Will New Mexico Slip Into Recession in 2009?

By Bob Richards, Economist

Depending on which economist you talk to, you will likely get a different definition of what constitutes a recession. (In fairness to economists, we have correctly predicted seven of the past two recessions.) Back to defining the term: Is it when we experience declining output over consecutive quarters? Or is it when job growth goes negative over a period of time? The standard used by the Federal Reserve Bank of Dallas for an individual state is “consecutive quarters of negative employment growth coincident with gross state product (GSP) declines in at least one quarter.”

At the national level, the group that is cited as expert on this subject is the National Bureau of Economic Research (NBER). The NBER does not use the commonly referenced definition of two consecutive quarters of decline in real gross domestic product (GDP). Rather, a recession is “a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.” The NBER does not declare a recession until it has determined a specific start date. Therefore, the formal announcement does not occur until six to 18 months after the business cycle has turned.

It seems that each passing day brings more bad news on the economy. Based on NBER criteria, the United States has been in recession since December 2007, and most analysts expect this contraction to persist for quite some time. It is important, however, to view the current situation in its proper context—this is not our first recession, nor will it be our last. Our first national economic downturn came in the form of the Panic of 1797, which lasted from 1793 to 1800. New Mexico (or what would become New Mexico) suffered its first recession shortly thereafter. While New Mexico was still part of Mexico, the Mexican War of Independence (1810-21) devastated the silver-mining sector of the economy (Mexico’s primary earner of foreign capital), causing stagnation that lasted until the 1870s. New Mexico became a U.S. territory in 1850, 20 years before the conclusion of its first recession. Since 1857, the U.S. has weathered 32 recessions (excluding the current one), with each lasting an average of about 17 months. In our last 10 recessions, the average duration was just 10 months. If the current recession ends in the second quarter of 2009 as predicted, it would be one of the longer recessions in recent times.

Using employment growth to compare the New Mexico and U.S. economies, we see from the graph below that the state’s troughs are not as deep during contractions, and its peaks of employment growth are higher for most expansion periods. New Mexico, an energy-producing state with a high proportion of government employment, two national labs, and three military bases, has followed the national economic trend with regularity, contradicting a common misconception that we tend to lag the nation. The recession of the early 1980s was a real blow to New Mexico’s economy, resulting in negative annual average employment growth for 1982—the only such instance during the 1970-2007 period. While all data are not yet in, 2008 could be the first year to include a month of overall declining employment since June 1991. If the employment picture in December does not improve, this could be the first year with consecutive months of job losses since 1987.

As previously indicated, NBER analysis recently concluded that the U.S. economy has been in recession for about a year. When we look at relevant statistics for New Mexico, we see positive growth in the GSP from 2006 to 2007 and fluctuating gross receipts over the past four quarters reported (the third quarter of 2007 through the second quarter of 2008), including a decline for the first quarter of 2008. Quarterly statewide employment growth, albeit slow, will likely maintain its positive direction through 2008. So what is the prognosis for New Mexico? Will the state slip into recession in 2009? The comprehensive data gathering and analysis required for making that determination are already underway.

Stay tuned….

Workforce Information Tip

In our efforts to improve the availability and quality of economic information, we recently added two new economic indicators to LASER (http://laser.state.nm.us/). The indicators are Property Values and Building Permits.

Property values are collected from New Mexico Taxation & Revenue Department Property Tax Facts published by the Tax Research Office. Time frames available in LASER are 2003 through 2006.

Building permits were collected for 2000 to 2007 from each of New Mexico’s 33 counties. We thank the counties for supplying us with this information.

You can view this information at http://laser.state.nm.us/ by clicking on Economic Indicators on the left hand navigation. Then choose “Building Permits” or “Property Values.” On the search page, choose County or New Mexico and the time frames you are interested in. You can also see this information under Area Profile.

Suzan Reagan
Labor Market Information Webmaster
New Mexico Department of Workforce Solutions
Economic Research & Analysis Bureau

For more labor market information and publications, give it a click!
www.dws.state.nm.us/dws-lmi.html