

NEW MEXICO ECONOMIC SUMMARY



DECEMBER 2011

NEW MEXICO ECONOMIC RECOVERY UNEVEN ACROSS INDUSTRIES AND REGIONS

New Mexico's economy continues its slow, uncertain recovery, buoyed by increased activity in the oil patch but held back by a worsening home foreclosure rate in the Albuquerque area.

Although sales and profits have recovered in both New Mexico and the U.S., few jobs have been created as a result. New Mexico's recovery, already delayed compared to the recovery in most of the rest of the country, is uneven at best, concentrated in the oil-producing areas of the state, with the areas of the state that are more reliant on construction, retail trade and public and private services growing much more slowly.

Weak Real Estate Market Continues to Hamper Recovery

A recent increase in foreclosures may mean that recovery in New Mexico will be even more prolonged.

New Mexico was among the leaders of a nationwide trend of increased foreclosure activity in July, August and September 2011, posting a 50% jump from the previous quarter according to RealtyTrac. Until then, New Mexico's foreclosure activity had been on a downward trend.

Nationwide, foreclosure activity ticked upward by less than 1% from the second quarter to the third quarter of 2011, reversing a trend of three consecutive quarters of declines. However, there were 27 states where foreclosure-related activity declined during the third quarter.

New Mexico's increase in foreclosure activity was driven by a 151% jump from the second quarter to the third quarter of 2011 in foreclosure starts in the greater Albuquerque metro area, composed of Bernalillo, Sandoval, Valencia and Tarrant counties. This quarterly increase placed Albuquerque at the top of U.S. metro areas with the greatest increase in foreclosure starts during the period, as shown in the chart at right.

One of every 303 New Mexico households received a foreclosure notice in the third quarter of 2011, putting New Mexico's rate among the worst 20 in the country. Nevada led the nation with one in 44 households receiving foreclosure notices during the same quarter. Colorado was in the middle of the pack, with a rate of one in 168 households receiving a foreclosure notice during the quarter.

The national jump in initial defaults during the period from July through September may be a bit of an anomaly. Banks are gradually addressing their backlog of homes in foreclosure and are beginning to move on more recent home loan defaults, according to RealtyTrac CEO James Saccacio. Foreclosure activity began to slow last fall after problems surfaced with the way many lenders were handling foreclosure paperwork. Many of the nation's largest banks reacted by temporarily ceasing all foreclosures, refiled previously filed foreclosure cases and revisiting pending cases to prevent errors.

The pickup in home foreclosures is good in the sense that it is necessary to "clear" the market and spur a revival in construction that is not likely to occur as long as a glut of potential foreclosures hovers over the market. But in the short term, the effect is bad as more home foreclosures decrease consumer resources and cut consumer confidence.

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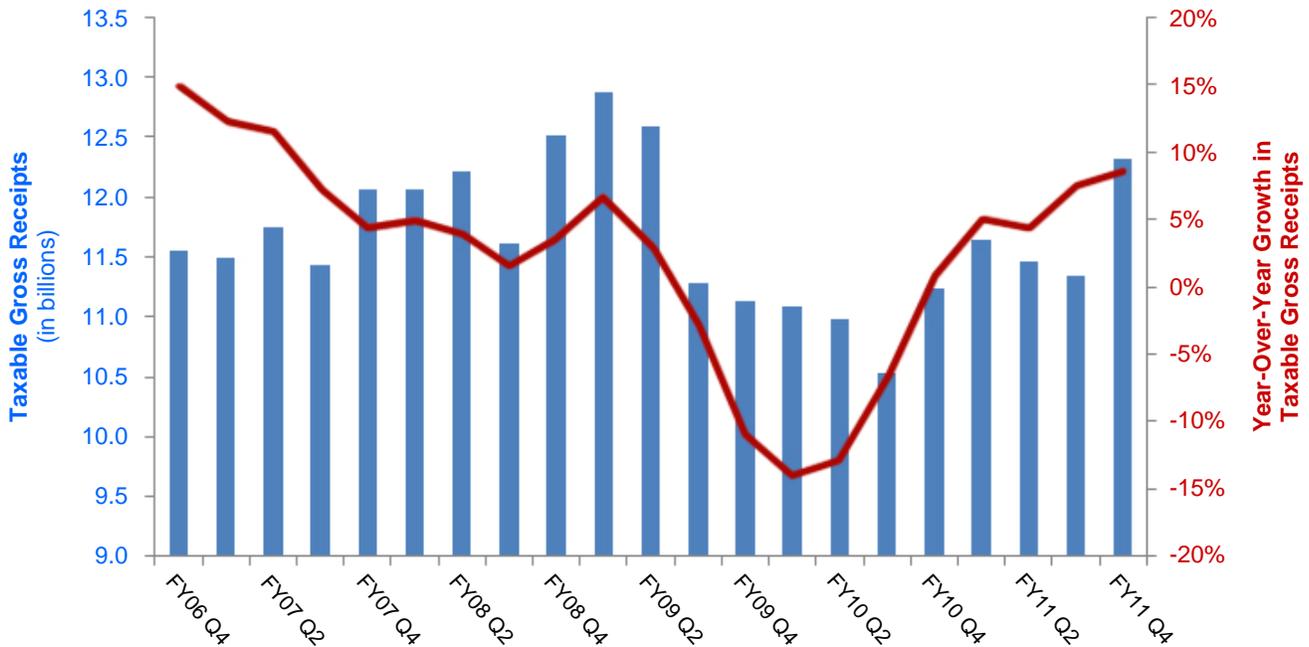
Top 10 Metro Areas — Foreclosure Starts Third Quarter 2011 Total and Percentage Increase Over Second Quarter 2011

	Total foreclosure starts in third quarter	Percentage increase over second quarter
1 Albuquerque, NM (Bernalillo, Sandoval, Valencia and Tarrant counties) <i>population: 908,000</i>	1,358	151%
2 Boston-Cambridge-Quincy, MA-NH <i>population: 4,552,000</i>	2,003	67%
3 Sarasota-Bradenton-Venice, FL <i>population: 703,000</i>	1,673	57%
4 Cincinnati-Middletown, OH-KY <i>population: 2,130,000</i>	1,956	55%
5 Jacksonville, FL <i>population: 1,346,000</i>	2,559	49%
6 Palm Bay-Melbourne-Titusville, FL <i>population: 543,000</i>	1,039	44%
7 Fresno, CA <i>population: 931,000</i>	2,174	41%
8 Vallejo-Fairfield, CA <i>population: 413,000</i>	1,348	36%
9 Cape Coral-Fort Myers, FL <i>population: 619,000</i>	1,743	35%
10 Columbus, OH <i>population: 1,837,000</i>	2,273	32%
U.S. Total	610,337	0.35%

Source: RealtyTrac

TAXABLE GROSS RECEIPTS

Taxable Gross Receipts by Quarter

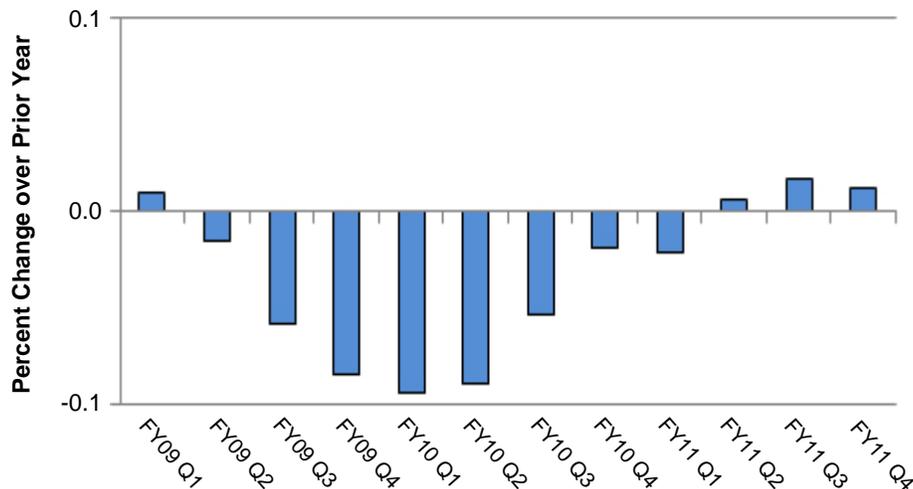


Source: LFC

- Growth in taxable growth receipts (TGR) increased to 8.6% in the fourth quarter of FY11, up from 7.6% during the third quarter of FY11.
- Strong FY11 growth compares to a decline in TGR of 6.6% in the third quarter of FY10.
- TGR in the fourth quarter of FY11 was 4.3% lower than the peak level in the first quarter of FY09.

EMPLOYMENT

New Mexico Employment Growth



Source: BBER September 2011

- Year-over-year growth in nonfarm employment is expected to remain sluggish through FY13.

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	2.6	1.3
U.S. Inflation Rate (CPI, annual avg., % year over year)**	1.0	2.2	2.3
Federal Funds Rate (%)	0.2	0.2	0.1
NEW MEXICO LABOR MARKET AND INCOME DATA			
NM Non-Agricultural Employment Growth (%)	(3.2)	0.2	0.5
NM Personal Income Growth (%)***	0.1	4.3	4.3
NM Private Wages and Salaries Growth (%)	(2.4)	2.6	2.6
CRUDE OIL AND NATURAL GAS OUTLOOK			
NM Oil Price (\$ per barrel)	\$71.29	\$84.20	\$82.00
NM Taxable Oil Volumes (million barrels)	62.7	67.4	69.7
NM Gas Price (\$ per thousand cubic feet)****	\$5.18	\$5.50	\$5.35
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.

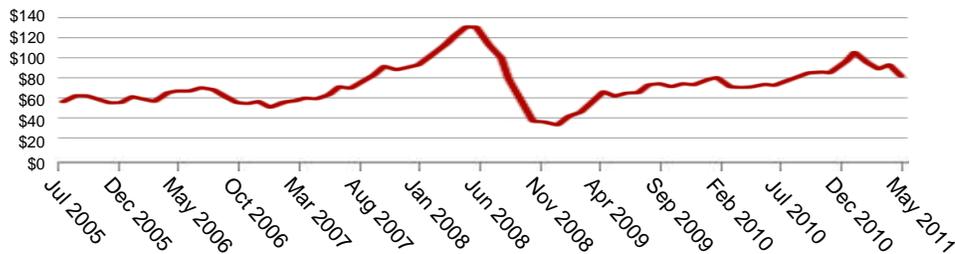
***Personal income growth rates are for the calendar year in which each fiscal year begins.

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

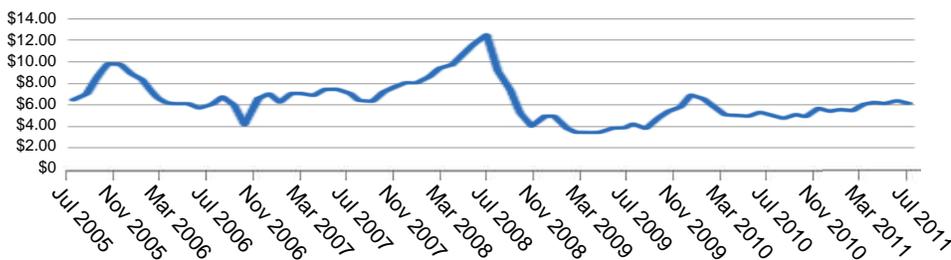
Sources: September Global Insight and September BBER

OIL AND GAS

New Mexico Oil Prices



New Mexico Natural Gas Prices

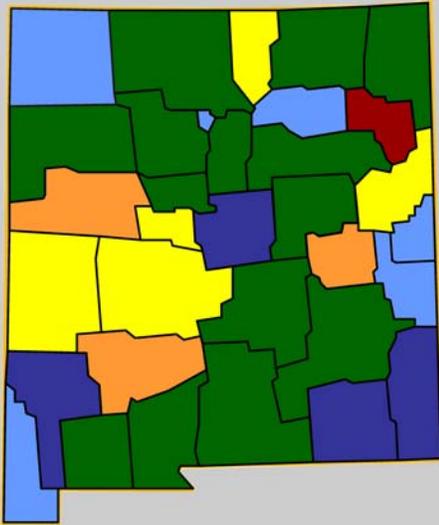


► In FY11, New Mexico produced 1,224 billion cubic feet (bcf) of natural gas, including 152 bcf of natural gas liquids. This is approximately 4.5% less than in FY10. The average price of natural gas in FY11 was \$5.50 per thousand cubic feet (mcf), which represents an increase of 5.8% year over year. Premiums paid for liquid gas, which tend to trend with oil prices, continue to pull ONGARD prices above dry gas price forecasts. New Mexico natural gas received a liquids premium over dry gas price of \$1.40/mcf in FY11.

► For FY12, natural gas volumes are estimated to be 1,184 bcf, while natural gas prices are projected to be \$5.35/mcf. Natural gas prices remain vulnerable to increased supplies from productivity improvements. A \$0.10/mcf change in natural gas prices changes general fund revenue by \$10 million.

► In FY11, the average oil price was \$84.60 per barrel, roughly 19% higher than last year. Year-over-year production volumes were up 9.4% from the same period last year. A sluggish world economy and the European debt crisis continue to add uncertainty to New Mexico oil prices and production.

Growth in Taxable Gross Receipts by County 2010-2011 (in millions)



	Jan-Aug 2010	Jan-Aug 2011	% change	
Harding	\$13.4	\$9.7	-27.3%	DECREASE greater than 20%
De Baca	\$14.6	\$11.9	-18.3%	DECREASE 10% - 20%
Sierra	\$142.5	\$118.3	-16.9%	
Cibola	\$220.8	\$197.3	-10.7%	
Taos	\$378.6	\$348.2	-8.0%	DECREASE 0% - 10%
Quay	\$97.8	\$94.4	-3.5%	
Catron	\$16.4	\$16.0	-2.8%	
Valencia	\$425.4	\$419.1	-1.5%	
Socorro	\$122.5	\$121.6	-0.7%	
Guadalupe	\$63.6	\$63.6	0%	INCREASE 0% - 10%
Santa Fe	\$2,126.9	\$2,153.4	1.2%	
Dona Ana	\$2,112.6	\$2,163.2	2.4%	
Bernalillo	\$9,773.7	\$10,014.7	2.5%	
Lincoln	\$278.4	\$289.7	4.1%	
Colfax	\$180.1	\$187.5	4.1%	
Chaves	\$719.9	\$751.6	4.4%	
Union	\$70.6	\$73.7	4.5%	
Rio Arriba	\$279.8	\$294.7	5.3%	
Otero	\$584.6	\$622.4	6.5%	
San Miguel	\$208.3	\$224.7	7.9%	
McKinley	\$671.2	\$731.3	8.9%	
Luna	\$200.4	\$219.1	9.3%	
Sandoval	\$939.9	\$1,033.9	10.0%	
New Mexico	\$17,363.8	\$19,367.5	11.5%	
Curry	\$493.0	\$550.1	11.6%	
Hidalgo	\$55.6	\$62.4	12.1%	
San Juan	\$2,133.5	\$2,403.0	12.6%	
Mora	\$15.3	\$17.3	13.4%	
Roosevelt	\$151.5	\$173.6	14.6%	INCREASE greater than 20%
Los Alamos	\$1,001.0	\$1,155.6	15.4%	
Grant	\$258.8	\$321.5	24.2%	
Lea	\$1,849.0	\$2,403.7	30.0%	
Torrance	\$110.2	\$152.1	38.1%	
Eddy	\$1,444.0	\$1,998.7	38.4%	

Nonfarm employment growth in the U.S. turned positive in January 2010 and increased by 2.2 million jobs through October 2011, an average of 100,000 jobs per month. Unfortunately, this growth is not fast enough to keep up with the growth in the U.S. population and the number of job seekers. Total U.S. nonfarm jobs is still 6.5

million short of the pre-recession peak of 138 million in December 2007. New Mexico nonfarm jobs peaked in September 2008 at 849,000 and bottomed out in December 2010 at 797,000. In September 2011, state employment stood at 801,000, reflecting an increase of just 444 jobs a month since bottoming out.

(Continued from page 1)

Oil Industry the Primary Source of New Mexico's Recent Economic Growth

The brightest spot in New Mexico's economic picture over the last year has been the rebound in the state's crude oil production. The state produced 67 million barrels of oil in the fiscal year that ended June 30, a 6.5% increase over the previous fiscal year.

Taxable gross receipts (TGR) from mining, including oil and gas extraction, grew by 44% during the last fiscal year and have continued at this pace through the beginning of the current fiscal year. One-third of the state's increase in TGR during FY 2011 originated in the mining sector, which makes up just 6% of total TGR. Without this sector's rapid growth, the state's 12.3% increase in TGR would have been just 4.5%.

Total TGR grew by 38.4% in Eddy County and 30% in Lea County during the first eight months of 2011 versus the same period last year, compared to 11.5% for the state as a whole. That 11.5% represents an increase of \$2 billion over the \$17.4 billion in TGR generated in January through August 2010, for a total of \$19.4 billion in TGR generated during the same period in 2011. Eddy and Lea counties alone, which together account for around 20% of statewide TGR, accounted for \$1.1 billion (55%) of the \$2 billion increase statewide.

The more diversified economies of the larger cities in the state, which are more dependent on construction and related trade and services, grew much more slowly during the first eight months of 2011.

TGR from construction have fallen almost 40% from their peak in FY 2008, and, although appearing to have bottomed out, they have shown almost no growth over the last year.

Bernalillo County TGR, which accounts for fully half of the state's gross receipts tax base, grew by just 2.5%, generating only \$240 million of the \$2 billion increase in TGR from January through August 2010 to January through August 2011. Dona Ana County TGR grew by 2.4%, and Santa Fe County TGR grew by 1.2% during the 2010-2011 period. These three counties together, accounting for almost 75% of the state's tax base, accounted for just 16%, or \$318 million, of the \$2 billion in increased TGR.