



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

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*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.*

The Structure of the Federal Reserve System



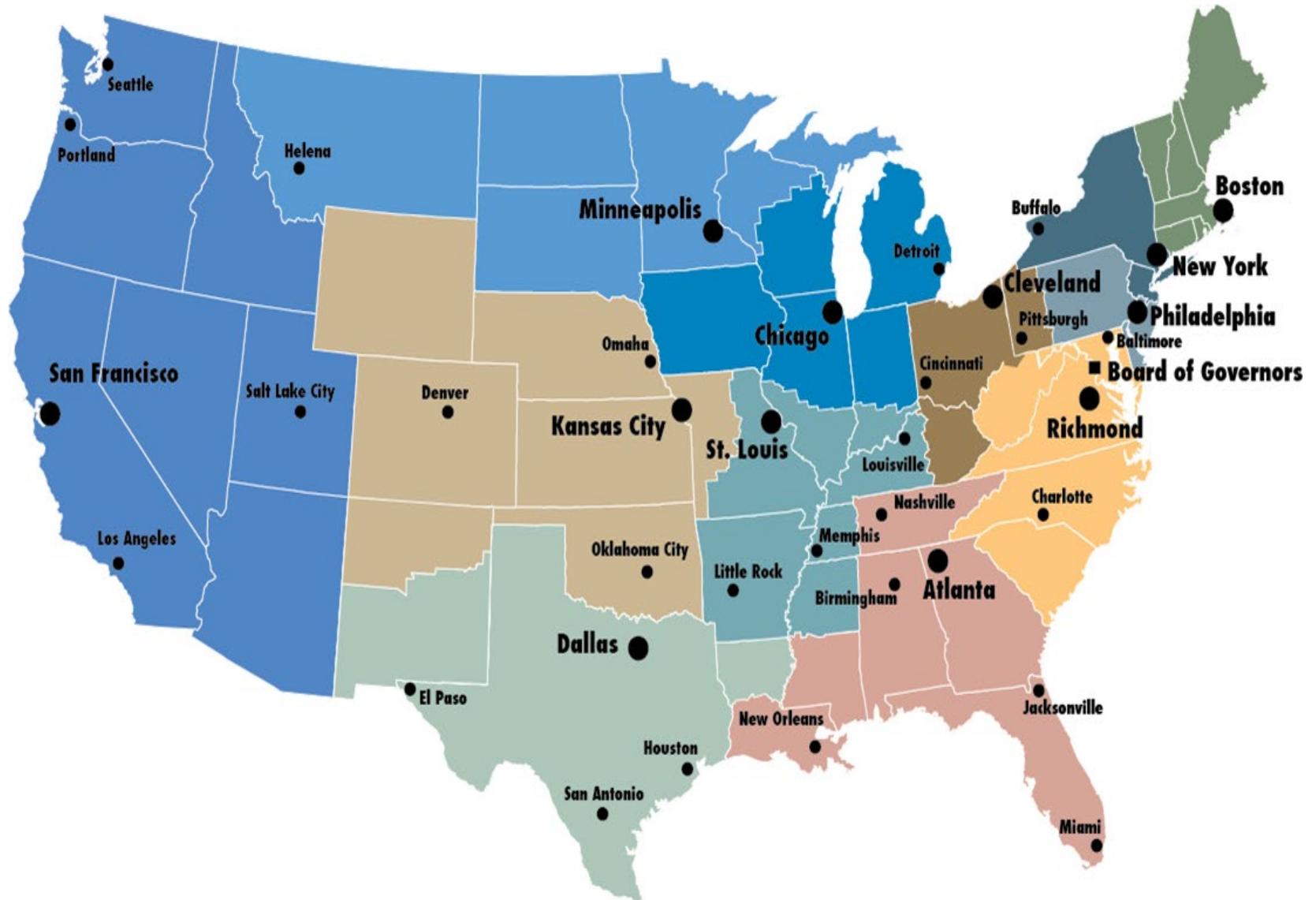
- The Federal Reserve System was created by Congress in 1913.
- It is a public-private, decentralized institution consisting of the Board of Governors in Washington, D.C. and 12 regional Reserve Banks.
 - Board of Governors
 - Consists of seven members who are appointed by the President and confirmed by the Senate to serve 14-year terms.
 - There are currently five members of the Board of Governors: Jerome Powell, Michelle Bowman, Richard Clarida, Lael Brainard and Randal Quarles.
 - Regional Federal Reserve Banks
 - There are 12 Regional Reserve Banks, each serving a unique district. These are semi-independent by design.
 - The Reserve Banks are governed by their Board of Directors, and the Directors (excluding Banking Directors) select the President of the Bank.
 - 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.

The Primary Functions of the Federal Reserve System



- Conduct the Nation's Monetary Policy
 - The Federal Open Market Committee is the group charged with conducting monetary policy within the U.S.
 - The Committee has a statutory mandate from Congress to promote maximum employment, stable prices and moderate long-term interest rates.
- Provide and Maintain an Effective and Efficient Payments System
 - The Federal Reserve supplies payments services to the public through depository institutions including banks, credit unions and savings and loans.
 - We also serve as a banking and fiscal agent for the United States government.
 - Payment services includes cash processing, processing and clearing checks, transferring funds and issuing, transferring and redeeming U.S. government securities.
- Supervise and Regulate Banking Operations
 - The Federal Reserve ensures the safety and soundness of banks and ensures that banks provide fair and equitable services to consumers.
 - The Federal Reserve also monitors and promotes the stability of the financial system as a whole.

Regional Federal Reserve Banks and Branch Locations





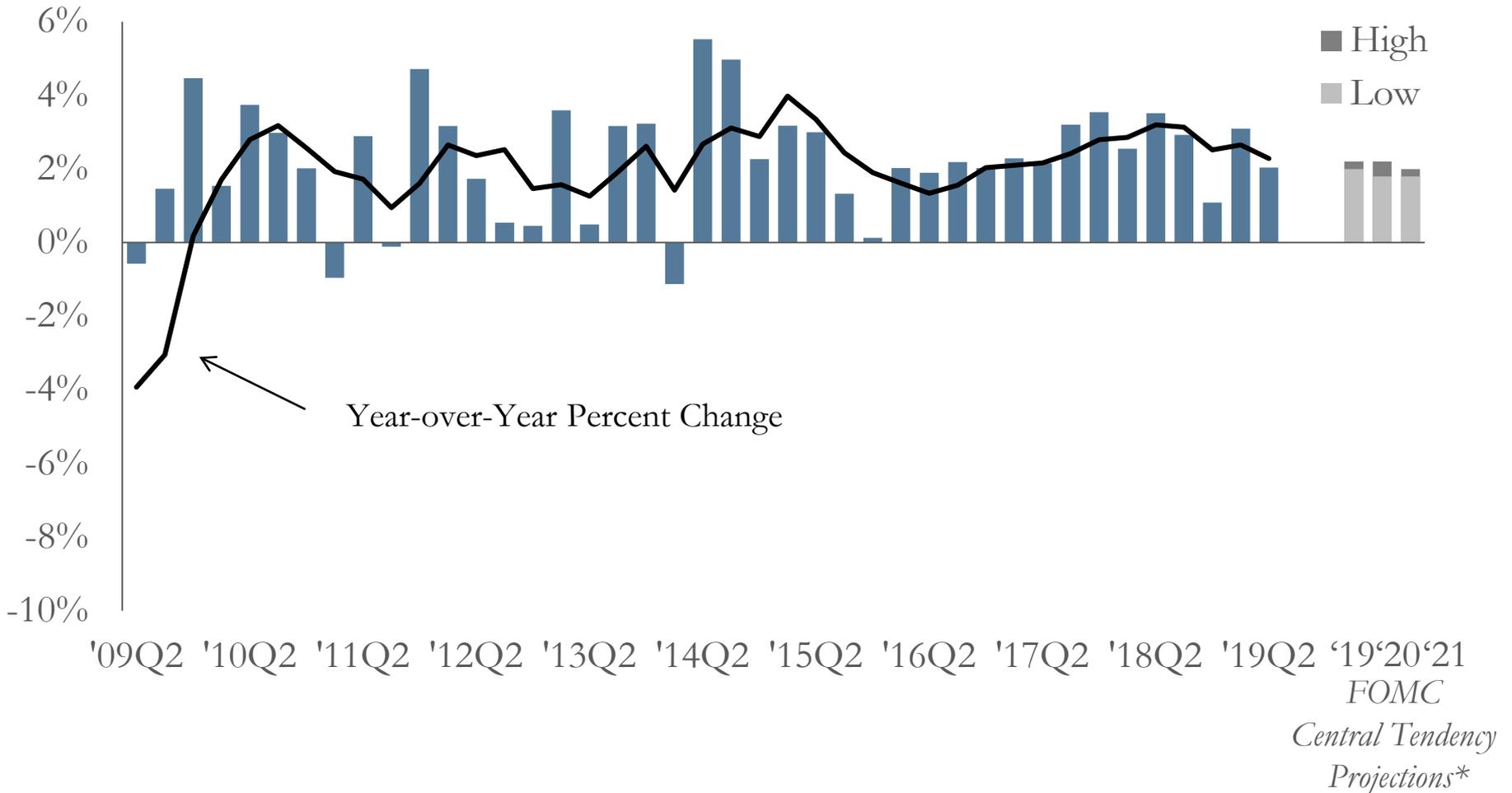
- Functions – around 170 staff
 - Regional research covering the economies of Colorado, New Mexico and Wyoming
 - Economic, financial education, and community development outreach
 - Examinations of Colorado, Wyoming and northern New Mexico financial institutions
 - Cash processing and distribution
 - Money Museum
- 2019 Denver Board of Directors
 - Taryn Edwards (Chair): Senior Vice President of Saunders Construction
 - Jacqueline Baca: President of Bueno Foods
 - Ashley Burt: President of The Gunnison Bank and Trust Company
 - Nicole Glaros: Chief Investment Strategy Officer of Techstars
 - Jeff Wallace: CEO of Wyoming Bank and Trust
 - Katharine Winograd: President of Central New Mexico Community College

U.S. economic growth accelerated in 2018.



REAL U.S. GROSS DOMESTIC PRODUCT

Percent Change from Previous Quarter at Seasonally Adjusted Annualized Rates



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

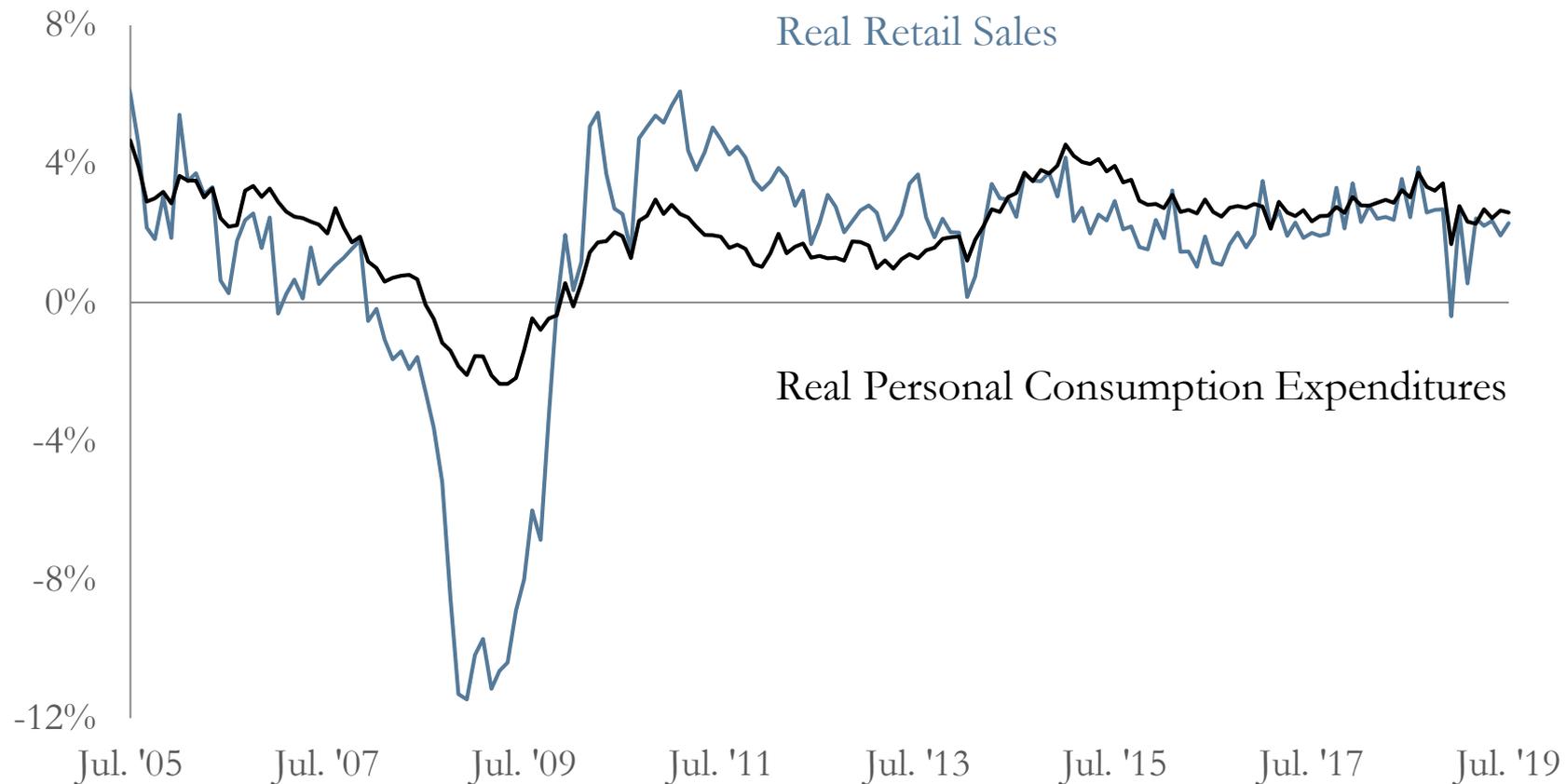
*Projections as of June FOMC meeting

Consumer spending continues to expand at a solid pace.



REAL CONSUMPTION SPENDING

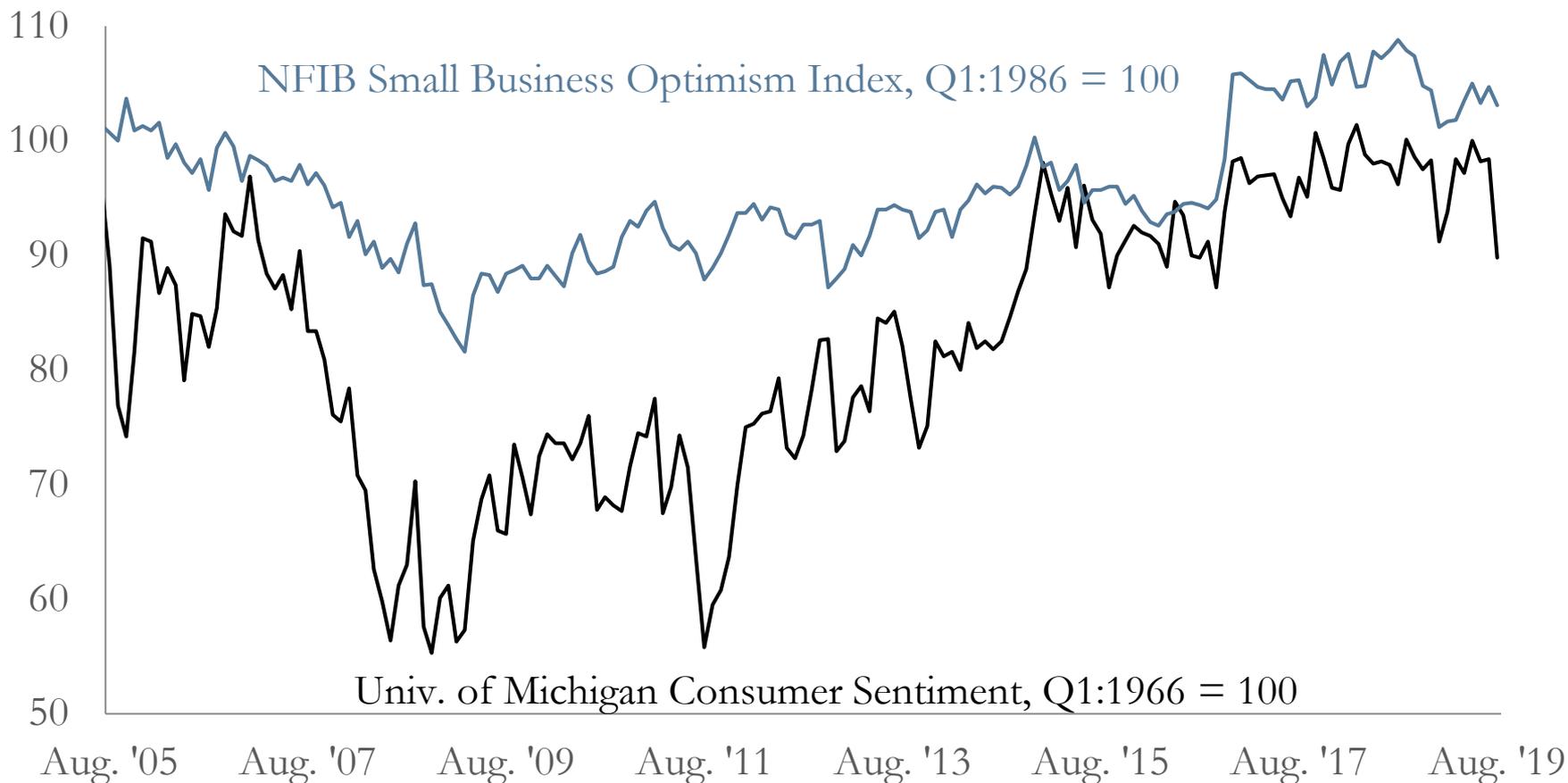
Seasonally Adjusted, Year-over-Year Percent Change



Business and consumer confidence have increased in recent months.



BUSINESS AND CONSUMER SENTIMENT

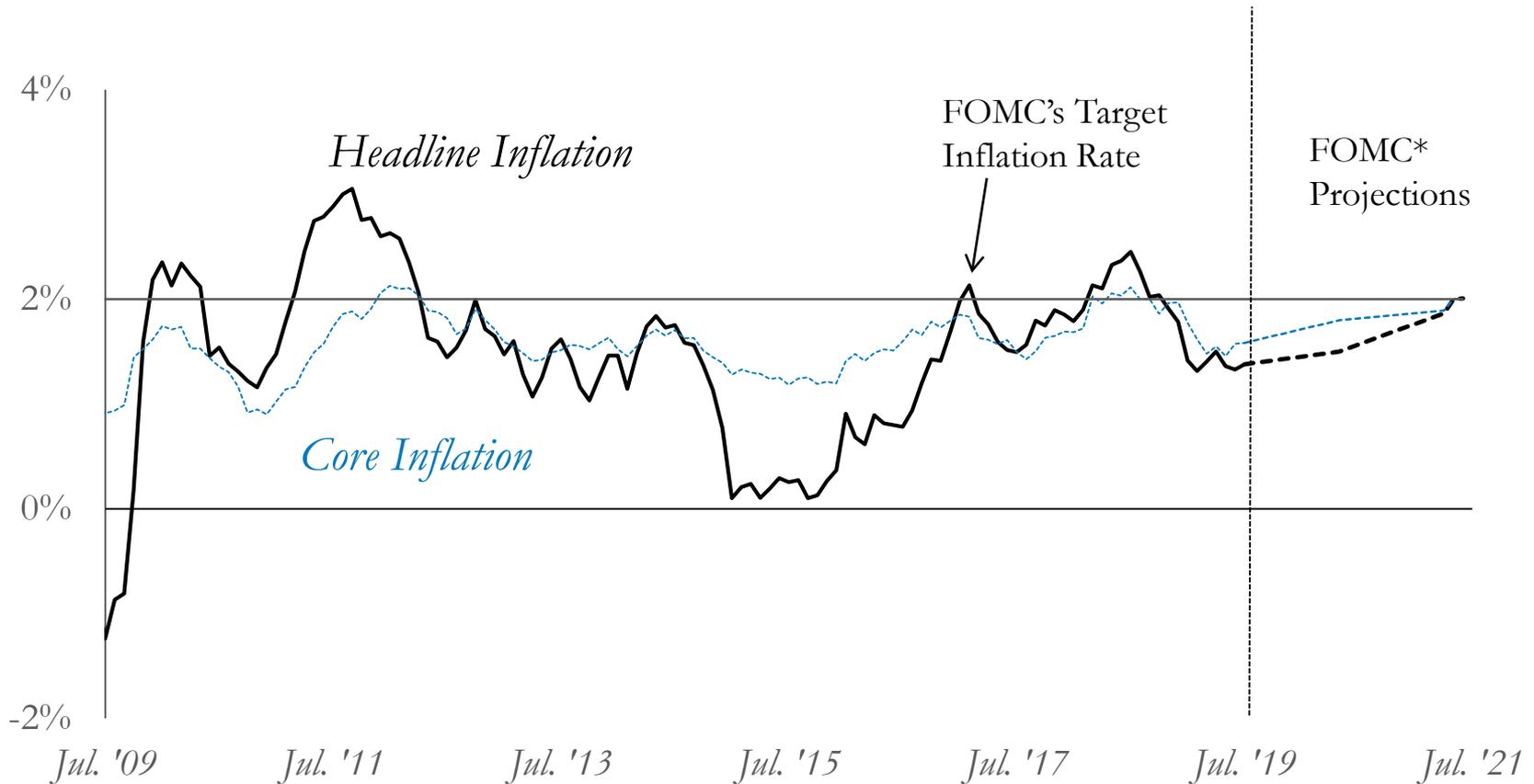


Inflation is at the FOMC's two percent target.



PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX

Percent Change Year-over-Year



Source: Bureau of Economic Analysis, Federal Open Market Committee, & Haver Analytics

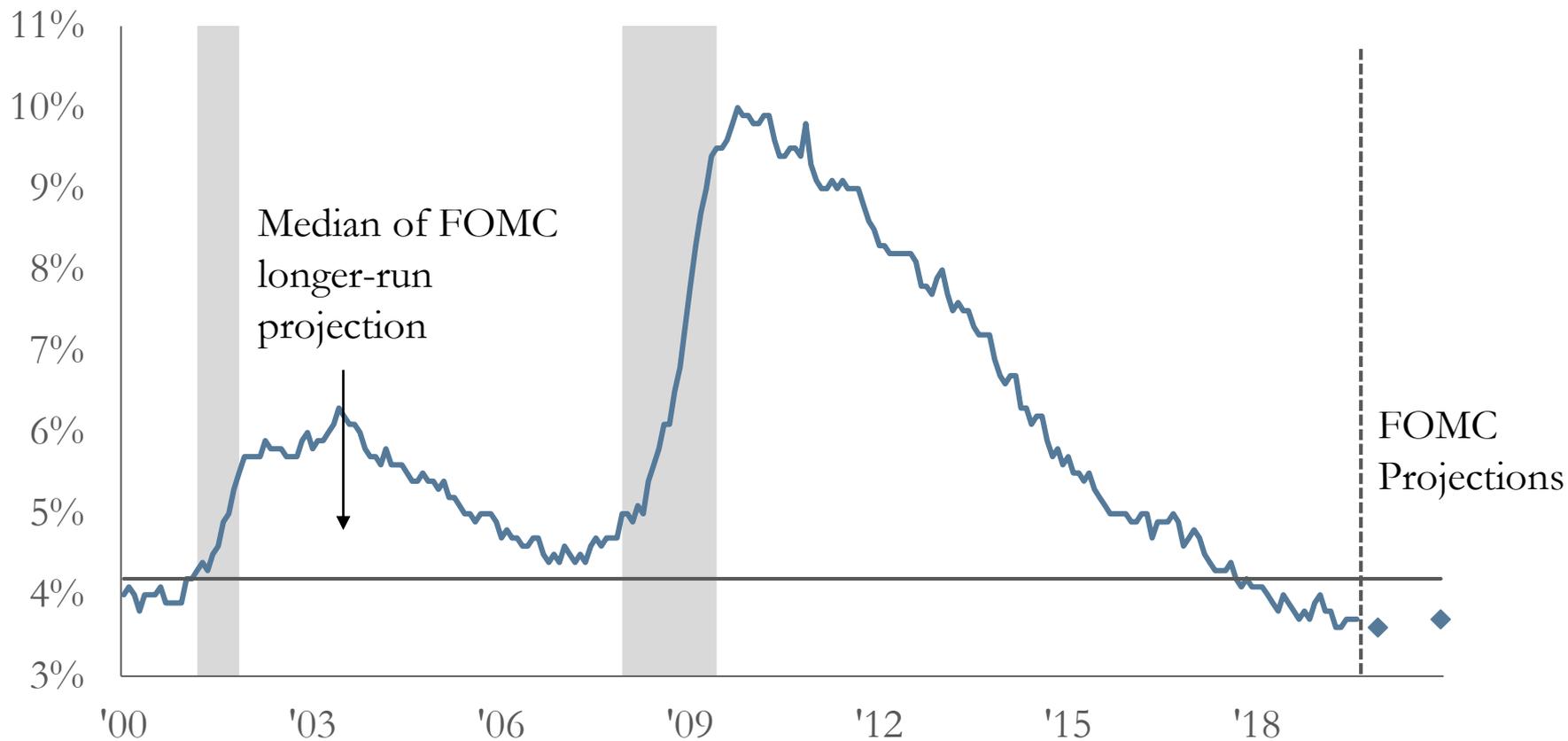
*Projections as of June FOMC meeting; median projections

The unemployment rate has declined steadily over the past nine years and has fallen below most estimates of its longer-run level.



U. S. UNEMPLOYMENT RATE

Seasonally Adjusted



The unemployment rate has declined steadily over the past eight years and has fallen below most estimates of its longer-run level.



U. S. UNEMPLOYMENT AND JOB OPENINGS

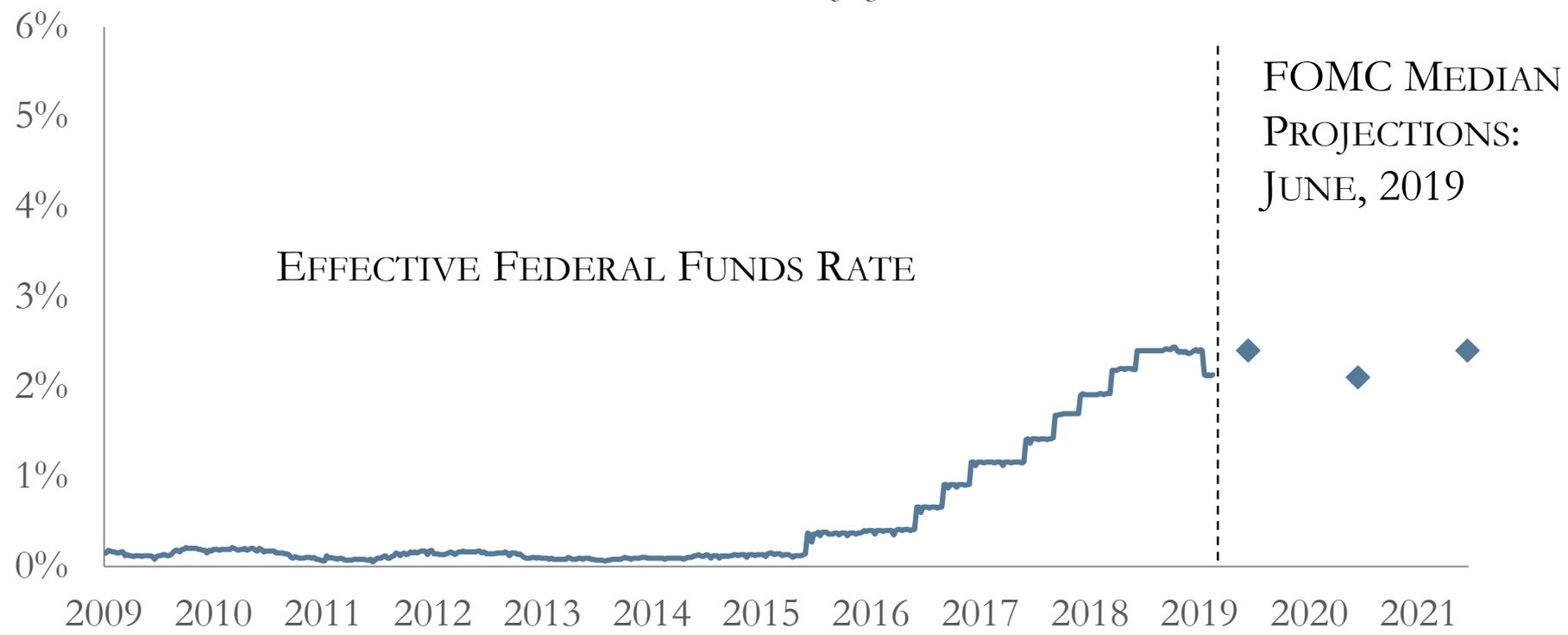
Seasonally Adjusted, Thousands





“In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2-1/4 percent. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain.”

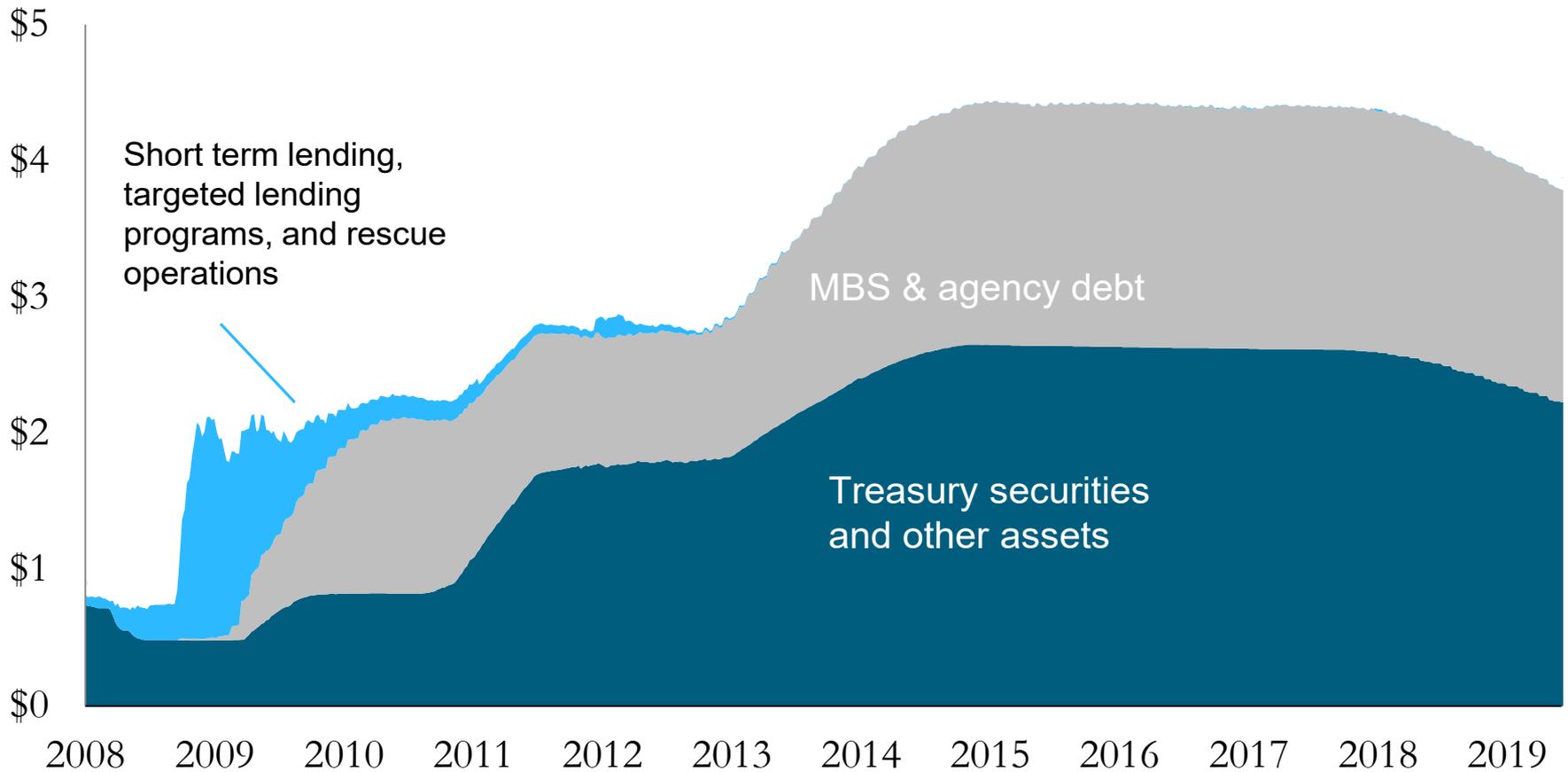
- July 2019 FOMC Statement





FEDERAL RESERVE BALANCE SHEET

Trillions

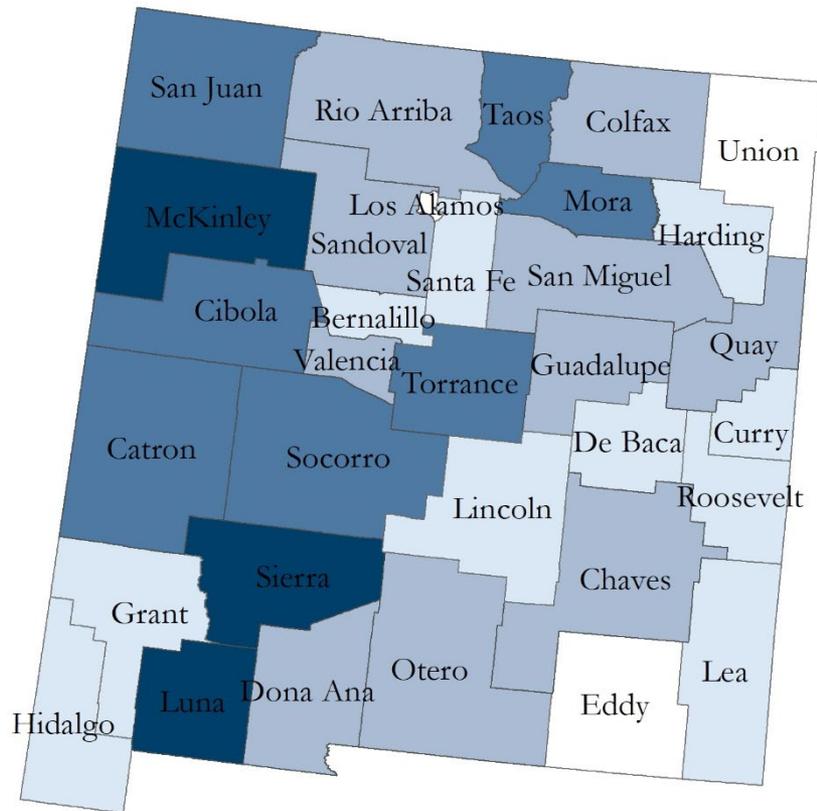


Unemployment rates in New Mexico are higher than the United States.

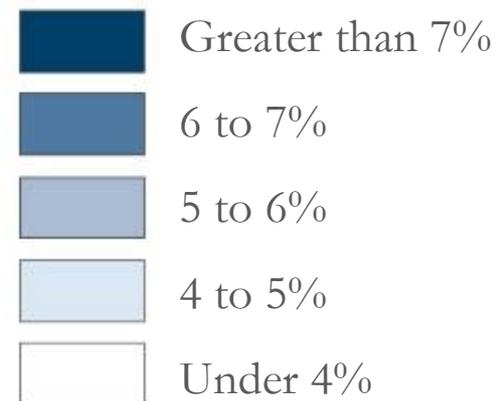


UNEMPLOYMENT RATES

July 2019, Seasonally Adjusted



Unemployment Rate	
United States (Aug. '19)	3.7%
New Mexico (July '19)	4.9%
Albuquerque (July '19)	4.7%



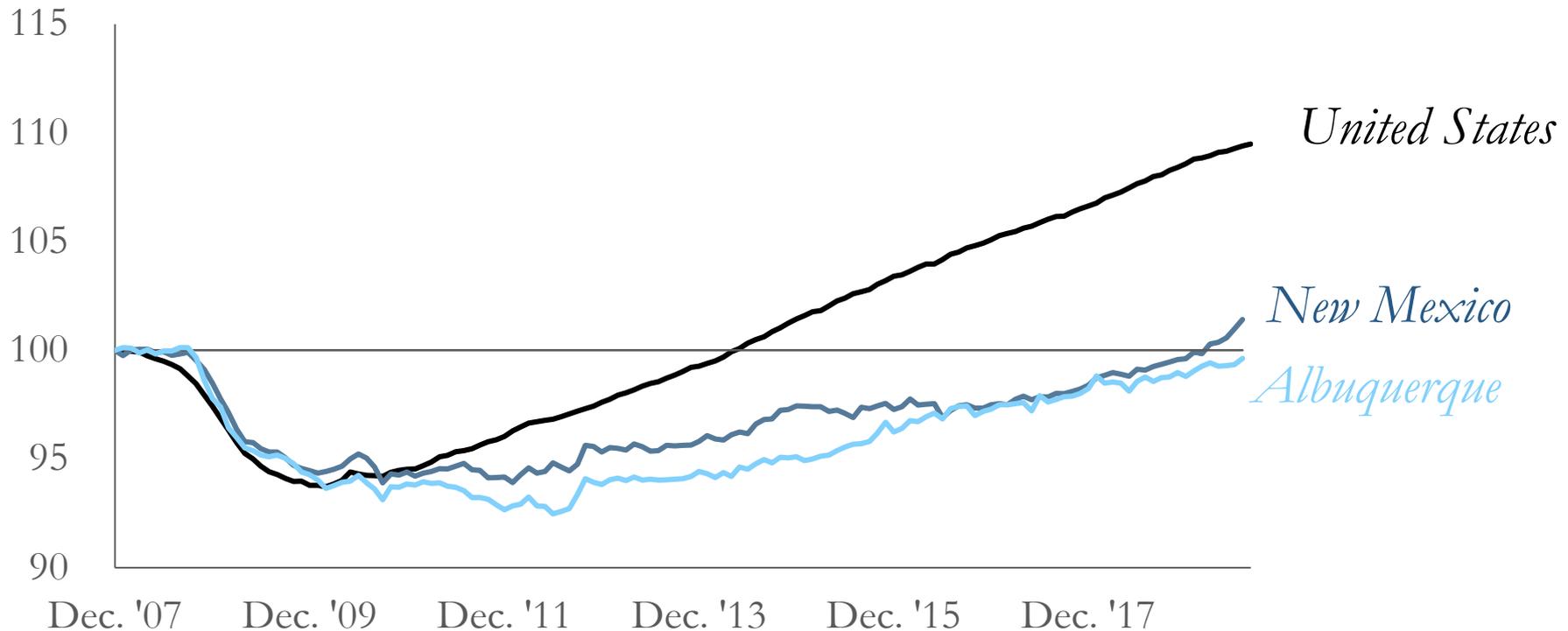
Employment gains have accelerated recently in New Mexico.



PAYROLL EMPLOYMENT GROWTH

Index 100 = December, 2007, Seasonally Adjusted

<i>Percent Change</i>	<i>Since Dec. '07</i>	<i>Past Year</i>
U.S. (Aug. '19)	9.5%	1.4%
New Mexico (July '19)	1.4%	2.4%
Albuquerque (July '19)	-0.4%	0.9%

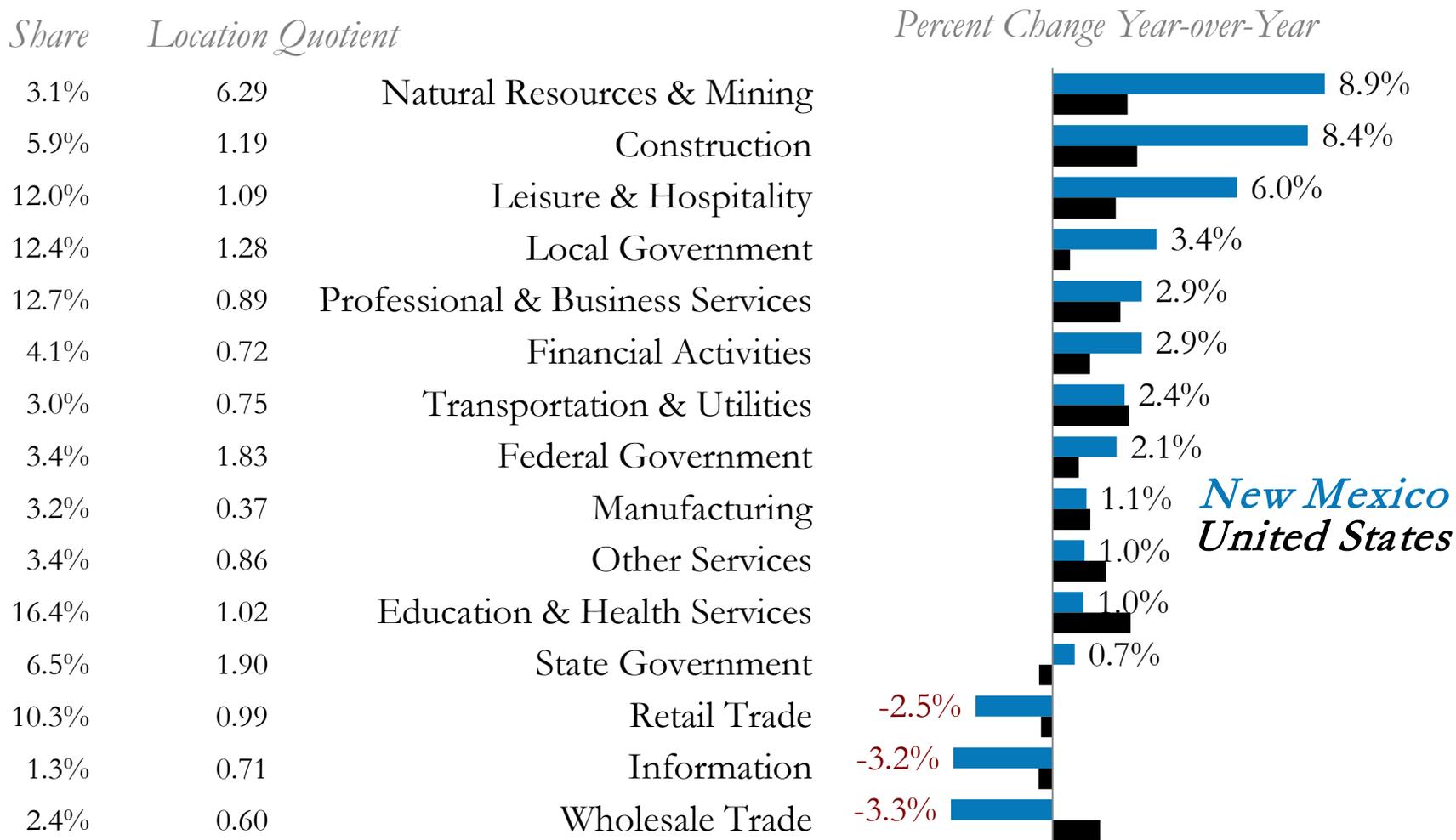


The majority of industries have added jobs over the past year, led by gains in the energy sector.



CHANGE IN PAYROLL EMPLOYMENT, JULY 2019

Seasonally Adjusted

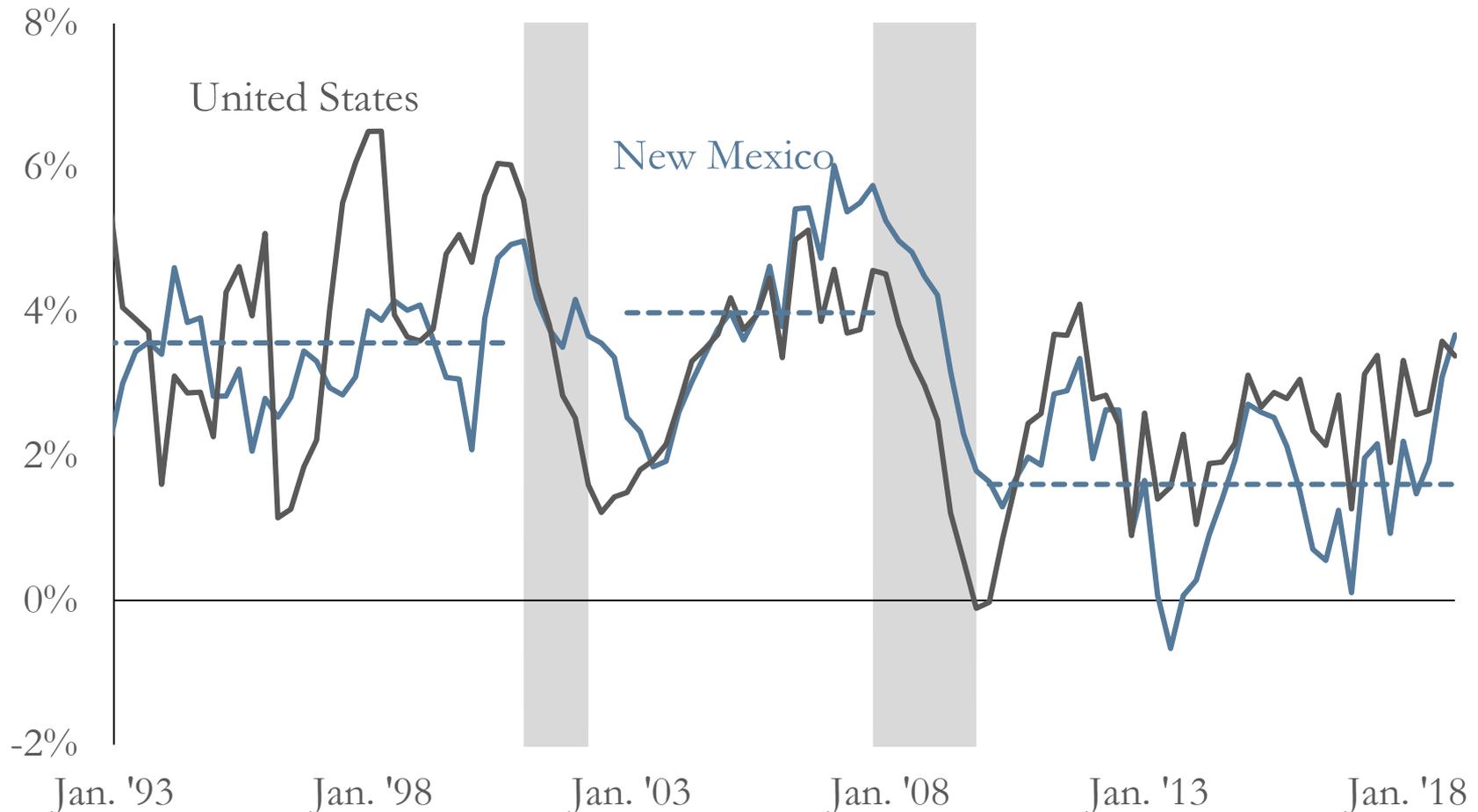


Recent wage growth in New Mexico has been slower than in past expansionary periods.



WAGE PER EMPLOYEE

Year-over-Year Percent Change, Four-Quarter-Moving-Average

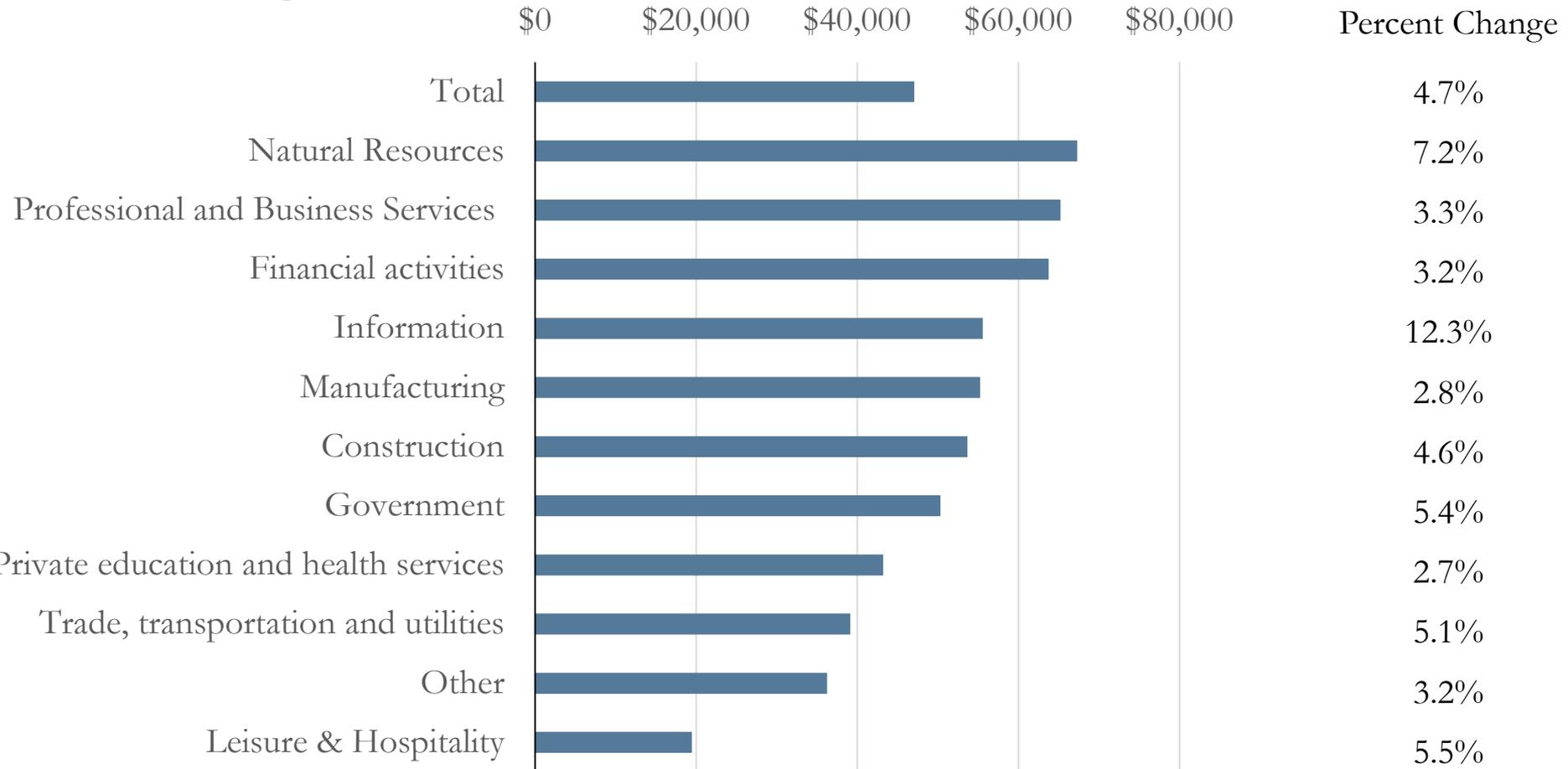


Note: Gray bars indicate recession, and dotted lines indicate New Mexico average growth for each expansionary period shown.



WAGE PER EMPLOYEE

New Mexico, Q4:2018

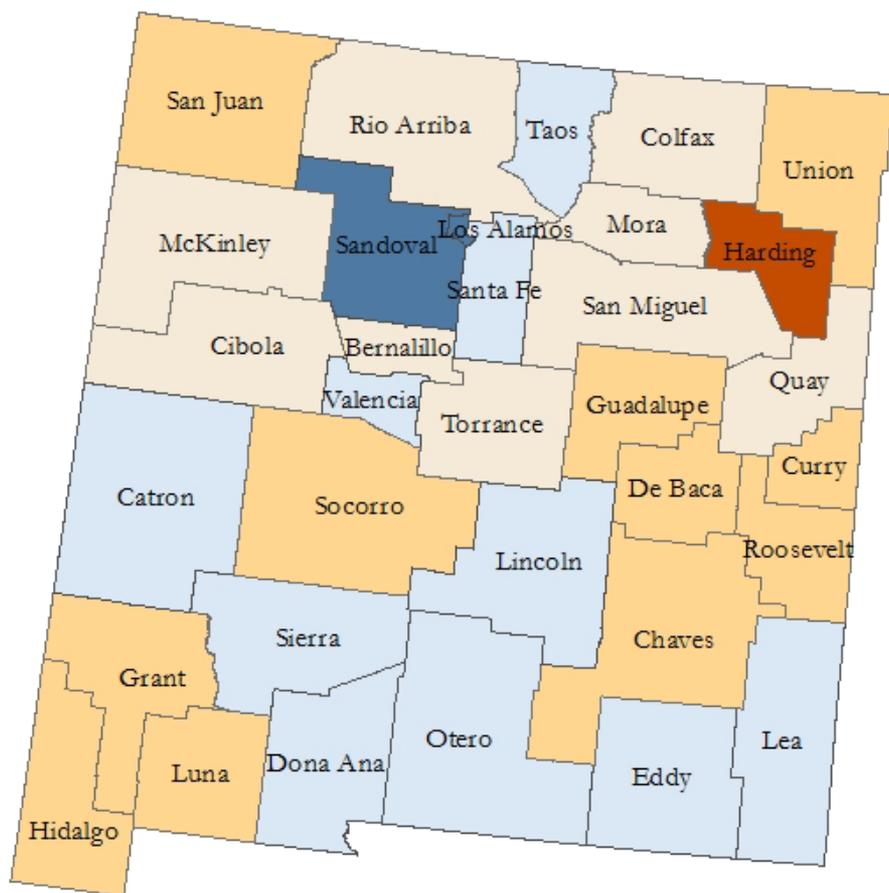


New Mexico continues to experience net out-migration, but the pace has slowed.

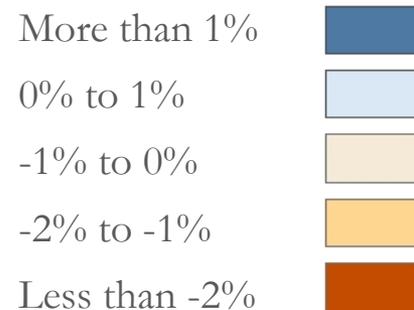


NET MIGRATION

Total 2018 Net Migration as a Percentage of 2018 Population



<i>Annual Percent Change</i>	<i>2018</i>
United States	0.3%
New Mexico	-0.2%
Bernalillo County	-0.2%

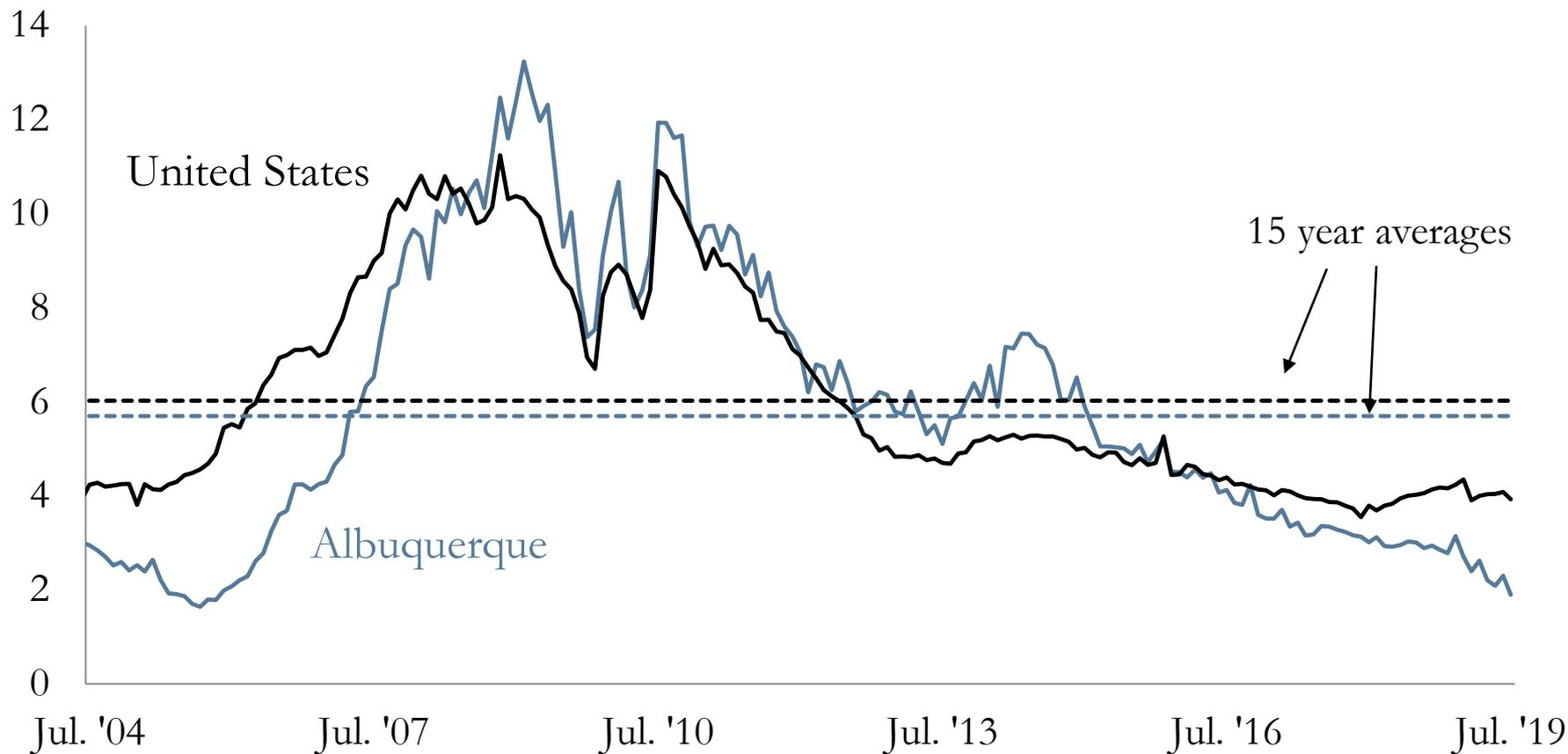


A low months supply of homes in Albuquerque indicates a tight housing market.



MONTHS SUPPLY OF HOMES

Seasonally Adjusted



Note: Dotted lines are historical averages from March 2002 to July 2019.

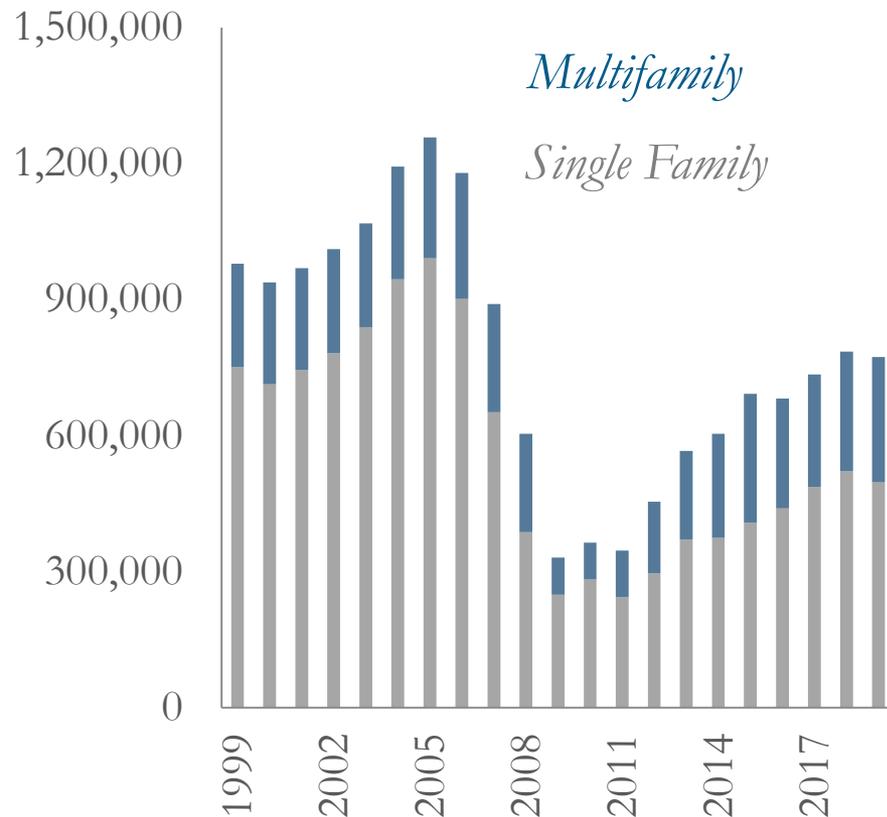
Residential construction activity has remained mostly flat over the recovery.



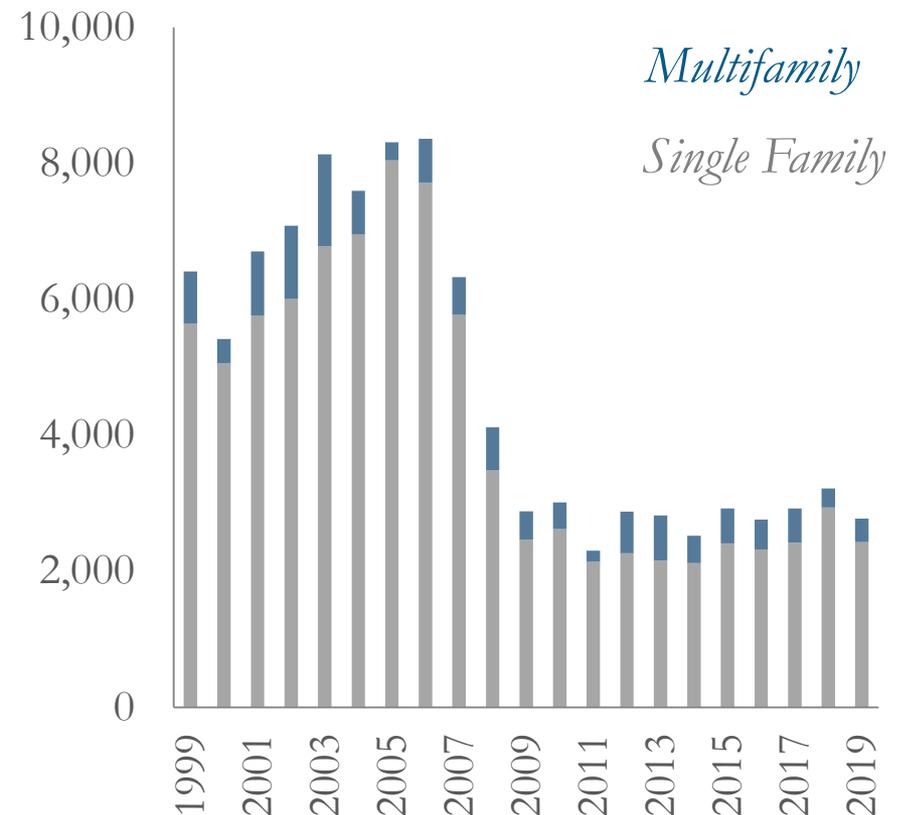
RESIDENTIAL PERMITS

Year-to-Date Through July, Seasonally Adjusted

United States



New Mexico

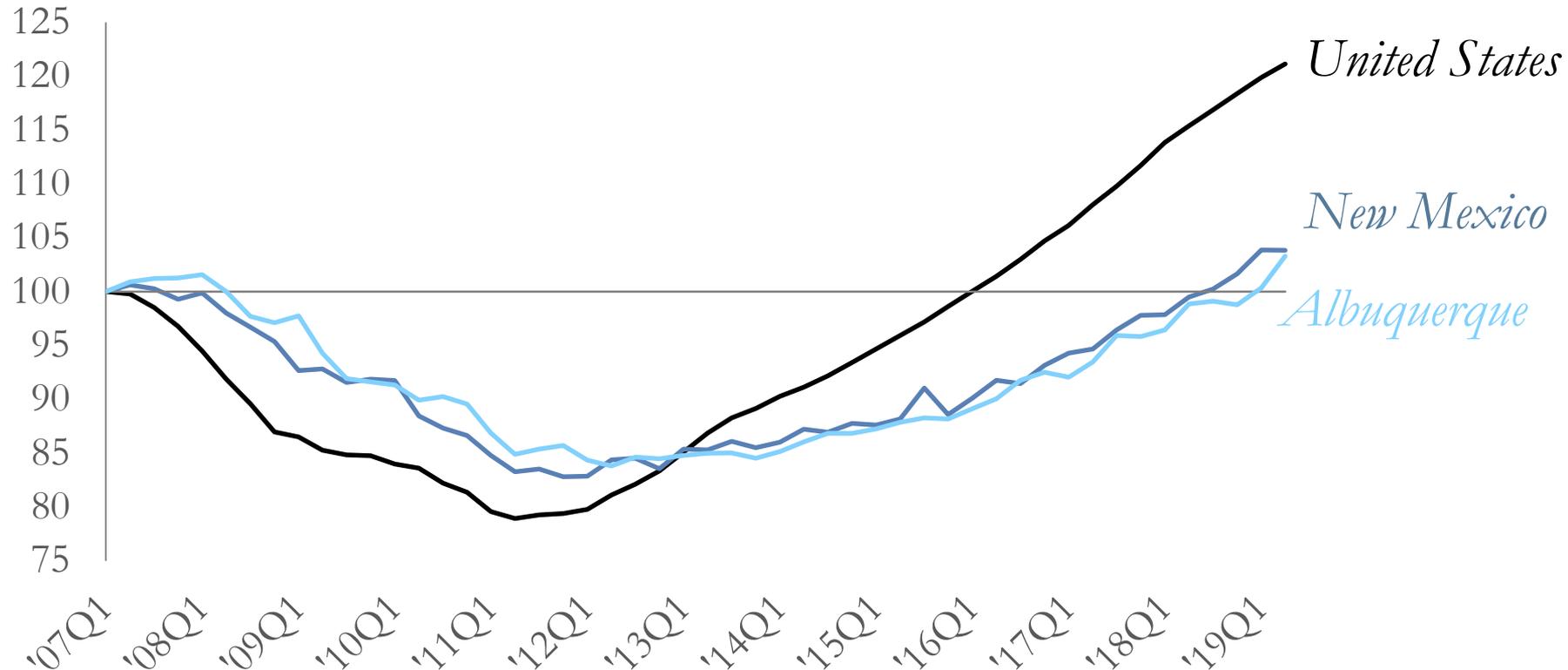


Low inventories have led to home price appreciation in recent years in New Mexico and Albuquerque.



HOME PRICES

Seasonally Adjusted, Index 100 = Q1:2007



Note: United States and New Mexico price indices are for purchase-only transactions, whereas Albuquerque includes re-financing and purchase transactions.

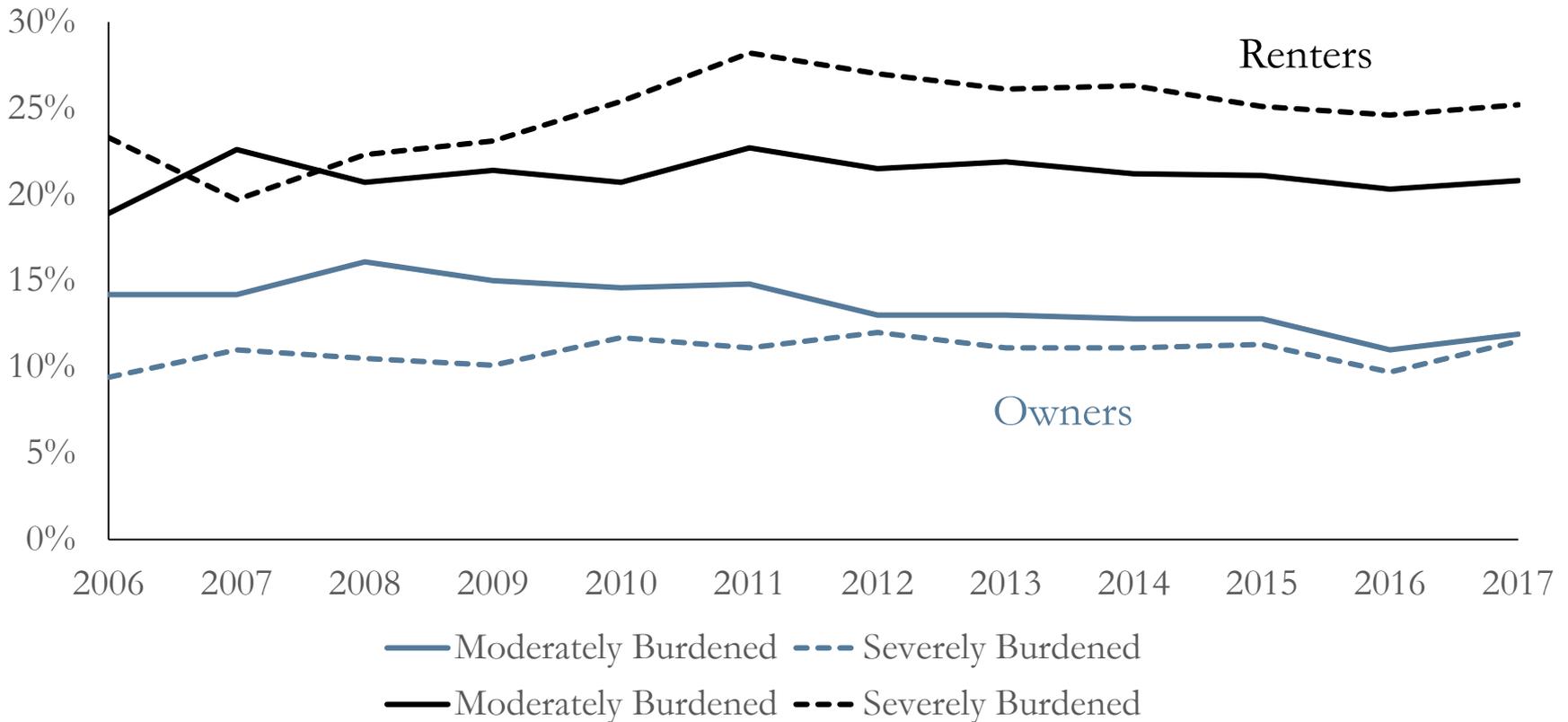
Source: Federal Housing Finance Agency

A higher share of households who rent than own are burdened by housing costs.



NEW MEXICO HOUSING COST-BURDEN RATES BY HOUSEHOLD INCOME

Percent of Ownership Category



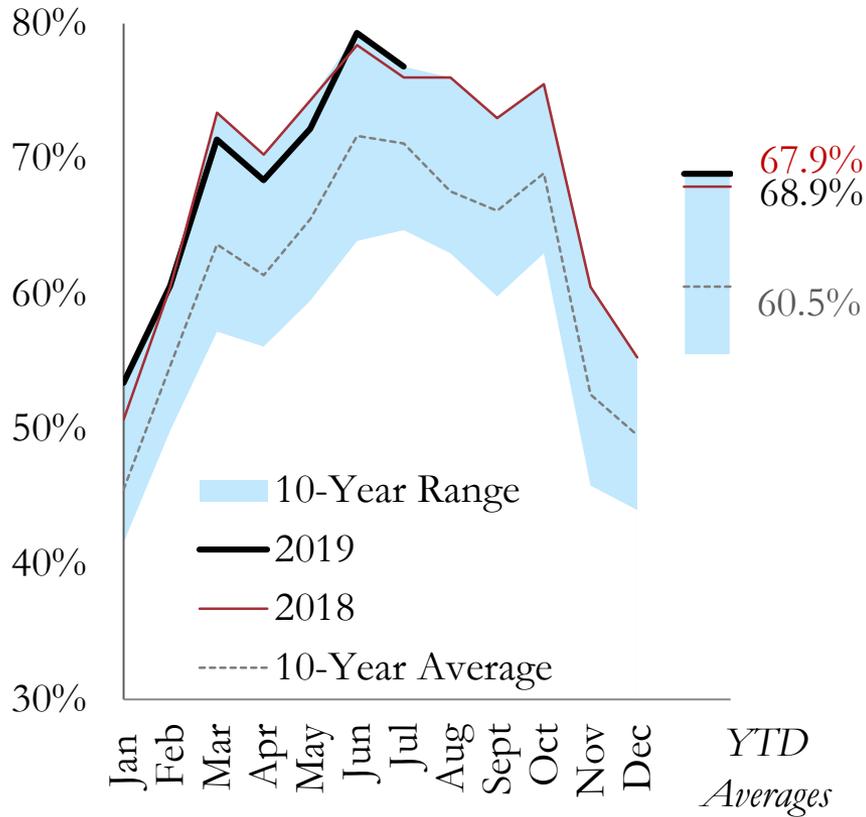
Note: Moderate burdens are defined as households with housing costs of between 30 – 50% of household income. Costs above 50% of household income are considered severely burdening.

Tourism activity has been strong in New Mexico over the past few years.



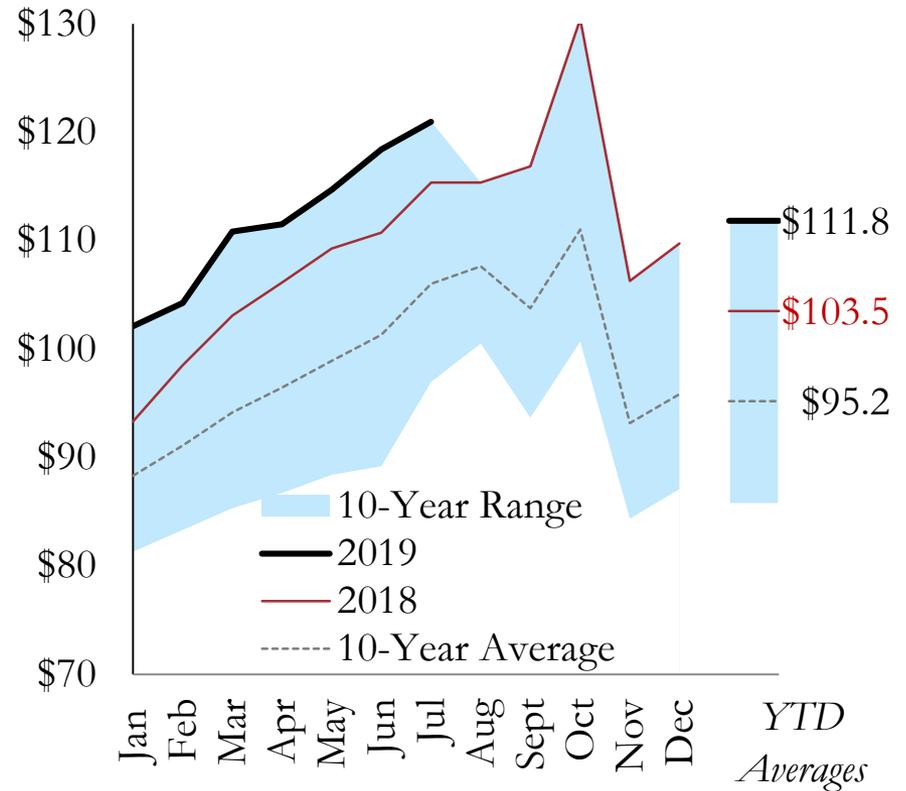
HOTEL OCCUPANCY RATES

New Mexico



HOTEL ROOM RATES

New Mexico, 1999 Dollars

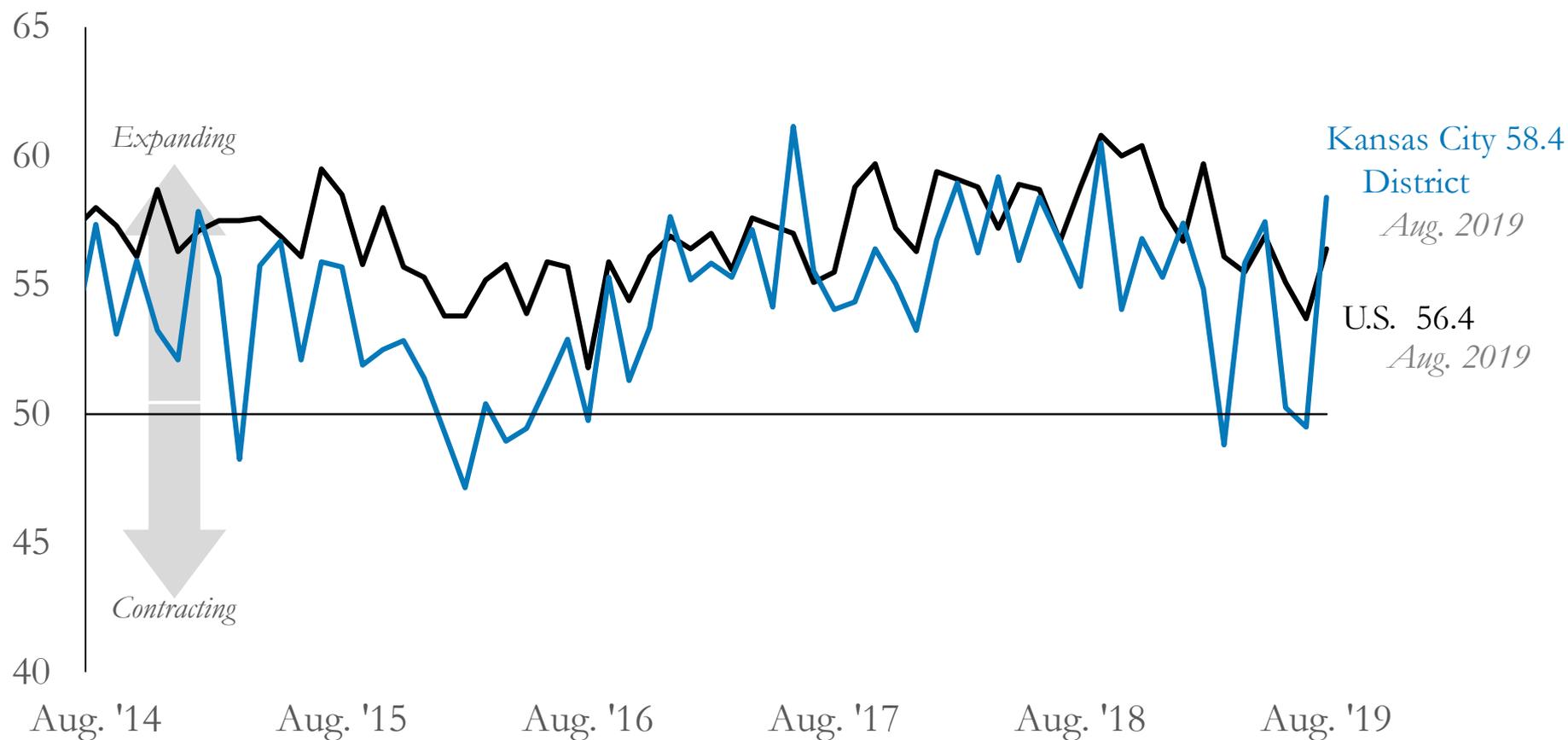


Manufacturing activity improved throughout 2017 and 2018, although is showing recent weakness.



NON-MANUFACTURING AND SERVICES ACTIVITY

Diffusion Index, Seasonally Adjusted, Month-over-Month

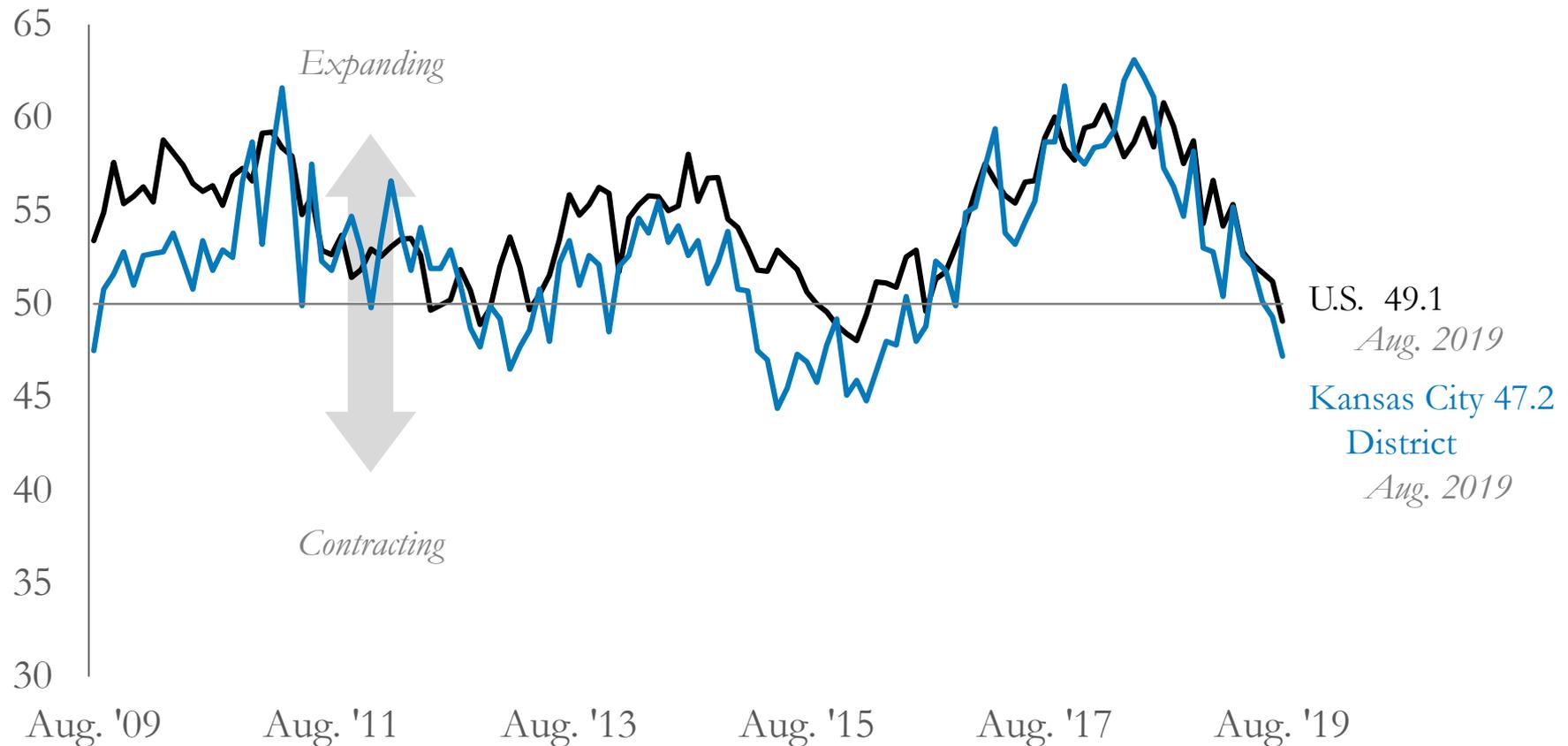


Manufacturing activity improved throughout 2017 and the first half of 2018, although is showing recent weakness over the last year.



MANUFACTURING ACTIVITY

Diffusion Index, Seasonally Adjusted, Month-over-Month

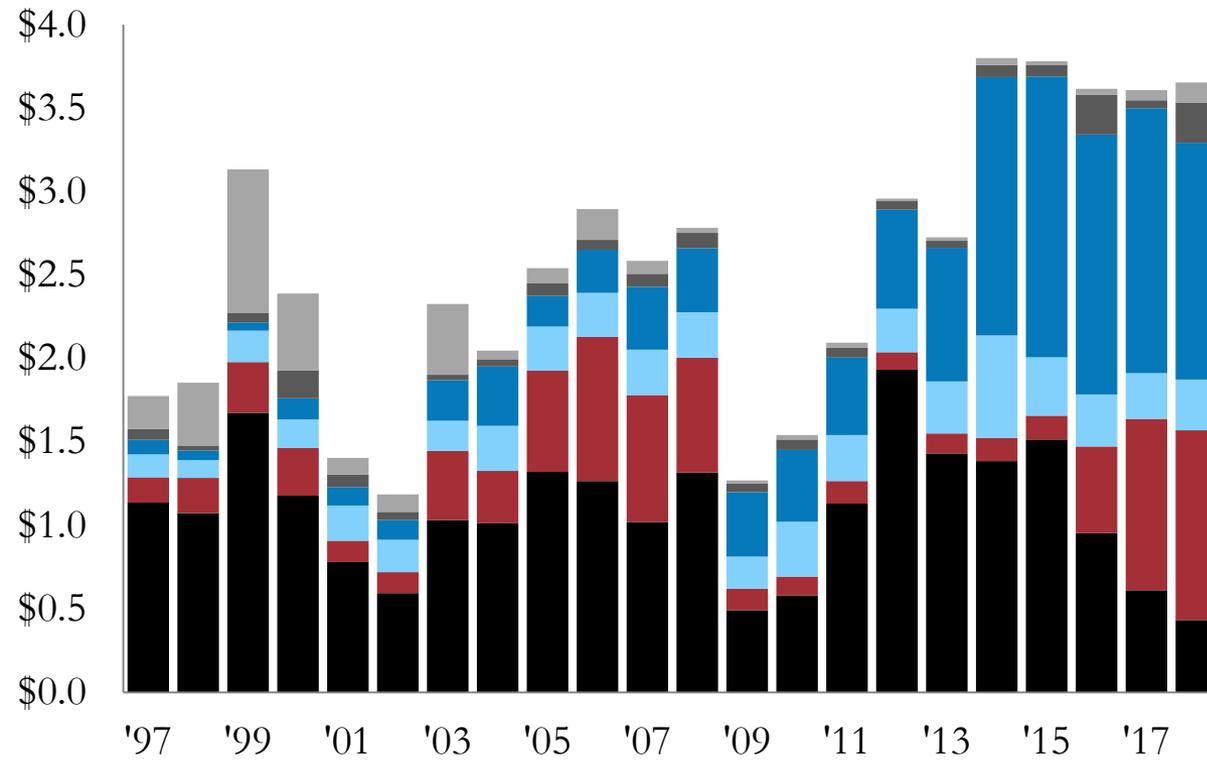


New Mexico exports are up so far in 2019 despite global headwinds.



NEW MEXICO EXPORTS BY TRADING PARTNER

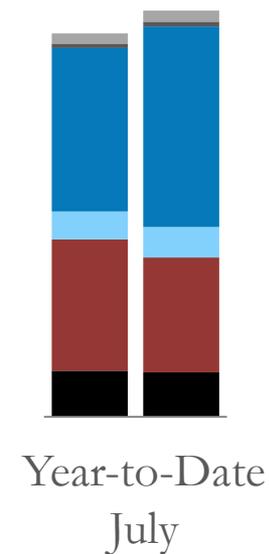
Billions



YEAR-TO-DATE JULY 2019

Year-over-Year Percent Change

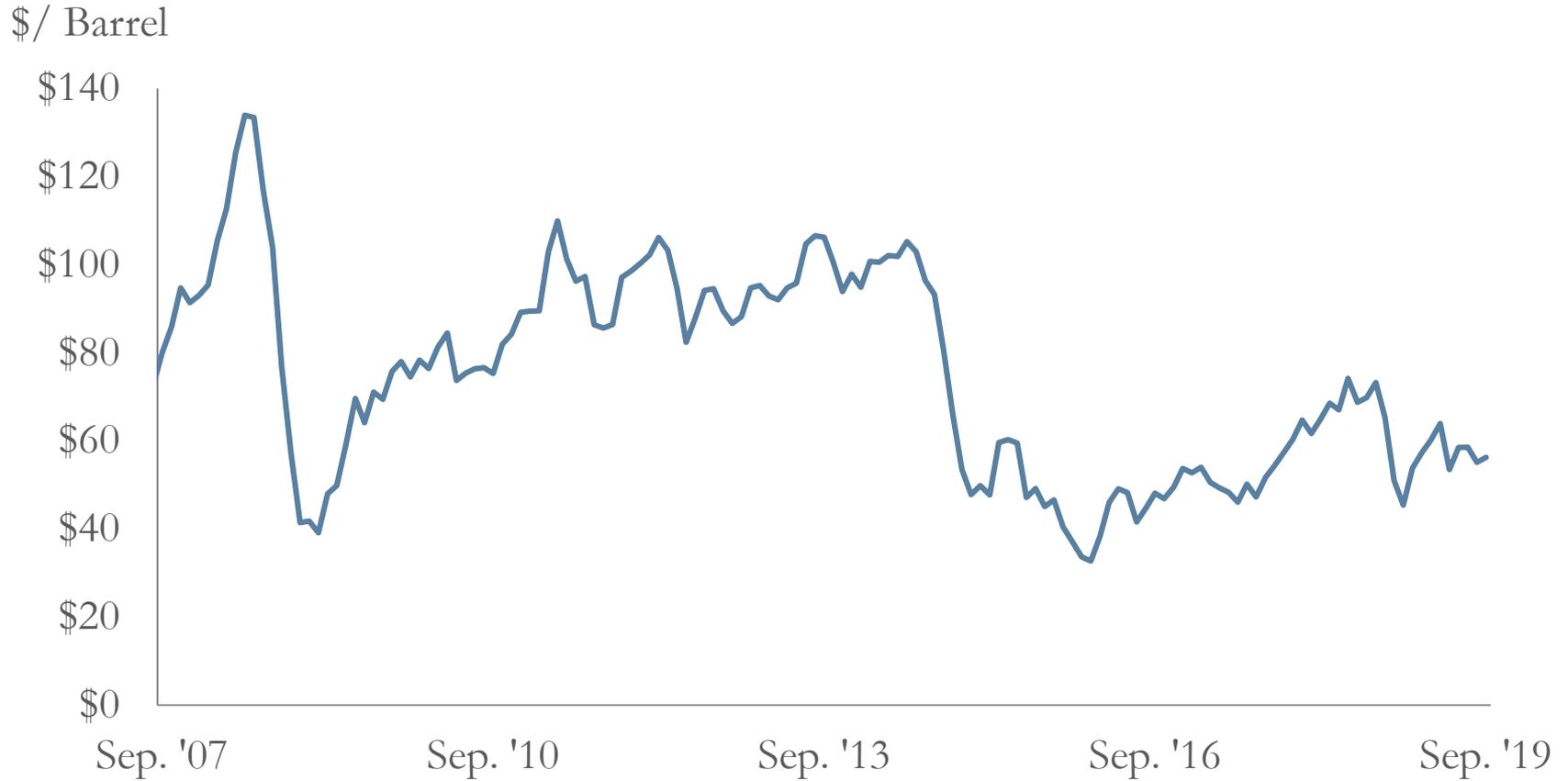
	Year-over-Year Percent Change	SHARE
Total Trade	6.0%	
Korea	10.7	3.3%
Japan	6.1	6.6
Mexico	22.7	38.8
Eurozone	9.5	8.3
China	-12.7	31.0
All Others	-3.3	12.0



Oil prices remain low.



OIL PRICES (WEST TEXAS INTERMEDIATE)

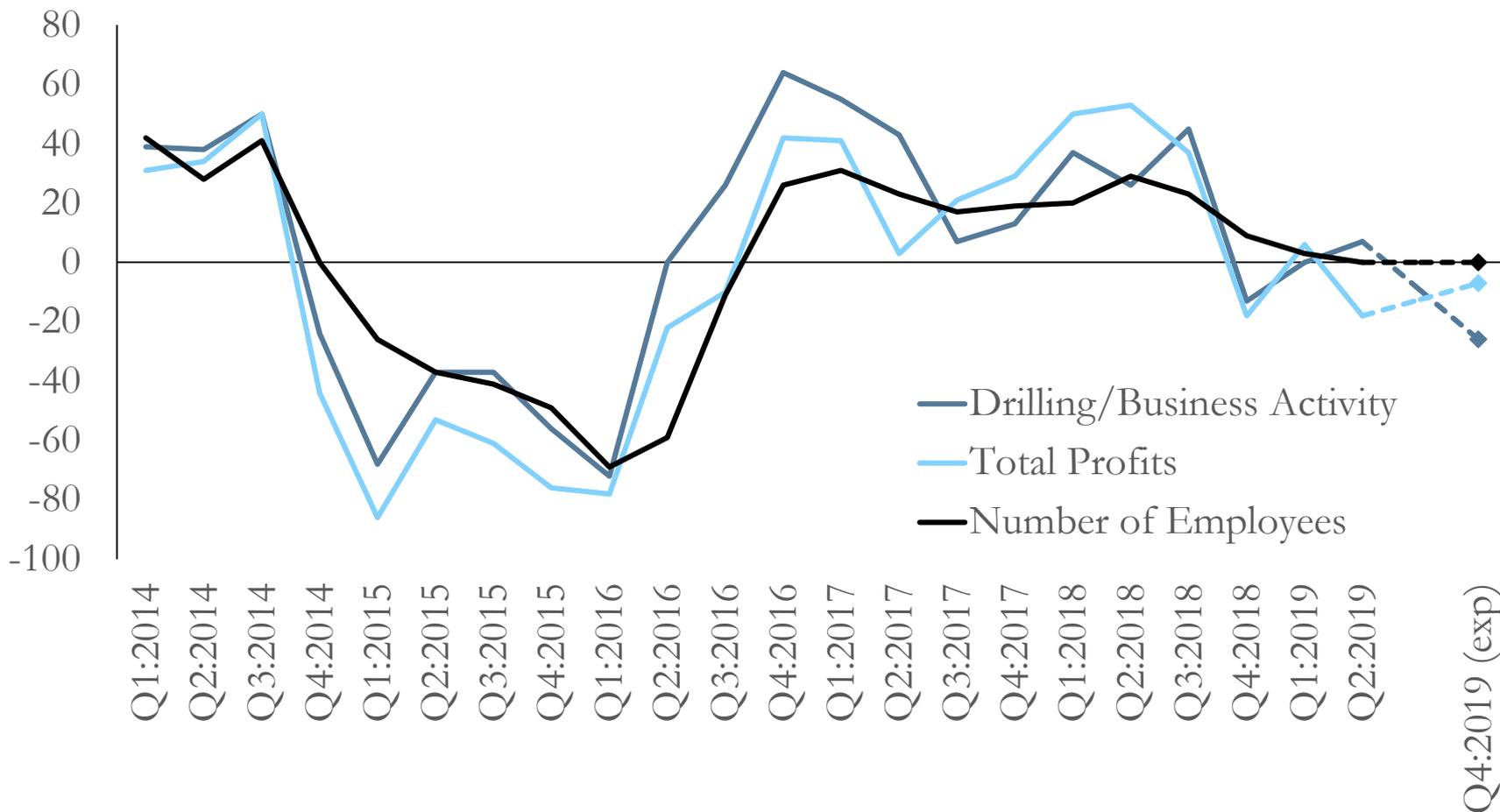


Expectations for energy activity have weakened as oil prices remain below year-ago levels.



ENERGY SURVEY ACTIVITY INDICATORS

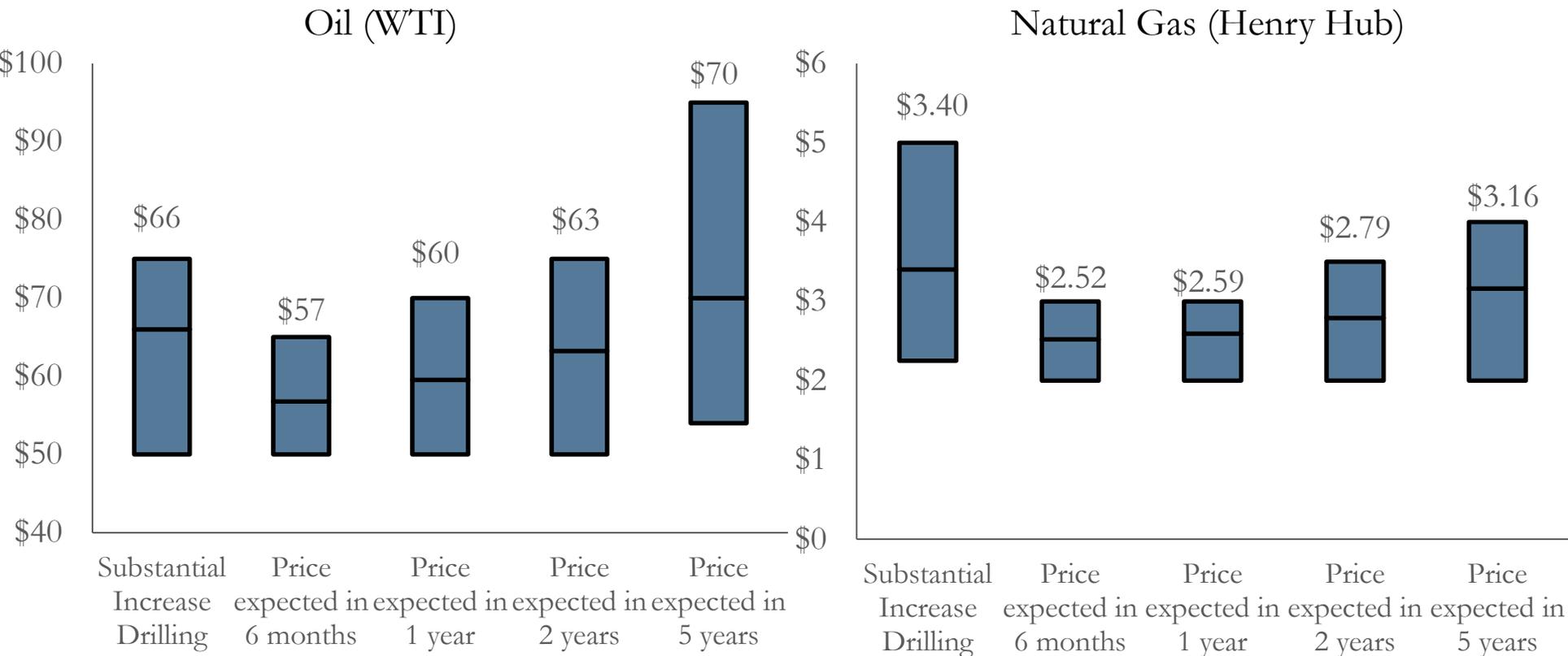
Quarterly Diffusion Index



Oil prices are expected to remain below \$66 over the next few years, which is below the price needed for a substantial increase in drilling.

ENERGY SURVEY SPECIAL QUESTION

Q2:2019



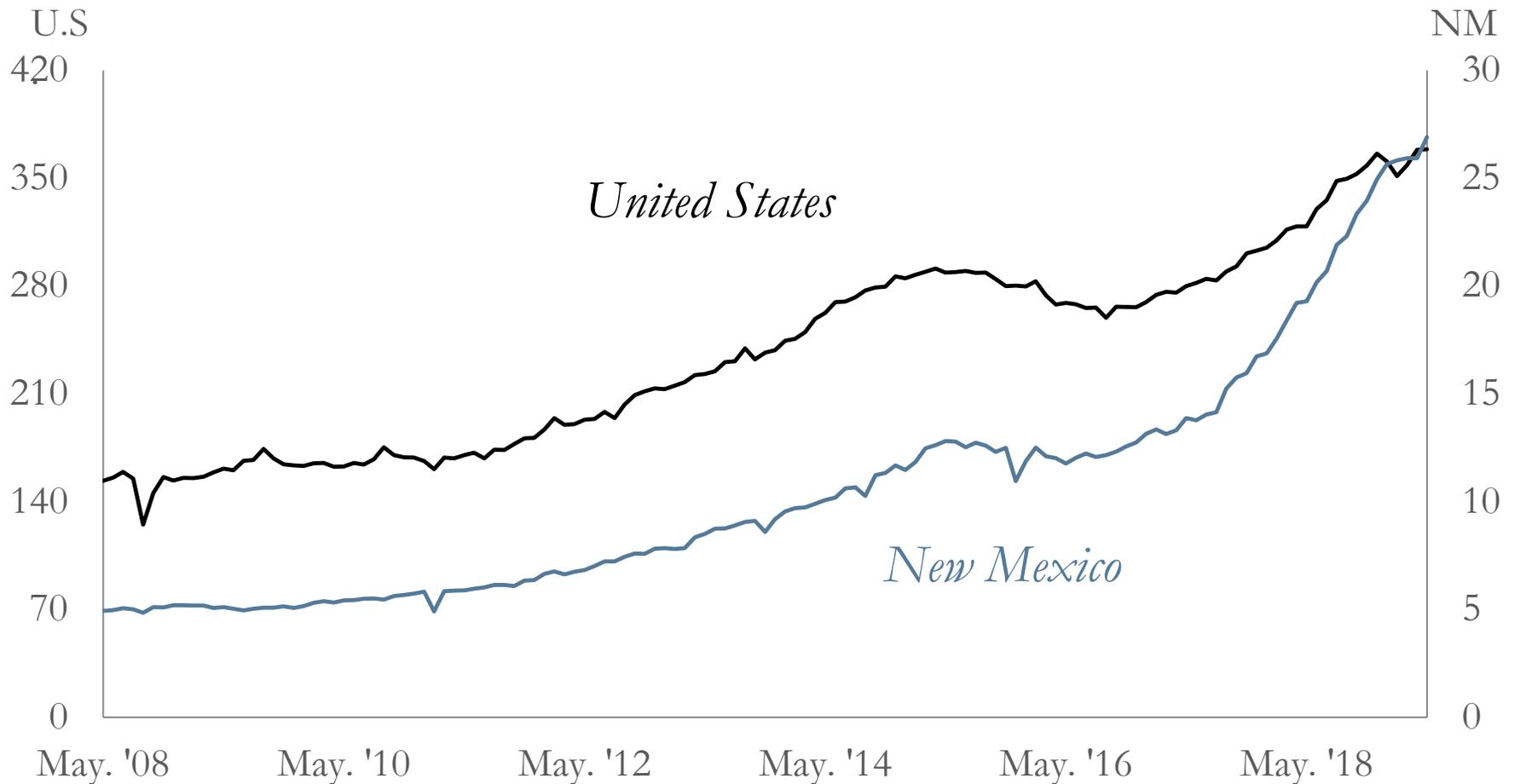
Note: Blue bars represent range for survey respondents. Numbers above bars indicate average of the range (the black line in the middle of the blue bars).

Oil production has reached record levels in New Mexico despite a low-price environment.



CRUDE OIL PRODUCTION

Millions of Barrels, Monthly, Seasonally Adjusted

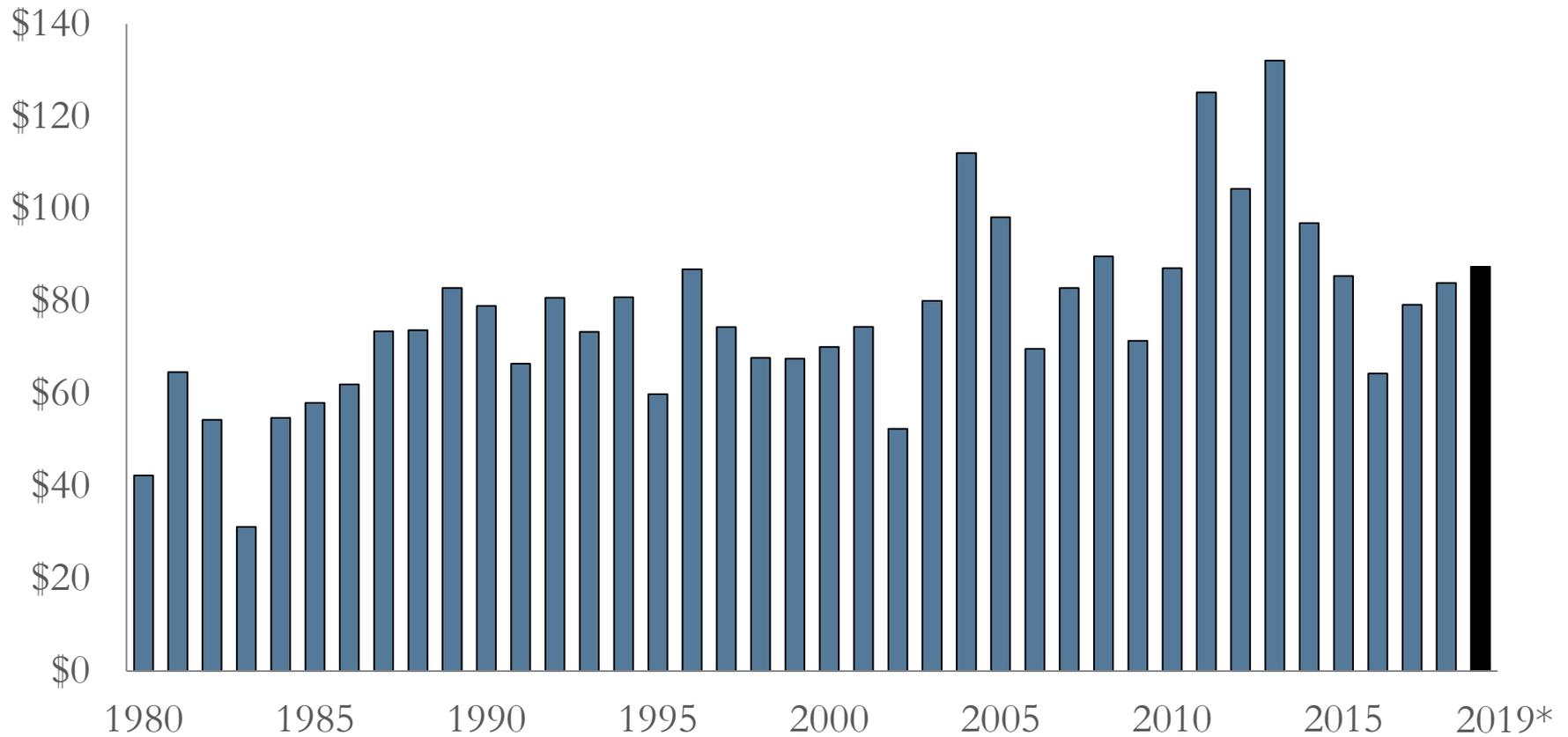


Farm income is projected to rise slightly in 2018, but remains low historically as commodity prices remain depressed.



U.S. REAL NET FARM INCOME

Billion Dollars (Constant 2012 Dollars)



*Projection for 2019

For additional information on the regional economy:
<http://www.KansasCityFed.org/Denver>

