The Future of the New Mexico Economy

League of Women Voters
April 24, 2021

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Three Takeaways for New Mexico

• Massive economic hit in 2020!
• Outlook Improving
• Long term structural issues remain
  – Growth and development
  – Fiscal stability
  – Demography
  – Poverty and education
The world is different

- Some changes accelerated during the pandemic
- Some changes will last, others will not

What changed?

- Fiscal and monetary policy
- Work from home
- Consumer behavior
- Savings rate
- Travel
- Migration
- Entertainment
- Social interaction
- Inequality
- The structure of the economy
The national economy matters to New Mexico

Can you tell the difference?
US Real GDP

Broadest measure of economic activity

Percent Change in US Real GDP: 2018 Q1 to 2020Q4 (Same Quarter Year Ago)

Source: Bureau of Economic Analysis
US Unemployment Rate

Much improved but we are not there yet

Source: Bureau of Labor Statistics, April 9, 2021
US non-farm payroll employment

A huge hit to jobs ... Mar 2021 +916k

Source: BLS, April 9, 2021
Policy Response: A big deal for US and New Mexico

- The Cares Act!
  - March 27, 2020
  - $2.2 Trillion
- Extension of Cares Act
  - December 21, 2020
  - $900 Billion
- American Rescue Plan Act
  - March 11, 2021
  - $1.9 Trillion
- $5 Trillion
- Not Counting actions of the FED
New Mexico Real GDP

Percent Change in New Mexico Real GDP
Same Quarter Year Ago

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017:Q1</td>
<td>-0.5</td>
</tr>
<tr>
<td>2017:Q2</td>
<td>-0.1</td>
</tr>
<tr>
<td>2017:Q3</td>
<td>0.7</td>
</tr>
<tr>
<td>2017:Q4</td>
<td>0.1</td>
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<tr>
<td>2018:Q1</td>
<td>1.5</td>
</tr>
<tr>
<td>2018:Q2</td>
<td>2.1</td>
</tr>
<tr>
<td>2018:Q3</td>
<td>2.1</td>
</tr>
<tr>
<td>2018:Q4</td>
<td>3.5</td>
</tr>
<tr>
<td>2019:Q1</td>
<td>4.3</td>
</tr>
<tr>
<td>2019:Q2</td>
<td>4.9</td>
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<tr>
<td>2019:Q3</td>
<td>6.3</td>
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<tr>
<td>2019:Q4</td>
<td>5.4</td>
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<tr>
<td>2020:Q1</td>
<td>2.3</td>
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<tr>
<td>2020:Q2</td>
<td>-7.2</td>
</tr>
<tr>
<td>2020:Q3</td>
<td>-3.7</td>
</tr>
<tr>
<td>2020:Q4</td>
<td>-3.5</td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Economic Analysis

Annual 2019 to 2020 = -3.1%
New Mexico Personal Income

What is going on?

New Mexico State Quarterly Personal Income
Percent change over previous quarter

Source: BEA, March 24, 2021
New Mexico Transfer Payments

What is going on?

The CARES Act

Source: BEA, March 24, 2021
NM Non-farm payroll employment

Job loss
Feb to Apr
105 k
NM Non-farm payroll employment

Job loss by Sector

Change in Non-Farm Jobs, Feb 2020 to Feb 2021 (1,000s)

- Mining: -8.2
- Construction: -3.8
- Manufacturing: -2.9
- Trade: -3.0
- TWHU: -0.6
- Information: -1.6
- Financial Activities: -3.9
- PBS: -5.0
- ED & Health Serv: -6.1
- Leisure & Hospitality: -24.6
- Other Services: -3.1
- Government: -8.0

Source: BLS, LAUS, SA, April, 2021
NM Unemployment Rate

Gradual decline and then ...

Unemployed Feb 2021 = 79,578

Source: Bureau of Labor Statistics, April 9 2021
Child Poverty

Percent of Children 0 to 17 Below Poverty Level 2019
US and Selected States

Before Covid

Source: Census, Small Area Income and Poverty Estimates
New Mexico Poverty Rate 2019

Before Covid

Source: Data: Census Bureau SAIPE, Map JP
The long run?

Do you see a trend?

Source: Bureau of Economic Analysis
US and New Mexico oil production

The Shale Revolution

Total 2019 = 329 mm bbls
Total 2020 = 379 mm bbls
May 2020 only month with lower production than in 2019

New Mexico oil production (1,000s of bbls per month)

Total 2019 = 329 mm bbls
Total 2020 = 379 mm bbls

Jan 2020 = 32,823 k bbls
Jan 2021 = 33,793 k bbls
Oil prices and active rigs

Rig Counts are best indicator of oilfield activity

April 23, 2021, NM Rigs = 71
New wells required to increase or maintain production

Source: Dallas FED

Chart 4
Permian Oil Well Type Curves
Barrels of oil equivalent, per day

SOURCE: WellDatabase.
Sec. 208. Oil and Natural Gas Development on Public Lands and in Offshore Waters. To the extent consistent with applicable law, the Secretary of the Interior shall pause new oil and natural gas leases on public lands or in offshore waters pending completion of a comprehensive review and reconsideration of Federal oil and gas permitting and leasing practices in light of the Secretary of the Interior’s broad stewardship responsibilities over the public lands and in offshore waters, including potential climate and other impacts associated with oil and gas activities on public lands or in offshore waters. The Secretary of the Interior shall complete that review in consultation with the Secretary of Agriculture, the Secretary of Commerce, through the National Oceanic and Atmospheric Administration, and the Secretary of Energy. In conducting this analysis, and to the extent consistent with applicable law, the Secretary of the Interior shall consider whether to adjust royalties associated with coal, oil, and gas resources extracted from public lands and offshore waters, or take other appropriate action, to account for corresponding climate costs.
State Budget Issues

- Revenue uncertainty was the critical issue faced in the 2021 legislative session.

- THE long-term structural issue is how to create revenue stability with less dependence on oil and gas.
High dependence on volatile revenues presents challenges for creating a sustainable budget.

Source: Borrowed with permission from LFC Director David Abbey
General fund dependence on the oil and gas industry spiked during the oil production boom and retreated to historical averages with the current price bust.

*Oil and gas school tax revenue in excess of the five-year average is distributed to the tax stabilization reserve (TSR), softening the general fund’s reliance on oil and gas revenues.

Source: LFC Analysis based on September 2020 Consensus Revenue Estimate

Source: Borrowed with permission from LFC Director David Abbey
State Budget Issues: The Current Situation

- FY21 (Jul 1, 2020 to Jun 30, 2021)
- Budget as passed by Jan 2020 legislature $7.6B
- Reduced by June 2020 Special Session to $7.3B
- Recurring revenue = $7.02B Down $897mm or 10.9% (Dec 2020 estimates)
- Cares Act $750 mm saved the day
State Budget Issues: The Current Situation

- FY22 (Jul 1, 2021 to Jun 30, 2022)
- Budget - passed House and Senate about $7.4B
- Projected FY22 revenue $7.378 B
- New money estimate Dec 2020 = $169 mm
- Mid-Session Review Feb 17 = $339mm
“The most decisive mark of the prosperity of any country is the increase in the number of its inhabitants.”

Adam Smith,
NM no longer growing faster than the nation.
All neighboring states growing faster

<table>
<thead>
<tr>
<th>State</th>
<th>Percent</th>
<th>Rank</th>
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<tbody>
<tr>
<td>Texas</td>
<td>16.32</td>
<td>2</td>
</tr>
<tr>
<td>Utah</td>
<td>17.10</td>
<td>3</td>
</tr>
<tr>
<td>Arizona</td>
<td>15.83</td>
<td>6</td>
</tr>
<tr>
<td>Colorado</td>
<td>15.06</td>
<td>8</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>5.87</td>
<td>22</td>
</tr>
<tr>
<td>New Mexico</td>
<td>2.00</td>
<td>38</td>
</tr>
</tbody>
</table>

New Mexico Population Change 1930 to 2019

Cibola
County
Created 1983
New Mexico Population Change 2010 to 2019

What will happen in 2020?
Similar pattern for any year since 2010
We are Getting Older

<table>
<thead>
<tr>
<th>State</th>
<th>Median Age 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>UT</td>
<td>31.2</td>
</tr>
<tr>
<td>TX</td>
<td>35.1</td>
</tr>
<tr>
<td>OK</td>
<td>37</td>
</tr>
<tr>
<td>CO</td>
<td>37.1</td>
</tr>
<tr>
<td>AZ</td>
<td>38.3</td>
</tr>
<tr>
<td>NM</td>
<td>38.6</td>
</tr>
</tbody>
</table>

US = 38.5

Source: American Community Survey, Single Year Estimates, 2019, Table B01002
Fertility and age

Age matters

Age specific birth rates in New Mexico: 2017
Births per thousand women

Source: New Mexico Department of Health, Selected New Mexico Health Statistics 2017
Migration and age

New Mexico-migrants by age 2019

In = 69,690
Out = 73,788

Source: Author calculations from 2019 American Community Survey
Age matters

Labor Force Participation Rate of Men and Women in the US: 2019

What to look for in 2021: key issues

• The course of the pandemic, vaccines, and variants!
• Oil price volatility and global demand
• The state of the national economy
• No return to pre-pandemic world
Thank you!

MLB is here!

The void is over!