The US and New Mexico Economies: Recent Developments and Outlook

17th Annual New Mexico Data Users Conference
November 2015

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U.S. Review & Outlook

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Review: National Economy

- Final estimate for 2015Q2 revised up significantly: from 2.3% to 3.9%. Second consecutive quarter of significant upward revision. Third quarter came in slow: 1.5%
- Employment expanded 139,000 in August & September, below 215,000 average in January – July. October numbers popped: 271,000, pushing down unemployment rate to 5.0%.
- Consumer Confidence Index (U. of Mich.) has been higher in 2015 than any year since before the Recession, but has slumped since its early-year peak.
- Oil prices (WTI): from $104 (June ‘14) to $44.45 (January 31), $60.27 (June 26), now at $41.25.
- DJIA volatile: -9.25% in August, +5.4% in October.
- Housing is still weak but slowly improving.

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Real GDP Growth

Composition of Real GDP Growth Over Previous Period SAAR

Composition of Real GDP	2012	2013	2014	14Q2	14Q3	14Q4	15Q1	15Q2	15Q3	Contrib. 15Q3
Gross Domestic Product	**2.2**	**1.5**	**2.4**	**4.6**	**4.3**	**2.1**	**0.6**	**3.9**	**1.5**	**1.5**
Total Consumption	**1.5**	**1.7**	**2.7**	**3.8**	**3.5**	**4.3**	**1.8**	**3.6**	**3.2**	**2.19**
Durable goods	7.4	5.8	5.9	13.9	7.5	6.1	2.0	8.0	6.7	0.48
Nondurable goods	0.6	1.9	2.1	3.4	2.4	3.2	0.7	4.3	3.5	0.51
Services	0.8	1.0	2.4	2.4	3.1	4.3	2.1	2.7	2.6	1.20
Residential Fixed Investment	**13.5**	**9.5**	**1.8**	**10.4**	**3.4**	**10.0**	**10.1**	**9.3**	**6.1**	**0.20**
Nonresidential Fixed Investment	**9.0**	**3.0**	**6.2**	**4.4**	**9.0**	**0.7**	**1.6**	**4.1**	**2.1**	**0.27**
Structures	12.9	1.6	8.1	-0.2	-1.9	4.3	-7.4	6.2	-4.0	-0.11
Equipment & Software	10.8	3.2	5.8	6.5	16.4	-4.9	2.3	0.3	5.3	0.31
Intellectual Property	3.9	3.8	5.2	4.8	6.6	6.9	7.4	8.3	1.8	0.07
Change in Private Inventories										**-1.44**
Exports	**3.4**	**2.8**	**3.4**	**9.8**	**1.8**	**5.4**	**-6.0**	**5.1**	**1.9**	**0.24**
Imports	**2.2**	**1.1**	**3.8**	**9.6**	**-0.8**	**10.3**	**7.1**	**3.0**	**1.8**	**-0.27**
Federal Government	**-1.9**	**-5.7**	**-2.4**	**-1.2**	**3.7**	**-5.7**	**1.1**	**0.0**	**0.2**	**0.02**
State & Local Government	**-1.9**	**-1.0**	**0.6**	**2.6**	**0.6**	**1.3**	**-0.8**	**4.3**	**2.6**	**0.29**

US Bureau of Economic Analysis, Gross Domestic Product, 2015 Third Quarter (advance), October 29, 2015

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Key Forecast Assumptions

- **Federal fiscal policy** assumes no debt ceiling problems and no significant budget initiatives; two year budget deal since confirmed.
- **Monetary Policy:** Fed first tightening in December 2015 – federal funds rate hitting 0.50% by end of 2015 and reaching 3.25% by the end of 2017.
- **World GDP**: Growth in major trading partners to average about 1.9% through 2025, with other partners averaging growth of 3.8% (both down a bit from July). US dollar appreciates through mid-2016 and slowly depreciates thereafter
- **Oil price**: Oil price (WTI) is expected to register $48/barrel in 2015, $51/barrel in 2016, $59/barrel in 2017, $74/barrel in 2018

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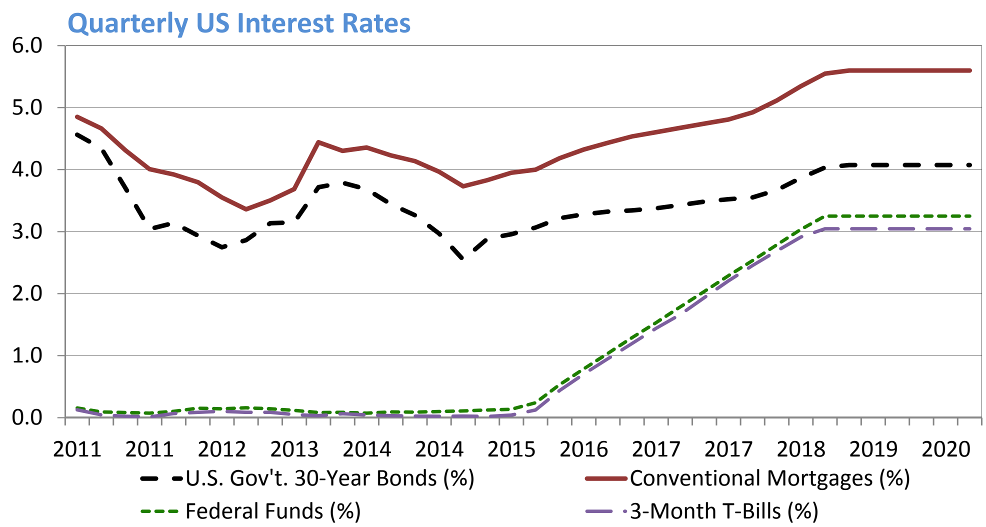
Interest Rate Forecast



Global Insight Oct. 15

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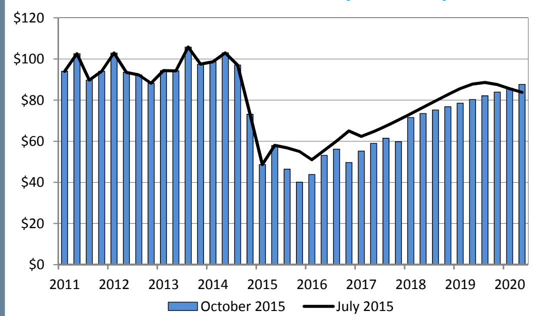
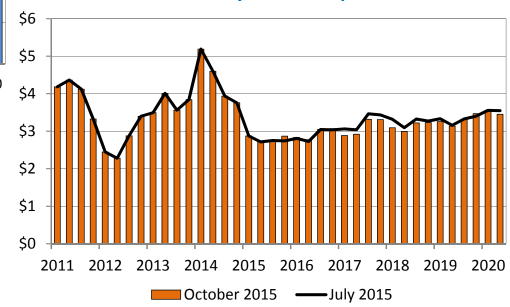
Oil & Gas Spot Prices

Oil: West Texas Intermediate, Spot Price per Barrel



Forecast for oil price brought down quite a bit throughout the forecast period. GI cites high US productivity as the major driver keeping prices relatively lower.

Natural Gas: Henry Hub Price per MBtu



Expectations for natural gas price continue to be subdued.

Global Insight, Oct. 15 and July 15

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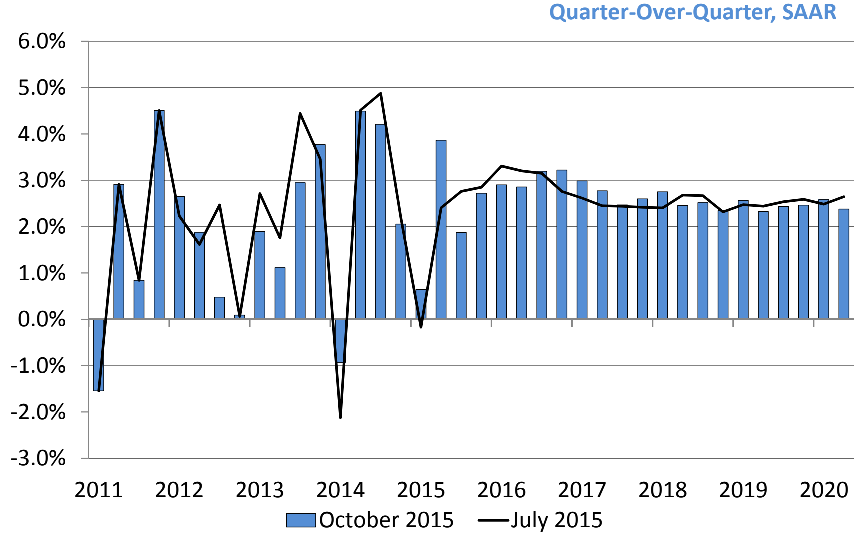
U.S. Real GDP Forecast

Quarter-Over-Quarter, SAAR



Global Insight, Oct. 15 and July 15

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US Employment Forecast by Sector

Increase (Decrease) in US Payroll Employment from Previous Calendar Year, Actual & Forecast (Thousands)	2012	2013	2014	2015	2016	2017	2018	2019	2020
Employment Sector									
Construction	114	212	281	240	244	407	303	217	207
Manufacturing	200	93	170	131	8	147	137	108	63
Trade, Transportation & Utilities	405	385	520	543	361	131	214	114	52
Prof. & Bus. Services	606	588	573	645	752	800	370	304	488
Health Care & Soc. Asst.	375	386	315	526	541	266	292	338	277
Leisure & Hospitality	423	486	450	441	270	139	254	210	119
Other Private	307	216	312	239	(76)	(159)	(55)	(21)	24
Government	(175)	(69)	8	108	92	209	231	175	256
Total Nonfarm Payrolls	2,255	2,296	2,629	2,872	2,190	1,941	1,746	1,447	1,486
Annual Growth	1.7%	1.7%	1.9%	2.1%	1.5%	1.3%	1.2%	1.0%	1.0%

IHS Global Insight, October 2015

Global Insight Oct. 15

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New Mexico Review & Outlook

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Data Revisions

- BLS QCEW 2014Q4 employment revised up by 0.2% to 1.5%. Changes include + construction, mining, professional & technical services, administration, hospitality.
- BEA Personal income revisions to 2007, mainly shifting from year to year; net impact 2014 total was 1.6% less than previously estimated.

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2015 Q1 Employment data

- 2015Q1 employment up 10,810 jobs (1.4%) – 33rd of 50 states.
- Health care & social assistance accounts for 40% of new jobs.
- Composition of health care expansion reflects early outreach & enrollment: two-thirds of new healthcare jobs outside ABQ MSA, and 60% in social assistance
- Mining up slightly (2.9%); Transportation strong (5.3%)
- Income growth weak (3.8%) due to slow growth of large income.

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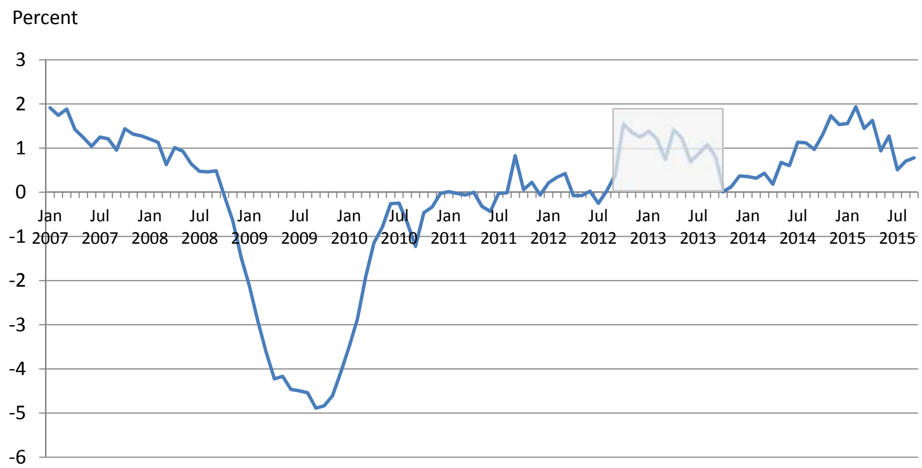
New Mexico Total Employment Growth



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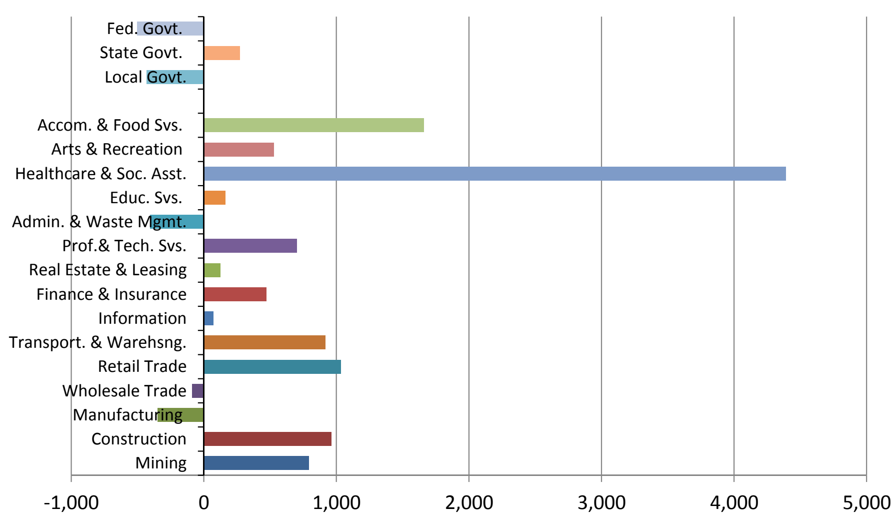
Job Creation by Sector, 2015Q1



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New Mexico Current Economic Situation

- CES employment data strong for 2015Q2 (1.4%) but weaker for Q3 (0.7%).
- 2015Q3 mining down (-3.5%) but rate of decline much lower than other states. Rig counts continue to decline to 40 week of October 23.
- Unemployment rate spikes to 6.8% (September) as with growth in labor force (>10,000 or 1.1% in Q1&2).
- Home sales improving (up 10% in Q3) and building permits beginning to respond, but values remain flat.
- Growth of Medicaid transfers still strong but slowing.

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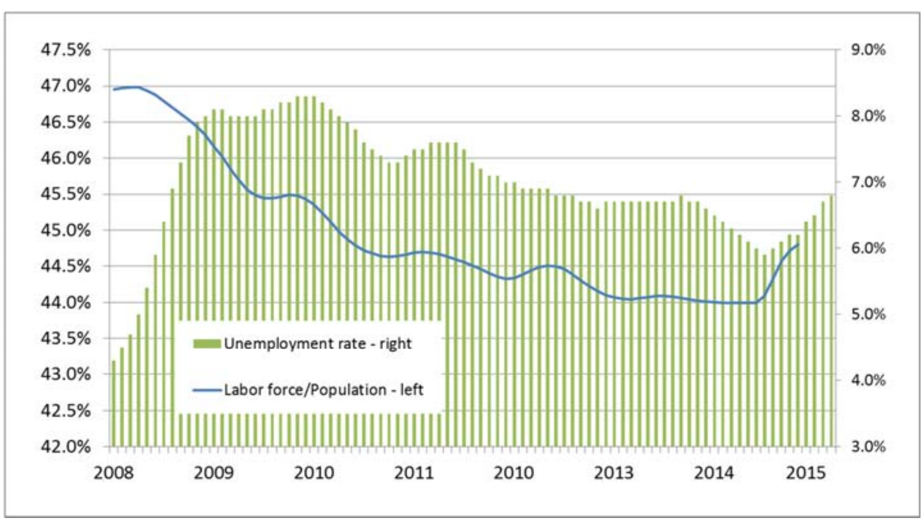
New Mexico Unemployment Rate & Labor Force Participation Rate



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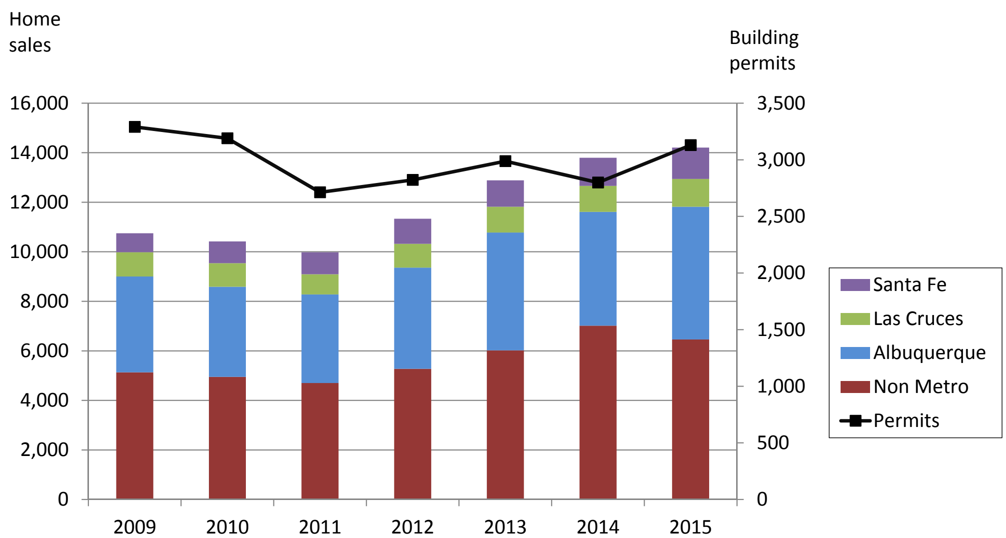
Housing Sales and Building Permits: Single Family Units



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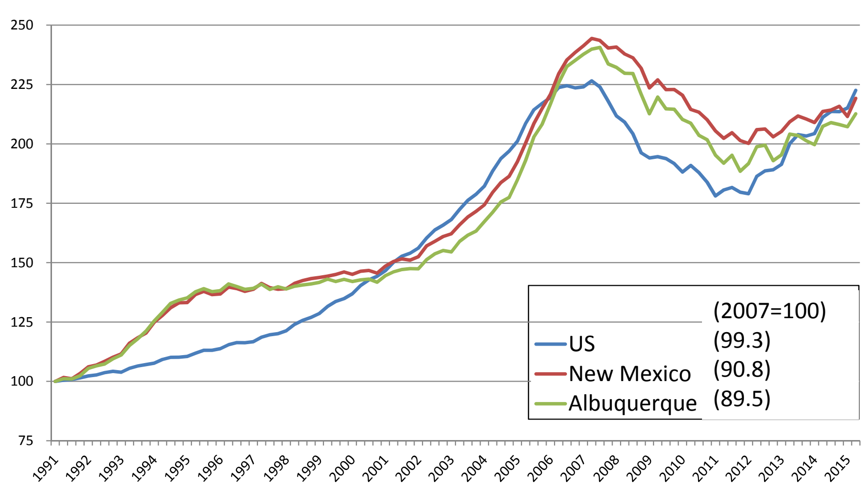
House Price Indices (1990Q1=100)



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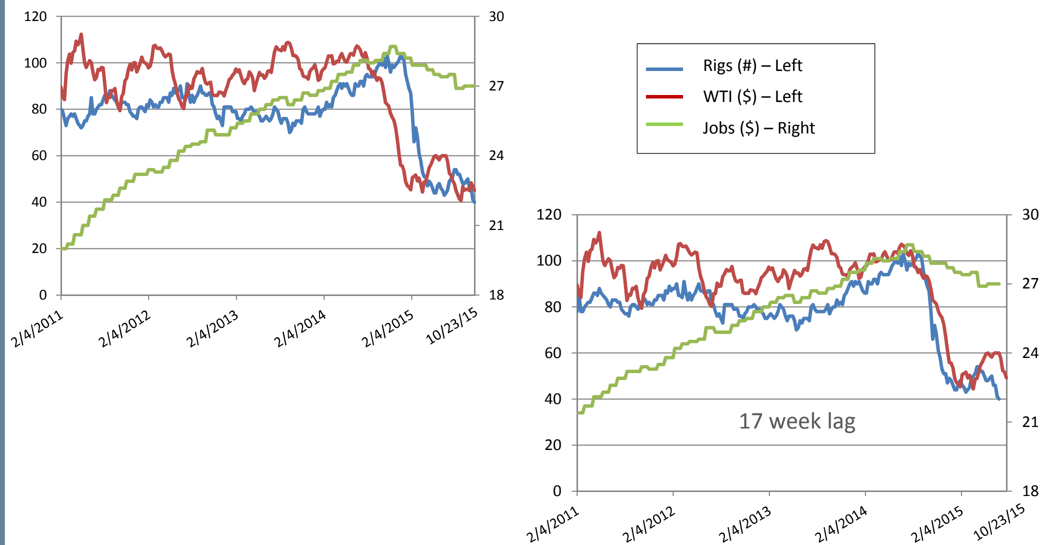
Rig Counts in New Mexico vs. WTI Price



Source: Baker Hughes

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Personal Income and Transfer Payments

	2014Q1	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2
Year over Year Increase (Millions $)						
Personal income (SA)	$2,275.8	$3,206.4	$4,337.3	$5,319.6	$3,682.3	$2,900.9
Personal current transfer receipts	$971.0	$1,322.2	$1,768.3	$1,927.5	$1,790.9	$1,571.5
Medicaid	$776.2	$985.8	$1,448.0	$1,571.0	$1,266.1	$1,089.0
Year over Year Growth (%)						
Personal income (SA)	3.1%	4.4%	5.9%	7.2%	4.9%	3.8%
Personal current transfer receipts	6.0%	8.2%	10.9%	11.8%	10.5%	9.0%
Medicaid	23.6%	29.1%	42.6%	46.4%	31.2%	24.9%
Medicaid increase / Total personal income incr	34.1%	30.7%	33.4%	29.5%	34.4%	37.5%
Medicaid increase / Total personal income	1.0%	1.3%	1.9%	2.0%	1.6%	1.4%

Source: BEA

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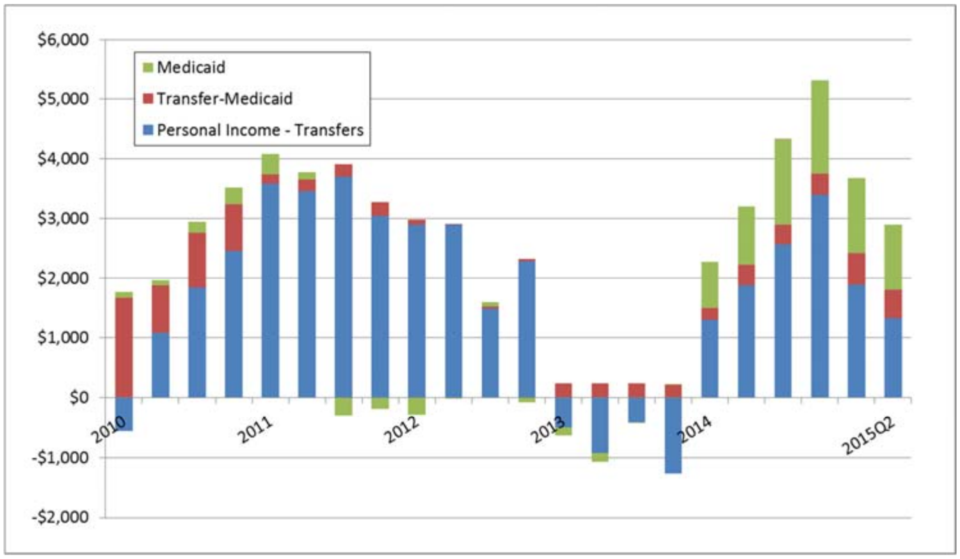
Personal Income Growth and Medicaid Transfers



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Household Finances

- Average consumer debt (excluding mortgages), up from $11,100 in 2001 to $17,050 in 2008, declined 13% to $14,773 in 2014. (US down 10.1% to $17,205)
- Consumer bankruptcy rates low (50.1 per 10,000)
- Mortgage delinquency rates fairly high, especially in Albuquerque.

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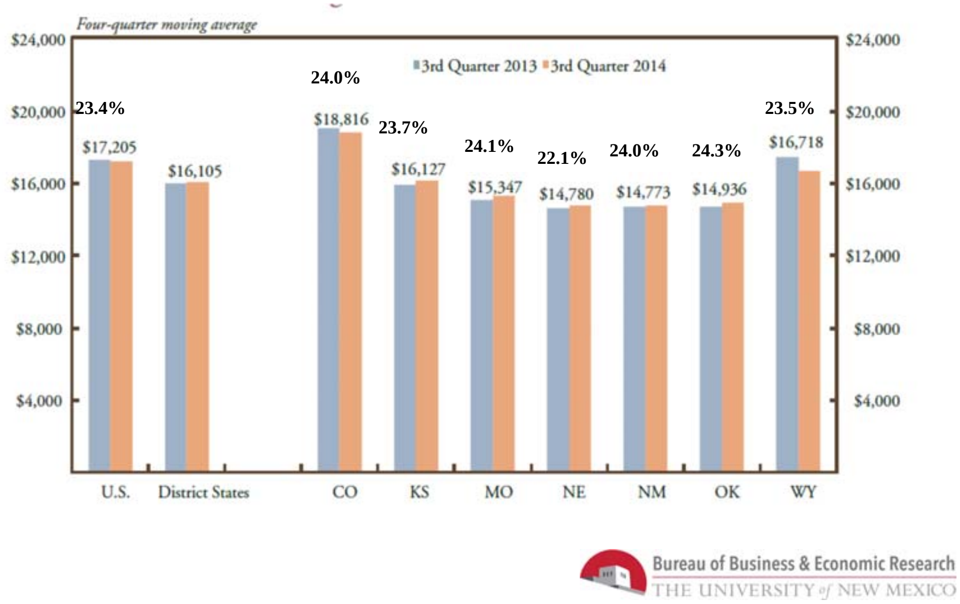
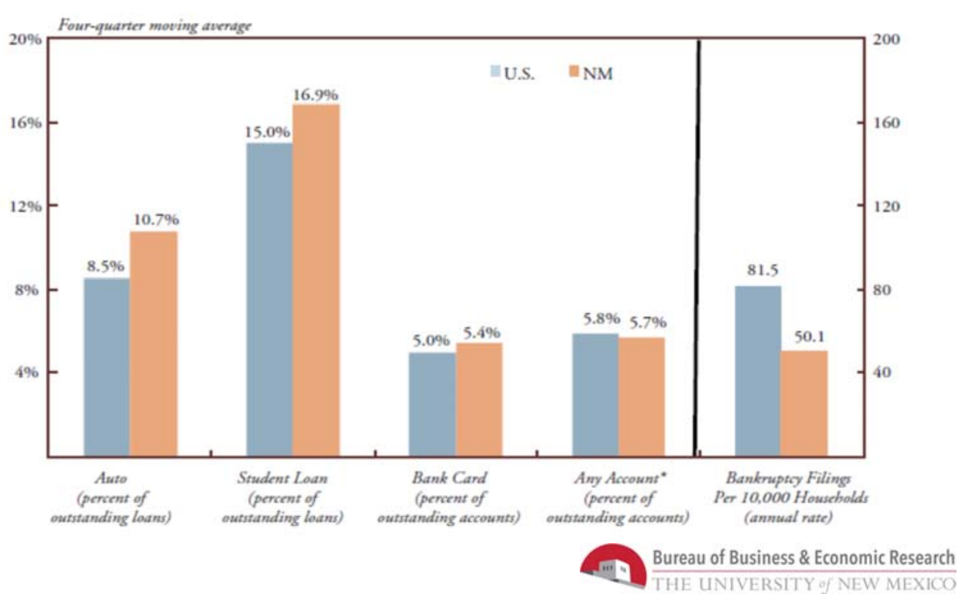
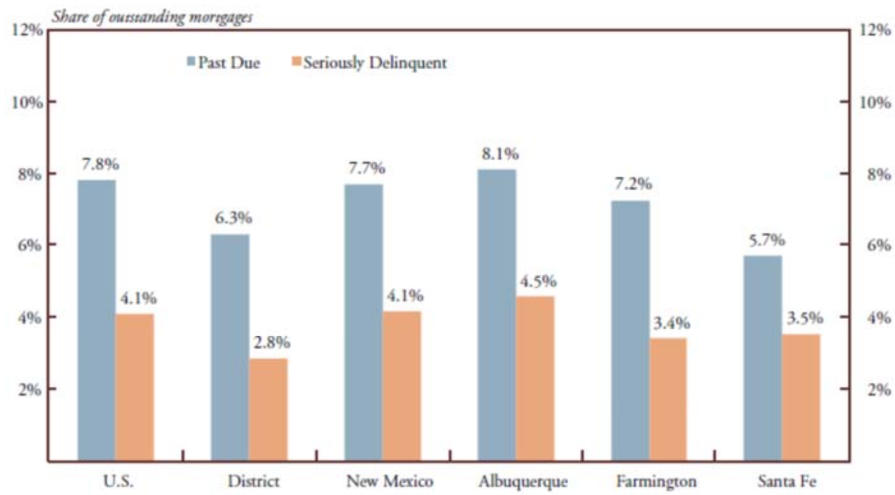
Average Consumer Debt & Debt Burden (2014)



Consumer Delinquency Rates (2014)



Mortgage Delinquency Rates (2014)



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New Mexico Economic Outlook

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New Mexico Economic Outlook

- Employment forecast weaker than July through mid-2016, but returns to earlier growth trends by end- 2016 (1.3%) and thereafter (2017-2020: 1.4% per yr).
- Composition of new jobs: 32% in health care & social assistance; 29% in low-wage service sectors; 19% in mining, utilities, construction, manuf, transportation, 12% in P&BS, 5% in government (tied to health)
- Similar for Personal Income growth: 4.8% in 2016, 5.0% thereafter.
- Investment income & transfer just above, labor income just below.

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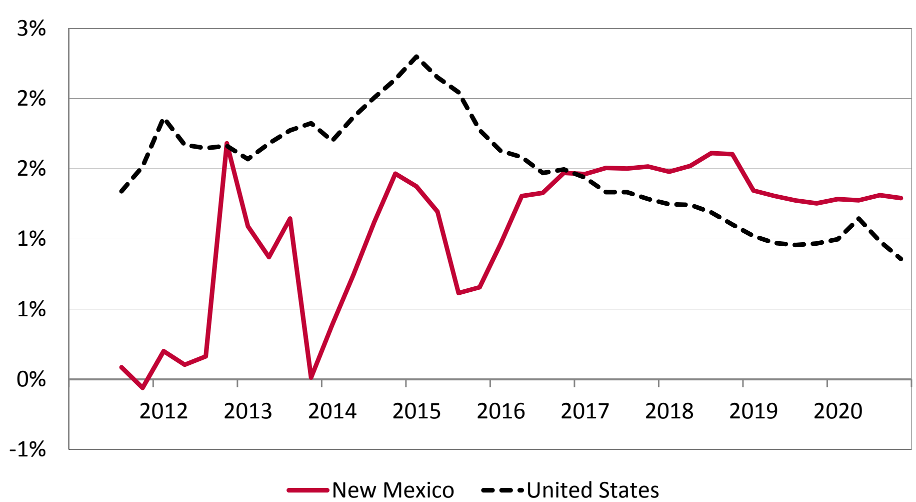
NM and US Employment Forecast Comparison



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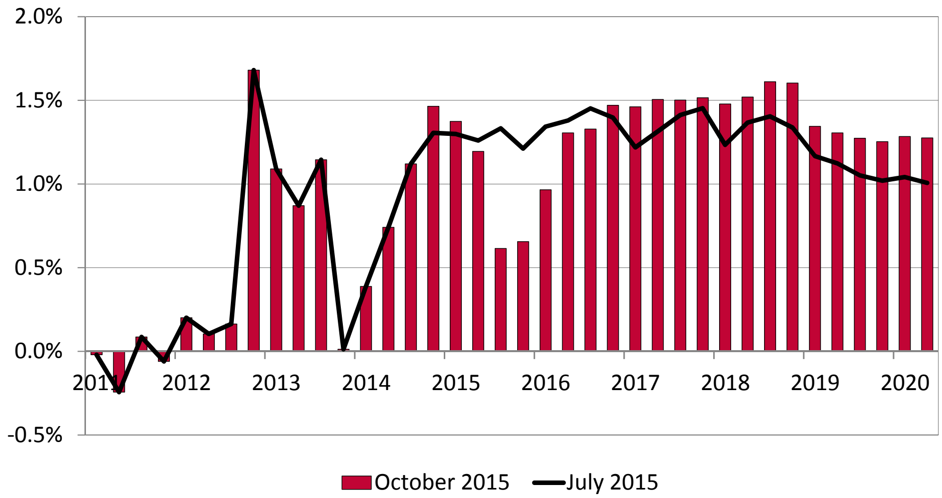
Forecast Comparison: Employment Growth



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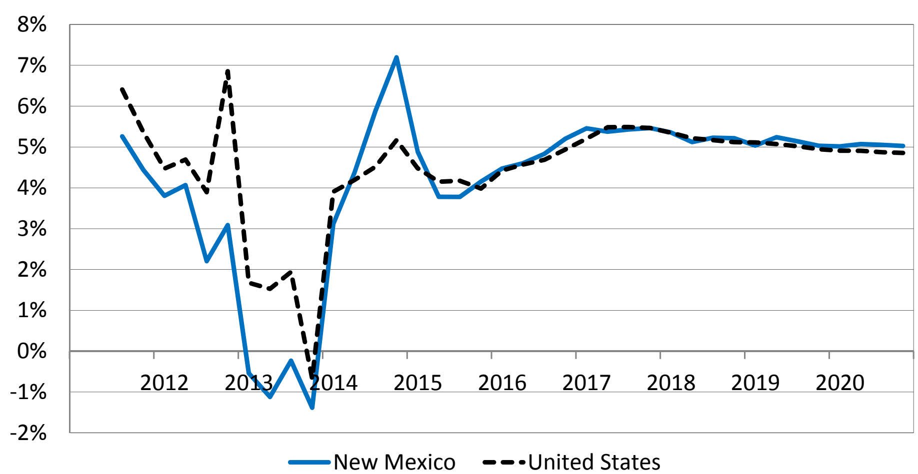
NM and US Income Forecast Comparison



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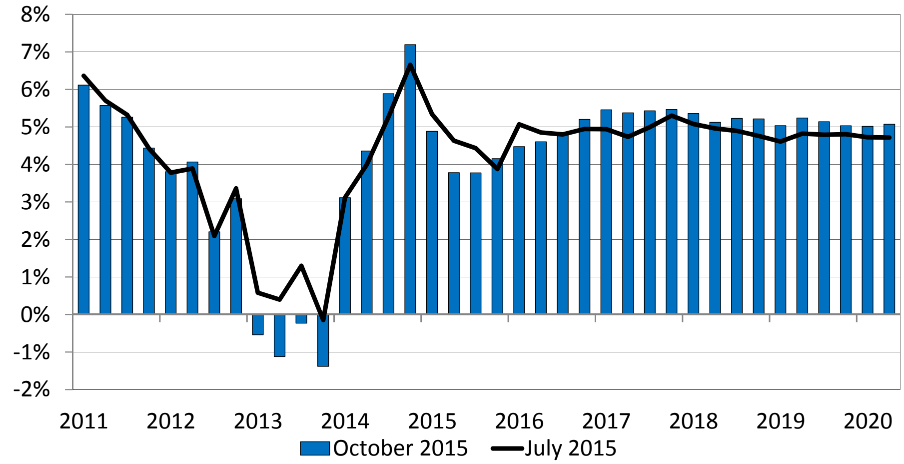
Forecast Comparison: Income



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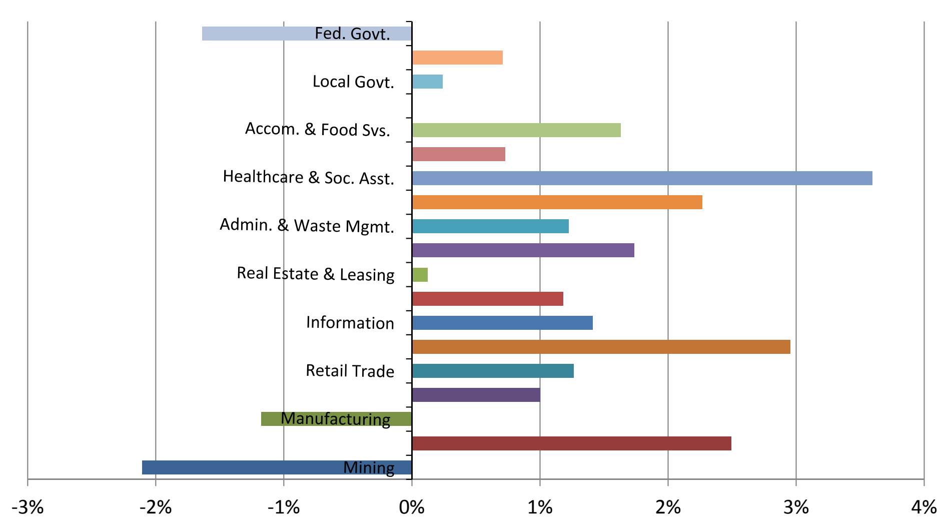
Job Growth by Sector, 2016 (%)



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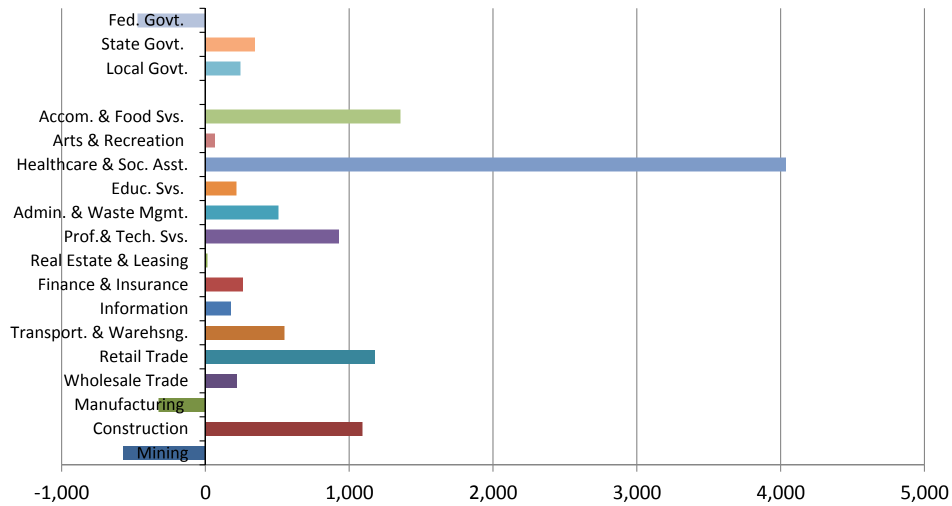
Job Creation by Sector, 2016 (#)



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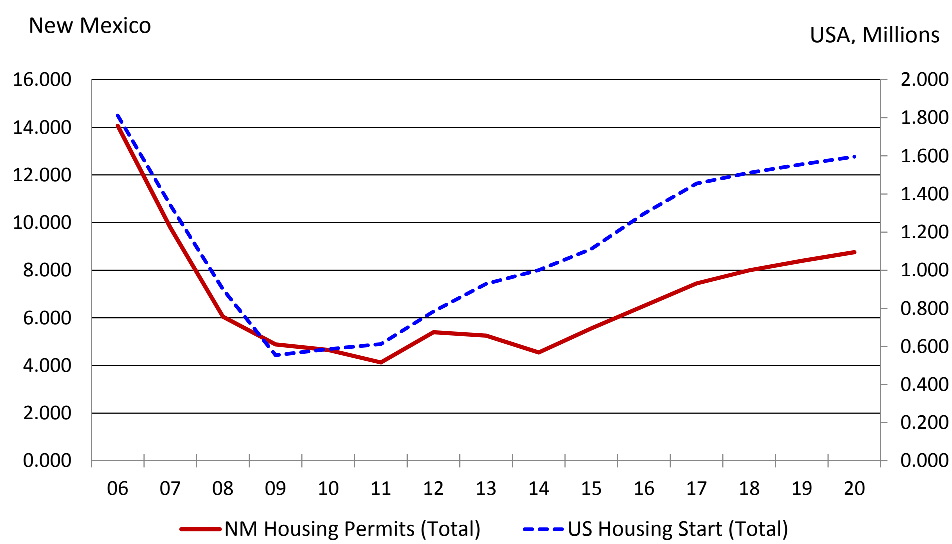
US & NM: Housing Starts & Permits



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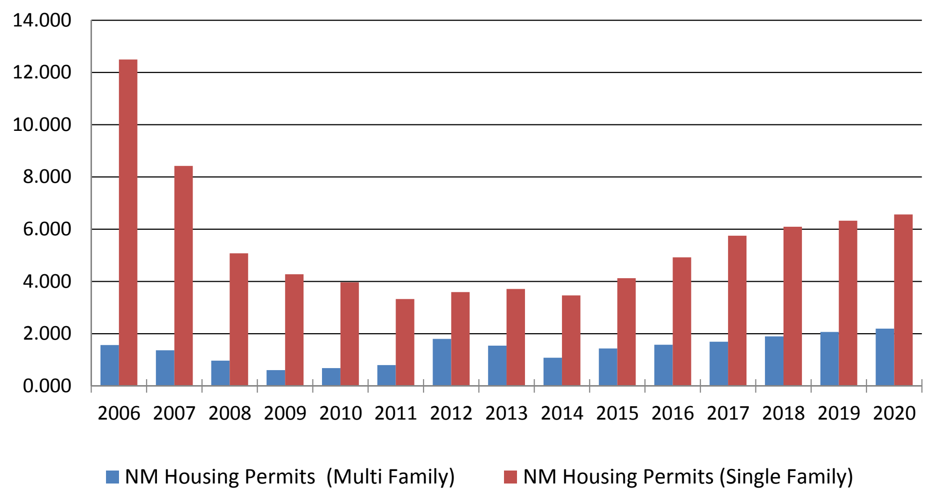
Housing Permits- Single & Multifamily Units



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Alternative Forecasts

- **Upside risk (15%)**
  - Macro: higher consumer demand & stronger housing markets.
  - NM: stronger through 2017, housing markets & construction employment strong; investment income way up.
- **Downside risk (20%)**
  - Macro: weak global economy, low commodity prices, equities fall in value, consumers & investors pull back.
  - NM: more severe, without later bounce; housing & construction, and administrative services hit hard. Income way below baseline without higher transfers to offset.

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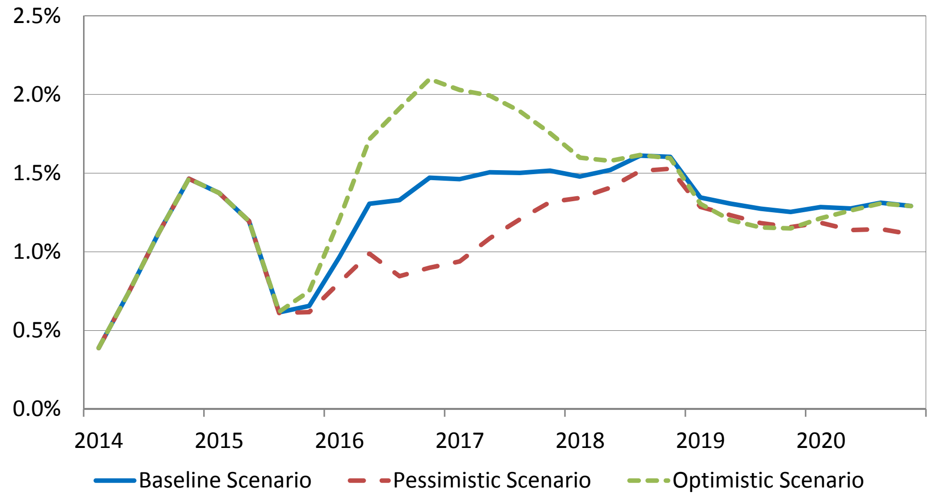
New Mexico Employment Forecast, Alternative Scenarios



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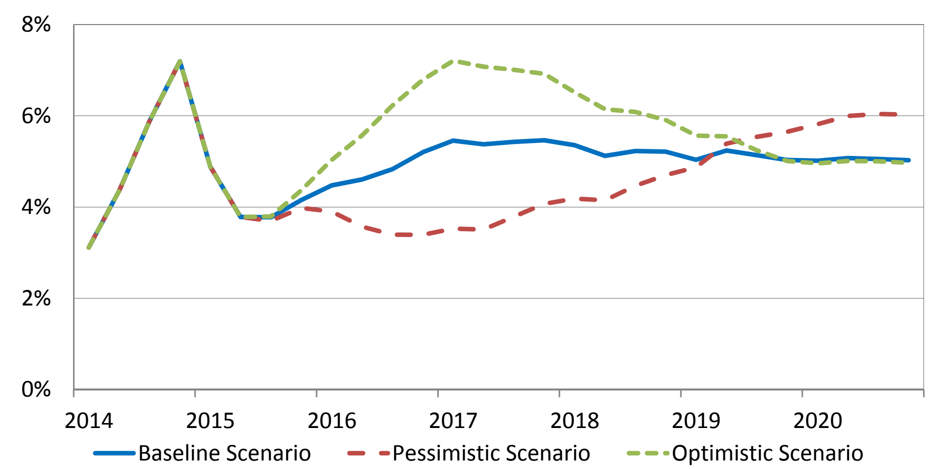

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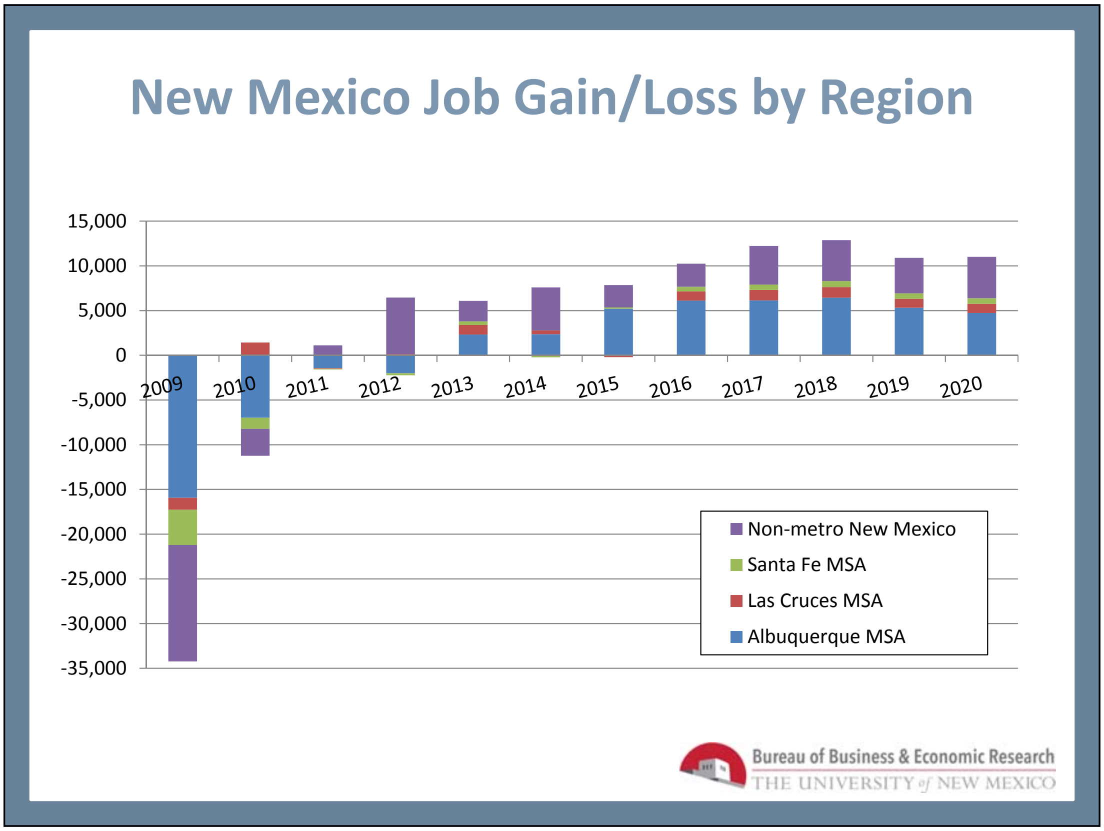
New Mexico Job Gain/Loss by Region
15,000
10,000
5,000
0
-5,000
-10,000
-15,000
-20,000
-25,000
-30,000
-35,000
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Non-metro New Mexico
Santa Fe MSA
Las Cruces MSA
Albuquerque MSA
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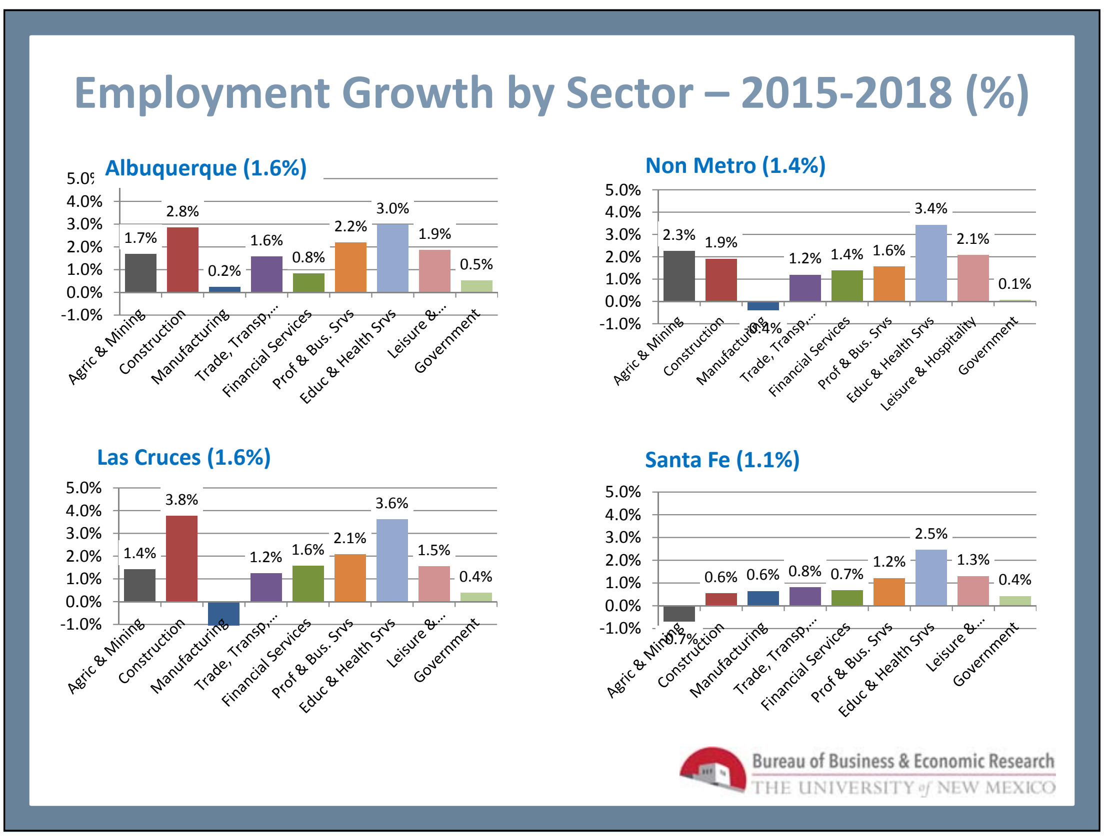
Employment Growth by Sector – 2015-2018 (%)
Albuquerque (1.6%)
1.7%
2.8%
0.2%
1.6%
0.8%
2.2%
3.0%
1.9%
0.5%
Non Metro (1.4%)
2.3%
1.9%
-0.4%
1.2%
1.4%
1.6%
3.4%
2.1%
0.1%
Las Cruces (1.6%)
1.4%
3.8%
1.2%
1.6%
2.1%
3.6%
1.5%
0.4%
Santa Fe (1.1%)
-0.7%
0.6%
0.6%
0.8%
0.7%
1.2%
2.5%
1.3%
0.4%
Agric & Mining
Construction
Manufacturing
Trade, Transp,...
Financial Services
Prof & Bus. Srvs
Educ & Health Srvs
Leisure &...
Leisure & Hospitality
Government
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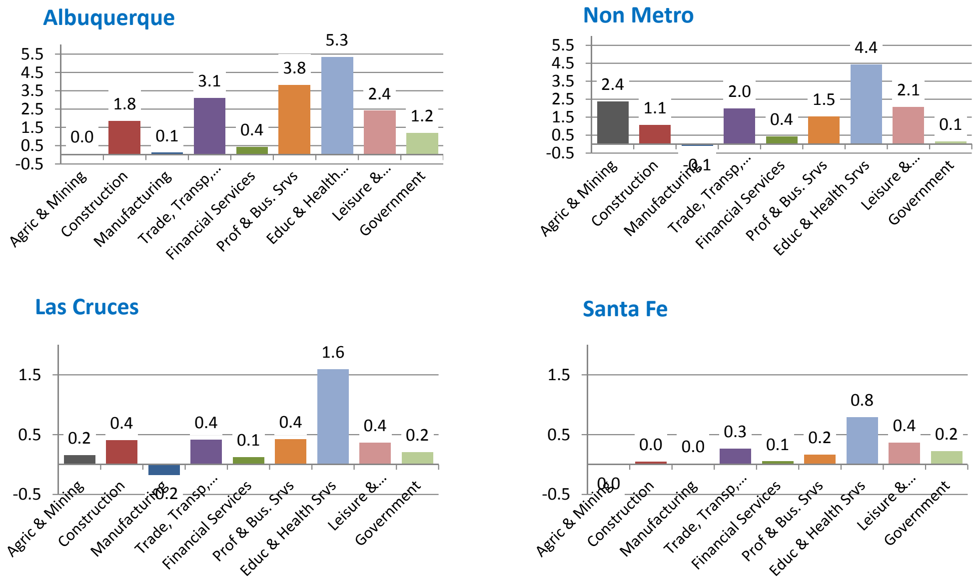
Job Gain/Loss by Sector – 2015-2018 ('000s)



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