

July 15, 2020

## **ISSUES FOR HEARING**

### **Reopening the New Mexico Economy and Pace of Recovery**

**Prepared by the Legislative Finance Committee**

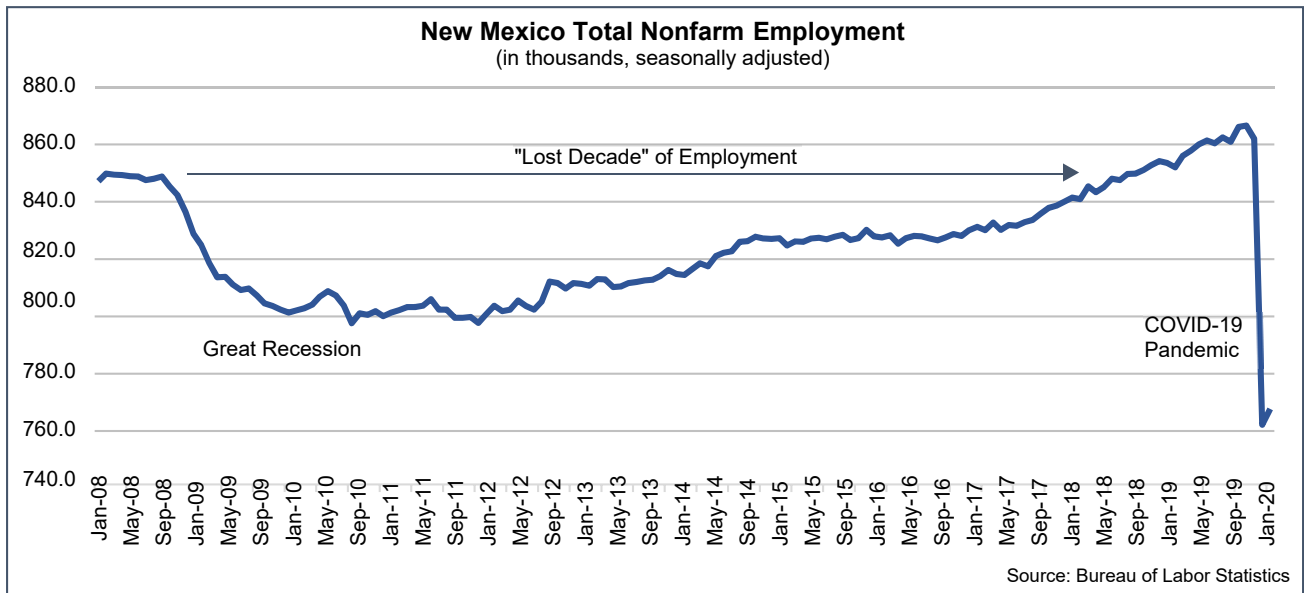
**Dawn Iglesias and Ismael Torres, Economists**

#### **Recession**

- COVID-19 has thrown the global economy into crisis. The US and all other countries in the world will enter what will likely have been the deepest recession since 1929. The question that no one can answer with any certainty is whether the COVID-19 pandemic will result in only a temporary halt or whether it will be a prolonged event causing irreparable harm to the economy that takes years to recover.
- U.S. real gross domestic product (GDP) declined 5 percent in the first quarter of 2020. Macroeconomic forecasts from IHS Markit and Moody's Analytics, which were incorporated in the recent state revenue estimates, projected a further GDP decline of 25 to 30 percent in second quarter of 2020. Actual data for the quarter will be released preliminarily on July 30.

#### **Employment**

- Nearly 155 thousand New Mexicans, 18.5 percent of the state's workforce, were receiving traditional unemployment insurance or pandemic unemployment assistance at the peak of unemployment claims in mid-May. The UNM Bureau of Business and Economic Research (BBER) projected that job losses would reach 165 thousand by the third quarter of 2020.
  - Survey data from Bureau of Labor Statistics (BLS) shows New Mexico lost 99 thousand jobs from February to May (seasonally adjusted). BLS also estimated the New Mexico seasonally adjusted labor force contracted by nearly 57 thousand from February to May, or 6 percent.
  - The unemployment rate in the state was estimated at 11.9 percent in April and 9.2 percent in May. BLS noted that issues of misclassification within the survey data affected all states to at least some degree, which may result in underreporting of unemployment levels.
  - Despite the recent recovery, employment remains well below pre-pandemic levels.



- Nationwide, about 40 percent of all job gains in June were in leisure and hospitality. Gains in this industry, including those in New Mexico, are recognized as being the most insecure should an outbreak require the reemployment of restrictive containment orders, leaving the current recovery on tenuous footing.
- In its baseline scenario published in May, BBER expected to end the year 2025 with 14 thousand fewer jobs, or 1.7 percent lower, than in 2019. The pessimistic scenario expected that gap to be even larger at 84 thousand fewer jobs, or down 10 percent, in 2025.

### Gross Receipts

- Matched taxable gross receipts (MTGR) across New Mexico’s counties (excluding out-of-state receipts) declined 10.6 percent in April compared to the same month last year.
  - Some sectors saw larger declines. Arts and recreation MTGR dropped 76 percent in April, accommodations and food services declined 38 percent, other services (such as hair salons and automotive repair) fell 21 percent, and retail trade was down 9 percent.
  - Seventeen counties experienced year-over-year MTGR declines in April.
  - Counties reliant on tourism and retail were some of the hardest hit. MTGR in Bernalillo and Taos both declined 14 percent in April, Santa Fe was down 22 percent, and Otero and Lincoln counties were each down 6 percent.

- The June 2020 consensus revenue estimate projected a 21 percent decline in GRT collections in FY21. Collections from Eddy and Lea counties were estimated to fall about 35 percent due to reduced drilling activity, while receipts from the rest of New Mexico were estimated to drop by 7 percent.

### **Reopening the Economy**

- The New Mexico reopening plan published in late April envisioned the state entering Phase Two by early June. However, progress through the phases is subject to gating criteria, such as the transmission rate of the virus, testing capacity, and contact tracing. As of early July, the state is still in Phase One of the plan.
  - The Economic Recovery Council, Mayors' Council, the Department of Health, and other state and local leaders provide input on the phases and the movement between them, with the final decision up to the Governor.
  - A rise in the transmission rate has prevented the state from moving on to Phase Two. Early plans for this phase included expanding capacity restrictions for restaurants and businesses, reopening theaters and casinos at limited capacity, and increasing the number of persons in a gathering.
  - Due to changing conditions, the parameters of Phase Two are still being determined.
- Tourism in New Mexico drives a high amount of traffic to our state museums. However, New Mexico state museums remain closed. Surrounding states that have opened museums include, Texas with 25 percent occupancy and closed interactive exhibits, Colorado with CDC recommended guidelines in place and the research institution open by appointment and large gatherings online only, California museums have opened with phased reopening for members first and few museums with scheduled appointment visits, while Arizona state museums remain closed.
- Recent studies from the Federal Reserve indicate a rise in COVID-19 cases due to reopening the economy too quickly could result in a loss of consumer confidence and delay economic recovery.

Alicia Keyes, Secretary, Economic Development Department

## **Issues for the Hearing Local Economic Development Act**

### **Local Economic Development Act**

- \$32 million in remaining LEDA funding available as of July 8<sup>th</sup>.
  
- \$28.5 million of LEDA projects currently in EDD’s two-month project pipeline

### **Job Training Incentive Program**

- Since January 1, 2019 EDD has awarded funds to 117 businesses to train 3,185 workers and create 2,760 new jobs: 1,195 rural jobs (43 percent) and 1,565 urban jobs.

### **Economic Development Department Programs during Covid-19**

The Economic Development Department (EDD) is administering two programs for local businesses.

1. **COVID-19 Business Loan Guarantee Program.** EDD can guarantee a portion of a loan or line of credit of up to 80 percent of principal or \$50 thousand. The loan proceeds are flexible and can be used for (and not limited to) the following: working capital, inventory, and payroll. To receive a loan a business must approach one of the following lenders: Western Commerce Bank, FNB New Mexico, First New Mexico Bank, Sandia Area Federal Credit Union, Lift Fund, Century Bank, Rio Grande Credit Union, Dream Spring, or Lea County State Bank. Once the lender has applied, EDD and the lender will sign a guaranty agreement. The lender then makes the loan, and lastly EDD guarantees the loan in case of default.

EDD has guaranteed \$2.1 million through the loan guarantee program for 46 businesses as of July 8<sup>th</sup>. The process time to receive funds is approximately one week, depending on how quickly the lender processes the application.

2. **LEDA Zero-Percent Interest Loan.** The loans are limited to expenditures for land, building and infrastructure, and can be used for lease abatement or mortgage assistance. The company must be a qualified entity including a

manufacturer, or a non-retail service business with more than 50 percent of revenue generated out of state. All of the LEDA loans will be required to provide security equal to the amount of the loan. As through regular LEDA awards, the fiscal agent for a LEDA Zero-Percent interest loan is the local government where the business is located.

There is currently \$1.7 million in LEDA loans being processed, which can take approximately two months before businesses receive funding.

### **Federal Funding**

- 9,650 Economic Injury Disaster Loans have been distributed to New Mexico businesses for a total of \$566 million.
- There has been 21,924 Paycheck Protection Program (PPP) loans distributed to New Mexico businesses for a total of \$2.2 billion processed as of July 8th.
- There is still \$132 billion remaining in PPP funding and the program was extended to August 8th.