

ECONOMIC UPDATE

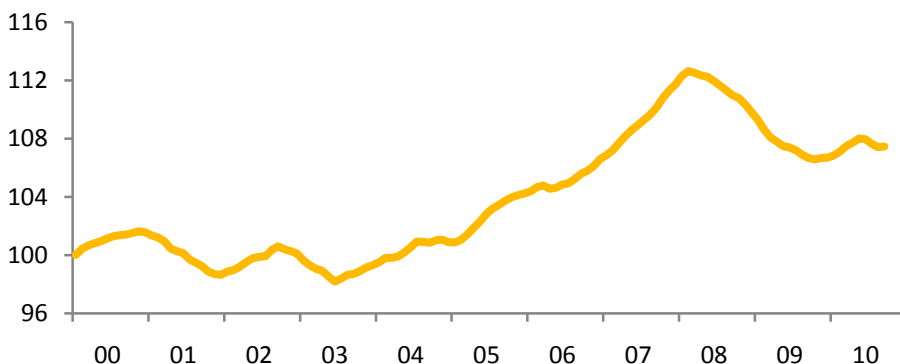
EL PASO

El Paso Business-Cycle Index

After three months of slowdown, the El Paso business-cycle index resumed growth in September, posting an increase of 0.4 percent annualized rate. The recent deceleration in economic activity was heavily influenced by a contraction in government-related employment as the temporary census employees are being laid off.

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, maqui-

Index Jan. 2000=100



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

ladoras across the Rio Grande stopped their hiring process in September, after a year of continued job growth. This now represents a downside risk for the El Paso economy.

Labor Market

El Paso nonfarm employment increased in September at a 1.8 percent annualized rate. While the goods producing sectors reported a contraction in employment, the services providing sectors posted an expansion. September job growth was mostly due to the trade, transportation and utilities, educational and health services, and government sectors. Private employment in El Paso continues on the rise.

As a result of the recent labor market improvement, the unemployment rate declined to 9.7 percent. 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>	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10
Nonfarm Employment	4.9	6.3	-5.5	-6.3	-1.3	1.8
Goods Producing	7.9	7.9	-7.3	7.9	3.8	-7.3
Construction, Mining & Natural Resou	17.2	8.2	-7.6	8.2	8.1	-7.5
Manufacturing	0.0	7.6	-7.0	7.6	0.0	-7.0
Services Providing	4.5	6.1	-5.3	-8.0	-2.0	3.0
Trade, Transportation & Utilities	2.2	-2.2	2.2	2.2	-2.2	4.5
Information	0.0	0.0	0.0	0.0	0.0	0.0
Financial Activities	0.0	22.8	0.0	0.0	-9.7	0.0
Professional & Business Services	3.8	3.8	3.7	0.0	3.7	-3.6
Educational & Health Services	3.4	-3.3	-3.3	3.4	0.0	7.0
Leisure & Hospitality	-4.3	9.2	0.0	-4.3	9.2	0.0
Other Services	13.9	-12.2	0.0	0.0	0.0	0.0
Government	11.2	19.2	-19.0	-27.6	-8.7	5.6
Unemployment Rate	10.0	9.6	9.3	9.6	10.0	9.7
<i>Midland-Odessa</i>						
Nonfarm Employment	4.9	9.0	0.0	1.0	0.0	0.0
Unemployment Rate	7.2	6.7	6.2	6.2	6.5	6.2
<i>Las Cruces</i>						
Nonfarm Employment	1.8	13.2	15.0	7.2	-8.3	0.0
Unemployment Rate	8.0	7.7	8.2	8.7	8.1	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

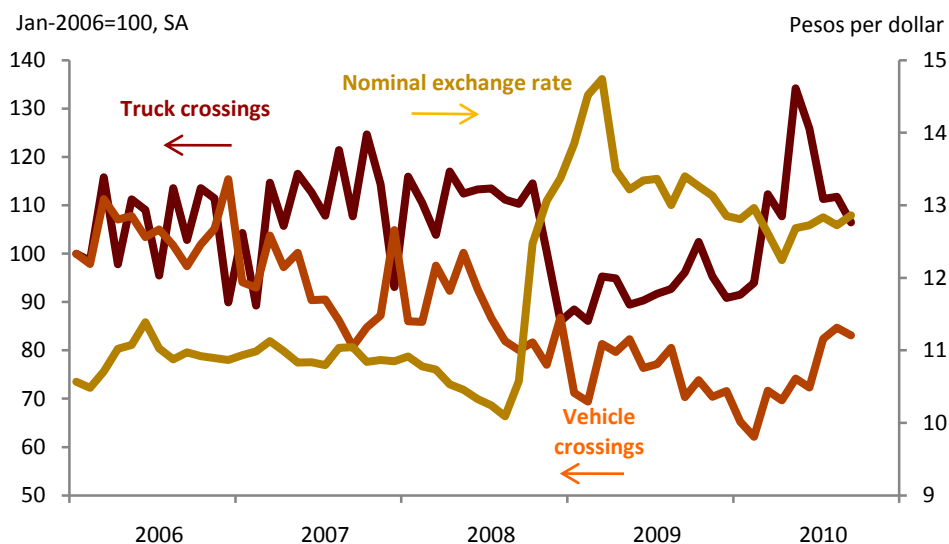
Growth in trade that goes through El Paso is now moderating. In August, total trade inched down slightly at a 1 percent annualized rate. However, total trade is up 37 percent on a 12-month basis. In the local retail sector, El Paso sales tax rebates increased at an 8 percent rate in August from the same month a year ago.

In September, the number of personal vehicles and pedestrian crossing into El Paso from Ciudad Juarez fell. Also, truck crossings declined in line with a slowdown in trade and 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 the housing market in the coming months. Similar to the nation's, 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 expira-

El Paso Border Crossings



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

tion of the tax incentives.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector began to show signals that it is cooling down. 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 is slowing down. As a result, formal employment in the manufacturing sector in the state of Chihuahua has contracted over the last two 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 annualized rate in September. Although the job losses were not significant, they corroborate that the U.S. industrial sector in recent weeks is making its inroads into maquiladora plants in Juarez. Anecdotal evidence provides mixed evidence; while some contacts report that production orders are on the rise others are observing a drop in the demand for their products. This is mostly due to the culmination of the U.S. inventory buildup phase, as firms are now reaching desired levels of inventories.

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Neighboring Metro Areas

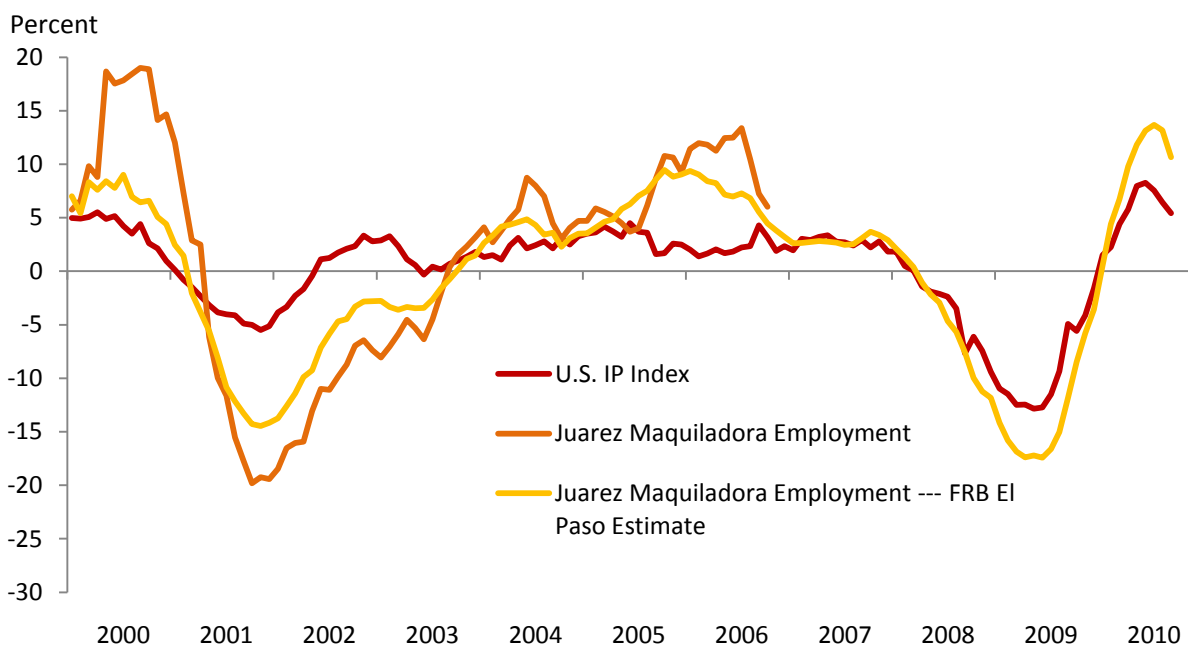
The Midland–Odessa labor market remains unchanged over the last couple of months. The unemployment rate now stands at 6.2 percent. The Midland–Odessa area continues to benefit from high and rising oil prices, resulting in stronger regional economic activity.

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 continues to stabilize. 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