

NEW MEXICO ECONOMIC SUMMARY



APRIL 2012

FEDERAL BUDGET DECISIONS TO IMPACT NEW MEXICO ECONOMIC RECOVERY

New Mexico's ability to continue its slow but steady economic recovery, which has been bolstered by increasing world oil prices and has proved stronger than that of states hit harder by the real estate market collapse, is heavily dependent on future federal spending.

The state's economy continues to recover from the deep recession.

- ▶ Non-farm employment in the state stood at 805,300 in March, which was 5,000 jobs ahead of March 2011 but still 50,000 jobs below the May 2008 peak.
- ▶ New Mexico's petroleum sector is holding steady, with the oil rig count growing in response to rising world oil prices, while the gas rig count remains depressed due to the glut of natural gas and its falling price.
- ▶ Taxable gross receipts, one of the best measures of economic activity in the state and the base for New Mexico's budget, were up 7.1% through the first seven months of fiscal year (FY) 2012, compared to the same period in FY 2011. General fund recurring revenues were up 6.4% for the same period.

This good news is severely tempered by the likely outcome of federal budget deliberations. Numerous federal budget proposals for FY 2013 and beyond have been put forth, and while there is

little agreement on a spending proposal, all major proposals substantially cut or slow the increase in federal spending.

The negative impact of federal budget cuts will likely be broader and deeper in New Mexico than in most other states due to its heavy reliance on federal spending and the manner in which that spending is spread throughout the state.

New Mexico is sixth among the states in the amount of federal government expenditures per capita, according to the most recent data from the U.S. Census Bureau, as shown in the graph below. In FY 2010, federal expenditures were \$13,578 per capita in New Mexico compared to \$17,762 for the leading state of Alaska and a U.S. average of \$10,460. Nevada received the least in federal funds at \$7,321 per capita.

Different states are notable for different types of federal spending. Alaska and Hawaii were propelled into the top ranks of federal spending by large Department of Defense (DOD) payrolls — \$7.2 billion, or \$5,298 per capita, in Hawaii in 2010 and \$3.2 billion, or \$4,534 per capita, in Alaska during the same year. The average DOD payroll for all states was \$589 per capita. Alaska also had the largest amount of block grants per capita — \$4,879 — led by Medicaid, Temporary Assistance for Needy Families and other means-tested public assistance programs; the federal highway program; and assistance programs targeted at Native Americans.

Virginia and Maryland have more federal procurement contracts per capita than any other state, due in large part to their proximity to the District of Columbia. Connecticut received substantially more per capita in payments under the Medicare program.

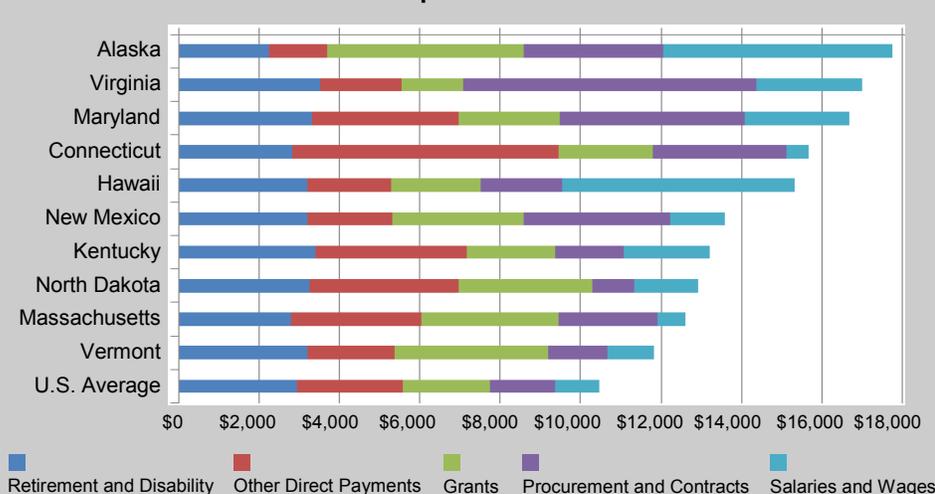
Although New Mexico does not stand out in any one area, the state receives an above-average amount of federal expenditures in procurement contracts, block grants and salaries and wages.

Federal procurement contracts totaled about \$7.5 billion in 2010, led by \$4.6 billion in Department of Energy (DOE) contracts and \$1.5 billion in DOD contracts.

The federal government paid \$2.8 billion in wages and salaries in New Mexico during

(Continued on page 4)

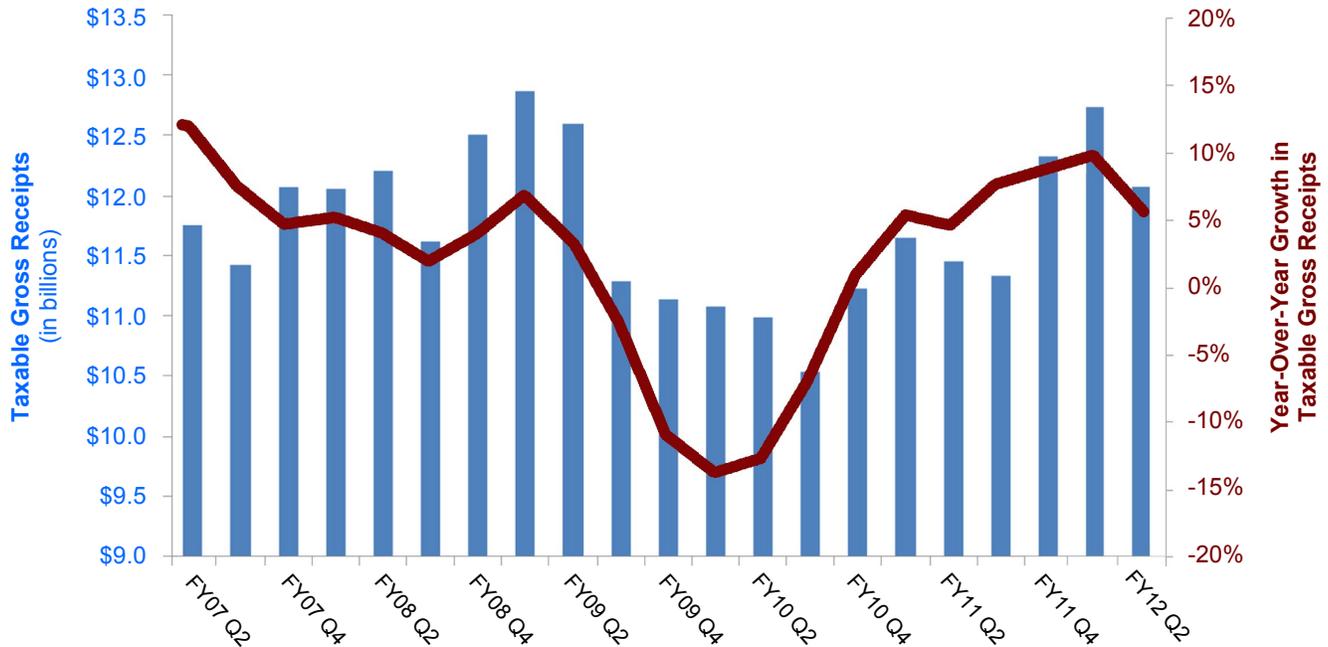
**Per Capita Federal Expenditures by Major Category
Top 10 States**



Note: Chart excludes District of Columbia, which received \$102,904 per capita in total federal expenditure.
Source: U.S. Census Bureau, Consolidated Federal Funds Report for Fiscal Year 2010.

TAXABLE GROSS RECEIPTS

Taxable Gross Receipts by Quarter



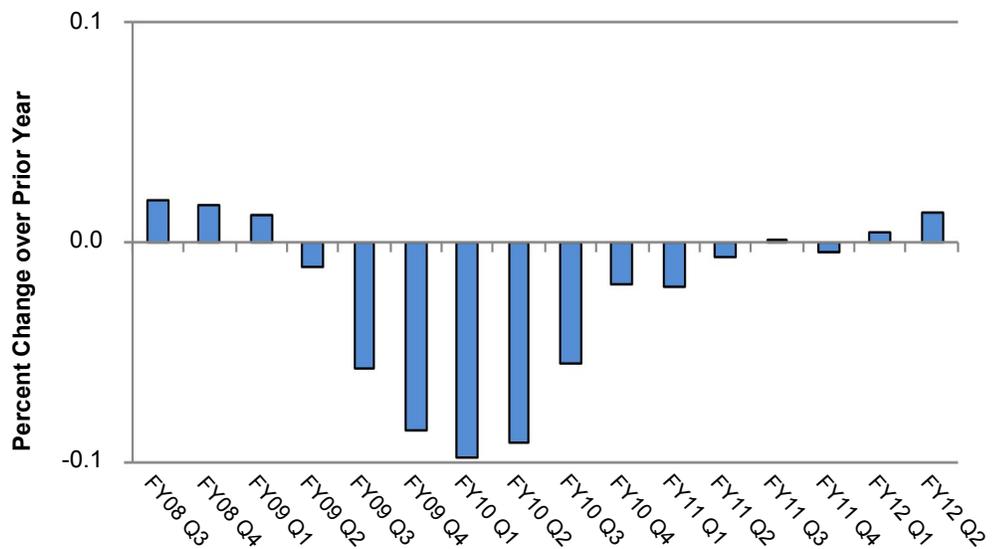
Source: Legislative Finance Committee

- ▶ Growth in taxable gross receipts (TGR) increased to 9.4% in the first quarter of FY12 from 8.3% during the fourth quarter of FY11 but declined to 5.5% in the second quarter of FY12.
- ▶ Strong growth in FY11 and FY12 follows declines in FY10.
- ▶ TGR in the last three quarters is close to peak levels from early FY09.

EMPLOYMENT

New Mexico Employment Growth

- ▶ New Mexico experienced declines in non-farm employment from the second quarter of FY09 through FY11. Year-over-year positive growth in non-farm employment returned in FY12 and is expected to continue but at a slow rate.



Source: BBER March 2012

U.S. AND NEW MEXICO ECONOMIC OUTLOOK

| | FY11 | FY12 | FY13 |
|---|---------|---------|---------|
| NATIONAL ECONOMIC INDICATORS | | | |
| U.S. Real GDP Growth (level annual avg., % year over year)* | 2.6 | 1.7 | 1.8 |
| U.S. Inflation Rate (CPI, annual avg., % year over year)** | 2.2 | 2.3 | 2.3 |
| Federal Funds Rate (%) | 0.2 | 0.1 | 0.1 |
| NEW MEXICO LABOR MARKET AND INCOME DATA | | | |
| NM Non-Agricultural Employment Growth (%) | (0.3) | 0.7 | 1.0 |
| NM Personal Income Growth (%)*** | 4.5 | 4.2 | 3.1 |
| NM Private Wages and Salaries Growth (%) | 2.6 | 2.6 | 2.8 |
| CRUDE OIL AND NATURAL GAS OUTLOOK | | | |
| NM Oil Price (\$ per barrel) | \$84.60 | \$86.75 | \$87.75 |
| NM Taxable Oil Volumes (million barrels) | 68.8 | 69.5 | 68.9 |
| NM Gas Price (\$ per thousand cubic feet)**** | \$5.50 | \$5.20 | \$5.60 |
| NM Taxable Gas Volumes (billion cubic feet) | 1,239 | 1,173 | 1,188 |

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

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

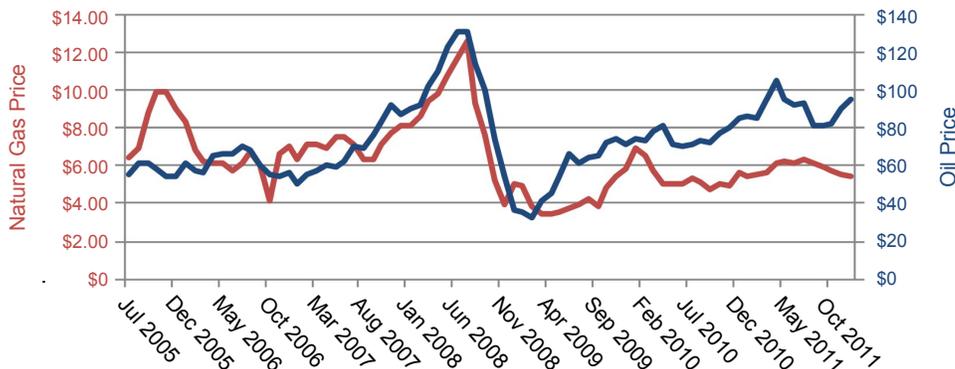
***Personal income growth rates are for the calendar year in which each fiscal year begins.

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

Sources: November IHS Global Insight, BBER FOR-UNM revised

OIL AND GAS

New Mexico Oil and Gas Prices



Source: Legislative Finance Committee

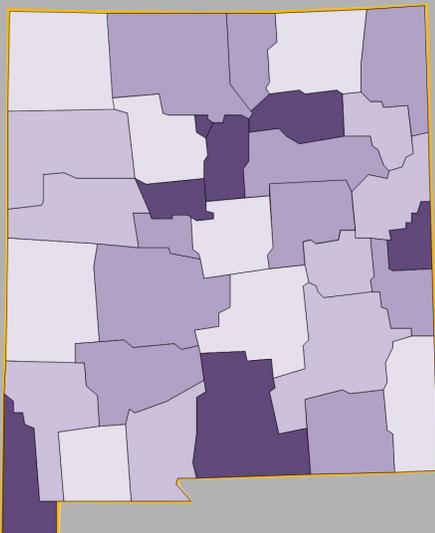
► In FY11, New Mexico produced 1,245 billion cubic feet (bcf) of natural gas, including 153 bcf of natural gas liquids. This is approximately 4.5% less than in FY10. The average price of natural gas in FY11 was \$5.49 per thousand cubic feet (mcf), which represents an increase of 5.8% year over year. New Mexico natural gas received a liquids premium over dry gas price of \$1.46/mcf in FY11.

► In FY12, natural gas volumes are estimated to be 1,173 bcf, while natural gas prices are projected to be \$5.20/mcf. The average FY12 price of gas from July through December 2011 is \$5.88/mcf. This average price is expected to drop as monthly prices decline. Natural gas prices have dropped recently due to a warm winter and increased supplies from productivity improvements. A \$0.10/mcf change in natural gas prices changes general fund revenue by \$10 million. The liquid gas price differential was about \$1.90/mcf from July through December 2011.

► In FY11, the average oil price was \$84.96 per barrel (bbl), roughly 19% higher than in FY10. Year-over-year production volumes were up 9.7% 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.

► FY12 oil prices are estimated to be \$86.75/bbl, while volumes are projected at 69.5 million barrels. The average oil price from July through December 2011 of \$87.09/bbl has exceeded the projected price and is not expected to decline. Oil prices averaged \$95.43/bbl in December, roughly \$10.00/bbl, or 12%, higher than last year.

Federal Expenditures Per Capita by County Fiscal Year 2010



(Continued from page 1)

2010, with about \$1.3 billion paid by the DOD, \$314 million by the U.S. Postal Service and the remainder spread across a variety of federal programs.

New Mexico received \$17.6 billion in federal grants in 2010. The largest single grants were for Medicaid, \$2.98 billion; highway planning and construction, \$468 million; and Department of the Interior revenue sharing, \$380 million.

The impact of federal cuts will not be evenly spread across the state because federal spending is not spread evenly, as seen in the map at left.

Bernalillo County leads other counties in total federal expenditures, accounting for \$11.5 billion, or 35%, of the federal expenditures in the state, followed by Doña Ana County at \$2.8 billion and Los Alamos and Santa Fe counties at approximately \$2.4 billion each. However, looking at the federal expenditures on a per capita basis is a better indicator of the impact that these expenditures have on the regional economies.

It is no surprise that Los Alamos County leads the state with \$132,484 in federal expenditures per capita, with 93% accounted for by the DOE contract with Los Alamos National Laboratory. The magnitude of this number indicates the importance of the lab to Los Alamos and surrounding counties. In this regard, Los Alamos County is similar to the District of Columbia, which received \$102,904 in federal expenditures per capita in FY 2010, with most of the employees and services being "imported" from surrounding areas.

Although on a total expenditure basis Hidalgo County was ranked twenty-seventh with \$98.9 million in federal expenditures in FY 2010, the county came in second, although a distant second, on a per capita basis at \$20,214. This number has been increased temporarily by the construction contract related to the establishment of a new Lordsburg Border Patrol station.

Otero County at \$19,478 and Curry County at \$18,954 were the next most highly ranked counties based on federal expenditures per capita in FY 2010. This reflects the importance of Holloman Air Force Base to Otero County and Cannon Air Force Base to Curry County.

Mora County at \$18,624 is ranked fifth due to the relatively large federal grants in the county for Medicare and Medicaid services. Mora County is ranked thirty-first among New Mexico counties in terms of per capita income.

Despite having far and away the largest amount of federal spending at \$11.5 billion, Bernalillo County ranks sixth on a per capita basis because of its much larger and more diversified economy.

The FY 2013 federal budget will likely be debated well past the October 1 beginning of the federal fiscal year and even beyond the November elections. The effects of any federal budget cuts will not be felt in New Mexico until mid-2013 and will depend on the magnitude of the cuts and the specific spending items hardest hit.

| | Federal Expenditures Total (in millions) | Population 2010 | Federal Expenditures Per Capita | |
|------------|--|-----------------|---------------------------------|----------------------|
| Los Alamos | \$2,378.1 | 17,950 | \$132,484 | \$16,000 AND ABOVE |
| Hidalgo | \$98.9 | 4,894 | \$20,214 | |
| Otero | \$1,242.6 | 63,797 | \$19,478 | |
| Curry | \$916.9 | 48,376 | \$18,954 | |
| Mora | \$90.9 | 4,881 | \$18,624 | |
| Bernalillo | \$11,486.3 | 662,564 | \$17,336 | |
| Santa Fe | \$2,415.1 | 144,170 | \$16,751 | \$14,000 to \$15,999 |
| Eddy | \$857.5 | 53,829 | \$15,930 | |
| Sierra | \$186.9 | 11,988 | \$15,591 | |
| Valencia | \$1,191.8 | 76,569 | \$15,565 | |
| Guadalupe | \$72.3 | 4,687 | \$15,430 | |
| San Miguel | \$449.7 | 29,393 | \$15,301 | |
| Union | \$67.7 | 4,549 | \$14,884 | |
| Roosevelt | \$292.8 | 19,846 | \$14,754 | |
| Socorro | \$260.5 | 17,866 | \$14,579 | |
| Rio Arriba | \$573.2 | 40,246 | \$14,242 | |
| Taos | \$461.2 | 32,937 | \$14,002 | |
| Quay | \$124.3 | 9,041 | \$13,747 | |
| McKinley | \$981.7 | 71,492 | \$13,731 | |
| Doña Ana | \$2,792.3 | 209,233 | \$13,345 | \$11,000 to \$13,999 |
| Cibola | \$345.1 | 27,213 | \$12,683 | |
| De Baca | \$25.5 | 2,022 | \$12,615 | |
| Grant | \$347.5 | 29,514 | \$11,775 | |
| Harding | \$8.1 | 695 | \$11,712 | |
| Chaves | \$766.3 | 65,645 | \$11,673 | |
| Luna | \$275.5 | 25,095 | \$10,978 | |
| Catron | \$40.8 | 3,725 | \$10,949 | |
| Lincoln | \$216.0 | 20,497 | \$10,536 | |
| Lea | \$674.7 | 64,727 | \$10,423 | |
| Colfax | \$142.8 | 13,750 | \$10,383 | |
| San Juan | \$1,258.3 | 130,044 | \$9,676 | |
| Sandoval | \$1,179.2 | 131,561 | \$8,963 | |
| Torrance | \$141.5 | 16,383 | \$8,635 | |