The New Mexico Economy:
Current Conditions and Prospects for Recovery

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Current Conditions and Prospects for Recovery

• In the early stages of U.S. recovery (uneven)
• Weakness in U.S. data since 2\textsuperscript{nd} quarter
• NM in the recession: late entry, sharp contraction since early 2009 (goods), no bounce yet
• Recession set-up very poorly for NM economy
• Two primary questions:
  • What are the reasons for underperformance?
  • Prospects for recovery?
Concerns over weakness in recent U.S. GDP data...

Real Gross Domestic Product
Seasonally Adjusted

Source: Bureau of Economic Analysis, Macro Advisors, Blue Chip Forecasts
.... and recent job data; but consistent private job gains since Jan 2010

Total/Private Nonfarm Employment
Seasonally Adjusted

Thousands of jobs, change from previous month

Source: Bureau of Labor Statistics
Energy and agriculture states leading; weakness in several Mtn. states; AZ/CA/FL expanding

Total Nonfarm Employment – YTD Percent Change from Dec. 2009

1. Massachusetts: 2.0%
2. Delaware: 1.7
3. Utah: 1.7
4. Oklahoma: 1.7
5. Indiana: 1.6
6. Minnesota: 1.6
7. South Dakota: 1.4
8. North Dakota: 1.4
9. Texas: 1.3
10. West Virginia: 1.3

Source: Bureau of Labor Statistics
No clear sign of a bottom in NM labor market
NM job loss exceeds U.S. (6.2% vs 5.6%)

Level of Total Nonfarm Employment
Seasonally Adjusted

Index: Aug-05=100

NM: 51,000 jobs lost

Albq: no bottom
Santa Fe: possible bottoming
Las Cruces: has bounced
Farmington: no bottom

Source: Bureau of Labor Statistics
Jobless claims confirm recent U.S. weakness; progress on continuing claims lags

**New Mexico Unemployment Claims**
Seasonally Adjusted

- **Initial Claims (left axis)**
- **Continuing Claims (right axis)**

Source: U.S. Department of Labor
Past 3 recessions were largely ignored in NM; 1st severe recession in post-WWII period

Source: Bureau of Labor Statistics
Job recovery is uneven across the District; NM and CO are especially weak.

- Four groupings:
  - Tier 1: Nebraska, Oklahoma, and Wyoming (agri./energy)
  - Tier 2: Kansas (mfg./energy/agri.)
  - Tier 3: Missouri (U.S.-like)
  - Tier 4: New Mexico and Colorado

- What factors explain the underperformance?
Most surrounding states (energy, Mtn.) are adding jobs.

Total Nonfarm Employment
Seasonally Adjusted

Index: Dec-07=100

Source: Bureau of Labor Statistics
Goods and services sectors bounced, but Govt. weakened late (S&L, not Fed.)

Nonfarm Employment
Seasonally Adjusted

Index: Aug-06=100

Source: Bureau of Labor Statistics
Govt., construction, finance remain a drag on hiring; mining and mfg. adding jobs; tourism recovering

<table>
<thead>
<tr>
<th>Industry</th>
<th>Job Gains (Losses) Since Dec-09</th>
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</thead>
<tbody>
<tr>
<td>Educ. &amp; Health (.15)</td>
<td></td>
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<tr>
<td>Mining (.02)</td>
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<td>Manuf. (.04)</td>
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<td>Trans. (.03)</td>
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<td>Prof. &amp; Leisure (.14)</td>
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<td>Bus. &amp; Hosp. (.13)</td>
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<td>Trade (.04)</td>
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<td>Finance (.04)</td>
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<td>Information (.02)</td>
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<td>Other Serv. (.03)</td>
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<td>Constr. (.05)</td>
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<td>Gov't. (.24)</td>
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</tbody>
</table>

7,100 net jobs lost since Dec. 2009

Source: Bureau of Labor Statistics
NM energy sector bounce has lagged other key energy states

Source: Bureau of Labor Statistics
Oil prices attractive to producers and consumers; natural gas remains below $4/mcf

Source: Bloomberg Energy Services
Weak energy hiring but strong drilling rebound

Count of Active Drilling Rigs
Seasonally Adjusted

Source: Baker-Hughes
Construction job decline greatest in NM/CO

Construction Employment
Seasonally Adjusted

Index: Jan-07=100

Source: Bureau of Labor Statistics
(*) Nebraska includes Construction and Mining employment
NM commercial construction trending with U.S.; some evidence of stabilization

Value of Commercial Construction Contracts
Seasonally Adjusted, 3-mo. mov. avg.

Source: F.W. Dodge, Inc.
NM residential construction outpacing U.S. since early 2009

Value of Residential Construction Contracts
Seasonally Adjusted, 3-mo. mov. avg.

Source: F.W. Dodge, Inc.
NM home sales volumes down 60% peak/trough; recovered about 1/4 of the drop

Sales of Existing Homes
Seasonally Adjusted

Source: National Association of Realtors
NM home prices exerting a drag on wealth
8.5% decline from the peak

Repeat Sales Home Price Index
Seasonally Adjusted

Index: 2007Q2=100

Source: FHFA
NM home price bubble smaller than U.S. bubble

Repeat Sales Home Price Index
U.S. vs. New Mexico

Index


Source: FHFA
Housing permits softened as tax credits expired

Total Housing Permits
Seasonally Adjusted

Source: Census Bureau
Mortgage delinquencies may have peaked in NM and U.S.

Mortgage Foreclosure/Delinquency Rates
New Mexico

<table>
<thead>
<tr>
<th>Year</th>
<th>90-days Past Due</th>
<th>Foreclosure Rate</th>
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<tbody>
<tr>
<td>1979</td>
<td></td>
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<td>1982</td>
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<td>2005</td>
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<tr>
<td>2009</td>
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Source: Mortgage Bankers Association
Self-employment income collapsed in ’09; recovering, but different industry mix
New Mexico in the Recovery

- Some weakness in recent U.S. data but fundamentals for recovery remain in place
- NM is lagging U.S. conditions (9+ mo lag in job recovery)
- First significant restructuring of NM economy since WWII
- S&L govt., construction, and financial hiring; real estate acting as constraints
- Only limited boost from energy, tourism, and tech sector
- NM is likely to accelerate once the U.S. does