

ECONOMIC UPDATE

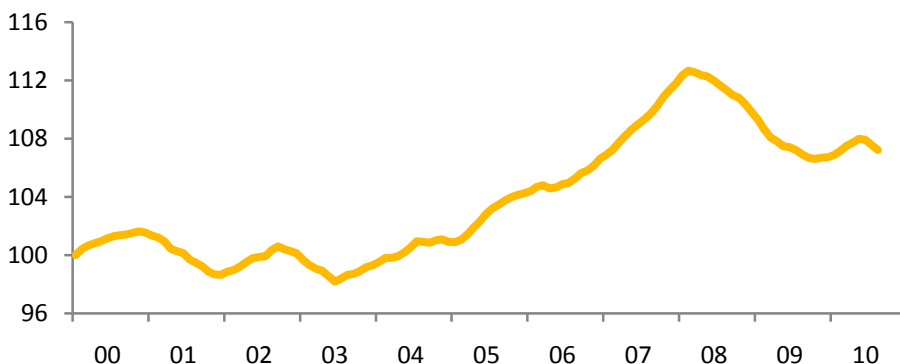
EL PASO

El Paso Business-Cycle Index

In August, the El Paso continued to slow down as the business-cycle index posted a decline of 3.7 percent annualized rate, after two consecutive months of negative readings. The recent deceleration in economic activity is mostly due to a weak labor market. Furthermore, the bulk of the contraction in employment is government-related as the census temporary employees are now being laid off.

In addition, as the U.S. inventory buildup phase comes to an end, the maquiladora industry in Ciudad Juarez

Index Jan. 2000=100



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

has started to cool down. It is still too early to say that the recovery came to a halt, as regional economic

data, in particular employment data, are subject to significant revisions.

Labor Market

El Paso nonfarm employment decreased in August at a 4 percent annualized rate. The job losses were concentrated in the service-providing sectors, in particular in the government, financial activities and trade, transportation and utilities sectors. The goods-producing sectors posted an increase of 3.8 percent annualized rate. Private employment in El Paso continues on the rise, albeit growth rates are now moderating.

As a result of the recent labor market softness, the unemployment rate jumped again to the double-digit figures and now stands at 10 percent. The Texas unemployment rate is 8.3 percent, while the national rate is at 9.6 percent.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Nonfarm Employment	10.1	4.9	6.3	-5.5	-6.3	-3.9
Goods Producing	-7.3	7.9	7.9	-7.3	7.9	3.8
Construction, Mining & Natural Resources	-14.7	17.2	8.2	-7.6	8.2	8.1
Manufacturing	0.0	0.0	7.6	-7.0	7.6	0.0
Services Providing	12.6	4.5	6.1	-5.3	-8.0	-4.8
Trade, Transportation & Utilities	9.2	2.2	-2.2	2.2	2.2	-4.3
Information	0.0	0.0	0.0	0.0	0.0	0.0
Financial Activities	0.0	0.0	22.8	0.0	0.0	-9.7
Professional & Business Services	40.2	3.8	3.8	3.7	0.0	0.0
Educational & Health Services	22.6	3.4	-3.3	-3.3	3.4	0.0
Leisure & Hospitality	14.2	-4.3	9.2	0.0	-4.3	4.5
Other Services	0.0	13.9	-12.2	0.0	0.0	0.0
Government	3.6	11.2	19.2	-19.0	-27.6	-13.6
Unemployment Rate	9.5	10.0	9.6	9.3	9.6	10.0
<i>Midland-Odessa</i>						
Nonfarm Employment	2.9	4.9	9.0	0.0	1.0	2.9
Unemployment Rate	7.2	7.2	6.7	6.2	6.2	6.4
<i>Las Cruces</i>						
Nonfarm Employment	1.8	1.8	13.2	15.0	7.2	-11.5
Unemployment Rate	9.0	8.0	7.7	8.2	8.7	n.a.

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

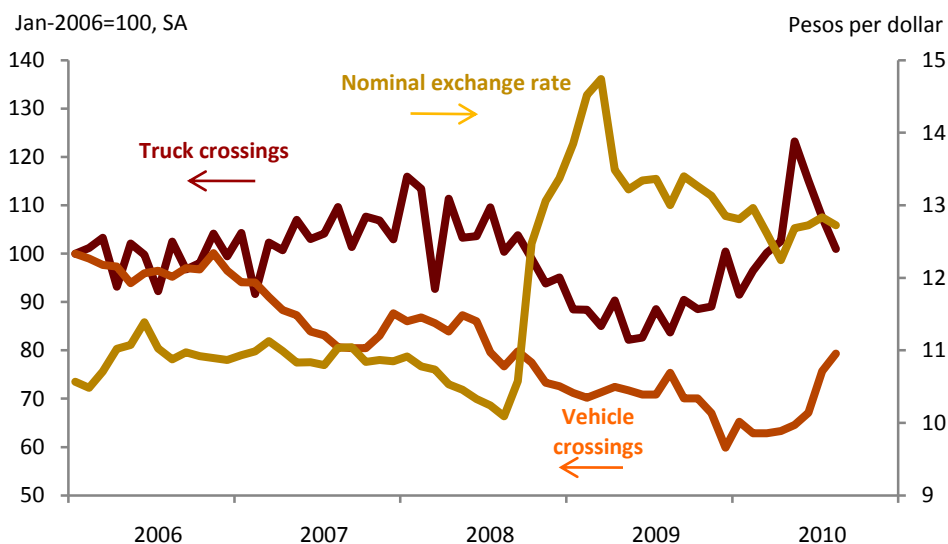
Total trade through El Paso continues to grow. In July, total trade increased at a 23 percent annualized rate. Both imports and exports posted positive readings. In the local retail sector, El Paso sales tax rebates increased at a 7 percent rate in July from the same month a year ago.

In August, the number of personal vehicles crossing into El Paso from Ciudad Juarez increased strongly, while pedestrian crossings showed a contraction. At the same time, truck crossings declined in spite of an increase in trade and growth in maquiladora activity in Juarez.

Housing Market

El Paso housing sales contracted in August by 10 percent from the same month a year ago. However, year to date, home sales have increased by 14 percent. In August, the median home price was \$137,300, while months of inventory increased slightly to 6.9 months. Single-family building permits—a leading indicator for the housing sector—have been declining over the last three months, suggesting a slowdown in the housing market in the coming months. This is likely due to the expiration of the tax incentives. Overall, data suggest that the El Paso housing market continues to stabilize, following the footsteps of

El Paso Border Crossings



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

the national housing market.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector remains on an upward trend, although growth rates have begun to moderate. Furthermore, the ISM manufacturing index and new orders index (a leading indicator for the industrial sector) continue to signal expansion. Formal employment in the manufacturing sector in the state of Chihuahua continues on the rise but at a slower pace.

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 have been expanding their payrolls since August of last year. However, job gains have slowed down over the last couple of months, averaging 4.5 percent annualized growth rate compared with an average of 15 percent increase over the previous 11 months. Anecdotal evidence corroborates that maquiladoras have begun to see a slowdown in production orders. This is mostly due to the culmination of the U.S. inventory buildup phase, as firms are now reaching desired levels of inventories.

Neighboring Metro Areas

The Midland–Odessa labor market continues on the upward trend with nonfarm employment growing in August at a 3 percent annu-

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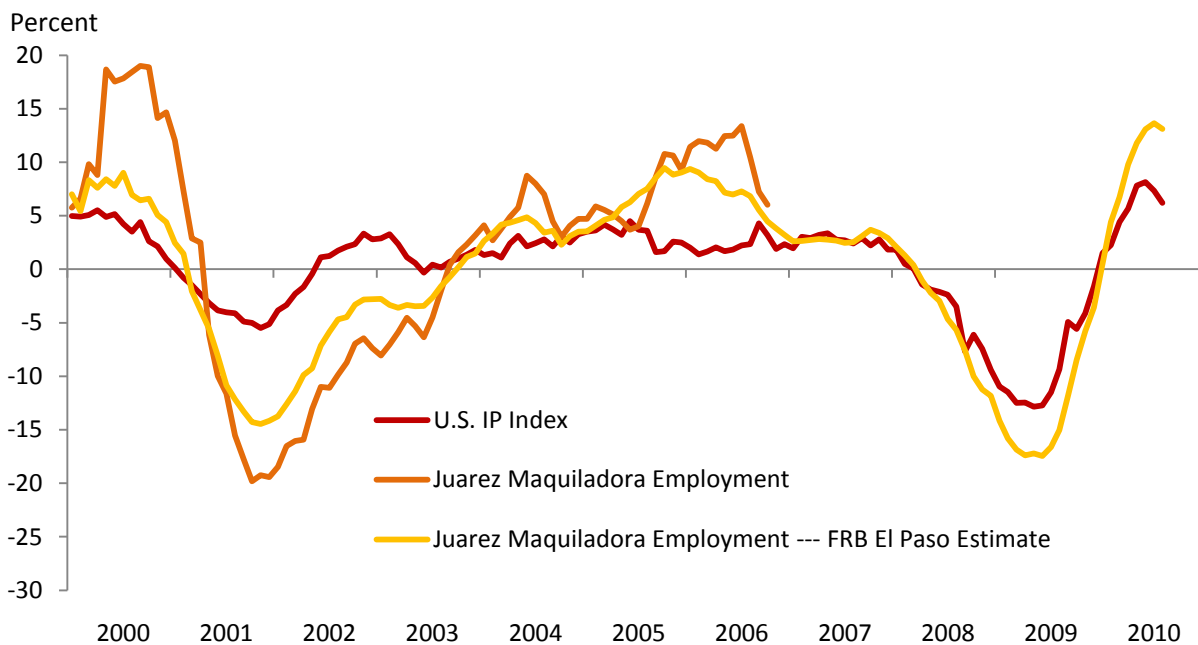
alized rate. In spite of this, the unemployment rate increased and now stands at 6.4 percent. Oil-directed drilling in the Midland–Odessa area continues to flourish due to the high and rising oil prices, and as a result regional economic activity has begun to stabilize and even pick up in certain sectors.

Las Cruces nonfarm employment declined significantly in August at an 11.5 percent annual rate, after two months of sluggish growth. As a result, the unemployment rate continues to rise and is now 8.7 percent.

Midland–Odessa housing sales have increased on average by 12

percent over the last three months with a median home price of \$173,900. Permits for new homes in the Midland–Odessa area, as well as for Las Cruces, continue to stabilize, suggesting that the housing market in both MSAs might have reached bottom.

U.S. Manufacturing and Maquiladora Industry Year-over-Year



NOTE: Seasonally Adjusted Data

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