Economic Update & Outlook

Lee.McPheters@asu.edu

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**

- **1950 - 2000**: 3.6%
- **Last 12 Quarters**: 2.2%

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

Growth Drivers Are Weaker Now
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% per 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 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

Unemployment Rate, 16 and over

- 4 Years
- 3 Years
AZ Unemployment Rate Still High

<table>
<thead>
<tr>
<th>Region</th>
<th>Unemployment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>8.1% (Aug.)</td>
</tr>
<tr>
<td>Arizona</td>
<td>8.3%</td>
</tr>
<tr>
<td>Phoenix Metro*</td>
<td>7.4%</td>
</tr>
<tr>
<td>Tucson Metro*</td>
<td>7.6%</td>
</tr>
<tr>
<td>Flagstaff Metro*</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

*unemployment rate not seasonally adjusted

US Bureau of Labor Statistics and AZ Dept of Administration
8.8 Mil. U. S. Jobs Lost
Dec. 2007 to Feb. 2010

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Job Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 2007 – Jan. 2009</td>
<td>-4.5 Mil</td>
</tr>
<tr>
<td>Jan. 2009 – Feb. 2010</td>
<td>-4.3 Mil</td>
</tr>
<tr>
<td>Peak to Bottom Loss</td>
<td>8.8 Mil</td>
</tr>
</tbody>
</table>

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

President A

Jobs: 10.2 mil.

Approve 2 yr 50%

Re-Elected? Yes ___ No ___

Who? __________
President B

Unemployment Rate During First 4 Years in Office

Re-Elected?  Yes ___  No ___

Who?  __________

Jobs: 5 mil.

Approve 2 yr 43%
Unemployment Rate During First 4 Years in Office

Re-Elected?  Yes ___  No ___
Who? __________

Approve 2 yr 63%
Jobs: -153,000

President c
Re-Elected? Yes ___ No ___
Who? __________

Unemployment Rate During First 4 Years in Office

President D

Jobs: 150,000
Approve 2 yr 44%
Unemployment Rate During First 4 Years in Office

President A

Approve 4 yr 31%

Jobs: 10.2 mil.


Re-Elected? Yes ___ No X
Who? CARTER
Unemployment Rate During First 4 Years in Office

Approve 4 yr 61%

Jobs: 5 mil.

President B

Re-Elected? Yes X No ___

Who? REAGAN
Re-Elected? Yes X No__

Who? GW BUSH

Unemployment Rate During First 4 Years in Office

President C

Approve 4 yr 55%

Jobs: -153,000
Unemployment Rate During First 4 Years in Office

Re-Elected? Yes ? No ?
Who? OBAMA

President D

Approve Sept 23 49%

Jobs: 150,000
It’s The Middle Class, Stupid!

Between 1970-2007 median family income rose by 35% while income for the top 1% rose by 278 percent.

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

Average Hourly Earnings, 1964-2008
(in 2008 dollars)

1964: $17.54
1972: $20.06
1979: $18.76
1993: $16.82
2008: $18.52

Wages/GDP At Record Low Level
4.0 Mil. Jobs **Added** Feb. 2010 – Aug. 2012

314,000 Jobs Lost Oct. 2007 – Sept. 2010
91,400 Jobs Added Sept. 2010 – August 2012

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>AZ</th>
</tr>
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<tbody>
<tr>
<td>Jobs Lost</td>
<td>8.8 mil</td>
<td>314,000</td>
</tr>
<tr>
<td>Regained To Date</td>
<td>4.0 mil</td>
<td>91,400</td>
</tr>
<tr>
<td>% Jobs Regained</td>
<td>46%</td>
<td>29%</td>
</tr>
<tr>
<td>Need to Regain</td>
<td>4.8 mil</td>
<td>222,600</td>
</tr>
<tr>
<td>Recent New Jobs</td>
<td>1.2 mil yr</td>
<td>45,000 yr</td>
</tr>
<tr>
<td>Years to Recover</td>
<td>4.0 yrs</td>
<td>4.9 yrs</td>
</tr>
</tbody>
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Jobs Recovery: How Far Away?
### Jobs Recovery: How Far Away?

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</tr>
<tr>
<td>% Jobs Regained</td>
<td>45%</td>
<td>29%</td>
</tr>
<tr>
<td>Need to Regain</td>
<td>4.8 mil</td>
<td>222,600</td>
</tr>
<tr>
<td>Average* New Jobs</td>
<td>2.5 mil</td>
<td>118,000</td>
</tr>
<tr>
<td>Years to Recovery</td>
<td>1.9 yrs</td>
<td>1.9 yrs</td>
</tr>
</tbody>
</table>

*Average annual growth rate 1957-2007*
96,000 US Jobs in August - Need 2 mil./Yr to Lower Unemployment

Thousands of Jobs

July: 100
Aug: 96
Sept: 87
Oct: 87
Nov: 68
Dec: 143
Jan: 259
Feb: 259
Mar: 141
April: 45
May: 68
June: 96
July: 96
August: 96

U. S. Bureau of Labor Statistics, Seasonally Adjusted
Arizona Gained 55,200 Jobs in August (Year-Over-Year Nonfarm Job Growth by Month)

Thousands of Jobs

- Aug: 35.8
- Sept: 47.9
- Oct: 39.8
- Nov: 28.9
- Dec: 22.9
- Jan: 37.1
- Feb: 41
- Mar: 47.6
- April: 46.7
- May: 38.3
- June: 54.8
- July: 58.1
- Aug: 55.2

Most Since 2007

U. S. Bureau of Labor Statistics, Not Seasonally Adjusted
# Arizona Growth Rankings

State Ranking by Percent Growth: August 2012

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

*W. P. Carey School of Business & U. S. Bureau Labor Statistics*
41 States Lost Jobs in 2010

(Percentage Change 2010 vs 2009)

Lost Jobs (41)

Added Jobs (9)

Alaska 2
Hawaii
Arizona Ranks 6th For Job Growth

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

- Losing Jobs (7): Arizona, New Mexico, Pennsylvania, West Virginia, Wisconsin
- Adding Jobs (43): All other states
- Hawaii (4):

Map showing states ranked by job growth.
Construction Added 8,000 Jobs Year/Year – Still Down 125,300

Arizona Construction Jobs, from U. S. Bureau Labor Statistics
## Regional Housing Conditions

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

Source: The Market Pulse, CoreLogic, Summer 2012
Arizona Single Family Permits Bottomed Out in 2011

Quarterly Permits

Shaded areas indicate US recessions.
2012 research.stlouisfed.org
Arizona Home Ownership Rate Is Back to Levels of 1999

Shaded areas indicate US recessions. 2012 research.stlouisfed.org
Home Prices Are On the Rise

Metro Phoenix Case Schiller Index

Shaded areas indicate US recessions.
2012 research.stlouisfed.org
Economic Outlook: Slow (very slow) Growth
United States Economic Forecast

Major U.S. Risk – Global Economy

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP Growth</td>
<td>1.8%</td>
<td>2.2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>3.2%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Employment (Jobs)</td>
<td>1.5 mil.</td>
<td>1.8 mil.</td>
<td>1.7 mil.</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>9.0%</td>
<td>8.2%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

W. P. Carey School of Business, ASU; based on data available October 3, 2012
## Dueling Forecasts: 2013

<table>
<thead>
<tr>
<th>Source</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody’s Analytics</td>
<td>2.6%</td>
</tr>
<tr>
<td>BMO Capital</td>
<td>2.0%</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>1.4%</td>
</tr>
<tr>
<td>Blue Chip Consensus</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Blue Chip newsletter, Sept. 2012
Consensus of Leading Economists

Recession - Next 12 Months?

• 100% probability?
• 50/50 probability?
• 1 in 4 probability?
• 1 in 5 probability?
• Won’t happen!

Blue Chip newsletter
The Paradox of Recovery

<table>
<thead>
<tr>
<th>Recession Cause</th>
<th>Recession Cure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too Much Confidence</td>
<td>Increase Confidence</td>
</tr>
<tr>
<td>Too Much Credit</td>
<td>Increase Credit</td>
</tr>
<tr>
<td>Too Much Spending</td>
<td>Increase Spending</td>
</tr>
</tbody>
</table>
Consumer Confidence, Balance Sheets, Debt Levels, Spending Slowly Improving

CredAbility Consumer Distress Index
Credit Card Delinquency Rate Goes From All Time High To 15-Year Low

Shaded areas indicate US recessions.
2012 research.stlouisfed.org
## ARIZONA Economic Forecast

### Major Arizona Risk – U.S. Economy

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>1.0</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>10.1</td>
<td>6.0</td>
<td>6.5</td>
</tr>
<tr>
<td>Single Family Housing</td>
<td>-.05</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td>Population</td>
<td>1.1</td>
<td>1.2</td>
<td>1.5</td>
</tr>
</tbody>
</table>

### ARIZONA Economic Forecast Details

**W. P. Carey School of Business, ASU; based on data available October 3, 2012**
Curse? U of A Football Win vs ASU
Create 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)

Forecast

U.S. BLS & W. P. Carey School of Business
## Arizona Regional Job Growth

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

*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?

**Arizona Single Family Building Permits**

- **Average 1991 - 2000:** 40,565

*U. S. Census Bureau & W.P. Carey School of Business*
## Arizona Single Family Permits

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

Source: U.S. Census Bureau, Global Insight, W.P. Carey School of Business
Arizona Population Growth
Peaked Mid Decade & Slowed

New Residents, Thousands

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>113</td>
<td>123</td>
<td>114</td>
<td>142</td>
<td>187</td>
<td>190</td>
<td>139</td>
<td>113</td>
<td>63</td>
<td>70</td>
<td>69</td>
</tr>
</tbody>
</table>

3.3% Growth
2.3% Growth
1.1% Growth

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

Percent Change 2011

U. S. Census Bureau
Arizona Comes Back From Recession
(State Rank Based on Monthly Yr/Yr Growth Rate)

Percent


U. S. Bureau of Labor Statistics
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

Slow, Steady Growth
Be Patient!
Economic Update & Outlook

Lee.Mcpheters@asu.edu

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