

# NEW MEXICO ECONOMIC SUMMARY



AUGUST 2010

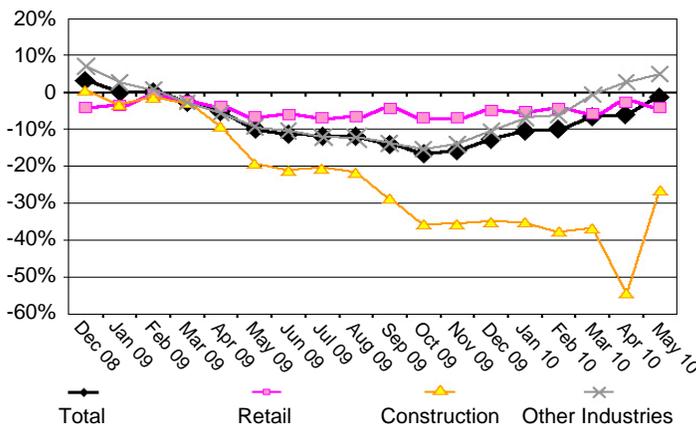
## REGIONAL DIFFERENCES EVIDENT AS NEW MEXICO ECONOMY STRUGGLES TO RECOVER

The United States economy is recovering slowly and unsteadily, but New Mexico's economy has yet to hit bottom. The effects of the recession have not been uniform across the state, however.

The state continues to lose jobs, prolonging the deepest and longest period of job loss since the Great Depression. Non-farm employment in June was down 17,800 jobs from a year ago, dropping the number of jobs to levels not seen since late 2004. The only good news is that the rate of New Mexico's job loss has slowed. On the other hand, U.S. non-farm employment hit bottom in December 2009 and has gained about a million jobs since then to draw about even with June 2009 employment levels.

Similarly, while there is some evidence that business investment, real estate markets and consumer confidence may all be strengthening nationwide, taxable gross receipts in New Mexico still show substantial declines overall, most markedly in the retail and construction industries. Retail taxable gross receipts were down 4% in May compared to the same period last year, and construction taxable receipts

Percent Change in Year over Year  
Monthly Average Taxable Gross Receipts



Note: Months shown are ending accrual months of three-month moving average periods.

were down 26% over the same period. Total taxable receipts across all industries were down 1.2% from a year ago.

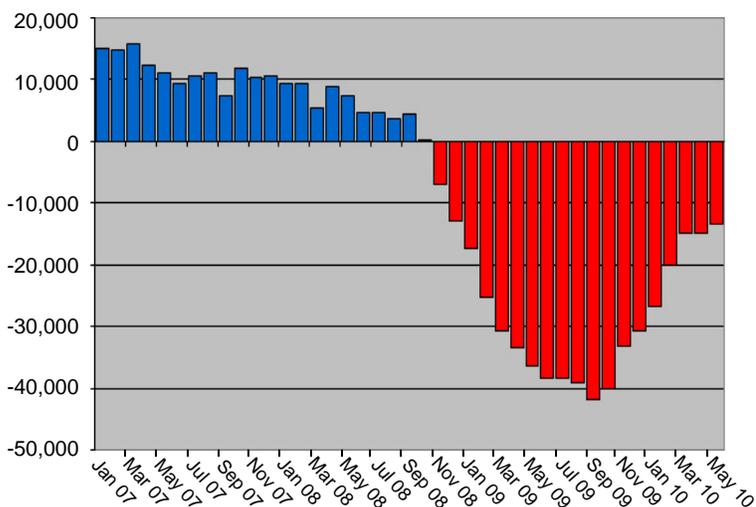
A 5% growth in other industries was due primarily to growth in the taxable receipts from oil and gas extraction, information services and health care.

## New Mexico Metro Areas Follow Different Growth Paths

The economies of the state's largest metro areas have behaved very differently during the recent boom-bust cycle of the national and state economies. This variation among the metro areas is due primarily to differences in the industries most important to their economies and their reactions to the rising and falling petroleum and real estate prices that New Mexico and the nation have endured.

The graph on the back page shows the path over the last three years of a monthly non-farm employment index for the state and its major metro areas. This monthly index, which is calculated as the ratio of non-farm employment in a given month to non-farm employment in January 2007, allows a comparison among growth rates in employment in the state's largest metro areas over the last three and a half years, a period that covers the latter stages of the boom through the period of most rapid decline in employment to the most current figures available. (Monthly employment data by

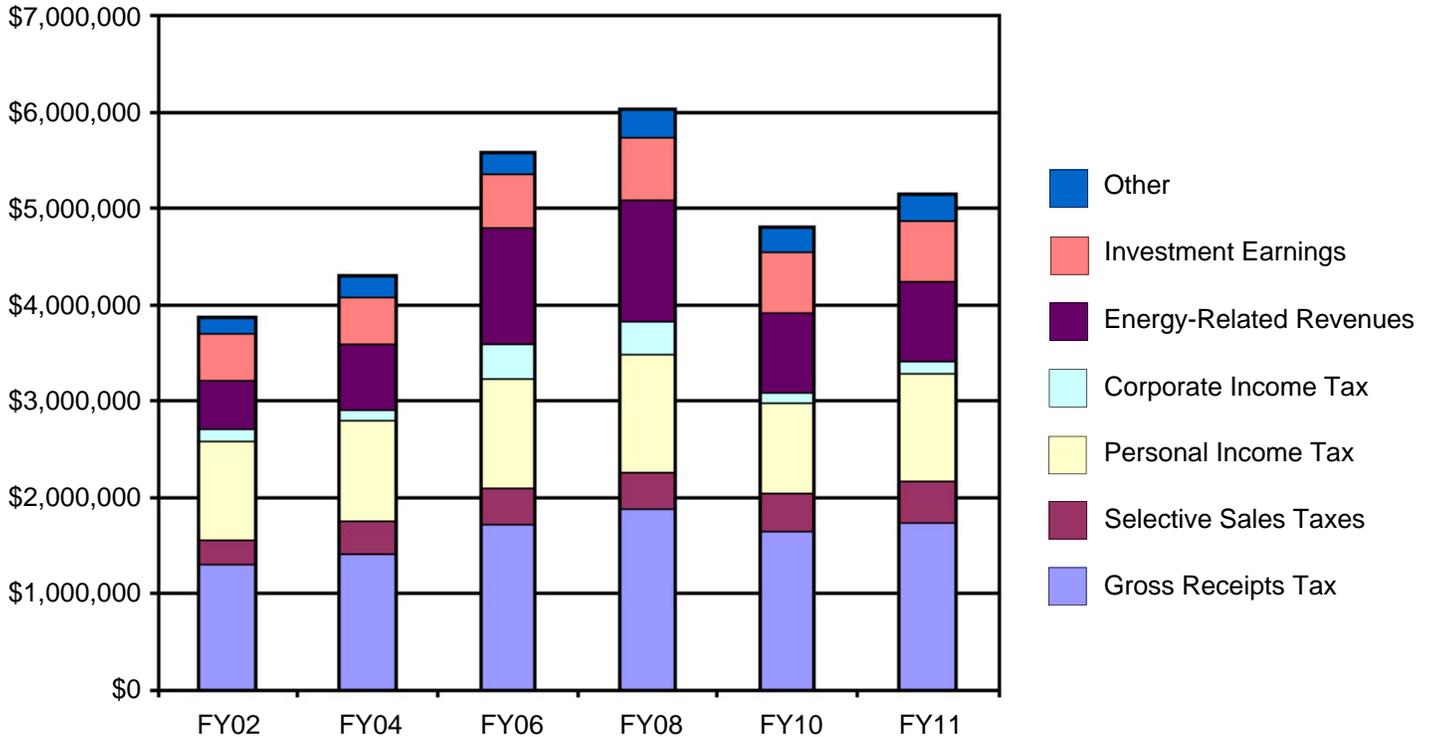
Gain/Loss in New Mexico Non-Farm Jobs  
From Same Month in Prior Year



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## LONG-TERM REVENUE TRENDS

**Recurring General Fund Revenue by Source**



- ▶ Total recurring revenue in FY10 is down by \$1.2 billion (20%) from a peak of \$6 billion in FY08, but still above the "pre-bubble" FY04 revenue. Recurring revenue is expected to grow to \$5.1 billion in FY11.
- ▶ Energy-related taxes were the largest single contributor to the rise and fall in revenues; in past recessions, these taxes have acted as a buffer against U.S. economic fluctuations.
- ▶ Corporate income tax was the most volatile revenue during the economic bubble, due in large part to the oil and gas industry. Film credits increased from \$3.4 million in FY04 to an estimated \$70 million in FY11.

## IMPACTS OF SIGNIFICANT GENERAL FUND TAX MEASURES: 2001 - 2010

Cumulative Annual Impacts of Significant General Fund Tax Measures: 2001 to 2010 Legislative Sessions

|                               | Number of Provisions | FY11 (\$ millions) |
|-------------------------------|----------------------|--------------------|
| Revenue-decreasing provisions | 73                   | -\$975             |
| Revenue-increasing provisions | 13                   | \$530              |
| <b>Net Impacts</b>            | <b>86</b>            | <b>-\$445</b>      |

### MAJOR REVENUE-DECREASING PROVISIONS

- ▶ 2003 PIT cuts: -\$400 million per year
- ▶ Food GRT deduction: -\$228 million
- ▶ Medical deductions/credits: -\$100 million+
- ▶ Film production credits: -\$70 million
- ▶ Low-income tax credits/exemptions: -\$70 million

### MAJOR REVENUE-INCREASING PROVISIONS

- ▶ Repeal 0.5% state gross receipts tax credit in municipal areas: \$170 million
- ▶ Increase state gross receipts tax rate by 1/8%: \$60 million
- ▶ Insurance premium tax increases: \$82 million
- ▶ Cigarette tax increases, by \$.71 per pack in 2003 and \$.75 per pack in 2010: \$76 million
- ▶ State income tax add-back of federal deductions for certain state taxes paid: \$66 million

## U.S. AND NEW MEXICO ECONOMIC OUTLOOK

|   | FY10            |               | FY11            |                 | FY12            |                 |
|---|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|
|   | Dec 09 Estimate | Jul 10 Prelim | Dec 09 Estimate | Jul 10 Estimate | Dec 09 Estimate | Jul 10 Estimate |
| <b>NATIONAL ECONOMIC INDICATORS</b>                         |                 |               |                 |                 |                 |                 |
| U.S. Real GDP Growth (level annual avg., % year over year)* | 0.4             | 0.8           | 2.4             | 3.0             | 3.5             | 2.9             |
| U.S. Inflation Rate (CPI, annual avg., % year over year)**  | 0.9             | 1.0           | 1.5             | 1.1             | 2.1             | 1.8             |
| Federal Funds Rate (%)                                      | 0.13            | 0.15          | 0.78            | 0.16            | 2.69            | 0.87            |
| <b>NEW MEXICO LABOR MARKET AND INCOME DATA</b>              |                 |               |                 |                 |                 |                 |
| NM Non-Agricultural Employment Growth (%)                   | (3.5)           | (3.2)         | 1.6             | 1.0             | 2.0             | 2.0             |
| NM Personal Income Growth (%)***                            | (0.5)           | (0.1)         | 3.2             | 3.3             | 4.5             | 4.3             |
| <b>CRUDE OIL AND NATURAL GAS OUTLOOK</b>                    |                 |               |                 |                 |                 |                 |
| NM Oil Price (\$ per barrel)                                | \$70.00         | \$71.35       | \$75.00         | \$74.25         | \$79.00         | \$80.00         |
| NM Taxable Oil Sales (million barrels)                      | 61.3            | 61.8          | 60.2            | 61.1            | 59.1            | 60.4            |
| NM Gas Price (\$ per thousand cubic feet)****               | \$4.30          | \$5.12        | \$5.40          | \$5.60          | \$5.65          | \$6.00          |
| NM Taxable Gas Sales (billion cubic feet)                   | 1,325           | 1,285         | 1,270           | 1,234           | 1,220           | 1,197           |

\*Real GDP is BEA chained 2005 dollars, billions, annual rate.

\*\*CPI is all urban, BLS 1982-84 = 1.00 base.

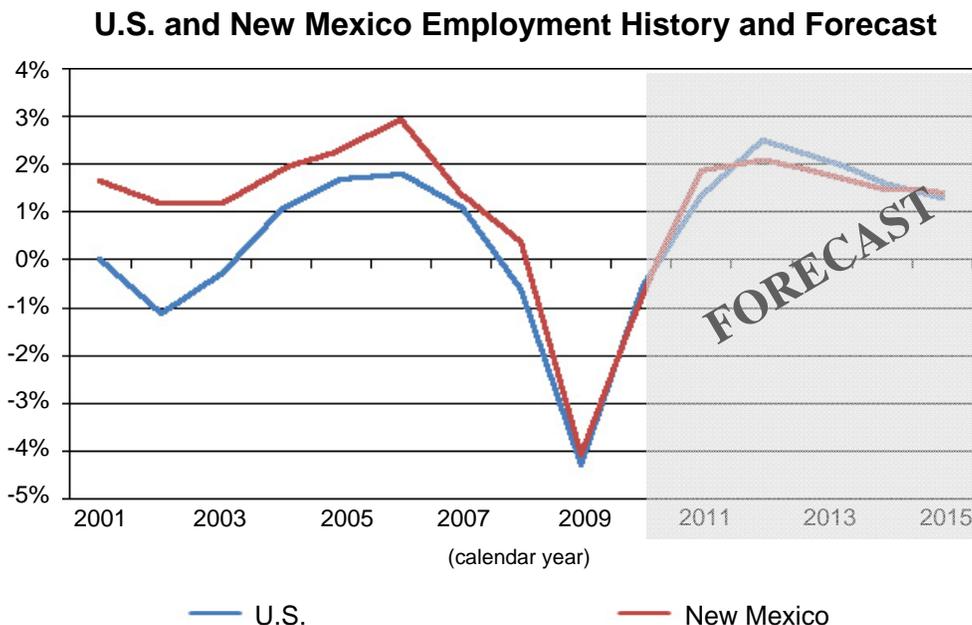
\*\*\*Personal income growth rates are for the calendar year in which each fiscal year begins.

\*\*\*\*Gas prices are estimated using a formula of NYMEX, PIRA and Global Insight future prices as well as liquid premium based on oil prices.

Sources: July Global Insight, June PIRA and May FOR-UNM BBER

- ▶ FY11 budget was based on December 2009 estimates.
- ▶ U.S. outlook improved slightly since December 2009.
- ▶ New Mexico recovery is slower than December 2009 forecast.

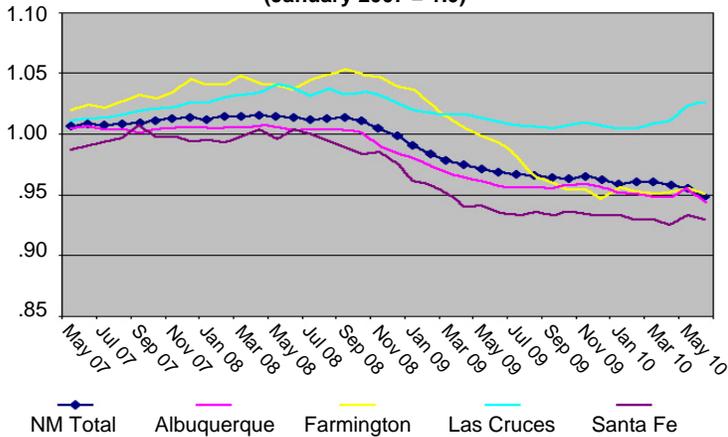
## U.S. AND NEW MEXICO EMPLOYMENT HISTORY AND FORECAST



- ▶ The outlook for FY10 and FY11 New Mexico employment growth has deteriorated since the December 2009 forecast.
- ▶ After falling sharply in FY10, New Mexico employment is expected to grow in FY11 at a rate slightly above its long-term average.
- ▶ New Mexico is not expected to regain its 2008 peak level of employment until 2013, one year later than estimated in December 2009.

## Non-Farm Job Indices for New Mexico and Major Metro Areas

(January 2007 = 1.0)



Note: All lines compare employment for the state or metro area in a given month to employment in that area in January 2007.

Source: U.S. Bureau of Labor Statistics

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industry from the U.S. Bureau of Labor Statistics are available only for Albuquerque, Farmington, Las Cruces and Santa Fe.)

The index for New Mexico as a whole grew slightly through April 2008, when it peaked at 1.015, meaning that non-farm employment in that month was 1.5% above its level in January 2007. The actual number of non-farm jobs peaked at 849,700. From its peak, non-farm employment has continued to fall, dropping to 793,200 in June 2010, 5.3% below the total in January 2007 and down 6.7% from the peak in September 2008.

### Albuquerque

The Albuquerque metro area had 371,700 non-farm jobs in June 2010, approximately 47% of the state total, and would be expected to parallel, if not drive, statewide trends. There are slight differences, however. Albuquerque grew more slowly and peaked earlier than the state as a whole at 396,800 jobs, barely 1% above its January 2007 level of 394,100. In October 2008, Albuquerque employment began its generally downward trend through June 2010 to about 95% of its January 2007 level. The slight underperformance of Albuquerque relative to the state as a whole can be attributed in general to the state economy outside of Albuquerque being more affected by the oil and gas bubble — particularly the Farmington area and the southeastern part of the state — and consistently strong growth in the Las Cruces area.

### Farmington

Farmington posted the greatest volatility in employment of the metro areas during the past three years. Farmington's non-farm employment rose by more than 5% between January 2007 and its peak of 53,300 jobs in September 2008, the largest percentage increase among the four metro areas. Between September 2008 and January 2010, Farmington lost 4,900 jobs — a decline in excess of 9%, the largest percentage decline among these metro areas. Employment then remained flat through June. About half of the jobs lost since the peak were in construction, with another third from mining, oil and gas extraction and related industries.

### Las Cruces

Las Cruces, New Mexico's second-largest metro area, has the distinction of being the state's only metro area with more non-farm jobs in June 2010 than it had in January 2007, and it showed the most job growth in the first six months of 2010. Las Cruces employment peaked at 70,100 jobs in May 2008, up 4% from its January 2007 base. Employment declined along with the other metro areas but has not fallen below the January 2007 index base level. The Las Cruces economy added 1,500 jobs from January through June 2010, an increase of 2.2%. Las Cruces non-farm employment stands at 69,100 compared to 67,300 in January 2007. Las Cruces recently saw job losses in construction, but not the boom-bust cycle experienced in the other metro areas. Construction job losses and smaller losses in retail trade and manufacturing have been tempered by gains in financial, professional, business and health care services.

### Santa Fe

Santa Fe experienced the steepest decline in employment relative to its January 2007 base, with non-farm employment declining in June to 60,700 jobs, or 93% of its level in January 2007. Non-farm employment in Santa Fe basically stayed even through July 2008, dropped steadily through April 2010 and, except for a small bounce in May, remained flat through June, according to preliminary figures. Almost half of the Santa Fe employment losses are due to cutbacks in construction. Wholesale and retail trade and professional services also saw employment declines. Employment in government and the hospitality industries was stable.