

TEXAS BORDER ECONOMY



TEXAS A&M UNIVERSITY

Texas Real Estate Research Center



LUIS B. TORRES RESEARCH ECONOMIST

WESLEY MILLER RESEARCH ASSOCIATE

PAIGE SILVA RESEARCH ASSOCIATE

JACOB STRAUS RESEARCH INTERN



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MARCH 2021 DATA

TECHNICAL REPORT

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About this Report

Texas Real Estate Research 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.

Dr. Luis B. Torres, Wesley Miller, Paige Silva, and Jacob Straus

Data current as of May 20, 2021

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Border Summary

BORDER POPULATION
▲ 0.6% ANNUALLY

EMPLOYMENT
▲ 1.3% SAAR

TOTAL TRADE VALUES
▲ 5.1% QOQ

HOUSING SALES
▼ -3.0% QOQ

March 2021

Economic indicators along the Texas-Mexico border were mixed in the first three months of 2021 with weather-related disruptions in February offsetting downward-trending COVID-19 cases that spiked after the holidays. Payrolls expanded on a quarterly basis except in McAllen, although an unexpected surge in weekly initial unemployment claims suggests hiring may slow at the start of the second quarter. Construction activity decreased, and the manufacturing sector remained hampered by the pandemic, but trade values elevated. Housing sales also declined on a quarterly basis, but the average days on market corroborated healthy demand amid steady population growth and despite increased mortgage interest rates. Depleted supply and accelerating home prices threaten housing affordability in an environment of low wage improvement and are the major headwinds to the region's housing market.

Economy

The economic recovery resumed in March after Winter Storm Uri shocked activity the previous month as indicated by the **Dallas Fed's Business-Cycle Indexes**. The metric in Laredo and Brownsville accelerated 5.1 and 3.3 percent, respectively, on a seasonally adjusted annualized rate (SAAR) amid solid payroll expansions. Meanwhile, El Paso's index increased 4.4 percent as vaccination rates, which appear to be correlated to consumer confidence and business activity, exceeded the state average. McAllen was the exception as labor-market woes pulled the index down 2.4 percent. The U.S.' ban on nonessential travel, which prohibits Mexican tourists from entering the U.S., may also be restricting leisure/hospitality employment and retail sales, a component of the business-cycle indexes. These measures have been extended through June 21, 2021. Pedestrian and personal vehicle crossings from Mexico registered double-digit monthly growth in March, but pedestrian travel remained more than 40 percent below year-ago levels, whereas the latter was down only 7 percent over the same period (Figures 1 and 2).

Recently released 2020 data revealed population growth along the border rose for the second straight year to 0.6 percent. The rate of increase, however, has been less than half of the state average (1.3 percent in 2020) since 2012. Prior to that year, the lowest annual growth rate occurred in 1988 at 1.5 percent in response to the struggling Mexican economy. The current bout of sluggish growth stems primarily from negative net domestic migration, a phenomenon stretching throughout the border region as economic opportunities expanded in larger Texas cities.

The Trump administration's relatively strict immigration policies weighed on international immigration, but the current presidential administration is likely to adopt a less stringent stance.

Nonfarm employment added just 2,700 jobs in the last three months, resulting in SAAR growth decelerating to 1.3 percent in March. Laredo led the border with employment increasing by 1,500 workers amid widespread hiring across the service-providing sector. Brownsville and El Paso recovered a net 800 and 500 positions, respectively, but McAllen laid off 100 employees during the first quarter. Contractions were mainly concentrated in local government across all four metros.

On the southern side of the border, **Mexican manufacturing and maquiladora employment**¹ increased for the eighth consecutive month in February, hiring 2,000 workers. Reynosa and Chihuahua employment accelerated 3.0 and 2.3 percent year to date (YTD), respectively, after adding 3,800 workers in the former and 800 in the latter. On the other hand, maquiladora employment flattened around year-end levels in Matamoros, Juarez, and Nuevo Laredo. U.S. manufacturing production picked up in March after weather-related disruptions in activity the previous month, but first-quarter output flattened relative to 4Q2020 levels. The IHS Markit Mexico Manufacturing Purchasing Managers' Index remained in contraction territory, albeit at a less extreme rate, as the manufacturing sector was hampered by ongoing COVID-19 uncertainty and related business restrictions. The pandemic and the federal government's response to the virus remain significant factors concerning the country's growth, where Texas' border economies have strong ties.

Hiring in the Rio Grande Valley pulled **unemployment rates** down to 10.5 and 11.7 percent in Brownsville and McAllen, respectively, offsetting an expansion in the latter's local labor force. El Paso's metric flattened at 8.1 percent, but Laredo unemployment ticked up to 8.0 percent as more residents entered the labor force in March, although the total number of labor force participants remained smaller than it was a year ago. Weekly initial unemployment claims, however, increased unexpectedly during the month despite the number of new COVID-19 cases stabilizing, resembling the statewide trend (Figure 3).

Annual fluctuations in **average private hourly earnings** revealed lackluster wage growth along the border. Some of the downward pricing pressure may be due to the recovery of lower-paying jobs that bore the brunt of the layoffs last spring, pulling the average wage down. McAllen hourly wages fell 8.3 percent year over year (YOY) in real terms to \$18.24 during March, marking the seventh straight annual decline. Earnings in Laredo (\$17.64) and El Paso (\$19.05) also trended downward, decreasing 3.7 and 1.4 percent on average, respectively. Only Brownsville's metric stabilized on an annual basis to \$16.78.

Building activity across the border metros slowed to year-long averages as **total construction values** dropped 31.7 percent quarter over quarter (QOQ). Nonresidential construction accounted for most of the quarterly decline as reduced El Paso school values and McAllen hospital

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.

construction offset El Paso's Main Library Renovation Project. On the residential side, apartment values fell in El Paso and single-family values decreased in Laredo, while both sectors registered contractions in McAllen. Only duplex construction increased over the past three months, mainly in McAllen.

In the currency market, the **peso per dollar exchange rate** ticked up for the second straight month to 20.75 after the inflation-adjusted rate² accelerated 8 percent YOY, revealing that domestic goods were relatively costly to Mexican buyers. Despite unfavorable currency fluctuations affecting exports to Mexico, first-quarter **total trade values** passing through the border hubs rose 5.1 percent QOQ after a slow start to the year. Exports improved over the past three months in all four border ports, but Brownsville machinery-related and Laredo vehicular-related imports contracted, offsetting a modest quarterly increase in McAllen. Total trade values recovered to pre-pandemic levels except in El Paso, where activity remained down by half amid ongoing disruptions to global supply chains. The border's trade sector remains an integral component of the local economies.

Housing

Border housing sales inched down in March, resulting in a 3 percent QOQ drop amid the weather-related disruption in February and increased mortgage rates. Activity in the Rio Grande Valley picked up on a monthly basis but fell 7.0 and 4.4 percent QOQ in McAllen and Brownsville, respectively, mostly due to reduced transactions priced between \$100,000 and \$300,000. In El Paso, quarterly sales dipped just 1 percent but trended downward due to declines for homes priced less than \$200,000. Meanwhile, Laredo sales decreased for the second straight quarter, dropping 10.1 percent.

The border metros issued 2,600 **single-family housing construction permits** in 1Q2021 but still sank 8.1 percent from a Great Recession record in 4Q2020. Activity in Laredo and El Paso declined 14.8 and 11.3 percent, respectively, normalizing after explosive growth last year. McAllen permits posted a cycle high in March, but a sluggish start to the year pulled the quarterly metric down 3.3 percent. Brownsville was the exception as the metric rose 5.7 percent QOQ. **Private single-family construction values** reflected quarterly fluctuations in permits except in El Paso, where values increased 5.5 percent. Despite first-quarter slowdowns, all four border metros maintained an upward trend in values, suggesting steady building in the upcoming months.

Rebounding sales activity offset additional listings in the Rio Grande Valley during March, pulling **months of inventory (MOI)** down to unprecedented lows of 1.8 and 2.7 months in Brownsville and McAllen, respectively. El Paso's metric flattened at 1.3 months, less than the statewide average (1.4 months). On the other hand, Laredo inventory expanded for the second straight month to 2.2 months as sales decreased sharply.

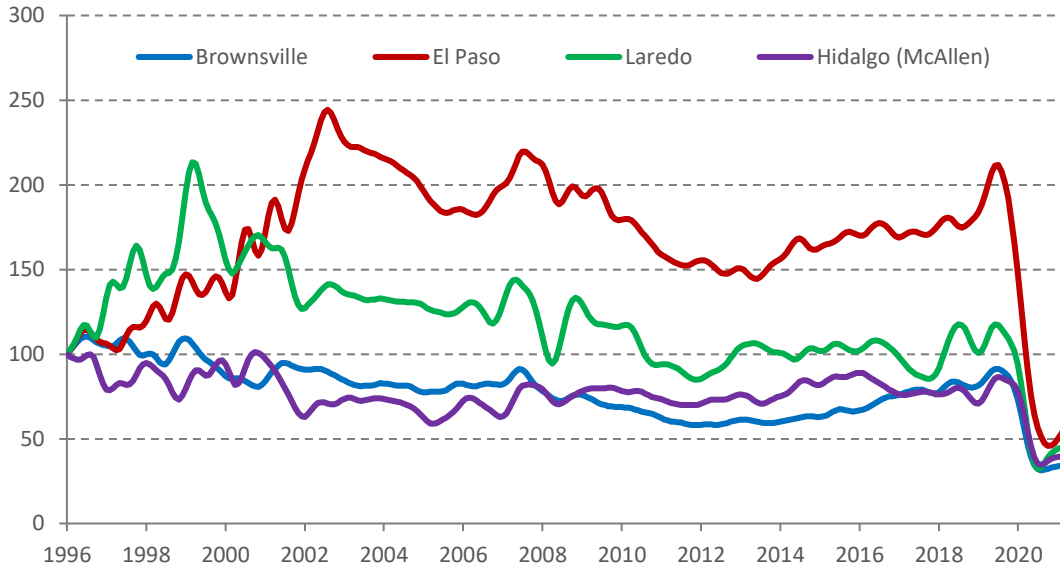
² The real peso per dollar exchange rate is inflation adjusted using the Texas Trade-Weighted Value of the Dollar. Its release typically lags the *Texas Border Economy* by one month.

Disruptions to the state's power grid and business activity the previous month may have played a part in Brownsville's **average number of days on market (DOM)** increasing almost two weeks in March to 98 days. Nevertheless, the metric still fell below its year-ago reading in Brownsville and the other border metros, indicating overall healthy demand. The El Paso and McAllen DOM registered steep YOY declines to 47 and 65 days, respectively. Meanwhile, the average home in Laredo sold after just 44 days.

The ongoing shift in the composition of sales toward higher-priced homes due to limited inventories at the lower end of the market contributed to increases in the **median home price**. Home-price appreciation averaged an unsustainable pace of 22.1 percent in Brownsville during the past three months compared with the same period last year, pushing the median price to \$203,600 in March. Median home prices in El Paso (\$189,000) and McAllen (\$187,600) grew substantially as well, elevating 11.9 and 11.0 percent, respectively. Laredo (\$196,400) was the exception as home-price appreciation, though still considerable, decelerated to 10.9 percent over the first quarter. If compositional changes in sales were controlled for, it is likely that the true changes in single-home values were less extreme, as demonstrated by the similar statewide acceleration in median home price and less rapid growth in the Texas Repeat Sales Home Price Index. The El Paso Repeat Sales Home Price Index, the only border metro index available, also exhibited the same phenomenon, albeit to a lesser degree, increasing 11.4 percent.

In the Texas border economies, lower-priced housing generally reflects below-average earnings, thereby managing affordability pressures as measured by the **Texas Real Estate Research Center's Affordability Indexes**. Rising mortgage rates and home-price appreciation, however, dampened affordability, particularly in Brownsville, where the metric decreased for the third consecutive quarter to 1.49, indicating that a family earning the median income in the metro could afford a home priced 49 percent more than the median sale price. The McAllen and El Paso indexes drew about even with their year-ago levels of 1.53 and 1.75, respectively. Laredo's metric, however, climbed to 1.74, extending an upward trend after declining from 2015-19. Continued improvement is important to the border's demographic advantages that have supported the region's attractiveness compared with other parts of the state.

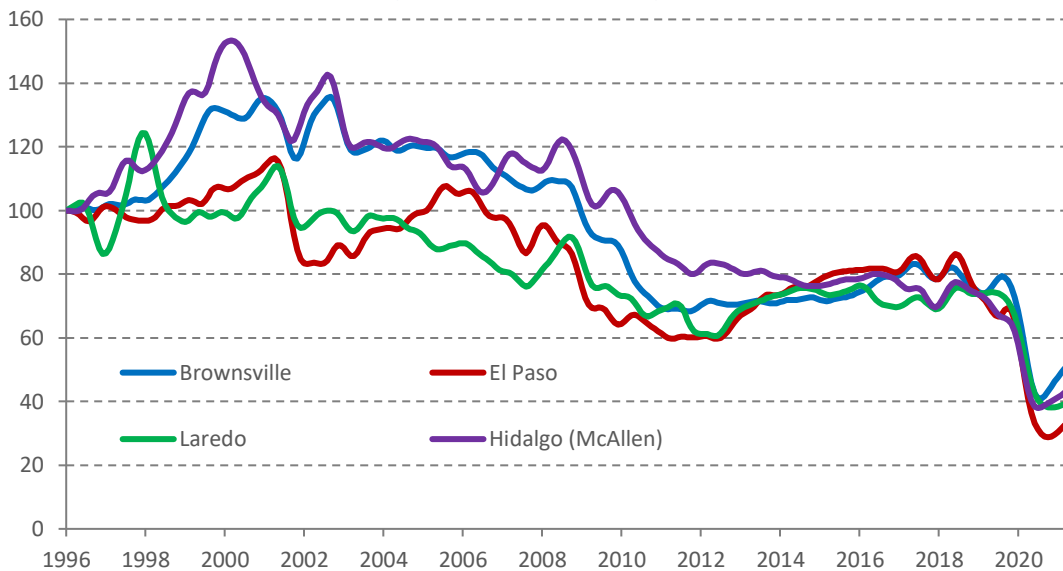
Figure 1. Pedestrian Crossings
(Index Jan 1996 = 100)



Note: Pedestrians entering the United States from Mexico. Data collected at ports of entry by U.S. Customs and Border Protection. Trend-cycle component.

Source: U.S. Bureau of Transportation Statistics

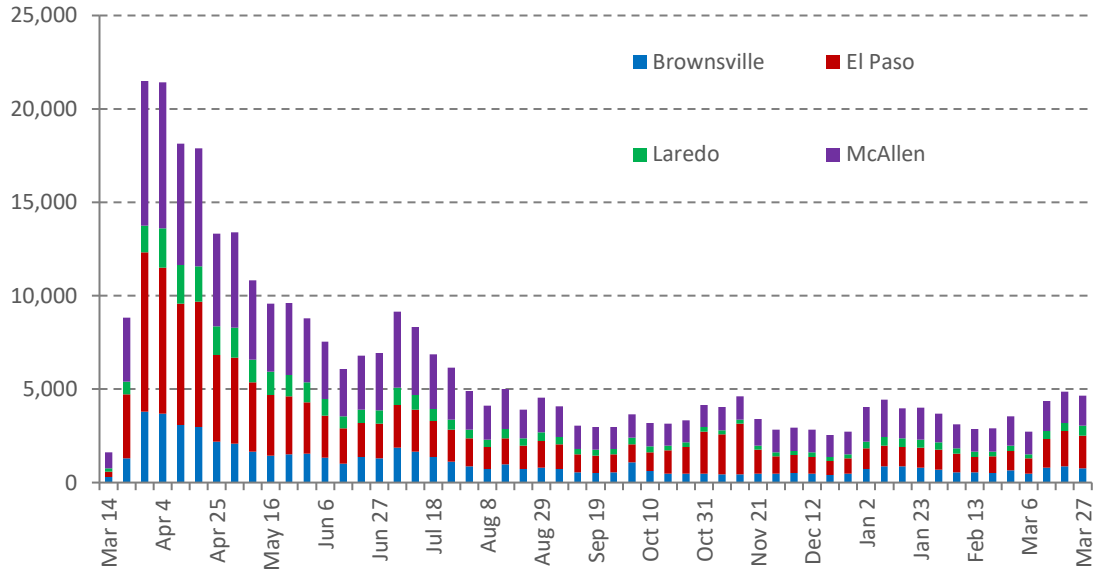
Figure 2. Personal Vehicle Crossings
(Index Jan 1996 = 100)



Note: Personal vehicles entering the United States from Mexico. Data collected at ports of entry by U.S. Customs and Border Protection. Trend-cycle component.

Source: U.S. Bureau of Transportation Statistics

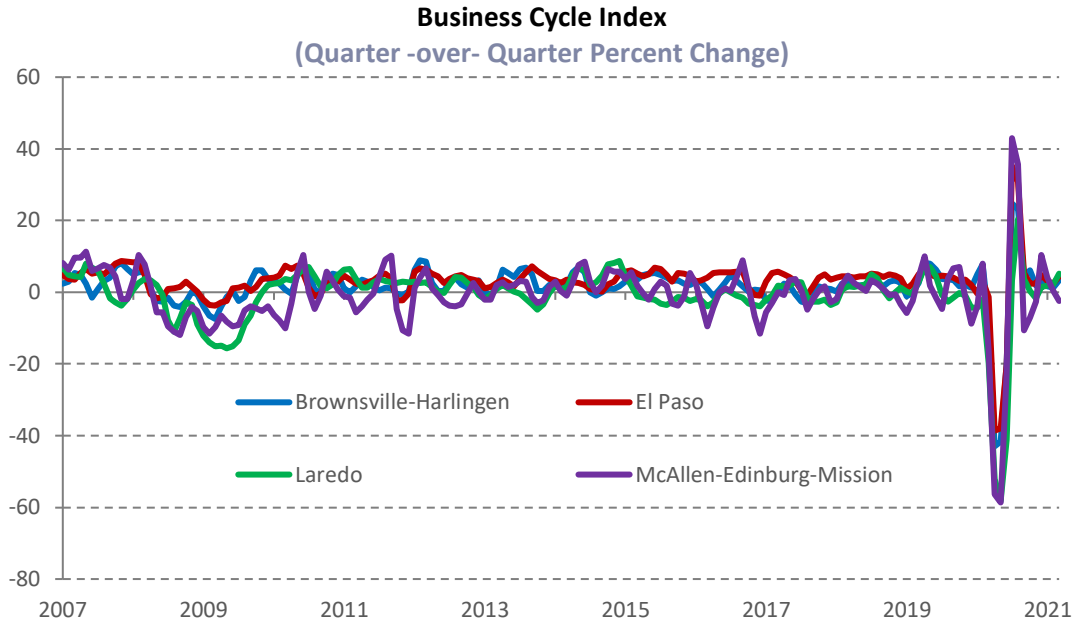
Figure 3. Border Metro Weekly Initial Unemployment Claims (2020-21)



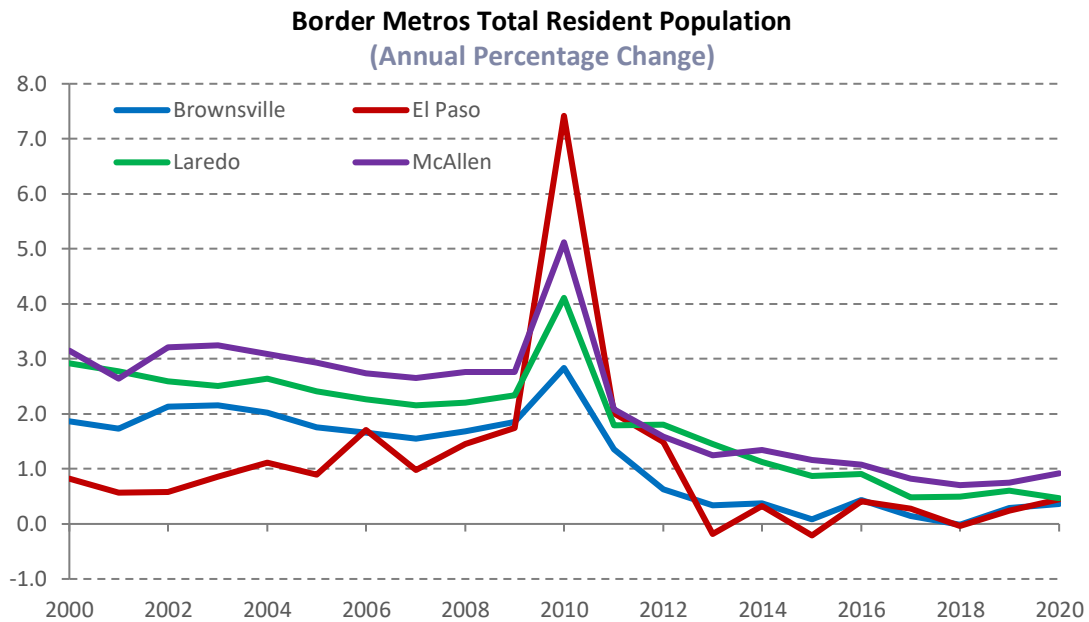
Note: Seasonally adjusted.

Sources: Texas Workforce Commission, U.S. Department of Labor Employment and Training Administration, and Texas Real Estate Research Center at Texas A&M University calculations

Economic Activity

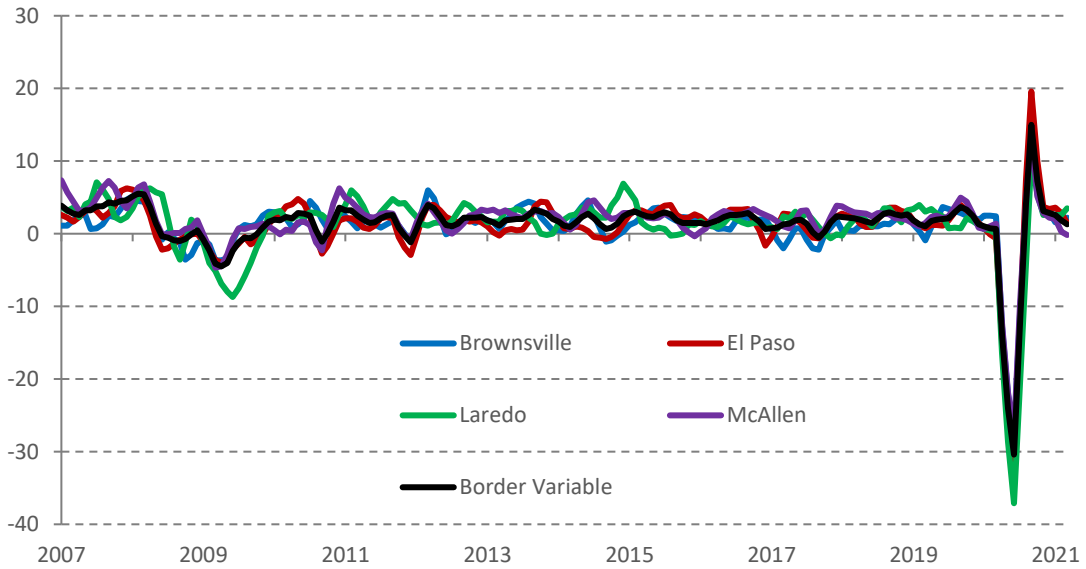


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



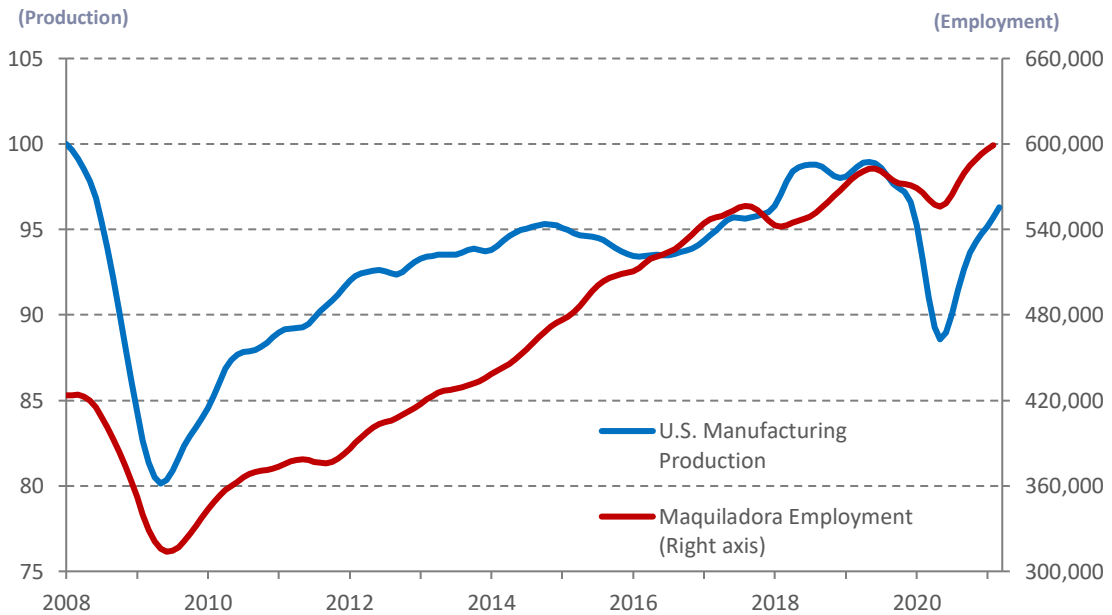
Note: Annual. Not seasonally adjusted.
Source: United States Census Bureau

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



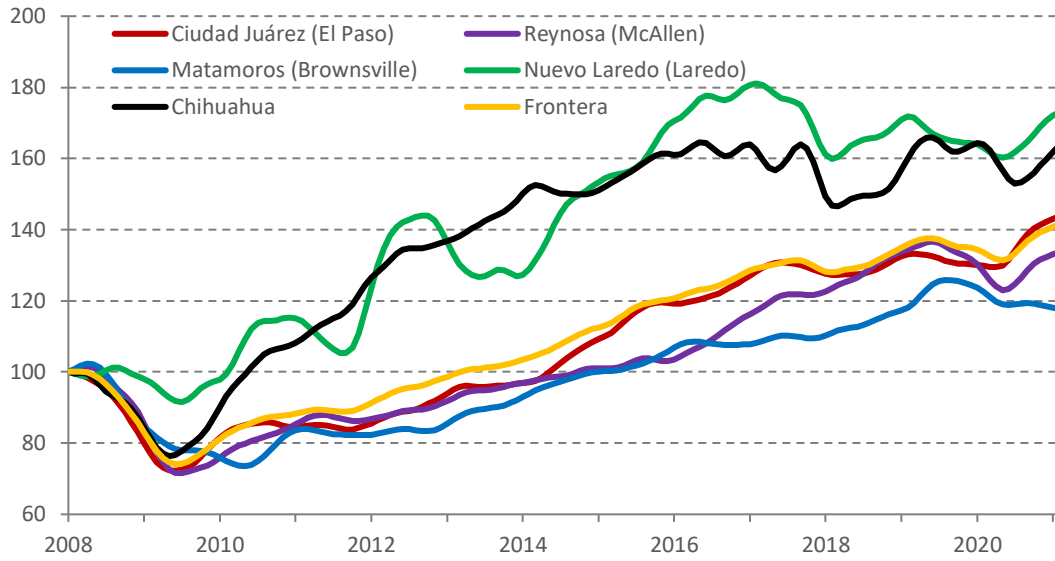
Note: Seasonally adjusted, three-month moving average. March 2021 is preliminary.
 For more information, see [Employment Growth Rate](#).
 Source: Bureau of Labor Statistics

U.S. Manufacturing Production (Index Jan 2008 = 100; Number of Employees)



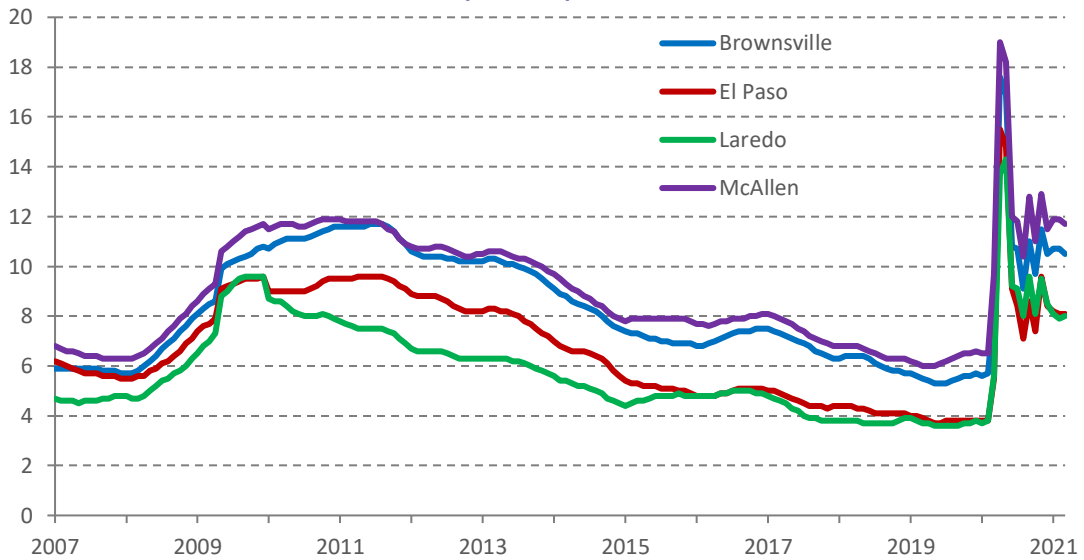
Note: Trend-cycle component.
 Sources: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



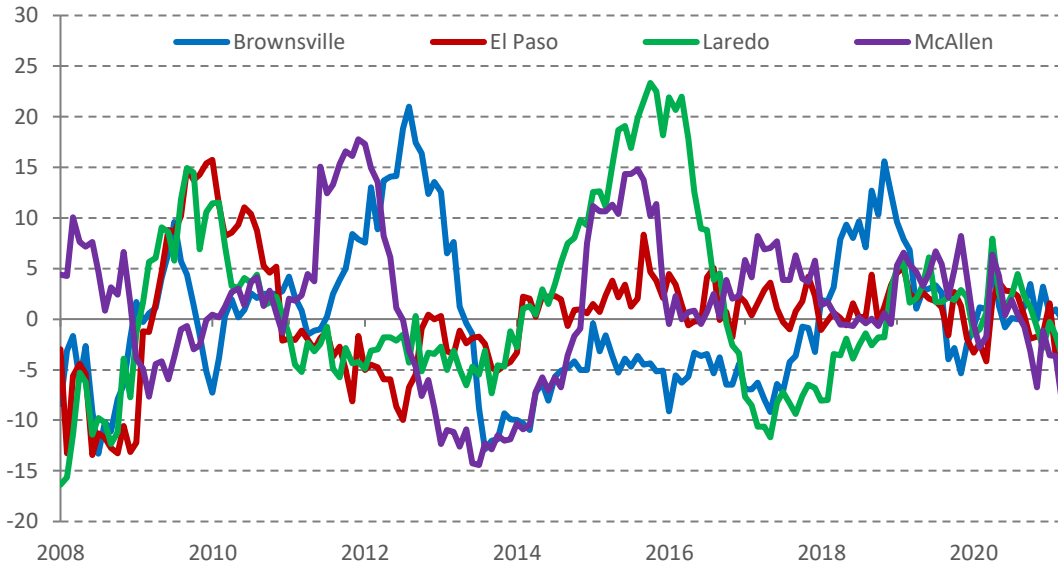
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate (Percent)



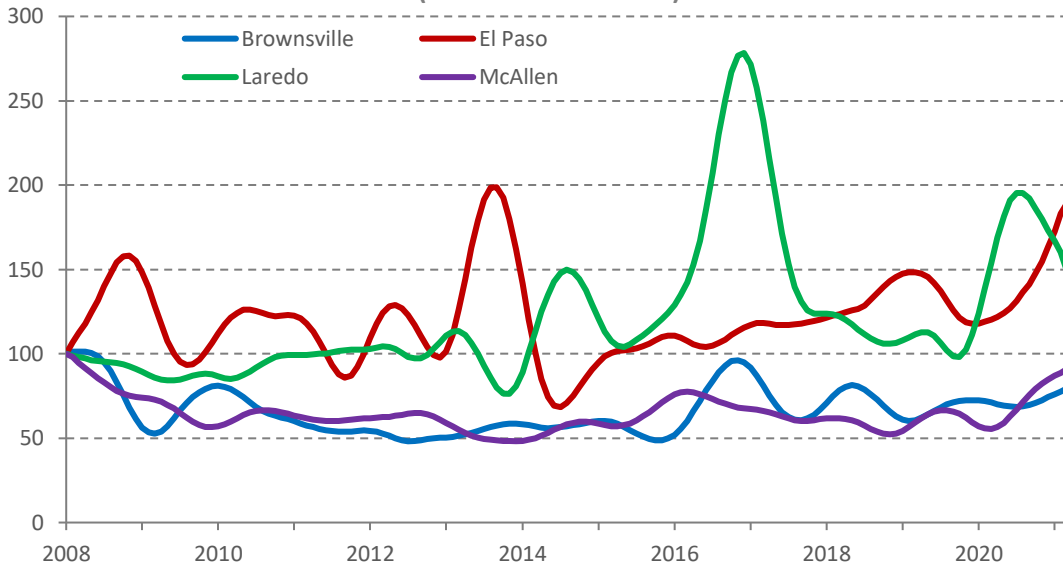
Note: Seasonally adjusted. March 2021 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



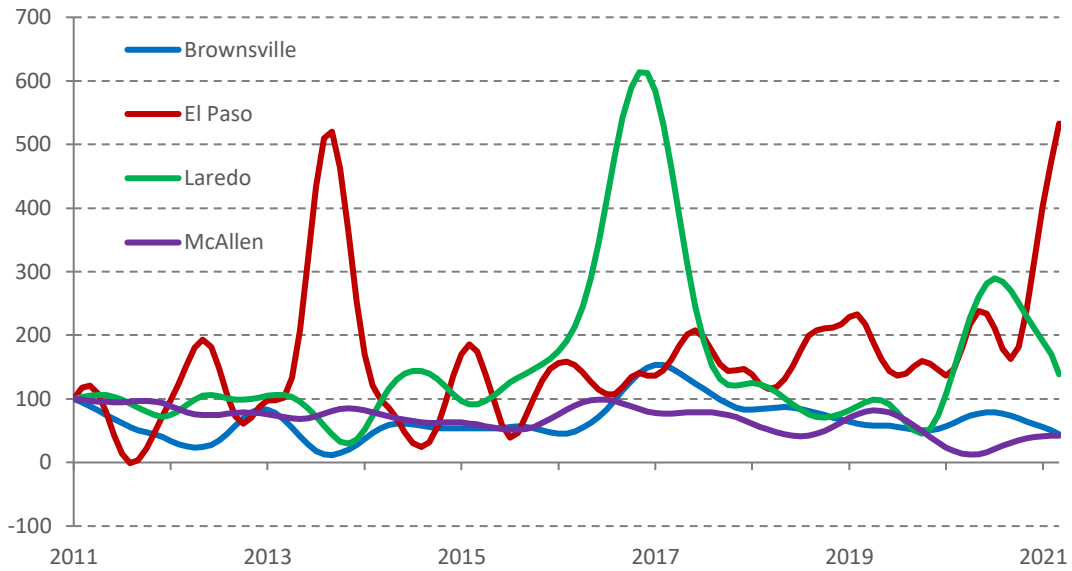
Notes: Inflation adjusted, seasonally adjusted. March 2021 is preliminary.
 For more information, see [Total Private Employee Hourly Earnings](#).
 Source: Bureau of Labor Statistics

Total Construction Values (Index Jan 2008= 100)



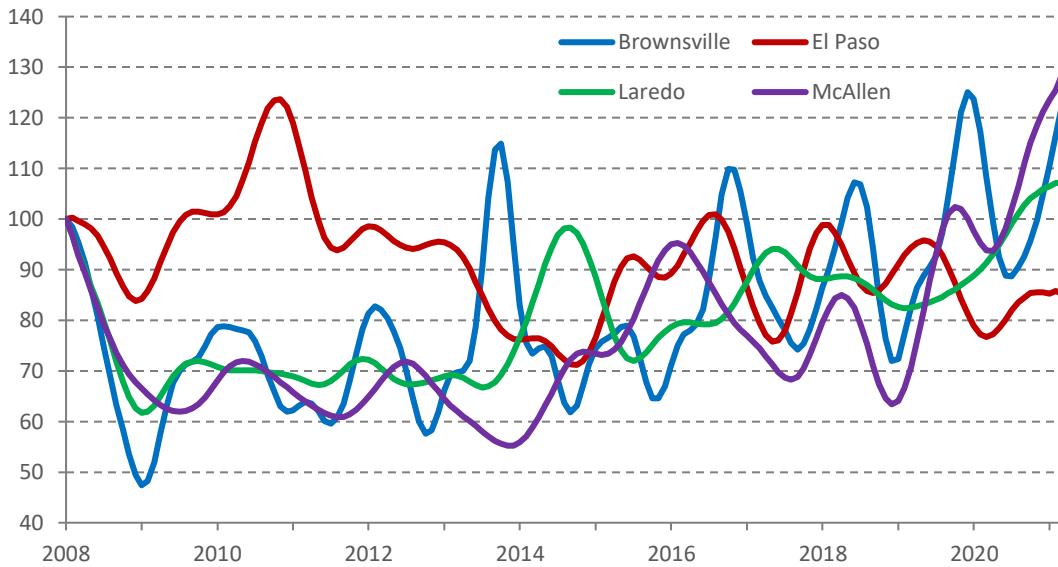
Note: Inflation-adjusted. Trend-cycle component.
 Source: Dodge Data & Analytics

Nonresidential Construction Values (Index Jan 2011 = 100)



Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Residential Construction Values (Index Jan 2008 = 100)



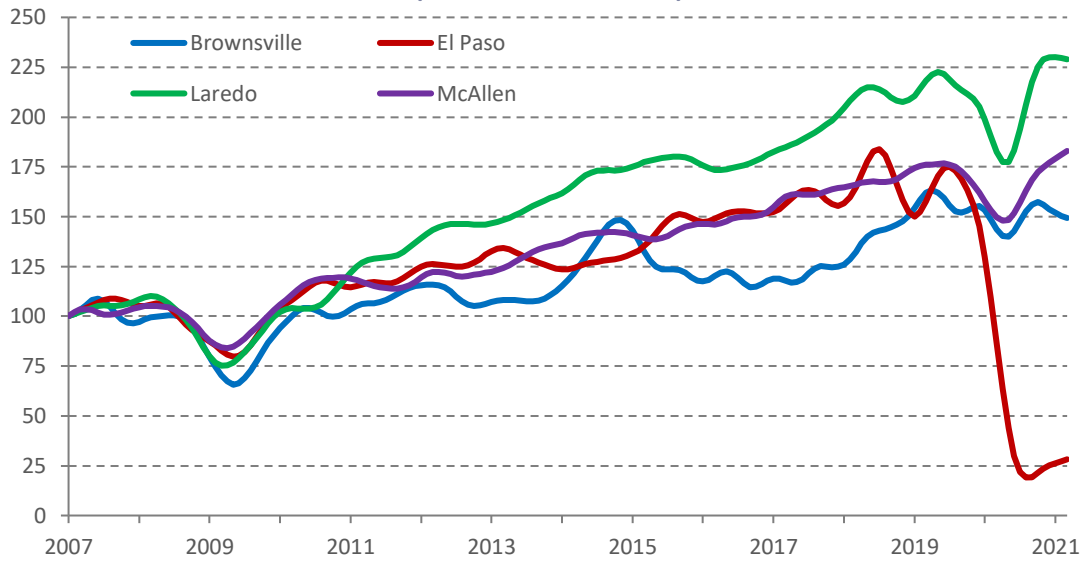
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate (\$)



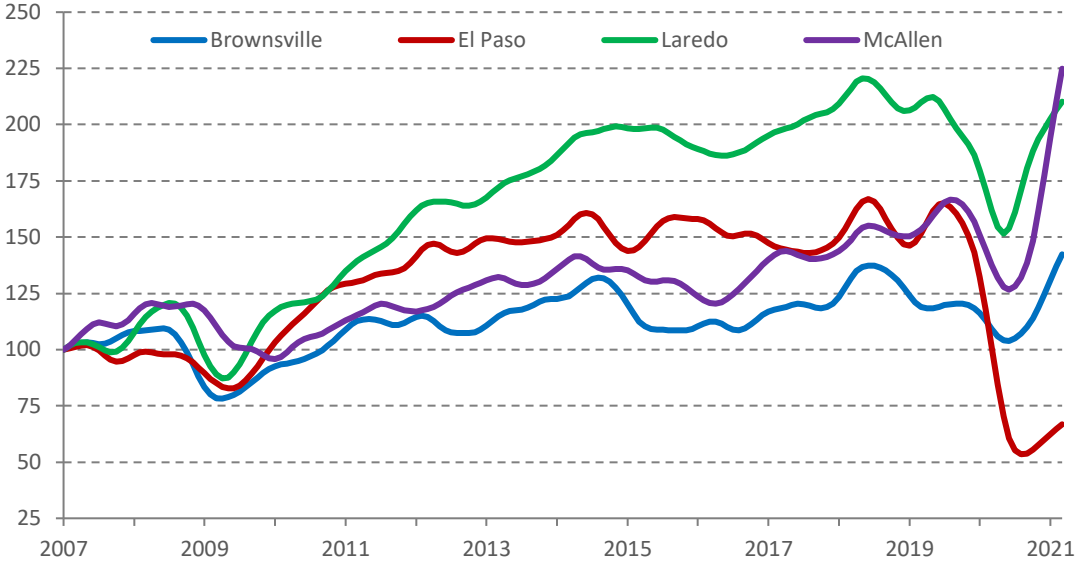
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values (Index Jan 2007 = 100)



Note: Trend-cycle component.
Sources: Foreign Trade Division and U.S. Census Bureau

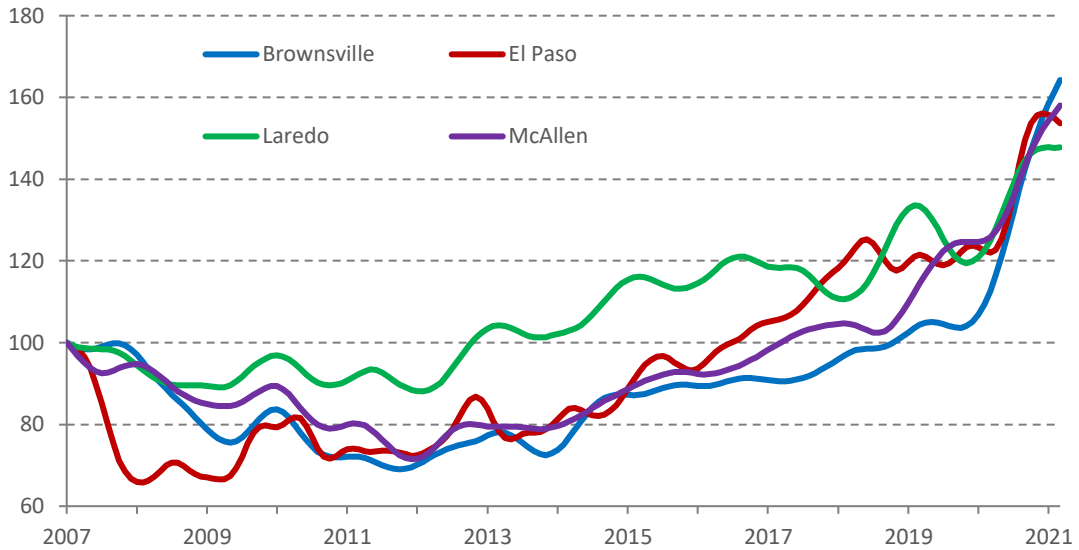
Export Values
(Index Jan 2007 = 100)



Note: Trend-cycle component.
Sources: Foreign Trade Division and U.S. Census Bureau

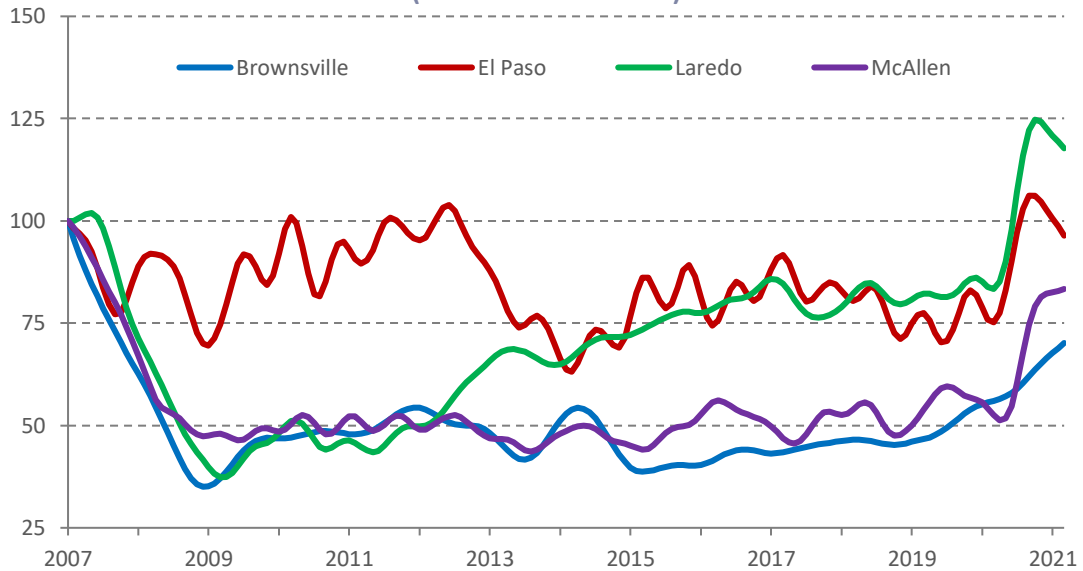
Housing

Housing Sales
(Index Jan 2007 = 100)



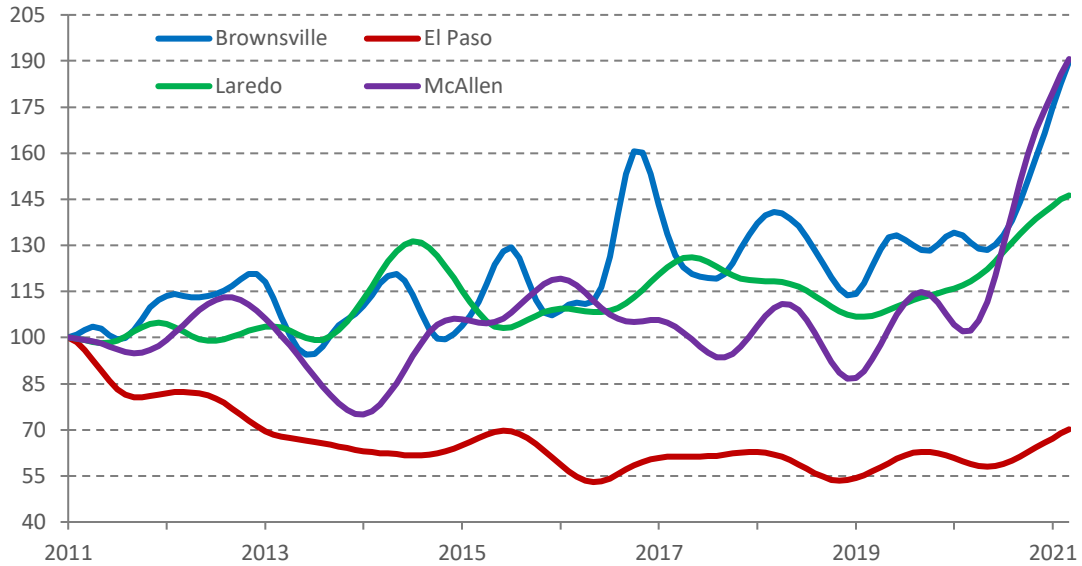
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

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



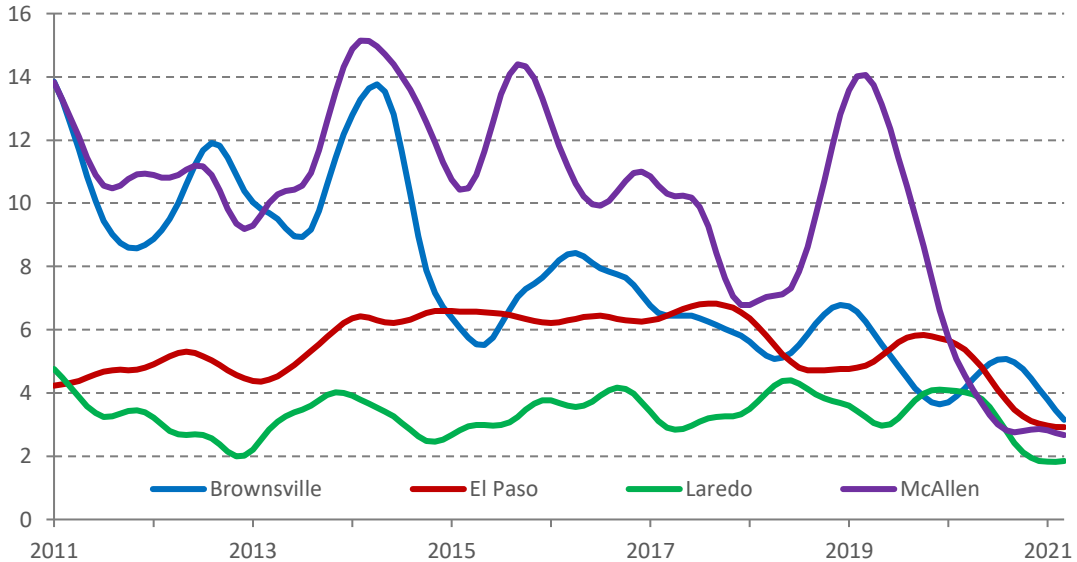
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Texas Real Estate Research Center at Texas A&M University

Total New Private Single-Family Construction Value
(Index Jan 2011 = 100)



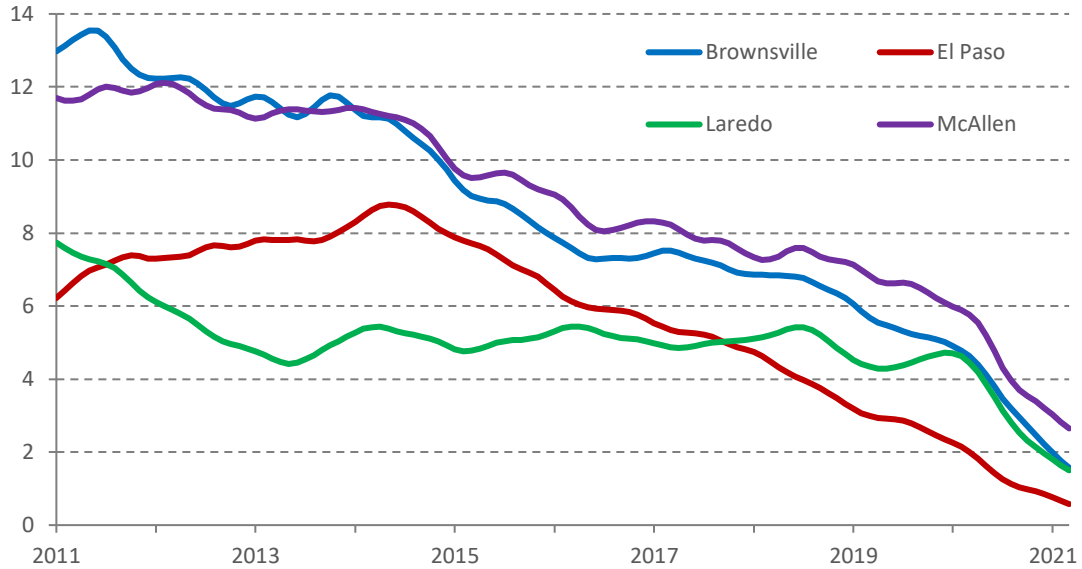
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory
(Months)



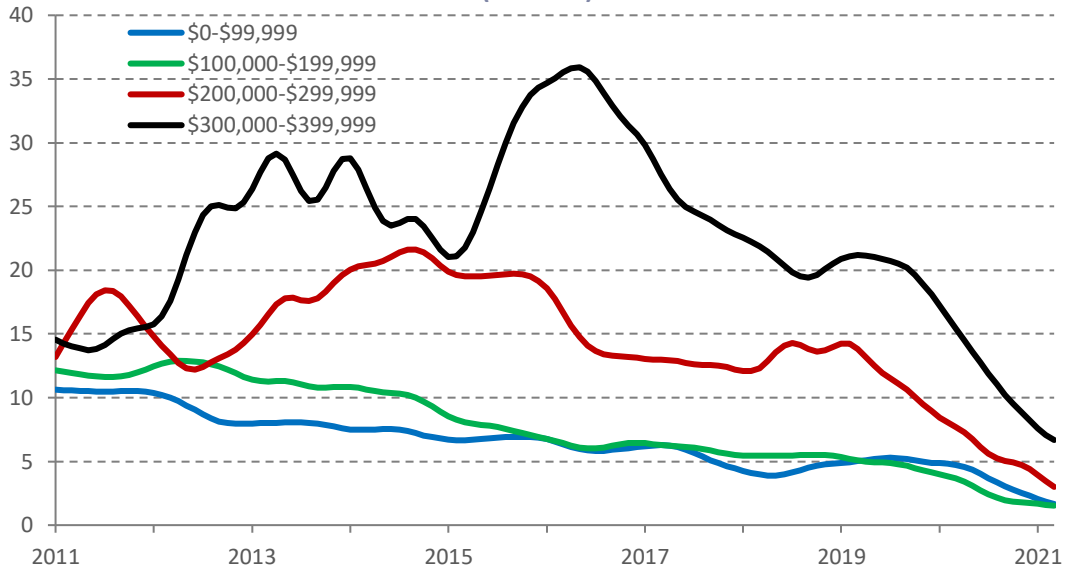
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Months of Inventory (Months)



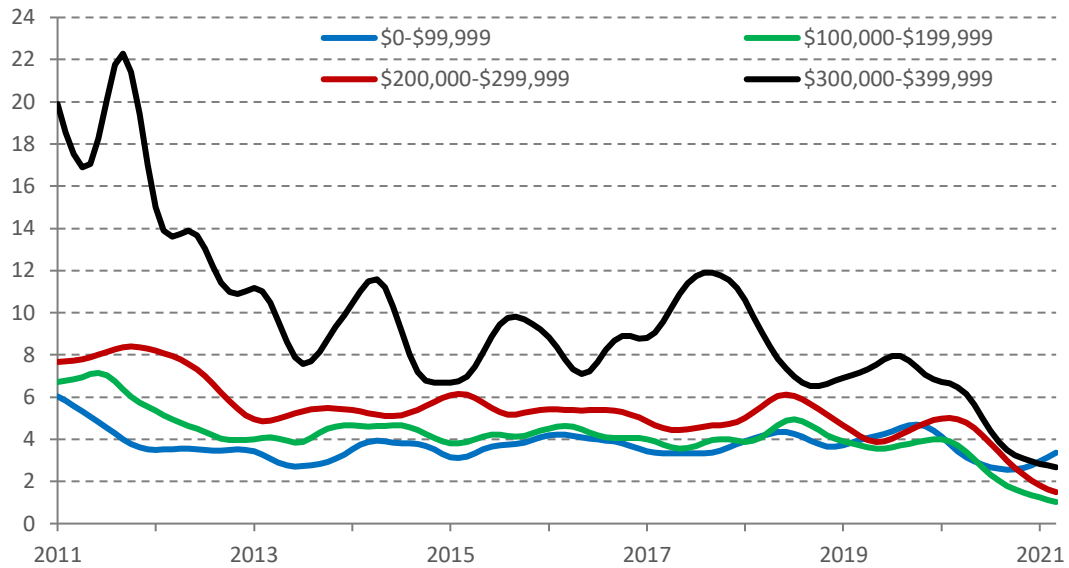
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



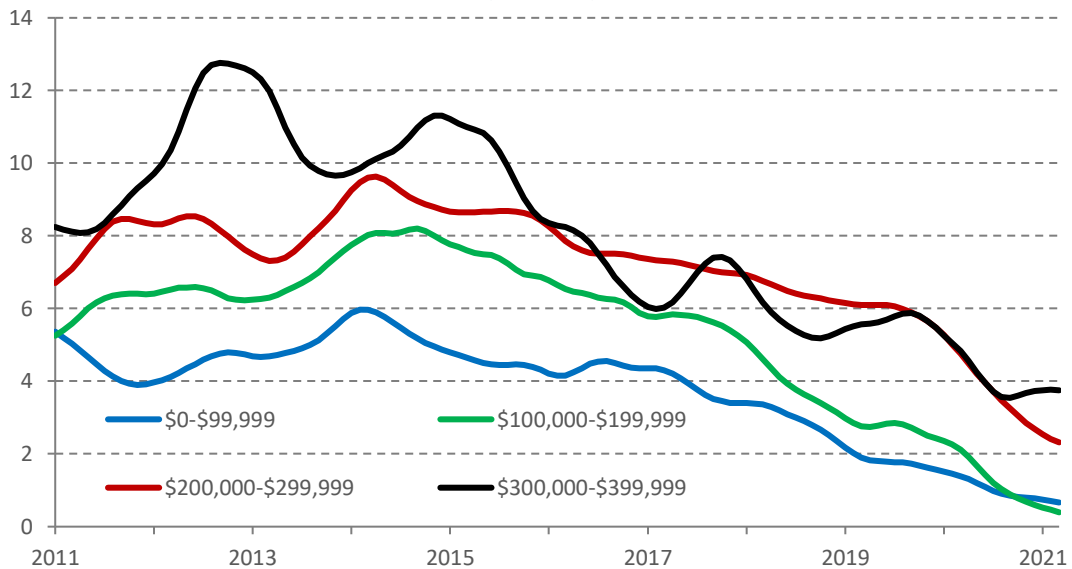
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

Laredo Months of Inventory by Price Cohort (Months)



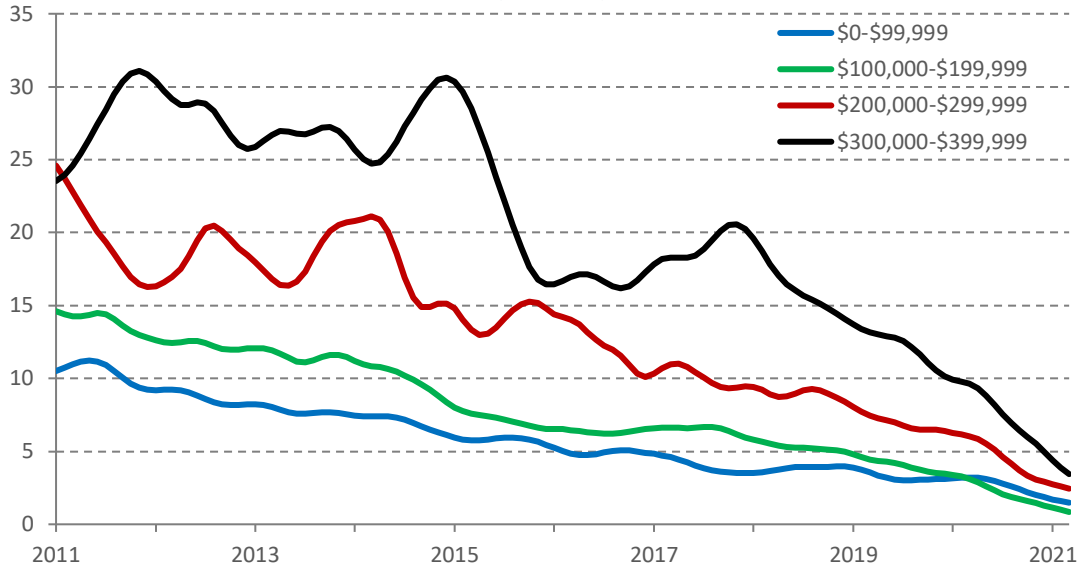
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

El Paso Months of Inventory by Price Cohort (Months)



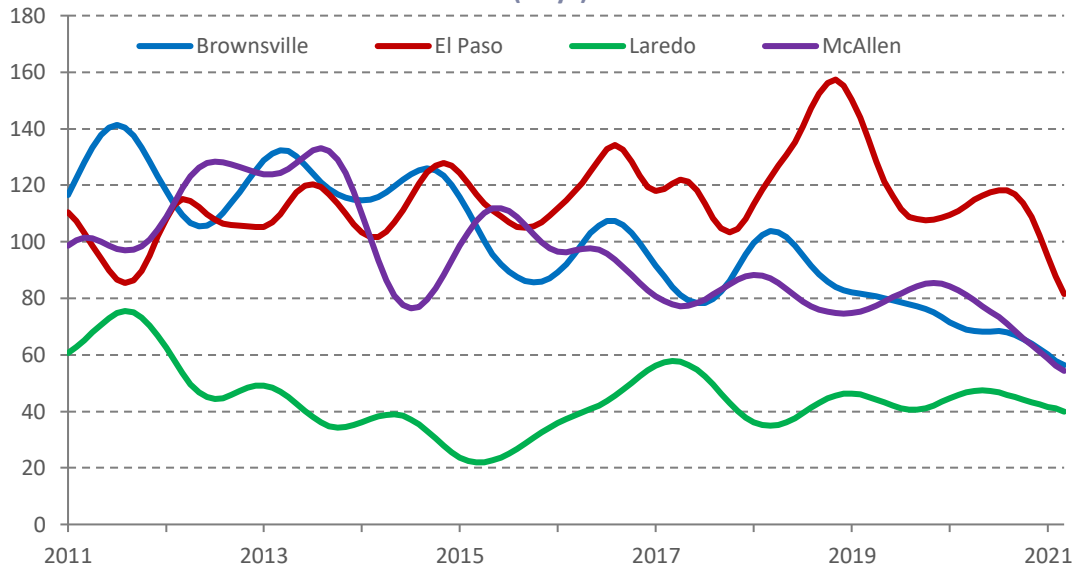
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



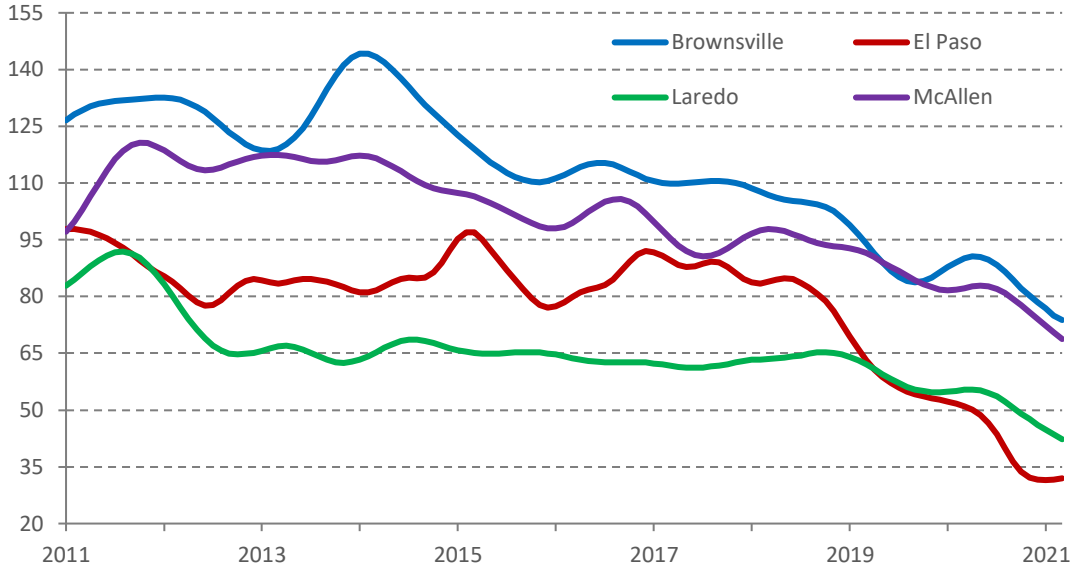
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Days on Market (Days)



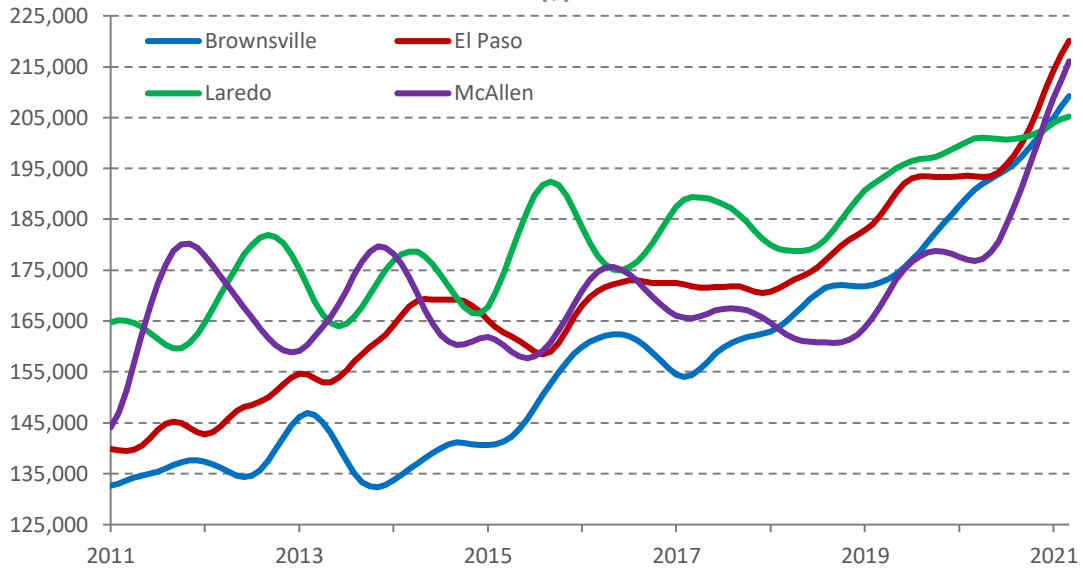
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Days on Market (Days)



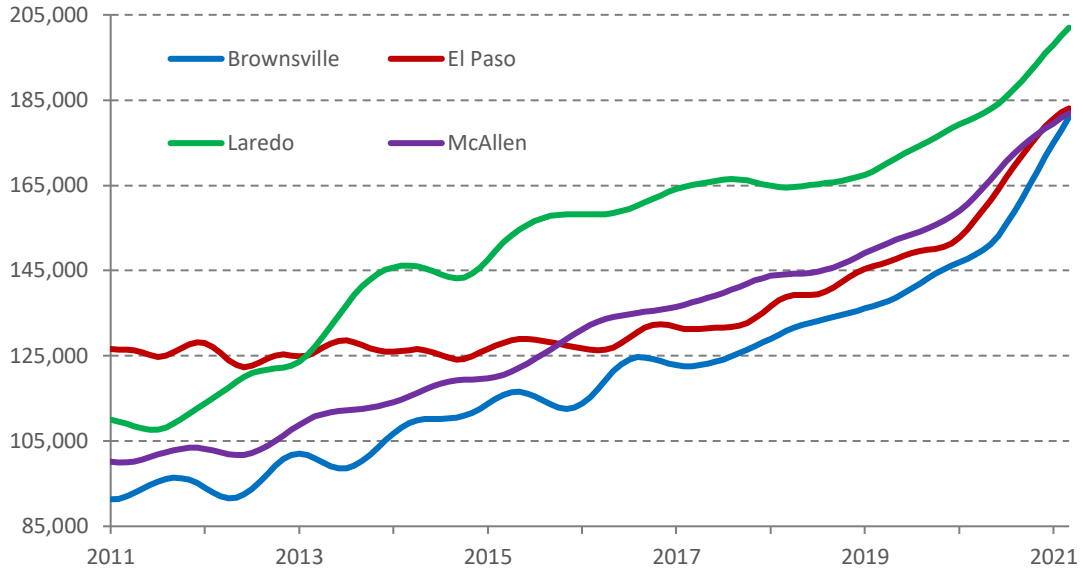
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Median Sales Price (\$)



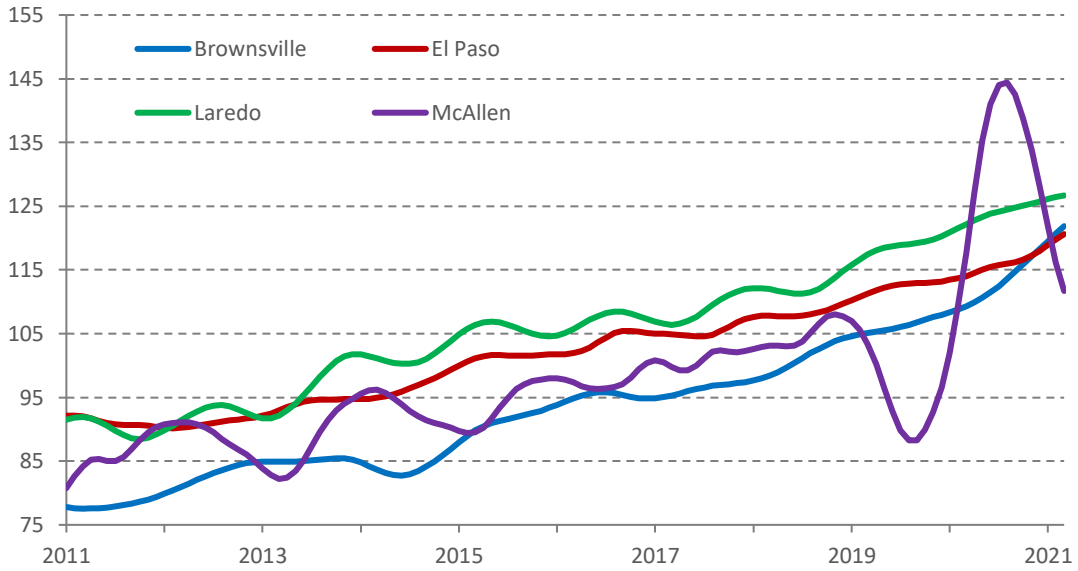
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Median Sales Price (\$)



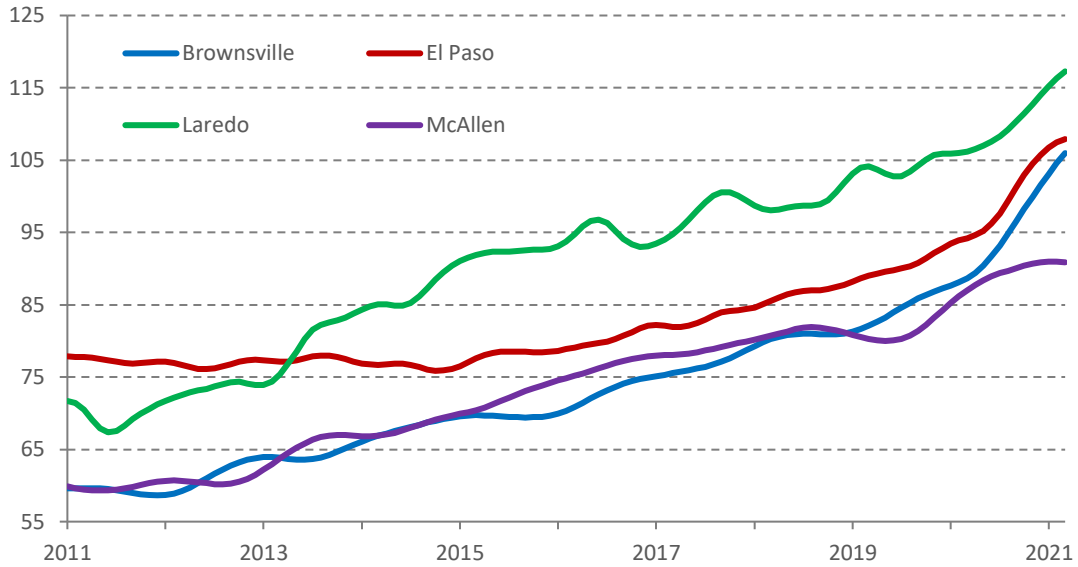
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Median Price Per Square Foot (\$)



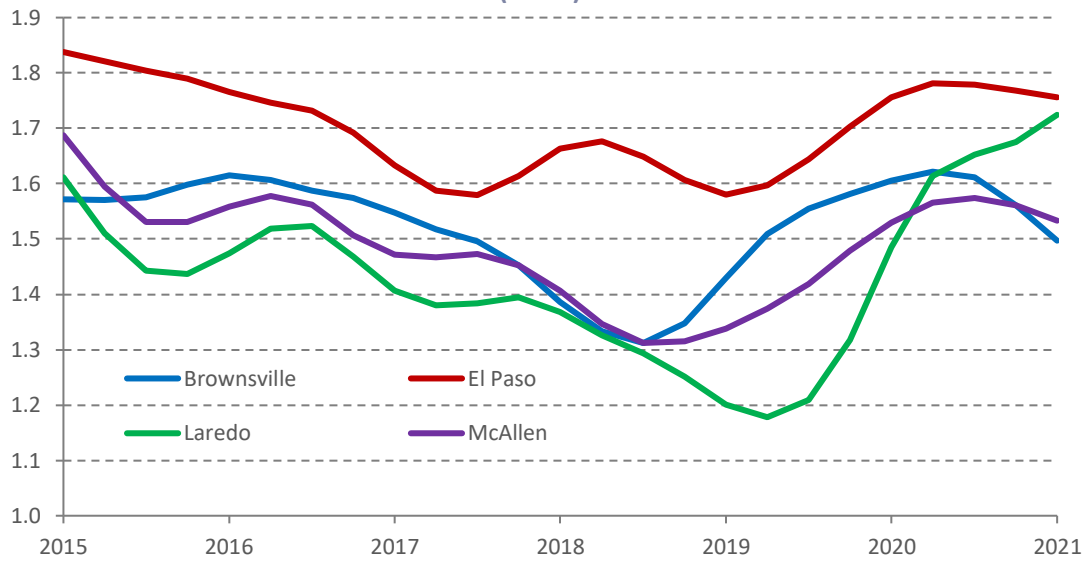
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Median Price Per Square Foot (\$)



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

Housing Affordability Index (Ratio)



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



TEXAS A&M UNIVERSITY

Texas Real Estate Research Center



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

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