

ECONOMIC UPDATE

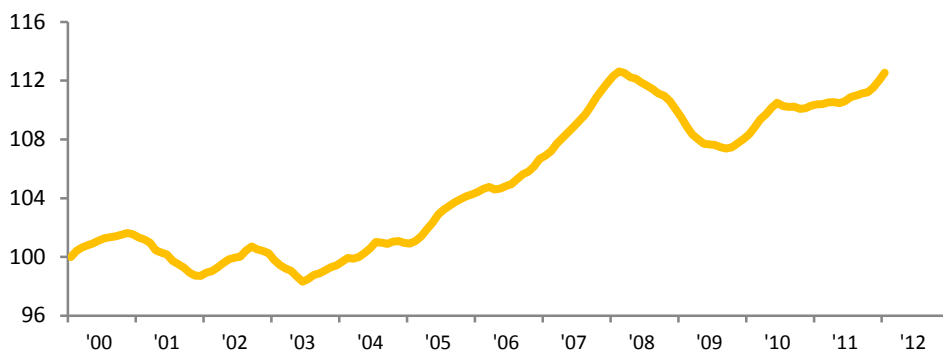
EL PASO

El Paso Business-Cycle Index

According to the business-cycle index produced by the Federal Reserve Bank of Dallas, economic activity in the El Paso metropolitan economy expanded at a strong 6 percent annualized rate in January. In addition, nonfarm employment continues on the rise.

Given the recent pickup in the U.S. industrial sector, employment growth in Ciudad Juarez maquiladoras has accelerated. The expansion at Fort Bliss is now shifting

Index, January 2000 = 100



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

gears into population growth and economy. is expected to boost the local

Labor Market

El Paso's nonfarm employment increased sharply in January at a 7.9 percent annualized rate. Altogether in 2011, El Paso added 3,300 nonfarm jobs, representing a 1.2 percent growth rate. It is worthwhile noticing that private employment grew vigorously in 2011, adding 6,200 jobs while government employment contracted by 2,800 jobs. Job gains in the private sector were widespread across sectors.

As a result of the continued job growth throughout last year, the unemployment rate finally began to decline in the second half of last year. El Paso's unemployment rate now stands at 9.6 percent, slightly down from 10 percent in December 2010. The Texas unemployment rate is 7.3 percent, while the national rate is 8.3 percent.

Employment Growth

(Month-over-month annualized growth rates)

<i>El Paso</i>	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
Nonfarm employment	-2.5	3.9	-4.6	1.7	4.4	7.9
Goods producing	-7.4	-3.8	0.0	-3.8	0.0	4.0
Construction, mining & natural res.	-8.5	0.0	0.0	-8.5	9.3	9.3
Manufacturing	-6.6	-6.6	0.0	0.0	-6.7	7.2
Services providing	-1.9	4.9	-5.1	2.4	5.4	7.9
Trade, transportation & utilities	0.0	8.7	-8.0	4.3	10.9	13.1
Information	0.0	27.4	-21.5	-21.9	28.1	0.0
Financial activities	10.2	10.1	0.0	0.0	10.0	20.8
Professional & business services	4.0	12.3	3.9	3.9	12.1	16.2
Educational & health services	3.2	24.6	-6.1	3.2	9.8	3.1
Leisure & hospitality	4.2	4.1	4.1	4.1	8.4	8.3
Other services	13.4	0.0	0.0	13.2	13.1	13.0
Government	-16.2	-13.3	-8.6	-3.6	-5.3	-1.8
Unemployment rate	10.5	10.5	10.4	9.8	9.8	9.6
<i>Midland-Odessa</i>						
Nonfarm employment	4.3	1.7	5.2	-8.8	12.5	1.7
Unemployment rate	5.0	5.0	4.8	4.6	4.5	4.6
<i>Las Cruces</i>						
Nonfarm employment	-9.9	1.8	9.1	-8.3	20.9	0.0
Unemployment rate	6.5	6.2	6.3	6.3	6.6	n.a.

NOTE: Seasonally adjusted data.

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

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Trade and Border Crossings

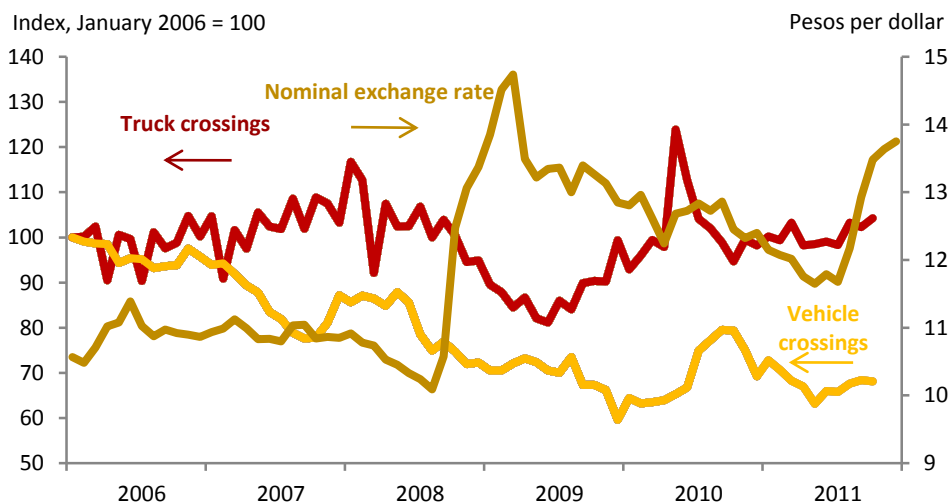
In January, trade flows through the El Paso port of entry increased at a rapid 6 percent pace. The solid growth in trade flows is likely the result of stronger maquiladora activity in Ciudad Juarez. As a result of a weaker peso, which in turn means less traffic from shoppers from across the Rio Grande, El Paso sales tax rebates decreased in January at a 0.7 percent rate, on a 12-month 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

The El Paso housing market gained momentum in February with home sales increasing at a 28 percent rate on a 12-month basis. The median home price in February was \$136,000. Inventories are 7.3 months. Single-family building permits—a leading indicator for the housing sector—have slowed down over the last couple of months

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 continue to do well 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 of 2011. In addition, it is anticipated that around 8,000 and 9,000 people will arrive in El Paso in 2012 and 2013, respectively, as a result of the expansion at the military post. 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 remains

on the rise. In addition, the Institute for Supply Management manufacturing index and its associated new orders index (a leading indicator of industrial activity) continue to signal solid growth in the industrial sector in recent months, after experiencing a soft patch during the summer of 2011. Growth in formal manufacturing employment in the Mexican state of Chihuahua has accelerated since December.

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 are now adding payrolls at a faster pace. For instance,

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maquiladora jobs have posted strong growth at an average of 13 percent annualized rate over the last three months. In 2011, maquiladora employment increased at a 5.4 percent rate, which represents close to 12,000 new jobs. So far in the first couple of months in 2012, according to our estimates, maquiladoras in Ciudad Juarez have added more than 5,000 jobs, which represent an increase of 2.3 percent.

U.S. auto production reached 10 million units in January and February, a level not seen since the on-

set of the recession in early 2008. This is good news for the local economy because roughly half of the maquiladoras across the Rio Grande are auto related.

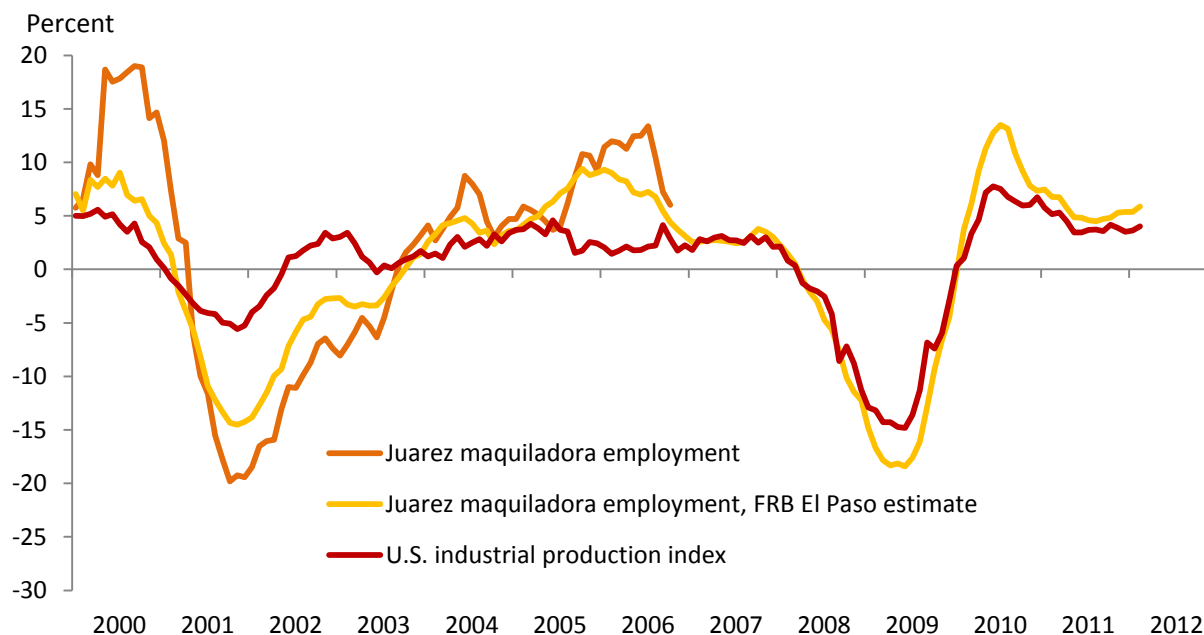
Neighboring Metro Areas

Midland–Odessa employment increased in January at a 1.7 percent annualized rate. The unemployment rate increased slightly to 4.7 percent in January. The Permian Basin region continues to benefit from high energy prices.

Las Cruces, N.M., nonfarm employment remained unchanged in January. The unemployment rate sits at 6.6 percent.

The Midland–Odessa housing sector continues to improve, with home sales and permits rising at double-digit rates over the past 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.