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New Mexico Economy: Recent Developments and Outlook

Lee A. Reynis

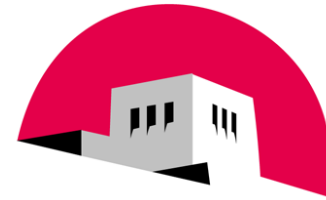
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University of New Mexico
Bureau of Business and Economic Research



New Mexico Economy: Recent Developments and Outlook

Annual Economic Outlook Conference

January 12, 2012

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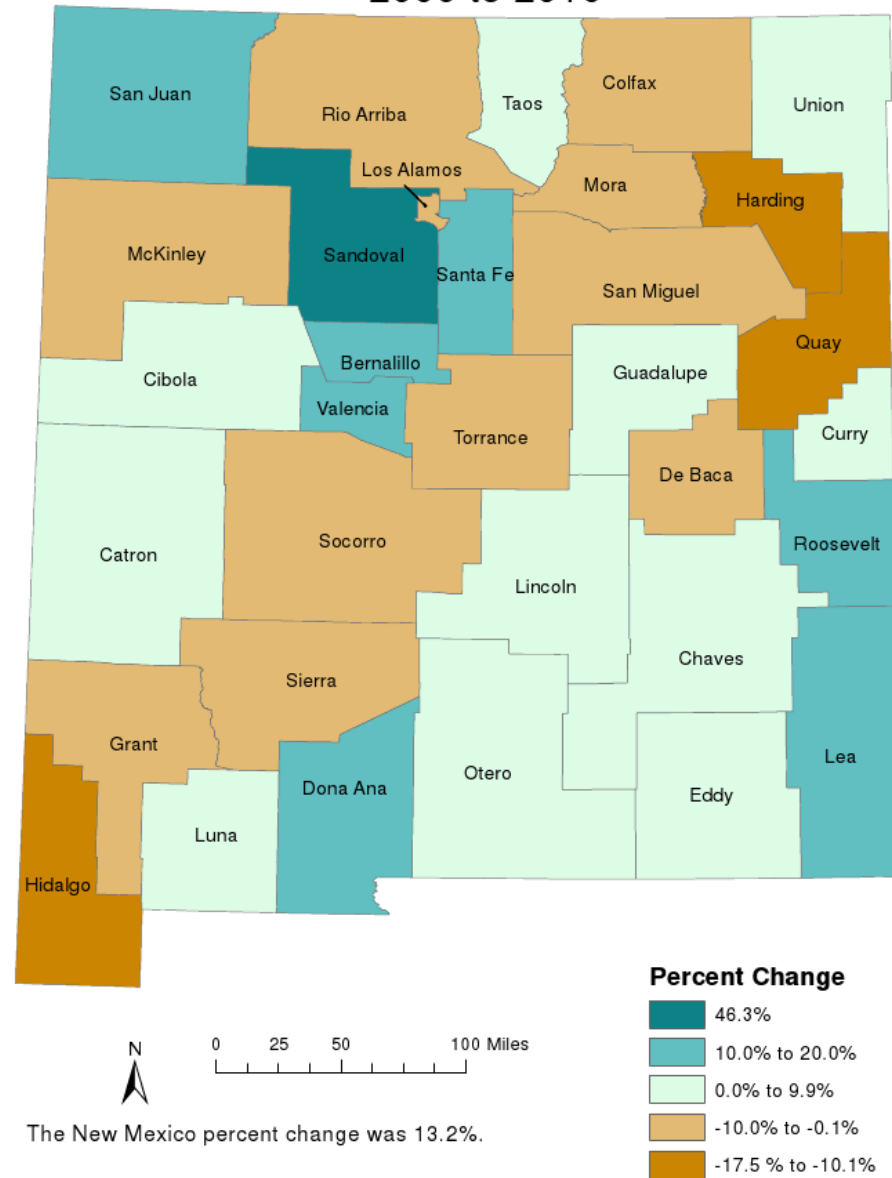
Recovering from the Great Recession

New Mexico Style...



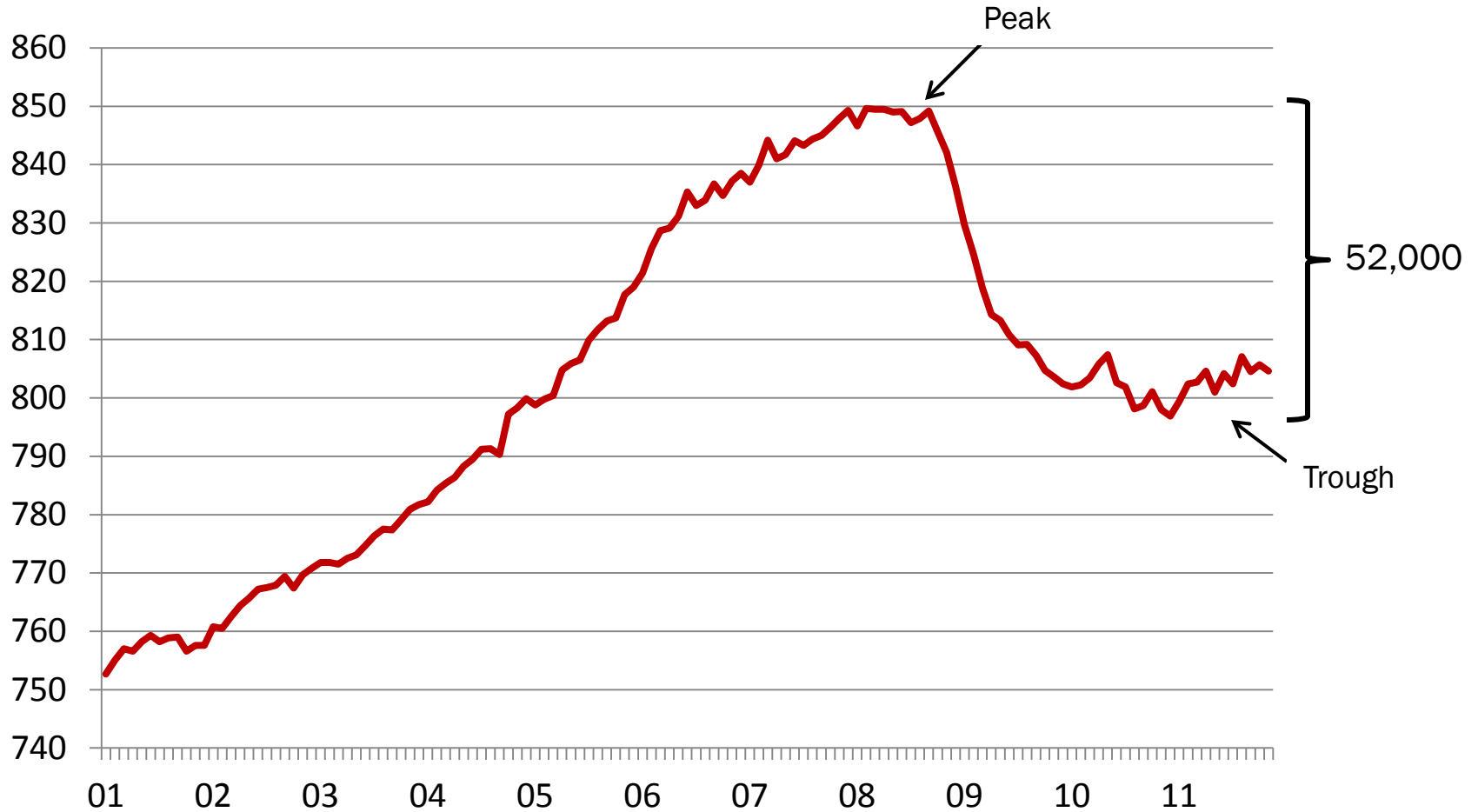
Many NM counties lost population between 2000 and 2010. Fastest growth was in the Albuquerque MSA (Sandoval and Bernalillo Counties) and in the Las Cruces MSA (Dona Ana County).

New Mexico
Percent Change in Population By County
2000 to 2010



New Mexico Nonfarm Employment

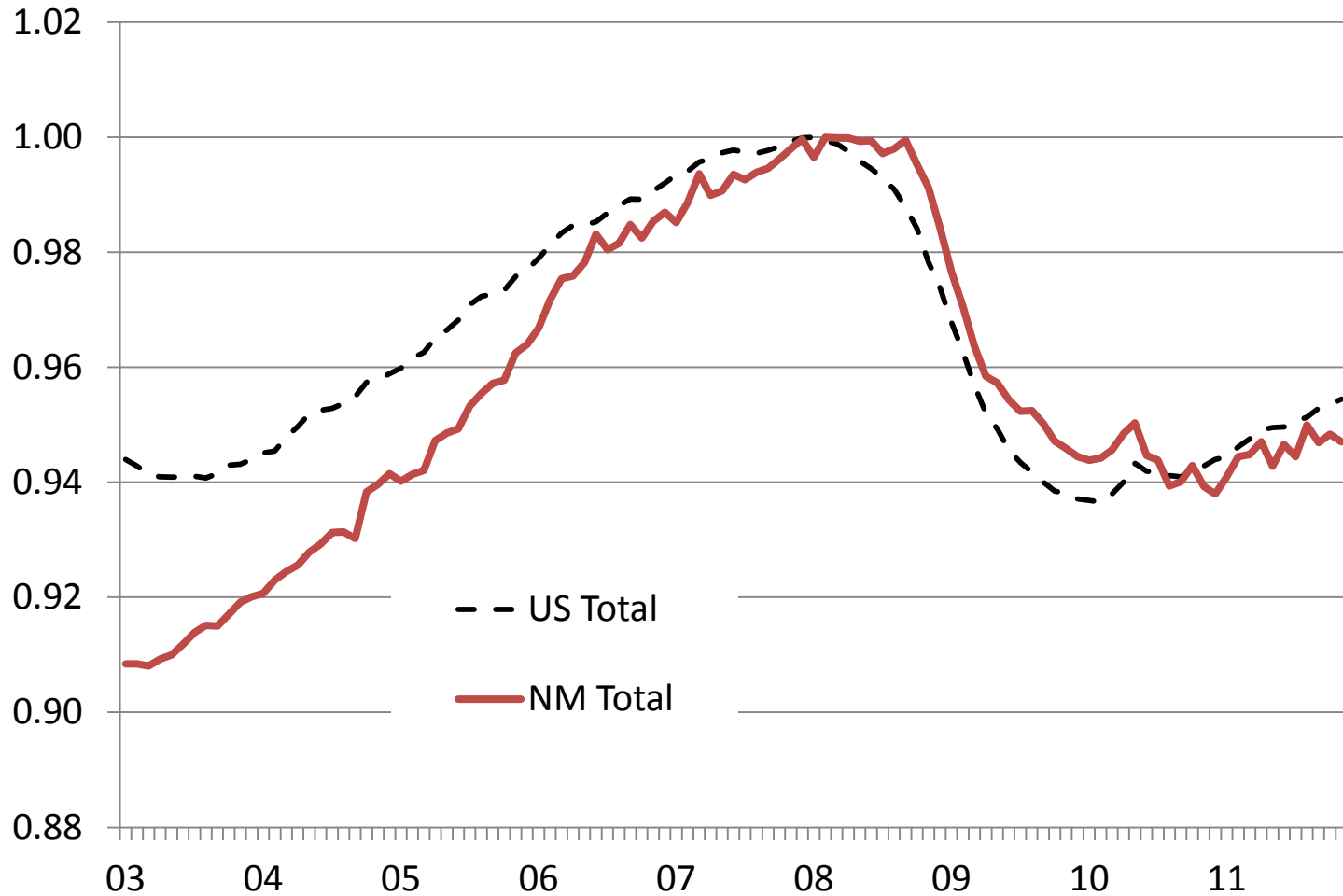
In 1000s, Monthly, Seasonally Adjusted



Source: US Bureau of Labor Statistics, Current Employment Statistics

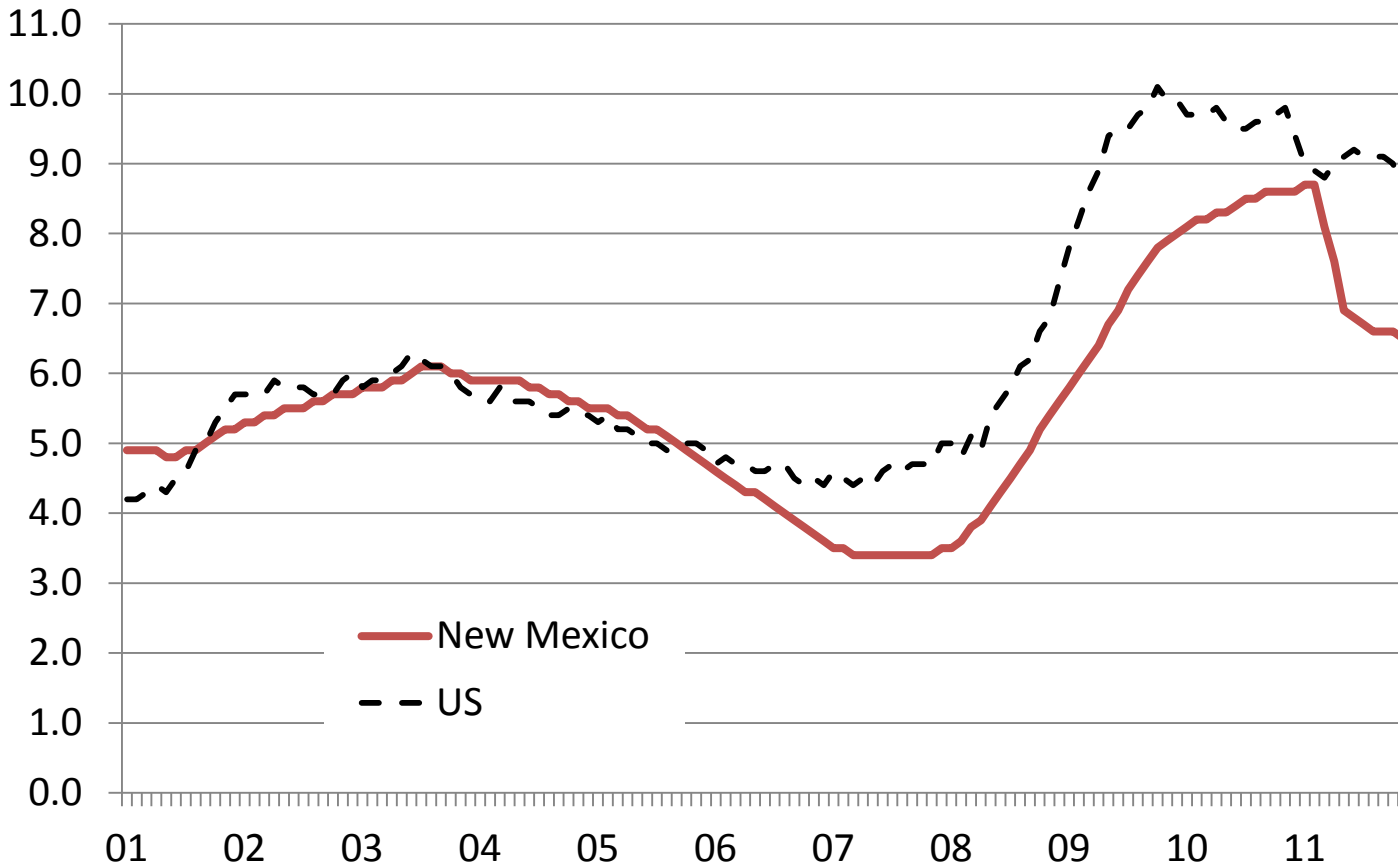
New Mexico and US Nonfarm Employment

Monthly, Seasonally Adjusted, Indexed to Peak



Source: US Bureau of Labor Statistics, Current Employment Statistics

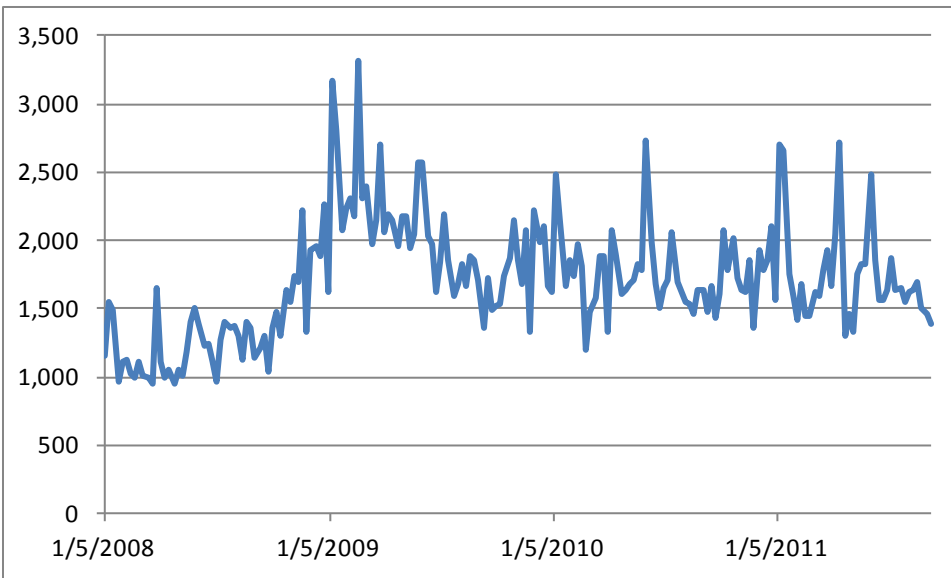
Monthly Unemployment Rate US and New Mexico, SA



Source: US Bureau of Labor Statistics

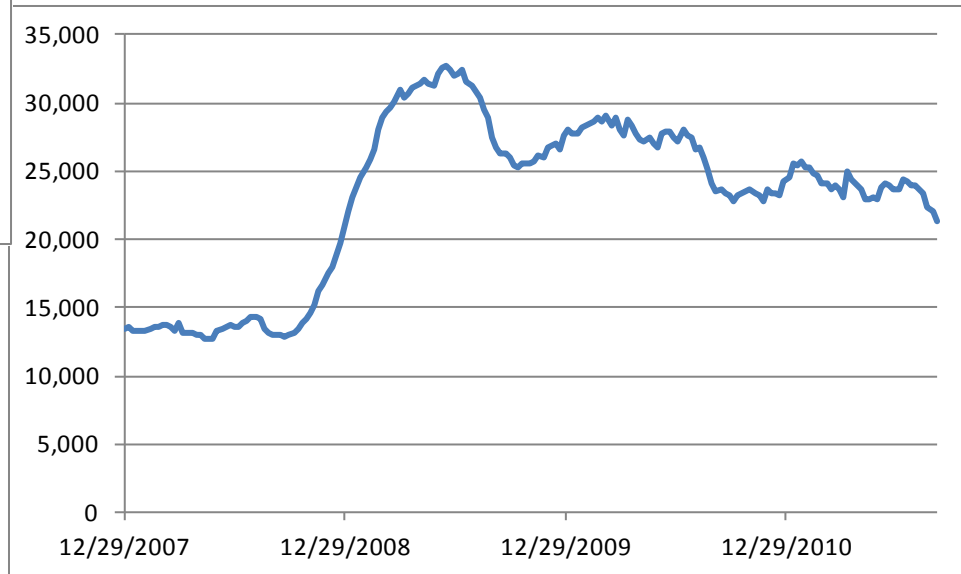
NM Unemployment Insurance Claims

Initial Claims, Week Ending...

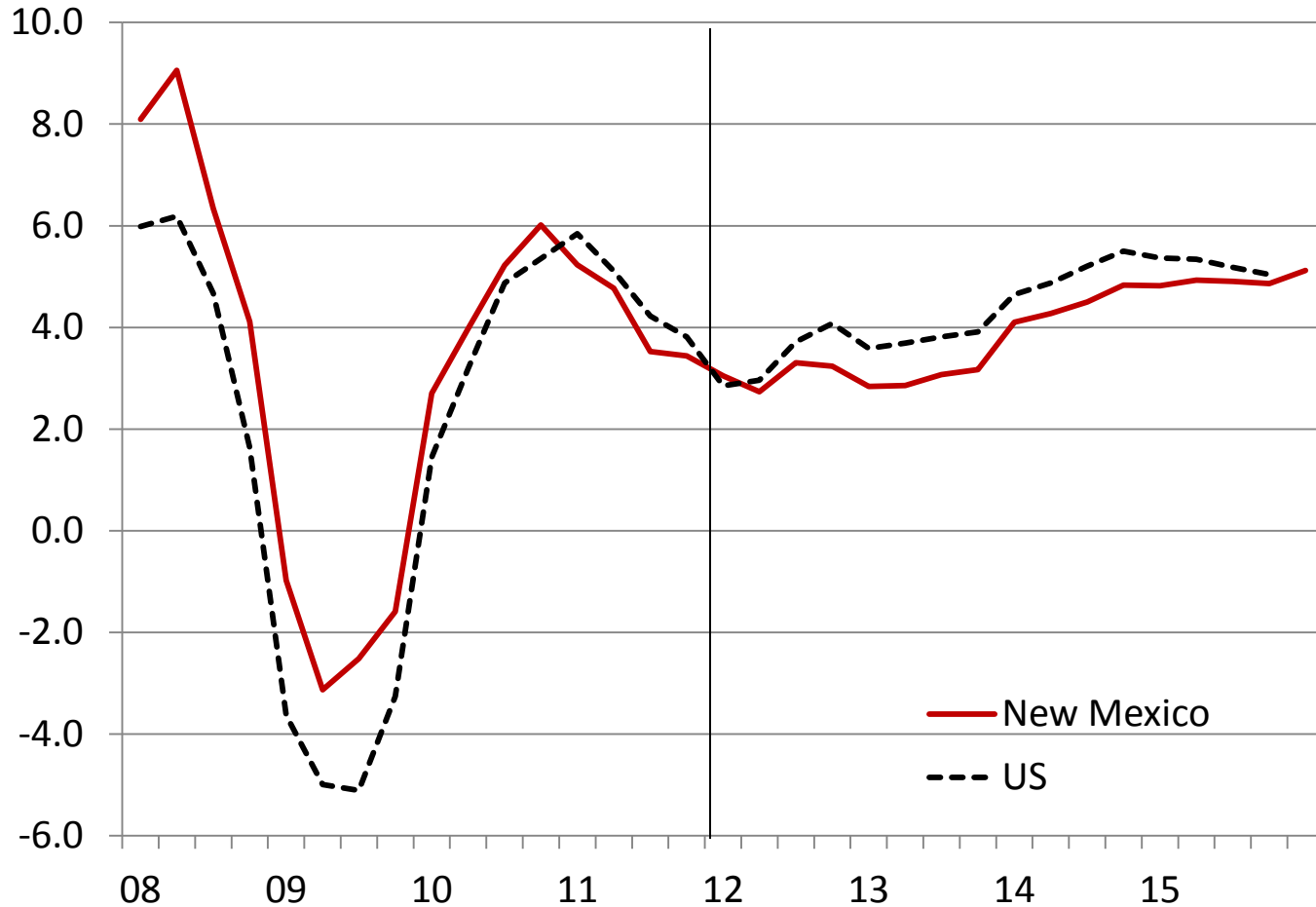


Source of data: US Dept of Labor

Continued Claims, Week Ending...

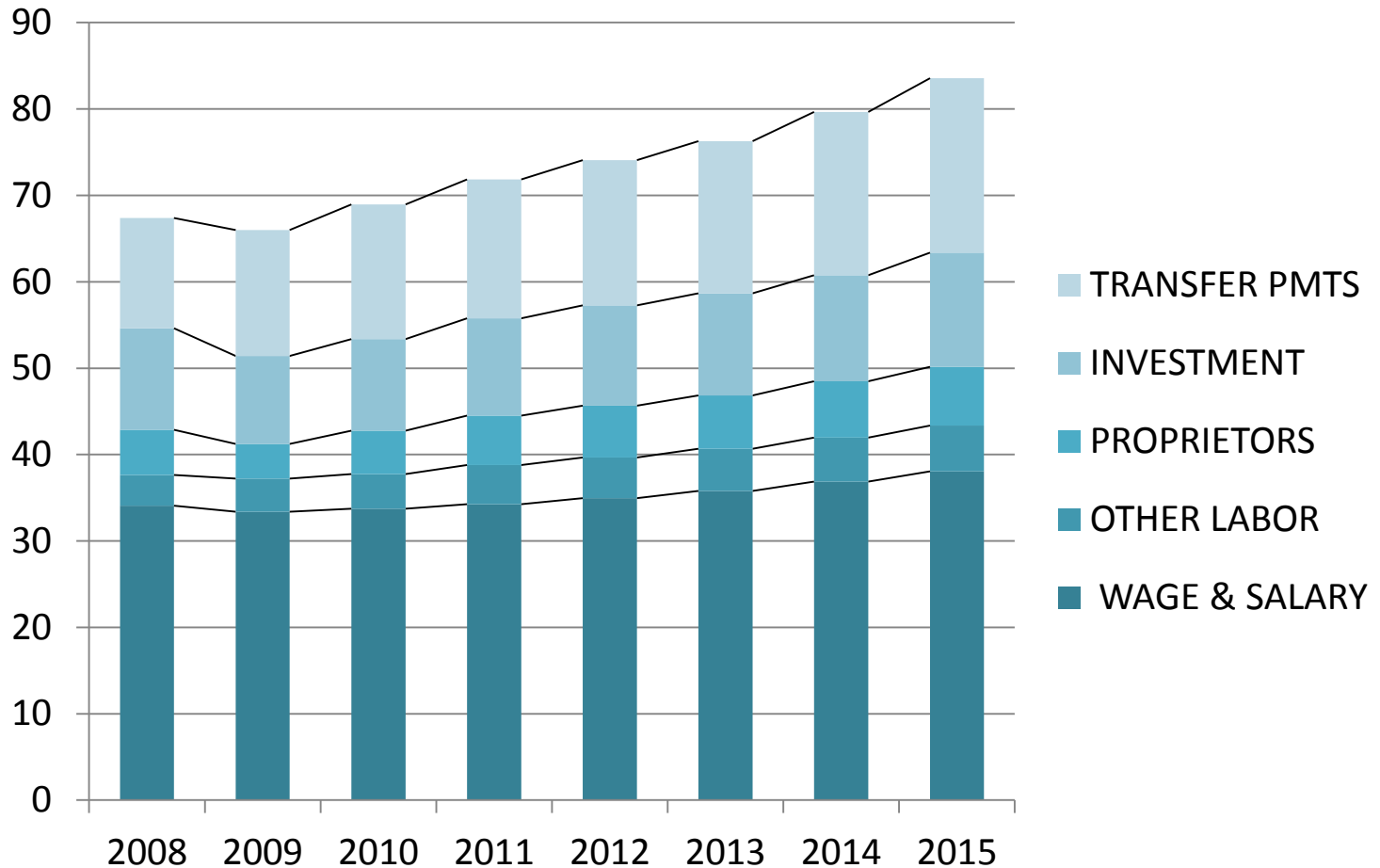


% Growth in Personal Income, New Mexico and US, Quarter over Quarter Year Ago



Composition of New Mexico Personal Income

Annual, in \$Billions



The Great Recession in New Mexico was distinguished by its depth, by its length, by the numbers of people impacted, and by its breadth.

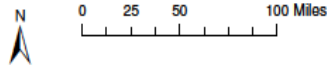
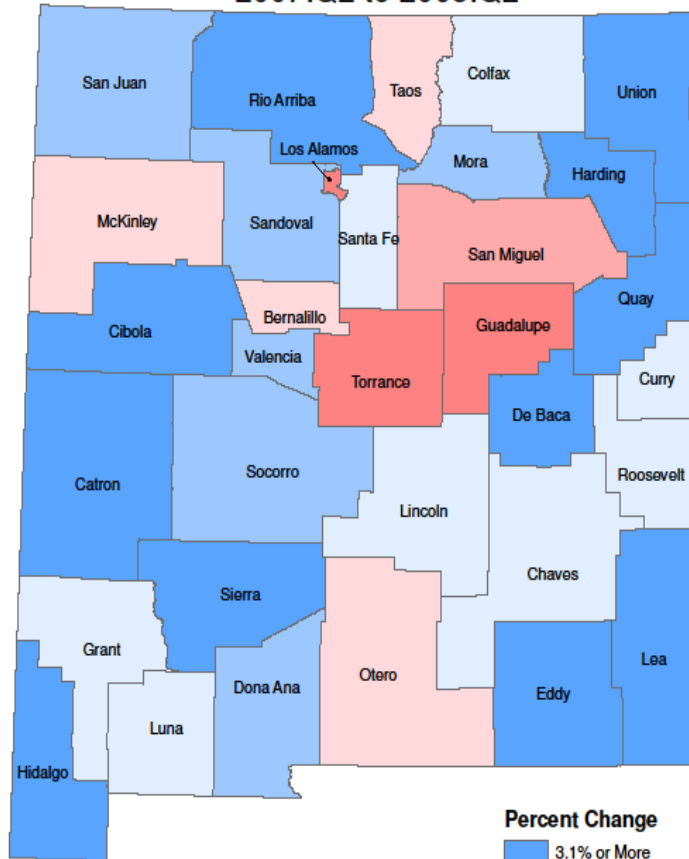


The recovery has been a slow slog but it is reasonably broad based:

Geographic...

Geographic spreading of the recession in New Mexico...

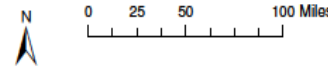
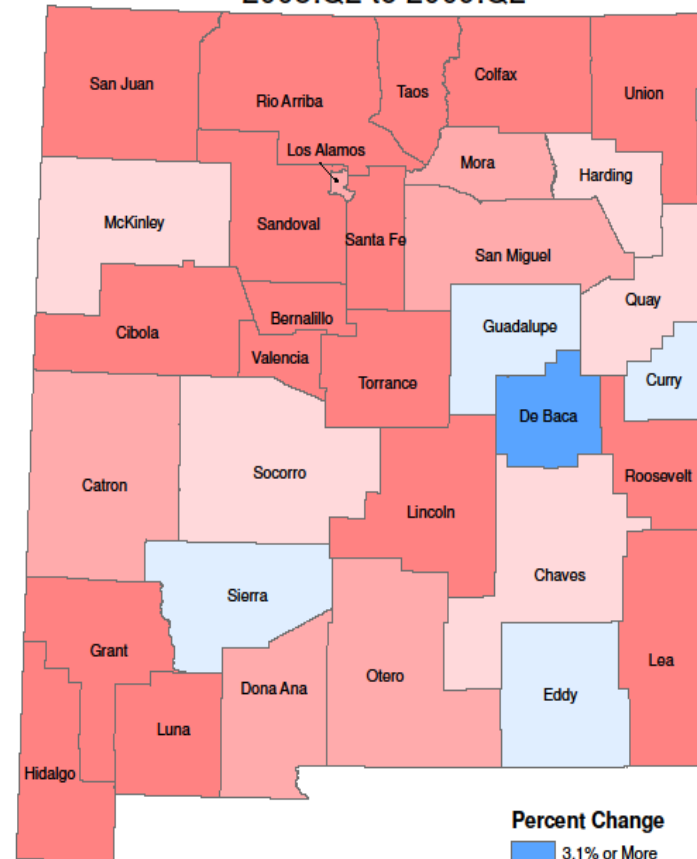
Total Covered Wage and Salary Employment by County
Year-Over-Year Percent Change
2007:Q2 to 2008:Q2



The New Mexico year-over-year percent change was 0.9%.

Note: The 2011 quarters are subject to further revision.
Source: New Mexico Dept. of Workforce Solutions and U.S. Dept. of Labor.
Map prepared by: Bureau of Business & Economic Research, University of New Mexico, January 2012.

Total Covered Wage and Salary Employment by County
Year-Over-Year Percent Change
2008:Q2 to 2009:Q2

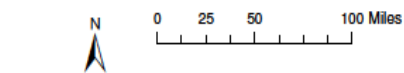
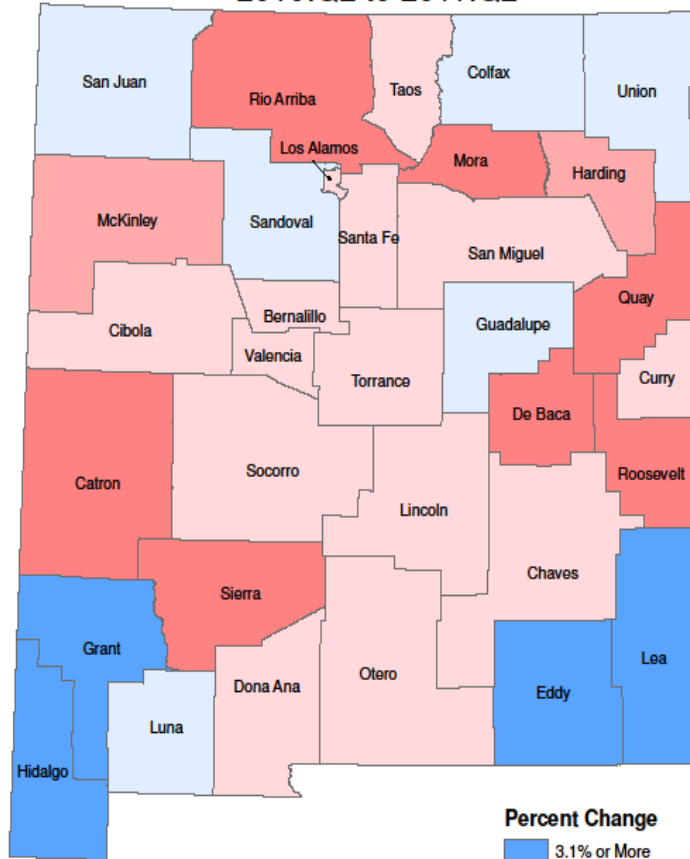


The New Mexico year-over-year percent change was -4.3%.

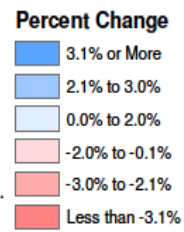
Note: The 2011 quarters are subject to further revision.
Source: New Mexico Dept. of Workforce Solutions and U.S. Dept. of Labor.
Map prepared by: Bureau of Business & Economic Research, University of New Mexico, January 2012.

2 years later: Private employment growth is happening.

Total Covered Wage and Salary Employment by County
Year-Over-Year Percent Change
2010:Q2 to 2011:Q2

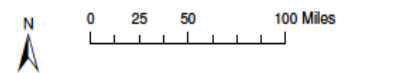
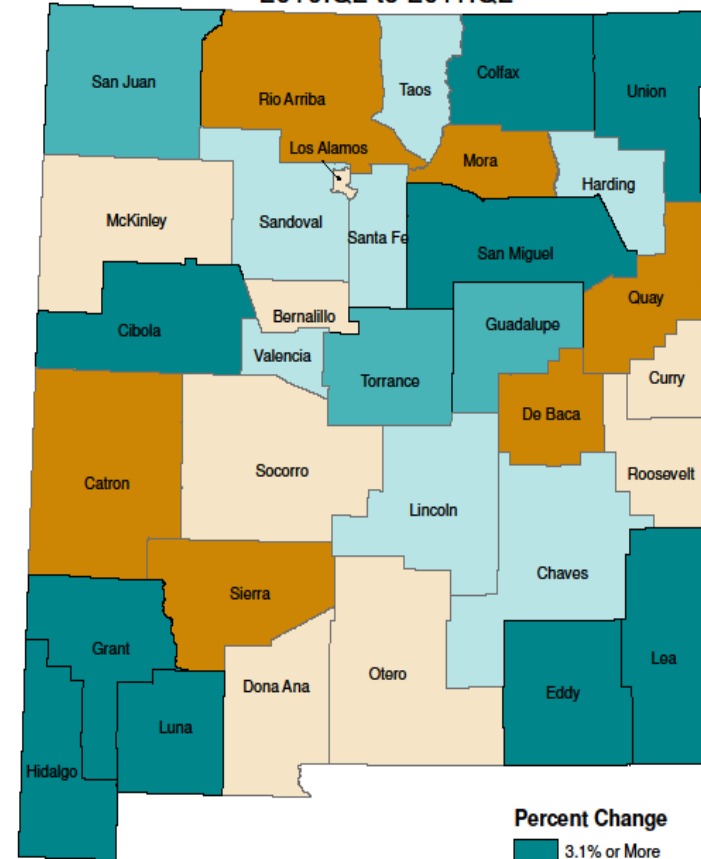


The New Mexico year-over-year percent change was -0.3%.

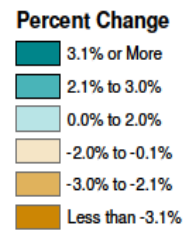


Note: The 2011 quarters are subject to further revision.
Source: New Mexico Dept. of Workforce Solutions and U.S. Dept. of Labor.
Map prepared by: Bureau of Business & Economic Research, University of New Mexico, January 2012.

Total Private Covered Wage and Salary Employment by County
Year-Over-Year Percent Change
2010:Q2 to 2011:Q2



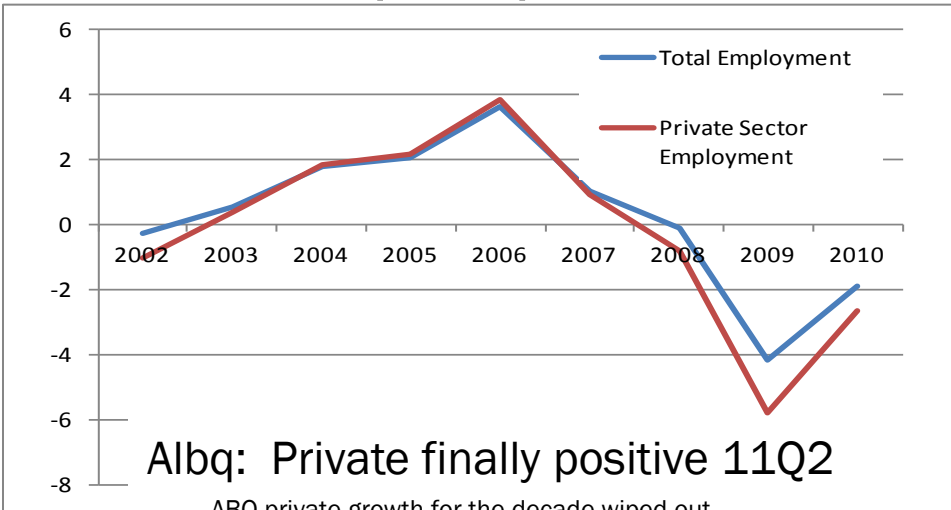
The New Mexico year-over-year percent change was 0.7%.



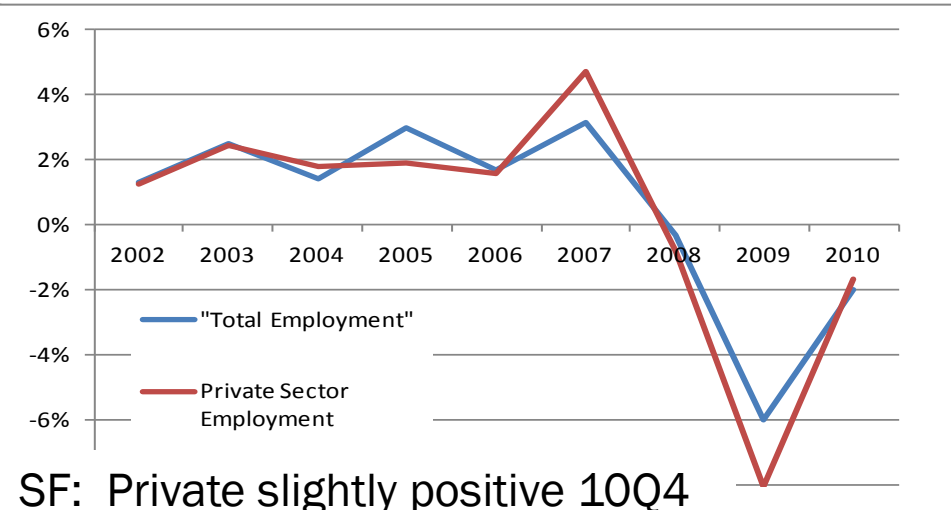
Note: The 2011 quarters are subject to further revision.
Source: New Mexico Dept. of Workforce Solutions and U.S. Dept. of Labor.
Map prepared by: Bureau of Business & Economic Research, University of New Mexico, January 2012.

Employment Growth in NM MSAs

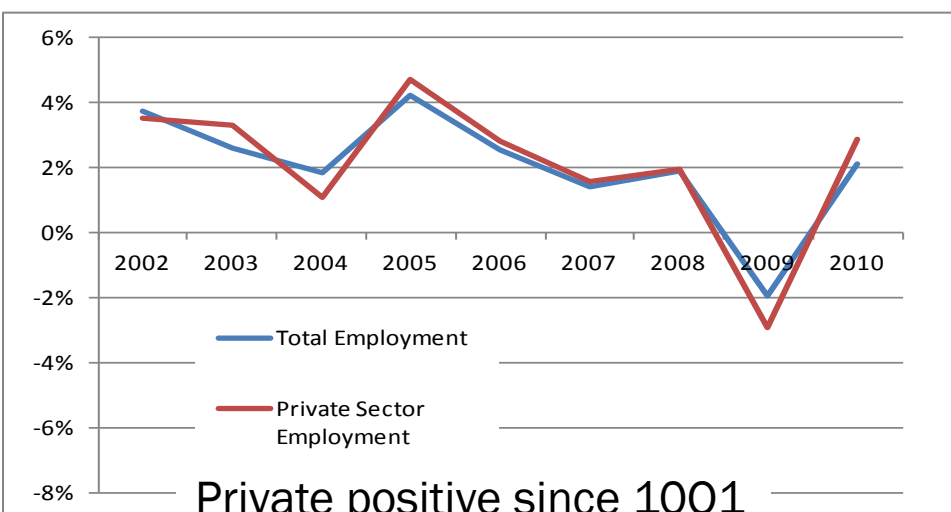
Albuquerque MSA



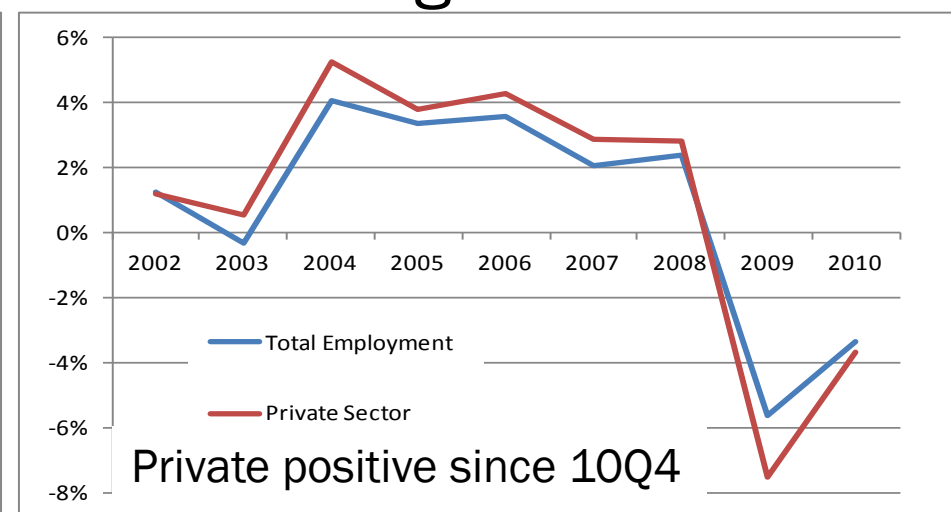
Santa Fe MSA



Las Cruces MSA

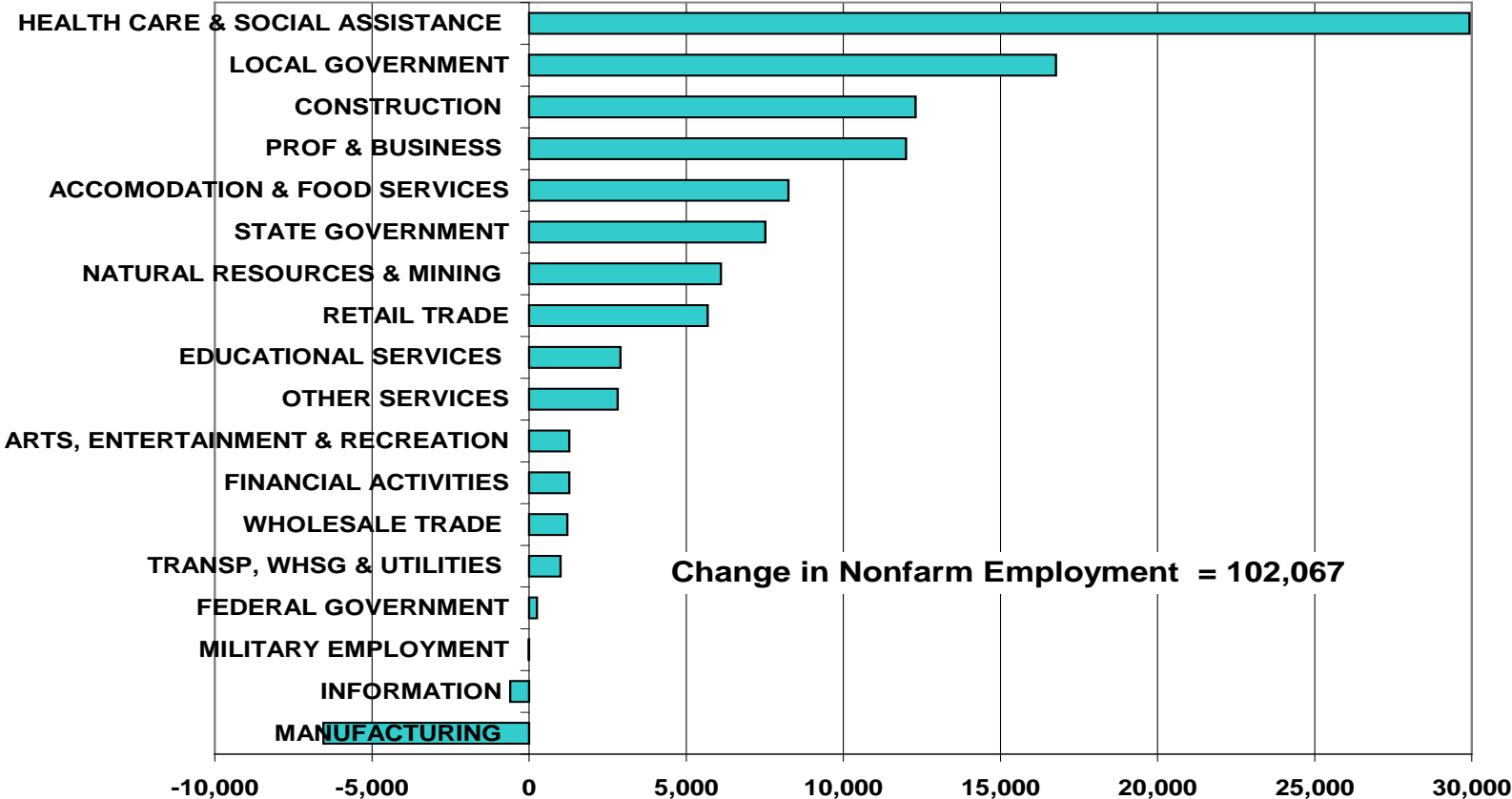


Farmington MSA



Recovery across the sectors...

Growth in NM Wage & Salary Employment 2000-08



Note: Figures for State & Professional & Business Services adjusted to reflect current ownership of Los Alamos National Laboratory.

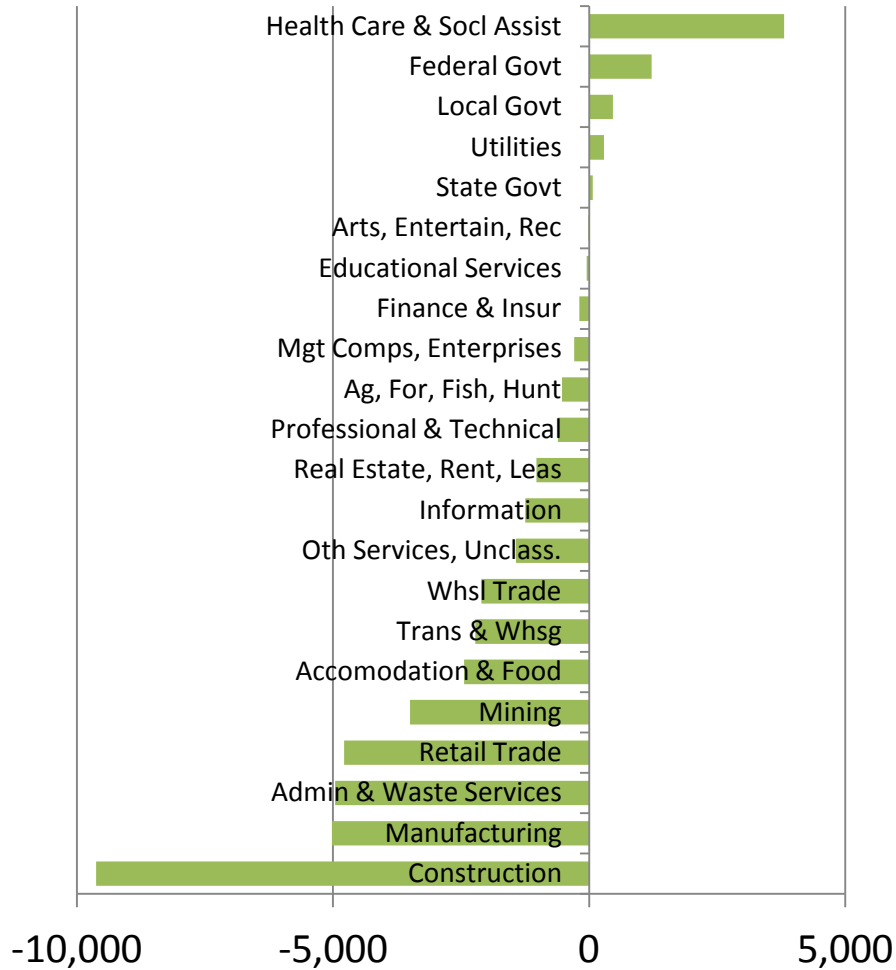
Source: NM Dept of Workforce Solutions, Bureau of Economic Analysis (military)

Change in New Mexico Employment

From Quarterly Census of Employment and Wages

2008 - 09

2009 - 10



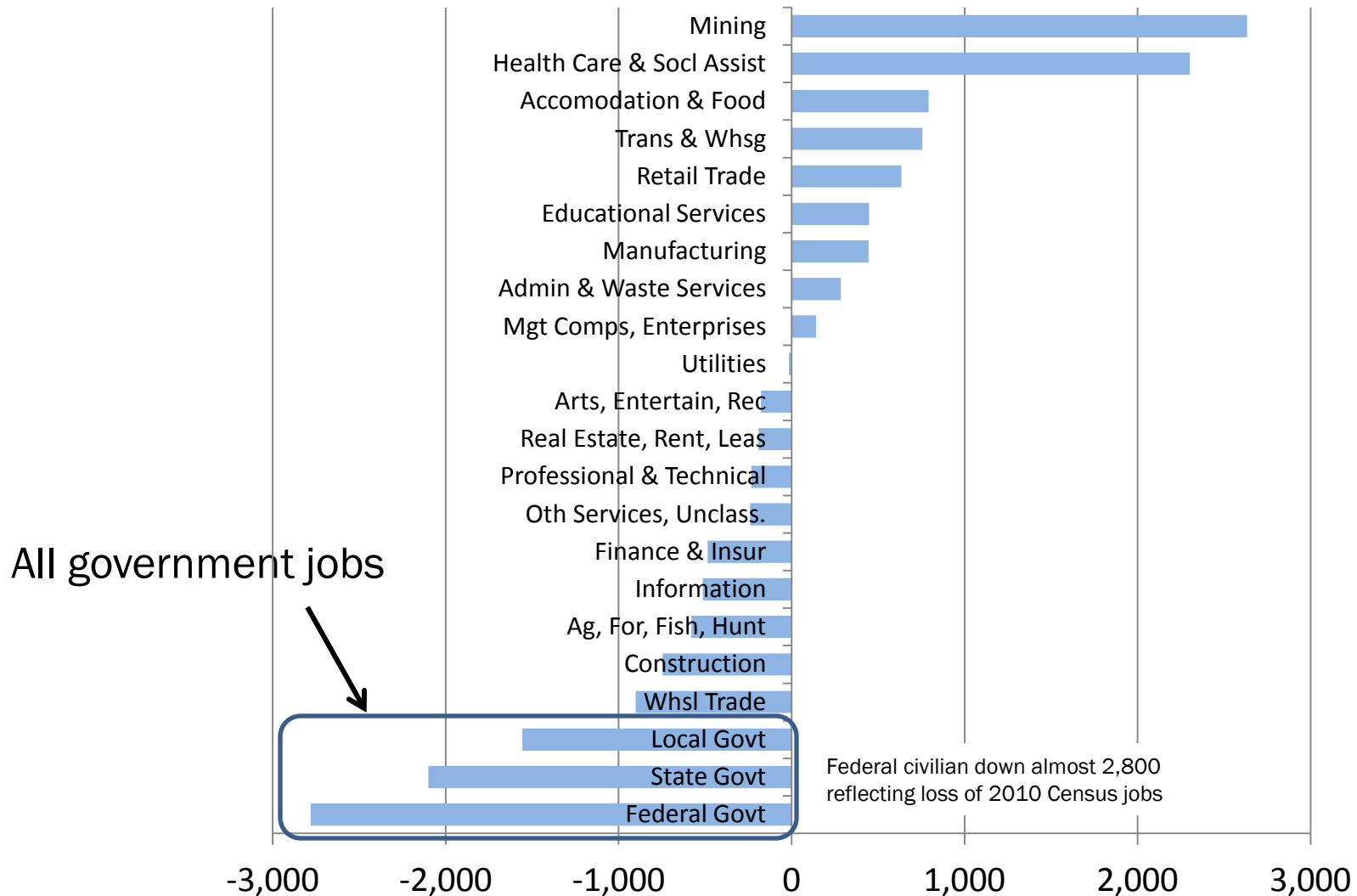
Total change = - 34,227 jobs
Private change = - 35,974



Total change = - 9,880 jobs
Private change = - 9,214

Change in New Mexico Employment, 10Q2 to 11Q2

From Quarterly Census of Employment and Wages

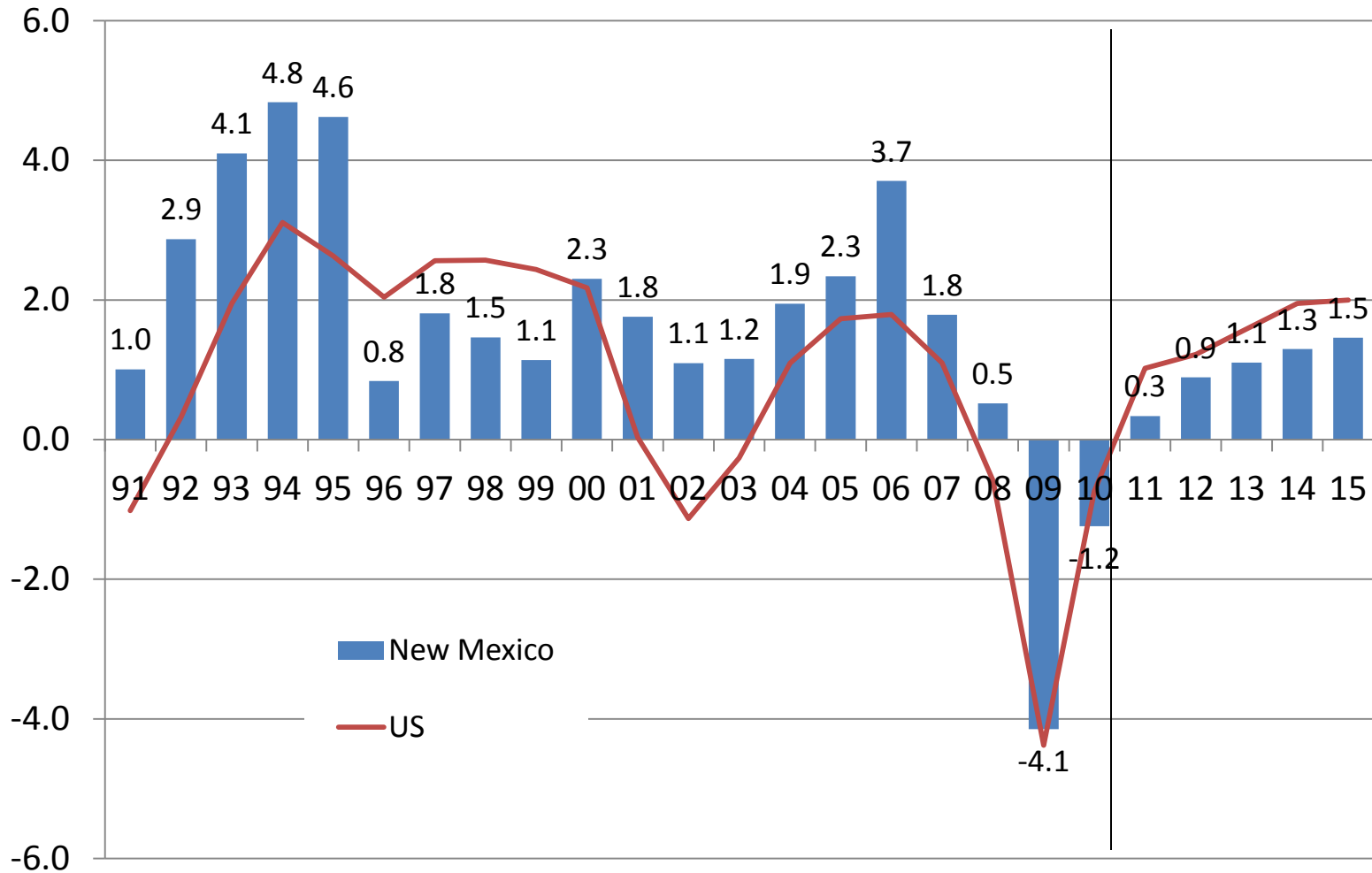


Total change = - 2,090 jobs Private change = + 4,347

The Economic Forecast for New Mexico



Growth in Nonfarm Employment: New Mexico and US



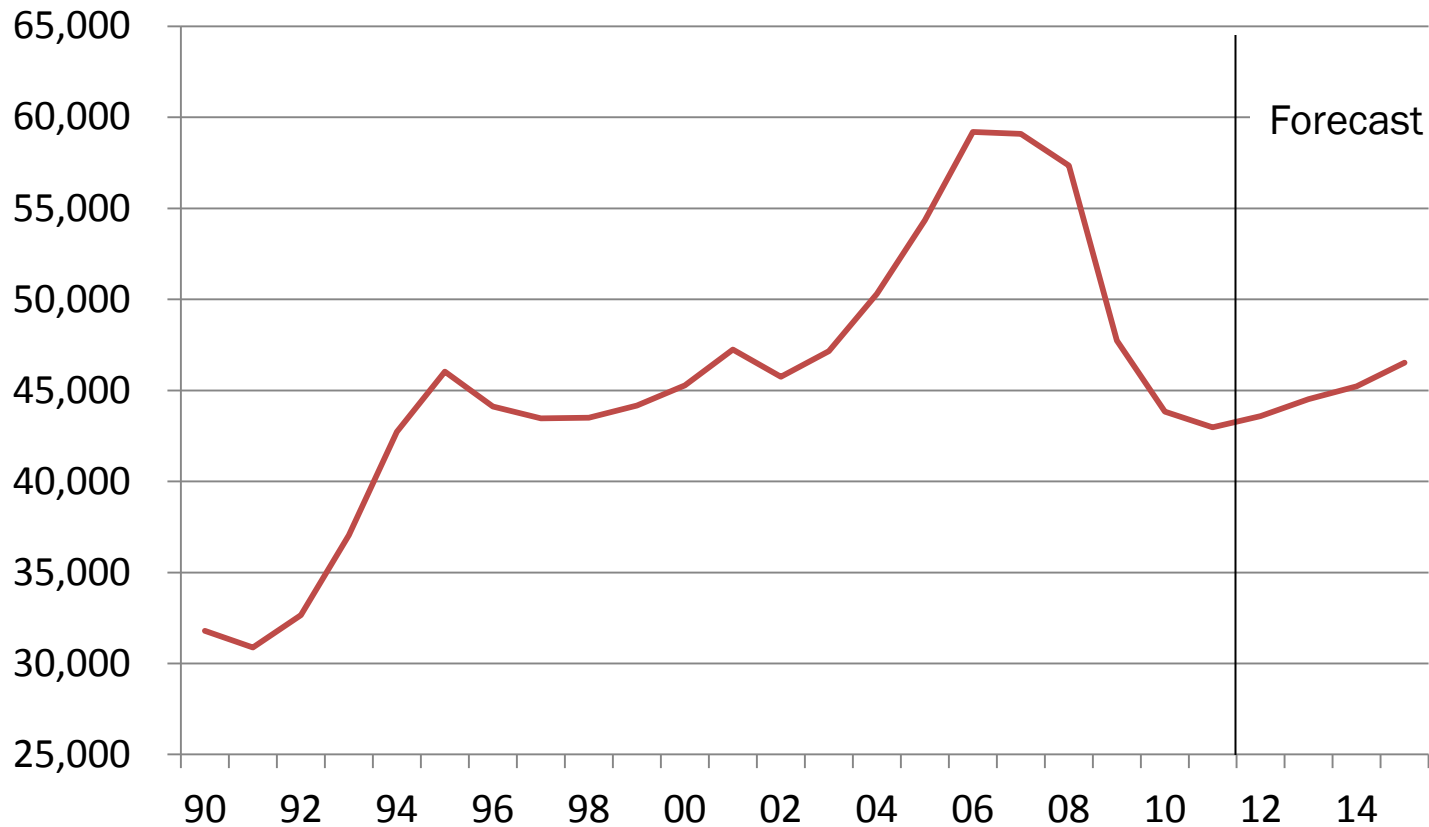
UNM FOR-UNM, Nov 11

Sectors Holding NM Back

- Construction
- Manufacturing
- Professional and Technical Services
- Government

Construction – Prolonged boom, collapse, recovery?

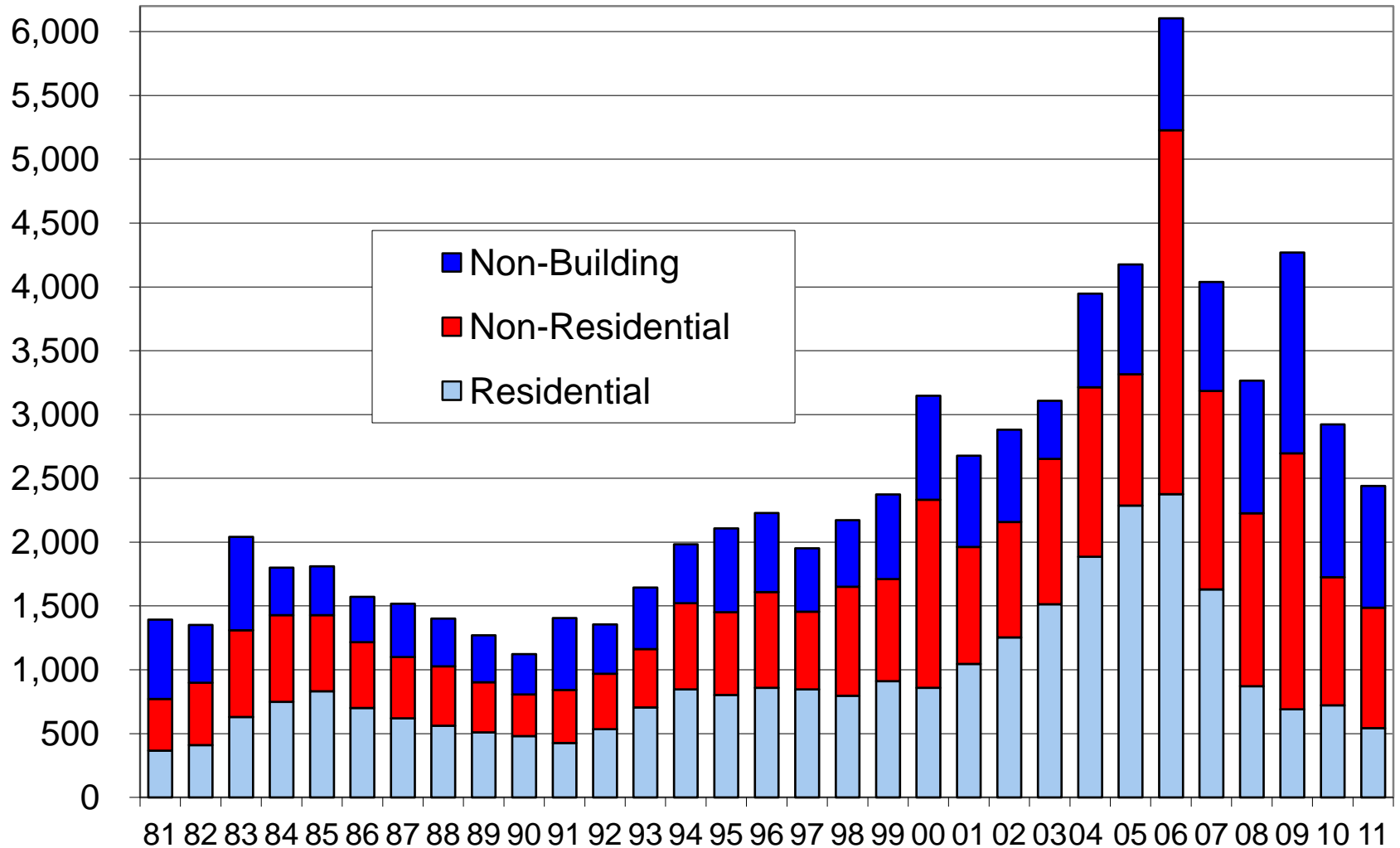
New Mexico Construction Employment



UNM FOR-UNM, Nov 11

New Mexico Dollar Value of Construction Awards

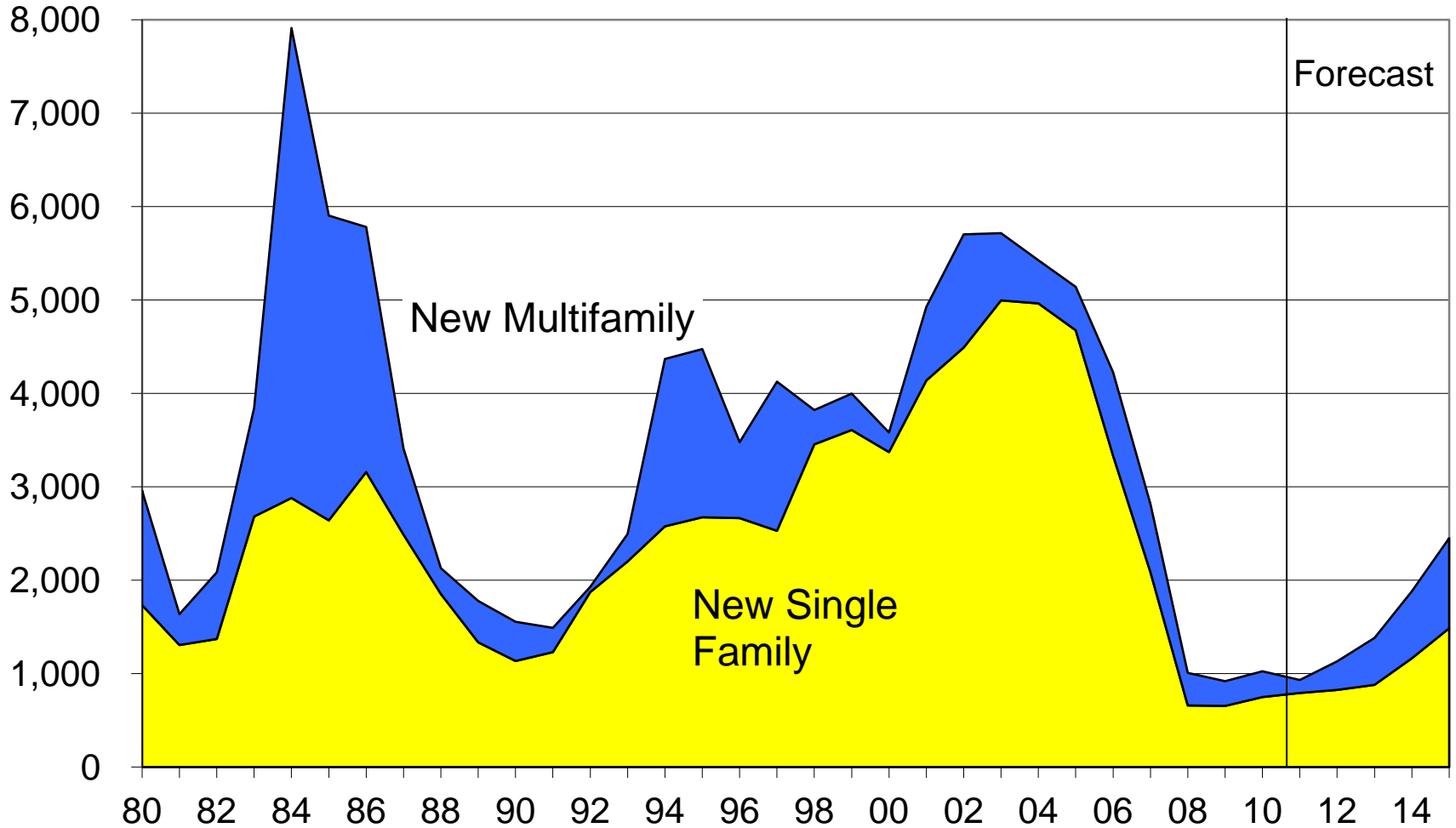
\$ Millions



SOURCE: FW DODGE

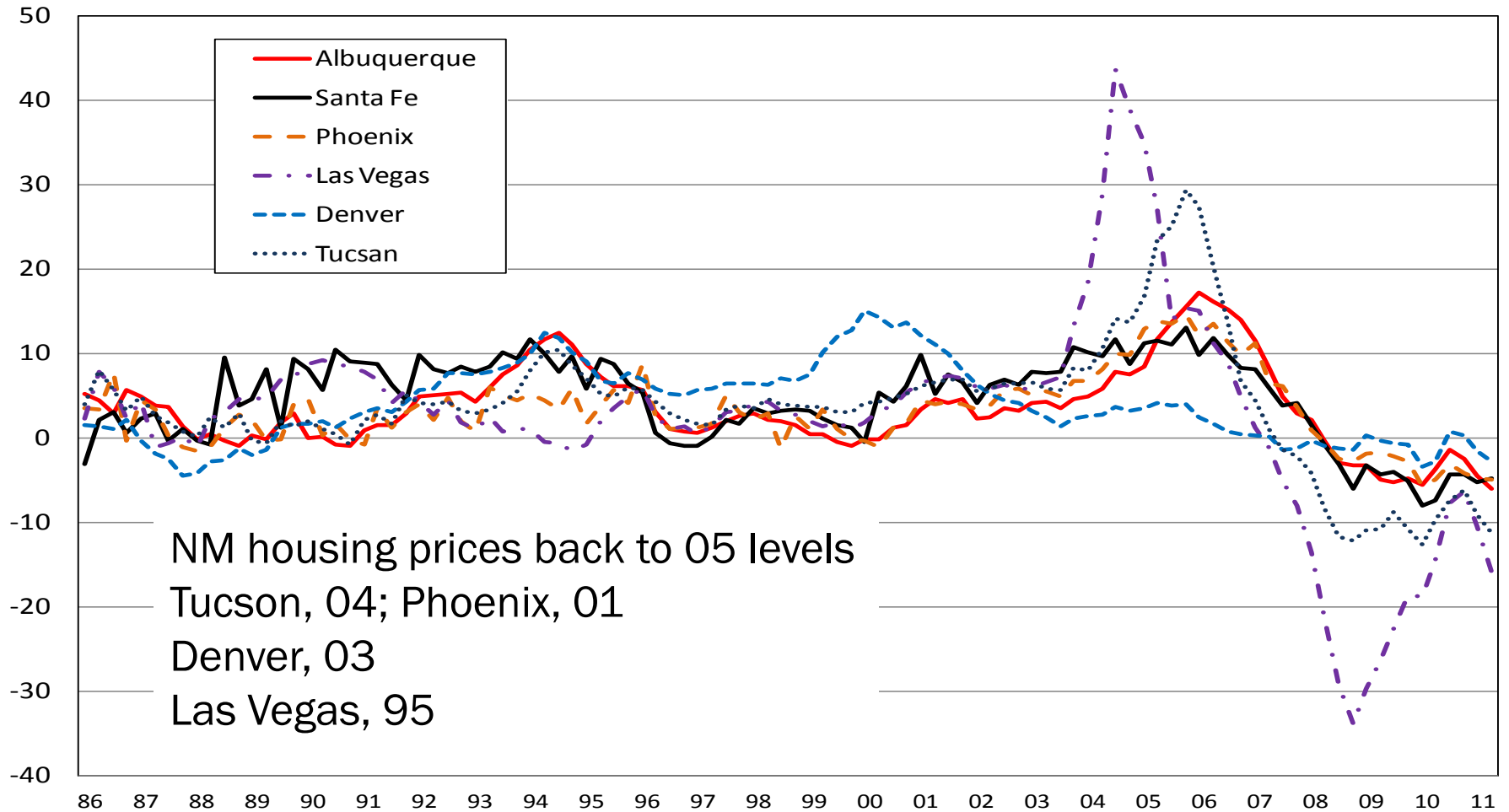
11 mos

City of Albuquerque Housing Units Permitted



Source: BBER FORUNM, Nov 2011

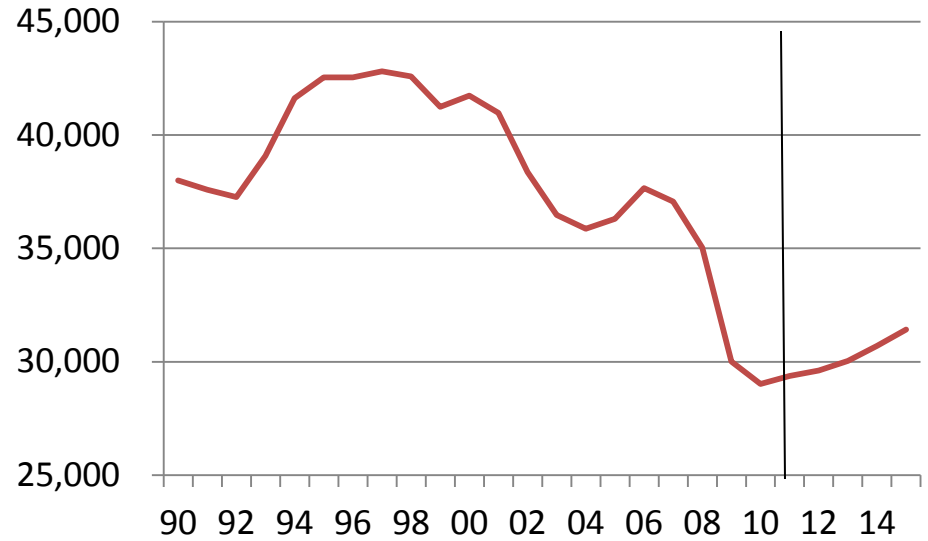
Four-Quarter % Change in FHFA MSA-Level Housing Price Indexes (All Transaction Index, 2011 Q2)



Manufacturing

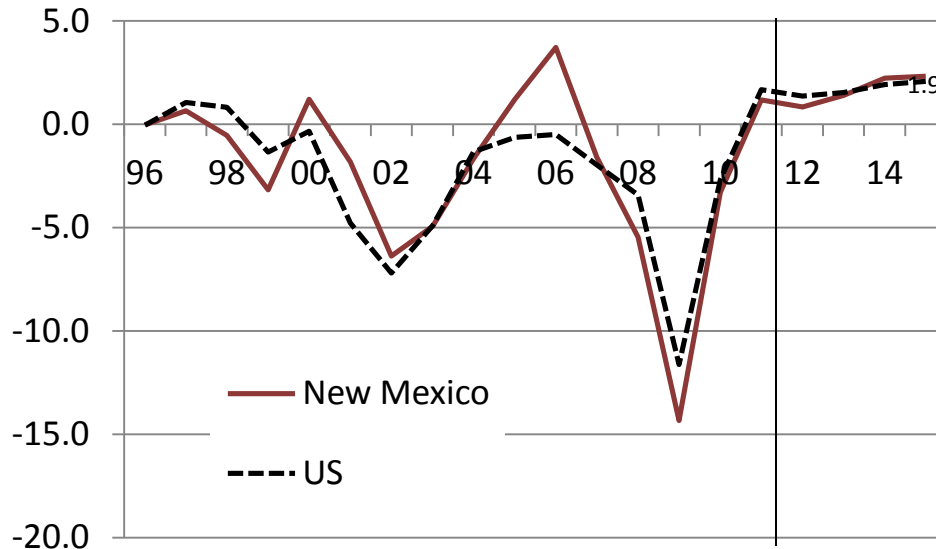
Manufacturing, an important sector with a shrinking workforce...

New Mexico Manufacturing Employment



Source: BBER FORUNM, Nov 2011

% Change in NM Manufacturing Employment



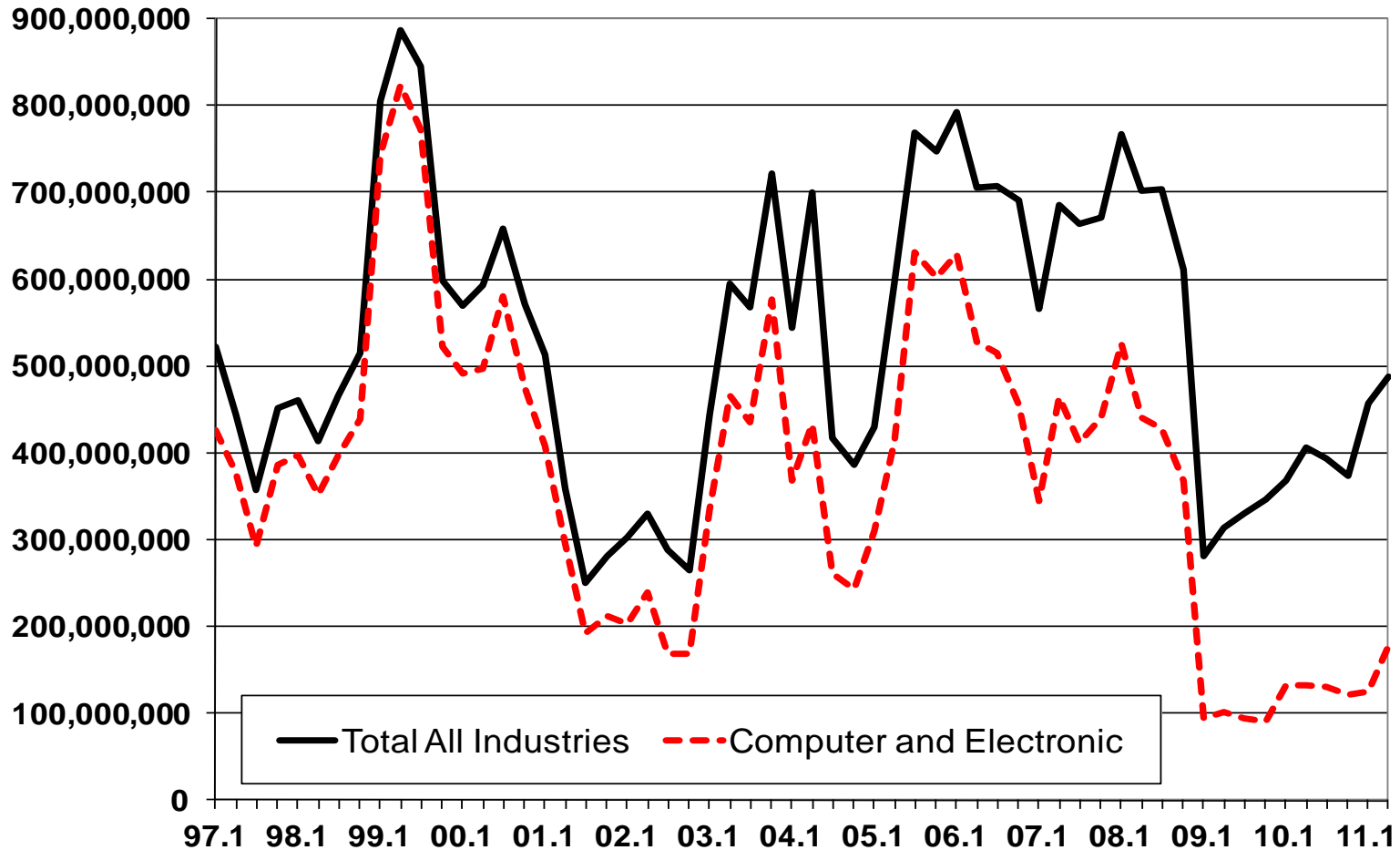
Source: BBER FORUNM, Nov 2011
Global Insight

And an industry subject to considerable volatility.

While rest of the country enjoys an export boom...

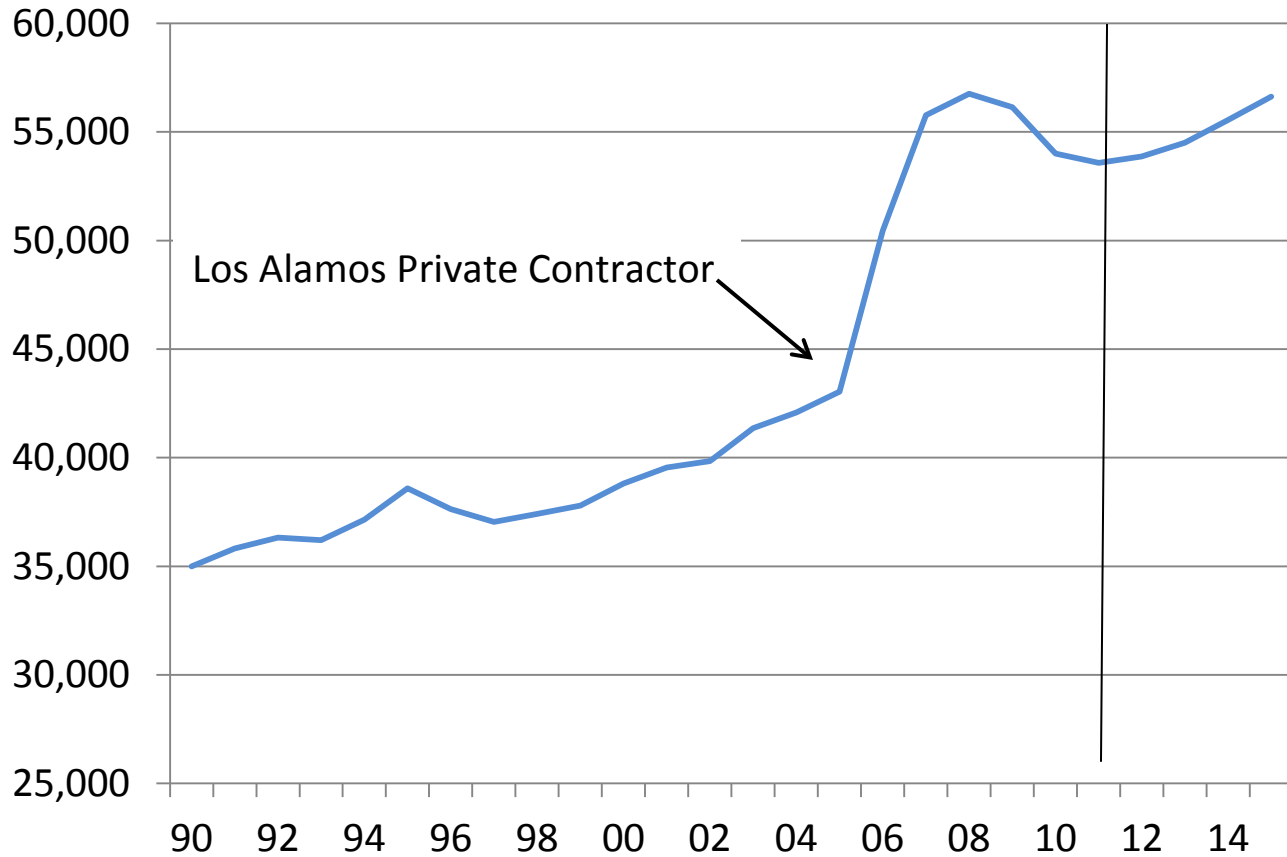
New Mexico Exports to Other Countries

Quarterly, in Dollars



Source: WISER

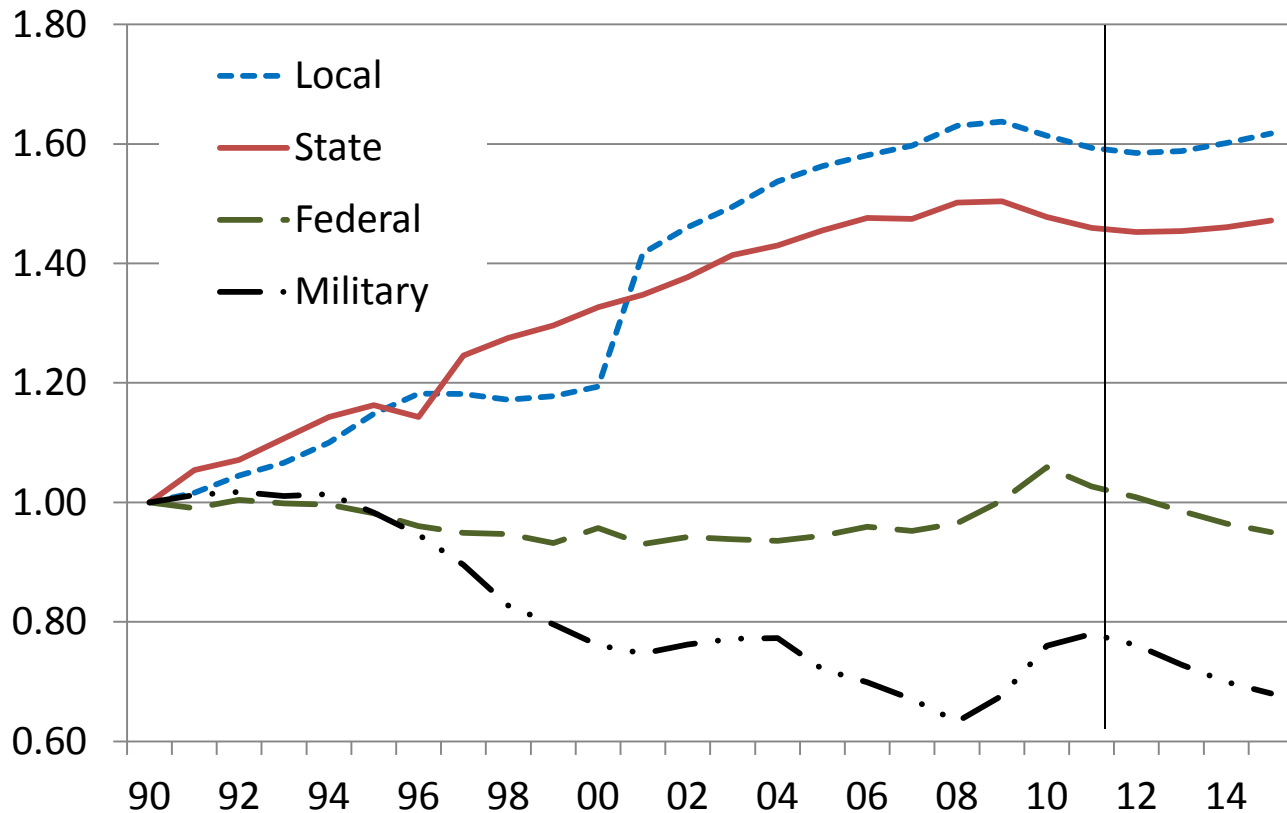
Employment in Professional and Technical Services



Source: BBER FORUNM, Nov 2011

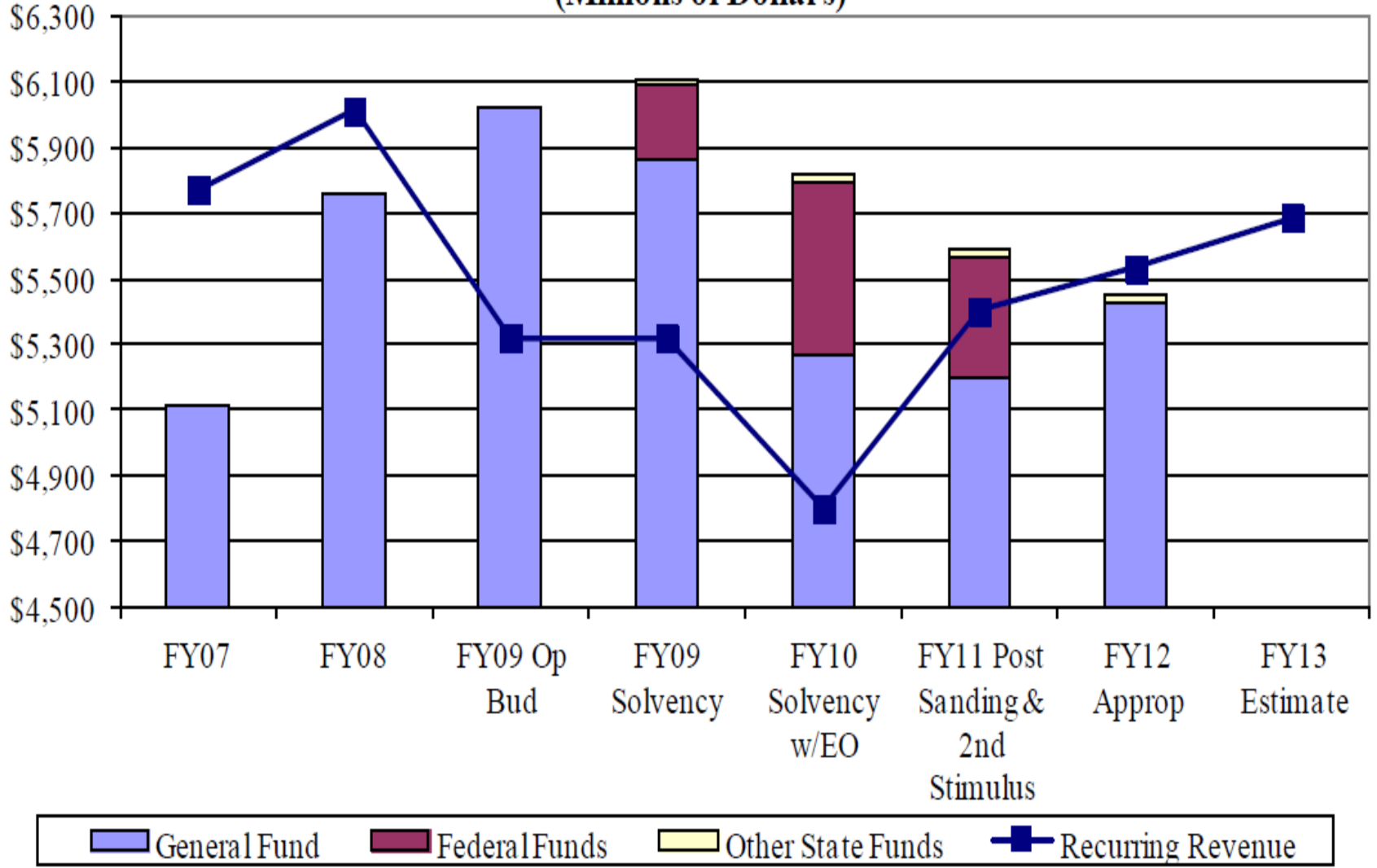
Government, which accounted for almost 25% of the jobs in 09, no longer positioned to help buoy up the economy...

Government Employment in New Mexico All Levels Indexed to 1990



State General Fund

**General Fund Appropriations and One-Time Funds Supplanting General Fund
(Millions of Dollars)**



Sectors that have been growing

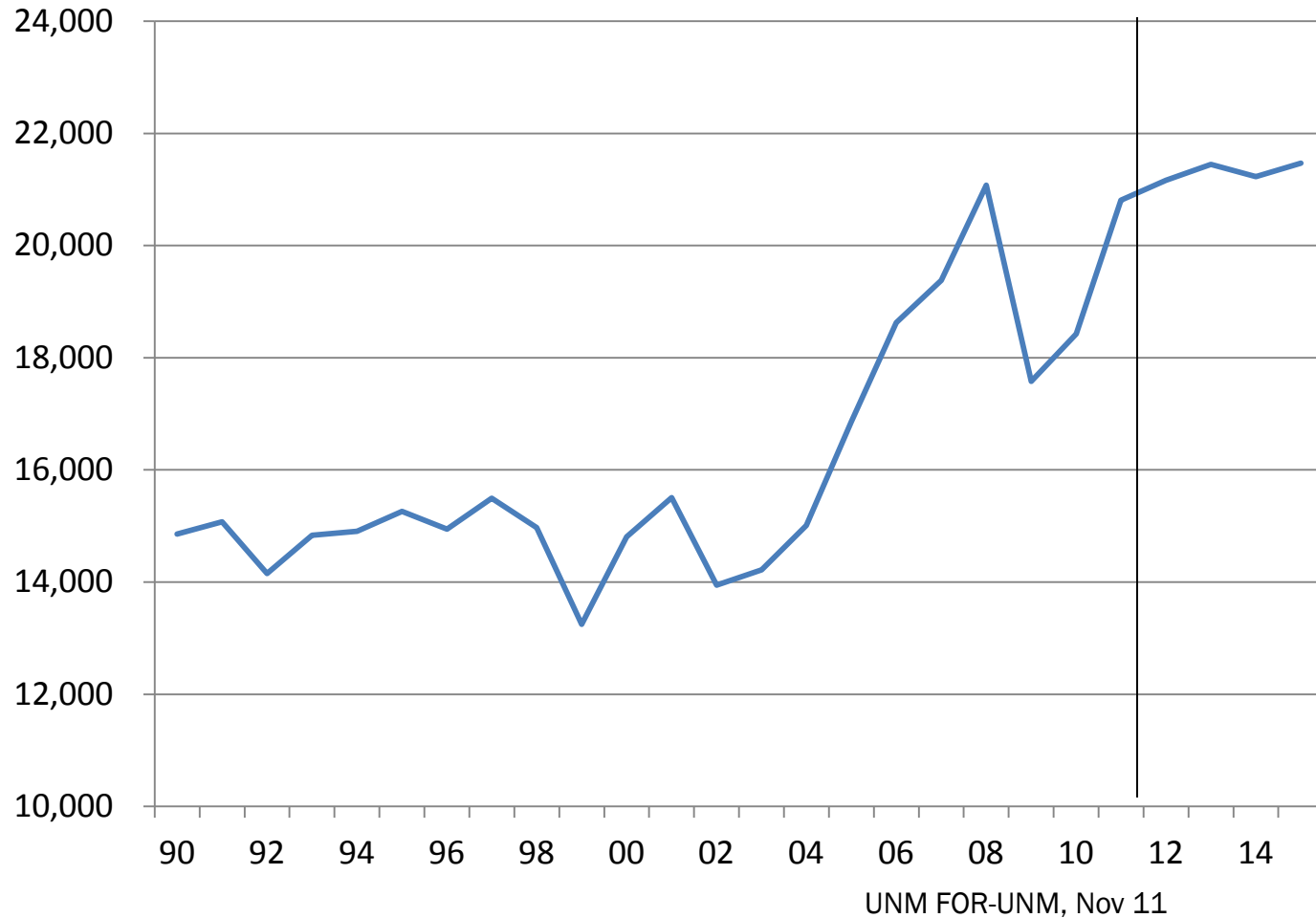
- Mining and Extractive Industries
- Health Care & Social Assistance
- Tourism

And those that show great promise

- Transportation
- Alternative Energy

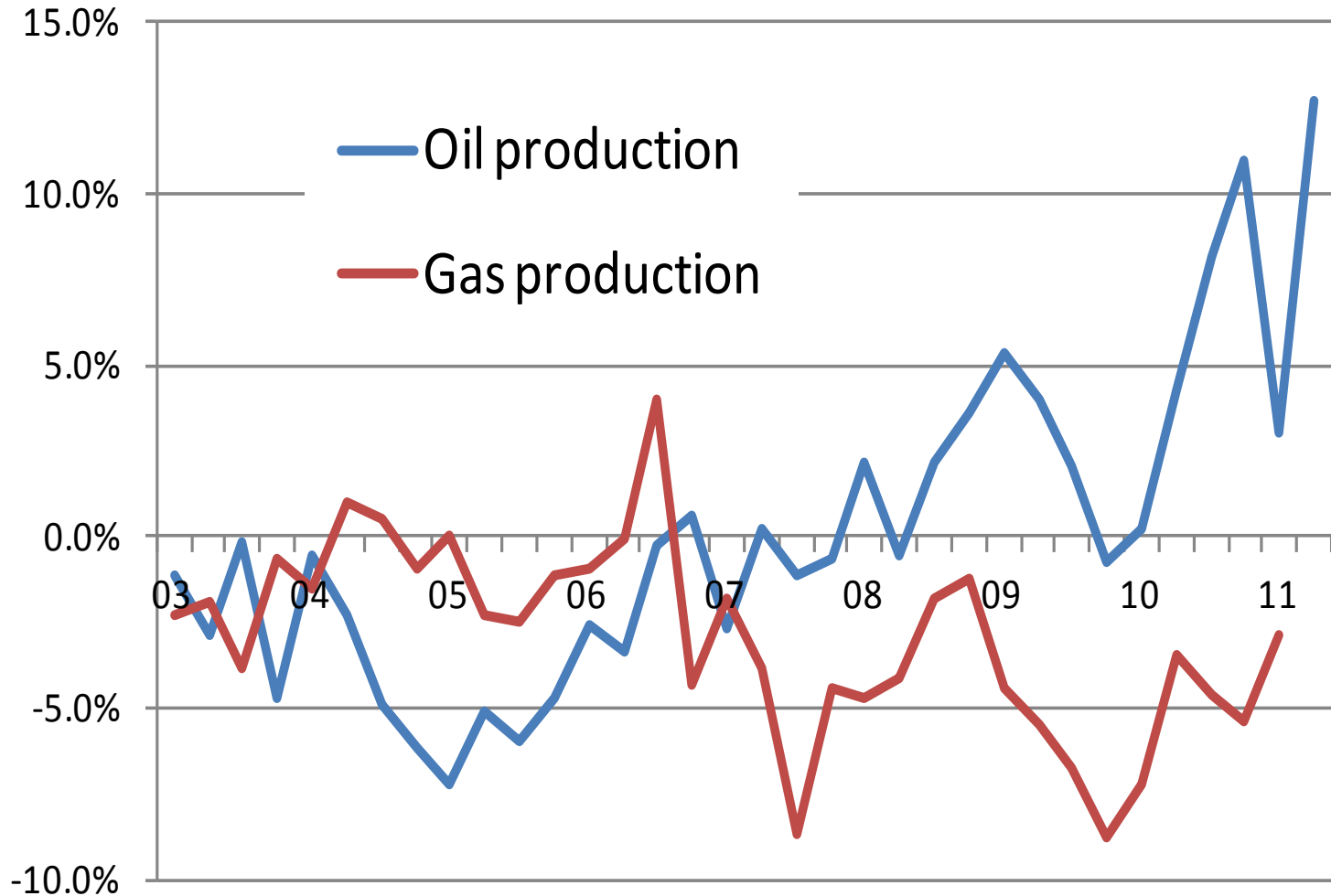
With new technologies and continued high prices for oil and other commodities...

NM Employment in Mining & Extractive Industries



New Mexico Oil and Gas Production

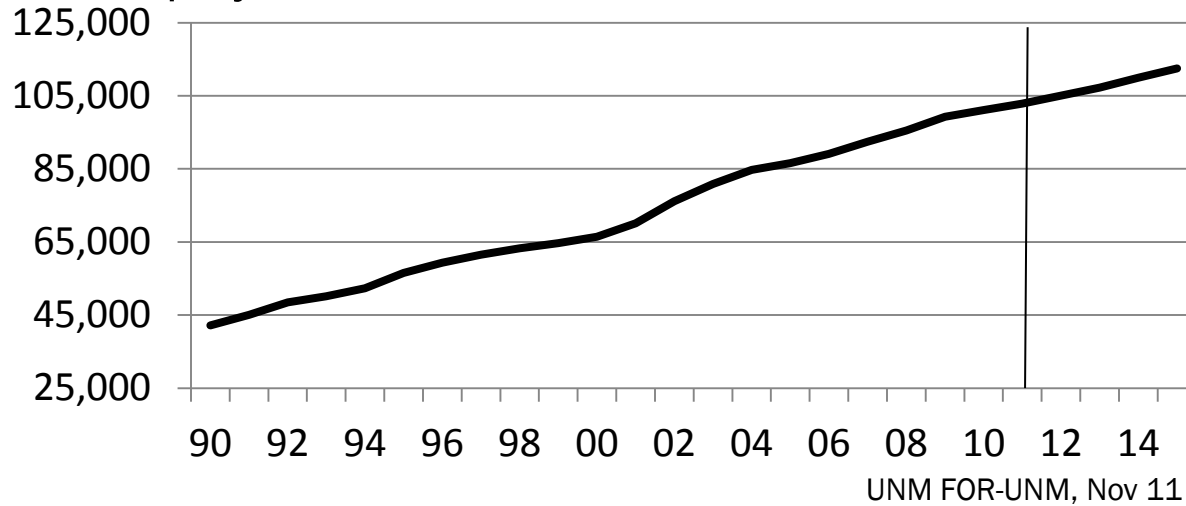
Quarterly, % Changes Year Over Year



Source: NM ONGARD database

Healthcare

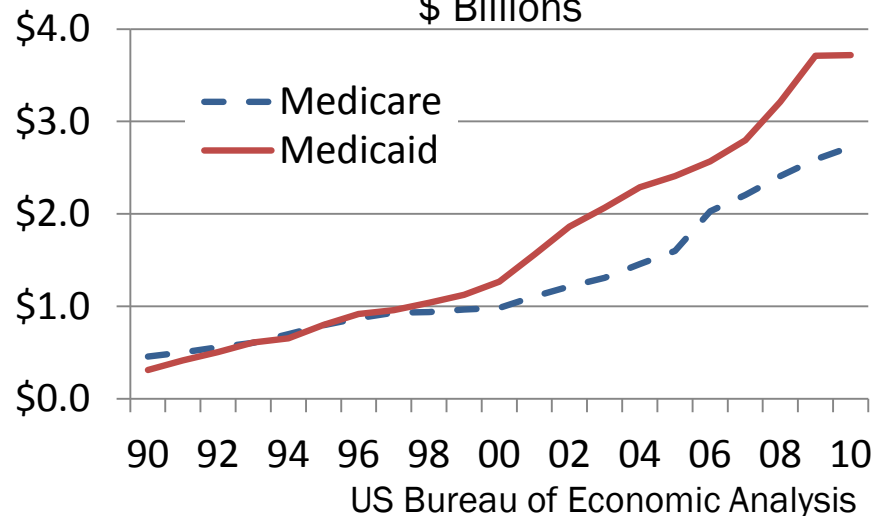
NM Employment in Healthcare and Social Assistance



And why when only 56% have private health insurance there are concerns about future funding...

NM Medicare & Medicaid Payments

\$ Billions



Tourists have returned, helping to boost hospitality industry employment and earnings as well as retail trade...

- Room rates and occupancy rates are up
- Gross receipts taxes on accommodations and food services are increasing.
- Lodgers taxes statewide are up.

Transportation Infrastructure

- Union Pacific's new terminal at Santa Theresa
- Expansion of the Port at Santa Theresa
- Burlington Northern's construction of double track through Abo Canyon

Facility Near Santa Teresa, New Mexico

Facility to Bolster Economy

Union Pacific Railroad announced today that Governor Martinez and the New Mexico state legislature passed legislation that will permit Union Pacific to construct a state-of-the-art rail facility in the southern part of the state. With an overall economic impact of \$500 million for the New Mexico economy, Union Pacific's investment in the project totals more than \$400 million. The facility will create 3,000 jobs during the construction phase from 2011 to 2015, and will eventually be headquarters for more than 600 permanent jobs. For the first time ever, southern New Mexico will have a key inland port, positioning the Santa Teresa area as a strategic focal point for goods movement in the southwestern U.S.

About The Project

First proposed and supported by the New Mexico governor and Legislature in 2006 with a locomotive fuel tax exemption, the site for the facility is located just west of the Santa Teresa Airport, and will incorporate:

Fueling Facilities - Located along the busy "Sunset Route" between El Paso and Los Angeles, this fueling facility will enhance commerce and goods movement in the state of New Mexico.

Crew Change Buildings – This facility will eventually serve as home base for Union Pacific employees operating long-haul trains out of the area.

Intermodal Block Swap /Switching Yard –

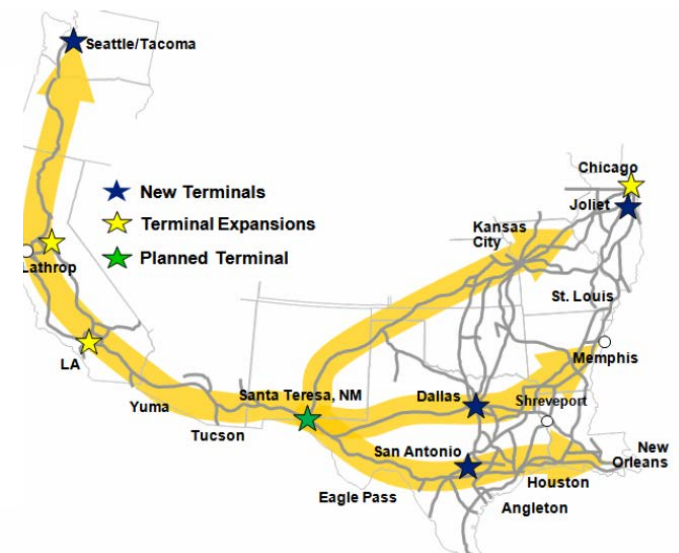
Enhancing capacity and efficiency, this new switching yard will incorporate the latest engineering techniques for improved efficiency and throughput.

Intermodal Ramp – This regionally focused intermodal ramp will permit both local and regional businesses more immediate access to the efficiencies of freight trains.



BUILDING AMERICA®

The construction of the Santa Teresa facility will permanently position southern New Mexico as a crucial component of the historic "Sunset Route," one of the oldest and most critical rail corridors in American history, securing New Mexico's future as a leader in the goods movement industry.



Renewable Energy and Energy Transmission

Western Governor's Assoc identified 27 gigawatts of renewable generating capacity (solar, wind, & geothermal) in NM – the largest capacity among the included states and western Canada.



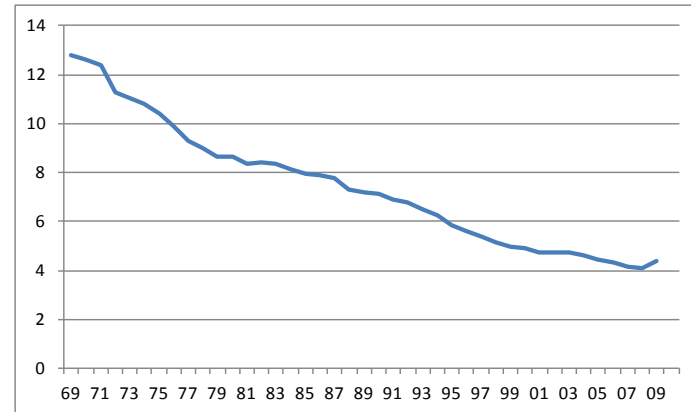
Photos: NM RETA

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Concerns Specific to New Mexico

1. Dependence on the Federal Government

Federal civilian and military employment now only 4% of total NM employment. However...



Source of data: US Bureau of Economic Analysis

Federal expenditures in NM in 2010 were \$28 billion, or \$13,578 per capita. NM ranked 6th among the states in the per capita flow of federal dollars. Procurement is huge – 27% vs 16% in US.

BBER estimates that sequestration would result in a permanent loss of employment of roughly 20,000.

2. Too many NM kids fall through the cracks and remain unprepared for higher education much less the challenges of the workplace.

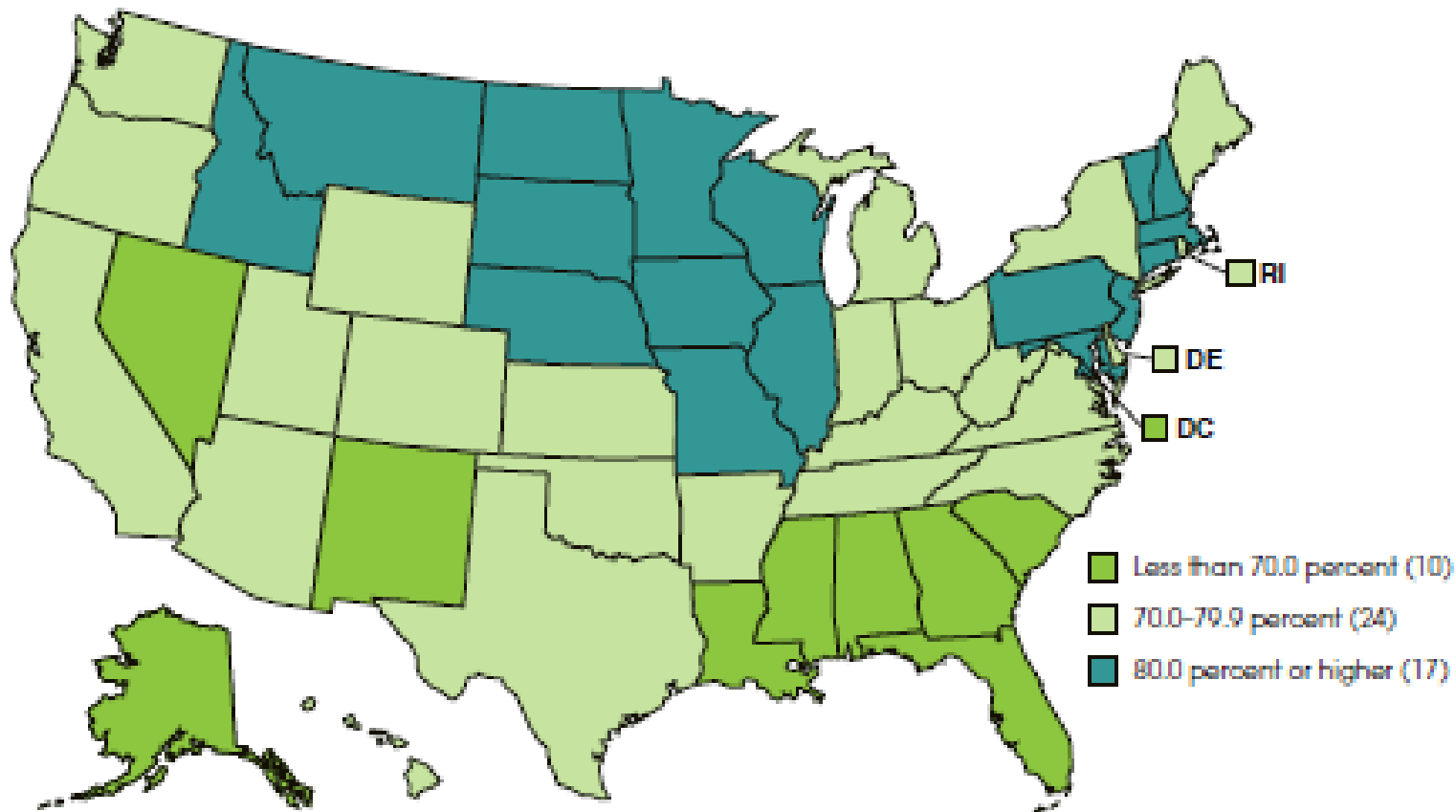
- 2011 National Assessment of Educational Progress

(NAEP) Reading Scores 4th graders: Only 20% proficient or advanced, the lowest in the country except Washington DC. 47% below basic.

Improvement in math but still only 24% 8th graders were proficient or advanced.

- Drop out rates

Averaged Freshman Graduation Rates for Public High Students by State, 2007-08



NOTE: The rate is the number of graduates divided by the estimated freshman enrollment count 4 years earlier. This count is the sum of the number of 8th-graders 5 years earlier, the number of 9th-graders 4 years earlier, and the number of 10th-graders 3 years earlier, divided by 3. Ungraded students were allocated to individual grades proportional to each state's enrollment in those grades. The estimate for Maine includes graduates of semi-private schools. For more information on the Common Core of Data (CCD), see supplemental note 3. For more information on measures of student progress and persistence, see supplemental note 6.

SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "NCES Common Core of Data State Dropout and Completion Data File," school year 2007-08, version 1a.

NM 4 year cohort: 2008, 60.3%; 2010, 67.3%

New Mexico is slowly pulling out of deepest and longest recession since the 1930's. The recovery is broad based geographically and in terms of sectors. However...

- The construction industry, which in the aftermath of previous recessions bounced back, remains depressed. There is an oversupply of housing with foreclosures adding to the stock. Interest rates are low but lending requirements are tough and banks are wary. Businesses await the recovery of demand. Governments face fiscal constraints.
- Unlike other parts of the country, NM does not appear yet to be benefitting from an export boom.
- Sectors which have traditionally cushioned the impacts of national recessions on NM – federal, state and local government, professional and technical business services (because of the labs) – are less able to play a stabilizing role this time around and indeed are a drag on the economy.
- The healthcare services sector which has led NM growth for over a decade is heavily dependent on state and federal funding – Medicaid, Medicare, Veterans Administration, TRICARE, Indian Health Service – which are threatened by the fiscal crisis facing governments at all levels and the perceived need to tackle immediately the problem of the federal deficit.