

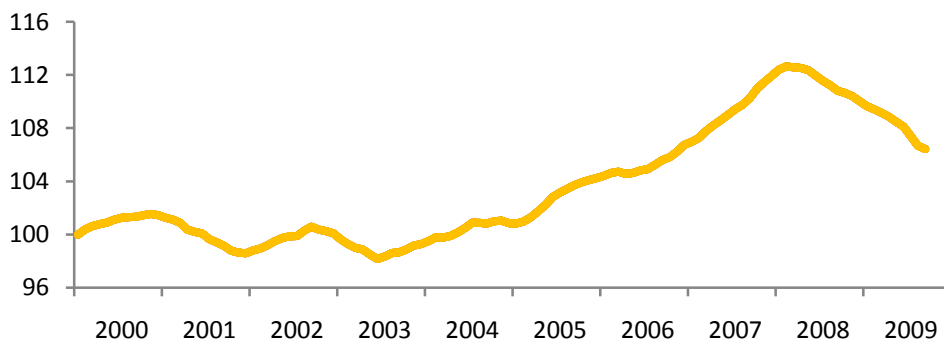
ECONOMIC UPDATE

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. Therefore, the national economic slowdown continues to have its toll in the local economy. The El Paso business-cycle index has been in the negative territory since early 2008. Government related expansion projects—both inside and outside Ft. Bliss—continue to help the local

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

economy weather the national recessionary pressures. However, such expenditure cushion has not been enough to offset the economic downturn.

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 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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Trade and Border Crossings

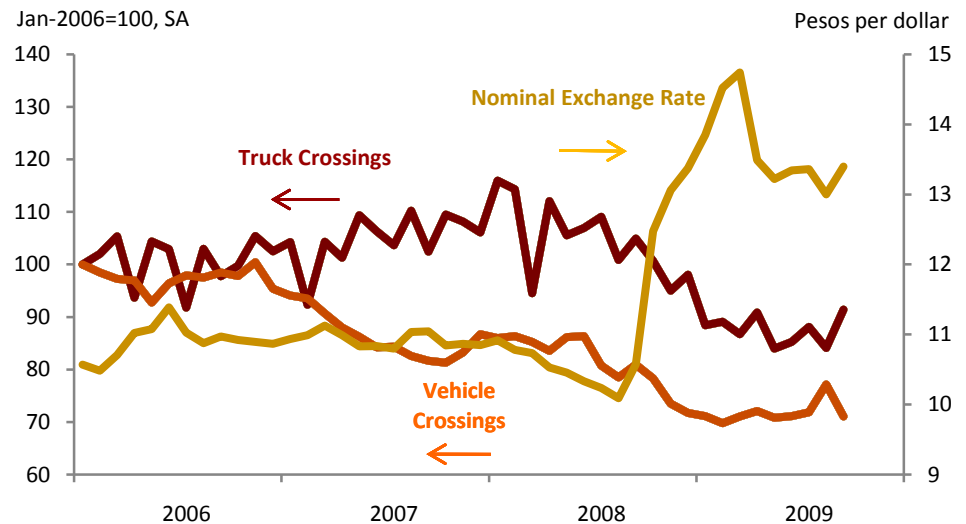
Total trade through El Paso continues to contract but at a slower rate. In August, total trade declined 12.3 percent from a year ago, down from 16 percent in July and 20 percent in June. Imports declined 11 percent while exports declined 15 percent. With respect to the retail sector, El Paso sales tax rebates decreased 6.7 percent in August (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.

In August, 290-thousand vehicles crossed into El Paso from Ciudad Juarez, representing a decline of 12 percent 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 13 percent. The number 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 over the recent months. On a positive note, 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 increased in

El Paso Border Crossings



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

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. However, single-family building permits—a leading indicator for the housing sector—decreased in August by 9 percent from a year ago.

Economic Conditions in Juarez and Chihuahua

The wheel has turned for the U.S. industrial sector, posting strong increases over the last three months. 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. We developed a model—based on U.S. industrial production index and Chihuahua manufacturing employment—to track Juarez maquiladora employment post-2006. The model indicates that the maquiladora sector continued to post job gains in September for the second consecutive month, after 22-months of contraction. Our internal estimates indicate that Ciudad Juarez has lost around 46,000 maquiladora jobs since late 2007. Anecdotal evidence corroborates this uptick in maquiladora employment, as many plants are reporting increases in production orders. This is mostly tied to the increase in U.S. auto sales as a result of the “Cash-for-

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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 August at a 5.7 percent (year-over-year).

Neighboring Metro Areas

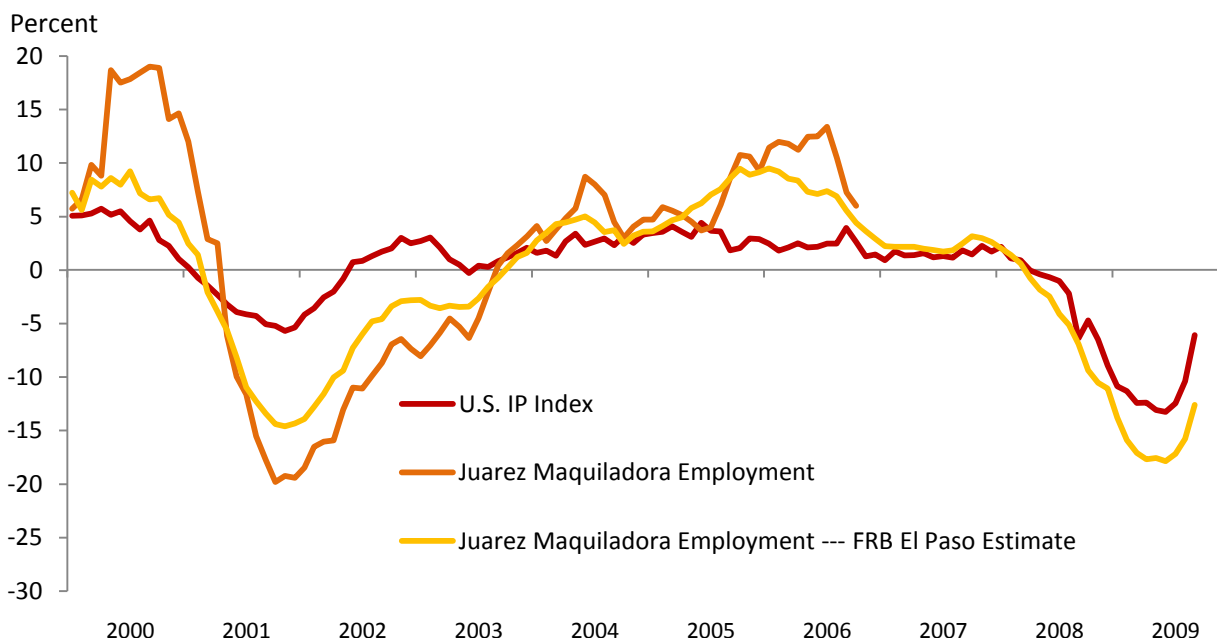
The Midland-Odessa labor market posted an increase of 2.7 percent annualized rate in September for

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 August by 37 percent on a 12-month basis. Las Cruces building permits for new homes stand at 87 permits in August, representing a decline of 14 percent 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