

The Economy from 30,000 Feet

U.S. & Arizona Economic Outlook



ARIZONA HOUSING FORUM

August 2015

Forecast Reality Check

(2014 Forecast vs. Actual 2014 Data)

Category	Forecast	Actual
U.S. New Jobs	2.6 mil	2.6 mil
U.S. Real GDP	2.1%	2.4%
Arizona Job Growth	2.2%	1.9%
Arizona New Jobs	55,000	47,800
Single Family Permits	17,500	16,841

Source: Forecasts at Arizona Housing Forum, Sept. 2014; actuals from U. S. Dept. Of Commerce and US Bureau of Labor Statistics

The View from 30,000 Feet

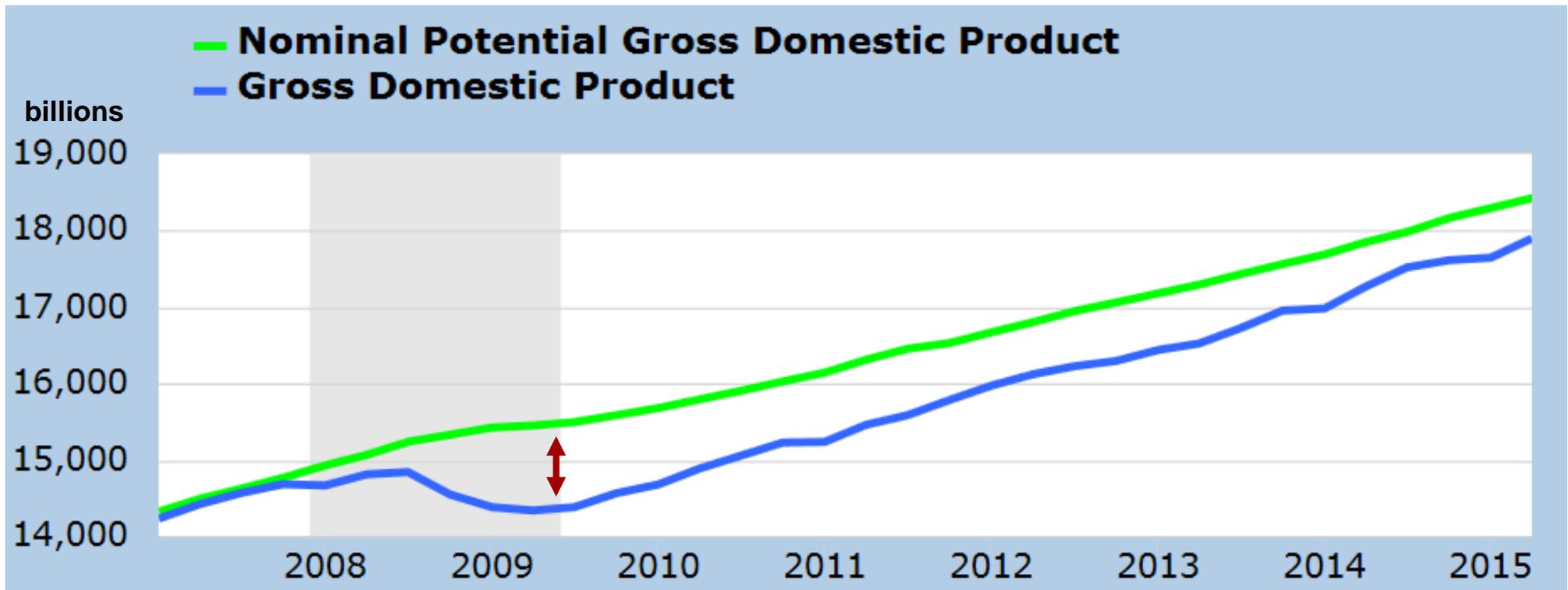
- **Two Cheers for First Half GDP!**
- **Consumers Back in the Game?**
- **U.S. & Arizona Jobs are Up**
- **Real Estate Slowly Improving**
- **AZ 2015 - Best Year of Recovery**

3% GDP Growth Still Elusive

GDP Components	2014 Growth	1st Half 2015
U. S. (Real) GDP	2.4%	2.8%
Consumer Spending	2.7	3.2
Gross Investment	5.4	6.7
<i>Residential Construction</i>	1.8	6.6
<i>Non-Resid. Construction</i>	8.1	-1.0
Government Spending	-0.6	-0.4

U. S. Bureau of Economic Analysis, GDP Accounts, August 27, 2015

Gap Between Actual and Potential GDP Persists After Seven Years

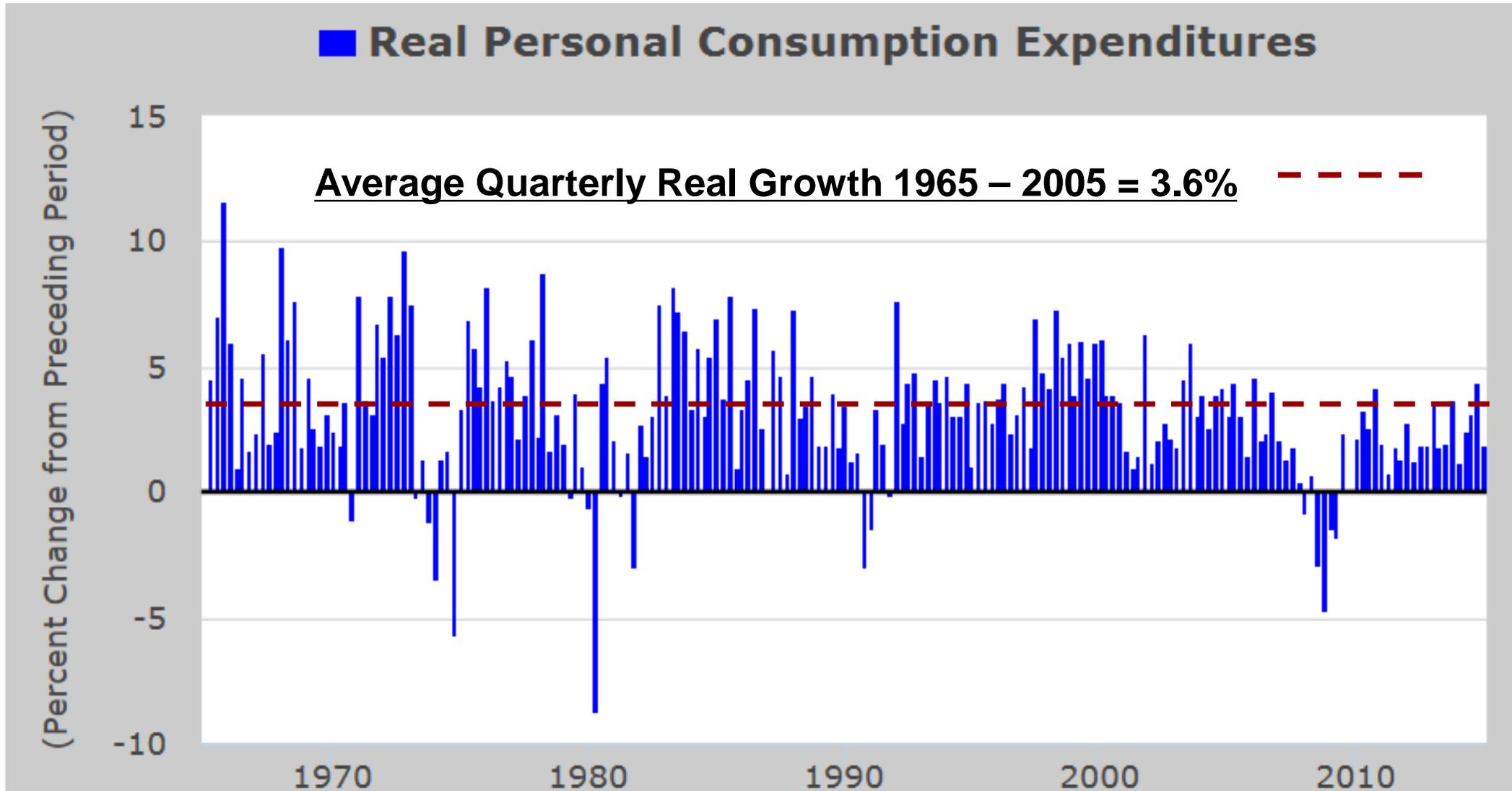


U. S. Bureau of Economic Analysis

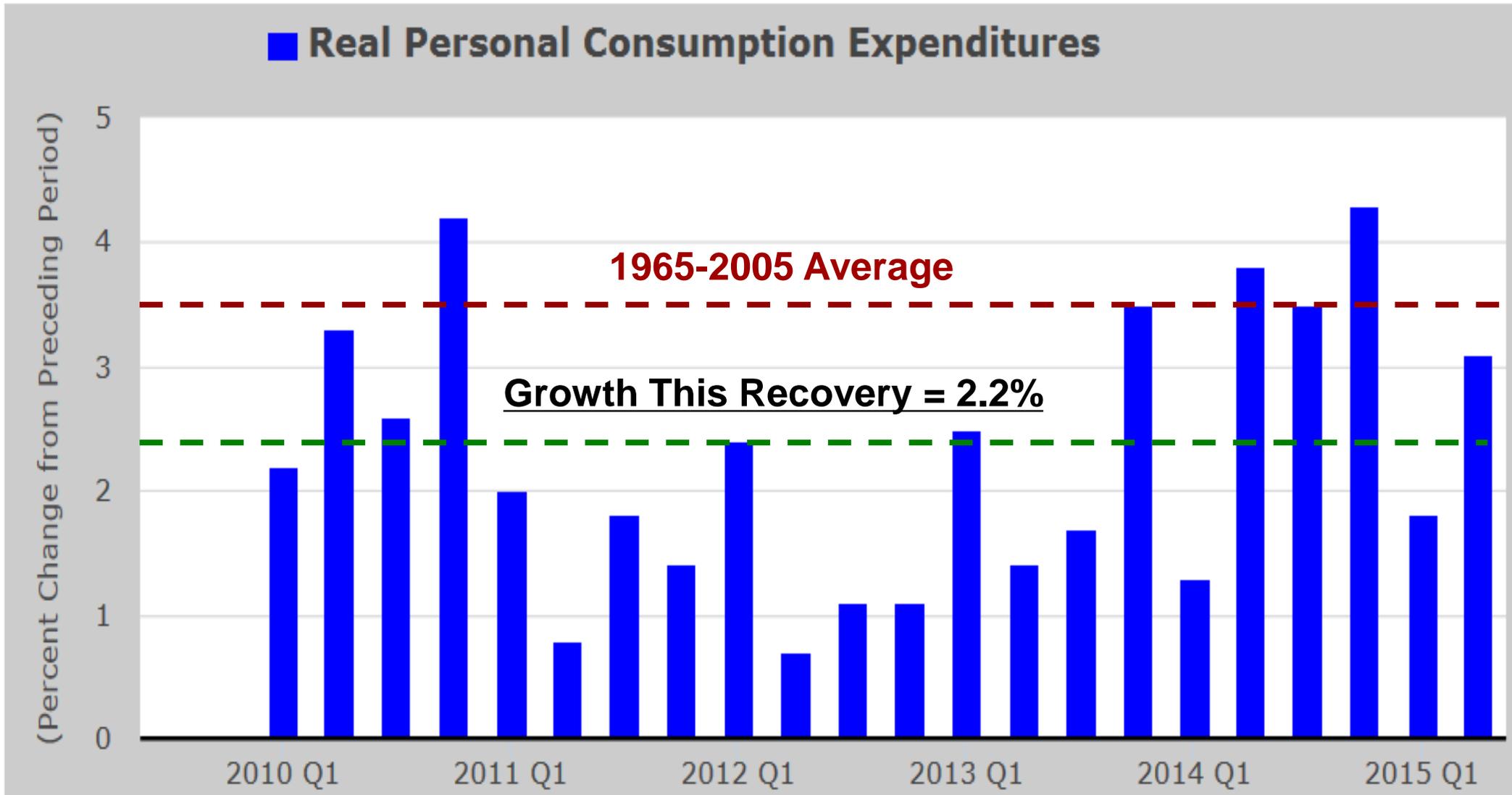
The Cautious Consumer

- Accounts for 70% of GDP...but..
- Consumers remain cautious
- Paying off debt & saving more
- Long-term growth 3.6% year
- First half growth was 3.2%
- Is this as good as it gets?

Four Decades of Real Growth (3.6% Avg.)

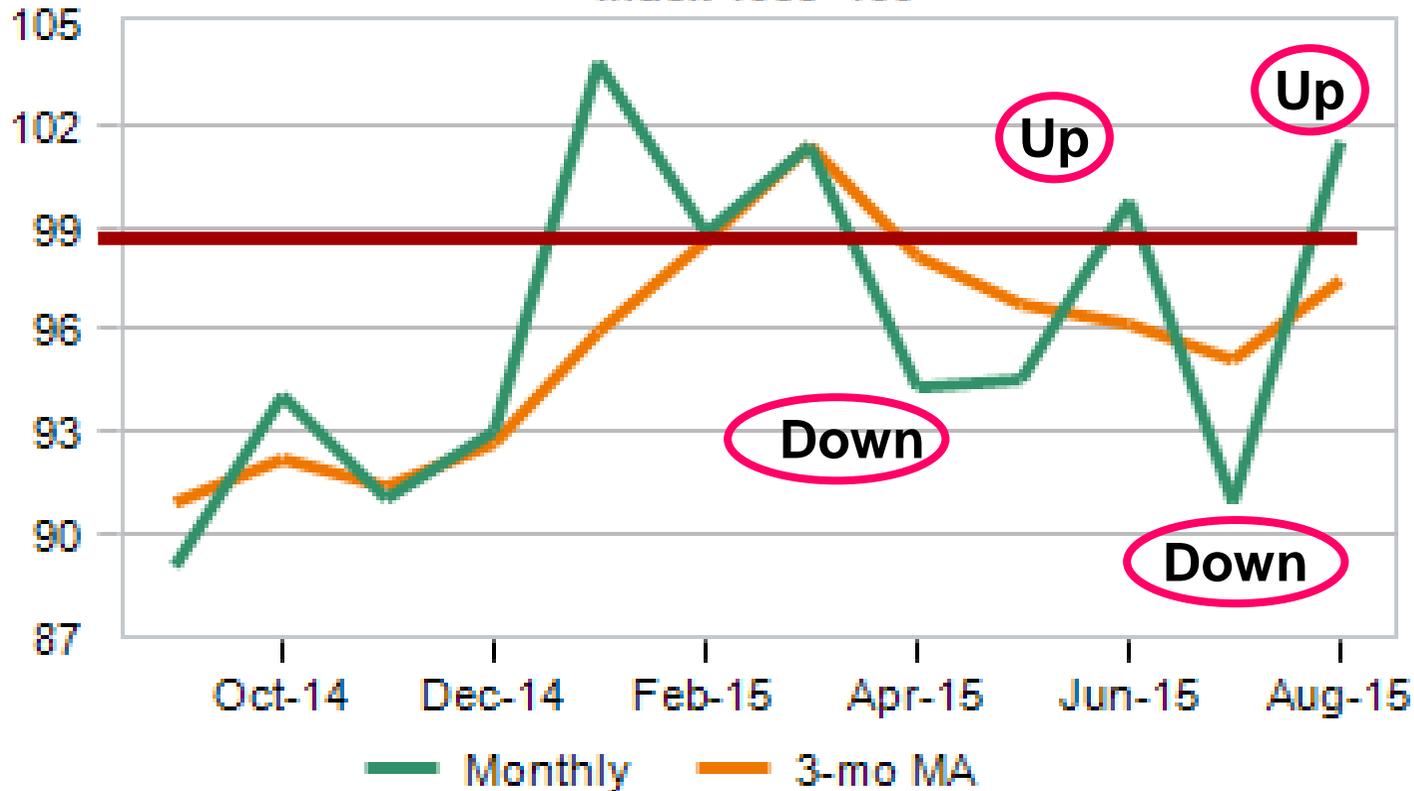


Six Years of Sub-Par Growth (2.2% Avg.)



Consumer Confidence Recovers After Dipping to 10 Month Low

Consumer Confidence
Index 1985=100



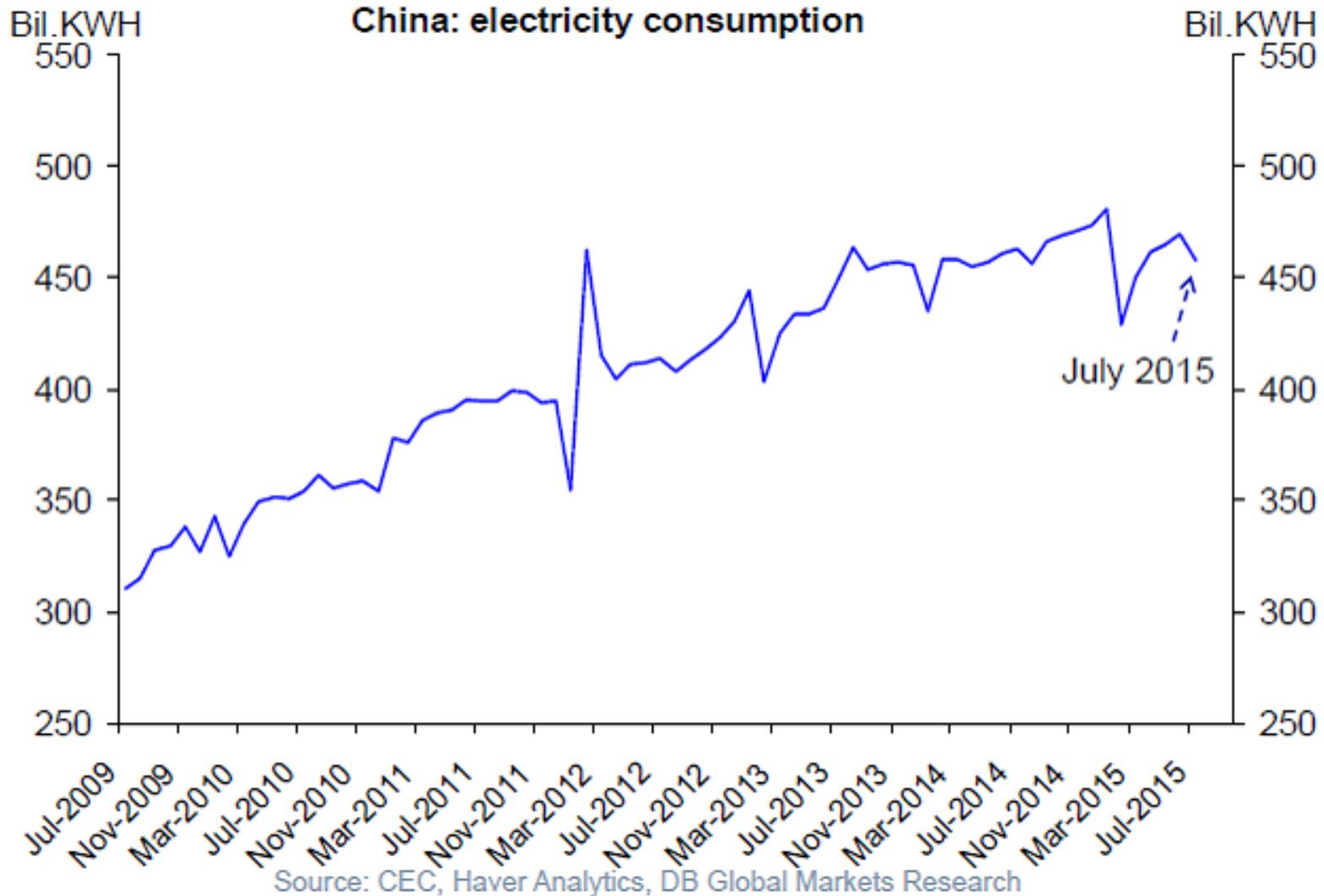
Source: The Conference Board Index (Overall), August 2015

Confidence Back Up But Consumers Still Worried

- **Focus on Paying Off Debt**
- **Middle Class Struggles**
- **Wages Are Stagnant**
- **But Job Market is Better**
- **Worry About Wall Street?**



Strength of Real Chinese Economy Does Not Justify 10% Correction



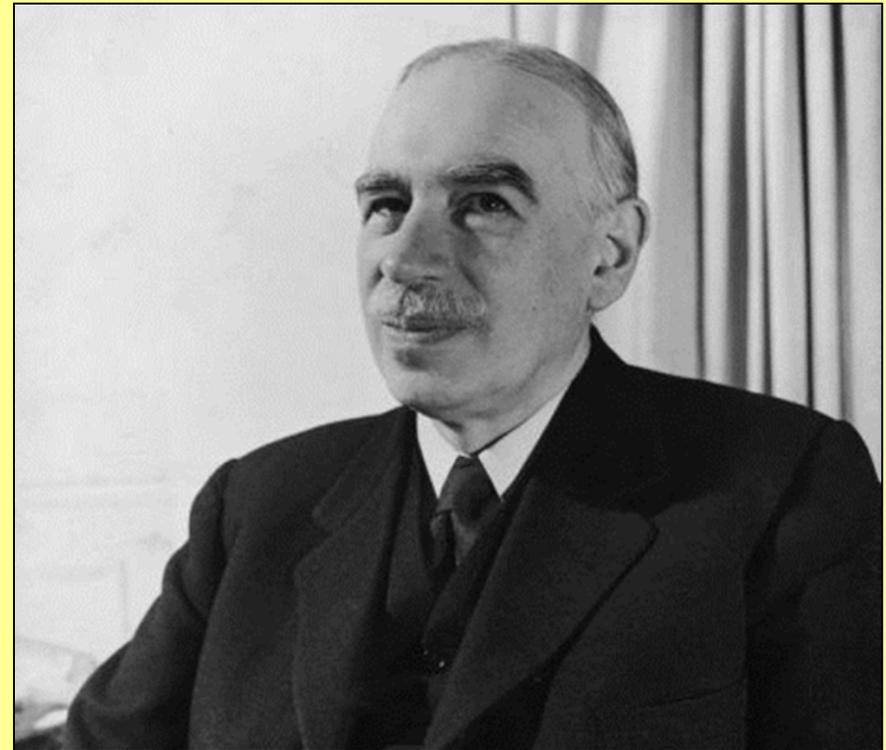
THE WALL STREET JOURNAL.

Home World U.S. Politics **Economy** Business Tech Markets Opinion Arts Life Real Estate

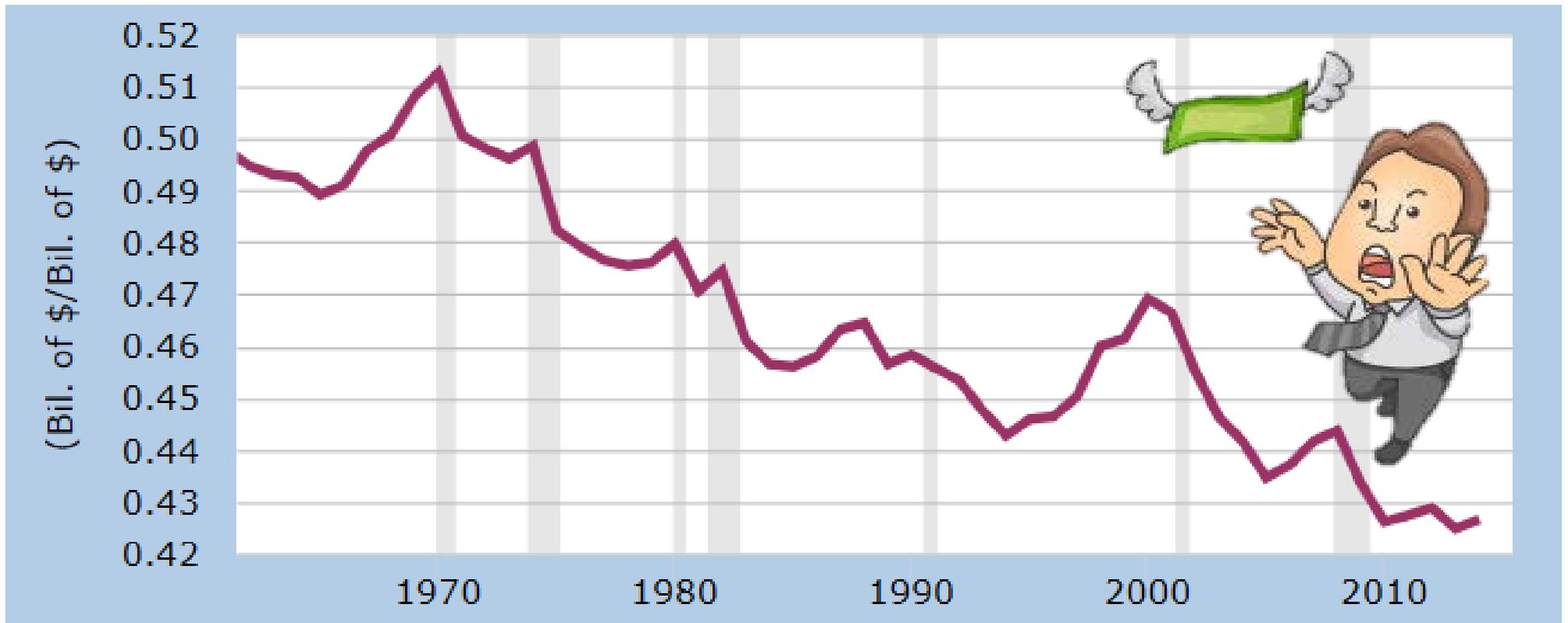
China's Central Bank Cuts Interest Rates

PBOC cuts interest rates by one-quarter of a percentage point, lowers banks' reserve-requirement ratio

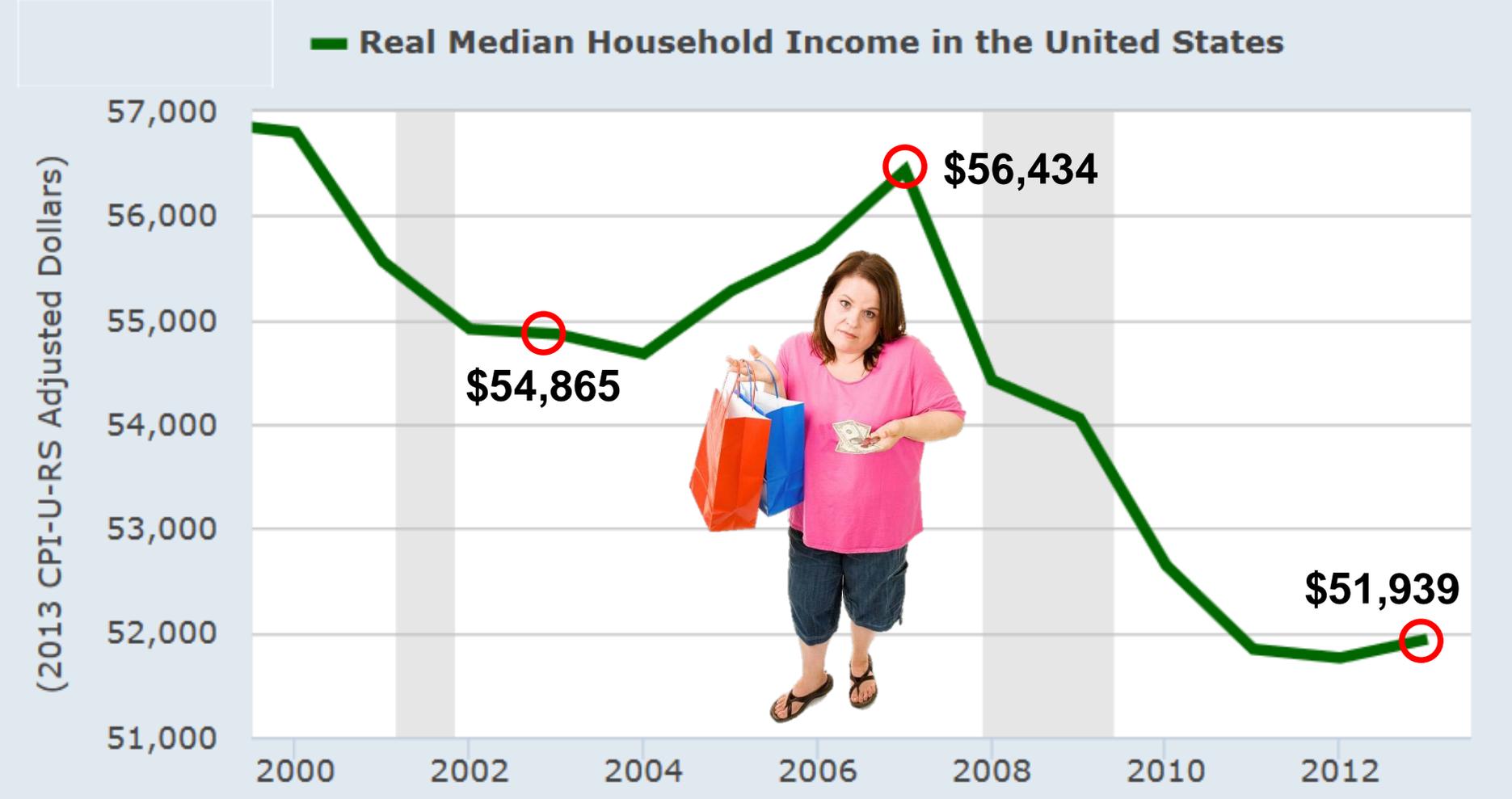
J.M. Keyes – Alive and Living in China!



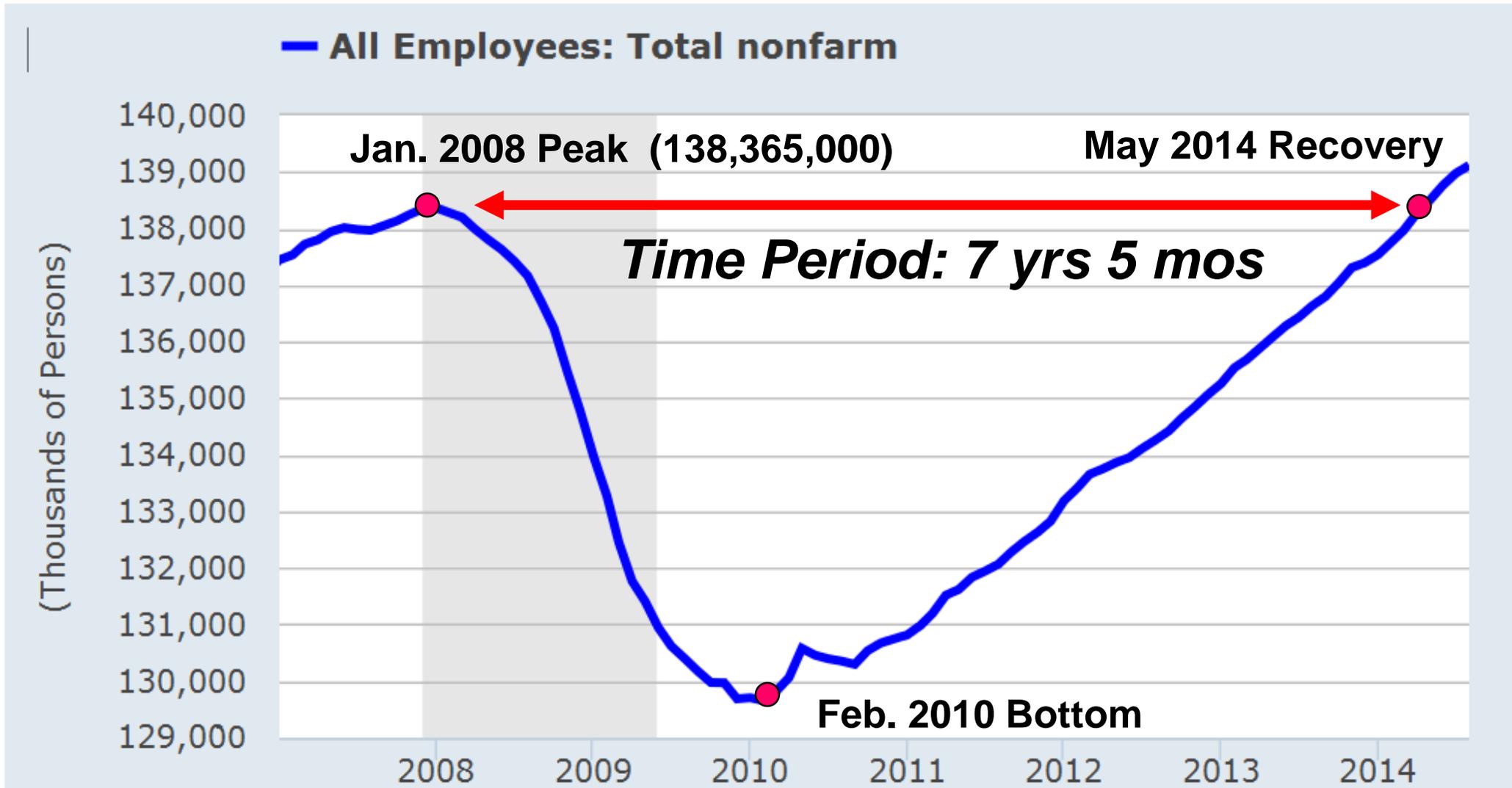
Wages as Percent of GDP Continue Long Decline



Middle Class Families Make Less Than Ten Years Ago



U.S. Has Regained All Lost Jobs



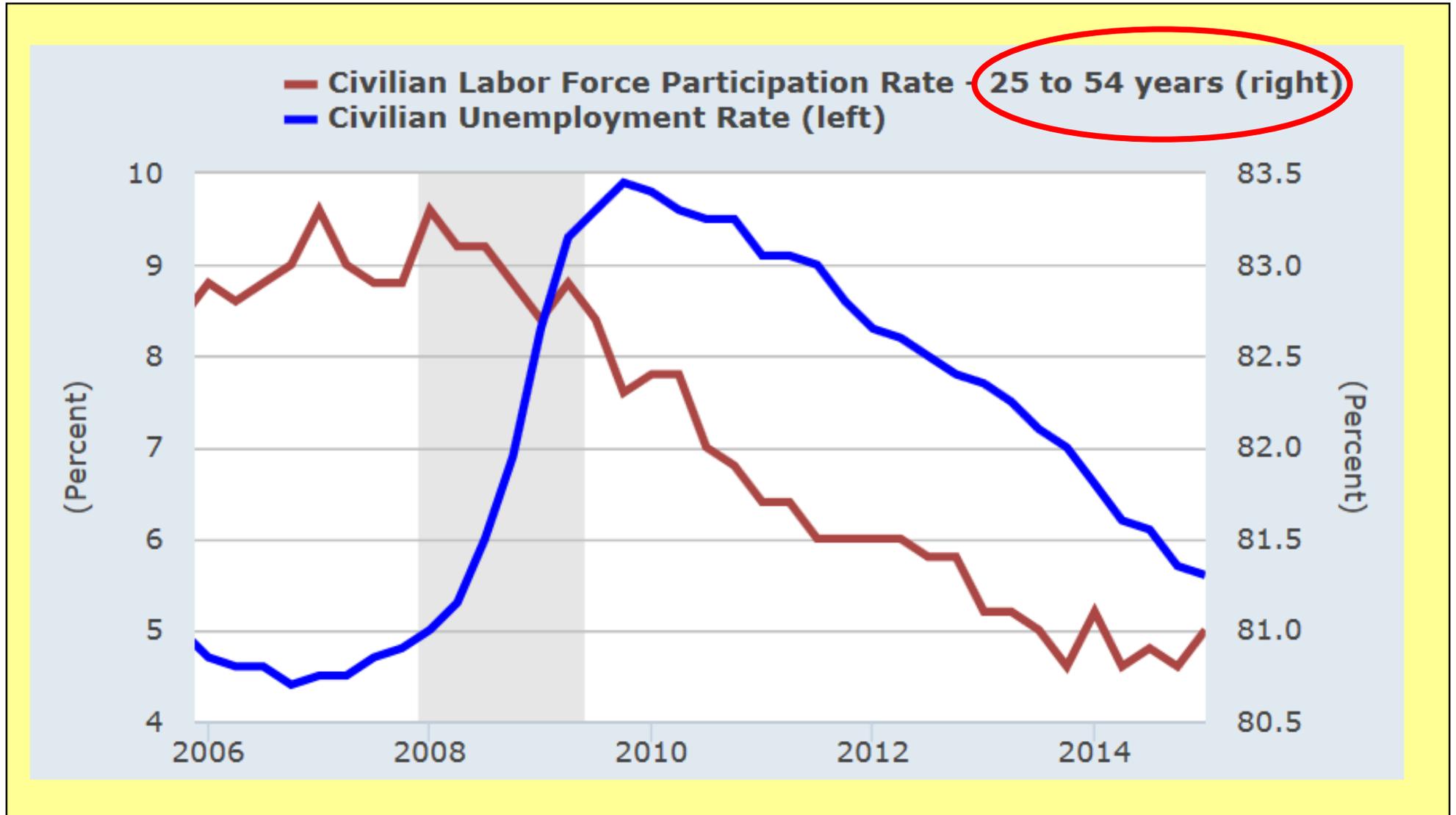
U. S. Bureau of Labor Statistics, Seasonally Adjusted

Arizona's Job Recovery Lags

- Arizona has regained 79% of jobs lost in recession
- Phoenix has regained 89% of jobs lost in recession
- Tucson has regained 32% of jobs lost in recession

Unemployment Rate Falls As Workers Drop Out

(U.S. Unemployment Rate vs. Labor Force Participation Rate)



Unemployment Concerns Diminish

Top U. S. Problems	July 2015	Feb 2014
1. Unemployment/Jobs	6% ↓	23%
2. Economy in General	13% ↓	20%
3. Government/Congress	13% ↓	19%
4. Healthcare	4% ↓	15%
5. Federal Deficit/Debt	5% ↓	8%

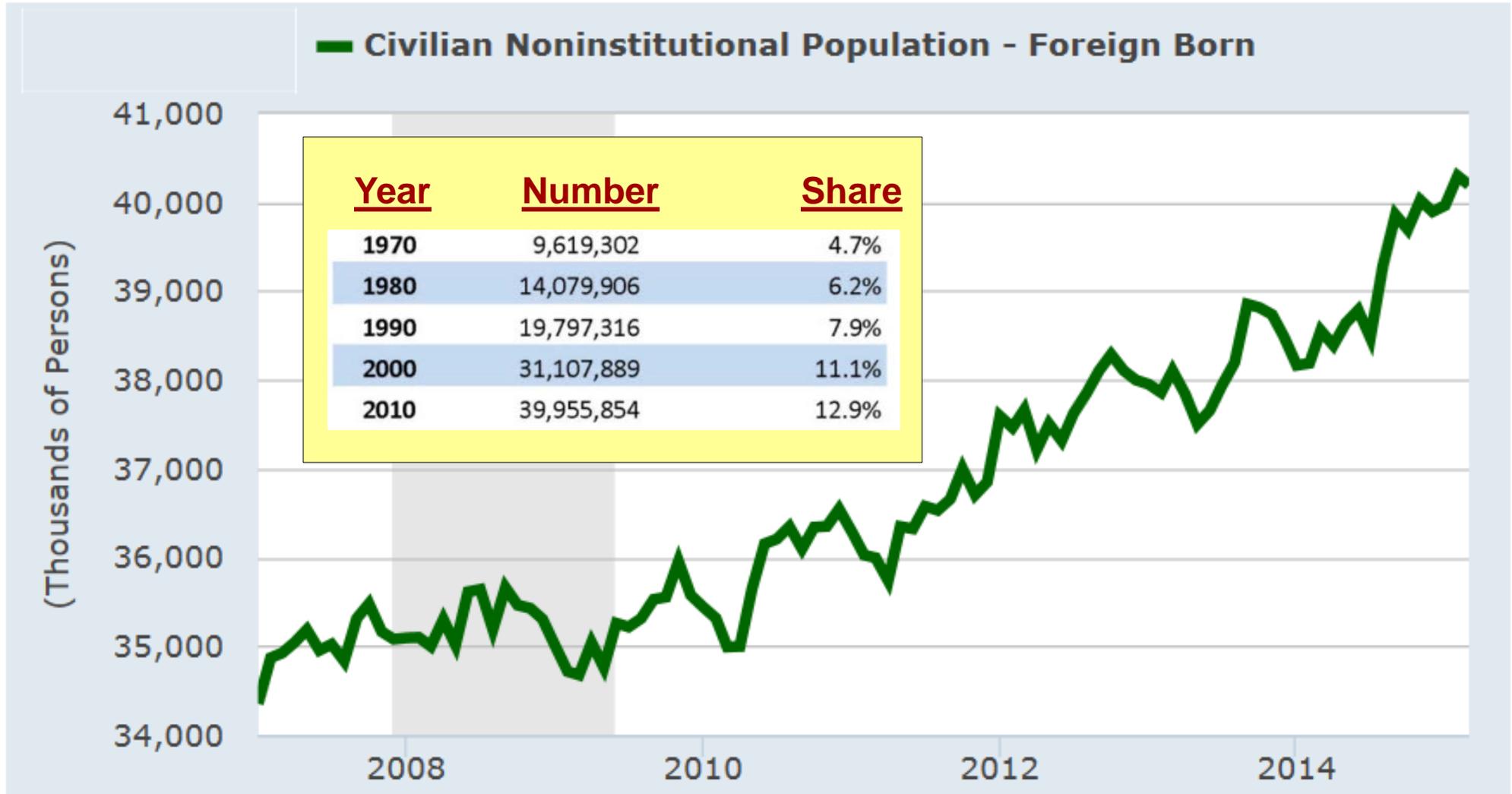
Gallop Poll, February 2014 & July 2015

New Top Problems: July 2015

Top U. S. Problems	July 2015
1. Economy in General	13%
2. Government/Congress	13%
3. Race Relations	9%
4. Immigration	7%
5. Unemployment	6%

Gallop Poll, July 2015

Foreign Born Population Has Increased By 17 Percent (to 40 million) Since 2007



Foreign Born Workers Hold One Third of Jobs Added in Recovery

JOBS RECOVERY: 2010 - 2014

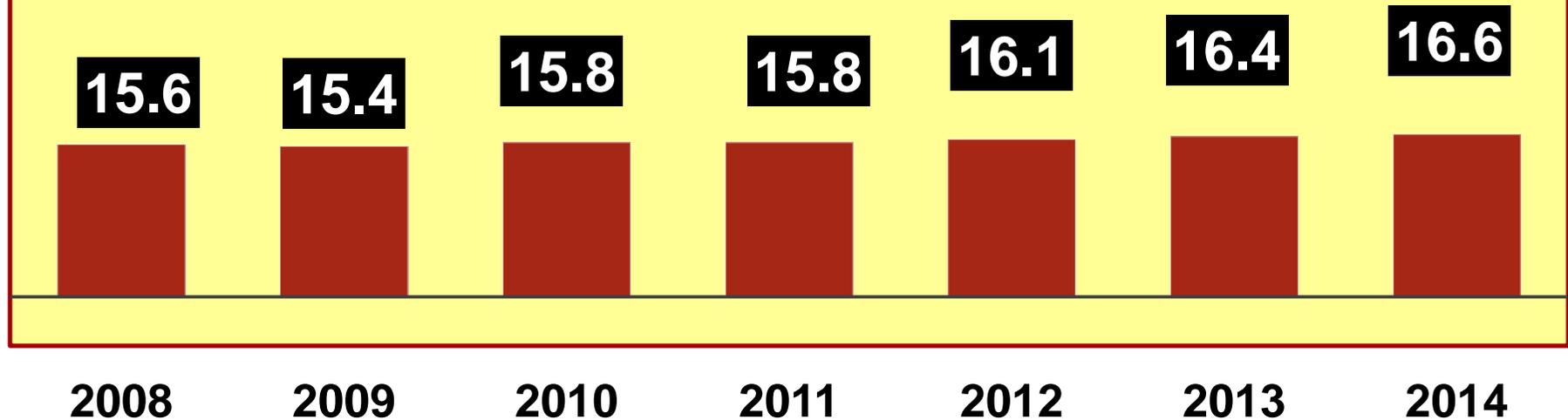
Jobs to Foreign Born = 2.3 Million (32%)

Jobs to Native Born = 4.9 Million (68%)

All New Jobs Added = 7.2 Million

Foreign Born Workers Make up 16.6% of Labor Force – And Share is Growing

Foreign Born Workers as Percent of All U.S. Workers



U.S. Economic Outlook

10th Year of GDP Growth Under 3.0%

Indicator	2013	2014	2015
Real GDP Growth	1.5%	2.4%	2.3%
10 Year Treasury Note	2.4%	2.5%	2.3%
Inflation (CPI)	1.5%	1.6%	1.1%
Employment (Jobs)	2.3 mil.	2.6 mil.	3.0 mil.
Unemployment Rate	7.4%	6.2%	5.3%

ARIZONA

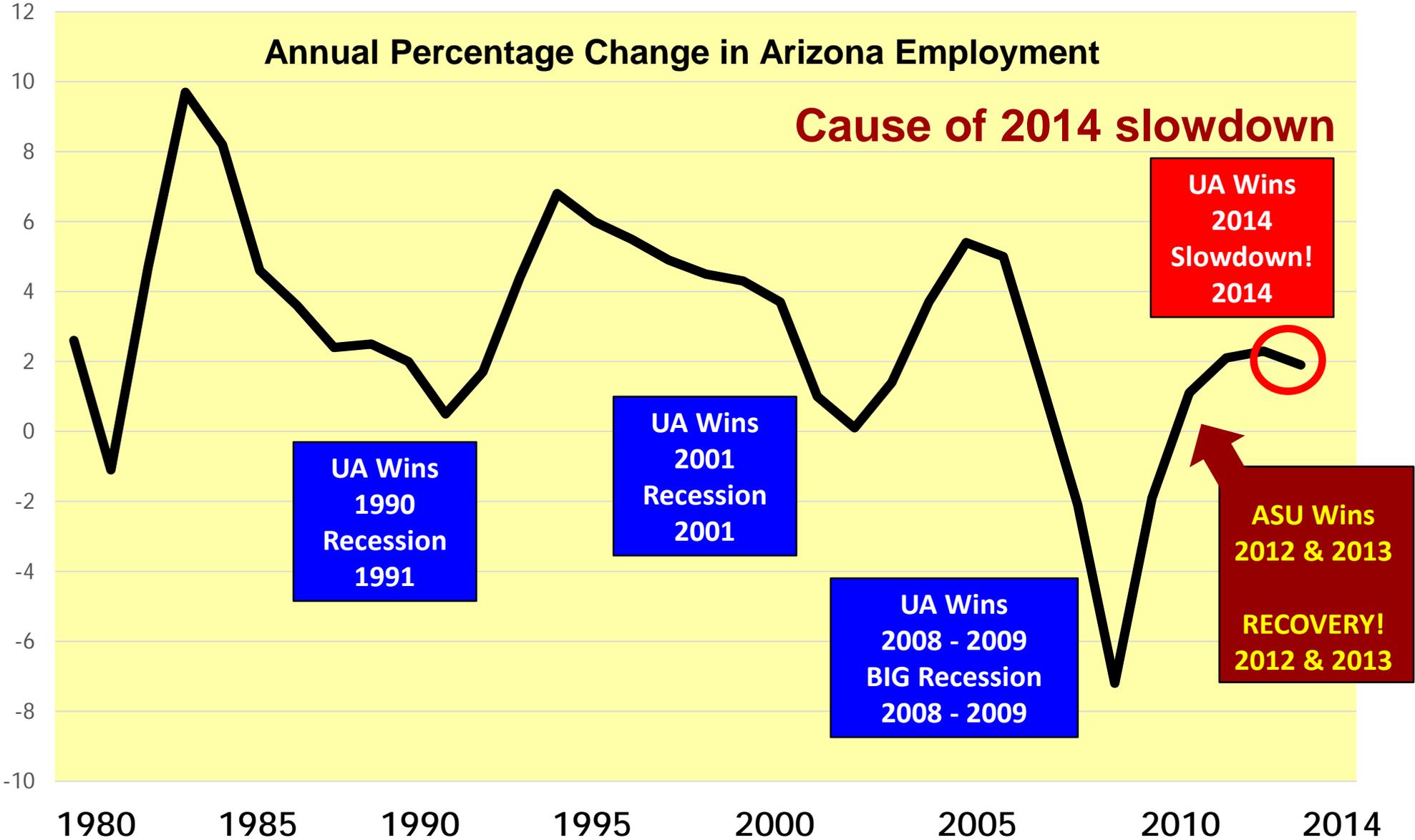
Economic Outlook



Indicators	2013	2014	2015
New Jobs (<i>thousands</i>)	57.1	47.8	65.0
Employment (%)	2.3	1.9	2.5
Population (%)	1.2	1.5	1.7
Single Fmly Permits (%)	13	-8.0	25?

W. P. Carey School of Business, ASU, based on data available August 2015

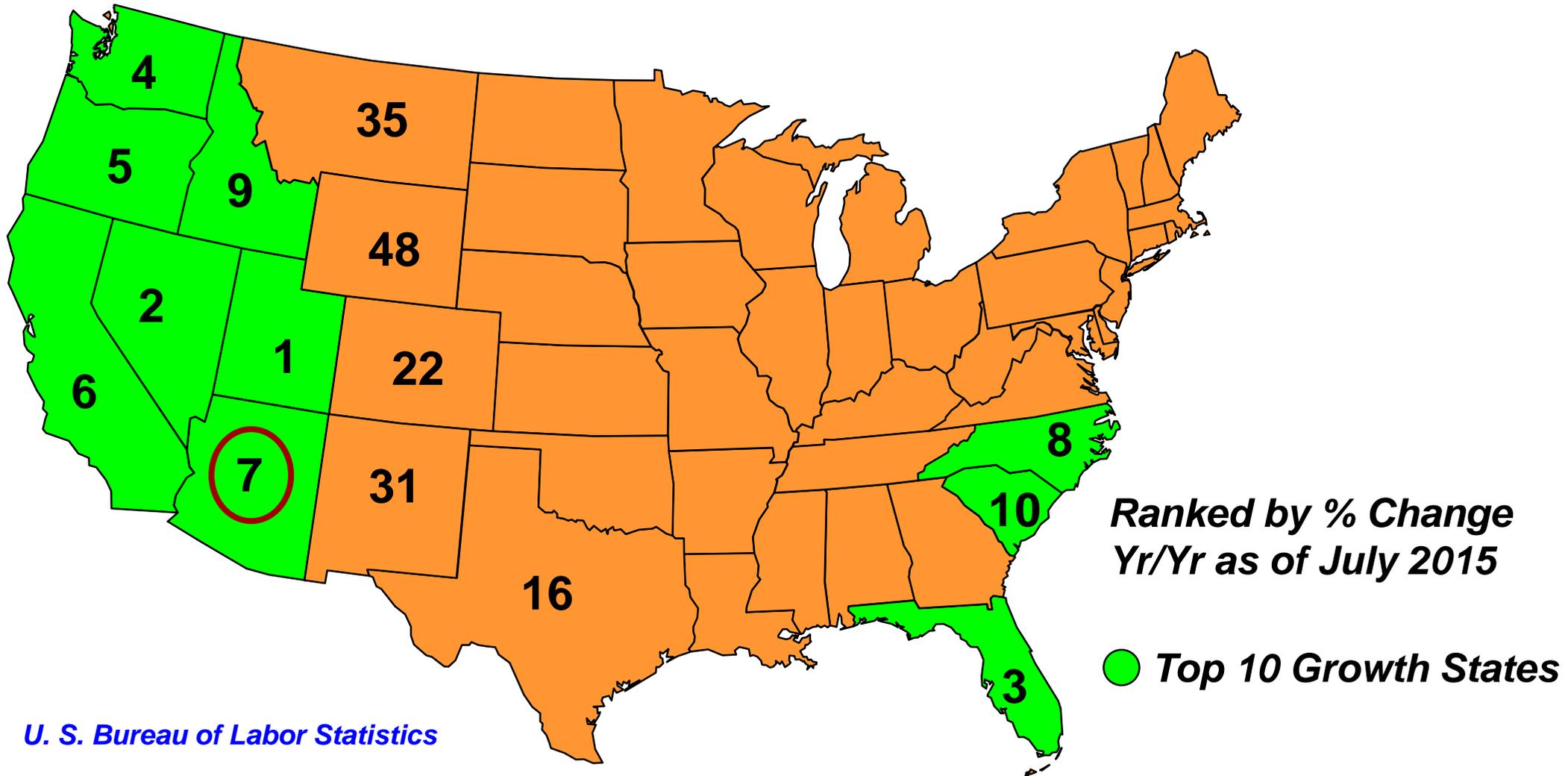
Research Shows U of A Football Wins vs ASU Cause ECONOMY TO WEAKEN



The Current Arizona Economy: ***Growth Improves in 2015***

- **Historically A Growth Leader**
- **But Recession Hit Earlier, Harder**
- **Population/Construction Are Key**
- **Economy Paused in 2014**
- **Long Term Outlook Still Positive**

Arizona Ranks Among Top 10 States in Private Job Growth



Latest Arizona Job Rankings

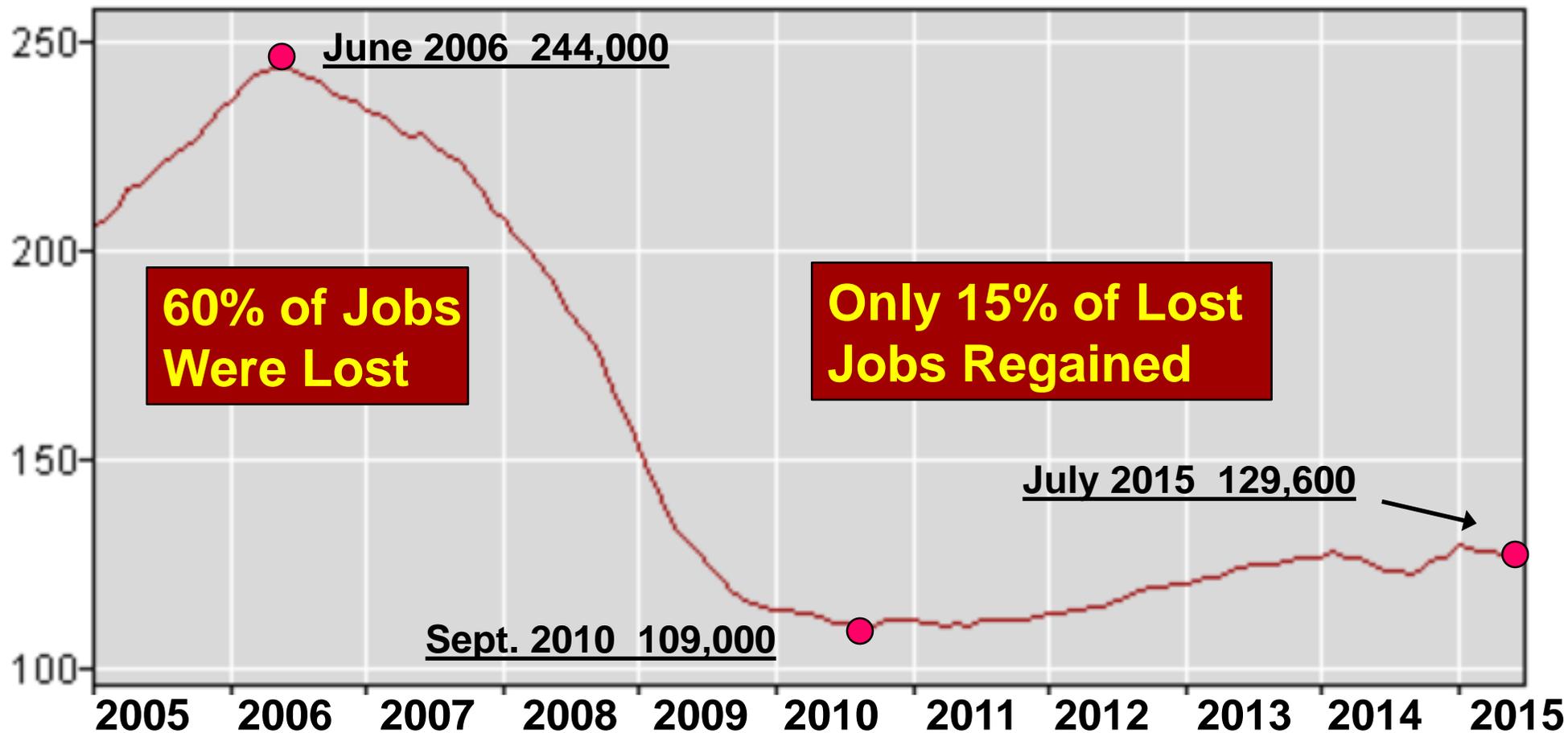
Ranked by Year/Year Growth: July 2015

Arizona Industry	% Growth	U.S. Rank
Overall Job Growth	2.7	12
Private Job Growth	3.5	7
Other Services*	3.9	1
Finance/Insurance	4.2	8
Prof/Business Services	4.9	9
Health Care	3.6	9
Construction	4.2	21

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

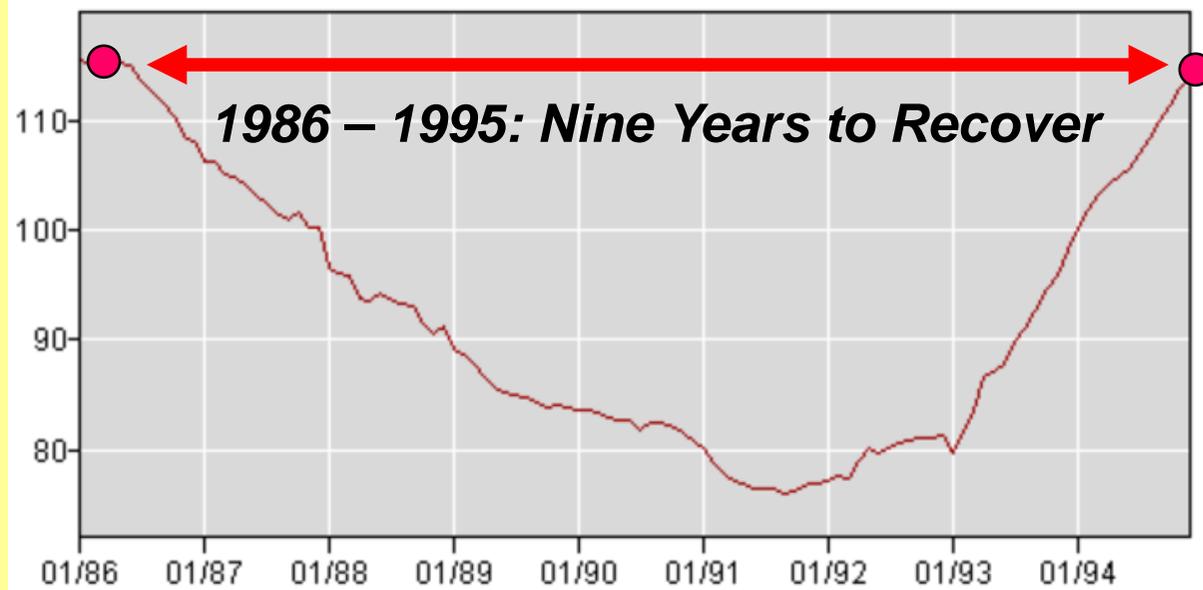
** Other Services includes Personal Services, Repair Services*

Arizona Construction Is Down By 114,000 Jobs Since Peak

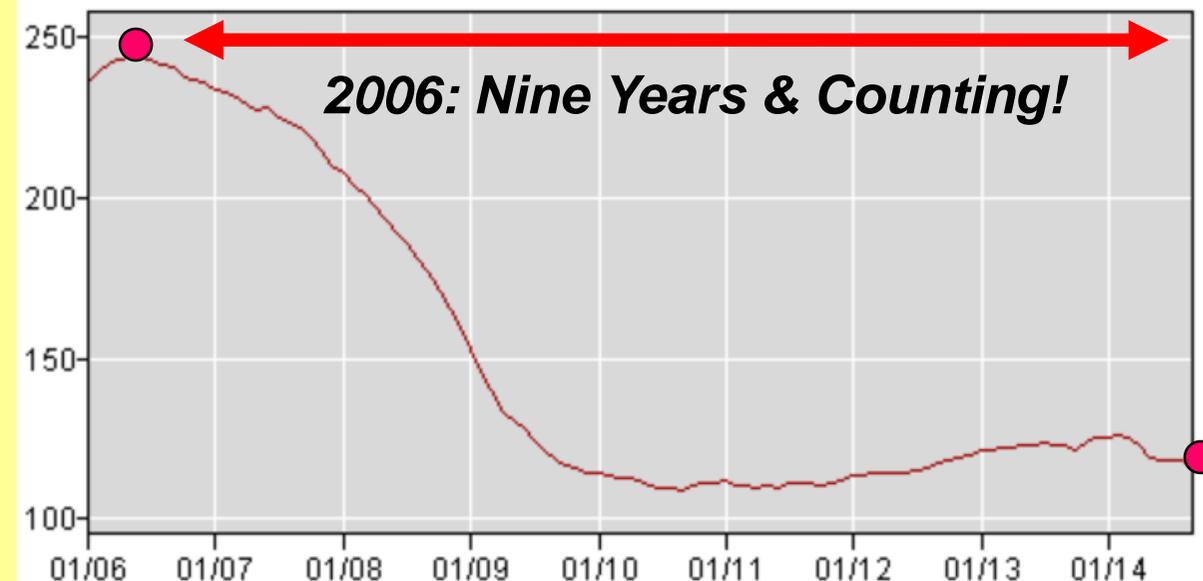


U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted

A Tale of Two Downturns: 1986 & 2006



**Arizona Construction
Employment In the
Savings & Loan
Recession Of 1986**



**Arizona Construction
Employment In the
Housing Bubble
Recession of 2006**

You Are Here

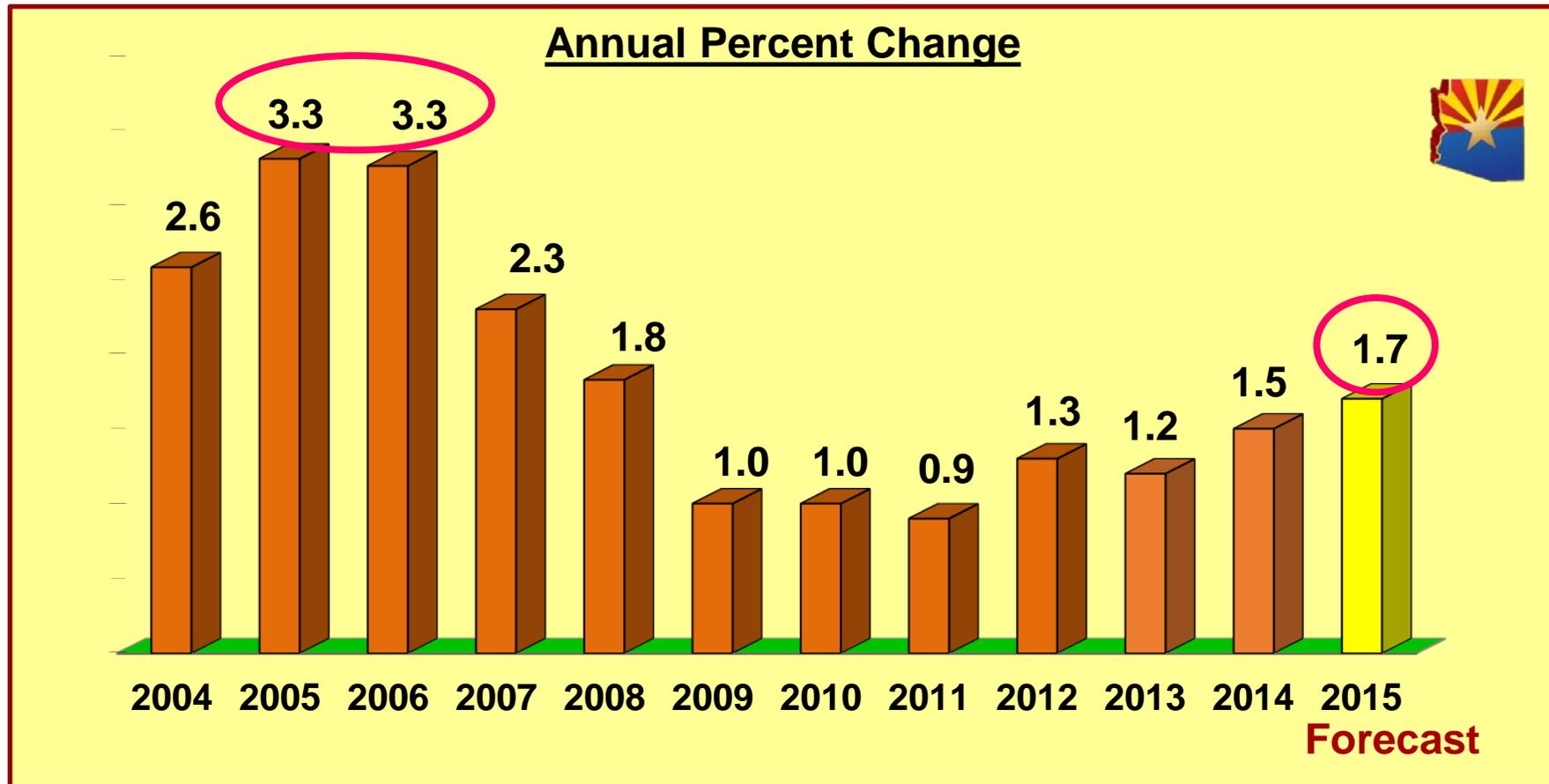
Arizona Still Replacing Job Losses

1 More Year to Regain Final 66,000 Lost Jobs

Annual Employment Change

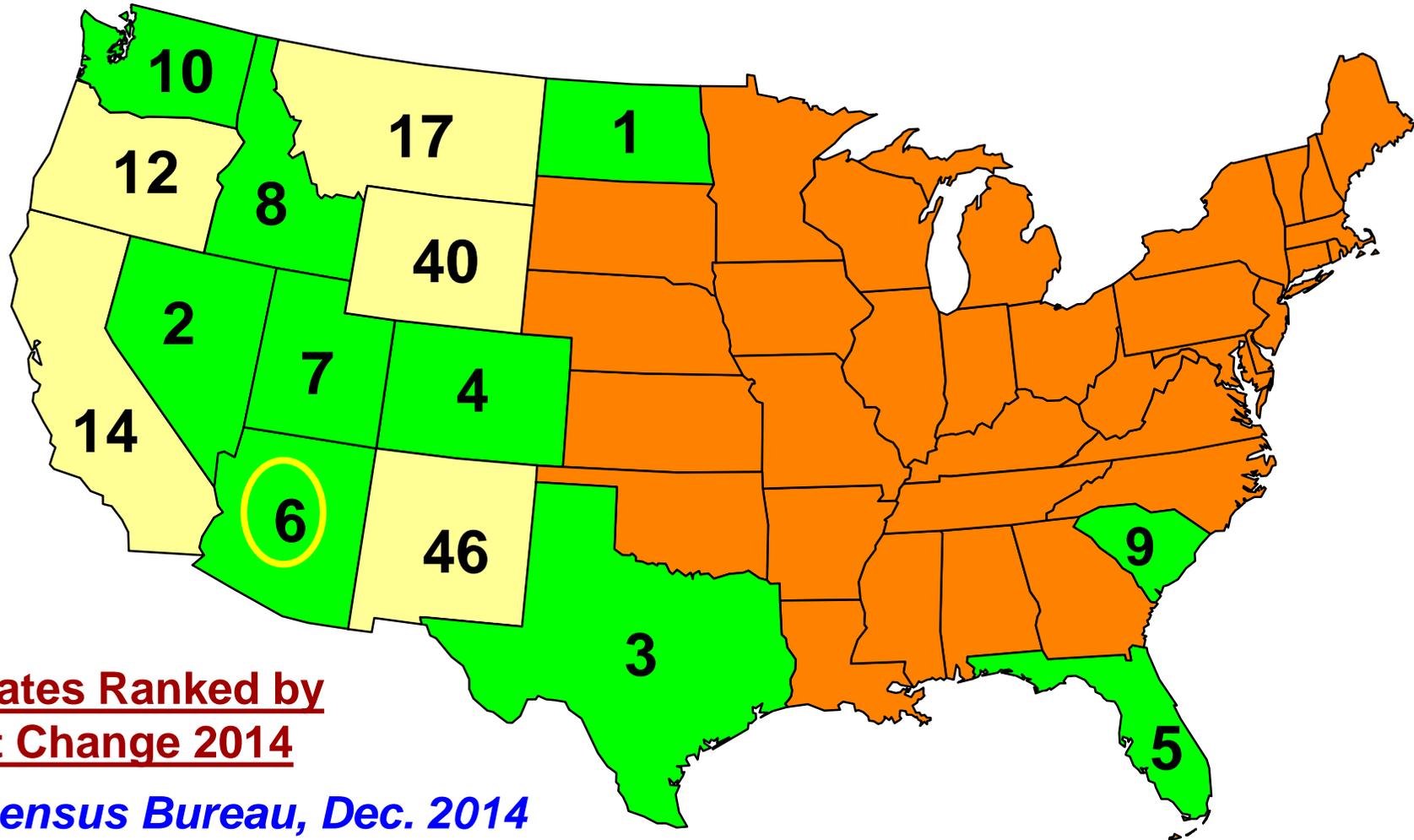


Arizona Population Growth Rate Below 3.2% Twenty Year* Average



*W. P. Carey School of Business, ASU & U. S. Census Bureau; *Average is 1980 - 2000*

But Arizona Ranked 6th (1.5%) in Population Growth in 2014

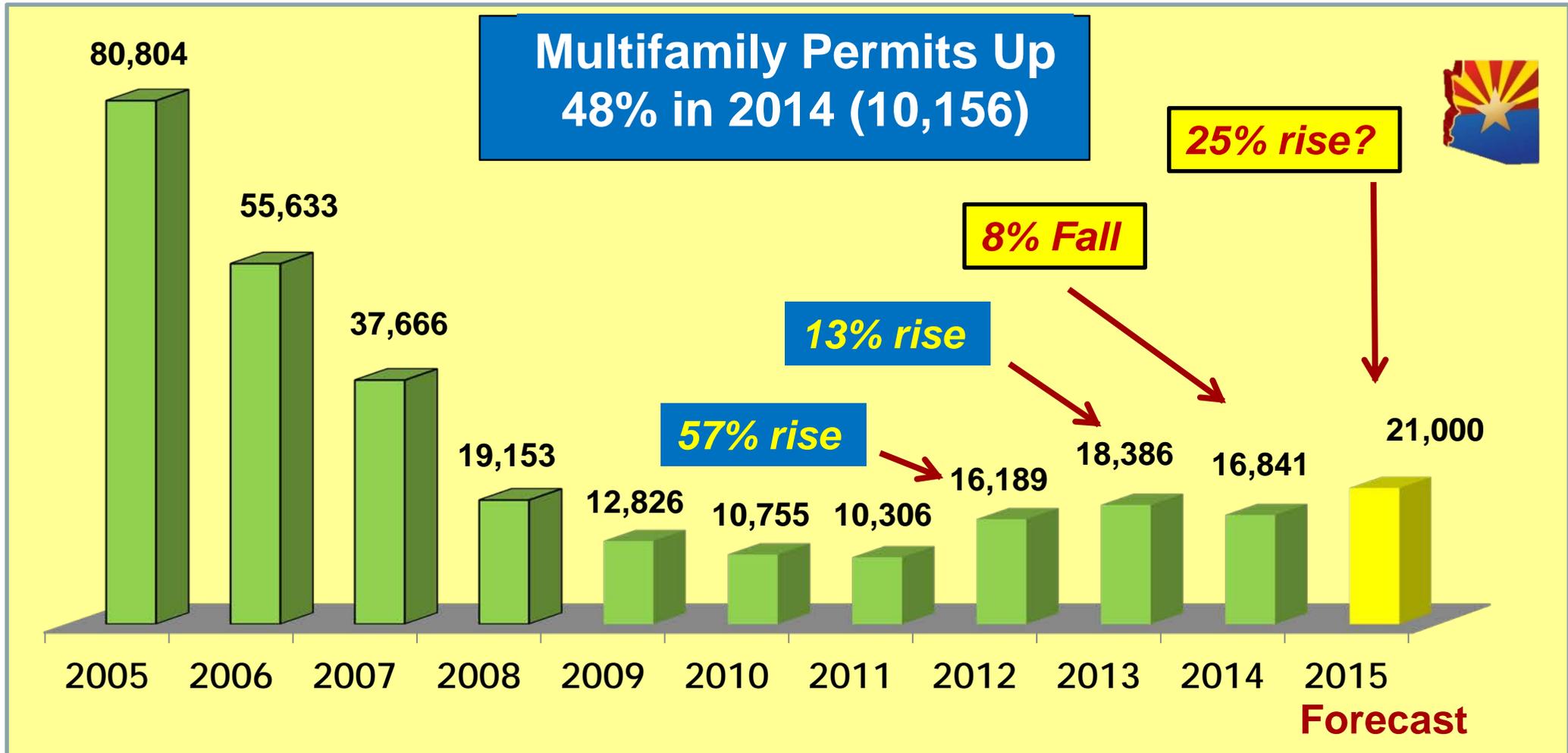


U. S. States Ranked by
Percent Change 2014

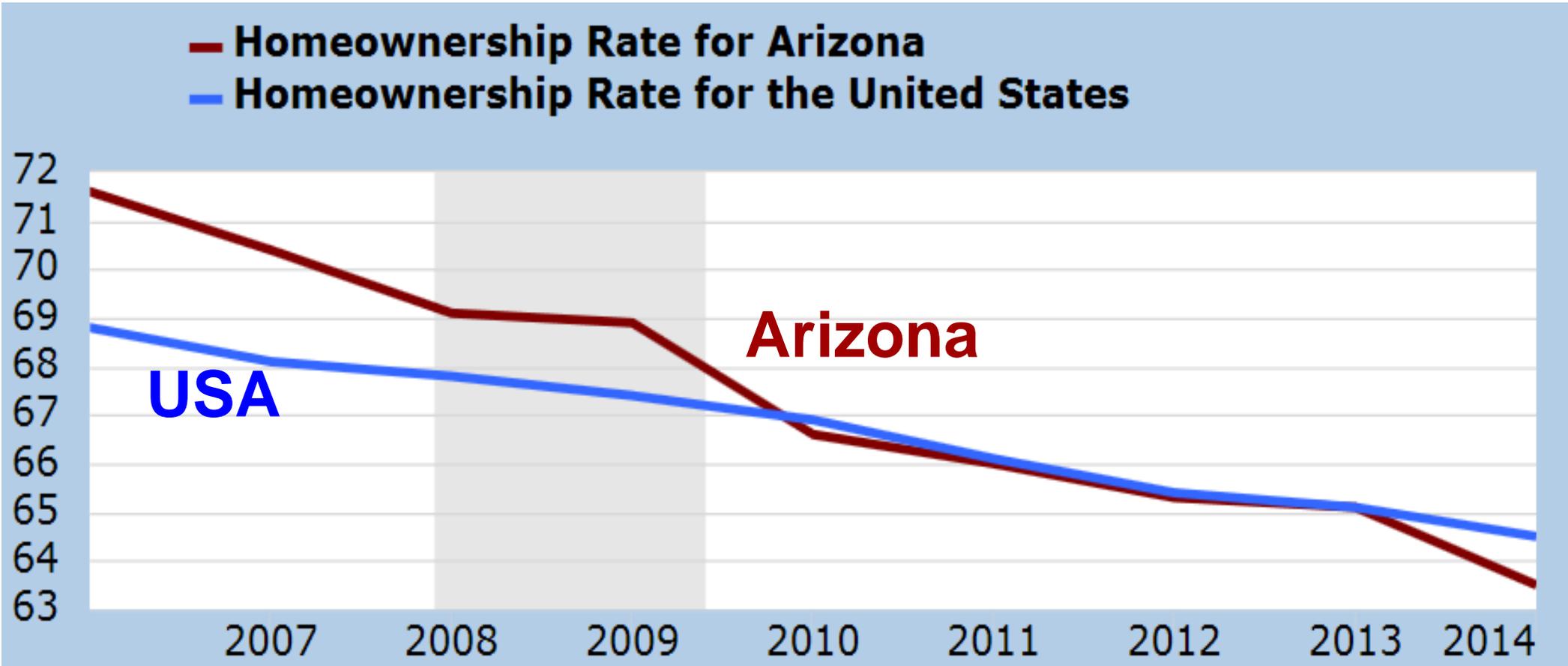
U. S. Census Bureau, Dec. 2014

Arizona Home Building Improves

Single Family Permits Up After 2014 Slowdown



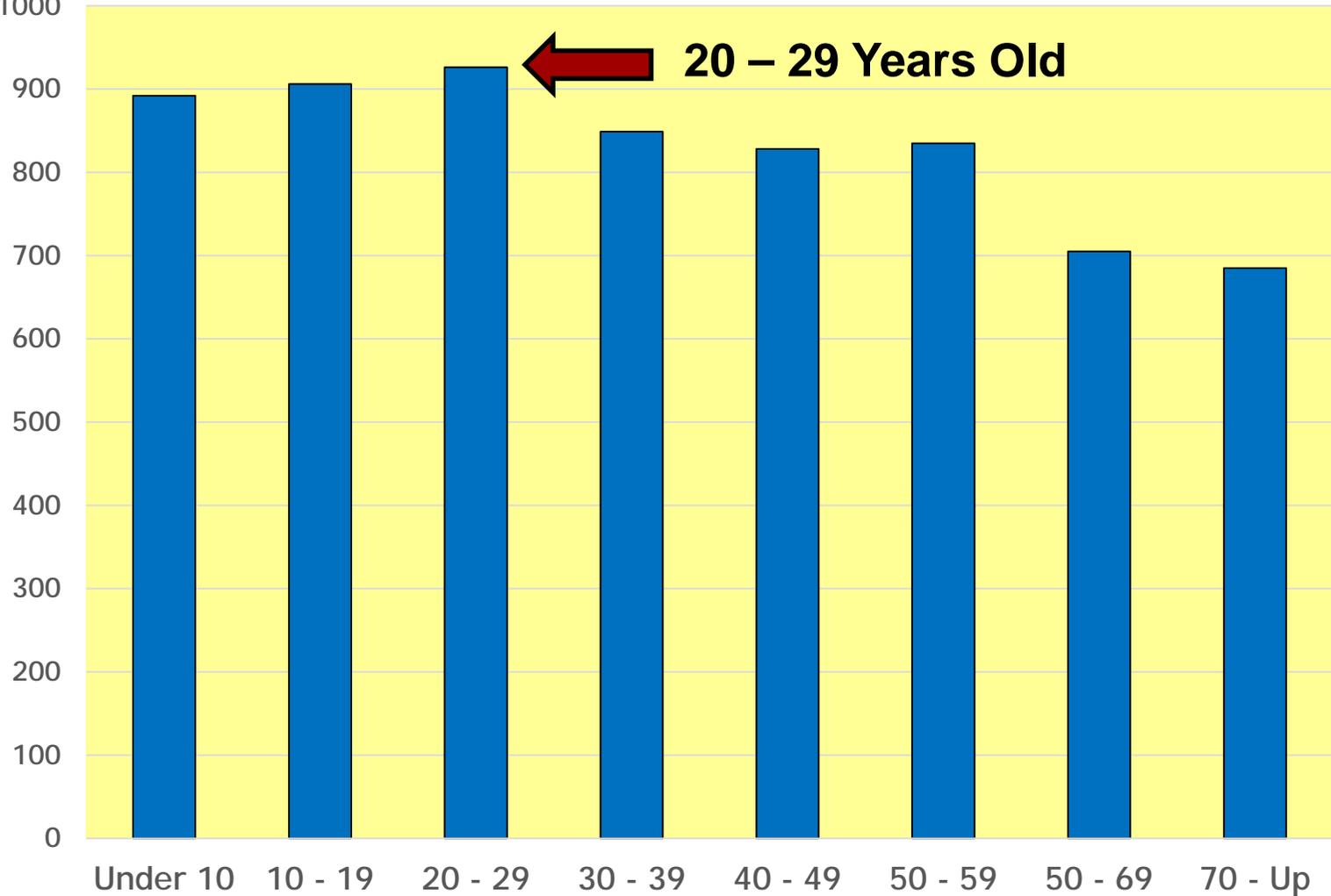
US and Arizona Home Ownership Rates Have Declined Since Peaking in 2006



Millennials (20-29) Largest Population Group

- When Will They Become Home Buyers?

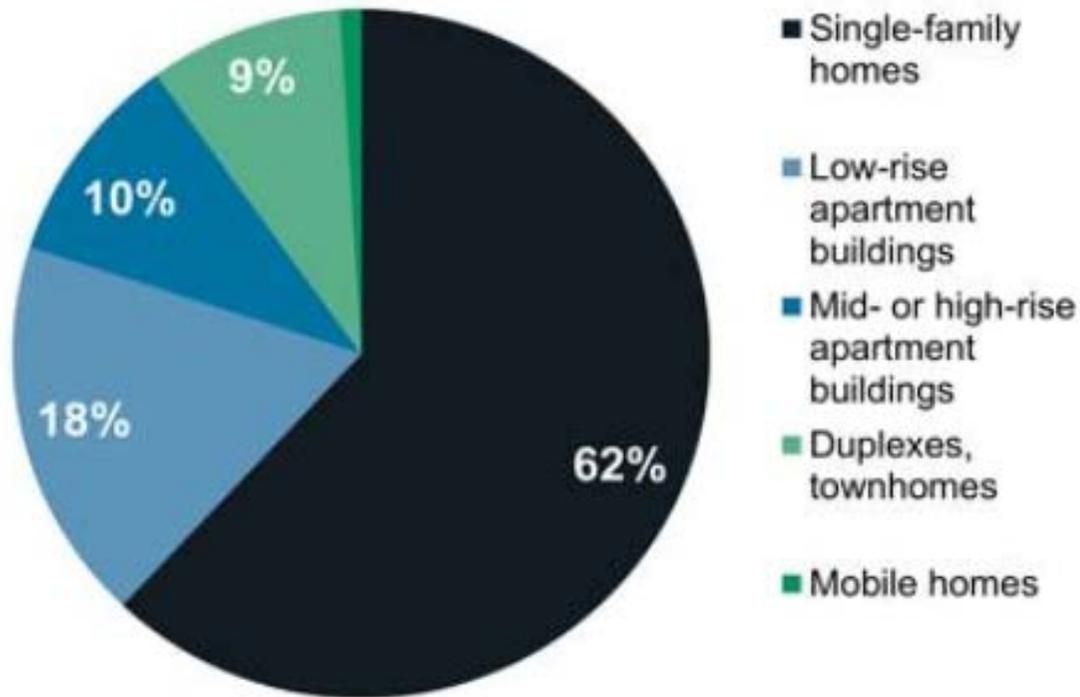
Arizona Population (000)



Millennials (20-29) Largest Population Group - They Want To Be Home Buyers By 2020!

Gen Y Sees A Future In Single-Family Homes

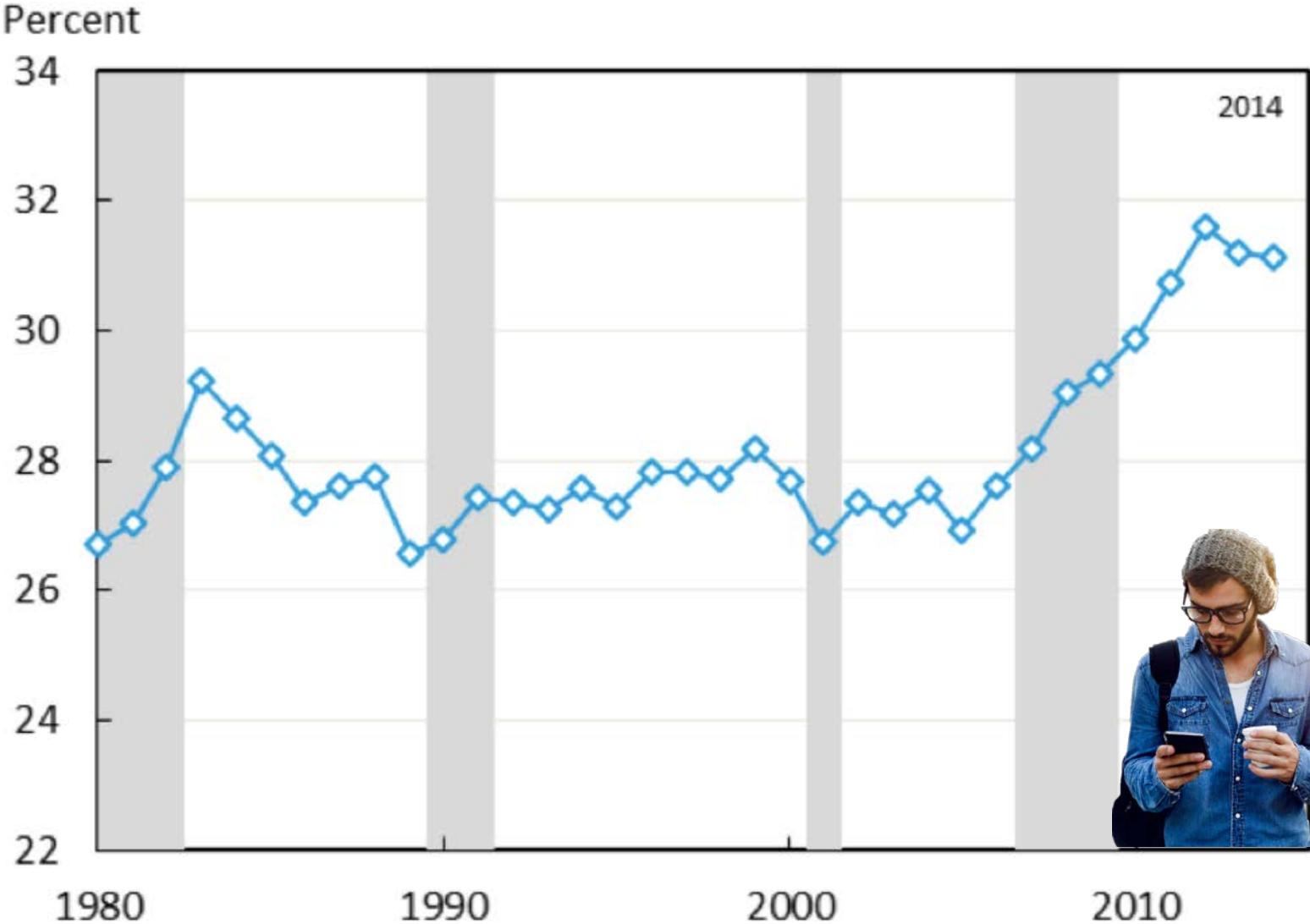
Young American's housing preferences for 2020, per survey of 1,270 millennials.



Source: Urban Land Institute | WSJ.com



Share of 18-34 Year Olds Living With Parents Continues at High Level



**What
Optimists
Expect**

**More Business Service, Health
Care & Insurance Job Growth**

**Population Growth Up, Wages
Up, Construction Rebounds**

**Home Values & Incomes Rise,
Consumers Get Back in Game**

**National Economic Growth
Breaks out of 2% GDP Band**

**What
Pessimists
Expect**

**Population Growth Remains
Slow Compared to Past Years**

**Too Many Lower Wage Jobs,
Incomes Do Not Grow**

**Home Building Stagnant When
Rates & New Home Prices Rise**

**Education Cuts, Image Issues
Might Hurt Arizona Brand**

The Best States For Business And Careers

Forbes

Rank ▲	State	Business Costs Rank	Labor Supply Rank	Regulatory Environment Rank	Economic Climate Rank	Growth Prospects Rank	Quality of Life Rank	Population
1	 Utah	5	4	9	6	10	16	2,923,000
2	 North Dakota	9	9	18	4	2	24	733,200
3	 North Carolina	4	7	2	24	9	31	9,901,400
4	 Virginia	24	2	1	12	33	5	8,292,700
5	 Colorado	35	1	13	8	4	9	5,307,800
22	 Arizona	25	17	17	47	5	40	6,669,200

Current Arizona Consensus

- 2015 – best recovery year yet – but still below long term average growth rates
- Population increase is a key driver
- Construction is the missing catalyst
- Job quality greatest long term risk
- U.S. economy greatest short term risk

ARIZONA HOUSING FORUM

August 2015

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ARIZONA STATE UNIVERSITY