

ECONOMIC UPDATE

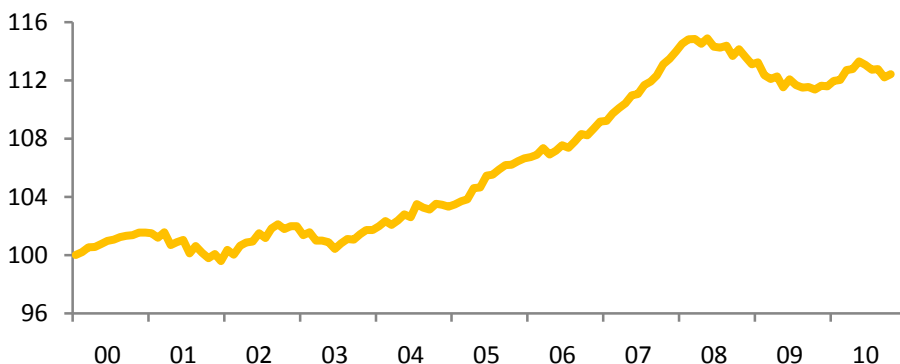
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El Paso Business-Cycle Index

The El Paso business-cycle index increased 2.2 percent at an annualized rate in October. However, the local economy recently began a deceleration heavily influenced by a contraction in government-related employment as temporary census employees were laid off.

Furthermore, the U.S. industrial sector has begun to cool down in recent months. As a result, Ciudad Juarez maquiladoras' payroll expansion came to a halt. According to our internal estimates, maquiladoras across the

Index Jan. 2000=100



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

Rio Grande stopped hiring in September, after a year of continued job growth. This now represents a

downside risk for the El Paso economy.

Labor Market

After four months of contraction, El Paso nonfarm employment rose in October at a 3.6 percent annualized rate. Employment gains were widespread across sectors with only the information sector posting job losses. The manufacturing, trade, transportation and utilities, leisure and hospitality, and government sectors remained unchanged in October.

Given the recent softness in the El Paso labor market, the unemployment rate jumped to 10.4 percent in October. The Texas unemployment rate is 8.1 percent, while the national rate is at 9.6 percent.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10
Nonfarm Employment	6.3	-5.5	-6.3	-1.3	-5.5	3.6
Goods Producing	7.9	-7.3	7.9	3.8	-3.7	3.8
Construction, Mining & Natural Resou	8.2	-7.6	8.2	8.1	0.0	8.1
Manufacturing	7.6	-7.0	7.6	0.0	-7.0	0.0
Services Providing	6.1	-5.3	-8.0	-2.0	-5.8	3.5
Trade, Transportation & Utilities	-2.2	2.2	2.2	-2.2	2.2	0.0
Information	0.0	0.0	0.0	0.0	0.0	-21.9
Financial Activities	22.8	0.0	0.0	-9.7	-9.8	10.8
Professional & Business Services	3.8	3.7	0.0	3.7	-3.6	11.6
Educational & Health Services	-3.3	-3.3	3.4	0.0	7.0	10.5
Leisure & Hospitality	9.2	0.0	-4.3	9.2	4.5	0.0
Other Services	-12.2	0.0	0.0	0.0	0.0	13.9
Government	19.2	-19.0	-27.6	-8.7	-22.9	0.0
Unemployment Rate	9.6	9.3	9.6	10.0	9.8	10.4
<i>Midland-Odessa</i>						
Nonfarm Employment	9.0	0.0	1.0	0.0	1.0	2.9
Unemployment Rate	6.7	6.2	6.2	6.5	6.1	6.6
<i>Las Cruces</i>						
Nonfarm Employment	13.2	15.0	7.2	-8.3	0.0	n.a.
Unemployment Rate	7.7	8.2	8.7	8.1	7.6	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

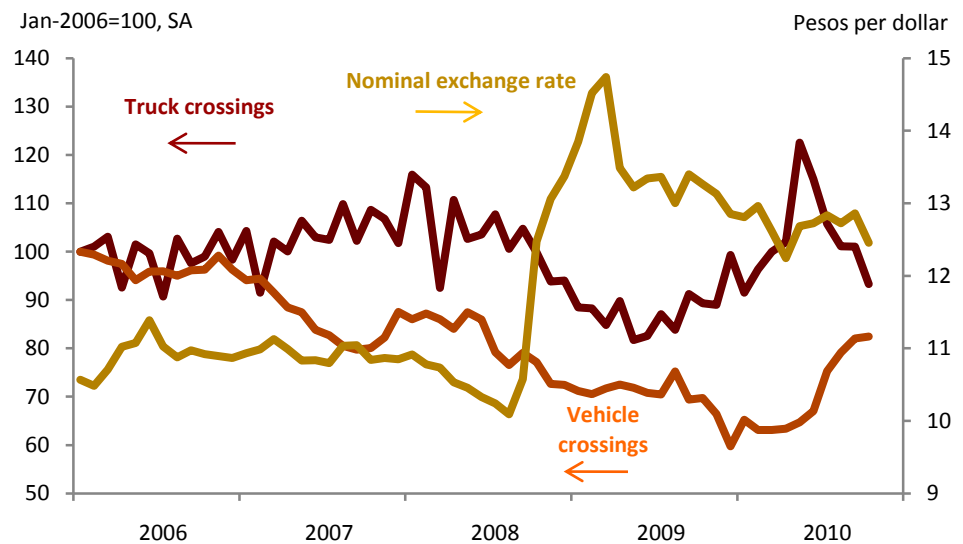
Trade flows through the El Paso port of entry continue to moderate. In September, total trade increased at a 4 percent annualized rate. On a year-over-year basis, total trade is up 36 percent. In the local retail sector, El Paso sales tax rebates increased 9 percent in September from the same month a year ago.

On a 12-month basis, the number of personal vehicles crossing into El Paso from Ciudad Juarez increased strongly at 18 percent. However, pedestrian crossings registered a decline of about 26 percent. With respect to commercial traffic, truck crossings were up 4.5 percent (12-month basis). However, in recent months, truck crossings have registered a contraction. Such trend is in line with a slowdown in maquiladora activity in Juarez.

Housing Market

El Paso housing sales receded in September by 4.5 percent from the same month a year ago. However, year to date, home sales have increased by 12 percent. In September, the median home price was \$137,000, while months of inventory remain unchanged at 6.9 months. Single-family building permits—a leading indicator for the housing sector—have been retreating over the last three months, suggesting a slowdown in

El Paso Border Crossings



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

the housing market in the coming months. Similar to the nation, the El Paso housing market has been weak over the past few months after a good performance earlier this year. This is due to the expiration of the federal tax incentives.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector continues to cool down, posting a slight increase of 0.1 percent annualized rate in October. The ISM manufacturing index and new orders index (a leading indicator for the industrial sector) continue to signal expansion, albeit recent readings suggest that the industrial sector has slowed down in recent months. In addition, formal employment in the manufacturing

sector in the state of Chihuahua has contracted over the last three months.

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 payroll expansion came to a halt in September, after expanding for over a year. Maquiladora employment edged down by a 1 percent and 6 percent (both are annualized rates) in September and October, respectively. Maquiladora payroll contraction intensified in October, indicating that the recent weakness in the U.S. industrial sector is making inroads into maquiladora plants in Juarez. Anecdotal evidence provides

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mixed evidence; while some contacts report that production orders are on the rise, others are observing a drop in the demand for their products.

Neighboring Metro Areas

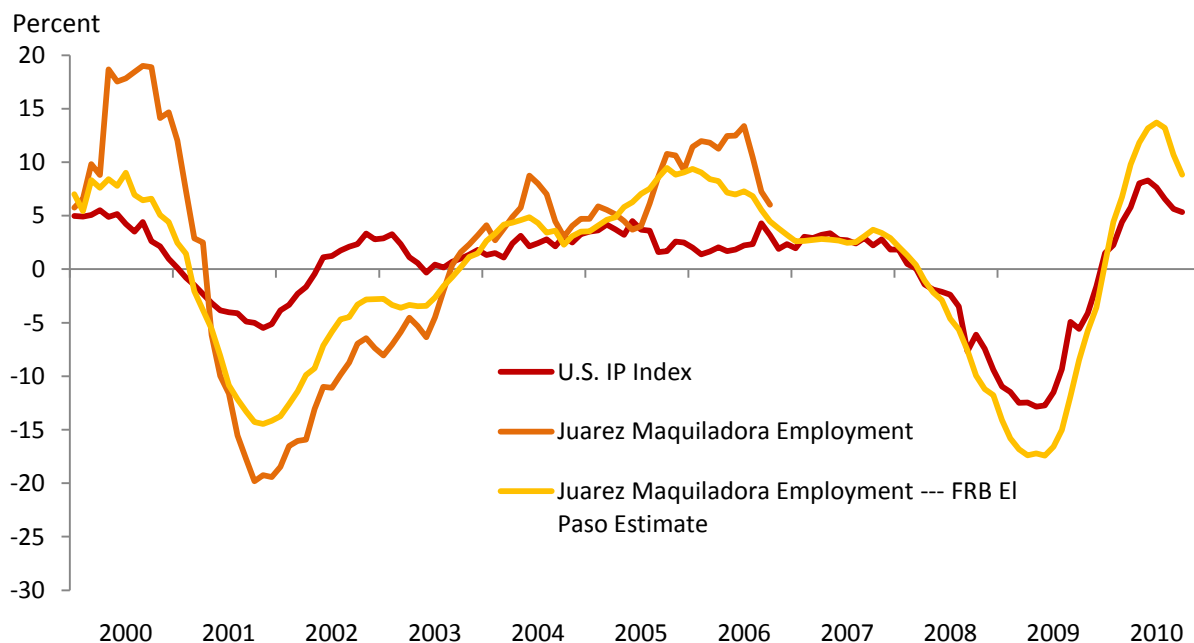
The Midland–Odessa labor market strengthened, posting a jump of 2.9 percent annualized rate in October. In spite of this, the unemployment rate increased to 6.6

percent from 6.1 percent in September. The Midland–Odessa area continues to benefit from high and rising oil prices, resulting in stronger regional economic activity.

Las Cruces nonfarm employment remained flat in September, after a significant decline in August of 8.3 percent annual rate. The unemployment rate continues to be high and is now 8.1 percent.

The Midland–Odessa housing sector is stabilizing. Home sales are up 1.4 percent from a year ago with a median home price of \$165,000. Permits for new homes in the Midland–Odessa area, as well as for Las Cruces, continue to improve, 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