

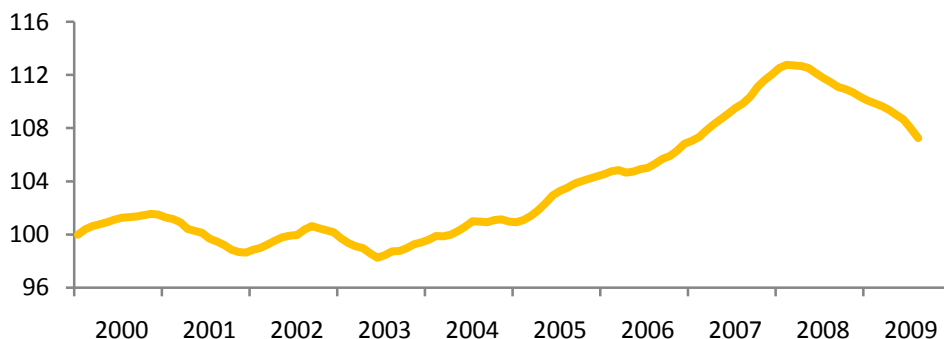
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

El Paso's economic contraction has intensified in recent months. In August, El Paso's business-cycle index reported a decline of 7.8 percent annualized rate, up from the average decline of 3.4 percent annualized rate during the previous 12-months. This suggests that the national recessionary pressures continue to impact El Paso. The business-cycle index has been in the negative territory since early 2008. Due to heavy government expenditures taking place both

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

inside and outside Ft. Bliss, the local economy has been partially insulated. However, such

expenditure cushion has not been enough to offset the economic downturn.

Labor Market

El Paso non-farm employment declined significantly in August at a 9.6 percent annualized rate. August was the month with the biggest job losses since the current recession began. Year to date, the El Paso labor market has contracted by 4,700 jobs or 1.7 percent decline. Job losses in August were widespread across all sectors, both goods and services producing. As a result of the deterioration of the labor market, the unemployment rate in El Paso continues on the rise. In August the unemployment rate was at 9.5, up from 8.3 percent six months ago. El Paso's unemployment rate is above the State's level of 8 percent but is below the national rate of 9.7 percent.

**Employment Growth
Month-over-Month Annualized Growth Rates**

<i>El Paso</i>	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Nonfarm Employment	0.0	-1.7	-1.3	1.3	-8.3	-9.6
Goods Producing	-13.1	-10.1	-13.4	-10.3	-10.4	-10.5
Construction, Mining & Natural Resources	-7.4	-7.5	-14.5	-7.6	-14.8	-7.8
Manufacturing	-17.6	-12.3	-12.4	-12.5	-6.5	-12.7
Services Providing	2.0	-0.5	0.5	3.0	-8.1	-9.5
Trade, Transportation & Utilities	0.0	-4.0	-4.0	-7.8	-4.0	-6.0
Information	-21.2	0.0	0.0	-21.5	27.4	-21.5
Financial Activities	-9.4	10.4	10.3	-9.3	0.0	0.0
Professional & Business Services	0.0	-11.2	0.0	-3.9	0.0	-14.8
Educational & Health Services	3.7	7.5	0.0	0.0	7.5	0.0
Leisure & Hospitality	-4.3	9.2	0.0	-4.3	4.5	-4.3
Other Services	0.0	0.0	14.0	0.0	0.0	-12.3
Government	11.5	-1.8	1.8	28.3	-28.8	-16.7
Unemployment Rate	8.3	8.0	8.7	8.8	9.1	9.5
Midland-Odessa						
Nonfarm Employment	-1.8	-2.6	-2.6	-4.4	-0.9	-5.2
Unemployment Rate	5.5	6.0	6.7	6.9	7.1	7.3
Las Cruces						
Nonfarm Employment	-5.1	-5.1	-1.7	-1.7	-8.4	3.6
Unemployment Rate	6.1	5.8	6.5	7.3	7.4	n.a.

Notes: Seasonally Adjusted Data

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

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Trade and Border Crossings

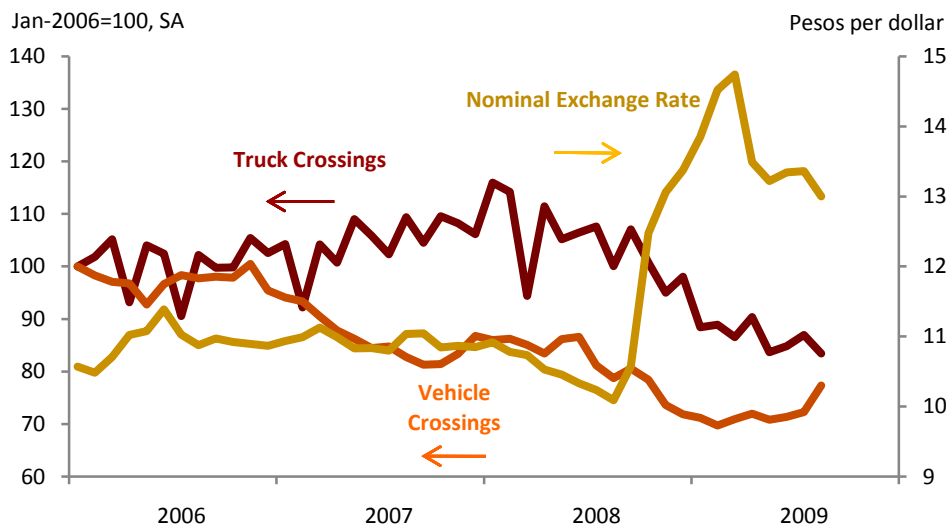
Total trade through El Paso continues to diminish but at a slower rate. In July, total trade declined 17.5 percent from a year ago, down from 21 percent in June and 26 percent in May. Imports declined 20 percent while exports declined 13 percent. At the retail level, El Paso sales tax rebates decreased 9 percent in July (12-month basis). The recent slowdown in the local retail industry is the result of a slow economic activity in El Paso combined with a weak peso.

In July, 316-thousand vehicles crossed into El Paso from Ciudad Juarez, representing a decline of just 1.7 percent from the same period last year. At the wholesale level, truck crossings are down 17 percent. The recent increase in personal vehicle crossings, as shown in the chart nearby, is probably the result of the peso gaining ground against the dollar in recent months. Since its peak back in March at almost 15 pesos per dollar, the nominal exchange rate now stands at around 13 pesos per dollar. In addition, the maquiladora sector in Juarez seems to be bottoming down and this will probably boost retail sales in El Paso in the near future.

Housing Market

El Paso housing sales decreased 4.8

El Paso Border Crossings



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

percent in July (year-over-year basis). The median home price was \$135,200 while months of inventory continue to decline to 9.1 months, the lowest level since February 2008. Single-family building permits, a leading indicator for the housing sector, increased in July to almost 300 permits up from 233 in June. However, on a year-over-year basis single-family permits are down by 9 percent.

Economic Conditions in Juarez and Chihuahua

The wheel has turned for the U.S. industrial sector, posting increases over the last two months averaging 11 percent annualized rate. On a year-over-year basis, growth rates have begun to improve as well but

are still in the negative territory. Formal employment in the manufacturing sector in the State of Chihuahua has also showed improvements in recent months. Given the strong correlation that exists between these two series and the maquiladora activity in Ciudad Juarez, we developed a model based on these indicators that tracks Juarez maquiladora employment post-2006. The model indicates that the maquiladora sector posted job gains in August for the first time in 22-months. Our internal estimates indicate that Ciudad Juarez has lost around 50,300 maquiladora jobs since late 2007. Anecdotal evidence corroborates this uptick in maquiladora employment, as many plants are reporting increases in production orders.

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This is mostly tied to the increase in U.S. auto sales as a result of the “Cash-for-Clunkers” program. The downside is that this program was temporary, so it is too soon to tell whether the maquiladoras will continue to grow in the coming months. In spite of the recent improvement in maquiladoras, Ciudad Juarez retail sales continue to decline in June at a 7.3 percent (year-over-year).

Neighboring Metro Areas

The Midland-Odessa area

continues to be affected by the recent oil shock as nonfarm employment continued to decline in August at a 5.2 percent annualized rate. Given the job losses over the recent months, the unemployment rate jumped to 7.3 percent. On the other hand, Las Cruces nonfarm employment posted an increase of 3.6 percent at annual rate during August. As reported in the table above, the Las Cruces labor market has been weak over the last six months. Thus, the unemployment rate has

increased to 7.4 percent in July.

The Midland-Odessa housing market continues to be weak with sales in July declining by 18 percent on a year-over-year basis. The median home price for the Midland-Odessa area stands at \$157,000. Permits for new homes in Midland-Odessa are down in July by 37 percent on a 12-month basis. Las Cruces building permits for new homes stand at 77 permits in July, representing a decline of 19 percent from a year ago.

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

