

# NEW MEXICO

# ECONOMIC SUMMARY



SEPTEMBER 2015

## In The News

- ▶ **MORE PEOPLE CONTINUE TO MOVE OUT OF NEW MEXICO** than into New Mexico — the only state where this is true. New Mexico's out-migration was more pronounced in 2014 than in 2013, with 25,000 more people leaving than moving into the state in 2014, up from 10,000 in 2013.\*
- ▶ **VIRGIN GALACTIC FLIGHTS OUT OF SPACEPORT AMERICA** remain delayed indefinitely. However, Acra Aerospace, Inc. moved to Las Cruces and plans on being a paying tenant to test drones and suborbital vehicles out of Spaceport America.
- ▶ **GOOGLE'S TITAN AEROSPACE IS MOVING OUT** of a 60,000-square-foot facility at the Moriarty airport, taking with it the promise of hundreds of high-paying, high-tech jobs, but will repay \$1 million in improvements paid for by the state.
- ▶ **ALBUQUERQUE SUNPORT PASSENGER TRAFFIC** continues its seven-year slide (down 31% from its peak of 6.8 million passengers in FY 2008) while air travel nationally has increased year over year.
- ▶ **THE REDEVELOPMENT AT WINROCK TOWN CENTER** in Albuquerque is well under way, with plans for new retail, living and office space. A 118-room luxury hotel in Old Town in Albuquerque broke ground in December 2014 with completion set for early 2017.
- ▶ **THE WASTE ISOLATION PILOT PLANT** remains closed but is scheduled to begin limited operations in 2016. Ventilation upgrades costing \$500 million could take three years to complete.
- ▶ **BLUE CROSS BLUE SHIELD OF NEW MEXICO**, which accounted for about 50% of the coverage plans in the New Mexico Health Insurance Exchange, is pulling out after reporting losses of \$19.2 million on policies purchased both on and off the exchange. The company will continue to offer coverage outside the exchange.

\* August 2015 Consensus Revenue Estimate (2015, Aug. 19), retrieved from <http://nmlegis.gov>; Domrzalski, D. (2014, Jan. 23) *We're the only state in the region with more people leaving than arriving*, retrieved from <http://www.bizjournals.com>.

## ECONOMIC OUTLOOK: CAUTIOUS OPTIMISM

While New Mexico's economy is showing some signs of recovery, as evidenced most recently in a welcome forecast of \$293 million in "new money" for the next fiscal year (FY), the economy continues to struggle relative to neighboring states and the national economy.

The state's latest economic forecast projects modest revenue growth for the next five years.

### *A Slow, Uneven Recovery*

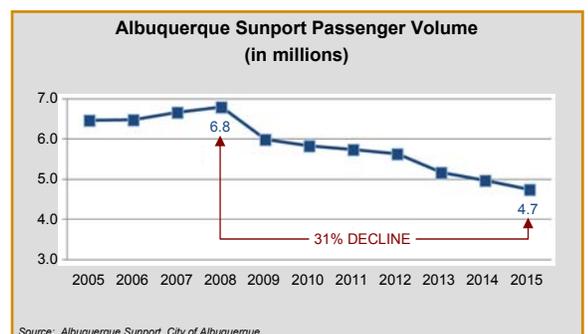
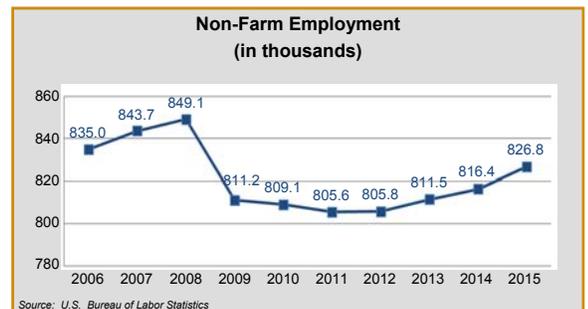
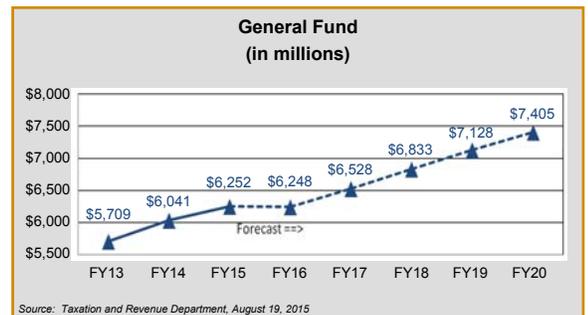
New Mexico is still recovering from the Great Recession, taking nine years to approach employment levels last seen in 2006. The state's recovery is two years slower than the rest of the country and slower than neighboring states.

The health care field has driven New Mexico's job growth, accounting for 56% of the new jobs over the last year. Medicaid expansion, funded by the federal Patient Protection and Affordable Care Act (ACA), has driven this growth. These are primarily medium-wage jobs.

New Mexico job growth remains reasonably broad-based, with eight industries adding jobs and five posting losses, according to the Workforce Solutions Department. Slow growth was seen in manufacturing, and job losses were recorded in mining, both of which are high-wage job sectors.

### *About That Revenue...*

The new money projected for FY 2017 is not a sure thing; that is why there are two more estimates due between now and February, when the nuts and bolts of



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the budget come together. The estimate is a moving target and a source of anxiety given the state budget's heavy reliance on volatile oil and gas revenues.

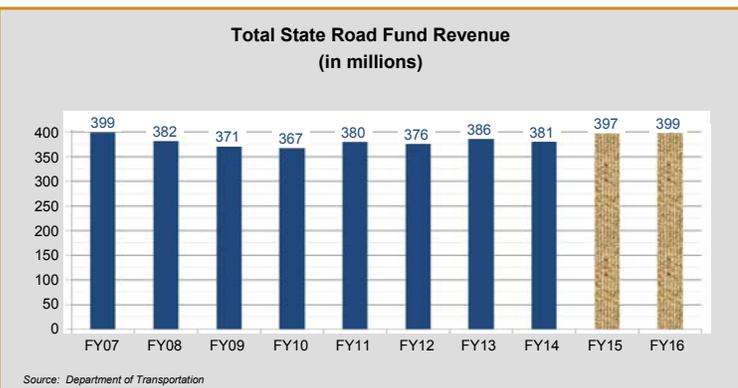
A lot has to go right for the state general fund forecast to hold. Oil prices, which, as of this writing, are already about \$20 per barrel below the price relied upon by revenue estimators, must not remain at that level long. With China's economy going into a lower gear, and global oil supplies high and hanging tough, there is considerably more risk that the revenue forecast will fall than there is potential that it will rise. That said, falling oil prices are not all bad news: lower prices at the pump benefit consumers and businesses, freeing up dollars that are not spent on fuel to be spent elsewhere in the state's economy.

The good news is that the state operating reserve target remains 10% of budgeted expenditures, providing the state with a cushion that at least may eliminate the need to cut spending in the face of declining revenue.

### The Drive for More Road Funding

Paying to maintain and improve New Mexico's roads — which, along with good schools and safe communities, support economic development — is still a front-burner issue for the state. The Transportation Infrastructure Revenue Subcommittee has been working for two years to come up with ways to bolster road repair revenues, which have been flat for more than 10 years.

The gap between road revenues and road repair funding needs is a Grand Canyon-sized amount totaling more than \$500 million. Increasing the gasoline tax is considered a non-starter by some. Shifting motor vehicle excise tax revenue from the general fund to the State Road Fund over several



### Non-Agricultural Wage and Salary Employment (not seasonally adjusted)

NEW MEXICO	Prelim. Jul-15	Revised Jun-15	Revised Jul-14	Monthly Change	Yearly Change
<b>TOTAL NON-FARM EMPLOYMENT</b>	<b>821,000</b>	<b>825,100</b>	<b>811,400</b>	<b>-4,100</b>	<b>9,600</b>
Mining and Logging	27,600	27,400	28,100	200	-500
Construction	44,000	41,700	43,500	2,300	500
Manufacturing	28,200	28,000	28,100	200	100
Wholesale Trade	22,200	22,500	21,800	-300	400
Retail Trade	92,600	92,300	92,700	300	-100
Transportation, Warehousing and Utilities	23,200	22,900	23,600	300	-400
Information	12,600	12,900	12,500	-300	100
Financial Activities	33,900	33,200	33,600	700	300
Professional and Business Services	102,500	102,400	100,200	100	2,300
Education and Health Services	131,300	131,500	123,100	-200	8,200
Leisure and Hospitality	96,400	95,900	93,700	500	2,700
Other Services	28,700	28,400	30,700	300	-2,000
<b>GOVERNMENT</b>	<b>177,800</b>	<b>186,000</b>	<b>179,800</b>	<b>-8,200</b>	<b>-2,000</b>
Federal Government	29,100	29,800	29,300	-700	-200
State Government	53,900	54,800	54,000	-900	-100
State Government Education	23,500	23,800	25,400	-300	-1,900
Local Government	94,800	101,400	96,500	-6,600	-1,700
Local Government Education	45,000	50,900	46,400	-5,900	-1,400

Source: Workforce Solutions Department, August 21, 2015

years has been presented as an option (approximately \$140 million).

Moving money from the general fund to the State Road Fund may fill the road fund pothole, but it leaves another hole in the general fund and creates other difficult choices for the legislature.

What makes funding needed road repairs with general fund revenue a difficult choice are the expenditure risks to the general fund recently presented to the Legislative Finance Committee, including:

- ▶ a possible negative outcome of the operational and capital outlay lawsuits on the adequacy of funding for public schools;
- ▶ public employee compensation increases;
- ▶ uncertain expenditure assumptions for Medicaid and ACA-induced insurance enrollment and expansion;
- ▶ a possible permanent revenue stream for lottery tuition scholarships; and
- ▶ managing two \$112 million debt payments due in 2025 and 2026 for previously funded highway projects.