

New Mexico Recovery Lags amid Energy, Government Sector Weakness

By Roberto Coronado and Marycruz De León

ABSTRACT: New Mexico's unique history is reflected in the state's demographics and economy. Tourism, energy and government have traditionally driven activity. Although government once bolstered growth, it is now a drag. While new industries have emerged and trade with Mexico has grown, economic recovery has been slow.

New Mexico's economy has traditionally reaped the benefits of tourism and commodities, principally oil and natural gas, and government programs. More recently, cross-border manufacturing and trade with Mexico have become important economic drivers, increasingly setting southern New Mexico apart from the northern portion of the state.

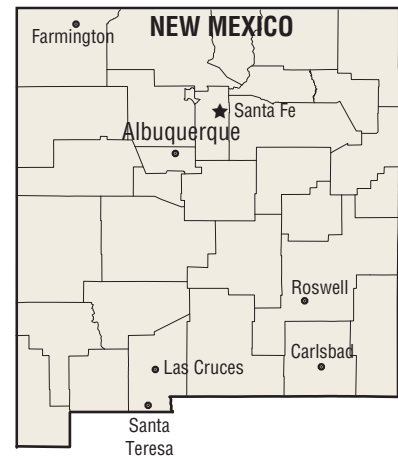
However, New Mexico has failed to rebound during the recovery from the Great Recession as it confronts the ongoing impact of the global energy slowdown, weak government spending and sluggish residential construction activity.

New Mexico's job growth exceeded that of the nation from at least 1990 to the beginning of the Great Recession in December 2007. But as U.S. employment has rebounded from the downturn, the state remains 20,000 jobs short of its level prior to the recession.

Spanish Colonial Roots

New Mexico's economy and demographics remain closely intertwined with its history. The nation's 47th state—admitted to the Union in 1912 after overcoming opposition by those who viewed it as a foreign land—retains the imprint of its indigenous tribes and early explorers. The Spanish first arrived in New Mexico in the 1500s, hoping to find pueblos filled with gold just as they had in the Aztec empire. The Spanish not only failed to find gold, but they were also forced to retreat. A permanent Spanish presence wasn't established until the mid-18th century.

In 1848, when the Treaty of Hidalgo ended the Mexican-American War, New Mexico became a territory of the U.S. With time, Santa Fe, the nation's oldest city to serve as a state capital, established itself as a center of commerce. Ranching,



farming and mining became growing industries, and by 1850, the population of New Mexico stood at 61,547.¹ U.S. government troops forcibly relocated Navajo and Apache tribes to the Bosque Redondo Reservation in eastern New Mexico, near present-day Fort Sumner, in the 1860s.²

The federal government's presence greatly expanded during World War II. Los Alamos played an integral role in the creation of the atomic bomb under the Manhattan Project and eventually became part of a network of national laboratories.³ The government subsequently took control of millions of acres of land to establish military bases and research and design facilities.

The war era was a period of strong economic growth in New Mexico and a catalyst for the decades that followed, heralding a dependence on the federal government.

Population Reflects History

New Mexico is the 36th-largest state, though its 2015 population of 2.1 million is small next to No. 2 Texas' 27.5 million (Table 1). Two-thirds of New Mexico residents live in four metropolitan areas: Albuquerque, Farmington, Las Cruces

and Santa Fe. The state population has increased 8.1 percent since 2005, close to the nation's 8.4 percent growth rate but behind Texas' 20.2 percent rate.

Despite its decade of expansion, New Mexico's population shrank slightly in 2014 as international in-migration failed to offset domestic out-migration.

New Mexico boasts the largest share of Hispanics in the U.S.—47 percent of residents self-identify as Hispanic and some can trace their roots to family members who accompanied Spanish explorers and settled the region 400 years ago.

New Mexico also has a large Native American population; only Alaska has a greater share. Native Americans represent 8.5 percent of the state's population, compared with less than 1 percent nationally. New Mexico is home to 23 Indian tribes—19 pueblos (a Spanish term for village or community), three Apache tribes and the Navajo nation.⁴ There is also a considerable urban Native American population.

Educational Attainment Limited

New Mexico lags behind the U.S. in educational attainment. The share of adults with less than a high school diploma is 15.4 percent versus 12.9 percent for the nation. Only 26.5 percent of adults have a bachelor's degree or higher, compared with nearly 30.6 percent in the U.S.

Results are even more dismal in primary education. New Mexico ranked last among the 50 states in reading proficiency among fourth-graders, with just 23 percent rated as proficient in the 2015 National Assessment of Educational Progress. Only 17 percent of Hispanic students and 10 percent of Native Americans were at standard.

Lower educational attainment leads to depressed wages and household income. Per capita income totaled \$37,938 in the state in 2015, nearly \$10,000 below national and Texas levels. New Mexico also has one of the highest poverty rates in the country at 20.4 percent, trailing only Mississippi.

Tourism and Energy

New Mexico's economy ranks 37th among the states, with a gross domestic

Table 1 New Mexico Demographics: How State Compares with Texas, U.S.

	New Mexico	Texas	U.S.
Population, 2015 (#)	2,085,109	27,469,114	321,418,820
Hispanic alone (%)	47.0	38.2	17.6
White alone (%)	39.6	44.3	61.65
Black/African-American alone (%)	1.8	11.6	13.3
American Indian/Alaska Native alone (%)	8.5	0.3	0.9
Asian alone (%)	1.3	4.0	5.6
2 or more races (%)	1.5	1.5	2.6
Educational attainment, population 25 and over			
Less than high school (%)	15.4	17.6	12.9
High school or equivalent (%)	26.8	25.3	27.6
Some college or associates degree (%)	31.3	28.7	29.0
Bachelor's degree or higher (%)	26.5	28.4	30.6
No health insurance coverage, 2015 (%)	10.9	17.1	9.4
Poverty rate, 2015 (%)	20.4	15.9	14.7
Per capita personal income, 2015 (\$)	37,938	46,947	48,112

SOURCES: Census Bureau; Bureau of Economic Analysis.

product (GDP) of \$93.3 billion in 2015. By comparison, Texas ranks second, with a GDP of \$1.6 trillion.

Identifying clusters of economic activity helps explain the dynamics of New Mexico's economy. Chart 1 depicts New Mexico industry clusters organized by location quotient (LQ)—the share of local employment in each industry cluster relative to the nation—and the change in employment share between 2006 and 2014.⁵

Clusters in the top half of the chart have an LQ above 1 and are, therefore, more concentrated in New Mexico than in the nation. These are considered drivers of the state economy. Clusters in the "star" quadrant, such as health services and biomedical, are relatively heavily concentrated in New Mexico and fast growing. "Mature" sectors, such as construction, are more concentrated relative to the U.S. but slower growing.

Government is the largest cluster in New Mexico, followed by recreation and food services and retail. The latter two clusters are closely linked to tourism. About 33.3 million tourists visited New Mexico in 2014, spending an estimated \$6.1 billion.⁶

About 98 percent of tourists are from elsewhere in the U.S., with the vast majority (86 percent) visiting for leisure

and 10 percent for business.⁷ The tourism industry is estimated to support nearly 89,000 New Mexico jobs, equal to about 10 percent of total employment.

Energy and mining is the state's third-largest cluster, reflecting New Mexico's standing as the nation's sixth-largest crude oil producer.⁸ Southeastern New Mexico lies within the Permian Basin, the nation's largest oil-producing region. This corner of the state accounts for more than 90 percent of New Mexico's crude oil.⁹ New Mexico is also a top natural-gas producer, responsible for about 4 percent of U.S. production, with northwestern New Mexico (near Farmington) the most prolific region.

Additionally, New Mexico is a leading source of potash and copper, ranking first in U.S. potash production and third in copper (behind Arizona and Utah).

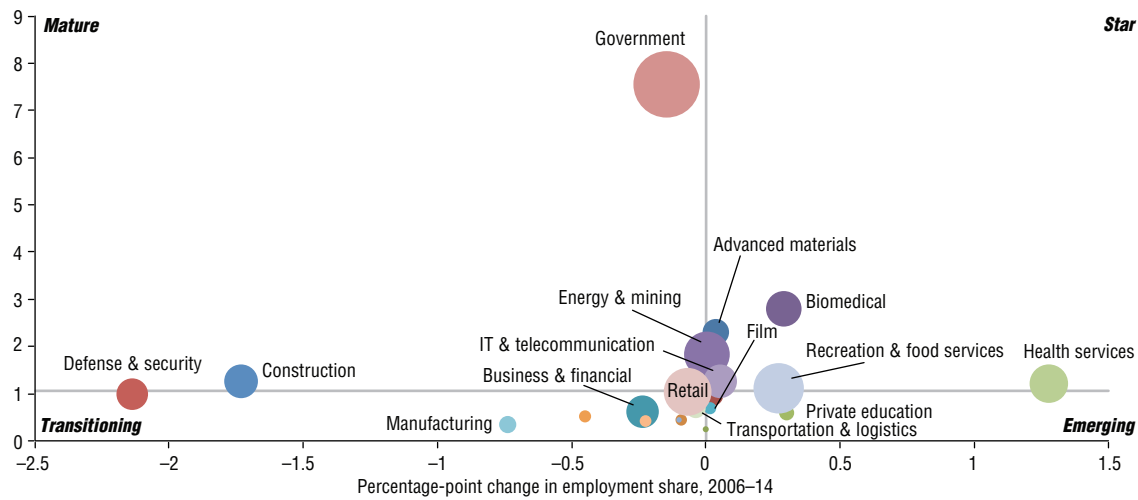
Health, Government and Trade

Government—federal, state and local—is the state's largest sector, representing approximately 25 percent of all jobs and placing New Mexico fourth nationally in concentration. (The District of Columbia, Wyoming and Alaska rank higher.) Much of the government work involves military installations (Cannon Air Force Base, Holloman Air Force Base, Kirtland Air Force Base and White

Chart 1

Government, Recreation, Retail, and Energy and Mining Dominate New Mexico Economy

Location quotient in 2014



NOTE: Bubble size represents cluster share of state employment.
SOURCES: Bureau of Labor Statistics; authors' calculations.

Sands Missile Range), research labs (Los Alamos National Laboratory and Sandia National Laboratory), and Native American tribes and pueblos. Nearly 7,000 local government jobs are tied to Native American tribes—sovereign nations with their own governments.¹⁰

Health services is the fastest-growing cluster. Since 2006, health employment has increased more than 15 percent and the industry's growth in share of state employment has outpaced the national rate. The rapid rise may be tied to expansion of health care coverage under the Affordable Care Act as well as to a growing retiree population. Although jobs in nursing facilities and social assistance pay below average, hospitals and ambulatory health care services offer above-average compensation.

Transportation and logistics is a transitioning sector, although cluster employment has increased nearly 15 percent since 2010, an outgrowth of expanding international trade. Between 2009 and 2015, the value of total trade through border ports of entry—at Santa Teresa and Columbus—increased nearly 330 percent.

The vast majority of trade—99.4 percent in 2015—moved through Santa Teresa. Expansion and concentration

of manufacturing in Santa Teresa has boosted cross-border activity there (Chart 2).

Slow Postrecession Recovery

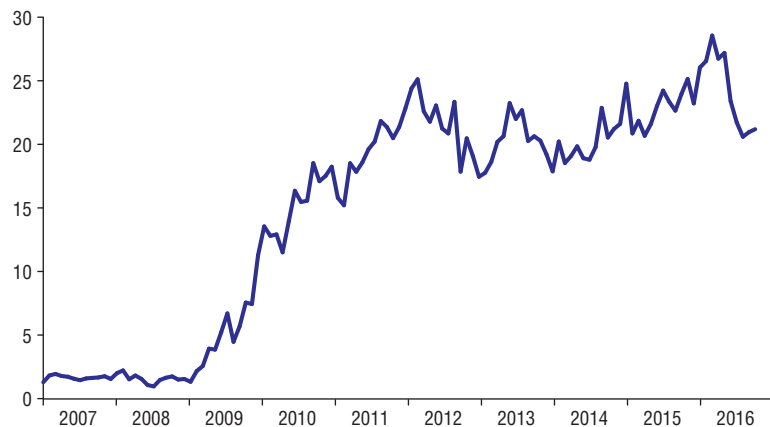
While New Mexico declined at a similar pace as the nation during the recession, its recovery has been much weaker. Employment remains below the prerecession peak, when state growth outpaced the nation (Chart 3).

The housing boom helped drive the state's prerecession expansion. After 2000, New Mexico became a popular relocation destination, especially for California residents. But when the U.S. housing market crashed, relocation fell from favor, and the New Mexico housing market collapsed.¹¹ Since then, housing has languished and construction employment has remained well below the prerecession peak.

Chart 2

Trade Through Santa Teresa Port of Entry Up Since 2009

Real total trade (billions of 2016 dollars)*



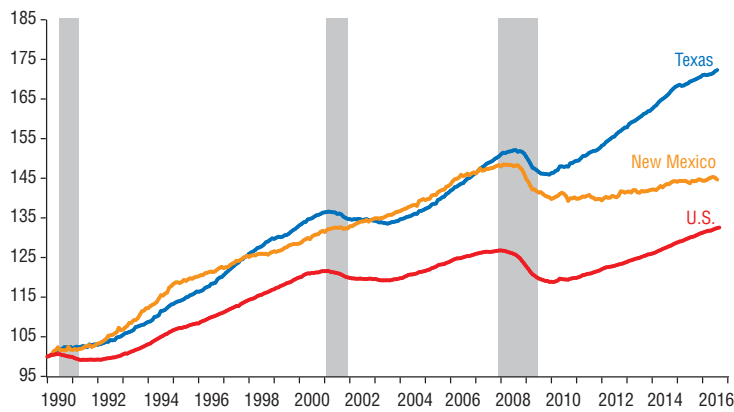
*Seasonally adjusted; annualized.

SOURCE: Census Bureau.

Chart 3

New Mexico Employment Remains Relatively Weak

Index, January 1990 = 100*



NOTE: Gray bars indicate national recessions.
SOURCE: Bureau of Labor Statistics.

Government was another growth engine before the recession, accounting for more than 200,000 jobs. During the recovery, local and state government job growth has been offset by declining federal employment. Overall, New Mexico has 10,000 fewer public sector jobs than at the prerecession high.

The energy bust of the past couple of years has contributed additional headwinds. Slow drilling activity has prompted job cuts and strained state finances. Mining and logging employment fell 21 percent in 2015 and at a 25 percent annualized rate during the first 11 months of 2016.

Severance tax revenues—generated on the value of extracted natural resources (principally oil and gas)—accounted for as much as 20 percent of New Mexico’s total tax receipts during the boom. They fell to 8.6 percent in the first half of 2016, leading to a state budget shortfall of about \$130 million for fiscal year 2016.¹²

New Mexico employment increased only 0.3 percent in 2015 before contracting at a 0.7 percent annualized rate during the first 10 months of 2016. The state unemployment rate has remained more than a percentage point above the U.S. rate—an average of 6.4 percent for the first 10 months of 2016 and 6.5 percent for all of 2015.

Weak oil prices and the housing

bust only partially account for the slow recovery. Educational attainment levels are low and government dependence is high. Investment in the primary education system could improve educational outcomes, a key to long-term economic growth.

Boosting Economic Prospects

New Mexico also lags behind other states in business climate measures, according to the 2015 “Economic Freedom of North America” report published by the Fraser Institute, a Canadian think tank. New Mexico ranks as one of the least “free” states—behind California, Alaska, Hawaii and New York—relative to the amount of state government spending, taxation and labor regulation (based on 2013 data). Improving its business environment could make New Mexico a more attractive option for relocations and expansions.

Finally, New Mexico is one of the states most dependent on the federal government. A more diversified economy would make it less vulnerable to budget swings.

Coronado is a senior economist and vice president in charge of the Federal Reserve Bank of Dallas’ El Paso Branch, and De León is a senior economic analyst at the El Paso Branch.

Notes

¹ See the New Mexico Art Tells New Mexico History exhibit webpage, <http://online.nmartmuseum.org/nmhistory>. Population data are from the Census Bureau.

² See the Office of the State Historian website, NewMexicoHistory.org.

³ See the Atomic Heritage Foundation website, www.atomicheritage.org/location/los-alamos-nm.

⁴ See the New Mexico Economic Development Department website, <https://gonm.biz/site-selection/tribal-profiles>.

⁵ For more information on methodology, see “At the Heart of Texas: Cities’ Industry Clusters Drive Growth,” Federal Reserve Bank of Dallas Special Report, February 2016, www.dallasfed.org/research/heart.

⁶ “The Economic Impact of Tourism in New Mexico,” *Tourism Economics*, August 2015, <http://nmtourism.org/wp-content/uploads/2015/10/NM-Visitor-Economic-Impact-2014-w-counties.pdf>.

⁷ See note no. 6. The remaining 4 percent cited both business and pleasure as the purpose of their visit.

⁸ New Mexico State Energy Profile, U.S. Energy Information Administration, www.eia.gov/state/print.cfm?sid=NM.

⁹ See the monthly Energy in the 11th District update, Federal Reserve Bank of Dallas, www.dallasfed.org/research/energy11.

¹⁰ “The Public Administration Sector in New Mexico,” *Industry Spotlight*, New Mexico Department of Workforce Solutions, May 2014, www.jobs.state.nm.us/admin/gsipub/htmlarea/uploads/IndSpotlight_May2014.pdf.

¹¹ “New Mexico Recovery Still Struggles in 2012,” by Monica Bonilla-Romero and Robert W. Gilmer, Federal Reserve Bank of Dallas *Crossroads*, no. 1, April 2012, www.dallasfed.org/~media/documents/research/crossroads/2012/cross1201.pdf.

¹² Tax revenue data are from the Census Bureau. State budget figures are from the New Mexico Finance Committee minutes, Aug. 24-26, 2016.