

## **A Great Convention!**

*The Annual NMPMA Convention and Trade Show* was held **August 19-21, 2019**, at Sandia Resort and Casino in Albuquerque, New Mexico. Thanks to all our sponsors that helped make this convention possible. Please look for any additional convention highlights in the upcoming Winter issue of the *WPMA News*.

## **more ... New Mexico Notes**

*Oil production continues to grow at a rapid pace*, increasing 45.5 percent in the first five months of FY19 compared to the same period a year ago. Despite oil price declines in November and December 2018, rig counts exceeded the previous peaks of late 2014 and continued to grow, with the state reaching 112 active rigs by early February 2019. Even with modest production growth assumptions for the remainder of FY19, oil production in the state is on track to reach 275 million barrels this fiscal year. While oil prices are expected to remain below previous estimates, New Mexico oil production is estimated to grow to 310 million barrels, or by nearly 13 percent, in FY20.

Natural gas production, particularly from southeastern wells, continues to exceed expectations, leading to increased natural gas volume expectations for FY19 and FY20.

Although oil prices fell nearly \$30 from October to December 2018 before recovering to the mid-\$50s in early 2019, the state's oil production and rig counts did not respond in the same ways as the state experienced in the past. Oil producers in the Permian basin have significantly lowered break-even costs, meaning many wells can remain profitable at lower prices. Additionally, technological efficiencies and a significant rise in drilled-but-not-completed wells, as well as new pipelines, allow for production increases even if future rig counts plateau.

## **Gross Receipts Taxes (GRT)**

*Production growth and rising rig counts continue to drive increases in gross receipts.* For FY19 through November 2018, Eddy and Lea Counties and out-of-state receipts account for 89 percent of all growth in matched taxable gross receipts. Receipts in Eddy County are up 49 percent, and Lea County is up 60 percent. The rest of New Mexico experienced very little growth in the first five months of FY19. Bernalillo County grew 3.9 percent year-over-year, while the rest of the state grew less than 1 percent.

## **Oil Price Uncertainty**

*The state's considerable dependence on direct and indirect oil and gas revenues* means the forecast remains at risk of sudden oil price shocks that could lead to dramatic increases or decreases in revenues from severance taxes, federal royalty payments, gross receipts tax, and corporate income tax. This adds significant uncertainty to the revenue forecast. Stress tests of the December 2018 consensus estimate showed revenues could come in \$1.3 billion above or below projections depending on oil price changes and associated impacts on production and drilling activity.

## **Global Economic Uncertainty**

*Signs of slowing growth in China*, rising uncertainty over a U.S.-China trade war, concerns over Brexit negotiations, and fears that the Federal Reserve's expected rate increases will slow U.S. growth are all contributing to waning confidence in the strength of the global expansion. Despite the warning signs of a potential global slowdown, major forecasting agencies continue to have solid U.S. growth projections for 2019.

## **National Economy**

***Forecasts by IHS Global Insight*** estimate the federal government shutdown that started December 23 and ended January 25 reduced GDP by 0.1 percentage point in the fourth quarter of 2018 and first quarter of 2019. While the impacts of the federal shutdown are still unknown, New Mexico will likely see an impact on its personal income tax (PIT) and GRT revenues, as about 3 percent of the state's working population is employed by the federal government, and more are employed through federal contracts. Federal initial unemployment claims grew from 18 the week before the shutdown to 182 by mid-January, and non-federal initial unemployment claims jumped from 892 the week before the shutdown to 1,664 by mid-January. While furloughed federal employees can expect back pay for the withheld compensation, some private-sector entities that lost business due to the shutdown will never recoup that lost income, leaving an unknown amount of lost income for those workers and subsequent losses in PIT revenue to New Mexico. These impacts and risks validate previous concerns and demonstrate the need for robust general fund reserve levels.

New Mexico is expected to have a 1.2 billion dollar surplus for this year's budget, after six years of very lean and shortfalls in the budget. This is made possible by the drilling for oil which has reached record highs, and is expected to last for the next five years. Hopefully, the Legislature takes advantage of the extra dollars and spends them wisely and doesn't squander the opportunity.