

# ***Economic Update & Outlook***

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***Based on information available as of October 3rd, 2012***

***2012 Arizona Housing Forum***

***October 4, 2012***

# Economic Update & Outlook

- Getting Better? Or Worse?
- Is It Really The Economy?
- Jobs...Jobs...and...Jobs
- Housing Turns Around
- Arizona Long Term Positive

# How Long Is “Long Term?”

**Arizona Recovery**

**3 – 4- 5 Years?**

# 53% say U. S. economy is “getting worse”

*Gallup Poll*  
*Sept. 25, 2012*

***Note: recession  
ended July 2009***

# 46% say U.S. economy is “in recession/depression”



**But..real GDP  
has recovered  
to prior peak  
before start of  
the recession**

*Gallup Poll*

**“...mania of pessimism”- John Paulson**

**Objective Approach**

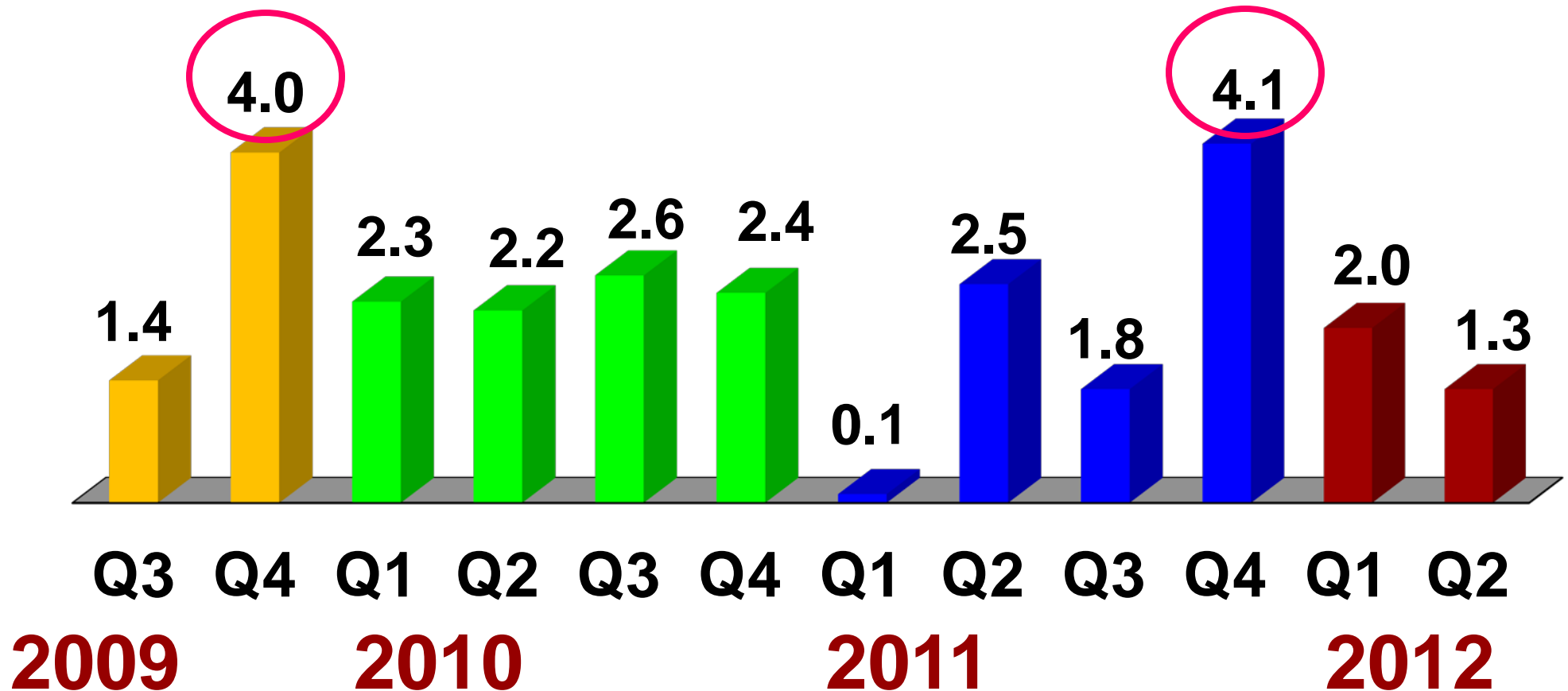
**“What are the numbers?”**

**Modern Approach**

**“How do you feel  
about the numbers?”**

# GDP Up 12 Straight Quarters

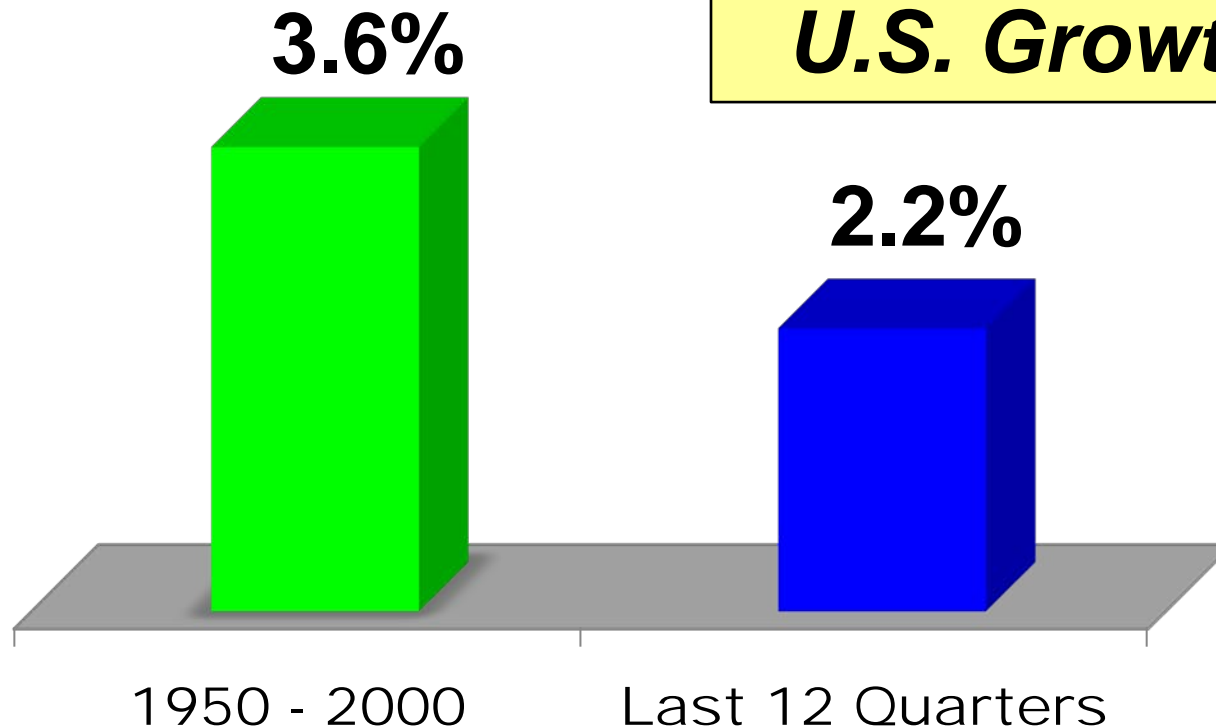
(Percent Change Real GDP)



*U. S. Bureau of Economic Analysis, Sept. 27, 2012*

# But Recent GDP Growth Is at Below Average Pace

***Slowest (Non-Recession)  
U.S. Growth Since 1947***



***U. S. Bureau of Economic Analysis, Percentage Growth Real GDP***



**Why No  
“Great Recovery”  
After  
Great Recession?**

# Hurdles On Road To Recovery

- **Consumers Cut Back**
- **Hiring is Weak**
- **Credit Still Tight**
- **Construction Slump**
- **Govt. Budgets Shrink**
- **Election Uncertainty**
- **No Growth Drivers**

# Growth Drivers Are Weaker Now

<b>GDP Component</b>	<b>2010 Growth</b>	<b>2012 Q2 Growth</b>
<b>U. S. GDP (Output)</b>	<b>2.4%</b>	<b>1.3%</b>
<b>Consumer Spending</b>	<b>1.8</b>	<b>1.5</b>
<b>Business Investment</b>	<b>13.7</b>	<b>0.7</b>
<b>Exports</b>	<b>11.1</b>	<b>5.3</b>
<b>Federal Government</b>	<b>4.5</b>	<b>-0.2</b>
<b>State &amp; Local Govt</b>	<b>-1.8</b>	<b>-1.0</b>

# Consumer is Key to GDP

- Accounts for 70% of GDP...but..
- Consumer not driving recovery
- Paying off debt & saving more
- Long-term growth 3.6% year
- Q2 growth in low gear (1.5%)
- Is this to be the “new normal?”

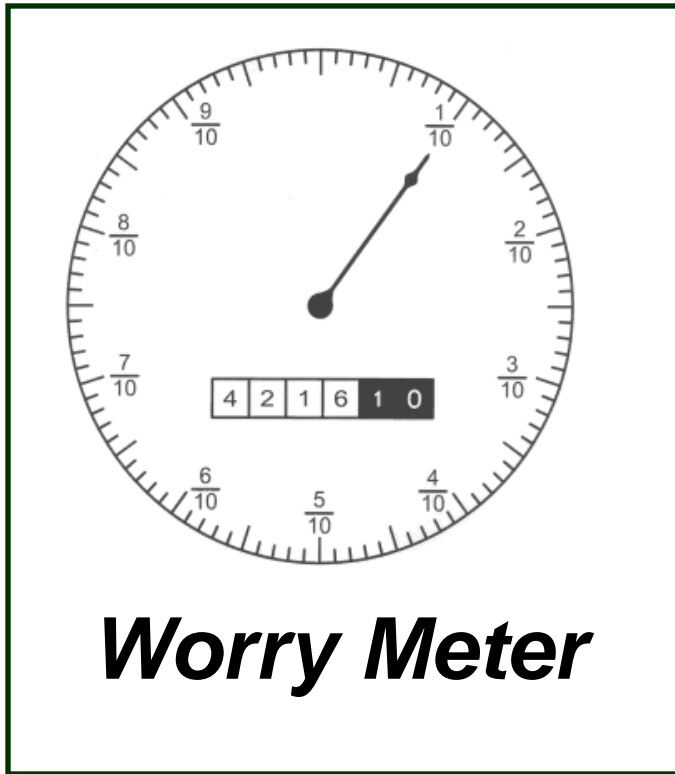
**“New Normal”  
for consumers  
... times are  
hard, so save  
more, reduce  
debt, and cut  
spending**

# **Consumer Spending in U.S. Stagnates**

*September 28, 2012*

**Consumer spending stalled in August after the surge in gasoline prices squeezed American's paycheck, showing the biggest part of the economy is struggling to contribute to the economic recovery.**

# Why Consumers Worry: Problems Still Persist



- 14 mil. Unemployed
- 8.8 million Jobs Lost
- Home Values Down
- Confidence Still Weak
- Recession Over, But Economy “Worse”

# Unemployment Rate Will Not Fall To 5 – 6 % Level For 3 – 4 Years





# AZ Unemployment Rate Still High

Region	Unemployment Rate
USA	8.1% (Aug.)
Arizona	8.3%
Phoenix Metro*	7.4%
Tucson Metro*	7.6%
Flagstaff Metro*	8.1%

*US Bureau of Labor Statistics and AZ Dept of Administration*

*\* unemployment rate not seasonally adjusted*

# 8.8 Mil. U. S. Jobs Lost Dec. 2007 to Feb. 2010

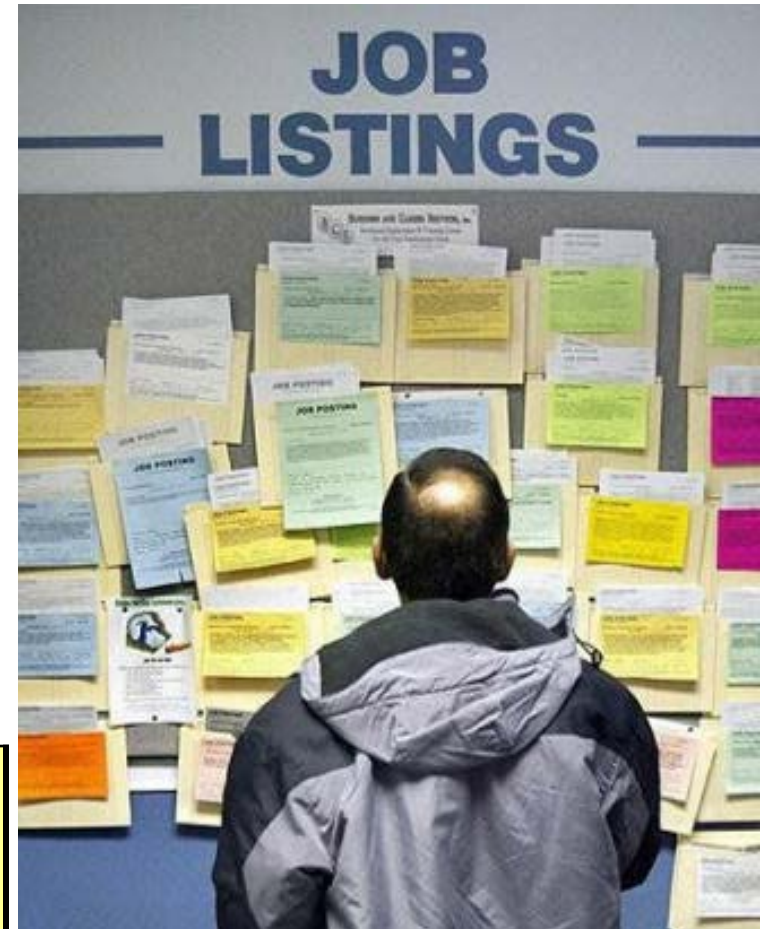
Time Period	Job Loss
Dec. 2007 – Jan. 2009	-4.5 Mil
Jan. 2009 – Feb. 2010	-4.3 Mil
<b>Peak to Bottom Loss</b>	<b>8.8 Mil</b>

**U.S.: 6% Jobs Lost**

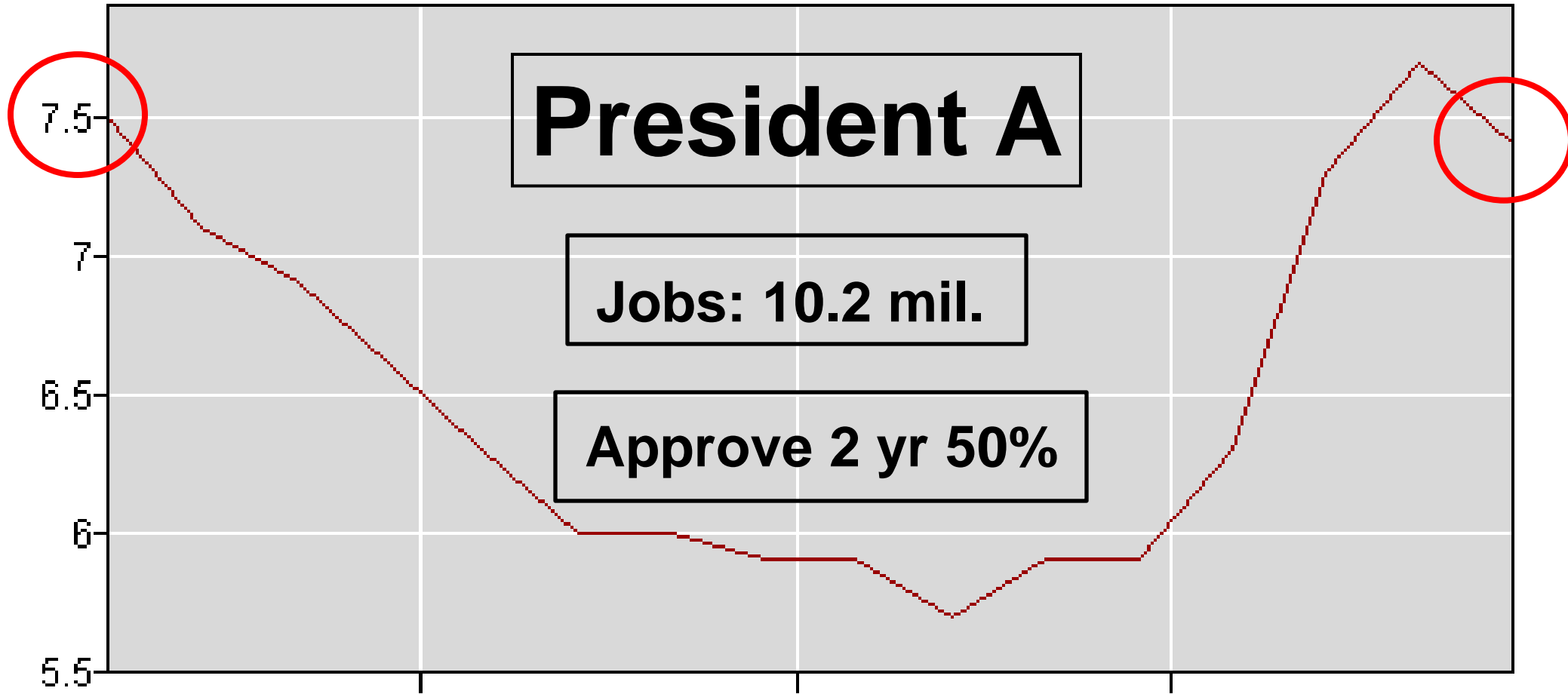
**AZ: 11% Jobs Lost**

**Phoenix: 12% Jobs Lost**

From Feb 2010 low, the U. S. economy  
has regained 4.0 Mil lost Jobs (46%)



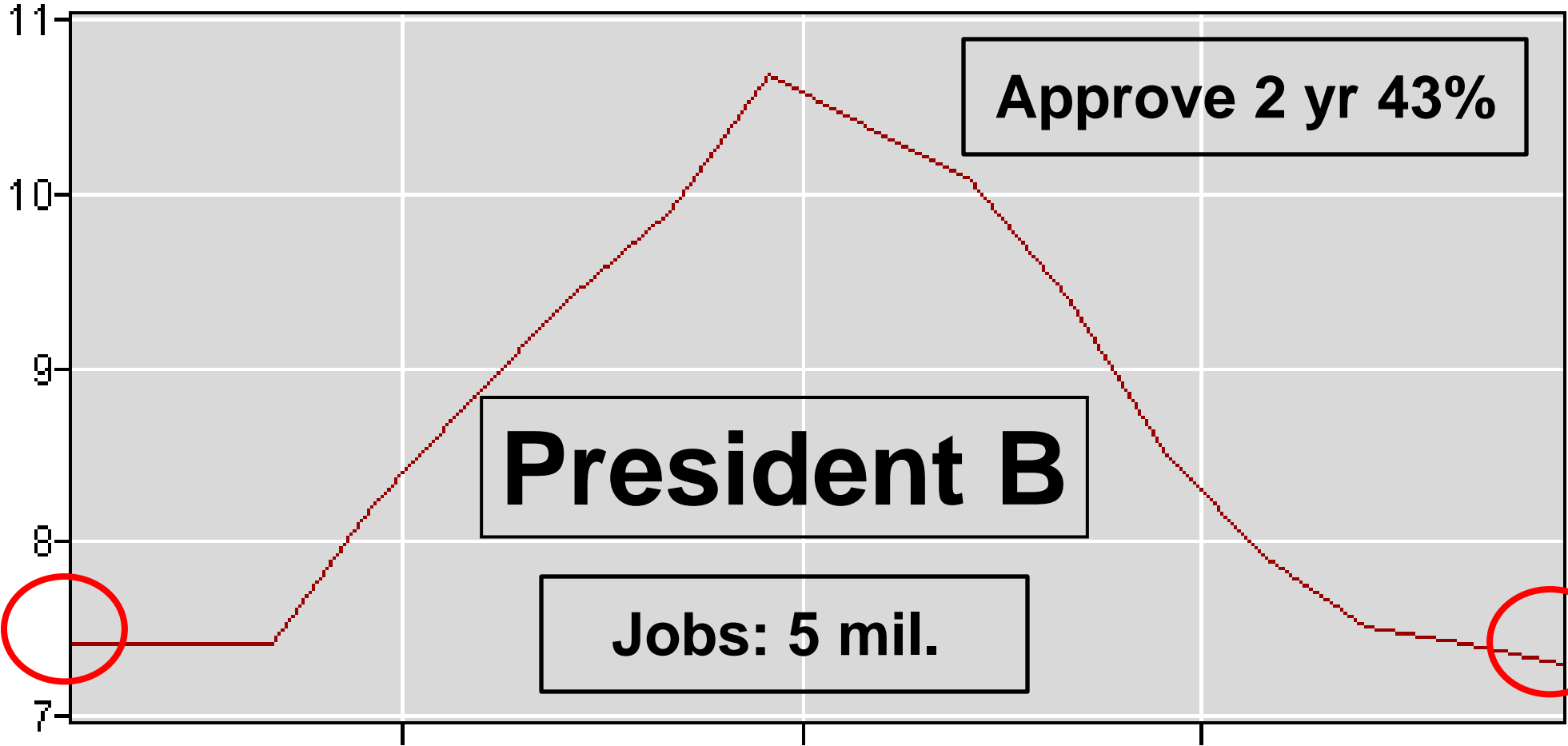
# Unemployment Rate During First 4 Years in Office



Re-Elected? Yes \_\_\_\_ No \_\_\_\_

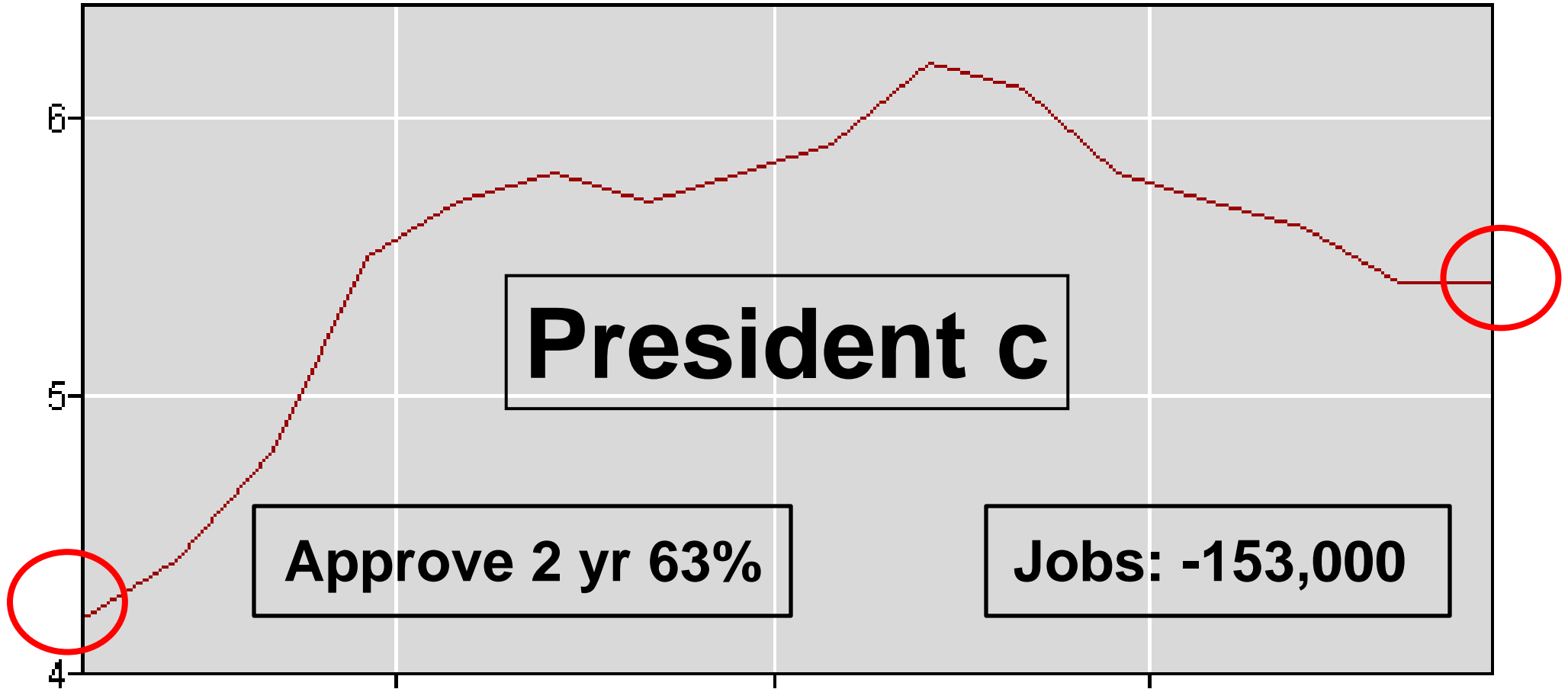
Who? \_\_\_\_\_

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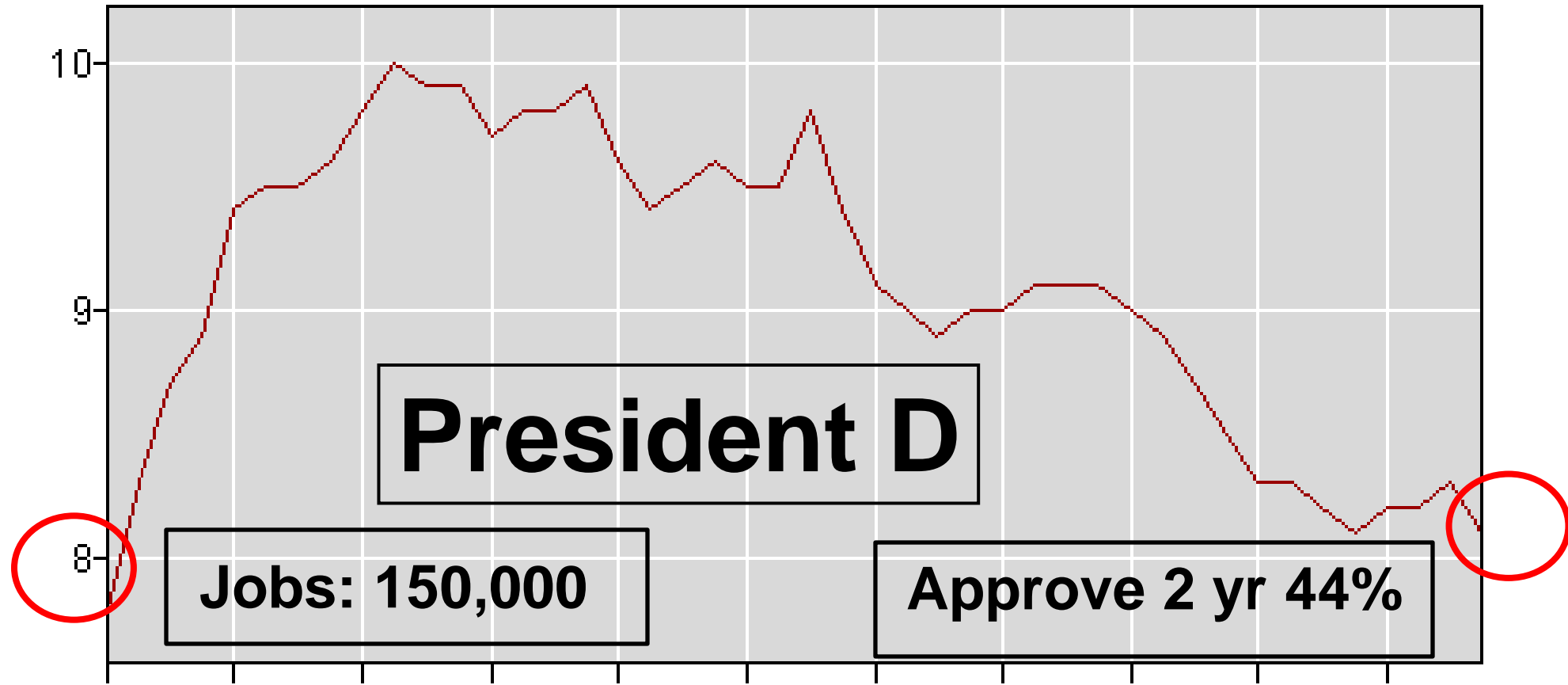
Re-Elected? Yes \_\_\_\_ No \_\_\_\_  
Who? \_\_\_\_\_

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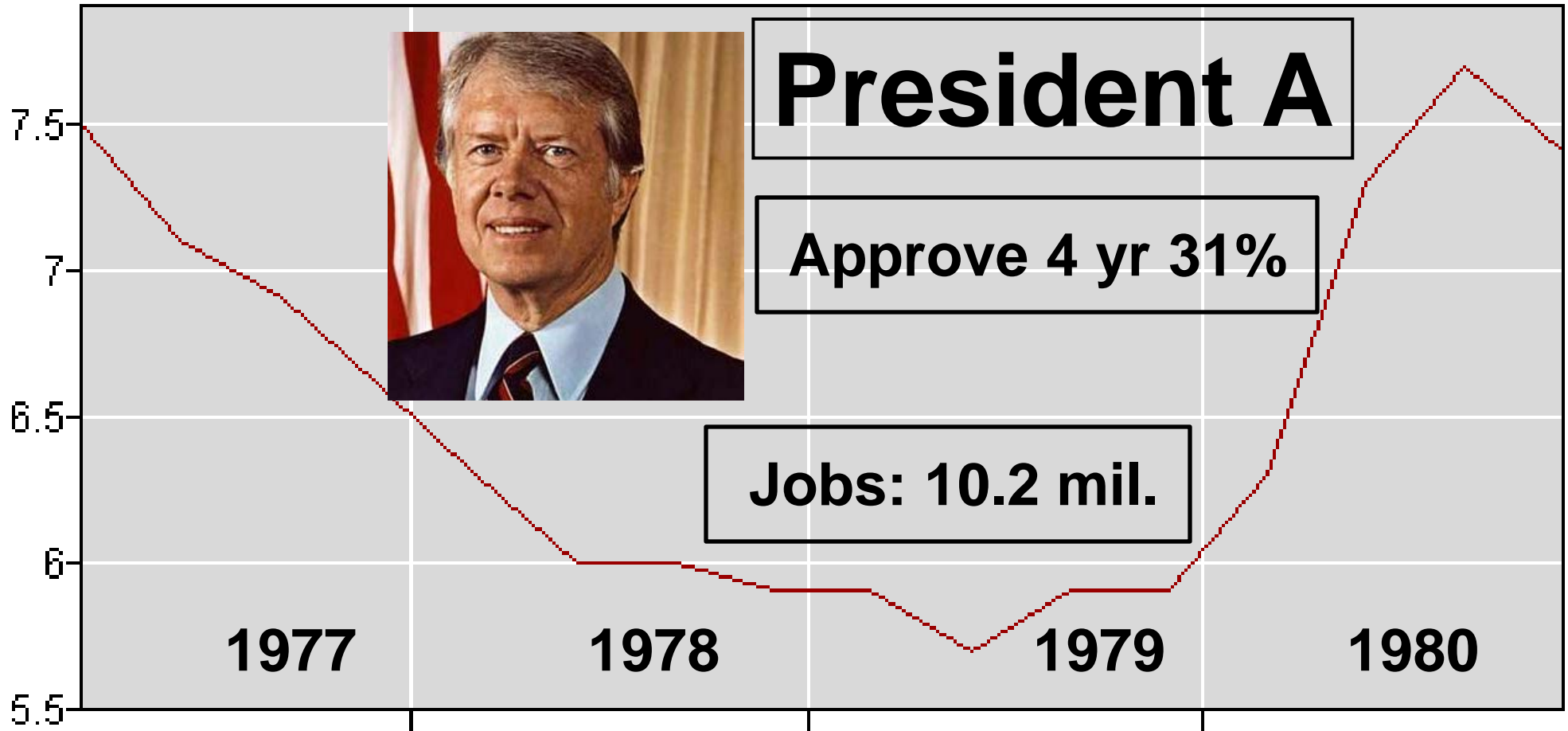
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**Who? \_\_\_\_\_**

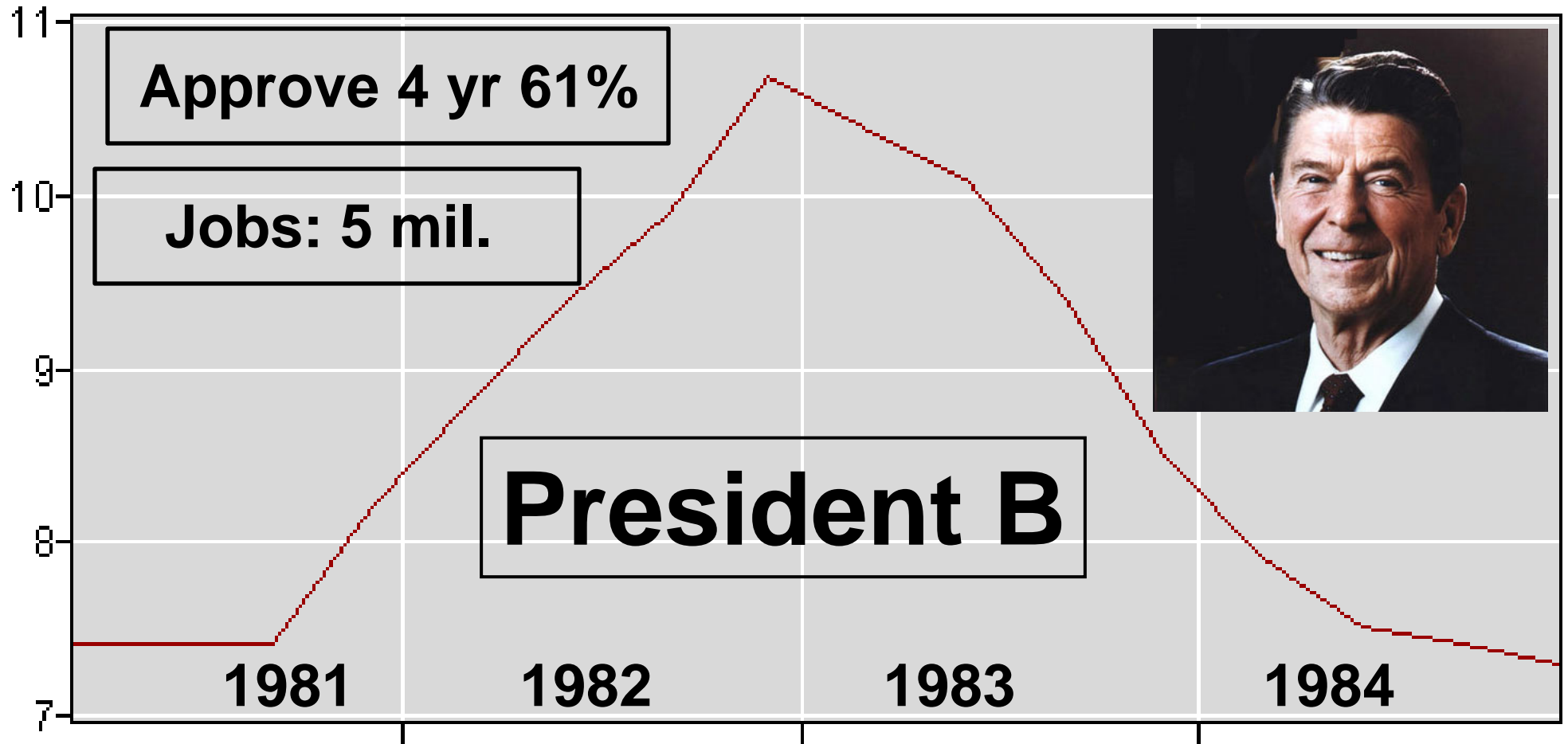
# Unemployment Rate During First 4 Years in Office



Re-Elected? Yes \_\_\_\_ No X

Who? CARTER

# Unemployment Rate During First 4 Years in Office

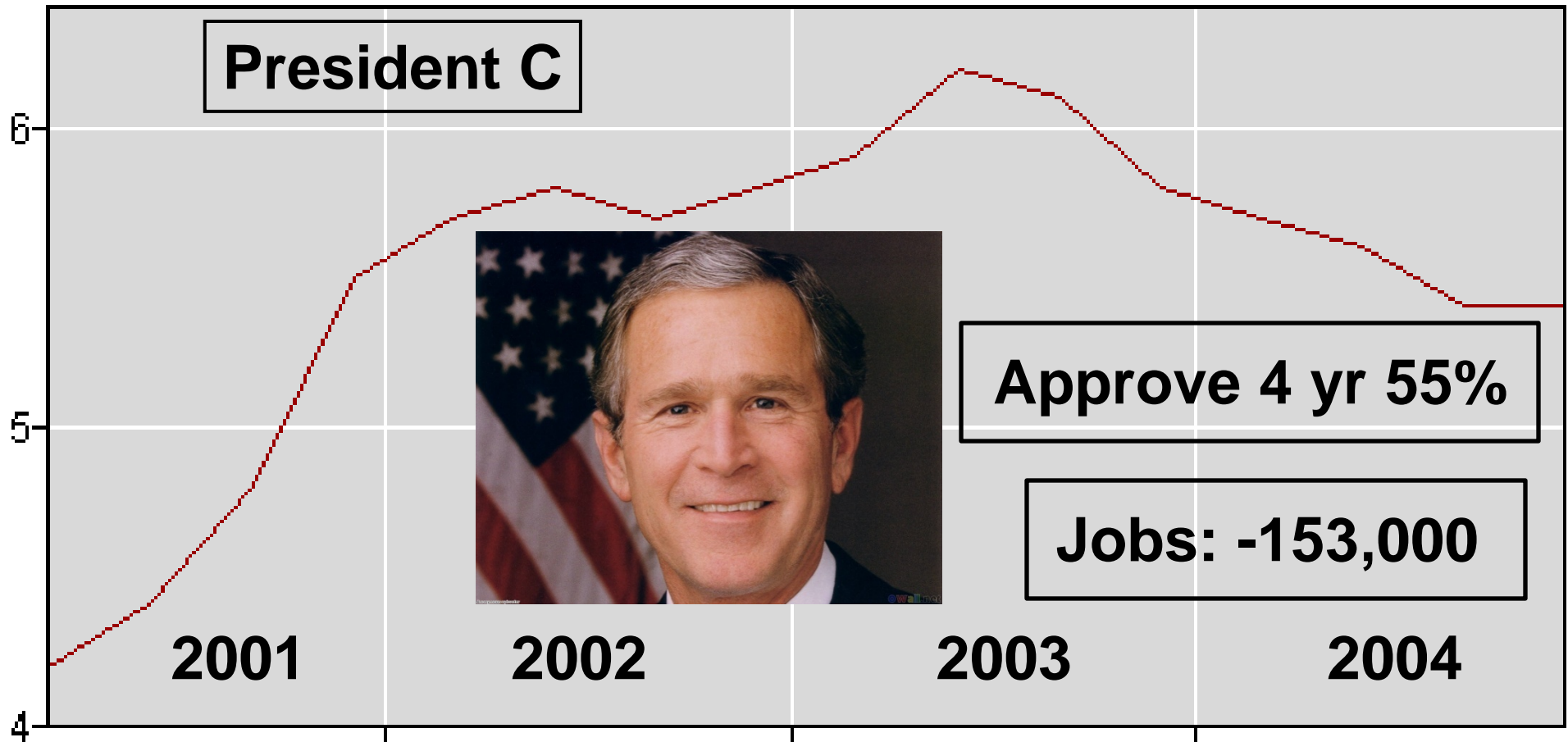


Re-Elected? Yes X No \_\_\_\_

Who? REAGAN



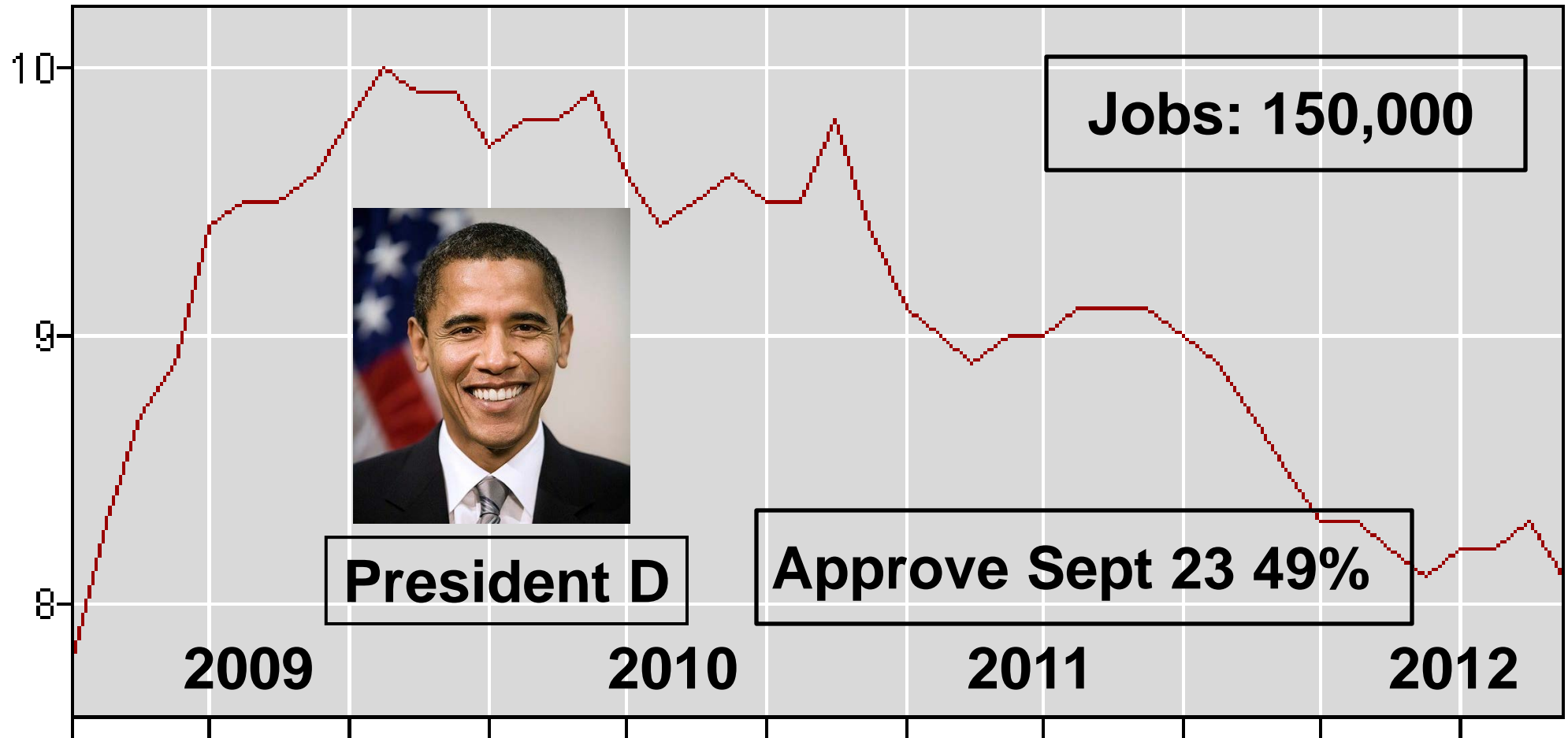
# Unemployment Rate During First 4 Years in Office



**Re-Elected? Yes X No \_\_**

**Who? GW BUSH**

# Unemployment Rate During First 4 Years in Office



Re-Elected? Yes ? No ?

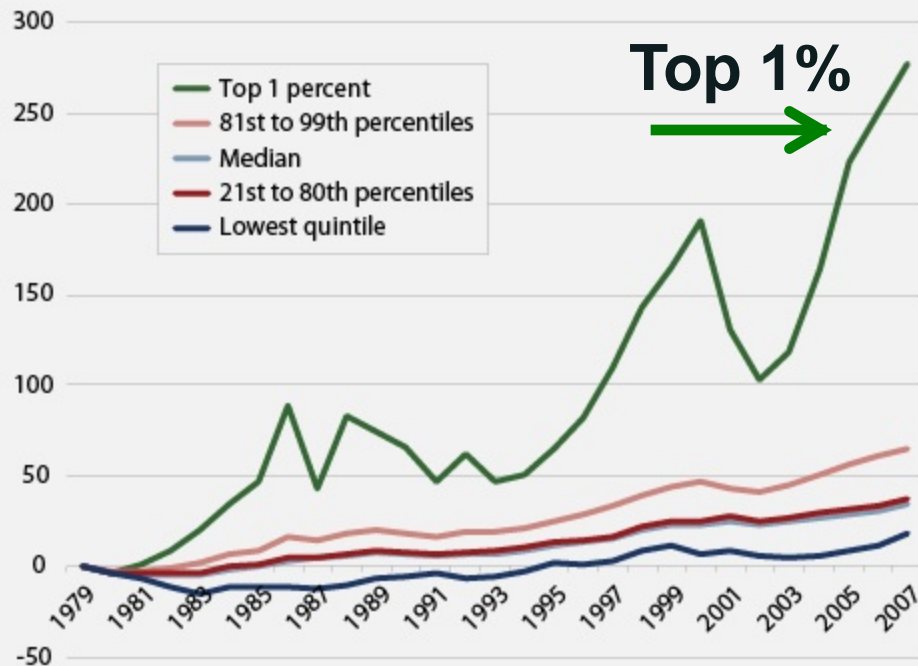
Who? OBAMA

# It's The Middle Class, Stupid!

FIGURE 1

## Cumulative growth in average after-tax income, by income group, 1979-2007

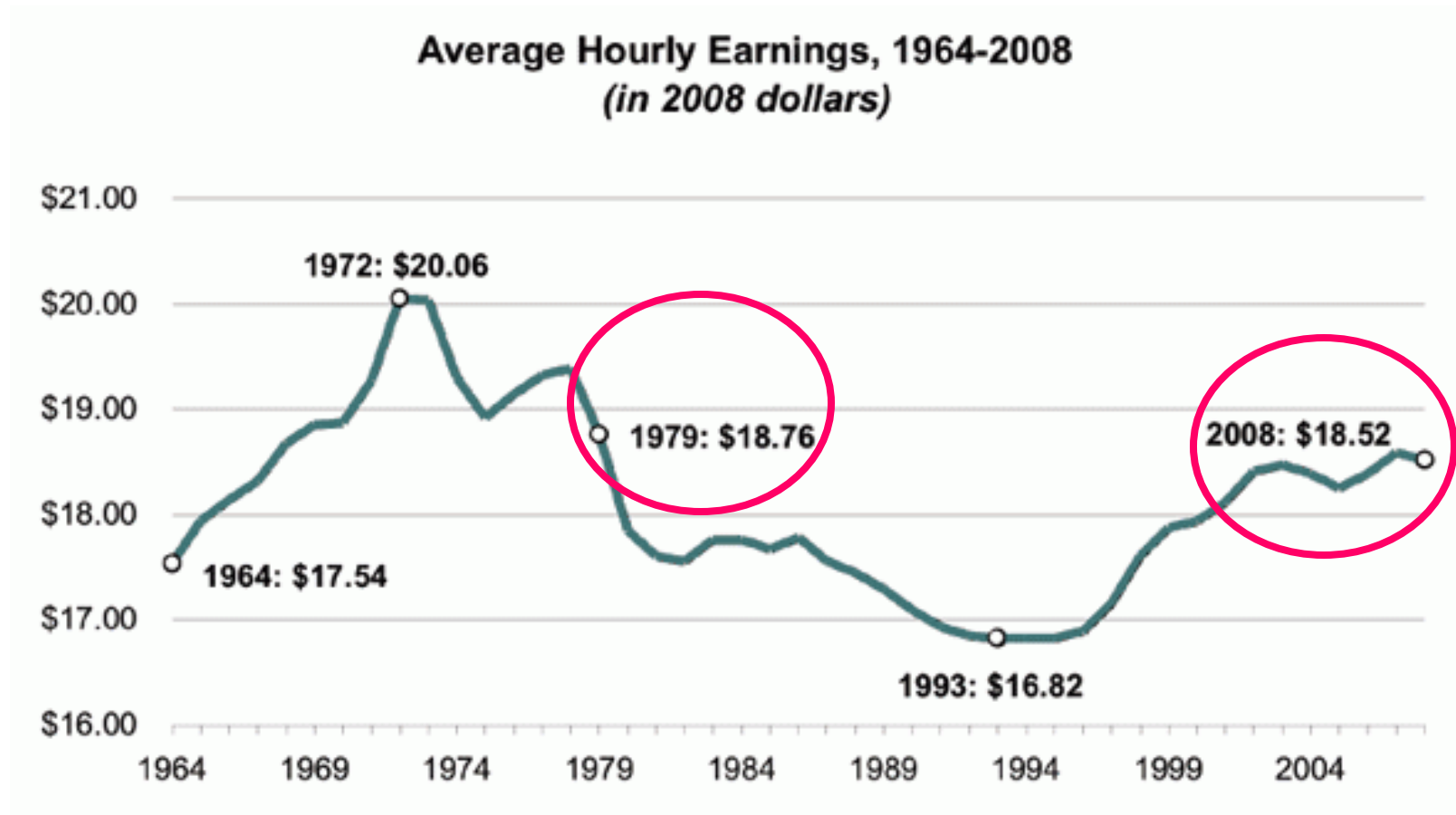
Between 1979 and 2007, the last year before the Great Recession, median family income rose by 35 percent, while incomes for those at the 99th percentile rose by 278 percent



Source: Congressional Budget Office, "Trends in the Distribution of Household Income from 1979-2007," (2011).

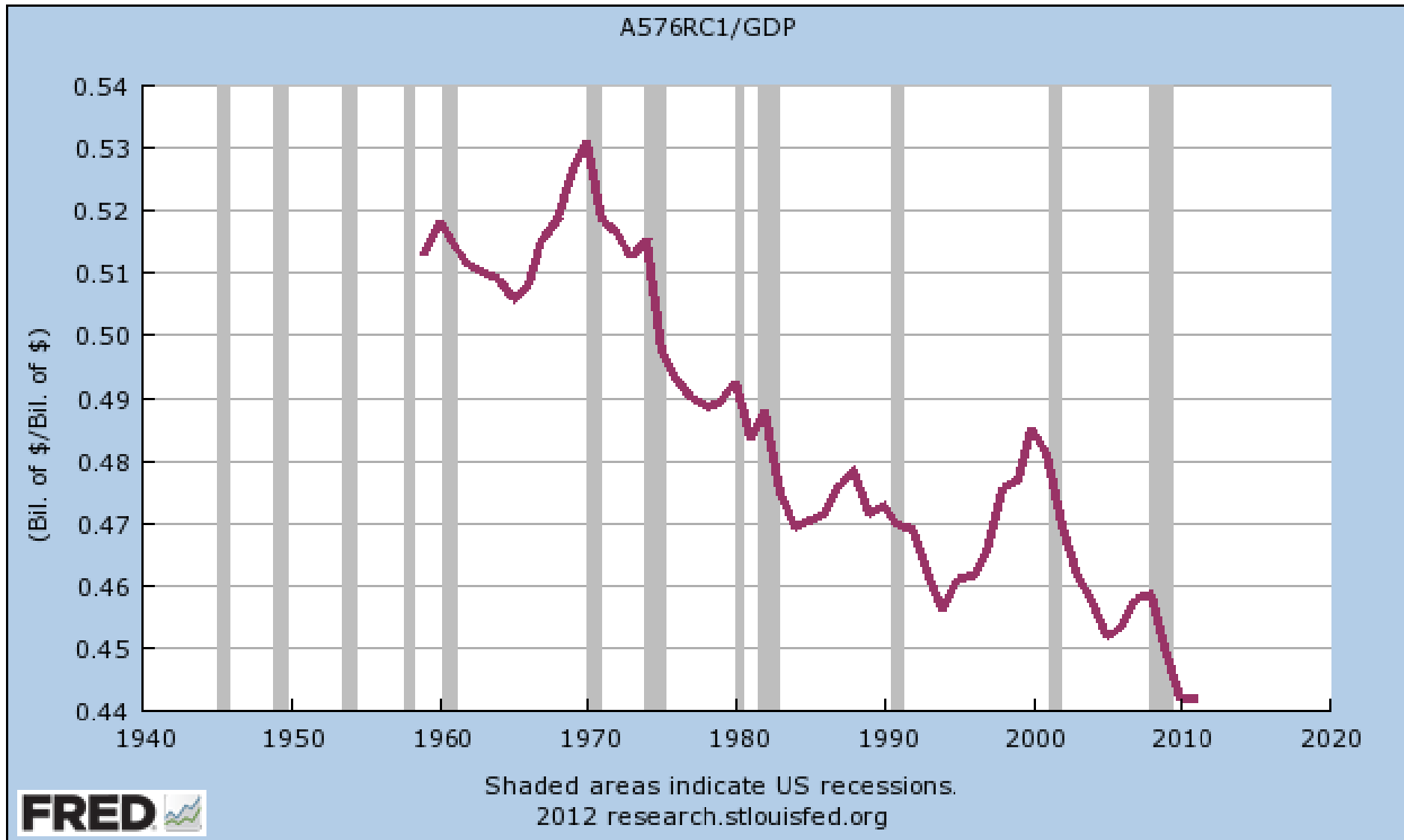
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# Average Hourly Earnings Same Now As 30 Years Ago (2008 Dollars)



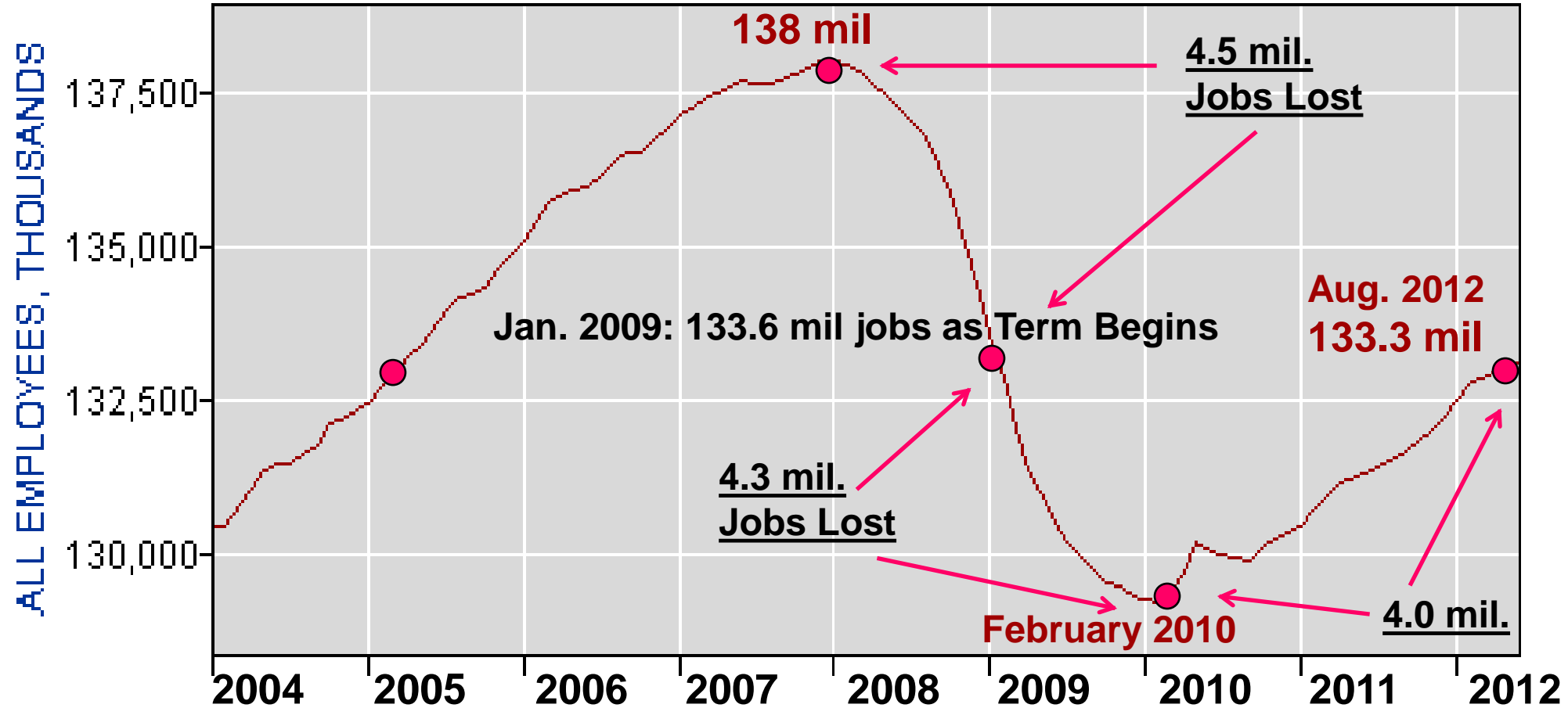
Source: Bureau of Labor Statistics, [Current Employment Statistics](#), Average Hourly Earnings in 1982 Dollars. Converted to 2008 dollars with CPI-U.

# Wages/GDP At Record Low Level



# 4.3 Mil. Jobs Lost Jan. 2009 – Feb. 2010

## 4.0 Mil. Jobs Added Feb. 2010 – Aug. 2012

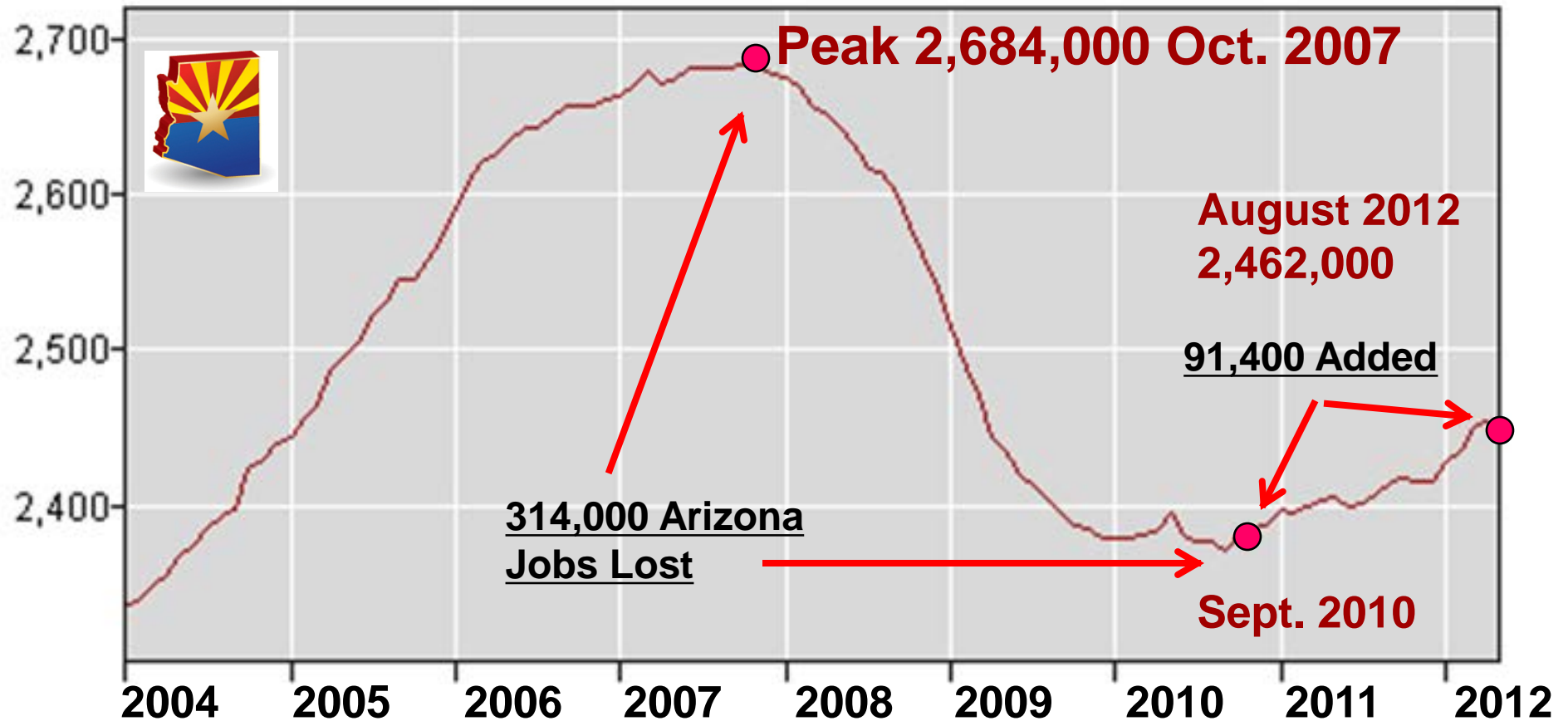


*U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted*



# **314,000 Jobs Lost Oct. 2007 – Sept. 2010**

## **91,400 Jobs Added Sept. 2010 – August 2012**



*U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted*

# Jobs Recovery: How Far Away?

	<b>U.S.</b>	<b>AZ</b>
<b>Jobs Lost</b>	<b>8.8 mil</b>	<b>314,000</b>
<b>Regained To Date</b>	<b>4.0 mil</b>	<b>91,400</b>
<b>% Jobs Regained</b>	<b>46%</b>	<b>29%</b>
<b>Need to Regain</b>	<b>4.8 mil</b>	<b>222,600</b>
<b>Recent New Jobs</b>	<b>1.2 mil yr</b>	<b>45,000 yr</b>
<b>Years to Recover</b>	<b>4.0 yrs</b>	<b>4.9 yrs</b>

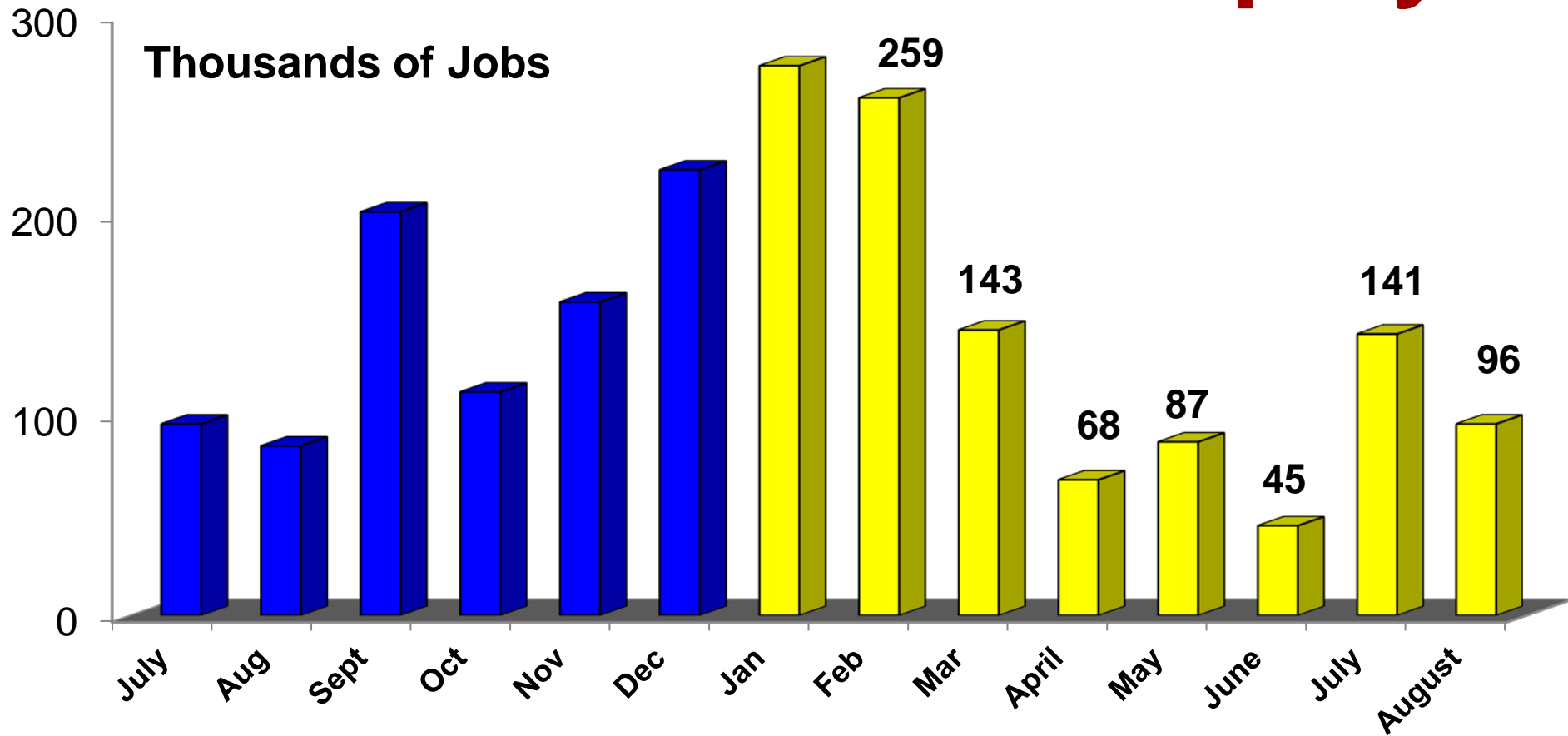


# Jobs Recovery: How Far Away?

	<b>U.S.</b>	<b>AZ</b>
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<b>% Jobs Regained</b>	<b>45%</b>	<b>29%</b>
<b>Need to Regain</b>	<b>4.8 mil</b>	<b>222,600</b>
<b><u>Average</u>* New Jobs</b>	<b>2.5 mil</b>	<b>118,000</b>
<b>Years to Recovery</b>	<b>1.9 yrs</b>	<b>1.9 yrs</b>

\*Average annual growth rate 1957-2007

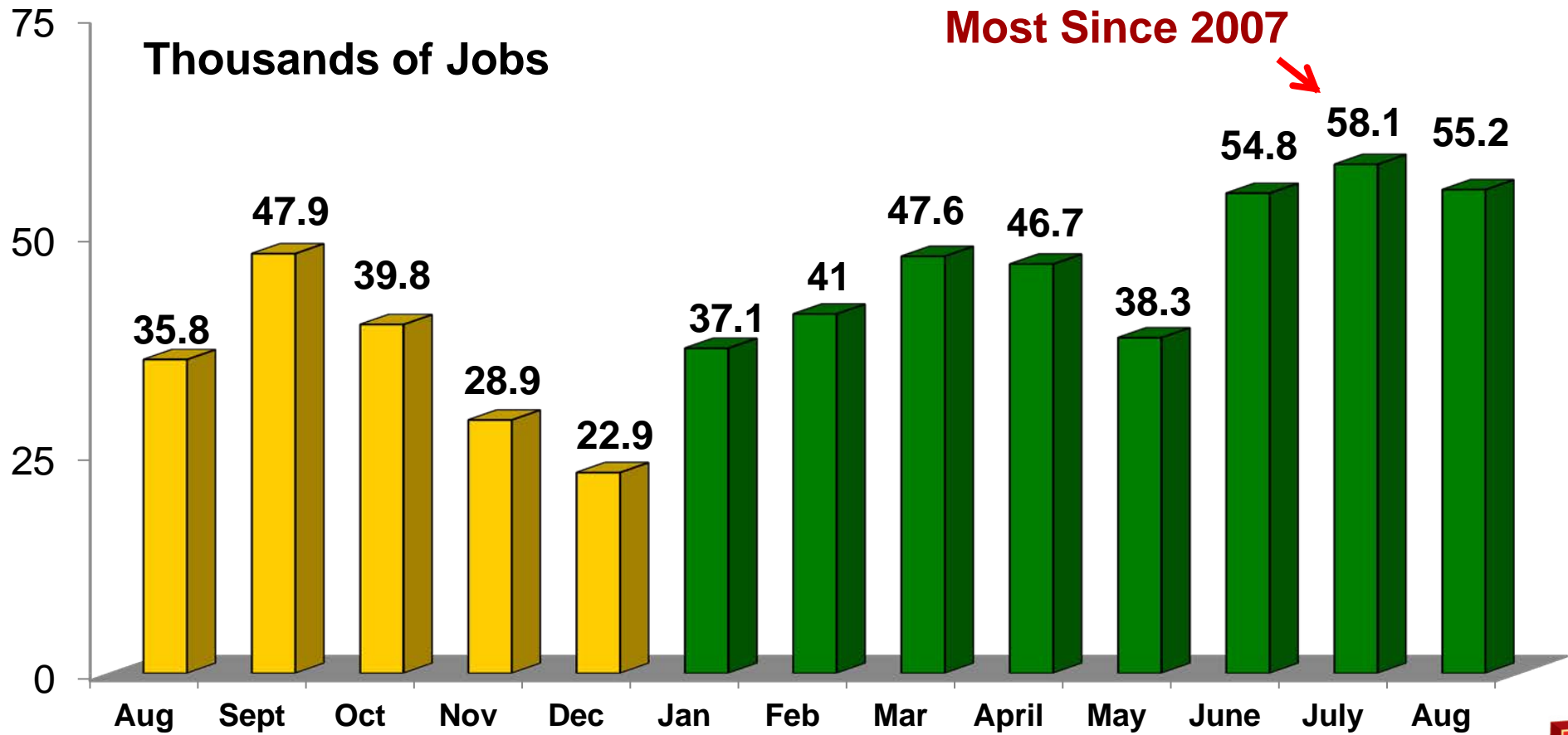
# 96,000 US Jobs in August - Need 2 mil./Yr to Lower Unemployment



*U. S. Bureau of Labor Statistics, Seasonally Adjusted*

# Arizona Gained 55,200 Jobs in August

## (Year-Over-Year Nonfarm Job Growth by Month)



*U. S. Bureau of Labor Statistics, Not Seasonally Adjusted*



# Arizona Growth Rankings

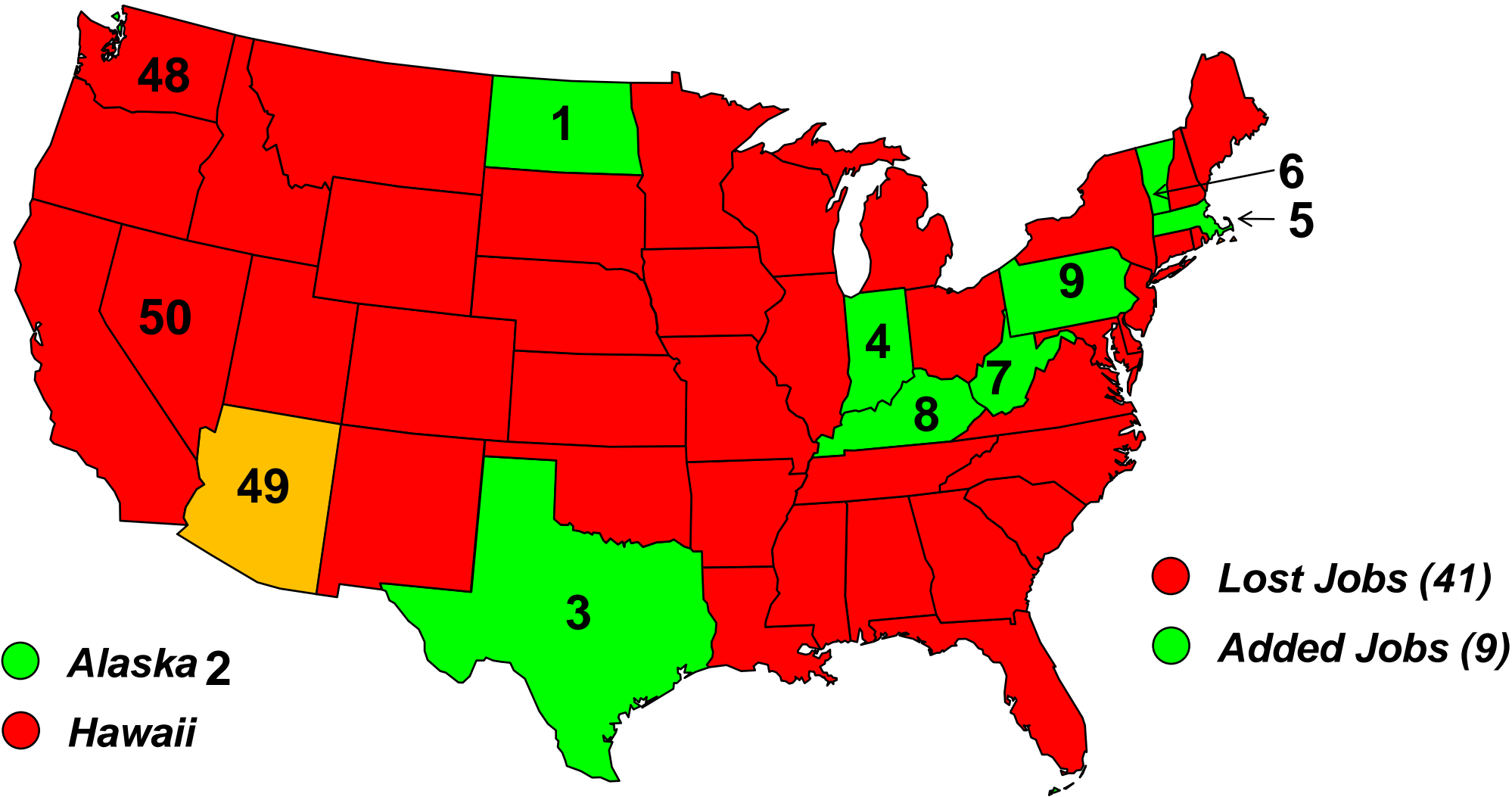
**State Ranking by Percent Growth: August 2012**

<b>Az Industry</b>	<b>Rank</b>	<b>New Jobs</b>
<b>Overall Az Jobs</b>	<b>#6</b>	<b>55,200</b>
<b>Retail</b>	<b>#3</b>	<b>9,400</b>
<b>Real Estate</b>	<b>#3</b>	<b>3,100</b>
<b>Admin. &amp; Support</b>	<b>#3</b>	<b>16,100</b>
<b>Construction</b>	<b>#5</b>	<b>8,000</b>

*W. P. Carey School of Business & U. S. Bureau Labor Statistics*

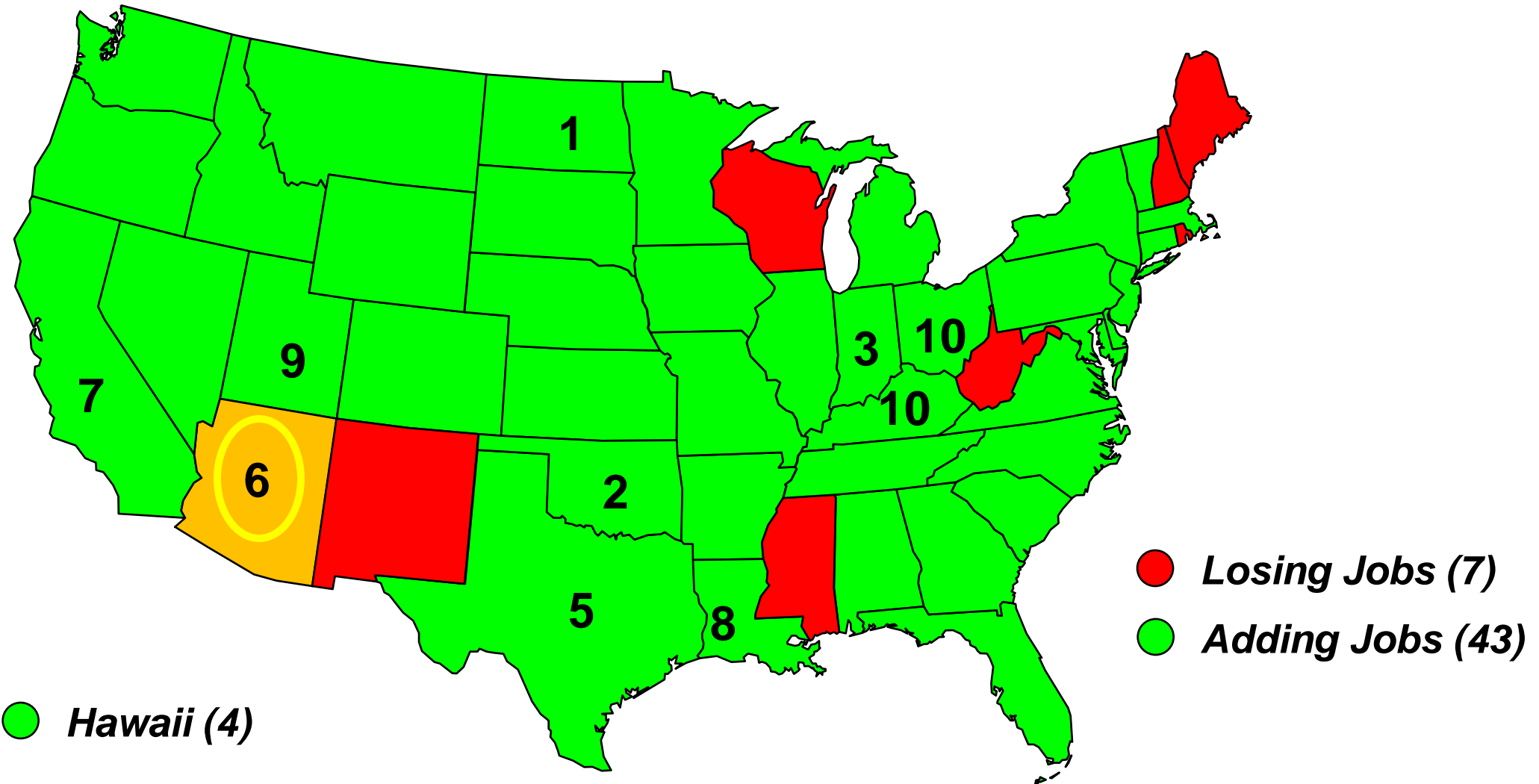
# 41 States Lost Jobs in 2010

( Percentage Change 2010 vs 2009)

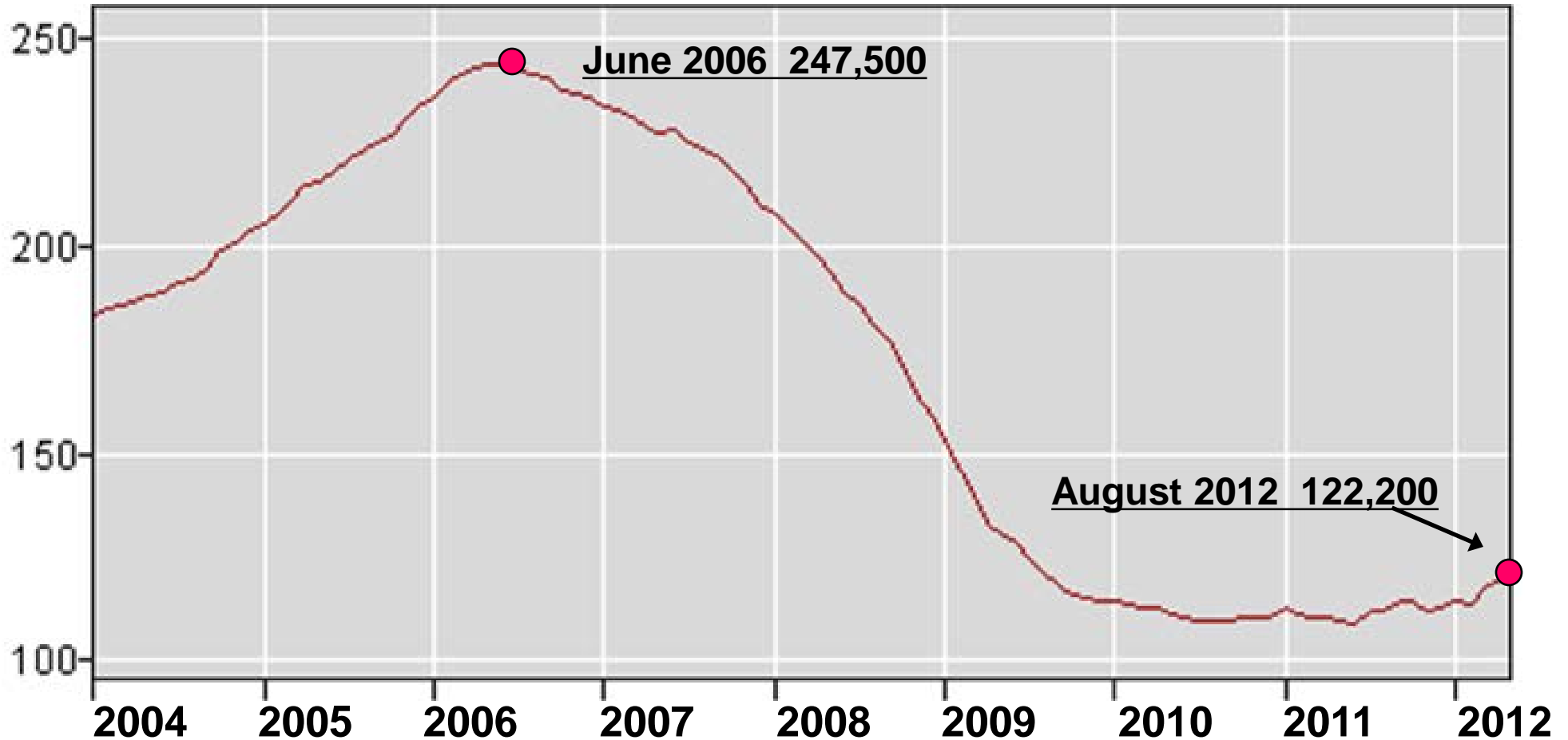


# Arizona Ranks 6<sup>th</sup> For Job Growth

(Ranked by Percent Change Aug. 2012 vs Aug. 2011)



# Construction Added 8,000 Jobs Year/Year – Still Down 125,300



*Arizona Construction Jobs, from U. S. Bureau Labor Statistics*

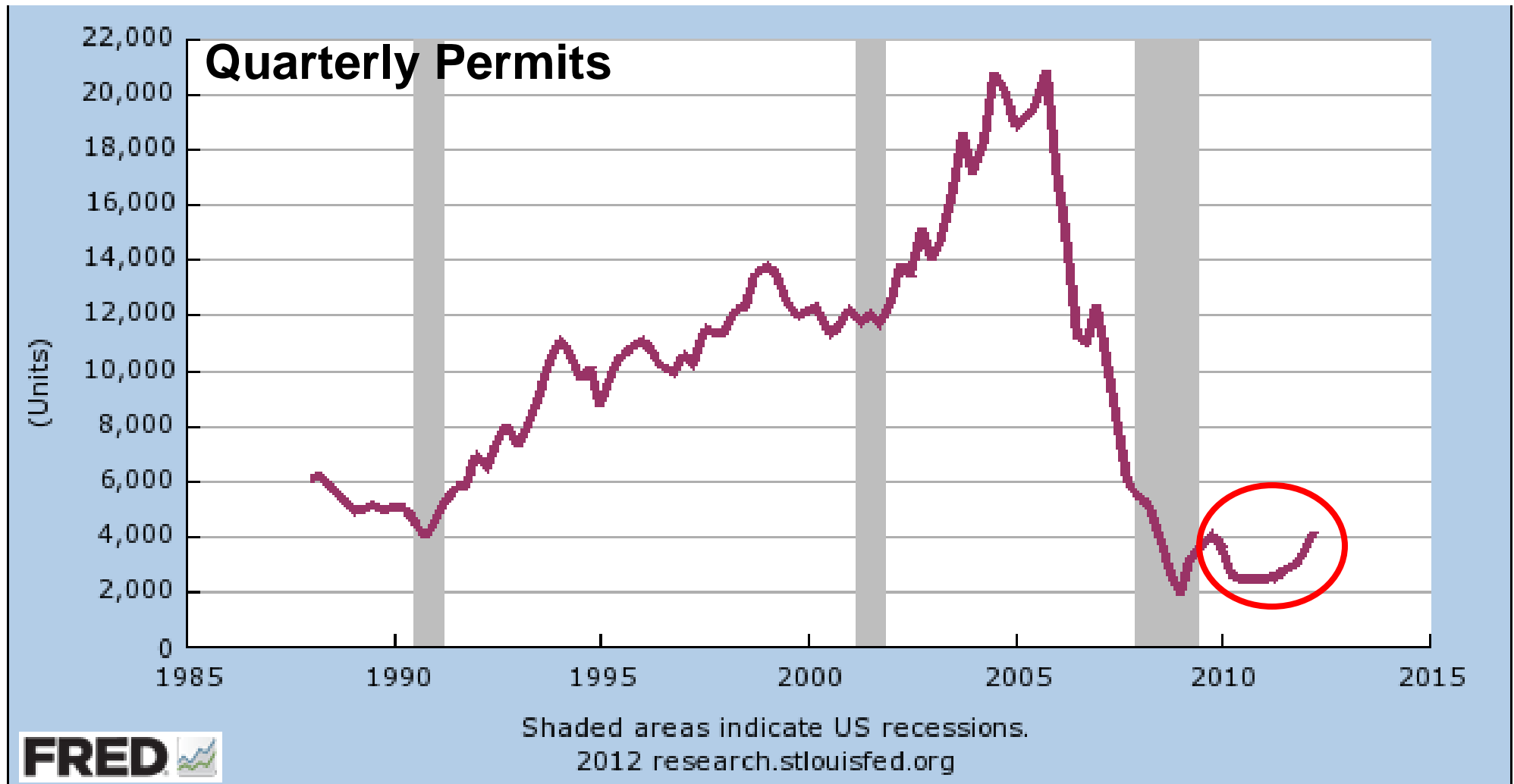
# Regional Housing Conditions

State	% Negative Equity	% Price Rise (Yr/Yr)	% Distressed Sales (REO –Short Sale)
US	23.2%	1.3%	24.3%
AZ	38.5	16.6	37.8
CA	28.6	4.4	43.4
FL	42.0	6.6	30.2
NV	57.7	5.1	54.6
TX	8.5	4.7	16.2

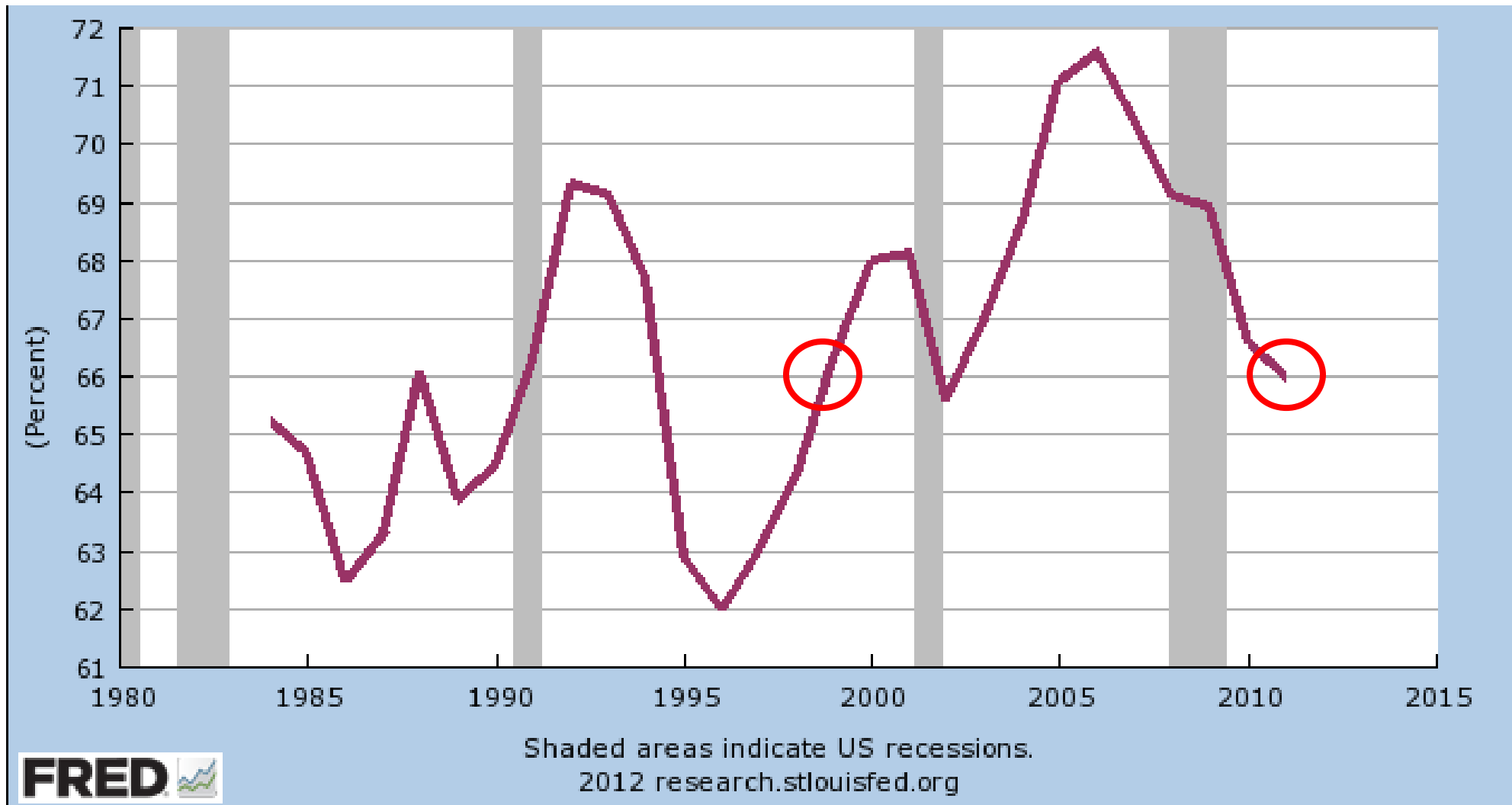
*Source: The Market Pulse, CoreLogic, Summer 2012*



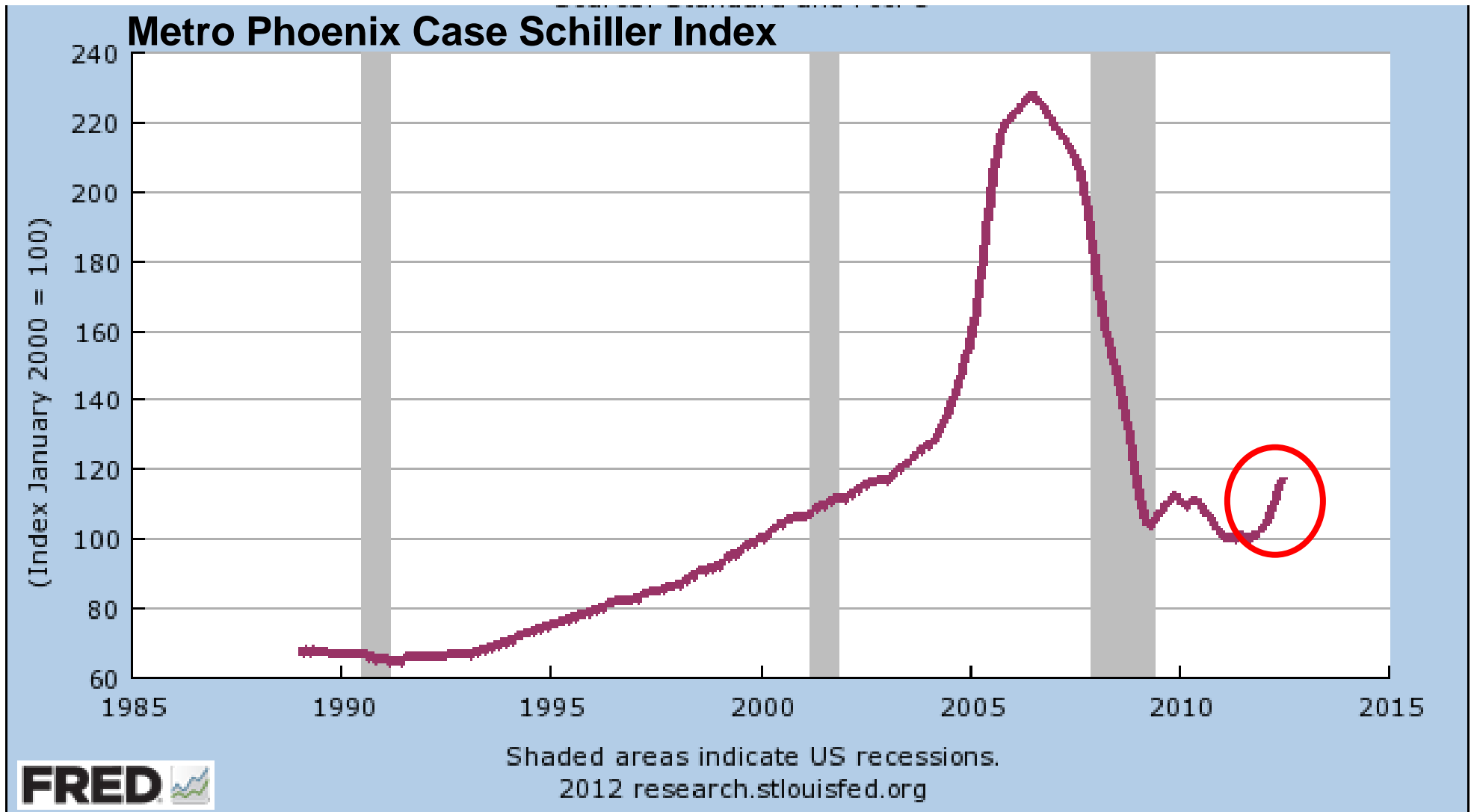
# Arizona Single Family Permits Bottomed Out in 2011



# Arizona Home Ownership Rate Is Back to Levels of 1999



# Home Prices Are On the Rise



**Economic  
Outlook:  
Slow  
(very slow)  
Growth**




# United States Economic Forecast

## Major U.S. Risk – Global Economy

	2011	2012	2013
Real GDP Growth	1.8%	2.2%	2.1%
Inflation (CPI)	3.2%	2.0%	2.0%
Employment (Jobs)	1.5 mil.	1.8 mil.	1.7 mil.
Unemployment Rate	9.0%	8.2%	8.0%

*W. P. Carey School of Business, ASU; based on data available October 3, 2012*

# Dueling Forecasts: 2013

Source		GDP Growth
Moody's Analytics		2.6%
BMO Capital		2.0%
Morgan Stanley		1.4%
Blue Chip Consensus		2.1%

*Blue Chip newsletter, Sept. 2012*

# **Recession - Next 12 Months?**

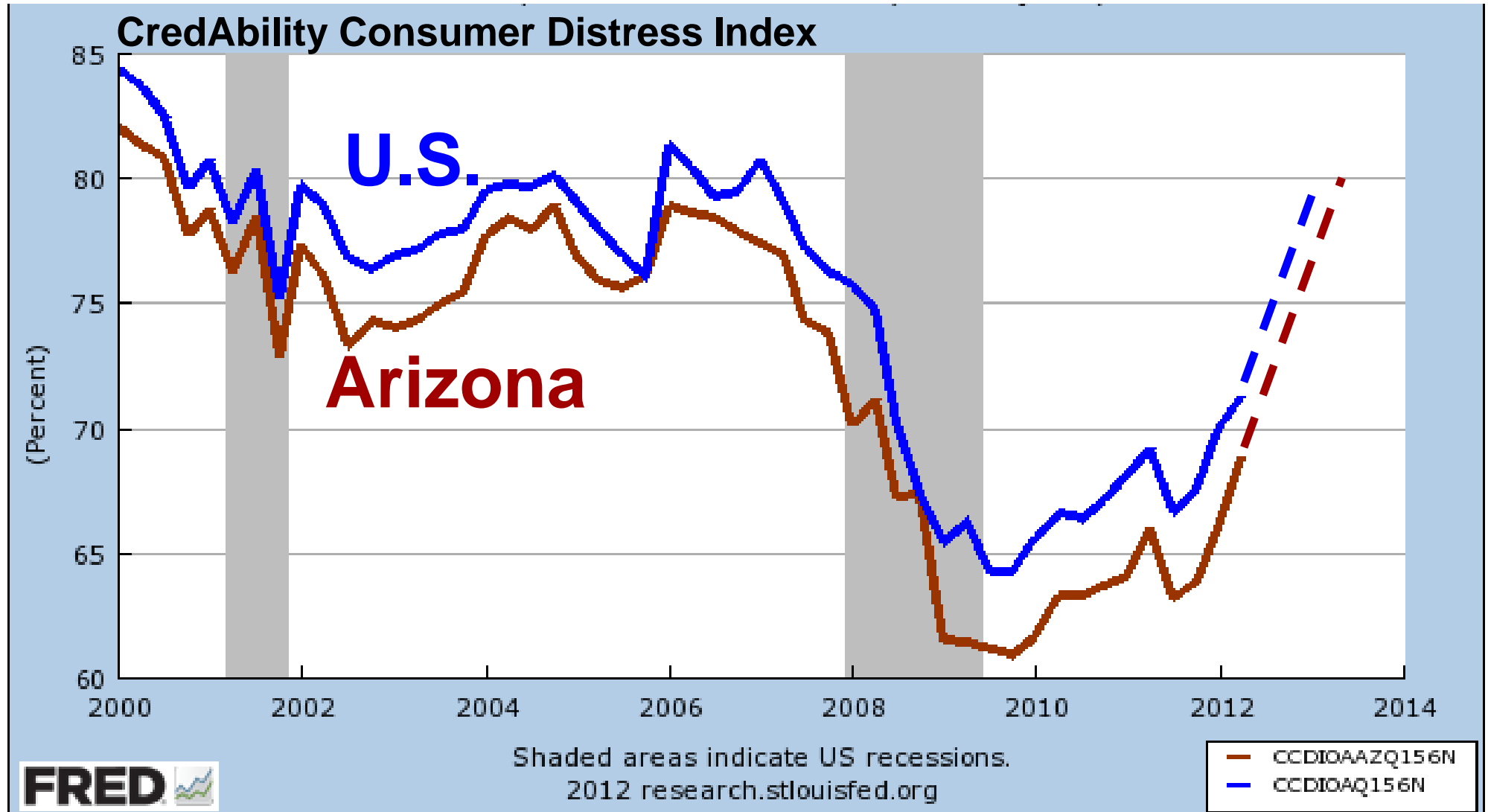
- **100% probability?**
- **50/50 probability?**
- **1 in 4 probability?**
- **1 in 5 probability?**
- **Won't happen!**

# The Paradox of Recovery

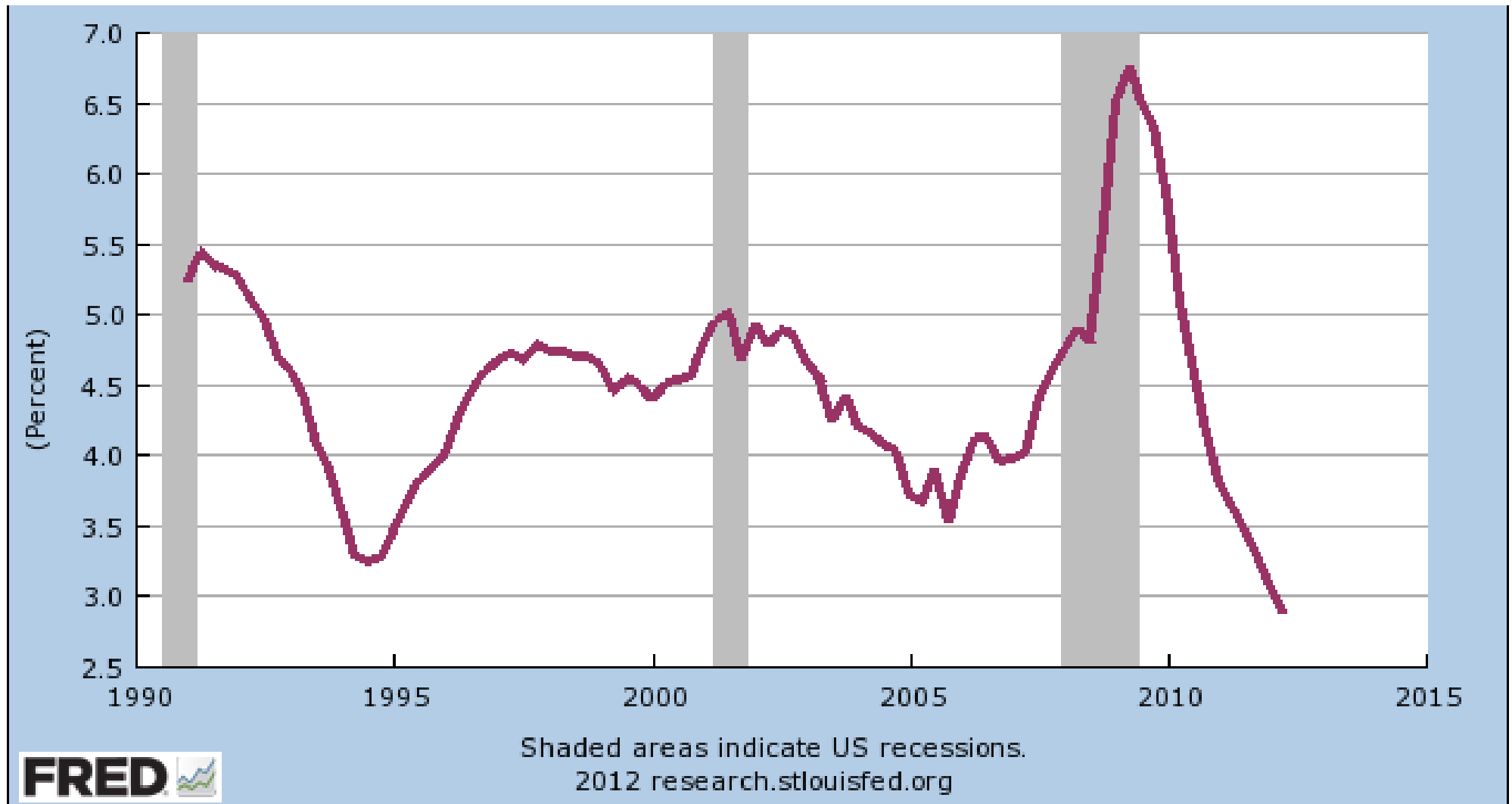
RECESSION AND RECOVERY	
Recession Cause	Recession Cure
Too Much Confidence	Increase Confidence
Too Much Credit	Increase Credit
Too Much Spending	Increase Spending



# Consumer Confidence, Balance Sheets, Debt Levels, Spending Slowly Improving



# Credit Card Delinquency Rate Goes From All Time High To 15-Year Low

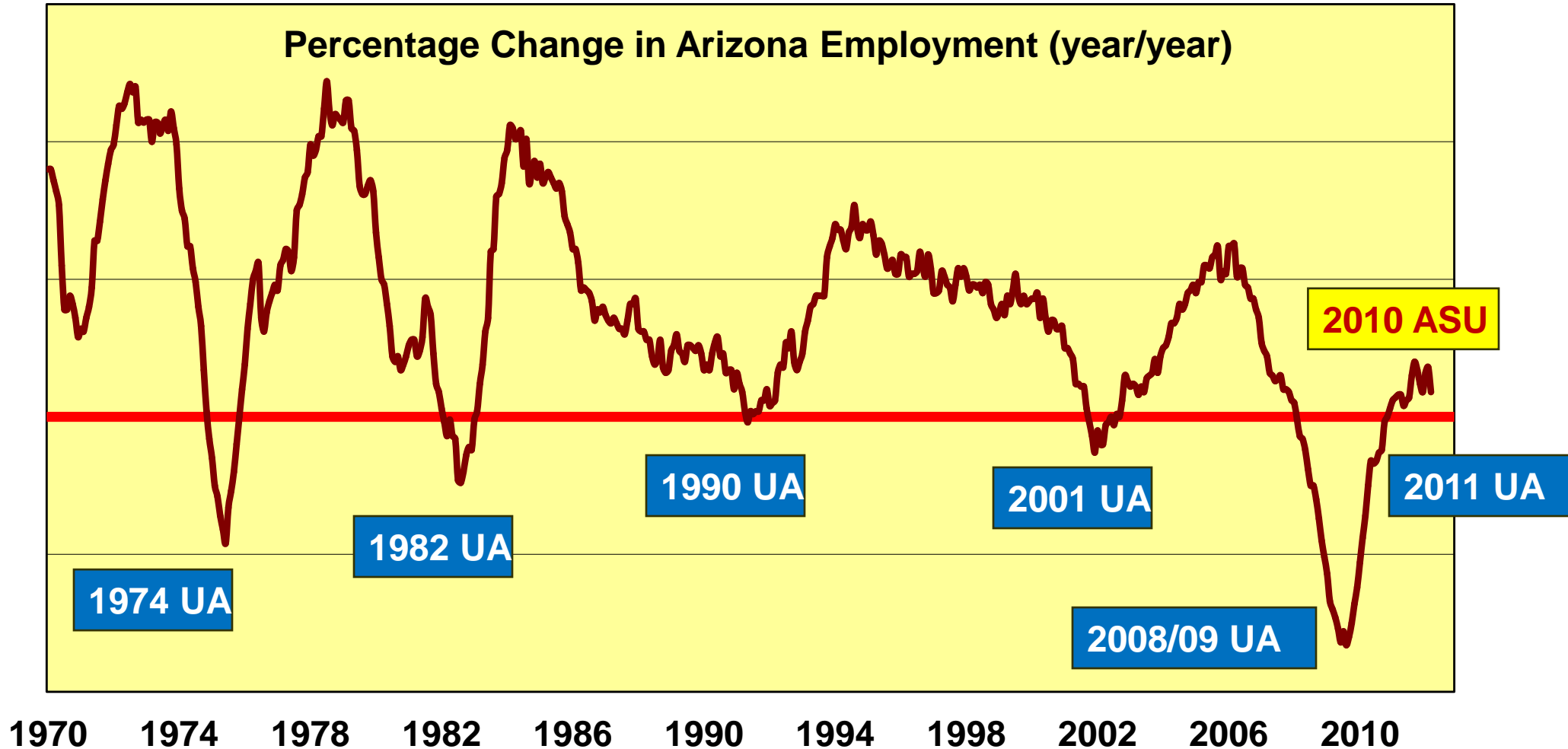


# ARIZONA Economic Forecast

## Major Arizona Risk – U.S. Economy

	2011	2012	2013
	Annual Percent Change		
Employment	1.0	2.0	2.2
Retail Sales	10.1	6.0	6.5
Single Family Housing	-.05	60	50
Population	1.1	1.2	1.5

# Curse? U of A Football Win vs ASU Creates Possibility of “Double Dip”



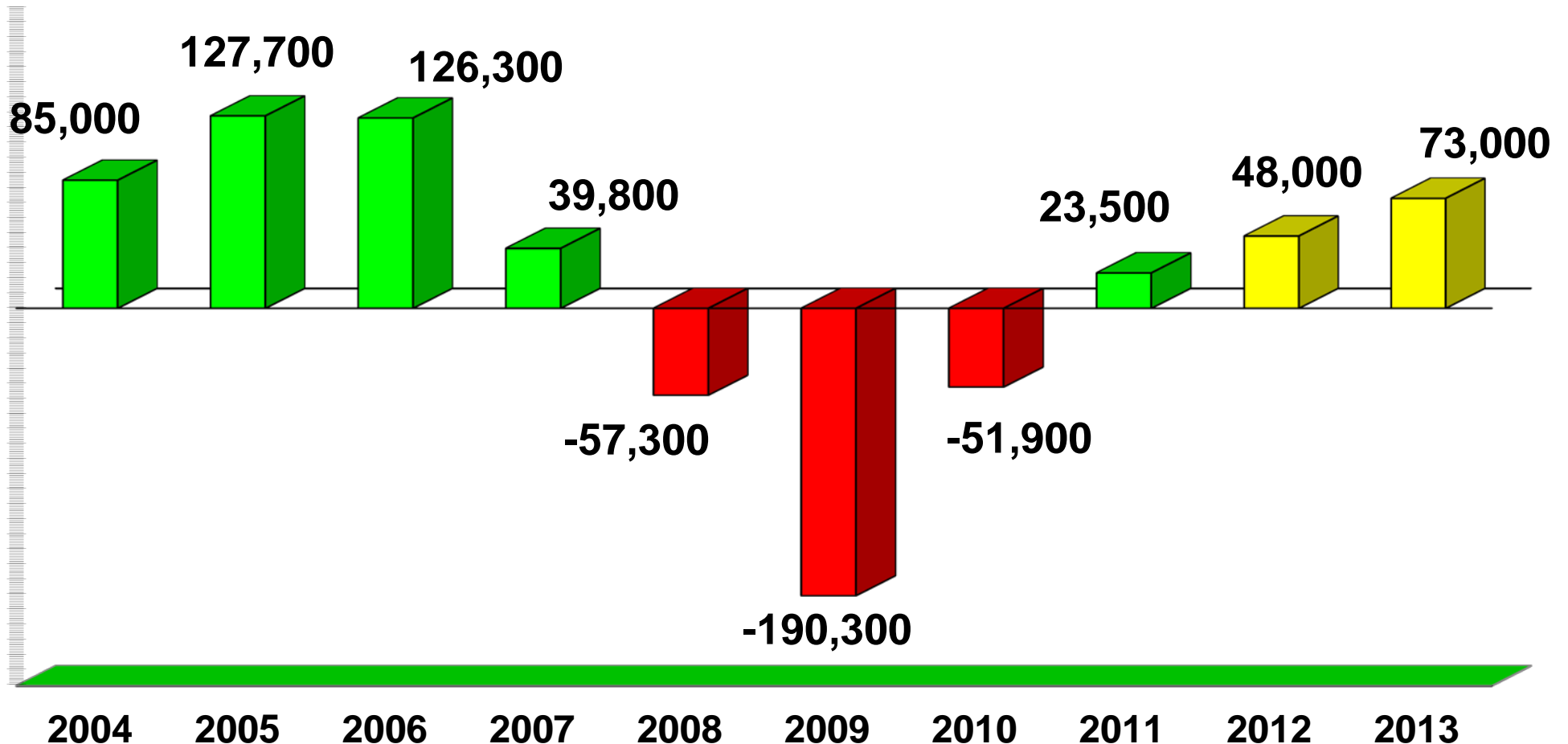
# **Curse? U of A Football Win vs ASU Likely Caused Great Crash of 1929**

**Legislature Must Act!**

**Eliminate football  
At the  
University of Arizona  
To improve  
Arizona Economy**

# Arizona Jobs Growing Again

History: Average Growth 1986 – 2006 = 3.5% (85,000 Jobs/Yr)



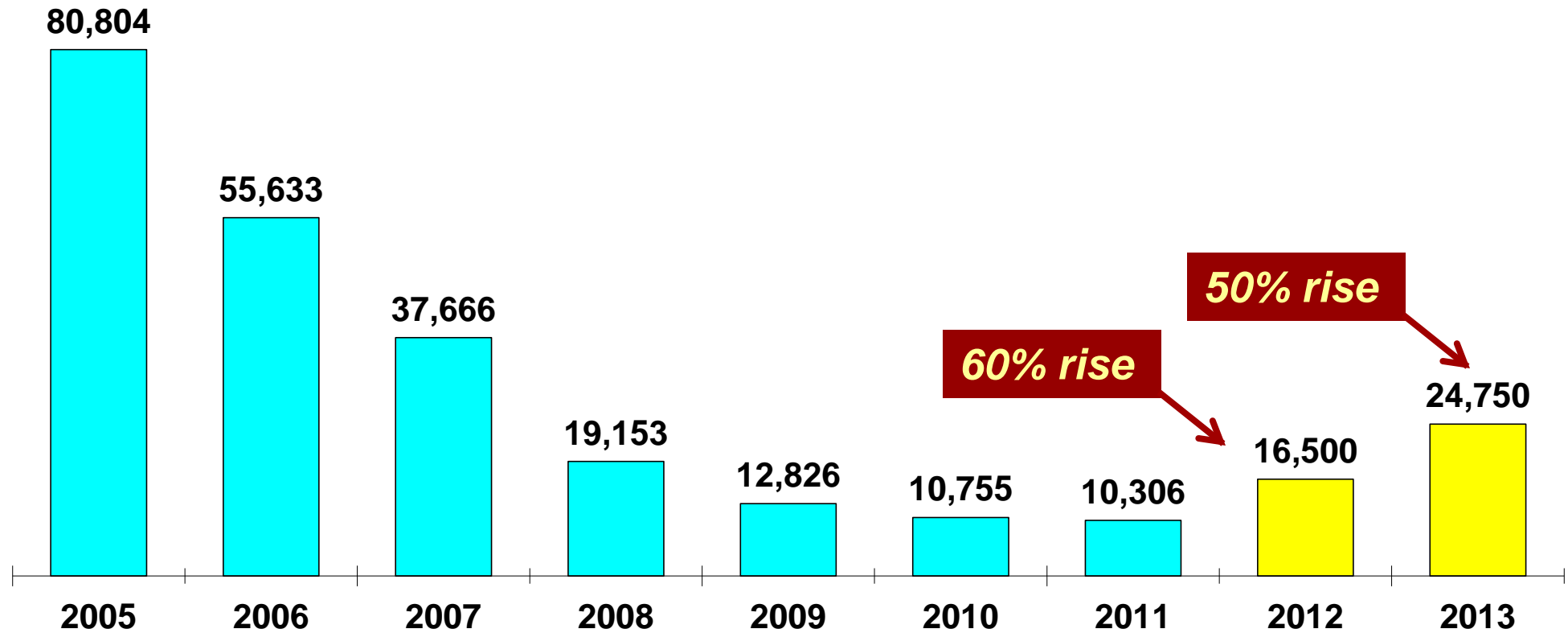
# Arizona Regional Job Growth

<b>Metro</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
<b>Phoenix</b>	<b>1.4%</b>	<b>2.1%</b>	<b>2.5%</b>
<b>Tucson</b>	<b>0.1</b>	<b>0.8</b>	<b>1.5</b>
<b>Lake Havasu</b>	<b>-0.4</b>	<b>-0.1</b>	<b>2.0</b>
<b>Flagstaff</b>	<b>-0.5</b>	<b>-0.7</b>	<b>0.8</b>
<b>Yuma</b>	<b>-1.0</b>	<b>-0.2</b>	<b>1.0</b>
<b>Prescott</b>	<b>-1.3</b>	<b>1.0</b>	<b>1.5</b>

*Source: W. P. Carey School of Business*

# Home Building Recovery Begins

## Arizona Single Family Permits 2005 - 2013

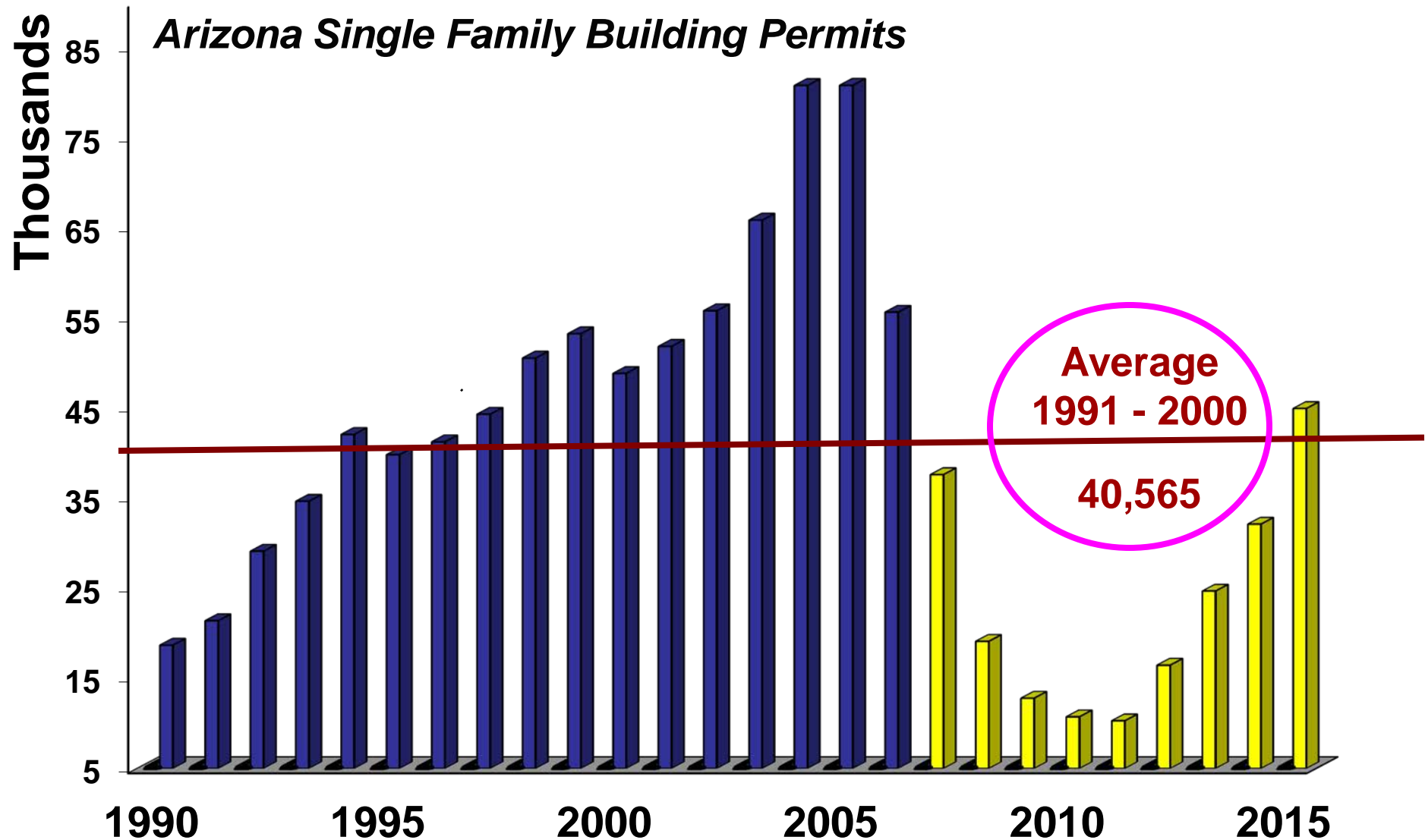


*U. S. Census Bureau and W. P. Carey School of Business*

**Forecast**



# 8 - 9 Below Average Housing Years?



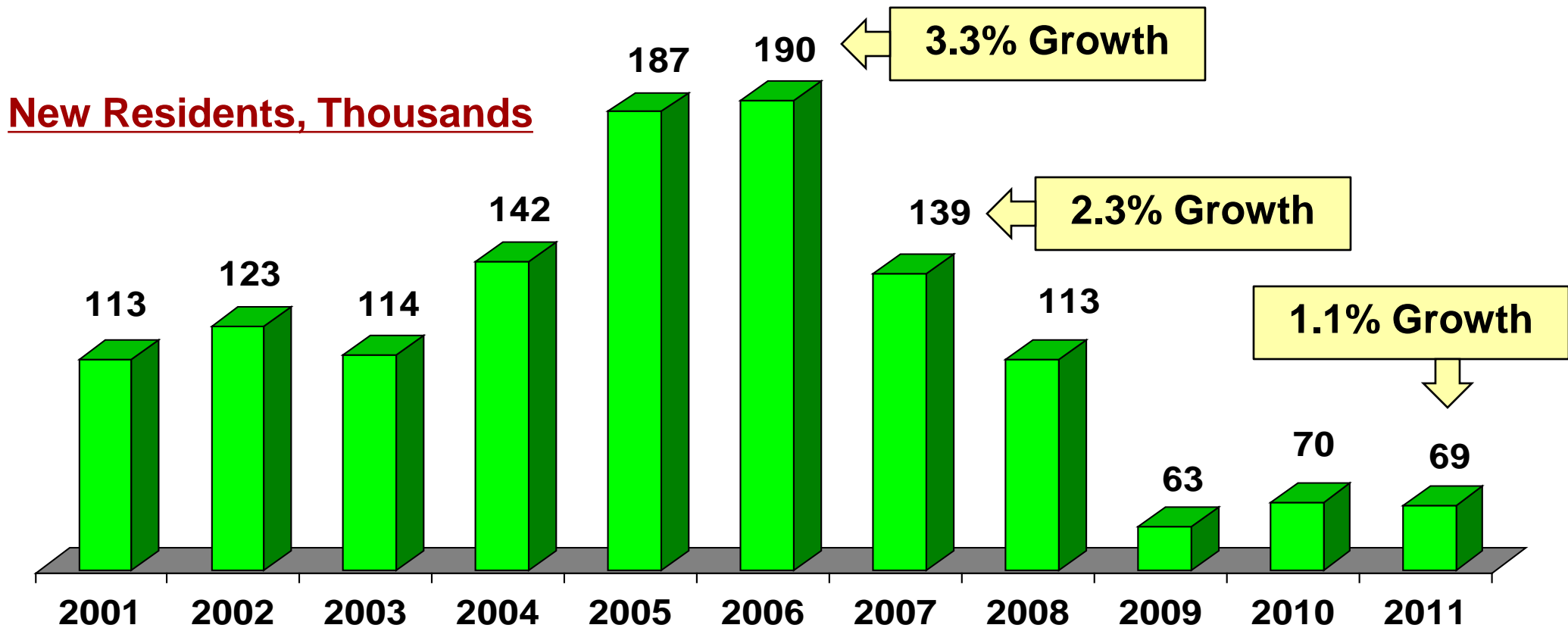
*U. S. Census Bureau & W.P. Carey School of Business*

# Arizona Single Family Permits

<b>Metro</b>	<b>2011</b>	<b>2015</b>
<b>Phoenix</b>	<b>7,590</b>	<b>34,000</b>
<b>Tucson</b>	<b>1,460</b>	<b>5,775</b>
<b>Yuma</b>	<b>370</b>	<b>1,300</b>
<b>Prescott</b>	<b>311</b>	<b>2,250</b>
<b>Lake Havasu</b>	<b>210</b>	<b>1,880</b>
<b>Flagstaff</b>	<b>110</b>	<b>640</b>

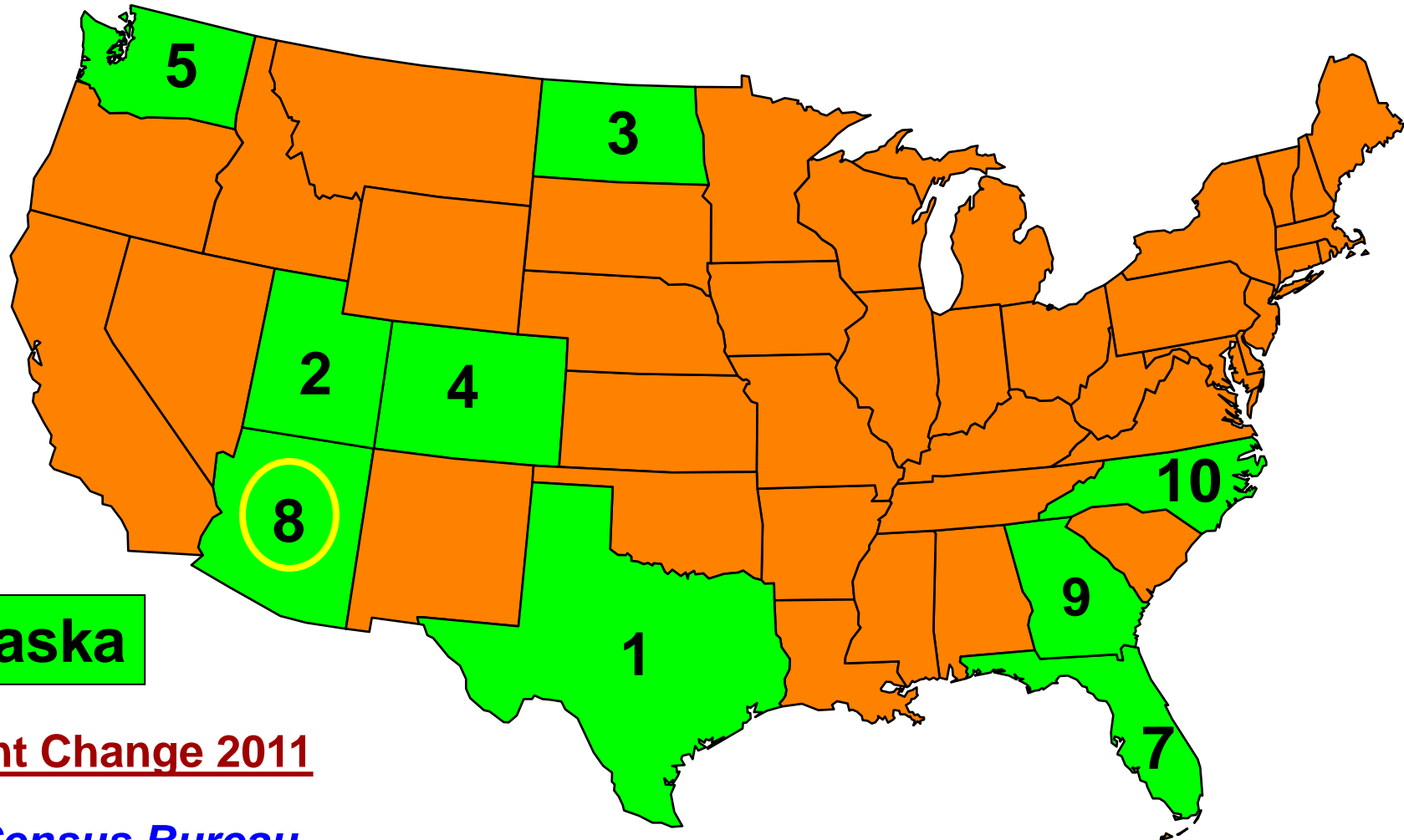
*Source: U.S. Census Bureau, Global Insight, W.P. Carey School of Business*

# Arizona Population Growth Peaked Mid Decade & Slowed



*U.S. Census Bureau, Intercensal Estimates July – July Changes*

# Arizona Population Growth Slowed But Still Top 10 in 2011



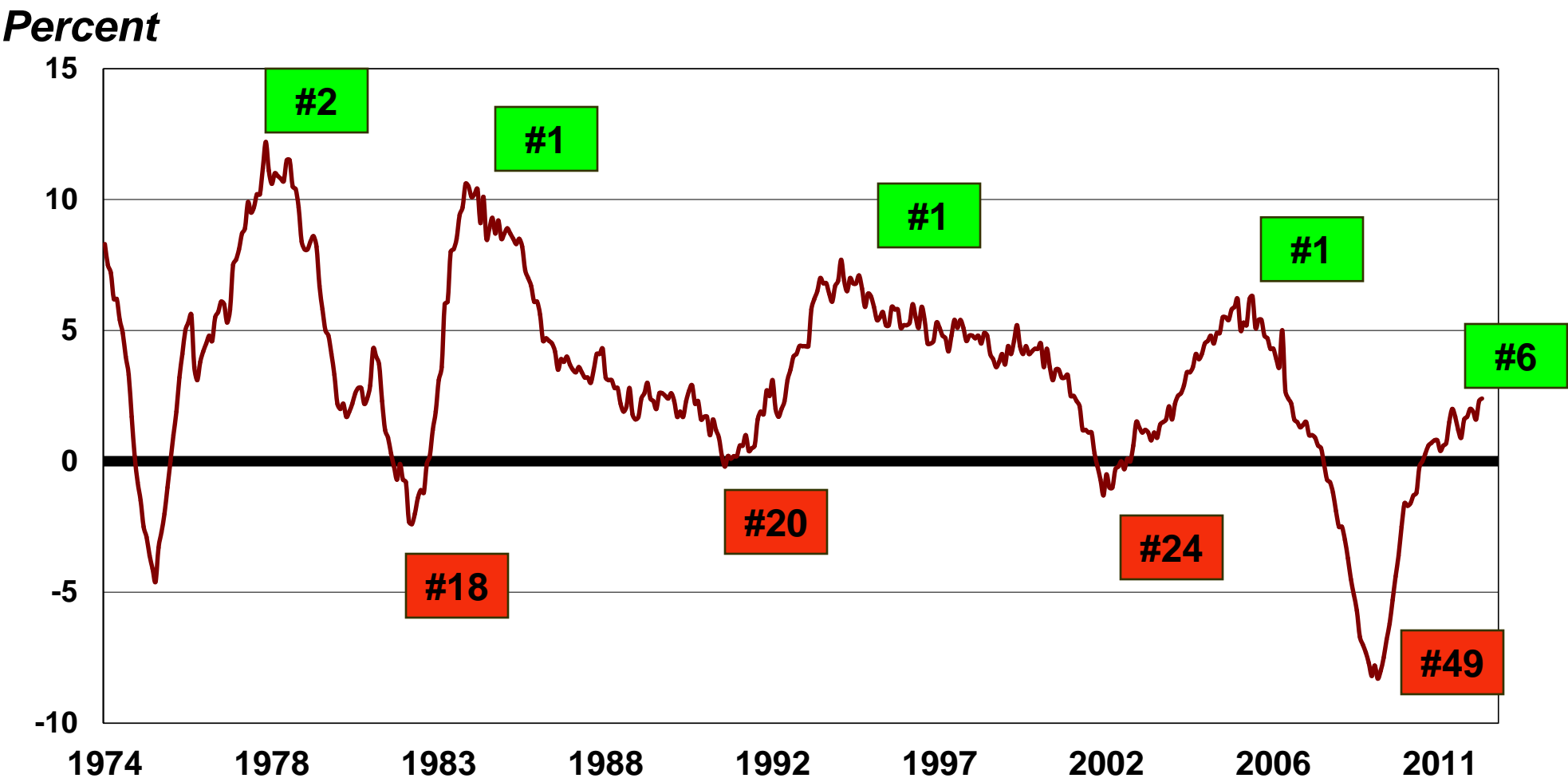
6 Alaska

Percent Change 2011

*U. S. Census Bureau*

# Arizona Comes Back From Recession

(State Rank Based on Monthly Yr/Yr Growth Rate)



# Forecast Risk: “Fiscal Cliff”

**On January 1, 2013...**

- **15% Defense Cuts**
- **12% Domestic Cuts**
- **Tax Cuts Expire**
- **Alternative Min. Tax Up**
- **Unemploy. Benefits Cut**
- **Doctor's Medicare Cuts**

**Cuts Deficit by \$600 bil.**

# **Plan Now For (Long Term) Arizona Recovery**

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**Slow, Steady Growth  
Be Patient!**

# ***Economic Update & Outlook***

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**(Based on information available as of October 3rd, 2012)**