



Border Business Briefs

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The University of Texas-Pan American

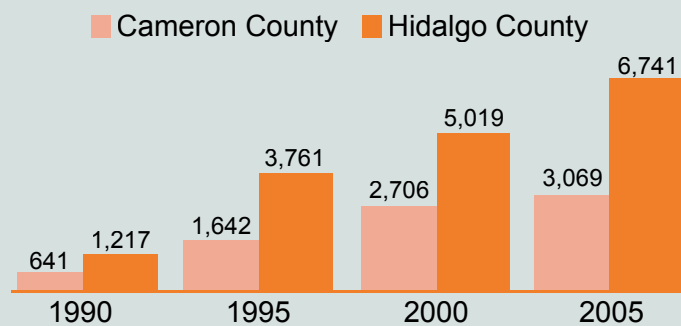
Welcome To *Border Business Briefs*

Welcome to the winter issue of Border Business Briefs, a quarterly publication of economic indicators published by the Center for Border Economic Studies (CBEST) at The University of Texas-Pan American.

In this issue CBEST looks at the housing market in Cameron and Hidalgo counties. The area enjoys low house prices and housing costs; the housing market is also expected to continue expanding in 2007 and 2008 given the booming economy and growing population. As far as the area's regular economic indicators, the economy of the Valley continued to grow in the third quarter of 2006 when compared to the same period in 2005. Gross sales exhibited double-digit growth rates (second quarter). Jobs were created at faster rates relative to the state. Trade activity through the ports of Cameron and Hidalgo counties continued to grow, and maquiladora activity was on the rise in Reynosa on the Mexican side.

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Single-Family Building Permits Issued



Source: U.S. Census Bureau, Building Permits Survey

HOUSING MARKET

The housing market in the Lower Rio Grande Valley enjoys several advantages in terms of the growth it has experienced in recent years and that is projected to continue over the next couple of years. It is also one of the relatively cheaper markets in terms of home prices and housing costs at the state and national levels.

According to the most recent census figures, the number of households in Cameron and Hidalgo counties increased during the 2000-2005 period. Cameron County added around 11,400 households, an 11.6 percent increase. In Hidalgo County, the number of households increased by 23.5 percent over the same time period, an addition of almost 37,160 households. Household numbers in Texas, on the other hand rose by 4.9 percent. This increase in the number of households translated into a corresponding rise in the number of housing units, whereby that number rose by about 15 and 20 percent in Cameron and Hidalgo counties, respectively, compared to an 11 percent growth rate at the state level. The trend in single-family building permits has also been on the rise. In 2005, more than 3,000 building permits were issued in Cameron County compared to 641 in 1990. In Hidalgo County, 6,741 single-family permits were authorized in 2005, almost a five-fold increase from 1990's 1,217 permits.

Housing Units 2000-2005

	2000	2005	Change
Cameron	119,654	137,240	14.7%
Hidalgo	192,658	231,571	20.2%
Texas	8,157,575	9,026,011	10.6%

Housing Tenure 2005

	Cameron County	Hidalgo County	Texas
Occupied units	110,166	195,123	7,978,095
Owner-occupied	72,067 65.4%	136,672 70.0%	5,162,604 64.7%
Renter-occupied	38,099 34.6%	58,451 30.0%	2,815,491 35.3%

Source: Census 2000, 2005 American Community Survey

Housing Market Growth Rates (Single-Family Home Prices)

MSA	Brownsville-Harlingen	McAllen-Edinburg-Pharr	Houston-Baytown-Sugar Land	Dallas-Plano-Irving	San Antonio	Austin-Round Rock
Market forecast (June 2006-07)	8.8%	11.4%	3.5%	4.0%	5.0%	3.7%
5-year hist. change (2001-05)	23.3%	25.4%	24.9%	20.1%	31.6%	18.5%
5-year hist. change, aver. annual	4.3%	4.6%	4.5%	3.7%	5.7%	3.5%
Change last year	7.6%	3.9%	4.4%	3.7%	10.2%	7.0%

Source: Money Magazine based on forecasts from FISERV CSW and Moody's Economy.com

Housing Affordability (Q3 '06)

MLS Area	Median House Price	Interest Rate	Required Income	HUD Median Family Income	HAI*
Brownsville	\$106,600	6.95%	\$27,096	\$33,000	1.22
Harlingen	\$93,800	6.95%	\$23,843	\$33,000	1.38
McAllen	\$114,600	6.95%	\$29,130	\$30,800	1.06
Texas	\$145,200	6.89%	\$36,684	\$54,300	1.48
USA	\$225,333	6.82%	\$56,525	\$59,600	1.05

*The Housing Affordability Index is the ratio of median family income to the income required to qualify for an 80 percent, fixed-rate mortgage to purchase the median-priced home. A ratio of exactly 1.0 indicates that the median family income is exactly equal to the income a conventional lender would require for the family to purchase the median-priced house. A ratio of less than 1.0 means that a median-income family has insufficient income to qualify for the loan to purchase the median-priced house. A ratio greater than 1.0 indicates that a median-income family earns more than enough to buy the median-priced house. The MLS Area represents the local reporting Realtors® association's geographical coverage area.

Source: Real Estate Center at Texas A&M University

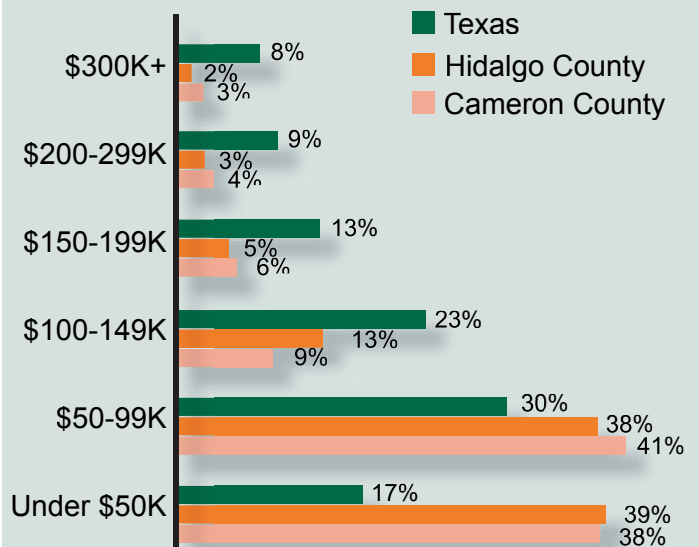


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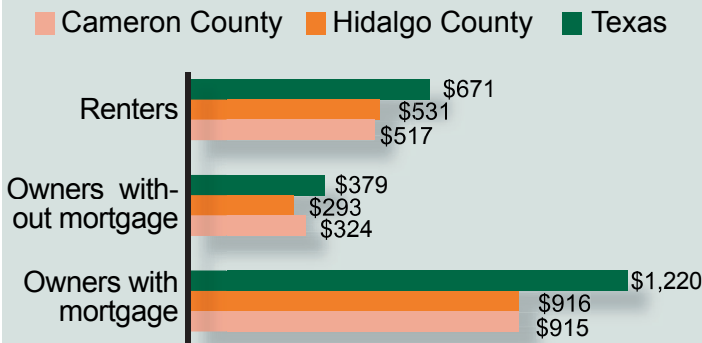
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Home Values



Source: 2005 American Community Survey

Monthly Housing Costs (median)



Source: 2005 American Community Survey

In terms of housing tenure (owning versus renting), the area enjoys home ownership rates that are slightly higher than the state (64.7 percent) and that are comparable to the national level (66.9 percent). Of the occupied housing units, 65.4 and 70 percent are owner-occupied in Cameron and Hidalgo counties, respectively.

Projected growth rates for the area’s single-family home prices are significant relative to other metropolitan areas in the state and the U.S.’s 3.5 percent growth forecast. Single-family home prices in 2007 are forecasted to increase by 8.8 and 11.4 percent in Cameron and Hidalgo counties, respectively.

Even with continuous growth, home prices and housing costs are still considerably lower in the area relative to the state and national levels. Around 80 percent of homes are priced below \$100,000 in the Lower Rio Grande Valley, compared to 47 percent in Texas. Median monthly rent is around \$525 compared to \$671 at the state level. Owners with a mortgage have median monthly costs of \$915, while those without a mortgage report median costs at \$293-\$324. The corresponding numbers for Texas are \$1,220 for homeowners with a mortgage and \$379 for those without a mortgage.

Though the overall outlook is positive for the housing sector in both counties, several challenges are worth mentioning. Despite lower housing costs, housing affordability lags behind the state due to lower incomes in the area. The percent of households without telephone service and lacking complete kitchen and plumbing facilities are at higher levels than the state. Another major challenge is the large number of subprime mortgage loans* that are prevalent in the area. Cameron and Hidalgo counties are among the top 10 metropolitan areas with the most subprime loans as a share of total active mortgages and, thus, are at greatest risk for “rate adjustment shock” (ACORN organization,

First American LoanPerformance); any upward revision to interest rates might result in a potential increase in the number of defaults and foreclosures. This effect, however, is more likely in an adverse economic environment and is less likely given the area’s current strong economy and job market.

*Subprime loans are mortgages given to borrowers with low credit scores. These loans usually have higher interest rates and/or are adjustable-rate mortgages, starting out with a low interest rate that goes up after two or three years.

BUILDING PERMITS

Residential construction activity in the Lower Rio Grande Valley decreased between the third quarter of 2005 and 2006, both in terms of the number of new housing units authorized as well as dollar value. In Cameron and Hidalgo counties, the number of permits issued decreased by 18.7 and 15.9 percent, respectively. The decrease in the dollar value of these permits, however, was not as pronounced. Dollar valuations fell by around 6.4 percent in the area. Year to date data shows that by the end of September 2006, the number of authorized new housing rose by 3.4 percent in Cameron County, while it decreased by 7.4 percent in Hidalgo County. Dollar values were more or less the same by the end of the third quarter of 2006 relative to the same quarter in 2005.

New Privately Owned Housing Units Authorized

	Number of Units		
	Q3 '06	Q3 '05	Change
Cameron County	661	813	-18.7%
Hidalgo County	1,694	2,014	-15.9%
	YTD '06	YTD '05	
Cameron County	2,551	2,468	3.4%
Hidalgo County	6,482	6,999	-7.4%

Valuation (in thousands of dollars)

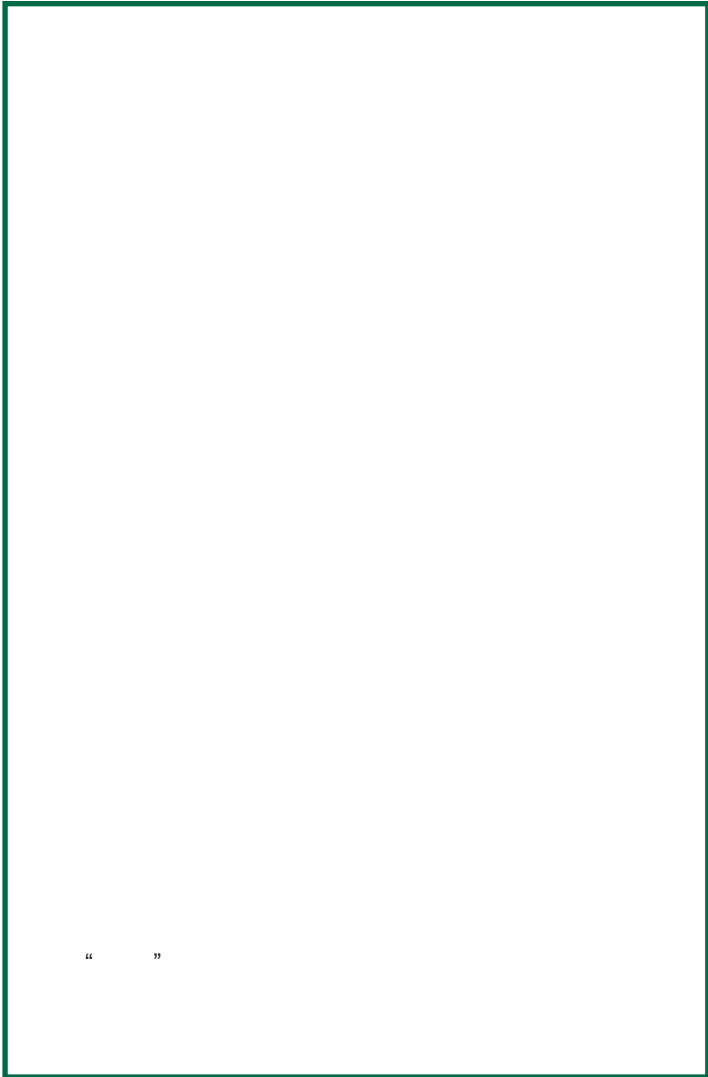
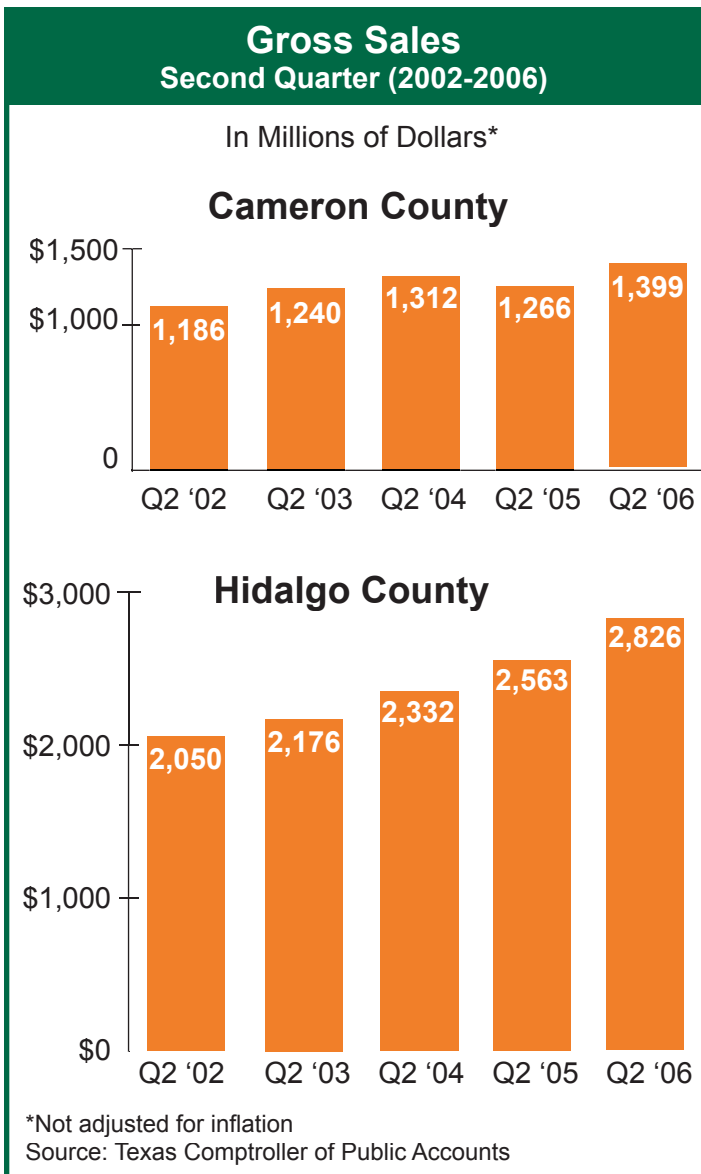
	Valuation (in thousands of dollars)		
	Q3 '06	Q3 '05	Change
Cameron County	\$55,466	\$60,820	-8.8%
Hidalgo County	\$213,604	\$226,606	-5.7%
	YTD '06	YTD '05	
Cameron County	\$189,211	\$190,135	-0.5%
Hidalgo County	\$684,104	\$677,321	1.0%

Source: U.S. Census Bureau, Construction Statistics

GROSS SALES

Overall, gross sales have exhibited double-digit growth between the second quarter of 2002 and the corresponding quarter of 2006. In Hidalgo County sales have increased by nearly 40 percent over that time period, while the corresponding increase amounted to almost 20 percent in Cameron County.

Relative to the second quarter of 2005, Cameron County's gross sales rose by 11 percent in the second quarter of 2006. Similarly, Hidalgo County posted an increase of 10 percent over the same time period. Manufacturing and construction exhibited double-digit growth in Cameron County, while manufacturing and wholesale trade were the primary industries with the largest rates of growth in Hidalgo County. Trade continued to dominate the economy of both counties, with retail and wholesale trade accounting for three quarters of gross sales.



EMPLOYMENT

In September 2006, total employment stood at 135,574 for Cameron County and at 255,393 for Hidalgo County. This represented a 3.7 and 5.2 percent increase from September 2005 employment figures for Cameron and Hidalgo counties, respectively. The corresponding employment growth rate for Texas was 2.7 percent.

By the end of the third quarter of 2006, the unemployment rate was 6.2 and 6.6 percent for Cameron and Hidalgo counties, respectively, compared to rates of 6.8 and 6.9 percent in September 2005. While such rates are higher than those reported for the state of Texas (4.7 percent in September 2006), the gap between the area's unemployment rate and that of Texas has consistently shrunk over time, from a 2.6-3.6 percentage point difference in September 2002 to a 1.5-1.9 percentage point difference in 2006. Monthly employment growth fluctuations for Cameron County, more or less, mirrored those at the state level.

However, employment growth and declines for Hidalgo County seem to be countercyclical to those of Texas during the summer months.

BANKING INDICATORS

Deposits at banks in the Valley area exhibited a general upward trend in the third quarter of 2006 relative to the same period in 2005. Deposits increased by 15 percent in Cameron County and decreased by 3.8 percent in Hidalgo County for an overall rise of 2.5 percent.

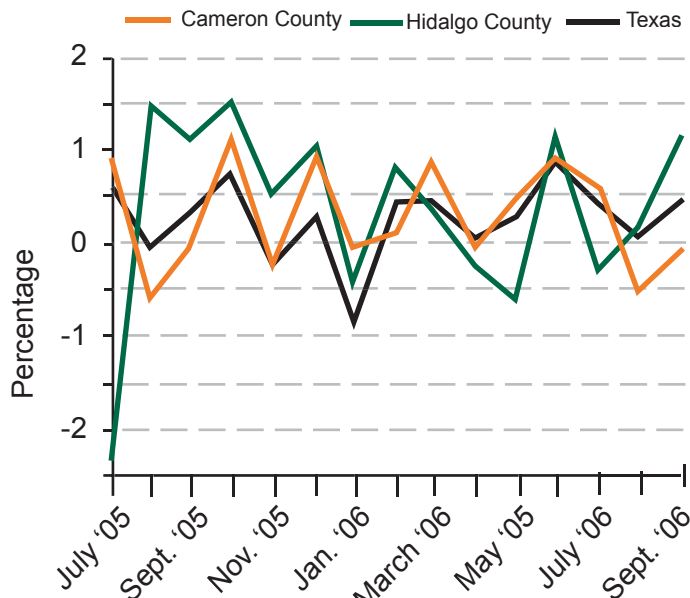
In terms of market share, the city of Brownsville accounted for around 62 percent of Cameron County's deposits, with the cities of Harlingen (23 percent) and San Benito (five percent) rounding up the top three. Deposits at the city of McAllen's banks comprised around one half of deposits in Hidalgo County. The cities of Mission (13 percent) and Edinburg (10 percent) ranked second and third, respectively, in terms of the size of their deposits.

Employment

	Sept. '06	Sept. '05	Change
Cameron County	135,574	130,771	3.7%
Hidalgo County	255,393	242,860	5.2%
Texas	10,995,414	10,707,152	2.7%

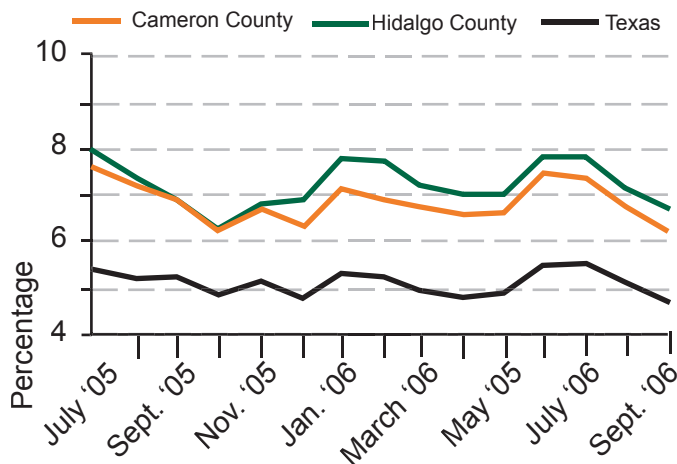
Source: Bureau of Labor Statistics

Employment Growth Rates Monthly Percentage Change



Source: Bureau of Labor Statistics

Unemployment Rates



Source: Bureau of Labor Statistics



TRANSPORTATION

Air Ports of Entry – Passenger Statistics*

	Q3 '06	Q3 '05	Change
Brownsville	44,265	35,608	24.3%
Harlingen	208,213	212,096	-1.8%
McAllen	200,471	185,661	8.0%
Laredo	52,514	47,167	11.3%
El Paso	871,327	892,499	-2.4%

*Passenger statistics includes both enplaned and deplaned values.
Source: Respective Airports

Land Ports of Entry – Border Crossings

Southbound Traffic

	Q3 '06	Q3 '05	Change
Trucks			
Rio Grande Valley*	171,538	167,238	2.6%
El Paso**	79,805	76,158	4.8%
Laredo	417,429	381,624	9.4%
Rail			
Rio Grande Valley*	12,715	8,559	48.6%
El Paso	-	-	-
Laredo	58,822	58,028	1.4%
Vehicles			
Rio Grande Valley*	3,263,045	3,283,601	-0.6%
El Paso**	1,157,261	1,191,760	-2.9%
Laredo	1,485,841	1,543,007	-3.7%
Pedestrians			
Rio Grande Valley*	1,122,518	1,043,273	7.6%
El Paso**	1,308,997	1,320,624	-0.9%
Laredo	1,004,700	959,155	4.7%

Northbound Traffic

	Q3 '06	Q3 '05	Change
Trucks			
Rio Grande Valley*	178,466	183,891	-3.0%
El Paso	200,444	187,570	6.9%
Laredo	386,627	375,137	3.1%
Rail			
Rio Grande Valley*	1,118	1,745	-35.9%
El Paso	26,015	18,200	42.9%
Laredo	45,169	43,990	2.7%
Vehicles			
Rio Grande Valley*	3,488,681	3,670,211	-4.9%
El Paso	3,730,208	4,096,691	-8.9%
Laredo	1,496,378	1,550,687	-3.5%
Pedestrians			
Rio Grande Valley*	1,512,748	1,420,364	6.5%
El Paso	1,883,955	1,901,804	-0.9%
Laredo	972,138	1,182,437	-17.8%

*Rio Grande Valley includes land ports of entry in Cameron and Hidalgo counties.

**El Paso has four international bridges. However, southbound data is collected for only two bridges since *Paso del Norte* is strictly northbound and Bridge of the Americas is a toll-free bridge. Thus, no official count for southbound traffic is available for Bridge of the Americas.

Source: U.S. Customs and Border Protection for northbound traffic; bridge operators for southbound traffic.

EXPORT/IMPORT ACTIVITY

Export and import trade activity through the ports of Cameron and Hidalgo counties increased considerably in the third quarter of 2006 compared with the same quarter in 2005. Exports to Mexico through the two counties' ports rose by 7.6 percent compared to an increase of 10.7 percent

through all Texas ports. Imports from Mexico increased by 14.9 percent through the two counties versus a 14.5 percent increase at the state level. Overall, the ports of Cameron and Hidalgo counties account for around 17 percent of Texas trade activity with Mexico.

Total U.S. Export Trade Activity Through Cameron and Hidalgo County Ports*

In Millions of Dollars

	% of TX Export		% of TX Export		
	Q3 '06	Trade Activity	Q3 '05	Trade Activity	Change
Brownsville	1,755	8.0%	1,736	8.7%	1.1%
Hidalgo	2,074	9.4%	1,827	9.2%	13.5%
Progreso	41	0.2%	31	0.2%	31.1%
Two County Total	3,869	17.6%	3,595	18.1%	7.6%
Texas Total	22,020		19,900		10.7%

Total U.S. Import Trade Activity Through Cameron and Hidalgo County Ports*

In Millions of Dollars

	% of TX Import		% of TX Import		
	Q3 '06	Trade Activity	Q3 '05	Trade Activity	Change
Brownsville	1,553	5.3%	1,367	5.3%	13.6%
Hidalgo	3,272	11.1%	2,841	11.0%	15.2%
Progreso	12	0.0%	2	0.0%	401.6%
Two County Total	4,837	16.4%	4,210	16.3%	14.9%
Texas Total	29,566		25,827		14.5%

*Total export (import) trade activity through the Texas-Mexico border has two components: exports to (imports from) Mexico and exports whose final destination (country of origin) is a country other than Mexico (transshipment). The total export (import) trade activity figure, however, can be used interchangeably with exports to (imports from) Mexico, since the latter figure constitutes more than 95 percent of the total.

Note: Totals may not add up due to rounding.

Source: Texas Centers for Border Economic and Enterprise Development, Texas A&M International University, The University of Texas-Pan American and The University of Texas-El Paso

MAQUILADORAS

Number of Employees

	% of Texas Border Employment	Q3 '06	Q3 '05	Change
Matamoros	12%	55,382	54,519	1.6%
Reynosa	22%	98,806	90,394	9.3%
Nuevo Laredo	5%	21,193	21,672	-2.2%
Juarez	53%	241,537	218,923	10.3%
Texas Border		457,469	427,581	7.0%
U.S.-Mexico Border		739,567	695,820	6.3%

Number of Established Plants*

	% of Texas Border Plants	Q3 '06	Q3 '05	Change
Matamoros	8%	115	120	-3.9%
Reynosa	21%	135	130	4.4%
Nuevo Laredo	6%	42	42	-1.6%
Juarez	43%	282	289	-2.3%
Texas Border		655	660	-0.8%
U.S.-Mexico Border		1,595	1,595	0.0%

Value Added (In Millions of Pesos)

	% of Texas Border Value Added	Q3 '06	Q3 '05	Change
Matamoros	10%	2,321	2,363	-1.8%
Reynosa	22%	5,187	4,670	11.1%
Nuevo Laredo	6%	1,325	1,331	-0.4%
Juarez	56%	12,869	10,334	24.5%
Texas Border		23,054	19,963	15.5%
U.S.-Mexico Border		37,065	32,549	13.9%

*Established plants as reported by Instituto Nacional de Estadística Geografía e Informática (INEGI) correspond to license agreements. In several instances, one license agreement denotes multiple physical plants, a fact that may lead to an underestimation of the actual number of plants.

Source: INEGI: Estadística de la Industria Maquiladora de Exportación

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