

NEW MEXICO ECONOMIC SUMMARY



JANUARY 2009

THE RECESSION: HOW DEEP AND HOW LONG?

The United States economy is in recession and the New Mexico economy is following suit. The crucial unanswered questions now are how deep and how long the contractions will be.

Most of the recent signals are not positive, despite ongoing and planned moves by the federal government to stimulate growth. By most measures, the deterioration in the economy is accelerating rather than "bottoming out".

The federal government has embarked on a massive cash and credit transfusion, estimated conservatively at more than \$3 trillion, to improve the balance sheets of Wall Street investment banks and the commercial banking system. The incoming Obama administration has proposed an \$800 billion stimulus package to directly boost consumer spending and public and private investment.

These moves have done little, however, to thaw the credit markets and get money flowing to Main Street consumers, businesses and state and local governments.

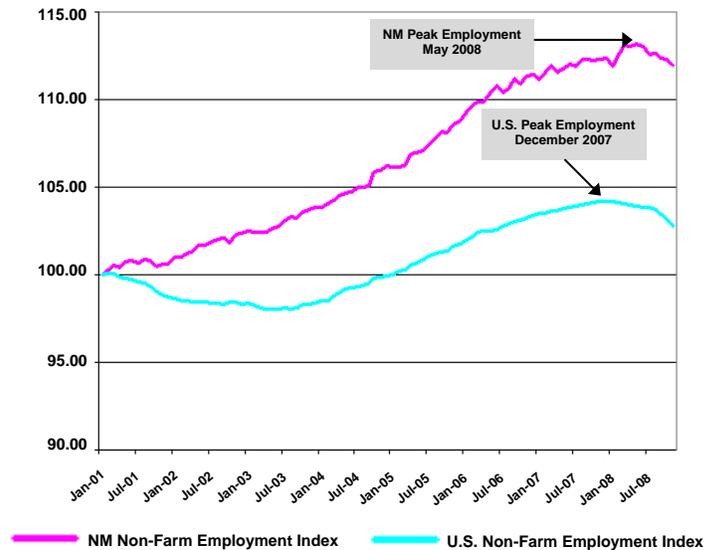
The forces driving the economy downward and the competing efforts of the federal government to halt the slide are of historic proportions. **The timing and ultimate ability of these federal efforts to revive the economy are very uncertain.**

New Mexico and U.S. Downturns Accelerate

Employment in the United States peaked in December 2007 and has declined every month since then. New Mexico fared better, with the number of jobs growing through mid-2008 before beginning a steady decline in June, as shown in the graph at right.

The last time the United States lost jobs on a year-over-year basis was 2003, and the last time New Mexico suffered year-over-year job losses was 1987.

New Mexico and U.S. Non-Farm Employment
(Monthly Index, January 2001 = 100)



As 2008 drew to a close, the United States labor market deteriorated rapidly. Mass layoffs in November were at levels not seen since the months following the September 11 attacks.

The recession is uneven across New Mexico. The Albuquerque-Santa Fe corridor, with about half of the state's jobs, saw the steepest decline, with employment down about 0.5% from November 2007 to November 2008.

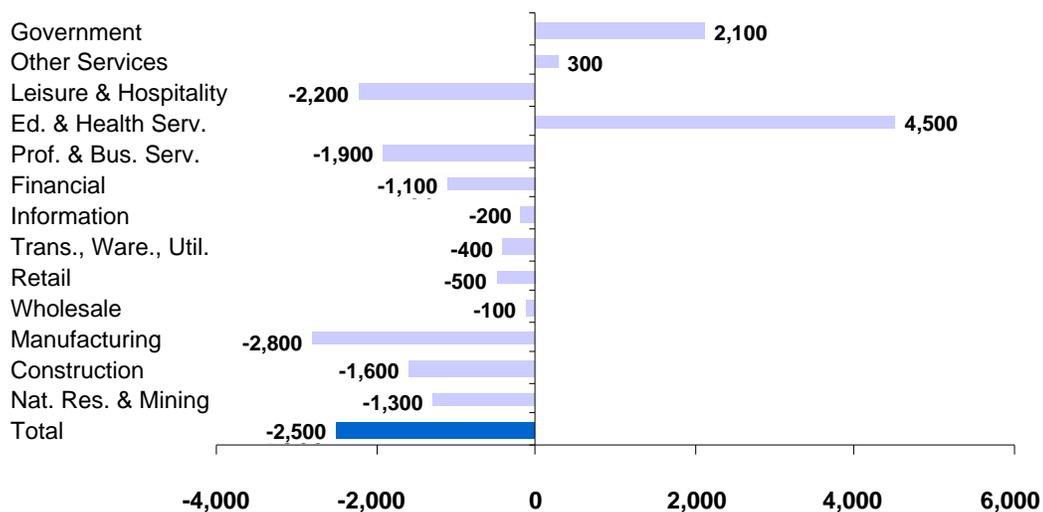
Santa Fe's hotel/motel occupancy rate as calculated by the Rocky Mountain Lodging Report was down in November to 44.3% compared to 53.3% the year before. In Albuquerque, occupancy was down to 48.9% compared to 56.9% for the same period in 2007.

But Lea and Eddy counties experienced 5% employment growth during this same period as energy-related employment continued to surge through November, in spite of falling oil and gas prices. These economies may

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EMPLOYMENT

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



Source: New Mexico Workforce Solutions Department

unemployment rate was 4.3%, up 1% year over year and unchanged from the prior month. The national November 2008 unemployment rate was 6.7%.

► **Employment Growth** – The New Mexico economy lost 2,500 net new non-agricultural jobs year over year. Year-over-year job growth in the state was -0.3% in November 2008, well above the national rate of -1.5%. The U.S. job market experienced a month-over loss of 533,000 jobs in November 2008, compared to revised losses of 320,000 jobs in October 2008 and 403,000 jobs in September 2008.

► **Unemployment** – New Mexico's November 2008

INDUSTRY FOCUS

► **Construction** – Housing contributed to a quarter-on-quarter decline in construction employment for the third quarter of 2008. Permits for new housing construction are expected to stabilize and start growing in the next year. New Mexico housing valuation, although dipping slightly for the third quarter of 2008 year over year, appears stable relative to the nation, and foreclosures declined substantially year over year and month over month in November.

► **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 2009, a result of military involvement overseas.

► **Energy and Minerals** – Mining sector job growth slowed with recently declining energy prices. Solar manufacturing and installation businesses are strong with high job growth expected, in part from federal support and ongoing technology improvement, despite low oil and natural gas prices.

► **Government** – New Mexico's government sector increased 2,100 jobs year over year (1.1%), concentrated at the local level.

► **Health Care** – New Mexico's large health care and social assistance sector added 4,200 jobs (4.2%) year over year, with 2008 showing solid employment growth (3.6%).

► **High Technology** – The information sector was down for the quarter, with 200 jobs lost (-1.2%) year over year.

► **Manufacturing** – The manufacturing sector is still continuing to contract in New Mexico, with job reductions around the state. Solar manufacturing is the only bright spot.

► **Professional** – Professional-sector employment declined in the last quarter and is down 1,900 jobs (-1.7%) year over year.

► **Tourism** – New Mexico's travel and tourism sector was flat, with no new jobs in arts, entertainment and recreation year over year.

► **Trade** – Trade is down for the quarter, with negative year-over-year growth. Retail trade lost 500 jobs (-0.5%) year over year, with a weak economy and several store closings in cities around the state. The wholesale trade sector lost 100 jobs (-0.4%). The transportation, warehousing and utilities sector lost 400 jobs (-1.6%).

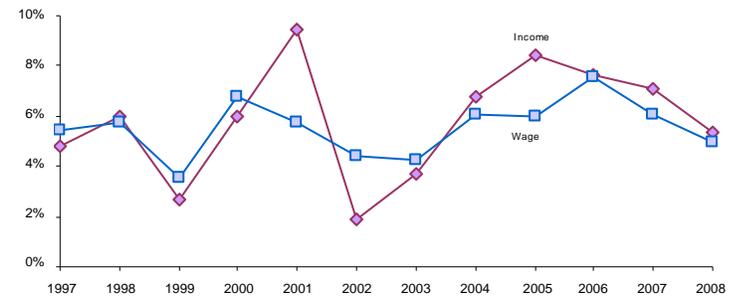
WAGES AND INCOME

► **Total Personal Income** – New Mexico's total personal income fell to \$63.9 billion in the third quarter of 2008. Using this measure, economic activity expanded at an annual rate of 5.1% from Q3 2007 to Q3 2008. National growth in personal income over the same period was 3.7%. New Mexico ranked 43rd nationally in income in 2007.

► **Wages** – Year over year, New Mexico had 4.3% growth in wage and salary distributions in construction, -2.6% growth in manufacturing, 4.0% growth in retail and 3.0% growth in wholesale. New Mexico's total wage

and salary disbursements reached \$33.8 billion in the third quarter of 2008, a 4.9% growth year over year. U.S. average hourly earnings increased 3.7% year over year in the third quarter of 2008. New Mexico's average nonagricultural wage reached \$39,743 per job in the third quarter of 2008. New Mexico's wage averages 83% 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	-0.5%	Q2-08	2.8%	Q1-08	1.0%
CPI	Nov-08	-20.4%	Aug-08	-1.2%	Jun-08	14.4%
CPI-core	Nov-08	0.0%	Aug-08	2.4%	Jun-08	3.6%

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

► **Interest Rates** – The 30-year fixed-rate mortgage (FRM) was 6.09% for November 2008 according to Freddie Mac. On December 16, 2008, the Federal Reserve lowered the target for the federal funds rate to a range of 0 to 0.25%, down from 1.00%.

► **Home Prices** – According to the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Appreciation Ranking, New Mexico's house prices were down 0.2% year over year for the third quarter of 2008. This ranks New Mexico 21st in the nation for annual housing appreciation.

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

	Home Price	Percent Change
Albuquerque	\$194,000	-1.9%
Las Cruces	\$125,300	-1.1%
Santa Fe	\$295,200	-3.0%
Farmington	\$133,800	-1.3%
State of New Mexico	\$200,398	-0.2%
United States	\$198,499	-4.0%

Sources: OFHEO; National City (IHS GI)

SIGNIFICANT NEW MEXICO RANKINGS

Demographic	State Rank ¹	Value	Period	Economic	State Rank ¹	Value	Period
Population Growth Rate ²	18th	1.0%	2007-08	Rate of Job Growth ⁴	20th	-0.3%	Nov 2008
Fertility Rate ³	9th	72.8	2005	Unemployment Rate ⁴	6th (tie)	4.3%	Nov 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)	6th	5.1%	Q3-2008

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 nonseasonally and seasonally adjusted, respectively, and are based on BLS and NM WSD data.

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cool, however. The New Mexico rig count peaked in October at 91 and has fallen to 60 active rigs this month, compared to 71 in January 2008.

Las Cruces is in the middle of the pack, managing almost 2% employment growth from November 2007 to November 2008. A decline in gross receipts tax (GRT) revenue indicates that a slowdown is coming, however. GRT collections during the six-month period ending in December 2008 were down 1.4% from the same period the year before, with GRT receipts from construction and real estate businesses down double digits.

The rapid deterioration of the economy at the end of 2008 led to an equally rapid series of gloomier and gloomier economic forecasts for the United States and New Mexico. The frequency and magnitude of these downward revisions reflect the difficulty that economists are having in "catching up" with how fast the economy is falling.

In October 2008, Global Insight, Inc., (GI) was projecting just one quarter of year-over-year downturn in U.S. gross domestic product (GDP), with 2.1 million jobs being lost nationwide and oil prices bottoming out at \$90.00 per barrel. GI made a series of downward revisions to this forecast in November, December and January; its latest forecast projects a year-long decline in GDP, with 3.7 million jobs lost and oil prices falling to \$39.00 a barrel.

New Mexico non-farm employment is now expected to *decline* by 0.6% in FY 2009 and decline by another 0.1% in FY 2010, according to a University of New Mexico Bureau of Business and Economic Research (BBER) forecast produced earlier this month. Just last month, BBER forecast only a 0.1% decline in employment in FY 2009 and 0.6% *growth* in jobs during FY 2010. The New Mexico economy is not expected to begin rebounding until the fall of 2009, but that timing depends in large part on the success of attempts by federal policymakers to stimulate the nation's economy.

Despite Stimulus, Credit Markets Remain All but Frozen

While the federal government is borrowing at historically low rates, in part because U.S. Treasury bonds are still seen as a safe haven, highly rated state and local governments did not fare as well during 2008 because of continued uncertainty surrounding all but the safest borrowers. Thus, not only is state government revenue declining, but the state's borrowing costs for infrastructure and other capital increased dramatically during the last year. The New Mexico Finance Authority sold 25-year AA-rated bonds in December 2008 at an average interest rate of 5.4%; in contrast, it sold comparable bonds in October 2007 and paid just a 4.4% average rate.

Available evidence indicates that because of the extreme "flight to quality", private commercial borrowers are facing even greater difficulty in obtaining credit.

Opposing Forces of Historic Magnitude and an Uncertain Outcome

The economy is shrinking at an historic rate. Economic forecasts are being revised downward on a daily basis. The federal government is countering with monetary and fiscal stimulus packages of historic proportions. But with little positive impact so far, the magnitude and timing of a recovery are the subjects of great debate.

If the stimulus packages have an impact sooner rather than later, a recovery could begin in the fall of 2009, with an associated recovery in oil, gas and other commodity prices. Just as likely, however, is that the downturn in the nation's economy could deepen and lengthen.

What seems more certain is that the U.S. economic forecast, on which current state revenue projections for the 2010 fiscal year are based, either substantially overestimates or underestimates the depth and length of the recession. Little is clear today regarding the economy's recovery path.