New Mexico's Economy: Recent Developments and Outlook

2015 Economic Outlook
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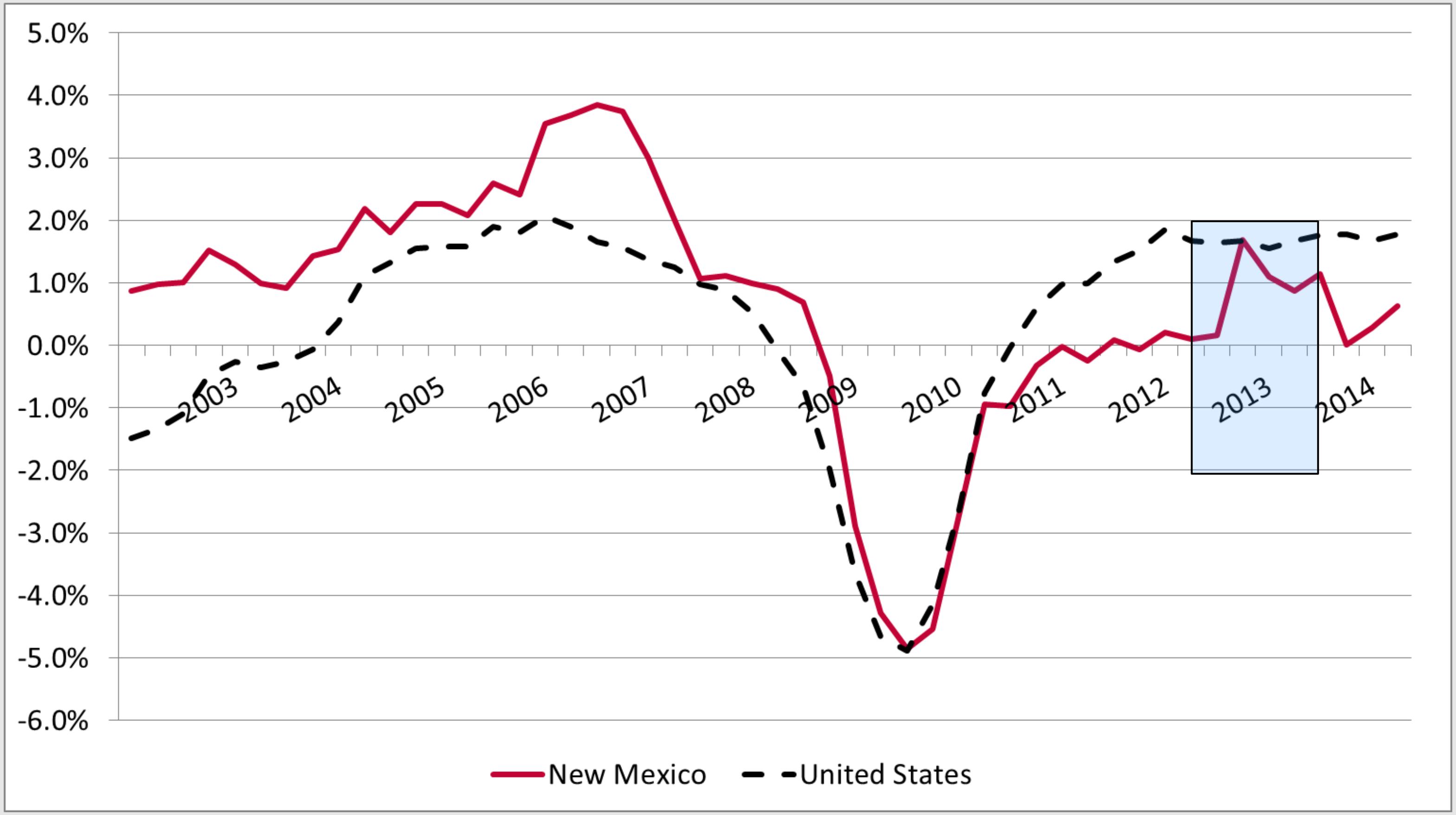
& Economic Research

Overview: NM Economic conditions and outlook

- New Mexico's recovery from the Great Recession has been very slow – employment remains nearly 4% below pre-recession levels (2008).
- Labor force has been hit hard by the stagnation.
- But the most recent (preliminary) data is much more promising.
- Dramatic drop in oil prices is a mixed blessing for New Mexico.
- Preliminary outlook: sustained, unspectacular growth – employment reaching pre-recession levels by end-2017.

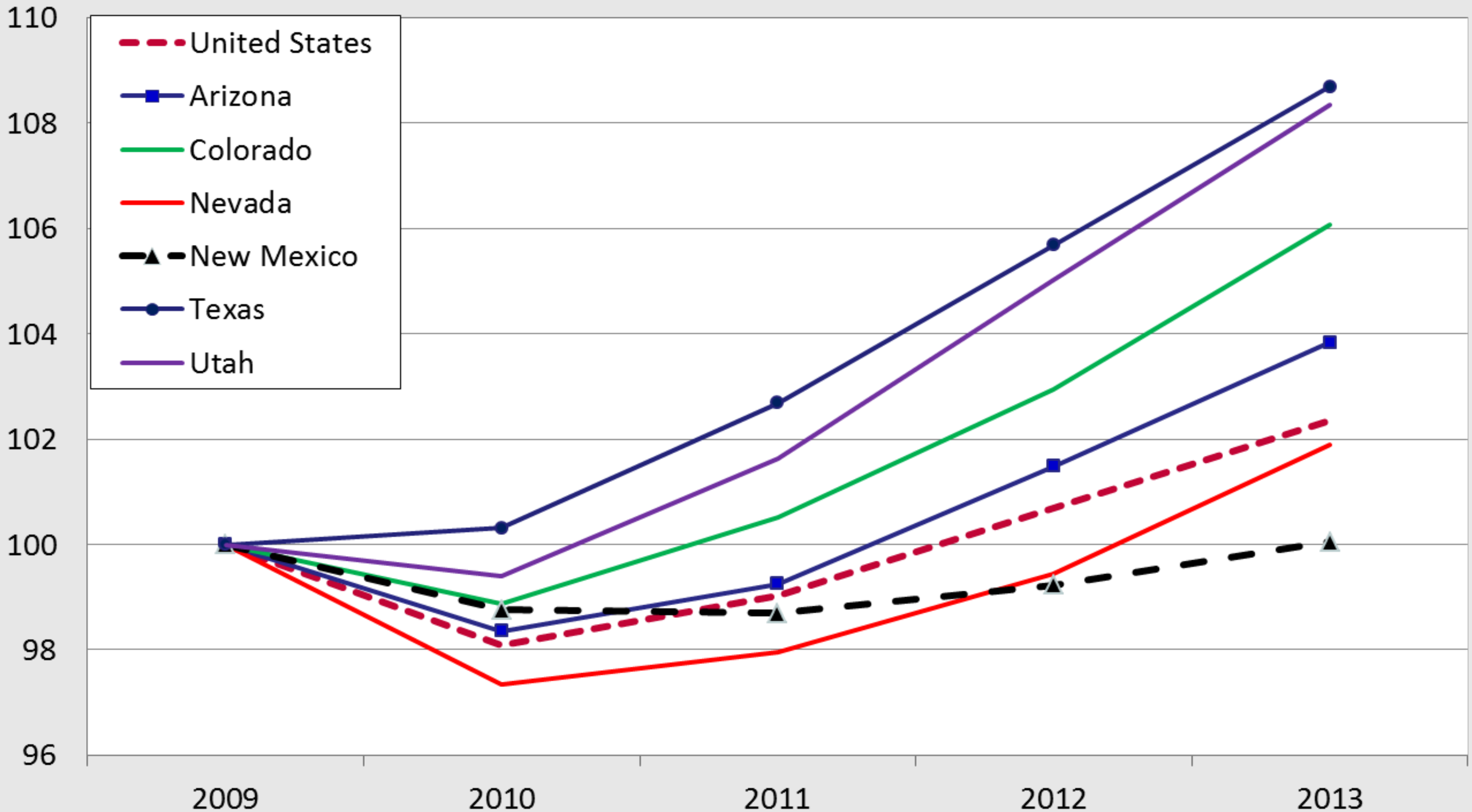
New Mexico's 'Post-Recession' Performance

New Mexico & US employment growth: history



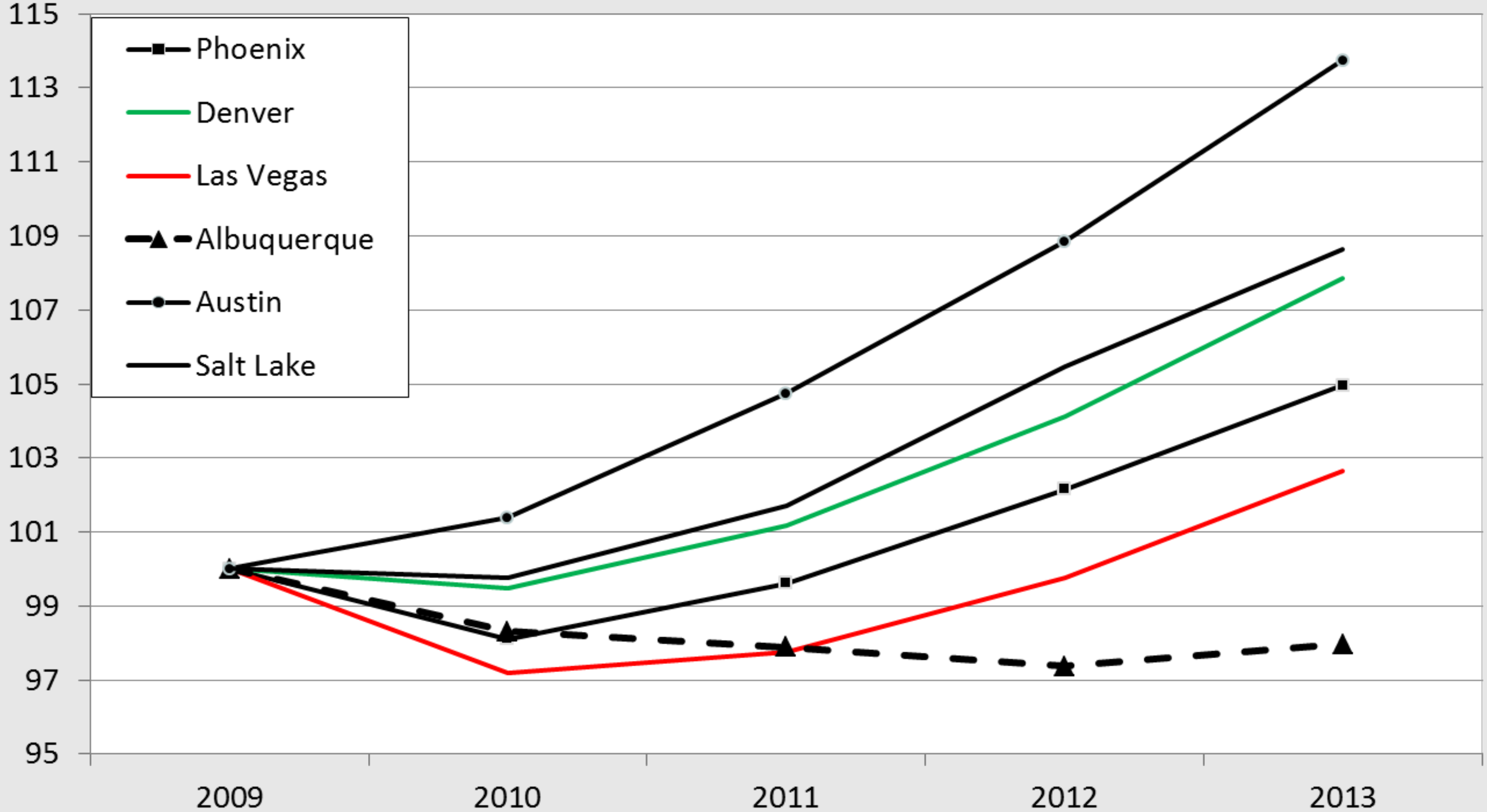
Sources: New Mexico – FOR-UNM; US – IHS Global Insight

Employment growth: NM and Neighboring States (2009=100)



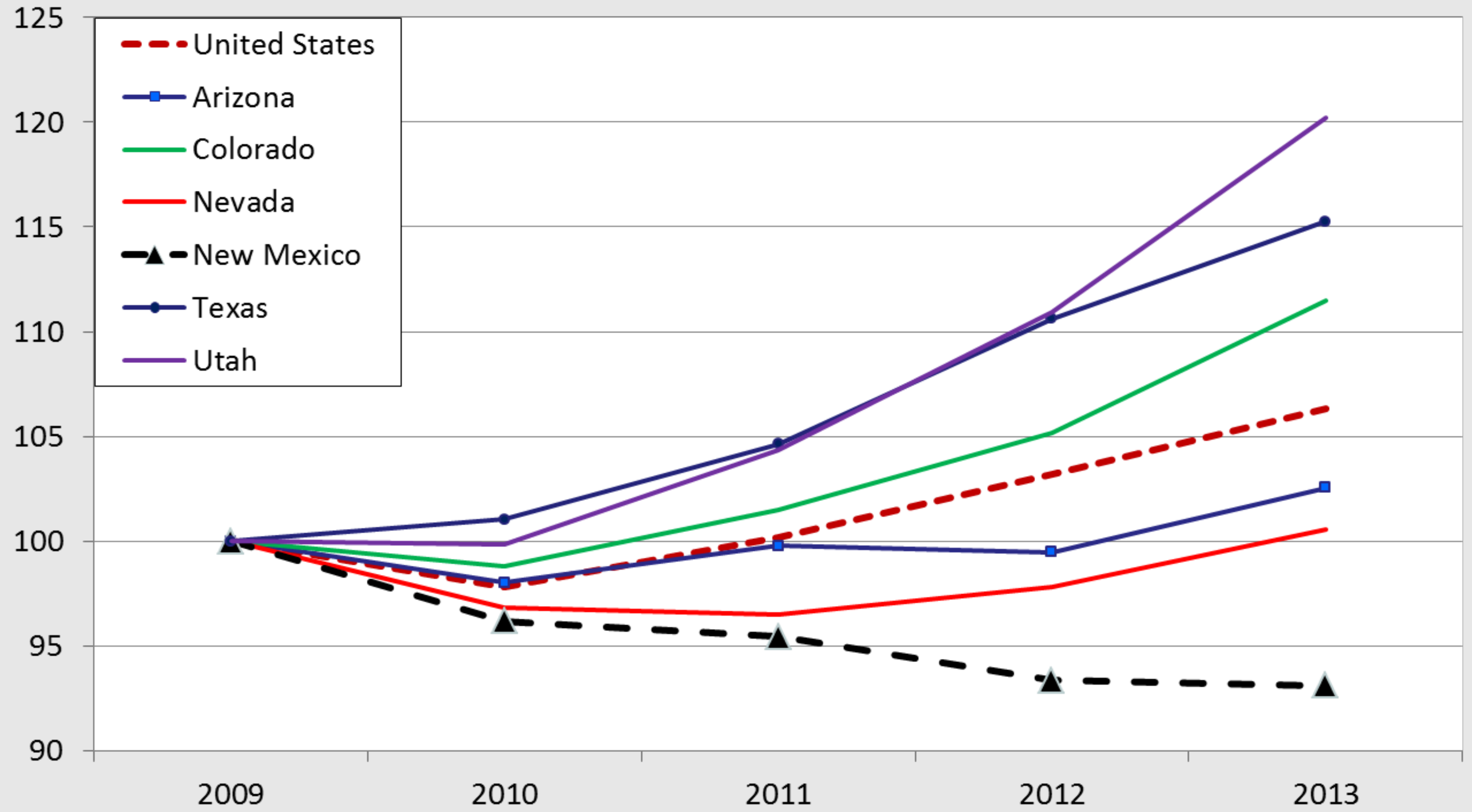
Source: BLS Quarterly Census of Employment and Wages

Employment growth: Albuquerque and Neighboring Metropolitan Areas (2009=100)



Source: BLS Current Economic Survey

Job Growth in Professional & Technical Services: NM and Neighboring States (2009=100)



Source: BLS Quarterly Census of Employment and Wages

New Mexico employment: rate of growth and state ranking by industrial sector

	2001-2007		2010-2014	
	%/yr	Rank	%/yr	Rank
Private	4.3%	8	0.7%	44
Natural resources and mining	1.5%	17	8.0%	4
Oil and gas extraction	4.2%	12	4.9%	16
Construction	3.8%	11	-1.2%	46
Manufacturing	-1.7%	18	0.1%	40
Trade, transportation, and utilities	1.1%	10	0.8%	38
Information	-1.1%	10	-2.9%	41
Financial activities	1.0%	27	-0.1%	41
Professional and business services	3.4%	6	-0.4%	50
Education and health services	4.6%	5	1.9%	23
Leisure and hospitality	1.9%	25	1.9%	41
Other services	1.8%	7	-1.0%	44
Public	1.6%	6	-1.3%	41
Total	**2.0%**	**7**	**0.4%**	**49**

Source: BLS Quarterly Census of Employment and Wages

New Mexico private employment: rate of growth and state ranking by establishment size

	2001-2007		2010-2014	
	%/yr	Rank	%/yr	Rank
Private	3.4%	8	0.9%	47
Fewer than 5 employees per establishment	2.3%	19	-0.3%	48
5 to 9 employees per establishment	1.7%	18	0.6%	20
10 to 19 employees per establishment	2.8%	11	1.4%	19
20 to 49 employees per establishment	2.6%	19	2.6%	12
50 to 99 employees per establishment	2.4%	24	0.9%	48
More than 100 employees per establishment	5.2%	4	0.0%	50
Public	1.4%	15	-1.1%	40
All Establishments	**2.9%**	**10**	**0.4%**	**49**

Source: BLS Quarterly Census of Employment and Wages
Note: Data include only first quarter of each year.

Implications of Economic Stagnation for Population

Components of population change

	Natural Increase			Net Migration			Total Population Change
		Births	Deaths		Int'l	Domestic	
1990-1999	14,307	25,493	11,186	8,061	3,827	4,234	22,368
2000-2009	12,959	26,577	13,618	7,056	4,734	2,322	20,015
2010-2013	12,040	29,664	17,624	-3,250	1,946	-5,196	8,790
2012-2013	10,674	27,146	16,472	-8,809	1,717	-10,526	1,865

Source: Census Bureau, 2000 and 2010 Decennial;
2012 and 2013 Population estimates.

How does the decline in oil prices impact New Mexico's economy?

West Texas Intermediate: $46/barrel, $106/barrel in July.

1. Employment impact: lower investment in production, creating fewer jobs in the oil industry and through purchasing by companies and spending by workers.

2. Fiscal impact: reduces state and local government revenues, forcing budget cuts.

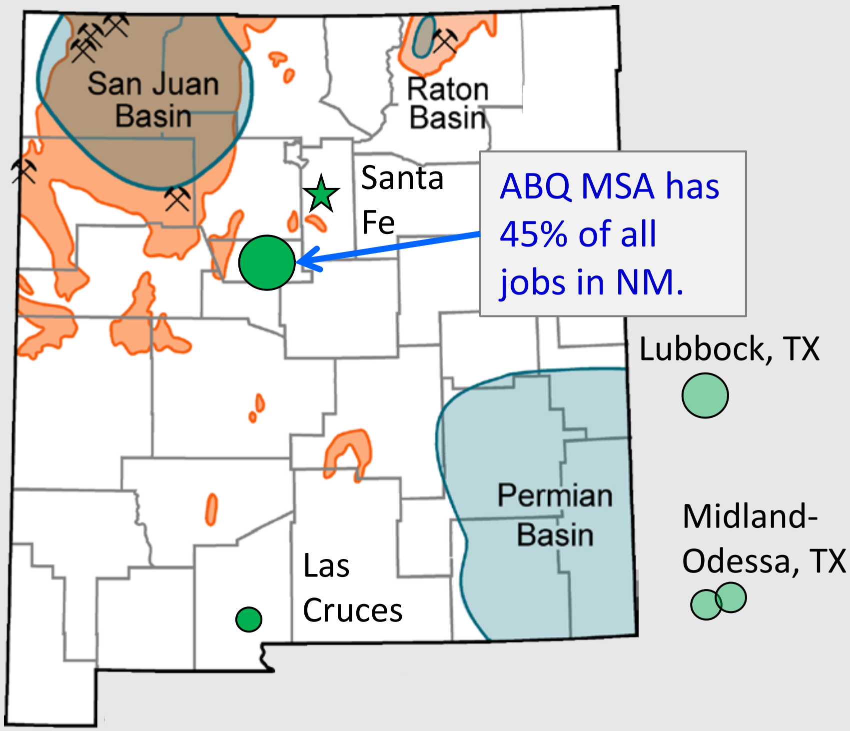
3. Consumer impact: lower gasoline prices mean more household spending on local goods & services.

1. Employment impacts of lower production

- Impact of lower prices on producers is somewhat delayed.
- Employment impact is important locally but less important for the statewide economy.

Employment impact of 100 jobs in oil & related industries in Permian Basin (Eddy & Lea Counties)

Region	Jobs
SW NM	160
Rest of NM	31
Rest of US	121
Total	313

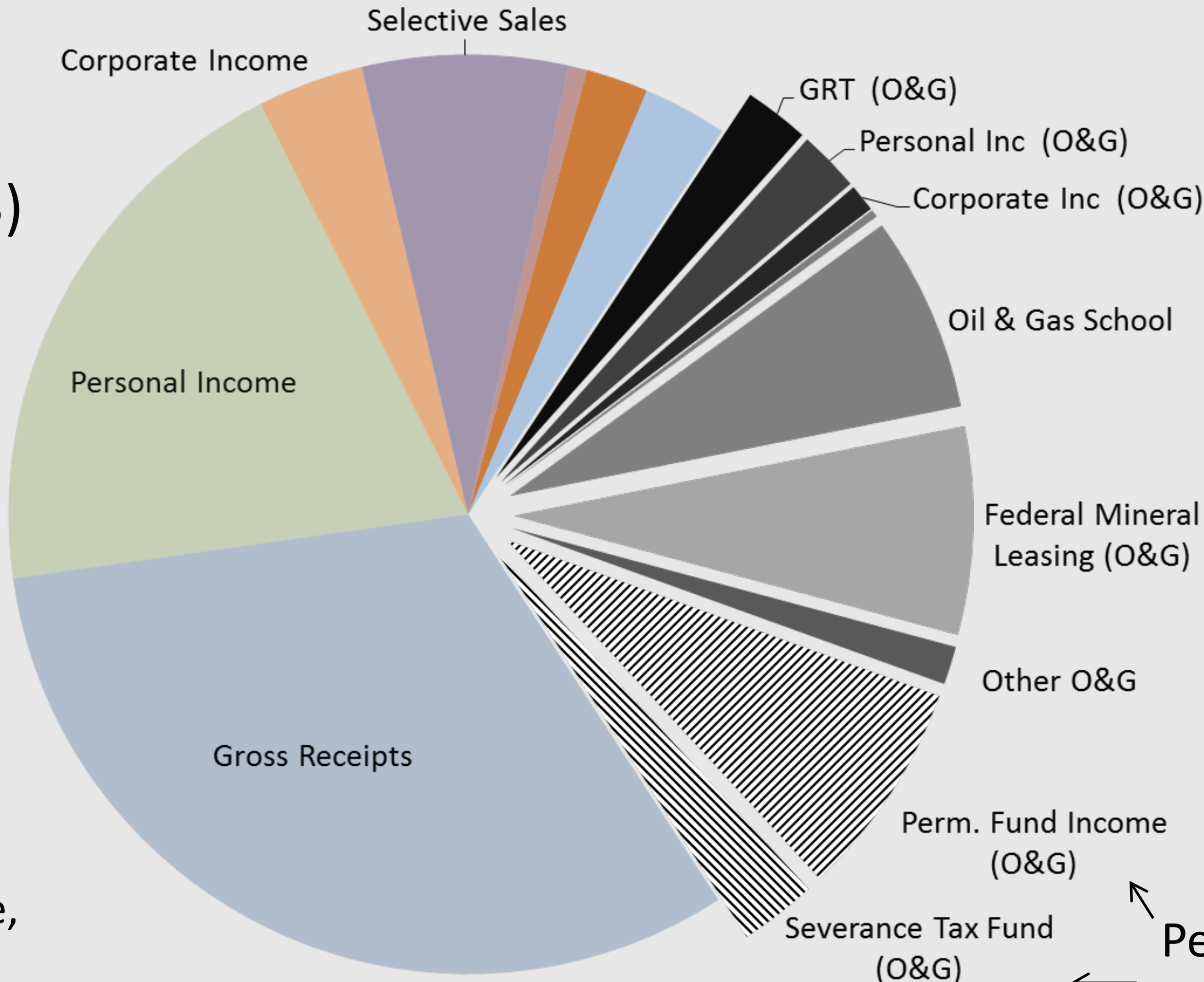


2. Fiscal impact: Oil & State General Fund

- 20% (~$1.2 billion) – directly funded by oil & gas: taxes on production on private land, leases and royalties on state and federal lands.
- 10% (~$600 million) – indirectly funded by income from Permanent Funds.
- Permanent fund = $20 billion, up from $12 billion in 2009; 3rd largest in US (after TX and AK; larger than Canada's).
- Oil & gas also funds a share of capital bonds.
- Expected loss of $145 million in 'new money' for FY 2016 due to decline in oil prices; 2.5% of expected budget.

Contribution of Oil & Gas to State General Fund

Total: $5,590 million (2013)



Current O&G (21%)

Permanent funds (10%)

Source: New Mexico Tax Research Institute, January 2014.

3. Consumer impact: more money to spend locally

- Decline in gasoline prices from $3.50 to $2/gallon will save New Mexico households ~ $1 billion.
- About $1,200 per household, or 2.5% of median household income.
- If households spend all of the gasoline savings and the savings were sustained, estimated impact:
  - 6,500 jobs
  - $250 million in wages, salaries & benefits
  - $750 million in total impact
  - Partially offset losses to General Fund

Recent Economic Data

New Mexico & US employment growth: forecast

Source: Bureau of Labor Statistics, Current Economic Survey

Recent employment gains: rate of growth and state ranking by industrial sector

	2010-2014Q2		2014 July-Nov	
	%/yr	Rank	%/yr	Rank
Private	0.7%	44	1.4%	35
Natural resources and mining	8.0%	4	3.8%	20
Construction	-1.2%	46	0.4%	33
Manufacturing	0.1%	40	-7.8%	49
Transportation, and utilities	0.8%	38	2.0%	26
Retail	0.1%	41	2.6%	20
Financial activities	-0.1%	41	6.6%	2
Professional and business services	-0.4%	50	-1.4%	49
Education and health services	1.9%	23	3.7%	7
Leisure and hospitality	1.9%	41	0.5%	40
Other services	-1.0%	44	3.4%	10
Public	-1.3%	41	0.4%	33
Total	**0.4%**	**49**	**1.0%**	**24**

Source: BLS Current Economic Survey (including preliminary data)

New Mexico Economic Outlook (Preliminary)

New Mexico economic outlook

- Forecast little changed since 2014 Q3 and Q4 – offsetting impacts of oil price decline.
- Steady job growth sustained through 2017, adding about 10,000 per year, reaching pre-recession levels by end-2017.
- Leading sectors: health care, transportation.
- Non-metro fades (oil), Albuquerque rises (slowly), Las Cruces remains fastest growing region.
- Upside risk: housing markets and construction employment – New Mexico forecast well below IHS national outlook.
- Downside risk: global recession holds back US.

Forecast Assumptions

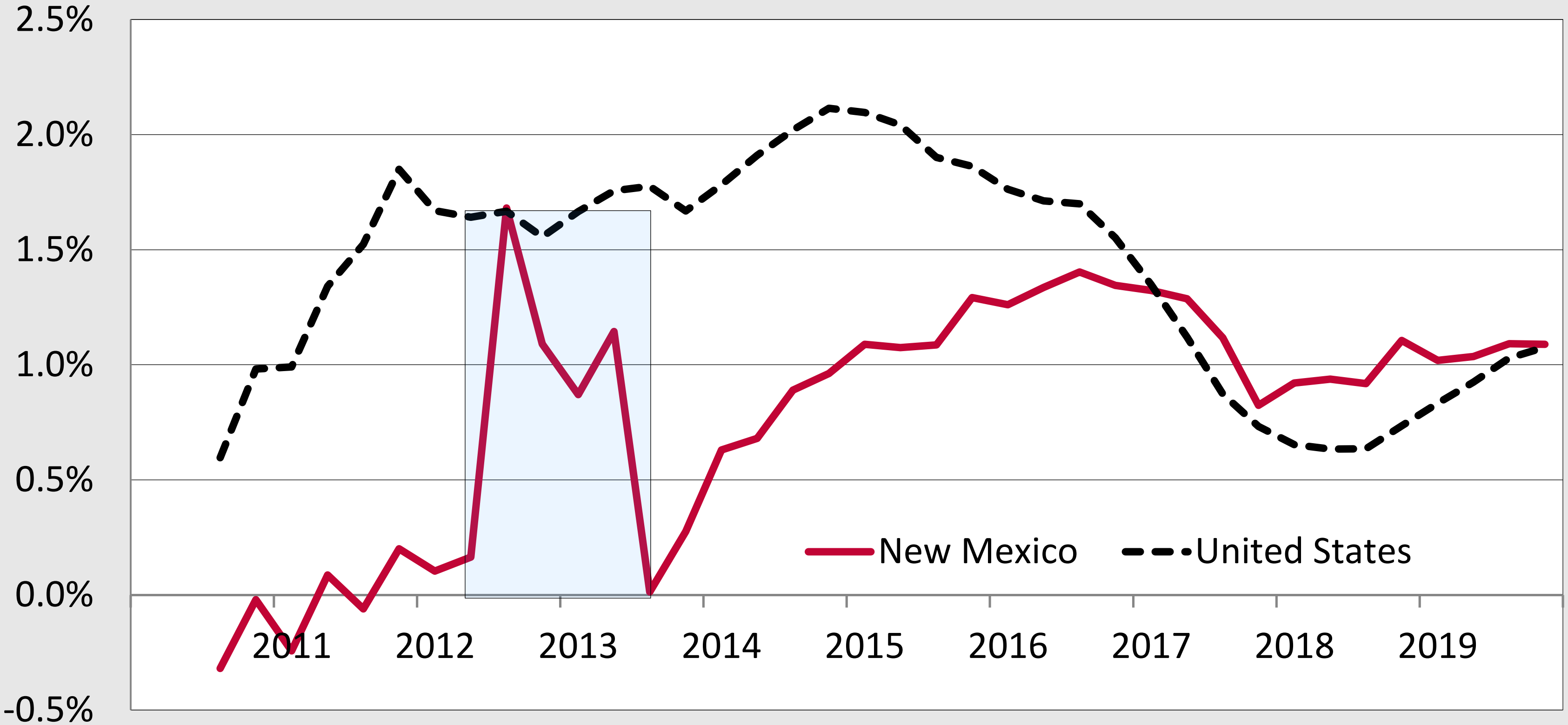
IHS Global Insight outlook for United States:

- Oil prices: 2015 average $64, 2016 average $75/barrel.
- Interest rates rise slowly (0.25% per quarter), beginning June 2015 and peaking in 2017 at 3.75%.
- Weak growth of trading partners (2%/year), $ strong.

Assumptions for New Mexico:

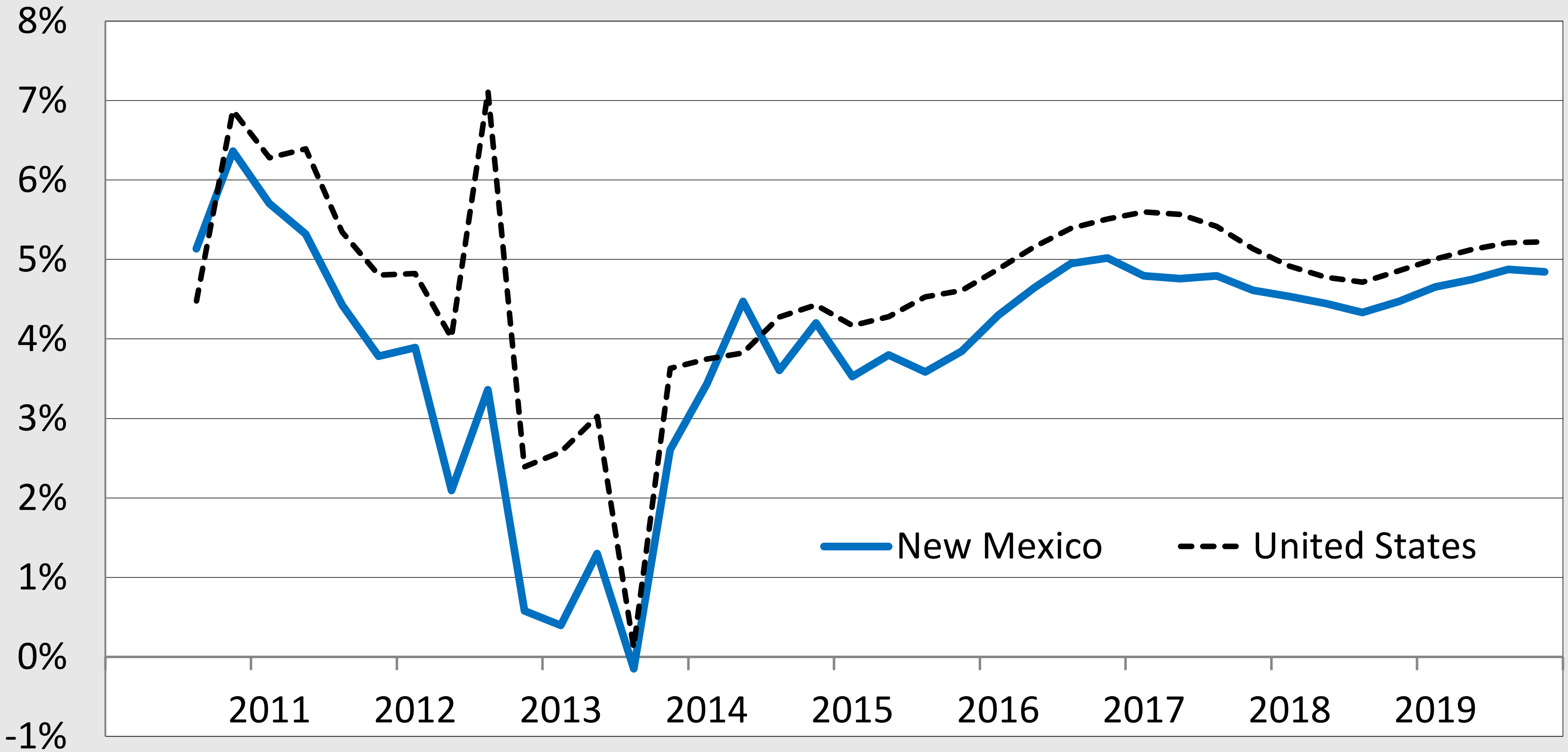
- Spending increases by federal, state & local governments remain constrained.
- Medicaid expansion gets traction.

New Mexico & US employment growth forecast (preliminary)



Sources: New Mexico: FORUNM;
US – IHS Global Insight

New Mexico & US Income growth forecast (preliminary)



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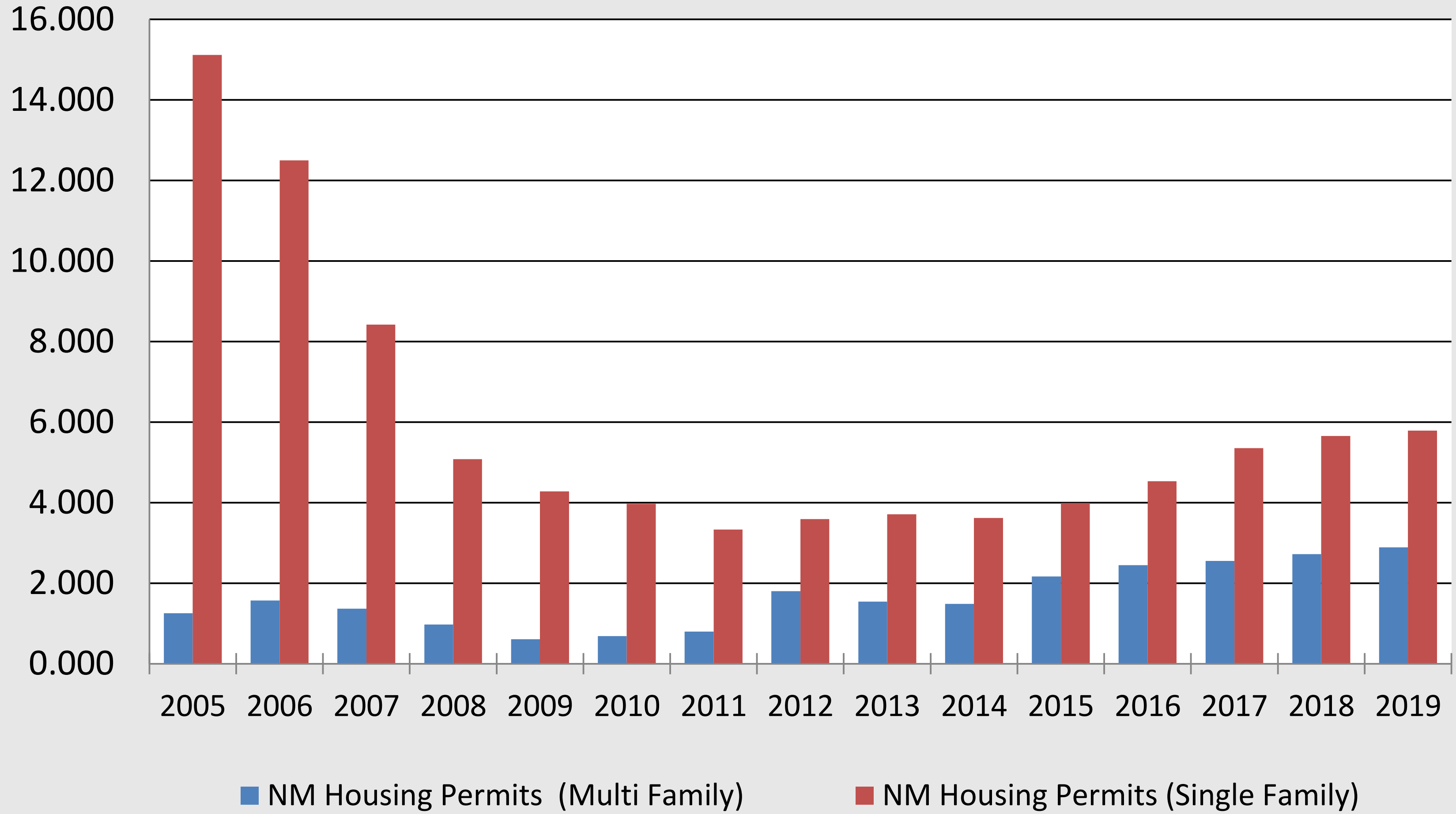
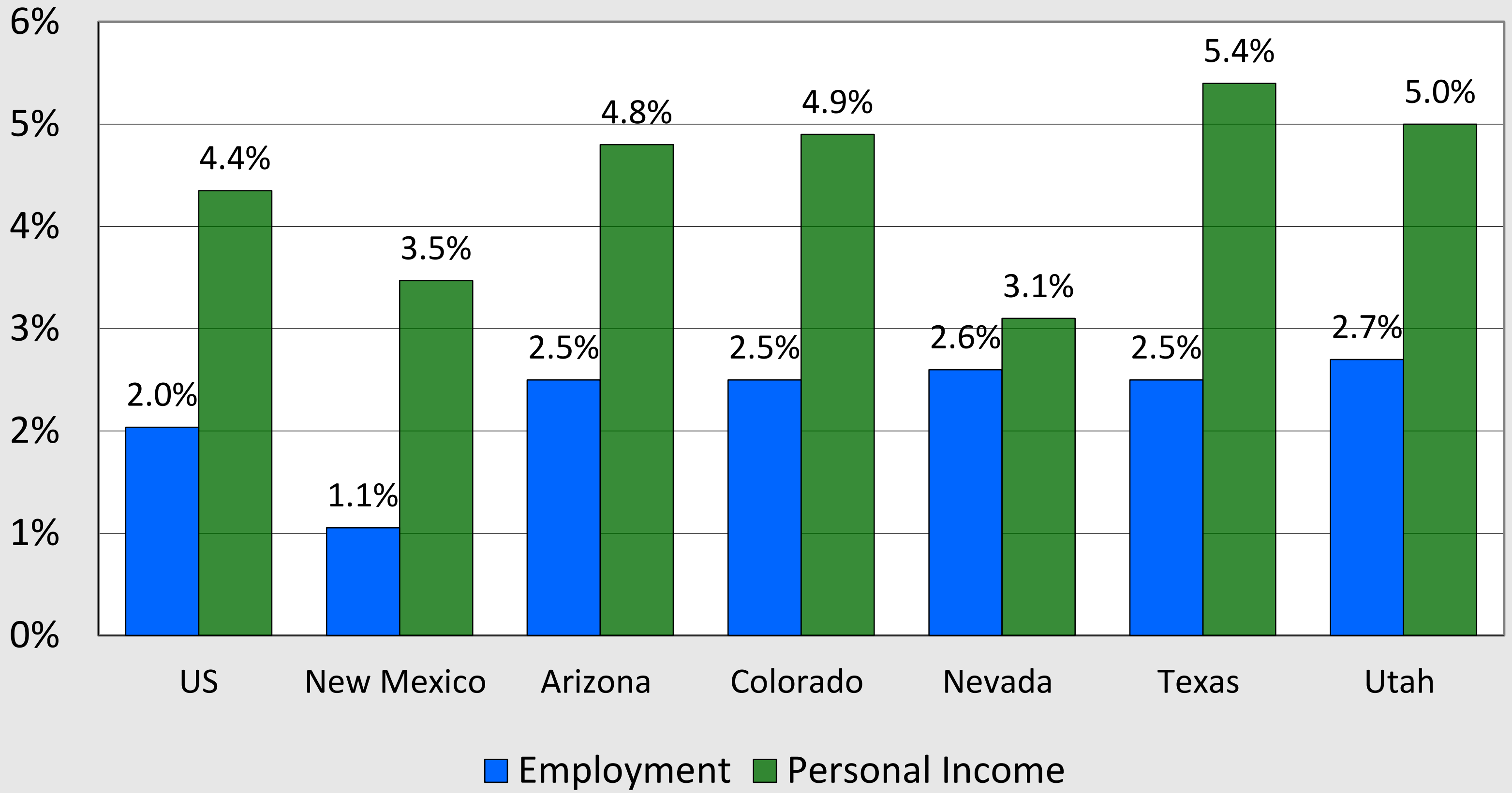
New Mexico Housing Permits: Single & Multi-Family Units, 2005-2019

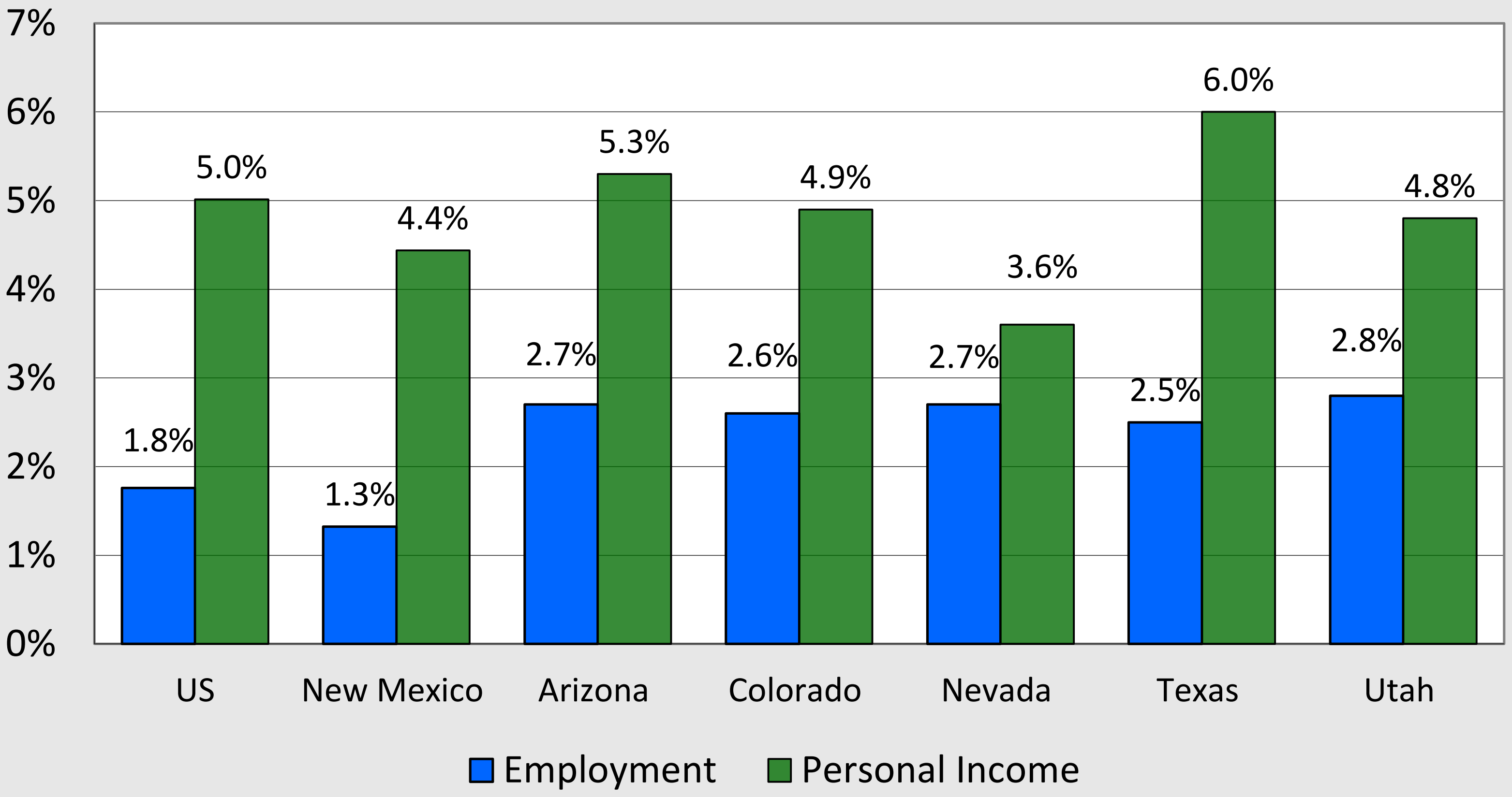


Source: FOR-UNM

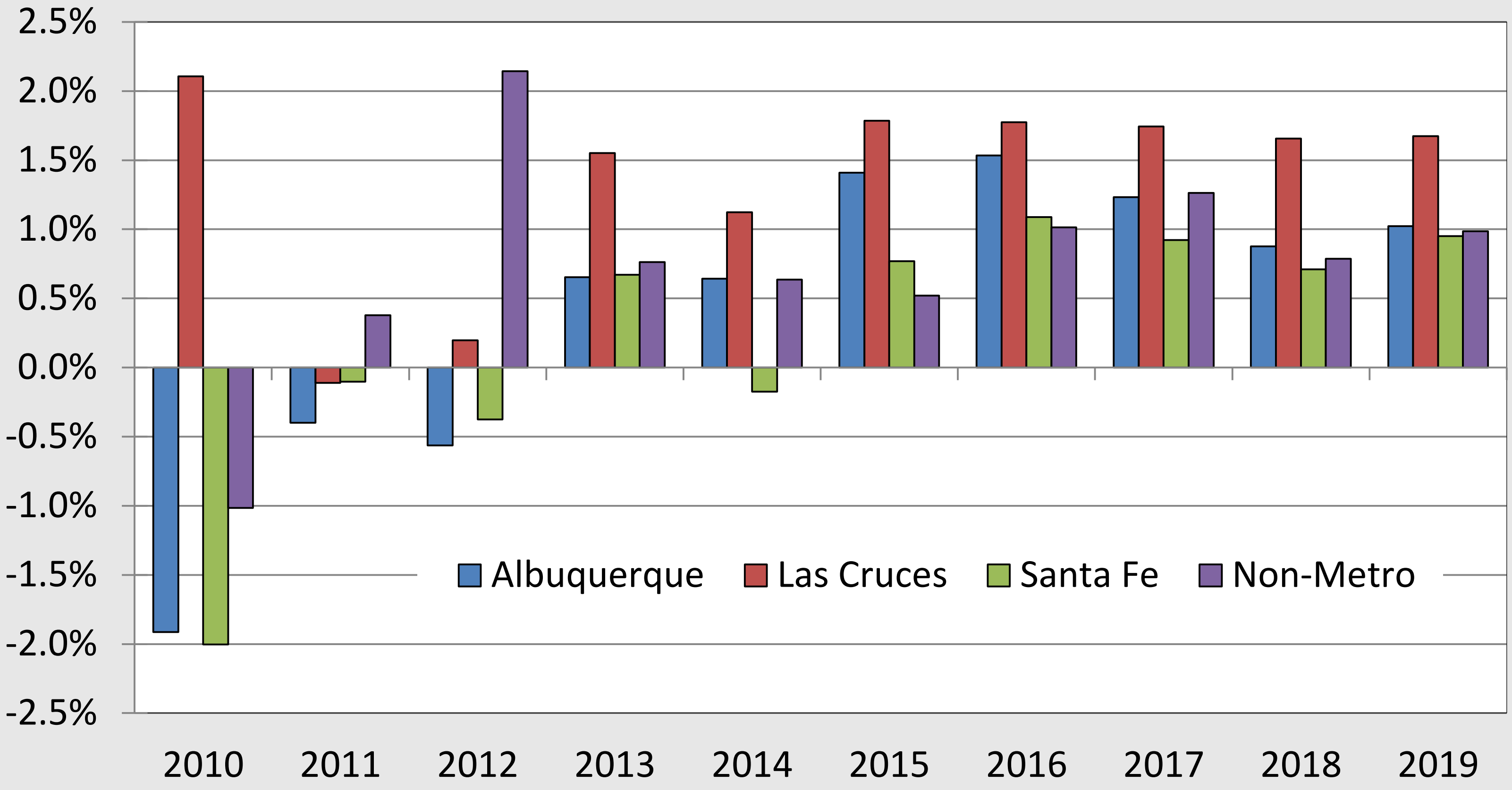
Western Blue Chip: forecasted employment and income growth, 2015



Western Blue Chip: forecasted employment and income growth, 2016



Employment gain/loss by region, 2010-2019



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