

Maricopa County Economic and Workforce Overview May, 2009

- The recession appears to be reaching its zenith in the first quarter of 2009. Each day brings more bad news – layoffs, unemployment, consumer confidence. Fear dominates our collective psyche. This is typical of recessions. History tells us that just when everyone capitulates to the idea that conditions will never improve, recovery begins.
- The U.S. has been in recession since December 2007. This already makes it one of the longest downturns of the post-war period. So much for the “Great Moderation” – the idea that recessions were getting shorter and less severe because of better management of the economy.
- The first seven years of this decade can be described as a period of easy money. Financial innovation in the form of sub-prime mortgages and securitization allowed credit to expand seemingly without limits, or regulation. The credit expansion allowed asset bubbles to develop in real estate and commodities.
- Credit is now contracting, and overextended financial institutions are being forced to deleverage. This process has sent asset prices tumbling. The stock market has lost nearly 50% of its value, home prices are down 12% nationwide, and oil prices have fallen from over \$140 per barrel to around \$50. The U.S. economy floats on a sea of credit, and it is now in freefall.
- Projections are for a severe downturn lasting into the second half of 2009 comparable in severity to the mid-1970s and early 1980s recessions.
- The U.S. lost 1.3 million jobs in the first quarter of 2009, on top of 3 million lost in 2008. This makes 2008's collapse in employment the worst since the end of World War II. Nationwide, employment declined in every month of 2008.
- Currently, the U.S. unemployment rate stands at 8.5% in March, up from 8.1% in February. These are the highest levels in 25 years. Unemployment is expected to approach 9% in 2009 and may top it. As a lagging indicator, unemployment will remain high even after the economy begins to recover.
- The U.S. unemployment rate in March was 7.5% for women, 9.5% for men, and 14.0% for 20-24 year-olds.
- Nationwide, weekly new claims for unemployment benefits have approached levels not seen since the early 1980s.
- Arizona has been hard hit. The recession in Arizona began earlier and will last longer than the national recession. The main reason is that credit conditions

must first improve and then the state's large inventory of houses must be absorbed. This must happen before homebuilding can commence once again.

Employment

- Non-farm Employment in the Greater Phoenix Metropolitan Area stands at 1.77 million in March 2009, down 7.1% from March 2008.
- Among metros Greater Phoenix had the fourth largest over-the-year decrease in employment for February 2009 (-137,600 jobs), putting it just behind Los Angeles (-202,300), New York City (-193,000) and Detroit (-142,400).

Employment in Selected Industries - Greater Phoenix		
March to March		
	08-09	07-09
Construction	-28.0%	-37.6%
Construction of Buildings	-29.3%	-37.3%
Heavy and Civil Engineering	-19.2%	-22.9%
Specialty Trade Contractors	-29.5%	-40.3%
Employment Services	-29.8%	-34.8%
Retail Trade	-7.3%	-7.3%
Financial Activities (Including Real Estate)	-4.4%	-8.5%
Manufacturing	-5.0%	-9.4%
Government	-1.1%	3.6%
Education and Health Services	0.6%	5.8%
Source: Arizona Department of Commerce		

- The seasonally adjusted unemployment rate in the Greater Phoenix Metro stands at 7.2% in March, up from 3.6% in January 2008 and 3.0% in May of 2007.
- First time unemployment claims statewide in March were up 102% from March 2008.
- Arizona ranked 48th among states in employment growth in 2008, down 1.6%. Only Rhode Island (-2.5%) and Michigan (-1.7%) fared worse. In 2006 Arizona ranked 2nd in employment growth among states.

Industry Sectors

- Exports are one of the few bright spots in the Arizona economy. Thanks to the weakened dollar, Arizona's exports to the world were up 2.7% in 2008 and 4.9% in 2007. The boost in exports has not translated into more manufacturing jobs in the state. Arizona state manufacturing employment was down 5.3% from March



to March, although this rate of job loss is slightly less than for the state overall which was down 6.9% over the same period. As the U.S. recession turns global manufacturing exports and employment will weaken.

- Employment growth in the Federal government was the fastest growing industry sector in the state from March to March, up 5.3%. Other sectors with positive employment growth include hospitals (+3.1%), local government education (+3.1%), aerospace products and parts (+2.5%), and nursing and residential care facilities (+2.0%).
- Sectors with negative employment growth statewide included construction (-27.9%), employment services (-27.5%), furniture and home furnishing stores (-22.9%), motor vehicle sales (-16.6%), department stores (-12.7%), truck transportation (-10.9%), telecommunications (-8.1%), and professional services (-7.9%).

Economic Indicators

- Inflation worries are a thing of the past, but for the wrong reason - recession. The Consumer Price Index was down slightly in March (-0.1%), on the heels of three massive months of decline in the 4th quarter of 2008 (including a record decrease of -1.7% in November, the largest since publication of the index began in 1947). Falling energy prices, particularly gasoline, drove the decline in the overall index. Excluding energy, the index was virtually unchanged. The contracting economy should continue this trend. Deflation might be the worry now, as consumers stop buying in the face of declining prices.
- The Consumer Confidence Index stands at 39.2 in April, up from 26.9 in March and a historic low of 25.3 in February. February's bottom represented an all-time low going back to the index's inception in 1967.
- Nationwide, retail sales were down 9.4% between March 2008 and March 2009.
- Retail sales are down in Arizona due to employment declines, falling wealth from lower home and stock, and tighter credit. Sales are off over 10% in inflation adjusted terms. Auto sales are down over 40%. Sales tax collections statewide are down 15.6% from March 2008 to March 2009.
- Housing troubles are affecting American consumers whose purchases account for more than 70 percent of US economic growth. Fewer home purchases mean fewer sales of "durable goods" to fill them and less access to credit and declining sales tax revenue for state coffers. The Sun Belt states where housing markets have been hardest hit—Arizona, California, Florida and Nevada—were among the states reporting sales tax revenue as below target.
- Population growth, a major driver of Arizona's economy, has slowed significantly in recent months as the state's economy has faltered and potential residents have

been unable to sell their houses back home. According to the Census Bureau, state population growth peaked at 3.6% in 2005 and 2006. Growth is expected to be in the 1.2%-1.3% range during the next two years, only slightly faster than nationwide. With reduced population growth, it will take longer to fill houses that are now vacant.

- Food stamps recipients have increased by 25.7 percent — or about 155,000 more people — in Arizona between January 2008 and January 2009. The U.S. Department of Agriculture reports that 756,960 Arizona residents received food stamps to help them buy basic foods. That number is up from 602,007 people in January 2008.

Housing Market

- According to the National Association of Realtors, the median price of an existing single family home in the Greater Phoenix Metro area was down 35.5% between the fourth quarter of 2007 and the fourth quarter of 2008, a decrease from \$241,700 to \$155,900. This put the Greater Phoenix Metro area 8th nationwide during this period behind the cities of Ft. Myers, FL (-50.8%), Saginaw, MI (-41.4%), Riverside, CA (-40.8%), San Jose, CA (-37.7%), San Francisco, CA (-37.4%), Sacramento, CA (-36.9%), San Diego, CA (-36.4%).
- Greater Phoenix led the nation's 20 largest metros in home price declines between February 2008 and February 2009 according to the S&P/Case-Shiller Home Price index, down 35.2%. The index as a whole fell 18.6% over the 12 months ending February 28th. From its peak in mid-2006, the index has plunged 30.7%, with Greater Phoenix down a whopping 51.0%.
- About 40% of all present home sales in Greater Phoenix are repossessions or foreclosures. Historically this figure is about 3%. Over the last year roughly half of all homes sold in the region were sold at a loss. Just over 40% of homes have negative equity. In other words, they are worth less than the debt.
- Residential building permits are down about 85% from their October 2005 peak, which is on par with declines experienced during the mid 1970s and early 1980s.
- Conservatively, it is estimated that there is a surplus of 40,000 to 50,000 housing units in Greater Phoenix above normal demographic demand. Factoring in lower population growth projections and new housing stock coming on line, it will take several years for the market to eliminate this excess supply.
- Existing home sales are now showing signs of stabilization. Sales bottomed out in November of 2007 and have rebounded from a seasonally adjusted annual rate of 45,000 to 72,500 at the end of 2008. A large portion of these sales are foreclosures, but money is once again flowing.

- Forecasters are predicting that by mid 2009 the housing market is expected to bottom out, credit will expand, and consumer demand will increase. However, the housing market may not return to its normal, pre-bubble levels until 2012.
- On the plus side, housing affordability in the region is on the rise, and is the highest among western states.

Bright Spots

- Analysts foresee the national business cycle to be up by mid-2010, and growth will return again.
- The stock market has recovered nearly 25% since its low in March. Have we seen the bottom?
- Energy costs are down, which means that consumers have nearly \$200 billion extra to spend on essentials rather than at the pump.
- Historically low mortgage rates (around 5%) are allowing qualified customers to refinance.
- The feds have been proactive in stimulating the economy:
 - \$787 billion American Recovery and Reinvestment Act - includes short and long-term stimulus components including an extension of unemployment benefits, tax cuts for working individuals, and funds for education, green technologies, and infrastructure.
 - \$275 billion program to facilitate modification of home mortgages.
 - \$1 trillion Term Asset-Backed Securities Lending Facility (TALF) - provides funding to purchase securities backed by assets such as credit card debt, auto loans, student loans, and residential and commercial real estate loans. It will significantly increase the flow of credit to the private sector, while banks struggle to meet capital adequacy requirements.
 - \$75 to \$100 billion Public-Private Investment Program - seeks to create a market for bad debt and purge bank balance sheets of as much as \$1 trillion in sour assets that are limiting lending and prolonging the recession.
- Psychology could be the key to recovery. Consumer confidence has to rebound before the economy can turn around.
- As for Arizona, employment growth is expected to return by the second quarter of 2010, but it will take until the end of 2012 for employment to reach the statewide levels seen in the third quarter of 2007.
- Long term prospects for growth in Arizona remain strong. State population is projected to be 15 million by 2040, which is eight-and-a-half million more people than currently live in Arizona today. If projections hold true, Arizona will be the fifth most populous state in 2040 behind California, Texas, New York, and

Florida. This will mean that employment in the state will double over the next 32 years as 3.7 million jobs are added.

Sources:

Arizona Department of Commerce
National Association of Realtors
S&P/Case-Shiller Home Price Index
UA Eller College of Management
U.S. Bureau of Economic Analysis

U.S. Bureau of Labor Statistics
U.S. Department of Agriculture
U.S. Department of Commerce TradeStats
U.S. Department of Labor

