

ECONOMIC UPDATE

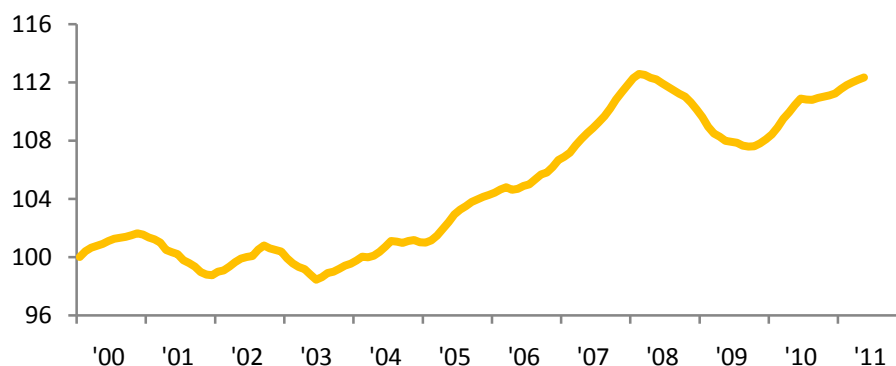
EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index expanded in May at a 1.7 percent annualized rate. After a soft patch in the second half of last year, the El Paso economy has gained momentum in 2011, growing on average at a 2.4 percent annualized rate per month.

A downside risk to the recovery for the El Paso economy is the weak performance of the U.S. industrial sector in recent months. In particular, in the wake of the Japanese disruptions in global automotive supply chains, U.S. auto production has contracted signif-

Index, January 2000 = 100



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

icantly over the last couple of months. Ciudad Juarez maquiladoras are already feeling the pain of

the U.S. auto contraction, and it is likely that this will reach El Paso in coming months.

Labor Market

Growth in El Paso nonfarm employment slowed down in May, with employment slightly expanding at a 0.4 percent annualized rate. Year to date, El Paso has added almost 3,000 jobs, representing a 1 percent increase. The sectors that added jobs during May were trade, transportation and utilities, and professional and business services. On the other hand, leisure and hospitality, other services and government sectors shed jobs.

El Paso's unemployment rate now stands at 10.4 percent. The Texas unemployment rate is 8 percent, while the national rate is at 9.1 percent.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Nonfarm Employment	-0.9	5.3	2.2	1.3	3.5	0.4
Goods Producing	0.0	7.8	0.0	3.8	0.0	0.0
Construction, Mining & Natural Resou	0.0	17.0	0.0	8.1	0.0	0.0
Manufacturing	0.0	7.4	-6.9	0.0	0.0	0.0
Services Providing	-1.4	5.0	2.9	1.0	4.4	0.0
Trade, Transportation & Utilities	0.0	16.2	4.3	0.0	6.6	2.1
Information	0.0	-21.5	0.0	-21.9	0.0	0.0
Financial Activities	0.0	0.0	0.0	0.0	0.0	0.0
Professional & Business Services	-7.5	8.1	8.0	8.0	12.1	12.0
Educational & Health Services	-6.4	10.4	0.0	0.0	6.8	0.0
Leisure & Hospitality	4.4	0.0	0.0	0.0	4.4	-8.2
Other Services	0.0	0.0	0.0	0.0	0.0	-11.9
Government	3.5	-1.7	1.7	3.5	-1.7	-1.7
Unemployment Rate	10.0	10.0	9.9	10.1	10.4	10.4
<i>Midland-Odessa</i>						
Nonfarm Employment	0.0	3.7	7.6	13.5	-6.1	2.8
Unemployment Rate	6.2	6.0	5.8	5.6	5.4	5.3
<i>Las Cruces</i>						
Nonfarm Employment	0.0	1.8	1.8	0.0	-6.7	-5.1
Unemployment Rate	8.2	9.2	9.0	7.5	7.1	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

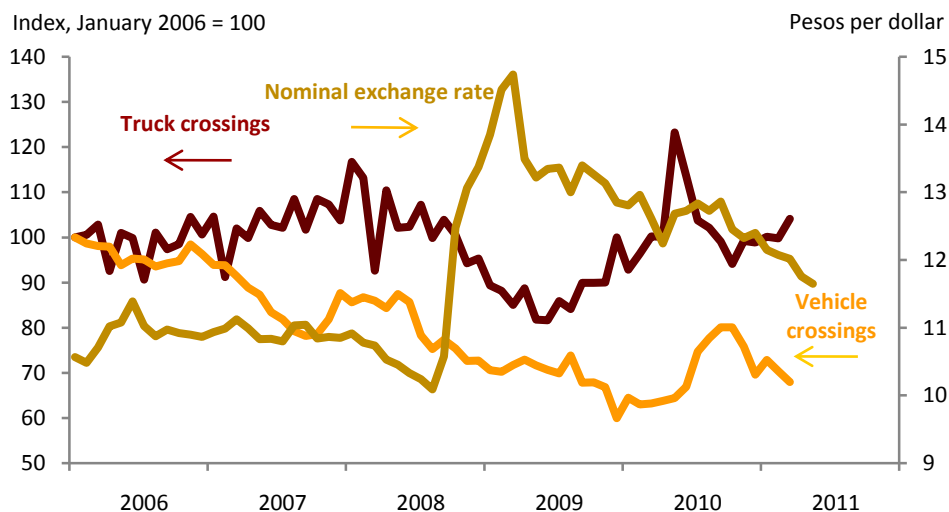
Trade flows through the El Paso port of entry continue to moderate. In April, total trade declined 2 percent. However, on a year-over-year basis, total trade is up 4.2 percent. In the local retail sector, El Paso sales tax rebates decreased 1.5 percent in April from the same month a year ago.

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 May, El Paso housing sales contracted significantly—38 percent from a year ago. Overall in 2010, home sales increased by 3.2 percent from 2009. However, year to date, home sales are down 18 percent compared to the same period a year ago. In May, the median home price was \$95,000, while months of inventory increased to 7.4. Aligned with weak home sales, single-family building permits—a leading indicator for the housing sector—have declined over the last

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.

couple of months. 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 remained flat over the last couple of months. More importantly for the local economy, U.S. auto manufacturing production has contracted significantly since the Japanese-induced supply chain disruptions this spring. 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 the 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 payrolls moved sideways in May after posting strong growth rates in the first four months of 2011. In 2010, maquiladora employment increased by a 7.1 percent annual rate, which represents 15,000 new jobs. So far, year to date, maquiladora payrolls

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in Juarez have increased by 6,500 jobs, a 2.9 percent increase.

Most analysts expect the Japanese shock to the auto sector to be short-lived. As a result, it is likely that U.S. auto production will resume growth in the second half of this year. This is, 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 labor market continues to improve, posting an increase of 2.8 percent annualized rate in May. As a result, the unemployment rate declined to 5.3. The energy boom continues to benefit the Midland–Odessa area, resulting in stronger regional economic activity.

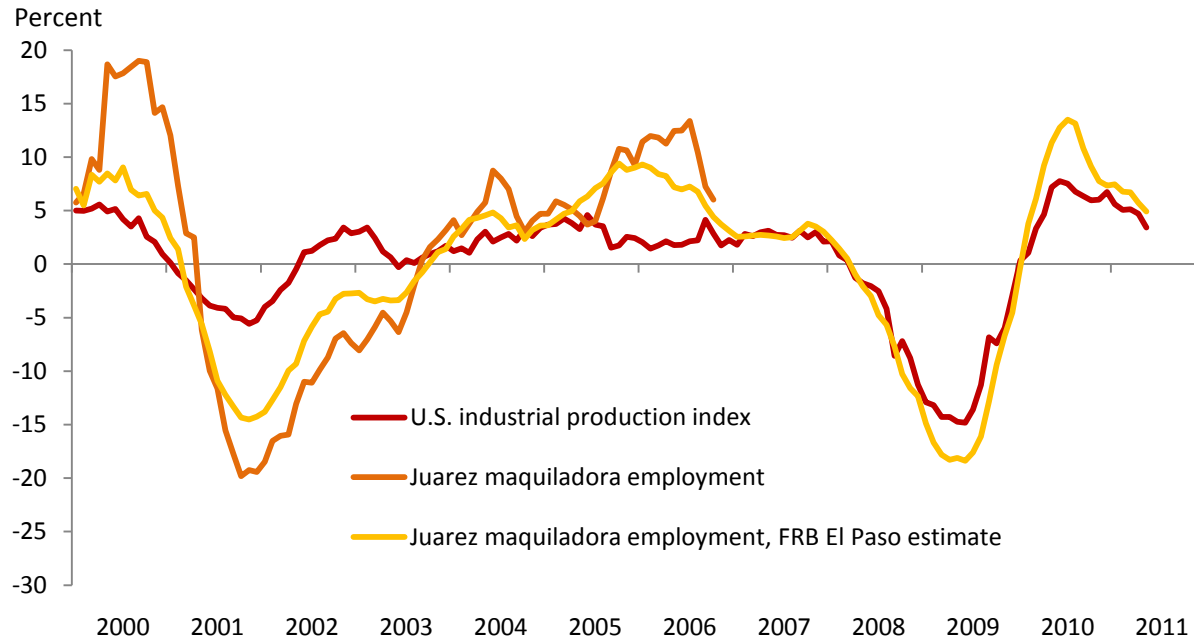
Las Cruces nonfarm employment contracted in May at a 5.1 percent

annualized rate. In spite of job losses, the unemployment rate declined and now sits at 7.1 percent.

The Midland–Odessa housing sector has posted five consecutive months of positive readings in home sales. In April, the median home price was \$143,600. Permits for new homes in the Midland–Odessa area are up, 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.