



# A Recovery, But Not Recovered

**Presented to:  
FAC**

**By:  
Jim Rounds, Senior Vice President  
January 21, 2010**



*Elliott D. Pollack & Company*



# Overview:

**Not much different than before  
for AZ. Slightly better story for  
the U.S.**





# Some Tough Questions for Staff:

**FY 2010: When exactly will sales tax collections turn around? PIT?**

**FY 2011: Rebound year in terms of growth rates. But to what extent in FY 2011 versus some occurring in FY 2012?**

**Out Years: Will an extended period of weakness in the stock market, commercial, housing, etc. dampen State collections in the longer term?**



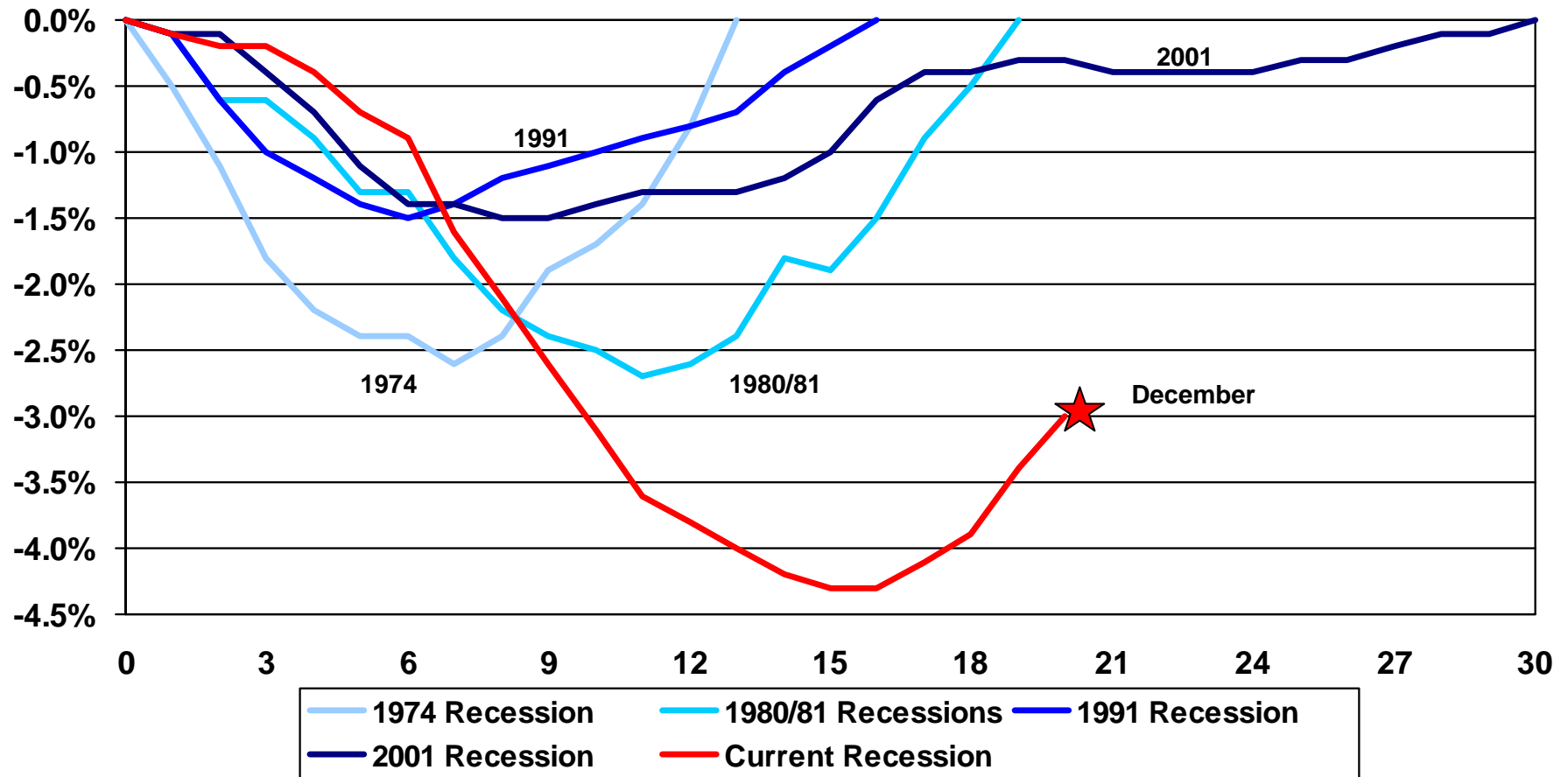


**U.S.**



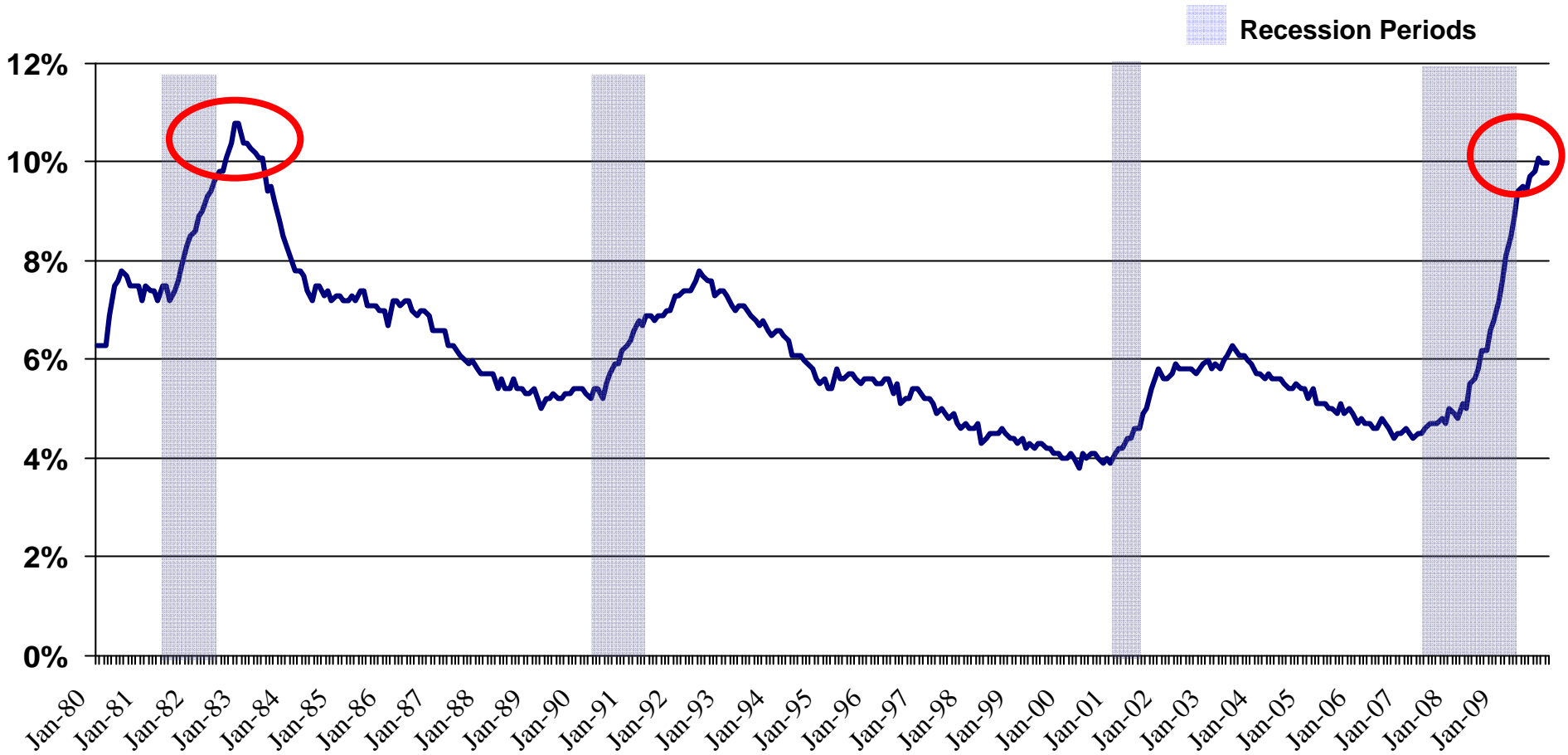
# U.S. Y/Y Job Losses - Recent Recessions

## Duration in Months - BLS



# U.S. Unemployment Rate 1980 – 2009\*

Source: Bureau of Labor Statistics



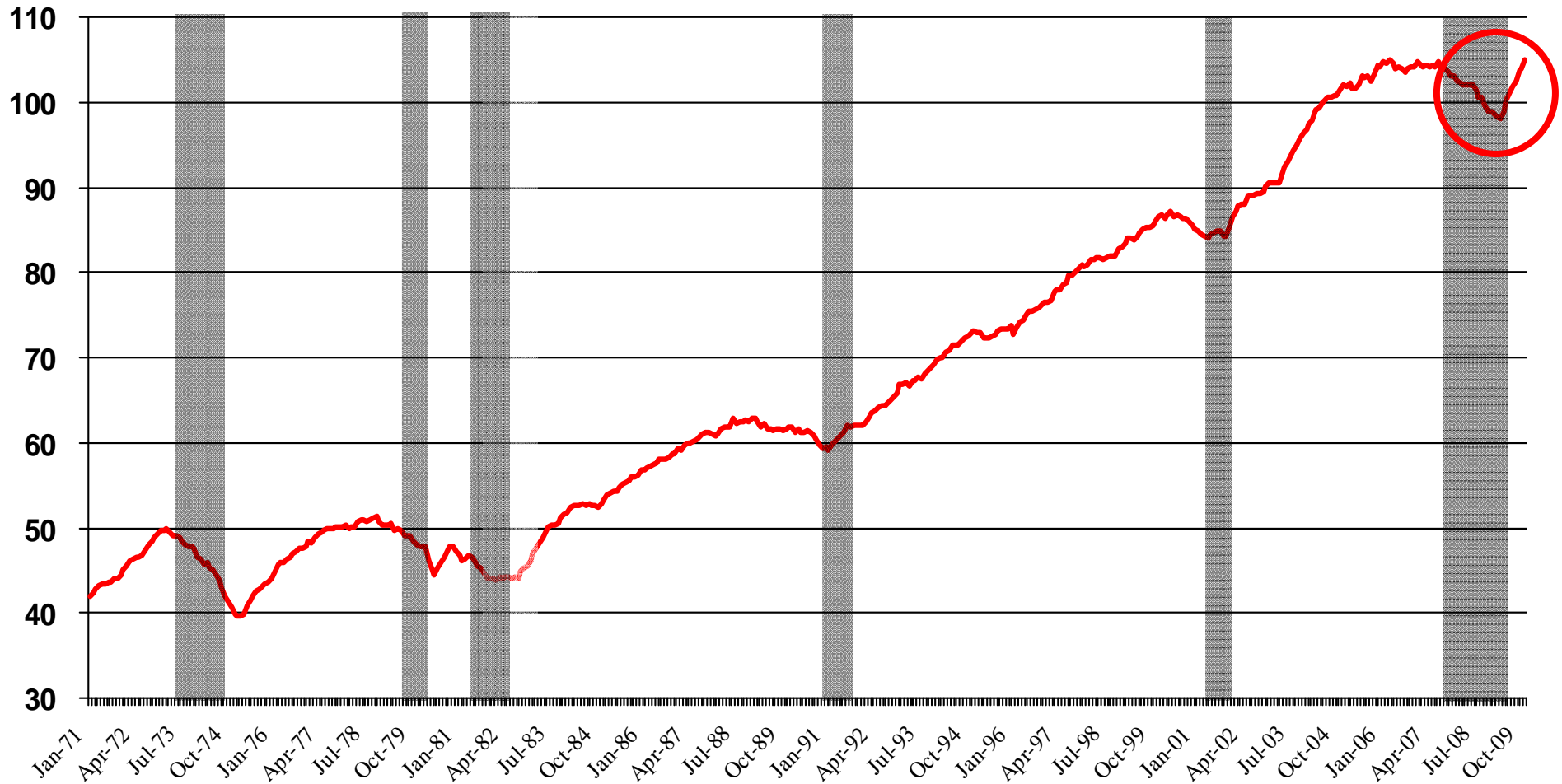
\*Data through December 2009



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# U.S. Leading Indicators 1971 – 2009 (through November)

Source: The Conference Board





# 10 Components of U.S. Leading Indicators - *August*

- Vendor performance
- Claims for unemployment (inverted)
- **Stock prices**
- Manuf. new orders – capital goods
- **Real money supply**
- Manuf. new orders – consumer goods
- Consumer expectations
- Manuf. hours
- Building permits
- Interest rate spread





# 10 Components of U.S. Leading Indicators - *November*

- **Supplier performance**
- **Claims for unemployment (2)**
- **Stock prices (5)**
- **Manuf. new orders – capital goods**
- **Real money supply (6)**
- **Manuf. new orders – consumer goods**
- **Consumer expectations**
- **Manufacturing hours (3)**
- **Building permits (4)**
- **Interest rate spread (1)**





# Primary Recession Indicators:

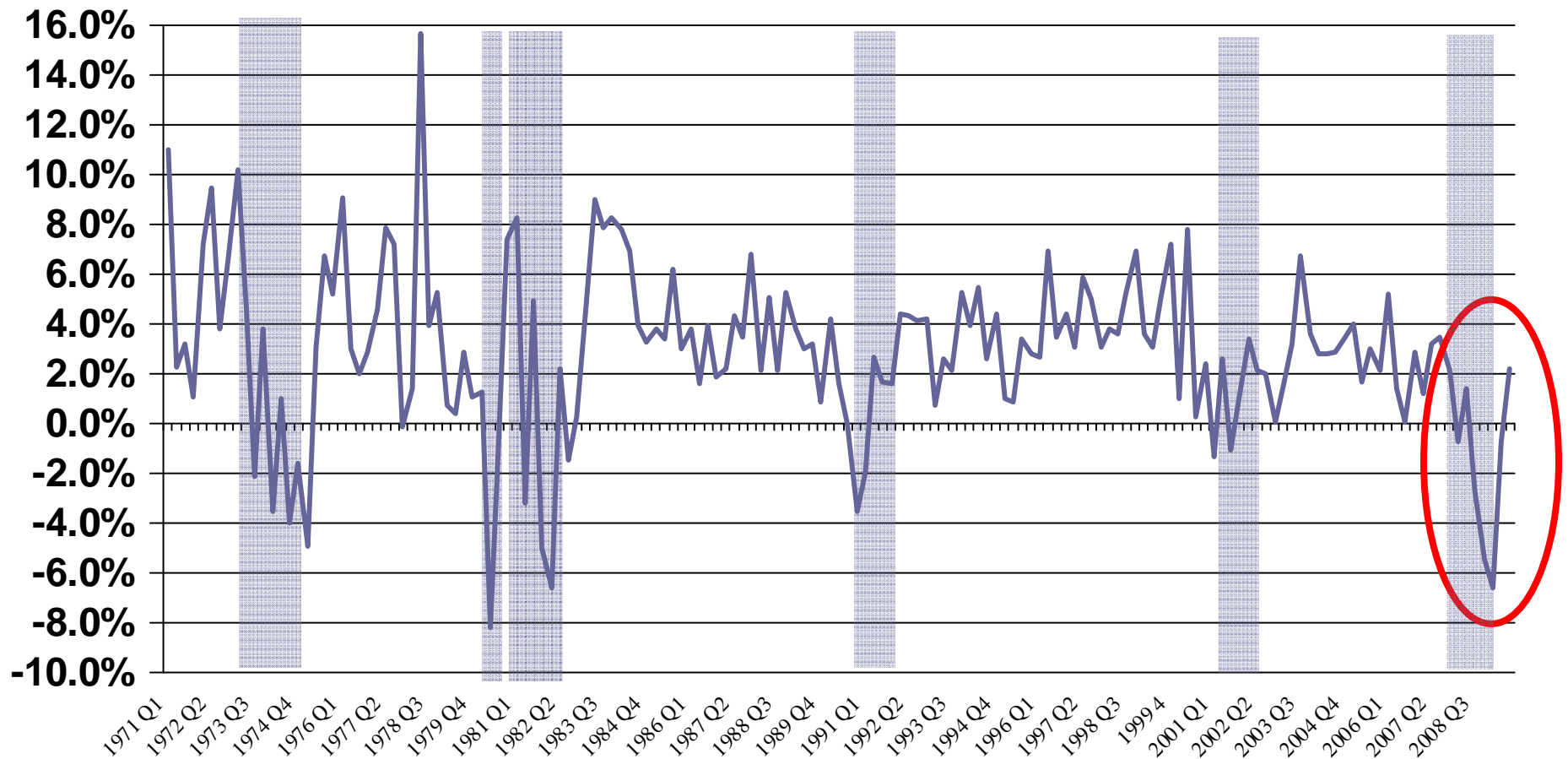
- Real GDP
- Real Income
- Employment
- Industrial Production
- Wholesale – Retail Sales



# Real Gross Domestic Product Percent Change Quarter Ago, Annualized 1971 – 2009\*

Source: Bureau of Economic Analysis

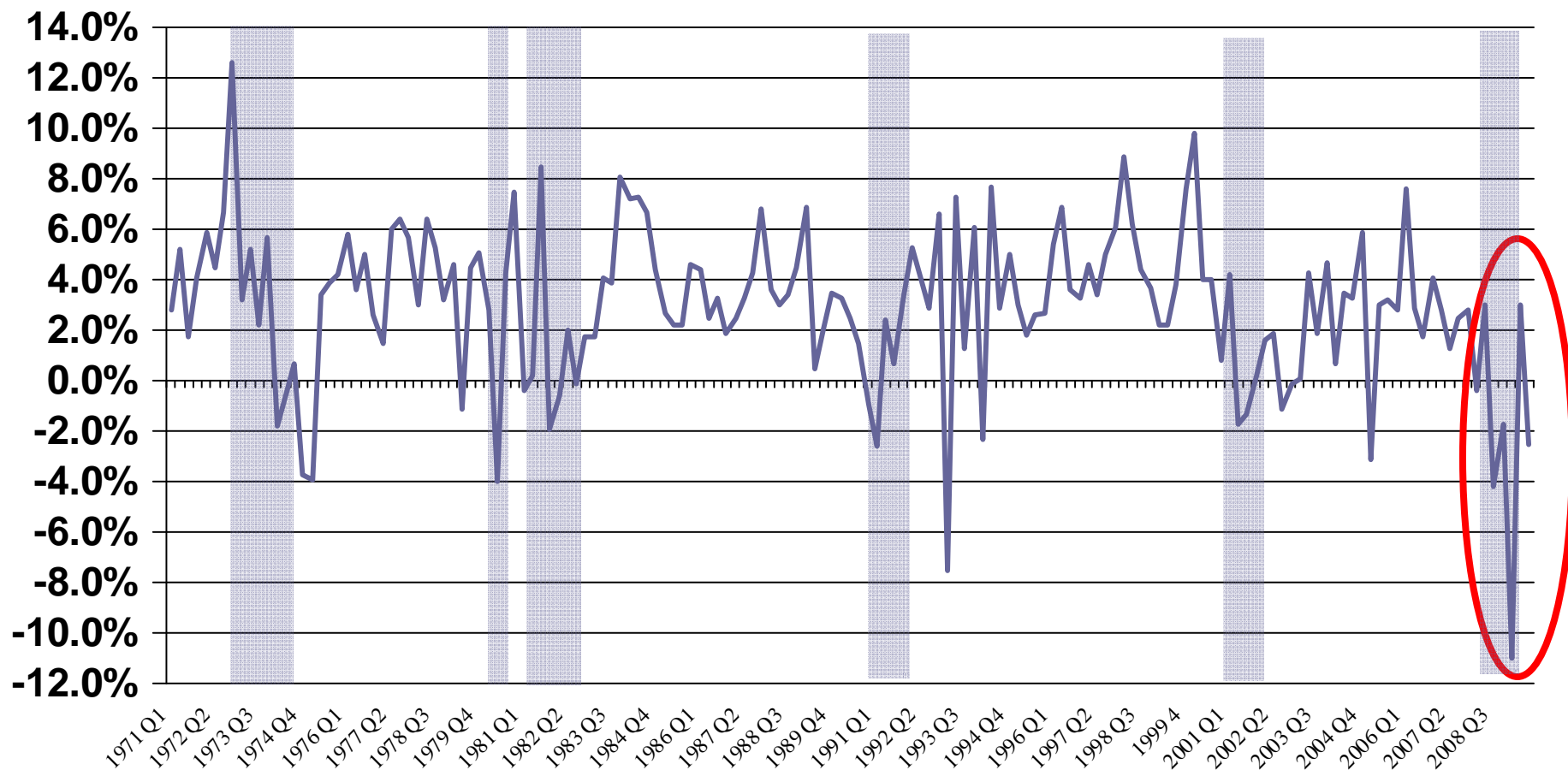
Recession Periods



# Real Personal Income Net of Government Transfers Percent Change Quarter Ago, Annualized 1971 – 2009\*

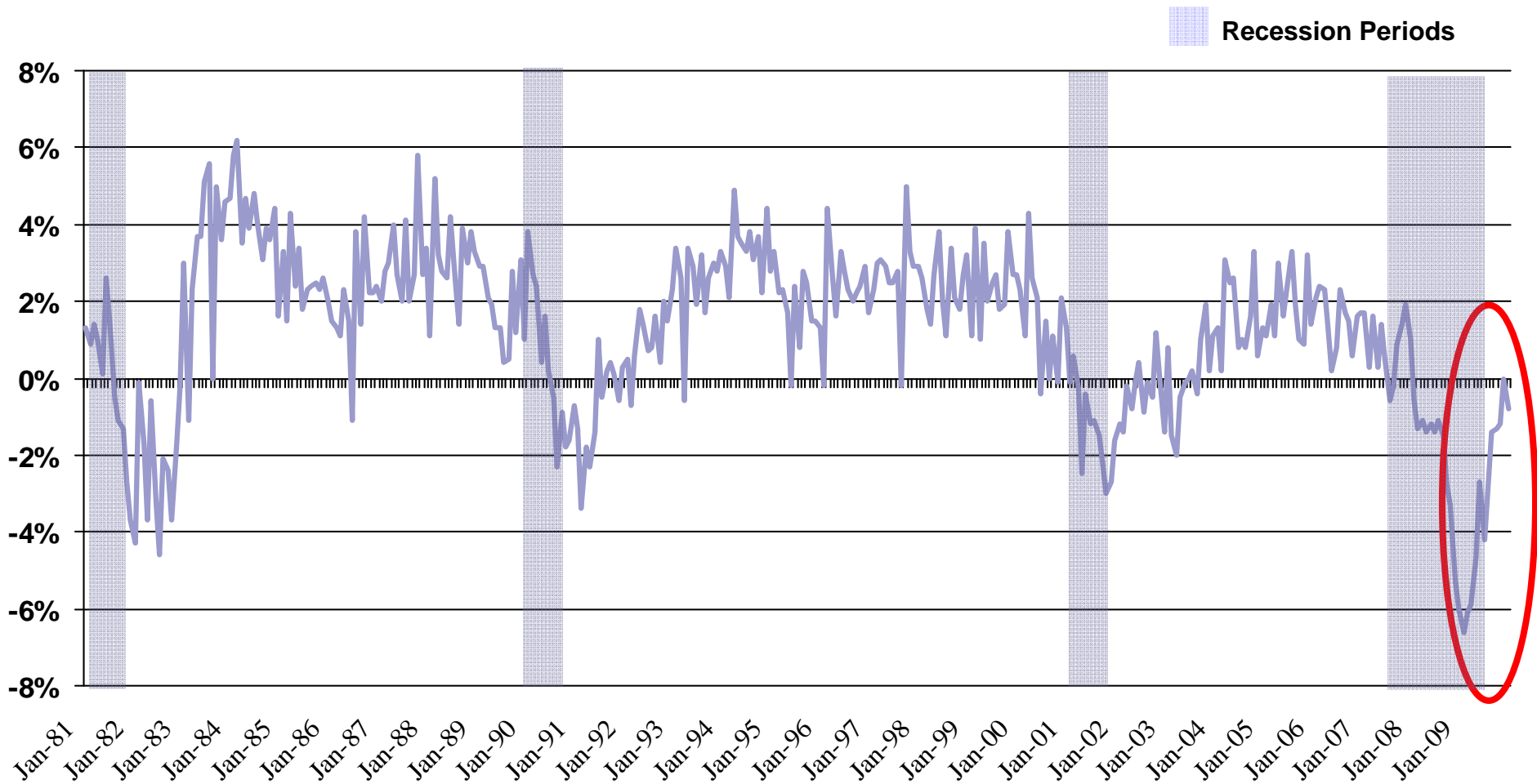
Source: Bureau of Economic Analysis

Recession Periods



# National Employment Percent Change Month Ago, Annualized (S/A) 1981 – 2009\*

Source: U.S. Bureau of Labor Statistics



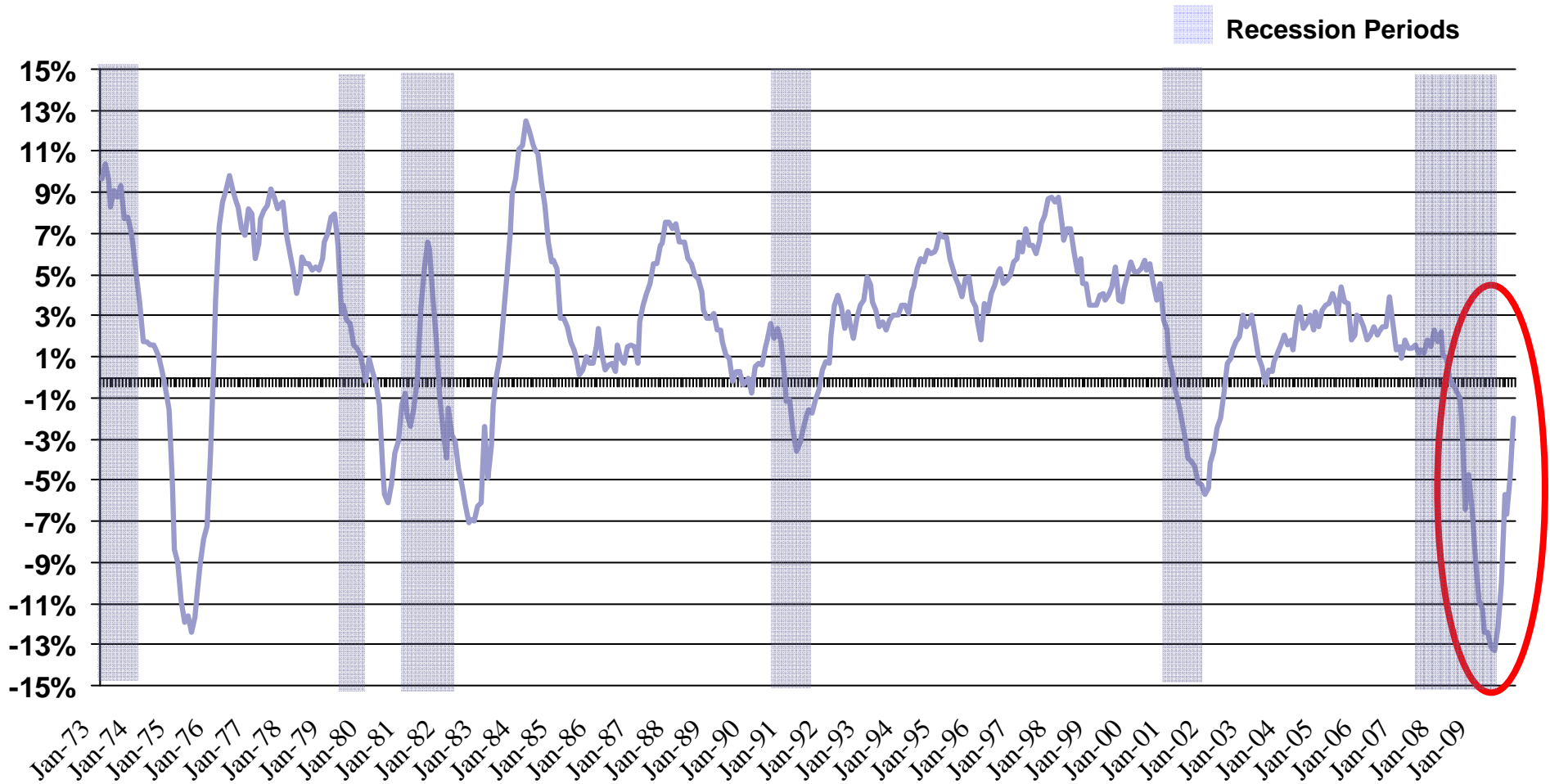
\*Data through December 2009



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# Industrial Production Percent Change Year Ago 1973 – 2009\*

Source: The Conference Board

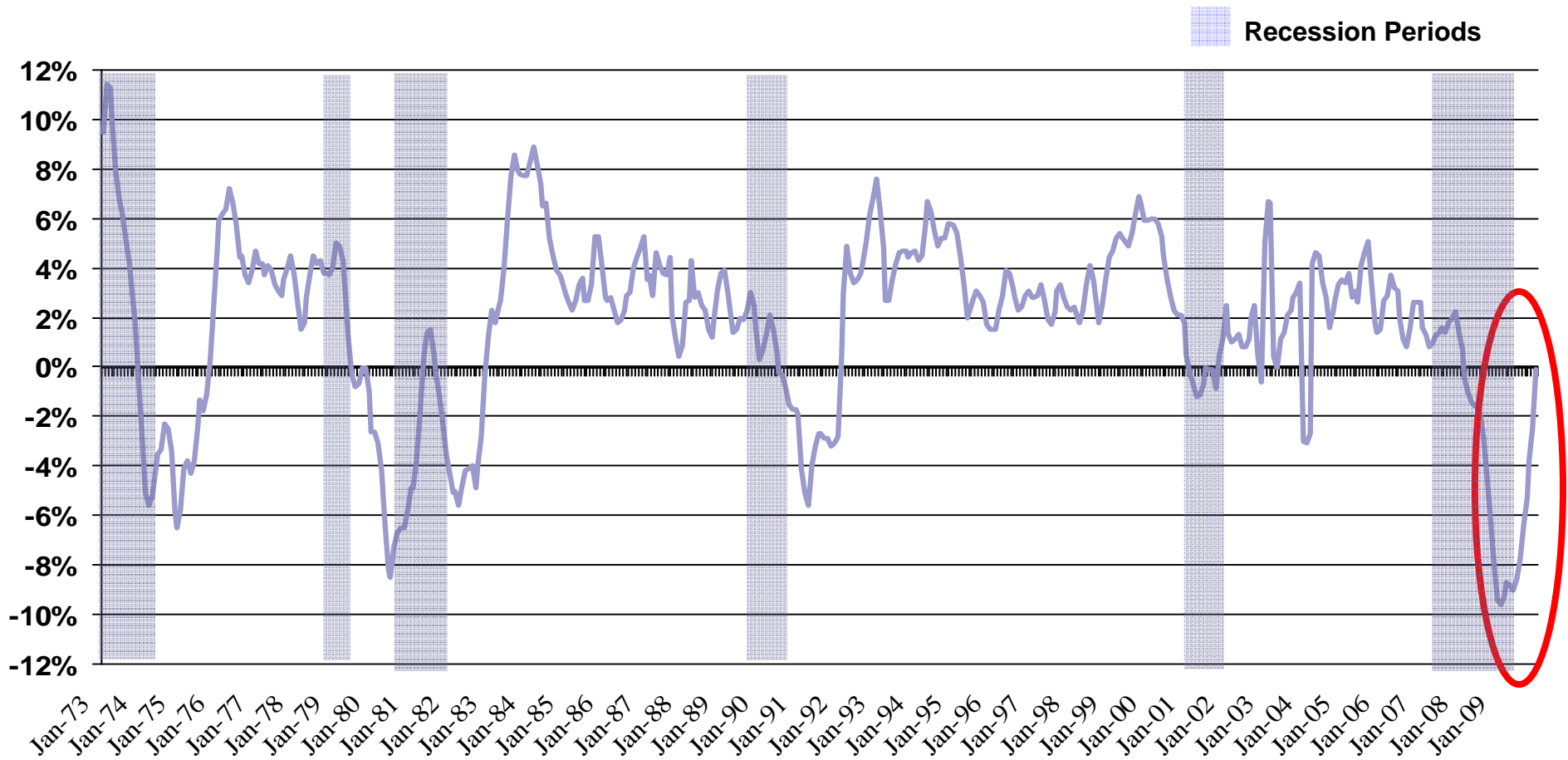


\*Data through December 2009



# Real Retail Sales U.S. Percent Change Year Ago 1973 – 2009\*

Source: Federal Reserve



\*Data through December 2009

\*\*Three-month moving average





# Recession Indicators Summary:

- Real GDP 
- Real Income 
- Employment 
- Industrial Production 
- Wholesale – Retail Sales 





**We are in a recovery, but we have yet to fully recover. Years not months.**

**The recovery will still be very weak and consumers will still be a drag.**

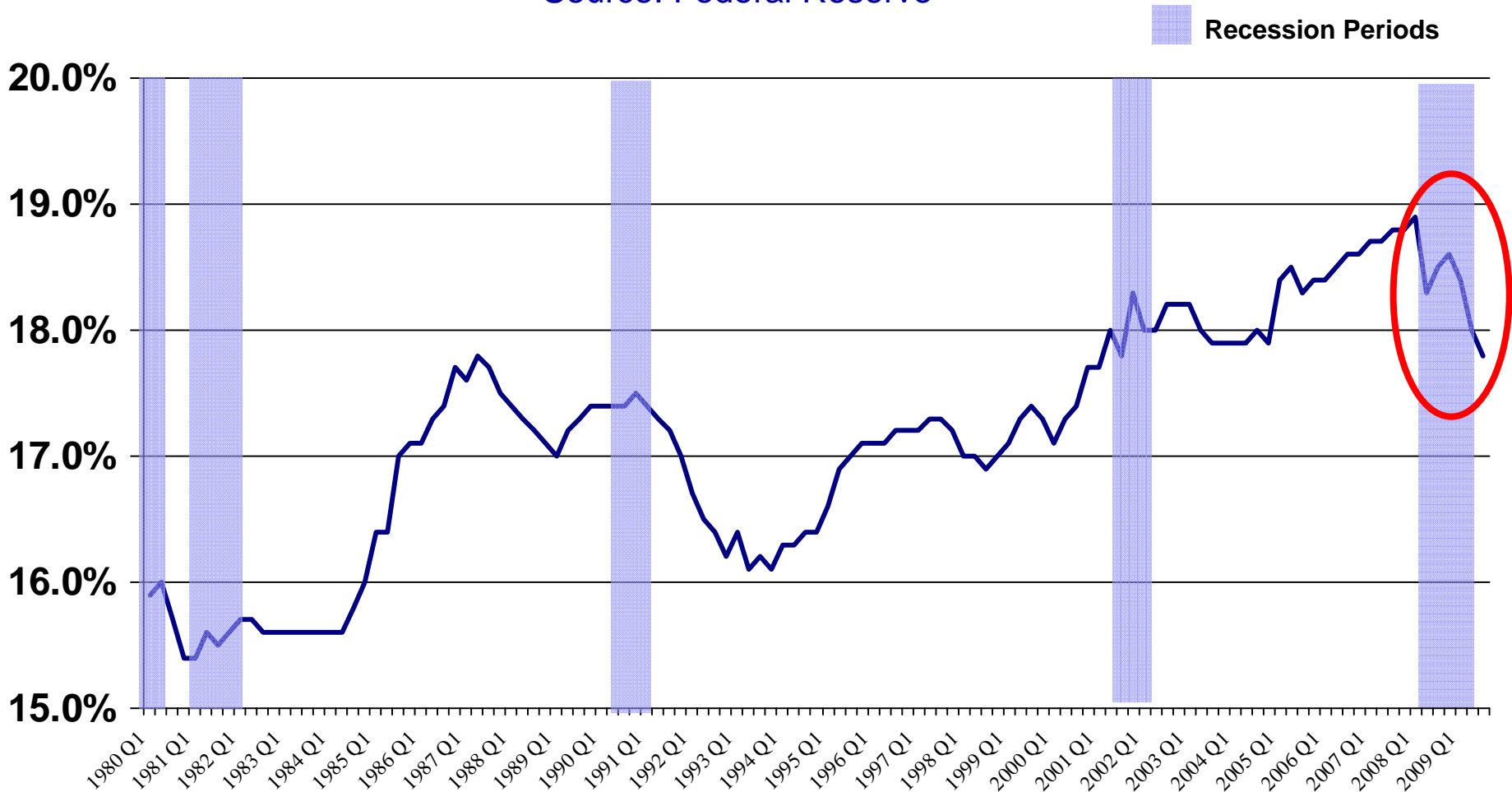
**They are finally getting their finances in order though, at least partially.**



# Financial Obligation Ratio\*\*

## 1980 – 2009\*

Source: Federal Reserve



\*Data through third quarter 2009

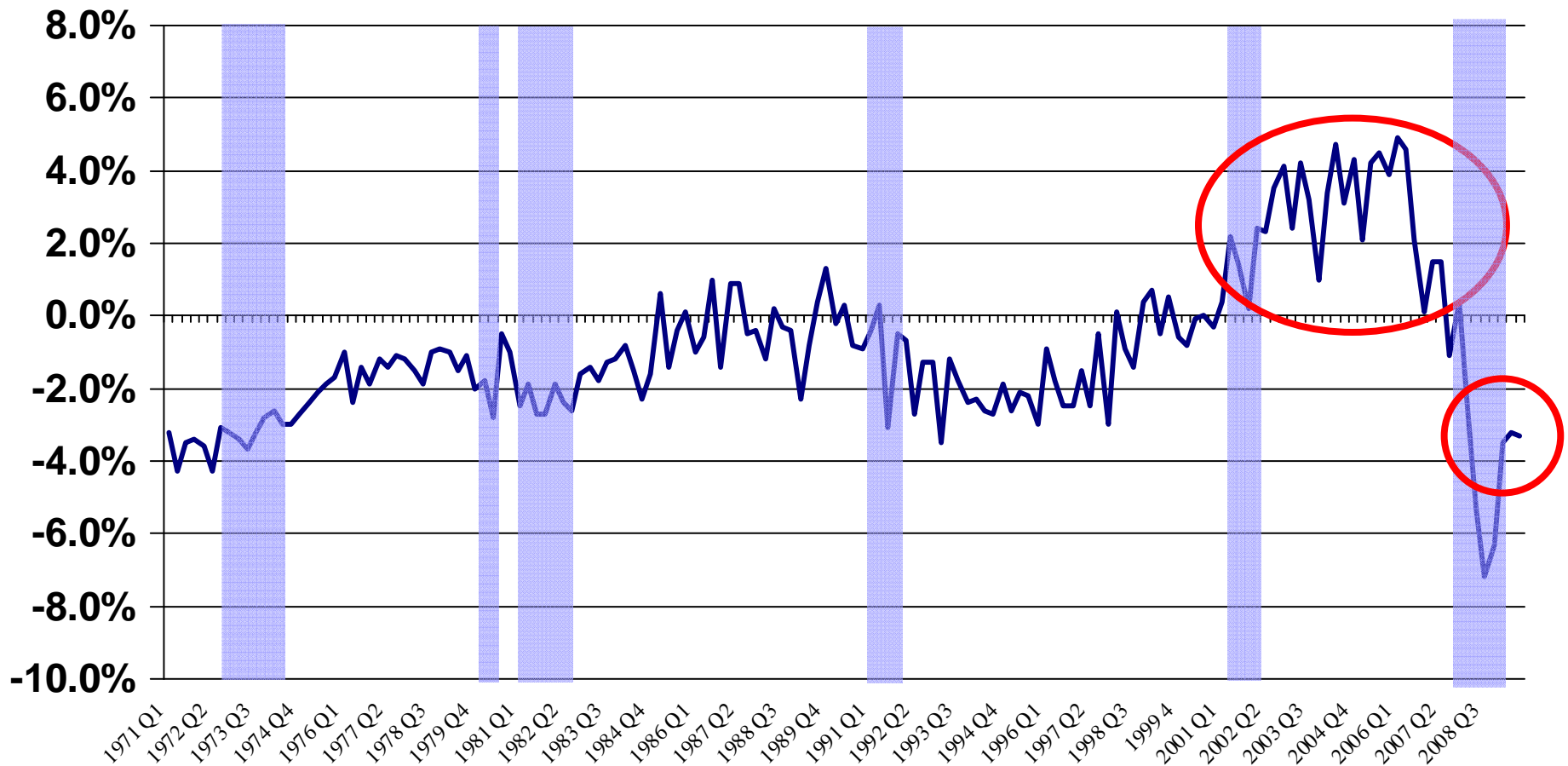
\*\*Ratio of mortgage and consumer debt (including auto, rent and tax payments) to disposable income.



# Mortgage Equity Withdrawal as a share of Disposable Income U.S.: 1971 – 2009\*

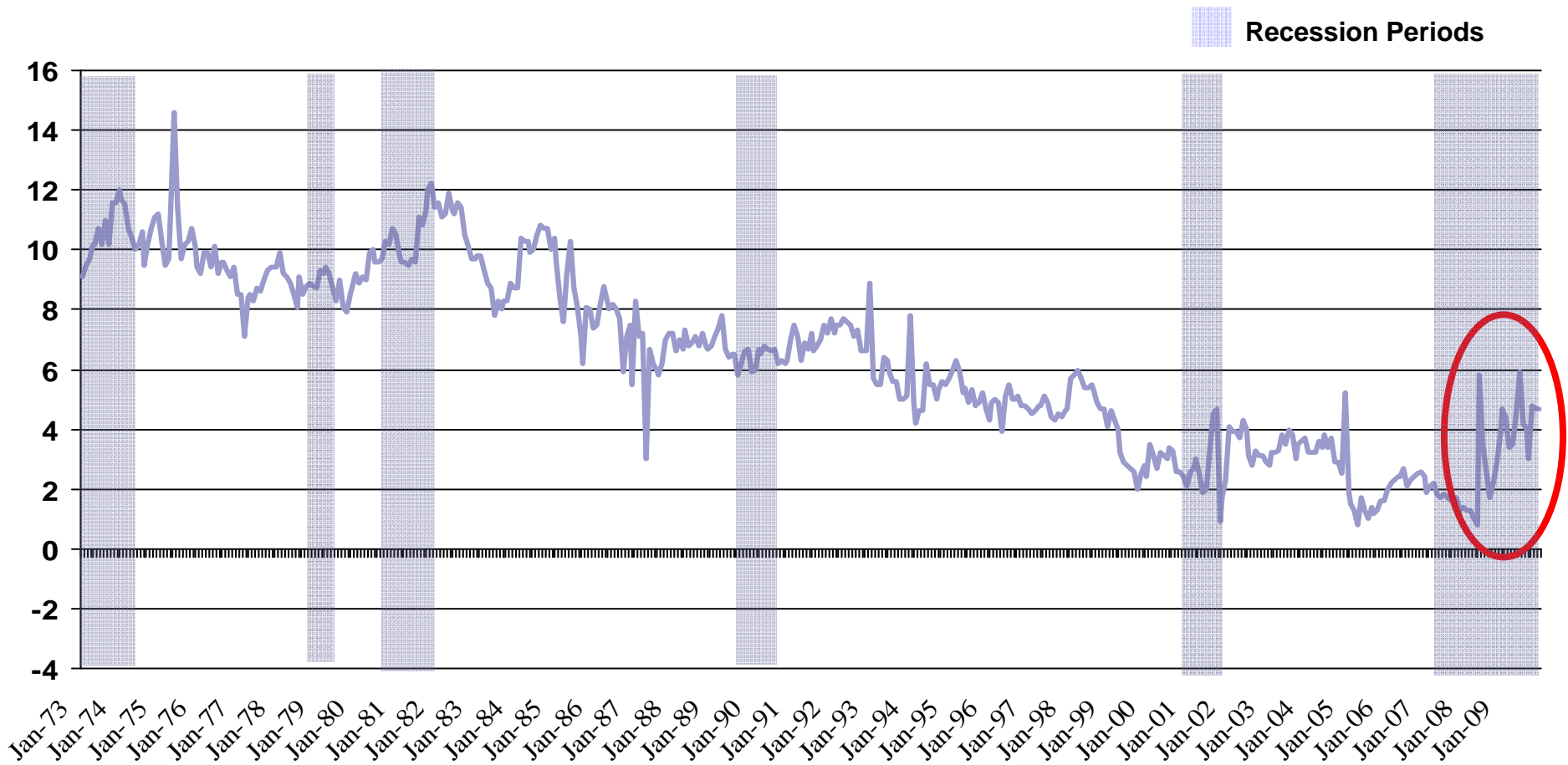
Source: Bureau of Economic Analysis

Recession Periods



# Savings Rate 1973 – 2009\*

Source: Federal Reserve



\*Data through November 2009

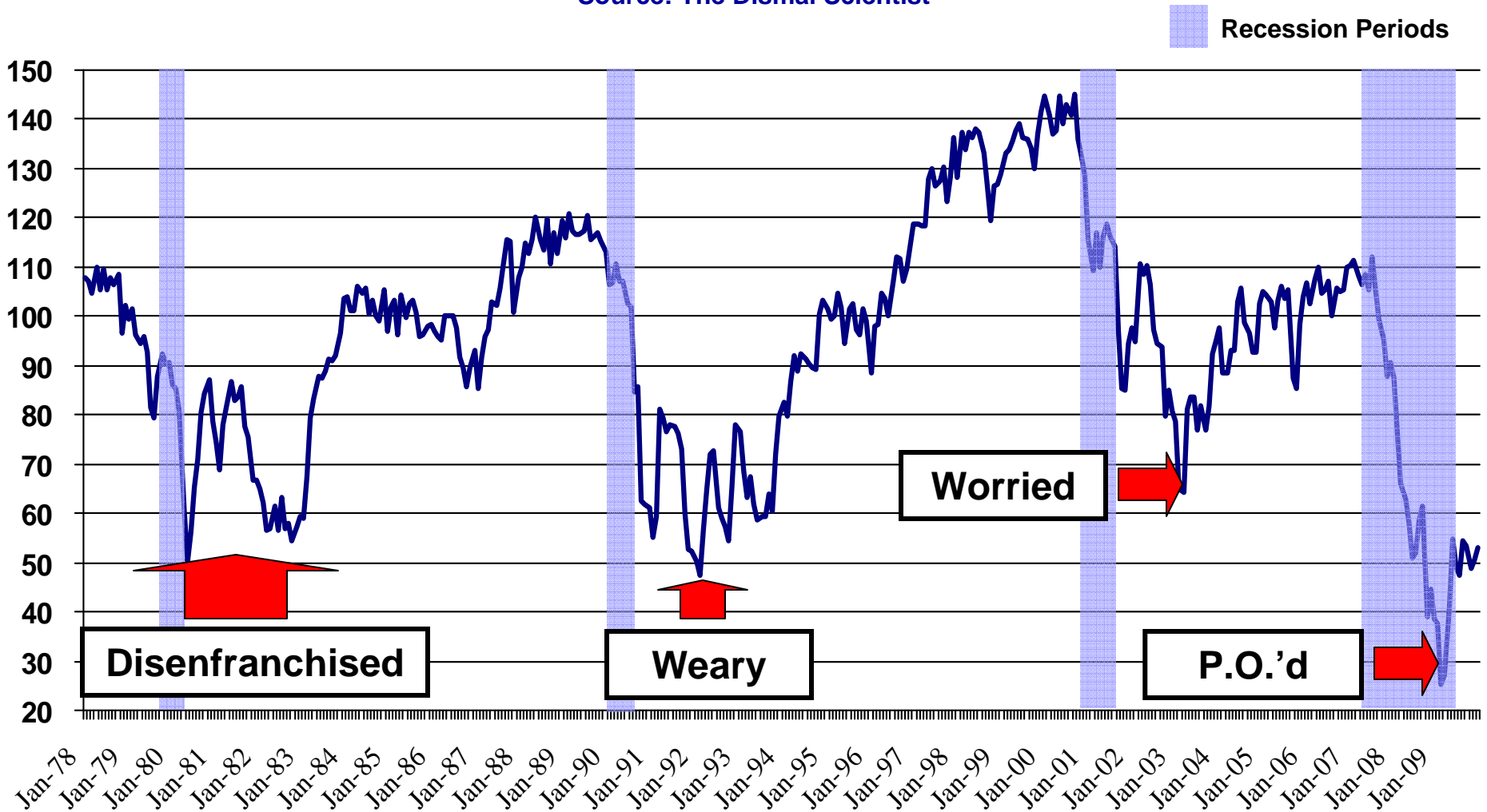
\*\*Three-month moving average



# Consumer Confidence

1978 – 2009\*

Source: The Dismal Scientist



\*Data through December 2009



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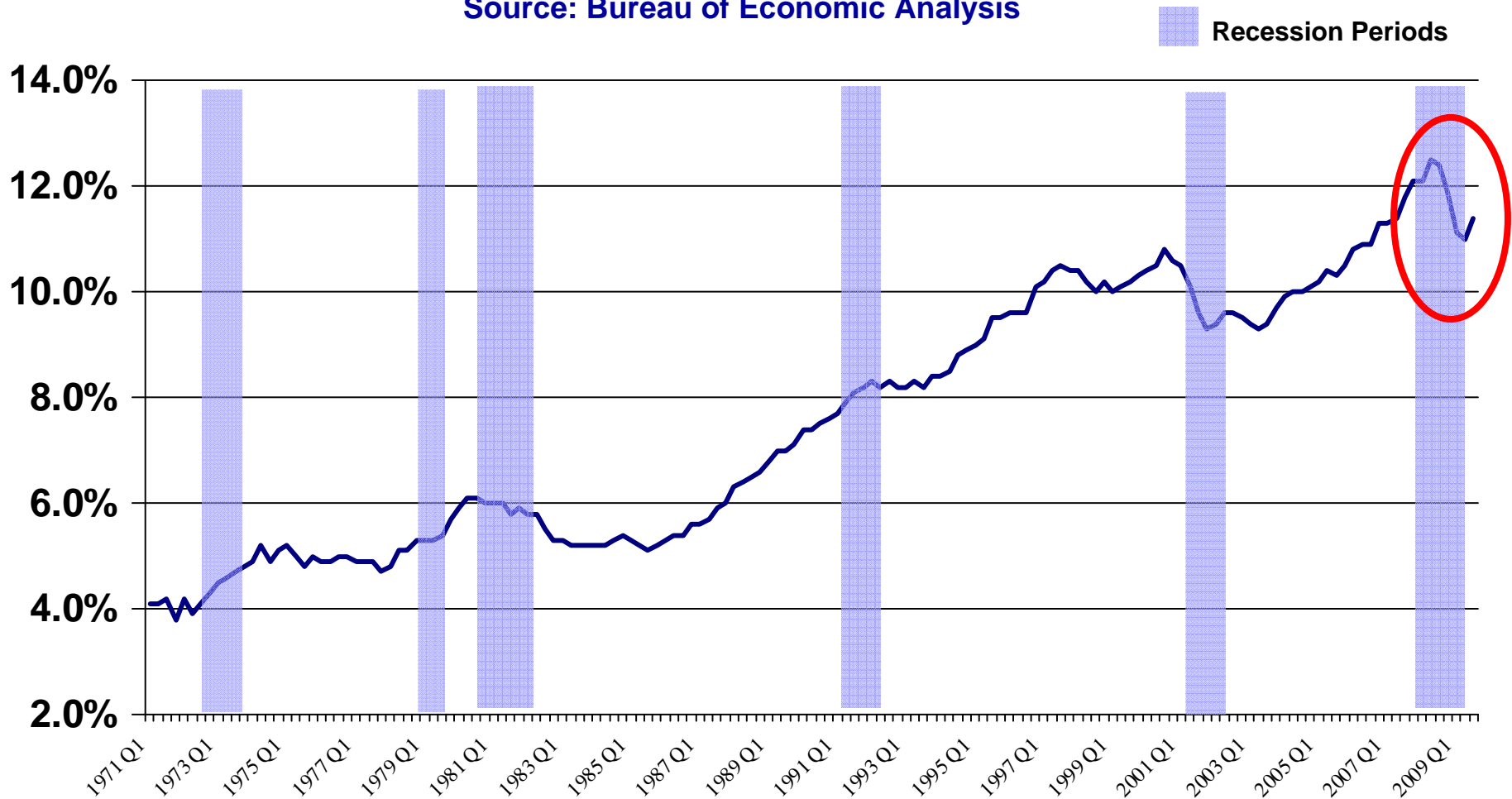


# State of Business? Still Ugly?



# U.S. Real Exports as a Percent of Real GDP 1971 – 2009\*

Source: Bureau of Economic Analysis



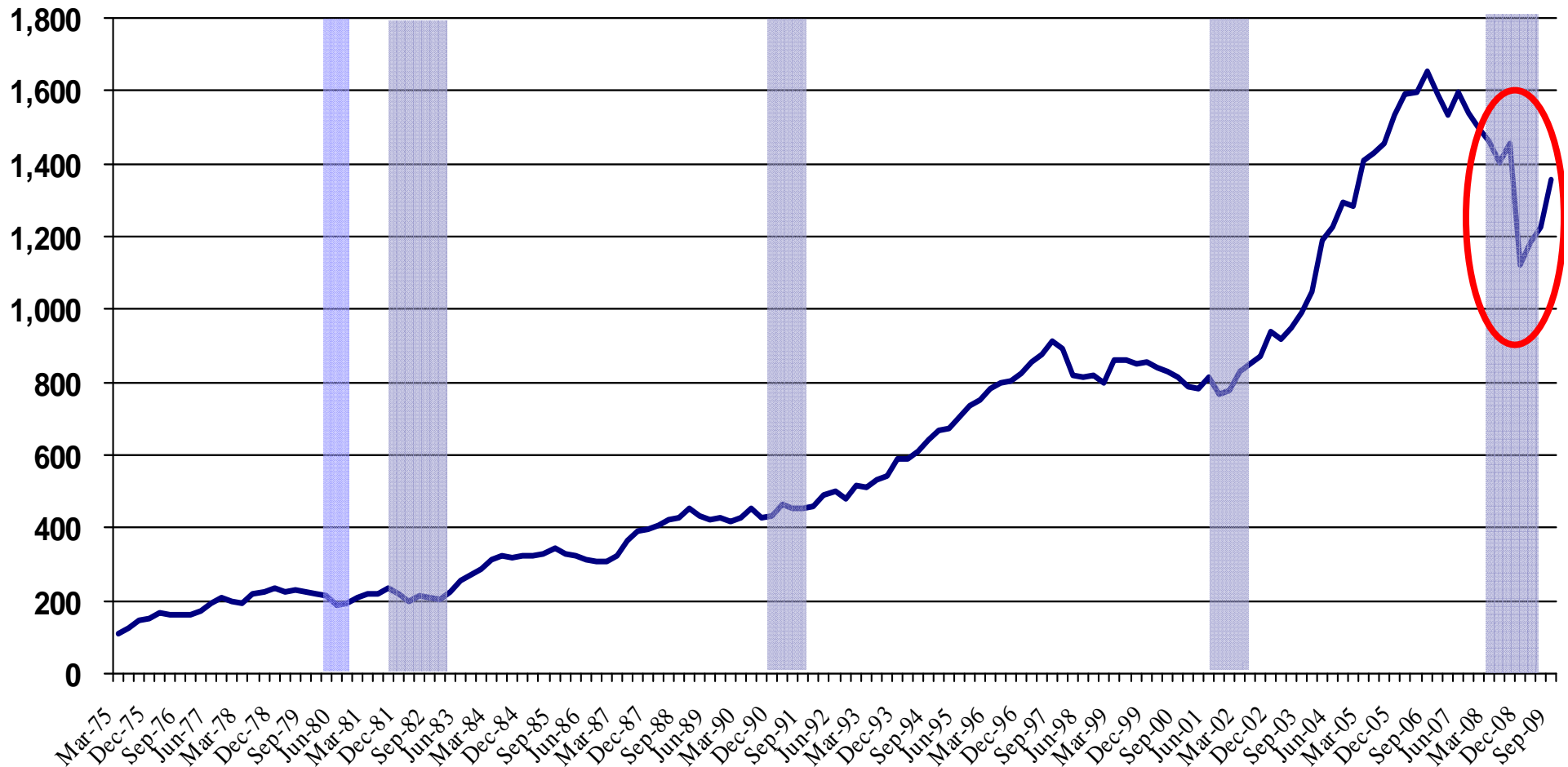
\*Data through third quarter 2009



# Corporate Profit (Billions of Dollars, SA) 1975-2009\*

Source: Freelunch.com

Recession Periods



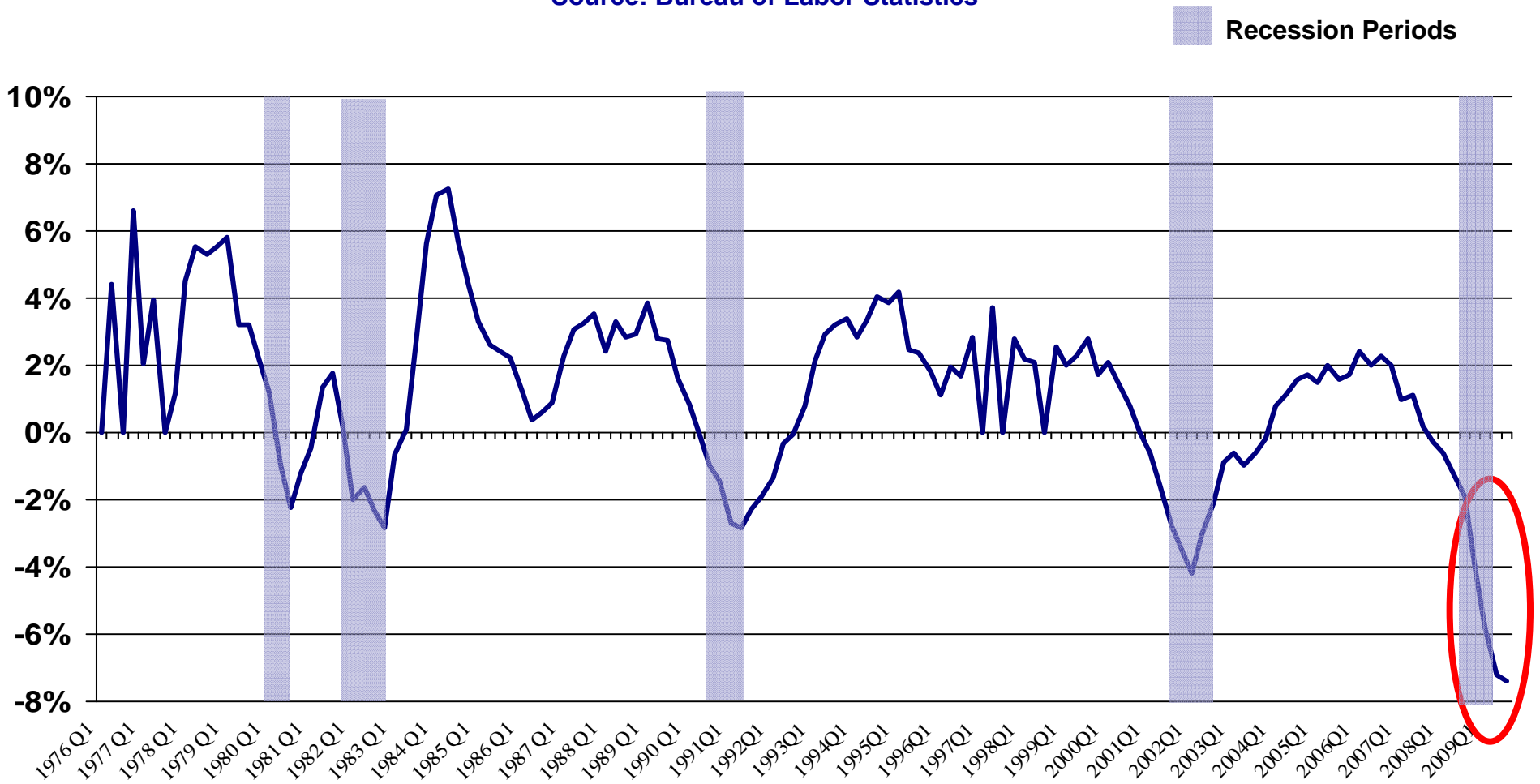
\*Data through third quarter 2009



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# Hours Worked Percent Change from Year Ago 1976 – 2009\*\*

Source: Bureau of Labor Statistics

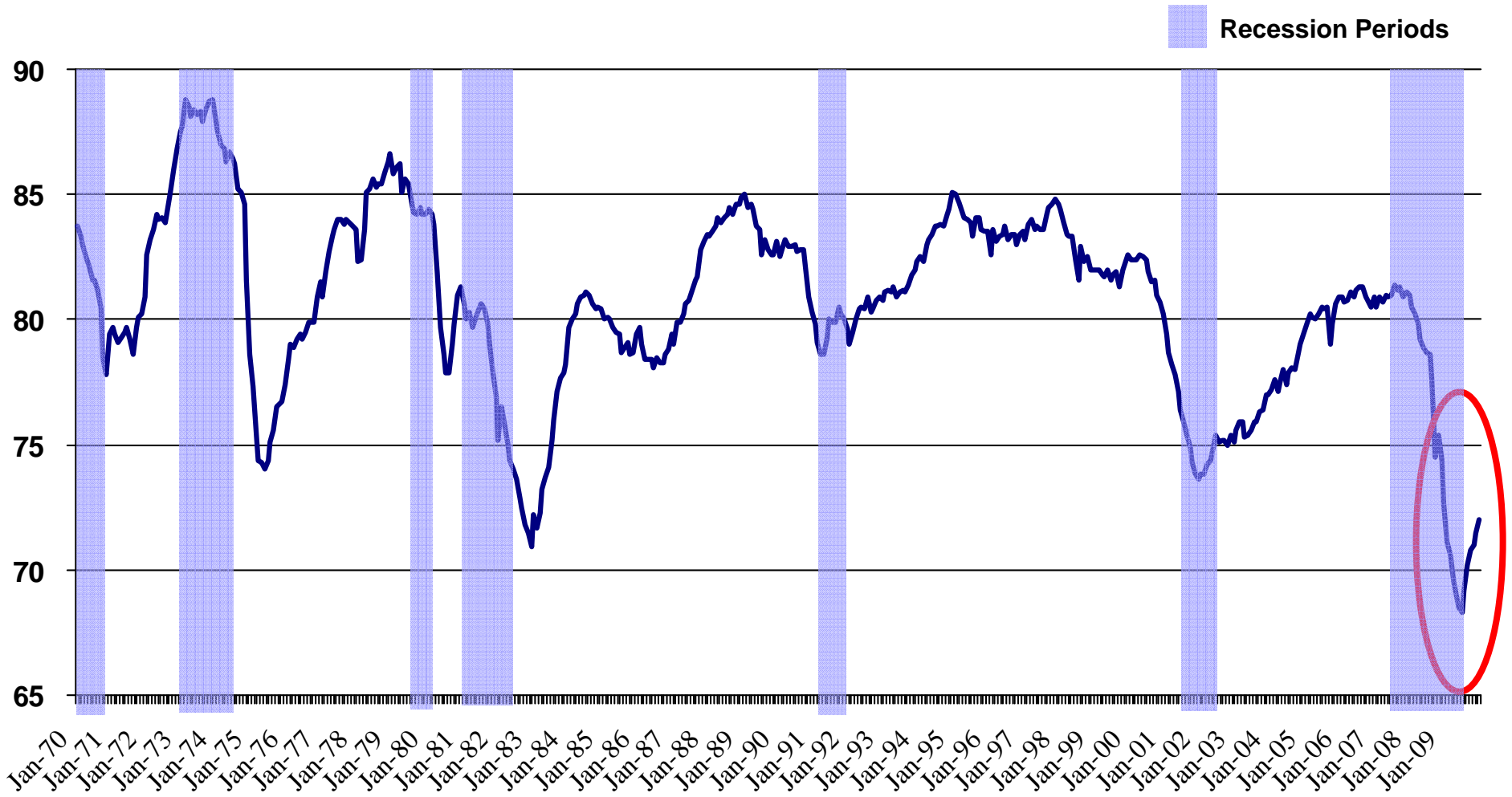


\*\*Data through third quarter 2009



# Capacity Utilization Rate 1970 – 2009\*

Source: The Conference Board



\*Data through December 2009

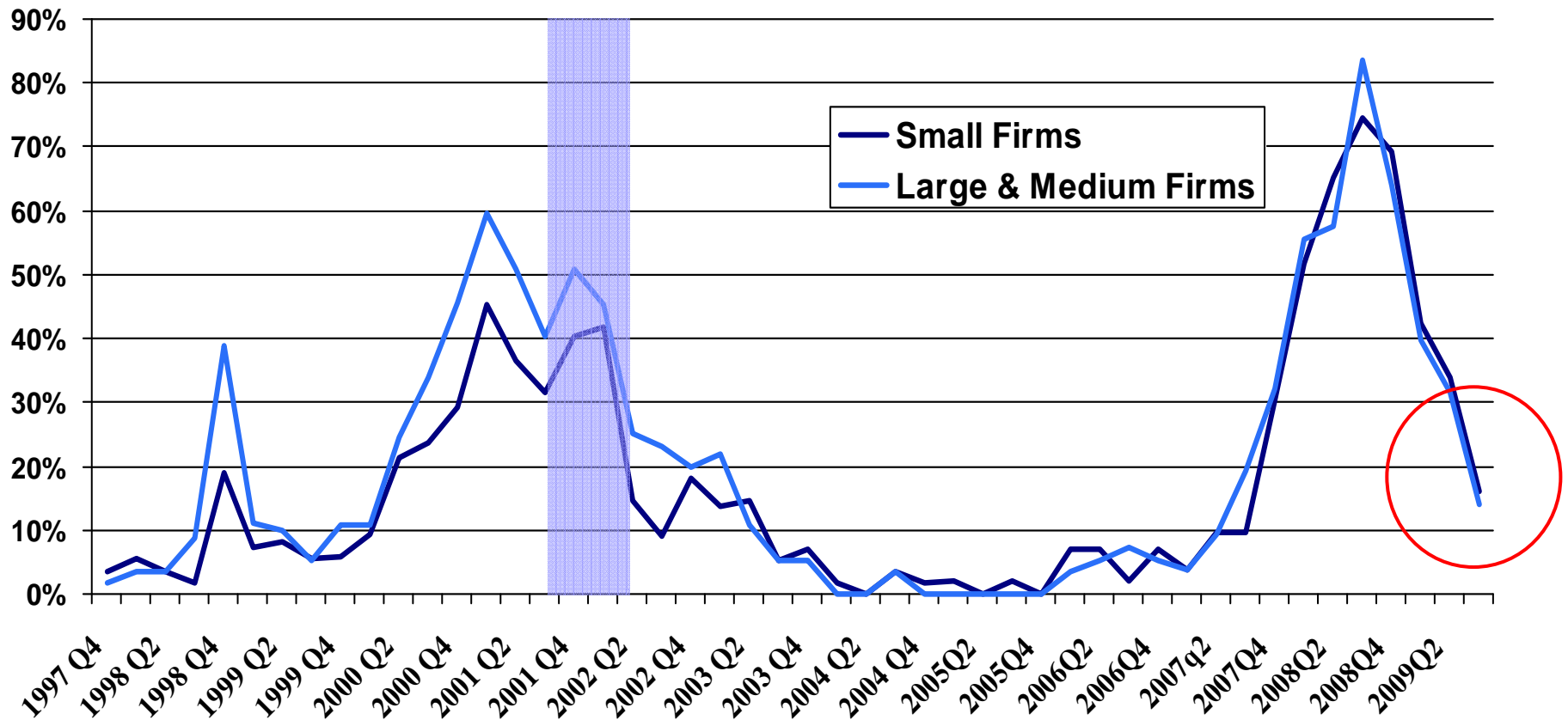


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# Percentage of Large U.S. Banks Reporting **Tougher** Standards on Business Loans 1997 – 2009\*

Source: Federal Reserve, Board of Governors

 Recession Periods



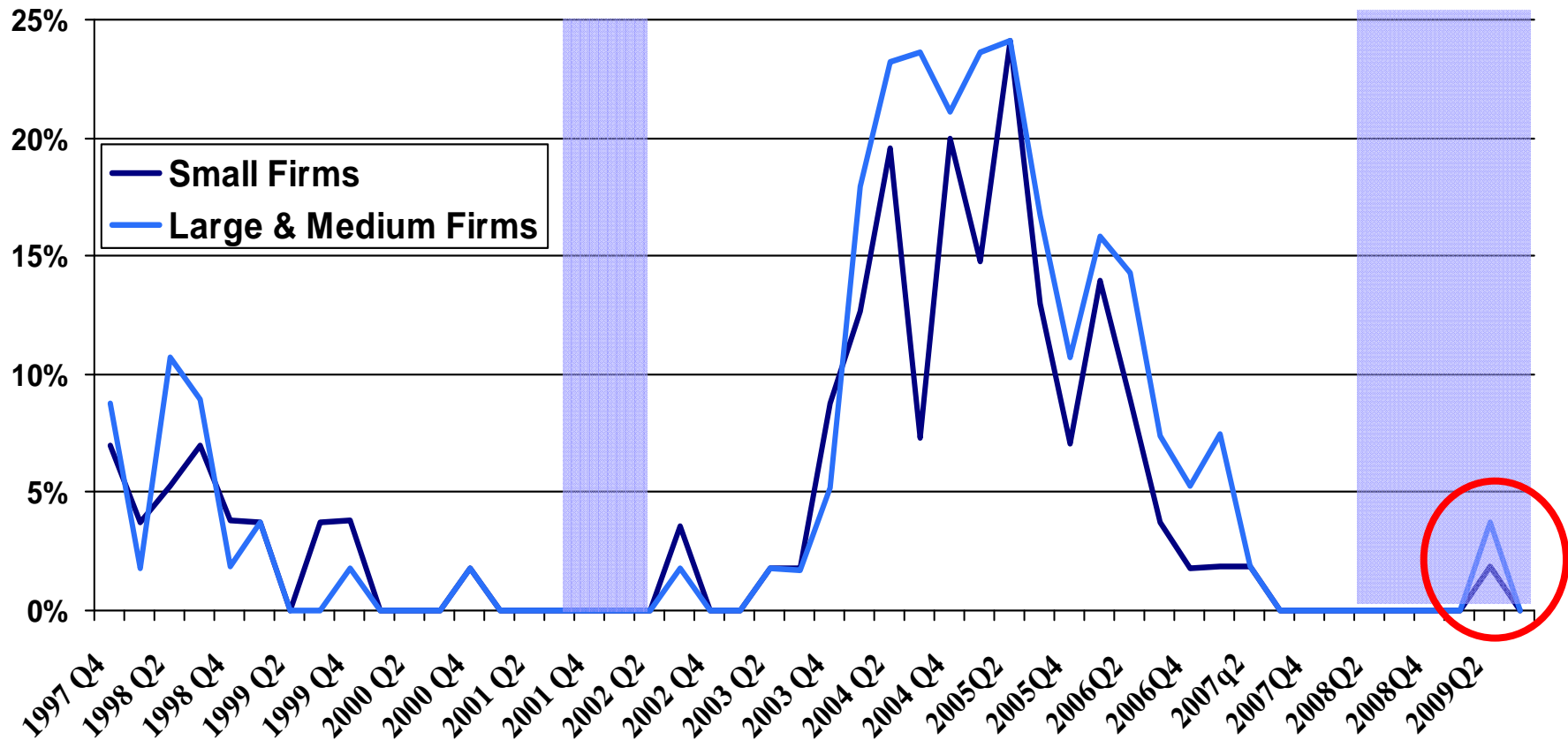
\* Data as of October 2009 survey.



# Percentage of Large U.S. Banks Reporting **Easier** Standards on Business Loans 1997 – 2009\*

Source: Federal Reserve, Board of Governors

 Recession Periods



\* Data as of October 2009 survey.





# **U.S. Summary:**

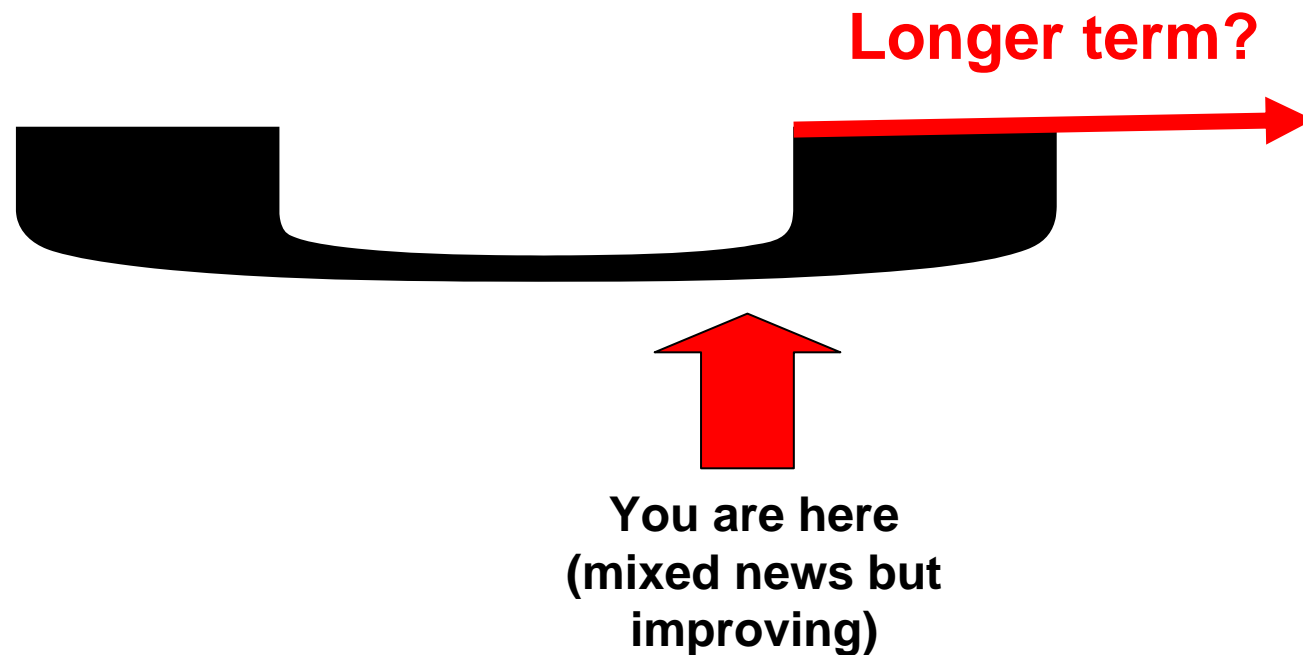
**U vs. V?  
or even W; L?**





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# U.S. Summary:





# Why No Strong Recovery?

- Some confidence will return but consumers will still feel poor (i.e. wealth effect).
- Home sales will eventually increase but housing supply will still exceed demand in many areas.
- Job gains will be slow to materialize.



# Why No Strong Recovery?

- Stock market will initially surge (done) then growth will be slow. A relatively flat year?
- Just getting started with problems in commercial real estate.
- Excess production capacity will limit investment this year at least.
- Less pent up consumer demand created during downturn than normal, but consumers finally getting their act together.



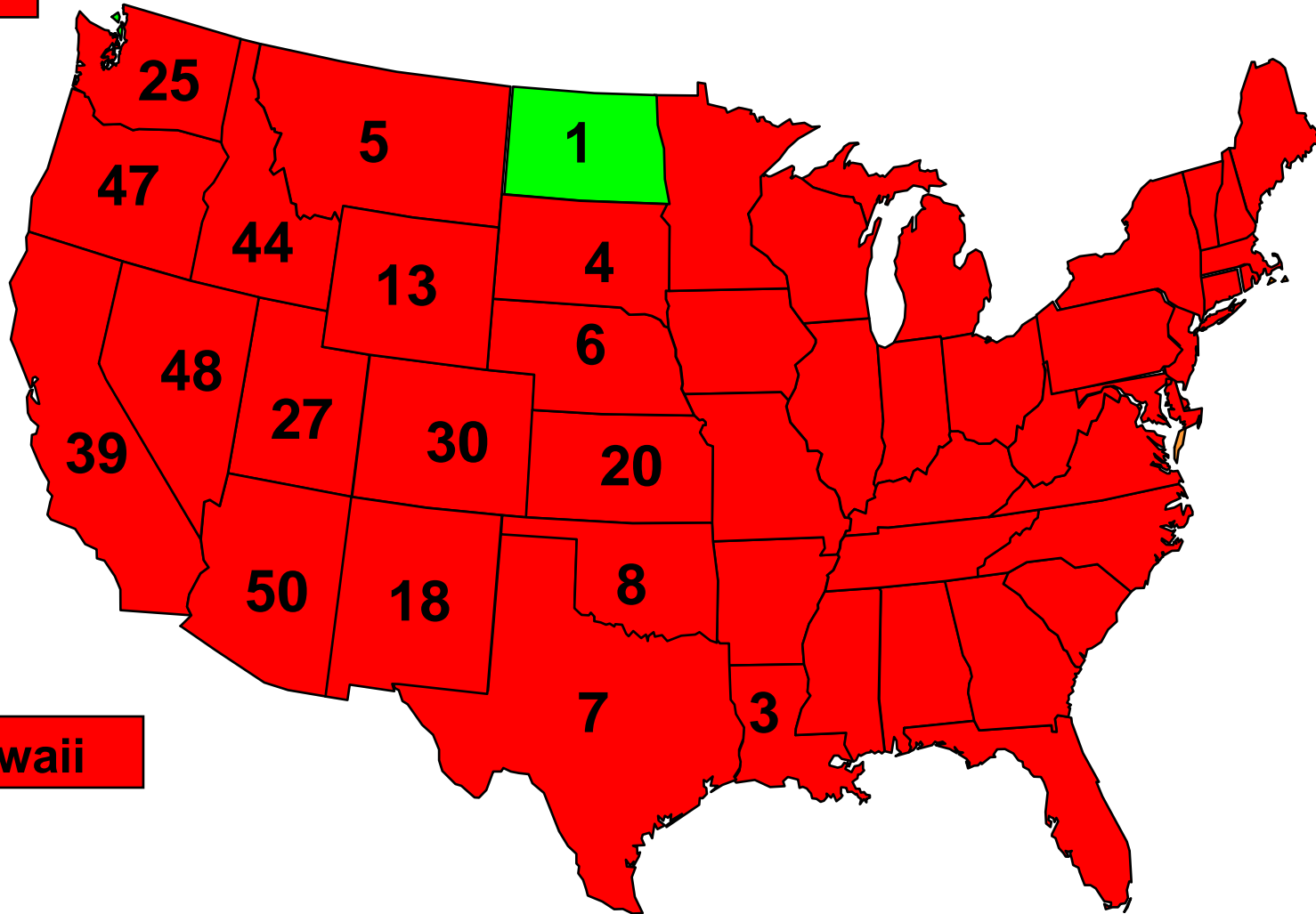
# State of Arizona





# Job Growth Update: Arizona Falls to 50<sup>th</sup> YTD November 09 v YTD November 08

Alaska  
2



Hawaii





**= 280,000 lost AZ jobs  
during last two years.**

**(>10% of jobs)**





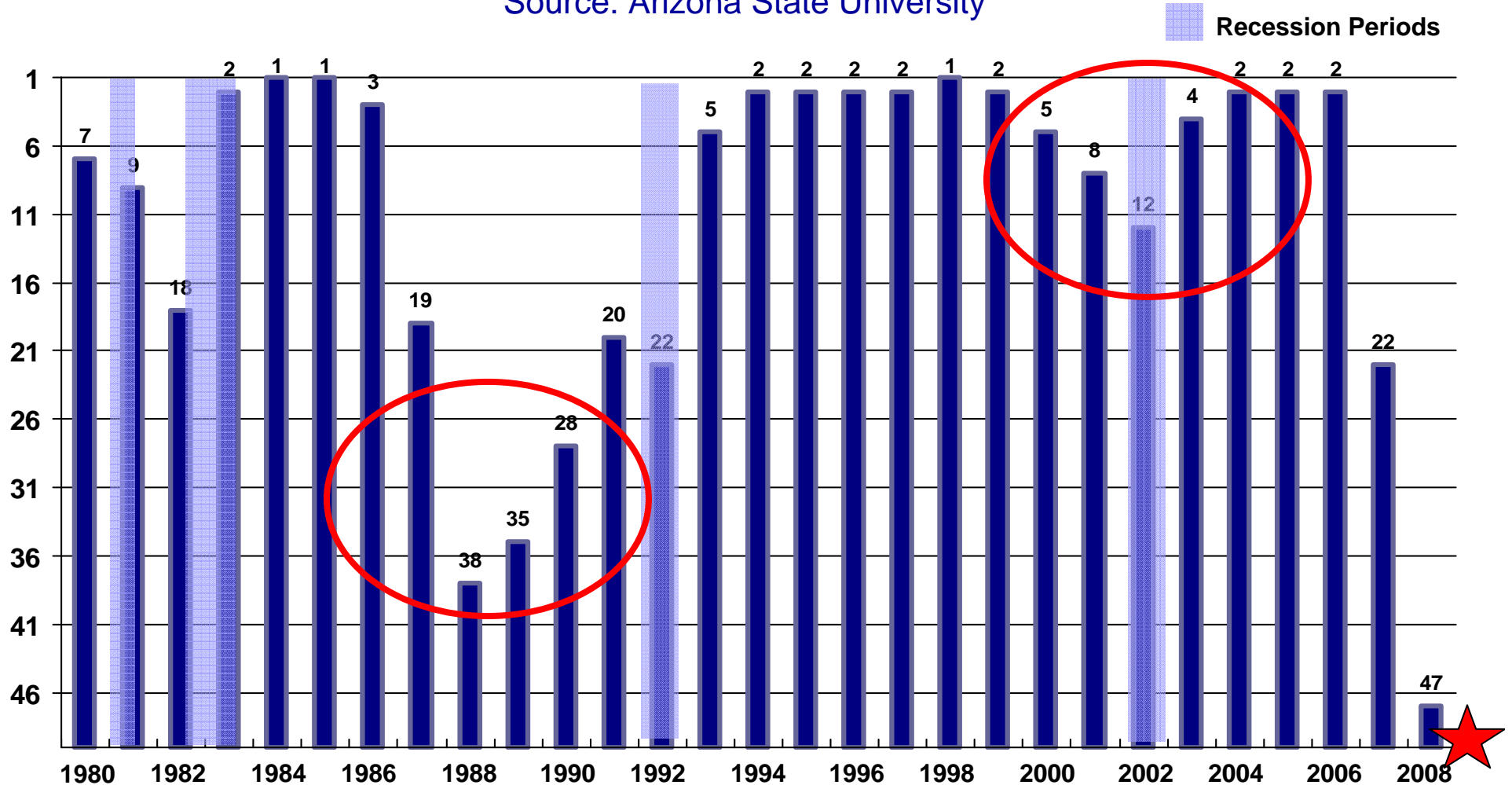
# Employment Growth: Top 10 States

- **North Dakota**
- **Alaska**
- **Louisiana**
- **South Dakota**
- **Montana**
- **Nebraska**
- **Texas**
- **Oklahoma**
- **New York**
- **Maryland**



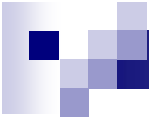
# Arizona Employment Rank Among 50 States 1980 – 2009 Growth Over Previous Year

Source: Arizona State University



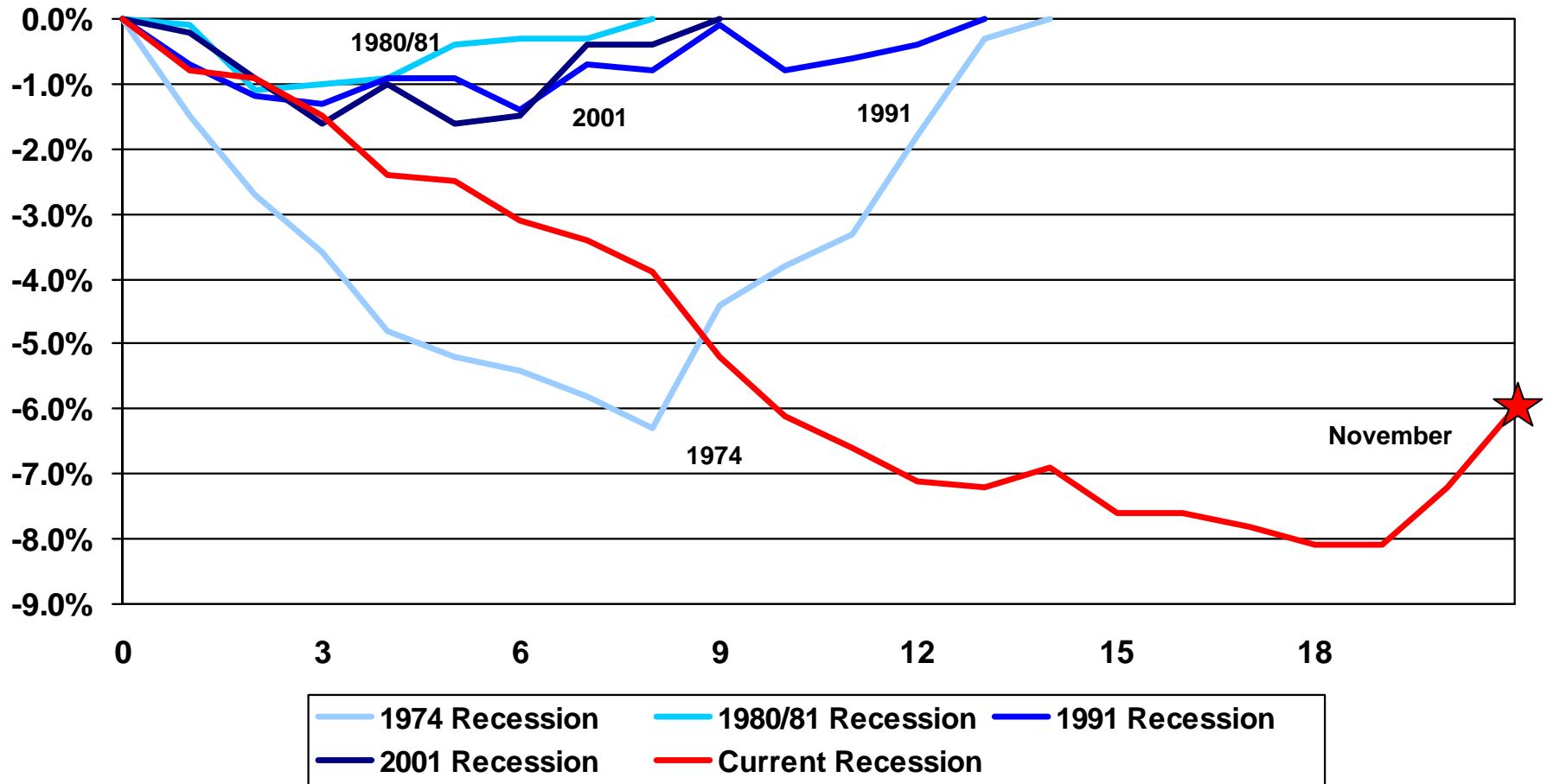
★ = YTD November = 50





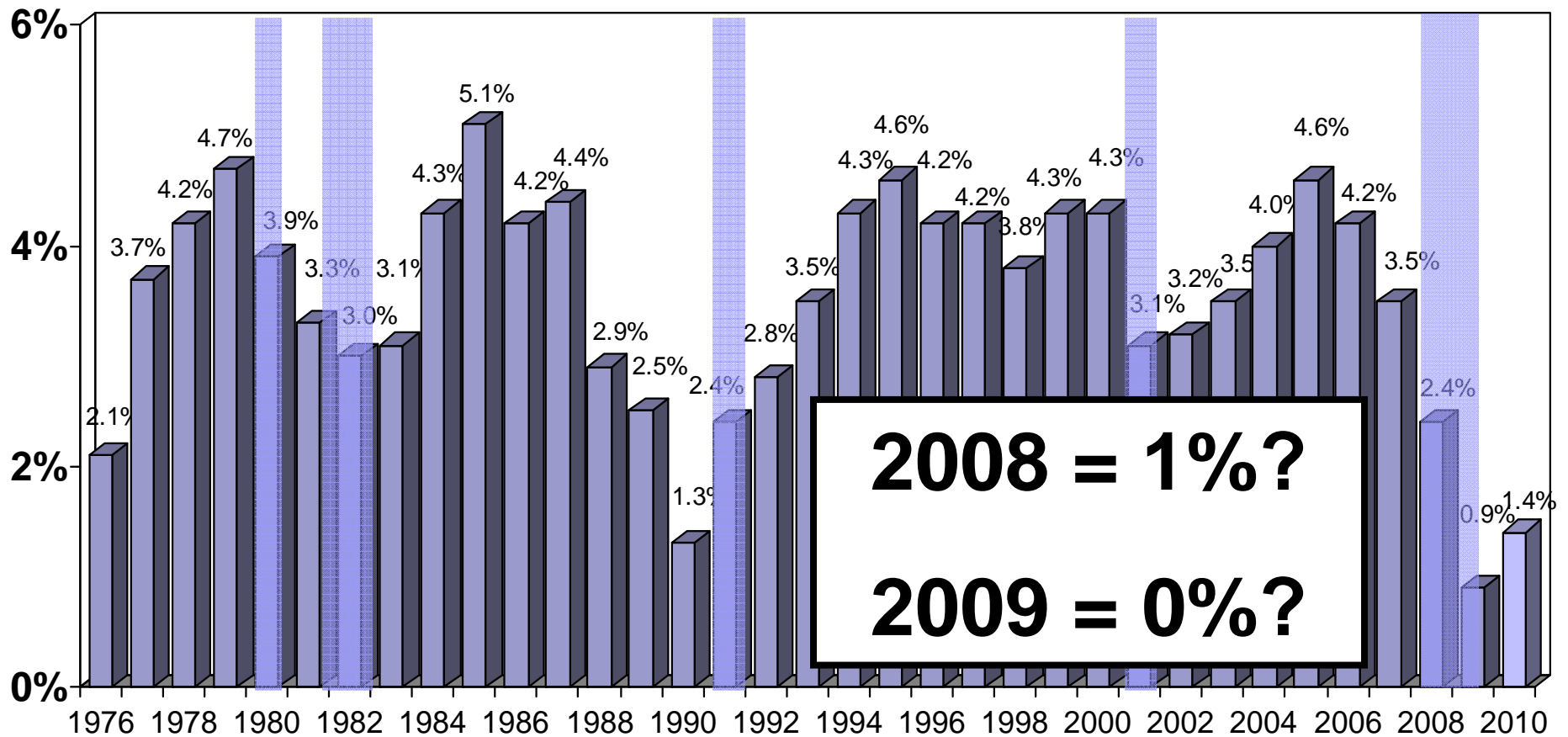
# Greater Phoenix Y/Y Job Losses - Recent Recessions

## Duration in Months - BLS



# Greater Phoenix Population Annual Percent Change 1976–2010\*

Source: Arizona State University & Department of Commerce, Research Administration



2008 and 2009 are estimates put out by ADOC and may be subject to substantial revision.

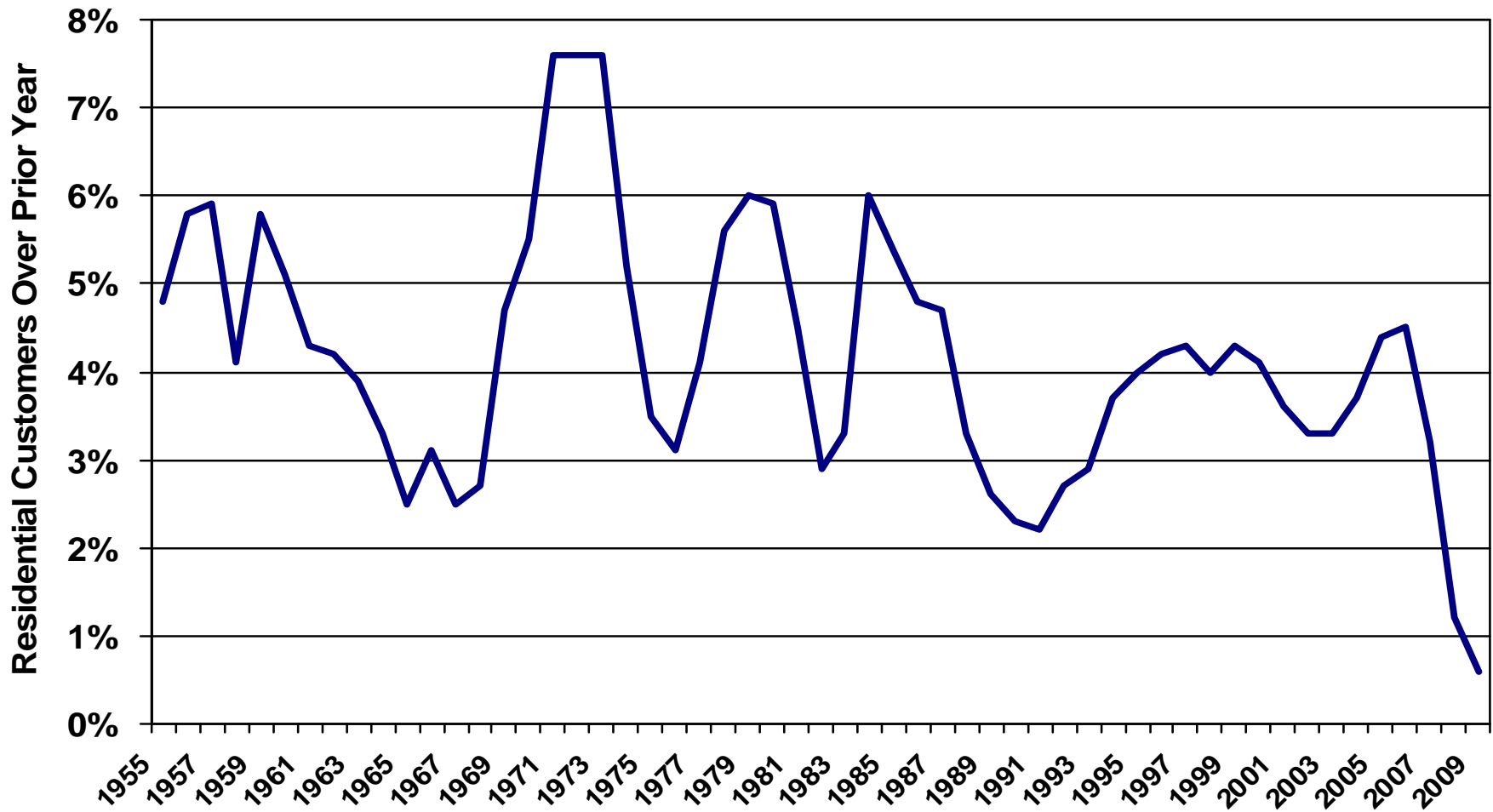
\* 2010 forecast is from *Elliott D. Pollack & Co.*

 Recession Periods



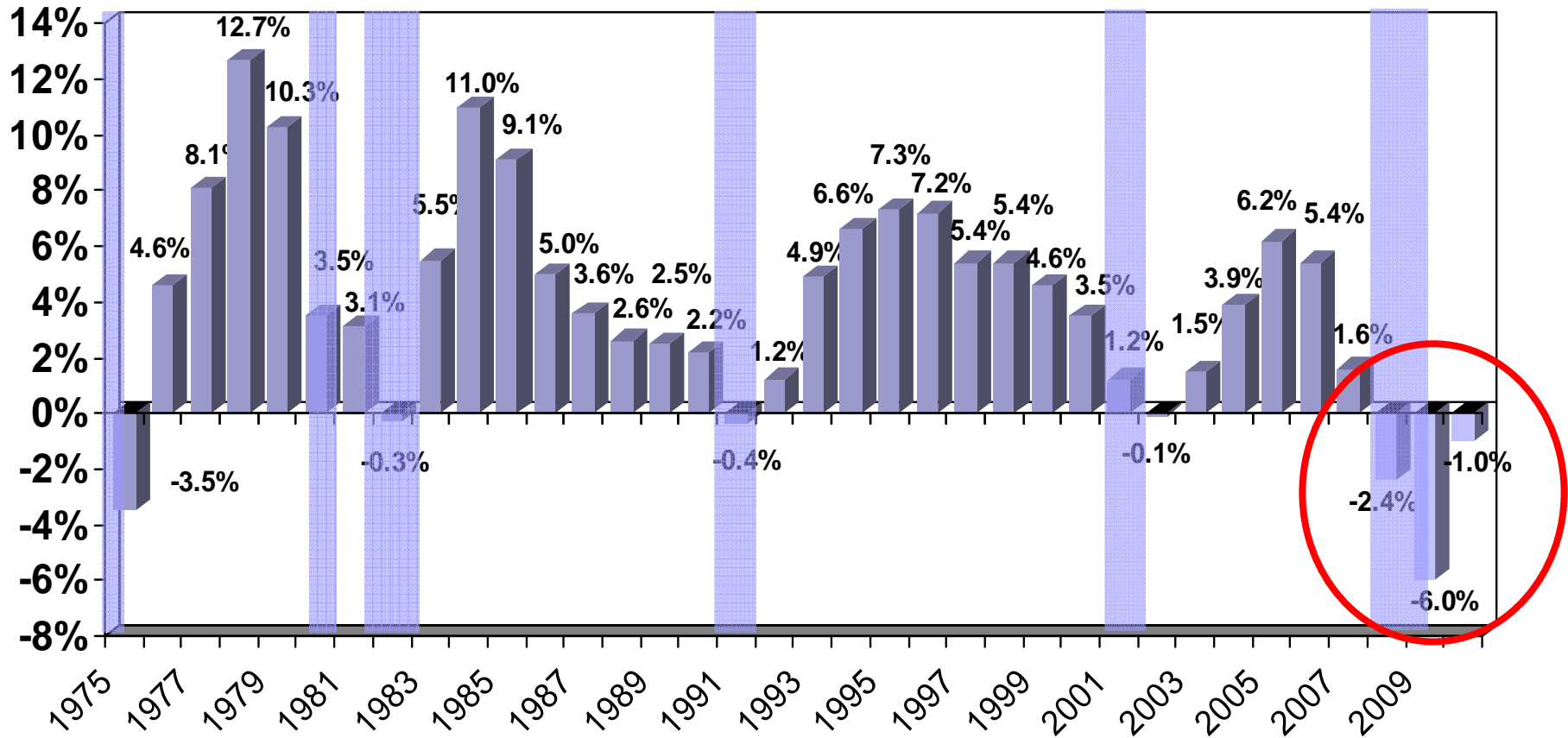
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# APS: Slowest Growth in over 50 years 1955 – 2009\*



# Phoenix-Mesa MSA Employment\* Annual Percent Change 1975–2010\*\*

Source: Department of Commerce, Research Administration



\*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

\*\* 2009 & 2010 forecast is from Elliott D. Pollack & Co.

Recession Periods



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# Phoenix-Mesa Employment

Source: Arizona Department of Commerce, Research Administration

## Sectors in Decline

Mining	-15.8%
Construction	-22.7%
Manufacturing	-7.5%
Trade	-5.3%
Transp. & Utilities	-8.4%
Information	-3.9%
Financial Activities	-5.5%
Prof. & Bus. Services	-6.2%
Other Services	-6.6%
Educational Services	-0.7%
Leisure & hosp svcs	-0.6%
Health Services	-1.0%
Government	-5.4%

## Sectors in Decline

Health Services	1.3%
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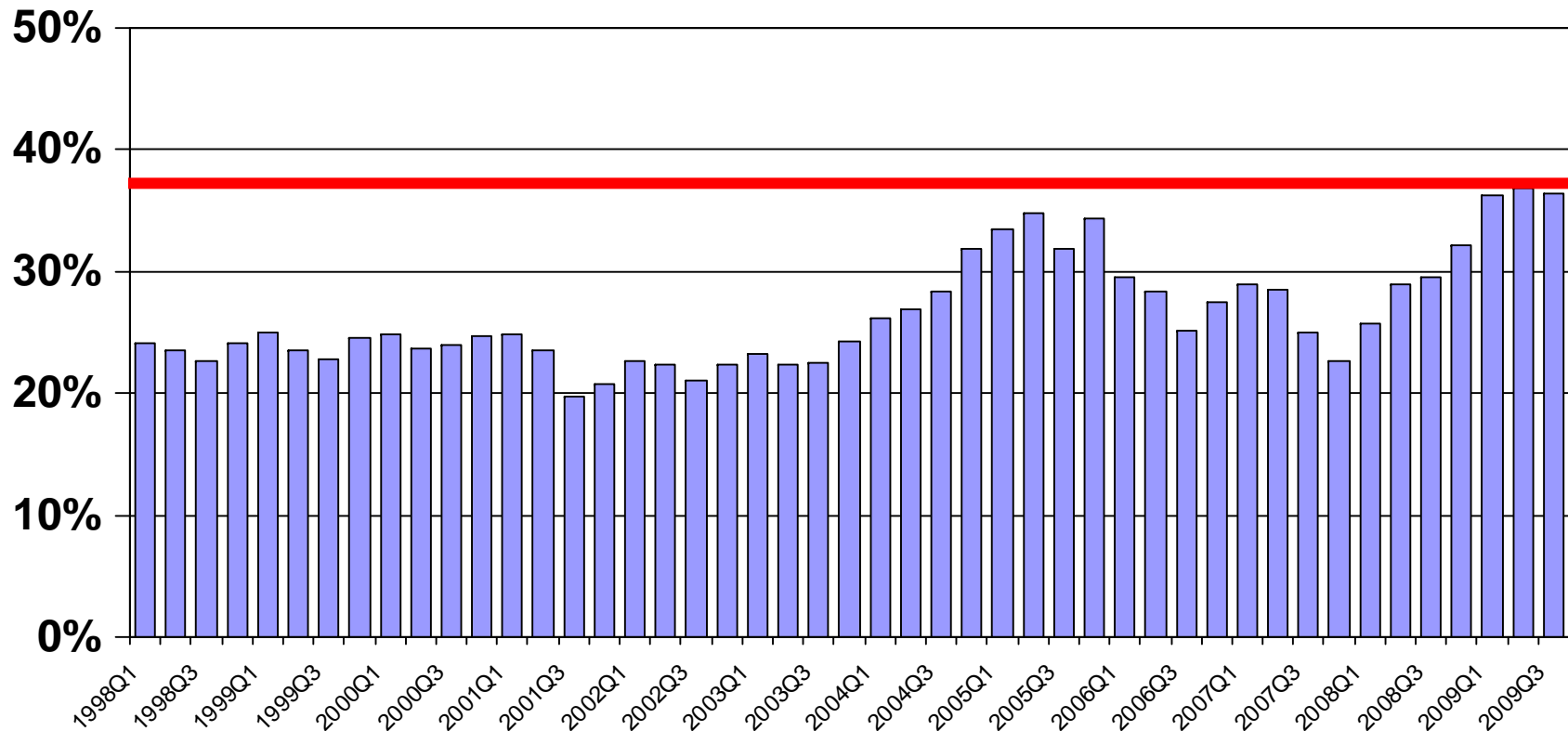


# Investors: **STILL** 1/3+ of the Market?

Percent of Non-Owner Occupied Sales of Total Sales

Maricopa County

Source: DataQuick





# How Investors Impact the Market:

- 1) Temporarily inflate housing prices;
- 2) Temporarily deflate housing “supply.”



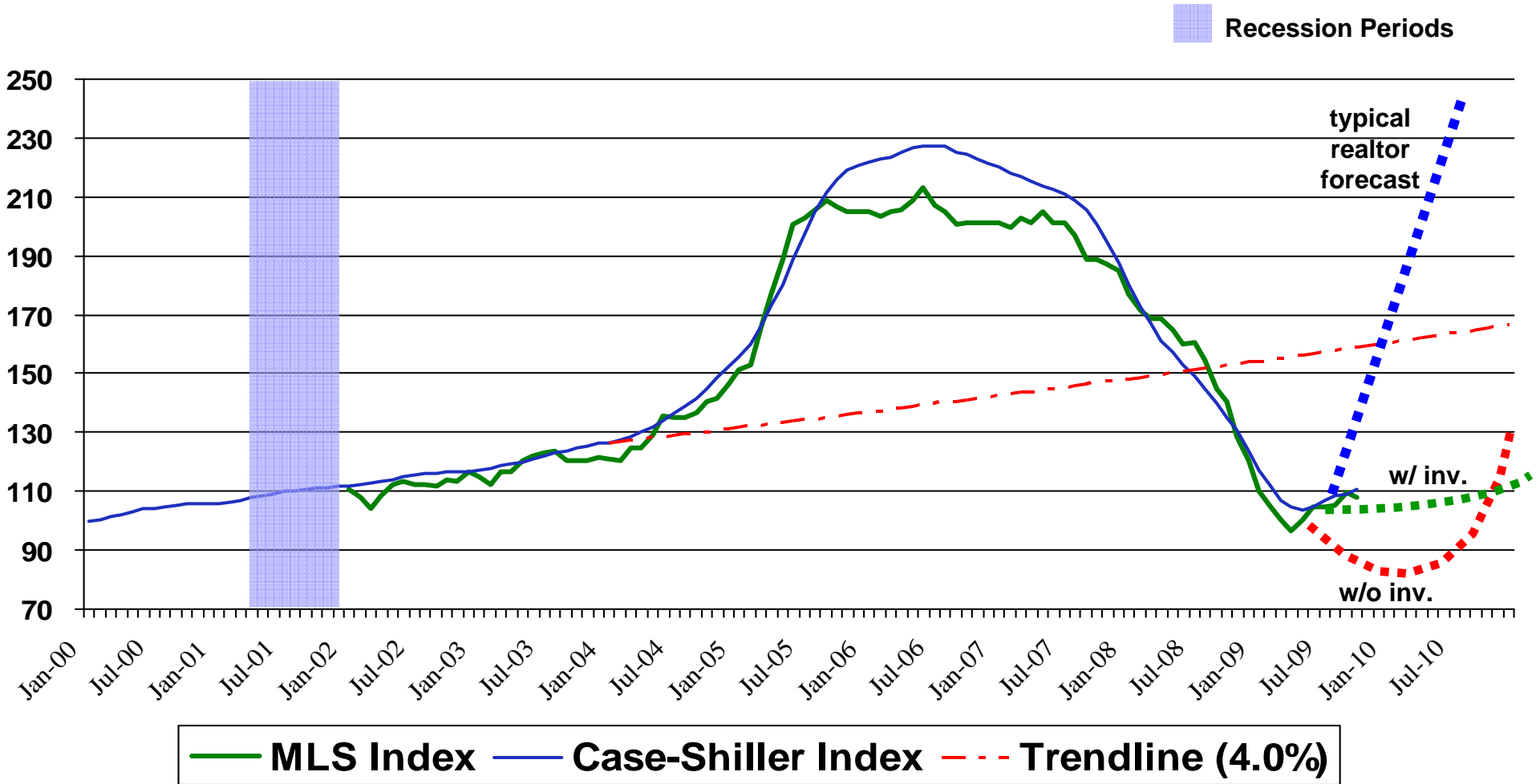
**We won't get out of this until  
population inflows improve.**



# Home Prices Indices

2000 – 2009

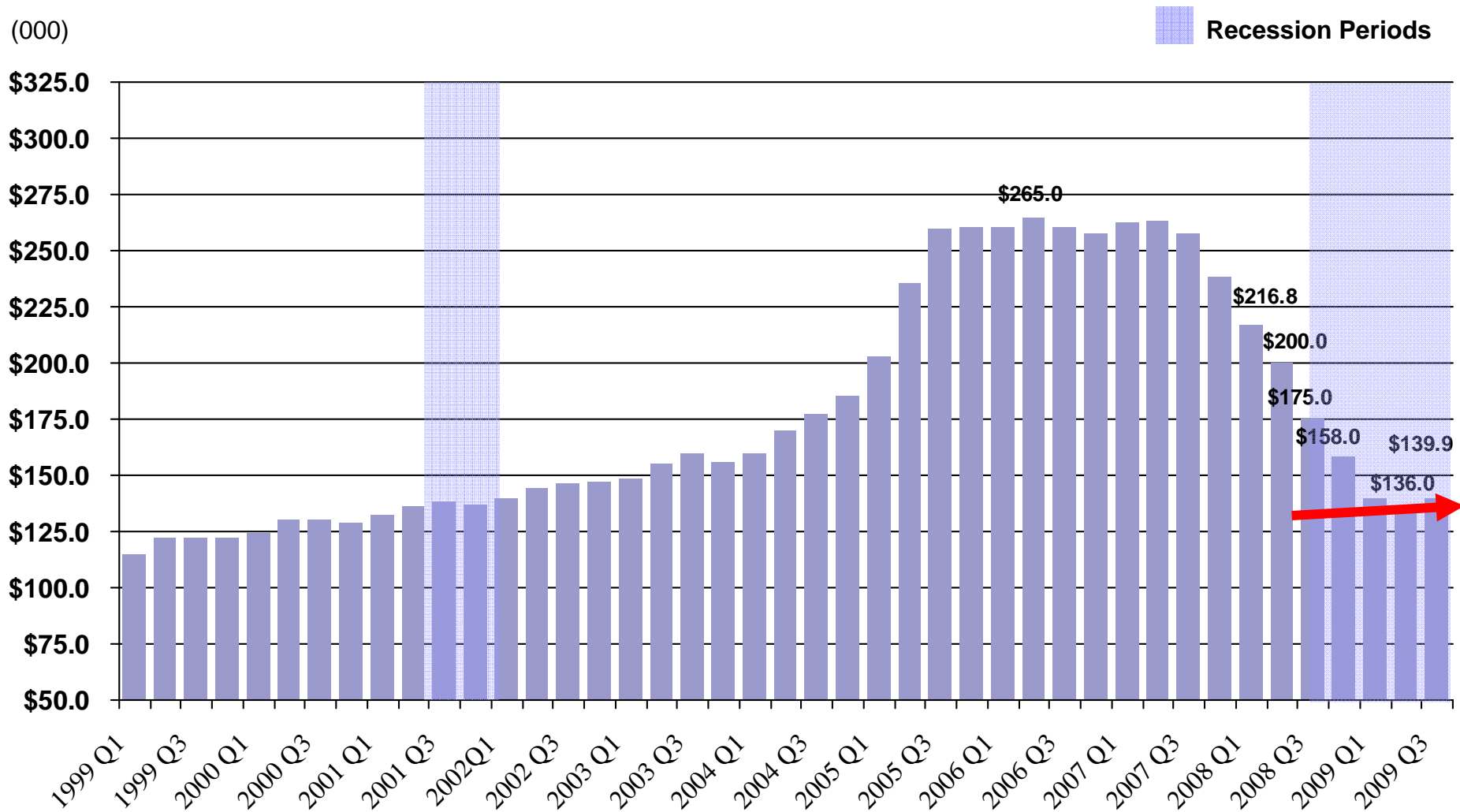
Source: Macro Markets, LLC; AMLS



# Greater Phoenix Median Price of Single Family Homes - Resale

## 1982 – 2009\*

Source: Realty Studies

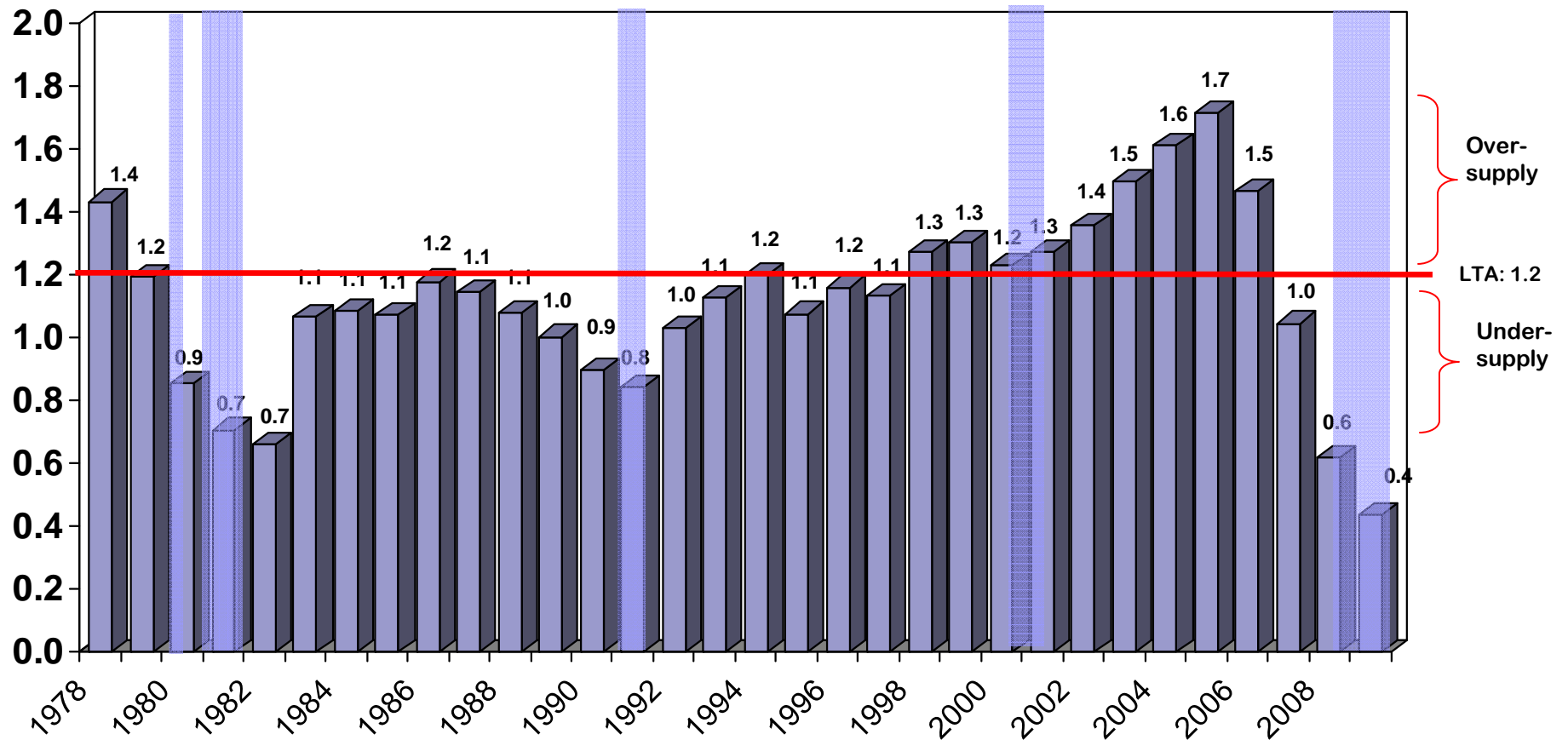


# U.S. Single-Family Starts 1978–2009<sup>1/</sup>

(Millions)

Source: Census Bureau

Recession Periods





# New Permits

**Distinguish between % growth and level.**

**Percent growth could be large.**

**For example, if permits go from 8,000+ to 12,000, that's a 50% increase.**

**It's still 80% off peak or 65% off long-term demand.**





**Balance between supply and demand  
will not be fully achieved until about  
2014.**

**But, building will get  
progressively better  
between now and then.**

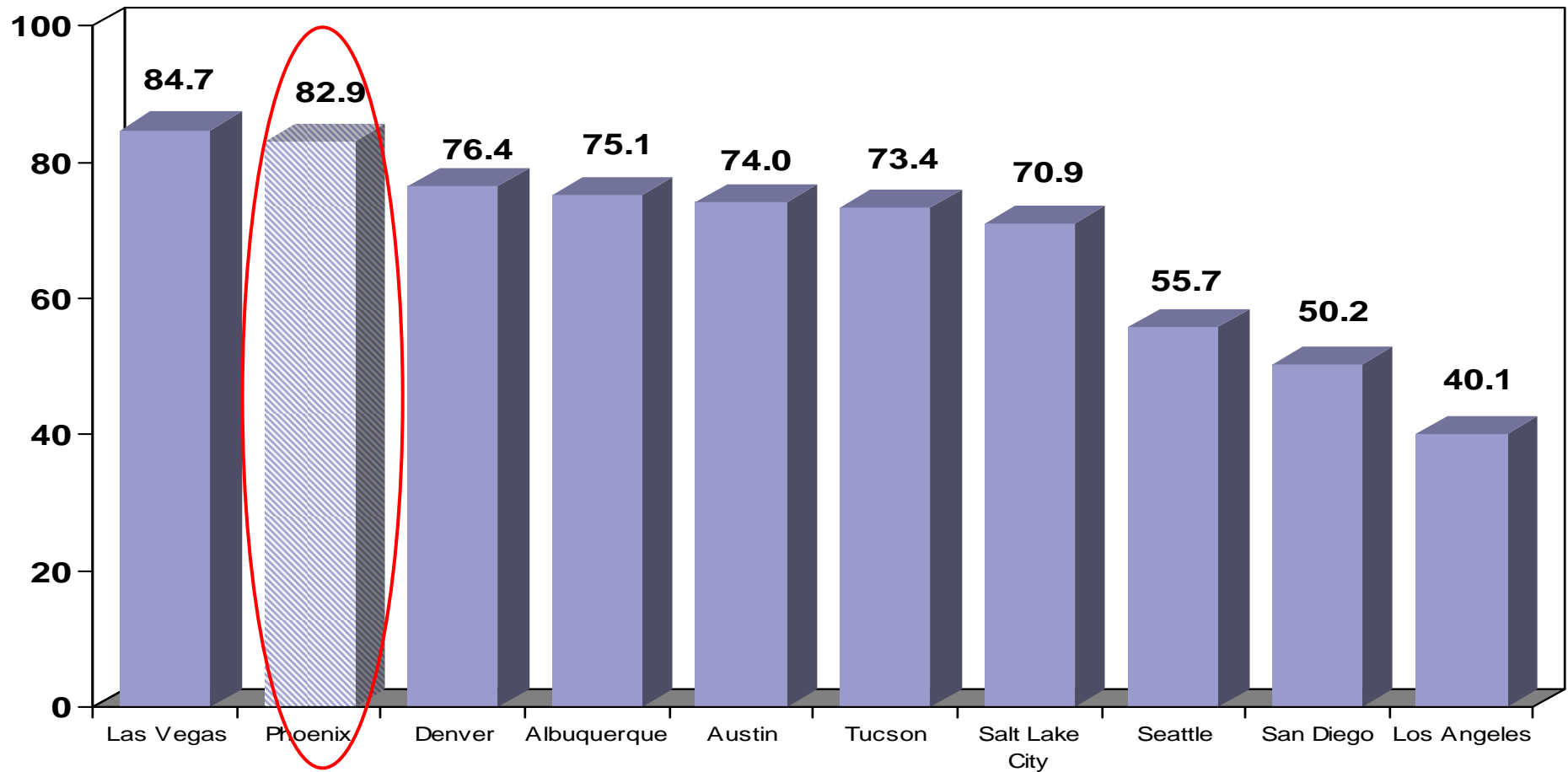
**Balance = when you have to build for net in-migration.**



# Housing Affordability Index

## 2009 q3

Source: NAHB





# Commercial Real Estate?





# Back to Normal Vacancy?

(based on revised, more aggressive employment estimates for 2010-2015)

- **Office = 2015 *ish***
- **Industrial = 2015 *ish***
- **Retail = 2015 *ish***

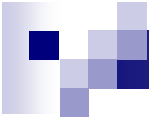




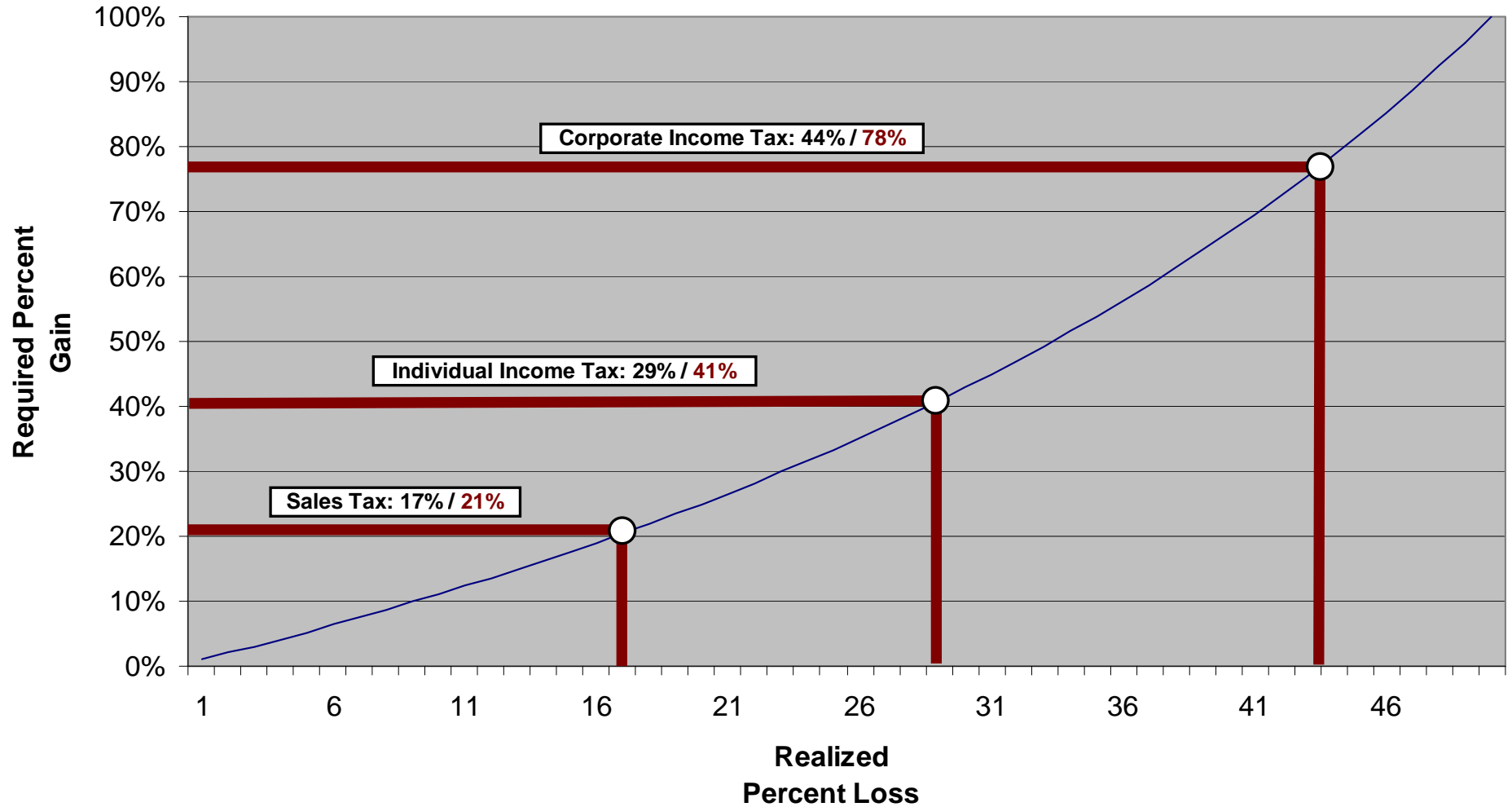
# Discussion of Rates vs. Levels...

**(A 100% gain is needed to offset a  
50% loss)**





## Gains Needed to Reach Previous Peak





# Discussion of Turning Points...

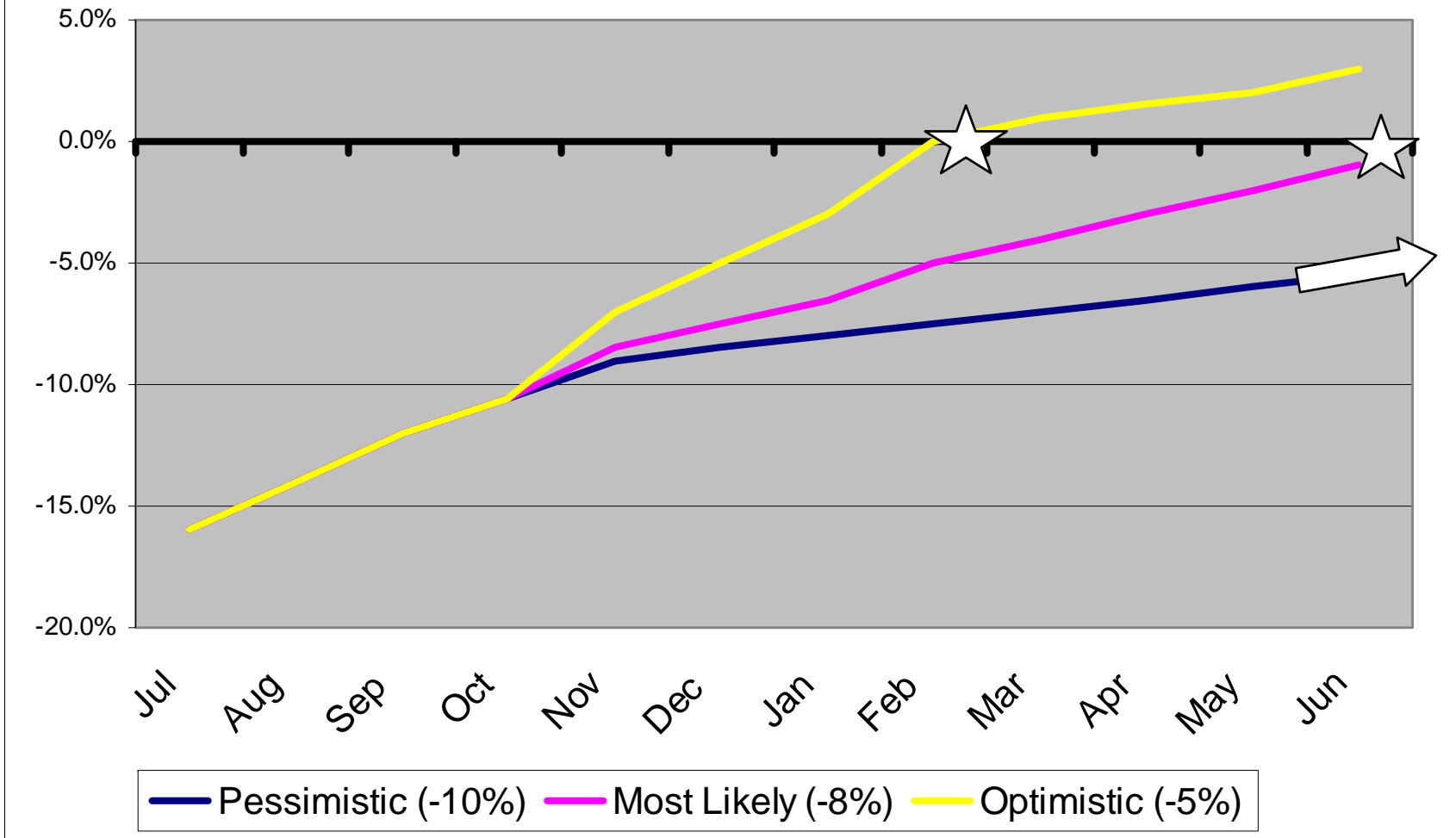
***(A small delay in turning positive has a huge impact on FY 2010)***





## Example Forecast Scenarios - Sales Tax Recovery

***FY2010 = \$200M Potential Swing?***





# What does all this mean?

- We are in a very weak recovery phase.
- Job losses through a good part of 2010.
- We already hit bottom in single family permitting and prices.
- We are just getting started with problems in commercial real estate.





# What does all this mean?

- **Because we fell so far, it will be easy to post impressive growth rates in many data categories.**
- **Even with rapid growth, it will be a while before we get back to previous peaks (or even normal trend levels).**
- **We will get back to previous highs in sales/jobs, normal vacancies in commercial, and fully absorbed the excess in SF by roughly the middle of the decade (2014/2015).**





# What does all this mean?

- **This is one of those few times when forecasting years 1 and 2 is just as problematic as forecasting years 3 and 4.**
- **Much more will be known by March in terms of the sales tax turning point.**
- **Be overly conservative in forecasting the next two years. This will probably mean that revenues will exceed expectations in FY 2011. Drop in the bucket though.**





# Only really need to ask:

1) Are population flows improving?


**NO**

2) Are we creating jobs?

**NO**

**So are we recovering yet? NO**





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