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FY2020

General Fund Monthly Report

January 2020 Accruals

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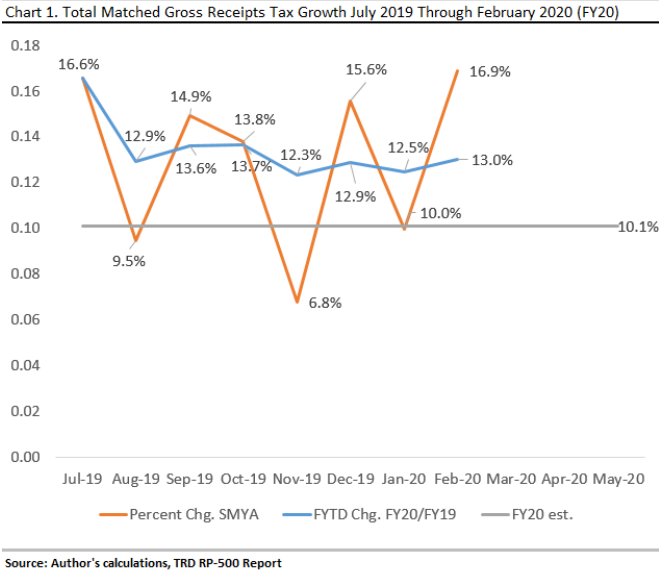
This report summarizes general fund revenues accrued through January 2020 during fiscal year 2020. The report also includes more recent data on oil and gas prices and volumes, New Mexico employment, and taxable gross receipts.

This report does not account for the changes in general fund revenue accruals in 2020 as a result of the Covid-19 outbreak and the Saudi Arabia-Russia price war. As this data are not available yet. DFA economists continue to monitor the energy markets, labor markets, economic conditions, COVID-19 updates, and state and national policy responses evolving daily in order to incorporate more recent data which better reflects the current economic outlook.

Highlights:

- The state of New Mexico collected \$4.5 billion in total general fund recurring revenues from July 2019 through January 2020. This is a decline of \$168.3 million or a 3.6 percent decline in fiscal year-to-date revenues through January 2020 (FYTD) compared to the same time period last year.
- Total general fund collections for the month of January 2020 were \$588.8 million, an increase of 6.8 percent when compared to the collections in January 2019 (\$551 million).
- The Department of Finance's revenue tracking model which incorporates actual FYTD revenues and monthly estimates based on historical patterns estimates a 0.7 percent difference from the 2019 December revenue forecast. This indicates FY20 revenues through January 2020 are on track with the December 2019 forecast. The tracking model's summary table is on page 8. This model **does not** incorporate the impact of social distancing measures and the decrease in oil prices as this data are not available yet.

- Fiscal year-to-date total matched taxable gross receipts increased 13 percent through January 2020 when compared to the same time period in FY19. The greatest contributors to this performance have been the following sectors: construction, retail trade, and mining and oil and gas extraction. See Chart 1 and Table 2 for details.



- March 2020 non-farm employment increased by 1.7 percent compared to March 2019. The sectors with the strongest year-over-year job growth rate were construction (11.0 percent), wholesale trade (3.3 percent), and manufacturing (3.5 percent). Three sectors experienced a year-over-year employment decline when compared to the same month a year ago: information (6.2 percent), other services (1.7 percent) and leisure and hospitality (1.6 percent).
- The New Mexico unemployment rate increased from 4.8 percent to 5.9 percent from February 2020 to March 2020. The national unemployment rate increased from 3.5 percent to 4.4 percent from February 2020 to March 2020.

Table 1. General Fund Revenue Accruals

	January 2019	January 2020	% Change Jan '19 to Nov '20	FY19 Through January	FY20 Through January	\$ Difference from FY to FY to Date	FYTD % Change	Dec '19 Forecast Full Year Growth
Gross Receipts Tax	\$216.8	\$244.5	12.8%	\$1,564.6	\$1,714.0	\$149.3	9.5%	10.1%
Compensating Tax	\$6.6	\$6.2	-5.3%	\$43.3	\$44.6	\$1.3	3.0%	6.0%
Selective Sales Tax*	\$78.2	\$79.6	1.8%	\$310.0	\$318.9	\$9.0	2.9%	3.0%
Personal Income Tax	\$41.3	\$48.1	16.4%	\$732.9	\$832.7	\$99.8	13.6%	-2.9%
Corporate Income Tax	(\$8.8)	\$1.6	-118.3%	\$85.6	(\$18.2)	(\$103.8)	-121.3%	-54.7%
Severance Taxes**	\$48.5	\$64.8	33.6%	\$363.1	\$422.7	\$59.6	16.4%	2.5%
Interest Earnings	\$78.8	\$88.0	11.6%	\$536.6	\$568.7	\$32.1	6.0%	3.5%
Mineral Rents /Royalties***	\$61.1	\$77.3	26.5%	\$951.5	\$566.1	(\$385.4)	-40.5%	-30.9%
Other Revenues	\$28.5	(\$21.3)	-174.8%	\$83.0	\$52.9	(\$30.2)	-36.3%	n/a
Total Recurring Revenues	\$551.0	\$588.8	6.8%	\$4,670.5	\$4,502.2	(\$168.3)	-3.6%	-2.9%
Total Recurring Revenue (Excluding Oil & Gas)	\$441.4	\$446.7	1.2%	\$3,355.9	\$3,513.4	\$157.5	4.7%	2.4%

* Includes estimates for Insurance
 ** Includes estimates for Oil & Gas Emergency School Tax
 ***Mineral Rents and Royalties in FY19 includes an unprecedented federal land lease payment of \$497 million

Table 1 above presents a summary of January 2020 and FY20 year-to-date revenue collections for the major categories of general fund appropriation account revenues. Preliminary general fund recurring revenues through January are approximately \$4.5 billion, a decrease of \$168

million or a decline of 3.6 percent from the same time period in FY19. However, when accounting for FY19 unprecedented federal land lease payment of \$497 million, revenues have increased by \$328.7 million or 7.9 percent through January 2020.

It should be noted, as part of the December 2019 full-year forecast, the CREG’s consensus on the average price of oil for New Mexico in FY20 is estimated at \$52.00/barrel and \$2.10/mcf for natural gas. This estimate was derived using the best available information at the time and before the Covid-19 outbreak and current 2020 economic outlook.

Gross Receipts Tax

Year-to-date matched taxable gross receipts through February increased by 13 percent year-to-date. This percent change in taxable gross receipts, detailed in Table 2, represents the tax base for the gross receipt taxes. Revenue growth can diverge from tax base growth for a number of reasons, some of which may simply reflect the timing of payments, refund claims, etc. Year-over-year growth occurred in most industries.

The construction sector accounted for \$6 billion in revenue collected and fiscal year-to-day (FYTD) growth of 21.3 percent compared to the prior fiscal year. The retail trade sector collected \$10.1 billion and FYTD growth compared to the previous fiscal year was 12.8 percent. Lastly, the mining and oil and gas extraction sector collected \$4.8 billion or 9.1 percent during the same time period. Gross receipts tax revenue which is derived from total matched taxable gross receipts (See Table 2).

Sector	FYTD (\$millions)	FYTD Percent Change	Percent of Total Growth
Agriculture, Forestry, Fishing and Hunting	\$ 87.43	3.2%	0.05%
Mining and Oil and Gas Extraction	\$ 4,804.37	9.1%	7.27%
Utilities	\$ 1,906.43	10.0%	3.12%
Construction	\$ 6,007.09	21.3%	19.10%
Manufacturing	\$ 1,373.16	7.5%	1.74%
Wholesale Trade	\$ 2,350.76	7.1%	2.81%
Retail Trade	\$ 10,142.35	12.8%	20.85%
Transportation and Warehousing	\$ 656.76	-4.8%	-0.60%
Information and Cultural Industries	\$ 1,968.55	16.1%	4.93%
Finance and Insurance	\$ 261.43	3.5%	0.16%
Real Estate and Rental and Leasing	\$ 1,272.30	13.8%	2.79%
Professional, Scientific and Technical Services	\$ 4,422.69	-1.3%	-1.03%
Management of Companies and Enterprises	\$ 28.23	32.8%	0.13%
Admin and Support, Waste Mgt and Remed	\$ 1,995.98	60.2%	13.57%
Educational Services	\$ 206.07	55.3%	1.33%
Health Care and Social Assistance	\$ 2,329.19	8.5%	3.29%
Arts, Entertainment and Recreation	\$ 244.37	11.9%	0.47%
Accommodation and Food Services	\$ 3,148.72	2.8%	1.54%
Other Services (except Public Admin)	\$ 4,076.94	27.5%	15.89%
Public Administration	\$ 165.69	26.1%	0.62%
Unclassified Establishments	\$ 570.19	23.8%	1.98%
All Industries	\$ 48,018.73	13.0%	100%
Excluding O&G	\$ 43,214.36	13.5%	n/a

Source: Author's calculations, TRD RP-500, (figures in millions)

Total FYTD gross receipts through January 2020 were \$1.7 billion, a 9.5 percent increase from the prior year. This is slightly below the FY20 revenue CREG forecast of 10.1 percent. In January 2020 gross receipts tax revenue was \$244.5 million, this represents a 12.8 percent increase from the same month one-year-ago.

Selective Sales Tax

Selective sales tax growth experienced a fiscal year-to-date (FYTD) increase of 1.8 percent when compared to the same time period one year ago. The full-year forecast projects a full fiscal year growth of 3.0 percent.

Severance Taxes/ Mineral Rents/Royalties

Severance tax revenue collected through January was \$422.6 million, an increase of 16.4 percent when compared to the prior year. Mineral rents and royalties' revenue through January was \$568.7 million, an a decline of 40.5 percent when compared to the FYTD revenue from the prior year. However, when accounting for FY19 unprecedented federal land lease payment of \$497 million, mineral rents and royalties have increased by \$112 million or 24.6 percent through January 2020.

Severance tax revenues for the entire year are forecasted to grow by 2.5 percent. The full-year forecast for mineral rents and royalties is expected to decline by 30.9 percent. This is due to the unprecedented federal mineral payment in FY19.

This positive growth in these two sectors is directly related to the increased oil production in the Permian Basin last year. Increased production volumes have continued even as oil prices have decreased in the observed time period. New Mexico has experienced record high rig counts in the calendar year 2019. **This report does not account for the 2020 oil price collapse as a result of the Covid-19 outbreak and the Saudi Arabia-Russia price war. As this data are not available yet.**

Personal Income Tax

Personal income tax revenues year-to-date through January were \$832.7 million or an increase of 13.6 percent from the prior year. Personal income tax revenues in January 2020 were \$48 million, higher than the same month in the prior year \$41.3 million. The full-year forecast for personal income tax growth calls for a decline of 2.9 percent.

Corporate Income Tax

Corporate income tax (CIT) revenues year-to-date have experienced a decline of 121 percent. The CIT percentage change can vary broadly due to a variation in the timing CIT payments which do not follow a regular schedule. The full-year forecast for corporate income tax growth estimates a decline of 54.7 percent for the full fiscal year.

Interest Earnings

Interest earnings year-to-date growth increased by 11.6 percent when compared to the same time period in FY19. The December 2019 forecast for interest earnings estimated 3.5 percent growth for the full fiscal year.

Other Revenues

The other revenues category is the aggregate of the following individual revenue categories: License Fees, Tribal Revenue Sharing, Miscellaneous Receipts, and Reversions. The collections of these revenue streams vary per source and can cause the percent change to vary broadly on a month-to-month basis as well.

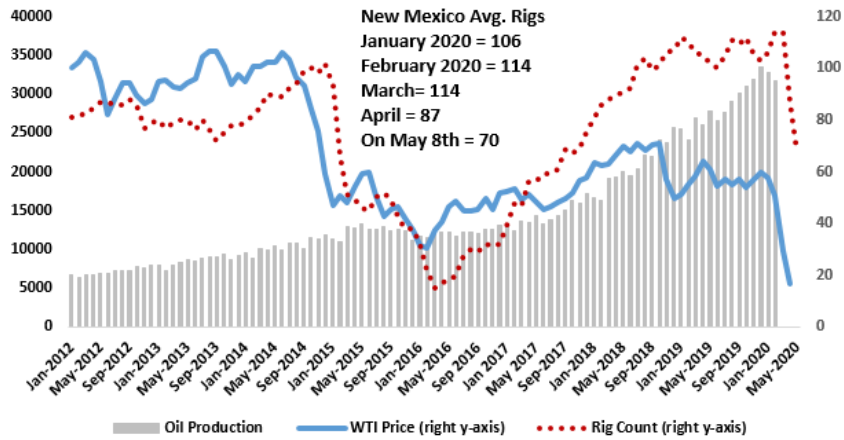
New Mexico Oil and Natural Gas Prices and Production

New Mexico oil prices for January 2020 averaged \$56.53 per barrel (bbl.), which compares to \$41.62 per bbl. for January 2019. In January 2020 the benchmark WTI price of oil averaged \$57.52 per bbl. According to the Energy Information Administration (EIA), New Mexico's field production of crude oil increased by 28.8 percent from January 2019 to January 2020.

Since January 2020, New Mexico rig counts climbed to a record high of 117 on March 13, 2020 as reported by Baker Hughes. However, due to the loss of demand from the effects of the Covid-19 outbreak and the supply shock caused by the recent Saudi Arabia and Russia price war, oil prices have collapsed to the low to mid \$20 per bbl. in mid-March. On April 20th, 2020 as the May futures contract expired, for the first time in history, oil prices collapsed to a negative \$37.63 per bbl. The negative oil price collapse reflects weak oil demand and over supply of oil on the market. Traders sold off the May contracts at any price or shifted positions to June or farther down the calendar year regardless of any fees or penalties incurred. Once the May contract was done and the June contract became the up-front-month contract – oil prices bounced back into positive territory.

Chart 2 details the trends and the relationship between New Mexico oil production and rig counts, and the WTI price. New Mexico rig counts on May 8th declined to 70 active rigs. This represents a 40 percent loss in rigs since March 13th. EIA oil production data shows that New Mexico still experienced high oil production months in January and February with the state producing 32,748 thousand-barrels and 31,699 thousand-barrels, respectively. While these months are high producing months, when compared to the monthly oil production in December 2019 of 33,414 thousand-barrels, New Mexico oil production has slightly decreased.

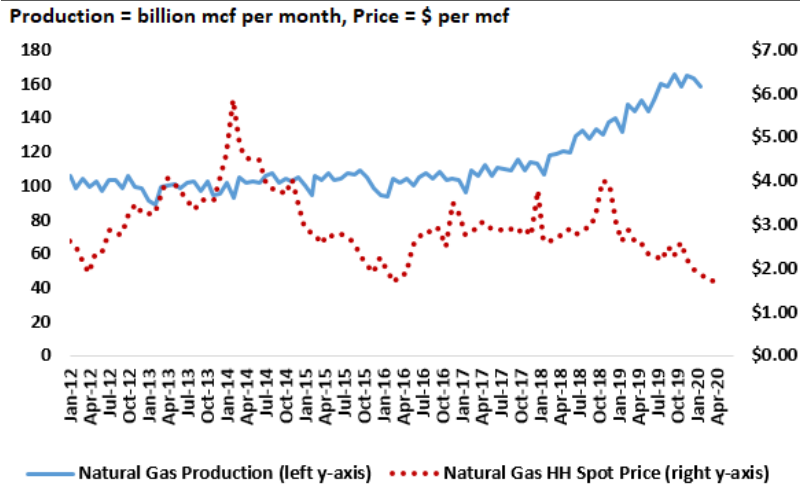
**Chart 2. NM Oil Production (1000 barrels), WTI Price (\$ per barrel), & NM Rig Count (number)
January 2012 to May 2020**



Source: Baker Hughes, EIA (Production through Feb. 2020, Price through Apr. 2020, Rigs through May 8, 2020)

Natural gas production has a strong correlation with the energy industry’s production of oil. Natural gas prices have remained low through 2019 and declined into 2020. Chart 4 illustrates the downward trend of natural gas prices. The chart also illustrates as oil productionslightly decreased in January and February, natural gas production declined as well.

**Chart 3. New Mexico Marketed Natural Gas Prices and Production
Jan. 2012 to Apr. 2020 (production through Feb. 2020)**



Source: EIA

Update on New Mexico Employment Trends

The Bureau of Labor Statistics Current Employment Statistics (CES) produces employment estimates by industry sectors for all states in the country. The CES estimates are subject to revision, however, they can be viewed as a leading indicator for labor market trends.

The United States is going through an unprecedented time due to the Covid-19 virus. The contagious nature of the virus resulted in New Mexico issuing a public health order

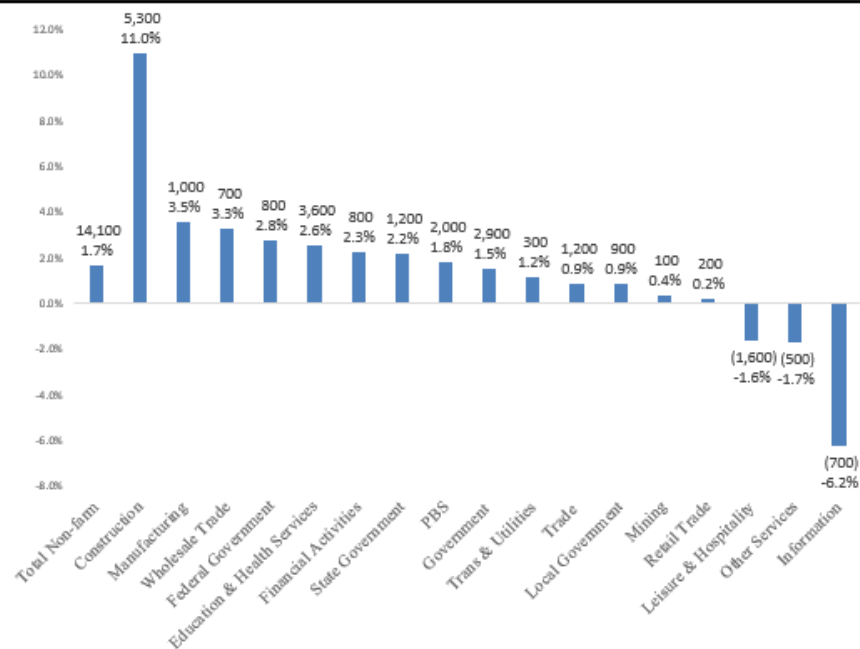
implementing social distancing measures, closing non-essential businesses, limiting and reducing business capacity for hotels as well as restaurants. The impact of the state’s March 19, 2020 public health order is starting to be seen in the employment data for the state produced and released by the Bureau of Labor Statistics. The effect of social distancing measures and business capacity requirements may be reflected in the marginal increases in the retail trade sector and the decrease in the leisure and hospitality sector.

In March 2020, New Mexico’s employment grew by 1.7 percent, or 14,100 jobs, from the prior year (March 2019) when adjusted for seasonal variation.

Employment grew across a of the sectors in March. Economic growth in the state was led by the construction sector, which experienced a 11.0 percent year-over-year growth in employment. This was followed by the manufacturing sector in which employment grew by 3.5 percent compared to the same month one year ago. The Wholesale Trade sector performed well, with employment growth of 3.3 percent during the same time period. The mining sector experienced marginal employment growth of 0.4 percent, or 100 jobs in March 2020 when compared to the same month a year ago.

The following sectors experienced slight to moderate declines in employment growth from March 2019 to March 2020: leisure and hospitality (-1.6 percent) information (-6.2 percent), and other services (-1.7 percent).

**Chart 4. Percent Change and Level Change in Non-Farm Employment in New Mexico by Sector
March 2019 to March 2020**



Source: bls.gov, CES seasonally adjusted

Table 3 illustrates that FY20 actual revenues through November 2019 plus estimated revenues based on historical patterns and shares are 0.7 percent or \$54.1 million ahead of the December 2019 CREG forecast. For estimated details on the general fund tracking model see the table below. **This report does not account for the 2020 oil price changes as a result of the Covid-19 outbreak and the Saudi Arabia-Russia price war. As this data are not available yet.**

Department of Finance & Administration Fiscal Year 2020 General Fund Revenue Tracking Summary Report				
(millions \$)	FY20 Actual + Estimate	FY20 Forecast	% Difference to Forecast	Forecast Year-to- Date Variance
Gross Receipts Tax	2,943.9	2,928.8	0.5%	15.1
Compensating Tax	81.0	82.9	-2.3%	-1.9
Insurance Premiums Tax	188.4	206.1	-8.6%	-17.7
Motor Vehicle Excise Tax	150.6	150.0	0.4%	0.6
Other Selective Excise Taxes	203.6	203.5	0.1%	0.1
Personal Income Tax	1,655.1	1,623.3	2.0%	31.8
Corporate Income Tax	19.5	55.6	-64.9%	-36.1
O&G Emergency School Tax	436.4	382.4	14.1%	54.0
Other Mineral Taxes	54.2	52.9	2.4%	1.3
License Fees	37.5	52.8	-29.0%	-15.3
Land Grant Permanent Fund Distributions	671.8	671.8	0.0%	0.0
State Treasurer's Earnings	71.4	82.1	-13.0%	-10.7
Severance Tax Perm. Fund Distributions	225.3	225.3	0.0%	0.0
Federal Mineral Leasing	820.1	810.4	1.2%	9.7
State Land Office (Bonuses, Rents)	76.2	74.0	2.9%	2.2
Tribal Revenue Sharing	60.7	80.1	-24.2%	-19.3
Miscellaneous Revenues	67.1	49.9	34.4%	17.2
Reversions	67.6	45.5	48.6%	22.1
Recurring Total	7,830.4	7,776.2	0.7%	54.1
Nonrecurring	28.8	28.8	0.0%	0.0
Total	7,859.2	7,805.0	0.7%	54.1

Source: DFA, CREG, and historical monthly patterns

A copy of this report can be found at http://www.nmdfa.state.nm.us/New_Mexico_Economic_Summary.aspx