

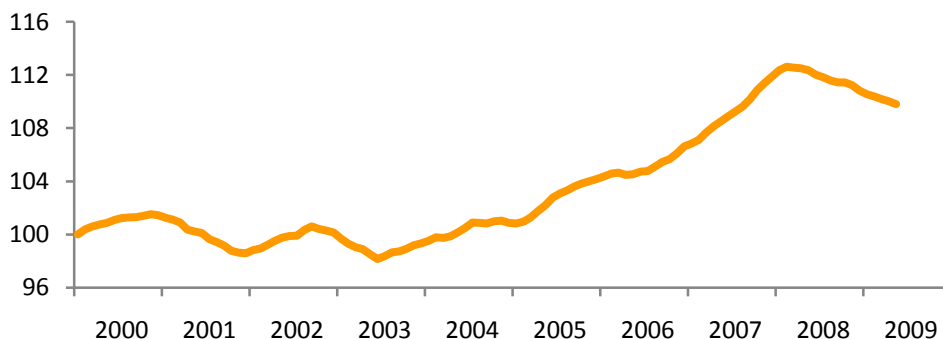
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

The El Paso economy contracted in May at a 2.4 percent annualized rate. Similarly, on a 12-month basis, this indicator continues to be down by 2.3 percent, suggesting that the El Paso economy is in recession. In addition to the more than \$1.5 billion dollars being spent at Fort Bliss this year, the local economy is being supported by other government expenditures. For instance, highway renovations account for \$250 million dollars in new stimulus-related expenditures and both Thomason Hospital and the University of Texas at El Paso

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

are going under major renovations totaling \$300 million dollars and \$250 million dollars, respectively. These public expenditures are alleviating the recessionary

pressures coming from the national and state economies as well as from across the border.

Labor Market

El Paso non-farm employment declined in May at a 1.3 percent annualized rate. Year to date, the El Paso labor market continues to show a stagnant picture with nonfarm jobs declining slightly at a -0.2 percent. Job losses in May were concentrated in the goods producing sectors while the service providing sectors posted a gain of 1 percent. The unemployment rate in El Paso continues on the rise and now stands at 8.7 percent, up from 7.5 percent six months ago. El Paso's unemployment rate is above the State's level of 7.1 percent but is below the national rate of 9.4 percent.

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

| <i>El Paso</i> | Dec-08 | Jan-09 | Feb-09 | Mar-09 | Apr-09 | May-09 |
|---------------------------------------|------------|------------|------------|------------|------------|-------------|
| Nonfarm Employment | -5.1 | 0.4 | 0.9 | -0.4 | -2.1 | -1.3 |
| Goods Producing | -16.0 | 0.0 | -10.1 | -16.4 | -7.0 | -16.7 |
| Construction, Mining & Natural Resour | -14.2 | 8.0 | -14.3 | -7.5 | 0.0 | -14.5 |
| Manufacturing | -17.6 | -6.3 | -6.3 | -23.3 | -12.6 | -18.5 |
| Services Providing | -3.4 | 0.5 | 2.5 | 2.0 | -1.5 | 1.0 |
| Trade, Transportation & Utilities | -6.0 | 2.1 | 4.2 | -2.0 | -6.0 | -2.0 |
| Information | -20.4 | -37.5 | 0.0 | -21.5 | 0.0 | 0.0 |
| Financial Activities | -9.5 | 0.0 | 0.0 | -9.6 | 0.0 | 10.6 |
| Professional & Business Services | -14.7 | -3.9 | 0.0 | -3.9 | -15.0 | -4.0 |
| Educational & Health Services | 0.0 | 3.6 | 0.0 | 3.6 | 7.3 | 3.6 |
| Leisure & Hospitality | -4.2 | 4.4 | 0.0 | 0.0 | 8.9 | 0.0 |
| Other Services | -12.7 | 0.0 | -12.8 | 0.0 | 0.0 | 14.7 |
| Government | 7.4 | 1.8 | 7.4 | 13.1 | 0.0 | 1.8 |
| Unemployment Rate | 7.5 | 7.8 | 8.0 | 8.3 | 8.0 | 8.7 |
| Midland-Odessa | | | | | | |
| Nonfarm Employment | -1.8 | -5.2 | -2.7 | -2.7 | -2.7 | -4.4 |
| Unemployment Rate | 3.6 | 4.1 | 4.6 | 5.5 | 6.0 | 6.7 |
| Las Cruces | | | | | | |
| Nonfarm Employment | -3.4 | 0.0 | -3.4 | -5.1 | -5.1 | -3.4 |
| Unemployment Rate | 4.6 | 5.6 | 5.9 | 6.1 | 5.8 | 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

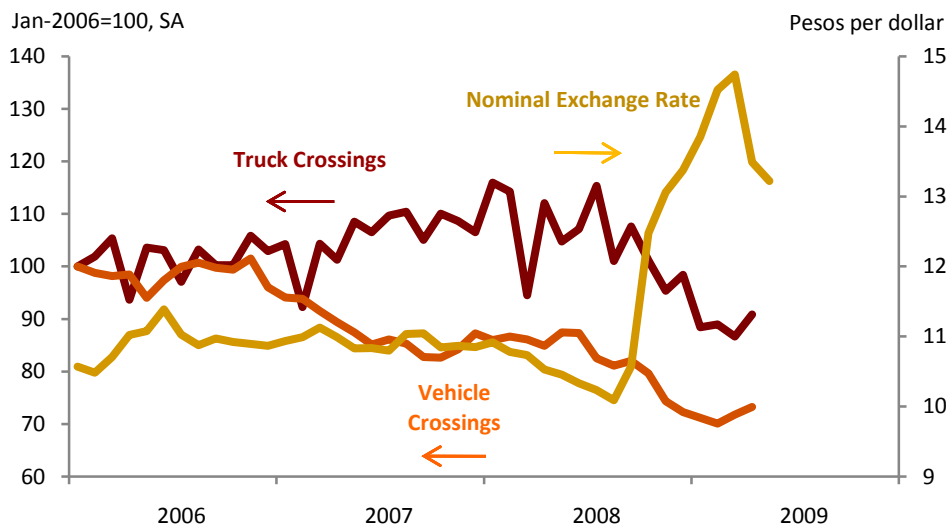
Given the continued contraction in manufacturing activity in Ciudad Juarez, total trade through the El Paso declined 21 percent in April from a year ago. Imports declined 25 percent while exports declined 13 percent. At the retail level, El Paso sales tax rebates increased for the first time since summer of last year by 0.3 percent (12-month basis). The recent slowdown in the El Paso retail industry is due to slow economic activity in El Paso and a weaker peso.

In April, 295-thousand vehicles crossed into El Paso from Ciudad Juarez, representing a decline of 14 percent from the same period last year. At the wholesale level, truck crossings are down 19 percent. Again, this reflects slower economic activity in Ciudad Juarez, as the maquiladora sector cools and the peso weakens. Given the recent appreciation of the peso, both personal vehicle and truck crossings showed improvements from recent months during April (see chart above). So far the peso has lost 24 percent in value vis-à-vis the dollar since August 2008. This translates to a significant decline in the purchasing power of Mexican nationals.

Housing Market

In April, housing sales increased

El Paso Border Crossings



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

strongly by 31 percent in El Paso (year-over-year basis). The median home price in April was \$128,100. Given the strong sale activity in April, months of inventory declined to 9.8 months, the lowest level since early 2008. In spite of the increase in home sales, single-family building permits were down 11 percent in April from a year ago.

Economic Conditions in Juarez and Chihuahua

The contraction in the U.S. industrial sector continues. In May, the overall industrial production index contracted 13 percent from a year ago while the manufacturing portion of the industrial production index declined at a steeper rate of 15 percent. On the same basis,

formal manufacturing employment in the State of Chihuahua declined 22 percent in May. Given the strong correlation that exists between these two series and the maquiladora activity in Ciudad Juarez (see chart below), we estimate a model based on these indicators that tracks maquiladora employment post-2006. The model suggests, in accordance with anecdotal evidence that the maquiladora sector has been performing poorly in Juarez in recent months. Our internal estimates indicate that Ciudad Juarez has lost around 50,000 maquiladora jobs since the summer of 2007. This is in part the result of the strong concentration of auto-related maquiladoras in Ciudad Juarez. Another indication of weakness in Ciudad Juarez is the

ECONOMIC UPDATE

EL PASO

retail sector, as sales declined in March by 6.2 percent compared to the same month a year ago. This indicator has been in negative territory since summer of last year.

Neighboring Metro Areas

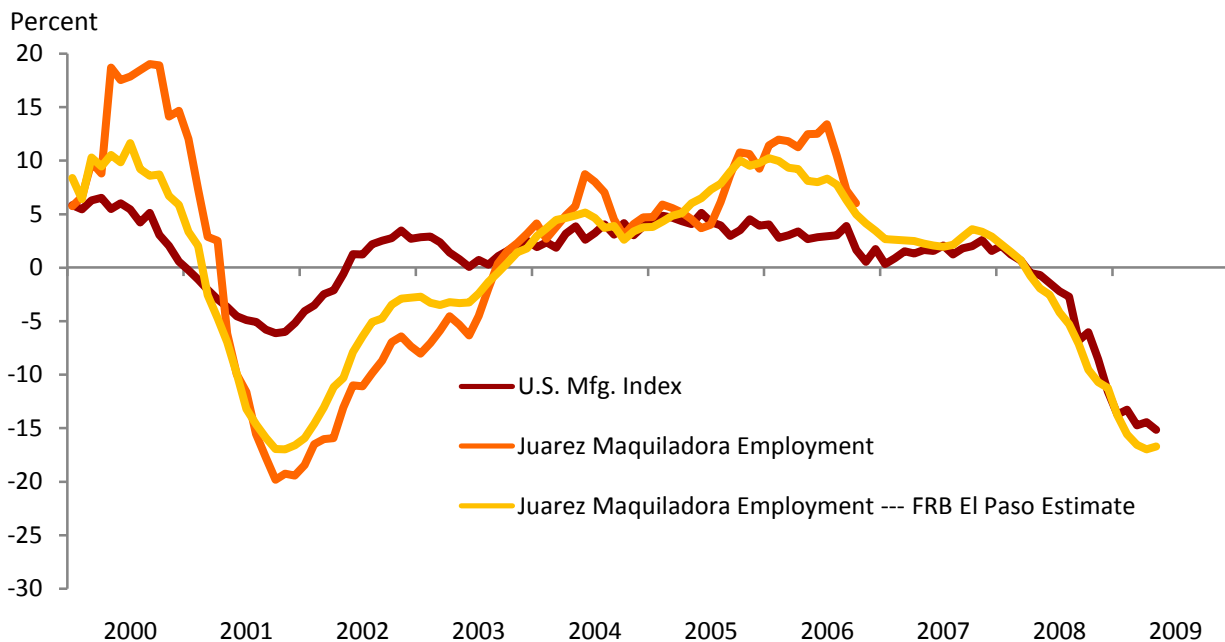
The oil shock continues to affect the Midland-Odessa area. Nonfarm employment declined at an annual rate of 4.4 percent in May, and the unemployment rate jumped to 6.7 percent in May from 3.6 percent six months ago. Las

Cruces nonfarm employment posted a decline of 3.4 percent at annual rate during March. As reported in the table above, the Las Cruces labor market has been weak over the last six months. As a result, the unemployment rate has increased to 5.8 percent in April.

The Midland-Odessa housing market continues to weaken with sales in March declining by almost 26 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 Midland-Odessa are down in April by 25 percent on a 12-month basis. Las Cruces building permits for new homes stand at 80 permits in April, representing a decline of 27percent from a year ago.

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