

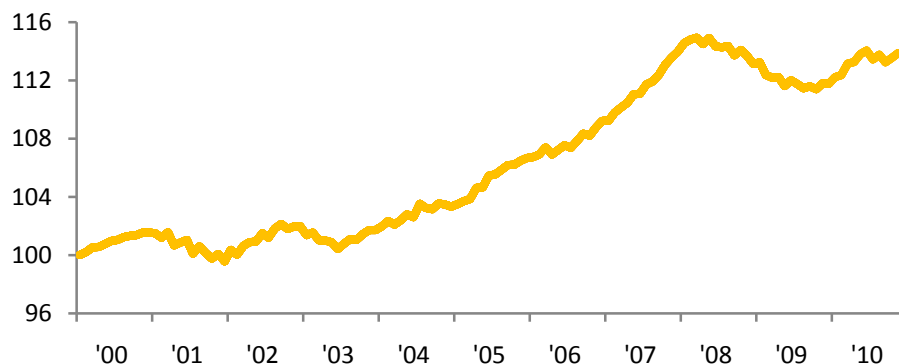
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index increased 3.2 percent at an annualized rate in November. After experiencing a soft patch in late summer and early fall, the El Paso economy gained momentum toward the end of the year. Nonfarm employment posted a 2 percent increase in 2010 (December over December), surpassing the historical average of 1.5 percent.

Index, January 2000 = 100



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

Furthermore, the U.S. industrial sector has accelerated in recent months. As a result, Ciudad Juarez maquiladoras resumed hiring. According to our

internal estimates, maquiladoras across the Rio Grande added 15,000 jobs in 2010, which represent a 7

percent increase. The El Paso economy is expected to benefit in the coming months.

Labor Market

After months of contraction, El Paso nonfarm employment rose in the last quarter of last year. Nonfarm employment jumped at a 1.7 percent annualized rate in December. Employment gains were concentrated in a few sectors, such as trade, transportation and utilities, leisure and hospitality, and government. On the other hand, financial activities and other services sectors posted job losses. The construction, mining and natural resources, manufacturing, information, professional and business services, and educational and health services sectors remained unchanged in December.

The unemployment rate now stands at 10.5 percent. The Texas unemployment rate is 8.3 percent, while the national rate is at 9.4 percent.

Employment Growth

Month-over-Month Annualized Growth Rates

| <i>El Paso</i> | Jul-10 | Aug-10 | Sep-10 | Oct-10 | Nov-10 | Dec-10 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|
| Nonfarm Employment | -9.5 | -1.3 | -5.5 | 7.2 | 5.8 | 1.7 |
| Goods Producing | 7.9 | 3.9 | -3.7 | 0.0 | 3.9 | 3.8 |
| Construction, Mining & Natural Resou | 8.1 | 8.1 | 0.0 | 0.0 | 16.6 | 0.0 |
| Manufacturing | 7.7 | 0.0 | -7.1 | 0.0 | 0.0 | 0.0 |
| Services Providing | -11.5 | -1.9 | -5.8 | 8.2 | 6.1 | 1.5 |
| Trade, Transportation & Utilities | 2.2 | -2.1 | 2.2 | 2.2 | -6.2 | 2.2 |
| Information | 0.0 | 0.0 | 0.0 | 0.0 | -21.5 | 0.0 |
| Financial Activities | 0.0 | -9.9 | -9.9 | 11.0 | 0.0 | -9.9 |
| Professional & Business Services | -3.7 | 3.9 | -3.7 | 16.3 | 3.8 | 0.0 |
| Educational & Health Services | 0.0 | 0.0 | 6.6 | 10.0 | 3.2 | 0.0 |
| Leisure & Hospitality | -4.3 | 9.1 | 4.4 | -4.2 | 4.4 | 4.4 |
| Other Services | 0.0 | 0.0 | 0.0 | 13.9 | 0.0 | -12.2 |
| Government | -34.9 | -8.7 | -22.9 | 16.1 | 24.6 | 3.7 |
| Unemployment Rate | 9.6 | 10.0 | 9.8 | 10.4 | 10.7 | 10.5 |
| Midland-Odessa | | | | | | |
| Nonfarm Employment | 1.9 | 0.0 | 0.0 | 1.9 | 3.8 | 1.9 |
| Unemployment Rate | 6.2 | 6.5 | 6.1 | 6.6 | 7.0 | 6.6 |
| Las Cruces | | | | | | |
| Nonfarm Employment | 7.2 | -8.3 | 1.8 | 3.5 | -1.7 | n.a. |
| Unemployment Rate | 8.7 | 8.1 | 7.6 | 7.9 | 7.9 | 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

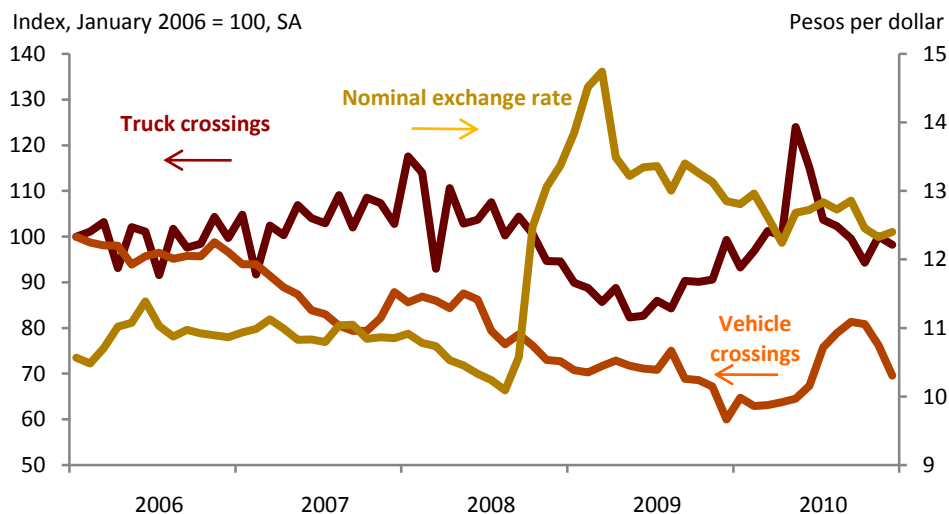
Trade flows through the El Paso port of entry continue to moderate. In November, total trade remained flat. On a year-over-year basis, total trade is up 22 percent. In the local retail sector, El Paso sales tax rebates increased 5.4 percent in November from the same month a year ago.

In spite of a continued appreciation of the peso, the number of personal vehicles crossing into El Paso from Ciudad Juarez declined during the last quarter of 2010. With respect to commercial traffic, truck crossings have moved sideways over the past few months. As maquiladora activity picks up in the coming months, commercial traffic at the international bridges is expected to follow suit.

Housing Market

El Paso housing sales continued to cool down in November for the third consecutive month. However, year to date, home sales have increased by 3 percent. In November, the median home price was \$134,100, while months of inventory remain unchanged at seven months. Single-family building permits—a leading indicator for the housing sector—have been rebounding over the last few months, perhaps in anticipation of the incoming troops into the region in the coming months. Similar

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.

to the national market, 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 gained momentum toward the end of 2010, posting an increase of 10.6 percent annualized rate in December. The ISM manufacturing index and new orders index (a leading indicator for the industrial sector) also show stronger expansion in the last few months. Furthermore, formal employment in the manufacturing sector in the state of Chihuahua expanded at a fast pace in December after a few months of

contraction.

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 resumed hiring in December. In 2010, maquiladora employment increased by 7.1 percent, which represents 15,000 new jobs. According to our estimates, maquiladoras are still down 23,000 jobs from the prerecession peak level. Most analysts expect the U.S. industrial sector to continue to expand into 2011. This is in turn good news for the local economy as maquiladoras are likely to follow suit.

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Neighboring Metro Areas

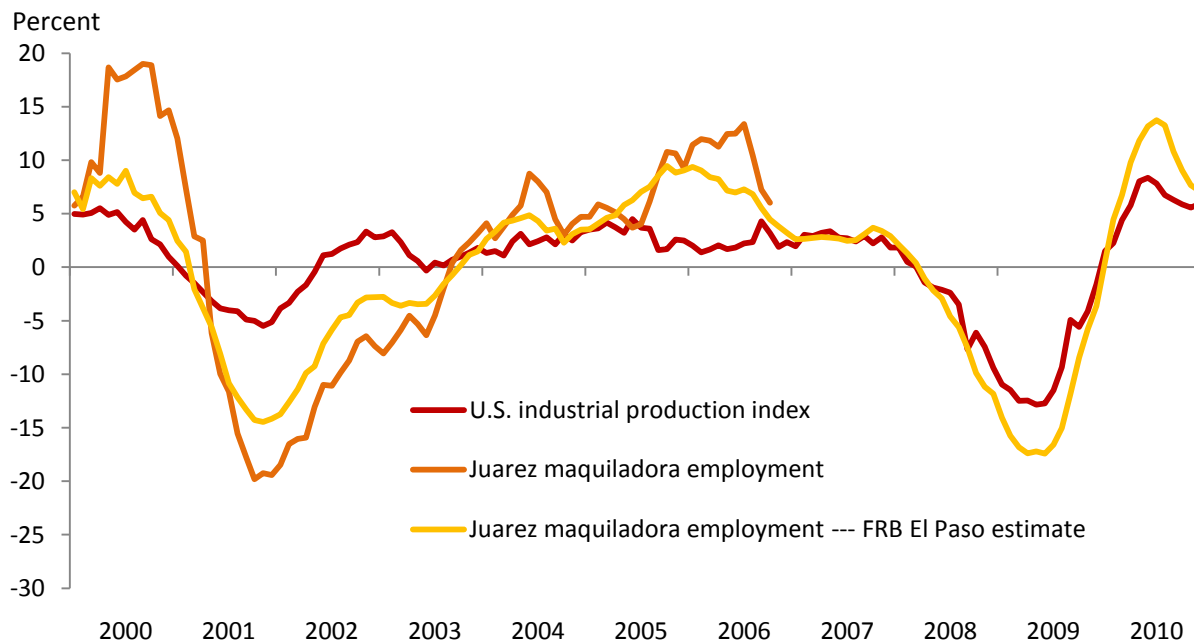
The Midland–Odessa labor market continues to improve, posting a jump of 1.9 percent annualized rate in December. As a result, the unemployment rate decreased to 6.6 percent from 7.0 percent in November. The Midland–Odessa area continues to benefit from high and rising oil prices, resulting in stronger regional economic activity.

Las Cruces nonfarm employment declined 1.7 percent annualized rate in November. The unemployment rate continues to be high and is now 7.9 percent.

The Midland–Odessa housing sector continues to struggle. Home sales are down 30 percent from a year ago with a median home price of \$171,200. Permits for new homes in the Midland–Odessa area, as well as for Las Cruces, con-

tinue to improve albeit at a slow pace, 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