

TEXAS BORDER ECONOMY



TEXAS A&M UNIVERSITY

Real Estate Center

JAMES P. GAINES CHIEF ECONOMIST

LUIS B. TORRES RESEARCH ECONOMIST

WESLEY MILLER RESEARCH ASSOCIATE

PAIGE SILVA RESEARCH ASSOCIATE

GRIFFIN CARTER RESEARCH INTERN



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AUGUST 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 Oct. 28, 2020

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Border Summary



August 2020

The economies along the Texas-Mexico border remained in recovery mode after the initial effects of the pandemic this spring. Hiring was stable, adding 5,300 jobs in August and pulling the jobless rate down as residents re-entered the labor force. Mexican manufacturing and maquiladora employment rebounded in July amid the reaffirmation of North American trade relationships by the United States-Mexico-Canada Agreement (USMCA), which should encourage commerce. Supply-side indicators in the housing sector were positive during historically high sales activity and record-low interest rates. Although homebuyers are likely less impacted by the economic effects of the pandemic than renters, the virus and the related uncertainty is the greatest headwind to the border communities. In particular, the recent surge of COVID-19 hospitalizations in El Paso has prompted another round of local shelter-in-place recommendations. These types of challenges remain a persistent threat to public health and economic activity heading into the fall and winter.

Economy

Continued labor-market recoveries pulled the **Dallas Fed's Business-Cycle Indexes** up 31.7 and 36.6 percent on a seasonally adjusted annualized rate (SAAR) in Brownsville and El Paso, respectively. An inflation-adjusted increase in Laredo's earnings contributed to the 26.8 percent jump in the metro's index, but the McAllen metric decelerated to 39.6 percent growth as employment declined. Retail sales, a component of the index, were limited by restrictions on non-essential travel, which ban Mexican tourists from entering the U.S. These measures have been extended through Nov. 21, 2020.

Although hiring along the border resulted in 5,300 positions added in August, **nonfarm employment** was still short 5.4 percent year to date (YTD). El Paso and Brownsville contributed most of the monthly gains, gaining 3,000 and 2,000 employees, respectively, with job growth mostly positive across the service-providing industries. An additional 700 workers were hired in Laredo, mostly in the government and transportation/utilities sectors. Education/health services payrolls, however, contracted after three consecutive increases. Losses in the same sector in McAllen, along with leisure/hospitality services, contributed to the metro's overall 400-employee decrease.

On the southern side of the border, **Mexican manufacturing and maquiladora employment**¹ recouped a sizeable 20,700 jobs in July, with employment just 2.2 percent below year-end levels. Juarez accounted for most of the rebound, adding 14,200 workers and rising 2 percent YTD. Maquiladora employment in Reynosa and Matamoros gained 5,700 and 700 positions yet remained down 6.7 and 4.5 percent YTD, respectively. Nuevo Laredo's metric flattened, but Chihuahua registered its fourth consecutive decline, sliding 7.5 percent. U.S. manufacturing production ticked up 1 percent in August, but the rate of increase decelerated for the third straight month, suggesting a slowdown in Mexican manufacturing and maquiladora hiring.

The **unemployment rate** was lowest in El Paso and Laredo at 7.1 and 7.9 percent, respectively. Joblessness in Brownsville decreased to 9.0 percent, while McAllen's metric remained in the double-digits as payrolls contracted. Unemployment, however, did inch down to 10.4 percent as the labor force increased 2.7 percent. The rise in labor was even greater in the other border metros, growing 3.6 and 3.9 percent in Laredo and El Paso, respectively, and 4.5 percent in Brownsville. On the other hand, weekly initial unemployment insurance claims fluctuated in August but ticked up the last week of the month (see figure, page 6), indicating the pace of the labor-market recovery slowed in September.

Average real private hourly earnings increased along the border, particularly in Laredo, where wages climbed 4.3 percent in real terms for their sixth consecutive improvement. In El Paso, earnings rose 2.7 percent after accounting for inflation, while the McAllen metric ticked up 1.6 percent. Brownsville was the exception where inflation-adjusted earnings sank 1.1 percent.

After dropping sharply for the second straight month, YTD **total construction values** fell behind the pace set during the first eight months of 2019. Nonresidential values sank as school construction decreased in every border metro but Brownsville. The hospital sector registered reduced capital investment, particularly in El Paso and McAllen. Residential investment rose 8.3 percent in August, but the annual comparison remained negative. Increased single-family values in the Rio Grande Valley offset a drop in the same sector in El Paso. On the bright side, multifamily groundbreakings picked up in the West Texas metro.

In the currency market, the **peso per dollar exchange rate** steadied month over month at 22.20 with similar stabilization in the inflation-adjusted rate². The metric, however, elevated 9.2 percent YOY in real terms, making domestic goods more expensive to Mexican buyers. Meanwhile, **total trade values** passing through the border rose 3.7 percent in August but were below year-end levels by 18.4 percent. Activity in the Rio Grande Valley increased for the fourth consecutive month, with the Brownsville metric rising 2.7 percent YTD. Laredo values ticked up modestly, remaining down 4.3 percent YTD. El Paso was the exception as vehicle and electric machinery exports decreased, pulling overall trade through the hub down 16.5 percent on a monthly basis. Reduced outgoing and

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.

incoming machinery-related shipments, however, were largely responsible for trade through the West Texas metro only reaching one-quarter of values at year-end. The USMCA, which was implemented July 1, 2020, should reaffirm North American trade relationships, supporting the ongoing recovery.

Housing

Border housing sales slowed to a halt after reaching record-breaking highs the prior month as pent-up demand from the economic shutdown waned. Historically low mortgage interest rates, however, may pull sales forward from the future and sustain the upward trend. Laredo and McAllen accounted for most of the monthly deceleration, declining 15.5 and 7.1 percent, respectively. In the Rio Grande Valley, sales at the lower end of the price spectrum fell, contributing to McAllen's contraction and Brownsville's 1 percent downtick. Only El Paso sales increased, climbing 13.6 percent as transactions surged in the \$100,000-\$200,000 range.

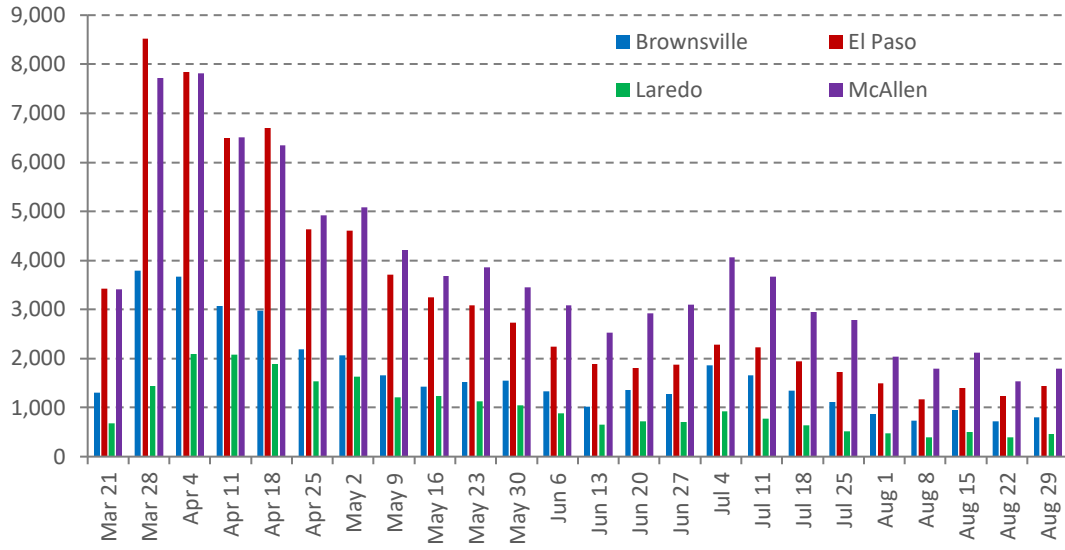
Single-family housing construction permits rose 6.4 percent as McAllen permits reached their highest level since the Great Recession, and Laredo's metric increased for the fifth straight month. Issuance in Brownsville and El Paso took a step back on the month, but compared with the first eight months of 2019, YTD growth remained in the double-digits in both metros. **Private single-family construction values** accelerated except in El Paso, where activity fell behind last year's pace.

An influx of new listings during the past four months offset rising sales in El Paso, pushing the metro's **months of inventory (MOI)** up to 1.8 months. The metric, however, still hovered around historically low levels, affecting future sales activity. In the other border areas, decreased sales and a dwindling supply of active listings pulled the Laredo metric down to 7.6 months, while inventory in the Rio Grande Valley sank to unprecedented lows of 4.1 months in Brownsville and 3.6 months in McAllen.

The **average number of days on market (DOM)** fluctuated along the border on a monthly basis but otherwise hovered around year-ago levels. The average home in Laredo sold after 54 days, faster than 57 days statewide. El Paso and McAllen metrics, however, remained elevated at 69 and 91 days, respectively. Brownsville was the exception, where the DOM gained almost two weeks from last year's reading to reach 114 days.

Annual home-price appreciation remained strong amid shrinking inventory, with the Brownsville **median home price** averaging 14 percent YOY growth in 2020. On a monthly basis, however, the metric flattened at \$179,400. On the other hand, El Paso and McAllen median prices shot up to all-time highs of \$179,600 and \$173,200, respectively, climbing 6.9 percent annually in the former and 7.9 percent in the latter. Laredo's median price stalled at \$183,500 to lag behind in YOY terms, posting more moderate growth of 4.6 percent. Rising home prices without sufficient wage growth chips away at housing affordability, which has historically been a drawing point for the border communities.

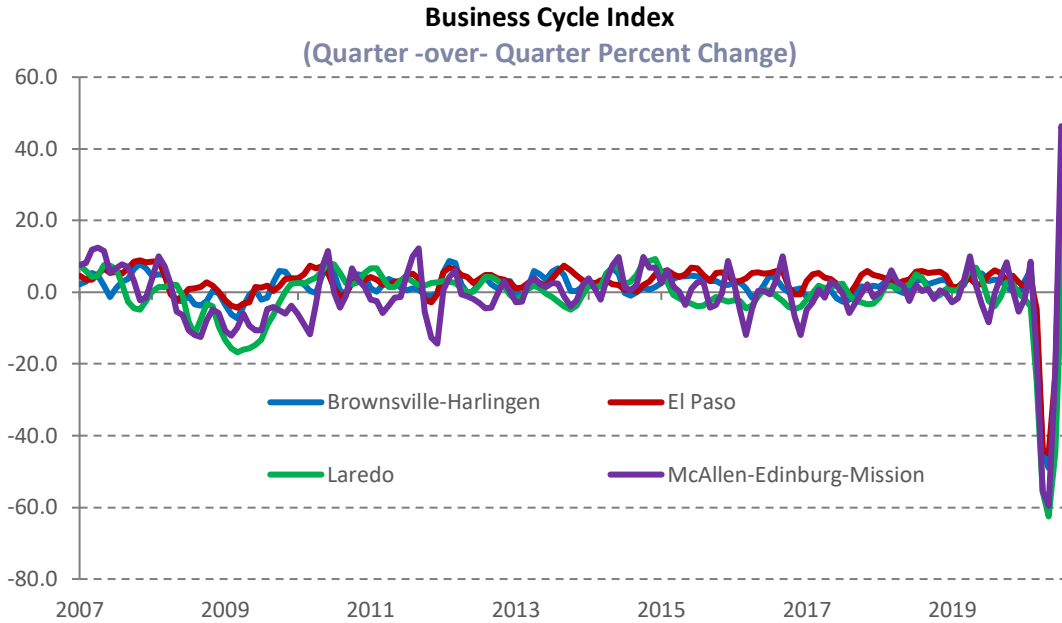
Border Metro Weekly Initial Unemployment Claims (2020)



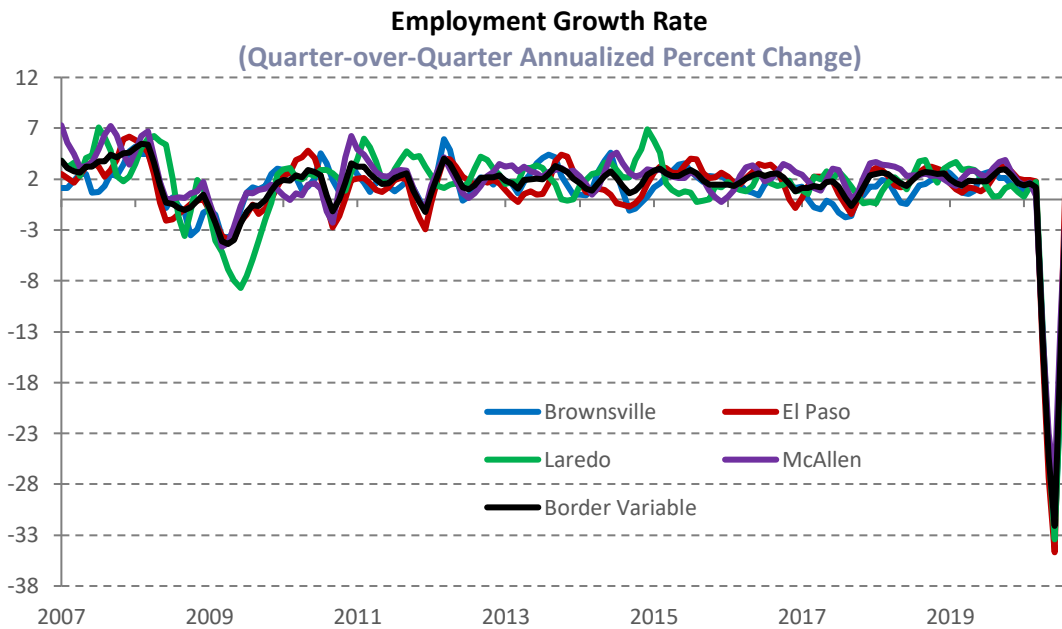
Note: Seasonally adjusted.

Sources: Texas Workforce Commission, U.S. Department of Labor Employment and Training Administration, and Real Estate Center at Texas A&M University calculations

Economic Activity

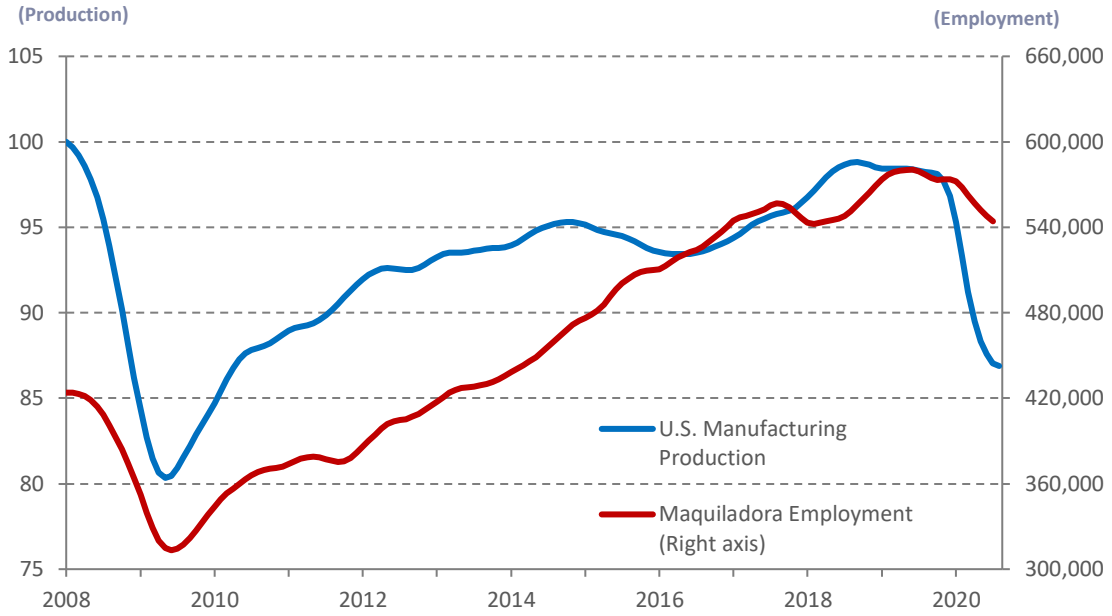


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



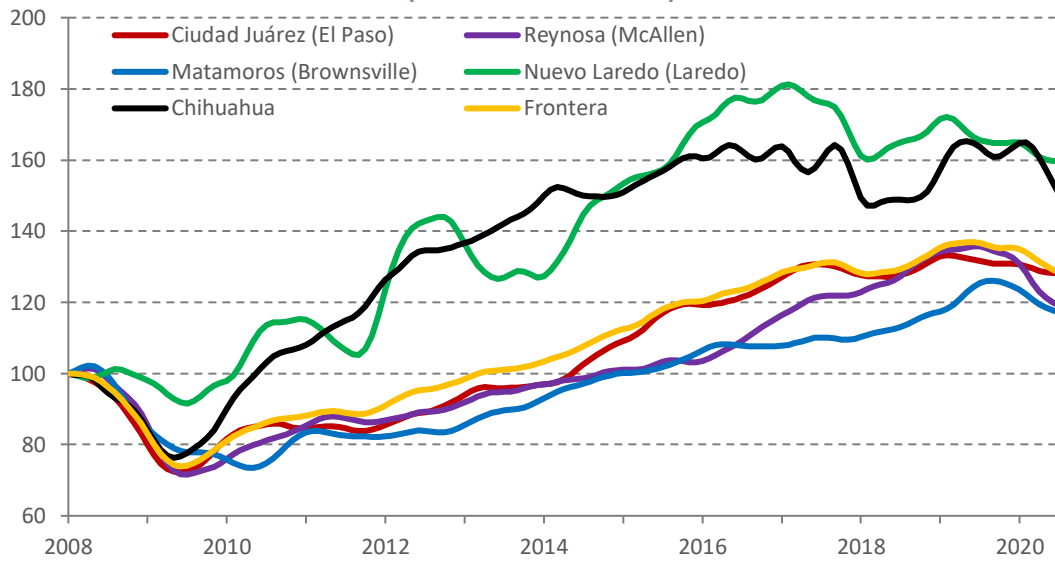
Note: Seasonally adjusted, three-month moving average. August 2020 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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



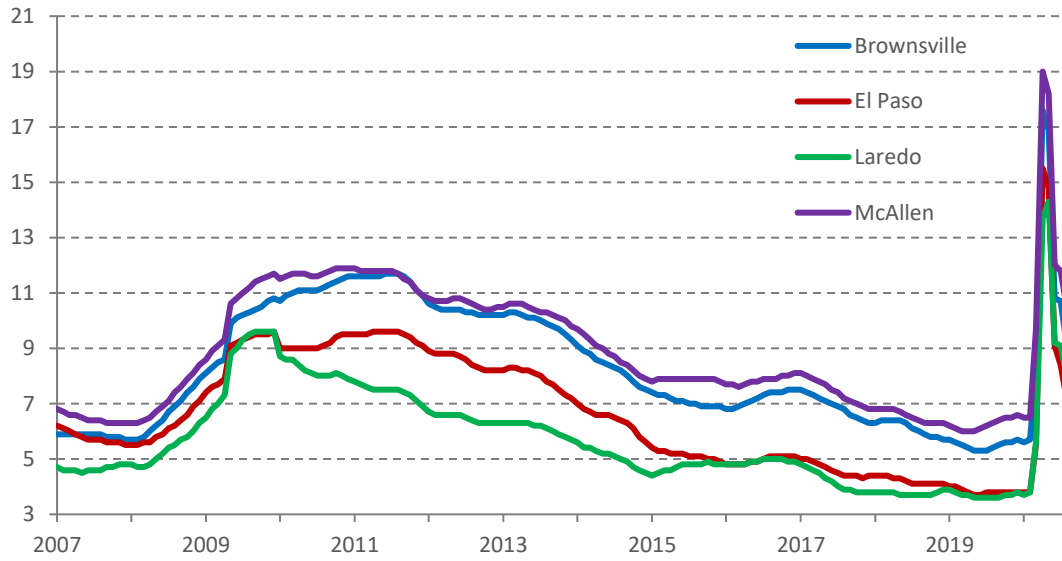
Note: Trend-cycle component.
Sources: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



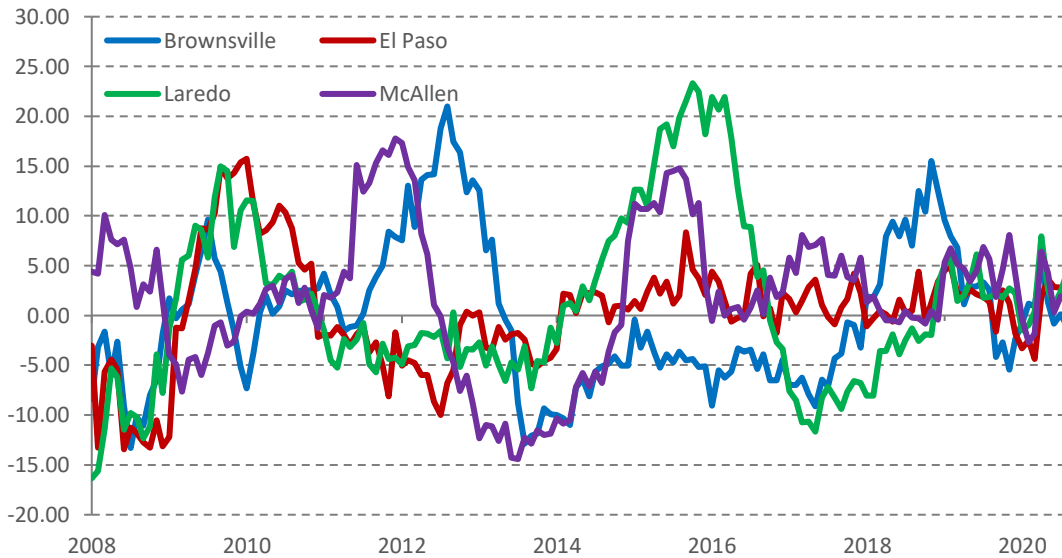
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate (Percent)



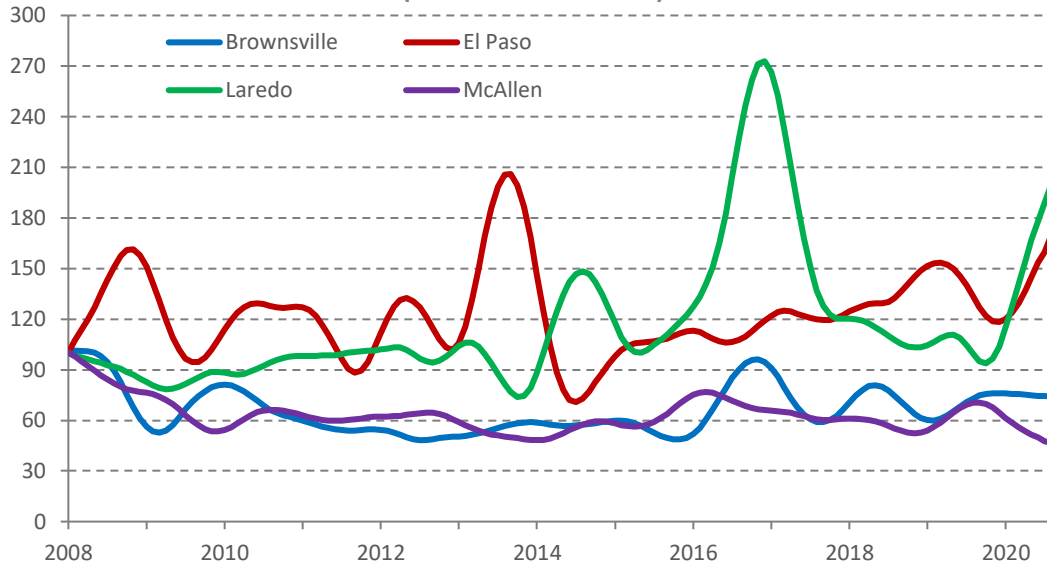
Note: Seasonally adjusted. August 2020 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



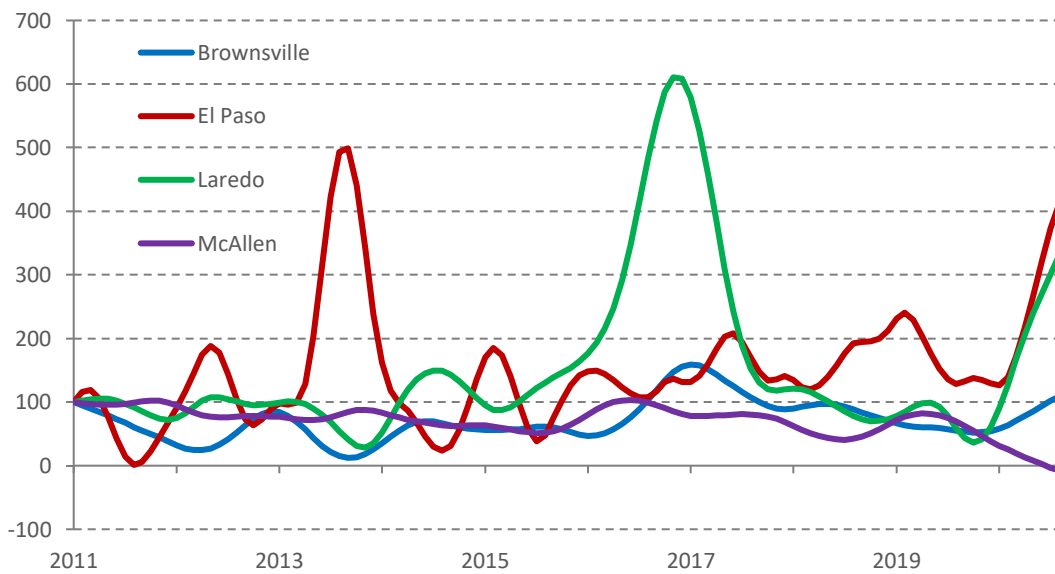
Notes: Inflation adjusted, seasonally adjusted. August 2020 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values
(Index Jan 2008= 100)



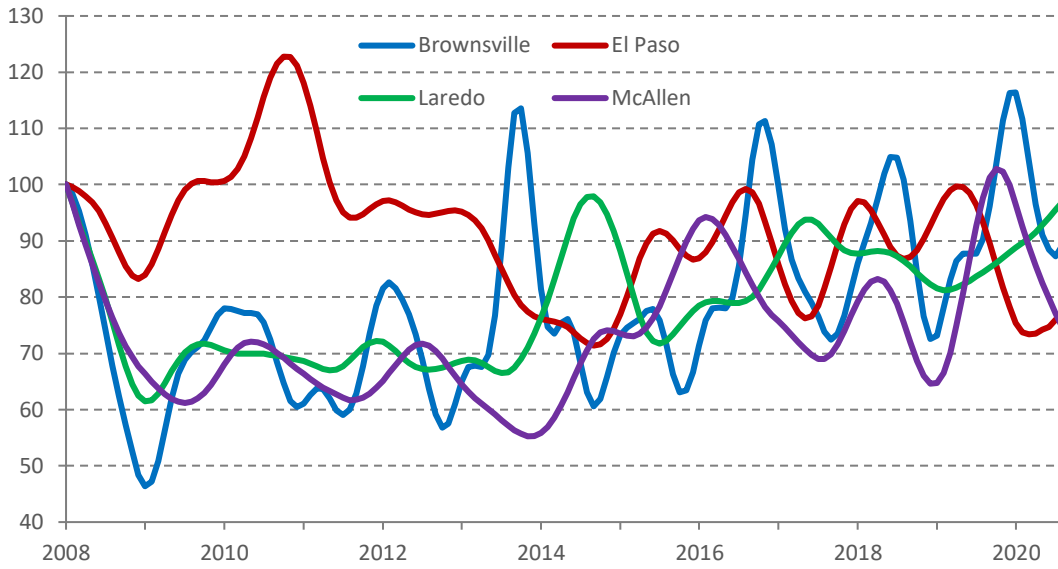
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Nonresidential Construction Values
(Index Jan 2011 = 100)



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

Residential Construction Values (Index Jan 2008 = 100)



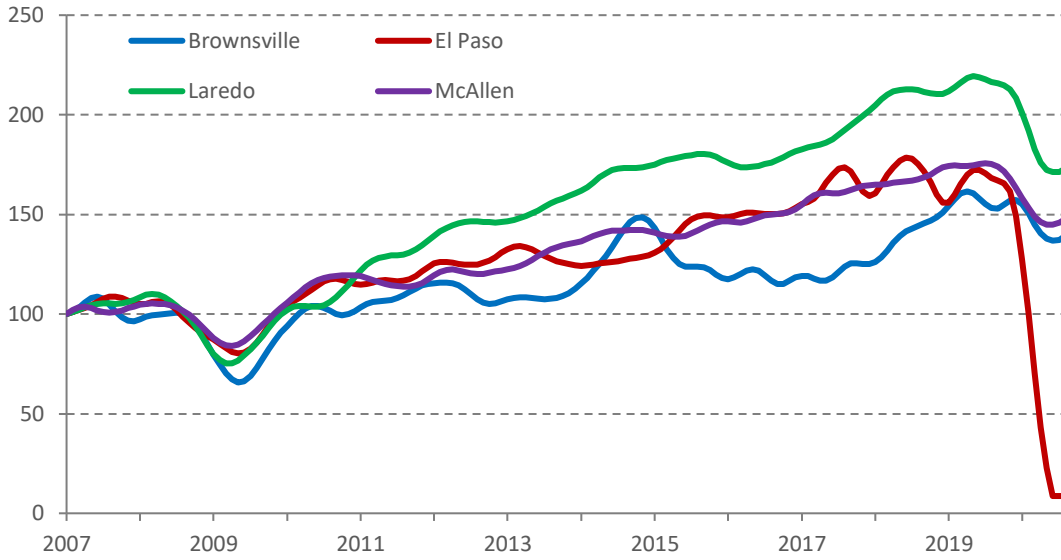
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate (\$)



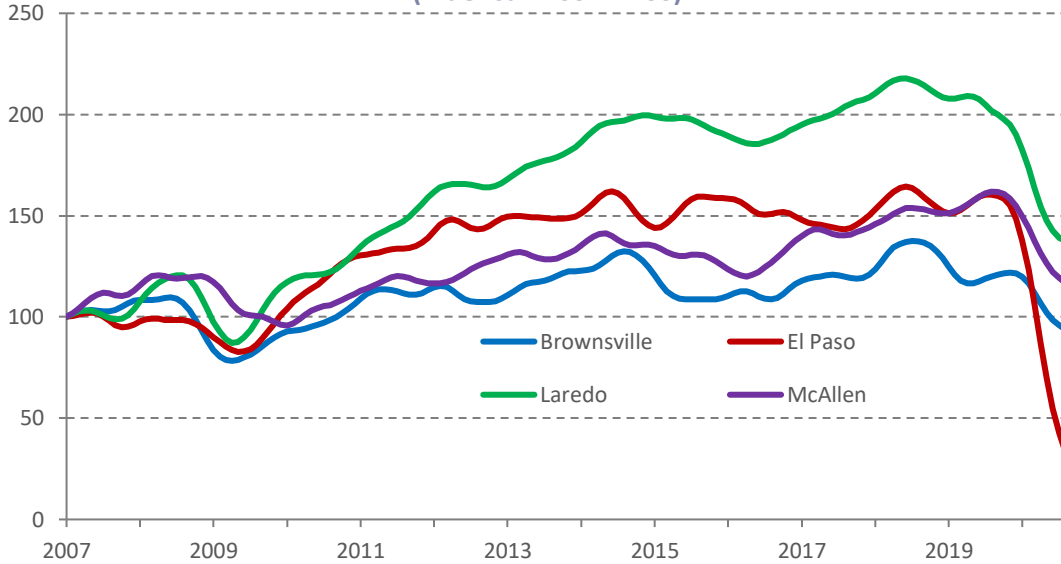
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values
(Index Jan 2007 = 100)



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

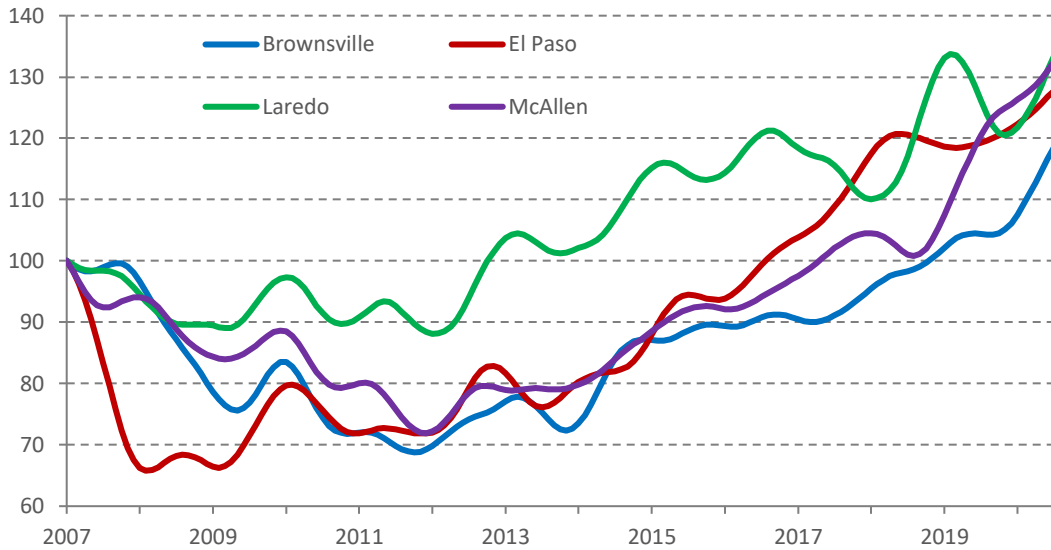
Export Values
(Index Jan 2007 = 100)



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

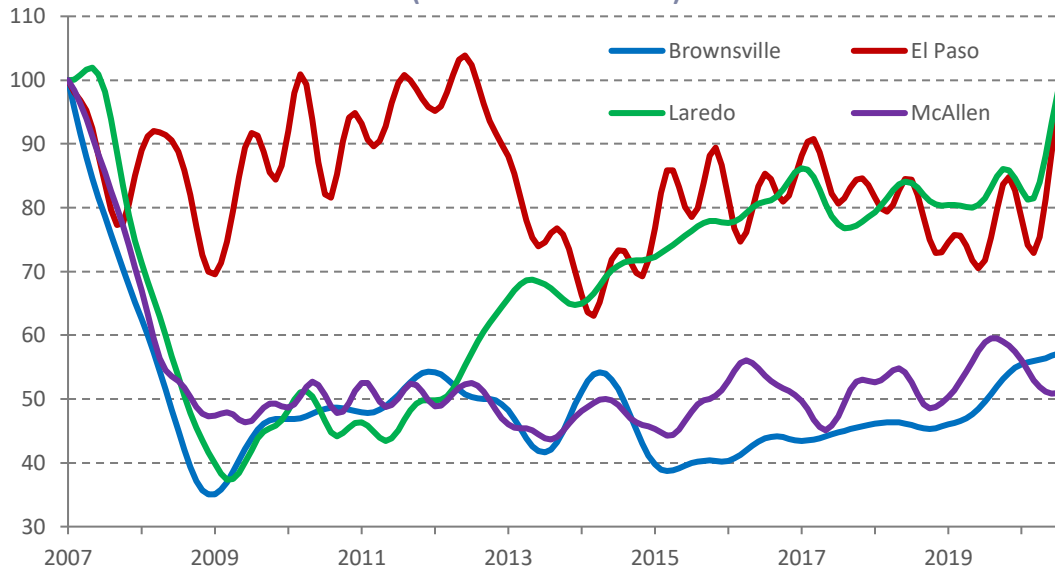
Housing

Housing Sales
(Index Jan 2007 = 100)



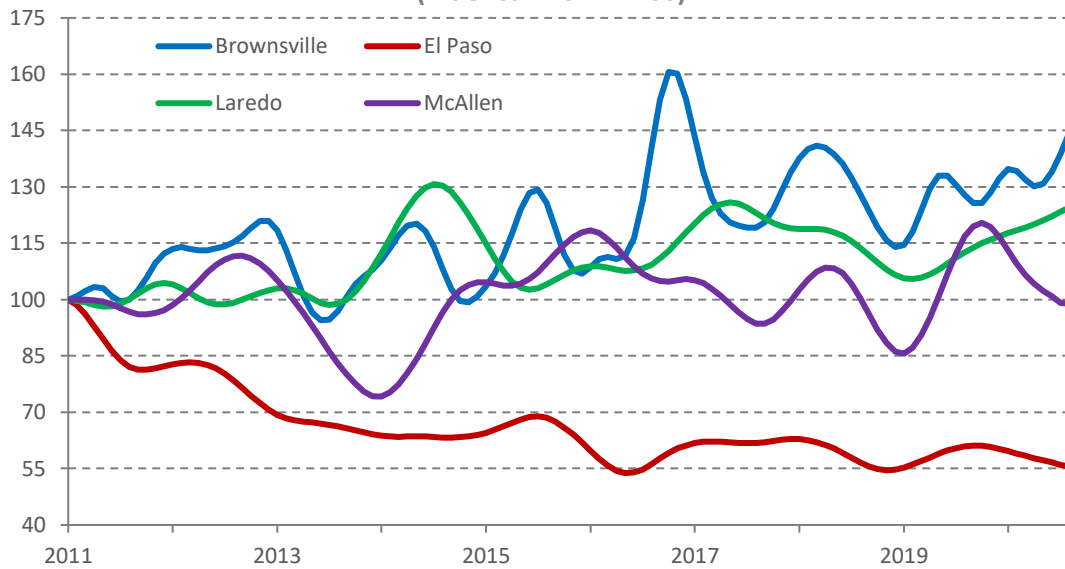
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

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



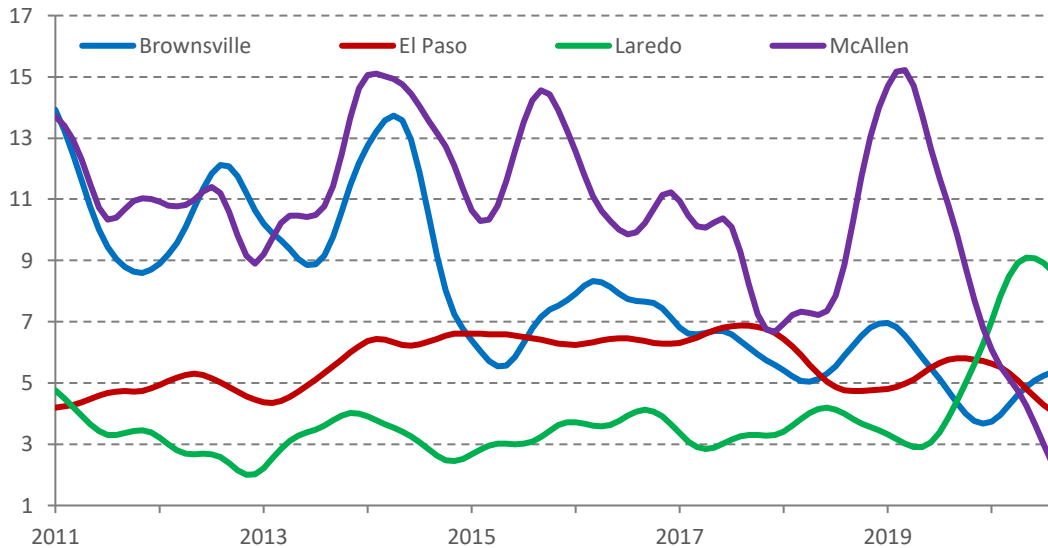
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

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



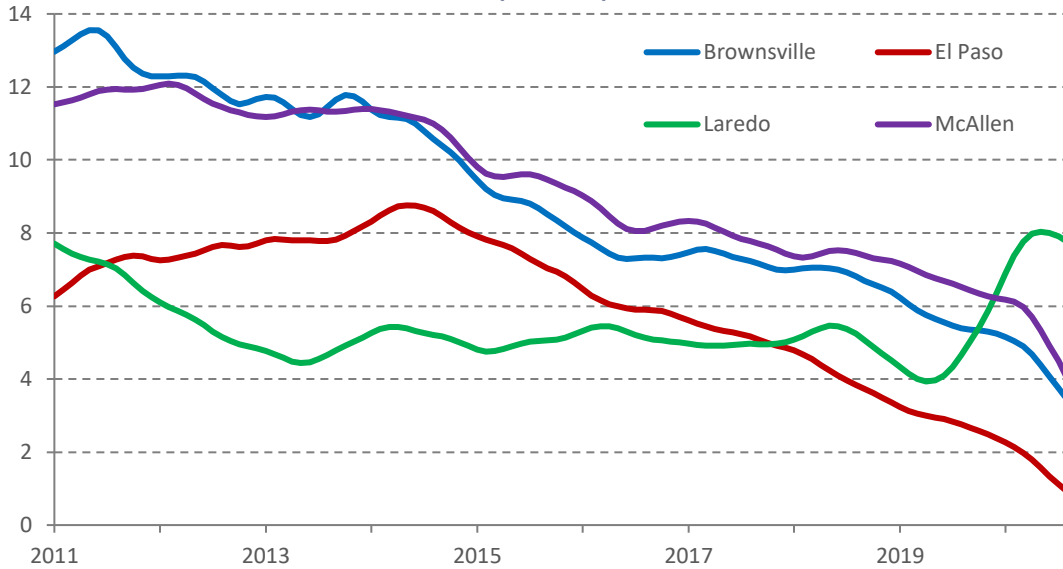
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory
(Months)



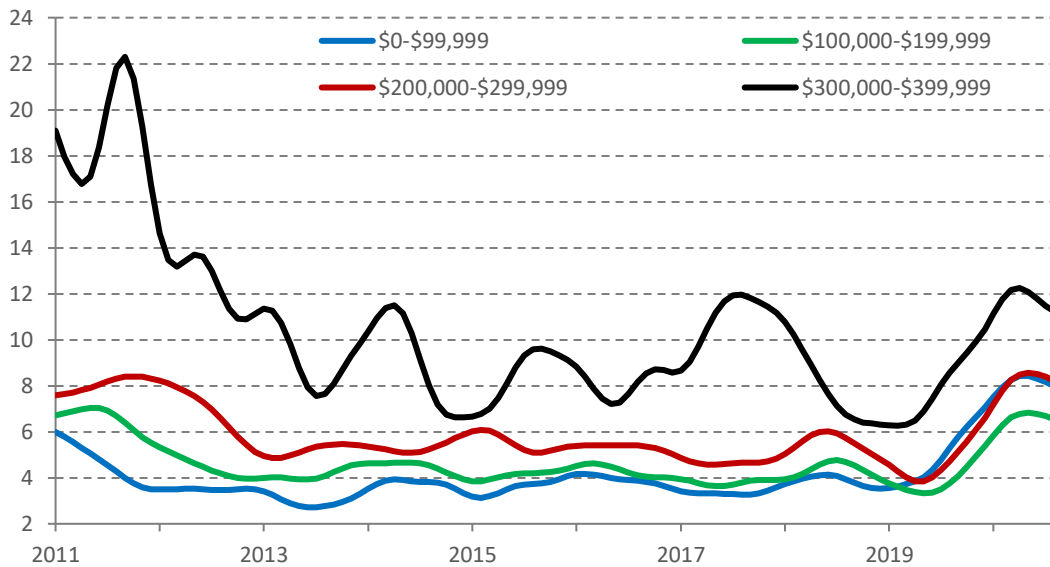
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Existing Home Months of Inventory (Months)



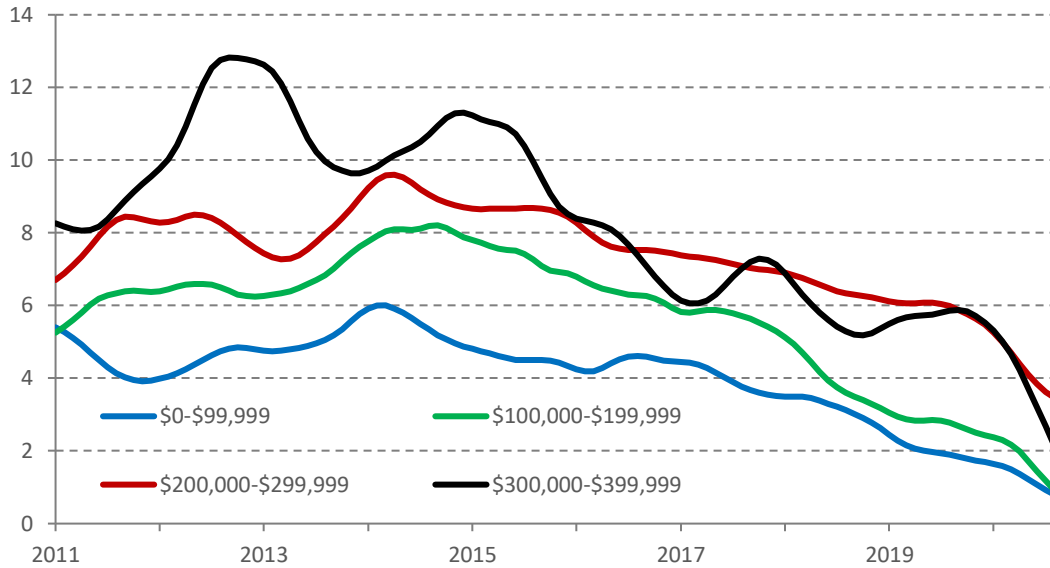
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Laredo Months of Inventory by Price Cohort (Months)



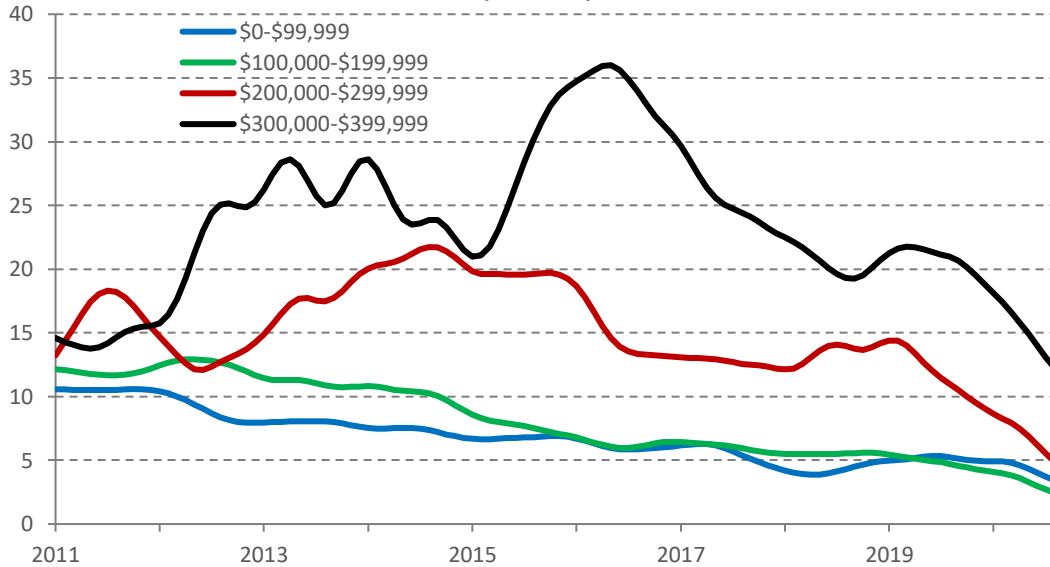
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

El Paso Months of Inventory by Price Cohort (Months)



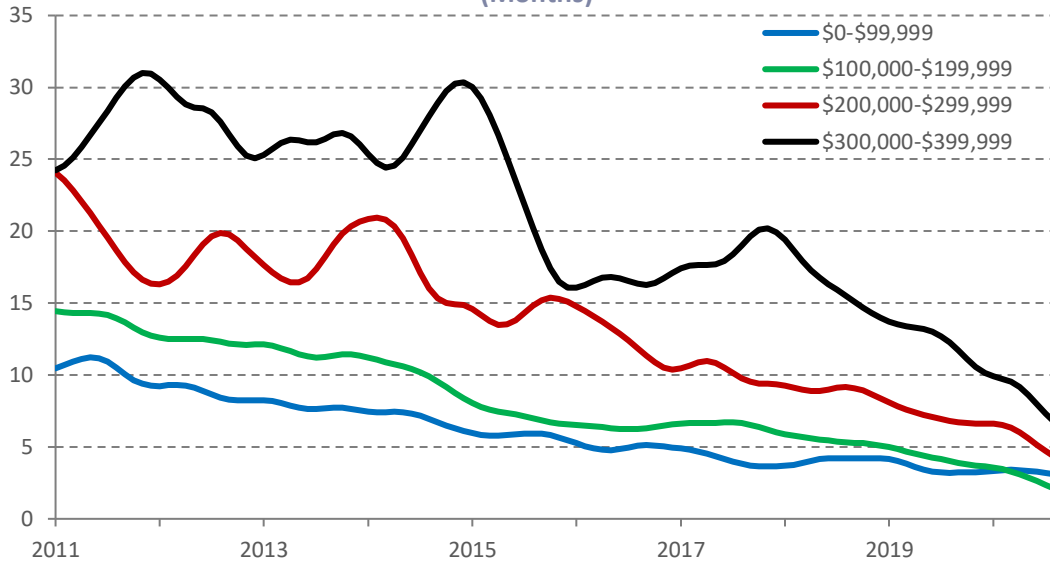
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



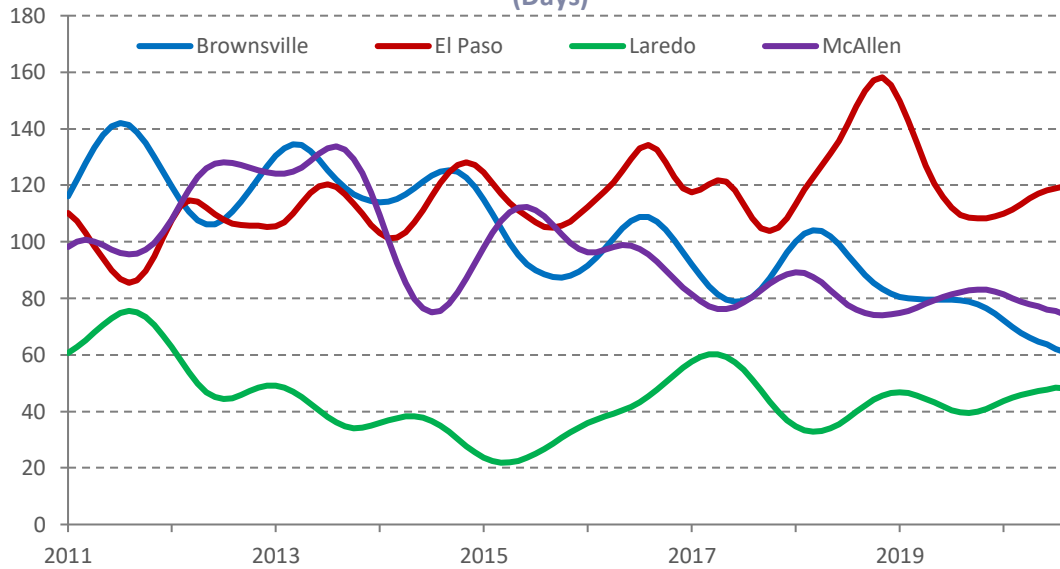
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



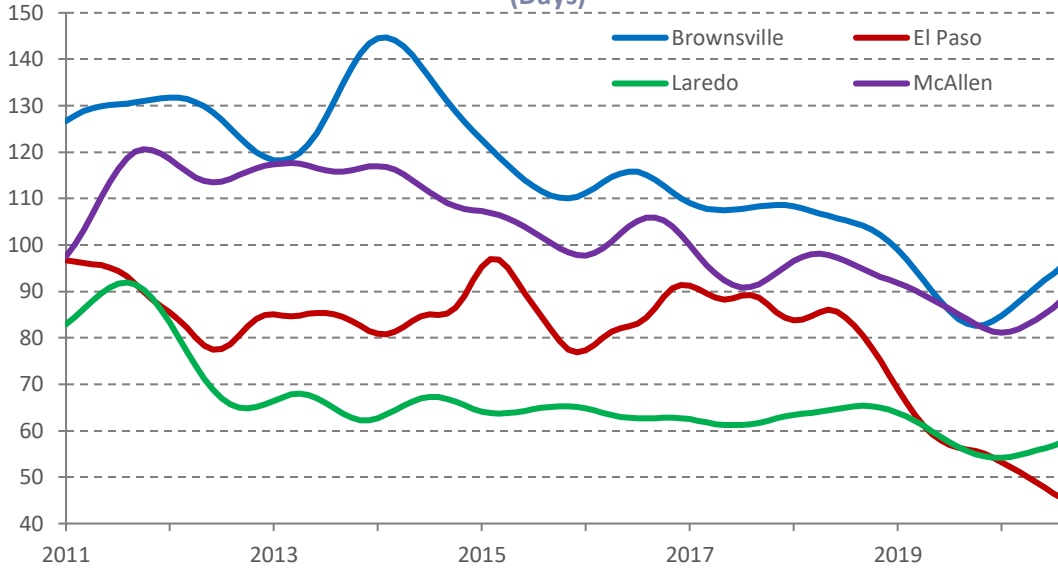
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

New Home Days on Market (Days)



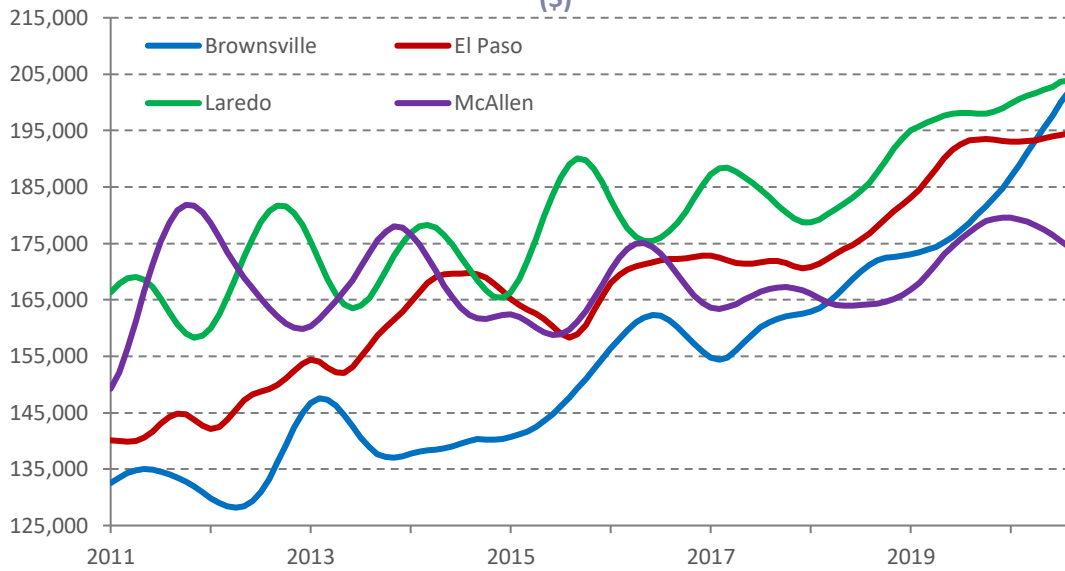
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Days on Market (Days)



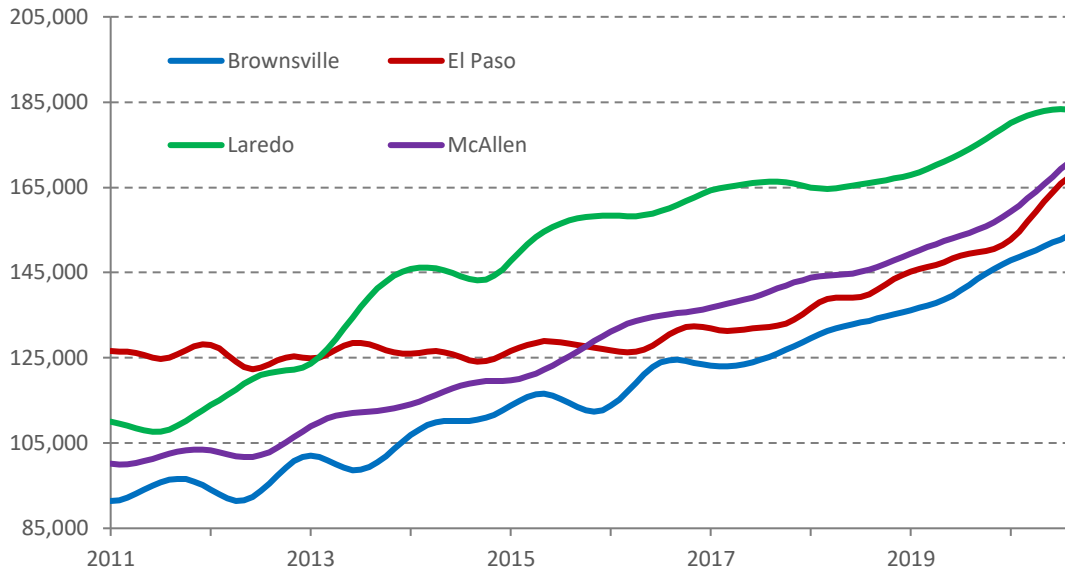
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Sales Price (\$)



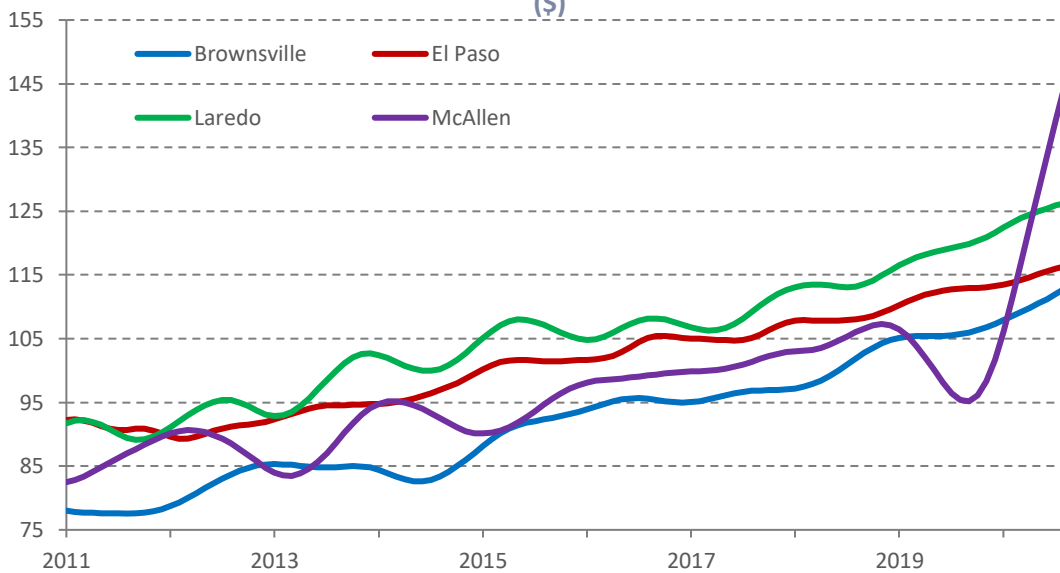
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Sales Price (\$)



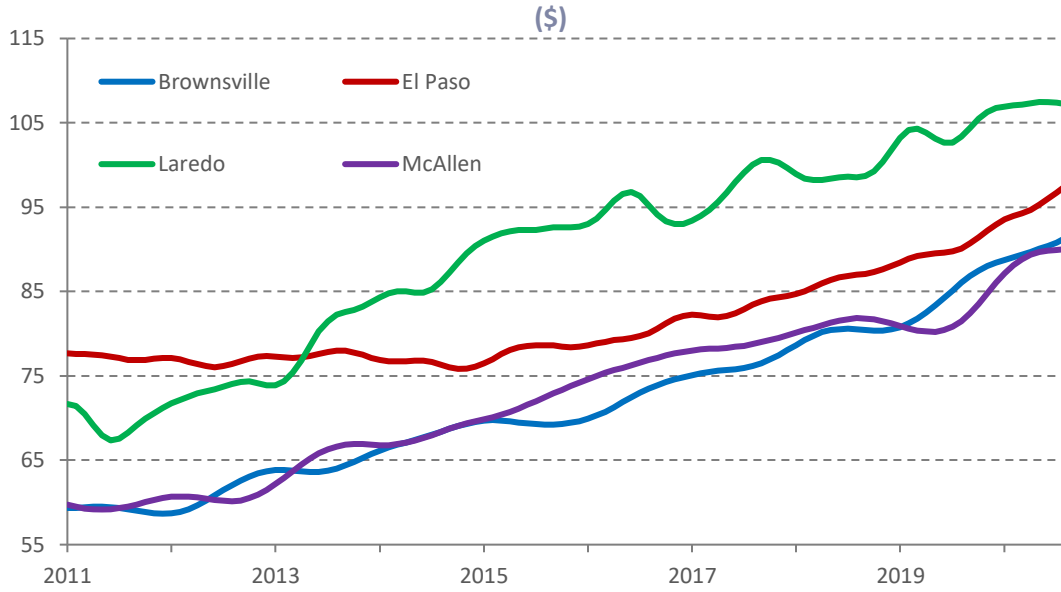
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

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



TEXAS A&M UNIVERSITY
Real Estate Center

MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

DIRECTOR

GARY W. MALER

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