

# NEW MEXICO ECONOMIC SUMMARY



OCTOBER 2008

## CRISIS ON WALL STREET CAUTION ON MAIN STREET

The New Mexico, national and world economies are facing twin challenges:

- a banking crisis that has drastically reduced available credit to businesses, consumers, state and local governments and even banks; and
- a loss of consumer confidence on "main streets" triggered by the bursting of the housing investment bubble, which has caused the value of houses — most families' largest asset — to fall sharply. This has caused consumers to cut back spending, home construction to plummet and the chances of a wide and deep recession to increase.

### ***Banking Crisis***

The collapse of housing prices, the mortgage finance market and other numerous "side-bets" on how that market would perform has paralyzed world credit markets and dried up lending for business investment and operations, consumer spending, loans to state and local governments and even loans from one bank to another. As everyone knows now, money must flow to where it is needed to stimulate economic activity.

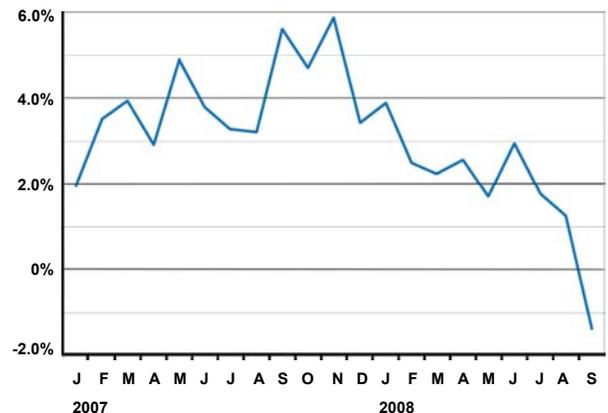
The heart of this problem is the uncertainty among lenders concerning the value of housing and other collateral and the ability of borrowers, including governments, to repay loans. The United States and governments around the world have injected money into banks and have agreed to guarantee bank deposits and loans to banks and businesses, and even to lend directly to businesses, hoping to spur loans once again to those who are able to repay them.

### ***Main Street Recession***

Unfortunately, the ability to repay is threatened now by a downturn in the "real" economy of spending on "bricks and mortar", machinery and equipment, automobiles and appliances, food and clothing and other goods and services.

The bust in housing has depressed investment in new housing, driving down the need for lumber, appliances and other associated items.

Annual Growth Rate in U.S. Retail Sales



Consumers have also stopped spending as the value of their greatest asset has fallen. In about one in six cases, a homeowner's house is worth less than what is owed. Consumer confidence is at a record low.

For many homeowners, this decrease in "wealth" has been the least of their worries. They have seen their mortgage payments skyrocket as adjustable-rate mortgages reset, driving them from their homes or drastically squeezing their budgets, making less money available for other purchases.

The pinch is already showing up. United States retail sales in September declined about 1.5% compared to the previous September.

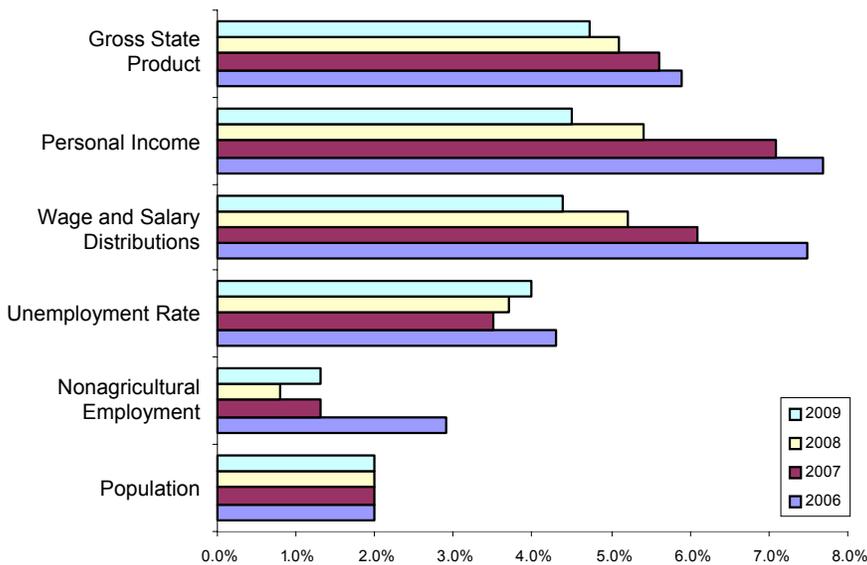
Consumer spending makes up about 70% of total U.S. spending. If these trends continue, the consumer pullback will plunge the country into a deep recession, the depth and length of which are very uncertain.

## STATE REVENUES

This economic turmoil has had a direct impact on state revenue. The consensus revenue estimate delivered in October takes a justifiably cautious approach. The outlook for economic activity and jobs in both the U.S. and New Mexico is uncertain. (Continued on page 4)

# ECONOMIC OUTLOOK

## New Mexico Economic Indicators: 2006-2009



► **Overview of the Economy** – The pace of New Mexico's economic growth continued to slow in the second quarter of 2008 from its peak in the second quarter of 2006, and energy volatility continued. The state experienced year-over-year job growth at 0.6%, far above the national rate of -0.3%. The most recent reported unemployment rate is 4.6%. New Mexico's economy has fared very well relative to the nation's economy as a whole.

► **Outlook 2008** – Growth is expected to be slow for the next year and then pick up slightly. Employment growth is expected to be 0.8% in 2008, rising to 1.3% in 2009 and near 1.5% annually thereafter, with the unemployment rate expected to remain near 4.0% through the next five years. Personal income growth is expected to reach 5.4% in 2008 and to remain between 4.5% and 5.5% for the next five years. Sectors

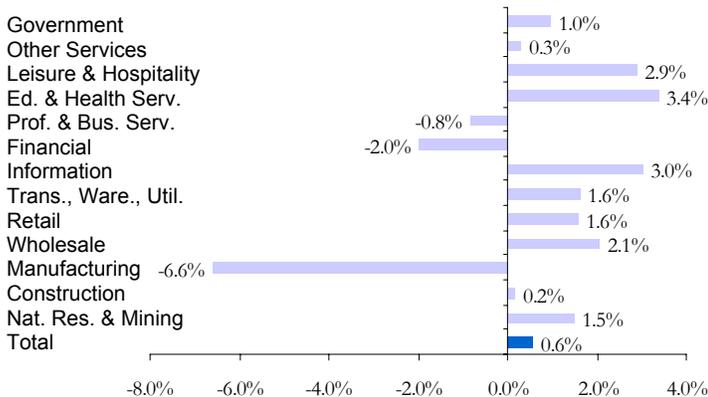
expected to grow are wholesale trade; health care; government; professional and business services; finance; transportation; warehousing and utilities; information; and educational services.

# EMPLOYMENT

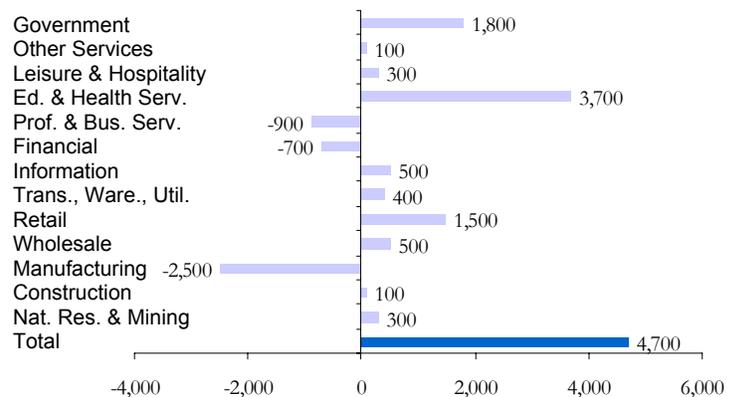
► **Employment Growth** – The New Mexico economy added 4,700 net new nonagricultural jobs over the year. Year-over-year job growth in New Mexico was 0.6% in August 2008, well above the national rate of -0.3%. The U.S. job market experienced a loss of 159,000 jobs in September 2008, compared to a loss of 84,000 jobs in August 2008 and a loss of 51,000 jobs in July 2008.

► **Unemployment** – New Mexico's August 2008 unemployment rate was 4.6%, higher than the July 2008 rate of 3.4%. The national September 2008 unemployment rate was 6.1%.

**Percent Change in New Mexico Employment by Industry August 2007-2008**



**Numerical Change in New Mexico Employment by Industry August 2007-2008**



Source: New Mexico Workforce Solutions Department

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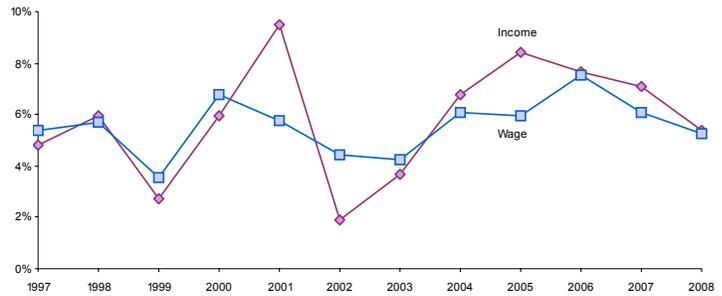
## WAGES AND INCOME

► **Total Personal Income** – New Mexico's total personal income reached \$64.2 billion in the second quarter of 2008. Using this measure, economic activity expanded at an annual rate of 5.8% from Q2 2007 to Q2 2008. National growth in personal income over the same period was 5.3%. New Mexico ranked 43rd nationally in income in 2007.

► **Wages** – Year over year, New Mexico had 8.1% growth in average hourly earnings in construction, 3.0% growth in manufacturing, 4.0% growth in retail and 9.7% growth in wholesale. New Mexico's total wage and salary disbursements reached \$33.5 billion in the second

quarter of 2008, a 5.6% growth year over year. U.S. wages increased 4.1% year over year in the second quarter of 2008. New Mexico's average nonagricultural wage reached \$39,980 per job in the second quarter of 2008. New Mexico's average wage is 84% of the nation's.

**Growth Rates for New Mexico Average Income and Wage/Salary Disbursements**



Source: August FOR-UNM BBER with 2008 forecast

## GDP, CPI, INTEREST RATES AND HOME PRICES

Indicator	Period	Value	Period	Value	Period	Value
GDP	Q3-08	-0.3%	Q2-08	2.8%	Q1-08	1.0%
CPI	Aug-08	-1.2%	Jul-08	9.6%	Jun-08	14.4%
CPI-core	Aug-08	2.4%	Jul-08	3.6%	Jun-08	3.6%

Note: CPI-core excludes food and energy; month annualized.

► **Interest Rates** – The 30-year fixed-rate mortgage (FRM) was 6.01% for September 2008, according to Freddie Mac. On October 29, 2008, the Federal Reserve lowered the target for the federal funds rate to 1%, down from 1.5%.

► **Home Prices** – According to the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Appreciation Ranking, New Mexico's house prices were up 1.7% year over year for the second quarter of 2008. This ranks New Mexico 20th in the nation for annual housing appreciation.

**Existing Home Prices  
Q2 2008 Year Over Year**

	Home Price	Percent Change
Albuquerque	\$194,300	1.0%
Las Cruces	\$124,500	0.9%
Santa Fe	\$298,200	0.5%
Farmington	\$137,000	3.7%
State of New Mexico	\$200,840	1.7%
United States	\$206,770	-1.7%

Sources: OFHEO; National City (GI)

## SIGNIFICANT NEW MEXICO RANKINGS

Demographic	State Rank <sup>1</sup>	Value	Period	Economic	State Rank <sup>1</sup>	Value	Period
Population Growth Rate <sup>2</sup>	13th	1.4%	2006-07	Rate of Job Growth <sup>4</sup>	15th	0.8%	June 2008
Fertility Rate <sup>3</sup>	9th	72.8	2005	Unemployment Rate <sup>4</sup>	9th (tie)	3.9%	June 2008
Life Expectancy	27th	77 years	2006	Median Household Income	45th	\$41,452	2007
Median Age	39th	35.7 years	2007	Average Wage	46th	\$33,397	2006
Household Size	11th	2.64 persons	2006	Per Capita Personal Income	43rd	\$31,474	2007
				Total Personal Income (% Change)	40th	6.4%	2006-07

### Social Indicators

Poverty Rate	46th	18.5%	2007
Educational Attainment of Persons 25+			
High School Degree	41st	81.5%	2006
Bachelor's Degree	29th	25.3%	2006

**Notes:**

1) Rank is most favorable to least favorable.

2) Rankings are based on the most current data available for all states and may differ from other data.

3) Births per 1,000 women.

4) 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 second quarter of 2008. Total housing unit authorizations in New Mexico are down 40% and construction contract award values are off 24% in the second quarter of 2008, with a 42% drop in single-family and a 24% drop in multi-family residential contracts, although nonresidential contracts showed a 6% increase. Housing valuation, although dipping slightly in the most recent data, remains positive for the second quarter of 2008 year on year, and foreclosures declined month over month in August.
- ▶ **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, \$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 job growth slowed to almost flat with recently declining energy prices.
- ▶ **Government** – New Mexico's government sector increased by 2,400 jobs (1.2% overall, 0.5% state and 0.4% federal), though mostly at the local level (2,000 jobs, or 1.9%) from native operations expansions.
- ▶ **Health Care** – New Mexico's large health care and social assistance sector added the bulk of job growth, with 3,767 jobs (3.8%), largely from hospital expansions.
- ▶ **High Technology** – The information sector posted a gain of 1,300 jobs (8.6%), a large number of which appear to have been in the film industry.
- ▶ **Manufacturing** – The manufacturing sector continues to contract in New Mexico, with job reductions around the state.
- ▶ **Professional** – Professional sector employment declined slightly.
- ▶ **Tourism** – New Mexico's travel and tourism sector was fairly flat overall, although the large accommodation and food service sector did pick up 667 jobs (0.8%), somewhat countered by some job losses in arts, entertainment and recreation.
- ▶ **Trade** – Retail trade performed well, adding 1,200 jobs (1.3%), despite a weak economy and several store closings in cities around the state. The wholesale trade sector added 733 jobs (3.1%). The transportation, warehousing and utilities sector added 900 jobs (3.7%).

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Mexico has deteriorated as a result of the crisis in the credit markets.

The U.S. economy, as measured by gross domestic product, contracted at a 0.3% annual pace from July through September, well below the 0.7% growth projected just three months ago. The decline also provided the first technical confirmation of what most people already knew: we are in a recession.

The forecast for New Mexico includes continued job growth, but at a rate half that projected three months ago. The latest forecast projects 0.5% growth in the number of non-farm jobs during FY 2009, down from the 1.1% growth projected previously.

The oil price estimate for FY 2009 has been cut from \$122 per barrel to \$94.00 per barrel, which is still well above the current market price of around \$70.00 per barrel.

The combination of an economic slowdown and steeply falling oil prices means less state revenue. Anticipated revenue for this fiscal year dropped by more than \$344 million in a matter of months — an amount equal to about half the reserves. The legislature and governor will be required to address the drop in revenue by dipping into reserves, cutting expenditures or raising revenue.

### EXERCISE EXTREME CAUTION

There is great uncertainty regarding the future of the economy and tremendous volatility in the prices of oil and gas. Two of the basic assumptions on which the latest estimate is based may prove to be too optimistic: the downturn in the economy may be deeper than currently anticipated, and oil and natural gas prices may not recover from current levels or may fall still further.