

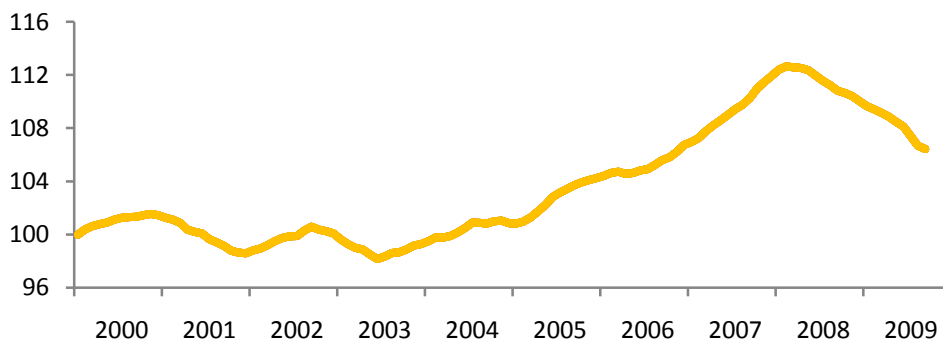
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

El Paso's economic contraction continues; the El Paso's business-cycle index declined 2.8 percent annualized rate in September. On a year-over-year basis, this indicator contracted 4 percent as the national slowdown took its toll on the local economy. The El Paso business-cycle index has been in negative territory since early 2008. Government related expansion projects—both inside and outside Ft. Bliss—continue to help the local economy weather the national

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

recessionary pressures. However, the spending has not been enough to offset the economic downturn.

History says the on-going turnaround in US manufacturing should help El Paso soon.

Labor Market

El Paso non-farm employment expanded in September at a 6.4 percent annualized rate. Year to date, the El Paso labor market has contracted by 3,800 jobs or 1.4 percent decline. The bulk of the job gains in September were concentrated in the service providing sectors such as information, educational and health services, and government. The goods producing sectors continue to contract, especially the manufacturing sector. In spite of the increase in employment in September, the unemployment rate in El Paso continues on the rise. The unemployment rate now stands at 9.8 percent, up from 8 percent six months ago. El Paso's unemployment rate is above the State's level of 8.2 percent and is now the same as the national rate.

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

<i>El Paso</i>	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09
Nonfarm Employment	-1.7	-1.3	1.3	-8.3	-11.6	6.4
Goods Producing	-10.1	-13.4	-10.3	-10.4	-13.8	-10.6
Construction, Mining & Natural Resources	-7.5	-14.5	-7.6	-14.8	-15.0	-7.9
Manufacturing	-12.3	-12.4	-12.5	-6.5	-12.7	-12.9
Services Providing	-0.5	0.5	3.0	-8.1	-11.3	8.9
Trade, Transportation & Utilities	-4.0	-4.0	-7.8	-4.0	-4.0	-6.0
Information	0.0	0.0	-21.5	27.4	-21.5	27.4
Financial Activities	10.4	10.3	-9.3	0.0	0.0	0.0
Professional & Business Services	-11.2	0.0	-3.9	0.0	-14.8	-11.4
Educational & Health Services	7.5	0.0	0.0	7.5	0.0	7.4
Leisure & Hospitality	9.2	0.0	-4.3	4.5	0.0	-8.4
Other Services	0.0	14.0	0.0	0.0	-12.3	29.8
Government	-1.8	1.8	28.3	-28.8	-25.4	44.2
Unemployment Rate	8.0	8.7	8.8	9.1	9.5	9.8
Midland-Odessa						
Nonfarm Employment	-2.6	-2.6	-4.4	-0.9	-7.7	2.7
Unemployment Rate	6.0	6.7	6.9	7.1	7.3	7.7
Las Cruces						
Nonfarm Employment	-5.1	-1.7	-1.7	-8.4	3.6	-3.5
Unemployment Rate	5.6	6.5	6.5	6.5	7.4	7.7

Notes: Seasonally Adjusted Data

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

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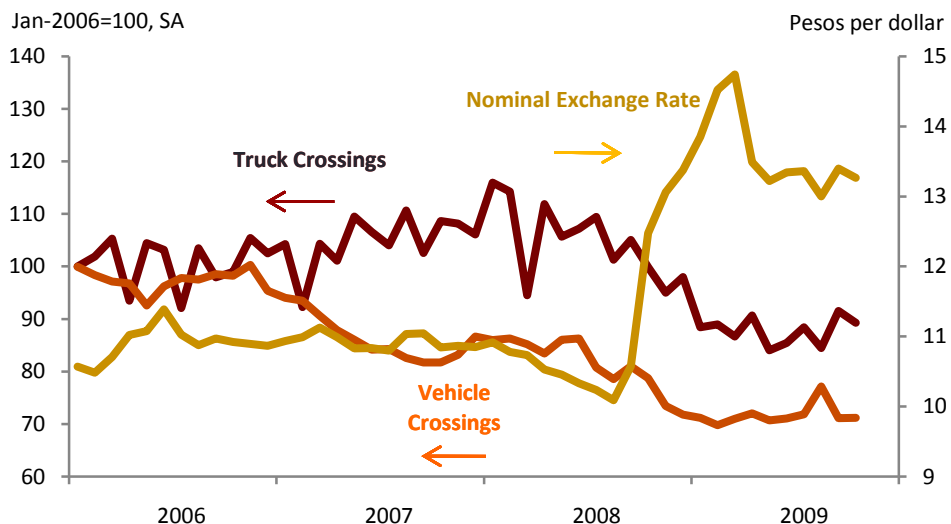
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Trade and Border Crossings

Total trade through El Paso has begun to stabilize over the last few months. However, on a year-over-year basis, total trade continues to contract but at a slower rate. In September, total trade declined 5.3 percent from a year ago, down from 12 percent in August and 16 percent in July. Imports declined 3 percent while exports declined 8 percent, both during September. With respect to the retail sector, El Paso sales tax rebates decreased 4.1 percent in September (12-month basis). The recent slowdown in local retail trade is the result of a slow economic activity in El Paso combined with a weak peso.

The number of personal vehicles crossing into El Paso from Ciudad Juarez during October declined 9.5 percent in October from the same period last year. The decline is likely the result of the peso losing value against the dollar over the last month (see chart nearby). At the wholesale level, truck crossings are down 11 percent. The count of passenger vehicles has remained flat over the last few months. The peso dollar exchange rate has been floating around 13 to 13.5 pesos per dollar in the recent months. On a positive note, the maquiladora sector in Juarez seems to be bottoming down and

El Paso Border Crossings



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

this will probably boost retail sales in El Paso in the near future.

Housing Market

El Paso housing sales increased in September by 8 percent (year-over-year basis) for the second consecutive month. The median home price was \$130,000 while months of inventory continue to decline to 8.7 months, the lowest level since late 2007. Furthermore, single-family building permits—a leading indicator for the housing sector—have been increasing over the last three months perhaps indicating that the El Paso housing sector is bottoming out, following in the footsteps of the national housing market.

Economic Conditions in Juarez and Chihuahua

The wheel has turned for the U.S. industrial sector. However, after posting strong increases for three consecutive months, October industrial production registered a tepid growth rate of only 0.6 percent. Formal employment in the manufacturing sector in the State of Chihuahua has also showed steady improvements in recent months. We developed a model—based on U.S. industrial production index and Chihuahua manufacturing employment—to track Juarez maquiladora employment since 2006. The model indicates that the maquiladora sector continued to post job gains in October for the third consecutive month, after 22-months of contraction. Our internal estimates indicate that Ciudad Juarez has lost around

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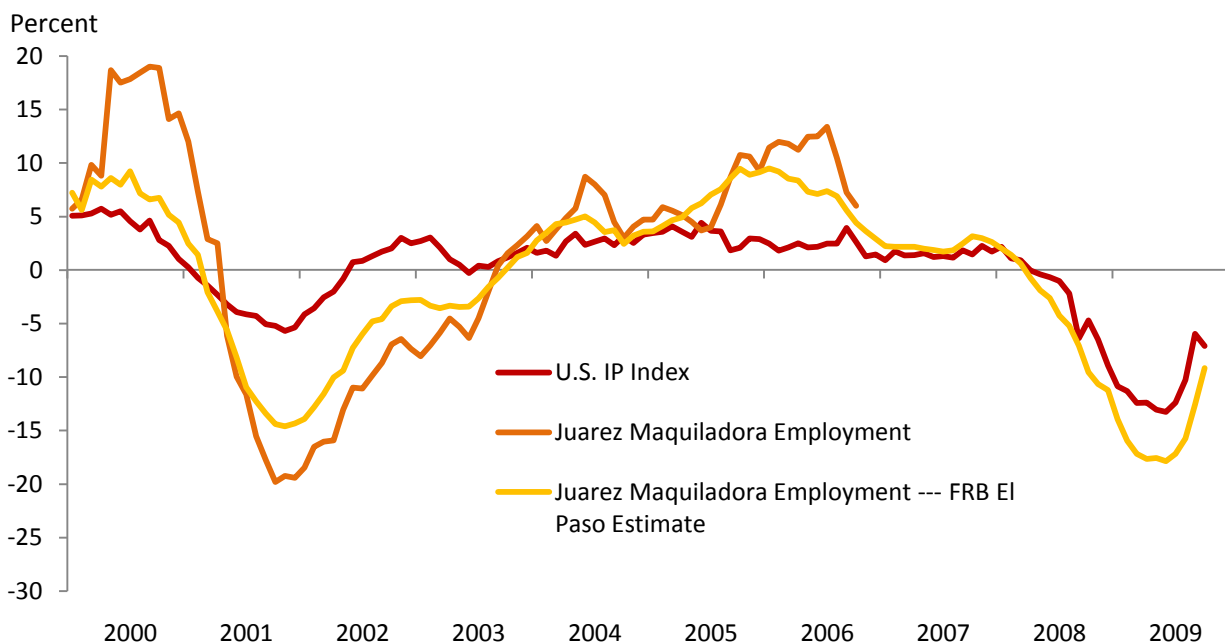
43,000 maquiladora jobs since late 2007. Anecdotal evidence corroborates this uptick in maquiladora employment, as many plants are reporting increases in production orders. The downside is that this uptick might be temporary due to the already-expired “Cash-for-Clunkers” program. It is too soon to tell whether the maquiladoras will continue to grow in the coming months.

The Midland-Odessa labor market posted an increase of 2.7 percent annualized rate in September for the first time since October 2008. Given the job losses over the recent months, the unemployment rate jumped to 7.7 percent. On the other hand, Las Cruces nonfarm employment posted a decrease of 3.5 percent at annual rate during September. As a result, the unemployment rate increased to 7.7 percent last month.

The Midland-Odessa housing market continues to be weak with sales in September declining by 6.3 percent on a year-over-year basis. The median home price for the Midland-Odessa area stands at \$150,000. Permits for new homes in the Midland-Odessa area are down in September by 35 percent on a 12-month basis. Las Cruces building permits for new homes posted a decline of 12 percent from a year ago.

Neighboring Metro Areas

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



Note: Seasonally Adjusted Data

Source: INEGI , Federal Reserve Board, and Federal Reserve Bank of Dallas, El Paso Branch