

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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OCTOBER 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 Dec. 18, 2020

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Border Summary

BORDER EMPLOYMENT ▲ 1,200 jobs	SEPT. MAQUILADORA EMPLOYMENT ▲ 8,900 jobs	BORDER LABOR FORCE ▼ -14% MOM	TOTAL TRADE VALUES ▲ 5.0% MOM	HOUSING SALES = 0.8%
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October 2020

Economic activity remained sluggish along the Texas-Mexico border during October as payrolls contracted in the Rio Grande Valley. Although hiring resumed in El Paso and Laredo after setbacks the previous month, recent waves of COVID-19 infection may limit fourth-quarter recovery. Nevertheless, unemployment declined across the border metros, partially due to a decrease in the number of people in the labor force. Manufacturing, construction, and trade activity, however, registered positive monthly growth. Although total housing sales flattened, annual comparisons were healthy overall. Supply-side indicators improved, signaling an alleviation in depleted inventories and rising home prices when new homes hit the market next year.

The pandemic remains the greatest headwind to the border communities. Laredo recently suffered a surge of positive cases and virus-related hospitalizations, joining El Paso among the state's highest hospitalization rates. Recent headway in vaccine distribution and congressional agreement on conditions for the second round of federal stimulus, however, contributed to an improved outlook heading into 2021.

Economy

Labor-market setbacks restricted economic recovery, pulling the **Dallas Fed's Business-Cycle Indexes** down 5.8 and 3.3 percent on a seasonally adjusted annualized rate (SAAR) in Laredo and Brownsville, respectively. Amid contractions in both McAllen employment and real hourly earnings, the local metric plummeted 19.5 percent. El Paso was the exception, where the index increased 5.2 percent SAAR as accelerated hiring offset decreased inflation-adjusted wages. Retail sales, a component of the index, may be limited by restrictions on non-essential travel, which ban Mexican tourists from entering the U.S. These measures have been extended through Jan. 21, 2021.

Border **nonfarm employment** recouped a modest 1,200 jobs after laying off 4,100 workers in September as government payrolls continued to contract, weighing down overall levels. Nonetheless, hiring in Laredo accelerated with more than half of the 500 monthly gains in education/health services. El Paso added 1,800 employees, largely in professional/business services, recovering slightly more than half of September's total losses. On the other hand, employment in the Rio Grande Valley declined by 1,000 and 100 positions in McAllen and Brownsville, respectively.

On the southern side of the border, **Mexican manufacturing and maquiladora employment**¹ added 8,900 jobs in September, pushing hiring into positive year-to-date (YTD) growth territory. Juarez's workforce elevated above year-end levels, and both Juarez and Reynosa employment rose in every month of the third quarter, regaining 6,800 and 2,700 positions, respectively, in September. Net losses numbered 300 layoffs in Matamoros to end the month 3.3 percent short of December employment, while Nuevo Laredo's metric flattened at levels 1.1 percent below its year-end reading. Despite Chihuahua City's modest 200-employee increase during the month, manufacturing and maquiladora payrolls still fell 6.8 percent YTD. U.S. manufacturing production ticked up 1 percent in October as consumer spending on goods remained strong during continued social distancing measures. Elevated activity should remain a boon to Mexican manufacturing and maquiladora employment in the coming months.

Ongoing payroll expansions in El Paso and Laredo pulled the **unemployment rate** down to 7.4 and 8.2 percent, respectively. Meanwhile, joblessness in the Rio Grande Valley fell to 9.9 percent in Brownsville and 11.2 percent in McAllen despite net layoffs as the size of the local labor forces decreased. Weekly initial unemployment claims declined in October (see figure), except for in El Paso, where a resurgence in COVID-19 cases and hospitalizations took its toll on the local economy. Although a recent report by the Government Accountability Office has raised concerns about the reliability of the claims data, levels were still twice the pre-pandemic quantity in the Rio Grande Valley and Laredo, and many times greater in El Paso.

Recently released 2019 data revealed El Paso led the border metros in annual real income per capita growth, rising 2.6 percent. The Laredo metric jumped 2.4 percent year over year (YOY), followed by Brownsville with 2.1 percent improvement. In McAllen, income per capita elevated 1.4 percent in real terms.

On the other hand, fluctuations in the **average real private hourly earnings** varied along the border during October. The Brownsville metric rose 2.4 percent YOY after accounting for inflation. In nominal terms, however, the metro's wages ticked up to just \$17.02, lagging more than ten dollars behind the statewide average. The increasingly large gap between the border's and the state's wages highlights how the former has faced greater economic hardships during the pandemic, broadly speaking. Inflation-adjusted hourly earnings improved 2 percent in Laredo (\$18.35) but declined 2.7 and 1.6 percent in McAllen (\$19.30) and El Paso (\$19.35), respectively.

Total construction values ticked up 4 percent after three consecutive monthly declines; YTD values, however, fell 3.1 percent compared with the same period last year. In October, multifamily construction pulled up residential values amid increased apartment investment in El Paso, and new duplex projects in McAllen. On the nonresidential side, accelerated activity in McAllen's office sector offset decreased warehouse construction in El Paso and Laredo. Despite the monthly drop in warehouse values, YTD levels quadrupled relative to the sum in the first ten months of 2019.

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.

In the currency market, the **peso per dollar exchange rate** decreased for the third consecutive month to 21.28 on top of a decline in the inflation-adjusted rate² the previous month. Nevertheless, the metric rose 7.6 percent YOY in real terms, revealing that domestic goods were still relatively costly to Mexican buyers. **Total trade values** passing through the border jumped 5 percent, mostly due to increased machinery and vehicular-related imports to Laredo. Total trade activity in McAllen also accelerated, offsetting reduced values in Brownsville. Commerce through El Paso, however, dropped for the third straight month as machinery imports and vehicular exports fell.

Housing

Border housing sales moved sluggishly in October, inching up just 0.8 percent after four months of solid improvement. Sales accelerated 4.3 percent in Laredo as activity picked up for homes priced more than \$100,000. On the other hand, Brownsville's metric flattened, and McAllen sales declined 2.7 percent. El Paso transactions sank 3.4 percent as sales for homes priced from \$100,000-\$200,000 decreased for the first month since May, offsetting increased sales for homes priced more than \$200,000. Nevertheless, the trend extended an upward trajectory in all four metros as total YTD transactions rose 10 percent relative to sales during the same period last year.

Single-family housing construction permits increased for the sixth straight month, climbing 8.5 percent to a post-Great Recession high. McAllen accounted for most improvement, with the metric accelerating 13.2 percent. Permit issuance grew 2.8 percent in El Paso, and although Laredo permits flattened, the trend in both metros extended steep upward trajectories. Brownsville was the exception as the metric fell 12.4 percent; the YTD sum, however, still exceeded activity last year during the same period by 17.6 percent. **Private single-family construction values** also posted favorable YOY comparisons, corroborating a positive outlook for supply-side activity.

A pickup in McAllen's supply of active listings combined with a downtick in sales activity lifted the metro's **months of inventory (MOI)** up to 3.5 months. Meanwhile, Laredo's MOI increased for the third consecutive month, rising to 5.4 months amid an ongoing expansion in the supply of active listings. On the other hand, inventory in El Paso and Brownsville fell to 1.5 and 3.5 months, respectively.

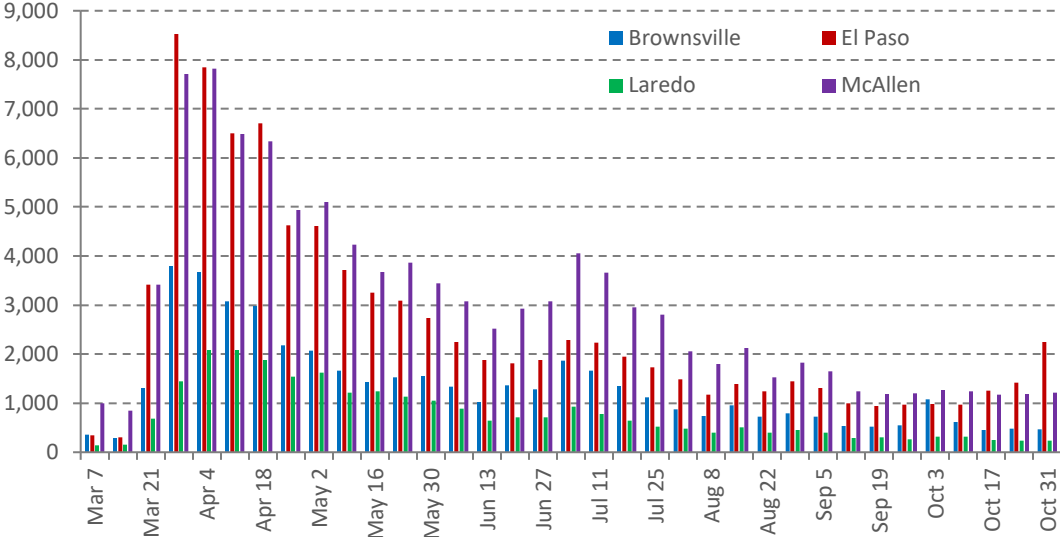
The **average number of days on market (DOM)** declined along the border, sinking below year-ago levels in each locale to indicate robust demand. The Rio Grande Valley shed more than a week off the metric in Brownsville and McAllen, decreasing to 96 and 79 days, respectively. The average home sold after 59 days in El Paso and 50 days in Laredo.

A shift in the composition of sales toward higher-priced homes due to limited inventories at the lower end of the price spectrum contributed to increases in prices. Laredo's **median home price** jumped \$10,000 to \$185,600, while the El Paso metric rose for the sixth straight month to a record-

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.

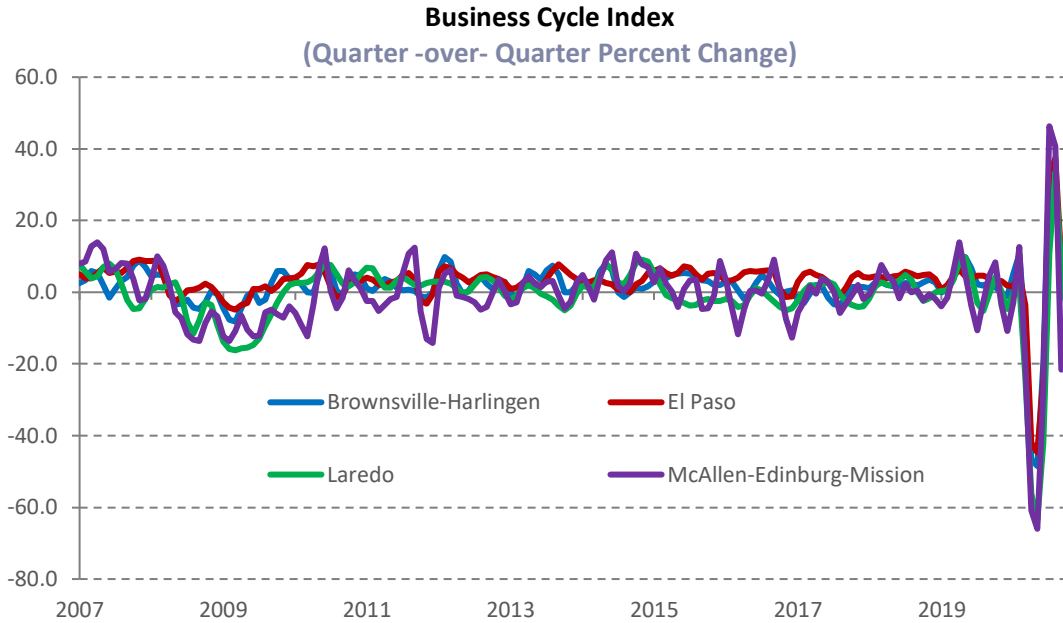
breaking \$185,300. The median price in Brownsville registered double-digit annual growth, exceeding \$178,900. McAllen’s metric declined \$5,800 to \$172,300 from an all-time high the previous month but still elevated 8.6 percent YOY on average in 2020. If compositional changes in sales were controlled for, however, it is likely that the true changes in single-family home values were more moderate, as demonstrated by the similar statewide acceleration in median home price and less rapid growth in the Texas Repeat Sales Home Price Index.

Border Metro Weekly Initial Unemployment Claims (2020)

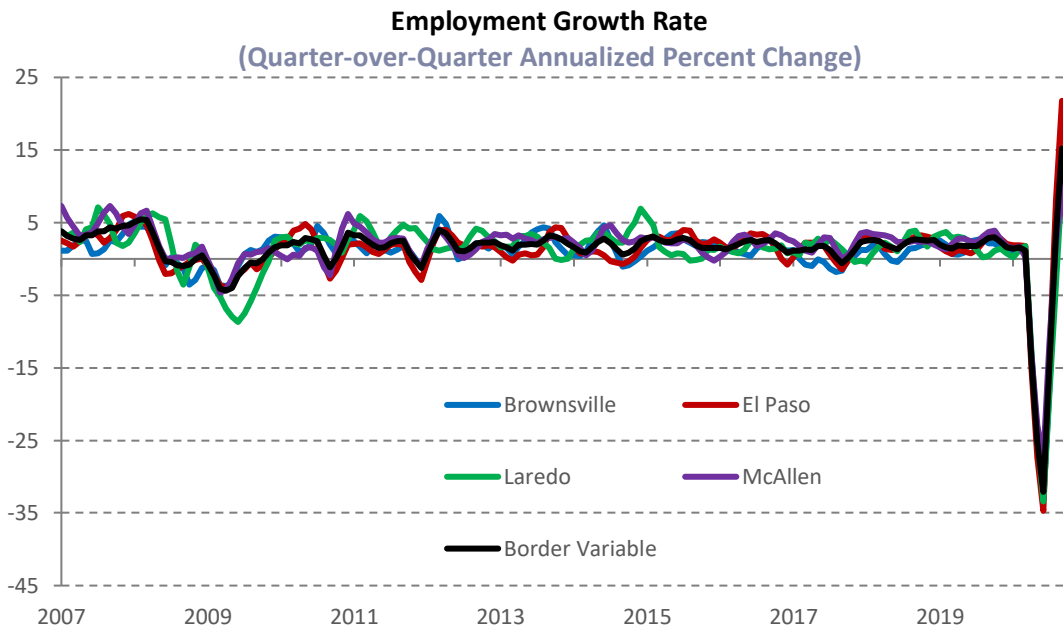


Note: Seasonally adjusted.
 Sources: Texas Workforce Commission, U.S. Department of Labor Employment and Training Administration, and Real Estate Center at Texas A&M University calculations

Economic Activity

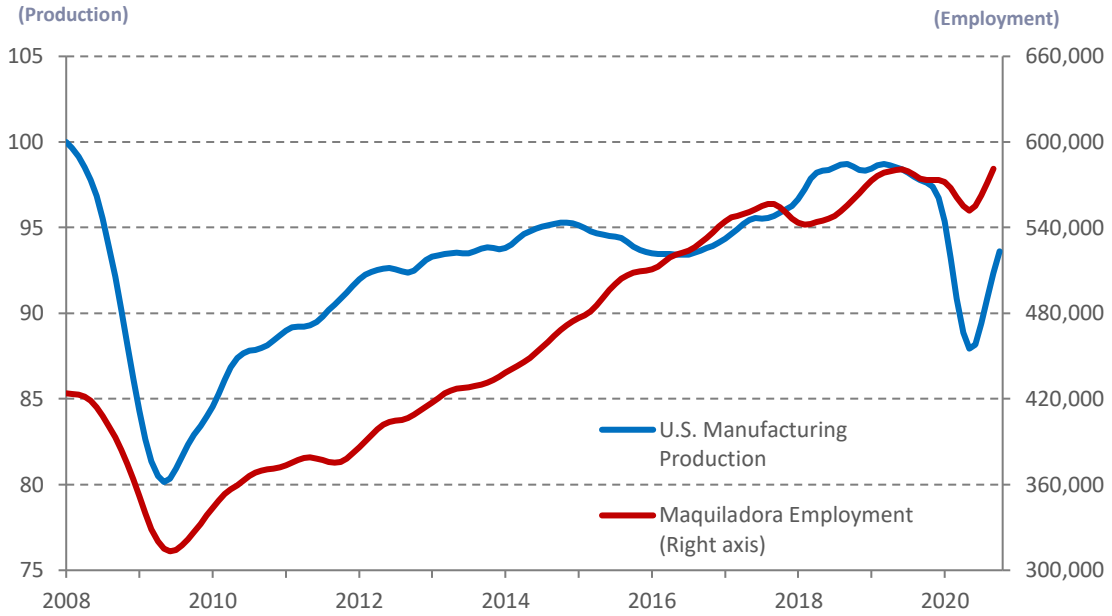


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



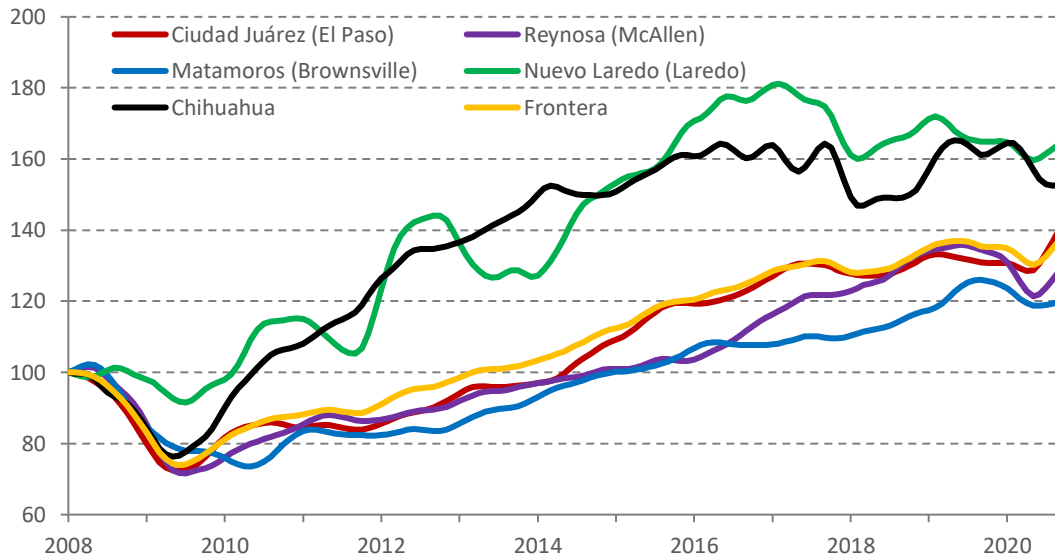
Note: Seasonally adjusted, three-month moving average. October 2020 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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



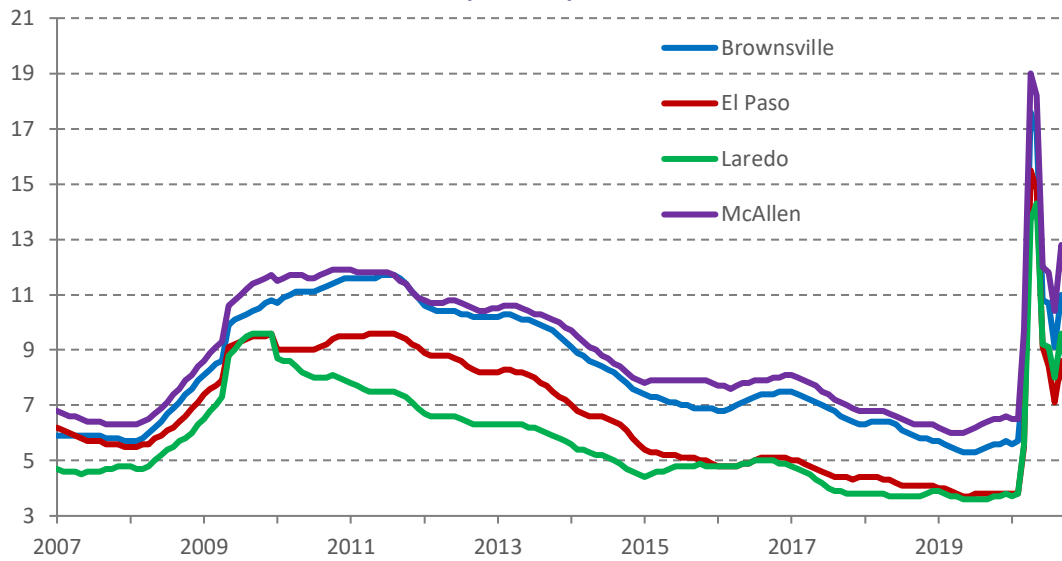
Note: Trend-cycle component.
Sources: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



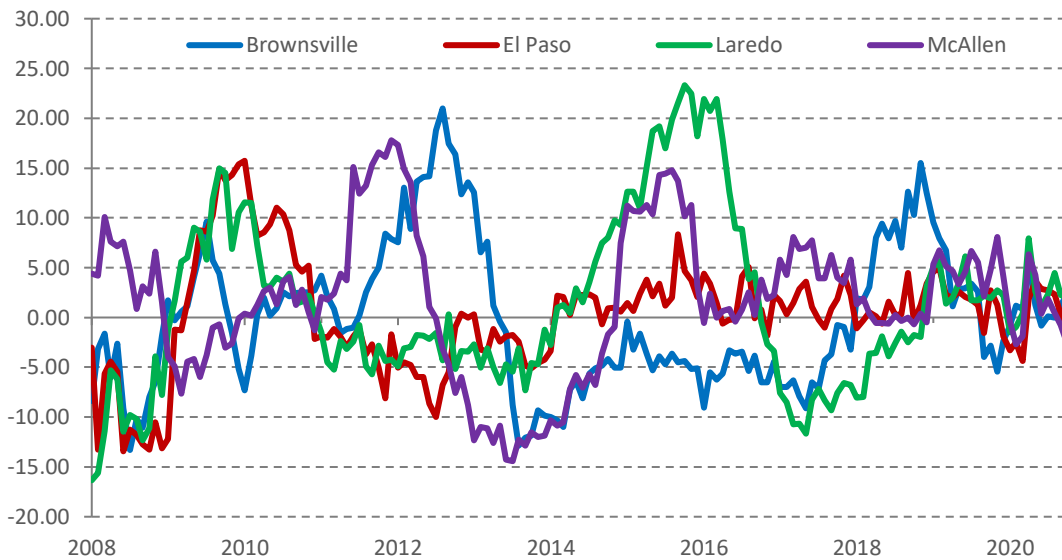
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate (Percent)



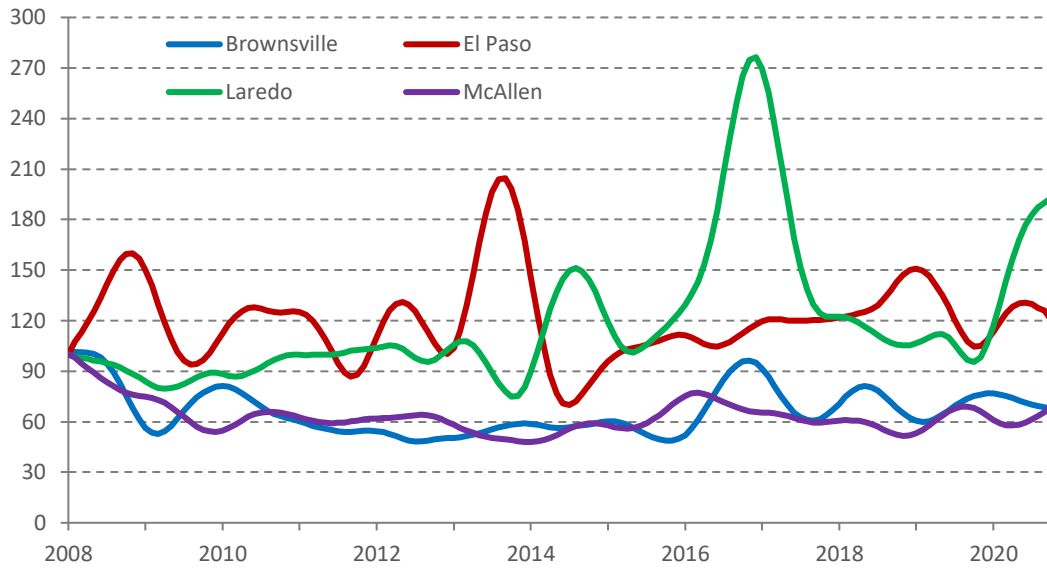
Note: Seasonally adjusted. October 2020 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



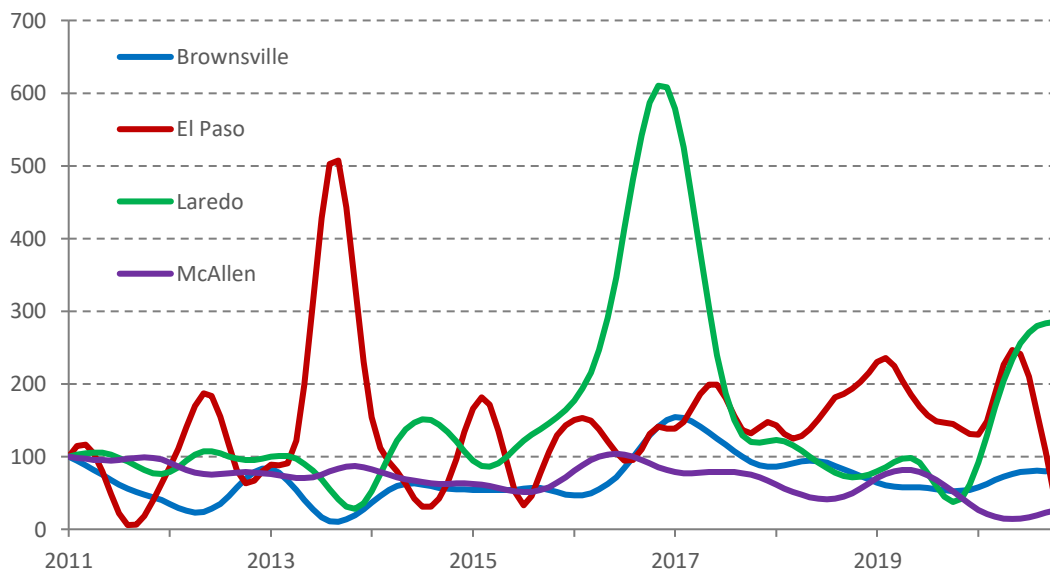
Notes: Inflation adjusted, seasonally adjusted. October 2020 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values
(Index Jan 2008= 100)



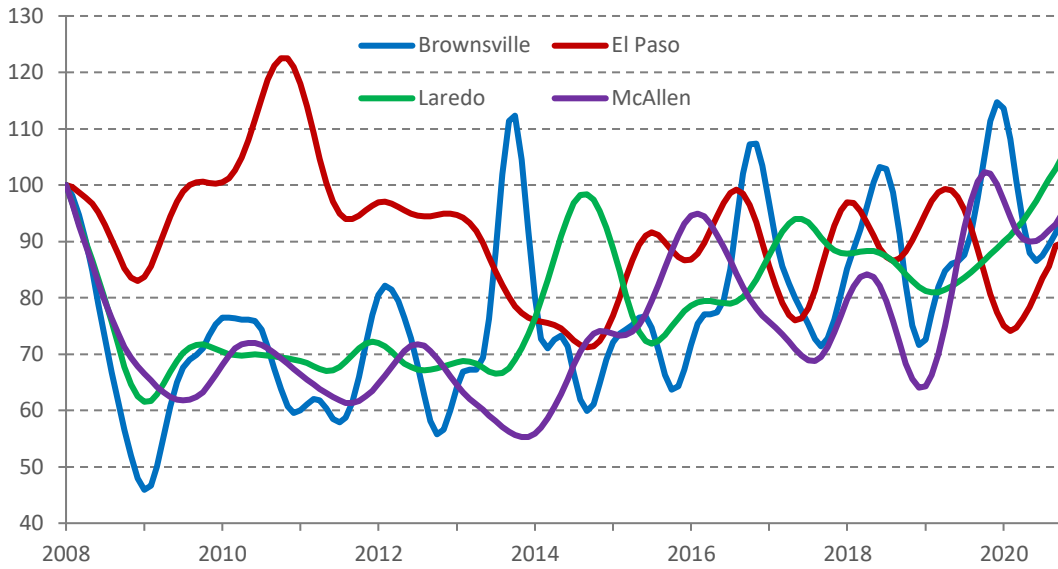
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Nonresidential Construction Values
(Index Jan 2011 = 100)



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

Residential Construction Values (Index Jan 2008 = 100)



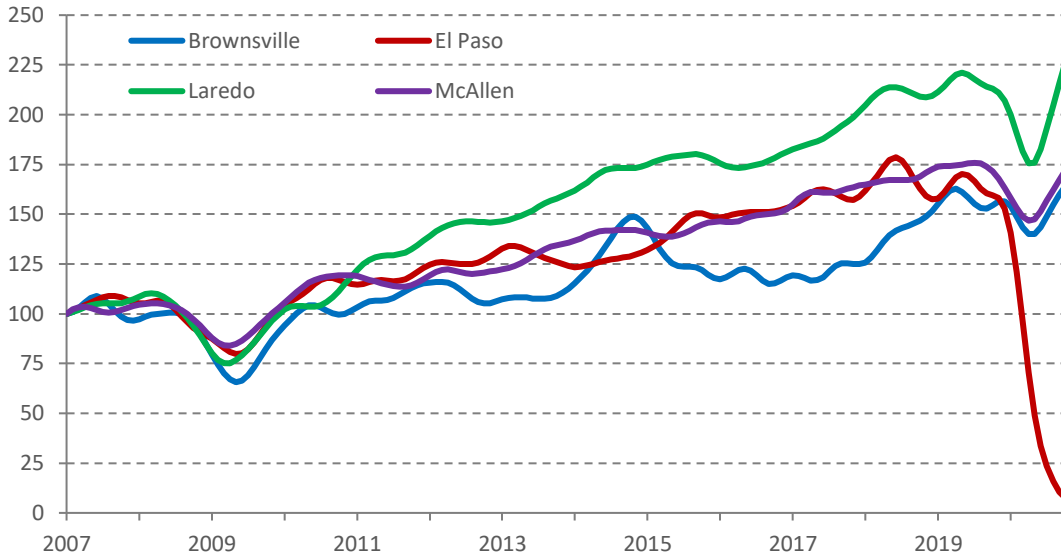
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate (\$)



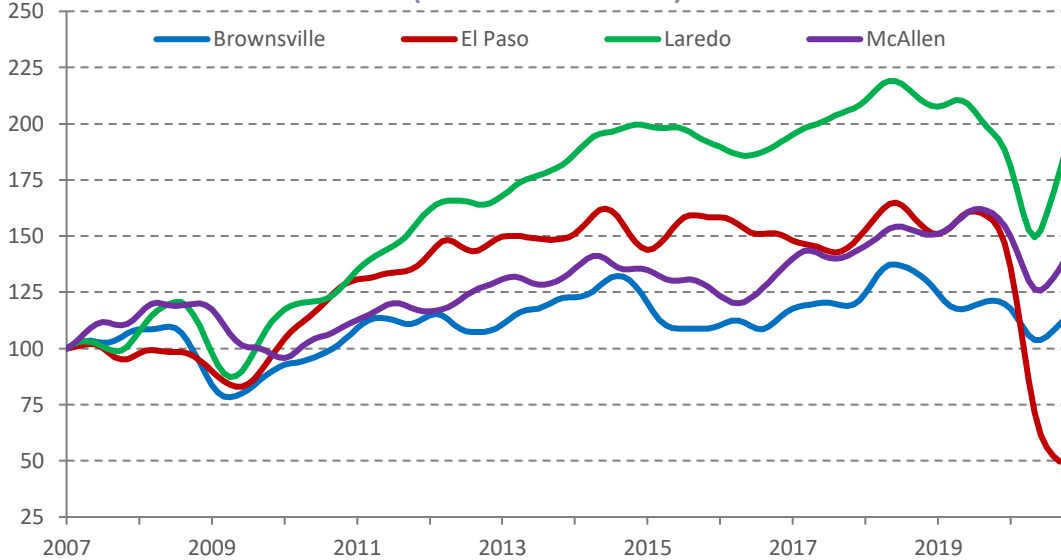
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values
(Index Jan 2007 = 100)



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

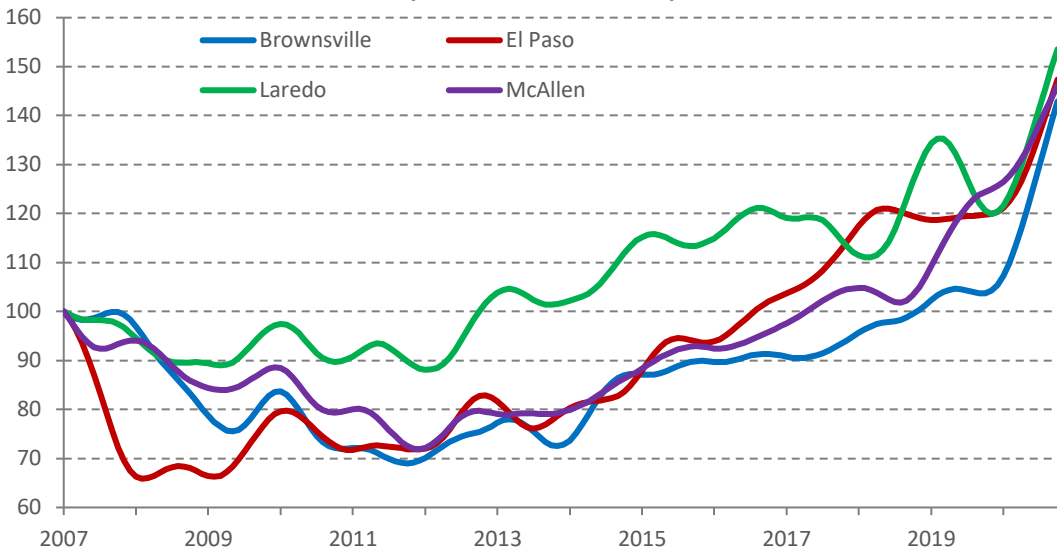
Export Values
(Index Jan 2007 = 100)



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

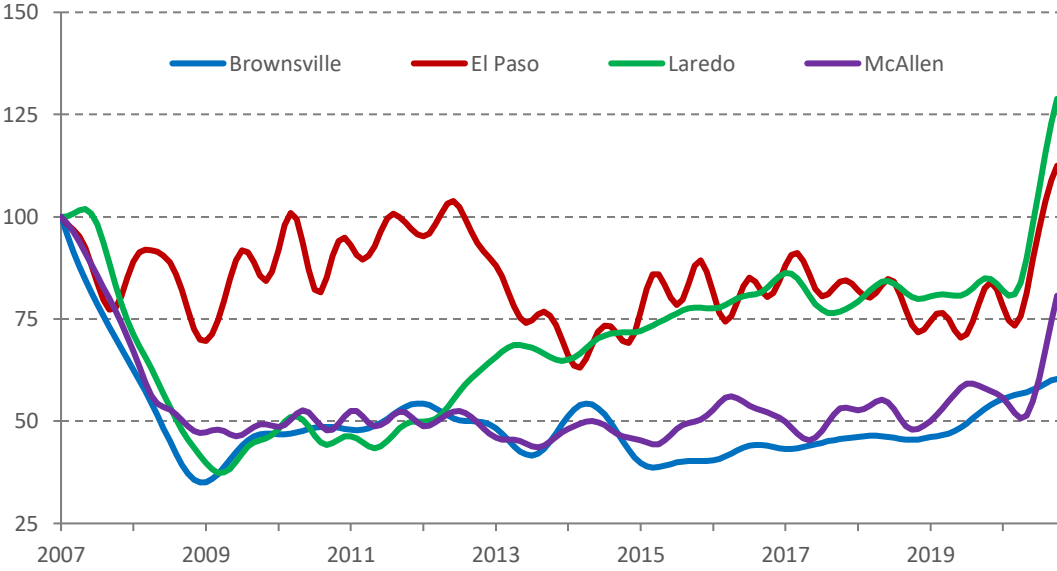
Housing

Housing Sales
(Index Jan 2007 = 100)



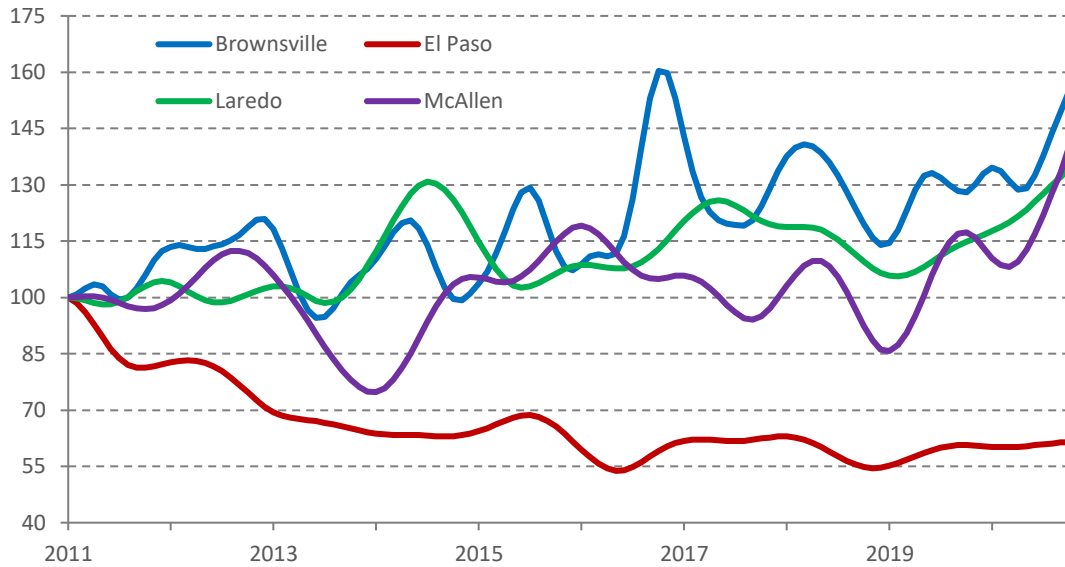
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

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



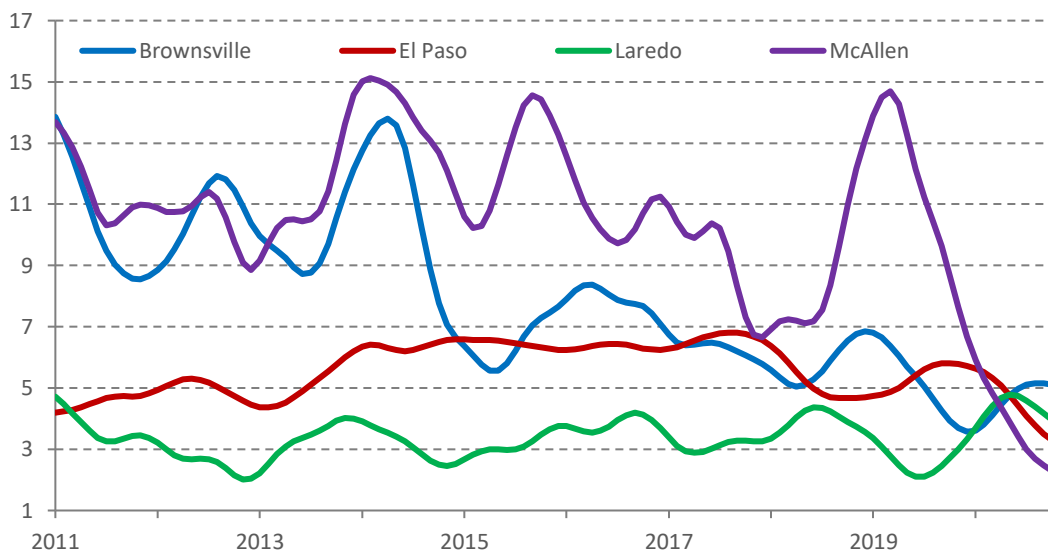
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Real Estate Center at Texas A&M University

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



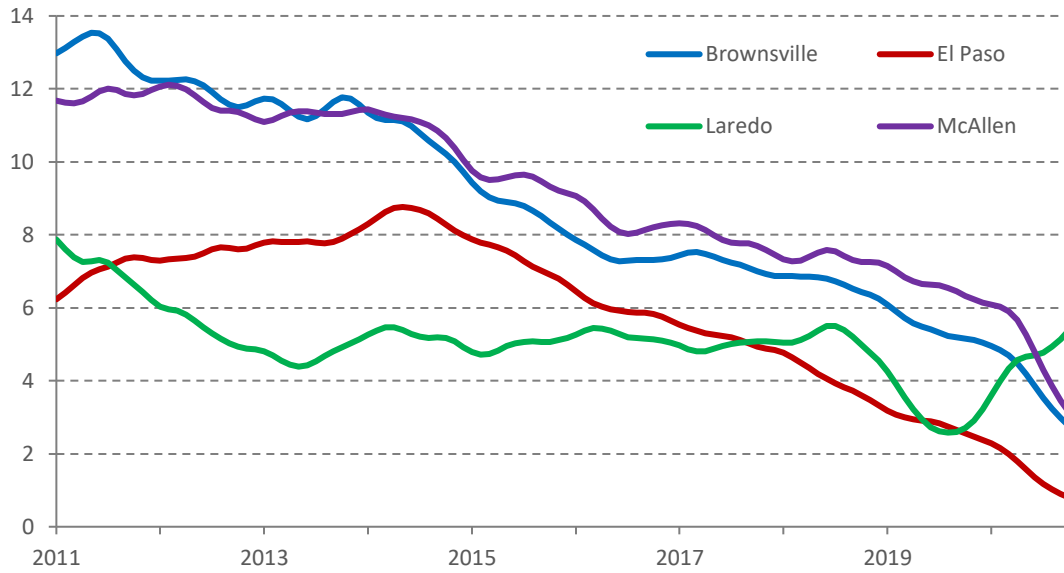
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory
(Months)



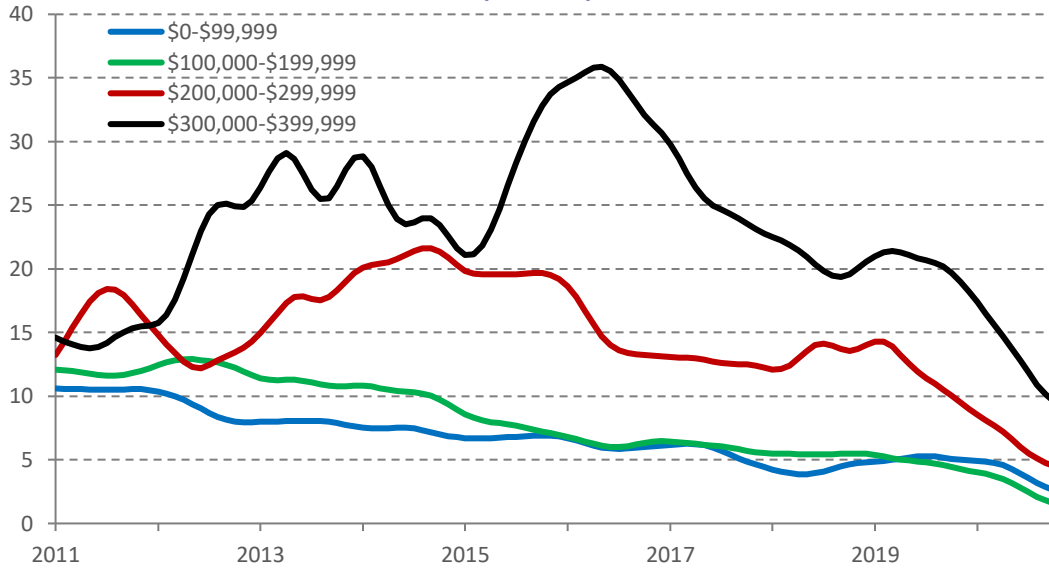
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Existing Home Months of Inventory (Months)



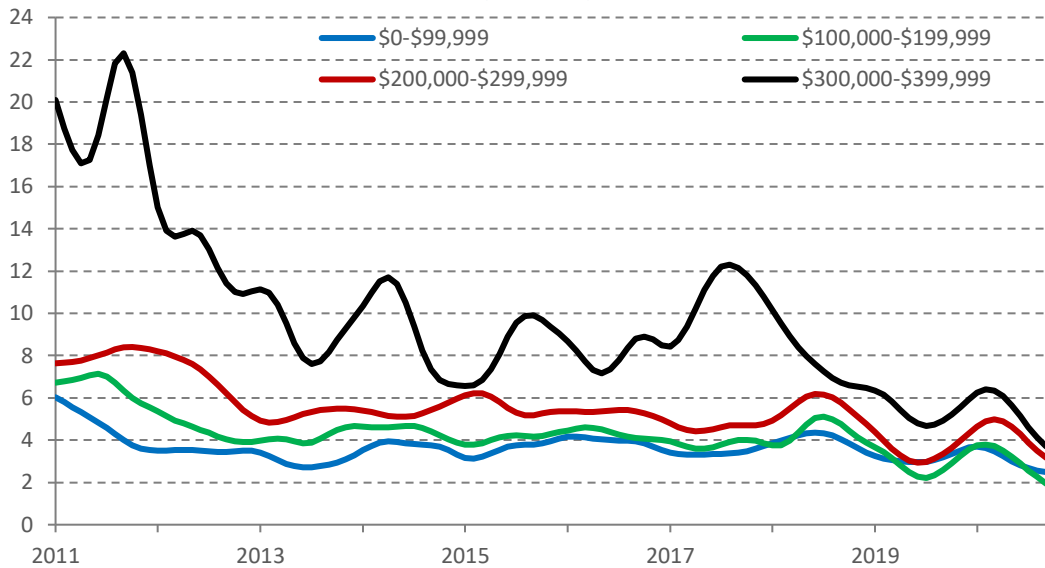
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



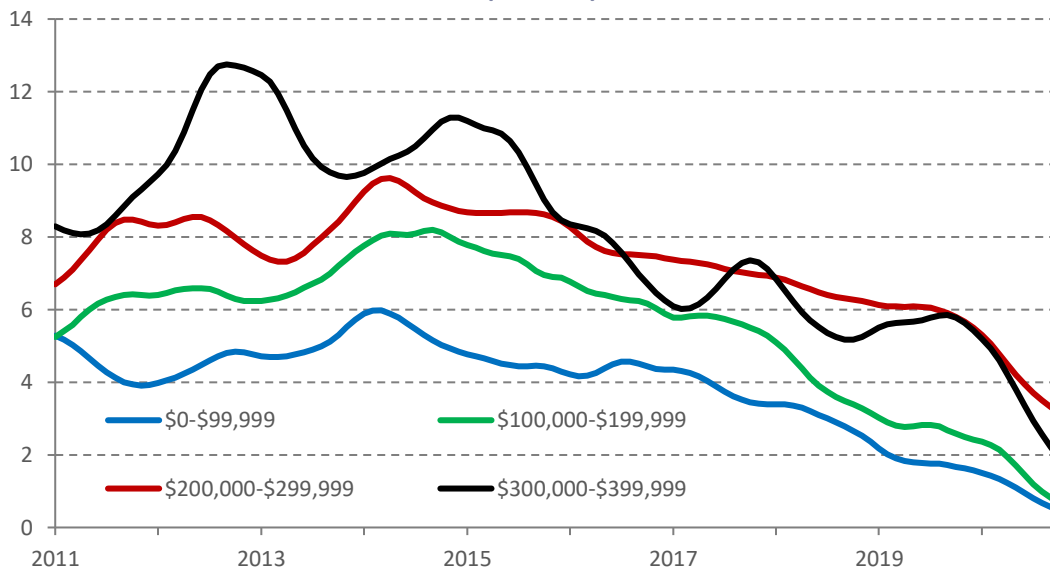
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Laredo Months of Inventory by Price Cohort (Months)



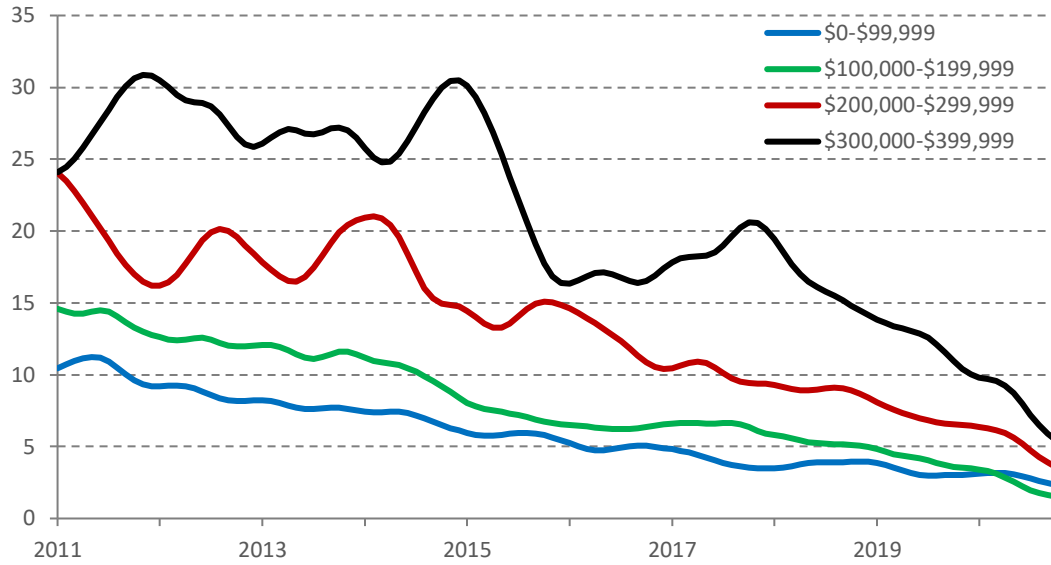
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

El Paso Months of Inventory by Price Cohort (Months)



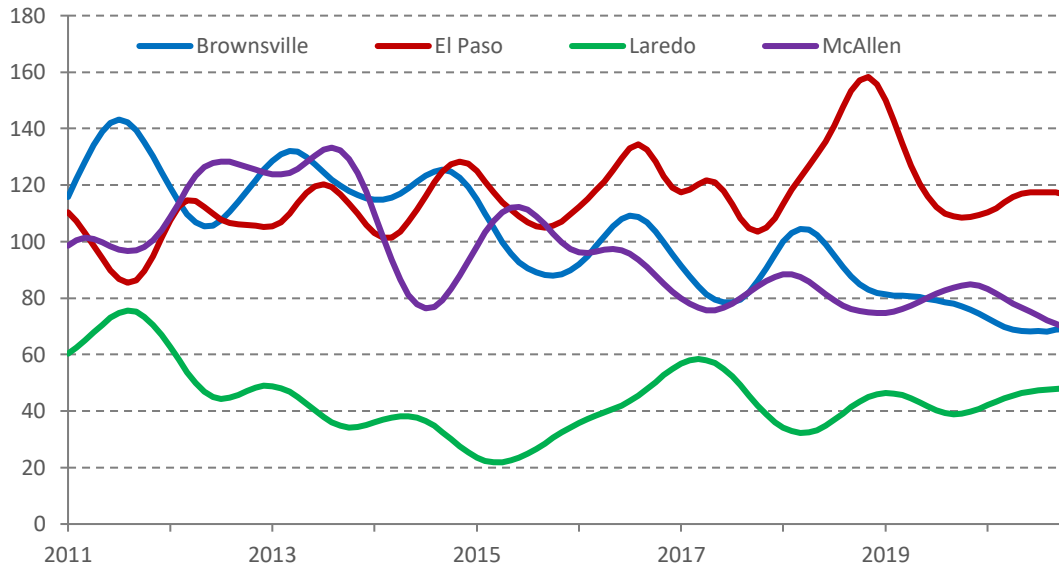
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



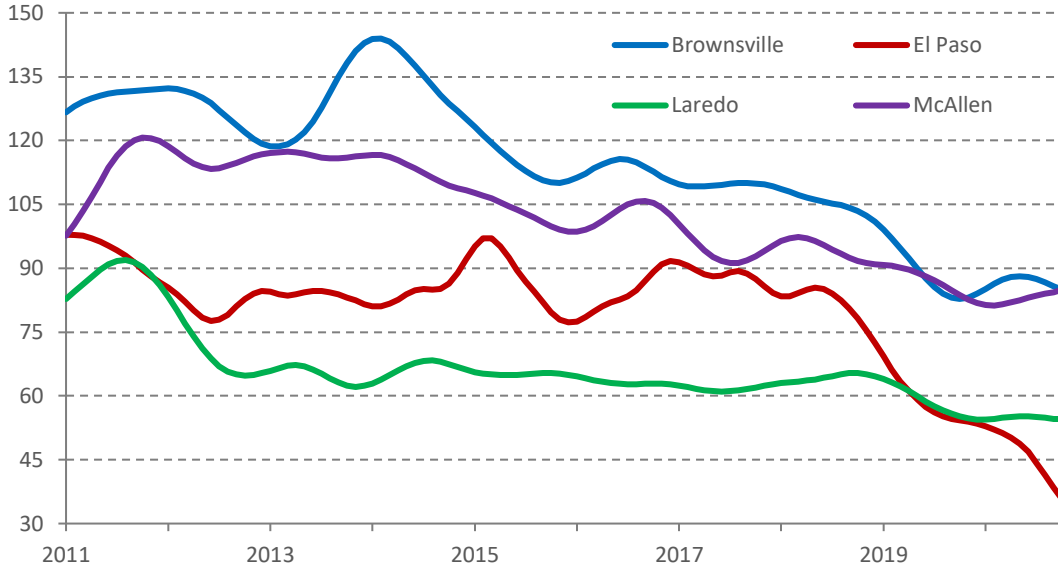
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University

New Home Days on Market (Days)



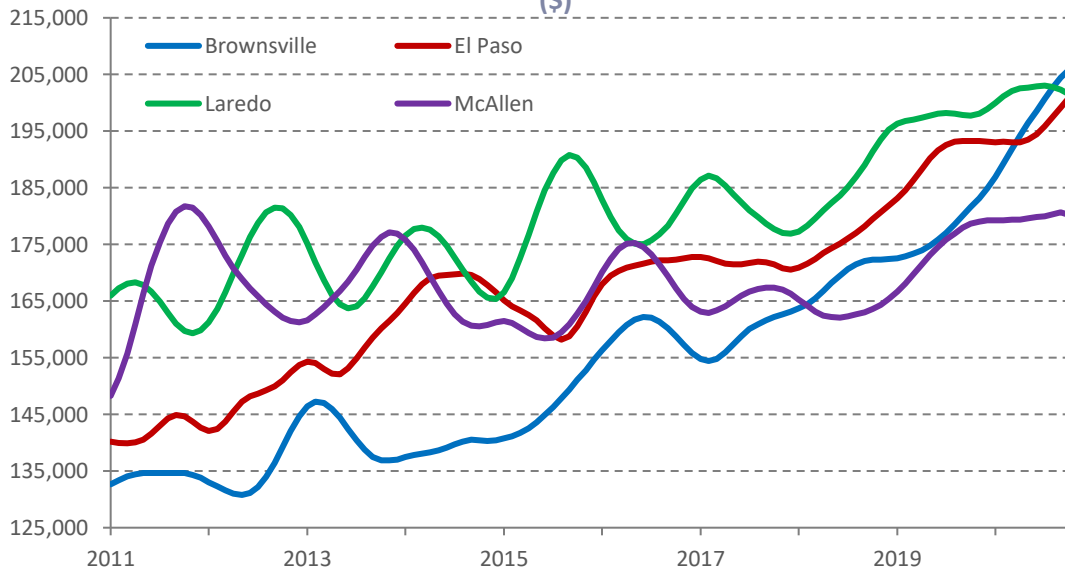
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Days on Market (Days)



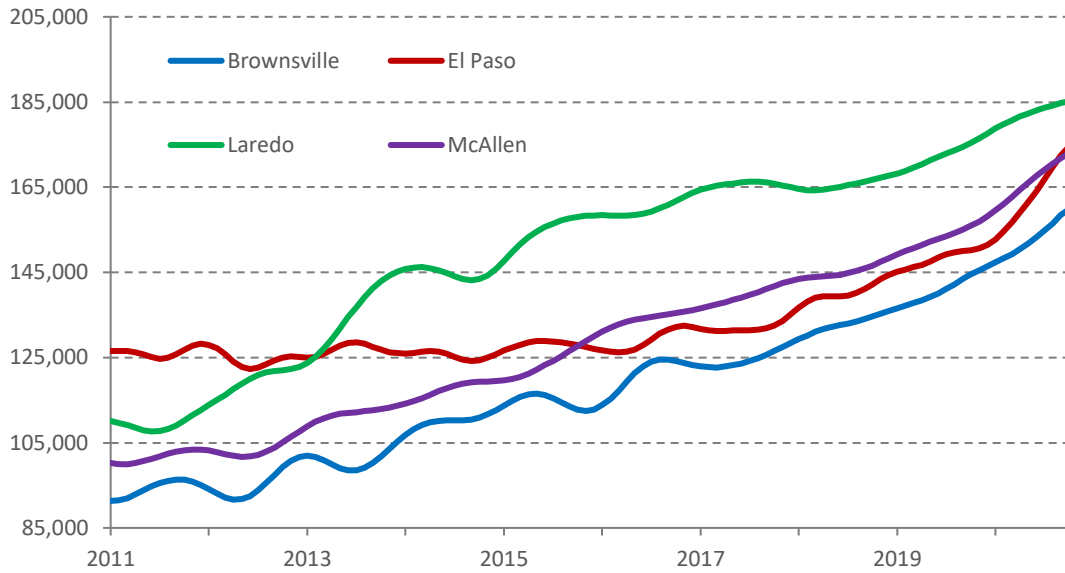
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

New Home Median Sales Price (\$)



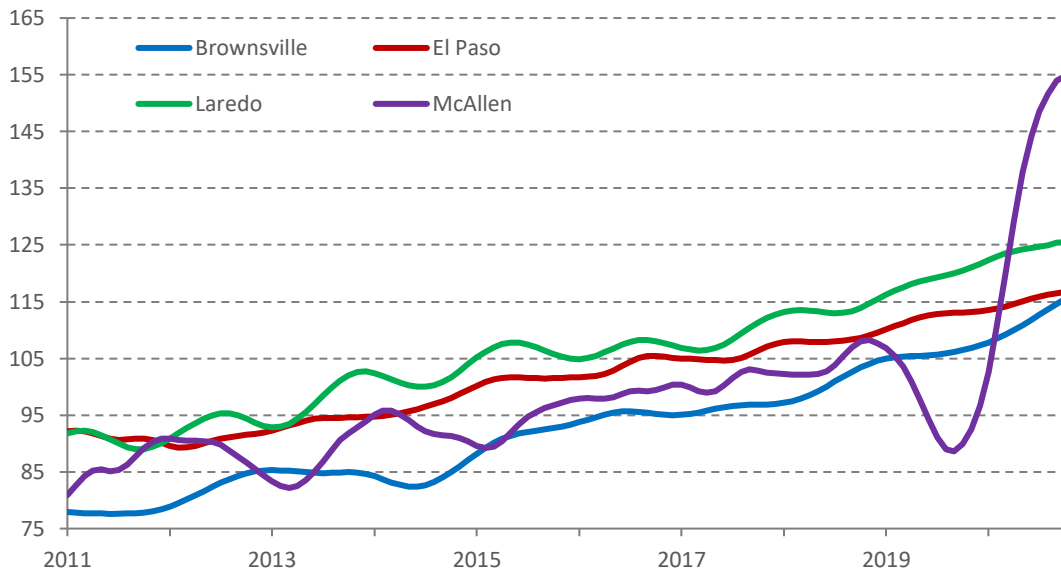
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

Existing Home Median Sales Price (\$)



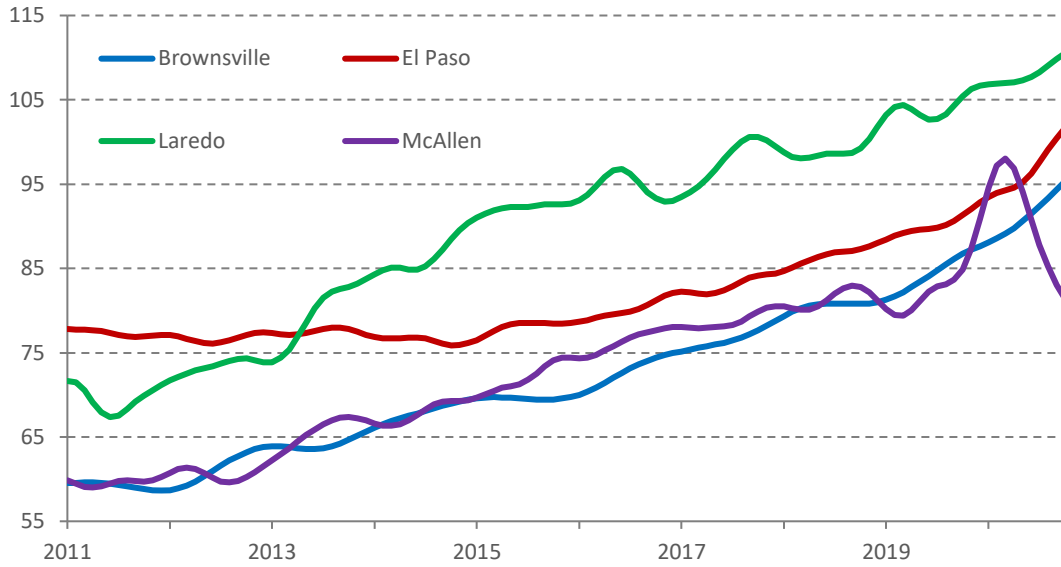
Note: Trend-cycle component. For single-family homes.
Source: Real Estate Center at Texas A&M University

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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