BUREAU OF BUSINESS
& ECONOMIC RESEARCH

New Mexico's Economy:
Current Situation & Forecast

PRESENTED TO THE 23RD ANNUAL NM DATA USERS CONFERENCE

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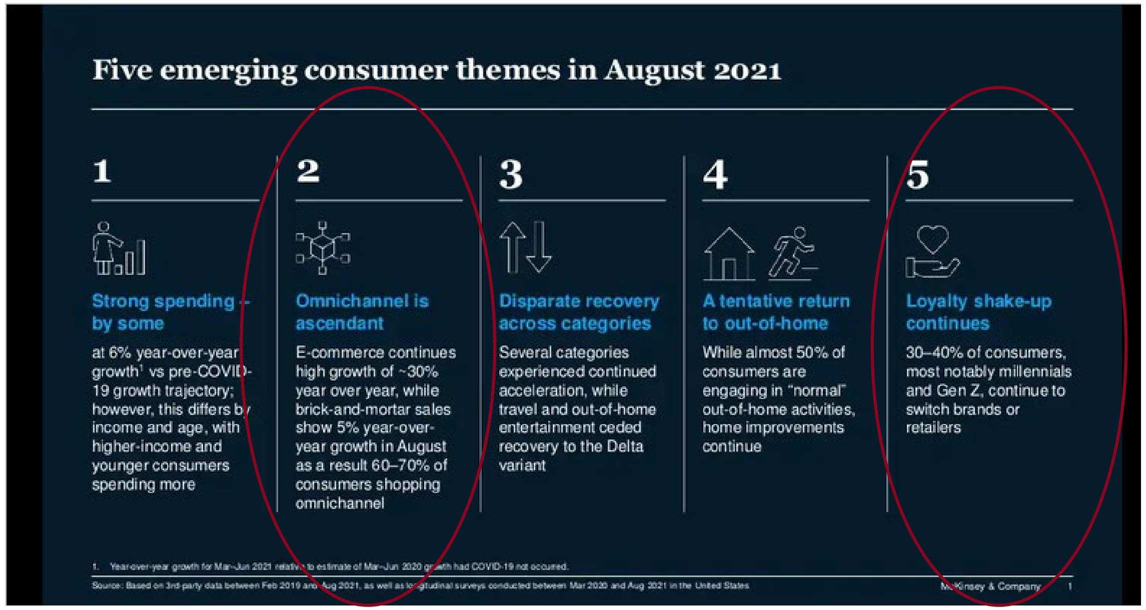
US Review + Economic Outlook

Review: National Economy

- US economy still about 4.2 million jobs below pre-COVID levels.
- Initial & continuing claims for unemployment are falling and unemployment rate 4.6%.
- Real GDP: 2021Q3 came in weak.
- WTI spot price had firmed to nearly $85/barrel – now down to about $70/barrel.
- Consumer Sentiment Index (U. of Mich.): 85.5 in June but fell to 71.7 in October. This is down 14% from same month a year ago.
- Stock market (DJIA) had rocketed past previous highs. Tapered back over last few weeks.
- ISM manufacturing and non-manufacturing indices continue to expand.
- Concerns: COVID (still?!?), inflation, supply chain disruptions, and political. Some factors are interrelated.

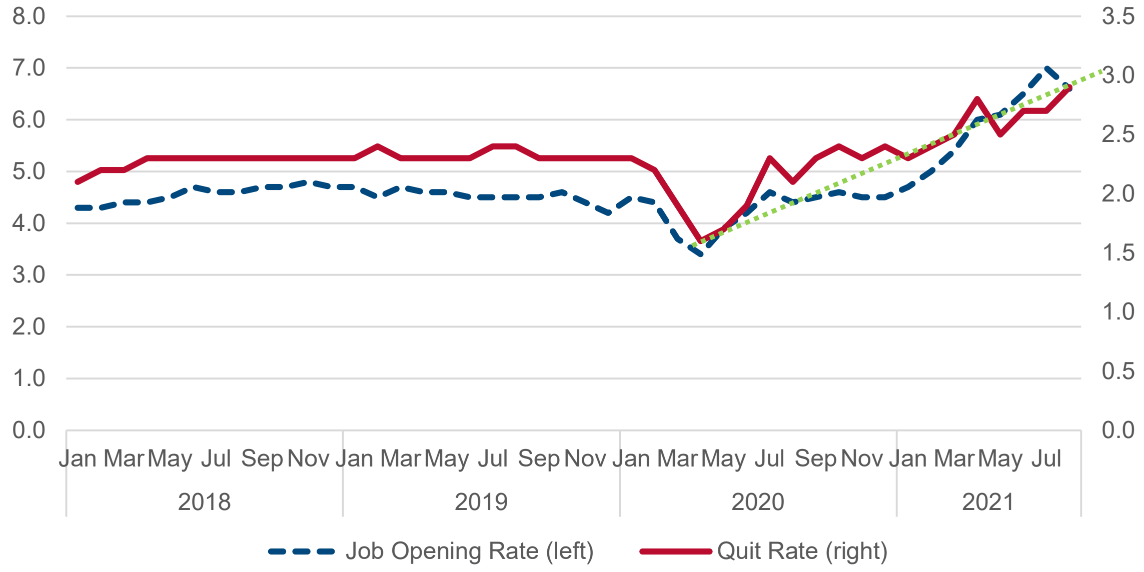
Concern: COVID

Behavioral changes for consumers



Source: McKinsey & Company
https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/survey-us-consumer-sentiment-during-the-coronavirus-crisis

Behavioral changes for workers



Greater churn – after dipping at start of pandemic openings & quits are (1) increasing and (2) volatile. Also, # of job openings near all time high. Skills/needs mismatch?

Source: BLS JOLT
https://www.bls.gov/jlt/

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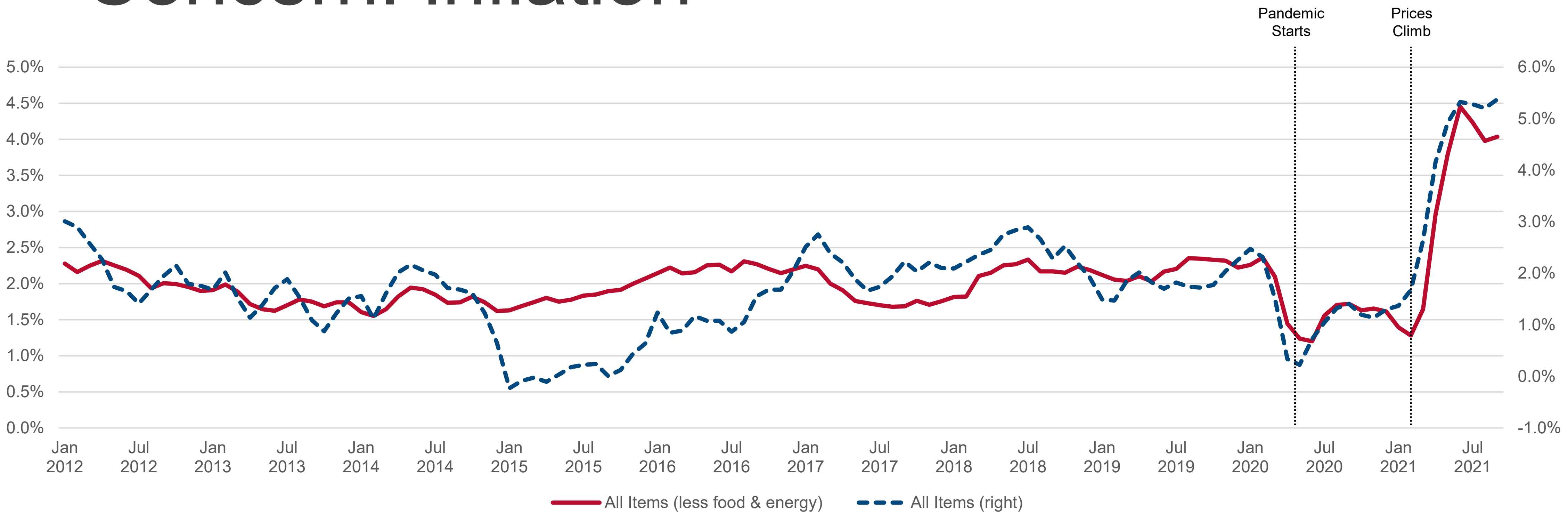
Concern: Inflation



Y/Y price growth is high. “All Items” are impacted with growth around 5.5%. Excluding food and energy, prices are still rising by about 4.0%. Real wages are not keeping up.

Source: BLS CPI data

Concern: Supply Chain

- Labor shortages: Per BLS: over 10 million unfilled job openings. Is there a realignment of the labor market? Washington Post headline in May: “It’s not a labor shortage, it is a reassessment of work in America.” https://www.washingtonpost.com/business/2021/05/07/jobs-report-labor-shortage-analysis/
- Input/component shortages: Key items such as components used to fabricate microchips are in short supply. Energy price spikes have increased the cost of doing business.
- Logistics issues: Not enough workers in the places (geographies) where they are currently needed.
- Not supply chain, but for impacts on businesses see the Census Bureau’s Small Business Pulse Survey: https://portal.census.gov/pulse/data/?#data

Real GDP Growth

Composition of Real GDP Growth Over Previous Period SAAR

Composition of Real GDP	2016	2017	2018	2019	2020	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	Contrib. 21Q3
Gross Domestic Product	**1.7**	**2.3**	**2.9**	**2.3**	**-3.4**	**-5.1**	**-31.2**	**33.8**	**4.5**	**6.3**	**6.7**	**2.1**	**2.10**
Total Consumption	**2.5**	**2.4**	**2.9**	**2.2**	**-3.8**	**-6.9**	**-33.4**	**41.4**	**3.4**	**11.4**	**12.0**	**1.7**	**1.18**
Durable goods	5.4	6.3	7.0	4.3	7.7	-12.0	-1.5	89.0	1.1	50.0	11.6	-24.4	-2.50
Nondurable goods	2.5	2.7	2.5	2.9	3.1	7.1	-13.9	31.8	-1.1	15.9	13.9	2.6	0.39
Services	2.0	1.8	2.4	1.7	-7.5	-10.0	-42.4	37.5	5.3	3.9	11.5	7.9	3.29
Residential Fixed Investment	**6.6**	**4.0**	**-0.6**	**-0.9**	**6.8**	**20.4**	**-30.7**	**59.9**	**34.4**	**13.3**	**-11.7**	**-8.3**	**-0.41**
Nonresidential Fixed Investment	**0.9**	**4.1**	**6.4**	**4.3**	**-5.3**	**-8.1**	**-30.3**	**18.7**	**12.5**	**12.9**	**9.2**	**1.5**	**0.21**
Structures	-4.3	4.2	4.0	2.0	-12.5	-0.9	-46.8	-15.3	-8.2	5.4	-3.0	-5.0	-0.13
Equipment & Software	-1.8	2.8	6.4	3.3	-8.3	-21.3	-36.2	55.9	26.4	14.1	12.1	-2.4	-0.13
Intellectual Property	8.8	5.7	8.1	7.2	2.8	3.8	-10.6	8.1	10.2	15.6	12.5	9.3	0.47
Change in Private Inventories													**2.13**
Exports	**0.4**	**4.1**	**2.8**	**-0.1**	**-13.6**	**-16.3**	**-59.9**	**54.5**	**22.5**	**-2.9**	**7.6**	**-3.0**	**-0.33**
Imports	**1.5**	**4.4**	**4.1**	**1.2**	**-8.9**	**-13.1**	**-53.1**	**89.2**	**31.3**	**9.3**	**7.1**	**5.8**	**-0.83**
Federal Government	**0.5**	**0.3**	**3.0**	**3.8**	**5.0**	**2.4**	**20.6**	**-5.4**	**-3.1**	**11.3**	**-5.3**	**-4.9**	**-0.34**
State & Local Government	**2.8**	**0.6**	**0.4**	**1.3**	**0.9**	**4.4**	**-5.5**	**0.1**	**1.2**	**-0.1**	**0.2**	**4.7**	**0.50**

US Bureau of Economic Analysis, Gross Domestic Product, 2021 Third Quarter (2nd Estimate), November 24, 2021

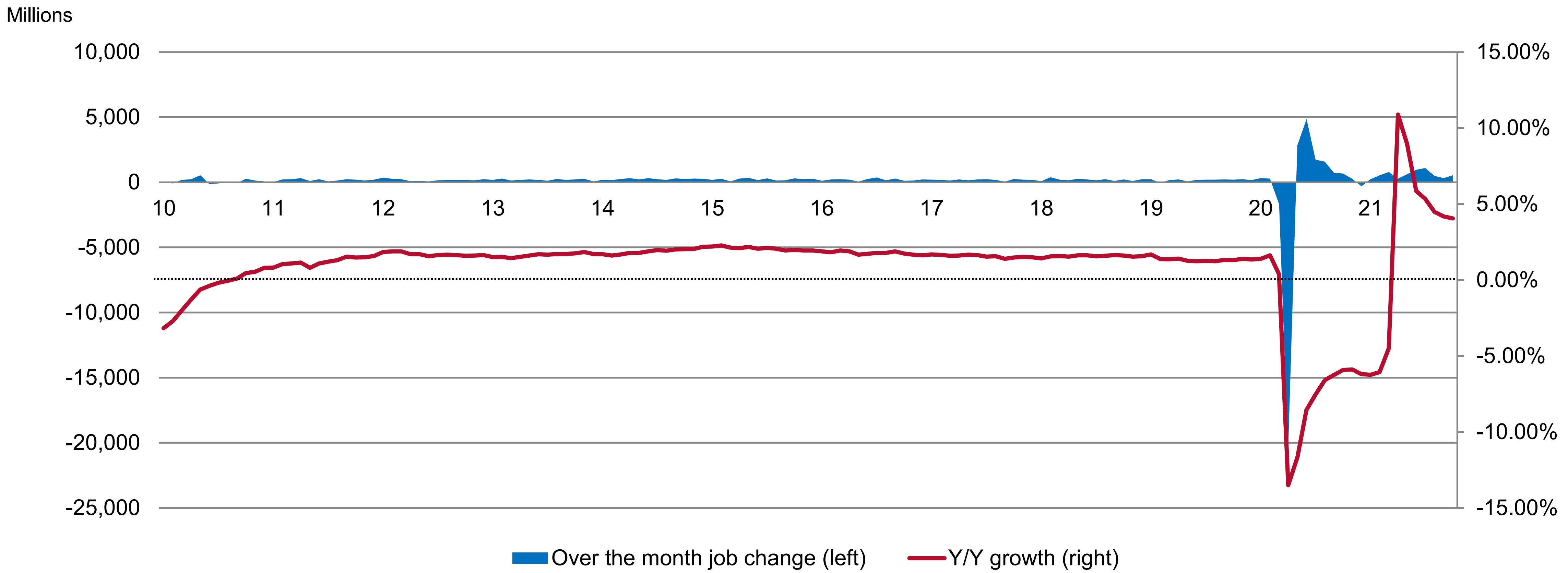
GDP growth slowed in 2021Q3.

Consumption spending weak due to contraction of durables.

Most accounts moved sideways or pulled down the total.

Buildup of private inventories put growth into positive territory.

Over the Month Job Gains

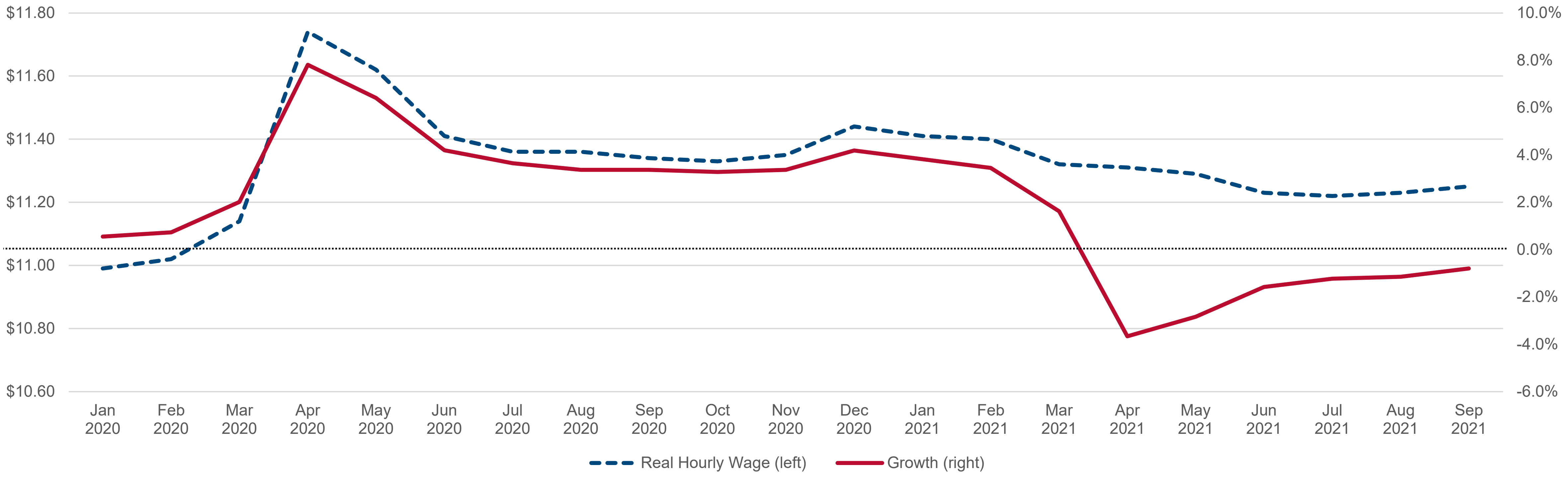


US Economy down nearly 4.2 million jobs since beginning of pandemic.

BLS, through October 2021

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. Also, wages not keeping up with inflation.



BLS, through September 2021

US Employment Forecast by Sector

Increase (Decrease) in US Payroll Employment from Previous Calendar Year, Actual & Forecast (Thousands)	2018	2019	2020	2021	2022	2023	2024	2025	2026
Employment Sector									
Construction	321	207	(220)	147	33	58	4	39	64
Manufacturing	249	129	(634)	182	168	99	(59)	(133)	(128)
Trade, Transportation & Utilities	215	117	(1,129)	766	257	(211)	(249)	(184)	(84)
Prof. & Bus. Services	446	327	(1,023)	691	1,486	646	458	393	288
Health Care & Soc. Asst.	401	498	(642)	227	560	97	292	294	308
Leisure & Hospitality	244	291	(3,219)	1,274	1,111	1,710	607	122	76
Other Private	324	278	(1,079)	488	922	277	306	279	117
Government	96	159	(701)	(30)	725	262	118	113	113
Total Nonfarm Payrolls	2,298	2,007	(8,648)	3,744	5,263	2,937	1,477	922	754
Annual Growth	1.6%	1.3%	-5.7%	2.6%	3.6%	1.9%	1.0%	0.6%	0.6%

IHS Markit, October 2021

Corresponds to IHS's prediction for when industries will recover lost jobs.

IHS Markit, October 2021


New Mexico
Review

New Mexico Current Economic Situation

- Vaccination rate in NM still higher than average, though state's advantage has slipped.
- Unemployment Insurance claims (continuing) have fallen (even prior to federal expiration), but NM is still performing worse than most states.
- 2021Q1 QCEW data available (2021Q2 totals just released but not yet incorporated):
  - In 2020Q2 (and y/y), leisure & hospitality + other services lost about 40,000 jobs (-33%); retail & wholesale trade lost about 10,000 jobs (-9%); local government lost 7,000 jobs (-7%).
  - In 2021Q1 leisure & hospitality + other services down 28,000 jobs (-24%); retail & wholesale trade down 3,000 jobs (-3%); local government down 13,000 jobs (-13%).
- Oil continues to firm
  - Drilling robust and production high.
  - Good news for state budgets.

Vaccination Rates: January 2021

U.S. | See How the Vaccine Rollout Is Going in Your State

Name	Pct. of people given: At least one shot	Pct. of people given: Two shots	Doses distributed	Shots given	Doses used
U.S. total*	8.2%	1.9%	55,943,800	33,878,254	61%
American Samoa	20%	2.6%	18,450	11,066	60%
Palau	17%	0.7%	6,000	3,228	54%
Northern Mariana Islands	13%	6.3%	29,650	10,655	36%
Alaska	13%	3.8%	229,975	125,765	55%
Guam	12%	3.0%	43,500	26,068	60%
West Virginia	11%	4.0%	328,600	268,065	82%
New Mexico	10%	3.0%	356,150	284,830	80%
Connecticut	10%	2.5%	608,600	465,008	76%
North Dakota	9.5%	3.6%	122,150	103,572	85%
Oklahoma	9.4%	2.2%	675,850	462,440	68%

Vaccination Rates: Beginning November 2021

U.S. | See How Vaccinations Are Going in Your County and State

Name	Percent of people: Given at least one shot	Percent of people: Fully vaccinated	Doses delivered	Shots given	Doses used
U.S. total*	67%	58%	521,502,845	423,942,794	81%
Palau	>99%	87%	33,090	31,686	96%
Massachusetts	80%	70%	12,157,720	10,514,213	86%
Vermont	80%	71%	1,172,960	990,301	84%
Connecticut	79%	71%	6,225,545	5,453,446	88%
Hawaii	79%	60%	2,621,960	1,984,684	76%
Guam	78%	72%	251,910	256,393	102%
Rhode Island	78%	71%	1,858,785	1,579,259	85%
Pennsylvania	78%	61%	21,343,675	17,714,957	83%
Puerto Rico	78%	69%	5,058,370	5,039,450	100%
New Hampshire	77%	63%	2,384,880	1,942,046	81%
Maine	77%	71%	2,394,280	1,991,085	83%
New Jersey	75%	66%	15,284,435	12,391,439	81%
Washington, D.C.	75%	63%	1,327,575	1,077,901	81%
California	75%	61%	63,698,565	54,511,378	86%
New York	74%	67%	32,385,925	27,714,684	86%
Maryland	73%	66%	11,010,650	8,596,264	78%
New Mexico	72%	62%	3,283,115	2,838,622	86%
Virginia	71%	63%	14,128,215	11,864,489	84%
American Samoa	71%	63%	71,820	65,780	92%
Washington	70%	64%	12,672,705	10,428,348	82%
Delaware	69%	60%	1,727,825	1,323,613	77%

Source: CDC & The New York Times

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.

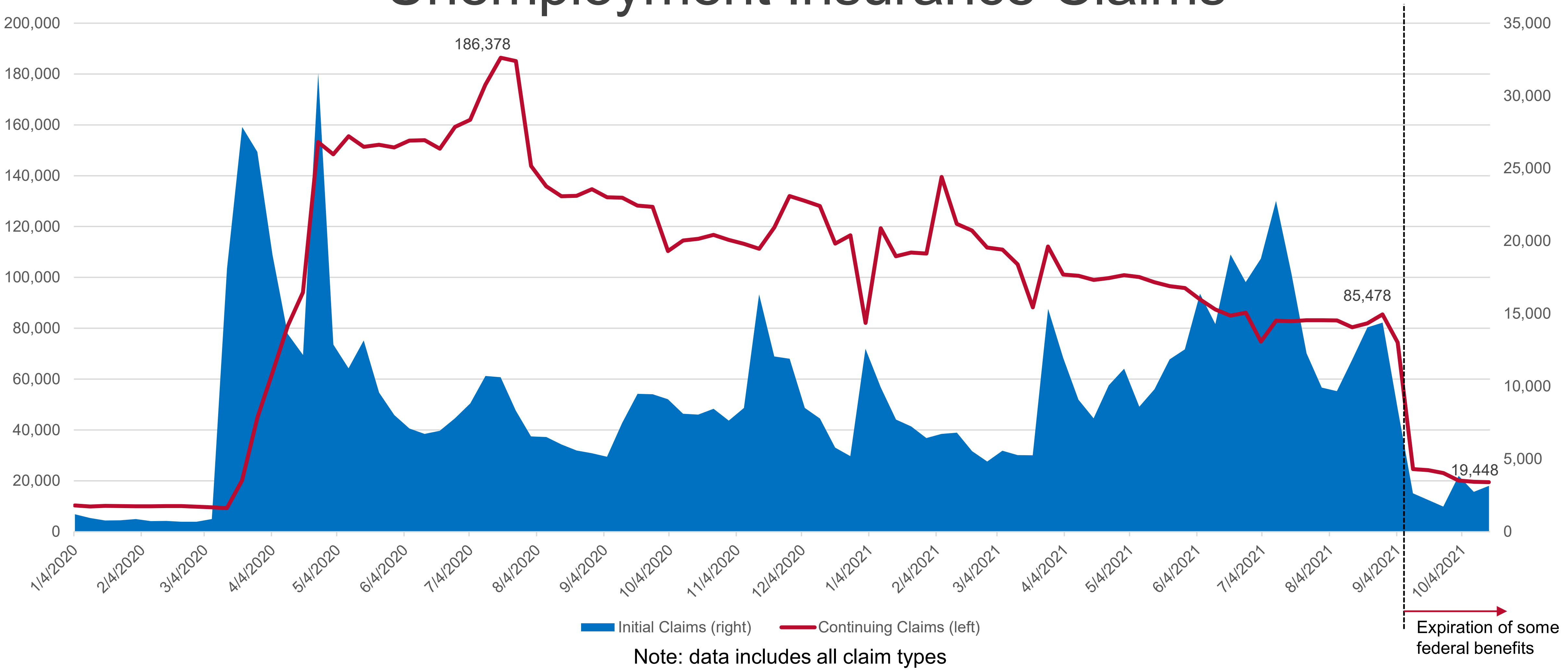
- First column: at the peak, what percentage of employment filed for unemployment? NM ranked 23rd.
- Second column: is the state currently above (green bars) or below (red bars) **pre-pandemic** unemployment levels? 39 states better than NM.
- Third column: ratio of continuing unemployed to employed – obviously different from "real" unemployment rate. 37 states better than NM.
- NM's official unemployment rate in September of 6.5% put it at 47th in the country. Only NJ, NY, CA, and NV are worse.
- Incidentally, NM has the 3rd lowest participation rate (57.1%). Only WV & Mississippi lower. US: 61.6%.

	Maximum Insured Employment Enrollment	Change In Insured Enrollment (October 2021/Min - 1)	Insured Unemployment (October 2021)
Alaska	15.9%	-26.7%	2.4%
Arizona	7.7%	23.1%	0.8%
California	18.5%	45.0%	3.3%
Colorado	9.3%	22.0%	1.1%
Hawaii	20.6%	134.0%	2.8%
Idaho	8.2%	-73.2%	0.4%
Montana	12.1%	-71.1%	0.7%
Nevada	24.0%	60.6%	2.6%
New Mexico	12.7%	34.1%	1.8%
Oklahoma	10.8%	1.3%	1.2%
Oregon	15.1%	26.7%	2.2%
Texas	10.3%	1.3%	1.1%
Utah	5.8%	-48.8%	0.4%
Wyoming	6.4%	-58.7%	0.5%

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

Source: US Department of Labor

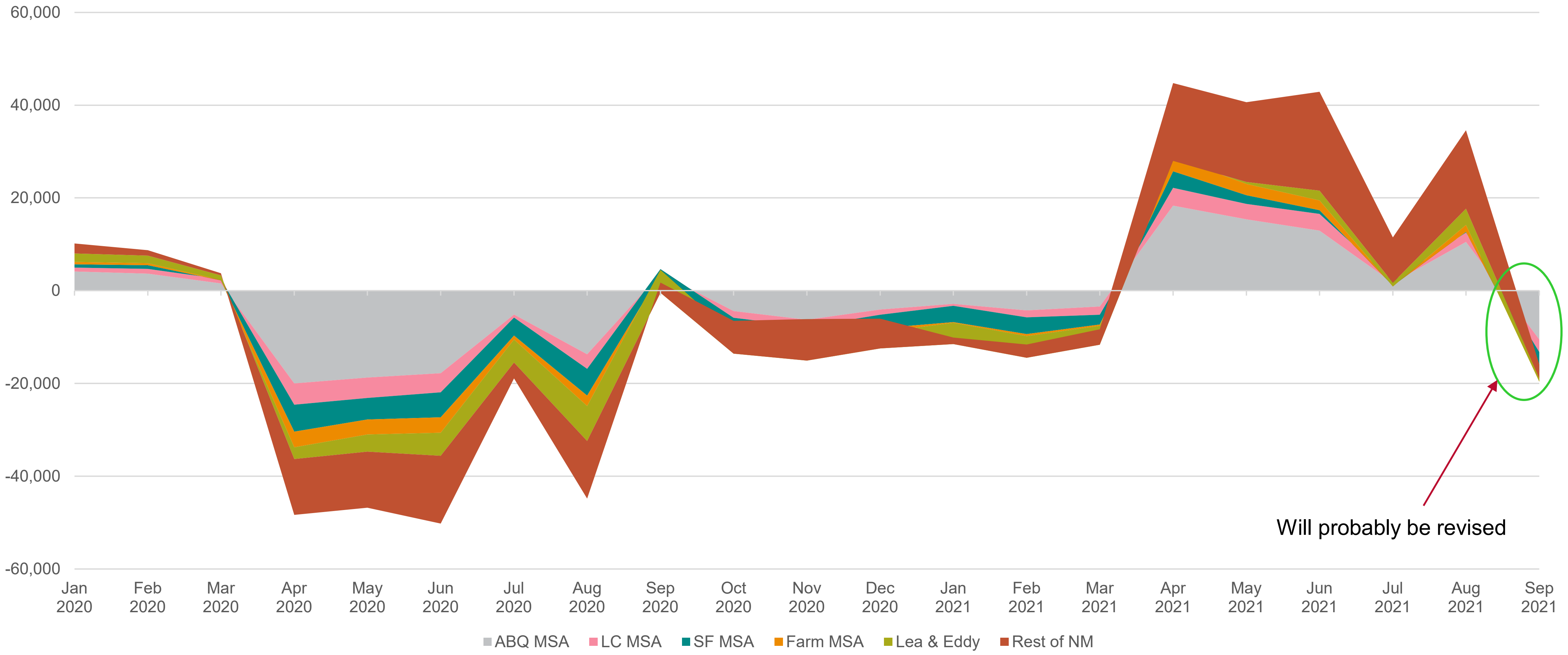
Unemployment Insurance Claims



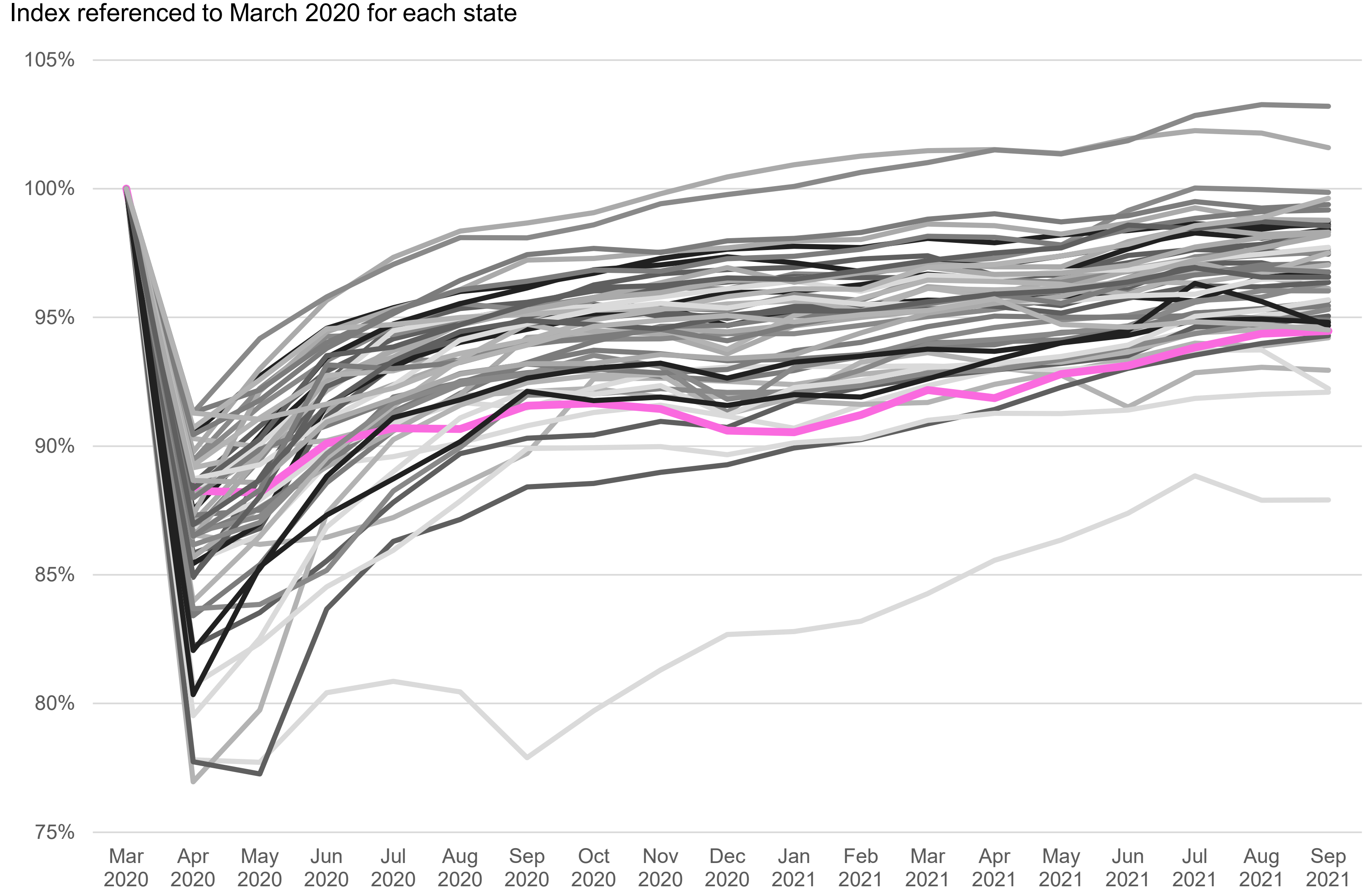
Note: data includes all claim types

Source: NM DWS (reflecting through October 16)

Y/Y Change in NM Labor Force by Place



Source: BLS & NMDWS LAUS

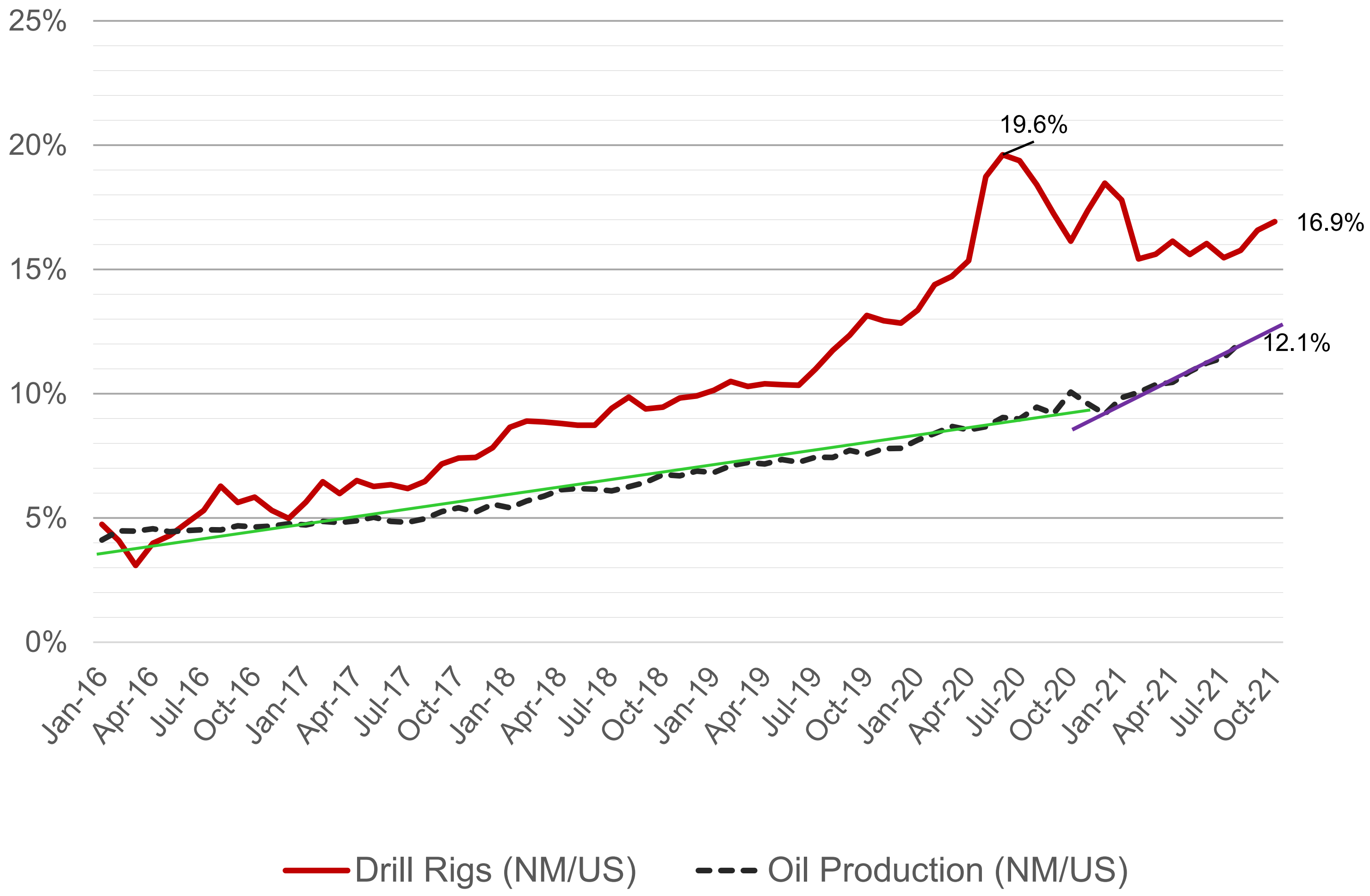


Change in Employment (CES data)

- As of September 2021, NM has only recovered 94.5% of the jobs it lost at the start of the pandemic.
- 44 states have recovered a greater share of jobs than New Mexico.
- 6 states have recovered at least 99% of all lost jobs.
- Worse states than NM are: Alaska, DC, Hawaii, Louisiana, New York.
- Idaho and Utah have fully recovered; Arizona on the threshold.

Source: BLS CES, September 2021

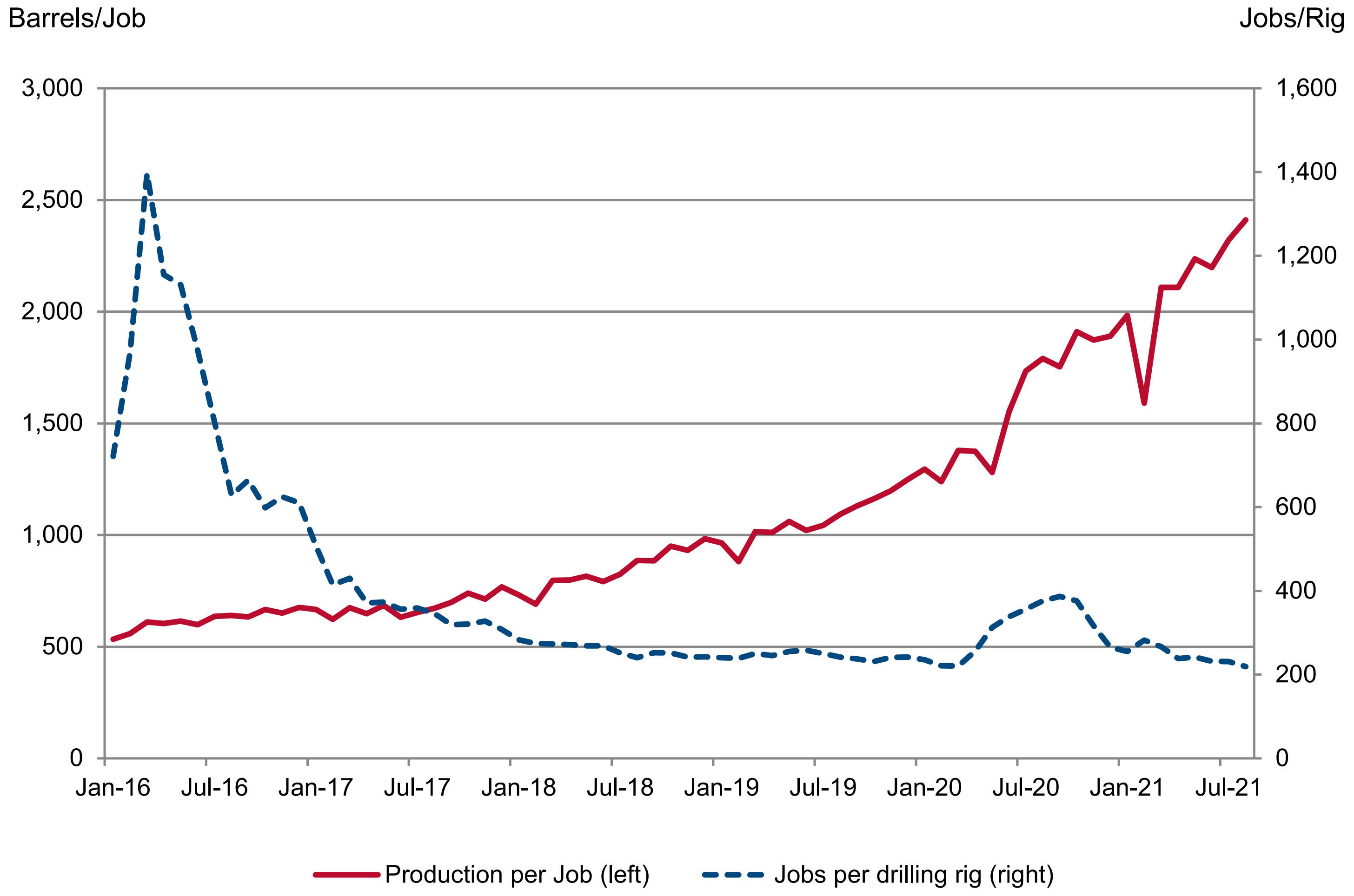
Increased NM field oil production presence



- Currently about 85 drilling rigs operating in NM.
- Around 17% of all US drilling rigs are in New Mexico.
- More than 12% of all US field oil production occurs in NM – up from about 4% in 2016.
- To put in perspective: in 2020 field oil production in US totaled 11.3 million barrels per day (bpd), which is up from 8.9 million bpd in 2016 (up 28%). In NM, production increased from 400,000 bpd in 2016 to 1.0 million bpd in 2020 (up 159%).
- Incidentally: NM accounts for around 5% of US gas production by volume.

Sources: EIA, Baker Hughes. Calculations: BBER

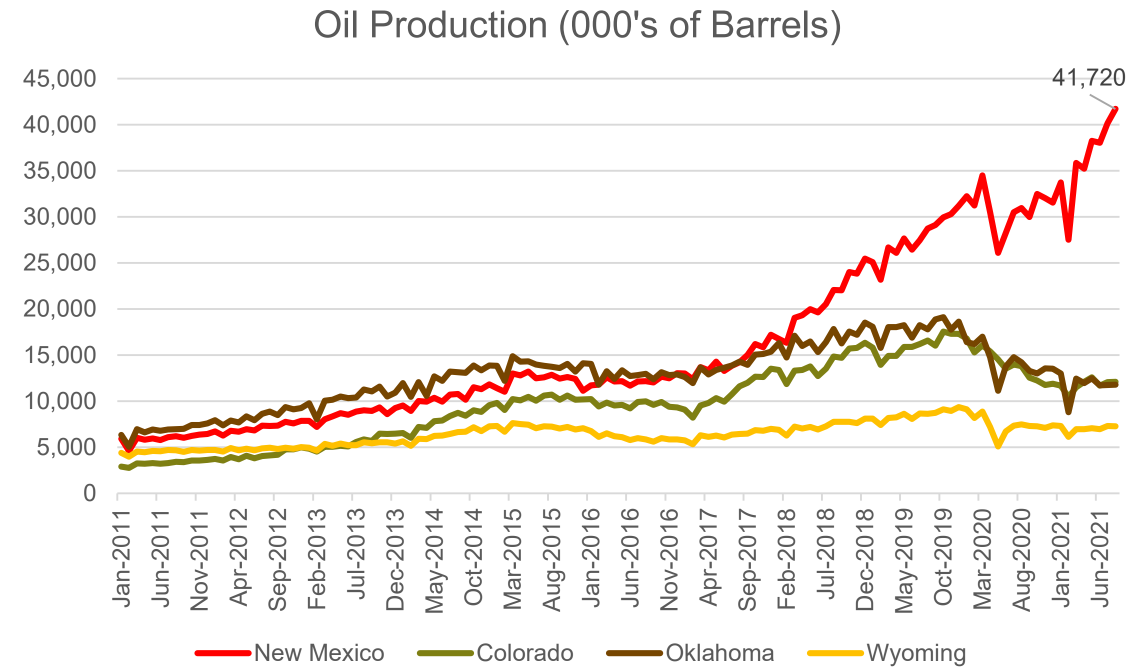
Move toward more "efficient" production

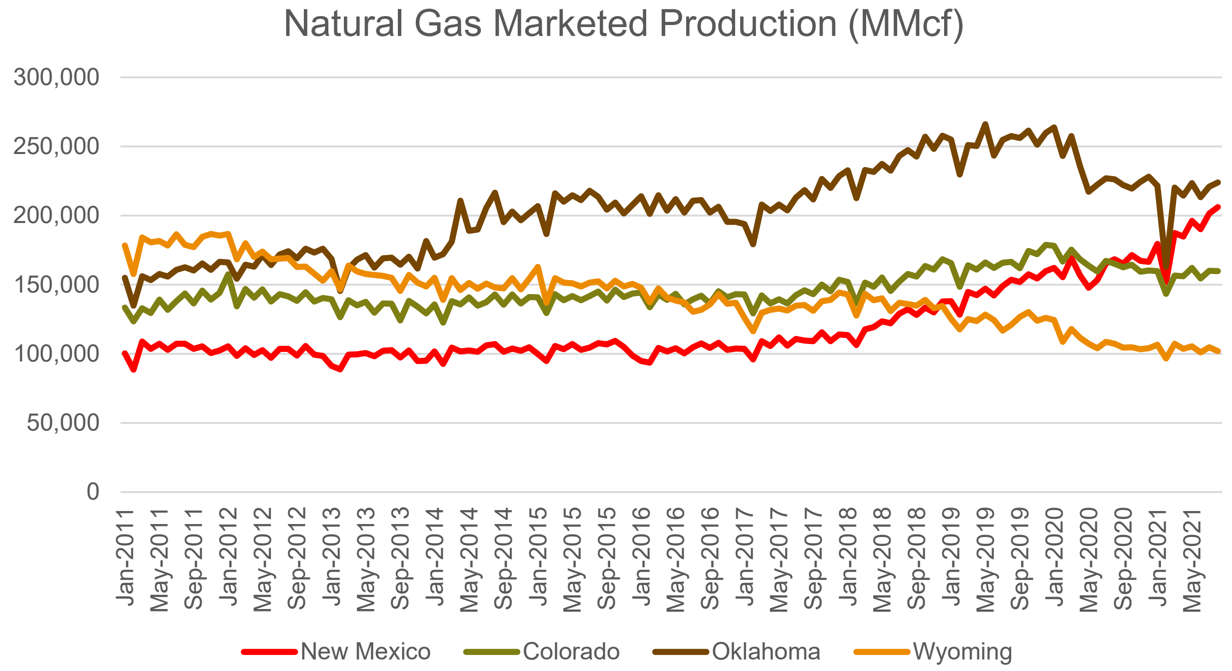


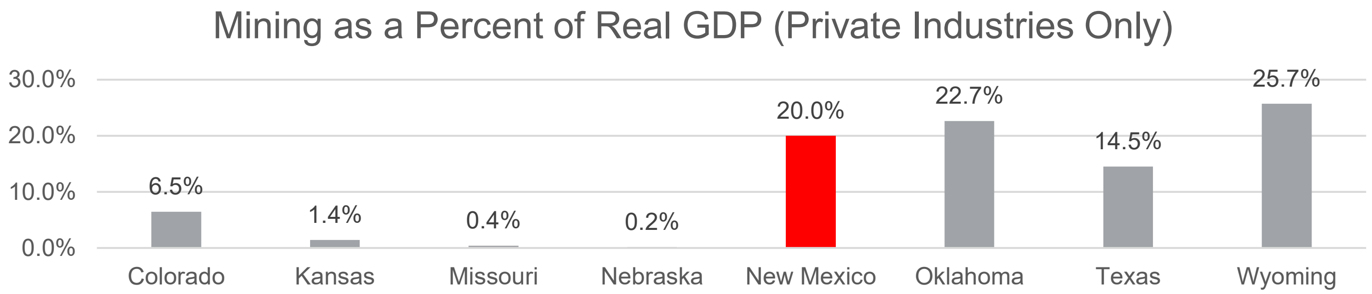
- NM "mining" jobs averaged about 20 thousand in 2016, peaked at 26 thousand in 2019 and is now about 18 thousand (as of Sept. 2021).
- Still reasonable labor demands for drilling, but production is deviating.
- For local areas:
  - Fewer workers to spend in local economy
  - Negative impacts to associated industries
  - Recovery of (some) oil & gas tax revenue

Sources: EIA, Baker Hughes. Calculations: BBER

Increased NM field oil production presence (2)

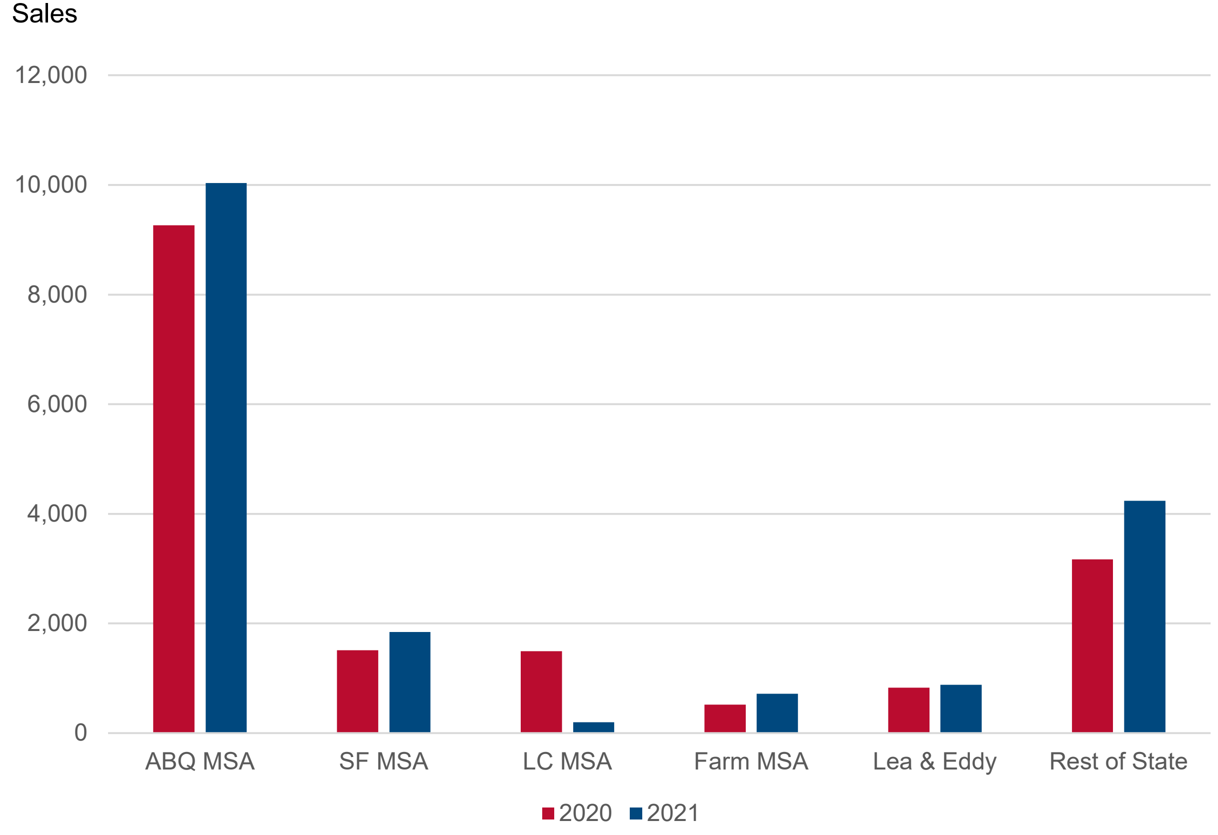


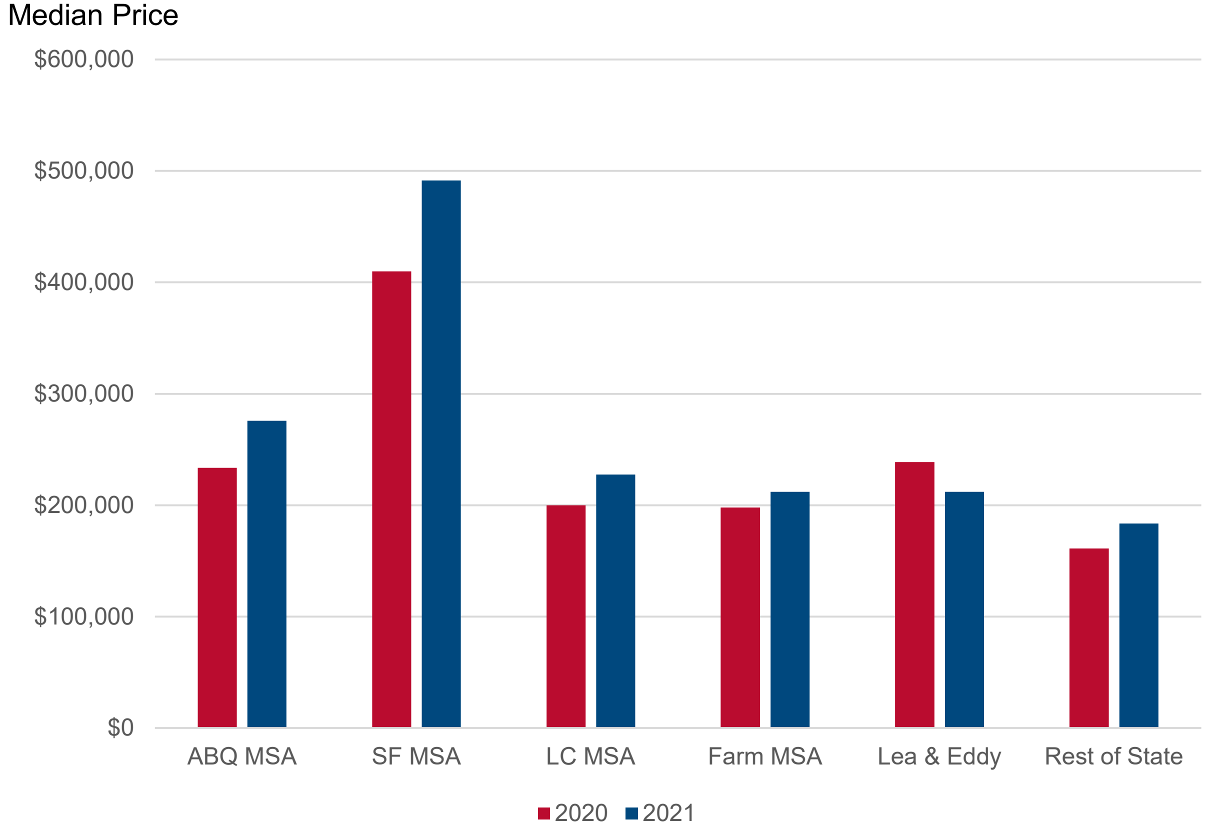




Sources: EIA and BEA

New Mexico Housing Sales January to August (2021 versus 2020)

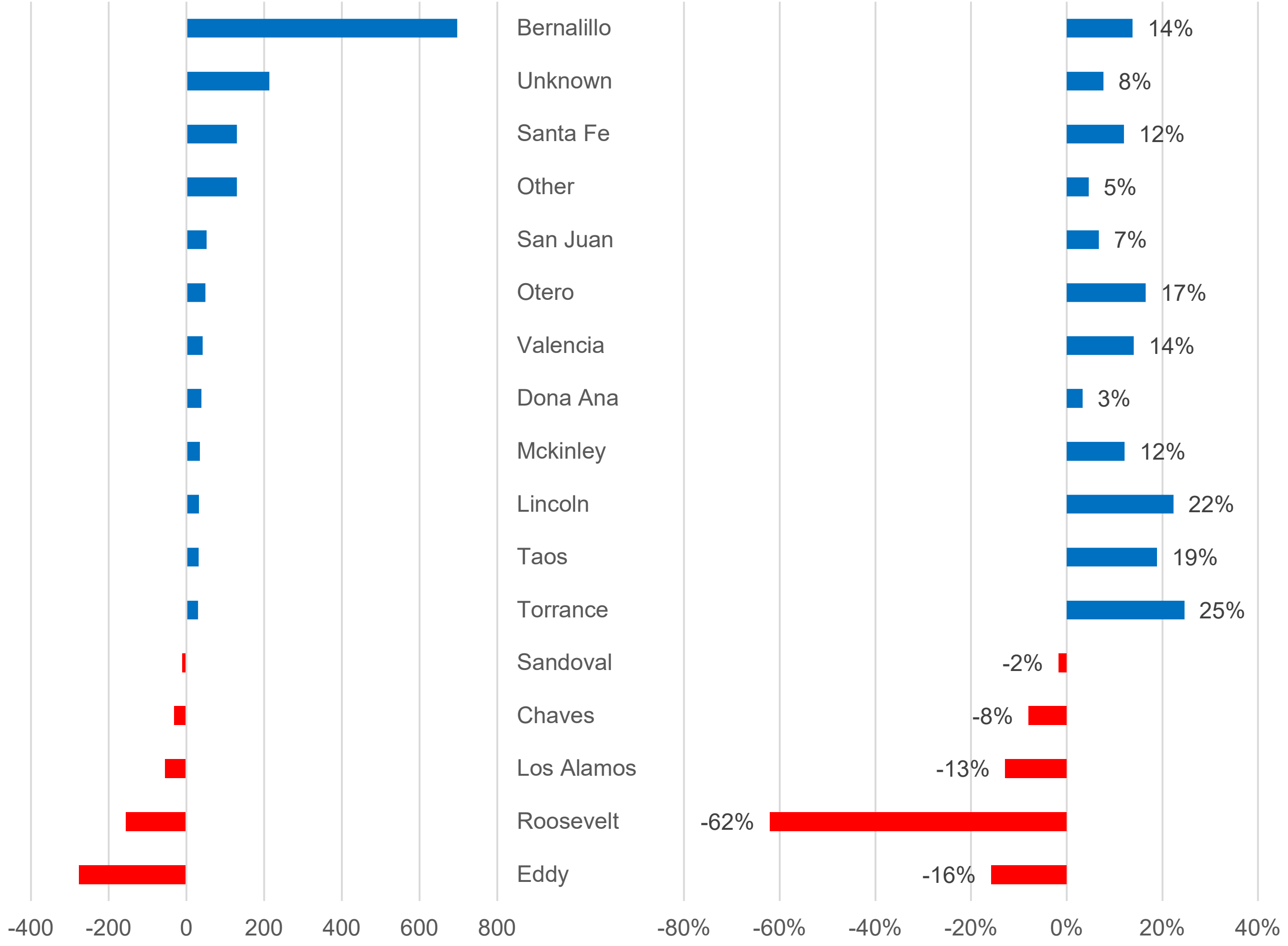




Sales in most places have increased. Year to date, sales are up 7% statewide. Median price is up 16% statewide from $232,000 to $270,000.

Source: New Mexico Realtors Association

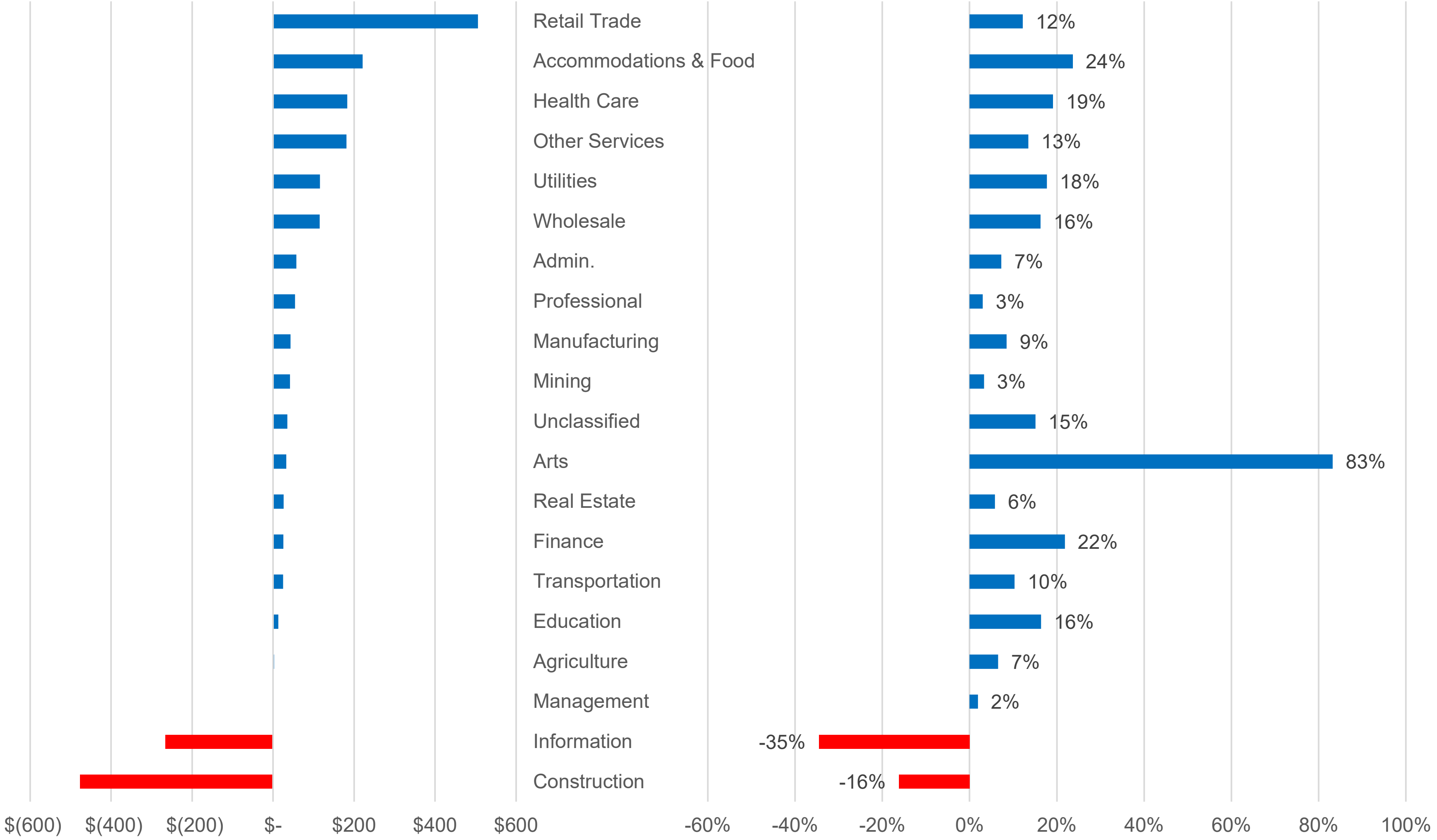
Taxable GR (2021Q2 over 2020Q2) - Counties



In aggregate, taxable GR are up nearly $1B compared to a year earlier.

Source: NM TRD. Levels in millions of dollars.

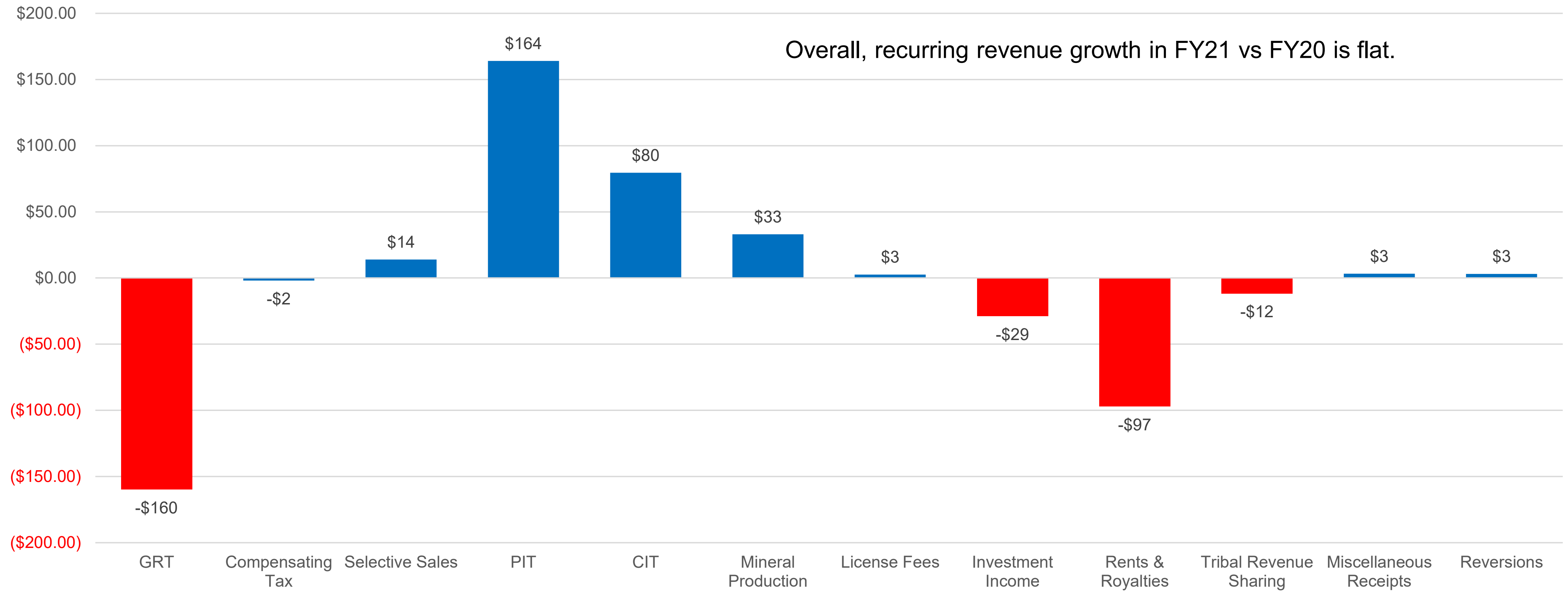
Taxable GR (2021Q2 over 2020Q2) - Industries



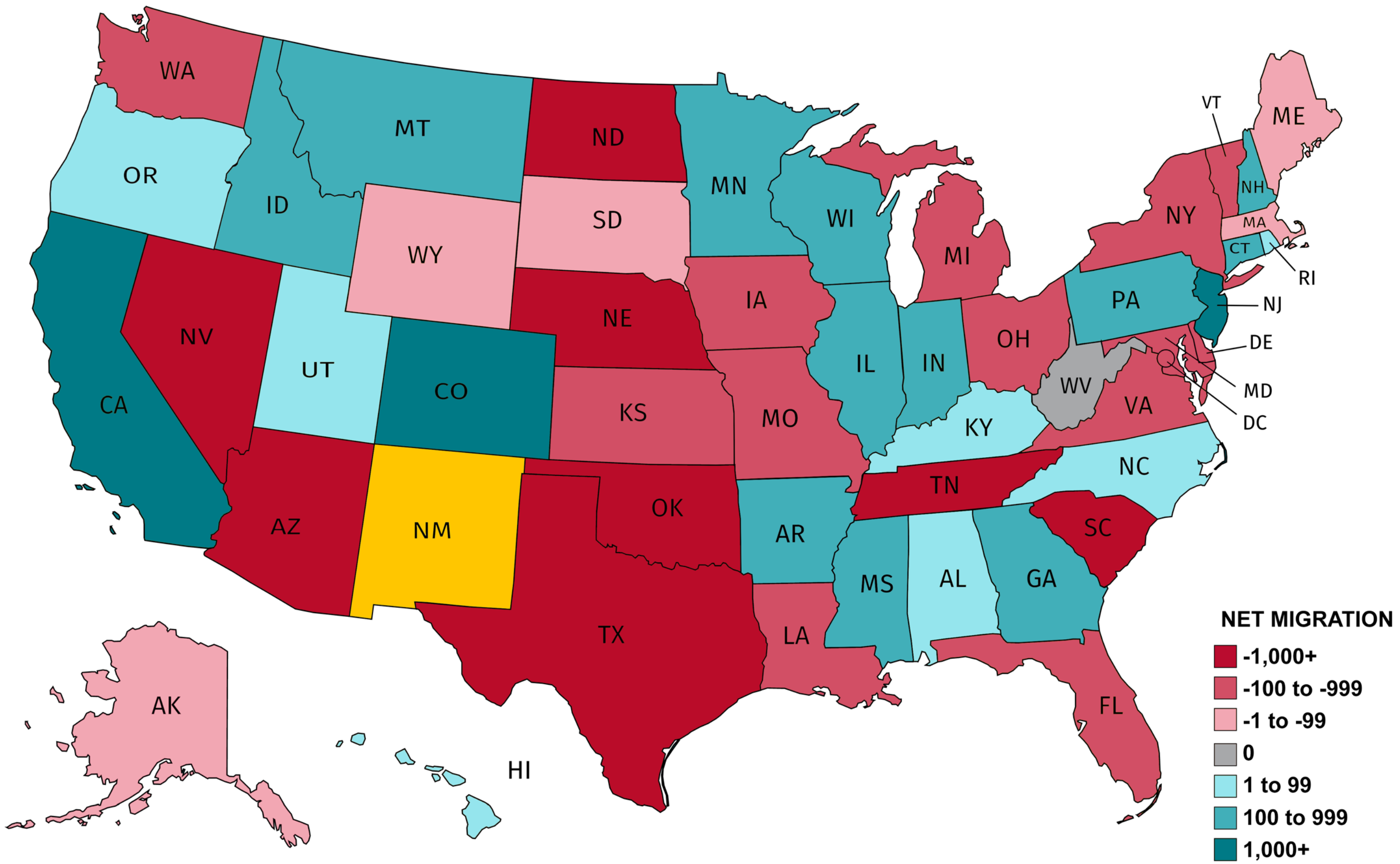
In aggregate, taxable GR are up nearly $1B compared to a year earlier.

Source: NM TRD. Levels in millions of dollars.

State Recurring Revenue: FY21 vs FY20 (through May 2021)



Source: NM LFC (data in millions), https://www.nmlegis.gov/entity/lfc/Revenue_Reports



Source: US Census Bureau, PUMS

New Mexico Net Migration

- From Public Use Microdata Sample (PUMS) data from the American Community Survey (ACS) 1-year estimates, released in Dec. 2020 by the U.S. Census Bureau, which samples 1% of the population.
- Total in migration was 56,357 and out migration was 73,381 for a total net migration loss of 17,381 people.
- Texas led both in- (18,286) & out-migration (21,799) with nearly 3x more movers than any other U.S. State.
- Arizona (7,815) and Nevada (6,240) are No. 2 & 3 in NM out-migration.
- Colorado (6,240) and California (5,550) are No. 2 & 3 for NM in-migration totals.


New Mexico
Outlook

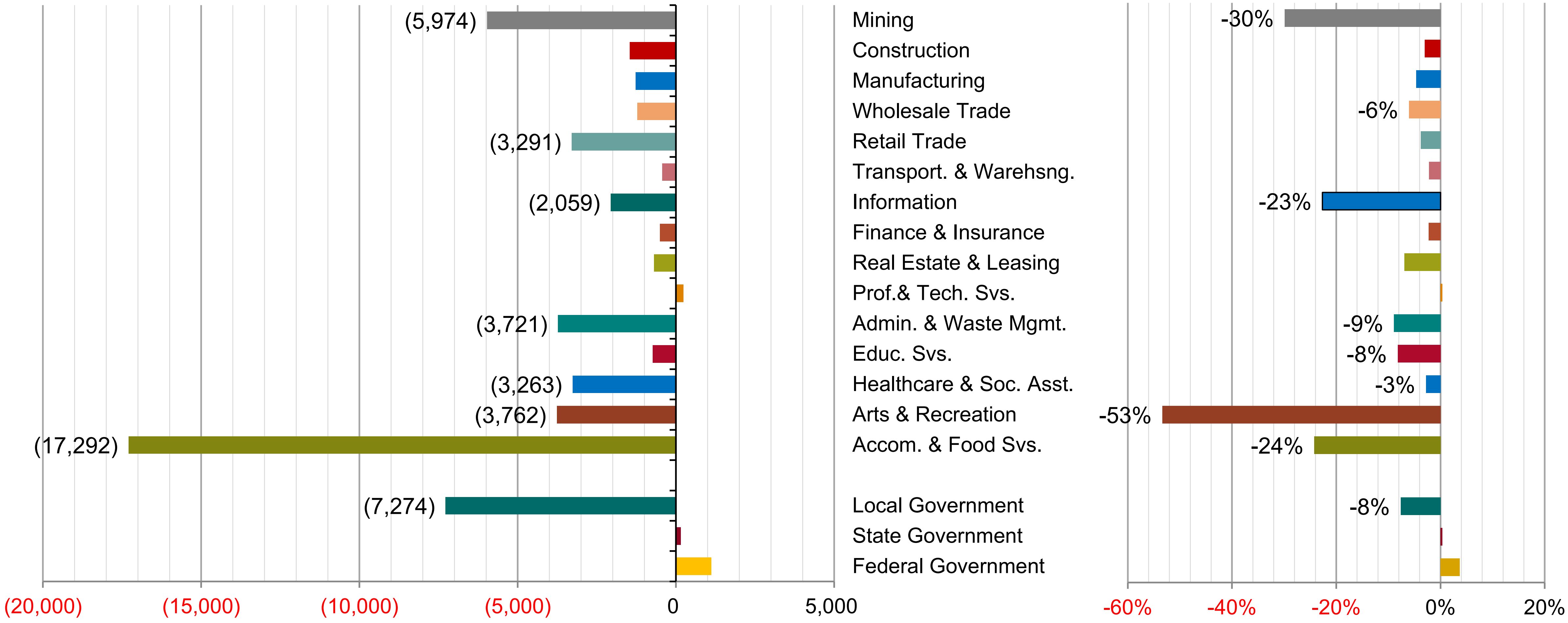
New Mexico Economic Outlook 2021-2026

- Forecast dependent on business & behavioral responses in New Mexico –
  a. Our expectation: slow (relative to US) but consistent recovery – U-shaped or attenuated "swoosh."
  b. A more pessimistic scenario: prolonged struggle that wipes out household and business balance sheets and shakes confidence, years of recovery – L-shaped.
- Loss of 89,700 jobs (-10.5%) in Q2 before recovering 13,135 jobs in Q3 and 15,431 jobs in Q4 (all QoQ) – 2020 down 55,000 jobs (-6.6%) compared to 2019.
- 2021 projected to grow 0.4% before gaining steam in 2022 (3.0%). Growth of about 1.6% projected per year thereafter.
- Economy exceeds 2019 levels in 2024 by about 900 jobs. By 2026, employment some 24,200 jobs (2.9%) above 2019 levels. This is generally in line with our July forecast.
- Income patterns: strong growth 2020 & 2021, weakening in 2022 (-4.6%), then accelerating slowly thereafter (about 5.0% per year).

But…

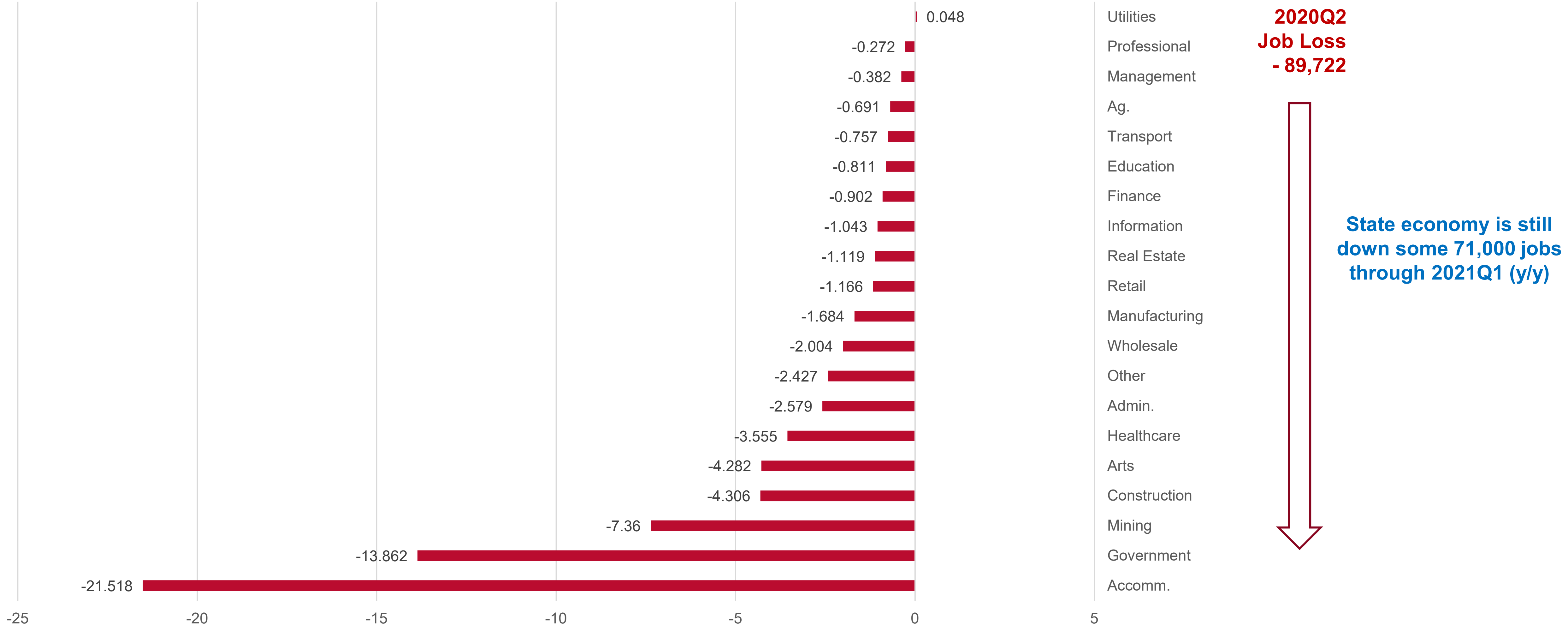
- Many of the headwinds impacting the US economy are also at play in New Mexico. The state's "uniqueness" may operate as a hindrance or an asset; however, there are opportunities that may be exploited:
  - NM as a place for information & IT growth (Facebook, Amazon, Netflix, cybersecurity other similar ventures).
  - NM as a place for professional & technical services-type work (Sandia, LANL, business spinoffs and tech transfer, universities, other industries such as bioscience and aerospace).
  - NM as a hub for cultural & recreation (outdoor recreation, historic preservation, arts & culture).
  - NM as a producer and thought-leader in energy space (oil & gas, nuclear, green energy initiatives).
- Fully realizing the state's economic goals will likely require nimble policymaking, robust stakeholder engagement, and risk taking.

Job Growth by Sector, 2020



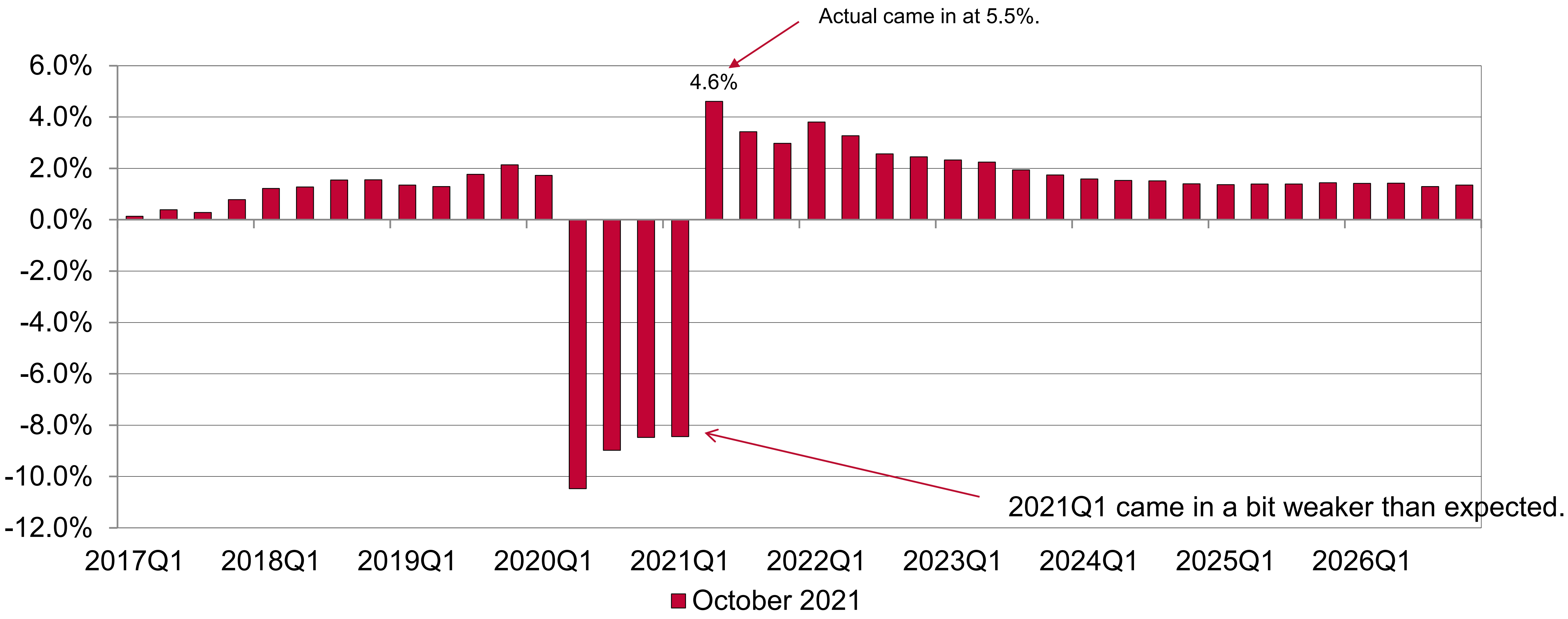
BBER FOR-UNM, October 2021

Y/Y Job Addition 2021Q1 (thousands)



BBER FOR-UNM, October 2021

Forecast Comparison: Employment Growth



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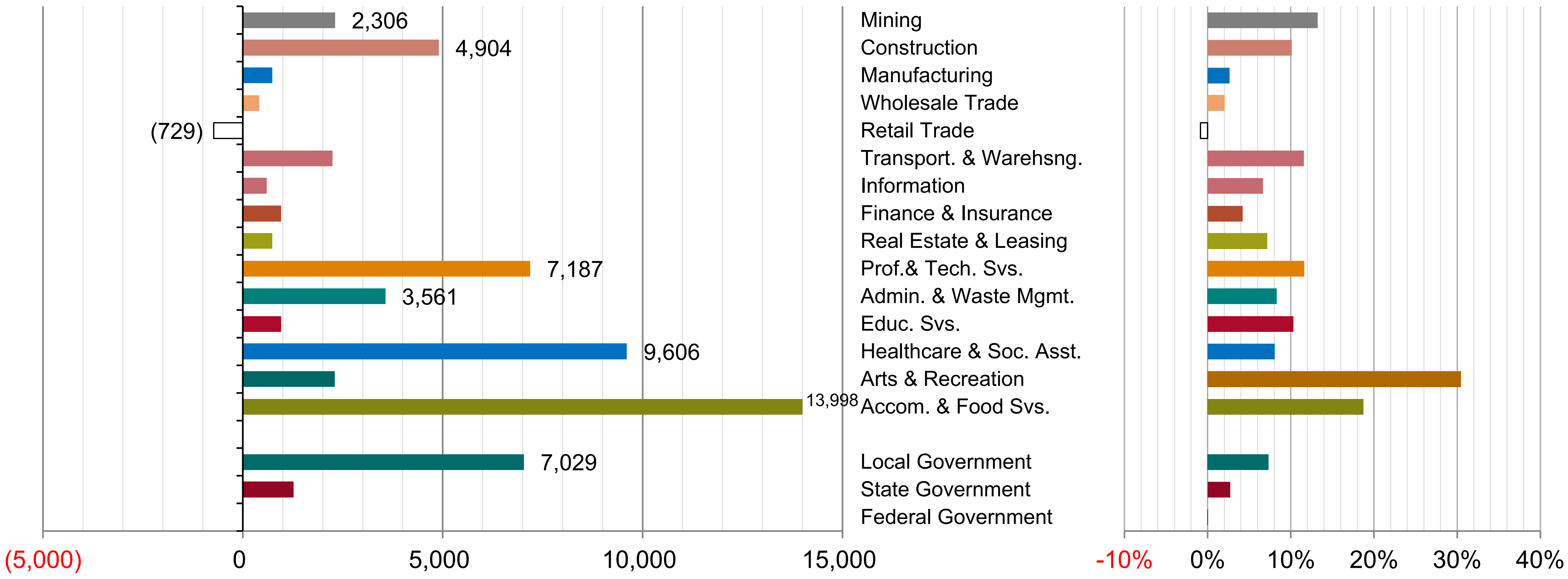
NM Job Growth by Sector, 2021-2026



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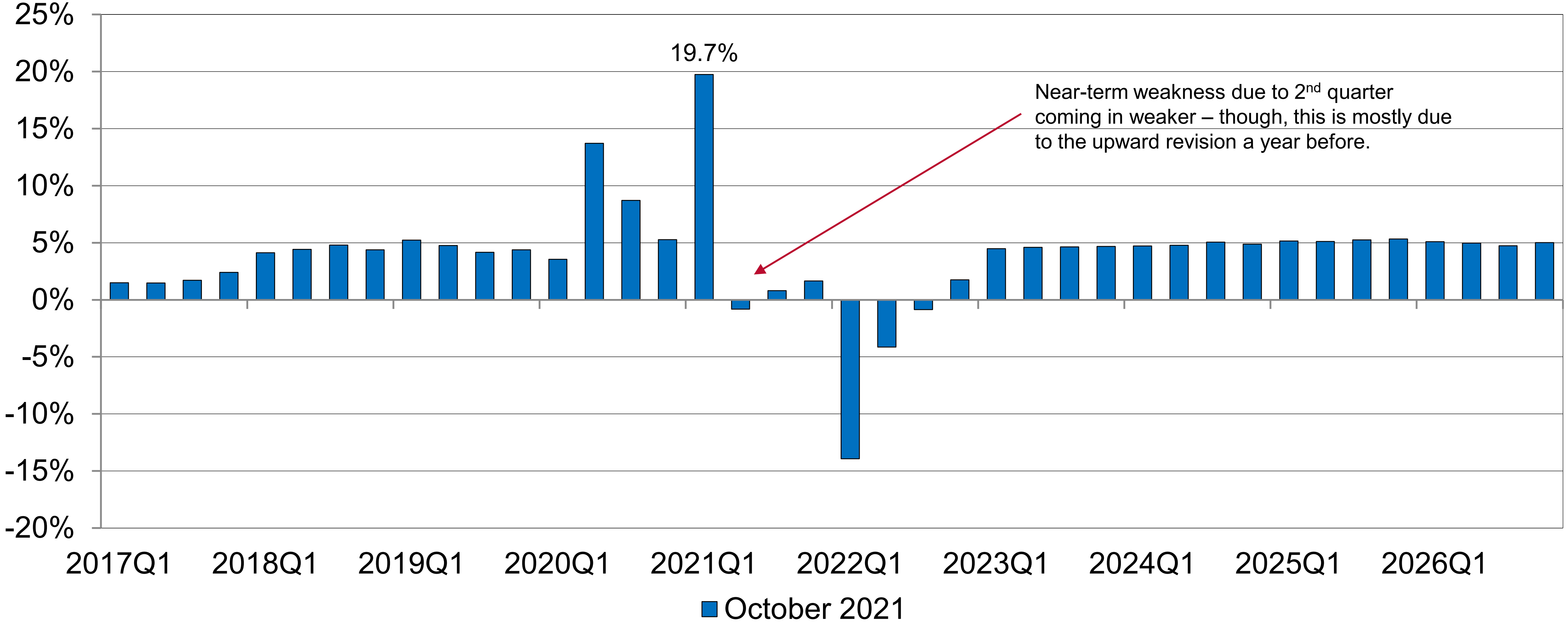
Forecast Comparison: Personal Income



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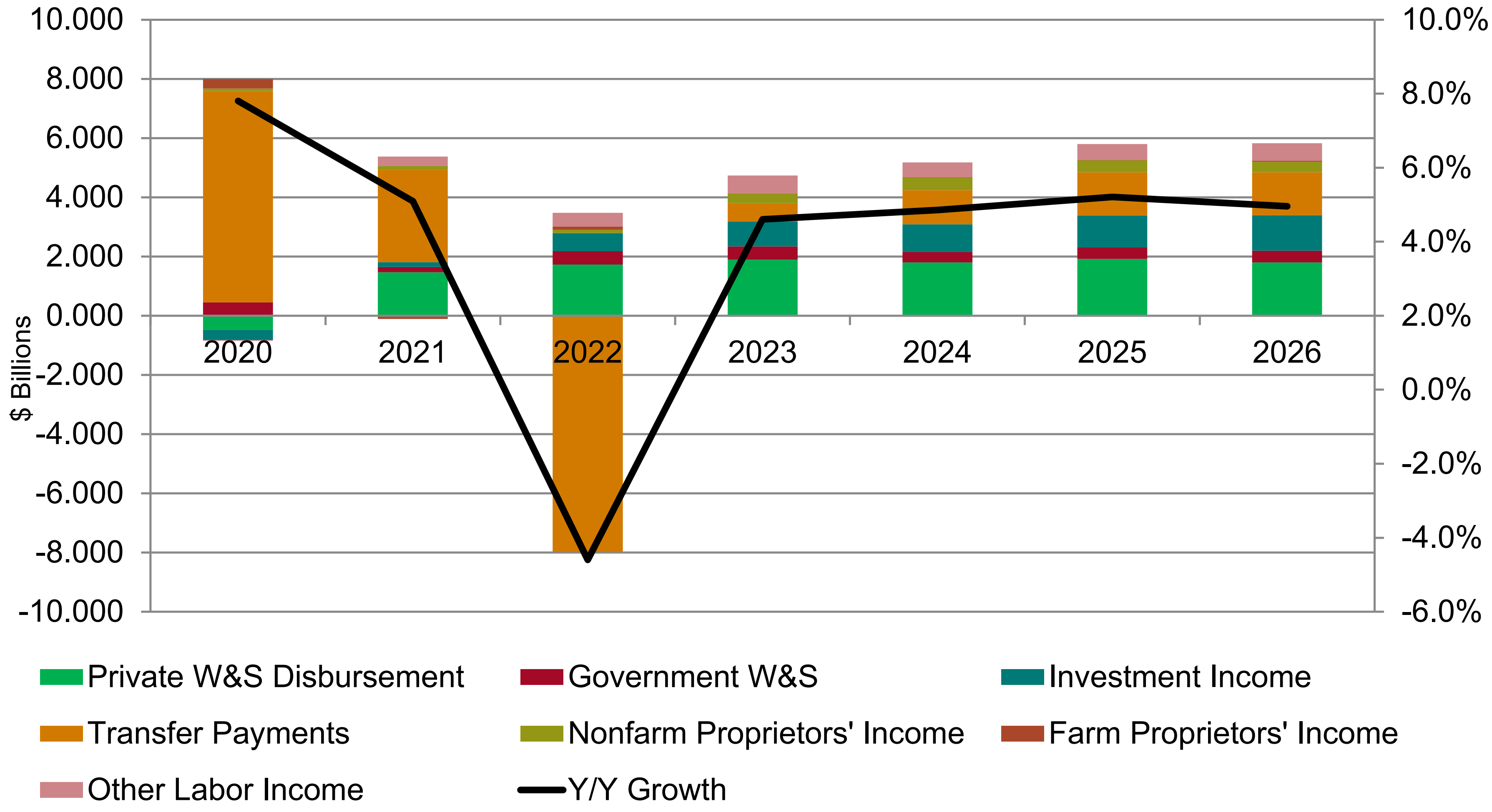
Forecast Personal Income Growth, by Component



- Personal incomes positive in 2020 & 2021 due to massive increase of federal transfers (unemployment, stimulus checks, Medicaid and other CARES funding).
- Income growth contracts sharply in 2022 (-4.6%) with reductions in transfers.
- Consistent growth returns in 2023.

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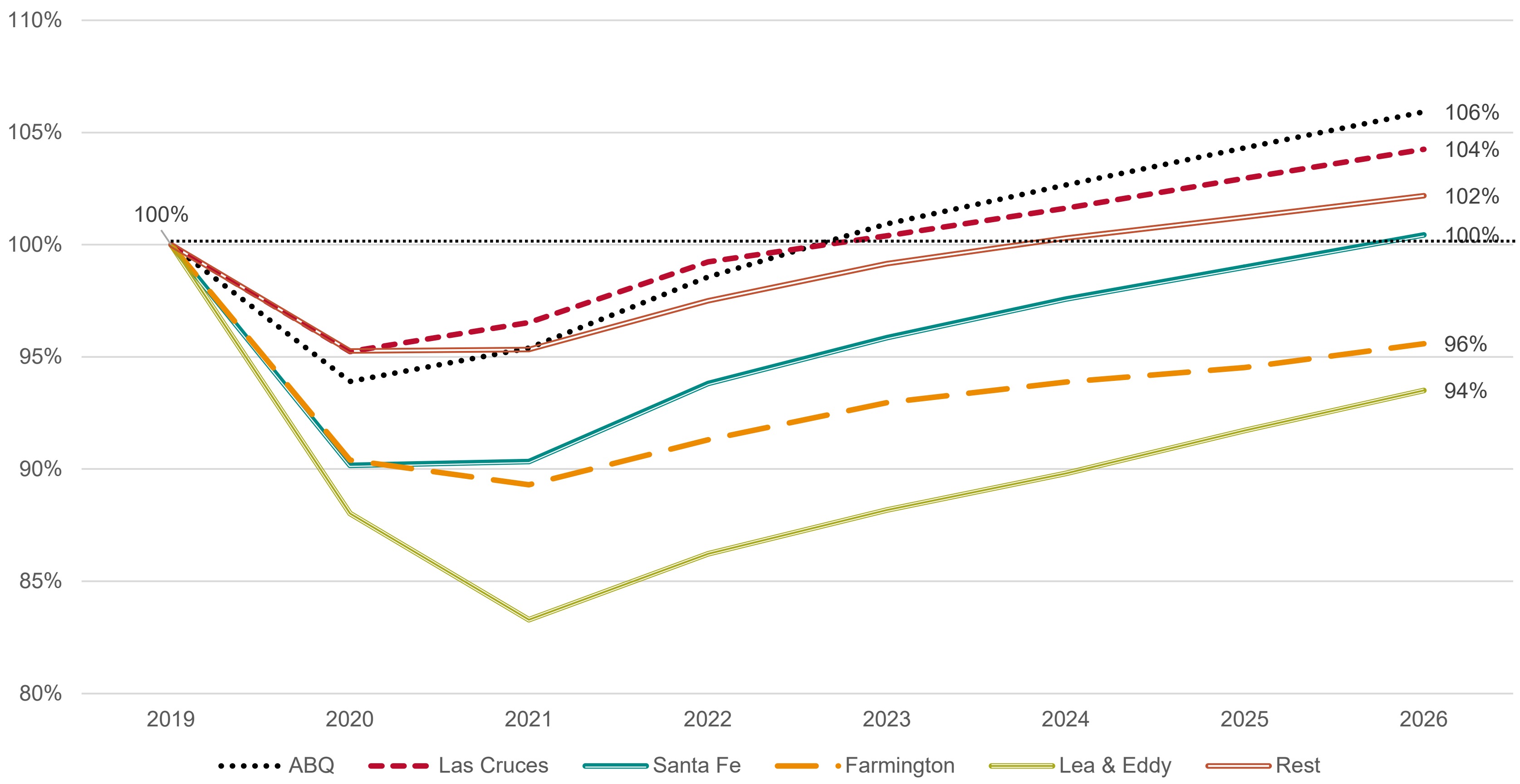
Projected Growth by Region



- Employment levels indexed to 2019.
- Farmington and Lea & Eddy fail to fully recover jobs by end of forecast.
- ABQ and LC recover by 2022; rest of NM by 2023; and Santa Fe by 2026.
- Trends are largely similar to last year – though slightly weaker in near term and stronger beginning 2023.

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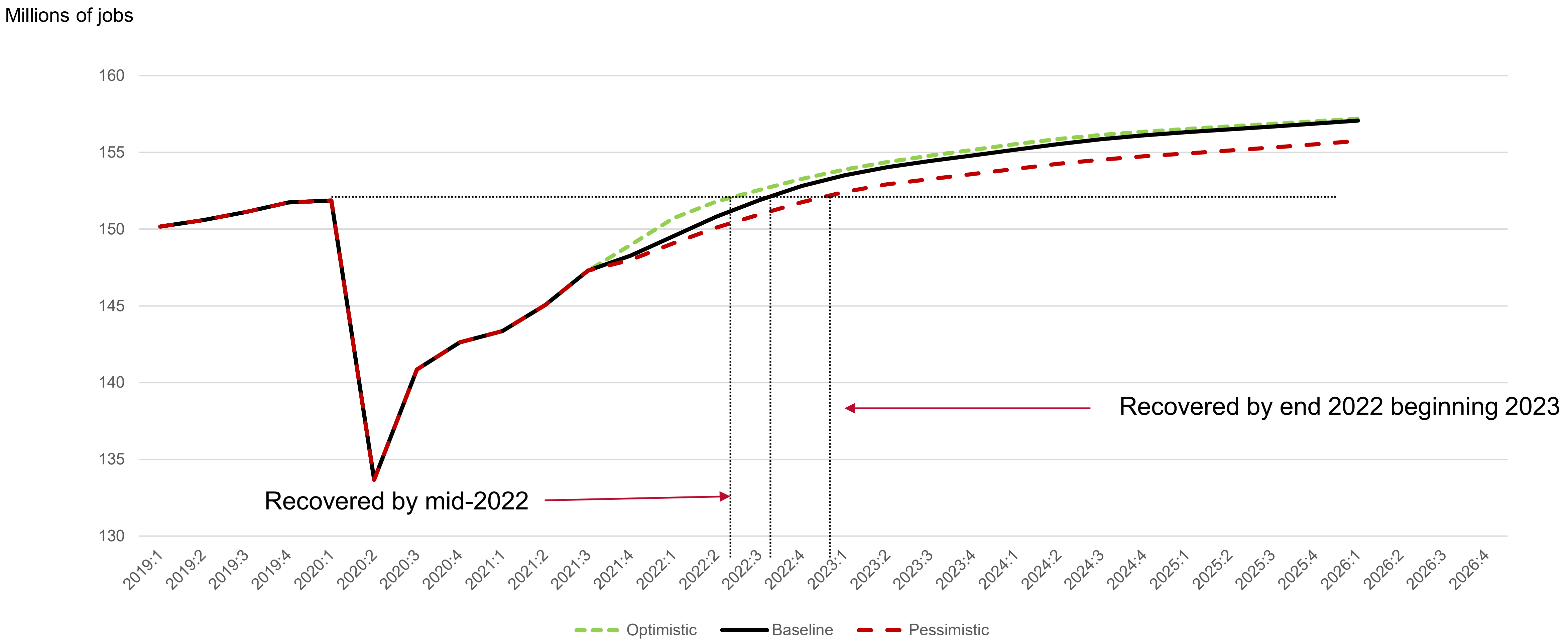
Alternative Scenarios

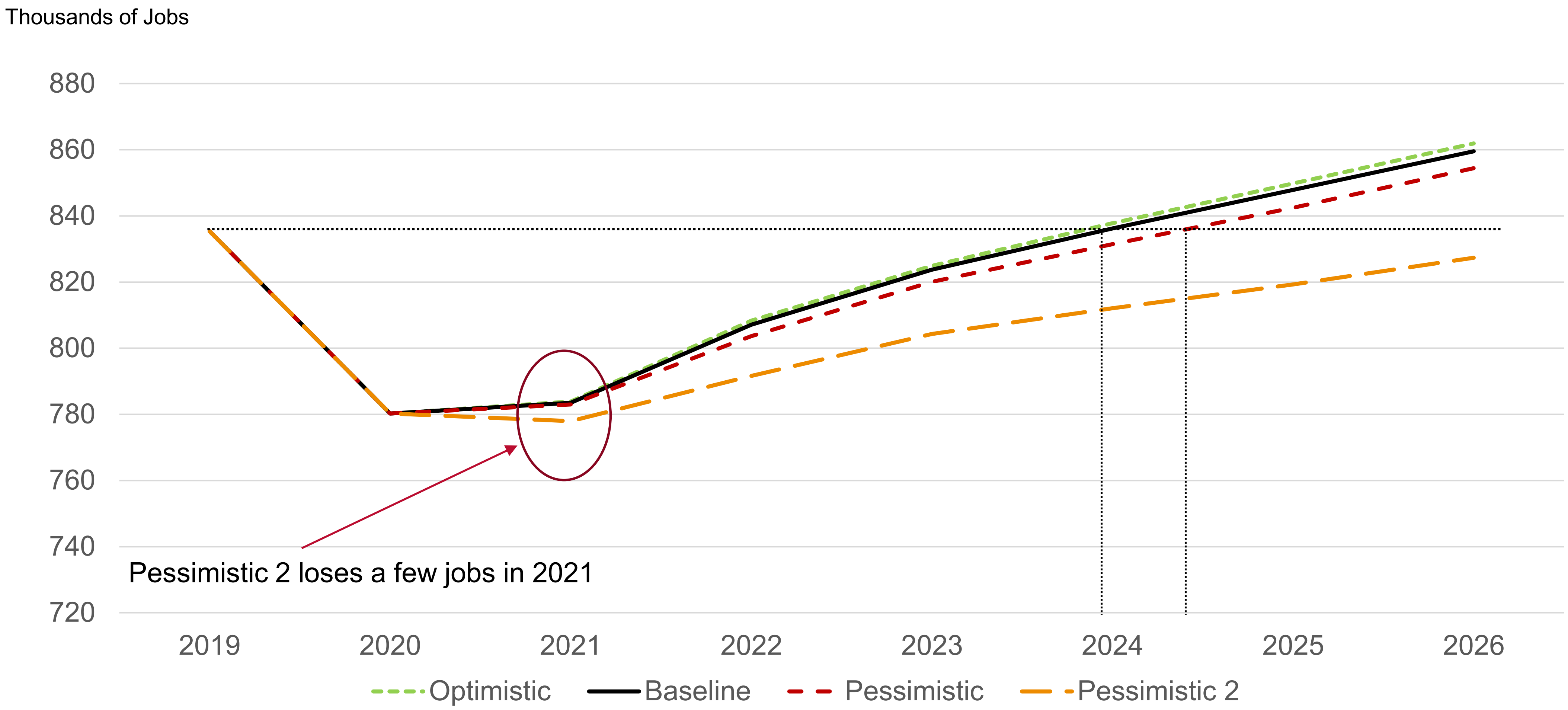
- Uncertainty is unprecedented – still epidemiology + economics.
  - Important to point out that “economics” includes producer and consumer behavior changes.
- IHS Markit’s forecasts – baseline, optimistic, pessimistic – are generally V-shaped.
- FOR-UNM’s forecasts are less optimistic and tend toward 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; losses continue into 2021.
- 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 more of an L-shape, with incomplete recovery by end of forecast period.

US Employment Forecast – Alternative Scenarios



Source IHS October 2021

NM Employment Forecast – Alternative Scenarios



Source: FOR-UNM, October 2021

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