

# **“Are We There Yet?”**

## ***On the Road to Recovery***

**96<sup>th</sup> Annual Arizona Tax Conference**

*September 27, 2013*

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# **Economic Update & Outlook**

- **Is It Getting Better – or Worse?**
- **Economy Faces Headwinds**
- **Recovering But Not Recovered**
- **Arizona Follows U.S. Cycle**
- **Long Term Outlook is Strong**

# U.S. Economy Getting Better?

Or Getting Worse?!?

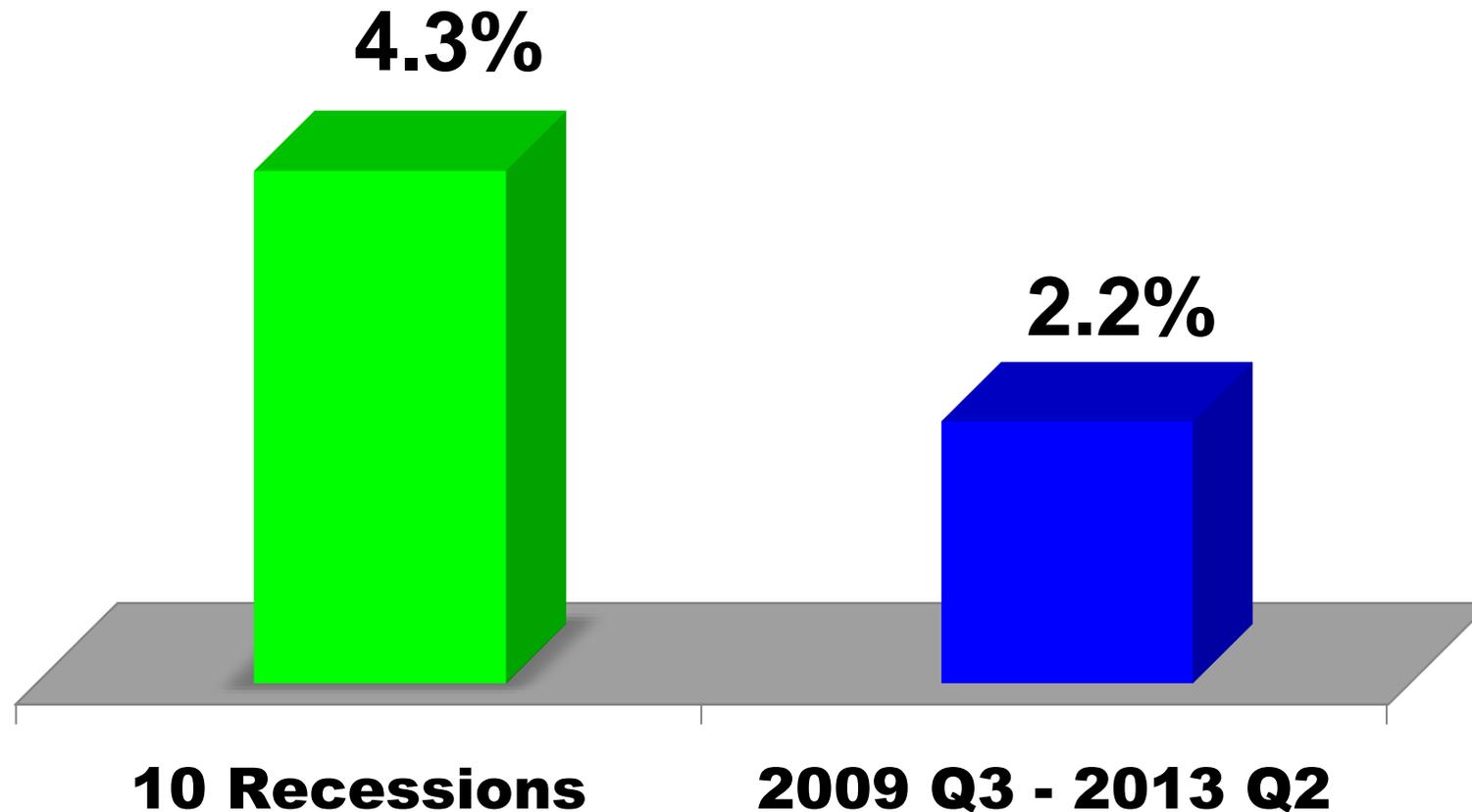
**Getting Better: 37%**

**Getting Worse: 58%**

***Note: recession  
ended July 2009***

*Gallup Poll September 23, 2013*

# GDP 16 Quarter Recovery At Below Average Pace



*U. S. Bureau of Economic Analysis, average growth 16 quarters post recession*

# Headwinds to Growth Persist

- **Lots of Uncertainty**
- **Hiring Still Slow**
- **Govt. Sector No Help**
- **Real Wages Stagnant**
- **Consumer Spending is  
in “Low Gear”**

# Most Americans Are Not Benefitting From Greater Productivity

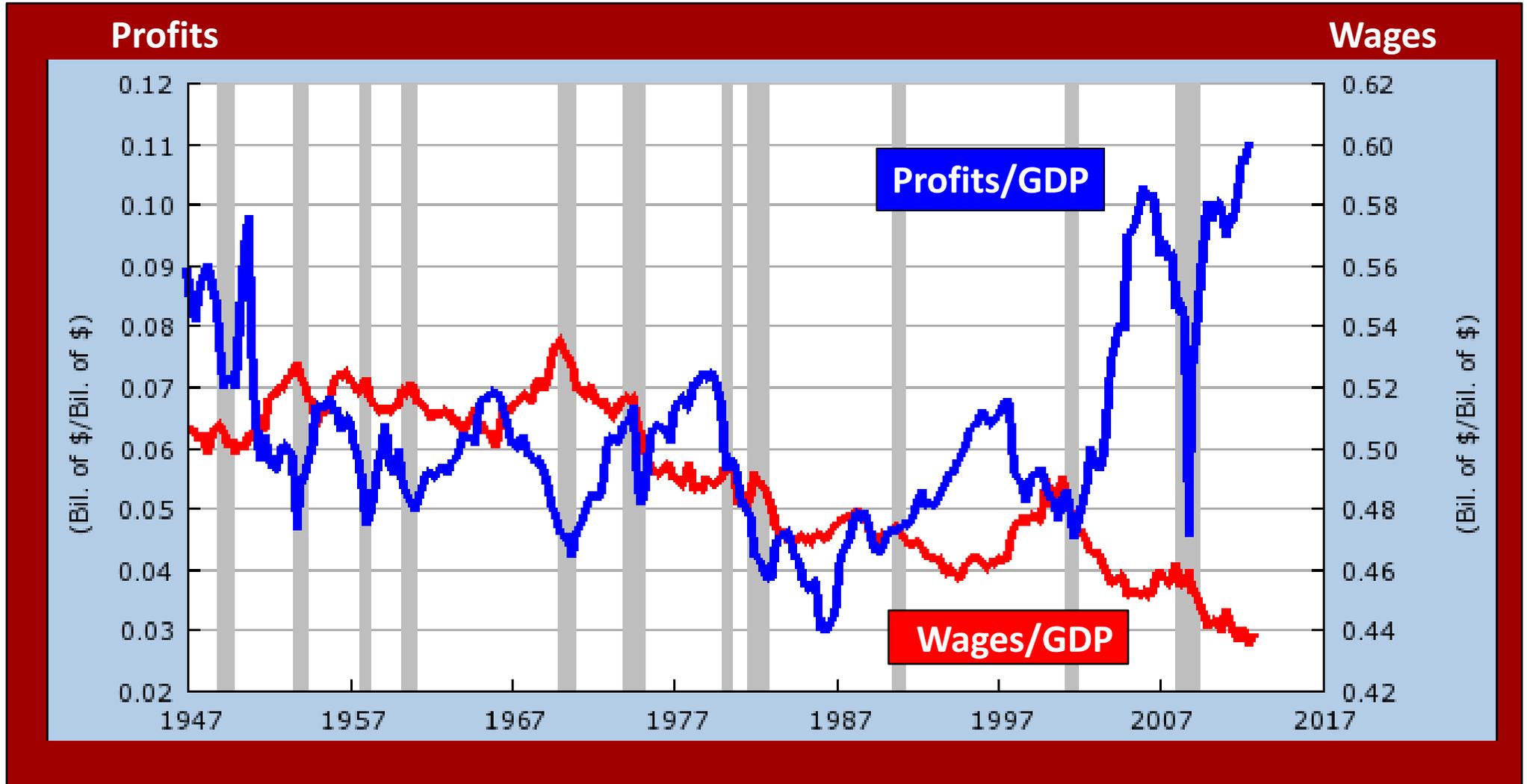
Cumulative change in total economy productivity and real hourly compensation of production/nonsupervisory workers, 1948–2011

## Productivity is up But Real Hourly Worker Pay Little Changed Since 1978



# Corporate Profits As % GDP At Record High

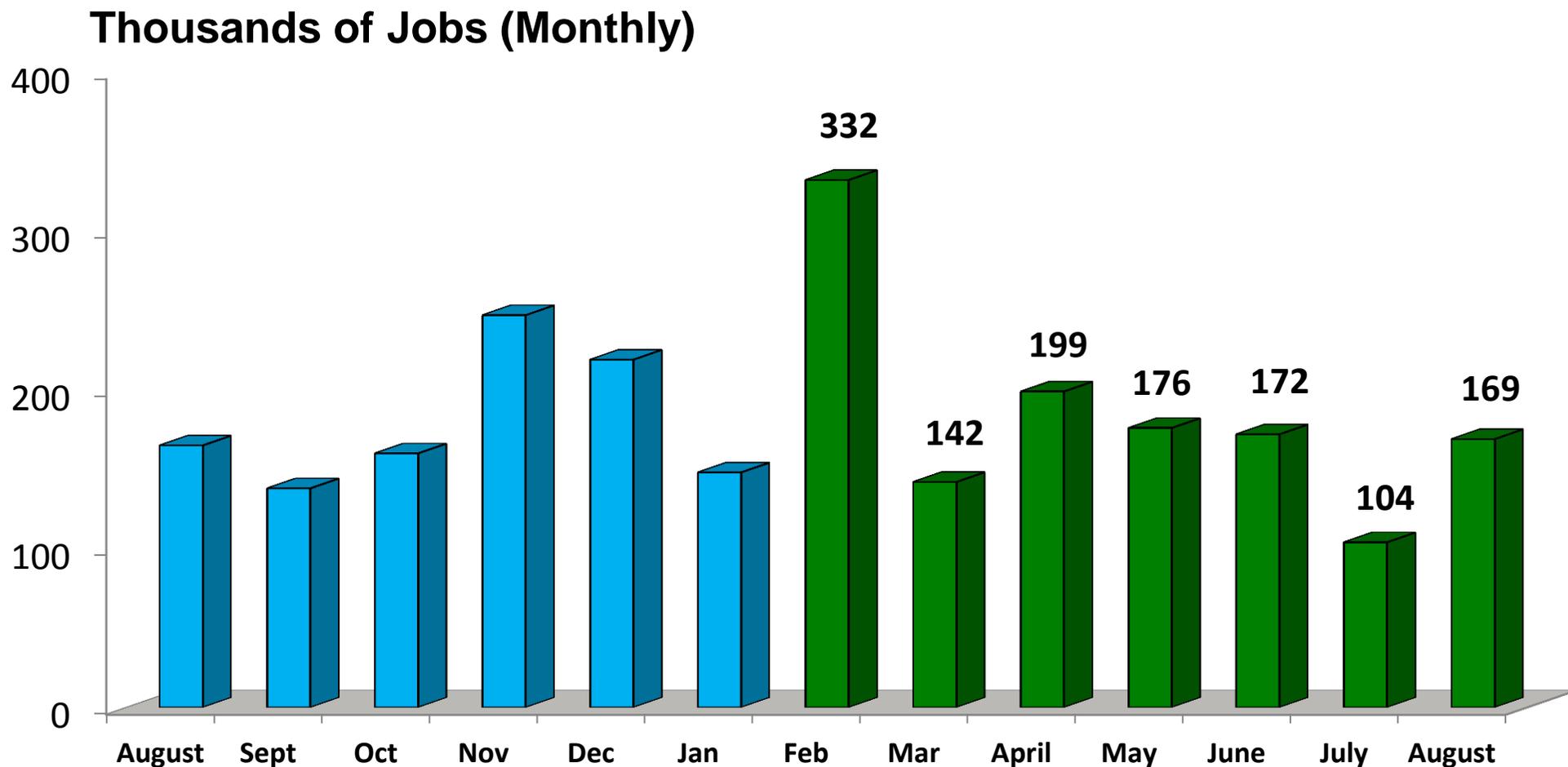
## - Wages As % GDP At Record Low



**Labor Market  
Full Recovery  
(Return to Prior Peak)  
Is in Sight for U.S.  
But Not Arizona**

# 169,000 U.S. Jobs Added in August

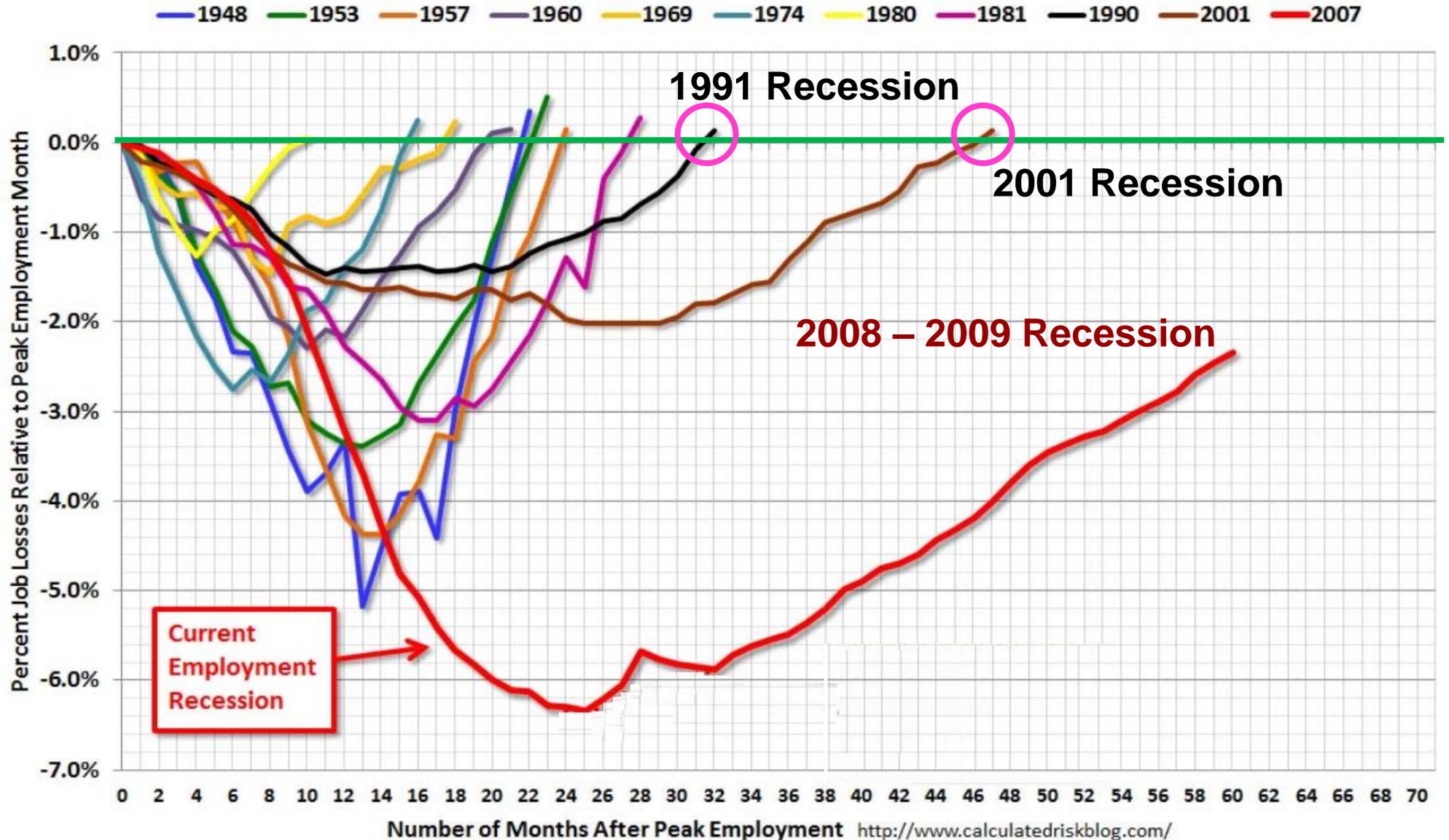
## 6 Month Avg. Growth: 160,000/month



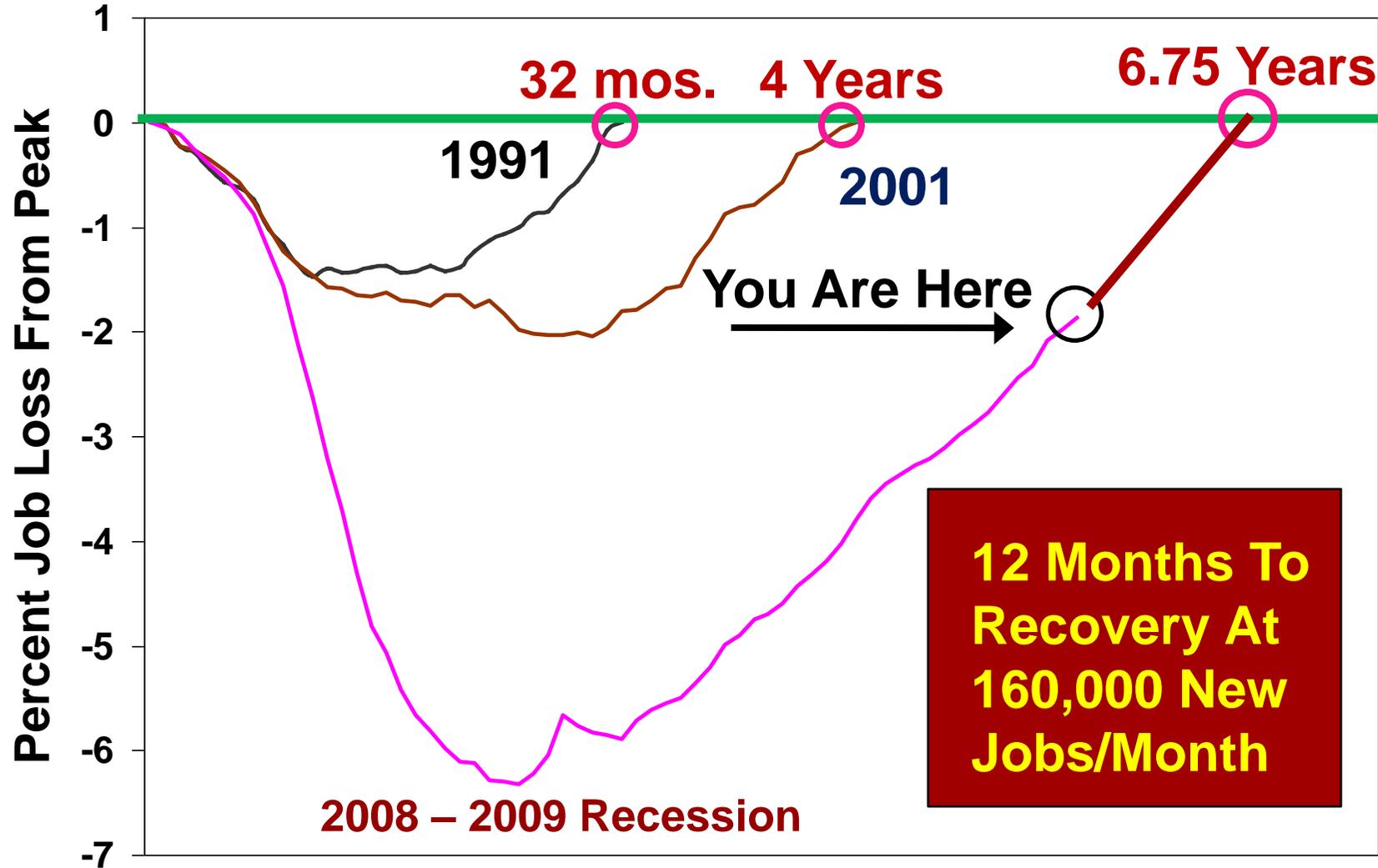
*U. S. Bureau of Labor Statistics, Seasonally Adjusted*

# Jobs Came Back Sooner Years Ago

Percent Job Losses in Post WWII Recessions



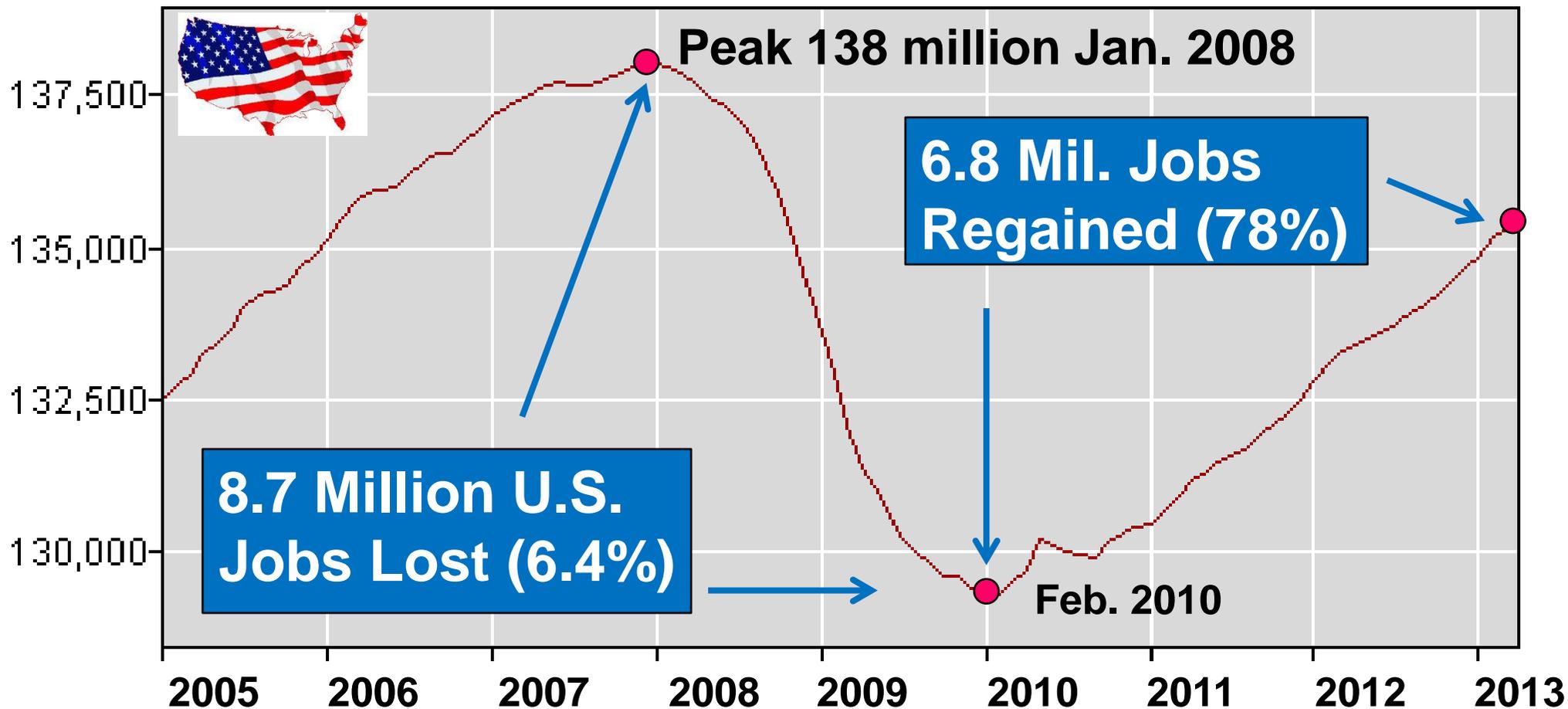
# Recover Lost Jobs by Sept. 2014?



*U. S. Bureau of Labor Statistics, seasonally adjusted data, Aug. 2013*

# U.S. Has Regained 78% of Lost Jobs

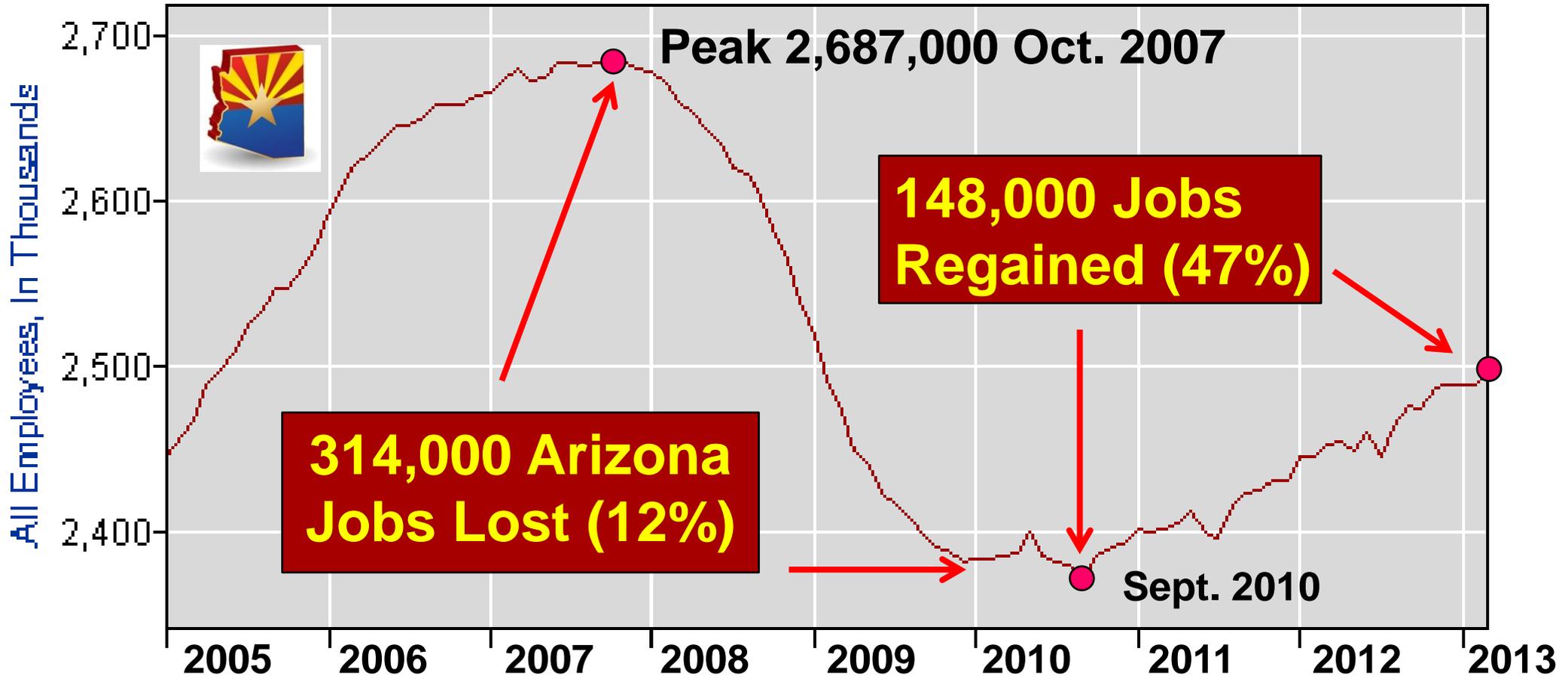
## 1.9 Million Jobs (22%) Still To Recover



*U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted*

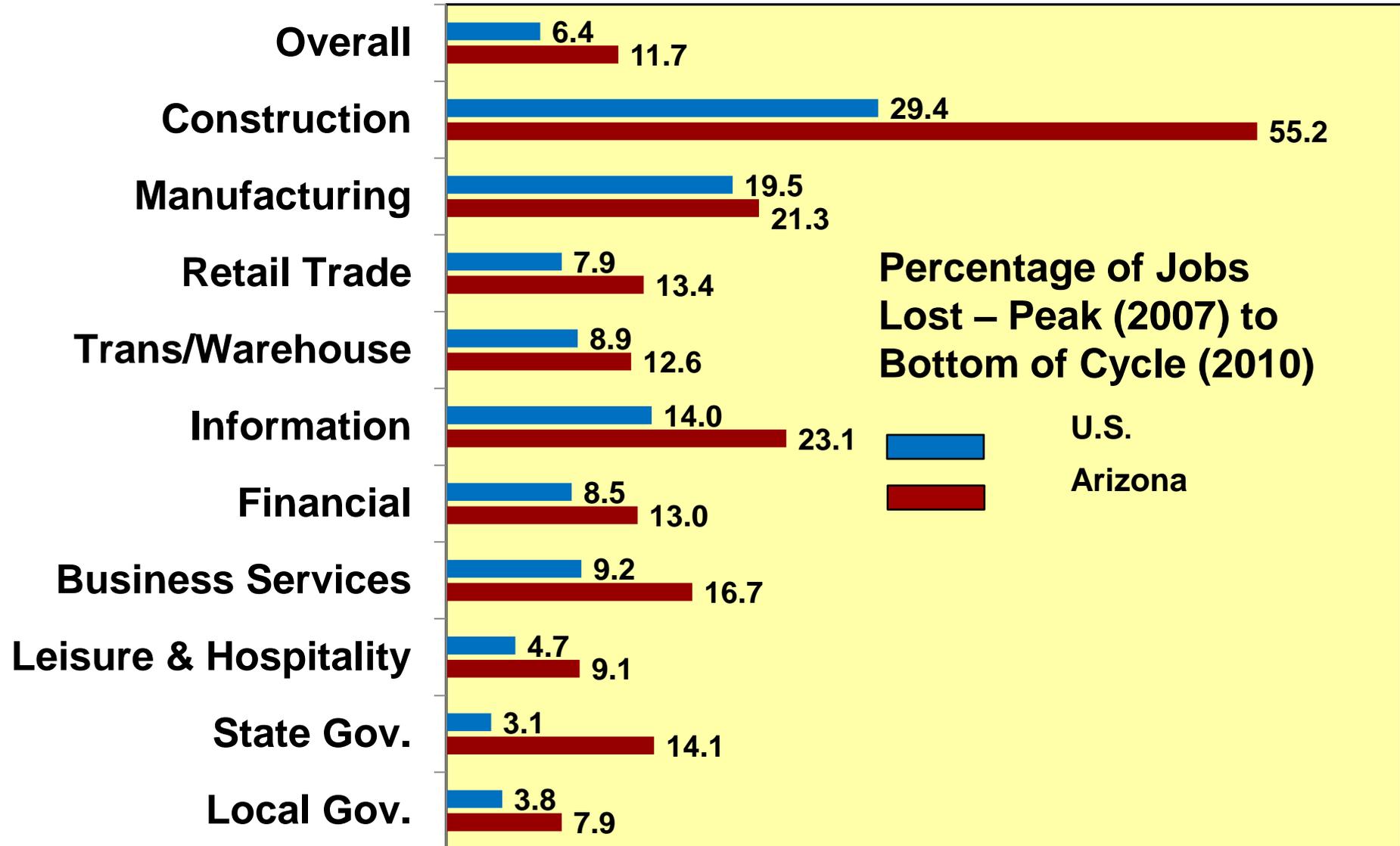
# Arizona Has Regained 47% of Lost Jobs

## 167,000 Jobs (53%) Still to Recover

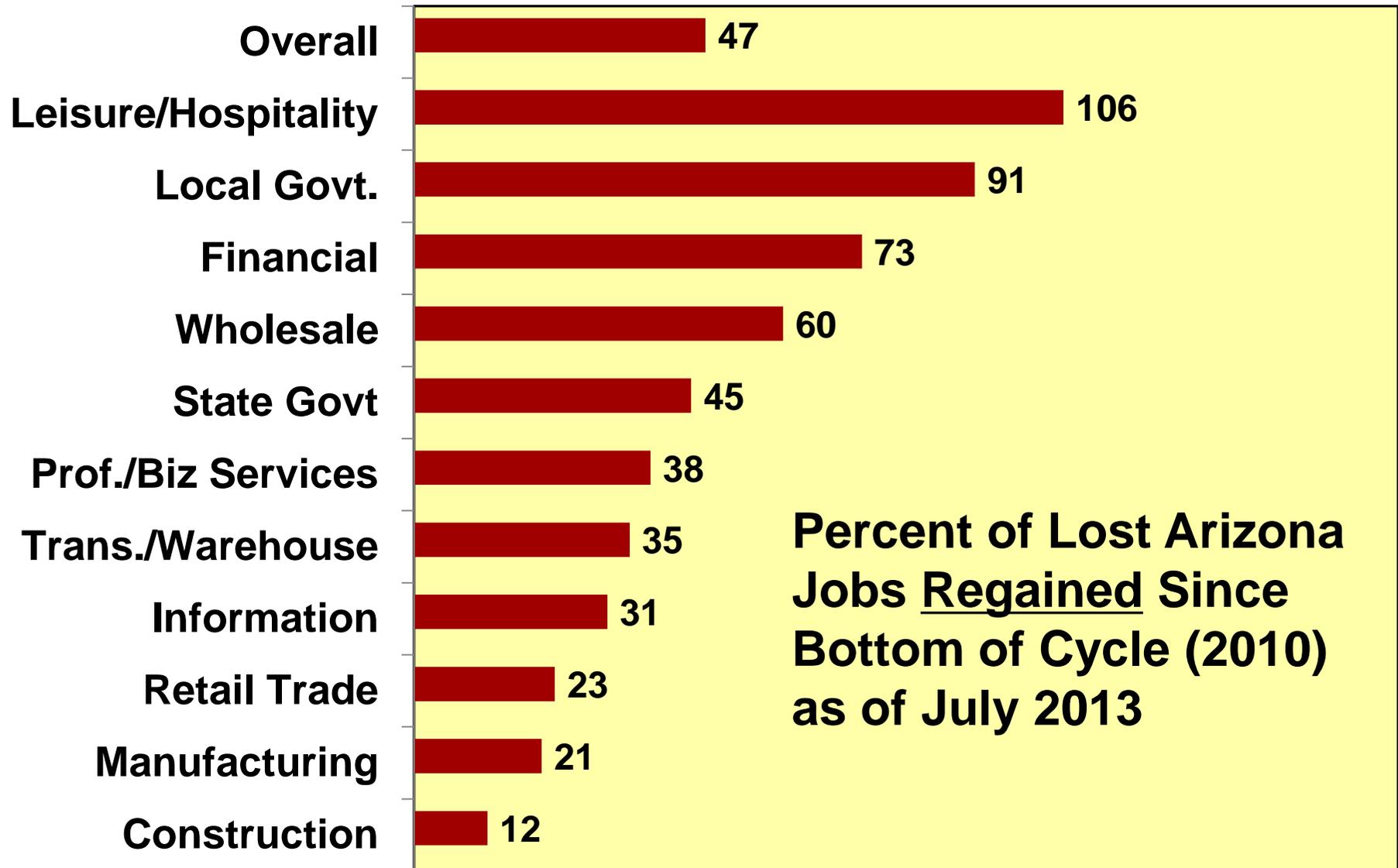


*U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted*

# Arizona Job Losses Exceeded U.S.



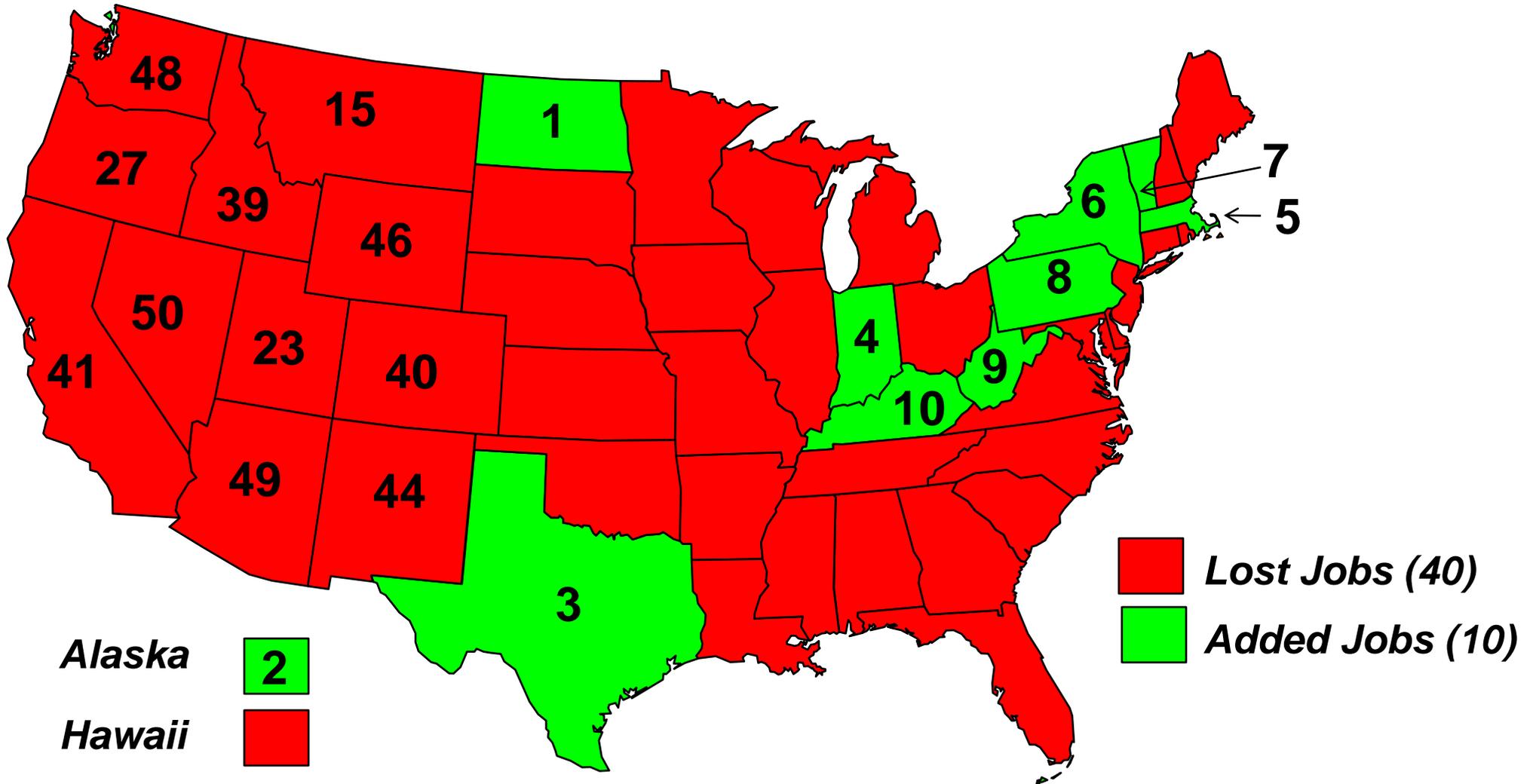
# Most Industries Yet to Regain Lost Jobs



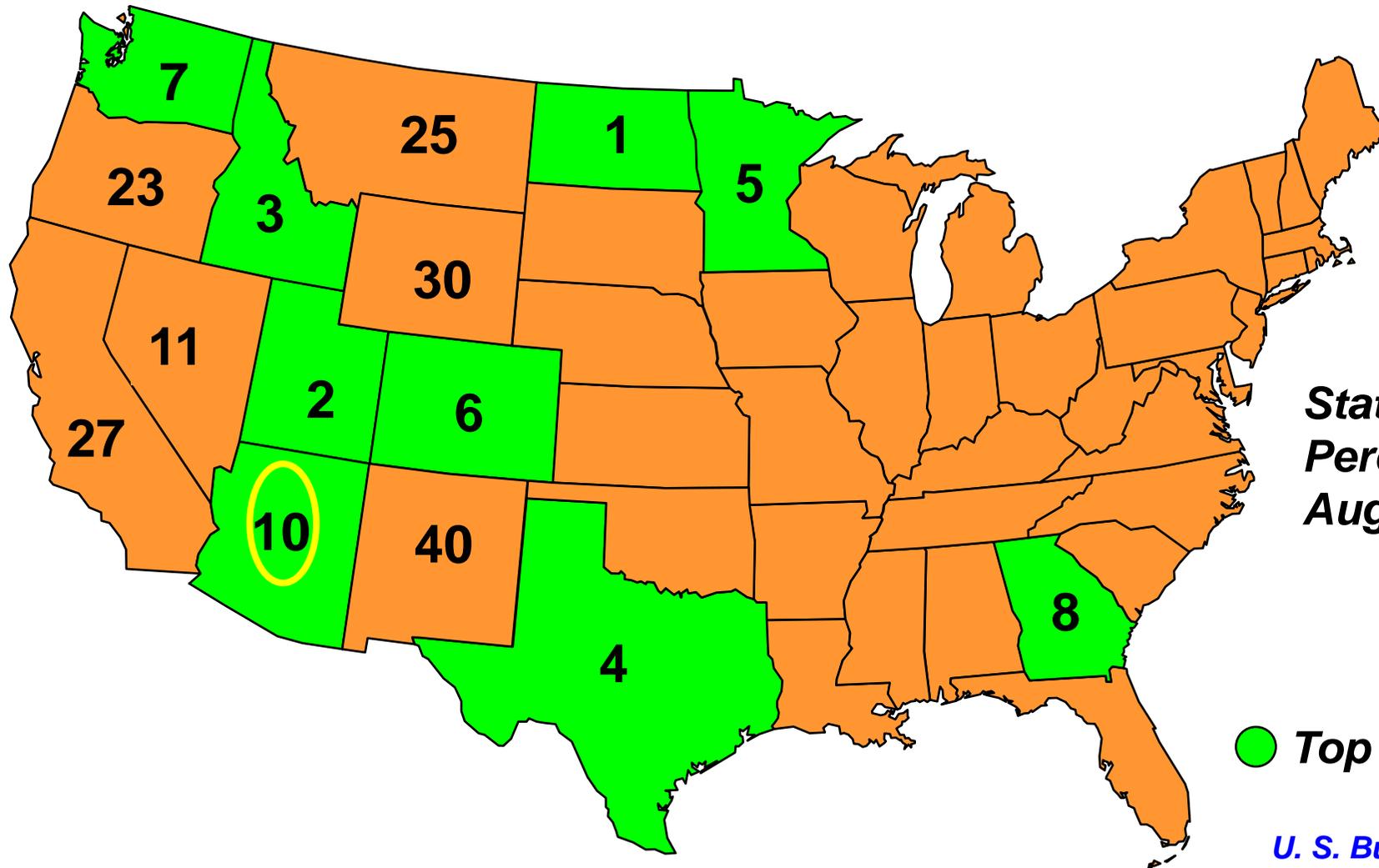
**By The Numbers:  
Year-over-Year  
Arizona Economy  
Is (Slowly) Improving**

# Arizona Ranked 49<sup>th</sup> in 2010

( Ranked by Employment Percent Change 2010 vs 2009)



# Arizona 10<sup>th</sup> in Rate of Job Growth in August



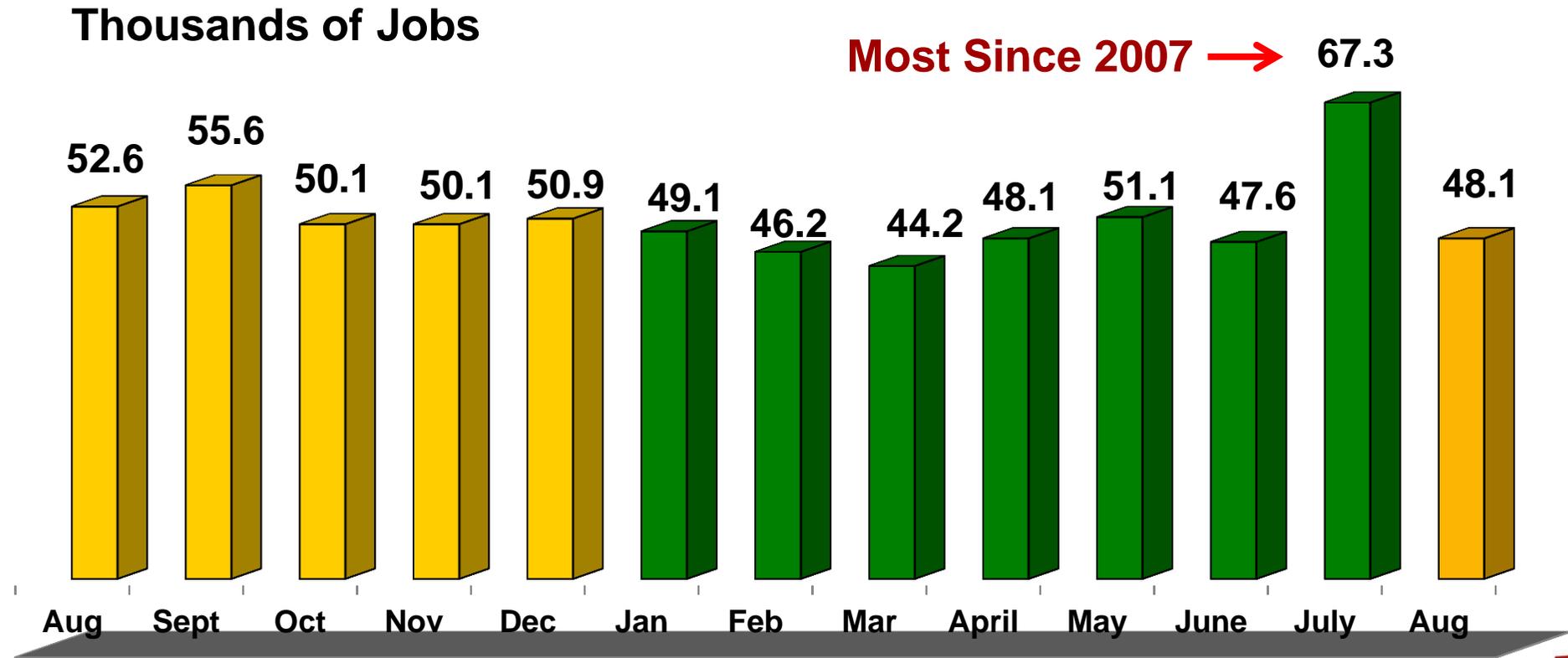
**States Ranked by  
Percent Change  
Aug.: 2013 vs. 2012**

**● Top 10 Growth States**

*U. S. Bureau of Labor Statistics*

# Arizona Gained 48,100 Jobs in August

(12 Month Increase 2.0% - 25 yr. Average is 3.9%)



*U. S. Bureau of Labor Statistics, Not Seasonally Adjusted,  
Year-Over-Year Increase by Month*



# Jobs Recovery: How Far Away?

<b>Data: July 2013</b>	<b>U.S.</b>	<b>AZ</b>
<b>Jobs Lost</b>	<b>8.7 mil</b>	<b>314,000</b>
<b>Regained To Date</b>	<b>6.7 mil</b>	<b>148,000</b>
<b>% Jobs Regained</b>	<b>77%</b>	<b>47%</b>
<b>Need to Regain</b>	<b>2.0 mil</b>	<b>167,000</b>
<b>Recent New Jobs</b>	<b>160k/mo.</b>	<b>60,000 yr.</b>
<b>Years to Recover</b>	<b>1 yr</b>	<b>3.3 yrs</b>

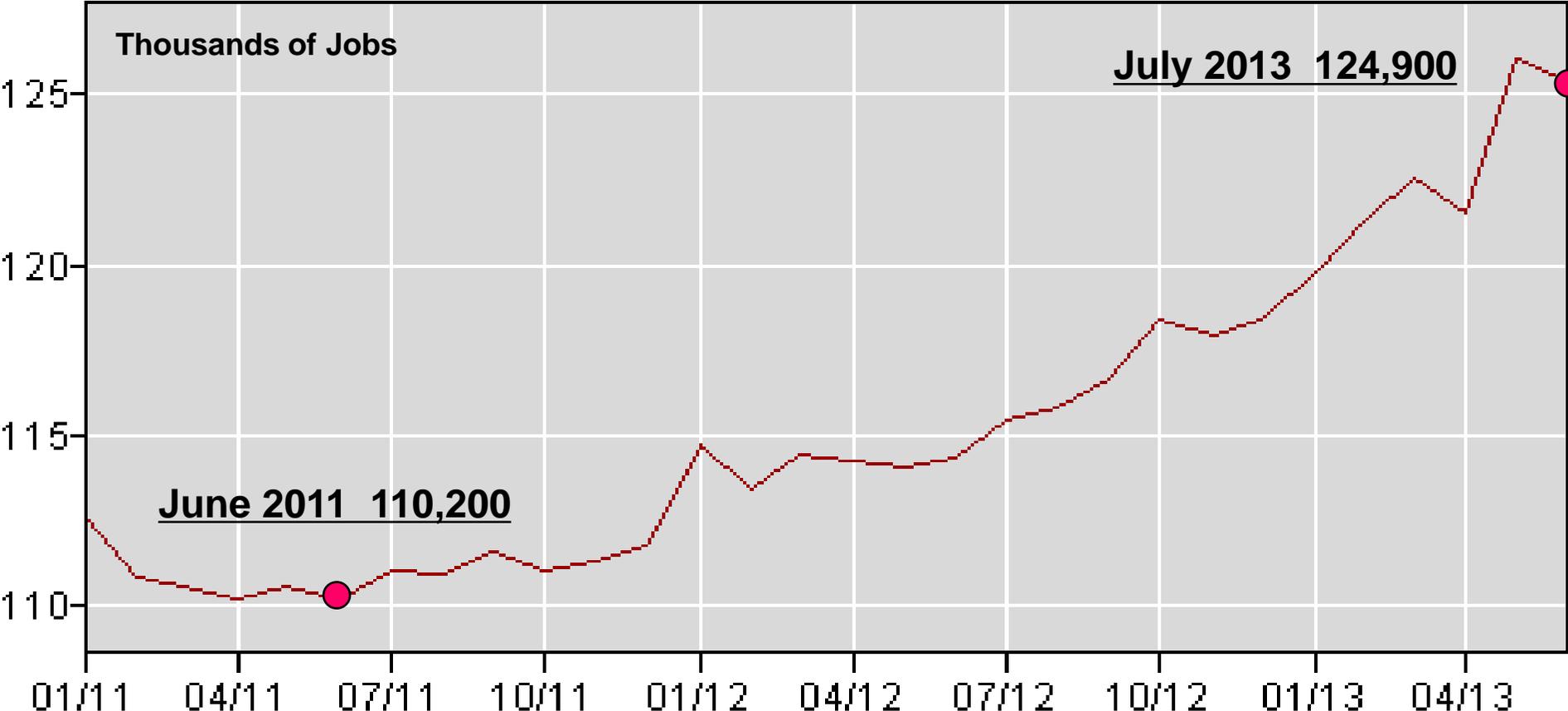
# Arizona Growth Drivers

Arizona's Fastest Growing Industries: Aug. 2013

Arizona Industry	% Growth	U.S. Rank
Arizona Job Growth	2.0	10
Real Estate	6.6	4
Wholesale Trade	4.9	4
Construction	4.7	12
Accom./Food Service	4.1	14
Health Care	3.4	5

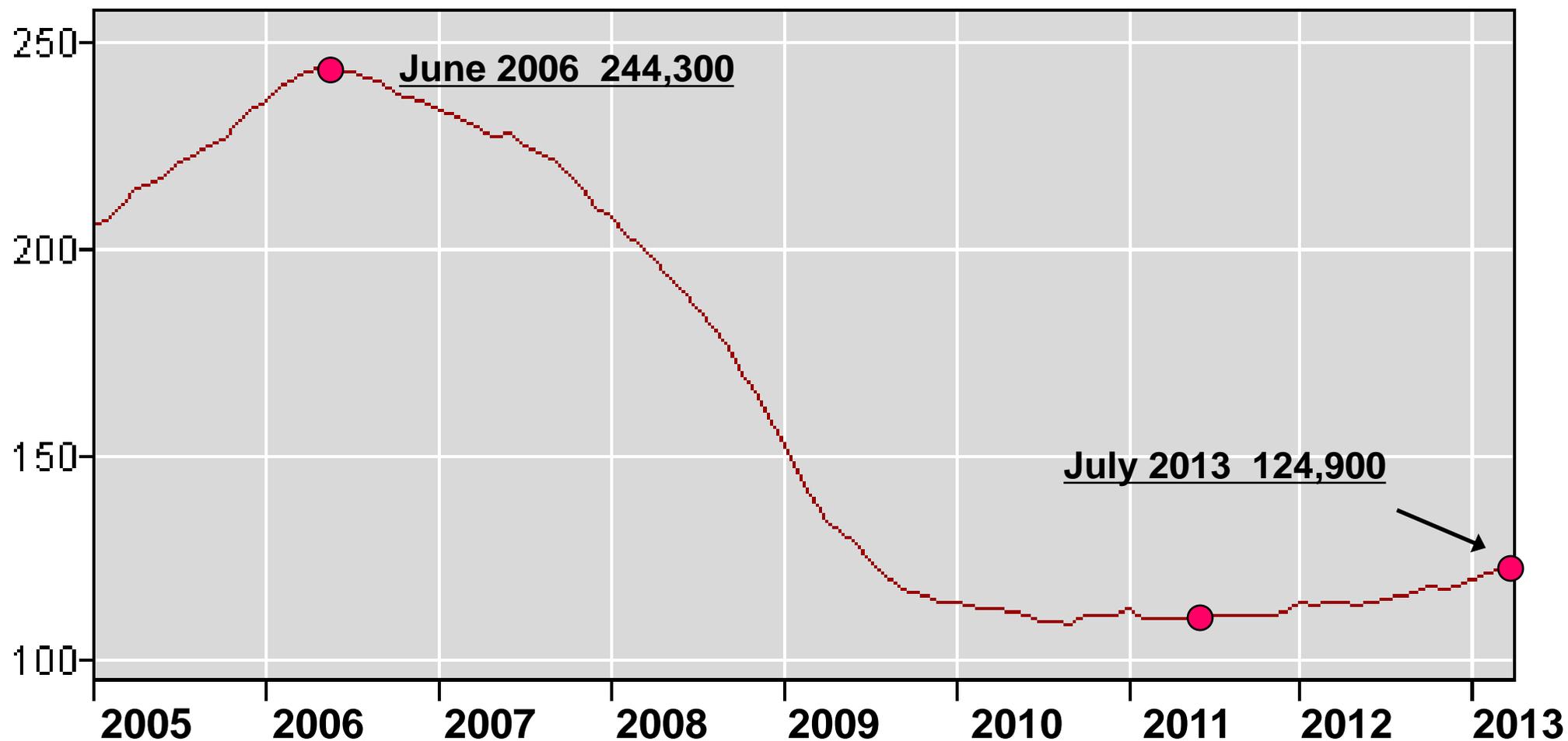
*U. S. Bureau Labor Statistics, August 2013 vs. August 2012*

# Construction is Up by 14,700 Jobs And 13% Since Summer of 2011



*U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted*

# But Construction is Still Down by 119,400 Jobs (49%) Since Peak



*U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted*

# Source of 80% of New AZ Jobs

Based on Job Growth Between August 2012 & August 2013

<b>Industry</b>	<b>New Jobs</b>	<b>Wage</b>
<b>Health Care</b>	<b>10,600</b>	<b>\$47,847</b>
<b>Food Service</b>	<b>9,100</b>	<b>\$16,452</b>
<b>Financial</b>	<b>7,300</b>	<b>\$64,730</b>
<b>Retail Trade</b>	<b>5,900</b>	<b>\$29,843</b>
<b>Construction</b>	<b>5,600</b>	<b>\$47,020</b>
<b>Arizona Average Wage (2012)</b>		<b>\$45,237</b>

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

# Arizona Regional Job Growth

<b>Metro</b>	<b>2012</b>	<b>August 2013*</b>	
		<b>% Growth</b>	<b>New Jobs</b>
<b>Phoenix</b>	<b>2.4%</b>	<b>2.4%</b>	<b>42,200</b>
<b>Tucson</b>	<b>1.5</b>	<b>0.5</b>	<b>1,700</b>
<b>Flagstaff</b>	<b>1.6</b>	<b>2.0</b>	<b>1,300</b>
<b>Prescott</b>	<b>2.0</b>	<b>-0.2</b>	<b>-100</b>
<b>Lake Havasu</b>	<b>-0.2</b>	<b>-2.2</b>	<b>-1,000</b>
<b>Yuma</b>	<b>2.8</b>	<b>-1.6</b>	<b>-800</b>

*U. S. Bureau of Labor Statistics, \*August 2013 vs. August 2012*

# AZ Unemployment Rate Still High

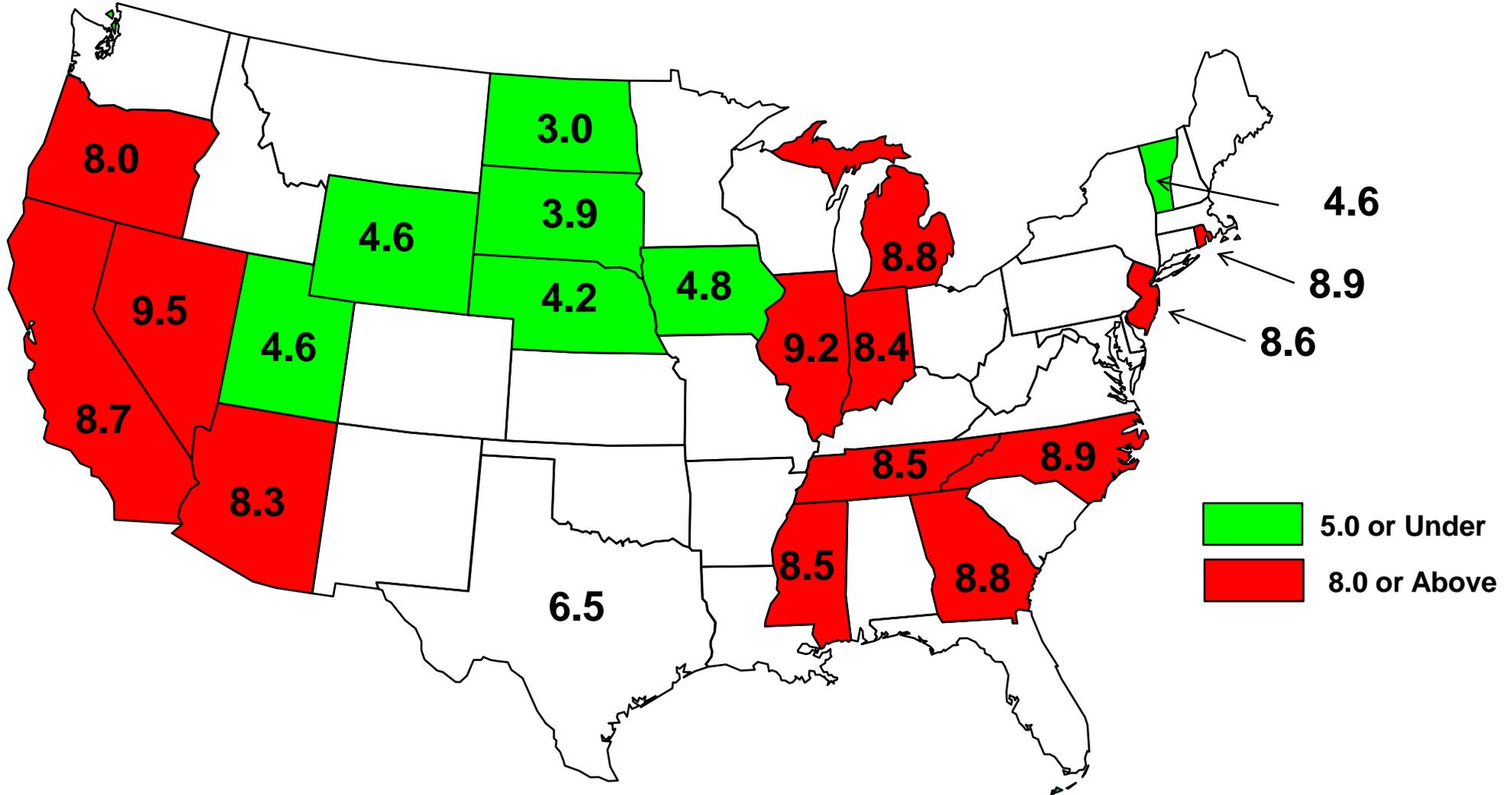
<b>Region</b>	<b>Aug. 2013</b>	<b>Aug. 2012</b>
<b>USA</b>	<b>7.3%</b>	<b>8.1%</b>
<b>Arizona</b>	<b>8.3%</b>	<b>8.3%</b>
<b>Phoenix Metro*</b>	<b>7.4%</b>	<b>7.6%</b>
<b>Tucson Metro*</b>	<b>7.2%</b>	<b>7.8%</b>
<b>Flagstaff Metro*</b>	<b>8.1%</b>	<b>8.1%</b>

*US Bureau of Labor Statistics and AZ Dept of Administration*

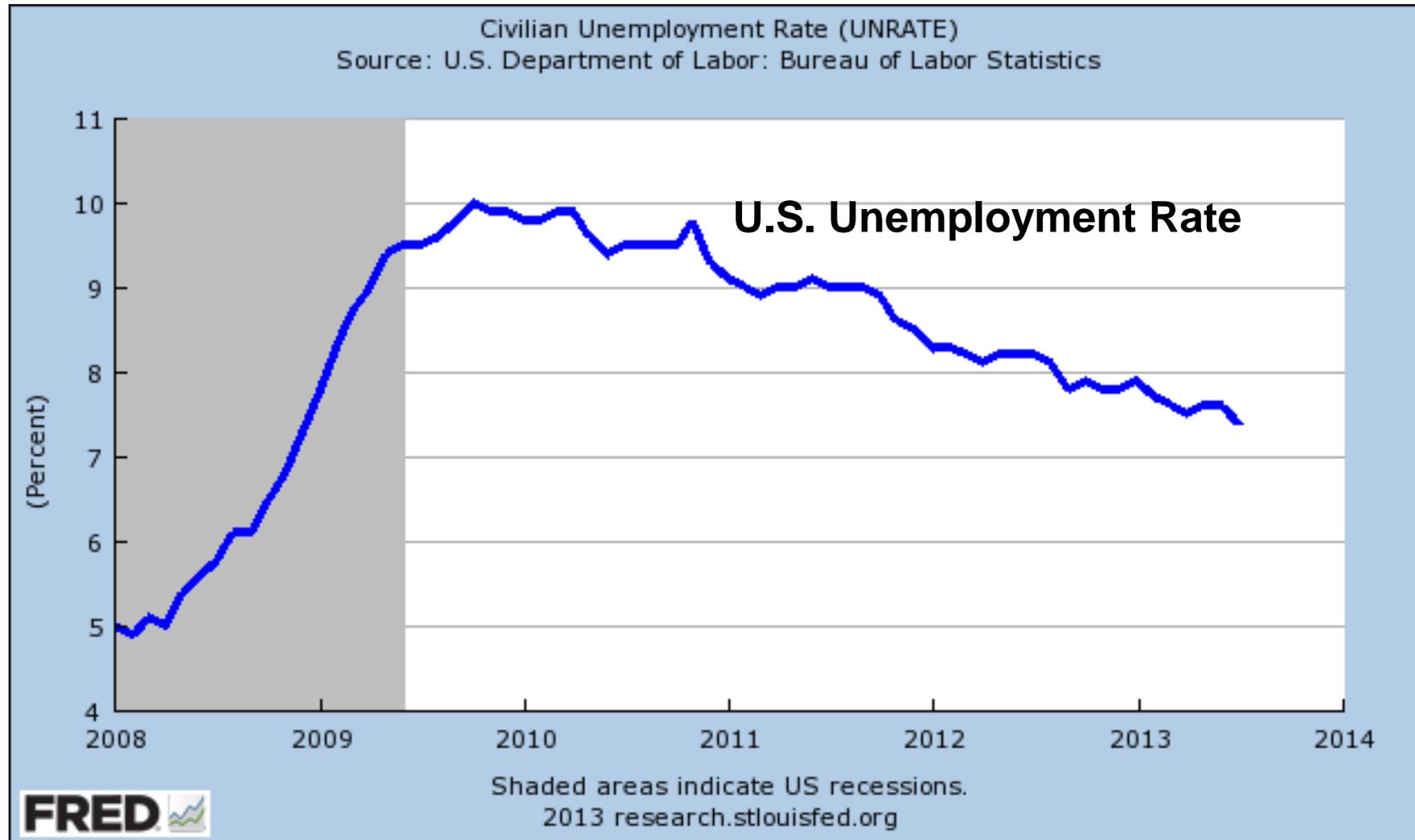
*\* unemployment rate not seasonally adjusted*

# High & Low Unemployment

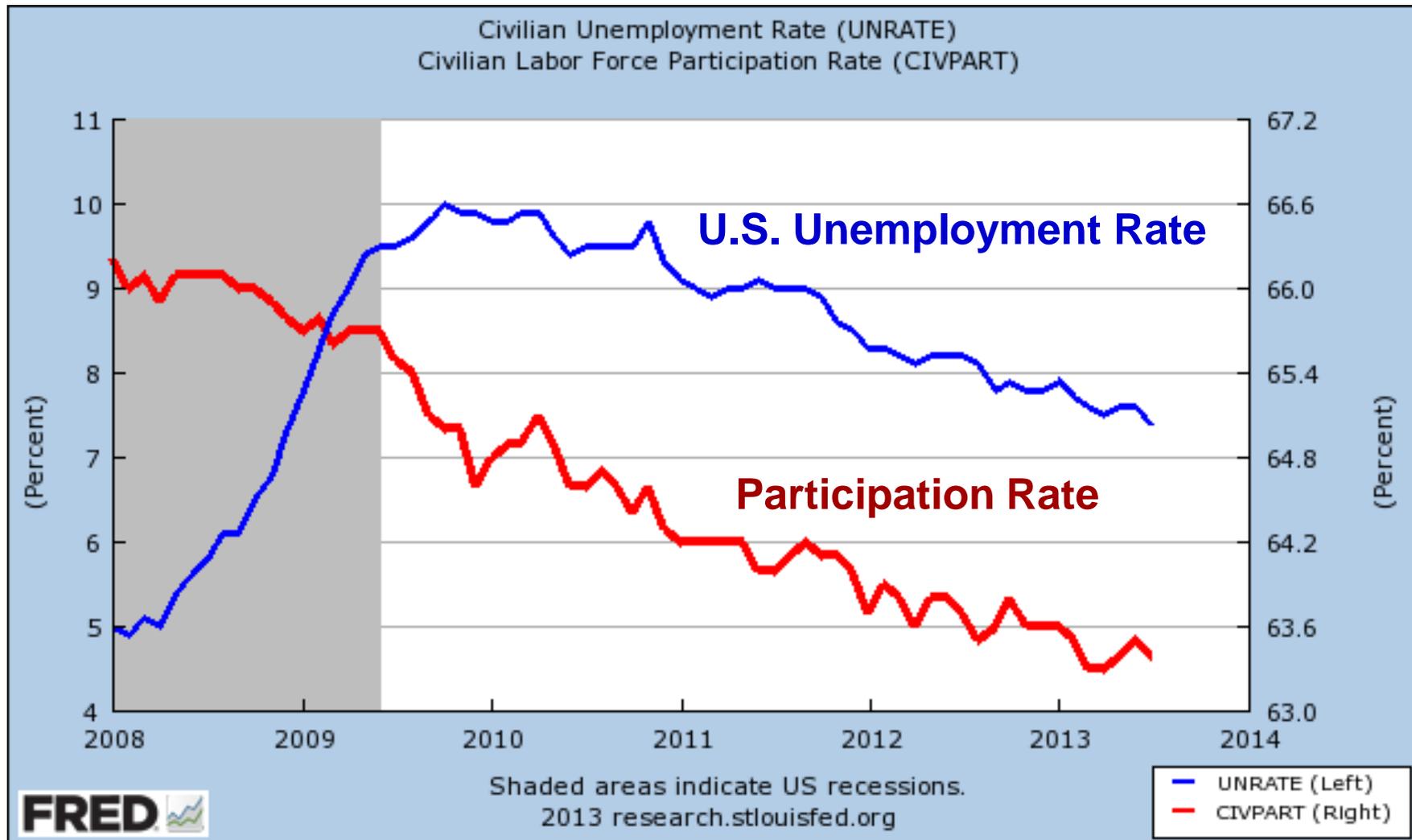
(U.S. BLS: Unemployment Rates: Mid Year 2013)



# U.S. Unemployment Rate Has Declined Since 2009



# But Labor Force Participation Has Fallen to 1980s Level

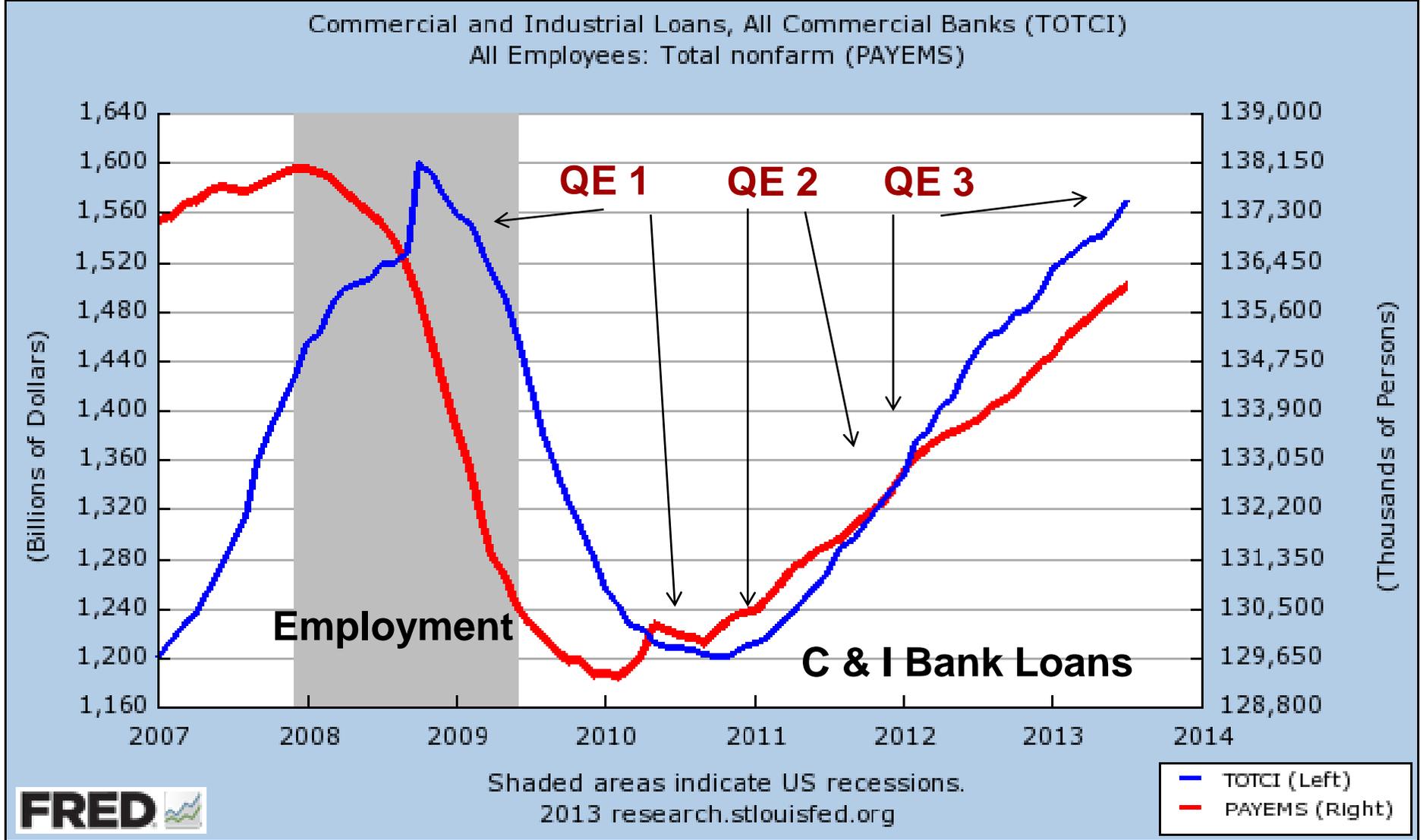


# U.S. Economic Outlook

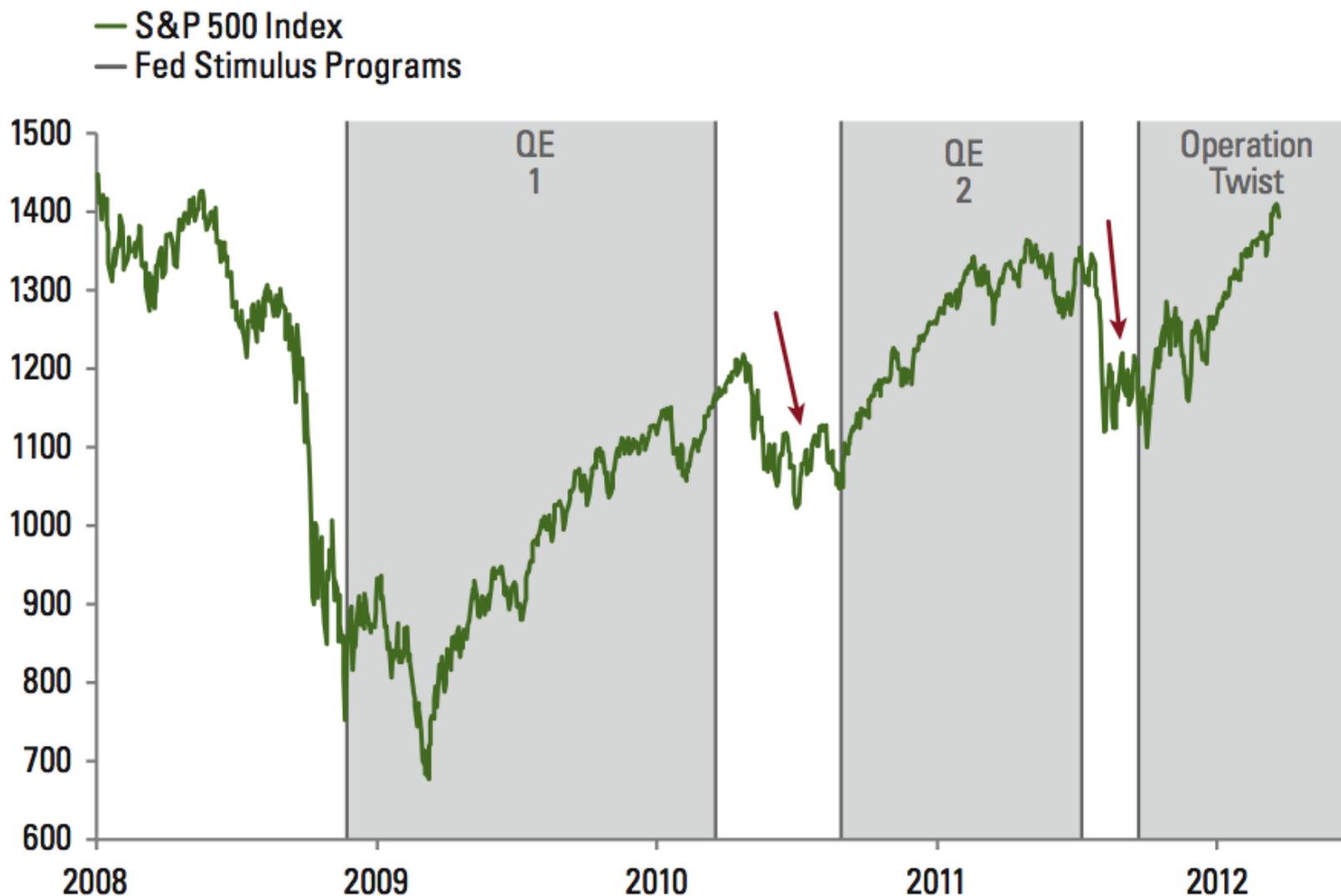
**Budget Sequester, Uncertainty, and Slow Global Growth Weaken U.S. GDP**

<b>Indicator</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Real GDP Growth</b>	<b>2.8%</b>	<b>1.6%</b>	<b>2.6%</b>
<b>10 Year Treasury Note</b>	<b>1.8%</b>	<b>2.4%</b>	<b>3.1%</b>
<b>Inflation (CPI)</b>	<b>2.1%</b>	<b>1.5%</b>	<b>1.9%</b>
<b>Employment (Jobs)</b>	<b>2.2 mil.</b>	<b>2.3 mil.</b>	<b>2.4 mil.</b>
<b>Unemployment Rate</b>	<b>8.1%</b>	<b>7.5%</b>	<b>7.0%</b>

# Have Fed Policies Helped Real Economy?



# Or Mostly Boosted the Stock Market?



Source: LPL Financial, Bloomberg Data 03/23/12

(Shaded areas represent Fed programs from the date of announcement until termination)

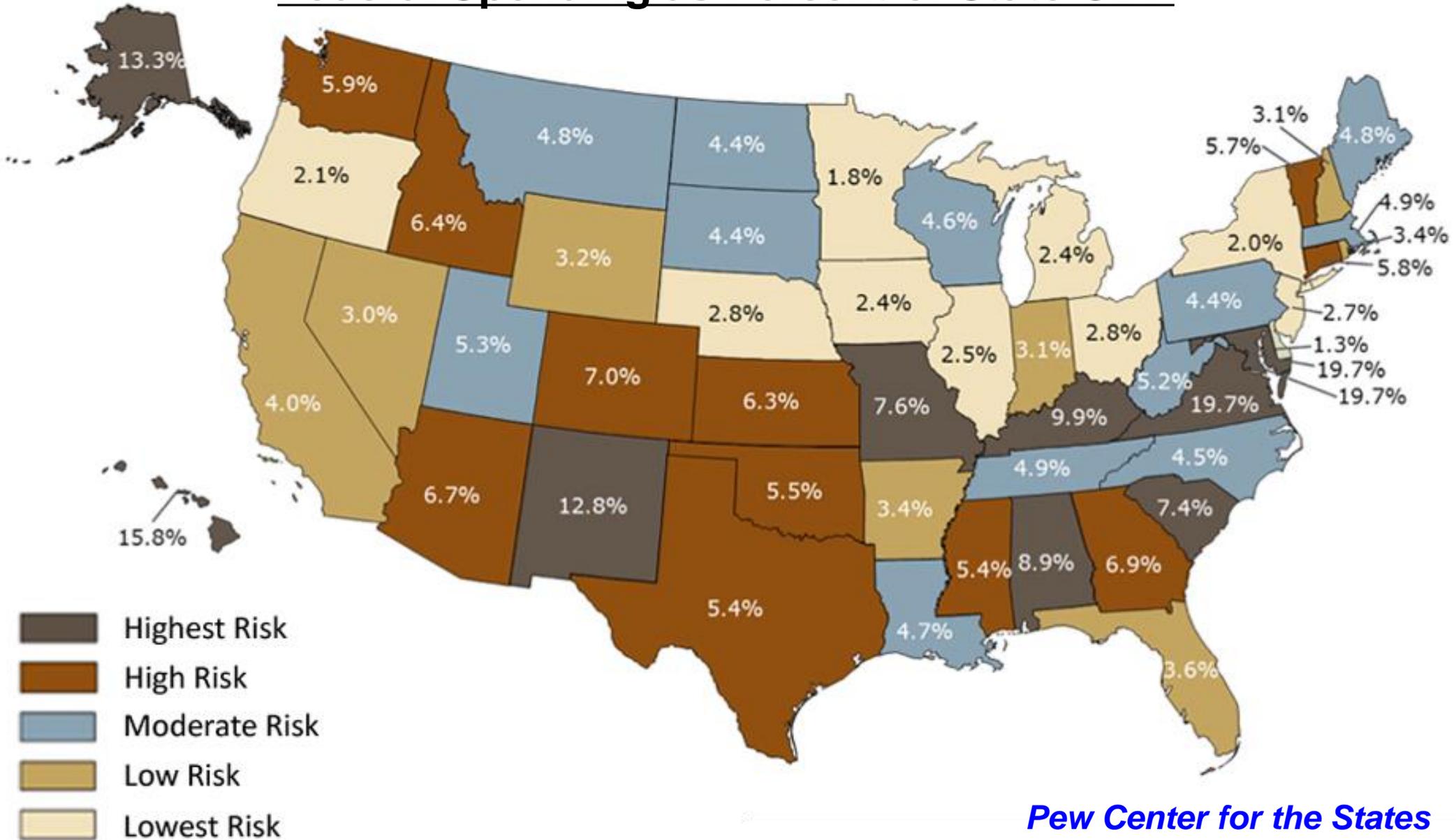
# **ARIZONA** Economic Forecast

## **Major Arizona Risk – U.S. Economy**

<b>Indicator</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Personal Income (%)</b>	<b>3.7</b>	<b>4.0</b>	<b>5.0</b>
<b>Employment (%)</b>	<b>2.0</b>	<b>2.5</b>	<b>2.8</b>
<b>Single Family Permits (%)</b>	<b>56</b>	<b>25</b>	<b>35</b>
<b>Population (%)</b>	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>

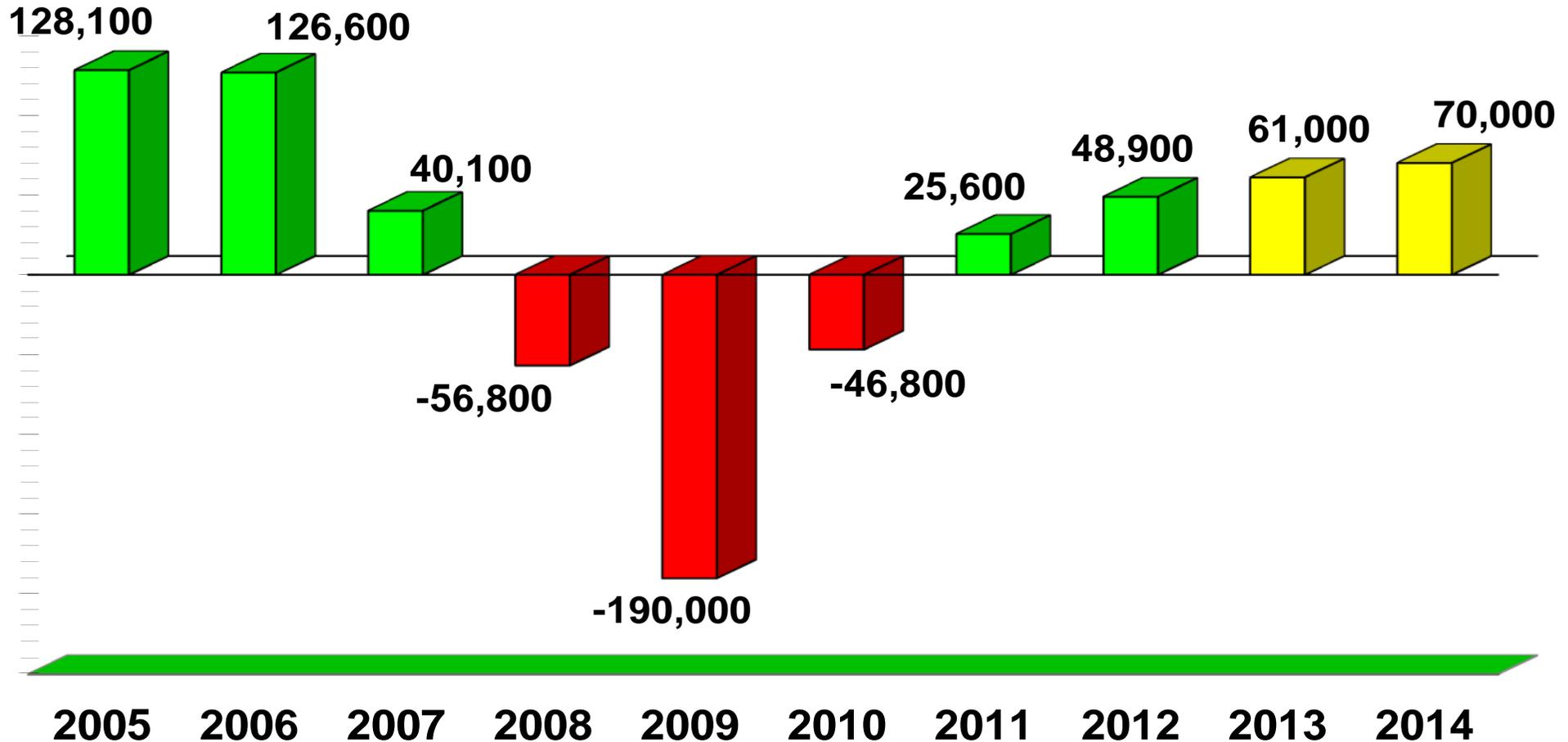
# Arizona At Risk For Spending Cuts

## Federal Spending as Percent of State GDP



# Arizona to Add 70,000 New Jobs in 2014

## Annual Numeric Change In Arizona Employment



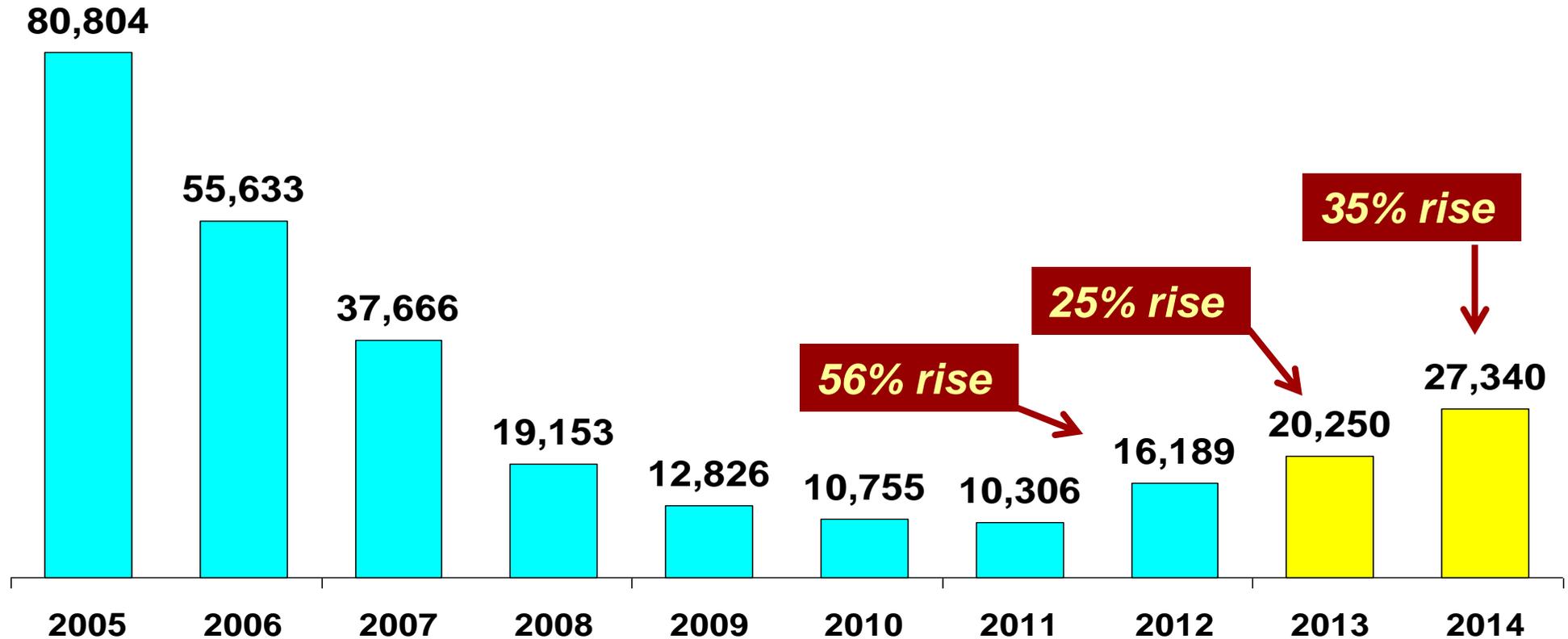
# Arizona Job Growth Outlook

<b>Metro</b>	<b>2011</b>	<b>2012</b>	<b>2014</b>
<b>Phoenix</b>	<b>1.4%</b>	<b>2.1%</b>	<b>3.0%</b>
<b>Tucson</b>	<b>0.1</b>	<b>0.8</b>	<b>2.0</b>
<b>Lake Havasu</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.6</b>
<b>Flagstaff</b>	<b>-0.5</b>	<b>-0.7</b>	<b>2.5</b>
<b>Yuma</b>	<b>-1.0</b>	<b>-0.2</b>	<b>0.7</b>
<b>Prescott</b>	<b>-1.3</b>	<b>1.0</b>	<b>1.3</b>

*Source: W. P. Carey School of Business*

# Home Building Slowly Recovering

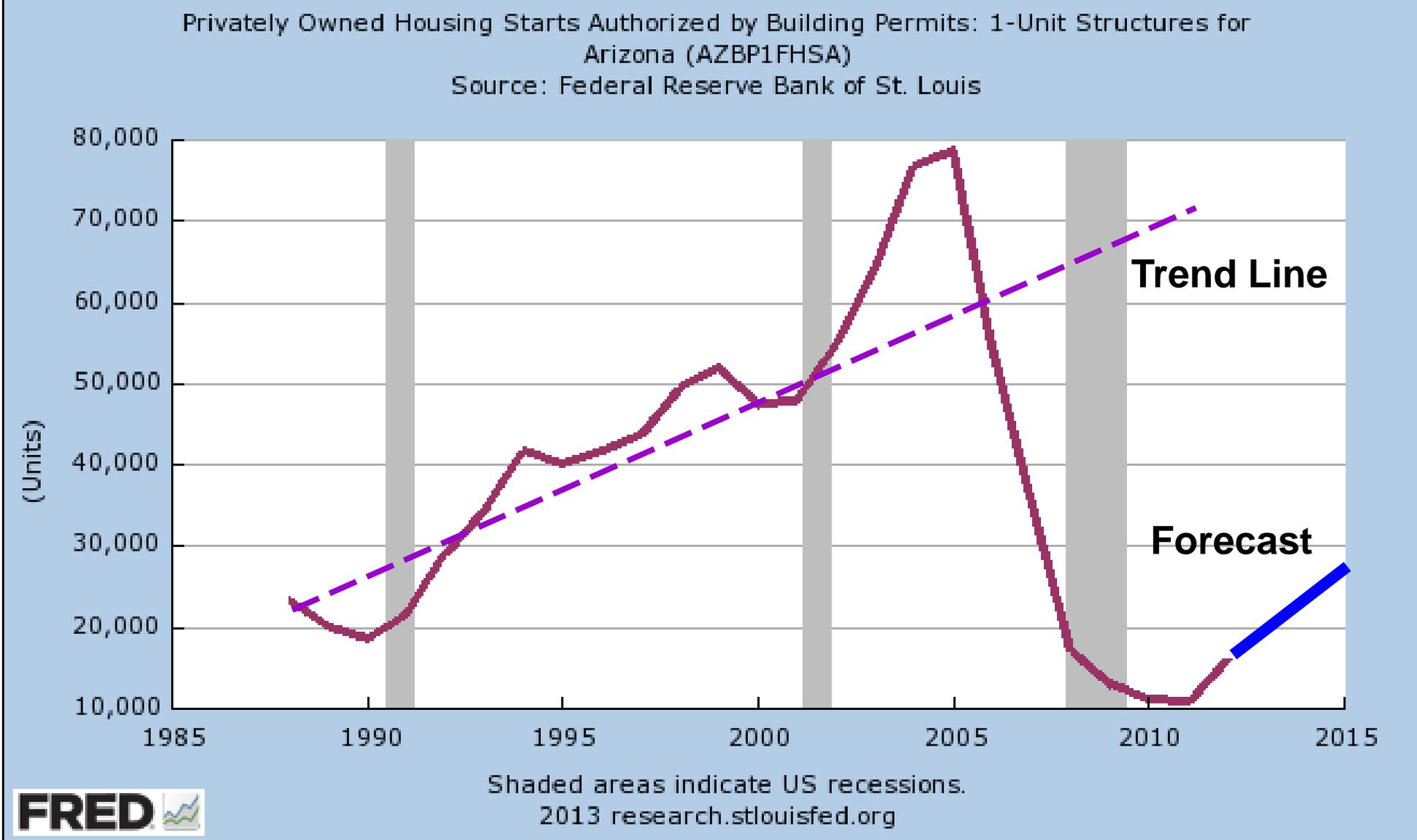
## Arizona Single Family Permits 2005 - 2014



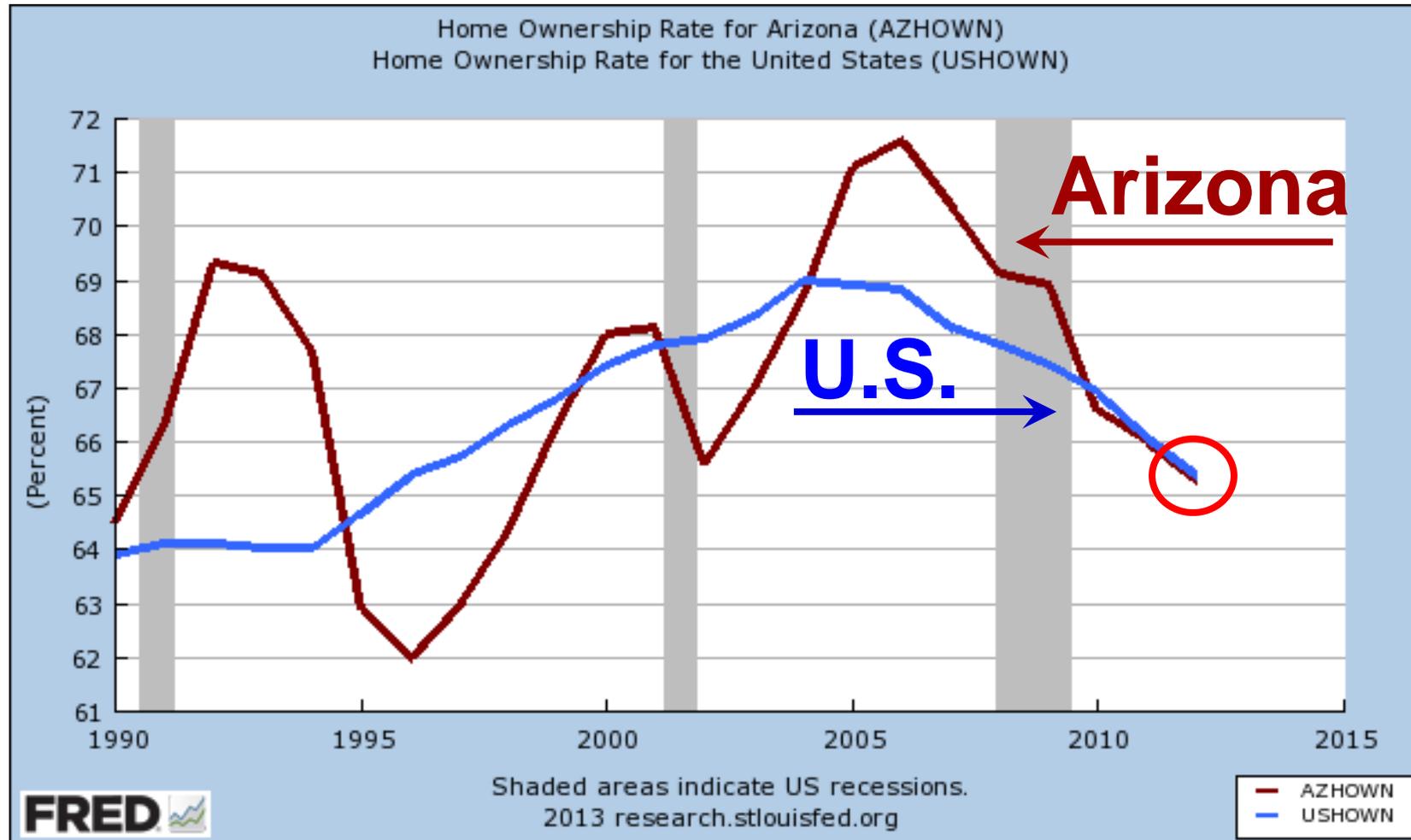
W. P. Carey School of Business, ASU & Arizona Blue Chip Forecast

**Forecast**

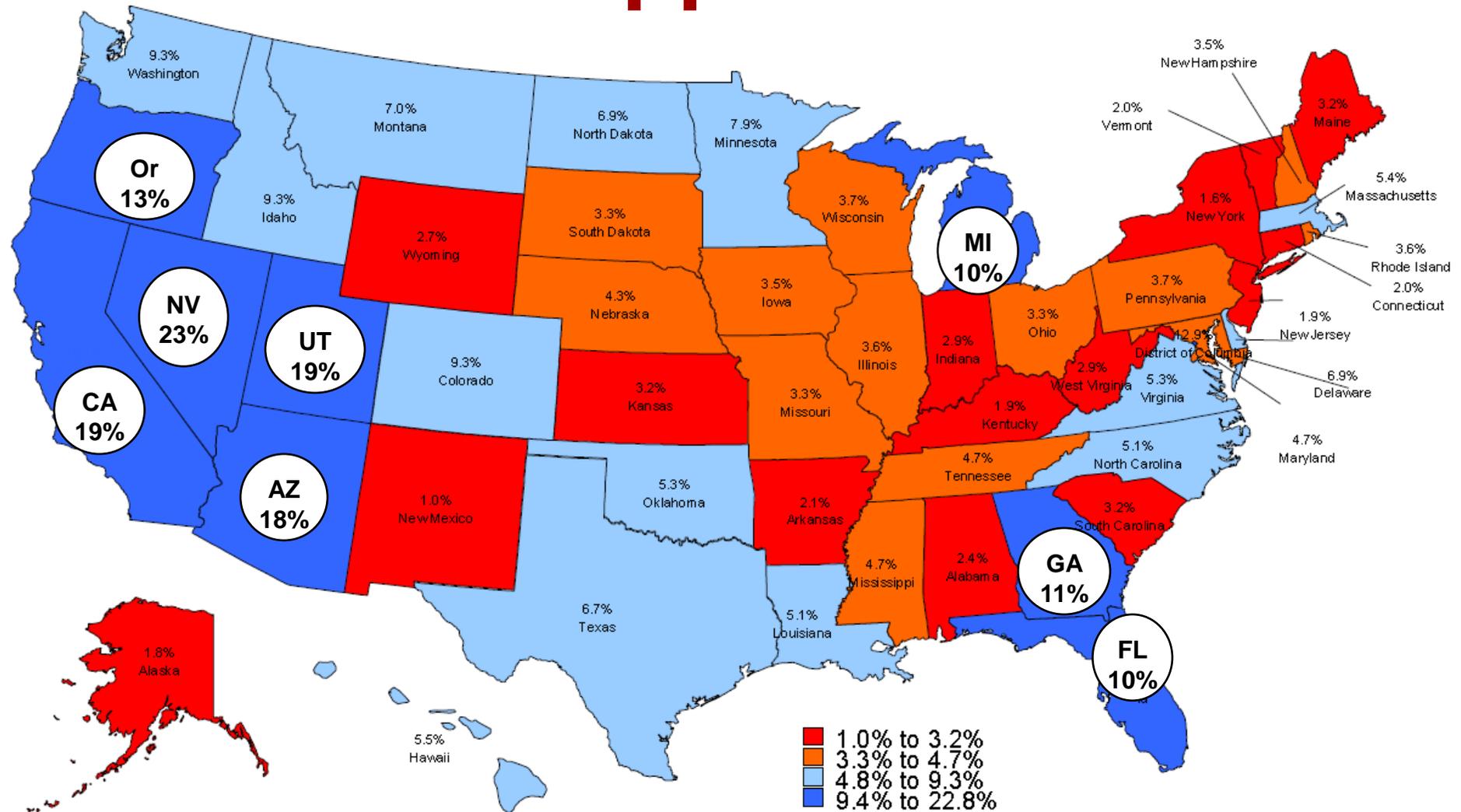
# Arizona Housing Far Below Trend



# Arizona Home Ownership Rate Declines In Step With U. S.



# Western States Lead in Housing Price Appreciation



*U.S. FHFA, 1 year increase as of June 2013*

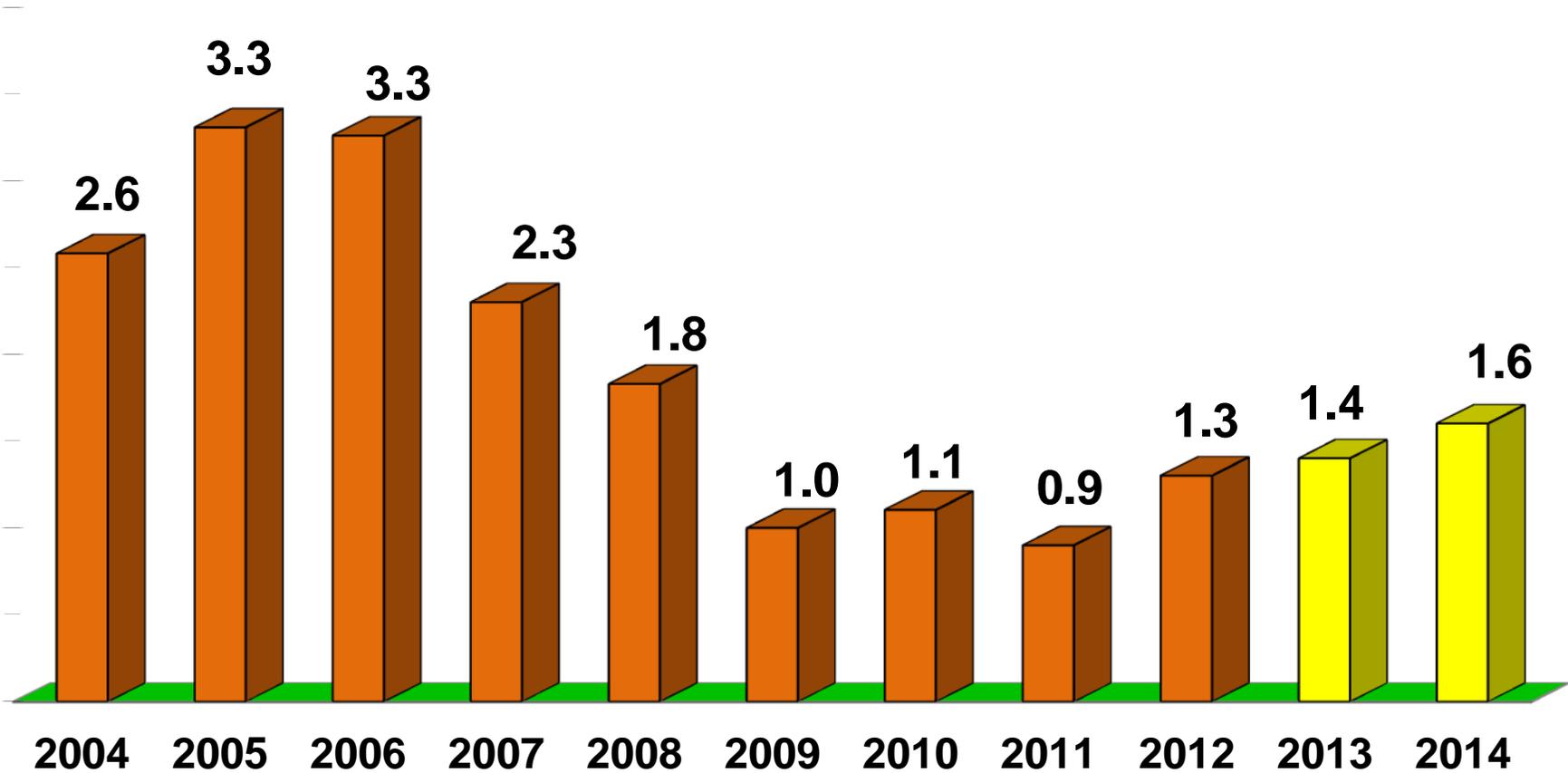
# Arizona Single Family Permits

<b>Metro</b>	<b>2011</b>	<b>2012</b>	<b>2014</b>
<b>Phoenix</b>	<b>7,297</b>	<b>11,931</b>	<b>23,000</b>
<b>Tucson</b>	<b>1,388</b>	<b>2,175</b>	<b>4,600</b>
<b>Yuma</b>	<b>358</b>	<b>554</b>	<b>920</b>
<b>Prescott</b>	<b>290</b>	<b>444</b>	<b>1,300</b>
<b>Lake Havasu</b>	<b>194</b>	<b>323</b>	<b>1,010</b>
<b>Flagstaff</b>	<b>98</b>	<b>206</b>	<b>400</b>

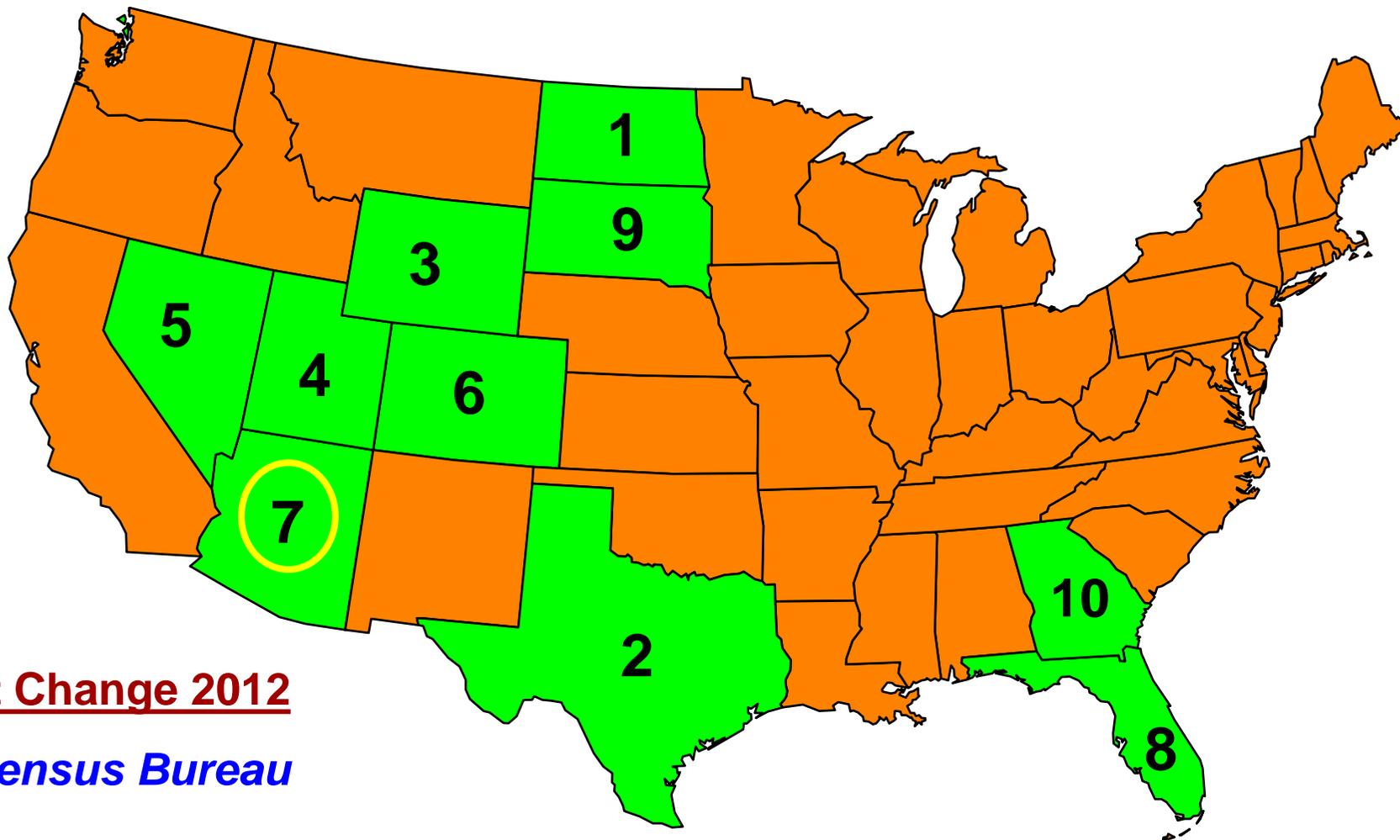
# 2014 Population Growth: 1.6%

## *Key Ingredient for Stronger Recovery*

Annual Percent Change



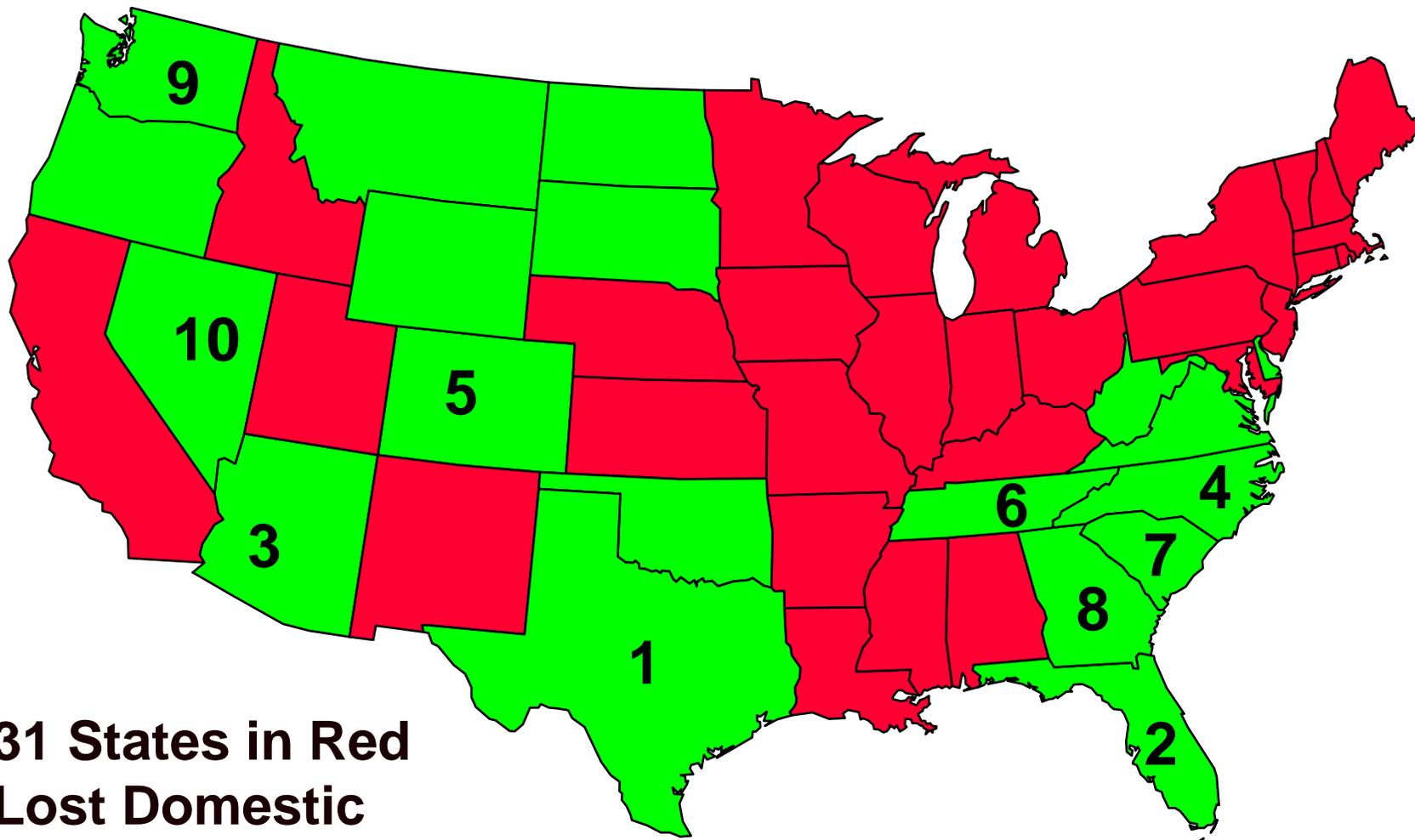
# Arizona Population Growth Was Slow But Still Top 10 in 2012



Percent Change 2012

*U. S. Census Bureau*

# Texas, Florida, Arizona Attracted Most Domestic Migrants in 2012



Alaska  
Hawaii

31 States in Red  
Lost Domestic  
Population to 19 States in Green

*U.S. Census Bureau*

# Arizona Now Larger Than:

- Missouri
- Maryland
- Wisconsin
- Minnesota
- Colorado

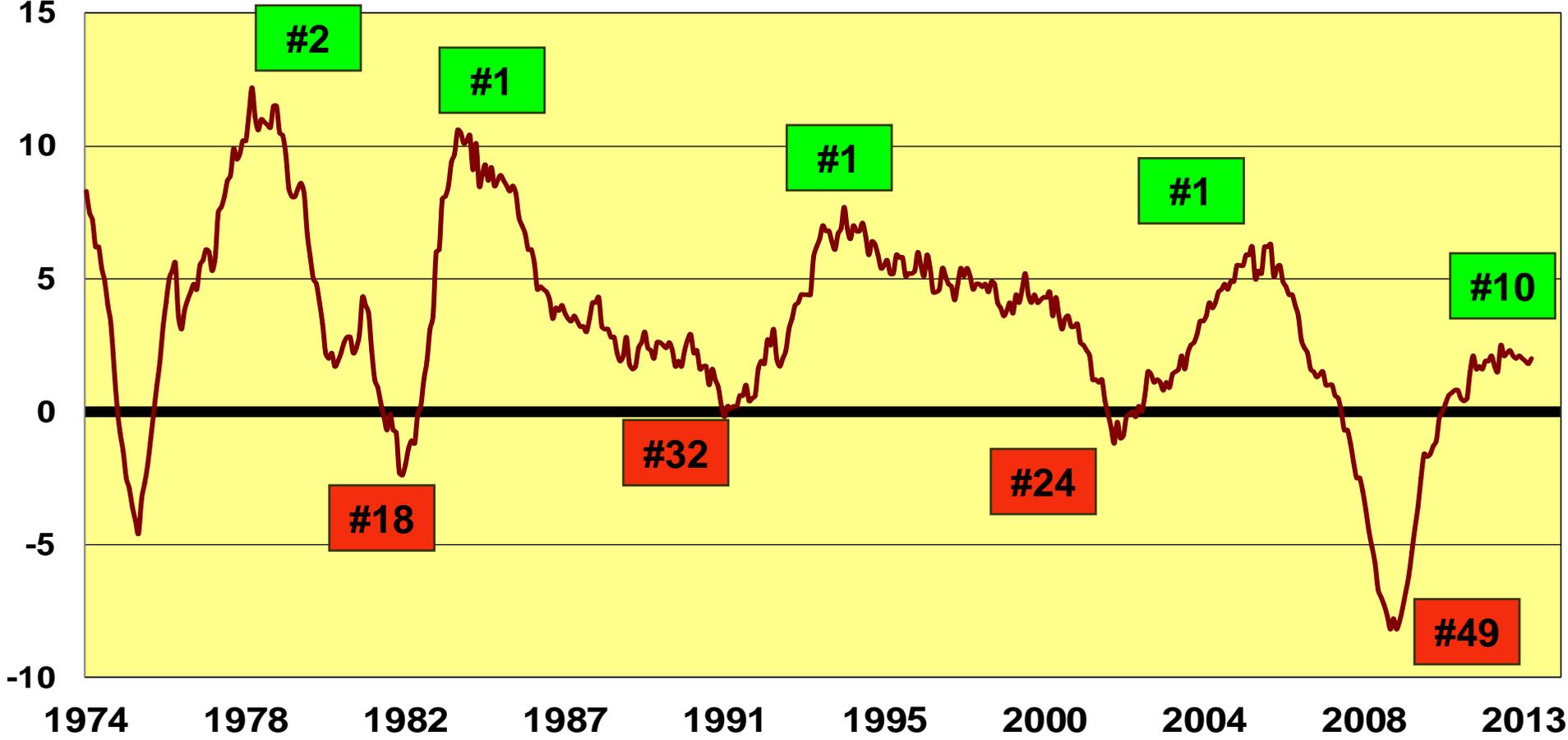


**Passed Indiana in 2012**

# Arizona Comes Back From Recession

(State Rank Based on Monthly Yr/Yr Growth Rate)

Percent



# Arizona Economic Outlook Summary

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- **2014 - better than most states - but 8<sup>th</sup> lean year of subpar Arizona growth**
  - **Not there yet – recovering, not recovered**
  - **Arizona economy tracks U.S. cycle**
  - **Major risk is continued ineffective growth policies at national level**
-

**“Are We There Yet?”**

***On the Road to Recovery***

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**W. P. CAREY**  
SCHOOL *of* BUSINESS

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