Since 2016 election, US outlook is stronger in the short-term but slightly weaker in the long-term

IHS Global Insight US GDP Growth Forecasts

Source: IHS Global Insight
New Mexico Economic Current Situation

- QCEW says NM lost 537 jobs (-0.1%) in 2017Q1 after a loss of 2,500 (-0.3%) – first loss in two consecutive quarters since 2010.

- CES shows +0.7 for both 2016Q4 & 2017Q1, and +0.9% and 0.7% for 2017Q2 and Q3; BBER estimates 0.2% for 2017Q2 and Q3.


- Personal income growth weak (2.0% in 2017Q1 & Q2). Compared to past two years, wage & salaries less of a drag (1.9%; 2016=0.5%) and transfers no longer a positive factor (-0.1%; 2014-2015=8.6%).

- Public finances much improved – Gross Receipts & Personal Income taxes up; oil production and revenues up.
Changing Patterns of Job Growth
First consecutive quarters of job loss since 2011 occurred in 2016Q4 & 2017Q1

Preliminary survey data has been optimistic. BBER offers a more cautious estimate of recent growth.

Sources: CES data available at time of FOR-UNM forecasts (pre-benchmarked); QCEW data current.
Gains/Losses in Healthcare and Mining are moderating

Increased drill rig activity and oil production with WTI prices near $50/barrel

Source: EIA, Baker Hughes, ONGARD, IHS Global Insight.
Change in Medicaid Payments

Source: US Bureau of Economic Analysis, Table SQ35.

- Increase in Medicaid Transfers - Left
- Increase as % of Total Personal Income - Right
Regions in New Mexico have not been pulling in the same direction.

Improving State Finances
# Consensus Revenue Forecast (FY17 and FY18)

<table>
<thead>
<tr>
<th></th>
<th>Preliminary FY17</th>
<th>Estimate FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Recurring Revenue</td>
<td>$5,905.5</td>
<td>$5,941.1</td>
</tr>
<tr>
<td>Total Nonrecurring Revenue</td>
<td>$556.1</td>
<td>$18.7</td>
</tr>
<tr>
<td>TOTAL Revenue</td>
<td>$6,461.6</td>
<td>$5,959.8</td>
</tr>
<tr>
<td>Total Recurring Appropriations</td>
<td>$6,103.6</td>
<td>$6,082.2</td>
</tr>
<tr>
<td>Total Nonrecurring Appropriations</td>
<td>$27.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>TOTAL Appropriations</td>
<td>$6,130.6</td>
<td>$6,082.2</td>
</tr>
<tr>
<td>Balance</td>
<td>$331.0</td>
<td>($122.4)</td>
</tr>
<tr>
<td>Beginning Reserves</td>
<td>$147.7</td>
<td>$504.8</td>
</tr>
<tr>
<td>Ending Reserves</td>
<td>$504.8</td>
<td>$382.4</td>
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<tr>
<td>Reserves as % of Recurring Appropriations</td>
<td>8.3%</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

Source: NM Legislative Finance Committee
Gross Receipts & Taxes by County: 2017Q2 vs. 2016Q2

Gross Receipts

- Bernalillo
- Lea
- Eddy
- Valencia
- Torrance
- Santa Fe
- Unclassified
- San Juan
- Other 17 Cos
- Quay
- DONA ANA
- Roosevelt
- San Miguel
- Lincoln
- Taos
- Rio Arriba
- Chaves
- Otero

Net $106 million, 12%

Gross Taxes

- Bernalillo
- Lea
- Eddy
- Los Alamos
- Remaining Counties
- Valencia
- Chaves
- Torrance
- Luna
- San Miguel
- Curry
- Santa Fe
- Taos
- Colfax
- Cibola
- Rio Arriba
- Otero
- San Juan

Net $0.8 billion, 6.8%

Source: NM Taxation & Revenue Department, RP-80s
Gross Receipts & Taxes by County: 2017Q2 vs. 2016Q2

Gross Receipts

<table>
<thead>
<tr>
<th>Category</th>
<th>2016Q2</th>
<th>2017Q2</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>-100M</td>
<td>-90M</td>
<td>+10M</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-50M</td>
<td>0</td>
<td>+50M</td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Real Estate</td>
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<td></td>
<td></td>
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<tr>
<td>Other Services</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Profession &amp; Tech</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Healthcare</td>
<td></td>
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<tr>
<td>Finance &amp; Insurance</td>
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<tr>
<td>Hospitality</td>
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<td>Administrative Services</td>
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<tr>
<td>Information</td>
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<tr>
<td>Agriculture</td>
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<tr>
<td>Arts, Entertainment,...</td>
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<tr>
<td>Public Administration</td>
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<tr>
<td>Private Education Srvs</td>
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<tr>
<td>Mgt of Companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>50M</td>
<td>0</td>
<td>-50M</td>
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Net $106 million, 12%

Gross Taxes

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<td>0</td>
<td>0</td>
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<td>Unclassified</td>
<td>50M</td>
<td>0</td>
<td>-50M</td>
</tr>
</tbody>
</table>

Net $1.8 billion, 6.8%

Source: NM Taxation & Revenue Department, RP-80s
2017 Special Session HB2 bill to tie funding of Tax Stabilization Reserve Fund (‘Rainy Day’ Fund) to Oil is a significant step forward.

Best Practices suggest a need for clearer guidelines for withdrawals.

Changes to Tax Stabilization Reserve Fund (Actual vs. 2017 Legislation) and Value of NM Oil Production

Actual Change in Balance
Projected Contributions under 2017 Legislation
$ Oil Value (Right)
Slow population growth and declining labor force participation – a cause and an effect of slow job growth
**Migration, population and Labor Force Participation**

BLS, through September 2017

New Mexico net domestic migration (-42,000)

- Number leaving for 100 entering:
  - < 63
  - 63-80
  - 81-110
  - 111-149
  - 150+

- Employment/Population
- Labor Force/Population
- Population Growth

Bureau of Business & Economic Research
THE UNIVERSITY of NEW MEXICO
Recovering residential market
but new little building
Building Permits and Housing Sales by Region

Source: NM Realtors Association; BBER
Narrative Moving Forward

- For most of post-Recession, the state’s economic narrative has been driven by ‘external factors’ – oil boom & bust, Obamacare, even Intel job losses and uncertainty at national labs.

- In recent months, the state’s economic narrative is less about external factors – oil prices and production are relatively stable, the economic gains due to Obamacare are largely absorbed (and now the state is beginning to pay its share).

- How does the state economy move forward on its own?
New Mexico Economic Outlook: 2018-2022

- Improved outlook to stable job growth, slightly higher than labor force growth, allowing for gradual reduction in unemployment.
- Addition of 4,500 (0.6%) jobs in 2017Q4, closing the year +1,750 jobs (0.2%).
- Continued uptick in 2018 (6,900 jobs, 0.9%), and 8,725/year (1.1%) in 2019-2022. Job count to reach pre-recession high by end-2019.
- Income growth a drag on state’s economic growth through 2020. Most new jobs in relatively lower-wage sectors; lower expectations for growth of investment/proprietors’ incomes (from IHS Global Insight) and slow growth of federal transfers (e.g. Medicaid, SNAP, etc.)
- Oil production to increase gradually, given slightly weaker price outlook.
- Impacts of pessimistic (20%) greater than optimistic (15%) scenario.
FOR-UNM Employment Forecast

Source: BBER FOR-UNM, October & July 2017
FOR-UNM Forecast Job Creation by Sector, 2018-2022

Average annual job gains

Source: BBER FOR-UNM, October 2017
FOR-UNM Forecast Job Creation by Region

Source: BBER FOR-UNM, October 2017
FOR-UNM Personal Income Forecast

Source: BBER FOR-UNM, October & July 2017
Forecast Personal Income Growth, by Component

Source: BBER FOR-UNM, October 2017
FOR-UNM Employment Forecast, Alternative Scenarios

Source: BBER FOR-UNM, October 2017
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