

ECONOMIC UPDATE

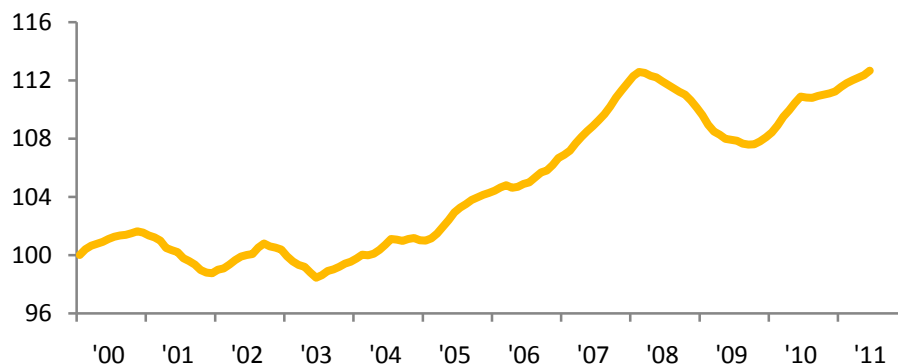
EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index jumped in June at a 3.2 percent annualized rate. After a soft patch in the second half of last year, the El Paso economy has gained momentum in the first half of 2011, growing on average at a 2.6 percent annualized rate per month.

Given the recent weak performance of the U.S. industrial sector in light of the global supply-chain disruptions induced by the Japanese natural disasters, Ciudad Juarez maquiladoras are already feeling the pain, growing

Index, January 2000 = 100



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

at a slower pace. In spite of this, the El Paso economy continues to grow. Expansion at Ft. Bliss is likely to be behind the sustained upward trend in the local economy.

Labor Market

El Paso nonfarm employment increased in June at a 3.9 percent annualized rate. In the first half of the year, El Paso added 3,600 jobs, representing a 1.3 percent increase. Job growth was almost evenly shared by goods-producing and services-providing sectors. Almost all sectors added jobs during June with the exception of manufacturing, information and educational and health services sectors.

El Paso's unemployment rate now stands at 10.2 percent. The Texas unemployment rate is 8.2 percent, while the national rate is at 9.1 percent.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Nonfarm Employment	5.3	2.2	1.3	3.5	-0.4	3.9
Goods Producing	7.8	0.0	3.8	0.0	0.0	3.8
Construction, Mining & Natural Resou	17.0	0.0	8.1	0.0	0.0	8.0
Manufacturing	7.4	-6.9	0.0	0.0	0.0	-7.0
Services Providing	5.0	2.9	1.0	4.4	-1.0	3.9
Trade, Transportation & Utilities	16.2	4.3	0.0	6.6	2.1	2.1
Information	-21.5	0.0	-21.9	0.0	0.0	-22.3
Financial Activities	0.0	0.0	0.0	0.0	0.0	0.0
Professional & Business Services	8.1	8.0	8.0	12.1	12.0	3.8
Educational & Health Services	10.4	0.0	0.0	6.8	-9.4	-12.5
Leisure & Hospitality	0.0	0.0	0.0	4.4	-8.2	4.4
Other Services	0.0	0.0	0.0	0.0	-11.9	0.0
Government	-1.7	1.7	3.5	-1.7	0.0	20.4
Unemployment Rate	10.0	9.9	10.1	10.4	10.3	10.2
<i>Midland-Odessa</i>						
Nonfarm Employment	3.7	7.6	13.5	-6.1	5.6	-5.3
Unemployment Rate	6.0	5.8	5.6	5.4	5.3	5.4
<i>Las Cruces</i>						
Nonfarm Employment	1.8	1.8	0.0	-6.7	-5.1	7.2
Unemployment Rate	9.2	9.0	7.5	7.1	6.7	8.1

NOTE: Seasonally adjusted data

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

ECONOMIC UPDATE

EL PASO

Trade and Border Crossings

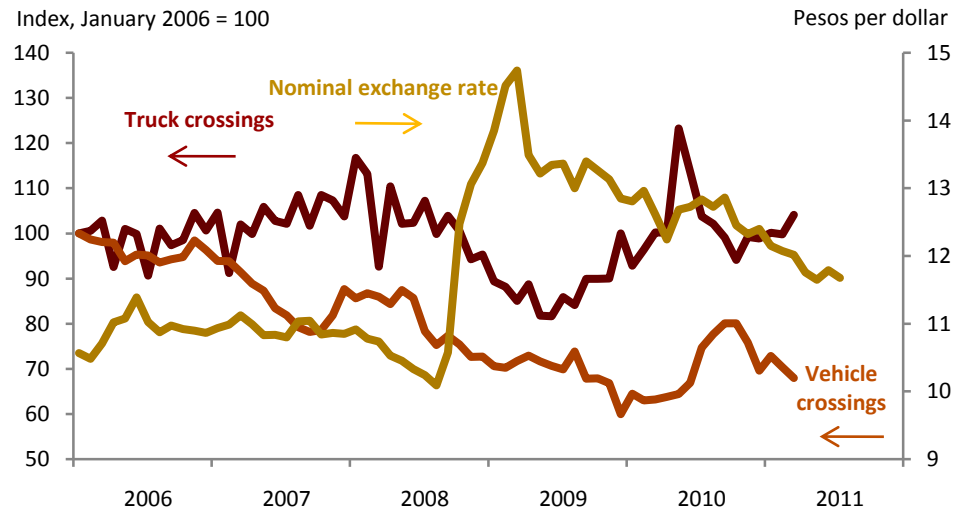
Trade flows through the El Paso port of entry continue to moderate. In June, total trade remained practically unchanged. However, on a year-over-year basis, total trade is up 5.2 percent. In the local retail sector, El Paso sales tax rebates increased 2.1 percent in June from the same month a year ago.

In spite of the continued strengthening of the peso against the dollar, the number of personal vehicles crossing into El Paso from Ciudad Juarez continued to contract in March. With respect to commercial traffic, truck crossings began an upward trend over the past few months. As maquiladora activity continues to pick up in the coming months, commercial traffic at the international bridges is expected to continue to expand.

Housing Market

In June, El Paso housing sales continued to contract at a strong pace—38 percent from a year ago. Overall in 2010, home sales increased by 3.2 percent from 2009. However, in the first half of this year, home sales are down 23 percent compared with the same period a year ago. In June, the median home price was \$134,200. Given the contraction in home sales in recent months, months of inventory increased to 8.1, the

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.

highest level since late 2009. In spite of weak home sales, single-family building permits—a leading indicator for the housing sector—have begun to show signs of life in the local housing market. In June, single-family building permits increased by 18 percent from a year ago. It is likely that the El Paso housing market will experience stronger activity in coming months due to the ongoing expansion at Ft. Bliss. It is expected that close to 16,000 people (soldiers, spouses and children) will arrive in El Paso during the summer.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector has gained some momentum during the last couple of months albeit

growth remains weak. The ISM manufacturing index and its associated new orders index (a leading indicator for industrial activity) continue to signal expansion; however, recent readings are borderline with contraction territory. Furthermore, formal employment in the manufacturing sector in the state of Chihuahua has decelerated over the past few months.

We developed a model—based on the U.S. industrial production index and Chihuahua manufacturing employment—to track Juarez maquiladora employment since 2006. The model indicates that Juarez maquiladoras added jobs in June and July, although at a slower pace. In 2010, maquiladora employment increased by a 7.1 percent annual rate, which represents

ECONOMIC UPDATE

EL PASO

15,000 new jobs. So far, year to date, maquiladora payrolls in Juarez have increased by almost 8,000 jobs, a 3.6 percent increase.

On the upside, in July, U.S. auto production jumped to 8.7 million units, up from 7.9 in June, suggesting the supply-chain disruptions created by the Japanese earthquake and tsunami were short-lived. This, in turn, is good news for the local economy as roughly half of the maquiladoras across the

Rio Grande are auto related.

Neighboring Metro Areas

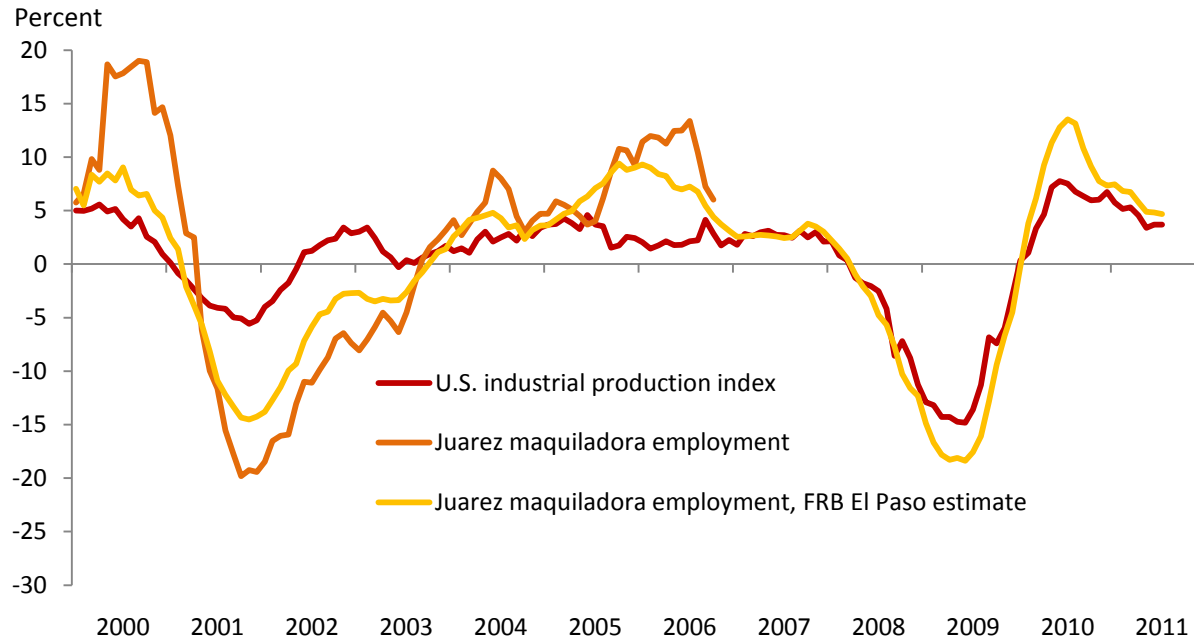
The Midland–Odessa employment declined in June at a 5.3 percent annualized rate. As a result, the unemployment rate increased slightly to 5.4 percent. High energy prices continue to benefit the Midland–Odessa area, resulting in stronger regional economic activity.

Las Cruces nonfarm employment grew in June at a 7.2 percent annualized rate. In spite of job gains, the unemployment rate increased to 8.1 percent.

The Midland–Odessa housing sector continues to improve with home sales rising and permits turning into positive territory, suggesting that perhaps the wheel has turned for the housing market in the Permian Basin.

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.