

Steady Growth, Shifting Rules: An Economic Outlook for the RGV and Beyond

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The review the Rio Grande Valley (RGV) economy through mid-2026 within U.S., Texas, Mexican, and Canadian macroeconomic conditions. Six findings stand out. First, the RGV continues to add jobs and nominal wages have rebounded, but unemployment remains about two points above the Texas rate. Second, U.S. growth has slowed, the Fed raised rates for the first time since 2023, Mexican manufacturing remains weak, and Canada faces new U.S. tariffs. Third, 10-year Treasury yields near 5.1 percent raise borrowing costs but also returns on new bonds for pension funds. Fourth, Dallas Fed estimates suggest the regional effects of U.S.-Mexico-Canada Agreement (USMCA) reform will depend heavily on how the agreement is redesigned. Fifth, the Valley’s talent pipeline has expanded since 2015, yet attainment still trails that of major Texas metros. Sixth, artificial intelligence (AI) has arrived through a \$4 billion data center and early evidence of lower hiring in AI-exposed occupations, making local choices on water, power, and training important.

The Valley at a Glance: Jobs and Wages

The RGV, which comprises Hidalgo, Cameron, Starr, and Willacy counties, has completed three consecutive quarters of employment growth, according to the Federal Reserve Bank of Dallas (Dallas Fed). Table 1 summarizes the Dallas Fed’s quarterly dashboard for the Valley and its two metropolitan areas. Job growth has been remarkably stable, between 1.1 and 1.4 percent at an annualized rate; unemployment has hovered between 6.3 and 6.5 percent; and average hourly earnings, which declined slightly at the end of 2025, rose by more than a dollar within six months to \$22.69 in June 2026.

Table 1: Rio Grande Valley Economy Dashboard, December 2025–June 2026

Period	Area	Job growth (annualized)	Unemp. rate	Avg. hourly earnings	Earnings growth y/y
Dec. 2025	Rio Grande Valley	1.1%	6.5%	\$21.55	−0.8%
	Brownsville	0.0%	6.9%	\$21.28	−0.1%
	McAllen	1.6%	6.3%	\$21.68	−1.1%
Mar. 2026	Rio Grande Valley	1.4%	6.3%	\$22.33	6.3%
	Brownsville	1.5%	6.6%	\$22.15	4.3%
	McAllen	1.3%	6.2%	\$22.41	7.3%
Jun. 2026	Rio Grande Valley	1.3%	6.4%	\$22.69	7.5%
	Brownsville	1.0%	6.5%	\$22.68	5.1%
	McAllen	1.5%	6.4%	\$22.69	8.7%

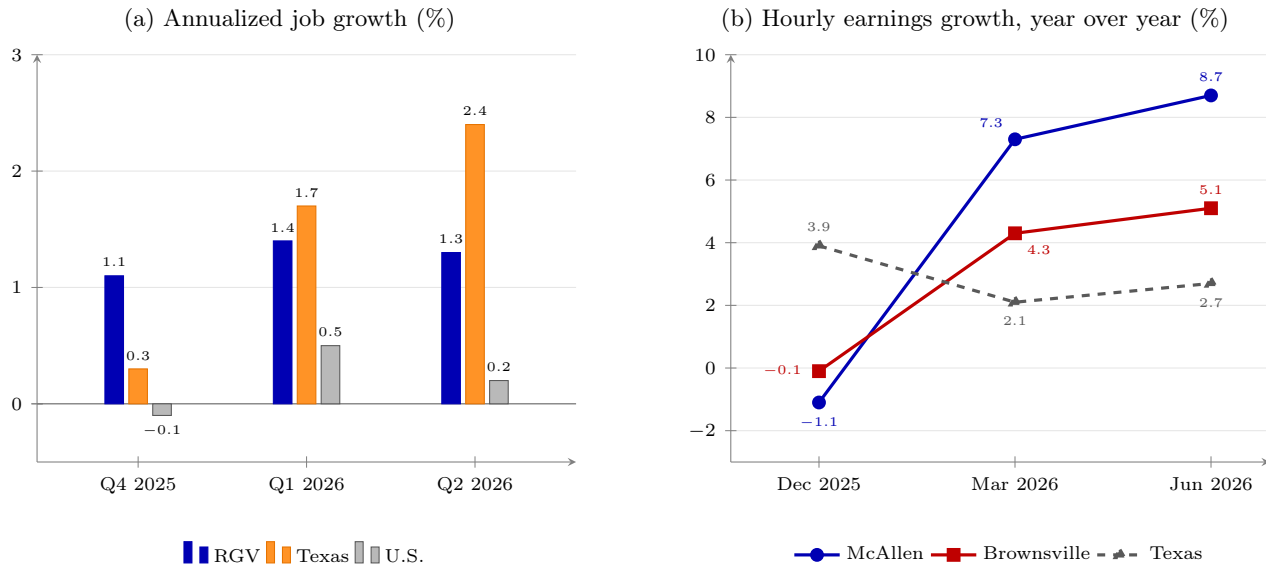
Source: Federal Reserve Bank of Dallas, *Rio Grande Valley Economic Indicators* (February 18, May 15, and August 17, 2026 releases).

Note: Job growth is the annualized percent change in nonfarm employment over the three months ending in the reference month. Unemployment rates are seasonally adjusted. Earnings are private-sector average hourly earnings, and earnings growth is the percent change from the same month in the previous year. Brownsville and McAllen refer to the Brownsville–Harlingen and McAllen–Edinburg–Mission metropolitan statistical areas (Cameron and Hidalgo counties); the RGV aggregate combines the two. Data are subject to revision.

Figure 1 places data in Table 1 in context. Panel (a) shows that the Valley outpaced both Texas and the nation at the end of 2025. In 2026, Texas accelerated while the RGV held steady and national job growth stayed weak. Growth sources rotated across sectors. In the second quarter (from March to June), professional and business services added 1,270 jobs (12.8 percent), trade and transportation 540 (2.6 percent), and construction 150 (4.5 percent), while

government employment declined by 580 jobs (-2.6 percent). Panel (b) shows the most encouraging development of 2026: after hourly earnings were slightly below year-earlier levels in December 2025, by June they were 5.1 percent higher than a year earlier in Brownsville and 8.7 percent higher in McAllen, well ahead of the 2.7 percent gain statewide over the same period. However, two cautions apply. First, the June growth rates are measured against a weak mid-2025 base: average hourly earnings in June 2025 were roughly \$21.11 (implied by the Dallas Fed figures), below their late-2024 level, which flatters the year-over-year comparison. Second, the rebound narrows but does not close the wage gap documented in our Summer 2026 brief (Aldape et al., 2026). In May 2024, the mean hourly wage in McAllen–Edinburg–Mission (\$21.54) was about three-quarters of that in San Antonio (\$28.58) and roughly two-thirds of those in Houston (\$31.87) and Dallas–Fort Worth (\$32.89), and even below El Paso’s (\$24.06), another border metro.

Figure 1: Job growth and wage growth: Rio Grande Valley, Texas, and the United States



Source: Federal Reserve Bank of Dallas, *Rio Grande Valley Economic Indicators* (February 18, May 15, and August 17, 2026 releases). Note: Panel (a) reports annualized percent changes in nonfarm employment over September–December 2025 (Q4 2025), December 2025–March 2026 (Q1 2026), and March–June 2026 (Q2 2026) for the RGV (Cameron and Hidalgo counties), Texas, and the United States. Panel (b) reports the percent change in private-sector average hourly earnings from the same month a year earlier for the McAllen–Edinburg–Mission and Brownsville–Harlingen metropolitan areas and Texas. Data are subject to revision.

Border Activity and Water

Cross-border traffic recovered from its 2025 declines, though growth slowed in the second quarter of 2026. At RGV ports of entry, conveyances and traveler crossings were down 0.4 percent and 2.4 percent, respectively, from a year earlier in December 2025. By March 2026, they were up 13.3 percent and 11.7 percent from the lower levels of March 2025. Both year-over-year growth rates fell below 8 percent in June. The Dallas Fed links the moderation to trade policy uncertainty, including uncertainty over the USMCA. Border Patrol encounters in the RGV sector remained low through the second quarter, continuing a pattern that began in early 2025. According to U.S. Customs and Border Protection (CBP) data, Border Patrol agents recorded 1,365 encounters in the sector in December 2025 and 1,273 in January 2026, although the RGV still led all Southwest border sectors. CBP’s sector data for the fiscal year to date confirm that the RGV now accounts for the largest share of a much smaller total (Table 2). From October 2025 through August 2026, Border Patrol recorded 19,567 encounters in the RGV sector, 43.7 percent fewer than in the same months a year earlier and about 22 percent of all Southwest border encounters. Only the Laredo and Big Bend sectors recorded smaller declines. The same pattern holds along the entire Southwest border (Figure 2). Monthly Border Patrol encounters fell from 249,740 in December 2023, the highest month since October 2022, to 47,320 in December 2024 and 6,476 in December 2025. They rose in the first half of 2026, peaking at 10,011 in May before easing to 8,870 in August, but remain a small fraction of their 2023–2024 levels.¹

¹Readers can consult three public sources to follow these trends. Charts 5 and 6 of the Dallas Fed’s quarterly *Rio Grande Valley Economic Indicators* track crossings and encounters (<https://www.dallasfed.org/research/indicators/rgv>). The Bureau of Transportation Statistics’ Border Crossing/Entry Data provide monthly, port-level counts of inbound trucks, personal vehicles, passengers,

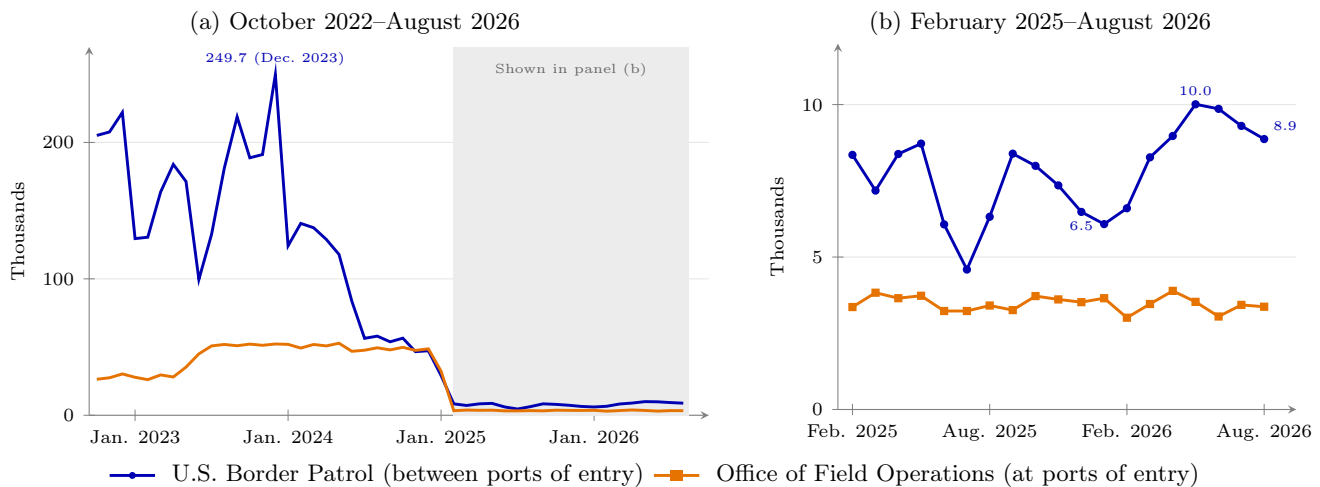
Table 2: U.S. Border Patrol Encounters by Southwest Border Sector, Fiscal Year to Date

Sector	Oct. 2024– Aug. 2025	Oct. 2025– Aug. 2026	Percent change	Share of 2025–26 total
San Diego	48,956	10,374	−78.8	11.6%
El Centro	4,544	2,130	−53.1	2.4%
Yuma	7,519	1,906	−74.7	2.1%
Tucson	39,534	16,135	−59.2	18.0%
El Paso	45,718	15,791	−65.5	17.6%
Big Bend	2,894	1,768	−38.9	2.0%
Del Rio	31,898	9,321	−70.8	10.4%
Laredo	13,359	12,768	−4.4	14.2%
Rio Grande Valley	34,730	19,567	−43.7	21.8%
Southwest border total	229,152	89,760	−60.8	100.0%

Source: U.S. Customs and Border Protection, Southwest Land Border Encounters dashboard (U.S. Border Patrol, fiscal year 2026 to date versus the same months of fiscal year 2025), data current as of September 4, 2026; author's calculations for shares.

Note: Encounters are U.S. Border Patrol Title 8 apprehensions of individuals crossing between ports of entry. They exclude inadmissible individuals encountered by the Office of Field Operations at ports of entry. Sectors are listed from west to east. The federal fiscal year begins October 1, so fiscal year 2026 to date covers October 2025 through August 2026. Fiscal year 2025 figures reflect official year-end reporting, and fiscal year 2026 figures reflect month-end reporting that CBP may revise.

Figure 2: Monthly encounters at the U.S. Southwest land border, by CBP component

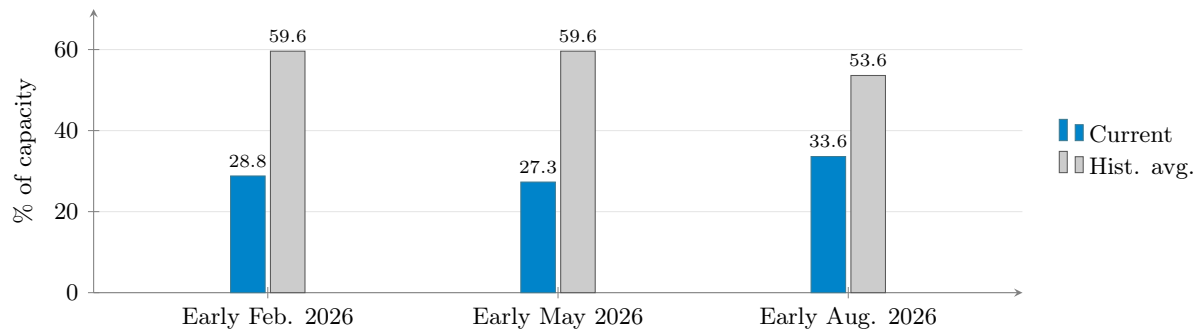


Source: U.S. Customs and Border Protection (CBP), Southwest Land Border Encounters, fiscal years 2023–2026 (data through August 2026, current as of September 4, 2026); author's calculations.

Note: Each line shows monthly encounters, in thousands, for one CBP component along the entire U.S. Southwest land border, summed across all demographic groups, citizenships, and legal authorities. U.S. Border Patrol encounters are apprehensions of individuals crossing between ports of entry, including Title 42 expulsions through May 2023. Office of Field Operations encounters are individuals deemed inadmissible at ports of entry. Panel (a) covers the full period. Panel (b) enlarges the shaded months of panel (a) with a finer vertical scale, so that recent changes are visible. Months are calendar months. CBP's dashboard groups them by federal fiscal year, which begins October 1. Adding the two components gives CBP's total encounters (for example, 301,981 in December 2023). Encounters count events, not unique individuals, and CBP revises recent months as it updates records. Sector-level figures, including the RGV sector, appear in Table 2.

Goods and people are not the only flows the Valley shares with Mexico. The two countries also share the Rio Grande, and water remains a binding constraint for the region (Figure 3). Reservoir storage stood at 28.8 percent of capacity in early February and 27.3 percent in early May, before rainfall lifted it to 33.6 percent in early August—still about 20 percentage points below the historical average. Mexico fell about 800,000 acre-feet short of its 1944 Water Treaty obligations in the cycle that ended in October 2025, and McAllen is proactively investing heavily in long-term water independence, with recent estimates placing the cost of its massive Brackish Groundwater Desalination Project between \$185 million and \$204 million. Nevertheless, progress is ongoing. In September 2026 remarks at the North American Development Bank (NADBank) Summit, U.S. Ambassador to Mexico Ronald Johnson said Mexico moved more water in the Sheinbaum administration’s first year than in the previous four years combined and has committed to at least 350,000 acre-feet each year of the current cycle. He also highlighted NADBank’s new Water Resiliency Fund for South Texas projects (Johnson, 2026). As he put it, “water security is also economic security.”

Figure 3: Rio Grande Valley reservoir storage relative to historical average



Source: Federal Reserve Bank of Dallas, *Rio Grande Valley Economic Indicators* (2026 releases); author’s calculations.

Note: Bars show water stored in Rio Grande Valley reservoirs as a percent of total storage capacity. Historical averages are implied by the gaps the Dallas Fed reports relative to the historical average (30.8, 32.3, and about 20 percentage points, respectively) and are therefore approximate. Reservoir levels depend on rainfall and on deliveries under the 1944 U.S.–Mexico Water Treaty.

Macro Conditions: The United States, Texas, Mexico, and Canada

The Valley’s outlook cannot be separated from conditions in the national and North American economies. Table 3 summarizes the latest indicators.

United States. Growth has slowed but remains positive. Real GDP rose at an annual rate of 1.5 percent in the second quarter of 2026, down from 2.1 percent in the first. Nonfarm payrolls increased by 162,000 in August, the unemployment rate held at 4.1 percent, and average hourly earnings rose 3.1 percent from a year earlier. Inflation remains a concern. The consumer price index (CPI) rose 3.4 percent over the year ending in August, with energy prices up 16.3 percent and gasoline prices up 27.4 percent. Core CPI, which excludes food and energy, rose 2.4 percent. Adjusted for inflation, average hourly earnings of all private employees fell 0.3 percent over the year. On September 16, the Federal Open Market Committee (FOMC) raised its target range for the federal funds rate by one-quarter percentage point to 3.75–4.00 percent, its first increase since 2023. The median FOMC participant projected an appropriate rate of 4.1 percent at the end of both 2026 and 2027. Against a backdrop of elevated inflation and uncertainty surrounding the Middle East conflict, the 10-year Treasury yield reached 5.1 percent on September 23 (see the bond market section below).

Texas. The Dallas Fed’s September 2026 Texas Employment Forecast projects job growth of 1.2 percent in 2026 (80 percent confidence band: 0.8 to 1.6 percent), or about 173,600 jobs, below the state’s long-run average of 2 percent. The forecast was revised down from the previous month, primarily because first-quarter benchmark revisions lowered year-to-date job growth to 1.0 percent through August. In earlier 2026 releases, Dallas Fed economists pointed to immigration-related labor supply constraints and to productivity gains that reduce labor demand in some sectors, while data center construction and relatively high oil prices supported activity. Texas employment rose 1.6 percent on an annualized basis in August, and the statewide unemployment rate fell to 4.4 percent. In Brownsville–Harlingen, it fell from 6.5 percent in July to 6.2 percent in August.

and pedestrians (<https://www.bts.gov/explore-topics-and-geography/geography/border-crossingentry-data>). CBP’s Southwest Land Border Encounters dashboard reports monthly encounters by Border Patrol sector (<https://www.cbp.gov/newsroom/stats/southwest-land-border-encounters-by-component>).

Mexico. Mexico's economy rebounded by 1.4 percent in the second quarter of 2026, following a 0.6 percent contraction in the first. Output was 1.9 percent above its year-earlier level on a seasonally adjusted basis. Services, construction, and exports drove the rebound, although manufacturing output remained 0.4 percent below its year-earlier level and private fixed investment was still weak. Labor-market indicators were mixed: the unemployment rate stood at 2.9 percent, while informal employment accounted for 56.2 percent of total employment in July. Employment registered with the Mexican Social Security Institute (IMSS) increased by 38,319 positions in August, reversing the previous month's decline. In August, headline inflation was 3.26 percent and core inflation was 3.88 percent, with the overall rate remaining within Banco de México's (Banxico) 2–4 percent tolerance range. Banxico has held its policy rate at 6.50 percent since May, when it concluded an easing cycle that began in March 2024 and reduced the rate by a cumulative 475 basis points. After strengthening through much of 2026, the peso weakened in September, closing at about 17.51 per U.S. dollar on September 23—still roughly 5 percent stronger than a year earlier.

Canada. Canada's economy grew at an annualized 3.3 percent in the second quarter, following 0.3 percent in the first. Exports of passenger cars and light trucks rose 27.0 percent from the previous quarter as auto production recovered. Employment fell by 42,000 in August, while the unemployment rate held at 6.4 percent. Headline CPI inflation was 3.0 percent year over year in August, partly reflecting gasoline prices. The Bank of Canada's preferred core measures, CPI-median and CPI-trim, were 2.0 and 1.9 percent, respectively. On September 2, 2026, the Bank of Canada held its overnight policy rate at 2.25 percent for the seventh consecutive decision. The Bank warned that inflation risks had risen and that new U.S. tariffs and Canadian countermeasures clouded the outlook for Canada's recovery.

Table 3: Macroeconomic Dashboard: United States, Texas, Mexico, and Canada

Indicator	United States	Texas	Mexico	Canada
Real GDP growth, Q2 2026	1.5% (annualized; Q1: 2.1%)	Not yet released (BEA, Sept. 30)	1.4% q/q, not annualized (Q1: -0.6%); 1.9% y/y, seasonally adjusted	3.3% (annualized; Q1: 0.3%)
Employment	+162,000 payrolls (Aug.)	2026 forecast: +1.2% ($\approx$ 173,600 jobs)	IMSS-registered jobs +38,319 (Aug.); informality 56.2% (July)	-42,000 employed persons (Aug.)
Unemployment rate	4.1% (Aug.)	4.4% (Aug.)	2.9% (July)	6.4% (Aug.)
Headline inflation	3.4% (Aug.)	n.a.	3.26% (Aug.)	3.0% (Aug.)
Core inflation	2.4% (Aug.)	n.a.	3.88% (Aug.)	CPI-median: 2.0%; CPI-trim: 1.9% (Aug.)
Policy rate	3.75–4.00% (raised Sept. 16)	—	6.50% (since May)	2.25% (held Sept. 2)
Other	10-yr yield $\approx$ 5.1% (Sept. 23)	Unemployment declined in Brownsville–Harlingen (Aug.)	Peso $\approx$ 17.5 per US\$ (Sept. 23 close), about 5% stronger than a year earlier	Passenger-car and light-truck exports: +27.0% q/q in Q2

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; *The New York Times* (September 23, 2026); Federal Reserve Bank of Dallas, *Texas Employment Forecast* (September 18, 2026) and news release (September 21, 2026); INEGI; Instituto Mexicano del Seguro Social; Banco de México; Statistics Canada; Bank of Canada.

Note: Latest available data as of September 23, 2026. U.S. and Canadian GDP growth are quarter-over-quarter changes expressed at annual rates. Mexico's quarterly figure is a seasonally adjusted quarter-over-quarter change that is not annualized. Inflation rates are twelve-month changes in consumer prices. Core measures differ across countries, and the Canadian entries are the Bank of Canada's CPI-median and CPI-trim measures. Unemployment rates are not directly comparable across countries because labor force definitions differ, and Mexico's large informal sector further complicates comparisons. The Texas job forecast is the December-to-December change in payroll employment. The U.S. Bureau of Economic Analysis publishes state GDP with the third estimate of national GDP, and second-quarter 2026 state estimates are scheduled for release on September 30, 2026. n.a. = not available at the state level. BLS publishes consumer price indexes for the Dallas and Houston metropolitan areas but not a statewide CPI for Texas.

From Macro to Micro: What Reaches the Valley?

How might the above macro conditions reach the Valley? Table 4 organizes the main channels. While it does not estimate causal effects, the discussion below describes plausible linkages and the data that bear on them.

Interest rates. Higher mortgage, auto, and business borrowing rates can weigh on housing, construction, and investment, and they raise borrowing costs for local governments and school districts. RGV construction employment rose modestly in the second quarter (150 jobs), so any effect of higher rates is likely to appear with a lag.

The peso and Mexican shoppers. A stronger peso raises the dollar purchasing power of Mexican shoppers, which can support RGV retail sales and sales tax collections. Dallas Fed research, however, finds that Mexican shoppers' share of retail sales in Texas border cities has declined over the past two decades as retail options in northern Mexico expanded and crossing times lengthened (Brizuela et al., 2026). The peso's influence on local retail may therefore be smaller than in the past. Local retail activity nonetheless remains substantial. Across the 39 incorporated municipalities in the four RGV counties, combined local sales tax collections total about \$376.0 million a year, on par with the City of Austin and ahead of Fort Worth, Arlington, and El Paso (Reyna, 2026).

Mexican manufacturing. As our Summer 2026 brief documented (Aldape et al., 2026), RGV logistics, warehousing, and trade services are closely linked to manufacturing in Reynosa and Matamoros. Mexico's manufacturing output was 0.4 percent below its year-earlier level in the second quarter, and private fixed investment remained weak, posing a risk to the Valley's trade-linked sectors. So far, the local data show no clear weakness. Trade and transportation added 540 RGV jobs in the second quarter.

Where the link is less visible. Two national patterns do not show up clearly in the Valley's data. First, RGV private-sector hourly earnings rose 7.5 percent year over year in June, well above national CPI inflation (3.4 percent in August). Since local price indexes are not available for the RGV, real wage gains cannot be measured precisely. Second, the labor-supply constraints the Dallas Fed cites for Texas are not evident in the RGV unemployment rate, which remained near 6.4 percent in June. The Valley's unemployment rate has exceeded the Texas rate by about two percentage points for several years, a persistence that suggests structural factors deserve further study.

Indirect channels. Canada has limited direct trade links with the RGV. However, Canada's tariff disputes with the United States and its role in the USMCA negotiations could shape the rules governing North American supply chains that run through Mexico and Texas. For instance, energy prices cut both ways. Higher fuel prices raise costs for households and trade-dependent businesses, while the Dallas Fed notes that relatively high oil prices have supported activity in Texas.

Table 4: Transmission Channels from Macro Conditions to the Rio Grande Valley

Channel	Current macro signal	Possible effect on the RGV	Assessed exposure
U.S. interest rates	Fed raised rates; 10-yr yield $\approx$ 5.1%	Costlier mortgages and credit, possibly slower housing and construction, higher public borrowing costs	High; headwind (with lags)
U.S. inflation and energy	CPI 3.4%; gasoline up $\approx$ 27%	Higher costs for households and for logistics	High; headwind
Peso and Mexican demand	Peso stronger than a year earlier, though weaker in September	Can support cross-border retail and sales taxes, although Mexican shoppers' share of border retail has declined	Moderate; tailwind
Mexican manufacturing	Manufacturing -0.4% y/y; weak private investment	Risk for trade, transportation, and warehousing activity linked to maquiladoras	High; risk
USMCA and tariffs	Review not renewed; new U.S.–Canada tariff actions	Industry contacts expect delayed investment; regional effects depend on design	High; uncertainty
Texas labor supply	Dallas Fed cites labor supply constraints on state job growth	No clear sign in the RGV unemployment rate	Low; unclear

Sources: Author's assessment based on Table 3 and the sources cited in this brief, including Federal Reserve Bank of Dallas research on cross-border retail (Brizuela et al., 2026) and USMCA scenarios (Martínez García et al., 2026).

Note: "Assessed exposure" is a qualitative judgment of how directly each macro condition could affect RGV employment, wages, or business activity, based on the region's cross-border economic structure. It is not an econometric estimate, and the table does not imply causal effects. "Headwind" denotes a condition that could restrain regional activity, and "tailwind" one that could support it.

Bonds, Yields, and What They Mean for Public Pension Funds

Interest rates sit at the intersection of national macro conditions and the balance sheets of local institutions, including public pension funds that finance the retirement of firefighters, police officers, and other public employees. Because bond markets moved sharply in September 2026, we briefly explain how they work and why they matter.

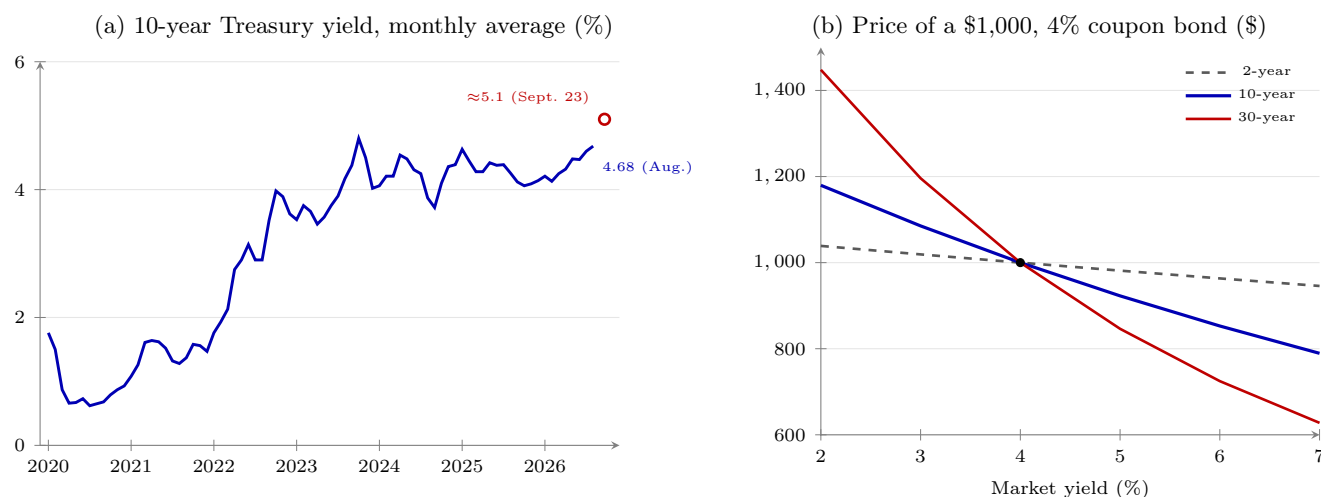
What is a bond? A bond is a loan that an investor makes to a borrower (e.g., the U.S. Treasury, a state or city, or a corporation). In return, the borrower promises to make fixed interest payments (the *coupon*) at regular intervals and to repay the *face value* (or principal) when the bond *matures*. The federal government borrows through three

main types of securities, distinguished by maturity: Treasury *bills*, which mature in one year or less (from 4 to 52 weeks); Treasury *notes*, which mature in 2 to 10 years; and Treasury *bonds*, which mature in 20 or 30 years. For simplicity, we use “bond” to refer to all of them. Investors value bonds for their predictable income and relative safety: U.S. Treasury securities are backed by the full faith and credit of the federal government, while corporate and municipal bonds pay higher yields because their issuers carry some risk of failing to make the promised payments. Investors can buy newly issued bonds directly from the issuer (the Treasury sells its securities at regular public auctions) or buy previously issued bonds from other investors in the secondary market, commonly called the “bond market.” A bondholder may keep the bond until maturity and collect all promised payments, or sell it in the bond market beforehand at whatever price the market offers that day. That price changes with economic conditions, which is why a bond’s *yield*, or the annual return an investor earns by buying the bond at today’s market price and holding it to maturity, changes as well.

Why prices and yields move in opposite directions. Because a bond’s coupon is fixed, its price adjusts when market interest rates change. Consider a 10-year bond with a \$1,000 face value and a 4 percent coupon (\$40 a year). If yields on comparable new bonds rise to 5 percent, investors will not pay \$1,000 for an older bond paying \$40 when new bonds pay \$50. Its price therefore falls to about \$923—a loss of nearly 8 percent—bringing its return in line with the market. If yields instead fall to 3 percent, its price rises to about \$1,085. Longer-term bonds are more sensitive: a 1-point increase in yields lowers the price of a 30-year, 4 percent bond by about 15 percent, compared with less than 2 percent for a 2-year bond (Figure 4, panel b). This greater sensitivity creates both risk and opportunity, since long-term bond prices also rise more when yields fall. *Duration* summarizes this pattern: the 10-year bond’s duration is about 8 years, implying a price change of roughly 8 percent for a 1-point change in yields.

What happened in 2026. The 10-year Treasury yield, the benchmark for mortgages and corporate borrowing, averaged 4.21 percent in January 2026 and 4.68 percent in August (Figure 4, panel a). It rose above 5 percent earlier in September, and on September 23 it jumped roughly 0.2 percentage points to about 5.1 percent—its largest one-day increase since the April 2025 tariff shock and its highest level since the period before the 2008 global financial crisis, according to *The New York Times*. The 5-year Treasury yield also rose above 5 percent, its highest since 2007. *The New York Times* cited several drivers, including stronger-than-expected business survey data, higher growth expectations and heavy borrowing tied to the AI buildout, oil-driven inflation linked to the conflict in the Middle East, and large government deficits. After the Fed’s September 16 rate hike, futures markets priced in roughly a 70 percent chance of another increase in October, and a Federal Reserve governor warned that further increases were likely. Demand at a \$70 billion auction of 5-year Treasury notes was weaker than usual, and the S&P 500 fell 0.8 percent on the day (Rennison, 2026).

Figure 4: The 10-year Treasury yield and the bond price–yield relationship



Sources: Panel (a): Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates, series GS10, via FRED, Federal Reserve Bank of St. Louis; September 23, 2026 value from Rennison (2026), *The New York Times*. Panel (b): author’s calculations. *Note:* Panel (a) plots the monthly average of daily 10-year Treasury constant-maturity yields from January 2020 to August 2026; the hollow marker is the approximate intraday level on September 23, 2026, which is a single-day value and not a monthly average. Panel (b) shows the price of a newly issued bond with a \$1,000 face value and a 4 percent annual coupon when market yields for its maturity range from 2 to 7 percent; at a 4 percent yield, every bond is priced at \$1,000 (black dot). Prices are the present values of the coupons and the face value, discounted at the market yield, assuming annual payments. The figure illustrates that bond prices fall when yields rise, and this effect is greater for longer maturities.

Why it matters for public pension funds. Public pension funds typically hold a mix of stocks, bonds, and other assets, and rising yields affect them through several channels. First, the market value of bonds a fund already holds declines when yields rise, as panel (b) shows; these losses are unrealized for bonds held to maturity, which still repay their face value. Second, new contributions and maturing bonds can now be invested at yields near 5 percent, the highest in nearly two decades, increasing the income a fund can expect from its fixed-income portfolio and making it easier to meet the long-term return assumptions set by trustees and actuaries. Third, higher yields can weigh on stock prices because they increase the discount rate investors use to value future corporate earnings and make bonds a more attractive alternative. *The New York Times* reported that rising yields weighed on stocks on September 23. Fourth, the accounting effect on liabilities differs from that in corporate plans. Under Governmental Accounting Standards Board Statements No. 67 and No. 68, most U.S. public plans measure their pension liabilities using the long-term expected rate of return on plan assets (blended with a municipal bond index rate only for the portion of benefits not covered by projected assets), so a rise in market yields does not mechanically reduce reported public pension liabilities in the way it does for corporate plans that discount with bond yields. Fifth, inflation erodes the real value of fixed payments, both for bondholders and for retirees whose benefits are not fully indexed. Finally, higher yields raise borrowing costs for the cities that sponsor local plans and for households in the Valley, where mortgage and other long-term borrowing rates tend to move with long-term Treasury yields. These are general principles, not investment advice, since each fund’s exposure depends on its asset allocation, the duration of its bond holdings, its benefit design, and the guidance of its investment consultants, actuaries, and the Texas Pension Review Board.

Table 5: Bond Market Snapshot, September 2026

Indicator	Latest	Context
10-year Treasury yield	≈5.1% (Sept. 23)	Up ≈0.2 pp in one day; highest since before the 2008 crisis; monthly average 4.21% in Jan. and 4.68% in Aug.
5-year Treasury yield	Above 5% (Sept. 23)	Highest since 2007
Federal funds target range	3.75–4.00% (Sept. 16)	First increase since 2023
Market-implied probability of an October rate increase	≈70%	Up from ≈53% the previous day
S&P 500 on Sept. 23	−0.8%	Had traded near a record high earlier in the week

Sources: Rennison (2026), *The New York Times* (September 23, 2026); Board of Governors of the Federal Reserve System (H.15 via FRED; FOMC statement of September 16, 2026).
Note: Treasury yields are market yields to maturity on U.S. government securities; “pp” denotes percentage points. The market-implied probability is derived from interest rate futures prices and reflects investor expectations, not a Federal Reserve forecast. Intraday values are approximate and may differ slightly from official end-of-day data.

Trade Policy: Texas, the USMCA, and Why Design Matters

Texas sits at the center of U.S.–Mexico integration (Coronado, 2026). Mexico has been the top U.S. goods trading partner since 2023, and bilateral goods trade reached \$872 billion in 2025. About 28 percent of Texas goods exports (\$125 billion) went to Mexico that year, and roughly three-fourths of the value of U.S.–Mexico land trade crossed through Texas. Ciudad Juárez illustrates how this integration can change: Coronado reports that the city lost about 57,000 maquiladora jobs between mid-2023 and mid-2025, particularly in automotive and transportation manufacturing, while developing more automated, higher-value production, including data center servers. Its experience provides a point of comparison for the RGV’s manufacturing partners in Reynosa and Matamoros.

The first six-year USMCA joint review took place on July 1, 2026. The United States did not renew the agreement in its current form, but it remains in force while negotiations continue. As U.S. tariffs on goods outside the agreement rose in 2025, more firms claimed USMCA preferences for eligible shipments. By July, about 80 percent of U.S. imports from each of Mexico and Canada qualified for preferential treatment, up from roughly 50 percent for Mexico and below 40 percent for Canada. Dallas Fed researchers estimate that this shift reduced the average U.S. tariff actually paid by about one percentage point in the fourth quarter of 2025, compared with a scenario in which firms had claimed preferences at the same rate as in 2024. That estimate captures how increased use of the USMCA cushioned the tariff increase, not the agreement’s overall economic effect.

Martínez García, Sposi, and Kelly (2026) examine five ways to redesign the USMCA (Table 6). In their model, tighter rules of origin (which require more regional content in qualifying goods) cause the largest consumption losses for Canada and the United States. Removing USMCA preferences causes the largest loss for Mexico. Coordinating tariffs

on goods from outside North America while preserving USMCA preferences produces smaller losses for Canada and Mexico. Within the United States, the estimated effects of tighter origin rules range from about -2.0 percent in New Jersey to $+1.7$ percent in Wyoming; under broad tariff coordination, they range from about -0.05 to $+0.15$ percent. The study does not estimate effects for metropolitan areas, but its state- and industry-level results suggest that the effects on trade-linked border regions, such as the RGV, could depend heavily on the rules chosen. Coronado (2026) reports that industry contacts expect annual reviews to prolong uncertainty and delay investment and expansion decisions.

Table 6: Estimated Consumption Effects of Alternative USMCA Redesigns (% change)

Scenario	Canada	Mexico	U.S.
Tighter rules of origin	-1.03	-0.61	-0.81
Removal of USMCA preferences	-0.68	-0.86	small, positive
Higher tariffs on noncompliant trade	-0.39	-0.37	$\approx +0.03$
Targeted tariff coordination (vs. China)	-0.20	-0.11	+0.01
Coordinated external tariffs ("Fortress North America")	-0.22	-0.10	+0.04

Source: Martínez García, Sposi, and Kelly (2026), Federal Reserve Bank of Dallas.
Note: Entries are modeled as short-run percent changes in private real consumption relative to the January 2026 U.S. tariff baseline. The estimates capture first-round effects before firms shift supply chains, workers move across sectors, and capital and investment adjust. In the removal-of-preferences scenario, the authors describe the U.S. effect as small and slightly positive but do not give a figure in the text; in the noncompliant-trade scenario, they report a U.S. gain of 0.03 percent. The coordination scenarios preserve USMCA preferences. "Rules of origin" specify the regional content goods must have to qualify for preferential treatment under the agreement.

Human Capital: The Valley’s Talent Pipeline in the Age of AI

Economic research has long linked sustained gains in productivity and wages to skill accumulation. For a region whose wages trail state and national benchmarks, local institutions’ ability to produce and retain skilled graduates is therefore central to the long-run outlook.

A decade of growth in educational capacity. The University of Texas Rio Grande Valley (UTRGV) welcomed about 29,000 students on its first day in 2015, has since graduated more than 60,000, and opened Fall 2026 with 36,466 students, its seventh consecutive first-day enrollment record. Doctoral enrollment rose 15 percent in one year to 790, and master’s enrollment rose 5.4 percent to 3,933. The university awarded 74 research doctorates in its most recent reporting cycle, up 48 percent from the previous cycle. South Texas College (STC) reported 27,644 credit students in Fall 2024 and has conferred more than 100,000 degrees and certificates since its founding in 1993. Its dual credit programs serve nearly 13,000 high school students in 2026–27, a 12 percent increase from the preceding year. Texas Southmost College (TSC) enrolled 8,828 students in 2024 (Table 7).

Table 7: The Rio Grande Valley’s Principal Higher Education Providers: Selected Indicators

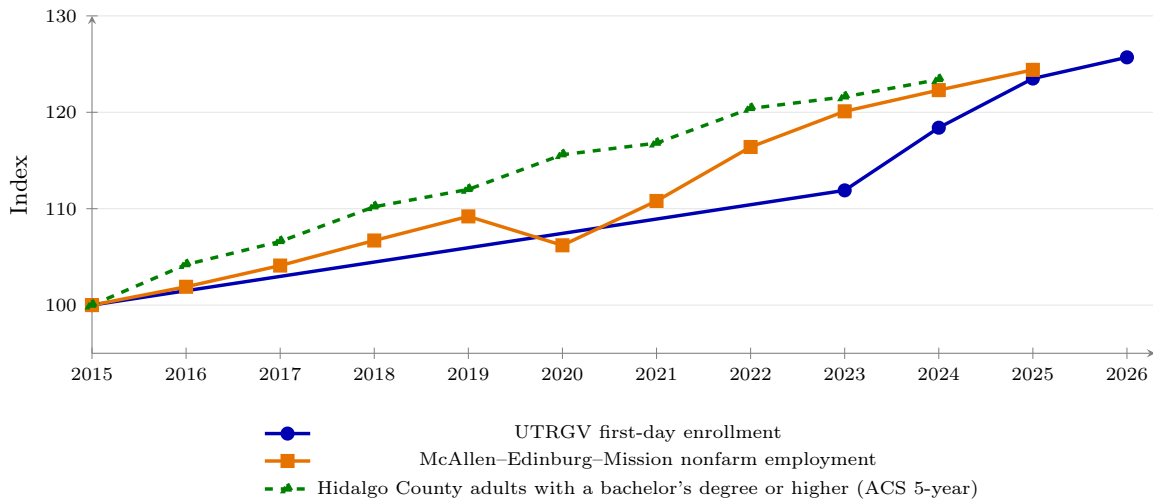
Institution	Enrollment	Selected output and program indicators
UTRGV	36,466 (Fall 2026, first day); about 29,000 on its first day in 2015	More than 60,000 graduates since 2015; 3,933 master’s and 790 doctoral students in Fall 2026; 74 research doctorates in the most recent reporting cycle; more than 300 physicians graduated; M.S. in Business Analytics and Artificial Intelligence (renamed Fall 2025)
South Texas College	27,644 credit students (Fall 2024)	More than 100,000 degrees and certificates conferred since 1993; nearly 13,000 dual credit students in 2026–27 (up 12%); A.A.S. in Artificial Intelligence introduced for Fall 2026
Texas Southmost College	8,828 (2024)	1,418 degrees awarded in 2024, predominantly associate degrees

Sources: UTRGV Newsroom and annual and research reports; South Texas College news releases and 2025–26 fact sheet; IPEDS-based data for Texas Southmost College.
Note: UTRGV’s figures are first-day counts, whereas STC’s figure is its reported Fall 2024 credit-student count; the TSC figure comes from an IPEDS-based compilation. Reporting dates and enrollment definitions differ, so the totals are not strictly comparable. STC’s cumulative figure counts credentials awarded, not necessarily distinct graduates. Texas State Technical College also provides technical education in Harlingen but is not shown.

How does the expansion compare with regional trends? A comprehensive assessment of UTRGV’s contribution to the regional economy would help distinguish its effects from broader changes in the Valley. Figure 5 places

enrollment alongside two regional indicators, indexed to 2015. UTRGV's reported first-day enrollment grew by roughly one-quarter between 2015 and 2026. Nonfarm employment in McAllen–Edinburg–Mission grew 24.4 percent between 2015 and 2025, measured by annual averages. The share of Hidalgo County residents aged 18 and older with at least a bachelor's degree rose from 16.7 percent in the 2011–15 American Community Survey (ACS) estimate to 20.6 percent in the 2020–24 estimate. These series moved in the same direction, but the figure does not identify a causal effect. Population growth, dual credit and early college programs, and the region's broader economic expansion also shaped these trends. UTRGV reports that its economic development office helped create or retain 1,950 jobs and that research expenditures reached a record \$103.7 million in fiscal year 2025, surpassing \$100 million for the first time. These achievements point to a growing regional role, though their net effect on employment remains unmeasured. Further benefits, including graduates' lifetime earnings and a larger local supply of physicians, nurses, teachers, and engineers, may become clearer over time.

Figure 5: UTRGV enrollment, metro employment, and educational attainment (2015 = 100)



Sources: UTRGV; U.S. Bureau of Labor Statistics and U.S. Census Bureau (American Community Survey), via FRED, Federal Reserve Bank of St. Louis; author's calculations.

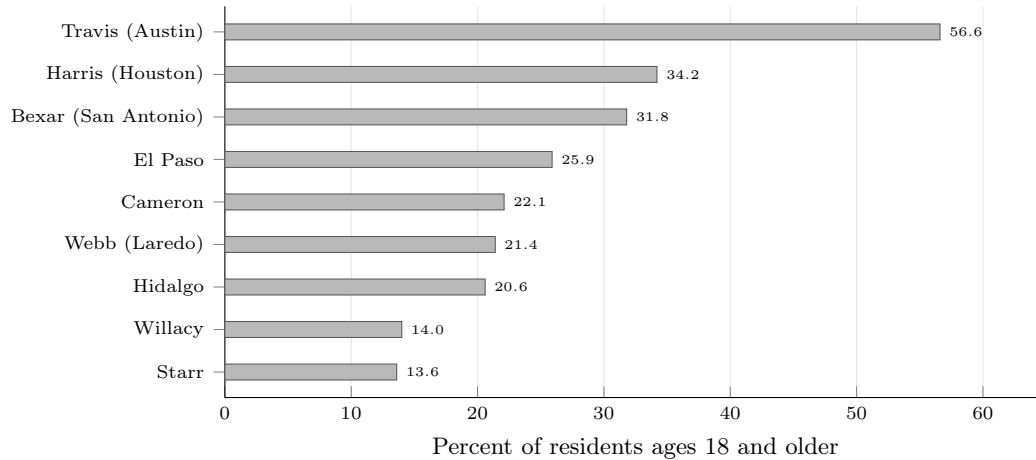
Note: Each series is divided by its 2015 value and multiplied by 100. Enrollment indexes are approximate because the reported 2015 first-day count is about 29,000, not an exact count. The 2024–26 first-day counts are 34,343, 35,812, and 36,466; the plotted 2023 point is inferred from a reported increase of about 1,901 students in 2024. Employment is the annual average of monthly, not seasonally adjusted total nonfarm employment (BLS series MCAL548NAN), which rose from about 246,600 in 2015 to 306,700 in 2025. Attainment is the percentage of residents aged 18 and older with a bachelor's degree or higher based on ACS five-year estimates labeled by the final year of each survey window. Consecutive ACS estimates overlap substantially. The figure does not measure UTRGV's causal effect on either regional indicator.

A persistent attainment gap. Despite these gains, the share of Valley adults with a college degree remains below that of the state's major metropolitan counties (Figure 6). In the 2020–2024 ACS estimates, 20.6 percent of residents aged 18 and older in Hidalgo County and 22.1 percent in Cameron County held at least a bachelor's degree, compared with 31.8 percent in Bexar County, 34.2 percent in Harris County, and 56.6 percent in Travis County. Starr and Willacy counties had shares of about 14 percent. Narrowing the gap will likely depend on both how many graduates the Valley's institutions produce and whether those graduates find opportunities to build careers in the region.

Training for a moving target. Artificial intelligence adds urgency to these questions, since it may change the tasks that employers need workers to perform (see the next section). Local institutions have begun to respond. UTRGV renamed its online M.S. in Business Analytics to include Artificial Intelligence and added related content, and STC introduced an A.A.S. in Artificial Intelligence for Fall 2026. Current data makes it difficult to judge whether these and other programs prepare students well for an uncertain workplace. Existing Texas and UT System resources report some program-level employment and earnings outcomes, but they do not fully show how many graduates build careers in the Valley. Some units have begun to address this gap. The Phase II strategic plan of UTRGV's Robert C. Vackar College of Business and Entrepreneurship (academic years 2026–2028), for example, lists as a measure of success having systems in place to track undergraduate and graduate job placements and alumni outcomes, alongside the incorporation of AI-enabled approaches into curricular and co-curricular environments, and it reports progress through a public scorecard (Robert C. Vackar College of Business and Entrepreneurship, 2026). We see three priorities. First, institutions and the Texas Workforce Commission could make it easier to assess program-level placement, earnings, and in-region retention. Second, AI literacy could be woven across curricula, alongside the critical thinking, scientific

knowledge, and creativity that our Spring 2026 brief found to be associated with higher wages in the RGV (Khraiche, Taveras, and Tondji, 2026). Third, the expansion of dual credit and graduate programs could be paired with efforts to attract employers that offer skilled jobs in the region.

Figure 6: Residents aged 18 and older with a bachelor's degree or higher, selected Texas counties, 2020–24



Source: U.S. Census Bureau, American Community Survey five-year estimates (2020–24, table S1501), via FRED, Federal Reserve Bank of St. Louis.

Note: Bars show the percentage of residents ages 18 and older with a bachelor's, master's, professional, or doctoral degree. The four RGV counties are Hidalgo, Cameron, Starr, and Willacy; the other counties contain Laredo, El Paso, San Antonio, Houston, and Austin. Five-year estimates pool survey responses collected from 2020 through 2024.

Artificial Intelligence and the Valley: Data Centers, Jobs, and a Global Debate

Alongside inflation, affordability, and gasoline prices, artificial intelligence (AI) has become one of the most debated economic topics worldwide. For the RGV, the debate is no longer abstract. It now arrives in three forms: large data centers, changes in the tasks performed within the region's occupations, and a national and international debate over how fast frontier AI should advance and who should shape its direction.

The physical footprint: data centers come to the Valley. In September 2026, Fluidstack began construction of the \$4 billion first phase of an AI data center campus on more than 1,100 acres in unincorporated Cameron County, east of Valley International Airport and west of the Port of Harlingen near Rio Hondo, after the county issued a worksite permit (Cameron County, 2026). The company projects more than 2,500 construction jobs and several hundred permanent positions, and says the campus will use closed-loop cooling supplied by the East Rio Hondo Water Supply Corporation (KRGV, 2026). Company representatives told Harlingen commissioners that potable water use would be about 50,000 gallons per day during construction, falling to about 7,000 gallons per day thereafter. The project has also raised questions of local governance. Fluidstack offered Harlingen \$20 million and a \$7 million canal-widening project in connection with a request to discharge stormwater into a city-owned canal. City commissioners tabled the drainage agreement, and the company then pursued an alternative drainage plan through Cameron County (*The Monitor*, 2026). In Brownsville, an application to convert a former retail building near the port into a data center was withdrawn (RGV Business Journal, 2026a), and city commissioners moved forward with a moratorium on new data center approvals while they review regulations (*The Brownsville Herald*, 2026). At the state level, Governor Greg Abbott directed the Public Utility Commission of Texas and the Electric Reliability Council of Texas (ERCOT) to review proposed data centers seeking to connect to the grid (RGV Business Journal, 2026b). Table 8 summarizes these developments.

Data centers differ from the factories and distribution centers the Valley has traditionally sought. They are capital-intensive. Fluidstack's own projections, for example, pair a \$4 billion first phase with more than 2,500 temporary construction jobs and several hundred permanent positions. Potential local benefits include construction activity, a larger property tax base, and community benefit commitments. Potential costs include increased demand for electricity, water, drainage, and land. In a region where reservoir storage remains about 20 percentage points below its historical average (Figure 3), water and power use are important considerations. Statewide, the Dallas Fed noted in its July 2026 Texas Employment Forecast that the data center buildout was supporting Texas economic activity. Relatedly, across the border, Ciudad Juárez has become a producer of data center servers, with Mexico accounting for

roughly one-fourth of AI-related products in the U.S. buildout (Coronado, 2026). Whether the Reynosa–McAllen and Matamoros–Brownsville corridors can participate in this binational supply chain is a question worth examining.

Table 8: Data Center Activity in and around the Rio Grande Valley, 2026

Project or action	Status (Sept. 2026)	Key facts
Fluidstack AI data center campus, unincorporated Cameron County (near Harlingen and Rio Hondo)	Construction of \$4 billion first phase began after county worksite permit (Sept. 10)	More than 1,100 acres; 2,500+ construction jobs and several hundred permanent jobs projected; closed-loop cooling supplied by East Rio Hondo Water Supply Corporation; about 50,000 gallons/day of potable water during construction, about 7,000 gallons/day afterward; community benefit commitments under development, with details to be announced
Proposed data center in former retail building near the Port of Brownsville	Application withdrawn (late July)	32-acre site; Brownsville commissioners moved forward with a moratorium on new data center approvals while revising zoning rules
Statewide review of large data centers	Directed by the Governor (Aug.)	PUCT and ERCOT asked to review proposed data centers seeking grid connection; Cameron County adopted a resolution setting expectations for large data centers

Sources: Cameron County (September 10, 2026 press release); KRGV; ValleyCentral; *The Monitor* and *Brownsville Herald* (MyRGV.com); RGV Business Journal; Rio Grande Guardian.
Note: Job, water, and investment figures are company projections or statements reported by local media and public officials, not independently verified estimates. “Permanent jobs” refers to ongoing operations after construction. PUCT = Public Utility Commission of Texas; ERCOT = Electric Reliability Council of Texas, the operator of most of the Texas power grid.

Which Valley jobs are exposed? Our Spring 2026 brief linked worker-level data for Cameron and Hidalgo counties to occupation-level measures of AI exposure (Eloundou et al., 2024). Three findings bear repeating. First, the most common RGV occupations, such as elementary and middle school teachers, nurses and health aides, drivers, and retail workers, have relatively low AI exposure. Second, exposure is also present in better-paid occupations that rely on information processing, writing, analysis, and judgment. Third, exposure is not the same as job loss. It indicates which tasks could be assisted, accelerated, or automated. In the same brief, Khraiche, Taveras, and Tondji (2026) identified clerical occupations, such as data entry keyers, payroll and timekeeping clerks, and insurance claims clerks, among the relatively highly exposed occupations. Office and administrative support occupations as a group account for 12.4 percent of McAllen–Edinburg–Mission employment, the second-largest group documented in our Summer 2026 brief (Aldape, 2026). Statewide, two-thirds of Texas firms in the Dallas Fed’s May 2026 Texas Business Outlook Survey reported using AI; of those, 10 percent said AI reduced their need for workers, while about three-quarters reported no change. New Dallas Fed research finds that existing Texas firms more exposed to generative AI reduced job postings by about 8 to 9 percent by early 2026, and follow-up analyses suggest this shift has negatively affected labor market outcomes for recent graduates of Texas universities (Dodini and Smith, 2026).

A global debate over pace and direction. The debate over how AI should be developed intensified in the summer and fall of 2026 (Table 9). On July 28, more than 1,100 employees of frontier AI laboratories, including Anthropic’s chief executive and OpenAI’s and Meta’s chief scientists, signed a statement titled “Pacing the Frontier” asking the U.S. government to support an international effort to develop the technical and governance tools needed to deliberately pace frontier AI development (The Next Web, 2026). On September 12, Anthropic chief executive Dario Amodei published an essay calling on the industry to slow AI capacity, proposing independent evaluators embedded in frontier laboratories, common safety standards, and eventual international limits. OpenAI’s Sam Altman and xAI’s Elon Musk publicly endorsed the call to slow the pace (SiliconANGLE, 2026). Geoffrey Hinton, a 2024 Nobel laureate in physics often called the “Godfather of AI,” has joined calls to slow development and addressed a briefing for U.S. senators on September 16 (WBUR, 2026). He has also warned that AI could soon replace many jobs (Fortune, 2025). Others disagree on the remedy. NVIDIA chief executive Jensen Huang has argued that the United States should move as fast as it can, that companies should never ship unsafe products, and that safety is an engineering challenge that does not require new laws (CNBC, 2026). Relatedly, the White House’s AI adviser has argued that the leading laboratories could slow down on their own, without government intervention (Forbes, 2026). A third perspective focuses less on speed than on direction. Daron Acemoglu and Simon Johnson, two of the 2024 Nobel laureates in economics, and their MIT colleague David Autor argue for “pro-worker AI,” meaning technologies that make human skills and expertise more valuable by creating new tasks rather than simply automating existing ones (Acemoglu, Autor, and Johnson, 2026). They identify market failures that lead to underinvestment in such technologies and propose policy directions, including targeted investments in health care and education.

What it means for the Valley. Three implications follow. First, whatever the pace of the frontier, the direction of AI adoption is partly a local choice. Health care and education, the sectors in which many of the Valley’s largest

Table 9: Positions in the 2026 Debate over the Pace and Direction of AI

Voice	Position	Relevance for the RGV
“Pacing the Frontier” statement (July 28; 1,100+ frontier-lab employees)	Asks the U.S. government to support international tools to deliberately pace frontier AI development if needed	Signals that even AI builders see risks outpacing oversight
Dario Amodei (Anthropic), endorsed by Sam Altman (OpenAI) and Elon Musk (xAI)	Slow the rate of capability gains; embedded independent evaluators; common standards; international limits	Slower frontier progress could give workers and institutions more time to adapt
Geoffrey Hinton (Nobel Prize in Physics, 2024)	Joined calls to slow development; warns of large-scale displacement of routine white-collar work	Clerical occupations are among the more exposed occupations in our Spring 2026 brief
Jensen Huang (NVIDIA)	Move as fast as possible; safety as engineering; no new laws needed	Continued rapid buildout of chips and data centers, including in South Texas
Daron Acemoglu and Simon Johnson (Nobel Prize in Economics, 2024), with David Autor	Redirect AI toward “pro-worker,” new-task-creating uses; policies include investments in health care and education	The RGV’s largest sectors, health care and education, are natural candidates for pro-worker AI

Sources: Pacing the Frontier statement (as reported by The Next Web and others); Axios, *The Washington Post*, and SiliconANGLE (September 12–13, 2026); CNBC (September 15, 2026); CBS News interview as reported by the Daily Caller News Foundation (September 20, 2026); WBUR *Here & Now* (September 23, 2026); Fortune (December 28, 2025); Forbes (September 18, 2026); Acemoglu, Autor, and Johnson (2026); Acemoglu (2026, *Nature*).
Note: Positions are summarized from public statements and publications and are simplified for comparison; they are not endorsements by the author or CBEST. “Pacing” refers to deliberately slowing the rate of improvement in frontier AI capabilities, not halting development. The “Relevance” column reflects the author’s assessment.

employers operate, are among the areas where Acemoglu, Autor, and Johnson (2026) propose targeted investments in pro-worker AI. Public institutions can shape that direction through how they procure and deploy AI tools. Second, data centers should be evaluated like any major public investment: by their net contribution to local jobs, wages, and the tax base after accounting for water, power, and infrastructure costs, and with enforceable community benefit, local hiring, and training commitments that connect permanent technician jobs to programs at STC, TSC, Texas State Technical College, and UTRGV. Third, early evidence from the Dallas Fed points to lower hiring in AI-exposed occupations and weaker outcomes for recent graduates. This reinforces the case, made in the human capital section, for tracking graduates’ outcomes and building skills that complement AI. For public pension funds and other long-horizon investors, AI can be both a source of productivity and market growth and a source of concentration and volatility risk.

Outlook and Concluding Remarks

The Rio Grande Valley (RGV) enters the final quarter of 2026 on solid footing. Employment has grown for three consecutive quarters, nominal wages have rebounded, and cross-border traffic has recovered from its 2025 declines. Recent RGV job growth (1.1 to 1.4 percent at annualized rates) and medium-term forecasts point to continued modest growth. The Perryman Group projects Texas wage and salary employment to grow 1.78 percent a year from 2025 to 2030, with McAllen–Edinburg–Mission at 1.76 percent and Brownsville–Harlingen at 1.84 percent, while cautioning that growth is likely to be uneven and concentrated in the later years of the period (Perryman, 2026). Forecasts of this kind carry considerable uncertainty, however, so we focus less on a single number than on the forces that could push outcomes in either direction. Table 10 summarizes them.

On balance, the risks we identify lean to the downside, and many of them originate beyond the Valley. The Federal Reserve’s return to rate increases, elevated inflation, and 10-year Treasury yields near their highest levels since 2007 mean higher borrowing costs for households, businesses, and local governments, while raising the income available on new bond investments for long-horizon investors such as public pension funds. Mexico’s uneven recovery and weak manufacturing are risks for the Valley’s trade-linked sectors, and the renegotiation of the USMCA will set the rules governing the region’s cross-border activity. Interest rates, the peso, and Mexican manufacturing remain the main channels to watch.

As we have highlighted in earlier briefs, the RGV and northern Mexico function as an integrated economic system. The central challenge is to convert steady job growth into sustained gains in wages, productivity, and living standards. Artificial intelligence adds urgency. With a data center under construction in Cameron County and early evidence of lower hiring in AI-exposed occupations in Texas, the Valley has a stake in whether the technology develops in a

pro-worker direction and at a pace that workers and institutions can absorb. Human capital will be central to meeting that challenge. The Valley’s colleges and universities have expanded substantially over the past decade, and the next test is whether their graduates are prepared for a changing workplace and find rewarding careers at home. Binational initiatives addressing shared risks, such as water, suggest that cross-border cooperation can produce results. Informed local decision-makers in city halls, school boards, economic development corporations, and boards that steward public retirement funds will play an important role in meeting these challenges.

Table 10: Key Forces Shaping the Rio Grande Valley Outlook

Tailwinds	Headwinds
Steady, broad-based job growth for three consecutive quarters	Unemployment persistently about two points above the Texas rate
Nominal wage growth above Texas wage growth and U.S. CPI inflation (June 2026)	Wage levels still well below national benchmarks
Peso stronger than a year earlier; cross-border traffic recovered in early 2026	Weak Mexican manufacturing and private investment
High USMCA compliance (about 80% of imports from Mexico and Canada duty-free)	USMCA review uncertainty; risk of tighter rules of origin
Industrial, aerospace, and energy investments	Higher U.S. interest rates and energy-driven inflation
Improved treaty water deliveries; NADBank Water Resiliency Fund	Reservoir storage still about 20 points below average
Record enrollment, graduate growth, and new AI programs	Attainment gap with major metros; lower postings in AI-exposed occupations
Data center construction (2,500+ projected jobs), several hundred permanent jobs, and a larger tax base; pro-worker AI in health care and education	Data center demands on water, power, and drainage in a water-scarce region

Source: Author’s assessment based on the data and sources cited in Tables 1–9 and Figures 1–6.
Note: Tailwinds are current conditions that could support RGV employment, wages, or investment. Headwinds are conditions that could restrain them. Rows pair related forces but are not ranked. The assessment is qualitative and is not a forecast.

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