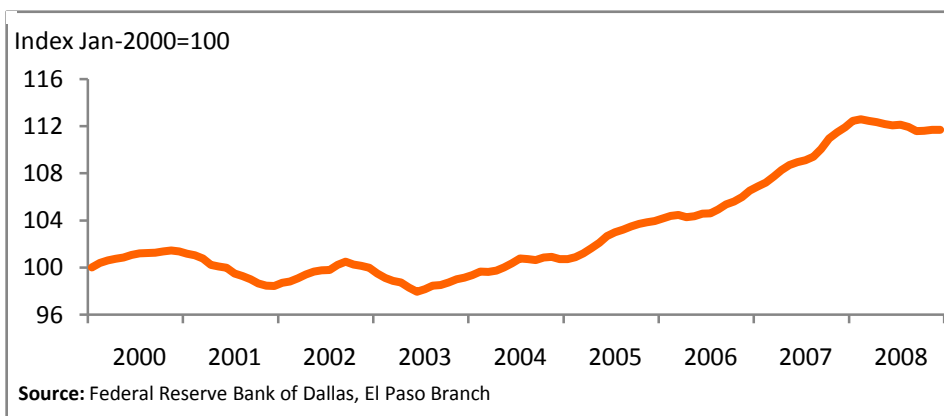


## ECONOMIC UPDATE

## EL PASO

## El Paso Business-Cycle Index

El Paso's economy, as measured by its business-cycle index, posted a slight decline of 0.07 percent annualized rate in December.<sup>1</sup> On a 12-month basis, the El Paso's business-cycle index is down 0.2 percent making December the first month since late-2003 that this indicator is in the negative territory. This might be an indication that the El Paso



economy has finally being caught up by the economic downturn affecting the nation and the State of Texas.

## Labor Market

El Paso non-farm employment increased at an annual rate of 0.9 percent in December. In 2008, El Paso generated 1,300 new jobs equivalent to 0.5 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 triple of that experienced last year. 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
<b>Nonfarm Employment</b>	<b>5.8</b>	<b>-0.9</b>	<b>-5.9</b>	<b>4.4</b>	<b>3.1</b>	<b>0.9</b>
<b>Goods Producing</b>	<b>3.5</b>	<b>-3.4</b>	<b>-3.4</b>	<b>0.0</b>	<b>7.2</b>	<b>-3.4</b>
Construction, Mining & Natural Resou	16.9	0.0	0.0	0.0	0.0	0.0
Manufacturing	-6.0	-6.0	-6.1	0.0	13.3	-6.0
<b>Services Providing</b>	<b>6.1</b>	<b>-0.5</b>	<b>-6.2</b>	<b>5.1</b>	<b>2.5</b>	<b>1.5</b>
Trade, Transportation & Utilities	0.0	-3.9	0.0	2.0	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	0.0	0.0	-9.3
Professional & Business Services	-3.7	-7.3	3.9	16.3	0.0	20.4
Educational & Health Services	0.0	3.8	7.6	11.6	0.0	-3.6
Leisure & Hospitality	14.0	0.0	0.0	-4.3	-4.3	0.0
Other Services	0.0	17.0	-14.5	0.0	0.0	0.0
Government	20.0	1.8	-23.9	5.7	5.7	1.8
<b>Unemployment Rate</b>	<b>5.9</b>	<b>6.4</b>	<b>6.7</b>	<b>7.0</b>	<b>7.2</b>	<b>7.4</b>
<i>Midland-Odessa</i>						
<b>Nonfarm Employment</b>	<b>1.9</b>	<b>-0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>-0.9</b>
<i>Las Cruces</i>						
<b>Nonfarm Employment</b>	<b>-6.7</b>	<b>14.9</b>	<b>1.7</b>	<b>5.3</b>	<b>1.7</b>	<b>-1.7</b>

Notes: Seasonally Adjusted Data

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

## ECONOMIC UPDATE

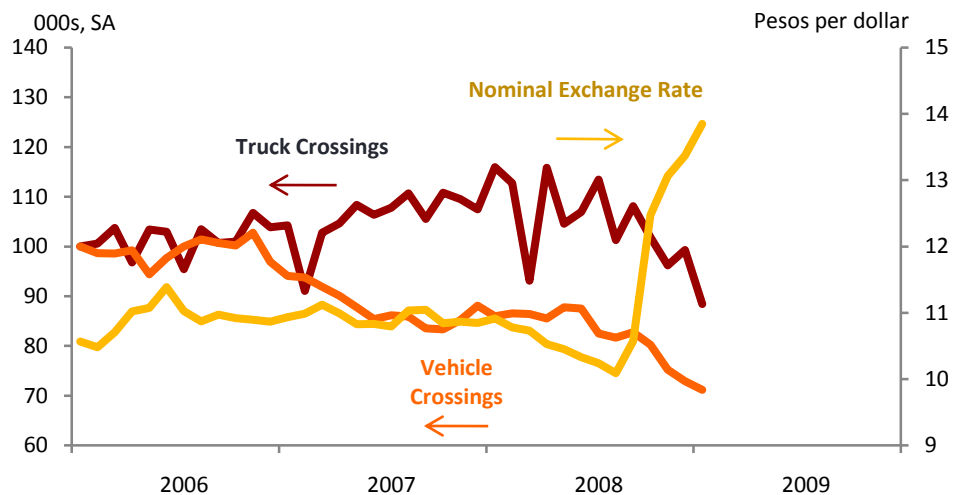
## EL PASO

## Trade and Border Crossings

As a result of the slowdown in manufacturing activity south of the border, total trade that goes through El Paso port of entry continued to decline in December at a 2.3 percent on a year-over-year basis. More specifically, imports declined 7.7 percent while exports increased 6.8 percent. Similarly, retail sales tax rebates in El Paso decreased by 4.4 percent in December. On a 12-month basis, this indicator is down by 9.2 percent. This sharp decline is mostly due to slower economic activity in El Paso as well as a weaker peso.

In January, almost 286-thousand vehicles crossed into El Paso from Ciudad Juarez representing a decline of more than 17 percent from the same period last year. 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 30 percent depreciation of the peso vis-à-vis the dollar over the last six months, this represents a significant decline in the purchasing power by Mexican nationals. Truck crossings declined sharply in January by 24 percent on

## El Paso Border Crossings



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

a 12-month basis.

## Housing Market

In El Paso, housing sales were slightly up 0.3 percent in December (year-over-year basis). Furthermore, months of inventory stand at 11.2 months, up from 8 months of inventory a year ago and down from 12 months of inventory in November. The number of single-family building permits is also down 8 percent in December from a year ago while average value per dwelling unit is up 3 percent from the same period a year ago. A recent report by the National Association of Realtors positions El Paso as the nation's sixth-highest gain in sale prices for existing homes in the fourth quarter of 2008 among 153 metro

areas. El Paso is one of only 18 metro areas in the nation showing price gains in the fourth quarter of last year, clearly indicating that the El Paso economy outpaced most regions in the nation last year.

## Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector continues to deteriorate. In January, the manufacturing industrial production index fell 13 percent on a 12-month basis. Similarly, formal manufacturing employment in the State of Chihuahua declined almost 20 percent in January 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

## ECONOMIC UPDATE

## EL PASO

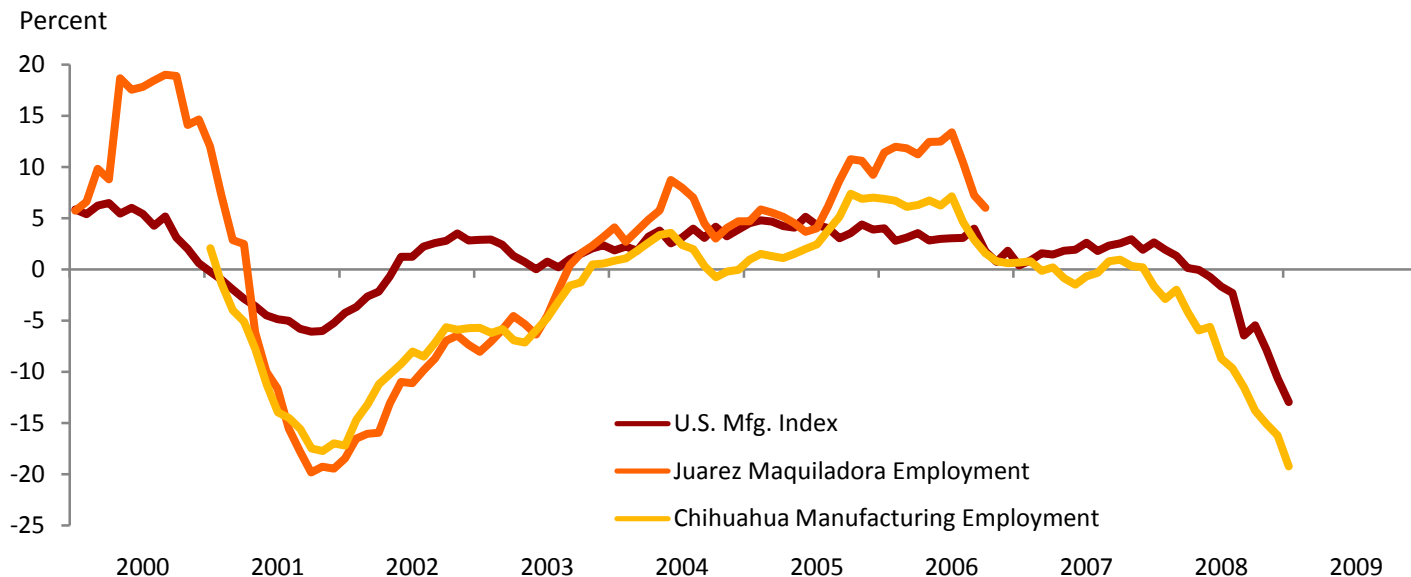
conclude that the maquiladora sector has not been performing well recently. Another indication of weakness in Ciudad Juarez is the retail sector. Retail sales declined in November for seventh consecutive month at a rate 5 percent on a year-over-year basis.

### Neighboring Metro Areas

Midland-Odessa continues to be affected by 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 nonfarm employment posted a decline of 1.7 percent annual rate during December with

the unemployment rate at 5.1 percent. The Midland-Odessa housing market remains weak with sales declining at 15 percent on a year-over-year basis in December while permits for new homes are up by just one-percent on a 12-month basis. Las Cruces building permits for new homes are down 32 percent.

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



Note: Seasonally Adjusted Data

Source: INEGI & Federal Reserve Bank of Dallas

<sup>1</sup> Please note that given that employment data were recently revised due to new 2008:Q3 benchmark data recently being released, both the business-cycle indicator and the employment data are different from those reported last month.

<sup>2</sup> 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.