The US and New Mexico Economies: Recent Developments and Outlook

17th Annual New Mexico Data Users Conference
November 2015

U.S. Review & Outlook
Review: National Economy

- Final estimate for 2015Q2 revised up significantly: from 2.3% to 3.9%. Second consecutive quarter of significant upward revision. Third quarter came in slow: 1.5%
- Employment expanded 139,000 in August & September, below 215,000 average in January – July. October numbers popped: 271,000, pushing down unemployment rate to 5.0%.
- Consumer Confidence Index (U. of Mich.) has been higher in 2015 than any year since before the Recession, but has slumped since its early-year peak.
- Oil prices (WTI): from $104 (June ‘14) to $44.45 (January 31), $60.27 (June 26), now at $41.25.
- DJIA volatile: -9.25% in August, +5.4% in October.
- Housing is still weak but slowly improving.

Real GDP Growth

<table>
<thead>
<tr>
<th>Composition of Real GDP Growth Over Previous Period SAAR</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>14Q2</th>
<th>14Q3</th>
<th>14Q4</th>
<th>15Q1</th>
<th>15Q2</th>
<th>15Q3</th>
<th>Contrib.</th>
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</thead>
<tbody>
<tr>
<td>Composition of Real GDP</td>
<td>2.2</td>
<td>1.5</td>
<td>2.4</td>
<td>4.6</td>
<td>4.3</td>
<td>2.1</td>
<td>0.6</td>
<td>3.9</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Gross Domestic Product</td>
<td>1.5</td>
<td>1.7</td>
<td>2.7</td>
<td>3.8</td>
<td>3.5</td>
<td>4.3</td>
<td>1.8</td>
<td>3.6</td>
<td>3.2</td>
<td>2.19</td>
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<tr>
<td>Total Consumption</td>
<td>7.4</td>
<td>5.8</td>
<td>5.9</td>
<td>8.0</td>
<td>7.5</td>
<td>6.1</td>
<td>2.0</td>
<td>8.0</td>
<td>6.7</td>
<td>0.48</td>
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<td>Durable goods</td>
<td>0.6</td>
<td>1.9</td>
<td>2.1</td>
<td>3.4</td>
<td>2.4</td>
<td>3.2</td>
<td>0.7</td>
<td>4.3</td>
<td>3.5</td>
<td>0.51</td>
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<td>Nondurable goods</td>
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<td>1.0</td>
<td>2.4</td>
<td>2.4</td>
<td>3.1</td>
<td>4.3</td>
<td>2.1</td>
<td>2.7</td>
<td>2.6</td>
<td>1.20</td>
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<td>Services</td>
<td>13.5</td>
<td>9.5</td>
<td>1.8</td>
<td>10.4</td>
<td>3.4</td>
<td>10.0</td>
<td>10.1</td>
<td>9.3</td>
<td>6.1</td>
<td>0.20</td>
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<td>Residential Fixed Investment</td>
<td>9.0</td>
<td>3.0</td>
<td>6.2</td>
<td>4.4</td>
<td>9.0</td>
<td>0.7</td>
<td>1.6</td>
<td>4.1</td>
<td>2.1</td>
<td>0.27</td>
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<td>Nonresidential Fixed Investment</td>
<td>12.9</td>
<td>1.6</td>
<td>8.1</td>
<td>-0.2</td>
<td>-1.9</td>
<td>4.3</td>
<td>-7.4</td>
<td>6.2</td>
<td>-4.0</td>
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<td>Structures</td>
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<td>3.2</td>
<td>5.8</td>
<td>6.5</td>
<td>16.4</td>
<td>-4.9</td>
<td>2.3</td>
<td>0.3</td>
<td>5.3</td>
<td>0.31</td>
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<tr>
<td>Equipment &amp; Software</td>
<td>3.9</td>
<td>3.8</td>
<td>5.2</td>
<td>4.8</td>
<td>6.6</td>
<td>6.9</td>
<td>7.4</td>
<td>8.3</td>
<td>1.8</td>
<td>0.07</td>
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<td>Intellectual Property</td>
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<td>2.8</td>
<td>3.4</td>
<td>9.8</td>
<td>1.8</td>
<td>5.4</td>
<td>-6.0</td>
<td>5.1</td>
<td>1.9</td>
<td>0.24</td>
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<td>Change in Private Inventories</td>
<td>-1.9</td>
<td>-5.7</td>
<td>-2.4</td>
<td>-1.2</td>
<td>3.7</td>
<td>-5.7</td>
<td>1.1</td>
<td>0.0</td>
<td>0.2</td>
<td>0.02</td>
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<tr>
<td>Exports</td>
<td>2.2</td>
<td>1.1</td>
<td>3.8</td>
<td>9.6</td>
<td>-0.8</td>
<td>10.3</td>
<td>7.1</td>
<td>3.0</td>
<td>1.8</td>
<td>-0.27</td>
</tr>
<tr>
<td>Imports</td>
<td>-1.9</td>
<td>-5.7</td>
<td>-2.4</td>
<td>-1.2</td>
<td>3.7</td>
<td>-5.7</td>
<td>1.1</td>
<td>0.0</td>
<td>0.2</td>
<td>0.02</td>
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<tr>
<td>Federal Government</td>
<td>2.6</td>
<td>0.6</td>
<td>1.3</td>
<td>-0.8</td>
<td>4.3</td>
<td>2.6</td>
<td>0.29</td>
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</table>

Key Forecast Assumptions

- **Federal fiscal policy**: assumes no debt ceiling problems and no significant budget initiatives; two year budget deal since confirmed.
- **Monetary Policy**: Fed first tightening in December 2015 – federal funds rate hitting 0.50% by end of 2015 and reaching 3.25% by the end of 2017.
- **World GDP**: Growth in major trading partners to average about 1.9% through 2025, with other partners averaging growth of 3.8% (both down a bit from July). US dollar appreciates through mid-2016 and slowly depreciates thereafter.
- **Oil price**: Oil price (WTI) is expected to register $48/barrel in 2015, $51/barrel in 2016, $59/barrel in 2017, $74/barrel in 2018.
Oil & Gas Spot Prices

**Oil: West Texas Intermediate, Spot Price per Barrel**

Forecast for oil price brought down quite a bit throughout the forecast period. GI cites high US productivity as the major driver keeping prices relatively lower.

**Natural Gas: Henry Hub Price per MBtu**

Expectations for natural gas price continue to be subdued.

Global Insight, Oct. 15 and July 15

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U.S. Real GDP Forecast

**Quarter-Over-Quarter, SAAR**

Global Insight, Oct. 15 and July 15
## US Employment Forecast by Sector

### Increase (Decrease) in US Payroll Employment from Previous Calendar Year, Actual & Forecast (Thousands)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>114</td>
<td>212</td>
<td>281</td>
<td>240</td>
<td>244</td>
<td>407</td>
<td>303</td>
<td>217</td>
<td>207</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>200</td>
<td>93</td>
<td>170</td>
<td>131</td>
<td>8</td>
<td>147</td>
<td>137</td>
<td>108</td>
<td>63</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>405</td>
<td>385</td>
<td>520</td>
<td>543</td>
<td>361</td>
<td>131</td>
<td>214</td>
<td>114</td>
<td>52</td>
</tr>
<tr>
<td>Prof. &amp; Bus. Services</td>
<td>606</td>
<td>588</td>
<td>573</td>
<td>645</td>
<td>752</td>
<td>800</td>
<td>370</td>
<td>304</td>
<td>488</td>
</tr>
<tr>
<td>Health Care &amp; Soc. Asst.</td>
<td>375</td>
<td>386</td>
<td>315</td>
<td>526</td>
<td>541</td>
<td>266</td>
<td>292</td>
<td>338</td>
<td>277</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>423</td>
<td>486</td>
<td>450</td>
<td>441</td>
<td>270</td>
<td>139</td>
<td>254</td>
<td>210</td>
<td>119</td>
</tr>
<tr>
<td>Other Private</td>
<td>307</td>
<td>216</td>
<td>312</td>
<td>239</td>
<td>(76)</td>
<td>(159)</td>
<td>(55)</td>
<td>(21)</td>
<td>24</td>
</tr>
<tr>
<td>Government</td>
<td>(175)</td>
<td>(69)</td>
<td>8</td>
<td>108</td>
<td>92</td>
<td>209</td>
<td>231</td>
<td>175</td>
<td>256</td>
</tr>
<tr>
<td>Total Nonfarm Payrolls</td>
<td>2,255</td>
<td>2,296</td>
<td>2,629</td>
<td>2,872</td>
<td>2,190</td>
<td>1,941</td>
<td>1,746</td>
<td>1,447</td>
<td>1,486</td>
</tr>
<tr>
<td>Annual Growth</td>
<td>1.7%</td>
<td>1.7%</td>
<td>1.9%</td>
<td>2.1%</td>
<td>1.5%</td>
<td>1.3%</td>
<td>1.2%</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

IHS Global Insight, October 2015

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### New Mexico Review & Outlook
Data Revisions

- BLS QCEW 2014Q4 employment revised up by 0.2% to 1.5%. Changes include construction, mining, professional & technical services, administration, hospitality.
- BEA Personal income revisions to 2007, mainly shifting from year to year; net impact 2014 total was 1.6% less than previously estimated.

2015 Q1 Employment data

- 2015Q1 employment up 10,810 jobs (1.4%) – 33rd of 50 states.
- Health care & social assistance accounts for 40% of new jobs.
- Composition of health care expansion reflects early outreach & enrollment: two-thirds of new healthcare jobs outside ABQ MSA, and 60% in social assistance.
- Mining up slightly (2.9%); Transportation strong (5.3%)
- Income growth weak (3.8%) due to slow growth of large income.
New Mexico Current Economic Situation

- CES employment data strong for 2015Q2 (1.4%) but weaker for Q3 (0.7%).
- 2015Q3 mining down (-3.5%) but rate of decline much lower than other states. Rig counts continue to decline to 40 week of October 23.
- Unemployment rate spikes to 6.8% (September) as with growth in labor force (>10,000 or 1.1% in Q1&2).
- Home sales improving (up 10% in Q3) and building permits beginning to respond, but values remain flat.
- Growth of Medicaid transfers still strong but slowing.

New Mexico Unemployment Rate & Labor Force Participation Rate
Housing Sales and Building Permits: Single Family Units

House Price Indices (1990Q1=100)
Rig Counts in New Mexico vs. WTI Price

Source: Baker Hughes

Personal Income and Transfer Payments

<table>
<thead>
<tr>
<th></th>
<th>2014Q1</th>
<th>2014Q2</th>
<th>2014Q3</th>
<th>2014Q4</th>
<th>2015Q1</th>
<th>2015Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income (SA)</td>
<td>$2,275.8</td>
<td>$3,206.4</td>
<td>$4,337.3</td>
<td>$5,319.6</td>
<td>$3,682.3</td>
<td>$2,900.9</td>
</tr>
<tr>
<td>Personal current transfer receipts</td>
<td>$971.0</td>
<td>$1,322.2</td>
<td>$1,768.3</td>
<td>$1,927.5</td>
<td>$1,790.9</td>
<td>$1,571.5</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$776.2</td>
<td>$985.8</td>
<td>$1,448.0</td>
<td>$1,571.0</td>
<td>$1,266.1</td>
<td>$1,089.0</td>
</tr>
</tbody>
</table>

Year over Year Growth (%)

<table>
<thead>
<tr>
<th></th>
<th>2014Q1</th>
<th>2014Q2</th>
<th>2014Q3</th>
<th>2014Q4</th>
<th>2015Q1</th>
<th>2015Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income (SA)</td>
<td>3.1%</td>
<td>4.4%</td>
<td>5.9%</td>
<td>7.2%</td>
<td>4.9%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Personal current transfer receipts</td>
<td>6.0%</td>
<td>8.2%</td>
<td>10.9%</td>
<td>11.8%</td>
<td>10.5%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>23.6%</td>
<td>29.1%</td>
<td>42.6%</td>
<td>46.4%</td>
<td>31.2%</td>
<td>24.9%</td>
</tr>
</tbody>
</table>

Medicaid increase / Total personal income incr | 34.1% | 30.7% | 33.4% | 29.5% | 34.4% | 37.5%

Medicaid increase / Total personal income | 1.0% | 1.3% | 1.9% | 2.0% | 1.6% | 1.4%

Source: BEA
Personal Income Growth and Medicaid Transfers

Household Finances

- Average consumer debt (excluding mortgages), up from $11,100 in 2001 to $17,050 in 2008, declined 13% to $14,773 in 2014. (US down 10.1% to $17,205)
- Consumer bankruptcy rates low (50.1 per 10,000)
- Mortgage delinquency rates fairly high, especially in Albuquerque.
Average Consumer Debt & Debt Burden (2014)

Consumer Delinquency Rates (2014)
Mortgage Delinquency Rates (2014)

New Mexico Economic Outlook
New Mexico Economic Outlook

- Employment forecast weaker than July through mid-2016, but returns to earlier growth trends by end-2016 (1.3%) and thereafter (2017-2020: 1.4% per yr).
- Composition of new jobs: 32% in health care & social assistance; 29% in low-wage service sectors; 19% in mining, utilities, construction, manuf, transportation, 12% in P&BS, 5% in government (tied to health)
- Similar for Personal Income growth: 4.8% in 2016, 5.0% thereafter.
- Investment income & transfer just above, labor income just below.

NM and US Employment Forecast Comparison

[Graph showing employment growth comparison between New Mexico and the United States from 2012 to 2020]
Forecast Comparison: Employment Growth

NM and US Income Forecast Comparison
Forecast Comparison: Income

![Chart showing forecast comparison for income growth from 2011 to 2020. The chart compares October 2015 and July 2015 forecasts.]

Job Growth by Sector, 2016 (%)

![Chart showing job growth by sector for 2016, indicating various sectors and their growth rates.]

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Alternative Forecasts

- **Upside risk (15%)**
  - Macro: higher consumer demand & stronger housing markets.
  - NM: stronger through 2017, housing markets & construction employment strong; investment income way up.

- **Downside risk (20%)**
  - Macro: weak global economy, low commodity prices, equities fall in value, consumers & investors pull back.
  - NM: more severe, without later bounce; housing & construction, and administrative services hit hard. Income way below baseline without higher transfers to offset.
New Mexico Job Gain/Loss by Region

Employment Growth by Sector – 2015-2018 (%)

Albuquerque (1.6%)

Non Metro (1.4%)

Las Cruces (1.6%)

Santa Fe (1.1%)
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