Today’s agenda

- U.S. economic update
  - Recovery continues to be modest
  - Is manufacturing slowing down?

- El Paso’s economy
  - Recession was milder
  - Recovery has been stronger

- Concluding remarks
U.S. recovery continues to be modest

Economic dashboard

Source: Harvey Rosenblum, Director of Research, Federal Reserve Bank of Dallas
What do we mean by a sluggish recovery?

Average contribution to real GDP growth over 13 quarters

This recovery (2009 Q3-2012 Q3)

Source: Haver Analytics

What do we mean by a sluggish recovery?
What do we mean by a sluggish recovery?

Average contribution to real GDP growth over 13 quarters:

- Three prior recoveries
- This recovery (2009 Q3-2012 Q3)

PMIs show modest growth

Diffusion Index, 50+=Increasing

Source: Institute for Supply Management, Haver Analytics

Source: HAVER Analytics
What about the labor market?

Jobs? Heading in the right direction, but a long way to go

Source: Bureau of Labor Statistics/HAVER Analytics
Payroll employment continues to improve

Source: Bureau of Labor Statistics

Recovery complete in GDP, job growth slowly catching up

Source: Bureau of Labor Statistics/Bureau of Economic Analysis
GDP and Job Growth After 24 Months of Recovery:
11 Recessions Since 1948

% Increase In Employment

% Increase in GDP

R² = 0.77259

The Great Recession

Unemployment rate is coming down

December 2012: 7.8

Source: Bureau of Labor Statistics
The recovery in the industrial sector is losing momentum

U.S. manufacturing recovery stalls

Index: Jan 2007=100, S.A.

Source: Board of Governors, Federal Reserve System
Is manufacturing contracting?

ISM Manufacturing Index

ISM Manufacturing: New Orders Index

SA, 50+ = Increasing

Source: Institute of Supply Management

Vehicle sales continue to improve

Million Units, SAAR

Cash for Clunkers

Tsunami disrupts auto output in Japan and the US

December=15.32

Source: Bureau of Economic Analysis/Haver Analytics
GDP growth is expected to gain momentum

Industrial production expected to grow
Unemployment rate in the right direction

Source: Bureau of Labor Statistics, Blue Chip Economic Indicators

What about the rest of the economy

- Housing has bottomed down. Slow recovery.
- Consumer spending has picked up. However, consumer sentiment still low.
- Inflation in the comfort zone.
- The big elephant in the room: Uncertainty
El Paso leading the U.S. recovery

Dallas Fed ahead of the rest

Index, each District employment peak=100

Source: Federal Reserve Bank of Dallas.
El Paso is beyond recovery

El Paso is good at importing recessions

Source: Federal Reserve Bank of Dallas
El Paso employment growth

**Percent, Dec/Dec, S.A.**

- 1991: 2.3%
- 1992: 3.6%
- 1993: 3.9%
- 1994: 2.0%
- 1995: 2.7%
- 1996: 1.1%
- 1997: 2.0%
- 1998: 1.5%
- 1999: 0.9%
- 2000: 2.0%
- 2001: 1.9%
- 2002: -2.3%
- 2003: -2.3%
- 2004: -0.3%
- 2005: -1.1%
- 2006: 1.9%
- 2007: 1.9%
- 2008: -1.1%
- 2009: 0.4%
- 2010: 1.5%
- 2011: 0.4%
- 2012: 1.5%

Average: 1.4%

*Data for 2012 is November 2012/November 2011
Government Employment excludes federal military employment
Source: Federal Reserve Bank of Dallas.

---

El Paso non-farm employment

**Thousands, S.A.**

- 2000: 230,000
- 2001: 235,000
- 2002: 240,000
- 2003: 245,000
- 2004: 250,000
- 2005: 255,000
- 2006: 260,000
- 2007: 265,000
- 2008: 270,000
- 2009: 275,000
- 2010: 280,000
- 2011: 285,000
- 2012: 290,000

November 2012: 284,000 Jobs

2.5%

1.3%

Source: Federal Reserve Bank of Dallas.
Comparing the recovery in the El Paso and U.S. labor markets

Index Dec 2007=100

Source: Bureau of Labor Statistics/HAVER Analytics

El Paso-U.S. unemployment

El Paso’s recession milder than other border cities

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Peak</th>
<th>Trough</th>
<th>Decline (%)</th>
<th>Bottom to Today (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>July 2008</td>
<td>November 2009</td>
<td>5.3%</td>
<td>9.9%</td>
</tr>
<tr>
<td>El Paso</td>
<td>February 2008</td>
<td>September 2009</td>
<td>2.5%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Brownsville</td>
<td>February 2008</td>
<td>August 2009</td>
<td>4.9%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Laredo</td>
<td>August 2007</td>
<td>October 2009</td>
<td>18.9%</td>
<td>11.9%</td>
</tr>
<tr>
<td>McAllen</td>
<td>February 2008</td>
<td>March 2010</td>
<td>15.7%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

El Paso’s economy in transition

- Employment migrating from manufacturing to services
  - 1990: Mfg. +20%; Svcs. 75%
  - Today: Mfg. 5%; Svcs. 90%

- Per capita income closing gap with national levels
  - 1990: 62%
  - 2000: 60%
  - 2010: 73%
Concluding remarks

• U.S. recovery continues to be modest.
• Rebound in housing and pick up in household spending are good signs for the economic outlook.
• Economic outlook for the U.S. remains “cautiously optimistic.”
• El Paso now in expansion mode (already exceeded pre-recession peak levels), leading the U.S.
• The local recession was milder than elsewhere.

Concluding remarks

• Going forward, there are several downside risks:
  1. Fiscal-cliff 2.0, uncertainty
  2. Euro-zone crisis and global financial turmoil
  3. Slowdown in U.S. industrial sector, in particular autos
  4. Violence in Northern Mexico
  5. Volatile peso/dollar exchange rate will have implications for El Paso
2013 Economic Outlook: 
Still feeling the pain

Roberto Coronado
roberto.coronado@dal.frb.org
915.521.5235

The views expressed in this presentation are strictly those of the author and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or of the Federal Reserve System. Any secondary distribution of this material is strictly prohibited. May be quoted with appropriate attribution to the author.