New Mexico Economy: Recent Developments, Outlook & Opportunities

August 2016

Presentation to the Office of Senator Martin Heinrich
Presented by Jeffrey Mitchell, Director, UNM-BBER

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Summary

- NM has underperformed the nation in recovery from Great Recession – still well below pre-Recession employment levels. Slow recovery has resulted in out-migration, smaller labor force.
- State's weak recovery, slow job growth is not typical, raising troubling questions.
- Evidence of a widening disconnect between urban & rural economies.
- Economic impact (employment) of decline in oil prices is mostly localized and is likely reaching the bottom with job growth in 2017 likely.
- Fiscal impact (State Gov't finances) is severe and will continue, underlining State's dependence on oil & gas and lack of diversity in revenue streams.
- Medicaid expansion has brought large inflow of federal monies, increased coverage by >200 thousand, but economic impacts difficult to identify.
- Policy ideas: diversify state finances, especially gross receipts system; nurture home-grown businesses; improve access to credit; invest Permanent funds; Education, education, education.

New Mexico's Post-Recession Economy

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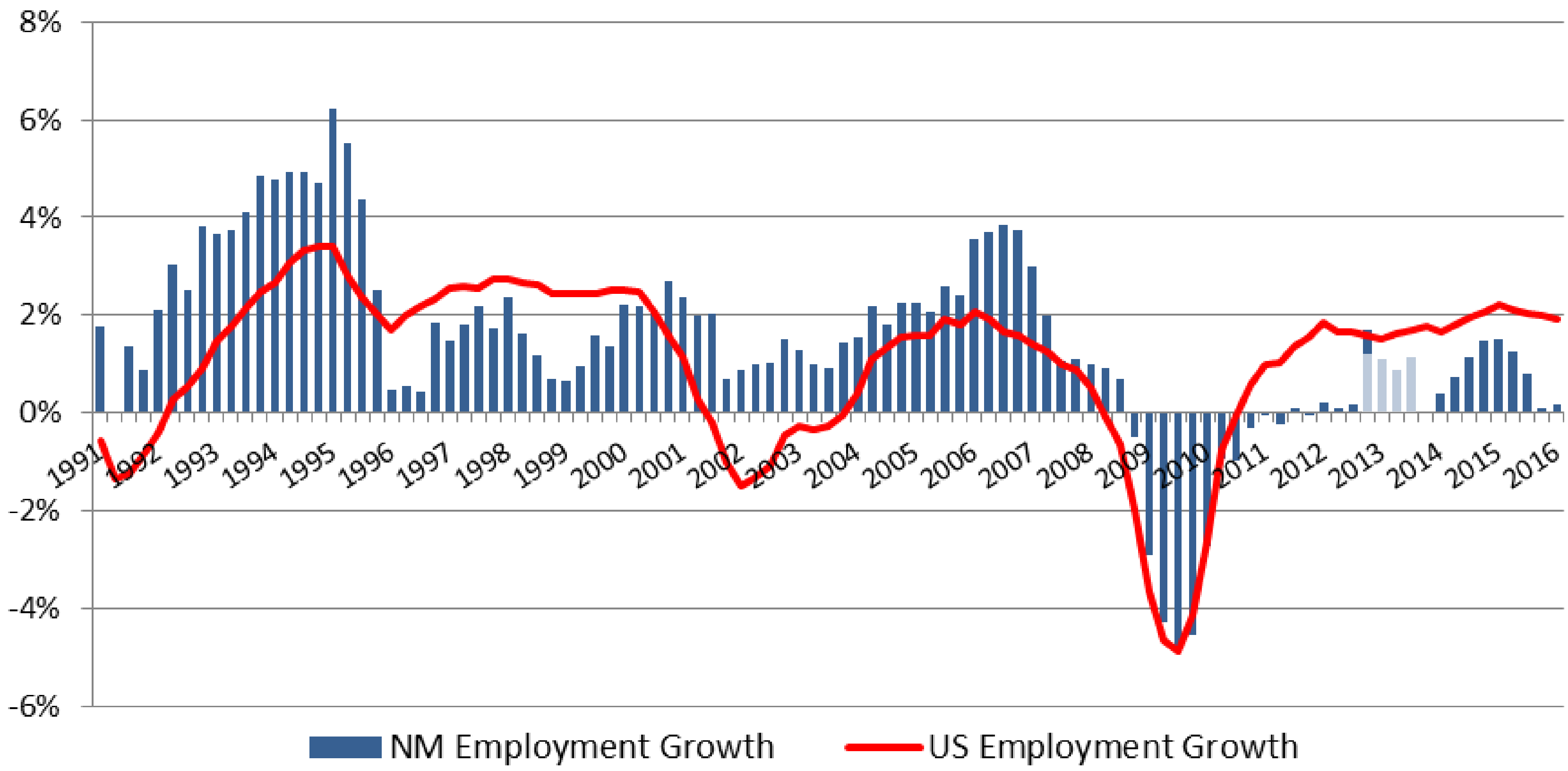
New Mexico and US Employment Growth, (1991-2016Q1)



Source: BBER FORUNM, IHS Global Insight

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Why is New Mexico's recovery so weak?

- Loss of federal money – growth of federal spending, especially in categories most beneficial to New Mexico.
- No lead sector – Oil & Gas has minimal impacts. No growth in historically leading sectors (e.g. construction; professional & technical services, including national labs; government).
- Post-recession slowdown in national migration patterns – weak housing markets, household focus on rebuilding savings.
- Change in global & national patterns of economic growth – toward higher skill industries & occupations (e.g. Professional & Business Services).
- Decline of local and regional banks and limited access to capital.
- Changing demographic patterns – cause or effect?

Federal Government Spending in New Mexico, by Category, FY 2014

	Retirement benefits	Non-retirement benefits	Grants	Contracts	Salaries & wages	Total
Total (millions)	$8,034	$5,590	$5,449	$7,181	$2,998	$29,252
Rank	36	36	33	16	28	33
Per Capita	$3,852	$2,680	$2,613	$3,443	$1,438	$14,026
Rank	21	28	6	4	6	6
% GDP	8.8%	6.1%	6.0%	7.9%	3.3%	32.1%
Rank	11	17	4	3	6	3
2005-2014 Increase (US)	63%	80%	35%	9%	24%	49%

Source: Pew Charitable Trusts, Federal Spending in the States, 2005 to 2014

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NM Employment Growth by Industry, Pre- and Post-Recession

	2001-2008		2009-2015			
	%/yr	Rank	Gain/Loss	%/yr	Rank	2015
Total Non-Farm	1.8%	7	(19,537)	-0.3%	49	806,199
Private	1.8%	8	(11,979)	-0.3%	47	626,033
Mining	2.3%	15	4,630	1.9%	13	36,931
Construction	2.8%	9	(13,931)	-3.9%	47	43,425
Manufacturing	-2.2%	23	(7,286)	-3.3%	49	27,749
Trade, Transp, Utilities	1.0%	10	(5,719)	-0.6%	47	137,442
Information	-1.0%	9	(3,290)	-3.2%	40	12,680
Financial Activities	0.6%	26	(1,346)	-0.6%	27	32,004
Prof & Business Services	2.9%	5	(8,714)	-1.2%	50	99,770
Educ. & Health Services	4.4%	6	19,478	2.5%	13	122,337
Leisure & Hospitality	1.4%	31	6,639	1.1%	32	93,264
Other Services	2.0%	5	(2,415)	-1.6%	44	20,431
Total Government	1.6%	4	(7,557)	-0.6%	36	180,166
Federal Government	0.5%	13	(1,549)	-0.7%	40	29,147
State Government	1.6%	8	(2,834)	-0.8%	41	48,443
Local Government	2.0%	8	(3,175)	-0.4%	29	102,576

Source: US Bureau of Labor Statistics, QCEW

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MSA Employment Growth 2009-2016 (Jan-June)

	All MSA		Albuquerque		Las Cruces		Santa Fe	
	Avg %	Count	Avg %	Rank	Avg %	Rank	Avg %	Rank
Total Nonfarm	**1.3%**	**221**	**0.0%**	**197**	**0.5%**	**154**	**0.3%**	**184**
Total Private	1.6%	221	0.1%	198	1.4%	101	0.5%	178
Manufacturing	0.1%	205	-2.3%	190	-3.9%	201	0.4%	96
Prof & Bus Svrs	2.5%	209	-1.0%	201	0.5%	168	-0.6%	197
Educ & Health Srvs	2.3%	206	2.5%	61	4.5%	5	2.0%	98
Leisure & Hospitality	2.6%	210	1.6%	135	1.5%	138	1.8%	119
Federal Government	-0.2%	214	-0.8%	118	-2.1%	174	-1.4%	152

Source: US Bureau of Labor Statistics, CES

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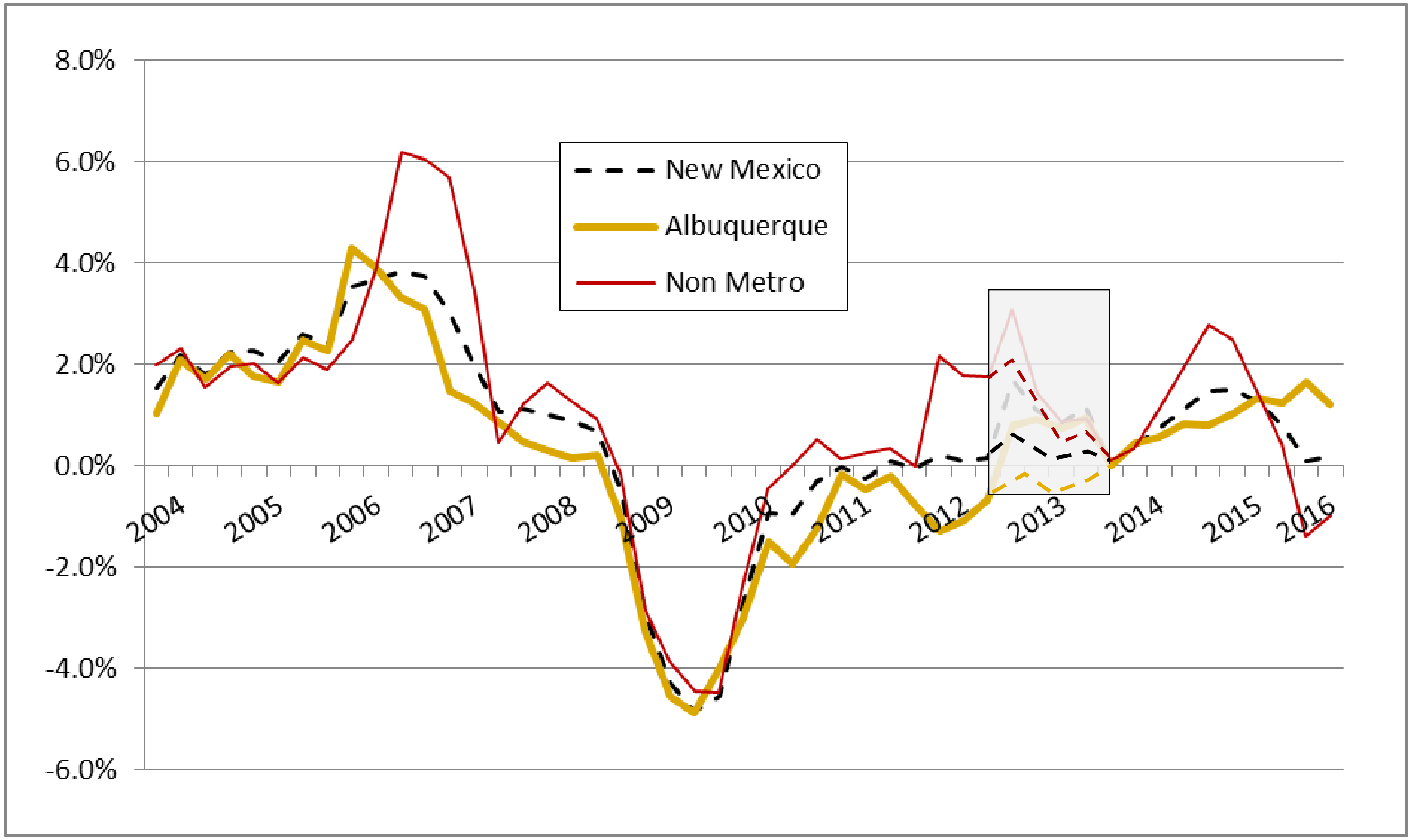
Employment Growth by Geography, 2009-2016



Source: US Bureau of Labor Statistics, QCEW

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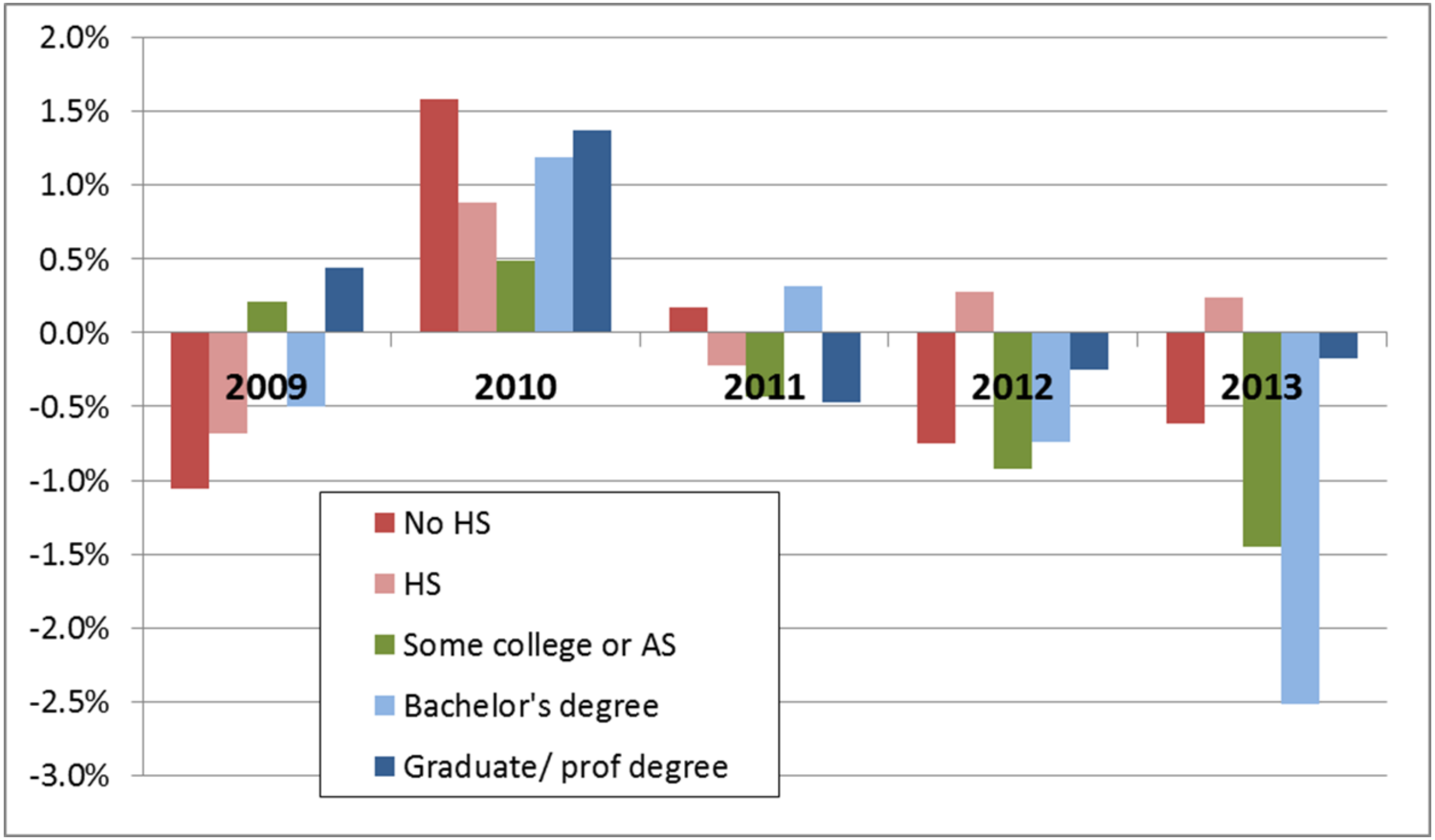
Domestic Migration from New Mexico, by Educational Attainment, 2009-2013



Source: ACS PUMS, 1-yr estimates, 2005-2013

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Current Economic Situation

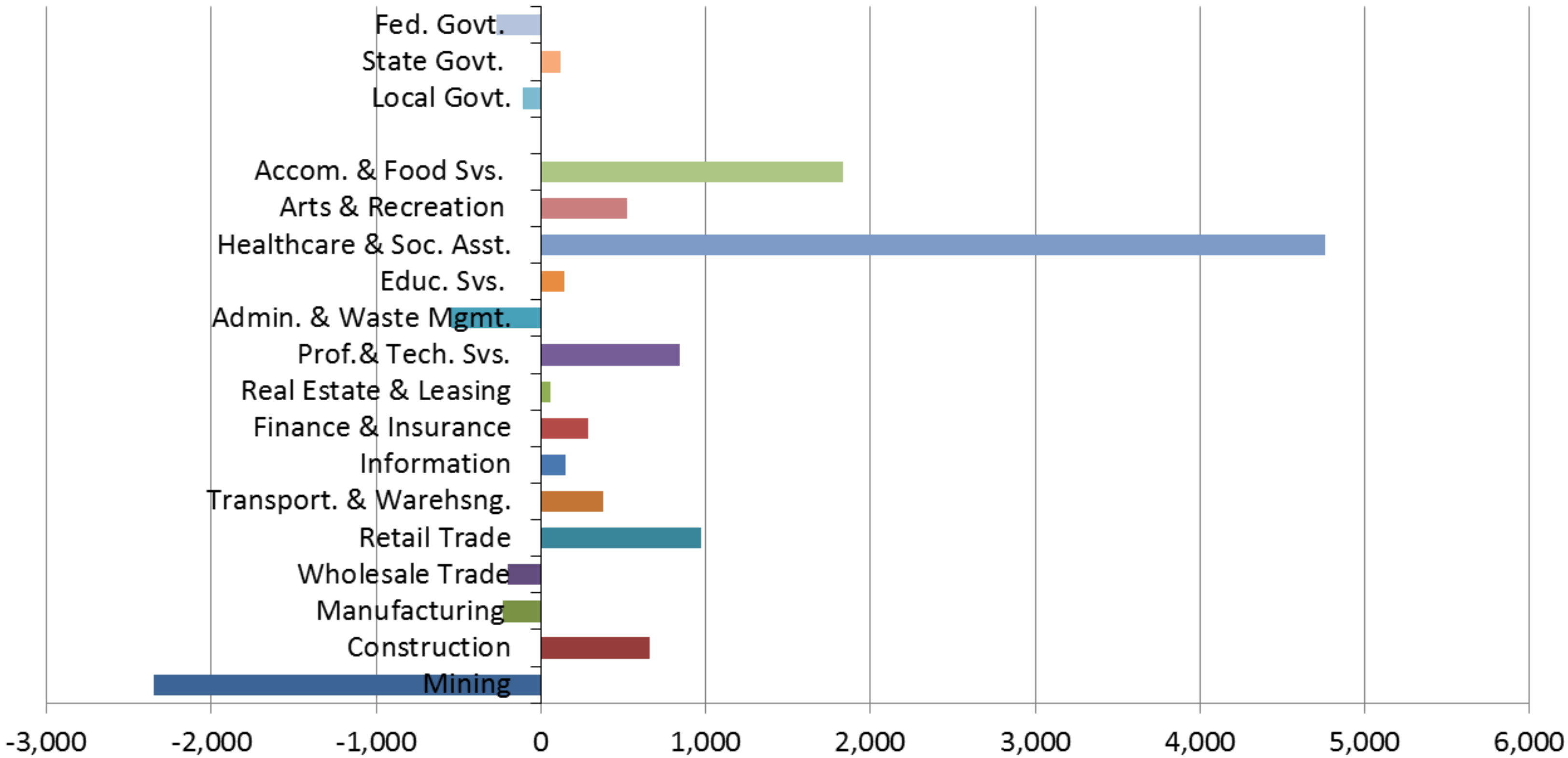
New Mexico Economic Current Situation

- The full impact of the oil price decline is here – but we may have hit the bottom.
- Each quarter from 2015Q1 to 2016Q1 was weaker than the previous, but preliminary numbers indicate improvement in 2016Q2. In 2016Q, mining was down 6,450 (-23.7%), but healthcare was up 6,600 (5.3%). Most of the rest of growth was in low-wage sectors (e.g. Hospitality).
- Impact of oil decline is greatest on public finances. State FY16 General Fund closed FY16 ~$223 mn in deficit, and current projections for FY17 are a deficit of $431 mn. Reserves down to $220 mn (2.1%). Governor has taken tax increases off the table.
- Patterns indicate broader than acknowledged dependence on Oil & Gas – O&G revenues down $292.4 mn (-30.8), but CIT down $113.8 mn (-49.9%), GRT down -$138.4 mn (-7.2%), all in Lea, Eddy and San Juan Counties.

New Mexico Economic Current Situation

- Operating drill rigs up from 13 in mid-March to 30 on August 5 – not a recovery but the right direction.
- With Civilian Labor force down by 10,600 (-1.1%), unemployment rate (SA) stable at 6.2% (US=4.9%).
- Personal income growth fell to just 2.0% in 2015Q4 (W&S disbursements 0.3%) with slight improvement to 2.9% in 2016Q1 (W&S disbursements 2.5%). Medicaid-related Transfer growth slowing.
- An interesting regional pattern to NM's economy – ABQ & SF MSAs offsetting Non-Metro areas, and growth has occurred only when both were strong.

Job Creation by Sector, 2015



Source: US Bureau of Labor Statistics, QCEW

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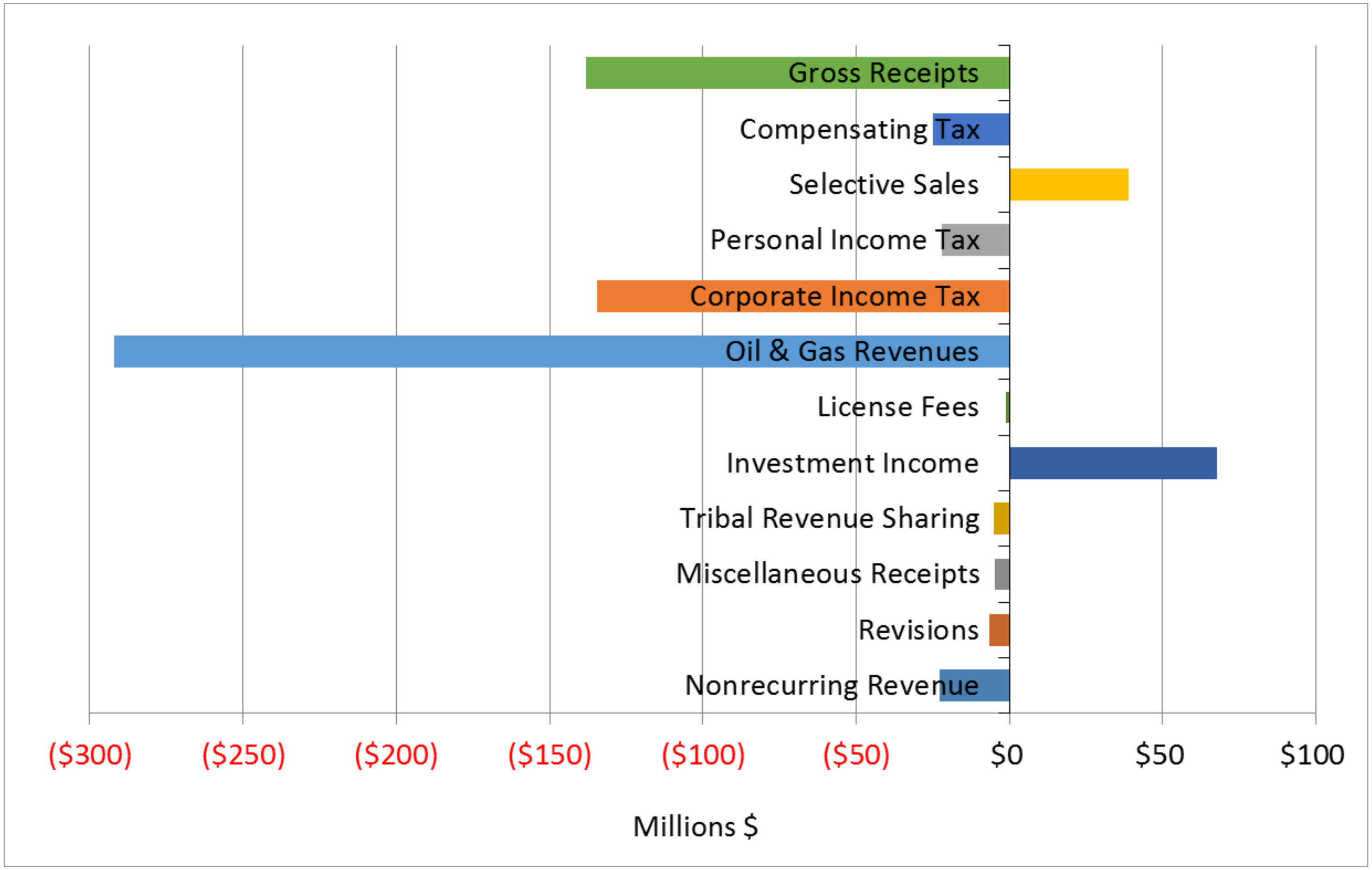
Public Finances

Change in General Fund Revenue Accruals (FY 2015 Vs. FY 2016)



Source: NM Legislative Finance Committee

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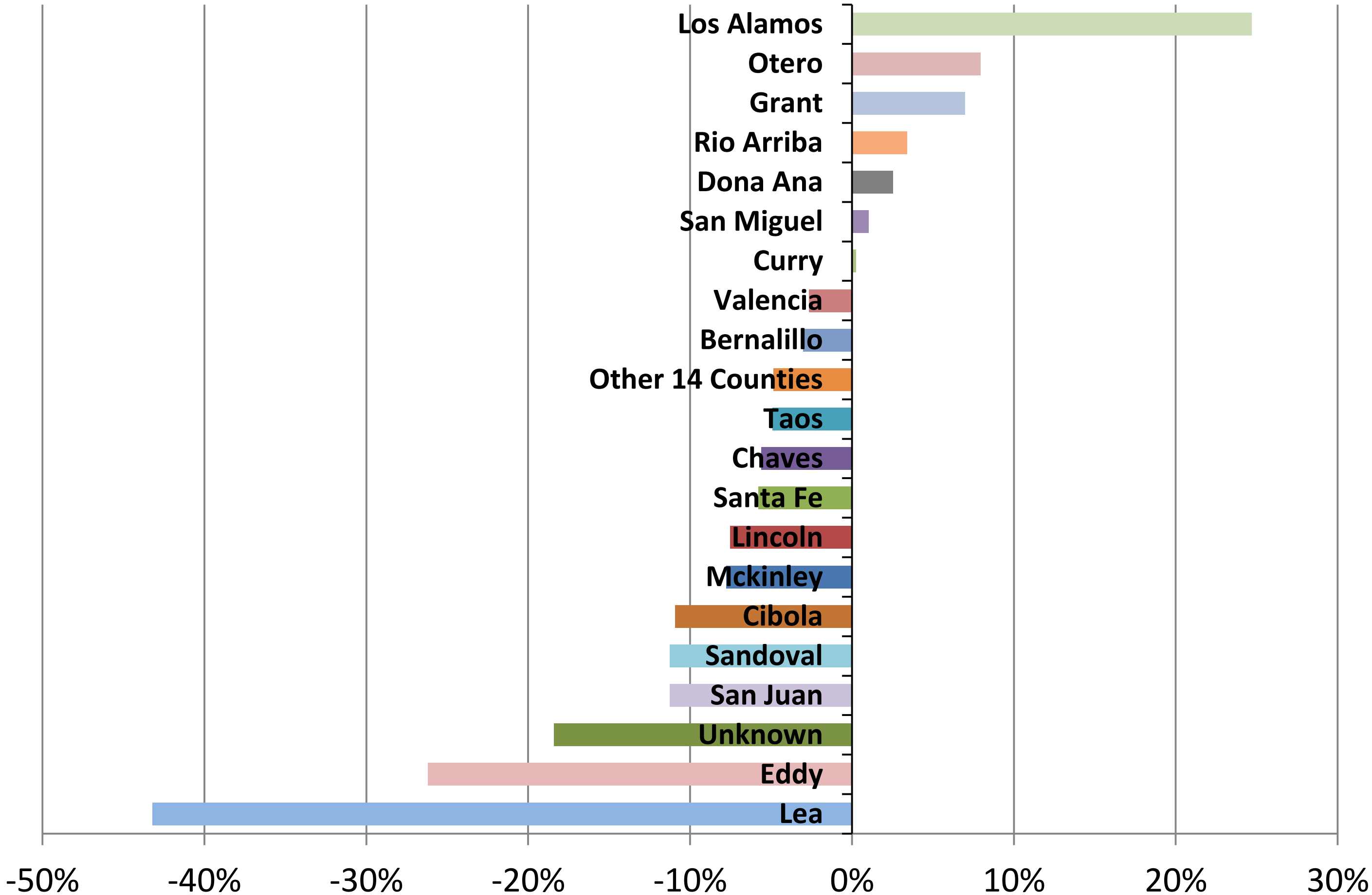
Change in Gross Receipt Tax Collections by County (July 2015 through May 2016)



Source: NM Taxation & Revenue Department

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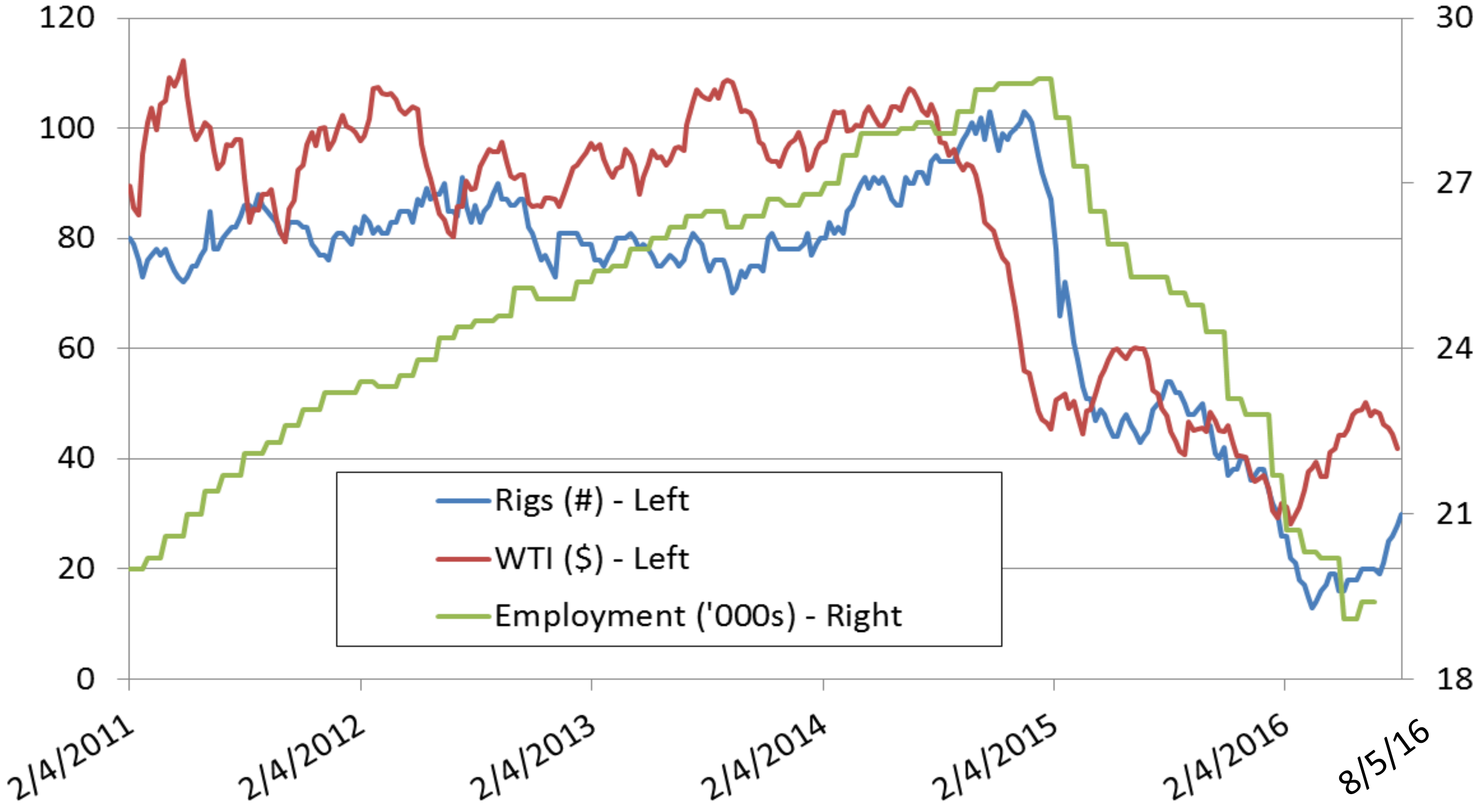
Rig Counts in New Mexico vs. WTI Price



Source: EIA, Baker Hughes

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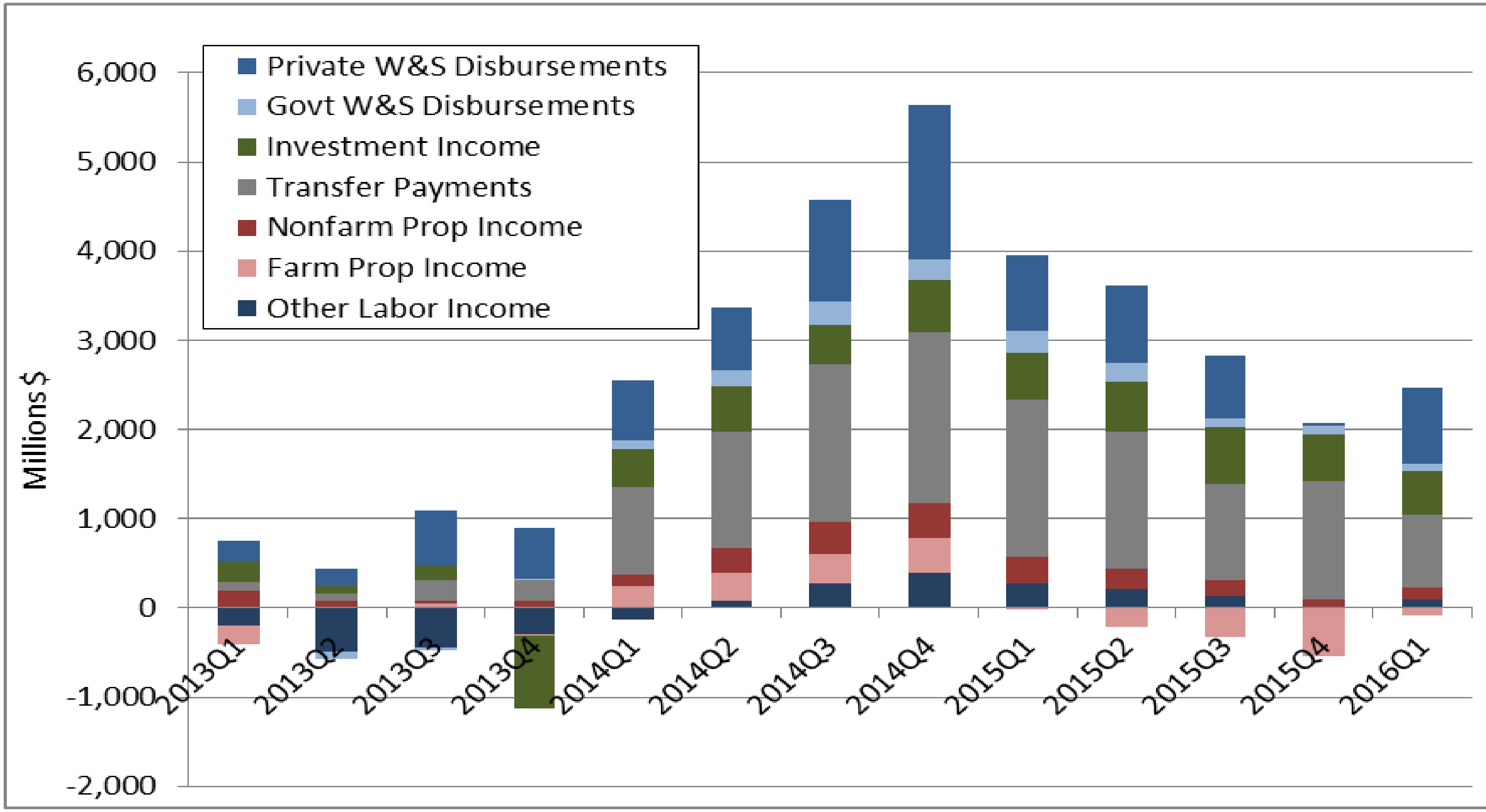
Personal Income and Medicaid impacts

Personal Income Growth, By Component, 2013 – 2016 (March)



Source: US Bureau of Economic Analysis

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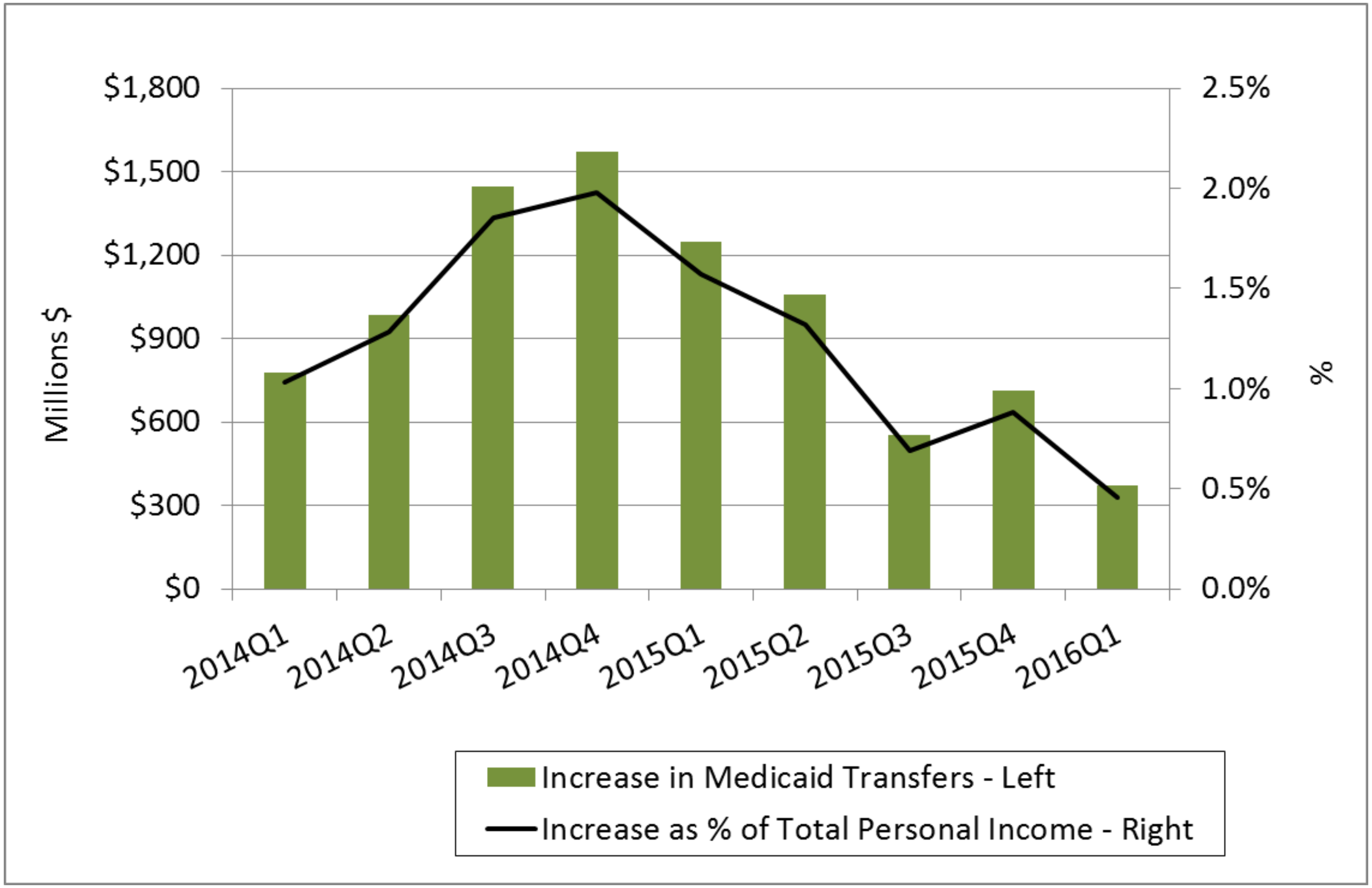
Growth of Medicaid Transfers, 2014-2016Q1



Source: US Bureau of Economic Analysis

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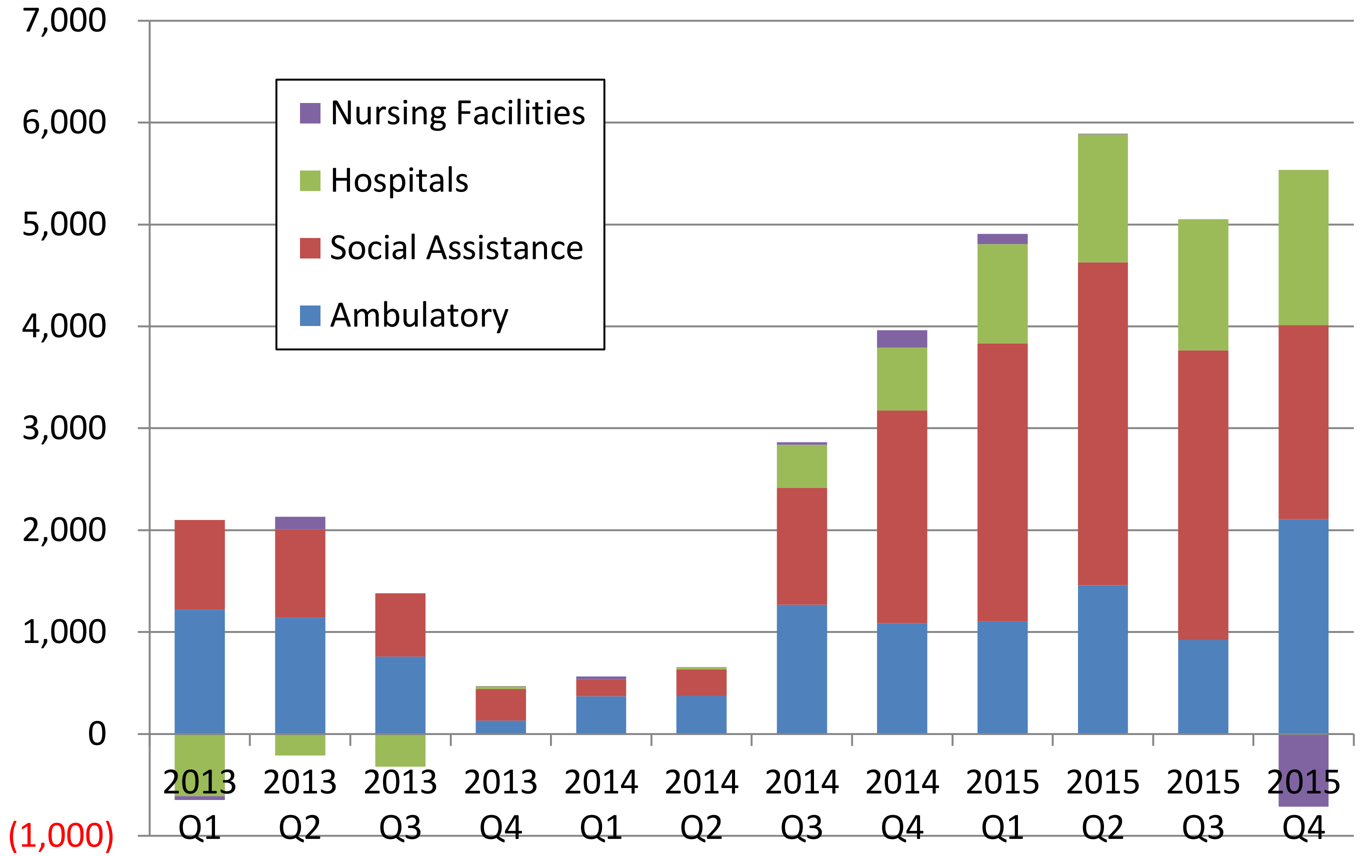
Heath Care & Social Assistance Employment Growth by Subsector, 2013-2015



Source: US Bureau of Labor Statistics, QCEW

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Per Capita Personal Income Growth, by Component, 2016Q1

	Per Capita Income			Per Capita Personal Income Growth (2015Q1-2016Q1)		
	United States	New Mexico	NM Rank	United States	New Mexico	NM Rank
Personal income (Seasonally adjusted)	$48,707	$39,084	47	4.4%	2.9%	41
Earnings by place of work	$35,172	$25,518	48	4.8%	2.1%	43
Less: contr. for govt social ins	($3,826)	($3,023)	48	4.4%	1.6%	44
Plus: Adjustment for residence	($11)	($46)				
Equals: Net earnings by place of residence	$31,358	$22,541	49	4.8%	2.2%	43
Plus: Dividends, interest, and rent	$8,902	$7,140	39	3.5%	3.4%	29
Plus: Personal current transfer receipts	$8,447	$9,404	10	3.9%	4.3%	11
Wages and salaries	$25,016	$18,199	48	5.3%	2.5%	44
Supplements to wages and salaries	$5,781	$4,580	43	3.8%	1.0%	45
Proprietors' income	$4,375	$2,739	49	3.3%	0.9%	41
Farm proprietors' income	$144	$334	11	-21.2%	-11.1%	11
Nonfarm proprietors' income	$4,232	$2,405	51	4.4%	2.8%	43
Population (thousands persons)	323,007	2,085	36	0.8%	0.0%	45

Source: US Bureau of Economic Analysis

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Average Hourly Wages by Industry – 2009-2016 (Jan-June)

	2009 (Jan-June)	2016 (Jan-June)	Avg Annual Pct Change	Rank
Total Private	$18.75	$20.48	1.3%	47
Construction	$20.90	$20.91	0.0%	42
Trade, Transp, Utilities	$17.36	$16.59	-0.7%	50
Prof & Business Services	$22.75	$26.94	2.4%	7
Educ & Health Services	$17.14	$20.56	2.6%	17
Hospitality	$11.54	$13.31	2.1%	15

Source: US Bureau of Labor Statistics, CES

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New Mexico Economic Outlook

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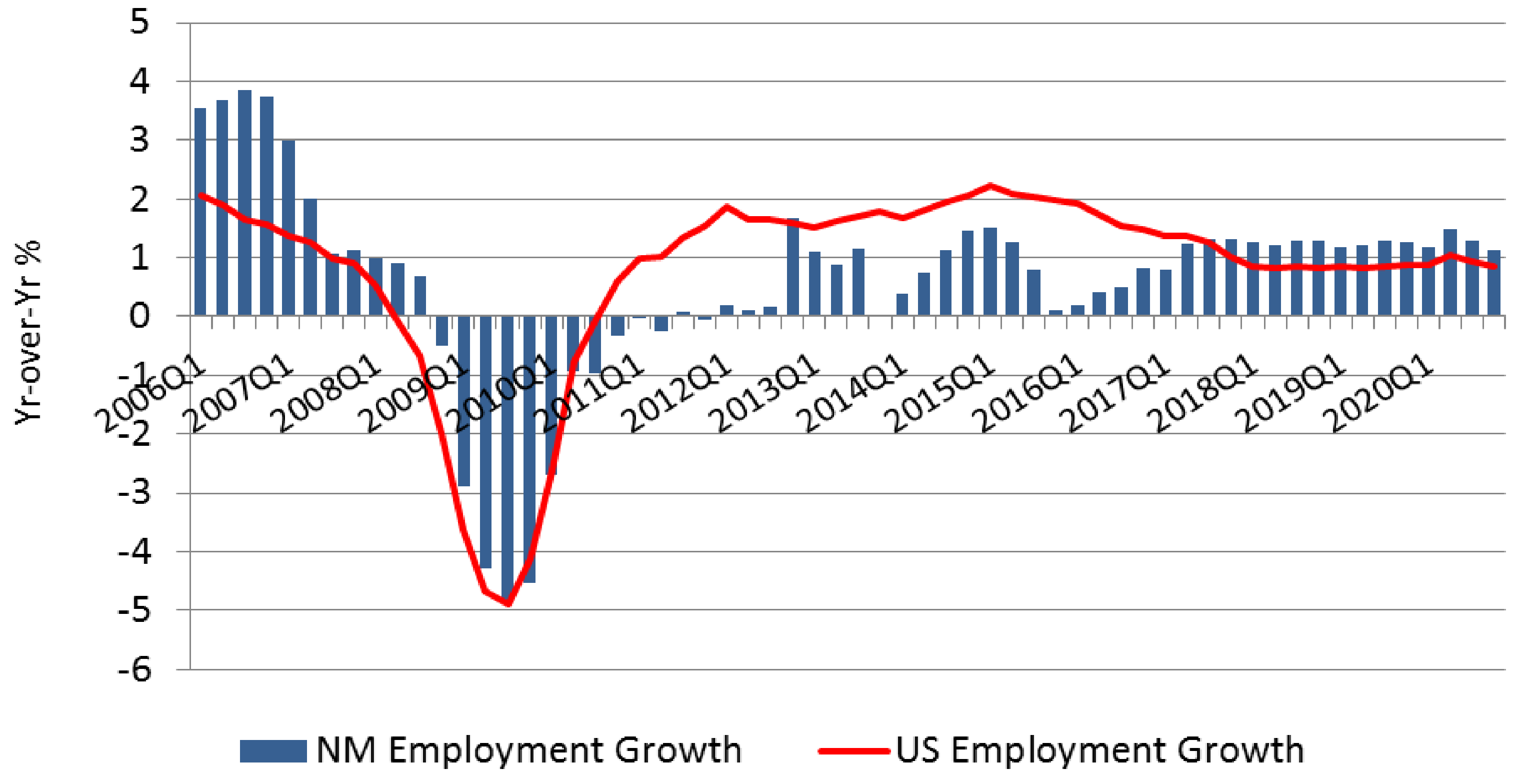
New Mexico Economic Outlook: 2016-2022

- 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 9,500 jobs (1.2%) in 2017 and 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: 46% (2017)/37% (2018-2022) in Education and Healthcare & social assistance; 39%/29% in low-wage service sectors; 9%/17% in mining, utilities, construction, manufacturing, transportation; 11%/9% in Financial and P&BS, -3%/5% in Government (tied to health)
- Income growth: 2.9% in 2016, rising to 3.8% in 2017, and 5.0% in 2019; wages growth to private sector workers key variable.
- Forecast is little changed since April.

New Mexico and US Employment Growth, History and Forecast (2006-2020)



Source: BBER FORUNM, IHS Global Insight

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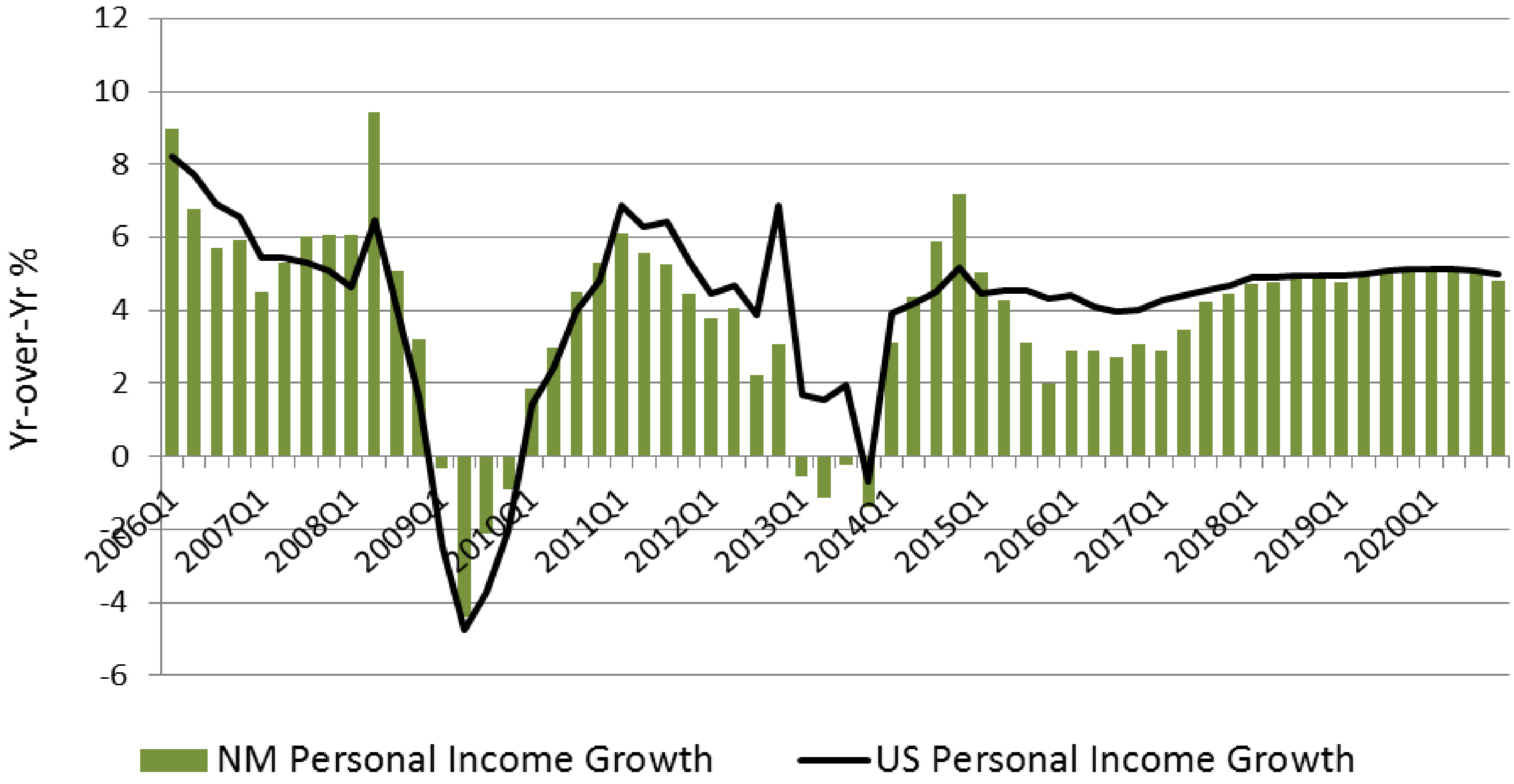
New Mexico and US Income Growth, History and Forecast (2006-2020)



Source: BBER FORUNM, IHS Global Insight

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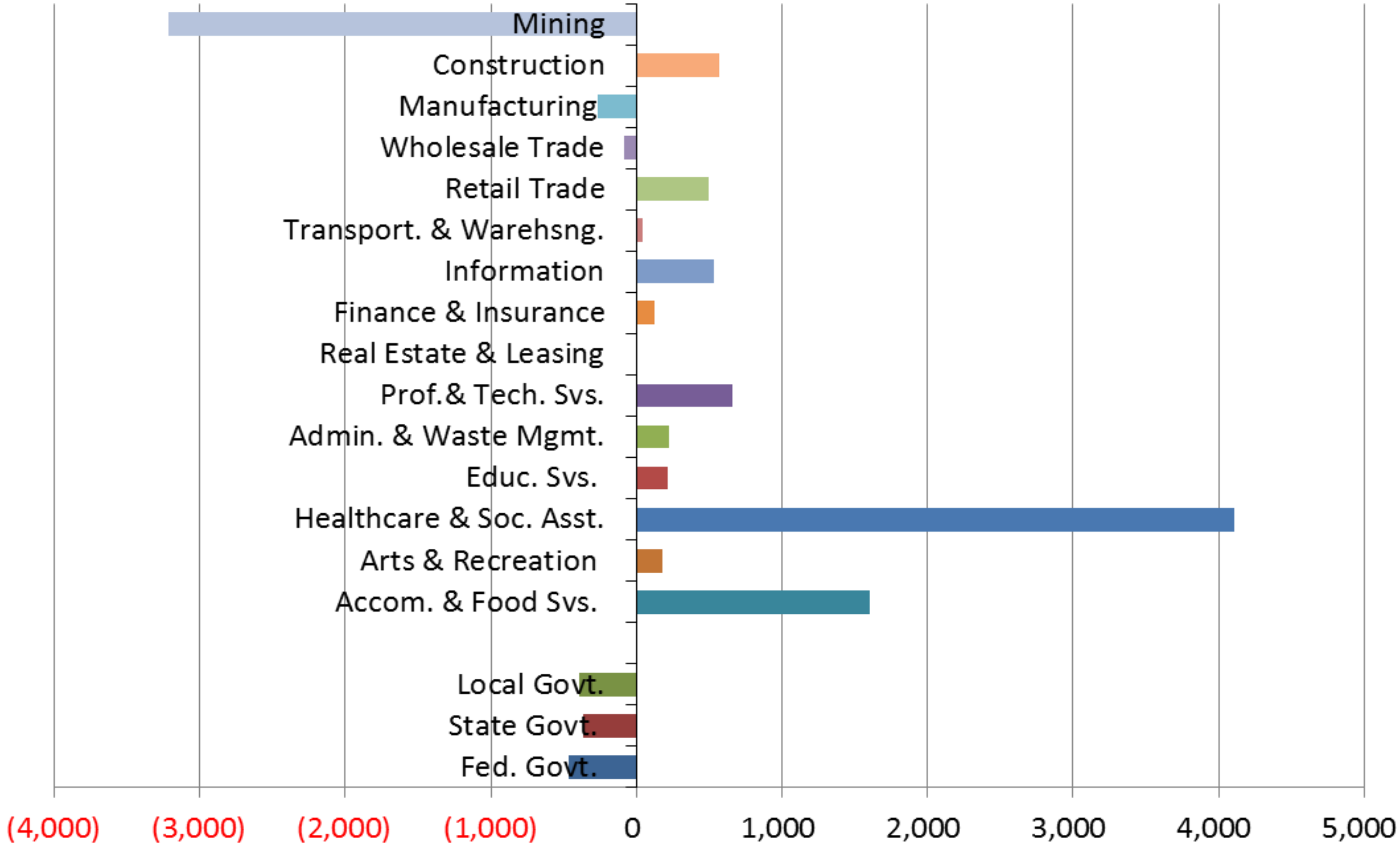
Employment Forecast by Industry, 2016



Source: BBER FORUNM

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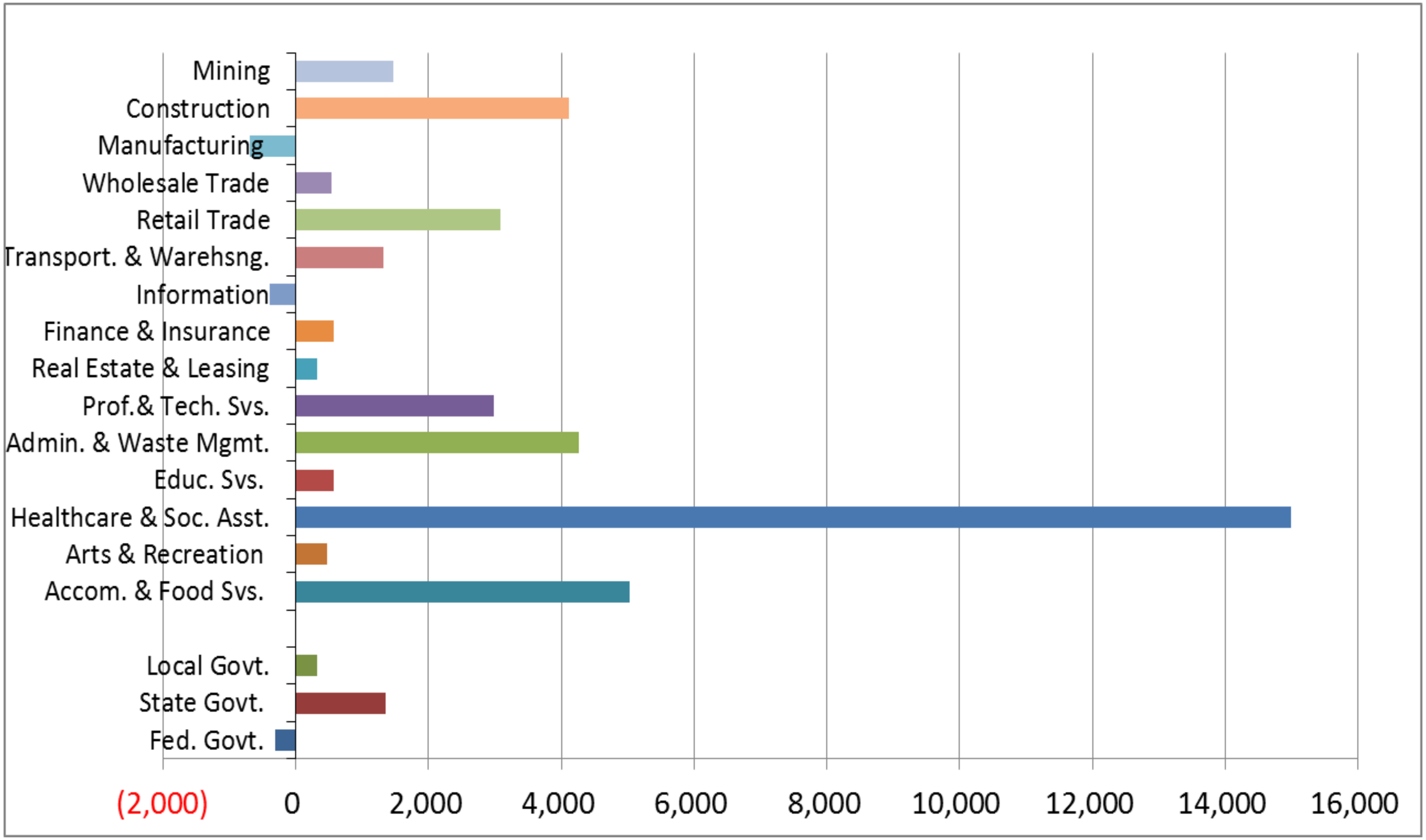
Employment Forecast by Industry, 2017-2020



Source: BBER FORUNM

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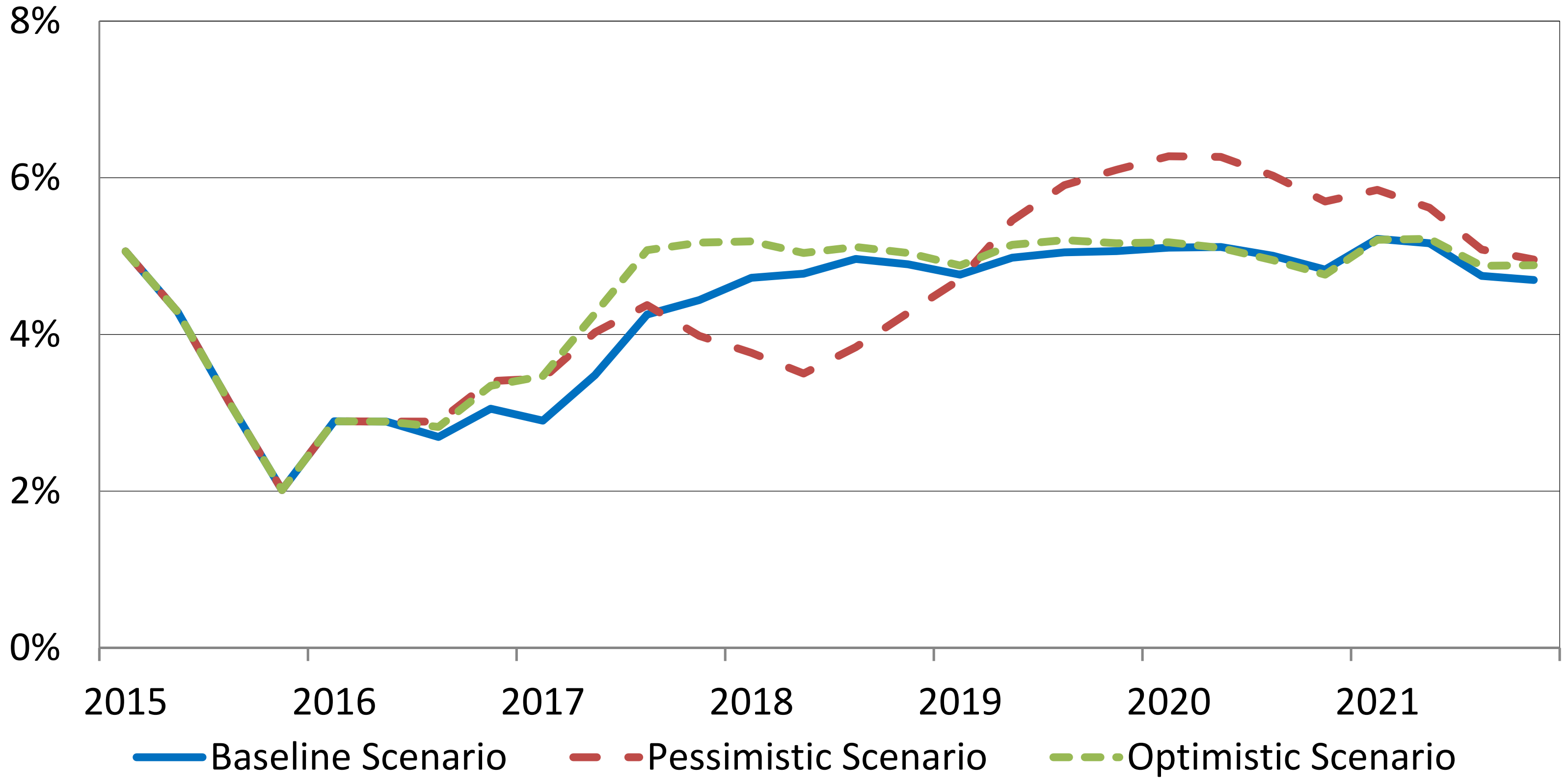
New Mexico Income Forecast, Alternative Scenarios



Source: BBER FORUNM

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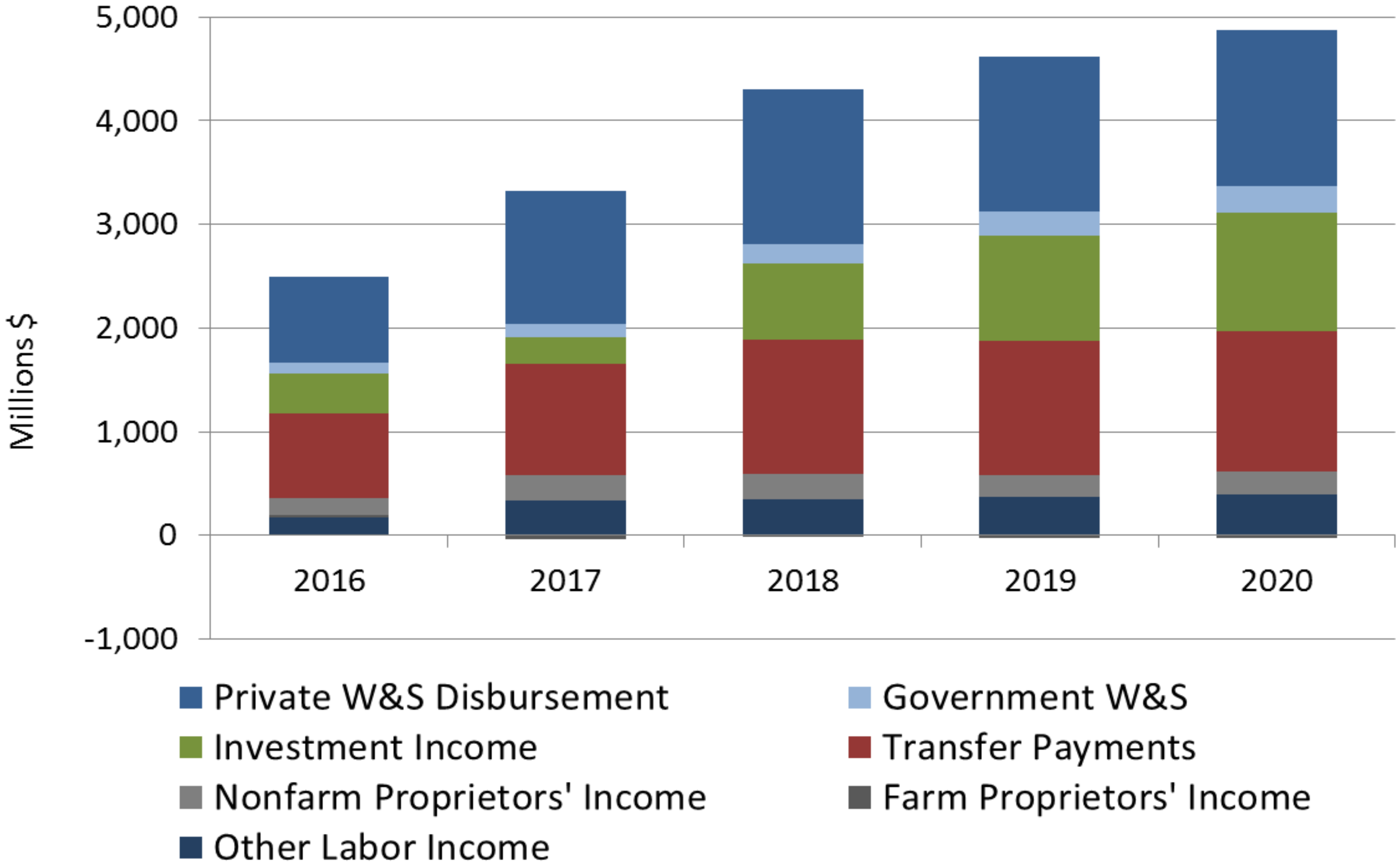
Personal Income Growth Forecast, by Component, 2016-2020



Source: BBER FORUNM

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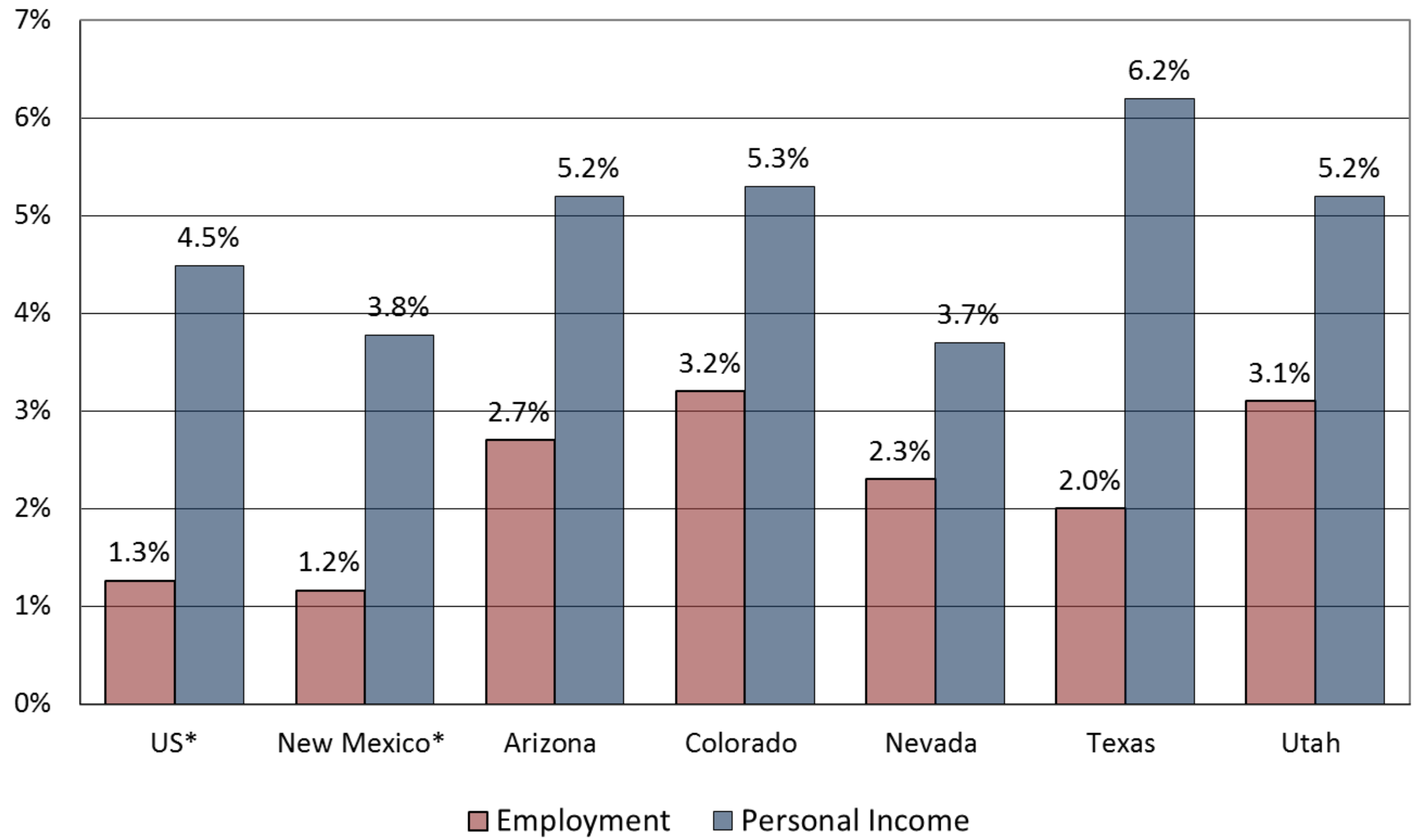
Western Blue Chip - 2017



Source: US and NM forecasts from IHS Global Insight and BBER.
Remaining forecasts are Western Blue Chip consensus forecasts.

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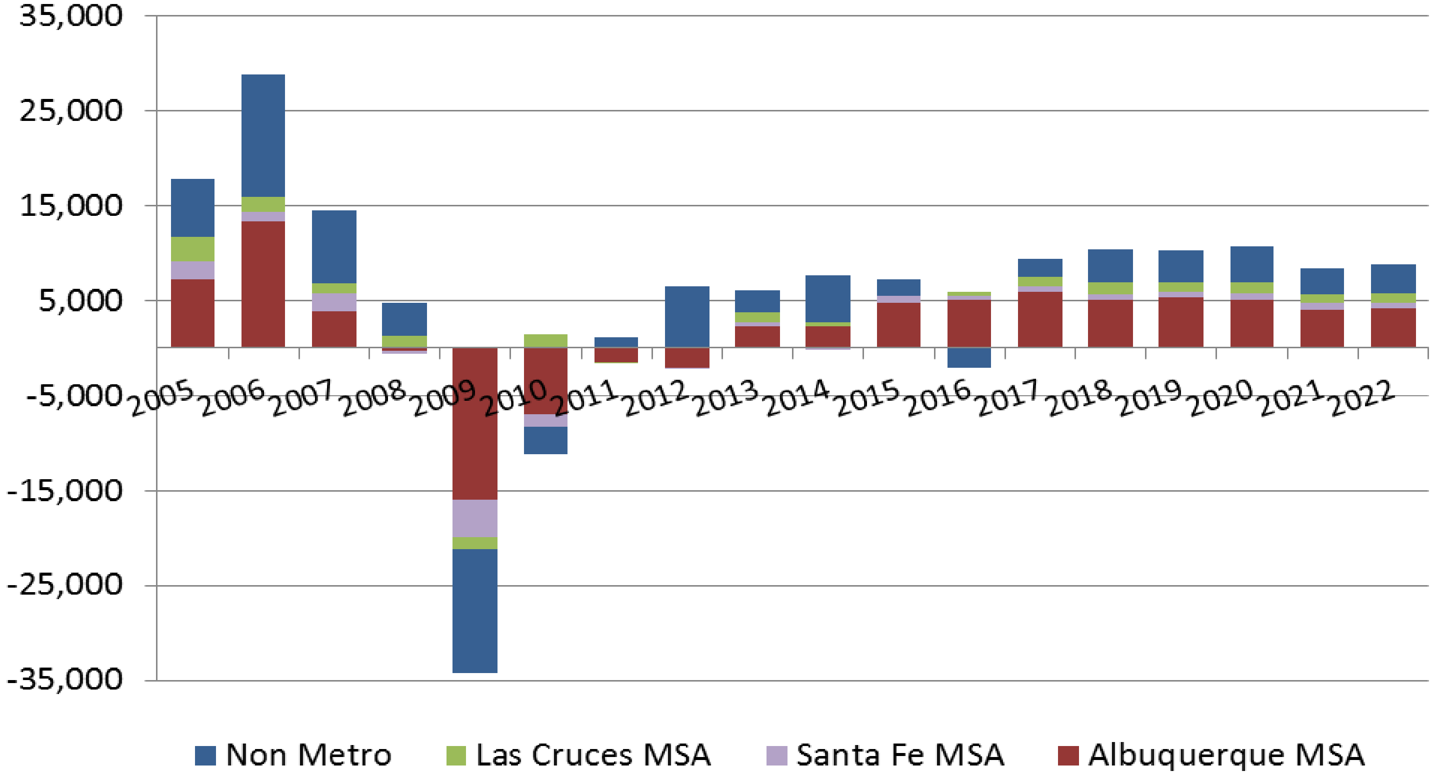
MSA Employment Forecast



Source: BBER FORUNM

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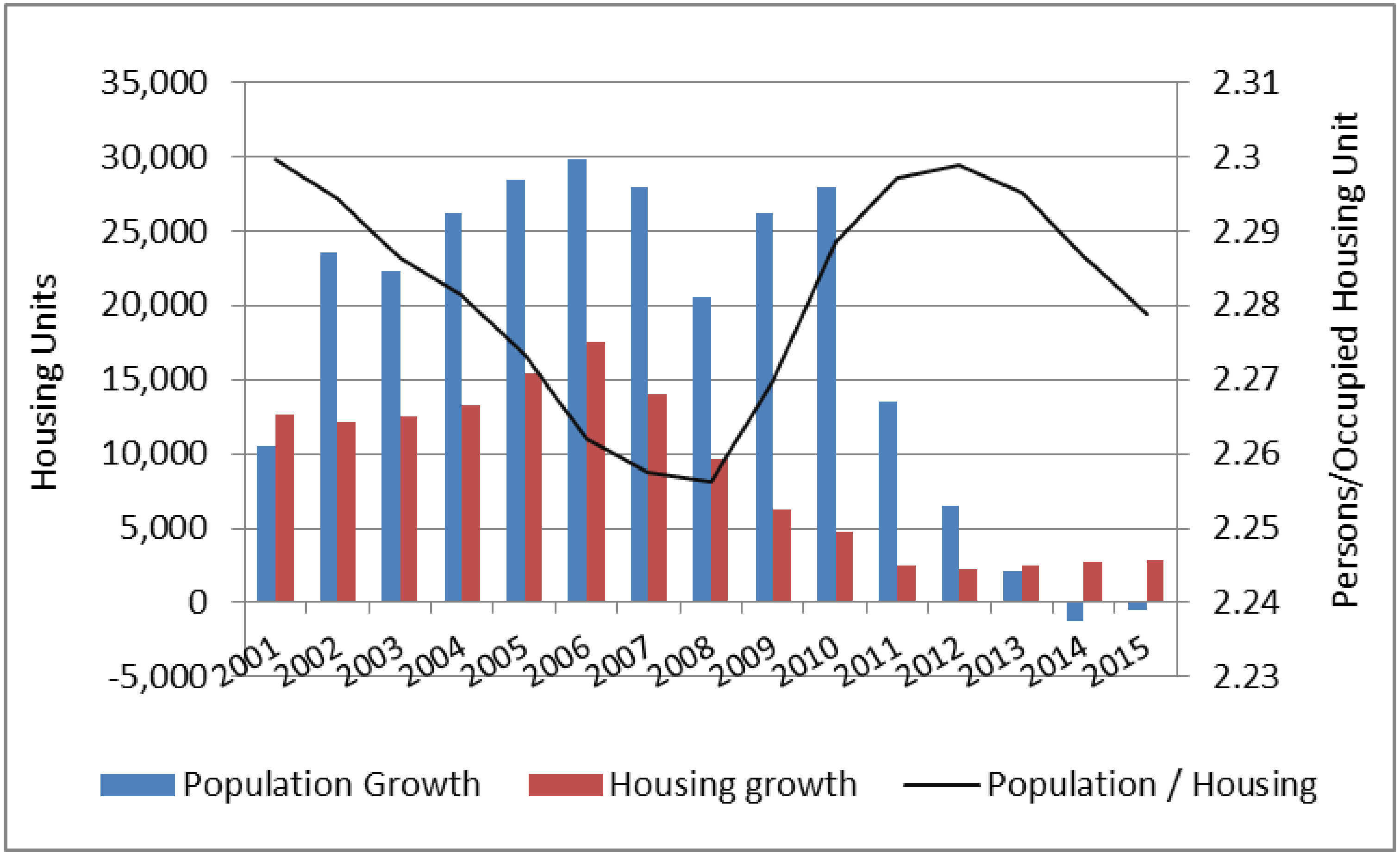
Change in Population & Housing Units, and Housing Density, 2001-2015



Source: US Census Bureau, BBER

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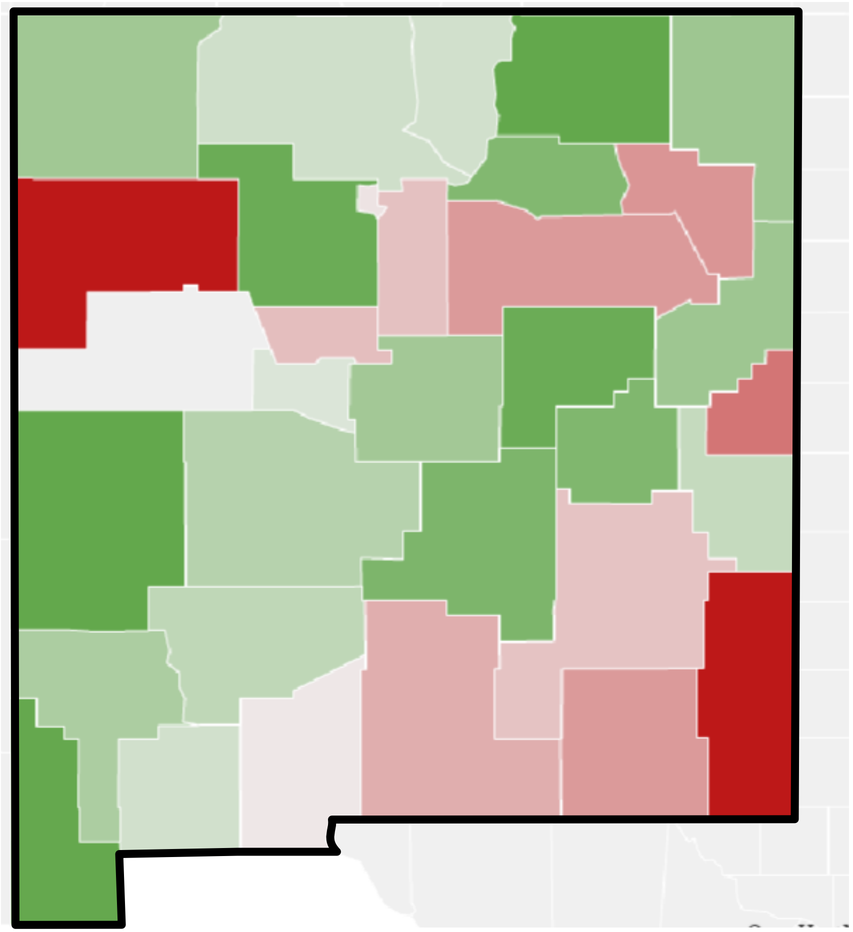
Housing Surplus/Deficit (Percentage) by County, 2015 vs. 2008



Values indicate percentage increase (Red)/ decrease (Green) in the average number of persons per occupied housing unit between 2008 and 2015.

Statewide average: increase of 1%

Source: US Census Bureau Population Estimates; BBER

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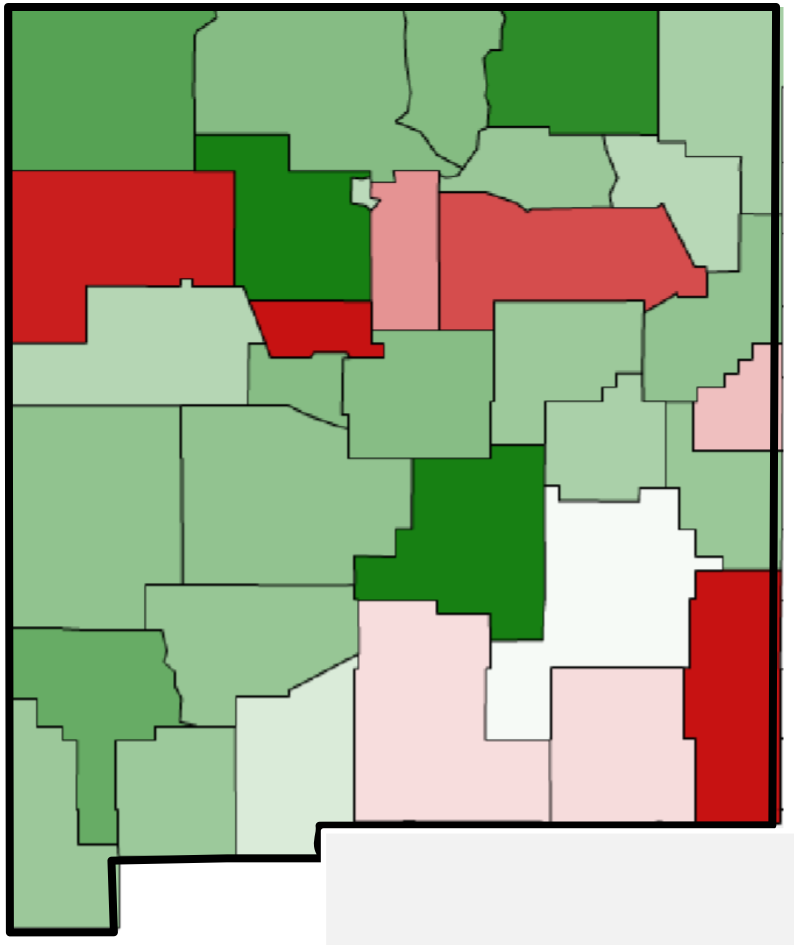
Housing units required to return population per occupied housing unit to pre-recession levels



Values indicate number of housing units required to return persons/ occupied housing unit from 2015 to 2008 levels. (Red=current housing deficit; Green=current housing surplus).

State Total: deficit of 18,964 units (9,137 units net of surpluses)

Source: US Census Bureau Population Estimates; BBER

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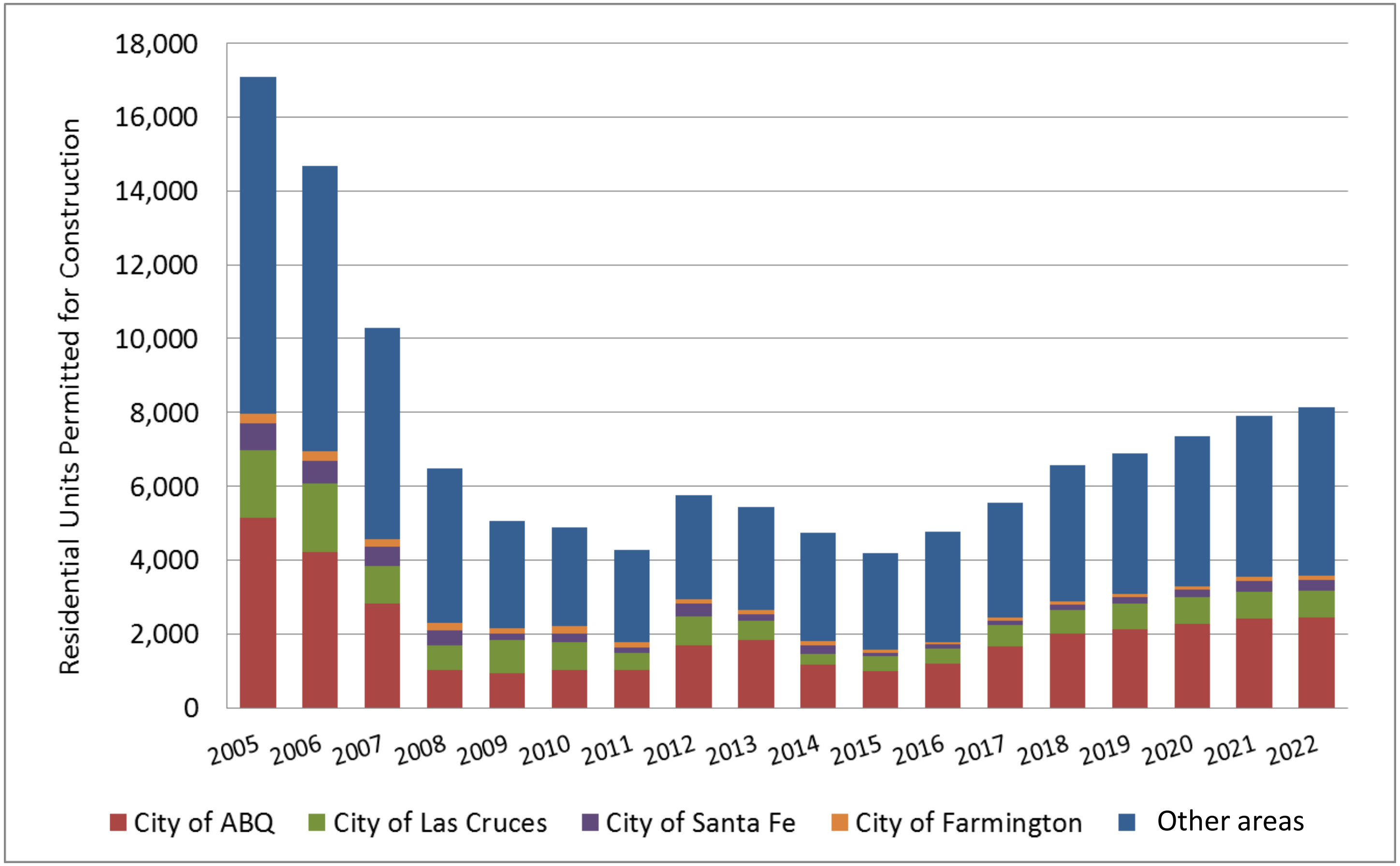
Housing Units Permitted for Construction, by Region, History & Forecast



Source: BBER FORUNM

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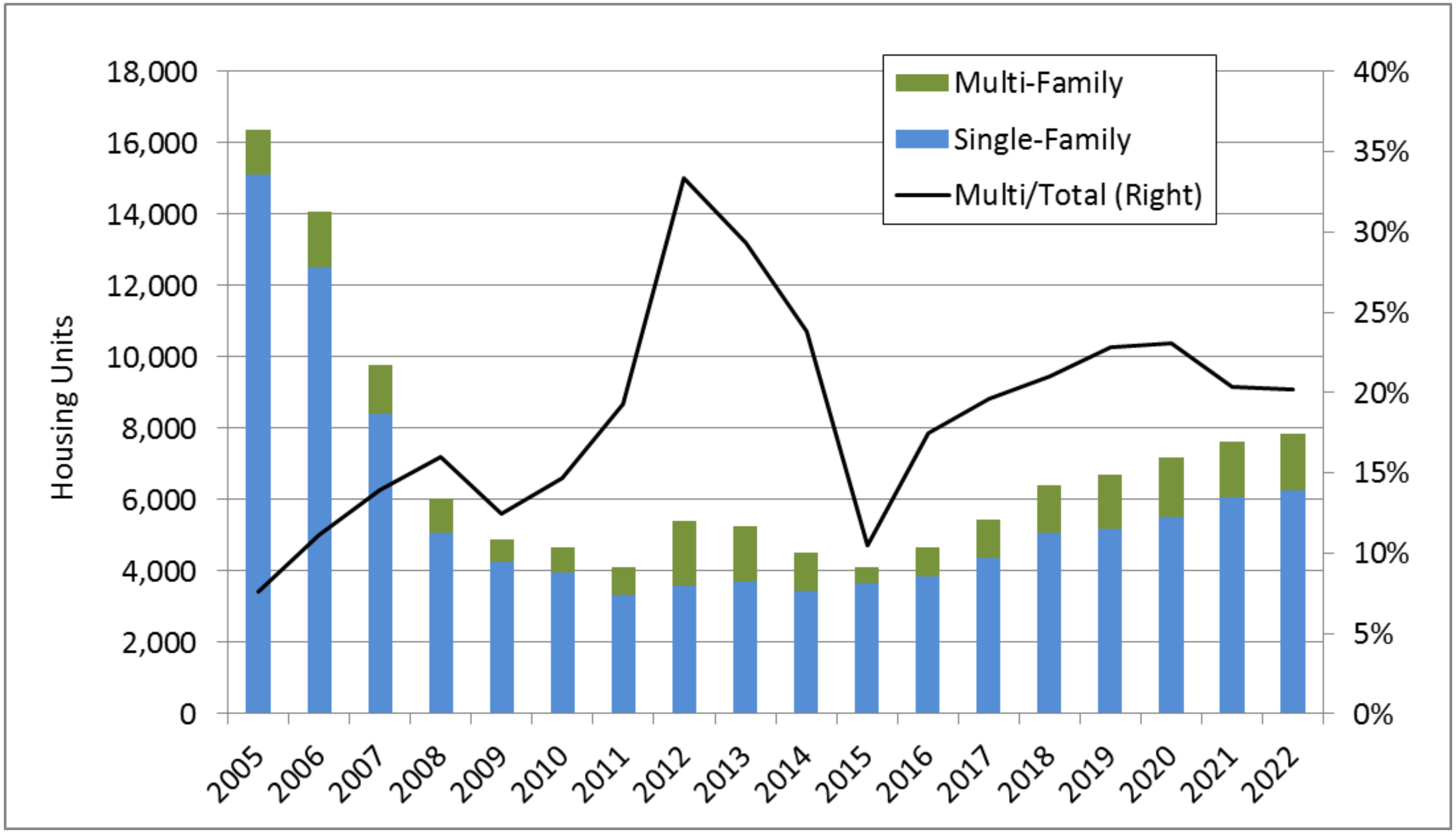
Housing Units Permitted for Construction, by Type, History & Forecast



Source: BBER FORUNM

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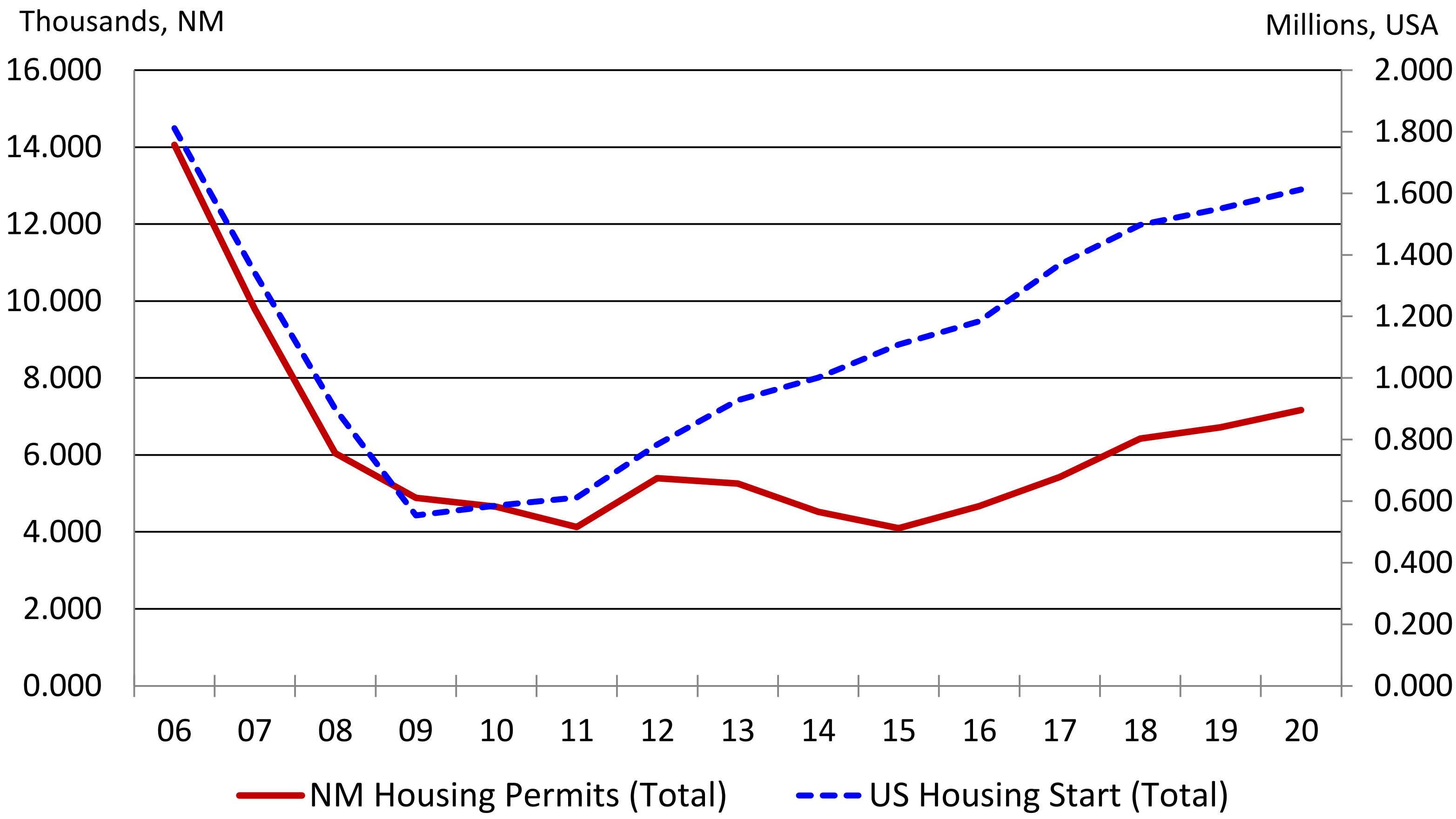
US & NM: Housing Starts & Permits



Source: BBER FORUNM, IHS Global Insight

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