

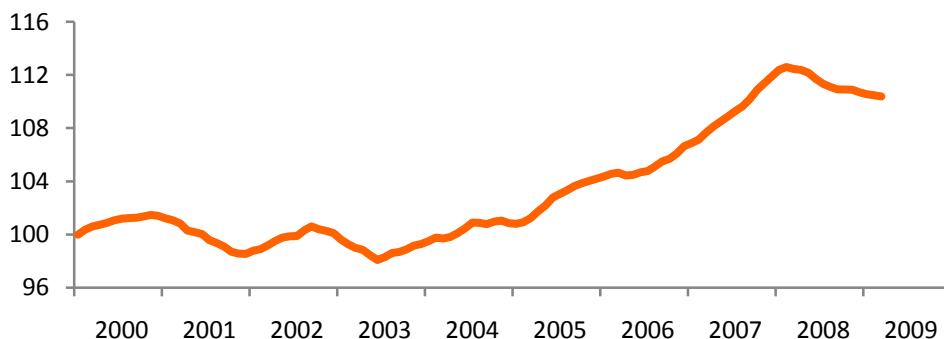
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

According to El Paso's business-cycle index, the El Paso economy contracted in March for the fifth consecutive month at a 1 percent annualized rate. Similarly, on a 12-month basis, this indicator continues to be down by 1.9 percent, suggesting that the El Paso economy has been in recession since November of last year. The economic downturn affecting the nation and the State of Texas finally made its way to the El Paso area. On the upside, Fort Bliss continues to support the local

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

economy, with \$1.72 billion spent since 2006, and 40 percent going to local contractors. Furthermore, it is expected that around \$1.5

billion are going to be spent this year alone, Fort Bliss is an important offset to industrial weakness.

Labor Market

El Paso non-farm employment remained flat in March after a slight increase in February. Year to date, the El Paso labor market shows the same stagnant picture with jobs just growing 0.1 percent. In March, job gains in trade, transportation and utilities, educational and health services, and government helped to offset the job losses in manufacturing and construction, mining and natural resources. As a result of this sluggish job growth in El Paso, the unemployment rate has been consistently trending upward, reaching 8.3 percent in March and up from 6.8 percent six months ago.

Employment Growth

Month-over-Month Annualized Growth Rates

<i>El Paso</i>	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Nonfarm Employment	4.4	1.7	-1.3	0.0	0.9	0.0
Goods Producing	0.0	7.1	-12.9	0.0	-9.9	-16.2
Construction, Mining & Natural Resources	0.0	7.9	-14.1	7.9	-14.2	-7.4
Manufacturing	0.0	6.5	-11.9	-6.2	-6.2	-22.9
Services Providing	5.1	1.0	0.5	0.0	2.5	2.5
Trade, Transportation & Utilities	0.0	2.0	0.0	2.0	4.1	2.0
Information	-20.1	0.0	-20.4	-37.5	0.0	0.0
Financial Activities	10.3	0.0	0.0	0.0	-9.3	0.0
Professional & Business Services	16.8	3.9	12.2	-3.7	0.0	0.0
Educational & Health Services	11.6	0.0	-7.1	0.0	0.0	3.7
Leisure & Hospitality	-4.3	0.0	-4.4	4.6	0.0	0.0
Other Services	0.0	0.0	-12.7	0.0	-12.8	0.0
Government	7.5	0.0	5.6	1.8	9.4	5.5
Unemployment Rate	6.8	7.0	7.5	7.8	8.0	8.3
<i>Midland-Odessa</i>						
Nonfarm Employment	2.7	1.8	0.0	-2.6	-1.8	-2.6
Unemployment Rate	3.3	3.4	3.6	4.1	4.6	5.5
<i>Las Cruces</i>						
Nonfarm Employment	0.0	0.0	-3.4	0.0	-3.4	-1.7
Unemployment Rate	4.0	4.1	4.6	5.6	5.9	n.a.

Notes: Seasonally Adjusted Data

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

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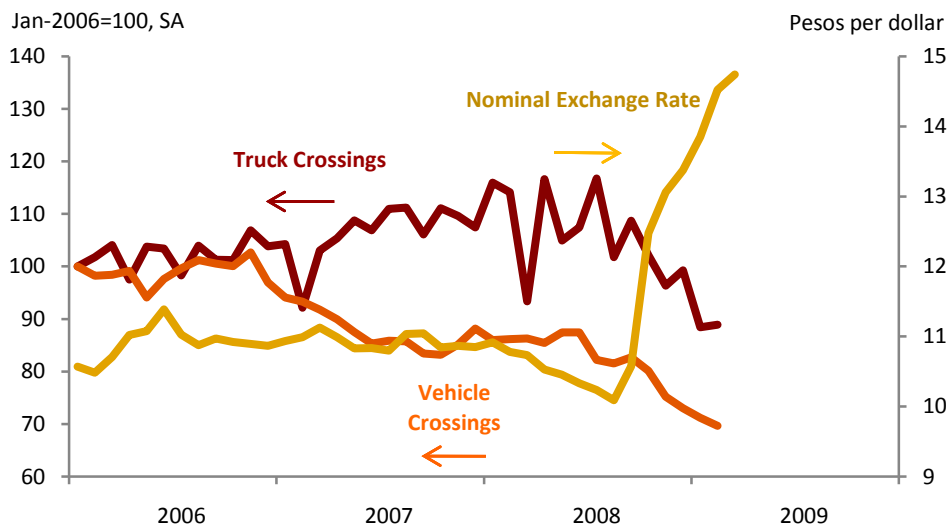
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Trade and Border Crossings

Given the weak performance of the manufacturing sector south of the border, total trade through the El Paso declined in February by 19 percent on a 12-month basis. Imports declined 21 percent while exports declined 16 percent. On a similar note, retail sales tax rebates in El Paso decreased by 4.8 percent in February. On a 12-month basis, this indicator is down by 6.1 percent. The slow retail sector can be attributed to both slow economic activity in El Paso and a weaker peso.

In February, almost 280-thousand vehicles crossed into El Paso from Ciudad Juarez, representing a decline of almost 20 percent from the same period last year. This reflects slower economic activity in Ciudad Juarez, as the maquiladora sector cools and the peso weakens. Our estimates at the Dallas Fed indicate that roughly 11-14 percent of all retail sales in El Paso can be attributable to Mexican shoppers. The 32 percent depreciation of the peso vis-à-vis the dollar over the last eight months is a significant decline in the purchasing power of Mexican nationals. Truck crossings also declined sharply in February, down 22 percent on a 12-month basis.

El Paso Border Crossings



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

Housing Market

In El Paso, housing sales increased by 3.8 percent in March on year-over-year basis. The median home price in March was \$133,500. Furthermore, months of inventory stand at 11.5 months, up from 8 months roughly a year ago. In spite of the increase in home sales, single-family building permits were down 10 percent in February from a year ago.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector continues to deteriorate. In March, the overall industrial production index contracted 13 percent while the manufacturing portion of the industrial production index

declined a steeper 15 percent. Both growth rates are on a 12-month basis. Similarly, formal manufacturing employment in the State of Chihuahua declined 23 percent in March 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 conclude that the maquiladora sector has been performing poorly in recent months. Recent estimates indicate that Ciudad Juarez has lost around 62,000 manufacturing 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 retail sector, as sales declined in January by 5.1

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percent compared to the same month a year ago.

Neighboring Metro Areas

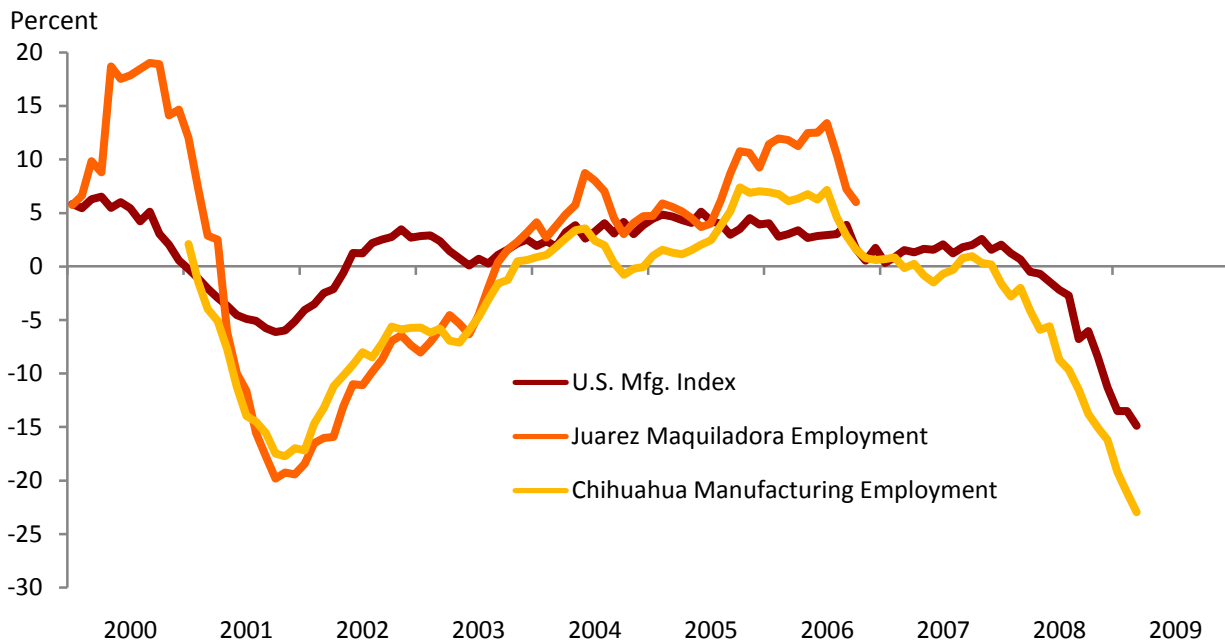
Midland-Odessa continues to feel the oil shock, as nonfarm employment declined at an annual rate of 2.6 percent in March. Accordingly, the unemployment rate jumped to 5.5 percent in March from 3.3 percent six months ago. Las Cruces nonfarm

employment posted a decline of 1.7 percent at annual rates during March. As reported in the table above, Las Cruces labor market has been weak over the last six months. As a result, the unemployment rate has increased to 5.9 percent in February.

The Midland-Odessa housing market continues to weaken with sales declining by almost 33

percent on a year-over-year basis in March. The median home price for the Midland-Odessa area stands at \$155,700. Permits for new homes in Midland-Odessa are down in February by 12 percent on a 12-month basis. Las Cruces building permits for new homes stand at 53 permits in February, representing a decline of 30 percent from a year ago.

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



Note: Seasonally Adjusted Data

Source: INEGI & Federal Reserve Bank of Dallas