



**BUREAU OF BUSINESS
& ECONOMIC RESEARCH**

New Mexico's Economy: Current Situation & Forecast

PRESENTED TO THE 22ND ANNUAL NM DATA USERS CONFERENCE
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US Review + Economic Outlook



Review: National Economy

- ❑ Through October, the US economy has added back 12 million jobs of the 22.2 million jobs lost in March and April, though the rate of addition has slowed (2020 down 9.6 million jobs).
- ❑ Initial & continuing claims for unemployment remain high.
- ❑ GDP: -5% SAAR in 2020Q1, -31% SAAR in 2020Q2; up 33% SAAR in 2020Q3.
- ❑ WTI spot price around \$42/barrel.
- ❑ Consumer Sentiment Index (U. of Mich.) still low but has ticked up: from 72.5 in July to 80.4 in September.
- ❑ Stock market (DJIA) staying buoyant (around 29,000+).
- ❑ ISM manufacturing and non-manufacturing indices expanding.
- ❑ Some concern that the recovery is already losing steam. COVID-19 hotspots continue to bedevil recovery (averaging 1,000+ deaths/day). Another round of fiscal stimulus? Forecast developed prior to election.

Real GDP Growth

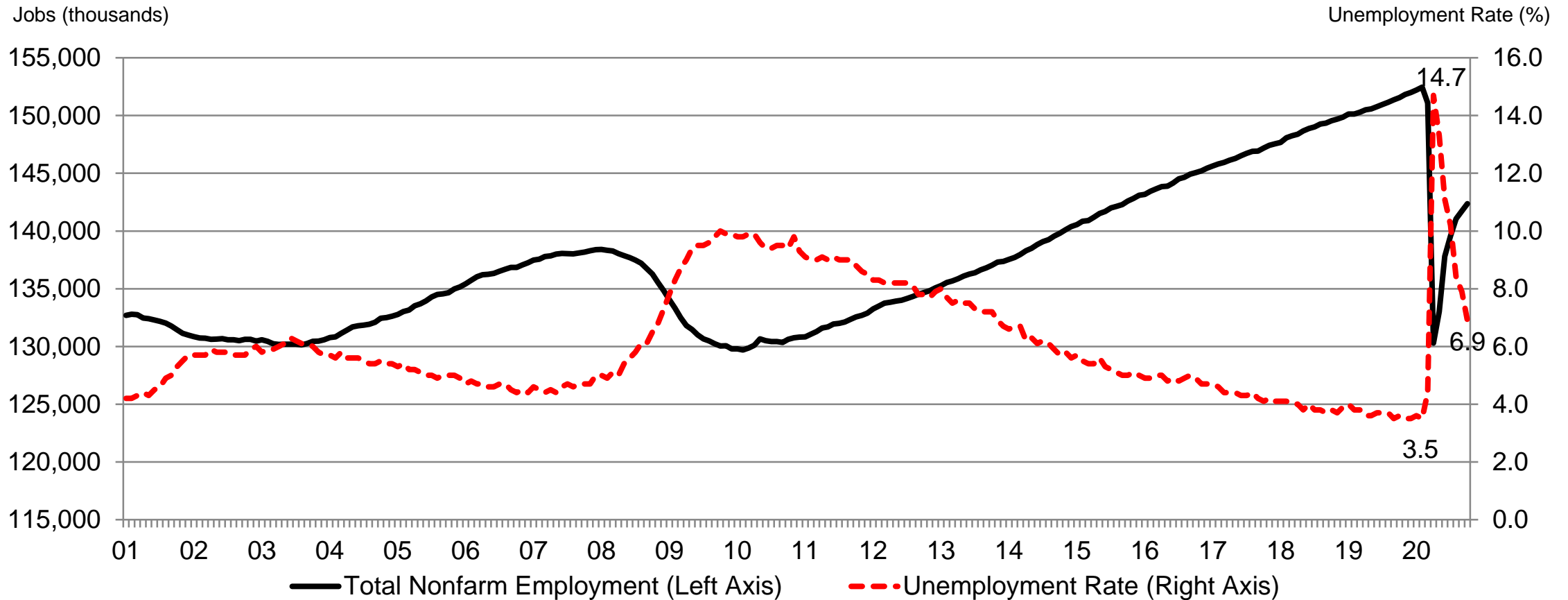
Composition of Real GDP Growth Over Previous Period SAAR

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>19Q2</u> | <u>19Q3</u> | <u>19Q4</u> | <u>20Q1</u> | <u>20Q2</u> | <u>20Q3</u> | Contrib. 20Q3 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|--------------------------|
| <u>Composition of Real GDP</u> | | | | | | | | | | | | |
| Gross Domestic Product | 3.1 | 1.7 | 2.3 | 3.0 | 2.2 | 1.5 | 2.6 | 2.4 | -5.0 | -31.4 | 33.1 | 33.1 |
| Total Consumption | 3.8 | 2.8 | 2.6 | 2.7 | 2.4 | 3.7 | 2.7 | 1.6 | -6.9 | -33.2 | 40.7 | 25.3 |
| Durable goods | 7.6 | 5.8 | 6.9 | 6.8 | 4.8 | 12.7 | 6.3 | 3.1 | -12.5 | -1.7 | 82.2 | 5.2 |
| Nondurable goods | 3.4 | 2.5 | 2.6 | 2.7 | 3.1 | 5.3 | 3.1 | -0.7 | 7.1 | -15.0 | 28.8 | 4.1 |
| Services | 3.3 | 2.4 | 2.0 | 2.1 | 1.8 | 1.9 | 2.0 | 2.0 | -9.8 | -41.8 | 38.4 | 16.0 |
| Residential Fixed Investment | 10.2 | 6.6 | 4.0 | -0.6 | -1.7 | -2.1 | 4.6 | 5.8 | 19.0 | -35.6 | 59.3 | 2.1 |
| Nonresidential Fixed Investment | 2.3 | 0.5 | 3.7 | 6.9 | 2.9 | 0.0 | 1.9 | -0.3 | -6.7 | -27.2 | 20.3 | 2.9 |
| Structures | -0.9 | -4.4 | 4.2 | 3.7 | -0.6 | 1.6 | 3.6 | -5.3 | -3.7 | -33.6 | -14.6 | -0.4 |
| Equipment & Software | 3.0 | -1.7 | 3.2 | 8.0 | 2.1 | -3.8 | -1.7 | -1.7 | -15.2 | -35.9 | 70.1 | 3.3 |
| Intellectual Property | 3.8 | 7.6 | 4.2 | 7.8 | 6.4 | 4.1 | 5.3 | 4.6 | 2.4 | -11.4 | -1.0 | 0.0 |
| Change in Private Inventories | | | | | | | | | | | | 6.6 |
| Exports | 0.4 | 0.3 | 3.9 | 3.0 | -0.1 | -4.5 | 0.8 | 3.4 | -9.5 | -64.4 | 59.7 | 4.9 |
| Imports | 5.2 | 1.7 | 4.7 | 4.1 | 1.1 | 1.7 | 0.5 | -7.5 | -15.0 | -54.1 | 91.1 | -8.0 |
| Federal Government | 0.0 | 0.6 | 0.3 | 2.8 | 4.0 | 9.2 | 4.8 | 4.0 | 1.6 | 16.4 | -6.2 | -0.4 |
| State & Local Government | 2.9 | 2.6 | 1.2 | 1.2 | 1.3 | 2.6 | 0.6 | 1.5 | 1.1 | -5.4 | -3.3 | -0.3 |

US Bureau of Economic Analysis, Gross Domestic Product, 2020 Third Quarter (1st Estimate), October 29, 2020

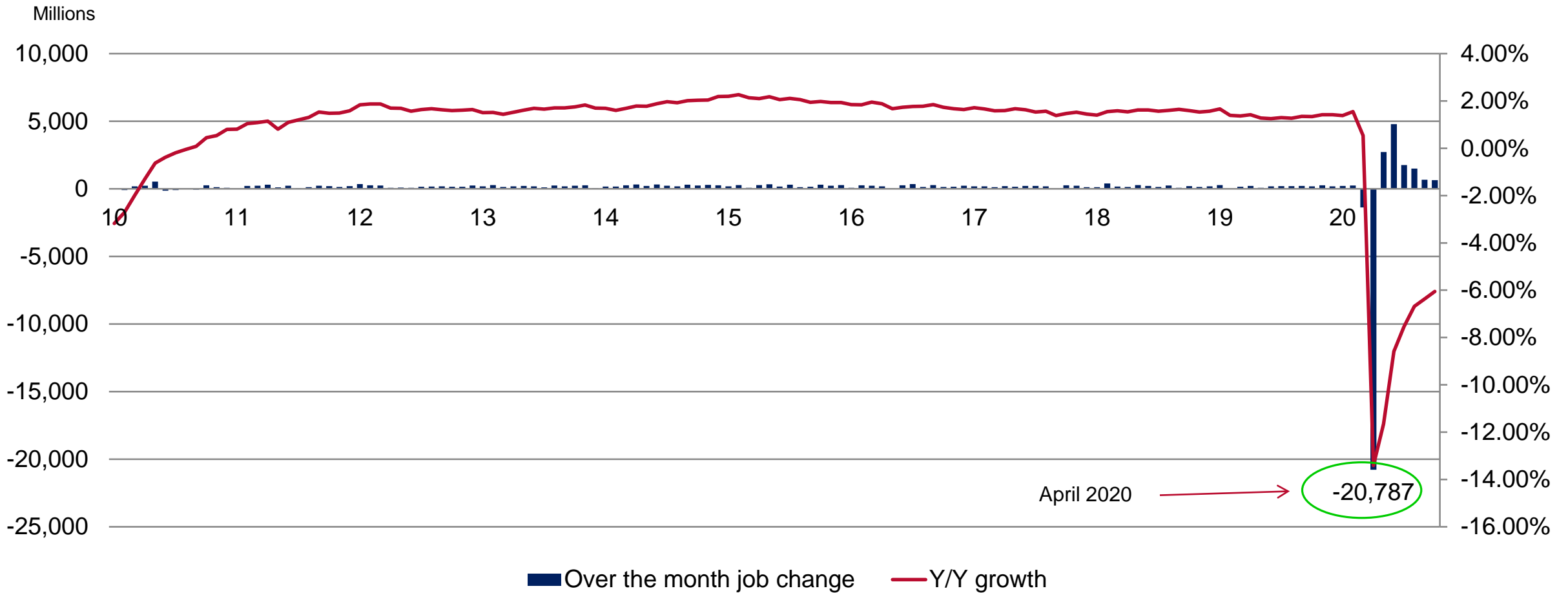
US Employment Situation

US Nonfarm Employment + Unemployment Rate, Monthly SA



BLS, through October 2020

Over the Month Job Gains (thousands)



BLS, through October 2020

New Mexico Review



New Mexico Current Economic Situation

- COVID-19. It's like a bad dream.
- Unemployment Insurance claims (continuing) remain high (~70,000 end-October but down from high of around 105,000 in May).
- Leisure & hospitality (~25% of workforce) and retail (~20%) hit hardest by pandemic, though very few sectors spared.
- Despite executive order for another round of 'enhanced' UI coverage, failure to enact additional stimulus hits NM hard.
- Oil continues to be weak: WTI prices ~\$40/barrel (though some recent upward pressure).
- Although oil production remains high, any softening in production or price will impact state budget.
- Repeat: obvious state budget concerns.

Unemployment Insurance (UI) Claims by State

Initial UI enrollments were not especially high in NM but return to work (leaving UI rolls) has been very slow.

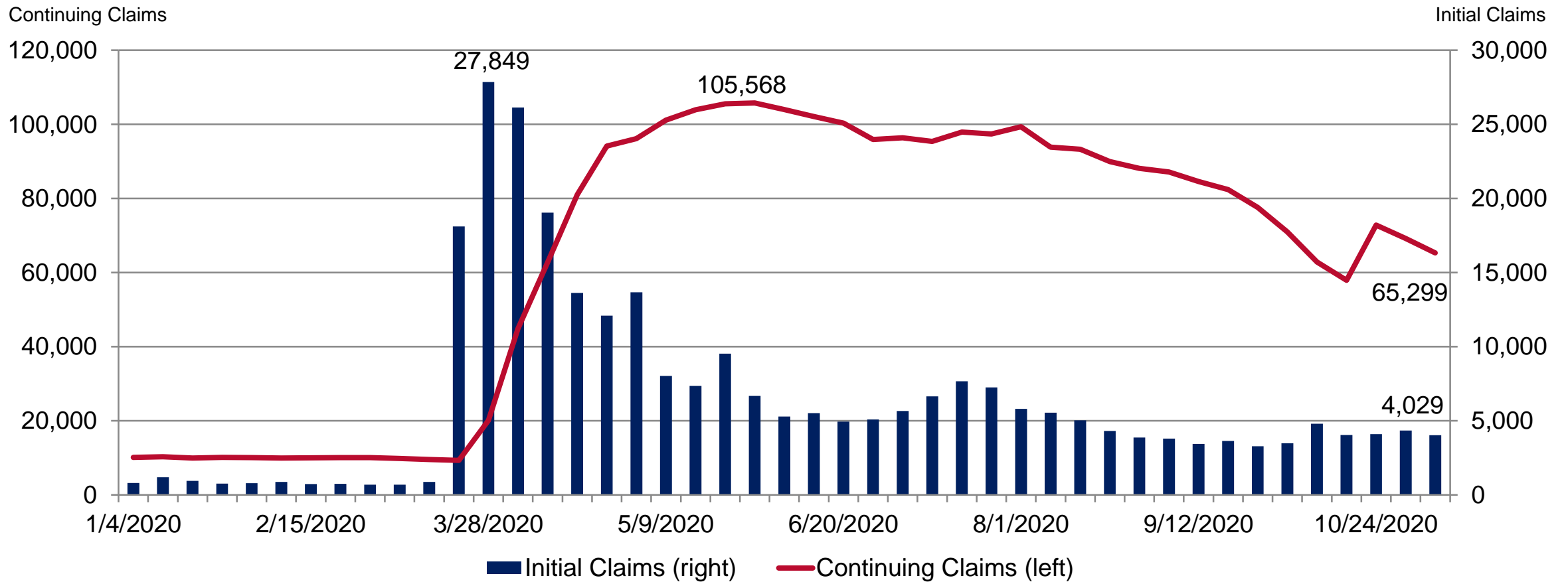
- As of week of October 17, 73,193 New Mexicans were on Unemployment Insurance (UI).
- Historical average total = 8,500.
- At its peak (week of May 23), 13.1% of UI-eligible New Mexicans (108,725) were on UI (27th of 50 states).
- Since May 23, UI rolls have declined by 35,532 or 32.7% of peak enrollment. Lowest rate of return amongst the states.
- Thus, as of October 17th, 8.8% of New Mexican workforce remains on UI (only CA and HI worse).

* Leaving the rolls may include employment, left the state, initial claim was rejected.

| | Maximum Insured Employment Enrollment | Reduction of Insured Unemployment (Oct 17- Max) | Insured Unemployment (Oct 17) |
|----------------------|---------------------------------------|---|-------------------------------|
| Alaska | 16.1% | 64.2% | 5.8% |
| Arizona | 8.1% | 46.6% | 4.3% |
| California | 27.4% | 65.0% | 9.6% |
| Colorado | 9.8% | 58.9% | 4.0% |
| Hawaii | 22.2% | 51.3% | 10.8% |
| Idaho | 9.6% | 90.0% | 1.0% |
| Montana | 14.4% | 78.7% | 3.1% |
| Nevada | 26.4% | 67.9% | 8.5% |
| New Mexico | 13.1% | 32.7% | 8.8% |
| North Dakota | 8.5% | 76.2% | 2.0% |
| Oklahoma | 11.3% | 67.6% | 3.6% |
| Oregon | 15.9% | 66.2% | 5.4% |
| South Dakota | 5.9% | 82.6% | 1.0% |
| Texas | 11.2% | 56.6% | 4.9% |
| Utah | 6.1% | 81.2% | 1.2% |
| Washington | 30.6% | 79.8% | 6.2% |
| Wyoming | 6.5% | 65.7% | 2.2% |
| United States | 15.4% | 67.6% | 5.0% |

Source: US Department of Labor

Unemployment Insurance Claims in NM



Source: NM DWS (through Nov. 7)

Impact of CARES Unemployment Benefit Bonus (FPUC)

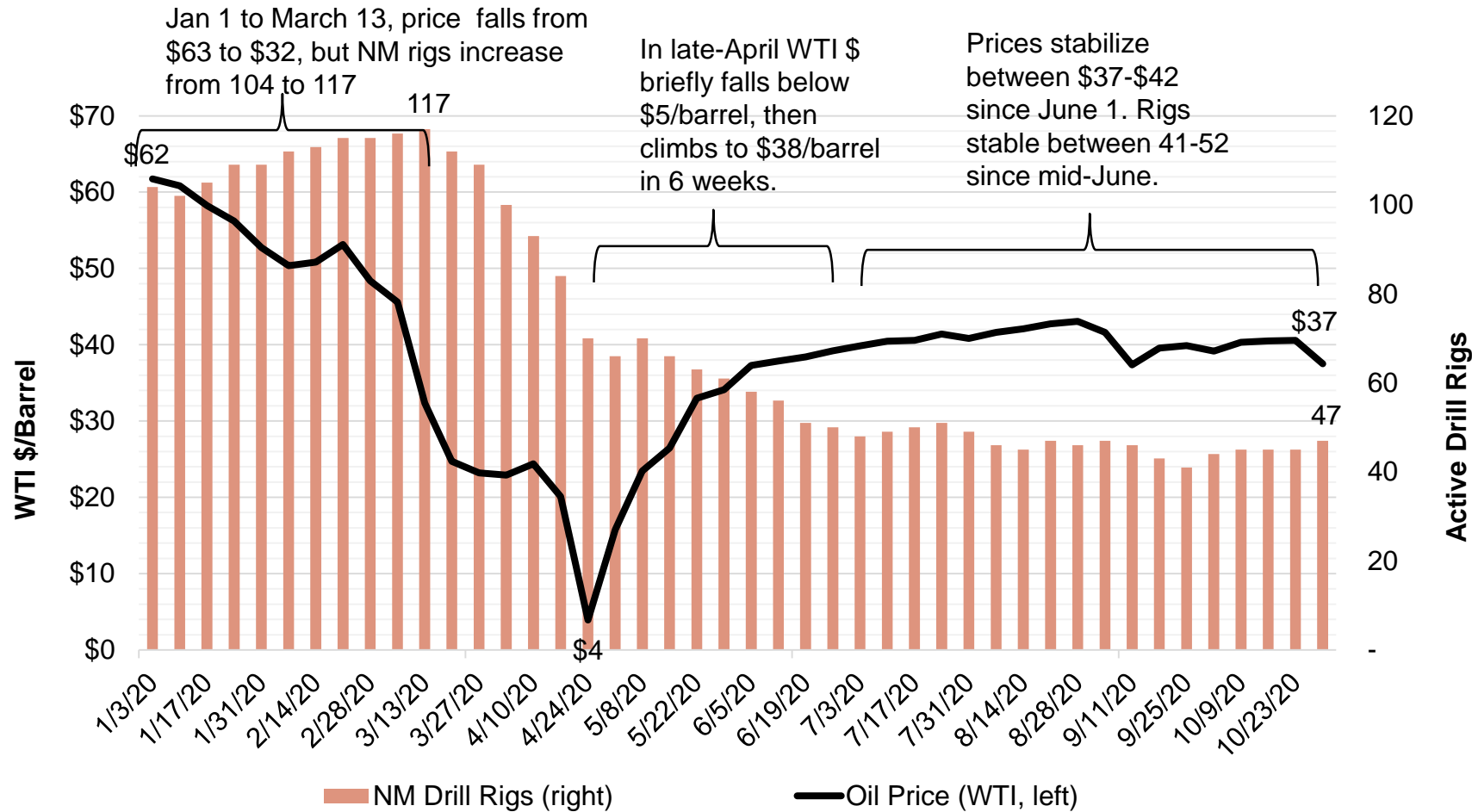


To see how FPUC impacted NM:

- In New Mexico, average UI benefit was about \$345/week or 47% of average wage of recipient.
- CARES Act UI bonus (FPUC) of \$600 per week is the same in all states, regardless of average wage or COL.
- In New Mexico, because wages are low, the extra \$ per week is a significant addition.
- Average UI benefit with \$600/week was 128% of average wage of recipient.

Source: New York Times

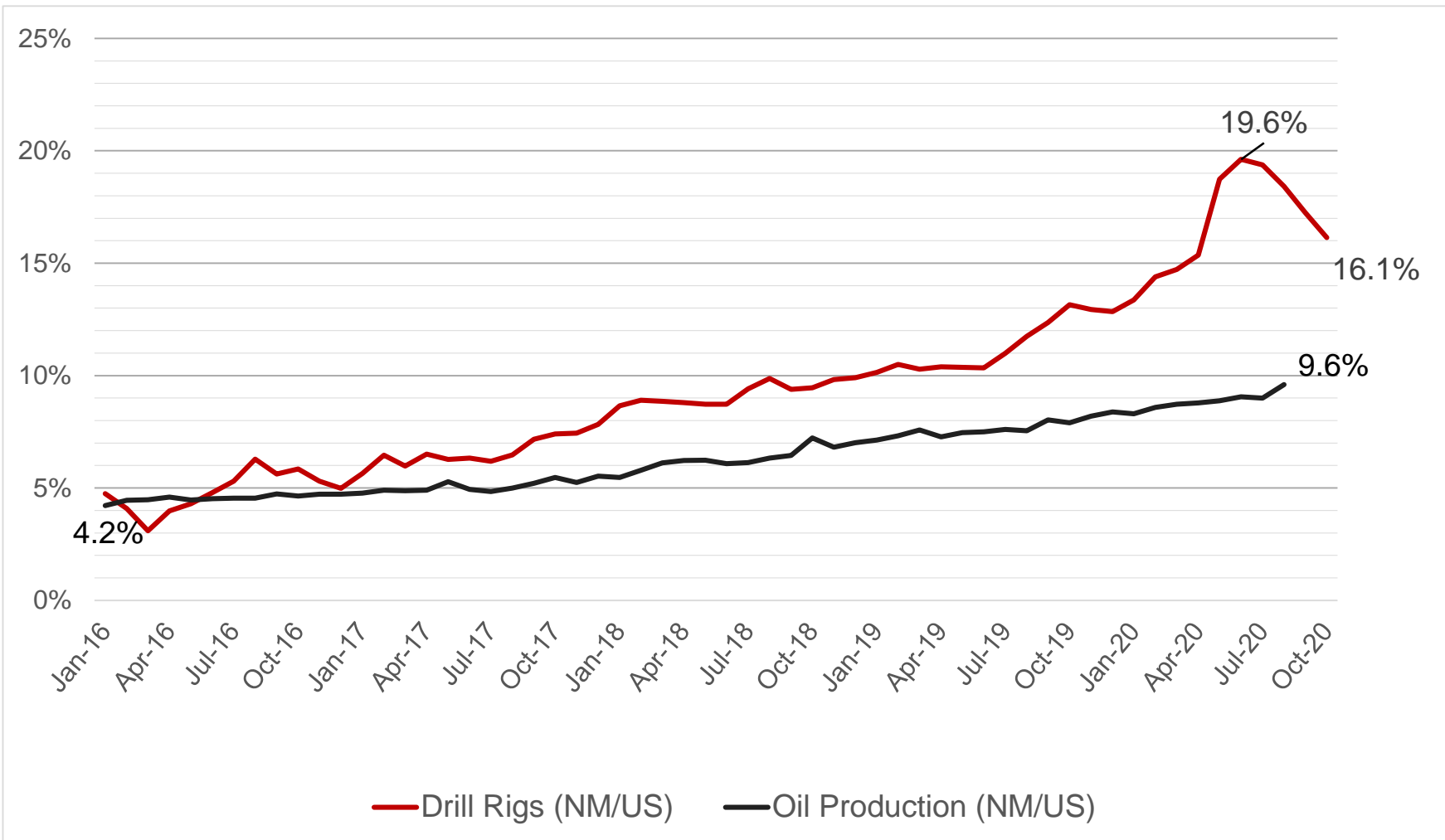
WTI Oil Prices and New Mexico Active Rigs



- Since early-January, WTI oil price has fallen from \$62/barrel to \$37/barrel (October 30).
- Rigs increased to 117 in mid-March but have since fallen to < 50.
- Thumbnail estimate: decline in oil price costs the NM State government nearly \$1 billion per year.

Source: EIA, Baker Hughes

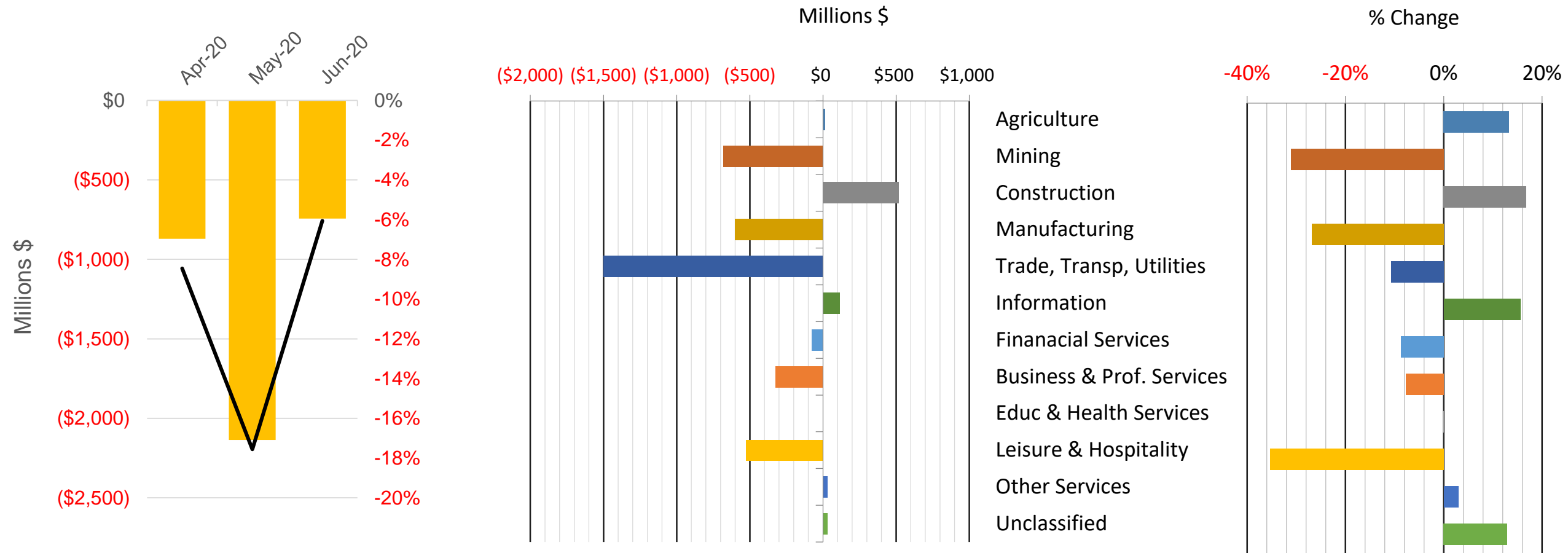
WTI Oil Prices and New Mexico Active Rigs



- Percent of all rigs operating in NM increased dramatically since 2016.
- NM oil production nearly 10% of all US production.
- Soft prices haven't hit NM as badly as other regions; however, significant risks remain.

Source: EIA, Baker Hughes

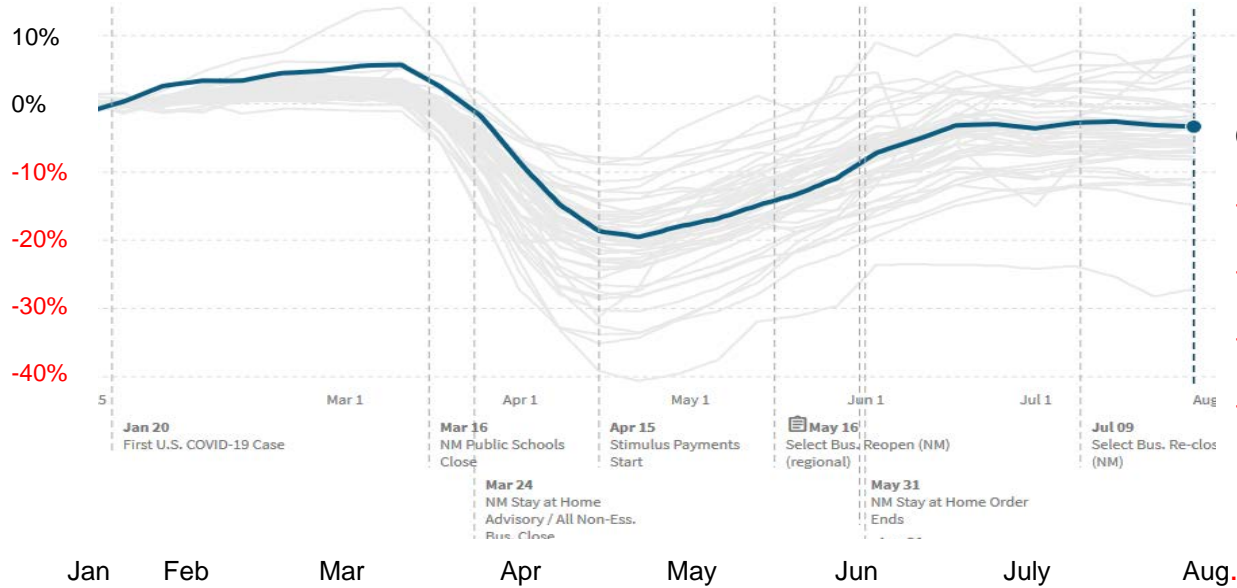
Change in Gross Receipts (April, May, June 2020 vs. 2019)



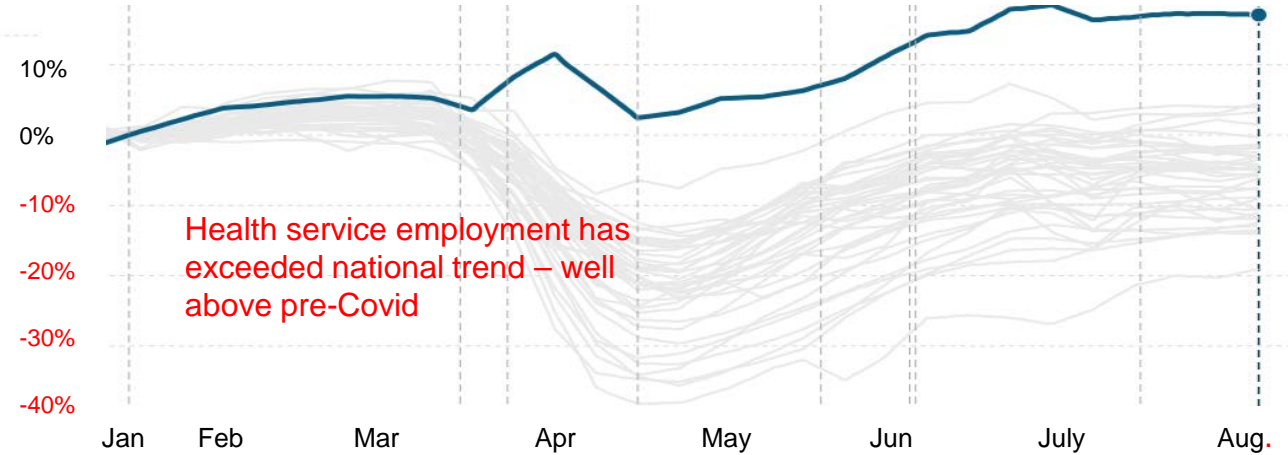
Source: New Mexico Taxation & Revenue Department, RP-500s

Change in Employment

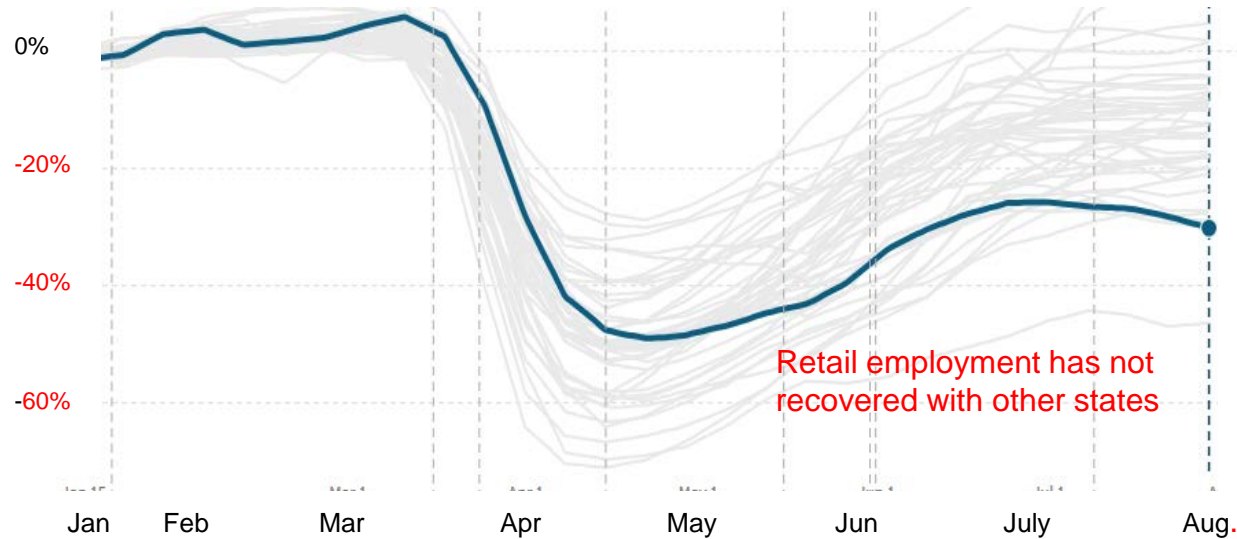
Source: tracktherecovery.org/



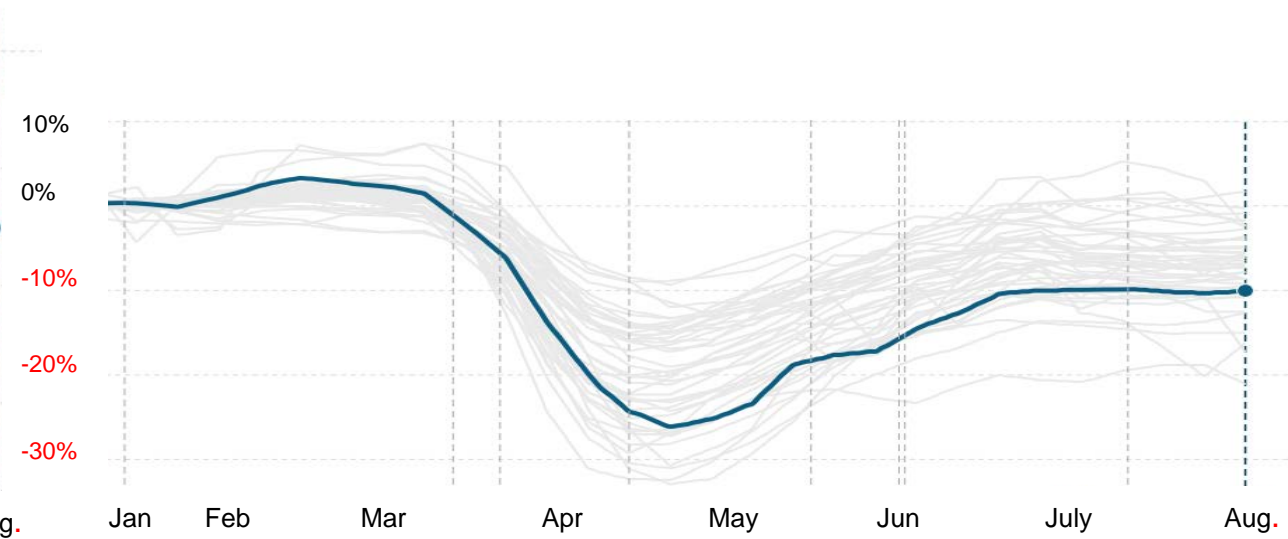
Health & Educational Services



Retail



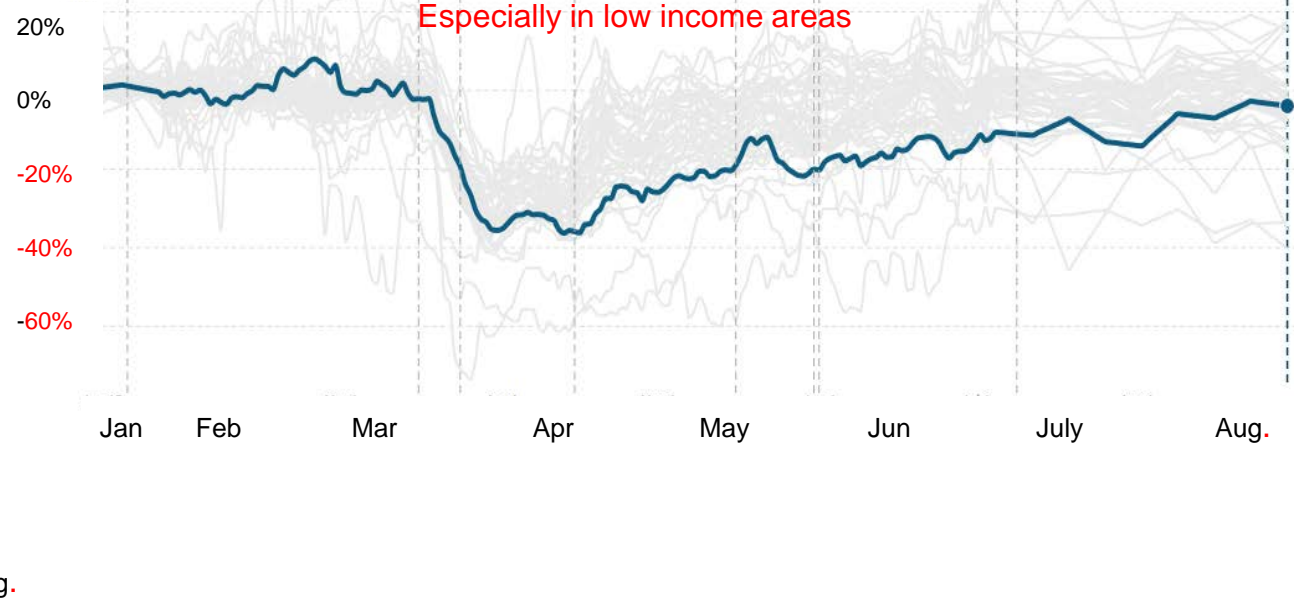
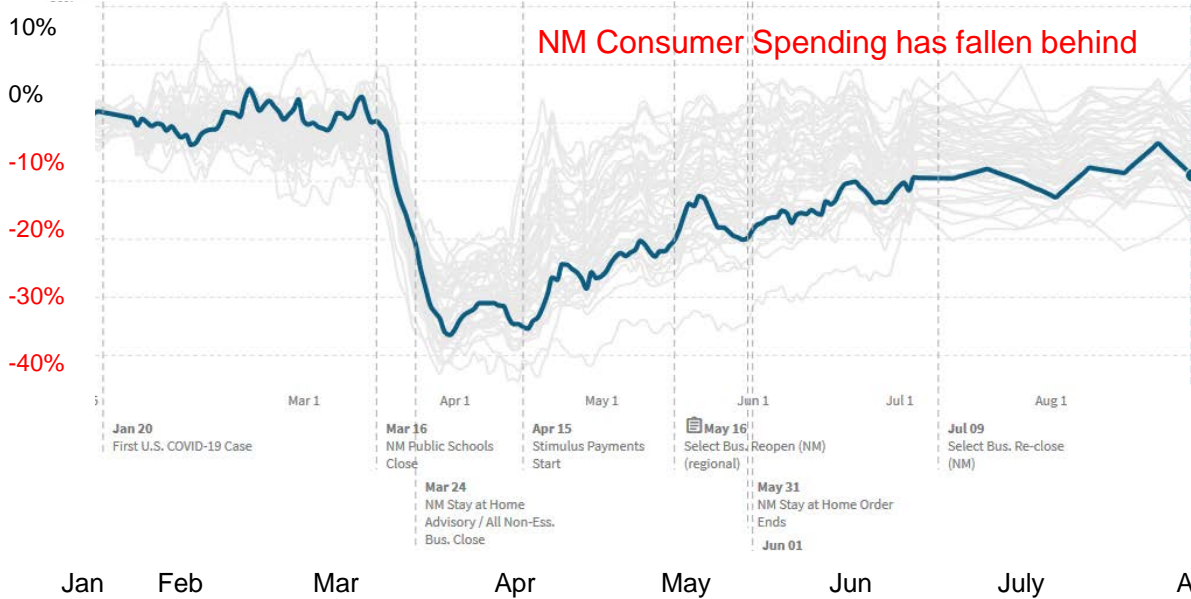
Retail & Transportation



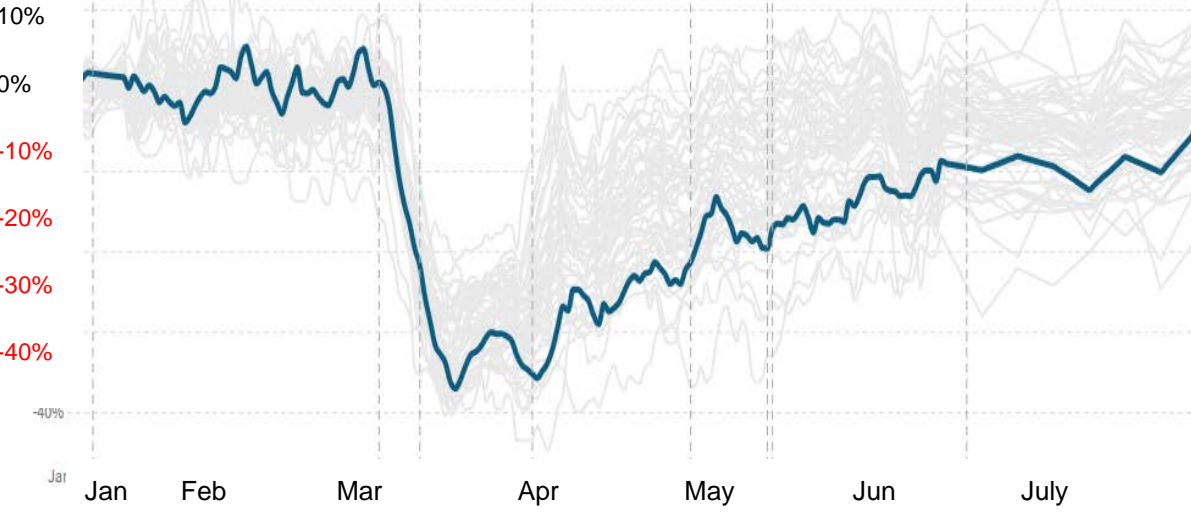
Change in Consumer Spending

Source: tracktherecovery.org/

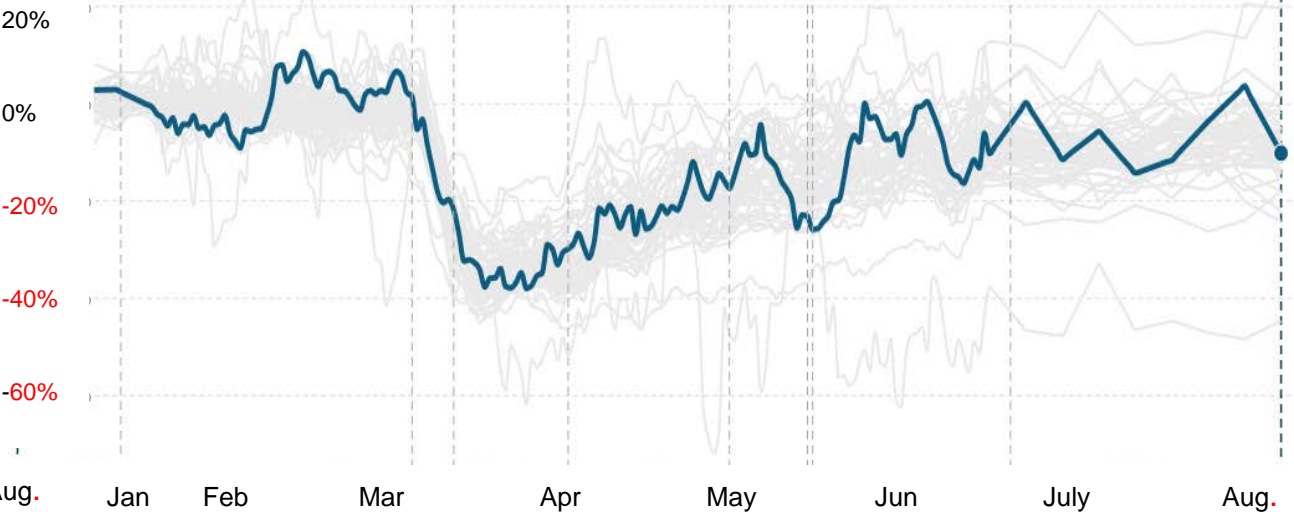
Low income



Middle Income



High Income

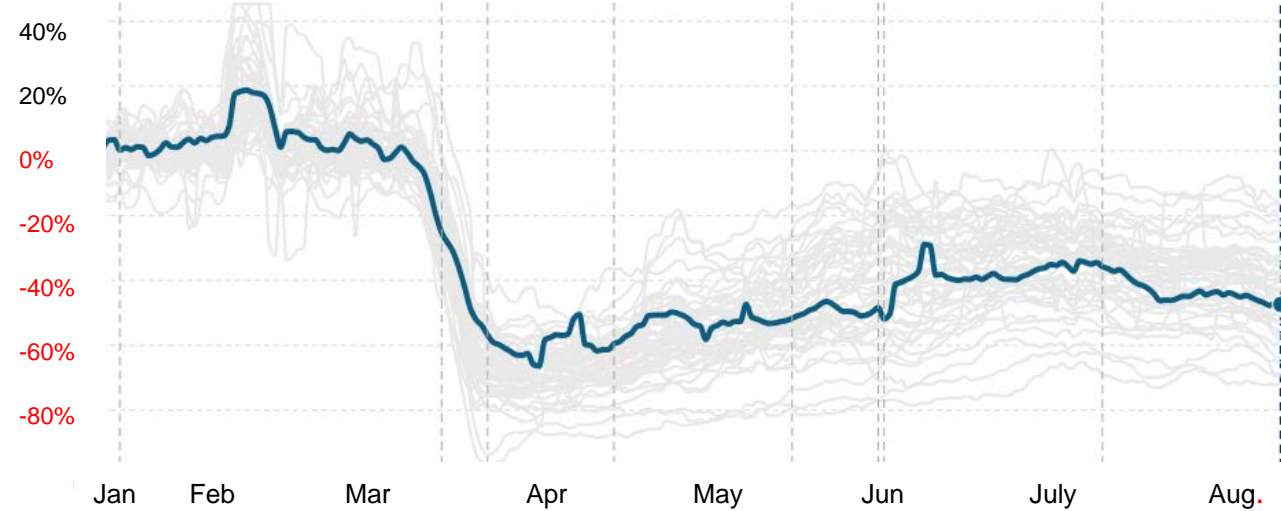


Change in Small Business Revenue

Source: tracktherecovery.org/



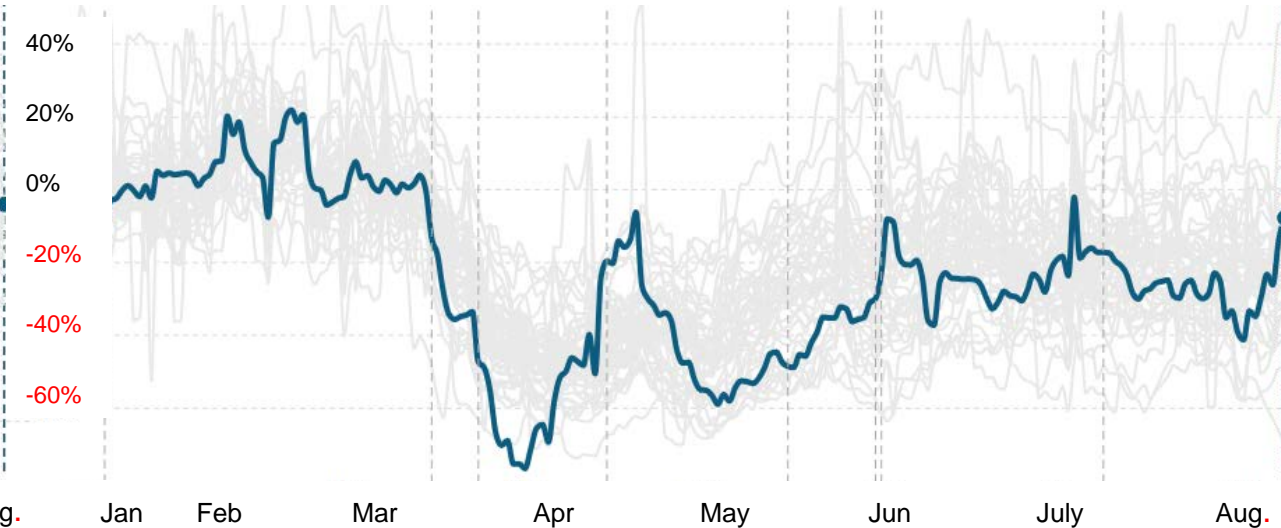
Leisure & Hospitality



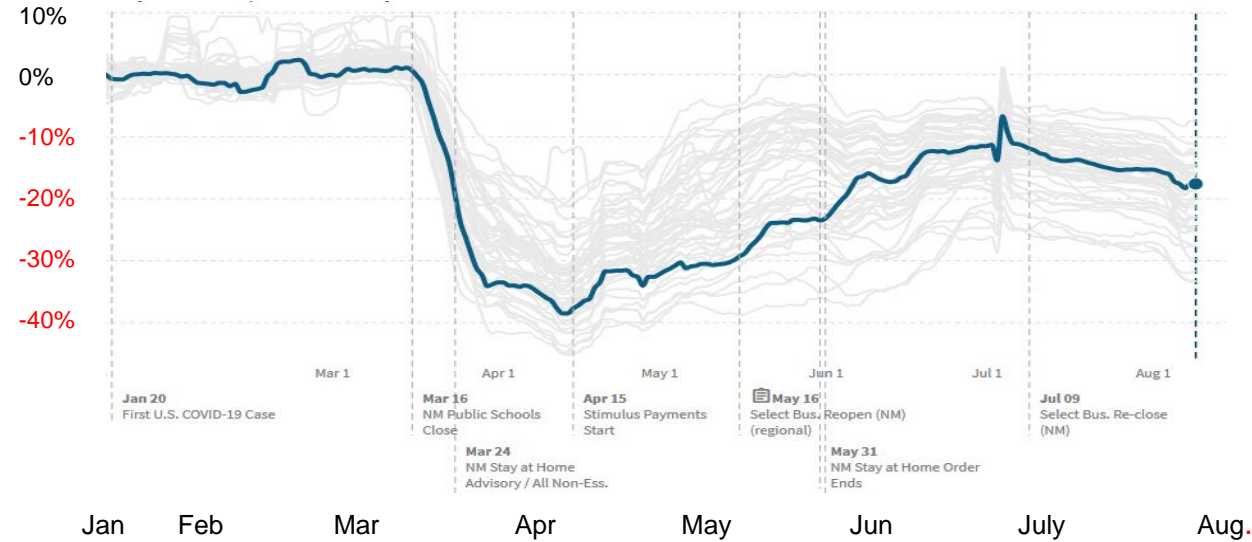
Retail & Transportation



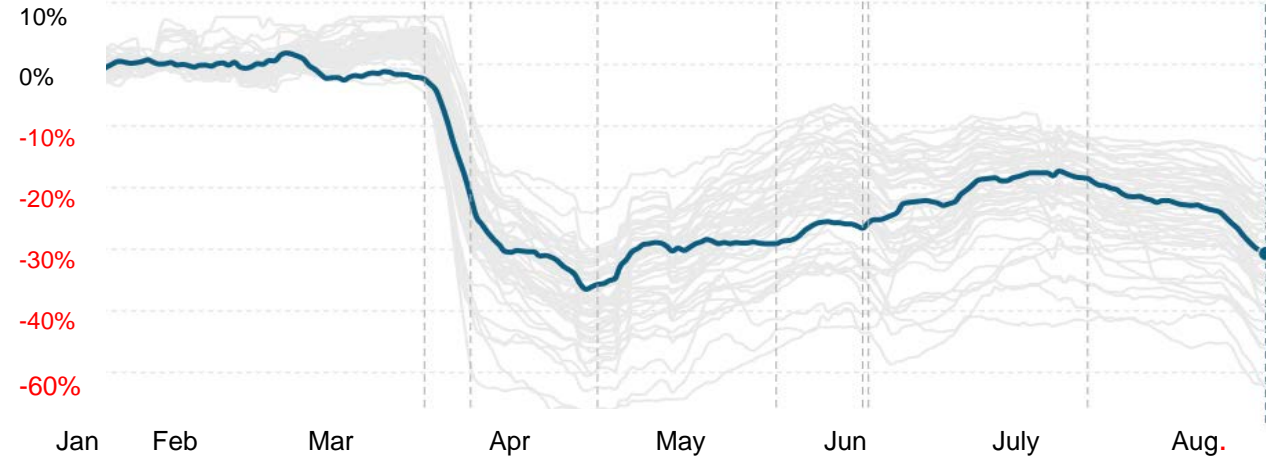
Education & Health Services



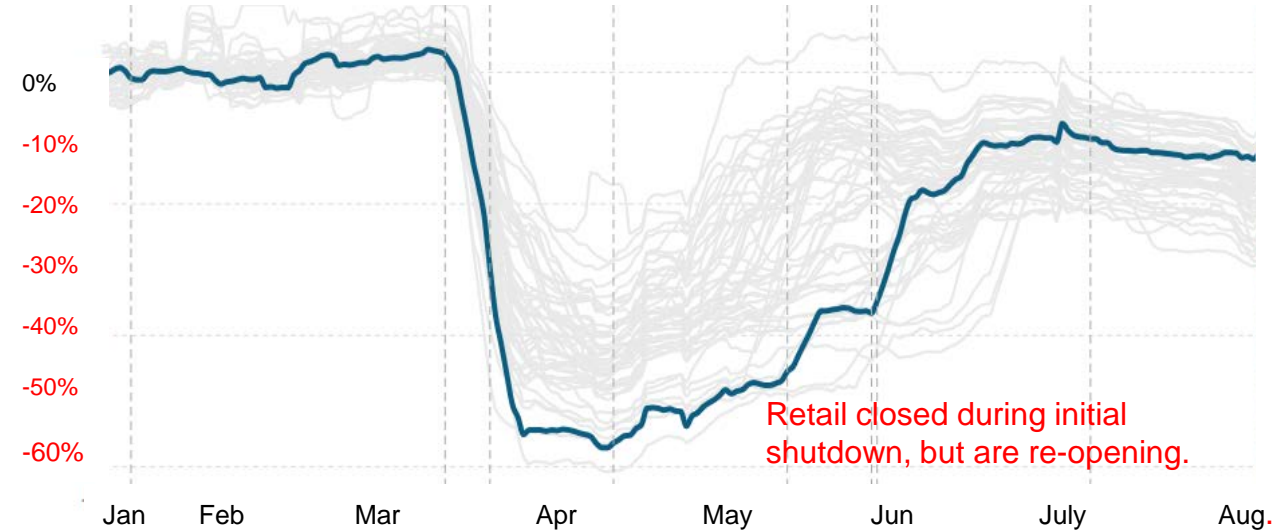
Change in Number of Small Businesses Open



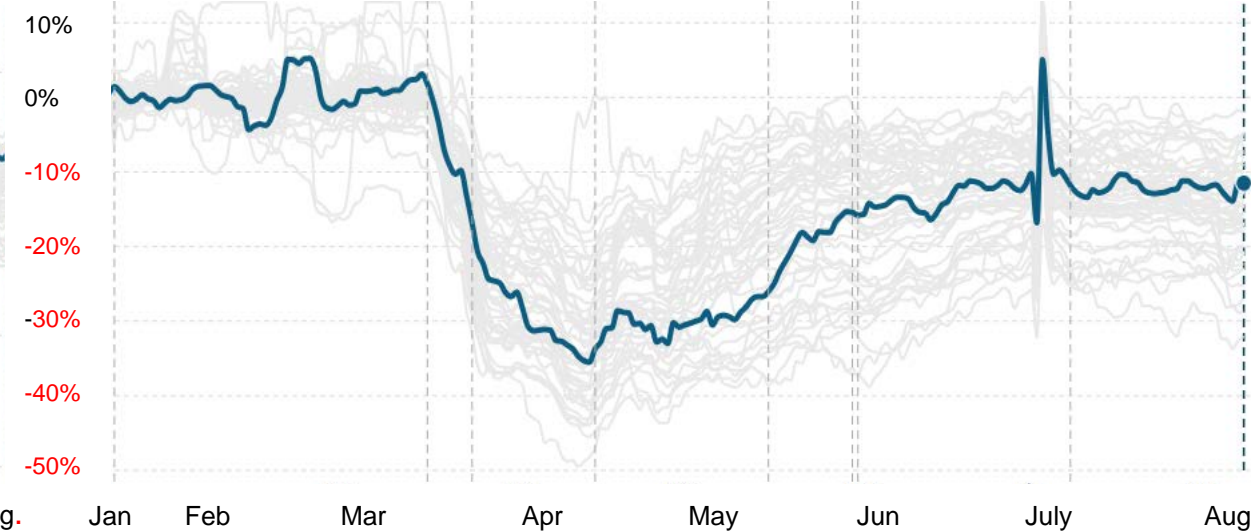
Leisure & Hospitality



Retail & Transportation



Education & Health Services



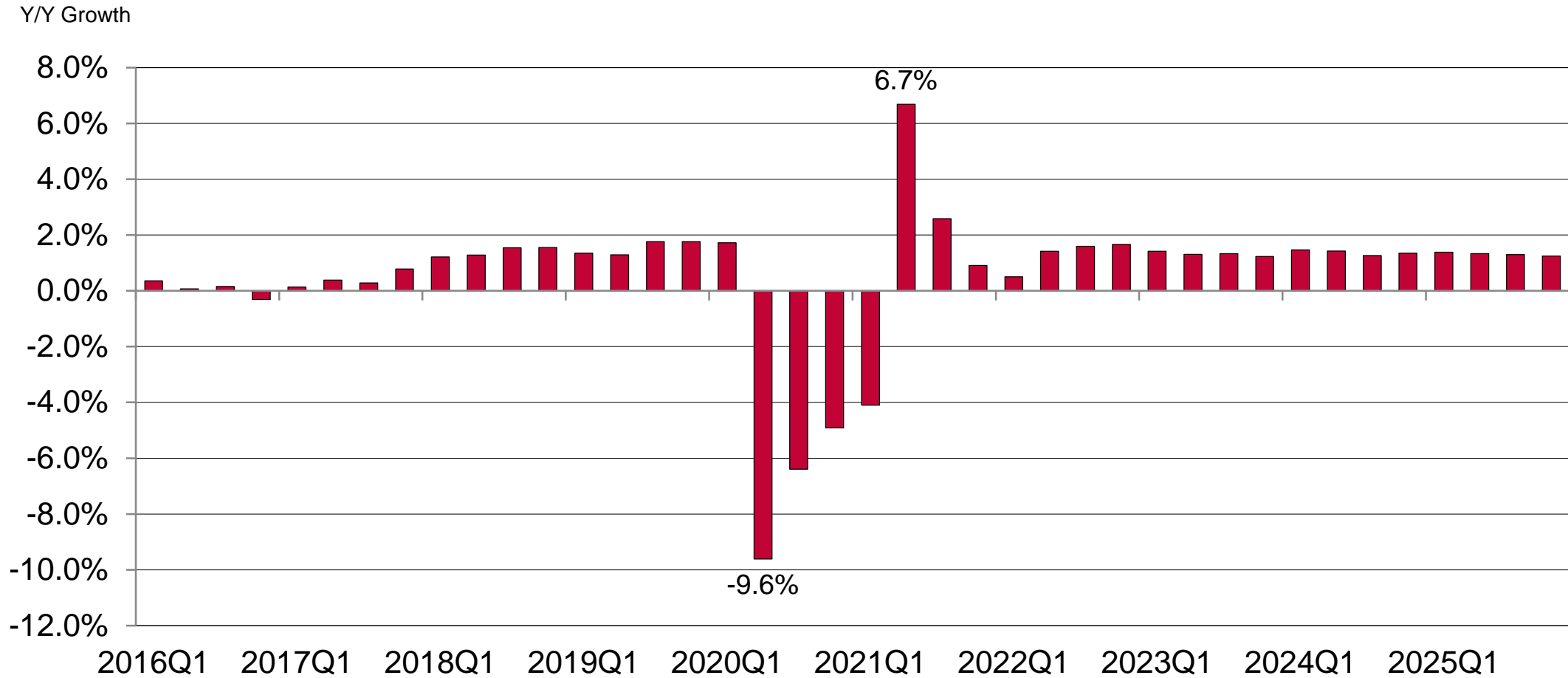
New Mexico Outlook



New Mexico Economic Outlook 2020-2025

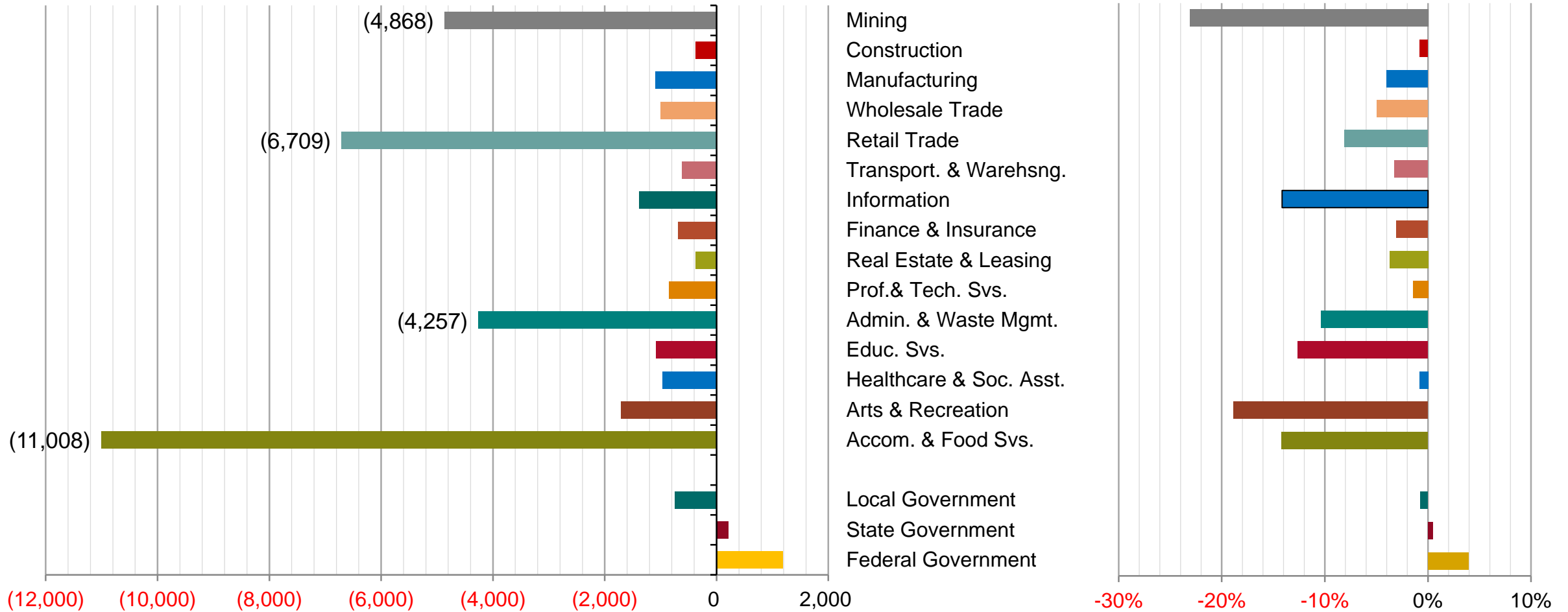
- Forecast turns on expectations re control of COVID-19 –
 - a. Single wave ending in early-summer, return to work with quick recovery – V-shaped
 - b. Limited activity through the summer, deep recession, about 2 year recovery – U- shaped
 - c. Prolonged struggle that wipes out household and business balance sheets, years of recovery – L-shaped
- FOR-UNM provides various scenarios but baseline tends toward U-shaped
- Loss of 82,500 jobs (-9.9%) in Q2 before gaining back 27,600 (3.7%) in Q3 and 21,180 (2.7%) in Q4 (all QoQ) – 2020 down 40,200 jobs (-4.8%) compared to 2019.
- Recovery gains steam in 2021 and growth expected to average around 1.3% per year.
- Economy exceeds 2019 levels by 2024 by about 3,000 jobs. At end of period (2025) employment some 14,000 jobs (1.7%) above 2019 levels.
- Income patterns are slightly different with strong growth in 2020, weakness in 2021 (0.0%), and then accelerating slowly thereafter.

New Mexico Employment Growth Forecast



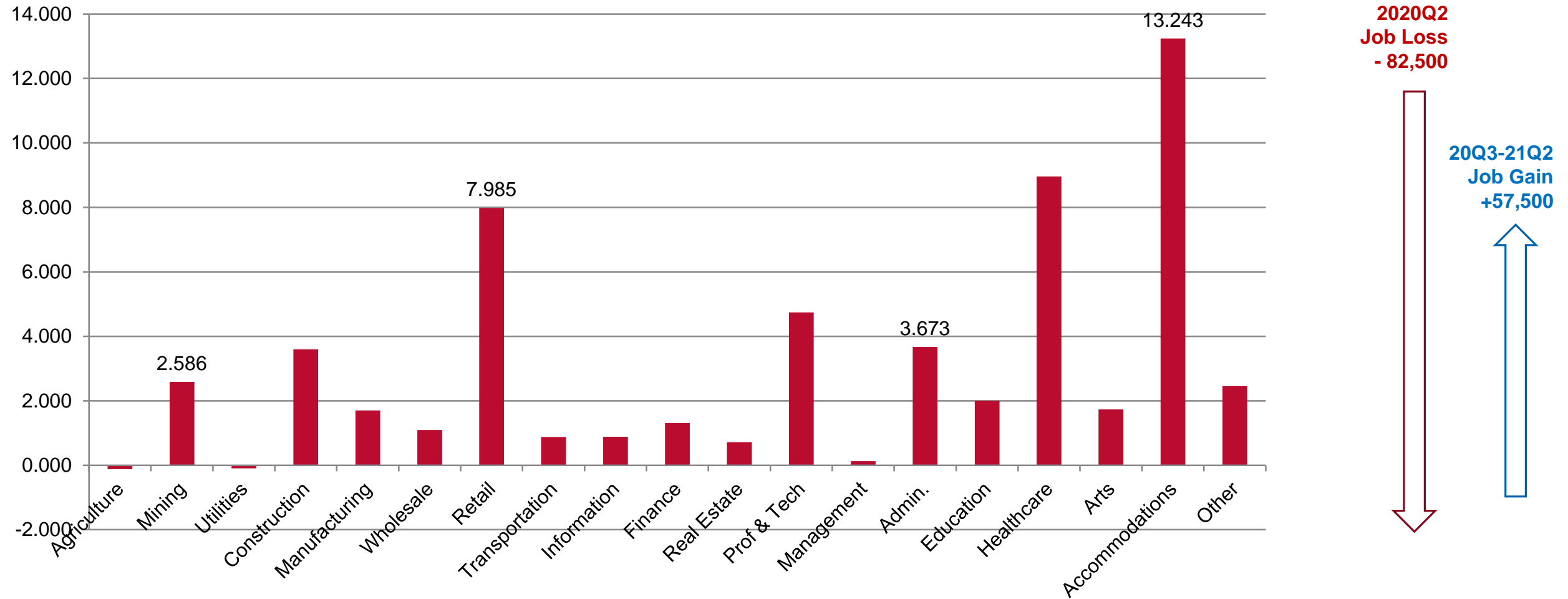
Source: BBER FOR-UNM, October 2020

NM Job Growth by Sector, 2020



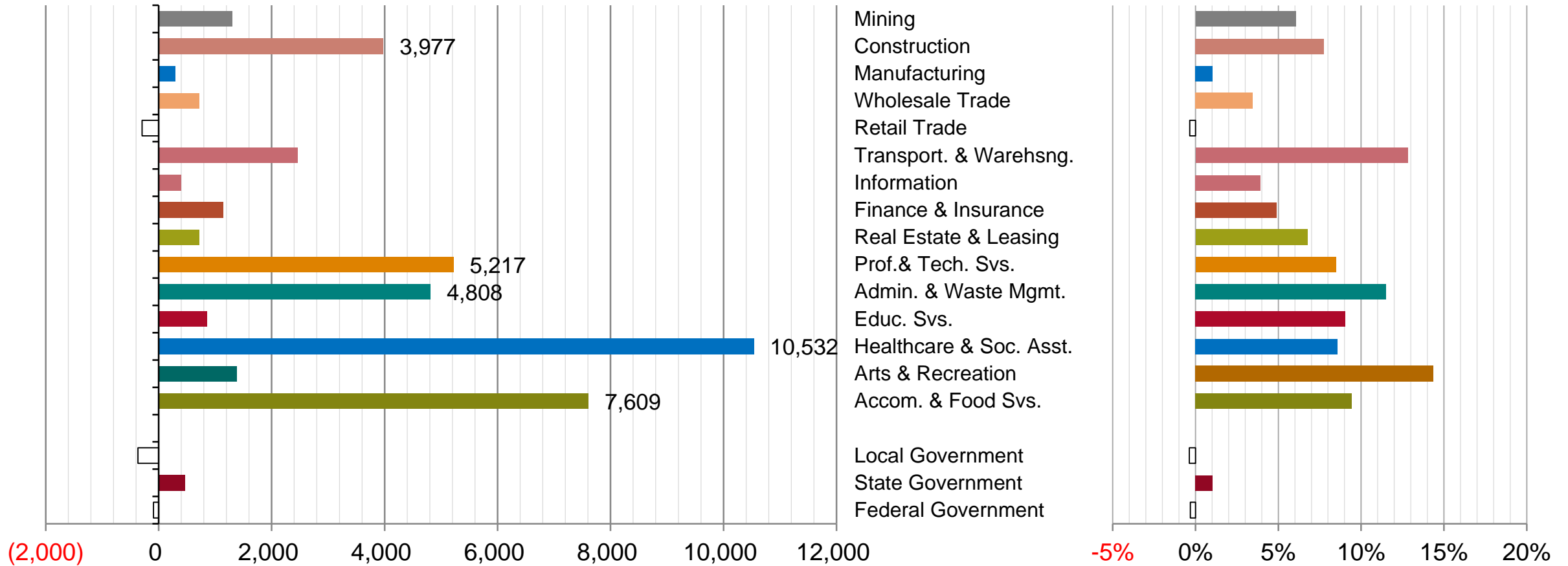
Source: BBER FOR-UNM, October 2020

Forecast Job Recovery by Industry, 2020Q3 – 2021Q2



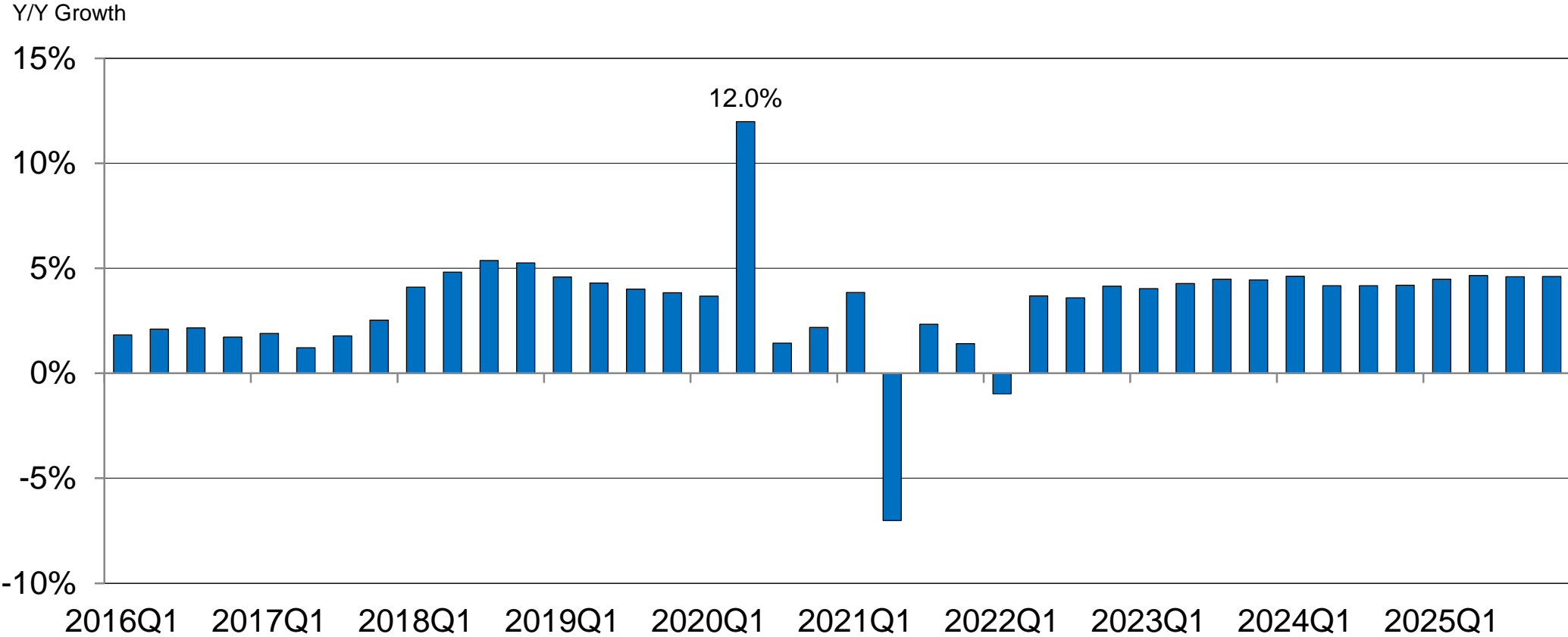
Source: FOR-UNM, November 2020

Job Growth by Sector, 2021-2025



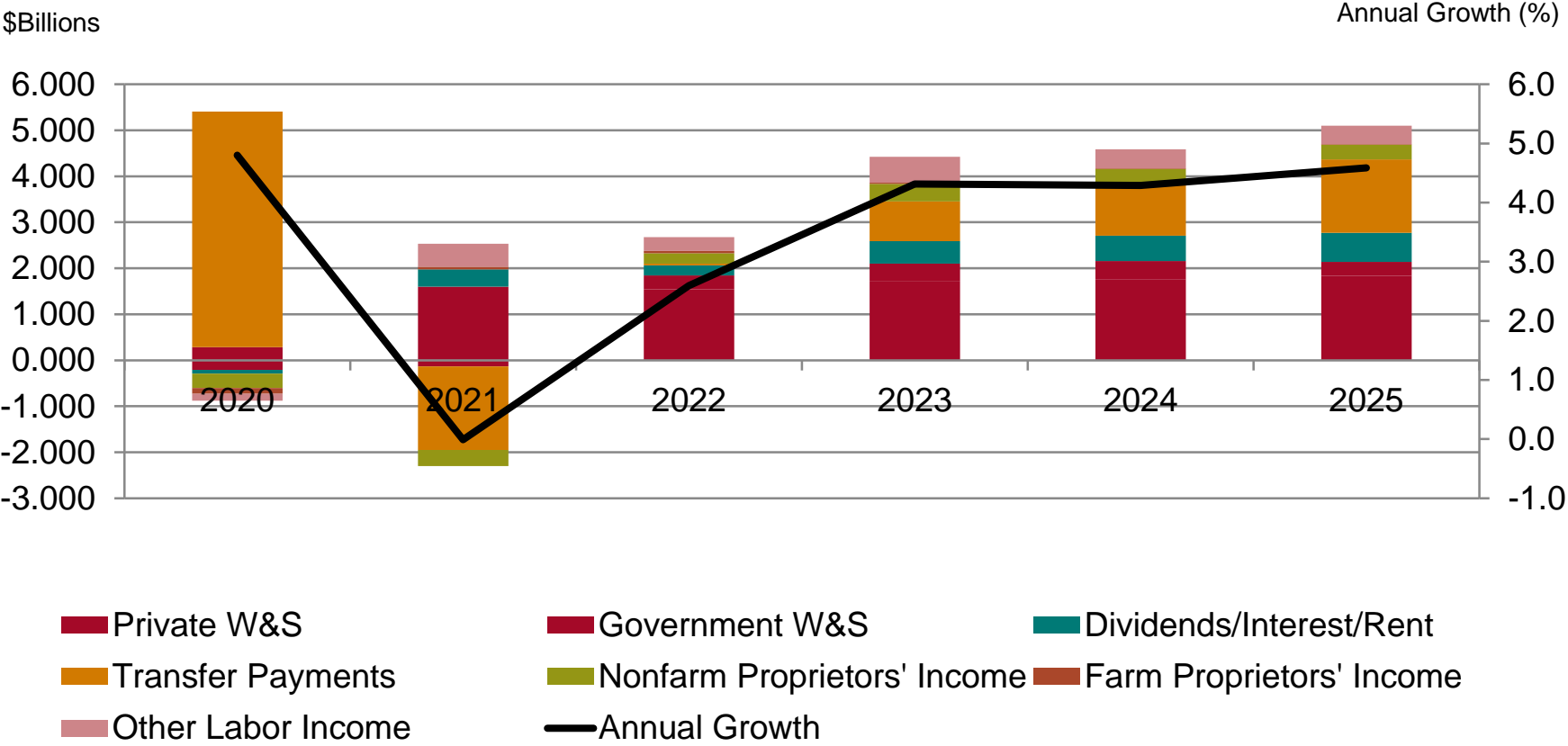
Source: BBER FOR-UNM, October 2020

New Mexico Personal Income Forecast



Source: BBER FOR-UNM, October 2020

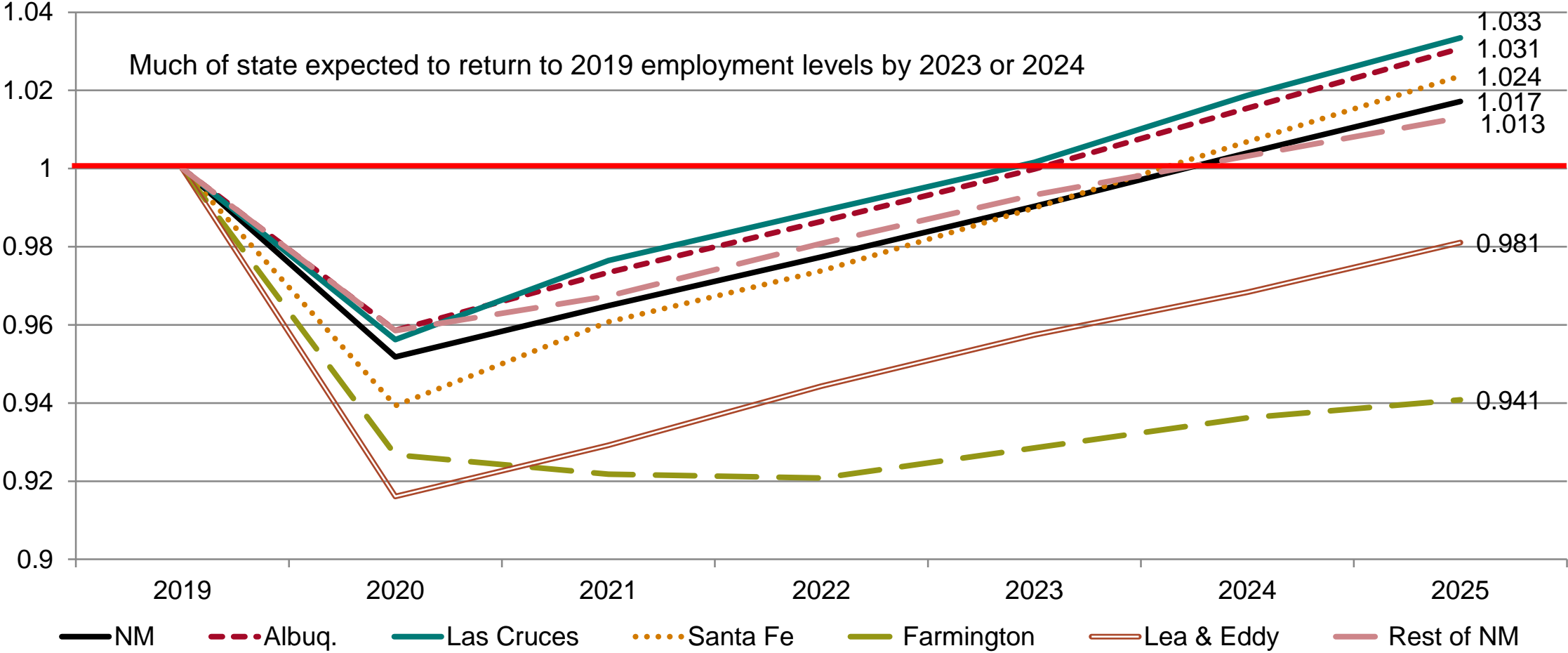
Forecast Personal Income Growth, by Component



- Personal incomes remain positive in 2020 by massive increase federal transfers (unemployment, stimulus checks, Medicaid and other CARES funding).
- But income growth turns flat in 2021 with reductions in transfers.
- Slow growth in 2022 as transfers still struggle, before ticking up in 2023.

Source: BBER FOR-UNM, October 2020

Regional Employment, Indexed to 2019 Levels

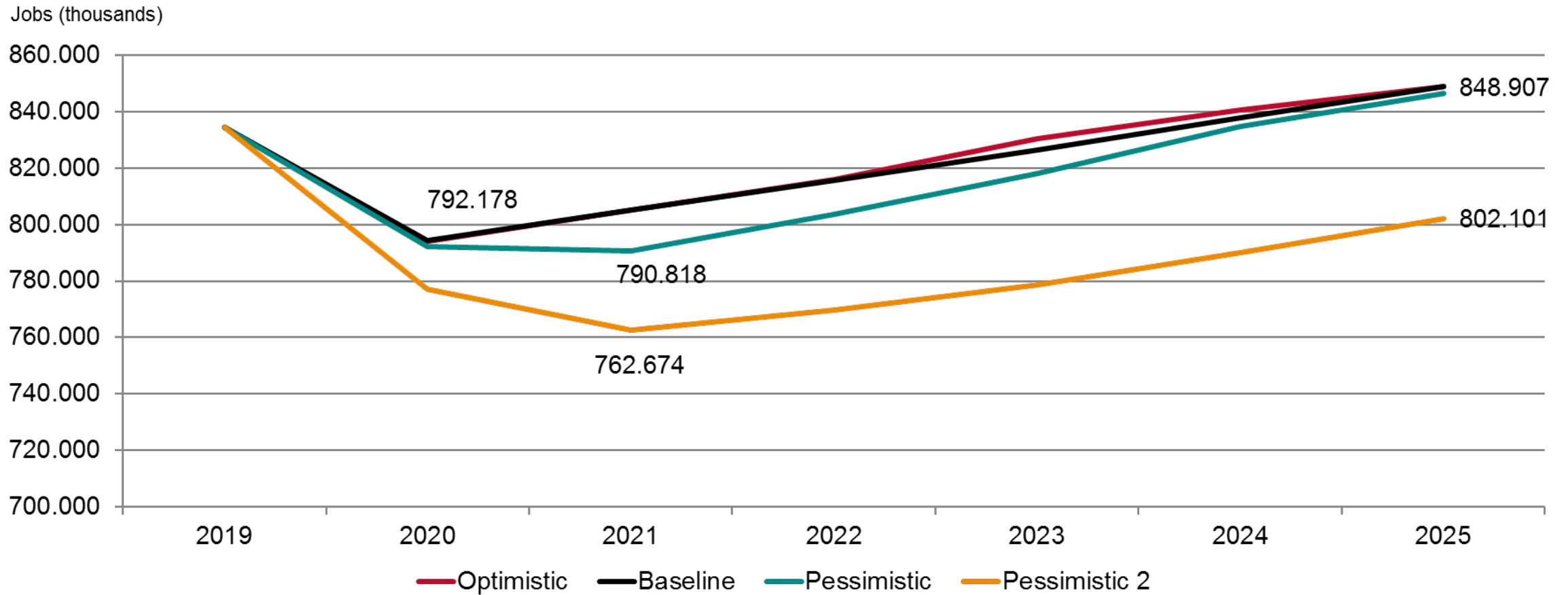


Source: BBER FOR-UNM, October 2020

Alternative Scenarios

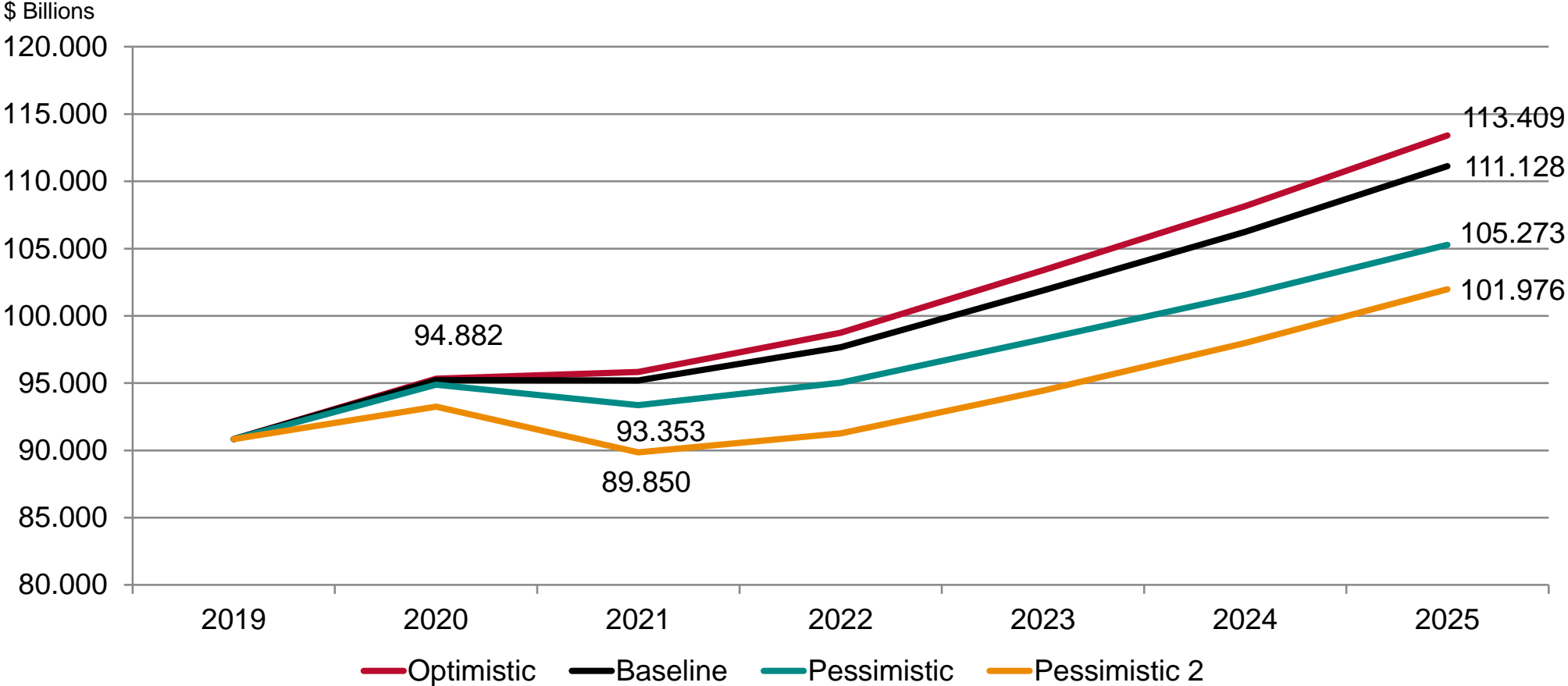
- Uncertainly associated with this forecast is unprecedented – epidemiology + economics.
- FOR-UNM's forecasts tend toward a U-shape.
- FOR-UNM offers the baseline and the two standard alternatives plus a fourth more pessimistic scenario (Pessimistic 2) intended to put a floor under the outlook.
- Pessimistic scenarios considers challenges facing NM: a) small business access to federal loans, b) trend toward business consolidation, C) government budget cuts.
- Pessimistic 2 scenario is L-shaped, with incomplete recovery by end of forecast period.

New Mexico Employment Forecast – Alternative Scenarios



Source FOR-UNM October 2020

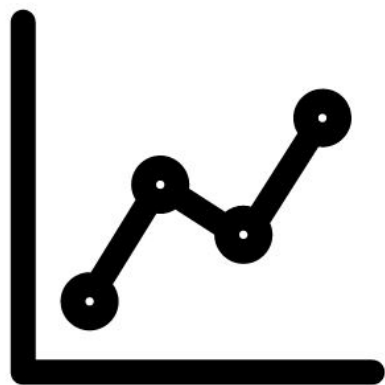
New Mexico Income Forecast – Alternative Scenarios



Source FOR-UNM October 2020



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ECONOMIC FORECAST



DATA DASHBOARDS



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DATA BANK