

TEXAS BORDER ECONOMY



TEXAS A&M UNIVERSITY

Texas Real Estate Research Center



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MAY 2021 DATA

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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, and Jacob Straus

Data current as of June 25, 2021

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Border Summary

BORDER EMPLOYMENT

▲ 200 jobs

APRIL MAQUILADORA EMPLOYMENT

▲ 6,850 jobs

TOTAL TRADE VALUES

▼ 2.5% MOM

HOUSING SALES

▼ 1.2% MOM

SINGLE-FAMILY BUILDING PERMITS

▲ 12.8% MOM

May 2021

Economic recovery along the Texas-Mexico border slowed during May as hiring flattened. Only El Paso and Laredo expanded payrolls after layoffs the previous month. Unemployment, however, declined across the southern region, but the size of the local labor forces also decreased. On the bright side, Mexican maquiladora and manufacturing employment surged in April despite global supply-chain shortages negatively affecting total trade values. Construction values tumbled as substantial declines in the nonresidential sector outweighed strong investment in residential projects. Home sales continued to trend down in a housing market marked by historical lows in both inventory and average days on market. Housing affordability presents a growing challenge across border communities as dwindling supplies combine with strong demand.

Economy

The border economies maintained positive momentum toward recovery as indicated by gains in the **Dallas Fed's Business-Cycle Indexes**. Labor-market improvements in Laredo pushed the index up 2.7 percent on a seasonally adjusted annualized rate (SAAR) in May. The McAllen metric accelerated 2.3 percent after stagnating the previous three months. Economic activity slowed in El Paso and Brownsville, but the indexes still inched up 4.7 and 2.8 percent, respectively. The U.S.' ban on nonessential travel, which prohibits Mexican nationals from entering the U.S., may be restricting leisure/hospitality employment and retail sales, two components of the metrics. These travel measures are set to expire on Aug. 21, 2021.

Border nonfarm employment flattened in May, adding only 200 jobs after net losses in April. The Rio Grande Valley shed 400 workers in McAllen and 700 in Brownsville. Payroll contractions occurred primarily within state/local government and goods-producing sectors in the former and education/health services sector in the latter. Strong leisure/hospitality hiring contributed to half of the employment gains in El Paso and Laredo, netting 600 and 700 positions, respectively.

Mexican manufacturing and maquiladora employment¹ expanded for the tenth consecutive month, adding 6,850 workers in April and elevating 1.6 percent quarter over quarter (QOQ). Hiring was most robust in Reynosa and Juarez, accounting for 80 percent of the overall growth with 3,559

¹ Mexican manufacturing and maquiladora employment data are generated by the Instituto Nacional de Estadística y Geografía. Their release typically lags the *Texas Border Economy* by one month.

and 2,867 added positions in Reynosa and Juarez, respectively. On top of last month's layoffs, lackluster hiring in Matamoros and Nuevo Laredo decreased quarterly employment 1.0 percent in both metros. Meanwhile, Chihuahua's maquiladora and manufacturing employment ticked up 1.2 percent QOQ, adding 1,275 workers in April. Revised U.S. manufacturing-production data revealed a 0.7 percent output increase in May, largely due to gains in motor-vehicle assemblies despite the ongoing shortage of semiconductors. The IHS Markit Mexico Manufacturing Purchasing Managers' Index, however, contracted as companies based in Mexico noted a decline in sales and output, while input purchasing decreased. To stimulate demand, companies reportedly lowered output prices in response to decreased orders. Despite numerous challenges, business confidence reached a 16-month high as the outlook climbed because of increasing vaccination rates and upcoming product launches. The pandemic and the federal government's response to the virus remain significant factors concerning the future growth of Mexico, where Texas' border economies have strong ties.

Discouraged job seekers left local labor forces, nudging **unemployment rates** down as hiring on the U.S. side of the border flattened. In Brownsville and McAllen, joblessness dropped to 9.7 and 10.6 percent, respectively. Payrolls rose slightly in El Paso and Laredo nudging jobless rates down to 7.4 and 7.6 percent, respectively. Meanwhile, weekly initial unemployment claims continued to decline across the border metros, except in Laredo where the metric rose slightly (see figure, p. 6).

Average private hourly earnings revealed moderate wage growth along the border as the recovery of lower-paying jobs skewed the average downward. In McAllen, real earnings fell 6.3 percent year over year (YOY) extending a nine-month decline in nominal wages to \$19.84 on average. After adjusting for inflation, hourly wages in Laredo (\$18.13) and El Paso (\$19.76) also dropped 5.9 and 6.9 percent, respectively. Brownsville's metric moderated (\$16.77), falling just 0.7 percent.

Total construction values declined 30.9 percent this month, reduced to half the 2020 average when investment surged during the pandemic recovery. The loss stemmed from lower nonresidential values amid decreased activity in warehouse construction in Laredo and El Paso despite the development of schools in McAllen. Meanwhile, Brownsville had minimal nonresidential activity. On the other hand, the residential sector expanded as limited inventories and rising home prices sparked an increase in the apartment market in all border metros. Builders shifted toward multifamily and two-family housing to combat affordability constraints. Single-family home construction increased in all border metros except El Paso.

In the currency market, the **peso per dollar exchange rate** inched down to 19.96, making domestic goods cheaper to Mexican buyers, as the inflation-adjusted rate² declined 8 percent annually. The border remained restricted, however, preventing Mexican nationals from consuming Texas goods. In addition, large importers of goods in Mexico generally benefit from an appreciation of the peso; however, ongoing supply-chain disruptions have impeded firms from capitalizing on the recent

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.

fluctuation. In response, **total trade values** passing through the border hubs slid 2.5 percent in May, even as trade activity rebounded in all border metros except El Paso. El Paso's metric remains down 31.5 percent from pre-pandemic levels largely due to shortages of semiconductors. Trade is an integral part of the local economy, which hinges on a healthy supply-chain.

Housing

Border housing sales fell 1.2 percent in May, continuing to trend downward amidst low inventories. Even as transactions for lower-priced homes rose across the border metros, reduced activity for homes priced more than \$200,000 pulled overall sales down. Sales in El Paso and Laredo declined 2.7 and 0.8 percent, respectively. Brownsville and McAllen posted strong sales this month. However, the trend remained negative.

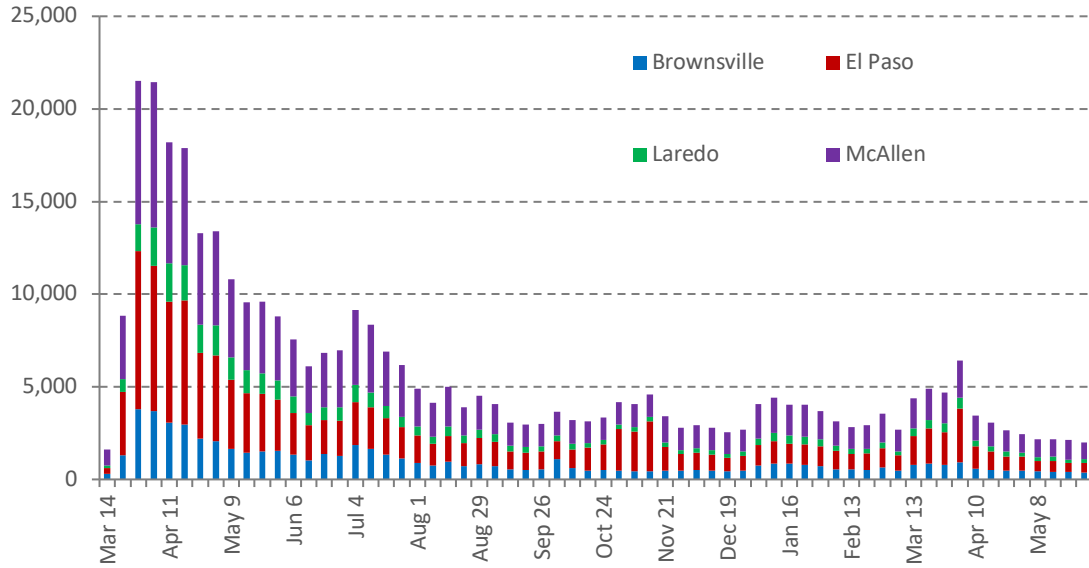
On the supply side, the border metros issued a record-breaking 981 **single-family housing construction permits**, surging 12.8 percent with issuance in the Rio Grande Valley increasing 11.3 and 8.9 percent in Brownsville and McAllen, respectively. Activity accelerated 18.6 percent in El Paso but remained on a flat trajectory after a sluggish start to the year. Laredo's permits ticked up by a modest 1.6 percent, stabilizing at its yearlong average. **Private single-family construction values** reflected fluctuations in permits except in Laredo, where values accelerated 27.6 percent and rebounded from year-long lows registered at the end of the first quarter.

Reaching record lows in all border metros except Laredo, the **months of inventory (MOI)** trended downward and further worsened supply constraints. MOI diminished to the statewide average of 1.2 months in El Paso and Brownsville, while McAllen's inventories fell to 2.2 months. In contrast, Laredo's metric flattened at 2.0 months as a stream of new listings priced \$100,000-\$299,999 entered the market.

The **average number of days on market (DOM)** similarly reached record lows, indicating healthy housing demand along the border. Homes in El Paso and McAllen sold one week faster than they did last month, dropping to an unprecedented 40 and 64 days, respectively. Three consecutive months of decline brought Laredo's metric to a series minimum of 34 days. Brownsville, however, experienced a monthly uptick to 87 days, up from the prior month's all-time low.

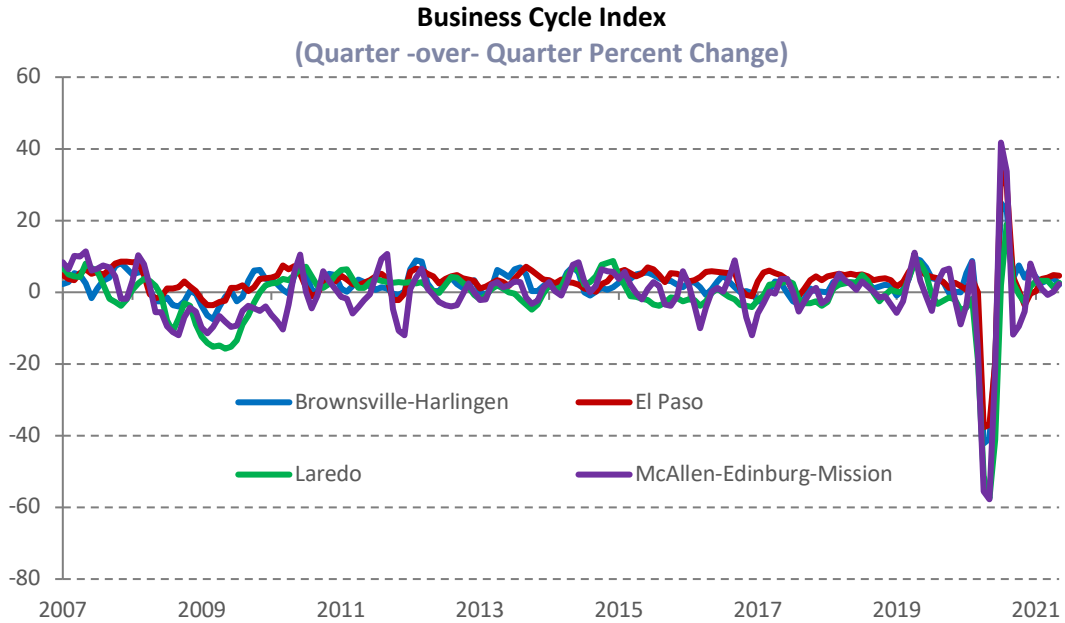
Although the 12-month moving average of the **median home price** revealed double-digit growth in all border metros, home prices flattened in May as a larger share of lower-priced homes were sold. The median price decreased 2.9 percent in Brownsville to \$217,000 and 2.1 percent in McAllen to \$182,800 but remained unchanged at \$195,300 and \$202,100 in El Paso and Laredo, respectively. Even though compositional changes in sales did not significantly impact monthly changes in single-home values in El Paso, the Texas Repeat Sales Home Price Index demonstrated quarterly YOY acceleration of 11.4 percent.

Border Metro Weekly Initial Unemployment Claims (2020-21)

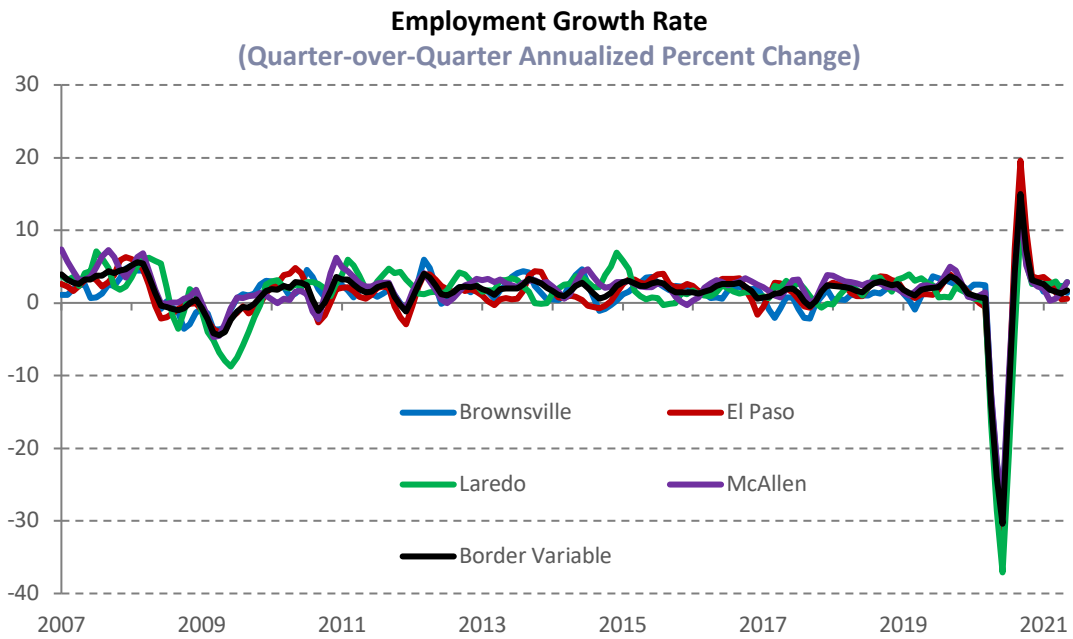


Note: Seasonally adjusted.
 Sources: Texas Workforce Commission, U.S. Department of Labor Employment and Training Administration, and Texas Real Estate Research Center at Texas A&M University calculations

Economic Activity

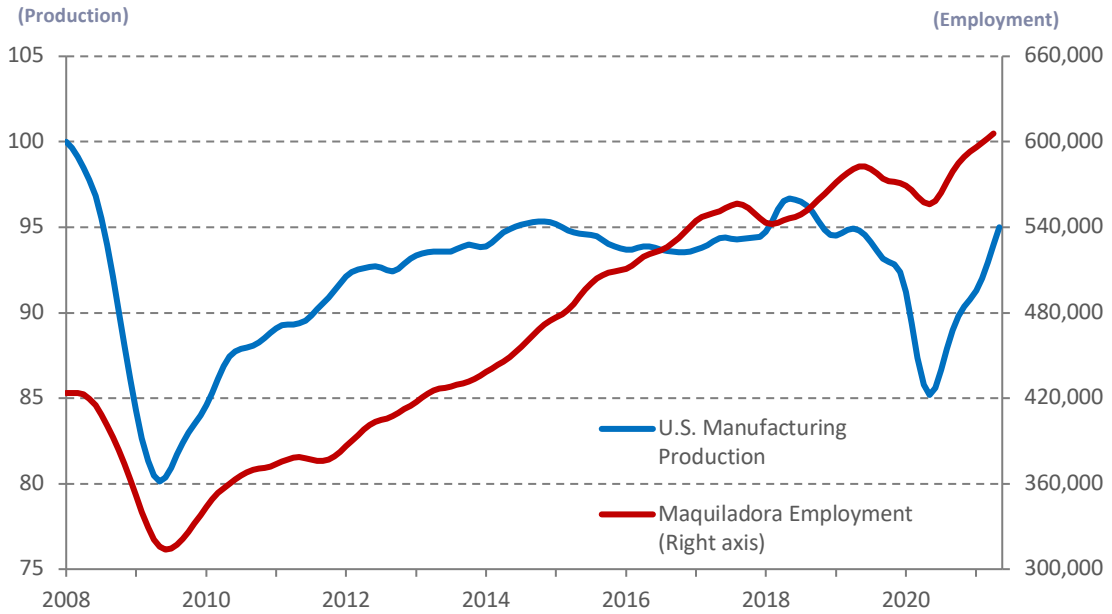


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



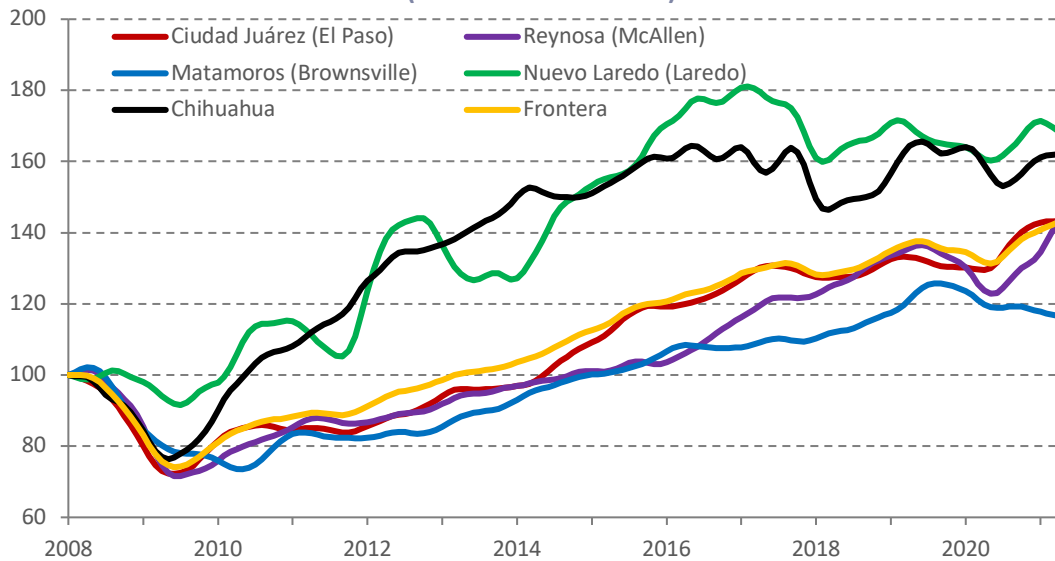
Note: Seasonally adjusted, three-month moving average. May 2021 is preliminary.
For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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



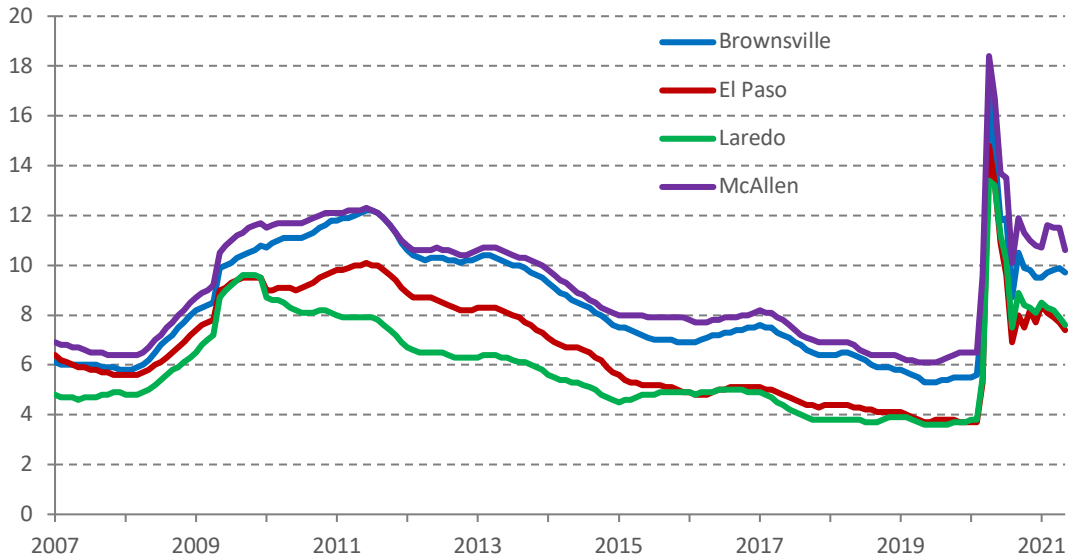
Note: Trend-cycle component.
Sources: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



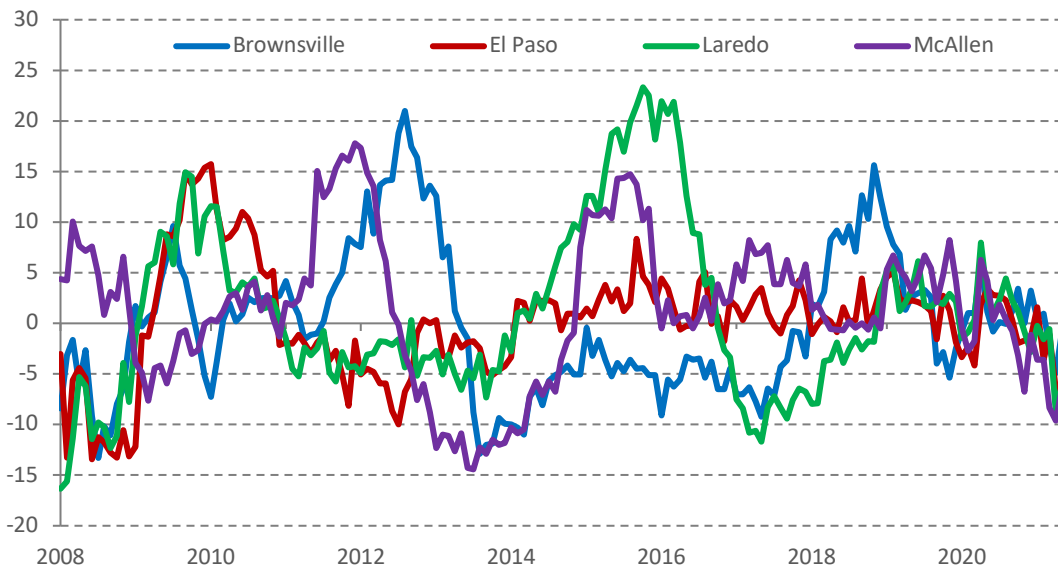
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate (Percent)



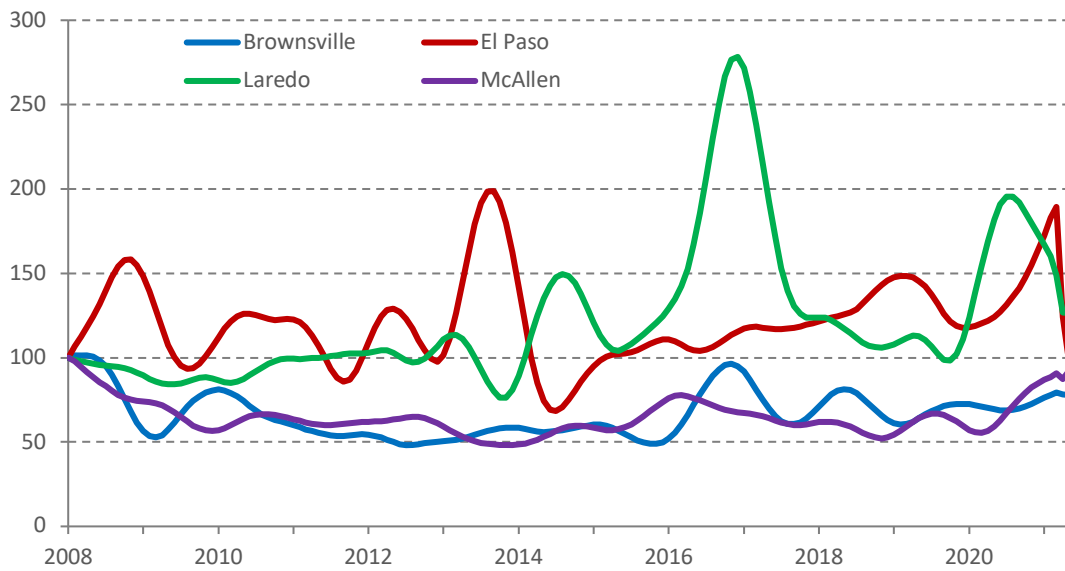
Note: Seasonally adjusted. May 2021 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



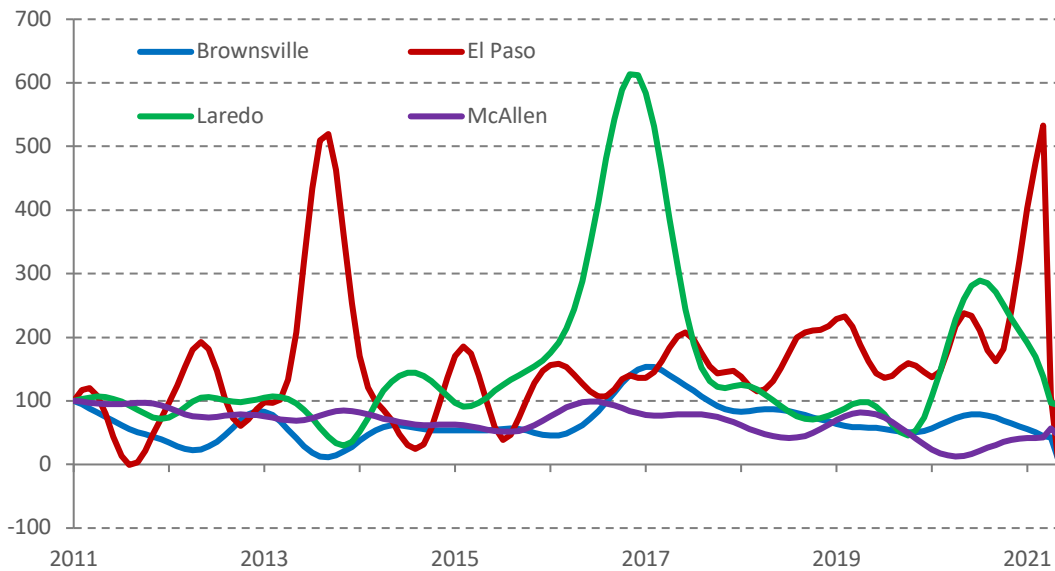
Notes: Inflation adjusted, seasonally adjusted. May 2021 is preliminary.
For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values (Index Jan 2008= 100)



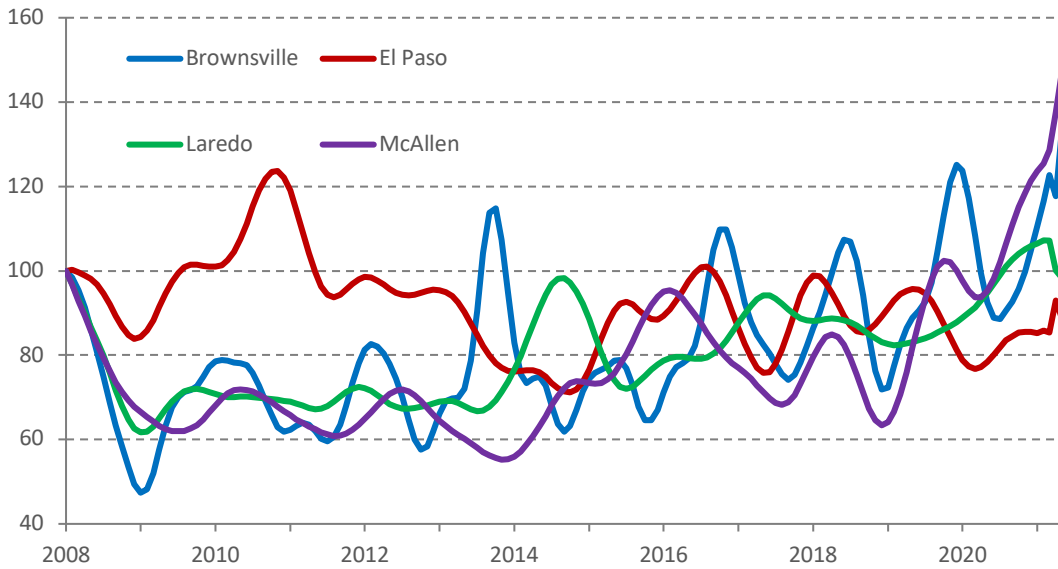
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Nonresidential Construction Values (Index Jan 2011 = 100)



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

Residential Construction Values (Index Jan 2008 = 100)



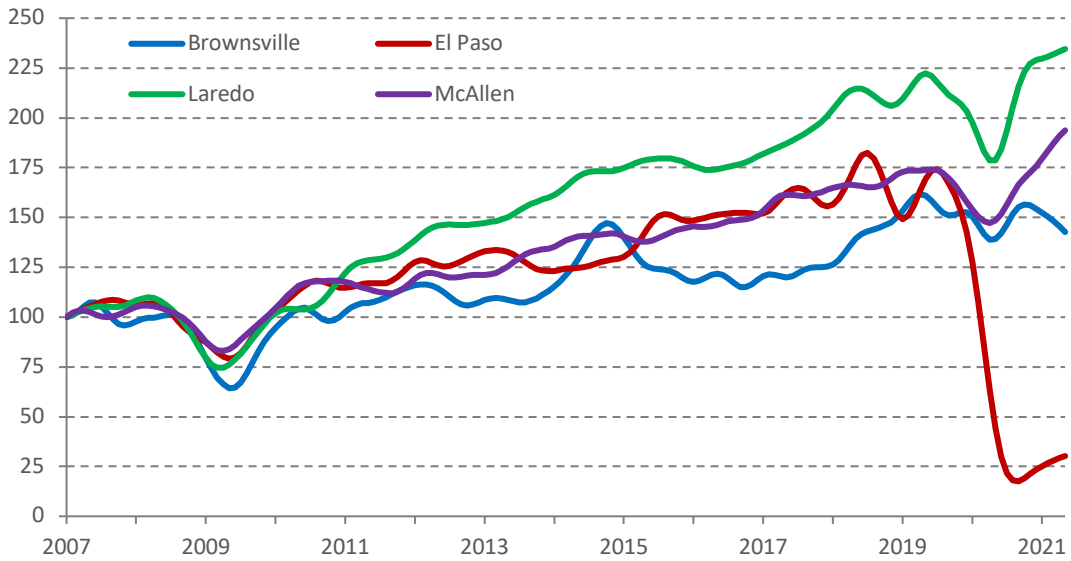
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate (\$)



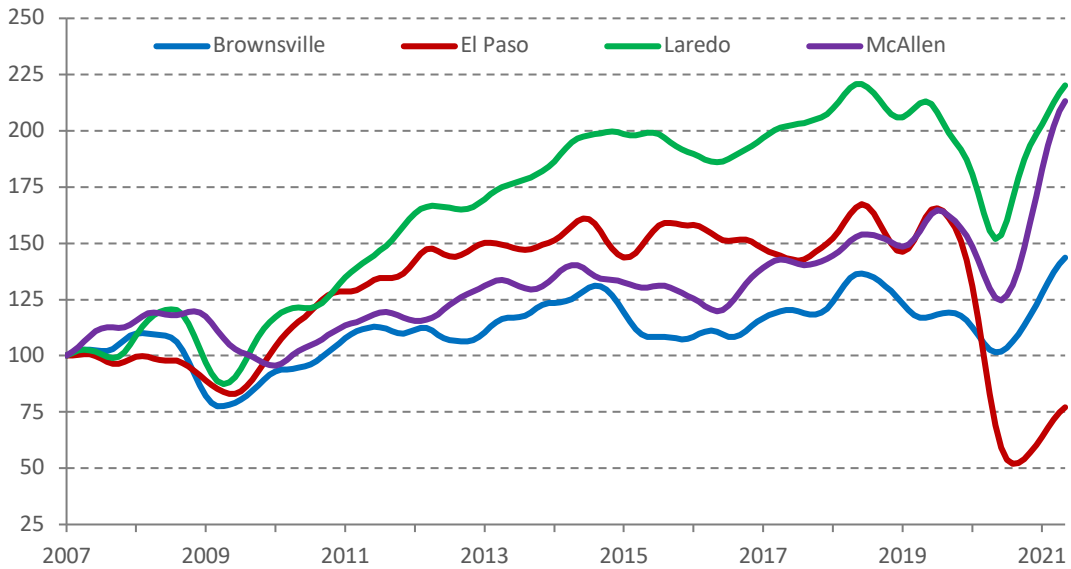
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values (Index Jan 2007 = 100)



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

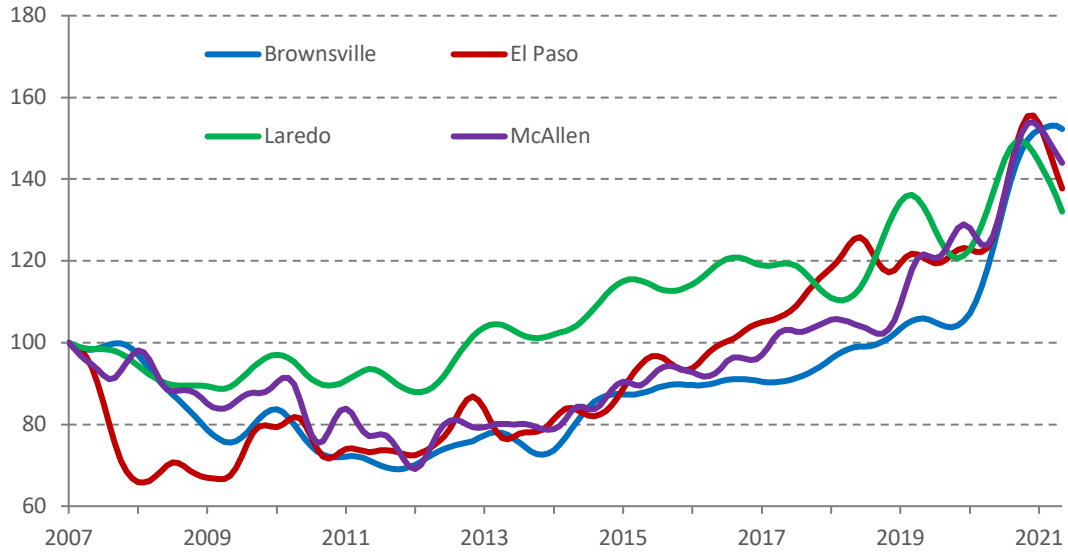
Export Values (Index Jan 2007 = 100)



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

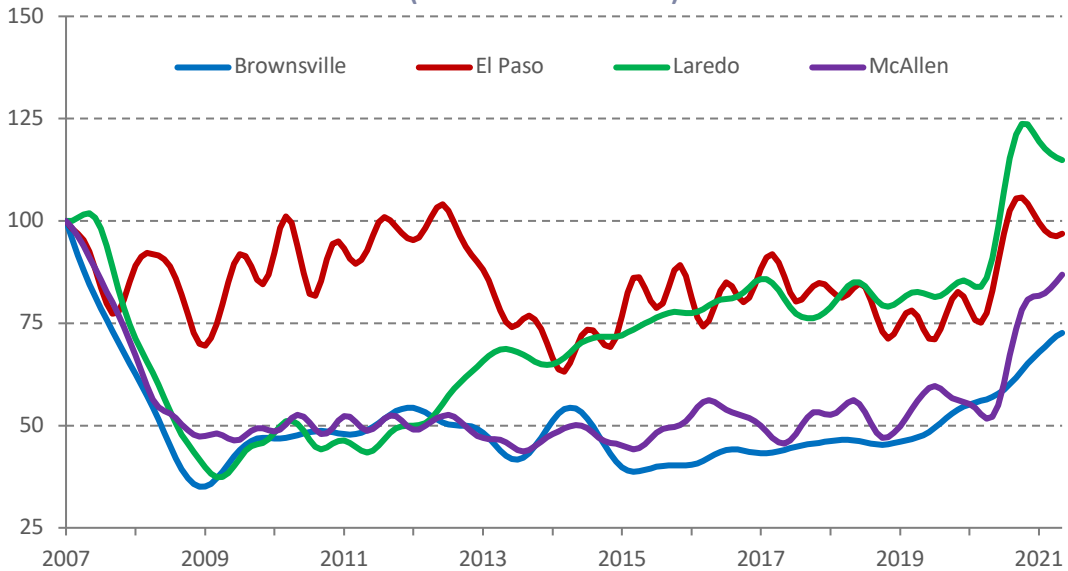
Housing

Housing Sales
(Index Jan 2007 = 100)



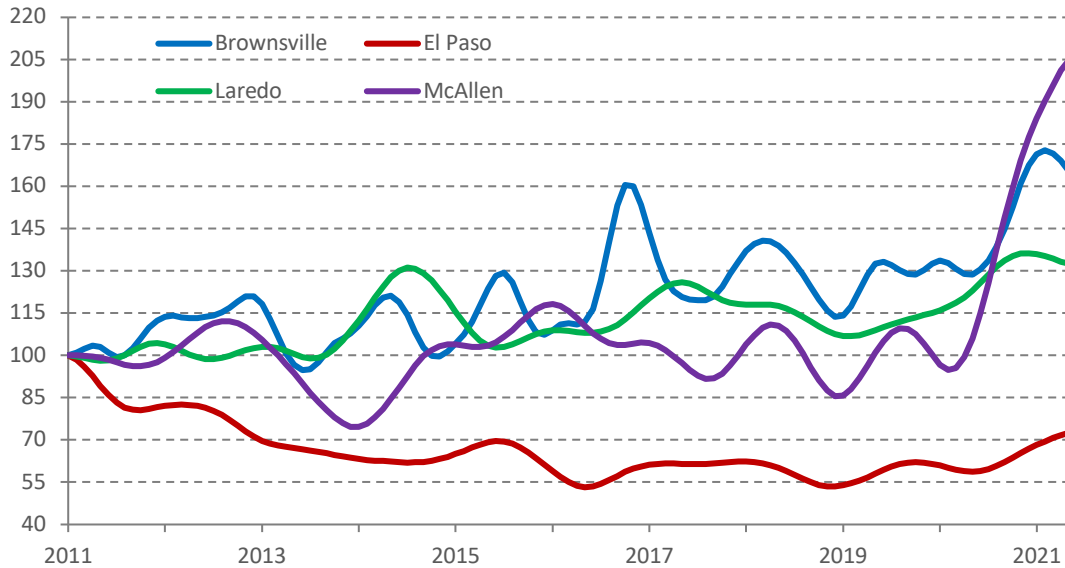
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

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



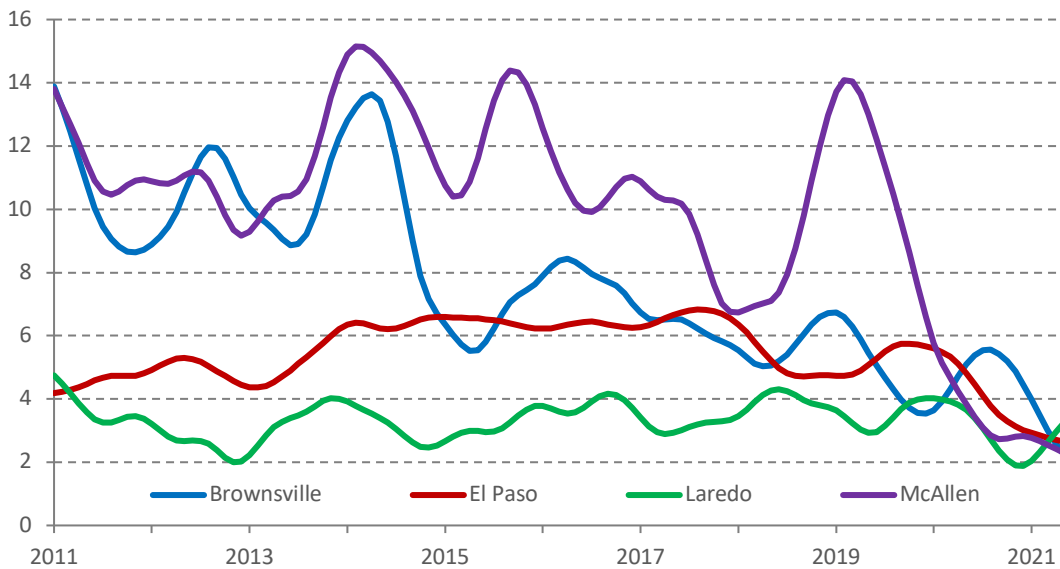
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Texas Real Estate Research Center at Texas A&M University

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



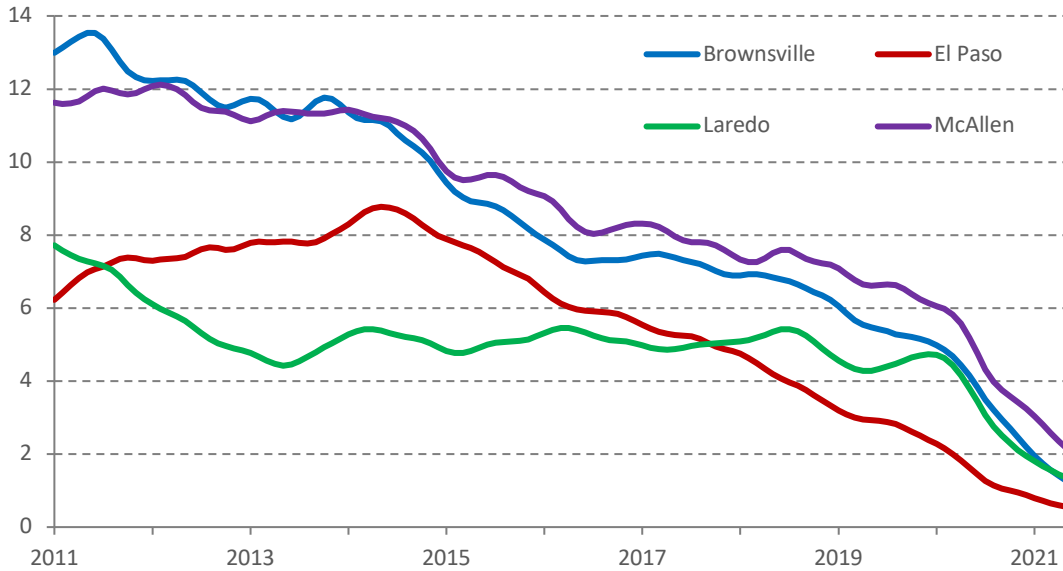
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory
(Months)



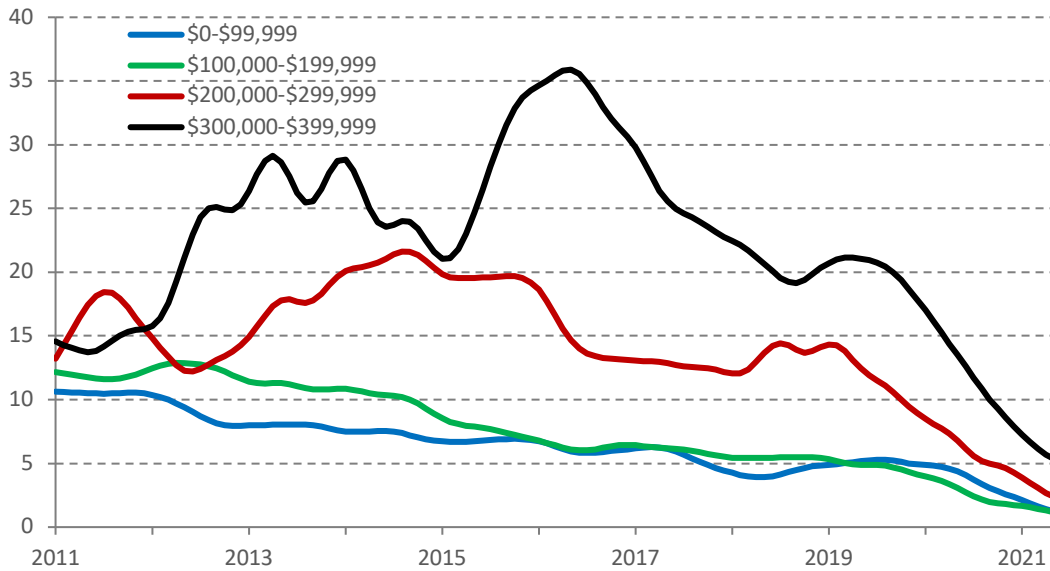
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Months of Inventory (Months)



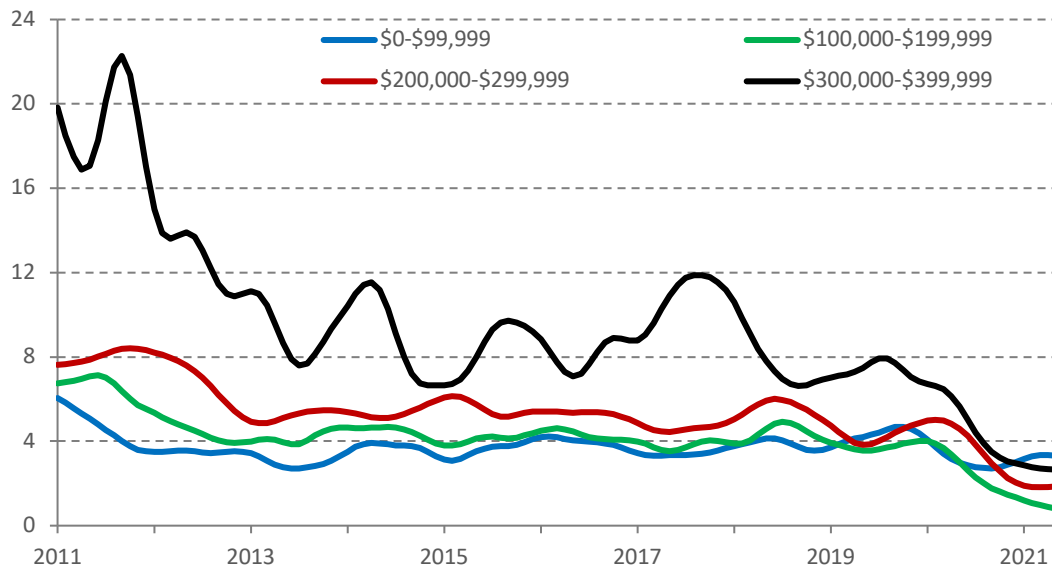
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



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

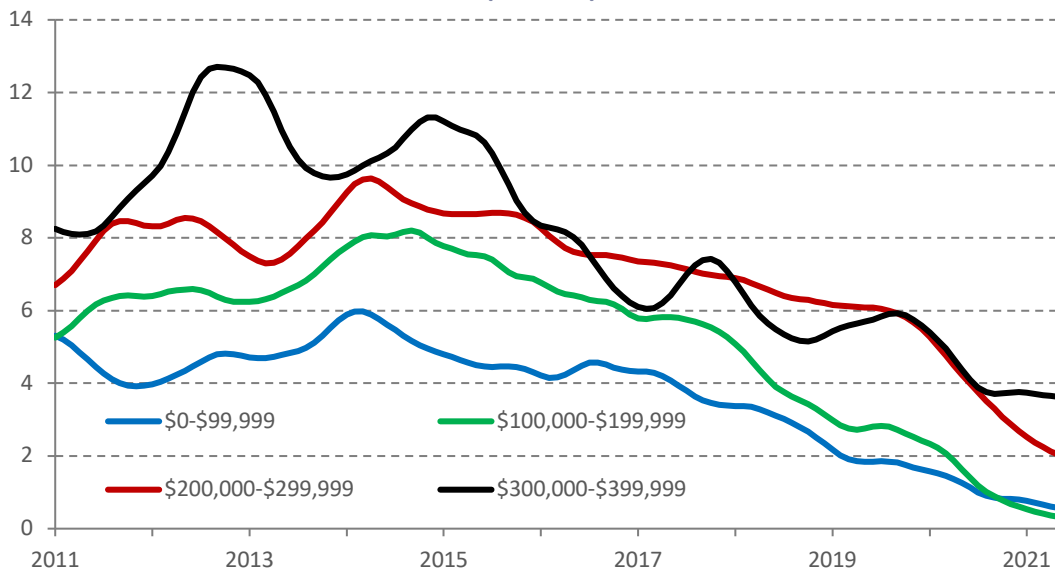
Laredo Months of Inventory by Price Cohort (Months)



Note: Trend-cycle component.

Source: Texas Real Estate Research Center at Texas A&M University

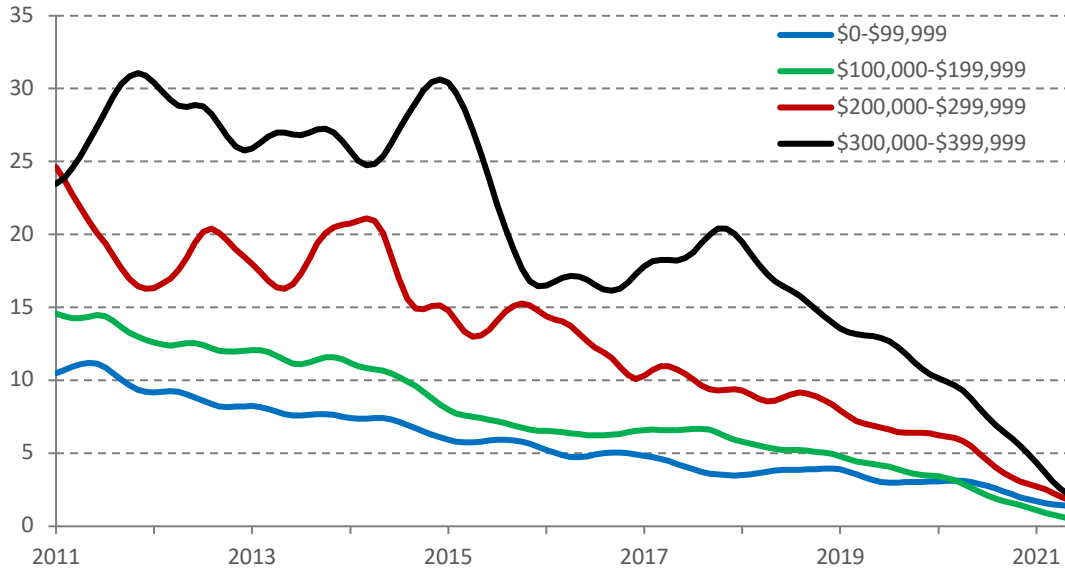
El Paso Months of Inventory by Price Cohort (Months)



Note: Trend-cycle component.

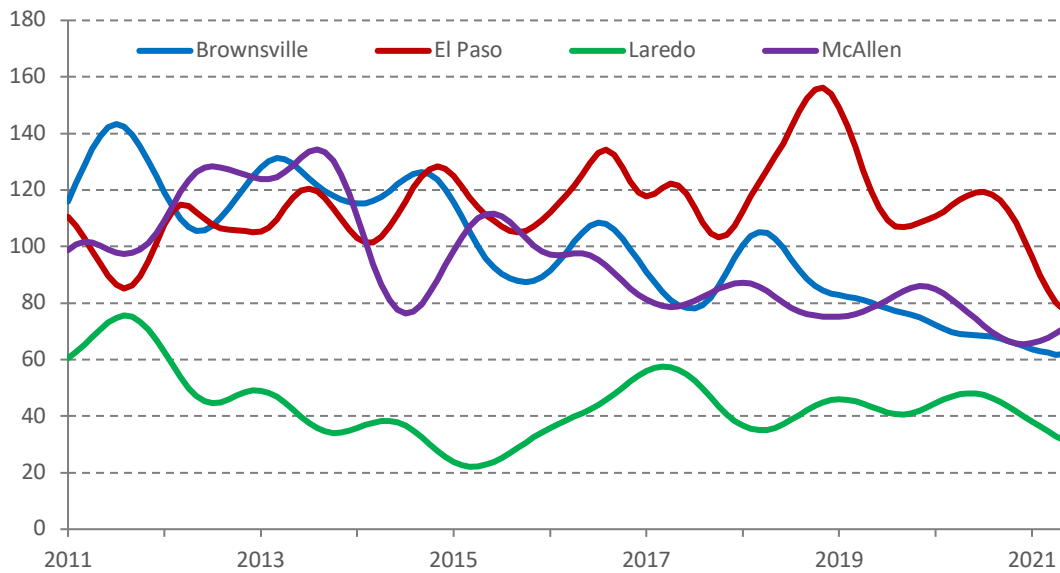
Source: Texas Real Estate Research Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



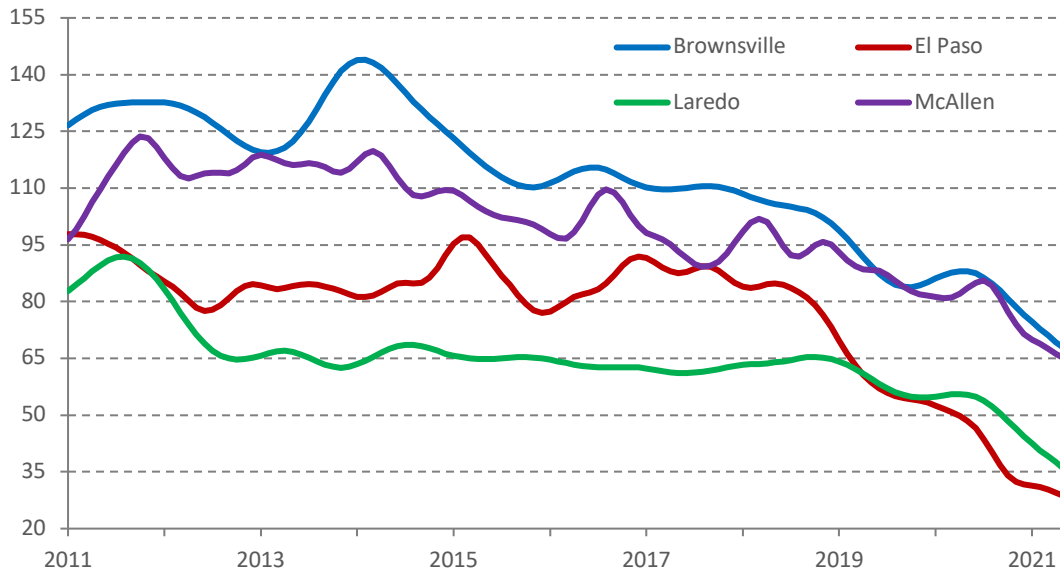
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Days on Market (Days)



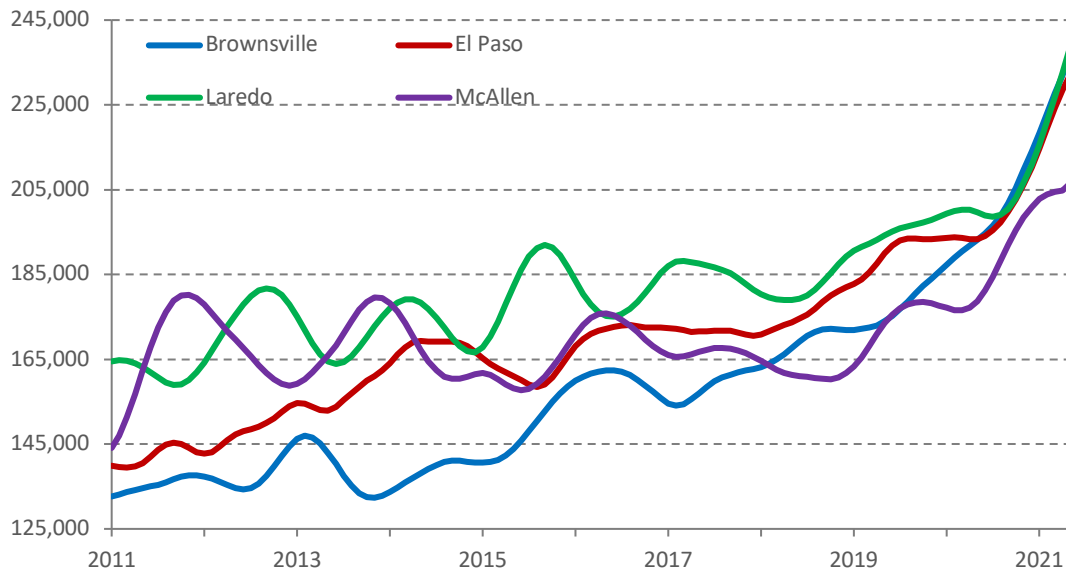
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Days on Market (Days)



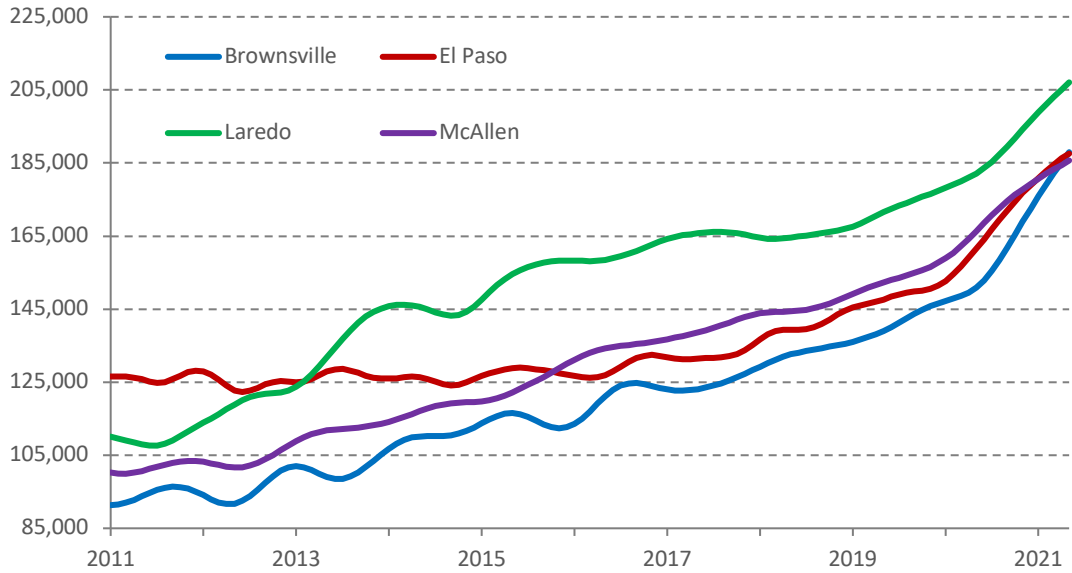
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Median Sales Price (\$)



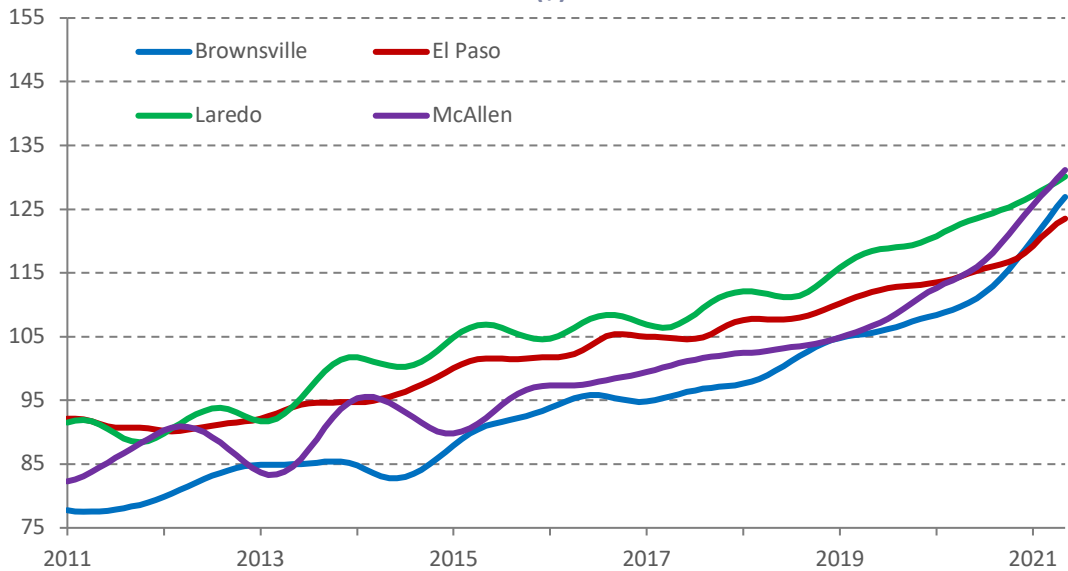
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Median Sales Price (\$)



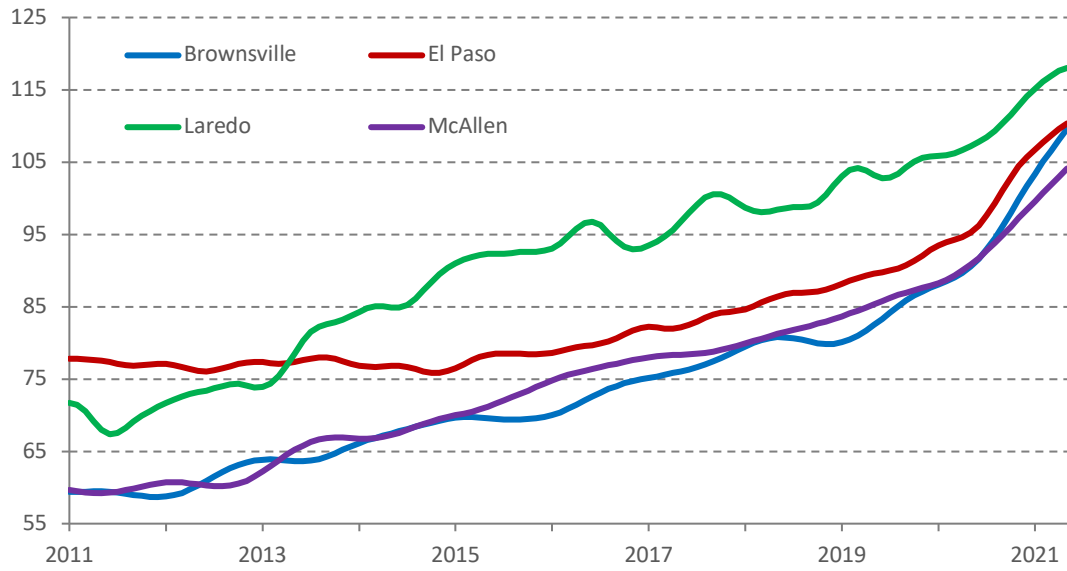
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

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



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