



# 2015 Economic Update (Just the Good Stuff)

MAG Economic Development Committee

February 3<sup>rd</sup>, 2015

Presented by:  
Jim Rounds

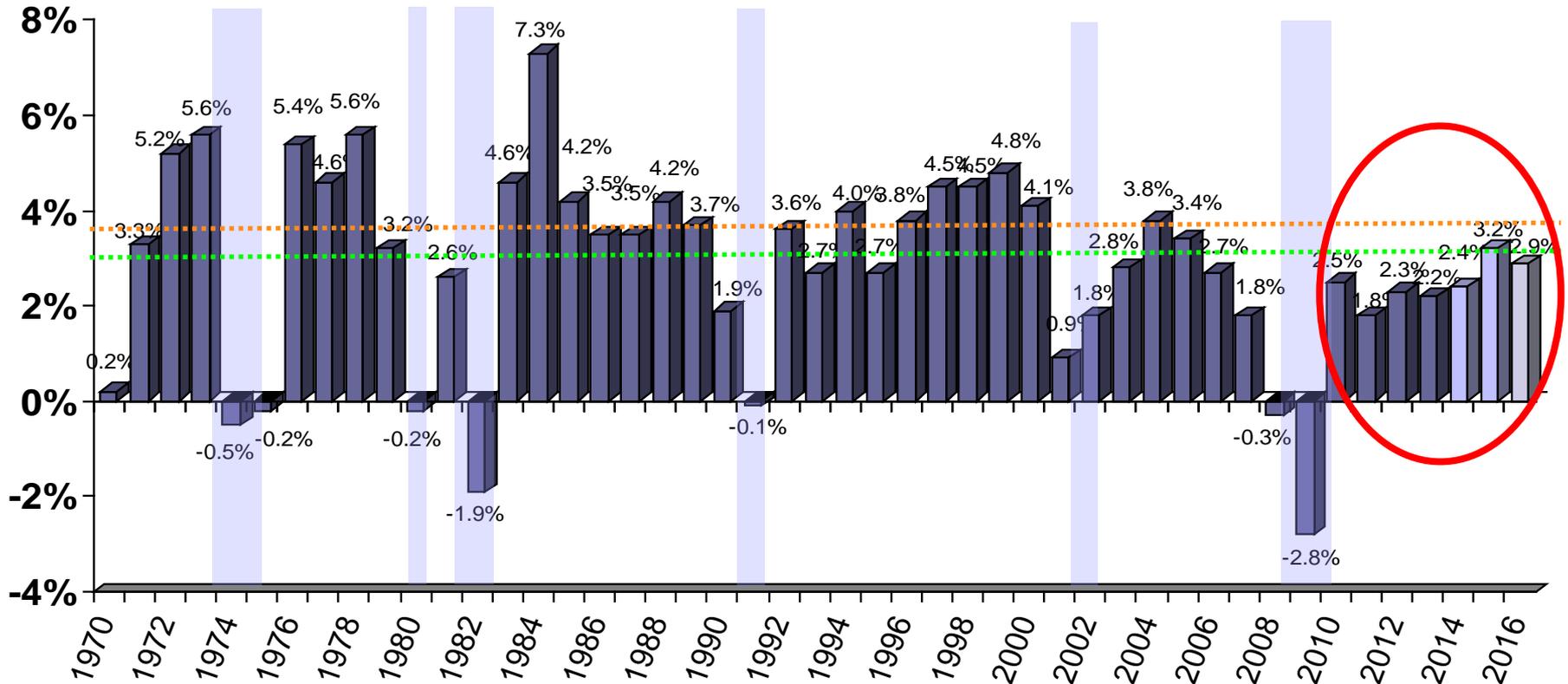




*Elliott D. Pollack & Company*

# United States Real Gross Domestic Product\* Annual Growth 1970 - 2016\*\*

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



\* Based on chained 2009 dollars.

\*\* 2014, 2015 and 2016 are a forecast from the Blue Chip Economic Indicators, January 2015.

----- 3.7% = 40-year avg during expansion

----- 3.1% = 20-year avg during expansion

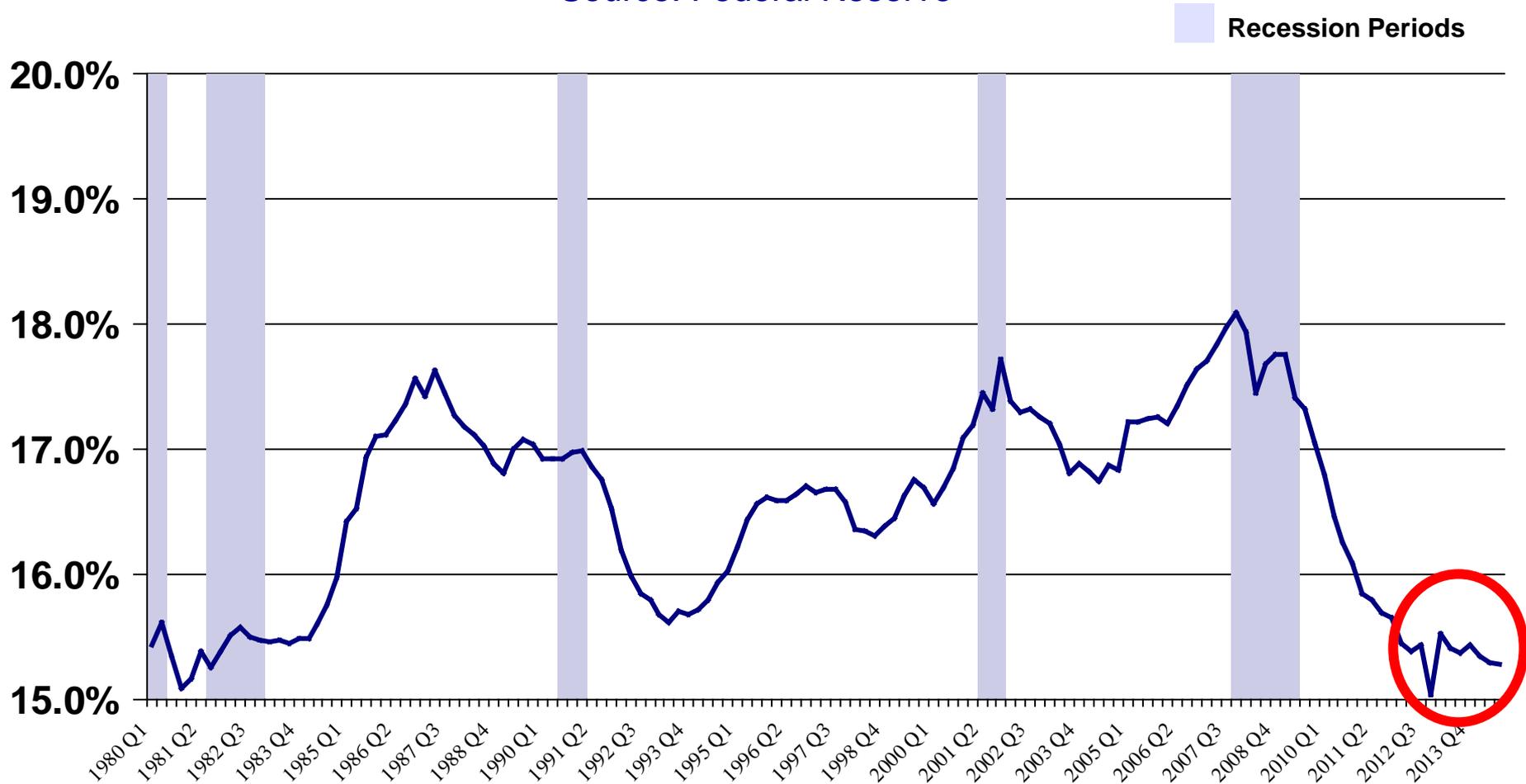
Recession Periods



# Financial Obligation Ratio\*\*

## 1980 – 2014\*

Source: Federal Reserve



\*Data through third quarter 2014

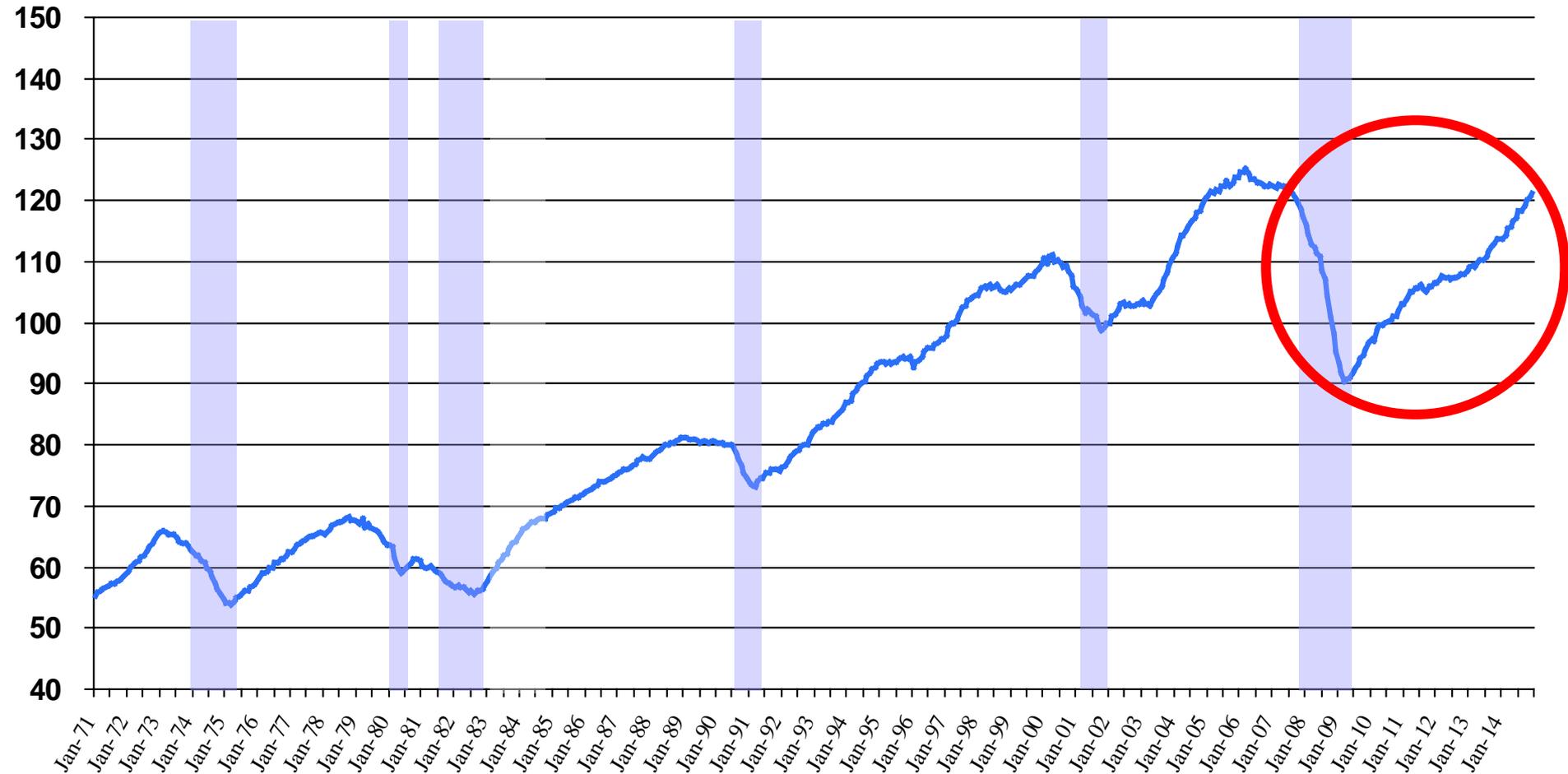
\*\*Ratio of mortgage and consumer debt (including auto, rent and tax payments) to disposable income.



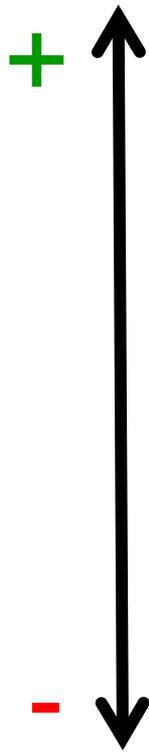
# U.S. Leading Indicators 1971 – 2014\*

Source: The Conference Board

Recession Periods



# 10 Components of U.S. Leading Indicators – December 2014

- 
- Interest rate spread
  - Leading credit index (inverted)
  - Claims for unemployment (inverted)
  - Consumer expectations
  - Manuf. new orders – capital goods
  - Manuf. new order index
  - **Stock Prices**
  - Manuf. new orders – consumer goods
  - Manuf. Hours
  - **Building Permits**

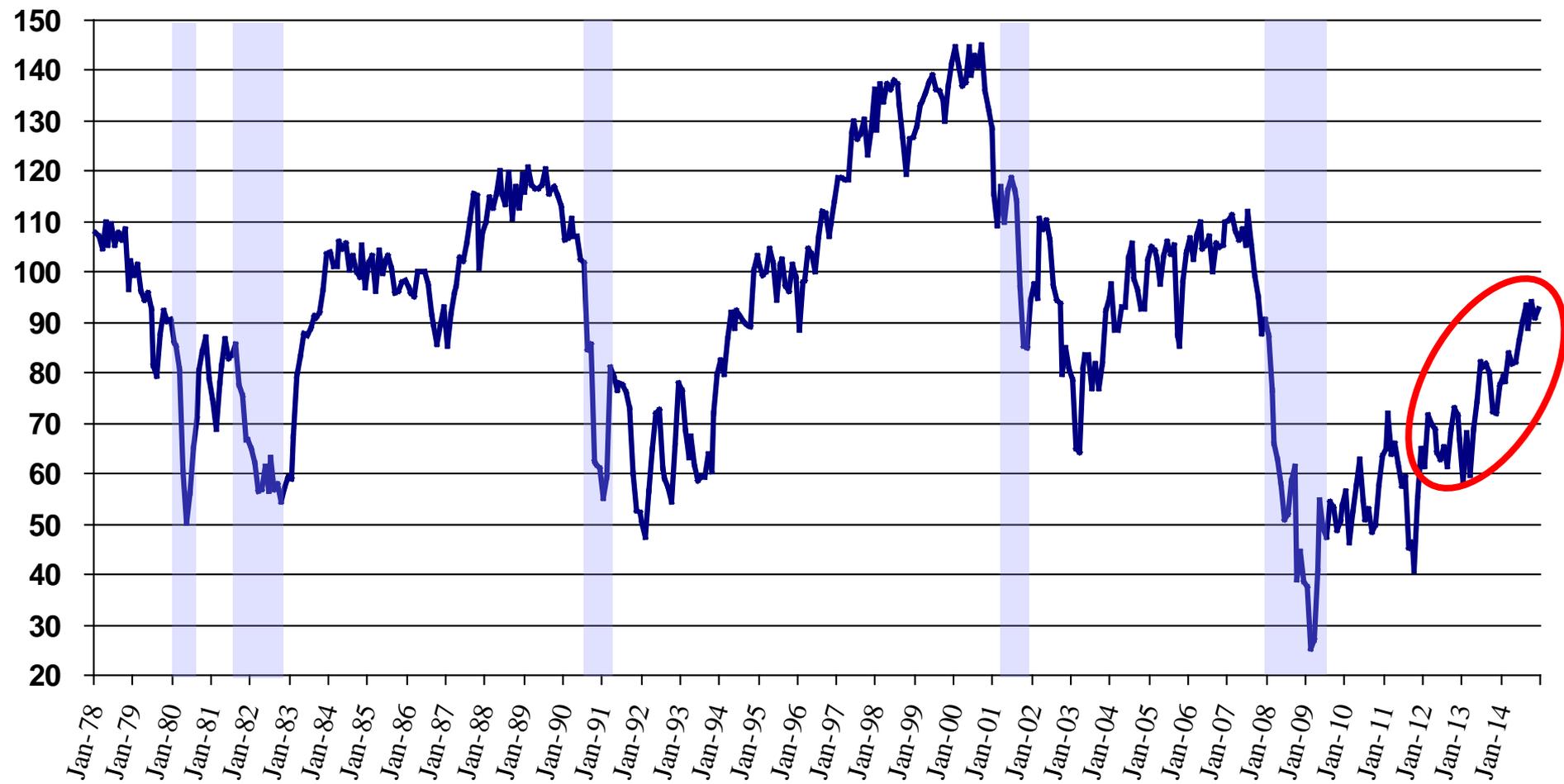


# Consumer Confidence

## 1978 – 2014\*

Source: The Conference Board

Recession Periods



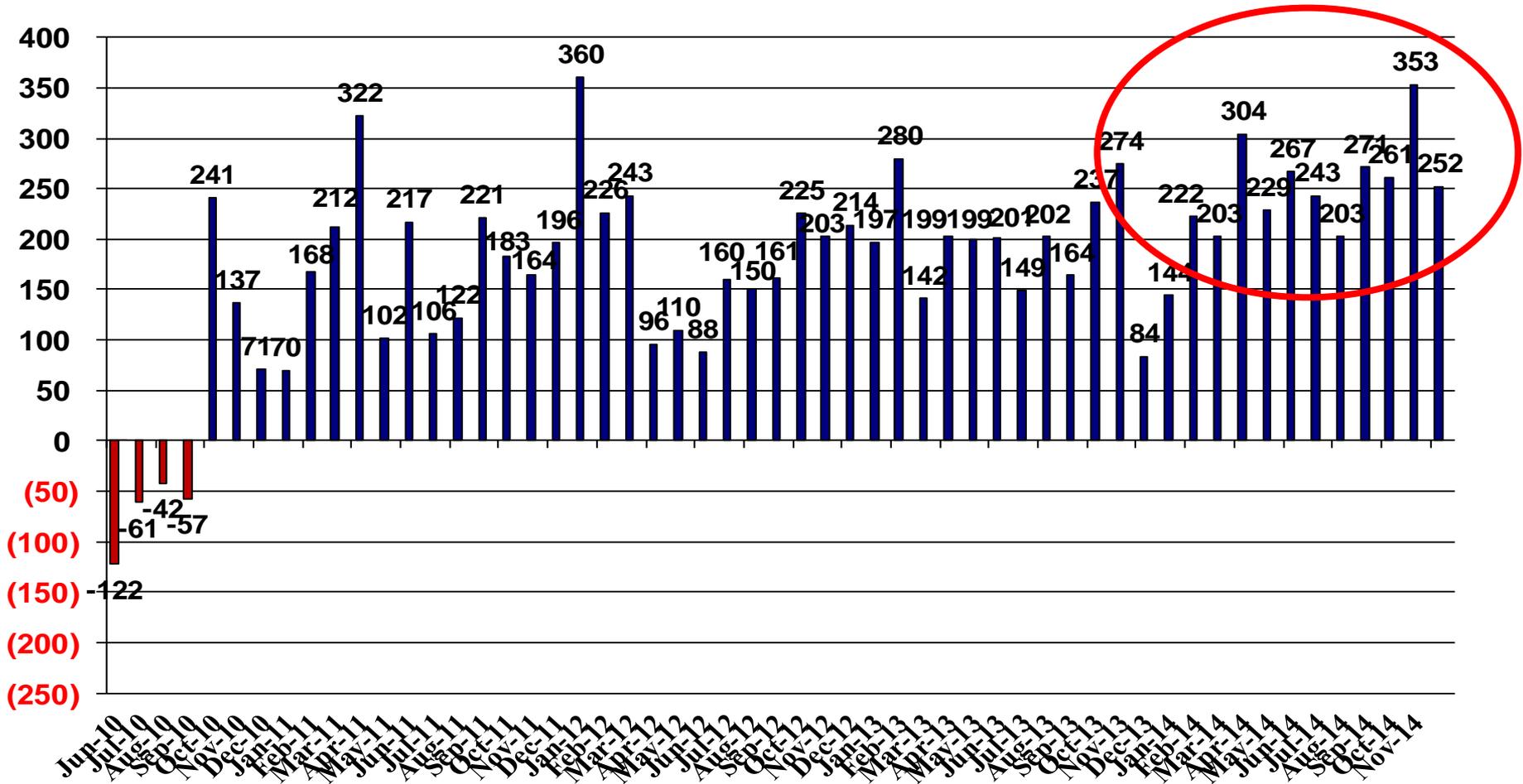
\*Data through December 2014.



# US Non-Farm Employment Change from Prior Month (S/A)

## June 2010 – December 2014

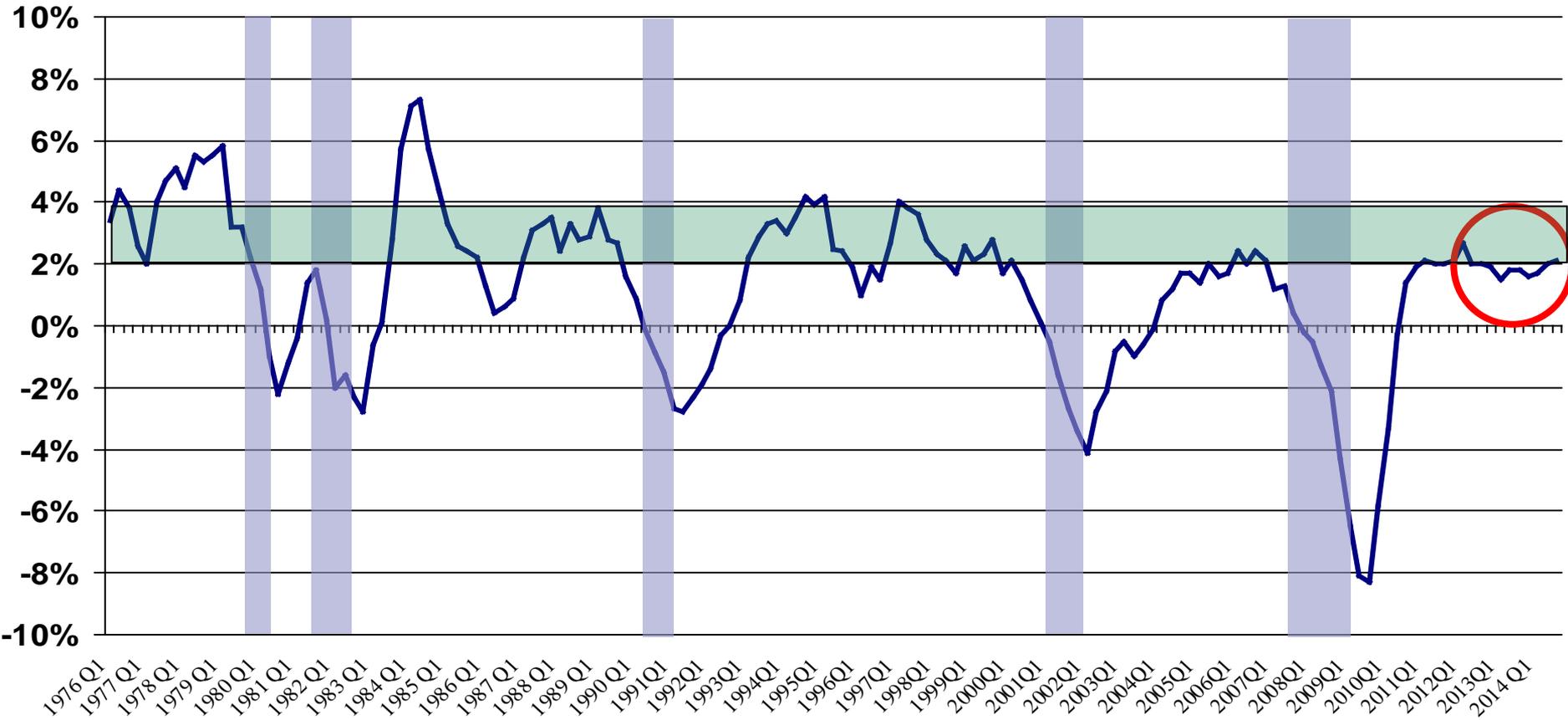
Source: Bureau Labor of Statistics



# Hours Worked Percent Change from Year Ago 1976 – 2014\*

Source: Bureau of Labor Statistics

Recession Periods



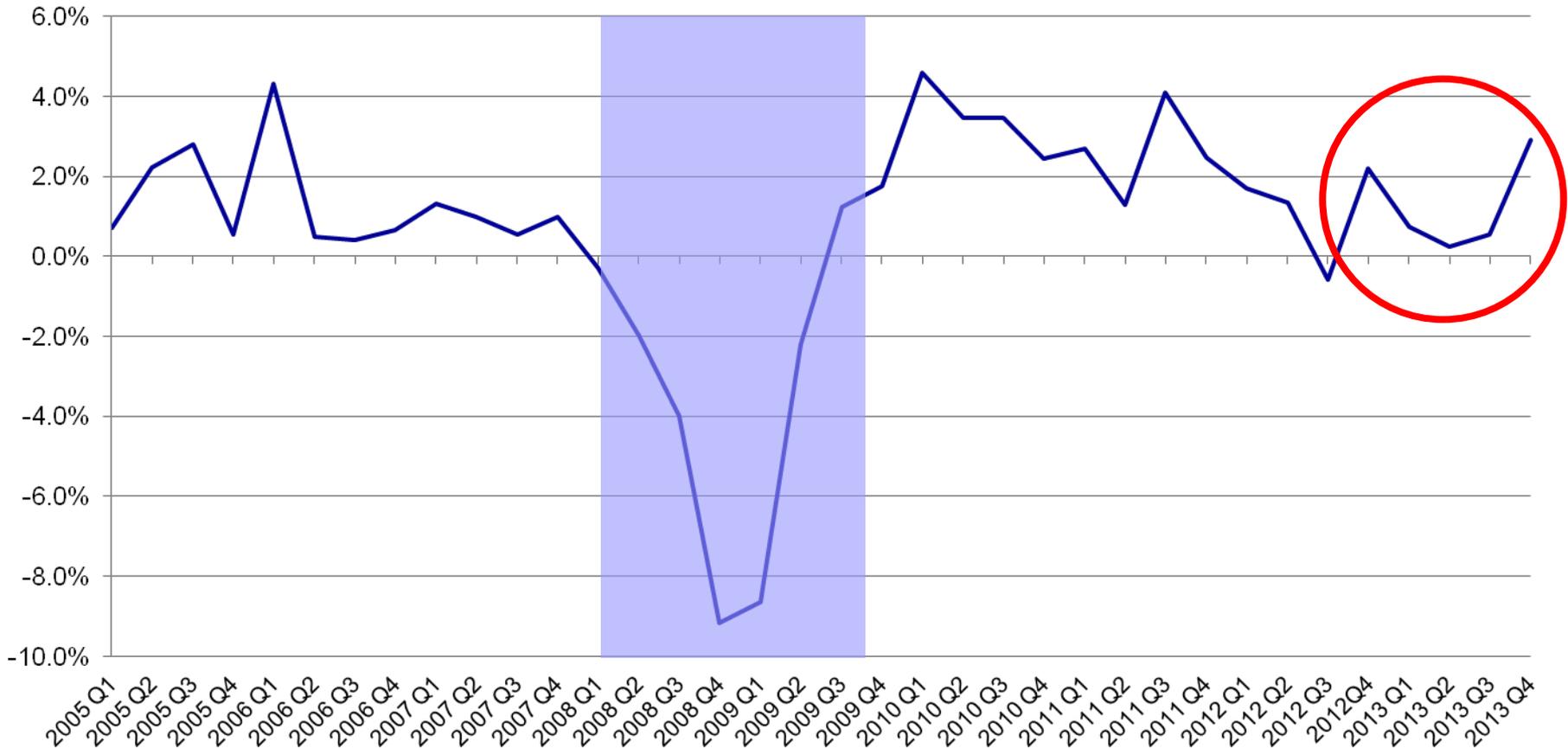
\*Data through third quarter 2014



# Business Spending on Equipment Percent Change from Prior Quarter 2005 – 2013\*

Source: Bureau of Economic Analysis

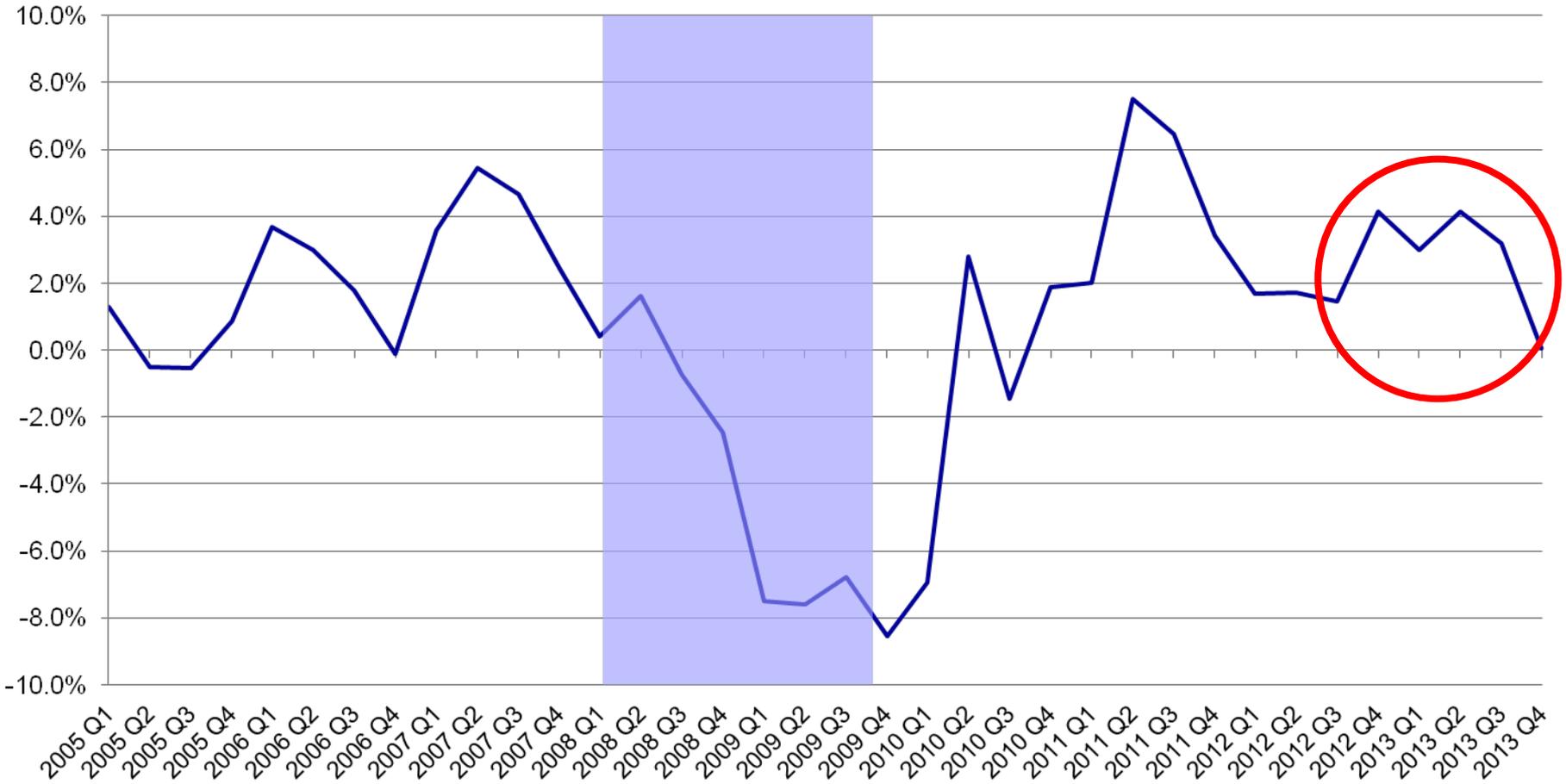
Recession Periods



# Business Spending on Plant Percent Change from Prior Quarter 2005 – 2013\*

Source: Bureau of Economic Analysis

Recession Periods



# National Summary

- People are spending more.
- Businesses are spending more.
- Getting to stronger portion of this cycle.
- Are any shocks out there?
  - Oil +
  - International issues -
  - Stock market bubble -
  - Others???

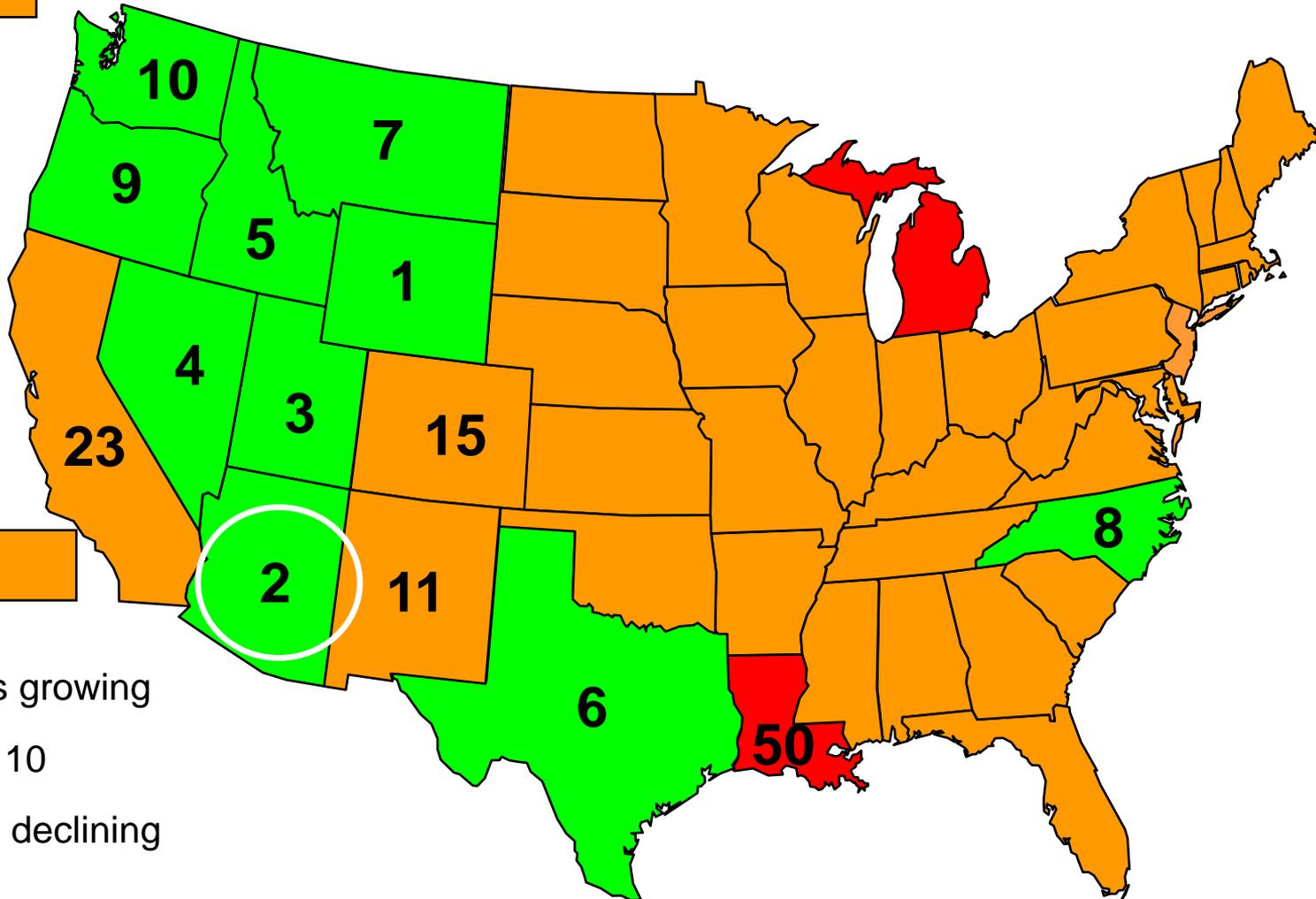




# Job Growth 2006

Source: US BLS

Alaska  
24



14

Hawaii

- Jobs growing
- Top 10
- Jobs declining

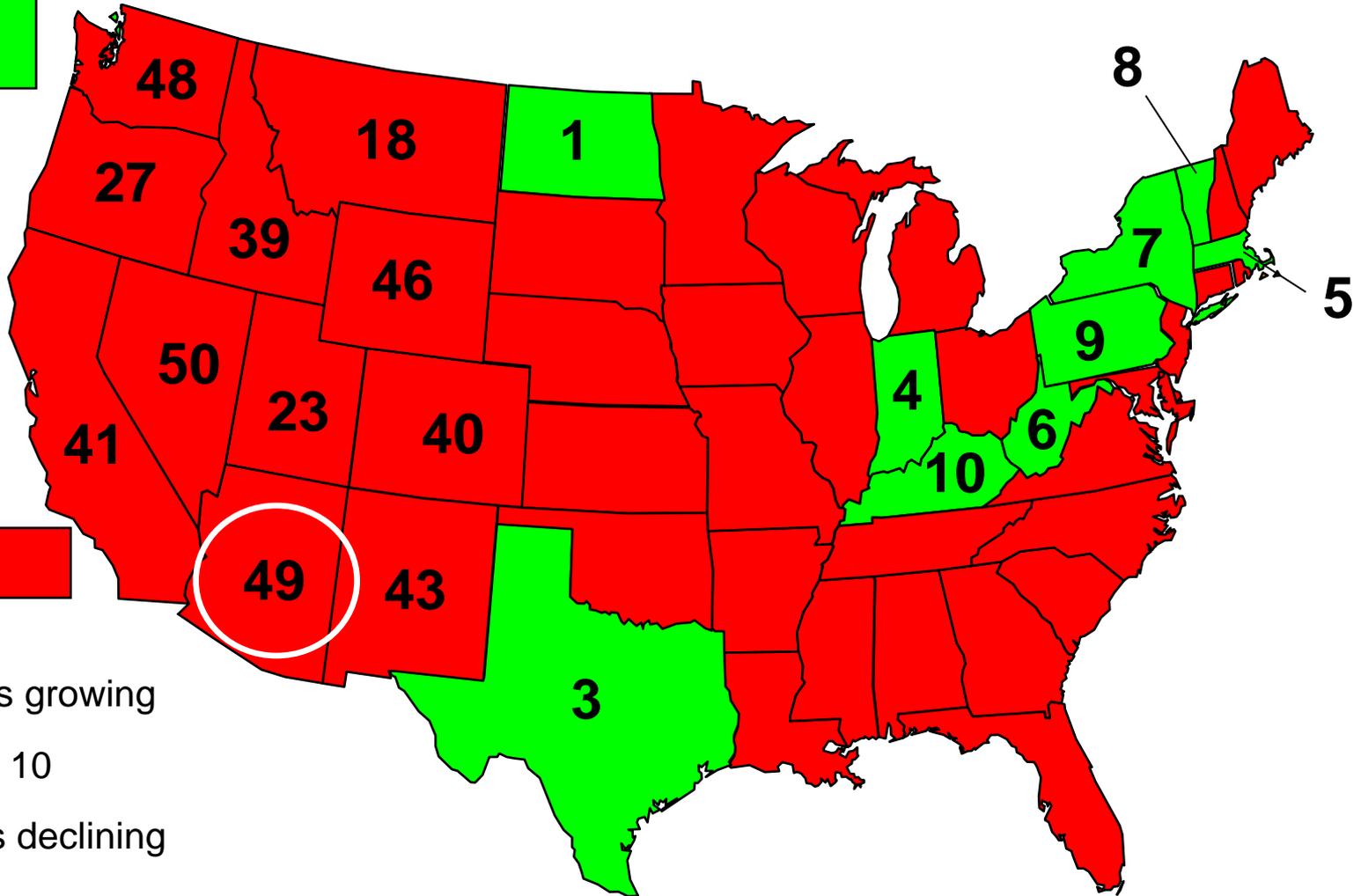


# Job Growth 2010

Source: US BLS

Alaska

2



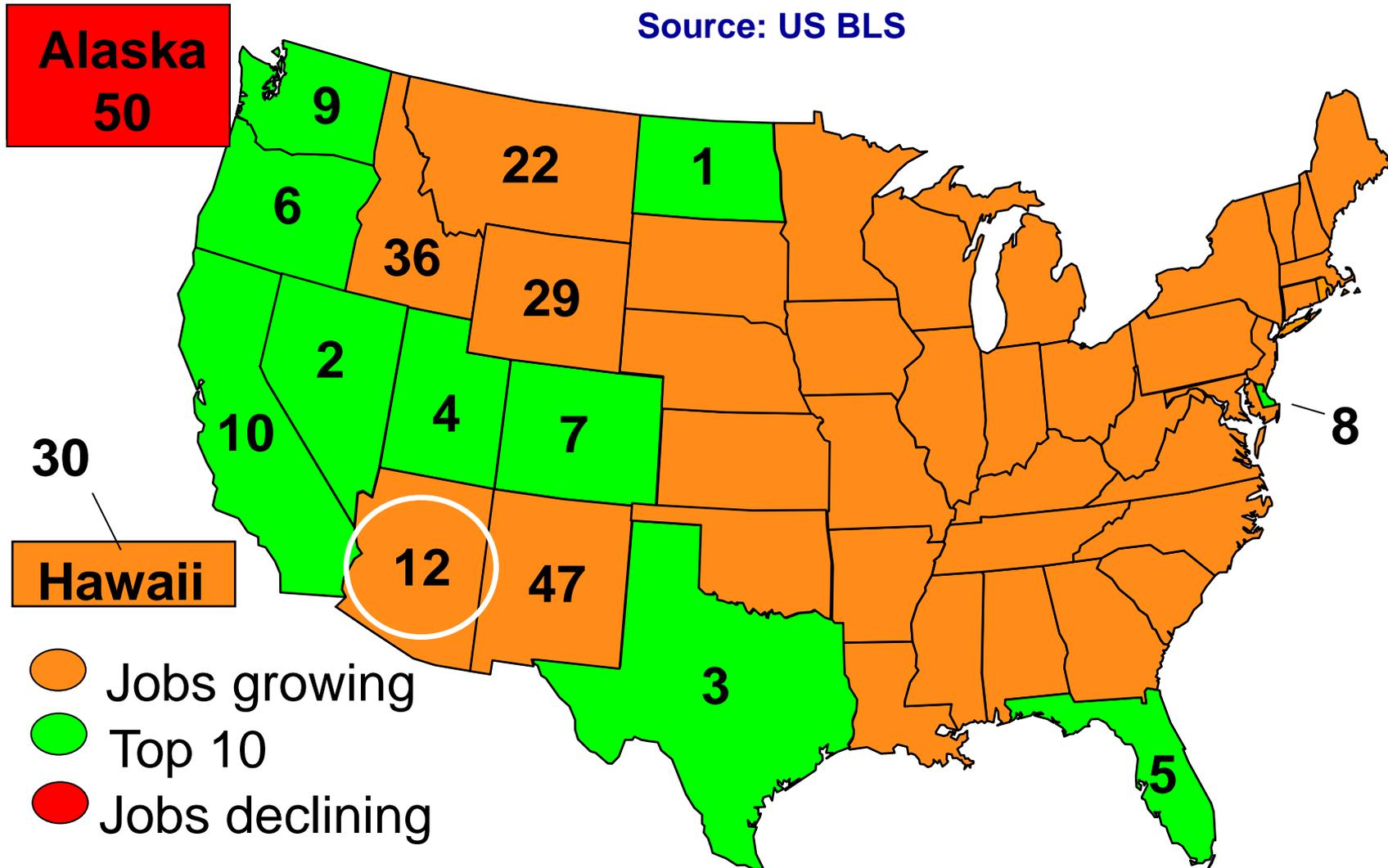
- Jobs growing
- Top 10
- Jobs declining



# Job Growth 2014

YTD November 2014 vs YTD November 2013

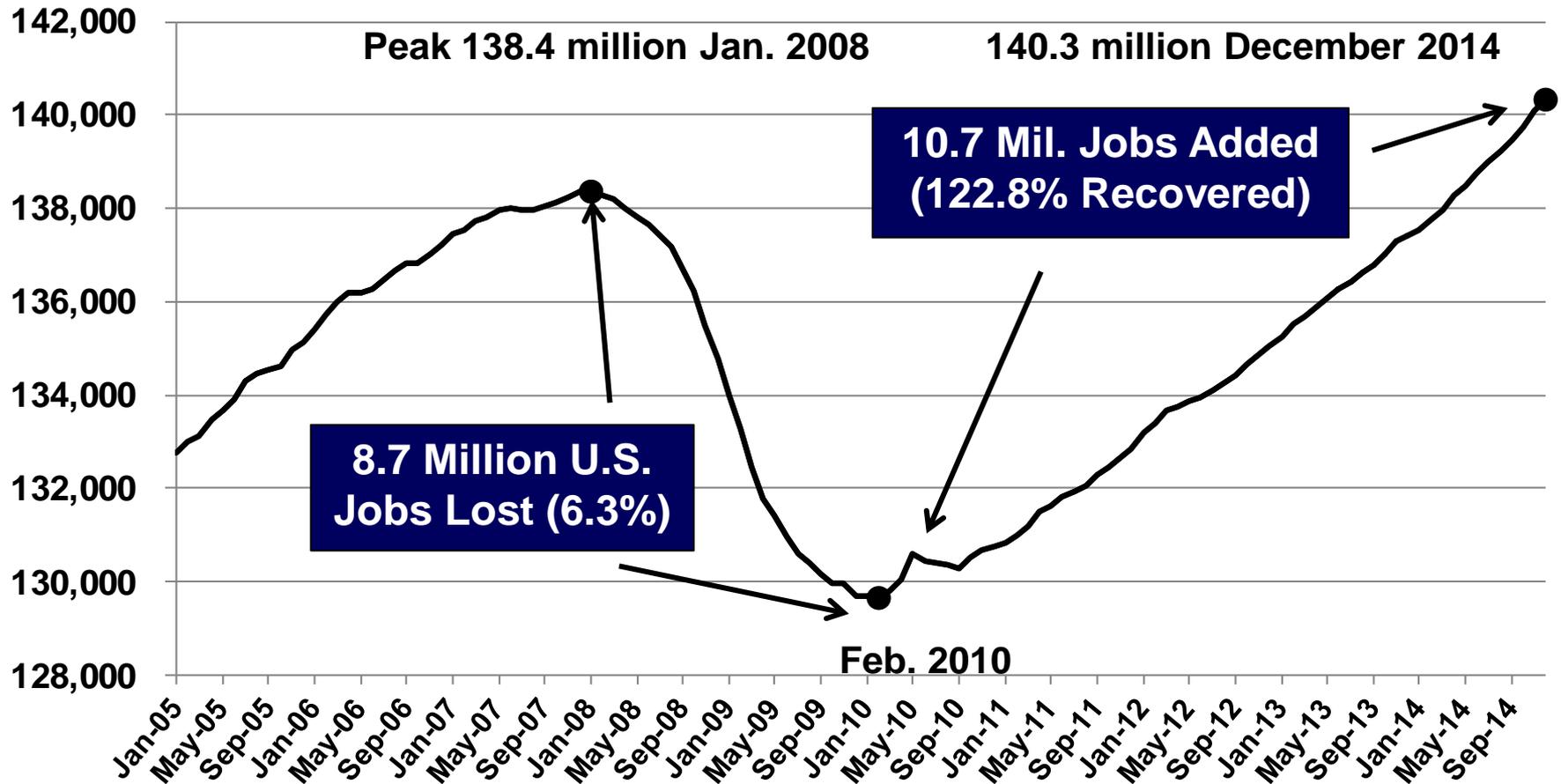
Source: US BLS



# U.S. Seasonally Adjusted Non-Farm Employment 2005 – 2014\*

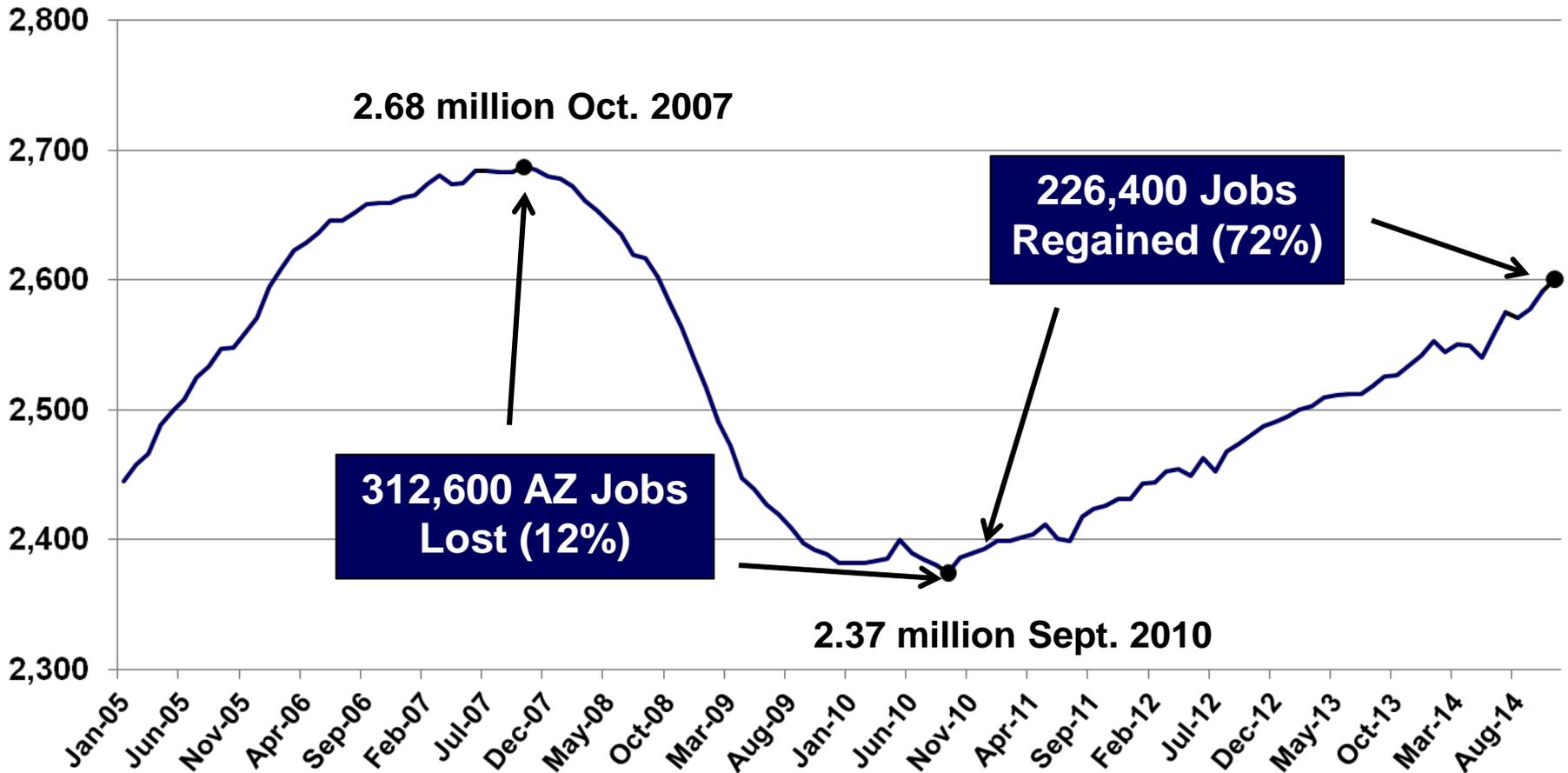
Source: Bureau of Labor Statistics

(000's)



# AZ Has Regained 72% of Lost Jobs

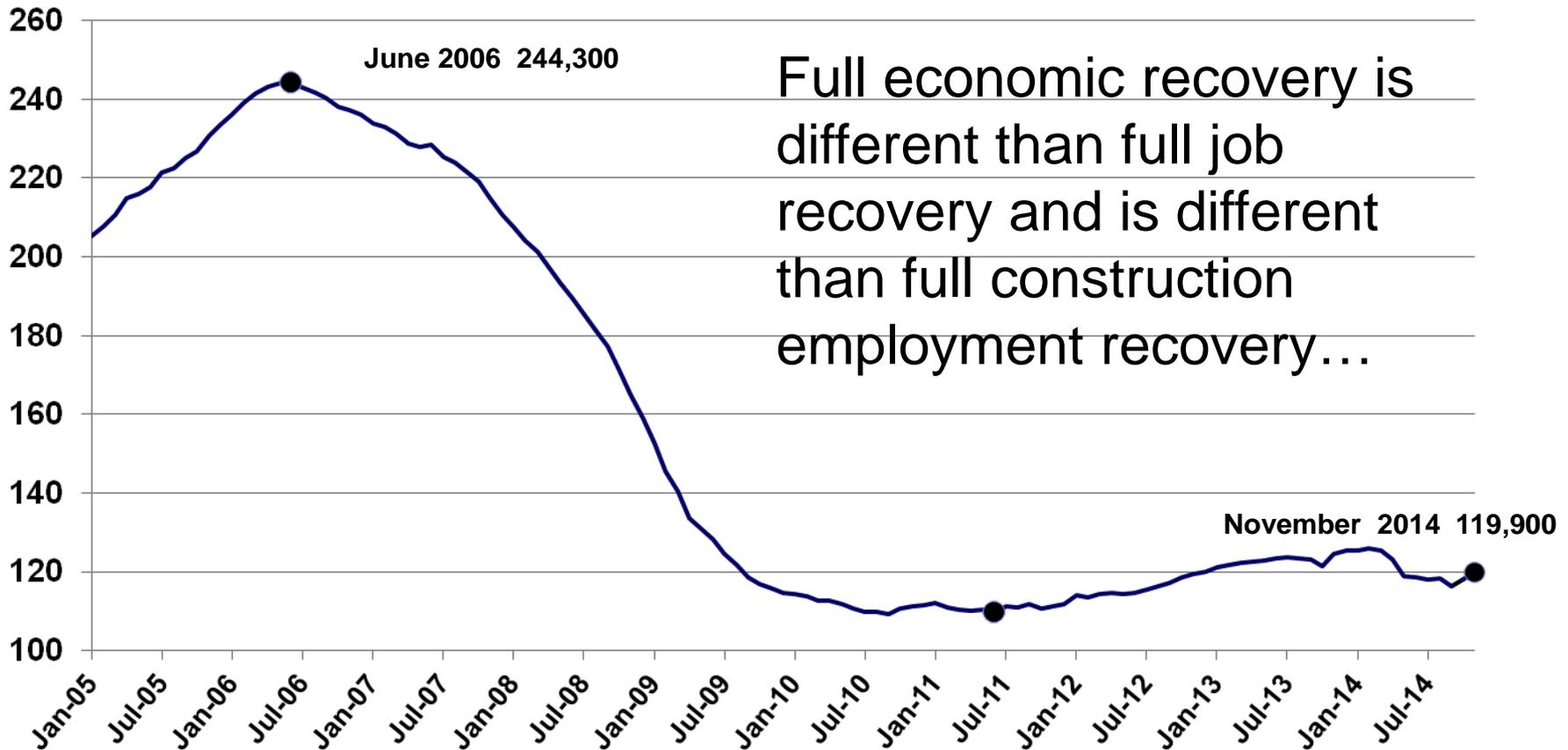
## 86,200 Jobs (28%) Still to Recover



Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted Data through November 2014.



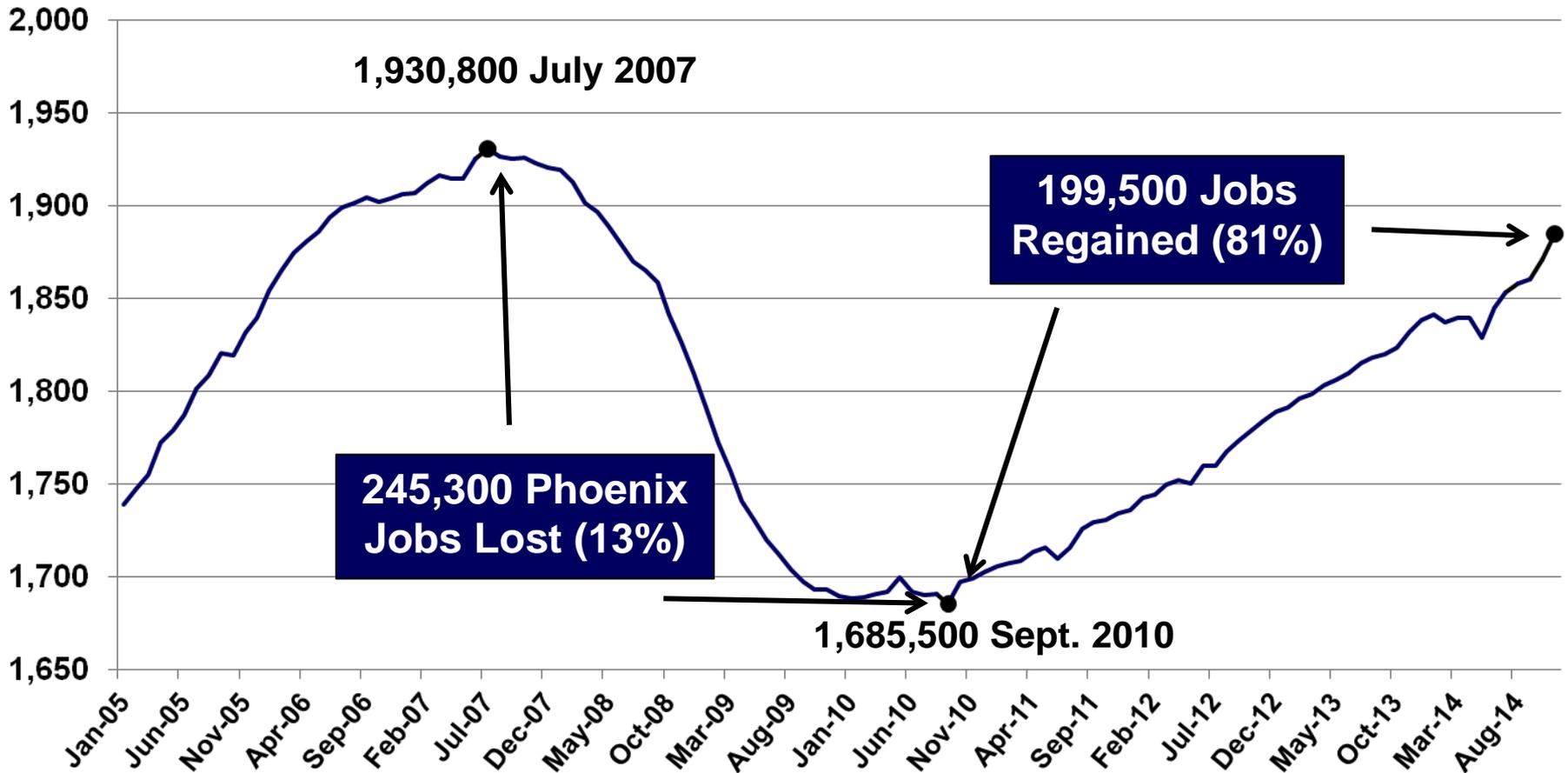
# Arizona Construction Employment is Still Down by 124,400 Jobs (92%) Since Peak



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



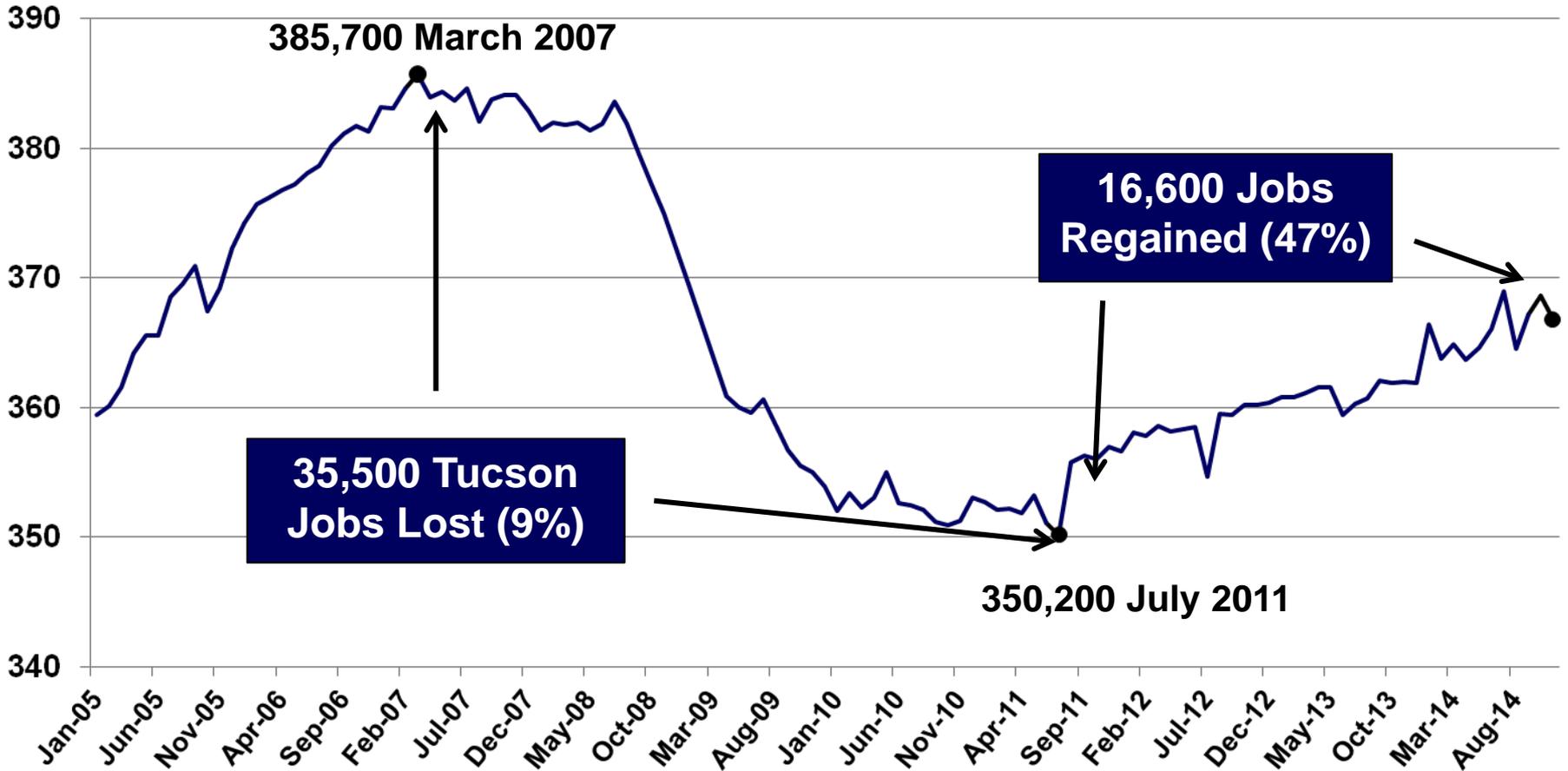
# Greater Phoenix Has Gained 81% of Lost Jobs 45,800 Jobs (19%) Still to Recover



Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted  
Data through November 2014.



# Greater Tucson Has Gained 47% of Lost Jobs 18,900 Jobs (53%) Still to Recover

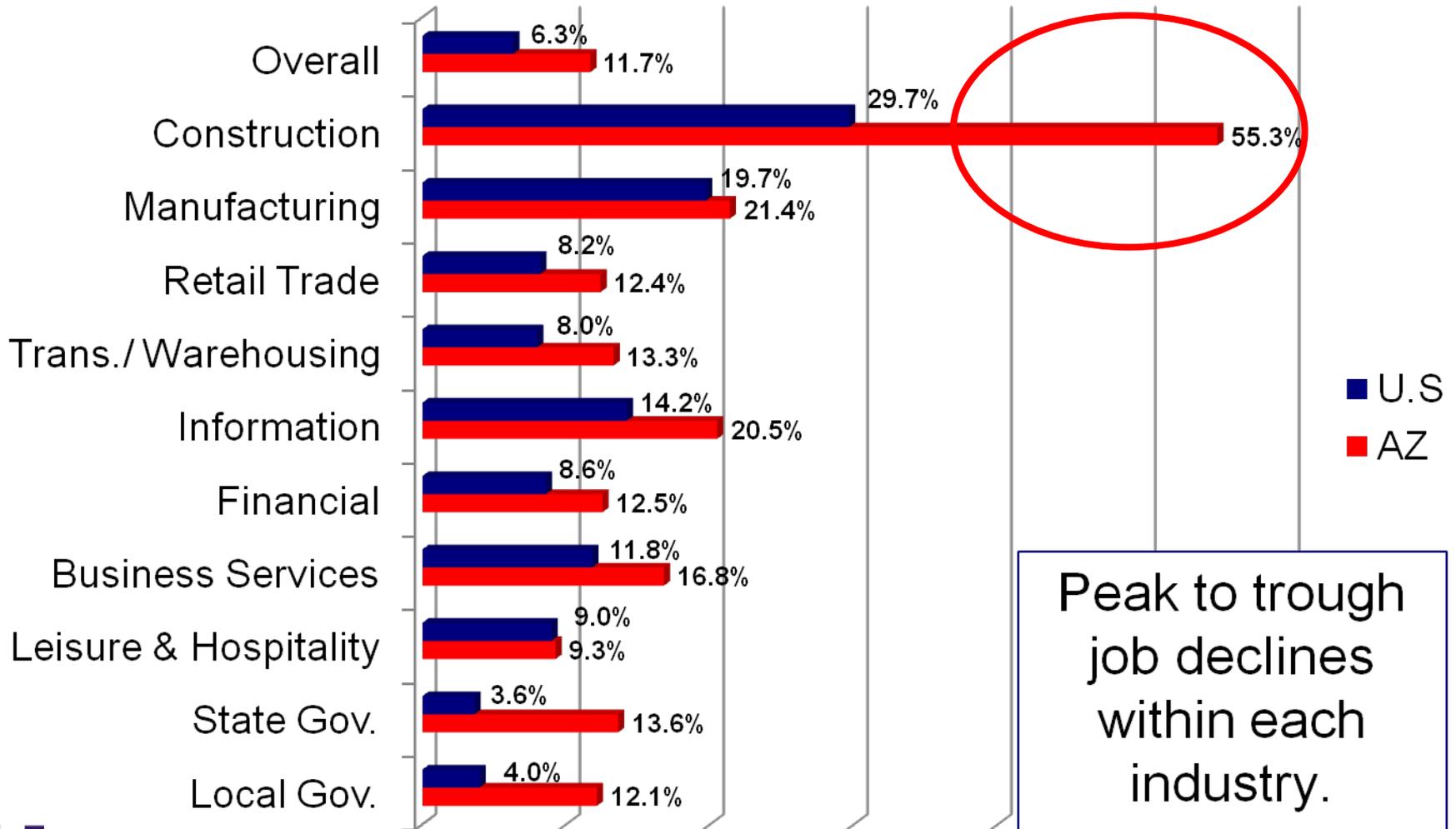


Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted Data through November 2014.

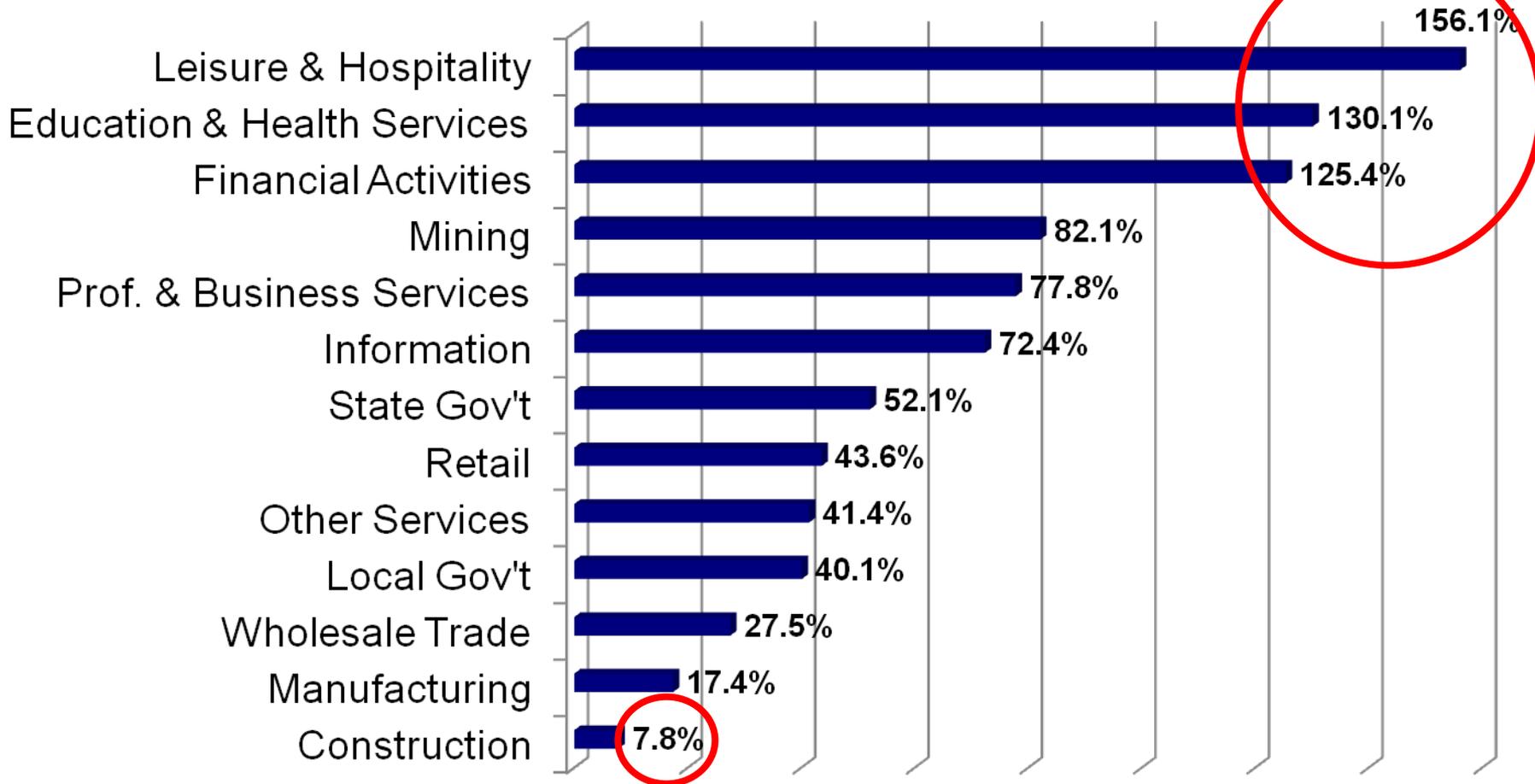


# Arizona Job Losses Exceeded U.S.

Source: Bureau of Labor Statistics, Seasonally Adjusted Data



# Arizona Jobs Regained Since Bottom of Cycle— Most Industries Yet to Regain Lost Jobs



Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted, As of November 2014



# U.S. Jobs Regained Since Bottom of Cycle

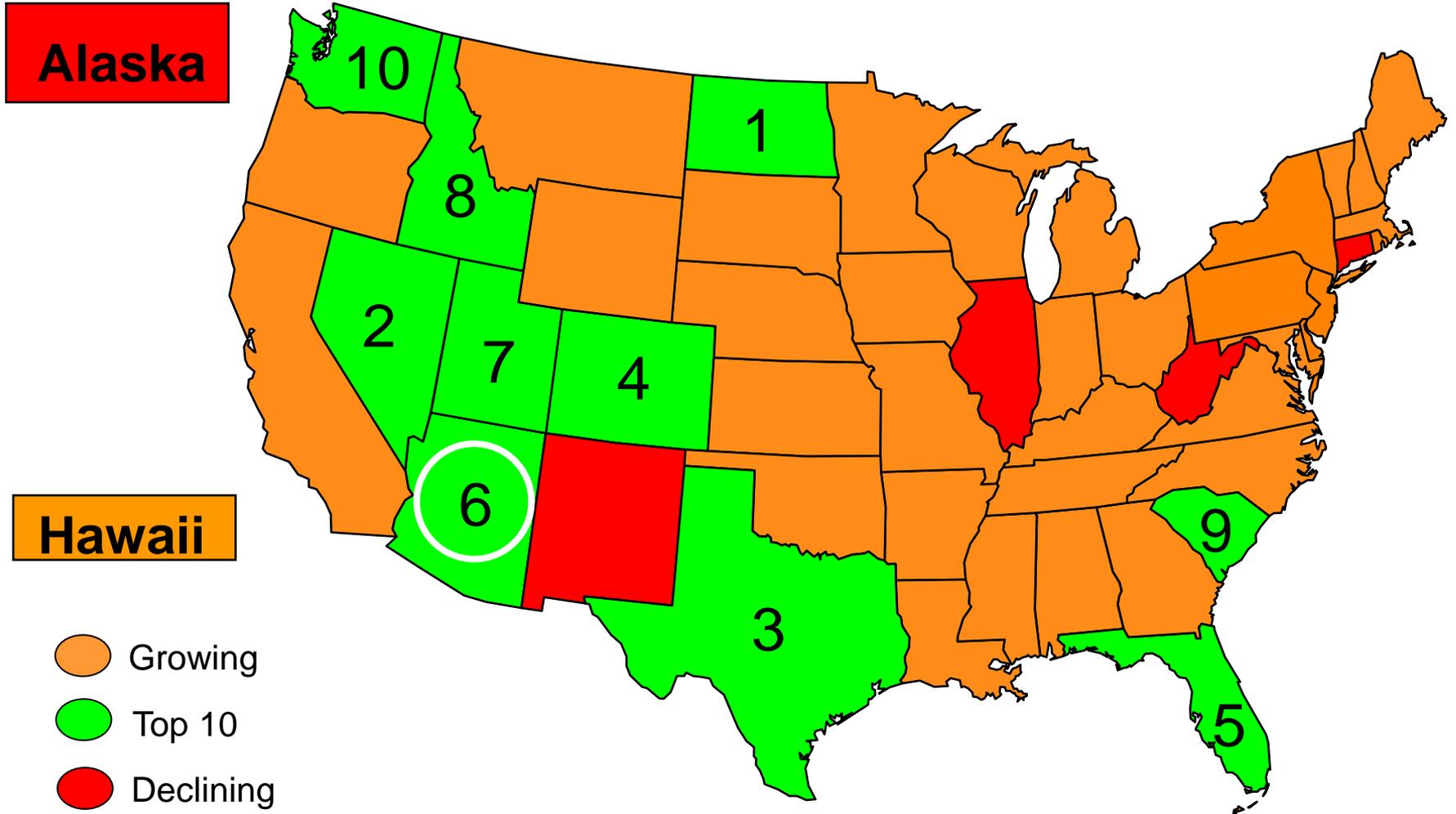


Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted, As of December 2014



# Population Growth 2014

Source: U.S. Census Bureau



Hawaii



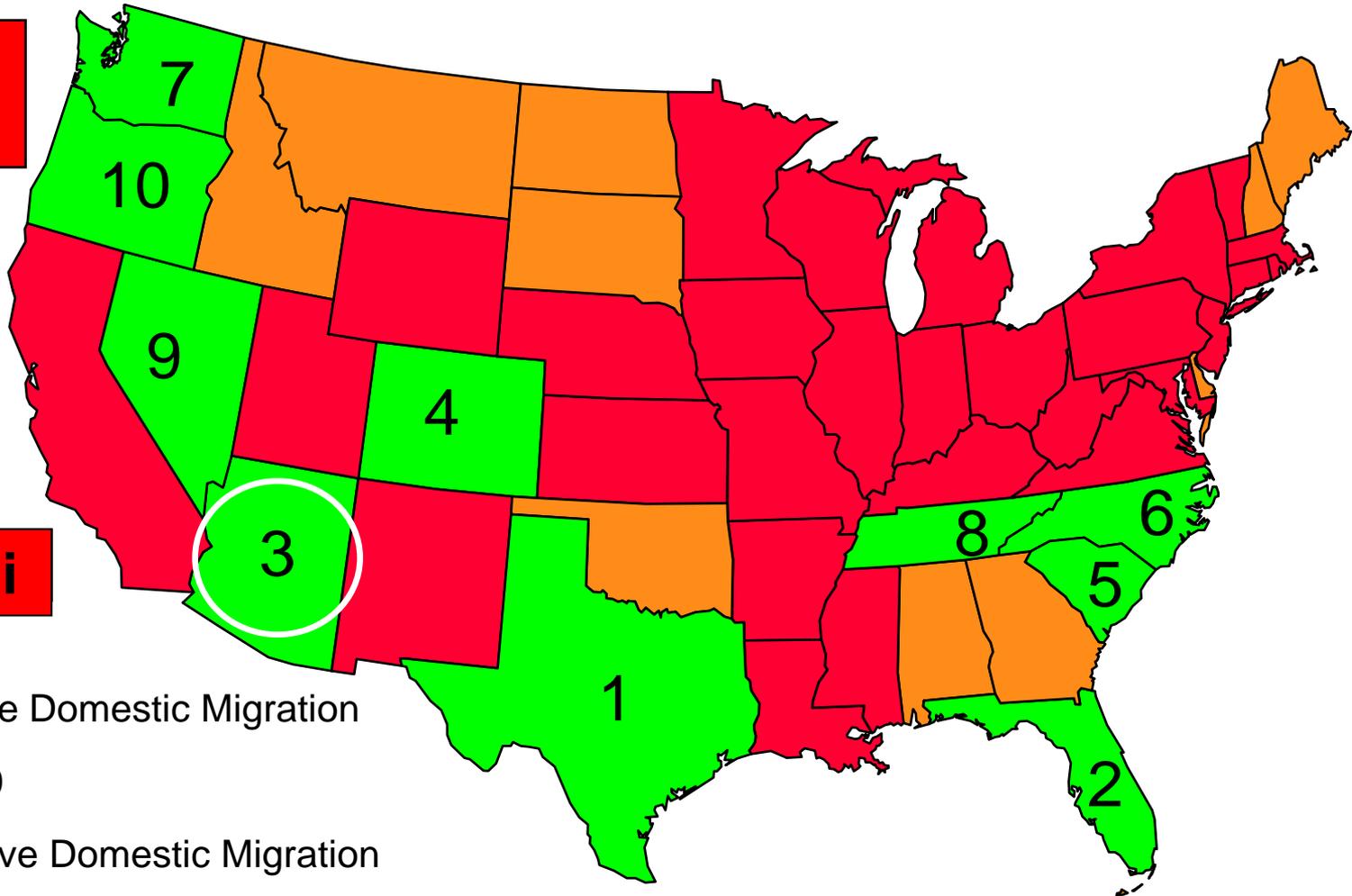
# Domestic Migrant Ranking 2014

Source: U.S. Census Bureau

Alaska

Hawaii

- Positive Domestic Migration
- Top 10
- Negative Domestic Migration



# Arizona Domestic Migration Ranking

Source: U.S. Census Bureau

Year	Rank
2005	2
2006	3
2007	4
2008	3
2009	11
2010	5
2011	11
2012	3
2013	6
2014	3



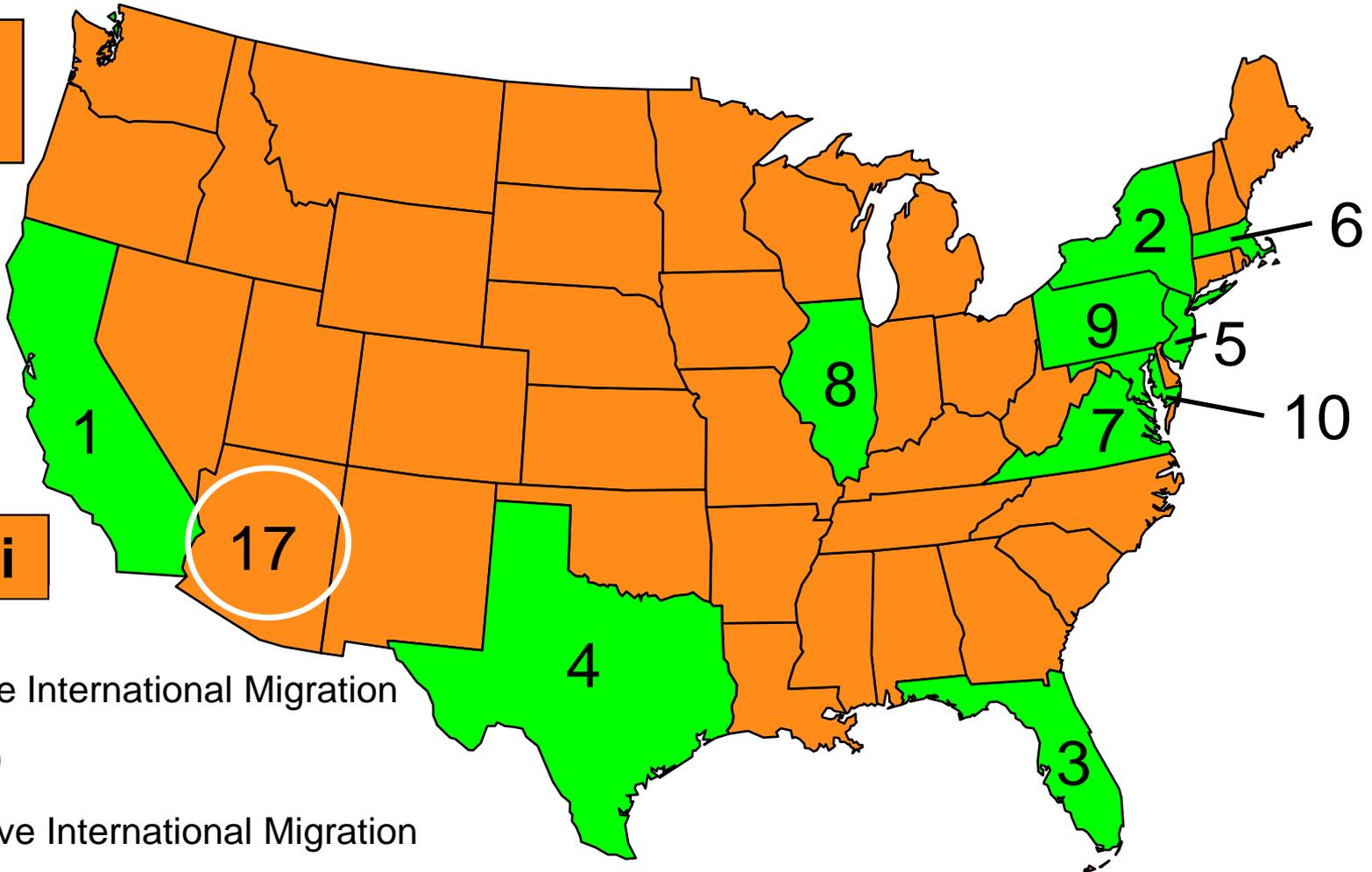
# International Migrant Ranking 2014

Source: U.S. Census Bureau

Alaska

Hawaii

- Positive International Migration
- Top 10
- Negative International Migration



# Bad Publicity?

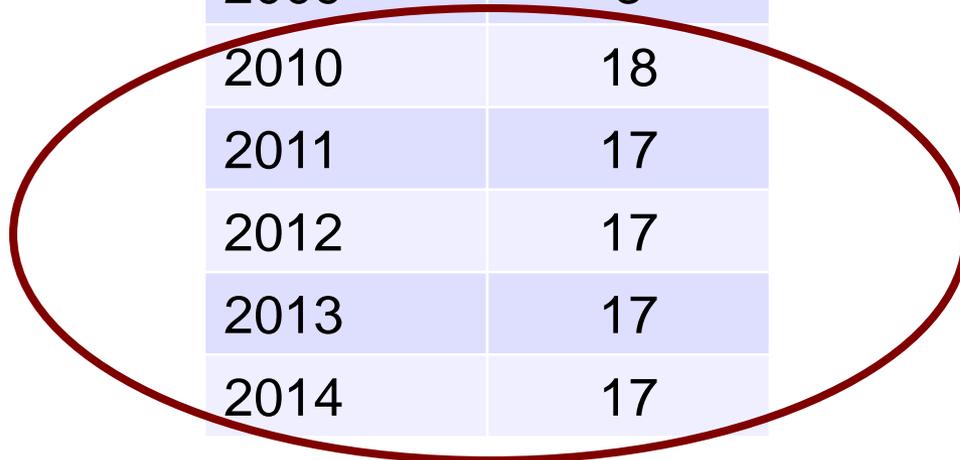


# Arizona International Migration Ranking

Source: U.S. Census Bureau

Year	Rank
2005	7
2006	8
2007	7
2008	8
2009	8
2010	18
2011	17
2012	17
2013	17
2014	17

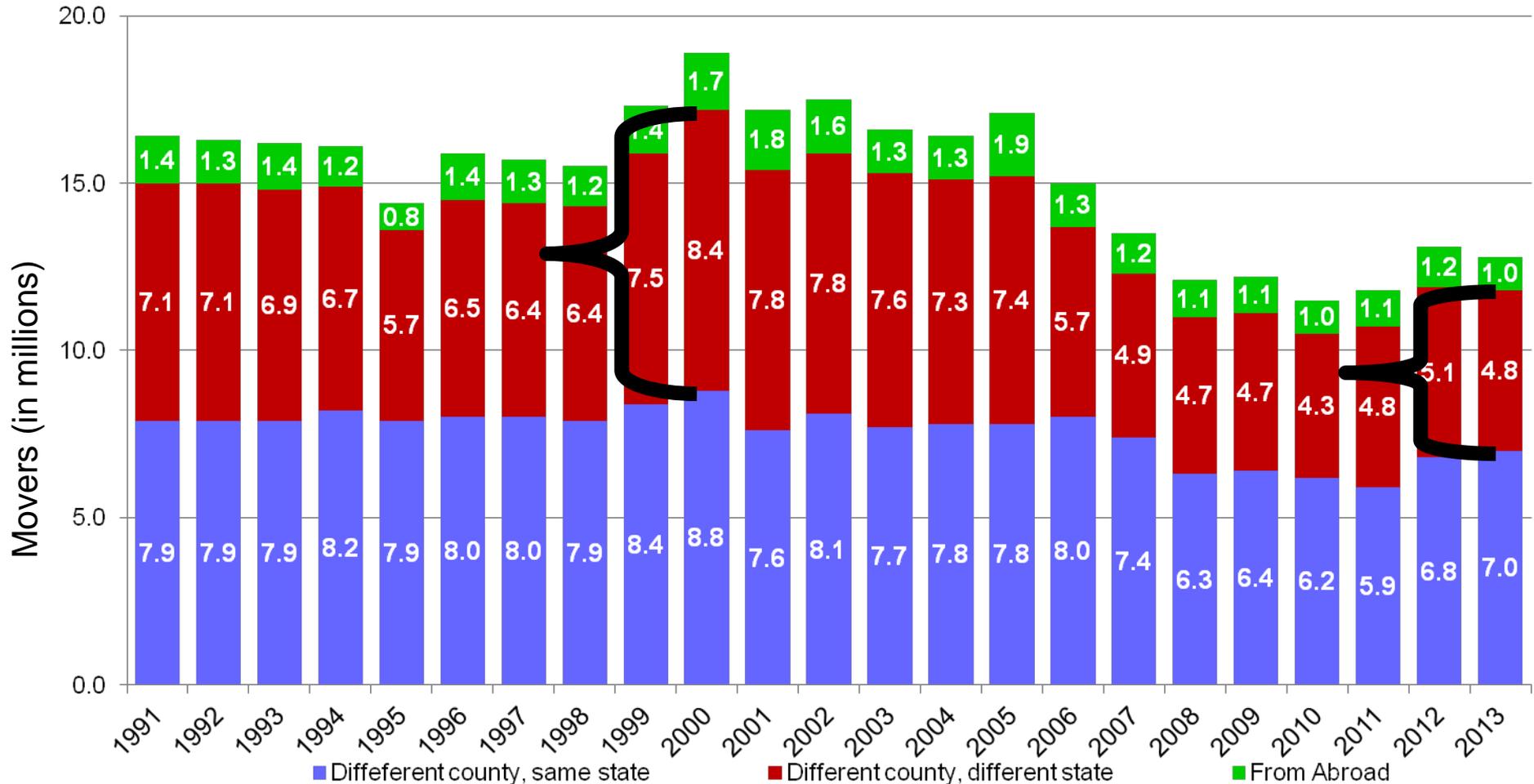
**Economics  
or Policy?**



# Distribution of Movers in U.S. by Type\*

## 1990-2013

Source: U.S. Census Bureau



**How quickly are population  
flows going to recover?**



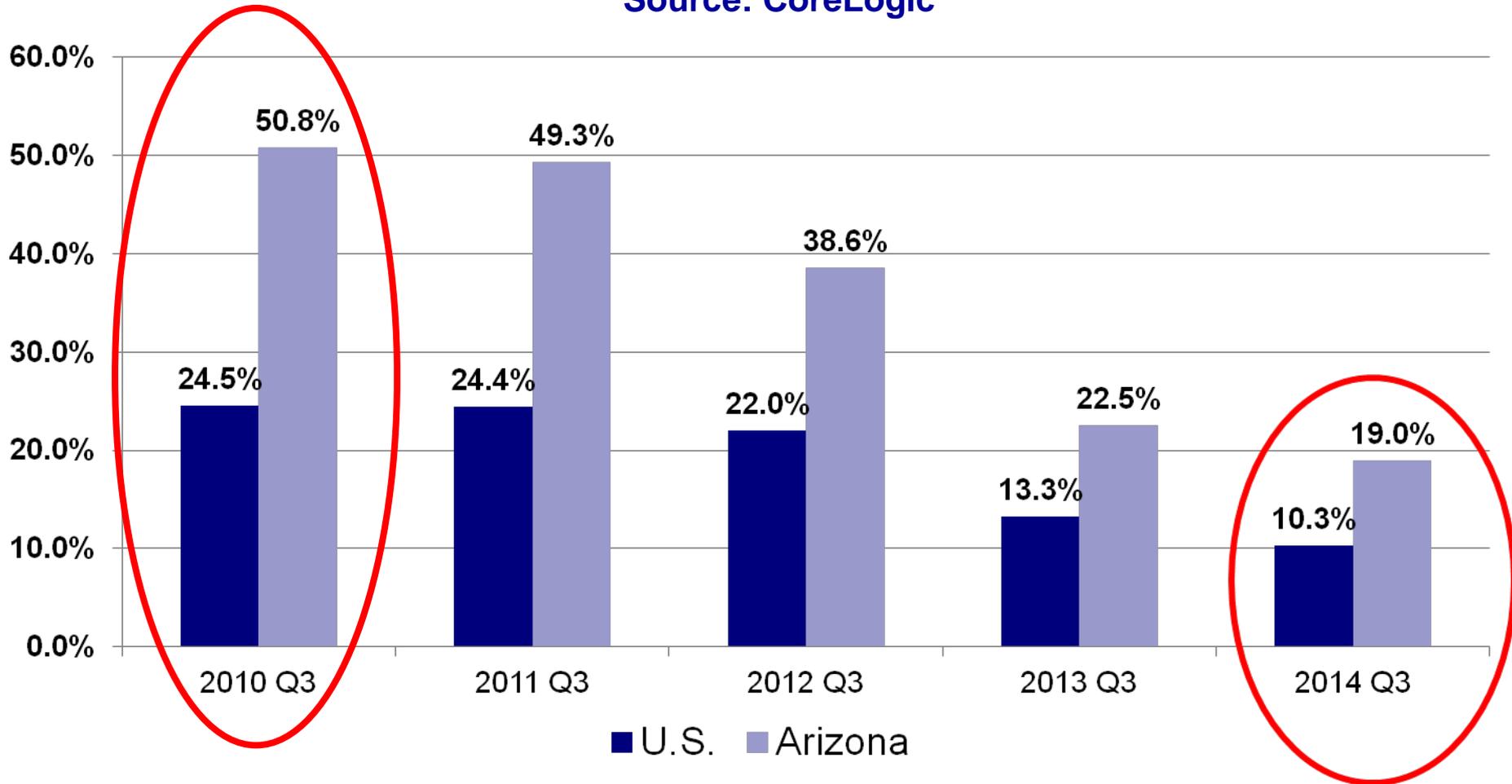
# Why aren't people buying?

- Negative Equity,
- “Penalty Box”,
- Financing,
- **Millennials.**



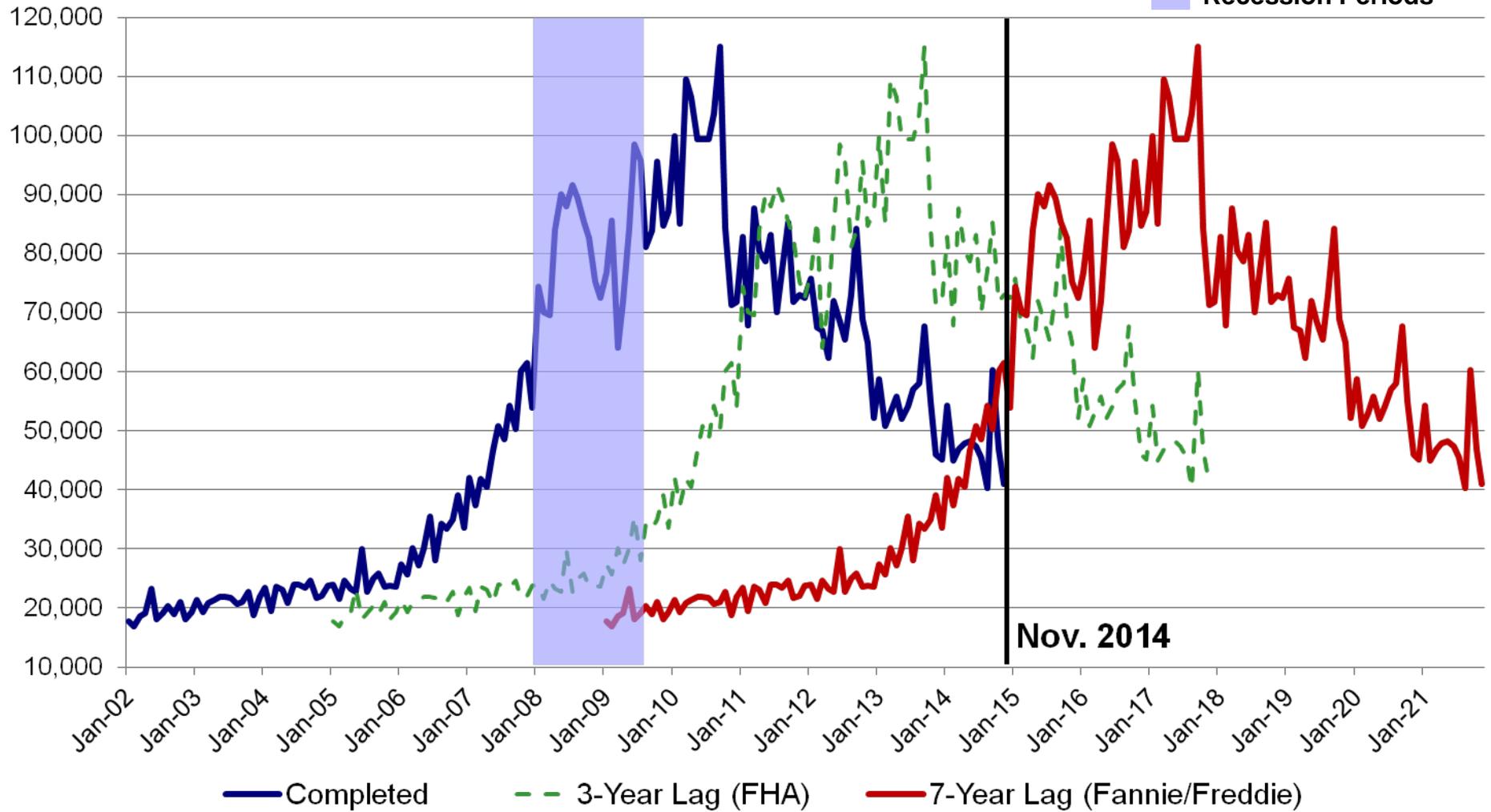
# U.S. and Arizona Negative Equity Share 2010–2014

Source: CoreLogic



# U.S. Foreclosure Lag 2002–2021

Source: CoreLogic



# Tougher Qualifications

- (1) More paperwork,
- (2) Lower debt to income ratios,
- (3) Longer lockout period after foreclosure,
- (4) Higher down payment requirements,
- (5) Others...

**50% of  
market is  
gone...**

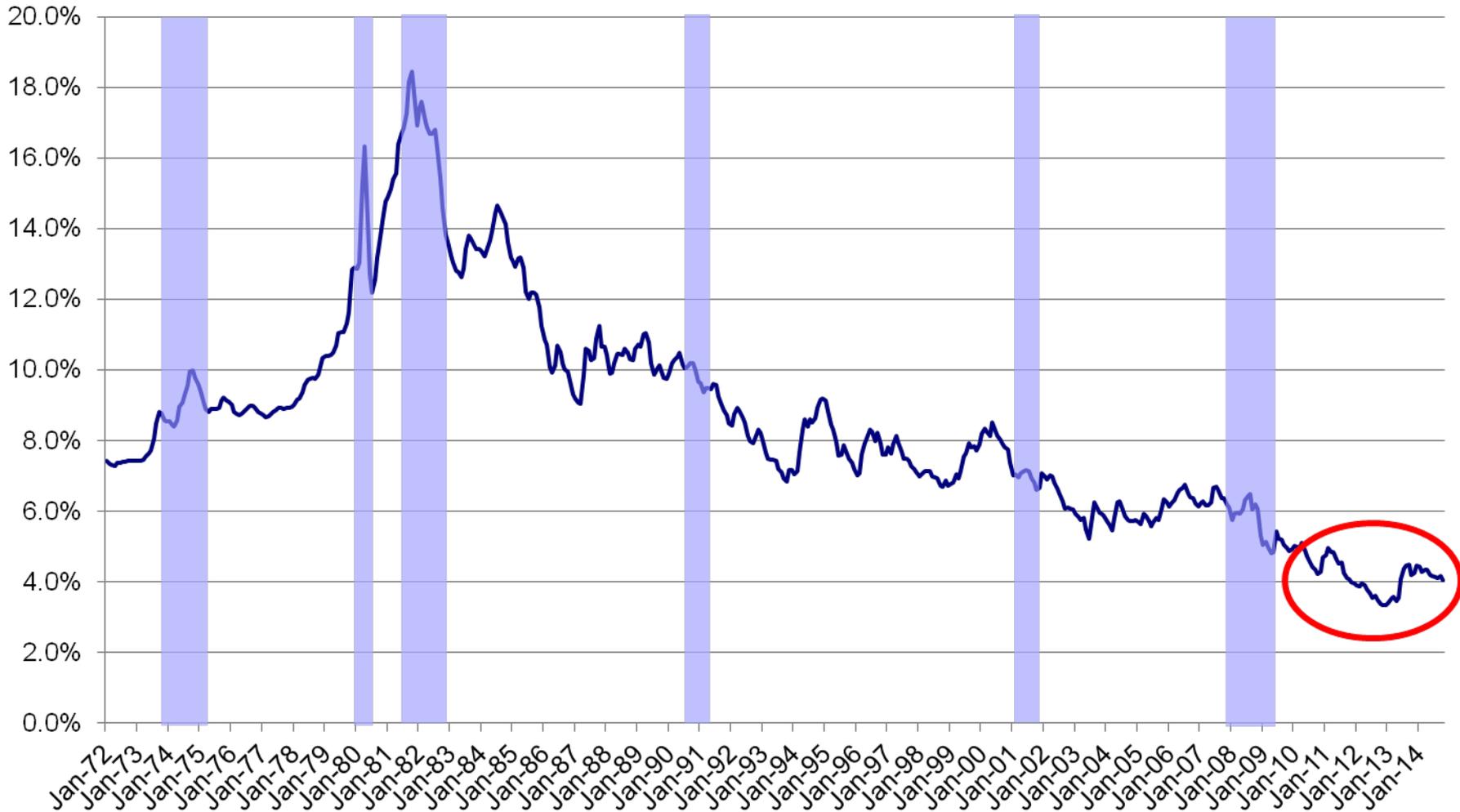


# Potential?



# 30-Year Conventional Mortgage Rate 1972 – 2014\*

Source: Federal Reserve

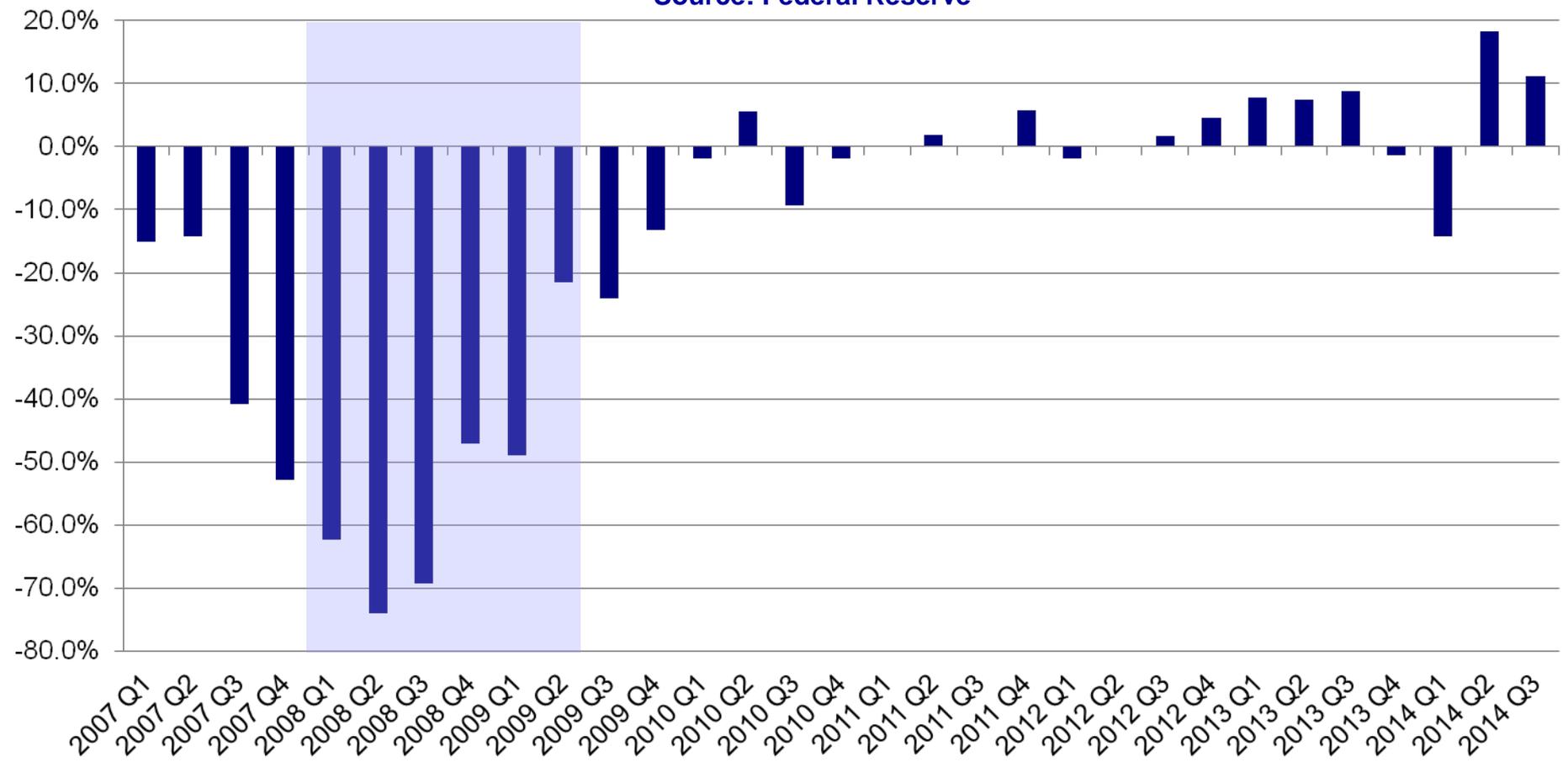


# Net Percentage of Large U.S. Banks Reporting Eased Standards versus Tougher Standards on Residential Mortgage **Prime** Loans

2007 Q1 – 2014 Q3

Source: Federal Reserve

Recession Periods

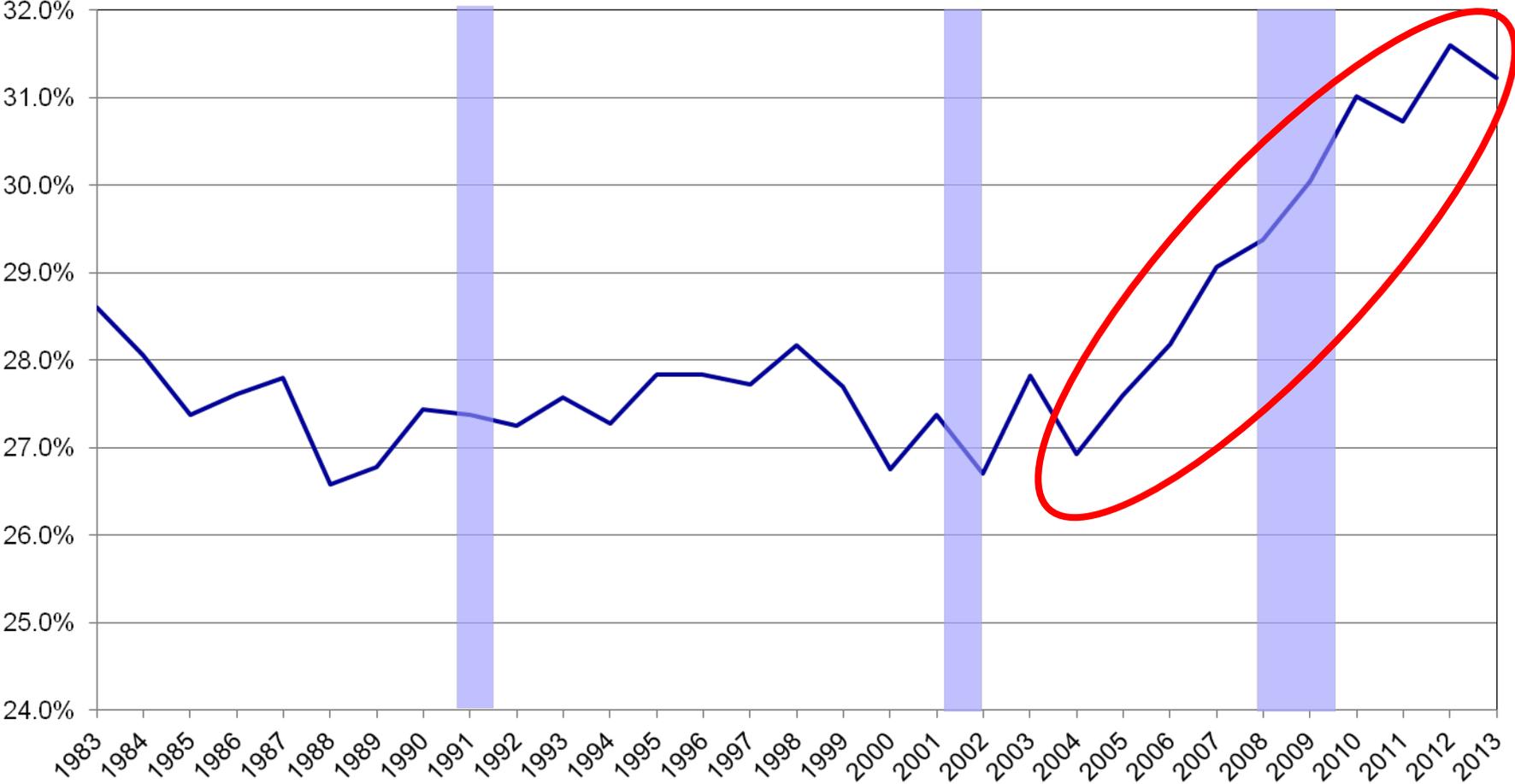


# Percent of 18-34 Year Olds Living With Parents

## U.S.: 1983 – 2013

Source: US Census Bureau

Recession Periods



18-34 year olds represent 23% of total population. (73.7 million persons)



**Etc,**

**Etc,**

**Etc.**





# **Economic Development/ Public Policy Issues**



## ■ Things to keep in mind: State

- **\$1.5B budget gap (2 years / break down numbers).**
- **Kick the can on education lawsuit?**
- **Forecast comes in higher than projections?**
- **How to manage all this stuff?**
  - **Education, no money (less lawsuit).**
  - **Transportation, need a funding plan.**
  - **Will need to cut a lot (economic development; tourism???)**
  - **Hit to local communities?**



## ■ Things to keep in mind: Local

- Less time to plan for next downturn.**
- Less time to build infrastructure.**
- Less time to develop a structurally balanced budget.**



## ■ Things to keep in mind: General

- Avg. expansion is just under 5 years.
- The current expansion hits 6 years this coming summer.
- But, it's not the age, it's the mileage.
- How many more years of growth?
- Are you ready if things come off the rails?



# Forecasting and Budgeting

- Forecasting is about more than modeling and math.
- Risk must be set by policymakers and staff working together.
- Optimistic, Baseline, Pessimistic.
  - When to move from one to the other?

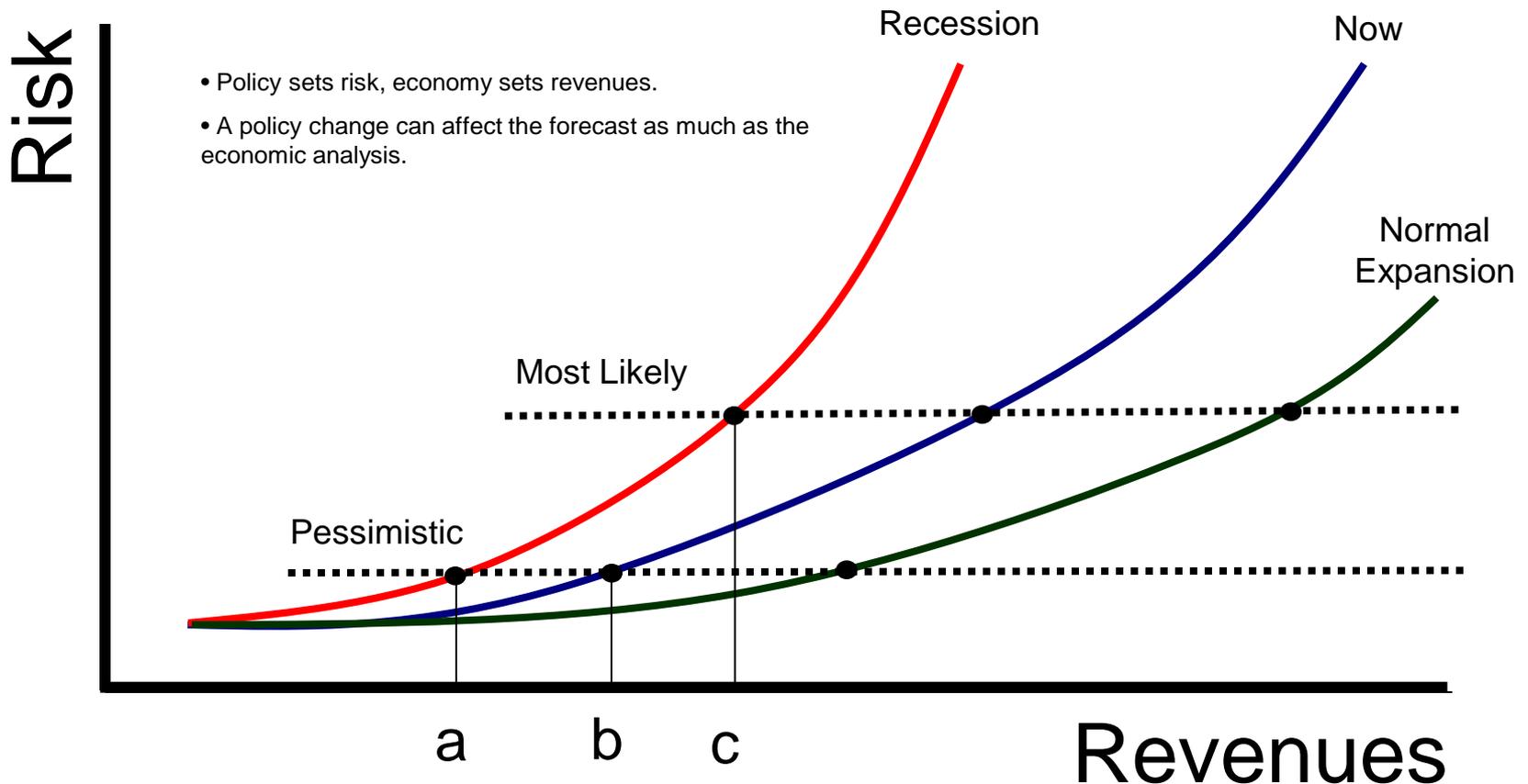


# Forecasting & Budgeting

- Forecast policy can sometimes change the revenue forecast as much as a new economic assessment.
- The last dollar that is projected is the most risky.
- What to do now?
  - True “most likely” or use “pessimistic”?
  - Capital vs ongoing?
  - Reserves?

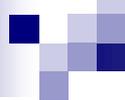


# Forecasting & Budgeting



# Conclusions?





# **Stuff Will be Getting Better**

**The long term outlook for Arizona  
remains favorable.**

**Many of the things dampening the  
recovery will be improving.**



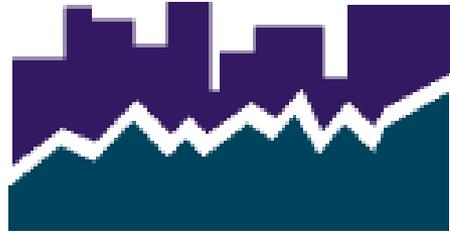
# So where is our economic boom?



# Discussion?

- **Economy is better than recent stories, but how to incorporate risk of another recession yet remain optimistic?**
  - Thoughts on state budget impact on city and county budgets?**
  - Thoughts on the state possibly changing its economic development process?**
  - Others?**





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