

# The FOR-UNM Bulletin

## A QUARTERLY ECONOMIC FORECAST OF THE NEW MEXICO ECONOMY

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### UNITED STATES REVIEW AND OUTLOOK

The US economy has officially been in recession since the December 2007. The global financial situation deteriorated seriously after August 2008, as credit markets seized up and hoarding became widespread. The inability to raise capital or get credit exacerbated the crisis and the recession is now the deepest and longest in the post-war period. The government responded in numerous ways. The Federal Reserve brought the federal funds rate effectively to zero, assisted in several bailouts, created targeted liquidity facilities, and took a variety of other actions, including working with other central banks to unclog the financial pipelines and restore access to capital and credit markets. The Congress and the President undertook a variety of policy initiatives, including the Troubled Assets Relief Program, the American Recovery and Reinvestment Act, and the Homeowner Affordability and Stability Plan. Although the economy is not by any means out of the woods, there is emerging evidence that worst may be about over, with recovery lurking in the wings. Much of the evidence is of the "still pretty bad, but not as bad as it was" variety.

Preliminary estimates have real GDP growth at -5.7% in the first quarter of 2009, better than the -6.3% in the final quarter of 2008. Sharply falling energy prices have kept inflation under control for most of this year, although pump prices have been rising of late. Falling home prices have put many home owners below water in that the amount that they owe on their mortgage is greater than the current value of the house. Such would make refinancing difficult under the best of conditions; the seizing up of financial markets made it impossible. However, things are changing. The Homeowner Affordability and Stability Plan is addressing some of this problem. How much remains to be seen. Falling home prices, many related to foreclosures, and Fed efforts to bring mortgage rates down have both contributed to making homes more affordable. This along with generous tax incentives is bringing home buyers back into the market.

Reflecting some of the recent good news, "the Conference Board Consumer Confidence Index, which had improved considerably in April, posted another large gain in May. The Index now stands at 54.9 (1985=100), up from 40.8 in April. The Conference Board Leading Economic Indicators "rose sharply in April, the first increase in seven

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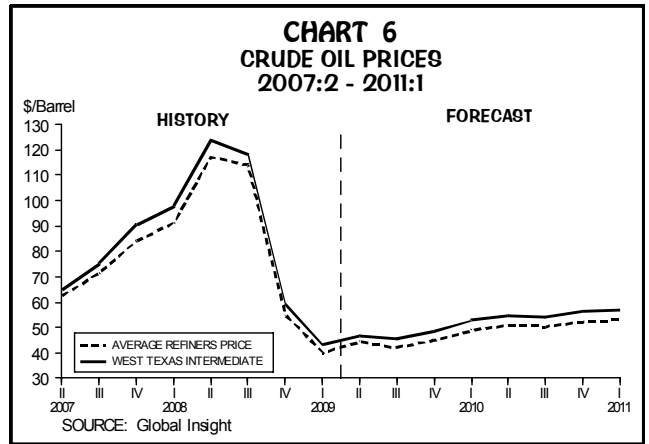
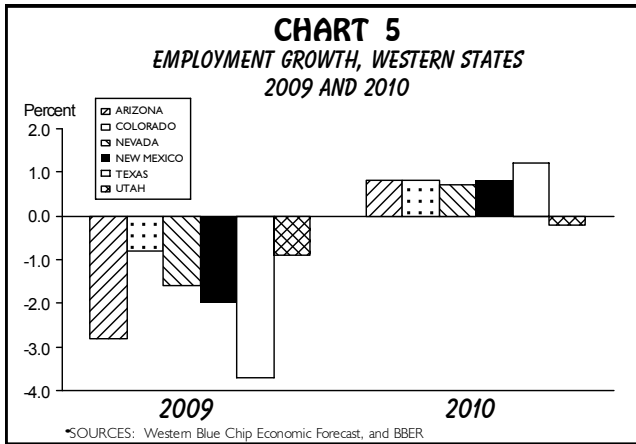
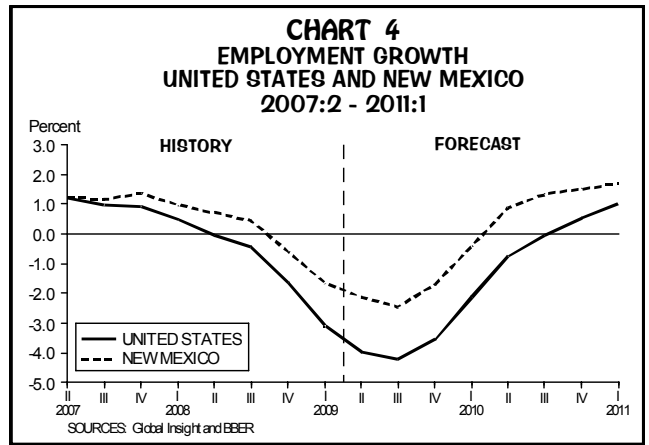
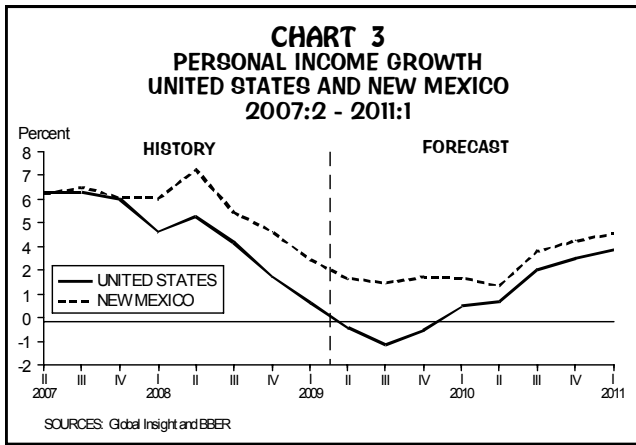
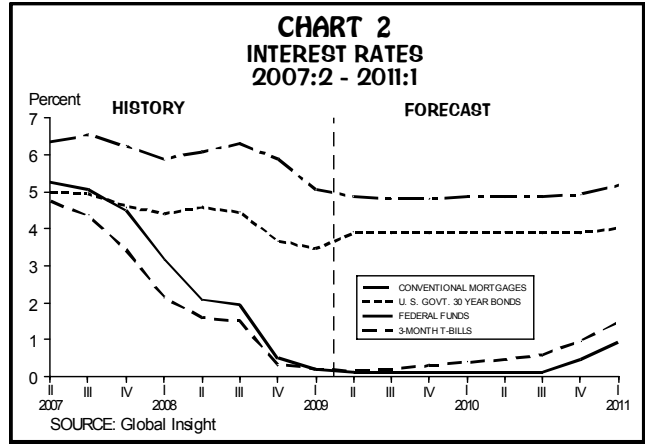
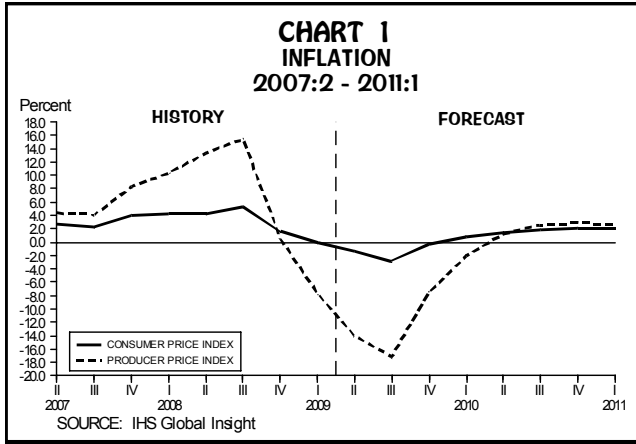
Growth in the New Mexico economy continued along its downward trajectory during the first quarter of 2009. Nonfarm employment posted a 1.6% decline, following a 0.6% drop in the previous quarter. The first quarter decline was the largest since the third quarter of 1954. The data confirm that the New Mexico economy is in recession and has been for the last two quarters. New Mexico personal income growth reached 4.3% during the fourth quarter of 2008. The unemployment rate jumped to 5.5% in the first quarter of 2009, up from 4.5% in the previous quarter and 3.3% a year ago.

The 1.6% employment drop during the first quarter equated to a net loss of 13,833 jobs, compared to a year earlier. Only two sectors showed significant (net) job gains, and only one other showed any gain at all. As usual, the source of the greatest number of jobs was the health care and social assistance sector, which added 3,900 (net) employees, a 3.9% gain. Next in line was the government sector, which posted a job gain of 2,100, or 1.1%. Federal government employment rose by 600 jobs (2.0%), mostly attributable to Census 2010 workers. Local government added 1,700 jobs, most of which came in Native American enterprise, including casinos, hotels, and resort activities. The only other sector showing a net employment increase during the first quarter was educational services (433 jobs, 2.0%).

The sector posting the largest net job loss again was the construction sector, which shed 6,933 jobs, a 16.8% drop. Permits for new housing construction continued to plunge. The total number of permits was down 21.4% during the first quarter, the twelfth consecutive quarter of double-digit (year-over-year) declines. Five other sectors each suffered a net job loss of at least 1,300. Retail trade was hard hit, with numerous bankruptcies, closings, and downsizings. Retail trade employment dropped by 3,433 in the first quarter (-3.6%).

Hard times continued to plague the manufacturing sector, with the loss of 2,467 jobs in the first quarter, a 7.0% decline. The accommodation and food services sector shed 2,300 jobs, a 3.6% decline. Restaurants have been particularly vulnerable in this economy, as consumers watch and wait. Other sectors with major employment declines included professional and business services (down 1,533 jobs, -2.0%), and transportation, warehous-

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**UNIVERSITY OF NEW MEXICO  
BUREAU OF BUSINESS AND ECONOMIC RESEARCH**

**SUMMER 2009 ECONOMIC FORECAST**

	<b>MOST RECENT QUARTER</b>	<b>QUARTERLY FORECAST</b>					<b>ANNUAL</b>			
	<u>2009:1</u>	<u>2009:2</u>	<u>2009:3</u>	<u>2009:4</u>	<u>2010:1</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
	NEW MEXICO PERSONAL INCOME, \$BIL % CHANGE, YEAR AGO	64.356 2.9	65.410 2.1	65.164 1.8	65.475 2.1	65.685 2.1	60.318 6.1	63.680 5.6	65.101 2.2	66.881 2.7
NM REAL DISPOSABLE INCOME, \$BIL 2000 % CHANGE, YEAR AGO	49.394 2.7	51.041 1.8	50.468 4.0	50.648 3.4	50.211 1.7	47.502 3.8	48.933 3.0	50.388 3.0	51.091 1.4	
ALBQ MSA PERSONAL INCOME, \$BIL % CHANGE, YEAR AGO	30.632 3.0	30.894 2.2	30.385 1.8	30.436 1.7	31.342 2.3	28.485 6.4	29.935 5.1	30.587 2.2	31.723 3.7	
LAS CRUCES MSA PERSONAL INCOME, \$BIL % CHANGE, YEAR AGO	5.407 2.9	5.501 0.2	5.287 0.4	5.402 0.7	5.508 1.9	5.039 6.9	5.343 6.0	5.399 1.1	5.584 3.4	
SANTA FE MSA PERSONAL INCOME, \$BIL % CHANGE, YEAR AGO	6.907 2.5	6.931 2.2	6.876 1.8	6.738 1.0	7.098 2.8	6.466 8.2	6.736 4.2	6.863 1.9	7.157 4.3	
NM NONAG EMPLOYMENT, THOU. % CHANGE, YEAR AGO	827.800 -1.6	831.880 -2.1	826.651 -2.5	834.069 -1.7	824.406 -0.4	843.717 1.4	846.867 0.4	830.100 -2.0	836.929 0.8	
ALBQ MSA NONAG EMP., THOU. % CHANGE, YEAR AGO	385.733 -1.7	389.140 -2.0	386.528 -2.3	390.212 -1.7	386.976 0.3	395.817 1.1	395.533 -0.1	387.903 -1.9	393.332 1.4	
LAS CRUCES MSA NONAG EMP., THOU. % CHANGE, YEAR AGO	68.833 0.1	68.961 -1.2	67.727 -1.2	69.953 -0.4	69.012 0.3	68.283 2.0	69.342 1.6	68.868 -0.7	70.164 1.9	
SANTA FE MSA NONAG EMP., THOU. % CHANGE, YEAR AGO	63.467 -0.4	64.015 -2.2	64.564 -2.1	63.783 -2.6	63.050 -0.7	65.133 2.1	65.167 0.1	63.957 -1.9	64.611 1.0	
NM UNEMP RATE, SA	5.5	7.1	8.0	8.4	8.3	3.5	4.0	7.2	8.0	
ALBUQUERQUE MSA UNEMP RATE, NSA	5.9	5.8	6.4	6.1	6.6	3.5	4.1	6.1	6.8	
LAS CRUCES MSA UNEMP RATE, NSA	5.8	6.2	5.8	5.1	5.0	3.9	4.2	5.7	4.7	
SANTA FE MSA UNEMP RATE, NSA	5.0	5.5	5.4	5.2	5.5	2.8	3.3	5.3	5.0	

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months, and the strengths among its components exceeded the weaknesses for the first time in one and a half years." Among those indicators contributing to the increase were stock prices, consumer expectations, initial unemployment claims, the interest rate spread, and consumer expectations.

There's still plenty of not-so-good news, too. The unemployment rate reached 8.9% in April, the highest since 1983. The Federal Reserve index of industrial production fell 0.5 percent in April after falling 1.7% in March and 1.0% in February. This was the sixth consecutive month of decline. The length of the average workweek was down 9.0% in the first quarter, the largest drop since 1975.

The outlook for the national economy is based on the May 2009 Baseline Forecast of IHS Global Insight. The recession will remain severe, but is expected to bottom-out in the second half of the year. Still, growth in real GDP will be negative through all of 2009 (-3.1%). The recovery will be slow, with real GDP growth reaching only 1.5% in 2010, but will jump to near 3.5% in 2011 and 2012. Employment growth will remain negative in 2009 (-3.7%) and 2010 (-0.6%), with more than 7 million jobs lost during the recession. Consumer inflation will remain under control. Consumer prices are in fact expected to decline 1.2% (deflation) in 2009 before posting a 1.5% increase in 2010.

Government attempts to revive the economy will remain intense, as the federal stimulus package plays out. The Treasury recently announced its public-private investment program, designed to remove toxic assets from bank balance sheets, while the Federal Reserve has added the purchase of long-term Treasury bonds to its arsenal. The Fed is also expected to keep the Federal Funds rate near zero until the final quarter of 2010.

Recession has hit not only the U. S. economy, but the world economy as well. World real GDP is expected to decline 2.5% in 2009, and the data are showing a large drop in global trade. U. S. exports fell at an annual rate of 30% in the first quarter, and the export sector is not expected to be much of a factor in the recovery. In fact, except for China, the recovery will come more slowly in the rest of the world than in the U. S., thus limiting exports and encouraging imports. The trade situation is further exacerbated by the appreciation of the dollar, which has become much stronger since mid-2008, as investors have fled risk.

The stimulus package, bailouts, and the recession will result in a \$1.6 trillion budget deficit in 2009, and \$1.3 trillion in 2010. For now, the need to support the economy takes precedence over deficit fears, but once the recession ends, tough choices will have to be made. Eventually, there will have to be some tax increases, as the President's 2010 budget document acknowledges.

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ing, and utilities (TWU) (down 1,300 jobs, -5.6%).

The mining sector saw its string of 23 consecutive quarterly employment increases come to an end, posting a first quarter decrease of 133 jobs (-0.7%). Six hundred miners were laid off at the Freeport-McMoRan copper mining complex in Grant County, and another 230 layoffs came at the Chevron Mining molybdenum mine in Taos County. The potash industry was also subject to some setbacks.

The remaining sectors were not spared. Wholesale trade employment was 867 lower than a year ago, while financial activities employment was down 800. All other sectors posted small employment declines, with the exception of arts, entertainment, and recreation, where employment was unchanged. At this point the New Mexico economy is clearly and squarely in recession, with a severity not seen since the 1950's.

The outlook for the New Mexico economy is not at all rosy, at least for 2009. The New Mexico economy will be on the ropes this entire year, posting a 2.0% decline in nonfarm employment. That's the largest decline since 1954, when employment dropped 2.1%. The recession will continue through the first quarter of 2010, with the recovery commencing in the second quarter. Employment growth will reach 0.8% in 2010, . New Mexico personal income growth will be subdued in 2009 and 2010, reaching only 2.2% and 2.7% in those two years, respectively. The rate of unemployment is expected to reach 7.2% in 2009 and 8.0% in 2010.

The only source of strength in 2009 will be the health care and social assistance sector, which is expected to post an employment gain of 3.2%. Educational services (0.9%) and government (0.6%) will also show employment gains in 2009.

Strength in 2010 will be more broadly based, but still somewhat limited. The construction sector, for example, will return to expansion mode next year, posting an employment gain of 1.5%.

Employment in the professional and business services sector will receive a substantial boost with the opening of a technical support call center by Hewlett-Packard in Rio Rancho later this year. In addition, Fidelity Investments will hiring hundreds of employees this year. Professional and business services employment growth is expected to increase by 1.7% in 2010 and 4.7% in 2011.

The manufacturing sector will have a tough time of it for the next couple of years, with employment declines of 8.7% in 2009 and 4.4% in 2010, but will grow at 3.0% annually through 2013.

The mining sector has enjoyed fabulous employment growth over the last five or six years, but the glory days are now over. The mining sector now faces employment decreases of 10.4% in 2009 and 6.1% in 2010 before returning to (relatively moderate) growth status in 2011.

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