

ECONOMIC UPDATE

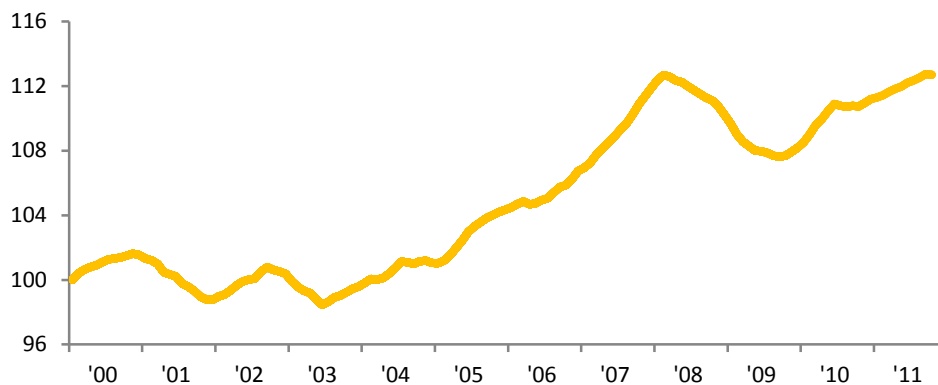
EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index contracted slightly in October at a 0.4 percent annualized rate. Recent government and educational and health services job losses took a toll on the local economy. This is likely the result of budgetary issues being faced by the public sector.

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

Index, January 2000 = 100



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

pace. The expansion at Fort Bliss is now shifting gears into population growth and is expected to boost the local economy.

Labor Market

El Paso's nonfarm employment contracted at a 6.1 percent annualized rate in October. Job losses were concentrated in a few sectors such as information, educational and health services, government, and trade, transportation and utilities. On the other hand, job gains took place in the professional and business services, and leisure and hospitality sectors.

El Paso's unemployment rate now stands at 10.5 percent. The Texas unemployment rate is 8.4 percent, while the national rate is 8.6 percent.

Employment Growth

(Month-over-month annualized growth rates)

<i>El Paso</i>	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Nonfarm employment	-1.3	3.9	0.9	0.9	7.4	-6.1
Goods producing	7.6	7.5	3.7	3.7	0.0	-3.5
Construction, mining & natural res.	0.0	16.6	0.0	7.9	0.0	0.0
Manufacturing	7.1	0.0	0.0	7.1	-6.6	0.0
Services providing	-2.4	3.4	0.5	0.5	8.5	-6.5
Trade, transportation & utilities	2.1	0.0	8.7	2.1	13.2	-6.0
Information	0.0	0.0	0.0	0.0	28.1	-21.9
Financial activities	10.7	0.0	10.6	0.0	10.5	0.0
Professional & business services	0.0	-14.3	8.1	3.9	8.0	7.9
Educational & health services	-6.2	-6.2	17.3	3.2	17.0	-17.2
Leisure & hospitality	-8.1	8.8	0.0	4.3	8.7	4.2
Other services	-22.5	13.7	13.5	0.0	13.4	0.0
Government	0.0	16.9	-18.8	-6.8	0.0	-13.2
Unemployment rate	10.3	10.2	10.4	10.4	10.6	10.5
<i>Midland-Odessa</i>						
Nonfarm employment	10.2	4.5	13.9	7.2	2.6	3.5
Unemployment rate	5.3	5.4	5.5	5.4	5.5	5.3
<i>Las Cruces</i>						
Nonfarm employment	-6.8	5.4	14.9	-11.5	-5.1	11.0
Unemployment rate	6.7	8.1	7.3	6.5	6.2	6.3

NOTE: Seasonally adjusted data.

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

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Trade and Border Crossings

In October, trade flows through the El Paso port of entry contracted for the second month in a row. Both exports and imports contributed to the contraction in total trade. As a result of a weaker peso, which in turns means less traffic from shoppers from across the Rio Grande, El Paso sales tax rebates declined in September and October, at 2.2 percent and 3.9 percent, respectively (year-over-year basis).

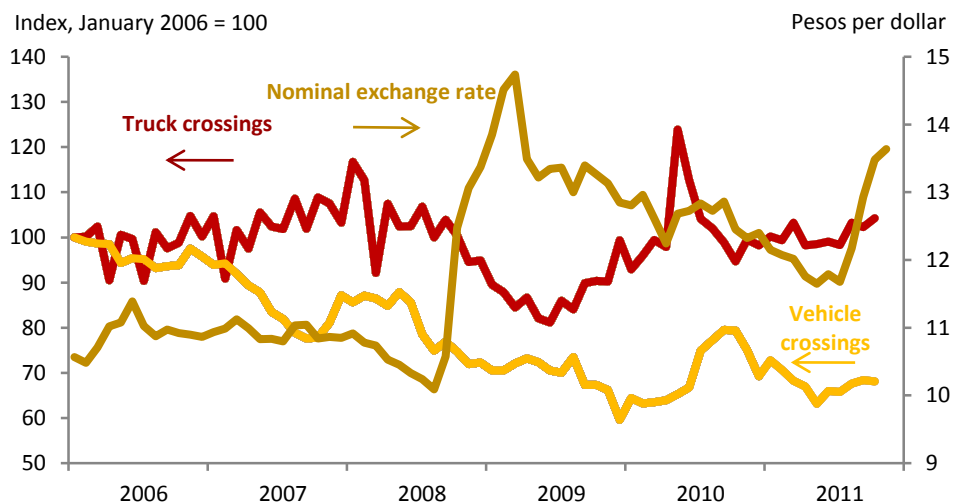
In spite of the recent weakening of the peso against the dollar, the number of personal vehicles crossing into El Paso from Ciudad Juarez continued to expand at a moderate pace in recent months. Commercial traffic has also shown the same trend with truck crossings picking up over the last few months. The latter might be the result of the maquiladora industry recovery gaining momentum.

Housing Market

In October, El Paso home sales jumped by 3.8 percent on a year-over-year basis. The median home price was \$136,900. Inventories are at 7.6 months, down from 7.9 in September.

Single-family building permits—a leading indicator for the housing sector—have begun to show signs of life in the local market. In October, single-family permits in-

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.

creased 32 percent from a year ago. It is likely that the El Paso housing market will experience strong growth 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. The Institute for Supply Management manufacturing index and its asso-

ciated new orders index (a leading indicator of industrial activity) increased at a solid pace in November, after a few months of bordering on contraction. Furthermore, formal manufacturing employment in the Mexican state of Chihuahua continues to expand, albeit at a slow rate.

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 November at a 4.1 percent annualized rate. In 2010, maquiladora employment increased at a 7.1 percent rate, which represents

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15,000 new jobs. Year to date, maquiladora payrolls in Juarez have grown by almost 10,000 jobs, a 4.2 percent increase.

U.S. auto production jumped to 9.1 million units in October, up from 7.6 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

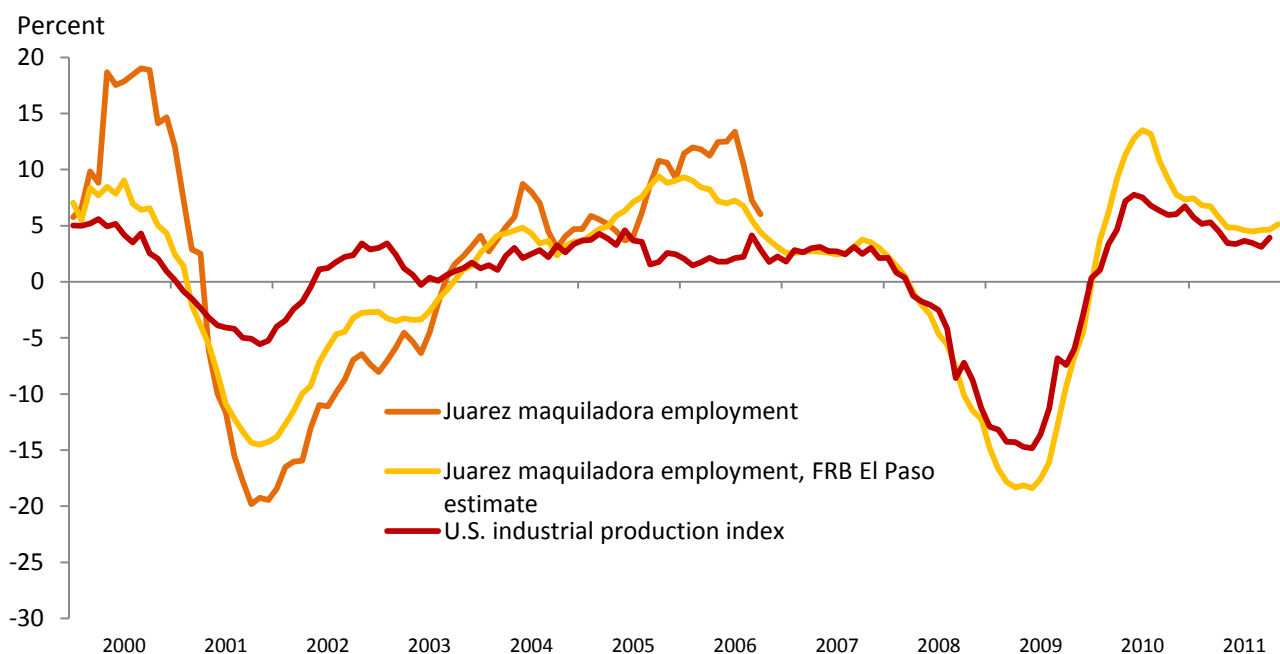
Midland–Odessa employment increased in October at a 3.5 percent annualized rate. As a result, the unemployment rate decreased to 5.3 percent in October from 5.5 percent in September. High energy prices continue to benefit the Midland–Odessa area.

Las Cruces, N.M., nonfarm employment jumped in October at an 11 percent annualized rate. The unemployment rate was 6.3 per-

cent.

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.