

NEW MEXICO ECONOMIC SUMMARY

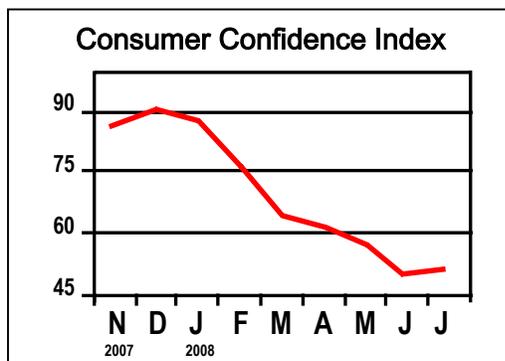


AUGUST 2008

ECONOMY GROWS IN SECOND QUARTER

Real gross domestic product (GDP) – the output of goods and services produced by labor and property located in the United States – increased at an annual rate of 1.9% in the second quarter of 2008, according to advance estimates released by the U.S. Bureau of Economic Analysis. This is after 0.9% growth in the first quarter of 2008.

The increase in real GDP in the second quarter was fueled by positive contributions from personal consumption assisted by the federal rebate checks, spending on nonresidential structures, government spending and exports of goods and services. These increases were partly offset by negative contributions from housing construction and reduced demand for equipment and software.



The Conference Board consumer confidence index improved slightly in July, gaining 1.8% to stand at 51.9 (1985=100). This was the first improvement since a downhill slide began in December 2007. While the economy remains fragile, declining crude oil prices and continued GDP growth are cause for cautious optimism.

CONSENSUS REVENUE FORECASTS

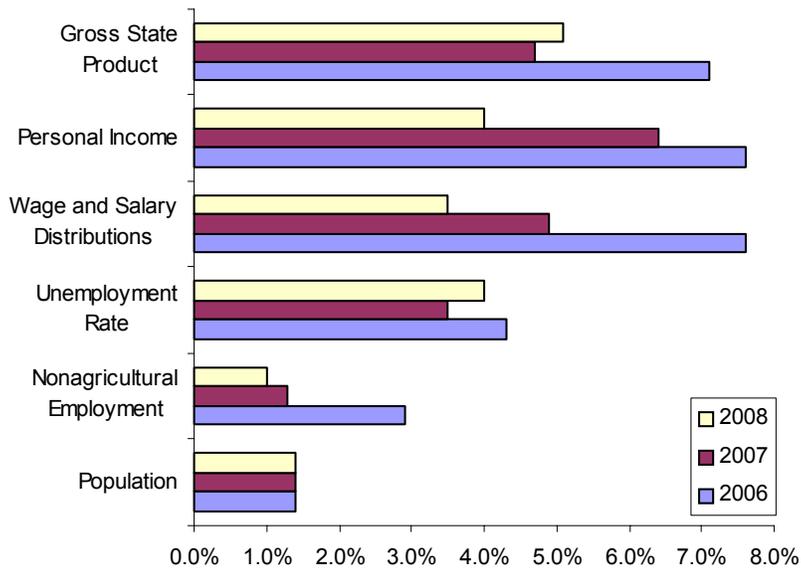
In December 2007, the official general fund revenue forecast for fiscal year 2009 was \$6.0455 billion. It was this forecast that the legislature used to fashion a budget for the current fiscal year. In early July 2008, the forecast was revised upward significantly because of the high price of oil and gas. While gross receipts and income tax revenue forecasts softened compared to last December, forecasts related to oil and gas were sharply up. The revenue sources showing the most dramatic improvement included the oil and gas school tax and federal mineral leases. The new forecast for fiscal year 2009 was placed at \$6.4444 billion, a \$398 million increase compared to the previous forecast.

The July forecast was based on oil selling for \$134 per barrel and gas selling for \$11.50 per million cubic feet. At the time, this forecast appeared conservative because oil was trading at \$145 per barrel and gas was trading at \$13.50 per million cubic feet. However, by the first week of August, the price of oil had fallen to \$114.45 per barrel and natural gas was trading at \$8.35 per million cubic feet. Clearly, these price levels do not support the \$398 million surplus forecast from just a month earlier. It should be noted that 70% of New Mexico's severance tax revenue derives from natural gas and that each \$.10 change in price results in \$11.5 million change in revenue.

Immediately prior to the start of the August special session, the revenue forecast was in the process of being significantly downgraded from the July forecast.

ECONOMIC OUTLOOK

New Mexico Economic Indicators: 2006-2008



► **Overview of the Economy** – The pace of New Mexico's economic growth continued to slow in the first quarter of 2008 from its peak in the second quarter of 2006. The state experienced year-over-year job growth at 0.6%, slightly above the national rate at 0.5%. The unemployment rate for fiscal year 2008 was low at 3.4%. New Mexico's economy has fared well relative to the nation's economy.

► **Outlook 2008** – Growth is expected to be slow in 2008, picking up in early 2009 and then continuing at that level. Employment growth is expected to be 0.7% in 2008 and near 1.5% annually thereafter, with the unemployment rate expected to remain below 4.0% through the next five years. Personal income growth is expected only to reach 4.5% in 2008, with slowly increasing growth expected through 2011 to a range of between 5.0% to 5.5%. Sectors expected to grow

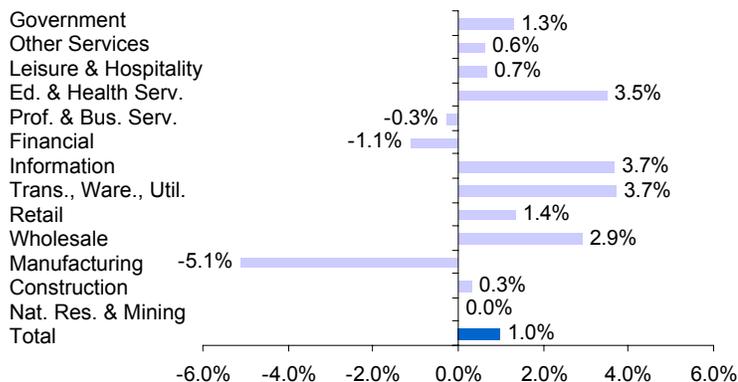
are health care, government, professional services, finance, transportation, warehousing and utilities, information and educational services.

EMPLOYMENT

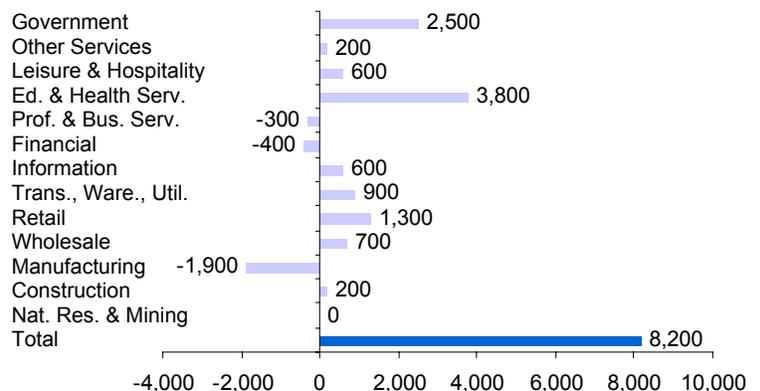
► **Employment Growth** – The New Mexico economy added 5,167 new nonagricultural jobs between the first quarter of 2007 and 2008. Year-over-year job growth in New Mexico was 1.0% in June 2008, well above the national rate of -0.1%. In the past 12 months, approximately 8,200 jobs were created in New Mexico's job market. The U.S. job market experienced a month-over loss of 62,000 jobs in June 2008 compared to a loss of 49,000 jobs in May 2008 and a loss of 20,000 jobs in April 2008.

► **Unemployment** – New Mexico's June 2008 unemployment rate was 3.9%, higher than the June 2007 rate of 3.5%. The national June 2008 unemployment rate was 5.5%.

Percent Change in New Mexico Employment by Industry June 2007-2008



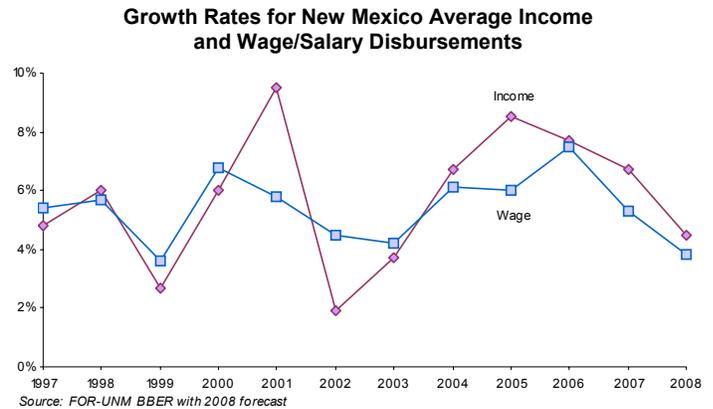
Numerical Change in New Mexico Employment by Industry June 2007-2008



WAGES AND INCOME

► **Total Personal Income** – New Mexico's total personal income reached \$65.2 billion in first quarter 2008. Using this measure, economic activity expanded at an annual rate of 5.5% from Q1 2007 to Q1 2008. National growth in personal income over the same period was 4.8%. New Mexico ranked forty-third nationally in income in 2007.

► **Wage** – Year over year, New Mexico had 3.2% growth in average hourly earnings in construction, 2.6% growth in manufacturing, 1.1% in retail and 0.7% in wholesale. New Mexico's total wage and salary disbursements reached \$32.6 billion in the first quarter of 2008, a 3.7% growth from 2007 to 2008. U.S. median weekly earnings increased 4.2% year over year in the second quarter of 2008. New Mexico's average wage reached \$35,790 per job in 2007. New Mexico's wage averages 88% of the nation's.



GDP, CPI, INTEREST RATES AND HOME PRICES

Indicator	Period	Value	Period	Value	Period	Value
GDP	Q2-08	1.9%	Q1-08	1.0%	Q4-07	-0.2%
CPI	Jun-08	4.8%	May-08	4.0%	Apr-08	3.9%
CPI-core	Jun-08	2.3%	Jan-08	2.2%	Jan-08	2.2%

Note: CPI-core excludes food and energy

► **Interest Rates** – The 30-year fixed-rate mortgage averaged 6.52% for the week ending August 7, 2008, according to Freddie Mac. On August 5, 2008, the Federal Reserve maintained the target for the federal funds rate at 2.00%.

► **Home Prices** – According to the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Appreciation Ranking, New Mexico's house prices were up 3.4% in the first quarter of 2007 from the fourth quarter of 2006. This ranks New Mexico twelfth in the nation for annual housing appreciation.

Existing Home Prices Q1 2008 Year over Year

	Home Price	Percent Change
Albuquerque	\$196,000	3.2%
Las Cruces	\$125,800	2.3%
Santa Fe	\$302,000	3.4%
Farmington	\$137,100	5.7%
State of New Mexico	\$201,991	3.4%
United States	\$210,345	0.0%

Sources: OFHEO, National City

SIGNIFICANT NEW MEXICO RANKINGS

Demographic	State Rank ¹	Value	Period	Economic	State Rank ¹	Value	Period
Population Growth Rate ²	13th	1.4%	2006-07	Rate of Job Growth ³	15th	0.8%	June 2008
Fertility Rate	9th	72.8	2005	Unemployment Rate ³	9th (tie)	3.9%	June 2008
Life Expectancy	27th	77.0 years	2006	Median Household Income	43rd	\$40,126	2004-06
Median Age	34th	35.2 years	2006	Average Wage	46th	\$33,397	2006
Household Size	11th	2.64 persons	2006	Per Capita Personal Income	43rd	\$31,474	2007
Social Indicators				Total Personal Income (% Change)	40th	6.4%	2006-07
Poverty Rate	46th	18.5%	2005-06	<i>Notes:</i>			
Educational Attainment	41st	81.5%	2006	1) Rank is most favorable to least favorable.			
of persons 25+	29th	25.3%	2006	2) Rankings are based on the most current data available for all states and may differ from other data.			
				3) Job growth and unemployment rates are seasonally adjusted and are based on BLS data.			

INDUSTRY FOCUS

- ▶ **Construction** – Housing contributed to a quarter-on-quarter decline in construction employment for the first quarter of 2008. Total housing unit authorizations in New Mexico are down 36% and construction contract award values are off 40% in the first quarter of 2008, with a 47% drop in residential contracts and a 40% drop in nonresidential contracts. Housing valuation, although dipping slightly in the most recent data, remains strong for the first quarter of 2008 year on year, despite some increase in foreclosures.
- ▶ **Defense** – Defense-related spending in New Mexico in FY 2005, the most recent year for which data are available, was estimated at \$2.5 billion from the Department of Defense and \$6.3 billion total. The current level of defense activity is expected to continue in 2008, a result of military involvement overseas.
- ▶ **Energy and Minerals** – Mining sector jobs, a major source of strength in the last five years, have faded in recent months, with growth of only 1.4% in the first quarter of 2008 due to flattening activity or labor shortages, despite record oil prices.
- ▶ **Government** – New Mexico's large government sector is expected to maintain moderate steady employment growth in 2008, while federal employment dropped 0.6% in the first quarter of 2008.
- ▶ **Health Care** – New Mexico's large health care and social assistance sector showed above-national-average employment growth (3.5%, or 1,333 jobs) in the first quarter of 2008, largely due to hospital expansions.
- ▶ **High Technology** – The information sector, which includes the film industry, posted a 3.1% job gain (467 jobs) in the first quarter of 2008.
- ▶ **Manufacturing** – The manufacturing sector is continuing to contract in New Mexico, with job reductions around the state.
- ▶ **Professional** – Professional sector employment declined in the first quarter of 2008, with layoffs, attrition and retirements at national laboratories significant.
- ▶ **Tourism** – New Mexico's travel and tourism sector was flat in the first quarter of 2008 on increased travel and production costs.

DEMOGRAPHICS

- ▶ **Population** – The state's official July 1, 2007 population was estimated to be 2.0 million, an increase of 1.4% from 2006. Net migration made up 46.8% of this increase.
- ▶ **Rate of Growth** – The U.S. Census Bureau ranked New Mexico thirteenth among states with a population growth rate of 1.4% from 2006 to 2007. The U.S. rate of growth was 1.0%.
- ▶ **Long-Term Projections** – The state's population is projected to reach 2.1 million in 2010, 2.4 million in 2020 and 2.6 million in 2030.
- ▶ **School Enrollment** – In 2007, an estimated 329,935 students were in New Mexico's public education system, with a decrease of 2,380 students, or 0.7%, from 2005-06 to 2006-07 enrollment.

2007 New Mexico Population Estimate 1,969,915

2006-2007 Percent Change	1.4%
2006-2007 Absolute Change	27,613
2007 Domestic Migration	8,530
2007 International Migration	4,386
2007 Net Migration	12,916
2007 Fiscal Year Births	30,032
2007 Fiscal Year Deaths	15,309
2007 Natural Increase	14,723