

The FOR-UNM Bulletin

A Quarterly Economic Forecast of the New Mexico Economy

FOR-UNM Economic Forecasting Service
Bureau of Business and Economic Research
University of New Mexico

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United States Review and Outlook

Data released since our October report indicate that the national economy continues to expand; however, growth is erratic across indicators and time. According to the Bureau of Economic Analysis (BEA), after growing at a seasonally adjusted annual rate (SAAR) of 0.6% in the first quarter of 2015, 3.9% in the second quarter, and 2.0% in the third quarter, GDP growth decelerated to only 0.7% in the fourth quarter. For calendar year 2015, GDP growth averaged 2.4%.

In the most recent quarter, growth was driven by the consumer side; positive but slow consumption growth (2.2% SAAR), with advancement in durable and nondurable goods, and services, led to consumption contributing nearly 1.5 percentage points to overall GDP growth. Residential fixed investment (8.1% SAAR) expanded for the seventh consecutive quarter and added nearly 0.3 percentage points to overall GDP growth. However, nonresidential fixed investment (-1.8% SAAR) declined and pulled GDP growth down by one-quarter of a point. Net trade also worked against positive growth and reduced GDP growth by nearly one-half of a point. Government spending, on net, contributed marginally to GDP growth. For the second consecutive quarter, changes to private inventories substantially pulled down GDP growth, this time to the tune of -0.5 percentage points.

While GDP growth slowed to end the year, job growth heated up. In December, job growth in the US economy was robust as 262,000 jobs were added over a month earlier. Particularly strong was professional & business services which added 60,000 jobs. Also adding jobs were construction (+48,000 jobs) and healthcare (+37,000 jobs). Employment in food services also expanded as did the employment in transportation & warehousing. Given low oil prices over the last several months, mining employment has been trending down. In December, employment fell by 7,000 jobs. After adding 41,000 jobs in 2014, that sector dropped 131,000 jobs in 2015. Most losses are in support activities for mining.

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New Mexico Review and Outlook

QCEW employment data for 2015Q2 and preliminary CES data for the period July-November 2015 suggest that job growth, which had begun to pick up pace, has again slowed. In the final five months of the year, the state added only 4,360 non-farm jobs (0.5%), compared to 1.3% a year early. The increase in health care & education services (3,620 jobs, 2.8%) accounted for the large majority of new jobs. Gains in professional & technical services (2,400 jobs, 2.4%); financial services, which include MCOs (420 jobs, 1.3%); and lower paying leisure & hospitality (2,500 jobs, 2.7%) were nearly offset by continued losses in mining (-1,580 jobs, -5.6%); manufacturing (-440 jobs, -1.6%); wholesale & retail trade (-140 jobs, -0.1%); and downturns in construction (-620 jobs, -1.4%) and transportation (-440 jobs, -1.8%). The government sectors again cut payrolls (-320 jobs, -0.3%), though the losses were lower than in past years.

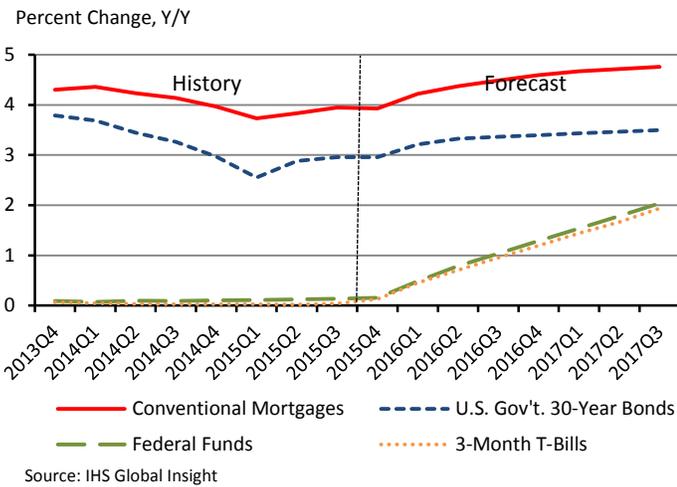
The state's labor force, which grew strongly in the first half of the year – to the tune of 1.1% – continued to expand in the second half, though at a more modest rate (6,453 persons, 0.7%). With modest job growth, the increase in the labor force pushed up the state's seasonally-adjusted unemployment rate from 6.2% in the second quarter to 6.7% in the third quarter, closing at 6.7% in December.

According to the BEA, personal income in New Mexico grew by only 3.3% in 2015Q3, well below the rates of 5.1% in 2014 and 4.5% in first half of 2015. Growth of nearly every component of personal income slowed. Weak job growth limited the increase in wage & salary disbursements (2.3%). Medicaid payments increased by 12.4%, down from 42.6% a year earlier, as ACA-related dollars have largely been absorbed into the system.

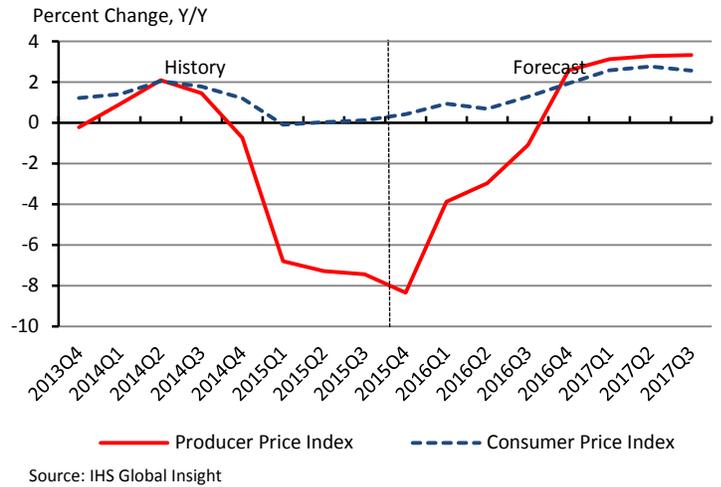
The economic outlook for New Mexico is weaker than in October. The change is a result of disappointing leading data for the second half of 2015, a slightly weaker national forecast, and a continued decline in oil prices and corresponding cuts to state spending. FOR-UNM

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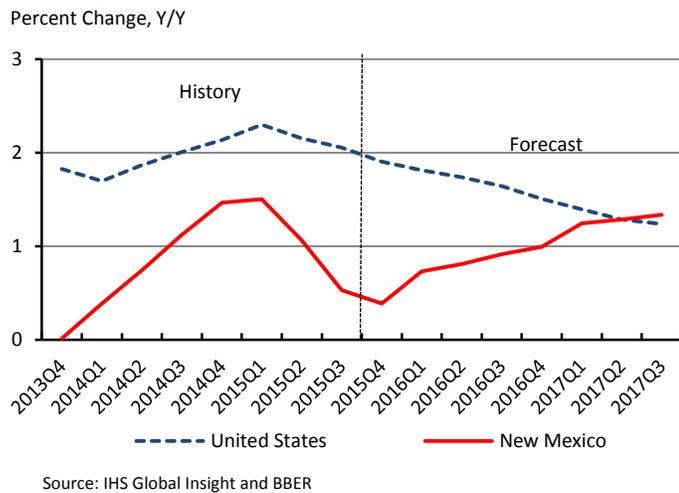
Interest Rates



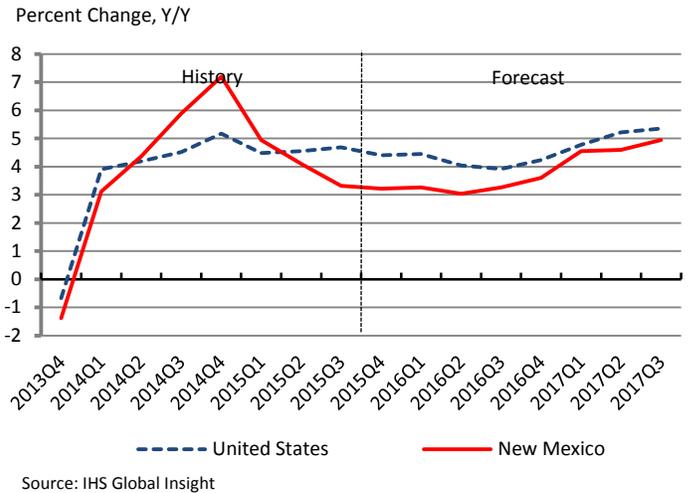
Inflation



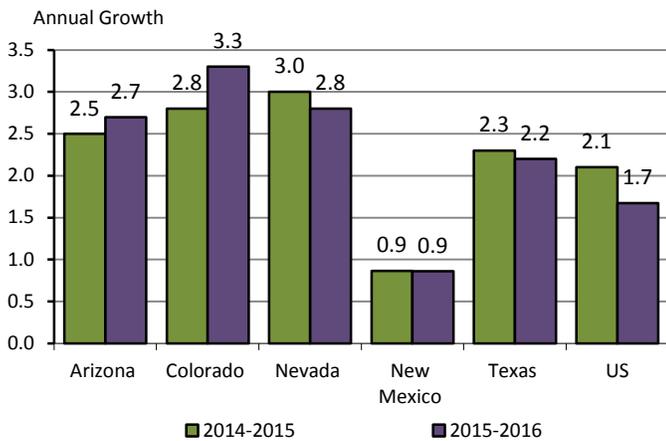
Employment Growth - U.S. and New Mexico



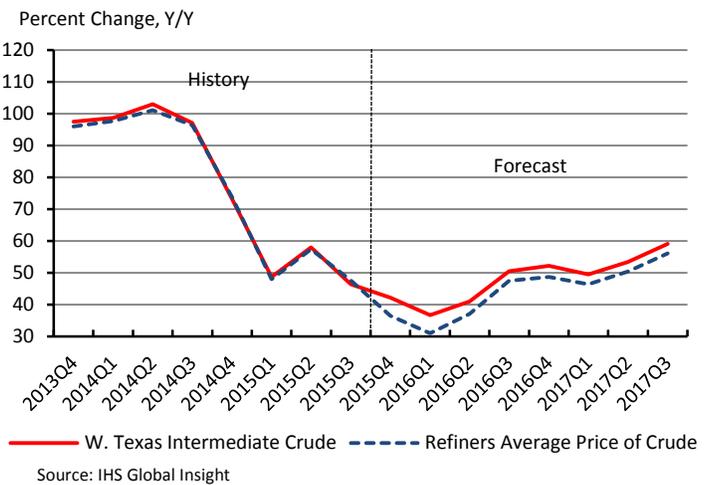
Personal Income Growth - U.S. and New Mexico



Employment Growth Western States



Oil Prices



Bureau of Business & Economic Research

January 2016 Forecast

	History*	Quarterly Forecast				Annual				
	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2014	2015	2016	2017	2018
Personal Income (\$Billions)										
New Mexico	80.615	81.823	81.702	82.315	83.243	77.356	80.360	83.007	86.988	91.424
% Change Year Ago	3.3	3.2	3.3	3.0	3.3	5.1	3.9	3.3	4.8	5.1
New Mexico Real Disp. (\$05)	66.715	67.219	67.334	67.660	68.430	64.480	66.340	68.054	70.118	72.298
% Change Year Ago	2.9	1.9	2.7	2.7	2.6	3.6	2.9	2.6	3.0	3.1
Albuquerque MSA	35.576	35.937	36.553	36.892	37.095	33.782	35.524	37.017	38.927	41.044
% Change Year Ago	5.3	6.4	4.1	4.0	4.3	4.2	5.2	4.2	5.2	5.4
Las Cruces MSA	6.741	6.961	6.920	7.041	6.981	6.537	6.812	7.044	7.379	7.753
% Change Year Ago	3.7	5.2	2.8	3.3	3.6	5.0	4.2	3.4	4.7	5.1
Santa Fe MSA	7.395	7.476	7.539	7.575	7.724	7.155	7.396	7.653	8.028	8.430
% Change Year Ago	3.4	3.3	3.3	2.1	4.4	4.4	3.4	3.5	4.9	5.0
Non-metro New Mexico	30.903	31.448	30.689	30.807	31.443	29.882	30.628	31.293	32.653	34.197
% Change Year Ago	1.0	-0.6	2.4	2.1	1.7	6.4	2.6	2.2	4.3	4.7
Employment (Thousands)										
New Mexico Total	802.916	813.690	804.044	815.025	810.258	798.898	805.821	812.774	823.459	835.020
% Change Year Ago	0.5	0.4	0.7	0.8	0.9	0.9	0.9	0.9	1.3	1.4
Albuquerque MSA	365.682	368.257	364.150	369.222	370.927	359.781	364.161	369.390	375.078	381.010
% Change Year Ago	1.4	1.3	1.5	1.5	1.4	0.7	1.2	1.4	1.5	1.6
Las Cruces MSA	69.994	71.635	70.363	71.967	70.766	70.732	70.655	71.385	72.385	73.651
% Change Year Ago	-0.5	0.0	1.0	0.9	1.1	0.6	-0.1	1.0	1.4	1.7
Santa Fe MSA	60.425	61.475	60.616	61.537	60.960	60.427	60.886	61.256	61.896	62.625
% Change Year Ago	0.0	0.6	0.9	-0.1	0.9	-0.4	0.8	0.6	1.0	1.2
Non-metro New Mexico	306.816	312.323	308.915	312.299	307.605	307.959	310.119	310.744	314.099	317.735
% Change Year Ago	-0.2	-0.6	-0.2	0.2	0.3	1.6	0.7	0.2	1.1	1.2
Civilian Labor Force (Thousands)										
New Mexico, NSA	926.546	919.701	933.869	935.149	934.728	917.340	925.650	934.399	942.776	952.050
% Change Year Ago	1.1	0.3	1.1	0.3	0.9	-0.4	0.9	0.9	0.9	1.0
Albuquerque MSA, SA	415.634	414.969	418.382	419.357	421.737	412.505	416.308	420.112	424.692	429.328
% Change Year Ago	0.7	0.0	0.6	0.1	1.5	-0.6	0.9	0.9	1.1	1.1
Las Cruces MSA, SA	91.647	91.905	93.399	93.596	92.991	93.212	92.517	93.649	94.862	96.213
% Change Year Ago	-1.0	-2.3	0.1	0.4	1.5	-0.7	-0.7	1.2	1.3	1.4
Santa Fe MSA, SA	70.715	70.685	71.169	70.663	70.716	71.510	71.117	71.036	70.857	71.043
% Change Year Ago	-0.4	-1.8	-1.2	-0.5	0.0	-1.6	-0.5	-0.1	-0.3	0.3
Non-metro New Mexico, SA	342.321	339.438	346.723	350.084	339.055	340.979	342.833	343.456	345.397	347.624
% Change Year Ago	0.0	-1.0	0.9	1.2	-1.0	-0.1	0.5	0.2	0.6	0.6
Unemployment Rate (%)										
New Mexico, SA	6.7	6.8	6.7	6.5	6.3	6.5	6.4	6.4	5.8	5.6
Albuquerque MSA, NSA	6.5	6.2	6.2	6.2	6.4	6.4	6.1	6.2	6.0	5.4
Las Cruces MSA, NSA	7.6	7.2	7.2	7.0	6.7	7.2	7.3	6.8	6.4	6.3
Santa Fe MSA, NSA	5.8	5.5	5.3	5.0	5.1	5.4	5.4	5.0	4.4	4.2

* Employment is actual for 2015Q2; Income actual through 2015Q3; labor force, unemployment actual through 2015Q3

United States Review and Outlook

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For calendar year 2015, job addition was robust with over-the-month job addition averaging 228,000 jobs added per month; the US economy added 2.735 million jobs for the year. However, job addition in January 2016 slowed to just 151,000.

For the third consecutive month, the seasonally adjusted unemployment rate (U-3) registered 5.0% in December. Compared to the same month a year earlier, the unemployment rate is down by 0.4 percentage points. The unemployment rate fell to 4.9% in January 2016. Despite job creation and the low unemployment rate, the labor force participation rate continues to be low but has increased since October; the rate in December registered 62.6% - up 0.2 percentage points from October. The rate ticked up further in January 2016 to 62.7%.

After thirty-four consecutive months of expansion, ISM's manufacturing index contracted in both November and December; however, the non-manufacturing index expanded for the seventy-first consecutive month. The Conference Board's Consumer Confidence Index registered 98.1 (1985=100) in January, up from 96.3 in December. The Conference Board Leading Economic Index® registered 123.7 (2010=100) in December, but was down 0.2 percentage points from November.

The FOR-UNM forecast for New Mexico is based on the IHS Global Insight January 2016 forecast. Compared to the October report, the January forecast shifts down slightly in the near-term and equals the October forecast in the out-years. IHS Global Insight now anticipates 2.7% GDP growth in 2016 (2.9% in the October forecast), 2.9% in 2017 (3.0%), 2.6% in 2018 (2.6%), and an average growth rate of 2.4% per year for 2019-2020 (2.4%).

In their January report, IHS Global Insight forecasts the West Texas Intermediate (WTI) oil price to average \$45/barrel in 2016, \$55/barrel in 2017 and \$66/barrel in 2018. These estimates are around \$6/barrel lower in each year than in the October 2015 forecast. The outlook for Henry Hub natural gas prices is similarly subdued: it is expected to hold below \$3.00 per MMBtu through 2018.

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anticipates that the economy will add 5,841 jobs (0.7%) in 2016Q1 and pick up pace only gradually in the following quarters. The state is expected to add 6,925 jobs (0.9%) for 2016 and an average of 11,100 jobs (1.3%) per year for the balance of the forecast period.

In any likely scenario, health care & social assistance sectors will drive employment growth in both the short term and for remainder of the forecast period. FOR-UNM anticipates 3,600 new jobs (3.2%) in health care in 2016. We also expect a continued if gradual expansion of professional & technical services (1,050 jobs, 2.0%), construction (975 jobs, 2.2%), leisure & hospitality (1,700 1.9%). Layoffs in mining will continue in 2016 (-1,750 jobs, -6.5%). Manufacturing will continue its long term trend of job cuts (-375 jobs, -1.4%).

With modest employment growth, New Mexico's labor force is expected to expand slowly, by an average of 9,100 persons (1.0%) per year from 2017 through 2020. New Mexico's unemployment rate is forecast to remain above the national rate throughout the forecast period. The headline rate is expected to drop to 6.4% in 2016, 5.8% in 2017, and eventually to 5.4% by 2020.

Income growth has been disappointing throughout the recovery. In New Mexico, 2016 will be particularly disappointing (3.3%) due to weak wage & salary growth and slow equity growth. For the longer term, personal income growth in New Mexico will require a stronger labor market, including both the creation of more jobs and, with time, higher wages. For the period 2017-2020, FOR-UNM anticipates income growth of 4.9% per year, on par with the national rate of growth forecast by IHS Global Insight.

The future of the state's housing markets is a critical factor in this forecast. FOR-UNM anticipates that the market will be stronger than in the past several years, but far from strong enough to catalyze economic growth. We expect permits to be issued for the construction of 5,550 housing units in 2016, and an average of 7,275 during the period 2017-2020. At the end of the forecast period, total residential construction will remain less than one-half of the pre-recession high.

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