

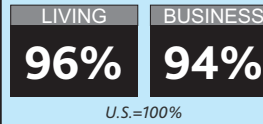
ECONOMIC DRIVERS



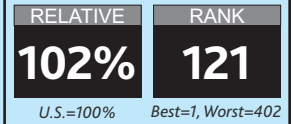
EMPLOYMENT GROWTH RANK



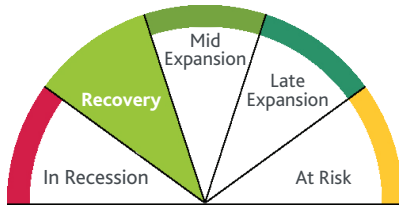
RELATIVE COSTS



VITALITY



BUSINESS CYCLE STATUS



ANALYSIS

Recent Performance. Albuquerque is making steady employment gains and will soon reach its prerecession employment peak. That this recovery comes 10 years after the last recession is a telling indicator of how slow recovery has been and of the difficulty that ALB has in attracting dynamic growth industries. However, the unemployment rate has started falling again, dipping below 6%, as employment gains outpace labor force growth. State and local government employment has rebounded from losses caused by the fiscal crisis earlier in the year. Better yet, real average weekly earnings have increased steadily over the past two years. The main weak point for ALB continues to be construction, or the lack thereof: Only retail shows signs of life, whereas residential, office and industrial structure construction is still at cyclical lows.

Housing market. The housing market will be lackluster in the short term, but it does have upside risks. Home sales have been flat over the last two years and have not recovered anywhere near their prerecession total. Slow demand is also evident in the house price indexes, which have been stuck at 3% to 4% growth over the past three years, somewhat lower than the U.S. rate of appreciation. But despite flat sales, the market is getting tighter. The ratio of inventory to pending home sales is lower than at any point since 2006, indicating that potential home sellers will have no problem finding buyers. The tight supply makes ALB ripe for residential construction in the next two years. In addition, job growth has jumped in the last year in financials, especially local insurance carriers, and in professional services, led by Sandia-predominant scientific research jobs. If sustained, this increased job growth will lead to higher local wage income and to stronger future purchase demand.

Commercial real estate. ALB will be short of commercial development over the next two years. Only the retail market has done relatively

well, with continued absorption and several recent construction projects. However, the vacancy rate is still slightly more than 10%, and the market is swimming against the national current that is pulling down on retailers as online sales continue to grow. The market for industrial space has lower vacancy, but very slow absorption, and has had no new construction in years. Despite recent growth in office-using employment, the office vacancy rate is still at more than 20%, a hangover from the 2007-2008 construction boom that left ALB with lots of extra office space. The New Mexico delinquency rate for commercial mortgage-backed securities spiked to 14% from 4% at the start of the year; the high-vacancy office market in ALB is the likely cause.

Universities and taxes. Universities throughout the state, including in ALB, now face a significant downside risk in the form of the House tax bill. One of the bill's provisions makes graduate student tuition waivers taxable income, whereas they have previously been tax-exempt. The end of the exemption would affect 6,000 graduate students throughout ALB, mostly at the University of New Mexico, and the resulting drag on graduate enrollment could be a serious long-term impediment to expansion for the university, which is also ALB's largest employer.

Albuquerque will have steady employment growth for the next two years, with the unemployment rate falling below 5% by the end of 2018. Further out, ALB has the problem of attracting more private sector industries, especially in high-technology fields, to add to its core formed by the national labs, the University of New Mexico, and the state government. Despite this strong core, ALB will only be able to track the U.S. rates of job growth and household income growth.

Andres Carbacho-Burgos 1-866-275-3266
November 2017 help@economy.com

STRENGTHS & WEAKNESSES

STRENGTHS

- » Stable base of education/healthcare and scientific research jobs.
- » Regional hub status with access to important trade corridors.
- » Budding high tech supported by low costs, federal research facilities.

WEAKNESSES

- » Below-average per capita income.
- » Below-average population growth.
- » Weak commercial real estate demand.

FORECAST RISKS



UPSIDE

- » Renewed growth in financial and professional service jobs jump-starts local housing market.
- » In-migration recovers as growth picks up in residential construction.

DOWNSIDE

- » Federal funding for Kirtland AFB and projects at Sandia National Labs is reduced.
- » Intel's Rio Rancho facility is shut down.

MOODY'S RATING

Aaa COUNTY AS OF FEB 13, 2017

2011	2012	2013	2014	2015	2016	INDICATORS	2017	2018	2019	2020	2021	2022
37.4	37.3	36.2	36.8	37.2	37.3	Gross metro product (C09\$ bil)	37.7	38.5	39.0	39.5	40.6	41.7
0.8	-0.3	-2.9	1.6	1.3	0.0	% change	1.2	2.1	1.4	1.0	2.8	2.9
372.4	370.9	374.8	377.2	381.7	388.3	Total employment (ths)	391.7	397.0	399.9	400.0	402.3	406.6
-0.4	-0.4	1.1	0.6	1.2	1.7	% change	0.9	1.4	0.7	0.0	0.6	1.1
7.5	7.1	6.7	6.5	6.1	6.1	Unemployment rate (%)	5.9	5.1	4.8	5.2	5.4	5.4
5.1	0.8	-1.6	5.9	4.3	2.6	Personal income growth (%)	3.1	2.5	3.0	3.3	3.4	3.7
46.4	46.7	47.6	48.3	49.2	51.0	Median household income (\$ ths)	52.3	53.6	55.2	56.8	58.3	59.8
896.8	900.8	902.9	903.7	905.2	909.9	Population (ths)	913.1	914.7	915.9	920.0	925.5	932.0
0.8	0.4	0.2	0.1	0.2	0.5	% change	0.3	0.2	0.1	0.5	0.6	0.7
2.9	-0.4	-1.8	-2.6	-1.4	2.0	Net migration (ths)	0.5	-1.0	-1.3	1.6	3.0	4.1
1,354	1,259	1,456	2,128	2,012	1,931	Single-family permits (#)	1,839	2,578	3,376	3,689	4,082	4,203
280	825	1,150	415	283	534	Multifamily permits (#)	278	211	356	466	570	633
153.2	150.6	151.7	154.4	157.6	163.0	FHFA house price (1995Q1=100)	168.2	172.9	177.0	181.2	186.8	193.5

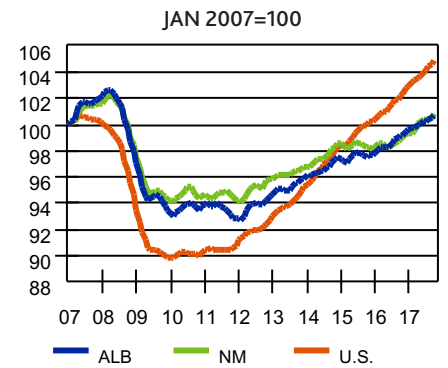
ECONOMIC HEALTH CHECK

3-MO MA						
	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17
Employment, change, ths	-0.7	-0.1	0.7	1.4	1.1	0.8
Unemployment rate, %	6.2	6.1	6.0	5.8	5.8	5.8
Labor force participation rate, %	59.7	59.8	59.8	59.7	59.5	59.6
Employment-to-population ratio, %	56.0	56.2	56.2	56.2	56.1	56.2
Average weekly hours, #	33.4	33.5	33.4	33.3	33.3	33.3
Industrial production, 2012=100	106.9	107.2	107.4	107.4	107.4	107.5
Residential permits, single-family, #	1,868	1,722	1,548	1,428	1,656	1,939
Residential permits, multifamily, #	368	482	358	407	235	382

Better than prior 3-mo MA
Unchanged from prior 3-mo MA
Worse than prior 3-mo MA

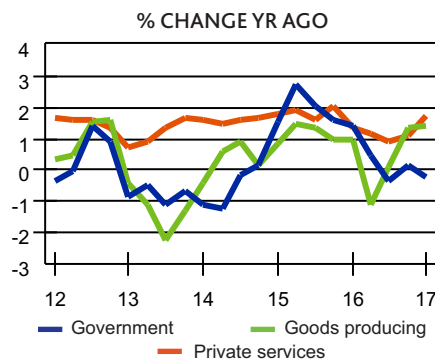
Sources: BLS, Census Bureau, Moody's Analytics

BUSINESS CYCLE INDEX



Source: Moody's Analytics

CURRENT EMPLOYMENT TRENDS

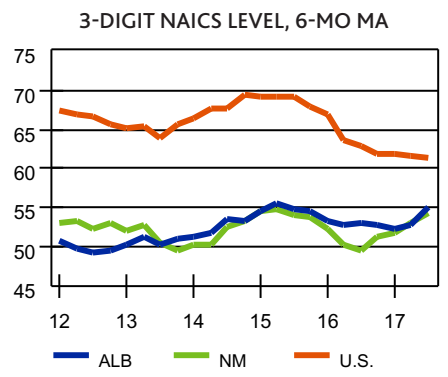


Sources: BLS, Moody's Analytics

	% CHANGE YR AGO, 3-MO MA		
	Oct 16	Apr 17	Oct 17
Total	1.7	0.4	1.0
Mining	-5.6	-6.9	-3.8
Construction	5.7	3.8	5.3
Manufacturing	-4.3	-6.0	-2.6
Trade	-0.2	0.4	0.1
Trans/Utilities	3.5	3.2	0.5
Information	-3.1	6.3	-1.7
Financial Activities	2.1	1.6	6.6
Prof & Business Svcs.	1.8	-1.3	0.8
Edu & Health Svcs.	3.5	1.7	1.9
Leisure & Hospitality	2.0	-0.4	1.2
Other Services	2.1	2.2	0.2
Government	1.7	0.2	-0.3

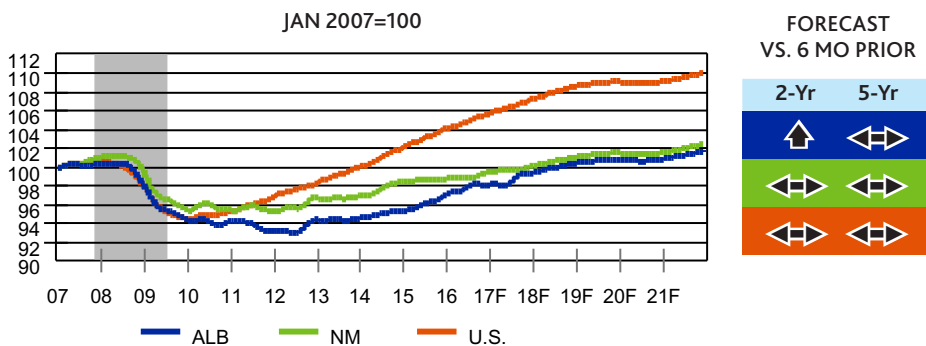
Sources: BLS, Moody's Analytics

DIFFUSION INDEX



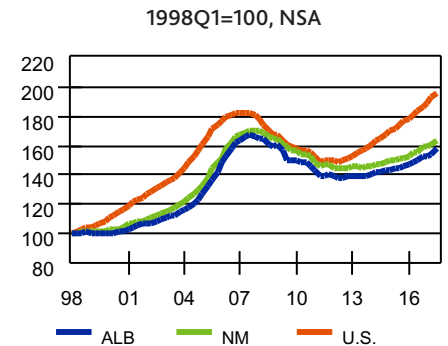
Sources: BLS, Moody's Analytics

RELATIVE EMPLOYMENT PERFORMANCE



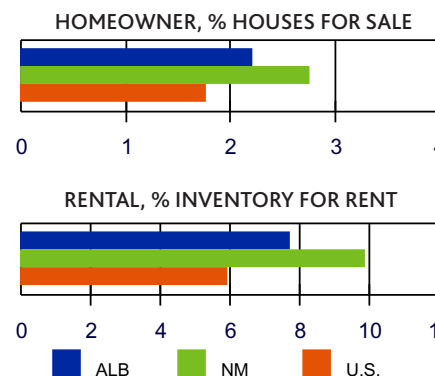
Sources: BLS, Moody's Analytics

HOUSE PRICE



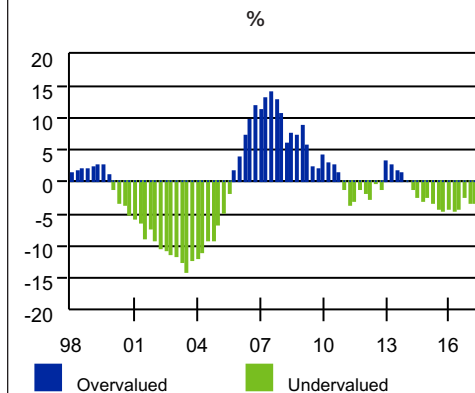
Sources: FHFA, Moody's Analytics

VACANCY RATES



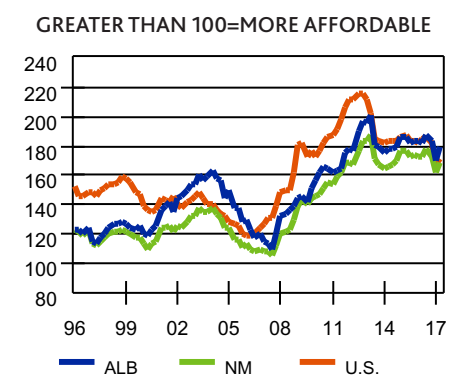
Sources: Census Bureau, ACS, Moody's Analytics, 2016

HOUSE PRICE TRENDS

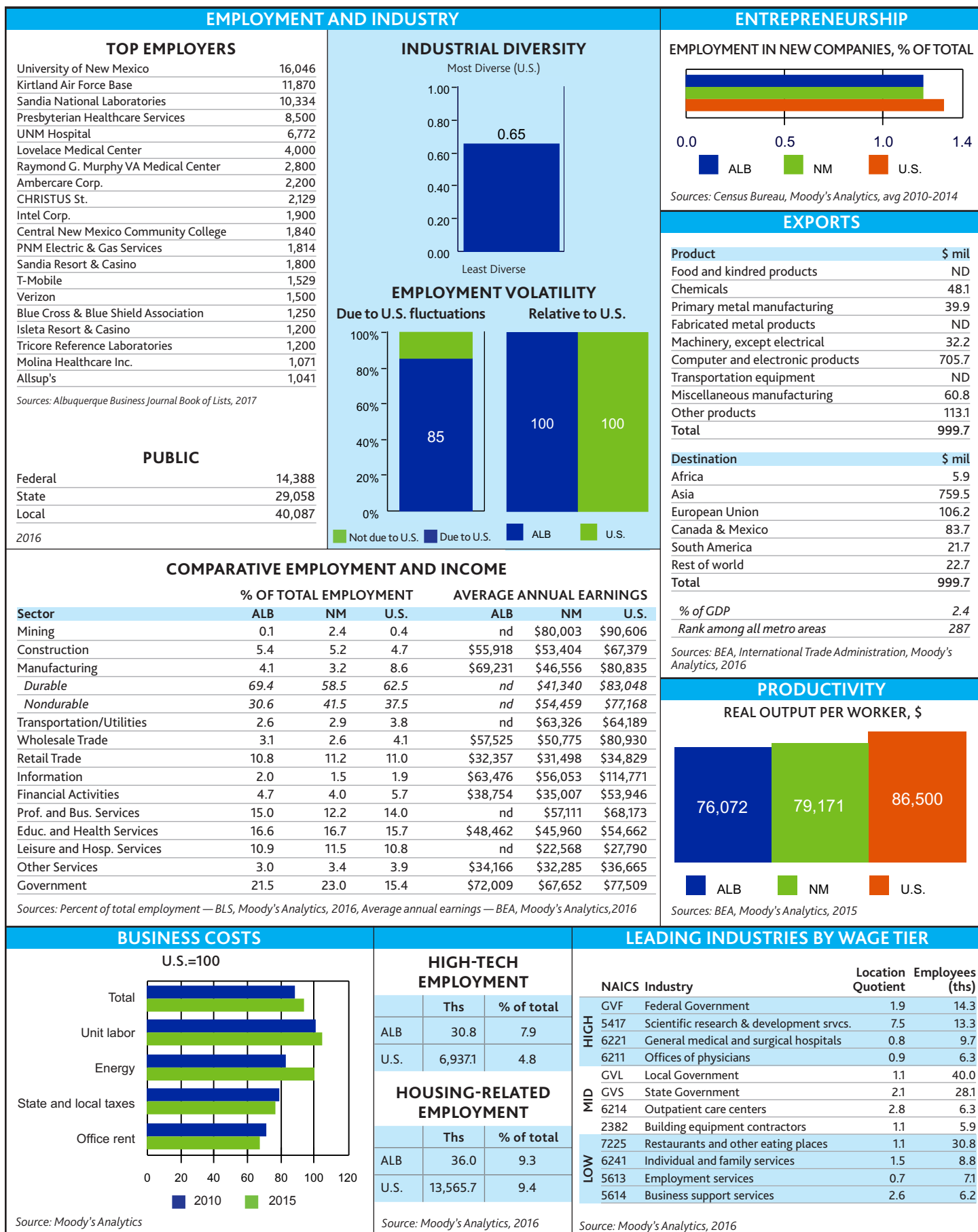


Sources: FHFA, Moody's Analytics

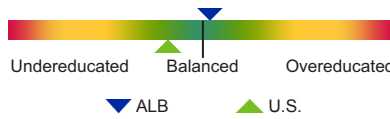
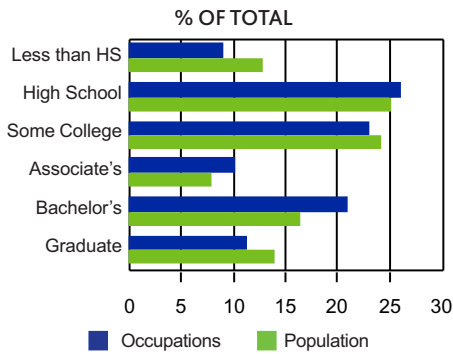
HOUSING AFFORDABILITY



Sources: NAR, Moody's Analytics

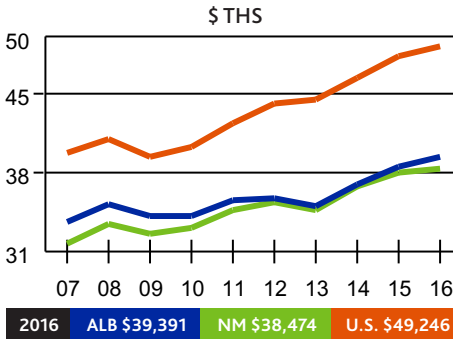


SKILLS MISMATCH



Sources: Census Bureau, ACS, Moody's Analytics, 2015

PER CAPITA INCOME



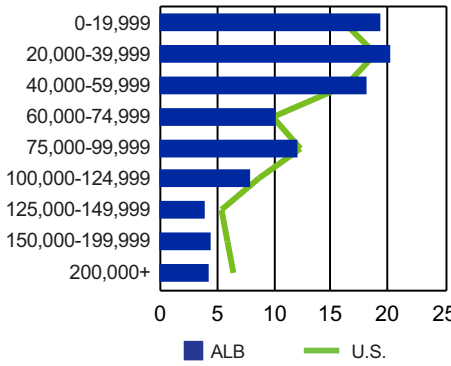
Sources: BEA, Moody's Analytics

ECONOMIC DISENFRANCHISEMENT

Index	2016	Rank*
Gini coefficient	0.46	163
Palma ratio	3.2	162
Poverty rate	16.9%	115

*Most unequal=1; Most equal=401

HOUSEHOLDS BY INCOME, %



Sources: Census Bureau, ACS, Moody's Analytics, 2016

MIGRATION FLOWS

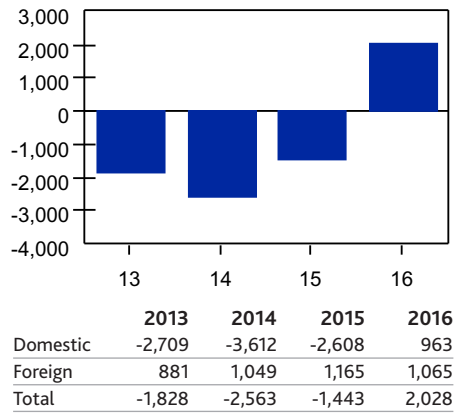
INTO ALBUQUERQUE NM

City	Number of Migrants
Santa Fe NM	1,642
Phoenix AZ	1,020
Las Cruces NM	722
Farmington NM	689
Los Angeles CA	514
El Paso TX	477
Las Vegas NV	361
Denver CO	347
San Diego CA	309
Dallas TX	272
Total in-migration	27,163

FROM ALBUQUERQUE NM

City	Number of Migrants
Phoenix AZ	1,960
Santa Fe NM	1,377
Denver CO	929
Portland OR	493
Las Vegas NV	492
Los Angeles CA	466
El Paso TX	456
Austin TX	429
Dallas TX	427
Las Cruces NM	397
Total out-migration	29,912
Net migration	-2,749

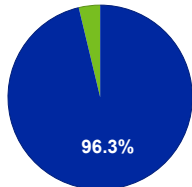
NET MIGRATION, #



Sources: IRS (top), 2014, Census Bureau, Moody's Analytics

COMMUTER FLOWS

RESIDENTS WHO WORK IN ALB

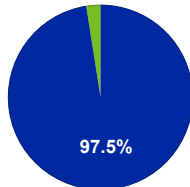


Top Five Outside Sources of Jobs

City	Share
Albuquerque NM	
Santa Fe NM	1.7
Phoenix AZ	0.1
Farmington NM	0.1
Los Angeles CA	0.0
Houston TX	0.0

Sources: Census Bureau, Moody's Analytics, avg 2009-2013

WORKERS WHO LIVE IN ALB



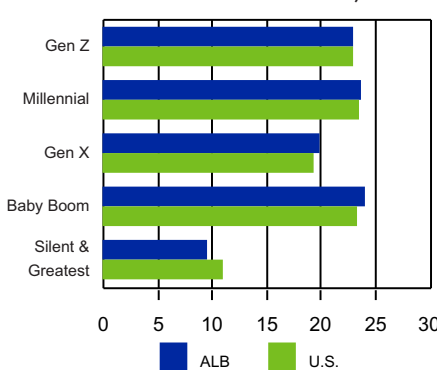
Top Five Outside Sources of Workers

City	Share
Albuquerque NM	
Santa Fe NM	1.2
Phoenix AZ	0.1
Farmington NM	0.1
Los Angeles CA	0.1
El Paso TX	0.0

Sources: Census Bureau, ACS, Moody's Analytics, 2016

GENERATIONAL BREAKDOWN

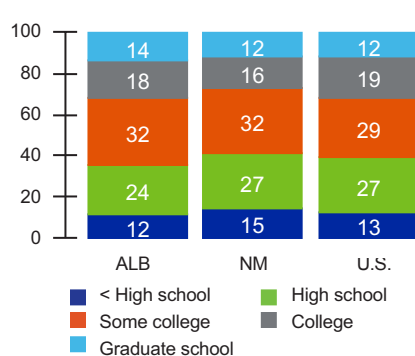
POPULATION BY GENERATION, %



Sources: Census Bureau, Moody's Analytics, 2015

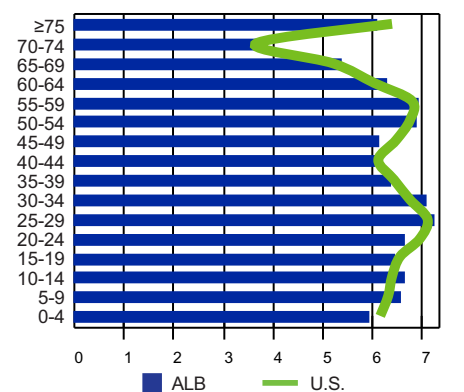
EDUCATIONAL ATTAINMENT

% OF ADULTS 25 AND OLDER

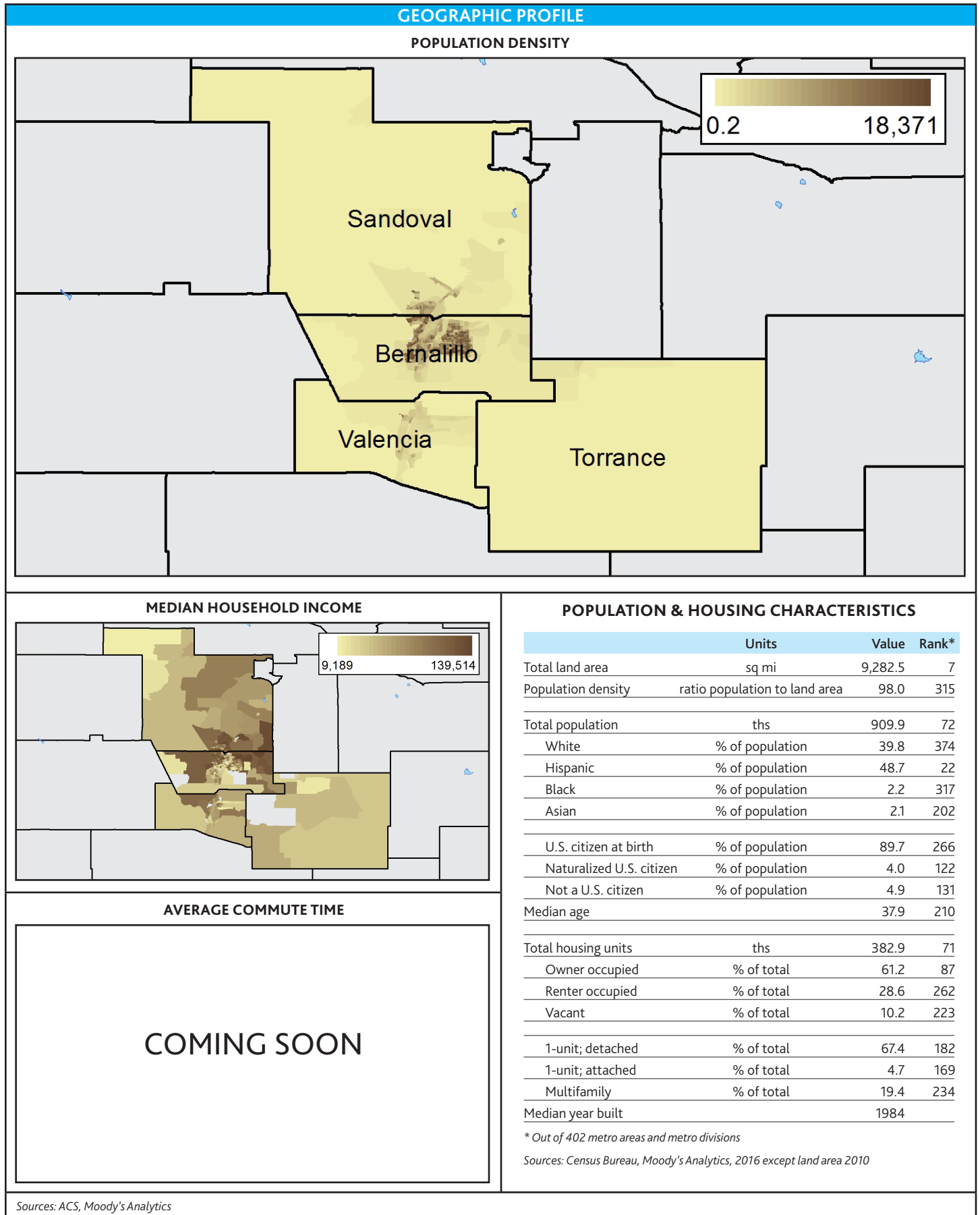


Sources: Census Bureau, ACS, Moody's Analytics, 2016

POPULATION BY AGE, %



Sources: Census Bureau, Moody's Analytics, 2016



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