The US and New Mexico Economies: Recent Developments and Outlook

March 2016

A presentation to New Mexico Bankers Association

Presented by Jeffrey Mitchell, Director, UNM-BBER

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National Economy: Review

- Generally good – despite strong global headwinds.
- GDP growth driven by consumer spending, offsetting weak exports & government.
- For 2015 the economy added 2.735 million jobs, average of 235,000 per month. Unemployment rate to 5.0% by year end.
- +172,000 jobs in January and +242,000 jobs in February 2016 ; Unemployment Rate 4.9%.
- Wages only slowly responding to high employment growth.
- Consumer Confidence Index higher in 2015 than any year since before the Great Recession.
- Housing is still weak but slowly improving.
- Recovering commodity & equity markets.
- DJI now positive for the year & oil (WTI) above $40/barrel, up 50% since January 20 low ($26.50/barrel).

National Economy: Outlook

- IHS Global Insight projects real GDP growth of 2.4% in 2016, 2.8% in 2017 and 2.6% in 2018.
- Growth driven by consumption, residential & nonresidential fixed investment; however, net exports will still be a drag.
- Employment growth still robust in 2016 at 1.8% before slowing in 2017-2018 to about 1.0% per year.
- Job growth strongest in professional & technical services, construction and healthcare.
- Personal income growth only 3.9% in 2016 due largely to slow equity growth. 2017-2018 growth averages 4.9% per year as wages firm and equity growth evens out.
- Oil price (WTI) averages $38.50/barrel in 2016, $46.78 in 2017 and $56.54 in 2018.
- Housing construction slowly improves: up to 1.4 million starts in 2017.

New Mexico Review

New Mexico Economic Current Situation

- Employment growth, slow since 2009 but stronger in FY2015 (1.4%), has again slowed (0.6% in 2015Q3 & 0.4% in 2015Q4). Weak start to 2016.
- In FY2015, 64% (4,400 of 6,900) new jobs were in healthcare; 40% of these in ‘social assistance’ and 60% outside metro areas.
- Mining employment remained resilient for 3 quarters after price fall (June 2014-March 2015) but has begun to fall since. Rig counts continue to decline (102 at end-2014 to 18 last week).

New Mexico Economic Current Situation

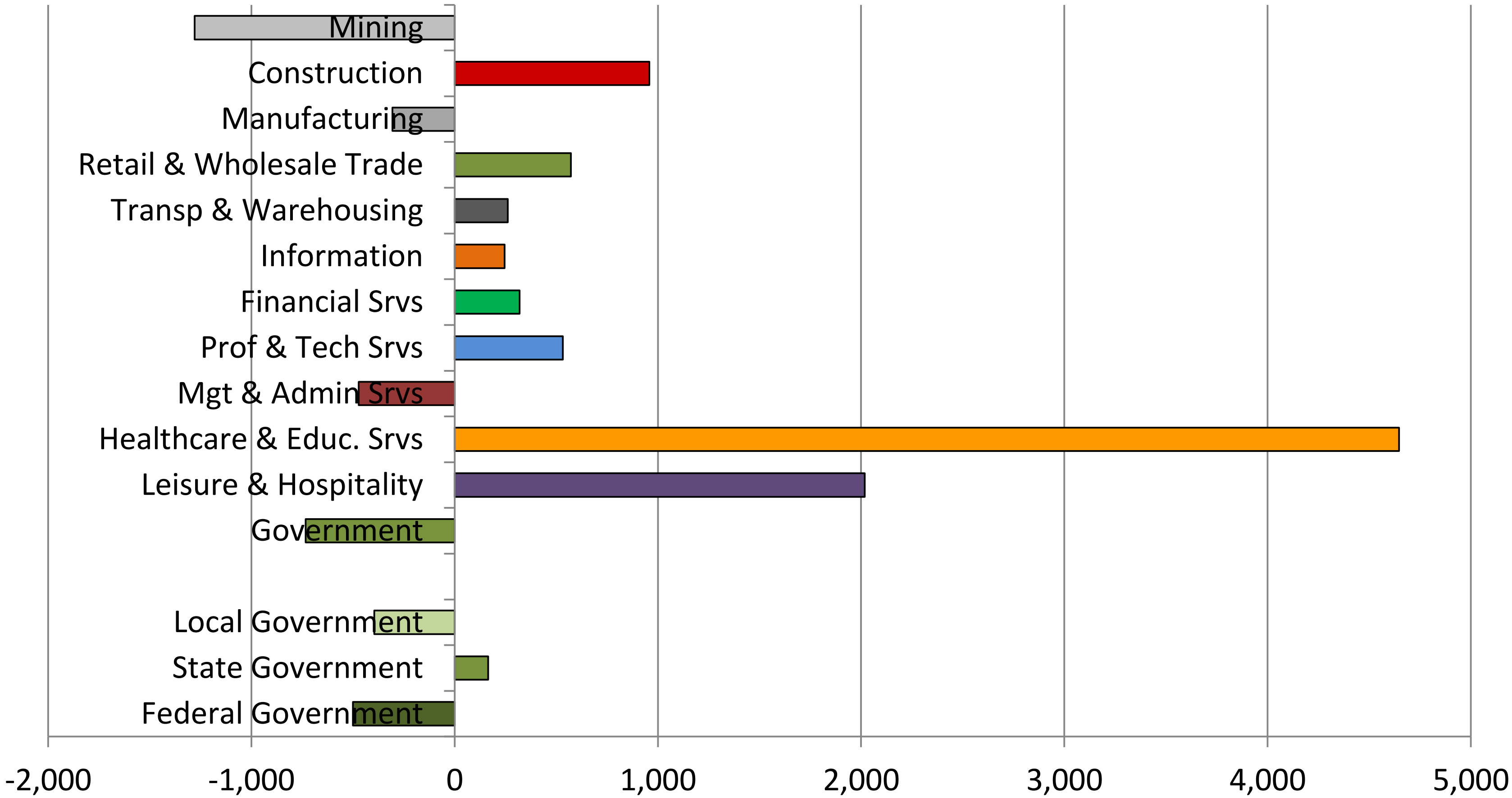
- Gross Receipts and early payroll collections surprisingly weak. Oil impact?
- Unemployment rate rising to 6.8% (November, vs. 5.0% US) as with labor force, which declined every quarter from the recession through 2014, grew (>10,000 or 1.1% in 2015Q3).
- Home sales improving (up 10% in Q3) and building permits beginning to respond, but values remain flat. A key indicator?
- Mixed economic news for rural New Mexico – increased water reserves, snow has had terrible and likely long-term impact on diary & cattle.

New Mexico Recent Economic Data*

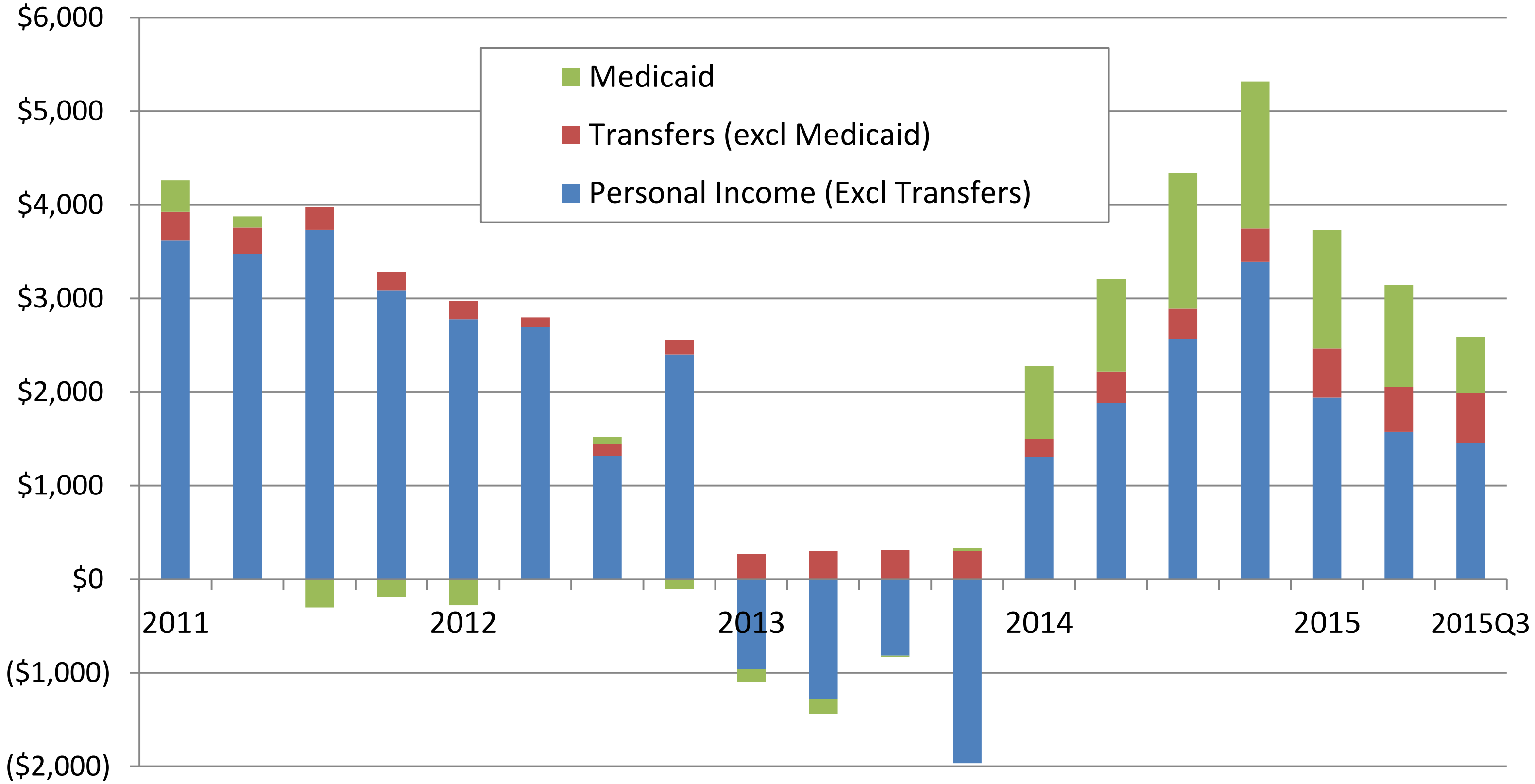
- January unemployment rate: 6.5% (US: 4.9%), down from 6.6% in December but up from 6.4% a year ago.
- January employment up just 0.2% (vs. January 2015), a gain of just 1,700 jobs.
- Mining (including Oil & Gas) lost 7,600 jobs (-26%).
  - Note: mining at end-2015 was still nearly 7,000 jobs (23%) above 2010.
- Education & Health Services (mostly health) gained 8,300 jobs (+6.4%)
- Albuquerque MSA gained 6,500 jobs (1.7%) in 2015Q4, rest of the state lost 4,000 jobs.

***These numbers are preliminary and subject to revision.**

Job Creation by Sector, 2015



Personal Income Growth and Medicaid Transfers



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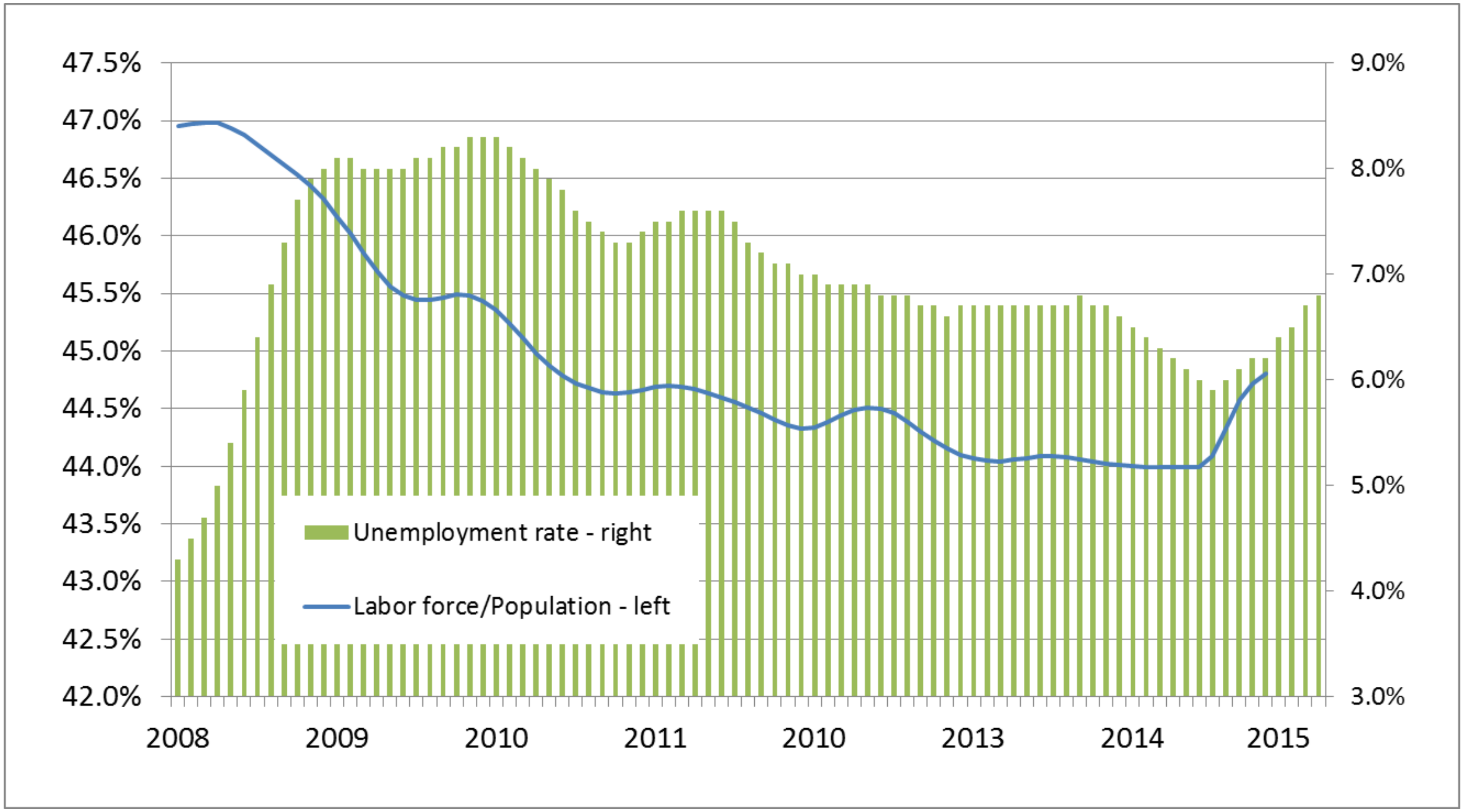
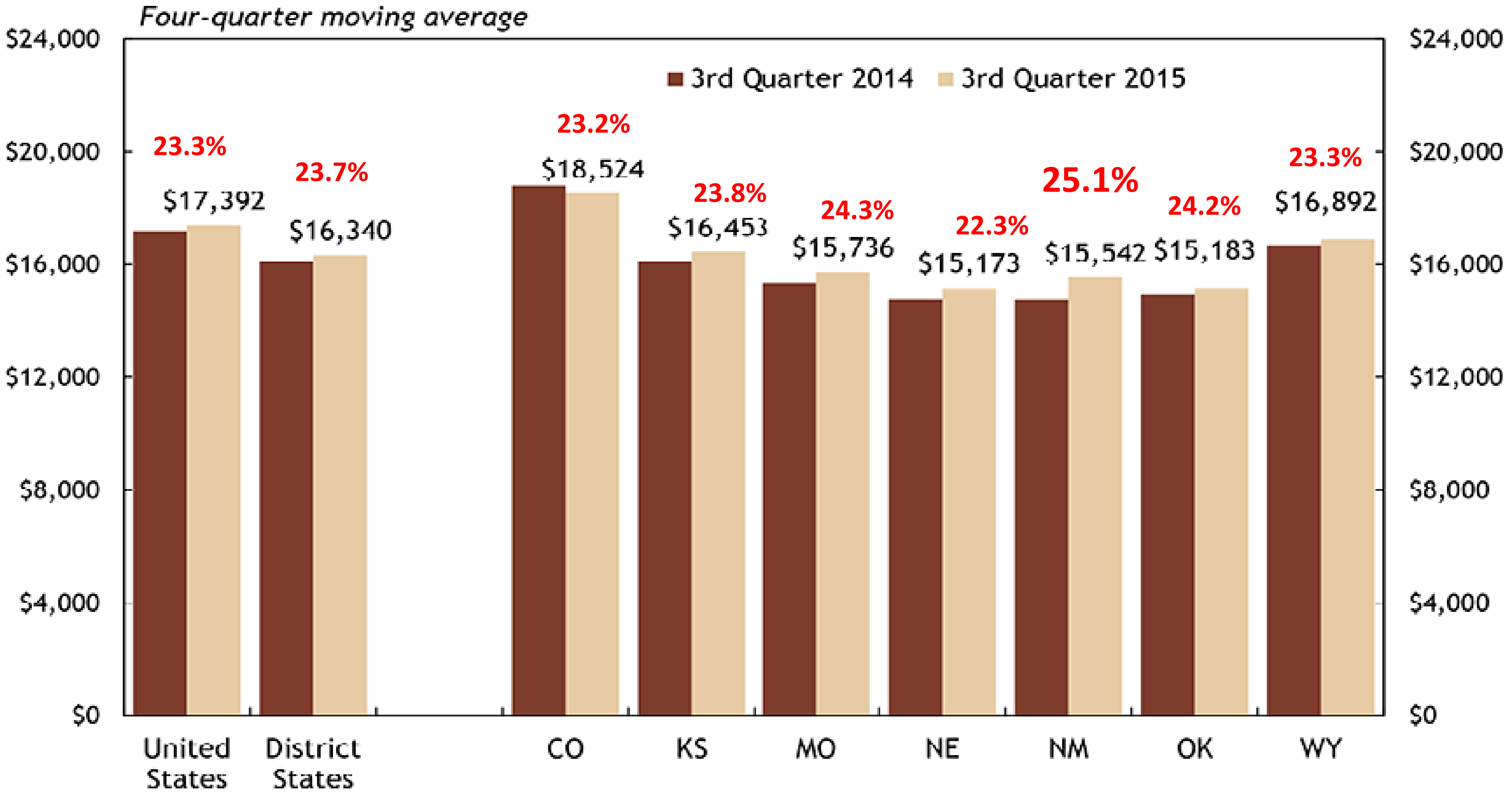
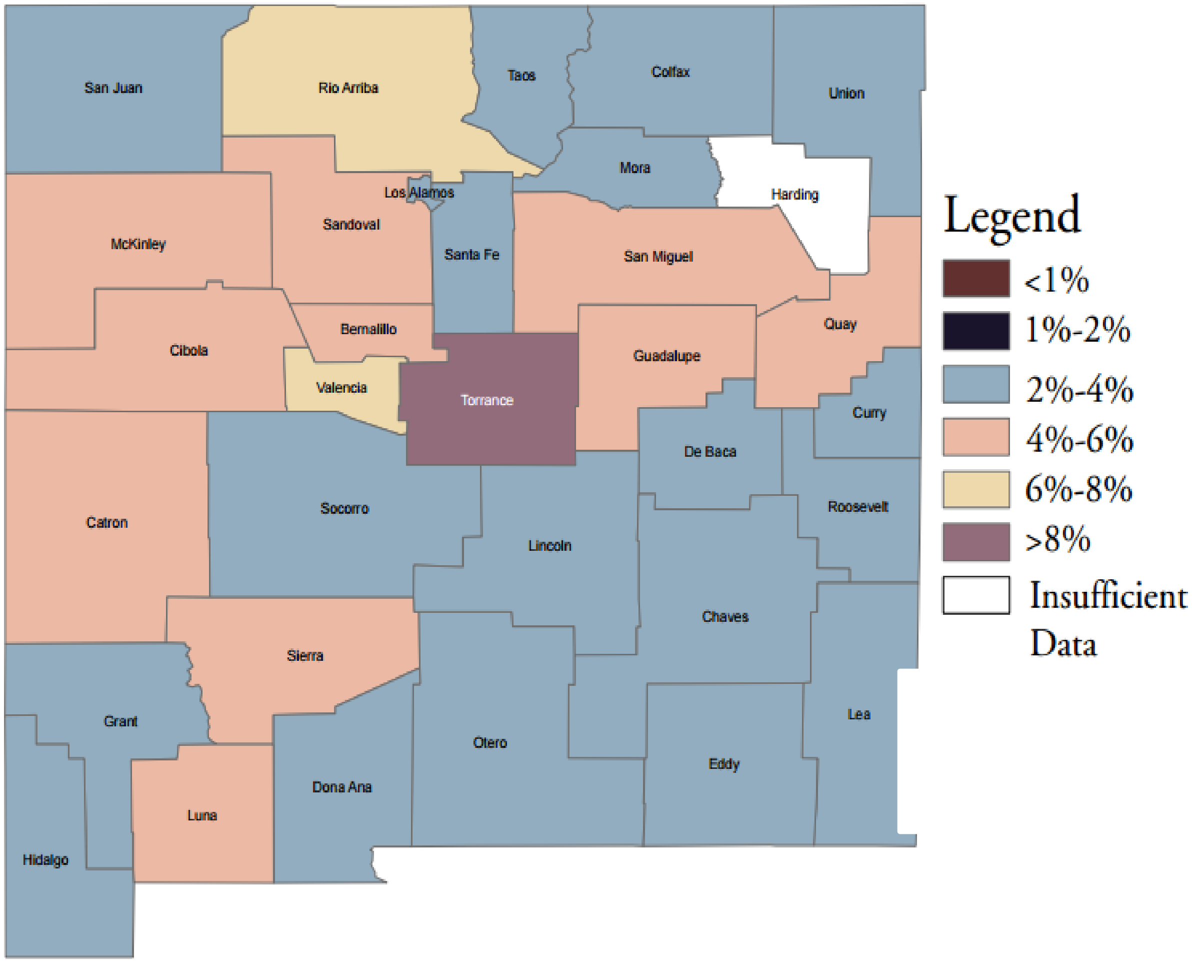
New Mexico Unemployment Rate & Labor Force Participation Rate



Consumer Debt & Debt Burden (2015)

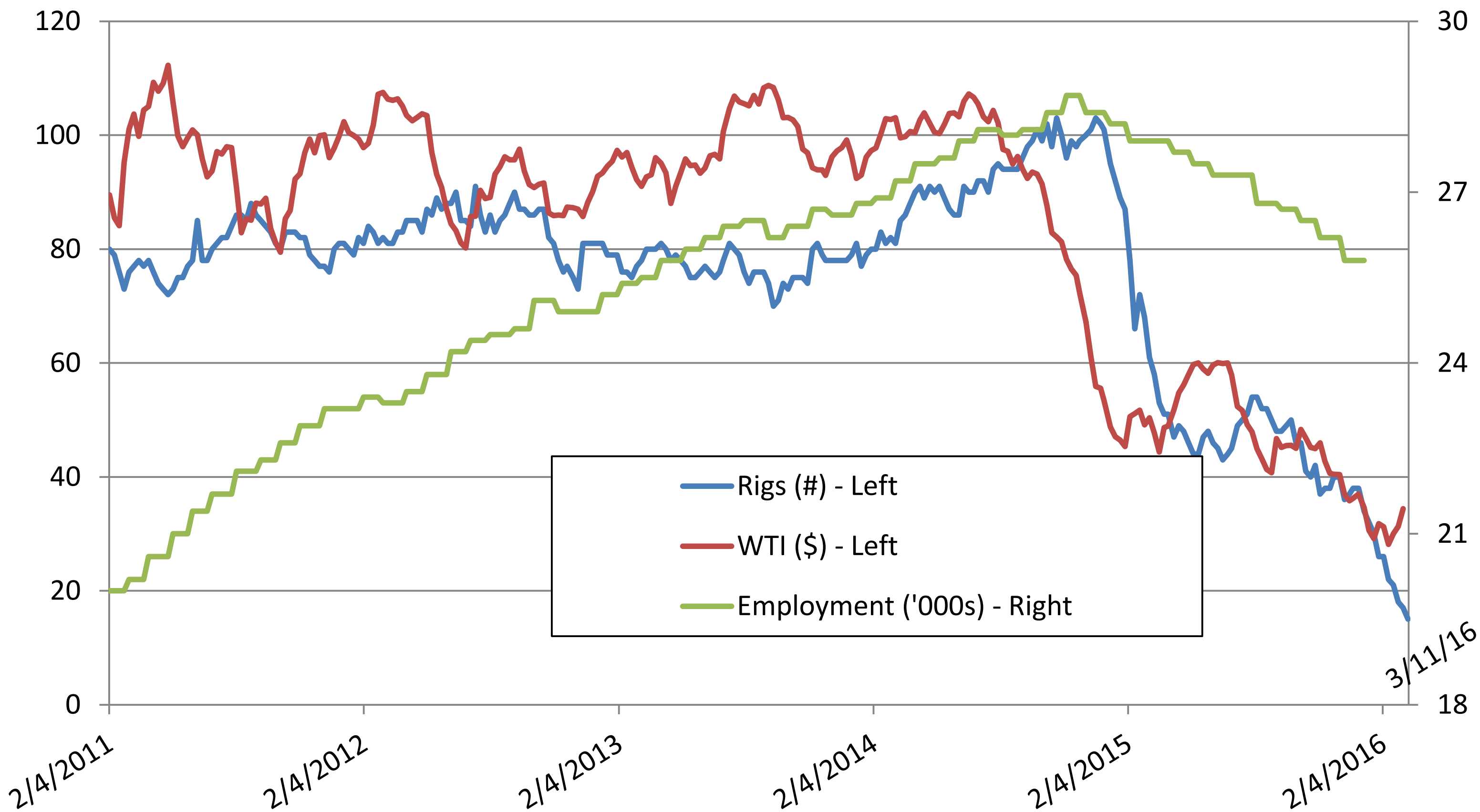


Seriously Delinquent Mortgages (2014)



Oil & Gas and the NM Economy

Rig Counts in New Mexico vs. WTI Price



Source: Bloomberg Business, Baker Hughes

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How the decline in oil prices affects New Mexico's economy

West Texas Intermediate (WTI): From $106/barrel in July 2014 to $40.69/barrel a few minutes ago (March 18).

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.

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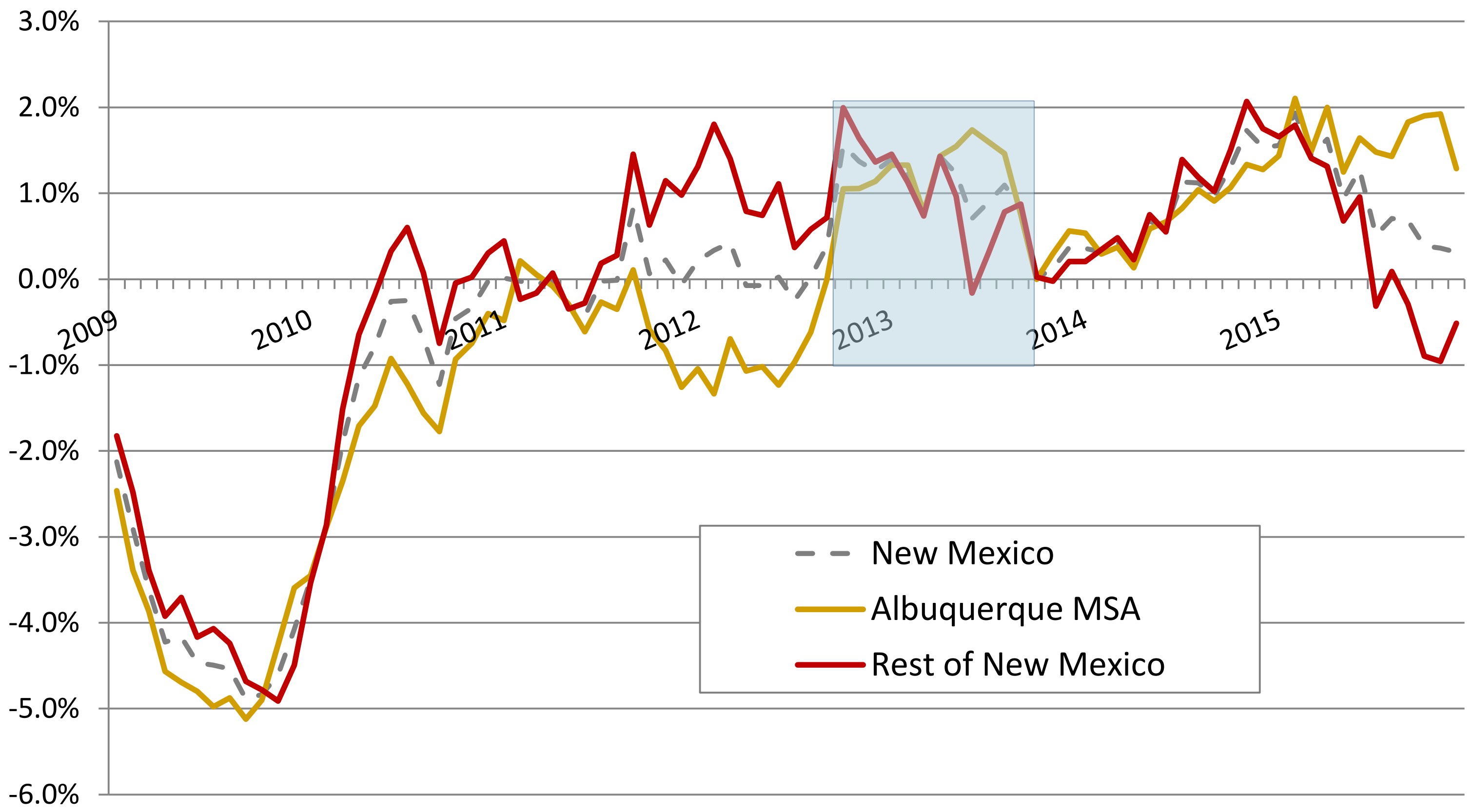
3. Consumer impact: lower gasoline prices mean more household spending on local goods & services.

Employment Growth by Geography, 2009-2015

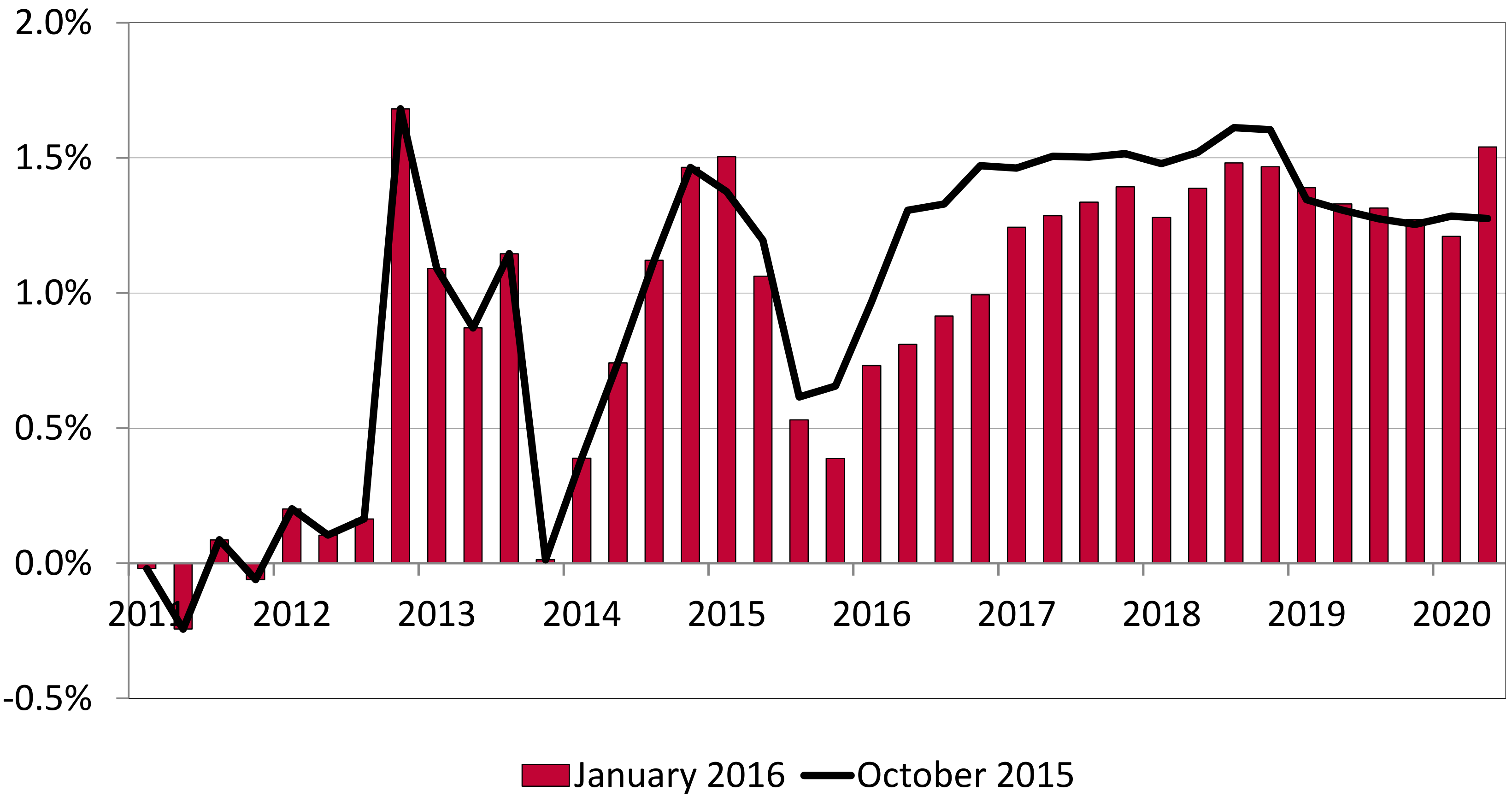


New Mexico Economic Outlook

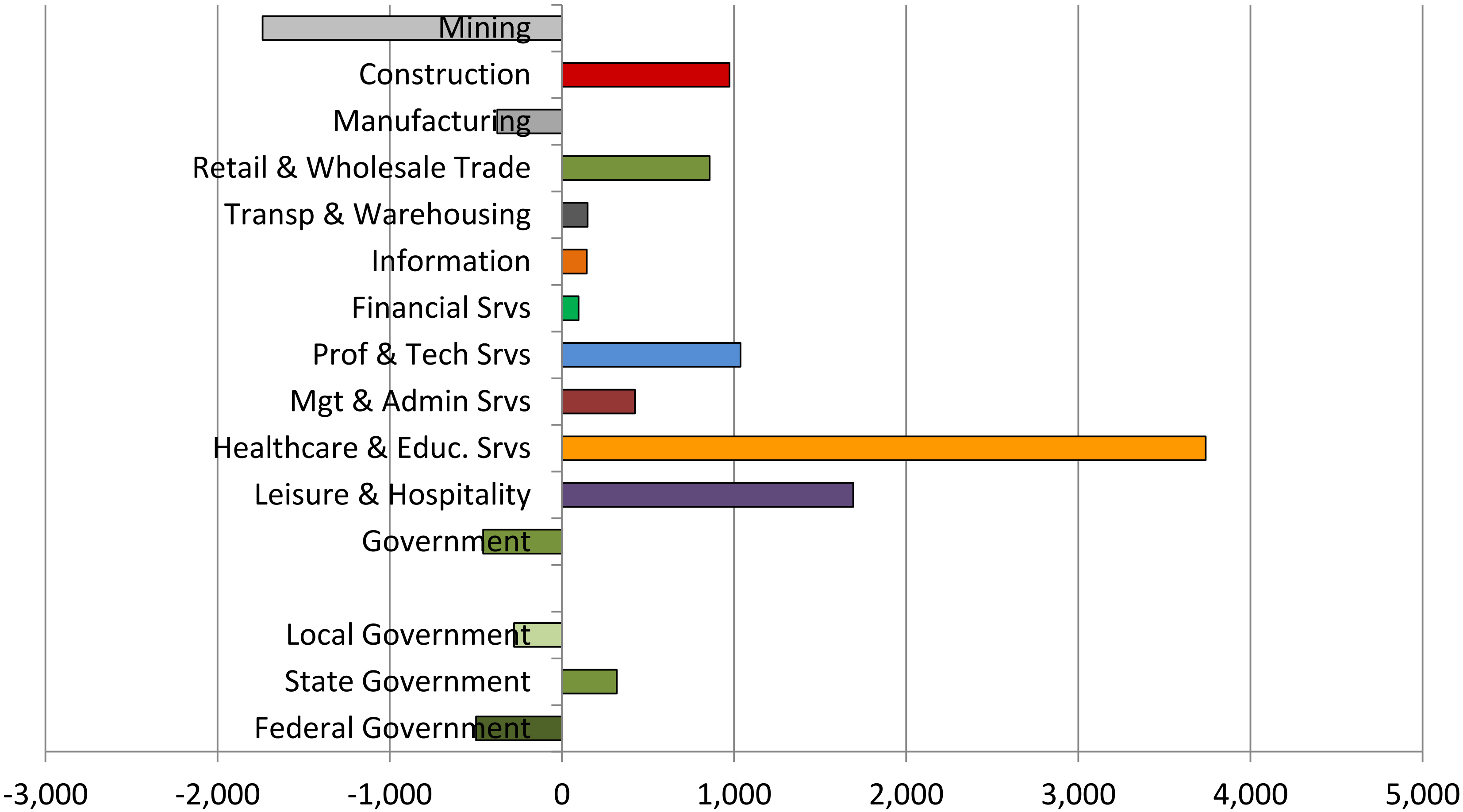
New Mexico Economic Outlook: 2016-2020

- Employment growth: below 1.0% this year, improving gradually to 1.2% or 10,250 jobs per year through 2020.
- Composition of new jobs: 37% in health care & social assistance; 31% in low-wage service sectors; 13% in mining, utilities, construction, manufacturing, transportation; 12% in P&BS, 5% in government (tied to health)
- Employment impact of low oil prices likely wear off by end-2016 – the worst is behind us.
- Income growth: 3.3% in 2016, rising to 5.1% in 2018; wages growth to private sector workers key variable.

Forecast Comparison: Employment Growth



Job Creation by Sector, 2016



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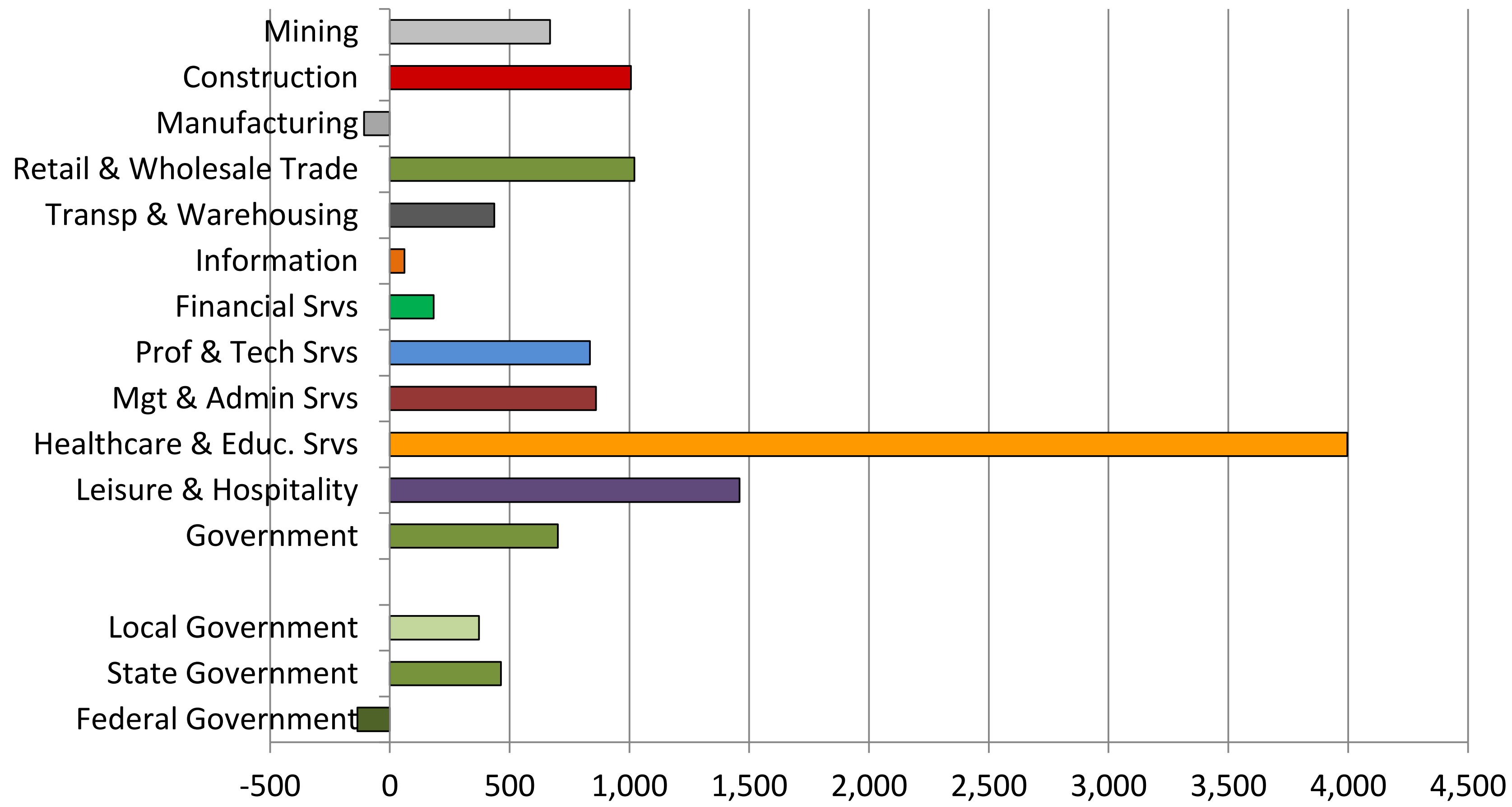
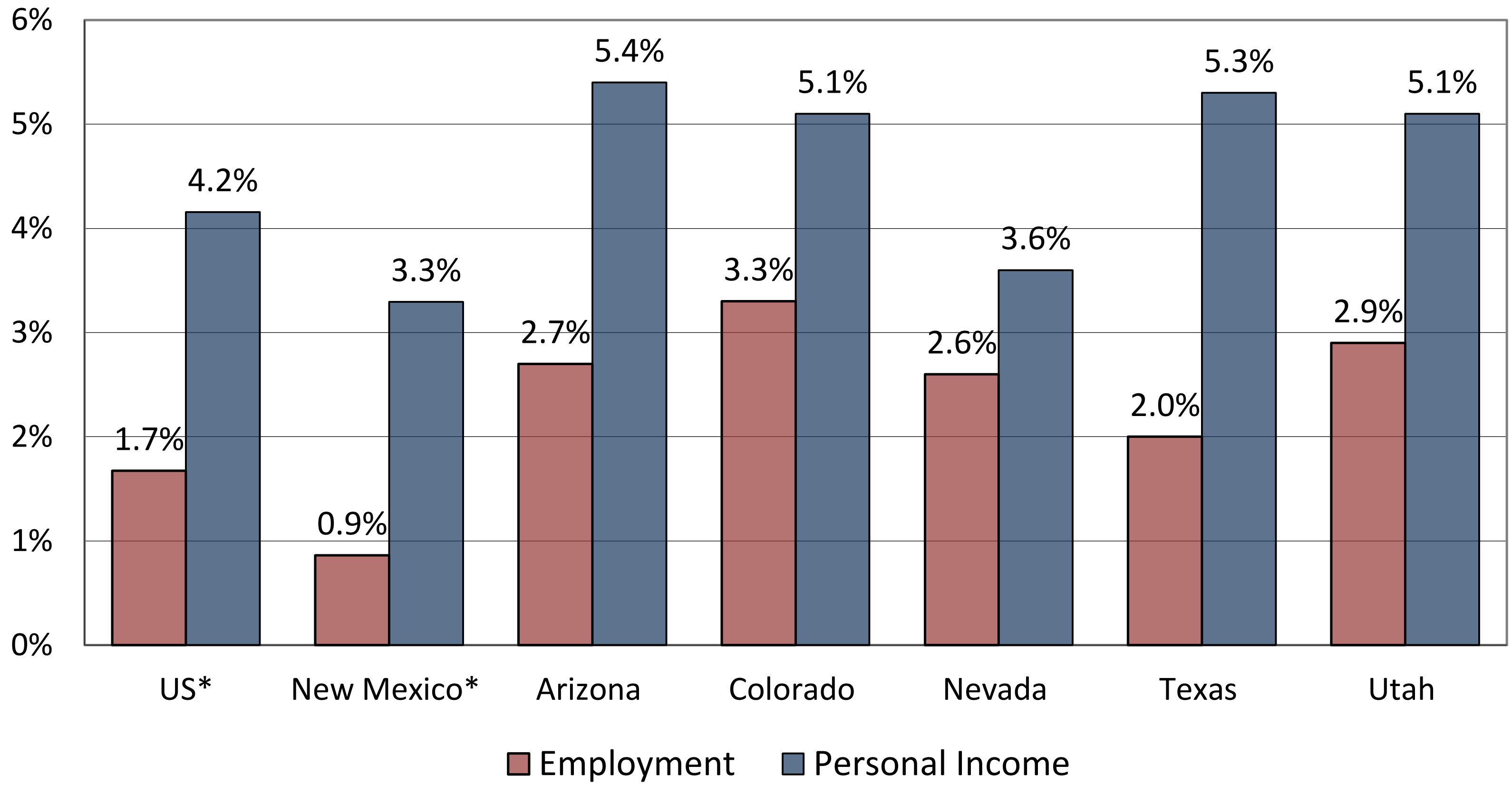
Job Creation by Sector, 2017-2020



Western Blue Chip - 2016



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

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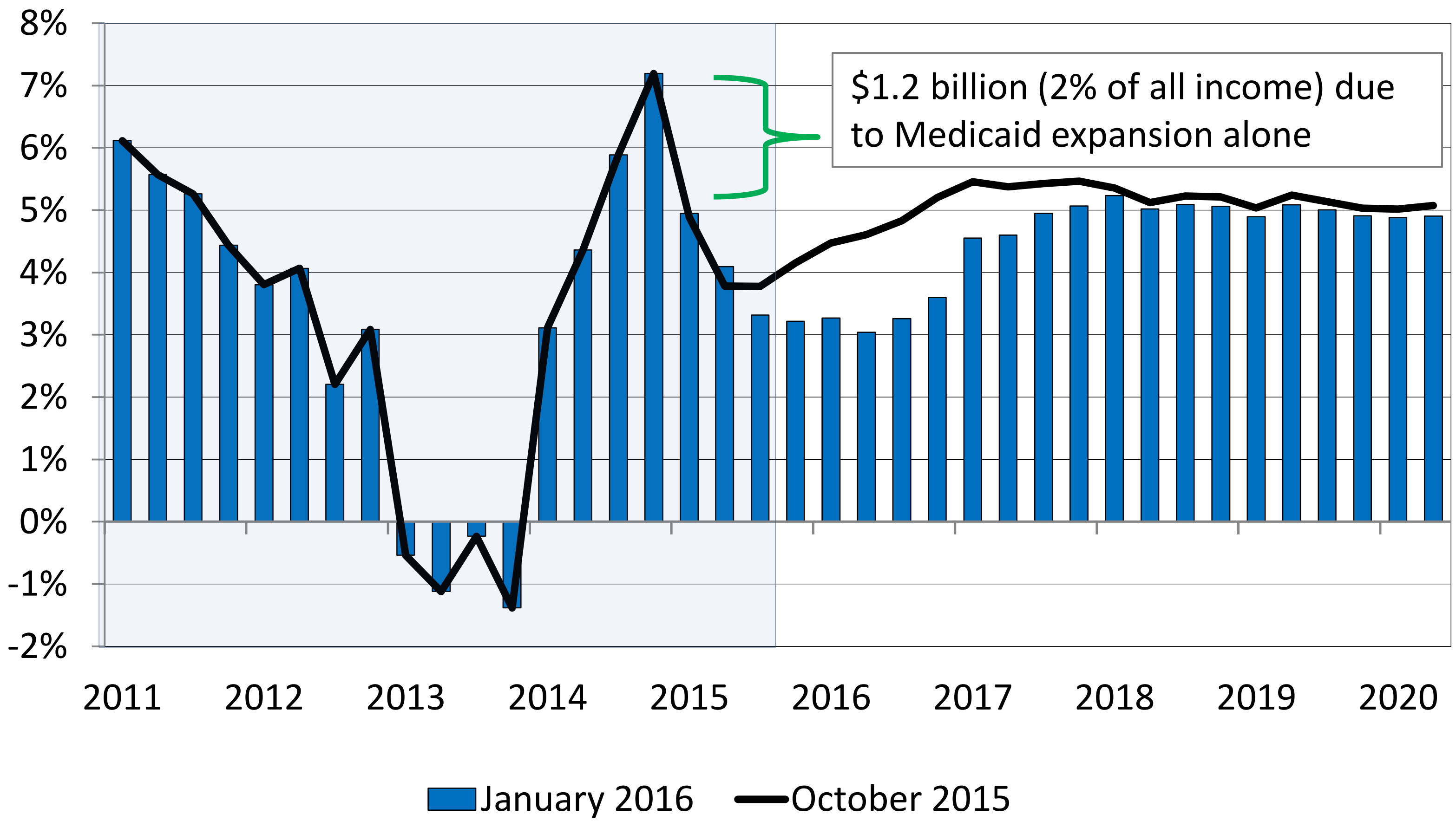
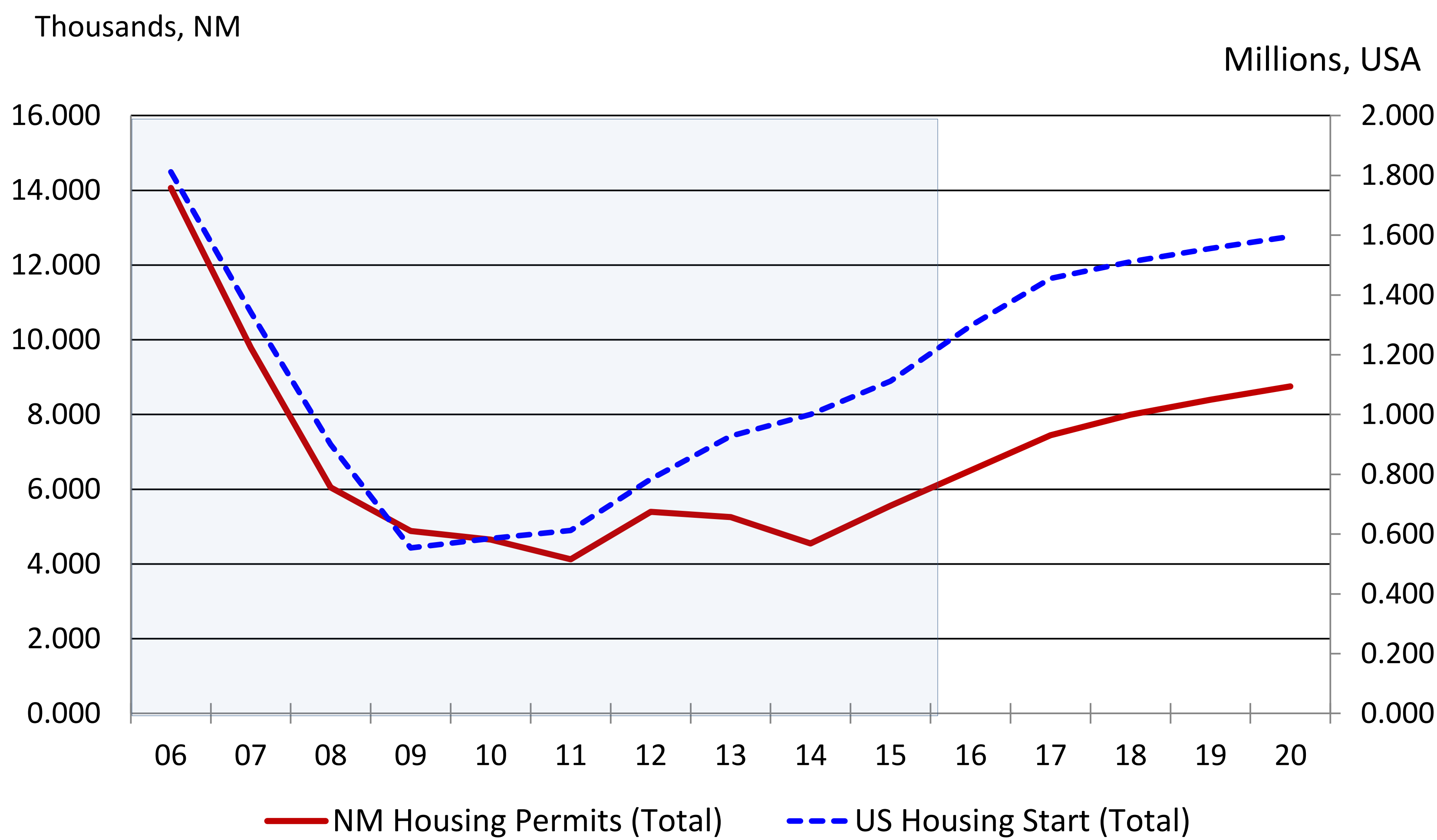
Forecast Comparison: Income



US & NM: Housing Starts & Permits



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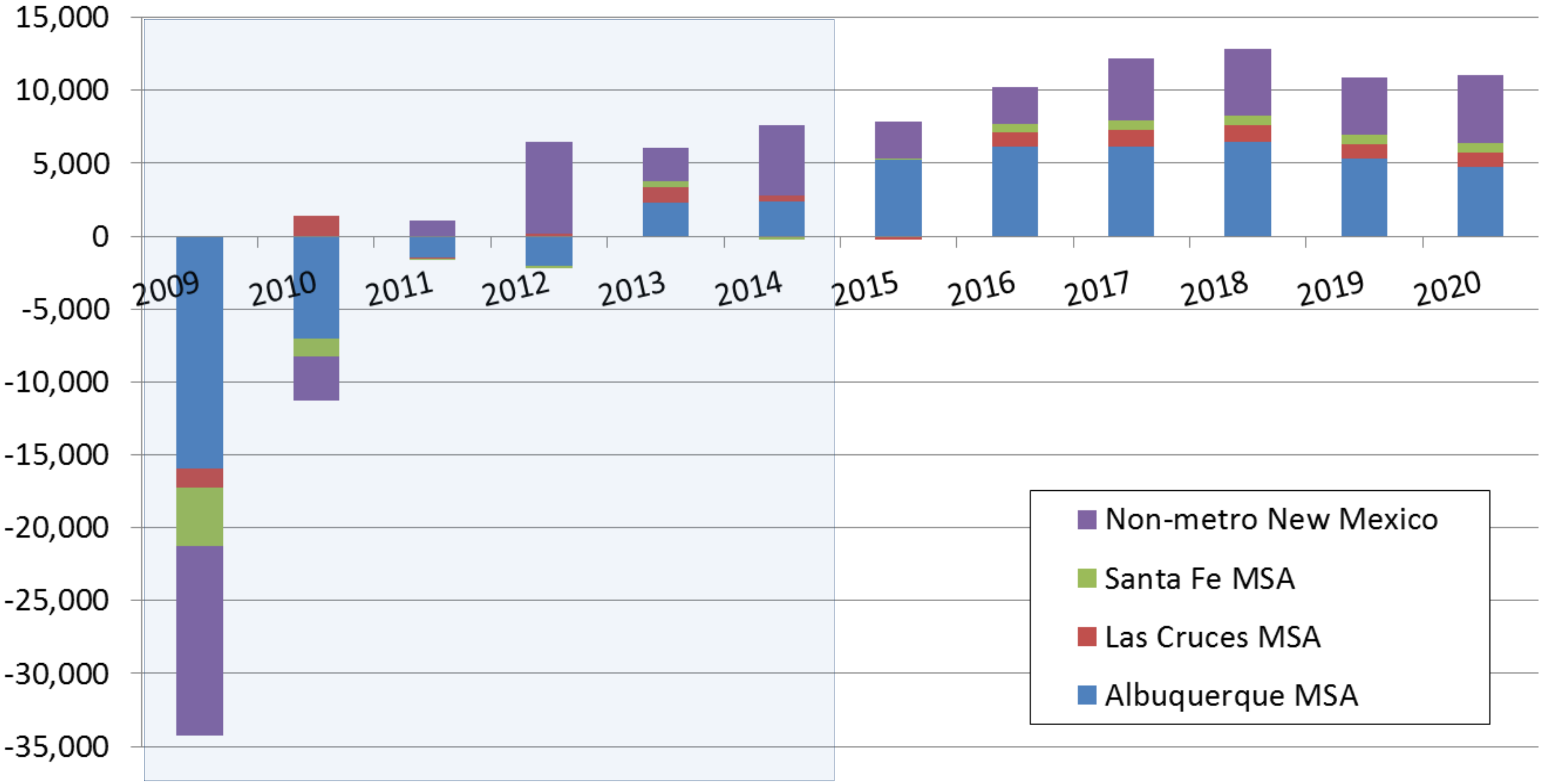
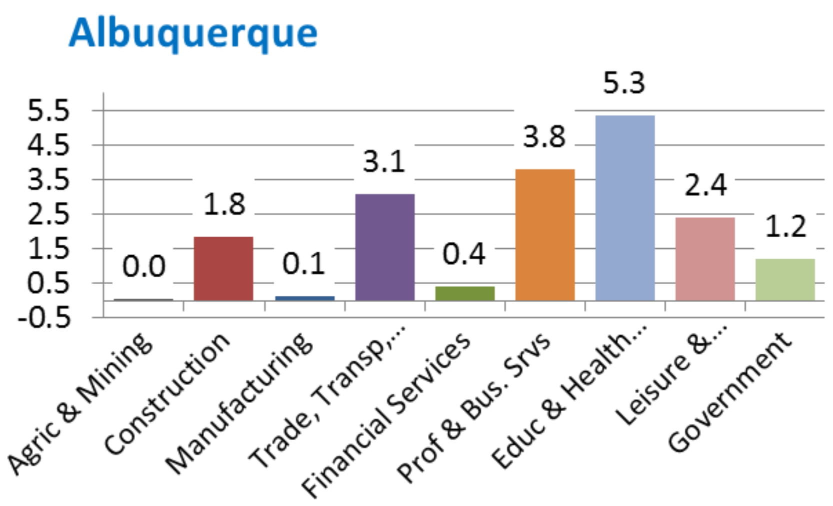
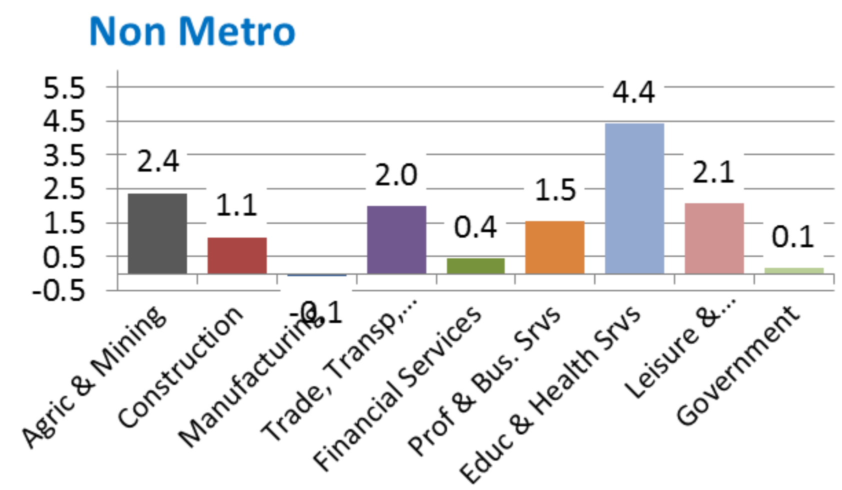
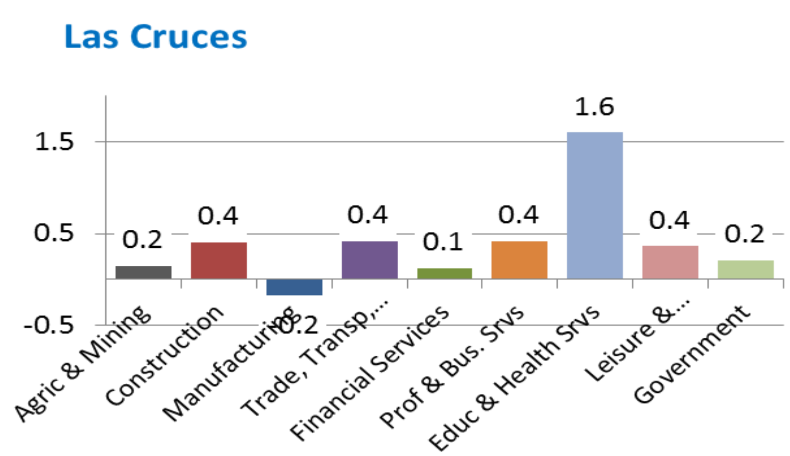
New Mexico Job Gain/Loss by Region

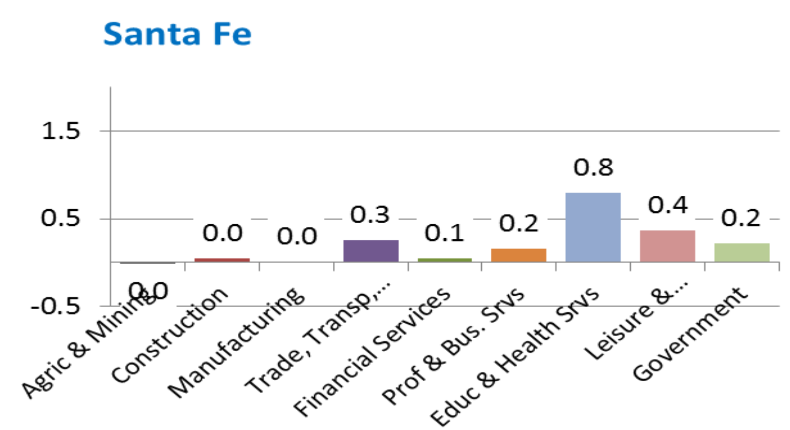


Job Gain/Loss by Sector – 2015-2018 ('000s)









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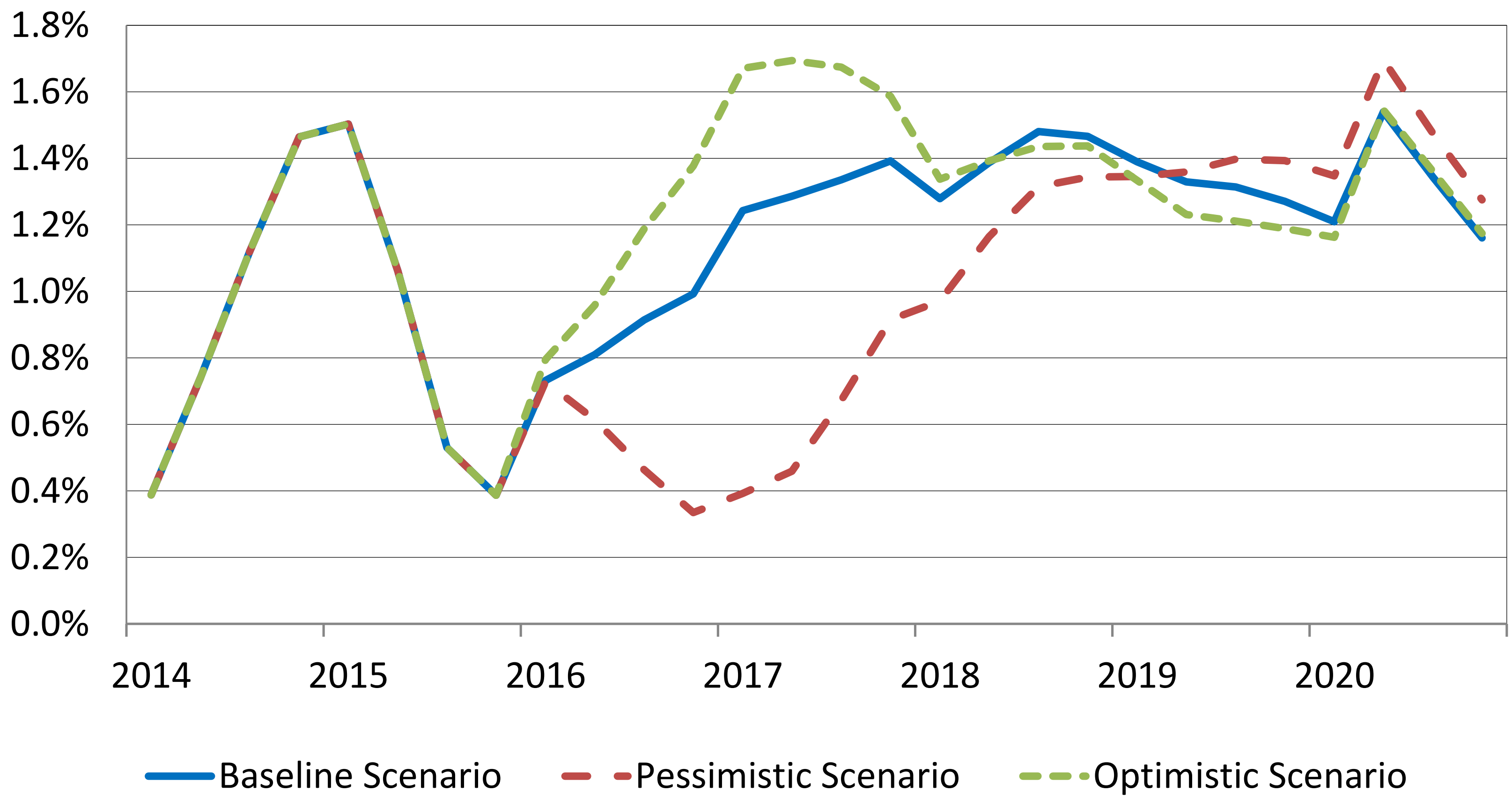
New Mexico Employment Forecast, Alternative Scenarios



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