



US/ARIZONA Economic Update & Outlook

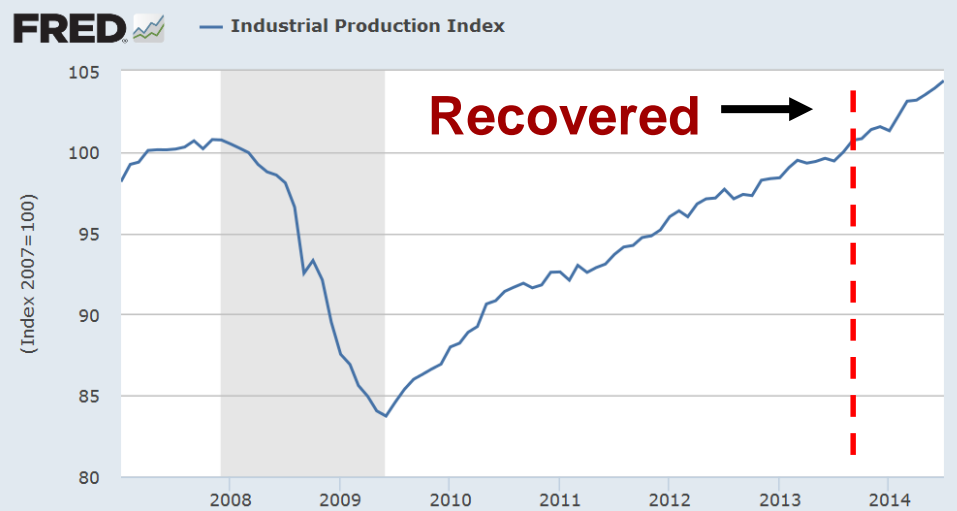
ARIZONA HOUSING FORUM

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September 12, 2014

Economic Update & Outlook

- **Is It Getting Better – or Worse?**
- **It's All Getting Better – Slowly**
- **Waiting for Drivers of Growth**
- **3% Increase in GDP in 2015?**
- **Arizona Not out of the woods yet**



At Record High

Industrial Production

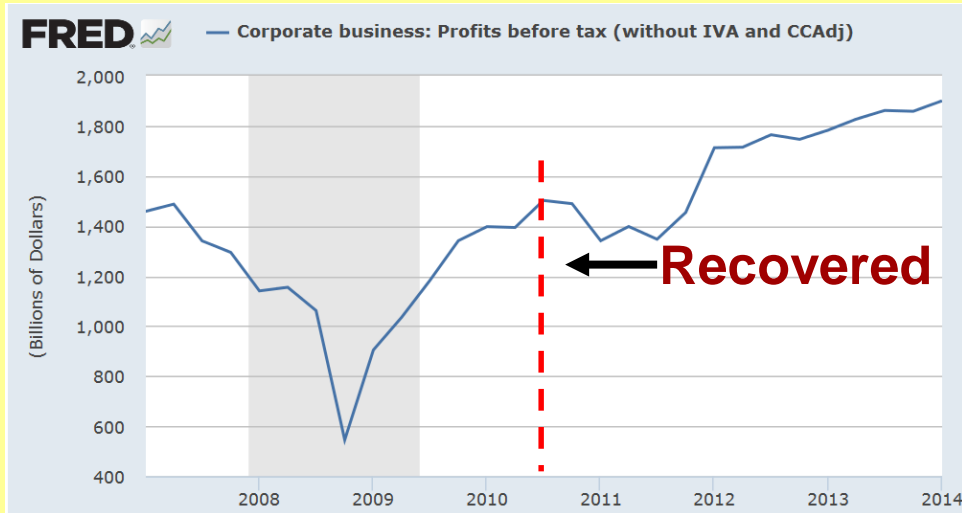
**Recovered 2013 Q3
(After 6 years)**



At Record High

S&P 500 Index

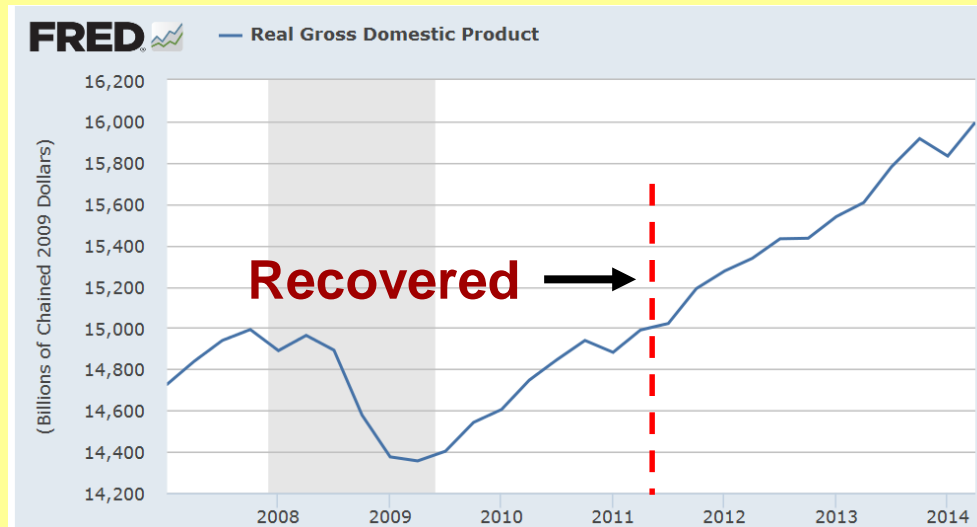
**Recovered 2013 Q1
(After 6 Years)**



At Record High

Corporate Profits

**Recovered 2010 Q3
(after 4 years)**



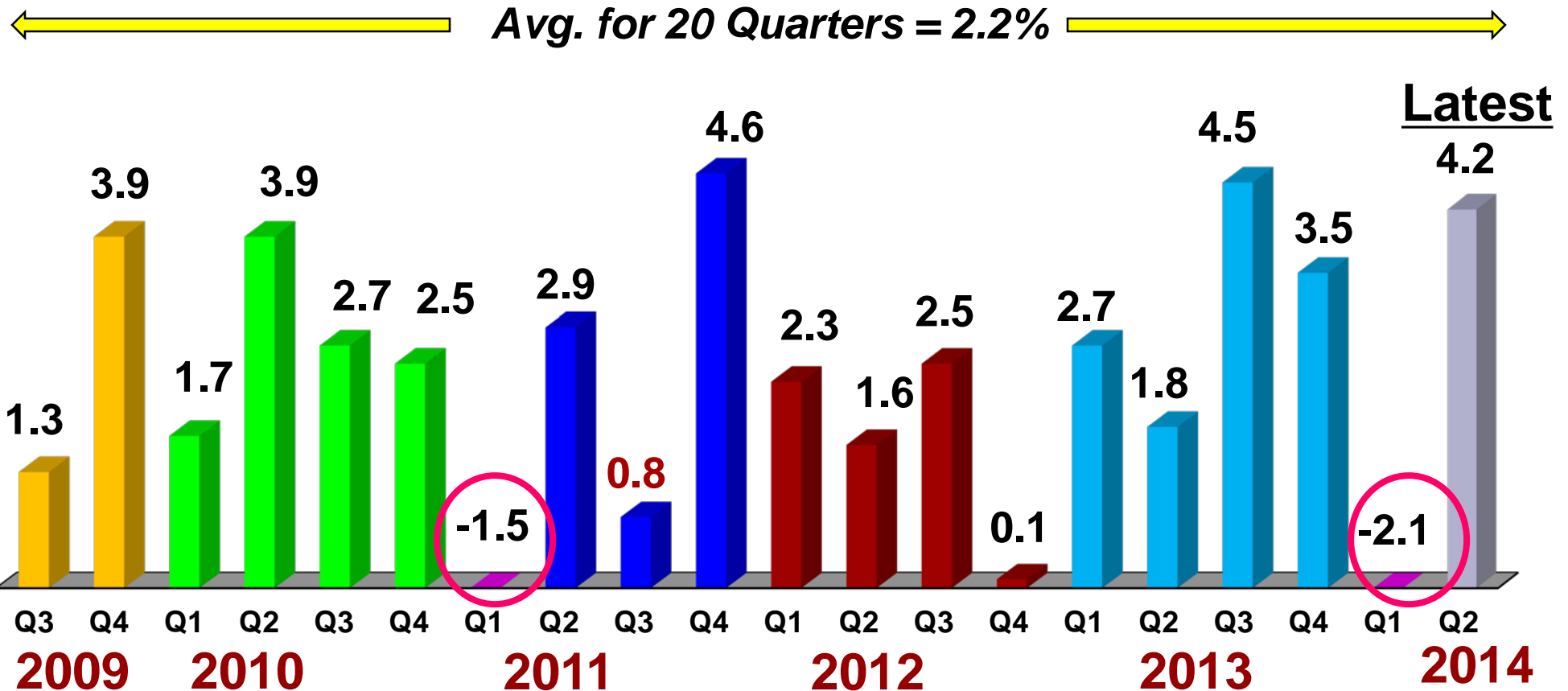
At Record High

Real GDP

**Recovered 2011 Q2
(After 3 Years)**

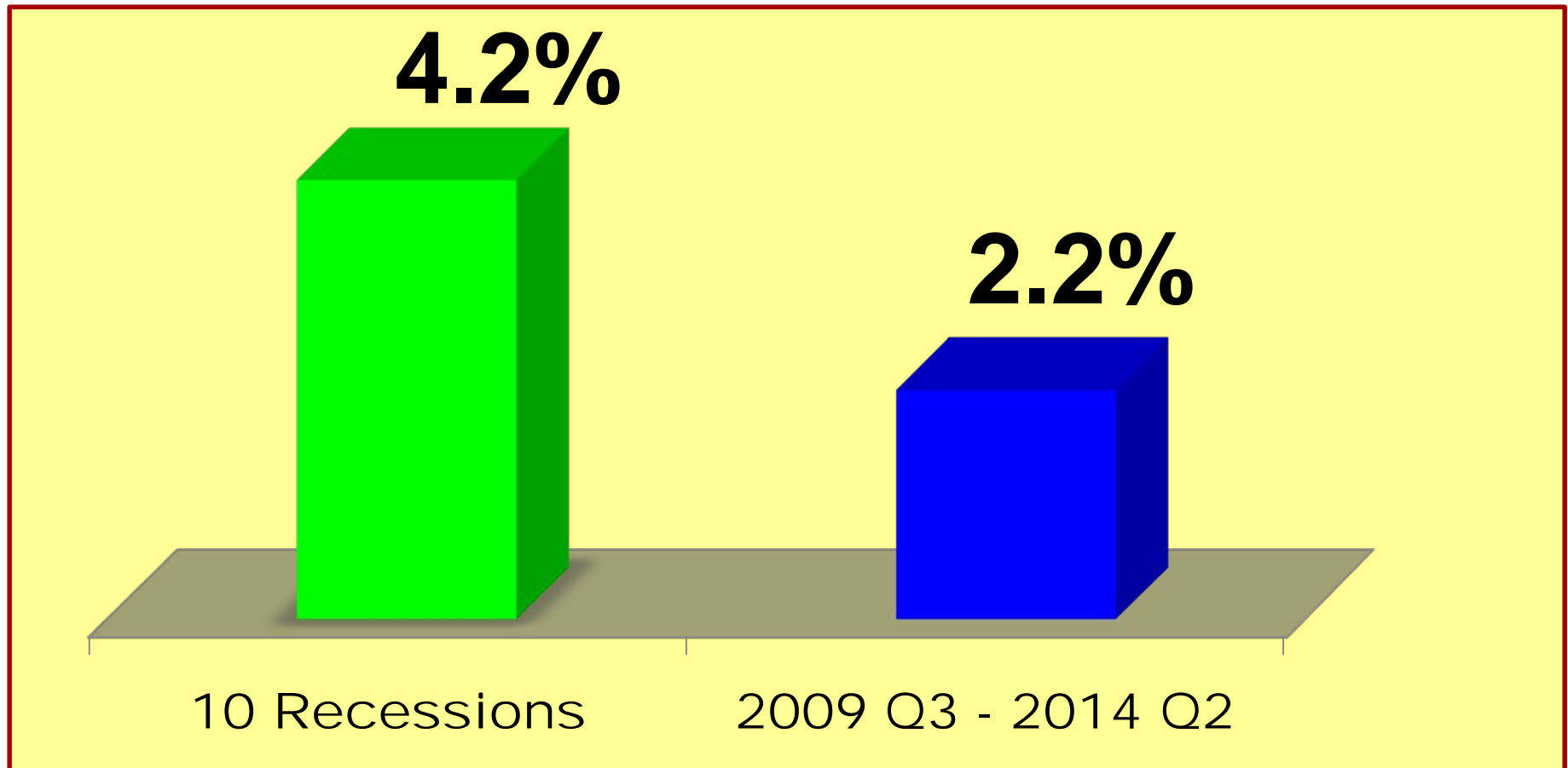
GDP Surged in Q2 2014

(Percent Change Real GDP)



U. S. Bureau of Economic Analysis, July 30, 2014

GDP 20 Quarter Recovery At Below Average Pace



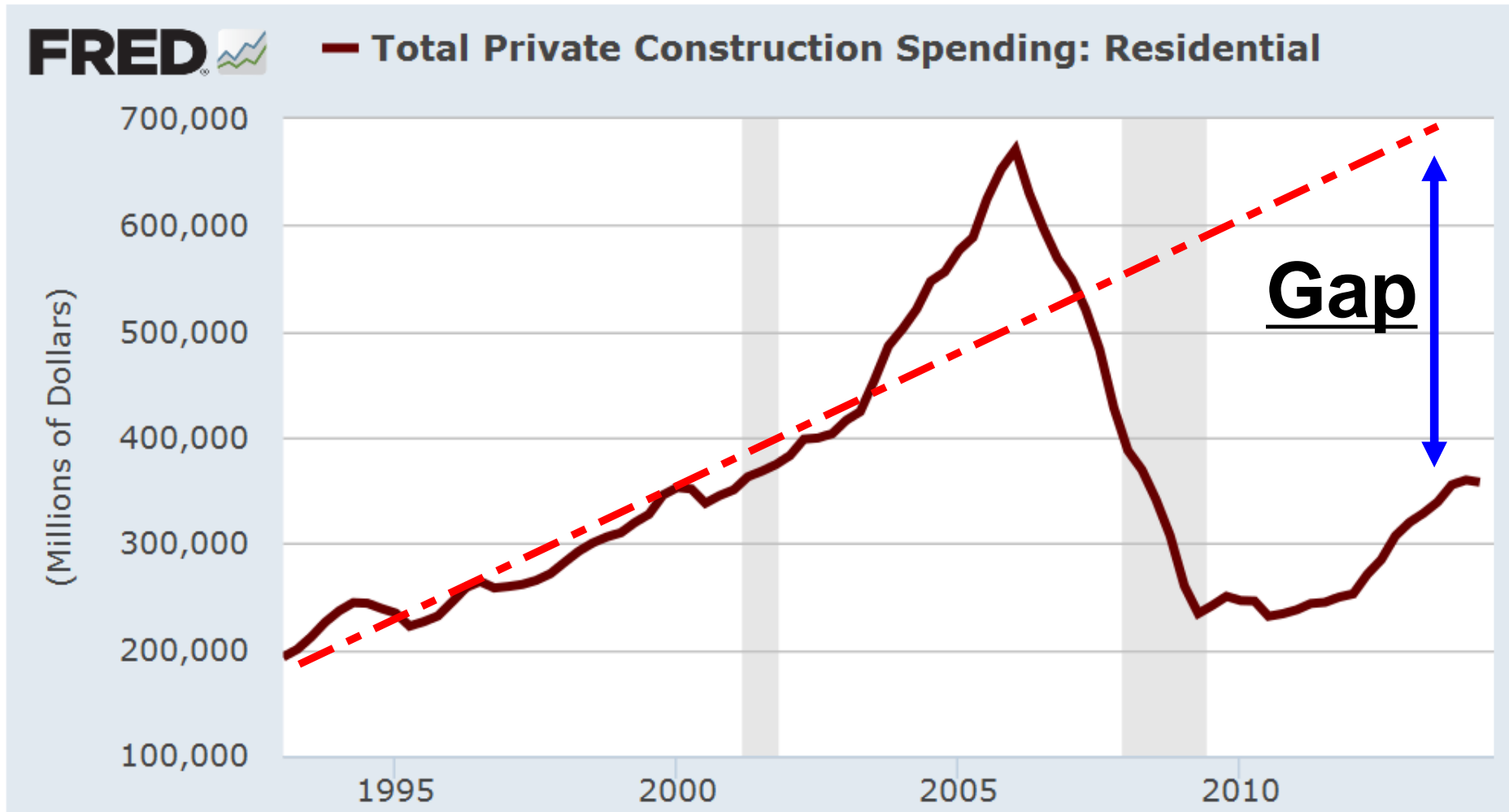
U. S. Bureau of Economic Analysis, average growth 20 quarters post recession

2014 GDP Off to A Slow Start

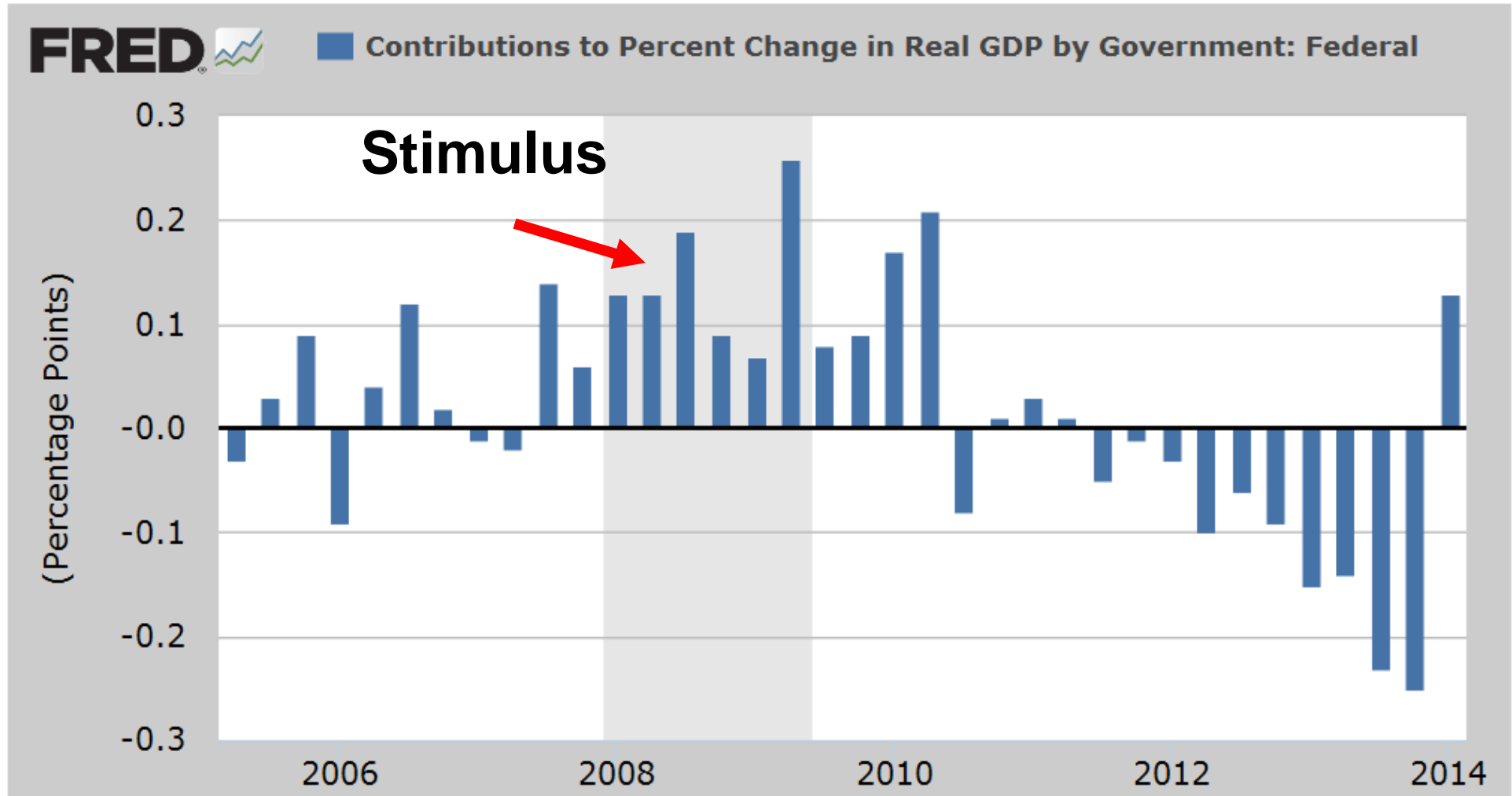
GDP Component	2013 Growth	2014 1st Half
U. S. GDP (Output)	2.2%	1.1% ↓
Consumer Spending	2.4	1.9 ↓
Gross Investment	4.9	5.3 ↑
<i>Residential Construction</i>	11.9	1.0 ↓
<i>Non-Resid. Construction</i>	-0.5	6.2 ↑
Government Spending	-2.0	0.3

U. S. Bureau of Economic Analysis, GDP Accounts, inflation adjusted

Residential Construction is Far Below Prior Trend Line

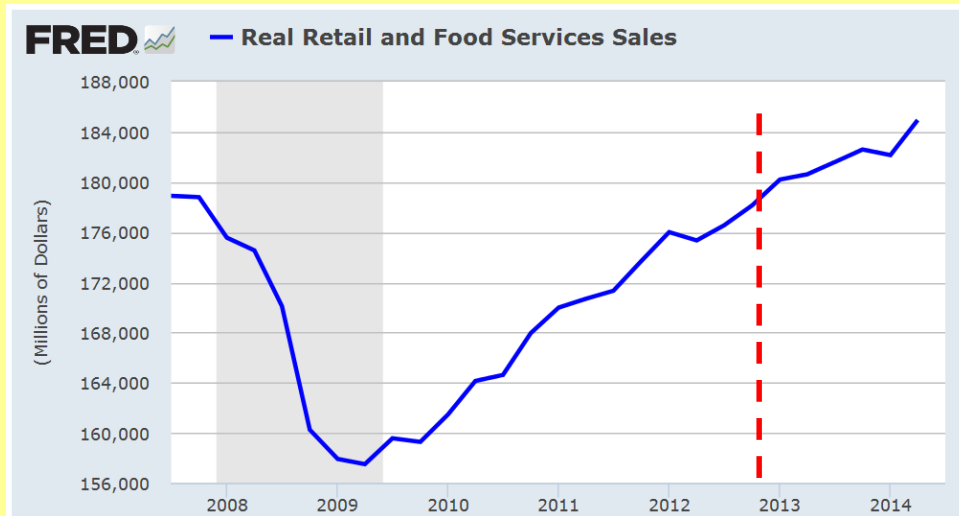


Government Contribution to GDP Turned Negative During Recovery



Consumer is Key to GDP

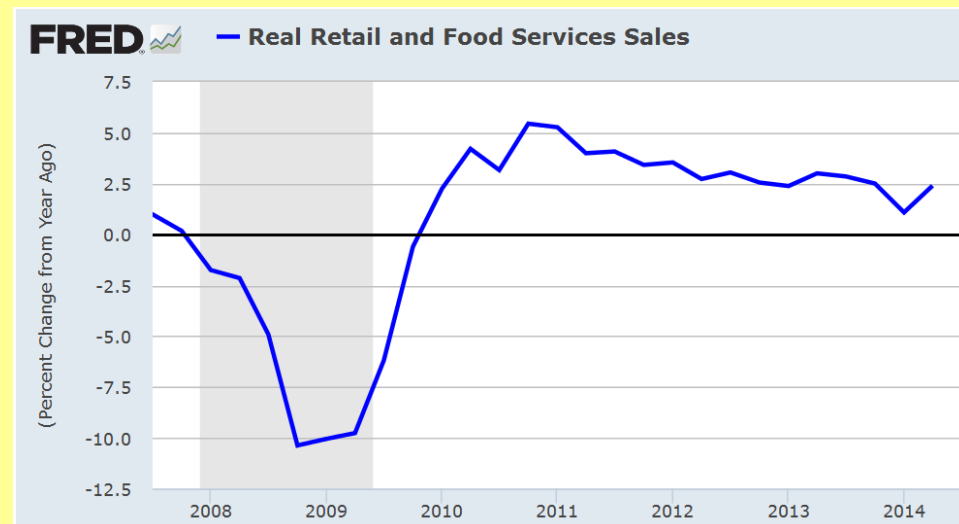
- **Accounts for 70% of GDP...but..**
- **Consumer not driving recovery**
- **Paying off debt & saving more**
- **Long-term growth 3.6% year**
- **1st half growth in low gear (1.9%)**
- **Inequality & Income an issue**



At Record High

Real Retail Sales

**Recovered 2012 Q4
(after 5 years)**



**But Year-Over-Year Real
Retail Sales Growth Has
Flattened Out at 2.5%/Yr**

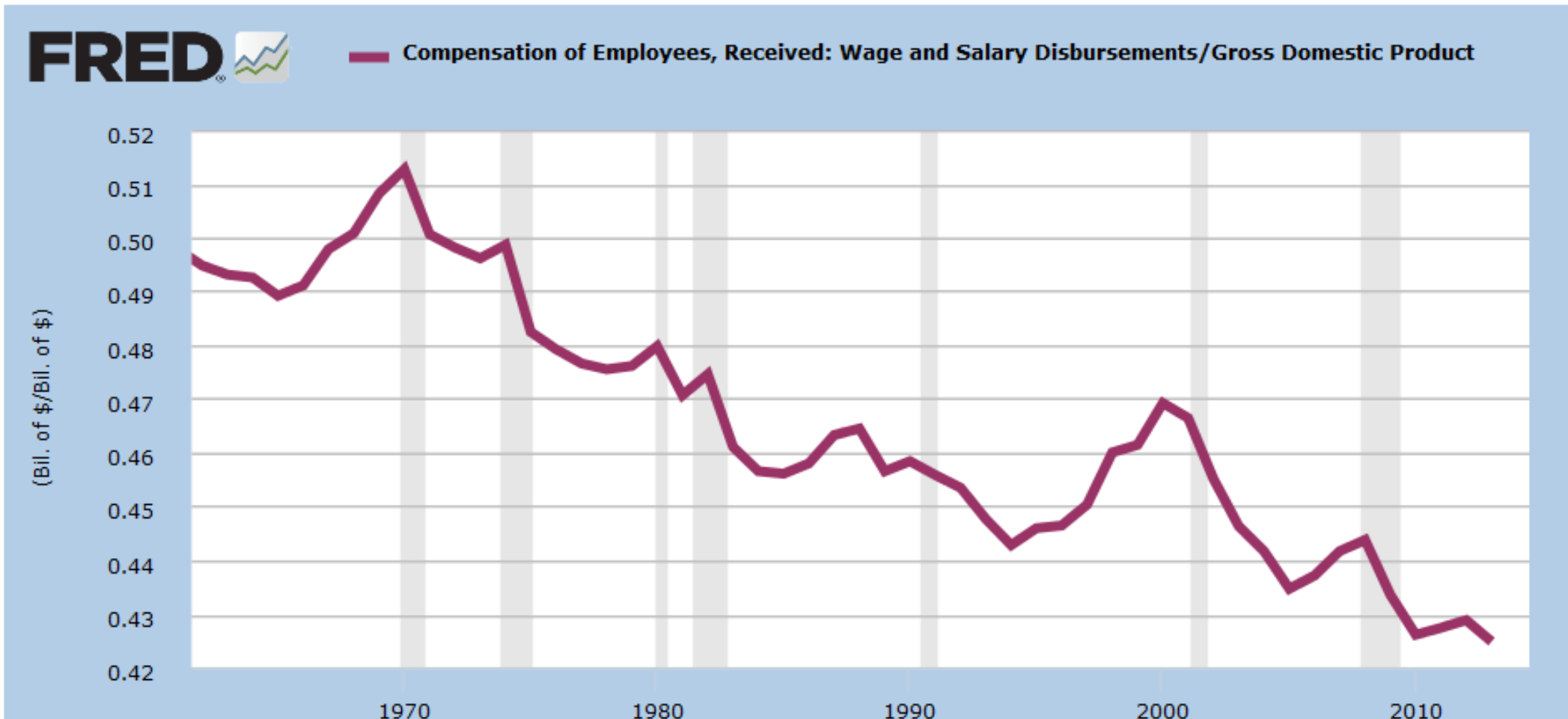
Why Consumers Worry: American Dream Elusive



Worry Meter

- **Middle Class Struggles**
- **Still Paying Off Debt**
- **Real Incomes Stagnant**
- **Job Growth Slow**
- **Unemployment High**

Wages as Percent of U.S. GDP Have Declined Since 1970s

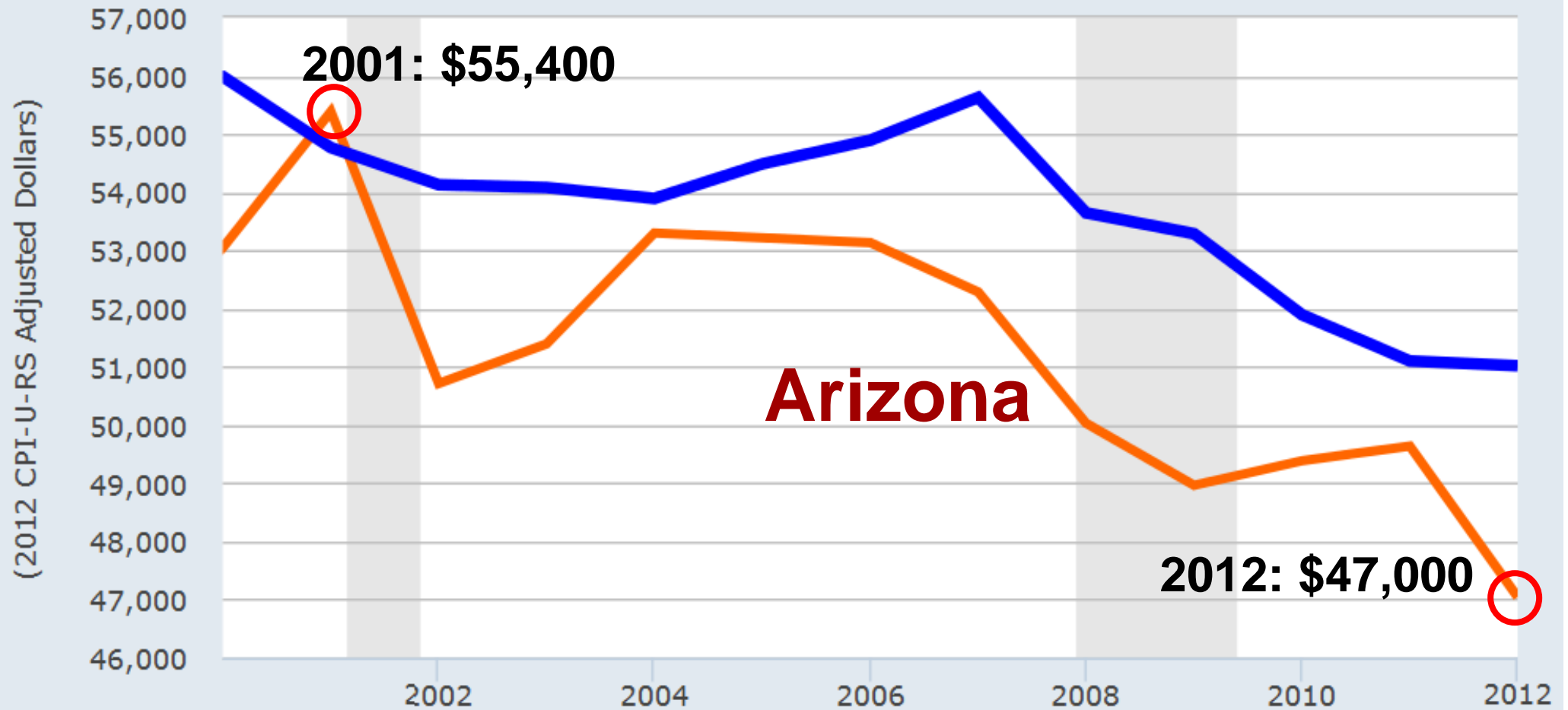


U.S. Bureau of Economic Analysis

Arizona Real Income Follows U.S.

FRED 

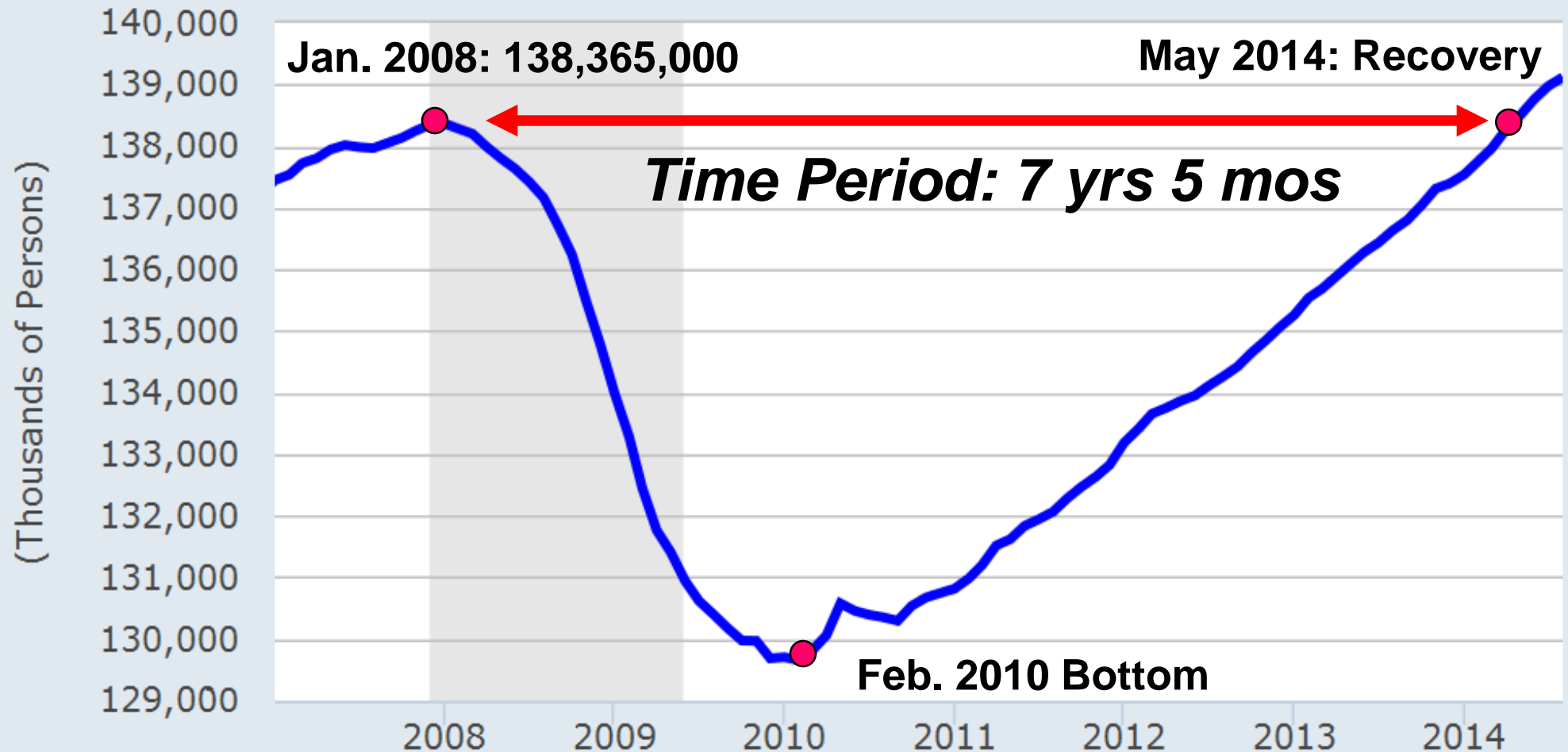
— Real Median Household Income in Arizona
— Real Median Household Income in the United States



U.S. Regains Lost Jobs – Finally!

FRED 

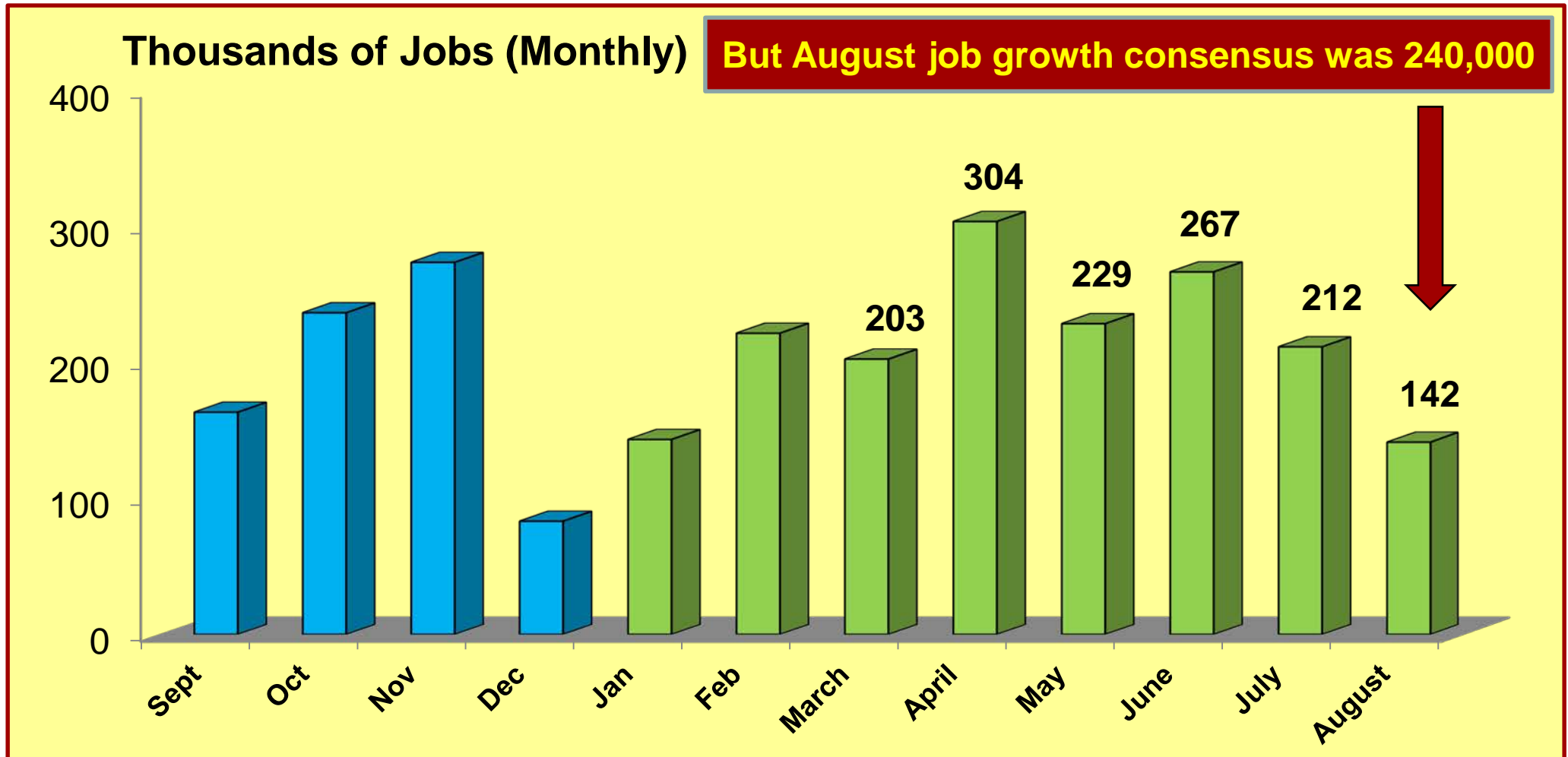
— All Employees: Total nonfarm



U. S. Bureau of Labor Statistics, Seasonally Adjusted

U.S. Job Growth Improves in 2014

6 Month Avg. Growth: 226,000/month



U. S. Bureau of Labor Statistics, Payroll Employment, Seasonally Adjusted

Which Statement is True?

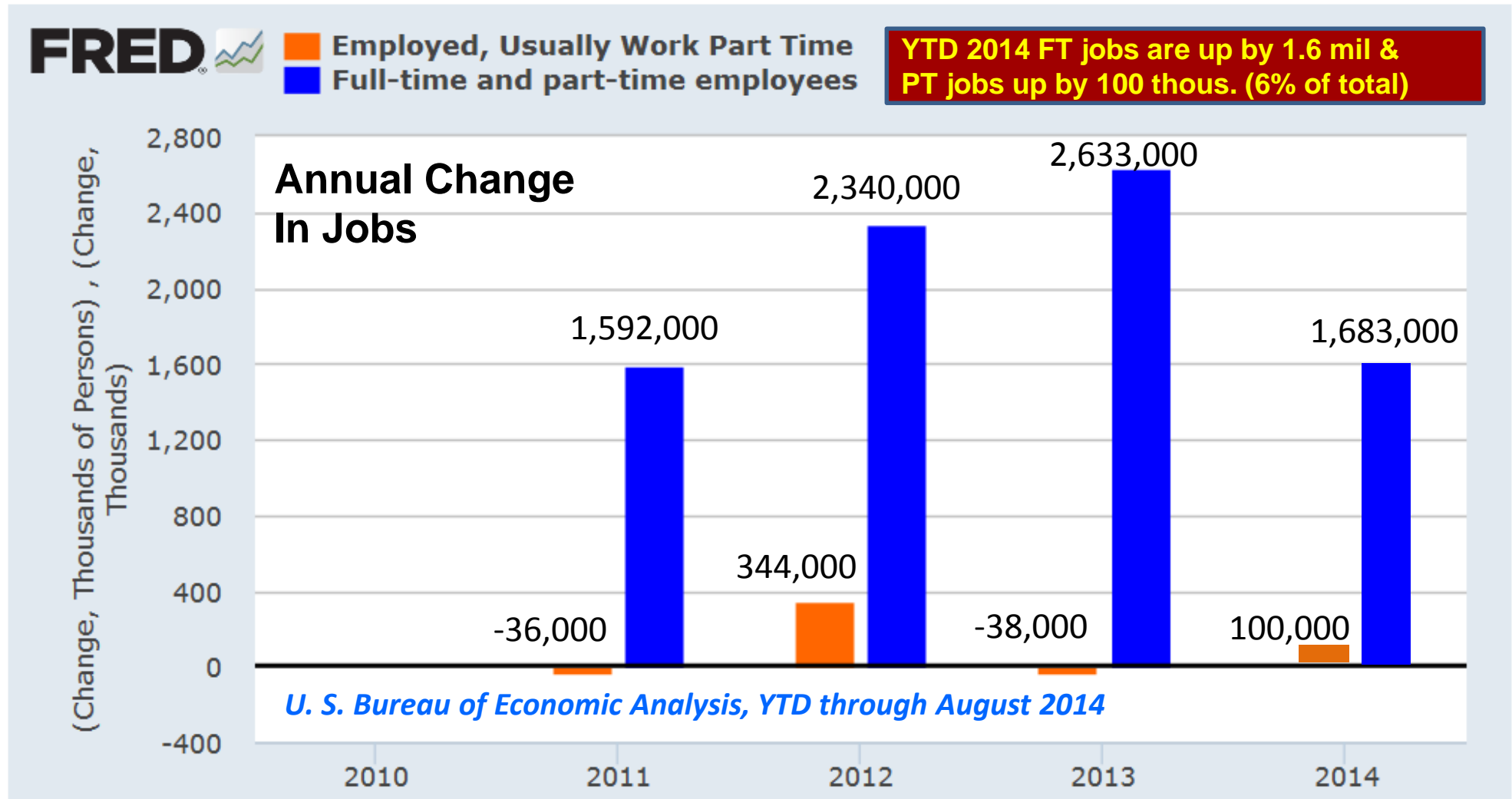
- 1. Dick Van Dyke is Zodiac killer**
- 2. Kim Jong-Un named sexiest man**
- 3. 75% of all new jobs are part-time**

75 Percent Of Jobs Created This Year Were Part-Time Due To Weak Economy, Obamacare Concerns

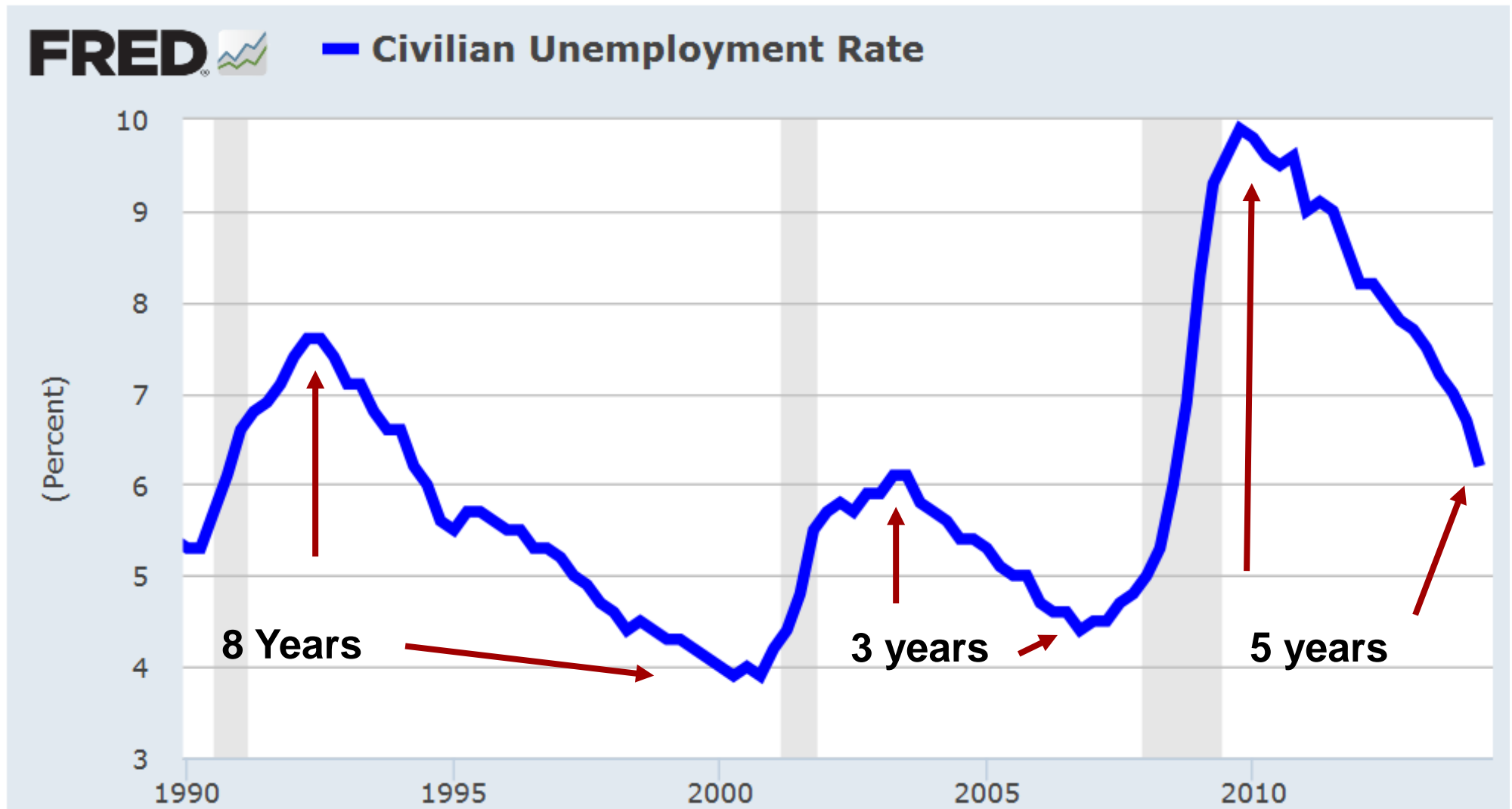
WASHINGTON, Aug 21 (Reuters) - U.S. businesses are hiring at a robust rate. The only problem is that three out of four of the nearly 1 million hires this year are part-time and many of the jobs are low-paid.

Faltering economic growth at home and abroad and concern that President Barack Obama's signature health care law will drive up business costs are behind the wariness about taking on full-time staff, executives at staffing and payroll firms say.

15% of New Jobs Were Part-Time in 2012 & Part-Time Jobs Fell in 2013



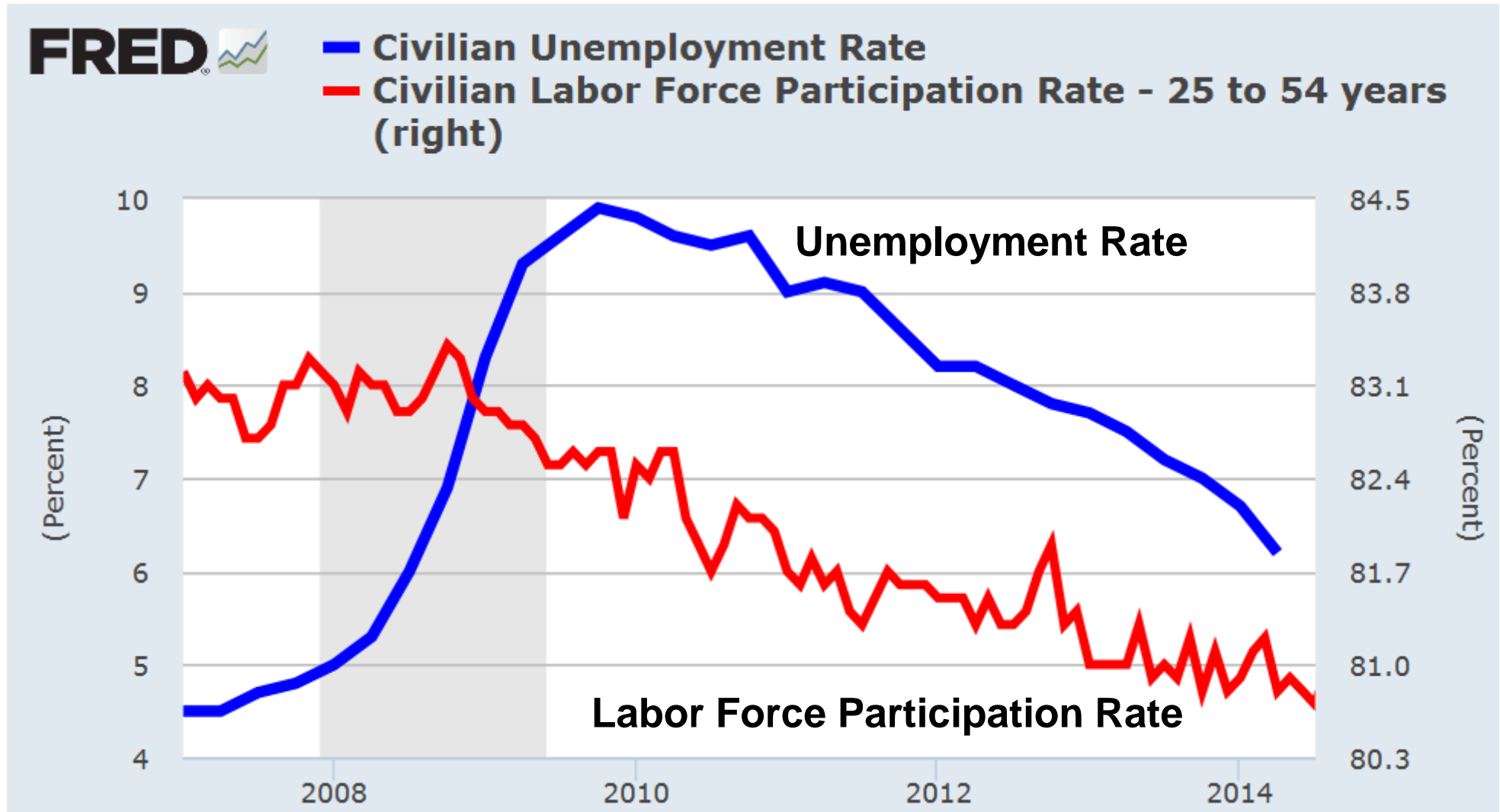
Unemployment Rate Falls Slowly



U. S. Bureau of Labor Statistics

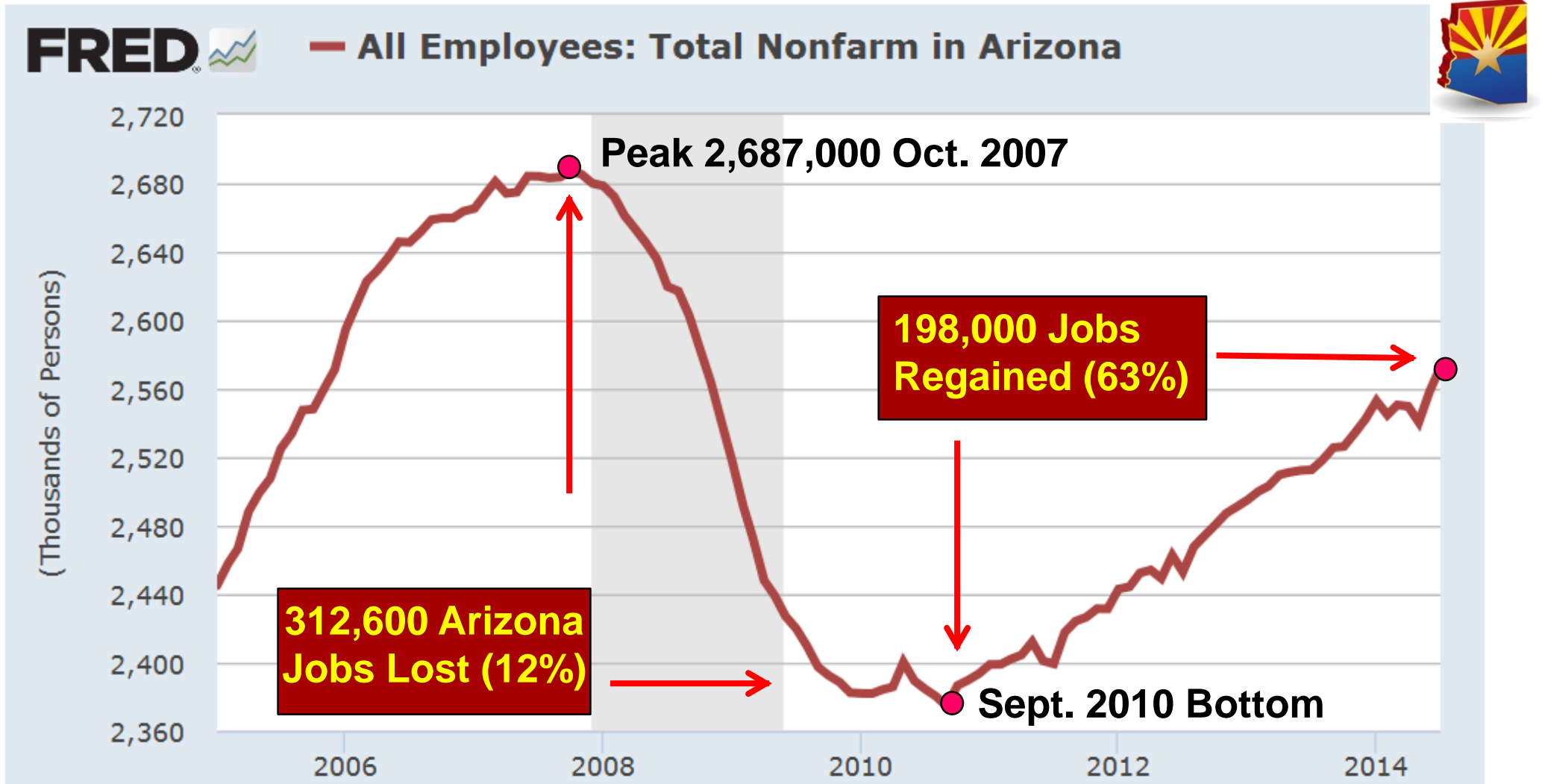
Unemployment Rate Falls If Workers Drop Out

(U.S. Unemployment Rate vs. Participation Rate: 25 – 54 yrs)



Arizona Has Regained 63% of Lost Jobs

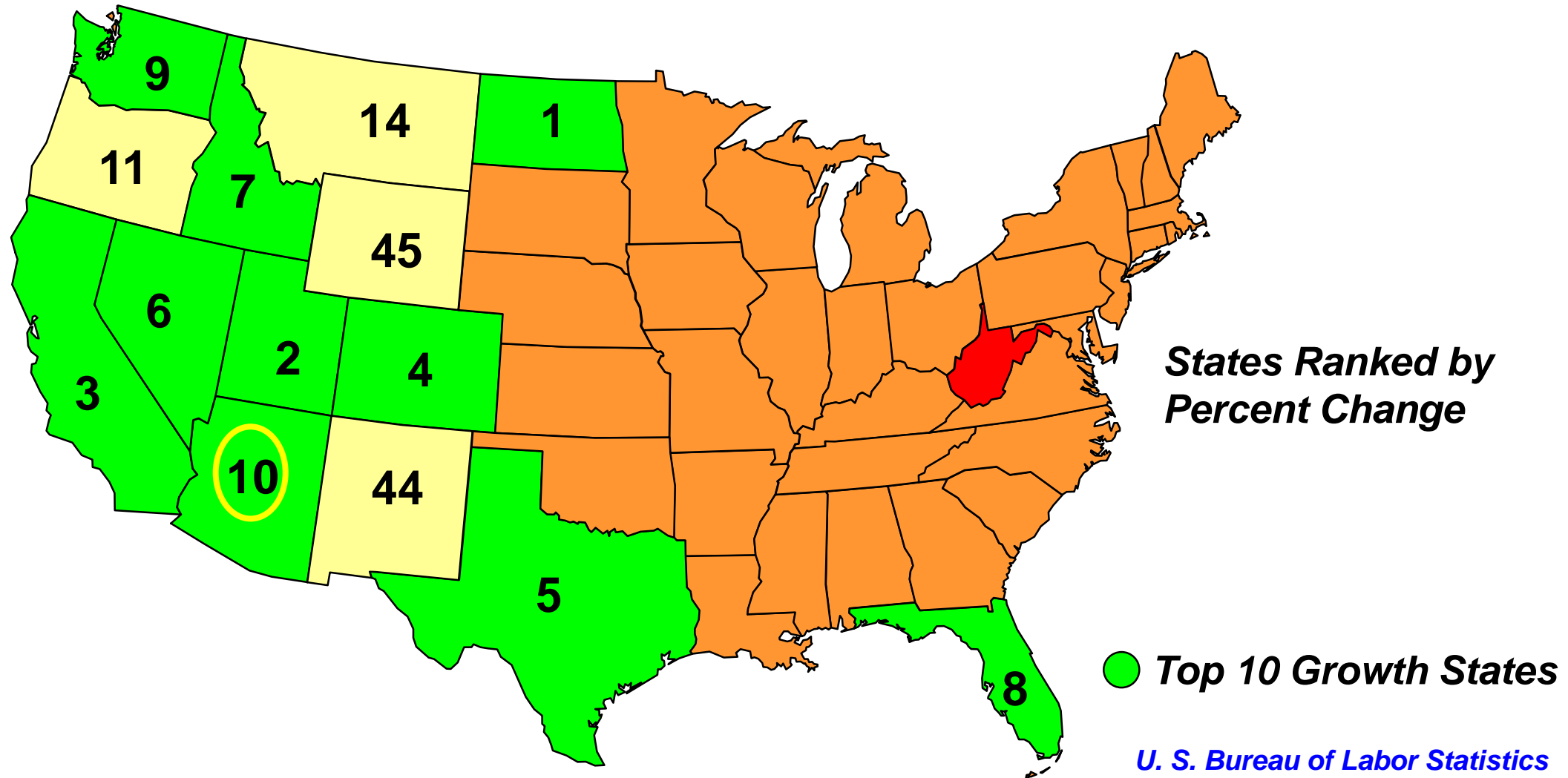
114,600 Jobs (37%) Still to Recover



U. S. Bureau of Labor Statistics, Seasonally Adjusted, Payroll Employment, August 2014

Arizona 10th in Job Growth in 2013

(AZ Jobs Up by 2.1% - 25 yr. Average is 3.9%)



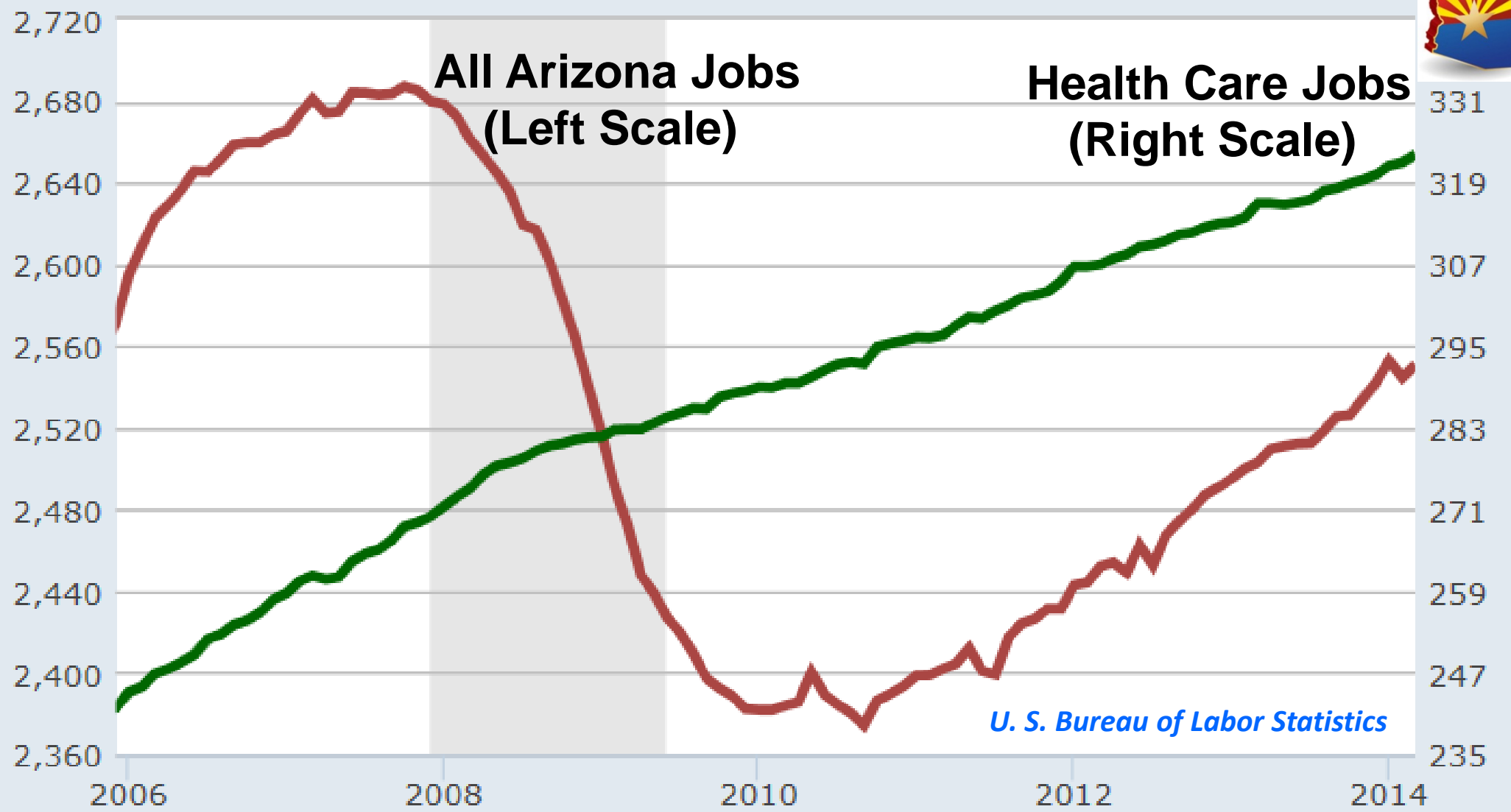
Latest Arizona Job Growth

Ranked by Year-to-Date Growth: July 2014

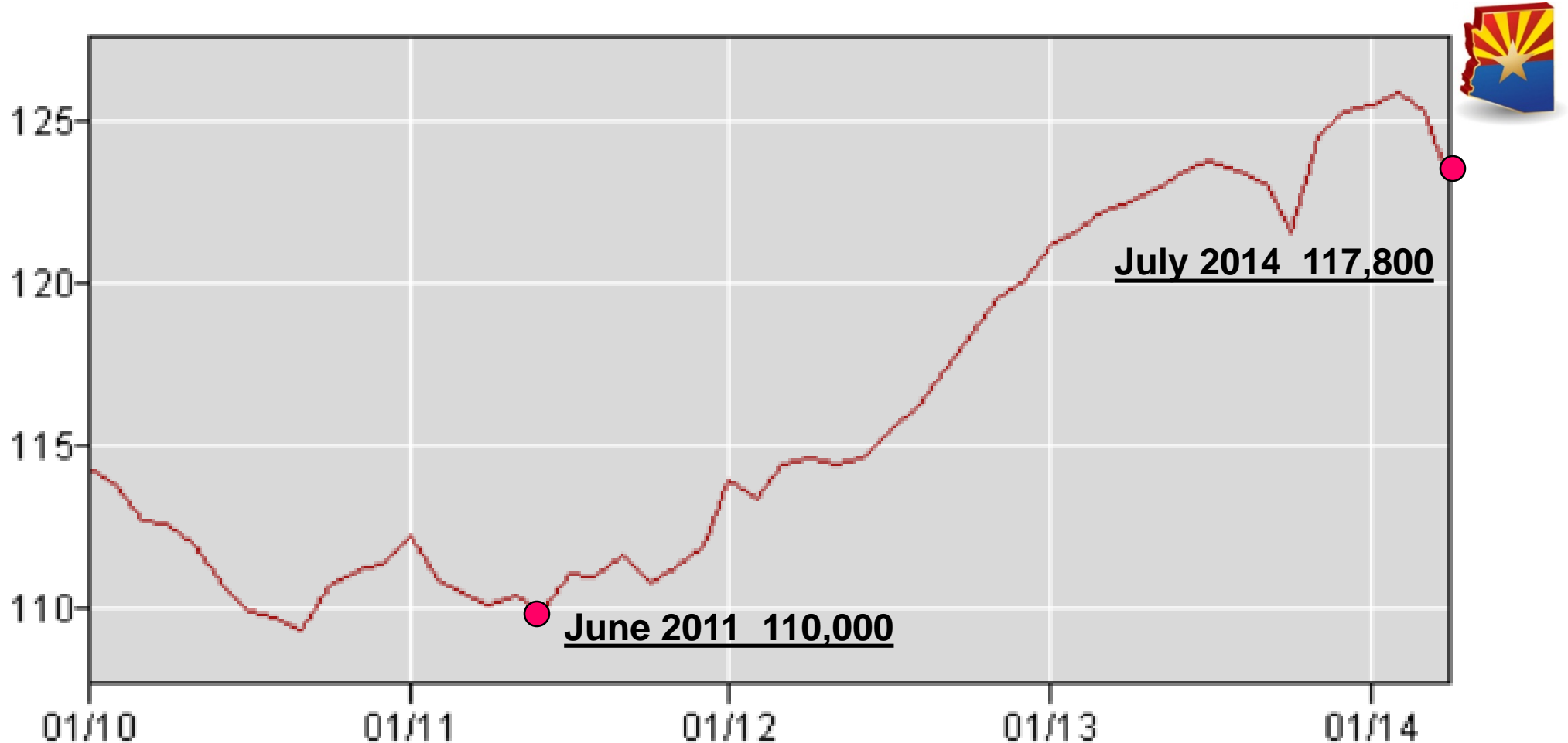
Arizona Industry	% Growth	U.S. Rank
Arizona Job Growth	1.9	14
Health Care	3.2	4
Financial Sector	4.9	5
Retail Trade	2.8	14
Food Services	3.5	19
Construction	0.4	37
Manufacturing	-0.1	37
Local Government	-0.7	38

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

Health Care Employment in Arizona (and U.S.) is Recession-Resistant

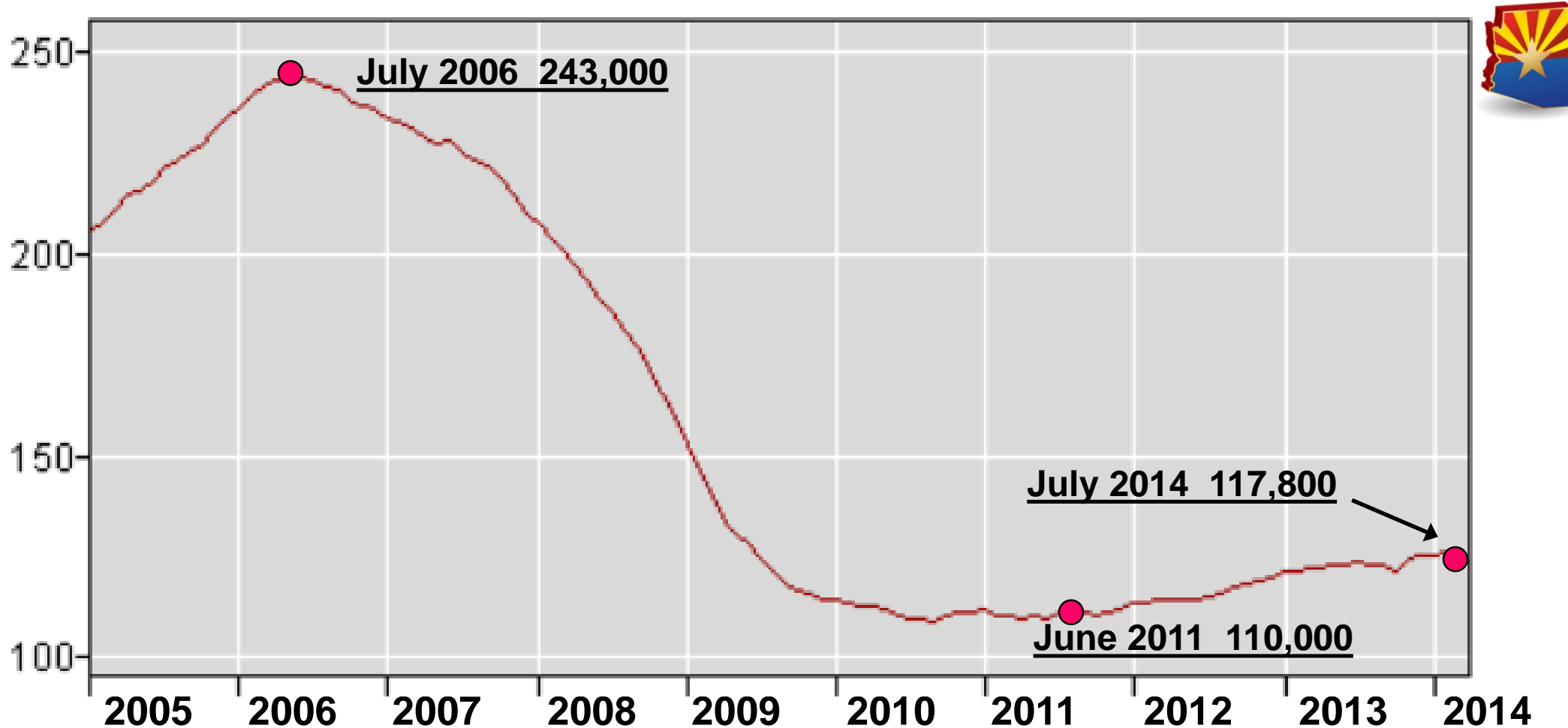


Construction is Up by 7,800 Jobs And 7.1% Since Bottom in 2011



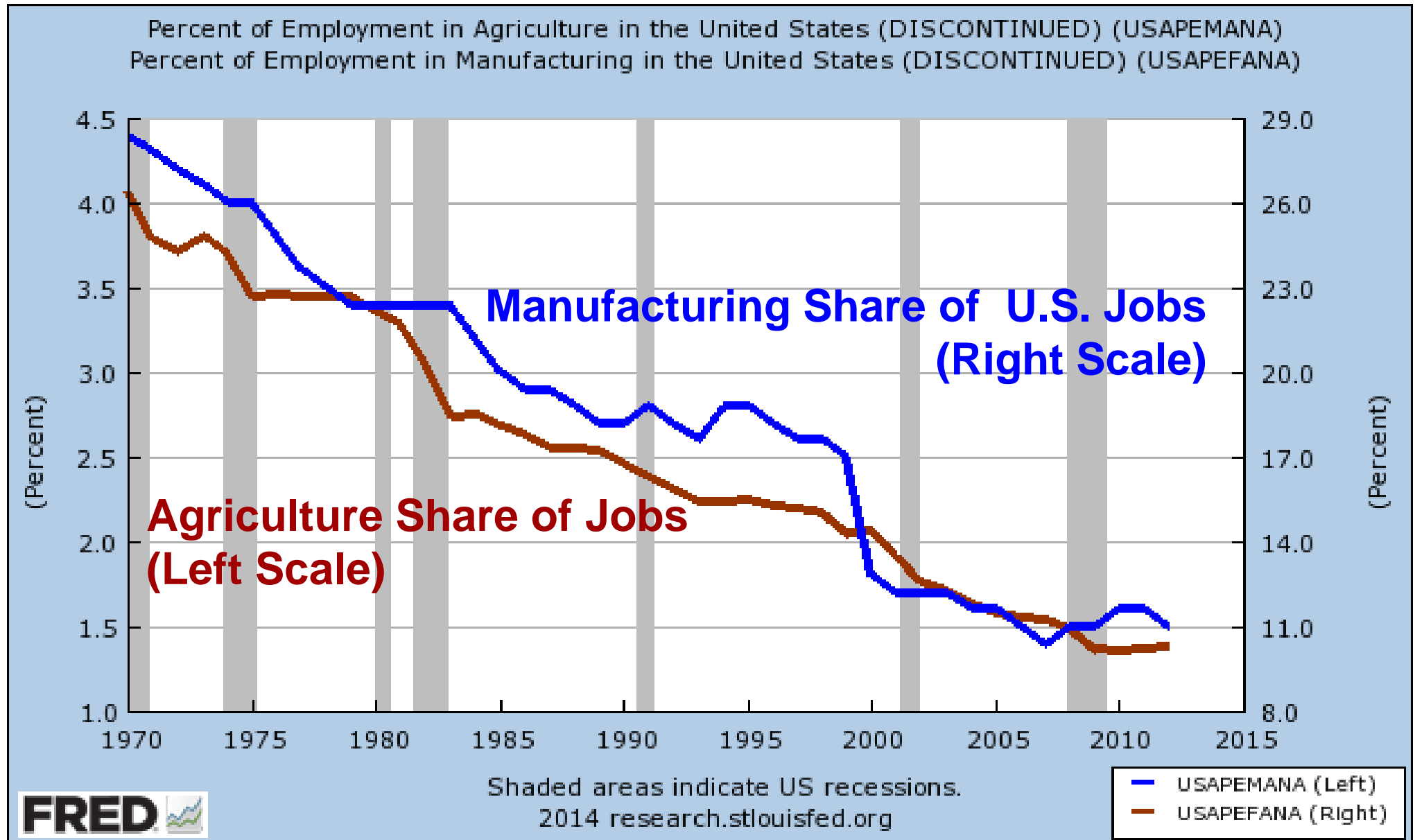
U. S. Bureau of Labor Statistics, Seasonally Adjusted

But Construction is Still Down by 125,200 Jobs (51.5%) Since Peak



U. S. Bureau of Labor Statistics, Seasonally Adjusted

Manufacturing's Role Is Declining



Nevada Snags Tesla: What Turned the Trick?

**DIRECT REVENUE IMPACT OF TESLA
NET OF ABATEMENTS AND REIMBURSEMENTS**

Year	School		County and Other Local Govts			State			Total Direct Revenues
	Property Tax ¹	Sales Tax ¹	Property Tax ¹	Franchise Fees	Sales Tax ¹	Sales Tax ¹	Property Tax ¹	MBT	
2015	\$0	\$0	\$0	\$182,822	\$0	\$0	\$0	\$0	\$182,822
2016	\$0	\$0	\$0	\$400,171	\$0	\$0	\$0	\$0	\$400,171
2017	\$0	\$0	\$0	\$992,053	\$0	\$0	\$0	\$0	\$992,053
2018	\$0	\$0	\$0	\$1,374,960	\$0	\$0	\$0	\$0	\$1,374,960
2019	\$0	\$0	\$0	\$1,380,966	\$0	\$0	\$0	\$0	\$1,380,966
2020	\$0	\$0	\$0	\$1,380,966	\$0	\$0	\$0	\$0	\$1,380,966
2021	\$0	\$0	\$0	\$1,380,966	\$0	\$0	\$0	\$0	\$1,380,966
2022	\$0	\$0	\$0	\$1,380,966	\$0	\$0	\$0	\$0	\$1,380,966
2023	\$0	\$0	\$0	\$1,387,244	\$0	\$0	\$0	\$0	\$1,387,244
2024	\$5,186,689	\$0	\$13,889,914	\$1,387,244	\$0	\$0	\$985,511	\$1,915,477	\$23,364,836
2025	\$10,334,897	\$0	\$27,676,777	\$1,393,523	\$0	\$0	\$1,963,711	\$3,830,953	\$45,199,861

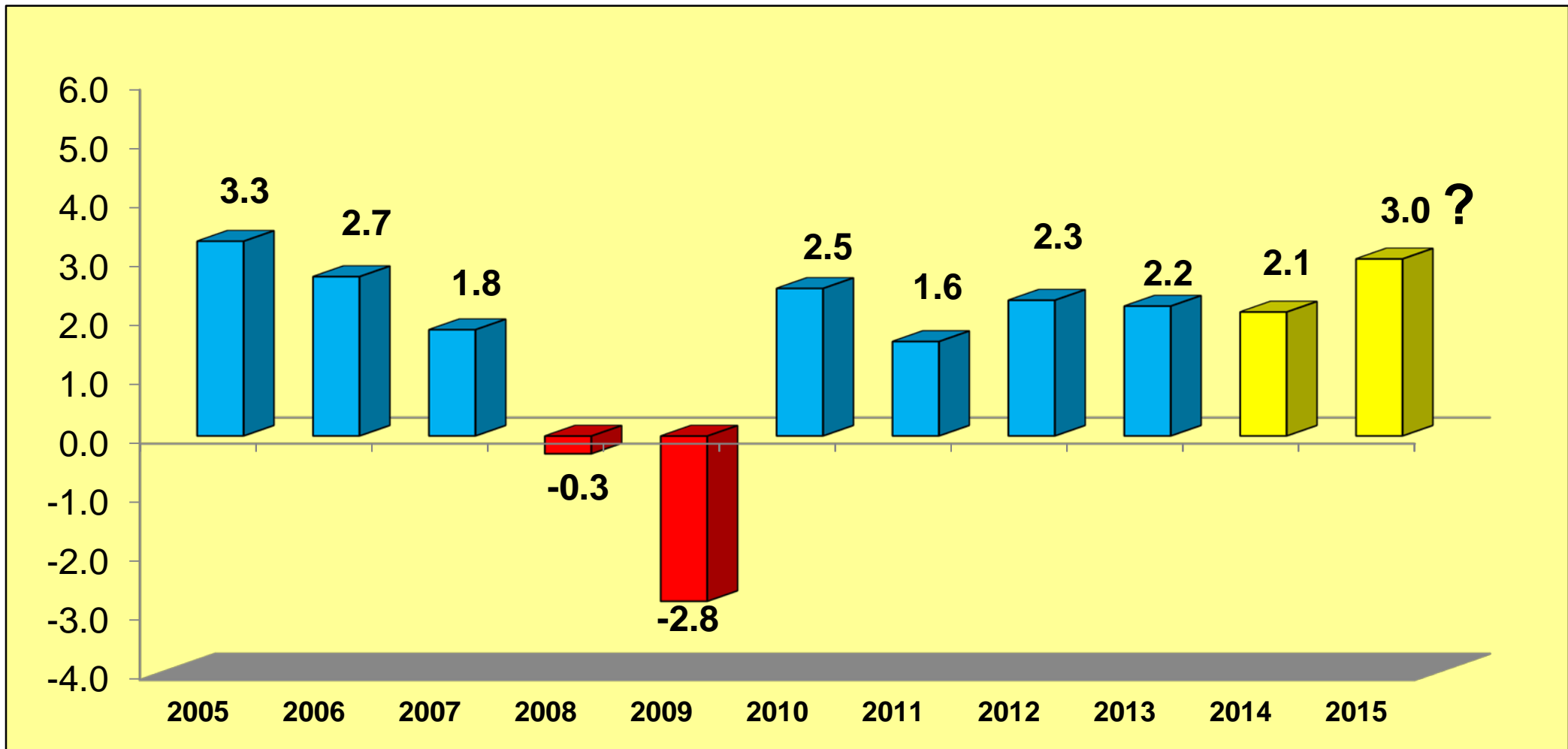
Annual tax forgiveness before 2025 exceeds \$45 mil.

U.S. Economic Outlook

**Tight Fiscal Policy, Uncertainty, and
Slow Global Growth Affect U.S. GDP**

Indicator	2013	2014	2015
Real GDP Growth	2.2%	2.1%	3.0%
10 Year Treasury Note	2.4%	2.7%	3.3%
Inflation (CPI)	1.5%	1.9%	2.1%
Employment (Jobs)	2.3 mil.	2.6 mil.	2.6 mil.
Unemployment Rate	7.4%	6.2%	5.7%

3% GDP Growth? The Last Time GDP Grew By 3% Was 10 Years Ago!



U. S. Bureau of Economic Analysis

ARIZONA

Economic Forecast



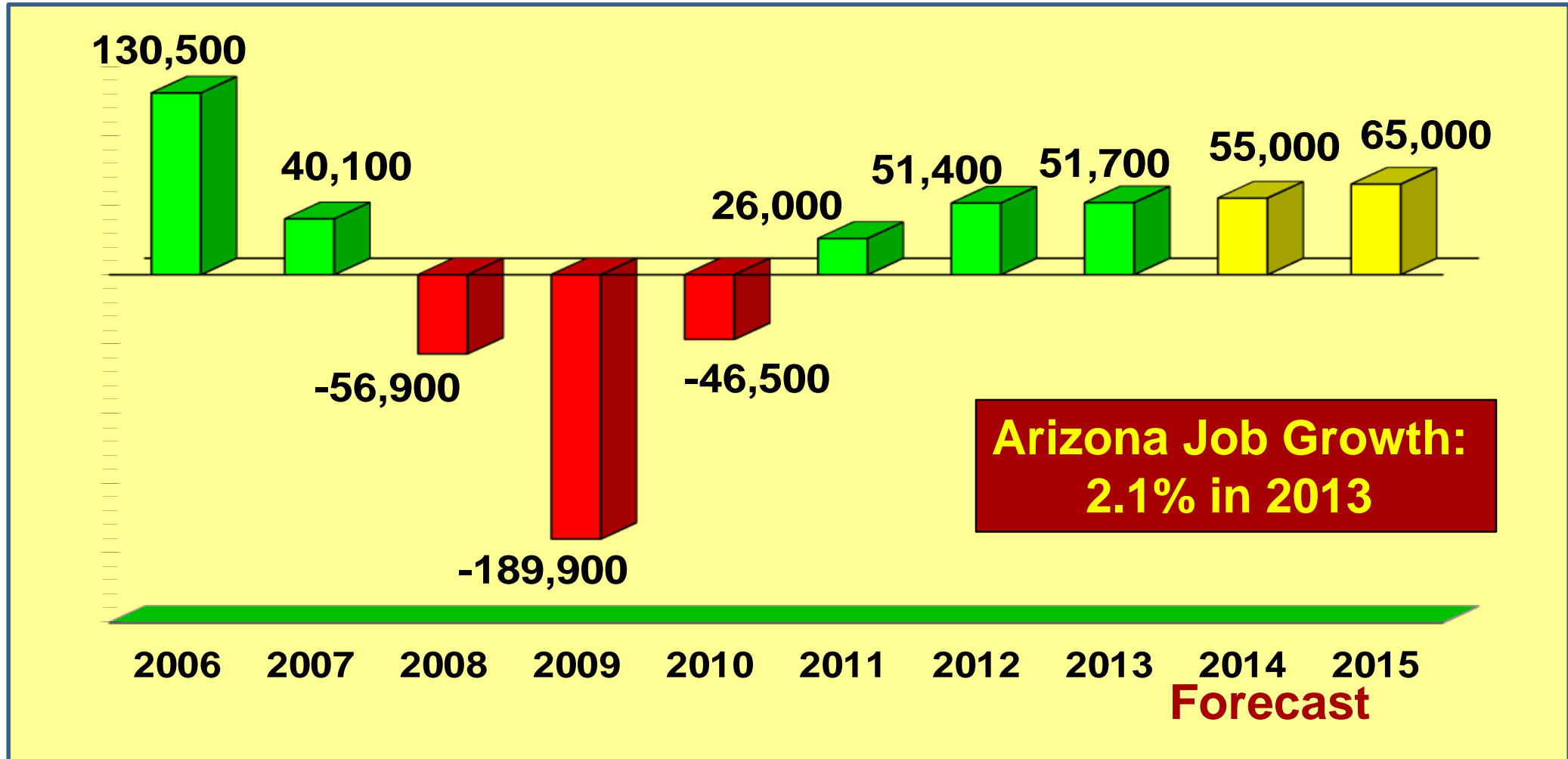
Arizona Indicators	2013	2014	2015
	Annual Percent Change		
Employment	2.1	2.2	2.5
Personal Income	2.7	4.0	4.5
Population	1.2	1.4	1.5
Single Family Permits	13.6	-5.0	15.0

W. P. Carey School of Business, ASU, based on data available September, 2014

Arizona Jobs Grow At Half Speed

2 More Years to Regain 114,600 Lost Jobs

Annual Employment Change

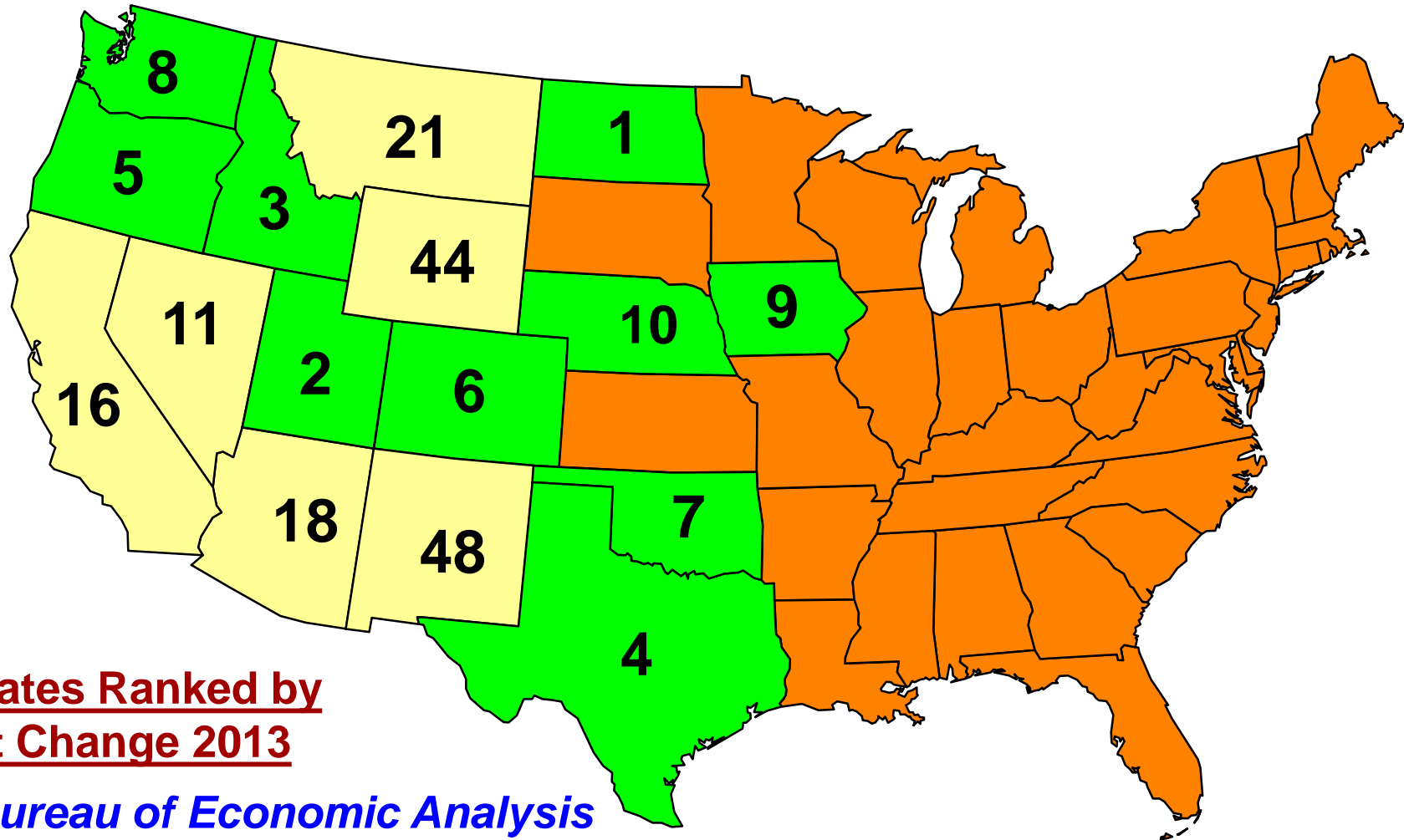


Arizona Job Growth Outlook

Metro	2013	2014	2015
Phoenix	2.8%	2.8%	3.0%
Prescott	1.6	2.5	2.6
Lake Havasu	1.1	1.0	2.2
Tucson	0.7	1.4	2.0
Yuma	0.2	0.0	2.0
Flagstaff	1.9	1.0	1.5

Source: W. P. Carey School of Business

Arizona Ranked 18th in Personal Income Growth (2.7%) in 2013



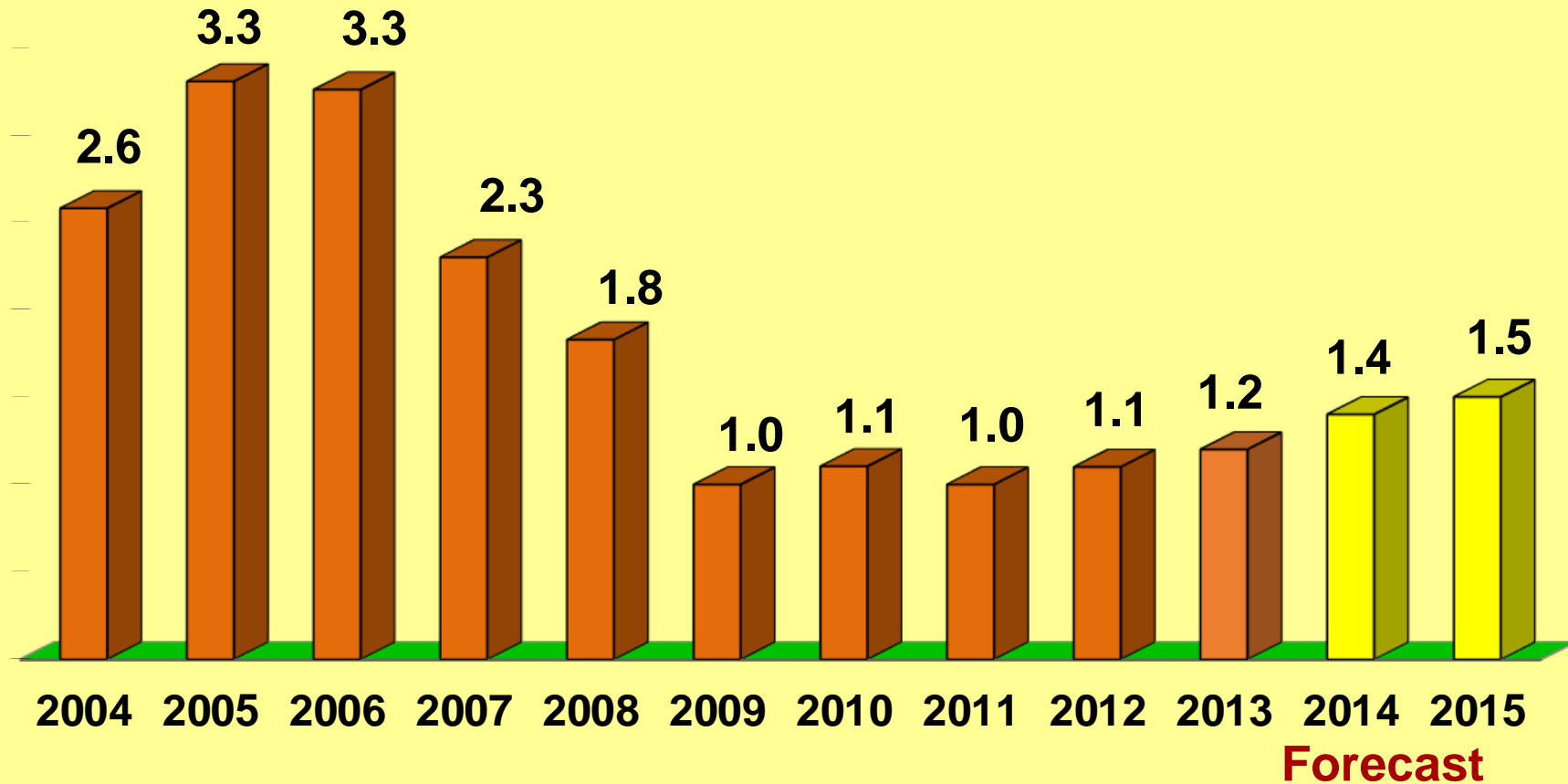
U. S. States Ranked by
Percent Change 2013

U. S. Bureau of Economic Analysis

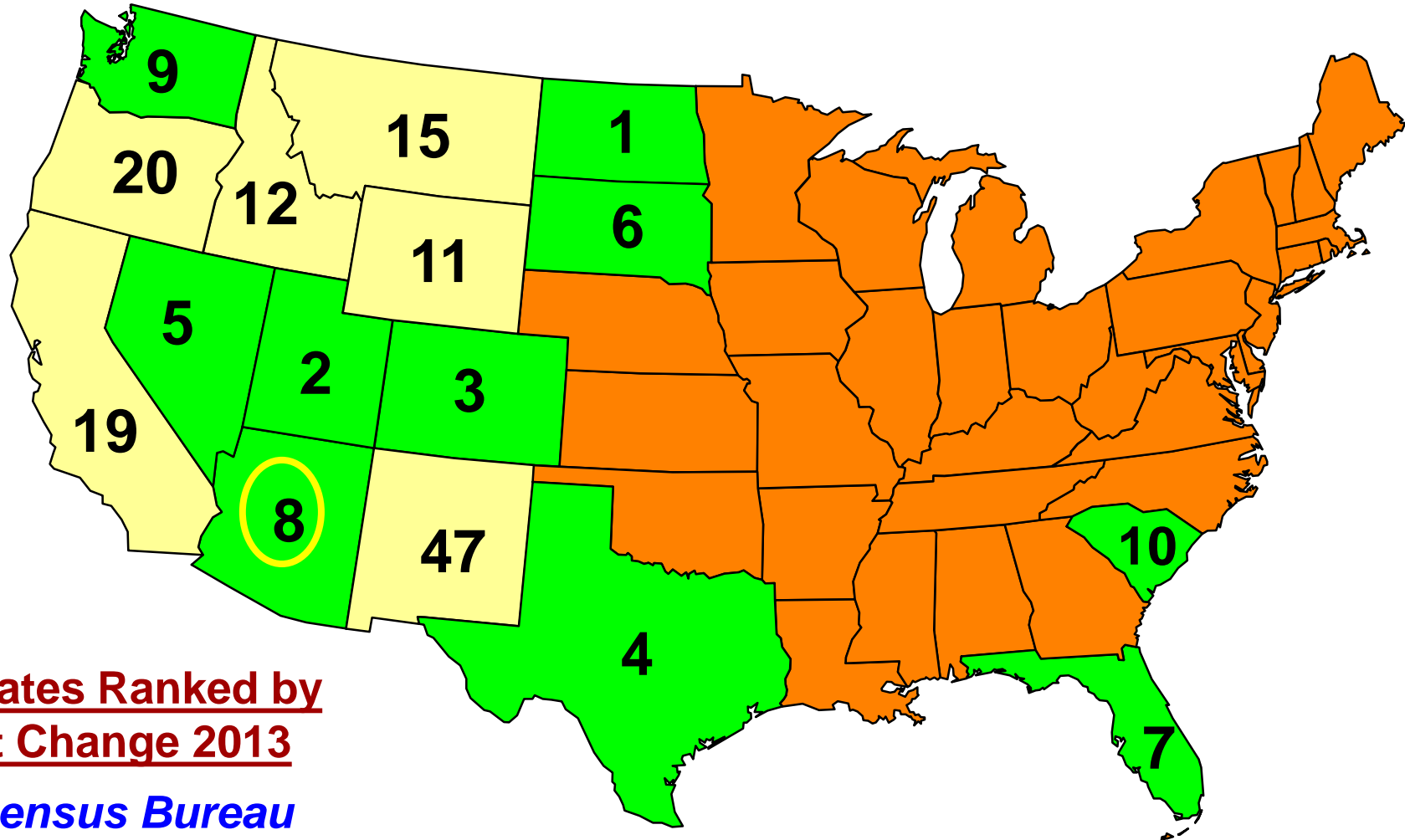
2014 Population Growth: 1.4%

Not Enough for Robust Recovery

Annual Percent Change



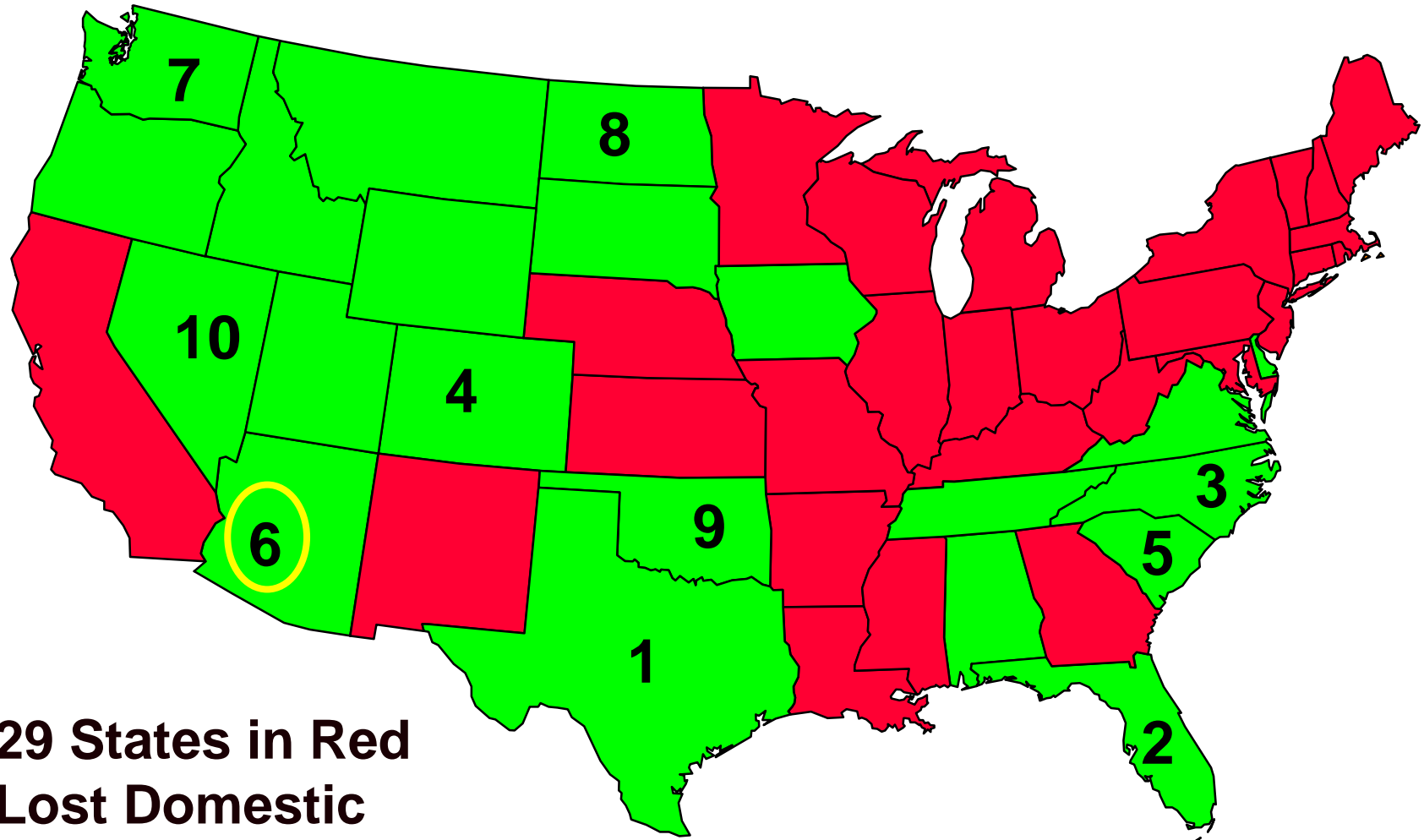
Arizona Ranked 8th (1.2%) in Population Growth in 2013



U. S. States Ranked by
Percent Change 2013

U. S. Census Bureau

Arizona 6th in Domestic Migration In 2013 – Down from 3rd in 2012



Alaska
Hawaii



29 States in Red
Lost Domestic
Population to 21 States in Green

U.S. Census Bureau

Phoenix 3rd as Domestic Migration Destination

(Gained 96,000 in 2006)

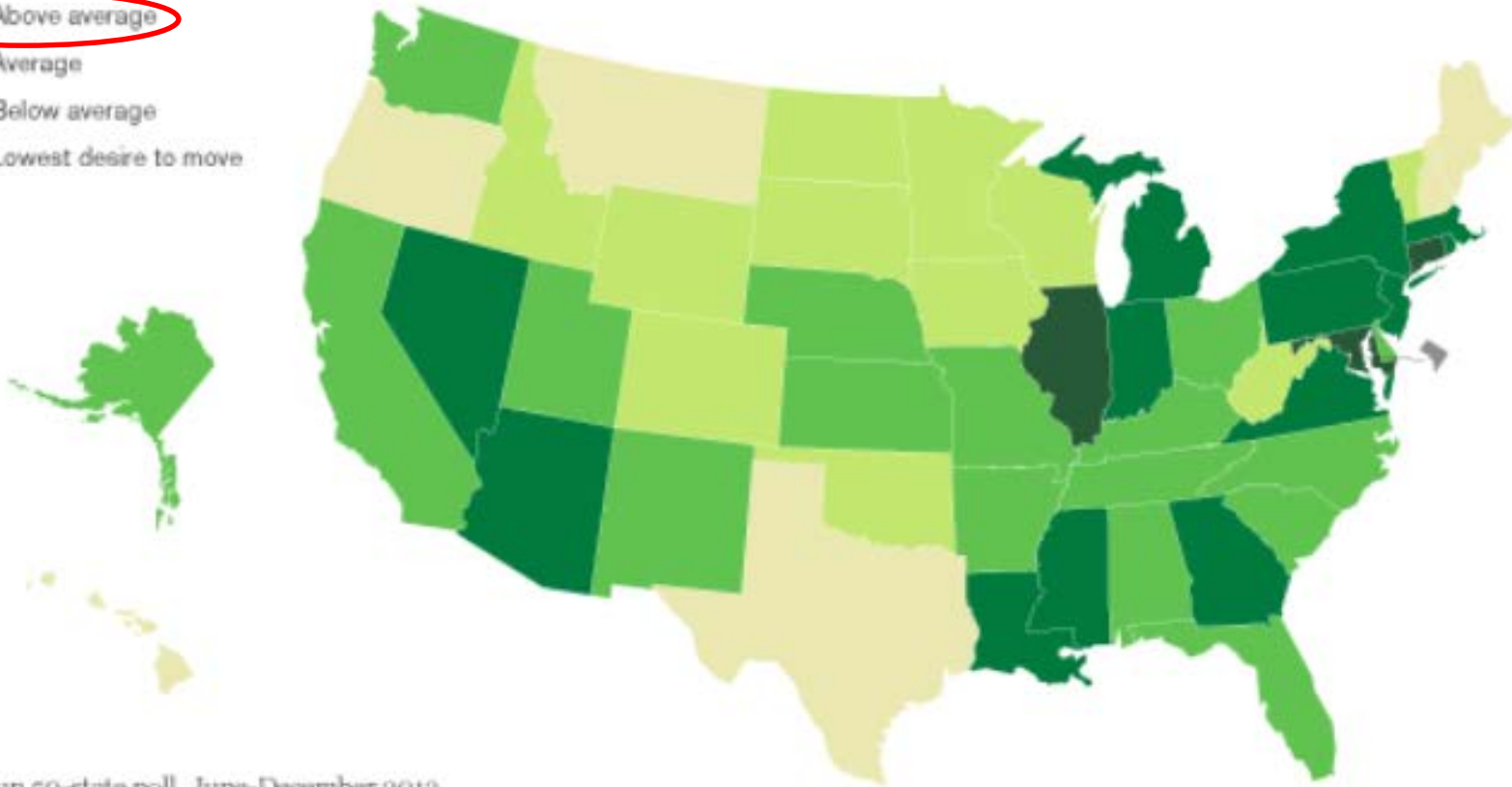
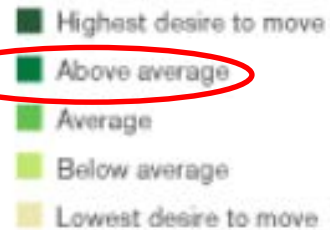
Top Ten Metro Destinations: 2013

1. Houston (55,620)	6. San Antonio (22,392)
2. Dallas (32,641)	7. Charlotte (21,382)
3. Phoenix (32,014)	8. Nashville (17,975)
4. Denver (26,536)	9. Seattle (17,926)
5. Austin (25,908)	10. Orlando (17,316)

Arizona In-Migration : 2013

Metro	Total	Internat.	Domestic
Phoenix	40,451	8,437	32,014
Prescott	3,323	117	3,206
Tucson	774	1,754	-980
Lake Havasu	336	-1	337
Flagstaff	-342	72	-414
Yuma	-2,464	219	-2,683

Many Arizonans Want to Move



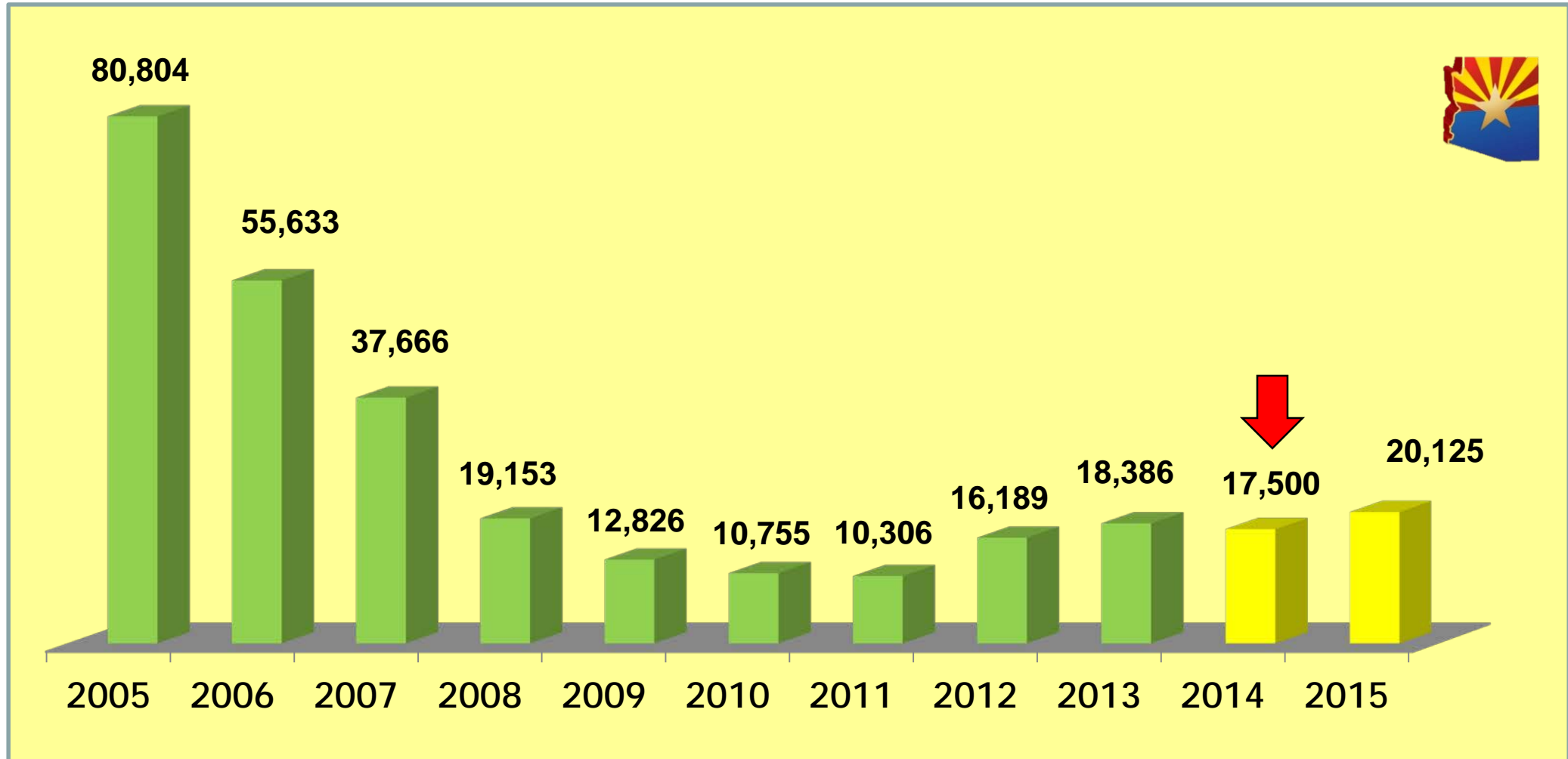
Gallup 50-state poll, June-December 2013

Note: No data available for the District of Columbia

GALLUP®

Arizona Home Building Slows Down

Single Family Permits Year-to-Date Down by 5%



Arizona Economic Outlook Summary

- **2014 - better than most states - but 8th lean year of subpar Arizona growth**
 - **Indicators show “not out of the woods”**
 - **Still 2 – 3 years before full recovery**
 - **Major risk is continued ineffective growth policies at national level**
-

The Way Out of the Woods: 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

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