Emerging Trends in the U.S. & New Mexico Economies

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Denver Branch

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

• Primary Functions
  – Monetary Policy: promote maximum employment and price stability
  – Financial Services: bank for banks; bank for the federal government
  – Banking Supervision and Regulation: ensure safety and soundness of banks and ensure that banks provide fair and equitable services to consumers.

• Structure
  – Board of Governors
    • Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
  – Federal Reserve Banks
    • There are 12 Regional Reserve Banks, each serving a unique district. These are semi-independent by design.
  – Federal Open Market Committee (FOMC)
    • Comprised of the 7 members of the Board of Governors and the 12 Reserve Bank Presidents (only 5 presidents are voting members on a rotating basis).
    • Charged with conducting monetary policy to promote economic growth and price stability.
Regional Federal Reserve Banks and Branch Locations
The Denver Branch of the Federal Reserve Bank of Kansas City

- Functions – around 160 staff
  - Regional research covering the economies of Colorado, New Mexico and Wyoming
  - Economic, financial education, and community development outreach
  - Examinations of Colorado, Wyoming and northern New Mexico financial institutions
  - Cash processing and distribution
  - Money Museum

- 2017 Denver Board of Directors
  - Richard Lewis (Chair): President and CEO of RTL Networks, Inc.
  - Ashley Burt: President of The Gunnison Bank and Trust Company
  - Gary DeFrange: President and COO of Winter Park Resort
  - Taryn Edwards: Senior Vice President of Saunders Construction
  - Edmond Johnson: President and Owner of Premier Manufacturing, Inc.
  - Jeff Wallace: CEO of Wyoming Bank and Trust
  - Katharine Winograd: President of Central New Mexico Community College
The U.S. economy continues to expand at a moderate pace.

**Real U.S. Gross Domestic Product**

*Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates*

- The U.S. economy continues to expand at a moderate pace.

Source: Bureau of Economic Analysis and Federal Open Market Committee (FOMC)/Haver Analytics

*Projections as of September FOMC meeting*
Consumer spending continues to expand at a solid pace.

**REAL CONSUMER SPENDING**

*Seasonally Adjusted, Year-over-Year Percent Change*

-12%  -8%  -4%  0%  4%  8%

Note: Gray bar indicates recession.
Sources: Census Bureau, Bureau of Economic Analysis & Haver Analytics
Improved labor markets, higher stock prices and higher home prices have contributed to an increase in consumer confidence.
Inflation is near the FOMC’s two percent target.

PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX (PCEPI)
Percent Change Year-over-Year

Source: Bureau of Economic Analysis
Measures of unemployment and under-employment have declined steadily over the past seven years.

**U. S. Unemployment and Under-employment Rates**

*Seasonally Adjusted*

Source: Bureau of Labor Statistics
“In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1 to 1-1/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.”

- September 2017 FOMC Statement

Source: Federal Reserve Board
FOMC expects steady rate increases over the coming years.

FOMC PARTICIPANTS’ ASSESSMENT OF APPROPRIATE MONETARY POLICY

Midpoint of Target Range or Target Level for the Federal Funds Rate

Source: Federal Reserve Board; Projections from June 2017 meeting
The FOMC has announced in September that it will begin to cease reinvestment of a portion of its assets beginning in October.
Unemployment rates are above national rates across most of New Mexico.

**Unemployment Rates**
*July 2017, Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Unemployment Rate</th>
<th>U-3</th>
<th>U-5*</th>
<th>U-6*</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (Aug.‘17)</td>
<td>4.4%</td>
<td>5.4%</td>
<td>8.6%</td>
</tr>
<tr>
<td>New Mexico (Aug.‘17)</td>
<td>6.3%</td>
<td>8.1%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Albuquerque (July ‘17)</td>
<td>5.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*U-5 and U-6 values are 12-month moving averages as of Q2 2017 for New Mexico and are for August, 2017 for the United States.*

Source: Bureau of Labor Statistics and Haver Analytics
Employment has been increasing in New Mexico and the nation, although growth has been weaker in New Mexico.

**PAYROLL EMPLOYMENT GROWTH**

*Index 100 = August, 2007, Seasonally Adjusted*

<table>
<thead>
<tr>
<th></th>
<th>Past 10 Years</th>
<th>Past Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>6.2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>-0.6%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Albuquerque</td>
<td>-1.0%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Employment growth in New Mexico remains mixed across industries.

### Change in Payroll Employment, August 2017

**Seasonally Adjusted**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percent Change Year-over-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>3.8%</td>
</tr>
<tr>
<td>United States</td>
<td>4.4%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>3.8%</td>
</tr>
<tr>
<td>Construction</td>
<td>4.4%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>3.8%</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>2.9%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>2.2%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>1.5%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>1.2%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>0.7%</td>
</tr>
<tr>
<td>Education &amp; Health Services</td>
<td>0.2%</td>
</tr>
<tr>
<td>Other Services</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Information</td>
<td>-2.4%</td>
</tr>
<tr>
<td>State Government</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Natural Resources &amp; Mining</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Local Government</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
Most counties across New Mexico are experiencing a decline in net migration.

### NET MIGRATION

**Total 2016 Net Migration as a Percentage of 2016 Population**

<table>
<thead>
<tr>
<th>Annual Percent Change</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.3%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Bernalillo County</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

More than 2%

0% to 2%

-2.5% to 0%

-5% to -2.5%

-7.5% to -5%

Less than -7.5%

Source: Census Bureau
Residential construction activity has remained relatively flat in New Mexico.
Home prices have increased in New Mexico, but growth remains below that of the United States.

**Home Prices**

*Seasonally Adjusted, Index 100 = Q2:2007*

Source: Federal Housing Finance Agency
Tourism activity has been strong in New Mexico over the past few years.

**HOTEL OCCUPANCY RATES**

*New Mexico*

- **Jan**: 65.7% (YTD Averages)
- **Feb**: 63.0% (YTD Averages)
- **Mar**: 62.7% (YTD Averages)
- **Apr**: 62.3% (YTD Averages)

**10-Year Range**

- **2017**: 65.4%
- **2016**: 63.0%
- **10-Year Average**: 61.7%

**HOTEL OCCUPANCY RATES**

*Albuquerque*

- **Jan**: 65.7% (YTD Averages)
- **Feb**: 62.7% (YTD Averages)
- **Mar**: 62.3% (YTD Averages)

**10-Year Range**

- **2017**: 65.4%
- **2016**: 63.0%
- **10-Year Average**: 61.7%

*Source: Colorado Hotel and Lodging Association*
Oil and natural gas prices have increased since February 2016, but additional gains are expected to be gradual.
Energy activity has picked up in response to higher oil prices.

**Total Rig Count**

- United States
- New Mexico

**Crude Oil Production**

*Millions of Barrels, Monthly, Seasonally Adjusted*

- United States
- New Mexico

Source: Baker Hughes, Energy Information Administration and Haver Analytics
Energy contacts in the Tenth District expect the sector to expand slightly in the second half of this year.
New Mexico exports have been trending down over the past few years.

**NEW MEXICO EXPORTS BY TRADING PARTNER**

_Billions_

**Percent Change, Year-to-Date**

<table>
<thead>
<tr>
<th></th>
<th>Total Trade</th>
<th>All Other</th>
<th>Canada</th>
<th>Israel</th>
<th>Mexico</th>
<th>China</th>
<th>Eurozone</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JULY 2017</strong></td>
<td>-12.0%</td>
<td><strong>13.5</strong></td>
<td>-18.3%</td>
<td>-97.9%</td>
<td>-6.3%</td>
<td><strong>46.1</strong></td>
<td><strong>-15.1</strong></td>
</tr>
<tr>
<td><strong>SHARE</strong>*</td>
<td></td>
<td>16.4%</td>
<td>3.8%</td>
<td>14.0%</td>
<td>42.9%</td>
<td>14.3%</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

*Share is for 2016

Source: WISERTrade

Note: Eurozone includes the 27 EU member countries.
For additional information on the regional economy: