

# U.S. & New Mexico *Economic Update*

Alison Felix

Economist & Branch Executive  
Federal Reserve Bank of Kansas City  
Denver Branch



# The U.S. economy continues to grow at a modest pace.

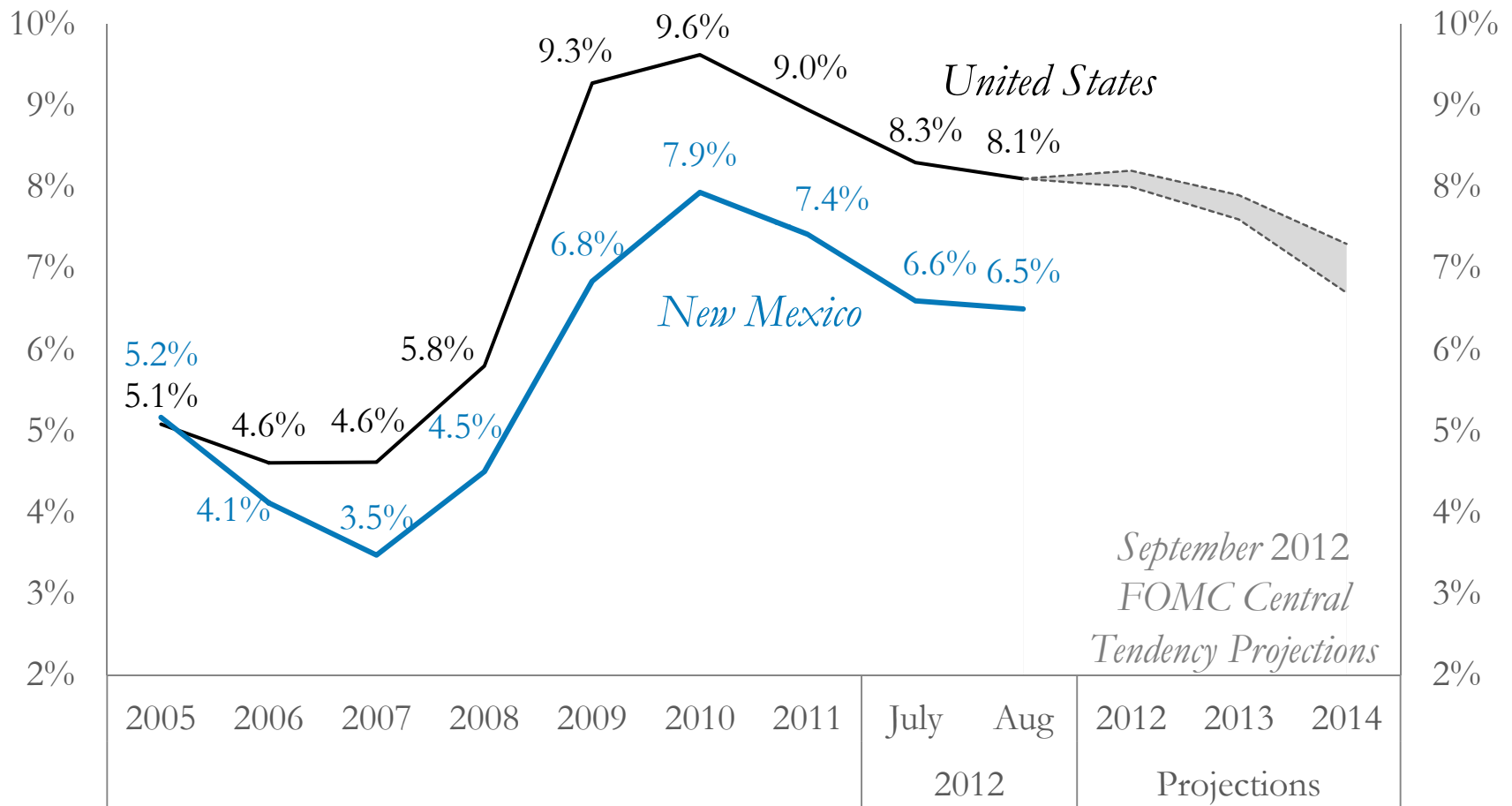
## REAL GROSS DOMESTIC PRODUCT (GDP)

*Annualized Percent Change from Previous Period*



Unemployment rates have fallen over the past year but remain stubbornly high.

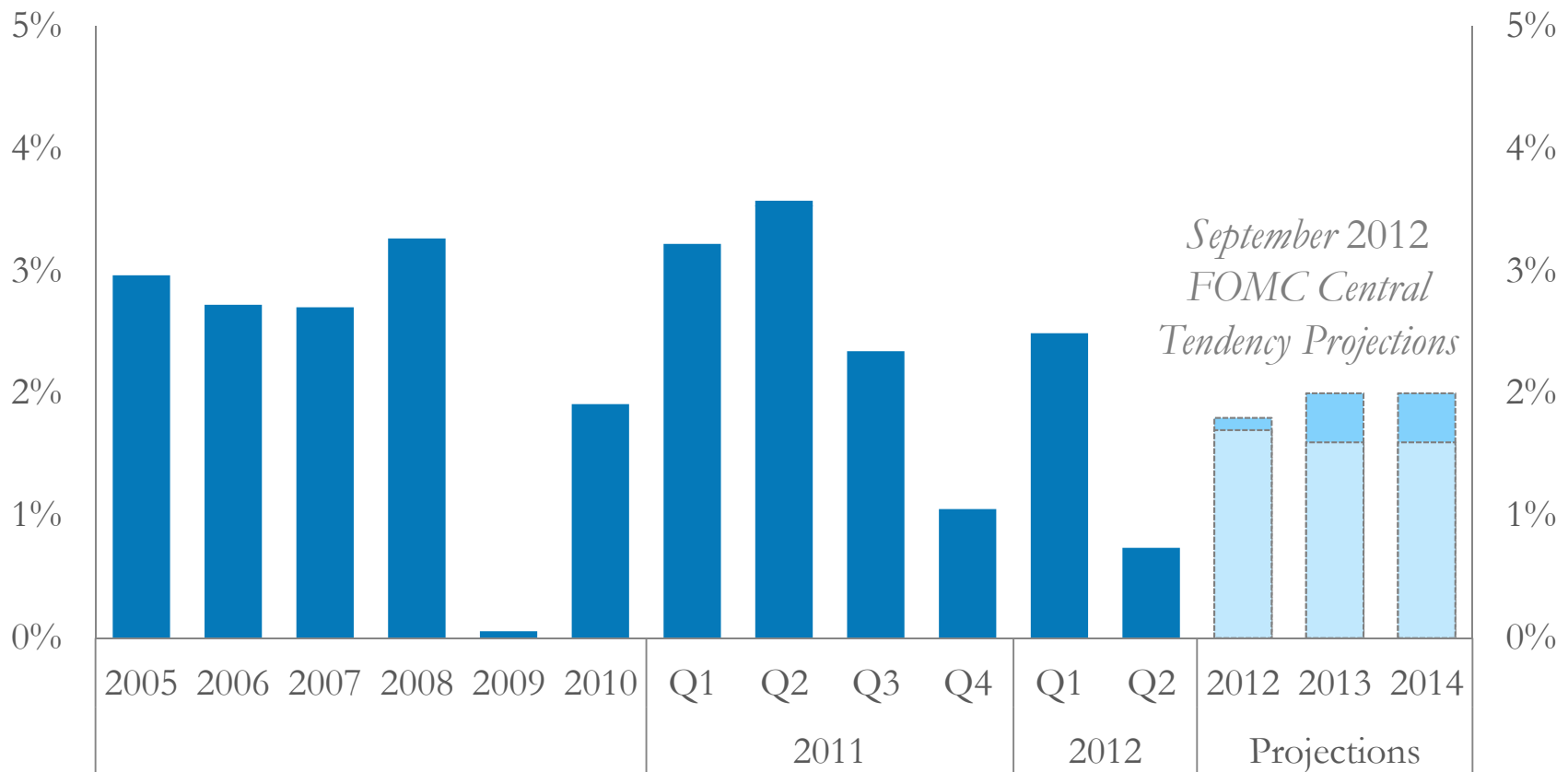
## UNEMPLOYMENT RATE



Inflation increased earlier this year but moderated in the second quarter as oil prices fell.

## U.S. PERSONAL CONSUMPTION EXPENDITURE (PCE) INFLATION

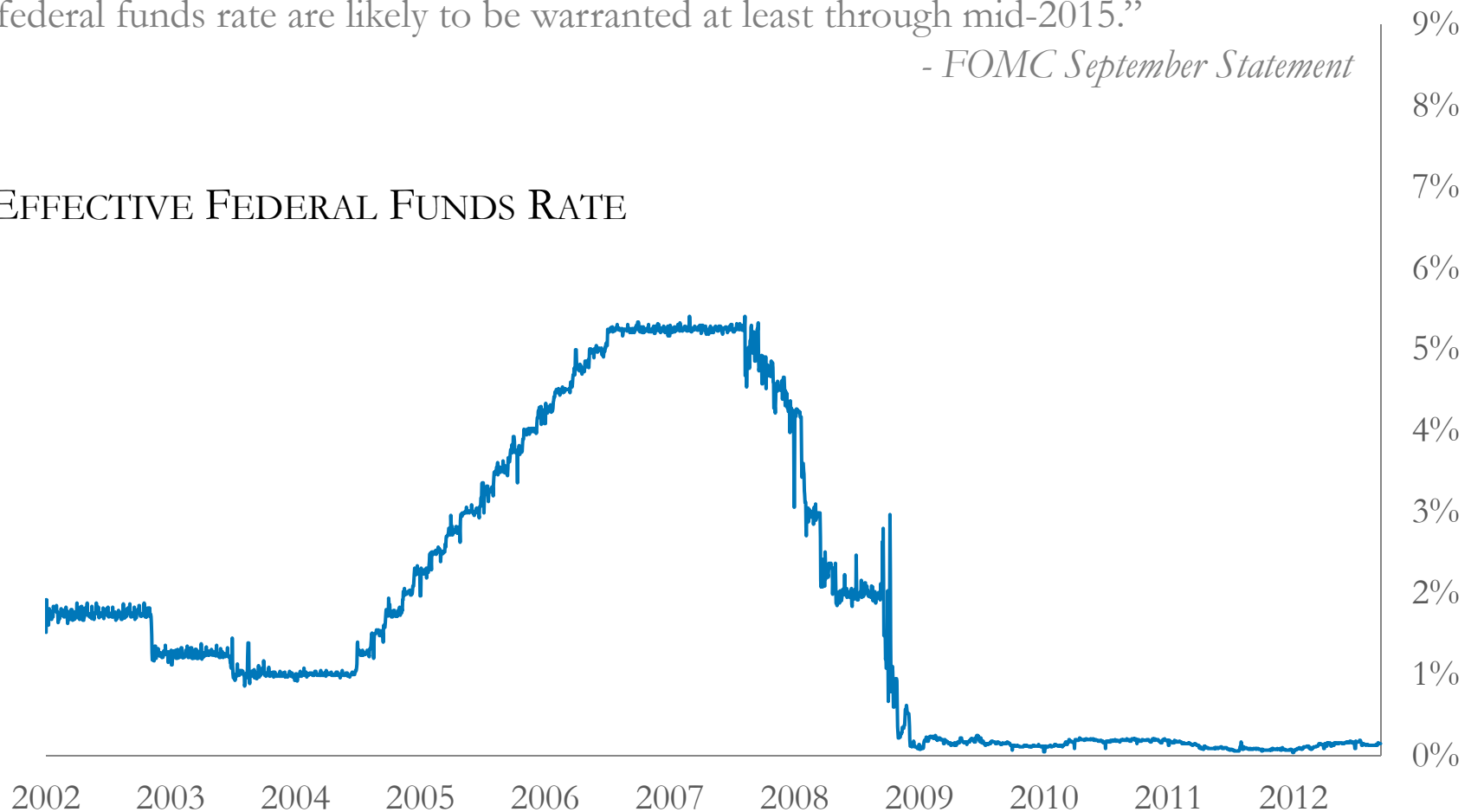
*Annualized Percent Change from Previous Period*



“... the Committee also decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015.”

- *FOMC September Statement*

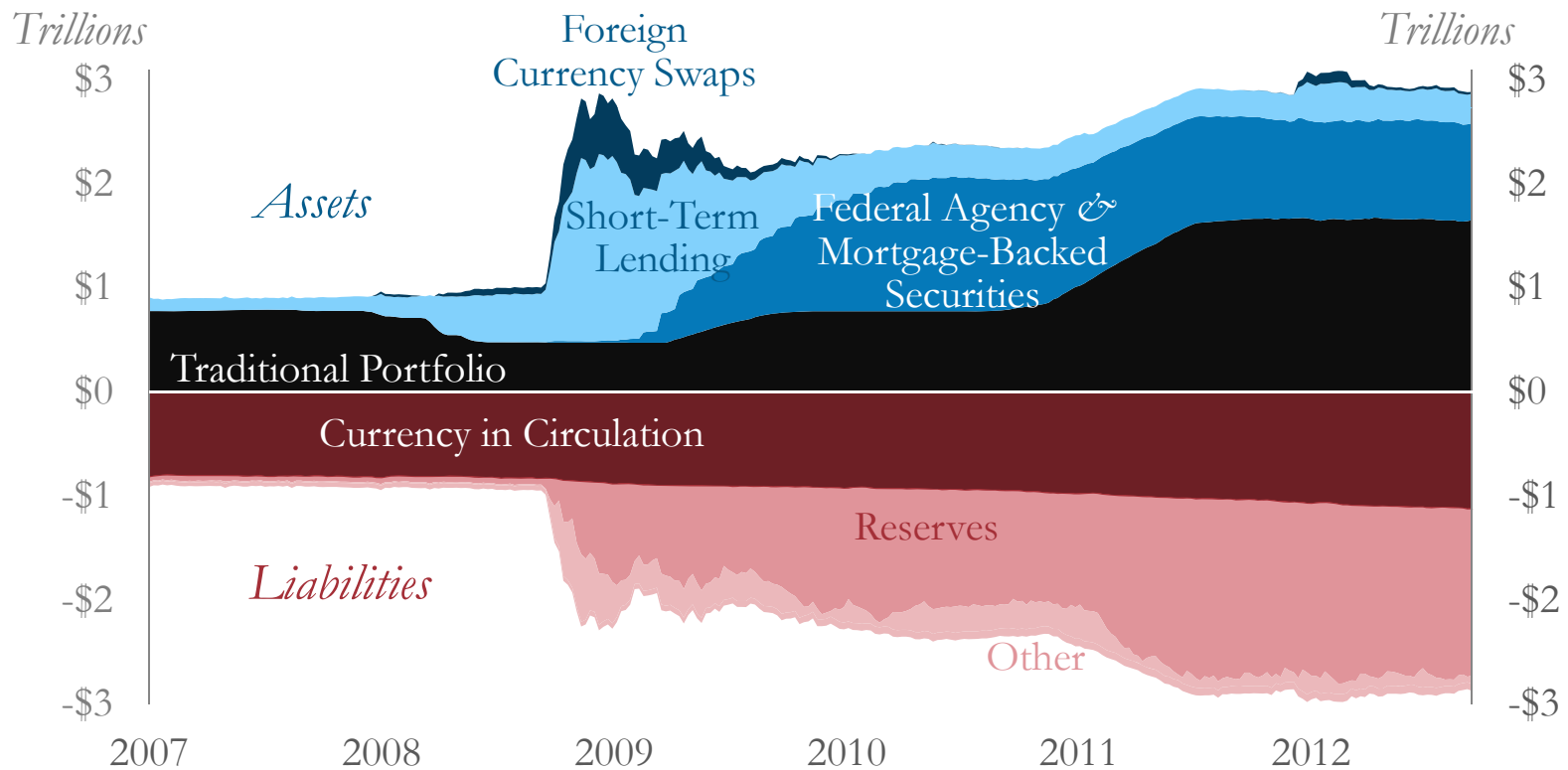
## EFFECTIVE FEDERAL FUNDS RATE



“...the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month.”

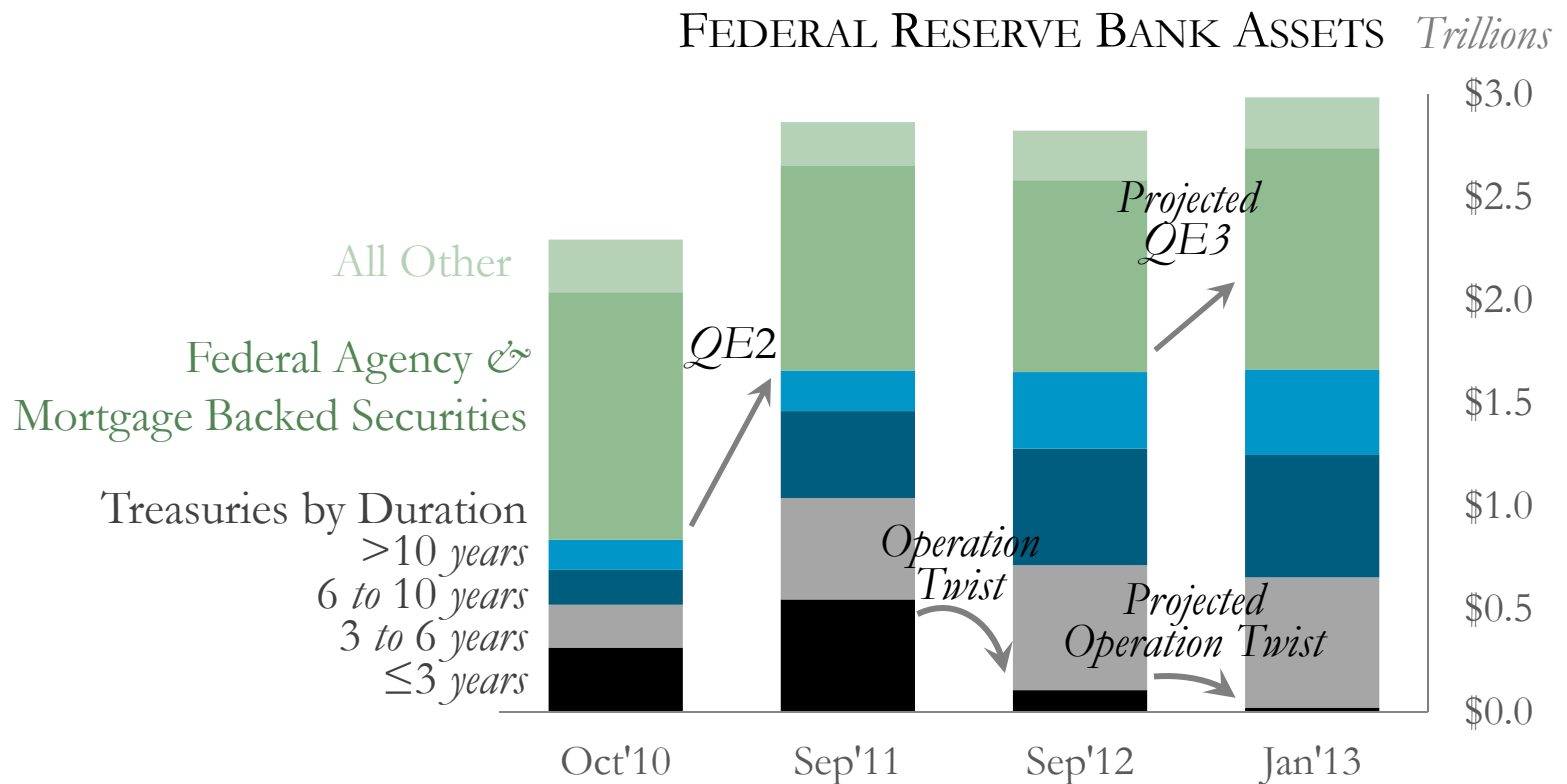
- FOMC September Statement

### FEDERAL RESERVE BALANCE SHEET

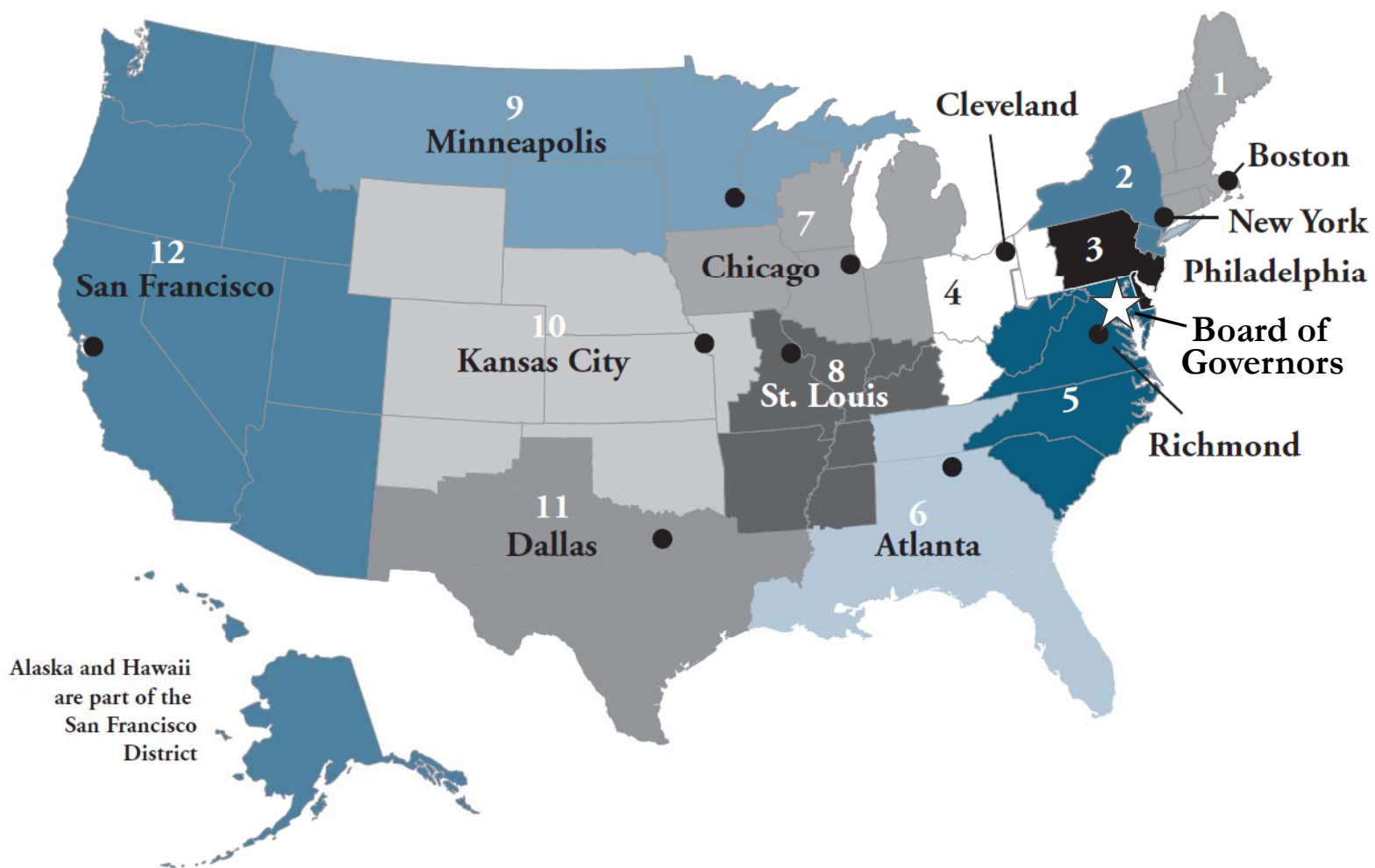


“The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities.”

- FOMC September Statement



## FEDERAL RESERVE BANK DISTRICTS

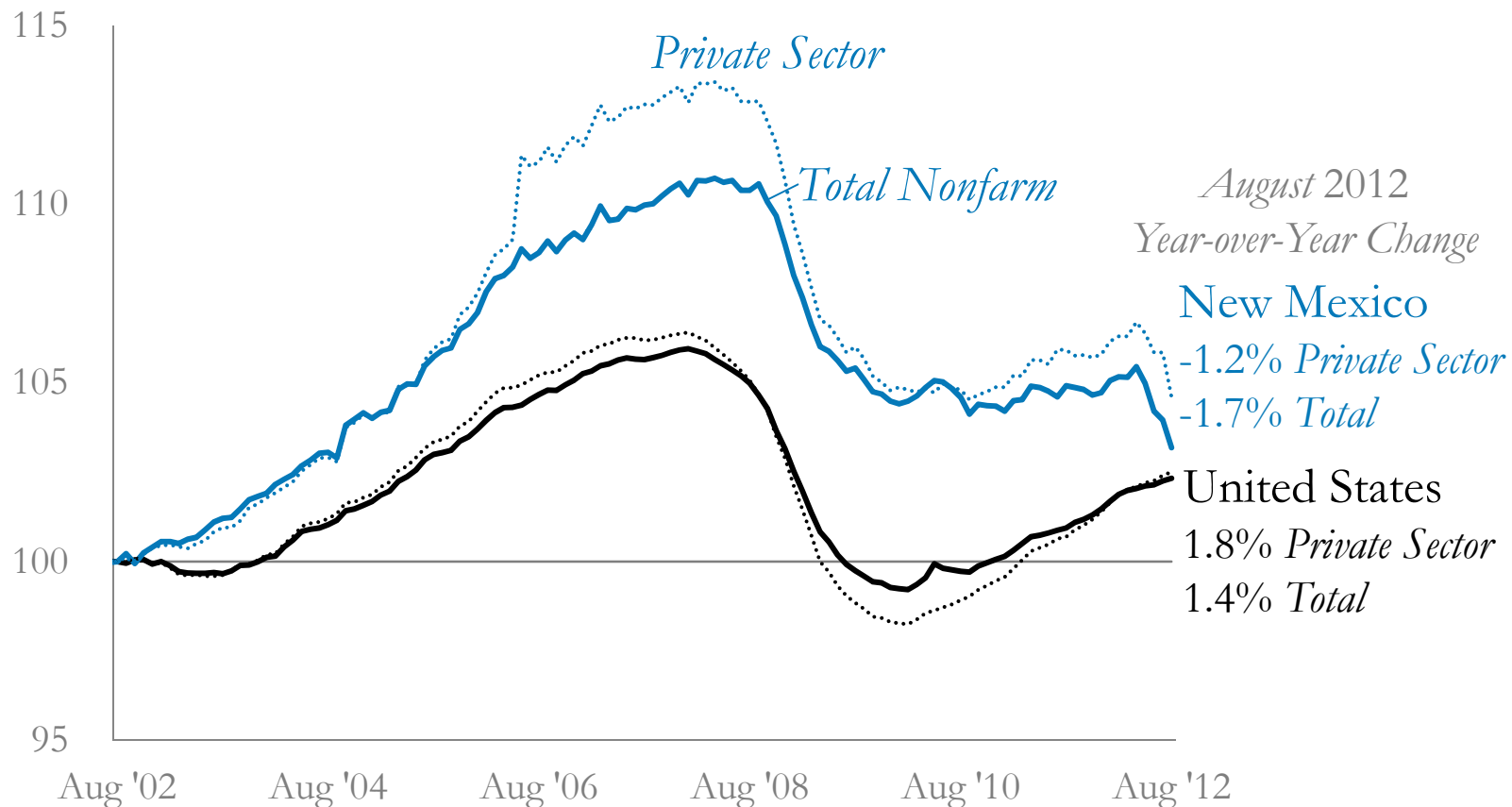




Employment growth slowed in the second quarter, and employment is now below year-ago levels in New Mexico.

## NONFARM EMPLOYMENT GROWTH

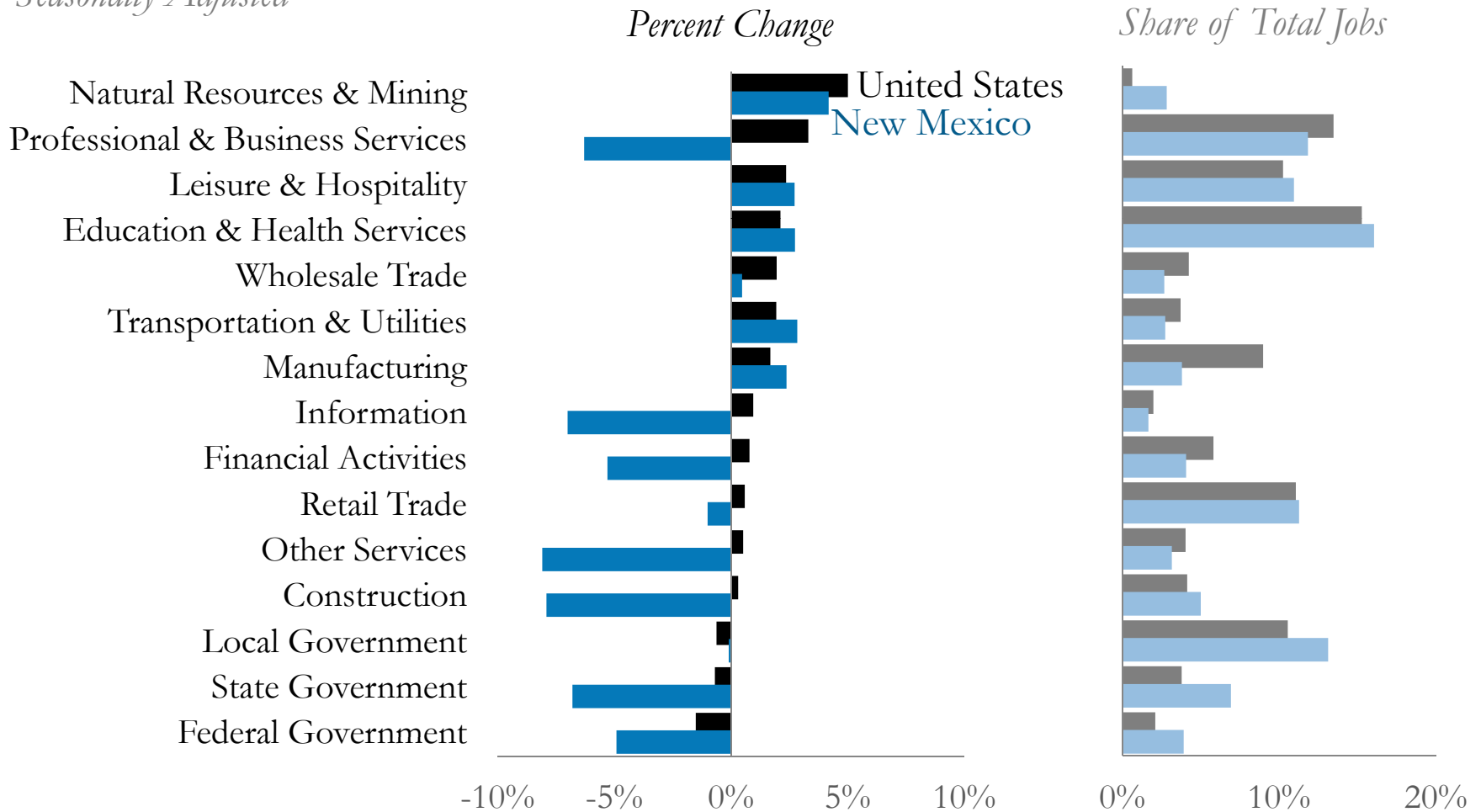
*Index 100 = August 2002, Seasonally Adjusted*



Professional and business services, construction and government weighed heavily on employment growth in New Mexico over the past year.

NONFARM EMPLOYMENT  
OVER THE PAST YEAR, AUGUST 2012

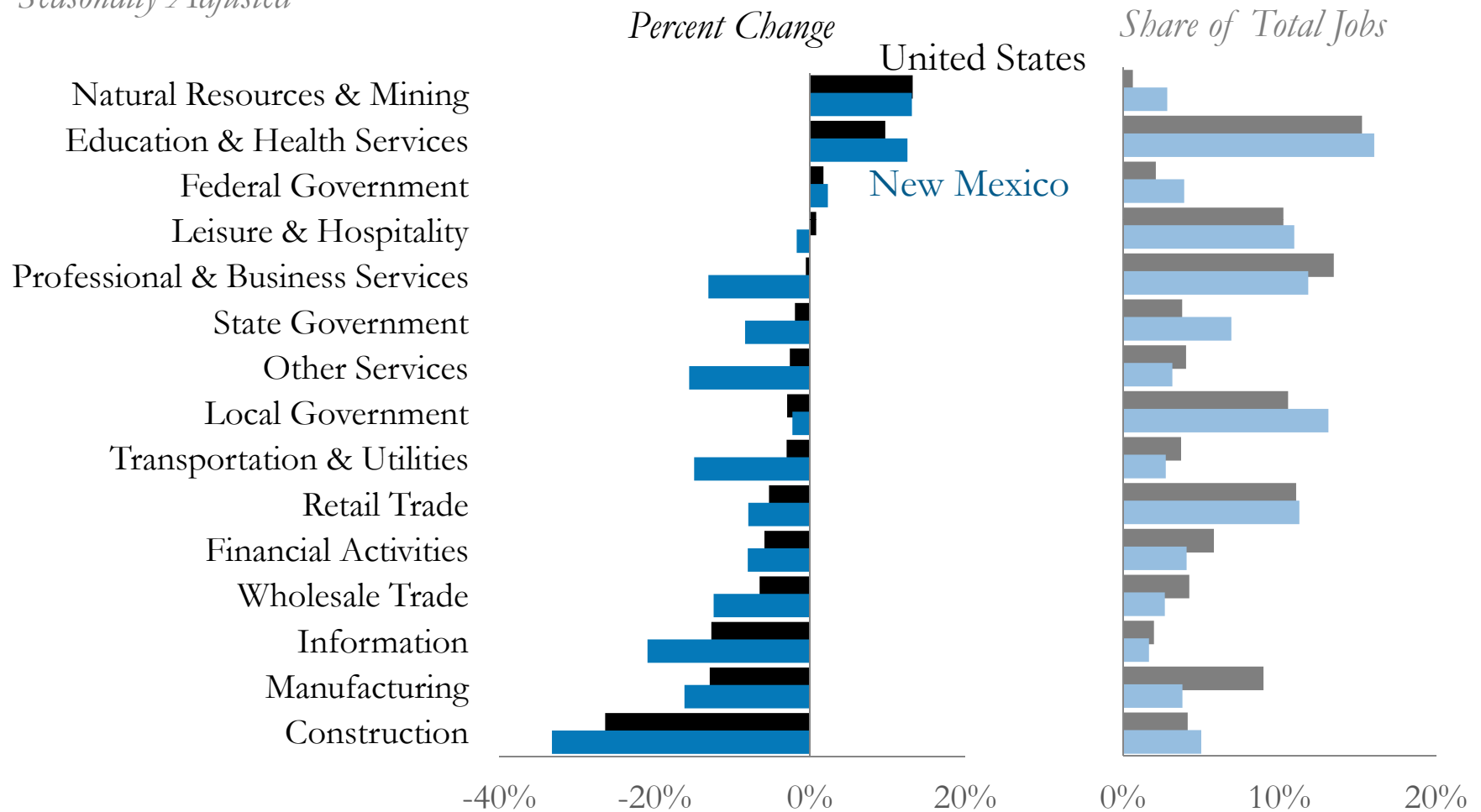
*Seasonally Adjusted*



Mining and healthcare are the only two sectors to experience significant employment growth since the recession started.

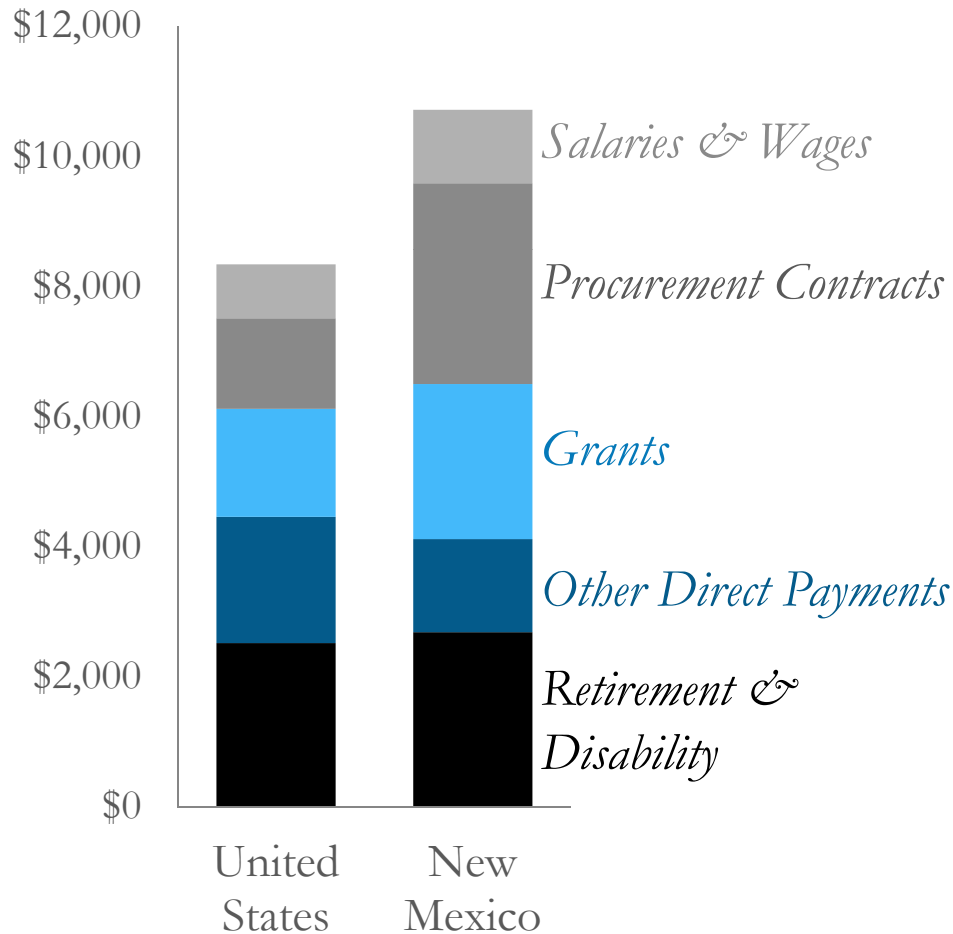
NONFARM EMPLOYMENT  
SINCE THE RECESSION STARTED (DEC. 2007 TO AUGUST 2012)

*Seasonally Adjusted*

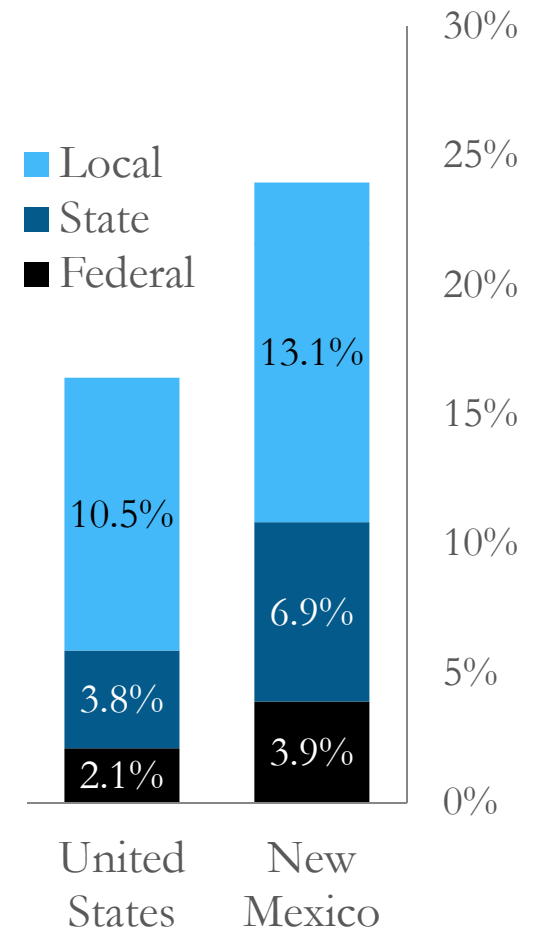


# New Mexico relies heavily on government expenditures and employment.

FEDERAL EXPENDITURES PER CAPITA, FY 2006



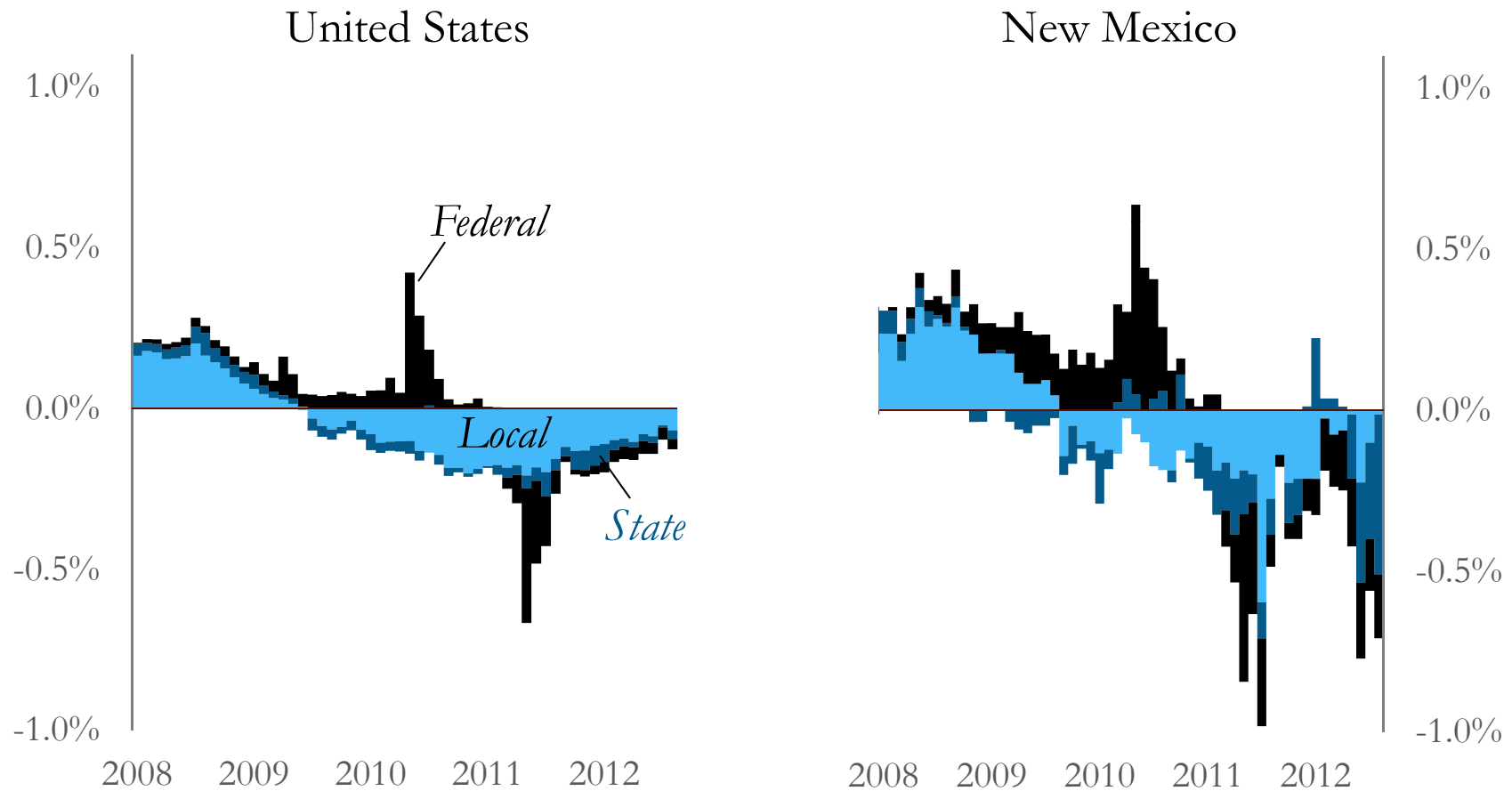
GOVERNMENT SHARE OF TOTAL NONFARM EMPLOYMENT  
*Seasonally Adjusted, August 2012*



Job losses in the government sector lagged private sector job losses by more than a year.

## GOVERNMENT CONTRIBUTIONS TO TOTAL JOB GROWTH

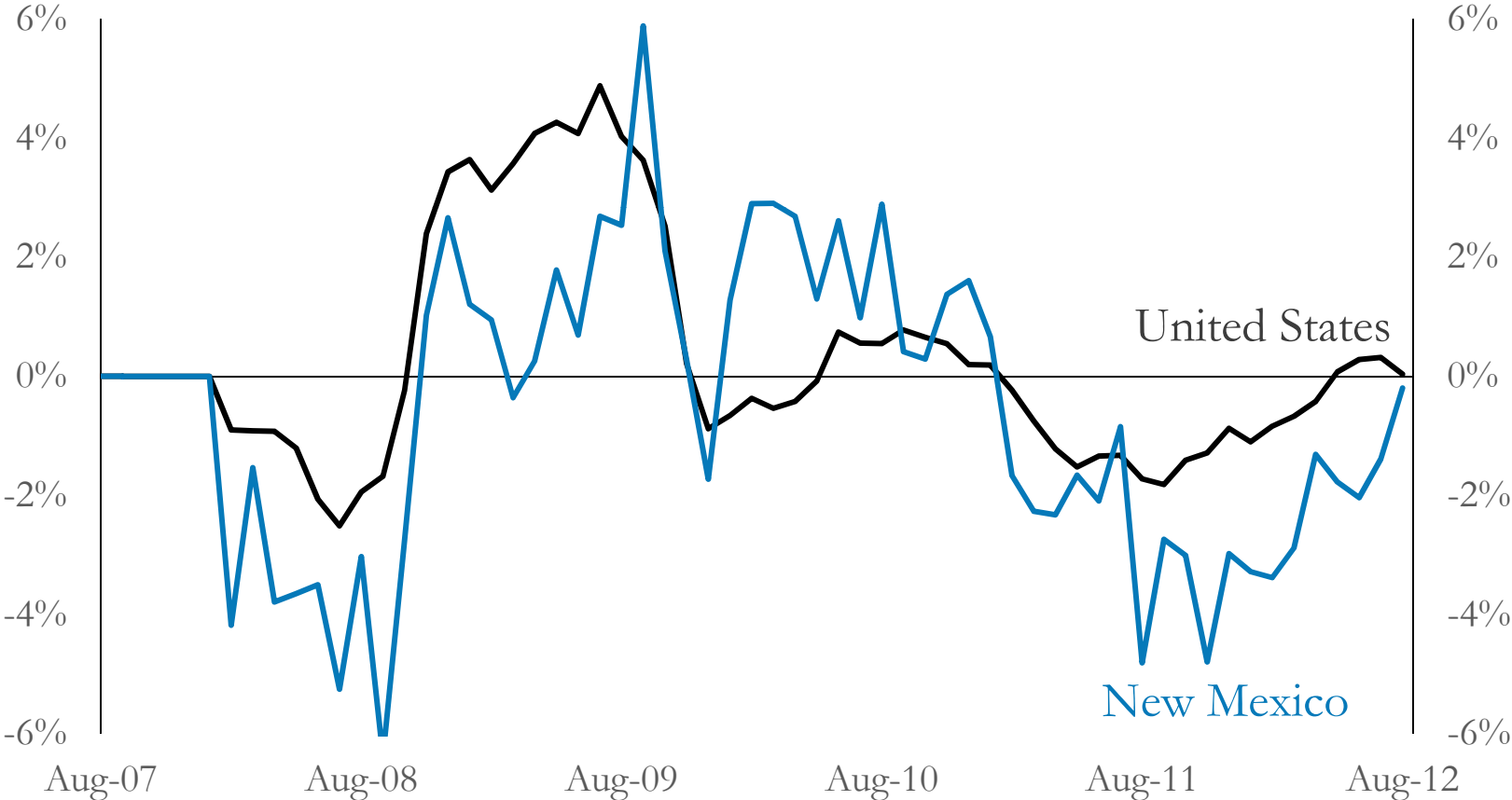
*Seasonally Adjusted, Contribution to Percent Change*



Real hourly earnings growth has been weak in both the U.S. and New Mexico.

REAL AVERAGE HOURLY EARNINGS

*Seasonally Adjusted, Percent Change over Prior Year*

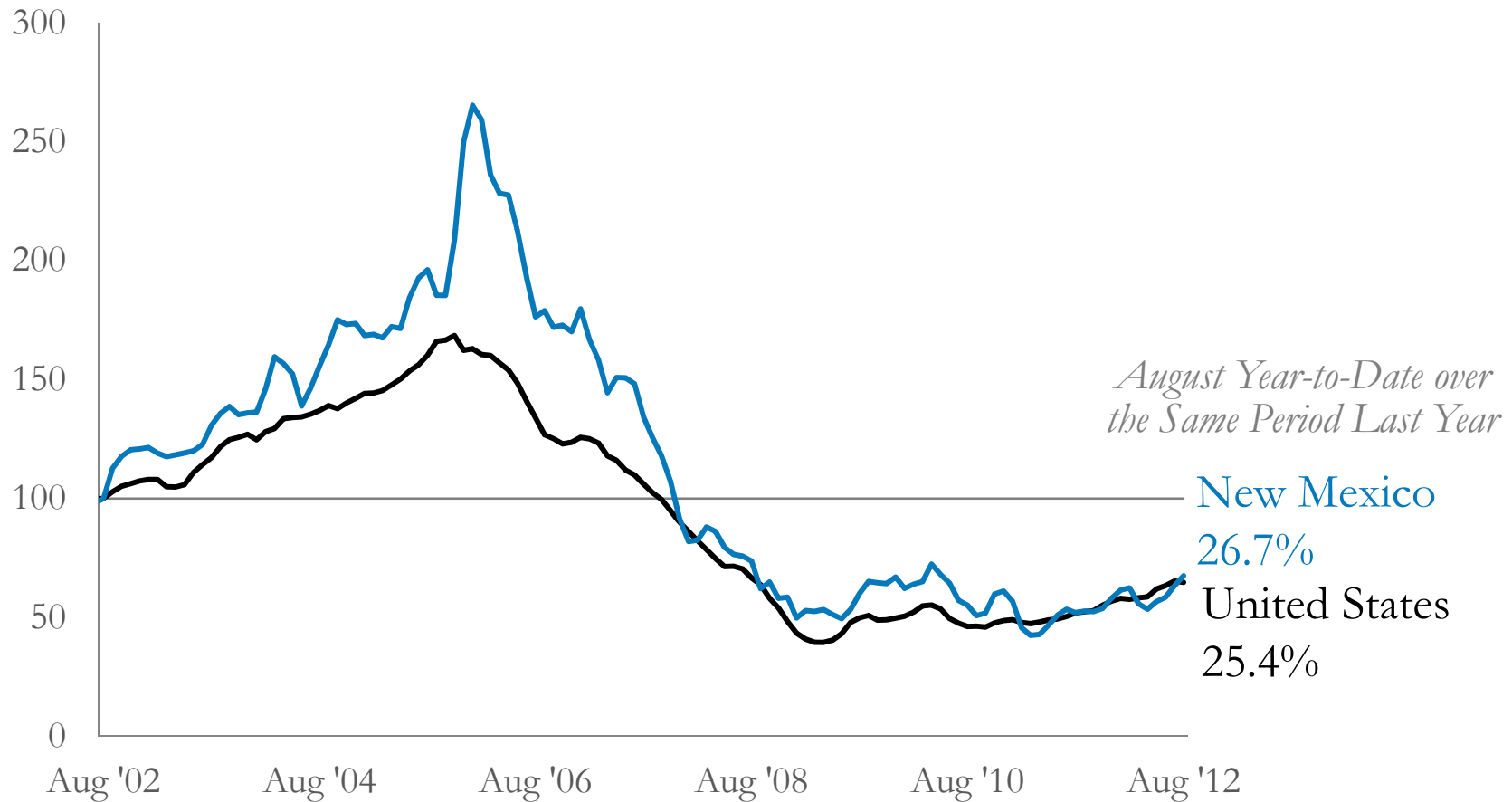


Source: Bureau of Labor Statistics

Residential construction activity is picking up but remains well below pre-recession levels.

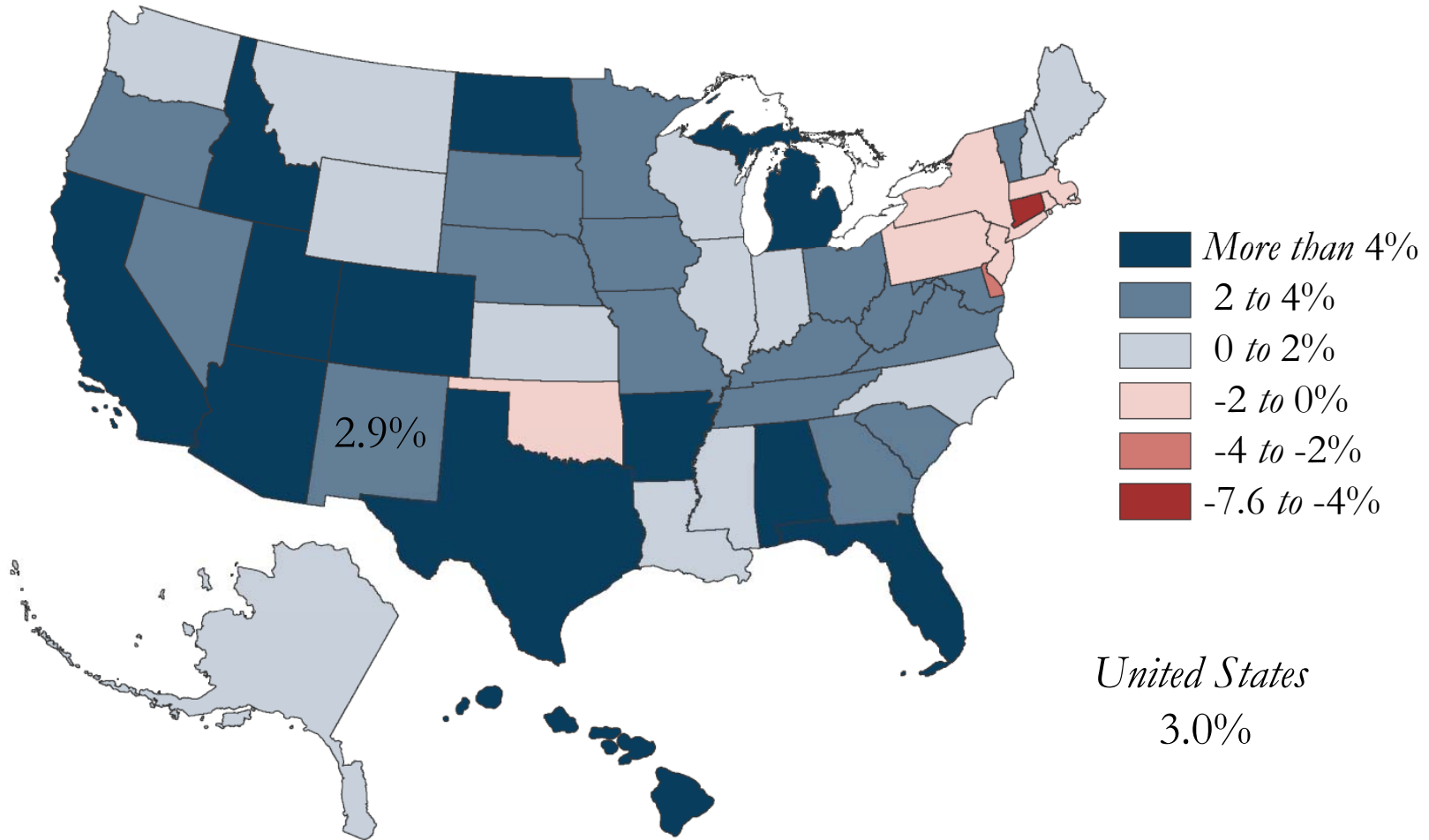
## VALUE OF RESIDENTIAL CONSTRUCTION CONTRACTS

*Index 100 = August 2002, Seasonally Adjusted, Three-Month Moving Average*



Home prices have stabilized over the past year across most of the nation.

CHANGE IN HOME PRICES *Year-over-Year, 2012Q2*  
*FHFA Purchase-Only Index*

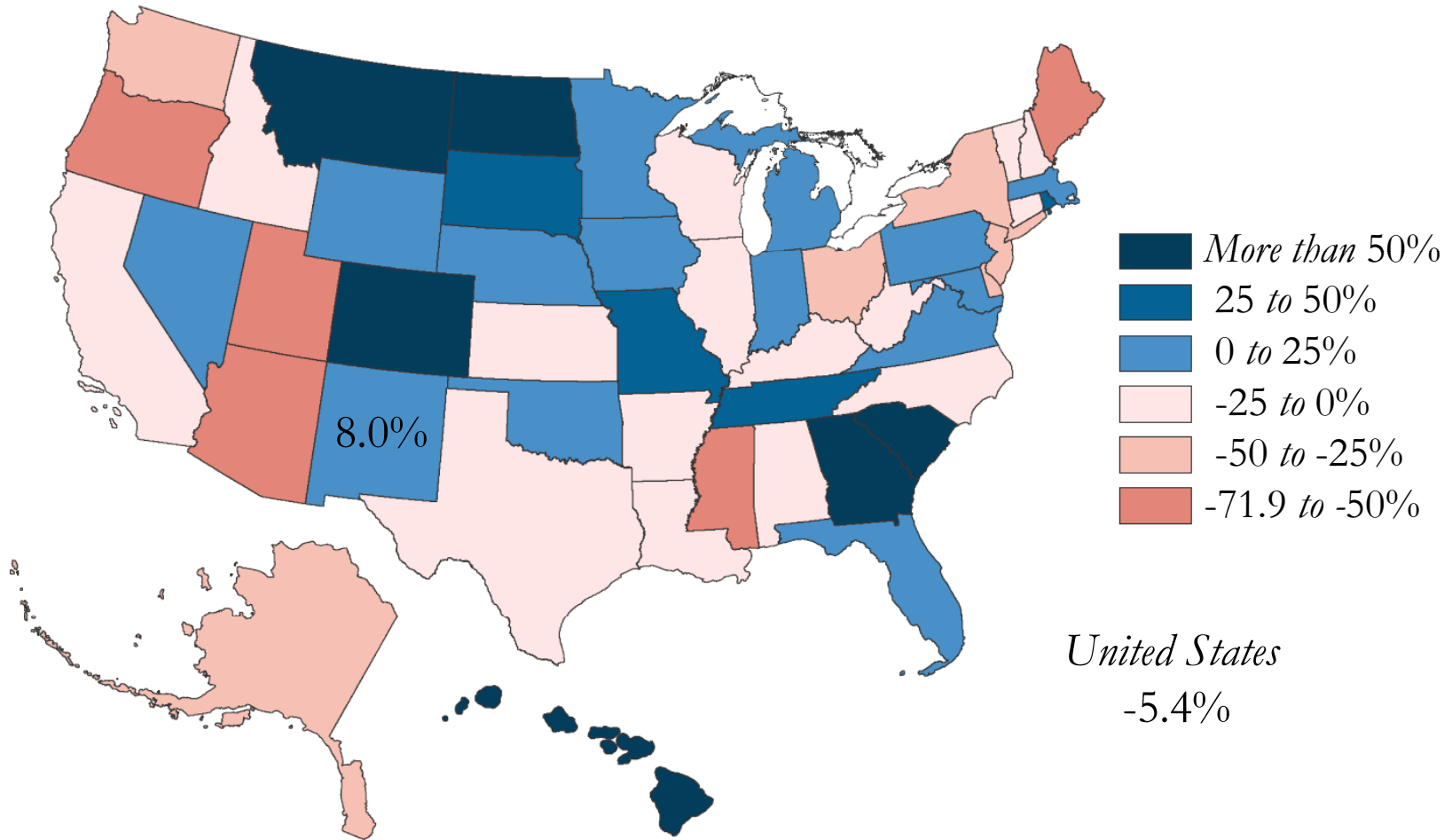




Improvements in non-residential construction activity have varied across the country.

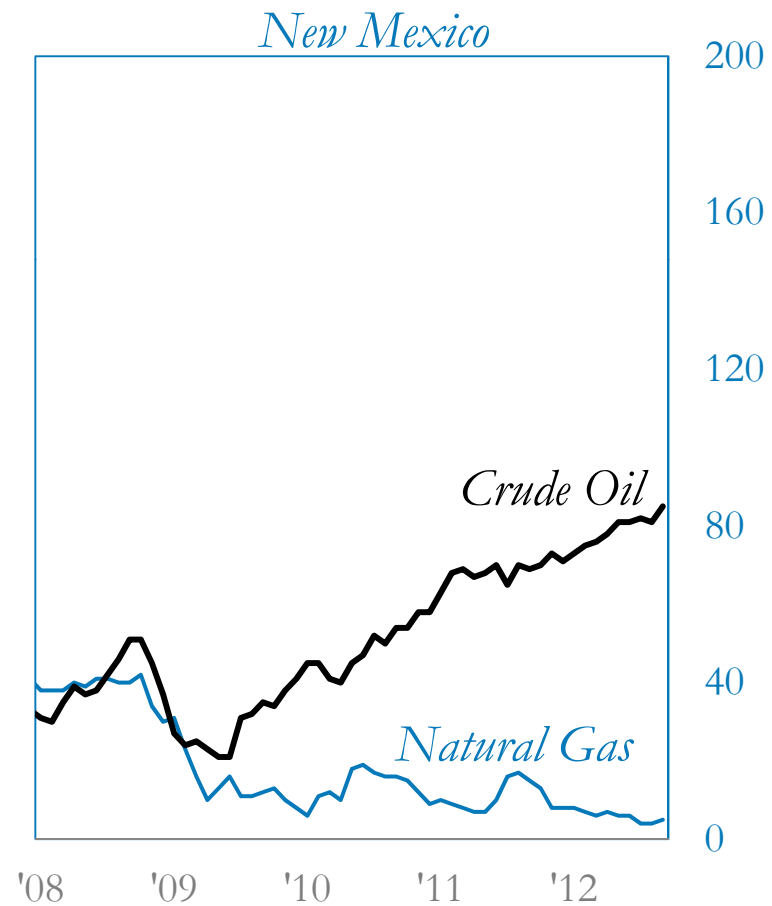
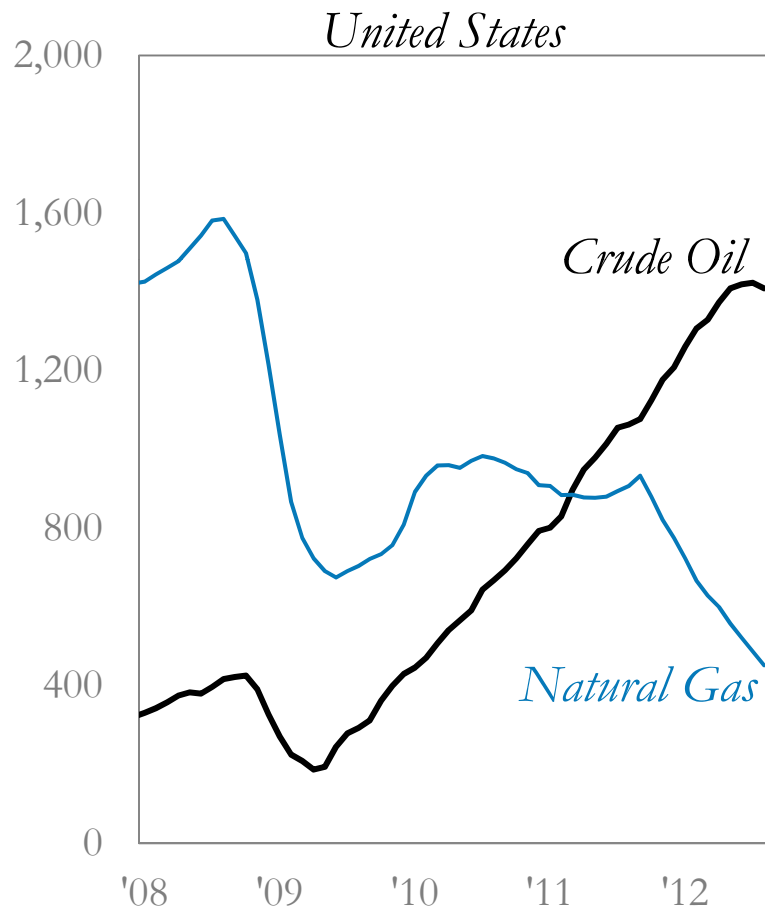
## VALUE OF NON-RESIDENTIAL & NON-BUILDING CONSTRUCTION

*Percent Change, Cumulative Year-to-Date January through July 2012*



Drilling activity is responding to prices with oil drilling up and natural gas drilling down.

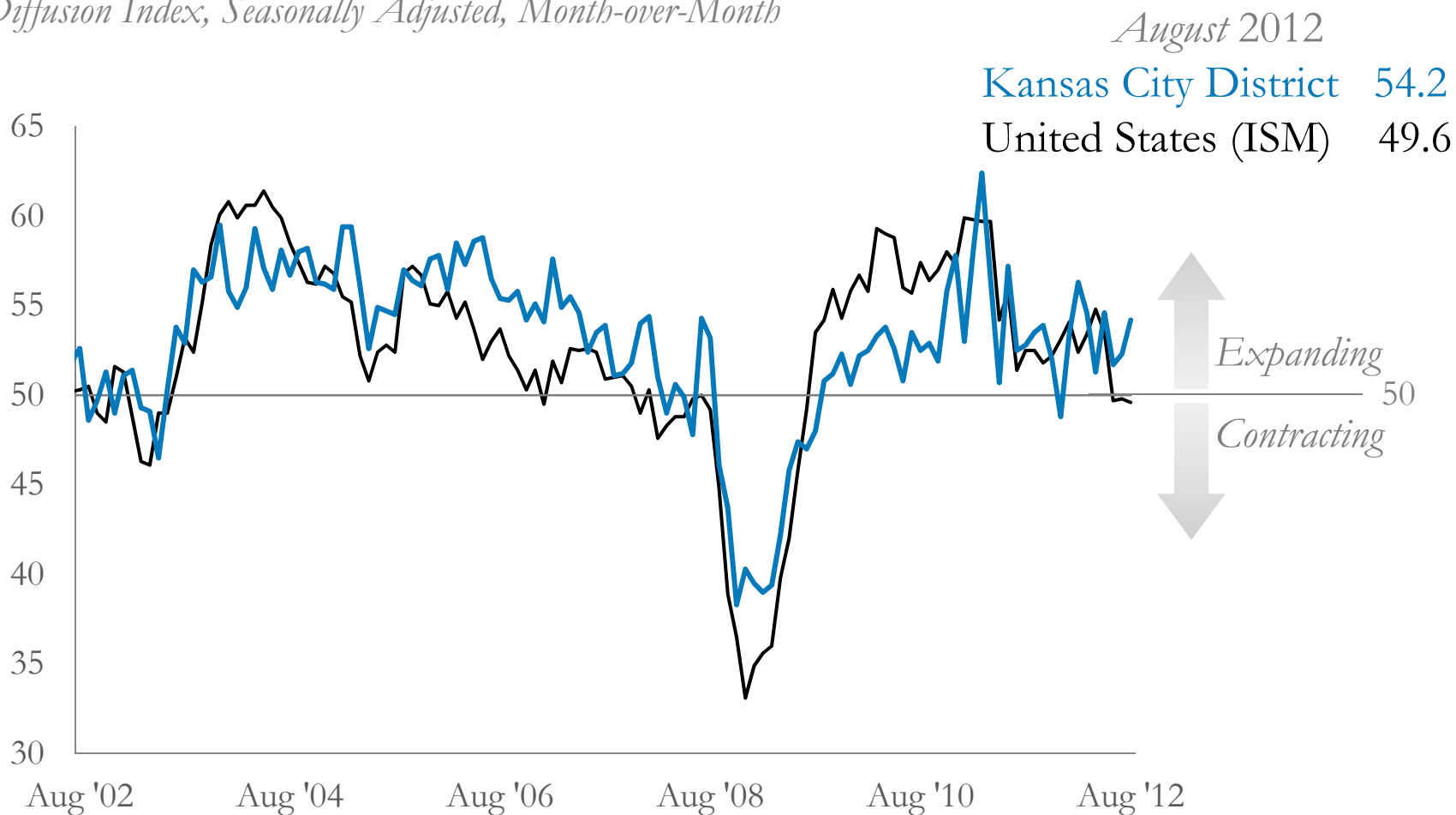
### ACTIVE DRILLING RIG COUNTS *Monthly Average*



# The manufacturing sector continues to expand in the Tenth District.

## MANUFACTURING ACTIVITY

*Diffusion Index, Seasonally Adjusted, Month-over-Month*



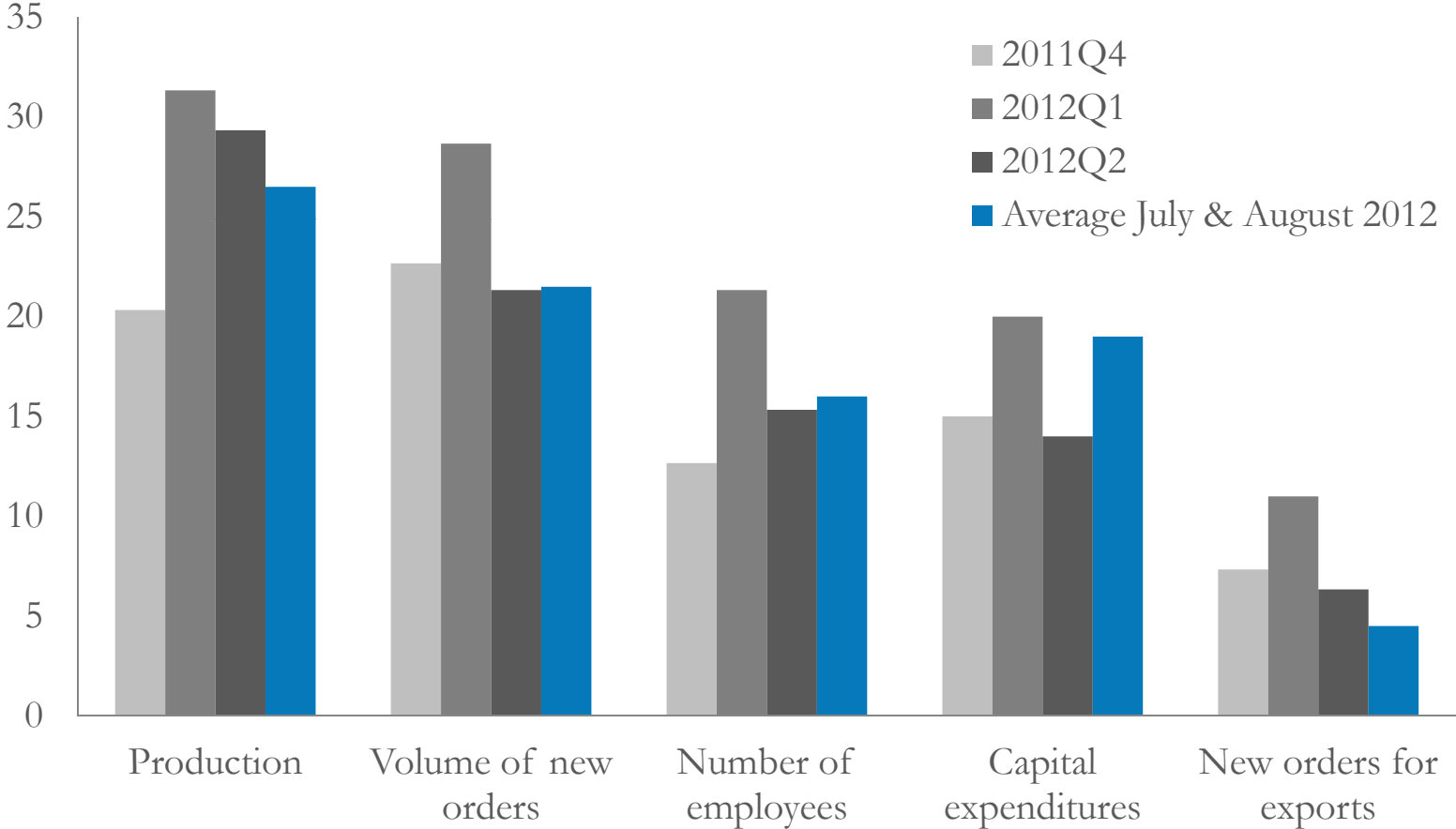
*Note: Federal Reserve Surveys are computed on an ISM Basis (50 = no change)*

*Source: Institute for Supply Management & Federal Reserve Bank of Kansas City*

Manufacturers in the Tenth District expect higher levels of activity over the next six months.

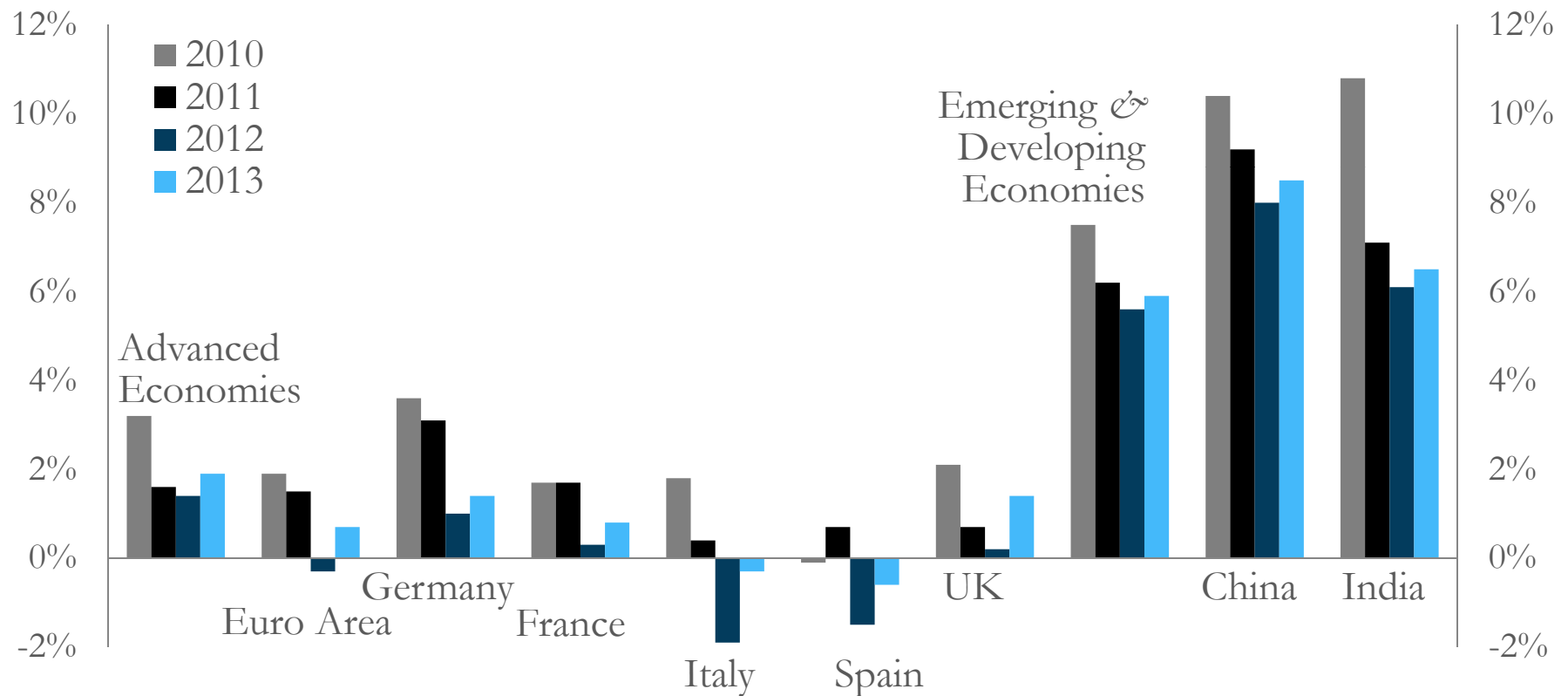
### TENTH DISTRICT MANUFACTURING EXPECTATIONS

*Diffusion Index, Seasonally Adjusted, Six Months Ahead*



Growth has slowed sharply in Europe this year and is expected to remain slow in 2013.

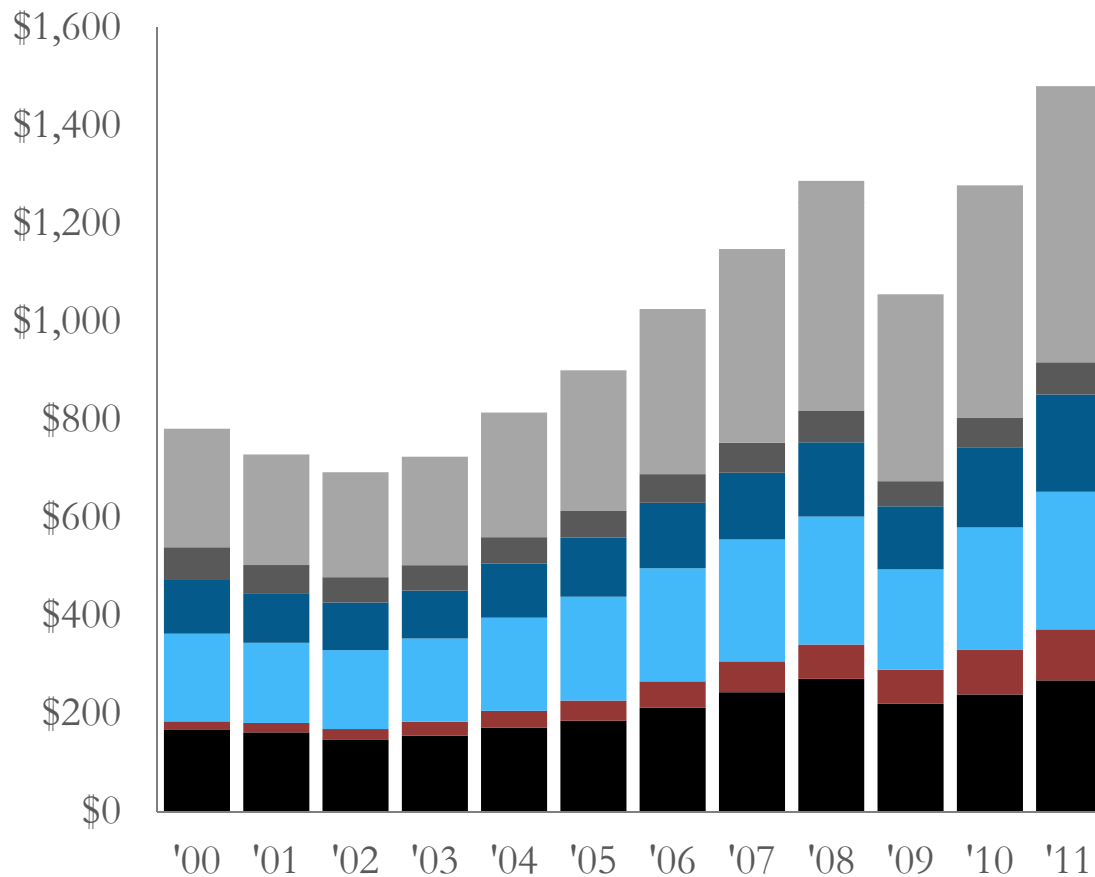
WORLD ECONOMIC OUTLOOK PROJECTIONS  
*Percent Change over Prior Year*



# Exports to Europe make up about 18% of total U.S. exports.

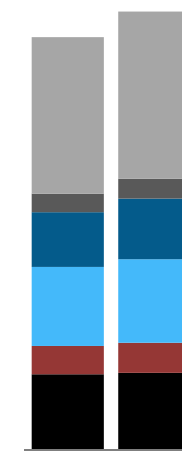
## U.S. EXPORTS BY TRADE PARTNER

Billions



JULY 2012  
YEAR-TO-DATE  
Percent Change

Trade Partner	Value	SHARE*
Total Trade	6.2%	SHARE*
All Other	6.8	38.0%
Japan	6.7	4.4
Mexico	11.0	13.4
Canada	5.4	19.0
China	6.4	7.0
Eurozone	1.9	18.1

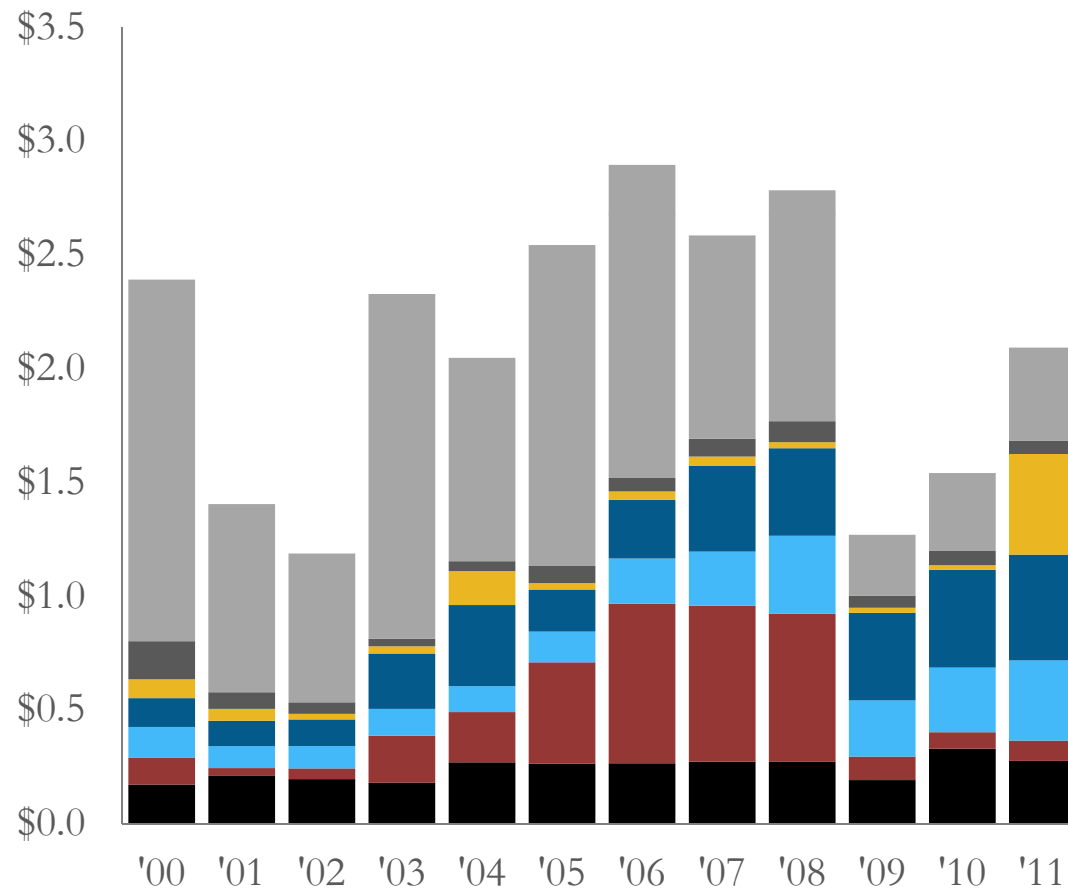


YTD through July

Despite a decrease in exports to Europe, total exports from New Mexico have increased in 2012.

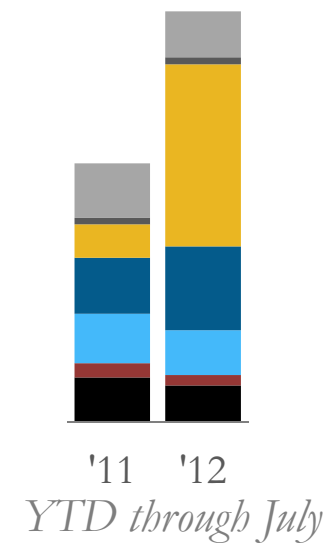
## NEW MEXICO EXPORTS BY TRADE PARTNER

*Billions*



JULY 2012  
YEAR-TO-DATE  
*Percent Change*

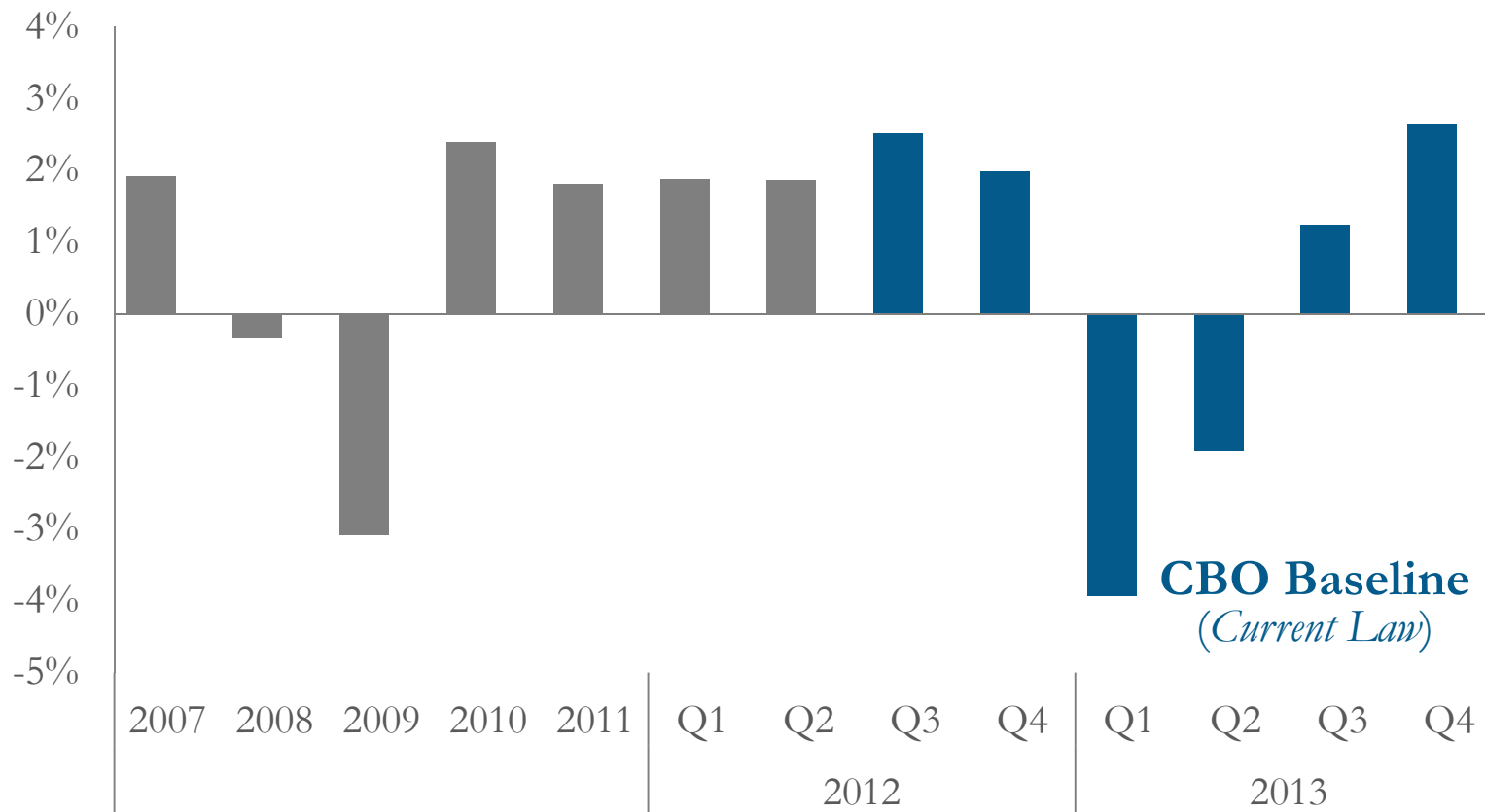
Total Trade	58.9%	SHARE*
All Other	-15.9	19.5%
Japan	10.7	2.8
Israel	444.8	21.1
Mexico	49.8	22.2
Canada	-9.7	16.8
China	-26.5	4.3
Eurozone	-18.1	13.2



Under current law, several tax increases and spending cuts could lead to a slowdown in economic growth next year.

## GDP & THE “FISCAL CLIFF”

*Percent Change (Annualized Quarterly Rates)*

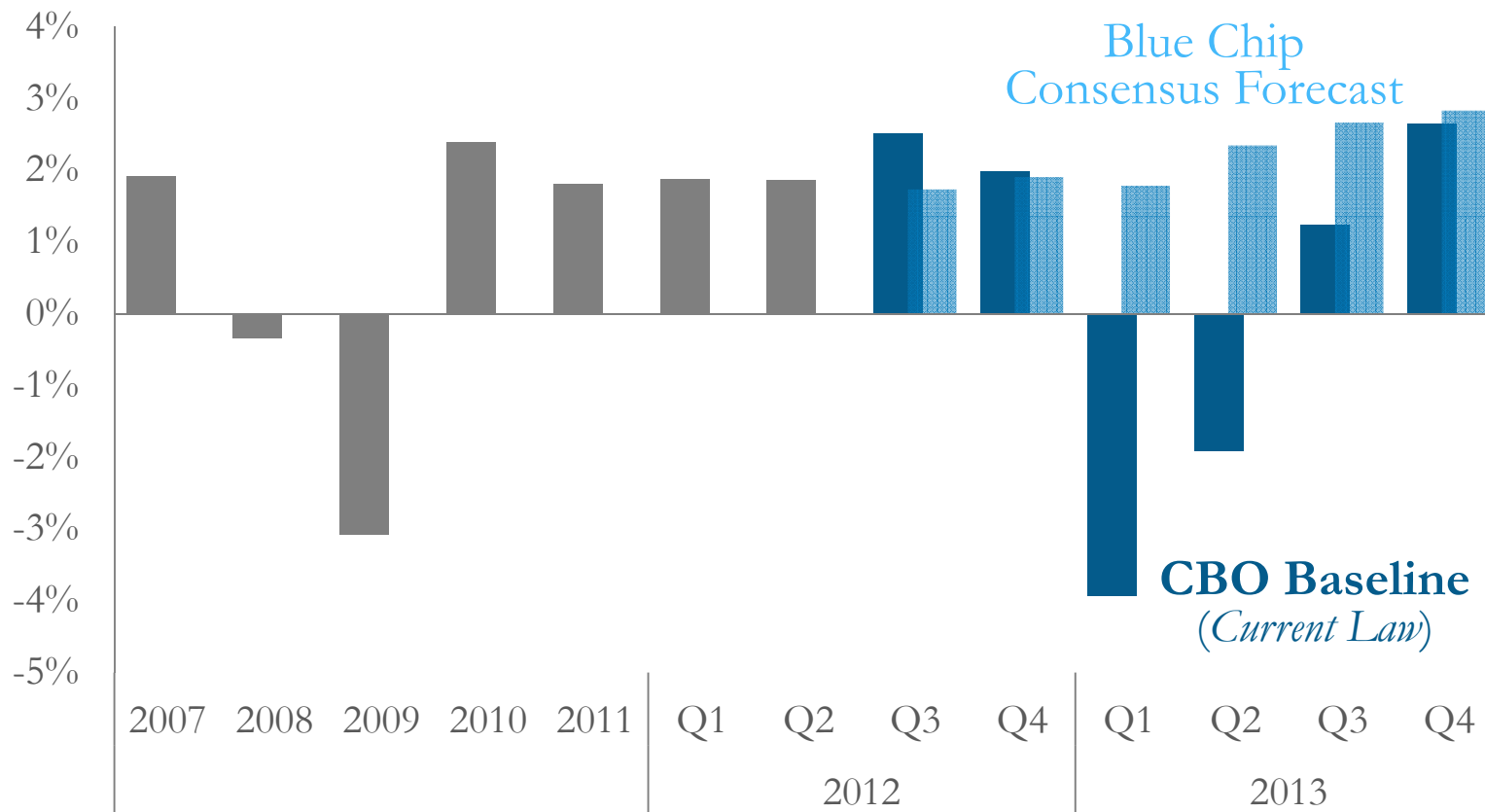




Many private forecasters expect that the fiscal cliff will be avoided and that the U.S. economy will continue to grow at a moderate pace.

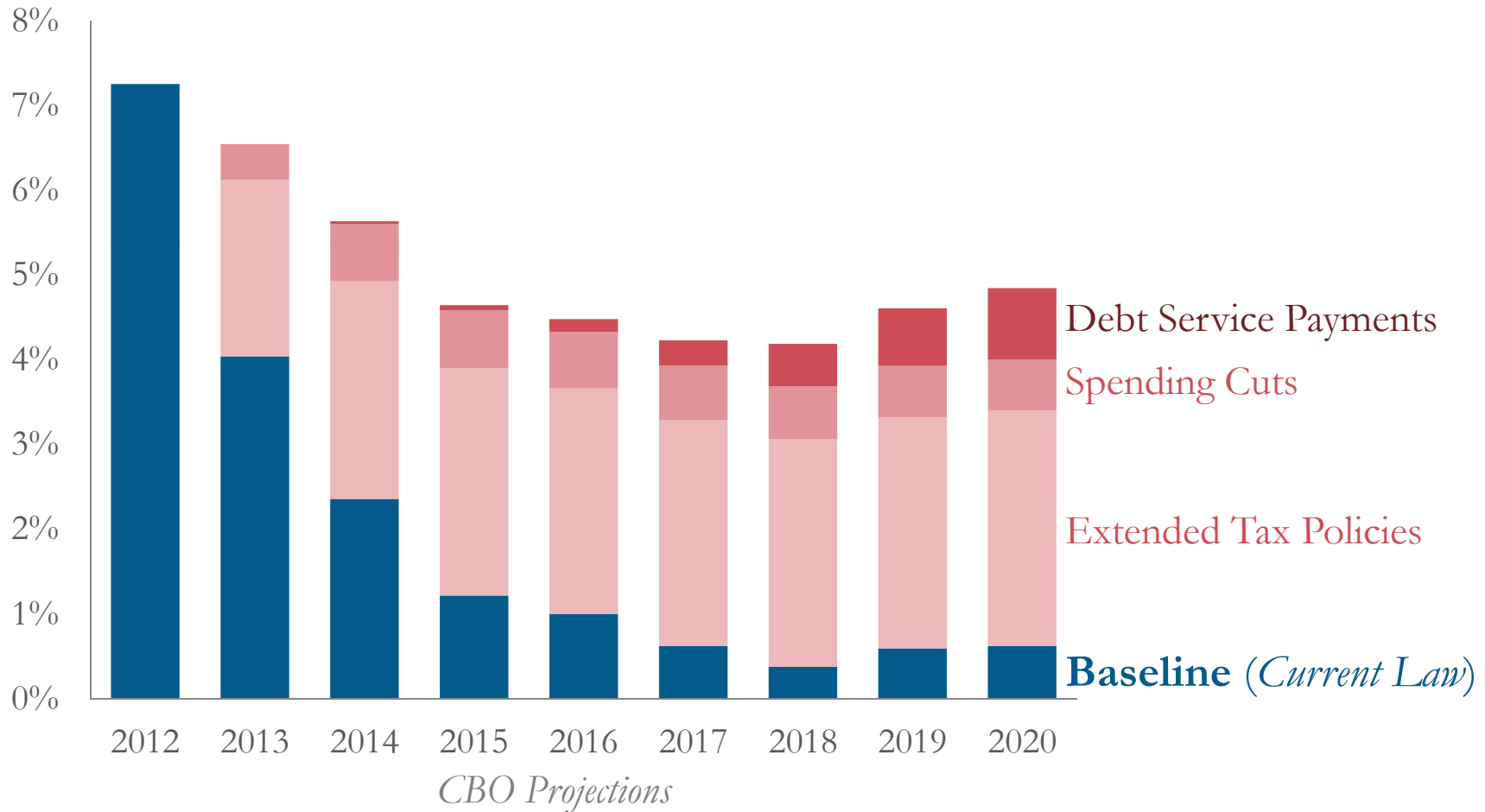
## GDP & THE “FISCAL CLIFF”

*Percent Change (Annualized Quarterly Rates)*



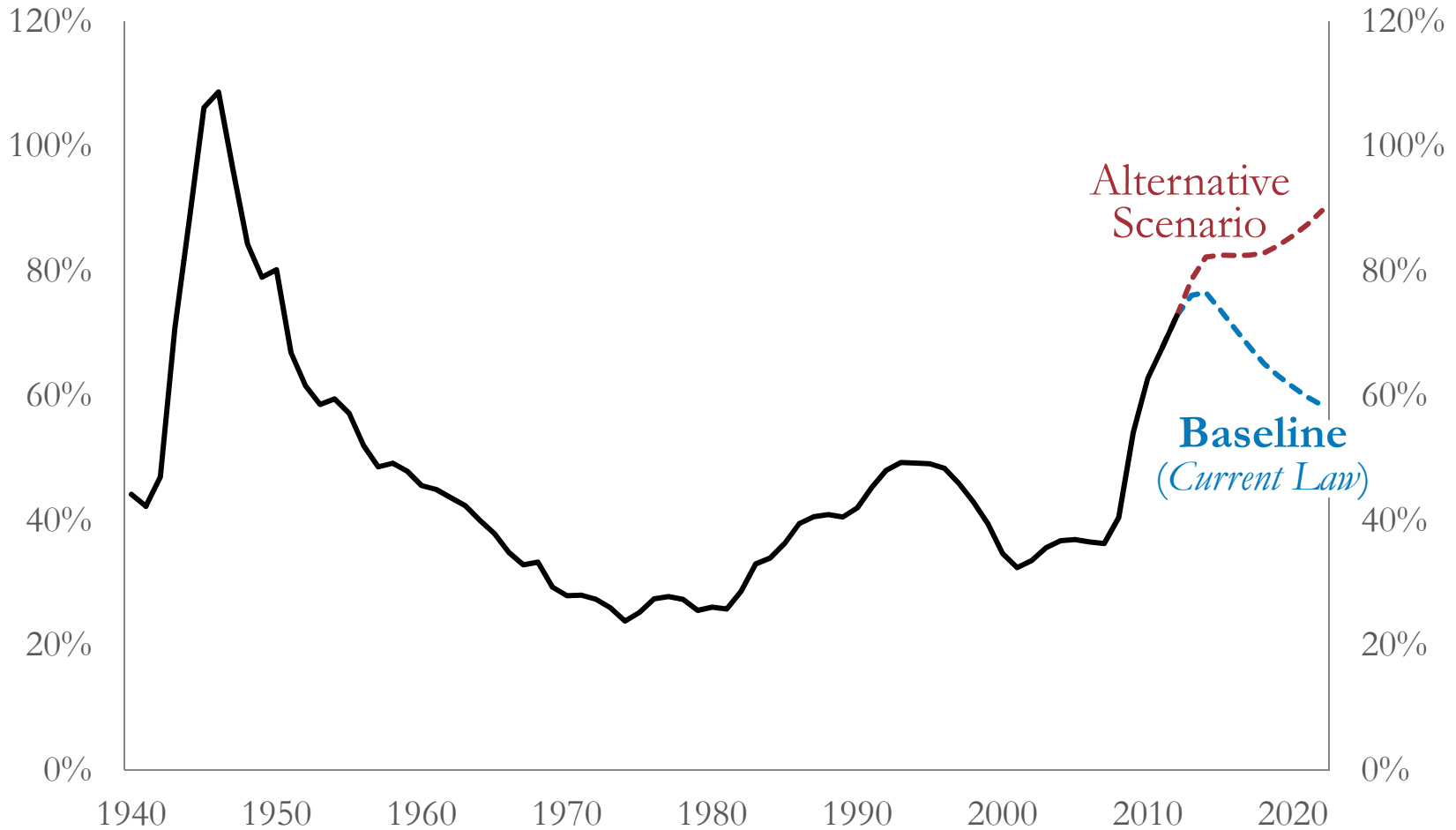
Under current law, U.S. deficits are expected to fall sharply over the next several years.

## U.S. DEFICIT TO GDP RATIO



U.S. Federal government debt levels as a percent of GDP are projected to fall sharply if the fiscal cliff occurs.

## U.S. DEBT TO GDP RATIO



# New Mexico

## *Economic Update*

This presentation will be available at  
<http://www.kc.frb.org/denver/>

Alison Felix  
[Alison.Felix@kc.frb.org](mailto:Alison.Felix@kc.frb.org)

