

ECONOMIC UPDATE

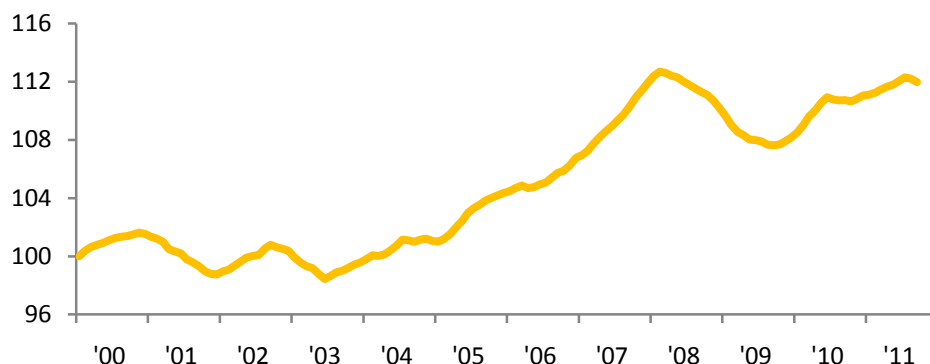
EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index contracted in September at a 2.6 percent annualized rate. Recent government-driven job losses took a toll on the local economy. However, the effect is expected to be temporary.

Given the recent pickup in the U.S. industrial sector and, most importantly, in the automotive sector, Ciudad Juarez maquiladoras are growing again, albeit at a slow pace.

Index, January 2000 = 100



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

On top of this, roughly 16,000 people arrived in El Paso sometime during the summer because of continued expansion at Fort Bliss.

Labor Market

El Paso's nonfarm employment contracted at a 6.2 percent annualized rate in September. Job losses were driven primarily by the government sector; private employment rose at a 5.7 percent annualized rate.

In September, private employment growth was led by the educational and health services, professional and business services, financial activities, and construction, mining and natural resources sectors.

El Paso's unemployment rate now stands at 10.7 percent. The Texas unemployment rate is 8.5 percent, while the national rate is 9.1 percent.

Employment Growth

(Month-over-month annualized growth rates)

<i>El Paso</i>	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11
Nonfarm employment	4.8	-0.8	4.3	5.2	-2.1	-6.2
Goods producing	-3.6	3.7	3.7	7.5	-3.6	3.7
Construction, mining & natural res.	0.0	8.0	8.0	16.4	0.0	7.8
Manufacturing	-6.7	0.0	0.0	0.0	-6.8	-6.8
Services providing	6.0	-1.0	3.4	5.4	-1.9	-7.4
Trade, transportation & utilities	11.2	0.0	2.1	6.5	0.0	2.1
Information	0.0	0.0	0.0	0.0	0.0	0.0
Financial activities	0.0	0.0	10.8	10.7	-9.6	10.7
Professional & business services	16.6	12.0	3.8	7.8	0.0	11.8
Educational & health services	10.2	-6.2	-20.4	25.7	3.3	13.7
Leisure & hospitality	0.0	-8.0	13.3	13.1	4.2	0.0
Other services	0.0	0.0	0.0	13.4	0.0	13.2
Government	-1.7	-1.7	17.1	-9.9	-10.0	-37.5
Unemployment rate	10.4	10.3	10.2	10.4	10.4	10.7
<i>Midland-Odessa</i>						
Nonfarm employment	-4.4	6.4	-8.5	12.3	5.5	-0.9
Unemployment rate	5.4	5.3	5.4	5.5	5.4	5.5
<i>Las Cruces</i>						
Nonfarm employment	-6.7	-5.1	5.4	14.9	-13.0	-5.1
Unemployment rate	7.1	6.7	8.1	7.3	6.5	n.a.

NOTE: Seasonally adjusted data.

SOURCES: Federal Reserve Bank of Dallas; Bureau of Labor Statistics.

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Trade and Border Crossings

In August, trade flows through the El Paso port of entry rebounded 6.3 percent month over month, with exports and imports contributing equally to the growth in trade activity. In the retail sector, El Paso sales tax rebates increased 3 percent in August from the same month a year ago.

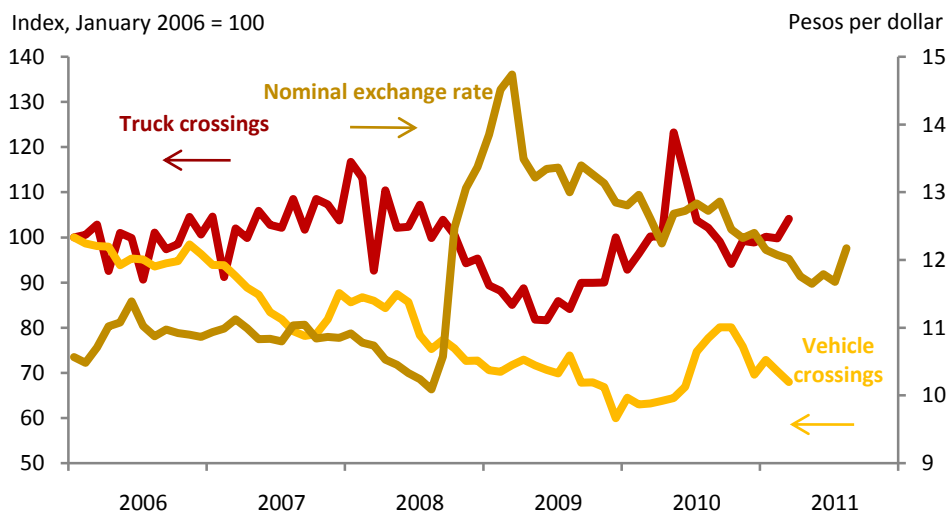
In spite of the peso's strength against the dollar during the early part of this year, the number of personal vehicles crossing into El Paso from Ciudad Juarez continued to contract in March (the latest data available). With respect to commercial traffic, truck crossings have been on an upward trend. As maquiladora activity and trade flows between Juarez and El Paso pick up, commercial traffic at the international bridges is expected to continue to expand in coming months.

Housing Market

In September, El Paso home sales declined 6.5 percent on a year-over-year basis. The median home price was \$131,200. Inventories are at 7.9 months, up from 7.5 in August.

Single-family building permits—a leading indicator for the housing sector—have begun to show signs of life in the local market. In August, single-family permits increased 3 percent from a year ago.

El Paso Border Crossings



NOTE: Seasonally adjusted data.

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

It is likely that the El Paso housing market will experience stronger activity in coming months due to ongoing expansion at Fort Bliss. Close to 16,000 people (soldiers, spouses and children) arrived in El Paso during the summer. Furthermore, anecdotal evidence indicates that the market continues to see a stream of immigrants as a result of drug-related violence across the Rio Grande. This adds to the pent-up demand for housing locally.

Conditions in Chihuahua and Juarez

The U.S. industrial sector has gained some momentum during the last couple of months, though growth remains weak. The Institute for Supply Management manufacturing index and its associated

new orders index (a leading indicator of industrial activity) continue to signal expansion; however, recent readings border on contraction. Furthermore, formal manufacturing employment in the Mexican state of Chihuahua has decelerated over the past few months.

The Dallas Fed developed a model—based on the U.S. industrial production index and Chihuahua manufacturing employment—that tracks Juarez maquiladora employment since 2006.

The model indicates that Juarez maquiladoras continued to add jobs in September, at a 2.3 percent annualized rate. In 2010, maquiladora employment increased at a 7.1 percent rate, which represents 15,000 new jobs. Year to date, ma-

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quiladora payrolls in Juarez have grown by almost 9,200 jobs, a 4.1 percent increase.

U.S. auto production jumped to 8.8 million units in September, up from 7.8 in June, suggesting the supply-chain disruptions created by the Japanese earthquake and tsunami were short-lived. This is good news for the local economy because roughly half of the maquiladoras across the Rio Grande are auto related.

Neighboring Metro Areas

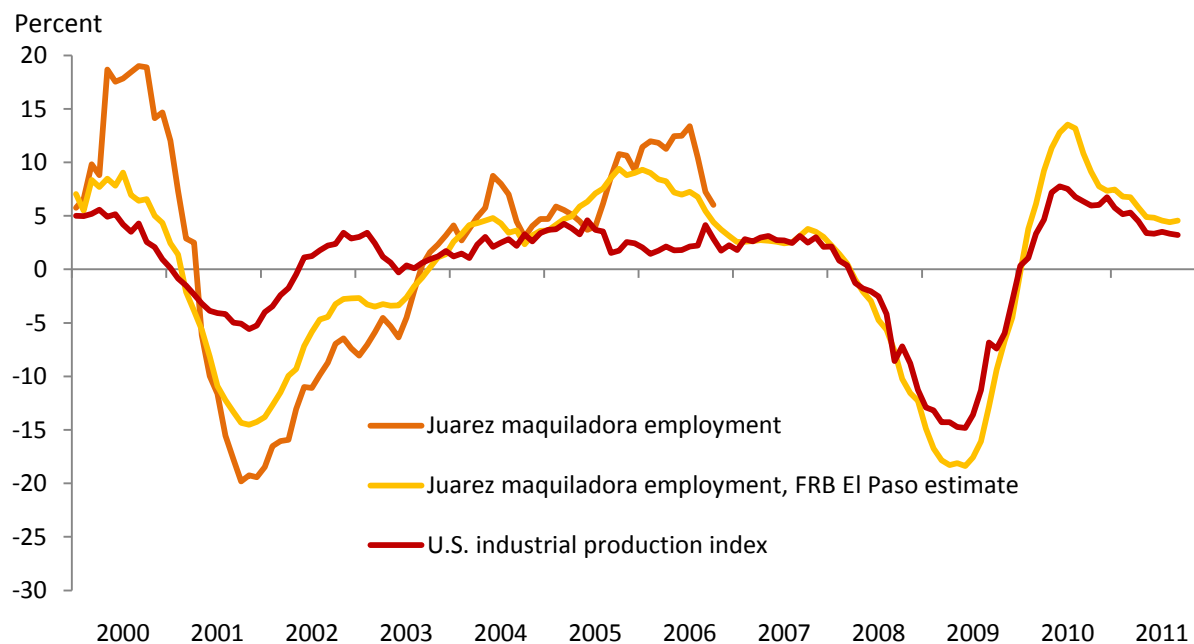
Midland–Odessa employment contracted slightly in September at a 0.9 percent annualized rate. As a result, the unemployment rate increased to 5.5 percent in September from 5.4 percent in August. High energy prices continue to benefit the Midland–Odessa area.

Las Cruces, N.M., nonfarm employment ticked down in September at a 5.1 percent annualized rate. The unemployment rate was

6.5 percent.

The Midland–Odessa housing sector continues to improve, with home sales and permits rising at double-digit rates over the last few months. The data suggest that the Permian Basin housing market may have turned a corner.

U.S. Manufacturing and Maquiladora Employment (Year over year)



NOTE: Seasonally adjusted data.

SOURCES: Instituto Nacional de Estadística y Geografía; Federal Reserve Board; Federal Reserve Bank of Dallas, El Paso Branch.