

ECONOMIC UPDATE

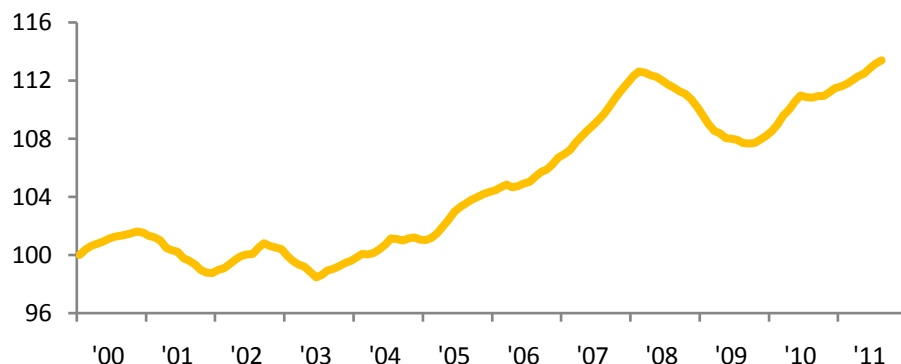
EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index expanded in August at a 2.2 percent annualized rate. The El Paso economy reached its prerecession (February 2008) peak level in May of this year and has been in expansion mode since early summer.

Given the recent pickup in the U.S. industrial sector and, most importantly, in the automotive sector, Ciudad Juarez maquiladoras are growing again, albeit at a slow pace. On top of this, roughly

Index, January 2000 = 100



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

16,000 people arrived in El Paso cause of continued expansion
sometime during the summer be- at Fort Bliss.

Labor Market

El Paso's nonfarm employment was unchanged in August. Private employment increased at a 0.6 percent annualized rate, while government payrolls contracted at a 1.7 percent annualized rate.

So far this year, El Paso has added 3,600 jobs, a 1.3 percent increase. In August, private employment growth was led by the trade, transportation and utilities and leisure and hospitality sectors.

El Paso's unemployment rate now stands at 10.4 percent. The Texas unemployment rate is 8.5 percent, while the national rate is 9.1 percent.

Employment Growth

(Month-over-month annualized growth rates)

<i>El Paso</i>	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11
Nonfarm employment	2.6	4.8	-0.8	4.3	5.2	0.0
Goods producing	11.7	-3.6	3.7	3.7	7.5	-3.6
Construction, mining & natural res.	0.0	0.0	8.0	8.0	16.4	0.0
Manufacturing	15.0	-6.7	0.0	0.0	0.0	-6.8
Services providing	1.5	6.0	-1.0	3.4	5.4	1.0
Trade, transportation & utilities	0.0	11.2	0.0	2.1	6.5	2.1
Information	-21.9	0.0	0.0	0.0	0.0	0.0
Financial activities	0.0	0.0	0.0	10.8	10.7	-9.6
Professional & business services	-7.4	16.6	12.0	3.8	7.8	0.0
Educational & health services	3.3	10.2	-6.2	-20.4	25.7	0.0
Leisure & hospitality	8.7	0.0	-8.0	13.3	13.1	4.2
Other services	0.0	0.0	0.0	0.0	13.4	0.0
Government	3.6	-1.7	-1.7	17.1	-9.9	-1.7
Unemployment rate	10.1	10.4	10.3	10.2	10.4	10.4
<i>Midland-Odessa</i>						
Nonfarm employment	11.3	-4.4	6.4	-8.5	12.3	7.3
Unemployment rate	5.6	5.4	5.3	5.4	5.5	5.3
<i>Las Cruces</i>						
Nonfarm employment	0.0	-6.7	-5.1	5.4	14.9	-6.7
Unemployment rate	7.5	7.1	6.7	8.1	7.3	n.a.

NOTE: Seasonally adjusted data.

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

ECONOMIC UPDATE

EL PASO

Trade and Border Crossings

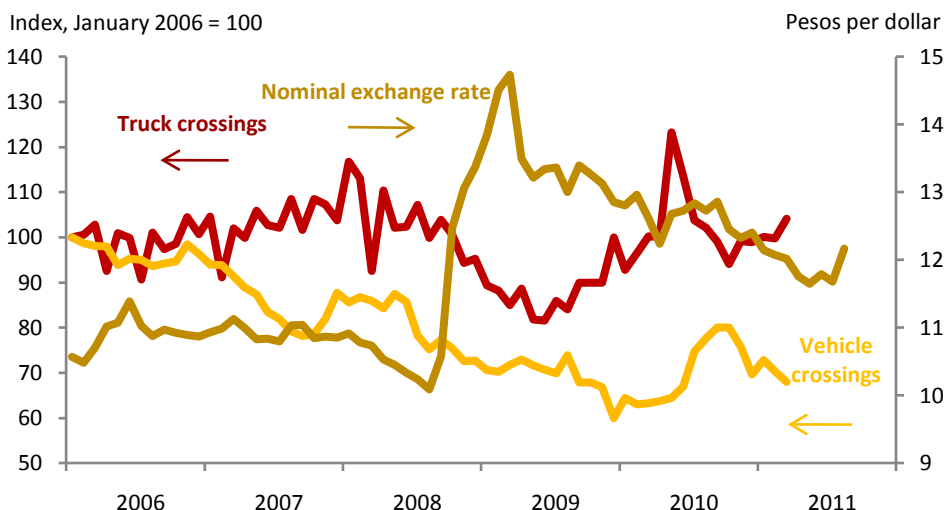
As a result of weaker maquiladora activity in Ciudad Juarez through much of the summer, trade flows through the El Paso port of entry contracted during the summer. In July, total trade declined by 5.3 percent, with both exports and imports contributing to the slow-down in trade activity. In the local retail sector, El Paso sales tax rebates increased 3.3 percent in July from the same month a year ago.

In spite of the peso's strength against the dollar during the early part of this year, the number of personal vehicles crossing into El Paso from Ciudad Juarez continued to contract in March (latest data available). With respect to commercial traffic, truck crossings have been on an upward trend. As maquiladora activity continues to pick up, commercial traffic at the international bridges is expected to continue to expand in coming months.

Housing Market

After five months of contraction, El Paso housing sales jumped 12 percent in July and 25 percent in August on a year-over-year basis). Overall in 2010, home sales increased 3.2 percent from 2009. In spite of the recent pickup, home sales are down 13 percent year to date compared with the same period a year ago. In August, the me-

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.

dian home price was \$140,300. Inventories are at 7.5 months, down from 8.1 months in June.

Single-family building permits—a leading indicator for the housing sector—have begun to show signs of life in the local market. In July, single-family building permits increased 42 percent from a year ago. It's likely that the El Paso housing market will experience stronger activity in coming months due to the ongoing expansion at Fort Bliss. Close to 16,000 people (soldiers, spouses and children) arrived during the summer.

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, in

turn, adds to pent-up in demand for housing in the local economy.

Conditions in Juarez and Chihuahua

The U.S. industrial sector has gained some momentum during the last couple of months, though growth remains weak. The Institute for Supply Management manufacturing index and its associated new orders index (a leading indicator for industrial activity) continue to signal expansion; however, recent readings border on contraction territory. Furthermore, formal manufacturing employment in the state of Chihuahua has decelerated over the past few months.

The Dallas Fed developed a model—based on the U.S. industrial

ECONOMIC UPDATE

EL PASO

production index and Chihuahua manufacturing employment—to track Juarez maquiladora employment since 2006. The model indicates that Juarez maquiladoras continued to add jobs in August at a 5.1 percent annualized rate. In 2010, maquiladora employment increased at a 7.1 percent annual rate, which represents 15,000 jobs. Year to date, maquiladora payrolls in Juarez have increased by almost 8,700 jobs, a 4 percent increase.

On the upside, U.S. auto production jumped to 8.7 million units in

August, up from 8.5 in July, suggesting the supply-chain disruptions created by the Japanese earthquake and tsunami were short-lived. This is good news for the local economy because roughly half of the maquiladoras across the Rio Grande are auto related.

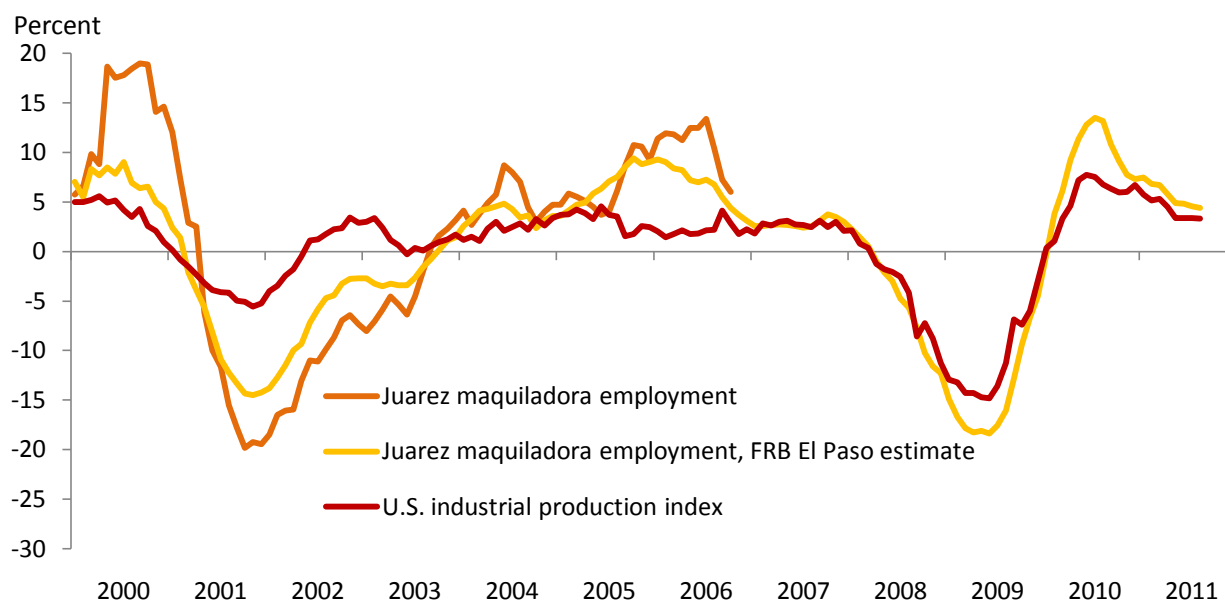
Neighboring Metro Areas

Midland–Odessa employment increased in August at a 7.3 percent annualized rate. As a result, the unemployment rate decreased slightly to 5.3 percent. High energy prices continue to benefit the Mid-

land–Odessa area. Las Cruces non-farm employment declined in August at a 6.7 percent annualized rate. The unemployment rate was 7.3 percent.

The Midland–Odessa housing sector continues to improve, with home sales rising and permits moving into positive territory. 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.