



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

New Mexico Fiscal Outlook

Presentation to the NMFA Oversight Committee

Dawn Iglesias, Chief Economist, LFC

October 9, 2020

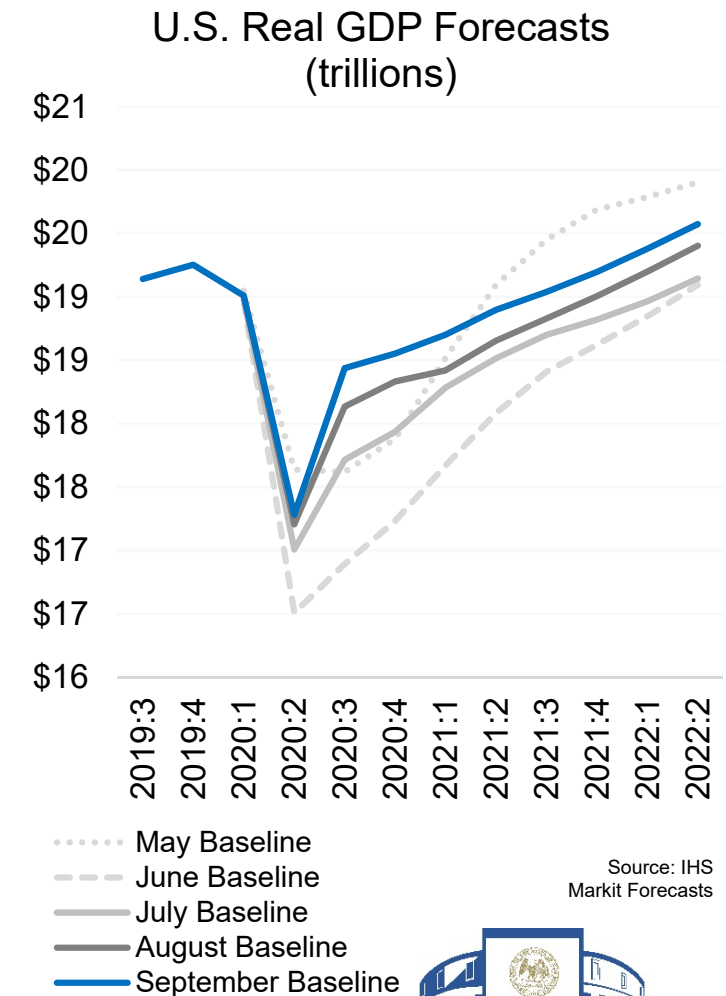
Recurring Revenue Outlook

- Significant uncertainty in the current outlook led the consensus group to provide a ranged estimate for this forecast period.
 - Revenue data since the last forecast came in stronger-than-expected, in a manner seemingly inconsistent with the state's economic conditions.
 - FY20-Q4 (April-June) revenues appear to have been significantly propped up by federal fiscal policy; FY21-FY22 outlook will be heavily influenced by future federal spending, but it is currently unclear whether another stimulus deal will be reached and what such a package might include.
- Preliminary data shows FY20 recurring revenue ended at \$7.8 billion, bringing ending reserve balances to a projected \$2.045 billion, or 29.4 percent of recurring appropriations.
- The current outlook suggests FY21 recurring revenues could range between \$6.4 billion and \$7.3 billion
 - Outlook depends on the path of the virus and potential for a vaccine; the scale of the recovery in employment; the impact of federal fiscal policy on consumer spending and income moving forward; and, oil and natural gas prices, the extent of the decline in oil and natural gas production, and the timeline for recovery in the oil market.
- FY22 recurring revenues projected to range between \$6.8 billion and \$7.6 billion.
 - Following the June 2020 special session, FY21 recurring appropriations are \$7.2 billion.



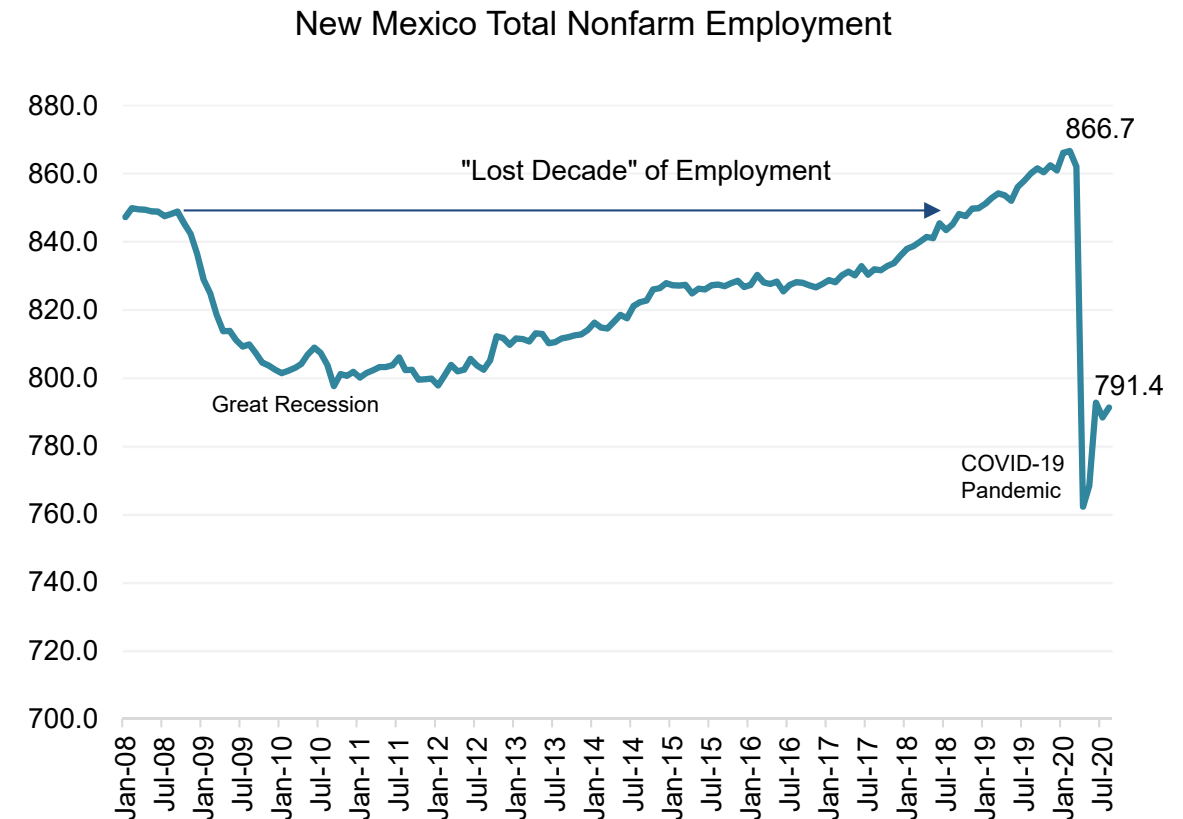
Covid-19 threw the global economy into crisis.

- The US and many other countries in the world entered the deepest recession since 1929.
- U.S. real gross domestic product (GDP) declined 5% in the first quarter of 2020 and declined a record 32.9% in the second quarter.
- The U.S. lost over 20 million jobs in April, about 13% of employment. The nation recovered about 10.6 million jobs from April to August, but employment remains well below pre-pandemic levels.
- The federal fiscal and monetary response to the crisis was unprecedented, providing \$3.9 trillion in federal income supports in 2020-Q2, near-zero interest rates, and massive injections of liquidity into credit markets.
- The path ahead is uncertain. Macroeconomic forecasts have varied greatly from one month to the next, and no one knows whether the pandemic will result in only a temporary drop in economic activity, or whether it will be a prolonged event that causes irreparable harm to the economy taking years to recover.



New Mexico lost over 100 thousand jobs in April. By August, the state had recovered only about a third of the jobs lost, and many New Mexicans left the labor force.

- **New Mexico's unemployment rate was 11.3% in August, above the national unemployment rate of 8.4%.**
 - While the unemployment rate declined from 12.7% in July, the change was primarily due to a contraction in the labor force.
 - The state's labor force was 895 thousand in August, down from 910 thousand in July and down from 957 thousand in August 2019 – a year-over-year decline of about 62 thousand.
- **Unemployment benefit continuing claims peaked at over 180 thousand in July – either due to layoffs or reduced hours.**
 - This includes traditional state unemployment insurance and federally-funded unemployment assistance.
 - As of early September, over 130 thousand New Mexicans were still receiving some form of unemployment benefits.
 - Notably, the figure for number of persons claiming unemployment benefits is higher than the number of persons BLS considers to be unemployed because it includes self-employed and independent contractors claiming federally-funded pandemic unemployment assistance and persons who may be working reduced hours due to the pandemic but are still employed.



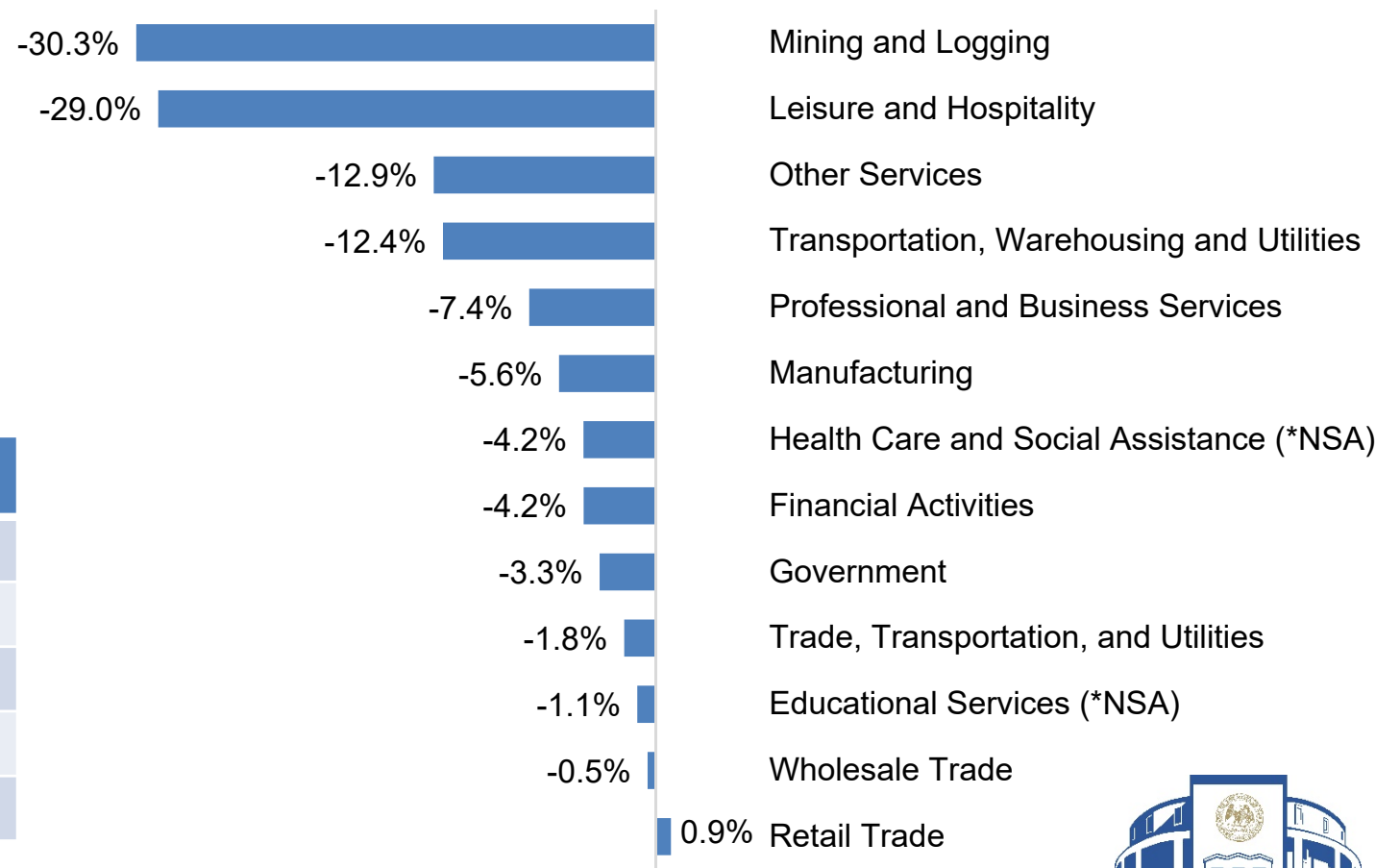
Source: Bureau of Labor Statistics (seasonally adjusted)



In August, employment remained down in all major sectors except retail, with the most jobs lost in the leisure and hospitality sector.

- Leisure and hospitality was down 29 thousand jobs in August, or 29% from the same month last year.
- The mining sector was down 8 thousand jobs in August, or 30%.
- By August, the state had regained nearly all retail jobs than had been lost in April.

New Mexico Employment by Industry
(August 2020 vs. August 2019)



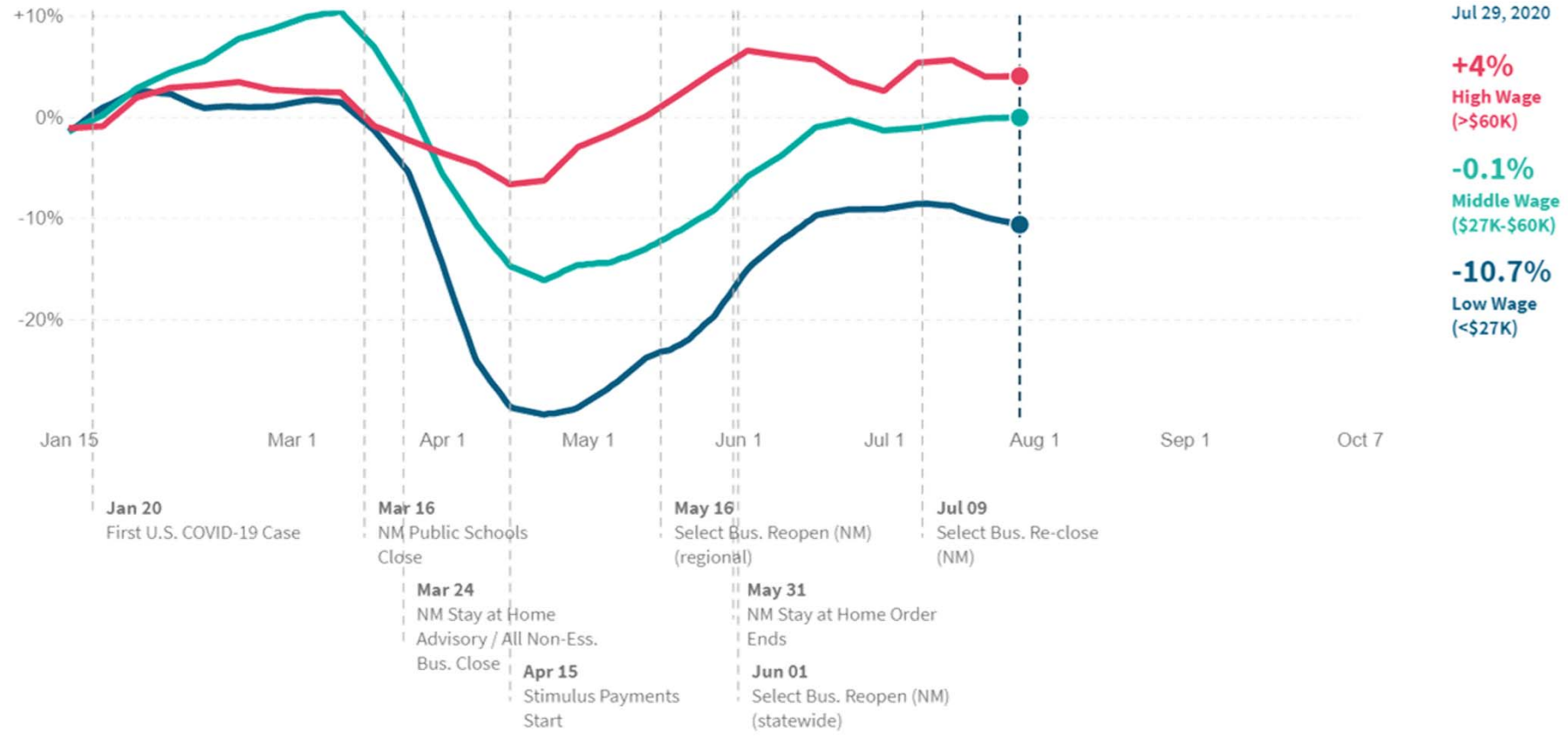
Source: BLS, seasonally adjusted unless otherwise indicated

Counties with Highest Unemployment Rates in August			
Luna	17.0%	Sierra	13.2%
Lea	15.3%	Grant	13.0%
Taos	14.5%	Lincoln	12.8%
McKinley	14.3%	Torrance	12.6%
San Juan	13.5%	Otero	12.4%



Job losses persist for low-wage workers. As of the end of July, employment among those making less than \$27,000/year was down 10.7% from January, while employment for high-wage workers had recovered.

Percent Change in New Mexico Employment*



*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line in the low-wage series is a prediction of employment rates based on Kronos data.

last updated: September 23, 2020

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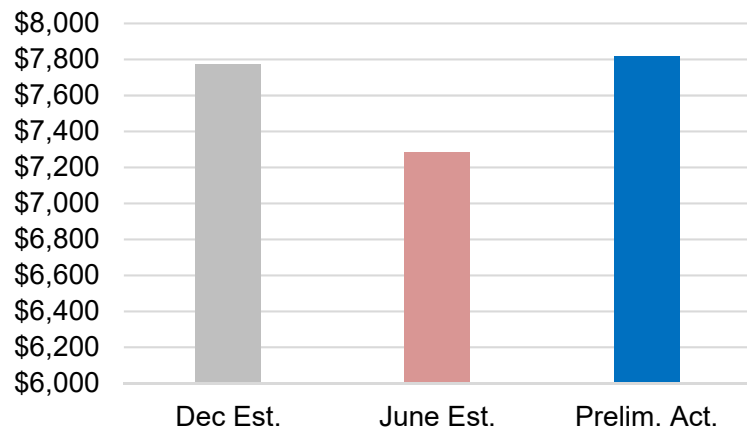


Despite business closures and restrictions and widespread unemployment, gross receipts tax (GRT) collections and income tax collections were stronger than expected in FY20-Q4.

Preliminary actual data indicates FY20 revenues ended at \$7.8 billion, up \$534 million from the June 2020 estimate.

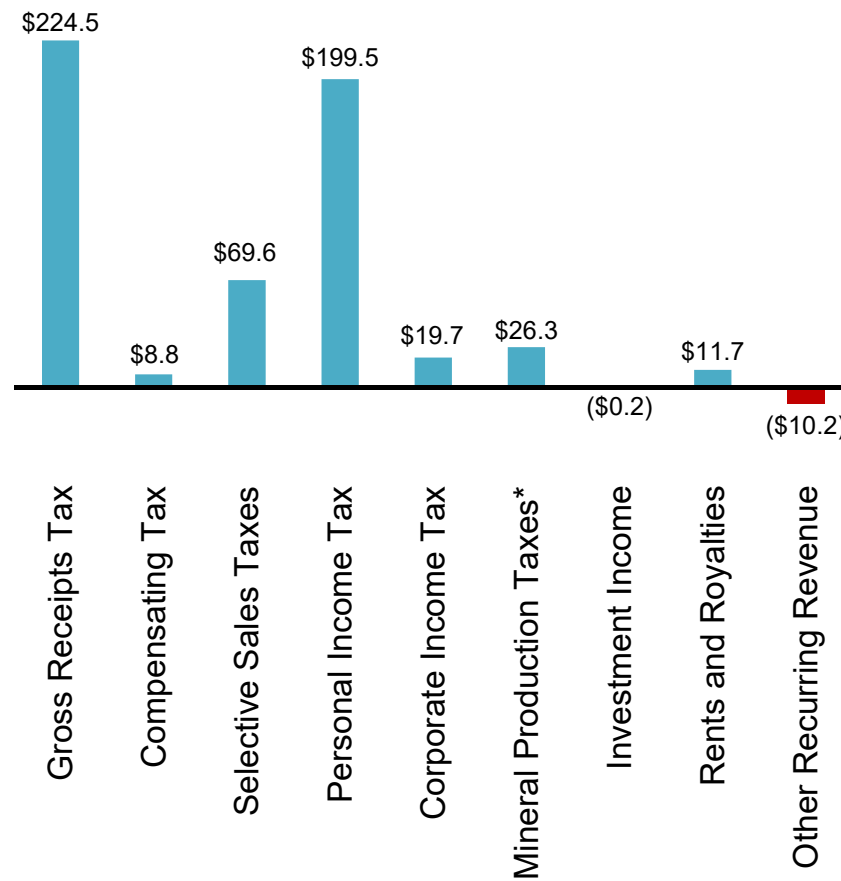
FY20 Recurring Revenue	Est.
December 2019 Consensus*	\$7,776.4
June 2020 Consensus Outlook	\$7,284.3
Preliminary FY20 Actual	\$7,818.4
Annual Percent Change	-2.4%

FY20 Recurring Revenue (in millions)



Source: Consensus Revenue Estimate September 2020

FY20 General Fund Revenue Tracking vs. Forecast (in millions)

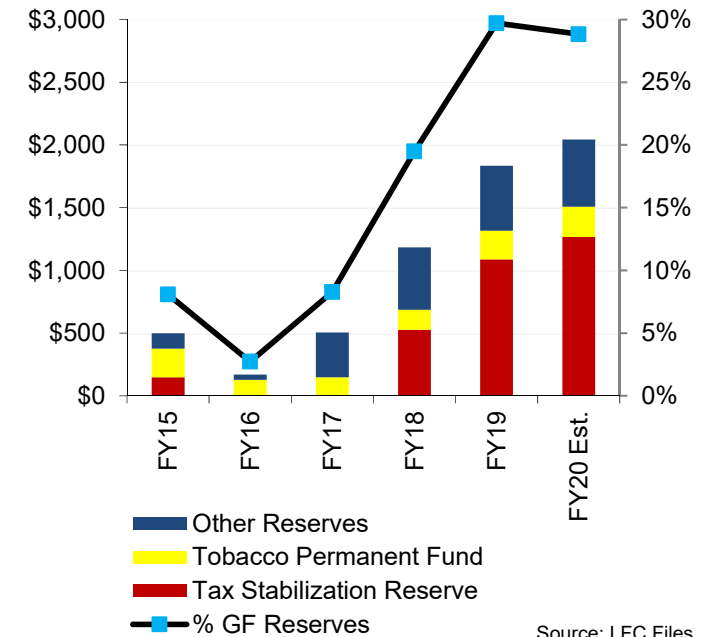


* Includes excess Oil and Gas

Source: DFA General Fund Report, LFC Files

General fund reserve balances are estimated to have ended FY20 at \$2.045 billion, or 29.4% of recurring appropriations.

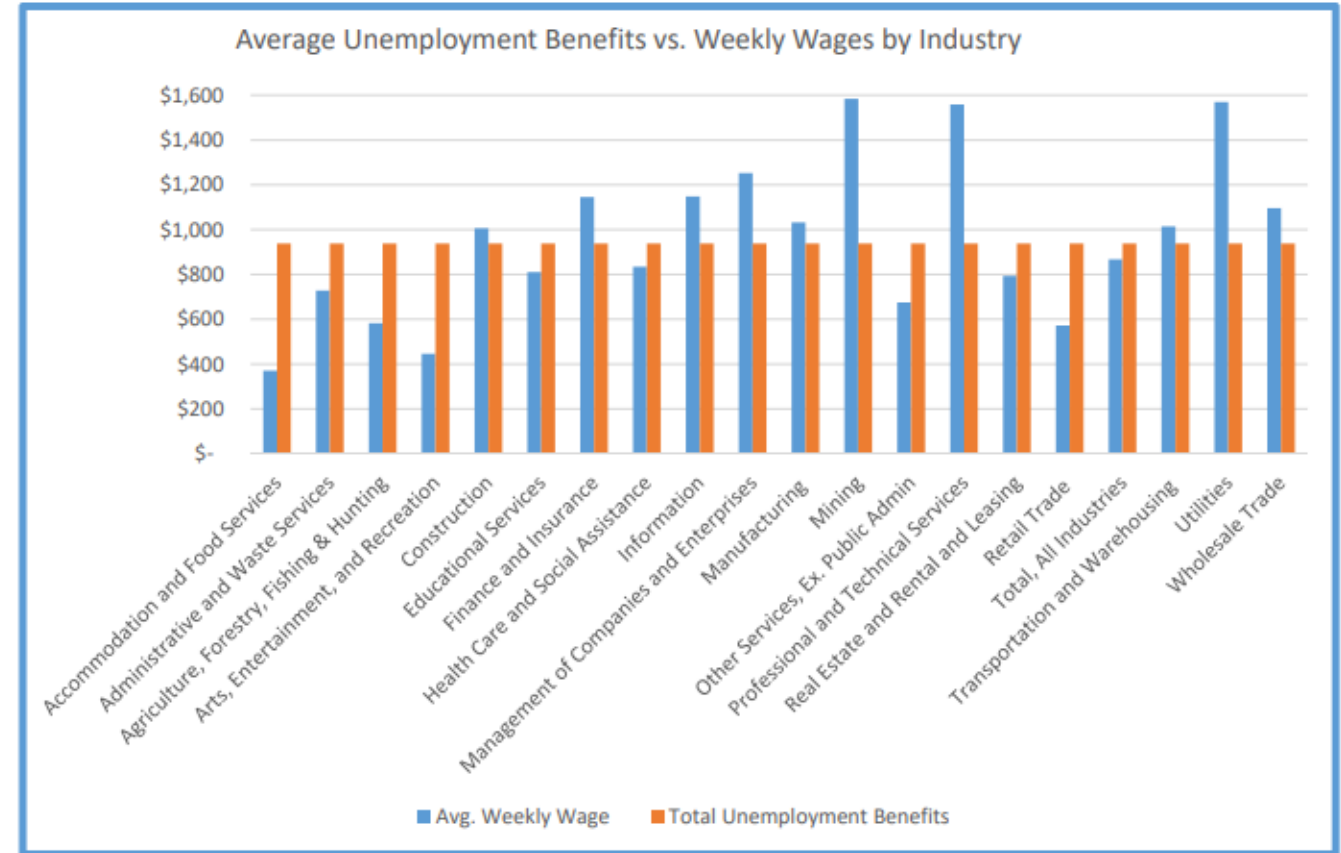
General Fund Reserve Balances Total and Percent of Recurring Appropriations (in millions)



Source: LFC Files

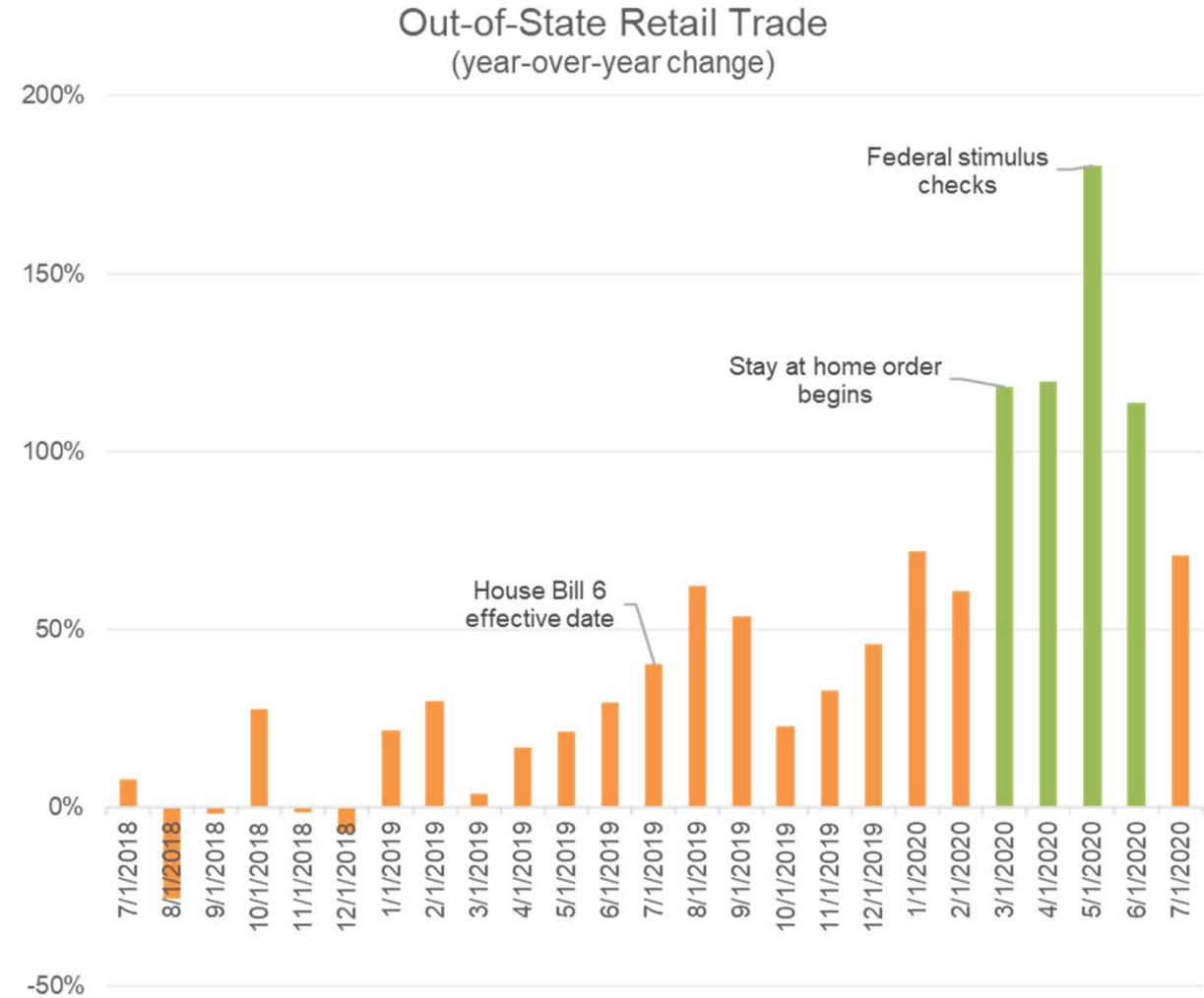
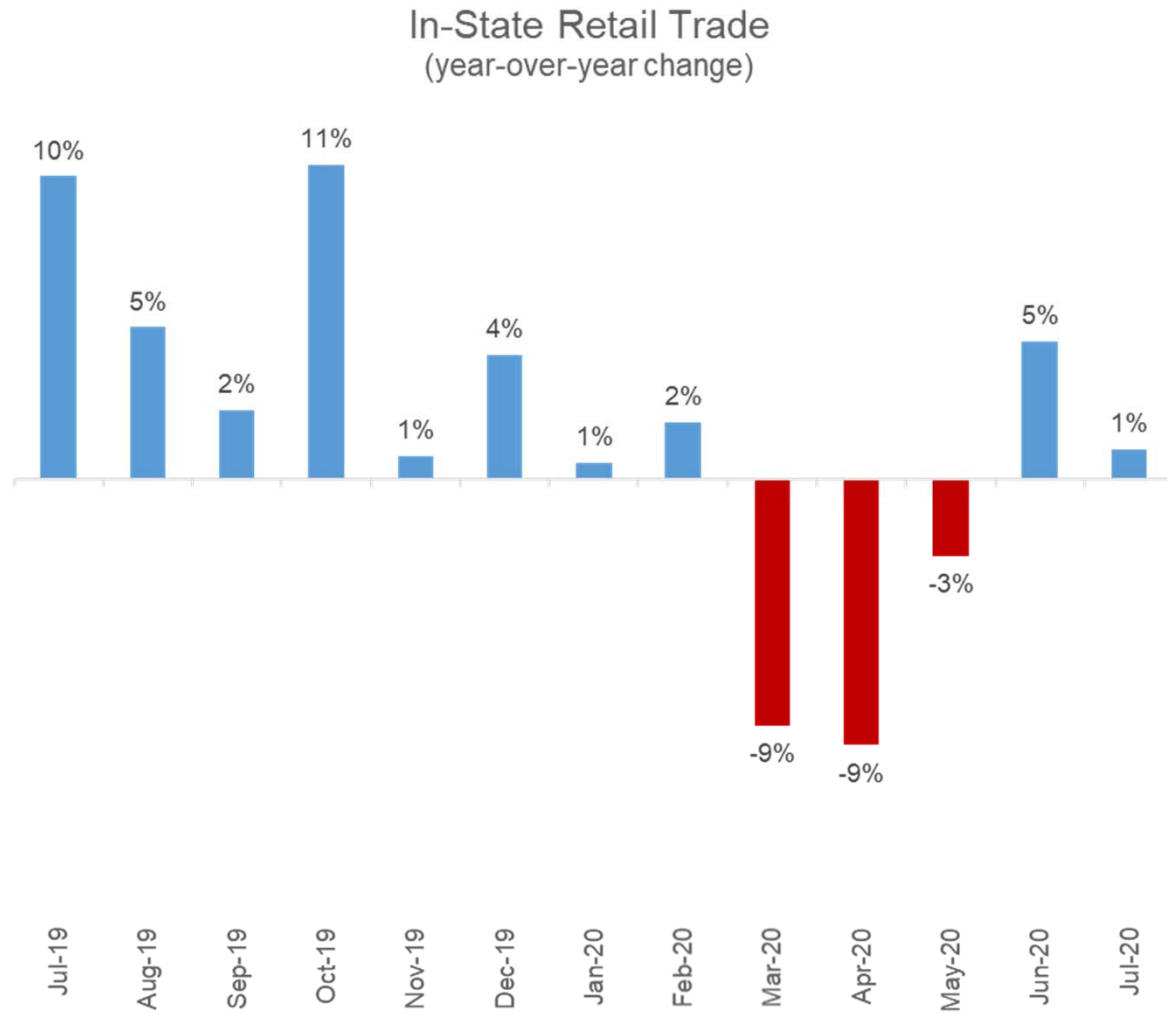
Federal stimulus propped up employment, income, and consumer spending

- SBA Paycheck Protection Program – provided forgivable loans as incentive to keep workers on payroll; at least partially supported about one-quarter of the NM workforce and helped keep businesses open
- Economic Injury Disaster Loan Program (EIDL) – NM businesses received 9,650 loans totaling \$566 million; covers array of capital and normal operating expenses
- Unemployment benefits for self-employed and independent contractors
- One-time \$1,200 stimulus checks
- Extra \$600/week unemployment benefit – many New Mexicans were receiving more income than when they were employed
- Other state-funded loan programs also helped support businesses in the last quarter of FY20
 - SIC's New Mexico Recovery Fund (\$100 million); NMFA's Essential Services Working Capital Program; EDD's no-interest LEDA loans and COVID-19 Emergency Loan Guarantee Program



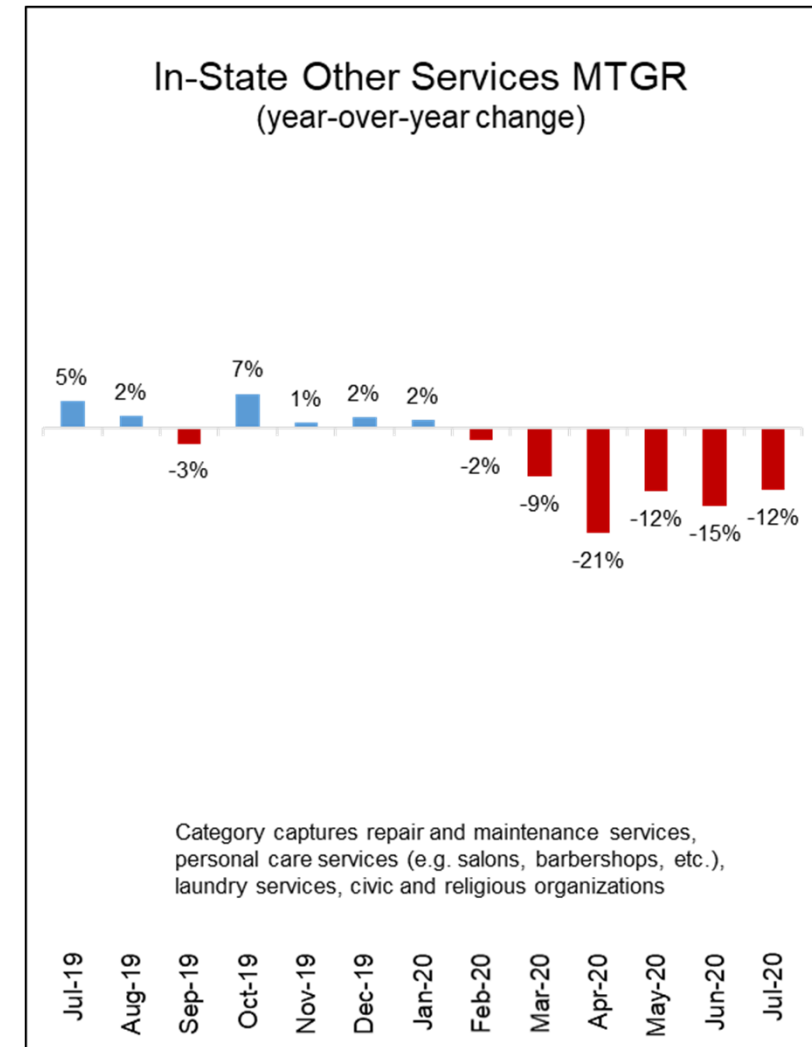
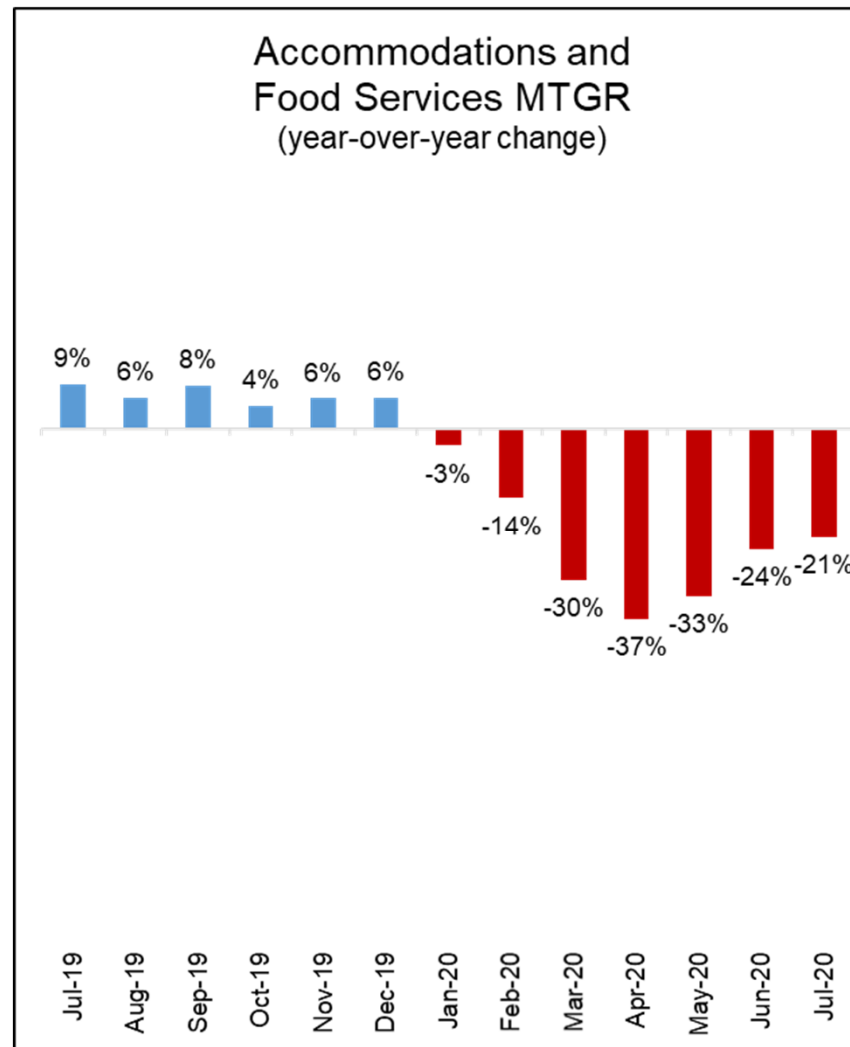
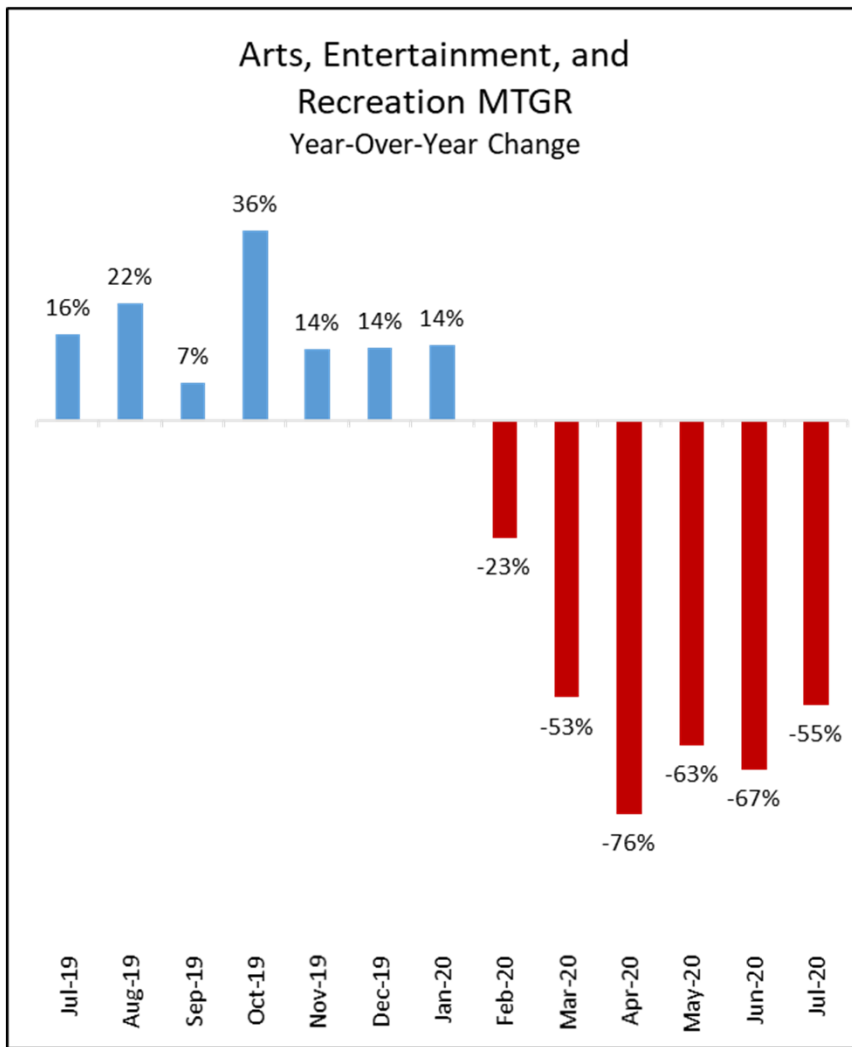
Source: Bureau of Labor Statistics

Retail spending increased during the pandemic, with growth in online sales offsetting losses of in-person retail spending. Overall retail trade up 11% in the FY20-Q4. Growth slowed in July, but retail was still up 8.5% from July 2019.



Source: RP 500

Leisure and hospitality industries experienced the largest declines in economic activity, and were still down 24% in July. In-state “other services” also saw significant declines in FY20-Q4 and remain down 12%.



Source: RP 500

Total matched taxable gross receipts (MTGR) declined 6% in April, and MTGR declined a total of 2.4% in the fourth quarter of 2020. However, MTGR in July showed signs of a slowdown in the recovery, and losses in the mining sector contributed to an overall decline of 9.8% in July.

Matched Taxable Gross Receipts by Industry								
Industry	Apr-20		May-20		Jun-20		Jul-20	
	MTGR Growth	Percent Growth	MTGR Growth	Percent Growth	MTGR Growth	Percent Growth	MTGR Growth	Percent Growth
Mining, Quarrying, and Oil and Gas Extraction	-\$91,247,605	-15.4%	-\$195,385,900	-37.3%	-\$269,087,142	-47.0%	-\$374,760,278	-56.2%
Leisure and Hospitality Services	-\$161,585,586	-40.0%	-\$158,943,426	-35.1%	-\$128,723,902	-27.7%	-\$107,694,116	-23.8%
Utilities	-\$12,091,941	-5.5%	\$31,546,806	16.8%	\$50,739,694	24.0%	\$48,036,705	21.9%
Construction	\$211,250,729	32.4%	\$131,492,399	20.1%	\$219,517,475	31.5%	-\$36,510,557	-5.1%
Manufacturing	-\$61,361,529	-30.3%	-\$39,750,688	-22.6%	-\$31,473,940	-15.1%	-\$19,831,570	-12.6%
Wholesale Trade	-\$51,909,747	-19.6%	-\$136,549,801	-39.7%	-\$106,790,996	-33.8%	-\$86,644,202	-30.1%
Retail Trade	\$29,324,131	2.6%	\$172,775,214	14.8%	\$186,530,700	15.4%	\$105,183,841	8.5%
Transportation and Warehousing	\$8,363,599	9.9%	-\$33,438,308	-36.1%	-\$25,655,614	-30.0%	-\$15,991,586	-21.5%
Information	\$23,345,229	10.8%	\$45,326,818	21.0%	\$36,135,090	15.9%	-\$71,720,443	-29.8%
Real Estate and Rental and Leasing	-\$14,634,016	-9.6%	-\$34,796,193	-22.7%	-\$30,140,601	-17.8%	-\$20,988,657	-13.9%
Professional, Scientific, and Technical Services	-\$2,267,563	-0.4%	\$14,254,986	2.9%	\$20,711,159	3.8%	\$8,446,976	1.6%
Administrative/Support & Waste Management/Remediation	-\$214,683,626	-67.6%	\$108,184,457	51.4%	\$23,434,295	8.4%	\$27,634,580	9.8%
Health Care and Social Assistance	-\$9,724,018	-3.5%	-\$21,629,788	-7.5%	\$51,081,808	18.6%	\$55,013,647	20.9%
Other Industries	\$9,853,037	14.5%	\$31,229,497	1.8%	\$12,236,735	1.8%	-\$92,172,356	-13.2%
Total	-\$337,368,906	-6.0%	-\$85,683,927	-1.5%	\$8,514,759	0.1%	-\$581,998,014	-9.8%

Note: compared to same month in 2019

Source: RP500

Receipts from construction and retail, which together account for about 35% of all MTGR, entirely offset the losses in mining and leisure and hospitality in the fourth quarter of FY20.



MTGR declined in 20 counties in FY20-Q4, with Lea, Eddy, Bernalillo, and Santa Fe experiencing the largest declines.

Matched Taxable Gross Receipts by County FY20-Q4 vs. FY19-Q4					
Jurisdiction	Year-over-Year Amount	Year-over-Year Percent	Jurisdiction	Year-over-Year Amount	Year-over-Year Percent
Bernalillo County	-\$294,698,032	-6.3%	McKinley County	-\$25,739,456	-9.1%
Catron County	-\$873,298	-8.7%	Mora County	\$882,124	9.7%
Chaves County	\$14,744,696	4.4%	Otero County	\$6,971,624	2.8%
Cibola County	-\$3,222,174	-3.6%	Quay County	-\$563,966	-1.4%
Colfax County	\$459,528	0.7%	Rio Arriba County	\$505,881	0.5%
Curry County	-\$21,968,411	-8.5%	Roosevelt County	\$176,976,046	292.4%
De Baca County	-\$1,744,668	-27.5%	San Juan County	-\$38,285,914	-5.4%
Dona Ana County	\$49,217,595	5.1%	San Miguel County	-\$10,418,184	-10.0%
Eddy County	-\$326,926,065	-17.2%	Sandoval County	\$152,630,037	36.7%
Grant County	-\$9,464,040	-7.6%	Santa Fe County	-\$170,321,732	-15.7%
Guadalupe County	-\$2,303,065	-8.3%	Sierra County	\$7,319,936	16.2%
Harding County	-\$920,927	-21.5%	Socorro County	\$4,927,863	10.6%
Hidalgo County	\$2,650,219	14.5%	Taos County	-\$9,233,966	-5.9%
Lea County	-\$524,580,765	-29.4%	Torrance County	\$70,511,296	167.5%
Lincoln County	-\$3,498,377	-2.7%	Union County	-\$4,419,666	-17.2%
Los Alamos	-\$62,623,630	-13.1%	Valencia County	-\$7,727,388	-2.8%
Luna County	\$190,823,332	233.9%	Out of State	\$359,340,412	16.1%

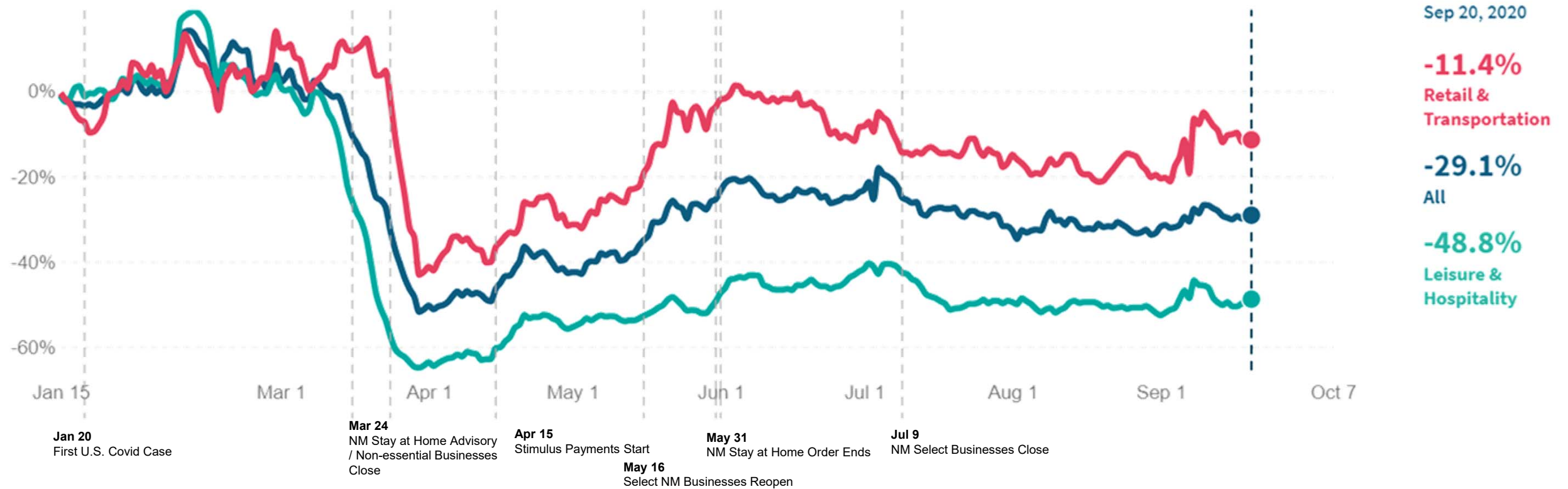
Source: RP 500

- Large wind construction projects bolstered MTGR in Roosevelt and Torrance counties, and ongoing construction projects boosted MTGR in Luna and Dona Ana counties.
- The largest MTGR declines occurred in Eddy and Lea counties due to falling rig counts and reduced drilling activity.
- Internet sales activity resulted in significant gains in out-of-state receipts, as consumer spending shifted online during the stay-at-home order.



Recovery for small businesses appears to have stagnated. As of mid-September, small business revenue was down 29.1% from January 2020.

Percent Change in New Mexico Small Business Revenue*



*Change in net business revenue for small businesses, indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.

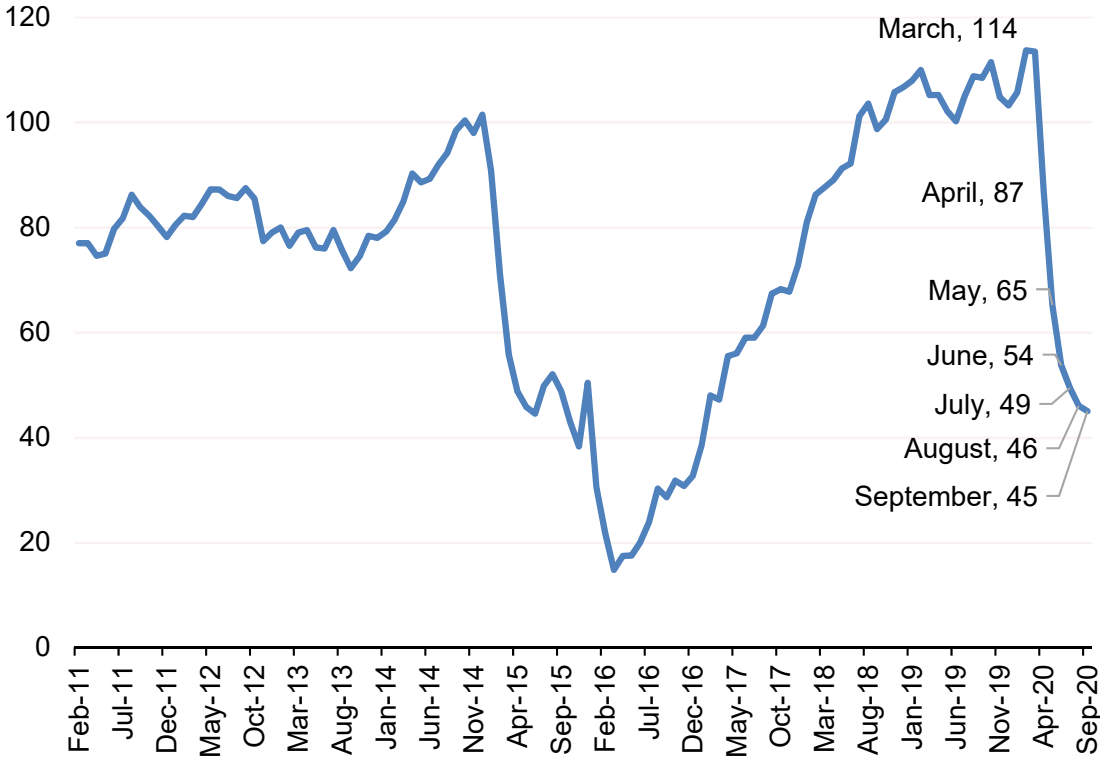
last updated: **September 30, 2020**

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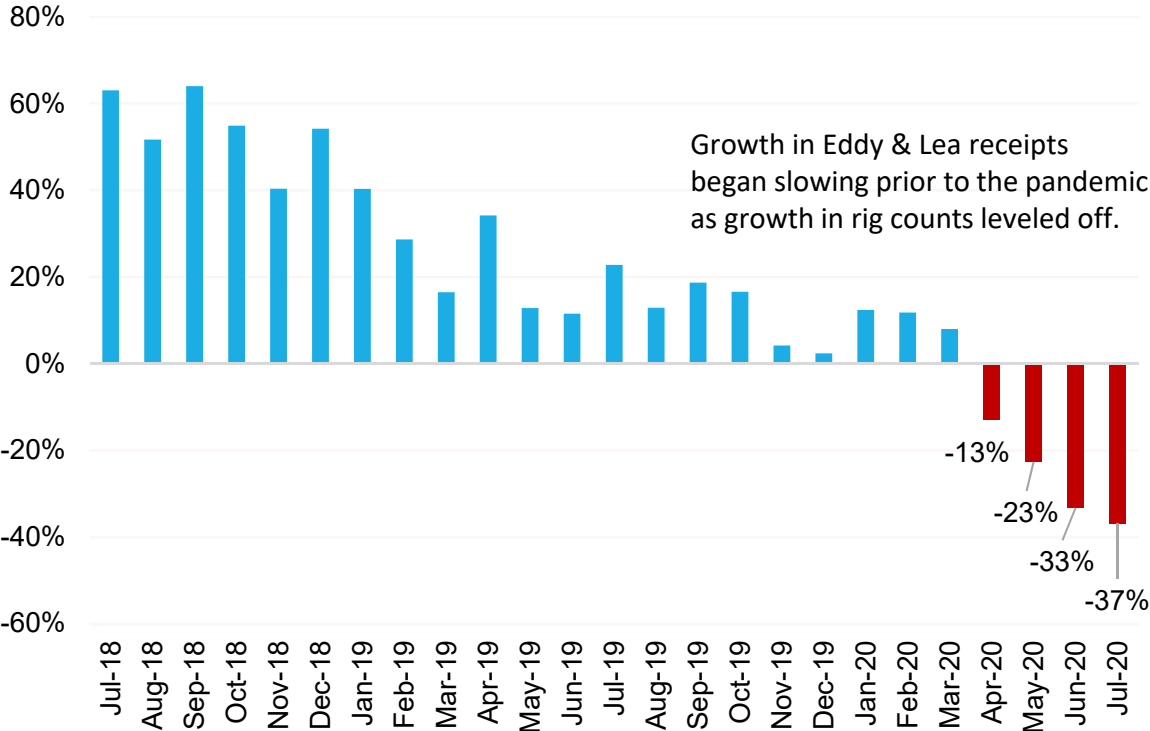


Low oil prices and falling rig counts fueled a sharp decline in gross receipts in Eddy and Lea counties from April to July. Continuing declines in drilling-related activity is driving most of the projected GRT declines in FY21.

New Mexico Active Drilling Rigs



Eddy and Lea Counties Combined MTGR Year-over-Year Change (all industries)

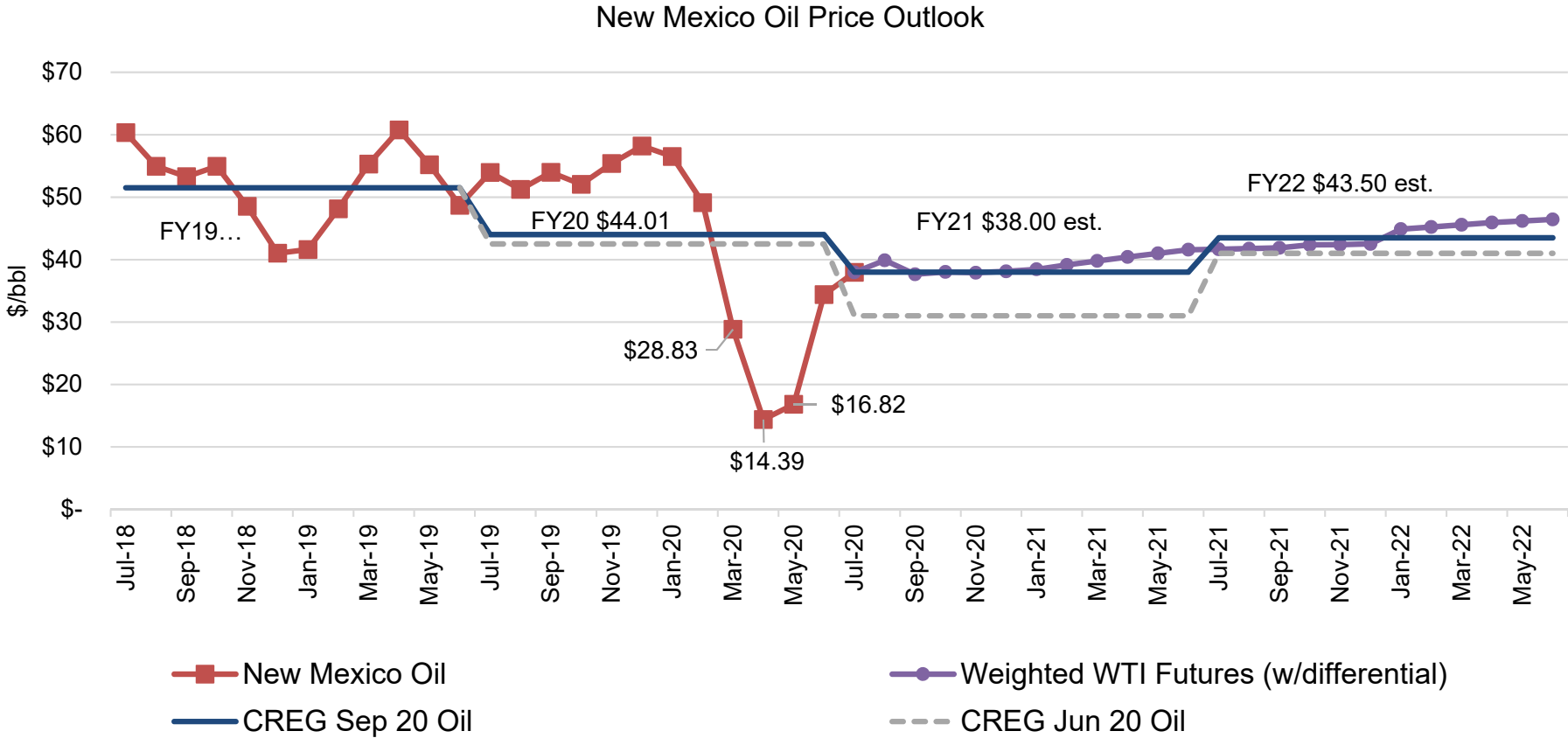


- Total GRT collections are projected to fall 12% to 21% in FY21, driven largely by continued losses from Eddy and Lea counties and drilling-related out-of-state receipts.



Oil prices recovered faster than expected, but New Mexico's current price remains below \$40/bbl.

- New Mexico's oil price averaged \$44.01/bbl in FY20
 - The state's oil prices fell below \$15/bbl in April and recovered to \$34/bbl in June.
- By September, the state's average oil price was about \$37/bbl and West Texas Intermediate (WTI) was about \$39.50/bbl.
- New Mexico's oil prices are expected to range between \$37-\$40/bbl through FY21, up from an expected average of \$31/bbl in the June consensus update.

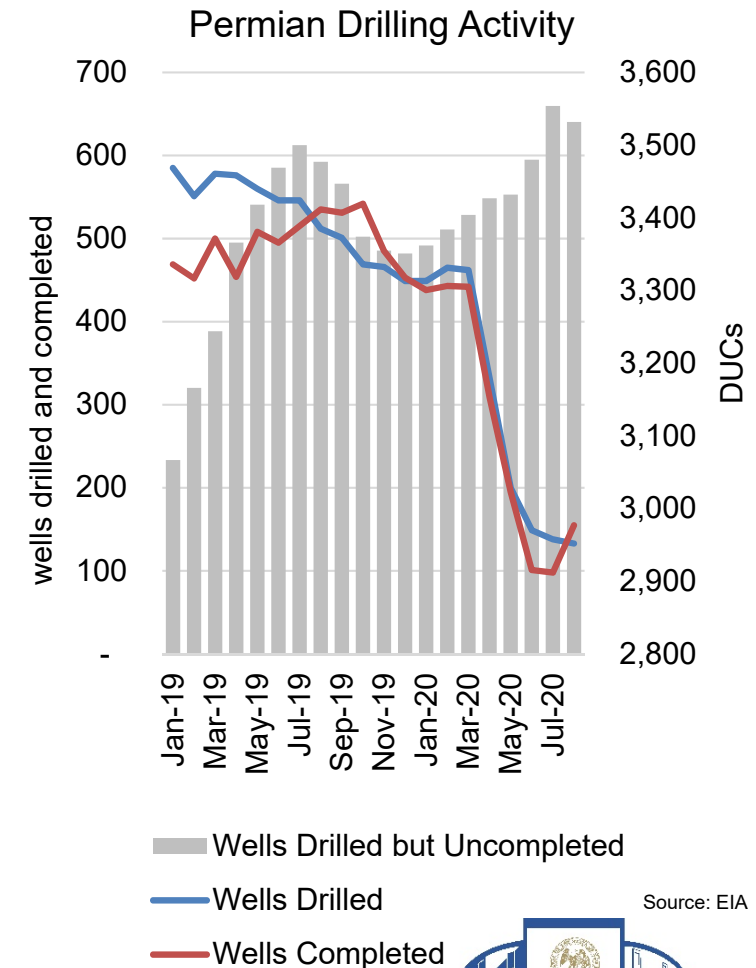
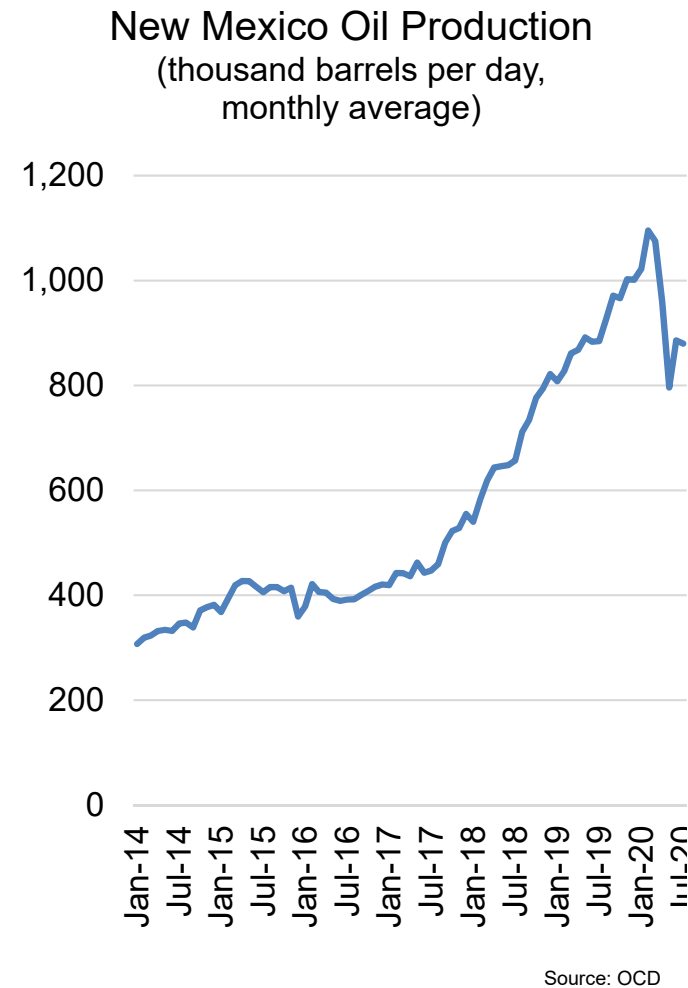


Source: Weighted oil and gas prices derived from EIA, GI and NYMEX Forecasts; Updated 09/24/2020



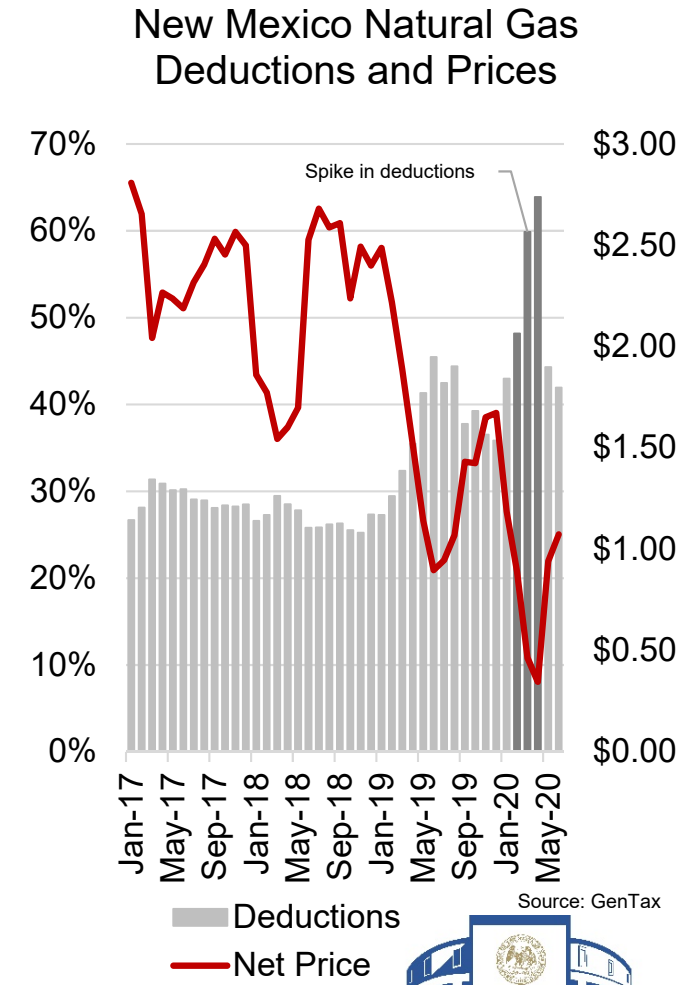
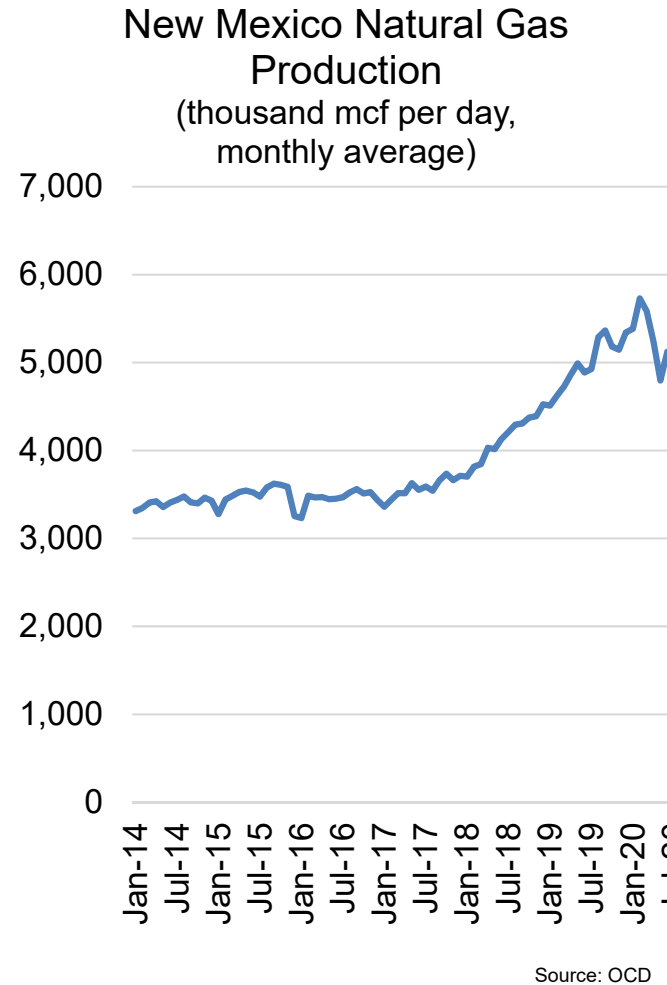
Oil production began falling in April as many producers shut-in wells in response to low prices. Production in FY21 is projected to decline 13% to 30%, depending on how much new drilling and well completions can offset the natural decline of existing wells.

- New Mexico's daily oil production fell about 20% from February to July.
 - There was a slight uptick in June production as many shut-in wells came back online; however, those restarts did not offset overall production declines.
- The state produced a total of 368 million barrels in FY20.
 - FY21 oil production is estimated to range from 260-320 million barrels, with about 2% growth in production expected in FY22 as drilling activity resumes.
- Permian drilling activity was down 75% in July. Well completions saw an uptick in August, but was still down 71% from last year.
 - Although rig counts and drilling activity is down from last year, the Permian Basin may be able to sustain elevated production levels by completing DUCs, potentially limiting the depth of the expected production decline.



Natural gas production also declined sharply in the fourth quarter of FY20, and FY21 production is projected to decline 7% to 10% from FY20.

- New Mexico produced 1,830 billion cubic feet of natural gas in FY20, at an average gross price of \$1.90/mcf (net \$1.09/mcf).
 - Natural gas transportation and processing deductions spiked in March and April, and net prices fell below \$1/mcf.
- FY21 natural gas production is estimated to range between 1,620-1,815 billion cubic feet, with little-to-no growth expected in FY22.

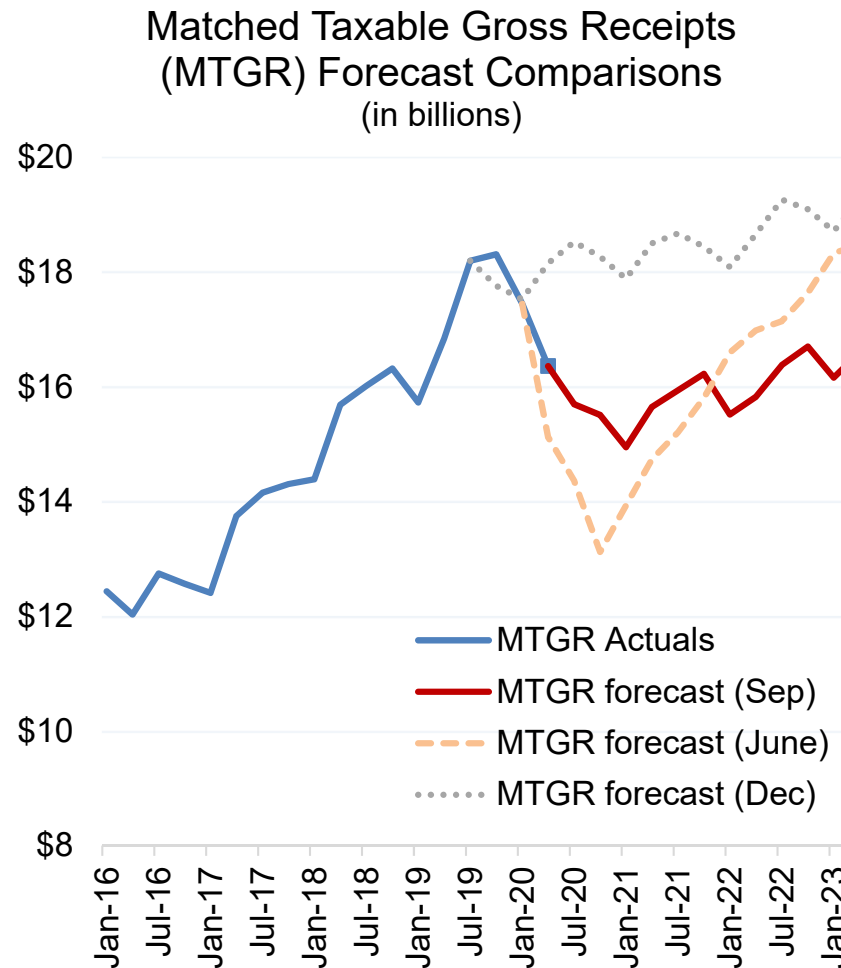


Revised outlook in macroeconomic indicators from IHS Markit, BBER, and Moody's Analytics suggests a more muted economic recovery for New Mexico, but from a higher base.

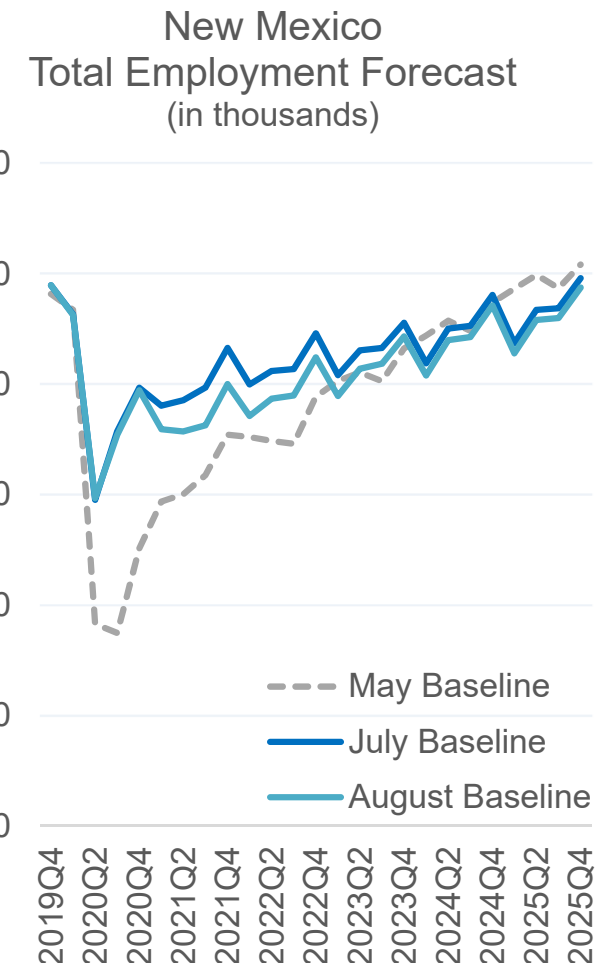
- Total employment projections in May estimated New Mexico could lose 150 thousand jobs in FY20-Q4, and BBER projected total wages and salaries could drop 6% in FY21.
- However, BLS data shows actual FY20-Q4 employment losses averaged 90 thousand, and BBER now projects FY21 total wages and salaries to decline 1.1%.

FY21 Economic Indicators	May Baseline	Updated Baseline
US Real GDP	-3.9%	-0.1%
NM Non-Ag Employment	-9.1%	-3.0%
NM Personal Income	3.5%	4.6%
NM Total Wages & Salaries	-6.0%	-1.1%
NM Real GSP	-4.7%	-3.7%

Sources: IHS Markit September 2020 Baseline, BBER FOR-UNM July 2020 Baseline

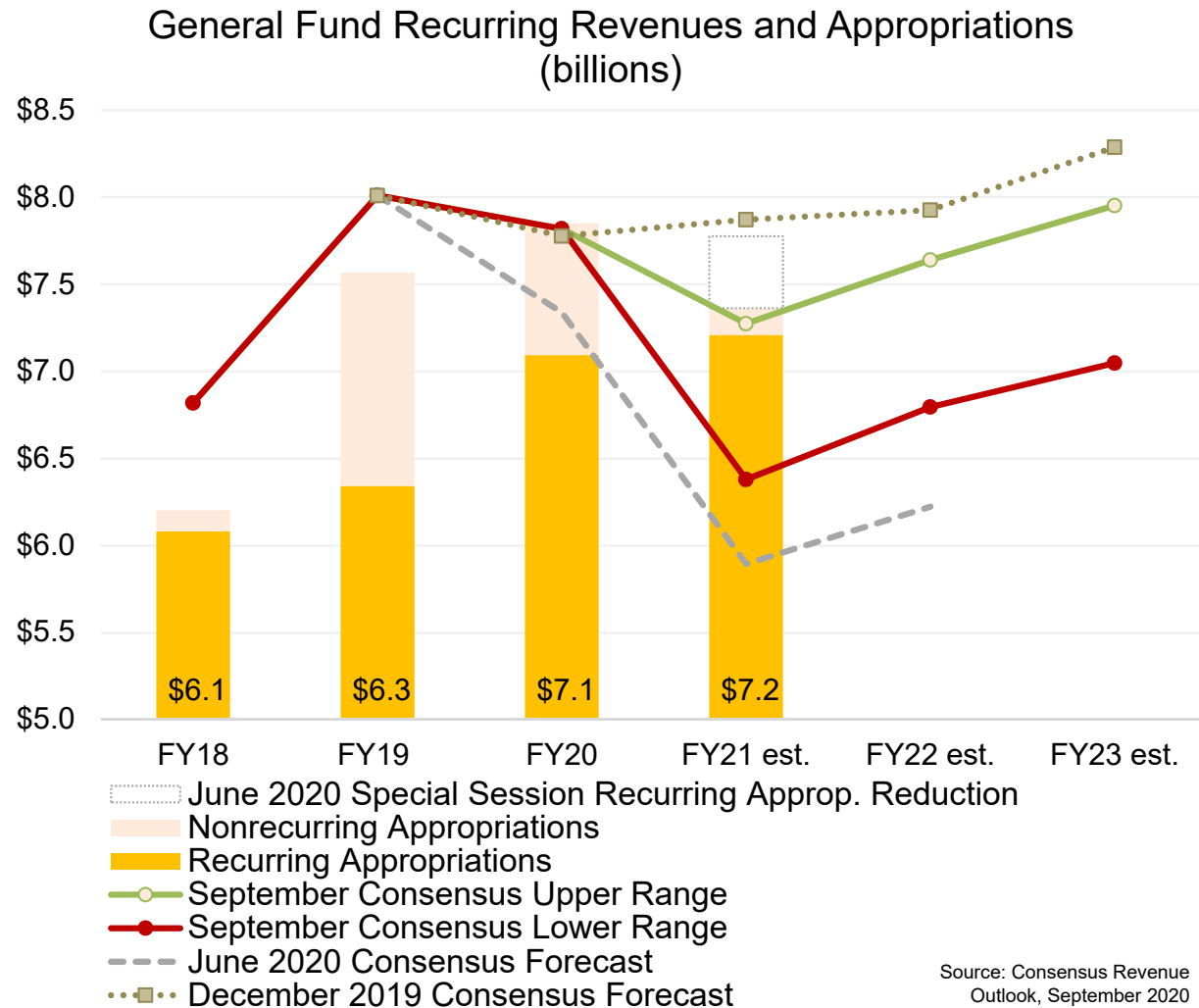


Source: LFC Staff Analysis



Source: BBER

September outlook shows FY21 revenues could decline 7% to 19% from FY20, depending on the extent of the recovery. FY22 recurring revenues are projected to range between \$6.8 billion and \$7.6 billion.

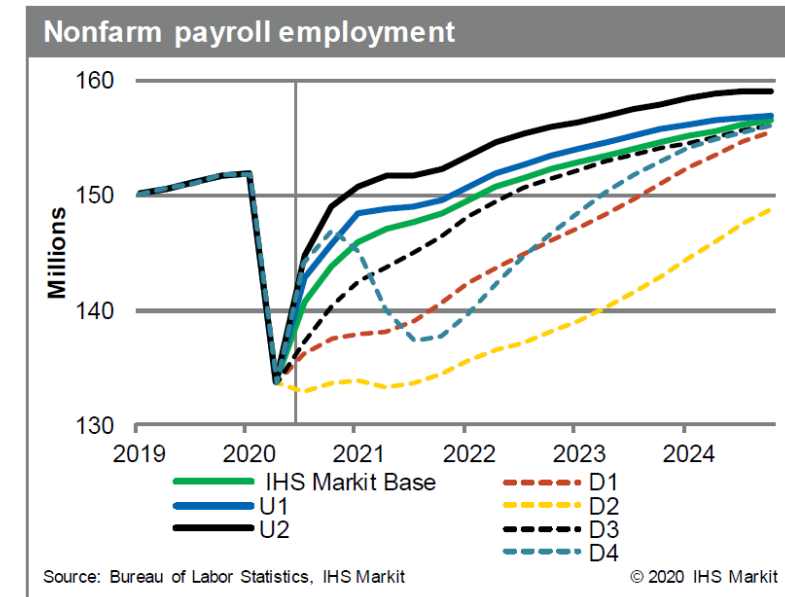


- Although the September outlook range is above the June estimates; it remains well below the pre-pandemic forecast from December
- The legislature took action in June to reduce recurring appropriations by \$414 million, better positioning the state to deal with the range of projected revenue outcomes
- The use of above-trend revenues for one-time expenditures in FY19 and FY20 reduced the potential impact of the current downturn on recurring budgets

Consensus Revenue Outlook						
	LOWER			UPPER		
	FY21	FY22	FY23	FY21	FY22	FY23
December 2019 Consensus*	\$7,870.5	\$7,925.6	\$8,287.1	\$7,870.5	\$7,925.6	\$8,287.1
June 2020 Outlook	\$7,337.5	\$5,891.5	n/a	\$7,337.5	\$5,891.5	n/a
September 2020 Outlook	\$6,377	\$6,793	\$7,046	\$7,273	\$7,638	\$7,952
Annual Percent Change	-18.4%	6.5%	3.7%	-7.0%	5.0%	4.1%
Change from December 2019	(\$1,493)	(\$1,132)	(\$1,241)	(\$598)	(\$287)	(\$336)
Change from June 2020	\$461	\$573	n/a	\$1,356	\$1,418	n/a

Uncertainty in the Outlook and Reasons for Caution

- Potential for a resurgence of virus in the fall/winter; timeline of a vaccine
- Economic recovery showing signs of slowing down
- Businesses may not be able to sustain reduced capacity operations
- Payroll employment supported by the federal paycheck protection program may not be sustainable once funding expires
- BLS employment surveys tend to undercount employment losses
- New Mexico employment still expected to take years to recover
- Consumer spending may have been propped up by additional unemployment insurance (\$600/week), which expired at the end of July
 - New Mexico's weekly federal supplement to unemployment benefits lasted about five weeks and expired early September. These benefits were distributed as a lump sum payment.
- Oil prices dependent on oil demand recovery and OPEC+ production cuts
- Capital markets dependent on federal reserve actions; large amounts of corporate debt
- What will happen with federal stimulus?



IHS Markit Forecast Scenarios:

- U1: Optimistic
- U2: Faster Recovery
- D1: Pessimistic
- D2: Very Severe
- D3: Deep Bust/Rapid Recovery
- D4: W-Shaped Recession



APPENDIX



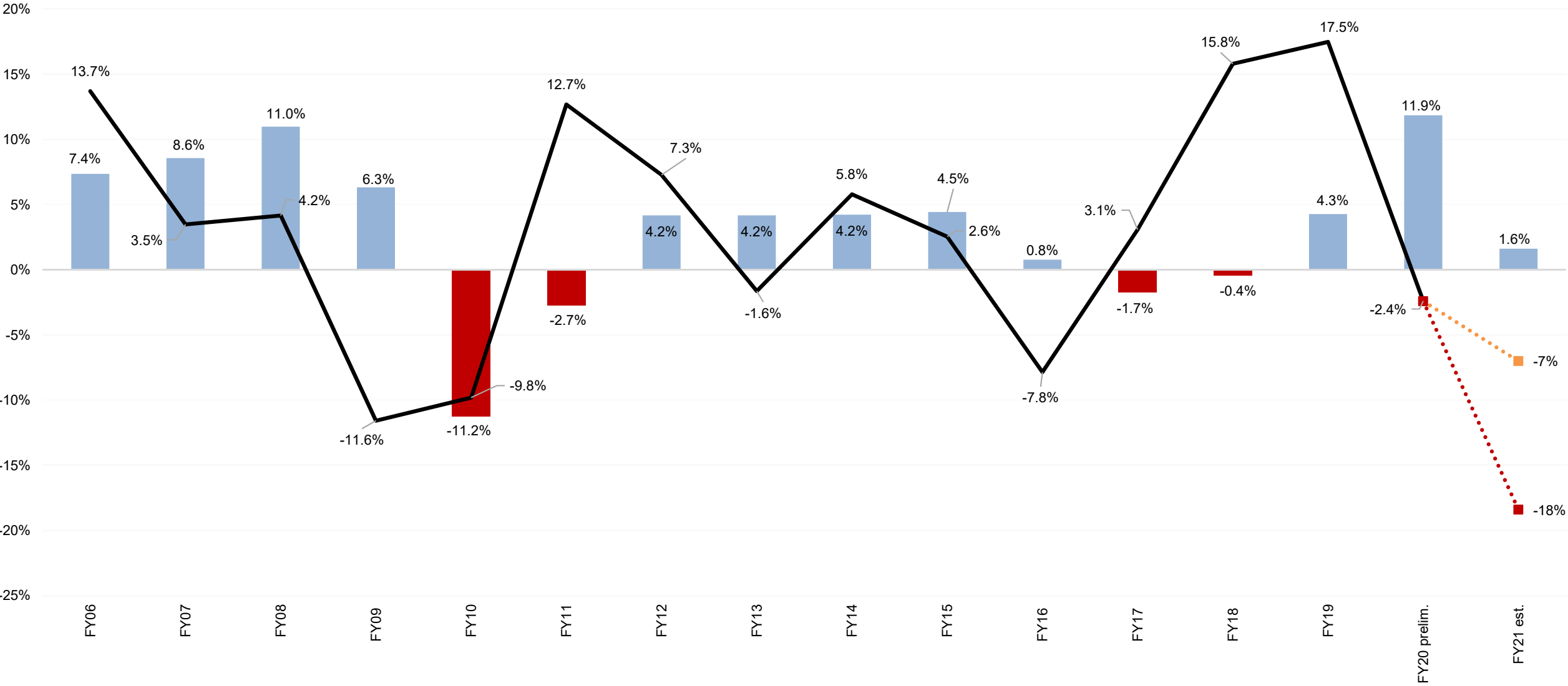
U.S. and New Mexico Economic Indicators

	FY20		FY21		FY22		FY23		FY24		FY25	
	May 20 Forecast	Sep 20 Forecast	May 20 Forecast	Sep 20 Forecast	May 20 Forecast	Sep 20 Forecast	May 20 Forecast	Sep 20 Forecast	May 20 Forecast	Sep 20 Forecast	May 20 Forecast	Sep 20 Forecast
National Economic Indicators												
IHS US Real GDP Growth (annual avg., % YOY)*	-1.6	-1.1	-3.9	-0.1	6.7	3.5	4.2	3.3	3.6	2.6	3.1	2.4
Moody's US Real GDP Growth (annual avg. , % YOY)*	-1.2	-1.1	-3.8	-0.7	5.3	4.4	6.0	4.6	3.4	3.0	2.0	2.0
IHS US Inflation Rate (CPI-U, annual avg., % YOY)**	1.6	1.6	1.1	1.7	1.7	2.5	1.3	2.0	0.8	1.9	1.7	2.1
Moody's US Inflation Rate (CPI-U, annual avg., % YOY)**	1.6	1.6	1.0	1.6	2.9	2.3	2.8	2.8	2.6	2.6	2.6	2.5
IHS Federal Funds Rate (%)	1.3	1.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Moody's Federal Funds Rate (%)	1.3	1.3	0.1	0.1	0.1	0.1	0.3	0.1	1.2	0.7	2.2	1.7
New Mexico Labor Market and Income Data												
BBER NM Non-Agricultural Employment Growth (%)	-3.3	-1.5	-9.1	-3.0	6.2	1.9	2.9	0.8	3.0	0.9	2.6	1.3
Moody's NM Non-Agricultural Employment Growth (%)	-1.7	-1.2	-3.2	-5.3	2.0	2.3	2.9	3.0	1.9	2.0	0.7	0.7
BBER NM Nominal Personal Income Growth (%)***	5.8	5.7	3.5	4.6	-2.1	-2.7	2.1	3.6	3.6	3.8	4.2	3.8
Moody's NM Nominal Personal Income Growth (%)***	3.7	8.8	-0.3	-2.2	3.0	-0.2	5.0	4.7	4.7	4.4	3.7	3.9
BBER NM Total Wages & Salaries Growth (%)	1.6	2.2	-6.0	-1.1	7.2	4.6	5.2	3.4	4.8	3.9	4.4	3.8
Moody's NM Total Wages & Salaries Growth (%)	1.2	3.3	-3.5	-4.7	3.4	3.6	5.3	5.0	4.6	4.7	3.4	3.7
BBER NM Private Wages & Salaries Growth (%)	0.5	1.4	-8.9	-0.8	9.5	5.5	6.3	3.7	5.8	4.2	5.3	4.1
BBER NM Real Gross State Product (% YOY)	-0.5	-0.5	-4.7	-3.7	6.6	3.5	2.2	2.9	2.1	2.6	1.7	2.6
Moody's NM Real Gross State Product (% YOY)	0.3	0.3	-1.8	1.1	5.2	4.5	5.2	4.0	3.3	2.9	2.0	1.9

Sources: BBER – July 2020 FOR-UNM baseline; IHS Markit – September 2020 baseline; Moody's economy.com September 2020 baseline



Recurring General Fund Revenue & Appropriation Annual Growth

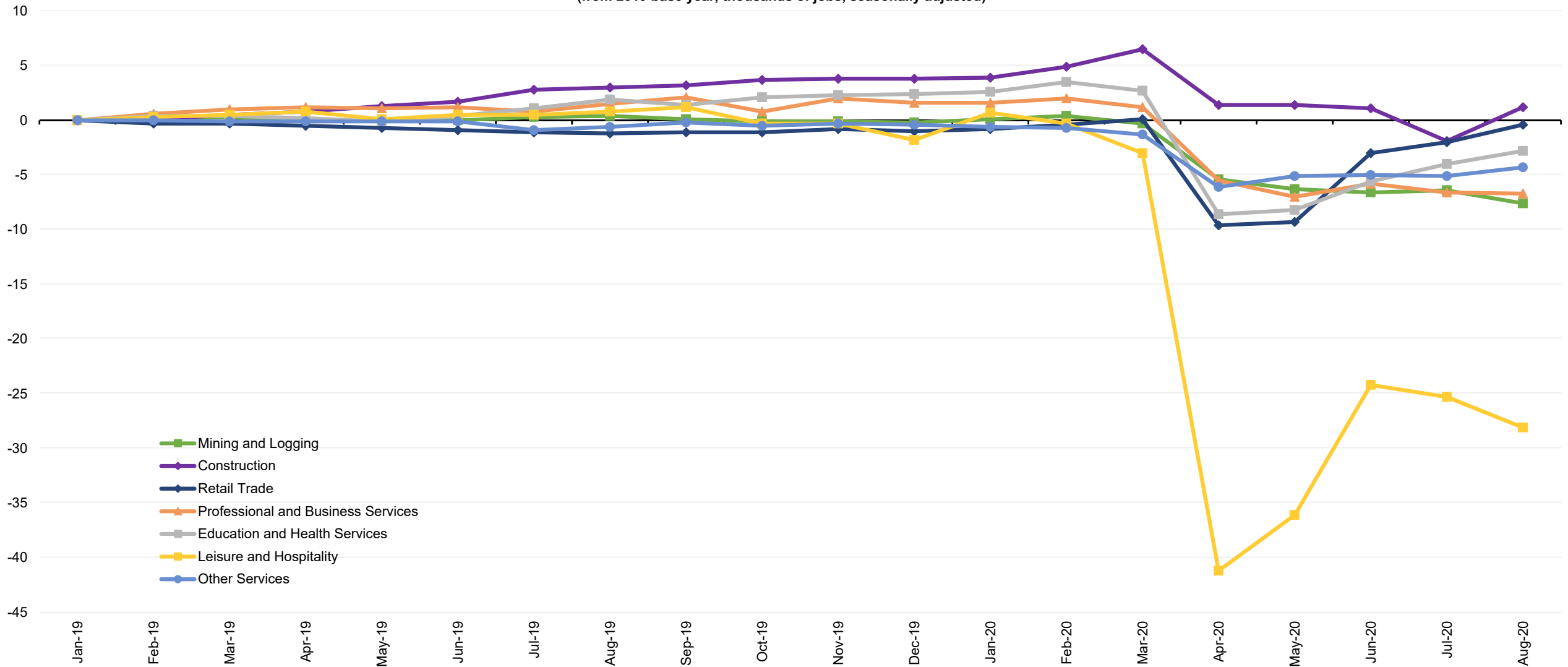


■ Yr/Yr Recurring GF Appropriations Growth
 — Yr/Yr Recurring GF Revenue Growth
 ●●● Sep 2020 Est. Upper range
 ■●● Sep 2020 Est. Lower Range

Source: LFC Files



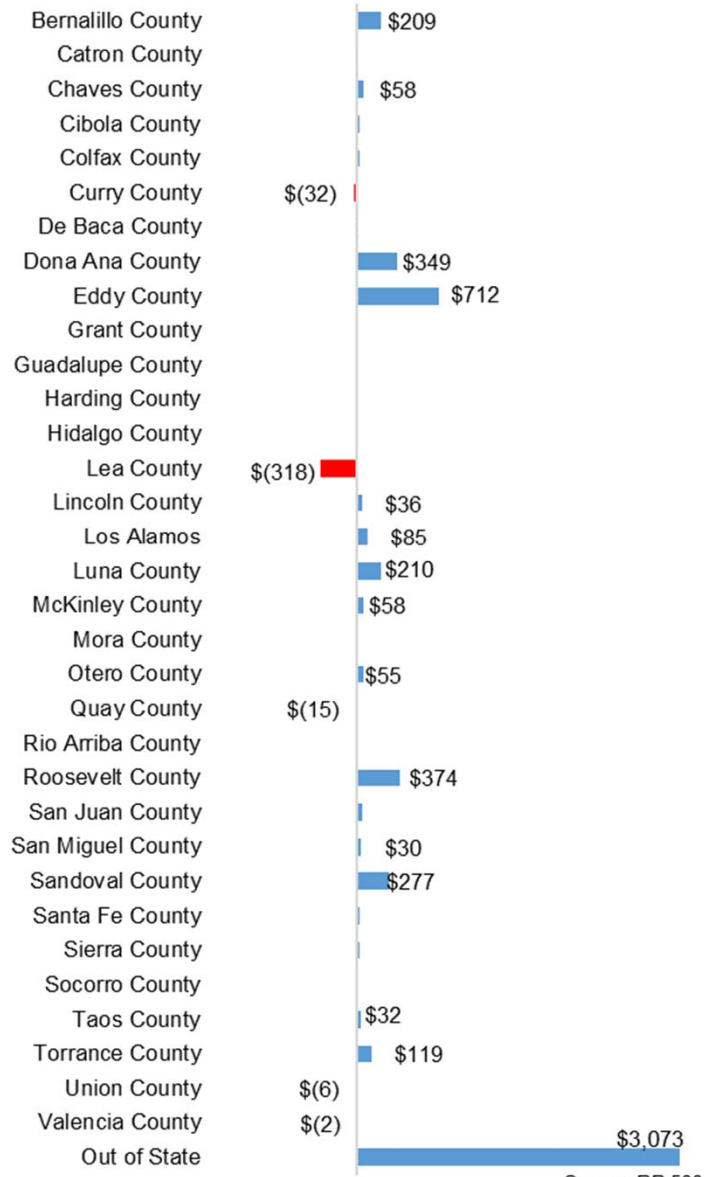
New Mexico Month-to-Month Employment Level Change (from 2019 base year, thousands of jobs, seasonally adjusted)



Source: BLS Current Employment Statistics (CES)

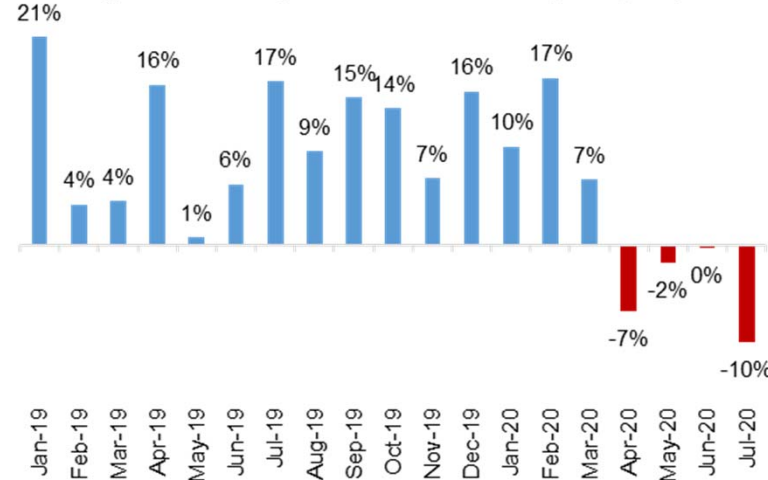


Matched Taxable Gross Receipts by County, FY20 vs. FY19, Year-over-Year Amount (in millions)

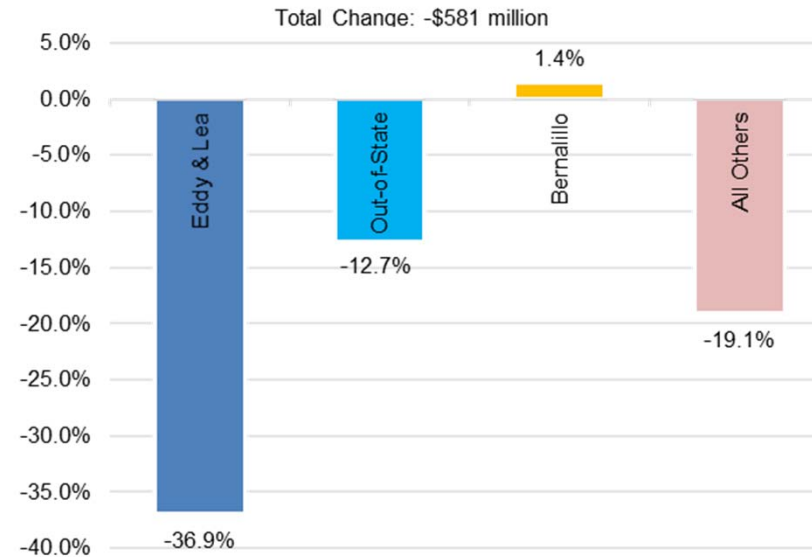


Source: RP 500

Matched Taxable Gross Receipts (percent change from same month prior year)

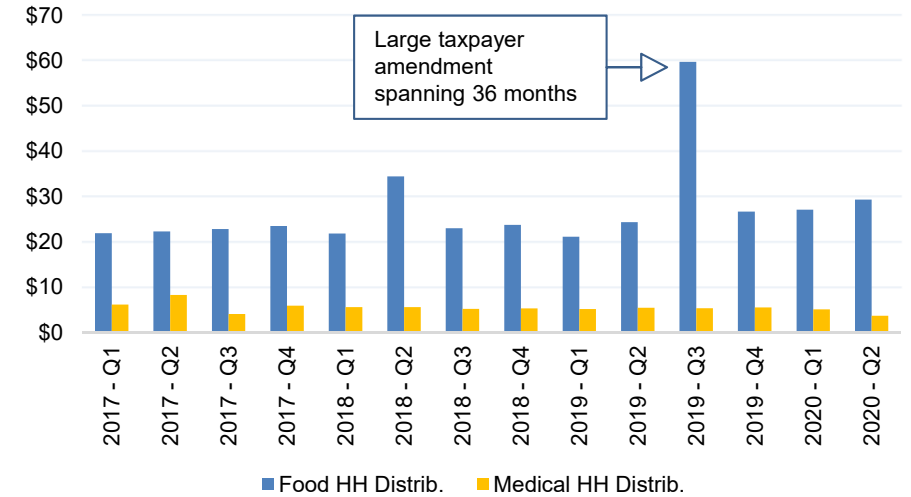


MTGR Growth July 2020 vs. July 2019

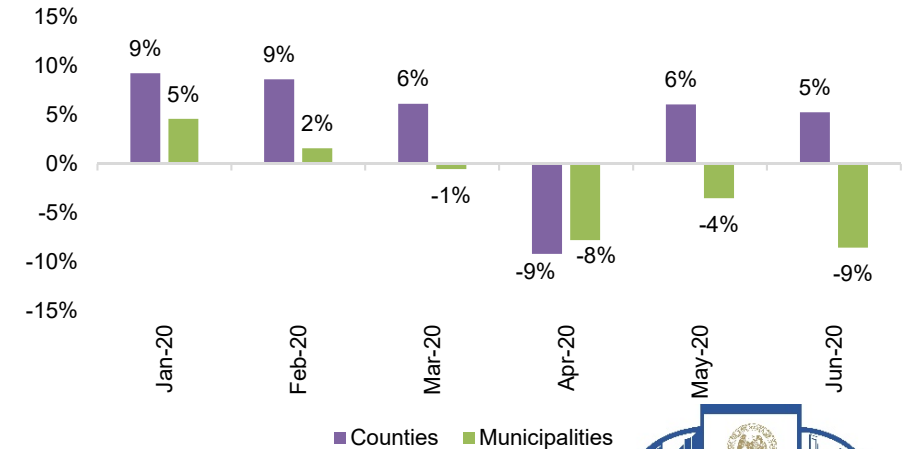


Source: RP-500, author's calculations

Food and Medical Hold Harmless Distributions to Local Governments (in millions)



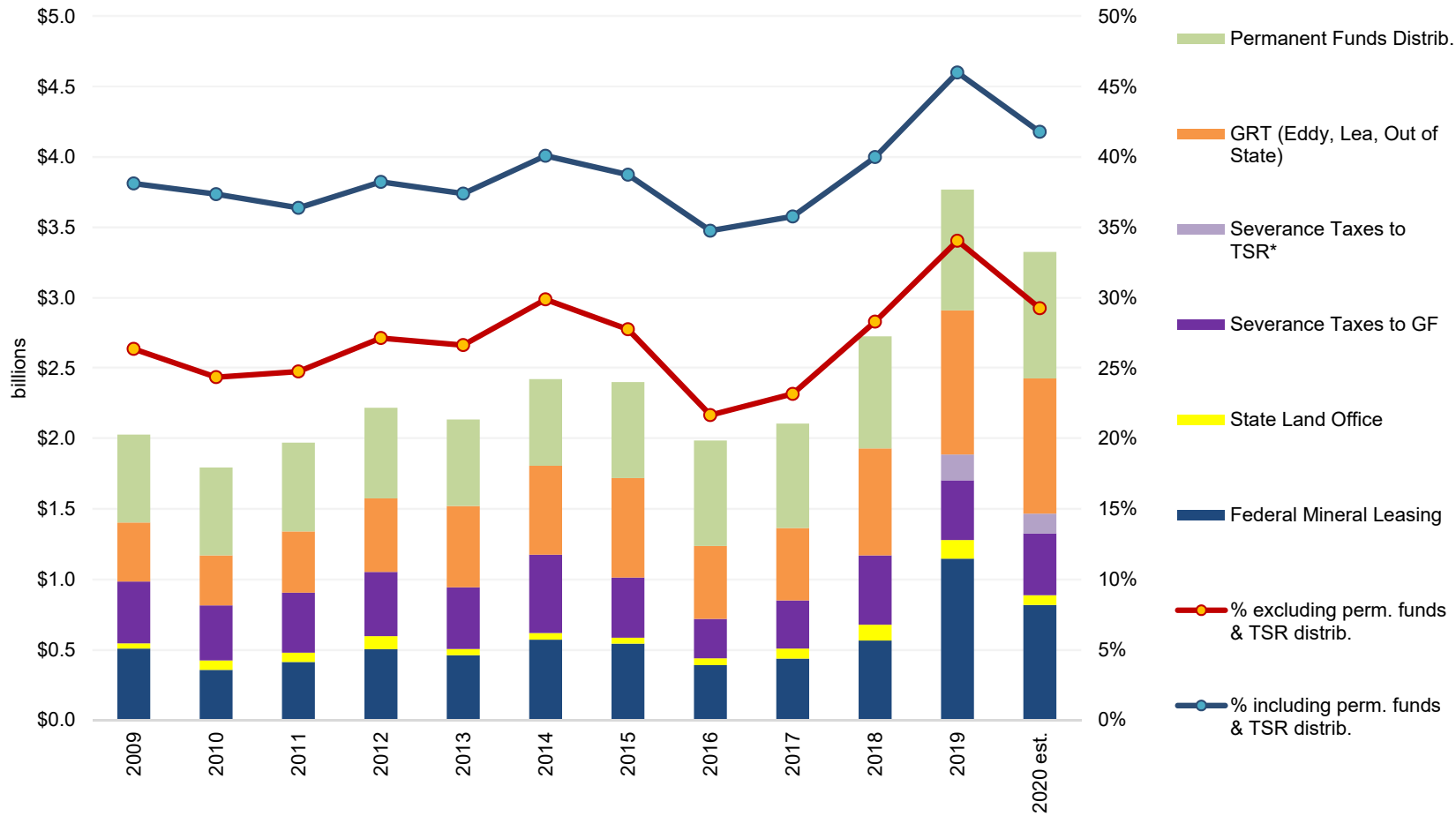
Change in Total GRT-Related Distributions to Local Governments (year-over-year)



Source: RP-500, author's calculations



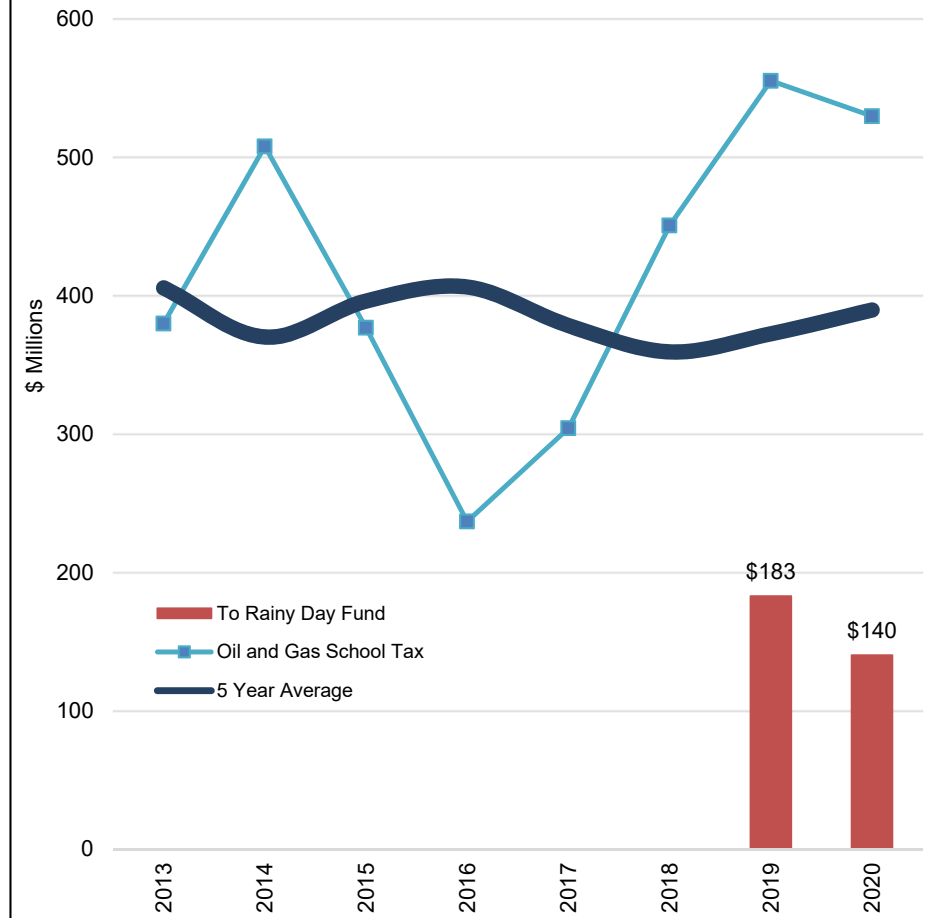
General Fund Revenues Dependent on Oil & Gas Industry



*Oil and gas school tax revenue in excess of the five-year average is distributed to the tax stabilization reserve (TSR), softening the general fund's reliance on oil and gas revenues.

Source: LFC Analysis based on September 2020 Consensus Revenue Estimate

Oil and Gas School Tax



Source: September 2020 Consensus Revenue Estimate

