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
The Denver Branch of the Federal Reserve Bank of Kansas City

• 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

**REAL U.S. GROSS DOMESTIC PRODUCT**

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

Consumer spending continues to expand at a solid pace.

Real Consumption Spending
Seasonally Adjusted, Year-over-Year Percent Change

Sources: Bureau of Economic Analysis & Haver Analytics
Business and consumer confidence have increased in recent months.

**BUSINESS AND CONSUMER SENTIMENT**

Univ. of Michigan Consumer Sentiment, Q1:1966 = 100

NFIB Small Business Optimism Index, Q1:1986 = 100

Source: University of Michigan, National Federation of Independent Business, & Haver Analytics
Inflation is at the FOMC’s two percent target.
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

Source: Bureau of Labor Statistics and Federal Open Market Committee (FOMC)/Haver Analytics

*Projections as of June FOMC meeting; median unemployment rate
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*

![Graph showing unemployment and job openings over time from August '01 to August '19.](image-url)

Source: Bureau of Labor Statistics/Haver Analytics
“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

Source: Federal Reserve Board
FEDERAL RESERVE BALANCE SHEET

Trillions

Source: Federal Reserve Board, Haver Analytics, and author’s calculations.
Unemployment rates in New Mexico are higher than the United States.

**UNEMPLOYMENT RATES**

*July 2019, Seasonally Adjusted*

<table>
<thead>
<tr>
<th>Unemployment Rate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States (Aug. ‘19)</td>
<td>3.7%</td>
</tr>
<tr>
<td>New Mexico (July ‘19)</td>
<td>4.9%</td>
</tr>
<tr>
<td>Albuquerque (July ‘19)</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics and Haver Analytics
Employment gains have accelerated recently in New Mexico.

Payroll Employment Growth
Index 100 = December, 2007, Seasonally Adjusted

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

Source: Bureau of Labor Statistics
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*

<table>
<thead>
<tr>
<th>Share</th>
<th>Location Quotient</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1%</td>
<td>6.29</td>
<td>Natural Resources &amp; Mining</td>
</tr>
<tr>
<td>5.9%</td>
<td>1.19</td>
<td>Construction</td>
</tr>
<tr>
<td>12.0%</td>
<td>1.09</td>
<td>Leisure &amp; Hospitality</td>
</tr>
<tr>
<td>12.4%</td>
<td>1.28</td>
<td>Local Government</td>
</tr>
<tr>
<td>12.7%</td>
<td>0.89</td>
<td>Professional &amp; Business Services</td>
</tr>
<tr>
<td>4.1%</td>
<td>0.72</td>
<td>Financial Activities</td>
</tr>
<tr>
<td>3.0%</td>
<td>0.75</td>
<td>Transportation &amp; Utilities</td>
</tr>
<tr>
<td>3.4%</td>
<td>1.83</td>
<td>Federal Government</td>
</tr>
<tr>
<td>3.2%</td>
<td>0.37</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>3.4%</td>
<td>0.86</td>
<td>Other Services</td>
</tr>
<tr>
<td>16.4%</td>
<td>1.02</td>
<td>Education &amp; Health Services</td>
</tr>
<tr>
<td>6.5%</td>
<td>1.90</td>
<td>State Government</td>
</tr>
<tr>
<td>10.3%</td>
<td>0.99</td>
<td>Retail Trade</td>
</tr>
<tr>
<td>1.3%</td>
<td>0.71</td>
<td>Information</td>
</tr>
<tr>
<td>2.4%</td>
<td>0.60</td>
<td>Wholesale Trade</td>
</tr>
</tbody>
</table>

**Percent Change Year-over-Year**

- **United States**:
  - Natural Resources & Mining: 8.9%
  - Construction: 8.4%
  - Leisure & Hospitality: 6.0%
  - Local Government: 3.4%
  - Professional & Business Services: 2.9%
  - Financial Activities: 2.9%
  - Transportation & Utilities: 2.4%
  - Federal Government: 2.1%
  - Manufacturing: 1.1%
  - Other Services: 1.0%
  - Education & Health Services: 1.0%
  - State Government: 0.7%
  - Retail Trade: -2.5%
  - Information: -3.2%
  - Wholesale Trade: -3.3%

- **New Mexico**:
  - Natural Resources & Mining: 12.0%
  - Construction: 5.9%
  - Leisure & Hospitality: 12.4%
  - Local Government: 1.19
  - Professional & Business Services: 1.09
  - Financial Activities: 1.28
  - Transportation & Utilities: 1.02
  - Federal Government: 1.83
  - Manufacturing: 0.75
  - Other Services: 0.86
  - Education & Health Services: 1.02
  - State Government: 1.90
  - Retail Trade: 0.99
  - Information: 0.71
  - Wholesale Trade: 0.60

**Source:** Bureau of Labor Statistics
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.

Sources: BLS – QCEW, NBER & Haver Analytics
### Wage Per Employee

**New Mexico, Q4:2018**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Year-over-Year Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4.7%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>7.2%</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>3.3%</td>
</tr>
<tr>
<td>Financial activities</td>
<td>3.2%</td>
</tr>
<tr>
<td>Information</td>
<td>12.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2.8%</td>
</tr>
<tr>
<td>Construction</td>
<td>4.6%</td>
</tr>
<tr>
<td>Government</td>
<td>5.4%</td>
</tr>
<tr>
<td>Private education and health services</td>
<td>2.7%</td>
</tr>
<tr>
<td>Trade, transportation and utilities</td>
<td>5.1%</td>
</tr>
<tr>
<td>Other</td>
<td>3.2%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Sources: BLS – QCEW
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*

**Annual Percent Change**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.3%</td>
</tr>
<tr>
<td>New Mexico</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Bernalillo County</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

**More than 1%**

**0% to 1%**

**-1% to 0%**

**-2% to -1%**

**Less than -2%**
A low months supply of homes in Albuquerque indicates a tight housing market.

**MONTHS SUPPLY OF HOMES**

*Seasonally Adjusted*

**United States**

**Albuquerque**

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

Sources: Coldwell Banker, Denver Metro Association of Realtors, Census Bureau and Haver Analytics
Residential construction activity has remained mostly flat over the recovery.

**Residential Permits**

*Year-to-Date Through July, Seasonally Adjusted*

**United States**

- **Multifamily**
- **Single Family**

**New Mexico**

- **Multifamily**
- **Single Family**

*Source: Census Bureau/Haver Analytics*
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*

![Graph showing housing cost-burden rates for renters and owners from 2006 to 2017.](image)

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.

*Source: IPUMS-USA and author’s calculations*
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*

Source: Colorado Hotel and Lodging Association
Manufacturing activity improved throughout 2017 and 2018, although is showing recent weakness.

NON-MANUFACTURING AND SERVICES ACTIVITY
Diffusion Index, Seasonally Adjusted, Month-over-Month

Source: Kansas City Federal Reserve Bank, ISM, & Haver Analytics
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

Source: Kansas City Federal Reserve Bank, ISM, & Haver Analytics
New Mexico exports are up so far in 2019 despite global headwinds.

**New Mexico Exports by Trading Partner**

**Year-to-Date July 2019**

<table>
<thead>
<tr>
<th>Partner</th>
<th>Billions</th>
<th>Year-over-Year Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Trade</td>
<td>6.0%</td>
<td>SHARE</td>
</tr>
<tr>
<td>Korea</td>
<td>10.7</td>
<td>3.3%</td>
</tr>
<tr>
<td>Japan</td>
<td>6.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>22.7</td>
<td>38.8</td>
</tr>
<tr>
<td>Eurozone</td>
<td>9.5</td>
<td>8.3</td>
</tr>
<tr>
<td>China</td>
<td>-12.7</td>
<td>31.0</td>
</tr>
<tr>
<td>All Others</td>
<td>-3.3</td>
<td>12.0</td>
</tr>
</tbody>
</table>

Source: WISERTrade and Census Bureau
Oil prices remain low.

OIL PRICES (WEST TEXAS INTERMEDIATE)

$/ Barrel

Source: Bloomberg Energy Services
Expectations for energy activity have weakened as oil prices remain below year-ago levels.

**Energy Survey Activity Indicators**

*Quarterly Diffusion Index*

*Source: Kansas City Federal Reserve Bank Energy Survey*
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*

**Oil (WTI)**

- Substantial Increase Drilling in 6 months: $66
- Price expected in 1 year: $60
- Price expected in 2 years: $63
- Price expected in 5 years: $70

**Natural Gas (Henry Hub)**

- Substantial Increase Drilling in 6 months: $3.40
- Price expected in 1 year: $2.52
- Price expected in 2 years: $2.59
- Price expected in 5 years: $2.79

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).

Source: Kansas City Federal Reserve Bank Energy Survey
Oil production has reached record levels in New Mexico despite a low-price environment.

**Crude Oil Production**
*Millions of Barrels, Monthly, Seasonally Adjusted*

Source: Energy Information Administration and Haver Analytics
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: