At a Glance

- Health services, education and retail trade are the largest clusters in McAllen, though transportation and logistics is also an important sector, attributable to the border crossings with Mexico.

- McAllen wasn’t notably affected by slowing elsewhere in the state during the 2015–16 oil bust, though growth was below the long-term average.

- The dollar–peso exchange rate affects cross-border retail spending and, hence, growth in key retail and food services sectors.

- A population that is relatively poorer and less-educated than the Texas average may limit the area’s ability to attract high-paying industries.

*The McAllen–Edinburg–Mission metropolitan statistical area (MSA) encompasses only Hidalgo County.*
HISTORY: From a Private Ranch to a Bridge to Mexico

McAllen began as a private ranch in the late 19th century. The city was not officially incorporated until 1911, several years after the St. Louis, Brownsville and Mexico Railway established a depot on ranch-donated land. At the request of President Woodrow Wilson, 20,000 soldiers from New York were deployed to McAllen in 1916 to help quell border disturbances. The area subsequently boomed, with the population growing from 1,200 to 6,000 by 1920.

McAllen’s economy was primarily agriculture based, with some oil exploration, in the early 20th century. In 1941, the city built a suspension bridge across the Rio Grande to Reynosa, Mexico. The McAllen–Hidalgo–Reynosa International Bridge increased tourism and trade, helping establish McAllen as an important port of entry.

The discovery of oil in the Reynosa area in 1947 prompted a large in-migration from the Mexican interior, boosting tourism and providing McAllen with an inexpensive labor supply. The McAllen Foreign Trade Zone—the first inland foreign trade zone in the United States—was established in 1973. International trade and tourism remain important to the region’s economy.

INDUSTRY CLUSTERS: Retail, Health Drive Economy

McAllen’s cluster composition is shown in Chart 7.1. Clusters are organized by location quotient (LQ), which represents the share of local employment in each cluster relative to the nation, and the change in employment share between 2010 and 2017. “Star” quadrant clusters, such as food services, have a larger share of employment relative to the nation (an LQ exceeding 1) and are

Chart 7.1: Health Care, Education and Retail Dominate McAllen Clusters

NOTE: Bubble size represents the cluster share of metropolitan statistical area employment.
SOURCES: Texas Workforce Commission; Bureau of Labor Statistics.
comparatively fast growing. “Emerging” industries, such as transportation and logistics and business and financial services, are smaller relative to the nation (LQ less than 1) and fast growing. Industries in the “mature” quadrant are more concentrated but slower growing, and “transitioning” industries are smaller relative to the nation and slower growing or declining.

Health care is a key sector in the McAllen economy. While the cluster has grown in importance in most metro areas, it is more concentrated in McAllen (and has the highest LQ) relative to other metros in this report. About 20 percent of McAllen’s workers are in the health cluster. Hospitals and medical centers, including McAllen Medical Center and Edinburg Regional Medical Center, are among the metro’s top employers. The opening of the University of Texas Rio Grande Valley School of Medicine, which welcomed its first class in 2016, points to further sector growth.

Retail is typically big in the larger border communities, and this mature cluster employs 14.3 percent of McAllen’s workers. The metro area serves as the retail trade center of South Texas and northern Mexico. Retail tourism draws customers from as far as Monterrey, Mexico’s third-largest metro area, located 150 miles southwest of McAllen. Mexican shoppers account for an estimated 30 to 40 percent of retail sales.

Overall, retail trade made up nearly 13 percent of McAllen’s total output in 2017. In terms of gross sales, retail trade accounted for 52 percent in McAllen in 2017, compared with about 26 percent statewide.

Government employees figure prominently in border economies, and McAllen is no exception. Excluding public education and health services employees, government employees make up 7.7 percent of all workers in McAllen, and the sector’s workforce has grown 16 percent since 2010 (Chart 7.2). This is in stark contrast to a national decline of 2.5 percent in government employment over the same period.

The city of McAllen has more than 2,000 municipal workers, while border crossings and international trade represent a major federal employment commitment involving U.S. Customs and Border Protection and other federal agencies.

Education (both public and private) makes up one of the largest industry clusters in McAllen, accounting for 16.5 percent of all jobs, likely a result of the high share of youths in the metro area. After state and local budget cuts depressed growth from 2010 to 2012, the

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**Chart 7.2: Food Services, Manufacturing and Transportation Employment Growing Strongly**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Change</th>
<th>LQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles</td>
<td>0.2%</td>
<td>0.2</td>
</tr>
<tr>
<td>Advanced materials</td>
<td>0.3%</td>
<td>0.3</td>
</tr>
<tr>
<td>Primary metal mfg</td>
<td>0.1%</td>
<td>0.1</td>
</tr>
<tr>
<td>Wood products</td>
<td>0.7%</td>
<td>0.7</td>
</tr>
<tr>
<td>Food svcs</td>
<td>8.4%</td>
<td>8.4</td>
</tr>
<tr>
<td>Fabricated metal mfg</td>
<td>0.4%</td>
<td>0.4</td>
</tr>
<tr>
<td>Information technology &amp; telecom</td>
<td>1.0%</td>
<td>1.0</td>
</tr>
<tr>
<td>Transportation &amp; logistics</td>
<td>2.6%</td>
<td>2.6</td>
</tr>
<tr>
<td>Business &amp; financial svcs</td>
<td>3.2%</td>
<td>3.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>7.7%</td>
<td>7.7</td>
</tr>
<tr>
<td>Defense &amp; security</td>
<td>0.9%</td>
<td>0.9</td>
</tr>
<tr>
<td>Retail</td>
<td>14.3%</td>
<td></td>
</tr>
<tr>
<td>Health svcs</td>
<td>20.0%</td>
<td>20.0</td>
</tr>
<tr>
<td>Recreation</td>
<td>1.7%</td>
<td>1.7</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.3%</td>
<td>0.3</td>
</tr>
<tr>
<td>Computer mfg</td>
<td>0.0%</td>
<td>0.0</td>
</tr>
<tr>
<td>Education</td>
<td>16.5%</td>
<td>16.5</td>
</tr>
<tr>
<td>Energy &amp; mining</td>
<td>3.3%</td>
<td>3.3</td>
</tr>
<tr>
<td>Chemicals</td>
<td>0.4%</td>
<td>0.4</td>
</tr>
<tr>
<td>Construction</td>
<td>2.7%</td>
<td>2.7</td>
</tr>
<tr>
<td>Publishing &amp; information</td>
<td>0.3%</td>
<td>0.3</td>
</tr>
<tr>
<td>Biomedical</td>
<td>0.1%</td>
<td>0.1</td>
</tr>
<tr>
<td>Glass &amp; ceramics</td>
<td>0.2%</td>
<td>0.2</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>1.9%</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Data for a few manufacturing sectors excluded due to insufficient information.

SOURCES: Texas Workforce Commission, authors’ calculations.
cluster’s rate of expansion increased but at a slower pace than overall employment.

With three international border crossings in the metropolitan statistical area, McAllen is the third-busiest border crossing in Texas (behind Laredo and El Paso) in terms of commercial truck traffic and pedestrians. Consequently, transportation and logistics is an important emerging industry. While its concentration (LQ of 0.8) isn’t as significant locally as nationally, the sector has grown 19 percent since 2010, adding workers and increasing its share of total McAllen employment.

The highly concentrated sectors—those with LQs greater than 1—are slightly lower-paying in McAllen than their less-concentrated counterparts (Table 7.1). This is due to the prevalence of retail and food services industries, which tend to pay low wages, and the relative scarcity of high-paying manufacturing and skilled services jobs. The utilities, computer manufacturing and biomedical clusters—the highest-paying industries in the region by a significant margin—constitute just 0.5 percent of jobs in the region, compared with 2.2 percent in the U.S.

Real (inflation-adjusted) wages overall remain significantly lower than U.S. industry averages. Wages in the star and mature clusters (LQs greater than 1) rose 5.0 percent from 2010 to 2017, and pay was flat in the area’s less-concentrated sectors. Reduced government spending in recent years may have slowed public sector wage growth, while pay remains low in retail and has declined in the health services sector. It bears noting that wages in McAllen partly reflect the area’s low cost of living.

A low-pay environment in the burgeoning health industry is unusual; doctors, nurses and other health workers are generally well-educated and command high wages. However, nearly 40 percent of workers in McAllen’s health cluster and nearly 12 percent of the area’s total workforce are employed in home health care services. This segment of the industry grew 16.6 percent from 2010 to 2017, slightly more than the overall health services cluster. Many home health workers are unlicensed, non-medical caregivers, and the average salary for these jobs is significantly lower than for the entire sector.

**DEMOGRAPHICS:** Poorer and Younger than the State

McAllen’s population is much younger than that of the other metros (Chart 7.3). The median age of 29.2 is five years younger than the statewide figure. The city has the largest share of under-15-year-olds of all metros in this report at 28 percent. Families in McAllen also tend to have more children—the metro averages nearly 2 children per family, compared with 1.4 for Texas.

The population is predominantly Hispanic at 91.8 percent, and 88.7 percent of the population self-identifies as being of Mexican descent. McAllen has the largest foreign-born population of any metro in the report at nearly 27 percent, illustrating the city’s deep ties with Mexico.

McAllen is also home to a large group of seasonal residents who, at an average age of 72.3, contrast starkly with the younger inhabitants of the metro and the Rio Grande Valley. These “Winter Texans” come primarily from midwestern U.S. states and Canada to
find a more temperate climate and low cost of living. The approximately 106,000 migrants spent $528 million locally in 2017–18.9

McAllen trails the state in terms of educational outcomes. Nearly 35 percent of the population age 25 and over has no high school diploma—twice the Texas average. Only 18 percent of the population holds a bachelor’s degree or higher, compared with 29 percent in Texas.

Due to low education levels and the prevalence of low-paying industries, it’s not surprising that McAllen has a high poverty rate—31 percent of the population lived below the poverty line in 2016, compared with 16 percent in Texas. The 2017 median household income of $37,106 was less than two-thirds of the Texas figure, $59,206.

**EMPLOYMENT**: Sluggish Growth After Recovery from Recession

McAllen weathered the Great Recession far better than most metros. While Texas lost 4.1 percent of its jobs from peak to trough, McAllen employment fell only 1.8 percent from its peak in October 2008 to the trough in March 2009.

Job growth in the postrecession period (December 2009 to December 2017) was 19.8 percent, or an average of 2.3 percent per year—matching the Texas annual average of 2.3 percent.

During the oil bust in 2015 and 2016, McAllen performed better than the rest of the state—growing at an annualized rate of 1.9 percent over the two years, compared with 1.2 percent for Texas overall. Private education and health services grew 4.5 percent (per year) over the period, significantly above the state’s 3.3 percent. Government and leisure and hospitality jobs also grew strongly over the two-year timeframe.

Led by a sharply lower Mexican peso in the wake of the 2016 U.S. election, area-wide expansion remained modest during 2017, resulting in employment declines in the trade, transportation and utilities sector. Leisure and hospitality employment grew just 1.8 percent.

**OUTLOOK**: Mixed, Dependent on Ties to Mexico

Many highly educated McAllen residents seek employment elsewhere because of the higher pay offered...
in bigger cities. This situation may change in the future; McAllen has greatly improved the quality and availability of education. The merger of the University of Texas—Pan American in Edinburg and the University of Texas at Brownsville created the University of Texas Rio Grande Valley, based in Edinburg and Brownsville, the largest public university by enrollment in the Texas border region. Nevertheless, the emerging industries that employ highly educated workers are not yet dominant enough to retain much of the young, educated workforce.10

Over the past several years, more retail outlets south of the border as well as a strong dollar have hurt border retail sales. Total retail sales fell slightly (1 percent) in 2017, following declines in 2015 and 2016 that were partly due to the energy bust and weaker cross-border retailing. A stable outlook for Mexico in 2018 should help such activity. However, uncertainty about bilateral trade relations is a potential headwind to growth. Conversely, privatization of Mexico’s oil industry should aid the area.

Investments in several sectors in McAllen could lend support to the economy. The La Plaza Mall, one of the largest retail hubs in the area, opened a 245,000-square-foot expansion in late 2017 that has drawn several high-end retailers.11 The UT Rio Grande Valley School of Medicine’s opening carries promise of future growth. A partnership established in 2017 between the city of McAllen and the McAllen Economic Development Corp. seeks to recruit and secure funding for medical research, suggesting the potential for expansion of high-skill, high-wage health services positions in the area.

—Kristin Davis and Christopher Slijk

McAllen–Edinburg–Mission Growth Outlook

Drivers

- A young, growing population in the area will continue to provide a deep labor pool for strong job growth in the region.
- The creation of the UT Rio Grande Valley School of Medicine will provide an avenue for growth in higher-skilled health care positions.
- A stable outlook for Mexico and greater maquiladora activity should spur further growth in business services sectors tied to these industries.
- Continued progress on Mexico’s recent energy reform will spur more growth and investment in the area.

Challenges

- Skill shortages remain an issue. It is hard to attract skilled workers to the region—and young, educated people tend to leave to find higher-paying jobs elsewhere.
- A strong dollar relative to the peso will negatively affect retail sales in the short to medium term.
- Trade policy uncertainty and tariffs on Mexico–U.S. trade may damp cross-border activity.
- A population that is relatively poorer and less-educated than the Texas average may limit the area’s ability to attract high-paying industries.

Notes

1 The history of McAllen is taken from the Texas State Historical Association’s Handbook of Texas, tshaonline.org/handbook/online/articles/hdm01.
2 The percentage shares of individual clusters do not add to 100 because some industries are counted in multiple clusters, and some industries are not counted at all based on cluster definitions. (See the appendix for more information.)
3 Information about McAllen’s top employers is from the McAllen Economic Development Corp., www.mcallenedc.org.
5 Metropolitan statistical area (MSA) 2016 gross domestic product data by industry are from the Bureau of Economic Analysis.
6 See Texas Comptroller gross sales and tax data, mycpa.cpa.state.tx.us/allocation/HistSales.jsp.
7 Border crossing information is from the Bureau of Transportation Statistics. Data for McAllen are listed under Hidalgo, Texas, which is part of the McAllen–Edinburg–Mission MSA. See transborder.bts.gov/programs/international/transborder/TBDR_BC/TBDR_BCO.html.
8 See definition of home health care workers in NAICS 6216.