The US and New Mexico Economies: Recent Developments and Outlook

January 2016

A presentation to NM Legislative Finance Committee

Presented by Jeffrey Mitchell, Director, UNM-BBER

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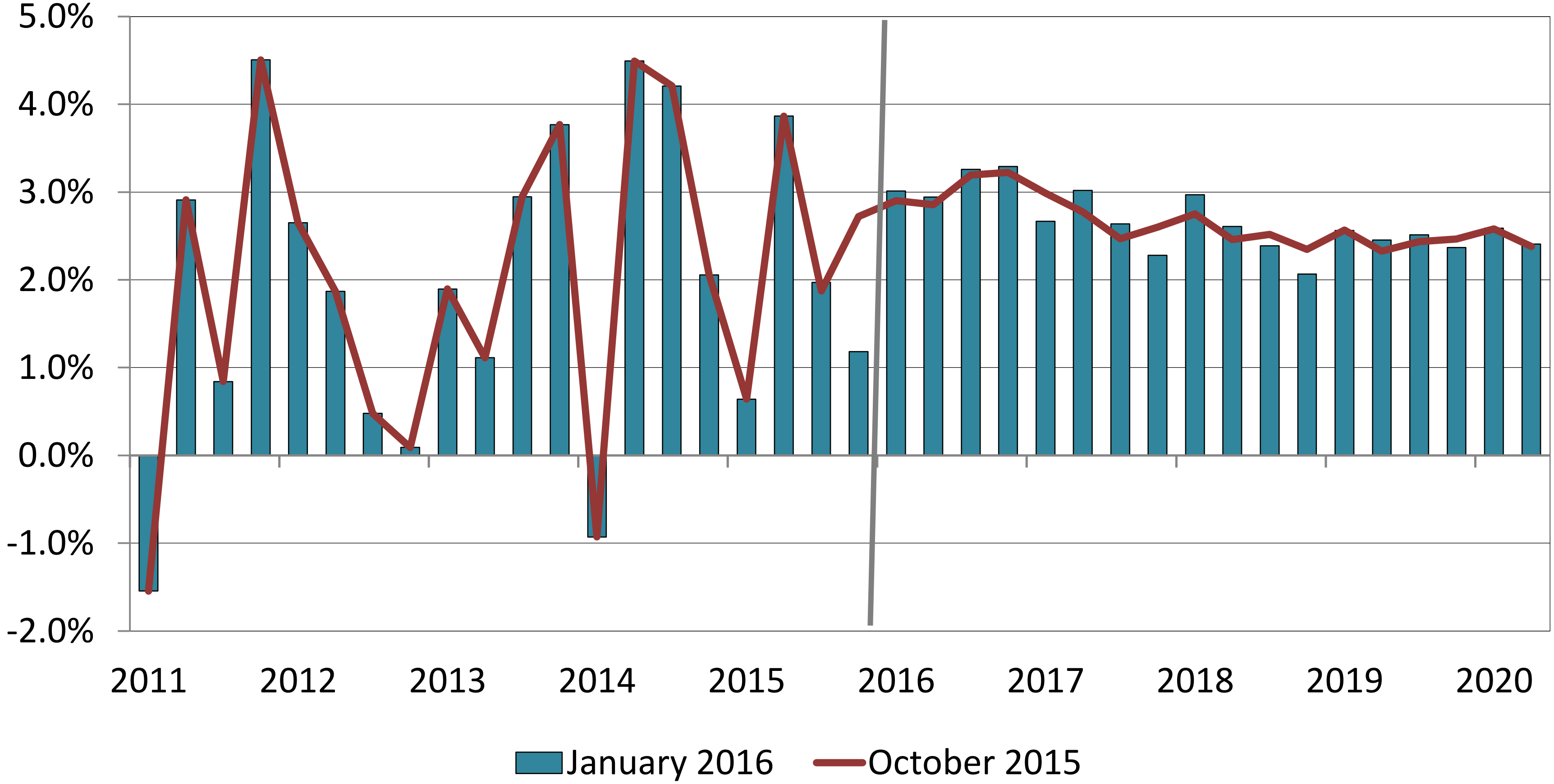
Review: National Economy

- Generally good – despite strong global headwinds and distressed commodity & equity markets.
- Final estimate for 2015Q2 revised up to 3.9%. 2015Q3 to 2.0%.
- Employment expanded in October by 307,000, in November by 252,000 and 292,000 in December. Unemployment rate to 5.0%.
- Wages only slowly responding to high employment growth. YET:
- Consumer Confidence Index higher in 2015 than any year since before the Recession.
- Growth driven by consumer spending, offsetting weak exports & government.
- Commodities (esp. oil) and equities on the run.
- Housing is still weak but slowly improving .

US Real GDP Forecast Comparison

Growth (%) in Real GDP, Quarter-Over-Previous-Quarter, SAAR



Global Insight, Jan. 16 and Oct. 15

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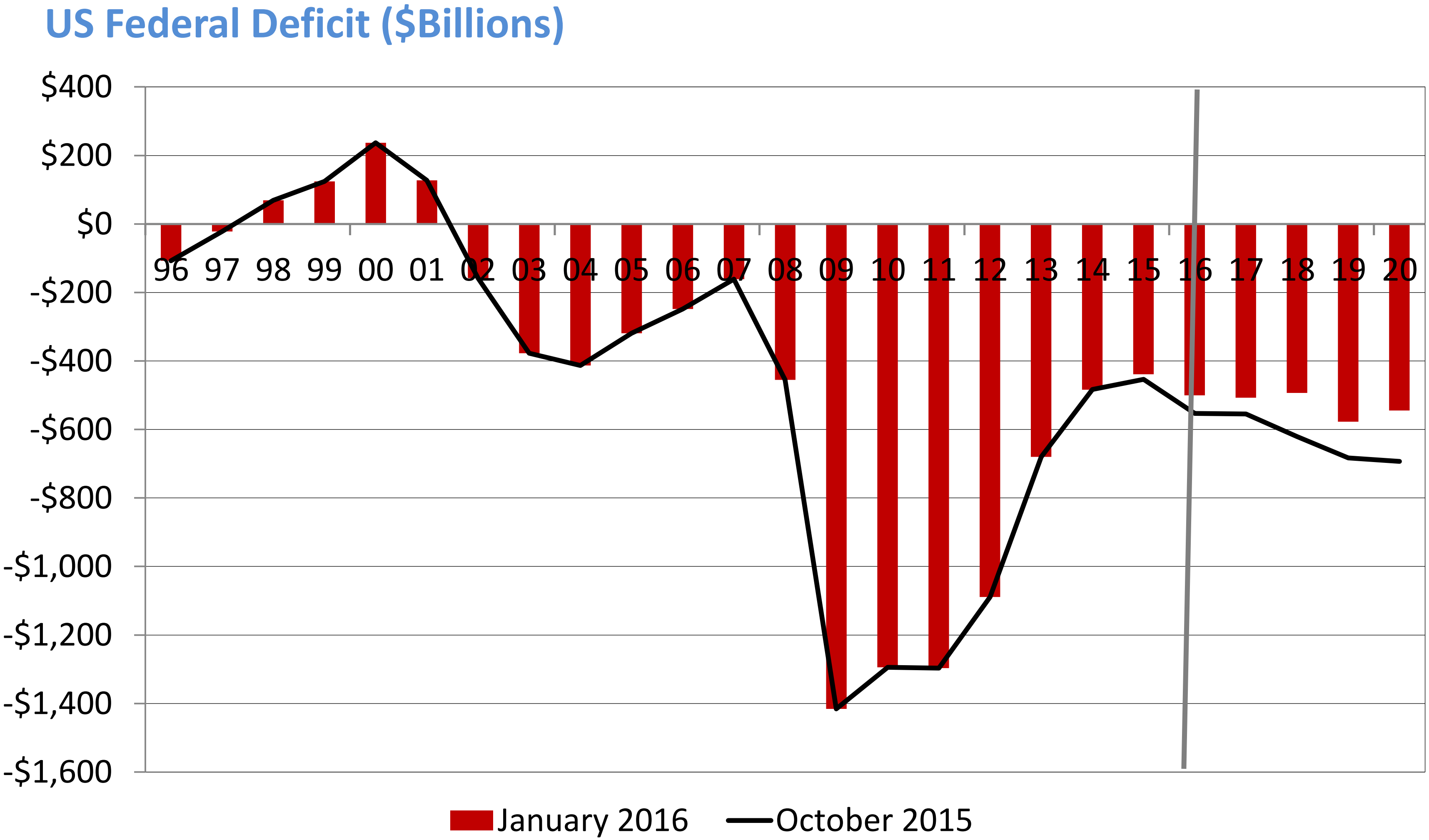
Comparison of Federal Deficit



Global Insight, Jan. 16 and Oct. 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	259	356	346	257	212	188
Manufacturing	200	93	170	137	(17)	105	114	122	96
Trade, Transportation & Utilities	405	385	520	537	371	224	162	104	67
Prof. & Bus. Services	606	588	573	653	634	725	538	390	535
Health Care & Soc. Asst.	375	386	315	536	593	344	282	349	276
Leisure & Hospitality	423	486	450	448	306	175	213	189	146
Other Private	307	216	312	260	34	(206)	(70)	(35)	2
Government	(175)	(69)	8	91	98	142	242	200	261
Total Nonfarm Payrolls	2,255	2,296	2,629	2,920	2,375	1,855	1,739	1,530	1,571
Annual Growth	1.7%	1.7%	1.9%	2.1%	1.7%	1.3%	1.2%	1.0%	1.1%

IHS Global Insight, January 2016

Global Insight Jan. 16

New Mexico Review

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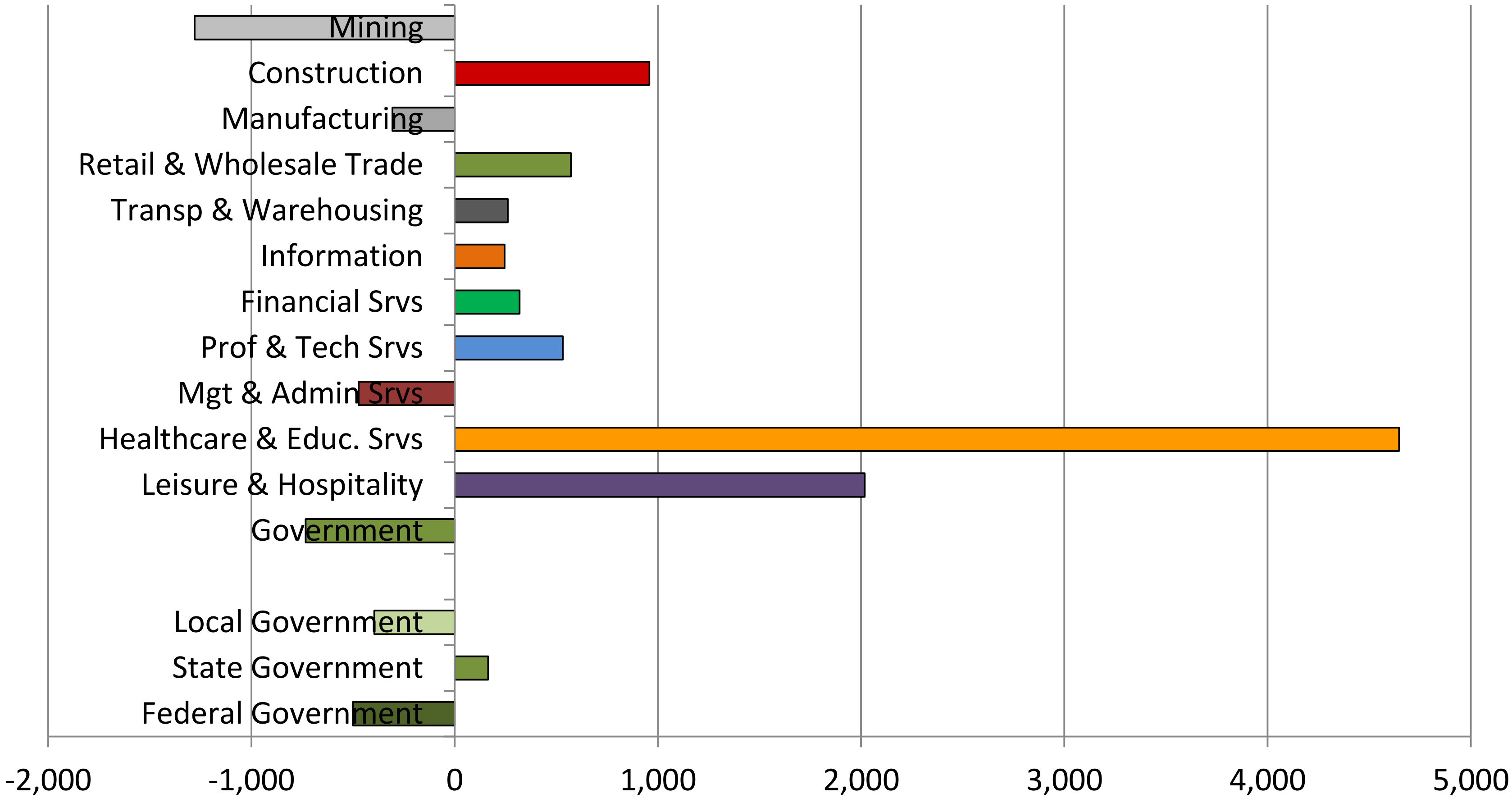
New Mexico Economic Current Situation

- Employment growth, slow since 2009 but stronger in FY2015 (1.4%), has again slowed (0.5% in 2015 Q3 & 4).
- 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 35 last week.
- 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.

Job Creation by Sector, 2015



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Oil & Gas Impacts on NM Economy

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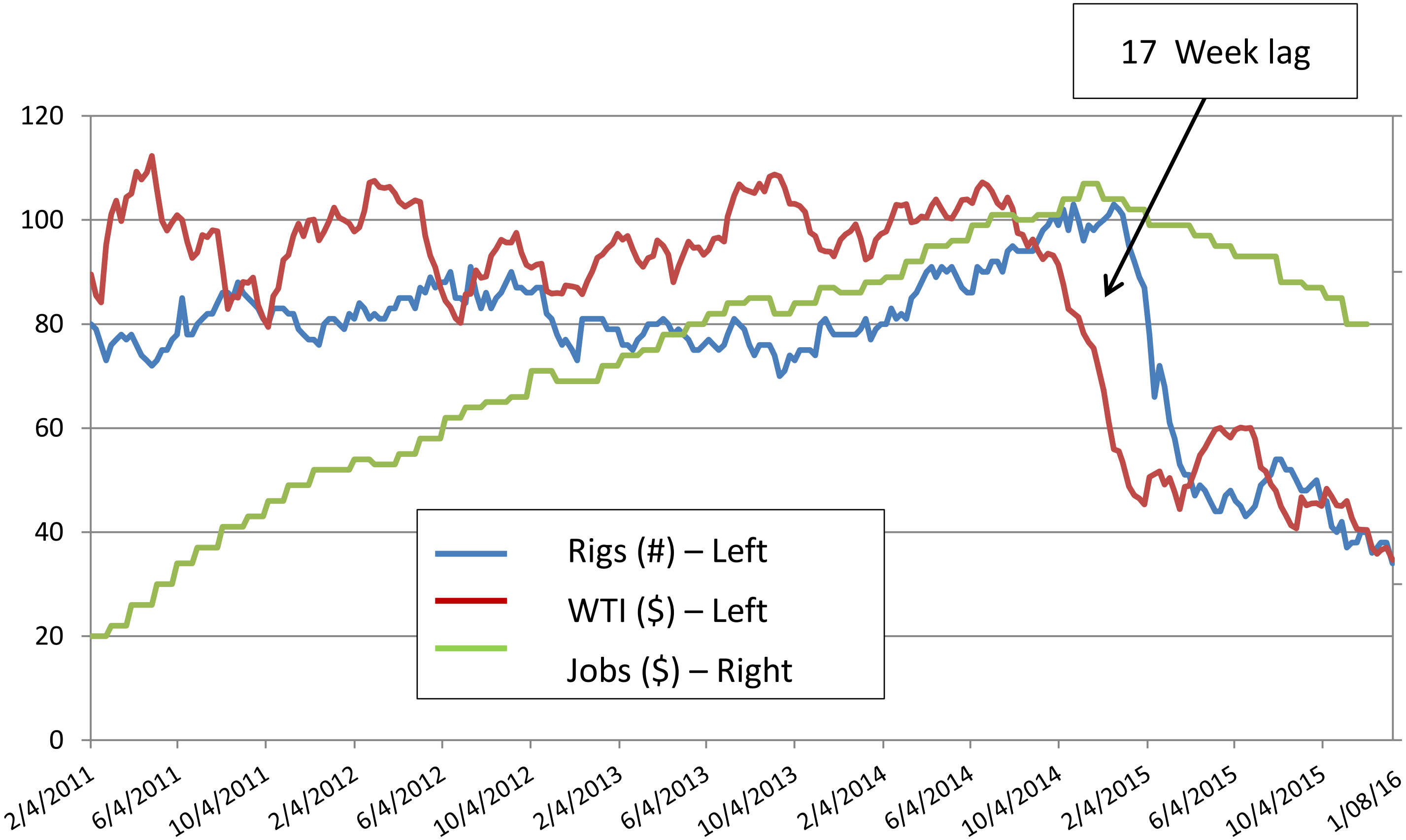
Rig Counts in New Mexico vs. WTI Price



Source: Bloomberg Business,
Baker Hughes

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

West Texas Intermediate (WTI): From $106/barrel in July 2014 to $27.96/barrel spot yesterday.

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.

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1. Employment impacts of oil & gas industry

For every one job lost in Oil & Gas, expect to lose another 1.1 additional jobs (indirect & induced); and a total of $201,179 in labor income in the *oil & gas industry.*

2014

Impact Type	Employment	Labor Income (Millions)	Average Labor Income
Direct	36,587	$2,472.54	$67,580
Indirect	40,496	$2,163.76	$53,432
Induced	25,240	$952.32	$37,730
Total	102,323	$5,588.62	$158,742
Multiplier	2.8	2.3	

2014-2010

Impact Type	Employment	Labor Income	Average Labor Income
Direct	11,784	$956.24	$81,147
Indirect	6,338	$468.21	$73,872
Induced	6,342	$292.72	$46,160
Total	24,464	$1,717.18	$70,193
Multiplier	2.1	1.8	

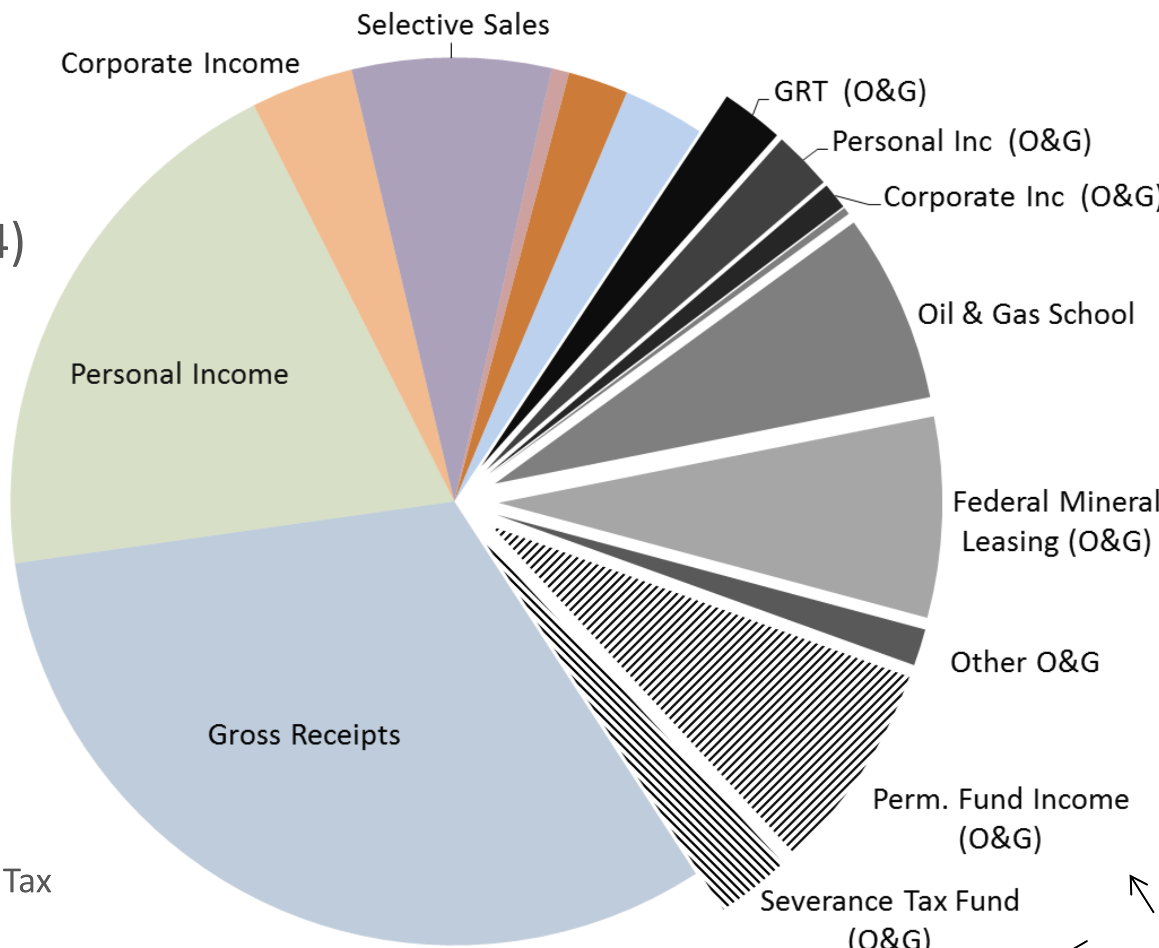
However, some of these losses will be offset by gains in other sectors as consumers spend elsewhere and labor becomes available for other industries.

2. Fiscal impact: Oil & State General Fund

- Rule of thumb: $1/barrel = $10 million state revenues was based on production levels of ~110 million barrels. At 150 million barrels, $1/barrel = $15 million state revenues.
- Additionally, schools and local governments lose about $0.30
- According to NM Tax Research Institute, Oil & Gas contribution to general fund in FY14 reached a peak of 35.1%.

Contribution of Oil & Gas to State General Fund

Total: $6,040 million (FY 2014)



Current O&G (21%)

Permanent funds (10%)

Source: New Mexico Tax Research Institute, January 2015.

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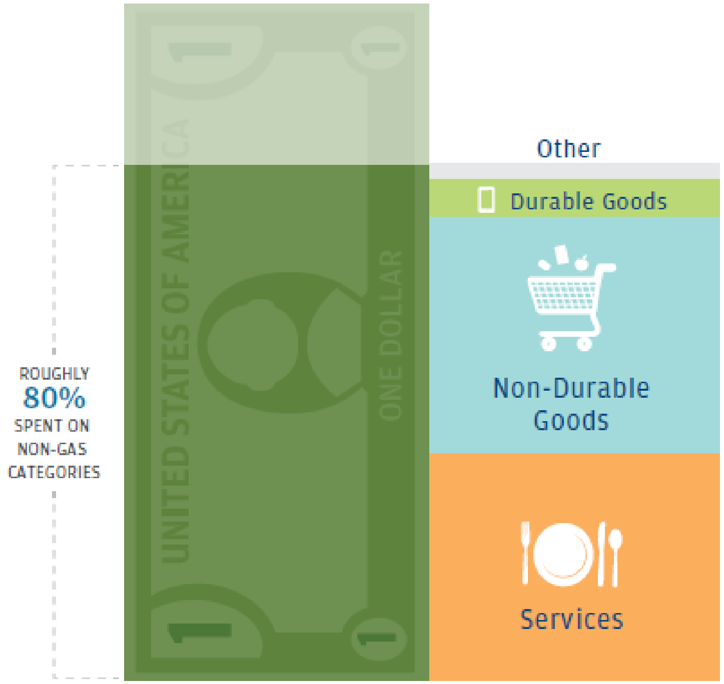
3. Consumer impact: more money to spend locally

Individuals spent roughly 80% of their savings from lower gas prices.



Individuals spent roughly 80% of their savings from lower gas prices. For every dollar less spent at the gas pump, individuals spent roughly 80 cents (72-89 cents) on other things. Almost 20% of the gas savings were spent at restaurants, but department stores, entertainment and electronics and appliances also saw significant gains.

* JP Morgan Chase & Co Institute, October 2015

Impact of higher consumer spending

- 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.
- Consumers spend 80% of gas savings*.
- This spending creates:
  - 5,200 jobs
  - $200 million in wages, salaries & benefits
  - $600 million in total impact
  - Partially offset losses to General Fund

New Mexico Economic Outlook

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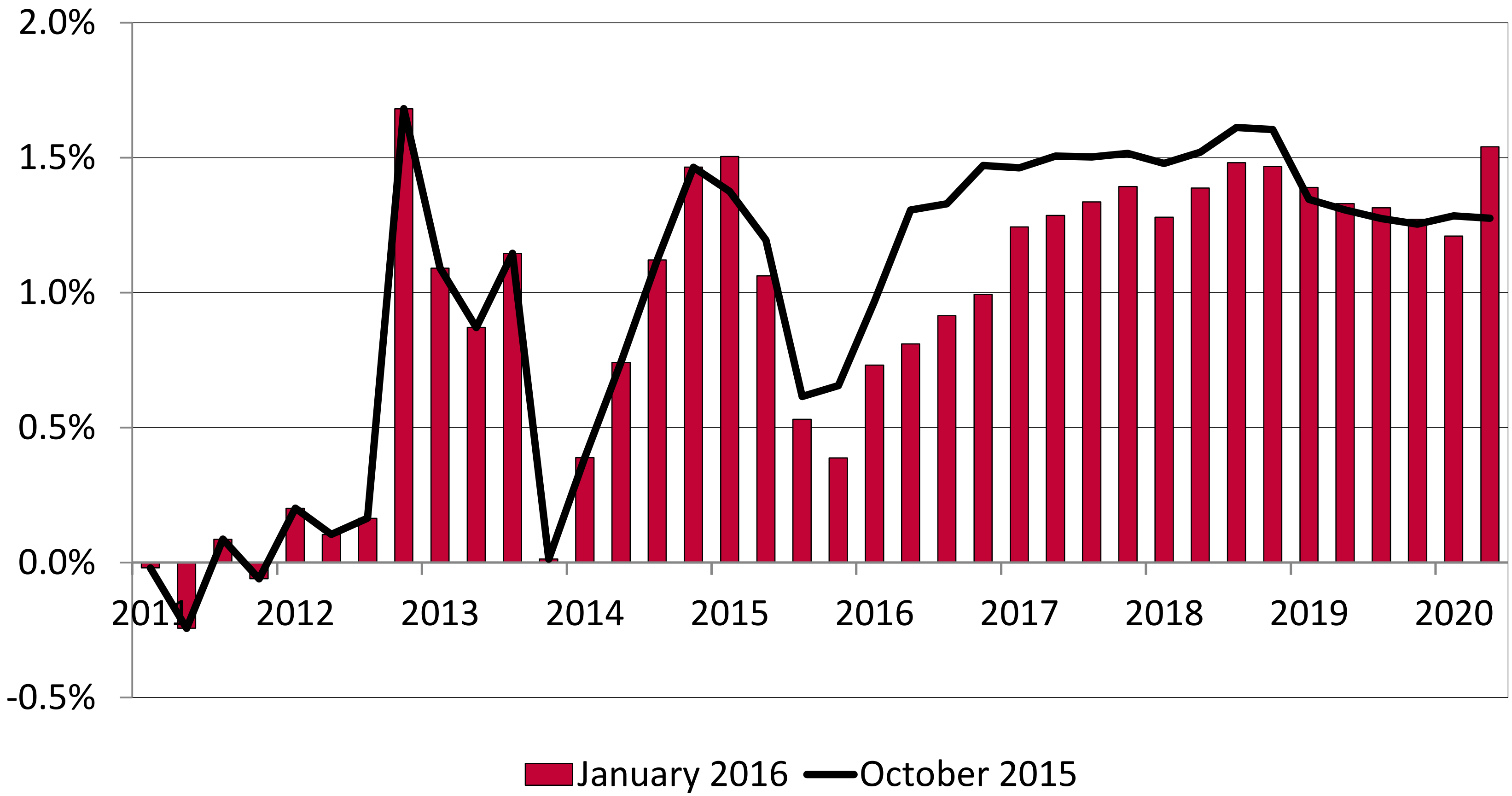
New Mexico Economic Outlook: 2016-2020

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

Forecast Comparison: Employment Growth



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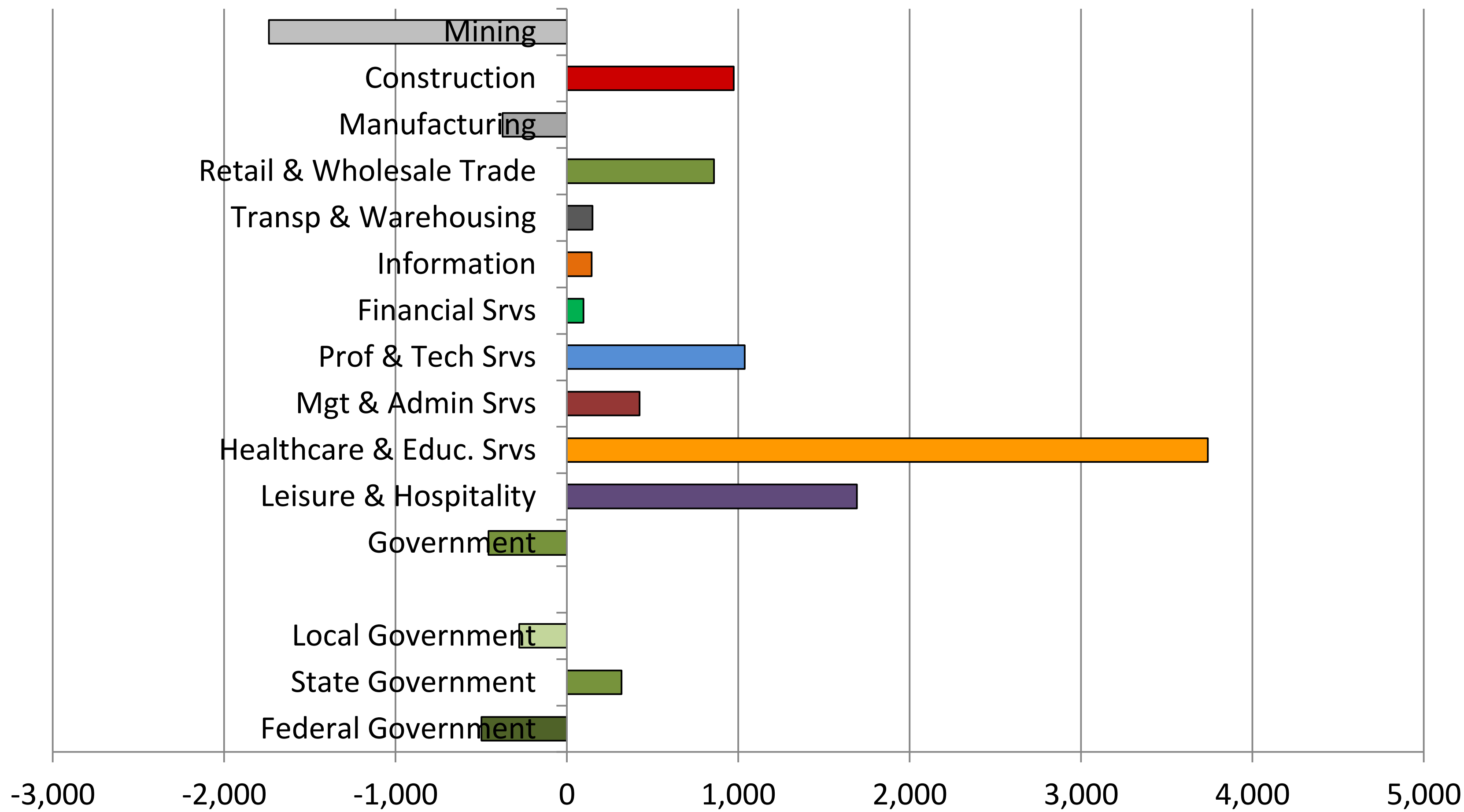
Job Creation by Sector, 2016



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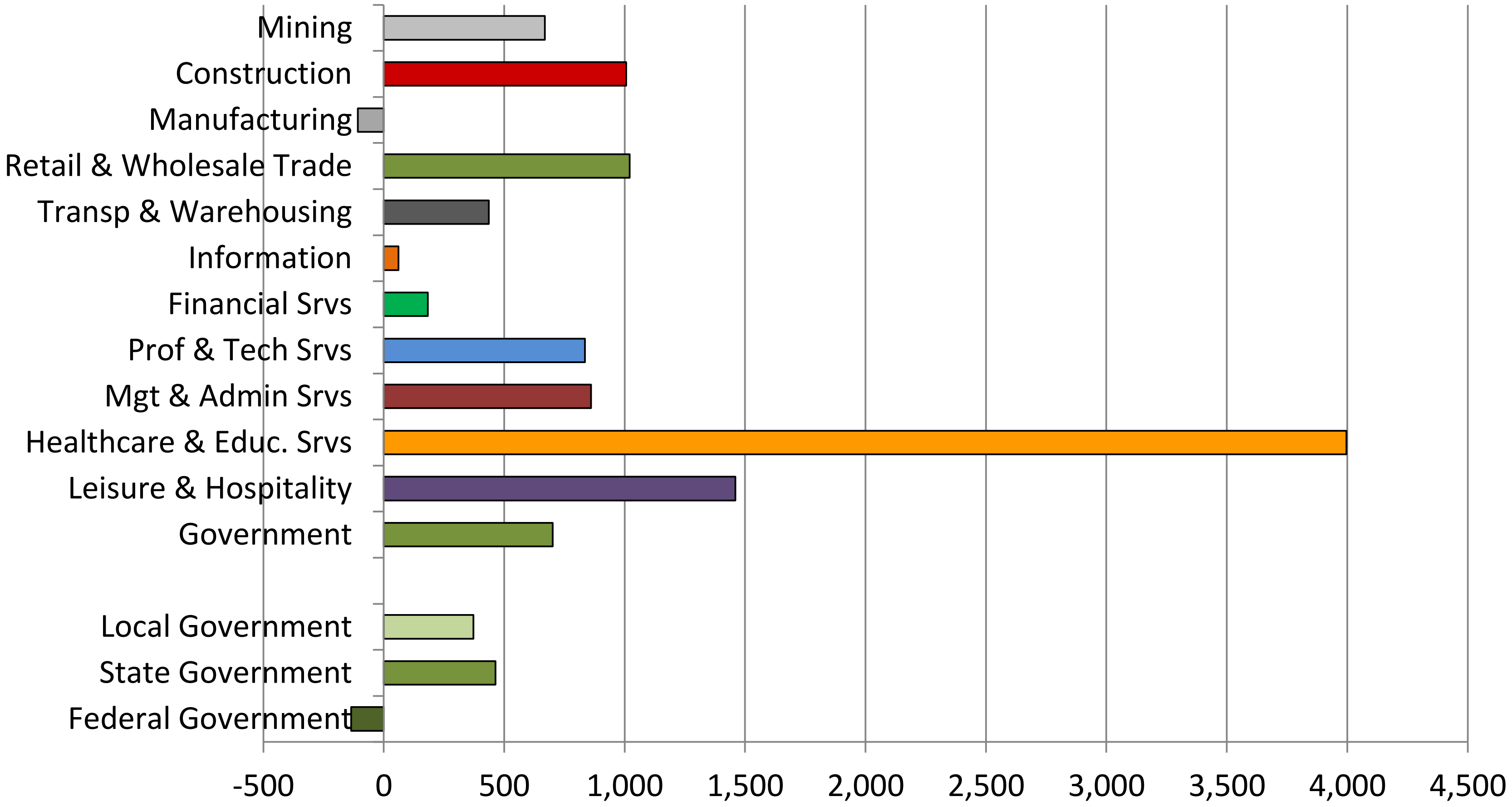
Job Creation by Sector, 2017-2020



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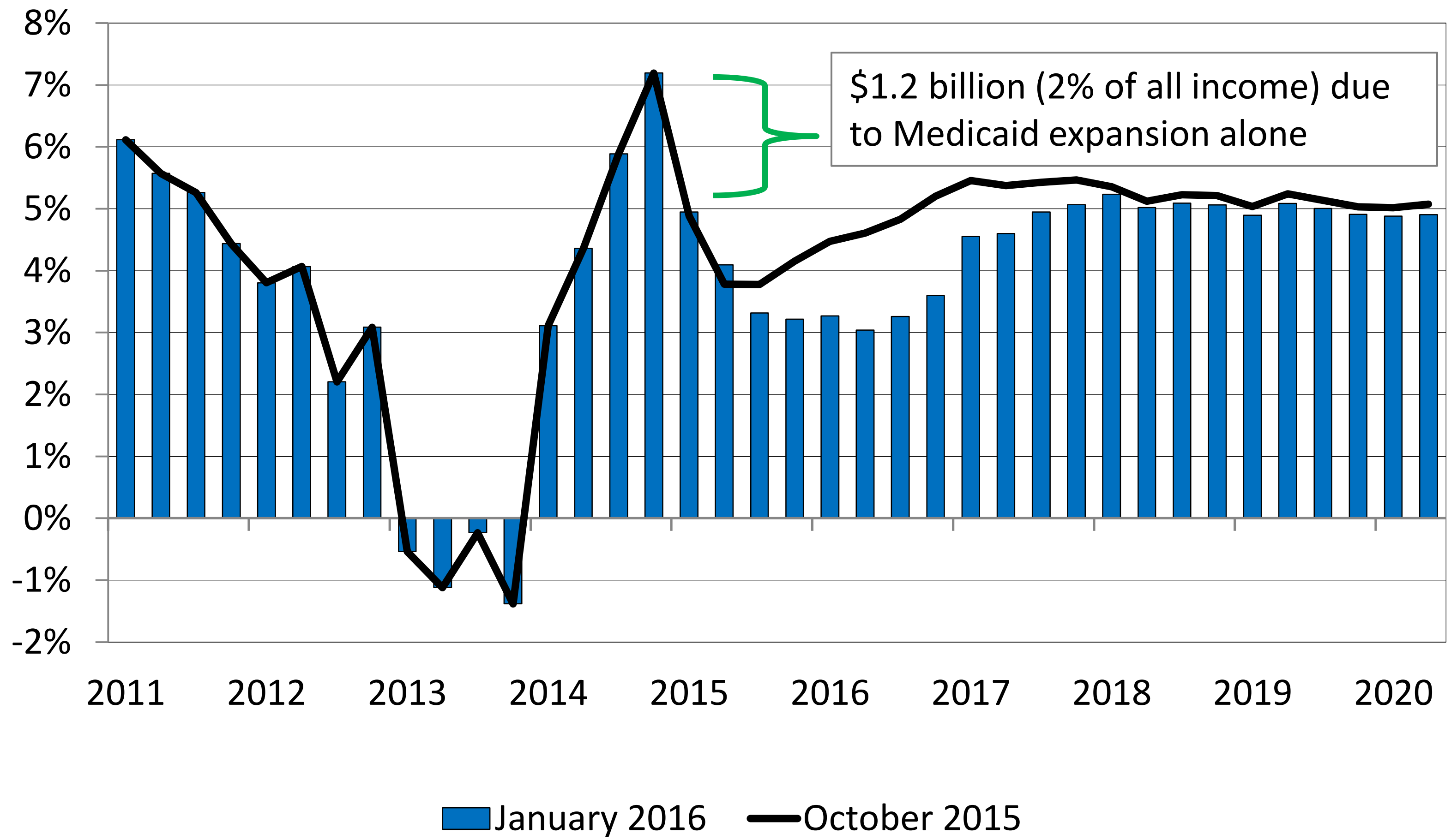
Forecast Comparison: Income



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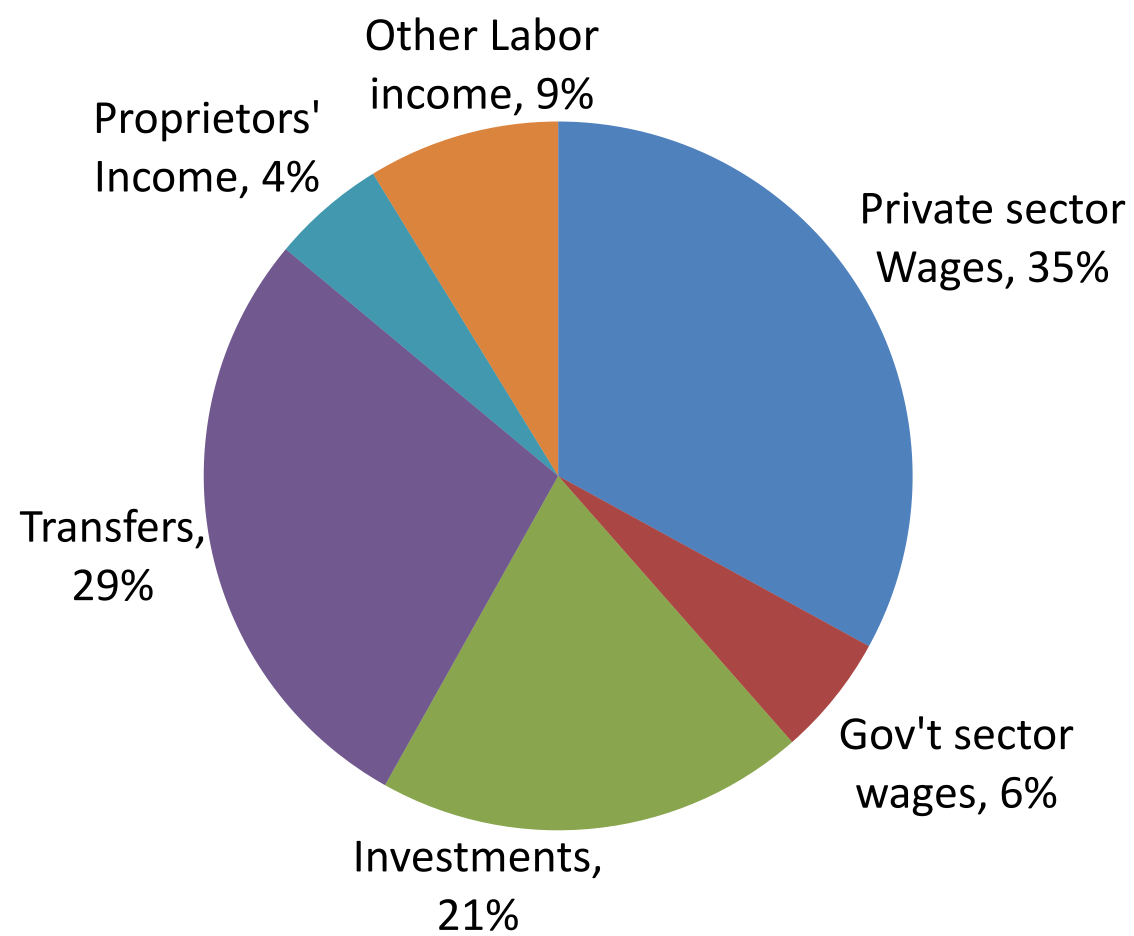
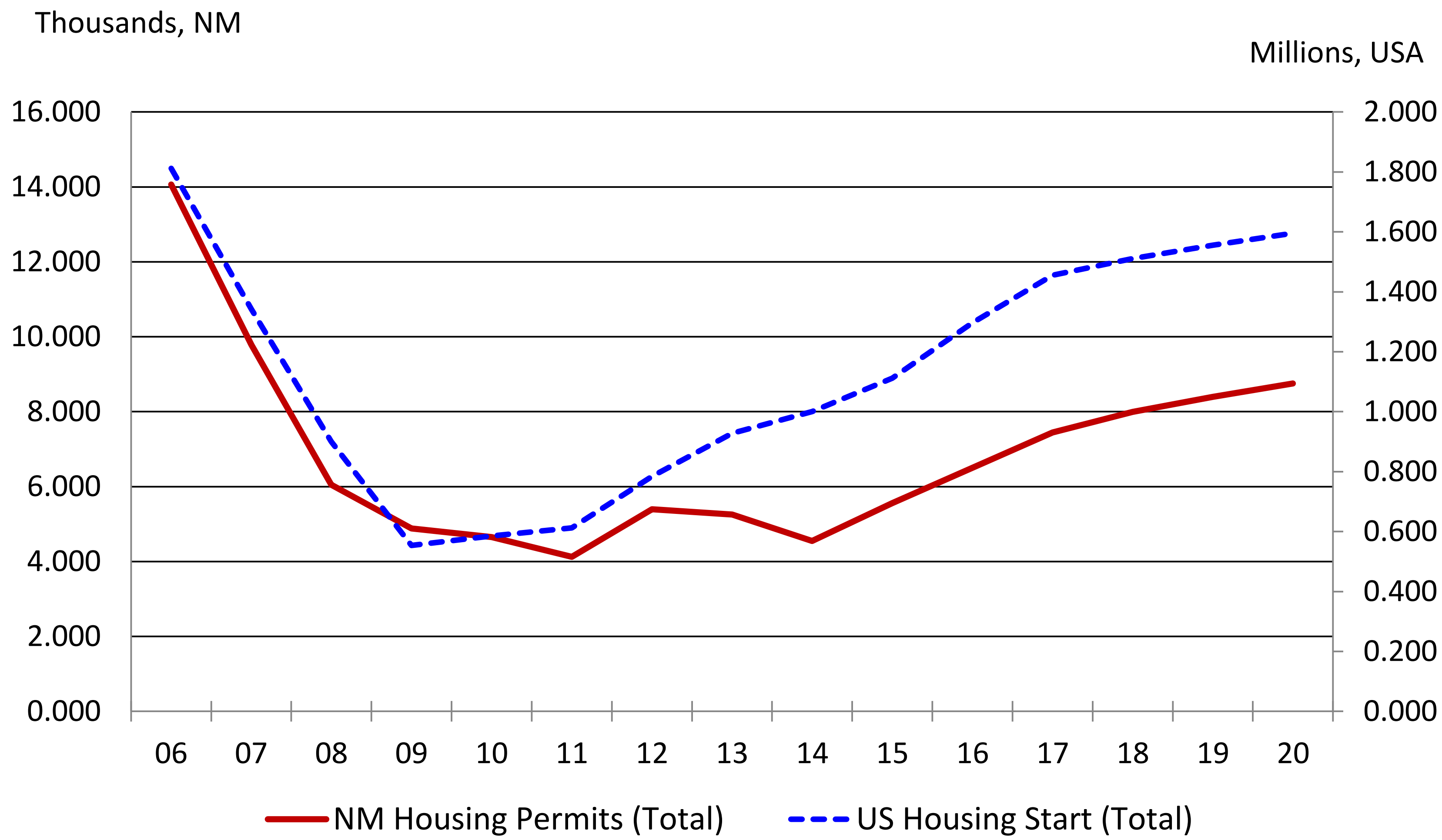
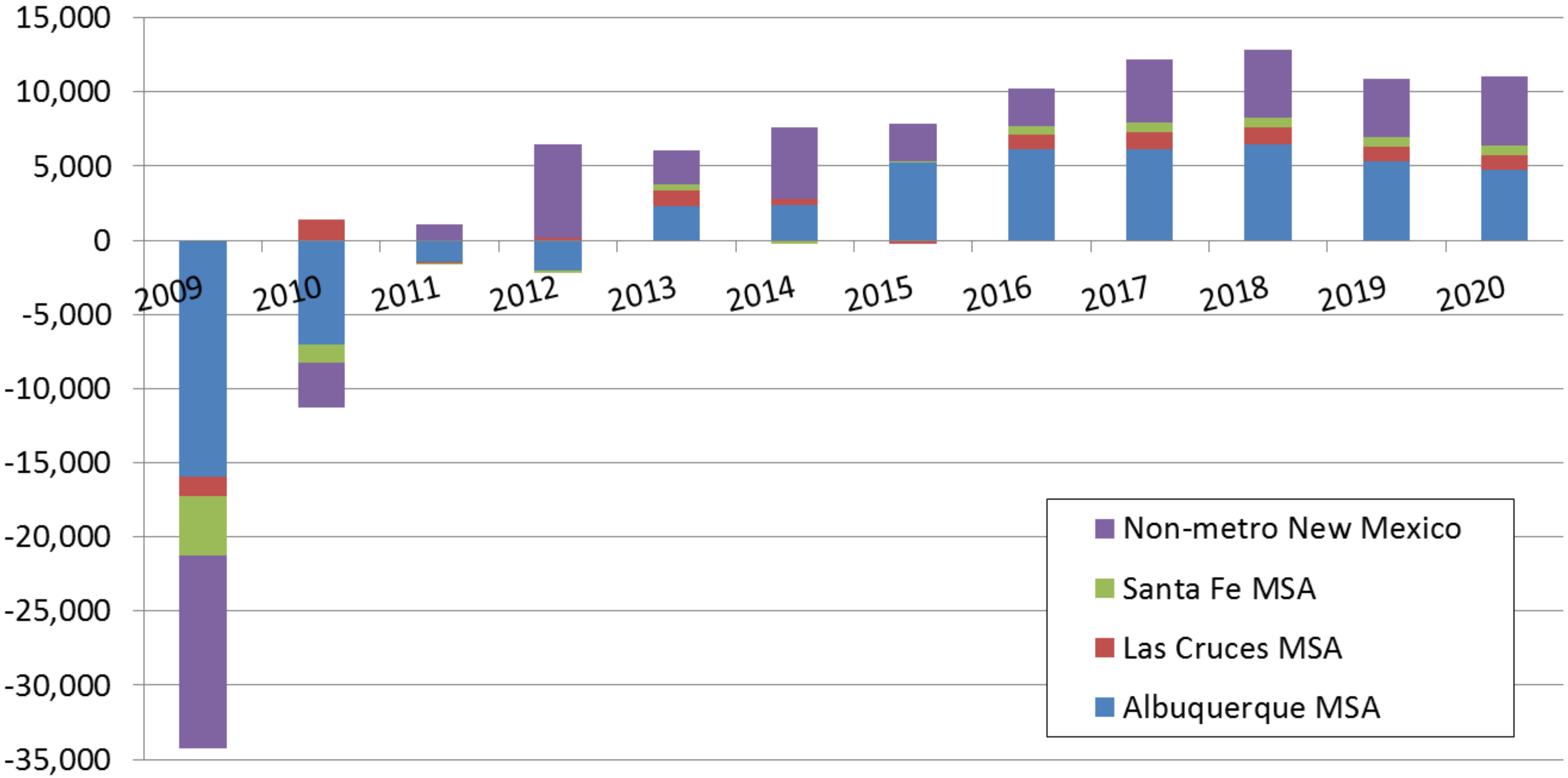
Income growth by component, 2016-2020



US & NM: Housing Starts & Permits



New Mexico Job Gain/Loss by Region



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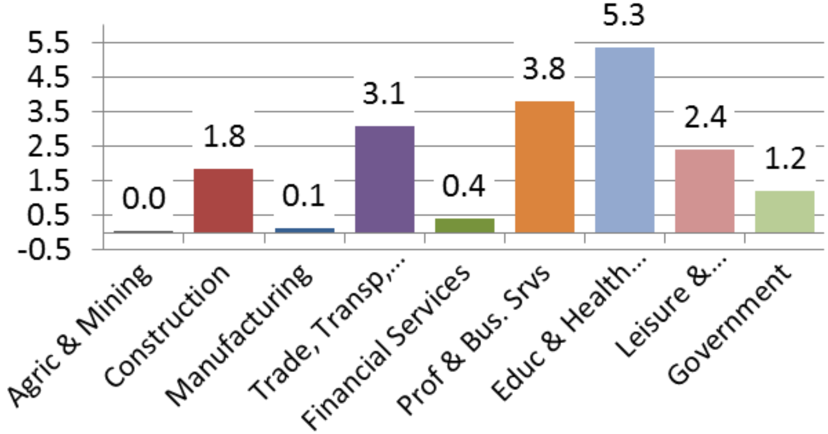
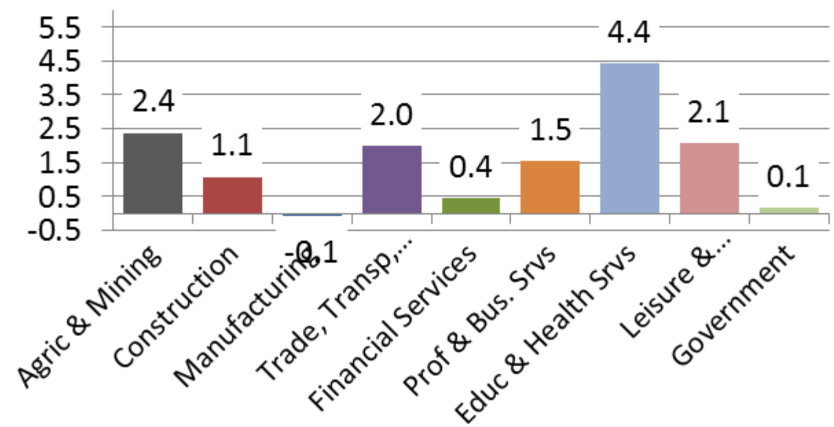
Job Gain/Loss by Sector – 2015-2018 ('000s)

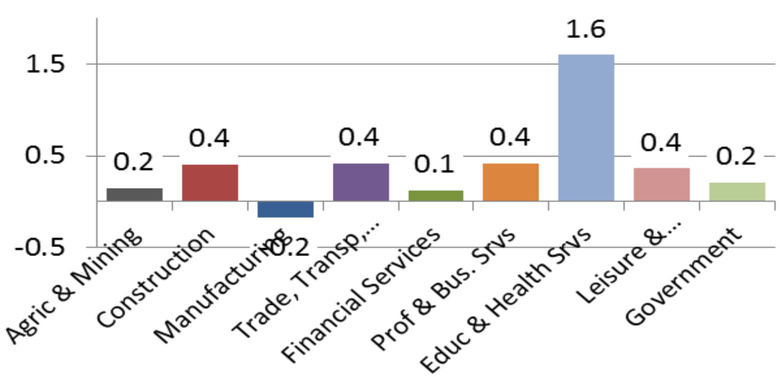
Albuquerque



Non Metro



Las Cruces



Santa Fe

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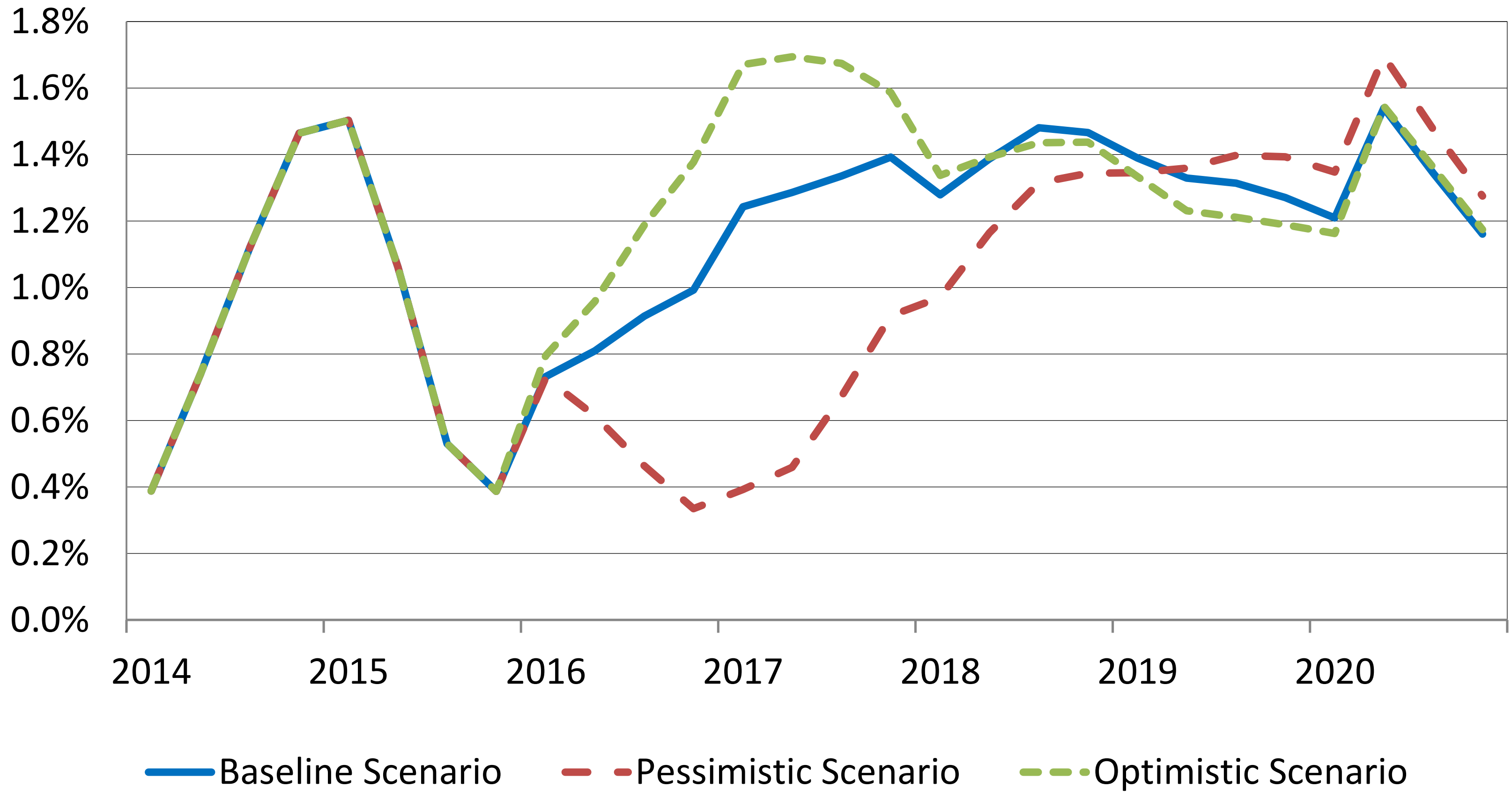
New Mexico Employment Forecast, Alternative Scenarios



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NM Oil &Gas production volume, value and average annual price, 2004-2014

	Value of Oil (Mn $)	Oil Production (Barrels)	Oil Price ($/barrel)	Value of Natural Gas (Mn $)	Gas Production (Mn Cubic Ft)	Gas Price ($/mn cubic ft)	Value of Oil & Natural Gas (Mn $)
2004	$2,536	65,080,988	$38.97	$8,438	1,550,415,488	$5.44	$10,974
2005	$3,225	61,197,817	$52.70	$11,020	1,527,910,128	$7.21	$14,246
2006	$3,722	60,421,932	$61.60	$9,697	1,535,202,552	$6.32	$13,419
2007	$4,100	59,747,879	$68.62	$10,408	1,463,560,727	$7.11	$14,507
2008	$5,835	60,860,052	$95.88	$11,978	1,399,310,626	$8.56	$17,814
2009	$3,553	62,361,737	$56.98	$5,713	1,347,452,643	$4.24	$9,266
2010	$5,024	66,486,436	$75.56	$6,919	1,271,074,334	$5.44	$11,943
2011	$6,658	73,639,513	$90.41	$7,234	1,223,725,404	$5.91	$13,891
2012	$7,677	87,616,153	$87.62	$5,031	1,211,921,368	$4.15	$12,708
2013	$9,617	103,967,116	$92.50	$5,404	1,162,695,874	$4.65	$15,022
2014	$10,519	125,752,132	$83.65	$6,098	1,203,266,979	$5.07	$16,617
Jan-Apr 2015	$2,117	47,883,676	$44.20	$1,131	378,203,062	$2.99	$3,247

Source: Oil and Natural Gas Administration and Revenue Database (ONGARD).

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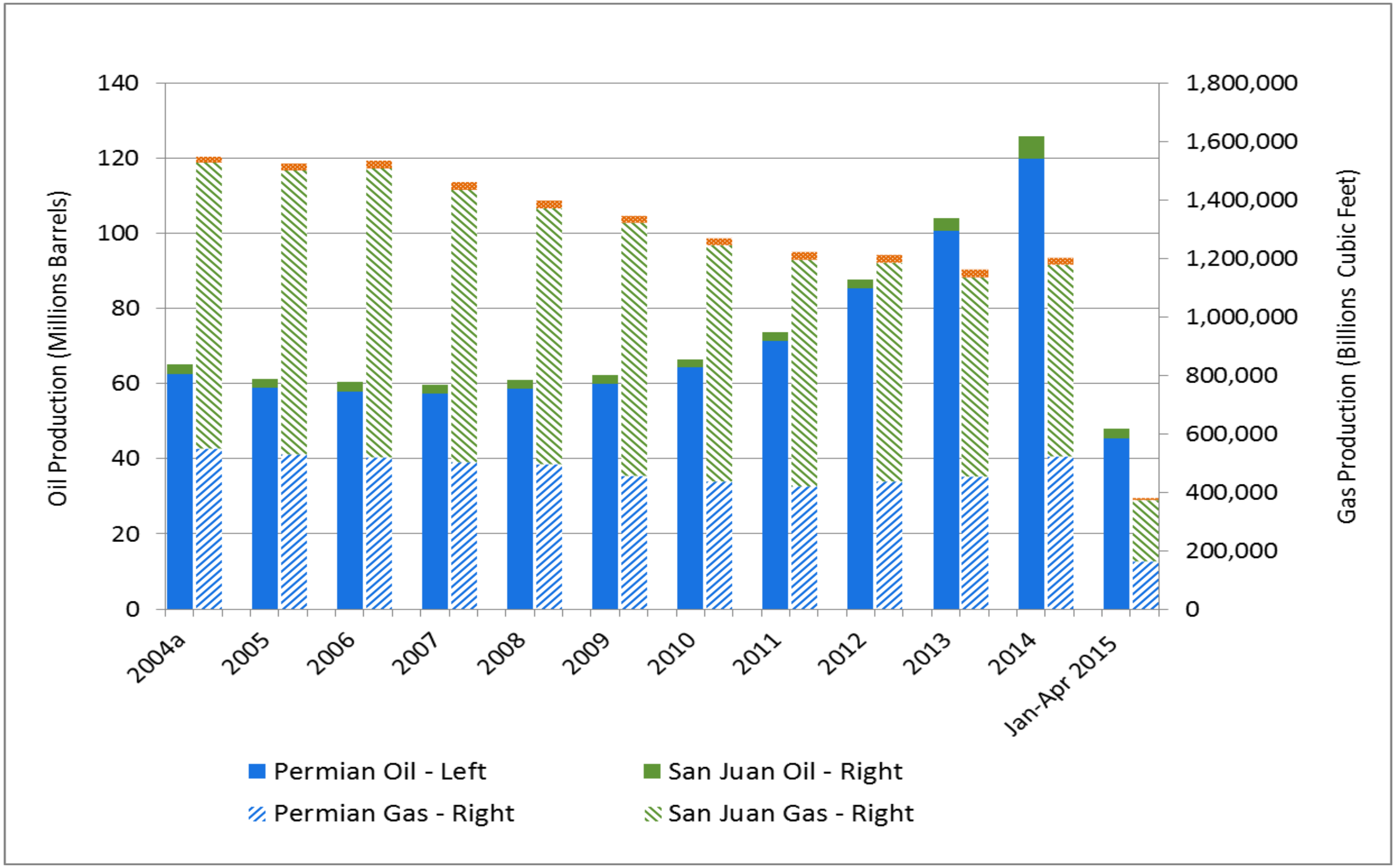
NM Oil & Gas production, by basin, 2004-2014



Source: Oil and Natural Gas Administration and Revenue Database (ONGARD).

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