



Still Stuck in 2nd Gear

Maricopa County Board of Supervisors

April 8th, 2013

**Presented By:
Elliott D. Pollack
CEO, Elliott D. Pollack & Company**



The economy we wanted...



Two years ago...



This year...



**It is only because
conditions have been
so poor for so long
that we feel this
mediocre recovery is OK.**



NATIONAL ECONOMY –

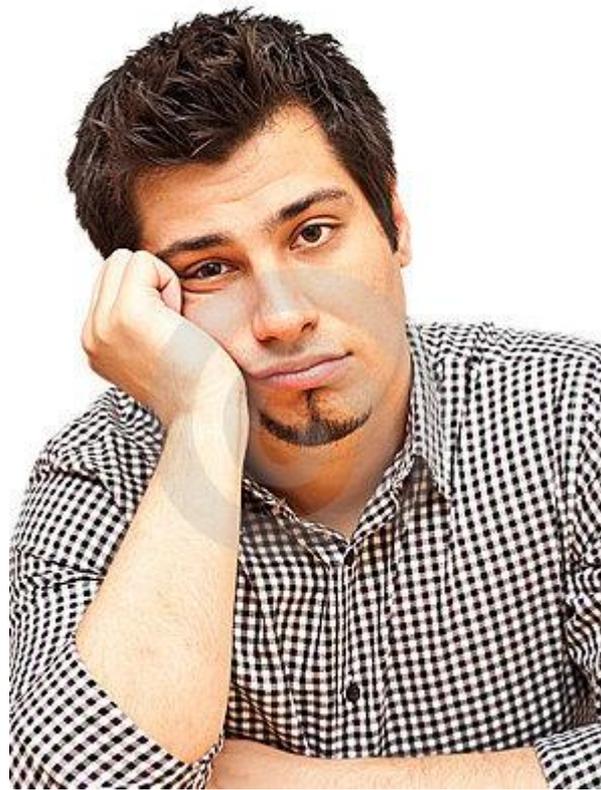
Continued subpar growth.

But, recovery should continue.

(unless the Federal Gov't does something even more stupid...)



Fiscal Cliff / Obama Care



FISCAL CLIFF
(still unresolved)
+
OBAMA CARE

Cause great uncertainty.



Effect of Fiscal Cliff

Increases in payroll taxes will reduce Real GDP by 0.4%

Sequestration will reduce Real GDP by 0.4%

Total Reduction of 0.8%



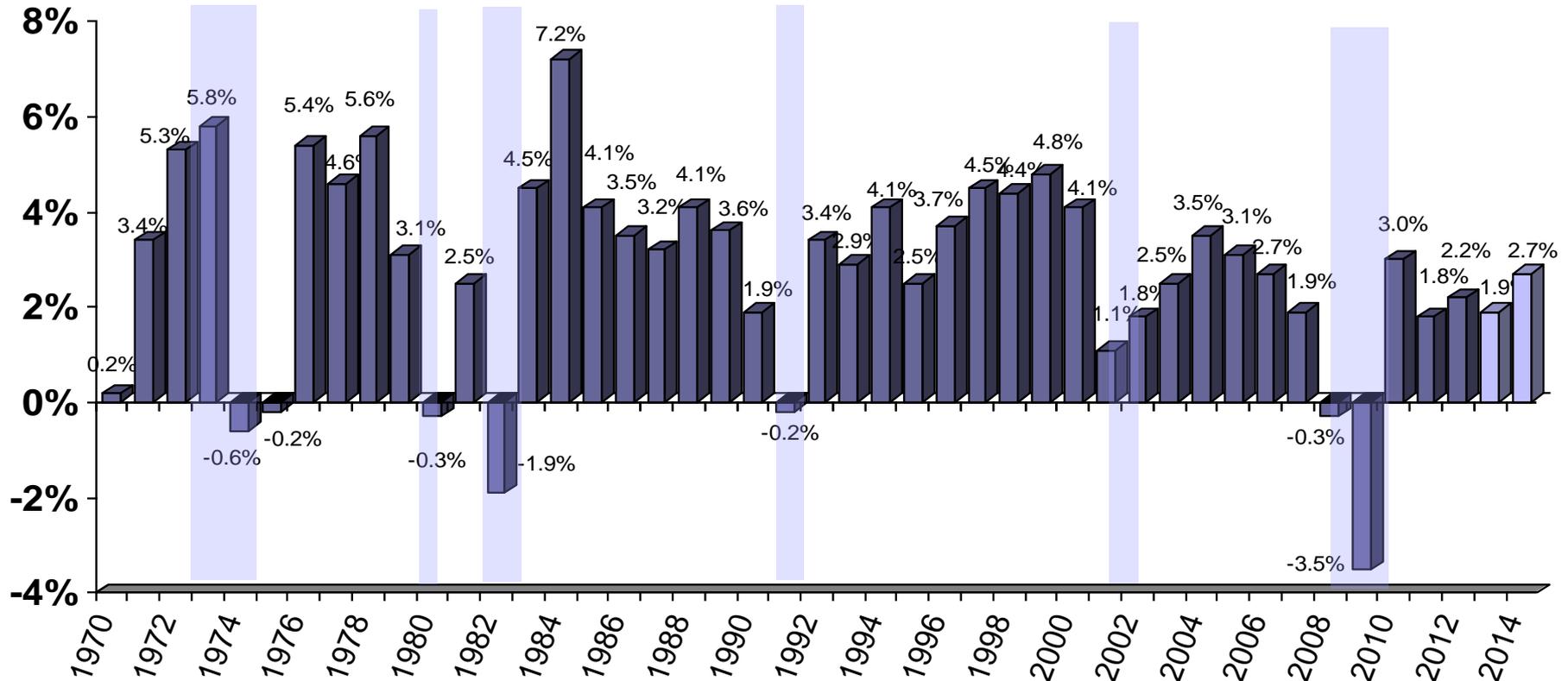
Year	Real GDP
2011	1.8%
2012	2.2%
2013	1.7%
2014	2.7%



United States Real Gross Domestic Product*

Annual Growth 1970 - 2014**

Source: U.S. Bureau of Economic Analysis & *Blue Chip Economic Indicators*



* Based on chained 2005 dollars.

** 2013 and 2014 are a forecast from the Blue Chip Economic Indicators, March 2013

 Recession Periods



At least we're growing!



And growth should continue,

BUT...



...growth will remain weak because of the following:

- Consumer spending modest, but up (Additional jobs and hours worked).
- Business spending up
- Excess industrial capacity.
- Continued housing recovery in 2013. Large percent gain. Small numerical gain.
- Limited commercial construction.
- Less pressure on state and local government.
- Limited policy options on part of Federal government.



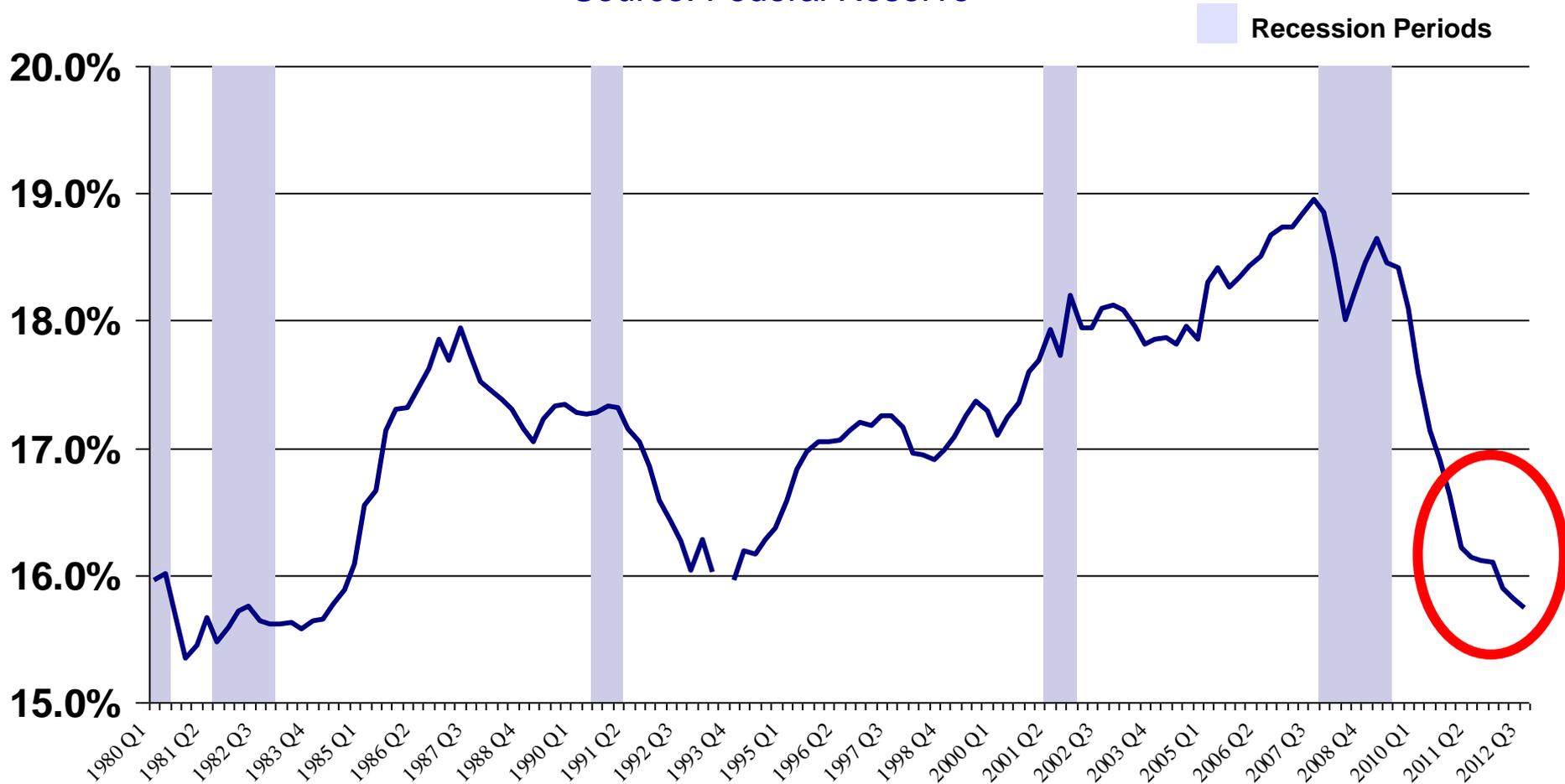
Consumers



Financial Obligation Ratio**

1980 – 2012*

Source: Federal Reserve



*Data through third quarter 2012

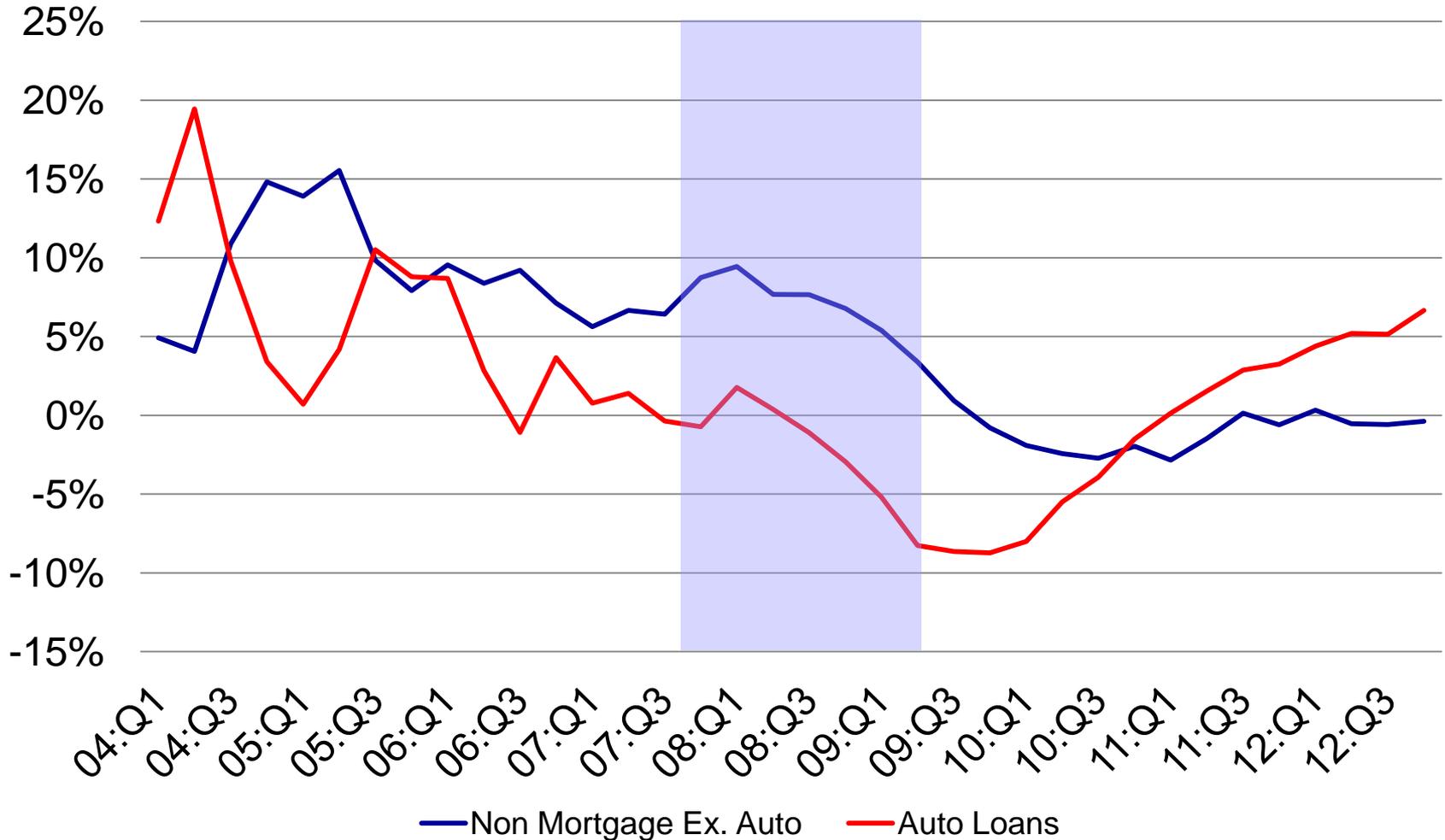
**Ratio of mortgage and consumer debt (including auto, rent and tax payments) to disposable income.



Household Debt Composition Percent Change Year Ago 2004 – 2012

Source: The Federal Reserve Bank of New York

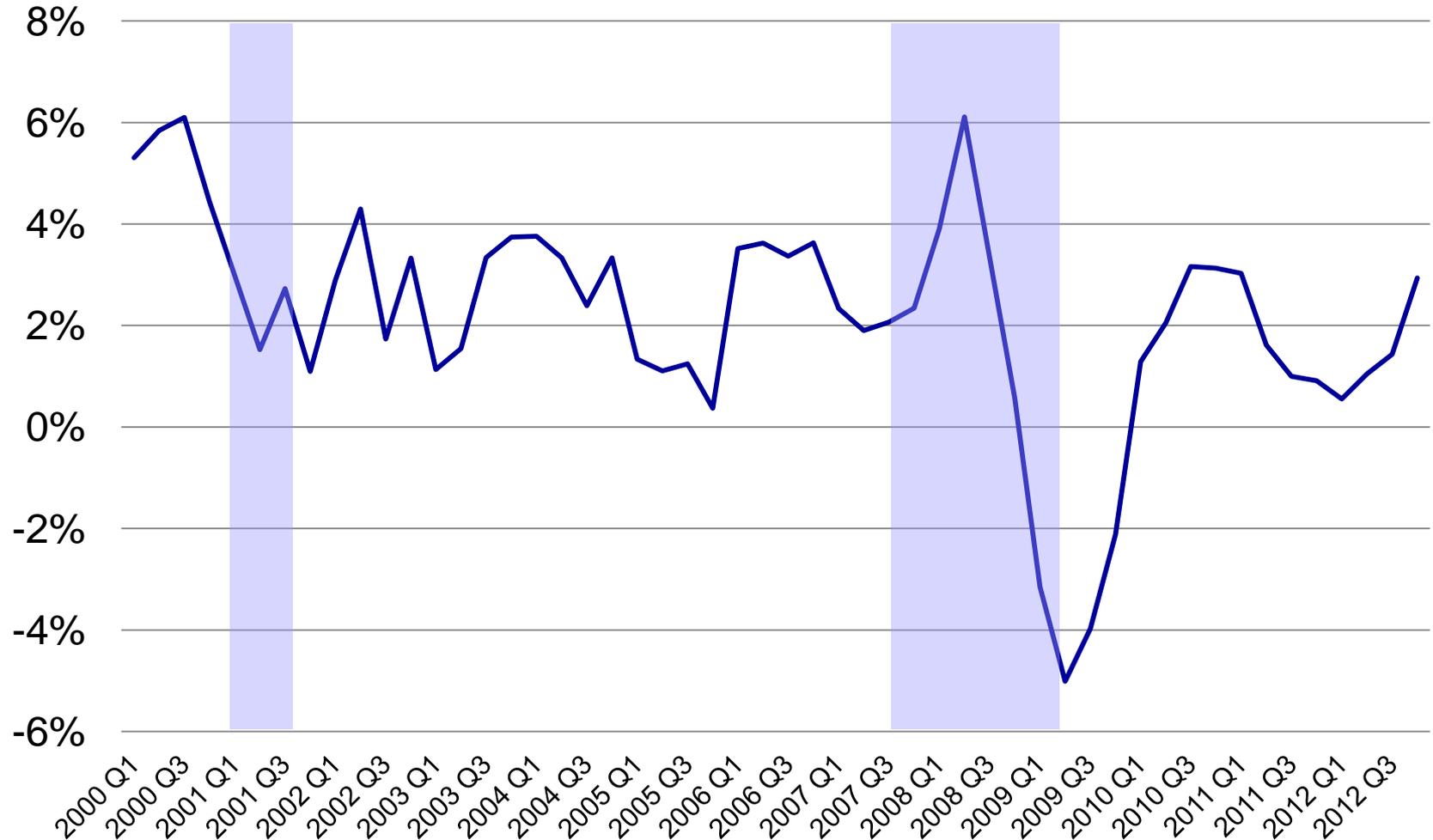
Recession Periods



Real Disposable Personal Income Percent Change Year Ago 2000 – 2012

Source: The Federal Reserve Bank of St. Louis

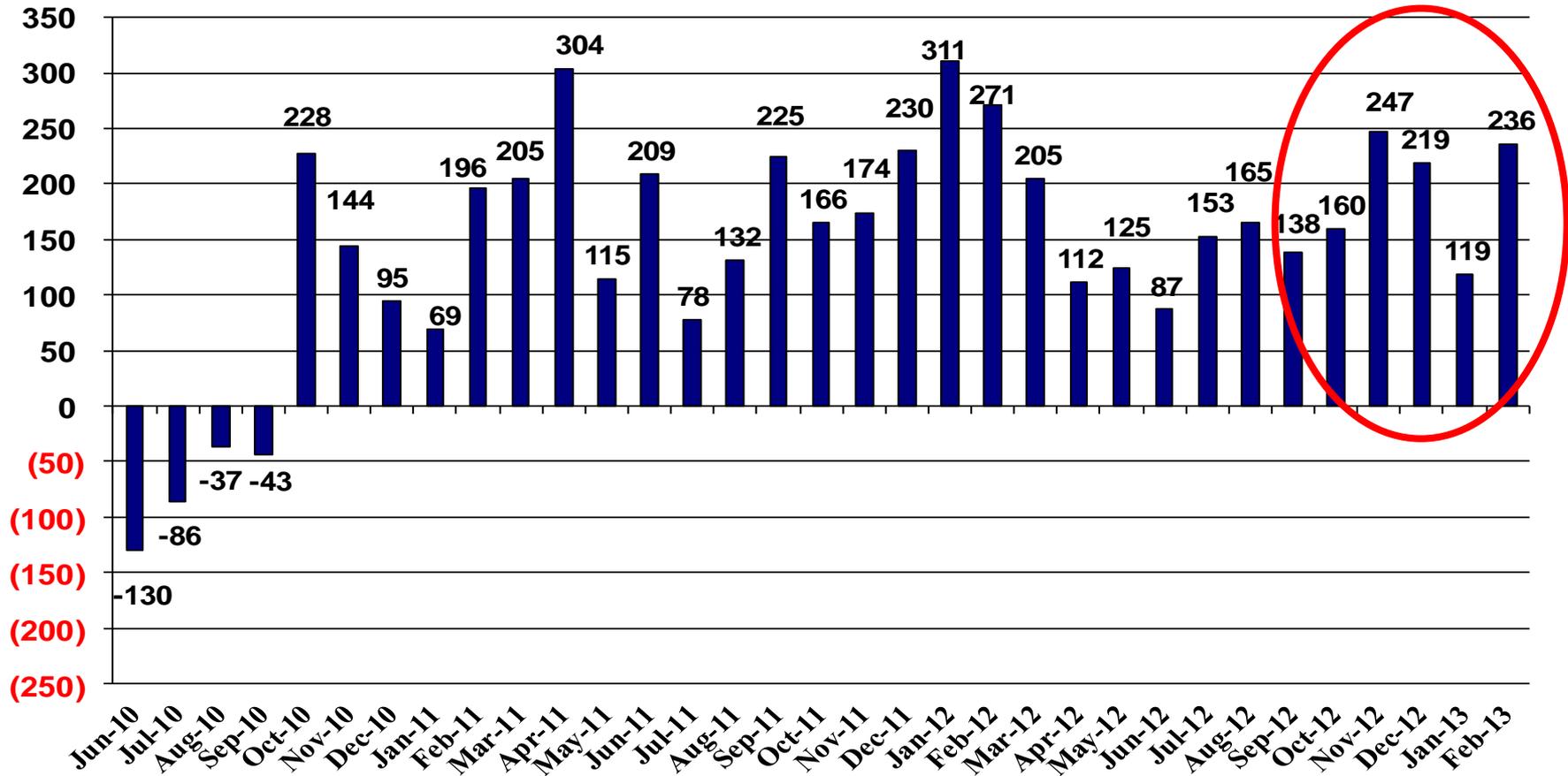
Recession Periods



US Non-Farm Employment Change from Prior Month (S/A) June 2010 – February 2013

Source: Bureau Labor of Statistics

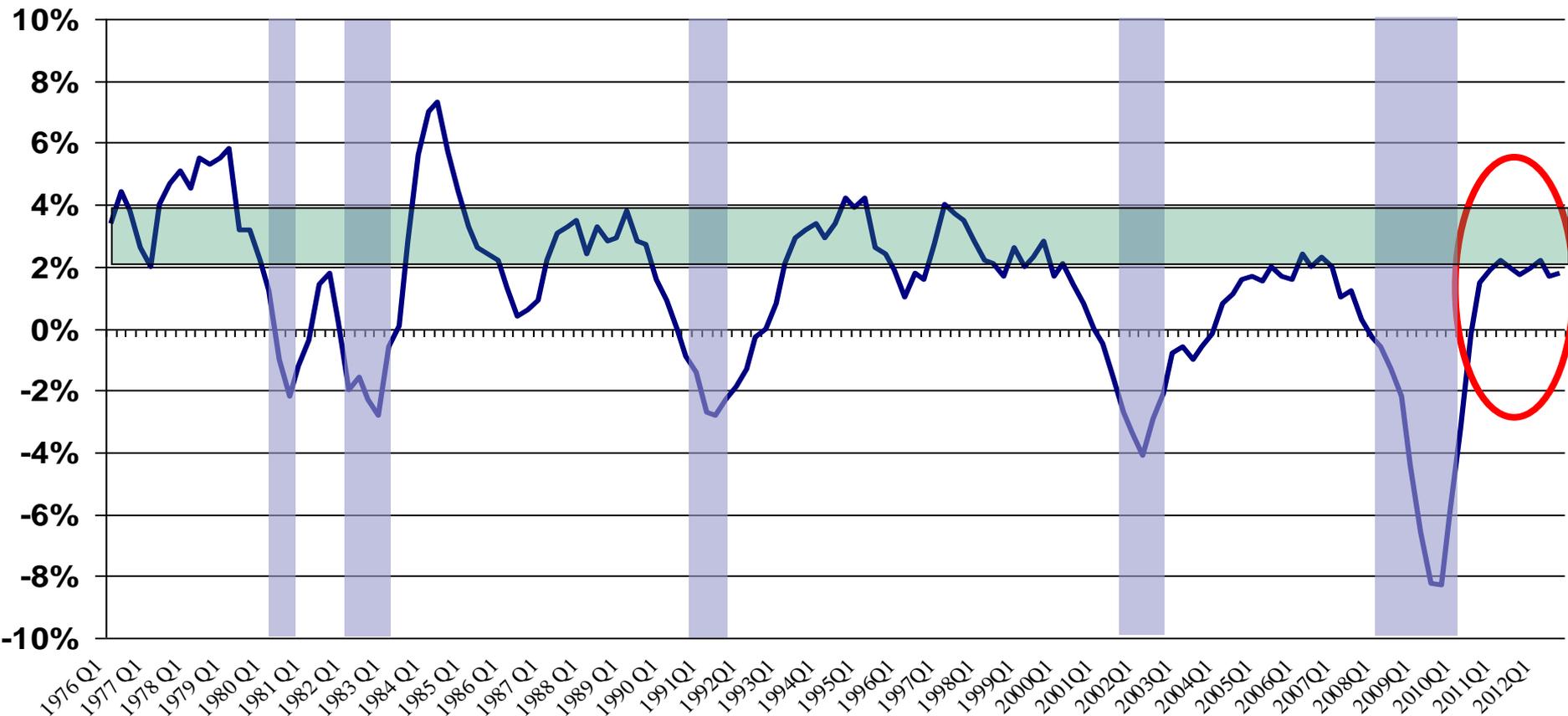
(000's)



Hours Worked Percent Change from Year Ago 1976 – 2012*

Source: Bureau of Labor Statistics

Recession Periods



*Data through third quarter 2012



WEALTH EFFECT



Housing prices are up.

Stock market is up
from a year ago.



Consumer Summary:

- **Jobs are being created** at a slow rate.
- Those that have jobs are **spending a little more** but will remain cautious.
- Unemployment to remain high, but should trend lower.
- Wealth levels are improving.
- Will the additional uncertainty translate into reduced consumer spending?



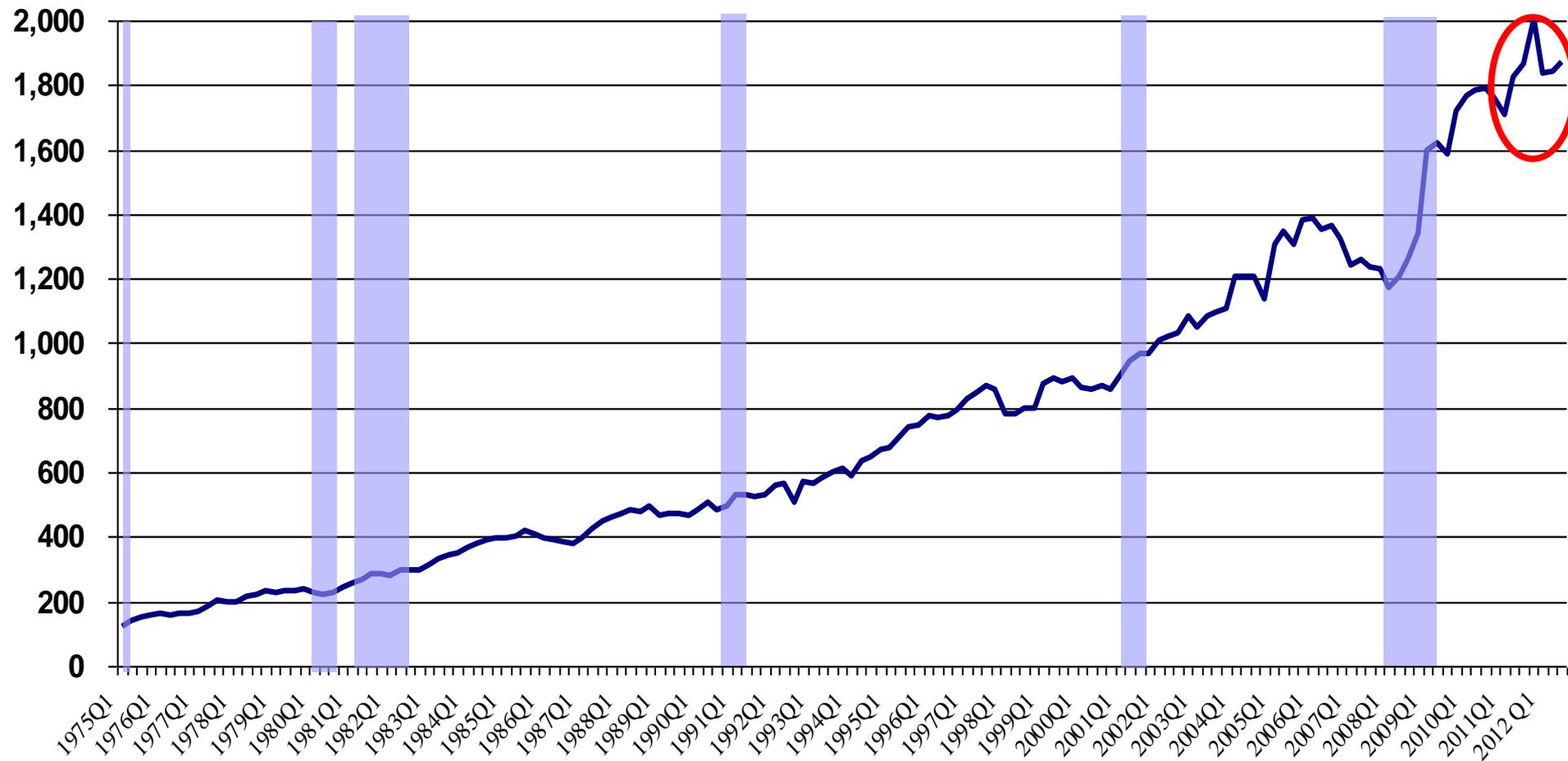
Business



Corporate Profit (Billions of Dollars, SA) 1975-2012*

Source: BEA

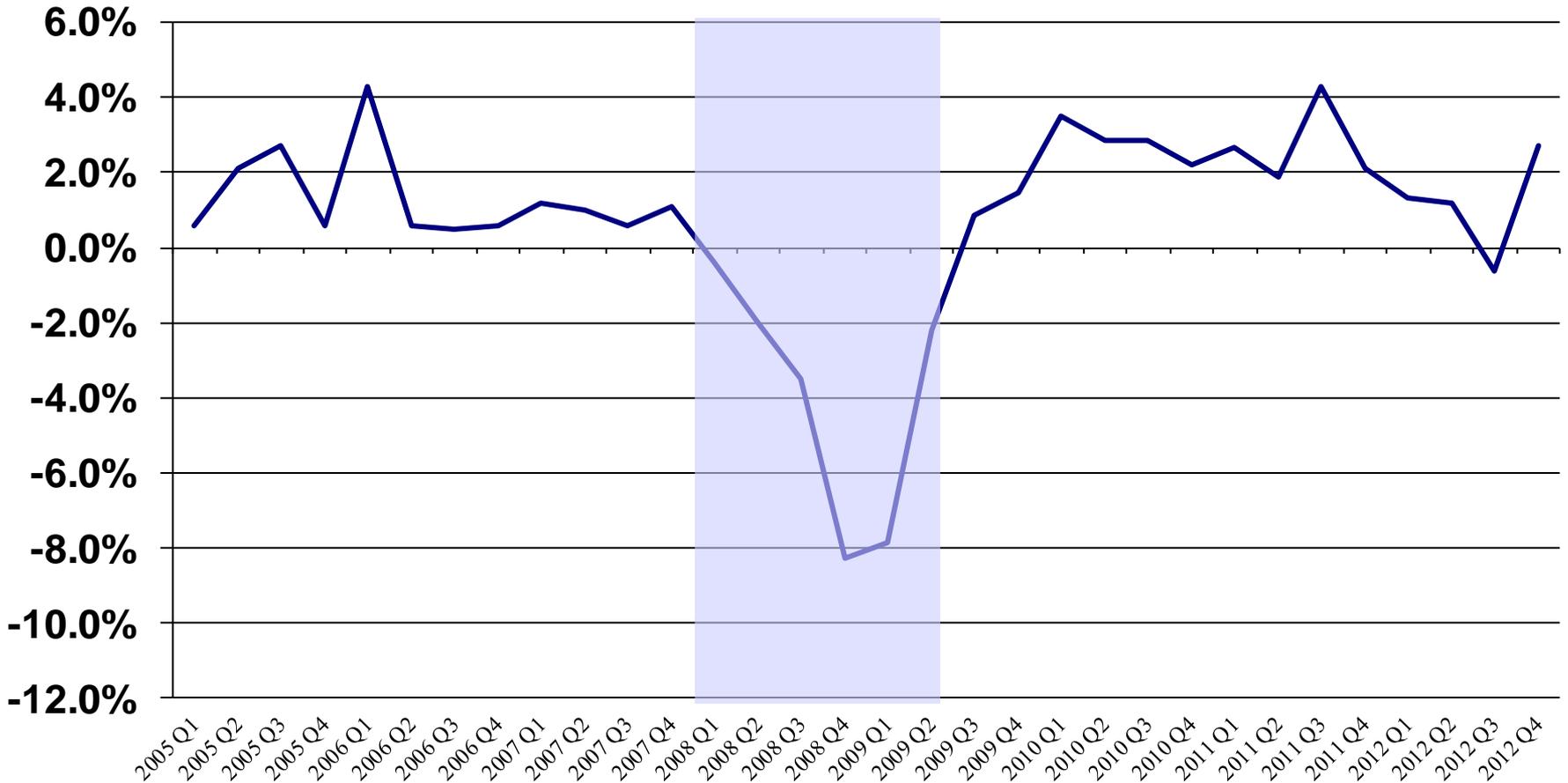
Recession Periods



Business Spending on Equipment Percent Change from Prior Quarter 2005 – 2012*

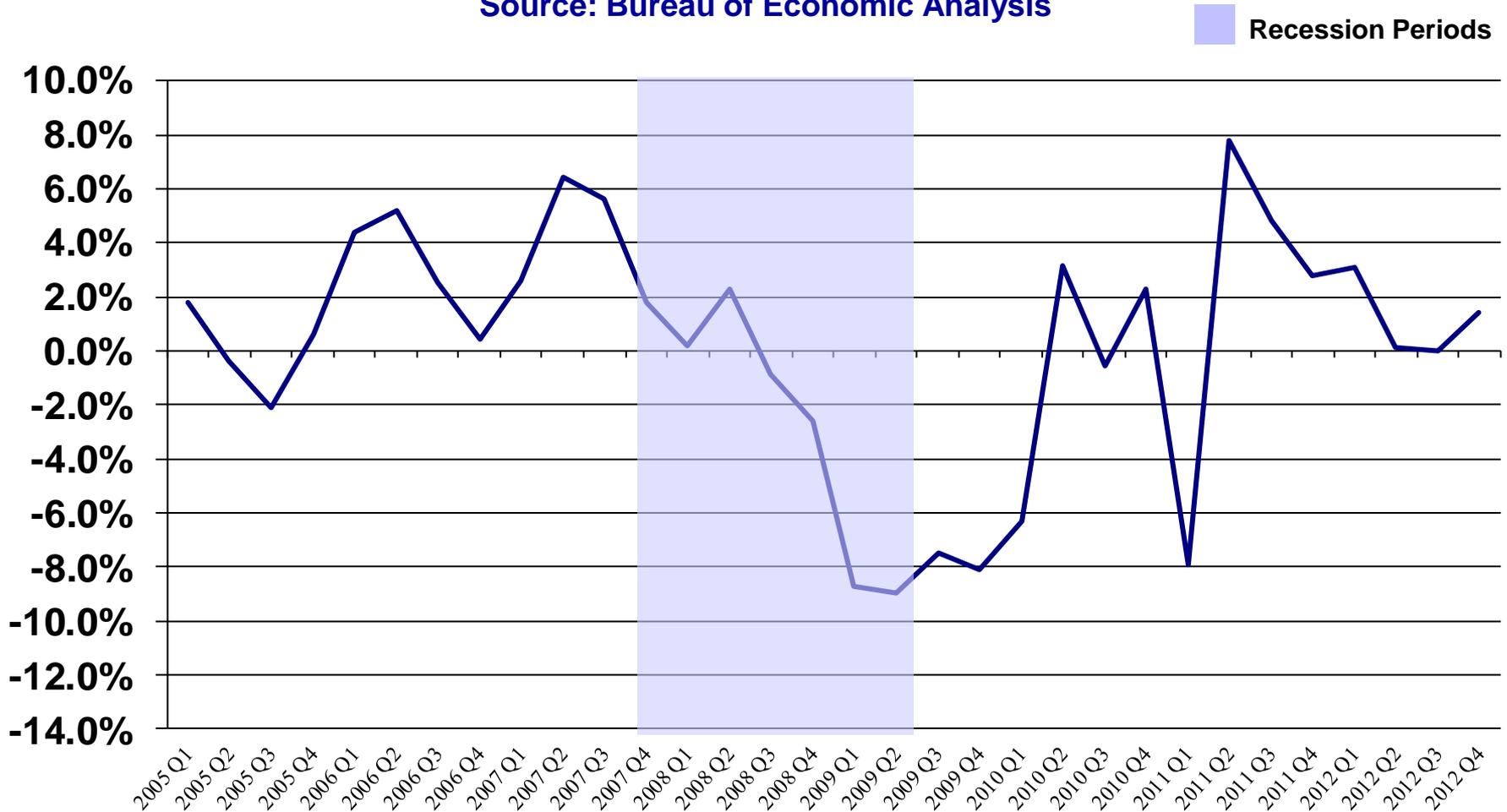
Source: Bureau of Economic Analysis

Recession Periods



Business Spending on Plant Percent Change from Prior Quarter 2005 – 2012*

Source: Bureau of Economic Analysis

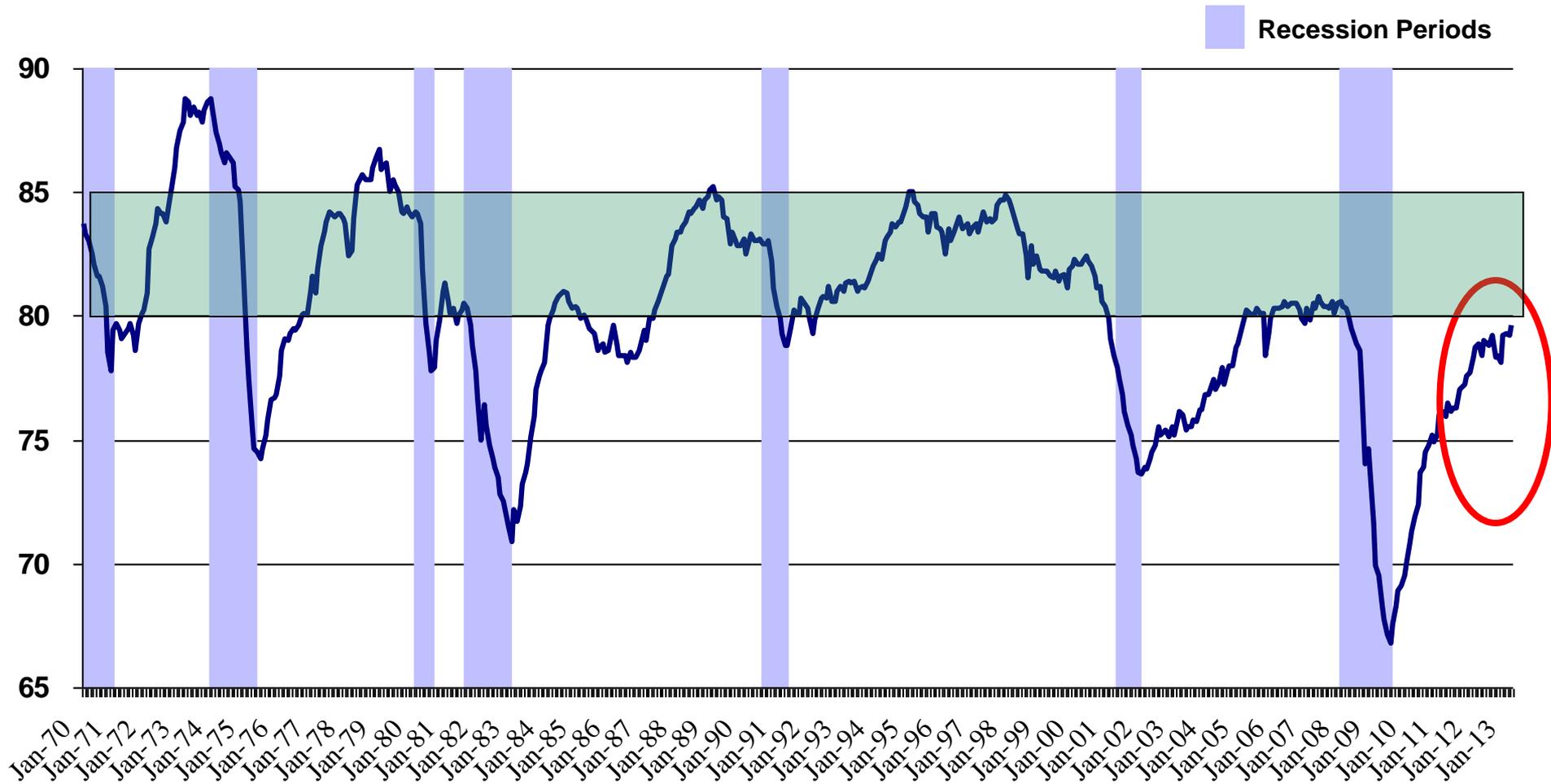


*Data through fourth quarter 2012



Capacity Utilization Rate 1970 – 2013*

Source: The Federal Reserve Bank of St. Louis



*Data through February 2013



Business Summary:

- **Businesses are in better shape.**
- **Spending on equipment to continue to grow.**
- **Spending on plant will lag until capacity utilization goes higher...getting close.**
- **Employment to continue to grow.**



Government



Balanced Budget



We are borrowing \$0.34 of every dollar we spend and can't collect enough in taxes to make it up.



Balanced Budget



The federal debt scheduled to be:

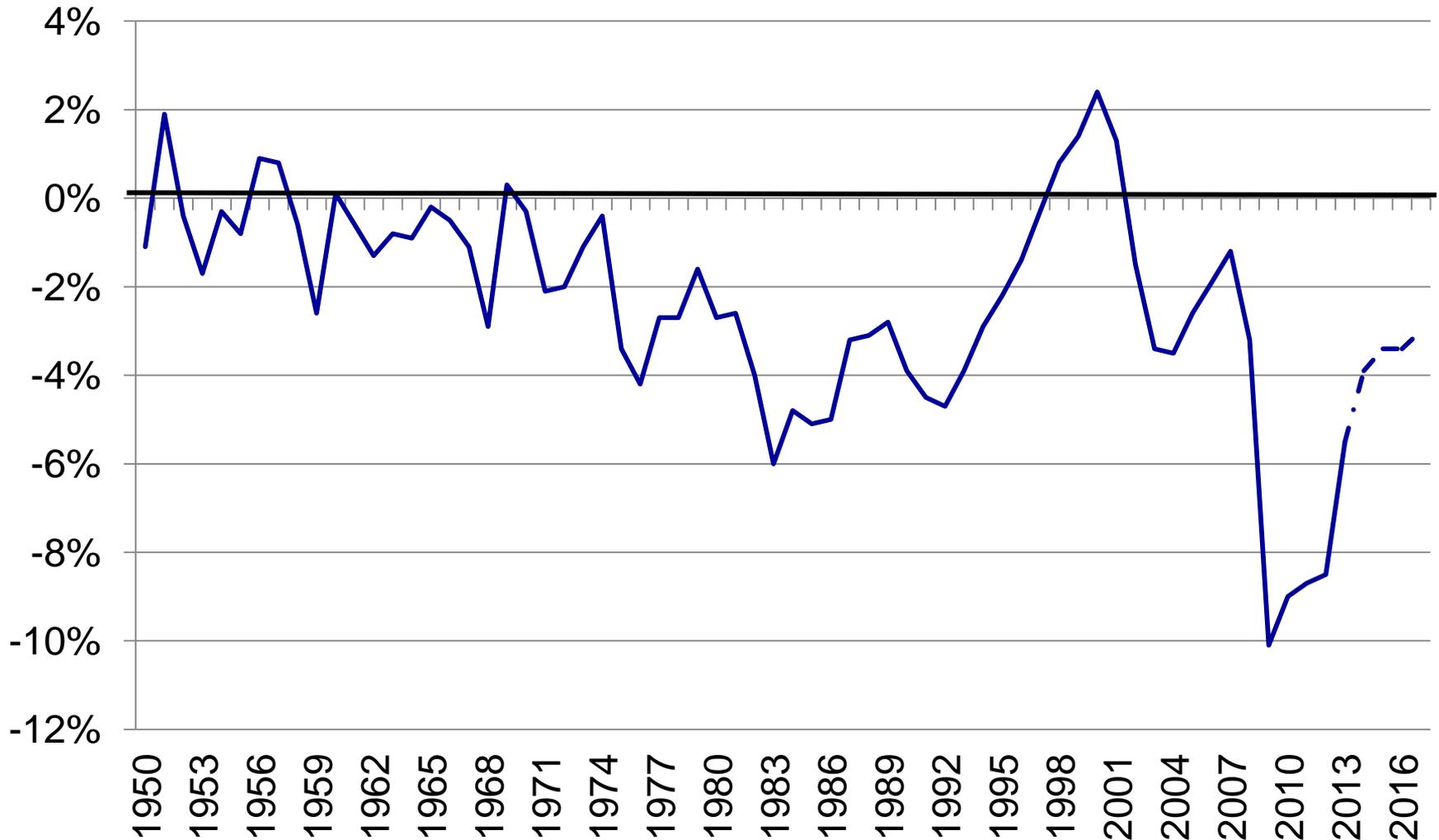
\$16.2 trillion in 2013

\$25.9 trillion in 2022



Federal Surplus (+) or Deficit(-) as Percent of GDP 1950-2017*

Source: Office of Management and Budget



*2012-2017 are estimates





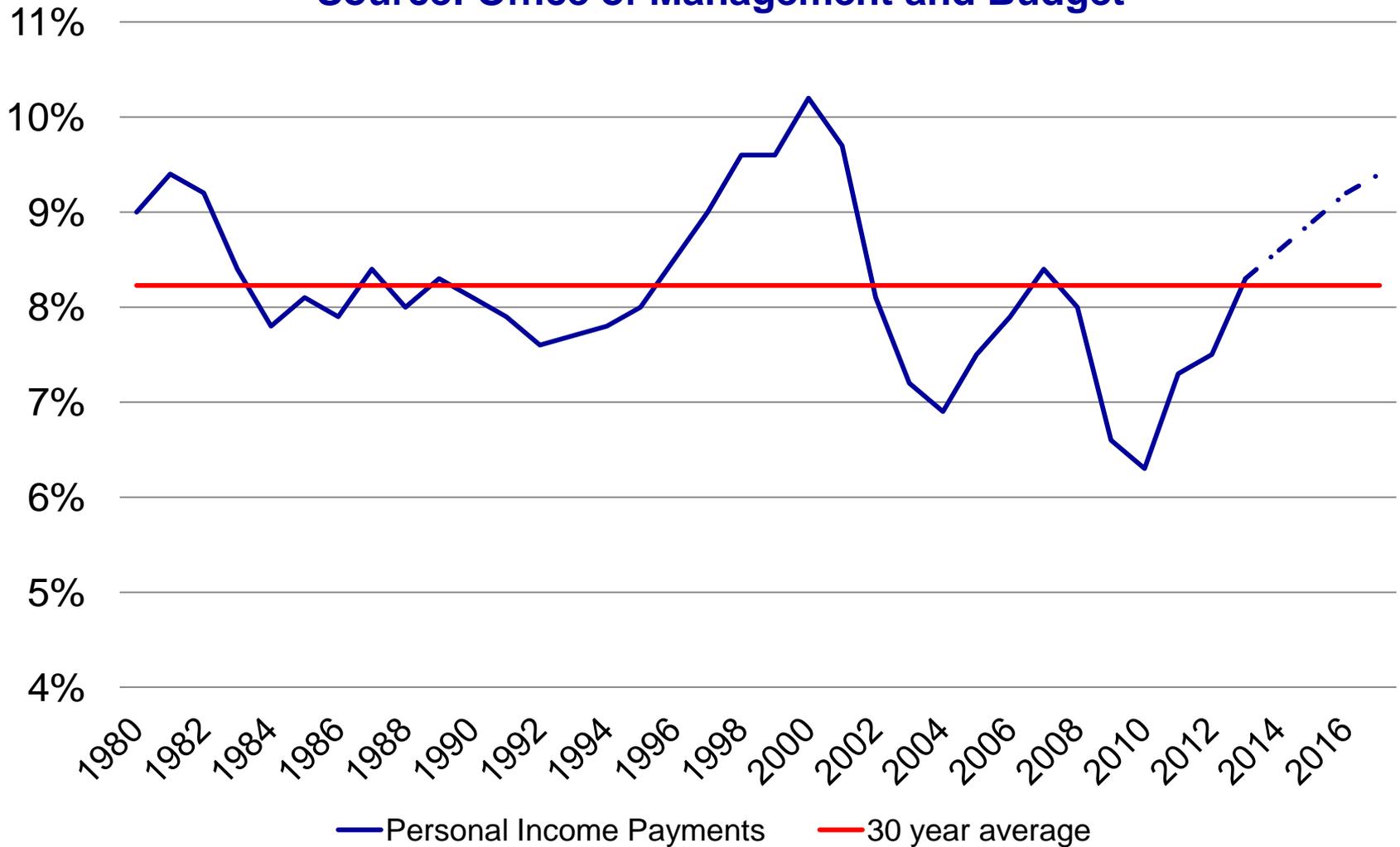
**What is
the
tipping
point?**

The reality is that
there is no chance that
the U.S. will default on
its debt.



Individual Income Taxes as Percent of GDP 1980-2017*

Source: Office of Management and Budget

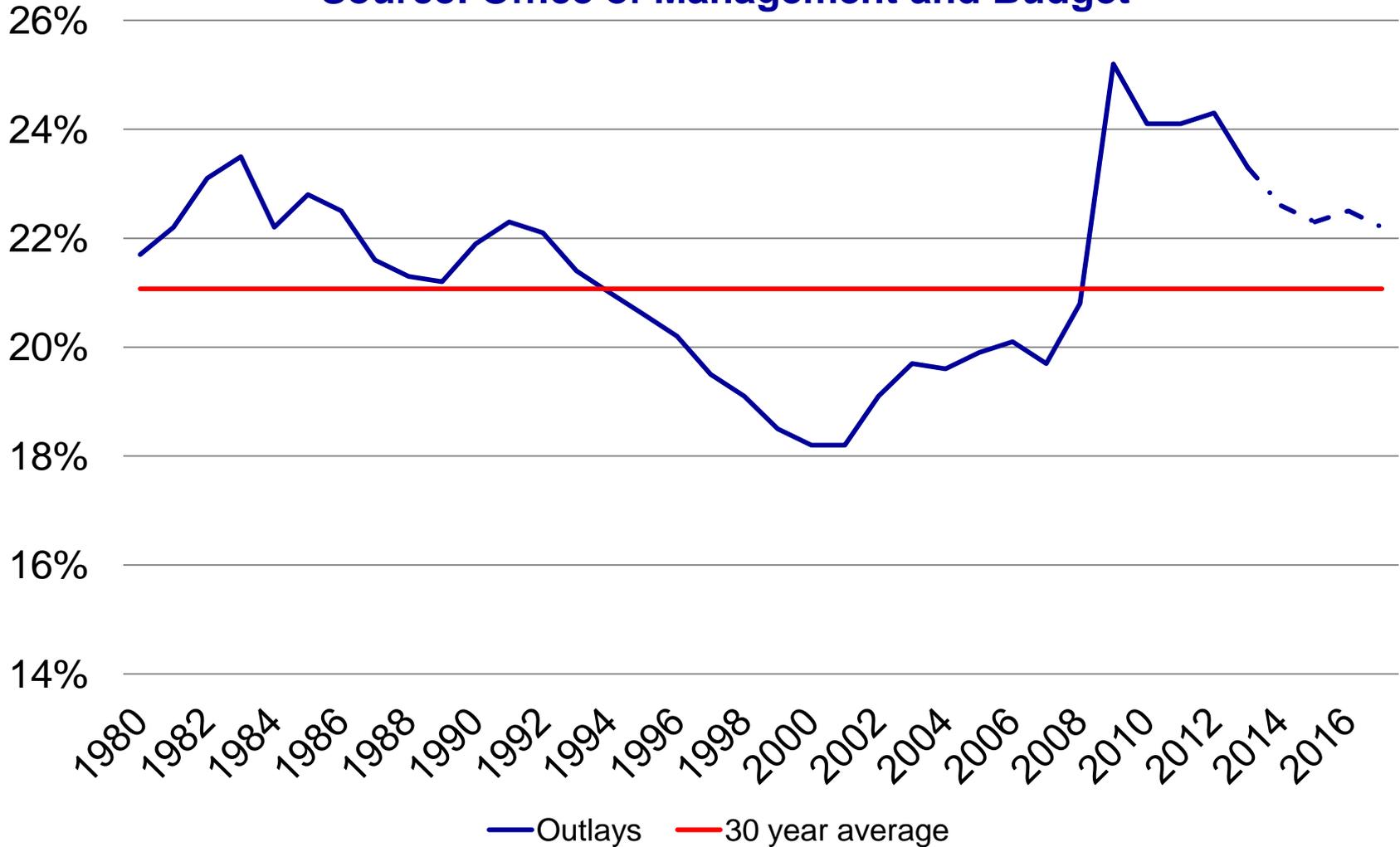


*2012-2017 are estimates



Federal Outlays as Percent of GDP 1980-2017*

Source: Office of Management and Budget



*2012-2017 are estimates



Covered Workers Per Social Security Beneficiary 1950-2090*

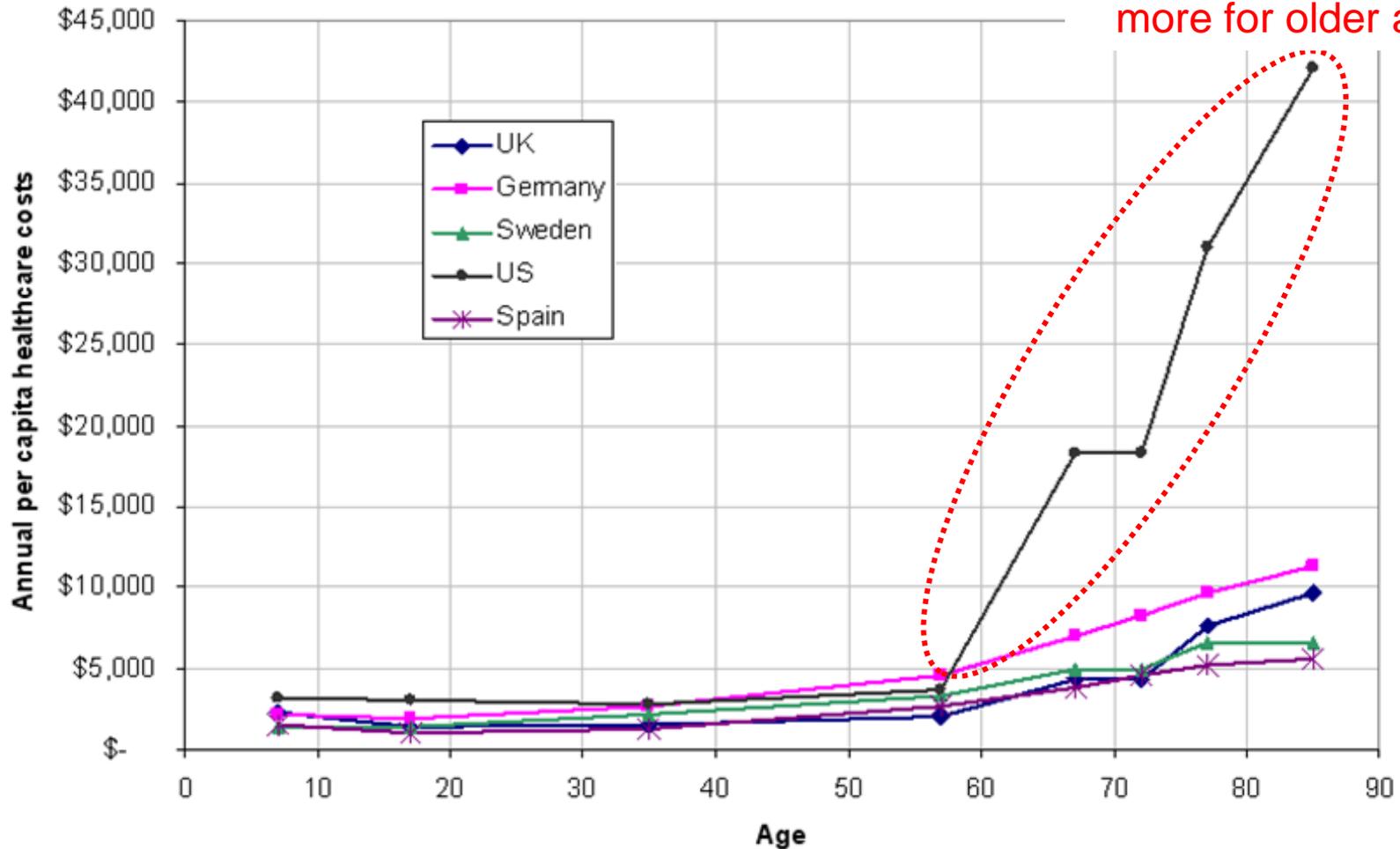
Source: Social Security Administration



Per Capita Health Care Costs by Age

Source: "US-Europe Comparisons of Health Risk for Specific Gender Age Groups"

U.S. is spending much more for older ages



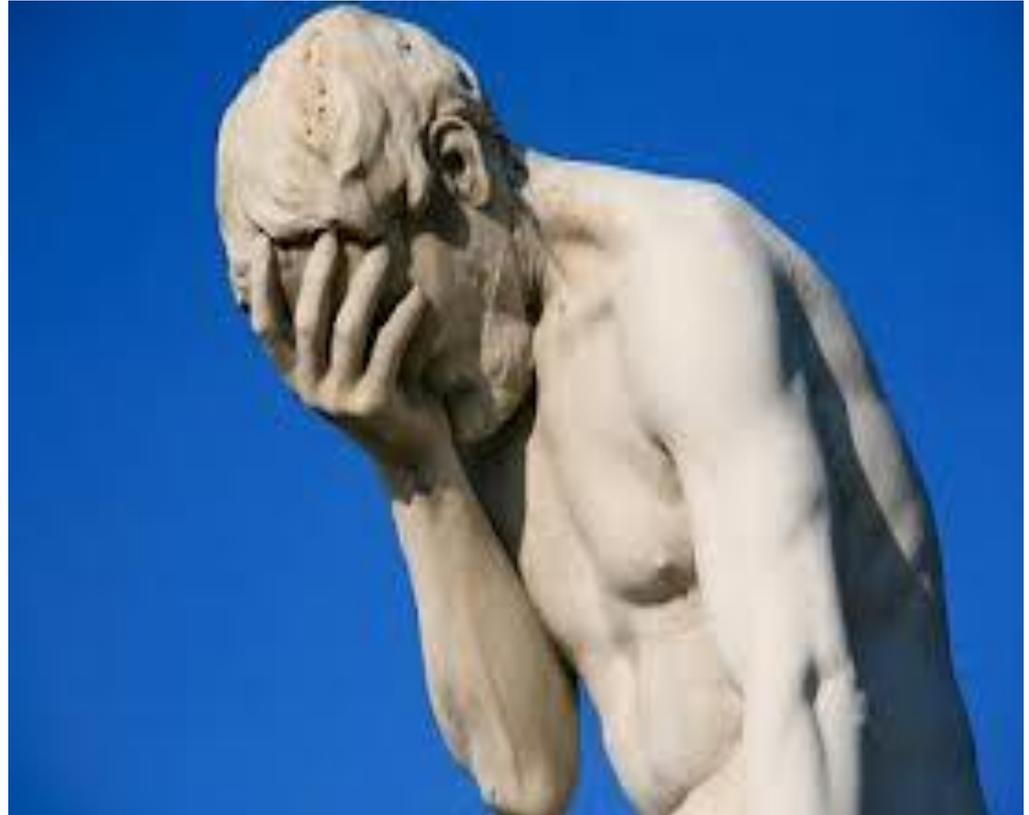
Government Summary:

- **State & local under pressure.**
- **But, more revenues available in FY2013.**
- **Federal spending up but more slowly.**
- **Fiscal problem not resolved.**



Question:

Can Europe cause a recession in the U.S.?



Conclusion:

Europe unlikely to cause any significant problems for U.S.



NATIONAL SUMMARY

- Consumers still restructuring
- Confidence low, but spending will continue to grow
- Business in good shape but not confident because of:
 - Low capacity utilization
 - Cost of Obama Care
 - Fiscal Cliff
- Federal government, no leadership whatsoever.



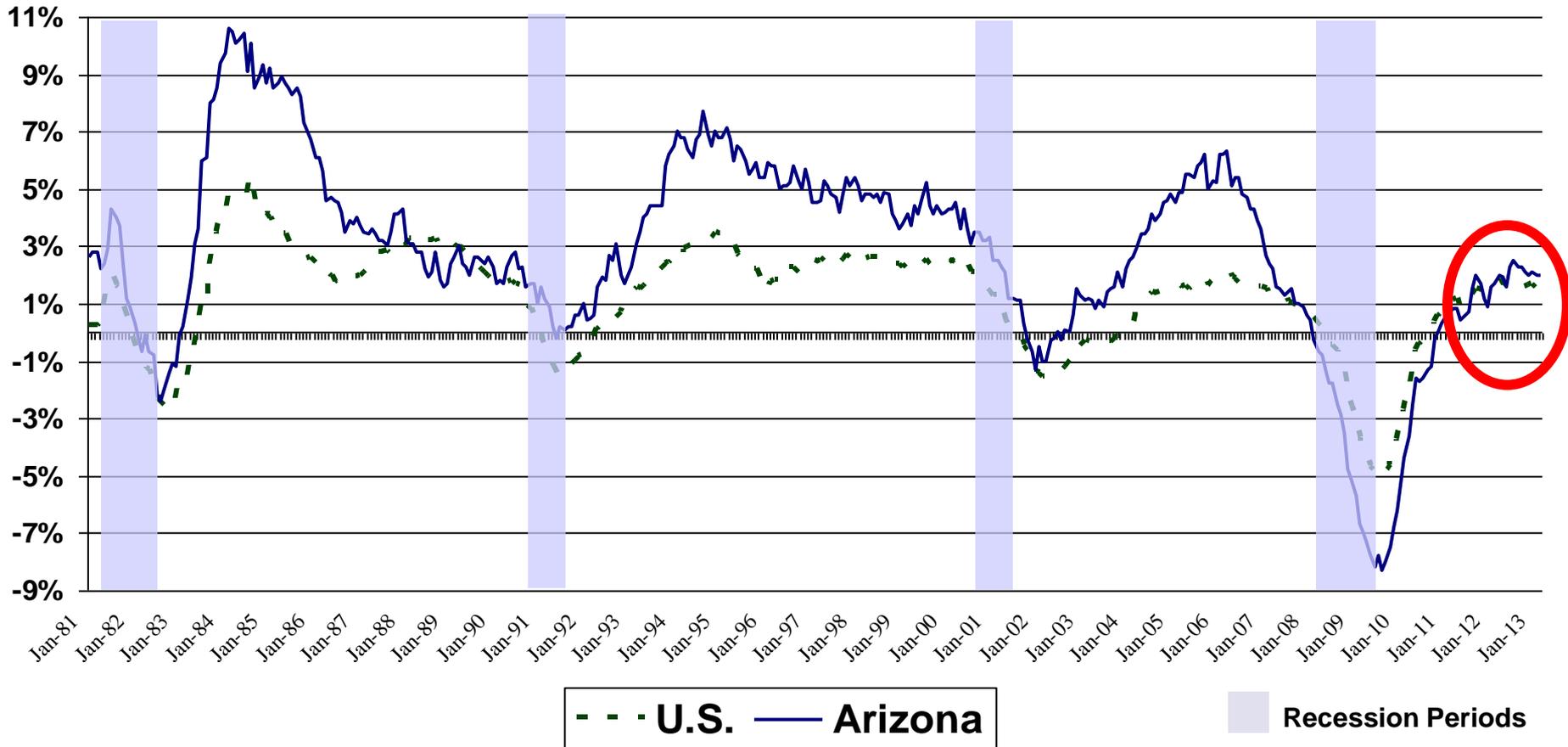
ARIZONA

**Happy
Birthday!!**



Arizona & US Move Together

(Non-farm Emp. Percent Change 1980 – February 2013)



Job Growth 2006

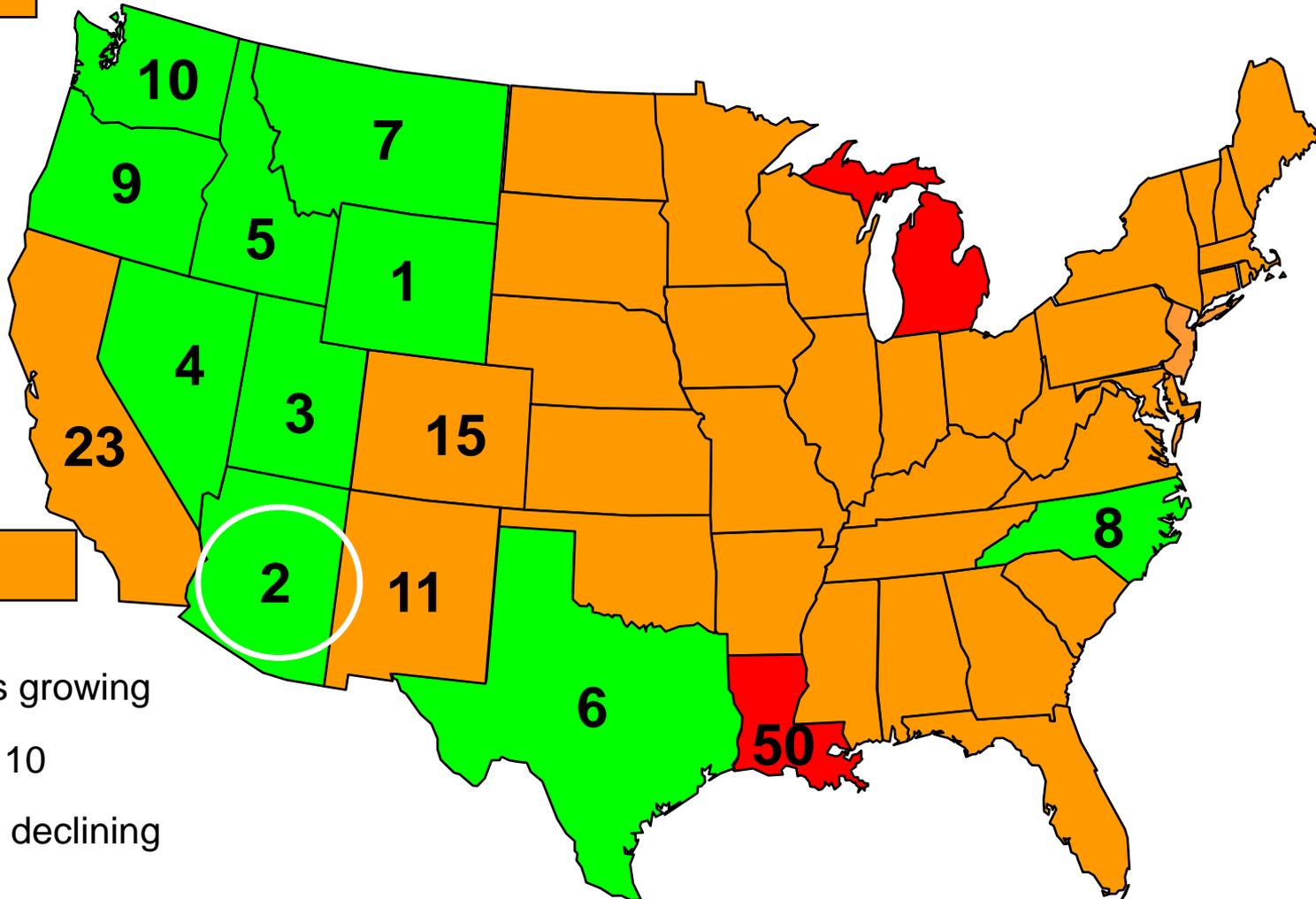
Source: US BLS

Alaska

14

Hawaii

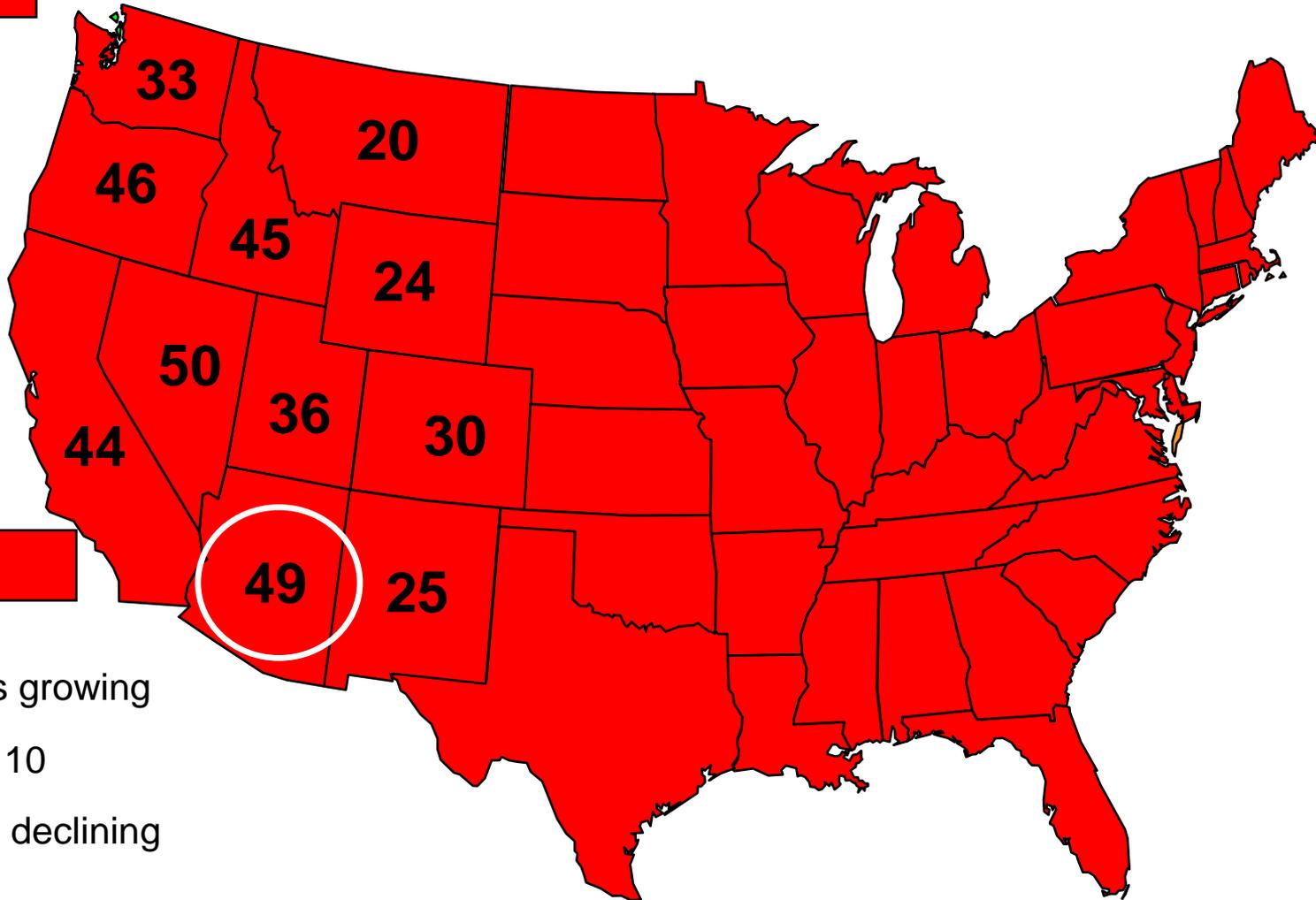
- Jobs growing
- Top 10
- Jobs declining



Job Growth 2009

Source: US BLS

Alaska
2



32

Hawaii

Jobs growing

Top 10

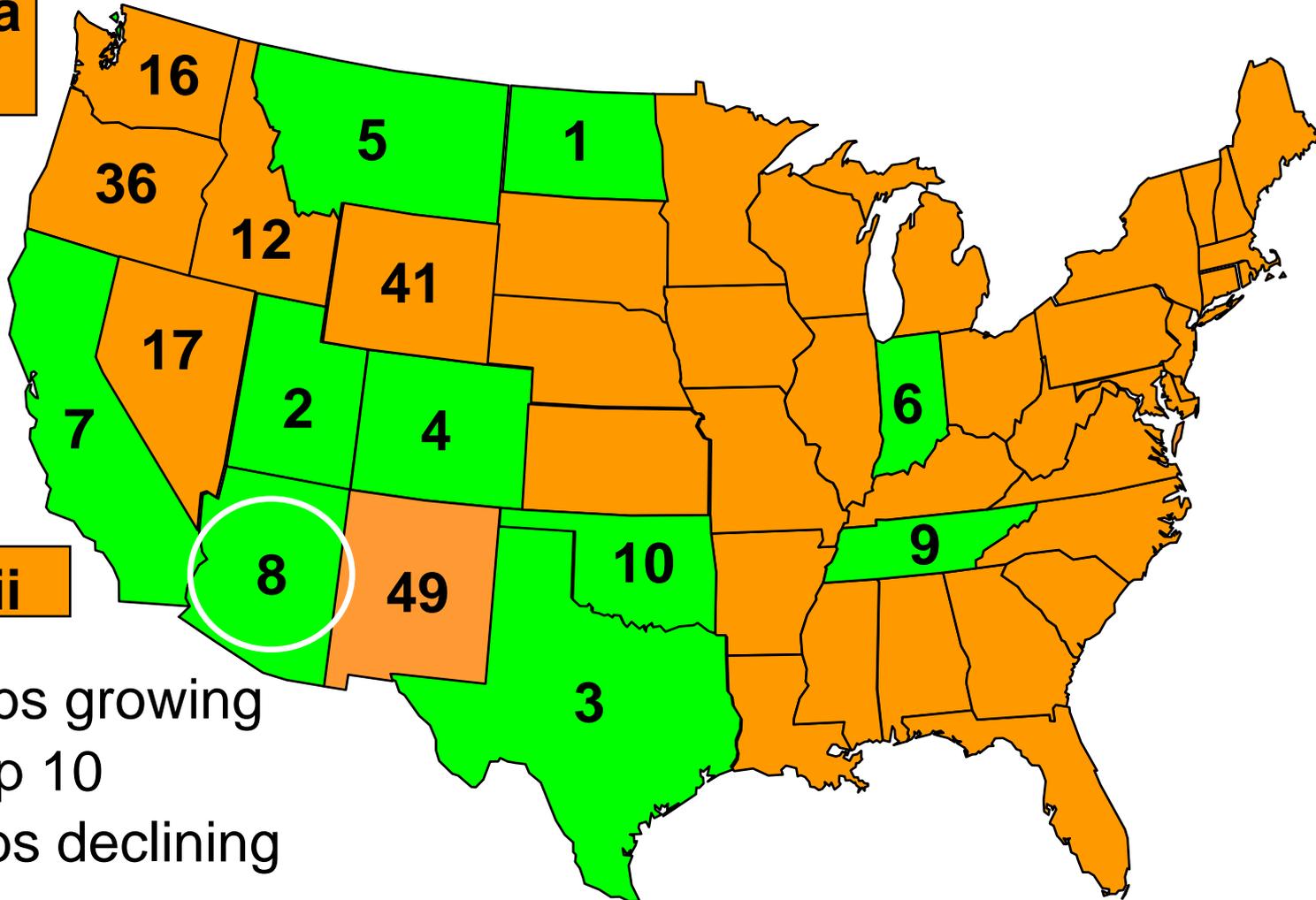
Jobs declining



Job Growth 2012

Source: US BLS

Alaska
26



11

Hawaii

- Jobs growing
- Top 10
- Jobs declining

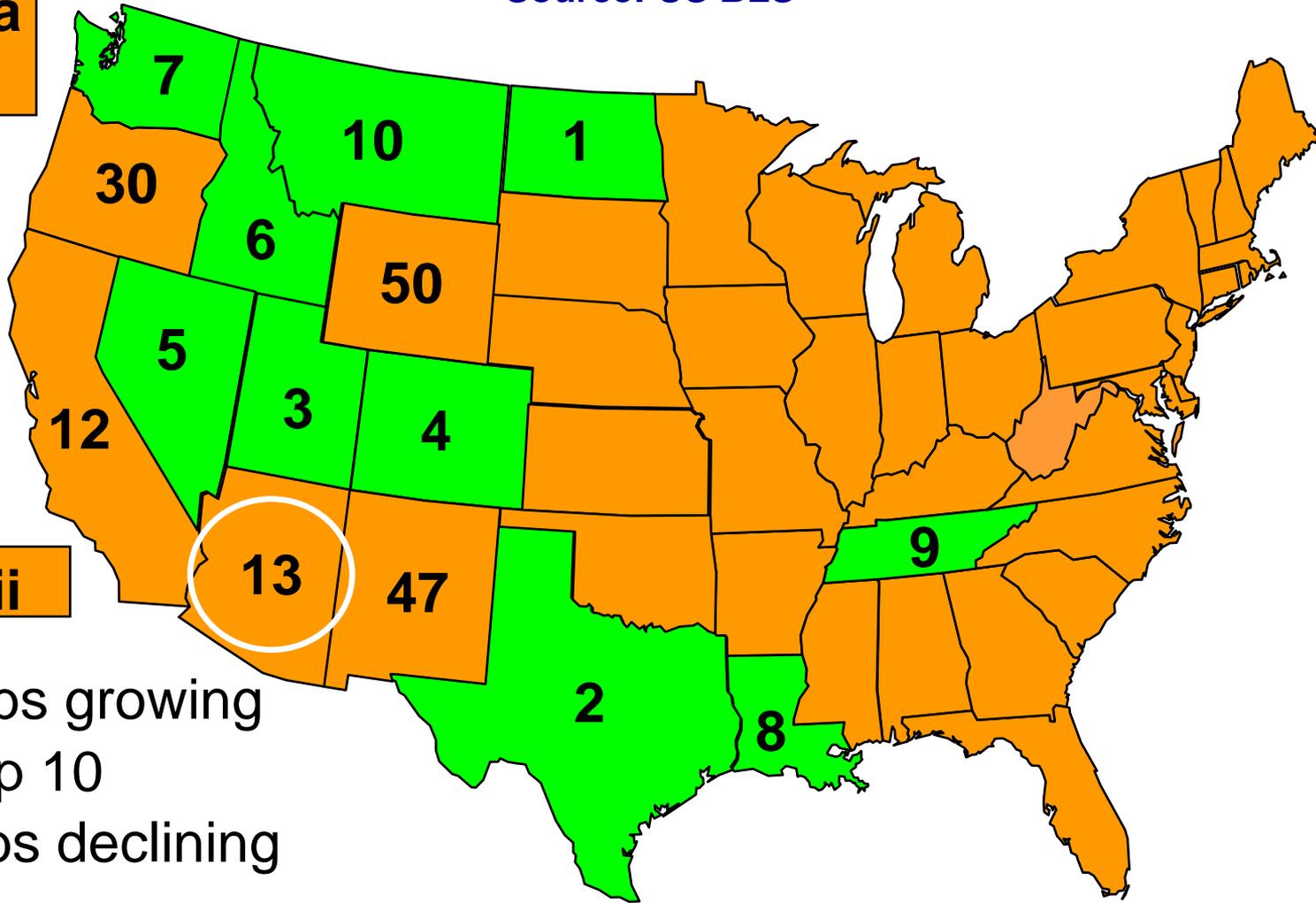


Job Growth 2013

YTD January 2013 vs YTD January 2012

Source: US BLS

Alaska
43

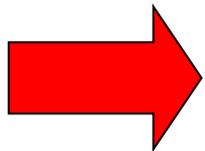


- Jobs growing
- Top 10
- Jobs declining

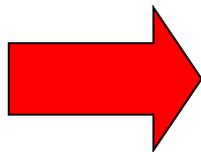
**There is little that
isn't transitory or cyclical...**



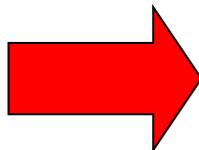
How does AZ go from 49th to 2nd?



- Overall US economic recovery improves.
- Stock market improves.
- Credit frees up.
- Consumers more confident.
- *People start to move to AZ again, slowly.*
- Investors help absorb excess housing.



- Excess housing absorbed
- Housing prices rise.
- Construction kicks in.
- *Construction job gains.*



- *All sector job gains.*
- *More people move to AZ.*



But the local recovery will be slow because...

- **Slow national recovery**
- **Winding down of defense sector**
- **Modest population flows**



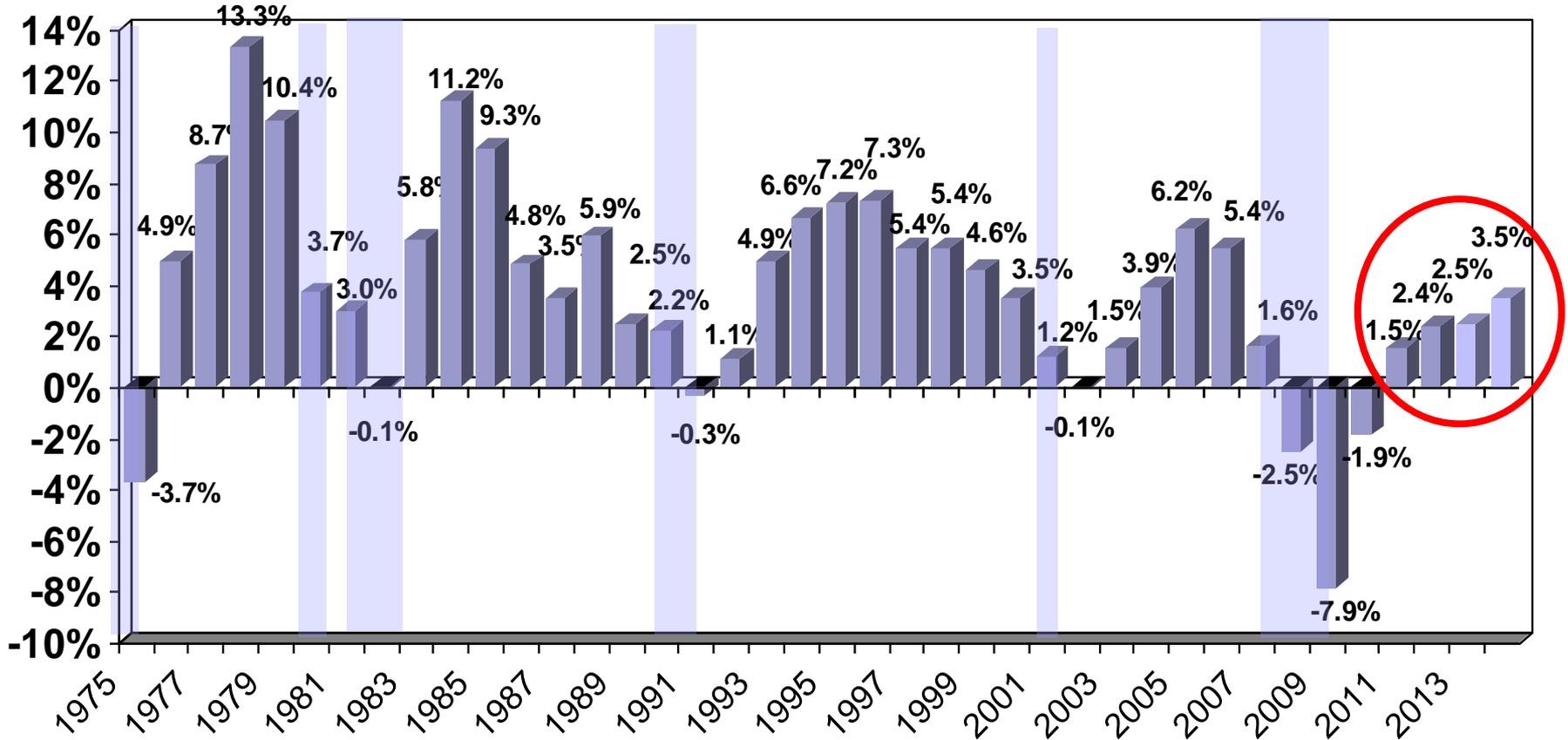
Why are population flows slow?

- **Slow job growth**
- **High unemployment**
- **Delayed retirement**
- **Difficulty in selling home**
- **Difficulty in qualifying for a loan**



Greater Phoenix Employment* Annual Percent Change 1975–2014**

Source: Department of Commerce, Research Administration



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

** 2013 & 2014 forecast is from *Elliott D. Pollack & Co.*

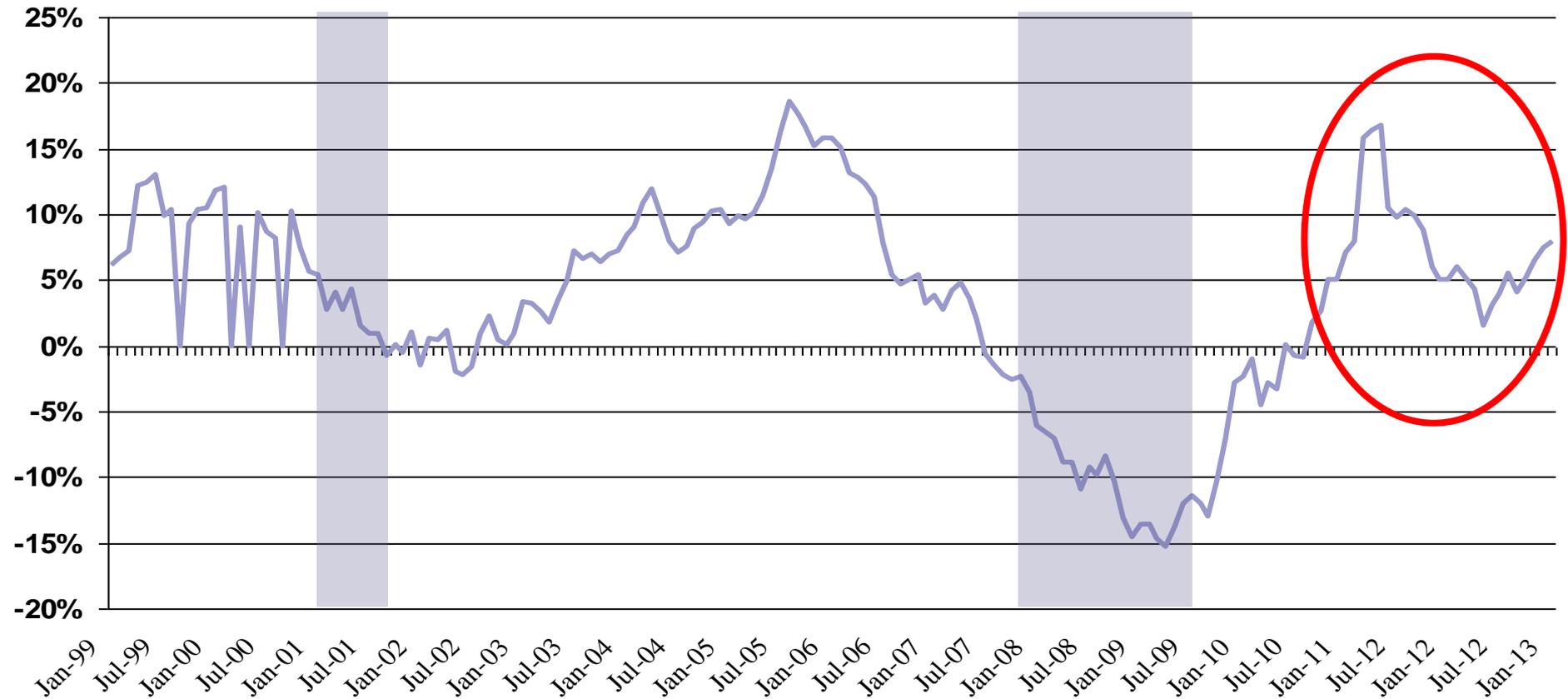
Recession Periods



Maricopa County Retail Sales Percent Change Year Ago* 1999 – 2013**

Source: Arizona Department of Revenue

Recession Periods



*Data through January 2013

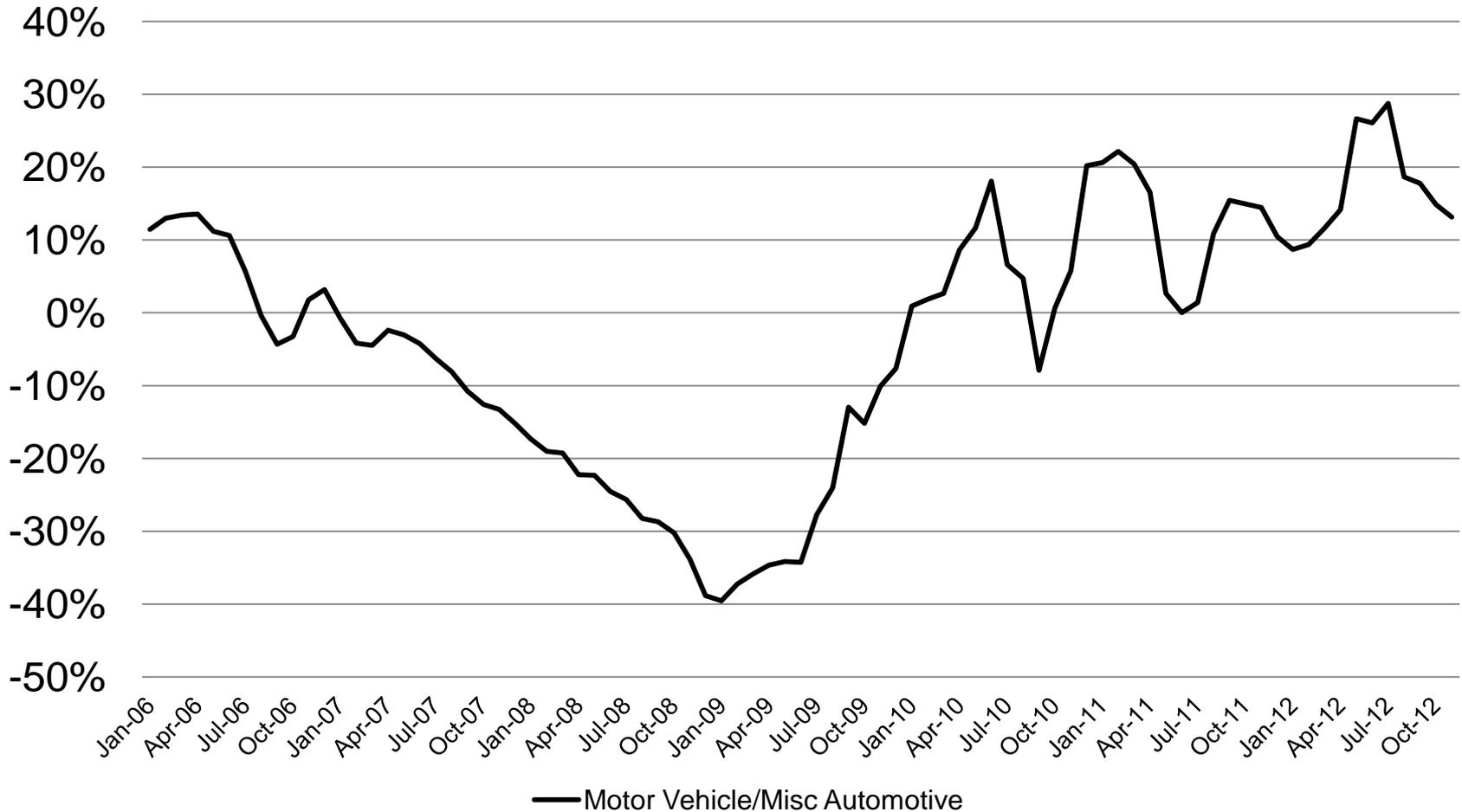
**3-month moving average

Note: January 2010 and March 2010 retail sales are estimates.



Maricopa County Motor Vehicle Retail Sales Percent Change Year Ago 2006 – 2012*

Source: Arizona Department of Revenue



*Data through November 2012

**3-month moving average

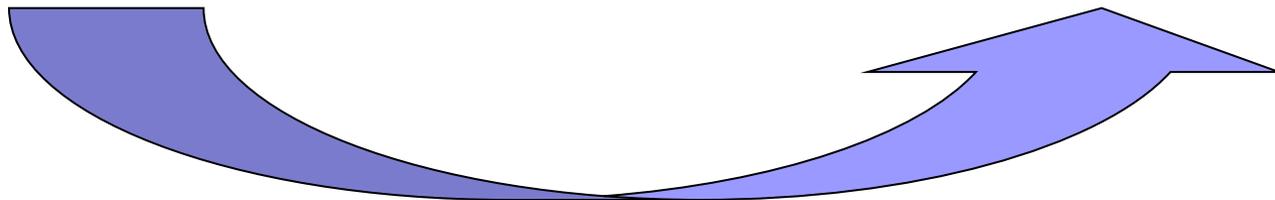
Note: January 2010 and March 2010 retail sales are estimates.



Greater Phoenix Employment*

Source: Bureau of Labor Statistics

<u>Sectors in Decline</u>	<u>Net Change</u>	<u>Sectors Improving</u>	<u>Net Change</u>
Other Services	0	Trade, Transp, Utilities	9,300
		Construction	6,000
		Education & Health Services	5,500
		Financial Activities	4,800
		Professional & Bus Services	4,400
		Government	4,300
		Leisure & Hospitality	4,100
		Manufacturing	1,600
		Information	600
		Natural Resources & Mining	400



Greater Phoenix- Jobs Finally in the Black

Over last 12 months:	41,000
12 months before that:	38,400
12 months before that:	16,900
12 months before that:	(101,000)
12 months before that:	(124,500)

* As of January 2013



Greater Phoenix Jobs

Source: BLS

Jobs lost Peak to Trough: **231,200**
(Dec-07) (Jul-10)

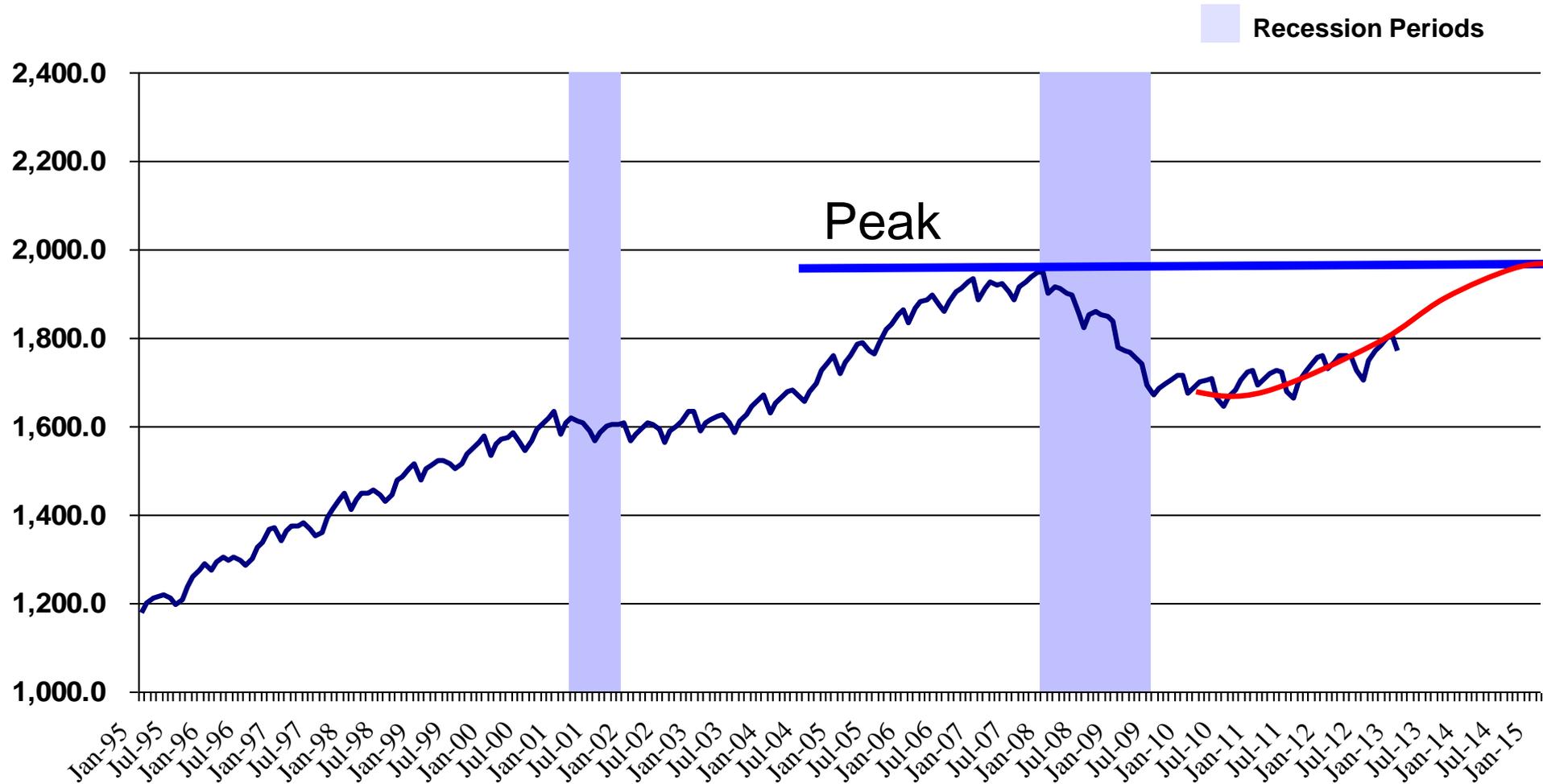
Jobs gained Trough to Current: **97,000**
(Jul-10) (Jan-13)

*****We are 42% of the way back*****



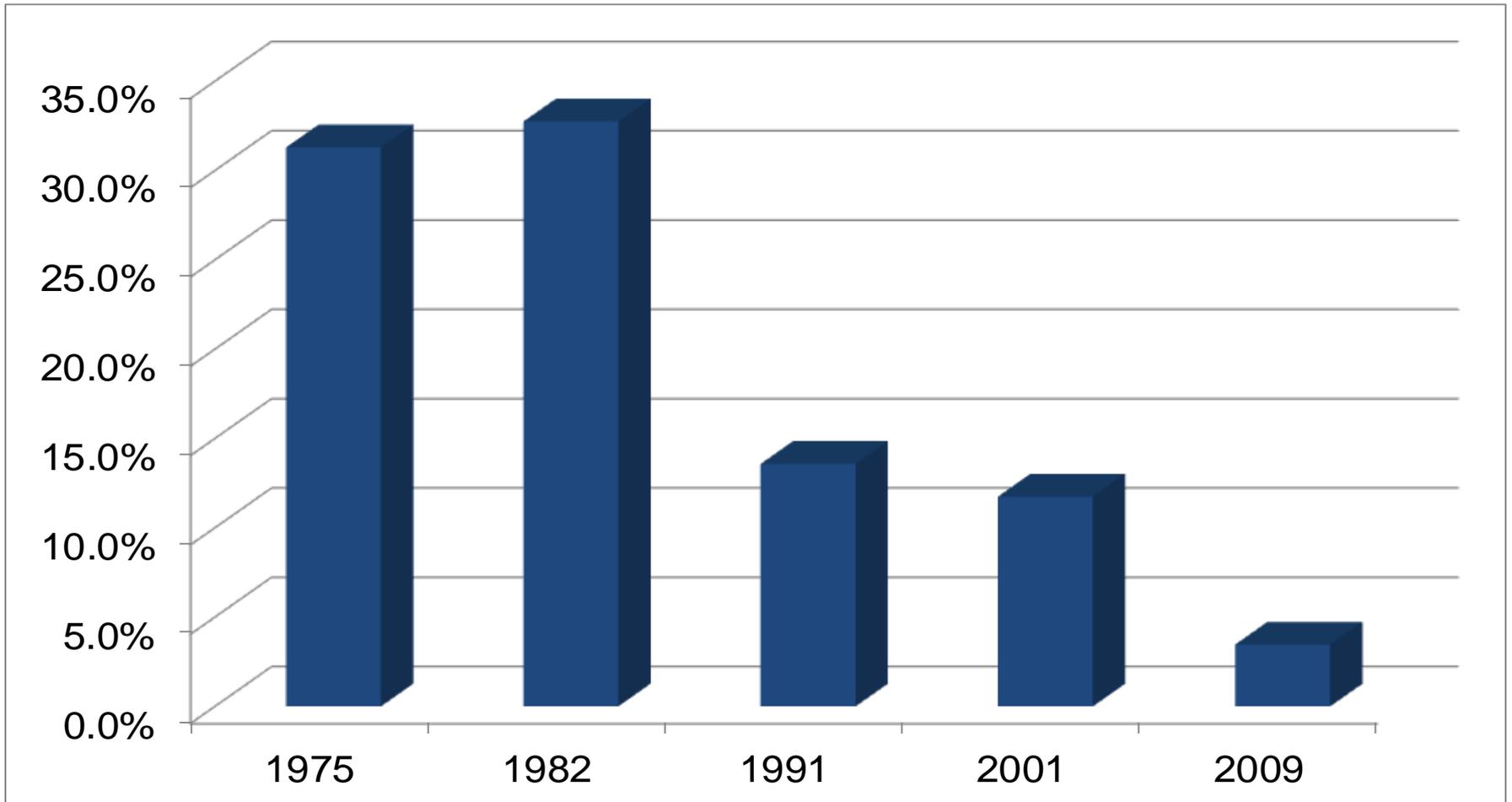
Employment Levels: Greater Phoenix back to Peak in 2015?

Source: ADOA



Greater Phoenix Non-Farm Employment Gains 41 Months After Recession End

Source: BLS Seasonally Adjusted Data



Phoenix-Mesa Employment Growth

(Ranking among all metro areas greater than 1,000,000)

Source: Arizona State University, U.S. Bureau of Labor Statistics

Year	Rank	# MSA's
1991	4	19
1992	4	19
1993	2	19
1994	1	19
1995	1	20
1996	1	21
1997	1	22
1998	1	23
1999	3	24
2000	9	25

Year	Rank	# MSA's
2001	7	26
2002	5	25
2003	3	25
2004	3	25
2005	1	26
2006	1	27
2007	9	28
2008	24	28
2009	24	25
2010	24	24
2011	14	25
2012	6	27
2013*	9	24

*Year-to-date, January 2013



Greater Phoenix Employment

Source: U.S. Bureau of Census; Arizona Department of Administration; University of Arizona Forecasting Project

YEAR	EMPLOYMENT
1950	74,400
1960	181,700
1970	327,200
1980	636,200
1990	1,013,300
2000	1,578,400
2010	1,686,800
2020	2,312,700



Maricopa County Population

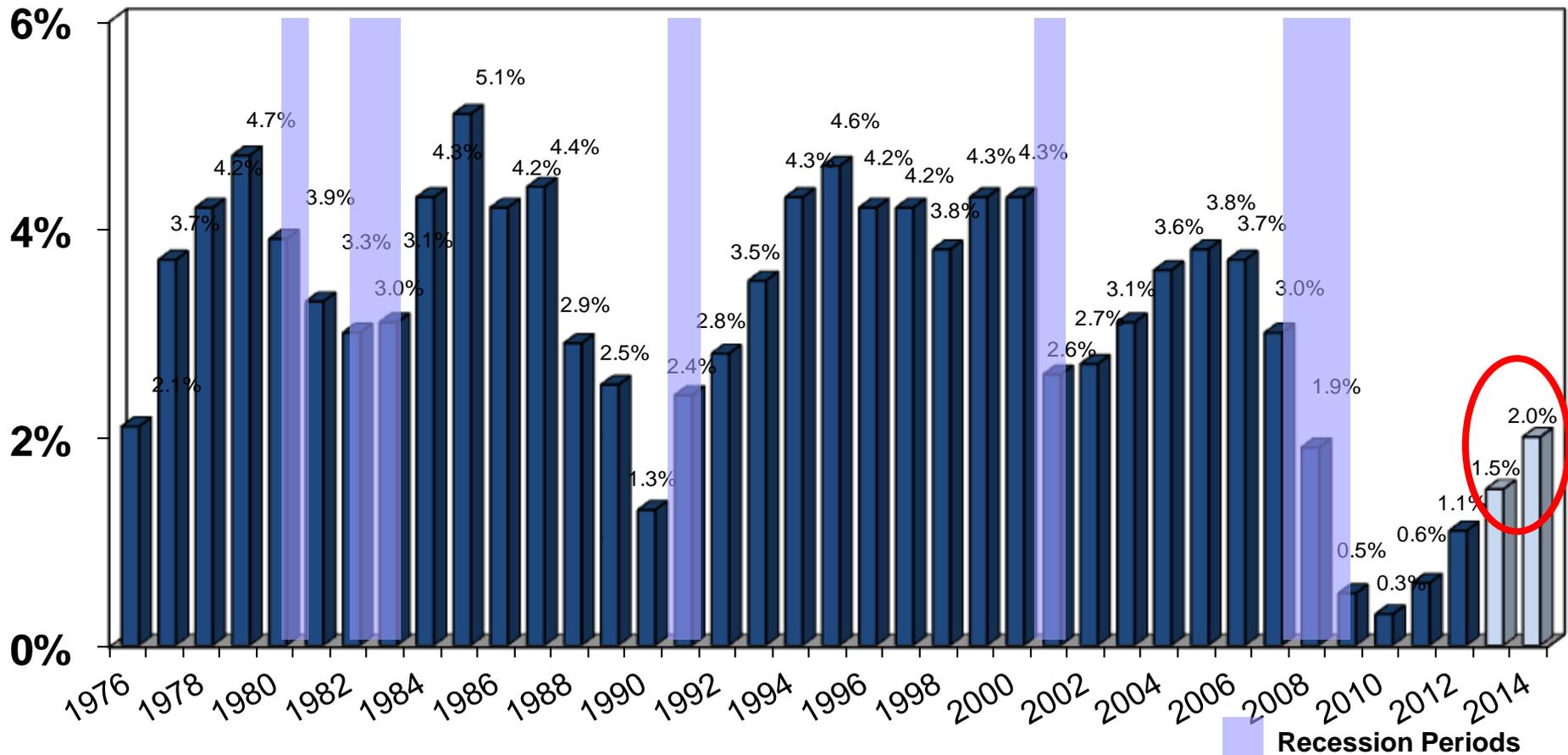
Source: U.S. Bureau of Census; Arizona Department of Economic Security; University of Arizona Forecasting Project

<u>Year</u>	<u>Population</u>	<u>Annual Rate</u>
1950	331,770	
1960	663,510	7.2%
1970	971,228	3.9%
1980	1,509,175	4.5%
1990	2,122,101	3.5%
2000	3,072,149	3.8%
2010	3,817,117	2.2%
2020(forecast)	4,569,572	1.8%



Greater Phoenix Population Annual Percent Change 1976–2014*

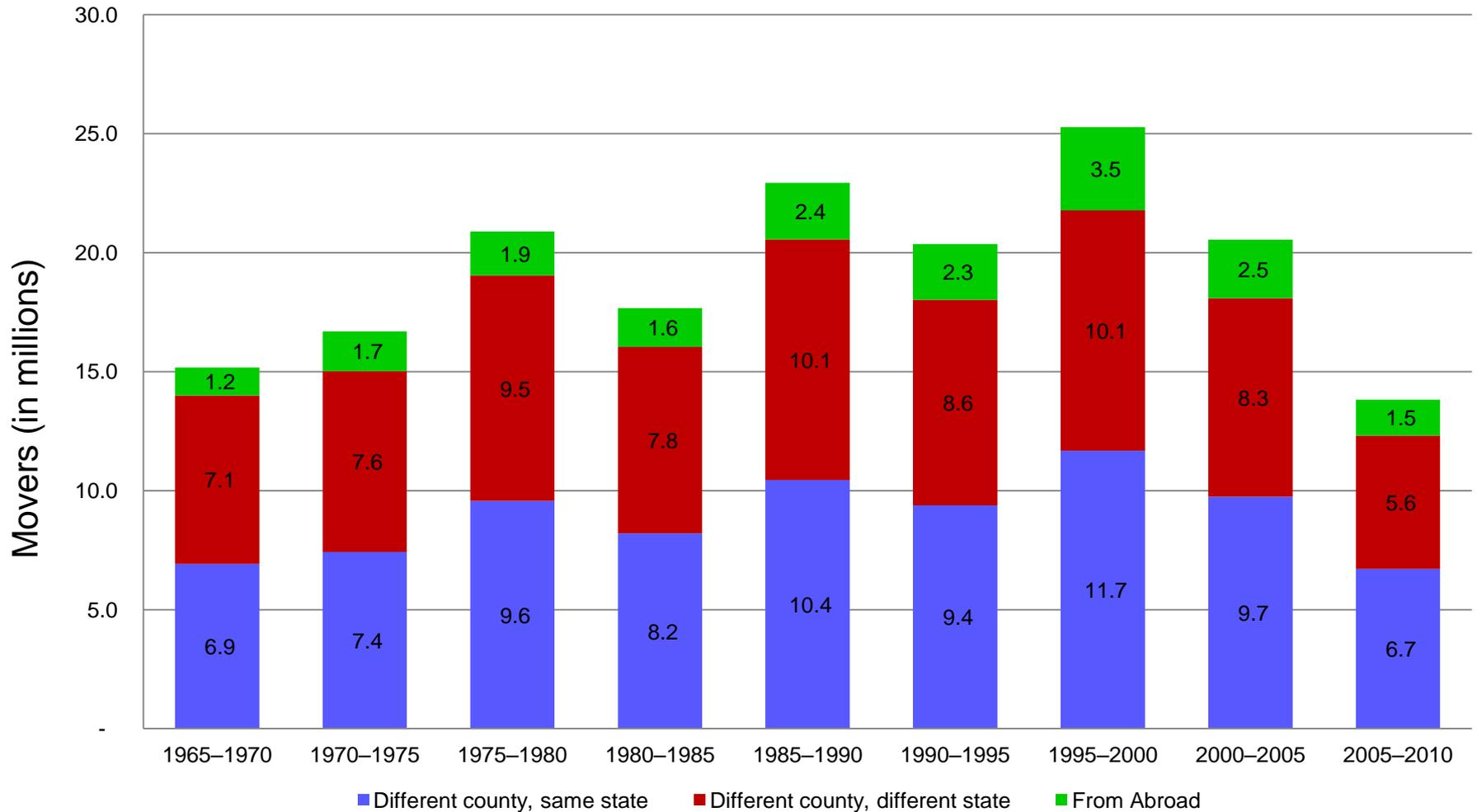
Source: Arizona State University & Department of Commerce, Research Administration



Five Year Distribution of Movers in U.S. by Type*

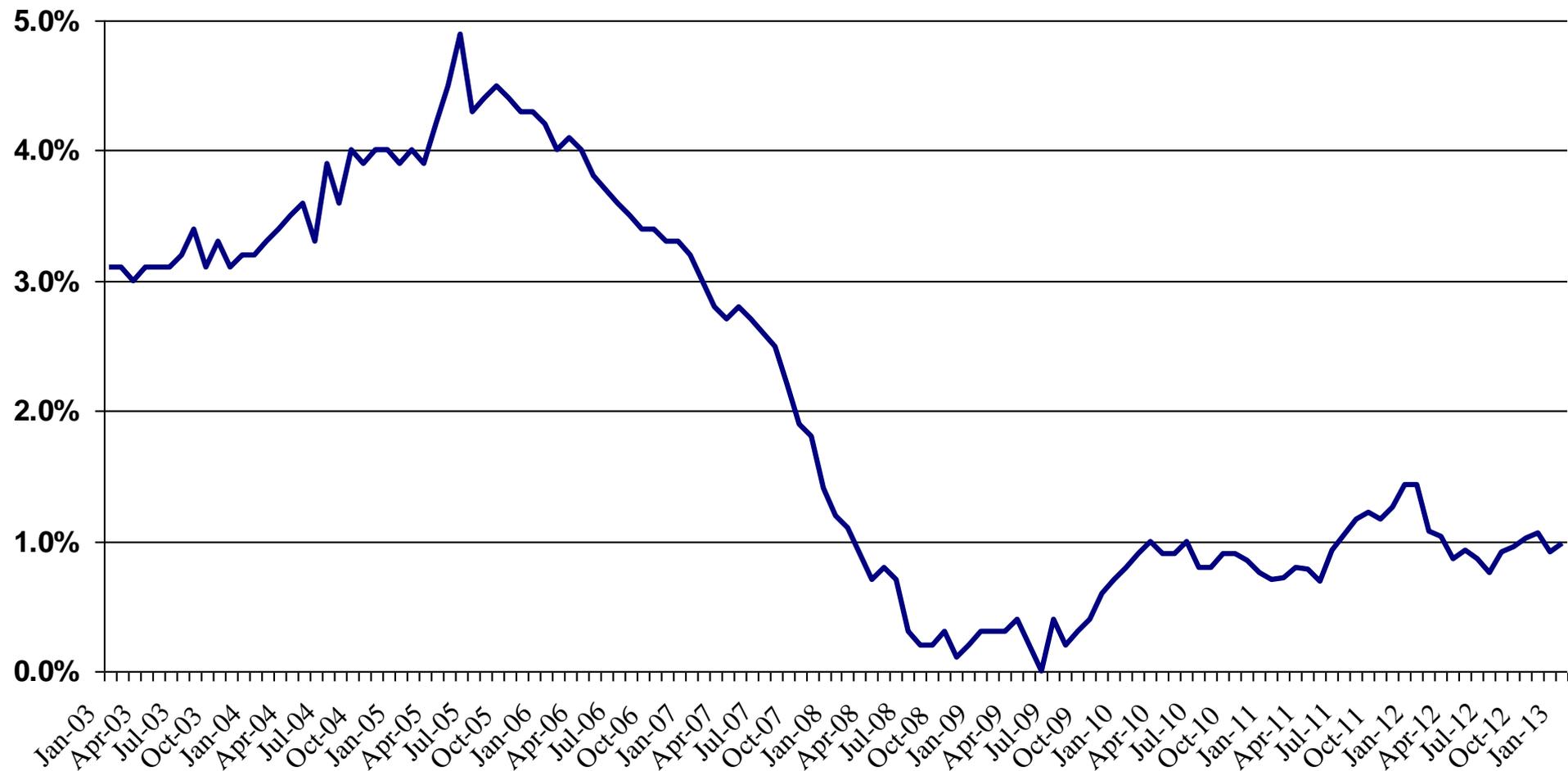
1980-2010

Source: U.S. Census Bureau



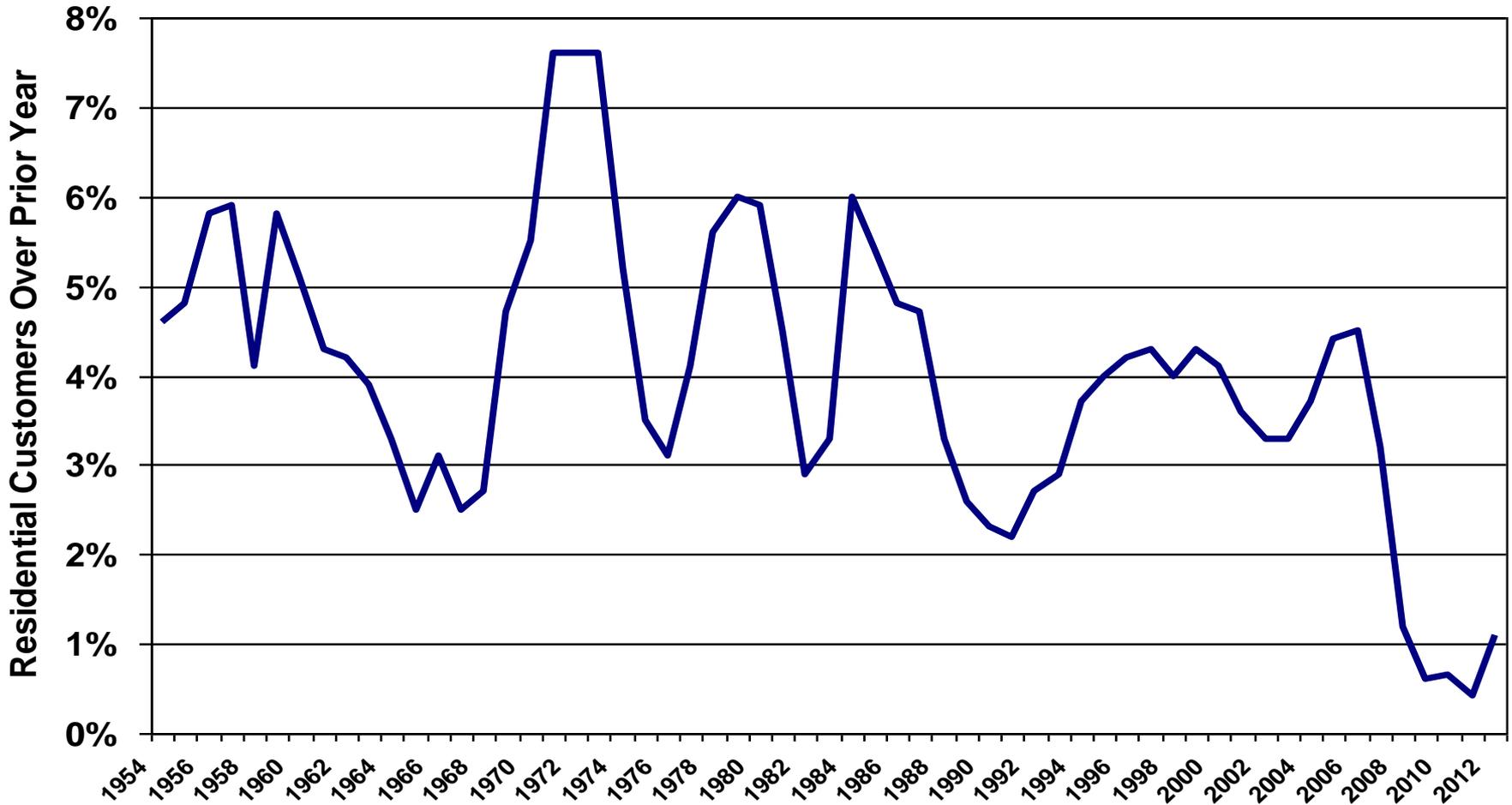
SRP Residential Utility Hookup Percentage Growth Greater Phoenix 2003 – 2013*

Source: SRP



*Data through January 2013

APS: Slowest Growth in over 50 years 1954 – 2012*

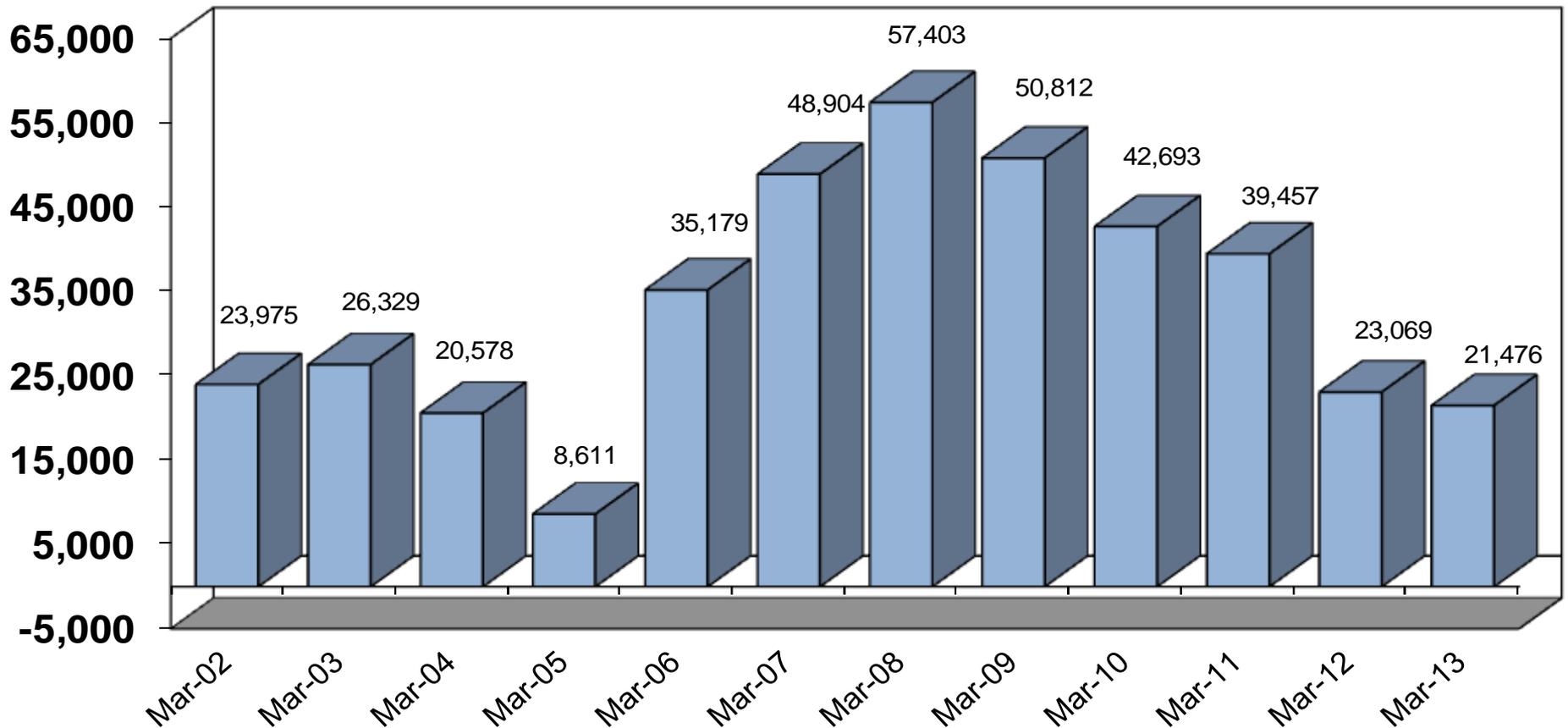


It's hard not to be optimistic about HOUSING



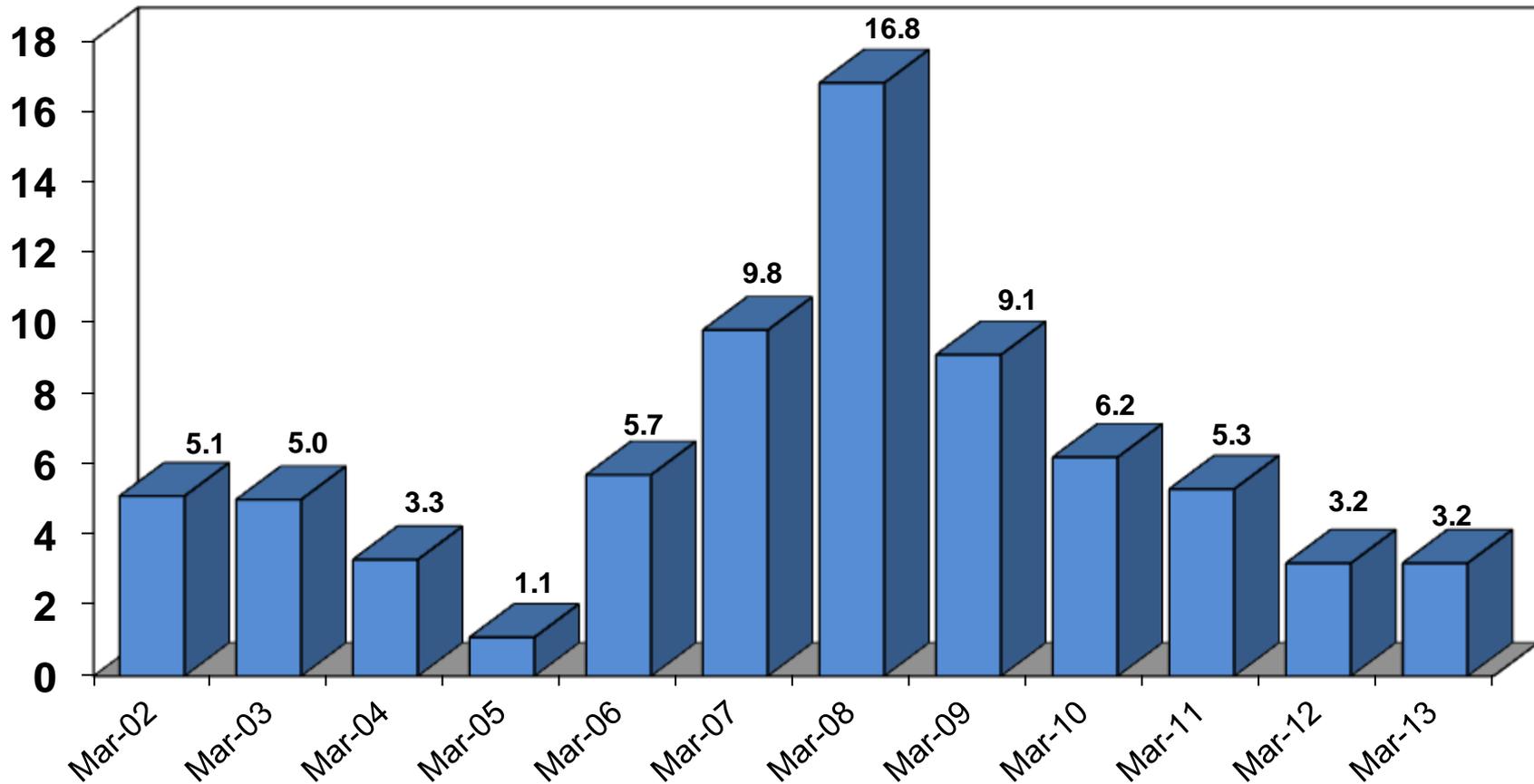
Single Family Active Listings Greater Phoenix

Source: Cromford Report



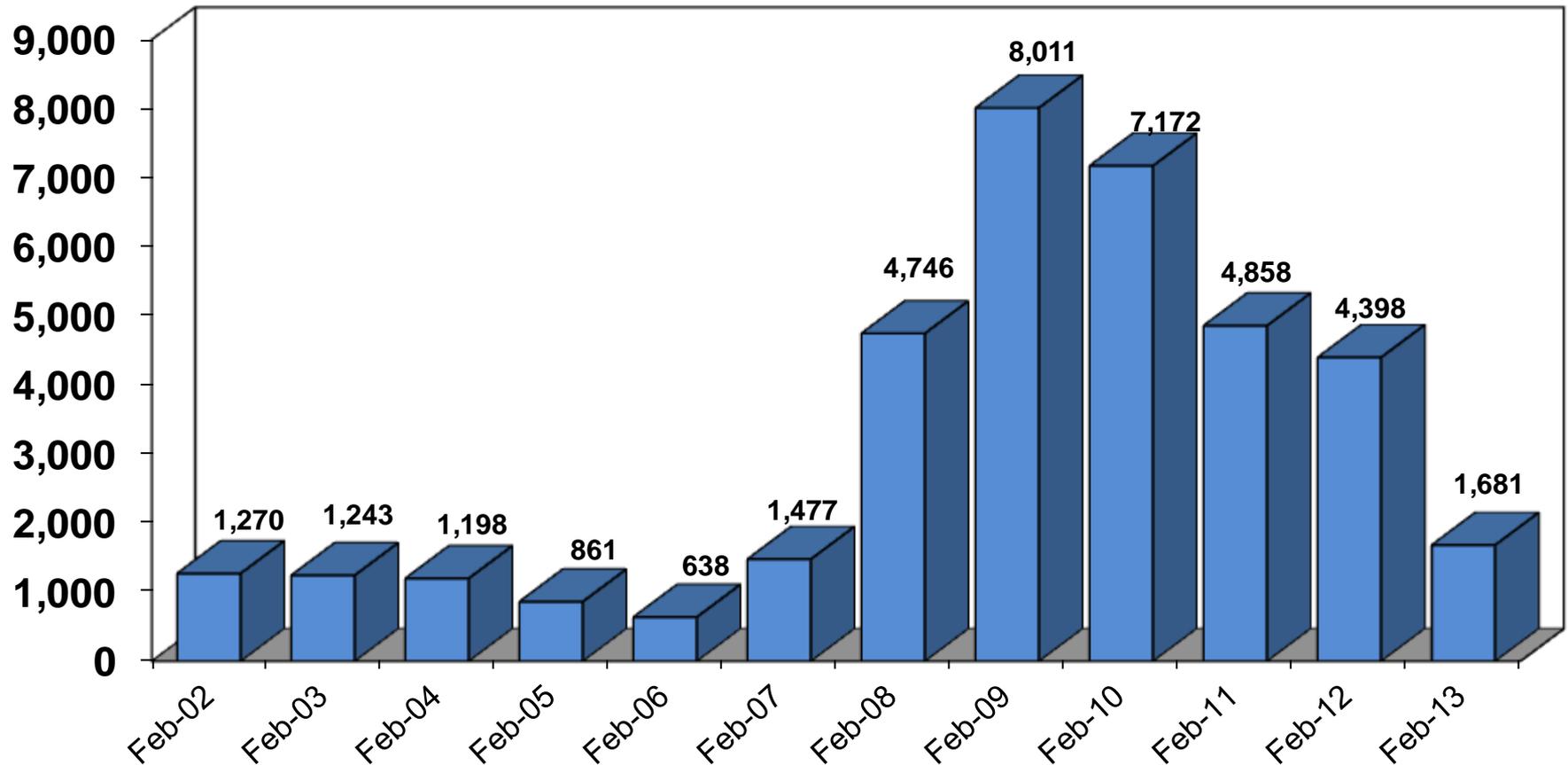
Greater Phoenix Months Supply Single Family Residential

Source: Cromford Report



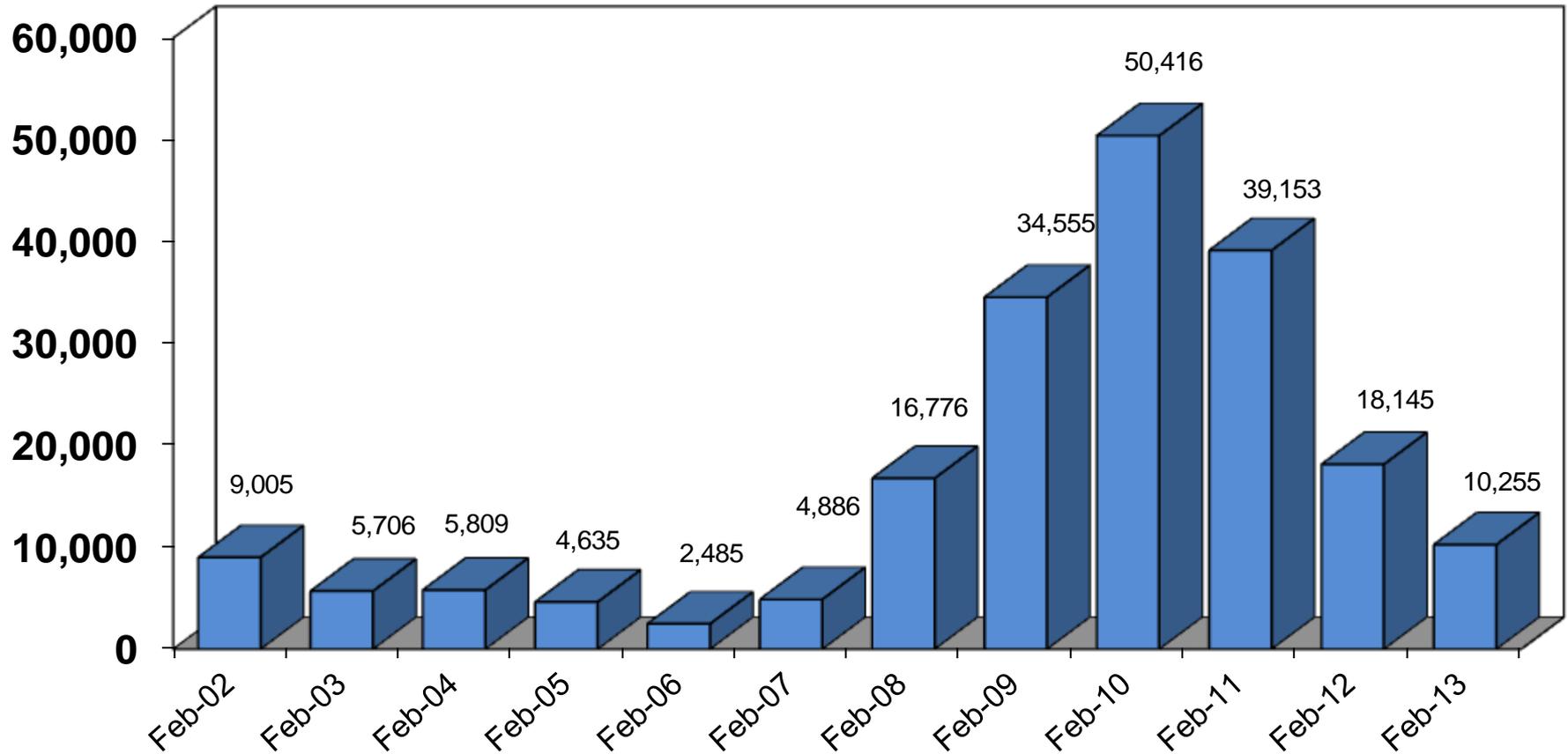
New Residential Foreclosure Notices Greater Phoenix

Source: Information Market



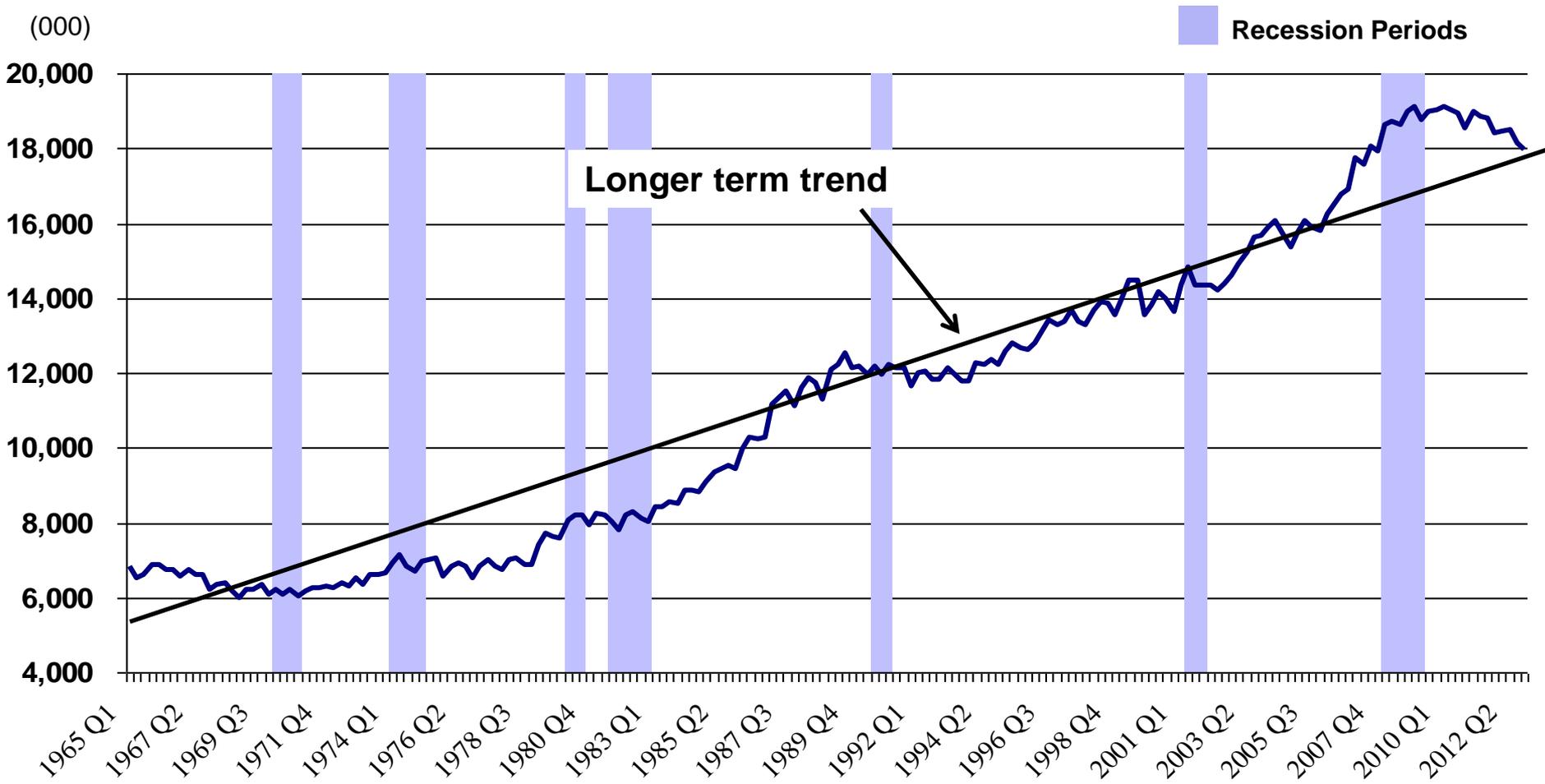
Total Pending Foreclosures Greater Phoenix

Source: Information Market



US Total Vacant Housing Units 1965-2012*

Source: US Census Bureau

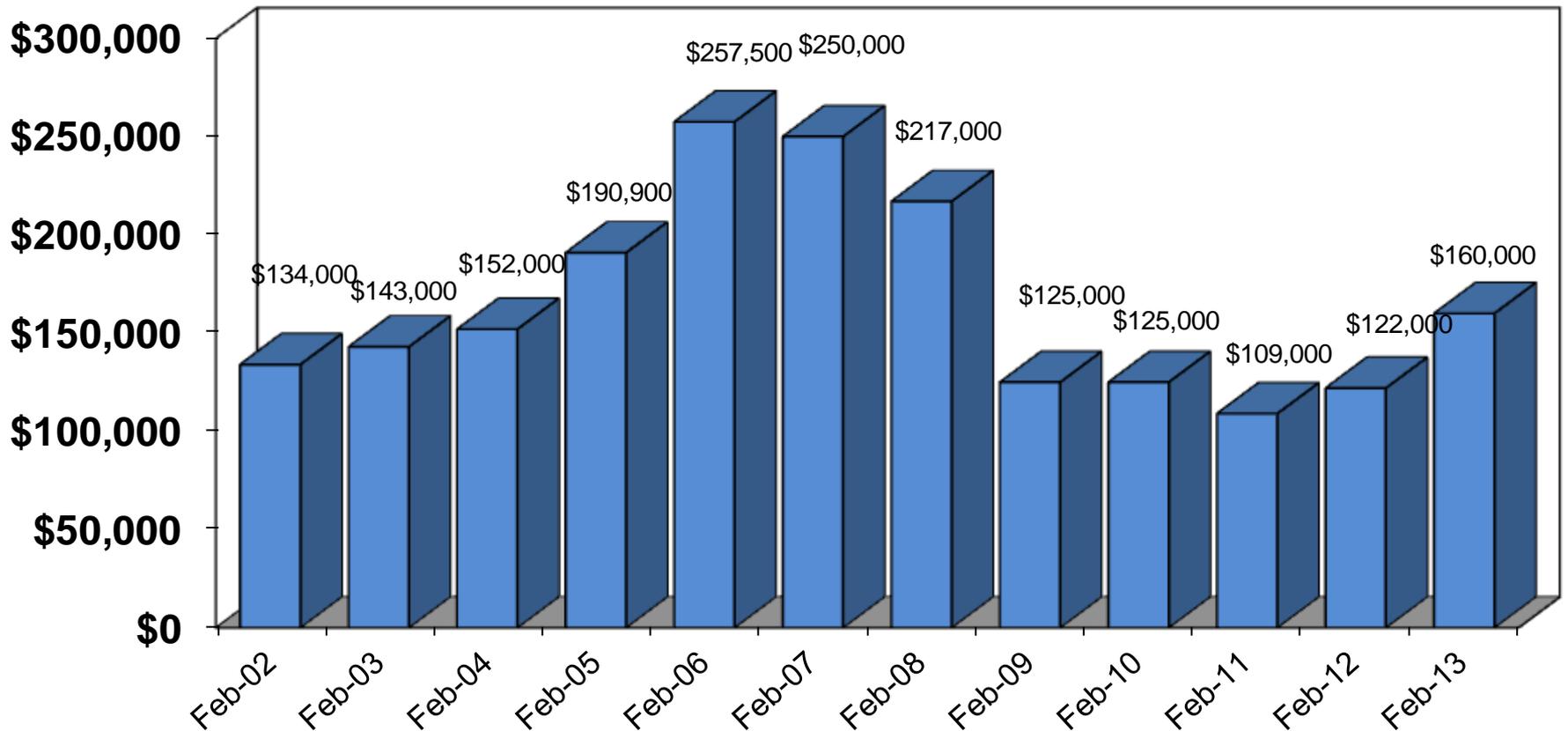


*Data through 2012 Q4



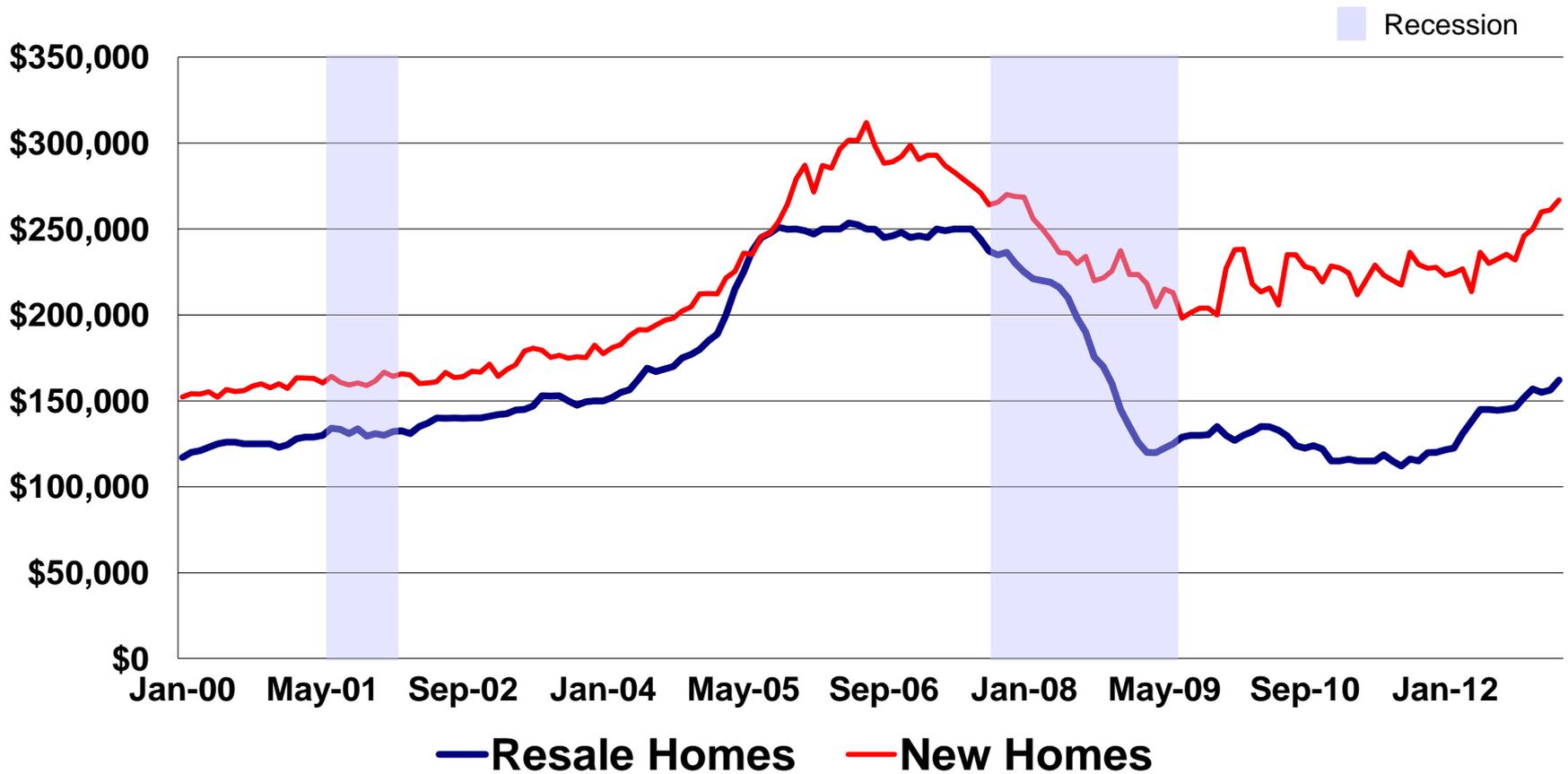
Greater Phoenix Median Sales Price New and Resale Single Family

Source: Cromford Report



Median Price of New and Resale Homes Maricopa County 2000–2013*

Source: Cromford Report



Median Price of New Homes as a Percent of the Median Price of Resale Homes Maricopa County 2000–2013*

Source: Cromford Report

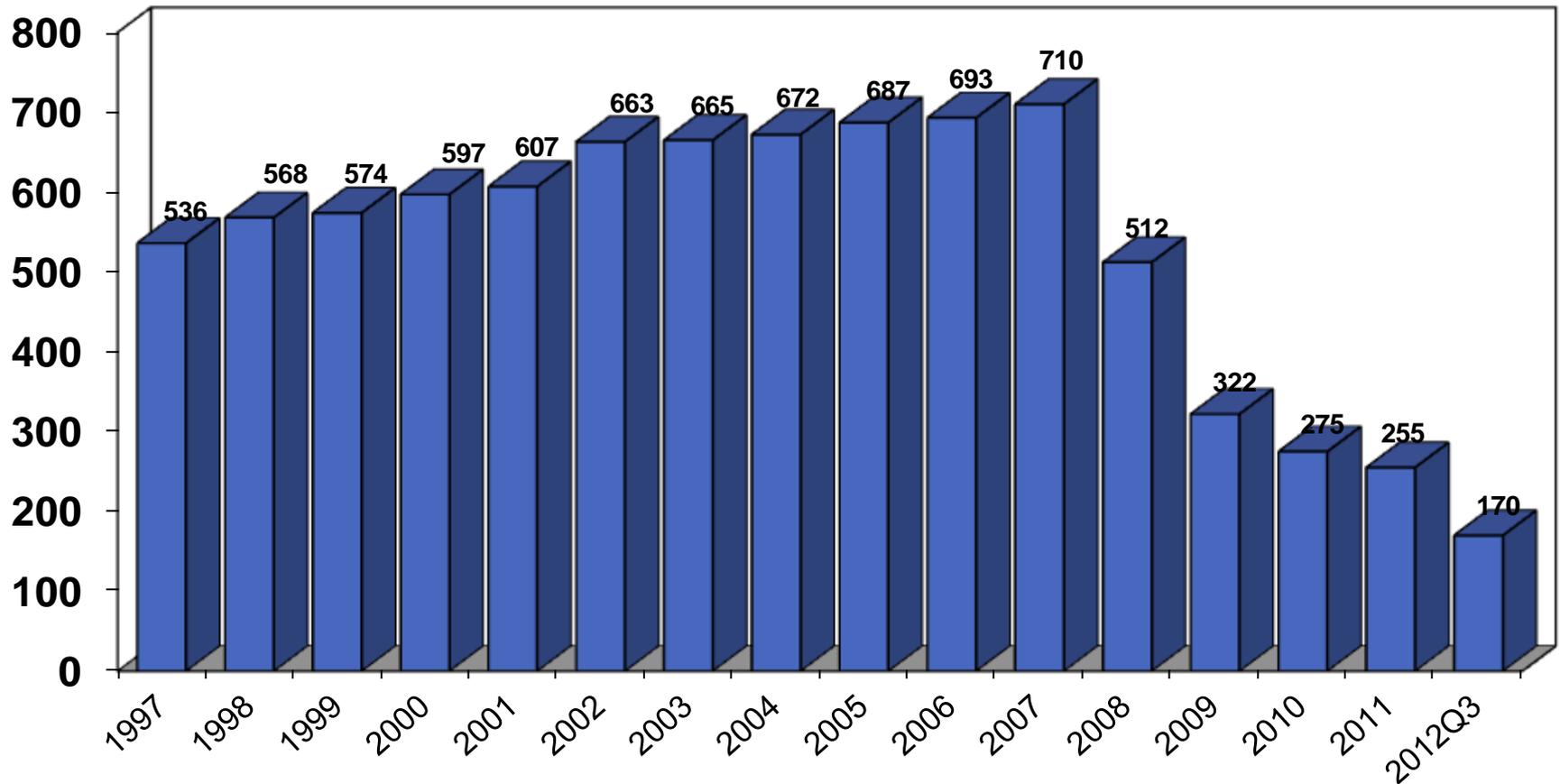


*YTD through February 2013



Number of Active Subdivisions Greater Phoenix

Source: CRA

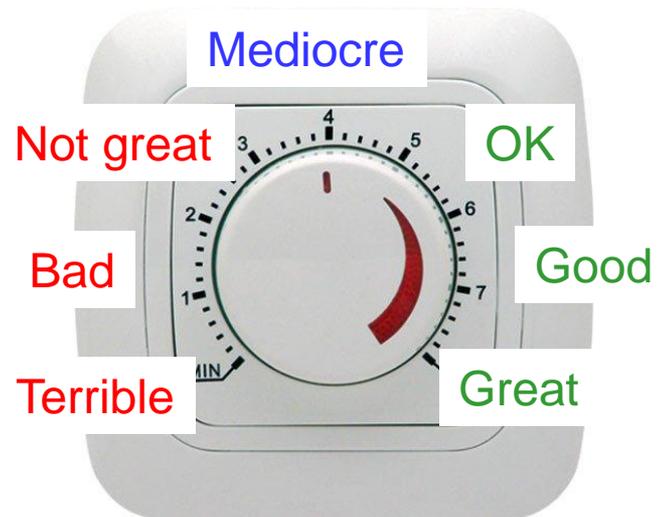


Housing

Not a light switch...



A dimmer switch...



- Think of what the housing market is going through as the same as any manufacturer that finds themselves with excess inventory...
- Prices are cut until the excess is sold.
- Then prices rise.



Greater Phoenix Single Family Permits

Source: RL Brown

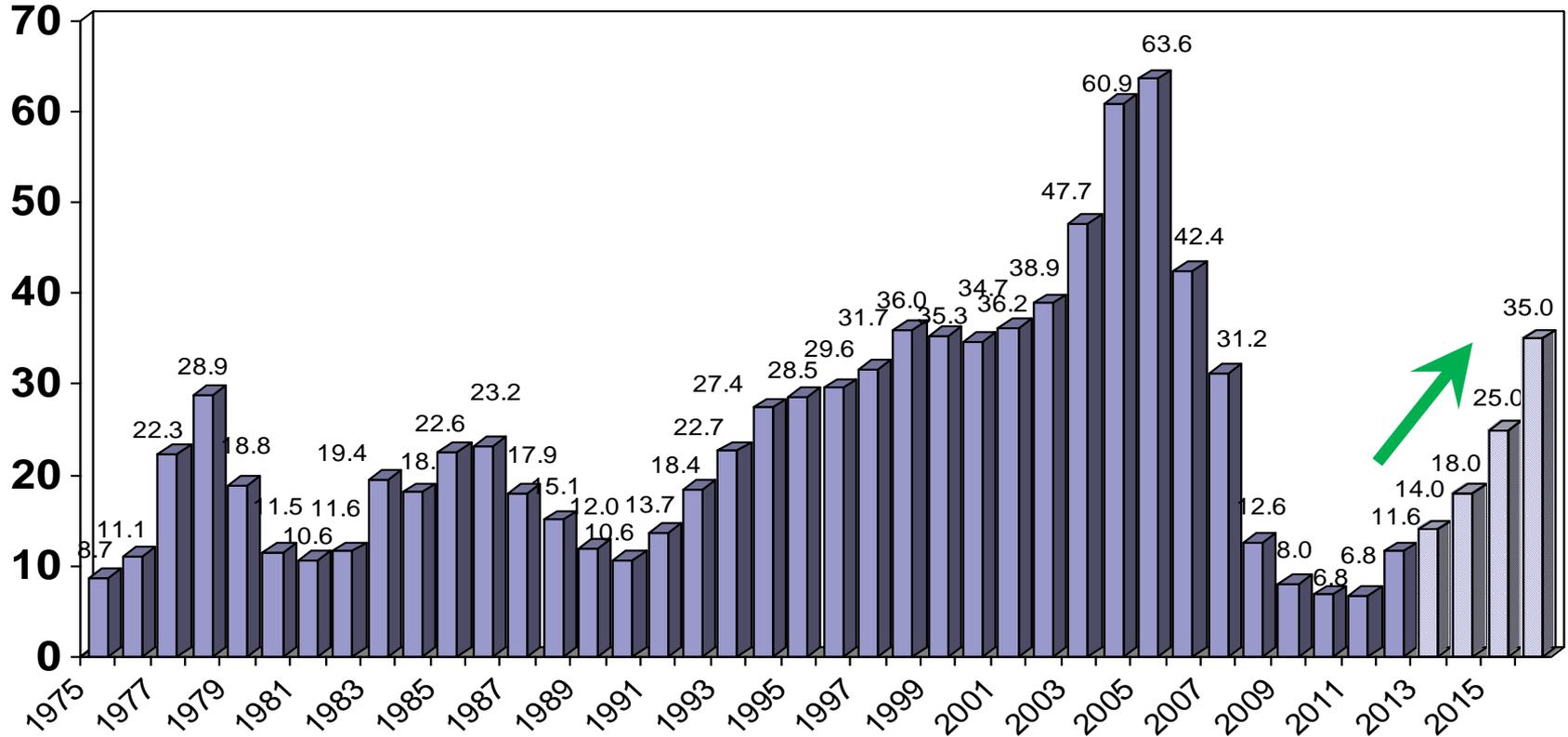
<u>Year</u>	<u>Permits</u>	<u>% chg</u>
2004	60,872	27.6%
2005	63,570	4.4%
2006	42,423	-33.3%
2007	31,172	-26.5%
2008	12,582	-59.6%
2009	8,027	-36.2%
2010	6,822	-15.0%
2011	6,794	-0.4%
2012	11,615	71.0%
2013*	1,888	29.3%



Single Family Permits Greater Phoenix 1975–2016*

Source: RL Brown & Elliott D. Pollack & company

Permits
(000)



*2013 – 2016 forecast is from *Elliott D. Pollack & Company*



Price gains are greater in distressed properties, but there are fewer distressed properties as a percent of total.

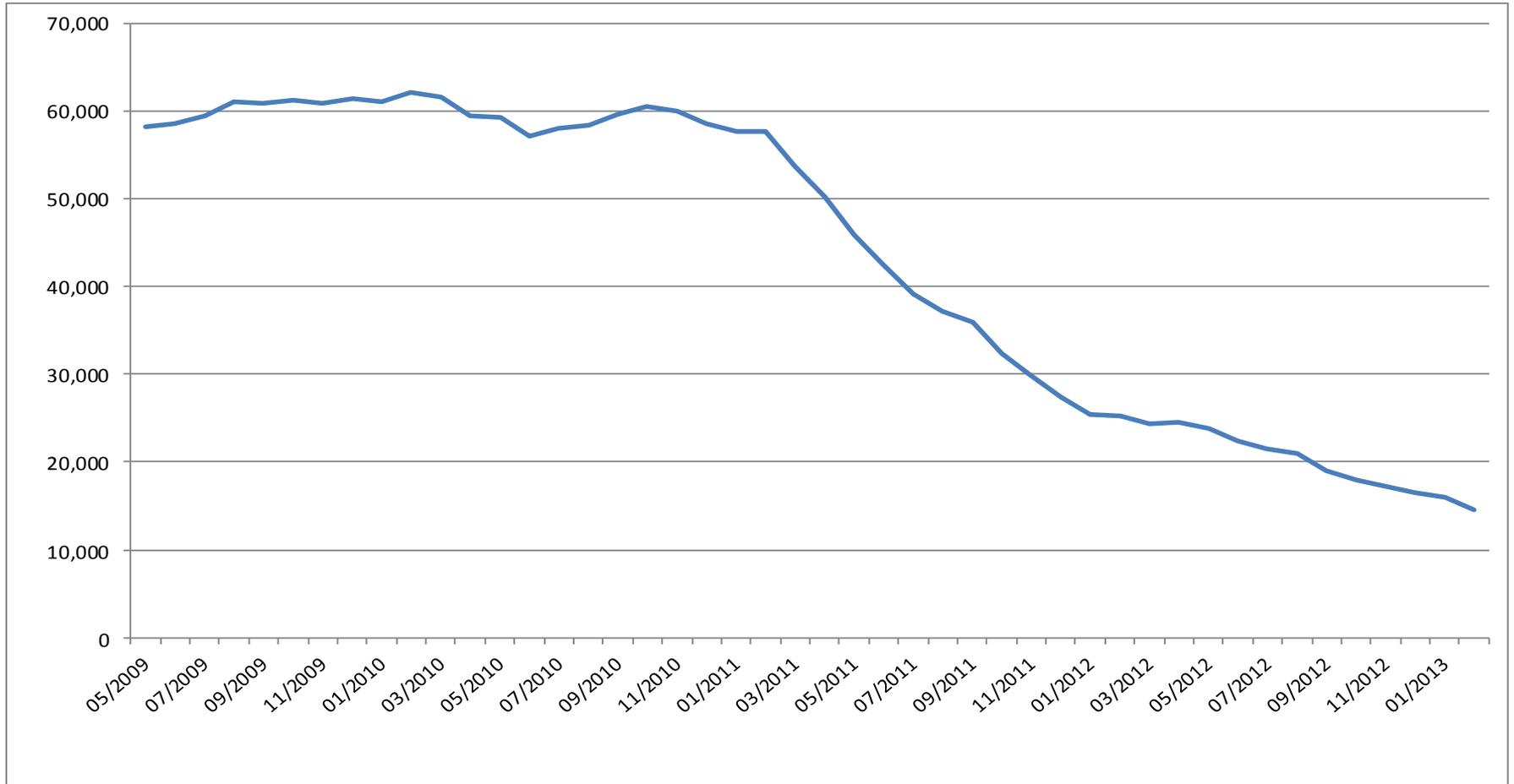


Distressed Residential Inventory*

May 2009-February 2013

Greater Phoenix

Source: Information Market



*Distressed residential inventory includes pending residential foreclosures and residential REO properties



Growth in Single Family Home Prices February 2013 / February 2012

Source: ASU / MLS

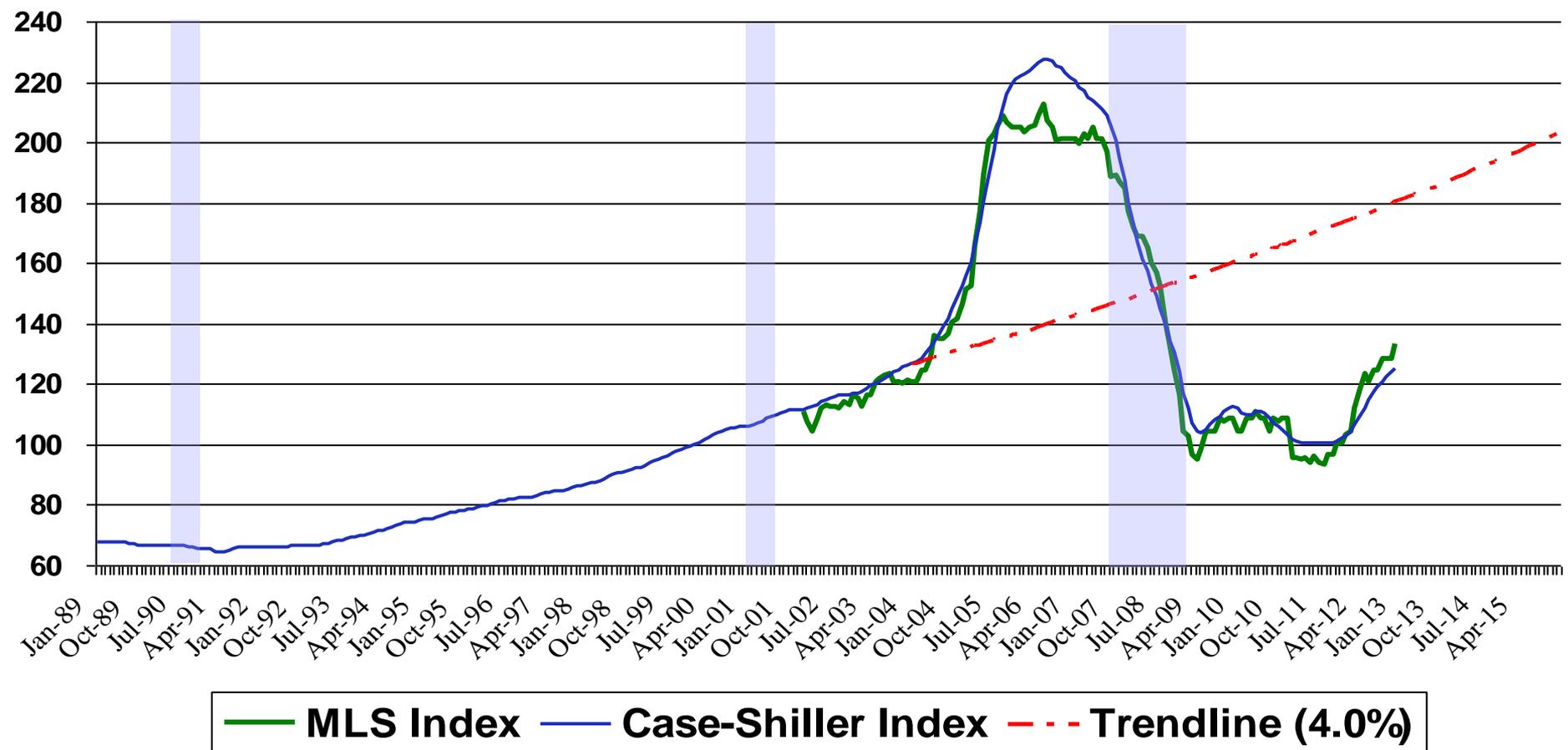
	Phoenix
New Homes:	20.4%
Resale Homes:	32.3%



Home Prices Indices Greater Phoenix 1989 – 2012*

Source: Macro Markets, LLC; AMLS

Recession Periods



Probably 40-45%
of potential buyers are out
of the market.



**Until this gets resolved
locally and nationally,
the rate of
population growth
will be anemic.**



**This will limit the rate of
growth in jobs.**



**As housing prices go up,
more and more people will be
able to sell their homes
because they aren't
underwater.**



Household Formations

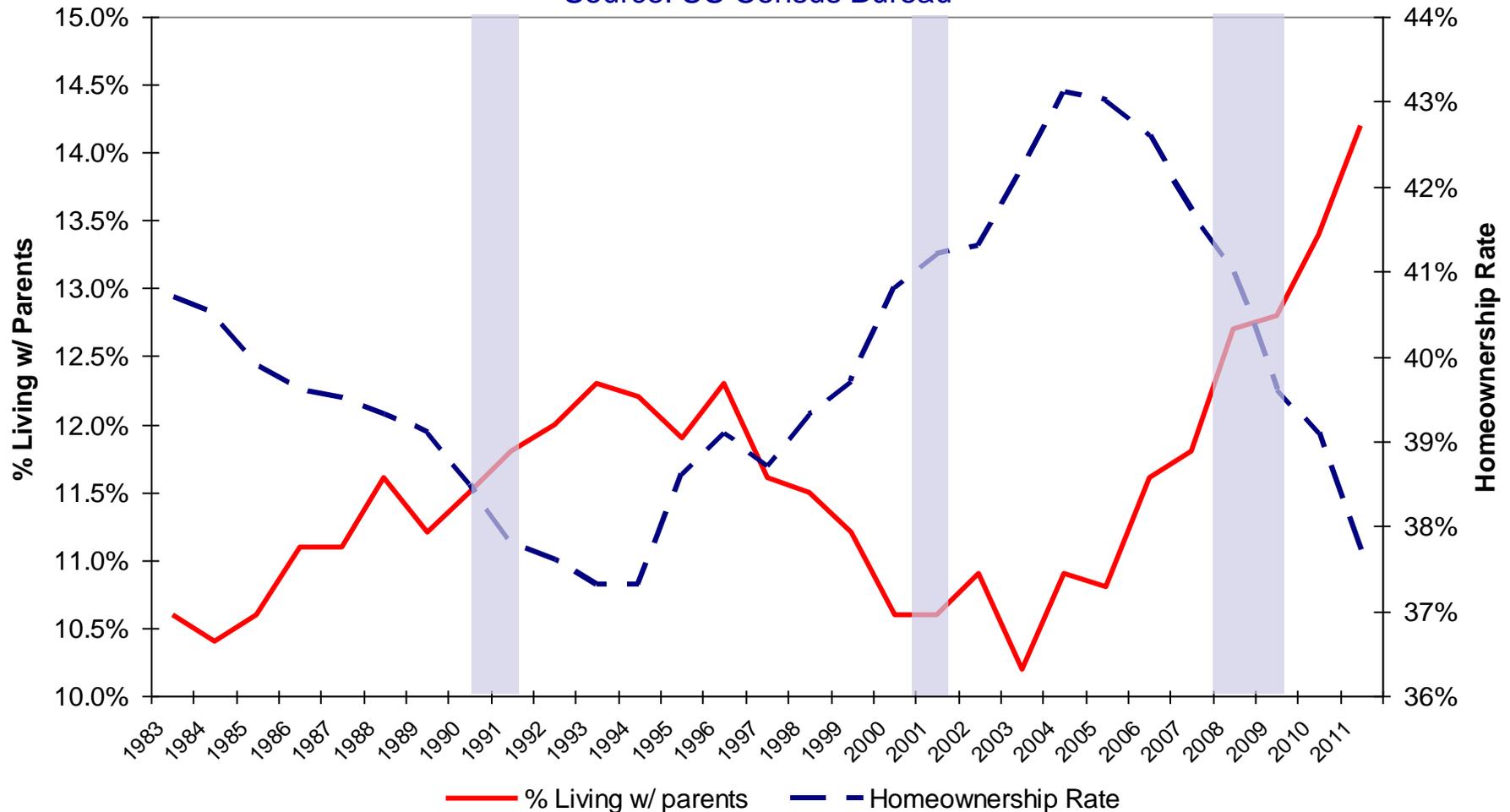
Lower during recessions (doubling up, living at home with mom & dad, etc)



Percent of 25-34 Year Olds Living With Parents vs. Homeownership Rate, Under 35 Years Old

U.S.: 1983 – 2011

Source: US Census Bureau



**In a weak economy,
population growth fails to
translate into household growth,
but when the economy begins to
strengthen, there is pent-up
demand for housing.**

Source: Linneman Letter





There are still issues...

- **Population flows**



**So, we are on the
right track.**



**But, we are recovering,
we are not recovered.**



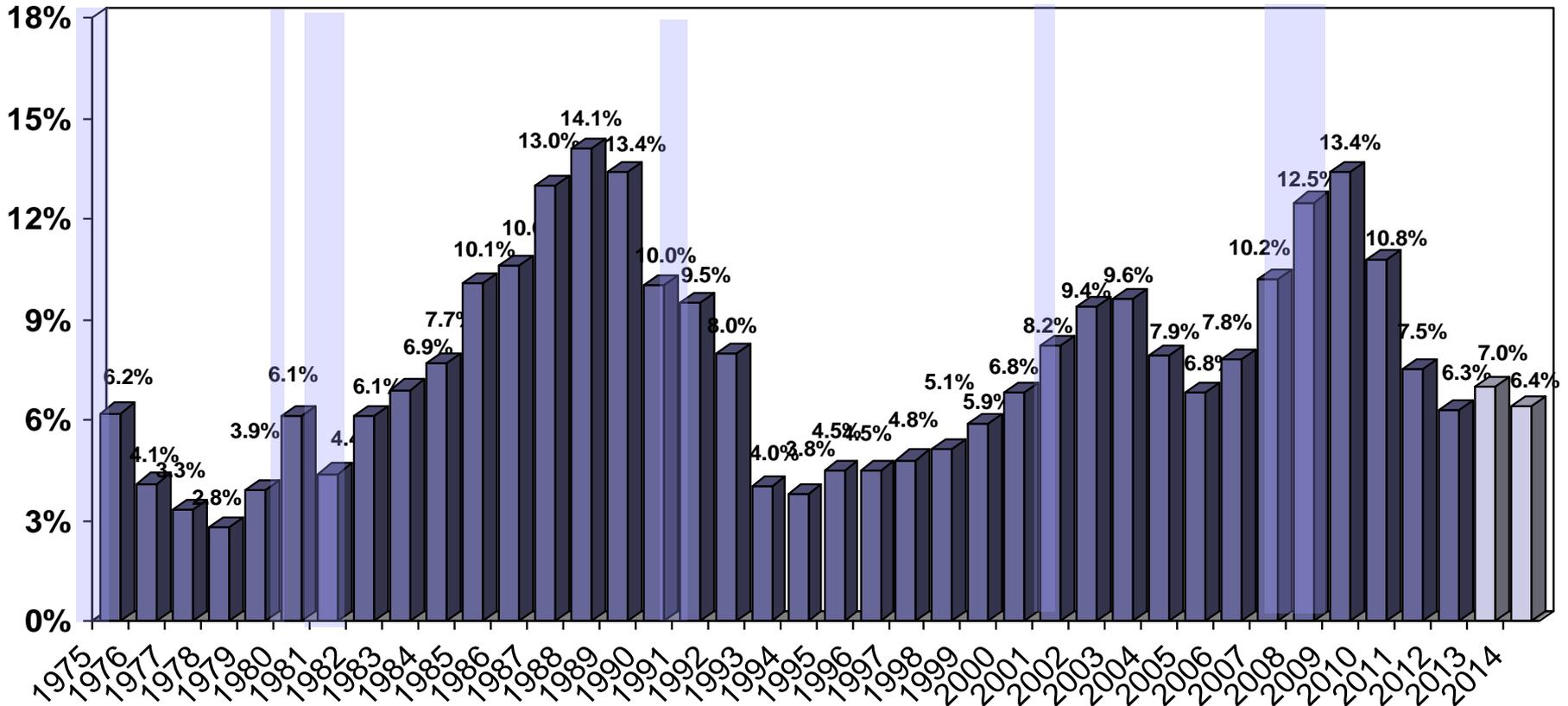
Multi-Family



Multi-Family Year-End Vacancy Rates Maricopa County 1975–2014*

Source: ASU Realty Studies / Hendricks & Partners**

Recession Periods



*2012 -2014 are forecasts from the Greater Phoenix Blue Chip

**Data prior to 2005 is from ASU



Multi-Family Housing Market

Source: PMHS and Hendricks & Partners

	<u>Absorption</u>	<u>Completions</u>
2007	(3,121)	3,800
2008	(4,466)	5,900
2009	9,100	6,231
2010	11,619	200
2011	6,430	303
2012	2,960	774



Multi-Family Housing Market

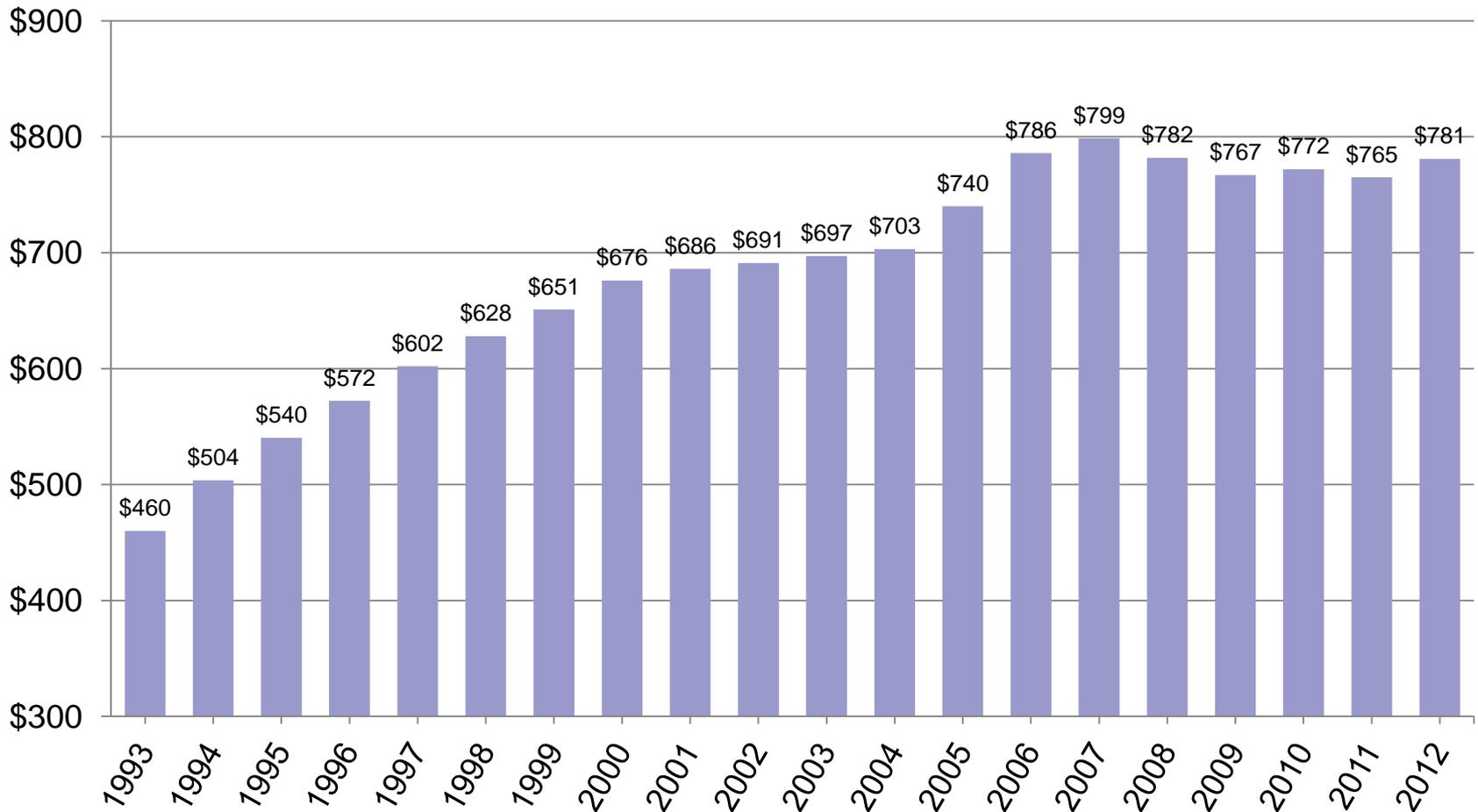
Source: CBRE

	2013	2014	Total
Under Construction	2,414	2,925	5,339
Site Closed, Development Pending	60	2,007	2,067
Site in Escrow	0	328	328
Total In Pipeline	2,474	5,260	7,734



Greater Phoenix Multi-Family Average Monthly Rent 1993 – 2012

Source: Hendricks & Partners





OFFICE

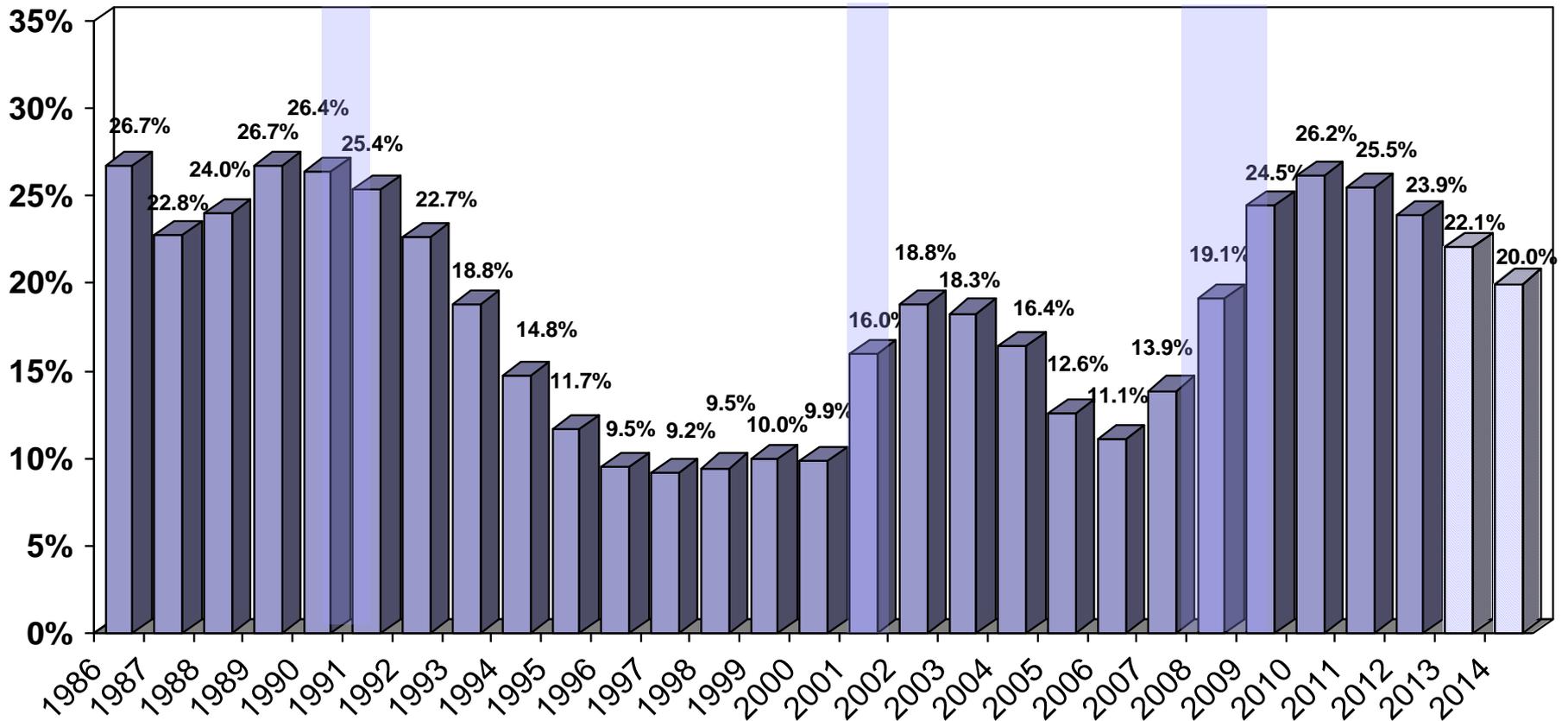
More lights on?



Office Space Year-End Vacancy Rates Maricopa County 1986–2014*

Source: CBRE

Recession Periods



Greater Phoenix Office Market

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
2006	3,245,888	**2,320,302
2007	1,500,704	4,905,374
2008	(603,112)	3,402,646
2009	(677,329)	1,798,415
2010	233,670	2,011,404
2011	1,857,433	3,144,910
2012	2,020,529	973,282

*Only includes multi-tenant space greater than 10,000 SF

** A number of buildings in downtown and mid-town are being converted to office condos.



**As of fourth quarter 2012,
there are 208,866 square feet
of office space
under construction.**



**Under any reasonable
employment growth scenario,
we believe it will be at least 2016
before any significant office
construction occurs
(although some sub-markets
will be sooner).**



INDUSTRIAL



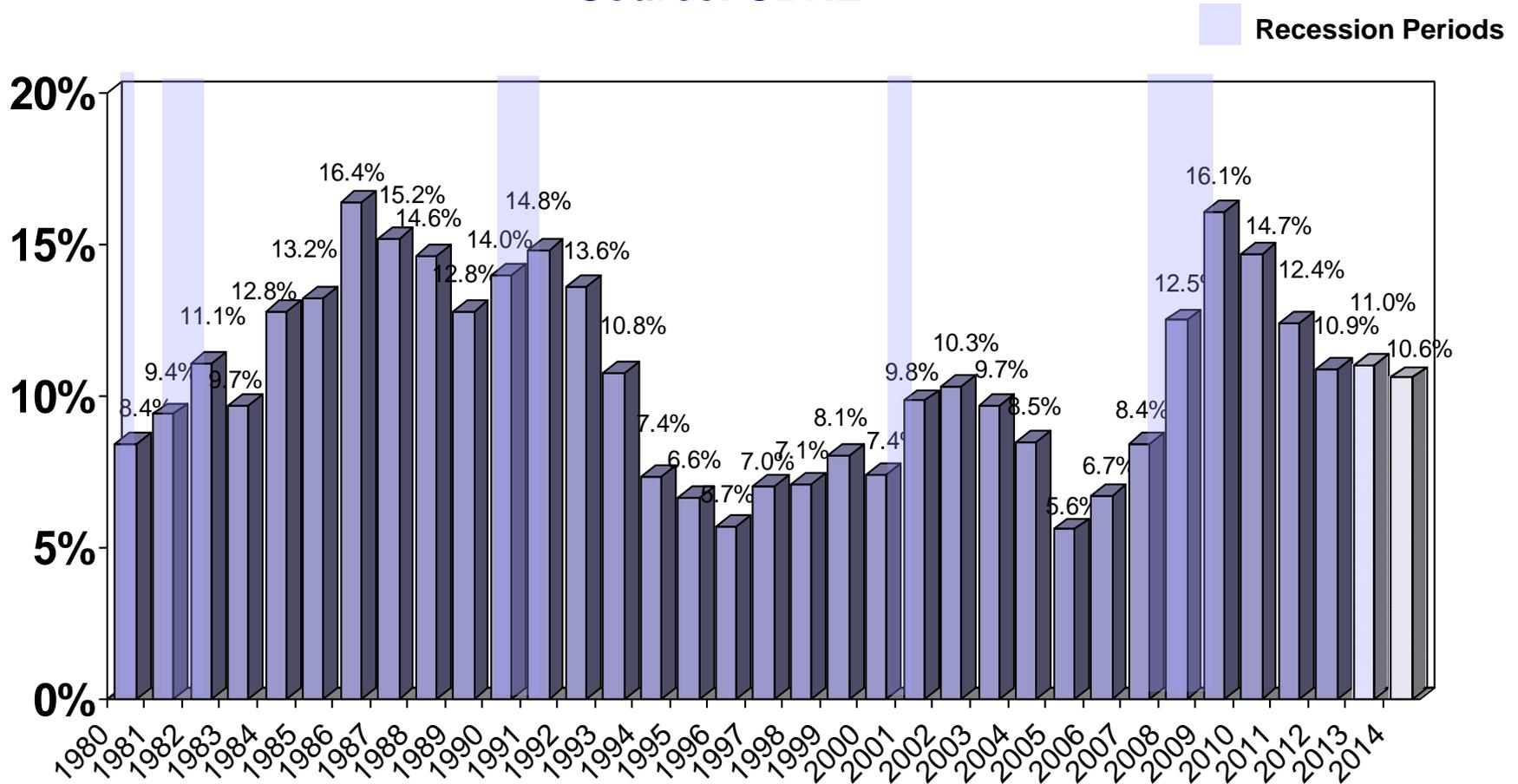
© 2009 King Davis Interactive Corp.

Slowly filling up?



Industrial Space Vacancy Rates Maricopa County 1980 – 2014*

Source: CBRE

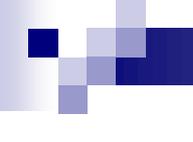


Greater Phoenix Industrial Market

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
2006	6,032,175	7,829,959
2007	8,359,835	13,914,181
2008	629,838	13,467,215
2009	(4,649,352)	4,753,218
2010	4,455,097	2,451,202
2011	7,753,111	2,842,185
2012	6,039,818	3,358,724





**As of fourth quarter 2012,
there are 6.0 million square feet
of industrial space
under construction.**



Big box / small space



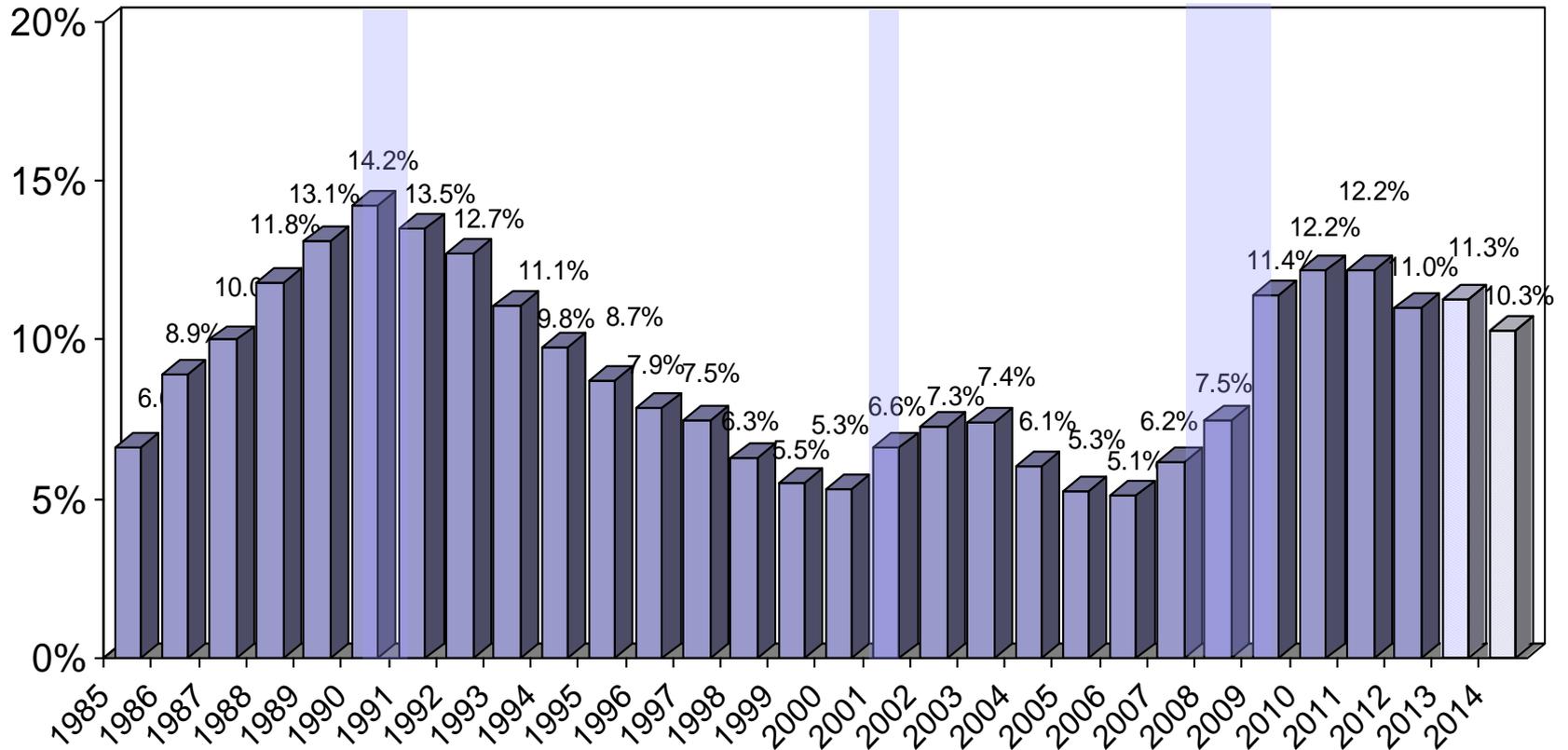
RETAIL



Retail Space Vacancy Rates Maricopa County 1985–2014*

Source: CBRE**

Recession Periods



* 2013-2014 are forecasts from GPBC
** Data prior to 1992 is from Grubb & Ellis



Greater Phoenix Retail Market

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
2006	5,244,597	4,582,618
2007	9,424,362	11,104,865
2008	3,395,986	6,229,205
2009	(1,117,100)	4,405,985
2010	(75,352)	902,380
2011	(152,647)	24,543
2012	1,879,005	184,932

NOTE: 325,000 sf were deleted from inventory during 2011 and 175,000 through q2 2012 due to market data updates and demolitions.



**As of fourth quarter 2012,
there are 0.5 million square feet
of retail space
under construction.**



CONCLUSIONS: How will it all turn out?



**The economy is improving
in both absolute and
relative terms.**



Is the Glass Still Half Full?



Growth is slow by historic standards because the U.S. economy is slow and incentives are perverse.





**The economy should
gain some momentum in the second
half of 2013 and into 2014.**



**There is a
BOOM
for Arizona
out there
somewhere.**



**But not in
2013.**





ARIZONA-

**Slow but mildly accelerating
recovery.**

2013 will be slightly better than 2012.

2014 will be better than 2013.

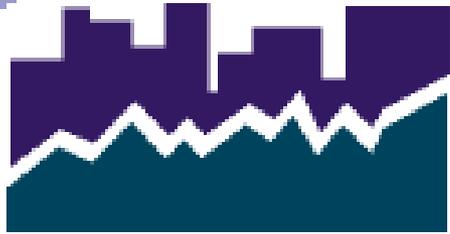
2015 should be a good year.



Things to think about:

- **PROP 117**
- **TPT Reform**





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