



"STATISTICAL RECOVERY, HUMAN RECESSION"

These words, used earlier this year by Lawrence Summers, President Obama's top economic advisor, describe in a nutshell what may be a new, more permanent disconnection between previously linked leading economic indicators and reality. This is especially true in New Mexico, where declines in jobs and retail sales continue and potentially presage a markedly slower recovery than that of the nation as a whole.

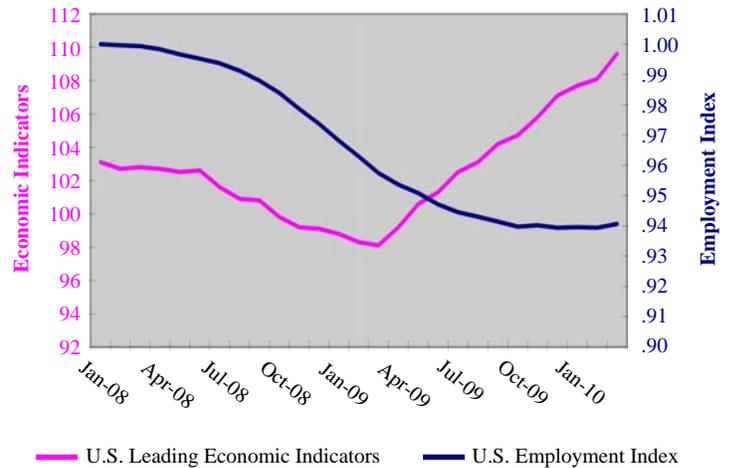
The trend has implications for policymakers working to balance budgets as the public's trust in and satisfaction with government hits its lowest levels in years.

The yearlong increase in leading economic indicators has, so far, failed to herald a more tangible recovery in jobs and personal income that would bring relief to strapped families and governments trying to make ends meet. The Conference Board's trusted composite index of 10 leading indicators — indicators that are primarily financial and psychological, but have historically pointed to a near-term recovery in the U.S. economy — is up 11.7% from its level in March 2009, the largest annual increase in the index since 1984.

U.S. CONSUMER SENTIMENT AND
U.S. AND NEW MEXICO SALES GROWTH



U.S. INDEX OF LEADING ECONOMIC INDICATORS
AND U.S. EMPLOYMENT INDEX



sources: Conference Board and U.S. Bureau of Labor Statistics

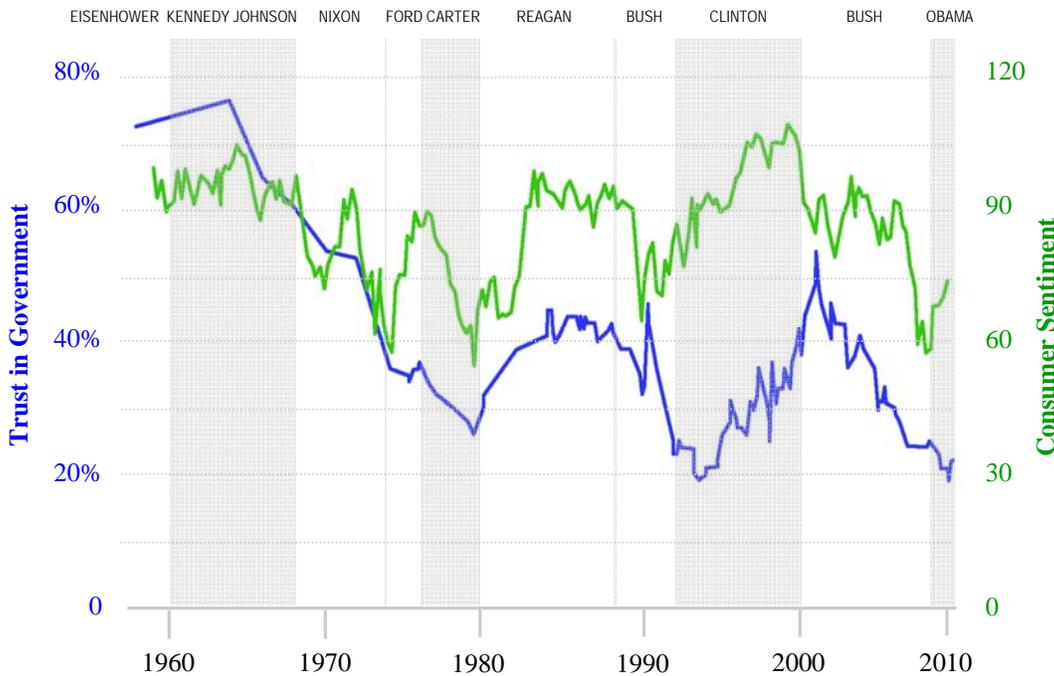
But employers are reluctant to hire, even though their company stock prices may be rising, their inventories falling and their orders increasing. The U.S. lost another 2.1 million jobs, and New Mexico lost 16,900 since the Conference Board's index turned positive in March 2009.

A "jobless recovery" is a recent phenomenon. Only in the last three recessions — 1990, 2001 and the current recession — has employment fallen for eight months or longer after the "statistical" bottom of the recession. In 1990, employment fell for 11 months after the recession hit bottom, and it was 30 months before employment reached its pre-recession level. In 2001, the economy lost jobs for 19 months after the recession bottomed out, and it took 46 months to regain the lost jobs. Total jobs lost in each recession was a relatively mild 2% or less.

The economy is on a similar jobless recovery trajectory during this recession, but the decline in jobs has been far greater. Non-farm employment figures for the U.S. and New Mexico are both down 6% from their peaks, as the country shed eight million jobs since December 2007 and New Mexico lost 48,000 jobs since May 2008.

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source: The Pew Research Center for the People & the Press, <http://people-press.org/trust/>.

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The bottom line: If U.S. employment grows at the pace of the two previous jobless recoveries, it could take up to a decade to regain all the jobs lost during this recession. While there are signs the recession may have technically ended, the challenges facing families and state and local governments remain difficult and enduring.

NEW MEXICO RECOVERY TRAILING THE OVERALL U.S. RECOVERY

Conditions are not even that good in New Mexico, where the most recent data indicate the state economy is lagging behind even a slow U.S. recovery.

Nationally, employment appears to have bottomed out at 129.6 million jobs in December 2009. But New Mexico lost another 3,600 jobs since December, dropping to 801,700. Another indicator of New Mexico's relative economic weakness is a comparison between the state's and the nation's retail sales figures.

Retail sales are one of the first links between the financial and psychological indicators reflected in the Conference Board's index of leading economic indicators and the real economy — the one driven by working people who purchase goods and services daily. As confidence increases, consumers begin to save less and spend more, which draws down inventories and eventually leads to increased production, employment and investment.

The mood of the consumer began to improve in April 2009 and has steadily improved since. The University of Michigan Index of Consumer

Sentiment bottomed out at 55.3 in November 2008 and has risen steadily to 73.6 in March 2010, still well below its most recent peak of 96.9 in January 2007.

In a typical reaction, U.S. retail sales turned positive in December 2009, nine months after the turnaround in consumer sentiment, and have grown steadily since then. And while total retail sales are still 6% below their November 2007 peak, the turnaround appears sustainable. But New Mexico taxable retail sales continue to decline, posting year-over-year declines of 5% each month from December through February while U.S. retail sales showed gains of 5% — more evidence that New Mexico will trail the rest of the nation out of the recession.

Although the evidence is mounting that the worst is over, competing trends should give pause to those who would look at the turnarounds touted daily in consumer confidence, the stock market, retail sales and other leading indicators as conclusive evidence that recovery for main street New Mexico is just around the corner.