

NEW MEXICO ECONOMIC SUMMARY



JULY 2009

STATE FINANCES SLIDE; OUTLOOK UNCERTAIN

The balance in the state's bank account is dwindling, both a victim and an indicator of New Mexico's economic slump.

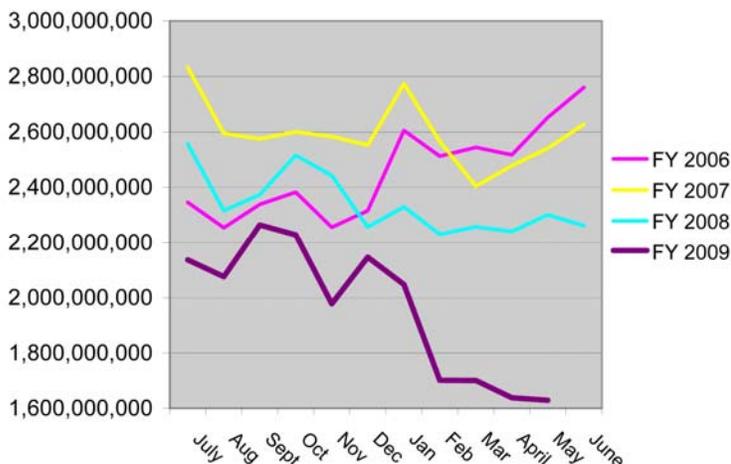
Like a falling balance in a family's bank account, the state has less cash on hand to meet unexpected expenses or reductions in monthly income, or to invest and generate interest earnings.

The state's invested general fund balance stood at \$1.6 billion at the end of May 2009, according to the state treasurer's investment report for June. The balance on the same date in each of the two previous years was about 50% more — \$2.3 billion in 2008 and \$2.5 billion in 2007.

It is normal for the balance to fluctuate, due to a mismatch in monthly expenditures and revenues, but the balance in 2009 is on a relatively steep downward trend compared to the past three years.

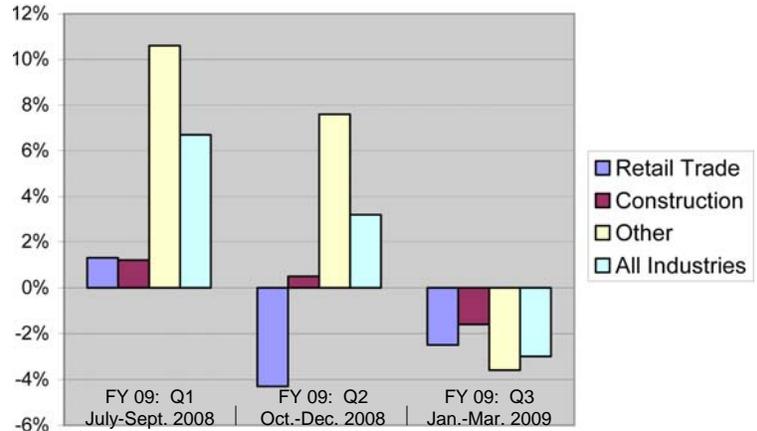
The falling balance in the general fund is due to the persistent downturn in the state's economy and revenue collections throughout the year. Statewide taxable gross receipts were up 6.7% in the first three months of FY 2009 compared to the same period the year before. But just six months later, taxable gross receipts were *down* 3% compared to the previous year, and all industries were in negative territory.

New Mexico State General Fund Market Value



Source: New Mexico State Treasurer Executive Summary of Investment Activity, as of May 31, 2009

Annual Growth Rate in Taxable Gross Receipts by Industry First Three Quarters of FY 2009 Percent Change from Same Period in Previous Year



Source: Taxation and Revenue Department presentation to the Revenue Stabilization and Tax Policy Committee on June 12, 2009

Of primary importance to the state's budget, gross receipts tax collections are running 3.6% below the projections upon which the legislature based the budget it approved earlier this year, according to Taxation and Revenue Department figures released in June to the interim legislative Revenue Stabilization and Tax Policy Committee. Indications are that income tax collections are also running behind the forecast.

A lower general fund cash balance at the end of FY 2009 means lower reserves for FY 2010 and less margin for error should the revenue downturn continue. A new consensus revenue forecast due in August will likely provide an indication of whether a special session is needed this fall.

Federal Stimulus Impact Is Mixed

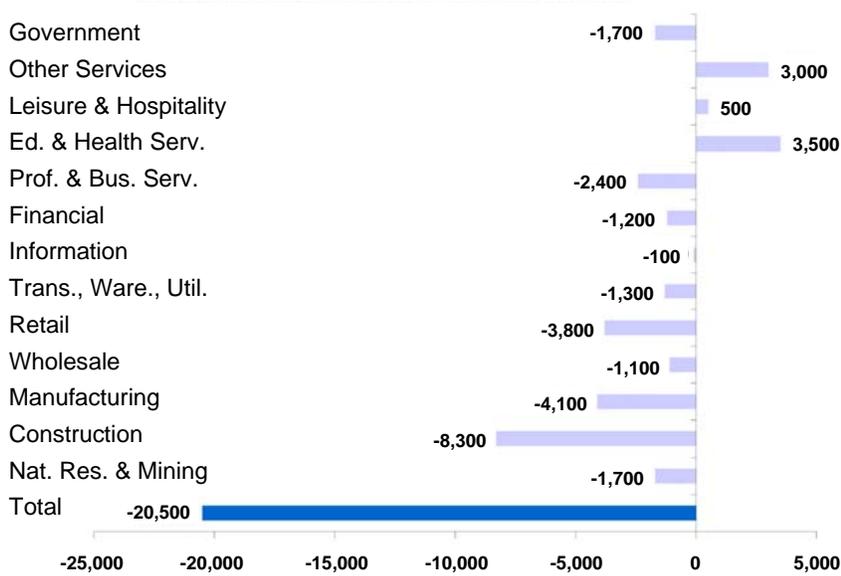
The good news, at least for the short term, is that federal stimulus funds have been expended in place of the state's general fund, particularly in human services and public education, both to bolster general fund reserves with which the state starts FY 2010 and to replace general fund expenditures throughout FY 2010.

The current budget includes \$164.7 million in federal stimulus funds for education and another \$166.5 million for human services, which allowed the state to maintain services in the face of falling revenue without having to increase taxes or fees.

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EMPLOYMENT

Numerical Change in New Mexico Employment by Industry May 2008-2009



Source: New Mexico Workforce Solutions Department

► **Employment Growth** – The New Mexico economy lost 20,500 net new non-agricultural jobs year over year. Year-over-year job growth was -1.6% in May 2009, well above the national rate of -3.1%. The U.S. job market experienced a month-over preliminary loss of 467,000 jobs in June 2009, compared to preliminary losses of 322,000 jobs in May 2009 and down from a peak loss of 741,000 jobs in January 2009.

► **Unemployment** – New Mexico's May 2009 unemployment rate was 6.5%, up 2.5% year over year and up 0.7% from the prior month. The national May 2009 unemployment rate was 9.5%, up 3.9% year over year and up slightly from the prior month.

INDUSTRY FOCUS

► **Construction** – Housing contributed to a loss of 8,300 construction jobs, a 14.2% drop, in the last year, and total permits for new housing construction were down 21.4% in the first quarter of 2009. Housing valuations were down for the first quarter of 2009 year on year. In May, New Mexico ranked 29th among states for foreclosure rates, which are low 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 military involvement overseas.

► **Energy and Minerals** – Mining and logging sector job growth slowed after almost six years of consecutive quarterly growth, with a large drop in energy prices in two quarters (Q4 2008 and Q1 2009) and 133 jobs lost in the first quarter of 2009, a 0.7% decrease. Despite national-level credit limitations, solar licensing, manufacturing and installation businesses continue to be strong with jobs expected to be sustained, in part from federal support and ongoing technology improvement and in spite of oil and natural gas prices that are off from peak levels.

► **Government** – New Mexico's government sector gained 2,100 jobs year over year in the first quarter of 2009, a 1.1% gain, primarily in federal jobs associated with the 2010 census and from gains at the local level, mostly from native operations expansions. Small growth is expected in this sector in future years.

► **Health Care** – New Mexico's large health care and social assistance sector added 3,900 jobs year over year for the first quarter of 2009, a 3.9% gain, with consistent growth expected in future years.

► **High Technology** – The information sector was down slightly for the quarter, with 400 jobs lost year over year, a 0.6% drop. Modest gains are expected in some years through 2013.

► **Manufacturing** – The manufacturing sector continues to deeply contract in New Mexico, with some firm closures and job losses of 2,467 in the first quarter of 2009, a 7.0% decline. Solar manufacturing appears the only bright subsector, subject to continued availability of financing.

► **Professional** – Professional sector employment declined 2.2% year over year in the first quarter of 2009 and faces a total decline of 2.1% 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 2014.

► **Tourism** – New Mexico's accommodation and food services sector is down 3.6% year over year for the first quarter of 2009, with no new jobs in arts, entertainment and recreation year over year.

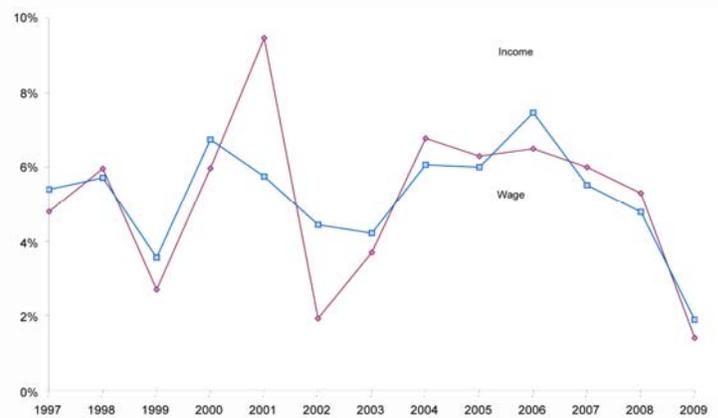
► **Trade** – Trade is expected to have negative year-over-year growth in 2009. For May, retail trade lost 3,800 jobs year over year, a 4% drop, with a weak economy and several store closings in cities around the state this year. The wholesale trade sector lost 1,100 jobs and the transportation, warehousing and utilities sector lost 1,300 jobs, for drops of 4.6% and 5.2% respectively.

WAGES AND INCOME

► **Total Personal Income** – New Mexico's total personal income grew to \$64.4 billion in the first quarter of 2009. Using this measure, economic activity expanded at an annual rate of 2.9% from Q1 2008 to Q1 2009, down from 4.3% in the prior quarter. National growth in personal income over the same period was 0.7%, down 1.3% from the prior quarter. New Mexico ranked 43rd nationally in income in 2007.

► **Wages** – Year over year, New Mexico had a 0.6% decline in wage and salary distributions in construction, an 8.3% decline in manufacturing, a 4.5% decline in retail and a 2.1% decline in wholesale. New Mexico's total wage and salary disbursements reached \$34.1 billion in the first quarter of 2009, a 2.7% growth year over year. United States average hourly earnings decreased 0.4% year over year in the first quarter of 2009, down 3.0% from the prior quarter. Occupational employment statistics from May 2009 show New Mexico's average annual wage for all occupations at \$37,490 in May 2008, which was 89.7% of the nation's average.

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
GDP	Q1-09	-5.5%	Q4-08	-6.3%	Q3-08	-0.5%
CPI	Q1-09	2.1%	Q4-08	2.1%	Q3-08	2.2%
CPI-core	Q1-09	2.2%	Q4-08	2.2%	Q3-08	2.2%

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

► **Interest Rates** – The 30-year fixed-rate mortgage (FRM) was 5.42% in June 2009, up from the preceding five months according to Freddie Mac. On June 24, 2009, the Federal Reserve maintained the target for the federal funds rate to a range of zero to 0.25%. The target was last changed, from 1.00%, on December 16, 2008.

► **Home Prices** – According to the Federal Housing Finance Agency (FHFA) house price appreciation ranking, New Mexico's house prices were down 6.4% year over year for the first quarter of 2009. This ranks New Mexico 38th in the nation for annual housing appreciation, down from 29th in the prior quarter.

**Existing Home Prices
Q1 2009 Year Over Year**

	Home Price	Percent Change
Albuquerque	\$190,316	-2.9%
Las Cruces	\$123,158	-2.1%
Santa Fe	\$291,430	-3.5%
Farmington	\$138,471	0.1%
State of New Mexico	\$189,063	-6.4%
United States	\$195,410	-7.1%

Sources: FHFA HPI

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/Loss ⁴	11th	-2.4%	May 2009
Fertility Rate ³	10th	76.4	2007	Unemployment Rate ⁴	8th	6.5%	May 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)	5th	2.8%	Q1 2009
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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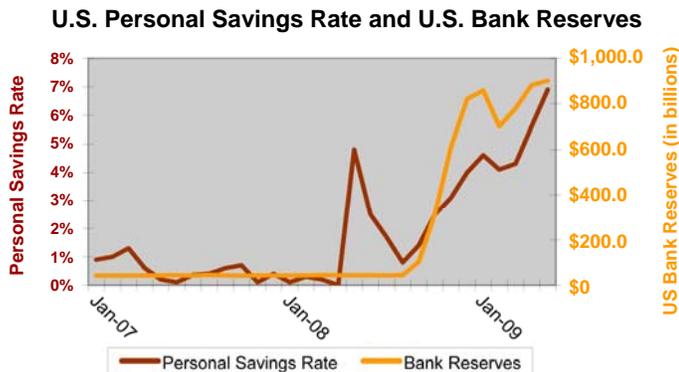
The bad news is that, with federal funds available only through the first quarter of FY 2011, additional general fund revenues will have to be raised, which depends on a healthy recovery in the state and national economies.

The current forecast is that state revenues will rebound in FY 2011 and FY 2012, as the economy rebounds. But signs of that recovery are few and weak.

New Mexico is expected to receive \$1.85 billion to \$2.0 billion in American Reinvestment and Recovery Act of 2009 funds, according to the state's web site dedicated to the stimulus plan, www.recovery.state.nm.us.

The federal government has also injected hundreds of billions of dollars into the nation's banks to encourage lending for business investment and consumer purchases, which will stimulate economic activity.

The impact so far on the state and national economies has been severely limited because much of the additional income generated by the federal spending is being saved rather than spent.



Sources: U.S. Department of Commerce Bureau of Economic Analysis National Income Accounts; Board of Governors of the U.S. Federal Reserve System

The personal savings rate, which bottomed out at 0.1% of personal income in January 2008, rose astronomically to 6.9% by May 2009. As a result, about \$770 billion of after-tax personal income is being saved rather than spent. So while family finances are in much better shape, the economy, which has been fueled by personal consumption, suffers.

Banks are in a similarly defensive mode. In August 2008, banks held about \$44 billion in reserves, just \$2 billion more than is required. This pattern of holding just the bare minimum in reserves and lending out the rest to spur

investment and consumption has existed for decades. By May 2009, bank reserves had grown to about \$900 billion, over \$840 billion more than required.

Some policymakers and economists are worried that when both of these "reserves" are spent or loaned out, the economy will "overheat" and face runaway inflation. For now, however, the concern is that consumers and bankers are overly cautious and reducing the impact of the flood of federal stimulus dollars to a trickle.

Federally Supported Auto Company Bankruptcies Hurt Rural New Mexico

The federally supported bankruptcies of General Motors (GM) and Chrysler, while they may have a positive impact on the nation as a whole, could hurt New Mexico, particularly the state's small towns. These auto companies plan to close or cancel their affiliations with 3,000 dealerships nationwide, including eight in New Mexico. Dealerships affiliated with other manufacturers may close as well because of the sour economy.

Communities with Auto Dealerships Facing Closure or Loss of Automaker Affiliation



The closed or threatened dealerships are predominately in New Mexico's small towns, where the closure of any business, especially one that brings in dollars from a large service area, is a very serious matter.

A bill passed the U.S. House of Representatives that would prevent GM and Chrysler from consolidating their dealership networks, but it faces an uncertain future in the Senate. The car companies warn that the bill's passage would complicate their emergence from government-backed bankruptcies.

Crystal Ball Cloudy

The state's economy — and, consequently, state finances — weakened through the end of FY 2009. Although there are some signs that the economy is beginning to turn, there are no clear signs that the federal stimulus programs will bring a quick, healthy rebound. Policymakers should brace for more and harder budget choices and the possibility that those choices will have to be made in a special legislative session if the state's cash position continues to deteriorate.