

TEXAS BORDER ECONOMY



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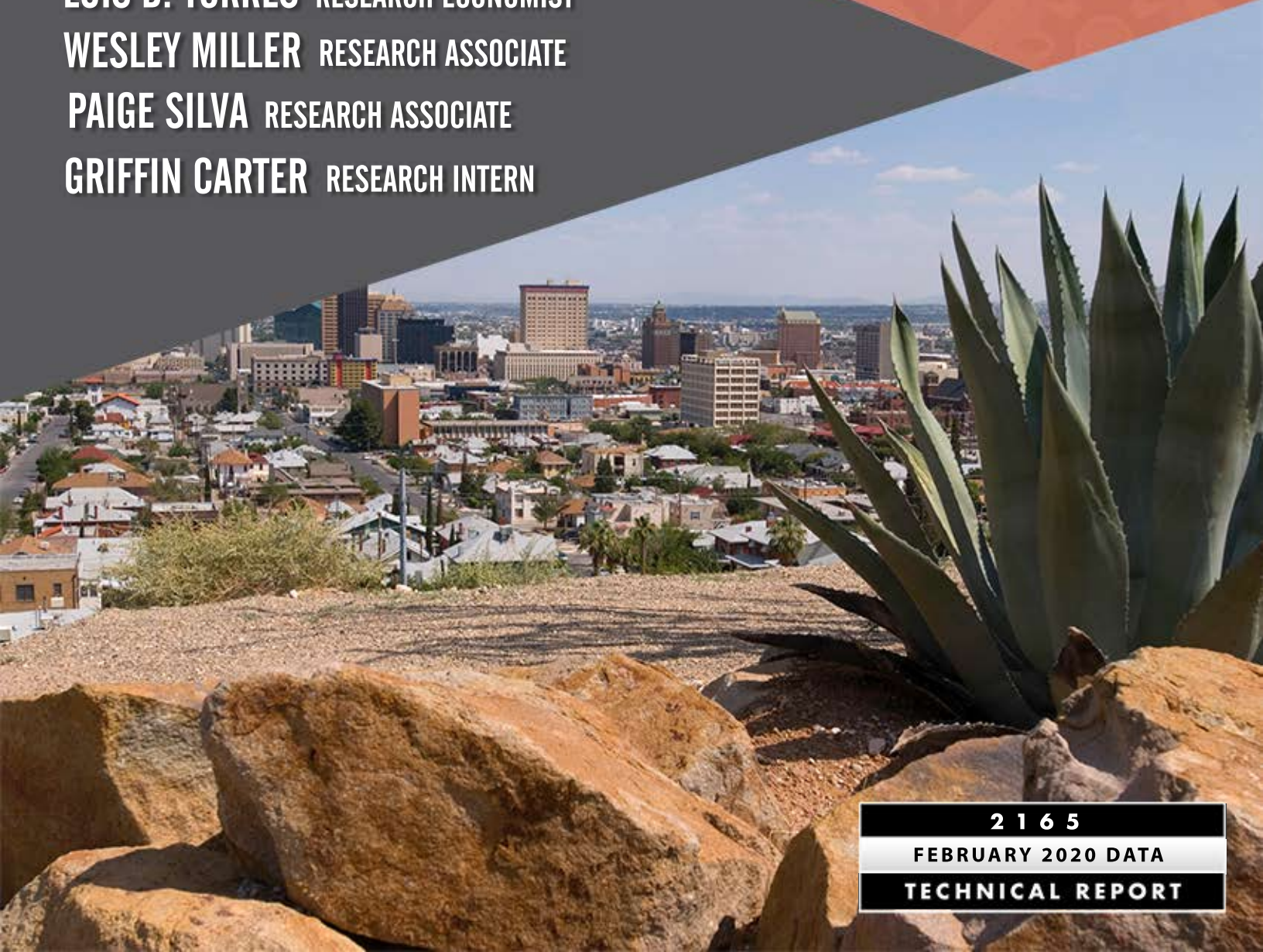
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FEBRUARY 2020 DATA

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.

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

Data current as of April 13, 2020

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Border Summary

2019 BORDER POPULATION

▲ 0.5% YOY

BORDER EMPLOYMENT

▲ 1.8% SAAR

MAQUILADORA EMPLOYMENT

▲ 14% SAAR

TOTAL TRADE VALUES

▲ 1.9% MOM

HOUSING SALES

▼ -2.1% MOM

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

February 2020

Following increased population growth in 2019, the border communities ramped up hiring in February as joblessness remained relatively low. Average real hourly wages, however, continued to struggle. Housing sales took a step back but maintained a strong upward trend after surging almost 7 percent in January. Inventories tightened amid healthy demand, pushing median home prices to record highs in all of the border metros (except Laredo) and straining affordability. Total trade values accelerated after the ratification of the United States-Mexico-Canada Agreement (USMCA) by all three nations, but the global coronavirus outbreak will undoubtedly have adverse effects on commerce along with many other aspects of the local communities. Preliminary impacts may be present in March data, but the severity of the impact is yet to be determined. The border is expected to be one of the hardest hit areas in Texas, possibly surpassed only by the state's oil-producing regions.

Economy

Economic activity along the border picked up in February according to the **Dallas Fed's Business-Cycle Indices**. Payroll expansions and real wage improvement in Brownsville pulled the index up 3 percent on a seasonally adjusted annualized rate (SAAR), while El Paso's metric stabilized at a pace of 4.5 percent. The McAllen index improved for the first time in ten months, rising 1.4 percent. Laredo's metric extended a downward trajectory, falling 1.9 percent, although the decline moderated.

While recently released 2019 data revealed the border's **resident population** accelerated half a percent, growth remained modest compared with 3 percent statewide. The population expansion largely resulted from natural increase (the difference between births and deaths), with negative net domestic migration reported in all four border metros as economic opportunities multiplied in larger Texas cities. International net migration was positive in all but McAllen, but the rate of change declined throughout the border region amid more stringent federal immigration policies.

Border **nonfarm employment** accelerated 1.8 percent SAAR in February, adding 2,100 jobs on top of upward revisions to January numbers. Both El Paso and McAllen employment increased 1.9 percent SAAR, although hiring in the latter showed signs of slowing. McAllen's education/health

services extended a strong upward trend while government employment corrected for losses to start the year. However, employment in the goods-producing and transportation/utilities sectors contracted. In El Paso, retail trade and professional/business services led growth in the metro. Brownsville payrolls expanded 1.6 percent as the retail industry gained 500 jobs, recovering half the layoffs incurred during 2019. Additionally, education/health services recorded its 13th consecutive improvement. The same sector, along with professional/business services, contributed to overall job growth of 1.5 percent in Laredo.

On the Mexican side of the border, **manufacturing and maquiladora employment**¹ gained 1,400 new employees, tipping into positive SAAR growth territory at 1.4 percent for the first time in five months. Chihuahua and Matamoros accounted for most of the hiring with maquiladora employment increasing 1.9 and 1.1 percent, respectively. Juarez and Nuevo Laredo posted modest gains to start the year, marking the third straight payroll expansion for both locales. However, additional hiring is needed to recover from net contractions in 2019. Reynosa employment also ended the year negative, but meager job growth perpetuated the downward trend. U.S. manufacturing production flattened in February and is expected to plummet in the upcoming months as supply-chains are disrupted by reduced manufacturing worldwide. An additional obstacle to maquiladora employment is the spread of COVID-19 in Mexico, at least in part due to the weak response to the pandemic by the Mexican government.

Unemployment rates in the border metros were mostly unchanged. Joblessness in both El Paso and Laredo hovered at 3.8 percent, while the McAllen metric stabilized at 6.4 percent. Only Brownsville's unemployment rate increased, ticking up to 5.7 percent.

As joblessness rose in Brownsville, the metro's **average real private hourly earnings** improved half a percent year over year (YOY). On the other hand, El Paso's real wages declined 4.3 percent, while Laredo and McAllen earnings fell for the second straight month, dropping 1.2 and 2.6 percent, respectively, after increasing every month in 2019.

Total construction values rebounded 10.1 percent following a sluggish prior three months but remained below the 2019 average. Most of the growth was attributable to the nonresidential sector, specifically school construction in El Paso. Activity, however, has slowed since peaking mid-2019. On the residential side, decreased single-family values offset improvements in multifamily construction. Single-family activity in Laredo rose but was overshadowed by falling McAllen and El Paso values. In El Paso, apartment construction increased but extended a steep downward trend, while McAllen's two-family sector picked back up after record levels in 4Q2019.

In the currency market, the **peso per dollar exchange rate** steadied at 18.84 after the inflation-adjusted rate² ticked down for the second straight month. **Total trade values** passing through 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.

border jumped 1.9 percent as imports to El Paso and Laredo accelerated after stumbling to start the year. Vehicular-related products comprised most of the increase. Border export values mostly flattened except for in Brownsville, where machinery-related shipments corrected downward after surging in January. The port of Laredo's nonseasonally adjusted total trade value exceeded that of the port of Los Angeles to become the top port in the U.S.; after adjusting for seasonality, however, Los Angeles values proved greater. The ratification of the USMCA by all three countries involved should reaffirm North American trade relationships, but supply-chain disruptions and decreased automobile demand stemming from the global coronavirus pandemic will challenge trade in 2020.

Housing

Although **border housing sales** fell 2.1 percent in February, the trend maintained a strong upward trajectory after data revisions revealed monthly sales climbed nearly 7 percent the prior month. Laredo sales continued to normalize after surging in 4Q2018 and 1Q2019, declining 1.6 percent. In El Paso, reduced sales for homes priced less than \$200,000 offset improvements in higher-priced cohorts, resulting in a 6.9 percent decrease. McAllen sales dropped 8.7 percent in contrast to its Rio Grande counterpart, which posted its third consecutive increase, rising 7 percent. Most of the growth in Brownsville was attributable to homes priced between \$100,000 and \$300,000.

Following a strong start to the year, **single-family housing construction permits** sank 4.1 percent as issuance in the Rio Grande Valley drew back. Brownsville permits corrected downward 16.6 percent after posting triple-digit permits in January for the first time in more than five years, while activity in McAllen continued to normalize from an all-time high in June 2019. On the other hand, both El Paso and Laredo permits rose around 2 percent each. **Private single-family construction values** exhibited trends similar to permitting except in El Paso, where the metric extended a four-month downturn.

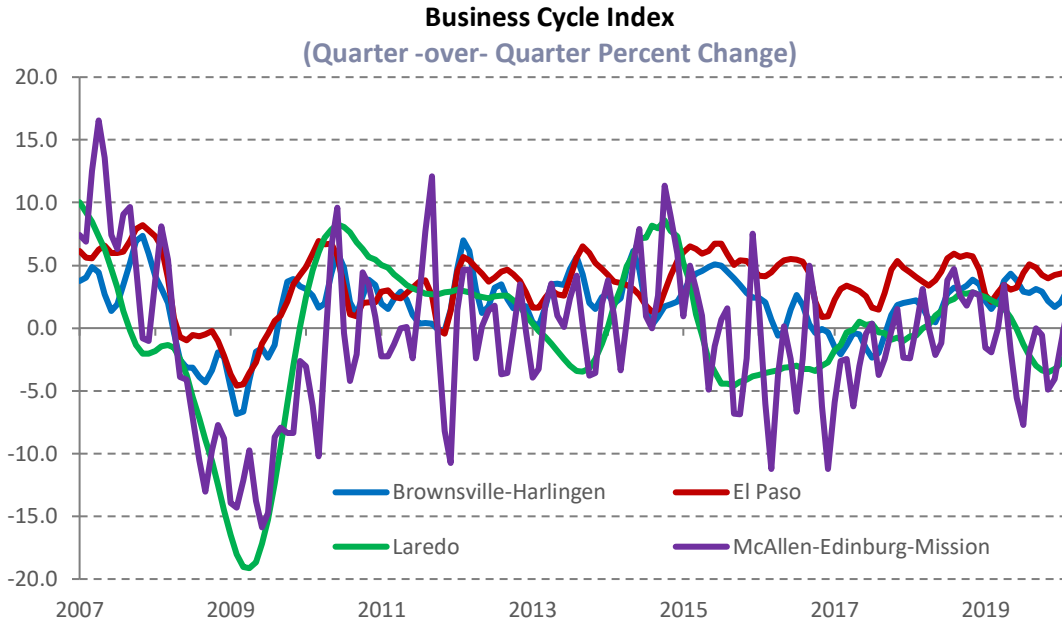
Ongoing decreases in the supply of active listings pulled **months of inventory (MOI)** down to historical lows almost unanimously along the border. Inventory in the Rio Grande Valley fell to 5.8 months, while El Paso's MOI inched down to 2.8 months. On the other hand, Laredo's metric set a new record high of 8.1 months.

Housing demand in Laredo remained healthy as indicated by the **average number of days on market (DOM)**, which stabilized at 56 days. The El Paso DOM shed three weeks off its year ago level, decreasing to 65 days. The drop, however, showed signs of slowing. McAllen's metric continued its steady decline, sinking to 78 days. The average home in Brownsville, however, stayed on the market for 111 days, slightly longer relative to last February.

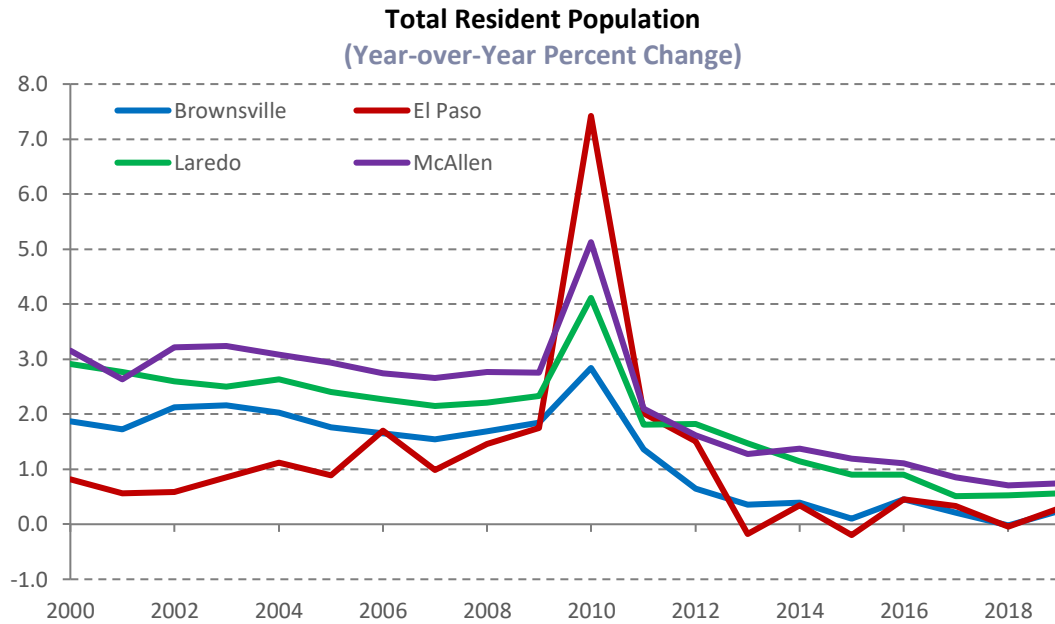
Brownsville's **median home price** posted a record-breaking \$183,600 after modest growth to start the year. McAllen's median price also surged following YOY growth that was less than the 2019 average, rising to \$172,900. In El Paso, the metric increased steadily to \$172,000. Laredo's median price flattened YOY to \$175,900, remaining below the metro's all-time high of \$184,800 amid expanding inventory. Moderate home-price appreciation is essential to maintain affordability, one of the border's main attractions, in an environment of low wage growth.

Although February data revealed overall positive economic growth, the events of the past few weeks and expectations for the next several months will exacerbate the weak points in the local communities. Industries with great downside risk due to the coronavirus include the border's trade and manufacturing sectors, which are strongly connected with Mexico, where 2019 annual GDP was dismal and forecasts for 2020 growth are solidly negative. Moreover, 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 guesses.

Economic Activity

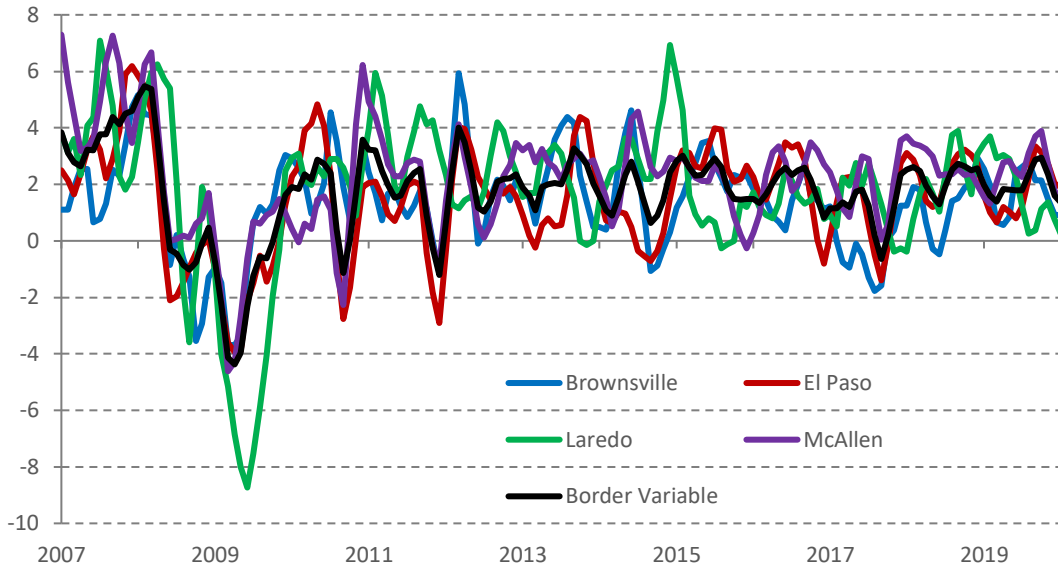


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



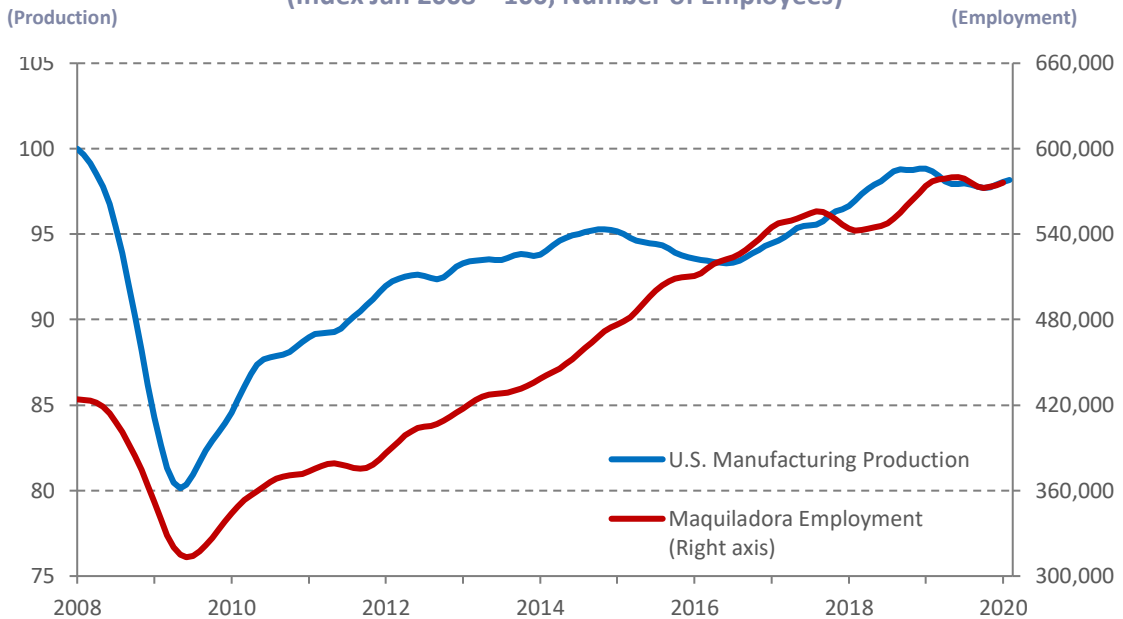
Note: Not seasonally adjusted.
Source: United States Census Bureau

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



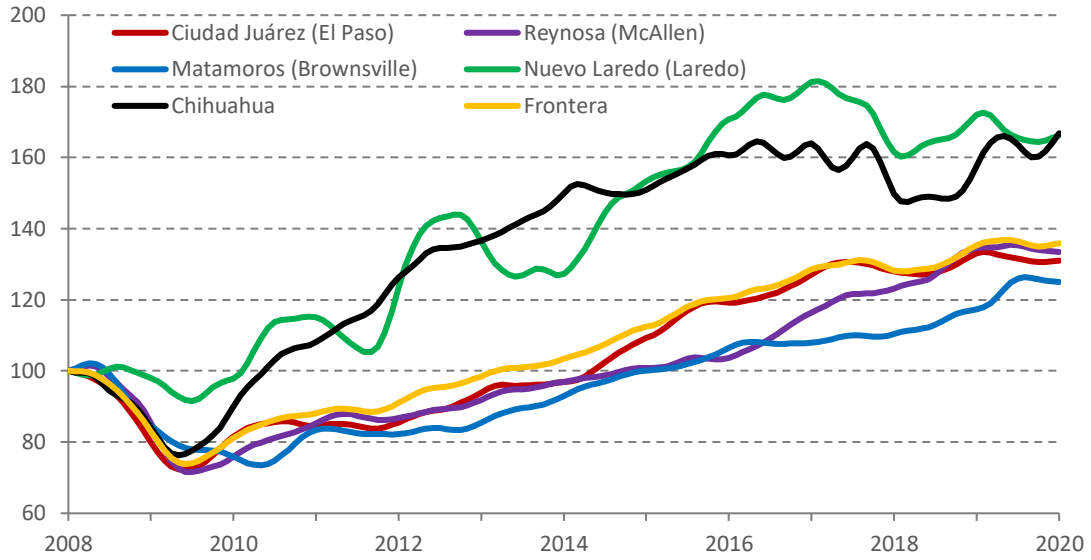
Note: Seasonally adjusted, three-month moving average. February 2020 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

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



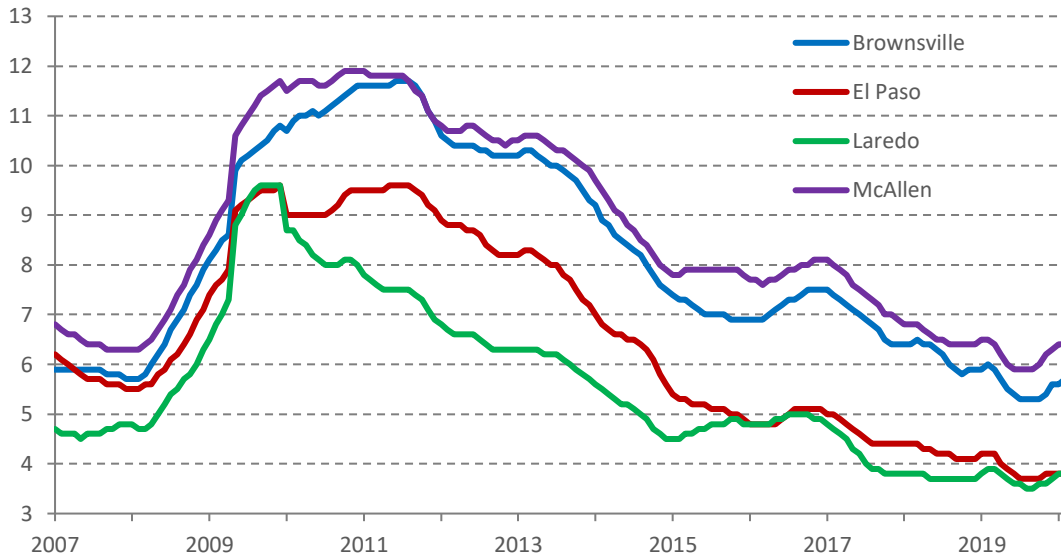
Note: Trend-cycle component.
 Source: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



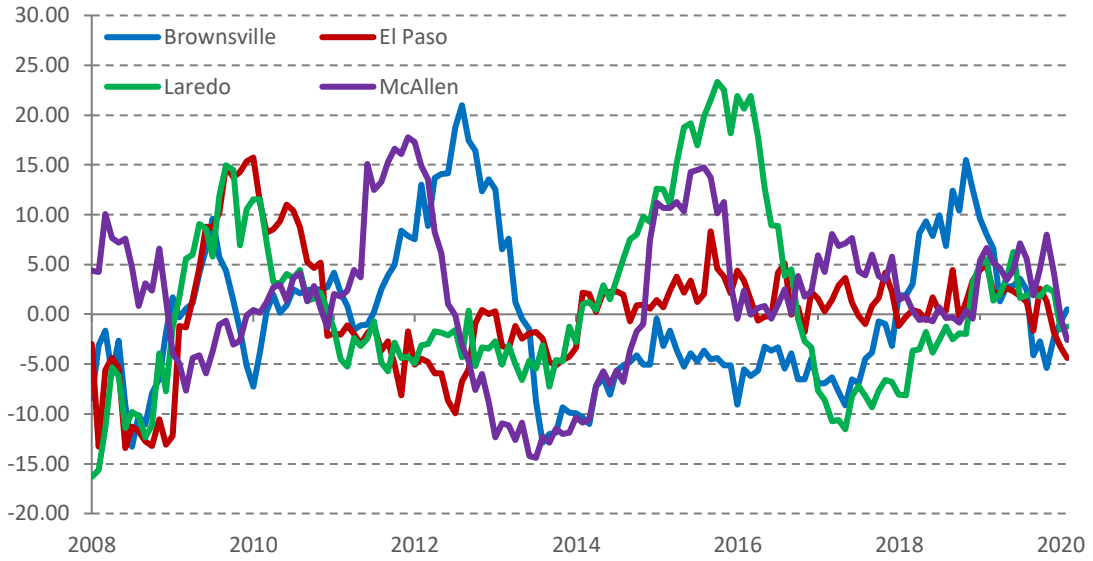
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate
(Percent)



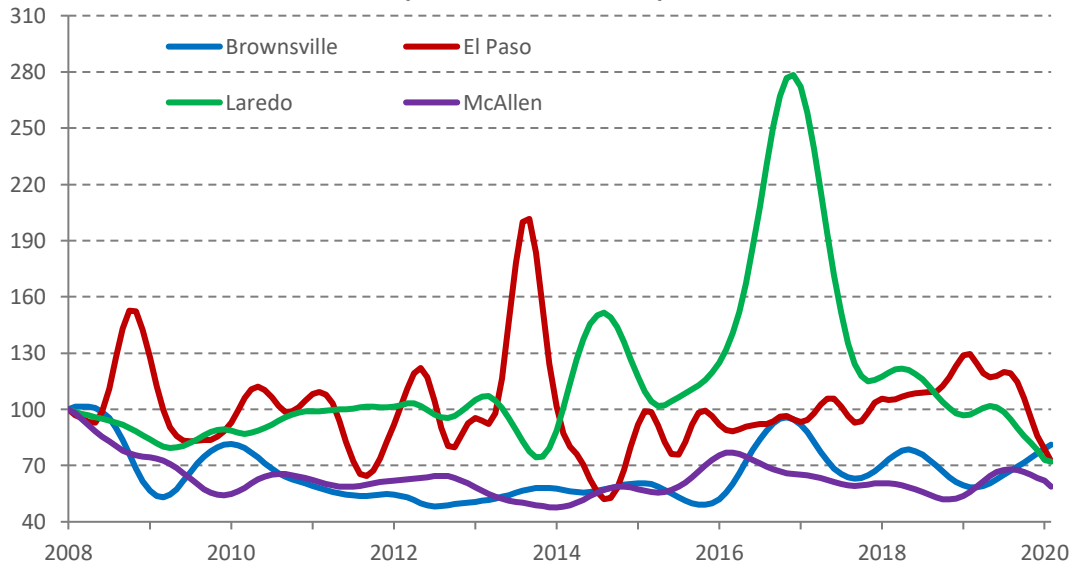
Note: Seasonally adjusted. February 2020 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



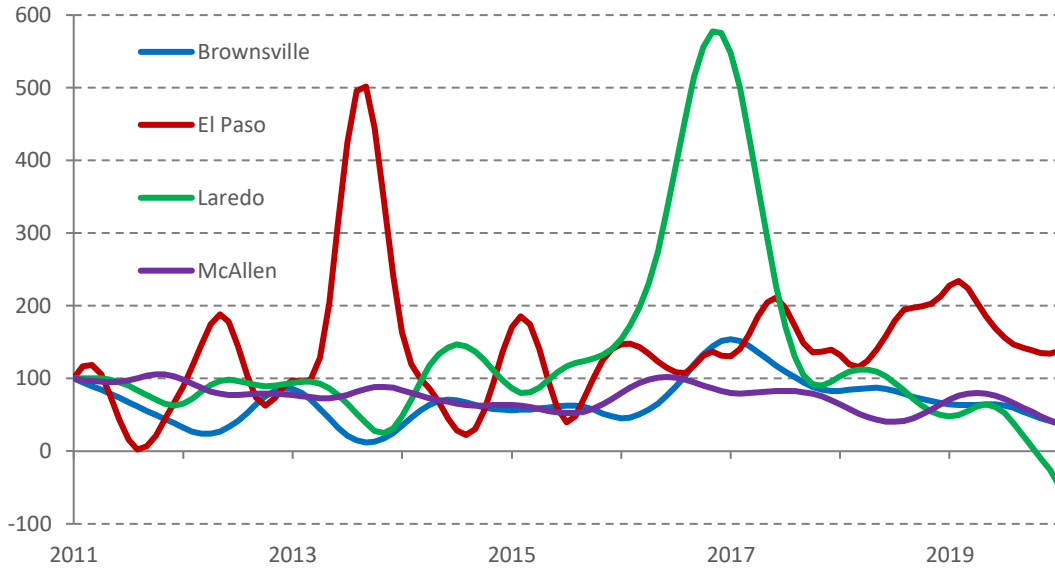
Notes: Inflation adjusted, seasonally adjusted. February 2020 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values (Index Jan 2008= 100)



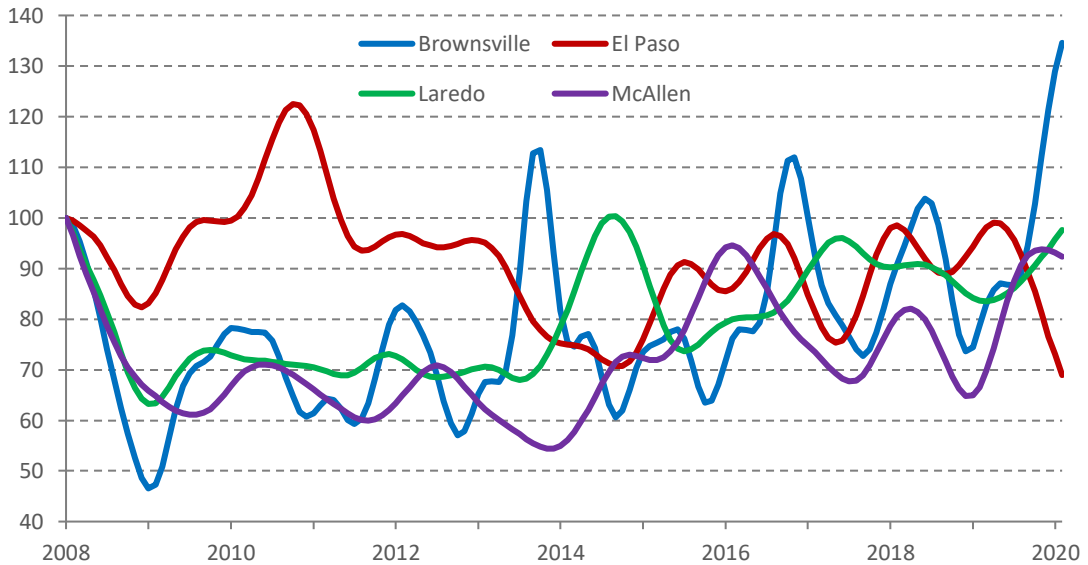
Note: Inflation-adjusted Trend-cycle component.
Source: Dodge Data & Analytics

Nonresidential Construction Values
(Index Jan 2011 = 100)



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

Residential Construction Values
(Index Jan 2008 = 100)



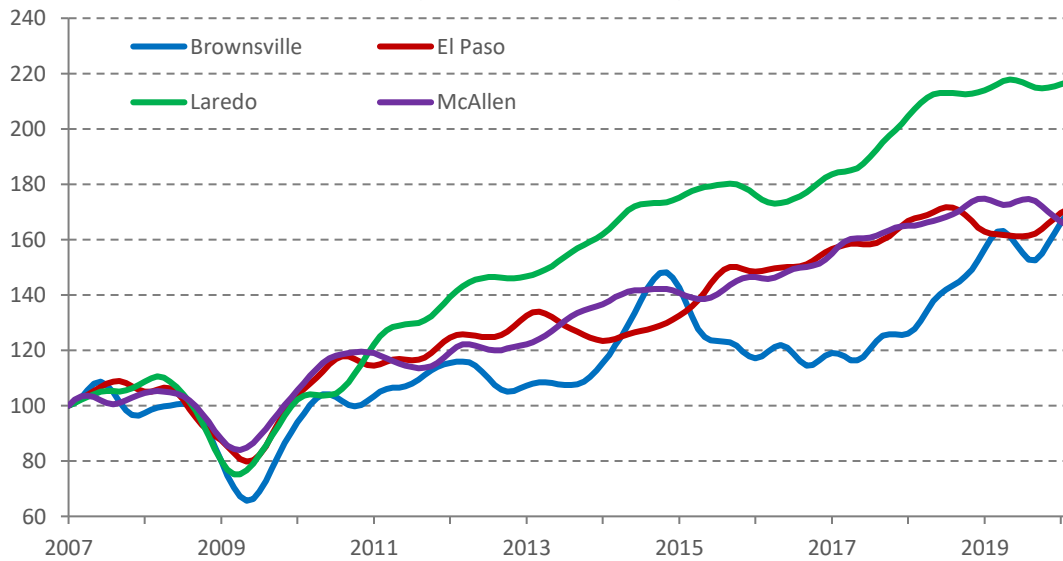
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate (\$)

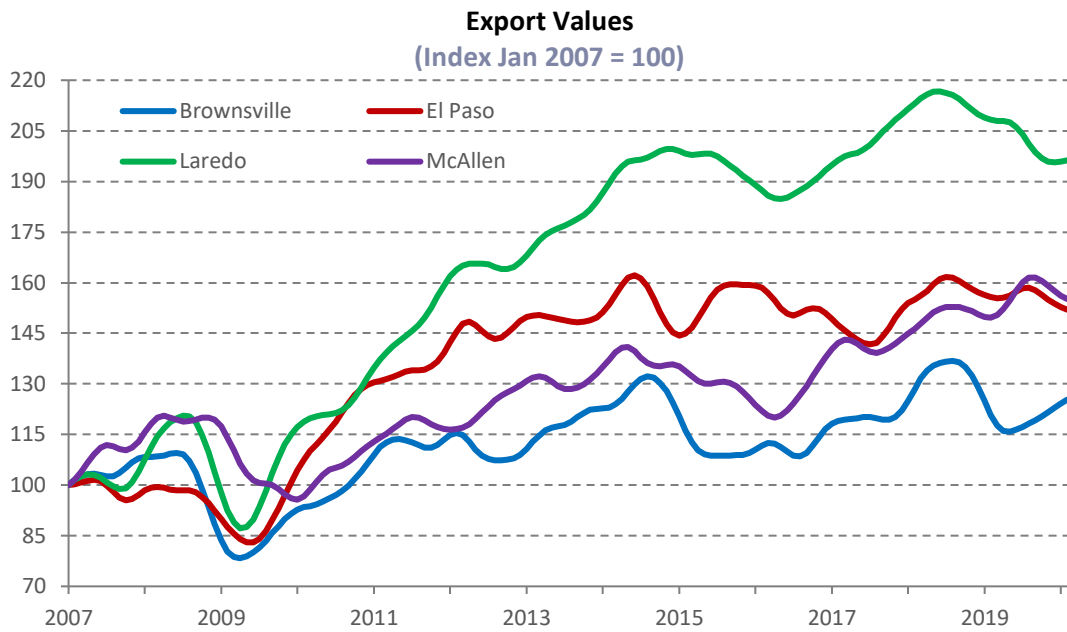


Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values (Index Jan 2007 = 100)



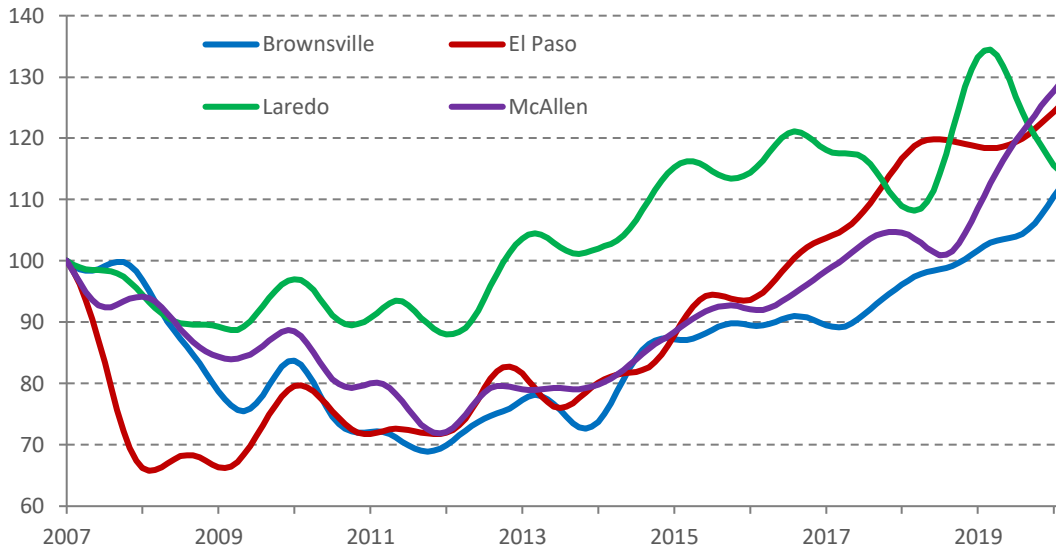
Note: Trend-cycle component.
Sources: Foreign Trade Division and U.S. Census Bureau



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

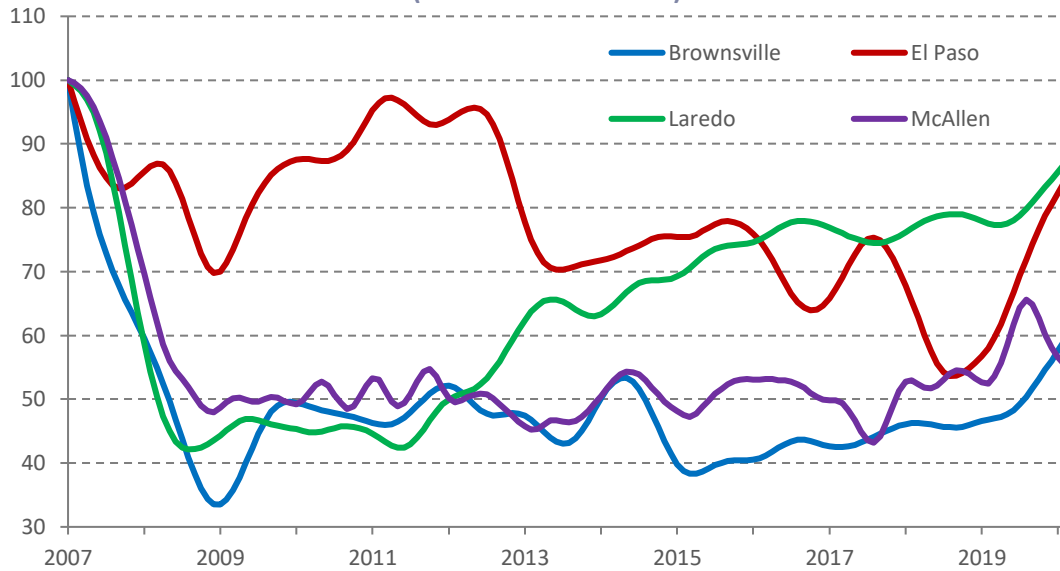
Housing

Housing Sales
(Index Jan 2007 = 100)



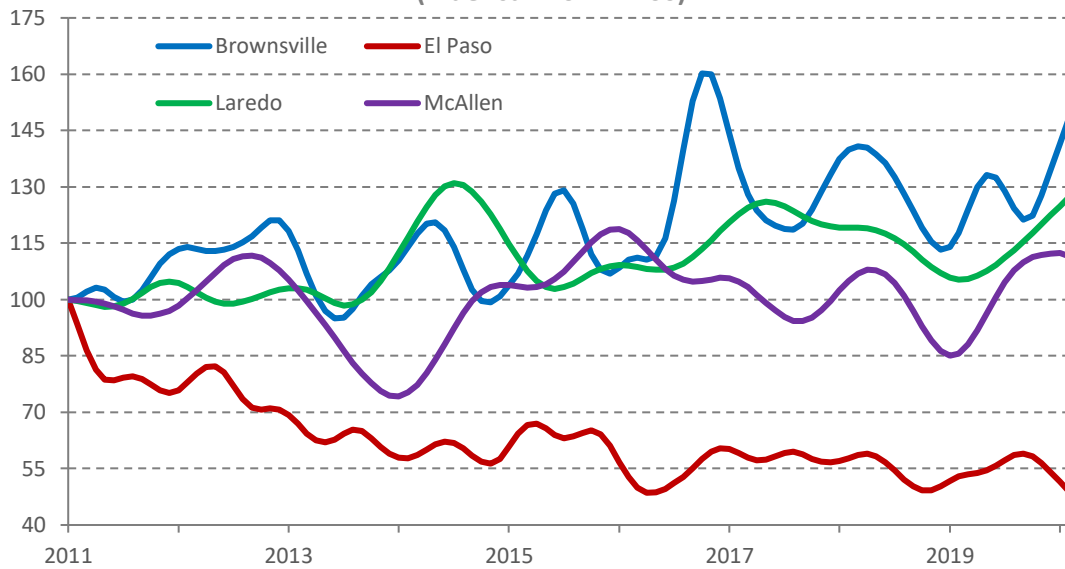
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

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



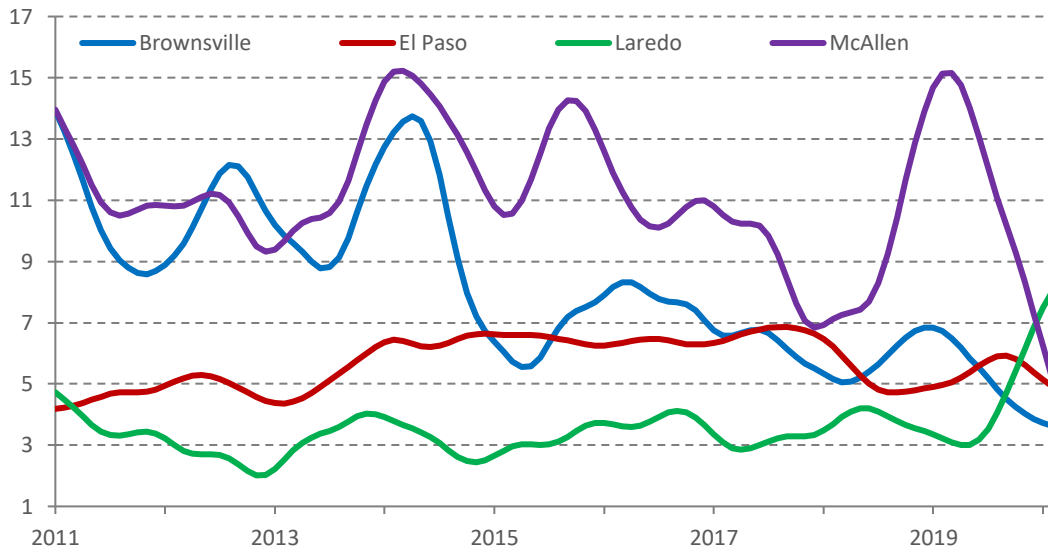
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

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



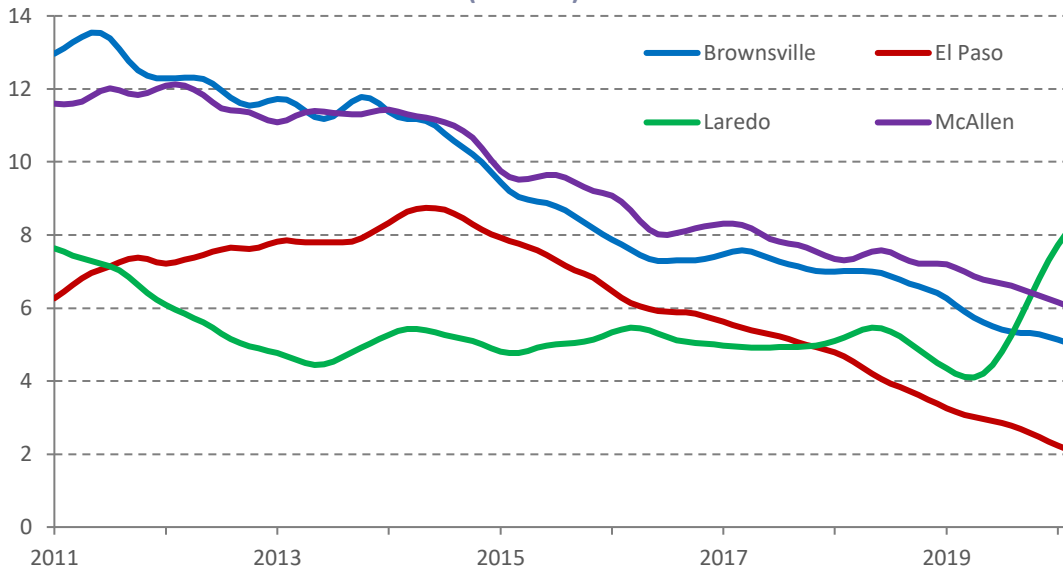
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory
(Months)



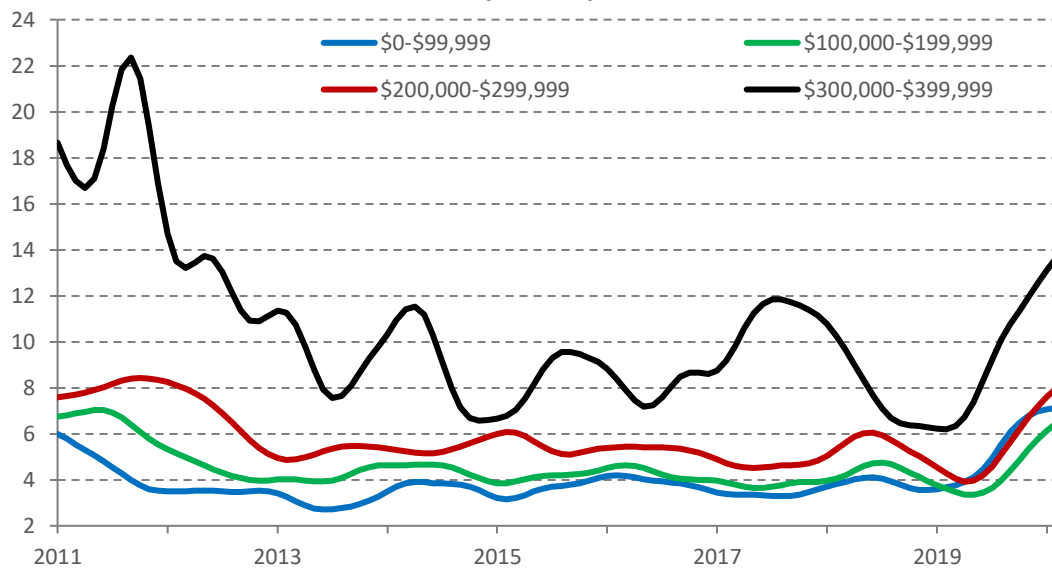
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Existing Home Months of Inventory (Months)



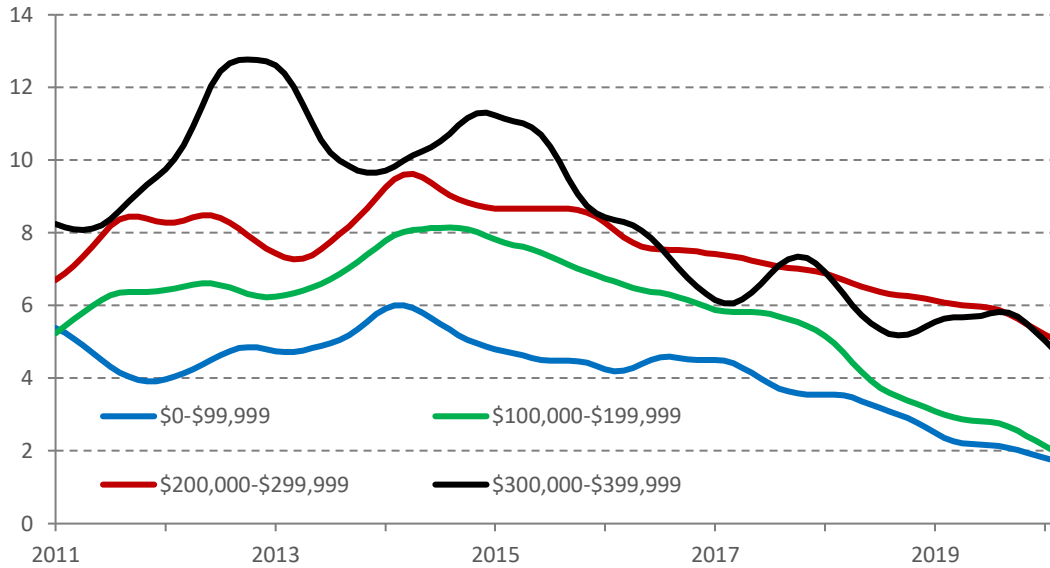
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Laredo Months of Inventory by Price Cohort (Months)



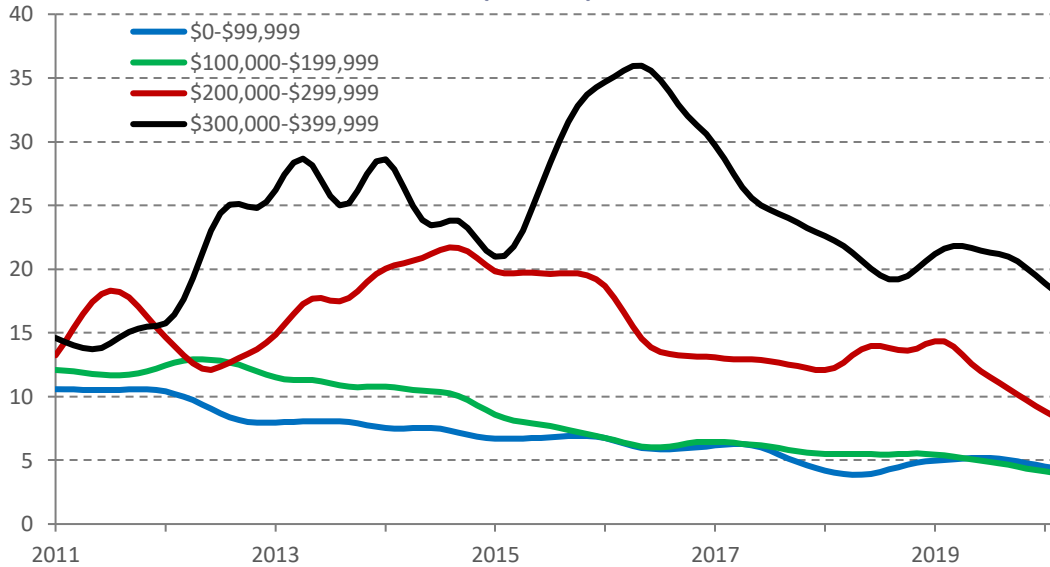
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

El Paso Months of Inventory by Price Cohort (Months)



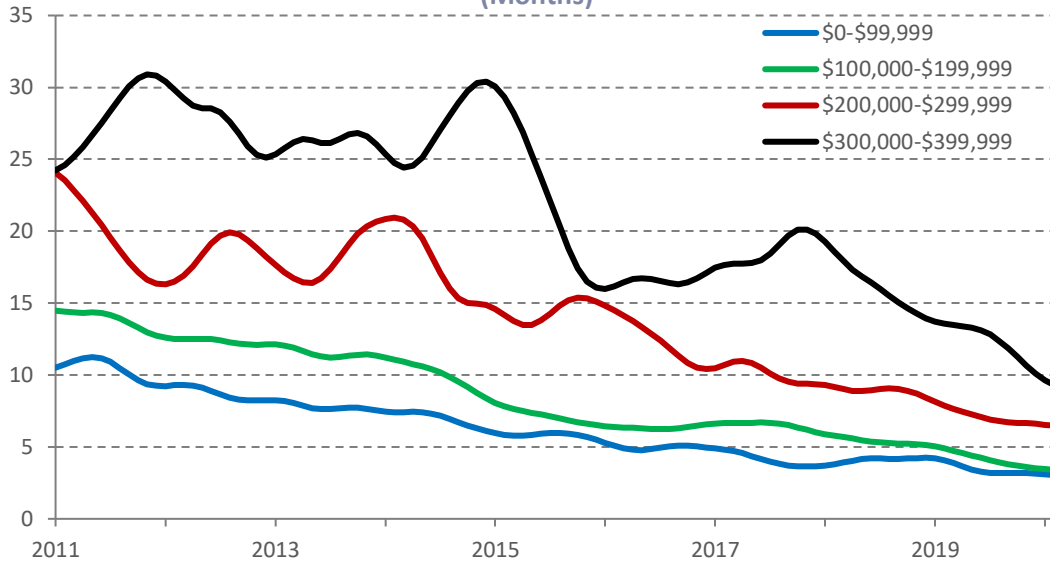
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



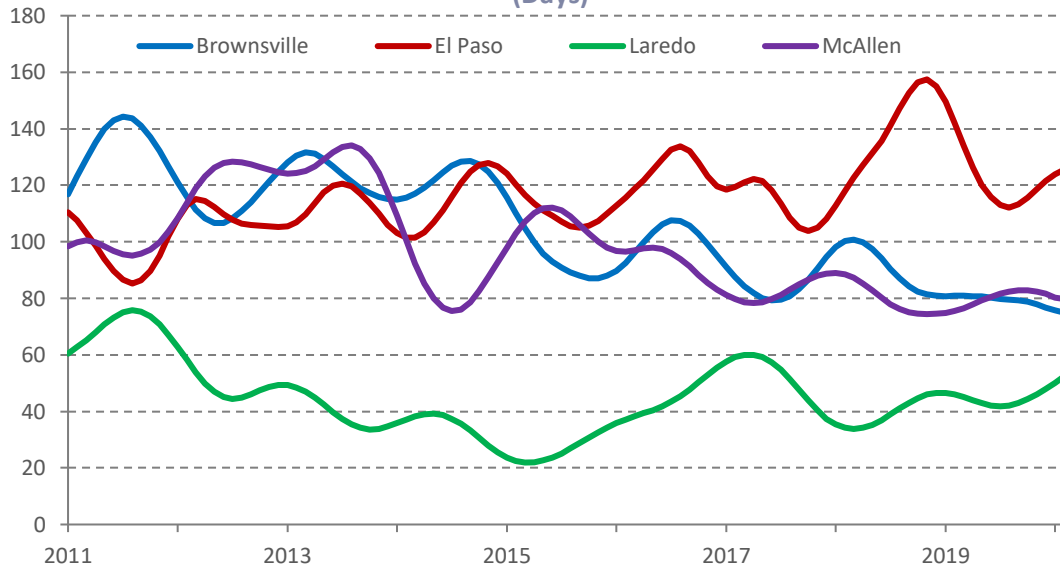
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



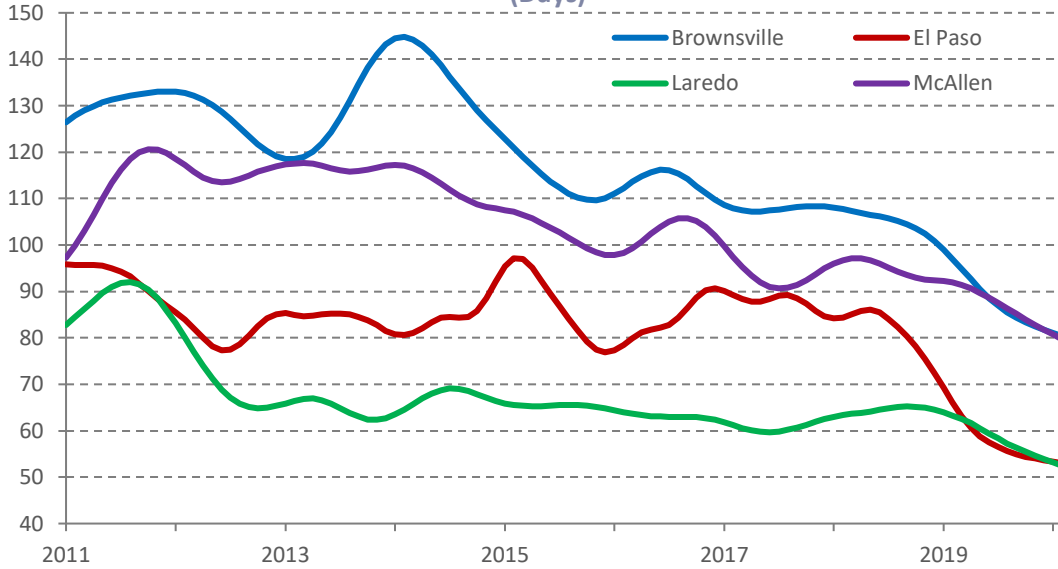
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

New Home Days on Market (Days)



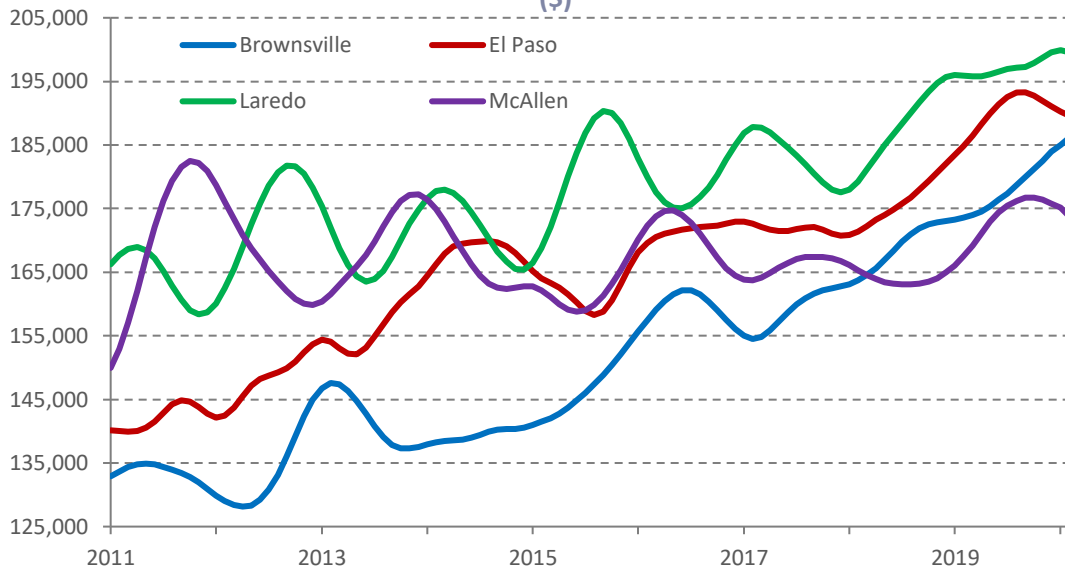
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Days on Market (Days)



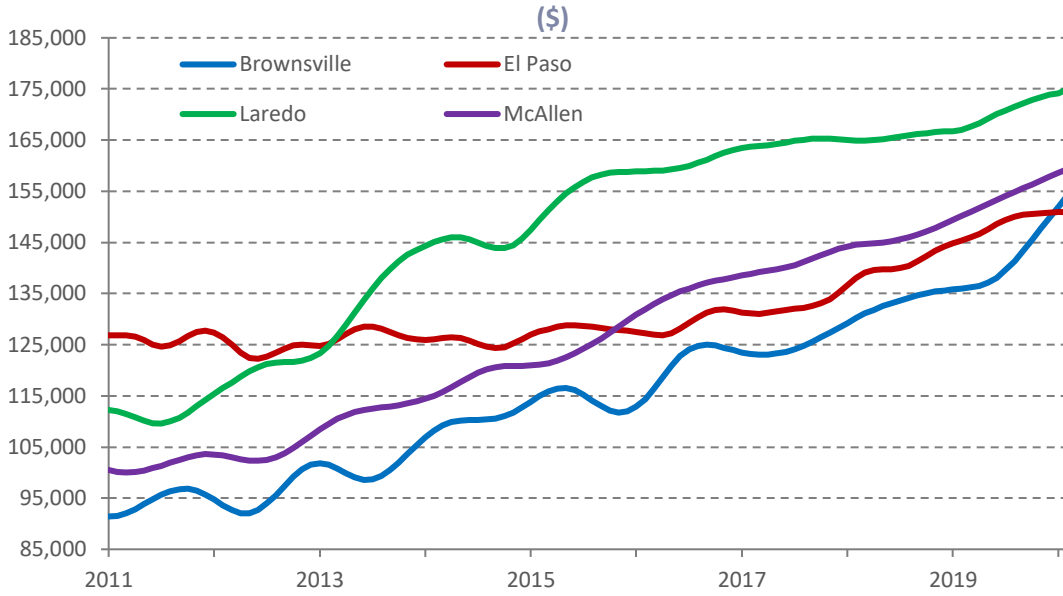
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Sales Price (\$)



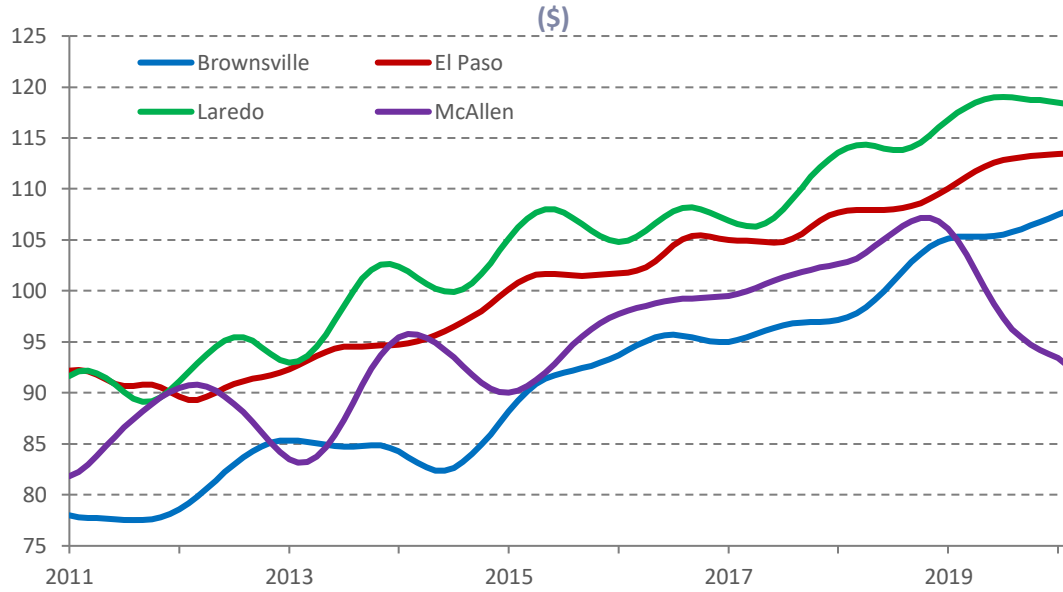
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Sales Price



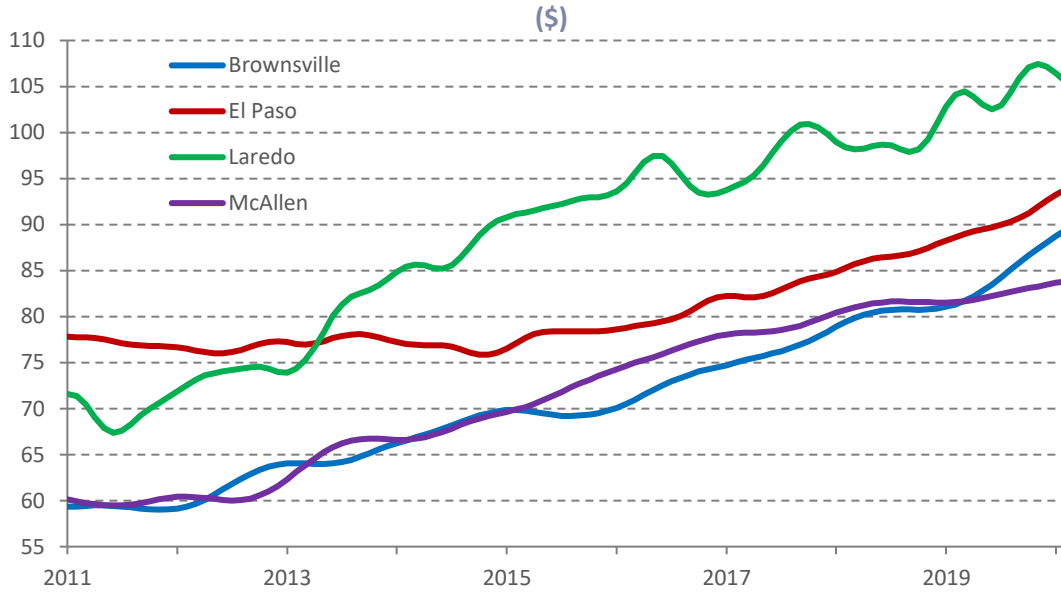
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

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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