

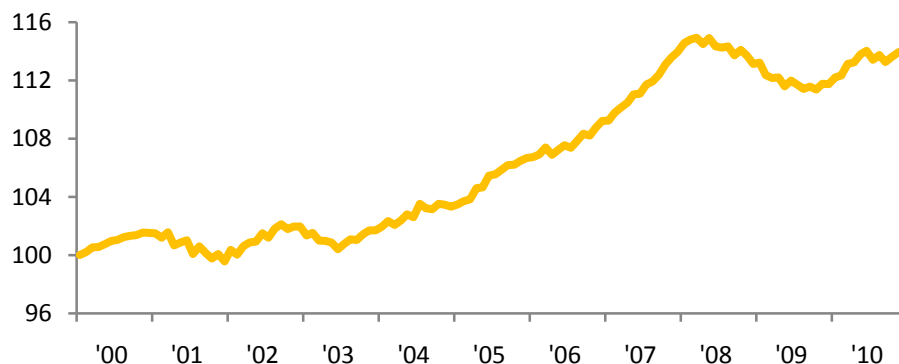
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index increased 1.8 percent at an annualized rate in December. After a soft patch in late summer and early fall, the El Paso economy gained momentum toward the end of the year. Nonfarm employment posted a 2 percent increase in 2010 (December over December), surpassing both El Paso's historical average of 1.5 percent, and the national increase of 0.7 percent. Furthermore, the U.S. industrial sector has accelerated in recent months. As a result, Ciudad Juarez maquiladoras are again hiring. According to our in-

Index, January 2000 = 100



SOURCE: Federal Reserve Bank of Dallas, El Paso Branch.

ternal estimates, maquiladoras added 15,000 jobs in 2010, which represent a 7.1 percent increase.

The El Paso economy is expected to benefit in the coming months.

Labor Market

After months of contraction, El Paso nonfarm employment rose in the last quarter of last year. Nonfarm employment jumped at a 1.7 percent annualized rate in December. Employment gains were concentrated in a few sectors, such as trade, transportation and utilities, leisure and hospitality, and government. At the same time, finance and other services sectors posted job losses. The construction, mining and natural resources, manufacturing, information, professional and business services, and educational and health services sectors were unchanged in December.

The unemployment rate now stands at 10.5 percent. The Texas unemployment rate is 8.3 percent, while the national rate is at 9.4 percent.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Nonfarm Employment	-9.5	-1.3	-5.5	7.2	5.8	1.7
Goods Producing	7.9	3.9	-3.7	0.0	3.9	3.8
Construction, Mining & Natural Resou	8.1	8.1	0.0	0.0	16.6	0.0
Manufacturing	7.7	0.0	-7.1	0.0	0.0	0.0
Services Providing	-11.5	-1.9	-5.8	8.2	6.1	1.5
Trade, Transportation & Utilities	2.2	-2.1	2.2	2.2	-6.2	2.2
Information	0.0	0.0	0.0	0.0	-21.5	0.0
Financial Activities	0.0	-9.9	-9.9	11.0	0.0	-9.9
Professional & Business Services	-3.7	3.9	-3.7	16.3	3.8	0.0
Educational & Health Services	0.0	0.0	6.6	10.0	3.2	0.0
Leisure & Hospitality	-4.3	9.1	4.4	-4.2	4.4	4.4
Other Services	0.0	0.0	0.0	13.9	0.0	-12.2
Government	-34.9	-8.7	-22.9	16.1	24.6	3.7
Unemployment Rate	9.6	10.0	9.8	10.4	10.7	10.5
<i>Midland-Odessa</i>						
Nonfarm Employment	1.9	0.0	0.0	1.9	3.8	1.9
Unemployment Rate	6.2	6.5	6.1	6.6	7.0	6.6
<i>Las Cruces</i>						
Nonfarm Employment	7.2	-8.3	1.8	3.5	-3.4	1.8
Unemployment Rate	8.7	8.1	7.6	7.9	7.9	8.1

NOTE: Seasonally adjusted data

SOURCES: Federal Reserve Bank of Dallas with data from the Bureau of Labor Statistics.

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Trade and Border Crossings

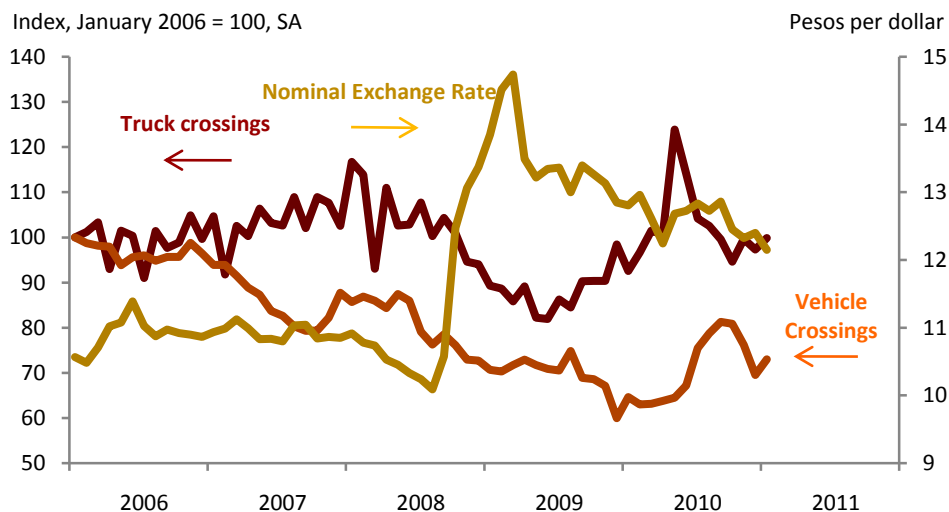
Trade flows through the El Paso port of entry continue to moderate. In December, total trade declined slightly by 0.5 percent. However, on a year-over-year basis, total trade is up 14 percent. In the local retail sector, El Paso sales tax rebates increased 3.2 percent in December from the same month a year ago.

As the peso continues to appreciate against the dollar, the number of personal vehicles crossing into El Paso from Ciudad Juarez posted an uptick in January. With respect to commercial traffic, truck crossings also increased in January. As maquiladora activity picks up in the coming months, commercial traffic at the international bridges is expected to follow suit.

Housing Market

In December, El Paso housing sales increased at a 4.5 percent from a year ago. Overall in 2010, home sales increased by 3.2 percent from 2009. In December, the median home price was \$134,100, while months of inventory declined to 6.7 months. Single-family building permits—a leading indicator for the housing sector—have been rebounding over the last few months, perhaps in anticipation of the troops coming into the region this year.

El Paso Border Crossings



NOTE: Seasonally adjusted data.

SOURCES: Texas A&M International University; Texas Center for Border Economic and Enterprise Development; Banco de Mexico.

Economic Conditions in Juarez and Chihuahua

After posting two strong readings at the end of last year, the U.S. industrial sector moved sideways in January, posting a slight decrease of 0.7 percent annualized rate. The ISM manufacturing index and its associated new orders index (a leading indicator for industrial activity) continue to show solid expansion in the last few months. In fact, both indicators have not registered such high levels since late 2003 and early 2004. Furthermore, formal employment in the manufacturing sector in the state of Chihuahua expanded at a fast pace in December and January after a few months of contraction.

We developed a model—based on U.S. industrial production index and Chihuahua manufacturing employment—to track Juarez maquiladora employment since 2006. The model indicates that Juarez maquiladoras continue to expand payrolls in January at a strong pace, posting a 16 percent annual growth rate. In 2010, maquiladora employment increased by 7.1 percent, which represents 15,000 new jobs. According to our estimates, maquiladoras are still down 20,000 jobs from the prerecession peak level. Most analysts expect the U.S. industrial sector to continue to expand into 2011. This in turn is good news for the local economy as maquiladoras generally follow suit.

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Neighboring Metro Areas

The Midland–Odessa labor market continues to improve, posting a jump of 1.9 percent annualized rate in December. As a result, the unemployment rate decreased to 6.6 percent from 7.0 percent in November. The Midland–Odessa area continues to benefit from high and rising oil prices, resulting

in stronger regional economic activity.

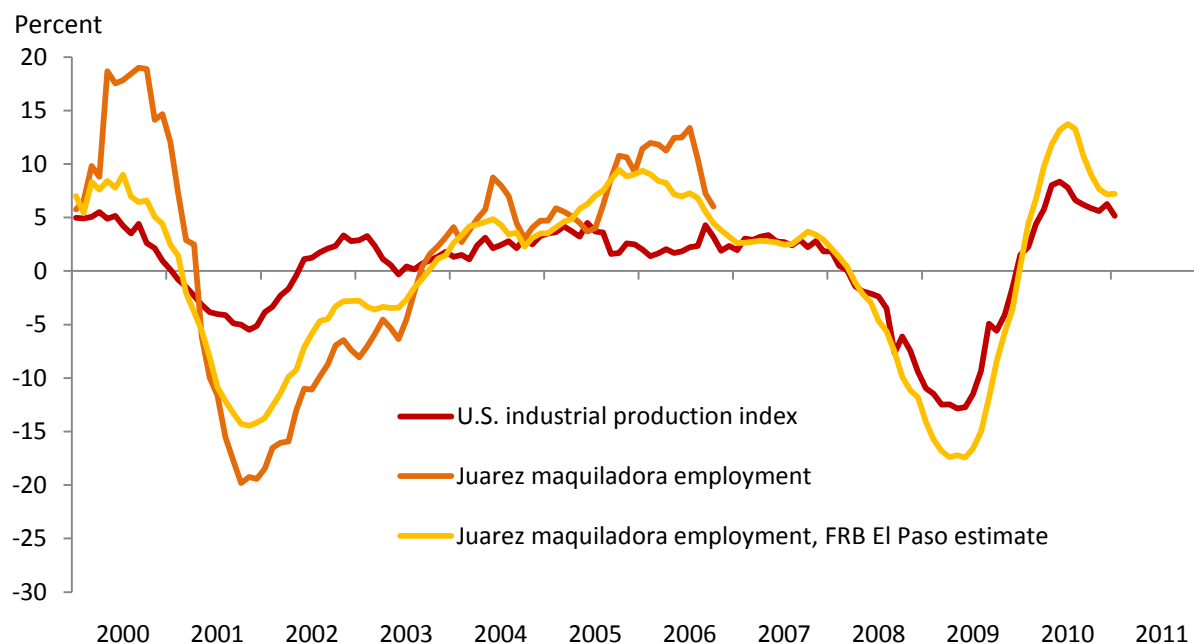
Las Cruces nonfarm employment increased 1.8 percent annualized rate in December. The unemployment rate continues to be high and is now 8.1 percent.

The Midland–Odessa housing sector continues to struggle. Home

sales are down 30 percent from a year ago with a median home price of \$171,200. Permits for new homes in the Midland–Odessa area, as well as for Las Cruces, continue to contract at a slower pace in both MSAs, suggesting that their housing markets are reaching bottom.

U.S. Manufacturing and Maquiladora

Year-over-Year



NOTE: Seasonally adjusted data.

SOURCES: INEGI, Federal Reserve Board, and Federal Reserve Bank of Dallas, El Paso Branch.