

TEXAS BORDER ECONOMY



TEXAS A&M UNIVERSITY

Texas Real Estate Research Center



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JUNE 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.

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Data current as of July 12, 2021

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Border Summary

BORDER EMPLOYMENT

▲ 1.7% SAAR

MAY MAQUILADORA EMPLOYMENT

▼ -0.5% MOM

TOTAL TRADE VALUES

▲ 5.8% QOQ

HOUSING SALES

▼ -8.5% QOQ

June 2021

Indicators along the Texas-Mexico border pointed toward continued economic progress in second quarter 2021 boosted by healthy consumer spending, solid employment growth, and increasing COVID-19 vaccination rates. Payrolls expanded on a quarterly basis, except in Laredo, although a late surge in weekly initial unemployment claims suggested hiring may slow at the start of the third quarter. Construction activity decreased while pricing pressures relaxed in the manufacturing sector as supply-chain disruptions improved, elevating trade values. Housing sales declined on a quarterly basis, but average days on market corroborated healthy demand. Depleted supply and accelerating home prices threaten housing affordability in an environment of lagging real wage growth, representing the major headwinds to the region's housing market and economy.

Economy

The **Dallas Fed's Business-Cycle Indexes** show economic recovery resumed along the border in June. The metric in El Paso and McAllen accelerated 6.1 and 9.7 percent, respectively, on a seasonally adjusted annualized rate (SAAR) amid solid payroll expansions. Meanwhile, Laredo's index increased 5.5 percent as it led all major Texas metros in vaccination rates, which correlate with consumer confidence and business activity. Brownsville's index was the exception, decelerating 2 percent amid a drop in real wages and inflation-adjusted retail sales. The U.S.' ban on nonessential travel, which prohibits Mexican tourists from entering the U.S., weighed on leisure/hospitality employment and retail sales. These measures have been extended through Sept. 21, 2021. Pedestrian and personal vehicle crossings from Mexico decelerated in June but continued to trend upward as border travel remained nearly 30 percent above year-ago levels (Figures 1 and 2).

Border nonfarm employment added 3,600 jobs in the last quarter, resulting in SAAR growth of 1.7 percent. McAllen led the border with employment increasing by 2,100 workers amid broad hiring across the service-providing sector. Brownsville and El Paso recovered a net 800 and 1,100 positions, respectively, but Laredo laid off 100 employees during the second quarter.

On the southern side of the border, **Mexican manufacturing and maquiladora employment**¹ decreased in May for the first time in ten months, laying off 2,737 workers. Reynosa and Juarez employment decelerated 7 and 0.6 percent year to date (YTD), respectively, after shedding 1,247 workers in the former and 1,275 in the latter. On the other hand, maquiladora employment flattened around year-end levels in Matamoros and Chihuahua while declining 3.1 percent in Nuevo Laredo. U.S. manufacturing production of motor vehicles picked up in May even as the labor and materials shortages challenged the supply chain. The IHS Markit Mexico Manufacturing Purchasing Managers' Index turned positive despite declining output as the recent hiring spree in the manufacturing sector strengthened business confidence. The pandemic and the Mexican government's response to the virus remain significant factors concerning the country's future growth and trade with Texas' border economies.

Hiring in the Rio Grande Valley pulled **unemployment rates** down to 9.6 and 10.5 percent in Brownsville and McAllen, respectively, amid an expansion in the latter's local labor force. Joblessness declined by 0.2 percentage points in both El Paso and Laredo, falling to 7.2 and 7.4 percent, respectively, while labor forces remained roughly unchanged in both metros. Weekly initial unemployment claims rose sharply in the last week of June amid an influx of new COVID-19 cases, resembling the statewide trend after a three-month decline (Figure 3).

Fluctuations in **average private hourly earnings** revealed lackluster wage growth along the border. Some of the downward 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, and the inflationary environment prevented meaningful gains in purchasing power. Earnings in McAllen fell 5.4 percent year over year (YOY) in real terms to a nominal wage of \$19.67 during June, marking the tenth straight annual decline. Hourly wages in Laredo (\$18.17) and El Paso (\$20.15) also trended downward, decreasing 6.1 and 5.9 percent on average, respectively, while Brownsville's metric reduced slightly on an annual basis to \$16.64. While baseline effects mechanically weighed on YOY numbers, annual wage growth trended below pre-pandemic levels across the border except in Brownsville.

Building activity slowed across the border metros, falling below year-long averages as **total construction values** dropped 28 percent quarter over quarter (QOQ). El Paso, Brownsville, and Laredo had quarterly reductions in various nonresidential sectors, offsetting increased investment in McAllen. On the residential side, values remained flat in El Paso and McAllen while expanding in Laredo and Brownsville amid significant increases in apartment and multifamily activity.

In the currency market, the **peso per dollar exchange rate** ticked up to 20.03 after the inflation-adjusted rate² decreased 4.9 percent YOY, revealing that domestic goods were relatively cheap to Mexican buyers in real terms. Despite currency fluctuations, both imports and exports rose in the second quarter due to an easing of supply-chain bottlenecks, pushing **total trade values** in the

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.

border hubs up 5.8 percent QOQ after a slow start to the year. At the metropolitan level, exports increased significantly over the previous three months. Quarterly imports accelerated 7.8 percent in McAllen and flattened in Laredo, while values declined in both Brownsville and El Paso. Total trade values recovered to pre-pandemic levels except in El Paso, where activity remained down 40 percent amid ongoing disruptions to global supply chains. The border's trade sector remains an integral component of the local economies.

Housing

Although **border housing sales** turned positive in June, the previous four-month decline resulted in an 8.5 percent QOQ drop amid ongoing inventory constraints and reduced housing affordability. Activity in the Rio Grande Valley varied as sales fell 7.3 percent QOQ in Brownsville but accelerated 3.5 percent in McAllen mostly due to greater transactions for homes priced more than \$300,000. In El Paso, quarterly sales shrunk 9.1 percent, trending downward due to declines for homes priced less than \$300,000. Meanwhile, Laredo sales decreased for the second straight quarter, dropping 8.9 percent.

The border metros issued 2,670 **single-family housing construction permits** in 2Q2021, increasing 4.2 percent after negative growth during the previous quarter. Brownsville's issuance, however, remained steady for three consecutive quarters, posting 6.7 percent growth, while construction in McAllen trended upward as the metric rose 3.1 percent QOQ. Permits in El Paso and Laredo increased 1.7 and 2.4 percent, respectively, normalizing after significant declines to start the year. On the other hand, quarterly **private single-family construction values** decreased along the border except in Laredo, where values increased 7.2 percent. Despite second-quarter slowdowns, three of the four border metros maintained an upward trend in values, except for Brownsville where the metric flattened, suggesting steady building in the upcoming months.

Rebounding sales activity offset additional listings during June, pulling **months of inventory (MOI)** down to unprecedented lows of 2.2 and 1.1 months in McAllen and El Paso, respectively. Laredo's metric fell for the third straight month to 1.9 months while Brownsville's inventory expanded to 1.3 months, slightly above the statewide average (1.2 months). A balanced housing market typically has an MOI closer to six months.

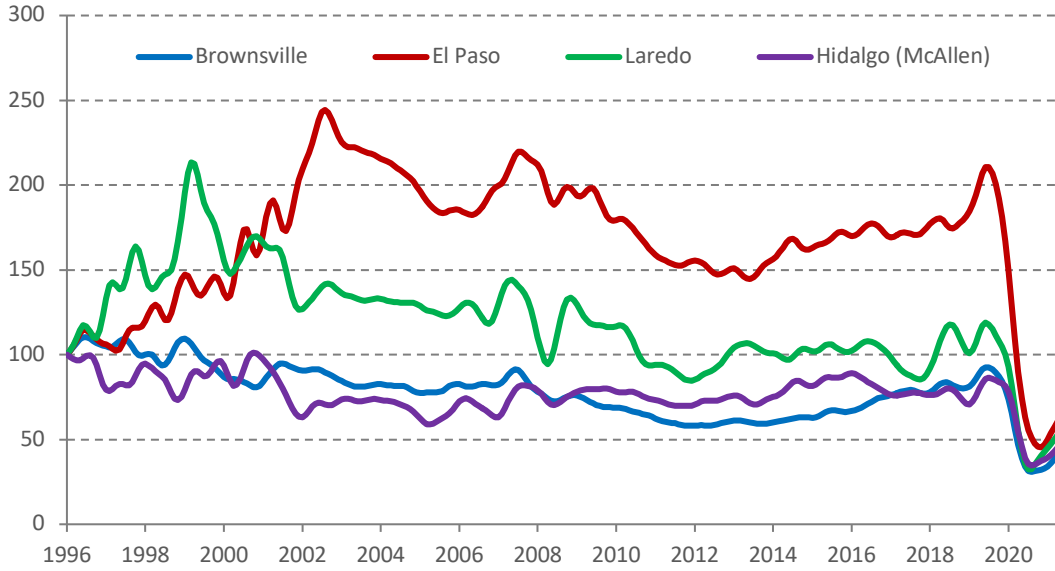
The **average number of days on market (DOM)** along the border continued to decline, corroborating robust demand despite the YTD dip in sales. The DOM in El Paso decreased to 34 days, while McAllen's rose to 67 days. Laredo and Brownsville shed additional time off their DOM, dropping to 31 days and 73 days, respectively.

While the shift in sales toward higher-priced homes due to limited inventories at the lower end of the market slowed in June, compositional changes contributed to quarterly increases in the **median home price** along the border. The median price accelerated 9.7 percent in Brownsville during the previous three months compared with the first quarter, pushing the median price to \$218,000. Median home prices in Laredo (\$197,600) and McAllen (\$193,900) accelerated as well, elevating 2 and 3.0 percent, respectively. El Paso (\$197,500) was the exception as median price growth, while

still healthy, decelerated 2.8 percent QOQ. True changes in home values were likely more modest as demonstrated by the lower growth of 1.4 percent in the El Paso Repeat Sales Home Price Index.

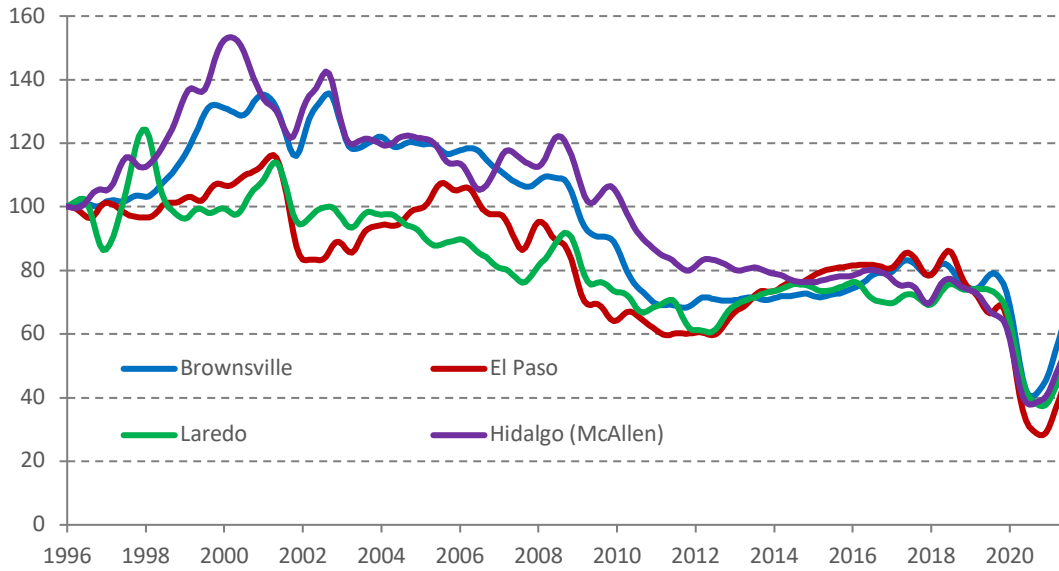
Lower-priced housing in the border metros generally reflects below-average earnings statewide, thereby managing affordability pressures as measured by the **Texas Real Estate Research Center's Affordability Indexes**. Home-price appreciation, however, dampened affordability, particularly in Brownsville, where the affordability metric decreased for the fourth consecutive quarter to 1.24; this indicated a family earning the metro median income could afford a home priced 24 percent more than the median sale price. The McAllen and El Paso indexes also fell substantially to 1.43 and 1.58, respectively, relative to year-ago levels. Laredo's metric, however, climbed to 1.61, but the trend extended its decline from last quarter. Housing affordability is an important borderland advantage that has supported the region's attractiveness compared with other parts of the state.

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



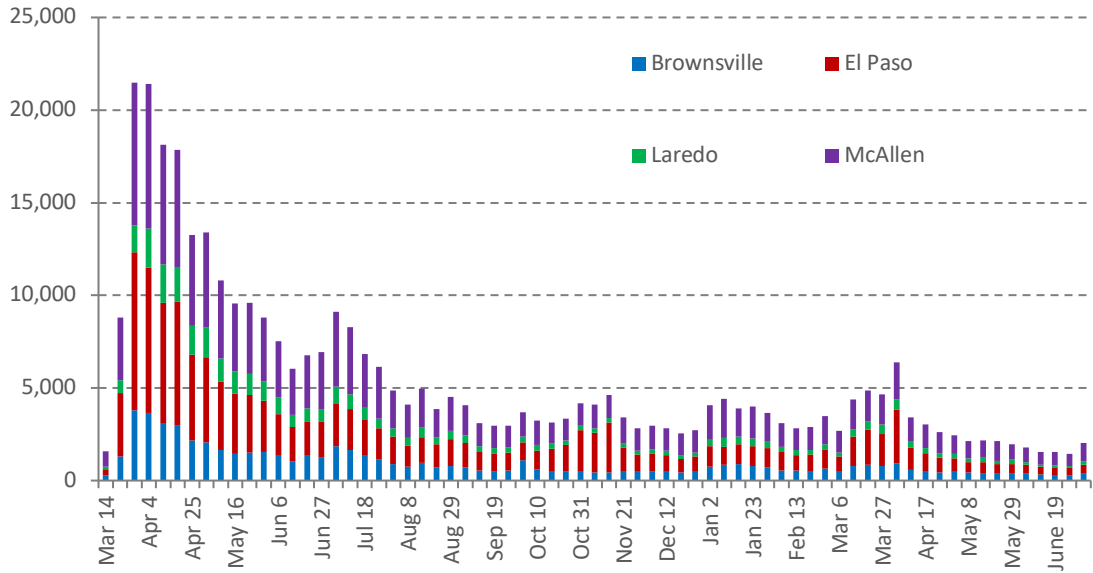
Note: Pedestrians entering the United States from Mexico. Data collected at ports of entry by U.S. Customs and Border Protection. Trend-cycle component.
Source: U.S. Bureau of Transportation Statistics

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

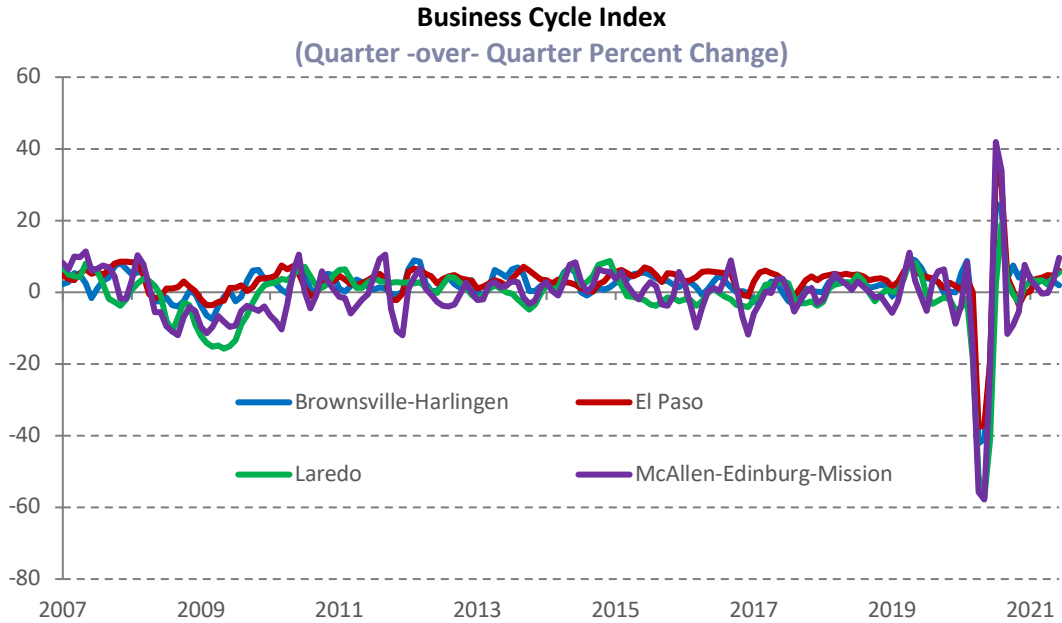
Figure 3. Border Metro Weekly Initial Unemployment Claims (2020-21)



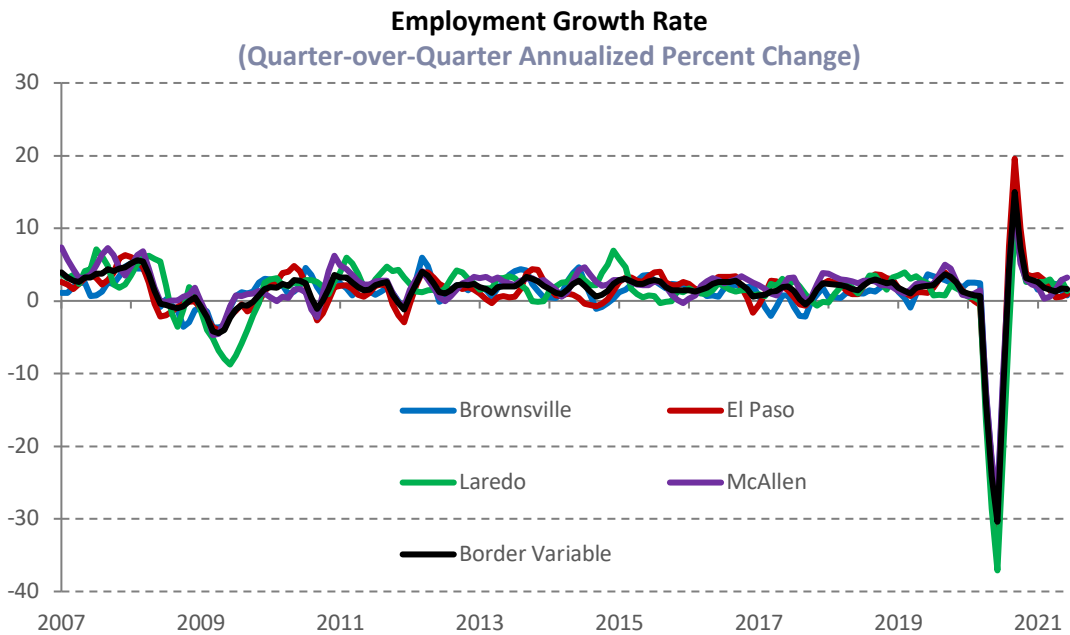
Note: Seasonally adjusted.

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

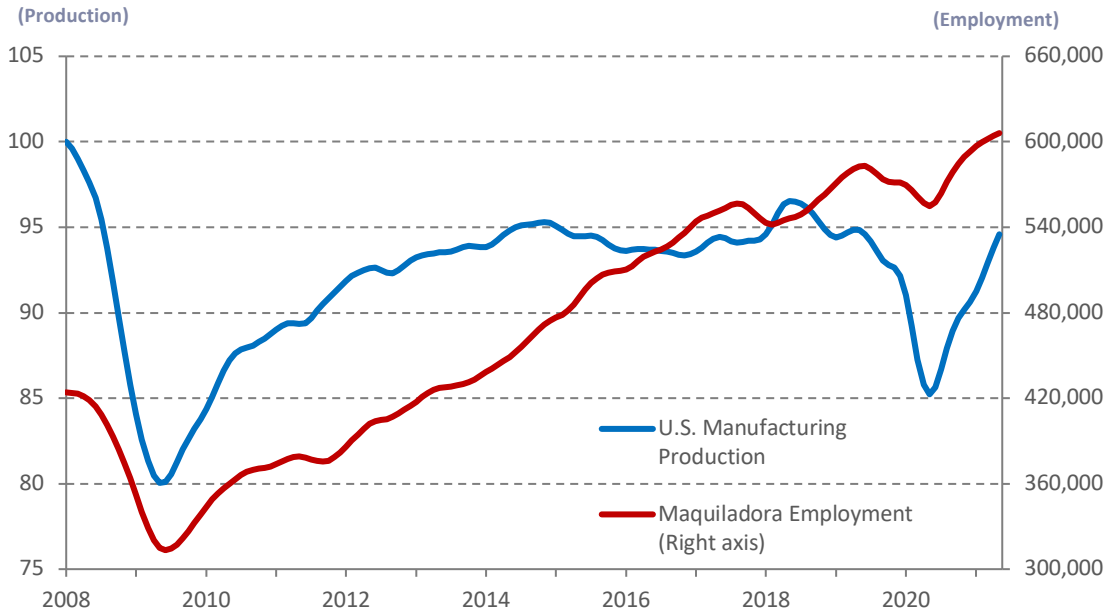


Note: Seasonally adjusted. For more information, see [Texas Business Cycle Index](#).
Source: Federal Reserve Bank of Dallas



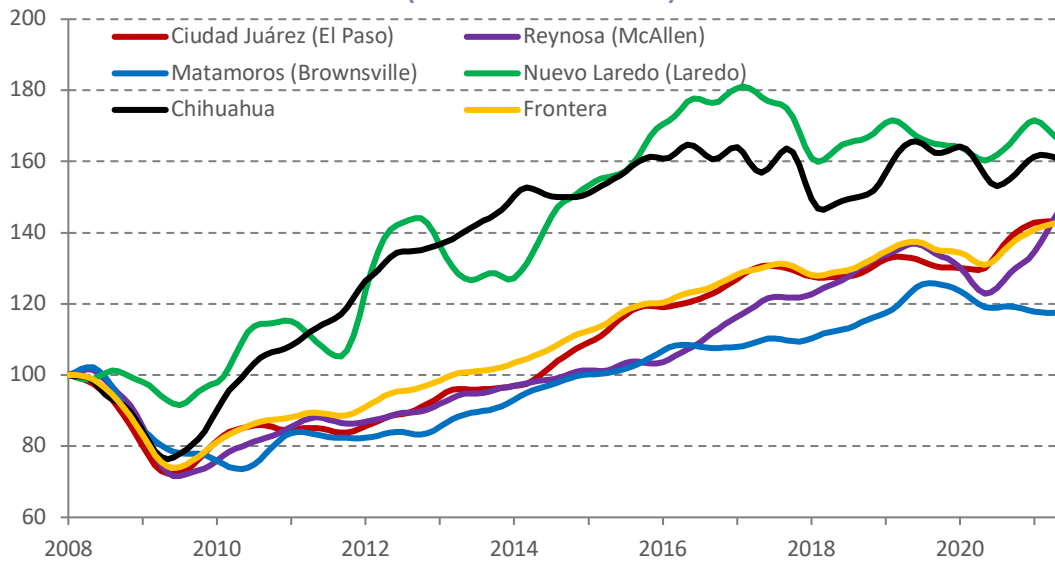
Note: Seasonally adjusted, three-month moving average. April 2021 is preliminary. For more information, see [Employment Growth Rate](#).
Source: Bureau of Labor Statistics

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



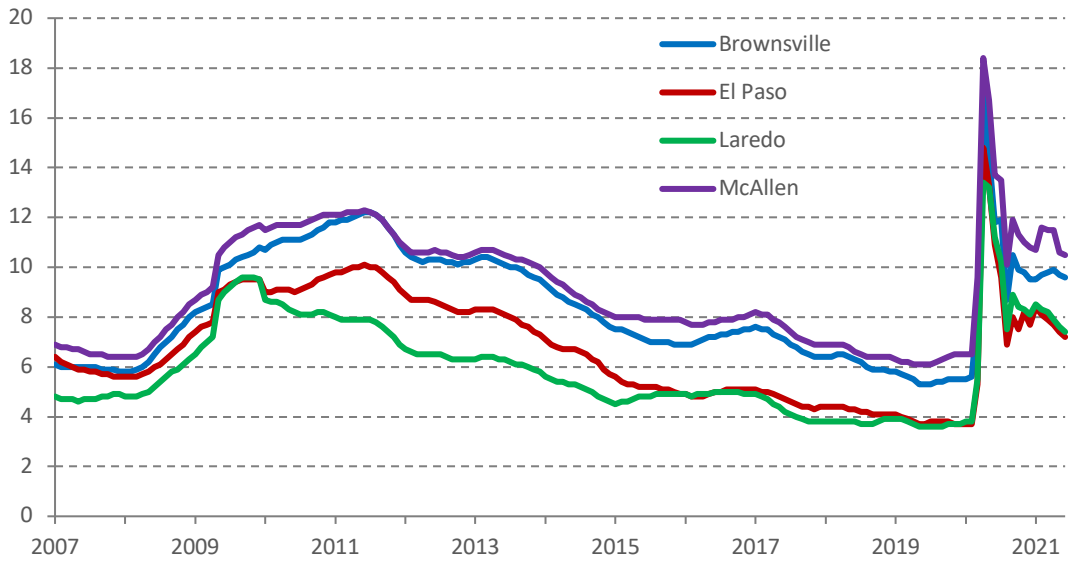
Note: Trend-cycle component.
Sources: Federal Reserve Bank of St. Louis and Instituto Nacional de Estadística y Geografía

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



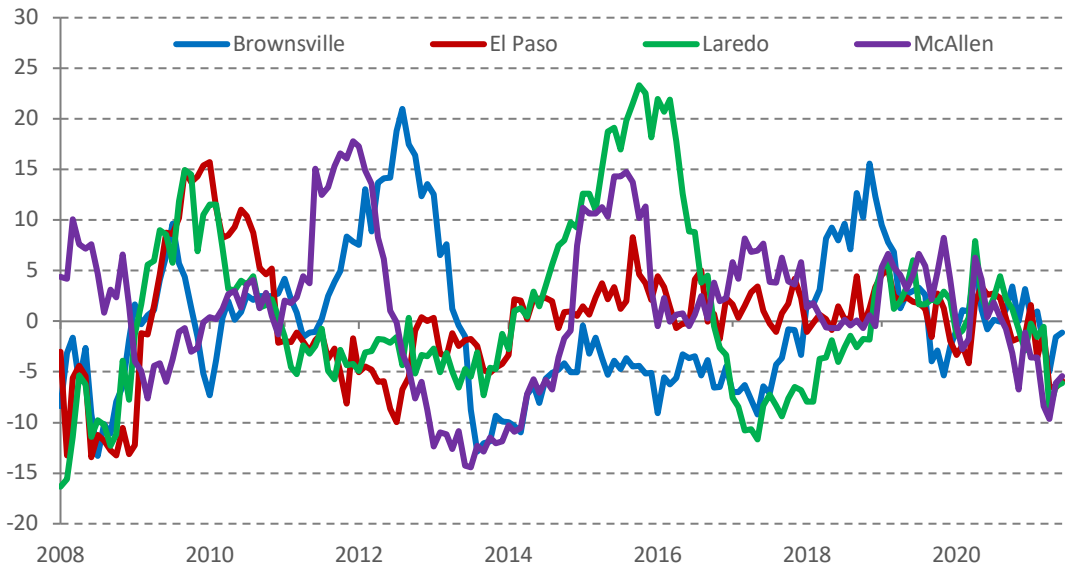
Note: Trend-cycle component.
Source: Instituto Nacional de Estadística y Geografía

Unemployment Rate (Percent)



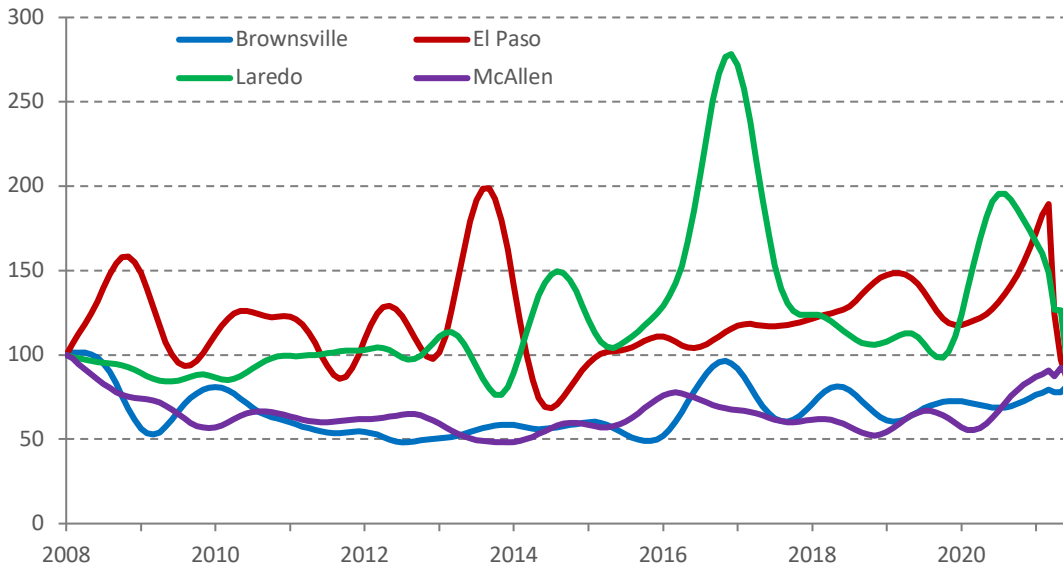
Note: Seasonally adjusted. April 2021 is preliminary. For more information, see [Unemployment Rate](#).
Source: Bureau of Labor Statistics

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



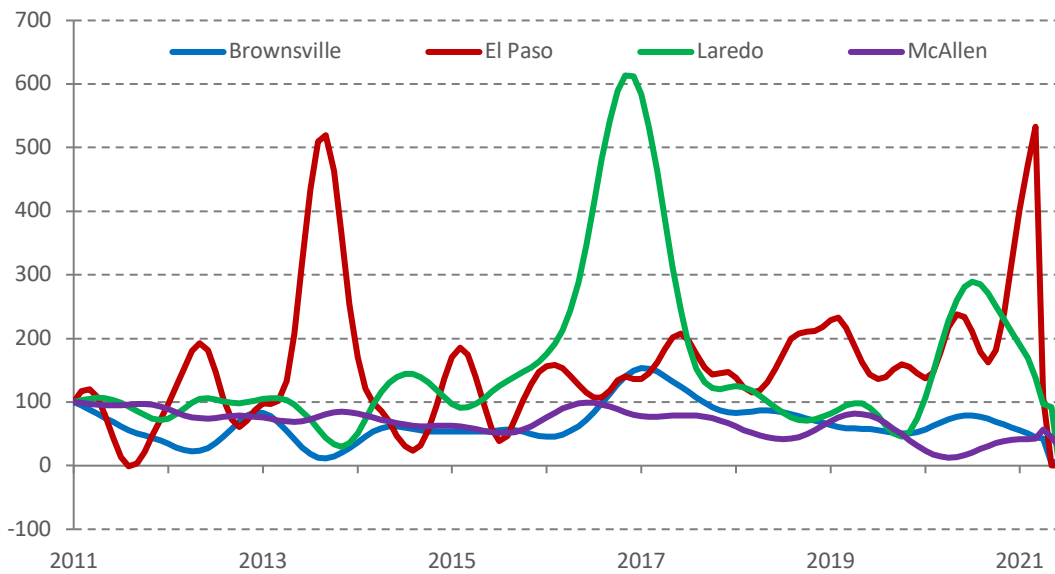
Notes: Inflation adjusted, seasonally adjusted. April 2021 is preliminary. For more information, see [Total Private Employee Hourly Earnings](#).
Source: Bureau of Labor Statistics

Total Construction Values
(Index Jan 2008= 100)



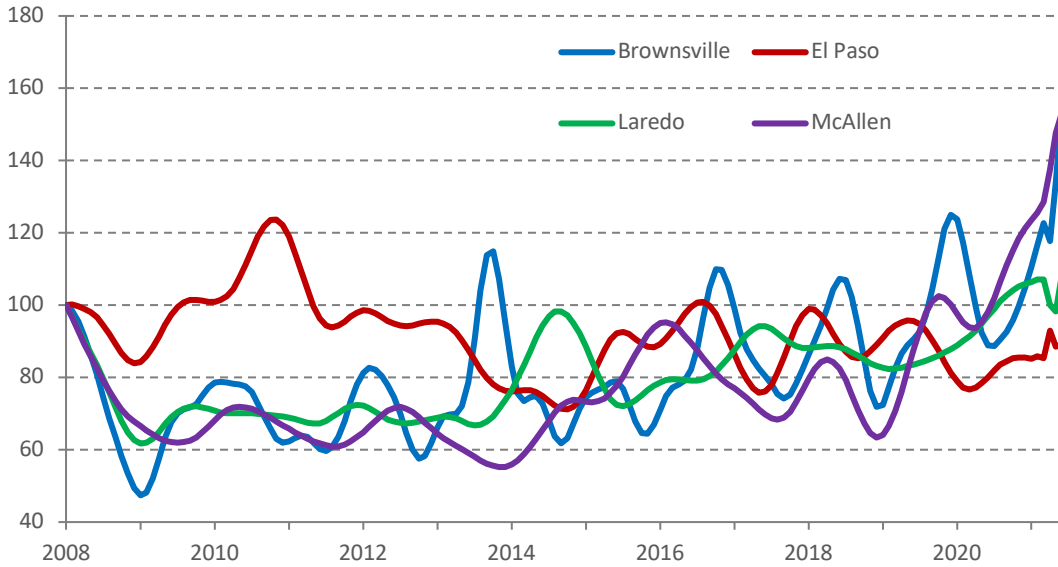
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Nonresidential Construction Values
(Index Jan 2011 = 100)



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

Residential Construction Values (Index Jan 2008 = 100)



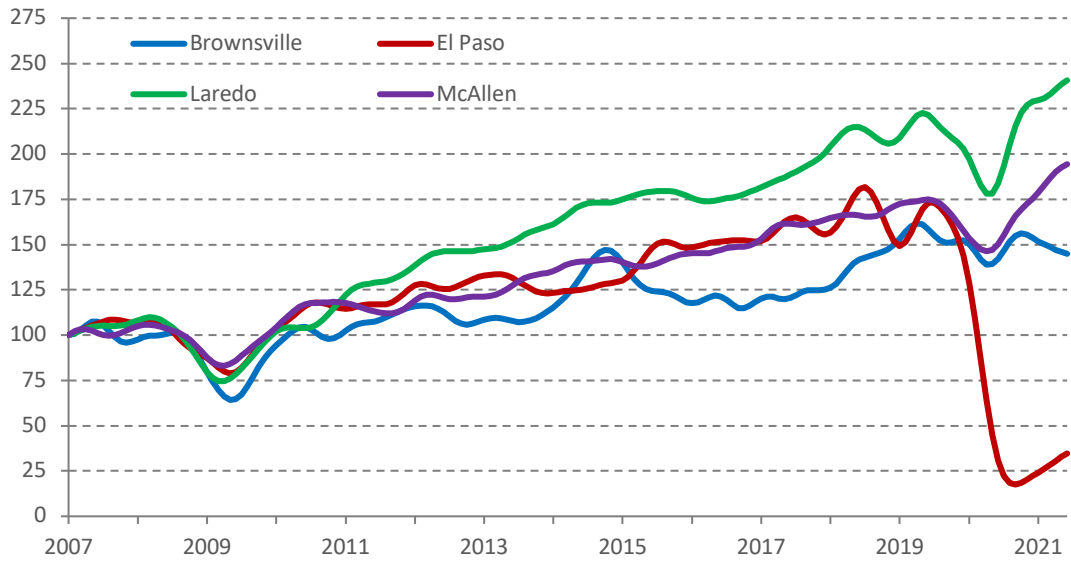
Note: Inflation-adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

Real Peso per Dollar Exchange Rate (\$)



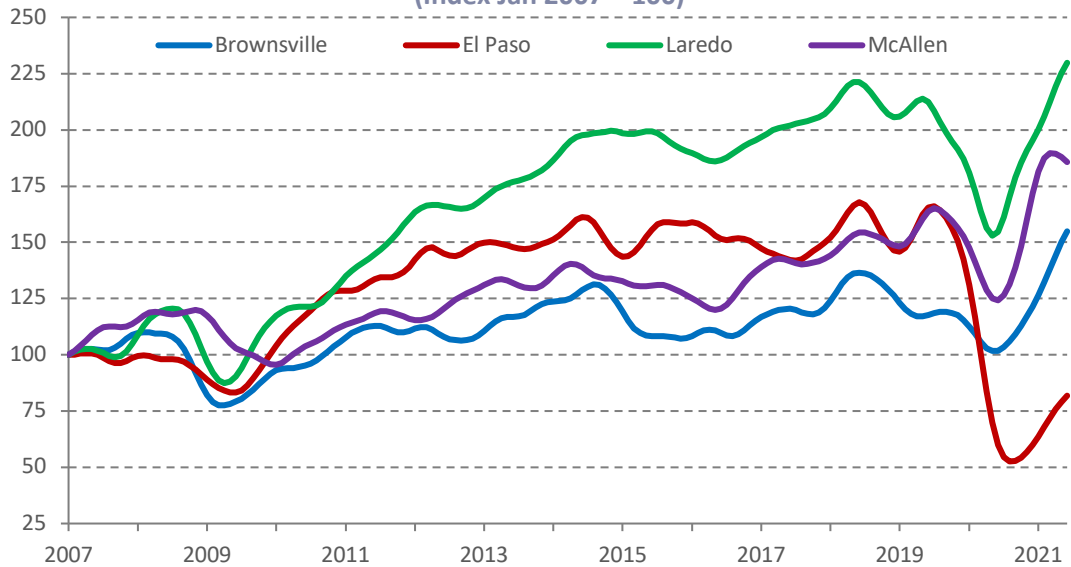
Note: Deflated using the Texas Trade Weighted Value of the Dollar.
Source: Federal Reserve Bank of Dallas

Import Values (Index Jan 2007 = 100)



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

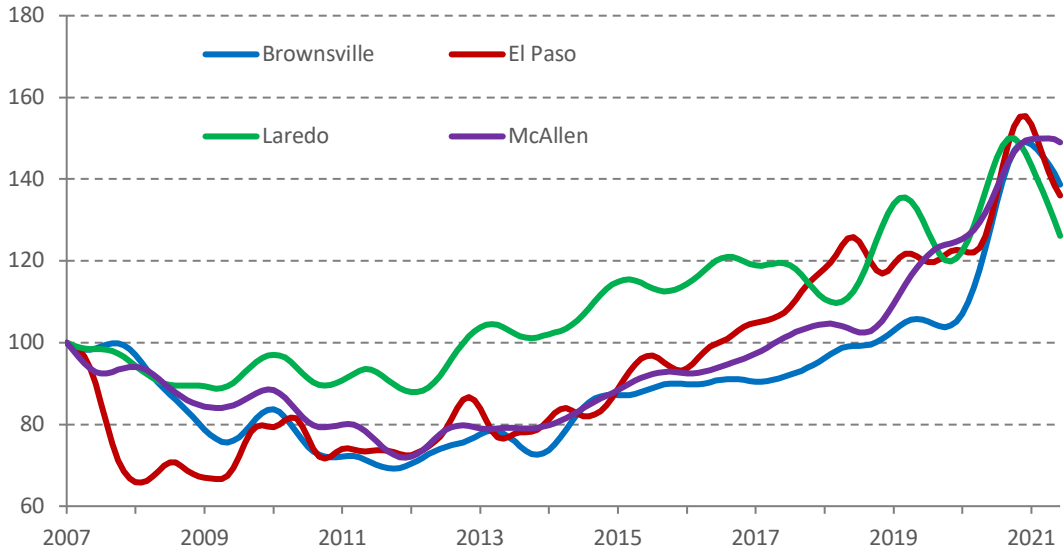
Export Values (Index Jan 2007 = 100)



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

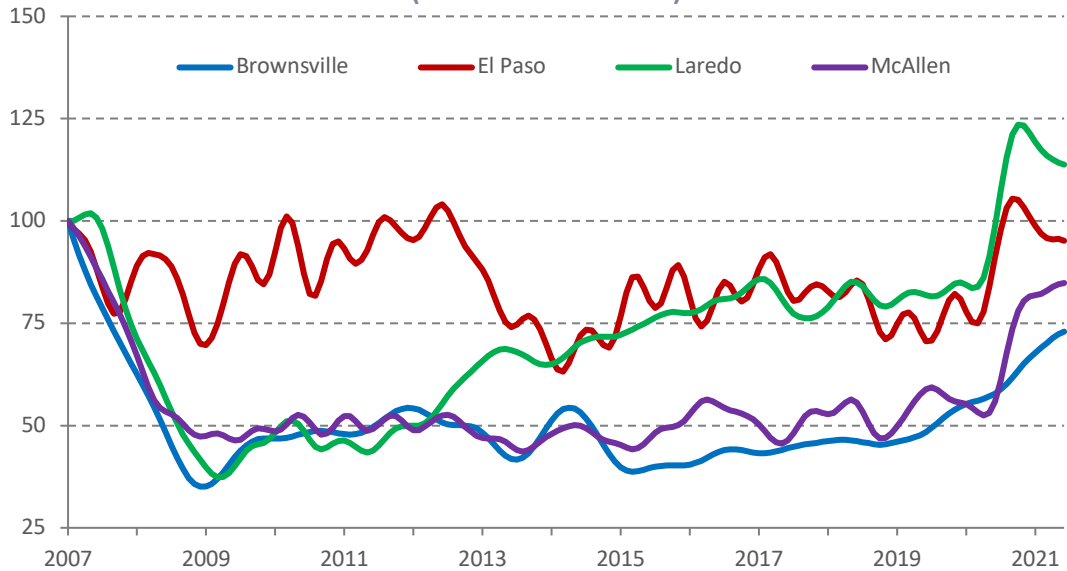
Housing

Housing Sales
(Index Jan 2007 = 100)



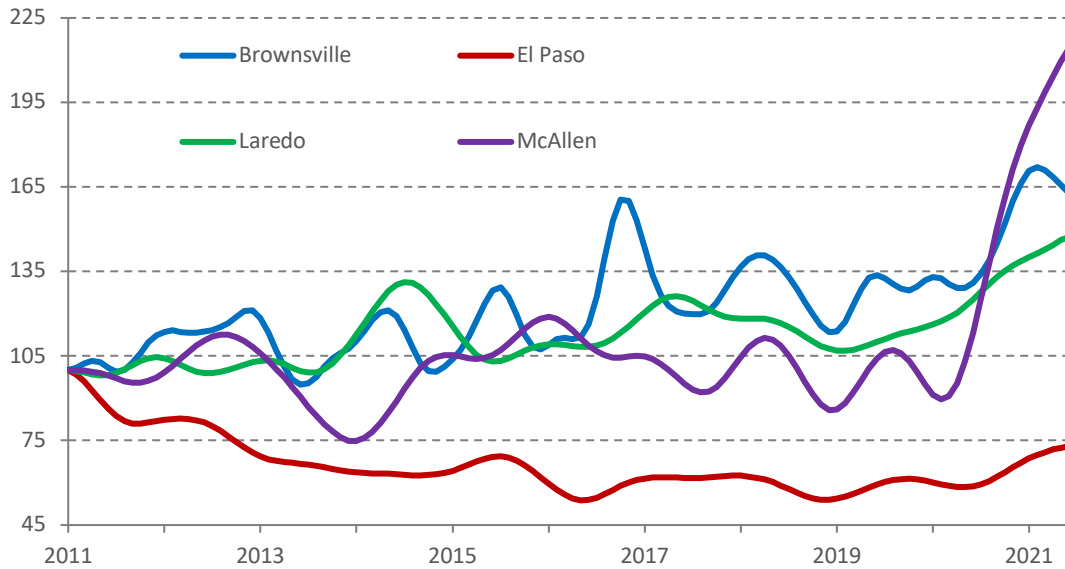
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

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



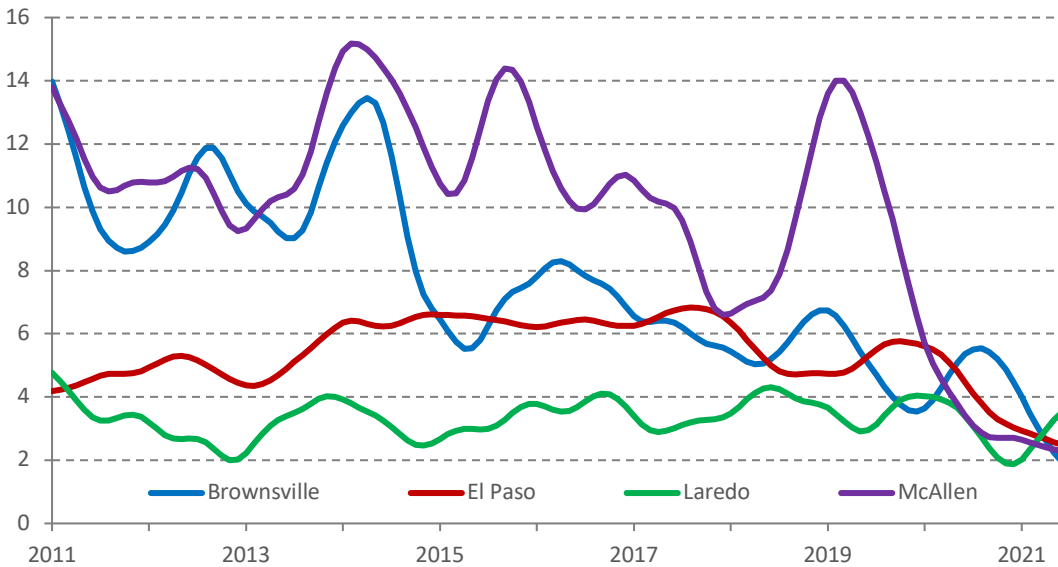
Note: Trend-cycle component.
Sources: U.S. Census Bureau and Texas Real Estate Research Center at Texas A&M University

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



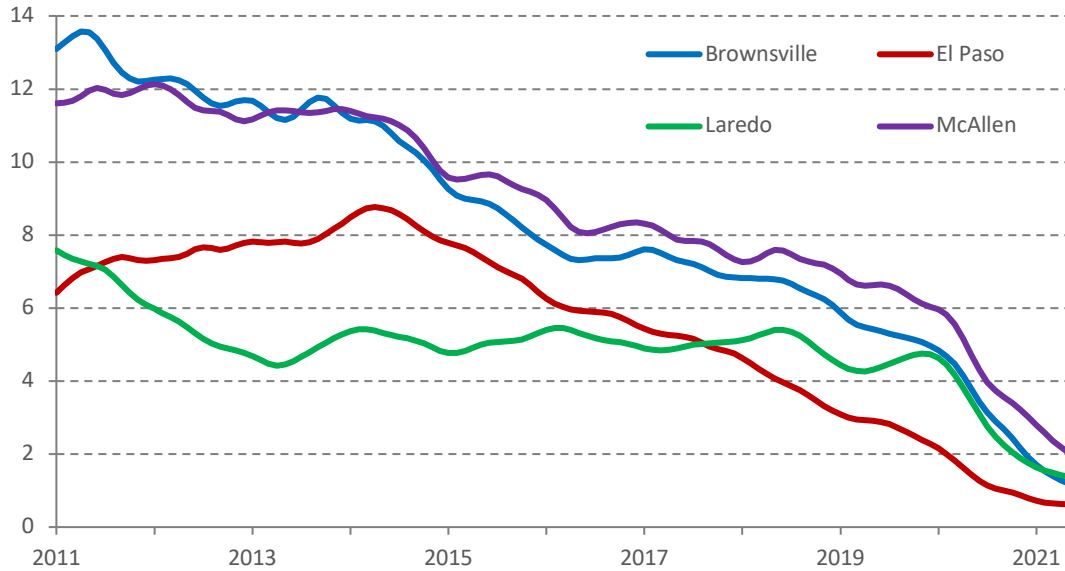
Note: Inflation adjusted. Trend-cycle component.
Source: Dodge Data & Analytics

New Home Months of Inventory (Months)



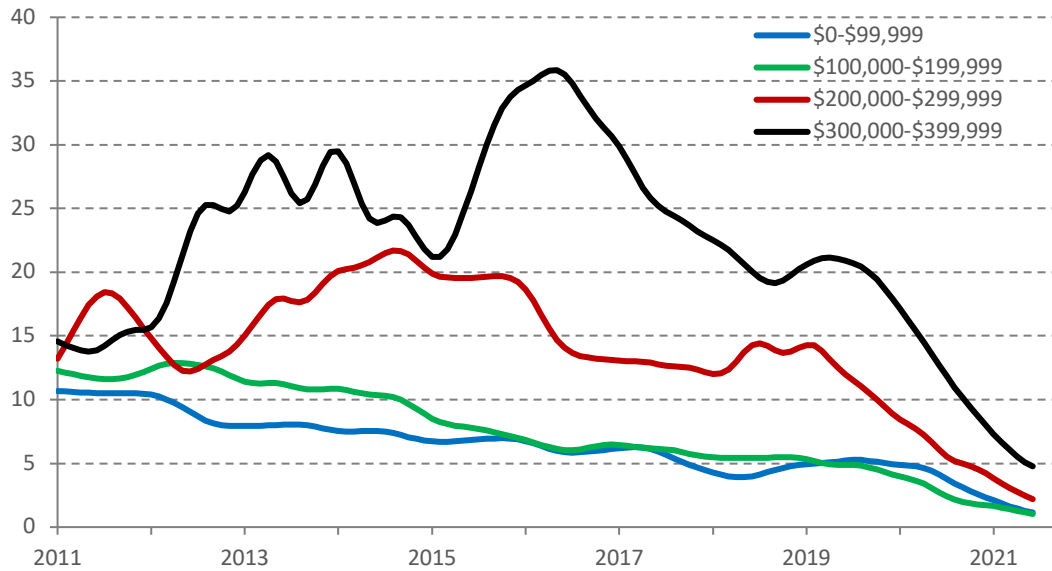
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Months of Inventory (Months)



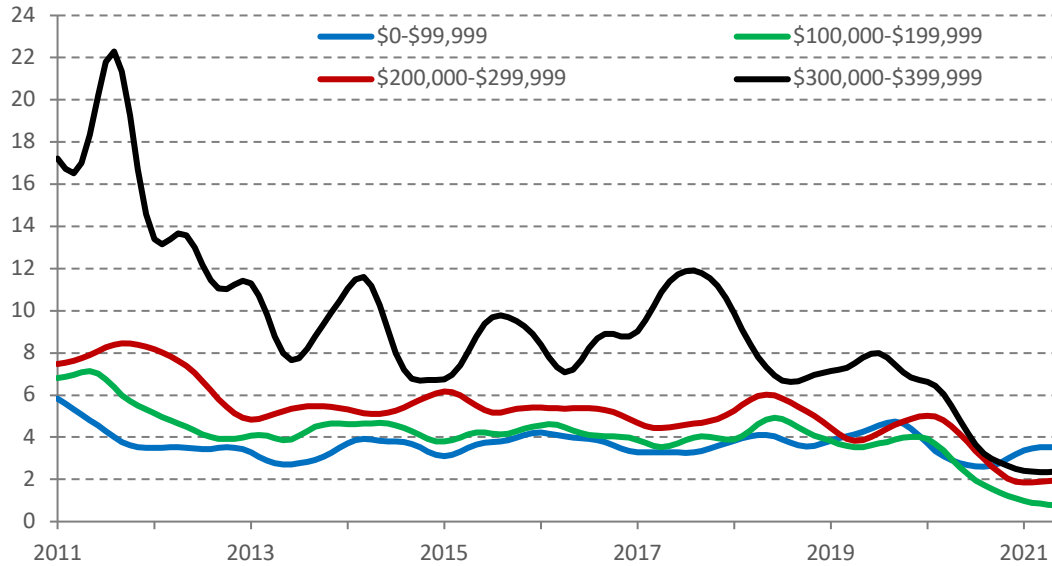
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

McAllen Months of Inventory by Price Cohort (Months)



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

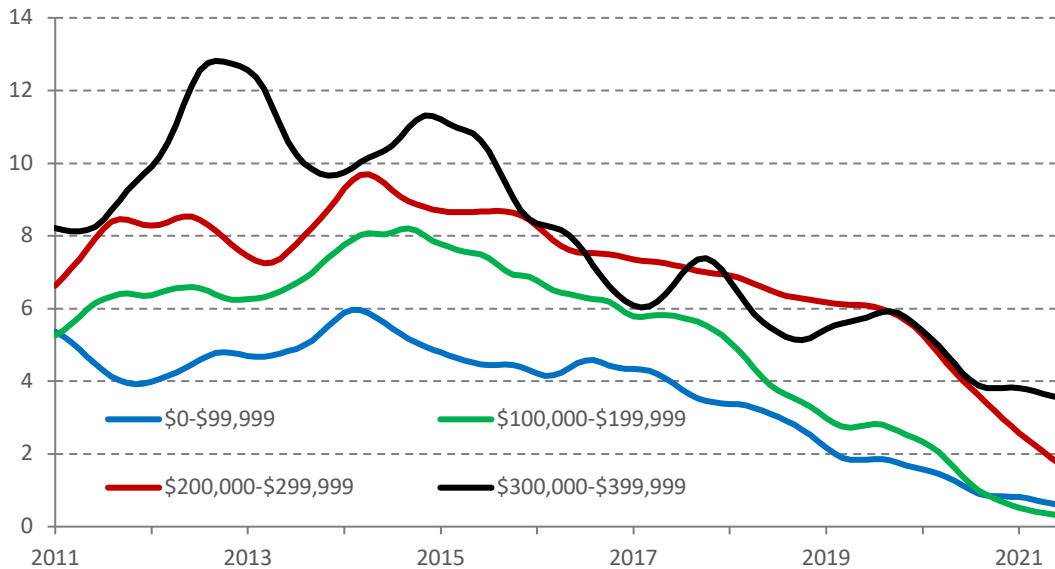
Laredo Months of Inventory by Price Cohort (Months)



Note: Trend-cycle component.

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

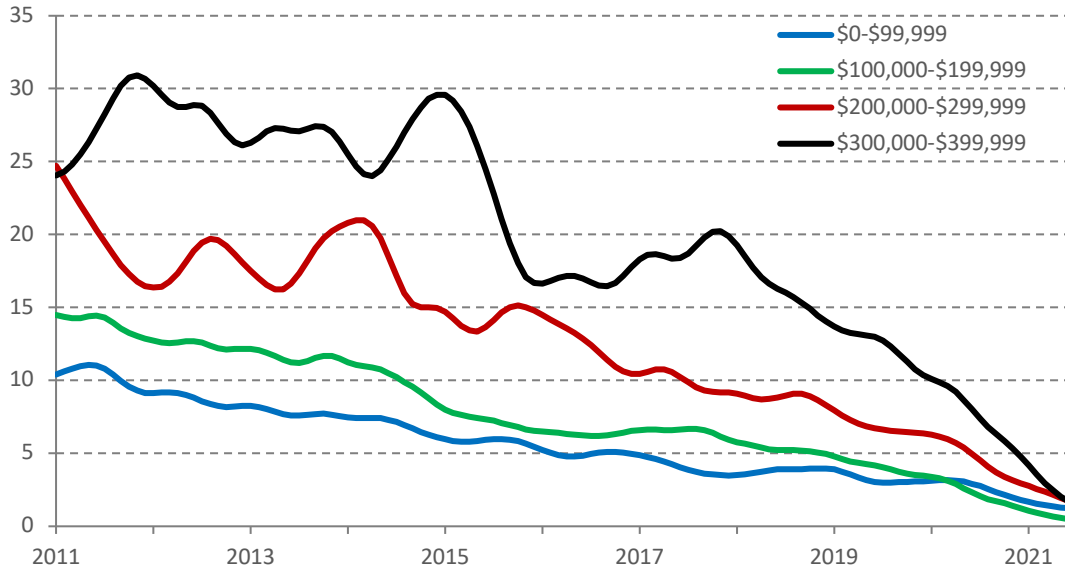
El Paso Months of Inventory by Price Cohort (Months)



Note: Trend-cycle component.

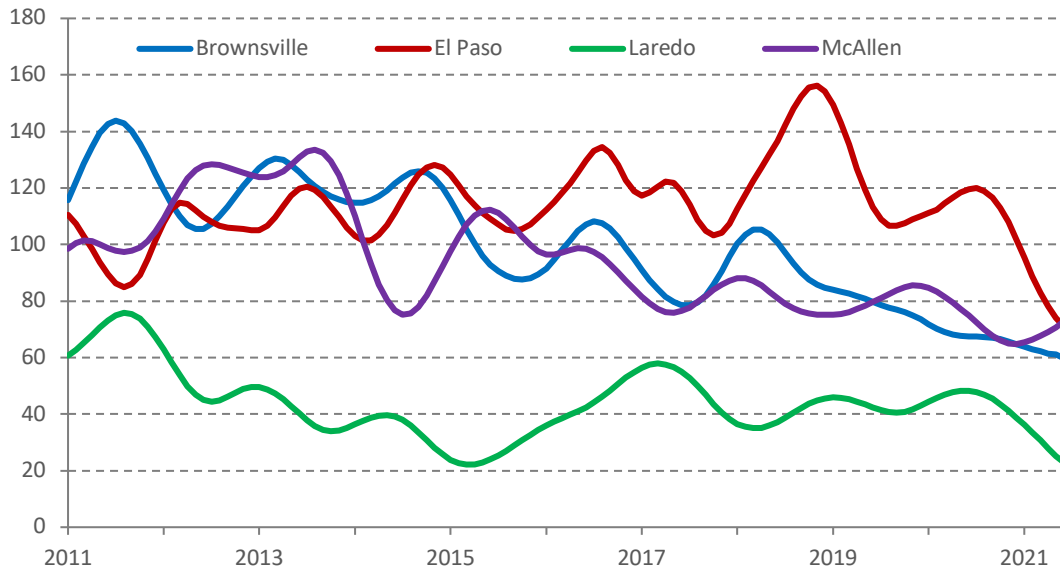
Source: Texas Real Estate Research Center at Texas A&M University

Brownsville Months of Inventory by Price Cohort (Months)



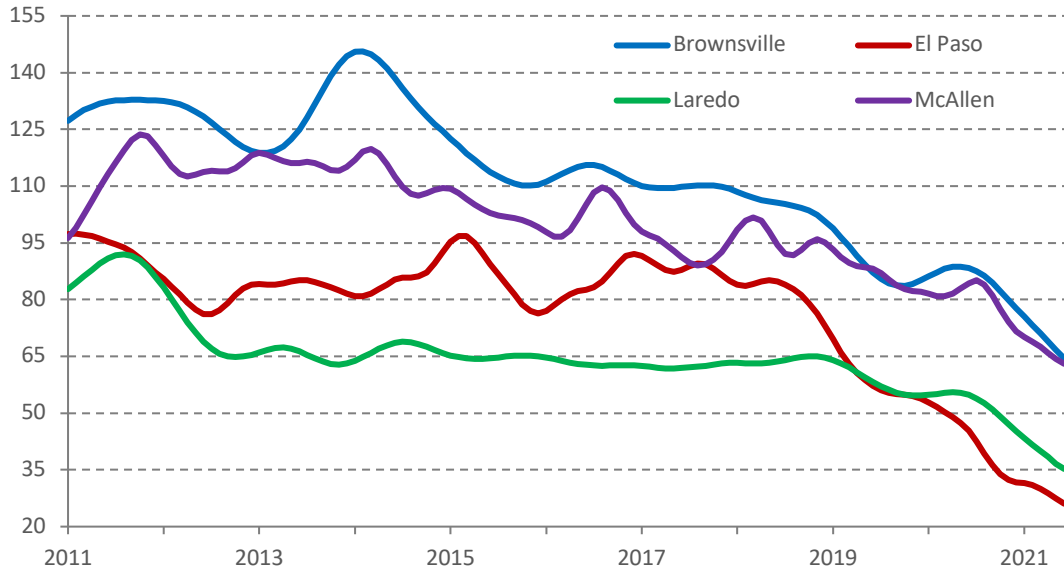
Note: Trend-cycle component.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Days on Market (Days)



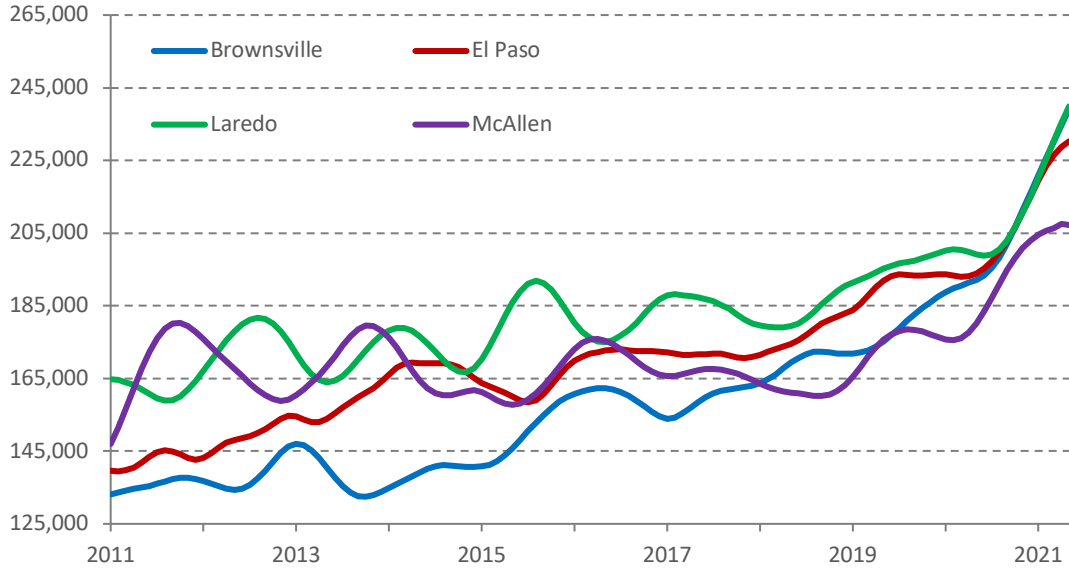
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Days on Market (Days)



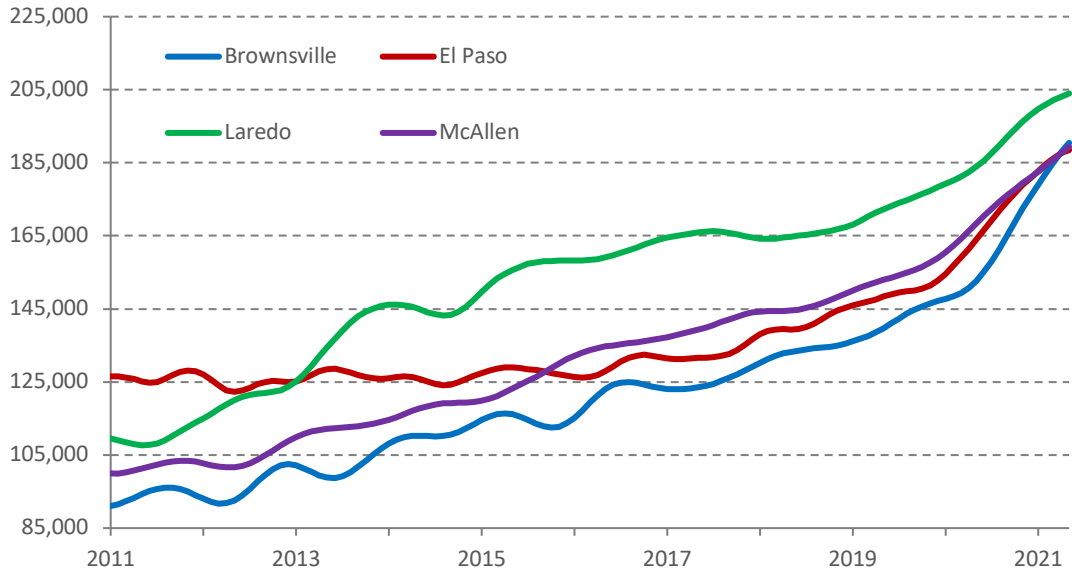
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Median Sales Price (\$)



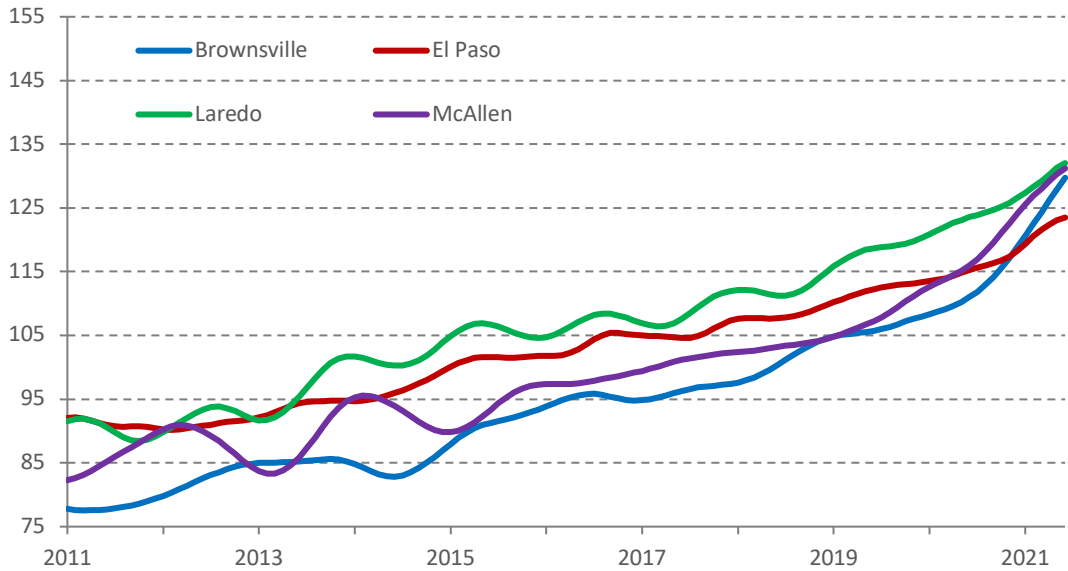
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

Existing Home Median Sales Price (\$)



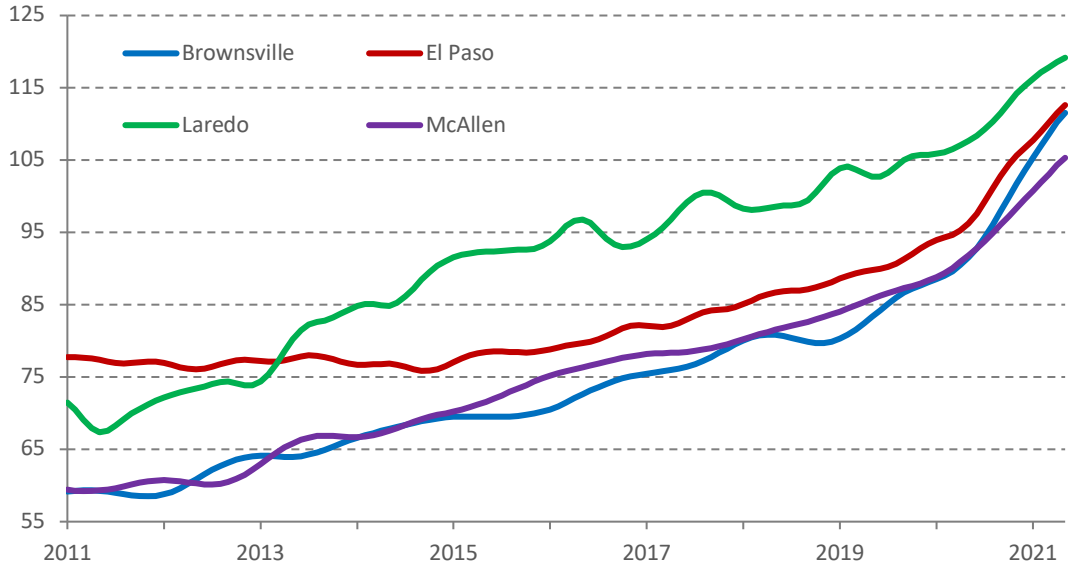
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

New Home Median Price Per Square Foot (\$)



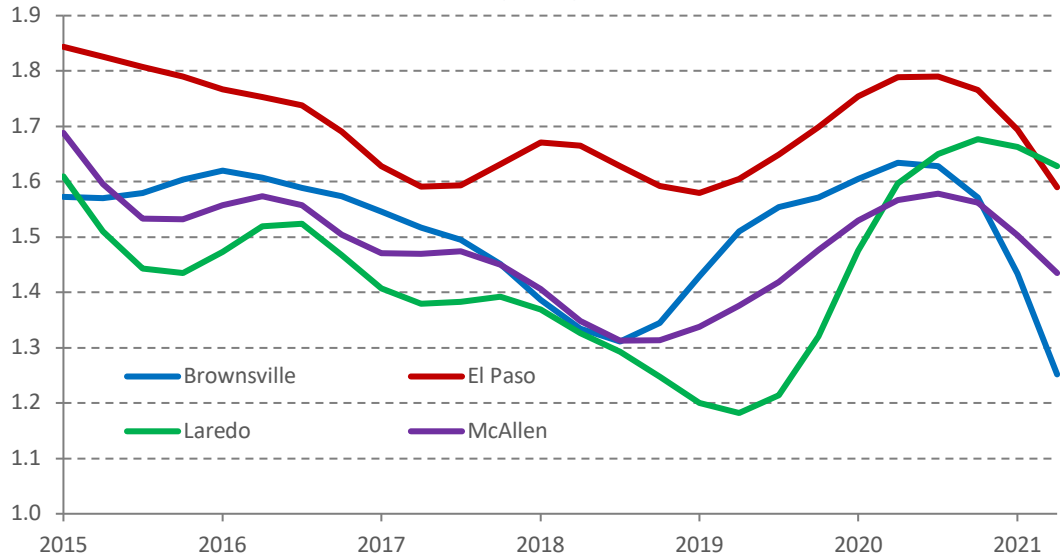
Note: Trend-cycle component. For single-family homes.
Source: Texas Real Estate Research Center at Texas A&M University

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



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