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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 monthly 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.

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June 2019

Overall economic conditions in Texas’ border communities revealed dampened growth. Unemployment remained low and hourly earnings increased, but payroll expansions tapered while average weekly hours declined except in Laredo. Total construction values and permits plateaued as housing sales dipped, although monthly business day fluctuations may account for some of the decrease. Trade values remained suppressed amid threats of tariffs; however, the quick resolution paired with the ratification of the U.S.-Mexico-Canada Agreement (USMCA) by the Mexican Senate could boost values. A slowing global economy, immigration reform, and increased supply-chain disruptions from U.S.-China trade tensions are headwinds to the border economies.

Economy

Economic activity moderated along the border but remained above post-recessionary averages as indicated by the Dallas Fed’s Business-Cycle Indices. Monthly slowdowns in Brownsville and El Paso employment growth pulled local indices to 2.6 and 2.0 percent, respectively, on a seasonally adjusted annualized rate (SAAR). The McAllen metric decelerated to 1.9 percent growth after reaching double-digits in April as hiring slowed in the second quarter. Laredo was the exception, increasing 5.1 percent amid an upturn in real wages.

Total construction values corrected downward after spiking in May. Nonresidential activity took a step back as school-building construction in El Paso cooled and hospital investment normalized in Brownsville. On the bright side, office and hospital projects broke ground in McAllen. A drawback in El Paso apartment construction explained subdued residential values.

Nonfarm employment added 4,500 jobs during the second quarter, stabilizing at 2.4 percent SAAR. McAllen, the fastest-growing border metro by population, accounted for more than half of the border’s payroll growth for the second straight quarter as hiring accelerated in many service-providing industries. The metro’s education/health services sector, however, moderated recruitment following first-quarter upward corrections for year-end losses. Brownsville payrolls increased 1.6 percent as leisure/hospitality gains offset contractions in goods-producing industries, adding 600 jobs during the second quarter. Employment growth in El Paso and Laredo slowed to 1.4 and 2.2 percent SAAR, respectively. In both metros, retail trade largely contributed to the overall deceleration. The El Paso shooting in August may have ripple effects that negatively impact retail activity, and thus, employment, in the upcoming months.
After shedding 1,900 jobs in April, Mexican manufacturing and maquiladora employment\textsuperscript{1} stagnated, creating only 400 positions. U.S. industrial production recovered from April’s decline; however, manufacturing activity remained suppressed in May. In Juarez and Nuevo Laredo, continued reductions in maquiladora employment resulted in 0.8 and 0.3 percent year-to-date (YTD) declines. Reynosa employment registered 450 new jobs but stayed in negative YTD territory. On the other hand, Matamoros and Chihuahua posted record highs after adding 550 and 1,460 jobs, respectively.

Border unemployment rates slid throughout the second quarter after little movement during the first three months of the year. Joblessness in McAllen and Brownsville dropped to 5.9 and 5.4 percent, respectively. In El Paso, unemployment fell to 3.8 percent. The unemployment rate in Laredo registered below the nationwide average (3.7 percent) for the first since January, ticking down to 3.6 percent.

For the first time in over eight years, all four border metros recorded year-over-year (YOY) improvement in real private hourly earnings. Inflation-adjusted wages in McAllen and El Paso climbed 4.1 and 1.6 percent YOY, respectively. Still recovering from a four-year decline between 2013 and 2017, real earnings in Brownsville registered a double-digit increase for the third consecutive month. Laredo broke a 30-month streak of falling wages with 4.3 percent YOY growth after adjusting for inflation.

In the currency market, the peso per dollar exchange rate inched up for the second consecutive month to 19.27, making domestic goods more expensive to Mexican buyers. The inflation-adjusted rate\textsuperscript{2}, however, has trended downward since December. Total trade values passing through the border metros registered below $30 billion for the first time in a year and a half. Despite June improvements in manufacturing production, machinery and vehicular trade declined in Laredo and El Paso, the top trading hubs along the Texas border. The suspension of U.S. tariffs on Mexican imports and the ratification of the USMCA by the Mexican legislature should relax uncertainty along the southern border moving forward.

Housing

Border housing sales fell 14.4 percent, although the fact that June registered one less Friday than May likely pulled sales down to some degree. Fridays are the busiest day of the week for closing agents, followed by Mondays. Positive momentum in year-to-year comparisons (e.g., sum of 2019 sales YTD versus sum of January-June 2018 sales), however, is slowing. Sales for homes in all price cohorts fell along the border, most notably in El Paso, where the first half of 2019 registered 18 fewer sales than the first half of 2018 (nonseasonally adjusted). Activity in Brownsville for homes priced $200,000-$300,000 registered negative YTD, but total sales in the Rio Grande Valley trended

\textsuperscript{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.

\textsuperscript{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.
upward. Laredo was the exception where transactions for homes priced less than $200,000 surged amid increased wages.

On the supply side, the border metros issued a total of 635 single-family housing construction permits, increasing 3.4 percent quarter-over-quarter (QOQ). Improvement was due to second-quarter activity in McAllen rebounding after falling for six straight months. Permit issuance in Brownsville flattened while Laredo and El Paso permits sank beneath 2018 averages. Private single-family construction values trended downward along the border except in Brownsville where values moderated after sliding the second half of last year.

Movement in the months of inventory (MOI) of homes for sale varied along the border. Laredo and El Paso inventories inched up to 4.7 and 3.6 months, respectively. Laredo’s half-month increase was mostly due to a growing number of listings, whereas the West Texas metro’s uptick stemmed from slowing sales. On the other hand, steady sales in the Rio Grande Valley chipped away at stagnant listings, bringing Brownsville and McAllen’s MOI down to 7.3 and 7.8 months, respectively.

The average number of days on market (DOM) remained unchanged from year-ago levels in Laredo and McAllen at 56 and 90 days, respectively. June marks the third consecutive month that Laredo’s DOM registered less than the statewide measure. Homes in Brownsville averaged 106 days on the market, selling more than three weeks faster than they did this time last year. The El Paso metric reached a post-recessionary low at 73 days.

Slowing sales relaxed upward pressure on median home prices. El Paso’s median price dropped to $159,900 while McAllen’s metric stabilized at $156,700. Laredo’s median price dropped $18,200 to a YTD low of $160,100. The Brownsville price increased $3,100 but remained the lowest median price along the border at $149,800. The metro recorded an all-time high of $158,100 in 4Q2018. Since then, the surge of sales transactions for homes priced at more than $300,000 has subsided, returning to more normal levels.
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: Inflation-adjusted Trend-cycle component.
Source: Dodge Analytics
Note: Inflation-adjusted Trend-cycle component.
Source: Dodge Analytics
Employment Growth Rate
(Quarter-over-Quarter Annualized Percent Change)

Note: Seasonally adjusted, three-month moving average. June 2019 is preliminary.
For more information, see Employment Growth Rate.
Source: Bureau of Labor Statistics

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

Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía
Note: Seasonally adjusted. June 2019 is preliminary. For more information, see Unemployment Rate.
Source: Bureau of Labor Statistics

Notes: Inflation adjusted. June 2019 is preliminary. For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics

Unemployment Rate
(Percent)

Brownsville
El Paso
Laredo
McAllen

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

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

Brownsville Months of Inventory by Price Cohort

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