

The Arizona Outlook In an Uncertain Economy

Arizona Housing Forum

September 20, 2013

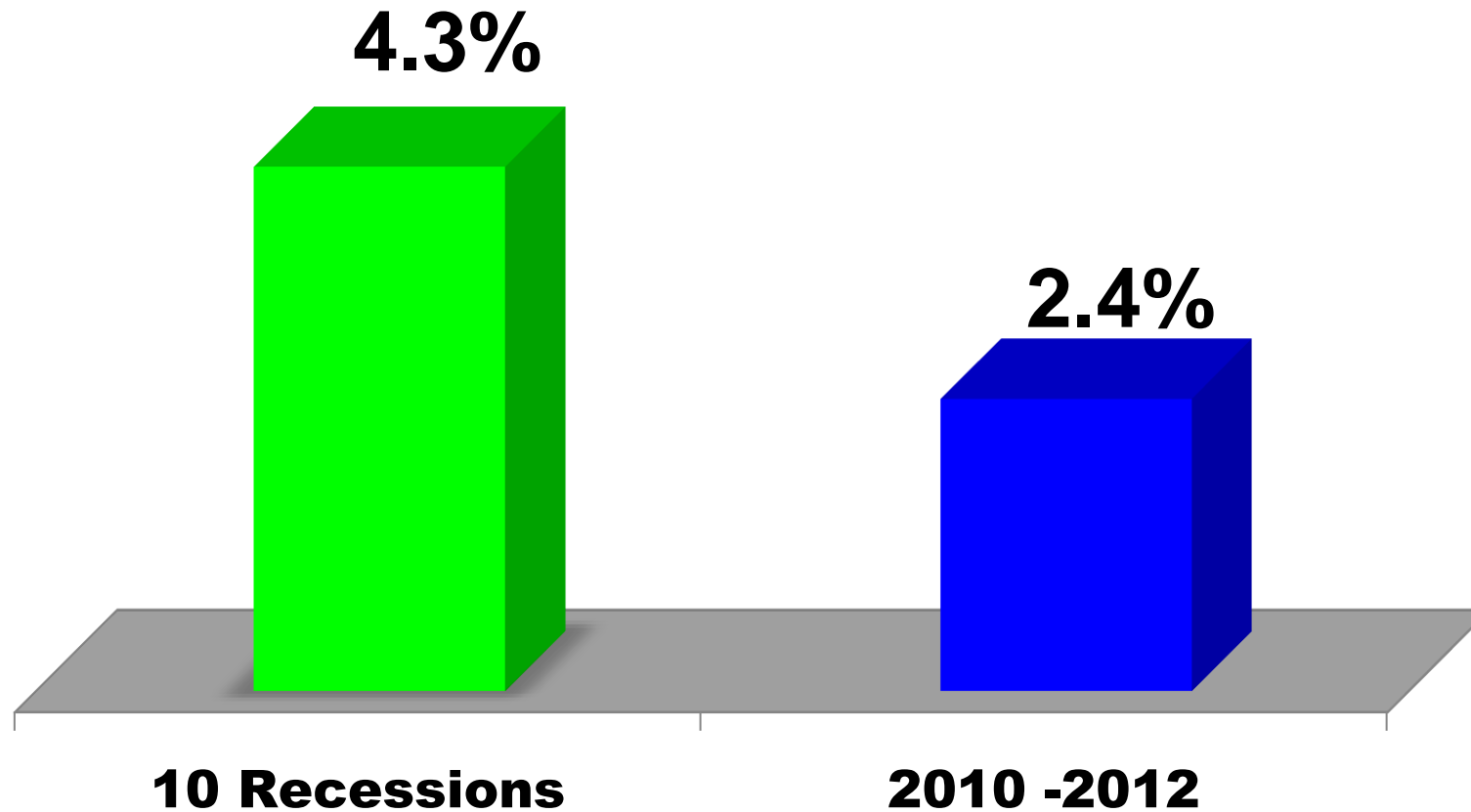
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Economic Update & Outlook

- **Slow Growth – Not Recession**
- **Economy Faces Headwinds**
- **Recovering But Not Recovered**
- **Arizona Follows U.S. Cycle**
- **Long Term Outlook is Strong**

GDP 3 Year Recovery At Below Average Pace



U. S. Bureau of Economic Analysis, annual GDP growth 3 years after bottom

Headwinds to Growth Persist

- **Uncertainty!**
- **Hiring Still Slow**
- **Govt. Sector No Help**
- **Real Wages Stagnant**
- **Consumers Cut Back**

Markets Eschew Uncertainty from the Fed

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Fed's Plosser **Calls for Tapering of QE** to Begin in September

By Aki Ito - Jul 12, 2013 2:21 PM MT



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Fed's Bullard **Opposes Tapering of QE** Amid Slowing Inflation

By Steve Matthews & Aki Ito - Jul 12, 2013 4:39 PM MT



Inequality is Holding Back the Recovery



**Joseph Stiglitz,
Nobel Laureate**

Stiglitz Says:
Consumer spending is too weak to support recovery - real wages are stagnant and middle class share of income is in decline.

Inequality is Holding Back the Recovery



**Joseph Stiglitz,
Nobel Laureate**

Is Stiglitz Right?

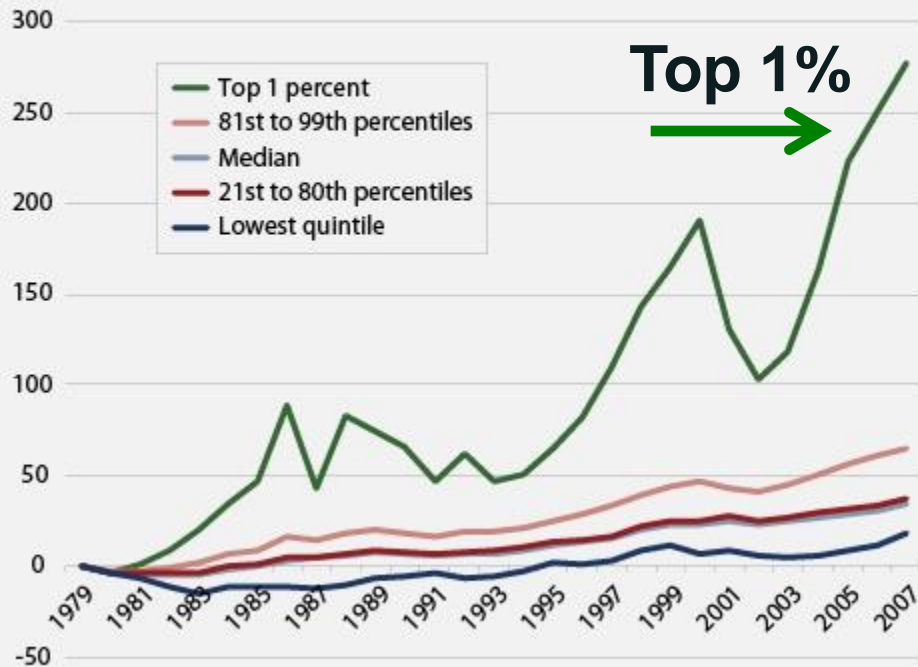
**If so, standard fiscal
and monetary policy
will do little to spur
economic recovery**

Greatest Income Gains to Top 1%

Family Income Growth 1979 - 2007

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



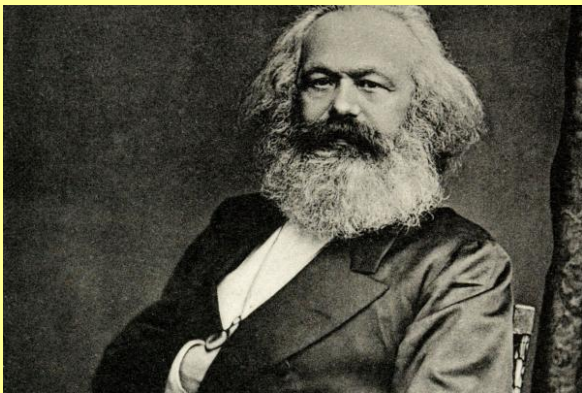
Source: Congressional Budget Office, "Trends in the Distribution of Household Income from 1979-2007," (2011).



Between 1979-2007 median family income rose by 35% while income for the top 1% rose by 278 percent.

How is Income Determined in a Market Economy?

“From each according to their ability, to each according to their needs.”



“From each according to their ability, to each according to their work.”



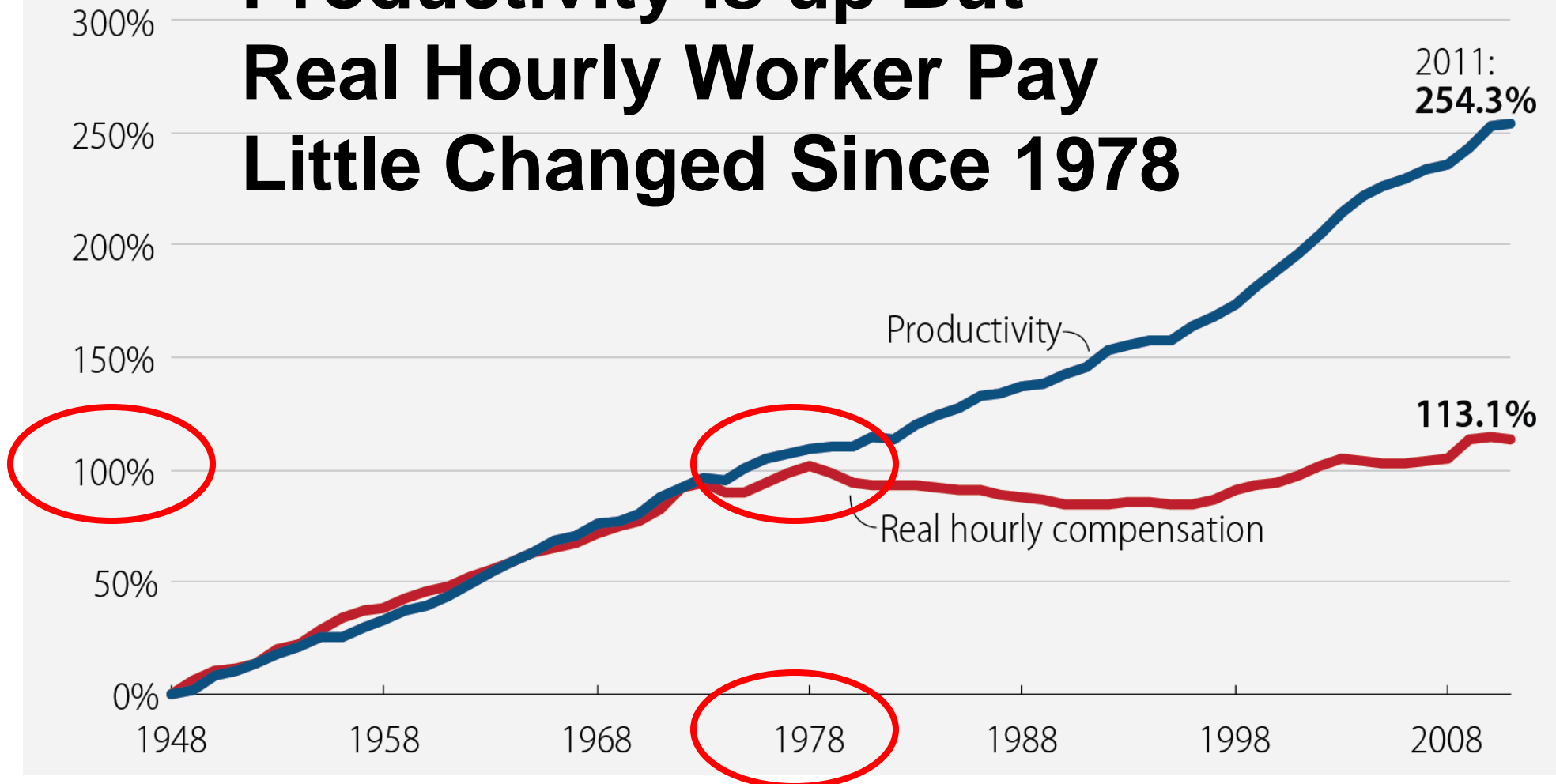
“From each according to their ability, to each according to their productivity.”

**Or so says
Economic Theory**

Most Americans Are Not Benefitting From Greater Productivity

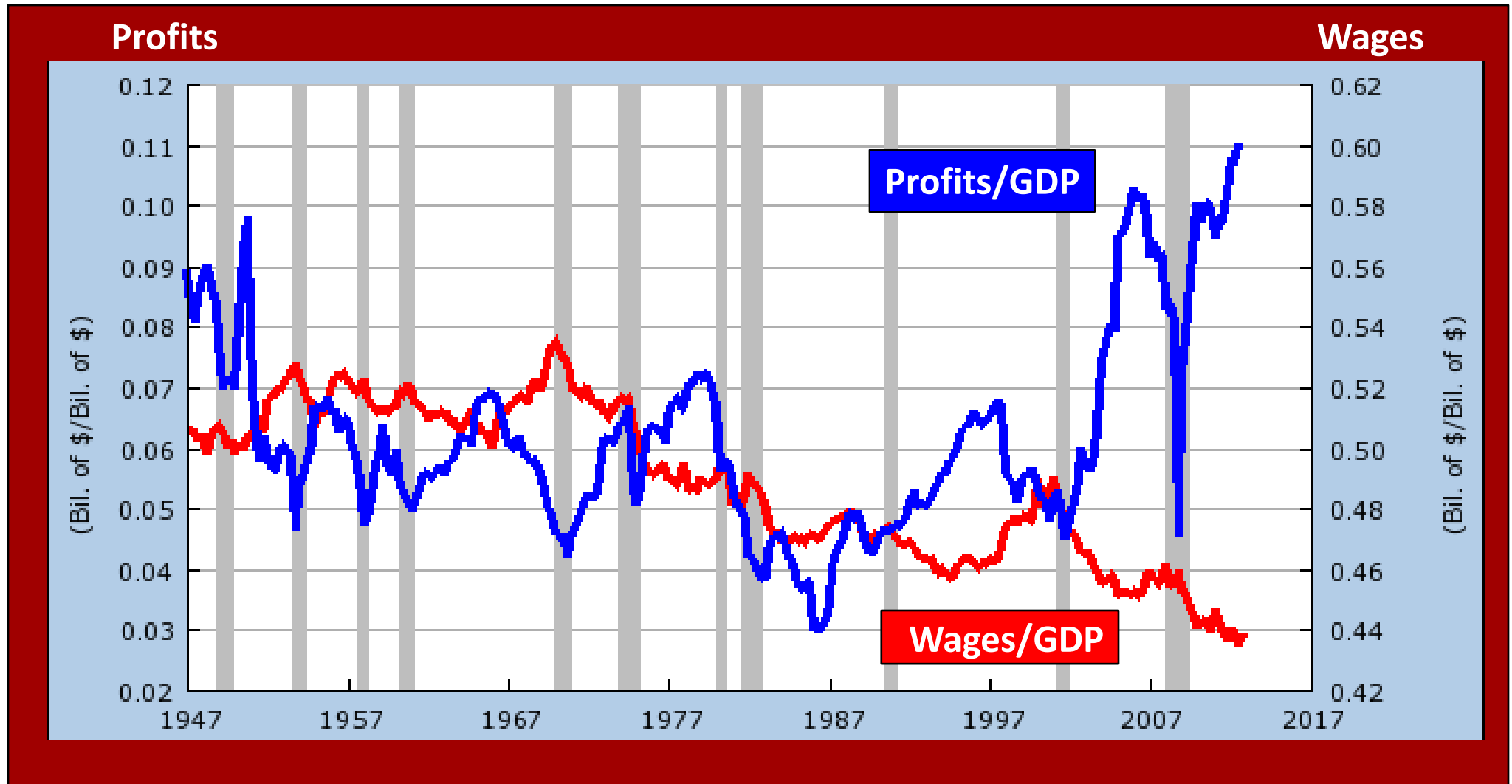
Cumulative change in total economy productivity and real hourly compensation of production/nonsupervisory workers, 1948–2011

**Productivity is up But
Real Hourly Worker Pay
Little Changed Since 1978**

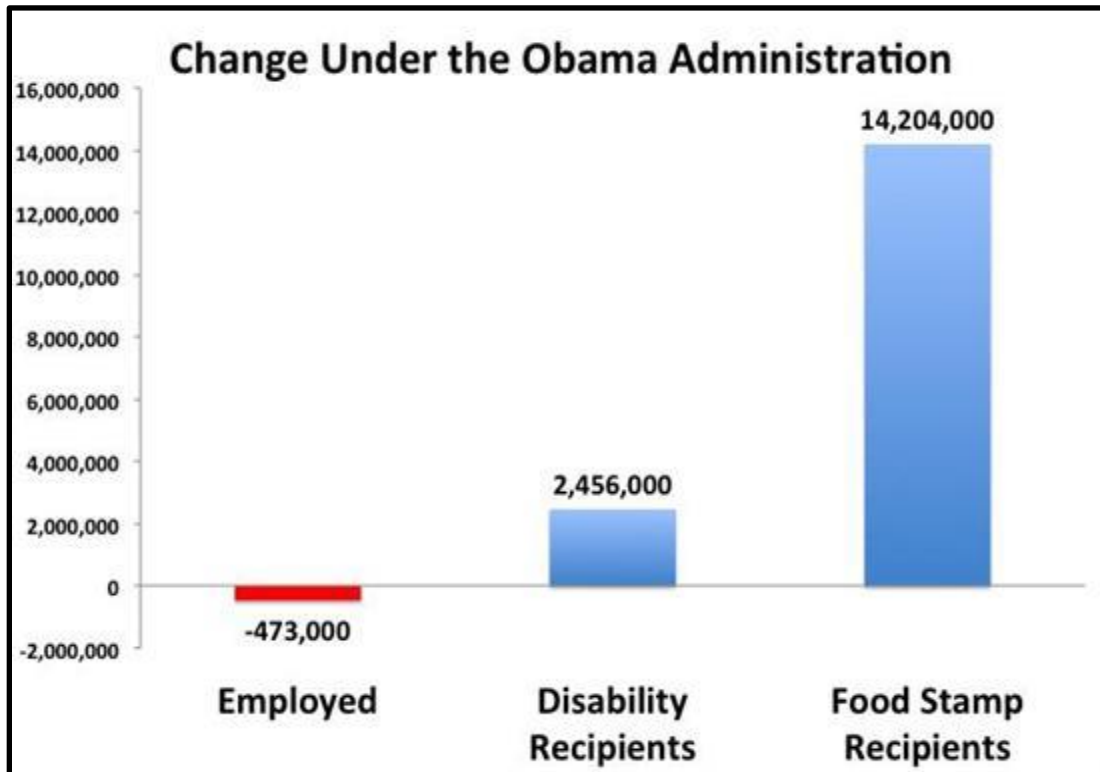


Corporate Profits As % GDP At Record High

- Wages As % GDP At Record Low



Disincentives to Work Hold Back Recovery



- **Unemployment Benefits**
- **Food Stamps (SNAP)**
- **Disability Payments**
- **Taxes on Extra Income**

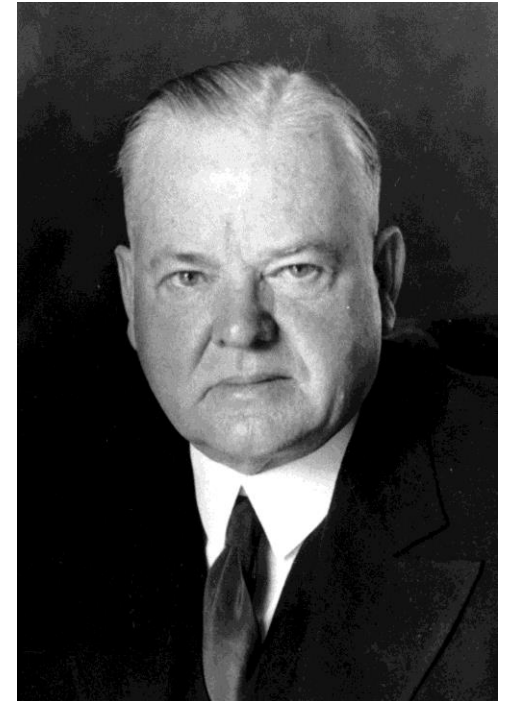
Ways and Means Press Office
waysandmeans.house.gov

In 1930, how did Babe Ruth explain why his salary of \$80,000 was higher than that of U.S. President Herbert Hoover...?



Babe Ruth, Baseball Player

**That's because I
Had a better year
than Hoover...!**

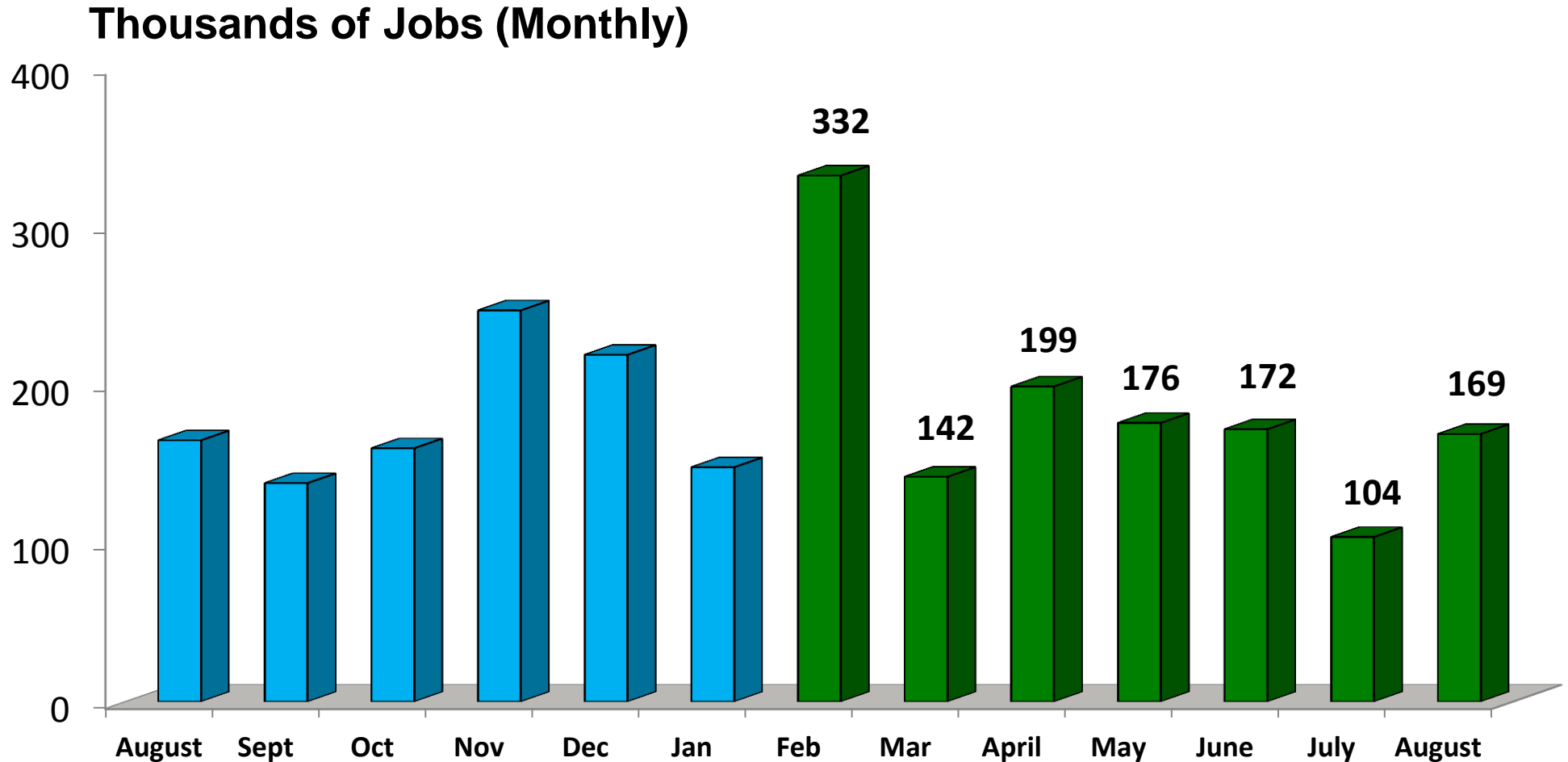


Herbert Hoover, President

**Labor Market
Full Recovery
(Return to Prior Peak)
Is in Sight for U.S.
But Not Arizona**

169,000 U.S. Jobs Added in August

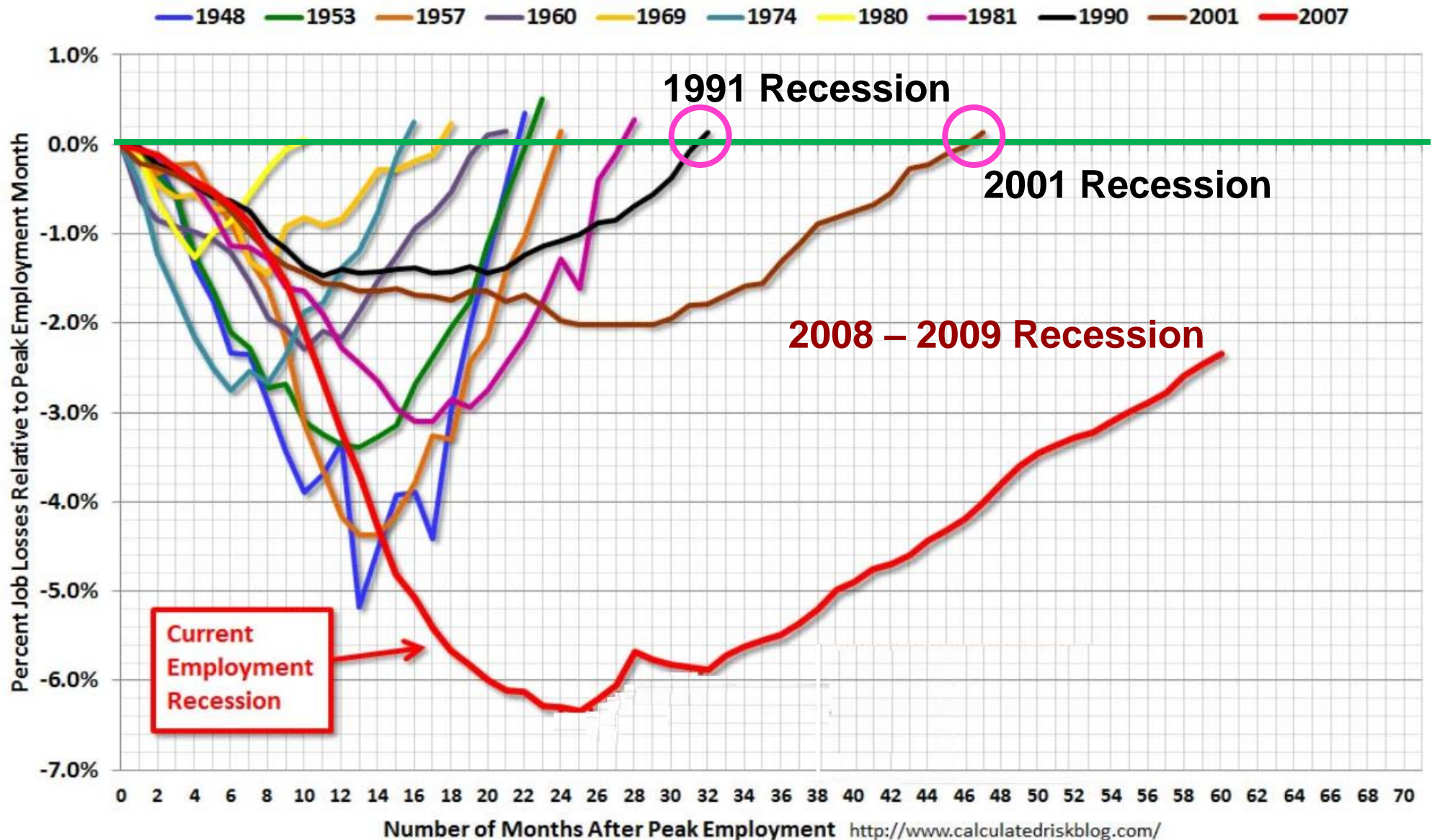
6 Month Avg. Growth: 160,000/month



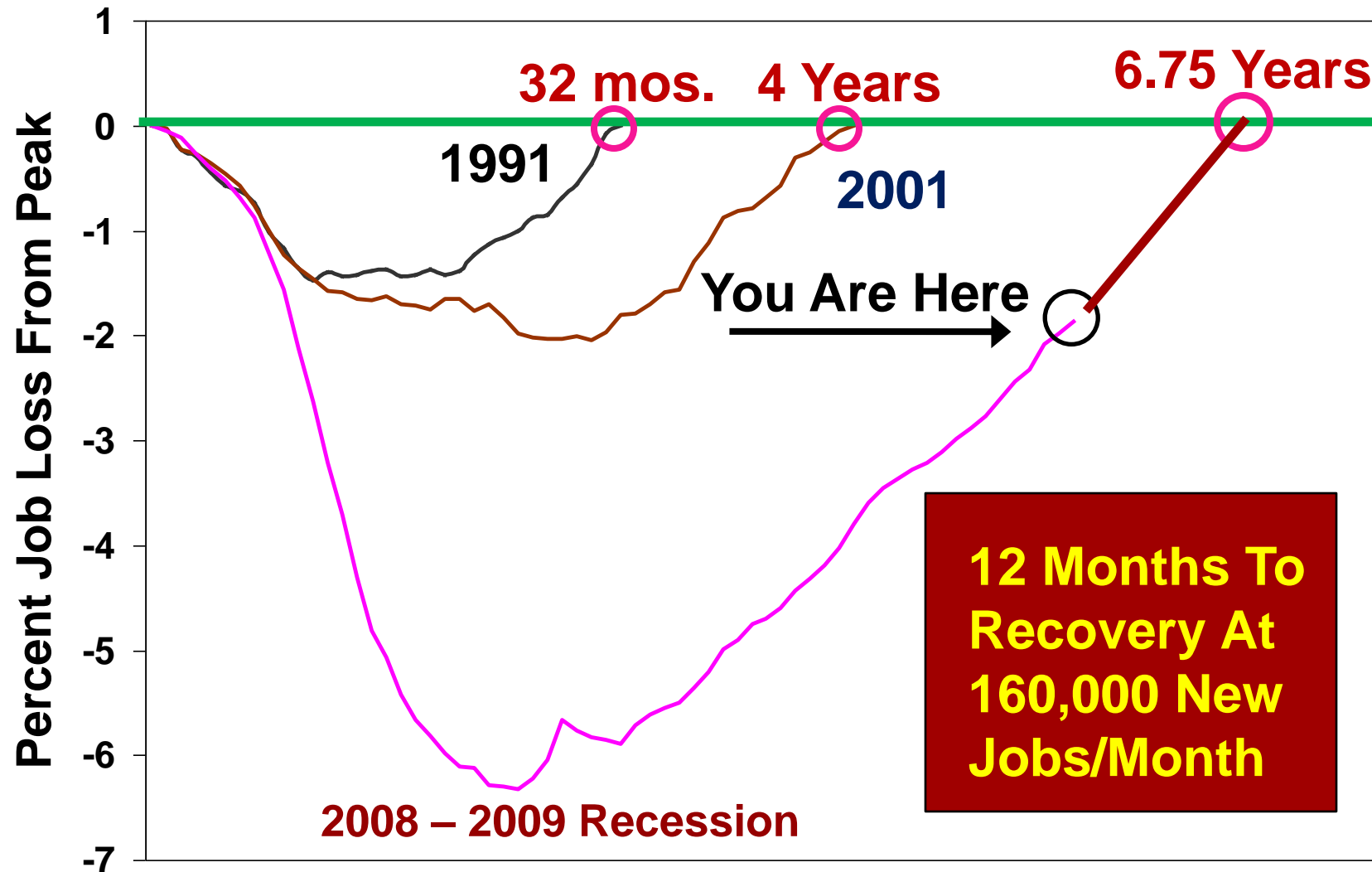
U. S. Bureau of Labor Statistics, Seasonally Adjusted

Jobs Came Back Sooner Years Ago

Percent Job Losses in Post WWII Recessions



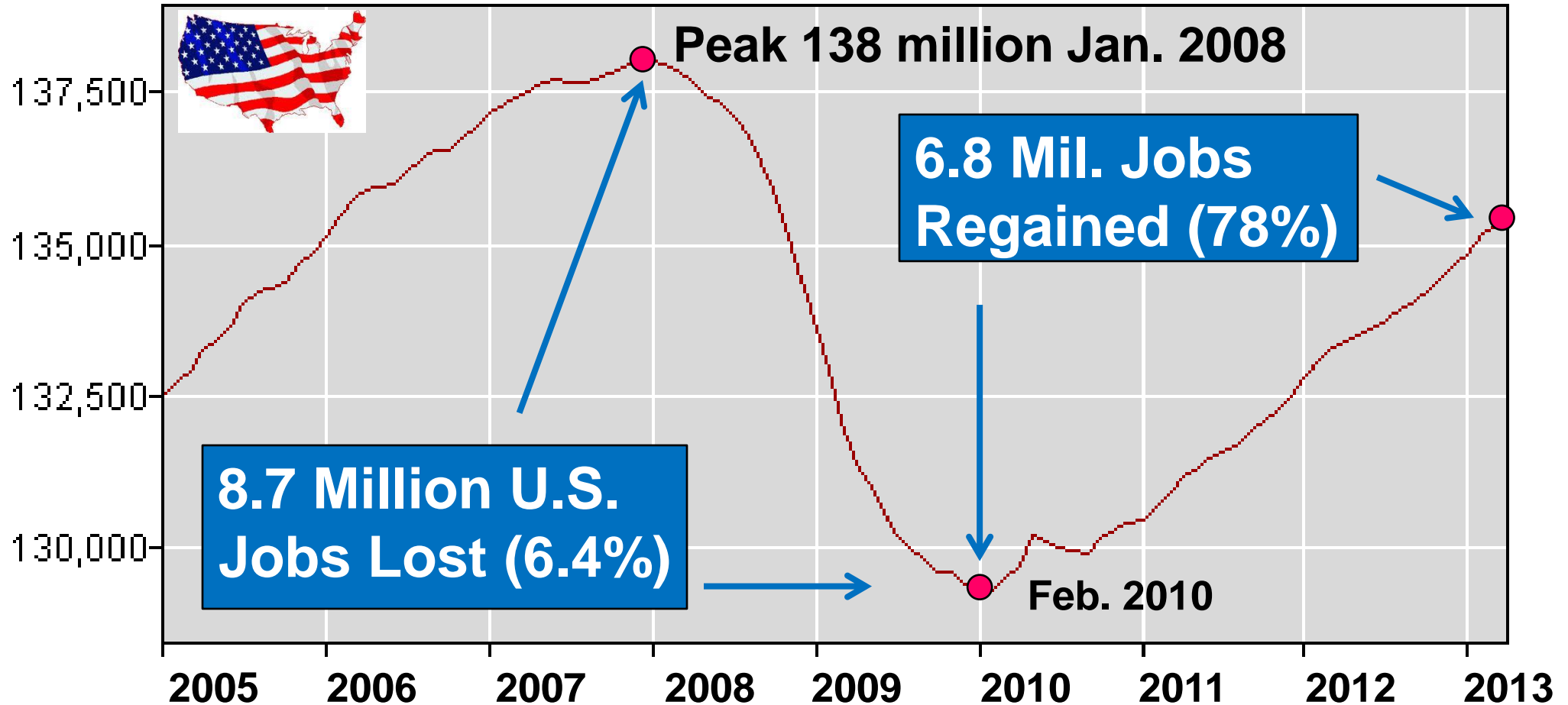
Recover Lost Jobs by Sept. 2014?



U. S. Bureau of Labor Statistics, seasonally adjusted data, Aug. 2013

U.S. Has Regained 78% of Lost Jobs

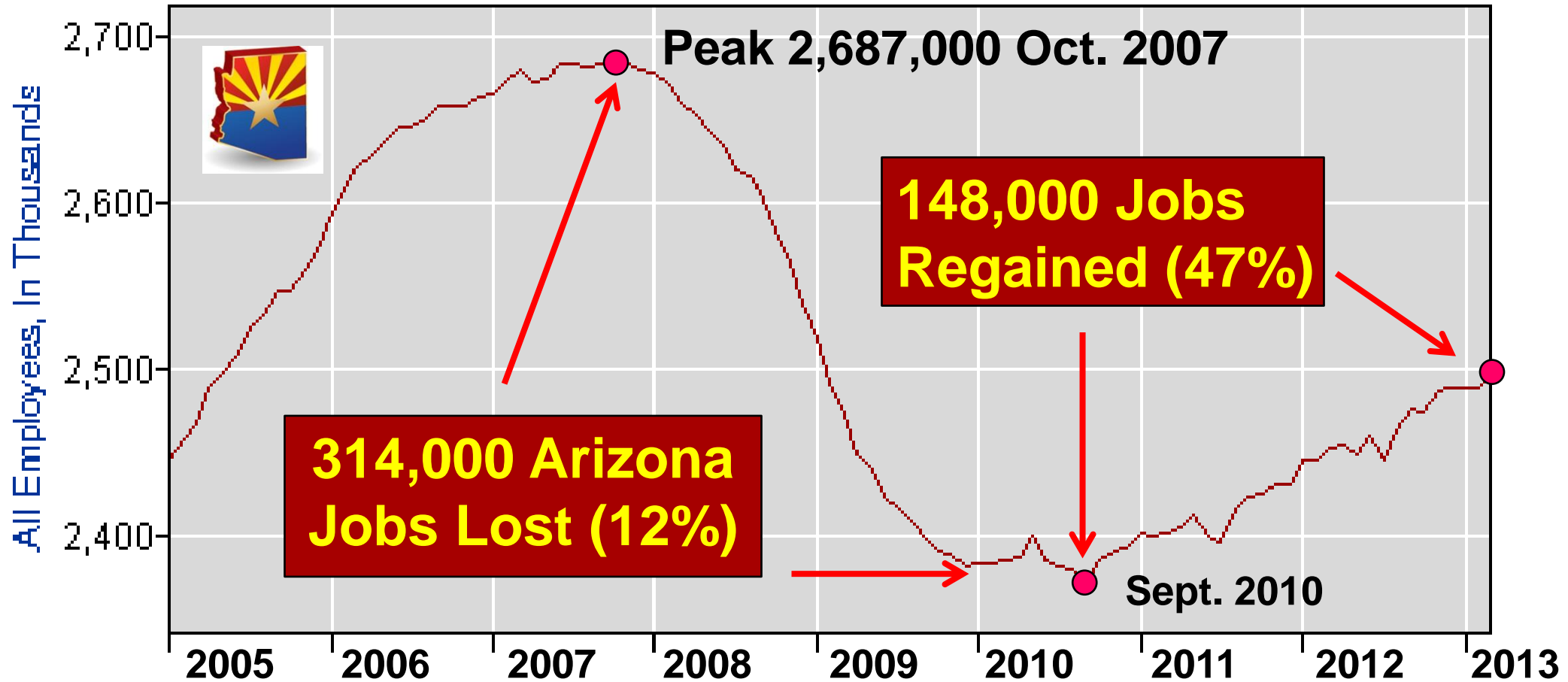
1.9 Million Jobs (22%) Still To Recover



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

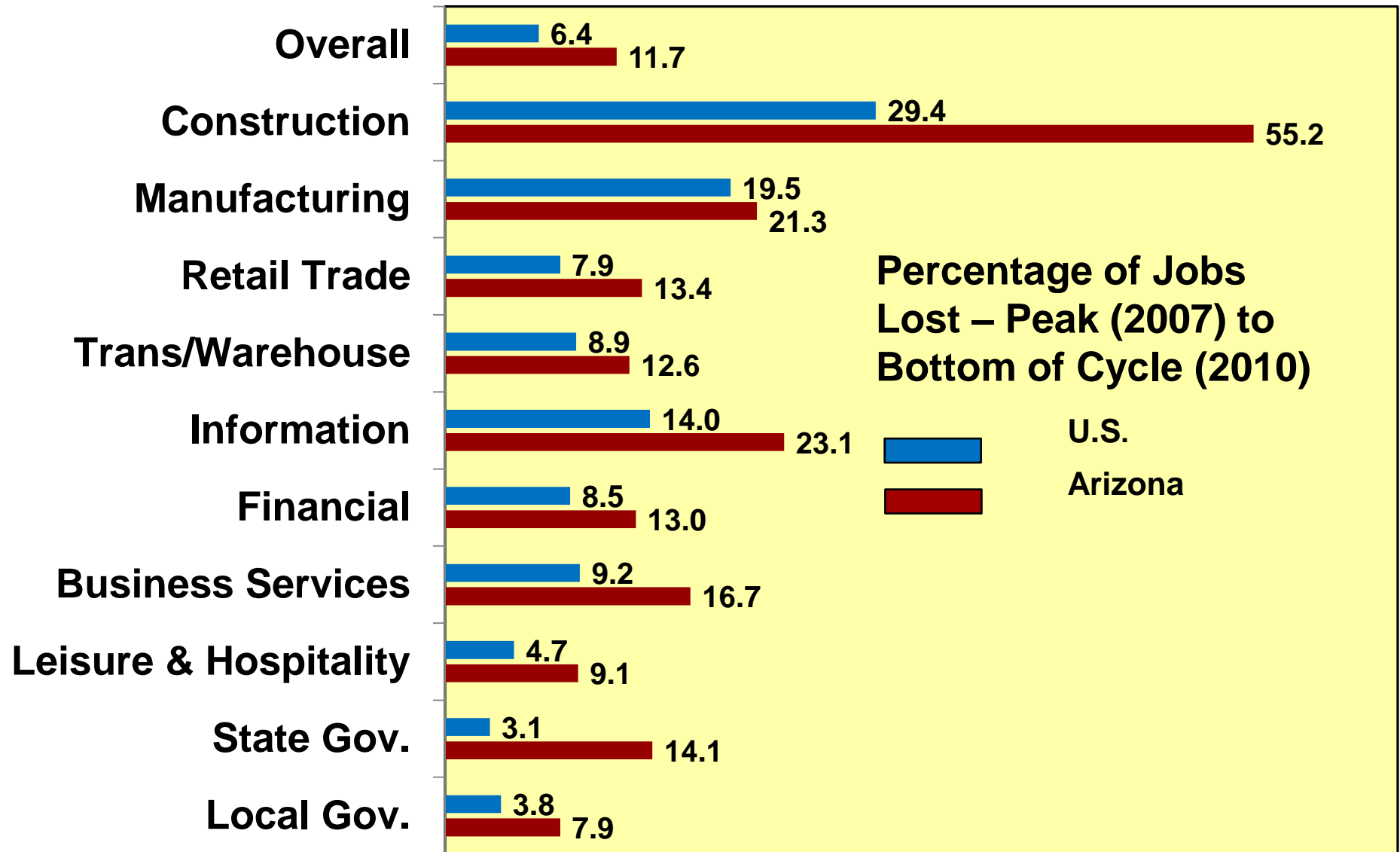
Arizona Has Regained 47% of Lost Jobs

167,000 Jobs (53%) Still to Recover

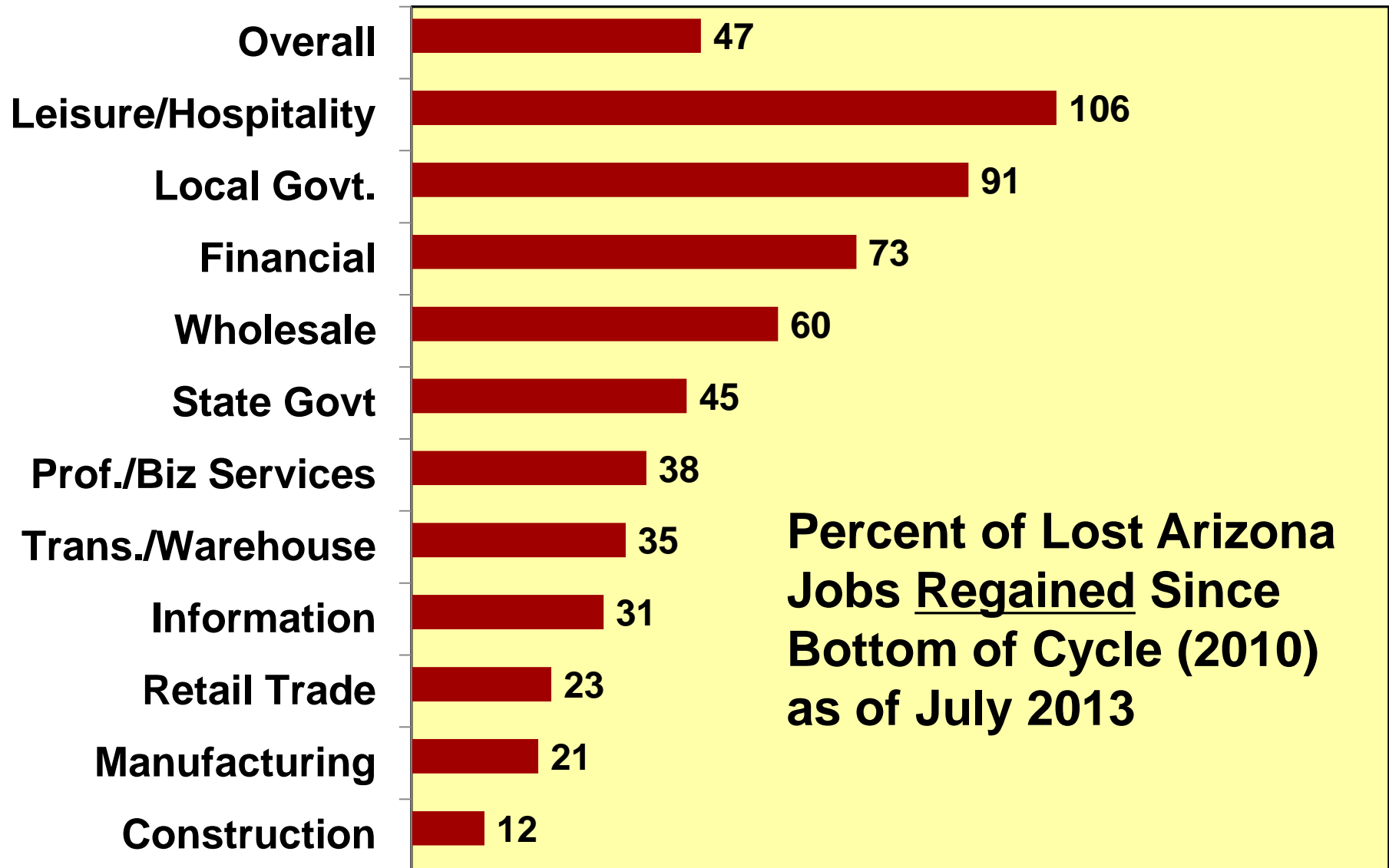


U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted

Arizona Job Losses Exceeded U.S.



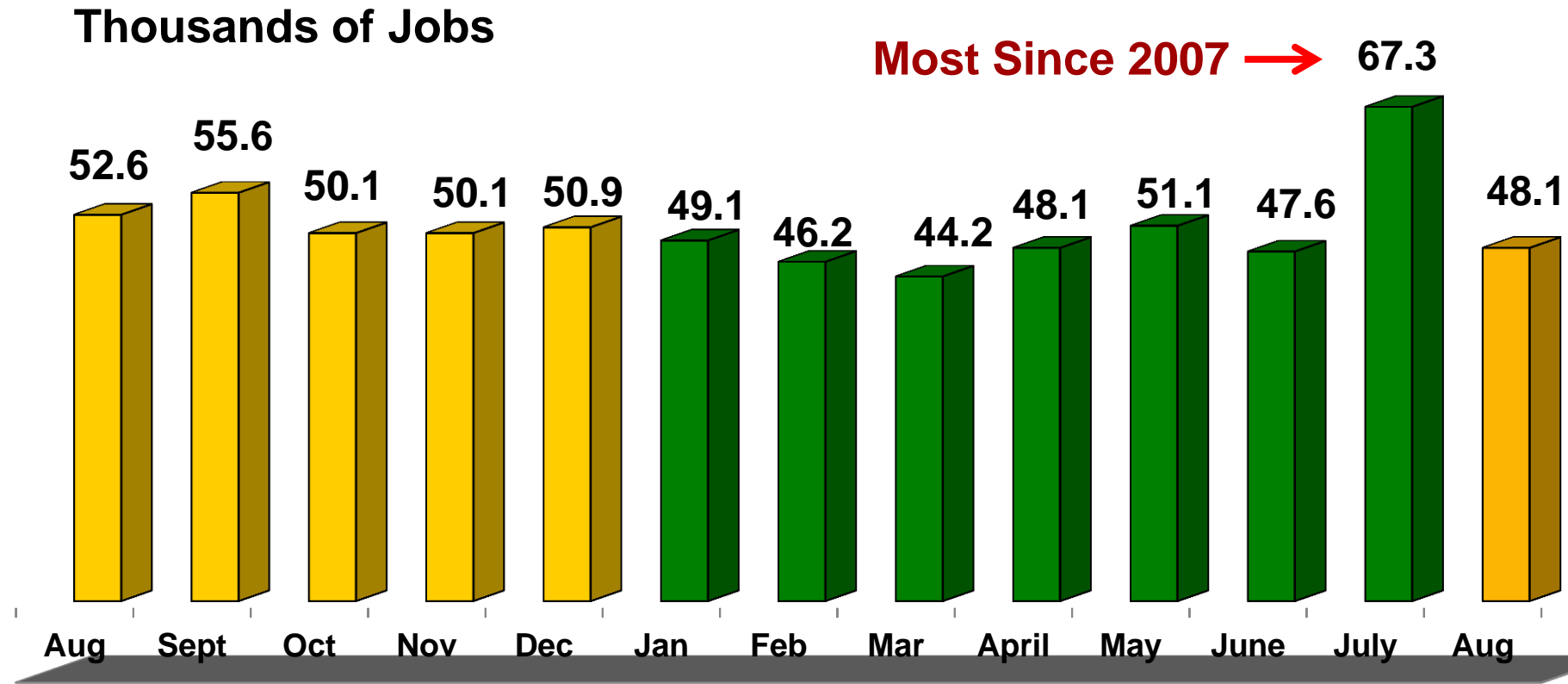
Most Industries Yet to Regain Lost Jobs



**By The Numbers:
Year-over-Year
Arizona Economy
Is (Slowly) Improving**

Arizona Gained 48,100 Jobs in August

(12 Month Increase 2.0% - 25 yr. Average is 3.9%)

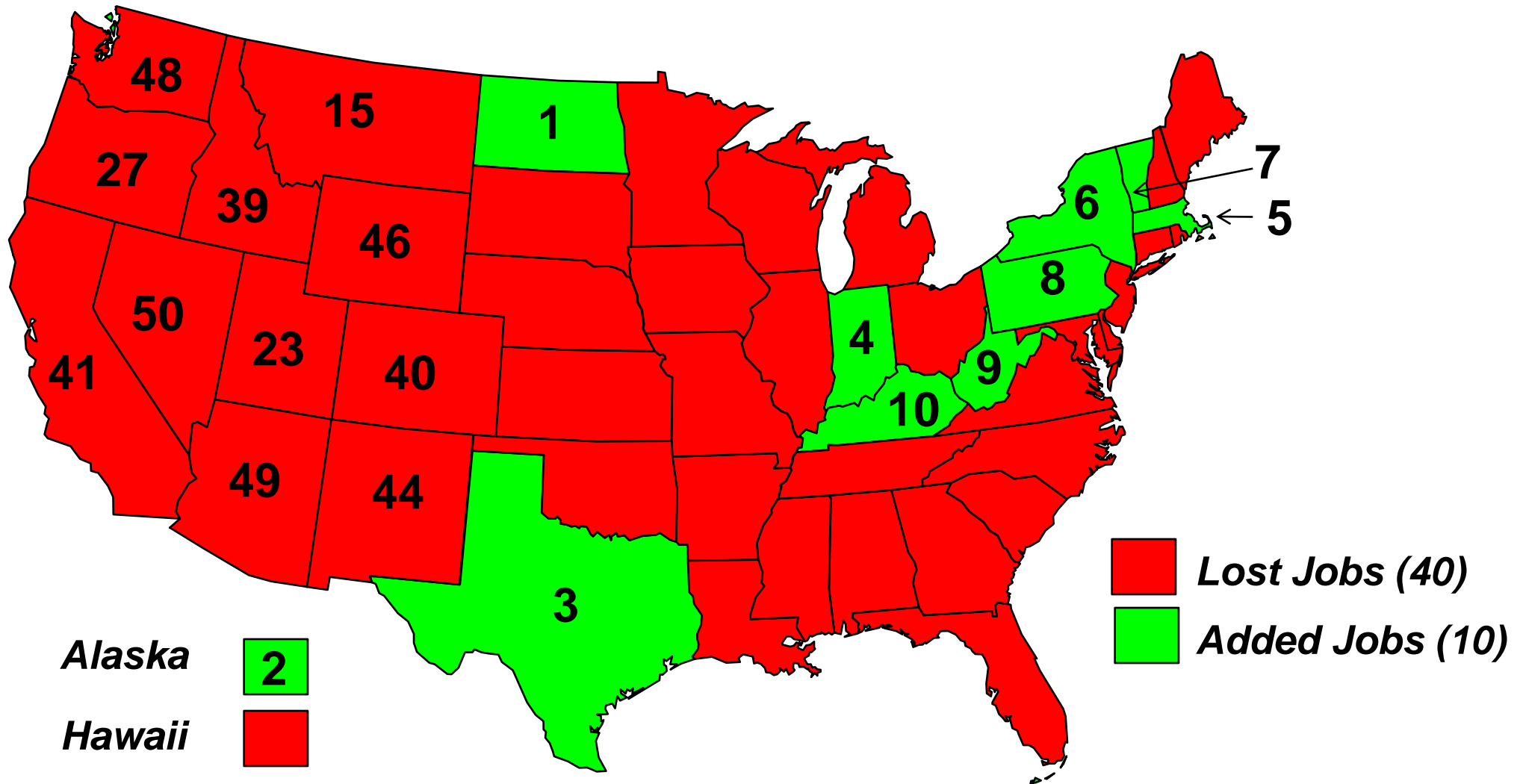


*U. S. Bureau of Labor Statistics, Not Seasonally Adjusted,
Year-Over-Year Increase by Month*

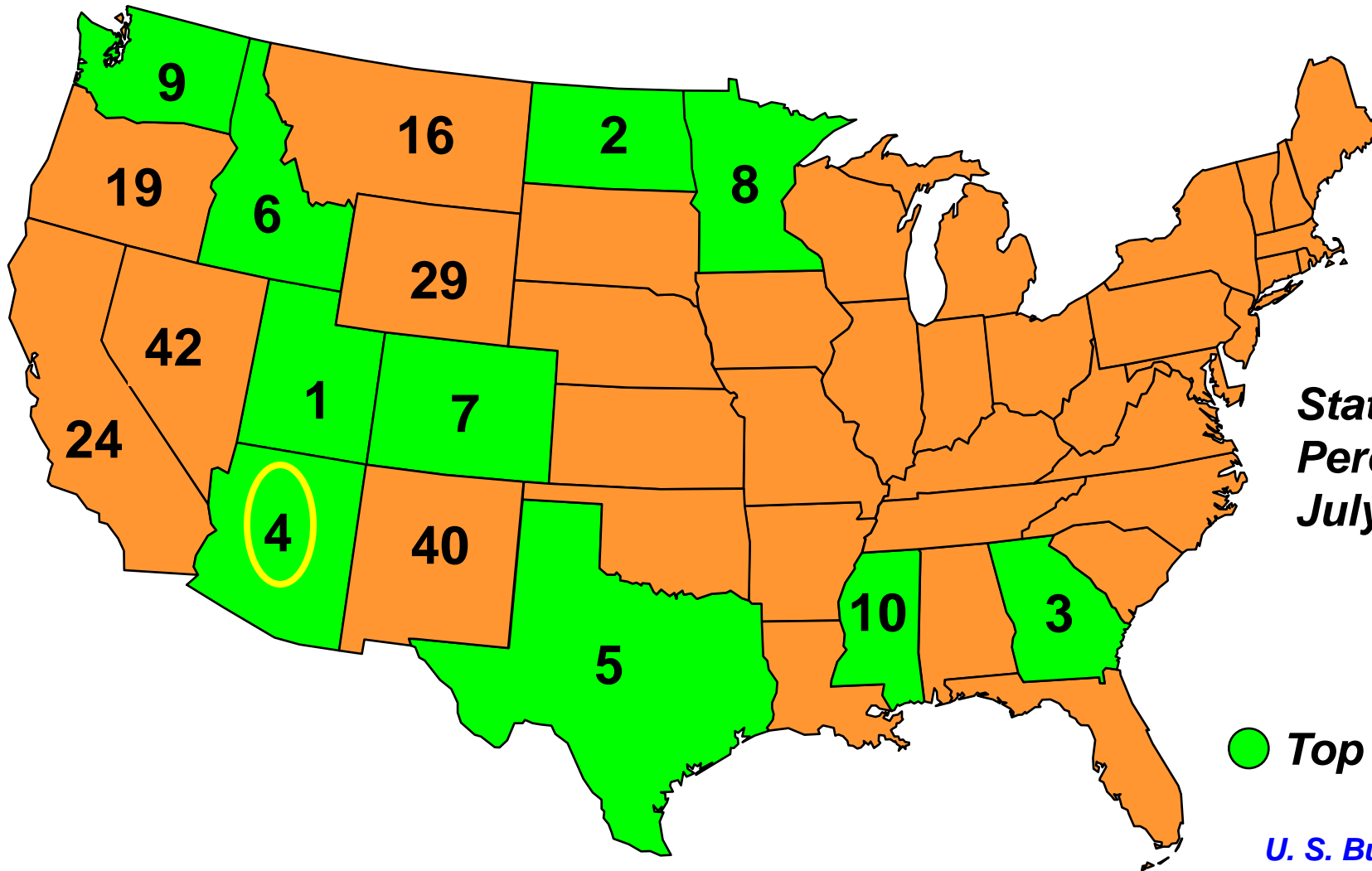


Arizona Ranked 49th in 2010

(Ranked by Employment Percent Change 2010 vs 2009)



Arizona 4th in Job Growth in July



***States Ranked by
Percent Change
July: 2013 vs. 2012***

● Top 10 Growth States

U. S. Bureau of Labor Statistics

Jobs Recovery: How Far Away?

Data: July 2013	U.S.	AZ
Jobs Lost	8.7 mil	314,000
Regained To Date	6.7 mil	148,000
% Jobs Regained	77%	47%
Need to Regain	2.0 mil	167,000
Recent New Jobs	160k/mo.	60,000 yr.
Years to Recover	1 yr	3.3 yrs

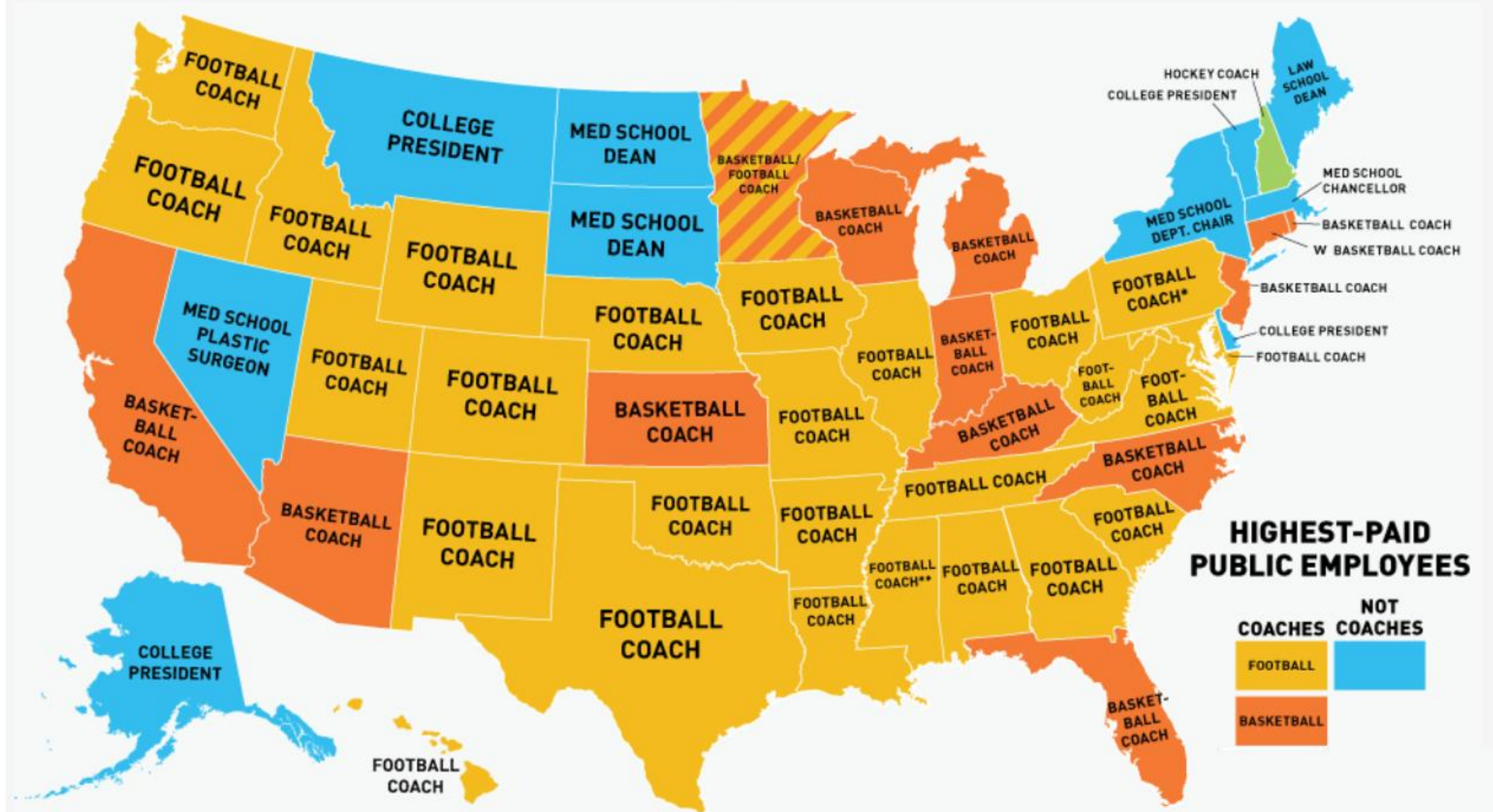
Arizona Growth Drivers

Arizona's Fastest Growing Industries: July 2013

Arizona Industry	% Growth	U.S. Rank
Arizona Job Growth	2.8	4
State Government	7.9	1
Real Estate	7.1	6
Construction	6.9	7
Wholesale Trade	6.4	3
Finance/Insurance	4.2	11

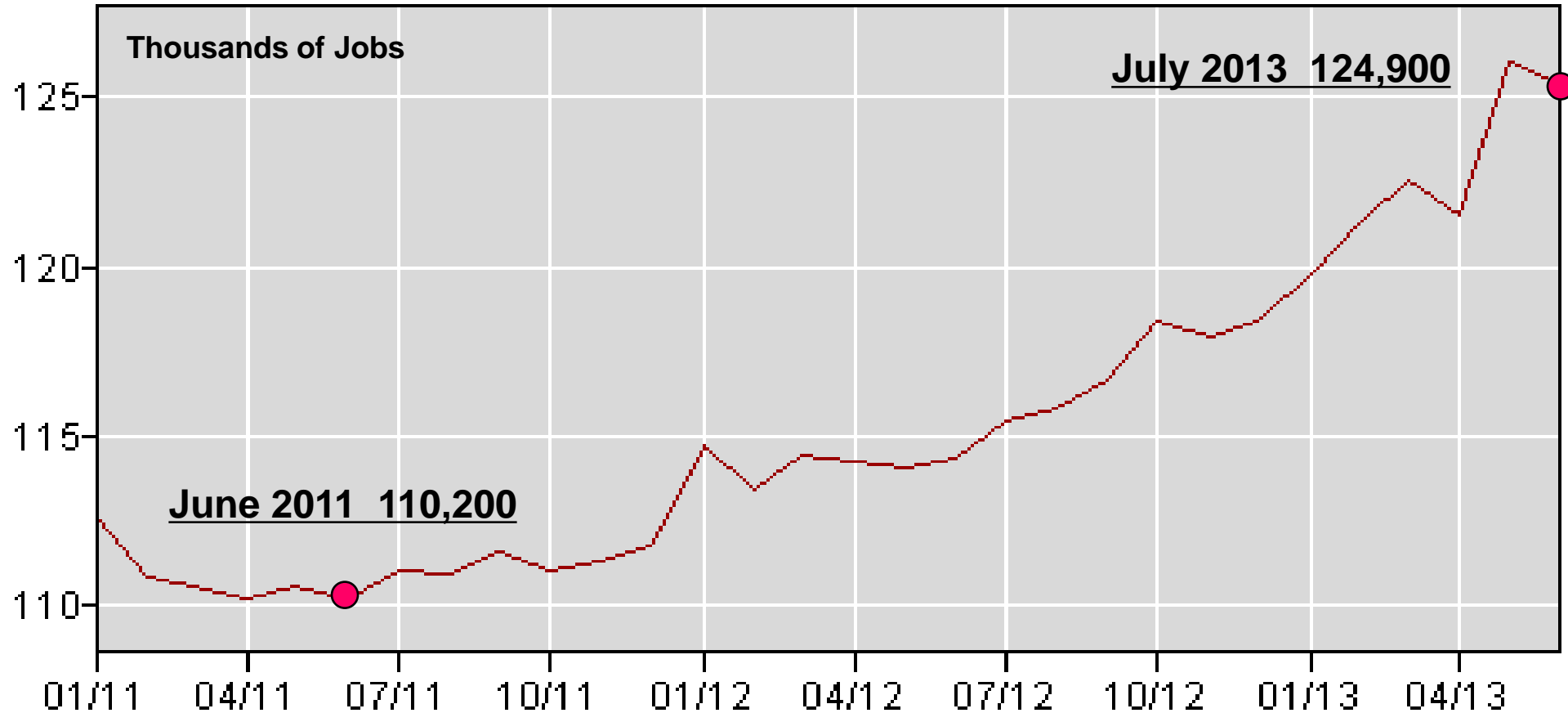
U. S. Bureau Labor Statistics, July 2013 vs. July 2012

Highest Paid State Workers



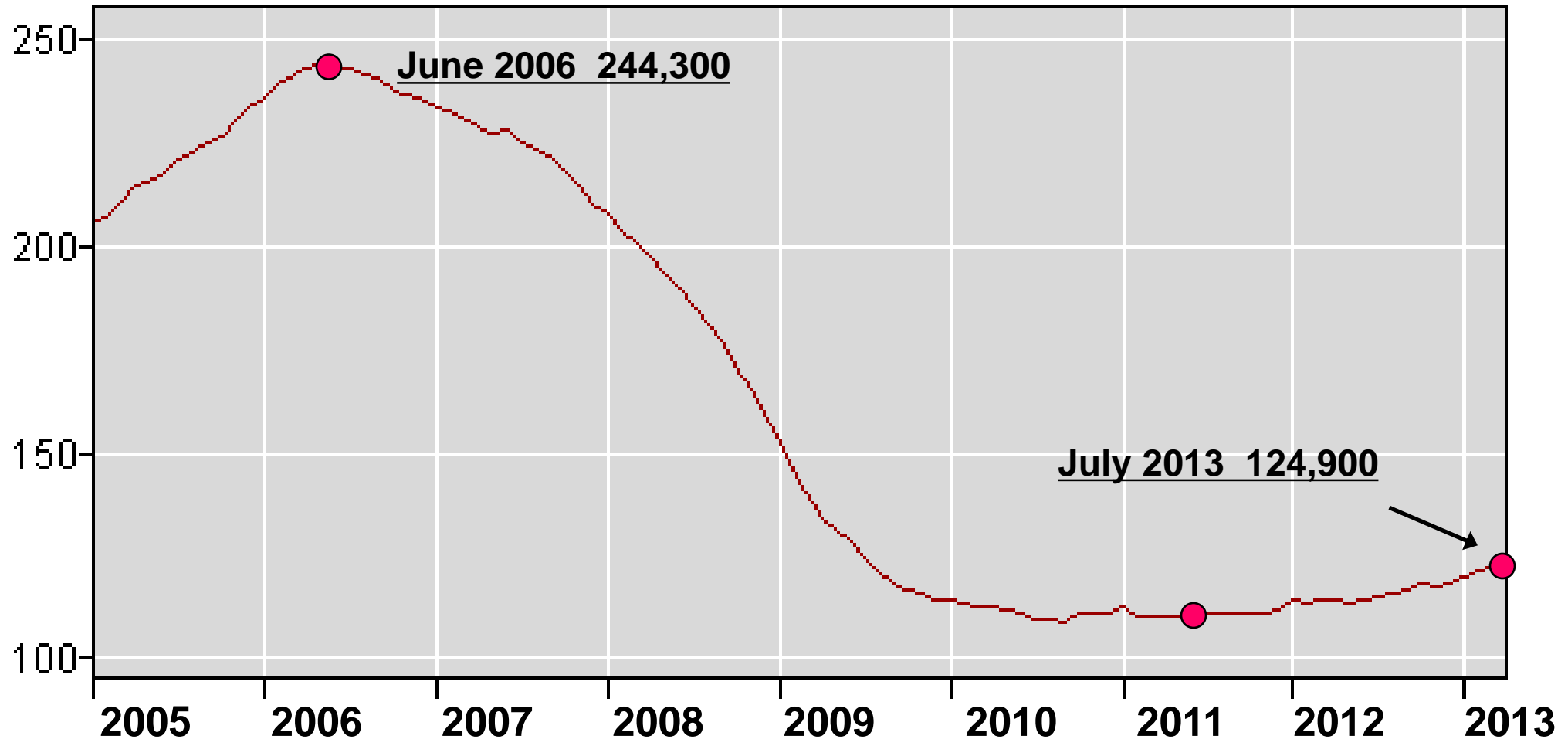
Source: Deadspin.com

Construction is Up by 14,700 Jobs And 13% Since Summer of 2011



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

But Construction is Still Down by 119,400 Jobs (49%) Since Peak



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

Source of 80% of New AZ Jobs

Based on Job Growth Between August 2012 & August 2013

Industry	New Jobs	Wage
Health Care	10,600	\$47,847
Food Service	9,100	\$16,452
Financial	7,300	\$64,730
Retail Trade	5,900	\$29,843
Construction	5,600	\$47,020
Arizona Average Wage (2012)		\$45,237

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

Arizona Regional Job Growth

Metro	2012	August 2013*	
		% Growth	New Jobs
Phoenix	2.4%	2.4%	42,200
Tucson	1.5	0.5	1,700
Flagstaff	1.6	2.0	1,300
Prescott	2.0	-0.2	-100
Lake Havasu	-0.2	-2.2	-1,000
Yuma	2.8	-1.6	-800

*U. S. Bureau of Labor Statistics, *August 2013 vs. August 2012*

AZ Unemployment Rate Still High

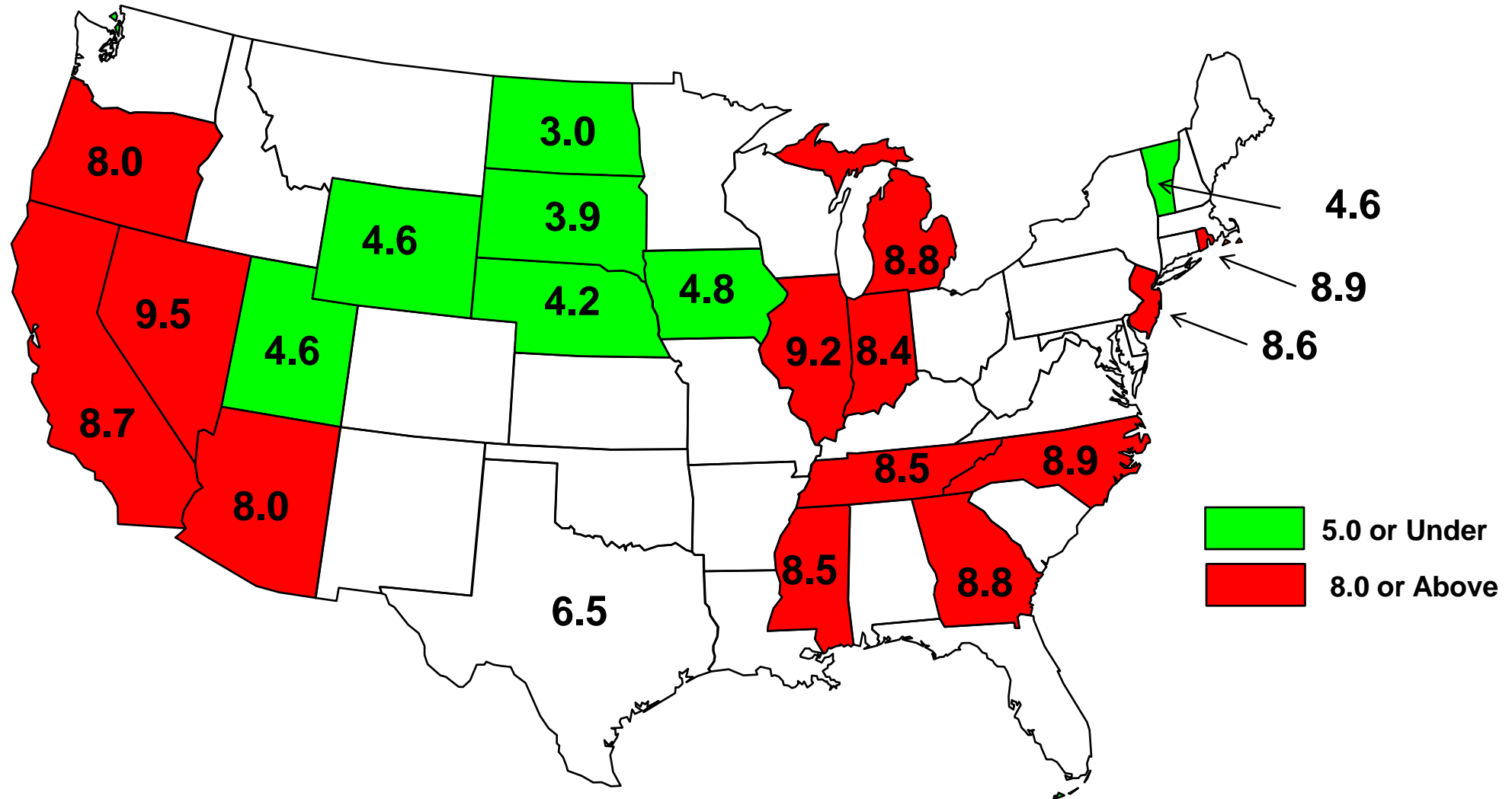
Region	Aug. 2013	Aug. 2012
USA	7.3%	8.1%
Arizona	8.3%	8.3%
Phoenix Metro*	7.4%	7.6%
Tucson Metro*	7.2%	7.8%
Prescott Metro*	8.5%	8.9%

US Bureau of Labor Statistics and AZ Dept of Administration

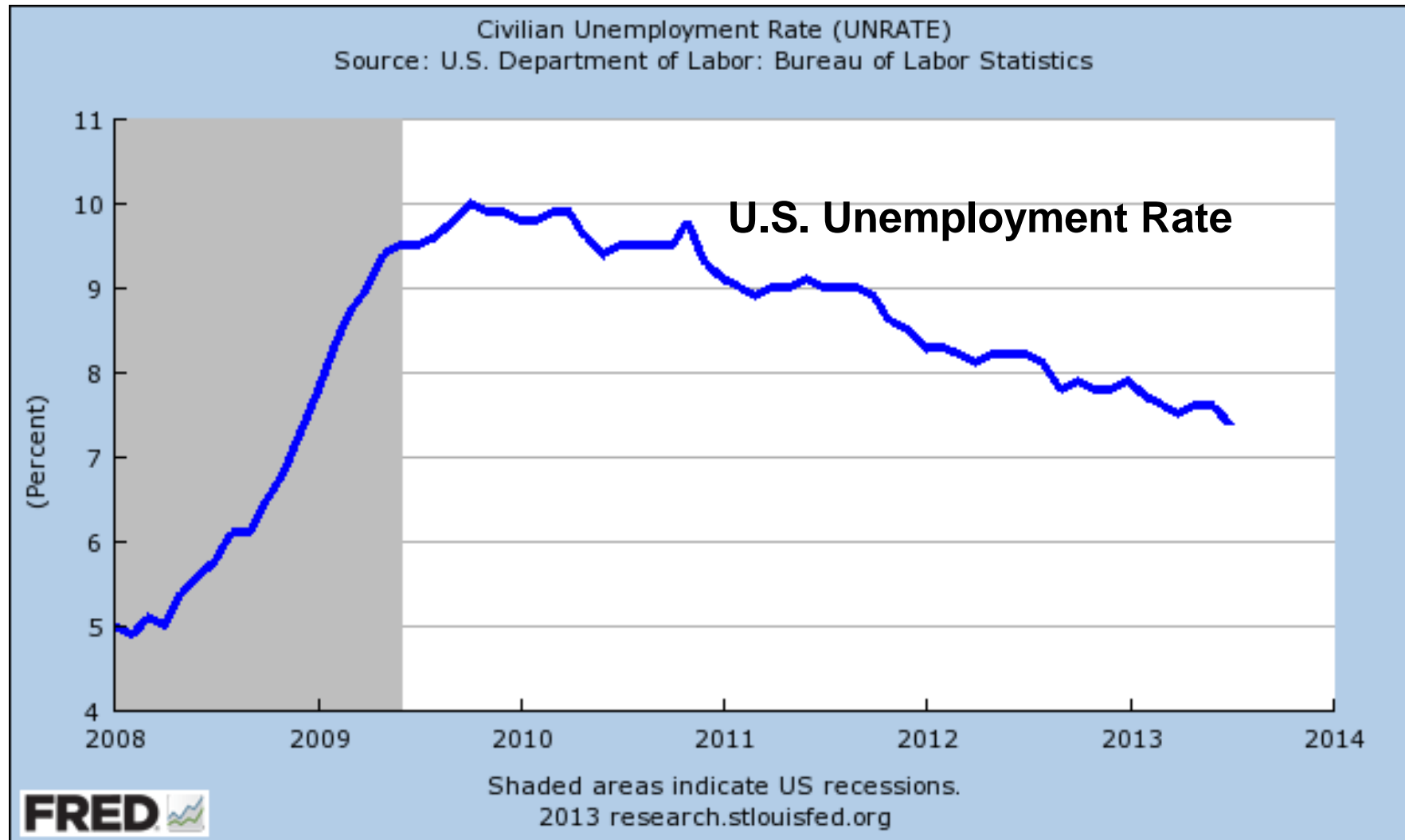
** unemployment rate not seasonally adjusted*

High & Low Unemployment

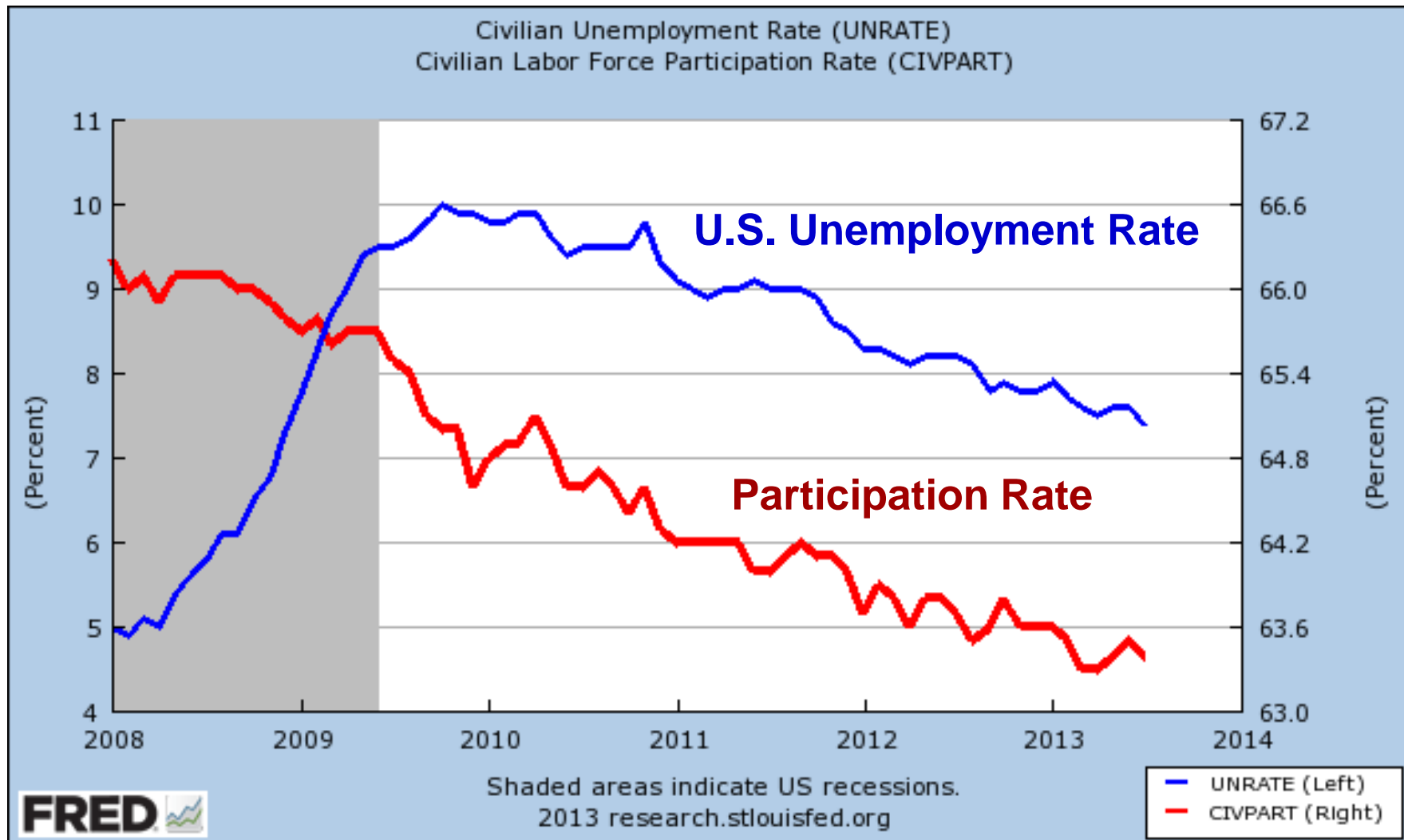
(U.S. BLS: Unemployment Rates: Mid Year 2013)



U.S. Unemployment Rate Has Declined Since 2009



But Labor Force Participation Has Fallen to 1980s Level



U.S. Economic Outlook: It's Getting Better (At a Snail's Pace)



**Are we
there
yet?**



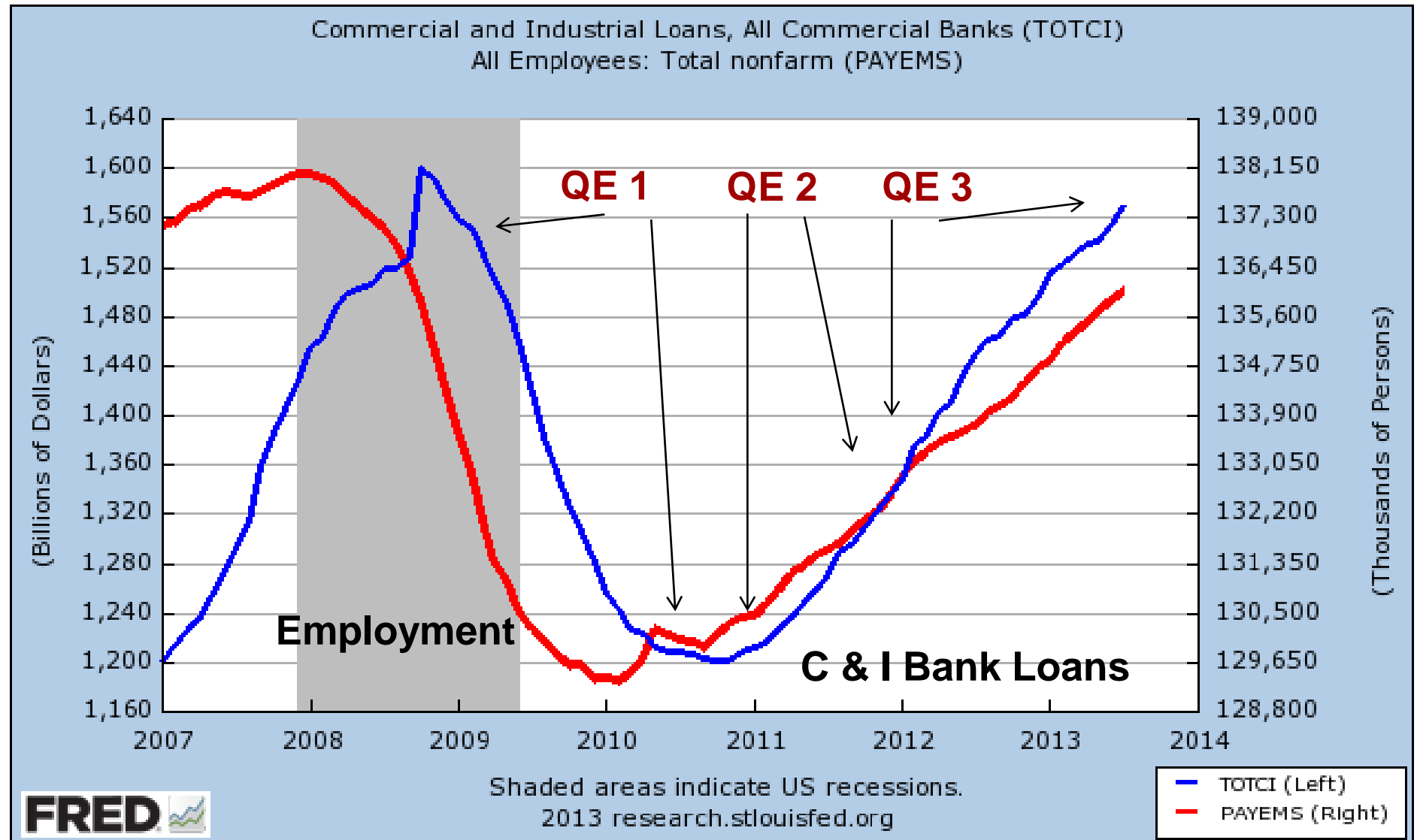
**Shut up
and
crawl.**

U.S. Economic Outlook

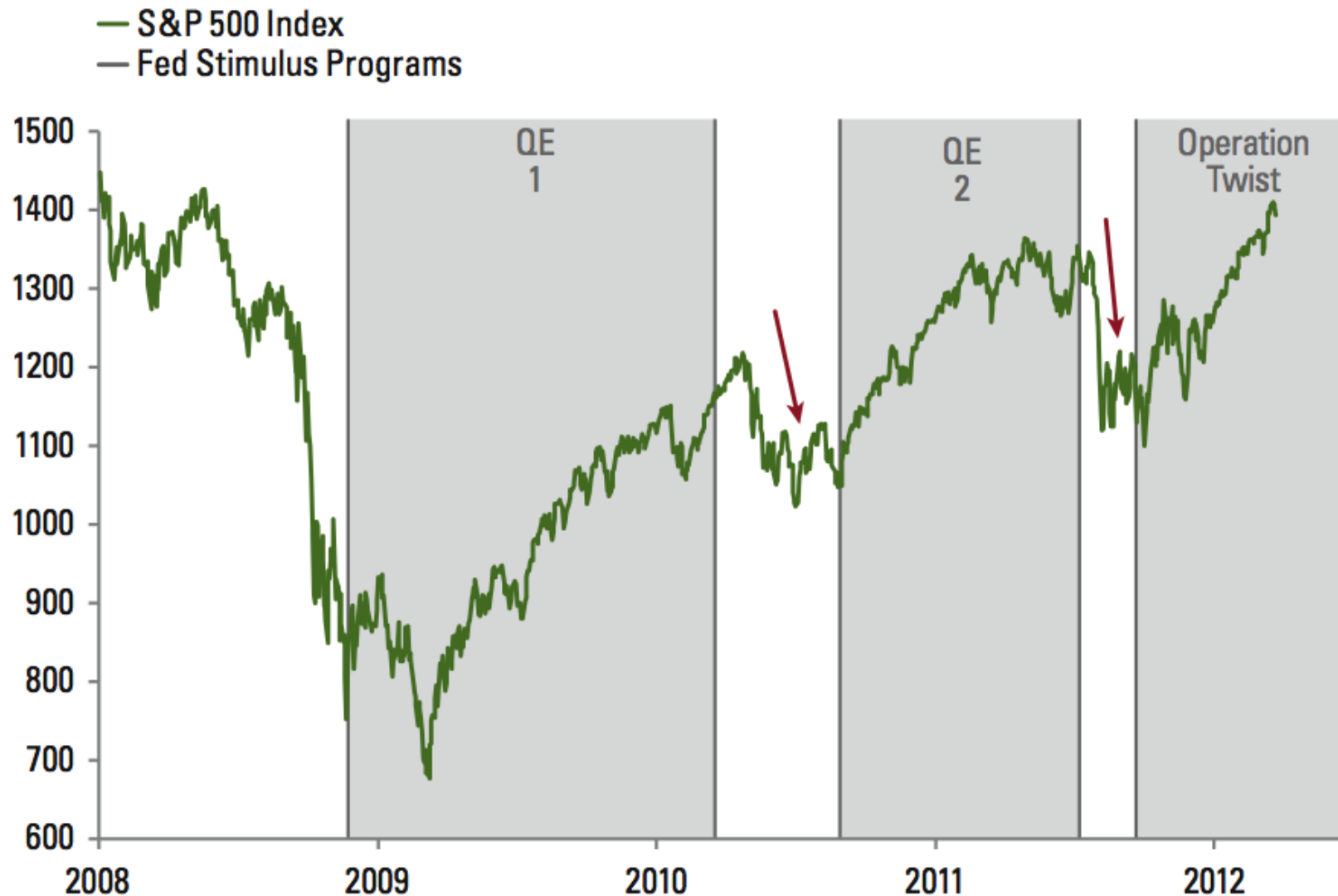
**Budget Sequester, Uncertainty, and
Slow Global Growth Weaken U.S. GDP**

Indicator	2012	2013	2014
Real GDP Growth	2.8%	1.6%	2.6%
10 Year Treasury Note	1.8%	2.4%	3.1%
Inflation (CPI)	2.1%	1.5%	1.9%
Employment (Jobs)	2.2 mil.	2.3 mil.	2.4 mil.
Unemployment Rate	8.1%	7.5%	7.0%

Have Fed Policies Helped Real Economy?



Or Mostly Boosted the Stock Market?



Source: LPL Financial, Bloomberg Data 03/23/12

(Shaded areas represent Fed programs from the date of announcement until termination)

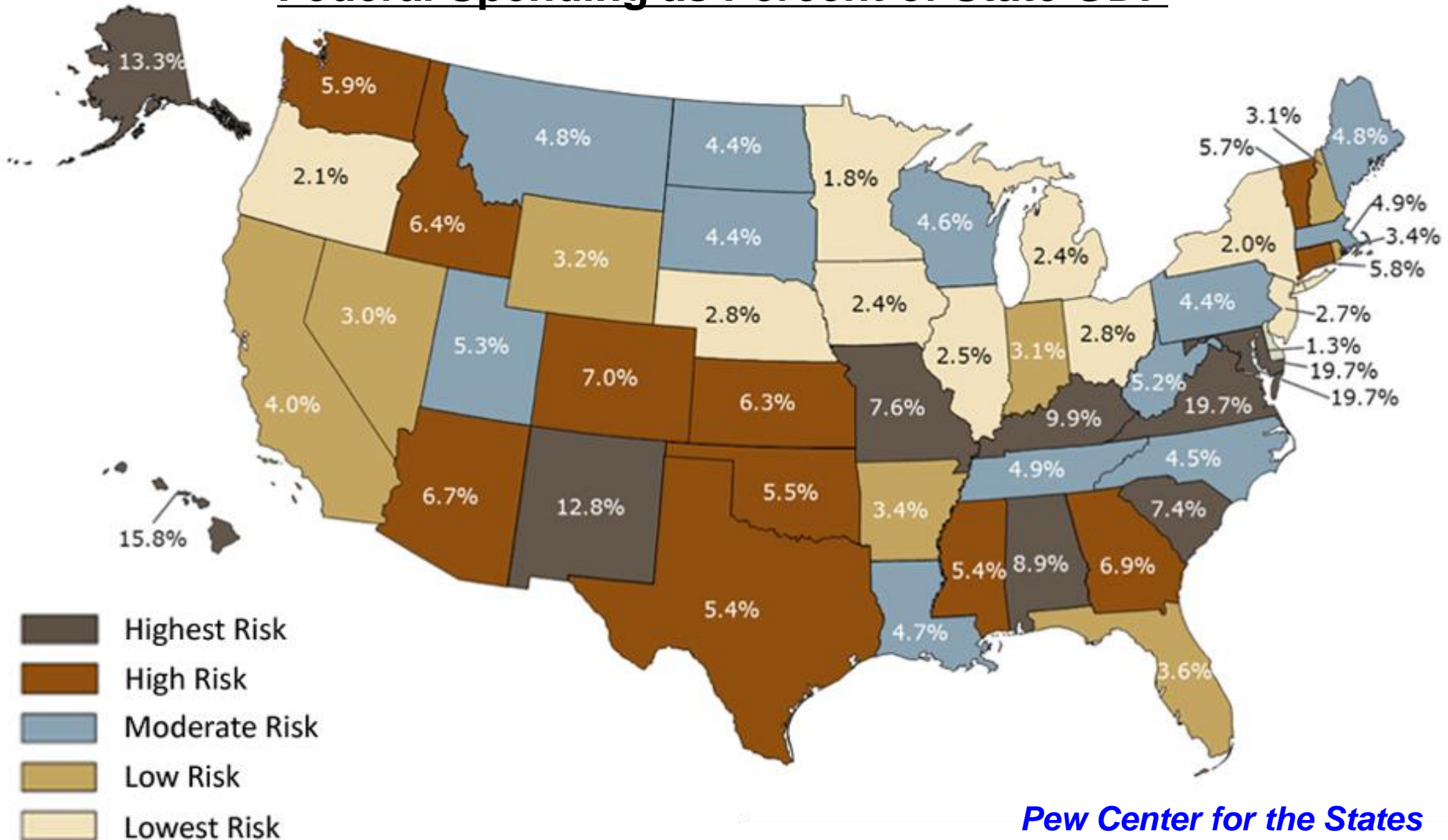
ARIZONA Economic Forecast

Major Arizona Risk – U.S. Economy

Indicator	2012	2013	2014
Personal Income (%)	3.7	4.0	5.0
Employment (%)	2.0	2.5	2.8
Single Family Permits (%)	56	25	35
Population (%)	1.3	1.4	1.6

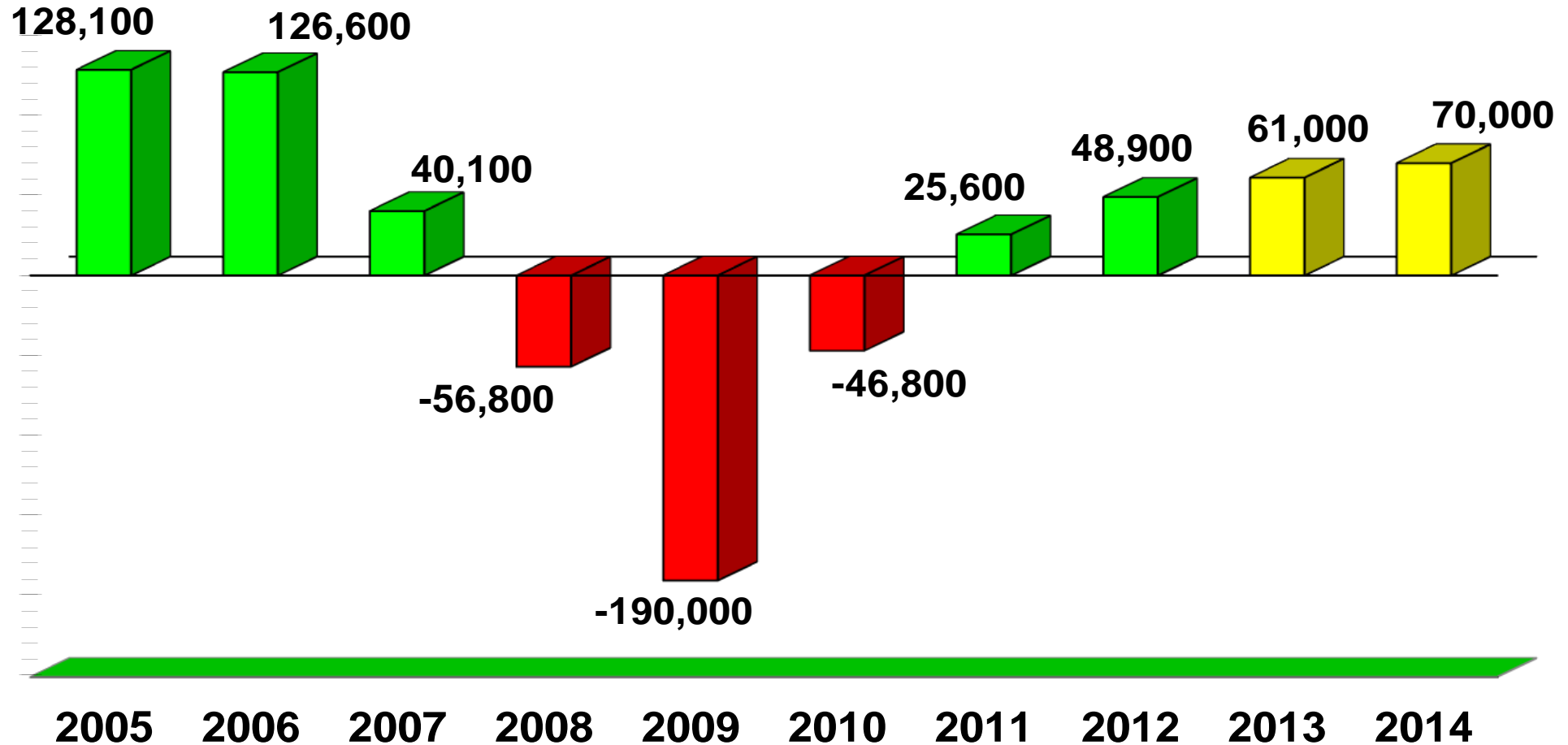
Arizona At Risk For Spending Cuts

Federal Spending as Percent of State GDP



2013 Employment: 61,000 New Jobs

Annual Numeric Change In Arizona Employment



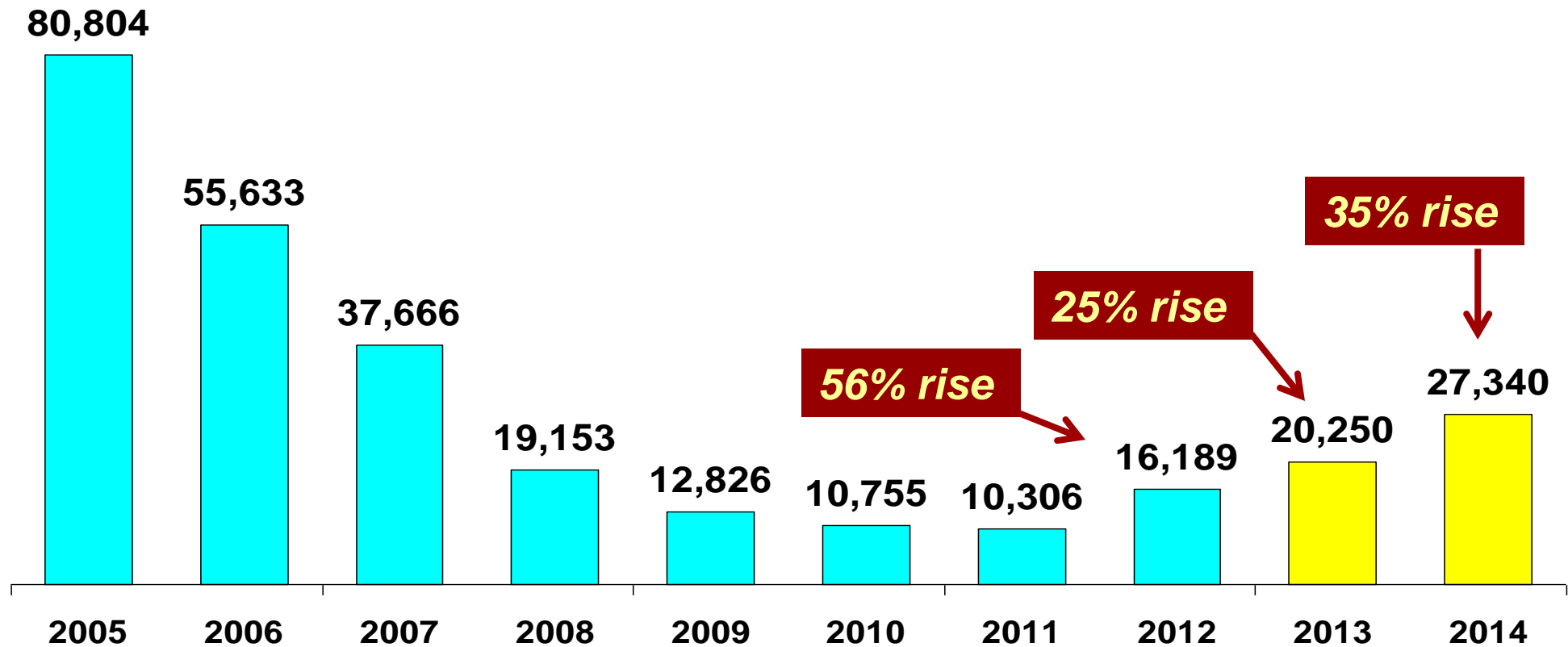
Arizona Job Growth Outlook

Metro	2011	2012	2014
Phoenix	1.4%	2.1%	3.0%
Tucson	0.1	0.8	2.0
Lake Havasu	-0.4	-0.1	0.6
Flagstaff	-0.5	-0.7	2.5
Yuma	-1.0	-0.2	0.7
Prescott	-1.3	1.0	1.3

Source: W. P. Carey School of Business

Home Building Slowly Recovering

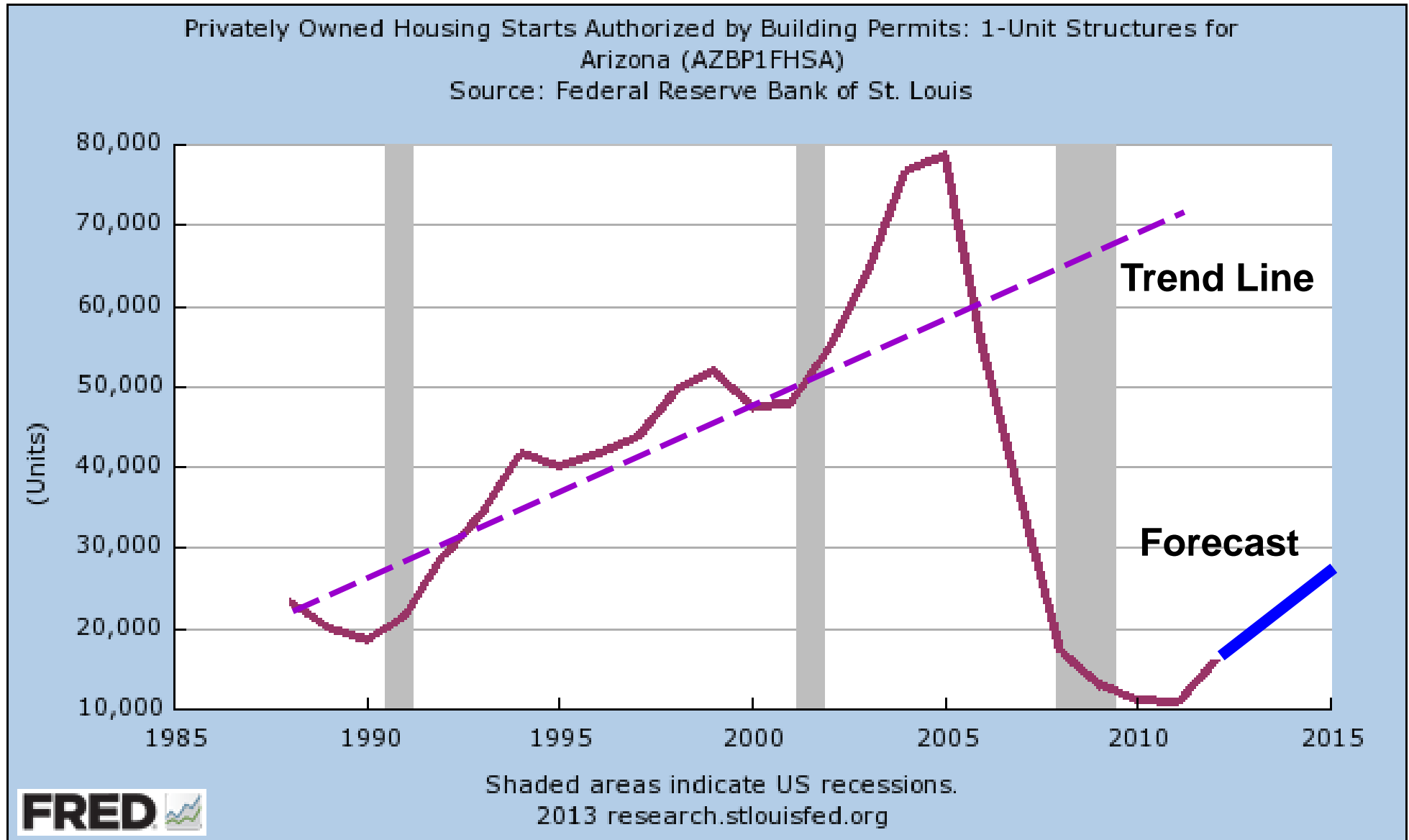
Arizona Single Family Permits 2005 - 2014



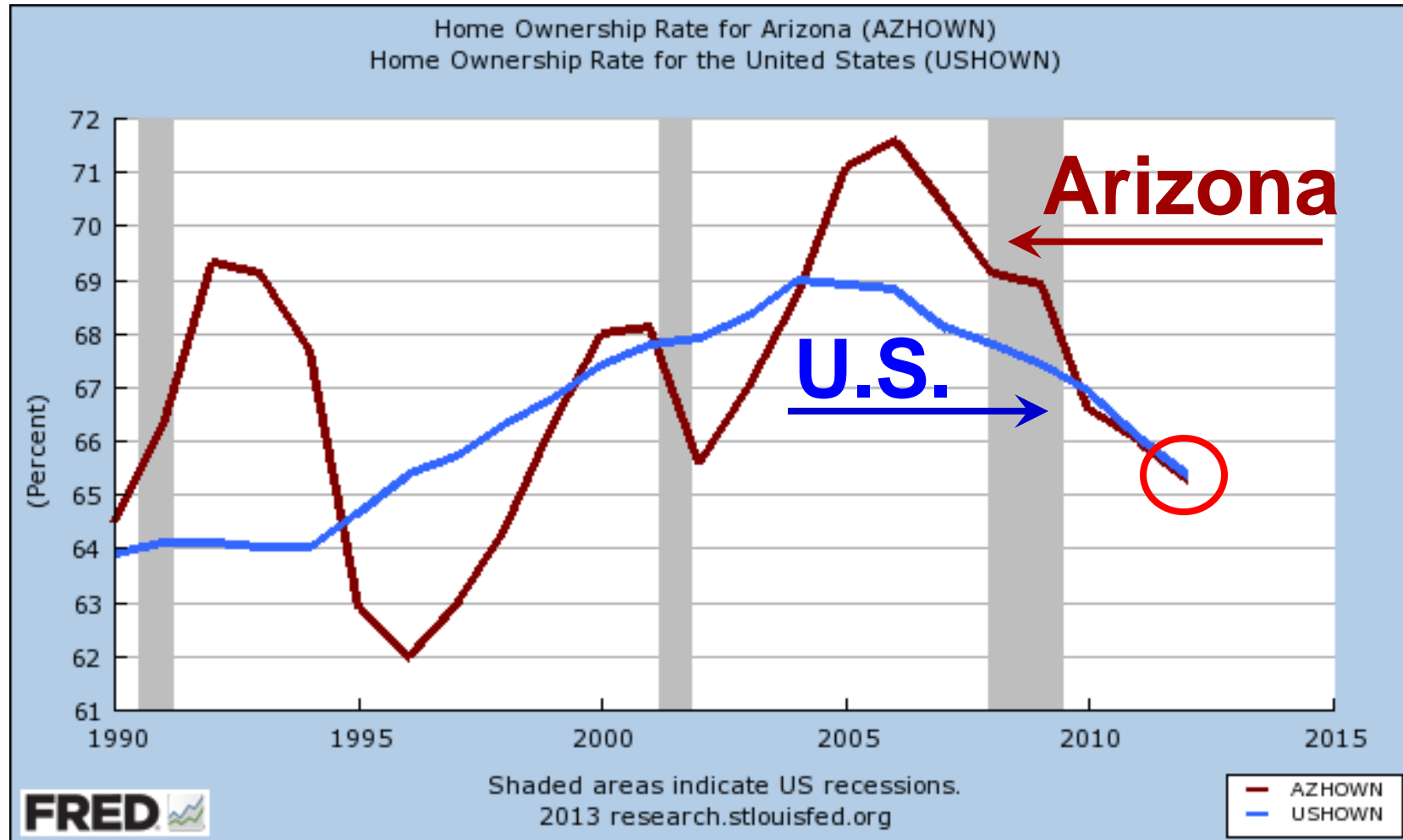
W. P. Carey School of Business, ASU & Arizona Blue Chip Forecast

Forecast

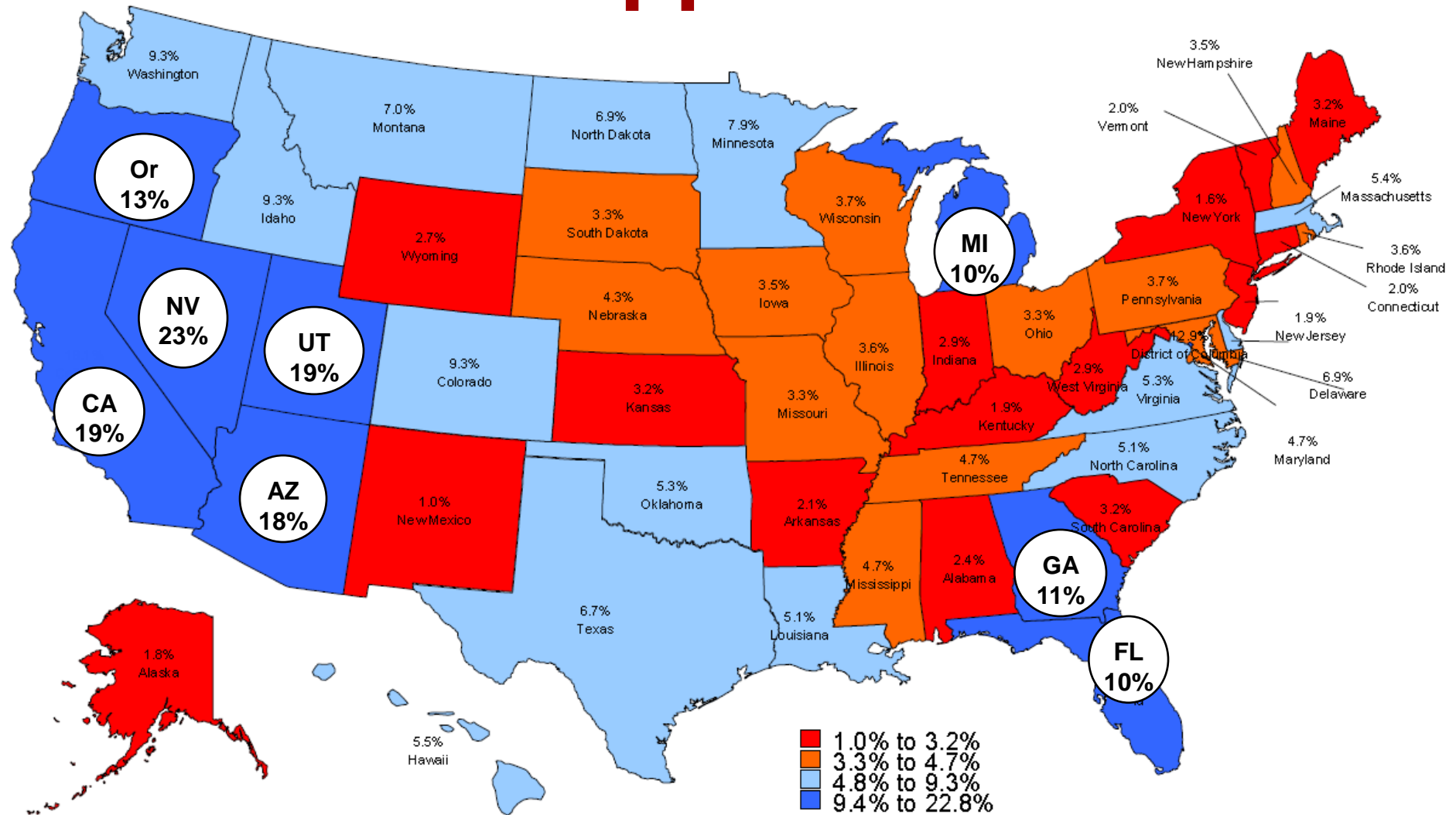
Arizona Housing Far Below Trend



Arizona Home Ownership Rate Declines In Step With U. S.



Western States Lead in Housing Price Appreciation



U.S. FHFA, 1 year increase as of June 2013

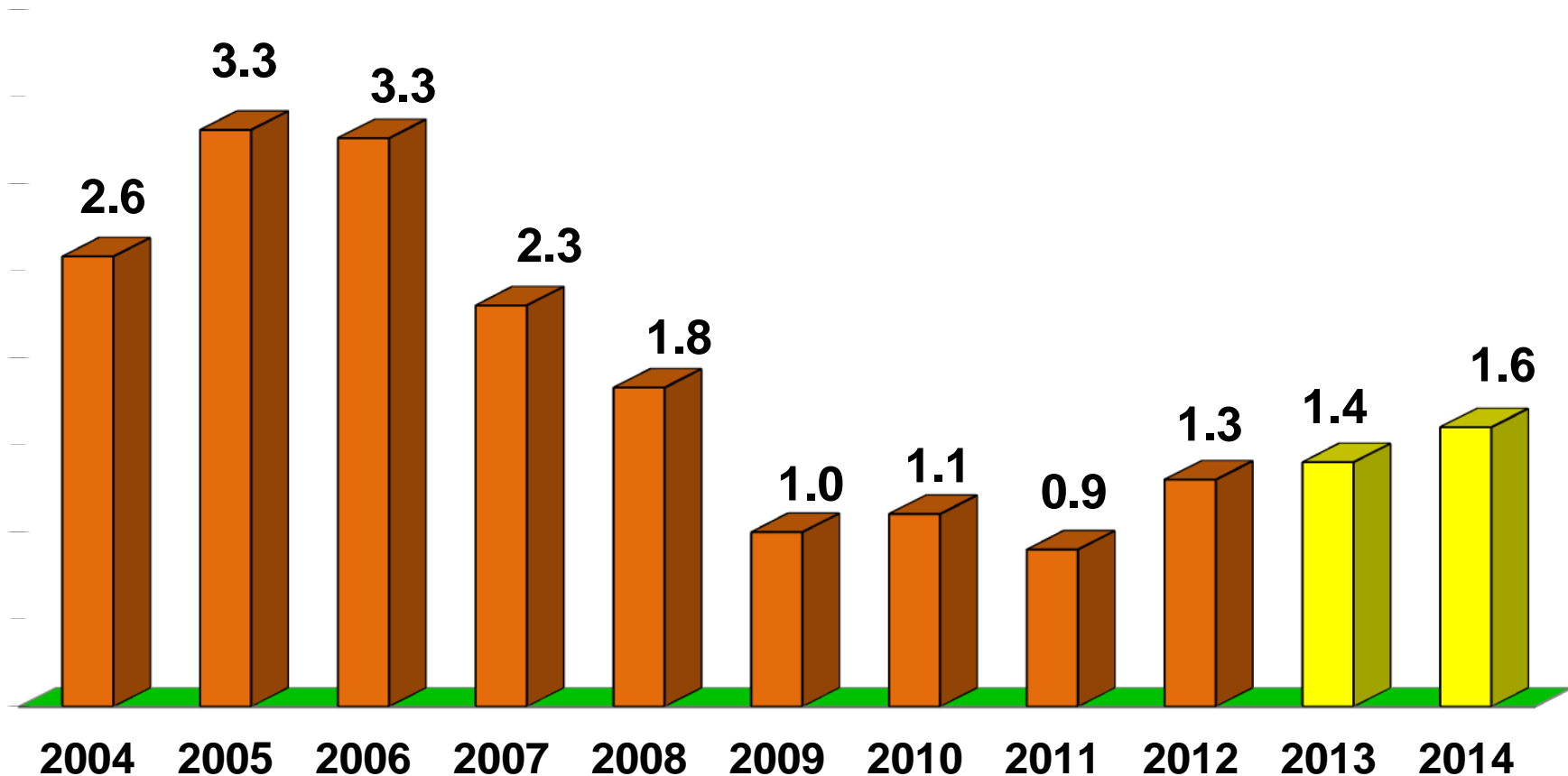
Arizona Single Family Permits

Metro	2011	2012	2014
Phoenix	7,297	11,931	23,000
Tucson	1,388	2,175	4,600
Yuma	358	554	920
Prescott	290	444	1,300
Lake Havasu	194	323	1,010
Flagstaff	98	206	400

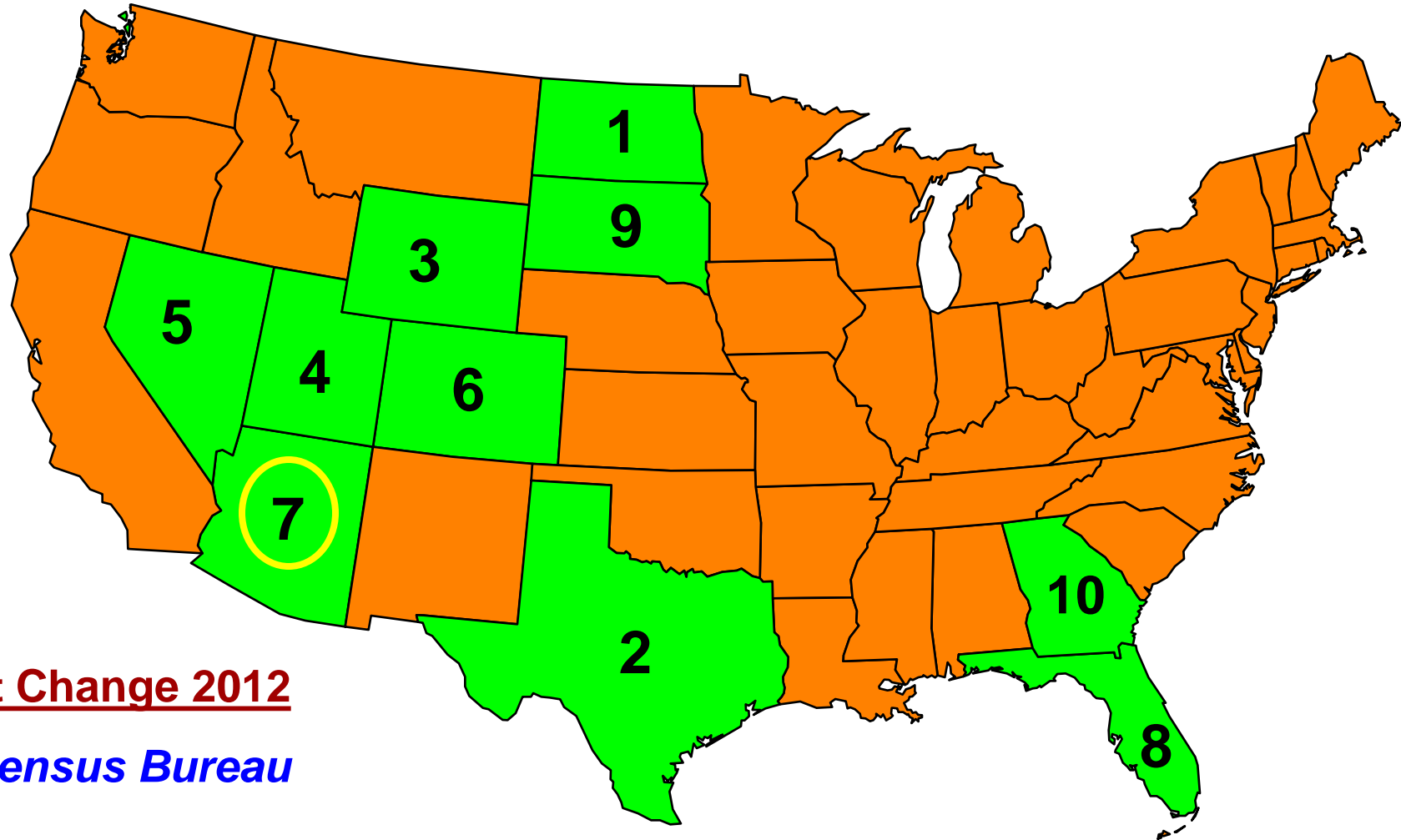
2014 Population Growth: 1.6%

Key Ingredient for Stronger Recovery

Annual Percent Change



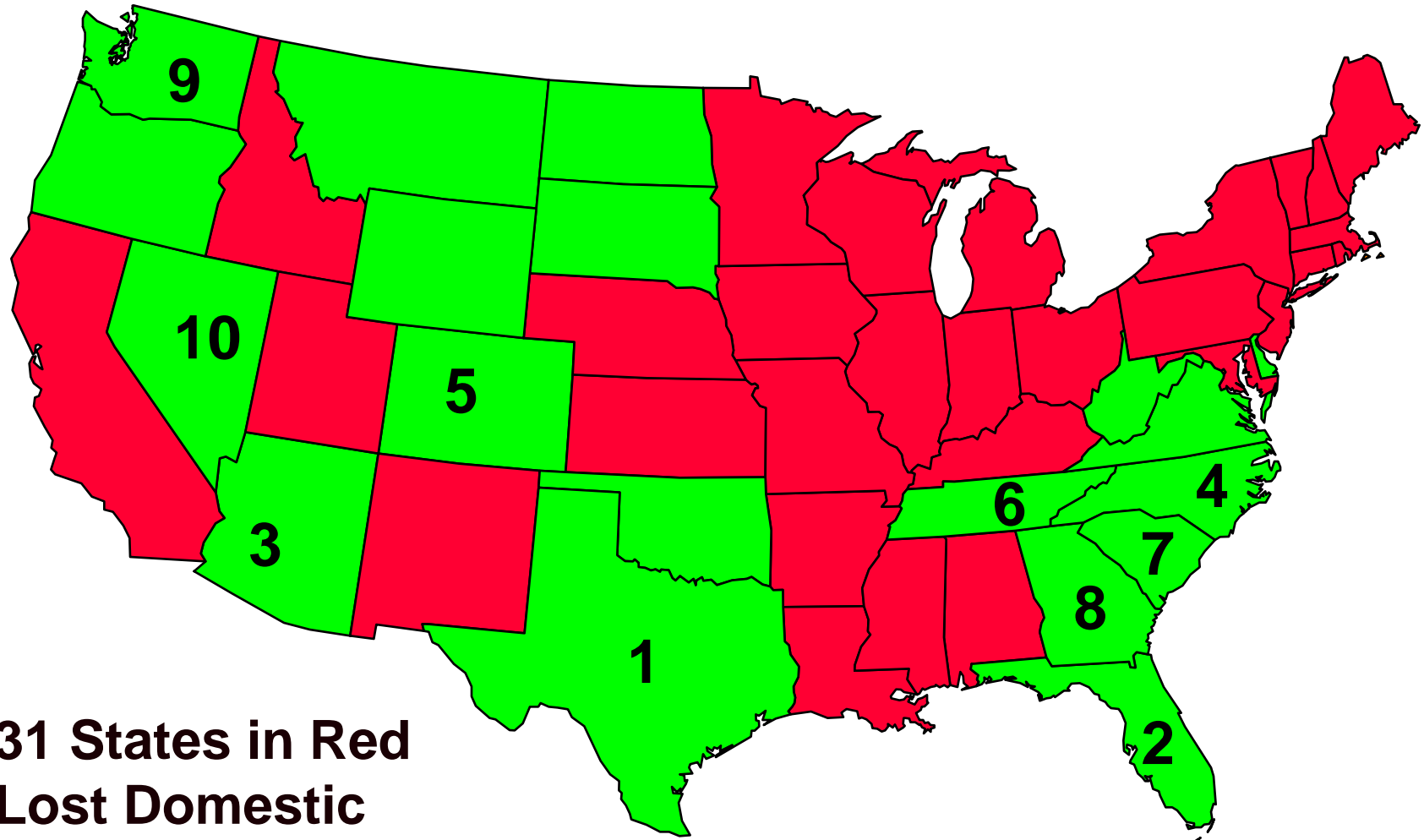
Arizona Population Growth Was Slow But Still Top 10 in 2012



Percent Change 2012

U. S. Census Bureau

Texas, Florida, Arizona Attracted Most Domestic Migrants in 2012



Alaska
Hawaii

31 States in Red
Lost Domestic
Population to 19 States in Green

U.S. Census Bureau

Arizona Now Larger Than:

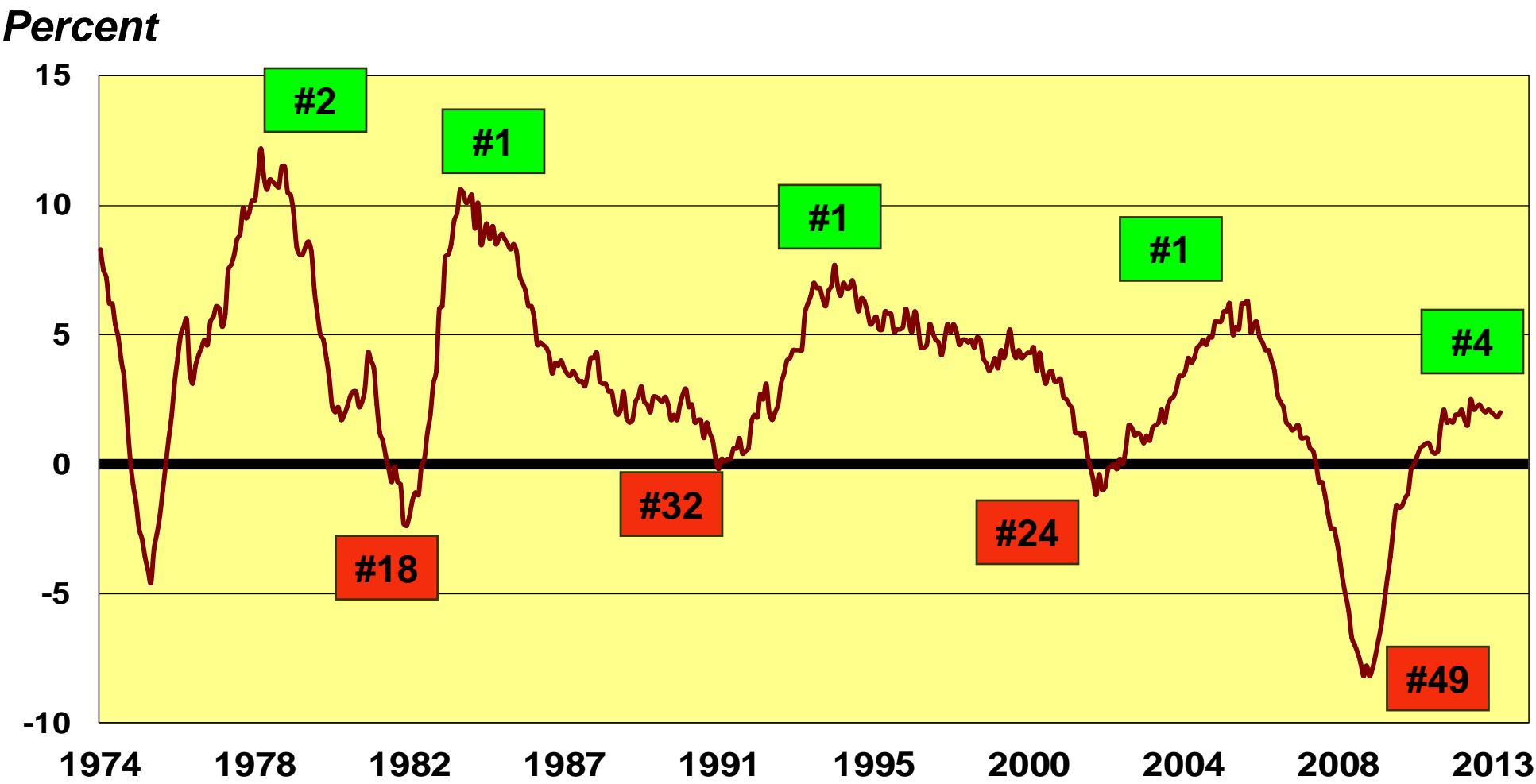
- Missouri
- Maryland
- Wisconsin
- Minnesota
- Colorado



Passed Indiana in 2012

Arizona Comes Back From Recession

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



Arizona Economic Outlook Summary

- **2013 - better than most states - but 7th lean year of subpar Arizona growth**
 - **Population growth improves (+1.4%)**
 - **Employment gains are moderate (+2.5%)**
 - **Major risk is continued ineffective growth policies at national level**
-

The Arizona Outlook In an Uncertain Economy

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SCHOOL *of* BUSINESS

ARIZONA STATE UNIVERSITY