

NEW MEXICO ECONOMIC SUMMARY



MARCH 2013

STATE'S ECONOMY DECOUPLES FROM NATIONAL RECOVERY; NEW MEXICO JOB GROWTH LAGS

New Mexico's reliably large and stable government job market historically has spared the state from the volatility of the U.S. economy, but that benefit has a downside: cutbacks in government employment at all levels are holding New Mexico's economy back just as the U.S. economy shows signs of genuine recovery.

The importance of federal spending to the New Mexico economy means that additional challenges are ahead as the effects of federal budget sequestration and other federal spending cuts take hold.

New Mexico Lagging Behind U.S. in Job Growth

The nation as a whole began adding jobs in September 2010 and continued to add jobs at a moderate pace through February, but New Mexico did not begin adding jobs until mid-2011. Even then, the growth rate was less robust and soon waned, as seen in the graph below.

New Mexico shed more than 50,000 jobs in less than three years from its peak of about 850,000 in early 2008. Since mid-2012, the state has regained about 7,000 jobs, allowing the state to show modest job growth for the last several months.

New Mexico's job losses have been due in large part to substantial cutbacks by state and local governments. New Mexico recorded a 10.5% reduction in state and local government employment between 2007 and 2011, the greatest percentage decline of any state, according to a Rockefeller Institute analysis of census data.

The latest figures by industry show that although New Mexico added about 6,000 jobs in mining, manufacturing, transportation, warehousing,

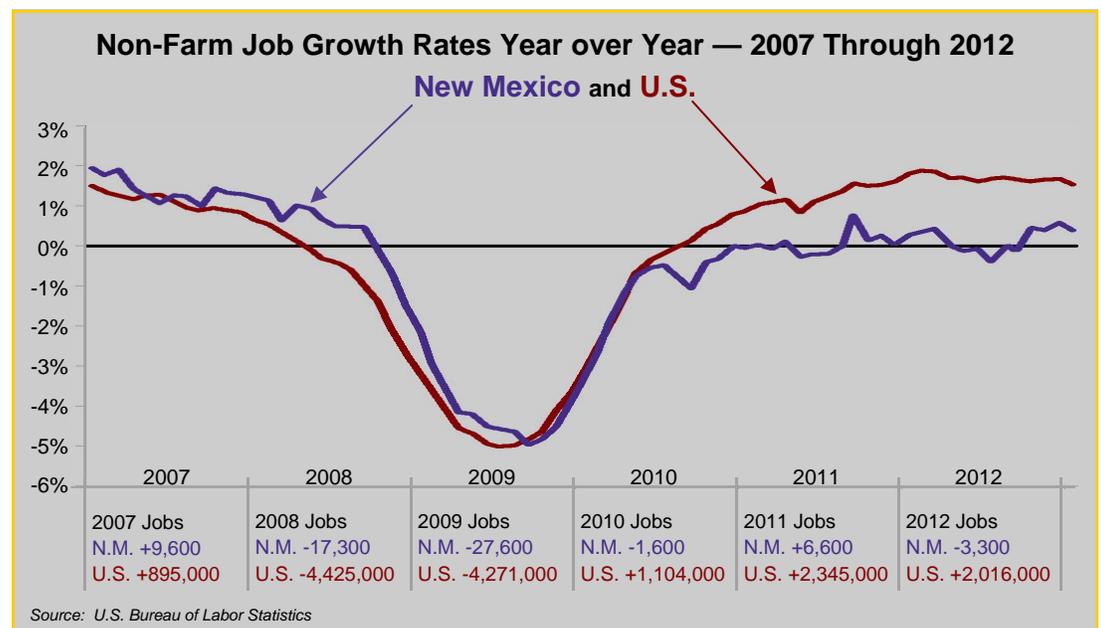
leisure services and wholesale and retail trade between mid-2011 and mid-2012, the state lost about 5,800 government, professional and administrative jobs during that same time. The U.S. Census Bureau estimates that a net of 5,200 people left New Mexico during that period as well. (Estimates of the Components of Resident Population Change: April 1, 2010 to July 1, 2012, U.S. Census Bureau.)

National Economy Is Recovering in Spite of Uncertainty over the Federal Budget

The national economy is recovering, despite the substantial uncertainty over the impact of federal budget sequestration and the lack of progress in federal budget deliberations. Consumer confidence is rebounding, the stock market set record highs and the real estate market is showing strength, which is notable not for its magnitude but because it is happening at all.

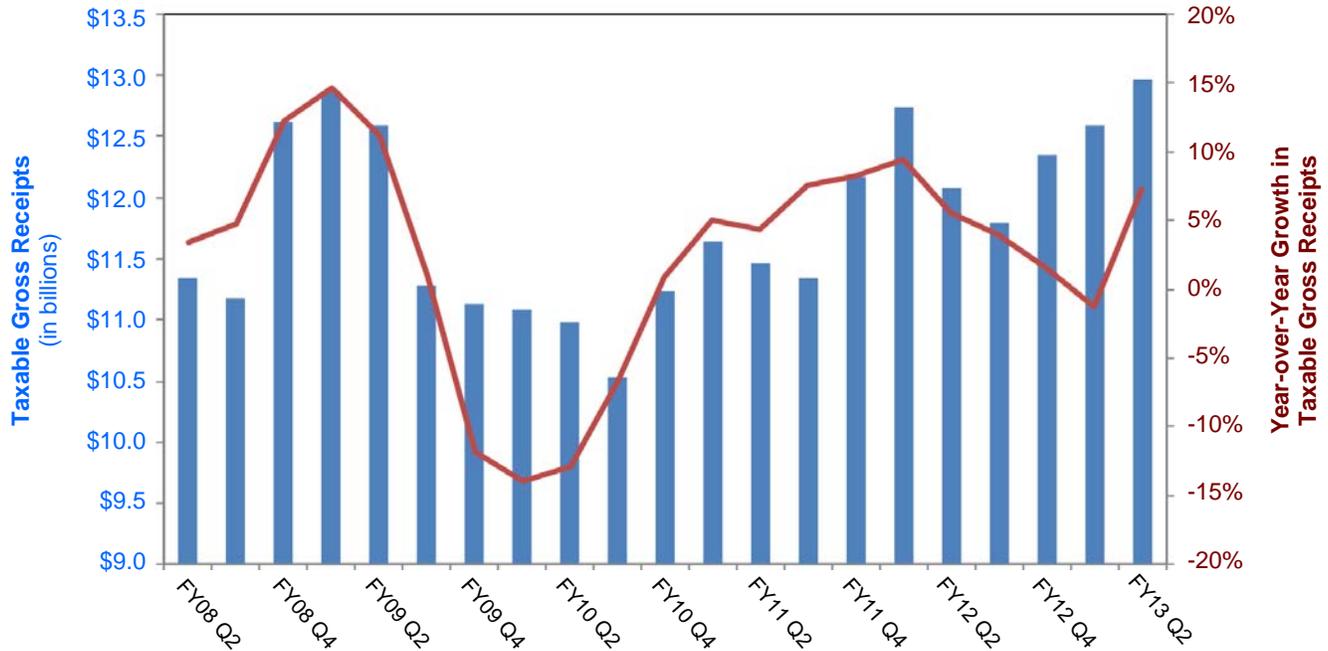
- ◆ Consumer confidence rose in February to a three-month high. The Thomson Reuters/University of Michigan index of consumer sentiment climbed to 76.3 in February from 73.8 in January. Consumer confidence is always one of the first steps in a national recovery, as 75% of the economy is driven by consumer spending.

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TAXABLE GROSS RECEIPTS

Taxable Gross Receipts by Quarter



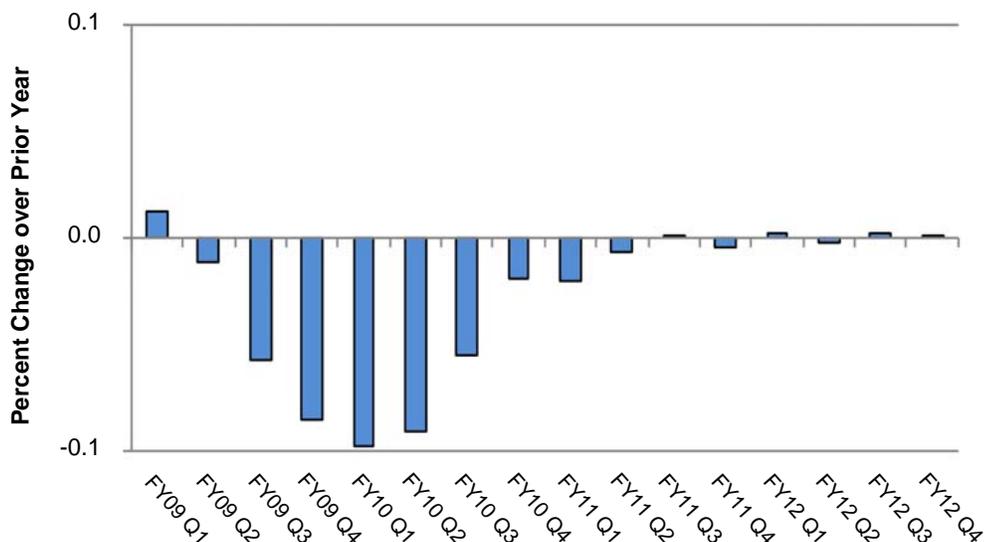
Source: Legislative Finance Committee

- Growth in taxable gross receipts (TGR) increased to 7.26% in the second quarter of FY13 from a 1.2% decline in the first quarter.
- TGR was increasing to peak levels from early FY09, but in the second and third quarters of FY12, TGR began to decline again, with gains in the last quarter of FY12 and into FY13.

EMPLOYMENT

New Mexico Employment Growth

- New Mexico experienced declines in non-farm employment from the second quarter of FY09 through FY11. Year-over-year growth in non-farm employment returned in FY12, with a slight decline in employment in the second quarter of FY12 and a slight increase in the third quarter, which is expected to continue at a very slow rate in 2013.



Source: BBER February 2013

U.S. AND NEW MEXICO ECONOMIC OUTLOOK

	FY12	FY13	FY14
NATIONAL ECONOMIC INDICATORS			
U.S. Real GDP Growth (level annual avg., % year over year)*	2.0	2.0	2.3
U.S. Inflation Rate (CPI, annual avg., % year over year)**	2.9	1.6	1.6
Federal Funds Rate (%)	0.12	0.15	0.16
NEW MEXICO LABOR MARKET AND INCOME DATA			
NM Non-Agricultural Employment Growth (%)	0.07	0.29	1.19
NM Personal Income Growth (%)***	4.4	3.1	2.5
NM Private Wages and Salaries Growth (%)	2.9	4.1	4.5
CRUDE OIL AND NATURAL GAS OUTLOOK			
NM Oil Price (\$ per barrel)	\$90.00	\$86.50	\$88.00
NM Taxable Oil Volumes (million barrels)	80.1	87.0	91.4
NM Gas Price (\$ per thousand cubic feet)****	\$5.00	\$4.50	\$5.10
NM Taxable Gas Volumes (billion cubic feet)	1,226	1,185	1,151

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

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

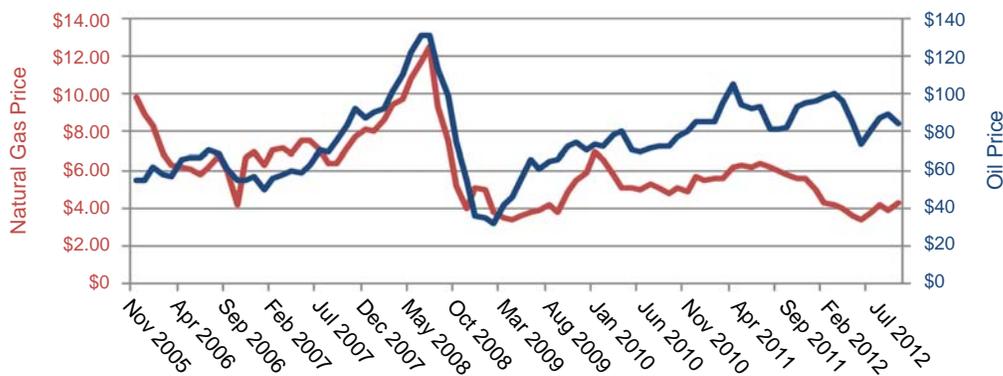
***Personal income growth rates are for the calendar year in which each fiscal year begins.

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

Sources: January 2013 Global Insight and BBER FOR-UNM baseline

OIL AND GAS

New Mexico Oil and Gas Prices



Source: Legislative Finance Committee

► In FY12, New Mexico produced 1,226 billion cubic feet (bcf) of natural gas, including 160 bcf of natural gas liquids. This is approximately 1.4% less than in FY11. The average price of natural gas in FY12 was \$5.00 per thousand cubic feet (mcf), which represents a decrease of 8.7% year over year. New Mexico natural gas received a liquids premium over dry gas price of \$1.81/mcf in FY12.

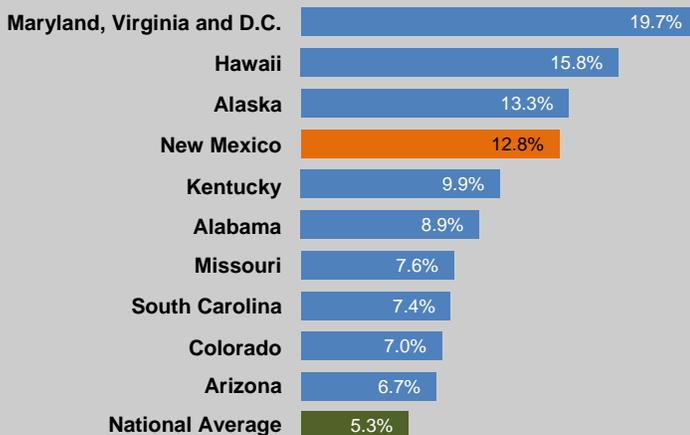
- FY13 natural gas prices through November 2012 averaged \$4.14, a \$0.86 drop from average FY12 prices. Production has averaged 99 bcf per month in FY13. A \$0.10/mcf change in natural gas prices changes general fund revenue by \$10 million. Premiums paid for liquid gas, which tend to trend with oil prices, continue to pull ONGARD prices above dry gas price forecasts.
- FY13 oil prices through November 2012 averaged \$84.51, with average monthly production of 7.4 million barrels. In FY12, the average oil price was \$89.68 per barrel, roughly 5.6% higher than FY11. FY12 volumes were 79.7 million barrels, with year-over-year production volumes 15.4% above FY11.

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- ◆ Retail sales in the U.S. rose in February for a fourth consecutive month, showing that household spending is growing even in the face of the payroll tax increase that took effect in January. Auto sales over the past three months have been the strongest in five years. Same-store sales for more than 20 companies tracked by Retail Metrics, Inc., grew 4.5% in January 2013 from the same month in 2012, the biggest year-over-year gain since September 2011.
- ◆ Nationwide, new home sales rose 16% in January, the largest percentage increase in 20 years, according to the Commerce Department. New Mexico is following suit, albeit at a somewhat slower pace. The Greater Albuquerque Association of Realtors (GAAR) reported that January new home sales in the state's largest metropolitan area were the highest since January 2008.
- ◆ Home prices in December 2012 rose in 19 of the nation's 20 largest metropolitan areas compared to December 2011, according to the Standard & Poor's/Case Schiller home price index. Home prices rose an average of 7.3% in 2012 in the cities covered by the index. The index tracks no New Mexico cities, but the GAAR reported a 1.7% gain in 2012 in single-family home prices compared to 2011. While that is a small increase, it was the first annual increase in home prices since 2008.

In spite of many risks to economic recovery in the U.S. and abroad, there are many good reasons to believe that the national economy is on the mend. The future of New Mexico's economic recovery is more questionable, however, and depends in large part on the ultimate size and timing of cutbacks in federal defense and non-defense spending.

Federal Spending as a Percentage of State GDP Ten Highest States — Fiscal Year 2010



Sources: Pew Center on the States and U.S. Census Bureau

Federal Budget Sequestration Will Dampen New Mexico's Economic Recovery: Exact Impact Uncertain

"Sequestration" describes the broad, automatic, across-the-board cuts to most categories of federal government spending that began to take effect on March 1. The cuts are projected at \$85.3 billion in 2013 and are estimated to total \$1.2 trillion over the next 10 years, barring an agreement on the federal budget.

Exempt from sequestration are Social Security, Medicaid, benefits for Medicare patients, targeted anti-poverty programs, military pay and the operational costs of ongoing wars.

The overall FY13 defense budget will be cut by just more than 7.3%, and domestic discretionary programs will be cut by more than 5% during the fiscal year. Because the federal fiscal year is almost half over, however, the sequester requires a budget reduction of 9% for non-security budgets and 13% for security budgets for the remainder of the federal fiscal year.

The economic impact of the sequester during 2013, assuming it comes fully into force, will build toward the end of the year. IHS Global Insight estimates that the sequester will reduce the growth rate in the nation's gross domestic product (GDP) only 0.3 percentage point in the first quarter. For 2013 overall, it is estimated that full implementation of the sequester would take about 0.5 percentage point off the calendar year GDP growth rate (1.5% instead of 2.0%).

Projections of jobs lost in 2013 range from one million to two million nationwide. The most visible initial impacts are expected to be civilian layoffs at the Pentagon and furloughs at defense contractors.

Although the full impact is unclear at this time, the sequester is certain to hit New Mexico relatively hard due to the importance of federal spending to the state's GDP, as seen in the graph at left. Federal spending on salaries, wages and procurements make up 12.8% of New Mexico's economic activity, exceeded only by the Washington, D.C., area, Hawaii and Alaska.

Added to this is the 6.6% of New Mexico's total state revenue accounted for by federal grants subject to sequester.