

TEXAS BORDER ECONOMY



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JANUARY 2020 DATA

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 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.

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Data current as of March 20, 2020

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Border Summary

BORDER EMPLOYMENT

▲ 2.1% SAAR

DECEMBER MAQUILADORA EMPLOYMENT

▲ 0.9% YOY

TOTAL TRADE VALUES

▬ \$30 Billion

HOUSING SALES

▲ 4.9% MOM

Please note this review does not account for the impacts of the COVID-19 outbreak but reflects conditions through January 2020.

January 2020

Sluggish labor market conditions on both sides of the Texas-Mexico border weighed on the border economies. Hiring slowed and unemployment rates ticked up while real wages stumbled. Nevertheless, home sales reached record levels as housing demand remained healthy, and trade values steadied ahead of the ratification of the United States-Mexico-Canada Agreement (USMCA) by all three nations. Although the global coronavirus outbreak will undoubtedly have widespread adverse effects on communities, preliminary impacts likely won't be revealed until the coming months' data are released. The severity of the impact is yet to be determined, but the border metros are expected to take the hit harder than many other areas of the state due to more moderate pre-coronavirus conditions relative to the rest of the state.

Economy

The border economies struggled in January according to the **Dallas Fed's Business-Cycle Indices**. Labor market woes in Laredo and McAllen pulled their indices down 4.1 and 3.2 percent, respectively, on a seasonally adjusted annualized rate (SAAR). Economic activity in Brownsville was lethargic, increasing less than 1 percent SAAR. El Paso was the exception, maintaining 4.2 percent growth as employment expanded by more than 1,000 jobs for the third straight month.

Data revisions for 2019 employment were recently released. The table summarizes the change for each of the border Metropolitan Statistical Areas (MSAs), as well as the aggregated metric. Notably, the number of new jobs nearly tripled in Brownsville and doubled in Laredo. These amended numbers are applied in the current analysis.

Data Revisions to 2019 Texas and Border MSA Employment

	<u>Preliminary</u>		<u>Revised</u>	
	Jobs Added	Percentage Change	Jobs Added	Percentage Change
Border	15,600	1.9	16,400	2.0
Brownsville-Harlingen	800	0.6	2,300	1.6
El Paso	5,800	1.8	5,500	1.7
Laredo	700	0.7	1,400	1.3
McAllen-Edinburg-Mission	8,300	3.1	7,200	2.7

Note: Both the number of jobs added and percentage change calculations are computed from December 2018 and December 2019 employment.

Source: Bureau of Labor Statistics

Border **nonfarm employment** expanded by 800 jobs in January, decelerating to 1.1 percent SAAR growth, the slowest pace in two years. After data revisions revealed increased hiring in Brownsville and Laredo during the second half of the year, employment in those metros inched forward at a pace of less than 1 percent SAAR to start the year. Brownsville's local government, education/health services, and information industries dragged on January employment. In Laredo, professional/business services corrected upward after a four-month contraction, but the mining/logging/construction sector continued to shed jobs. However, trade/transportation/utilities, which accounted for nearly a third of the metro's workforce, increased 1.2 percent. McAllen employment expanded by 300 jobs amid renewed hiring in education/health services, leisure/hospitality, and goods-producing sectors after fourth-quarter contractions. Financial activities and local government, however, cut positions to start the year. El Paso's professional/business services sector constituted most of the metro's new jobs, but the increase was likely an upward correction to losses during the previous two months.

On the Mexican side of the border, **manufacturing and maquiladora employment**¹ flattened at year end to grow less than 1 percent in December 2019 relative to December 2018. Reynosa and Matamoros shed 1,000 and 700 jobs in December, respectively, with the former falling negative year over year (YOY). Nevertheless, Matamoros posted 5.8 percent YOY growth after adding more than 5,100 jobs in the first half of the year despite a labor strike during January and February. Chihuahua maquiladora employment also increased 7.4 percent YOY, although operations were affected by a separate General Motors strike late in the year. In Juarez and Nuevo Laredo, job growth struggled through much of 2019, falling 0.7 and 1.6 percent YOY, respectively; the declines, however, showed signs of slowing. U.S. manufacturing production decreased 0.2 percent in January and may continue to slip as supply-chains are disrupted by reduced manufacturing worldwide, adding additional obstacles to Mexican maquiladora employment.

Slower hiring along the border held **unemployment rates** above record lows reached in 3Q2019. McAllen joblessness increased for the fourth consecutive month to 6.4 percent, while Laredo's

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.

metric ticked up to 3.8 percent. Meanwhile, Brownsville and El Paso unemployment hovered at 5.6 and 3.8 percent, respectively.

As unemployment inched up, **average real private hourly earnings** declined YOY in all four border metros. Brownsville wages fell for the fifth straight month after accounting for inflation. El Paso's inflation-adjusted earnings decreased 3.5 percent YOY. Meanwhile, McAllen and Laredo real earnings dipped into negative YOY growth territory for the first time in a year.

Total construction values extended a five-month downward trend following a slide in industry employment the last few months of 2019. Both residential and nonresidential values slumped on top of a sluggish fourth quarter. El Paso's single-family values decreased for the second straight month, although hospital construction picked up. School building activity showed signs of normalizing after elevated levels starting in summer 2018 resulting from 2016 education bond projects. Laredo's school sector, on the other hand, recorded increased construction, as did the metro's retail industry. Falling residential and library values, however, offset the improvements. In Brownsville, the office sector continued to correct downward from record levels in 3Q19, but strong residential values supported an overall positive trajectory. McAllen's total construction values flattened after rising 10.9 percent annually in 2019.

In the currency market, the **peso per dollar exchange rate** slid to 18.81, its lowest level in nearly two years, but the inflation-adjusted rate² remained steady. Total trade values passing through the border plateaued at \$30 billion in January, with Laredo and McAllen activity leveling off. El Paso trade values fell 3.1 percent after modest increases in 4Q2019. On the bright side, Brownsville trade rose 10.9 percent amid increased machinery shipments. The border's total trade values accounted for more than 50 percent of the state's 2015-18 activity. That share slipped in the midst of NAFTA renegotiations and the slowing global manufacturing environment that characterized 2019. Although the USMCA has been ratified by all three countries involved, supply-chain disruptions and decreased automobile demand stemming from the global coronavirus pandemic will weigh on trade in the near future.

Housing

As employment growth slowed but remained stable, **border housing sales** surged almost 5 percent in January to an all-time high. McAllen sales, which hovered just below record levels reached in November, maintained a solid upward trajectory. El Paso had an upturn in sales volumes after sluggish activity in 2019 with every price range increasing except for \$200,000-\$300,000. The same price cohort in Brownsville, however, had an 8.3 percent improvement in total sales. Laredo sales rose 5.5 percent but continued to normalize after a year-long climb between 2Q2018 and 2Q2019.

Single-family housing construction permits for the overall border region recovered 5.6 percent after falling at year end, largely due to the Rio Grande Valley. Brownsville permits exceeded 100 for

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.

the first time in six years, while McAllen issuance increased 9.6 percent, although the latter trended down toward its post-recessionary average after elevated summer levels. In Laredo, issuance continued upward at a slow but steady pace. El Paso activity calmed after ramping up in the second half of 2019. **Private single-family construction values** reflected movements in permitting except for in El Paso, where the metric fell to a cycle-low.

Strong sales in El Paso offset the first increase in the metro's supply of active listings in four months, pulling El Paso's **months of inventory (MOI)** down to three months. Inventory fell to all-time lows of 6.3 and 6.4 months in Brownsville and McAllen, respectively. At the other end of the spectrum, Laredo's MOI increased to a record high of 7.8 months.

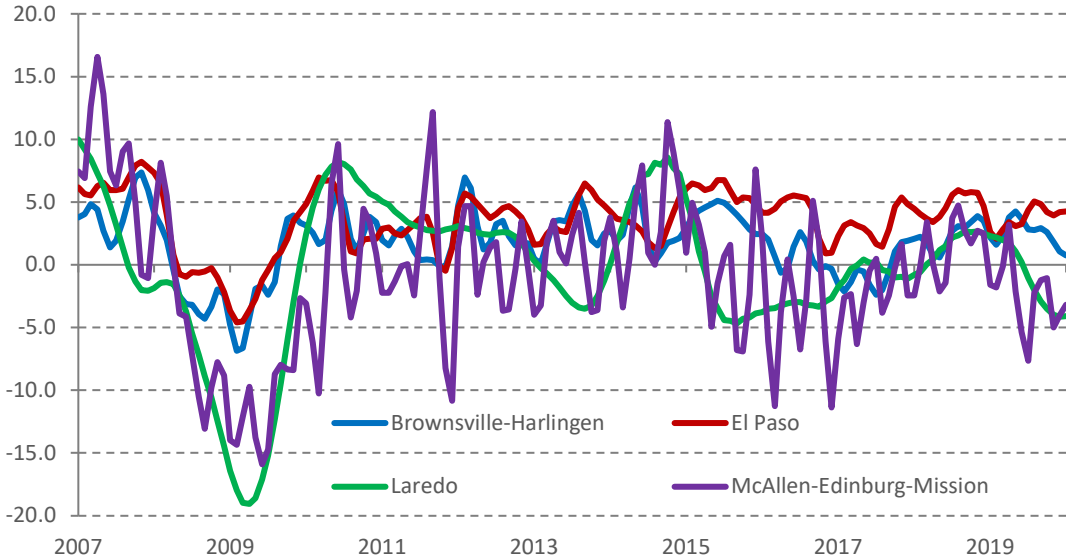
The average home along the border sold faster than a year ago, corroborating healthy housing demand. Brownsville and El Paso registered the largest decreases in **average number of days on market (DOM)**, falling from 141 to 95 days in the former and 91 to 75 days in the latter. McAllen's metric shed less than a week relative to last January but remained lower than its Rio Grande Valley counterpart at 84 days. Laredo's DOM rose to 56 days as inventory expanded rapidly in the last nine months. Nevertheless, the average home in Laredo sold at a quicker rate than the statewide metric of 59 days.

The **median home price** stabilized across the border metros. Median prices in El Paso and McAllen flattened at \$167,200 and \$161,200, respectively. Brownsville's metric fell \$14,900 to \$147,900, normalizing after a 16.5 percent YOY climb at year end. Laredo's median price declined to \$164,000 as the share of homes sold that were priced more than \$200,000 fell from 44 percent in December to 33 percent in January. Moderate home-price appreciation is essential to maintain affordability, one of the border's main attractions, in an environment of low wage growth.

The data reported here reveal the vulnerable position the border economies were in as January ended. February data may extend the modest expansion, but the events of the past few weeks and expectations for the next several months may make all of this insignificant. Early projections for the first quarter of the year have been drastically revised from a modest increase to a severe decline in national GDP growth. The first quarter is practically over, so the statistical impact will not be nearly as severe as what the second and third quarter growth rates will be. We are headed into, if not already in, a recession on the national, state, and local levels. The depth and duration of decline are anyone's guess.

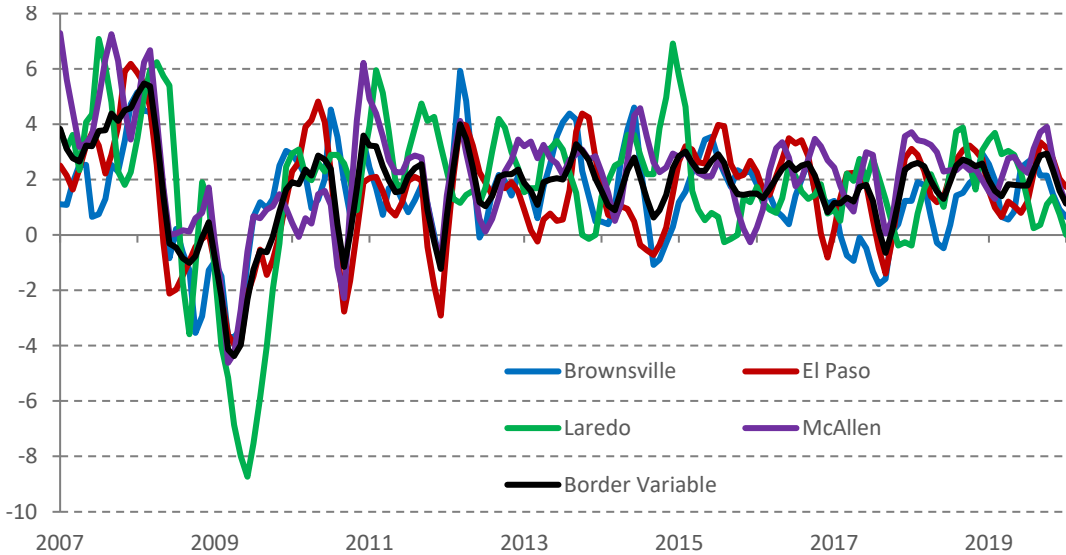
Economic Activity

Business Cycle Index
(Quarter-over-Quarter Percent Change)



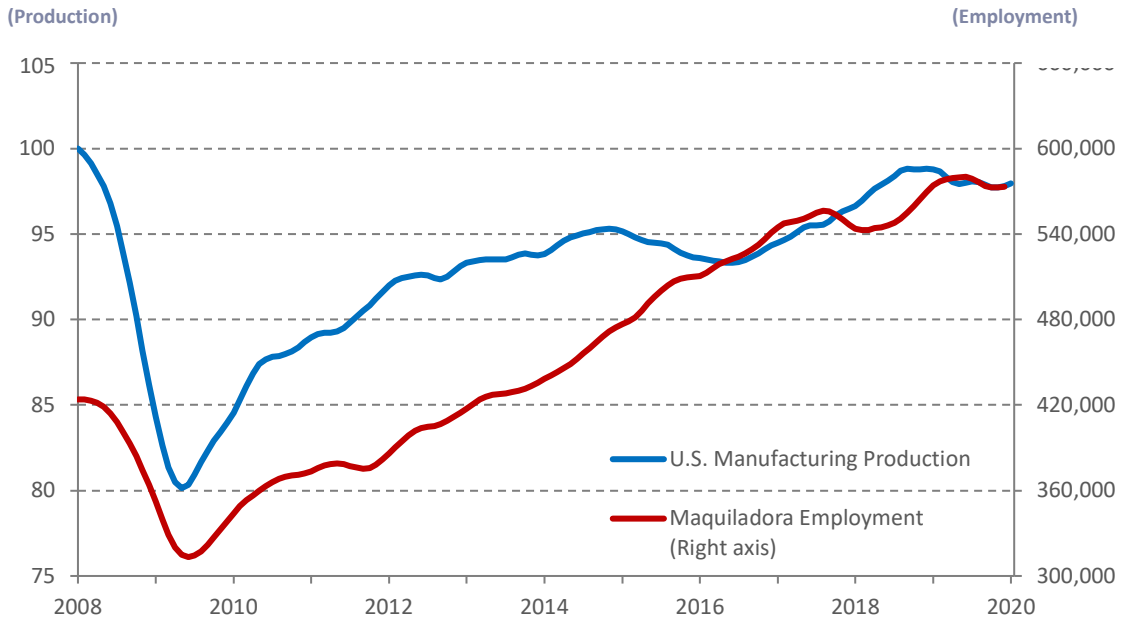
Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas

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



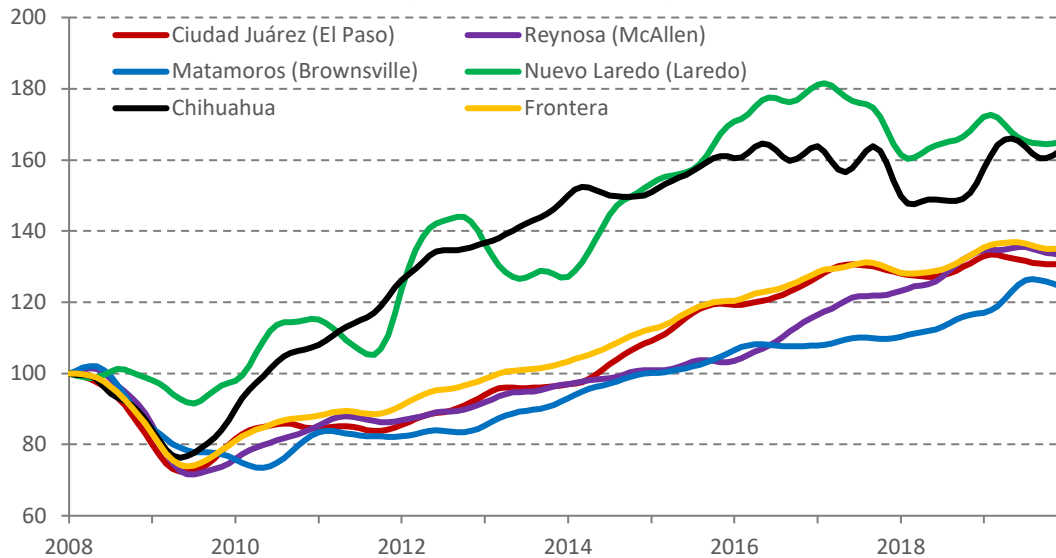
Note: Seasonally adjusted, three-month moving average. January 2020 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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



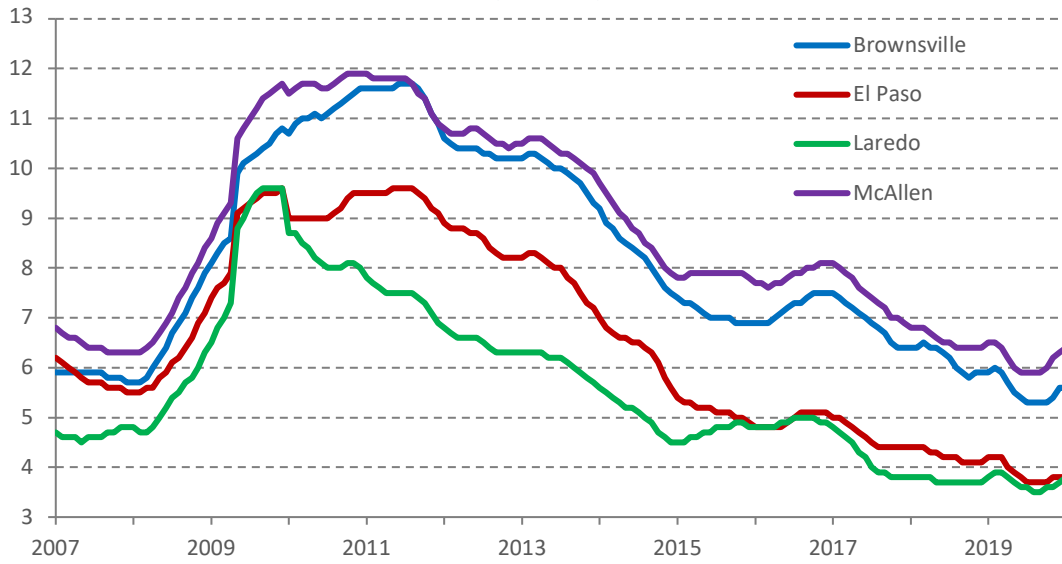
Note: Trend-cycle component.
Source: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



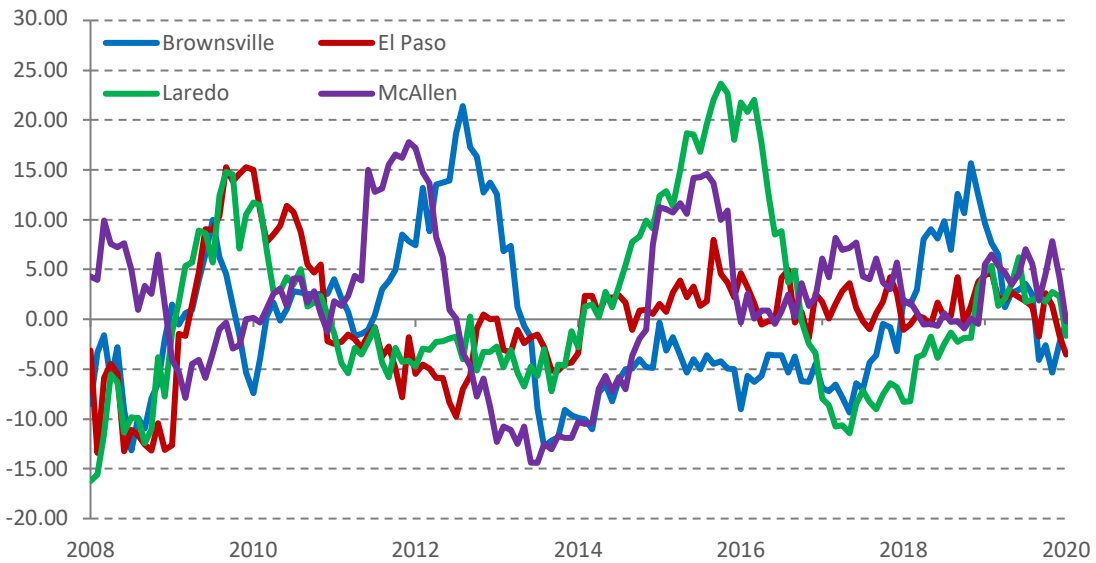
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate (Percent)



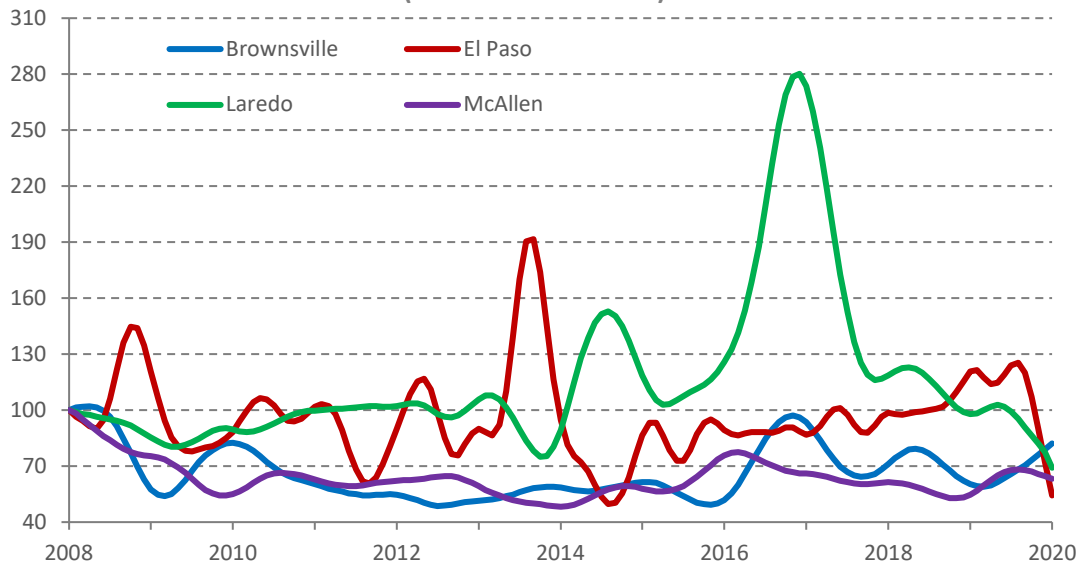
Note: Seasonally adjusted. January 2020 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



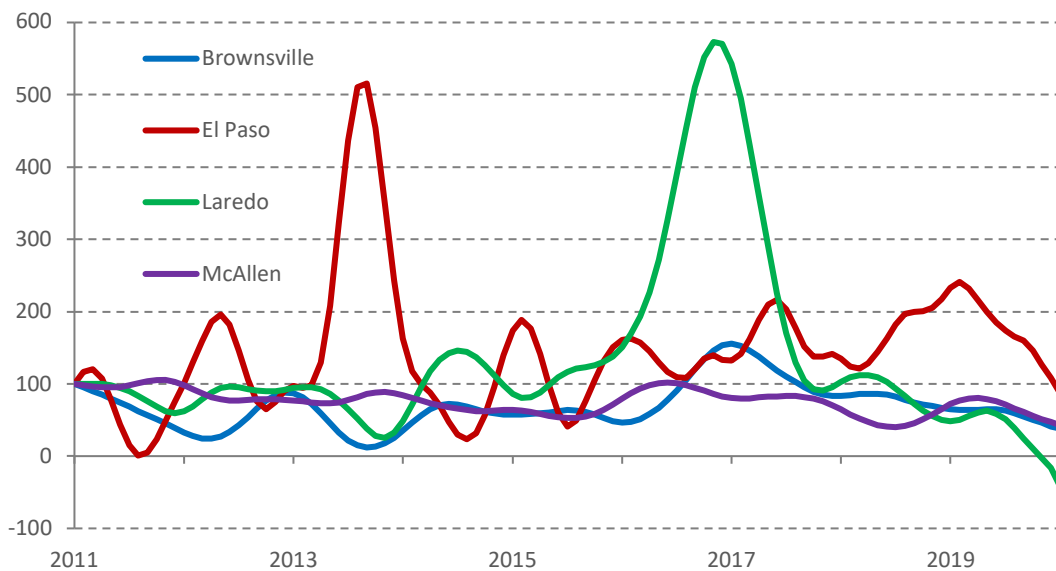
Notes: Inflation adjusted, seasonally adjusted. January 2020 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values
(Index Jan 2008= 100)



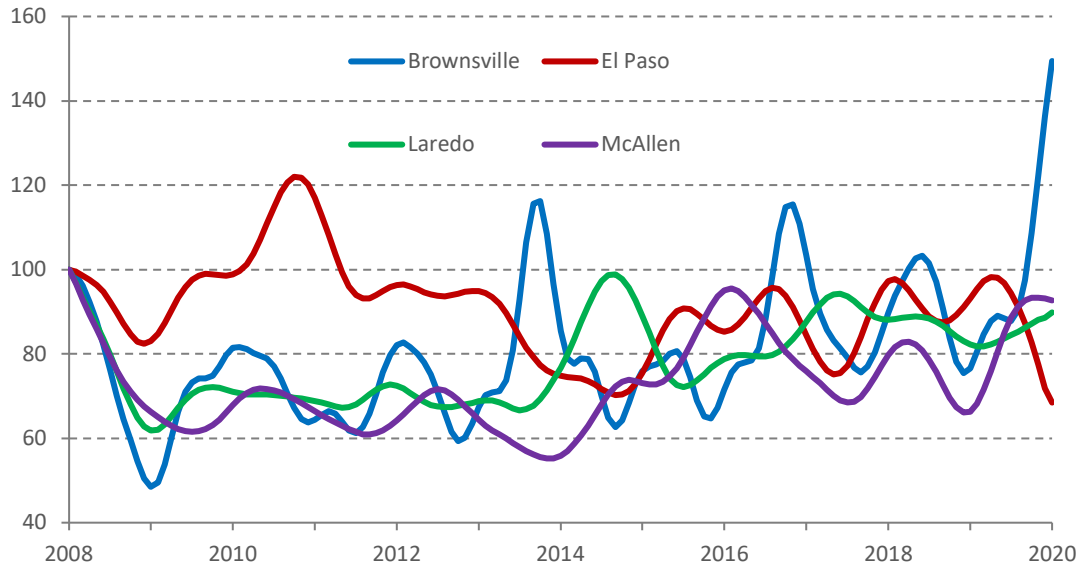
Note: Inflation-adjusted Trend-cycle component.
Source: Dodge Data & Analytics

Nonresidential Construction Values
(Index Jan 2011 = 100)



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

Residential Construction Values
(Index Jan 2008 = 100)



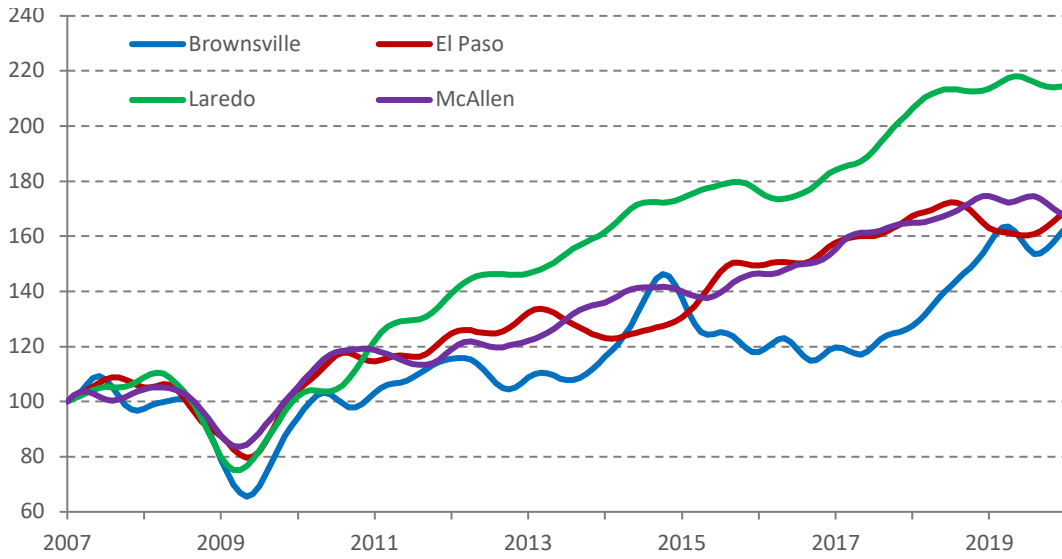
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate
(\$)



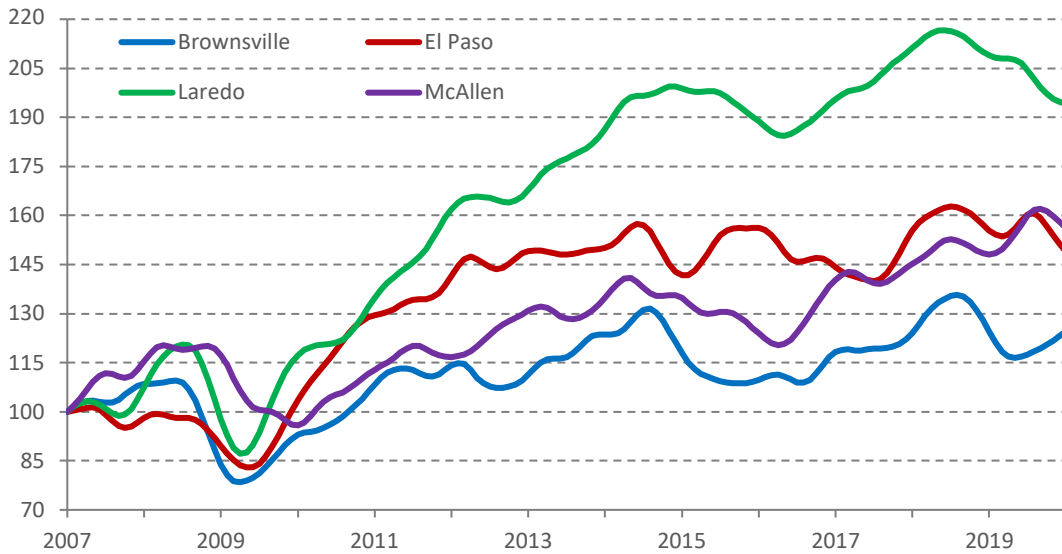
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values (Index Jan 2007 = 100)



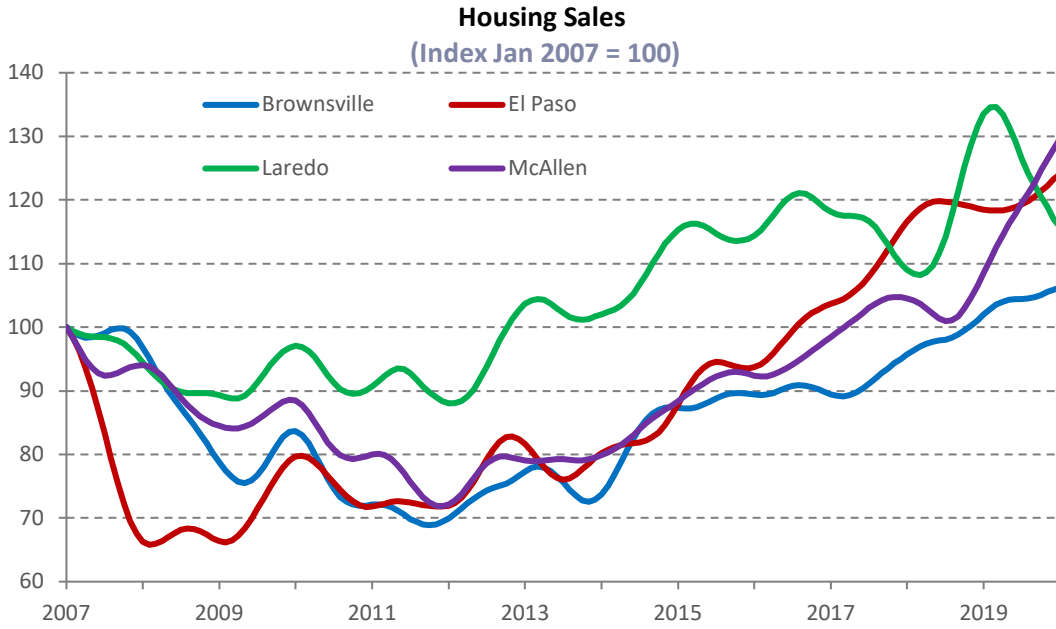
Note: Trend-cycle component.
Sources: Foreign Trade Division and U.S. Census Bureau

Export Values (Index Jan 2007 = 100)

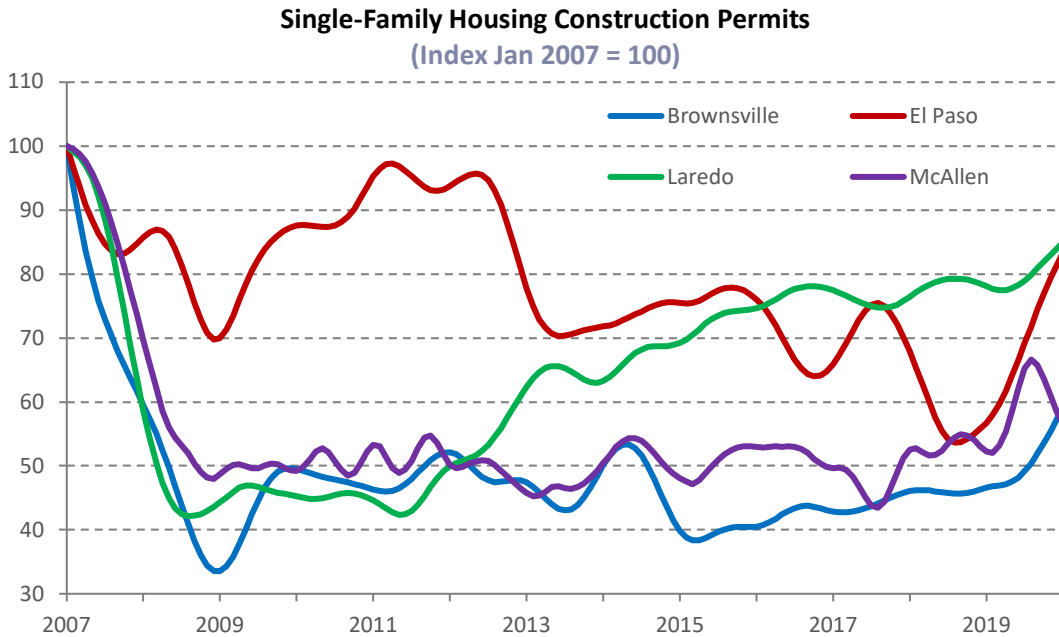


Note: Trend-cycle component.
Sources: Foreign Trade Division and U.S. Census Bureau

Housing

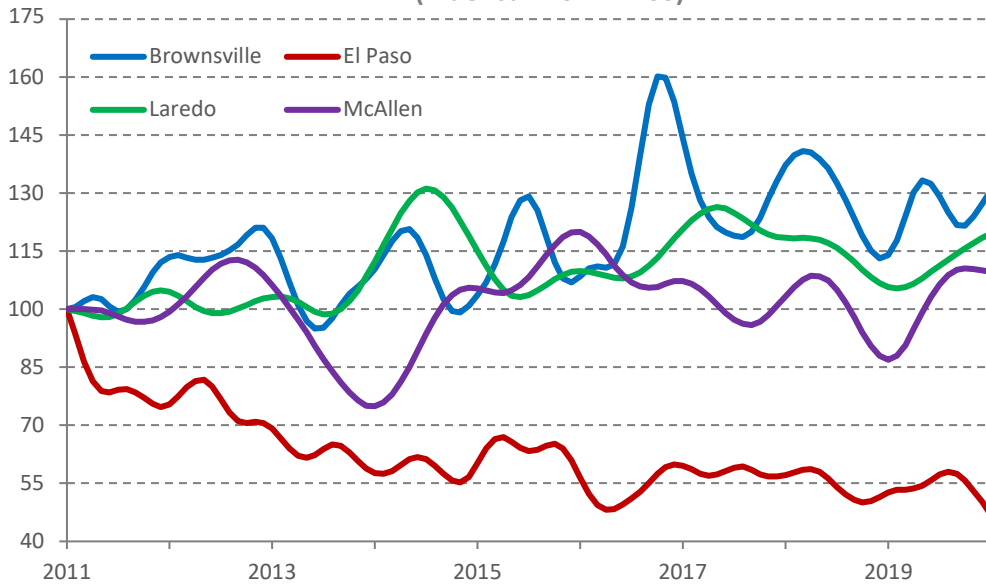


Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University



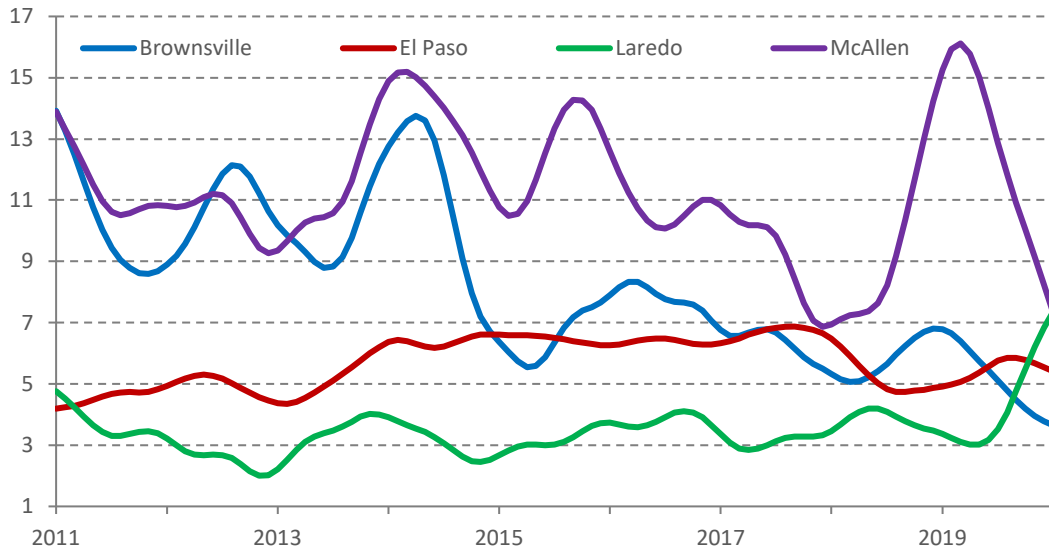
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

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



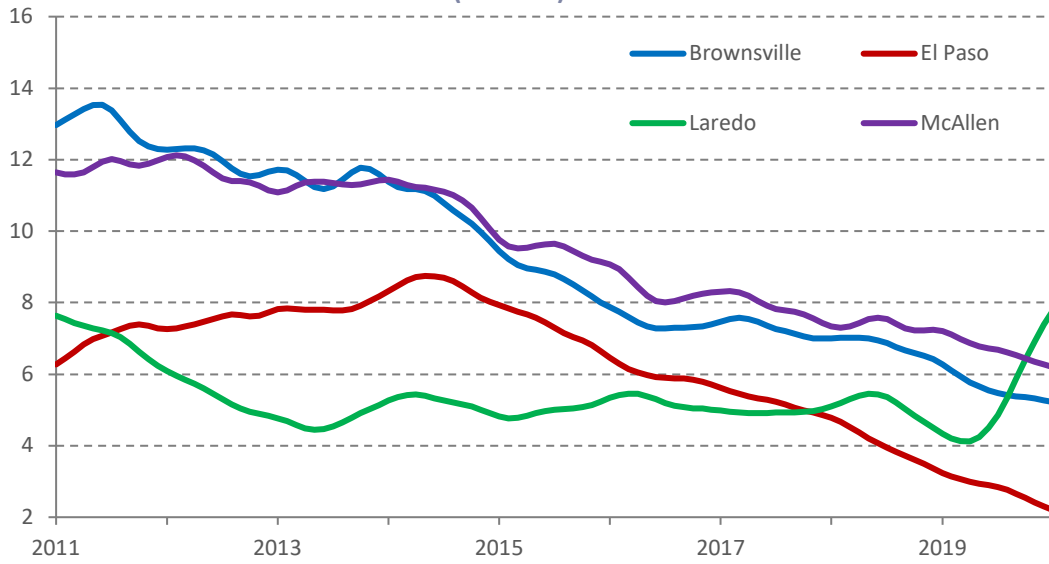
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory
(Months)



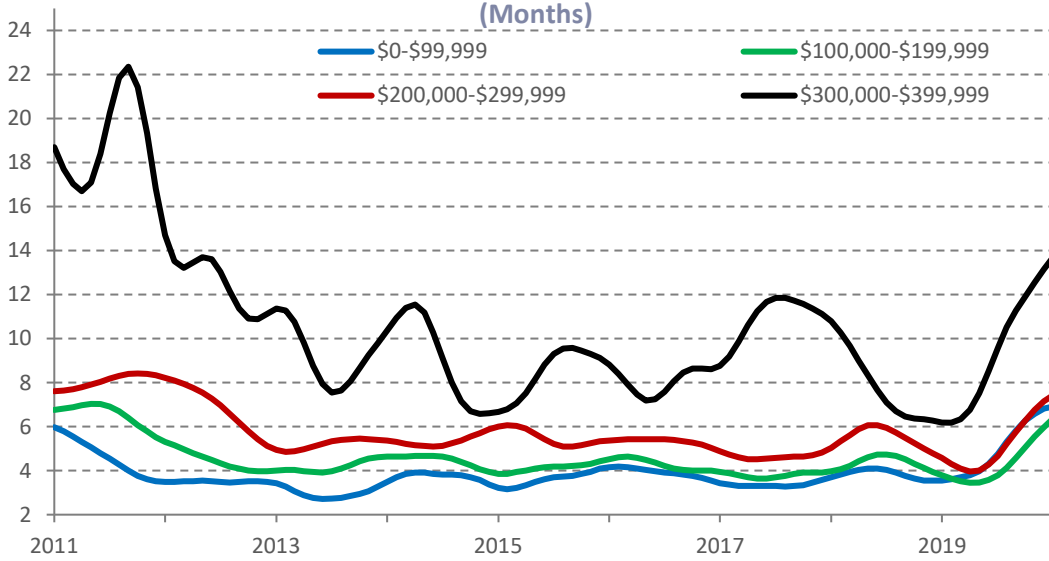
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Existing Home Months of Inventory (Months)



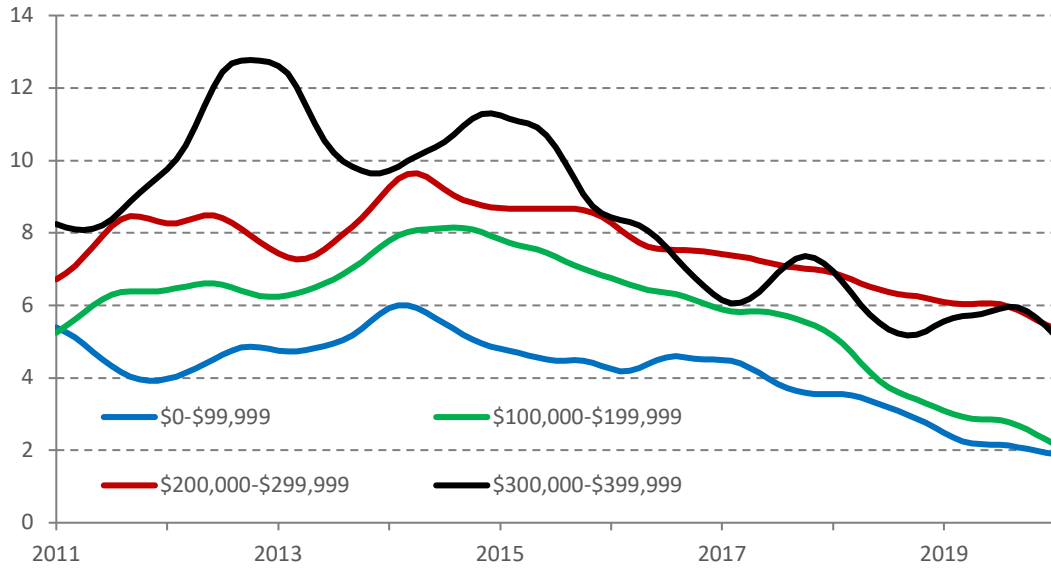
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Laredo Months of Inventory by Price Cohort (Months)



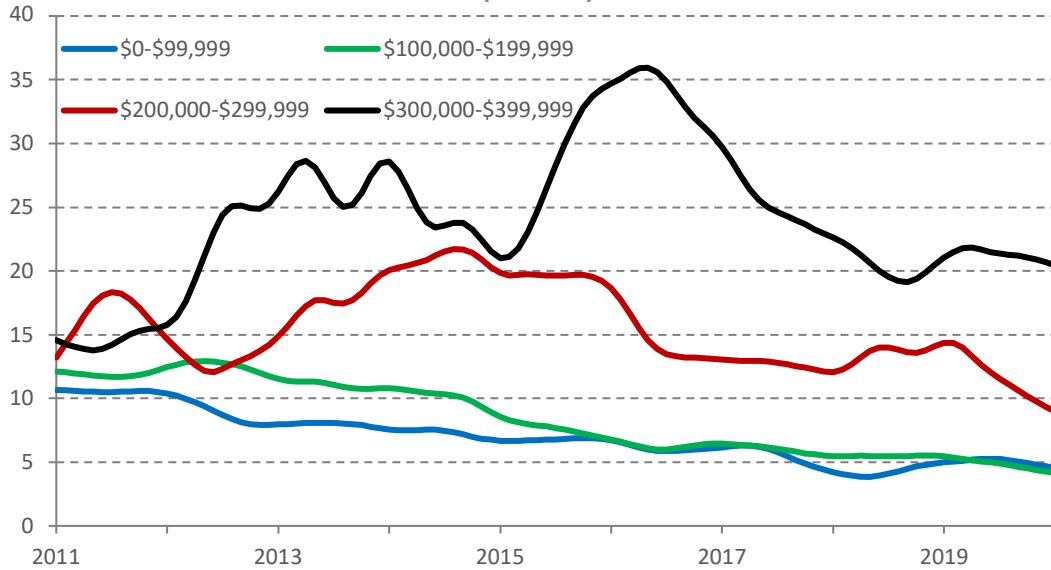
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

El Paso Months of Inventory by Price Cohort (Months)



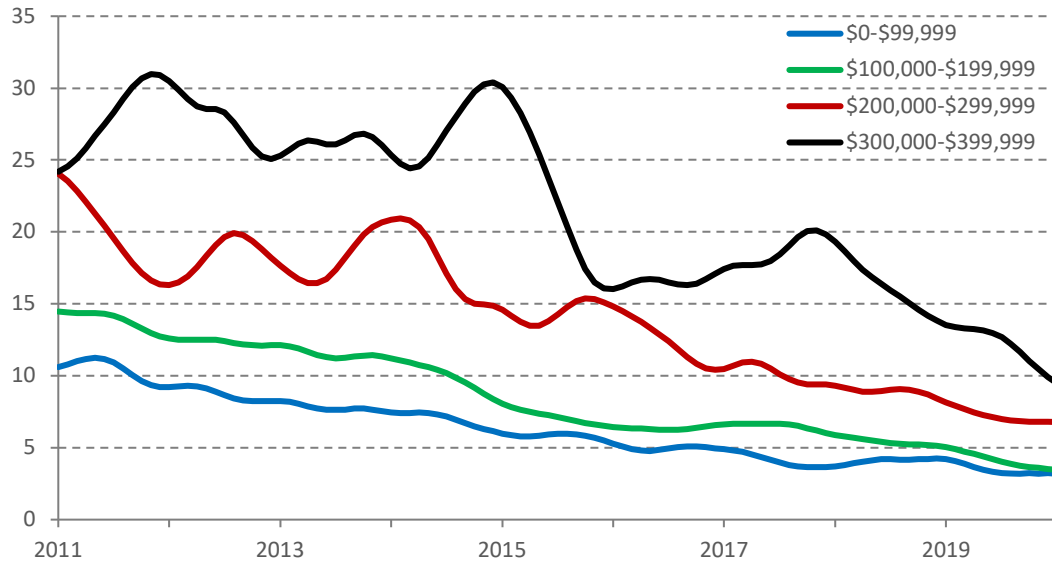
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



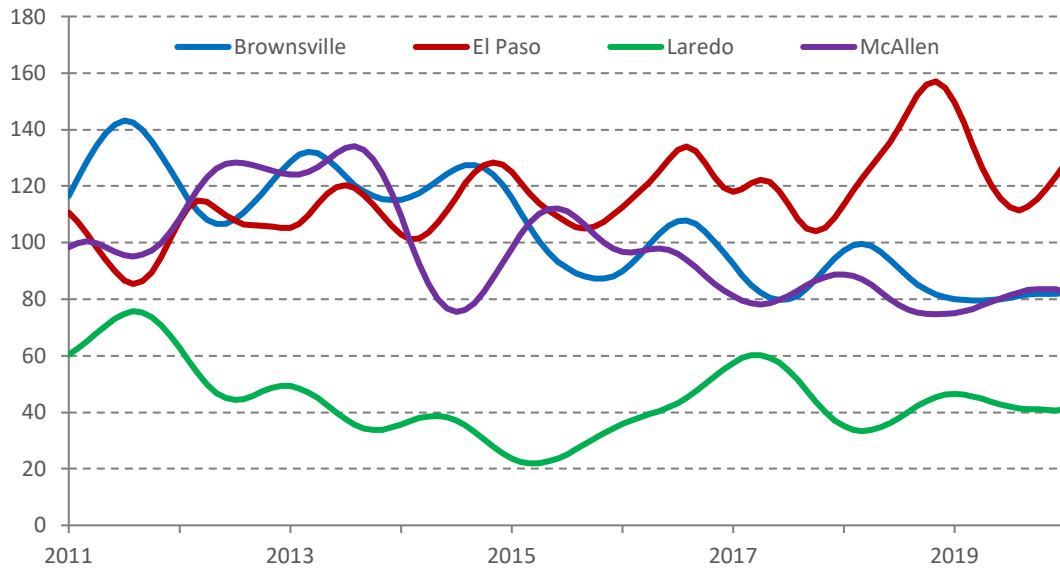
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



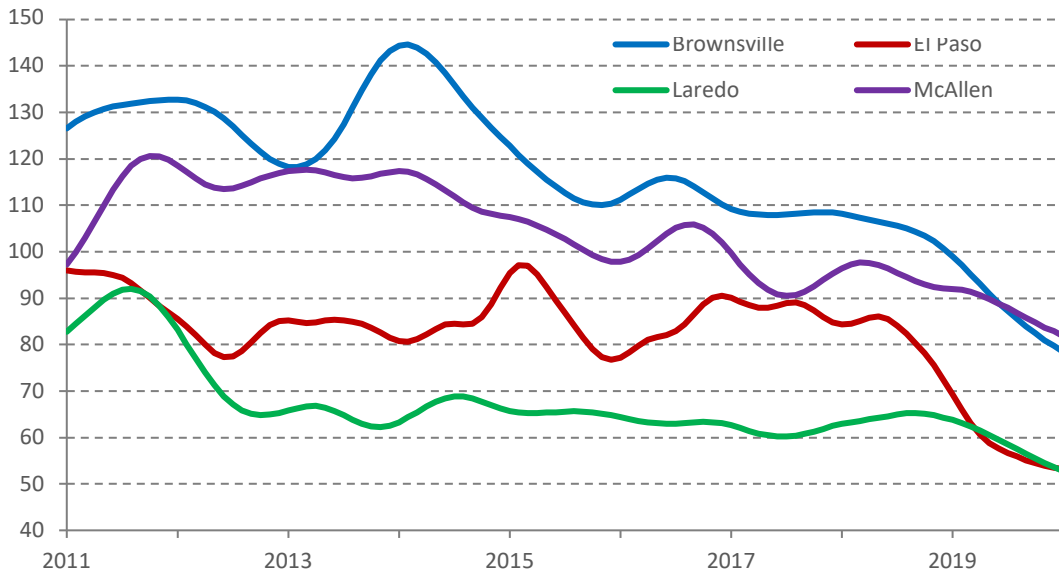
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

New Home Days on Market (Days)



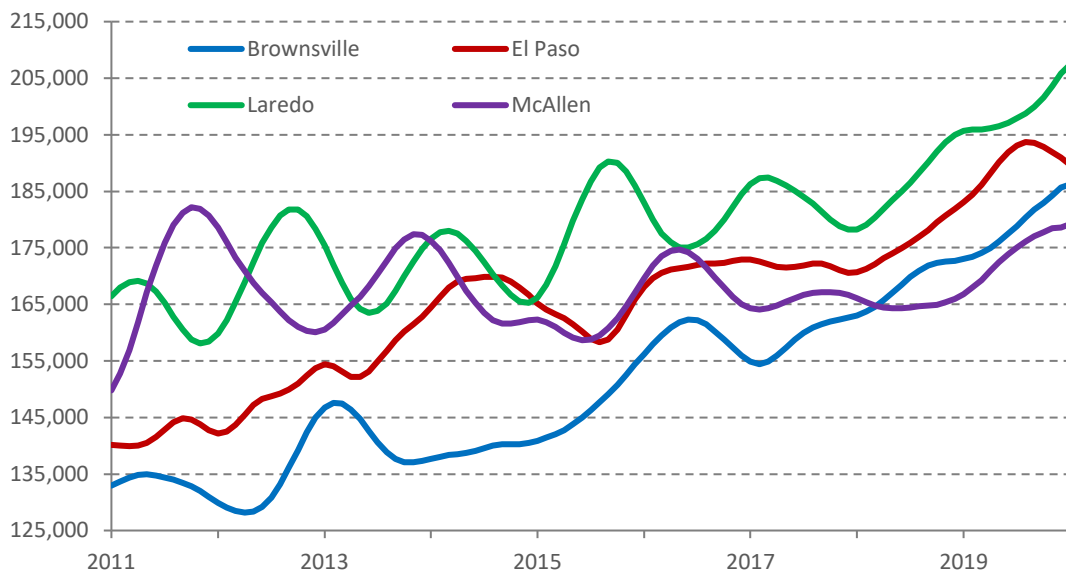
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Days on Market (Days)



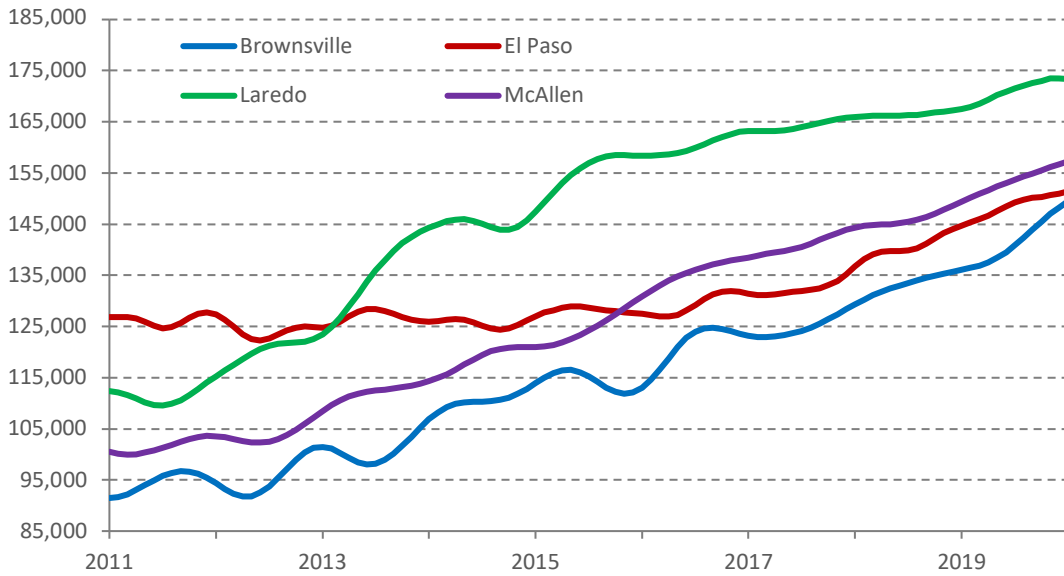
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Sales Price (\$)



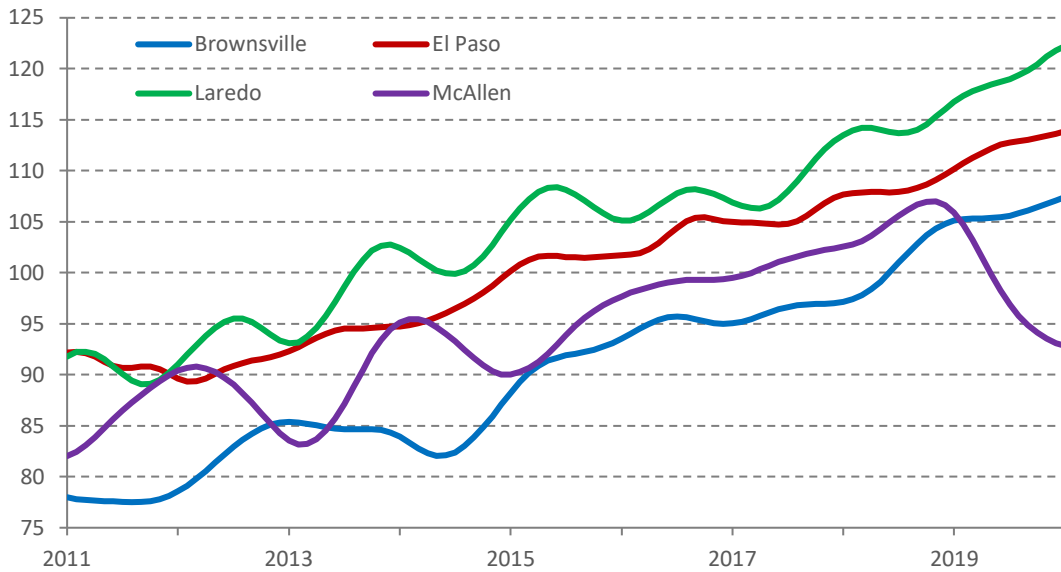
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Sales Price (\$)



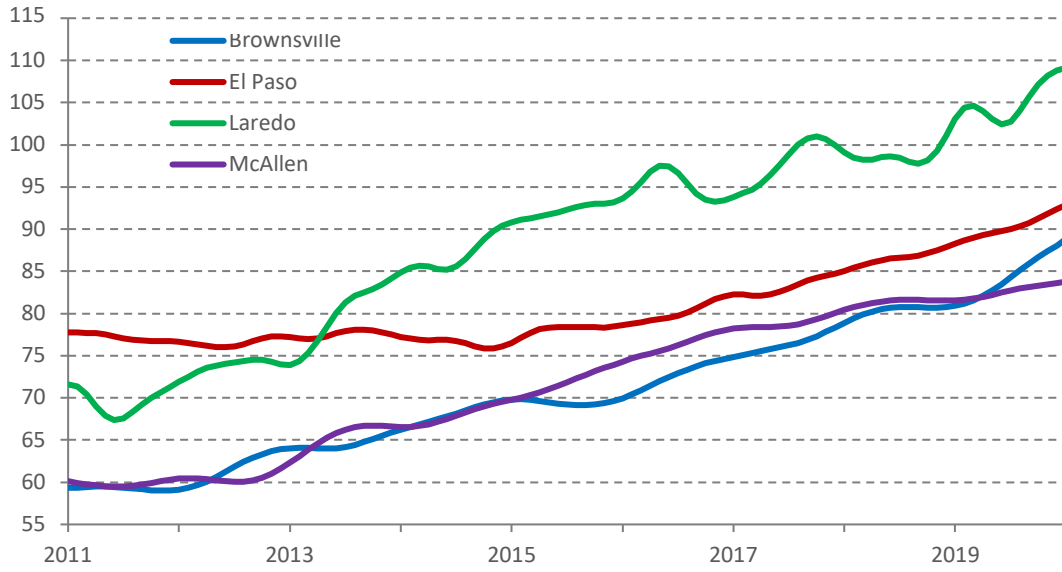
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

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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