

## Maricopa County Economic and Workforce Overview December, 2008

- Its official, the U.S. is in recession according to the National Bureau of Economic Research and has been since December 2007. This already makes it one of the longest recessions of the post-war period.
- Projections are for a severe downturn lasting into the second quarter of 2009.
- 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 priced tumbling. The stock market has lost over 40% of its value, home prices are down 9% nationwide, and oil prices have fallen from over \$140 per barrel to below \$60. The U.S. economy floats on a sea of credit, and it is now in freefall.
- 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 1.87 million in October 2008, down 2.6% from October 2007.
- The Greater Phoenix Metro had the third largest over-the-year decreases in employment for October (-49,300 jobs), putting it just behind Detroit (-55,500) and Los Angeles (-50,600).

<b>Employment - Greater Phoenix</b>		
September 2007 – September 2008		
	<i>07-08</i>	<i>06-08</i>
Construction	-18.4%	-24.5%
Construction of Buildings	-27.3%	-33.0%
Heavy and Civil Engineering	-3.6%	-4.5%
Specialty Trade Contractors	-18.9%	-25.8%
Employment Services	-8.8%	-13.6%
Retail Trade	-6.6%	-4.8%
Financial Activities (Including Real Estate)	-2.2%	-4.1%
Manufacturing	-1.1%	-3.3%
Government	1.7%	6.6%
Education and Health Services	5.3%	9.3%

Source: Arizona Department of Commerce

- The seasonally adjusted unemployment rate in the Greater Phoenix Metro stands at 5.5% in October, up from 3.6% in January 2008 and 3.0% in May of 2007. Nationwide, unemployment stood at 6.5% in October.
- Initial unemployment insurance claims statewide in October were up 63% when compared to October of 2007.
- Arizona ranked 49<sup>th</sup> in employment growth from October 2007 to October 2008, down 2.6% or 70,400 jobs. Only Rhode Island fared worse at -3.0%. Between 2005 and 2006, Arizona ranked 2<sup>nd</sup> 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 4.9% between 2006 and 2007 and are up 1.9% in the first half of 2008 compared to the first half of 2007. A boost in exports has not translated into more manufacturing jobs in the state. Arizona state manufacturing employment was down 1.8% from October to October, but this rate of job loss is less than for the state overall which was down 2.6 % over the same period. As the U.S. recession turn global, however, manufacturing employment and exports will weaken.
- Natural resources and mining led the state in employment growth October to October, up 5.0%, but is a relatively small industry sector in the state accounting



- for less than 1% of employment and 1.8% of gross state product in 2007. Layoffs in the sector have already begun, as commodity prices decline.
- Other sectors with positive employment growth include health care and social assistance (up 3.8%), professional and technical services (2.1%), and government (1.5%).
  - Sectors with negative employment growth statewide included transportation and warehousing (-1.7%), finance and insurance (-2.3%), real estate, rental, and leasing (-2.9%), administrative support and waste services (-5.4%), information (-6.6), and construction (-17.1%).

### **Economic Indicators**

- Inflation worries may be a thing of the past, but for the wrong reason- recession. The Consumer Price Index was down 0.1% in August, unchanged in September, and down a historic 1.0% in October (the largest one month decline in the CPI since its publication began in 1947). Decreasing energy prices led the decline, and the contracting economy should continue the trend. Deflation might be the worry now, as consumers stop buying in the face of declining prices.
- Retail sales are down in Arizona due to employment declines, falling wealth from lower home and stock, tighter credit, and higher inflation. Sales are down over 10% in inflation adjusted terms. The hardest hits have been auto and furniture sales. Sales tax collections statewide are down 8.0% from October to October.
- 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 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.

## **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 27.6% between the third quarter of 2007 and the third quarter of 2008, a decrease from \$255,500 to \$185,100. This put the Greater Phoenix Metro area 8<sup>th</sup> nationwide during this period behind the cities of Riverside, CA (-39.4%), Sacramento, CA (-36.8%), San Diego, CA (-36.0%), Los Angeles, CA (-35.1%), Ft. Myers, FL (-31.0%), Las Vegas, NV (-28.4%), and Orange County, CA (-27.6%).
- The Greater Phoenix Metro led the nation in home price declines between September 2007 and September 2008 according to the S&P/Case-Shiller Home Price index, down 31.9%.
- Home sales and residential construction are now showing signs of stabilization. Residential building permits are down about 70% from their October 2005 peak, which is on par with declines experienced during the mid 1970s and early 1980s. About 40-50% of all present home sales are repossessions or foreclosures.
- Forecasters are predicting that by mid 2009 the housing market is expected to bottom out, credit will expand, and consumer demand will increase.

## **Bright Spots**

- Analysts foresee the business cycle to be up by mid-2010, and growth will return again.
- The long term prospects for growth in the state of Arizona are strong, with a population of 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 Arizona will double over the next 32 years as 3.7 million jobs are added.

## **Sources:**

U.S. Bureau of Labor Statistics  
U.S. Department of Labor  
Arizona Department of Commerce, U.S.  
Department of Commerce TradeStats  
U.S. Bureau of Economic Analysis

education health services transportation utilities business services bioscience automotive manufacturing public safety information technology utilities education health services business services bioscience automotive manufacturing public safety information technology utilities education health services business services bioscience automotive manufacturing transportation public safety bioscience information technology utilities

a force that  
**works**

MARICOPA COMMUNITY COLLEGES  
CENTER FOR WORKFORCE DEVELOPMENT [www.maricopa.edu/workforce](http://www.maricopa.edu/workforce)

National Association of Realtors

S&P/Case-Shiller Home Price Index

The Forecasting Project, UA Eller College of Management Economic and Business  
Research Center

