

46th ASU/Chase Economic Forecast

**Arizona Outlook:
Long Road To Recovery**

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ARIZONA STATE UNIVERSITY

Update & Outlook

- **Is the Recession Over?**
- **What To Worry About**
- **Budget Basics**
- **Arizona Outlook**

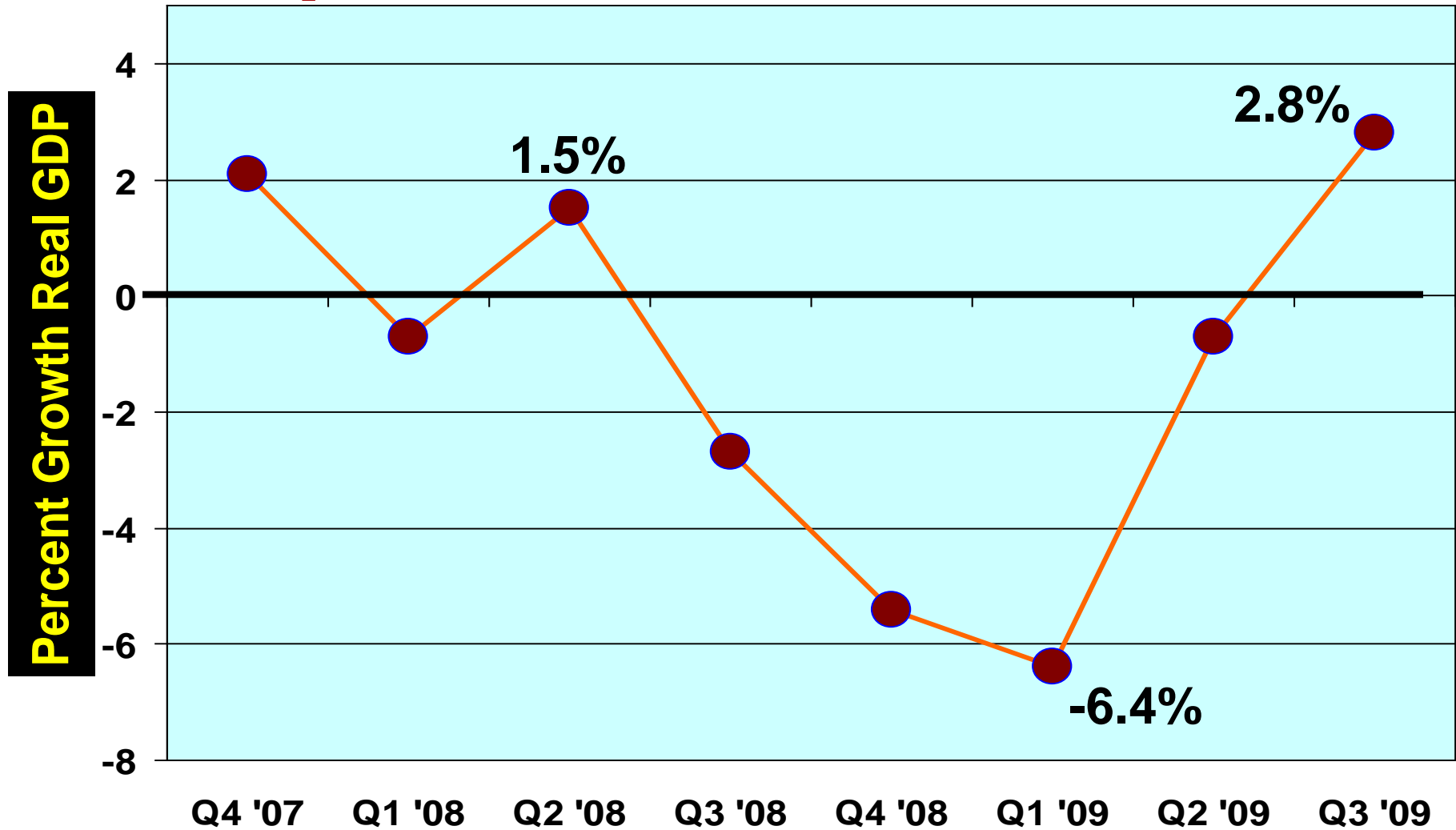
Is Recession Over?

- Yes - it's over (19%)
- No - not over (64%)
- Don't know (17%)

Is Recession Over?

- Recession is a contraction
- Ends when indicators turn up
- At the bottom of the cycle
- When conditions are worst!

GDP Rebounds in Third Quarter: Expect More Gains In Q4



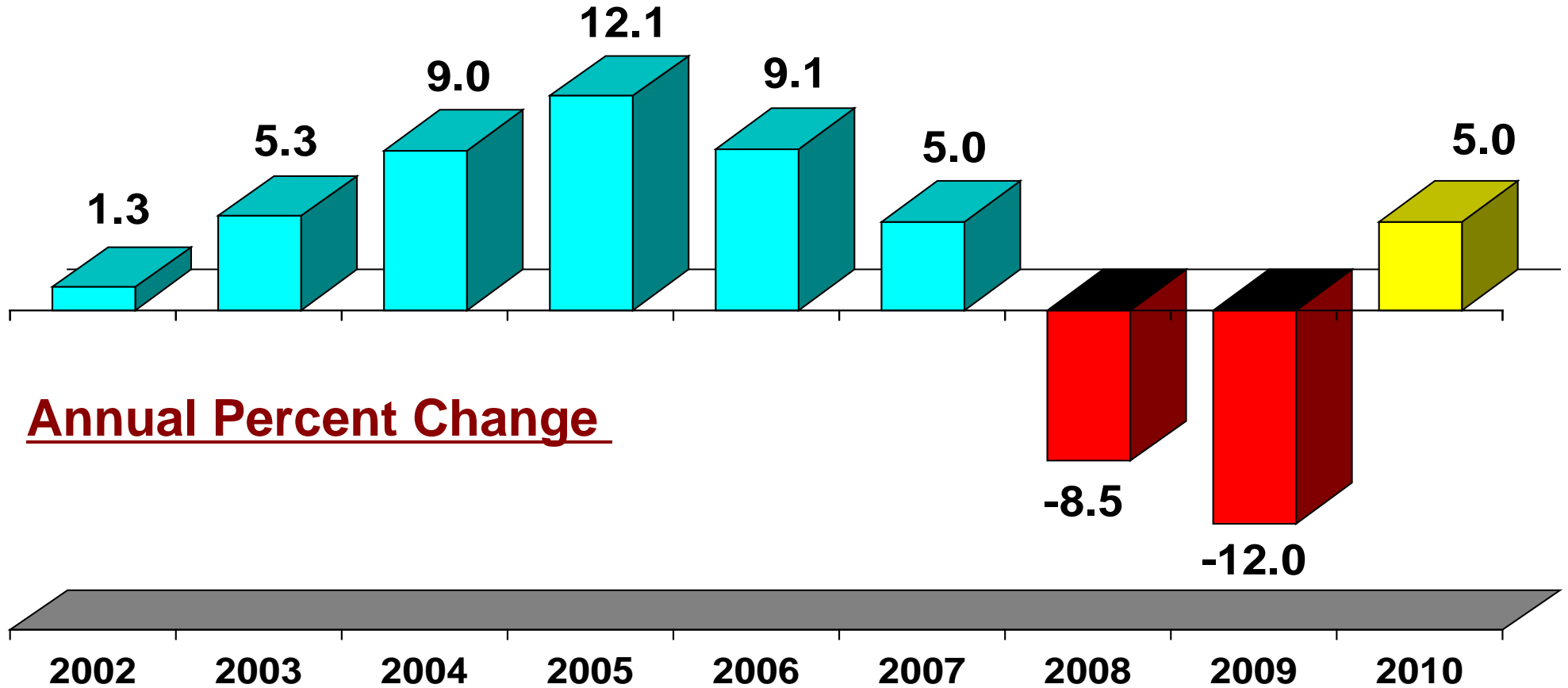
U. S. Bureau of Economic Analysis

Retail Sales Up After Dec. 2008 Bottom



U. S. Census Bureau

Arizona Retail Sales Outlook: 2009 Will be 10 – 15% Below 2008



Why Consumers Worry

- **Job Losses Continue**
- **Unemployment Up**
- **Home Values Down**
- **No End in Sight?**

Why Consumers Worry

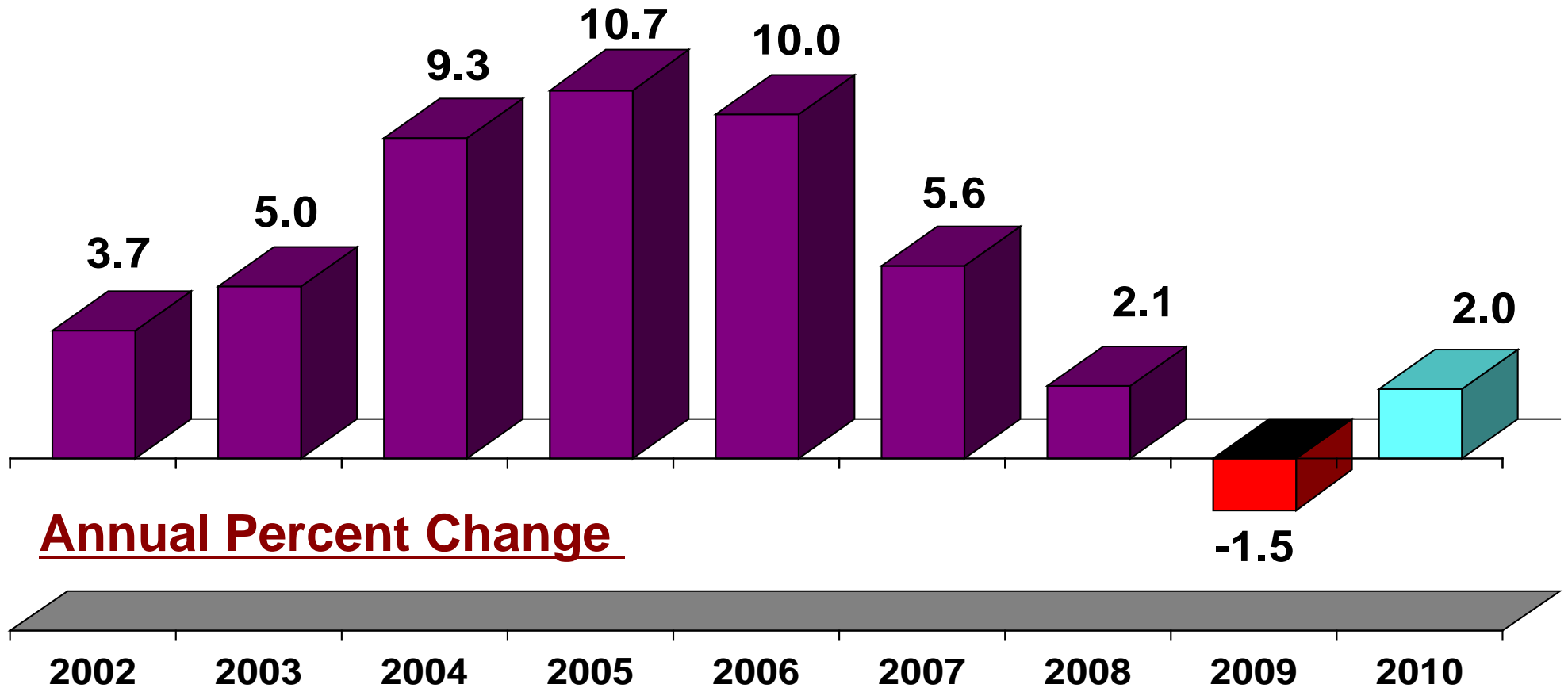
Arizona consumers & businesses are in the state's worst downturn (by far) in modern times.

Arizona Job Loss Worst Ever

Year	Job Loss
1975	-17,600
1982	-11,000
1991	0
2001	0
2008	-57,400
2009	-183,100
2010	-24,300

264,800

Arizona Personal Income: First Decline Since Records Kept

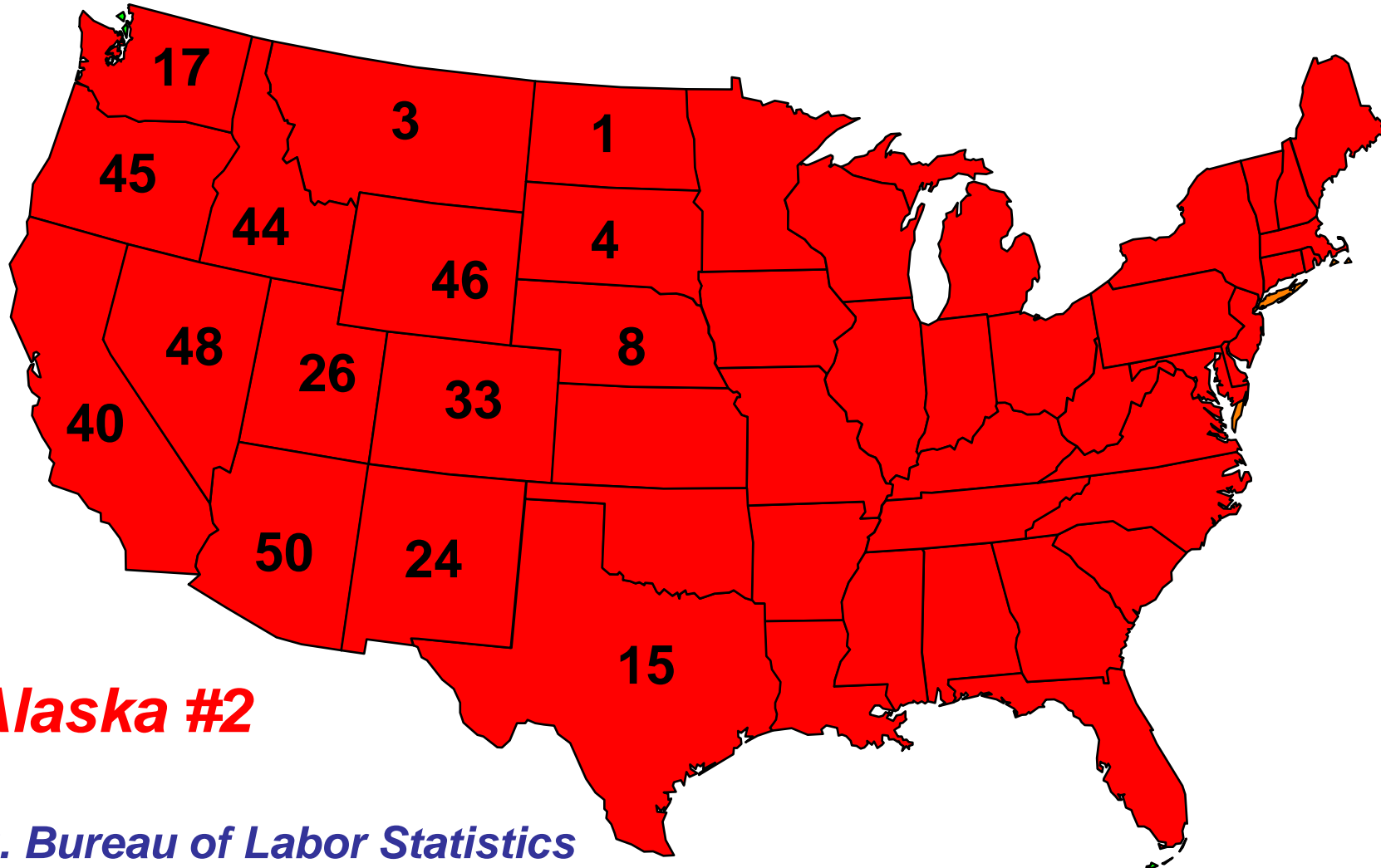


Annual Percent Change

-1.5

Arizona Ranks Last in Job Growth

(Percent Change Oct. 2009 vs Oct. 2008)



Alaska #2

U. S. Bureau of Labor Statistics

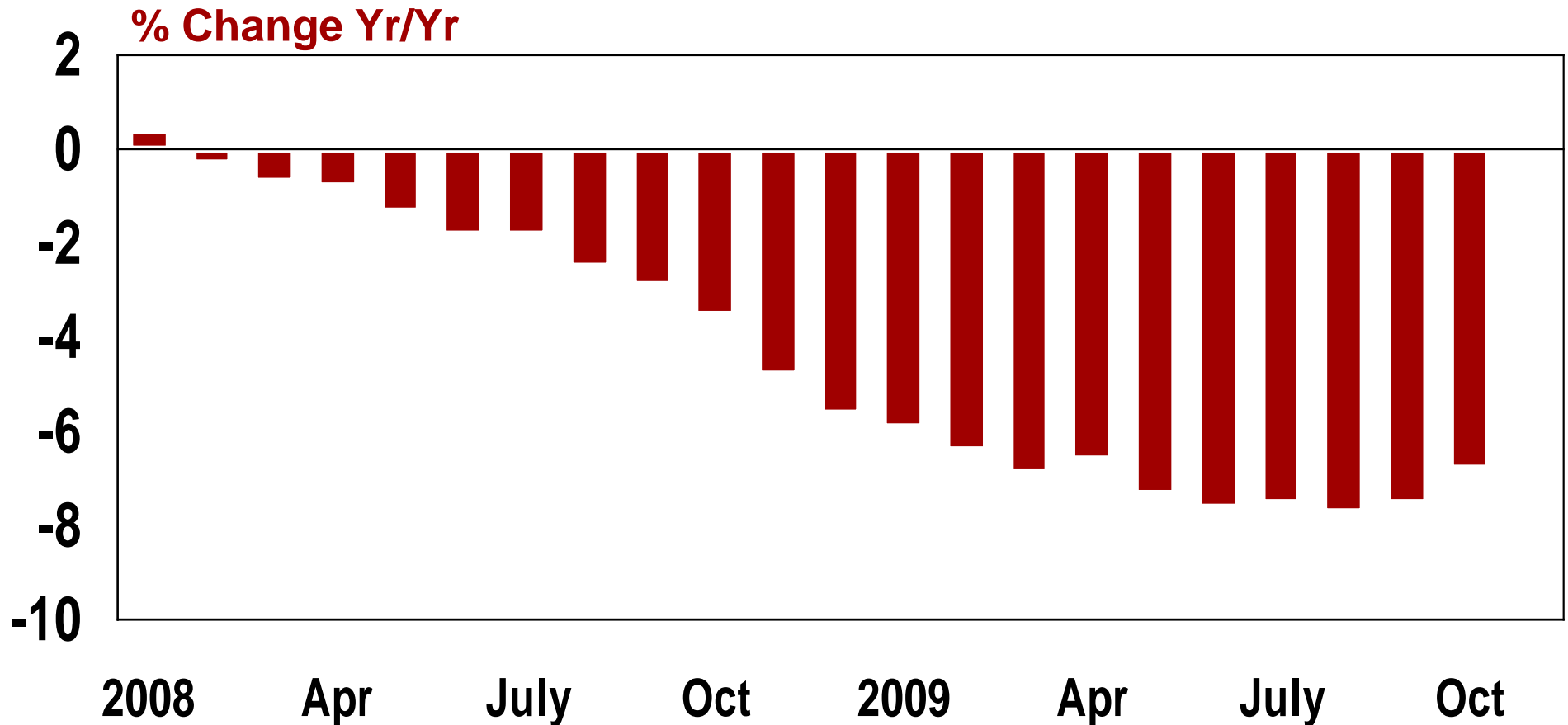
6.8% of Arizona Jobs Lost

(Greatest % Of All States)

<u>Sector</u>	<u>Jobs: 12 Mos.</u>
Overall Nonfarm	-177,600
Construction	-42,600
Prof/Biz Services	-35,000
Trade	-29,200
Government	-17,300
Manufacturing	-13,100

Arizona Dept. of Commerce, Oct. 2009 vs. Oct. 2008

Two Years of Arizona Job Loss (305,000 Jobs Lost Since Dec. 2007)



Arizona Department of Commerce, not seasonally adjusted

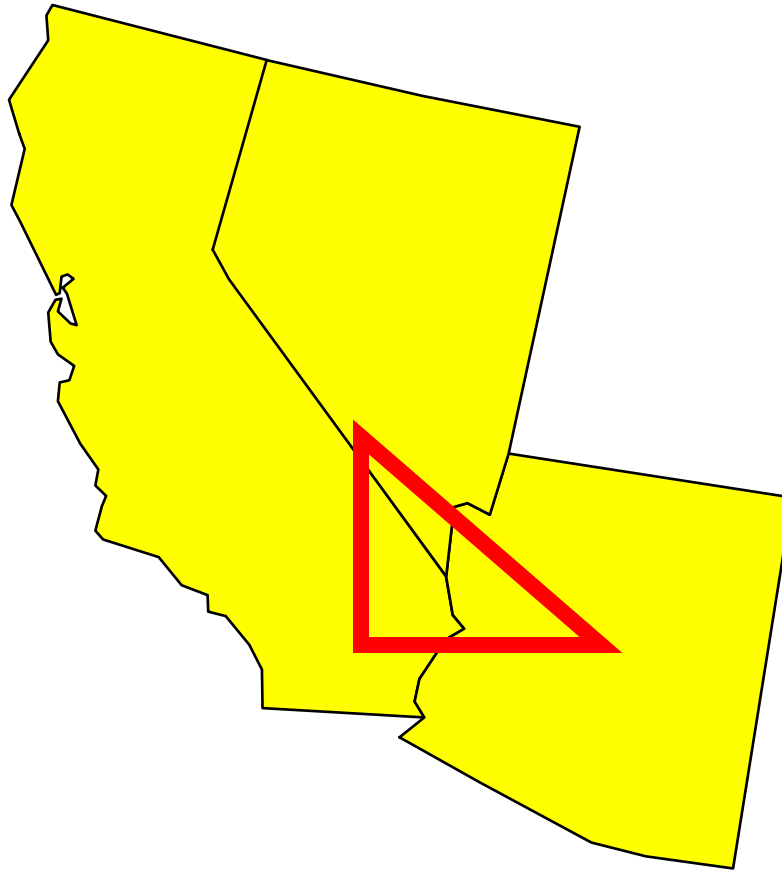
Worst Big Metro Economies

Job Loss – Sept. 2009 vs Sept. 2008 – Labor Force > 1 Million

Metro Area	Percent	Job Loss
Phoenix	-8.0%	-148,500
Detroit	-7.8%	-148,200
Atlanta	-5.9%	-142,800
Riverside	-5.6%	-67,600
Orlando	-4.7%	-50,300

“Bermuda Triangle” of Economic Troubles

(Phoenix – Riverside – Las Vegas)



Triangle of Economic Troubles

	Phoenix	Riverside	Las Vegas
Job Loss (yr/yr)	-8.0% (1st)	-5.6%(4th)	-6.2% (3rd)*
Home Value Decline	36% (9th)	39% (4th)	40% (2nd)
Foreclosure Rate	2.4% (12th)	3.3% (6th)	5.0% (1st)
Under Water Homes	54% (2nd)	54% (2nd)	70% (1st)

**Las Vegas labor force < 1 million*

Job loss, U. S. Bureau Labor Statistics, September 2009

Home values from National Association Realtors, third quarter 2009

Foreclosure rate from RealtyTrac, third quarter 2009

Negative equity from First American CoreLogic, third quarter 2009

Unemployment at 10%?

AZ Unemployment Rates in Recession

1976	10.3%
1982	11.5%
1992	7.5%
2009	9.3% (Oct.)

AZ Unemployment Rate Below U.S.

Region	Unemployment Rate
USA	10.2% (Oct.)
Arizona	9.3%
Phoenix Metro	8.7%
Tucson Metro	8.3%
Flagstaff Metro	8.8%

US Bureau of Labor Statistics and AZ Dept of Commerce

What Factors Keep Arizona's Unemployment Rate Lower?

- **Discouraged workers**
- **Fewer hours per job**
- **Out migration**

End in Sight? Return to Previous Employment Peak Takes Longer

U. S. Recession	U. S. Jobs Recovery
8 from 1947 - 1982	11 months
1990 - 1991	24 months
2001	36 months
2007 - 2009	48 months (?)

(Months required for U.S. employment to recover from recession and return to previous peak before recession began)

How Many Jobs Has Stimulus Created?

- **305,000 Arizona jobs lost since December, 2007 employment peak**
- **12,283 Arizona jobs created by U.S. Recovery Act (as of 10/09)**
- **4% Job Replacement (as of 10/09)**

Stimulus Jobs Linked to State Electoral Votes

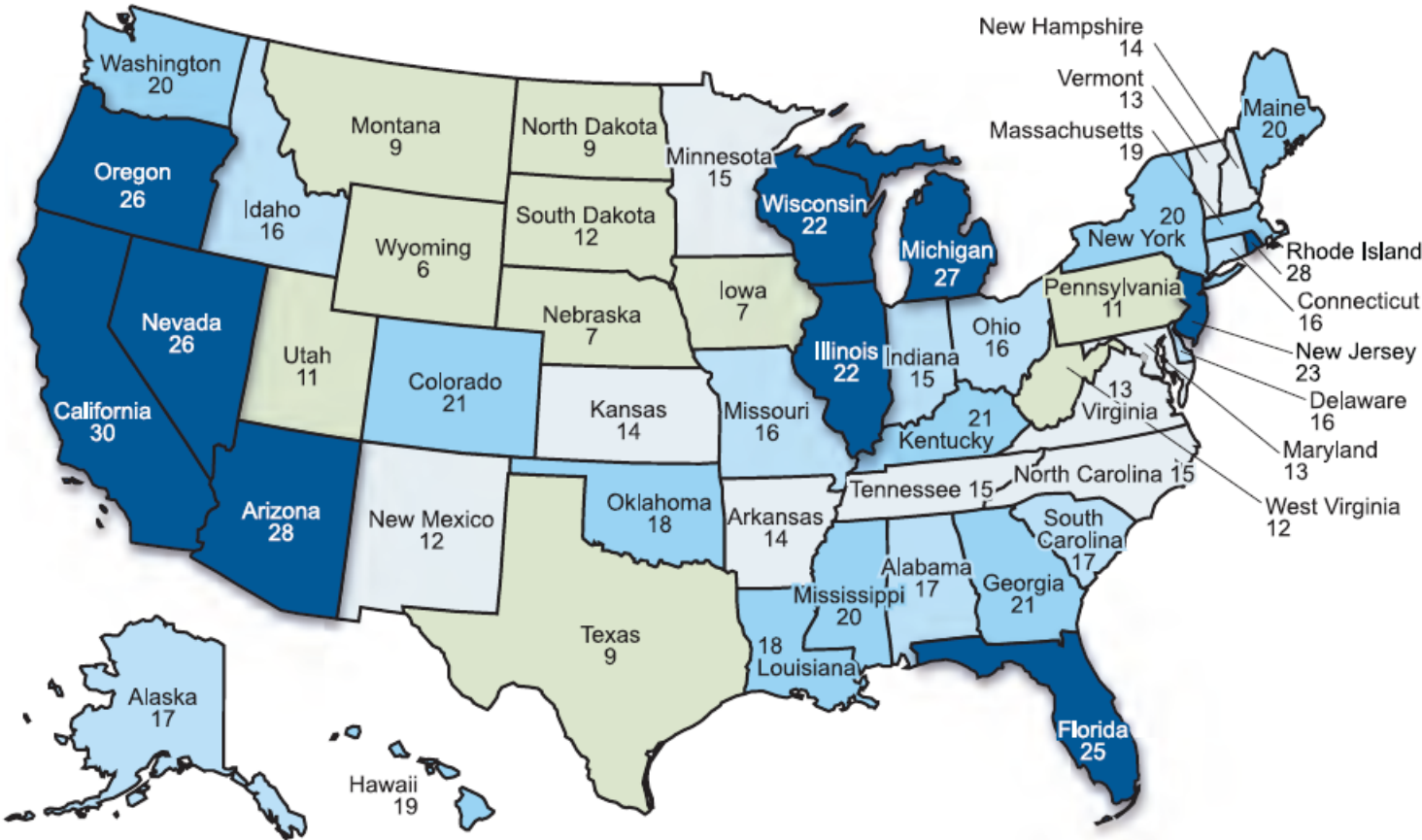
State	Share of 640,000 Stimulus Jobs	Share of U.S. Electoral Votes
Arizona	1.9%	1.9%
Nevada	0.9%	0.9%
Oregon	1.5%	1.3%
Michigan	3.5%	3.2%
Florida	4.6%	5.0%
New York	6.3%	5.8%

Arizona Budget Basics

Arizona Fiscal Woes Second to California

Using indicators chosen to gauge California's fiscal conditions, Pew Center on the States collected data for all 50 states. Pew's researchers then "scored" the states based on the results, with California ranking highest at 30.

Most similar to California  Least similar to California



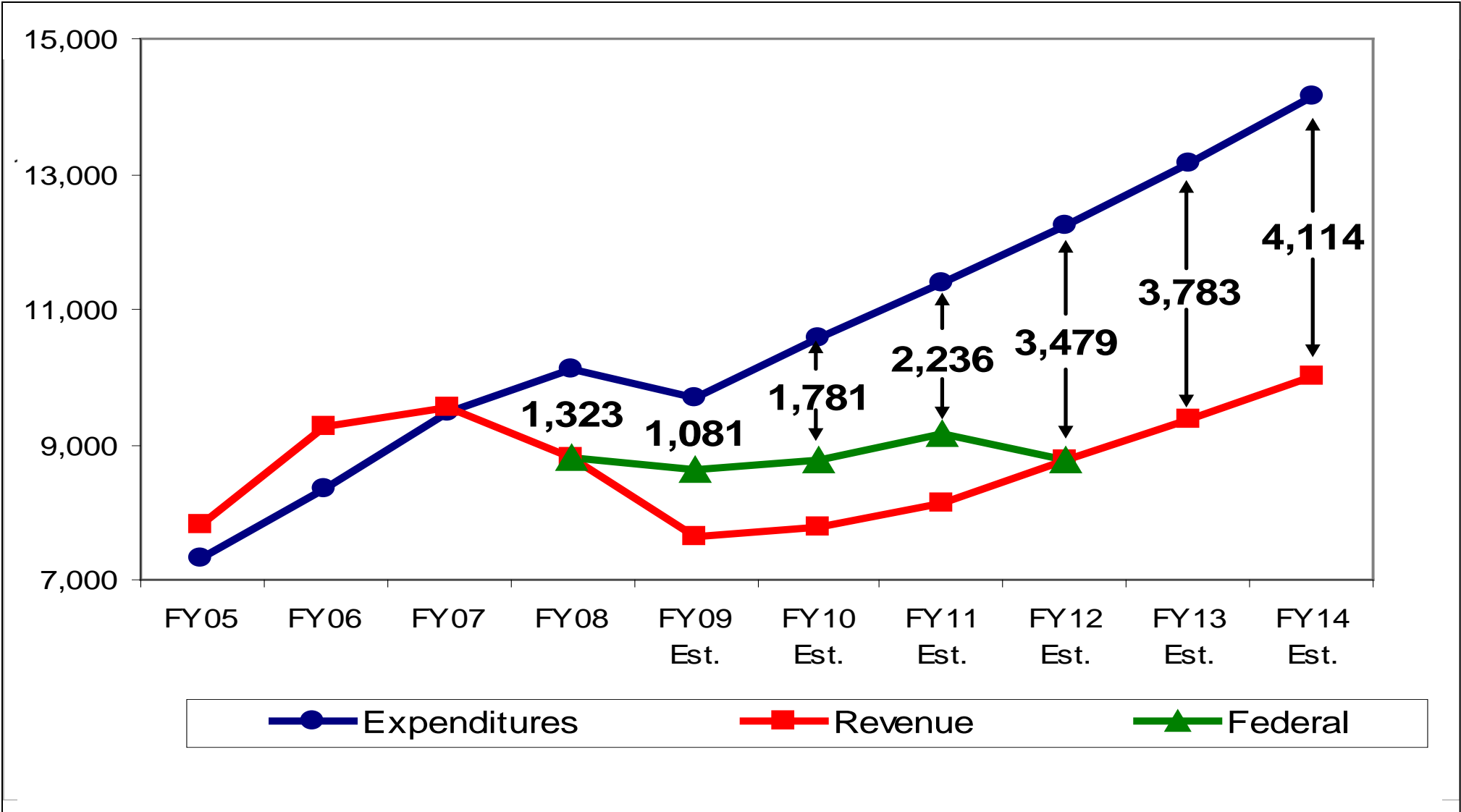
Budget Basics: 3 Major Revenue Sources Decline

- **Sales taxes (-31%)**
- **Individual income taxes (-36%)**
- **Corporate income taxes (-46%)**
- **These are 90% of General Fund**

Budget Basics: Much of Spending is Formula Based

- **K-12 Education**
 - **Corrections**
 - **AHCCCS & Health Care**
 - **These are 2/3 of General Fund**
-

Arizona's Budget Gap Is Growing

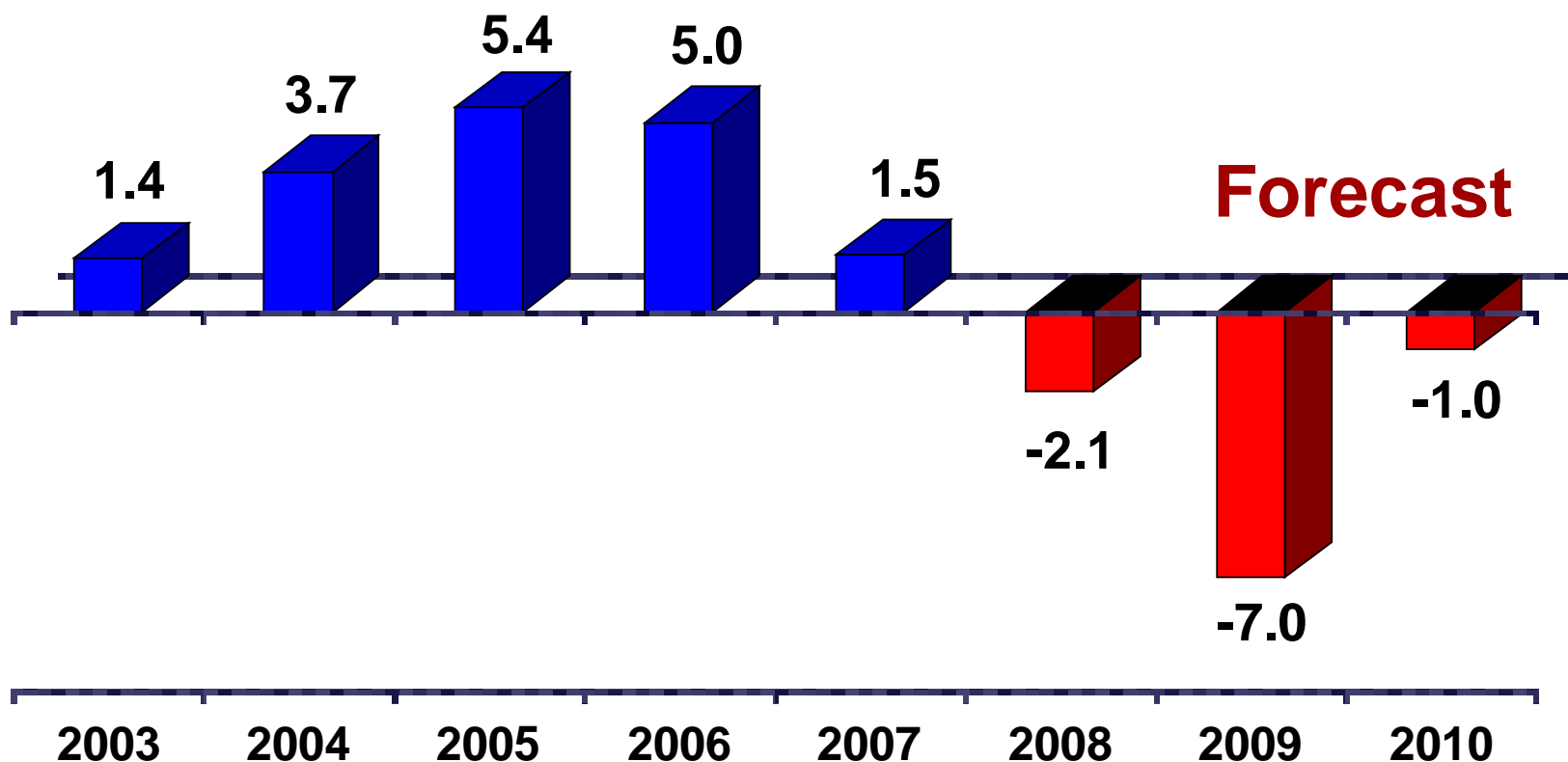


ARIZONA Economic Forecast

	2008	2009	2010
Job Gain (Loss)	-57,400	-183,000	-24,300
<i>Percent Change</i>	<i>-2.1%</i>	<i>-7.0%</i>	<i>-1.0%</i>
Personal Income	\$223 bl	\$220 bl	\$224 bl
<i>Percent Change</i>	<i>2.1%</i>	<i>-1.5%</i>	<i>2.0%</i>
Population Growth	2.3%	1.5%	1.8%

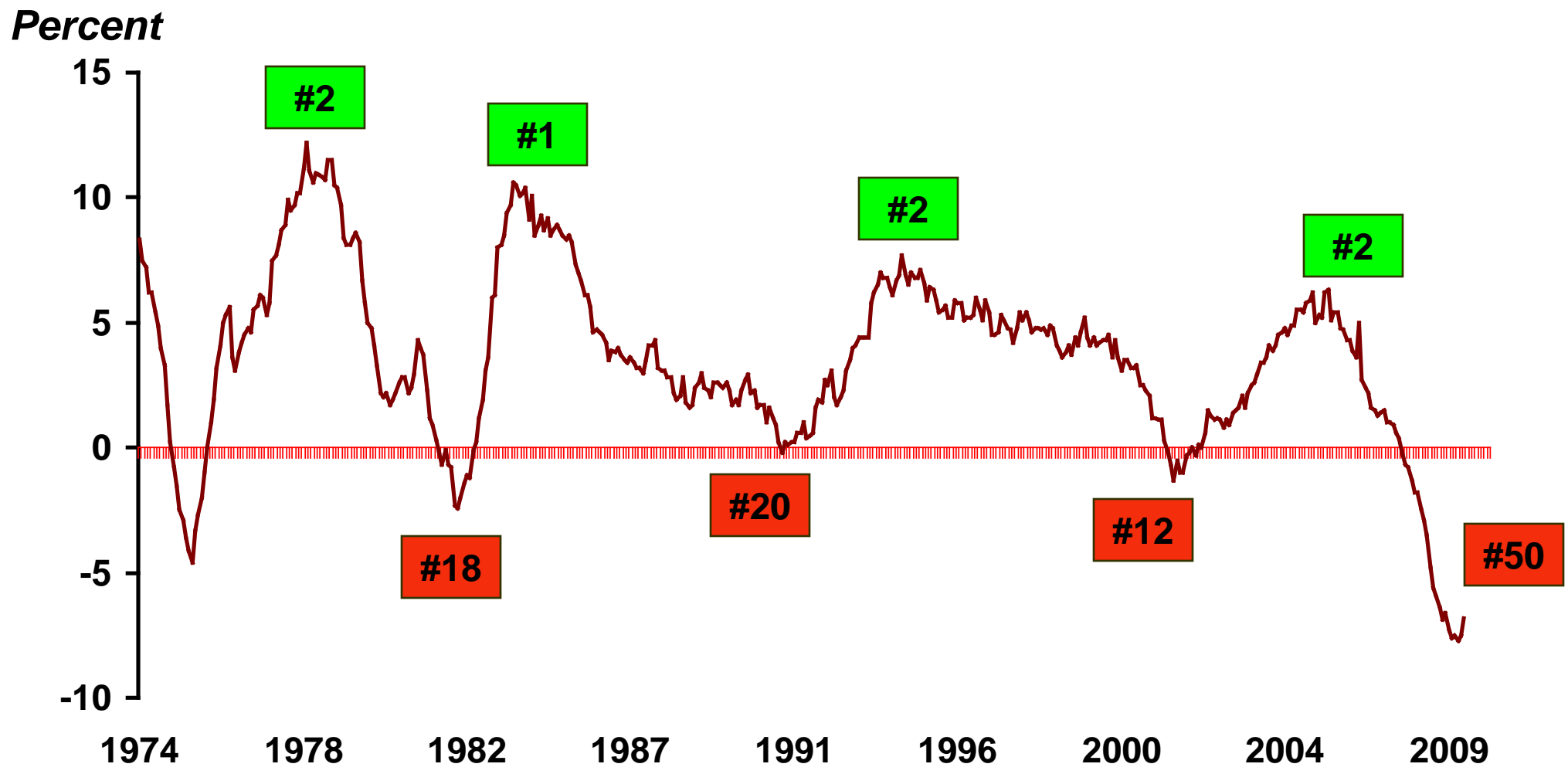
Arizona Employment: 3 Years of Job Losses

Annual Percent Change In Non-Farm Employment

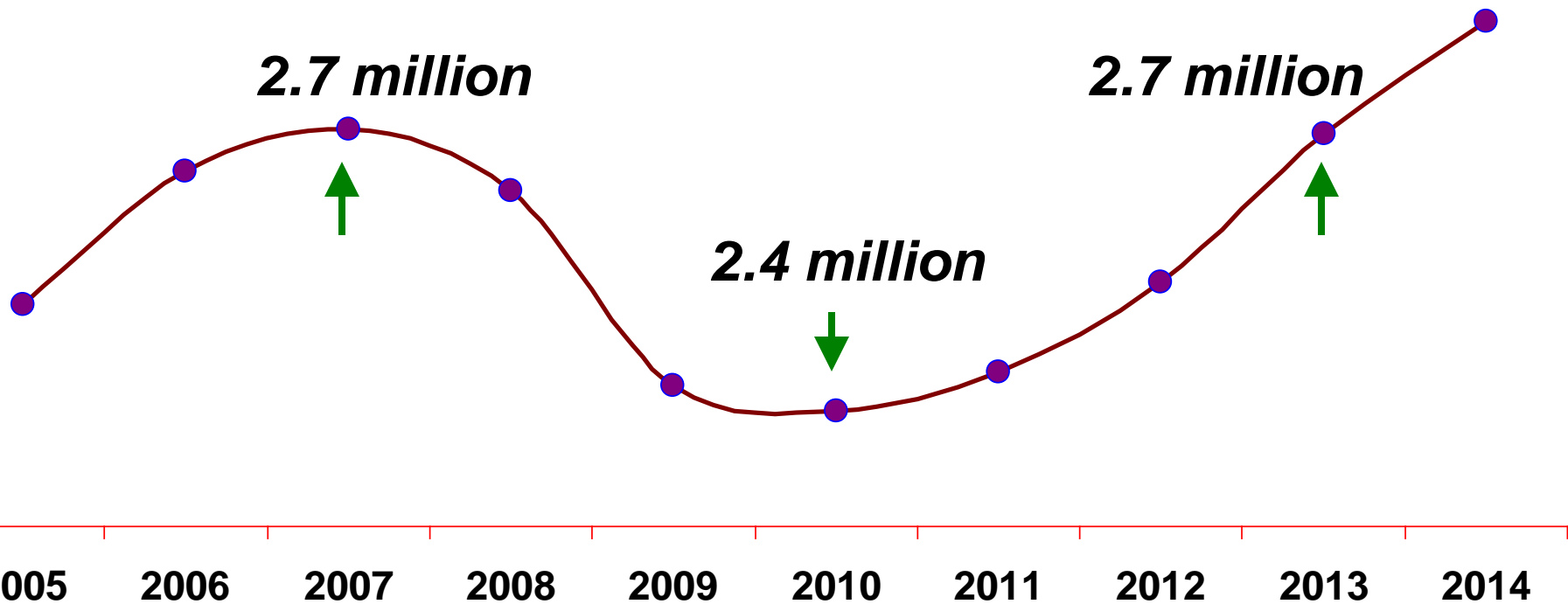


Arizona Comes Back From Recession

(Employment Growth Rate & Ranking)



The Long Road to Recovery: Arizona Jobs Return in 2013



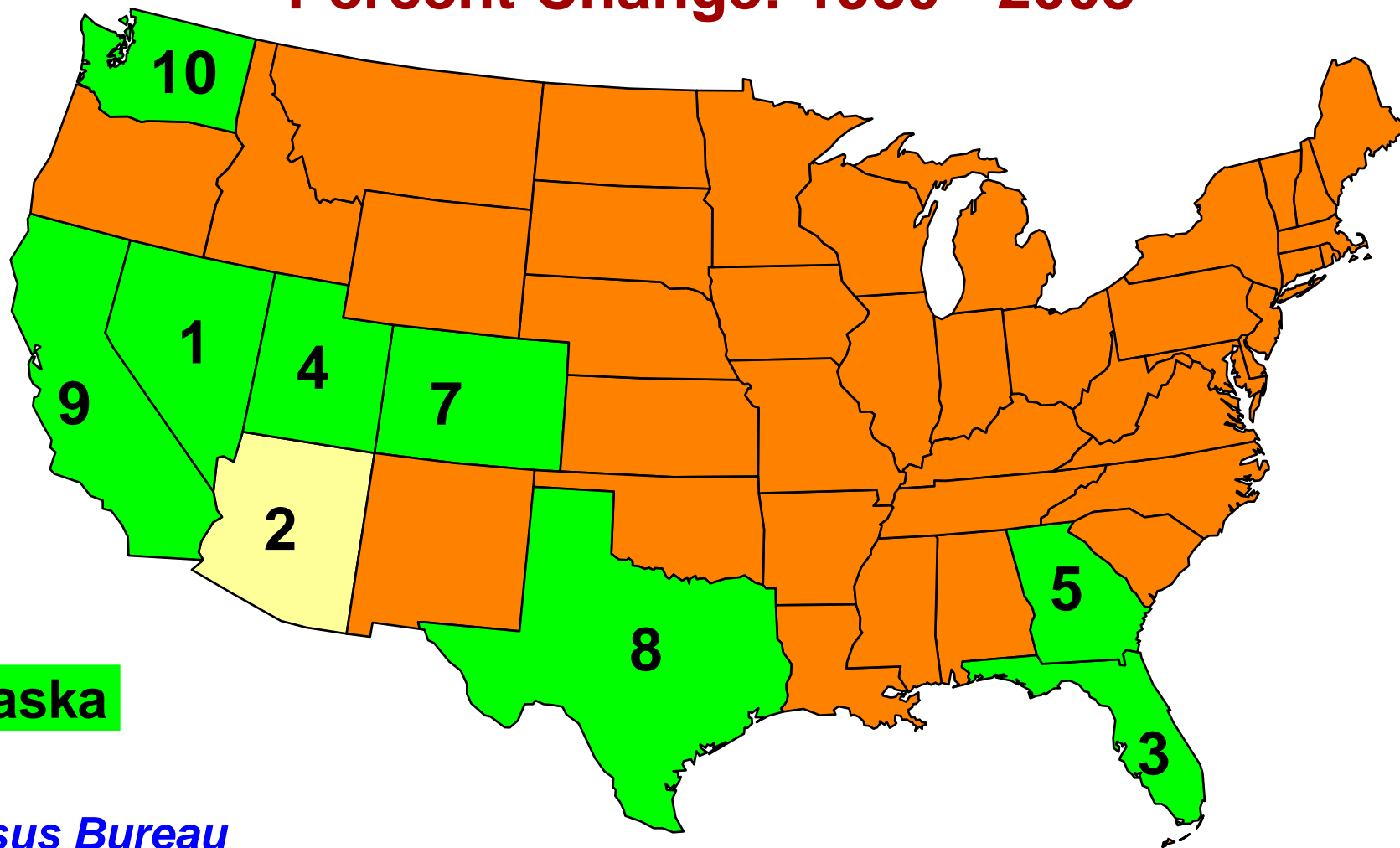
Arizona Department of Commerce and W. P. Carey School of Business, ASU

Population Growth is “Ace in the Sleeve” for Arizona Recovery

Decade	Growth Rank
1970 - 1980	2nd
1980 - 1990	3rd
1990 - 2000	2nd
2000 - 2008	2nd
Year 2008	2nd

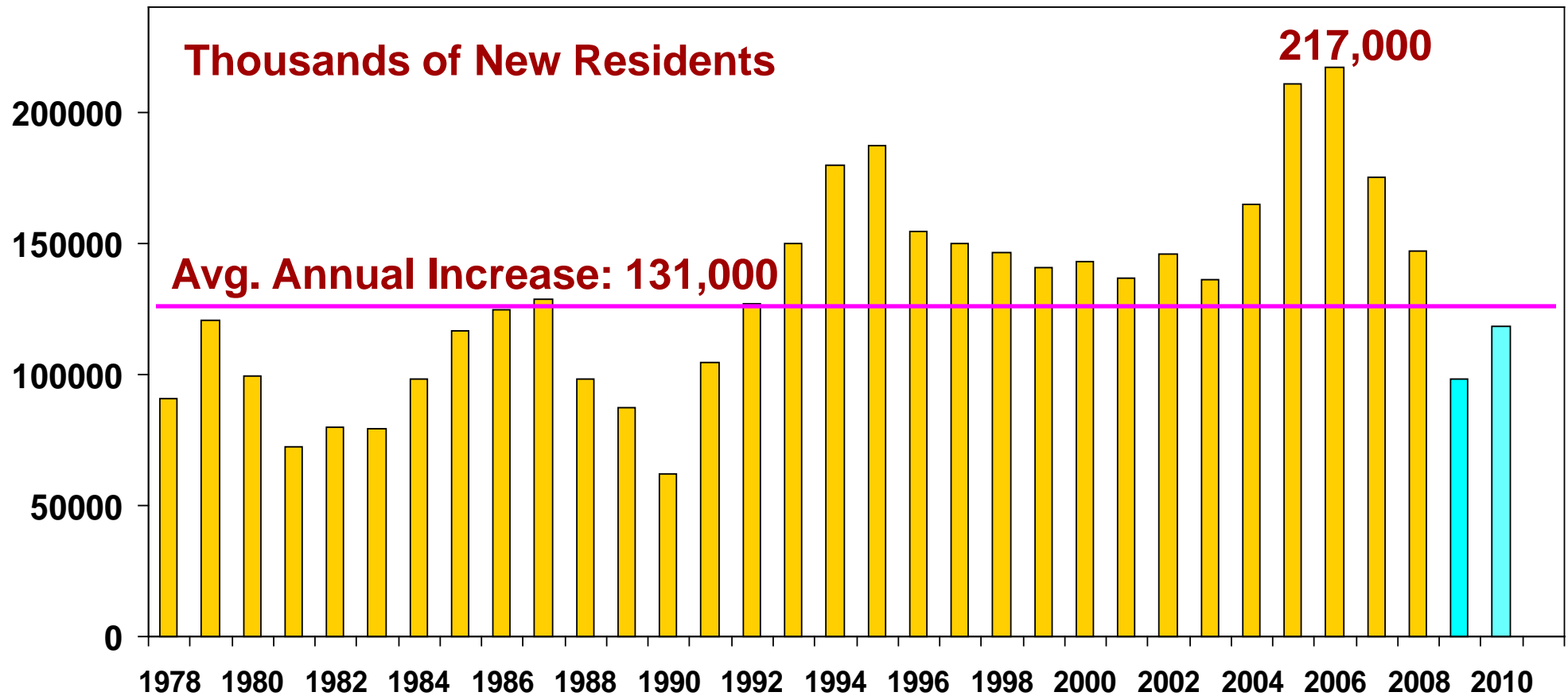
Arizona 2nd Fastest Growth State for 25 Years

Percent Change: 1980 - 2005



6 Alaska

131,000 New Arizona Residents per Year (Average 3.2% Growth Since 1978)



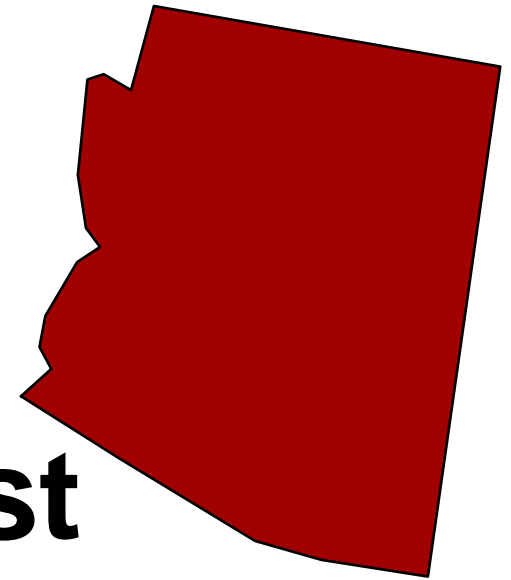
U. S. Census Bureau estimates

Quality Growth Depends on More Than Population Increases

- **Educated work force**
 - **Competitive tax structure**
 - **Affordable energy, water, land**
 - **Transportation infrastructure**
 - **Strong national/global brand**
-

Arizona Outlook Summary

- **More jobs lost in 2010**
- **Unemployment rises**
- **Job recovery in 2013**
- **Budget problems persist**
- **Quality growth requires more than population increases**





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