



**BUREAU OF BUSINESS  
& ECONOMIC RESEARCH**

# **New Mexico's Economy: Current Situation & Forecast**

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PRESENTED TO THE 24<sup>TH</sup> ANNUAL NM DATA USER'S CONFERENCE  
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NOVEMBER 16, 2022

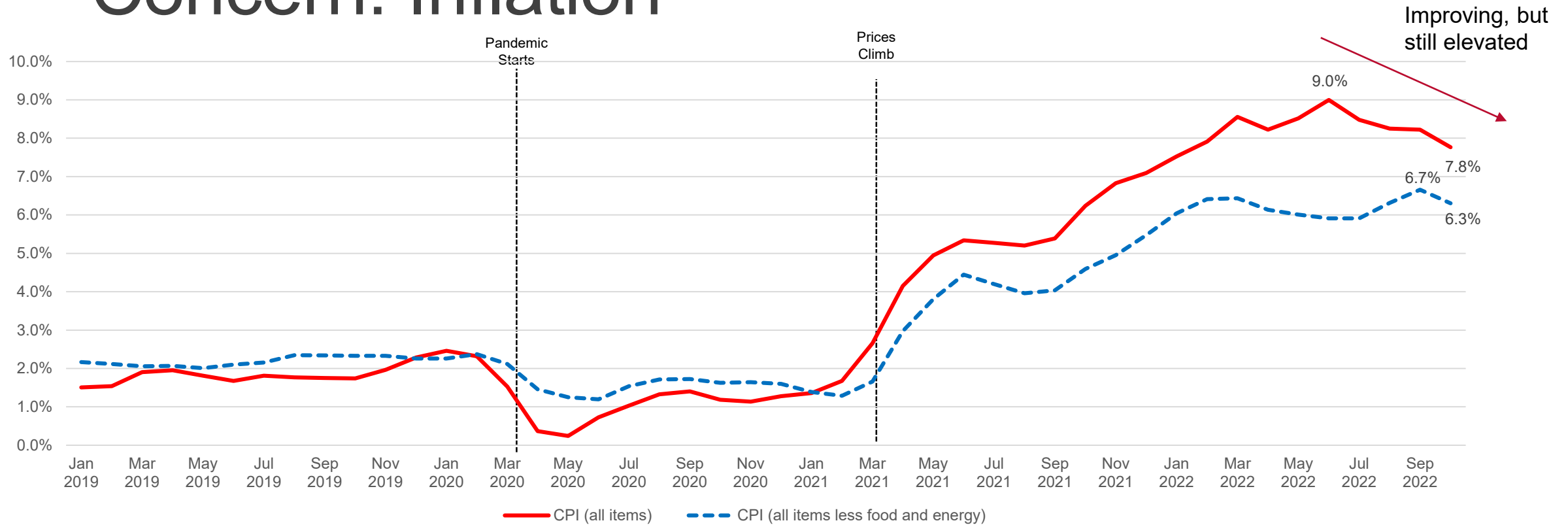
# US Review + Economic Outlook



# Review: National Economy

- ❑ In the first 10 months of the year, job gains solid: averaging 407,000 per month. Employment about 800k above pre-pandemic levels.
- ❑ Federal Reserve raised rates again: now at about 4%.
- ❑ Initial & continuing claims for unemployment have generally stabilized and U3 unemployment rate 3.7% in October. U6 at 6.8%. Down to pre-pandemic levels.
- ❑ Real GDP: 2022Q1 (-1.6%) and 2022Q2 (-0.9%) disappointing. 2022Q3 rose 2.6%.
- ❑ WTI spot price about \$85/barrel on morning of 16 November 2022.
- ❑ Consumer Sentiment Index (U. of Mich.) fell hard and is now volatile: 85.5 in June 2021 fell to 50.0 by June 2022, rose to 59.9 in October, but fell to 54.7 in November.
- ❑ Stock market (DJIA & NASDAQ) volatile also fell hard and is volatile.
- ❑ ISM manufacturing and non-manufacturing indices continue to expand (but slowing).
- ❑ Concerns: COVID+, inflation, supply chain disruptions, (geo)political (new congress may reset policy). Are we in a recession?

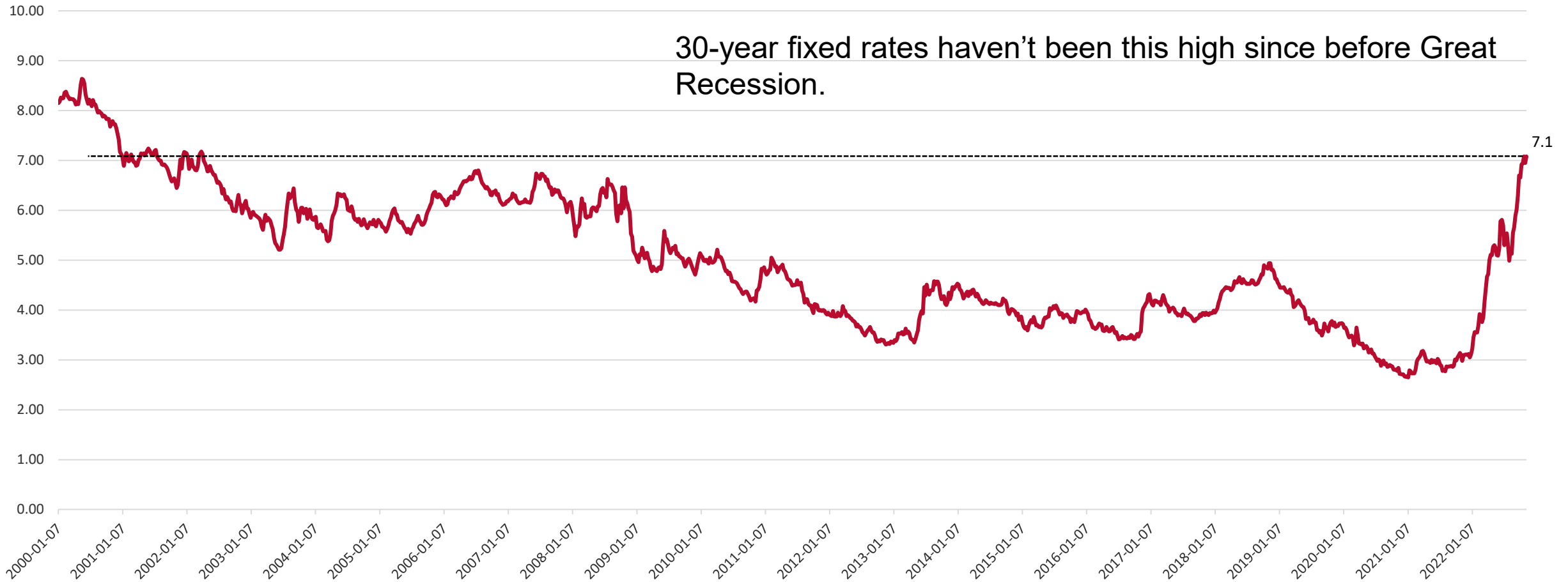
# Concern: Inflation



Data current through October 2022. Y/Y price growth still high but below peak growth. “All Items” are impacted with growth around 7.8%. Prices for items excluding food and energy are also high (6.3%).

Source: BLS CPI data

# Concern: US Interest Rates



Relatedly, federal funds rate has been raised rapidly to attempt to combat the effects of inflation – Fed recently raised rates to 4%.

Source: 30 Fixed Mortgage Rates, Fed Reserve of St. Louis

# Concern: Recession?

- ❑ The Conference Board predicts 96% chance of recession within next 12 months (<https://www.conference-board.org/topics/recession/US-recession-probabilities-reach-96-percent>).
- ❑ Goldman Sachs: 30% probability of recession... but this was in July (<https://www.goldmansachs.com/insights/pages/gs-research/revisiting-recession-facts/report.pdf>).
- ❑ Federal Reserve Yield Curve analysis implies a 25% recession probability ([https://www.newyorkfed.org/research/capital\\_markets/ycfaq#/interactive](https://www.newyorkfed.org/research/capital_markets/ycfaq#/interactive)).
- ❑ IHS Markit:

“The sharp worsening in financial conditions in recent weeks, including a steep decline in equities, a jump in term interest rates, a further rise in the dollar, and widening yield spreads, points to a further weakening in spending that will cause the US economy to slide into recession in coming quarters. We expect the recession to be mild by historical standards...”

# Real GDP Growth

## Composition of Real GDP Growth Over Previous Period SAAR

	2017	2018	2019	2020	2021	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3	Contrib. 22Q3
<b>Composition of Real GDP</b>														
<b>Gross Domestic Product</b>	2.2	2.9	2.3	-2.8	5.9	3.9	6.3	7.0	2.7	7.0	-1.6	-0.6	2.6	2.60
<b>Total Consumption</b>	2.4	2.9	2.0	-3.0	8.3	3.9	10.8	12.1	3.0	3.1	1.3	2.0	1.4	0.97
Durable goods	6.4	6.8	3.8	10.0	18.5	0.6	44.7	10.6	-22.0	5.1	7.6	-2.8	-0.8	-0.07
Nondurable goods	2.6	2.5	2.8	2.7	8.8	0.1	14.9	12.2	1.7	0.7	-4.4	-2.5	-1.4	-0.20
Services	1.7	2.4	1.5	-6.6	6.3	5.7	4.0	12.3	9.2	3.5	2.1	4.6	2.8	1.24
<b>Residential Fixed Investment</b>	4.0	-0.6	-1.0	7.2	10.7	33.4	11.6	-4.9	-5.8	-1.1	-3.1	-17.8	-26.4	-1.37
<b>Nonresidential Fixed Investment</b>	4.1	6.5	3.6	-4.9	6.4	11.5	8.9	9.9	0.6	1.1	7.9	0.1	3.7	0.49
Structures	4.4	4.1	2.3	-10.1	-6.4	0.9	1.9	-2.5	-6.7	-12.7	-4.3	-12.7	-15.3	-0.41
Equipment & Software	2.8	6.6	1.3	-10.5	10.3	21.1	6.1	14.0	-2.2	1.6	11.4	-2.0	10.8	0.54
Intellectual Property	5.6	8.1	7.3	4.8	9.7	8.3	15.6	12.6	7.4	8.1	10.8	8.9	6.9	0.36
<b>Change in Private Inventories</b>														-0.70
<b>Exports</b>	4.3	2.8	0.5	-13.2	6.1	24.2	0.4	4.9	-1.1	23.5	-4.6	13.8	14.4	1.63
<b>Imports</b>	4.5	4.2	1.1	-9.0	14.1	32.9	7.6	7.9	6.6	18.6	18.4	2.2	-6.9	1.14
<b>Federal Government</b>	0.4	3.0	3.9	6.2	2.3	1.8	17.3	-6.9	-7.2	0.0	-5.3	-3.4	3.7	0.23
<b>State &amp; Local Government</b>	0.4	0.9	3.0	0.4	-0.5	-1.3	0.1	-0.4	4.5	-1.6	-0.4	-0.6	1.7	0.19

US Bureau of Economic Analysis, Gross Domestic Product, 2022 First Quarter (1st Estimate), October 27, 2022

GDP contracted in 2022Q1 & 2022Q2.

Are we in recession?

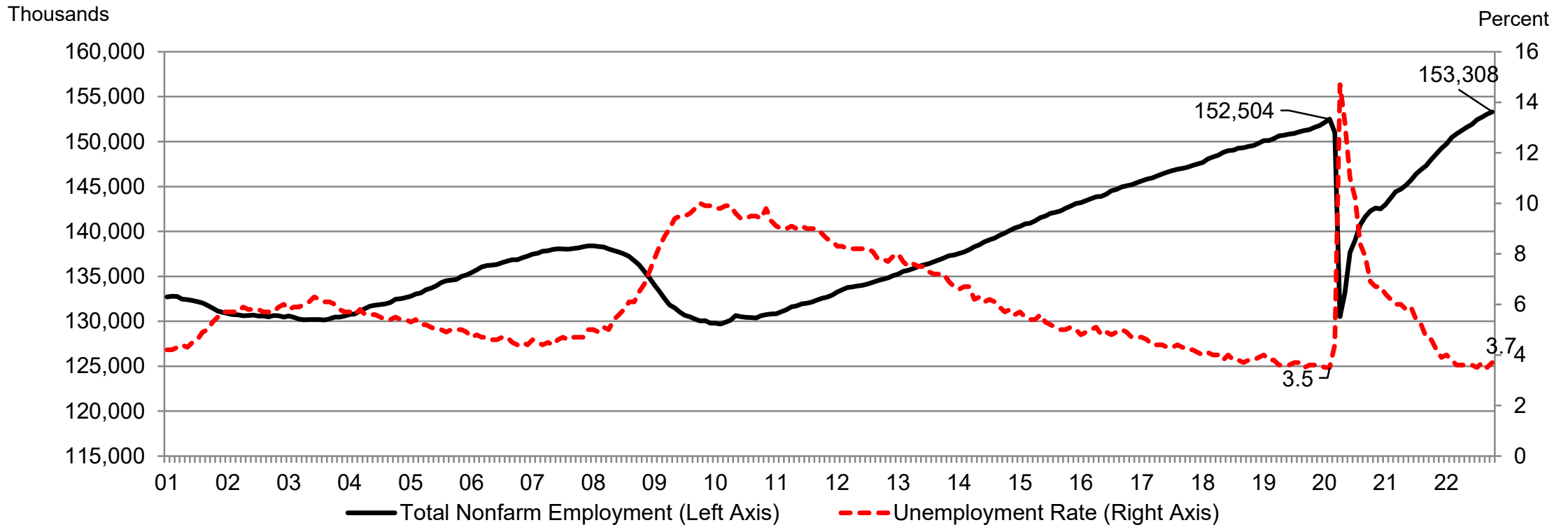
Consumption & net exports rose.

Exports, non-residential fixed investment, and government added to bottom line.

Residential fixed investment & private inventories brought down the total.

# US Employment Situation

## US Nonfarm Employment + Unemployment Rate, Monthly SA



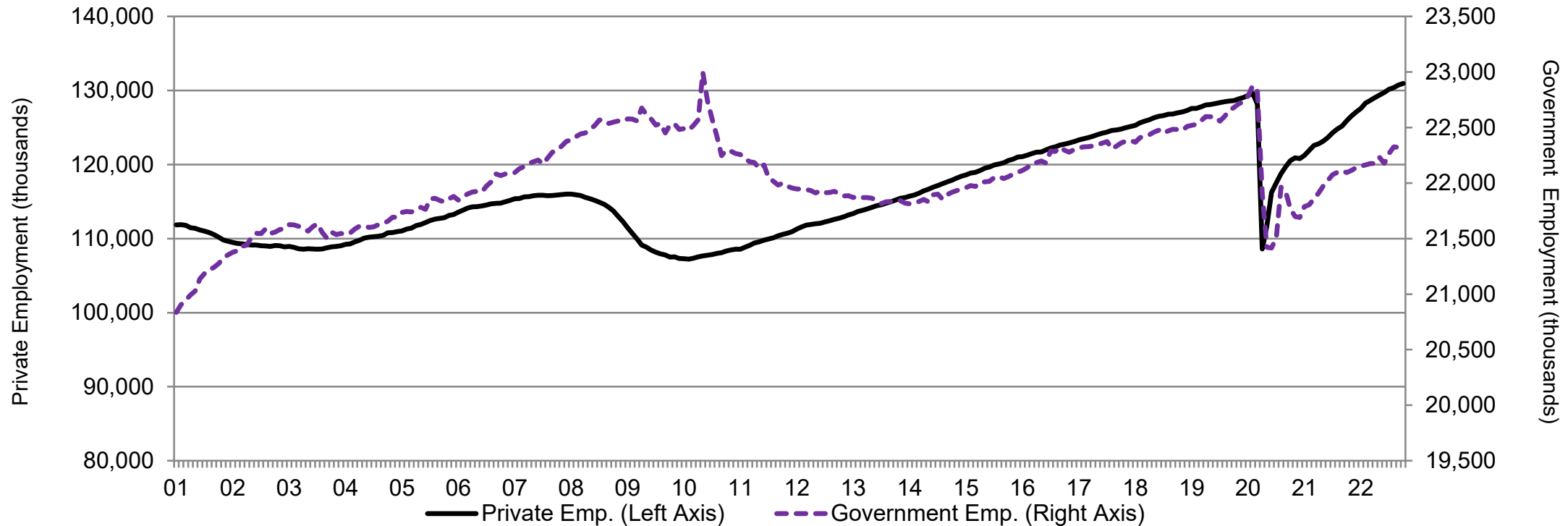
Peak employment: 152.504 million in Feb 2020.  
Employment now at 153.308 million.

Note: UI rate now 3.7%.

BLS, through October 2022

# US Employment Situation

## US Nonfarm Employment, Monthly SA

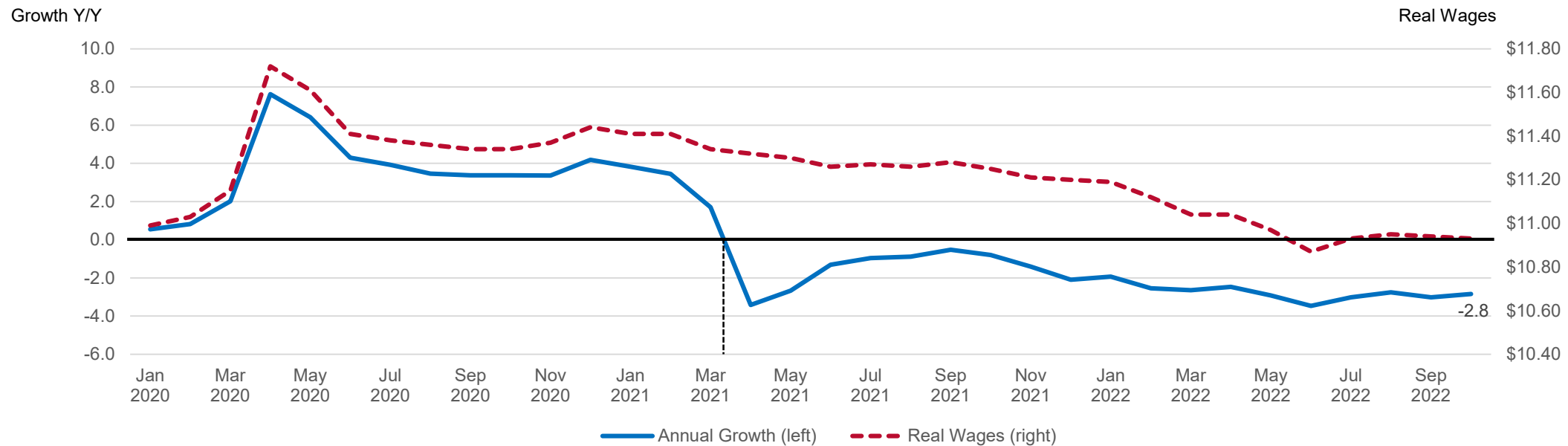


Recovery driven mostly by private sector (up 1.3 million jobs vs. pre-pandemic). Government is still down 530,000 jobs compared to pre-pandemic levels. Last time employment this low was 2016.

BLS, through October 2022

# Real Private Sector Wages & Wage Growth

Lower-wage workers cut first at start of pandemic, making average wages increase. As those workers have returned, average wages have fallen. Now, wages not keeping up with inflation.



Real wages contracting for over a year and a half.



BLS, through October 2022

# US Employment Forecast by Sector

Increase (Decrease) in US Payroll Employment from Previous Calendar Year, Actual & Forecast (Thousands)									
Employment Sector	2019	2020	2021	2022	2023	2024	2025	2026	2027
Construction	206	(238)	157	251	(242)	(117)	(18)	19	26
Manufacturing	129	(649)	180	438	(241)	(421)	(118)	(88)	(20)
Trade, Transportation & Utilities	117	(1,033)	1,033	986	(330)	(463)	(153)	(20)	(9)
Prof. & Bus. Services	327	(967)	929	1,013	(1,154)	(933)	713	603	326
Health Care & Soc. Asst.	499	(627)	290	526	455	333	230	149	139
Leisure & Hospitality	285	(3,456)	967	1,572	759	320	71	62	32
Other Private	275	(1,147)	382	821	(199)	309	394	169	69
Government	158	(629)	17	251	291	212	176	151	148
<b>Total Nonfarm Payrolls</b>	<b>1,996</b>	<b>(8,748)</b>	<b>3,956</b>	<b>5,860</b>	<b>(661)</b>	<b>(759)</b>	<b>1,295</b>	<b>1,044</b>	<b>712</b>
Annual Growth	1.3%	-5.8%	2.8%	4.0%	-0.4%	-0.5%	0.9%	0.7%	0.5%

Industries never recover

IHS Markit, October 2022

-  Corresponds to IHS's prediction for when industries will recover lost jobs after pandemic.
-  Corresponds to IHS's prediction for when industries will turn/stay positive after losing jobs

IHS Markit, October 2022

# New Mexico Review

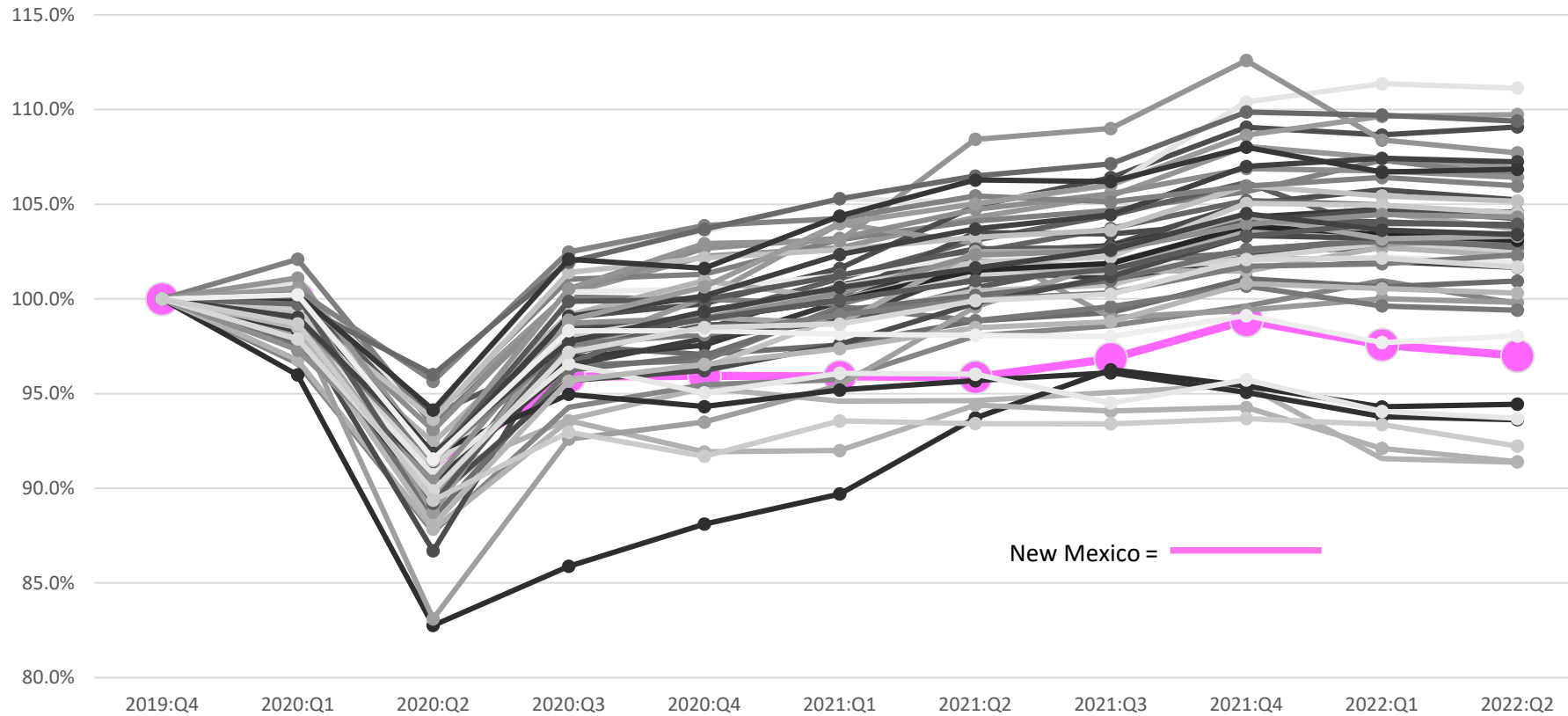


# New Mexico Current Economic Situation

- COVID variants continue to concern, but things are improving; other issues are now more pressing.
- At its lowest, state down about 90,000 jobs. 2022Q1 QCEW data now available:
  - State still down about 45,000 (-5.4%) jobs compared to pre-pandemic levels.
  - Mining (-6,800 jobs) and accommodations (-9,900 jobs) each down; local government down 11,300 jobs.
  - First quarter backslid and underperformed expectations.
- Other employment data (CES) suggests continued improvement through year (but...).
- Unemployment Insurance claims have stabilized.
- Oil: WTI around \$85/barrel (though there has recently been upward pressure).
  - Drilling robust and production high; good news for state budgets.

# BEA Gross State Product

NM remains at about 97% of pre-pandemic high.



Each state indexed to 2019Q4 (NM's high point).

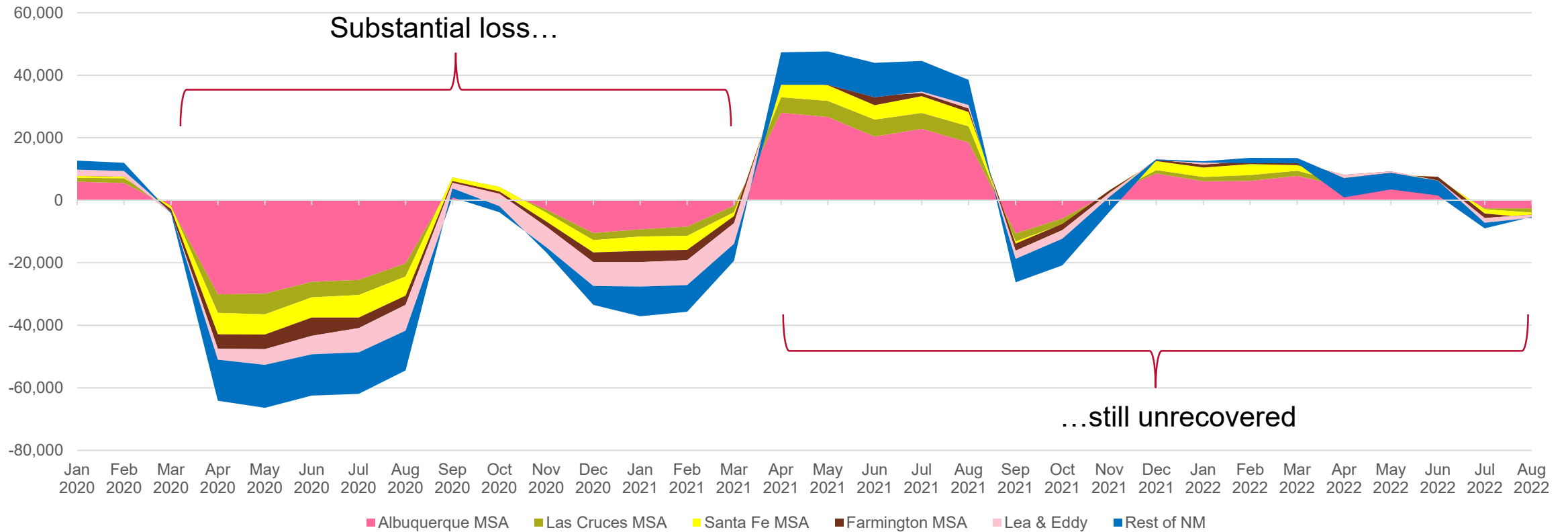
Through 2022Q2, 46 states have had greater recoveries in GSP. This is a downgrade compared to 44 states last forecast.

Important to note: series is regularly revised and most recent data was revised down.

Source: Bureau of Economic Analysis

# Y/Y Change in NM Labor Force by Place

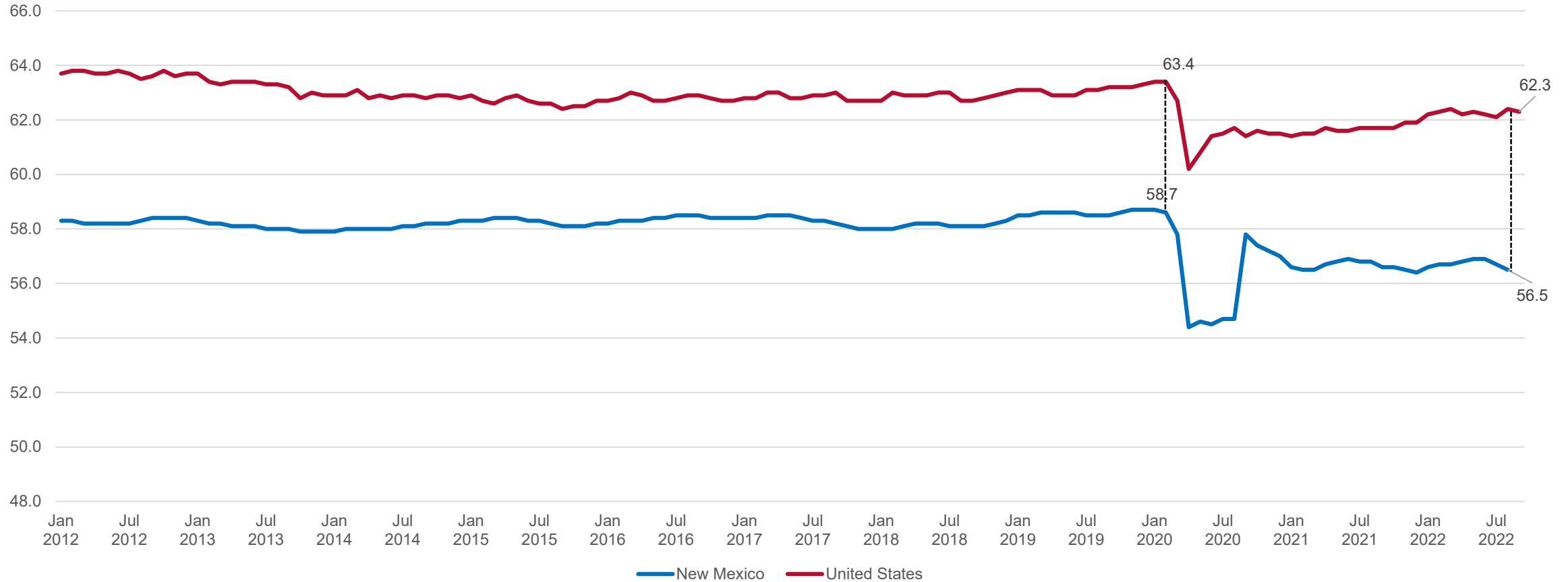
New accounting suggests that the NM labor force is still about 3% below pre-pandemic highs. Note this is a downward revision compared to last forecast. In the US, the labor force has fully recovered.



Source: BLS & NMDWS LAUS

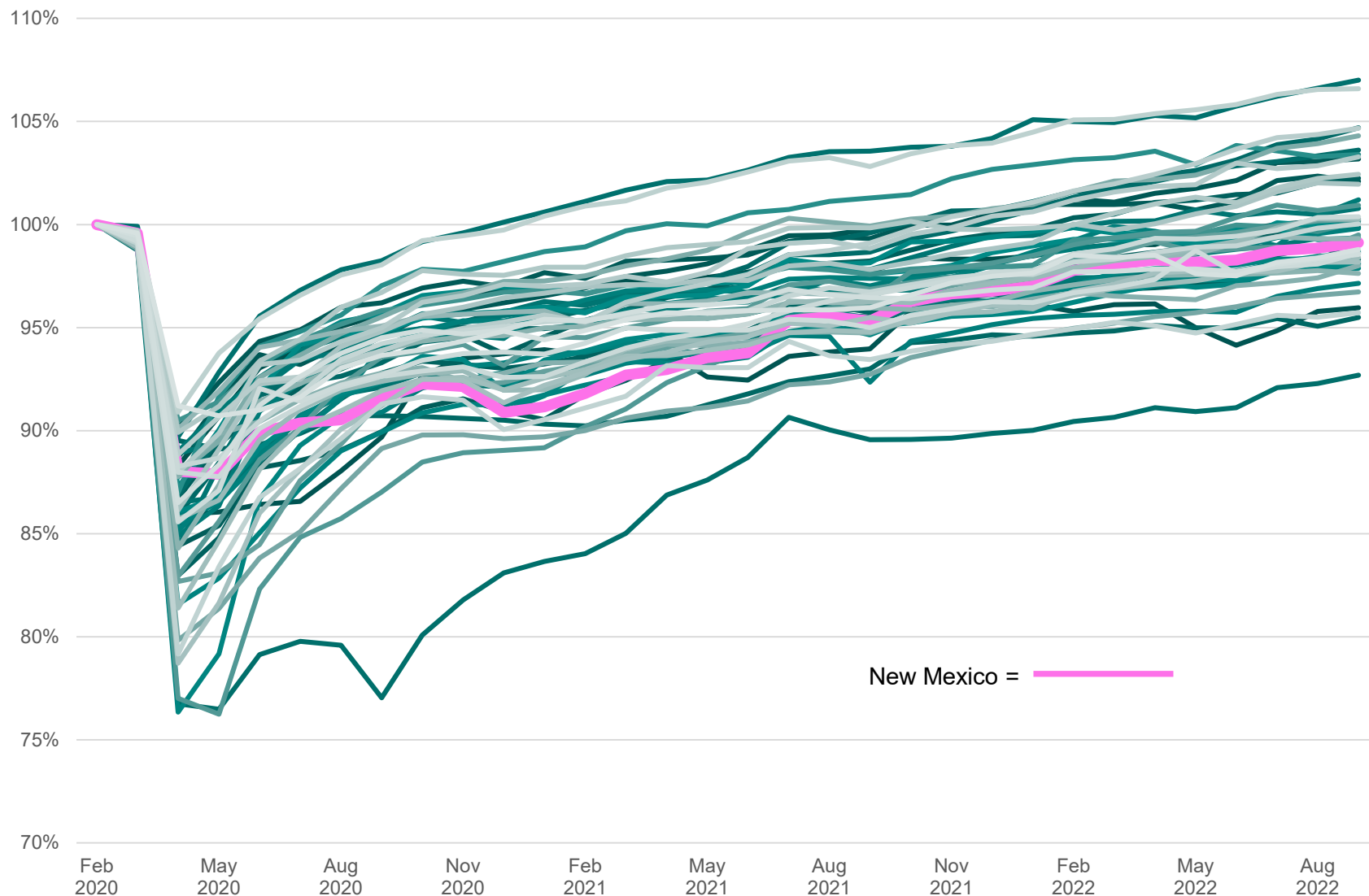
# NM vs. US Participation Rate

New Mexico has trailed the US in terms of participation rate for some time & differential has increased.



Source: BLS & NMDWS LAUS, through August 2022

Employment by State Indexed to Respective February 2020 (=100%) Levels

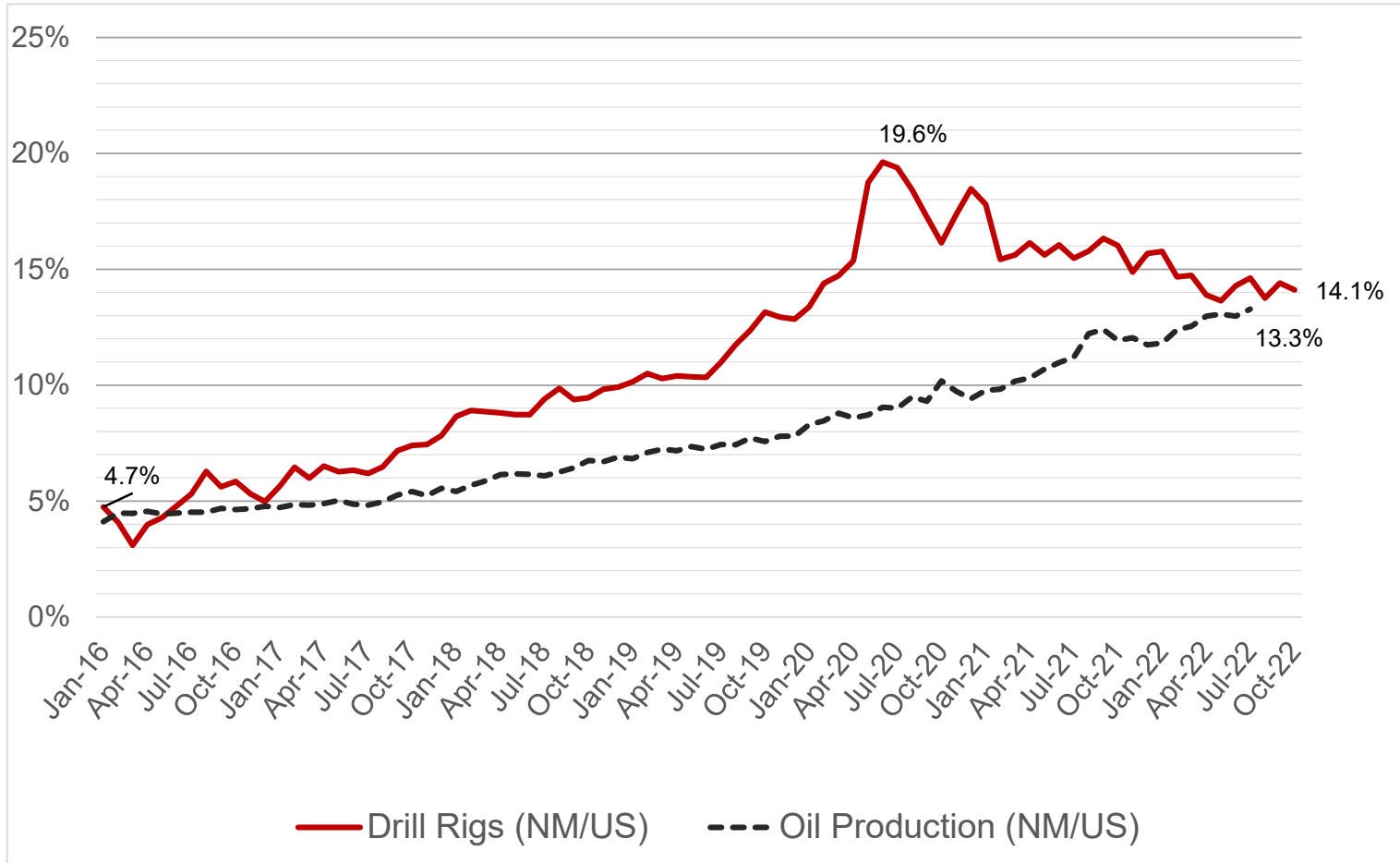


## Change in Employment (CES data)

- As of September 2022, NM has recovered 99.1% of the jobs it lost at the start of the pandemic.
- NM is (slowly) improving: 29 states have recovered a greater share of jobs than New Mexico.
- Other surrounding states: AZ 103%; CO 102%; OK 99.3%; NV 101%; CA 100%.
- However, NM data likely to be revised down.

Source: BLS CES, September 2022

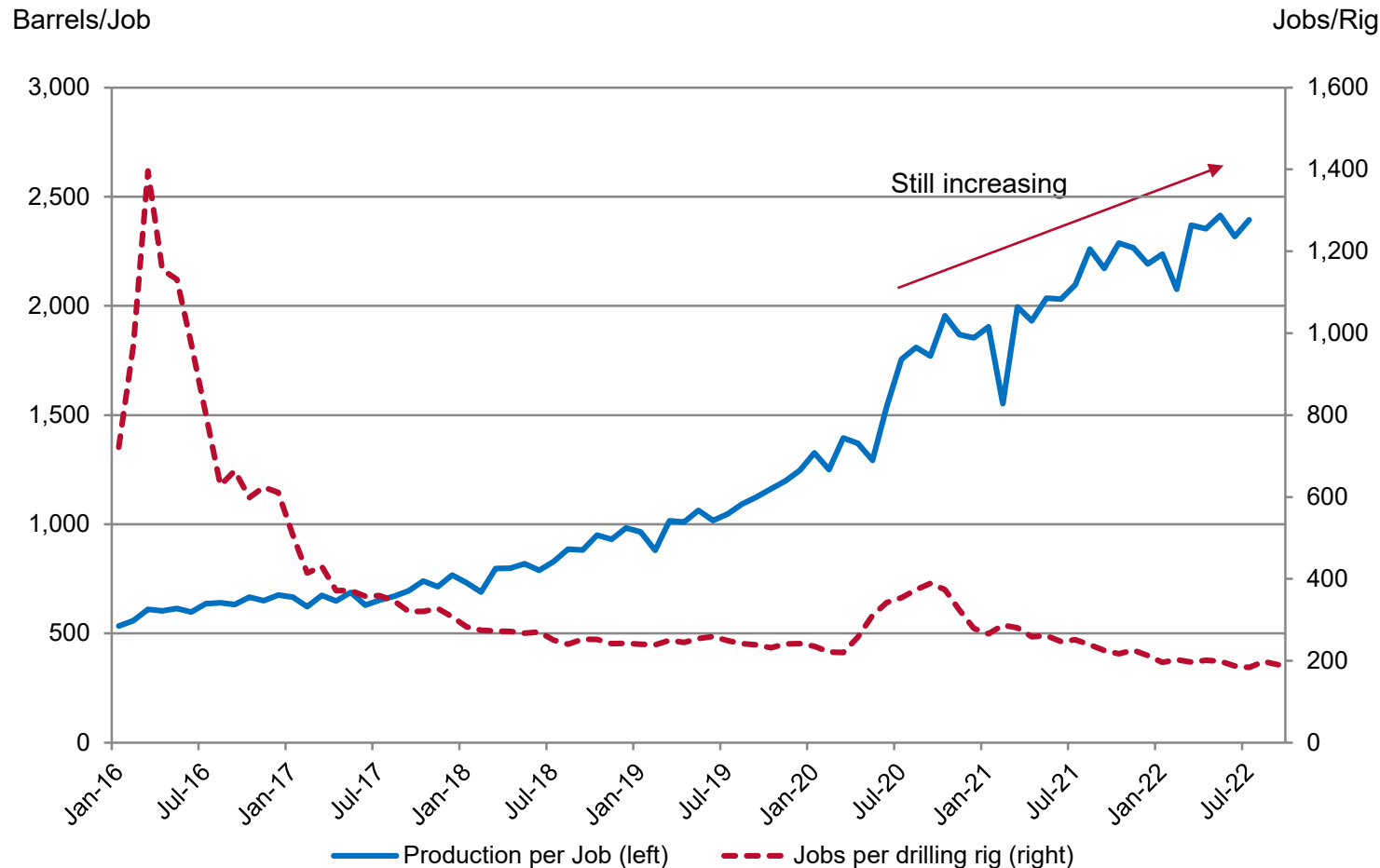
# Increased NM field oil production presence



- Currently about 106 drilling rigs operating in NM.
- Around 14% of all US drilling rigs are in New Mexico.
- More than 13% of all US field oil production occurs in NM – up from about 4%-5% in 2016.
- To put in perspective: 2021 field oil production in US totaled 11.253 million barrels per day (bpd), which is up from 8.9 million bpd in 2016 (up 27%). In NM, production increased from 400,000 bpd in 2016 to 1.252 million bpd in 2020 (up 212%).
- Incidentally: NM accounts for around 5% of US gas production by volume.

Sources: EIA, Baker Hughes. Calculations: BBER

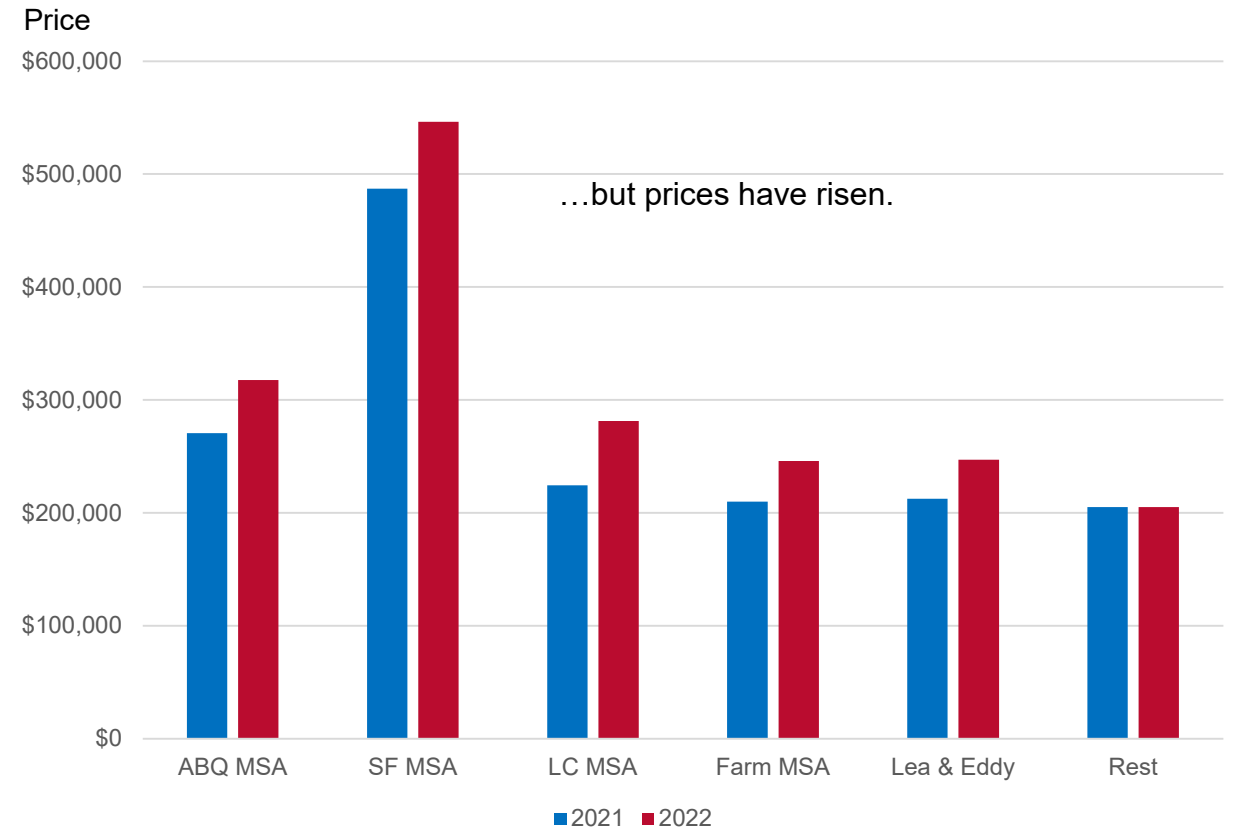
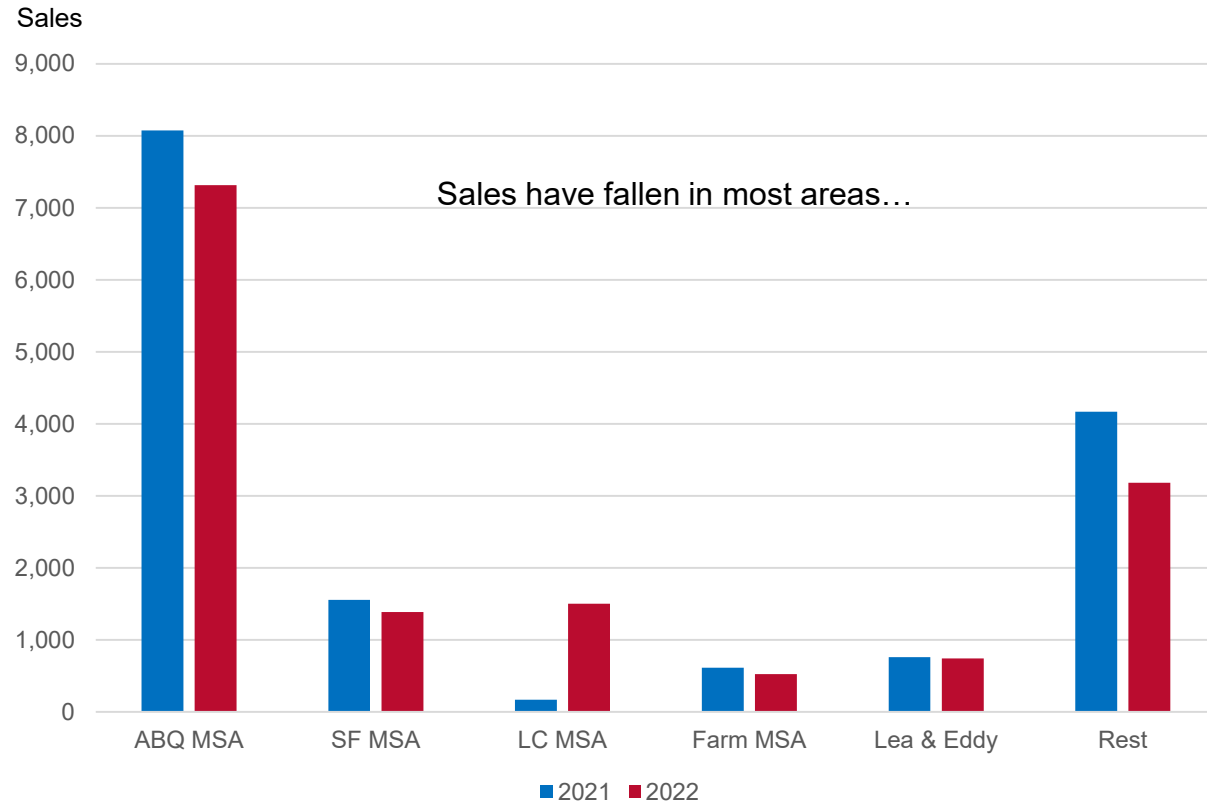
# Move toward more “efficient” production



- NM “mining” jobs averaged about 20,000 in 2016, peaked at 26,000 in 2019 and is now around 20,900 (as of September 2022).
- Still reasonable labor demands for drilling, but production is deviating.
- For local areas:
  - Fewer workers to spend in local economy
  - Negative impacts to associated industries
  - Recovery of (some) oil & gas tax revenue

Sources: EIA, Baker Hughes. Calculations: BBER

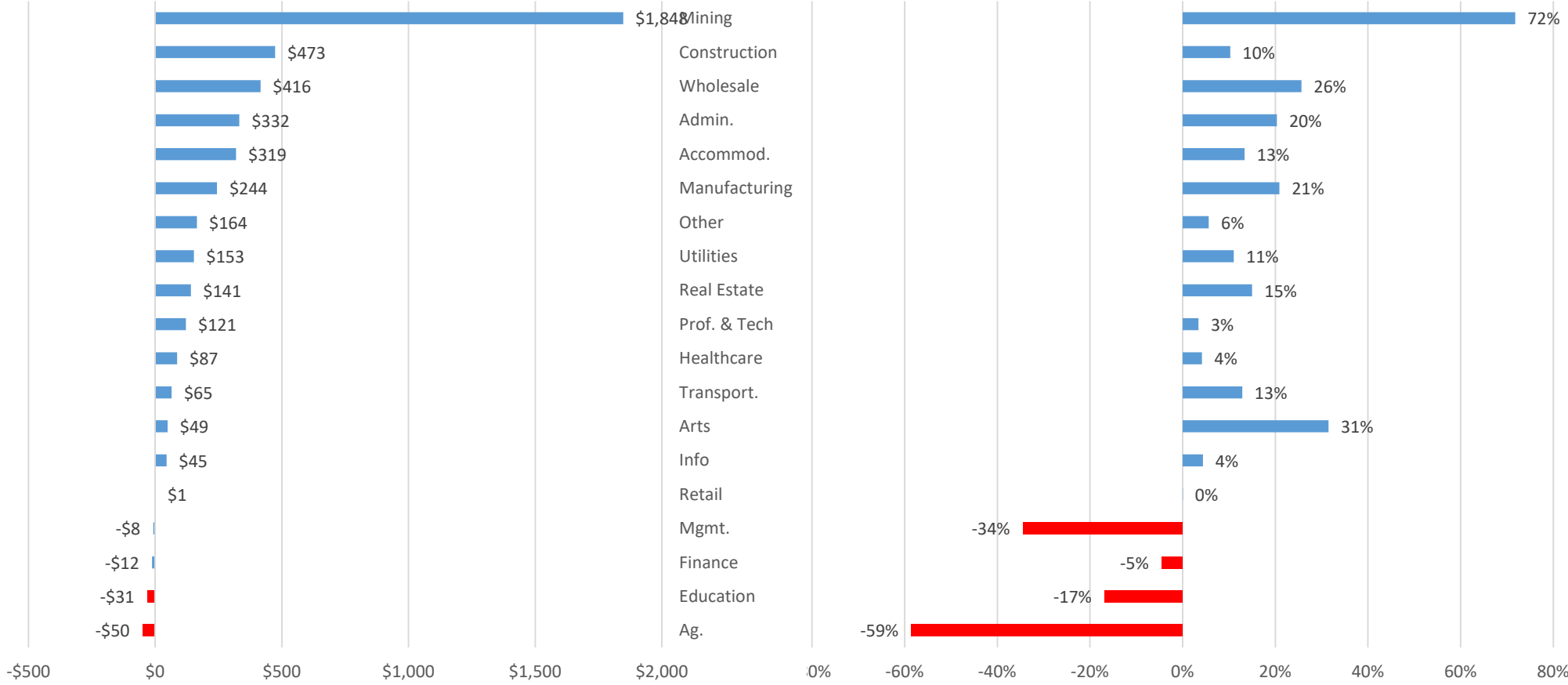
# New Mexico Housing Sales & Prices Through July 2022 versus 2021



- Data through July 2022 available from NM Realtor's Association: Sales **down** 4.5% statewide and median price **up** from \$269k to \$305k versus same period in 2021.
- Greater Albuquerque Realtor's Association has data through October 2022: Sales **down** 18% but median price **up** 15% to \$330k.

Source: New Mexico Realtors Association, <https://www.nmrealtor.com/housing-trends/>

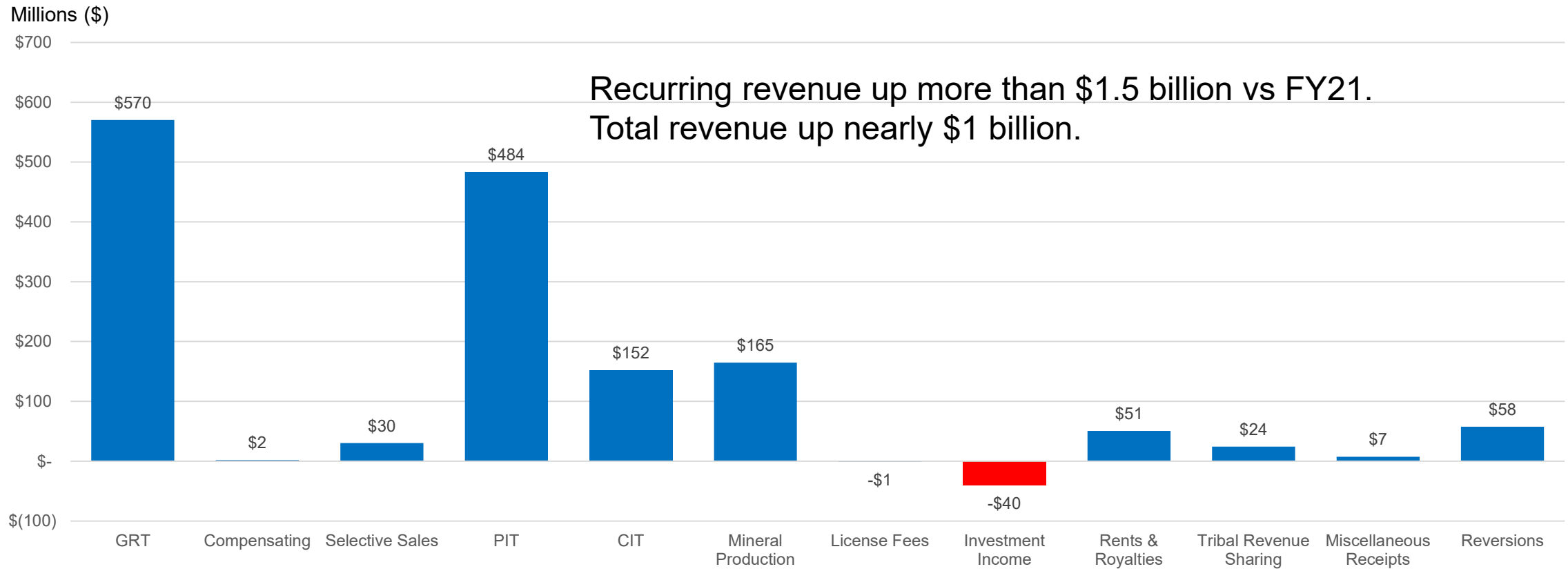
# Taxable GR (2022 over 2021, Q1 & Q2) - Industries



In aggregate, taxable GR are up around \$4.5 billion compared to a year earlier.

Source: NM TRD. Levels in millions of dollars.

# State Recurring Revenue: FY22 vs FY21 (through May 2022)



Source: NM LFC (data in millions), [https://www.nmlegis.gov/entity/lfc/Revenue\\_Reports](https://www.nmlegis.gov/entity/lfc/Revenue_Reports)

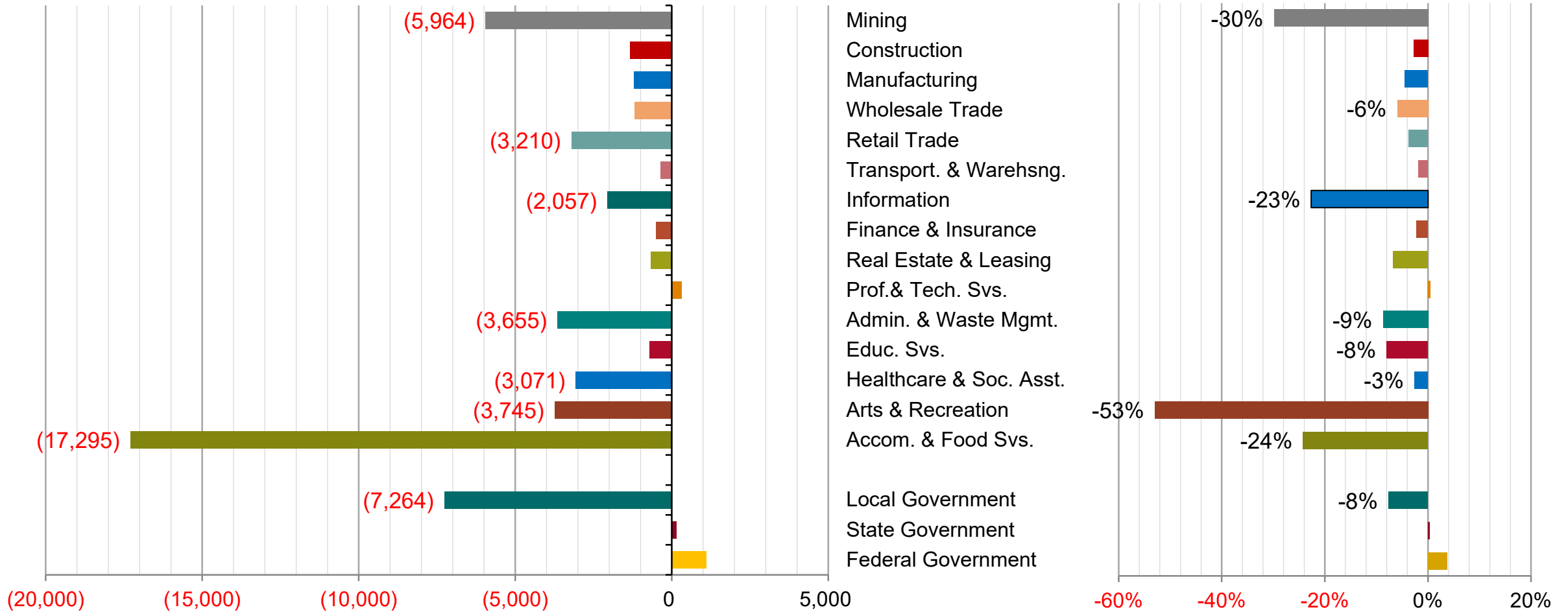
# New Mexico Outlook



# New Mexico Economic Outlook 2022-2027

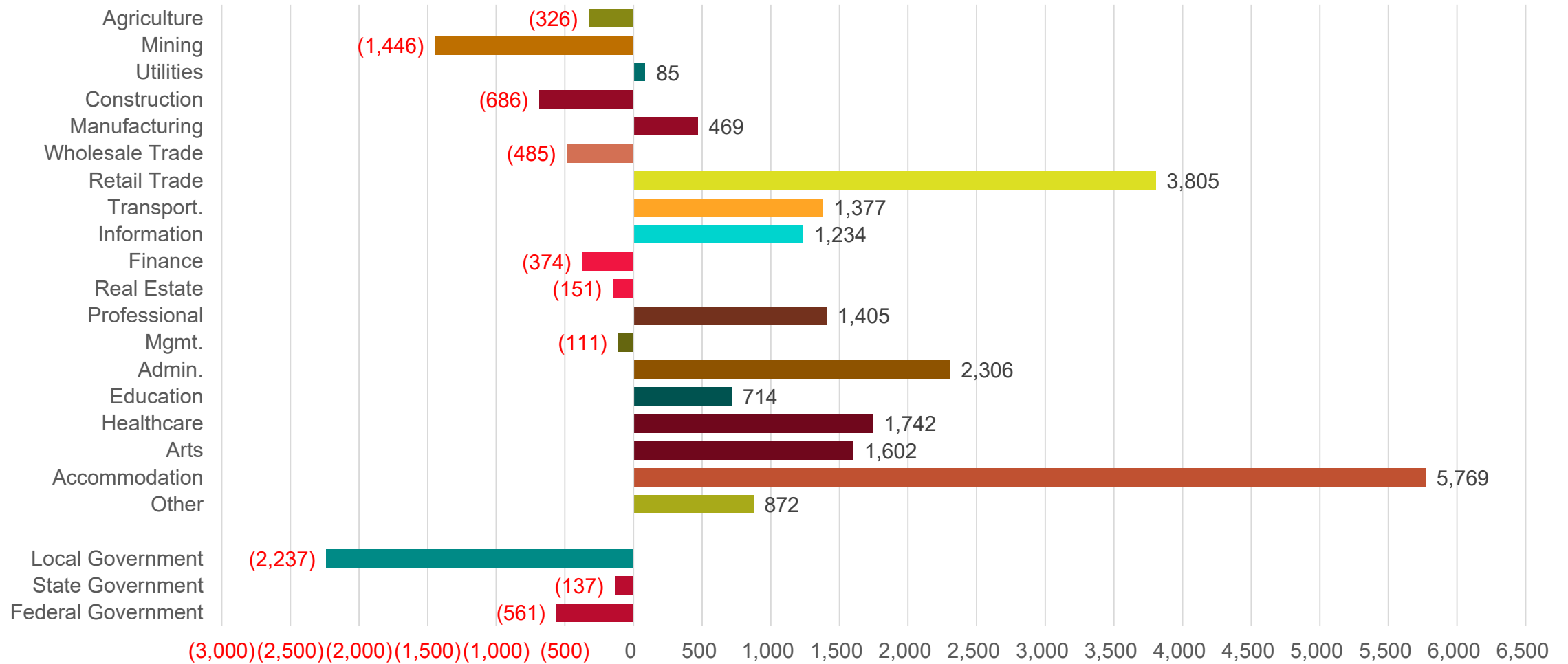
- New “normal,” but anticipated national recession weighs things down in 2023 and 2024.
  - a. Slower recovery than US in 2022 but slightly more buoyant than US in 2023-2024.
  - b. A more pessimistic scenario: prolonged struggle that wipes out household and business balance sheets and shakes confidence. Fairly sharp double-dip recession.
- Loss of 89,700 jobs year-over-year (-10.5%) in 2020Q2. Some improvement by 2021Q4 as economy down about 25,500 jobs vs pre-pandemic, but 2022Q1 took a step back and is down 45,300 jobs. More up-to-date CES data suggest that employment is now only down about 1% compared to pre-pandemic level; however, those data may be inflated.
- Employment grew 2.0% in 2021. We project that 2022 will advance 1.9% (vs. 3.6% in July). Growth of about 0.7% per year there after (vs. 0.9% in July).
- Economy exceeds 2019 levels in late-2025 or early-2026, about 2 years delayed from last forecast. By 2027, only about 7,000 jobs above 2019 levels (about 1% above).
- Income patterns: Pullback of transfers stifles growth in 2022 (0.7%), but then accelerates thereafter (about 4.5% per year).

# Job Growth/Loss by Sector, 2020



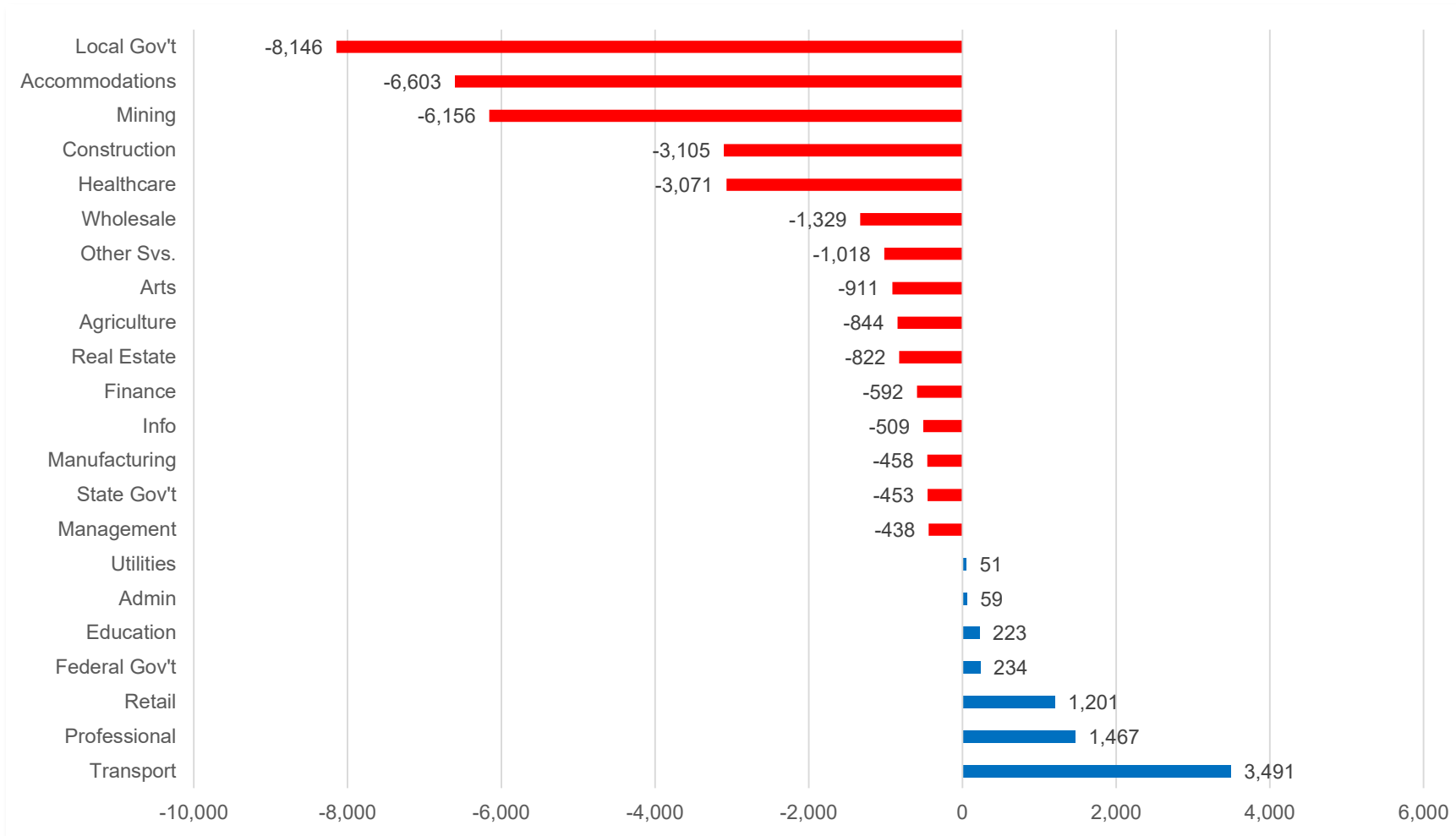
BBER FOR-UNM, October 2022

# Job Growth/Loss by Sector, 2021



BBER FOR-UNM, October 2022

# Job Loss/Addition 2021Q4 vs. 2019Q4 (QCEW)



**2020Q4  
Job Loss  
- 70,000**

Note: the second quarter of 2020 saw the biggest Y/Y drop (-87,000 jobs).



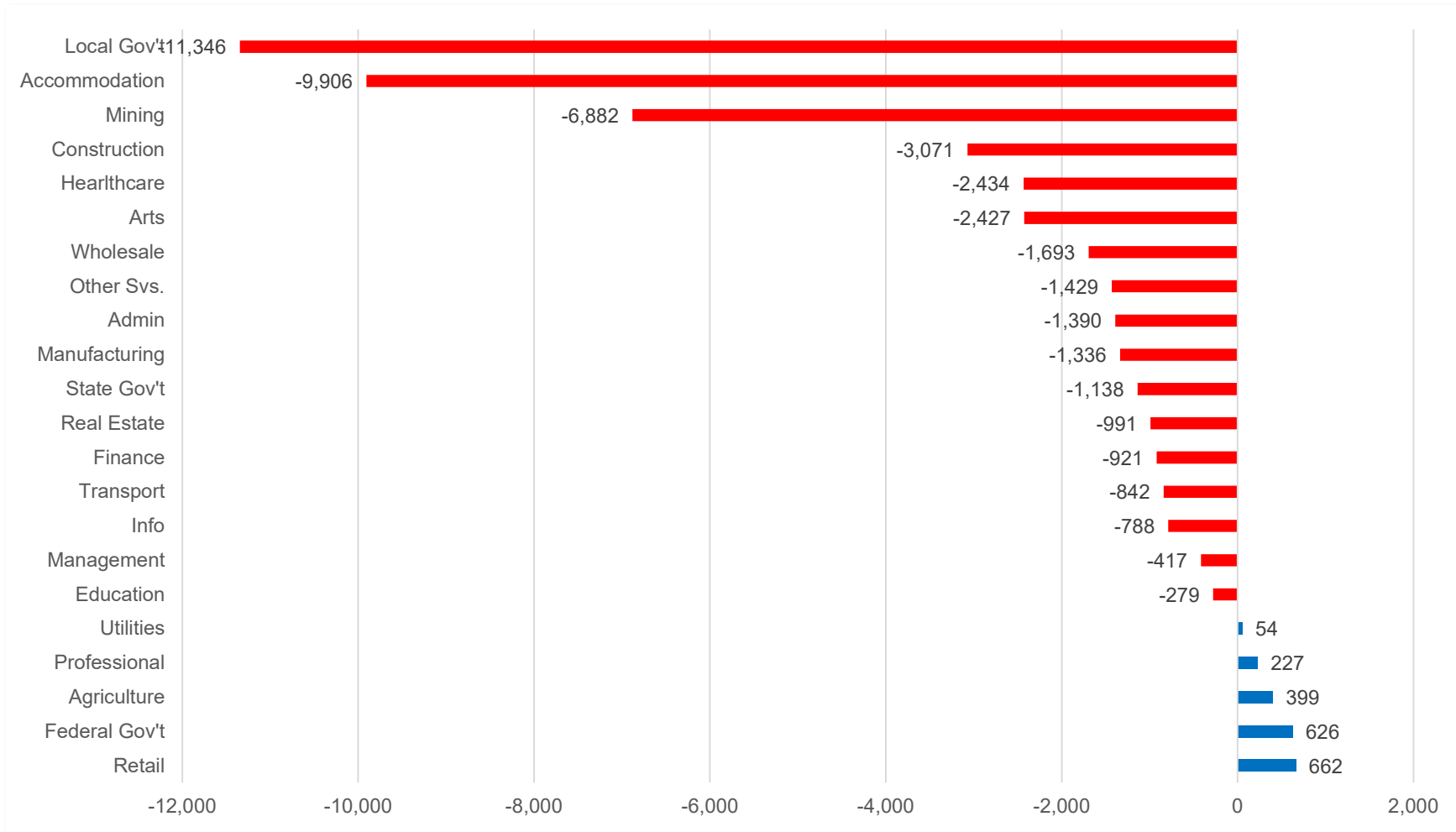
**2021Q4  
Job Gain  
42,280**



**State economy is still down some 27,700 jobs**

BBER FOR-UNM, from July 2022 forecast

# Job Loss/Addition 2022Q1 vs. 2020Q1 (QCEW)



**2021Q1  
Job Loss  
- 68,300**



Again, CES data suggests continued improvement through year.

**2022Q1  
Job Gain  
23,000**

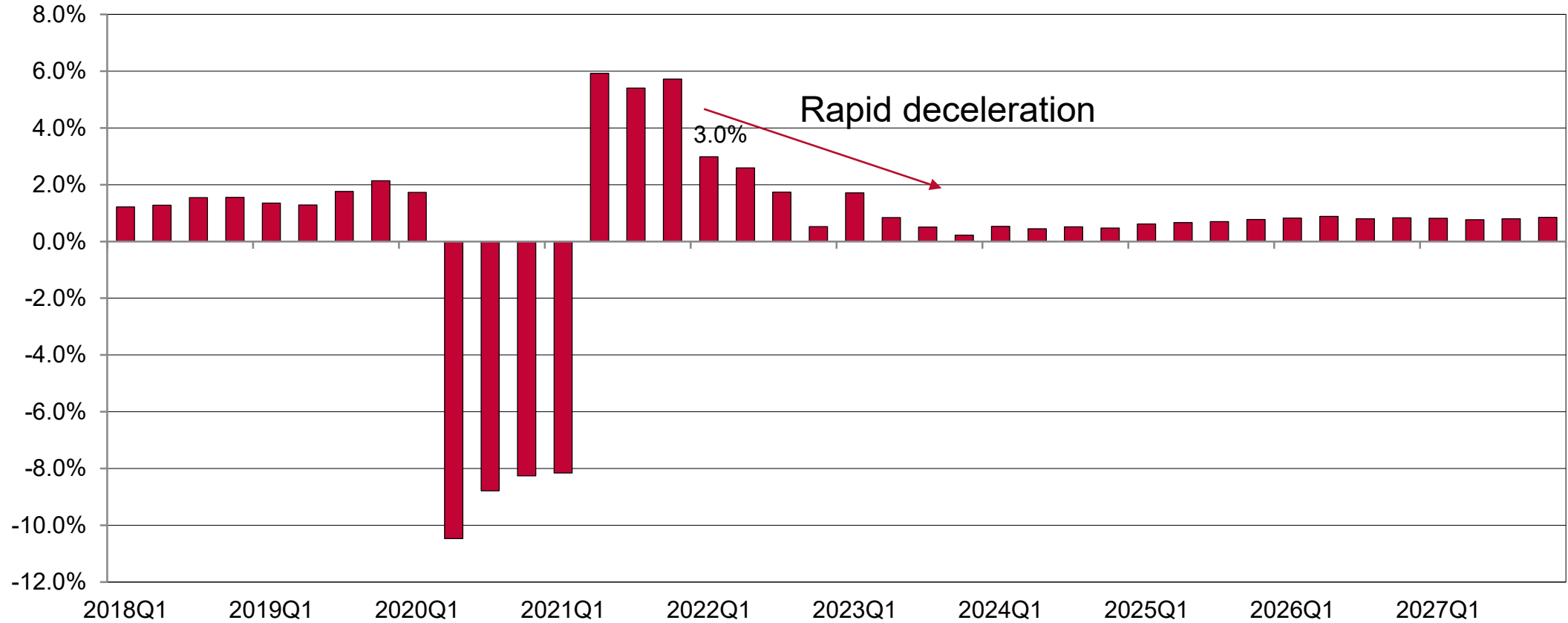


**State economy is still down some 45,300 jobs**

Some industries are giving back gains.

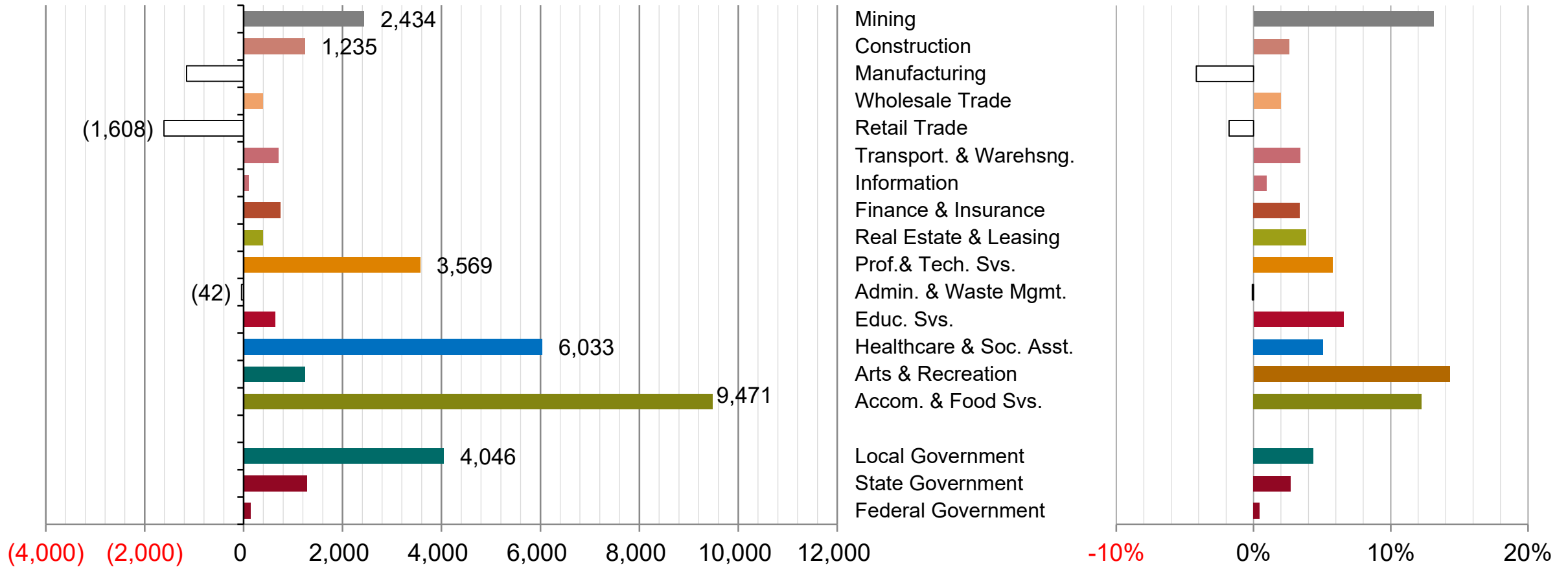
BBER FOR-UNM, October 2022

# Forecast Comparison: Employment Growth



IHS Markit, October 2022

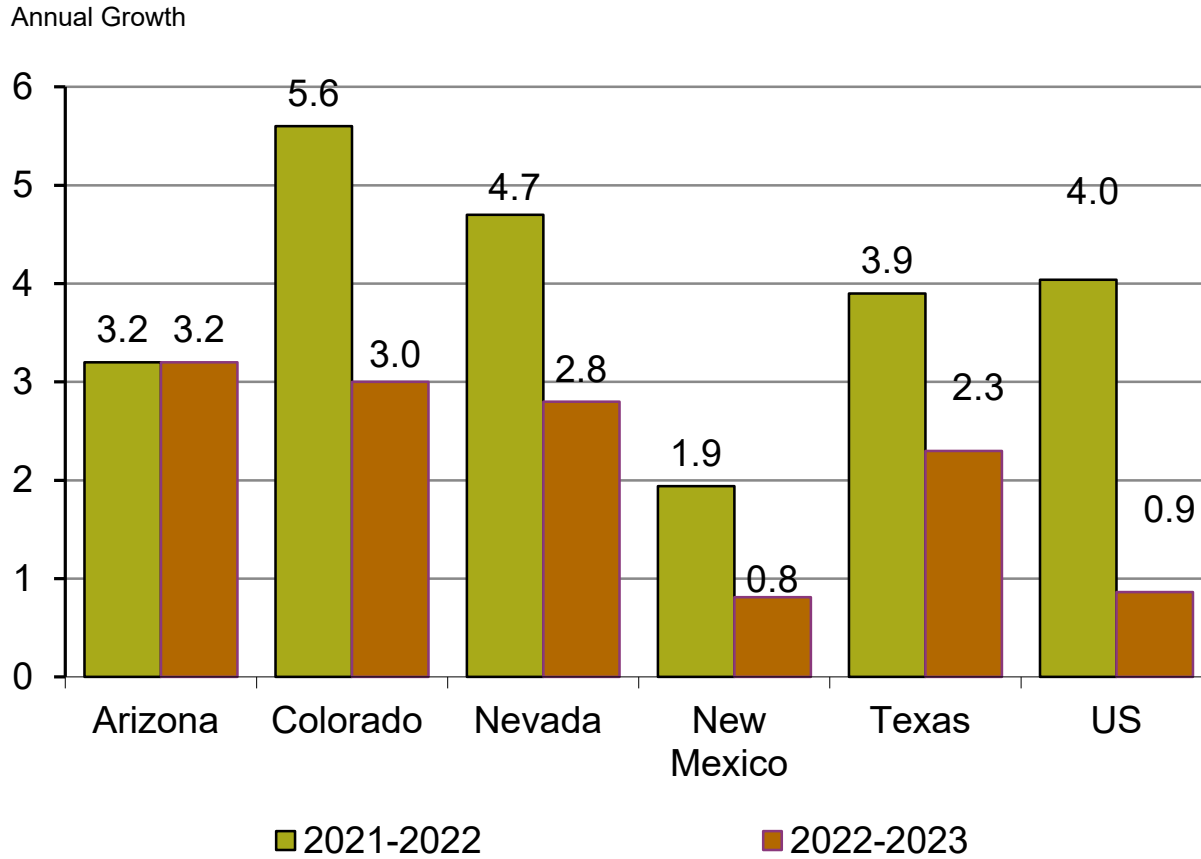
# NM Job Growth by Sector, 2021-2026



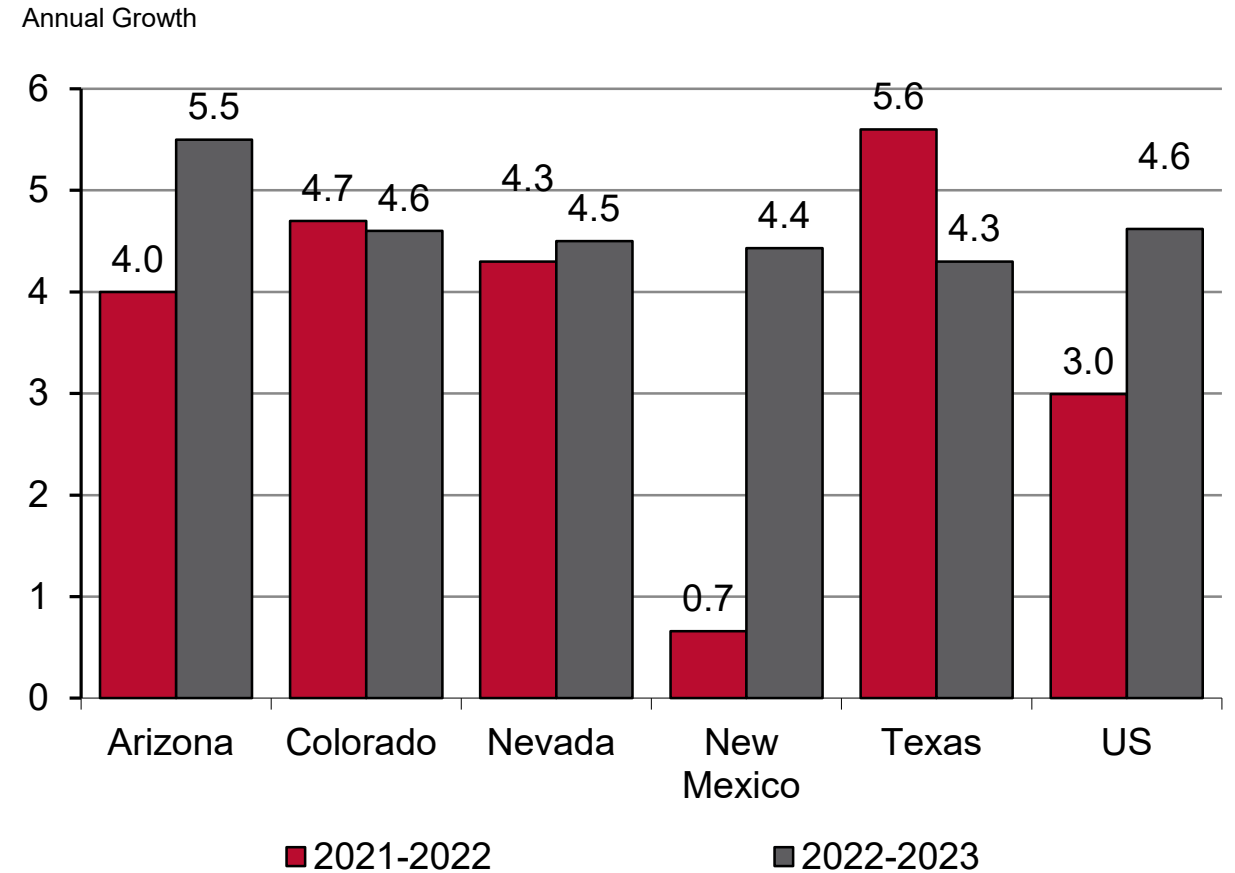
BBER FOR-UNM, October 2022

# NM Forecast vs. Other States

## Employment

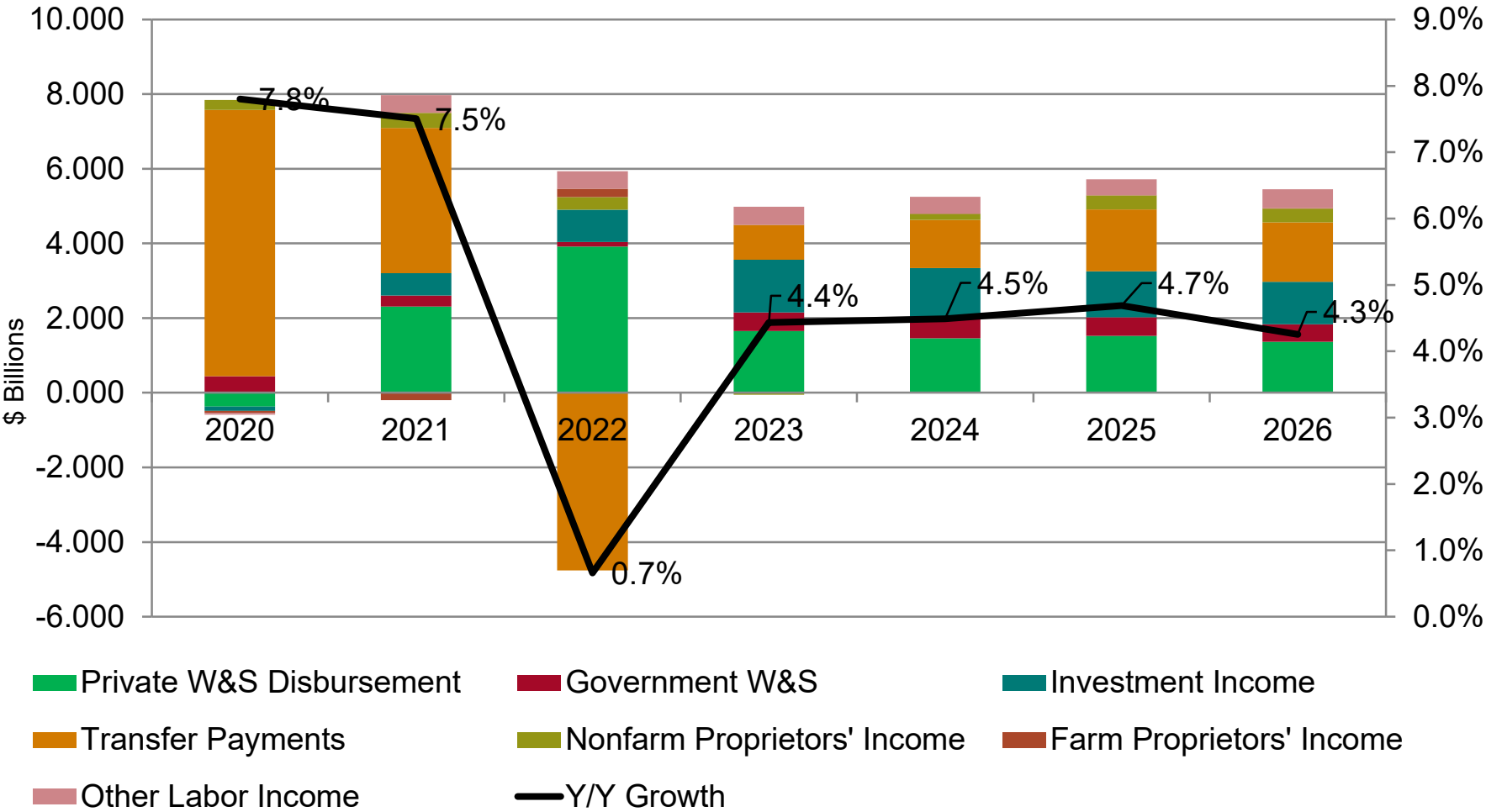


## Income



Sources: State submissions to Western Blue Chip Economic Forecast <https://seidmaninstitute.com/western-blue-chip/>; IHS Markit; FOR-UNM

# Forecast Personal Income Growth, by Component



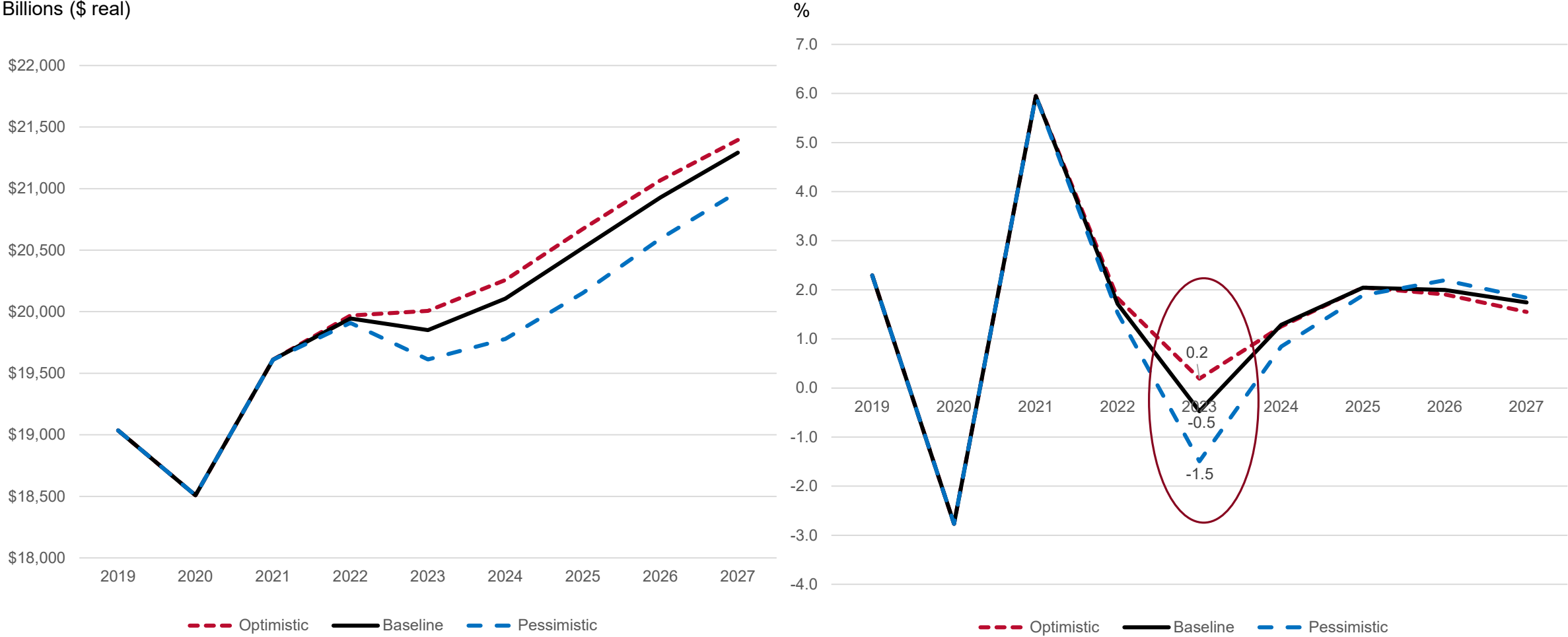
- Personal incomes positive in 2020 & 2021 due to massive increase of federal transfers (unemployment, stimulus checks, Medicaid and other CARES funding).
- Income growth flattens in 2022 (0.7%) with reductions in transfers.
- Consistent growth returns in 2023.

BBER FOR-UNM, October 2022

# Alternative Scenarios

- Still good degree of uncertainty. Less so because of COVID, though that is still a potential roadblock.
- IHS Markit's forecasts – recession in 2023: GDP contracts 2023; employment contracts 2023 & 2024.
- FOR-UNM's forecast weak in 2022, slow (but positive) 2023-2024. Recovers by 2026.
- 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 fairly severe – losses in 2023 and 2024, and fails to recover by end of forecast period.
  - After weak gains in 2022, employment patterns more closely resemble IHS's.

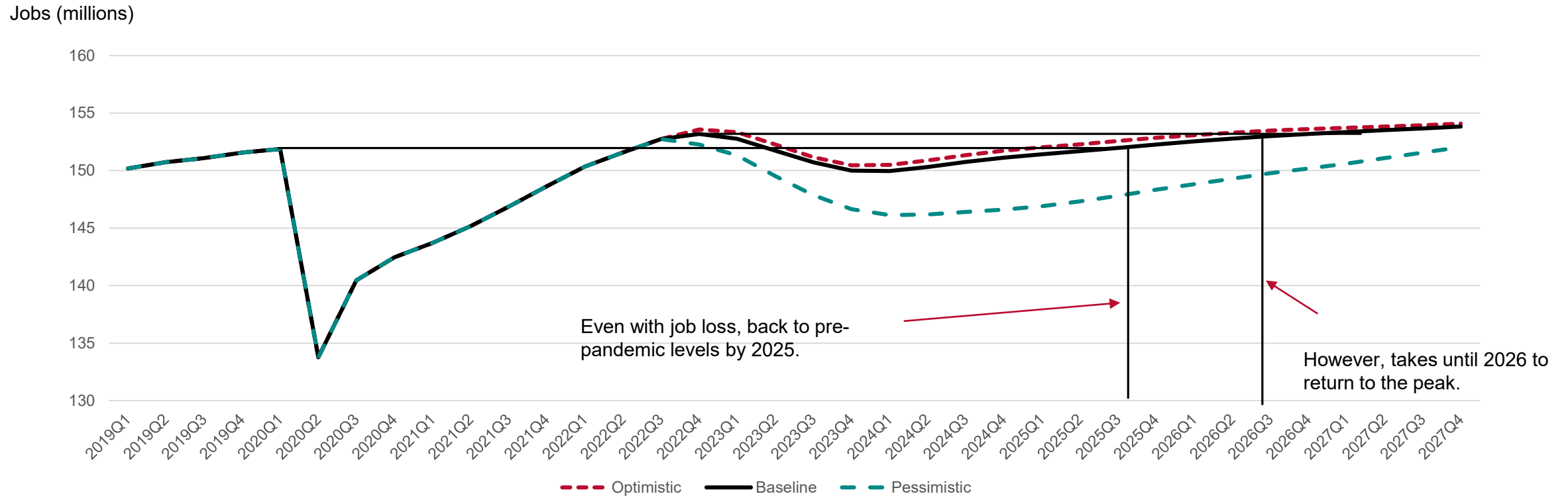
# US Real GDP Forecast – Alternative Scenarios



IHS Markit, October 2022

Optimistic: 15%; Baseline: 55%; Pessimistic: 30%

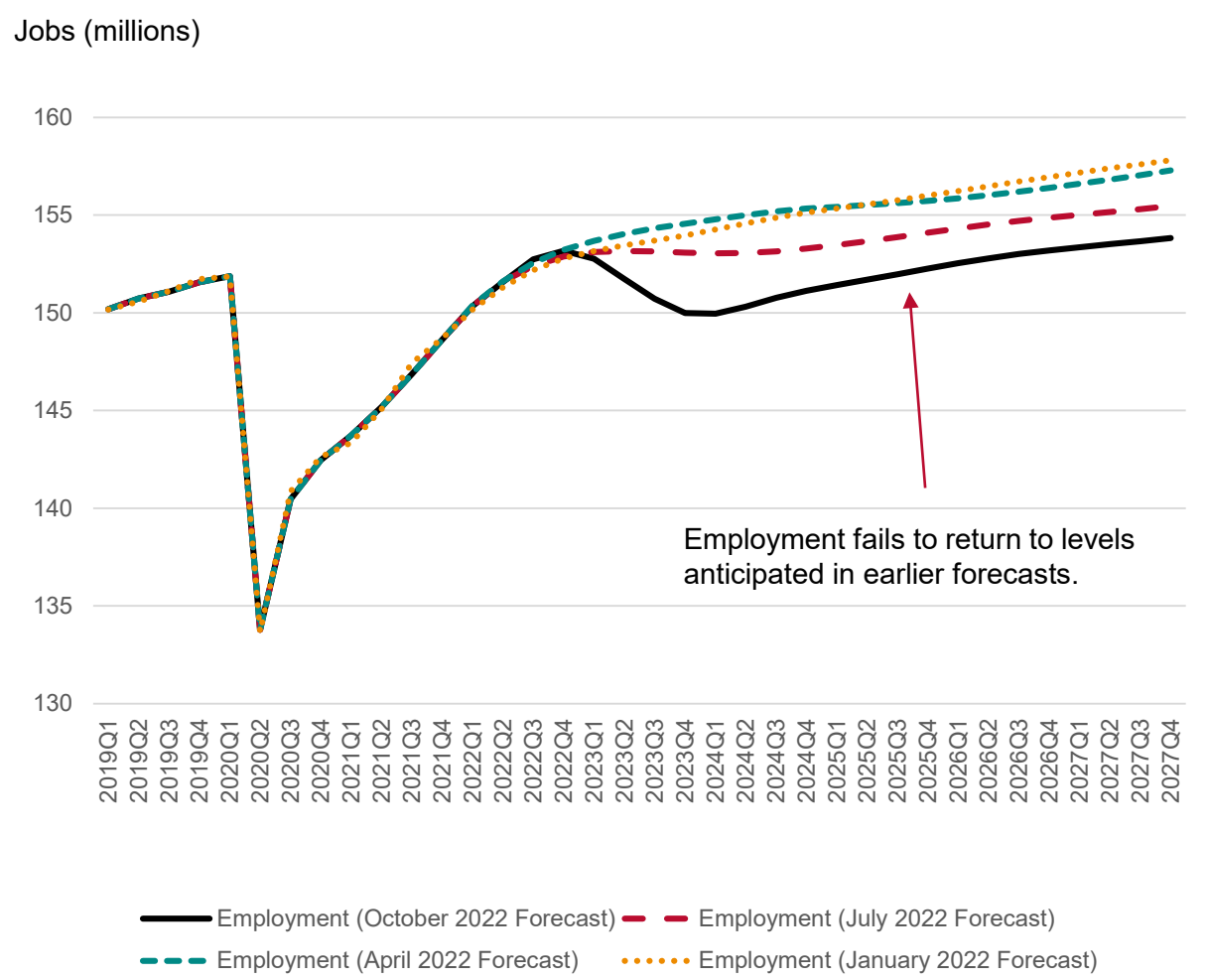
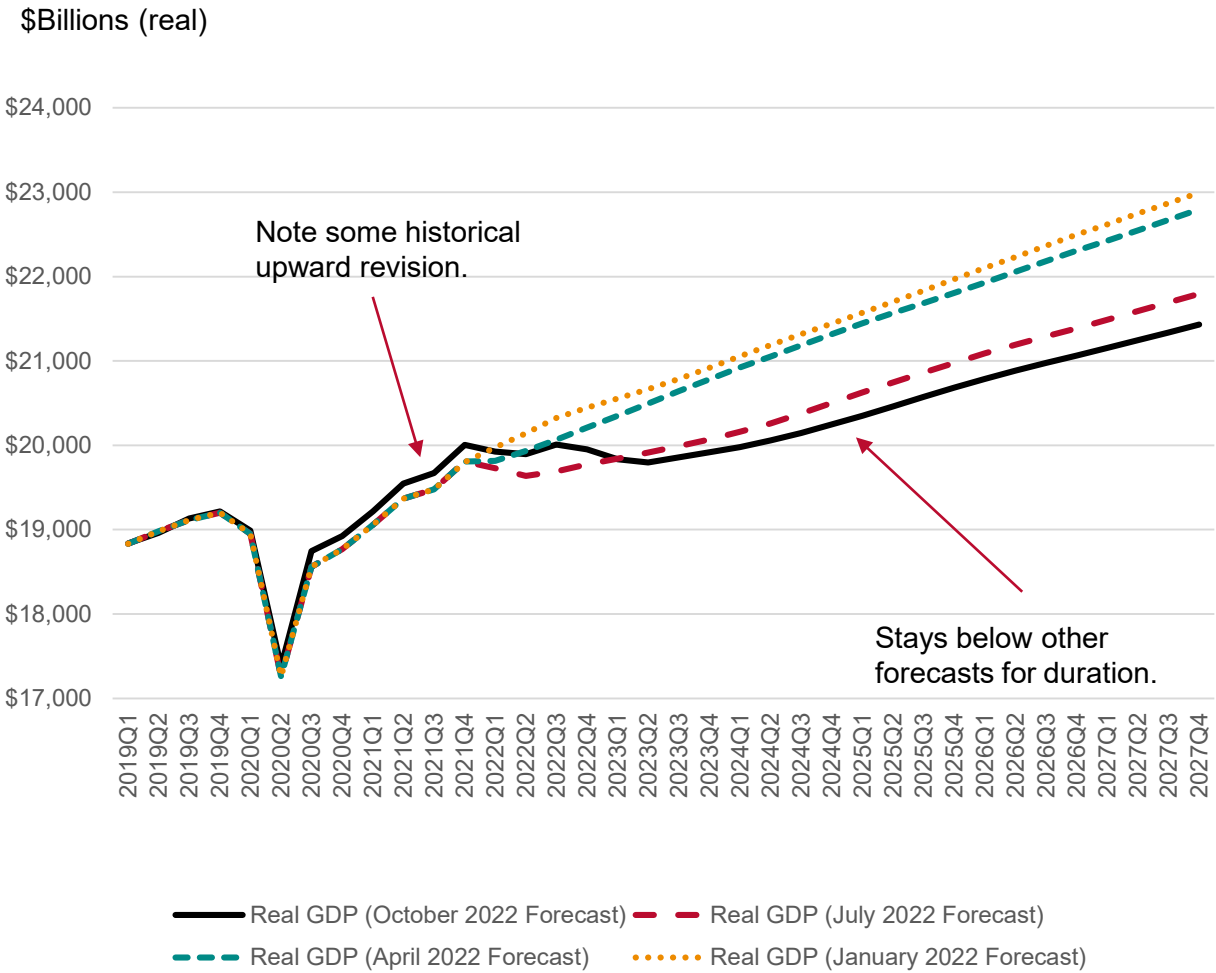
# US Employment Forecast – Alternative Scenarios



Optimistic & baseline: modest job loss.  
 Pessimistic: fairly severe contraction.

Source IHS October 2022

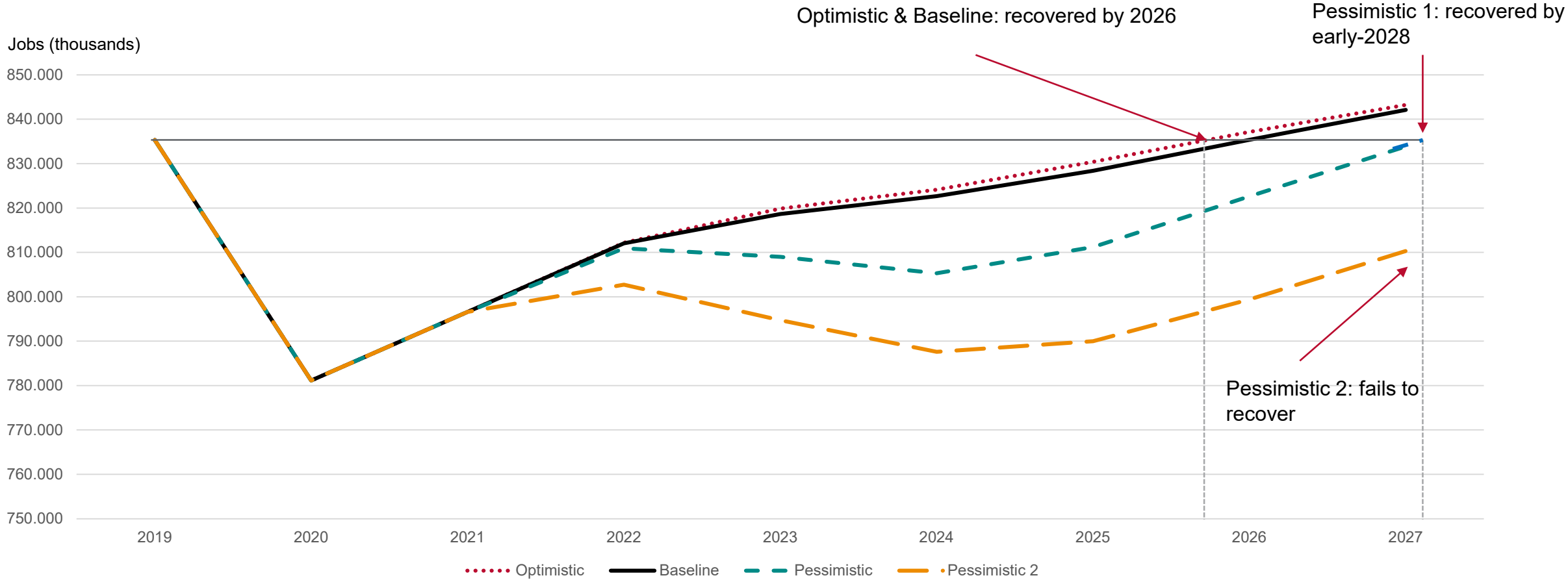
# Recent IHS US GDP & Employment Forecasts



Source: IHS October 2022, July 2022, April 2022 & January 2022

Most recent forecast is noticeably worse.

# NM Employment Forecast – Alternative Scenarios

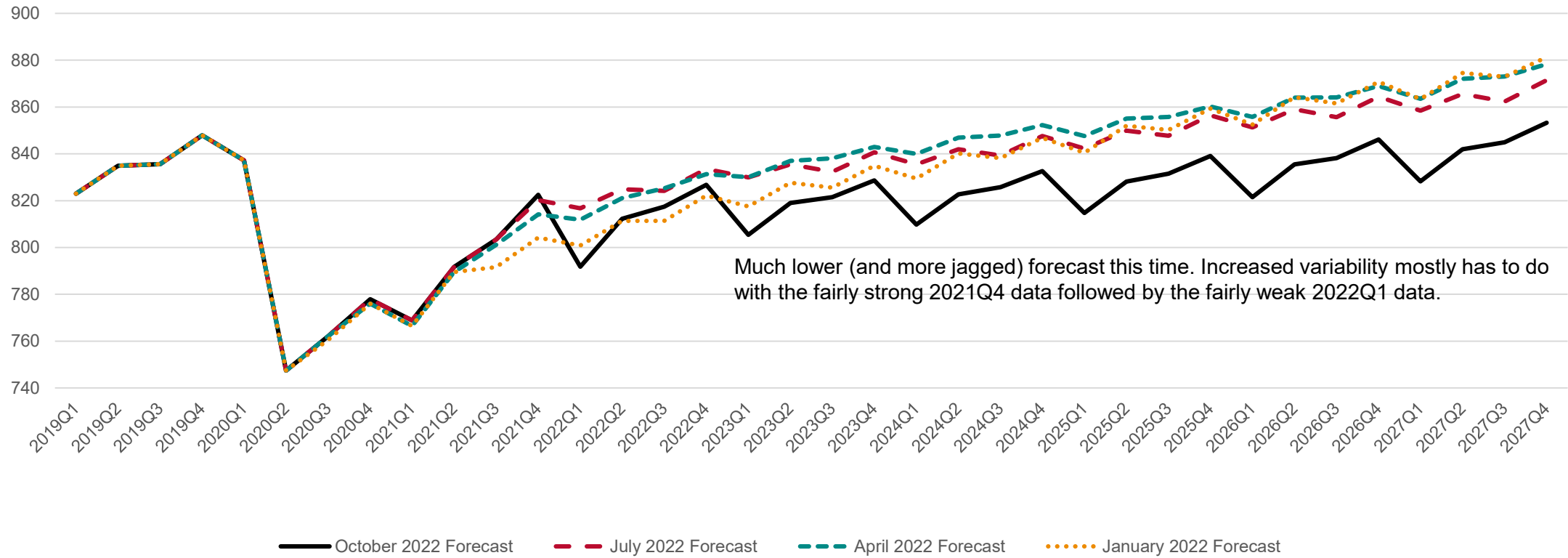


Source: FOR-UNM, October 2022

Probabilities: Optimistic, 5%; Baseline, 55%; Pessimistic 1, 30%; Pessimistic 2, 10%

# Recent NM Employment Forecasts

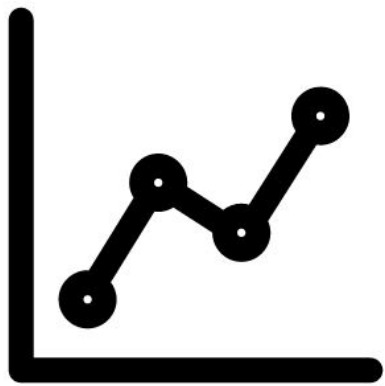
Jobs (thousands)



Source: FOR-UNM, October 2022, July 2022, April 2022 & January 2022



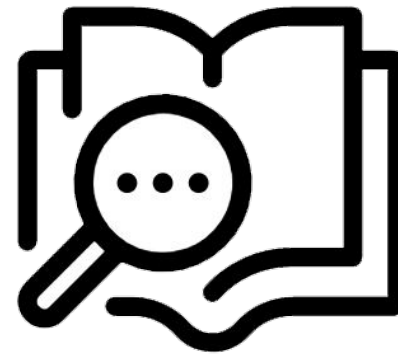
# BUREAU OF BUSINESS & ECONOMIC RESEARCH



ECONOMIC FORECAST



DATA DASHBOARDS



RESEARCH



DATA BANK