

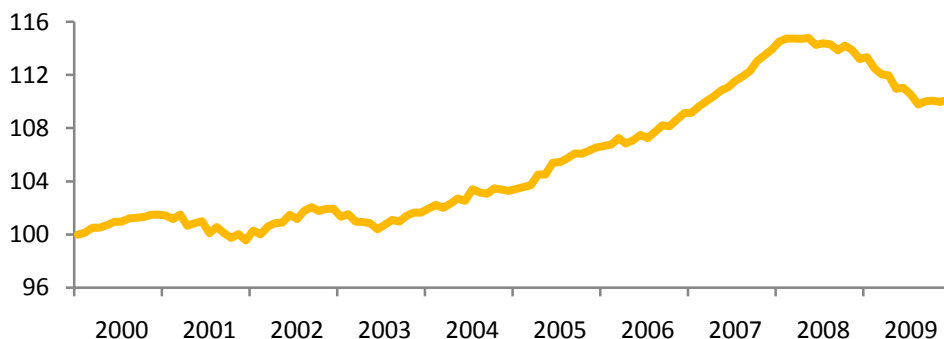
ECONOMIC UPDATE

EL PASO

El Paso Business-Cycle Index

The El Paso's business-cycle index has been moving sideways since the summer of 2009; signaling that perhaps the El Paso economy is bottoming out and beginning a slow turn upward. On a year-over-year basis, this indicator contracted 2.7 percent in December, reflecting the serious recession of 2009, and its inroads into the local economy. Government related expansion projects—both inside and outside Ft. Bliss—continue to help the local economy offset the national

Index Jan-2000=100



Source: Federal Reserve Bank of Dallas, El Paso Branch

recessionary pressures. In addition, the turn-around in the U.S. industrial sector and the pick-up in maquiladora activity in Juarez should benefit the El Paso economy in coming months.

Labor Market

El Paso non-farm employment contracted in December at a 1.3 percent annualized rate. Overall in 2009 the El Paso labor market contracted by 7,200 jobs or 2.6 percent. This contraction in the labor market exceeds the 2001 decline of 2.3 percent. Job losses in 2009 were widespread across sectors with only educational and health services and government sectors posting job gains. The goods producing sectors declined 10.2 percent while the service producing sectors contracted by 1.5 percent. The unemployment rate now stands at 9.7 percent, while Texas' unemployment rate is 8.2 percent and the national rate is 10 percent.

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

<i>El Paso</i>	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Nonfarm Employment	-8.1	-10.9	5.5	5.5	-2.2	-1.3
Goods Producing	-10.7	-14.2	-10.9	0.0	-7.5	0.0
Construction, Mining & Natural Resources	-14.9	-15.1	-7.9	0.0	-8.0	8.7
Manufacturing	-6.9	-13.4	-13.5	0.0	-7.1	-7.1
Services Providing	-7.7	-10.5	7.9	6.2	-1.5	-1.5
Trade, Transportation & Utilities	-4.3	-4.3	-8.4	-2.2	-4.3	-6.5
Information	26.8	0.0	0.0	-21.2	0.0	0.0
Financial Activities	0.0	0.0	0.0	0.0	0.0	-9.6
Professional & Business Services	0.0	-14.7	-14.8	22.2	0.0	0.0
Educational & Health Services	7.2	0.0	7.1	10.8	-3.4	0.0
Leisure & Hospitality	0.0	0.0	-4.4	0.0	0.0	-8.6
Other Services	0.0	-13.2	32.6	-13.1	0.0	0.0
Government	-26.1	-23.9	43.9	13.3	0.0	5.4
Unemployment Rate	9.1	9.5	9.8	10.0	9.5	9.7
Midland-Odessa						
Nonfarm Employment	-1.8	-8.1	0.0	0.9	-0.9	0.0
Unemployment Rate	7.1	7.3	7.6	7.8	7.3	7.4
Las Cruces						
Nonfarm Employment	-8.4	3.6	0.0	-5.2	1.8	1.8
Unemployment Rate	6.5	7.4	7.7	8.1	7.9	n.a.

Notes: Seasonally Adjusted Data

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

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Trade and Border Crossings

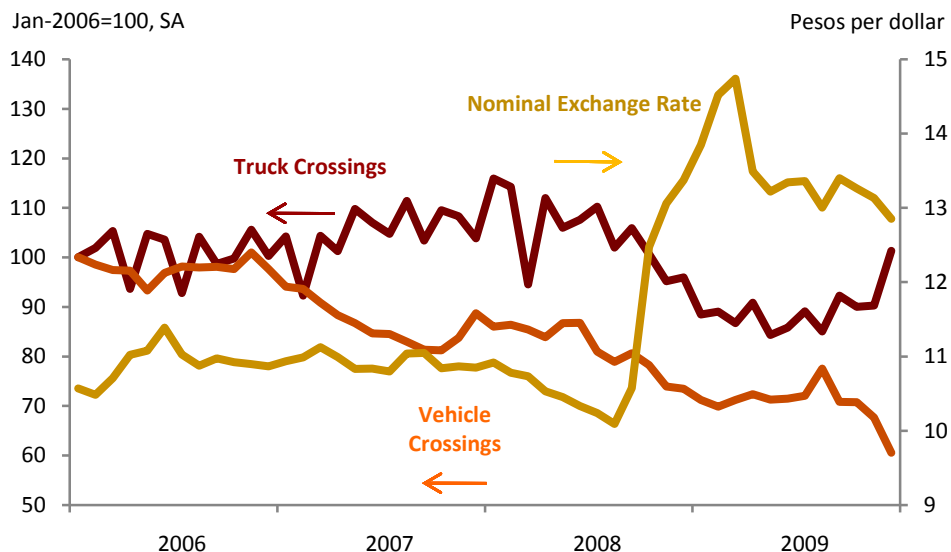
Total trade through El Paso has been growing since May 2009. Since then total trade has increased by 18 percent. In November, trade rose 2 percent from the previous month. Imports were up 2.7 percent while exports jumped by 1.1 percent. With respect to the retail sector, El Paso sales tax rebates decreased 1.8 percent in November (12-month basis). The weakness in local retail trade is the result of stagnant overall economic activity in El Paso in recent months.

The number of personal vehicles crossing into El Paso from Ciudad Juarez during December declined 18 percent from the same period last year. Anecdotal evidence suggests that the waiting times during the holiday season were significantly longer, and shoppers combined their shopping needs into fewer trips. Furthermore, contacts reported that retail activity over the holidays was better than 2008, in part fueled by recent appreciation of the peso during December. Truck crossings have been increasing over the last few months as a result of the recent pick-up in maquiladora activity in Juarez.

Housing Market

El Paso housing sales increased in December by 22 percent (year-

El Paso Border Crossings



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

over-year basis) for the fifth consecutive month, most likely due to first-time home buyer's tax credit. The median home price was \$135,000 while months of inventory continue to decline to 8.1 months, the lowest level since late 2007. Furthermore, single-family building permits—a leading indicator for the housing sector—have been increasing over the last few months perhaps indicating that the El Paso housing sector has bottomed out, following the footsteps of the national housing market.

Economic Conditions in Juarez and Chihuahua

The U.S. industrial sector has shown continued signs of expansion. For instance, the

overall industrial production index grew on average at a 7 percent annual rate over the second half of last year. Furthermore, the ISM manufacturing index and new orders index (a leading indicator for the industrial sector) have been signaling solid expansion in the U.S. industrial sector since mid-2009. Formal employment in the manufacturing sector in the State of Chihuahua has also showed steady improvements in recent months. We developed a model—based on U.S. industrial production index and Chihuahua manufacturing employment—to track Juarez maquiladora employment since 2006. The model indicates that maquiladoras continued to hire during December, the fifth consecutive month of increased payrolls.

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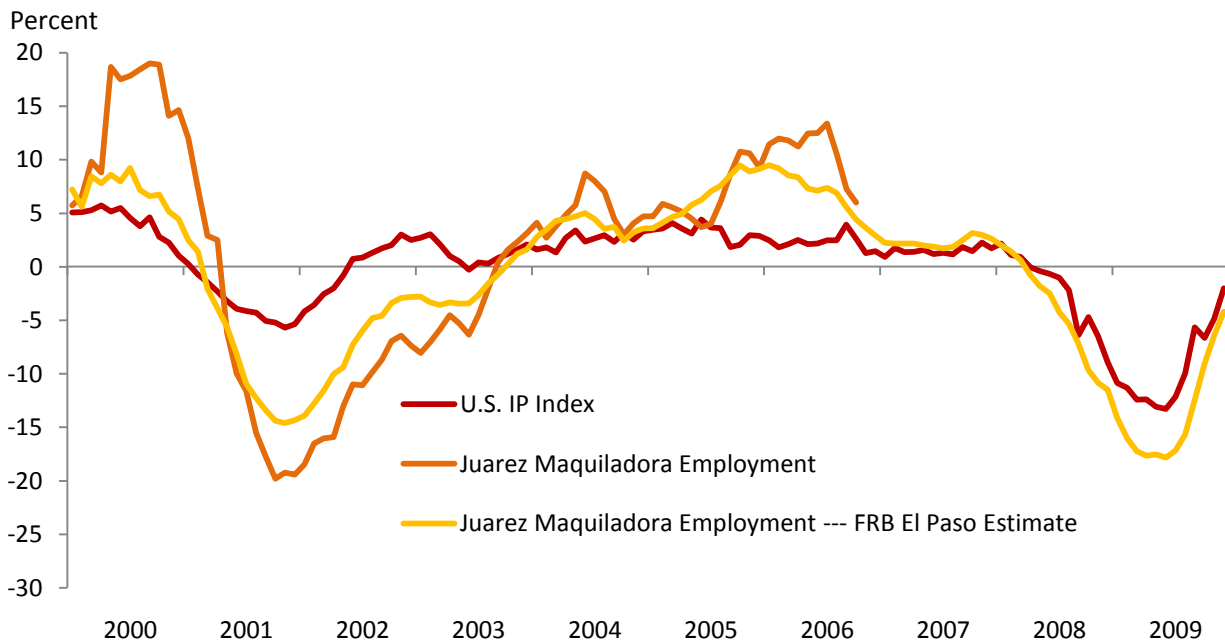
Anecdotal evidence corroborates this uptick in maquiladora employment, as many plants are reporting increases in orders. Furthermore, Juarez maquiladora association recently announced that the maquiladora sector in Juarez is expected to add 40-thousand jobs this year. If these job gains materialize, it is likely that we will return to the peak employment seen in summer of 2007.

Neighboring Metro Areas

The Midland-Odessa labor market remained unchanged in December. However, the unemployment rate jumped to 7.4 percent. Las Cruces nonfarm employment posted job gains of 1.8 percent annualized rate during the same month. In November, the unemployment rate in Las Cruces was 7.9 percent.

Midland-Odessa housing sales remained flat in December while the median home price stands at \$155,000. Permits for new homes in the Midland-Odessa area, as well as for Las Cruces, began to stabilize and even grow since the summer of 2009. This perhaps suggests that the housing market in both MSAs has at least reached bottom.

**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