New Mexico’s Economy: Current Situation and Outlook

PRESENTED TO THE RISK MANAGEMENT ASSOCIATION
JEFFREY MITCHELL, BBER DIRECTOR
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New Mexico Current Economic Situation

- In 2019Q1, New Mexico added 11,000 jobs (1.4%), in line with 2018 growth.
- Nearly half of the jobs were in Eddy & Lea counties (5,250 jobs, 6.5%), tied to oil & gas.
- Metro areas (except Farmington) also added jobs, giving some balance.
- Preliminary CES data indicate faster growth in Q2 (1.7%) and Q3 (2.2%). FOR-UNM is more cautious (1.5% and 1.6%).
- Total personal income playing catch up +5.9% in Q2 (9th among states).
- State government recurring revenues +16.3% in FY19 (35% since FY17); more than 60% of the increase is directly due to oil & gas boom.
- Yet, data indicates growth in oil production is slowing – Q2 up just 0.4% (QoQ).
- Next phase of the oil boom shifts from production to State government.
Job Gains/Losses, by Region, 2019Q1

- Oil & gas-related employment grew by 12.8%, and accounted for half of new jobs statewide.
- Employment in sectors other than oil & gas-related grew by 1.0% (vs. 1.5%).

Source: BLS QCEW
Lea & Eddy account for 7% of NM labor force, but much of the year-over-year volatility.

FOR-UNM expects significant downward revisions for 2019 – note change in ‘Rest’.
New Mexico had large net out-migration between 2011 and 2017.

Out-migration has been greatest among BA and 'Some college/Associate'.

But in 2018, migration was positive, especially 18-29 y/o and 30-44 y/o; but among all educational groups.

Temporary oil & gas workers?

Source: US Census Public Use Micro Statistics (PUMS)
Gain/Loss in General Fund Accruals, FY 2019 (preliminary)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Millions $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Receipts</td>
<td>$290</td>
</tr>
<tr>
<td>Compensating Tax</td>
<td>$23</td>
</tr>
<tr>
<td>Selective Sales *</td>
<td>$125</td>
</tr>
<tr>
<td>Personal Income Tax</td>
<td>$17</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>$140</td>
</tr>
<tr>
<td>Mineral Production Taxes</td>
<td>$9</td>
</tr>
<tr>
<td>License Fees</td>
<td>$5</td>
</tr>
<tr>
<td>Investment Income</td>
<td>$100</td>
</tr>
<tr>
<td>Rents &amp; Royalties</td>
<td>$200</td>
</tr>
<tr>
<td>Tribal Revenue Sharing</td>
<td>$300</td>
</tr>
<tr>
<td>Misc. Receipts</td>
<td>$400</td>
</tr>
<tr>
<td>Total</td>
<td>$603</td>
</tr>
</tbody>
</table>

Change YoY %:
- Gross Receipts: 0%
- Compensating Tax: 12%
- Selective Sales *: 40%
- Personal Income Tax: 8%
- Corporate Income Tax: 16%
- Mineral Production Taxes: -14%
- License Fees: -15%
- Investment Income: 18%
- Rents & Royalties: 89%
- Tribal Revenue Sharing: 13%
- Misc. Receipts: 11%

NM Consensus Revenue Estimation Group (CREG)
Gain/Loss in Gross Taxes by County, FY19 v FY18

- Bernalillo (ABQ)
- Chaves
- Curry
- Dona Ana
- Eddy
- Lea
- Los Alamos
- McKinley
- Otero
- San Juan
- Sandoval (ABQ)
- Santa Fe
- Taos
- Valencia (ABQ)
- Unclassified
- Others (20 Counties)
New Mexico’s Share of US Oil Production & Active Rigs

EIA, Baker Hughes
Sales boomed in 2018, and remain above trend.

New homebuilding remains flat, regardless of values & sales.
Median Residential Sales Values by Region, 2010-2019

Sales values are increasing more rapidly – increased sales with little growth to stock.

NM Realtors Association, BBER
New Mexico Outlook
New Mexico Economic Outlook 2020-2024

- Forecast 12,100 jobs (1.5%) in 2019, 13,850 jobs (1.7%) in 2020; 9,600 (1.1%); average 6,850 jobs (1.0%) thereafter. Forecast is mostly unchanged through 2021 but slightly weaker thereafter.
- Growth dynamic begins to shift in 2020 and slows beginning 2021 –
  - Investments in oil & gas in Eddy & Lea Counties slow.
- Sustained and broader metro growth will depend more on PBS and leisure & hospitality.
- Personal income growth takes a hit in 2020 (3.8%) due to final shift of ACA-Medicaid obligations to State.
- Growth of oil production slows – after 120% in 3 years (147 mb in 2016 to estimated 323 mb in 2019), production growth slows to 11% in 2020 and average of 4% thereafter; reaching 415 million in 2024.
- Probability and impact of pessimistic scenario (35%) substantially outweighs optimistic scenario (10%).
Forecast Job Growth by Sector, 2021-2024

- Federal Government
- State Government
- Local Government
- Accommodation & Food Services
- Arts & Recreation
- Healthcare & Social Assistance
- Education Services
- Administration & Waste Management
- Professional & Technical Services
- Real Estate & Leasing
- Finance & Insurance
- Information
- Transportation & Warehousing
- Retail Trade
- Wholesale Trade
- Manufacturing
- Construction
- Mining

BBER FOR-UNM, October 2019
FOR-UNM Forecast Oil + Natural Gas Revenues

BBER FOR-UNM, IHS Global Insight, October 2019

BBER FOR-UNM, IHS Global Insight, October 2019

BUREAU OF BUSINESS & ECONOMIC RESEARCH
NM Employment Forecast, Alternative Scenarios

Baseline Scenario
- Baseline Scenario: Employment forecast showing a steady decline in employment from 2018Q1 to 2021Q1, followed by a recovery from 2022Q1 onwards.

Pessimistic Scenario
- Pessimistic Scenario: Employment forecast indicating a sharp decline in employment from 2018Q1 to 2021Q1, showing a significant drop compared to the baseline scenario.

Optimistic Scenario
- Optimistic Scenario: Employment forecast showing a gradual increase in employment from 2018Q1 to 2024Q1, with a noticeable rise from 2021Q1 onwards.

2018Q1 - 2024Q1:
- Baseline Scenario:
  - Q1 2018: Employment level
  - Q1 2019: Employment level
  - Q1 2020: Employment level
  - Q1 2021: Employment level
  - Q1 2022: Employment level
  - Q1 2023: Employment level
  - Q1 2024: Employment level

- Pessimistic Scenario:
  - Q1 2018: Employment level
  - Q1 2019: Employment level
  - Q1 2020: Employment level
  - Q1 2021: Employment level
  - Q1 2022: Employment level
  - Q1 2023: Employment level
  - Q1 2024: Employment level

- Optimistic Scenario:
  - Q1 2018: Employment level
  - Q1 2019: Employment level
  - Q1 2020: Employment level
  - Q1 2021: Employment level
  - Q1 2022: Employment level
  - Q1 2023: Employment level
  - Q1 2024: Employment level

BBER FOR-UNM, October 2019