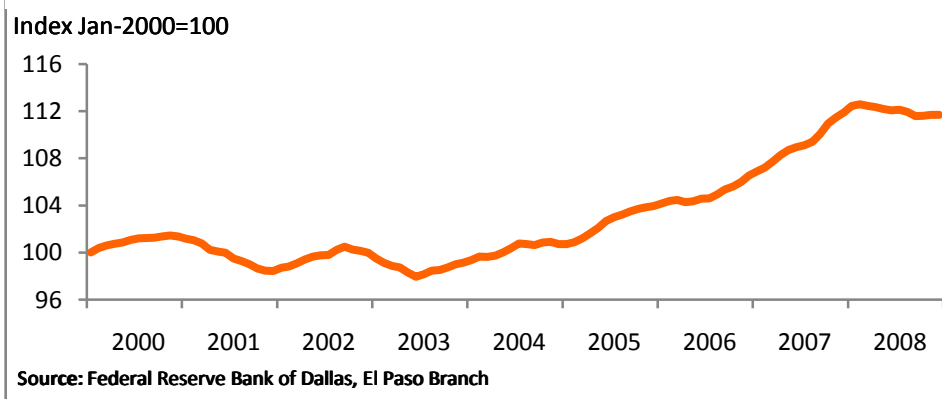


ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

El Paso's economy, as measured by its business-cycle index, posted a sluggish performance in December growing at a 0.1 annualized rate. However, after observing a decline earlier last year, the business-cycle index appears to have leveled-off.



Labor Market

El Paso non-farm employment increased at an annual rate of 0.9 percent in December. In 2008, El Paso generated 2,000 new jobs equivalent to 0.7 percent growth. This indicates a slowdown in the labor market in El Paso during last year, as the average growth rate in employment over the last five years has been double that experienced last year.¹ The job gains in December were concentrated in the service sectors, particularly in professional and business services and government sectors. In spite of the added jobs, the unemployment rate increased to 7.4 percent in December from 7.2 percent in November.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Nonfarm Employment	6.2	-3.0	-3.0	5.3	3.0	0.9
Goods Producing	0.0	-6.7	-3.4	3.5	7.1	-3.4
Construction, Mining & Natural Resou	8.1	0.0	0.0	0.0	0.0	0.0
Manufacturing	-6.0	-11.7	-6.1	6.5	13.2	-6.0
Services Providing	7.1	-2.4	-2.9	5.6	2.5	1.5
Trade, Transportation & Utilities	0.0	0.0	-2.0	0.0	6.2	0.0
Information	0.0	0.0	0.0	0.0	0.0	-18.5
Financial Activities	0.0	0.0	0.0	10.1	0.0	-9.2
Professional & Business Services	-3.7	-3.7	7.9	16.2	0.0	20.3
Educational & Health Services	3.8	0.0	7.7	11.6	0.0	-3.6
Leisure & Hospitality	14.0	4.4	0.0	-4.2	-4.3	0.0
Other Services	17.0	0.0	0.0	0.0	0.0	0.0
Government	19.7	-8.6	-15.0	7.5	5.6	1.8
Unemployment Rate	5.9	6.4	6.7	7.0	7.2	7.4
<i>Midland-Odessa</i>						
Nonfarm Employment	2.8	0.0	1.8	1.8	0.9	-0.9
<i>Las Cruces</i>						
Nonfarm Employment	-6.7	14.9	1.7	5.3	3.5	n.a.

Notes: Seasonally Adjusted Data

Source: Federal Reserve Bank of Dallas with data from the Bureau of Labor Statistics

ECONOMIC UPDATE

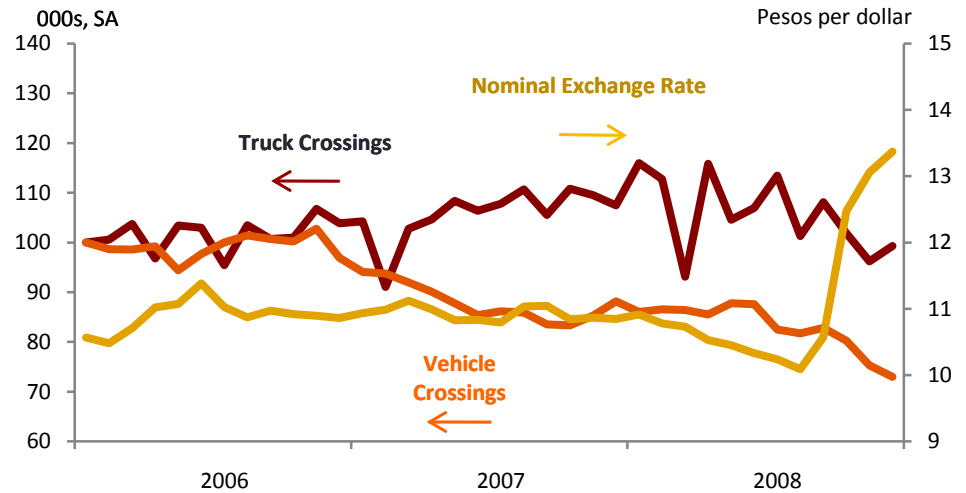
EL PASO

Trade and Border Crossings

Given the continued slowdown in manufacturing activity south of the border, total trade that goes through El Paso port of entry declined sharply in November at 16 percent on a year-over-year basis. More specifically, imports declined 21 percent while exports declined 7.6 percent. In spite of slower economic activity in El Paso, as well as a weaker peso, retail sales tax rebates increased by 1.7 percent in November. On year-over-year basis, this indicator is down by 1.9 percent, however.

In December, more than 290-thousand vehicles crossed into El Paso from south the border representing a decline of more than 17 percent on a year-over-year basis. Most likely this reflects slower economic activity in Ciudad Juarez, as the maquiladora sector cools down and the peso weakens. Our estimates indicate that roughly 11-14 percent of all retail sales in El Paso can be attributable to Mexican shoppers. Given the recent 21 percent depreciation of the peso vis-à-vis the dollar, this represents a significant decline in the purchasing power by Mexican nationals. Truck crossings declined in December 7.6 percent (year-over-year).

El Paso Border Crossings



Source: Texas A&M International University, Texas Center for Border Economic and Enterprise Development

Housing Market

In El Paso, housing sales were down 6.5 percent in November (year-over-year basis). Furthermore, months of inventory stand at 12 months, up from 8 months of inventory a year ago. The number of single-family building permits is also down 10 percent in November from a year ago while average value per dwelling unit is up 2 percent from the same period a year ago.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector continues to weaken. In December, the manufacturing industrial

production index fell 10 percent on a year-over-year basis. Furthermore, formal manufacturing employment in the State of Chihuahua follow suit declining 15 percent in December from a year ago. Given the strong correlation that exists between these two series and the maquiladora activity in Ciudad Juarez (see chart below), we can conclude that the maquiladora sector has not been performing well recently. Another indication of weakness in Ciudad Juarez is the retail sector. Retail sales declined in October for sixth consecutive month at a rate 7.5 percent on a year-over-year basis.

ECONOMIC UPDATE

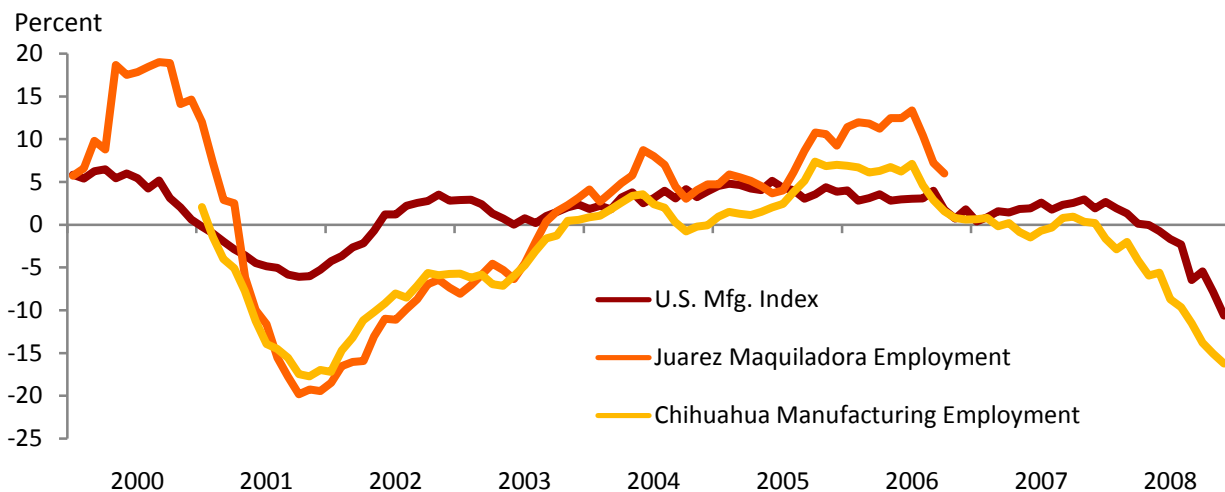
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Neighboring Metro Areas

Midland-Odessa felt the oil shock, as nonfarm employment declined at an annual rate of 0.9 percent in December, and the unemployment rate stands at 3.9 percent. Las Cruces in contrast show nonfarm employment rise at a 3.5 percent annual rate during November with the unemployment rate at 4.5 percent. The Midland-Odessa

housing market remains largely unchanged on a 12-month basis measured by permits for new homes. Las Cruces, however, is down 37 percent.

U.S. Manufacturing and Maquiladora Industry Year-over-Year



Note: Seasonally Adjusted Data
Source: INEGI & Federal Reserve Bank of Dallas

¹ Employment data for Texas MSAs will be revised during the first quarter of this year. Covered Employment and Wages data are published on a quarterly basis. The Dallas Fed uses this new information to estimate the Texas Workforce Commission (TWC) final series as soon as these data are published. The TWC revises its payroll employment estimates once per year, with the release of January data in March.