

# NEW MEXICO ECONOMIC SUMMARY



FEBRUARY 2010

## ECONOMY SHOWS SIGNS OF RECOVERY; HONEST

The national and New Mexico economies are recovering, but it doesn't feel that way because an increase in industrial production and output is not translating into an increase in jobs. Employers continue to cut costs by laying off staff and are reluctant to rehire production workers. It is unclear what the future holds as state and local governments cut back to balance their budgets and as the federal government shifts from stimulating the economy to dealing with the negative effects of huge deficits and mammoth increases in the money supply.

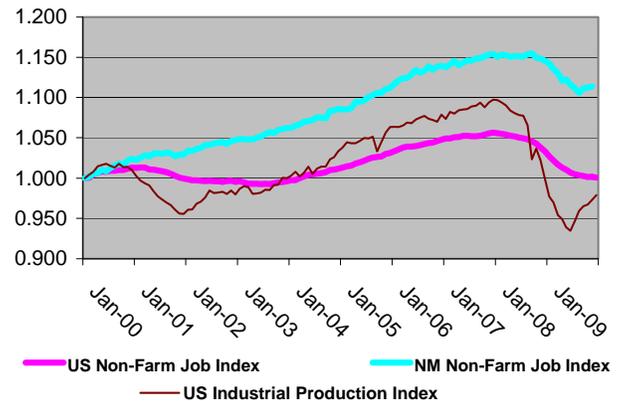
### *Industrial Production Rebounds, Employment Flat*

United States industrial production, as measured by the output of the mining, manufacturing and gas and electric utility businesses, continued its six-month rise in December. The industrial production index bottomed out in June and rose steadily through the end of 2009.

Industrial production expanded at an annual rate of 7% in the final quarter of 2009, which boosted growth in total U.S. gross domestic product to a 5.7% annual rate, up from 2.2% growth in the third quarter, according to figures released by the U.S. Commerce Department on January 29. Economic growth in the fourth quarter, while rapid, was not rapid enough to substantially lift employment in either New Mexico or the U.S. Industrial businesses continue to operate at less than 75% of capacity — almost 10 percentage points below their average rate from 1972 to 2008 — and are reluctant to rehire laid-off workers in the face of depressed retail sales and consumer confidence, as well as other indications that demand for goods and services is not rebounding.

Employment across the U.S. continued to slide through the end of 2009, although appearing to bottom out at about 131 million jobs during the last quarter of the year. National employment is approximately 7 million jobs, or 5%, below its peak in December 2007 and is about the level last seen in

## U.S. Industrial Production, U.S. Employment and N.M. Employment Indices (January 2000 = 1.0)



2004. New Mexico employment has fallen by about 31,000 jobs, or 3.7%, from its peak at 850,000 jobs in September 2008, to stand at 817,000 in December 2009, matching its December 2005 level. New Mexico's unemployment increased to 8.3% in December 2009, up sharply from the 7.8% rate in November, but still below the U.S. December unemployment rate of 10%.

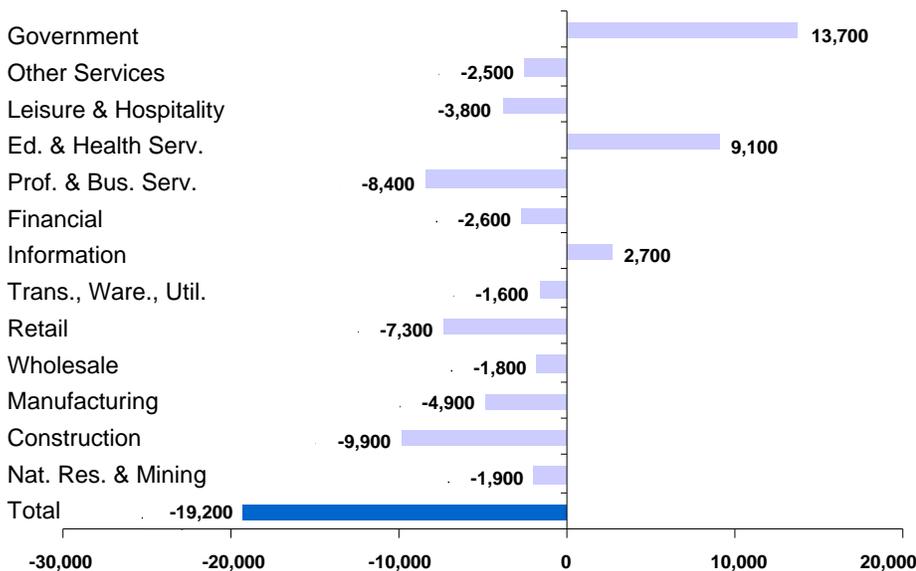
Once again, expansion in New Mexico's oil and gas industry contributed to the state's ability to outperform the U.S. economy. The state's rig count stands at 50, which, although still down by half from its peak of 102 in April 2006, is up from its low of 34 in May 2009.

Improvement in basic industries is being offset by an overall weakness in consumer demand as aggregate real wages slide and consumer confidence, although improving, remains weak. Inflation-adjusted average weekly wages of non-supervisory workers were down 1.6% for the year ending December 2009, the steepest decline since 1990. Weekly earnings for nonsupervisory workers have fallen in five of the past seven years. A scarcity of jobs and falling purchasing power of workers is continuing to depress retail sales and to dampen recovery. Retail sales dropped 0.3% in December, capping a 6.2% decline for the year, the sharpest decline since the federal government began keeping records in 1992.

(Continued on page 4)

## EMPLOYMENT

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



Source: New Mexico Workforce Solutions Department

► **Employment Growth** – The New Mexico economy lost 25,400 net new non-agricultural jobs year over year through preliminary November 2009. Year-over-year job growth was -3.0% in the same month, above the national rate of -3.4%, ranking New Mexico 22nd in employment growth. The U.S. job market experienced a month-over preliminary loss of 85,000 jobs in December 2009, a revised gain of 4,000 jobs in November 2009 and a revised loss of 127,000 jobs in October 2009, down from a peak loss of 741,000 jobs in January 2009.

► **Unemployment** – New Mexico's preliminary November 2009 unemployment rate was 7.8%, up 3.2% year over year and unchanged from the prior month. The national November 2009 unemployment rate was 10.0%, up 3.2% year over year and down 0.2% from the prior month.

## INDUSTRY FOCUS

► **Construction** – Housing contributed to a loss of 10,166 construction jobs for the third quarter of 2009, a 17.6% drop in the last year. While total permits for new housing construction were up 5.2% for that quarter, housing valuations were down for the same period year on year. In November, New Mexico ranked 38th among states for foreclosure rates, which were low relative to the nation.

► **Defense** – Federal 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 2010, a result of military involvement overseas. Recent strong military employment growth comes mostly from Cannon Air Force Base in Curry County.

► **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 4,369 jobs lost in the third quarter of 2009, a 20.0% decline, despite a partial rebound of energy prices.

► **Government** – New Mexico's government sector lost 189 jobs year over year in the third quarter of 2009, a 0.1% loss, with federal jobs associated with the 2010 census offset by losses in state and local government employment.

► **Health Care** – New Mexico's large health care and social assistance sector added 3,556 jobs year over year for the third quarter of 2009, a 3.5% gain, with new facilities, expansions and consistent growth expected in future years.

► **High Technology** – The information sector was up 886 jobs for the quarter despite a loss of 673 jobs year over year, a 4.1% drop. Steady year-over-year growth in this sector is expected after 2010.

► **Manufacturing** – The manufacturing sector continues to deeply contract in New Mexico, with some firm closures and 6,830 jobs lost in the third quarter of 2009, a 19.0% decline, despite some recent callbacks in aerospace. Some new jobs are coming on line in solar manufacturing, with year-over-year growth expected in the second half of 2010.

► **Professional** – Professional sector employment declined 8.1% year over year in the third quarter of 2009 and faces a total decline of 6.1% in 2009. An initially large, then declining, rebound of growth is expected over the next three years from call centers.

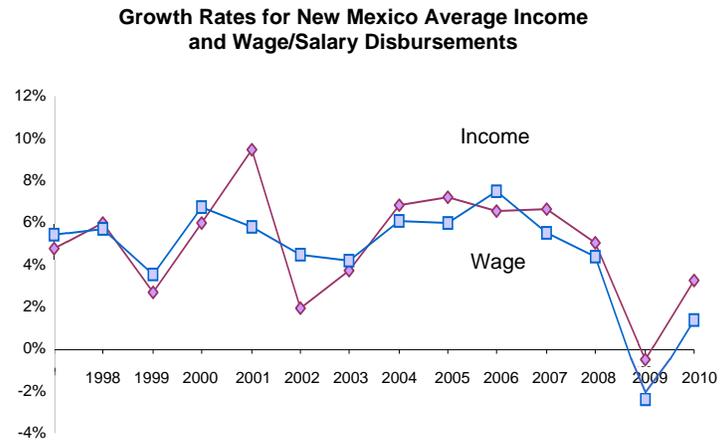
► **Tourism** – New Mexico's accommodation and food services sector was down 3.2% year over year for the third quarter of 2009, with flat employment in arts, entertainment and recreation year over year.

► **Trade** – Trade is expected to have negative year-over-year growth in 2009. For the third quarter, retail trade lost 6,830 jobs year over year, a 5.9% drop, with a weak economy and retail bankruptcies, closings and downsizings. The wholesale trade sector lost 2,071 jobs and the transportation, warehousing and utilities sector lost 2,511 jobs, for drops of 8.6% and 10.4% respectively.

## WAGES AND INCOME

► **Total Personal Income** – New Mexico's preliminary total personal income grew to \$65.8 billion in the third quarter of 2009, down 0.6% from the prior quarter. Using this measure, economic activity declined at an annual rate of 1.1% from Q3 2008 to Q3 2009, down from 0.9% in the prior quarter. Preliminary corrected average state growth in personal income over the same period was up 0.3%, with personal income declining 0.5% from the prior quarter. New Mexico preliminarily ranked 10th nationally in personal income growth in the third quarter of 2009.

► **Wages** – Year over year, for the third quarter of 2009, New Mexico had a 13.7% decline in wage and salary distributions in construction, a 16.1% decline in manufacturing, an 8.1% decline in retail and a 5.9% decline in wholesale. New Mexico's total wage and salary disbursements fell to \$32.8 billion in that quarter, a 3.7% decline in growth year over year. Preliminary U.S. average hourly earnings increased 2.2% year over year in November 2009, down from 3.9% the prior year. The May 2009 Occupational Employment Statistics 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.



Source: November FOR-UNM BBER with 2010 forecast

## GDP, CPI, INTEREST RATES AND HOME PRICES

Indicator	Period	Value	Period	Value	Period	Value
GDP	Q3-09	-2.6%	Q2-09	-3.8%	Q1-09	-3.3%
CPI	Q3-09	2.2%	Q2-09	2.1%	Q1-09	2.1%
CPI-core	Q3-09	2.2%	Q2-09	2.2%	Q1-09	2.2%

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

► **Interest Rates** – The 30-year fixed-rate mortgage (FRM) was 4.88% in November 2009, down from the preceding three months, according to Freddie Mac. On December 16, 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 5.4% year over year for the third quarter of 2009. This ranks New Mexico 42nd in the nation for annual housing appreciation, down from 29th in the second quarter and 38th in the first quarter.

### Existing Home Prices Q3 2009 Year Over Year

	Home Price	Percent Change
Albuquerque	\$183,131	-5.0%
Las Cruces	\$119,409	-2.8%
Santa Fe	\$277,496	-4.8%
Farmington	\$134,228	-0.0%
State of New Mexico	\$189,344	-5.4%
United States	\$194,604	-3.8%

Source: FHFA HPI

## SIGNIFICANT NEW MEXICO RANKINGS

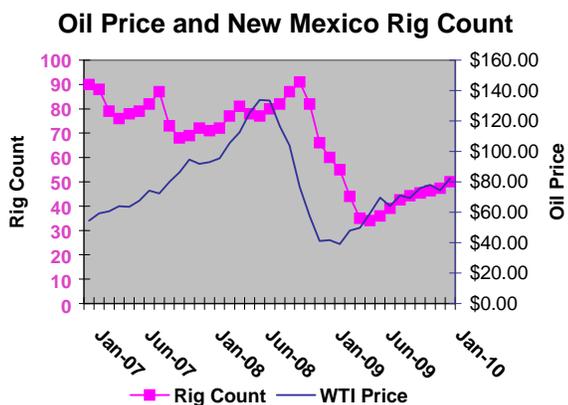
Demographic	State Rank <sup>1</sup>	Value	Period	Economic	State Rank <sup>1</sup>	Value	Period
Population Growth Rate <sup>2</sup>	18th	1.0%	2007-08	Rate of Job Growth/Loss <sup>4</sup>	22nd	-3.0%	Nov 2009
Fertility Rate <sup>3</sup>	10th	76.4	2007	Unemployment Rate <sup>4</sup>	19th	7.8%	Nov 2009
Life 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)	10th	-1.1%	Q3 2009

**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.

**Social Indicators**

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



(Continued from page 1)

### **Federal Stimulus Cushions Economic Downturn**

Although there is a difference of opinion among economists and policymakers on exact short- and long-term impacts, it is clear that stimulative monetary policy and the federal tax cuts and spending increases included in the American Recovery and Reinvestment Act of 2009 (ARRA) have kept the economy from falling further.

As of December 2009, \$263.3 billion of the original \$787 billion authorized by ARRA has been spent or has gone to American households and businesses in the form of tax reductions. Approximately 38% of the total stimulus through 2009 was in the form of tax cuts. An additional \$149.7 billion has been obligated for projects and activities, according to a January 13, 2010 report by the Council of Economic Advisors (CEA).

IHS/Global Insight, an independent economic forecasting service, estimates that the ARRA stimulus added an average of 2.3 percentage points to the annualized growth rate in U.S. gross domestic product (GDP) in the first three quarters of 2009. Without ARRA, U.S. GDP would have contracted sharply in the second quarter and continued to decline in the third quarter.

IHS/Global Insight estimates that ARRA spending added 228,000 jobs to the U.S. economy in the second quarter, 688,000 in the third quarter and 1,248,000 in the fourth quarter. Without these jobs, total non-farm jobs would have declined more steeply through the end of the year.

The impact of federal stimulus on New Mexico is harder to measure. Rough estimates by the CEA are that approximately 12,000 jobs were created or saved in New

Mexico as a result of ARRA, with 5,230 of these jobs reported as created or saved by recipients of program funds.

One thing is for sure: the state government has avoided around \$300 million in budget cuts or revenue increases in fiscal year 2010 by using ARRA funds to replace declining general funds for Medicaid and public education, according to the Legislative Finance Committee.

The downside is that, without additional federal legislation, these funds will not be available in FY 2011, meaning that additional general funds will have to be made available or budgets will have to be cut.

### **State Budget Cutbacks Dampen Federal Stimulus**

Most states across the country face substantial shortfalls in the current and upcoming budget years, even with their use of federal stimulus funds, forcing substantial budget cuts or revenue increases in the coming months. This is significant since employment in government, health care, education and social service has been a stabilizing force in the economy.

Thirty-six states report new gaps in their previously balanced FY 2010 budgets, gaps that have developed since the fiscal year began, according to *NCSL State Budget Update: November 2009*. The sum of these imbalances stood at \$28.2 billion as of the November report, and the imbalances are on top of the \$145.9 billion in budget gaps that were closed for FY 2010 when legislatures last met.

Thirty-five states report budget gaps in FY 2011 totaling \$55.5 billion. Twenty-three states anticipate budget gaps for FY 2012 totaling \$68.8 billion.

According to the NCSL report, 24 states project gaps in excess of 5% of their FY 2011 general fund budgets, with 14 states anticipating gaps of 10% or more. The largest shortfalls are expected in Nevada (32.9%), Arizona (30%) and New Jersey (27.5%).

These state government actions, whether budget cuts or tax increases, are counter to the stimulative policies of the federal government and will certainly restrain economic growth, particularly in those states facing the most serious budget shortfalls.