

The US and New Mexico Economies: Recent Developments and Outlook

*NM Revenue Stabilization & Tax Policy Committee
December 15, 2015*



Summary

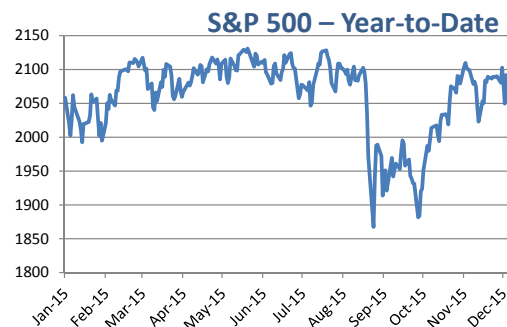
- New Mexico recovery has lagged behind the US.
 - From 2010-June 2014, Oil & Gas was a bright spot.
- Despite the decline in oil prices, employment growth began to pick up in mid-2014.
 - ACA-related health care & social assistance and transportation accounted for much of this growth.
- Employment data for past 6 months has been disappointing.
 - Oil & Gas employment has begun to contract.
 - Where are the gasoline savings?
- Apparent lack of confidence among local businesses & consumers – sustained recovery will depend on stronger local markets; e.g. residential demand.

U.S. Review & Outlook



Review: National Economy

- Final estimate for 2015Q2 revised up 2.3% to 3.9%. Third quarter initially quite slow: 1.5%; recently revised up to 2.1%.
- Employment expanded 145,000 in September, 298,000 in October and 211,000 in November. Unemployment rate down to 5.0%.
- Consumer Confidence Index (U. of Mich.) sitting at around 90 since May; Overall index has been higher in 2015 than any year since before the Recession.
- Oil prices (WTI): from \$104 (June '14) to \$44.45 (January 31), \$60.27 (June 26); around \$36 on Dec. 14th.
- S&P 500 volatile.
- Housing is still weak but it is slowly improving .



Real GDP Growth

Composition of Real GDP Growth Over Previous Period SAAR

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>15Q1</u>	<u>15Q2</u>	<u>15Q3</u>	Contrib. <u>15Q3</u>
Gross Domestic Product	2.2	1.5	2.4	0.6	3.9	2.1	2.1
Total Consumption	1.5	1.7	2.7	1.8	3.6	3.0	2.1
Durable goods	7.4	5.8	5.9	2.0	8.0	6.5	0.5
Nondurable goods	0.6	1.9	2.1	0.7	4.3	4.0	0.6
Services	0.8	1.0	2.4	2.1	2.7	2.2	1.0
Residential Fixed Investment	13.5	9.5	1.8	10.1	9.3	7.3	0.2
Nonresidential Fixed Investment	9.0	3.0	6.2	1.6	4.1	2.4	0.3
Structures	12.9	1.6	8.1	-7.4	6.2	-7.1	-0.2
Equipment & Software	10.8	3.2	5.8	2.3	0.3	9.5	0.6
Intellectual Property	3.9	3.8	5.2	7.4	8.3	-0.8	0.0
Change in Private Inventories							-0.6
Exports	3.4	2.8	3.4	-6.0	5.1	0.9	0.1
Imports	2.2	1.1	3.8	7.1	3.0	2.1	-0.3
Federal Government	-1.9	-5.7	-2.4	1.1	0.0	0.1	0.0
State & Local Government	-1.9	-1.0	0.6	-0.8	4.3	2.6	0.3

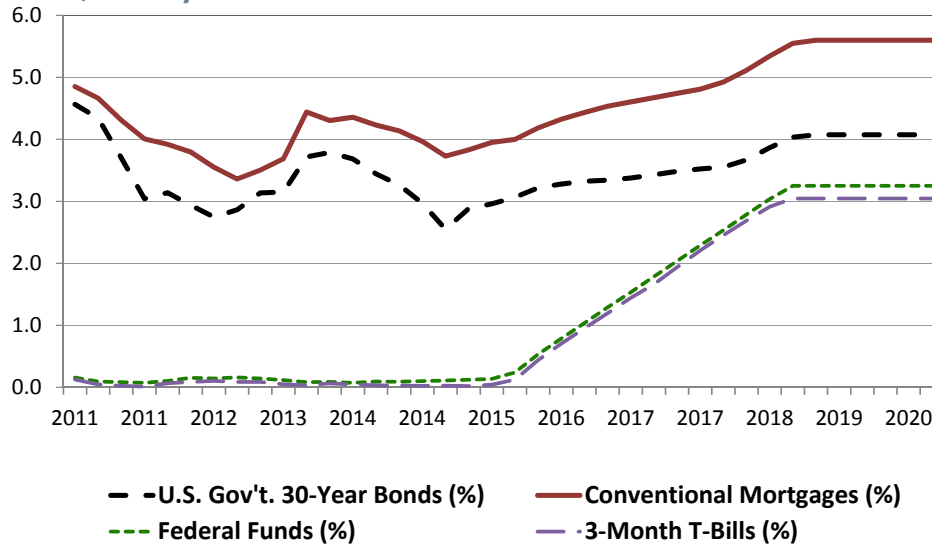
US Bureau of Economic Analysis, Gross Domestic Product, 2015
Third Quarter (revision), Nov. 24, 2015

Key Forecast Assumptions

- **Federal fiscal policy** assumes no debt ceiling problems and no significant budget initiatives; two year budget deal since confirmed.
- **Monetary Policy:** Fed first tightening in December 2015 – federal funds rate hitting 0.50% by end of 2015 and reaching 3.25% by the end of 2017. (Newer estimates are slightly lower)
- **World GDP:** Growth in major trading partners to average about 1.9% through 2025, with other partners averaging growth of 3.8% (both down a bit from July). US dollar appreciates through mid-2016 and slowly depreciates thereafter
- **Oil price:** Oil price (WTI) is expected to register \$48/barrel in 2015, \$51/barrel in 2016, \$59/barrel in 2017, \$74/barrel in 2018

Interest Rate Forecast

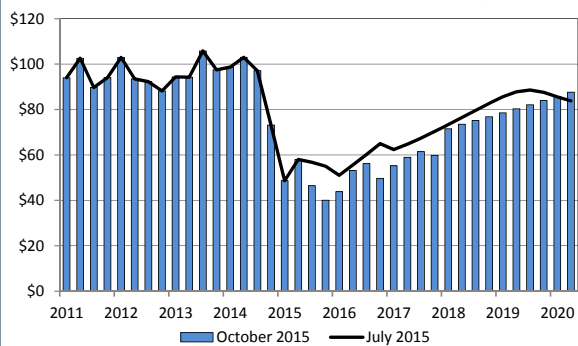
Quarterly US Interest Rates



Global Insight Oct. 15

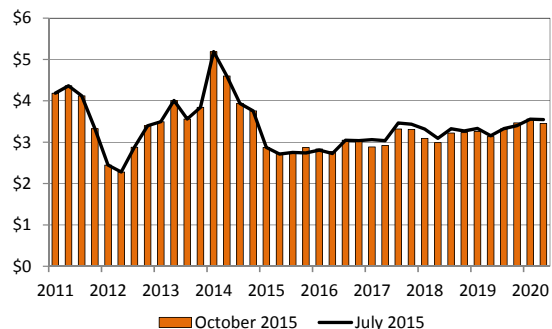
Oil & Gas Spot Prices

Oil: West Texas Intermediate, Spot Price per Barrel



Forecast for oil price brought down quite a bit throughout the forecast period. IHS Global Insight Global Insight cites high US productivity as the major driver keeping prices relatively lower.

Natural Gas: Henry Hub Price per MBtu

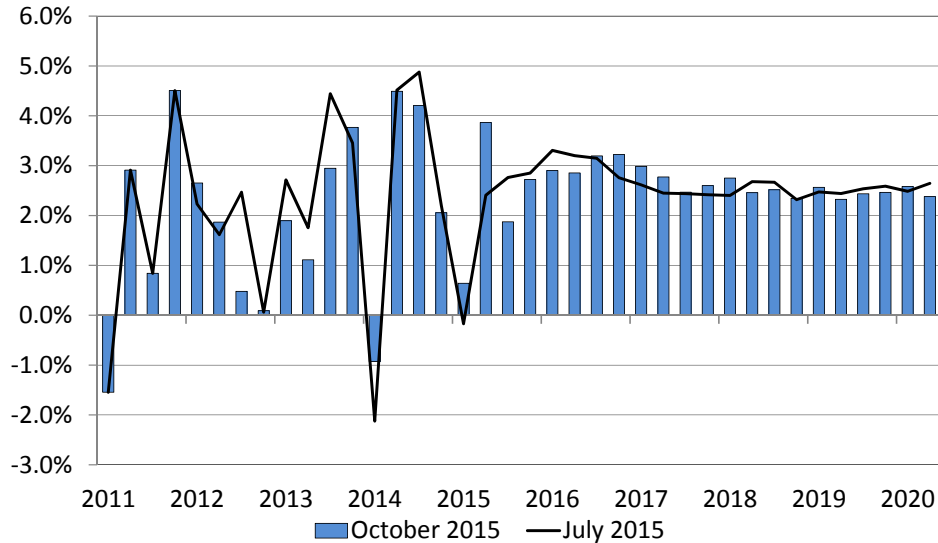


Expectations for natural gas prices remain subdued.

Global Insight, Oct. 15 and July 15

U.S. Real GDP Forecast

Quarter-Over-Quarter, SAAR



Global Insight, Oct. 15 and July 15

US Employment Forecast by Sector

Increase (Decrease) in US Payroll Employment from Previous Calendar Year, Actual & Forecast (Thousands)

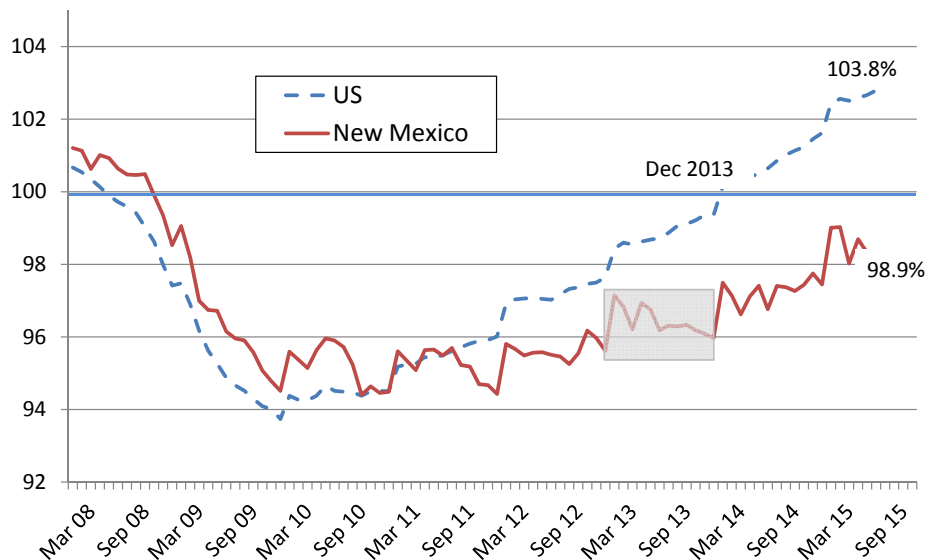
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Employment Sector									
Construction	114	212	281	240	244	407	303	217	207
Manufacturing	200	93	170	131	8	147	137	108	63
Trade, Transportation & Utilities	405	385	520	543	361	131	214	114	52
Prof. & Bus. Services	606	588	573	645	752	800	370	304	488
Health Care & Soc. Asst.	375	386	315	526	541	266	292	338	277
Leisure & Hospitality	423	486	450	441	270	139	254	210	119
Other Private	307	216	312	239	(76)	(159)	(55)	(21)	24
Government	(175)	(69)	8	108	92	209	231	175	256
Total Nonfarm Payrolls	2,255	2,296	2,629	2,872	2,190	1,941	1,746	1,447	1,486
Annual Growth	1.7%	1.7%	1.9%	2.1%	1.5%	1.3%	1.2%	1.0%	1.0%

IHS Global Insight, October 2015

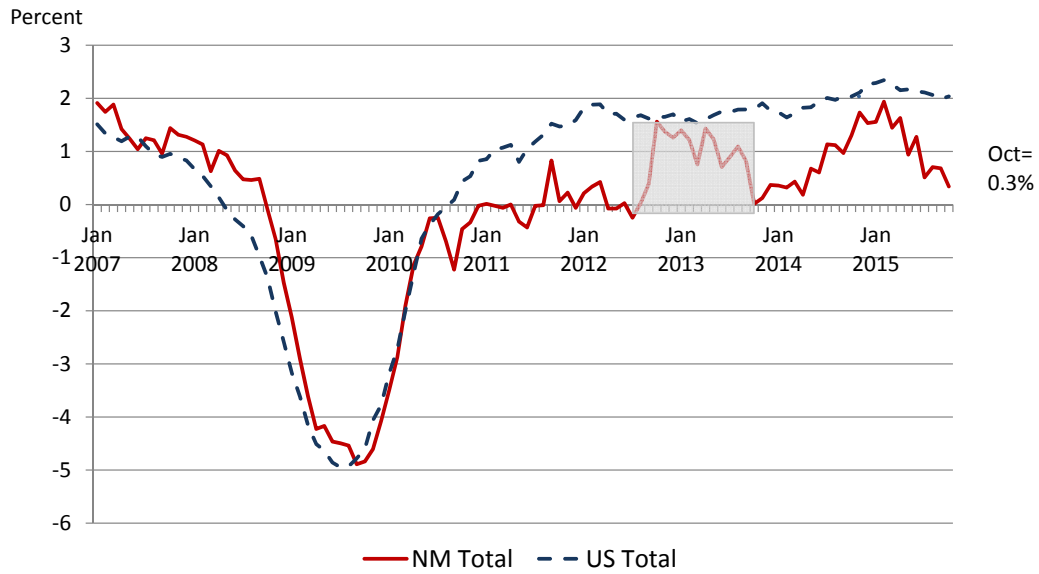
New Mexico Review & Outlook



Total Non-Farm Employment US and New Mexico (2007=100)

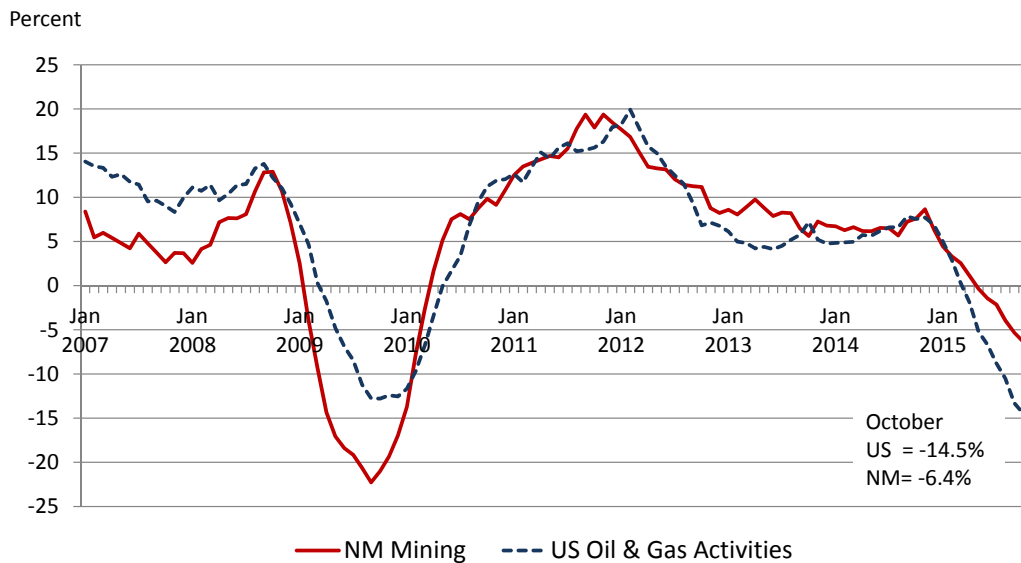


NM & US Total Employment Growth



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NM & US Mining Employment Growth



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New Mexico Economy: Recent Data

- 2015Q1&2 employment up 10,810 jobs (1.4%) – 33rd of 50 states.
- Health care & social assistance accounts for 40% of new jobs.
- Composition of health care expansion reflects early outreach & enrollment: two-thirds of new healthcare jobs outside ABQ MSA, and 60% in social assistance.
- Medicaid transfers continue to expand but more slowly.
- Mining continued to expand through 2015Q1 but has since begun to fall (-6.4% in October). Rig counts continue to decline, now below 40.

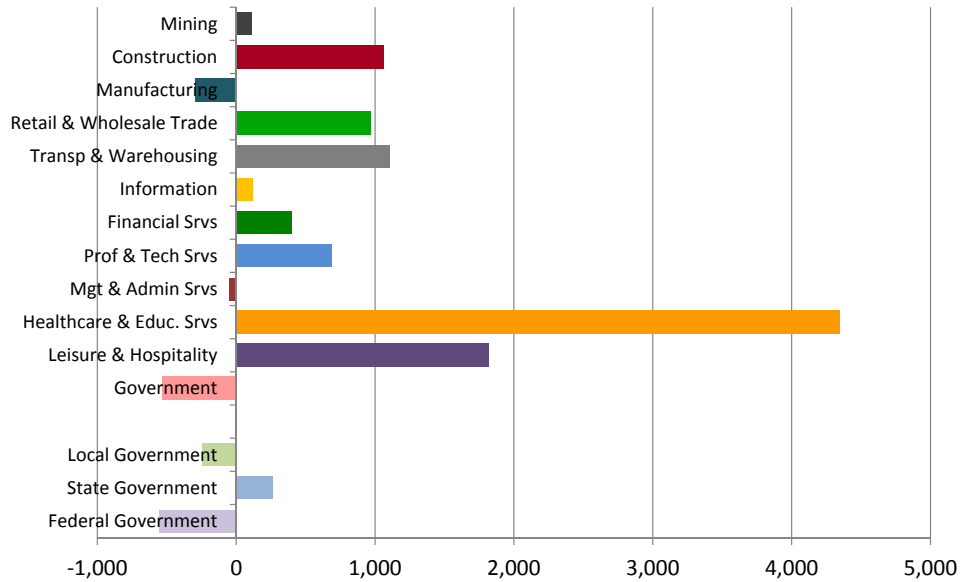
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New Mexico Economy: Recent Data

- Unemployment rate spiked to 6.8% (September) but this is because of increase in labor force participation (>10,000 or 1.1% in Jan-June 2015).
- Home sales improving (up 10% in Q3) and building permits beginning to respond, but values remain flat.
- Income growth weak (3.8% during Jan-June 2015) due to slow growth of labor income.

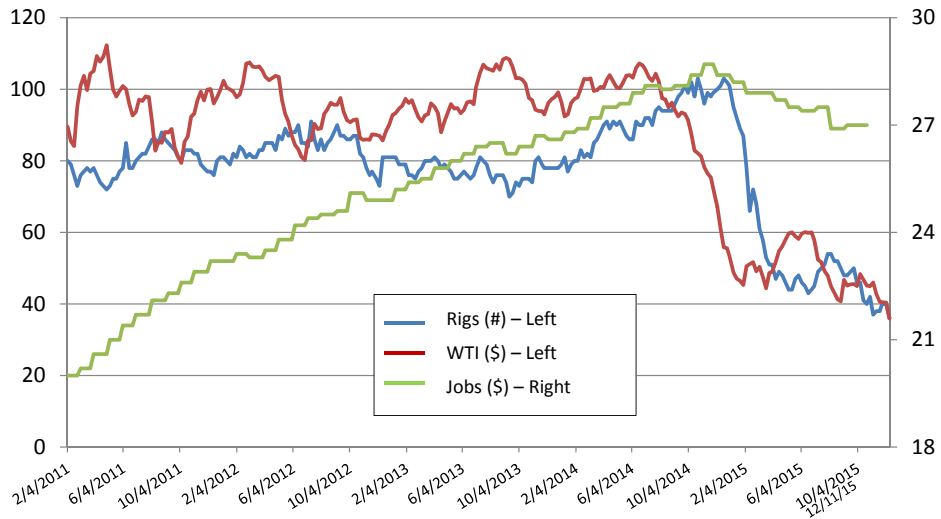
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NM Job Creation by Sector, 2015 Q1 & Q2



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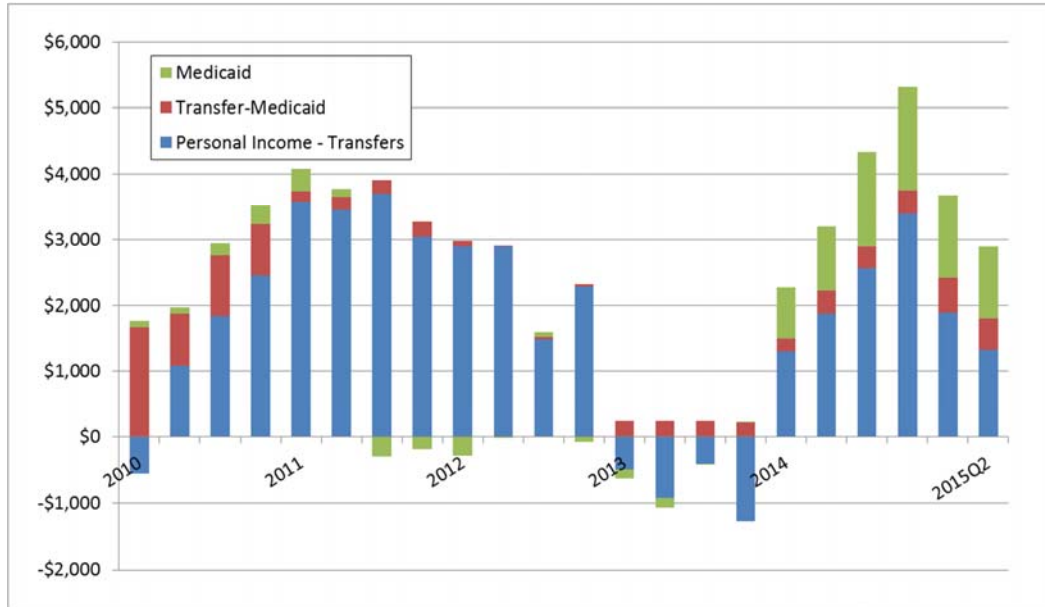
Rig Counts in New Mexico vs. WTI Price



Source: Baker Hughes

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Personal Income Growth and Medicaid Transfers



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New Mexico Economic Outlook

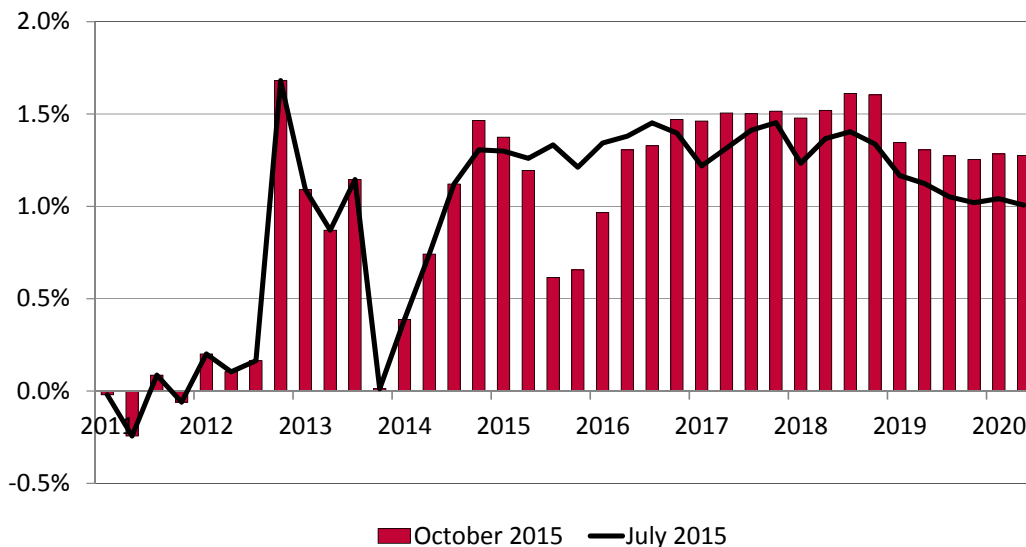


New Mexico Economic Outlook

- Employment forecast weaker than July through mid-2016, but returns to earlier growth trends by end-2016 (1.3%) and 2017-2020 (1.4% per year).
- Composition of new jobs: 32% in health care & social assistance; 29% in low-wage service sectors; 19% in mining, utilities, construction, manuf, transportation, 12% in P&BS, 5% in government (tied to health)
- Personal Income forecast weaker than July: 4.8% in 2016, 5.0% thereafter.
- Investment income & transfer growth just above the total, labor income just below the total.

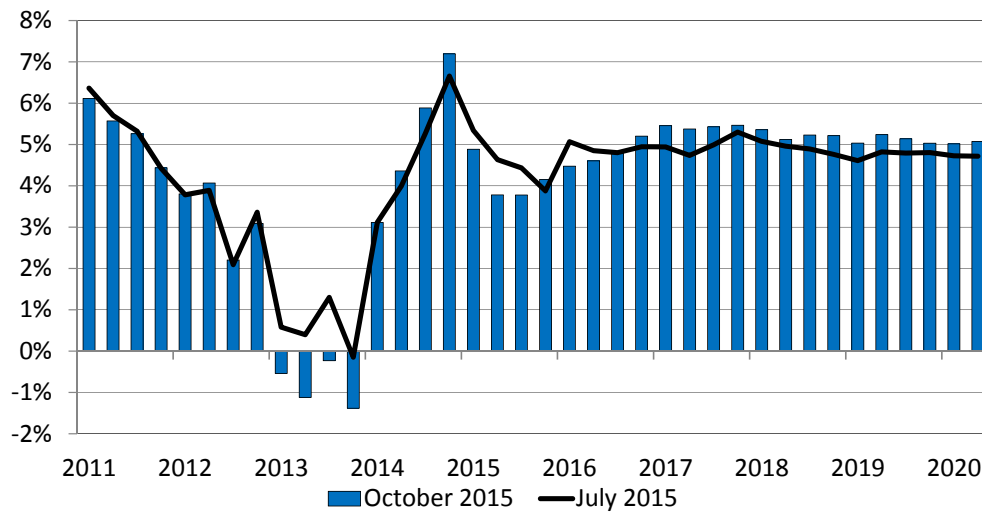
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Employment Forecast: October vs. July



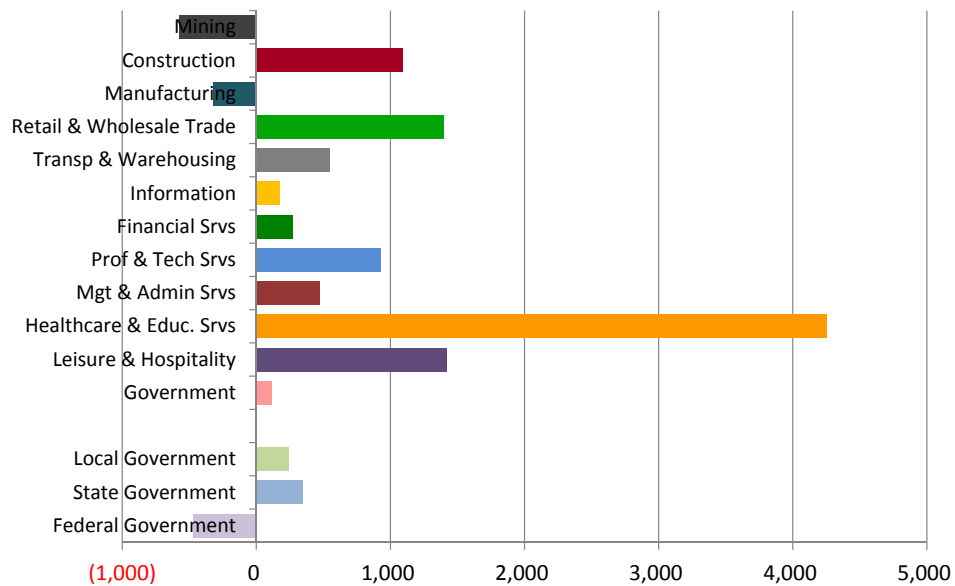
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Income Forecast: October vs. July



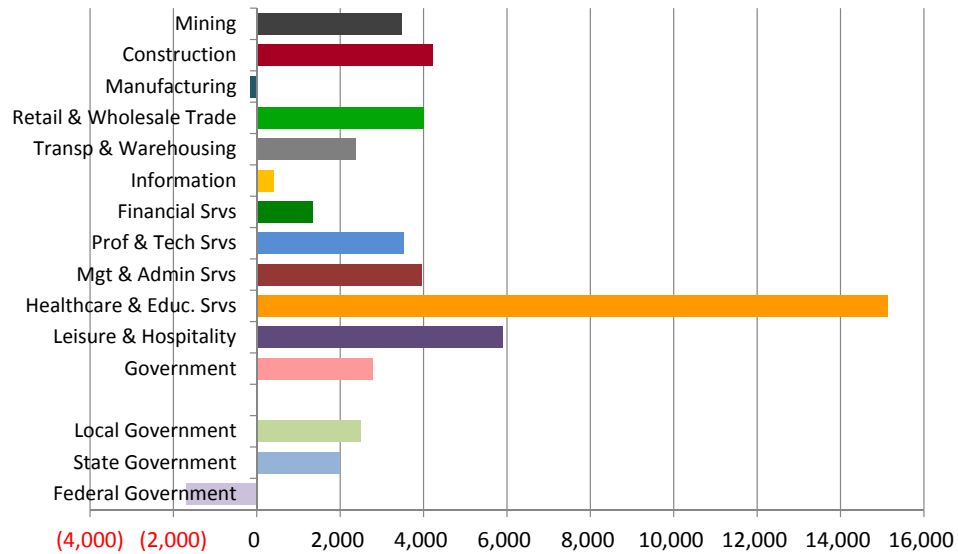
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NM Job Creation by Sector, 2016 (#)



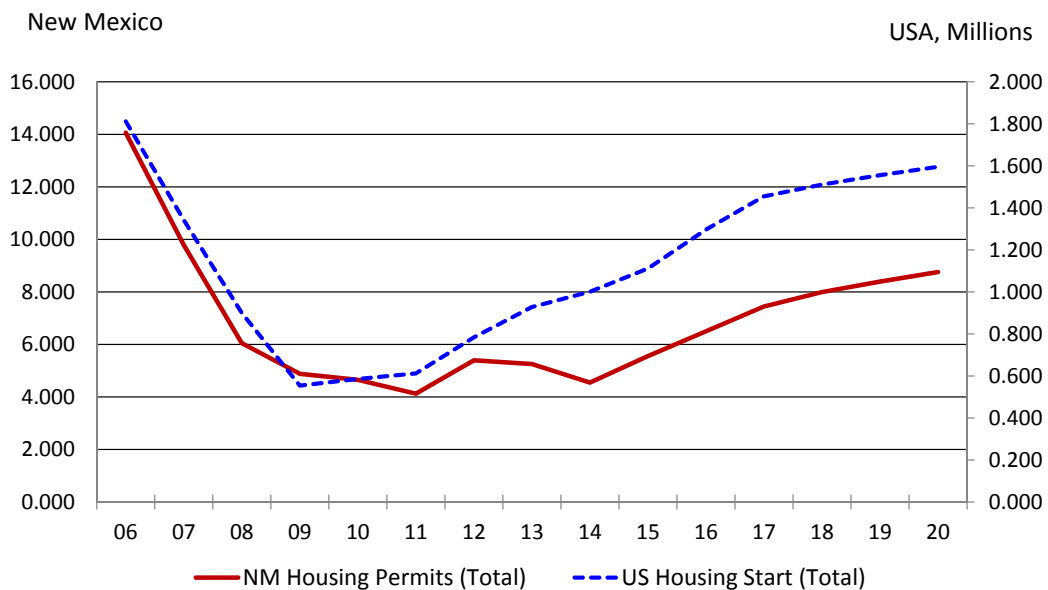
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NM Job Creation by Sector, 2017-2020 (#)



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US & NM: Housing Starts & Permits



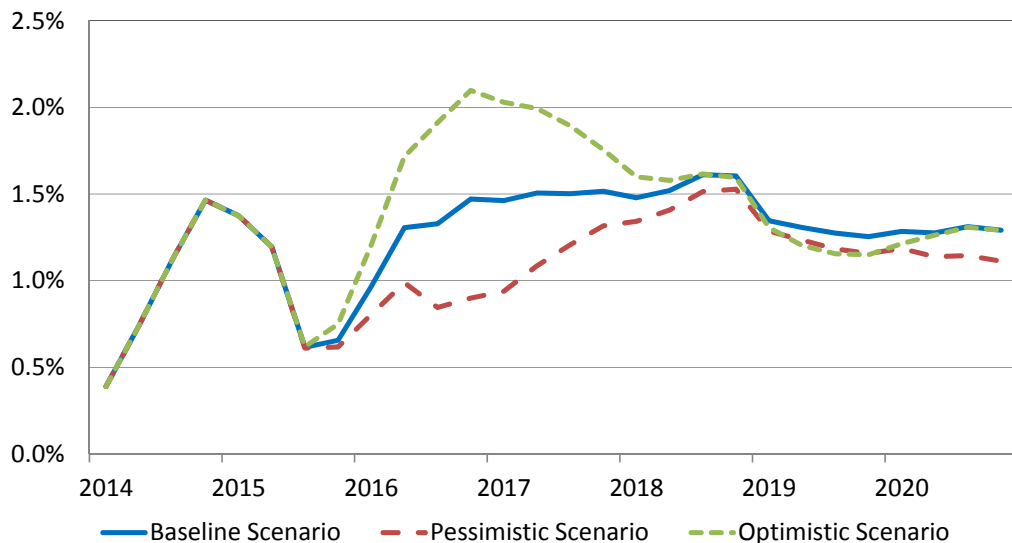
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Alternative Forecasts

- **Upside risk (15%)**
 - Macro: higher consumer demand & stronger housing markets.
 - NM: stronger through 2017, housing markets & construction employment strong; investment income way up.
- **Downside risk (20%)**
 - Macro: weak global economy, low commodity prices, equities fall in value, consumers & investors pull back.
 - NM: more severe, without later bounce; housing & construction, and administrative services hit hard. Income way below baseline without higher transfers to offset.

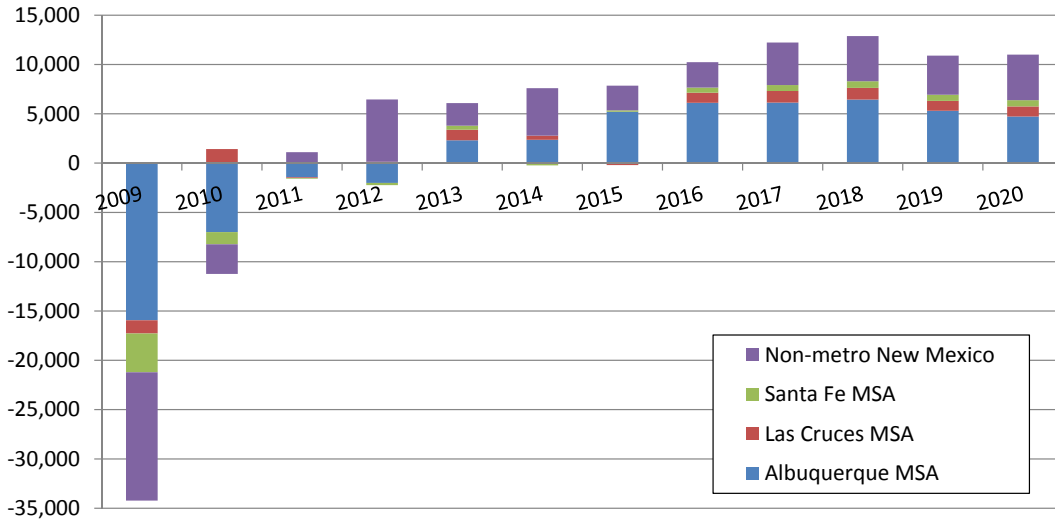
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New Mexico Employment Forecast, Alternative Scenarios

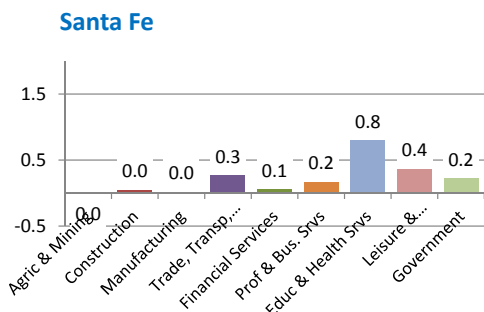
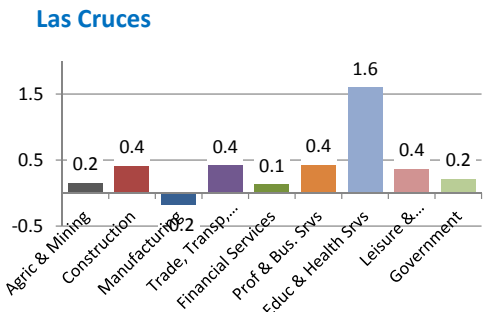
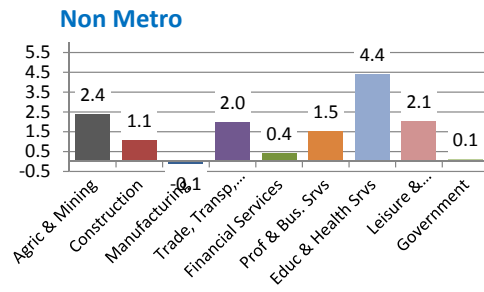
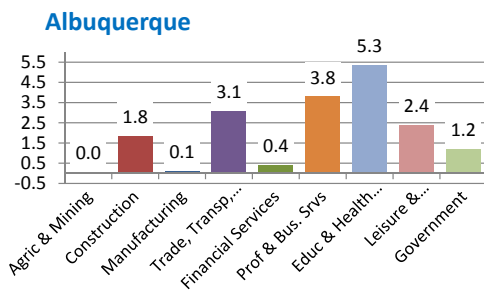


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New Mexico Job Gain/Loss by Region



Job Gain/Loss by Sector – 2015-2018 ('000s)



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