

ECONOMIC UPDATE

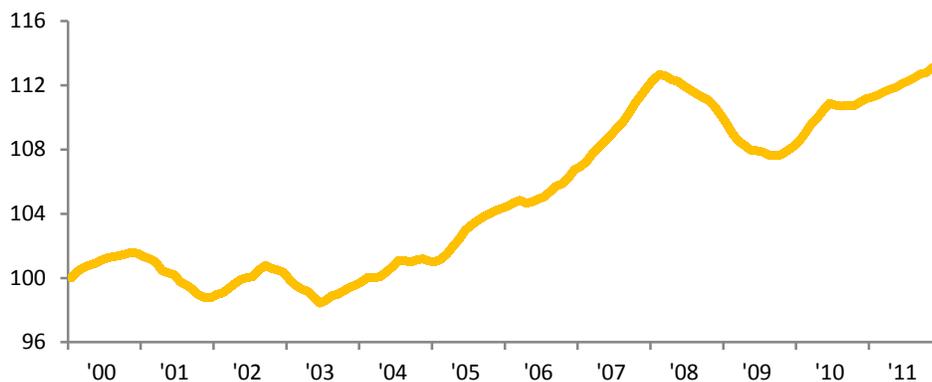
EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index expanded in November at a 3.7 percent annualized rate. In spite of recent government job losses, the El Paso economy continued on its upward trend in the second half of last year.

Given the recent pickup in the U.S. industrial sector and, most importantly, in the automotive sector, employment in Ciudad Juarez maquiladoras is on the rise.

Index, January 2000 = 100



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

The expansion at Fort Bliss is now shifting gears into growth and is expected to boost the local economy.

Labor Market

El Paso's nonfarm employment increased by 1.3 percent annualized rate in December. Altogether in 2011, El Paso added 3,800 non-farm jobs, representing a 1.4 percent growth. It is worthwhile noticing that private employment grew vigorously in 2011, adding 6,000 jobs while government employment contracted by 2,200 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 7.8 percent, while the national rate is 8.5 percent.

Employment Growth

(Month-over-month annualized growth rates)

<i>El Paso</i>	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Nonfarm employment	0.9	0.9	7.4	-4.9	1.3	1.3
Goods producing	3.7	3.7	0.0	-3.5	3.7	-3.5
Construction, mining & natural res.	0.0	7.9	0.0	0.0	0.0	-7.3
Manufacturing	0.0	7.1	-6.6	0.0	0.0	0.0
Services providing	0.5	0.5	8.5	-5.1	1.0	2.4
Trade, transportation & utilities	8.7	2.1	13.2	-7.9	6.4	6.4
Information	0.0	0.0	28.1	-21.9	0.0	0.0
Financial activities	10.6	0.0	10.5	0.0	0.0	21.7
Professional & business services	8.1	3.9	8.0	0.0	3.9	3.9
Educational & health services	17.3	3.2	17.0	-6.1	3.2	6.4
Leisure & hospitality	0.0	4.3	8.7	0.0	8.7	8.6
Other services	13.5	0.0	13.4	0.0	13.2	0.0
Government	-18.8	-6.8	0.0	-8.5	-8.5	-8.6
Unemployment rate	10.4	10.4	10.6	10.5	9.8	9.6
Midland-Odessa						
Nonfarm employment	13.9	7.2	2.6	4.4	-8.2	9.0
Unemployment rate	5.5	5.4	5.5	5.3	4.9	4.9
Las Cruces						
Nonfarm employment	14.9	-11.5	-5.1	9.1	-6.7	n.a.
Unemployment rate	7.3	6.5	6.2	6.3	6.3	n.a.

NOTE: Seasonally adjusted data.

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

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Trade and Border Crossings

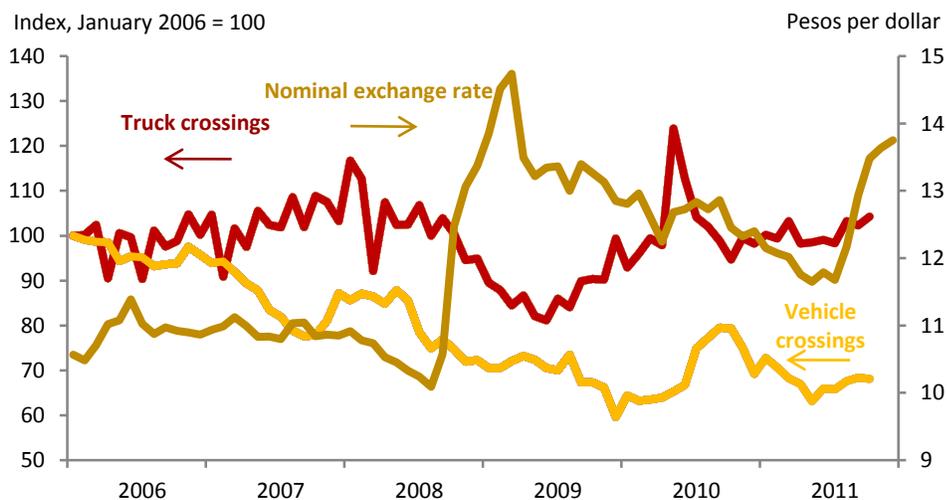
In November, trade flows through the El Paso port of entry increased 0.8 percent, after two months of contraction. Both exports and imports contributed to the increase in total trade. Despite a weaker peso, which in turn would mean less traffic from shoppers from across the Rio Grande, El Paso sales tax rebates slightly increased in November at 0.3 percent, 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

El Paso housing market cooled down in the last couple of months of 2011 with sales contracting, on average, by 7 percent per month. In December, the median home price was \$137,500. Inventories are just a notch above 7 months, down from 7.6 in October. Single-family building permits—a leading indicator for the housing sector—have begun to show signs of life in the local market. In December, sin-

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.

gle-family permits increased 9 percent from a year ago.

It is likely that the El Paso housing market will experience growth 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 has gained some momentum during the last couple of months. The Institute for Supply Management manufacturing index and its associated new orders index (a leading indicator of industrial activity) have increased at a solid pace over the last few months, after experiencing a soft patch during the summer of last year. Furthermore, growth in formal manufacturing employment in the Mexican state of Chihuahua accelerated in 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.

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The model indicates that Juarez maquiladoras continued to add jobs in December at an 8.3 percent annualized rate. In 2011, maquiladora employment increased at a 5.4 percent rate, which represents close to 12,000 new jobs. So far, according to our estimates, maquiladoras in Ciudad Juarez have recovered about 75 percent of all the jobs lost during the last recession.

U.S. auto production in December was at 8.9 million units, up from 7.6 in June, 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.

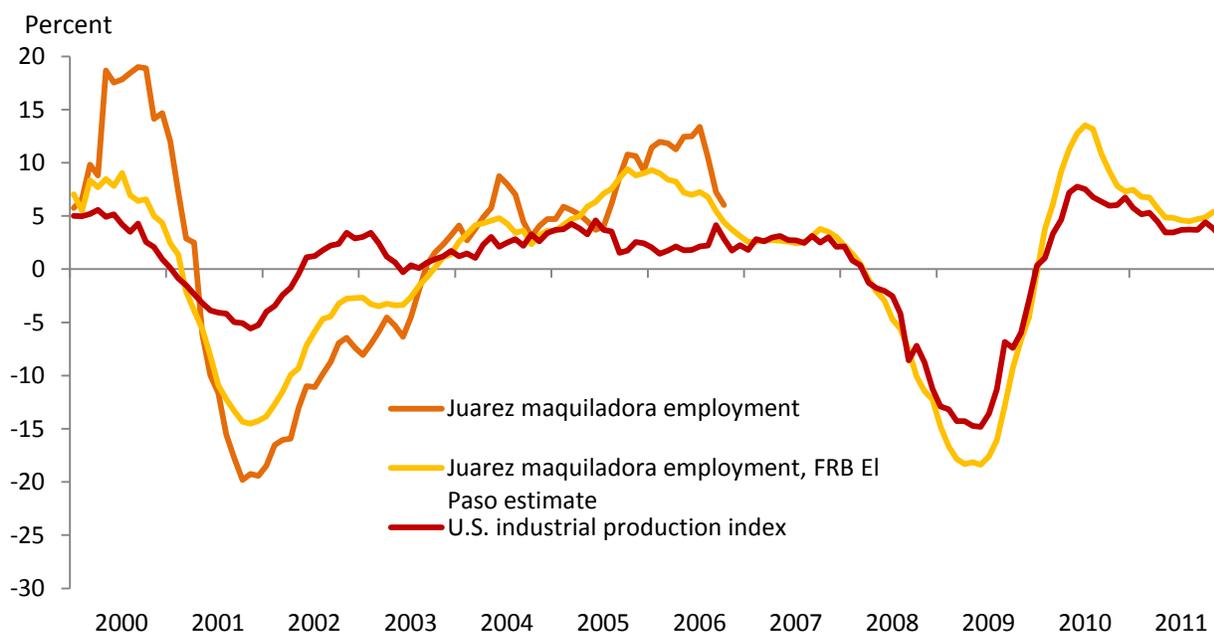
Neighboring Metro Areas

Midland–Odessa employment increased in December at a 9 percent annualized rate. As a result, the unemployment rate decreased to 4.9 percent in December, the lowest level since late-2008. The Permian Basin region continues to benefit from high energy prices.

Las Cruces, N.M., nonfarm employment contracted in November at a 6.7 percent annualized rate. In spite of the job losses, the unemployment rate remained unchanged at 6.3 percent.

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