

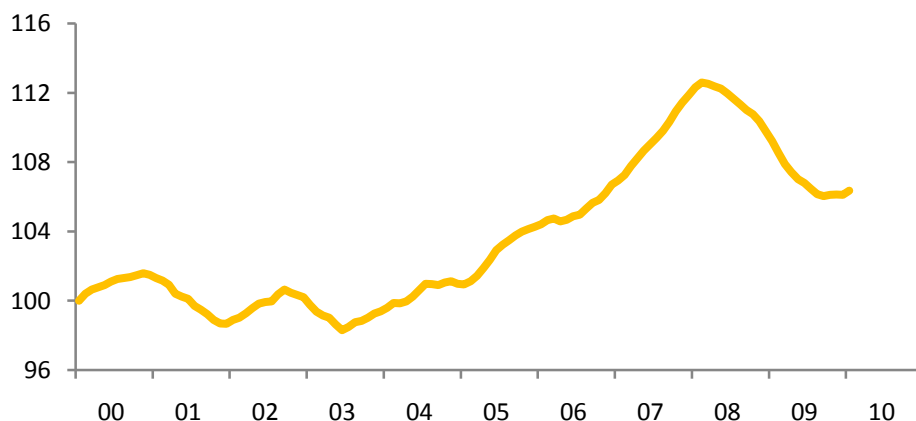
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

Newly revised data suggests that the El Paso economy has bottomed out and is beginning a slow turn upward. It is too early to call the end of the local recession, but the slow growth mirrors developments in the U.S. economy. The El Paso business-cycle index has expanded at an average of 1 percent annualized rate over the last four months. Besides the continued government expenditure stimulus, the turn-around in the U.S. industrial sector and the pick-up in maquiladora activity in Juarez are shaping up the recovery for the El Paso economy.

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

Labor Market

El Paso non-farm employment increased in January at a 5 percent annualized rate. The job gains were concentrated in the service providing sectors, in particular in government, financial activities and educational and health services sectors. The goods producing sectors contracted at a 3.7 percent with the bulk of the job losses in the construction, mining and natural resources sector. As a result of the job gain in the first month of the year, the unemployment rate declined to 9.4 percent down from 9.7 percent in December.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Nonfarm Employment	-2.6	0.0	5.4	0.0	-3.0	5.0
Goods Producing	3.7	-10.5	-3.6	-7.2	0.0	-3.7
Construction, Mining & Natural Resources	0.0	-14.5	-7.6	-7.7	8.3	-7.7
Manufacturing	7.2	-6.7	0.0	-6.8	-6.8	0.0
Services Providing	-3.5	1.5	6.7	1.0	-3.4	6.2
Trade, Transportation & Utilities	-2.2	0.0	-4.3	-2.2	-2.2	2.2
Information	-21.2	0.0	-21.5	0.0	-21.9	0.0
Financial Activities	10.6	0.0	0.0	0.0	-9.6	10.6
Professional & Business Services	-14.9	-11.5	22.6	0.0	0.0	4.1
Educational & Health Services	-6.5	-21.1	14.6	0.0	0.0	7.0
Leisure & Hospitality	9.3	-8.5	0.0	0.0	-4.4	0.0
Other Services	0.0	-12.3	-12.4	14.2	-23.4	14.3
Government	-3.6	33.9	15.4	3.6	-1.8	11.2
Unemployment Rate	9.4	9.6	9.8	9.6	9.7	9.4
<i>Midland-Odessa</i>						
Nonfarm Employment	-9.3	-1.9	1.0	0.0	-1.9	-5.7
Unemployment Rate	7.7	7.8	8.0	7.9	8.1	7.8
<i>Las Cruces</i>						
Nonfarm Employment	7.4	5.5	-5.2	1.8	1.8	-1.8
Unemployment Rate	7.4	7.7	8.1	7.9	8.5	8.4

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

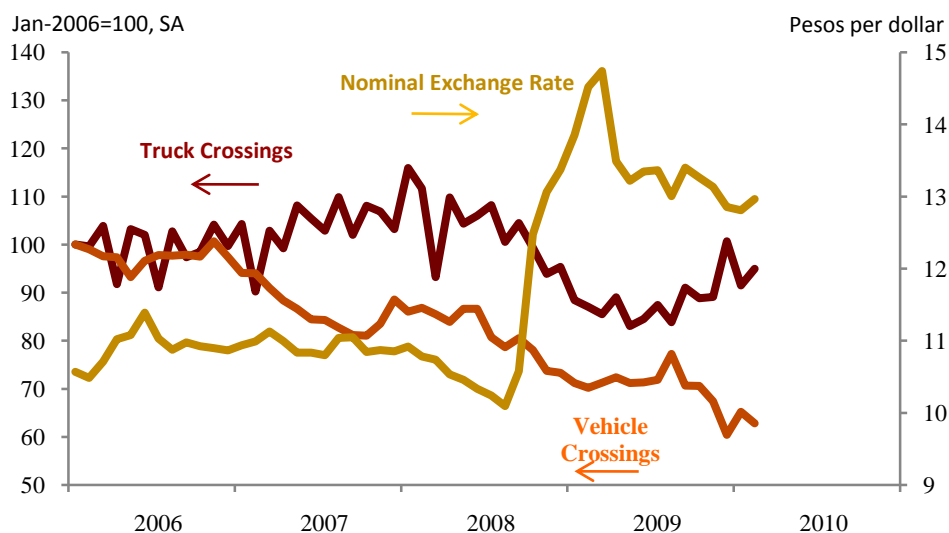
Total trade through El Paso has been growing since May 2009. Since then, total trade has increased by 33 percent. In December alone, trade rose 9.3 percent from the previous month. Imports were up 10 percent while exports jumped by 8.3 percent. With respect to the retail sector, El Paso sales tax rebates decreased 2.1 percent in January (12-month basis).

The number of personal vehicles crossing into El Paso from Ciudad Juarez continued with the downward trend in February. Anecdotal evidence suggests that the waiting times remain significantly longer than normal, and shoppers are combining their shopping needs into fewer trips. On the other hand, truck crossings continue to increase as a result of the recent pick-up in maquiladora activity in Juarez.

Housing Market

El Paso housing sales declined in January by 17 percent (year-over-year basis) for the first time since summer of last year. The median home price was \$130,700 while months of inventory continue to decline to 7.5 months, the lowest level since 2007. Single-family building permits—a leading indicator for the housing sector—posted a significant gain during

El Paso Border Crossings



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

January compared to the same period a year prior. The El Paso housing market continues stabilizing, following the footsteps of the national housing market.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector continues on the upward trend. For instance, the overall industrial production index has increased at an average of 8.5 percent annual rate since summer of last year. Furthermore, the ISM manufacturing index and new orders index (a leading indicator for the industrial sector) have been signaling solid expansion in the U.S. industrial sector since mid-2009. 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 maquiladoras continued to hire during February, the seventh consecutive month of increased payrolls. Anecdotal evidence corroborates this uptick in maquiladora employment, as many plants are reporting increases in orders. Furthermore, Juarez maquiladora association recently announced that the maquiladora sector in Juarez is expected to add 40-thousand jobs this year. If these job gains materialize, by year-end 2010 we will return to the peak employment seen in

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summer of 2007.

Neighboring Metro Areas

The Midland-Odessa labor market contracted in January at a 5.7 percent annual rate. In spite of the job losses, the unemployment rate declined to 7.8 percent. Oil-directed drilling in the Midland-Odessa area has increased due to the stabilization of oil prices, and as a result regional economic

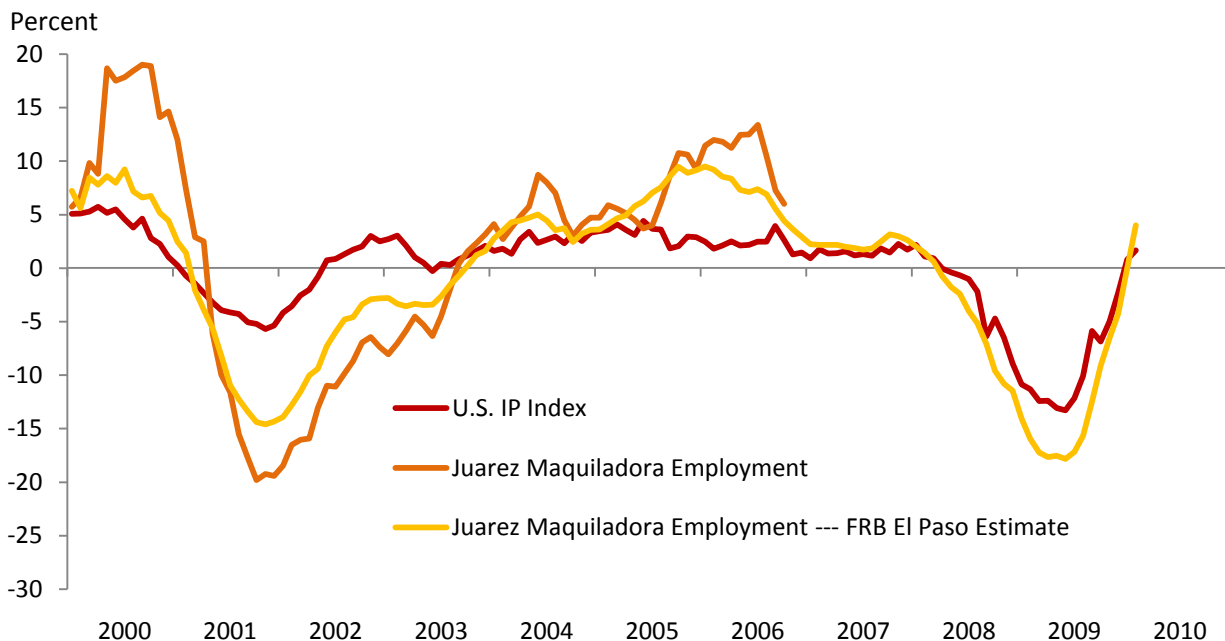
activity has begun to stabilize and even pick-up in certain sectors.

Las Cruces nonfarm employment posted job losses of 1.8 percent annualized rate during January; the unemployment rate decreased to 8.4 percent.

Midland-Odessa housing sales increased by 4 percent (12-month basis) in January, while the median

home price stands at \$153,000. Permits for new homes in the Midland-Odessa area, as well as for Las Cruces, began to stabilize and even grow since the summer of 2009. This perhaps suggests that the housing market in both MSAs has at least reached bottom.

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