NEW MEXICO
ECONOMIC SUMMARY

JANUARY 2016
(REVISED JANUARY 21, 2016)

In The News

- ***THE ECONOMIST* RELEASED THE FIRST-EVER RANKING OF UNIVERSITIES** based on the gap between what graduates expected to earn and what they actually earned. Of the 1,275 universities ranked nationally, four New Mexico schools are included.

  University of New Mexico ranked 1,184th.
  New Mexico State University ranked 1,180th.
  New Mexico Institute of Mining and Technology ranked 768th.
  Eastern New Mexico University ranked 719th.

- **ALBUQUERQUE'S HOUSING MARKET IS TRENDING UPWARD,** with year-over-year home sale closings in October 2015 up from 656 in 2014 to 835 in 2015 — a 27% increase.

- **NEW MEXICANS' TOTAL PERSONAL INCOME GREW** by \$2.9 billion, or 3.8%, in the second quarter of 2015. More than one-third of the growth was from an increase in Medicaid benefits.

- **ALBUQUERQUE OFFICE VACANCY RATES REMAIN STUBBORNLY ABOVE 20%.** The office market is in a five-year slump, averaging a 20.2% vacancy rate since mid-2010 compared to the more historically normal average of 12.7% seen in 2004 to 2009. Downtown Albuquerque's office vacancy rate is currently above 30%.

- **THE IMPACT OF LOWER OIL PRICES IS BEGINNING TO REGISTER** in New Mexico's oil country. Taxable gross receipts from retail trade dropped 4.2% in Farmington and 4.3% in Hobbs from the first quarter of 2014 to the first quarter of 2015.

- **NEW MEXICO SAW ANOTHER POPULATION DECLINE** over the last year, according to estimates released in December by the U.S. Census Bureau. It is the second consecutive year the bureau has reported a shrinking population for the state. According to the Bureau of Business and Economic Research (BBER) at the University of New Mexico, "over 40% of the residents moving out of state had four-year degrees", indicative of a scarcity of good-paying job opportunities and uncompetitive salaries. In sharp contrast, neighboring states Colorado, Texas, Utah and Arizona were in the top 10 states reporting population increases.

NEW MEXICO JOB GROWTH REMAINS STAGNANT

Recovery from the great recession continues to elude New Mexico. Thousands of college-educated residents have left the state, and it seems New Mexico has not had a major job creation event since Intel located in Rio Rancho 25 years ago. Businesses considering where to lay down roots may look at New Mexico and see a confusing tax system, which is being studied again, relatively high crime rates, low-performing schools and a workforce that does not meet their needs. Bright spots in the job picture do exist, most notably due to federal expenditures that have long been New Mexico's strength. But it is increasingly clear that without substantial diversification of the state's economy and increased opportunities for the college-educated workforce, New Mexico will continue to struggle.

New Mexico's unemployment rate of 6.8% is the nation's highest. The Workforce Solutions Department (WSD) reports that the mining industry lost 2,900 jobs, or 10.1% of its jobs, from November 2014 to November 2015. Job growth began to decline in this dominant sector of the state's economy in December 2014, and over-the-year losses have worsened each month since May 2015, caused by the sharp decline in global oil prices. Falling oil prices are welcome at the gas pump, but in New Mexico, the low price comes at a cost in oil and gas industry jobs

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POPULATION CHANGE IN NEW MEXICO AND NEIGHBORING STATES 2014 - 2015

	Population Estimate 2014	Population Estimate 2015	Population Change 2014 - 2015	Percent Population Change 2014 - 2015	National Ranking for Percent Population Change
Colorado	5,355,588	5,456,574	100,986	1.89%	2
Texas	26,979,078	27,469,114	490,036	1.82%	6
Utah	2,944,498	2,995,919	51,421	1.75%	7
Arizona	6,728,783	6,828,065	99,282	1.48%	9
Oklahoma	3,879,610	3,911,338	31,728	0.82%	18
New Mexico	2,085,567	2,085,109	(458)	(0.02%)	45

Source: U.S. Census Bureau.

INVESTMENT

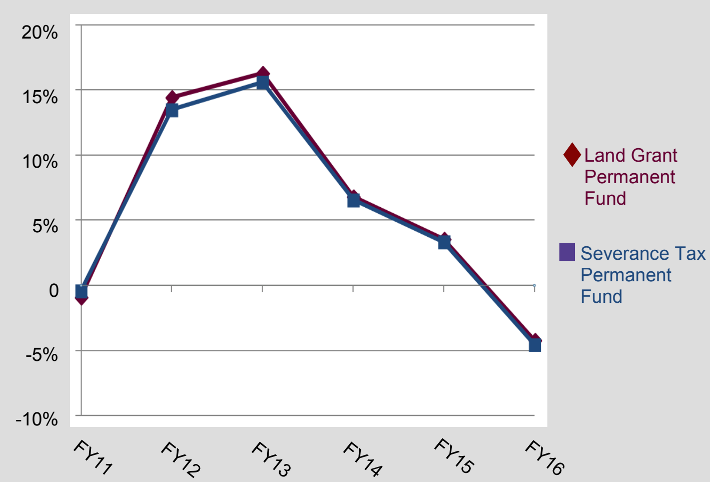
The state's investment agencies struggled in the first quarter of fiscal year (FY) 2016, with all four investment funds – the land grant and severance tax permanent funds and the education and public employee pension funds – losing money for the quarter.

Investments administered by the State Investment Council lost 4.2% on the Land Grant Permanent Fund (LGPF) and 4.5% on the Severance Tax Permanent Fund (STPF). With negative 3.3% returns, the Educational Retirement Fund (ERF) fared slightly better, while the Public Employees Retirement Association (PERA) fund, with returns of negative 4.6%, had the worst performance for the July-September 2015 quarter.

However, performance for the New Mexico funds was typical for similar funds nationally, with an investment environment darkened by concerns over the Chinese economic slowdown, a precipitous drop in oil futures and the first negative quarter for the U.S. stock market in three years.

A comparison of New Mexico's funds against approximately 50 public funds with more than $1 billion in assets by the Wilshire Trust Universe Comparison Service shows that only the PERA fund failed to beat the national average for the quarter. ERF returns placed it in the top 20th percentile, while the LGPF ranked close to the top third and the STPF was in the top half. The PERA fund was slightly behind the average, with 51% of similar funds outperforming the pension fund.

Longer-term returns for the New Mexico funds are not much better, with only the ERF earning money – returns of 0.6% – over the last 12 months. The PERA fund lost 1.7% for the year, and the two permanent funds lost slightly less than 1% each. The figures for three-year returns



*All performance annualized by fiscal year ending June 30. FY 2016 data reports three-month change for period June 30, 2015 through September 30, 2015. Performance is gross of fees.

Source: Investment and Pension Report presented to the Investments and Pensions Oversight Committee September 15, 2015 and the Legislative Finance Committee (LFC) December 22, 2015.

INVESTMENT (CONT)

are more encouraging, with both pension funds earning 7% and the LGPF and STPF earning 7.3% and 7%, respectively. While those returns mean the permanent funds met their target return rates of 7% each, the pension funds had higher targets of 7.5% each and fell short.

GENERAL FUND

Total recurring revenue collection in October was almost 20% lower than the same month last year, a sign of the direct impact of turbulence in the oil industry, LFC analysis indicates.

The January 2016 General Fund Tracking Report by the LFC, which looks at revenue reported by the Department of Finance and Administration through October and some preliminary figures for November, indicates that year-to-date revenues are also tracking behind the December consensus estimate for FY 2016 full-year revenue at a rate that could mean actual revenues come in about 1%, or almost $53 million, below the estimate.

A review of fiscal-year-to-date revenue through October shows that collections for most categories are down compared with the same period a year ago. Oil and gas revenues, which

General Fund (cont)

include mineral production taxes and rents and royalties, were down 30.8%, or $129 million. The impact of the slowdown in the oil industry can also be seen in the compensating tax, with year-to-date collections running 62.5% behind the same period a year earlier.

Gross receipts tax collections and corporate income tax collections are also running behind FY 2015; however, year-to-date personal income tax revenue and investment income are ahead of the same period last year.

Total fiscal-year-to-date revenue through October 2015 dragged about 10%, or about $214 million, behind the fiscal-year-to-date figures through October 2014. Excluding oil and gas revenues, year-to-date revenue is about 5%, or about $85 million, behind.

Projections for FY 2016 – actual revenue so far this fiscal year added to estimates for the remainder of the fiscal year – suggest total FY 2016 revenue will come in slightly below the December consensus revenue estimate but would be up 3.7% if oil and gas revenues were excluded.

Capital Outlay

More than $1 billion in capital outlay spending was outstanding at the end of September 2015, including more than $600 million for appropriations made from one to six years ago.

An LFC review of Capital Outlay Monitoring System data generated by the Department of Finance and Administration found that almost none of the funding approved in 2015 has been spent and that only 10% of 2014 funding and 34% of 2013 funding have been spent. While all of the funding approved in 2010 has been expended, about a third of the funding approved in 2011 and 2012 and approximately 10% of the funding approved in 2009 remain unspent.

Capital Outlay (cont)

The figures include funding from all sources, except $461 million from supplemental severance tax bonds earmarked for public school projects.

Of the $1.3 billion approved for 229 large projects – those funded for $1 million or more – $785 million is outstanding, which accounts for 78% of all outstanding funds. Ninety percent of the $83 million authorized in 2014 for water projects remains unspent, and only 10 of 189 funded projects are complete.

Select Capital Outlay Project Review

No activity:

- Atrisco Community adult day care and respite facility

  $1 million in severance tax bond proceeds was originally appropriated in 2010 and reauthorized in 2014. The State Board of Finance approved a change of purpose, but the grant agreement is not executed, and no progress has been reported.

- Southwest Indian Polytechnic Institute

  $660,342 in general obligation bond proceeds for infrastructure and security enhancements was appropriated in 2012 and 2013. The school requested a change of purpose, but general obligation bonds, which must be approved by voters, cannot be reauthorized. The Indian Affairs Department and Department of Finance and Administration are working on grant agreement and audit compliance issues.

Little progress:

- At-risk youth program dormitories in Roswell

  $1.7 million is unexpended of $2 million in severance tax bonds originally appropriated in 2011 to the Local Government Division of the Department of Finance and Administration and reauthorized in 2012. The project is in the design phase.

- Flood damage in Lincoln and Otero counties

  $3.3 million is unexpended of $4.5 million from the general fund appropriated to the Homeland Security and Emergency Management Department in 2008 and reauthorized in 2013 and 2015. The department did not provide an update for the current quarter.

Agency Performance

Highlights from the FY 2015 year-end LFC report cards on agency performance include record collections for child support, a drop in births to teenage moms and a rise in tourism revenue. However, the property crime rate is increasing, large numbers of Medicaid patients are still using high-priced emergency room services for health care and almost half of all released prisoners are back behind bars within three years.

The LFC agency report cards are a quarterly assessment of how well agency programs have met performance targets. Under the Accountability in Government Act, state agencies and the legislature moved from a budgeting process based on the costs of salaries, supplies, travel and eight other line items to a process focused on funding agencies based on performance. In exchange for greater flexibility in how they spend their funding, agencies must identify their core services, set performance targets for those programs and measure actual performance against the targets.

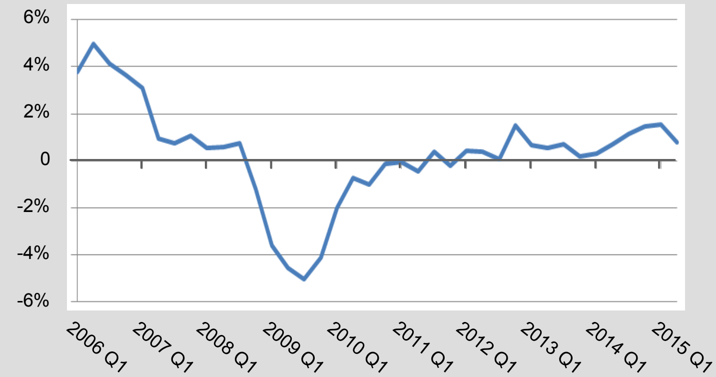
Of the 56 programs in 15 key agencies covered in the fiscal-year-end report, only two received red ratings for overall performance, an indication that a program significantly missed its targets or the performance measure was weak. Twenty-six programs received green ratings for meeting or exceeding their targets, and 28 received yellow ratings, a sign that overall performance fell just short of targets or the agency made progress.

Overall, the number of yellow ratings for all measures dropped in FY 2015, while red and green ratings were slightly up.

The FY 2015 report cards indicate a need to address job growth, reading proficiency in public schools, behavioral health services and child abuse.

Agencies continue to miss targets because of understaffing, partly caused by below-market salaries and their impact on recruitment and retention. Recent tight budgets have also made it hard for agencies to meet targets, although performance data can help them focus resources on programs that are efficient and effective.

New Mexico Year-Over-Year Employment Growth 2006 - 2015



Source: U.S. Department of Labor Quarterly Census of Employment, All Industries - 2015 Q1-Q2 Preliminary.

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and other indirectly linked industries: manufacturing (down 3.9%) and transportation, warehousing and utilities (down 4.4%) each lost 1,100 jobs. The WSD reports that this is the largest loss in transportation, warehousing and utilities since May 2010.

Dr. Jeff Mitchell, director of the BBER, told the Revenue Stabilization and Tax Policy Committee in December that 44% of New Mexico jobs are in the Albuquerque area. The area was ranked tenth in the nation for job growth in the business and professional services sectors from 1995 to 2010 but dropped to fiftieth from 2010 to 2015. While strength in job growth in the health care and social services sector is welcome (accounting for 40% of new jobs in 2015), New Mexico's faltering economy needs growth in the business and professional services sectors to recover. These sectors include architects, engineers, scientists, technical service jobs, management of companies and enterprises, and administrative and support services jobs.

The repeal of the 40-year ban on crude oil exports by Congress should have little immediate impact on the U.S. oil industry, but in the longer term, it is likely to help U.S. producers, including those in New Mexico. Colin Fenton, a commodities expert with Blacklight Research LLC who also testified before the Revenue Stabilization and Tax Policy Committee, suggested that with the lifting of the oil export ban, foreign buyers would find oil contracts with producers in New Mexico attractive because of the quality of the crude oil and, perhaps more important, the safety and political stability of the supplier. Over the long term, supply contracts may offer an opportunity to provide some fiscal stability in an otherwise increasingly volatile oil and gas market.

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