

The New Mexico Economy: Recent Developments and Outlook

*18th Annual Data Users Conference
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Rapid Post-election Analysis

- Short and medium term tradeoff between heightened uncertainty for businesses and consumers and likely fiscal stimulus (infrastructure, tax cuts).
- Greater concern for longer-term outlook as many analysts expect increased federal deficits and higher interest rates.
- Specific measures – some suggested in outline of President-elect's 100 Day plan. Impacts will likely be highly uneven – winners & losers.
- Roll back of Obamacare – shake up in insurance and healthcare markets. Most think changes will not be overnight.
- Tax reform: lower marginal rates for individuals and corporations; however, without changes in spending policy, deficits will grow rapidly.



Rapid Post-election Analysis

- Likely rollback of various business regulations, including environmental regulations, which will impact the energy sector (and others).
- Changes to US immigration policy may impact undocumented workers, including and individuals with HB-1 visas. Impact on labor markets likely.
- Re-working of international trade agreements (such as NAFTA and others) including possible initiation of import quotas or taxation with countries such as China. Likely higher inflation.
- In short – **uncertainty**. Cabinet selections may be early signal.



Real GDP Growth

Composition of Real GDP Growth Over Previous Period SAAR

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>15Q3</u>	<u>15Q4</u>	<u>16Q1</u>	<u>16Q2</u>	<u>16Q3</u>	Contrib. <u>16Q3</u>
<u>Composition of Real GDP</u>									
Gross Domestic Product	1.7	2.4	2.6	2.0	0.9	0.8	1.4	2.9	2.9
Total Consumption	1.5	2.9	3.2	2.7	2.3	1.6	4.3	2.1	1.47
Durable goods	6.2	6.7	6.9	6.2	4.0	-0.6	9.8	9.5	0.69
Nondurable goods	1.7	2.6	2.6	3.2	1.2	2.1	5.7	-1.4	-0.21
Services	0.6	2.3	2.8	2.0	2.3	1.9	3.0	2.1	0.99
Residential Fixed Investment	11.9	3.5	11.7	12.6	11.5	7.8	-7.7	-6.2	-0.24
Nonresidential Fixed Investment	3.5	6.0	2.1	3.9	-3.3	-3.4	1.0	1.2	0.15
Structures	1.4	10.3	-4.4	-4.3	-15.2	0.1	-2.1	5.4	0.14
Equipment & Software	4.6	5.4	3.5	9.1	-2.6	-9.5	-2.9	-2.7	-0.16
Intellectual Property	3.4	3.9	4.8	2.1	4.6	3.7	9.0	4.0	0.16
Change in Private Inventories									0.61
Exports	3.5	4.3	0.1	-2.8	-2.7	-0.7	1.8	10.0	1.17
Imports	1.1	4.4	4.6	1.1	0.7	-0.6	0.2	2.3	-0.34
Federal Government	-5.8	-2.5	0.0	1.0	3.8	-1.5	-0.4	2.5	0.17
State & Local Government	-0.8	0.2	2.9	2.5	-0.6	3.5	-2.5	-0.7	-0.08

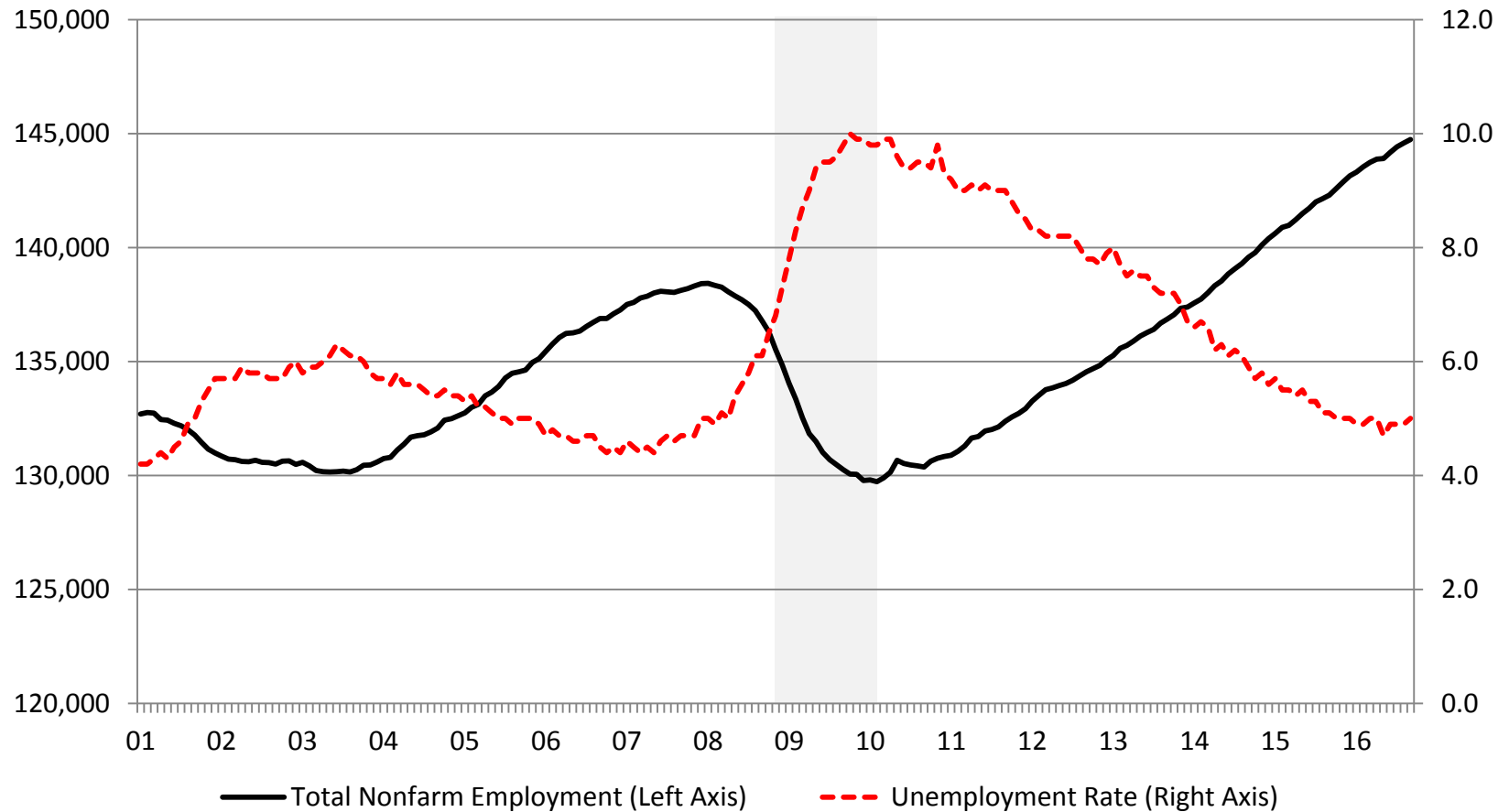
US Bureau of Economic Analysis, Gross Domestic Product, 2016 Third Quarter (1st Estimate), October 28, 2016



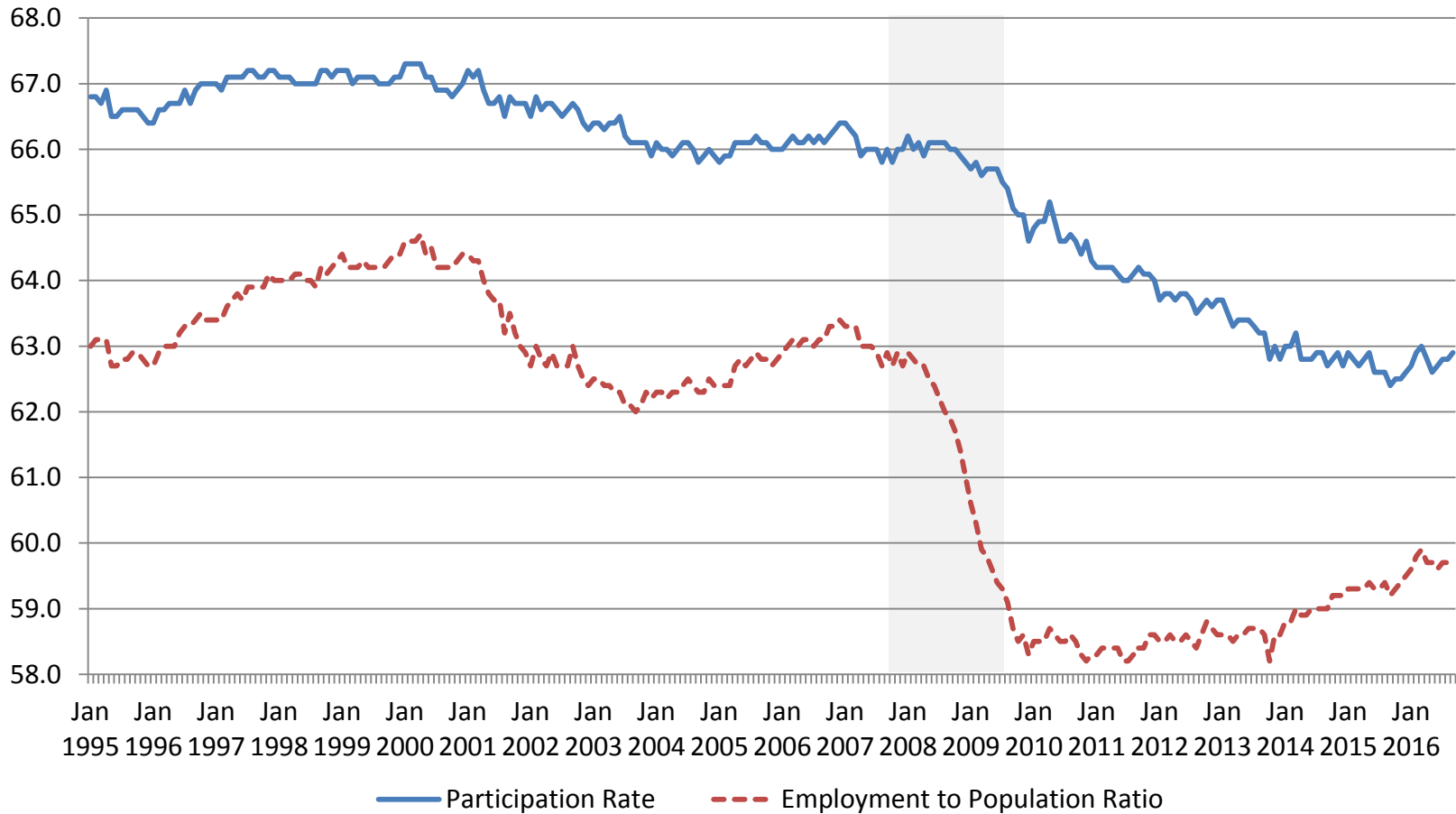
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US Employment Situation

US Nonfarm Employment and Unemployment Rate, Monthly SA



Participation Rate & Employment to Population Ratio



IHS Pessimistic Scenario

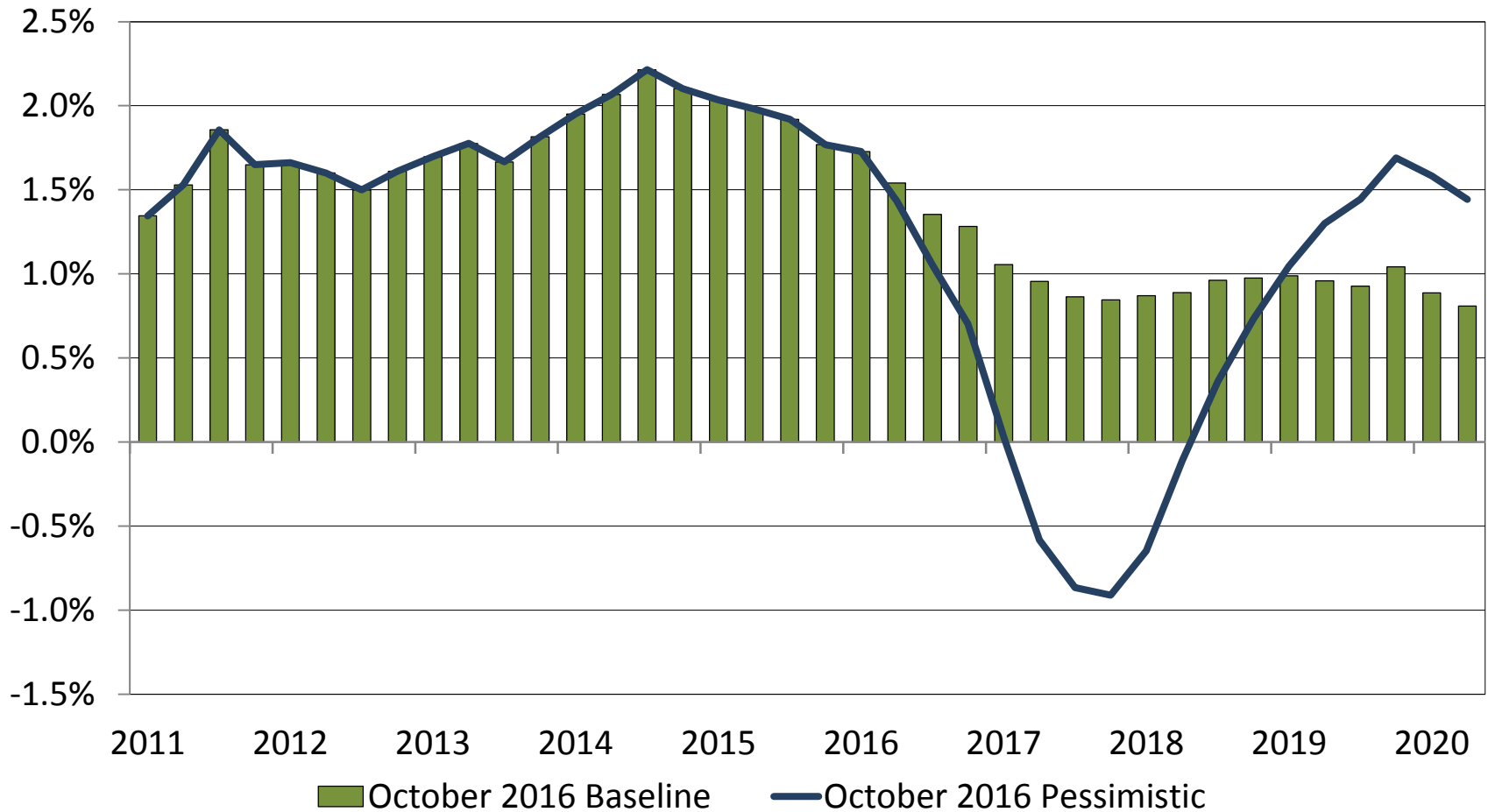
All Forecasts completed in October & do not reflect election results.

- Global and political risks trigger uncertainty and damage business confidence.
- US economy suffers brief recession in second half of 2017 as productivity and business investment suffer.
- Dollar strengthens as it becomes even more of a safe haven – US exports are negatively impacted thereby worsening the trade deficit.
- Modest demand-side pressure put upward pressure on wage and price inflation prompting the Fed to raise rates aggressively in the near-term.
- Oil markets tighten quickly pushing oil prices up in the near-term.
- Consumer & business confidence falls, causing both consumer spending and equity markets to fall sharply.
- The Fed is forced to return to rock-bottom interest rates and oil markets again retreat.



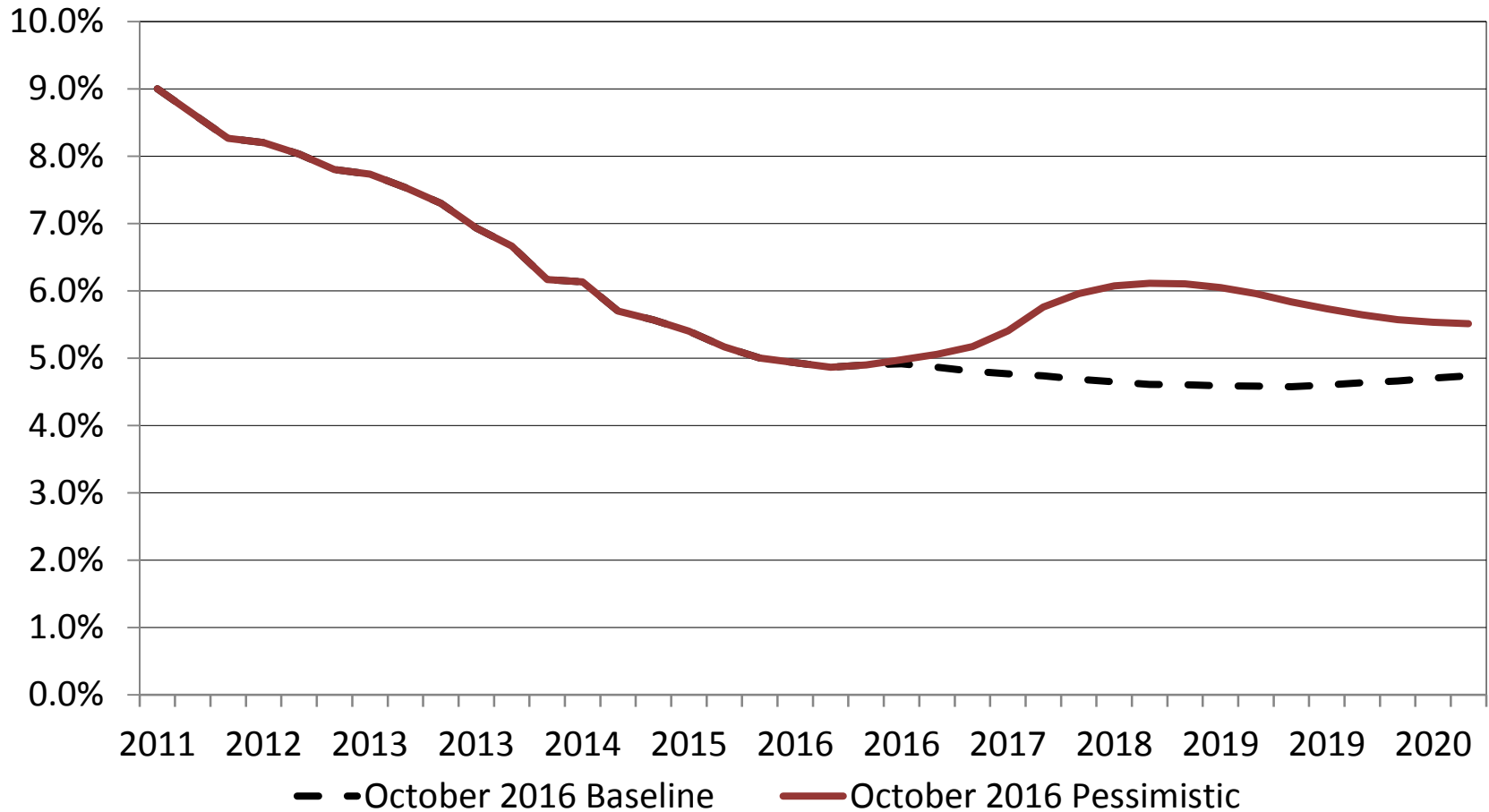
US Employment Forecast Comparison – Baseline vs. Pessimistic

Growth (%) in Employment, Year-over-year



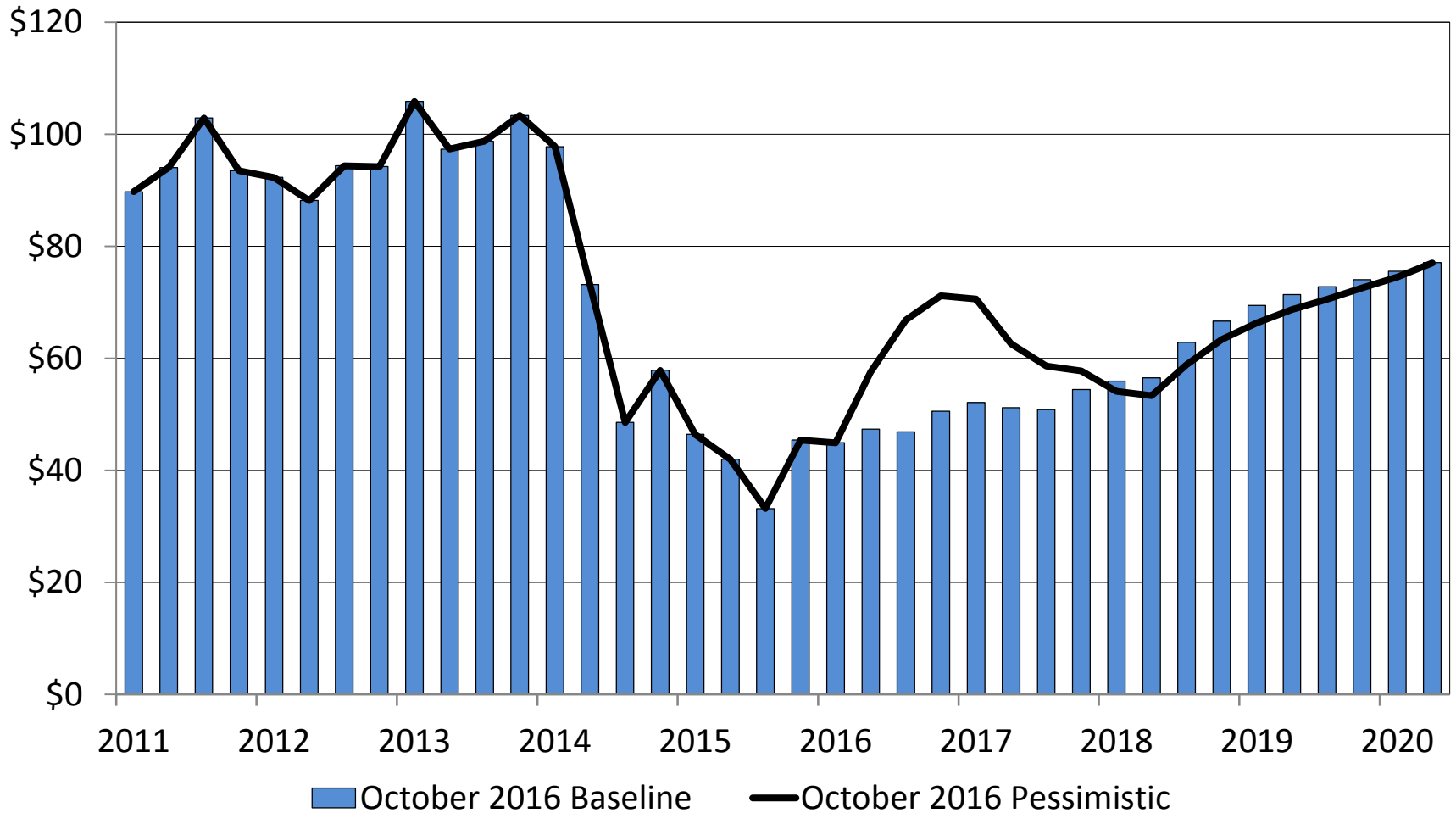
US Unemployment Comparison

US Unemployment Rate SA



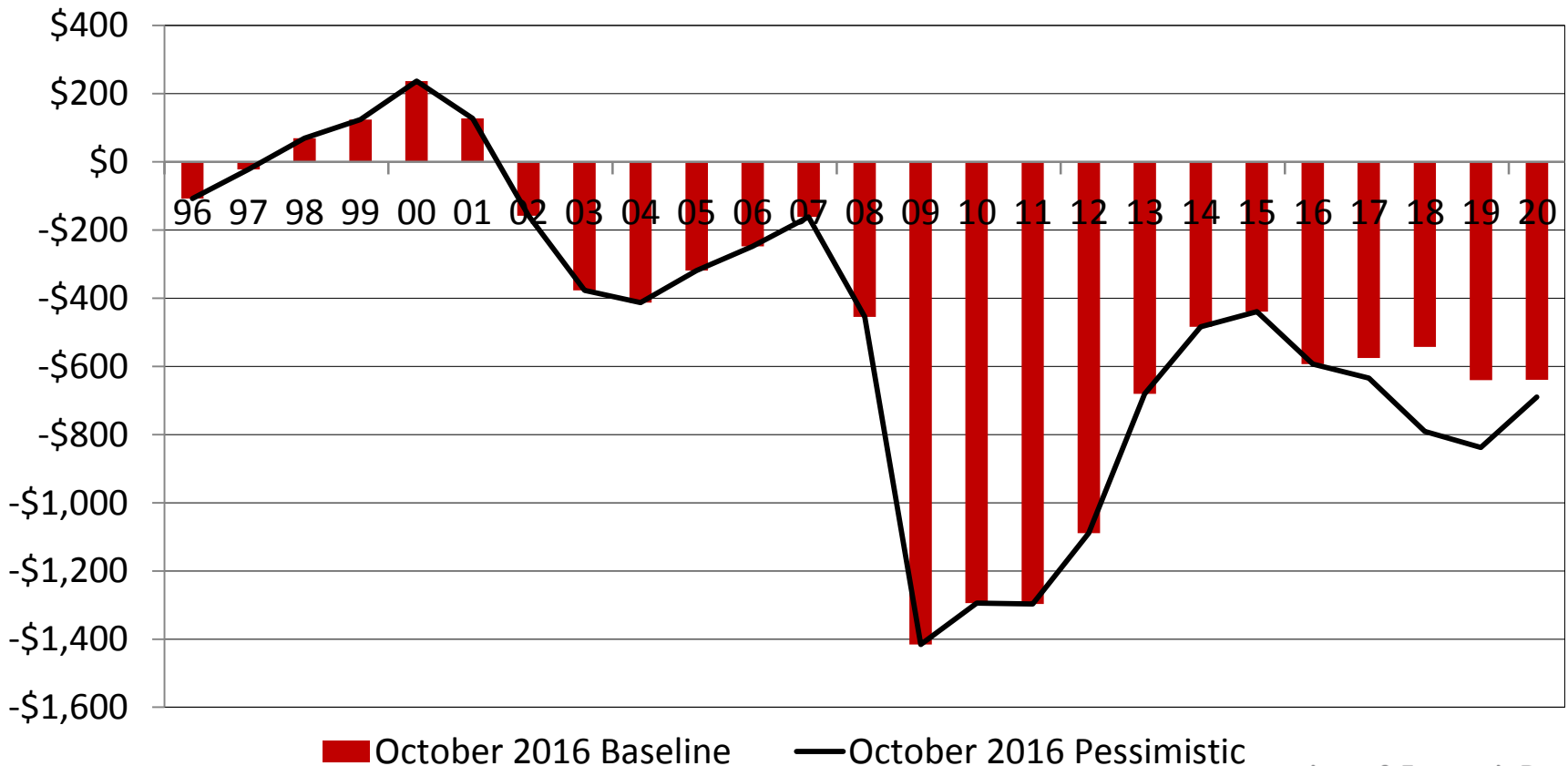
WTI Price – Baseline vs. Pessimistic

\$ Per Barrel



Comparison of Federal Deficit – Baseline vs. Pessimistic

US Federal Deficit (\$Billions)



US Employment Forecast by Sector – Pessimistic minus Baseline

Increase (Decrease) in US Payroll Employment from Previous Calendar Year, Actual & Forecast (Thousands)									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Employment Sector									
Construction	0	0	(3)	(85)	(267)	(140)	103	141	24
Manufacturing	0	0	11	(75)	(383)	(61)	262	144	32
Trade, Transportation & Utilities	0	0	(3)	(231)	(398)	(133)	(98)	129	99
Prof. & Bus. Services	0	0	(31)	(879)	(702)	765	565	50	(158)
Health Care & Soc. Asst.	0	0	(6)	46	57	(176)	(131)	36	77
Leisure & Hospitality	0	0	6	102	(53)	(221)	(13)	43	(1)
Other Private	0	0	(9)	(90)	(189)	(54)	64	(29)	(63)
Government	0	0	(2)	(32)	(249)	(175)	118	110	72
Total Nonfarm Payrolls	0	0	(37)	(1,244)	(2,185)	(195)	871	625	83
Annual Growth	0.0%	0.0%	0.0%	-0.9%	-1.5%	-0.1%	0.6%	0.4%	0.1%



New Mexico Review



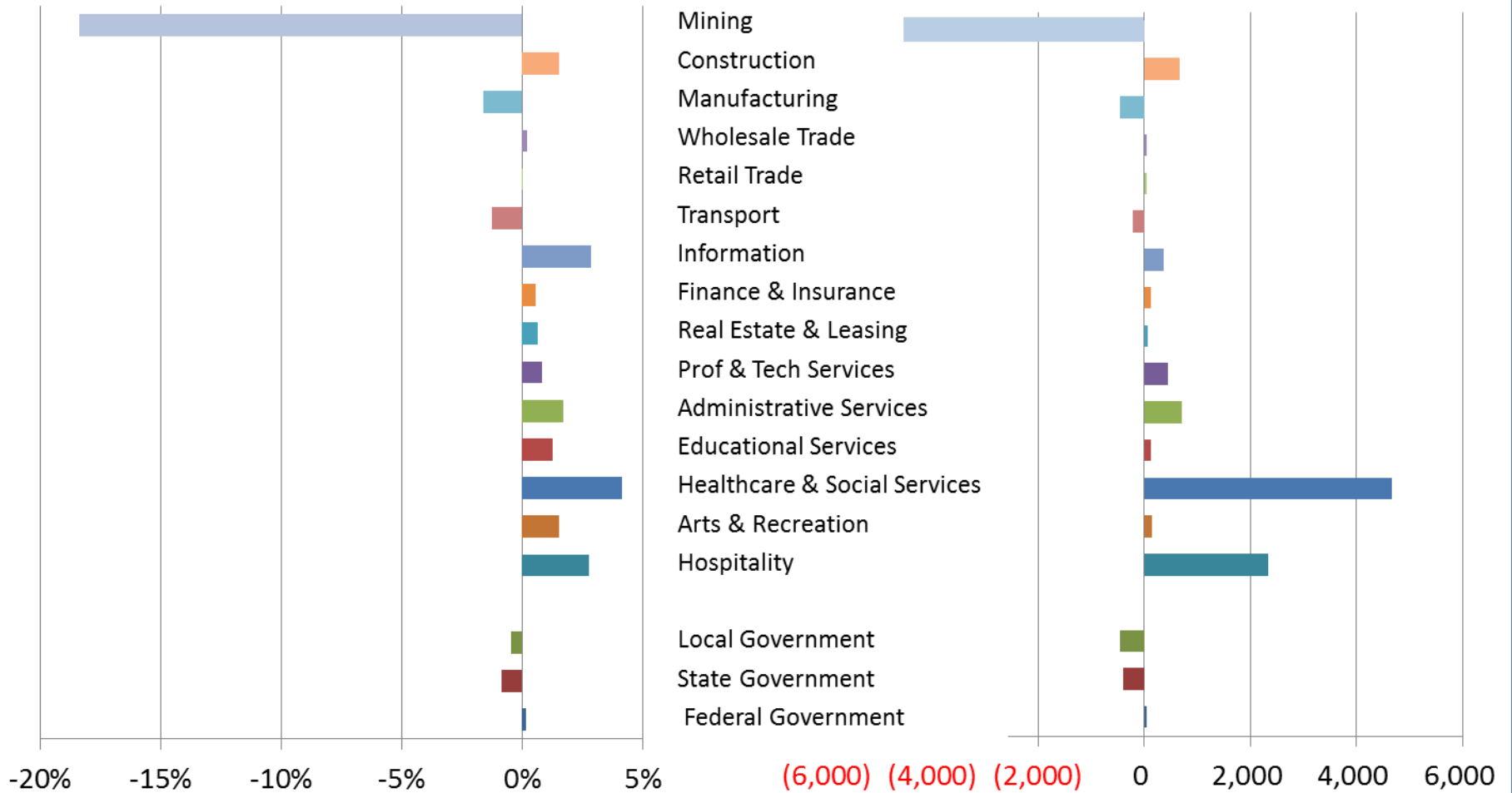
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New Mexico Economic Current Situation

- Weak economy impacted by decline in oil prices, but we have likely reached the bottom
- Anticipate 4,000 new jobs in 2016 (0.5%), down from 7,850 jobs (1.0%) in 2015.
- Between 2015:Q1 – 2016:Q1 average job growth decelerated each quarter – 1.5%, 1.3%, 0.8%, 0.4%, 0.2%, respectively.
- Losses in oil & gas and related industries (e.g. mining -4,700 jobs, -18.4%) nearly offset gains in healthcare (-4,700 jobs, -4.1%).
- CES data indicated improvement in 2016:Q2 (5,400 jobs, 0.7%), but a surprisingly weak Q3 (1,600 jobs, 0.2%).
- Labor force continued to contract in 2016:Q2. Unemployment rate down to 6.2% in Q2 but back up to 6.6% in 2016:Q3.
- Personal income growth only 2.1% in 2016:Q2 because of sharp declines in mining employment and average wages.



Job Growth by Sector, 2016

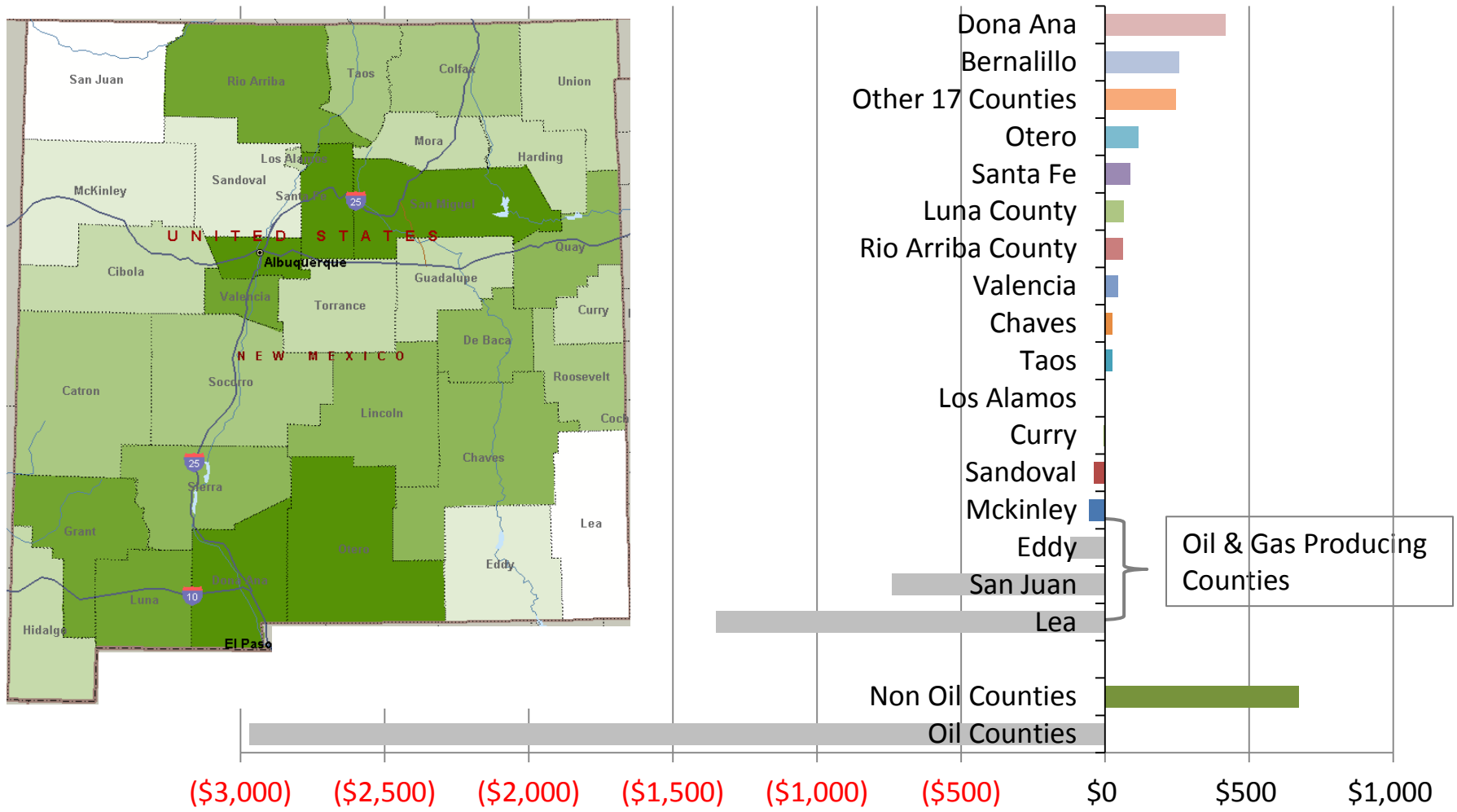


Divergent Geographical Patterns of Growth

- Decline in oil prices is having uneven impact on New Mexico economy.
- In 2016Q1, Albuquerque MSA added >6,000 jobs (1.7%) while non-metro NM lost -5,380 jobs (-1.7%); state total (1,625 net jobs, 0.2%)
- Gross receipts in oil producing counties were down \$3.0 billion (-15%) but up \$670 million (1.9%) in the rest of the state in Jan-June timeframe.

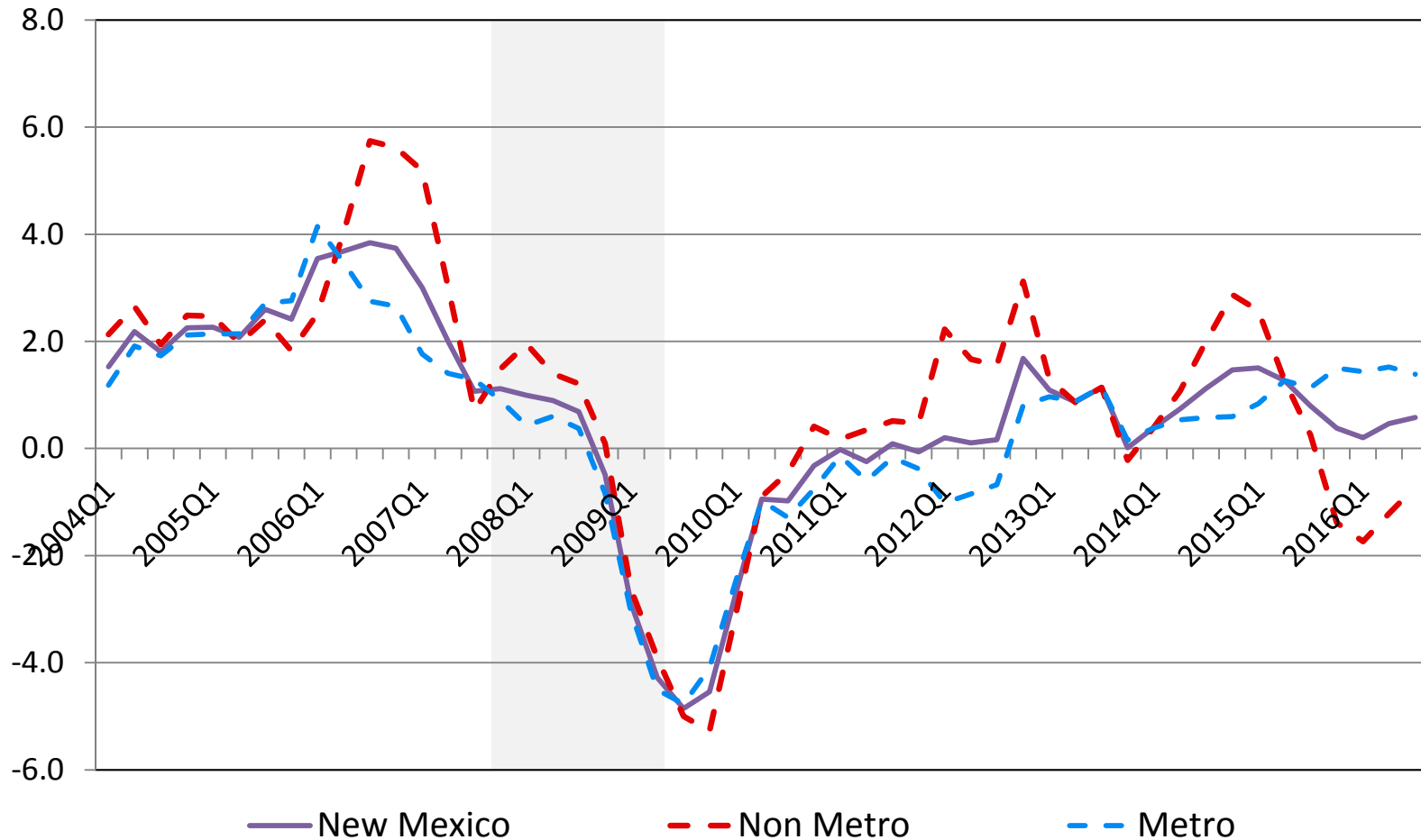


Change in Gross Receipts by County (January – June 2016, Year-over-Year)



Source: NM Taxation & Revenue Department, RP-500

Employment Growth by Geography, 2004-2016

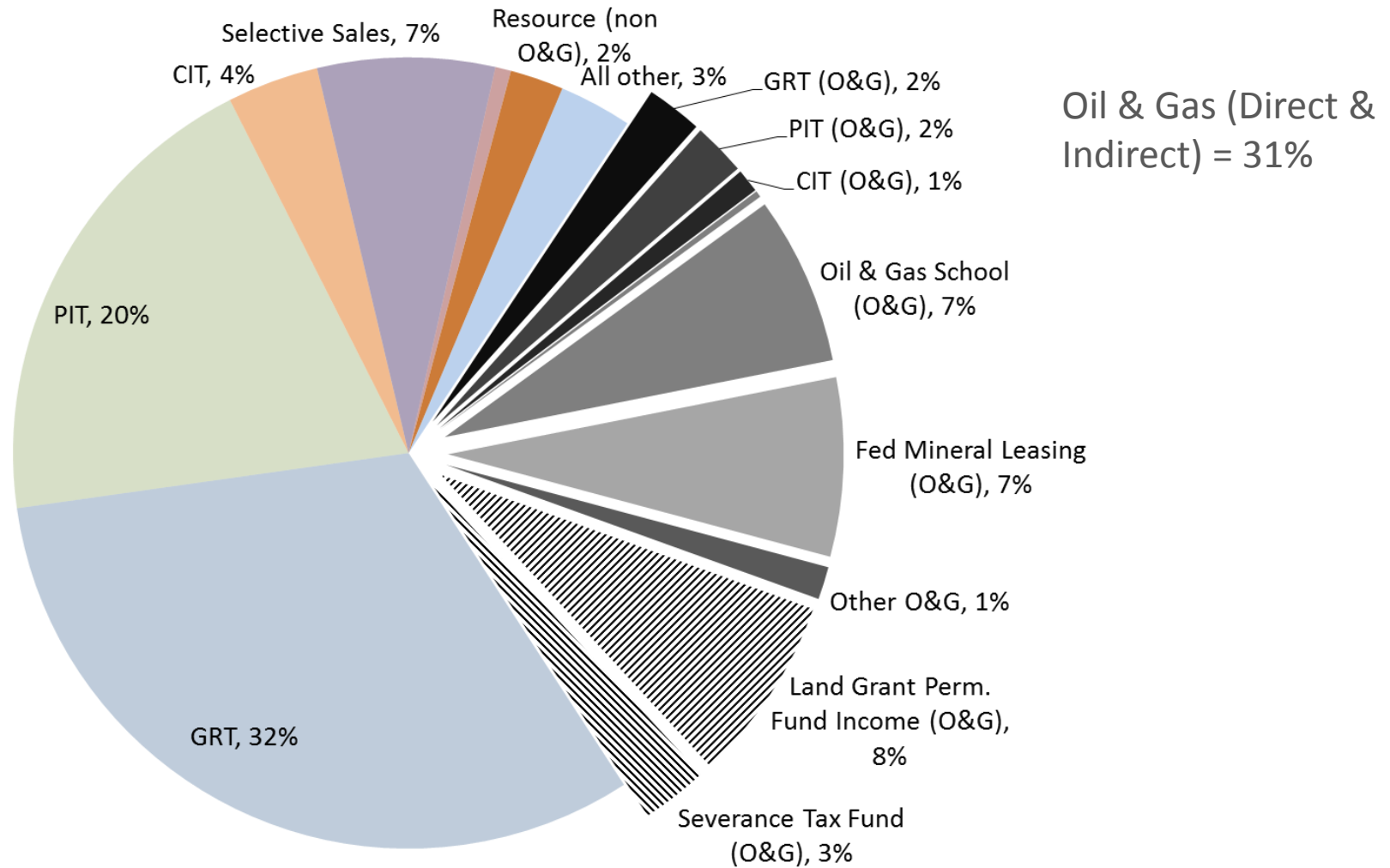


Impact of Oil Price Collapse on State Finances

- Decline in oil prices continues to wreak havoc on State finances.
- In July alone recurring revenues down 11% from year earlier; Gross receipts collections down 8.5%; Oil & Gas related revenues down 36%.
- Special Session cut budget by 2.7%; further cuts likely in 2017 session.
- Oil production down 7.4% in 2016Q2 (vs. 2015Q2), value down 27.1%.
- Expect production losses to flatten by end-2017 but benefits to State finances will lag.



New Mexico State General Fund Revenues, by Source

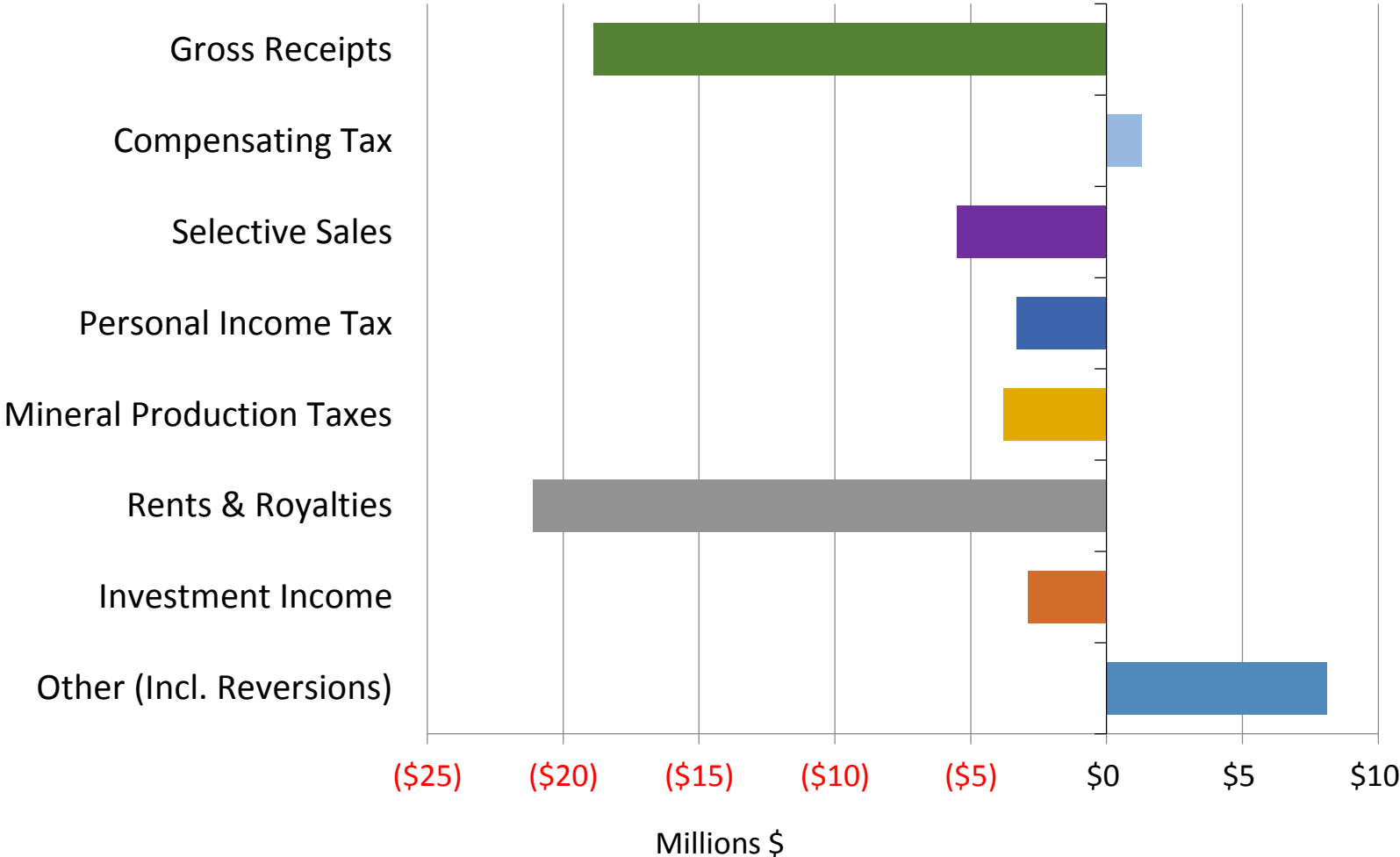


Source: NMTRI



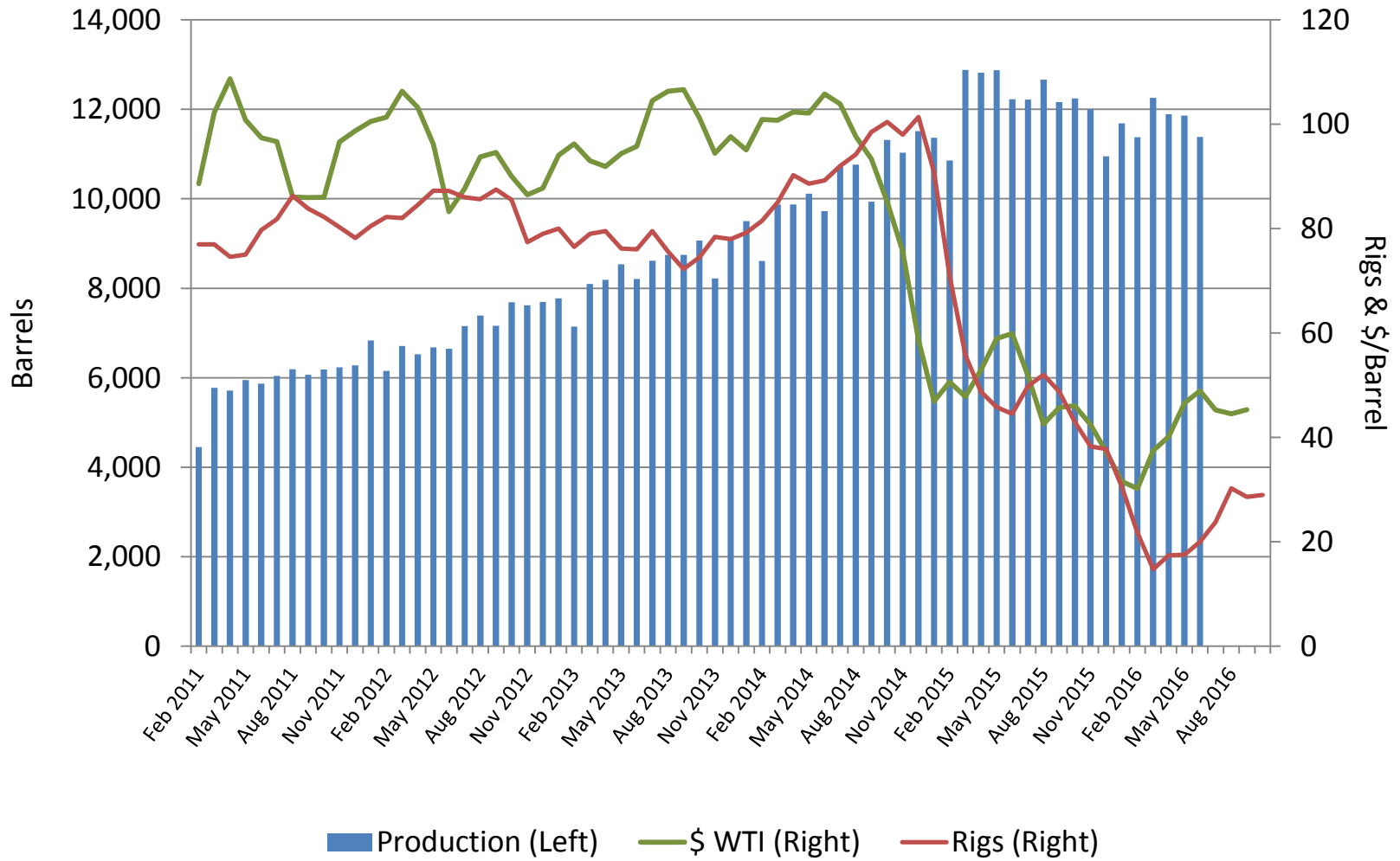
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Change in General Fund Revenue Accruals (July 2016, YoY)



Source: NM Legislative Finance Committee

Value of Oil & Gas Production, 2009 to July 2016



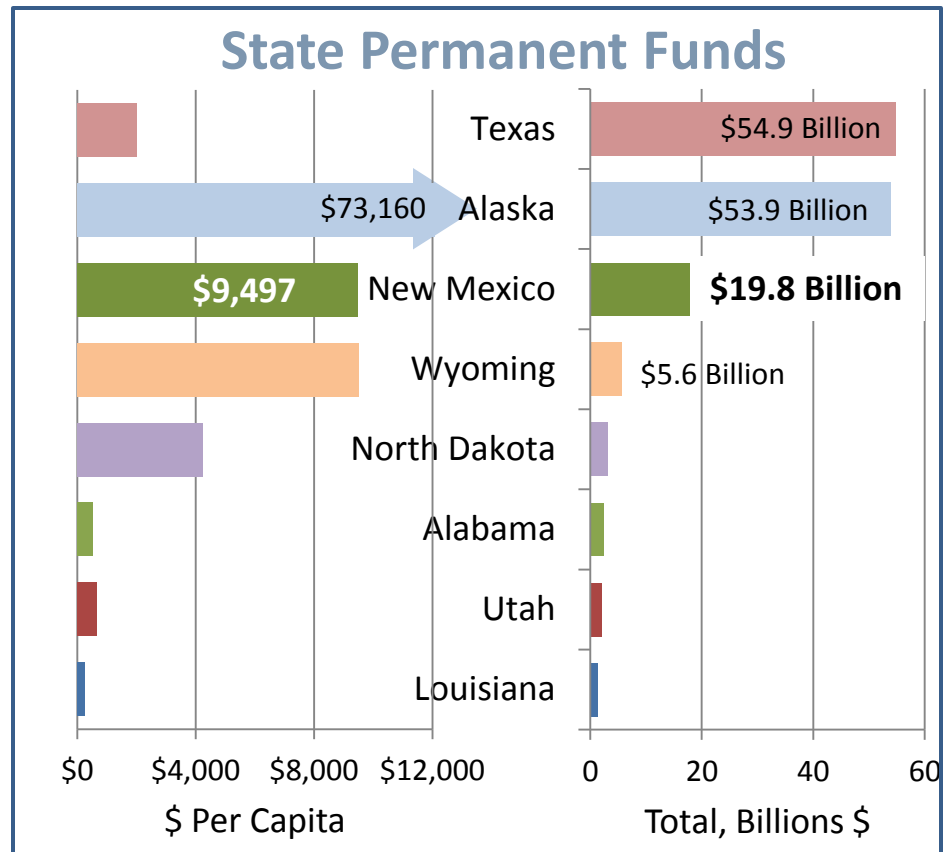
Sources: ONGARD; EIA; Baker Hughes



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New Mexico's Permanent Funds

- Mission: “to maximize distributions to the state's operating budget while preserving the real value of the funds for the future generations of New Mexicans.”
- FY2016 distribution = \$849 million.
- Statutory avg. distribution = 5%.
- Proposals to allocate 1.5% to early childhood programs have failed.
- NM has no designated Stabilization Fund – unlike WY, OK, TX.
- New Mexico Private Equity Investment Program (NMPEIP) = \$262.2 million.
 - Current holding = 5.8%
 - Statutory limit = 9%
 - Target share = 5%



New Mexico Economic Outlook



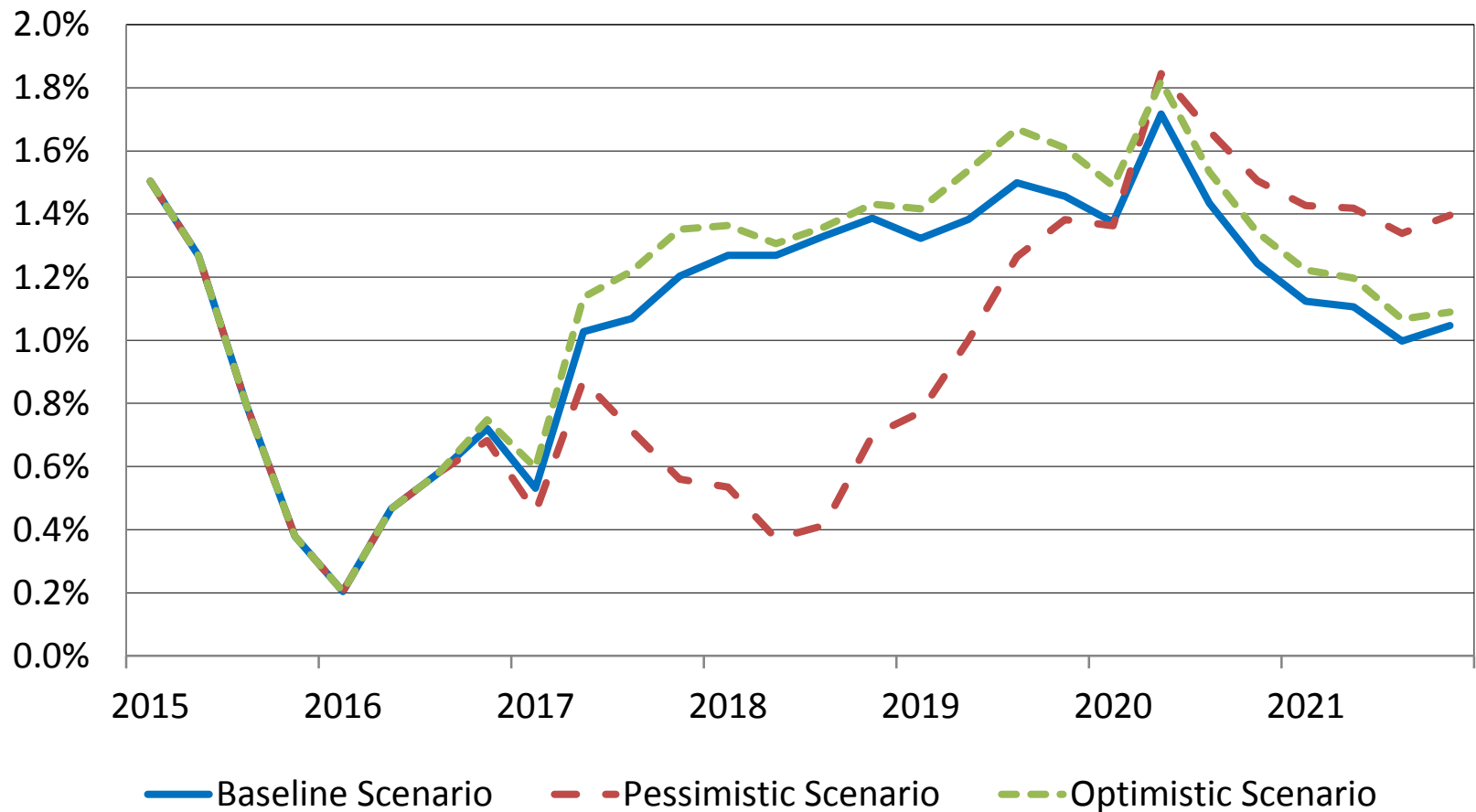
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New Mexico Economic Outlook: 2016-2022

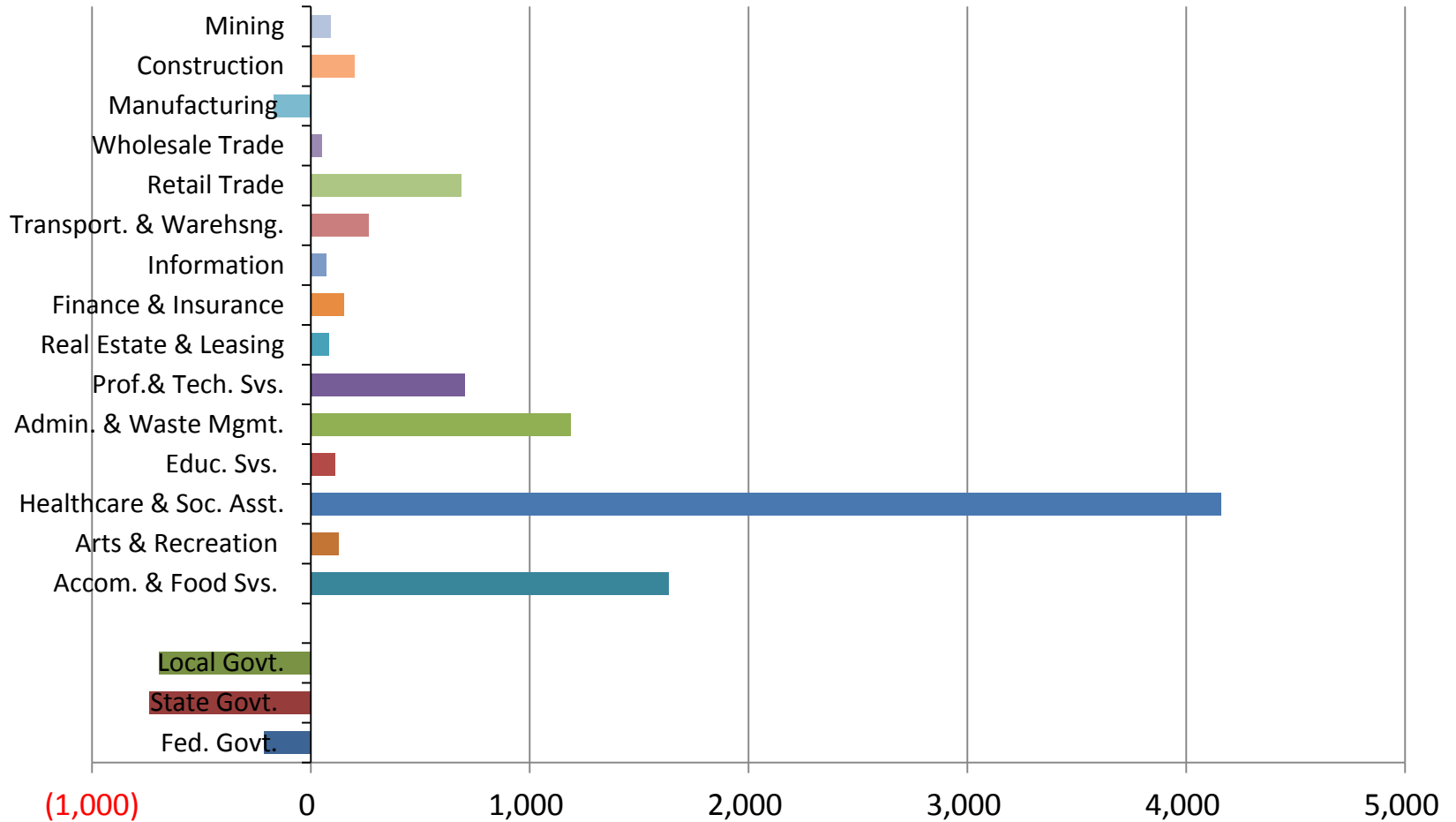
- Economic impacts of oil collapse will lessen in second half of 2016, and reach the bottom by mid-2017 – though fiscal impacts will linger.
- Employment growth: 5,300 jobs (0.7%) in second half of 2016, and 7,800 jobs (1.0%) in 2017 and 1.2% thereafter.
- Short-term job growth is in Metro areas, esp. Albuquerque, but slightly negative in non-metro areas. Stronger statewide mid- and longer-term growth occur when non-Metro moves positive.
- Composition of new jobs:
 - 55% (2017)/38% (2018-2022) in education and healthcare & social assistance
 - 36% (2017)/26% (2018-2022) in low-wage service sectors
 - 12% (2017)/19% (2018-2022) in mining, utilities, construction, manufacturing, transportation
 - 12% (2017)/9% (2018-2022) in financial and P&BS
- Outlook for government employment weak (-0.9% in 2017, 0.3% thereafter).
- Income outlook slow: 2.4% in 2016, rising to 3.6% in 2017, and 4.6% through 2022. Wage growth to private sector workers key variable.



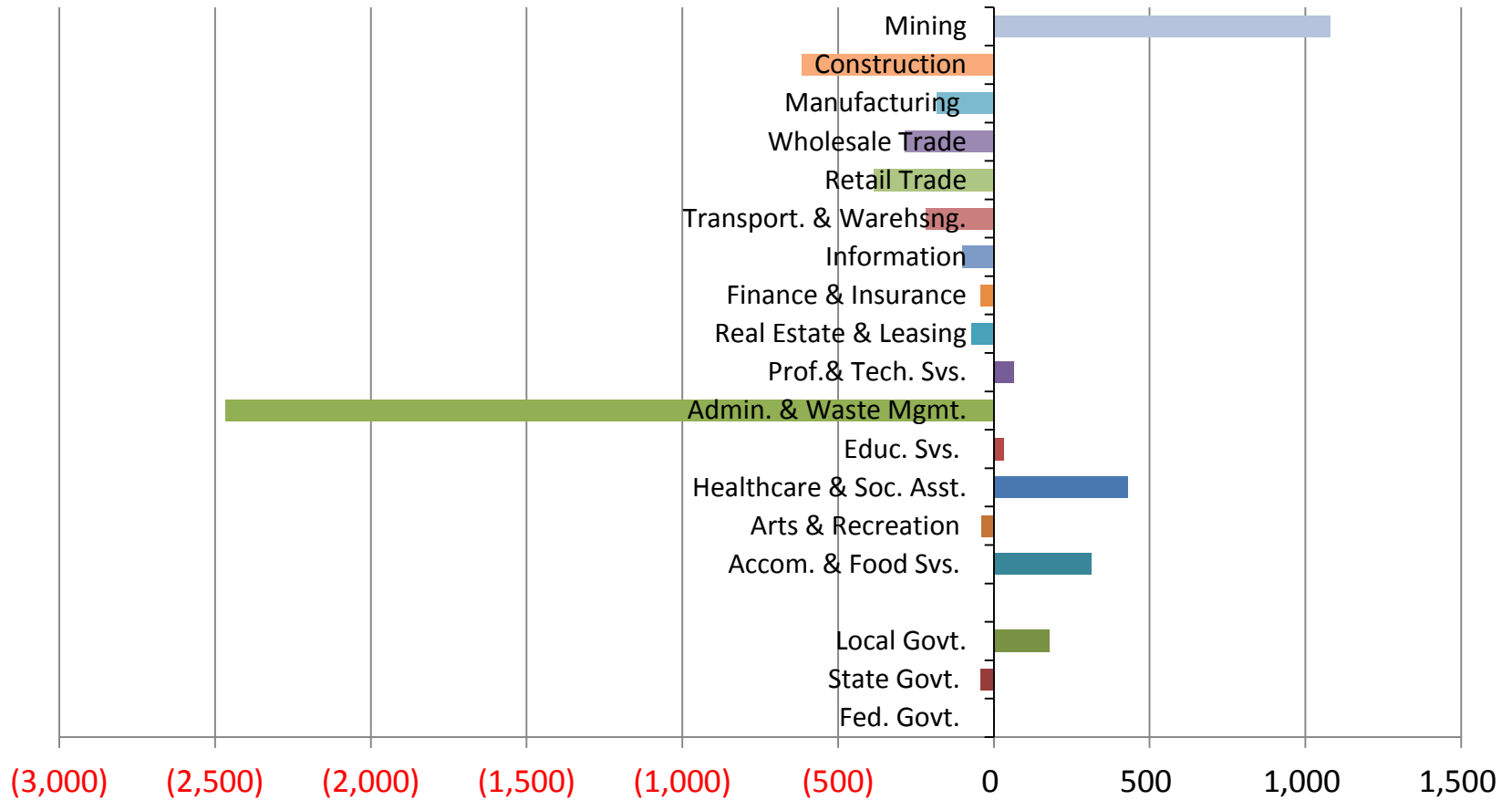
New Mexico Employment Forecast, Alternative Scenarios



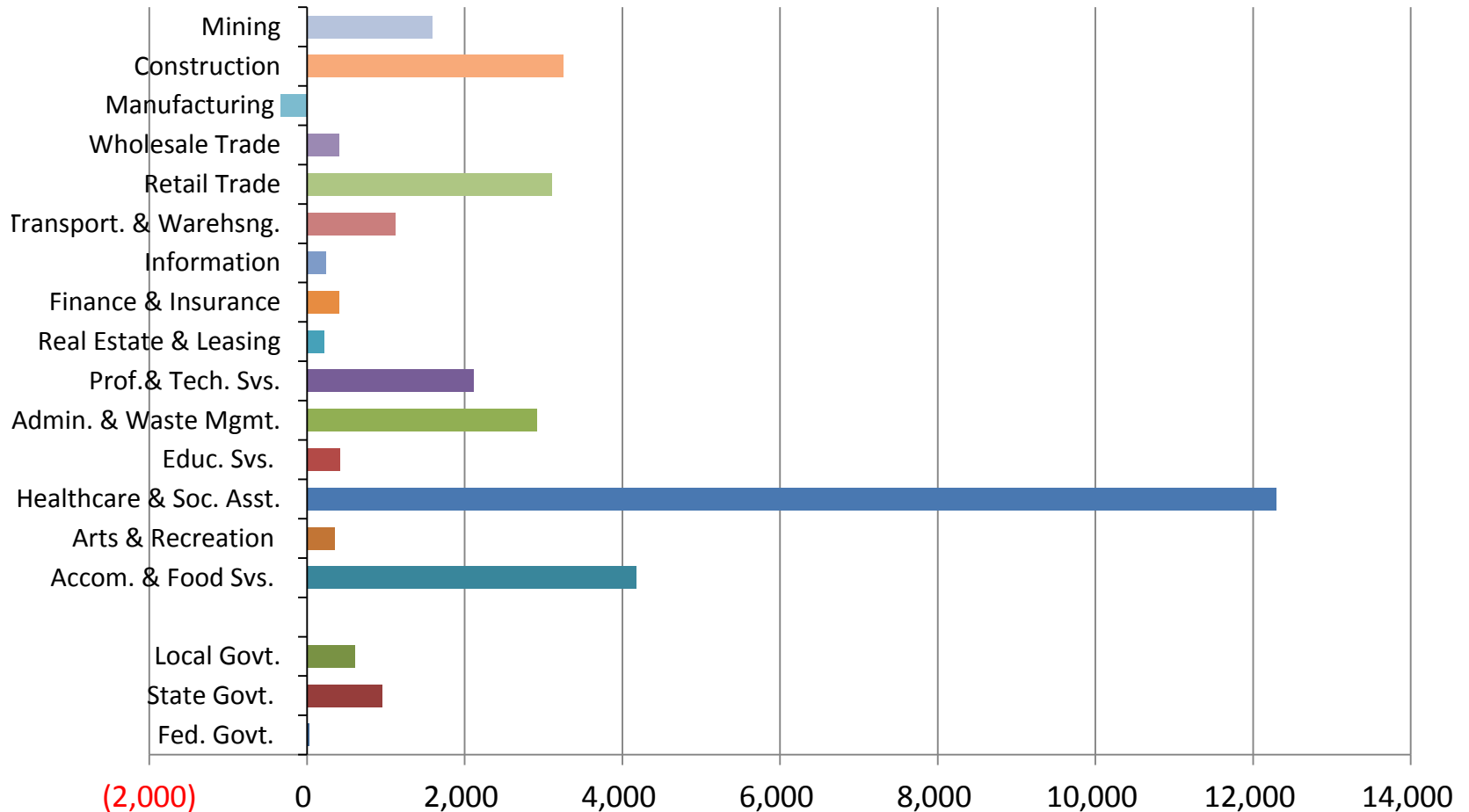
Job Creation by Sector, 2017



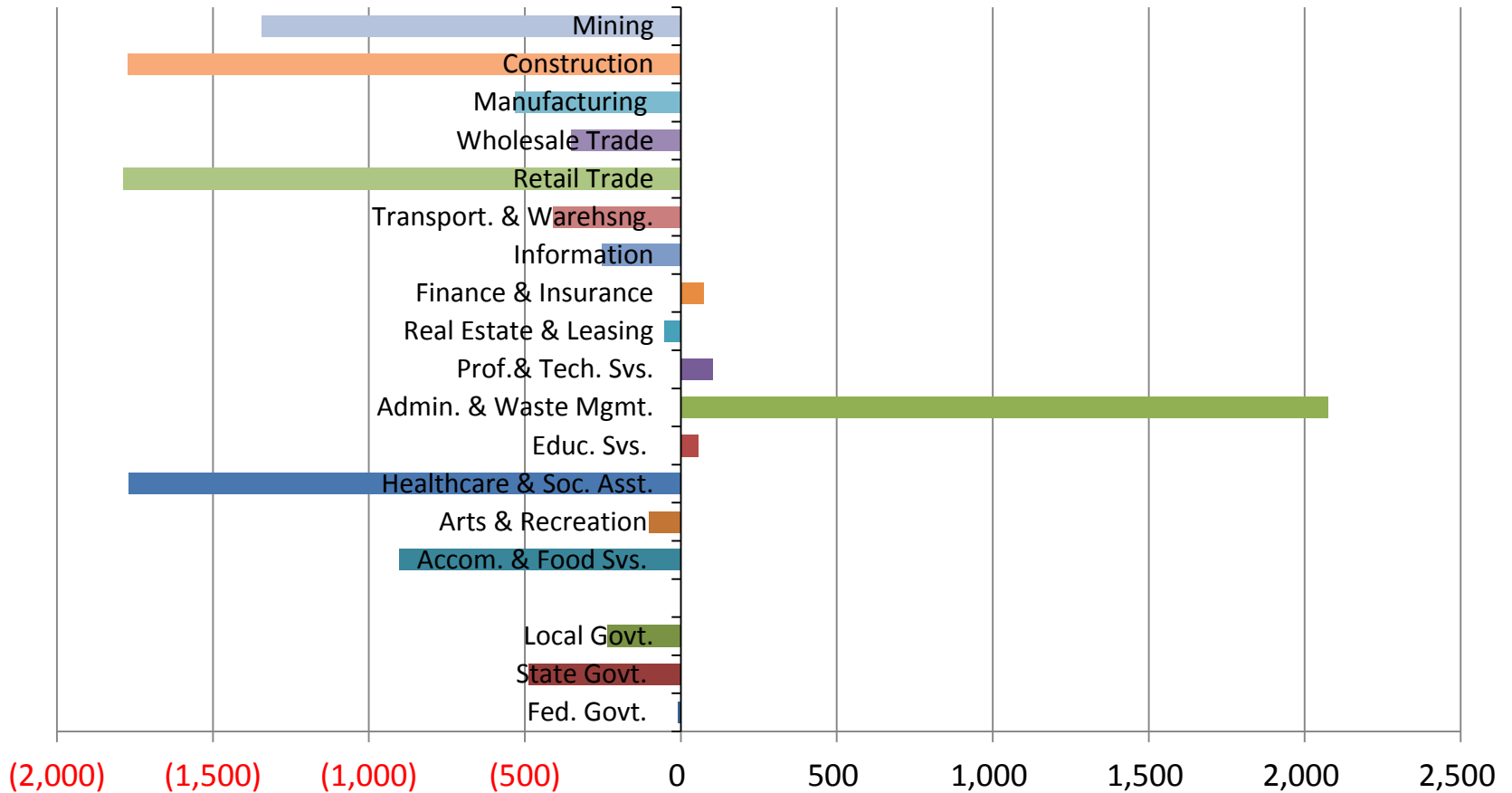
Job Creation by Sector, 2017 (Pessimistic minus Baseline)



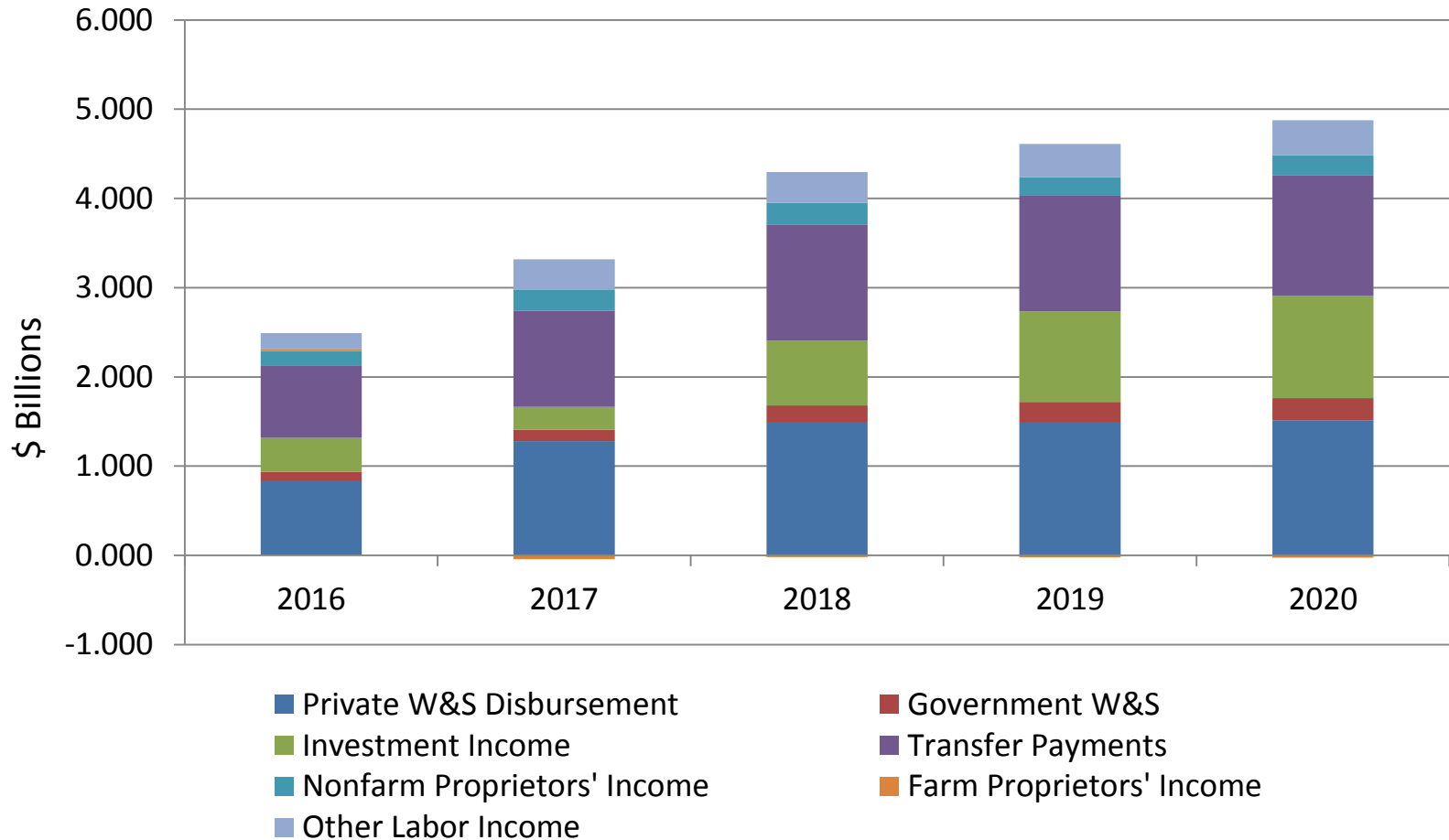
Job Creation by Sector, 2018-2020



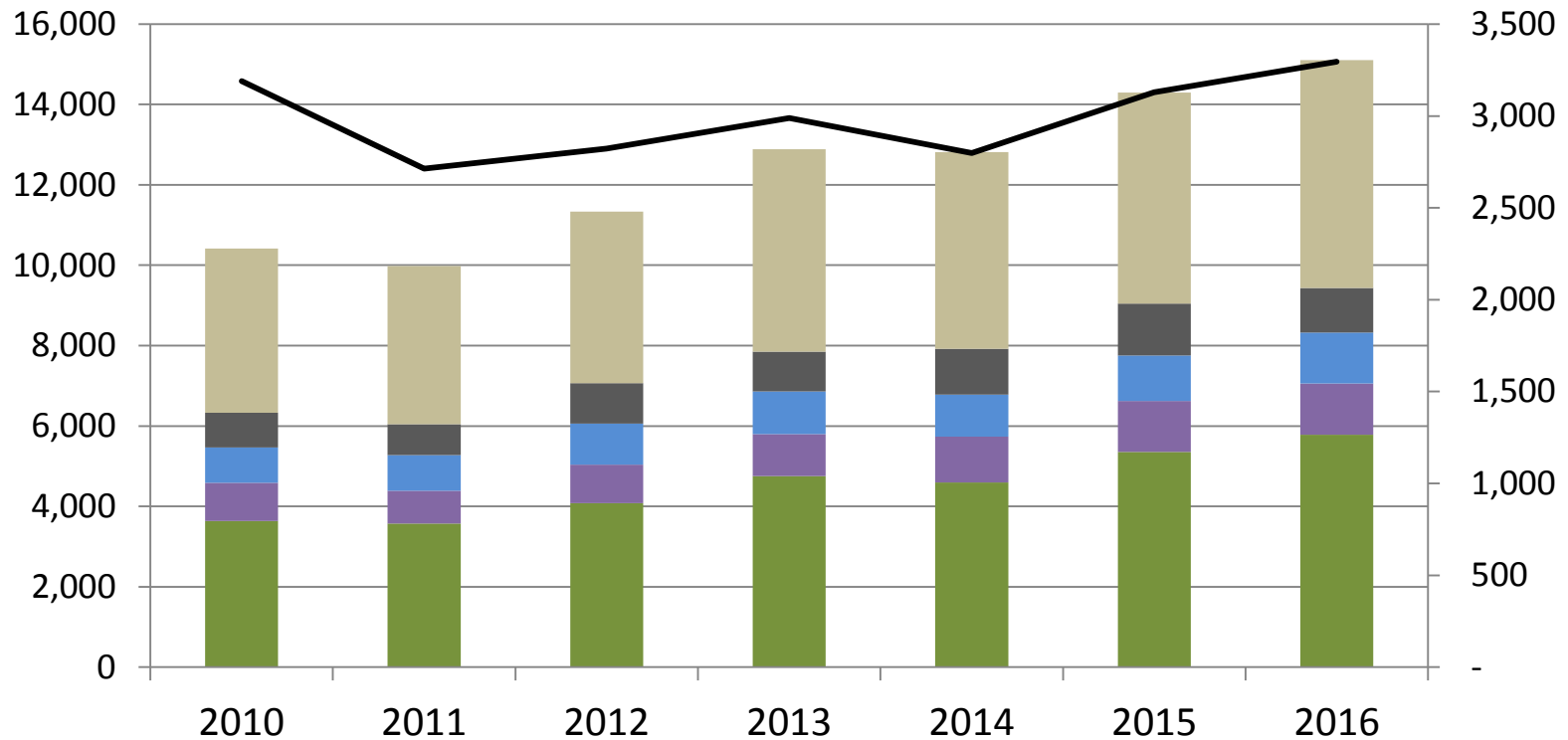
Job Creation by Sector, 2018-2020 (Pessimistic minus Baseline)



Personal Income Growth, by Component, 2016-2020



Housing Sales by Region and Building Permits, Q3 YTD, 2010-2016

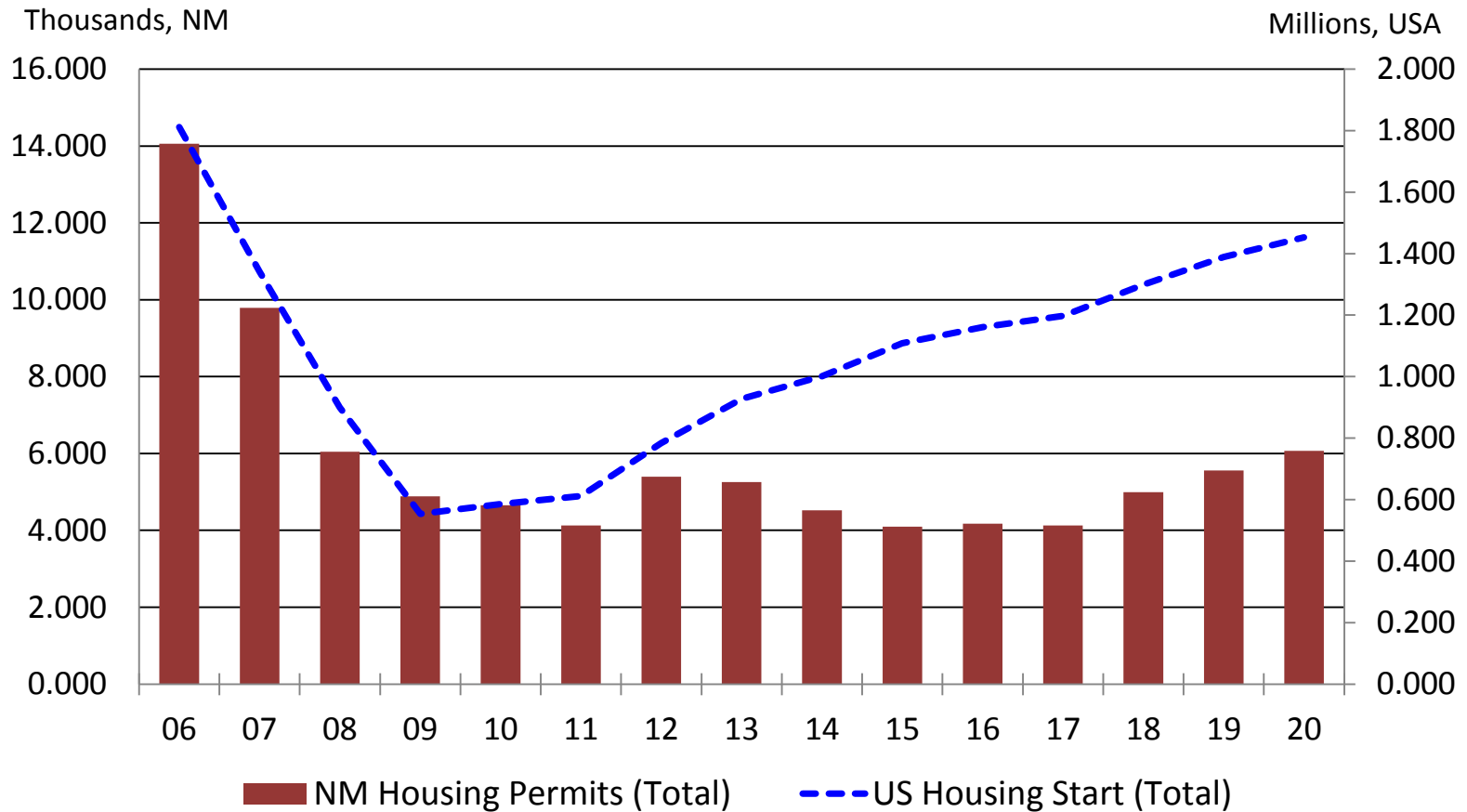


Non Metro
 Oil Patch
 Dona Ana Co

Santa Fe Co
 Bernalillo Co
 Permits (Right)



US & NM: Housing Starts & Permits

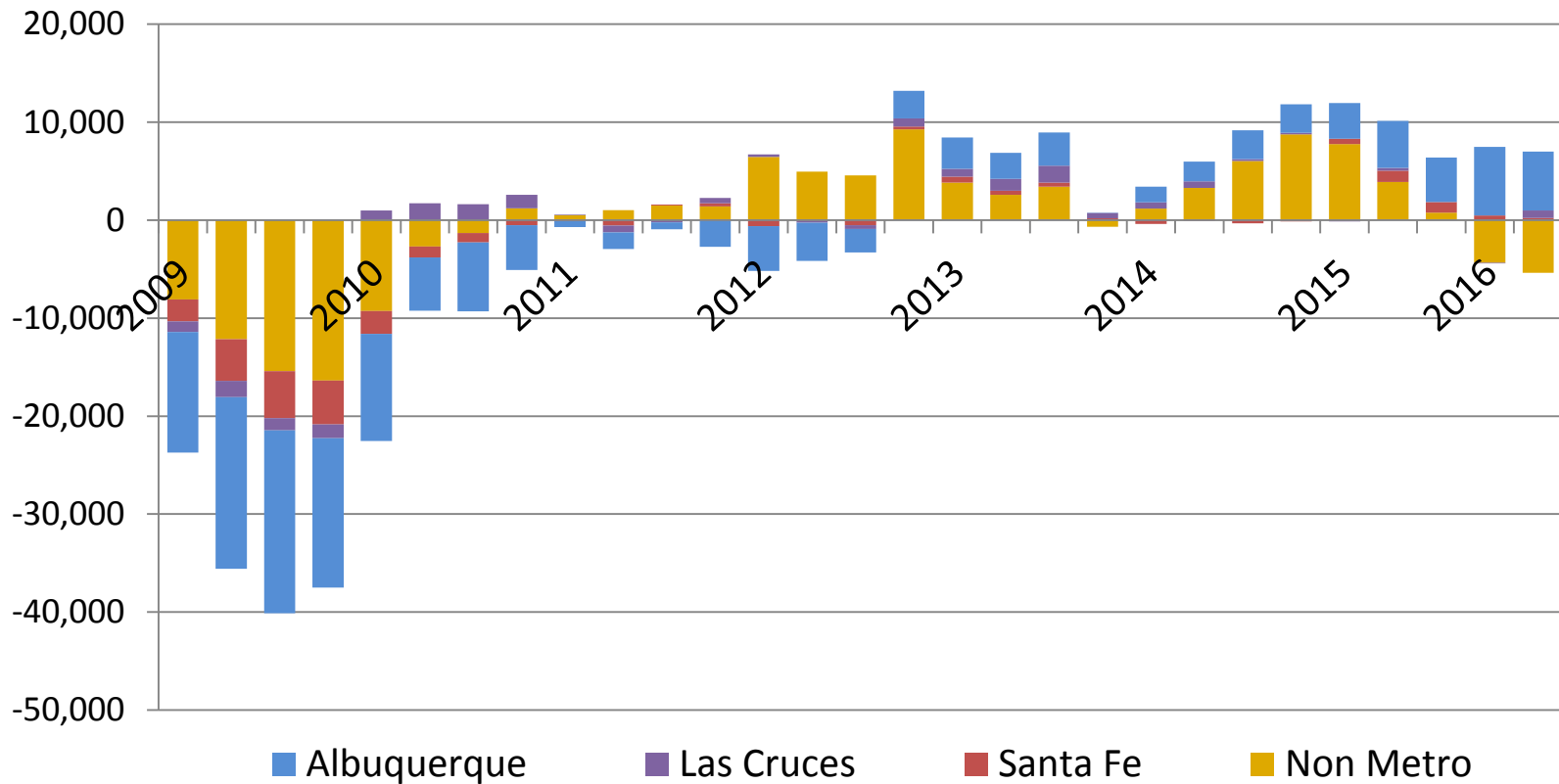


Metro & Non-metro New Mexico

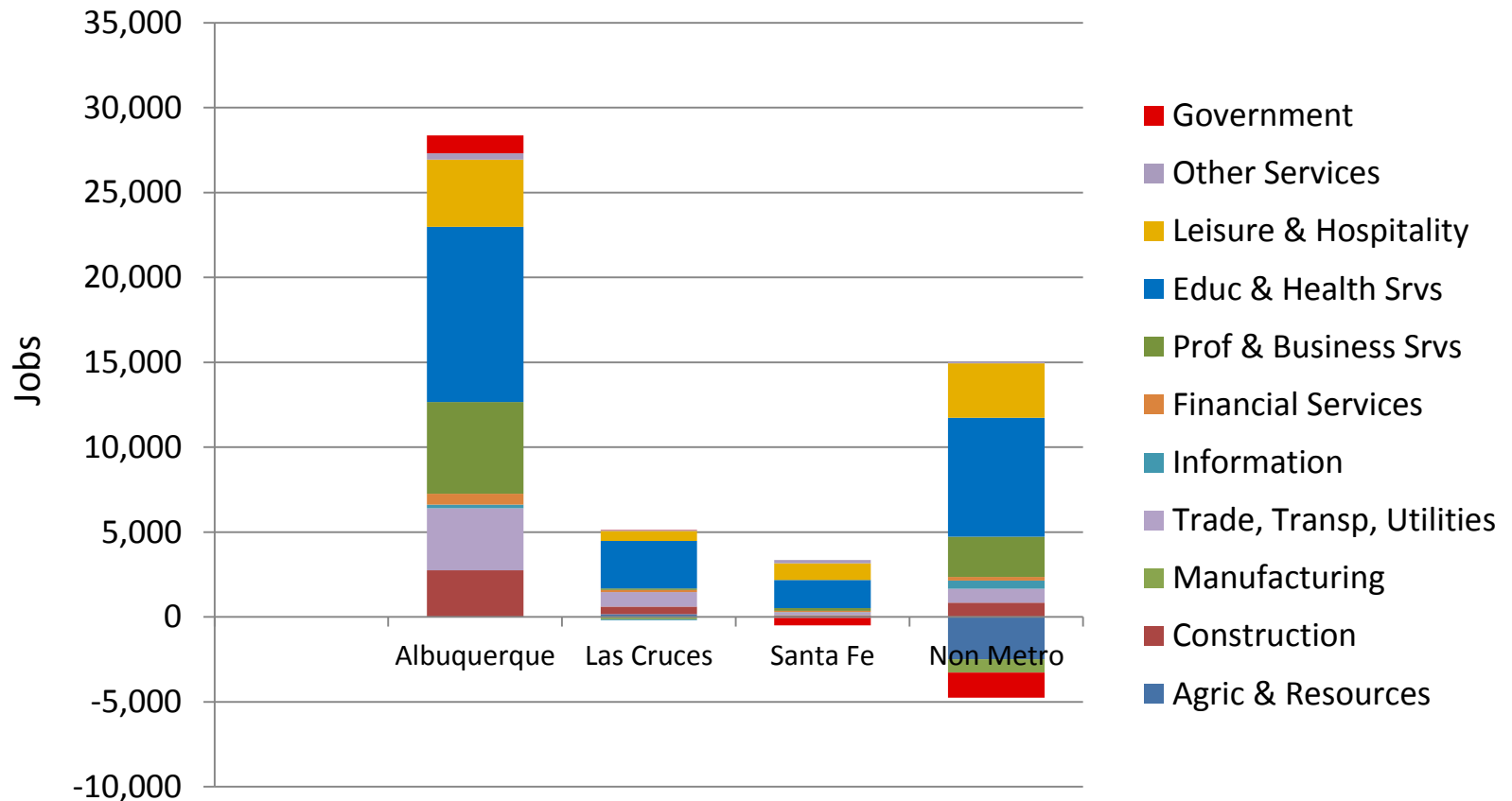


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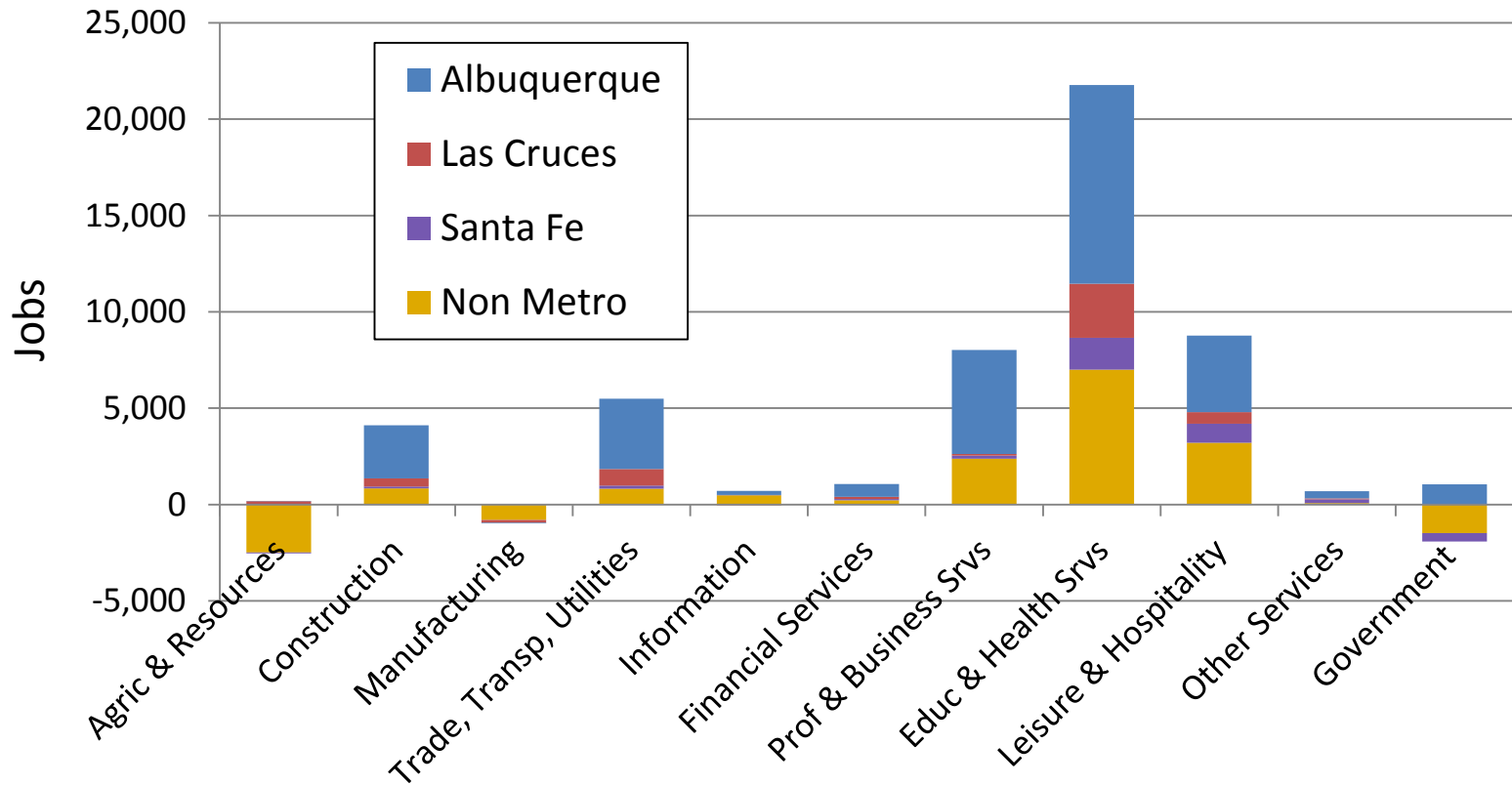
Employment Data History – MSA's



Job Creation by MSA, 2016-2020



Job Creation by Industry, 2016-2020



Questions / Comments?

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