Contents

About this Report ................................................................................................................................. 2

September 2017 Border Summary ...................................................................................................... 3

  Business Cycle Index ......................................................................................................................... 7
  Total Construction Values .................................................................................................................. 7
  Residential Construction Values ...................................................................................................... 8
  Nonresidential Construction Values .................................................................................................. 8
  Employment Growth Rate .................................................................................................................. 9
  Mexico Maquiladora and Manufacturing Employment ................................................................. 9
  Unemployment Rate .......................................................................................................................... 10
  Total Private Employee Hourly Earnings ....................................................................................... 10
  Real Peso per Dollar Exchange Rate .............................................................................................. 11
  Total Import and Export Value ......................................................................................................... 11

Housing ............................................................................................................................................... 12

  Housing Sales .................................................................................................................................. 12
  Single-Family Housing Construction Permits .................................................................................... 12
  Total New Private Single-Family Construction Value ..................................................................... 13
  New Home Months of Inventory ....................................................................................................... 13
  Existing Home Months of Inventory .................................................................................................. 14
  Brownsville Months of Inventory by Price Cohort ......................................................................... 14
  El Paso Months of Inventory by Price Cohort .................................................................................. 15
  Laredo Months of Inventory by Price Cohort ................................................................................... 15
  McAllen Months of Inventory by Price Cohort ............................................................................... 16
  New Home Days on Market .............................................................................................................. 16
  Existing Home Days on Market ......................................................................................................... 17
  New Home Median Sales Price ......................................................................................................... 17
  Existing Home Median Sales Price ................................................................................................... 18
  New Home Median Price Per Square Foot ...................................................................................... 18
  Existing Home Median Price Per Square Foot ................................................................................ 19
  Real Estate Center Border Housing Affordability Index ................................................................. 19
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.

Dr. James Gaines, Dr. Luis Torres, Wesley Miller, and Bailey Cuadra

Data current as of November 5, 2017

© 2017, Real Estate Center. All rights reserved.
September 2017 Border Summary

Tightening labor markets offset construction activity and trade values, supporting the current level of economic growth along the Texas-Mexico border. The unemployment rate hit cycle-lows but was unable to stimulate wage growth. Housing sales were flat amid shortages for homes priced under $100,000. Mexico’s lackluster performance in the third quarter restricted export growth and trade-related industries. NAFTA renegotiations, a slowing Mexican economy, and immigration reform uncertainty present the largest headwinds to the border economies.

Economy

Economic activity was stable along the border as falling unemployment rates supported positive growth in the border Business Cycle Indices. Laredo posted the strongest growth at an annualized 7.8 percent quarter over quarter (QOQ) after contracting in 1Q17. The El Paso index held steady above 3 percent for the fourth straight month. Data revisions indicated moderate growth in Brownsville, retracting August’s 4.2 percent increase to 1.6 percent. In September, economic activity inched forward 1.8 percent, its largest increase since November 2016. Revised August data also revealed a 12.7 percent increase in the McAllen index before it slowed to 5.2 percent this month.

Total border construction values fell 13.1 percent amid declines in both residential and nonresidential construction activity. Declines in school building construction in Brownsville, Laredo, and El Paso accounted for most of the nonresidential slump. Residential construction ticked down 10.6 percent as single-family building slowed across the border. On a positive note, downtown development in El Paso spurred hotel construction activity and should continue into next year with the groundbreaking of the new Marriott Urban Courtyard Hotel.

Border employment returned to positive growth, adding 1,000 jobs¹, holding annualized employment growth steady at 2.0 percent. Gains in professional and business services, as well as leisure and hospitality, pushed El Paso ahead of the other border metros at 2.7 percent annualized growth. Steady growth in those same industries boosted Brownsville employment growth to 1.9 percent annualized, the highest since January. In Laredo and McAllen, declines in education and health services pulled the annualized growth rates under 1 percent and 2 percent, respectively. In addition, Mexican manufacturing and maquiladora employment added more than 2,300 jobs, supporting the general health of the border region’s labor market.

¹ Monthly numbers are reported instead of a three-month moving-average for consistency.
Unemployment rates along the border remained on a six-month downward trend. The Laredo unemployment rate fell under 4 percent for the first time in series history (starting in 1990), while El Paso tied its record low at 4.3 percent. In Brownsville and McAllen, the unemployment rate fell to 6.7 and 7.3 percent, respectively, reaching pre-recessionary levels.

Despite tightening labor markets, depressed wages persisted in the border economies. Real private hourly earnings slid for the 16th straight month in Laredo, down 6.7 percent on the year. In El Paso, wages ticked down relative to last year amid a four-month stagnation. The opposite occurred in Brownsville, where increased economic activity stabilized wages after bottoming out in May. McAllen wage growth lagged in the third quarter but maintained 4.3 percent YTD growth.

The peso per dollar exchange rate hovered around 17.83 per dollar, down 13.0 percent YTD, amid stark declines in the Texas trade weighted-value of the dollar. However, after accounting for price differentials between the U.S. and Mexico, the real exchange rate revealed a more moderate 3.1 percent YTD decline. Slow economic growth in Mexico dragged the total value of border trade activity down 1.0 percent. El Paso export struggles continued, falling 8.7 percent YTD, while import values contracted 1.3 percent across the Texas-Mexico border.

Housing

Border housing sales declined 1.9 percent, contracting in every metro except El Paso. Much of the fallback occurred for homes priced in the bottom cohort (less than $100,000). Sales in this cohort hit YTD lows in Brownsville and Laredo, pulling total sales down 3.8 and 1.9 percent, respectively. The McAllen sales boom slowed for the second month as sales fell 3.8 percent. The El Paso market, which accounts for over half of border housing sales, increased marginally and maintained solid year-over-year (Y0Y) growth at 6.7 percent.

Total border single-family residential housing construction permits declined 0.9 percent but maintained positive YTD growth. Despite increased housing demand, permits fell 5.0 and 1.1 percent in El Paso and McAllen, respectively. In response to rising inventory levels, Laredo permits dropped 3.1 percent, down nearly 8 percent YOY. However, surpluses for homes priced over $100,000 did not deter building activity in Brownsville as permits rose 8.0 percent.

Decreased building permits suppressed border construction values 8.4 percent for private single-family homes. El Paso and McAllen posted the largest declines at 16.2 and 8.8

---

2 Official numbers are reported instead of a three-month moving-average for consistency.
percent, respectively. Construction values fell 1.0 percent in Brownsville, a stark improvement from last month’s 7.4 percent contraction. Laredo 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 bottom price cohort. The supply of listings for homes less than $100,000 hovered at 4.5 and 3.5 months in Brownsville and El Paso, respectively, while dropping to 3.1 months in Laredo. 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 metros.

New home inventories displayed similar variation but persisted on an upward trend. The new home months of inventory in El Paso rose to a series high 7.4 months, while balancing just under 13 months in McAllen. The Laredo MOI exceeded 4.3 months, up 32.5 percent from May, but could stall amid falling permits and construction values. The supply of new listings in Brownsville ticked to less than eight months after posting positive growth for four consecutive months. Inventories could increase if momentum continues in the number of permits issued.

Resale supply movements were mixed across the border, but inventories remained generally lower than for new homes. Inventory surpluses persisted in McAllen where the existing home months of inventory reached 8.7 months. Reduced residential construction activity pulled the Laredo MOI for existing homes down to 5.4 months. The number of resale listings in Brownsville held steady at 7.7 months, while sinking to a record low 4.8 months in El Paso.

In general, housing demand strengthened as the average number of days on market (DOM) declined across the border communities. Laredo homes sold the fastest, averaging just over two months on the market, while El Paso homes averaged 96 days. Increased demand for homes in the largest price cohort ($300,000 and more) kept the McAllen DOM under 89 days. Similarly, Brownsville demand strengthened in the upper price cohort but was relatively soft elsewhere.

Brownsville demand lagged the rest of the border with the existing home DOM at 113 days, while settling just under three months in El Paso and McAllen, respectively. The average new and existing homes sold fastest in Laredo at 46 and 57 days, respectively, despite rising inventory levels. Laredo’s drop in new home DOM marked a trend reversal from a 33-day increase between January and June this year. New home demand intensified in Brownsville demand for the fourth straight month, pulling the DOM down to 72 days. The new home DOM also fell in El Paso and McAllen, settling at 117 and 81 days, respectively.
The **median home price for existing homes** was stable across the border. Laredo homes sold at a premium with the median inching up to $168,500 amid strong demand. The median increased 2.6 percent in McAllen to $139,077 and flattened in El Paso at $133,390. The resale median price in Brownsville hovered around $120,500 but could increase as demand shifted to the upper price cohort.

Brownsville observed *new home* price depreciation as the median price settled at $158,930, down 3.6 percent YTD. The El Paso median surpassed Laredo for the first time in over a year, reaching $174,088. In Laredo, increased inventories pulled the median down to $170,636, a $44,000 decline from its cycle-high in December 2016. However, the recent spark in new home DOM could spur home price appreciation. The median new home price in McAllen rose to $172,910, up 14.6 percent YTD, after sales boomed from strong employment growth earlier this year.

Overall, 3Q17 housing affordability concerns, measured by the [Texas Housing Affordability Index](https://www.researchgate.net/publication/326420667_Texas_Housing_Affordability_Index), increased across the border metros. In Laredo, depressed wages overpowered home price depreciation, dragging down the index to 1.41. The quarterly reading indicated that a family earning the median income could afford a home more than 1.4 times the median sale price. Slow wage growth and rapid price appreciation pulled the McAllen index down to 1.52 after making solid improvements in the second quarter. Despite a slight decline, housing affordability remained the healthiest in El Paso at 1.62, maintaining a higher level than Austin, Dallas, and San Antonio. Economic growth in Brownsville improved affordability, pushing the index above the state level to 1.60.
Economic Activity

Business Cycle Index
(Quarter-over-Quarter Percent Change)

-20.0 -15.0 -10.0 -5.0 0.0 5.0 10.0 15.0 20.0
Jan-07 Jul-07 Jan-08 Jul-08 Jan-09 Jul-09 Jan-10 Jul-10 Jan-11 Jul-11 Jan-12 Jul-12 Jan-13 Jul-13 Jan-14 Jul-14 Jan-15 Jul-15 Jan-16 Jul-16 Jan-17 Jul-17

Brownsville El Paso Laredo McAllen

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

Total Construction Values
(Index Jan 2008=100)

230 210 190 170 150 130 110 90 70 50 30

Brownsville El Paso Laredo McAllen

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

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
Note: Seasonally adjusted, 3-month moving average. September 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. September 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. September 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.
Sources: Foreign Trade Division and U.S. Census Bureau
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)

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)

New Home Months of Inventory
(Months)

Note: Inflation adjusted. Seasonally adjusted and detrended.
Source: Dodge Analytics

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
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)

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

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
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. The Texas Housing Affordability Index (HAI) reflects the relationship between the current median family income in a locale and the computed amount required to purchase a median priced home.
Source: Real Estate Center at Texas A&M University