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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August 2017 Border Summary

The strengthening peso and tightening labor market conditions supported economic growth along the Texas-Mexico border. Low levels of unemployment and solid job growth on both sides of the border continued to bump up wages. However, construction activity contracted as builders adjusted to new home surpluses and the completion of new schools. NAFTA renegotiations and immigration reform uncertainty present the largest headwinds to the border economies.

Economy

Recently released 2016 gross metropolitan product data indicated positive economic growth along the border, driven by the service providing industry. Brownsville led the charge at 2.7 percent growth amid increased activity in professional and business services. The El Paso economy grew 2.2 percent due to gains in the FIRE (finance, insurance, and real estate) industries. Growth in McAllen stalled from 2.3 percent in 2015 to 0.8 percent as construction aggregate mining slowed. Laredo was the only border economy to contract, falling half a percent amid last year’s lagging energy and manufacturing sectors.

Economic activity stumbled early in 2017 but has since recovered, as indicated by the Dallas Fed’s border Business Cycle Indices. The Brownsville index posted its fifth straight monthly increase, up an annualized 4.2 percent quarter over quarter. Similarly, the Laredo index reached 3.7 percent growth after trending negative between May 2015 and March 2017. In El Paso, the index remained stable above 3 percent. The McAllen index was the outlier, returning to a ten-month downward trend after a brief uptick last month.

Total border construction values fell 14.0 percent amid large declines in nonresidential construction activity. Declines in school building construction in Brownsville, Laredo, and El Paso accounted for most of the slump. Residential construction ticked down 1.4 percent as apartment and single-family building slowed in Brownsville and Laredo, respectively.

Aggregate border employment lost 1,900 jobs\(^1\), the first decline since July 2015, but remained positive on a three-month moving average. Despite falling below zero at the state level, quarterly annualized employment growth rates were positive in all the border metros. McAllen led the pack with a 3.6 percent increase amid strong growth in education and health services. The Brownsville rate increased 4 points to 1.3 percent, adding 1,400 jobs year to date (YTD), primarily in the leisure and hospitality industry. In El Paso and Laredo, annualized employment growth settled at 1.9 and 1.4 percent, respectively.

\(^1\) Monthly numbers are reported instead of a 3-month moving-average for consistency.
continuing their steady expansion. Mexican manufacturing and maquiladora employment added over 2,500 jobs, supporting the general health of the region’s labor market.

The border unemployment rates\(^1\) ticked up slightly after substantial declines in recent months. Laredo (4.1 percent) and El Paso (4.5 percent) maintained the lowest unemployment rates, down from 4.9 and 5.1 percent, respectively, at the start of the year. Unemployment in Brownsville and McAllen rests historically higher than most Texas metros but trended downward at 7.0 and 7.5 percent, respectively.

**Real private hourly earnings** in Brownsville rose from its trough as economic activity recovered. Wages were flat for the third straight month in El Paso but maintained a steady 1.7 percent increase YTD. In McAllen employment gains drove wages up 4.2 percent on the year, outpacing growth in most of the state. The opposite occurred in Laredo where wages slid for the 15\(^{th}\) straight month, down 6.7 percent YTD. Distributional shifts from the goods-producing to service-providing sector contributed to depressed wages.

The **peso per dollar exchange rate**\(^2\) ticked down below 17.80 per dollar for the first time since April 2016. The peso weakened during the closing months of 2016 amid political concerns and rising US interest rates. The value of the peso bounced back in 2017, appreciating 16.8 percent since January. The total value of border trade activity increased 0.7 percent as both import and export activity expanded. Laredo realized most of the gains, pushing import and export values up 2.0 and 1.9 percent, respectively.

**Housing**

Similar to statewide housing sales, **border sales** declined 3.1 percent, contracting in every metro. Much of the fallback occurred for homes priced less than $100,000, but small declines spread throughout the price cohorts. The McAllen sales boom slowed as sales fell 6.5 percent but the overall trend remained positive. After three monthly increases, Brownsville sales dipped 2.9 percent, pulling YTD growth below zero. The Laredo market fared worse, diving 9.0 percent relative to last year. The El Paso market, which accounts for over half of border housing sales, fell marginally but maintained solid YOY growth at 7.8 percent.

Total border **single-family residential housing construction permits** declined 1.8 percent but maintained positive YTD growth. Permits fell 3.6 and 2.4 percent in Brownsville and Laredo, respectively, in response to recent increases in the number of new homes listed. El Paso permits ticked down for the second consecutive month but sustained 17.5 percent growth.

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\(^2\) Official numbers are reported instead of a 3-month moving-average for consistency.
YTD growth. In McAllen, permits trended downward as the new home market remained saturated.

Border construction values for private single-family homes rose 0.6 percent, driven completely by a 6.1 percent increase in McAllen. In Brownsville, construction values declined 7.6 percent, reflecting a slowdown in residential building activity there. In Laredo and El Paso, construction values fell to more typical levels after spiking in May.

The months of inventory (MOI) varied along the border but remained constricted in the lower price cohorts. The supply of listings for homes under $100,000 fell to 4.5 and 4.0 months in Brownsville and Laredo, respectively, while dropping to 3.5 months in El Paso. In McAllen, homes under $100,000, as well as those priced between $100,000-$200,000, settled at 6.5 months, well above the other border metros.

The excess supply of new homes increased as the new home months of inventory elevated across the border. The MOI in El Paso rose to a series high 7.3 months, while spiking to 13.0 months in McAllen. The supply of new listings in Brownsville increased to 8.3 months, posting positive growth for the fourth consecutive month. The Laredo MOI exceeded 4.2 months, up 23.9 percent from May, but may stall amid falling permits and construction values.

Laredo inventories also increased in the resale market where the existing home MOI rose to a five-year high of 5.9 months. El Paso’s steep decline in resale MOI eased for the first time since 2014, settling at 4.8 months, but was 15.8 percent lower relative to last August. As in the new home market, the supply of resale listings trended upward in McAllen at 8.7 months but at a slower pace. In Brownsville, new and existing inventories continued to diverge as the resale MOI fell to a series low 7.8 months.

In general, housing demand increased on the border as the average number of days on market (DOM) fell for homes priced between $100,000-$200,000 (the largest price cohort) in every metro except Brownsville. Demand in Brownsville wavered as the DOM persisted above 109 days for every price cohort.

The resale inventory decline in Brownsville coincided with softening demand as the resale DOM rose 5.1 percent to 121 days. The DOM settled at 88 days in El Paso and McAllen while falling to a series-low 53 days in Laredo, just one day above the Texas average.

In contrast, the Laredo new home DOM doubled relative to last year, reaching 95 days. Despite rising residential construction activity in El Paso, new home demand remained soft at an average DOM of 121 days. In McAllen, the new home DOM ticked up to 83 days after
reaching a cycle-low of 77 days in April. Brownsville demand intensified, particularly for homes priced over $200,000, driving the DOM down 20.7 percent to 73 days.

The **median home price** was most stable in El Paso, hovering around $171,877 and $132,948 for new and existing homes, respectively. Despite market fluctuations, the median price for resale homes in Brownsville ($123,783), Laredo ($167,456), and McAllen ($135,764) increased steadily between 1.1 and 1.6 percent YTD. New home prices were much more volatile. The median new home price in McAllen rose to $168,261, up 11.2 percent YTD, after sales boomed from strong employment growth earlier this year. In the Laredo new home market, the combination of increased supply and softer demand pulled the median down 24.3 percent YTD to $161,148.
Economic Activity

**Gross Metropolitan Product**
(Year-over-Year Percent Change)

Note: Seasonally adjusted annual rate.
Source: Bureau of Economic Analysis

**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
Note: Real values are seasonally adjusted and detrended.
Source: Dodge Analytics
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. August 2017 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics
Note: Seasonally adjusted and detrended.

Source: Instituto Nacional de Estadística y Geografía

Note: Seasonally adjusted. August 2017 is preliminary. For more information, see Unemployment Rate.
Sources: Bureau of Labor Statistics and Real Estate Center at Texas A&M University
Notes: Inflation adjusted, seasonally adjusted and detrended. July 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
Total Import and Export Value
(Index Jan 2007 = 100)

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)

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*

- Brownsville
- El Paso
- Laredo
- McAllen

Note: Inflation adjusted. Seasonally adjusted and detrended.
Source: Dodge Analytics
New Home Months of Inventory
(Months)

Existing Home Months of Inventory
(Months)

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

El Paso Months of Inventory by Price Cohort

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

McAllen Months of Inventory by Price Cohort (Months)

Note: Seasonally adjusted and detrended.
Source: Real Estate Center at Texas A&M University
New Home Days on Market
(Days)

Existing Home Days on Market
(Days)

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

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

Existing Home Median Sales Price

Note: Seasonally adjusted and detrended. For single-family homes.
Source: Real Estate Center at Texas A&M University
New Home Median Price Per Square Foot

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

Existing Home Median Price Per Square Foot

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