Local Economic Conditions and Outlook

March 3, 2023 – New Mexico State Senate Finance Committee

Nicholas Sly
Vice President, Economist and Denver Branch Executive

The views herein are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System
Overview

- Labor markets remain tight across industries, regions, and skill levels
- Inflation pressures are elevated, particularly in categories that rely heavily on labor
- Although household consumption growth slowed quickly in recent quarters, it fell to trend levels observed over the last decade and has somewhat stabilized
- The declines in spending are most notable on discretionary items, such as travel and retail, while spending on food, energy, and healthcare continue to rise at a robust pace
- Business investment activities are declining broadly due to tightening financial conditions
Low unemployment and robust wage growth reflect ongoing tightness in the labor market.

Source: BLS, NBER, Haver Analytics
Note: Grey bars indicate recession shading
Unrecovered labor force participation and elevated quits rates are sustaining upward pressure on wage growth.

Source: BLS, Haver Analytics

Note: Grey bars indicate recession shading.
Hours worked in service sectors rose across the nation during the pandemic, but much less so in New Mexico.
Inflation remains elevated, particularly in labor intensive categories.
Food prices for home consumption are rising quickly, driven largely by processed food categories that are generally labor intensive.
Both non-housing services and housing expenses are rising, and have close links to labor market tightness.

Contributions to core CPI Inflation

- Nondurable Goods
- Durable Goods
- Used Vehicles
- Non-Housing Services
- Shelter
- CPI Inflation

Source: BLS, Haver Analytics
Home price and rent growth have decelerated from historic highs over the last few months, but still have momentum.
After a decade of subdued housing construction, permitting and housing starts rose in recent years, but are slowing somewhat as interest rates rise.
Consumer spending is returning to something akin to a new trend growth level, elevated by still-rising prices.
Delinquency rates have increased slightly after declining to historically low levels, rising most among households with lower credit scores.

Source: NY Fed Equifax Consumer Credit Panel
Note: Grey bars indicate recession shading
Slower growth in spending needed to relieve pressure on prices for non-housing services, such as leisure and travel

Index, 100 = Jan. 2020

Source: Opportunity Insights, BLS, Haver Analytics
Most of the surge in new business applications in New Mexico came from businesses that are not likely to hire employees.
New Mexico continues to attract large shares of oil & gas activity

Active Oil and Gas Drilling Rigs

Source: EIA, Haver Analytics
The share of renewable energy in total capacity is larger in New Mexico than in the U.S. overall, and projected to rise further.
Looking ahead

• Just ahead of the pandemic, population growth and net migration patterns were more favorable than average in the state
  • Following the pandemic, out-of-state (domestic) migration picked up again, offset by rising international in-migration.

• Thus far, gross job losses have been isolated to a few sectors and have not resulted in net employment declines

• Low labor force participation is a persistent headwind to growth in the state and nationally
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![Graph showing business applications over time with a surge in non-high propensity to hire businesses after 2019.](image-url)
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Source: Zillow
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**Shares of Renewable Capacity in Place**
- CO
- NM
- WY
- Tenth District
- U.S.

**Shares of Renewable Capacity Planned**
- CO
- NM
- WY
- 10th District
- U.S.

Renewable Capacity Growth 2021-25
- Renewable Share of Planned Capacity

Source: EIA
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**Shares of Renewable Capacity in Place**

- **Shares of Renewable Capacity Planned**

**Renewable Capacity Growth 2021-25**

**Renewable Share of Planned Capacity**

Source: EIA
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Contributions to Inflation for Food Consumed at Home

- Meats
- Fresh and Lightly Processed Food
- Processed Food
- Total Food at Home

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Low unemployment and robust wage growth reflect ongoing tightness in the labor market

Source: BLS, NBER, Haver Analytics
Note: Grey bars indicate recession shading
Unrecovered labor force participation and elevated quits rates are sustaining upward pressure on wage growth.

![Diagram showing labor force participation and quits rate trends](image-url)

Source: BLS, Haver Analytics
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Source: U.S. Census
New Mexico continues to attract large shares of oil & gas activity

Active Oil and Gas Drilling Rigs

Source: EIA, Haver Analytics
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% chg, 7 day ma.

Index, 100 = Jan. 2020

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Unemployment Rate

- New Mexico
- U.S.

Average Hourly Earnings

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Source: EIA
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Unrecovered labor force participation and elevated quits rates are sustaining upward pressure on wage growth.
Hours worked in service sectors rose across the nation during the pandemic, but much less so in New Mexico.
Inflation remains elevated, particularly in labor intensive categories.
Food prices for home consumption are rising quickly, driven largely by processed food categories that are generally labor intensive.
Both non-housing services and housing expenses are rising, and have close links to labor market tightness.
Home price and rent growth have decelerated from historic highs over the last few months, but still have momentum.
After a decade of subdued housing construction, permitting and housing starts rose in recent years, but are slowing somewhat as interest rates rise.
Consumer spending is returning to something akin to a new trend growth level, elevated by still-rising prices.
Delinquency rates have increased slightly after declining to historically low levels, rising most among households with lower credit scores.
Slower growth in spending needed to relieve pressure on prices for non-housing services, such as leisure and travel

Source: Opportunity Insights, BLS, Haver Analytics
Most of the surge in new business applications in New Mexico came from businesses that are not likely to hire employees.
New Mexico continues to attract large shares of oil & gas activity

Source: EIA, Haver Analytics
The share of renewable energy in total capacity is larger in New Mexico than in the U.S. overall, and projected to rise further.
Looking ahead

- Just ahead of the pandemic, population growth and net migration patterns were more favorable than average in the state
  - Following the pandemic, out-of-state (domestic) migration picked up again, offset by rising international in-migration.

- Thus far, gross job losses have been isolated to a few sectors and have not resulted in net employment declines

- Low labor force participation is a persistent headwind to growth in the state and nationally