

# NEW MEXICO ECONOMIC SUMMARY



MAY 2009

## ECONOMY SENDS MIXED MESSAGES; STATE BUDGET BETTING ON RECOVERY

There are no clear signs of imminent recovery in the New Mexico or U.S. economies.

Although the federal stimulus efforts are thawing credit markets and raising consumer confidence, the fallout from the housing bust and credit crunch continues. The stimulus has brought some improvement to the Wall Street finance sectors, but the real economy of "main street" has seen little improvement as banks — even with capital injections from the federal government — are reluctant to loan money to any but the most creditworthy borrowers during this period of great uncertainty.

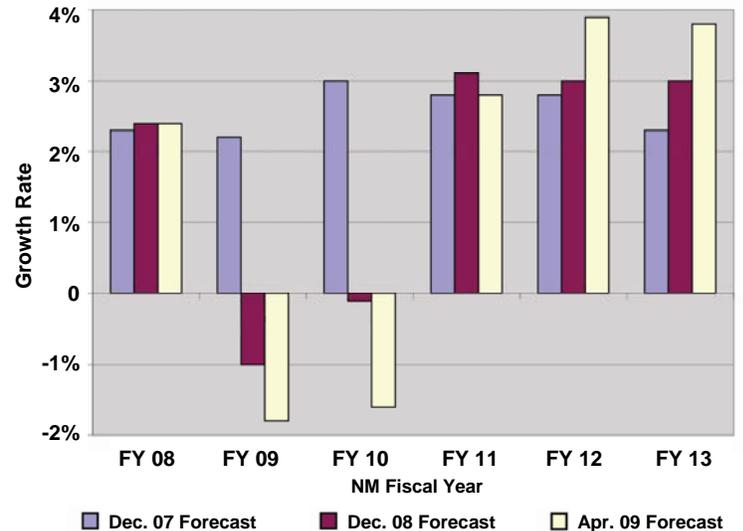
There are signs that the economic slide may be slowing and nearing bottom, but for each of these signs there is another that shows just how deep the recession has become or how tentative the recovery may be.

### *Uncertain Path for U.S. Economy*

There has been no time of greater economic uncertainty in at least a generation.

- ▶ Consumer confidence is improving, but from significant depths of despair. The Rasmussen Consumer Index of confidence in the economy stood at 74.4 on April 18, up from its March 9 low of 52.5, but less than half its peak of 150.9 on January 7, 2004.
- ▶ Credit markets are improving. Banks are beginning to lend more to each other, and home financings and refinancings are up, but home foreclosures are also rising steeply.
- ▶ The number of recently laid-off workers is down, but the total number of persons receiving unemployment compensation remains at record levels.
- ▶ National economic forecasts continue to predict a recovery to begin in late 2009 or 2010. However, each month the predicted recovery is pushed further into the future and becomes less robust.

U.S. Gross Domestic Product: Annual Growth Rate FY 2008 - FY 2013



### *New Mexico Down, but Faring Better Than U.S.*

The recession is hurting New Mexico, but, as is usually the case, not as badly as the rest of the country. Likewise, the eventual recovery may be less pronounced in New Mexico.

Total employment and income are down and projected to fall further, hitting state finances hard.

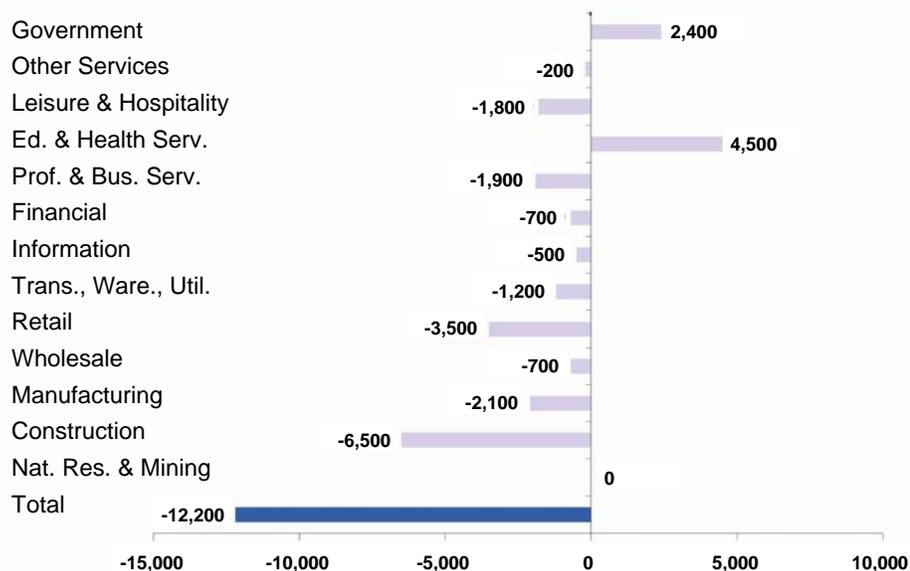
The number of U.S. non-farm jobs peaked at 138.2 million in December 2007 and had fallen by 5.2 million, or 3.8%, by the end of March 2009. In contrast, New Mexico non-farm jobs continued to grow through September 2008, peaking at 850,100, and had declined by 16,400 — only 1.9% — by the end of March 2009.

The New Mexico unemployment rate in March (5.9%) was well below that of the U.S. (8.5%). The New Mexico and U.S. unemployment rates have diverged greatly during this downturn. In January 2006, the New Mexico unemployment rate was 4.6%, just below the U.S. unemployment rate of 4.7%. The U.S. rate bottomed at 4.4% in the spring of 2007 and began to rise, accelerating in mid-2008. The New Mexico unemployment rate bottomed at about 3.5% in mid-2007 and stayed there through most of the year until it began to rise gradually before accelerating in January 2009.

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## EMPLOYMENT

### Numerical Change in New Mexico Employment by Industry February 2008-2009



Source: New Mexico Workforce Solutions Department

► **Employment Growth** – The New Mexico economy lost 12,200 non-agricultural jobs year over year. Year-over-year job growth in the state showed a decline of -1.4% in February 2009, less severe than the March 2009 national decline of -3.6%. The U.S. job market experienced a month-over loss of 663,000 jobs in March 2009, compared to revised losses of 651,000 jobs in February 2009 and a loss of 741,000 jobs in January 2009.

► **Unemployment** – New Mexico's February 2009 unemployment rate was 5.4%, up 1.6% year over year and 0.3% from the prior month. The national March 2009 unemployment rate was 8.5%, slightly worse than the prior month.

## INDUSTRY FOCUS

► **Construction** – Housing contributed to a loss of 5,000 construction jobs, a 3.3% drop, for 2008. Permits for new housing construction are expected to stabilize and start growing early next year. New Mexico housing valuations, although down slightly for the fourth quarter of 2008 year on year, appear stable relative to the country. Foreclosures declined substantially year over year in February and are at a low rate relative to the nation.

► **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 net military involvement overseas.

► **Energy and Minerals** – Mining and logging sector job growth is expected to slow substantially with the large drop in energy prices in the last two quarters. Overall, despite national-level credit limitations, solar manufacturing and installation businesses continue to be 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 is flat as gains at the local level — mostly in native operations expansions and in education — fade. Small growth is expected in this sector in 2011, 2012 and 2013.

► **Health Care** – New Mexico's large health care and social assistance sector added 3,500 jobs (3.6%) year over year for the third quarter of 2008, with consistent growth expected in future years.

► **High Technology** – The information sector was down for the quarter, with a -0.4% job loss (700 jobs) year over year. Small gains are expected each year through 2013.

► **Manufacturing** – The manufacturing sector continues to deeply contract in New Mexico, with job reductions around the state. Solar manufacturing is the only bright subsector, subject to continued availability of financing.

► **Professional** – Professional sector employment showed a decline of -0.5% in 2008 in the last quarter and faces another drop of 1.7% in 2009, with some large temporary boosts expected over the next three years from call centers. Employment growth in this sector is expected to average around 2.5% from 2010 through 2013.

► **Tourism** – New Mexico's travel and tourism sector is down 2.1% year-over-year for the third quarter of 2008, with no new jobs in arts, entertainment and recreation year over year.

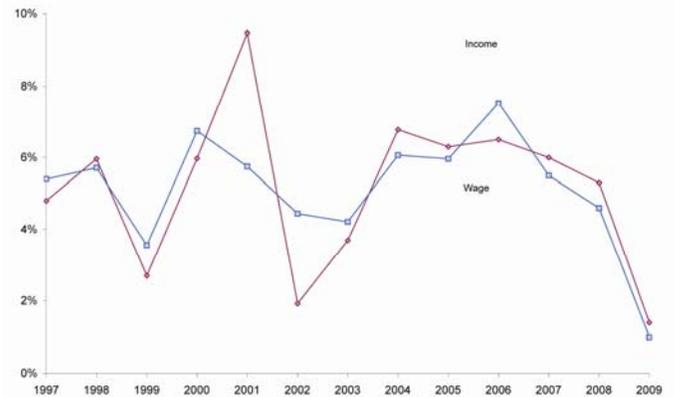
► **Trade** – Trade is expected to have negative year-over-year growth. For February, retail trade lost 3,500 jobs, or -3.6%, year over year, with a weak economy and several store closings in cities around the state. The wholesale trade sector lost 700 jobs, or -2.9%. The transportation, warehousing and utilities sector lost 1,200 jobs, or -4.8%.

## WAGES AND INCOME

► **Total Personal Income** – New Mexico's total personal income fell to \$63.5 billion in the fourth quarter of 2008. Using this measure, economic activity expanded at an annual rate of 3.3% from Q4 2007 to Q4 2008, down from 5.1% in the prior quarter. National growth in personal income over the same period was 3.8%, down 0.1% from the prior quarter. New Mexico ranked 43rd nationally in income in 2007.

► **Wages** – Year over year, New Mexico had a -2.7% decline in wage and salary distributions in construction, a -1.0% decline in manufacturing, 0.3% growth in retail and 2.9% growth in wholesale. New Mexico's total wage and salary disbursements reached \$33.6 billion in the fourth quarter of 2008, a 2.8% growth year over year. United States average hourly earnings increased 3.4% year over year in the fourth quarter of 2008, down 0.3% from the prior quarter. New Mexico's average non-agricultural wage reached \$38,187 per job in the fourth quarter of 2008, down 3.9% from the prior quarter. New Mexico's wage averages 83% of the nation's.

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



Source: March FOR-UNM BBER with 2009 forecast

## GDP, CPI, INTEREST RATES AND HOME PRICES

Indicator	Period	Value	Period	Value	Period	Value
<b>GDP</b>	Q4-08	-6.3%	Q3-08	-0.5%	Q2-08	2.8%
<b>CPI</b>	Q4-08	2.1%	Q3-08	2.2%	Q2-08	2.2%
<b>CPI-core</b>	Q4-08	2.2%	Q3-08	2.2%	Q2-08	2.2%

Source: IHS GI Note: CPI-core excludes food and energy

► **Interest Rates** – The 30-year fixed-rate mortgage was 4.87% in March 2009, down from 6.09% in November 2008 according to Freddie Mac. On March 18, 2009, the Federal Reserve maintained the target for the federal funds rate to a range of zero to 0.25%. The target was last lowered, from 1.00%, on December 16, 2008.

► **Home Prices** – According to the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Appreciation Ranking, New Mexico's house prices were down 1.9% year over year for the fourth quarter of 2008. This ranks New Mexico 29th in the nation for annual housing appreciation, down from 21st in the prior quarter.

**Existing Home Prices  
Q4 2008 Year Over Year**

	Home Price	Percent Change
Albuquerque	\$190,870	-2.2%
Las Cruces	\$123,422	-3.3%
Santa Fe	\$287,371	-4.4%
Farmington	\$134,656	0.7%
State of New Mexico	\$195,219	-1.9%
United States	\$184,757	-8.2%

Sources: OFHEO; National City (IHS 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>	18th	1.0%	2007-08	Rate of Job Growth/Loss <sup>4</sup>	13th	-1.4%	Feb 2009
Fertility Rate <sup>3</sup>	10th	76.4	2007	Unemployment Rate <sup>4</sup>	8th	5.4%	Feb 2009
Life Expectancy	27th	77 years	2006	Median Household Income	45th	\$41,452	2007
Median Age	39th	35.7 years	2007	Average Annual Pay	40th	\$35,209	2007
Household Size	11th	2.64 persons	2006	Per Capita Personal Income	43rd	\$31,474	2007
				Personal Income (% Change)	7th	4.3%	Q4-2008

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

### 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

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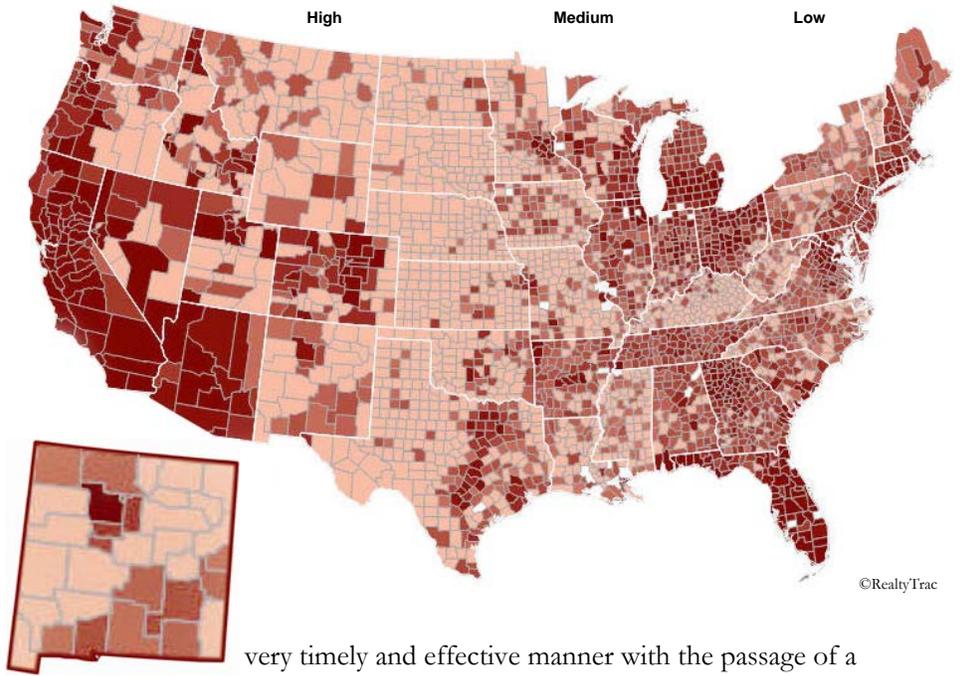
New Mexico has largely escaped the housing foreclosure crisis that struck many other states. New Mexico ranked just 41st among states in foreclosure activity, with one foreclosure filing for every 1,055 households during the first quarter of 2009, according to RealtyTrac. The national rate was one foreclosure filing per 159 households, with Nevada showing the most foreclosure activity (one in 24 households) and Vermont the least (one in 14,830 households).

New Mexico is in the middle of the pack in terms of state budget shortfalls, ranking 25th among the states based on the size of its budget shortfall as a percentage of its total general fund, according to a March study by the Center on Budget and Policy Priorities. Forty-seven states face a budget shortfall for FY 2009, with only Montana, Wyoming and North Dakota avoiding that challenge.

***New Mexico Budget Counting on Recovery***

The 2009 legislature faced two formidable challenges as it began budget deliberations in January. The first challenge was to cover a \$454 million shortfall in the FY 2009 budget with less than six months left in that budget period. The second challenge was to enact a FY 2010 spending plan that was considerably smaller than that of the previous year. The legislature covered the FY 2009 budget shortfall in a

**Foreclosure Actions to Housing Units**  
 1 in 42 Housing Units      1 in 66,256 Housing Units  
 High      Medium      Low



very timely and effective manner with the passage of a package of four bills commonly referred to as the "solvency package". The package largely used "one-time" revenue enhancement and appropriation reduction measures to close the gap in FY 2009, leaving FY 2009 appropriations 2.7% below FY 2008 spending.

The second challenge was to pass a budget for FY 2010 without the benefit of the "one-time" measures already used. The legislature struck a balance between revenue increases and spending cuts and enacted a budget that was 9% less than FY 2009 appropriations prior to solvency legislation. The budget relies on \$330 million of federal stimulus funding for education and human services, forestalling the need for deeper cuts.

***Special Session May Be Needed***

The federal stimulus funds are only available through FY 2011, so if energy prices and the New Mexico economy do not recover sufficiently to fill the gap when the federal funds run out, policymakers will face another challenge. However, if the economic recovery falters significantly from that contemplated in the February 2009 revenue estimate — on which the legislature relied to pass the FY 2010 budget — a special session may be necessary later this year to adjust the FY 2010 budget.

**U.S. and New Mexico Unemployment Rates**

