New Mexico employment growth slowed sharply over the past few months.

**PAYROLL EMPLOYMENT GROWTH BY STATE**

*Index, 100 = September 2002, Seasonally Adjusted*

- **New Mexico** -1.3%
- **United States** 1.4%

*September 2012*

*Year-over-Year Growth*

*Source: Bureau of Labor Statistics*
Employment has declined in New Mexico over the past year even as most states have experienced positive job growth.
After adjusting for inflation, personal incomes are now above pre-recession levels in both New Mexico and the nation.

**REAL PERSONAL INCOME**

*Index, 100 = 2002Q2, Seasonally Adjusted Annualized Rates*

<table>
<thead>
<tr>
<th>Year</th>
<th>New Mexico</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun-02</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Jun-04</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>Jun-06</td>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td>Jun-08</td>
<td>115</td>
<td>115</td>
</tr>
<tr>
<td>Jun-10</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Jun-12</td>
<td>125</td>
<td>125</td>
</tr>
</tbody>
</table>

*2012Q2 Year-over-Year Growth*

- **New Mexico**: 0.4%
- **United States**: 1.6%

*Source: Bureau of Economic Analysis*
However, personal income growth in New Mexico has lagged behind national gains.

2012Q2 **Real Personal Income**
*Year-over-Year Percent Change, Seasonally Adjusted Annualized Rates*

United States 1.6%

Source: Bureau of Economic Analysis
Declines in New Mexico employment over the past year have been driven primarily by weakness in the construction and government sectors.

CHANGE IN NONFARM EMPLOYMENT, SEPTEMBER 2012
Seasonally Adjusted

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

Top Performing Industries
New Mexico
United States
Worst Performing Industries

Source: Bureau of Labor Statistics
New Mexico is heavily reliant on federal government spending and employment.

**Federal Expenditures per Capita, FY 2006**

- **Salaries & Wages**
  - United States: $5,000
  - New Mexico: $10,000

- **Procurement Contracts**
  - United States: $8,000
  - New Mexico: $12,000

- **Grants**
  - United States: $2,000
  - New Mexico: $3,000

- **Other Direct Payments**
  - United States: $6,000
  - New Mexico: $9,000

- **Retirement & Disability**
  - United States: $4,000
  - New Mexico: $6,000

**Government Share of Total Nonfarm Employment**

- Local
  - United States: 10.6%
  - New Mexico: 13.2%

- State
  - United States: 3.8%
  - New Mexico: 6.9%

- Federal
  - United States: 2.1%
  - New Mexico: 4.0%

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

**Government Contribution to New Mexico Total Job Growth**

*Contribution to Percent Change, Seasonally Adjusted*

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

**Value of Residential Construction**

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

*Source: McGraw Hill/F.W. Dodge*
Residential construction activity was slow to recover in New Mexico but is now increasing at a faster pace than the nation.

Value of Residential Construction

*Index 100 = September 2002, Seasonally Adjusted*

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, Seasonally Adjusted*

United States

3.0%

Source: Federal Housing Finance Agency
Despite recent gains, home prices remain below peak levels in most states.

**CHANGE IN HOME PRICES** *Peak to Current (2007Q1 to 2012Q2)*

*FHFA Purchase-Only Index, Seasonally Adjusted*

United States
-17.6%

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

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

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

Source: McGraw Hill/F.W. Dodge
Despite the worst drought in three decades, U.S. net farm incomes are projected to reach record highs in 2012.

**U.S. Real Net Farm Income**

*Constant 2005 Dollars (Billions)*

Source: U.S. Department of Agriculture  
Note: ‘F’ denotes August 2012 forecast.
Oil drilling has increased sharply over the past two years, but natural gas drilling has declined.

**Active Drilling Rig Counts**

**United States**

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

**New Mexico**

Source: Baker Hughes
After expanding for three years in the Tenth District, the manufacturing sector slowed somewhat in October.

**Manufacturing Activity**

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

<table>
<thead>
<tr>
<th>District</th>
<th>Index</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kansas City District</td>
<td>48.2</td>
<td>October 2012</td>
</tr>
<tr>
<td>United States (ISM)</td>
<td>51.7</td>
<td>October 2012</td>
</tr>
</tbody>
</table>

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 still expect higher levels of activity over the next six months but have become less optimistic.

**Tenth District Manufacturing Expectations**

*Diffusion Index, Seasonally Adjusted, Six Months Ahead*

<table>
<thead>
<tr>
<th></th>
<th>2012Q1</th>
<th>2012Q2</th>
<th>2012Q3</th>
<th>Oct-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>30</td>
<td>25</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Volume of new orders</td>
<td>35</td>
<td>30</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>Number of employees</td>
<td>25</td>
<td>20</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>New orders for exports</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of Kansas City
Despite a decrease in exports to Europe, total New Mexico exports have increased sharply in 2012.
Conclusions

• The New Mexico economy has underperformed the nation over the past year due primarily to weakness in the government and construction sectors.

• The government sector may continue to challenge the New Mexico economy over the next few years as a result of Federal government austerity measures.

• However, recent improvements in the housing sector suggest that the construction sector may improve and add jobs over the next year.

• The energy, manufacturing and leisure industries have been the primary drivers of growth in New Mexico. Despite slightly slower growth in recent months in the energy and manufacturing sectors, these industries look poised to continue to be important sectors for growth in the New Mexico economy.
New Mexico
Economic Update

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

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