

NEW MEXICO ECONOMIC SUMMARY



AUGUST 2011

NEW MEXICO'S LONG, PAINFUL ECONOMIC RECOVERY

The New Mexico economy is beginning to recover from its deep recession, tallying year-over-year employment growth in June for the first time since September 2008, according to the U.S. Bureau of Labor Statistics (BLS). The Bureau of Business and Economic Research (BBER) at the University of New Mexico believes the recovery actually began earlier, as far back as October 2010, and that it has extended through the first half of 2011. Either way, the job growth follows on the heels of a healthy pickup in the level of economic activity across New Mexico, measured by the business and consumer sales subject to the state's broad-based gross receipts tax.

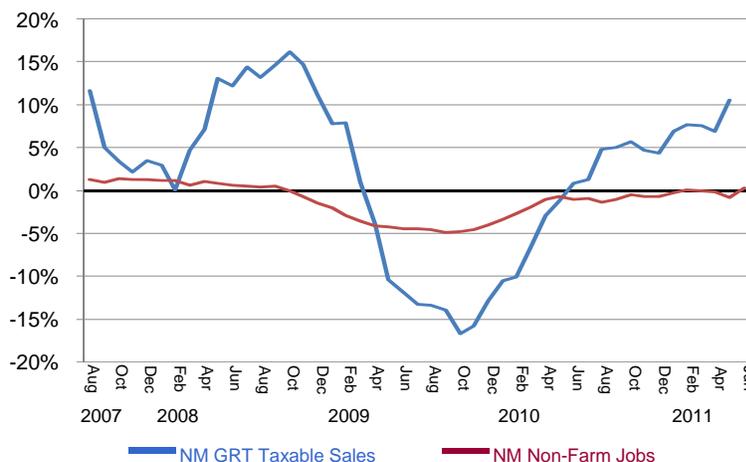
Taxable gross receipts began to show year-over-year growth in June 2010, and the growth rate accelerated through May 2011. Through the first 11 months of FY 2011, taxable gross receipts were up about 6% over the same period in the previous year. The mining and oil and gas extraction sectors have grown most rapidly, posting a 40% increase in taxable gross receipts.

Retail trade has been one of the weakest sectors due, in part, to persistently high unemployment, which is driving consumer confidence down and causing families in New Mexico and across the nation to save more and spend less in an effort to build a nest egg as "self-insurance" against further economic downturns. High fuel prices are also a factor, causing consumers to spend more on fuel, which is not taxed under the gross receipts tax, and less on taxable items. Despite a fairly strong holiday shopping season, taxable receipts in the retail sector were down 0.2% through the first 11 months of FY 2011.

Overall, New Mexico's gross receipts tax revenue is estimated to post 9.9% growth in FY 2011 after declining 10.8% in FY 2010. Total state recurring revenue, including corporate and personal income taxes, energy-related revenues and investment earnings, is expected to grow by 9.9% in FY 2011 after a 9.8% decline in FY 2010.

One month in, the outlook for FY 2012 is much more guarded, with a projected 3.6% increase in gross receipts tax collections and a 4.9% increase in state recurring revenues.

**New Mexico Taxable Gross Receipts and Non-Farm Jobs
(percent change from same month previous year)**



Sources: U.S. Bureau of Labor Statistics and New Mexico Taxation and Revenue Department

Although the latest estimates indicate continued modest growth in New Mexico economic activity, jobs and state revenues, the recovery promises to be long and painful, with continued high levels of unemployment and pressure on government services.

New Mexico Economic Recovery: A Long Road Back

The BBER estimates that non-farm jobs will have grown by just 0.1% in FY 2011 and that jobs will grow by 1.3% in FY 2012. New Mexico has lost 46,000 jobs since the number of jobs peaked in 2008, and the state is not projected to regain those jobs until 2015.

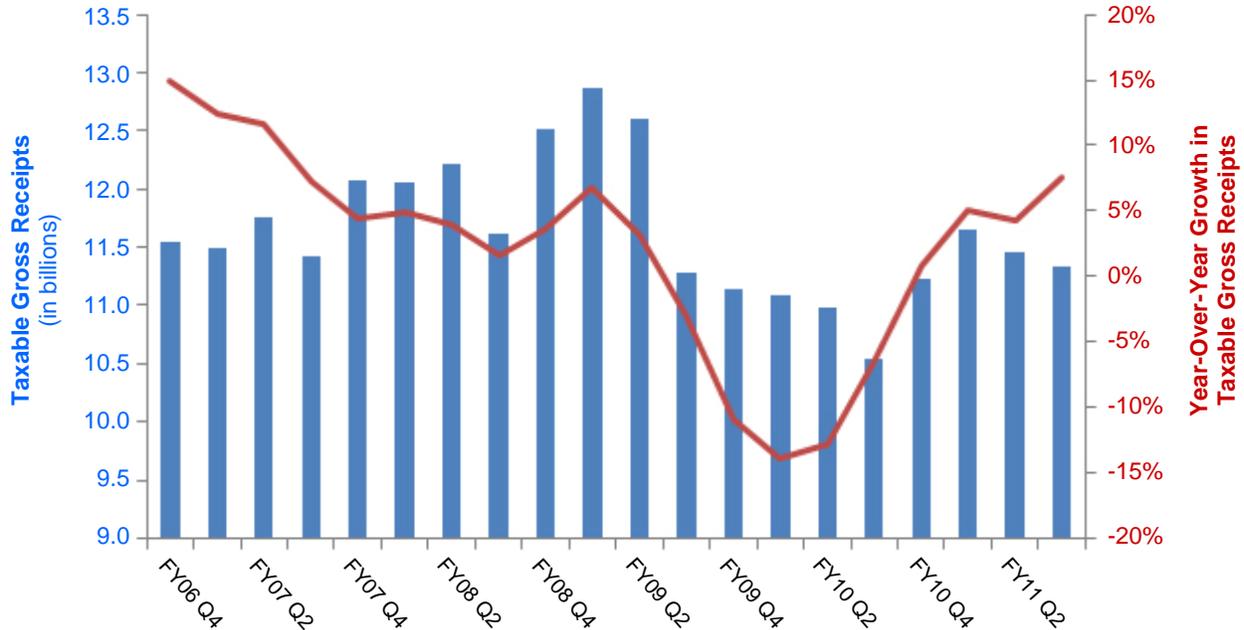
Although the New Mexico unemployment rate fell from its peak of 8.7% in February 2011 to 6.8% in June, it is still well above its low point of 3.4% in November 2007 and has been above 6.5% since May 2009. The primary reason for the decrease since February, according to the BLS, has been an estimated 18,000 unemployed workers who did not find jobs, became discouraged and quit looking for work, thus removing themselves from the unemployment calculations.

The average amount of time New Mexicans who are still looking for work have been unemployed has risen dramatically. The percentage of the unemployed who have been out of work longer than 15 weeks rose to 59% in the first quarter of 2011 from an average of 23% during 2008. New claims for unemployment benefits in New Mexico

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TAXABLE GROSS RECEIPTS

Taxable Gross Receipts by Quarter

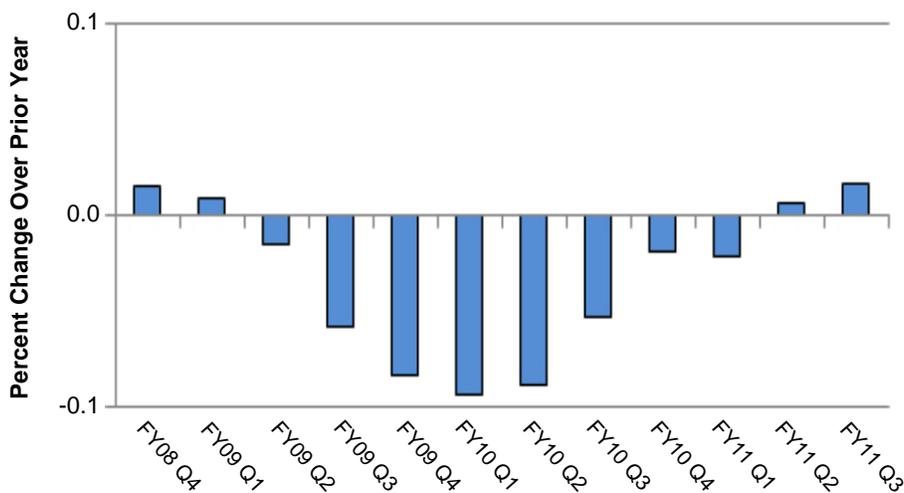


Source: LFC

- ▶ Growth in taxable gross receipts (TGR) increased to 7.6% in the third quarter of FY11, up from 4.3% during the second quarter of FY11.
- ▶ Strong FY11 growth compares to a decline in TGR of 6.6% in the third quarter of FY10.
- ▶ TGR in the third quarter of FY11 was 12% lower than the peak level in the first quarter of FY09.

EMPLOYMENT

New Mexico Employment Growth



Source: BBER May 2011

- ▶ Year-over-year growth in non-farm employment is expected to remain flat in FY11, while FY12 will see annual growth of about 1.3%.
- ▶ Non-farm employment levels are not projected to reach the peak level of 853,000, seen in the second quarter of FY08, until FY16.

U.S. AND NEW MEXICO ECONOMIC OUTLOOK

	FY 2010	FY 2011	FY 2012
NATIONAL ECONOMIC INDICATORS			
U.S. Real GDP Growth (level annual avg., % year over year)*	1.2	2.7	3.0
U.S. Inflation Rate (CPI, annual avg., % year over year)**	1.0	2.0	2.6
Federal Funds Rate (%)	0.2	0.2	0.3
NEW MEXICO LABOR MARKET AND INCOME DATA			
NM Non-Agricultural Employment Growth (%)	(3.2)	0.1	1.3
NM Personal Income Growth (%)***	0.1	4.2	4.2
NM Private Wages and Salaries Growth (%)	(2.4)	2.8	4.5
CRUDE OIL AND NATURAL GAS OUTLOOK			
NM Oil Price (per barrel)	\$71.29	\$85.50	\$87.80
NM Taxable Oil Volumes (million barrels)	62.7	65.4	67.4
NM Gas Price (per thousand cubic feet)****	\$5.18	\$5.20	\$5.60
NM Taxable Gas Volumes (billion cubic feet)	1,285	1,224	1,184

*Real GDP is BEA chained 2005 dollars, billions, annual rate.

**CPI is all urban, BLS 1982-84 = 1.00 base.

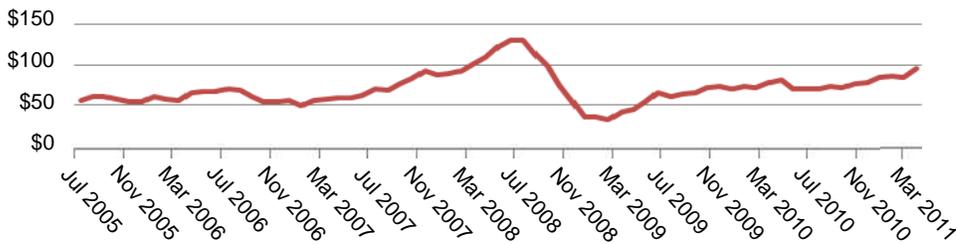
***Personal income growth rates are for the calendar year in which each fiscal year begins.

****Gas prices are estimated using a formula of NYMEX, PIRA and Global Insight future prices as well as liquid premium based on oil price.

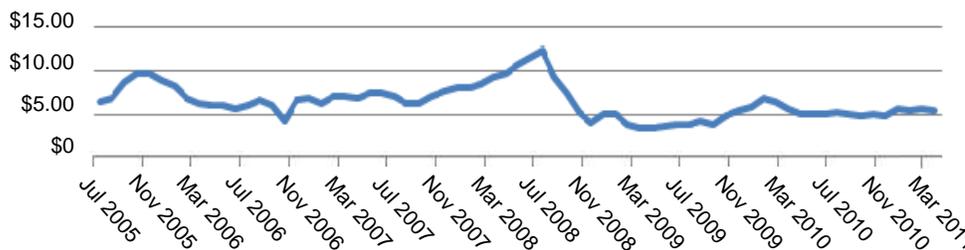
Sources: May Global Insight and June BBER

OIL AND GAS

New Mexico Oil Prices



New Mexico Natural Gas Prices



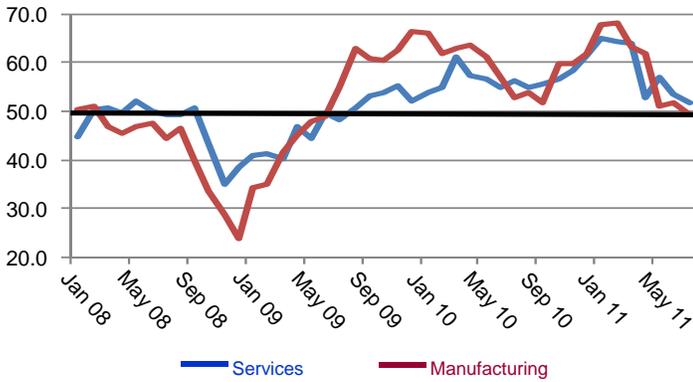
Source: LFC

► As of April 2011, the fiscal YTD average oil price was \$82.76 per barrel, roughly 16% higher than last year. Year over-year production volumes were up 4.7% from the same period last year. A sluggish world economy and Middle East unrest continue to add uncertainty to New Mexico oil prices and production.

► New Mexico natural gas rig counts are up by 50% since July 2009, from 11 to a monthly average of 16 in July 2011. By comparison, national rig counts have increased by only 30% during the same period. New Mexico oil rig counts have more than doubled from a monthly average of 31 in July 2009 to 65 rigs in July 2011.

► As of April 2011, YTD New Mexico natural gas volumes were about 5% lower than last year. The FY11 YTD average price for natural gas is \$5.36 per thousand cubic feet. Premiums paid for liquid gas, which tend to trend with oil prices, continue to pull ONGARD prices above dry gas price forecasts. However, natural gas prices remain vulnerable to increased supplies from productivity improvements.

Institute for Supply Management New Orders Indices for Manufacturing and Services



Source: Institute for Supply Management

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averaged 1,700 per week in the first three weeks of July, down from a peak of 2,000 per week in June 2009 but almost twice the pre-recession low point of 992 per week in September 2007. Continued claims averaged 23,900 during the first three weeks of July, down 27% from a peak of 32,500 in June 2009 but more than twice the pre-recession level of 10,000 in September 2007.

Persistent long-term unemployment means that unusually large numbers of New Mexicans are receiving public assistance. The Human Services Department reported a decline in Temporary Assistance for Needy Families cash assistance cases from approximately 21,514 cases in December 2010 to 19,311 cases in May 2011 — a decline of 11% but still more than 40% above the pre-recession low of 13,572 in November 2007.

The caseload for the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps, increased 2% from 178,787 in April 2011 to 182,356 in June and has almost doubled from a pre-recession low of 96,854 in May 2008. (This increase does not include the 2% growth due to an April 2010 revision in the SNAP gross income test, which changed the qualification threshold from 130% to 165% of the federal poverty level.) The addition of one case adds an average of 2.5 New Mexicans once family members are counted.

The difficulties that these chronic problems add to the state's recovery are compounded by the fact that the U.S. economy is recovering very slowly and showing new signs of weakness.

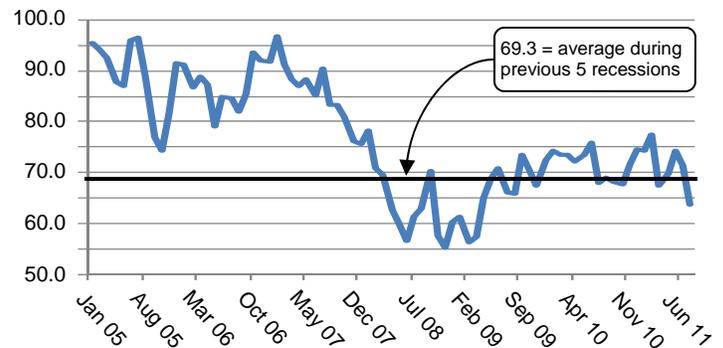
Indicators Show a U.S. Economy on Shaky Ground

The U.S. economy grew at an annual rate of 0.4% in the first quarter of 2011 and 1.3% in the second quarter. Output and employment in the U.S. economy are still at lower levels than their peaks before the recession, which makes this by far the slowest of the post-World War II recoveries. This painfully slow growth has led to a loss of confidence among businesses and consumers alike.

The Institute for Supply Management (ISM) reported an index of new orders for manufactured goods at 49.2 in July, down from 51.6 in June. An index of 52.1 is considered the break-even line between projected expansion and contraction of the manufacturing sector. The ISM's new-orders index for services fell to 51.7 in July from 53.6 in June; the break-even index for the service industries is 50.

Consumers are feeling just about as negative as businesses when it comes to their outlook for the economy. The University of Michigan Index of Consumer Sentiment fell in July to 63.7, its lowest level since early 2009 when the economy was still in recession. The index's average during the five previous recessions was 69.3. During non-recessionary years, the average is 88.6.

University of Michigan Index of Consumer Sentiment



Source: Reuters and the University of Michigan Institute for Social Research

The index, which is formulated from the answers to a monthly nationwide household survey, showed that just one in 10 consumers anticipates inflation-adjusted income gains during the year ahead. As a result, consumers plan to reduce discretionary spending, particularly on automobiles and big-ticket household goods.

Although a double-dip U.S. recession has not been officially recognized or forecast by most economists, major indicators are pointing to weak growth ahead for the nation's economy and, therefore, an increased likelihood that it will take years, not months, for the New Mexico economy to make up what it has lost.