U.S. & New Mexico
Economic Update

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Denver Branch
The U.S. economy continues to grow at a modest pace.

**Real Gross Domestic Product (GDP)**

*Annualized Percent Change from Previous Period*

![Chart showing real gross domestic product (GDP) growth from 2007 to 2014, with projections for 2012-2014.]

*Source: Bureau of Economic Analysis & Federal Open Market Committee (FOMC)*
Unemployment rates have fallen over the past year but remain stubbornly high.

**Unemployment Rate**

Source: Bureau of Labor Statistics & Federal Open Market Committee (FOMC)
Inflation increased earlier this year but moderated in the second quarter as oil prices fell.

U.S. Personal Consumption Expenditure (PCE) Inflation

Annualized Percent Change from Previous Period

Source: Bureau of Economic Analysis & Federal Open Market Committee (FOMC)
“… the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.”

- FOMC September Statement

**Effective Federal Funds Rate**

*Source: Board of Governors of the Federal Reserve System*
“...the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of $40 billion per month.”

- FOMC September Statement
“The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities.”

- FOMC September Statement

**FEDERAL RESERVE BANK ASSETS**

<table>
<thead>
<tr>
<th>Trillions</th>
<th>Oct'10</th>
<th>Sep'11</th>
<th>Sep'12</th>
<th>Jan'13</th>
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<tbody>
<tr>
<td>$2.5</td>
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Source: Board of Governors of the Federal Reserve System
Employment growth slowed in the second quarter, and employment is now below year-ago levels in New Mexico.

**Nonfarm Employment Growth**

*Index 100 = August 2002, Seasonally Adjusted*

- **New Mexico**
  - Private Sector: -1.2%
  - Total: -1.7%

- **United States**
  - Private Sector: 1.8%
  - Total: 1.4%

Source: Bureau of Labor Statistics
Professional and business services, construction and government weighed heavily on employment growth in New Mexico over the past year.

**Nonfarm Employment Over the Past Year, August 2012**

*Seasonally Adjusted*

- Natural Resources & Mining
- Professional & Business Services
- Leisure & Hospitality
- Education & Health Services
- Wholesale Trade
- Transportation & Utilities
- Manufacturing
- Information
- Financial Activities
- Retail Trade
- Other Services
- Construction
- Local Government
- State Government
- Federal Government

**Percent Change**

- United States
- New Mexico

**Share of Total Jobs**

Source: Bureau of Labor Statistics
Mining and healthcare are the only two sectors to experience significant employment growth since the recession started.

Nonfarm Employment since the Recession Started (Dec. 2007 to August 2012)
Seasonally Adjusted

Natural Resources & Mining
Education & Health Services
Federal Government
Leisure & Hospitality
Professional & Business Services
State Government
Other Services
Local Government
Transportation & Utilities
Retail Trade
Financial Activities
Wholesale Trade
Information
Manufacturing
Construction

Percent Change

United States
New Mexico

Share of Total Jobs

Source: Bureau of Labor Statistics
New Mexico relies heavily on government expenditures and employment.

Federal Expenditures per Capita, FY 2006

Federal expenditures in New Mexico (per capita) are significantly higher than those in the United States. The large majority of these expenditures are in the category of Salaries & Wages, followed by Procurement Contracts. Grants, Other Direct Payments, and Retirement & Disability are smaller components of the total expenditures.

Government Share of Total Nonfarm Employment

Seasonally Adjusted, August 2012

The government share of total nonfarm employment in New Mexico is notably higher than in the United States, with a significant portion of the employment being in the Federal sector. The local and state shares are also higher than in the United States, although they are still smaller than the Federal share.

Source: Census Bureau & Bureau of Labor Statistics
Job losses in the government sector lagged private sector job losses by more than a year.

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<thead>
<tr>
<th></th>
<th>United States</th>
<th>New Mexico</th>
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<tbody>
<tr>
<td></td>
<td><strong>GOVERNMENT CONTRIBUTIONS TO TOTAL JOB GROWTH</strong></td>
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<td><em>Seasonally Adjusted, Contribution to Percent Change</em></td>
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<td><strong>Source:</strong> Bureau of Labor Statistics</td>
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Real hourly earnings growth has been weak in both the U.S. and New Mexico.

**Real Average Hourly Earnings**

*Seasonally Adjusted, Percent Change over Prior Year*

Source: Bureau of Labor Statistics
Residential construction activity is picking up but remains well below pre-recession levels.

**Value of Residential Construction Contracts**

*Index 100 = August 2002, Seasonally Adjusted, Three-Month Moving Average*

Source: McGraw Hill/F.W. Dodge
Home prices have stabilized over the past year across most of the nation.

**CHANGE IN HOME PRICES Year-over-Year, 2012Q2**

*FHFA Purchase-Only Index*

United States
3.0%

Source: Federal Housing Finance Agency
Improvements in non-residential construction activity have varied across the country.

**Value of Non-Residential & Non-Building Construction**

*Percent Change, Cumulative Year-to-Date  January through July 2012*

Source: McGraw Hill/F.W. Dodge
Drilling activity is responding to prices with oil drilling up and natural gas drilling down.

**Active Drilling Rig Counts**

*Monthly Average*

**United States**

- **Crude Oil**
- **Natural Gas**

**New Mexico**

- **Crude Oil**
- **Natural Gas**

*Source: Baker Hughes*
The manufacturing sector continues to expand in the Tenth District.

**Manufacturing Activity**
*Diffusion Index, Seasonally Adjusted, Month-over-Month*

- **August 2012**
  - Kansas City District: 54.2
  - United States (ISM): 49.6

*Note: Federal Reserve Surveys are computed on an ISM Basis (50 = no change)*

*Source: Institute for Supply Management & Federal Reserve Bank of Kansas City*
Manufacturers in the Tenth District expect higher levels of activity over the next six months.

**Tenth District Manufacturing Expectations**

*Diffusion Index, Seasonally Adjusted, Six Months Ahead*

Source: Federal Reserve Bank of Kansas City
Growth has slowed sharply in Europe this year and is expected to remain slow in 2013.

**World Economic Outlook Projections**

*Percent Change over Prior Year*

- **Emerging & Developing Economies**
  - 2010: 10%
  - 2011: 12%
  - 2012: 10%
  - 2013: 12%

- **Advanced Economies**
  - Euro Area: 2% 4%
  - Germany: -2% 0%
  - France: 2% 4%
  - Italy: 2% 4%
  - Spain: -2% 0%
  - UK: 2% 4%

- **China, India**
  - 2010: 6%
  - 2011: 8%
  - 2012: 6%
  - 2013: 8%

*Source: International Monetary Fund (IMF)*
Exports to Europe make up about 18% of total U.S. exports.

U.S. EXPORTS BY TRADE PARTNER

Billions

Source: International Trade Administration & WiserTrade

*2011 Shares

Note: The Eurozone includes the 27 European Union member countries
Despite a decrease in exports to Europe, total exports from New Mexico have increased in 2012.

**NEW MEXICO EXPORTS BY TRADE PARTNER**

*Billions*

<table>
<thead>
<tr>
<th>Country</th>
<th>2011 (Billions)</th>
<th>2012 (Billions)</th>
<th>Percent Change</th>
<th>Share</th>
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</thead>
<tbody>
<tr>
<td>All Other</td>
<td>-15.9</td>
<td>19.5</td>
<td></td>
<td>19.5%</td>
</tr>
<tr>
<td>Japan</td>
<td>10.7</td>
<td>4.8</td>
<td>-58.9%</td>
<td>2.8</td>
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<tr>
<td>Israel</td>
<td>444.8</td>
<td>21.1</td>
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<td>21.1%</td>
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<tr>
<td>Mexico</td>
<td>-26.5</td>
<td>22.2</td>
<td></td>
<td>4.3</td>
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<tr>
<td>Canada</td>
<td>-9.7</td>
<td>16.8</td>
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<td>16.8%</td>
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<tr>
<td>China</td>
<td>-18.1</td>
<td>13.2</td>
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<td>13.2%</td>
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<tr>
<td>Eurozone</td>
<td></td>
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</tbody>
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Source: International Trade Administration & WiserTrade  
*2011 Shares  
Note: The Eurozone includes the 27 European Union member countries
Under current law, several tax increases and spending cuts could lead to a slowdown in economic growth next year.

**GDP & the “Fiscal Cliff”**

*Percent Change (Annualized Quarterly Rates)*

![Graph showing GDP growth rates from 2007 to 2013, with projected values for 2012 and 2013. The graph categorizes the data by quarter, with CBO Baseline and Current Law projections noted.]

*Source: Bureau of Economic Analysis & Congressional Budget Office (August 2012 Projections)*
Many private forecasters expect that the fiscal cliff will be avoided and that the U.S. economy will continue to grow at a moderate pace.

GDP & THE “FISCAL CLIFF”
Percent Change (Annualized Quarterly Rates)

Source: Bureau of Economic Analysis, Congressional Budget Office (August 2012 Projections), & Blue Chip Economic Indicators (September 2012 Forecast)
Under current law, U.S. deficits are expected to fall sharply over the next several years.

U.S. Deficit to GDP Ratio

Source: Congressional Budget Office (August 2012 Projections)
U.S. Federal government debt levels as a percent of GDP are projected to fall sharply if the fiscal cliff occurs.

**U.S. Debt to GDP Ratio**

Source: Bureau of Economic Analysis & Congressional Budget Office (August 2012 Projections)
New Mexico

Economic Update

This presentation will be available at http://www.kc.frb.org/denver/

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