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- Total Private Employee Hourly Earnings

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- Total Import and Export Value
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 data are seasonally adjusted and averaged over three months, while 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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November 2017 Border Summary

Tightening labor markets and rising construction values supported economic growth along the Texas-Mexico border. The unemployment rate was held to a near cycle-low, driving wages above the Texas growth rate. Housing sales rose 1.2 percent, led by gains in Brownsville and El Paso. Single-family building permits trended upward in response to increased demand for new homes. Border housing markets benefited from economic growth, but several challenges lie ahead. NAFTA renegotiations, a slowing Mexican economy, and immigration reform uncertainty present the strongest headwinds to the border economies.

Economy

Economic activity held steady along the border as historically low unemployment supported positive growth in the Dallas Fed’s Business-Cycle Indices. The McAllen index reached a decade-high 14.3 percent annualized quarter over quarter (QOQ) growth as the labor market tightened. Data revisions halved Laredo’s October growth rate from 10.8 to 5.4 percent QOQ but indicated a steady expansion throughout 2017. In November, the Laredo index grew 6.0 percent QOQ as unemployment hovered below the statewide level. In contrast, revisions dampened the El Paso index’s performance, revealing economic stagnation in the first half of the year. However, economic activity accelerated for the fifth consecutive month, reaching 3.1 percent QOQ growth. The Brownsville index posted the lowest growth at 1.5 percent but remained stable after contracting in the first quarter.

The business-cycle expansion boosted border construction values 13.6 percent. Store and restaurant construction in El Paso and McAllen, combined with school construction in Laredo, drove nonresidential construction up 38.1 percent. In the residential sector, construction values improved for the second straight month as single-family housing picked up in every border metro but Laredo.

Border employment increased marginally at 1 percent annualized QOQ, adding just 1,400 jobs. The goods-producing sector stabilized in McAllen after a four-month decline but was unable to lift aggregate annualized growth into positive territory. Payroll expansions in the service sector elevated El Paso’s growth above 3 percent. Declines in education slowed Laredo growth to less than half a percent, while Brownsville’s growth rate contracted 0.7 percent.

The labor market stagnated in the Mexican border metros as the Mexican national economy declined. However, Mexican manufacturing and maquiladora employment added more than 16,000 jobs since May, driven primarily by growth in Chihuahua and

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1 Monthly numbers are reported instead of a three-month moving average for consistency.
Reynosa, Mexico. The Mexican border economy remained healthy relative to the rest of the country.

**Unemployment rates** along the border remained on a seven-month downward trend. Unemployment drastically improved in Brownsville and McAllen at 6.1 and 6.7 percent, respectively, after surpassing 8 percent earlier this year. In El Paso and Laredo, the unemployment rate ticked up slightly to 3.1 and 4.1 percent, respectively, after reaching all-time lows last month.

Falling unemployment supported wage growth in the border economies. **Real private hourly earnings** increased 3.5 percent year over year (YOY) in McAllen, well above the state growth rate at 0.8 percent. After stagnating in the third quarter, El Paso wages picked up steam and improved 3.9 percent YOY. Hourly earnings increased for the sixth consecutive month in Brownsville, reversing a 19-month contraction but remaining well below the other metros. Surprisingly, Brownsville shed 900 jobs throughout the current wage hike, but a distributional shift towards the goods-producing sector likely generated upward earnings pressure. Construction of a new gas pipeline enabling increased distribution to Mexico supported wage growth despite aggregate employment contractions. On the other hand, Laredo wages stabilized after a 17-month slide as low unemployment and stagnant payroll expansions indicated a shrinking labor force.

The **peso per dollar exchange rate** increased to 18.93 after hovering below 18 throughout the third quarter. After accounting for price differentials between the U.S. and Mexico, the real exchange rate rose 3 percent, its largest increase since January 2017. Despite falling Mexican purchasing power, the **total value of border trade activity** rose 1.4 percent amid gains in both import and export values. El Paso generated most of the export growth while Laredo led in terms of imports.

**Housing**

**Border housing sales** increased 1.2 percent as overall economic activity advanced. Brownsville and El Paso generated all of the gains as sales rose 3.0 and 2.8 percent, respectively. Laredo sales dropped 4 percent, pulling year-to-date (YTD) values into negative territory. In McAllen, housing sales fell for the fourth consecutive month at 2.8 percent, retracting nearly all of the gains made earlier in the year.

On the supply side, **single-family residential housing construction permits** increased 4.7 percent after data revisions calmed last month’s growth from 4.0 to 1.3 percent. El Paso led the expansion with a 10.2 percent increase, fully recovering from its 23.9 percent

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2 Official numbers are reported instead of a three-month moving average for consistency.
annual contraction in 2016. McAllen issued the most single-family permits but remained flat for the year. The number of monthly permits issued was significantly lower in Brownsville and Laredo but inched upward 2.6 and 0.8 percent, respectively. The marginal growth in Laredo marks the second month of permit stabilization as builders adjusted to increased housing demand.

Increased building permits pushed border construction values up 4.4 percent for private single-family homes, the second largest increase this year. Brownsville posted the largest increase at 13 percent, followed by McAllen at 8.4 percent. Construction values in Laredo fell this month but maintained the highest YTD growth at 10.8 percent. In El Paso, single-family construction values were unchanged after substantial third-quarter improvements.

The months of inventory (MOI) of listed homes for sale varied along the border but normalized for homes priced between $100,000 and $200,000. This price cohort accounts for the highest proportion of border housing activity and provides a clearer picture of supply conditions than aggregate levels. In Brownsville and McAllen, the MOI for this cohort flattened at 6.6 and 6.3 months, respectively, around a two-year equilibrium. The El Paso MOI was stable in this cohort, hovering around 5.6 months, while the Laredo metric climbed for the fifth consecutive month to 4.3 months.

In general, supply conditions tightened in both the new and resale markets. The new home months of inventory fell to 10.4 months in McAllen but remained elevated from weak sales for homes priced above $200,000. The Laredo MOI retracted its third quarter gains, falling to 3.7 months as permit growth slowed. New home inventories ticked down to 7.6 months in Brownsville, while the new home MOI bucked the trend in El Paso with a 3.4 percent increase to 6.8 months.

In the resale market, the Brownsville and El Paso existing home months of inventory hit records lows at 7.5 and 5.0 months, respectively, as the number of annual active listings trended downward. The Laredo MOI hovered around 5.3 months, providing relief from new home shortages. On the other hand, surpluses persisted in McAllen where the resale MOI surpassed 8.8 months.

Housing demand strengthened as the average number of days on market (DOM) trended downward or flattened in the border metros. Laredo homes sold the fastest, averaging just over two months on the market, while the total DOM converged at 94 days in both El Paso and McAllen. The DOM was lowest in Brownsville at 116 days, but the bulk of the market (comprised of homes priced $100,000-$200,000) maintained a DOM of 95 days.

In contrast with the Texas Urban Triangle, new home demand outpaced the resale market. The new home DOM dropped to 46 days in Laredo, down 34 percent on the year. In
Brownsville and McAllen, the metric settled at 77 and 74 days, respectively, while dropping to a five-year low of 102 days in El Paso.

In the resale market, the existing home DOM increased in every metro but Brownsville, where the average home sold after 107 days. Resale demand in Laredo and McAllen softened for the third straight month, elevating the DOM to 70 and 97 days, respectively. El Paso was the only metro where the existing DOM held steady below that of new homes at 90 days.

The median home price for existing homes softened within the border economies. The median price fell below $120,000 in Brownsville, down 5.5 percent from its October 2016 peak. In Laredo, the median flattened well above the other metros at $163,091. McAllen took the largest price hit as the median fell more than $7,000 to $133,565. Increased demand for resale homes in El Paso supported marginal YTD median price growth at just 0.9 percent, lifting the median resale price to $131,276.

The new home median price converged around $171,000 in McAllen, Laredo, and El Paso but trended upward, downward, and flat, respectively. The Brownsville median ($180,897) topped the remaining metros for the first time in series history, surpassing 11 percent YTD growth. The price increase coincides with demand shifts towards new homes and recent wage growth in Brownsville. Border housing prices and wages remained among the lowest in Texas as well as the United States. However, housing affordability issues persist amid below-average income levels.
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

**Total Construction Values**

(Index Jan 2008= 100)

Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics
Residential Construction Values
(Index Jan 2008 = 100)

Nonresidential Construction Values
(Index Jan 2011 = 100)

Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics
Employment Growth Rate
(Quarter-over-Quarter Annualized Percent Change)

Note: Seasonally adjusted, 3-month moving average. November 2017 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

Mexico Maquiladora and Manufacturing Employment
(Index Jan 07 = 100)

Note: Seasonally adjusted and detrended.
Source: Instituto Nacional de Estadística y Geografía
**Unemployment Rate**

(Percent)

Note: Seasonally adjusted. November 2017 is preliminary. For more information, see [Unemployment Rate](#).

Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University

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**Total Private Employee Hourly Earnings**

(Year-over-Year Percent Change)

Notes: Inflation adjusted. November 2017 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Note: The total dollar value of exports and imports were seasonally and detrended for each port of entry.
Source: Foreign Trade Division and Census Bureau
Housing

Housing Sales
(Index Jan 2007 = 100)

Brownsville  El Paso
Laredo  McAllen

Note: Seasonally adjusted sales reported by MLS and detrended.
Source: Real Estate Center at Texas A&M University

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

Brownsville  El Paso
Laredo  McAllen

Note: Seasonally adjusted and detrended.
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, seasonally adjusted and detrended.
Source: Dodge Analytics

New Home Months of Inventory
(Months)

Note: Seasonally adjusted and detrended.
Source: Real Estate Center at Texas A&M University
Note: Seasonally adjusted and detrended.
Source: Real Estate Center at Texas A&M University
El Paso Months of Inventory by Price Cohort

Laredo Months of Inventory by Price Cohort

Note: Seasonally adjusted and detrended.
Source: Real Estate Center at Texas A&M University
Note: Seasonally adjusted and detrended.
Source: Real Estate Center at Texas A&M University

Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University
Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University
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