TEXAS BORDER ECONOMY

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About this Report

October 2019 Border Summary

Economic Activity

- Business Cycle Index
- Employment Growth Rate
- U.S. Manufacturing Production
- Mexico Maquiladora and Manufacturing Employment
- Unemployment Rate
- Total Private Employee Hourly Earnings
- Total Construction Values
- Nonresidential Construction Values
- Residential Construction Values
- Retail Sales
- Real Peso per Dollar Exchange Rate
- Import Values
- Export Values

Housing

- Housing Sales
- Single-Family Housing Construction Permits
- Total New Private Single-Family Construction Value
- New Home Months of Inventory
- Existing Home Months of Inventory
- Laredo Months of Inventory by Price Cohort
- El Paso Months of Inventory by Price Cohort
- McAllen Months of Inventory by Price Cohort
- Brownsville Months of Inventory by Price Cohort
- New Home Days on Market
- Existing Home Days on Market
- New Home Median Sales Price
- Existing Home Median Sales Price
- New Home Median Price Per Square Foot
- Existing Home Median Price Per Square Foot

Texas A&M University
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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 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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Data current as of December 5, 2019

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Lackluster employment growth hindered Texas’ border economies. Average wages improved amid low unemployment, but housing affordability waned as the median home price outpaced income growth. Housing sales fell 0.7 percent in October despite low mortgage rates, although falling average days on market indicate healthy demand. Maquiladora employment decreased during the third quarter as manufacturing activity slowed, weighing on the Mexican economy, and, consequently, the border communities’ retail sectors. Total trade values remained subdued despite a stronger peso. Congress took a step toward approving the United States-Mexico-Canada Agreement, although there are some concerns regarding its regulatory mandates hurting the U.S. automobile industry and curtailing trade. The slowing global economy and political gridlock regarding immigration reform present the largest headwinds to the border metros.

Economy

Economic activity along the border remained modest according to the Dallas Fed’s Business-Cycle Indices. Payroll expansions in El Paso and McAllen pushed their indices up 1.8 and 1.7 percent, respectively, on a seasonally adjusted annualized rate (SAAR). Brownsville’s metric decelerated to modest growth of 0.4 percent as employment contracted and the retail sector struggled. In Laredo, the index fell 2.5 percent amid labor market woes.

Border nonfarm employment added 2,200 jobs, accelerating 1.6 percent SAAR. McAllen and El Paso each added 1,200 jobs. In McAllen, the education/health services sector gained more than 900 jobs, increasing 8.4 percent year to date (YTD) during DHR Health expansions. On the other hand, the metro’s goods-producing sector contracted 4.2 percent YTD. El Paso’s professional/business services payrolls increased for the third straight month, pushing the industry’s YTD growth into positive territory. Although Laredo created 200 new positions largely because of hiring in the education/health services and transportation/utilities sectors, employment growth remained sluggish at 0.9 percent SAAR. Brownsville shed 400 jobs primarily because of losses in education/health services. Retail trade was the largest sector-level detractor, decreasing for the fifth time in six months.
During declining U.S. manufacturing activity, quarterly Mexican **manufacturing and maquiladora employment**\(^1\) fell for the first time since 4Q2017, shedding nearly 9,700 jobs. The General Motors strike likely had a sizeable effect by slowing down automotive supply chain activity. Juarez and Chihuahua were the main contributors to the decrease, laying off 3,300 and 2,800 employees, respectively. Reynosa employment contracted by 1,500 jobs during the third quarter for flat YTD growth. Nuevo Laredo added 200 positions but remained 2.1 percent below 2018 year-end levels. On the bright side, although Matamoros employment declined by 700, YTD growth remained strong at 7.7 percent. Maquiladora employment, however, will likely continue to fall in the fourth quarter as U.S. manufacturing production fell to an annual low in October.

**Unemployment rates** along the border hovered around historically low levels. Joblessness in Brownsville and El Paso was 5.3 and 3.7 percent, respectively. Laredo’s unemployment rate matched the national average at 3.6 percent. Unemployment in McAllen ticked up to 6 percent but remained relatively low.

**Average real private hourly earnings** improved across the board. In the Rio Grande Valley, wages accelerated 7.9 and 4.9 percent year over year (YOY) in Brownsville and McAllen, respectively, after adjusting for inflation. After stumbling the previous month, El Paso’s inflation-adjusted wages increased 1.8 percent YOY. Laredo’s real hourly pay increased YOY for the second straight month but has made meager progress in recovering from the two-year slide ending in April.

**Total construction values** decreased for the second straight month but remained 6.1 percent above January through October levels of last year. School-building construction trended down in Laredo, but slowing investment in El Paso especially weighed on border nonresidential values. Residential activity decelerated during a pause in El Paso’s apartment sector; Rio Grande Valley values, however, trended upward as two-family building construction posted YTD highs. Brownsville’s single family construction values accelerated after a slump the previous month, while McAllen’s apartment sector outpaced 2018 levels for the first time this year.

First quarter retail sales dropped along the border amid peso depreciation in 4Q2018 continuing into the new year. A considerable percentage of Texas’ border retail sales are bought by Mexican residents. After tepid growth the previous quarter, Brownsville and Laredo retail sales fell 1.6 and 1.0 percent YOY, respectively, after adjusting for inflation. In El Paso, inflation-adjusted sales decreased 1 percent YOY after a solid year of growth, while McAllen’s sales declined 1.7 percent YOY following three straight quarterly increases. The data corroborates slower retail hiring, particularly in El Paso and Laredo.

In the currency market, the **peso per dollar exchange rate** slid for the second straight month to 19.32, corresponding to a dip in the inflation-adjusted rate\(^2\), making domestic goods less expensive

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\(^1\) 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.

\(^2\) 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.
to Mexican buyers. Despite the stronger peso, total trade values passing through the border fell 2.8 percent. Electric machinery shipments fell in El Paso and McAllen, but total exports maintained positive YTD growth of 13.3 and 5.9 percent, respectively. The same commodity weighed on Laredo’s total values, which fell 3.6 percent YTD, while Brownsville values inched down 1.4 percent YTD. Recent developments in the ratification of the United States-Mexico-Canada Agreement may assuage trade uncertainty, but the trade pact likely won’t be approved until 2020.

**Housing**

**Border housing sales** decreased for the fifth time in six months amid moderate economic conditions; the decline, however, showed signs of slowing. McAllen sales volumes flattened for the second straight month but maintained a slight upward trend. Activity in Brownsville’s $100,000-$200,000 price cohort was sluggish following a pickup in September, offsetting a small increase at both ends of the price spectrum. El Paso transactions decreased 2.5 percent, although sales for homes priced $100,000 to $200,000 gained momentum after a summer slowdown. Sales in Laredo normalized after elevated activity to start the year.

On the supply side, **single-family housing construction permits** took a step back but maintained a 9.4 percent increase in YTD levels compared with the same period last year. El Paso and Laredo activity decelerated after third-quarter increases, but El Paso permits remained elevated above the year-long average. Permit issuance trended downward in the Rio Grande Valley, with McAllen activity stabilizing after a rapid clip in the first half of the year. **Private single-family construction values** tracked permits, except for in McAllen, where values continued a strong trend upward.

**Months of inventory (MOI)** of homes for sale varied along the border. The declining supply of active listings in the Rio Grande Valley pushed inventory down to all-time lows of 6.7 and 7.1 months in Brownsville and McAllen, respectively. On the other hand, steady increases of active listings in Laredo nudged the metric up to its highest level since 2011 at 6.7 months. El Paso’s MOI flattened at 3.5 months after sliding for more than a year during an uptick in active listings.

Demand was healthy according to the **average number of days on market (DOM)**. All the border metros except for McAllen registered DOMs below year-ago levels. El Paso’s metric recorded the steepest decline, decreasing from 95 to 59 days. The average home in Laredo sold a week faster with a DOM of 52 days. Brownsville’s DOM inched down to 110 days but showed signs of upward pressure. Although the metric in McAllen posted 87 days compared to 80 days a year ago, the trend extended a year-long slide.

Amid diverging employment trends in the Rio Grande Valley, the gap between the Brownsville and McAllen **median home price** reached a two-year record, with the metric posting $145,800 and $158,400 in Brownsville and McAllen, respectively. As El Paso’s home inventory expanded, albeit by a modest amount, the median price calmed after six straight increases, falling $2,000 to $162,900. Laredo’s metric rose to $178,500 but was $5,500 below the all-time high reached in the first quarter when sales volumes peaked. Although wages are rising at a steady pace, median home
prices along the border are climbing faster still. Affordability has decreased steadily in recent years, becoming more and more of a challenge to the border housing market.
Note: Seasonally adjusted. For more information, see Texas Business Cycle Index.
Source: Federal Reserve Bank of Dallas

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

**Employment Growth Rate**
(Quarter-over-Quarter Annualized Percent Change)

Note: Seasonally adjusted, three-month moving average. October 2019 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
Note: Seasonally adjusted. October 2019 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 2019 is preliminary.
For more information, see Total Private Employee Hourly Earnings.
Source: Bureau of Labor Statistics
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

Retail Sales
(Year-over-Year Percent Change)

Note: Seasonally adjusted and inflation adjusted.
Source: Retail Sales from Texas Comptroller of Public Accounts

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

Housing Sales
(Index Jan 2007 = 100)

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
Note: Trend-cycle component.
Source: Real Estate Center at Texas A&M University
El Paso Months of Inventory by Price Cohort
(Months)

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