Construction Values
(Index Jan 2011 = 100)



Note: Inflation adjusted. Annual sum.
Source: Dodge Analytics

Residential Construction Values
(Index Jan 2008 = 100)

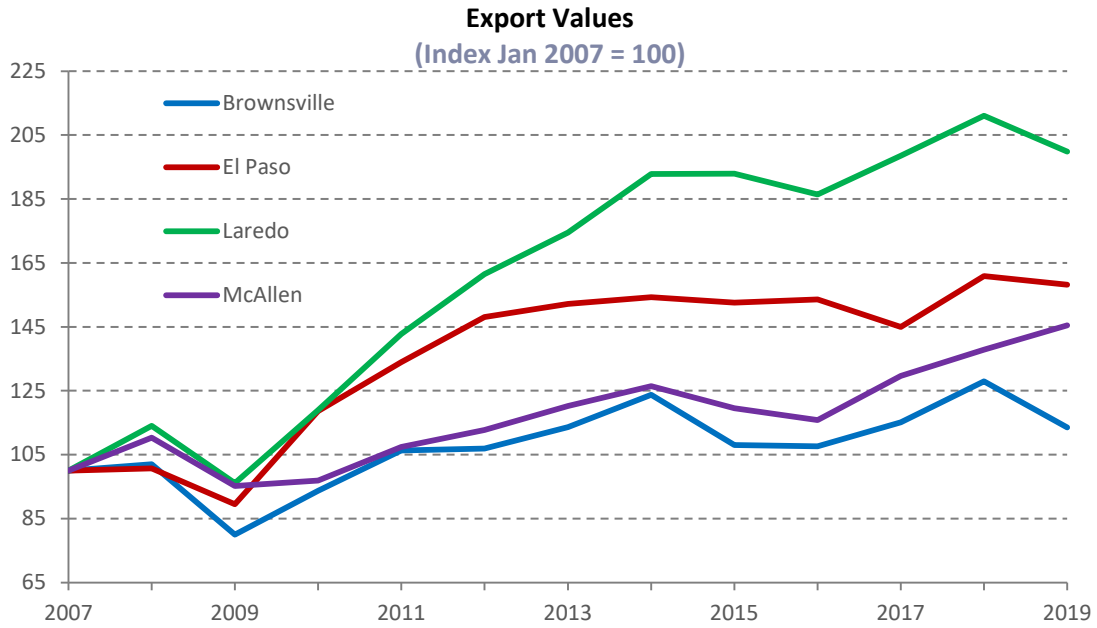


Note: Inflation adjusted. Annual sum.
Source: Dodge Analytics

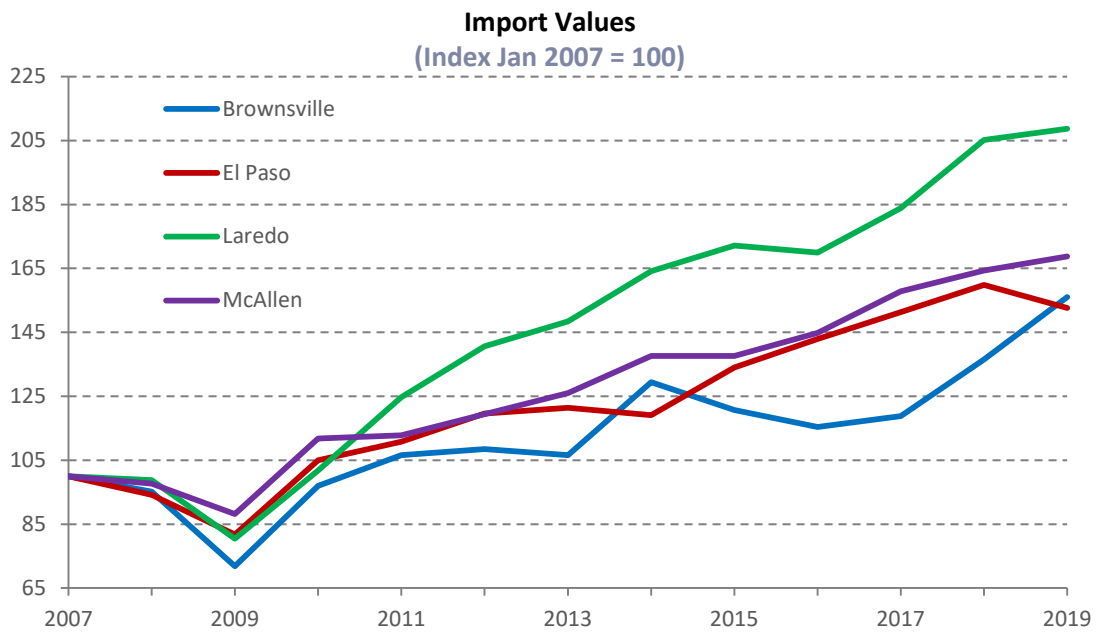
Real Peso per Dollar Exchange Rate
(\$)



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



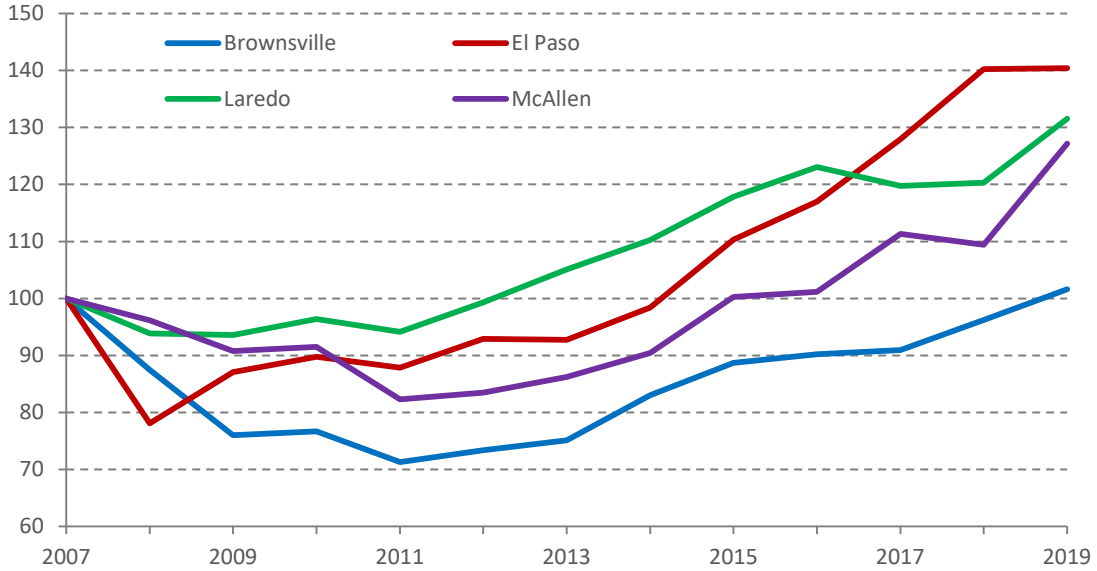
Note: Annual sum.
Sources: Foreign Trade Division and U.S. Census Bureau



Note: Annual sum.
Sources: Foreign Trade Division and U.S. Census Bureau

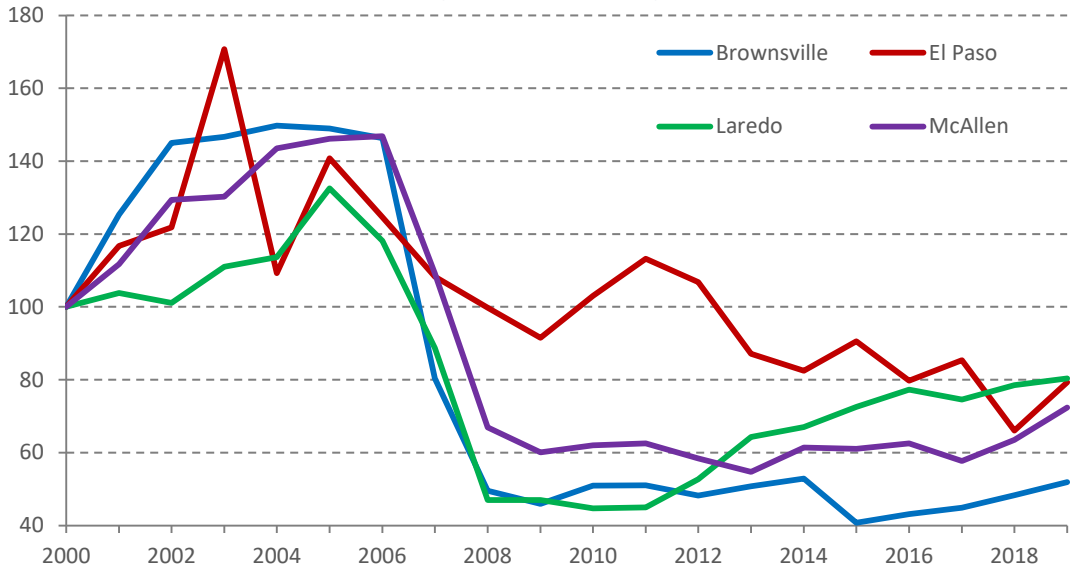
Housing

Housing Sales
(Index 2007 = 100)



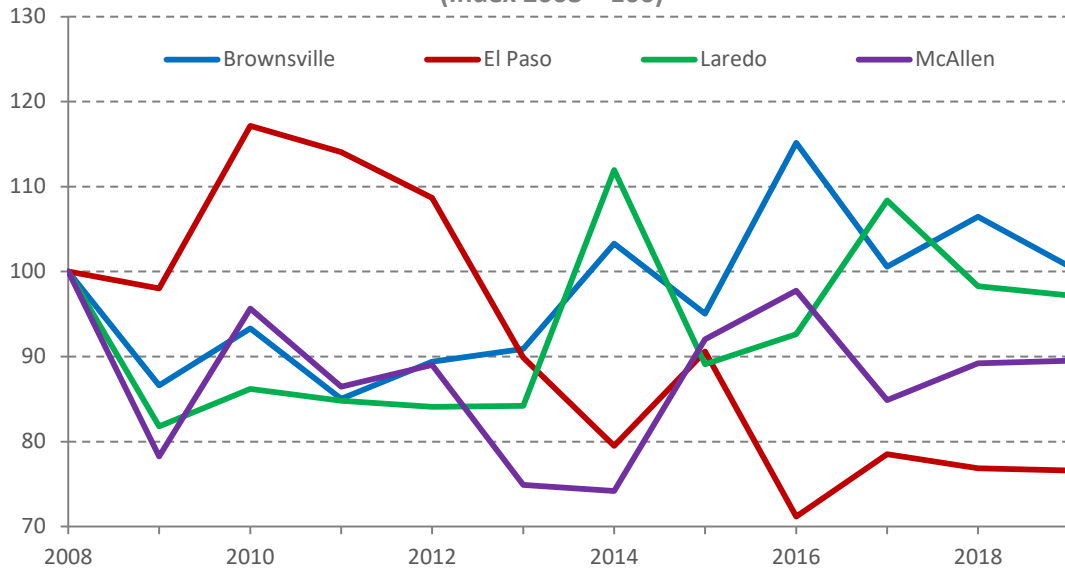
Note: Annual sum.
Source: Real Estate Center at Texas A&M University

Single-Family Housing Construction Permits
(Index 2000 = 100)



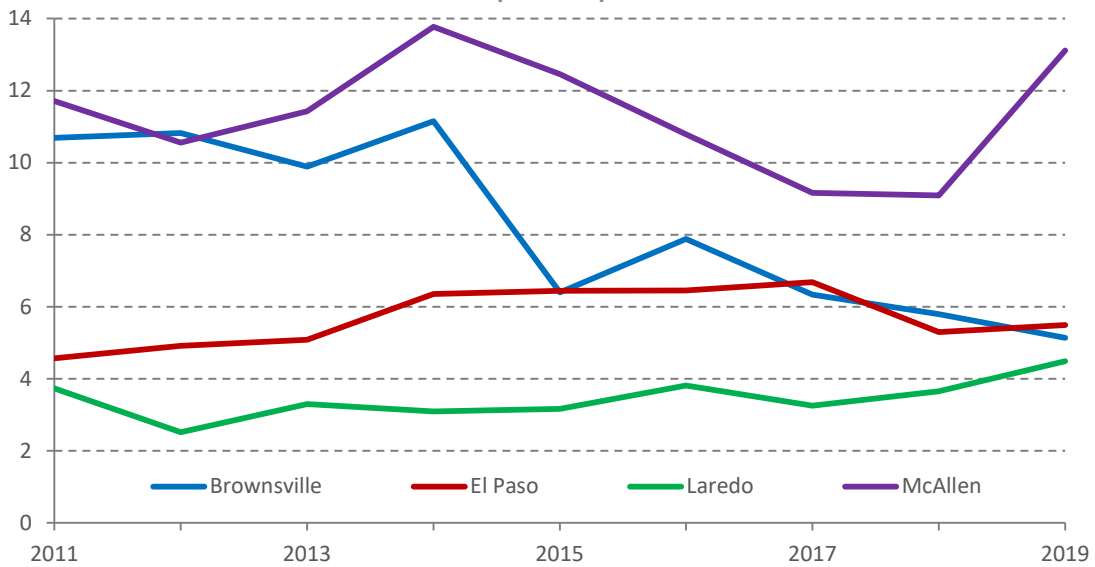
Note: Annual sum.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

Total New Private Single-Family Construction Value
(Index 2008 = 100)



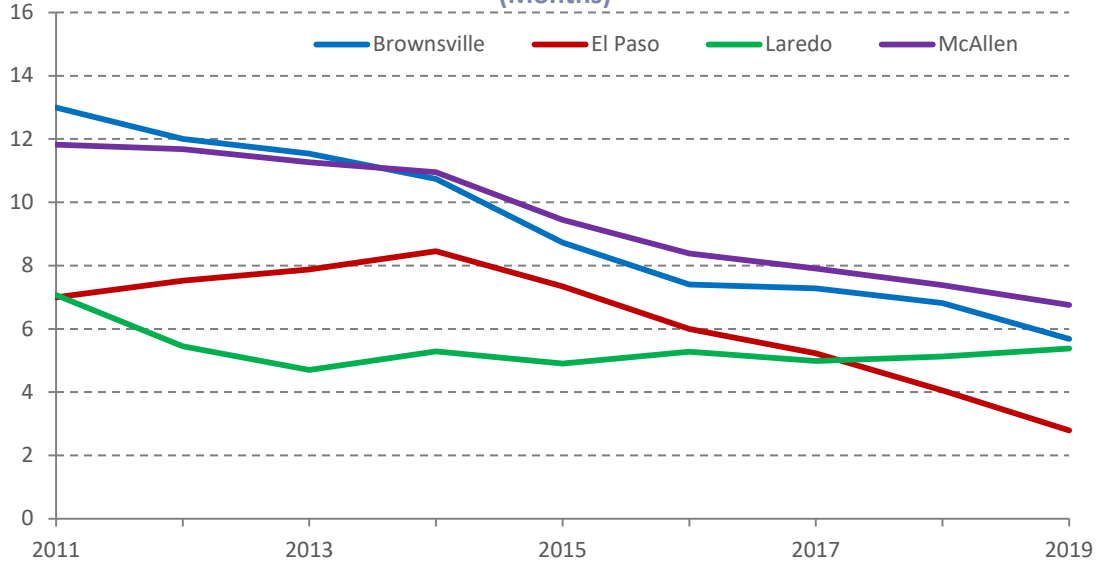
Note: Inflation adjusted. Annual sum.
Source: Dodge Analytics

New Home Months of Inventory
(Months)



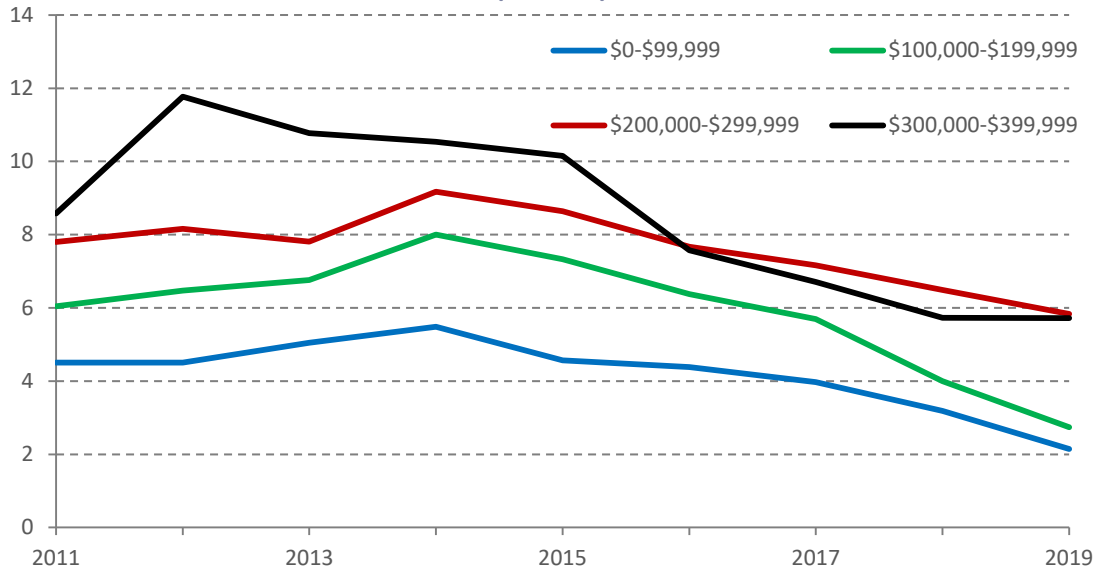
Note: Annual average.
Source: Real Estate Center at Texas A&M University

Existing Home Months of Inventory (Months)



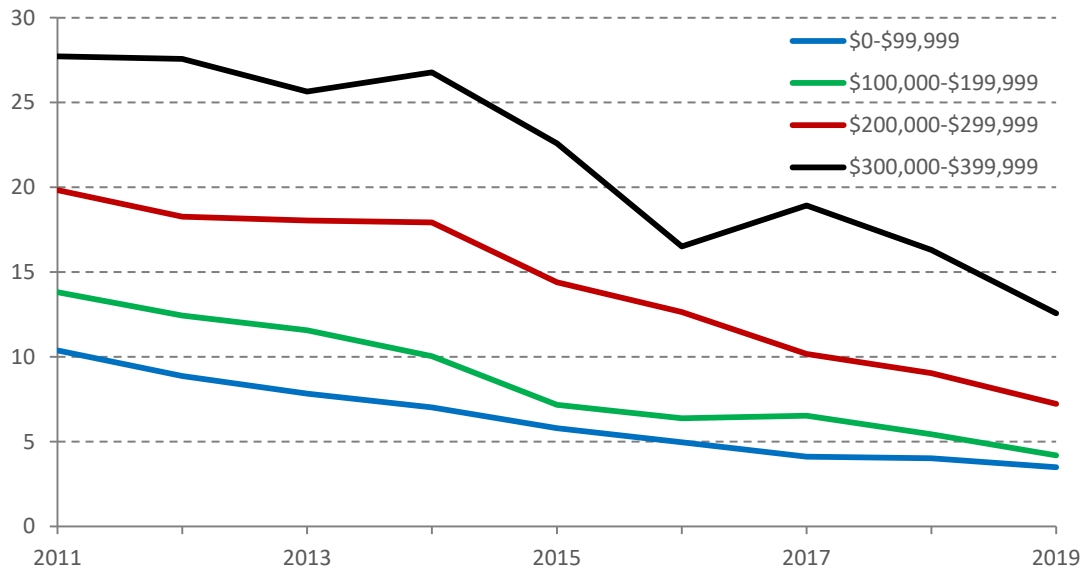
Note: Annual average.
Source: Real Estate Center at Texas A&M University

El Paso Months of Inventory by Price Cohort (Months)



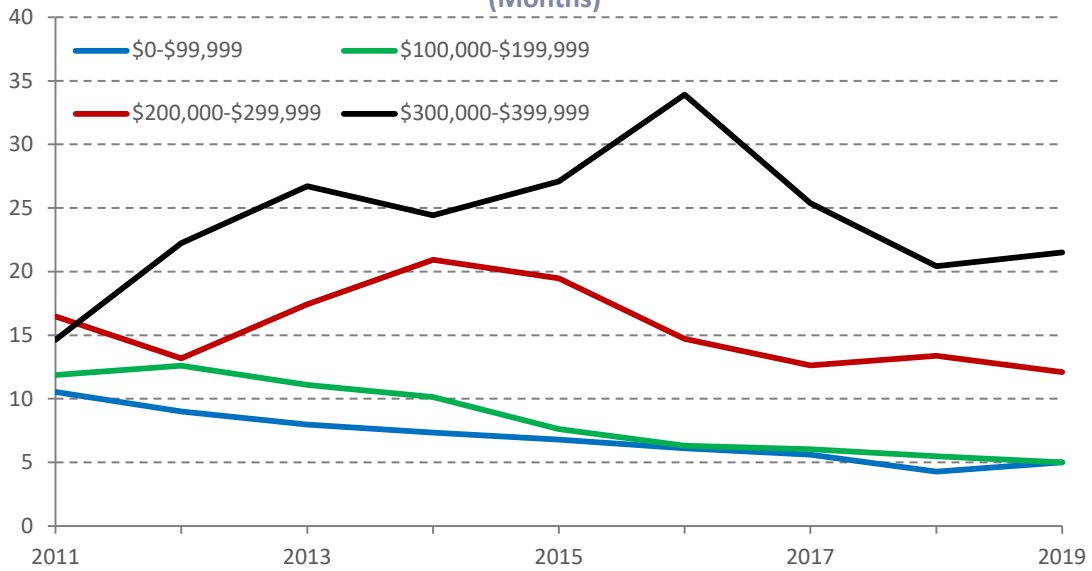
Note: Annual average.
Source: Real Estate Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort
(Months)



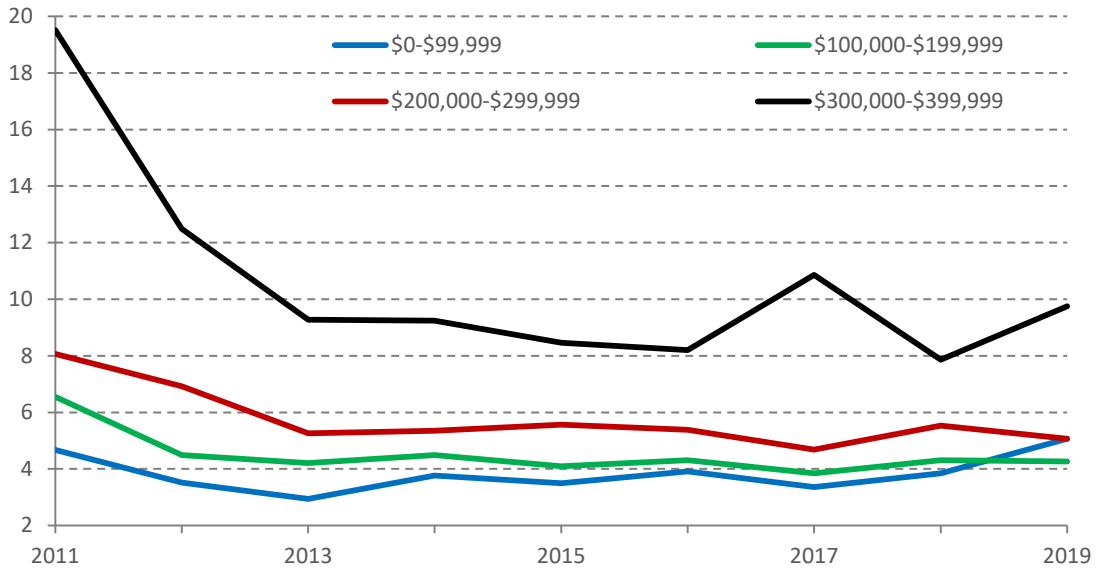
Note: Annual average.
Source: Real Estate Center at Texas A&M University

McAllen Months of Inventory by Price Cohort
(Months)



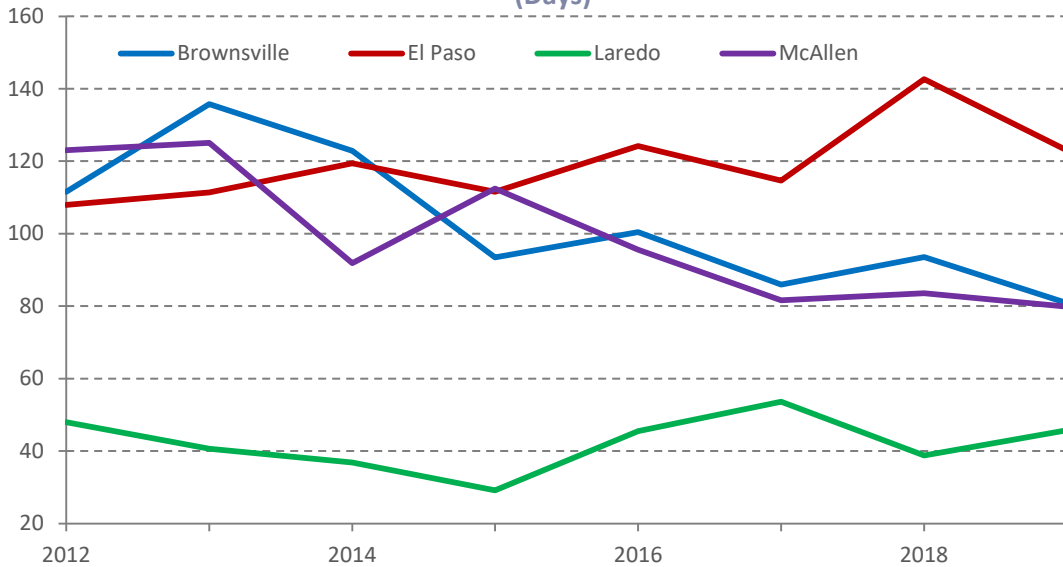
Note: Annual average.
Source: Real Estate Center at Texas A&M University

Laredo Months of Inventory by Price Cohort (Months)



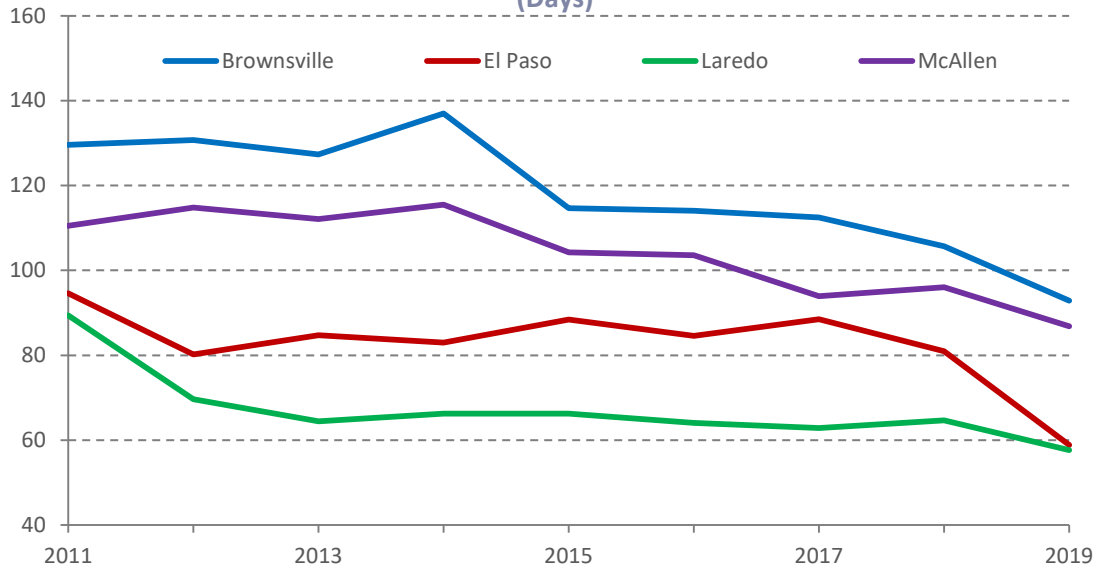
Note: Annual average.
Source: Real Estate Center at Texas A&M University

New Home Days on Market (Days)



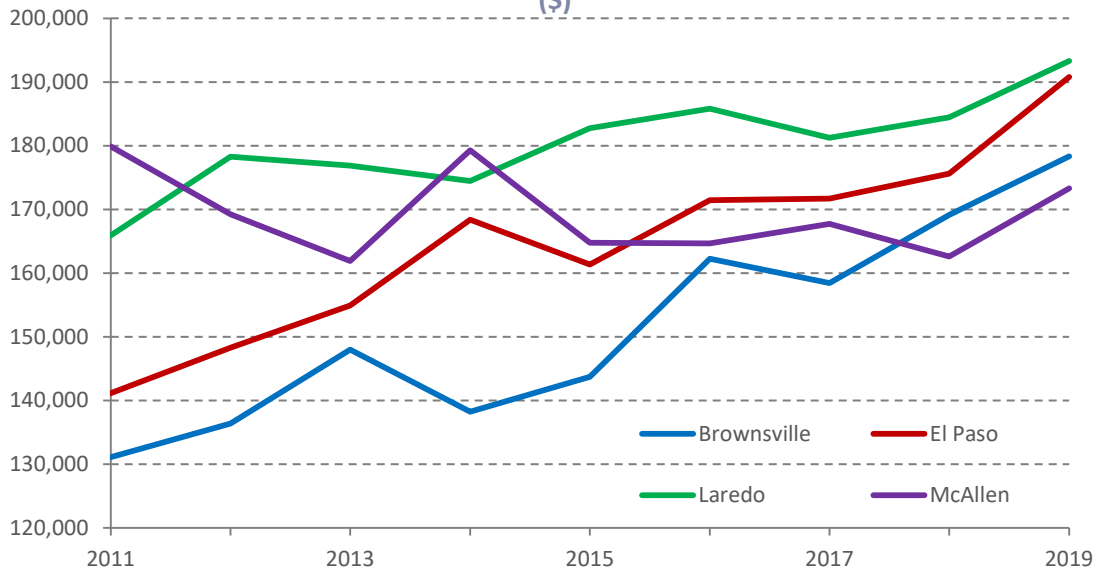
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Days on Market (Days)



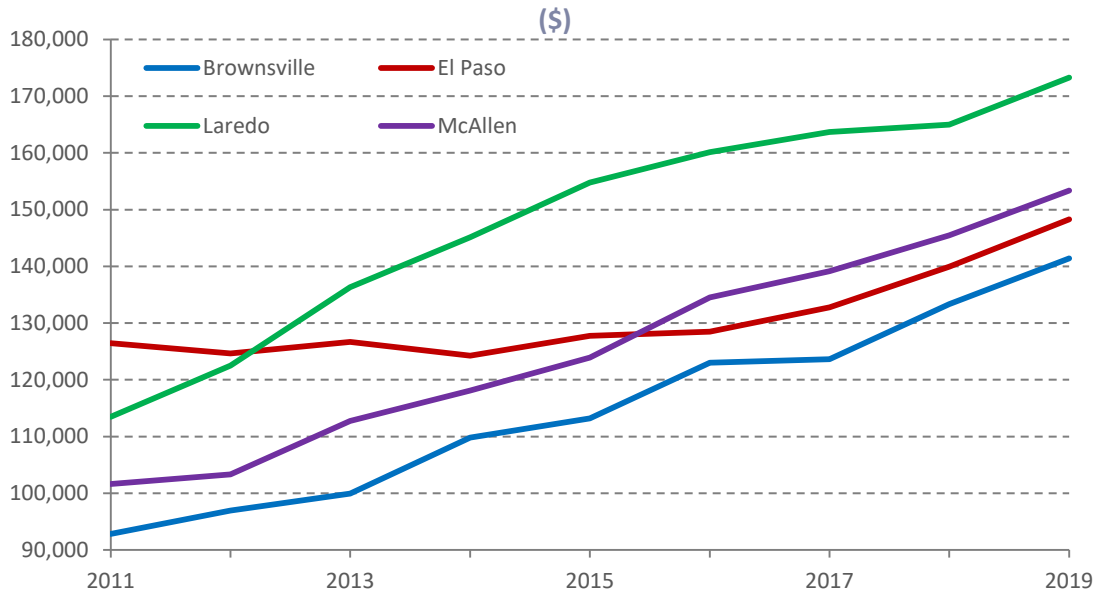
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Sales Price (\$)



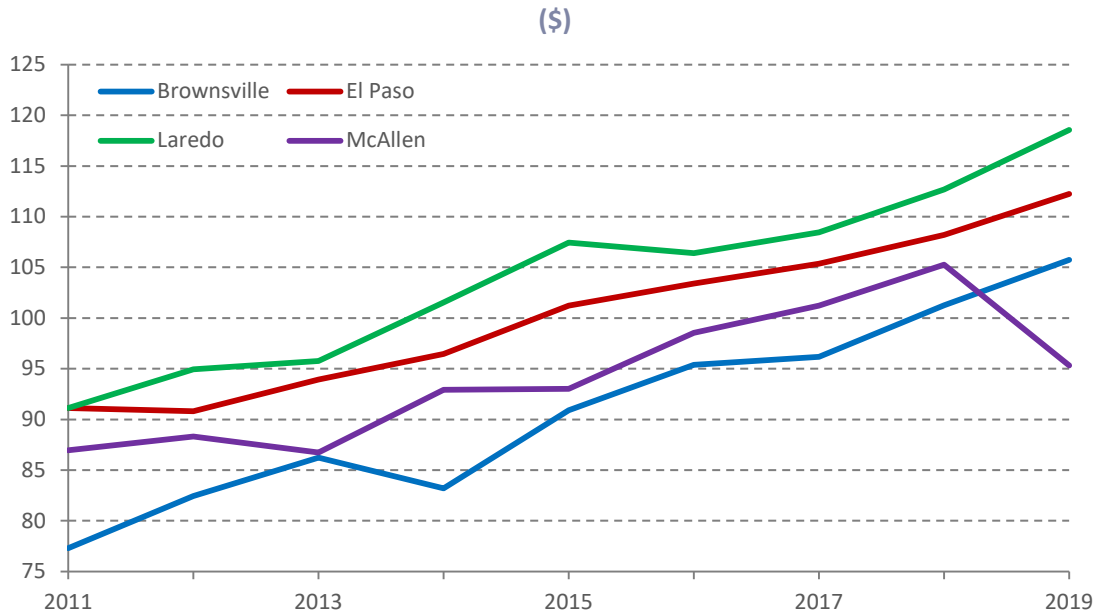
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Sales Price



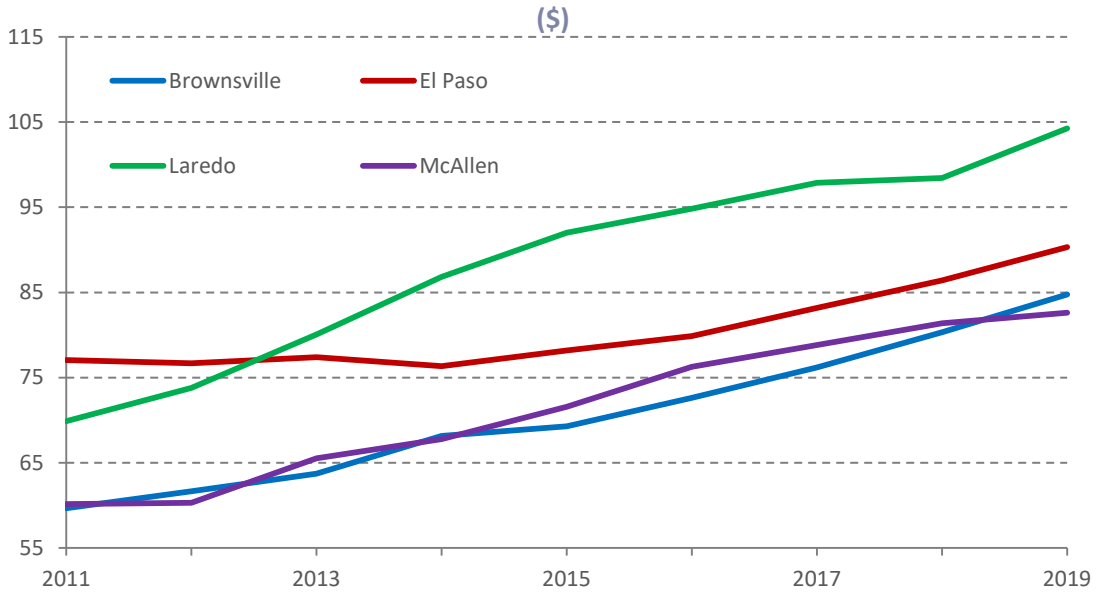
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Price Per Square Foot



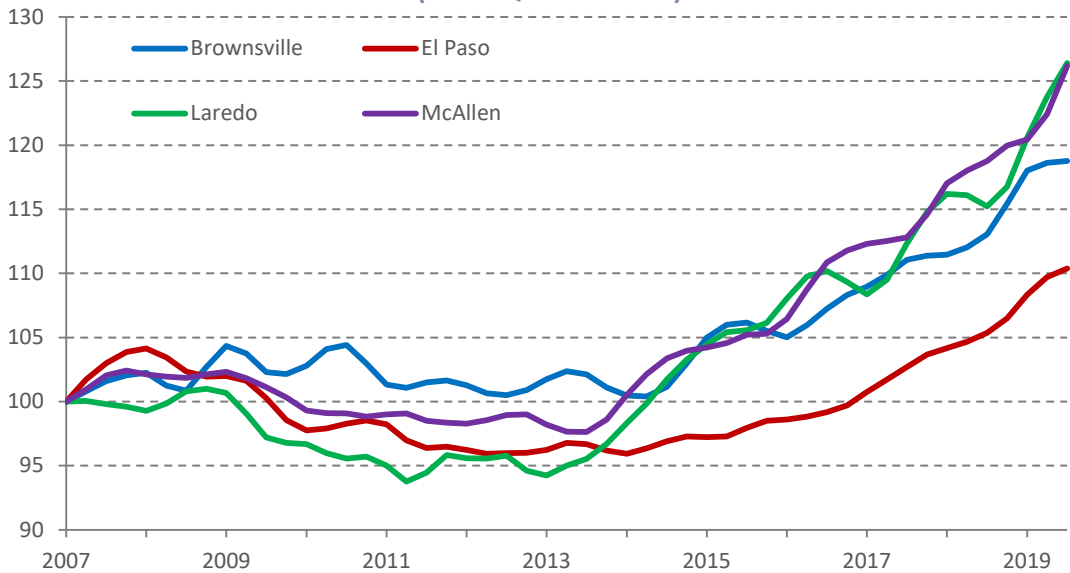
Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Price Per Square Foot

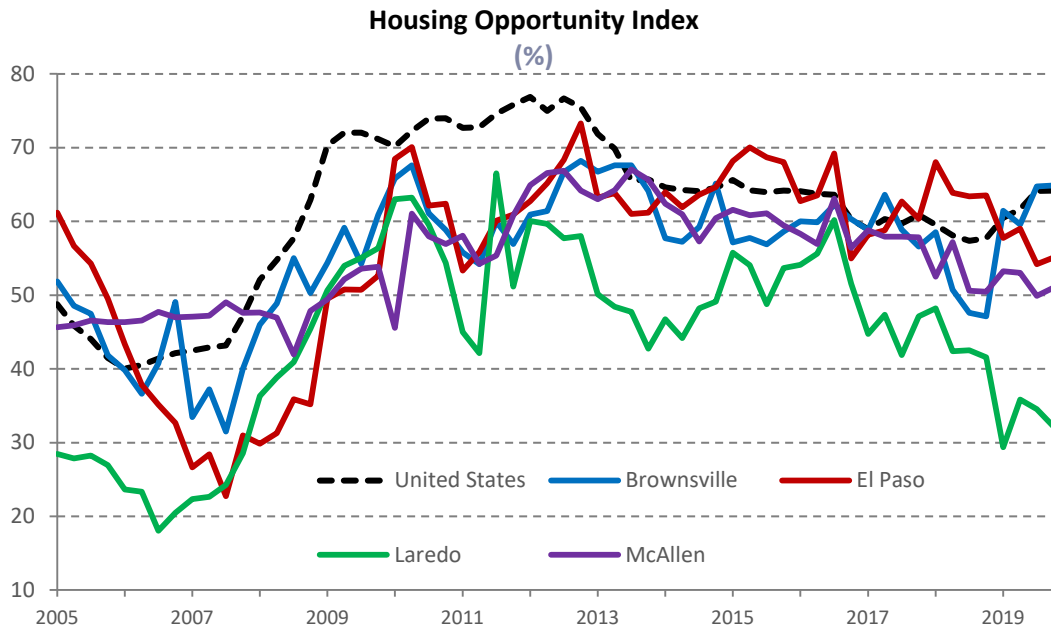


Note: Annual average. For single-family homes.
Source: Real Estate Center at Texas A&M University

FHFA House Price Index (Index Q1 2007 = 100)



Note: Trend-cycle component.
Source: Federal Housing Finance Agency



Note: Seasonally adjusted. The Housing Opportunity Index for a given area is defined as the share of homes sold in that area that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.

Sources: National Association of Home Builders and Wells Fargo



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