

# NEW MEXICO ECONOMIC SUMMARY



NOVEMBER 2009

## NEW MEXICO'S ECONOMY STRUGGLES AFTER HISTORIC PLUNGE

Precipitous declines in the U.S. economy, energy prices and consumer confidence are battering New Mexico's economy. Based on the latest indicators, it is likely the state's economy will recover more slowly than the national economy.

Oil and natural gas prices both fell by more than 70% in the eight months following their peaks in the summer of 2008. Oil prices have recovered only about half of their lost value and gas prices have recovered less than 15%. Both prices may fall again with a weakening in worldwide demand or, in the case of natural gas, further increases in supply, because natural gas is not exported.

The last time oil prices dropped by more than half, in the mid-1980s, the impact on New Mexico was offset by the expanding U.S. economy, and the state experienced no year-over-year job losses. During times of economic stagnation across the country, as was the case in 2000-2002, rising oil

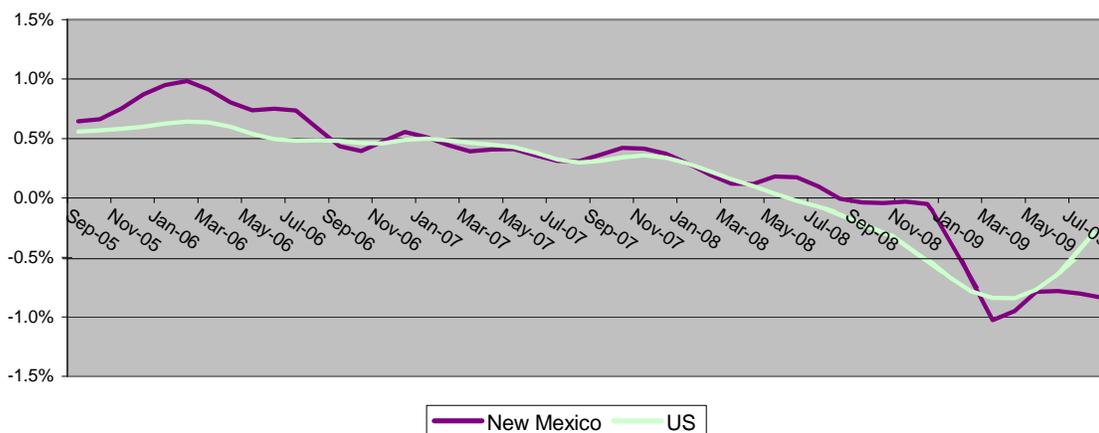
and gas prices caused the New Mexico economy to outpace that of the U.S.

During the current recession, oil and natural gas prices, the U.S. economy and consumer confidence have all headed sharply in the same direction — down.

From peak employment in December 2007, the U.S. lost 343,000 jobs per month through September 2009 — the steepest and longest slump since the Great Depression. New Mexico lost a total of 30,900 jobs during the same period, a dismal 4% decline not seen in 65 years. The monthly index of economic activity produced by the Federal Reserve Bank of Philadelphia indicates that while the U.S. economy began its decline before New Mexico's, it has also shown a steadier recovery. New Mexico's economic growth peaked at a higher level than the nation's in March 2006, due in part to the steep run-up in energy prices, then hit a historic low in March 2009 and has shown an unsteady recovery since.

Ironically, falling energy prices, particularly natural gas prices, are helping to fuel the national recovery while holding New Mexico back. Falling energy prices mean consumers have more money to spend for other purposes, even as their incomes have stagnated. Household expenditures on energy dropped to 4.4% of disposable income in this year's second quarter, down from a peak of 6.3% in the third quarter of 2008, which was the highest since 1985.

**Monthly Index of Economic Activity for New Mexico and the U.S.  
Annual Percent Change**

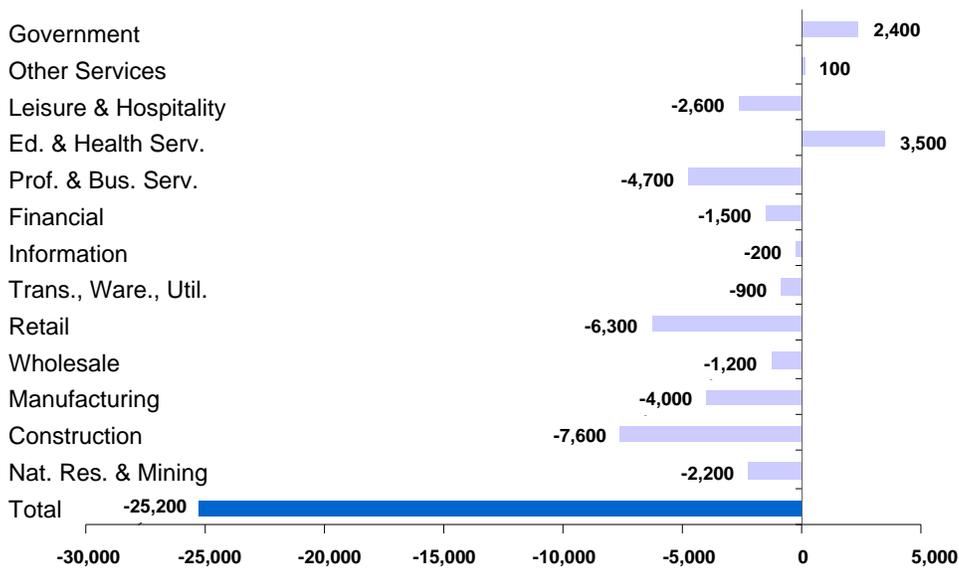


Source: Federal Reserve Bank of Philadelphia

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## EMPLOYMENT

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



Source: New Mexico Workforce Solutions Department

► **Employment Growth** – The New Mexico economy lost 25,200 net new non-agricultural jobs year over year through July 2009. Year-over-year job growth was -3.0% in July 2009, well above the national rate of -3.9%. The U.S. job market experienced a month-over preliminary loss of 263,000 jobs in September 2009, compared to a preliminary loss of 216,000 jobs in August 2009 and down from a peak loss of 741,000 jobs in January 2009.

► **Unemployment** – New Mexico's August 2009 unemployment rate was 7.5%, up 3.2% year over year and up 0.5% from the prior month. The national August 2009 unemployment rate was 9.7%, up 3.5% year over year and up slightly from the prior month.

## INDUSTRY FOCUS

► **Construction** – Housing contributed to a loss of 7,600 construction jobs, a 13.1% drop, in the last year, and total permits for new housing construction in the state were down 37.5% in the second quarter of 2009. Housing valuations were down for the second quarter of 2009 year over year. In August, New Mexico ranked 36th among states for foreclosure rates, which were low relative to the nation.

► **Defense** – Department of Defense contracts performed in New Mexico in federal FY 2007 were reported at \$6.7 billion. 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 dropped again after almost six years of consecutive quarterly growth, with a large drop in energy prices in two quarters (Q4 2008 and Q1 2009) and 1,700 jobs lost in the second quarter of 2009, an 8.1% decline.

► **Government** – New Mexico's government sector gained 2,867 jobs year over year in the second quarter of 2009, a 1.4% gain, primarily in federal jobs associated with the 2010 census and from gains at the local level, mostly from native operations expansions, subject to the declining economy. Slight growth is expected in this sector in future years.

► **Health Care** – New Mexico's large health care and social assistance sector added 2,867 jobs year over year for the second quarter of 2009, a 2.8% gain, with consistent growth expected in future years.

► **High Technology** – The information sector was down slightly for the quarter, with 333 jobs lost year over year, a 2.1% drop. No gains are expected in this sector until 2011.

► **Manufacturing** – The manufacturing sector continues to deeply contract in New Mexico, with some firm closures and job losses of 3,667 in the second quarter of 2009, a 10.4% decline. Solar manufacturing appears to be a bright subsector, subject to continued availability of financing and installation incentives.

► **Professional** – Professional sector employment declined 2.4% year over year in the second quarter of 2009 and faces a total decline of 2.2% in 2009, with some large temporary boosts expected over the next three years from call centers. Employment growth in this sector is expected to be above 2.0% from 2010 through 2014.

► **Tourism** – New Mexico's accommodation and food services sector is down 2.8% year over year for the second quarter of 2009, with no new jobs in arts, entertainment and recreation year over year.

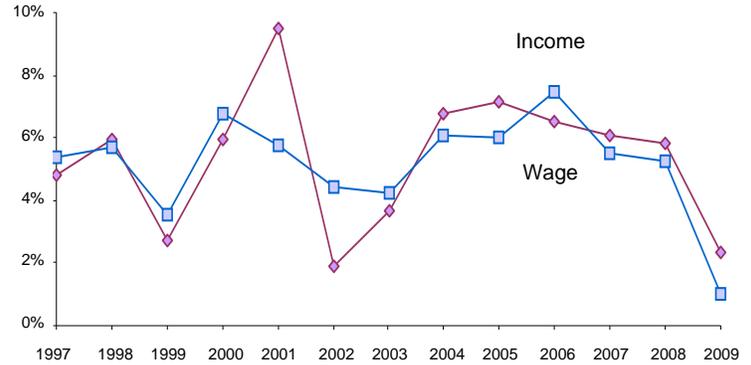
► **Trade** – Trade is expected to have negative year-over-year growth in 2009. For July, retail trade lost 6,300 jobs year over year, a 6.5% drop, with a weak economy and retail bankruptcies, closings and downsizings. The wholesale trade sector lost 1,200 jobs, and the transportation, warehousing and utilities sector lost 900 jobs, for drops of 5.0% and 3.8% respectively.

## WAGES AND INCOME

► **Total Personal Income** – New Mexico's revised total personal income grew to \$65.5 billion in the second quarter of 2009, up 1.8% from the prior quarter. Using this measure, economic activity expanded at an annual rate of 2.0% from Q2 2008 to Q2 2009, down from 2.8% in the prior quarter. Revised national growth in personal income over the same period was down 2.6%, with personal income up 0.2% from the prior quarter. New Mexico ranked 45th nationally in income in 2008.

► **Wages** – Year over year, for the second quarter of 2009, New Mexico had a 5.7% decline in wage and salary distributions in construction, 11.2% decline in manufacturing, 6.5% decline in retail and 1.1% decline in wholesale. New Mexico's total wage and salary disbursements reached \$34 billion in the second quarter of 2009, a 1.5% growth year over year. Preliminary U.S. average hourly earnings increased 2.5% year over year in September 2009, down from 3.6% the prior year. 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: August FOR-UNM BBER with 2009 forecast

## GDP, CPI, INTEREST RATES AND HOME PRICES

Indicator	Period	Value	Period	Value	Period	Value
GDP	Q2-09	-3.8%	Q1-09	-3.3%	Q4-08	-1.9%
CPI	Q2-09	2.1%	Q1-09	2.1%	Q4-08	2.1%
CPI-core	Q2-09	2.2%	Q1-09	2.2%	Q4-08	2.2%

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

► **Interest Rates** – The 30-year fixed-rate mortgage (FRM) was 5.06% in September 2009, down from the preceding three months, according to Freddie Mac. On September 23, 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 home prices were down 3.8% year over year for the second quarter of 2009. This ranks New Mexico 29th in the nation for annual housing appreciation, up from 38th in the prior quarter.

**Existing Home Prices  
Q2 2009 Year over Year**

	Home Price	Percent Change
Albuquerque	\$185,168	-4.7%
Las Cruces	\$122,508	-1.6%
Santa Fe	\$285,079	-4.4%
Farmington	\$136,452	-0.4%
State of New Mexico	\$193,208	-3.8%
United States	\$194,157	-6.1%

Sources: FHFA HPI

## 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>	25th	-3.7%	Aug 2009
Fertility Rate <sup>3</sup>	10th	76.4	2007	Unemployment Rate <sup>4</sup>	17th	7.5%	Aug 2009
Life Expectancy	27th	77 years	2006	Median Household Income	45th	\$43,508	2008
Median Age	40th	35.8 years	2008	Average Annual Pay	44th	\$37,490	2008
Household Size	14th	2.62 persons	2008	Per Capita Personal Income	44th	\$32,091	2008
				Personal Income (% Change)	5th	2.8%	Q1 2009
<b>Social Indicators</b>							
Poverty Rate	45th	17.1%	2008				
Educational Attainment of Persons 25+							
High School Degree	43rd	82.4%	2008				
Bachelor's Degree	35th	24.7%	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 nonseasonally and seasonally adjusted, respectively, and are based on BLS and NM WSD data.

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### Annual Growth Rate in Taxable Gross Receipts Three-Month Moving Average

While dollars available to consumers for other purposes may rise as energy prices fall, New Mexico's energy industry, and, therefore, the state as a whole, is suffering directly from the price drop. Drilling is down. Employment in the oil and gas industries has fallen.

The New Mexico rig count peaked at 91 in October 2008, hit a low of 34 in April 2009 and stood at 45 last month, reflecting the caution with which the industry views recent price increases.

These declines have rippled through the New Mexico economy, with some sectors faring better than others.

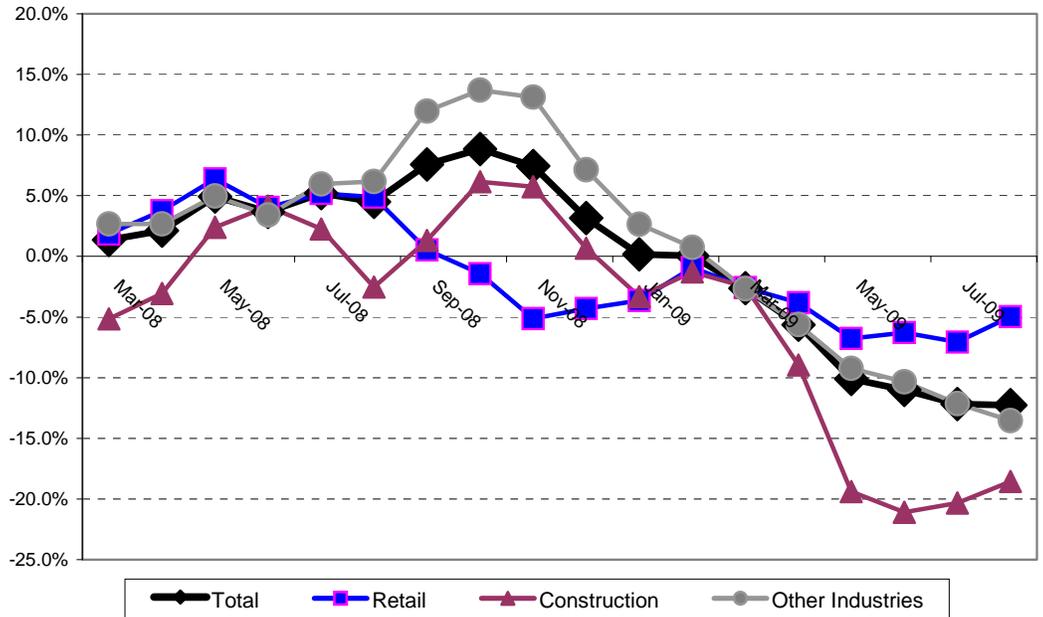
For the three-month period ending August 2009, total taxable gross receipts in New Mexico were down 12.3% from the same period in 2008.

Retail sales were down 4.9% during that period, though the monthly trend indicates improvements. Gross receipts tax growth was brought down primarily by declines in wholesale trade (-33.9%); mining, oil and gas (-28%); and construction (-19%).

#### LOOKING FORWARD:

#### CONSUMERS MORE CONFIDENT, BUT CAUTIOUS

In spite of a recovery in consumer sentiment off its recent bottom, U.S. families are acting very cautiously, saving more out of their monthly incomes than they have in the last 13 years. Continued increases in the savings rate, while commendable, will further dampen economic recovery



Source: New Mexico Taxation and Revenue Department. Months shown are ending accrual months of three-month moving average periods.

because a dollar saved does not circulate through the economy as does a dollar spent.

The Reuters/University of Michigan consumer sentiment index stood at 70.6 at the end of October, up from its bottom of 55 in November 2008 but well off its recent high of 90.9 in July 2007.

This recent improvement in consumer sentiment from its steep decline has been accompanied not by an increased rate of spending but by an increase in the personal savings rate — 4% of personal income over the last two quarters, up from 1.2% in the first quarter of 2008. Given that, on average, Americans have saved about 7% of their disposable income since 1929, the U.S. is now returning to a more "normal" situation.

With consumers in this cautious mood, however, economic pump-priming through wage gains, tax rebates, additional unemployment insurance payments and other increases to spendable income will be greatly weakened and full economic recovery delayed.