

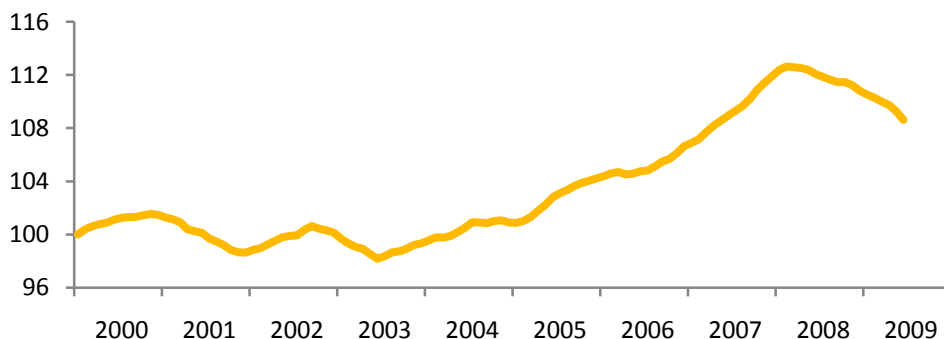
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

The El Paso business-cycle index contracted in June at a 6.8 percent annualized rate, suggesting that the national recessionary pressures continue to make significant inroads into El Paso's economy. On a 12-month basis, this indicator continues to be down by 3.1 percent. In spite of the heavy government-related expenditures both inside Ft. Bliss and outside the military base, the El Paso area finally felt a significant decline in its economic activity in June.

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

The business-cycle index has been in the negative territory since early 2008; just a couple of months after

the industrial sector began to contract.

Labor Market

El Paso non-farm employment declined significantly in June at a 10.3 percent annualized rate. Since the current recession began, June is the month with the biggest job losses. Year to date, the El Paso labor market has contracted by 3,200 jobs or 1.2 percent decline. Job losses in June were widespread across all sectors, both goods and services producing. As a result of the deterioration of the labor market, the unemployment rate in El Paso continues on the rise. In June the unemployment rate was at 8.9, up from 7.8 percent six months ago. El Paso's unemployment rate is above the State's level of 7.5 percent but is below the national rate of 9.5 percent.

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

<i>El Paso</i>	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Nonfarm Employment	0.4	0.9	-0.4	-2.1	-1.7	-10.3
Goods Producing	0.0	-10.1	-16.4	-7.0	-13.6	-19.9
Construction, Mining & Natural Resources	8.0	-14.3	-7.5	0.0	-14.5	-7.6
Manufacturing	-6.3	-6.3	-23.3	-12.6	-12.7	-29.4
Services Providing	0.5	2.5	2.0	-1.5	0.0	-9.0
Trade, Transportation & Utilities	2.1	4.2	-2.0	-6.0	-4.1	-8.0
Information	-37.5	0.0	-21.5	0.0	0.0	-21.9
Financial Activities	0.0	0.0	-9.6	0.0	10.6	-9.6
Professional & Business Services	-3.9	0.0	-3.9	-15.0	0.0	0.0
Educational & Health Services	3.6	0.0	3.6	7.3	0.0	0.0
Leisure & Hospitality	4.4	0.0	0.0	8.9	0.0	-4.2
Other Services	0.0	-12.8	0.0	0.0	14.7	-12.8
Government	1.8	7.4	13.1	0.0	0.0	-17.7
Unemployment Rate	7.8	8.0	8.3	8.0	8.7	8.9
Midland-Odessa						
Nonfarm Employment	-5.2	-2.7	-2.7	-2.7	-2.7	-3.6
Unemployment Rate	4.1	4.6	5.5	6.0	6.7	6.9
Las Cruces						
Nonfarm Employment	0.0	-3.4	-5.1	-5.1	-1.7	-5.1
Unemployment Rate	5.6	5.9	6.1	5.8	6.5	n.a.

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

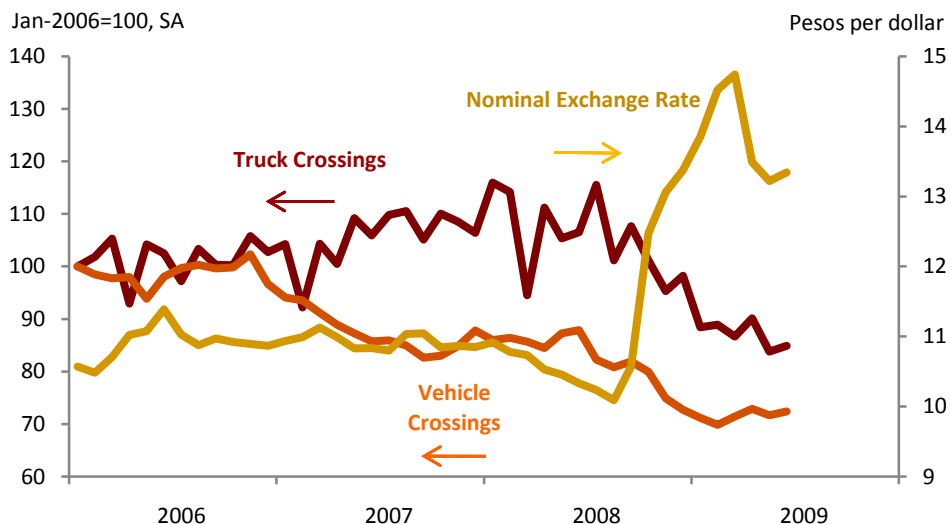
Total trade through El Paso continues to diminish as May figures show a decline of 26 percent from a year ago. Imports declined 33 percent while exports declined 18 percent. At the retail level, El Paso sales tax rebates decreased by 8.3 percent in May (12-month basis). The recent slowdown in the El Paso retail industry is due to slow economic activity in El Paso and a weaker peso.

In June, 292-thousand vehicles crossed into El Paso from Ciudad Juarez, representing a decline of 18 percent from the same period last year. At the wholesale level, truck crossings are down 20 percent. This is the result of weak 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 some improvements from recent months but are still down (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

After posting a strong growth in

El Paso Border Crossings



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

April, El Paso housing sales increased by a tepid 2.6 percent in May (year-over-year basis). The median home price was \$126,800. Months of inventory continue to decline to 9.7 months, the lowest level since early 2008. In spite of the positive news regarding home sales, single-family building permits, a leading indicator for the housing sector, were down 11 percent in May from a year ago.

Economic Conditions in Juarez and Chihuahua

The contraction in the U.S. industrial sector continues. On a year-over-year basis, growth rates have begun to stabilize but we still observe significant drops in industrial activity. On the same basis, formal manufacturing

employment in the State of Chihuahua continues to decline by around 22 percent in June, the same rate of decline has been observed since January of this year. Given the strong correlation that exists between these two series and the maquiladora activity in Ciudad Juarez, we developed a model based on these indicators that tracks Juarez maquiladora employment post-2006. The model indicates that the maquiladora sector has been performing poorly in Juarez in recent months, in accordance with anecdotal evidence. Furthermore, the model suggests there has been a pause in the contraction of maquiladora employment in recent months (see chart below). Our internal estimates indicate that Ciudad Juarez has lost around

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51,000 maquiladora jobs since the summer of 2007. This is in part due to 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 April by 6.3 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 Midland-Odessa area continues to be affected by the oil

shock as nonfarm employment has continually declined since November of last year. In June, nonfarm payroll contracted by 3.6 percent annualized rate and as a result the unemployment rate jumped to 6.9 percent. Las Cruces nonfarm employment posted a decline of 5.1 percent at annual rate during June. As reported in the table above, the Las Cruces labor market has been weak over the last six months. Thus, the unemployment rate has increased to 6.5 percent in May.

The Midland-Odessa housing market continues to weaken with sales in May declining by almost 30 percent on a year-over-year basis. The median home price for the Midland-Odessa area stands at \$166,000. Permits for new homes in Midland-Odessa are down in May by 33 percent on a 12-month basis. Las Cruces building permits for new homes stand at 61 permits in May, representing a decline of 27percent from a year ago.

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

