Maricopa County
Economic and Workforce Overview
June, 2009

- The recession appears to be reaching its zenith in the second quarter of 2009. Nationwide, economic indicators are beginning to bottom out, and a few measures have even turned upward. The national recession is expected to end during the summer or early fall and begin a slow recovery.
- The U.S. has been in recession since December 2007. This makes the "Great Recession" the longest of the post-war period and comparable in severity to the recessions of the mid-1970s and early 1980s.
- The U.S. lost nearly 3 million jobs in the first five months of 2009, on top of 3.1 million lost in 2008. Last year'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 9.4% in May, up from 8.9% in April. These are the highest levels seen in 25 years. Rates are expected to top 10% in 2009. As a lagging indicator, unemployment will remain high even after the economy begins to recover.
- Factoring in other measures of unemployment and underemployment, such as discouraged, marginally attached, and part time workers, the U.S. unemployment rate jumps to 16.4%.
- Unemployment in May was 8.0% for women, 10.5% for men, and 15.0% 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 state is expected to lag the national recovery by at least a quarter or two due to the lingering challenges of the real estate market and anticipated layoffs in the public sector.
- Arizona ranked 47th among states in employment growth in 2008, down 2.1%. Only Florida (-3.2%), Michigan (-2.6%), and Rhode Island (-2.2%) faired worse. In 2006 Arizona ranked 2nd in employment growth among states.
- From a peak in late 2007, Arizona has lost 234,000 jobs, or 8.6% of employment. A further 5.0% decline is expected in 2009, and a 2.3% decline in 2010. In terms of job loss, there is no evidence yet that the state is approaching bottom. Unemployment is headed above 10%. Robust employment growth is unlikely

before 2011, and employment levels seen in 2007 will not be recovered until 2013 - a six year correction.

- Personal income was up a meager 2.7% in 2008, ranking Arizona 47th among states. On a per capita basis, personal income was up only 0.4%, ranking Arizona 50th among states. It will be difficult to build a state budget on these figures.

Top Industries for Employment Growth - Arizona April 2008 to April 2009	*Percent*
Federal Government	8.6%
Local Government Education	3.0%
Aerospace Products and Parts	2.9%
Nursing and Residential Care	2.0%
Hospitals	1.9%
Local Government	0.4%
Insurance, Funds, and Trusts	0.3%
Source: Arizona Department of Commerce	

Top Industries for Employment Declines - Arizona April 2008 to April 2009	*Percent*
Construction - Specialty Trade Contractors	-30.0%
Construction of Buildings	-26.6%
Furniture and Home Furnishings Stores	-23.3%
Employment Services	-22.1%
Metal Ore Mining	-19.4%
Construction - Heavy and Civil Engineering	-19.2%
Clothing and Accessories Stores	-16.8%
Source: Arizona Department of Commerce	

Greater Phoenix

- Non-farm Employment in the Greater Phoenix Metropolitan Area had declined 6.8% between April 2008 and April 2009, and is off 9.1% from a peak in December of 2007.
- Among metros nationwide Greater Phoenix had the fifth largest over-the-year decrease in employment for April (-129,700 jobs), putting it just behind Los Angeles (-240,500), New York City (-234,400), Chicago (-190,400), and Detroit

(-143,400). The region has been among the leaders in job losses for large metropolitan areas (with populations greater than 1 million).

- The seasonally adjusted unemployment rate in the Greater Phoenix stands at 7.3% in April, up from 6.2% in January 2009 and 3.0% in May of 2007.

Employment in Selected Industries - Greater Phoenix
April to April

	08-09	*07-09*
Construction	-27.8%	-38.1%
Construction of Buildings	-27.8%	-36.9%
Heavy and Civil Engineering	-22.0%	-26.3%
Specialty Trade Contractors	-29.0%	-40.6%
Employment Services	-21.8%	-27.8%
Retail Trade	-7.8%	-8.7%
Financial Activities (Including Real Estate)	-4.1%	-8.7%
Manufacturing	-4.6%	-8.7%
Government	-1.3%	3.6%
Education and Health Services	-0.1%	6.2%

Source: Arizona Department of Commerce

Economic Indicators

- Nationwide, first time unemployment claims in May are up 71.0% over May 2008, and have approached levels not seen in over 25 years. Recent weeks have seen the number of claims top out, however, and begin to decline.
- In Arizona, first-time unemployment claims statewide in May were up 61.6% from May 2008.
- Inflation worries are a thing of the past, for now. The Consumer Price Index was unchanged in April, 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. Excluding energy, the index was virtually unchanged. The contracting economy should continue this trend. Deflation might be a worry in the near term, as consumers stop buying in the face of declining prices. When the economy recovers inflation will return, rising in part due to the billions pumped into the economy from the economic stimulus.
- The Consumer Confidence Index stands at 54.9 in May, and has now posted two consecutive months of strong gains. The index reached bottom in February at 25.3, which was an all-time low going back to the index's inception in 1967.

- Nationwide, retail sales were down 9.6% between May 2008 and May 2009. Gasoline sales were down 33.8%, and motor vehicle sales were down 21.7%.
- 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%. Taxable sales collections statewide are down 17.4% from April 2008 to April 2009 in non-inflation adjusted terms.
- 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 as 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 1.3%-1.4% 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 27.9 percent — or about 173,000 more people — in Arizona between March 2008 and March 2009. The U.S. Department of Agriculture reports that 791,244 Arizona residents received food stamps to help them buy basic foods. That number is up from 618,447 people in March 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 41.9% between the first quarter of 2008 and the first quarter of 2009, a decrease from $222,200 to $129,200. This put the Greater Phoenix Metro area 6th nationwide during this period behind the cities of Ft. Myers, FL (-59.1%), Saginaw, MI (-53.7%), Akron, OH (-48.0%), San Francisco, CA (-42.7%), and San Jose, CA (-42.3%),
- Greater Phoenix led the nation's 20 largest metros in home price declines between March 2008 and March 2009 according to the S&P/Case-Shiller Home Price index, down 36.0%. The index as a whole fell 18.7% over the 12 months ending March 31st. From its peak in mid-2006, the index has plunged 32.2%, with Greater Phoenix down a whopping 53.0%.

- Two factors are driving home prices down. The first is the economy and the general unease consumers have regarding their employment prospects. The second is psychology. Consumers are reluctant to buy as they see prices continue to fall.
- Arizona ranked 4th among states in foreclosures in 2008 with 110,700 foreclosed properties.
- A second wave of foreclosures is expected in 2010 and 2011 as the number of ALT-A and Option ARM resets surge.
- Two thirds of home sales in Maricopa County are bank owned or distressed properties. 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.
- Residential homebuilding has all but ceased in the state of Arizona, down 91% from peak. In the first quarter of 2009, only 2,099 single-family permits were issued in the entire state, in the second quarter of 2005 this figure was 23,924.
- 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.
- 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.
- The commercial real estate market is now showing signs of distress. Vacancy rates are rising as businesses close and new construction is evaporating. In the next two years a large number of commercial real estate mortgages will come due for renewal, and rents will continue to fall.

Bright Spots

- Analysts foresee the recession ending by summer or early fall. A weak recovery will follow. Previous recoveries were powered by automobile or home sales, or a surge in manufacturing. Not this time.
- U.S. credit markets need 2-3 years to return to normal.
- New claims for unemployment benefits are falling, the rate of job loss is improving, consumer confidence is rising, retail sales are firming, real estate transactions have increased, and housing affordability is high.
- The stock market has recovered 35% of its value since March.
- Energy prices 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.
- The recession overseas is worse than in the U.S. U.S. first quarter GPD was down 6.1%. In the UK it was down 7.6%, Germany 14.4%, Japan 15.2%, and Mexico 21.5%.
- Psychology could be the key to recovery. Consumer confidence has to rebound before the economy can turn around.
- Arizona will lag behind the recovery. Employment growth is expected to return by 2010, but it will take until 2013 for employment to reach the statewide levels seen at the end of 2007.
- Existing home sales in Arizona are showing signs of stabilization. Sales bottomed out 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 into the market.
- Sales are up, inventories are down, and the number of home listings is declining.
- Housing affordability in Arizona is the highest among western states.
- The housing recovery may be aided by Generation Y's who are approaching their prime home-buying age.
- Risks for Arizona moving forward include a collapse of the commercial real estate market, public sector spending and layoffs, continued price declines in the housing sector, a new wave of residential foreclosures, and continued corporate layoffs.
- 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