



What to Make of This Economy? (extended fun)

To:
MAG EDC

By:
Jim Rounds
Elliott D. Pollack & Company

March 3rd, 2015

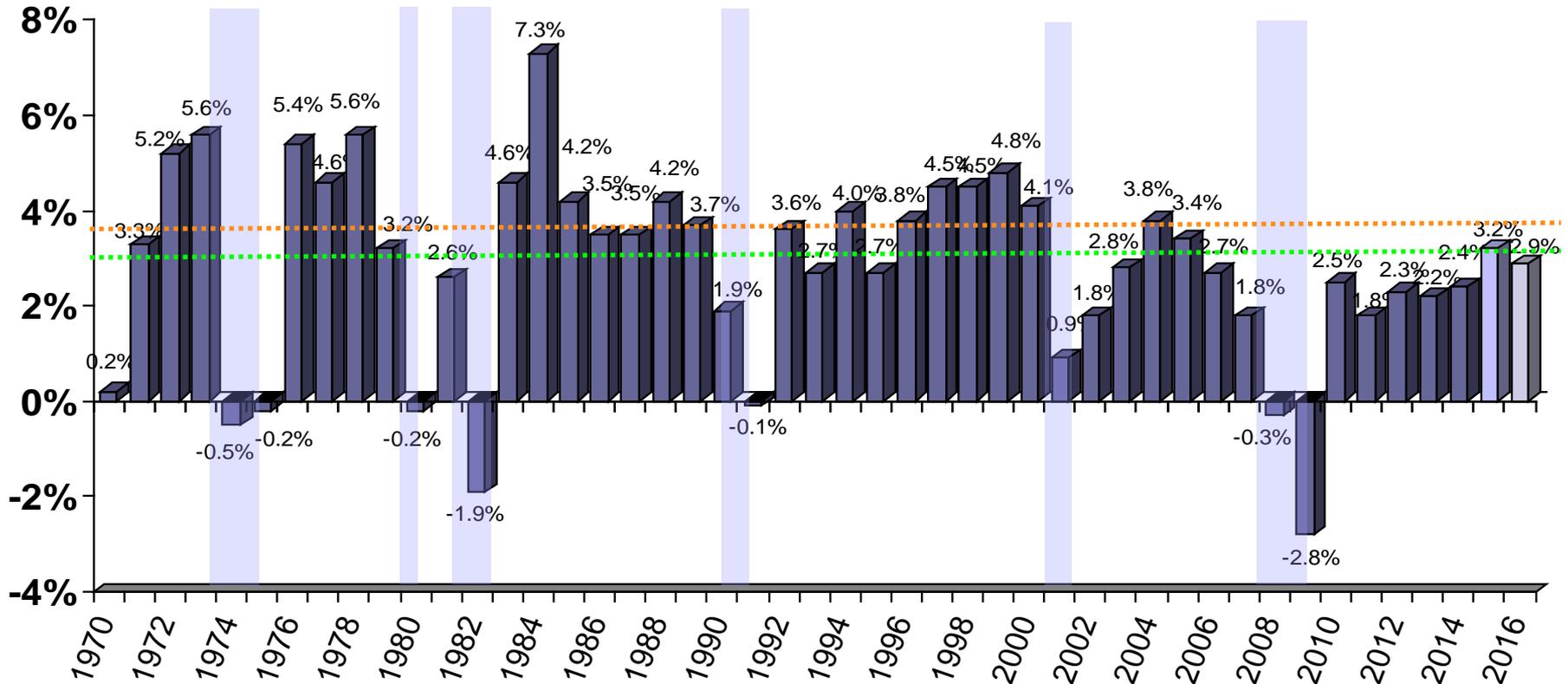


Where are the people?



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.

** 2015 and 2016 are a forecast from the Blue Chip Economic Indicators, February 2015.

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

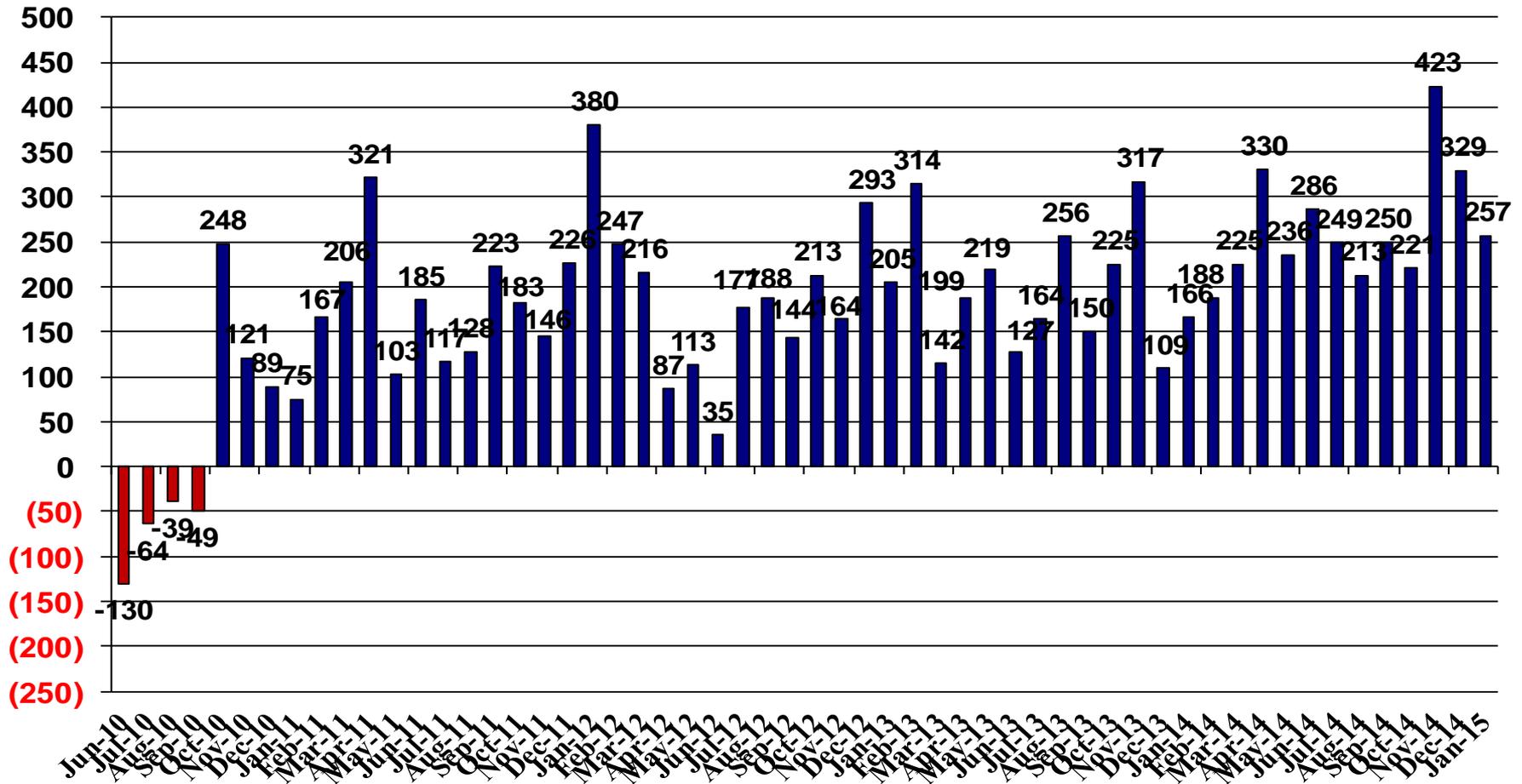
----- 3.1% = 20-year avg during expansion

Recession Periods



US Non-Farm Employment Change from Prior Month (S/A) June 2010 – January 2015

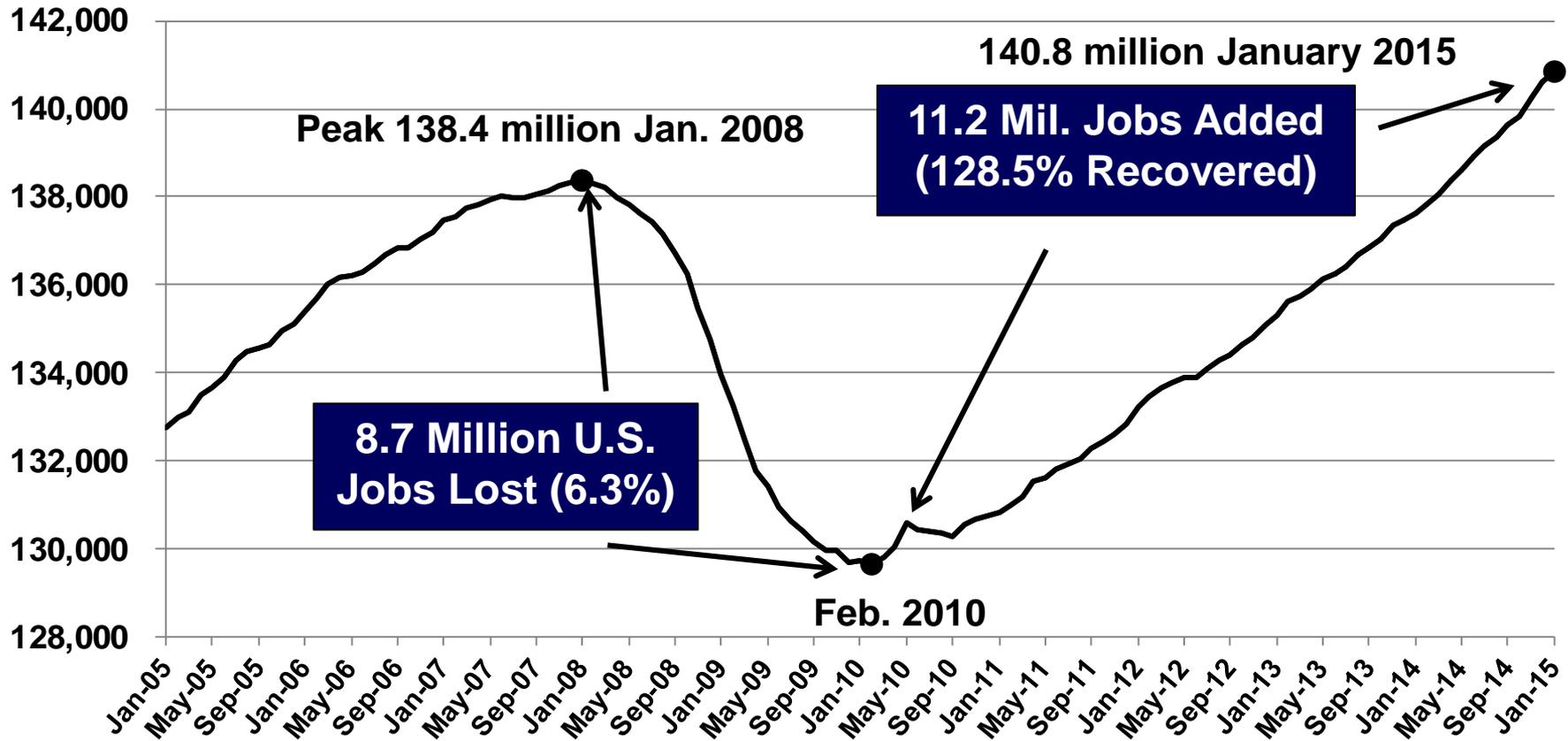
Source: Bureau Labor of Statistics



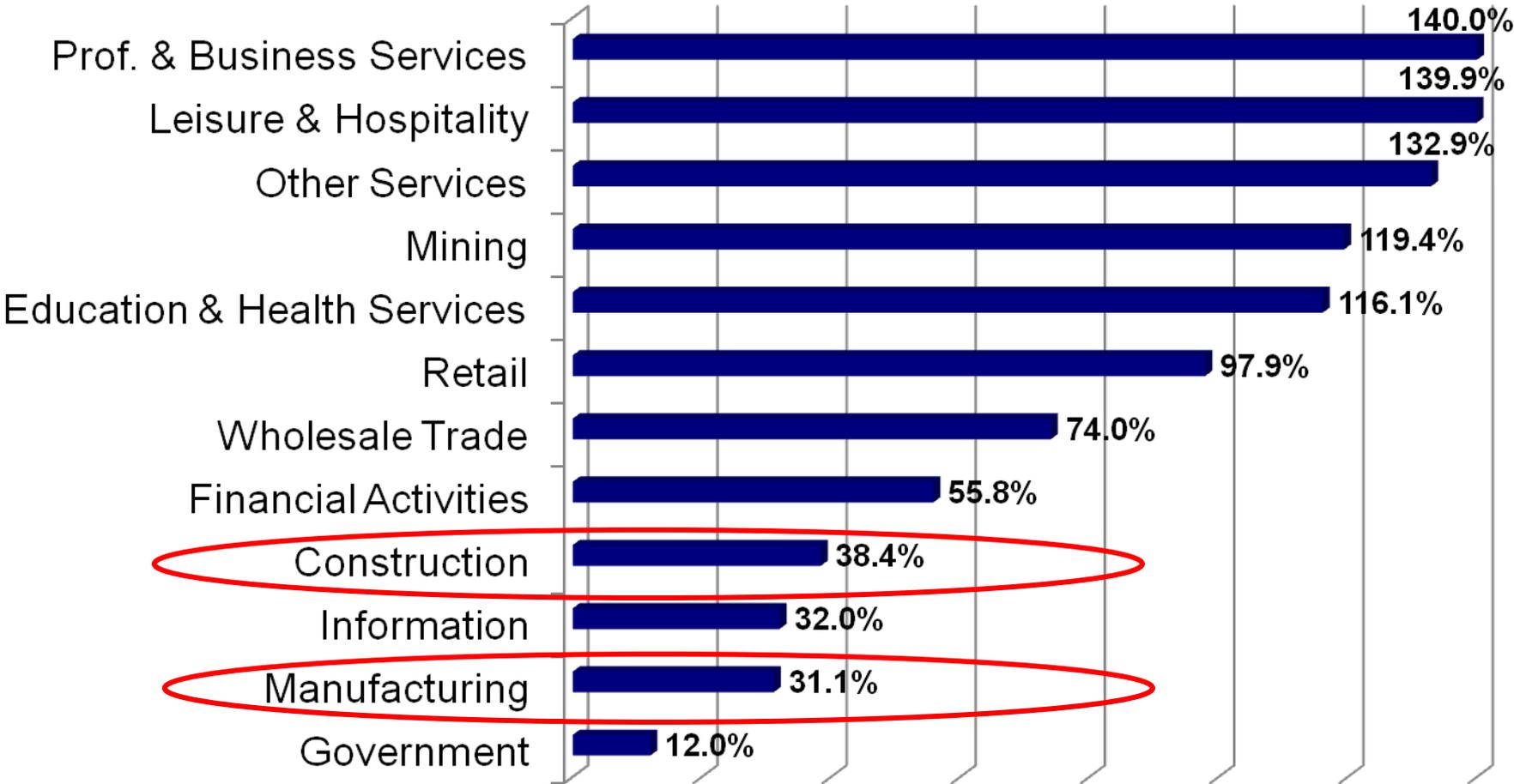
U.S. Seasonally Adjusted Non-Farm Employment 2005 – 2015*

Source: Bureau of Labor Statistics

(000's)



U.S. Jobs Regained Since Bottom of Cycle



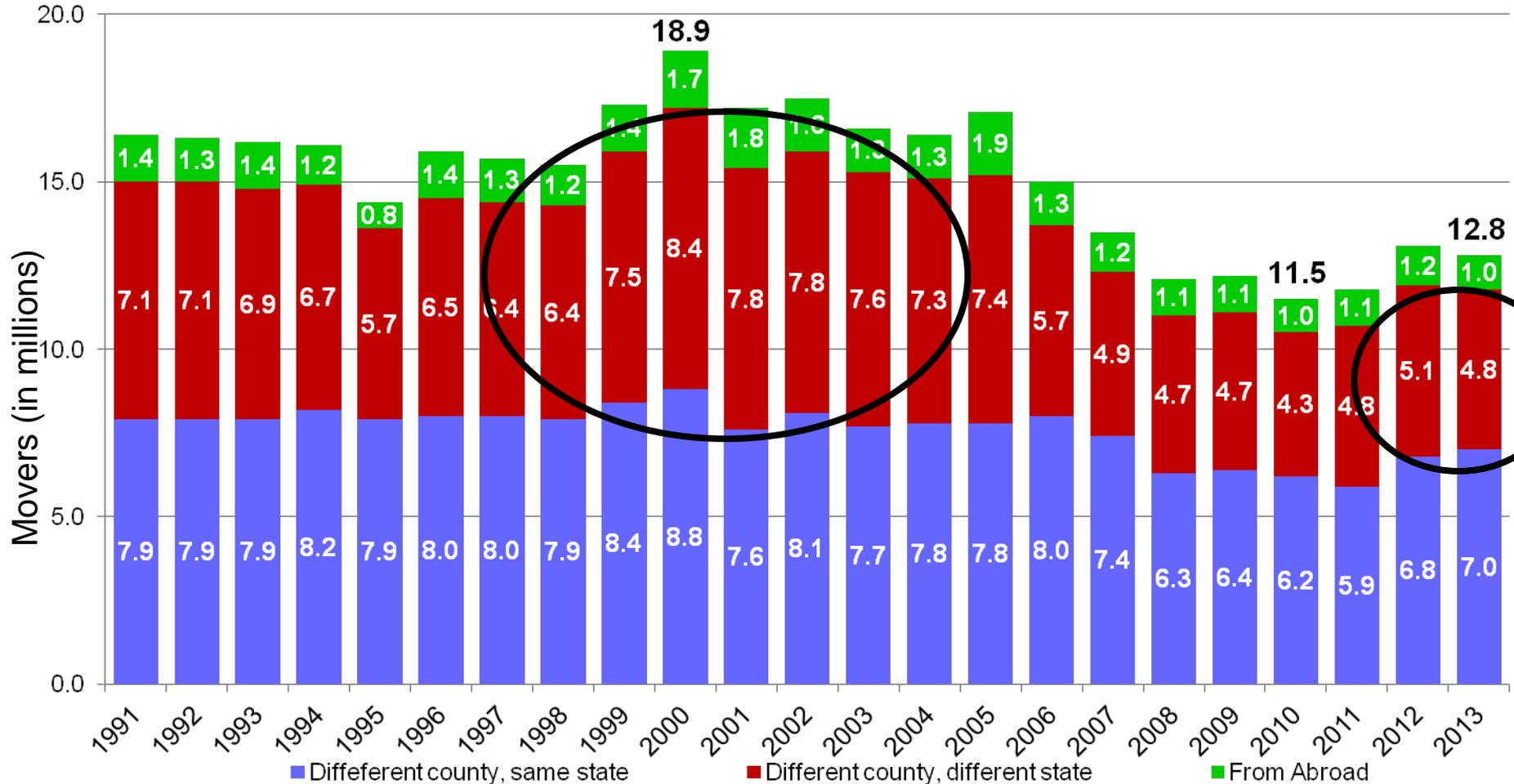
Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted, As of January 2015



Distribution of Movers in U.S. by Type*

1990-2013

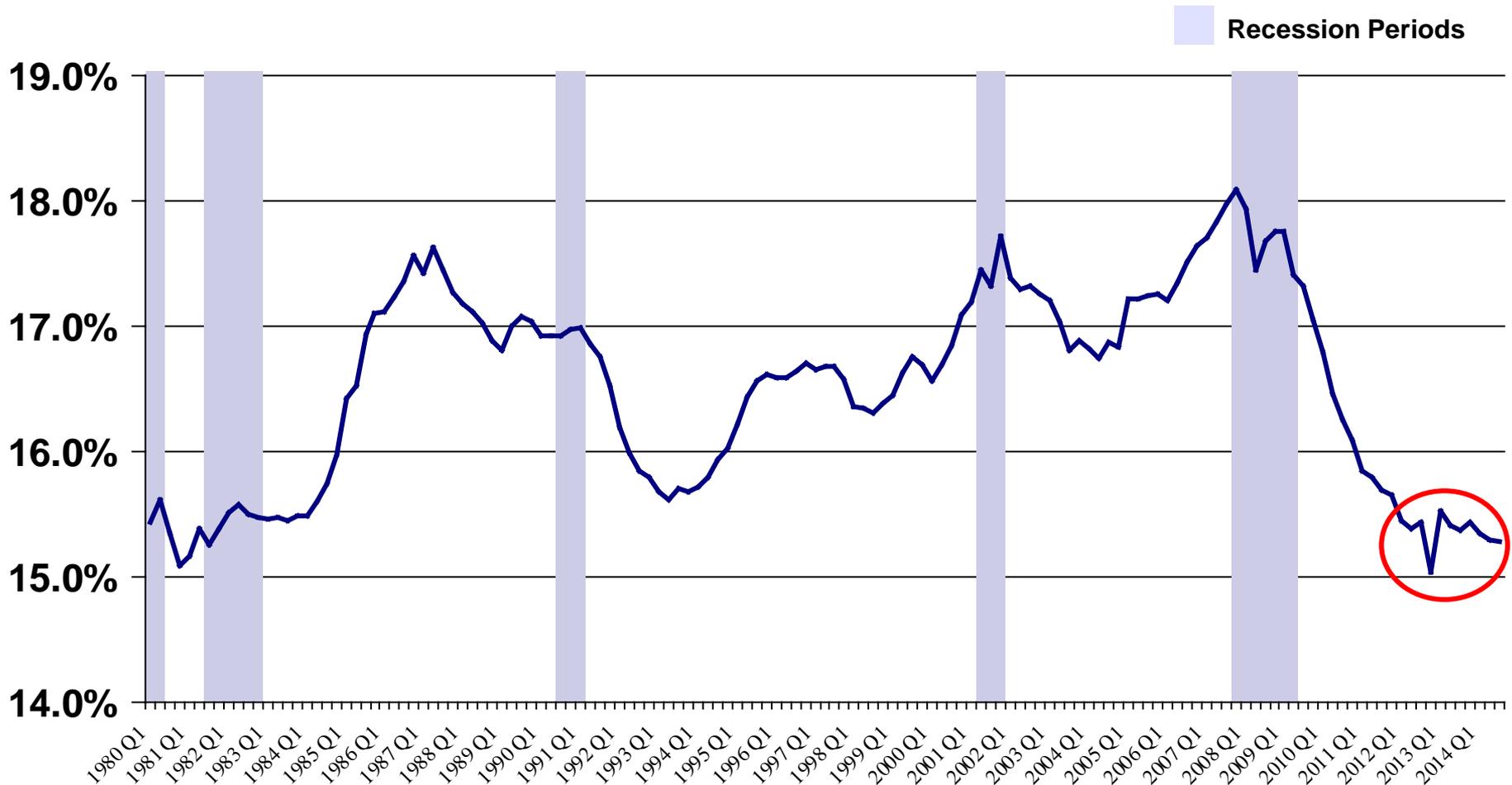
Source: U.S. Census Bureau



Financial Obligation Ratio**

1980 – 2014*

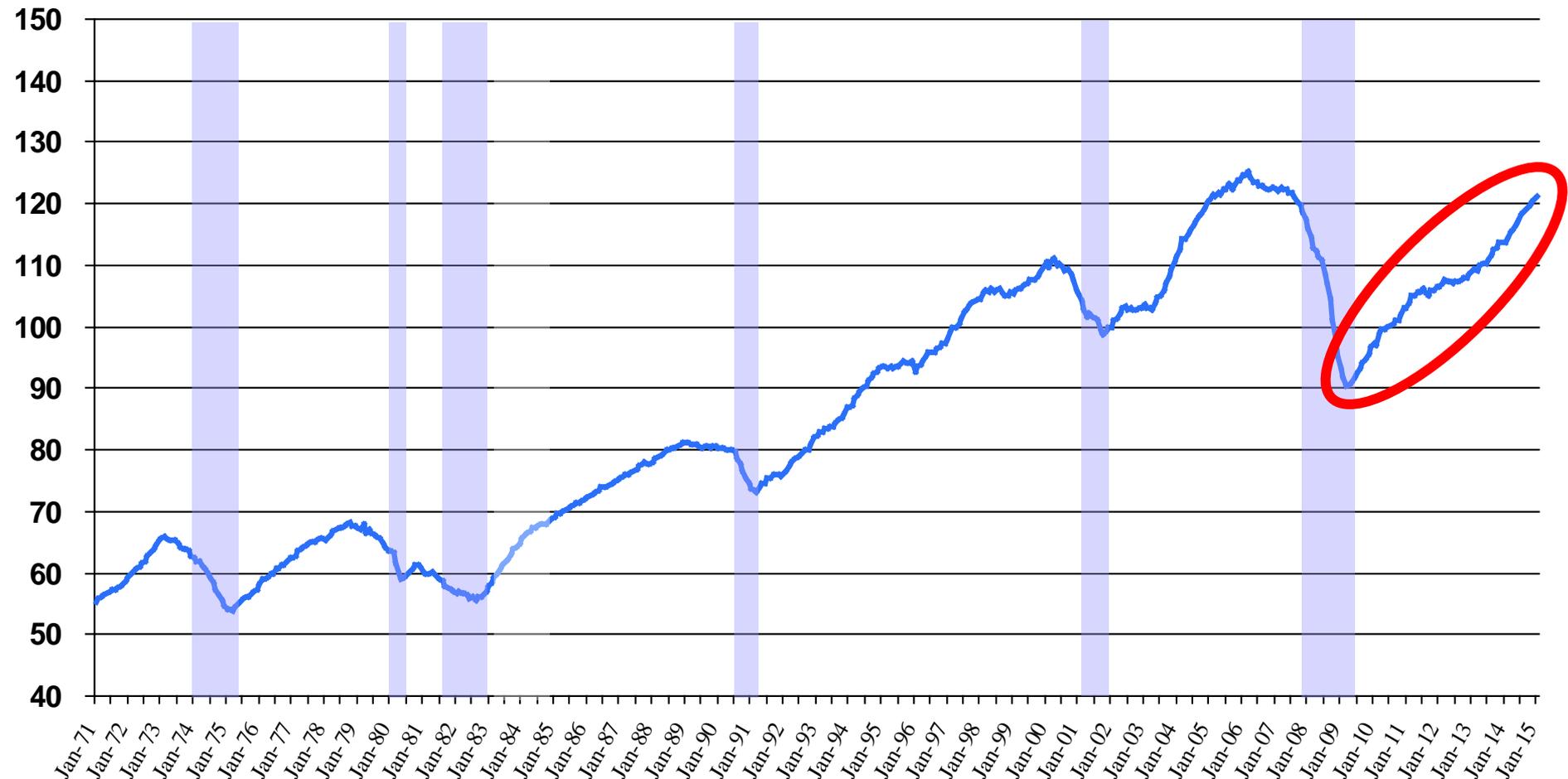
Source: Federal Reserve



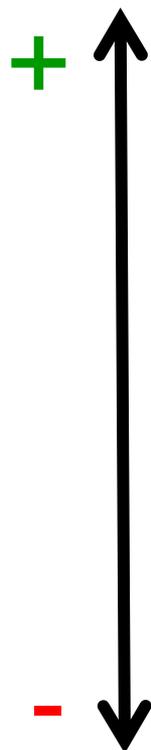
U.S. Leading Indicators 1971 – 2015*

Source: The Conference Board

Recession Periods



10 Components of U.S. Leading Indicators – January 2015

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

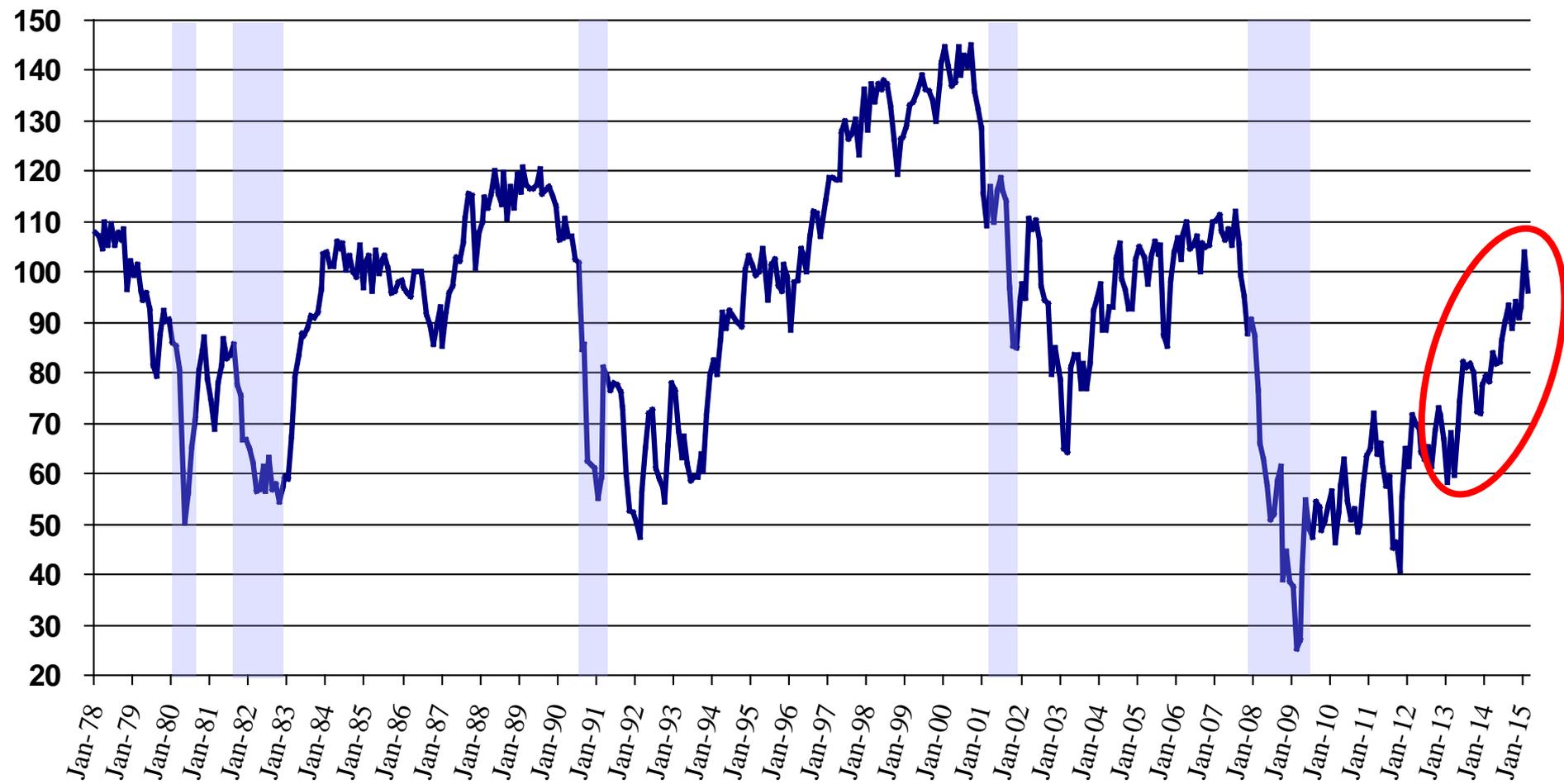


Consumer Confidence

1978 – 2015*

Source: The Conference Board

Recession Periods



*Data through February 2015.

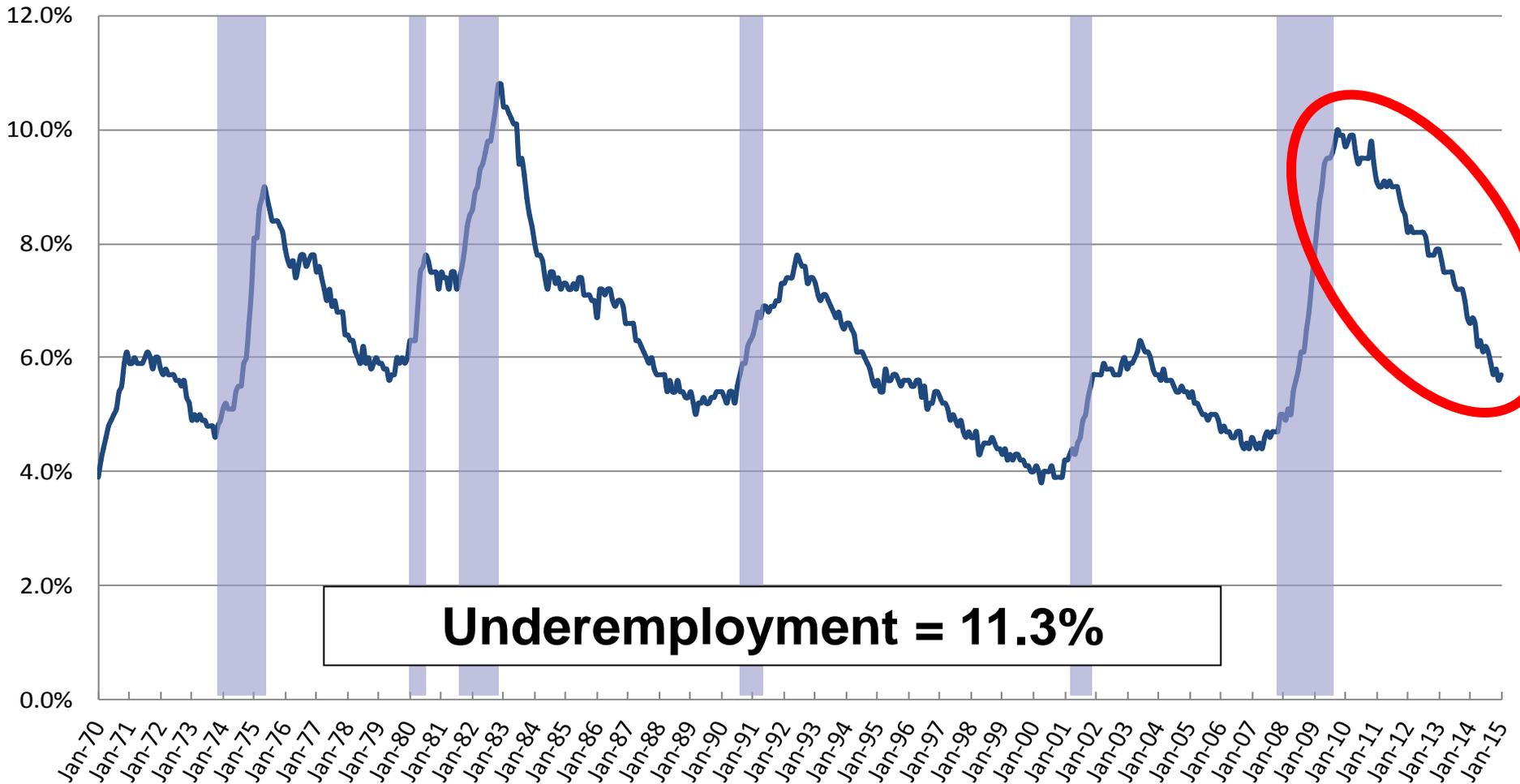


U.S. Unemployment Rate

1970 – 2015*

Source: Bureau of Labor Statistics

■ Recession Periods



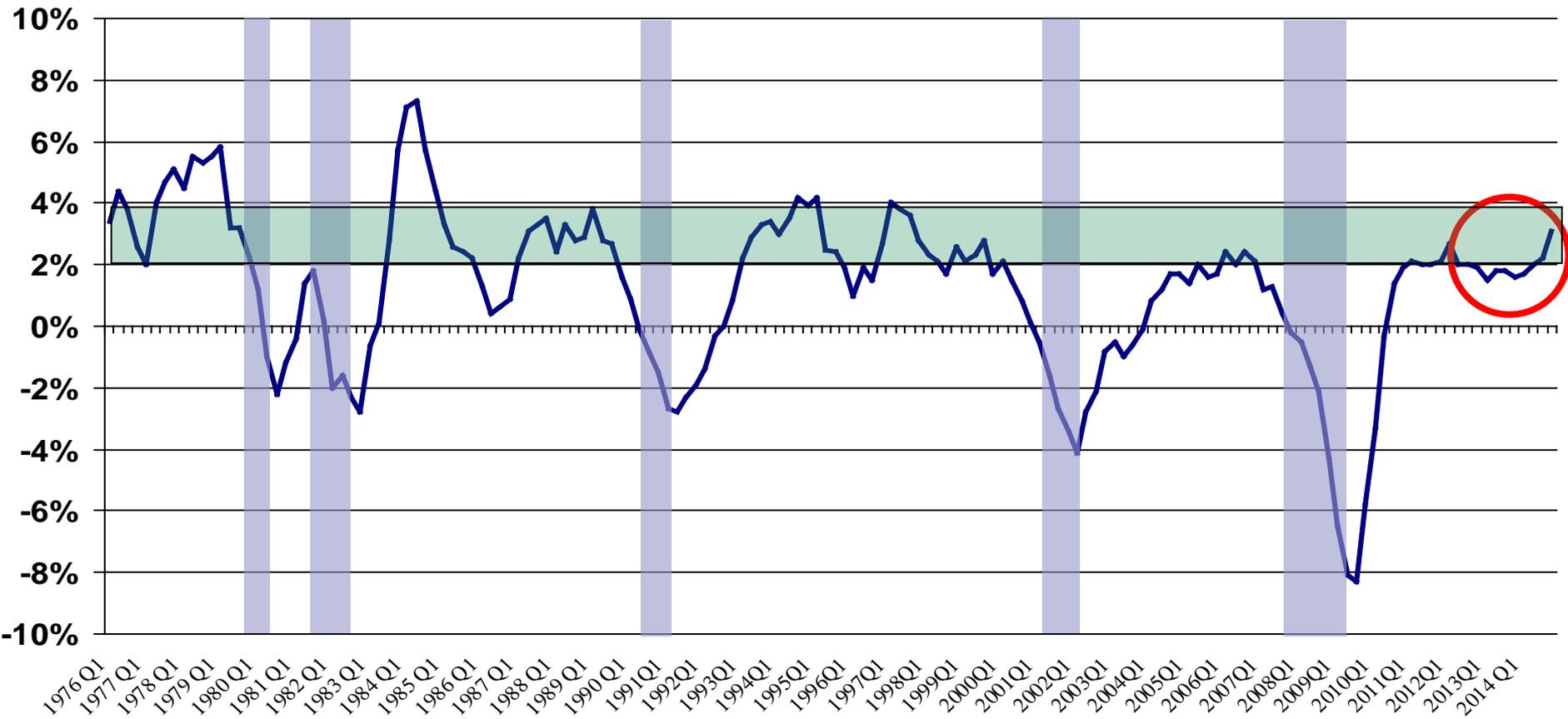
*Seasonally adjusted data through January 2015



Hours Worked Percent Change from Year Ago 1976 – 2014*

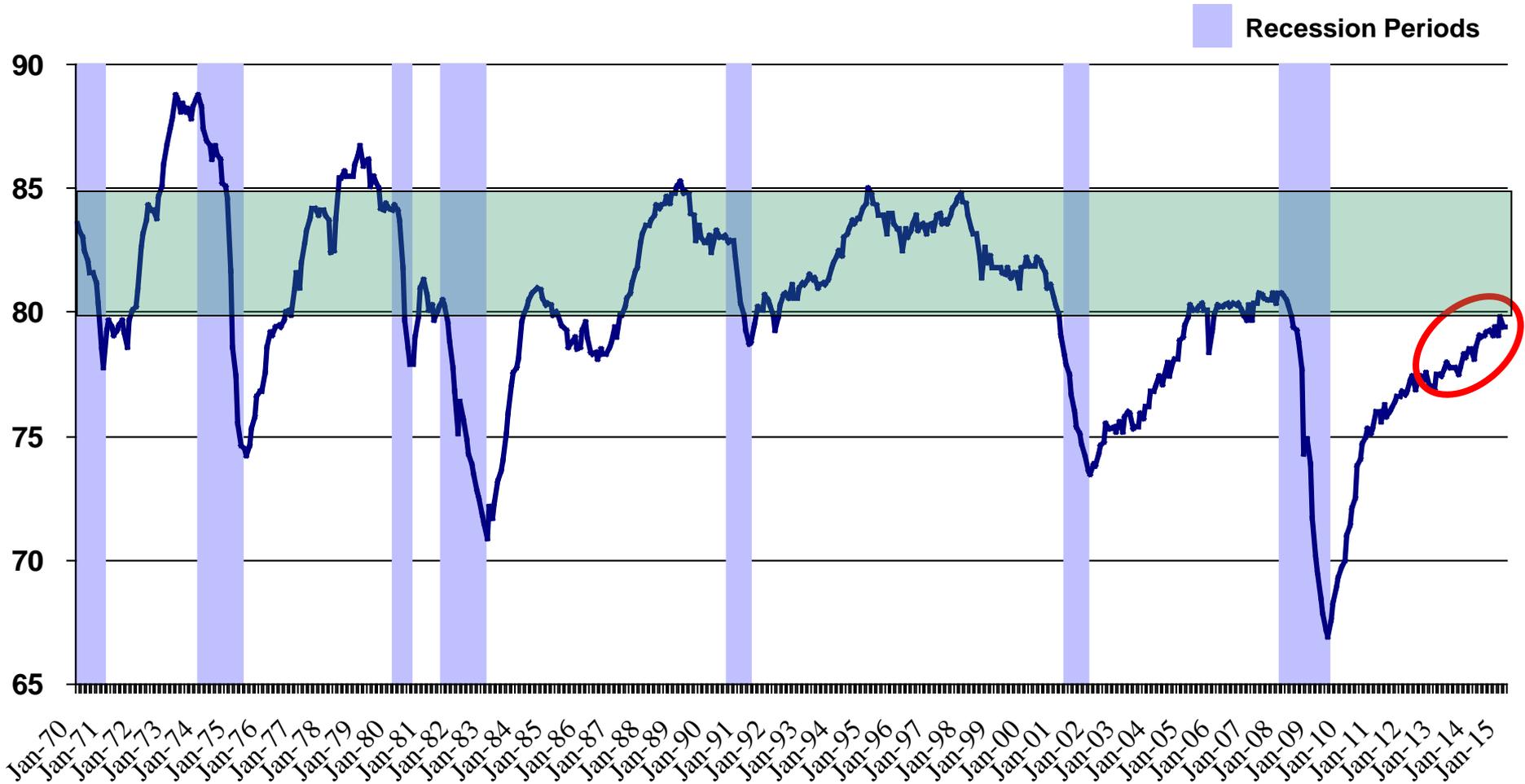
Source: Bureau of Labor Statistics

Recession Periods



Capacity Utilization Rate 1970 – 2015*

Source: The Federal Reserve Bank of St. Louis

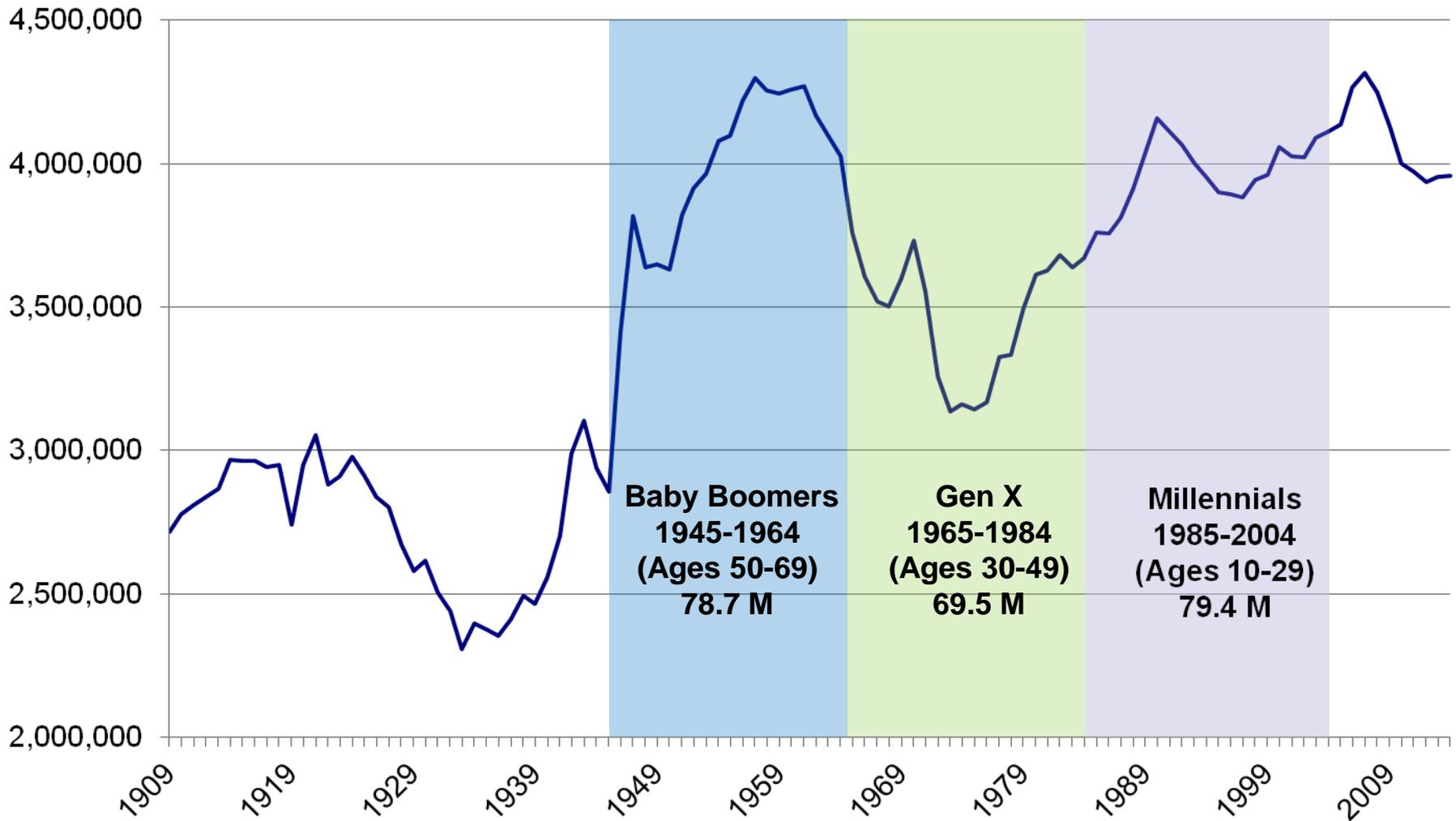


Demographics



U.S. Birth Index 1909-2014

Source: U.S. Census Bureau; Harvard Joint Center for Housing Studies



Average Annual Expenditures in U.S. by Age Groups

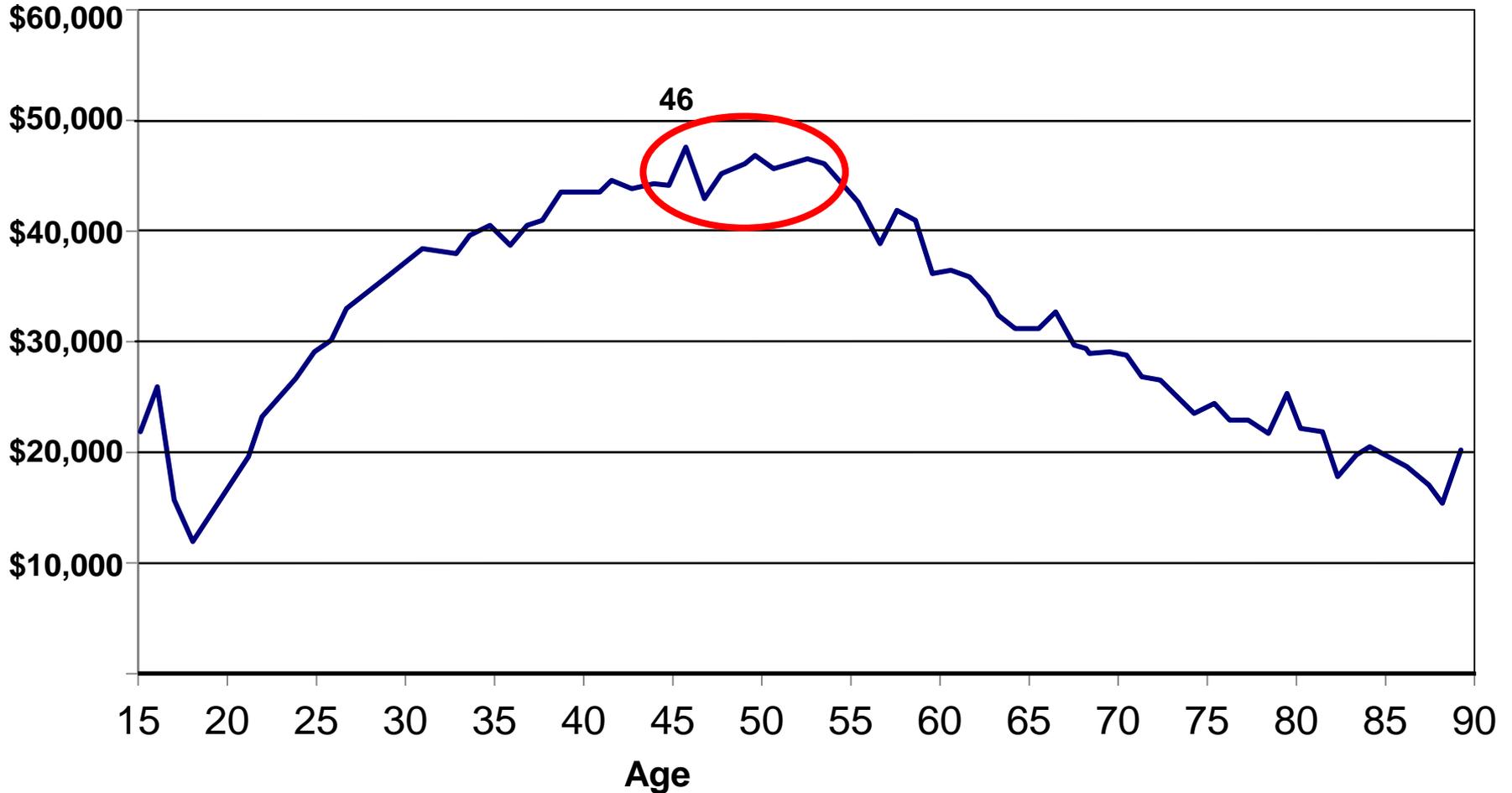
Source: 2013 Consumer Expenditure Survey; U.S. Bureau of Labor Statistics

<u>All Ages</u>	<u><25</u>	<u>25 to 34</u>	<u>35 to 44</u>	<u>45 to 54</u>	<u>55 to 64</u>	<u>65 to 74</u>	<u>75 +</u>
\$51,100	\$30,373	\$48,087	\$58,784	<u>\$60,524</u>	\$55,892	\$41,403	\$34,382



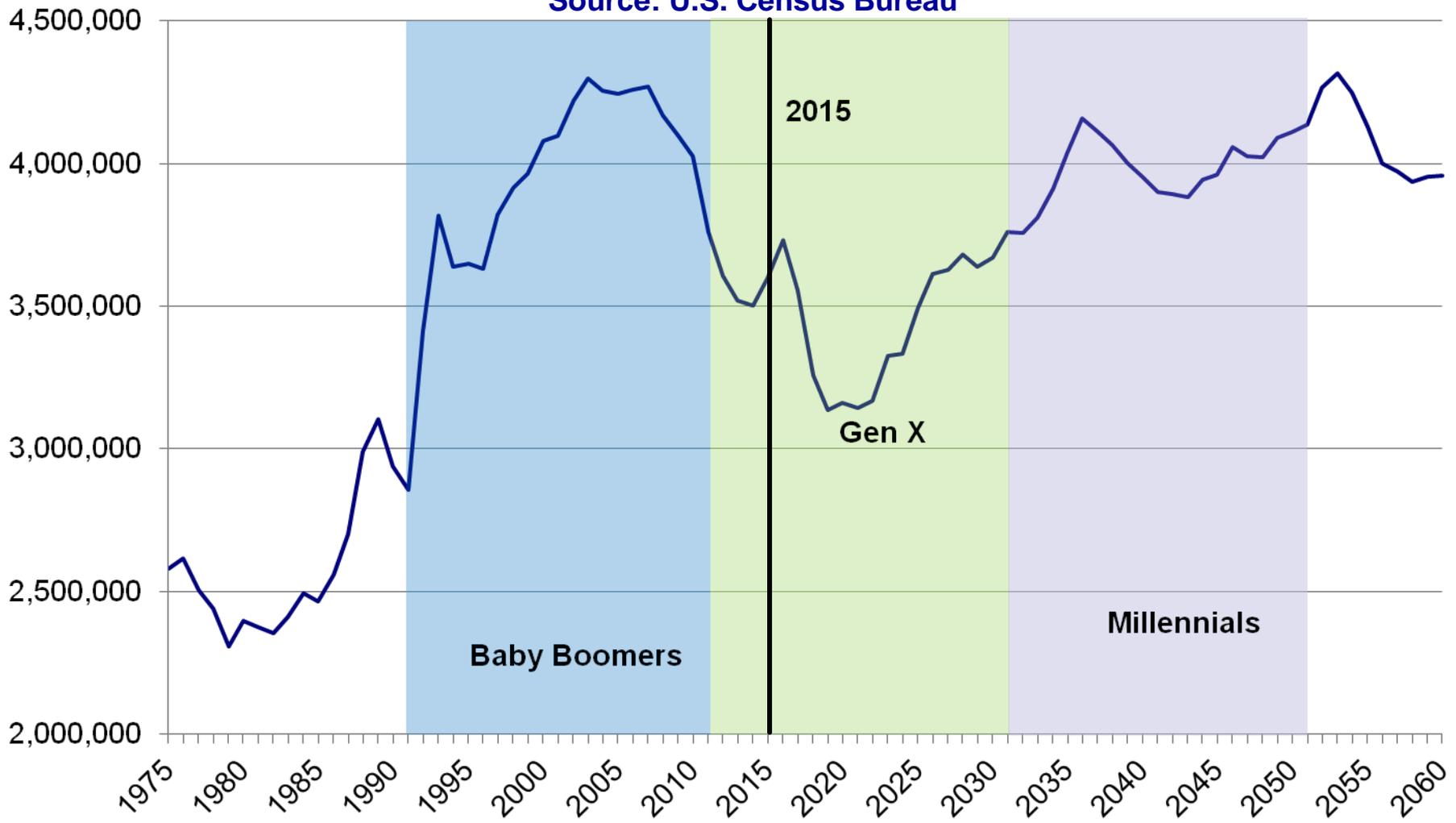
Total Consumer Expenditure by Age

Source: U.S. Census Bureau; Dent Research



Peak Spending Cycle 46 year lag 1975-2060

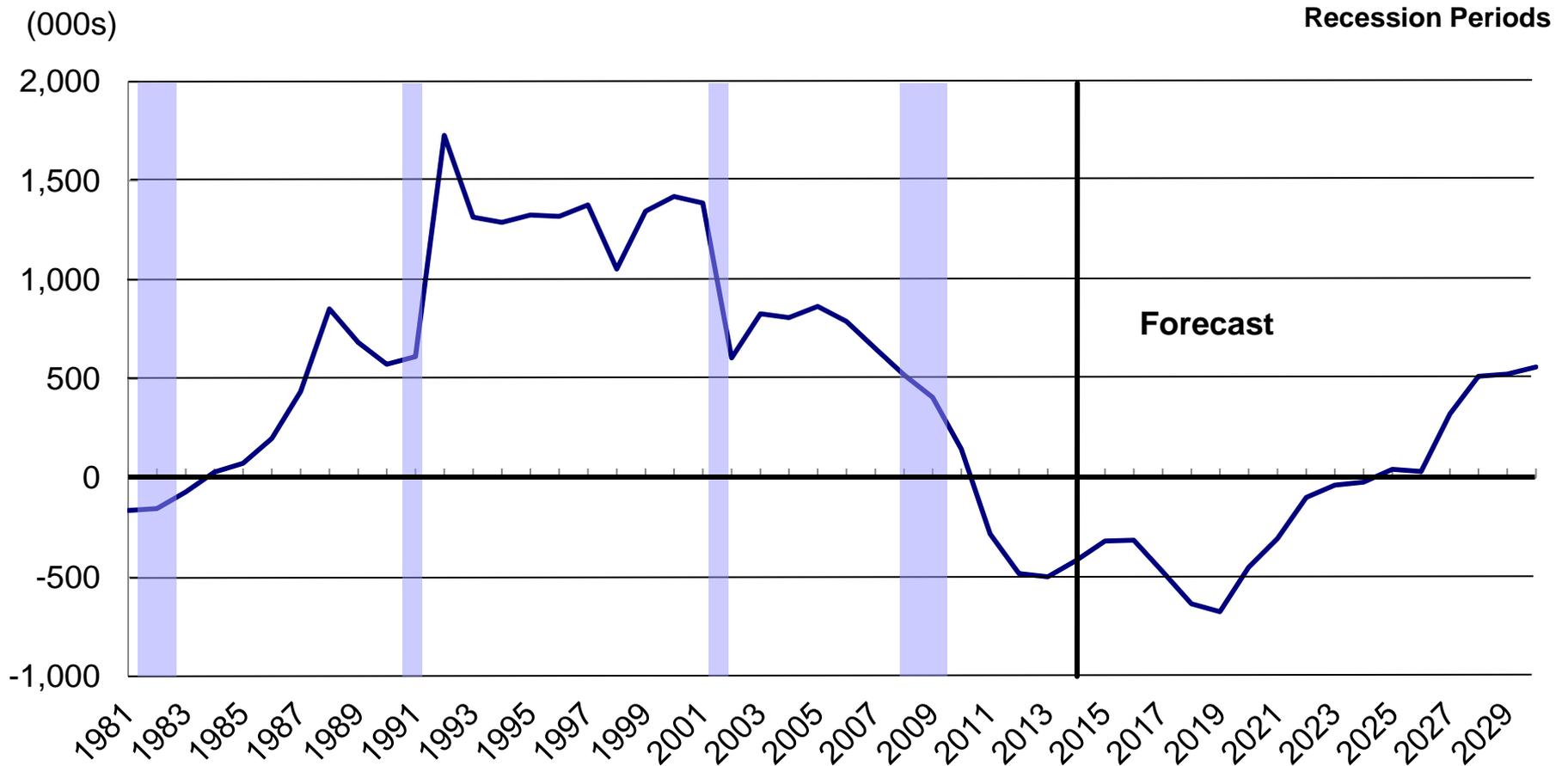
Source: U.S. Census Bureau



Peak Spending Cycle

Net Change in U.S. Population Ages 45-54 1981-2030

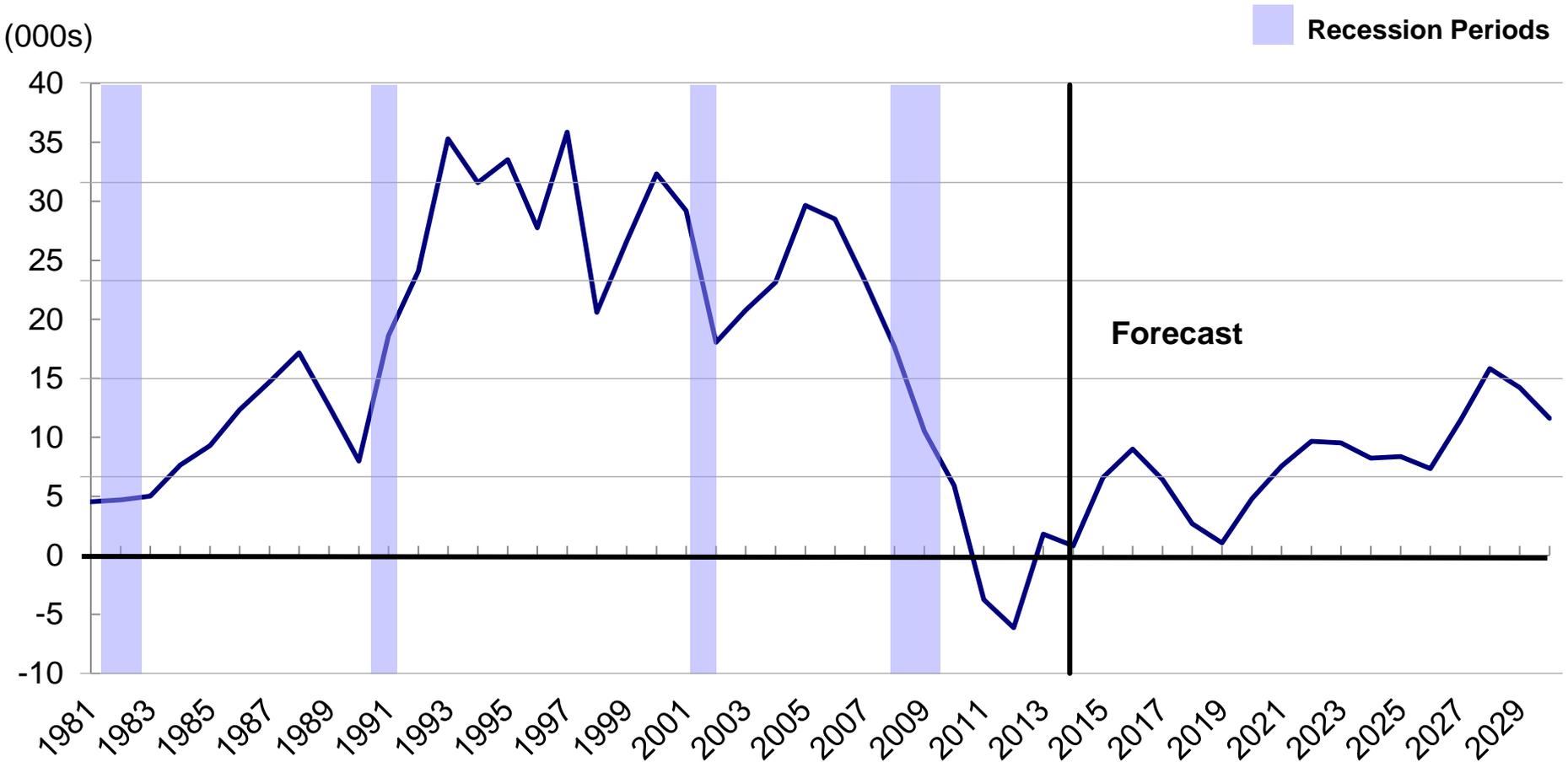
Source: 2013 Consumer Expenditure Survey; U.S. Bureau of Labor Statistics



Peak Spending Cycle

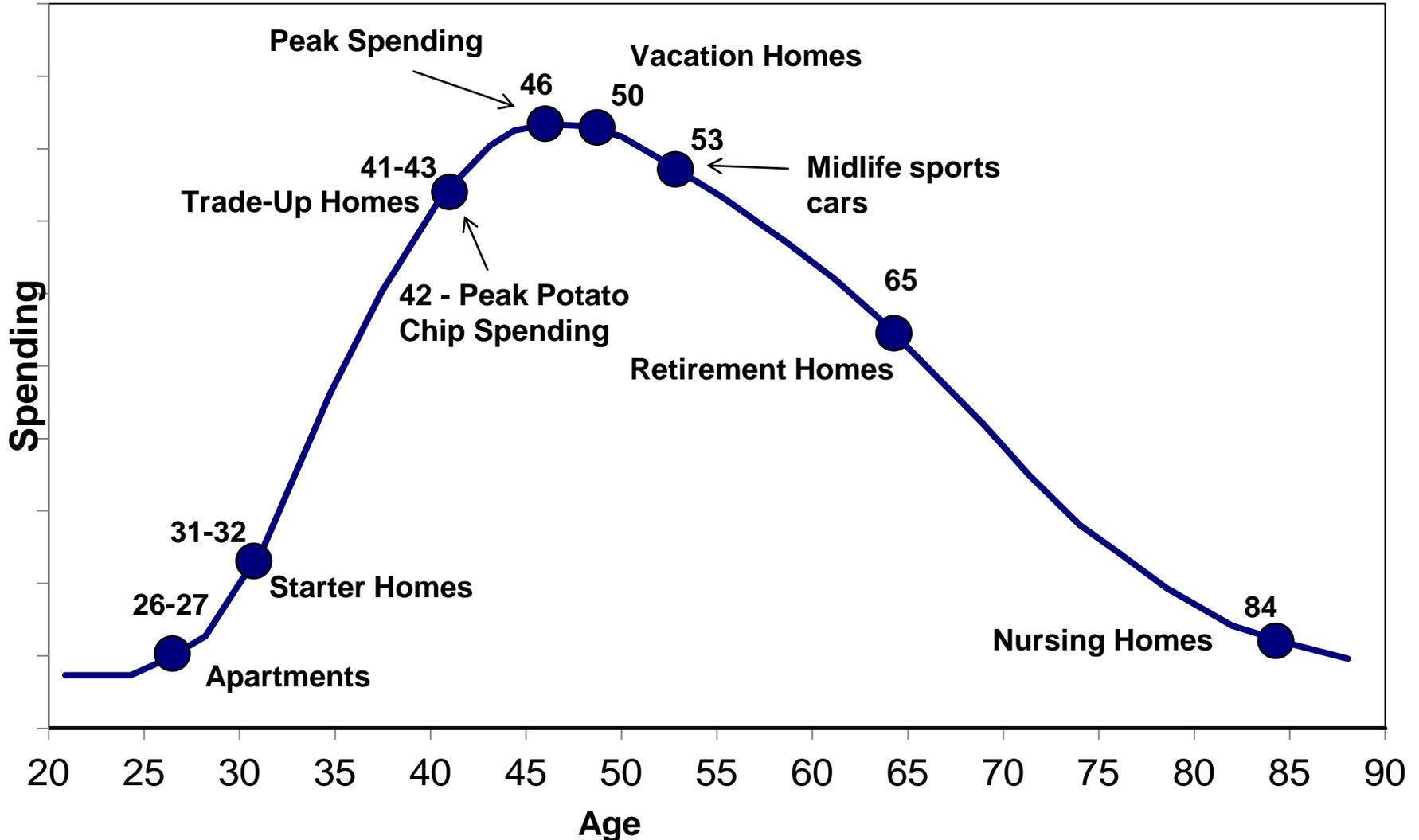
Net Change in Arizona Population Ages 45-54 1981-2030

Source: 2013 Consumer Expenditure Survey; U.S. BLS; AZ Dept. of Administration



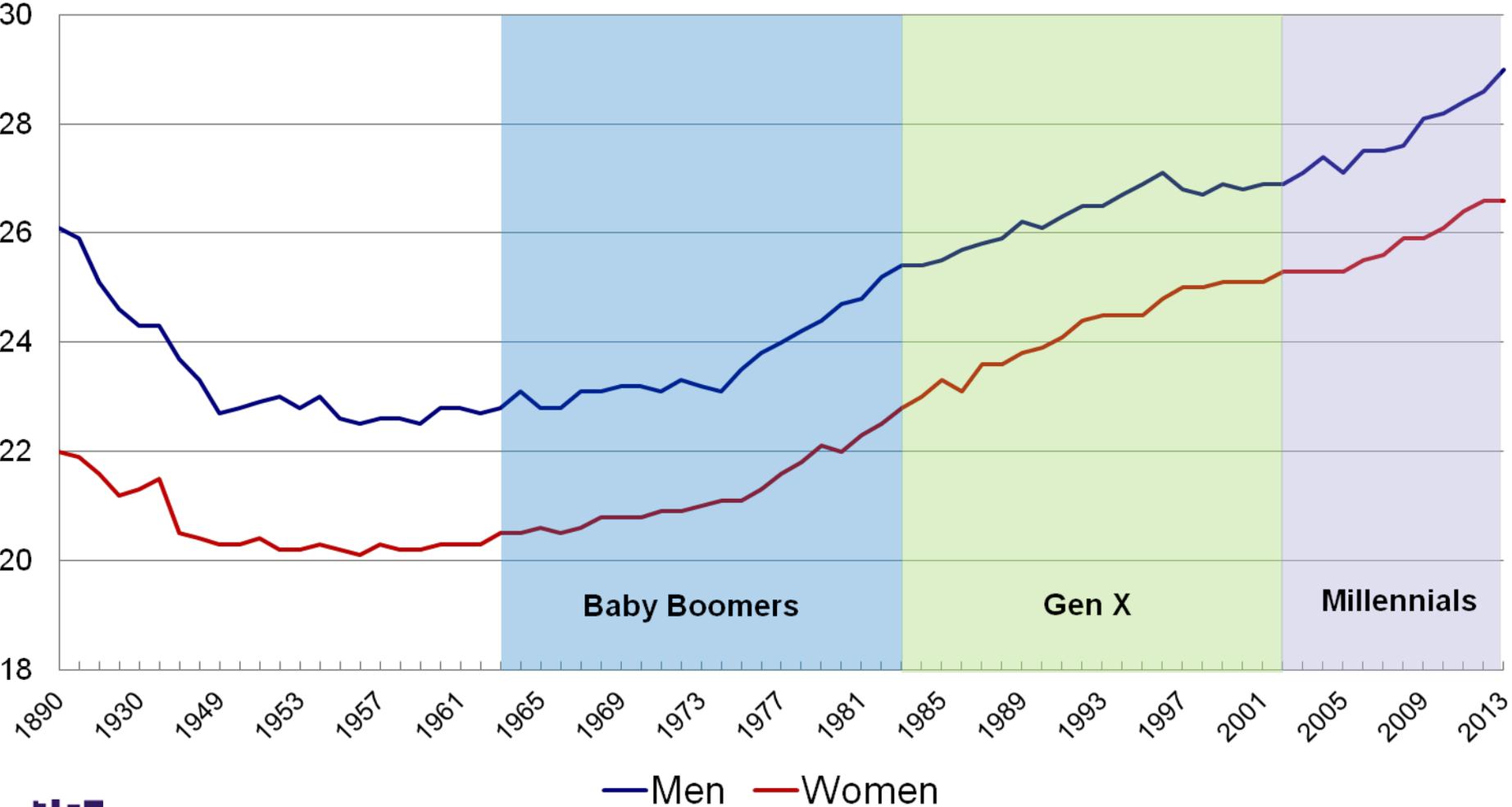
Consumer Life Cycle

Source: U.S. Census Bureau; Dent Research; EDPCo



U.S. Median Age at First Marriage 1890-2013

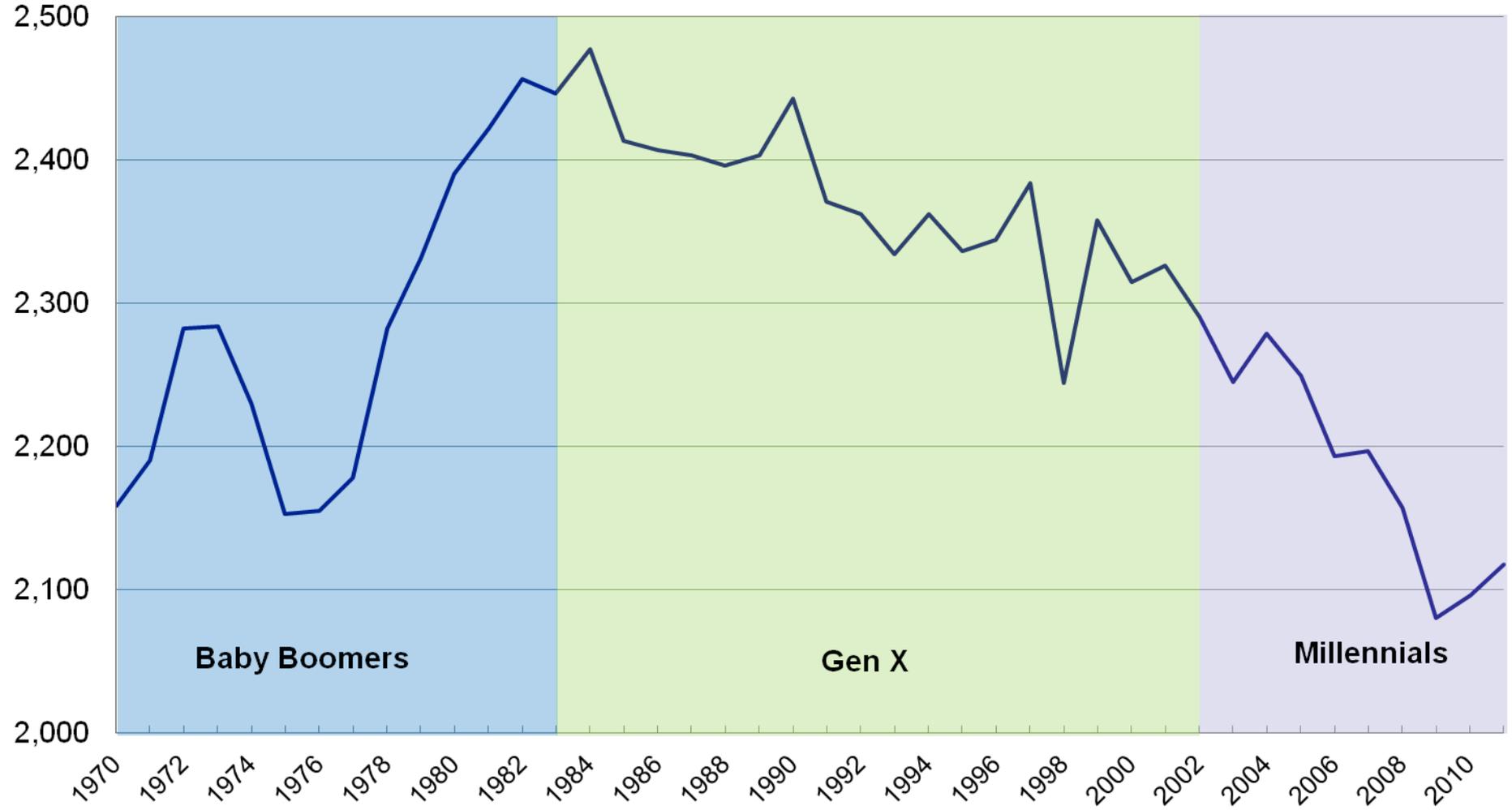
Source: U.S. Census Bureau



U.S. Number of Marriages 1970-2011

Source: U.S. Census Bureau

(000s)

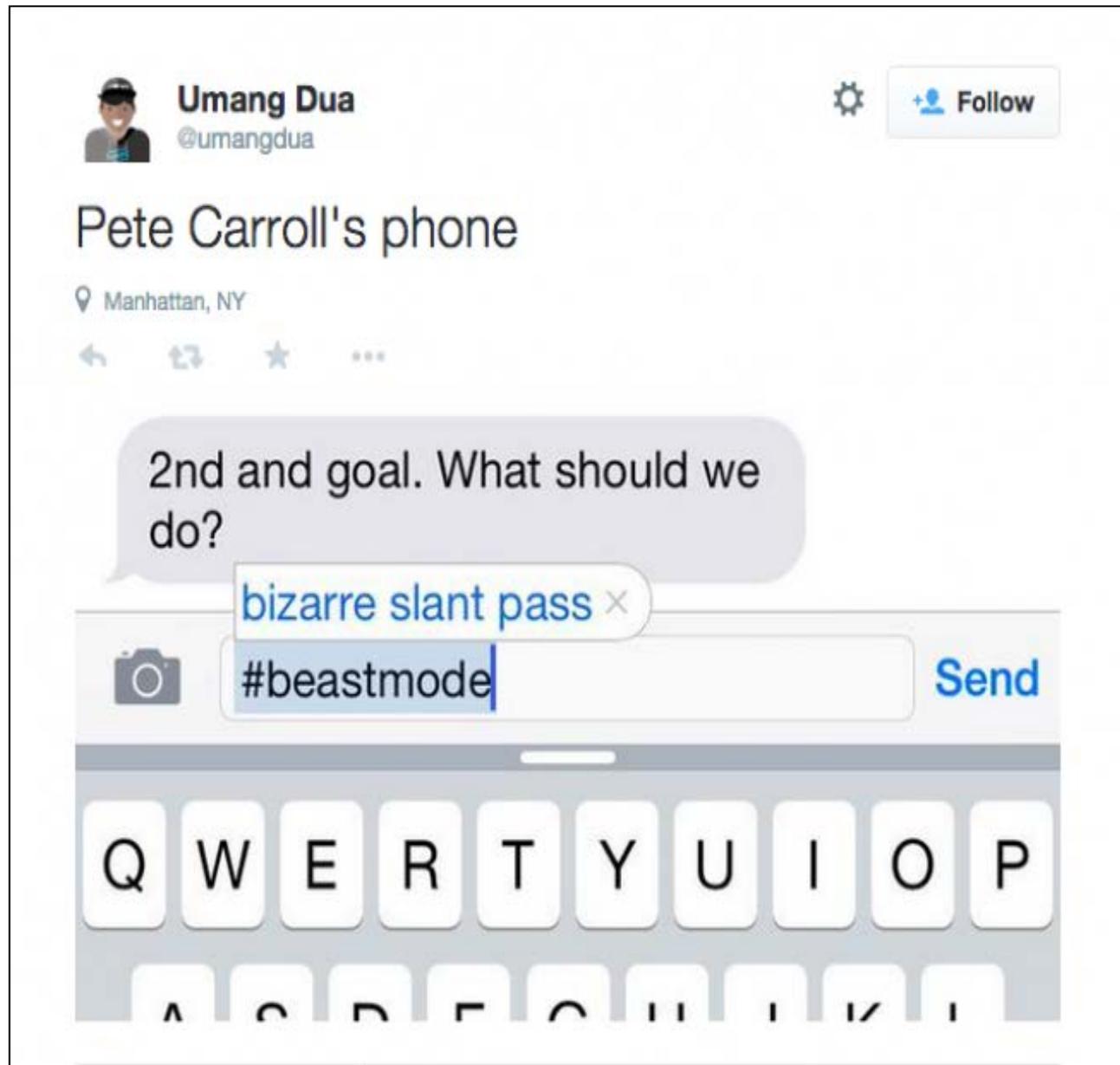


Bottom Line

**Okay Intermediate Term Growth
- just bad demographics**



AZ: Keep it simple.

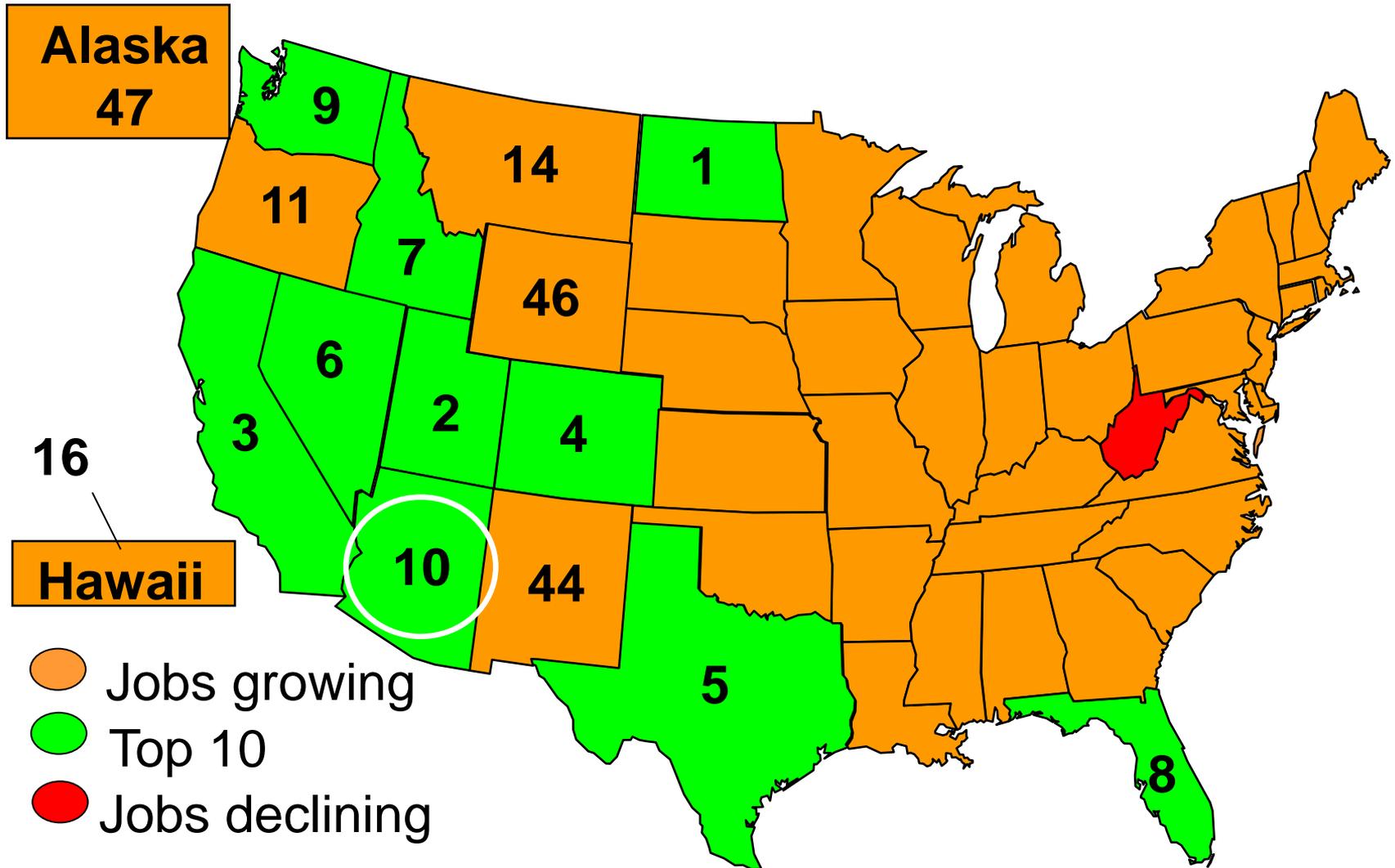


Wish you weren't here?



Job Growth 2013

Source: US BLS

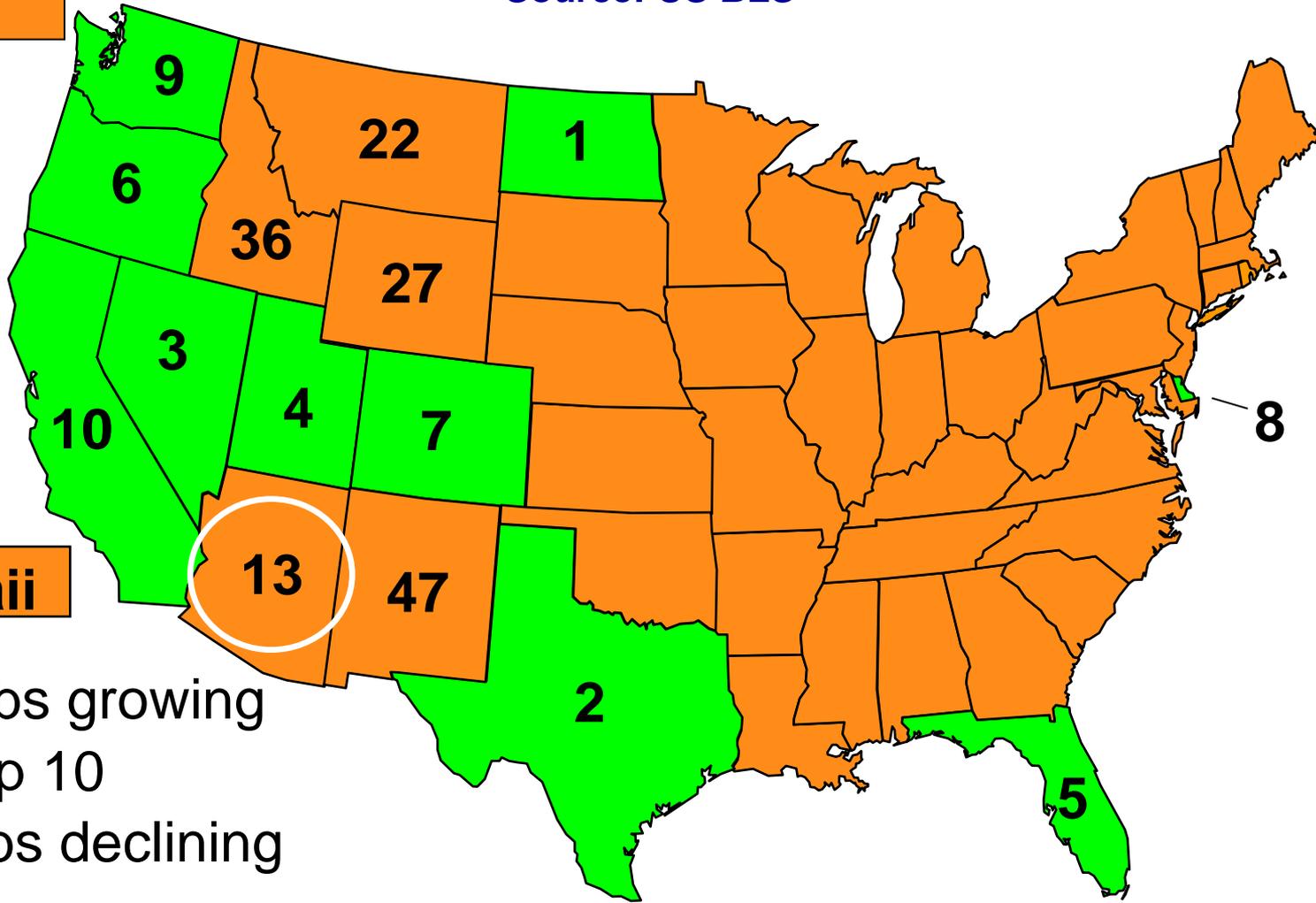


Job Growth 2014

Preliminary 2014 vs 2013

Source: US BLS

Alaska
50

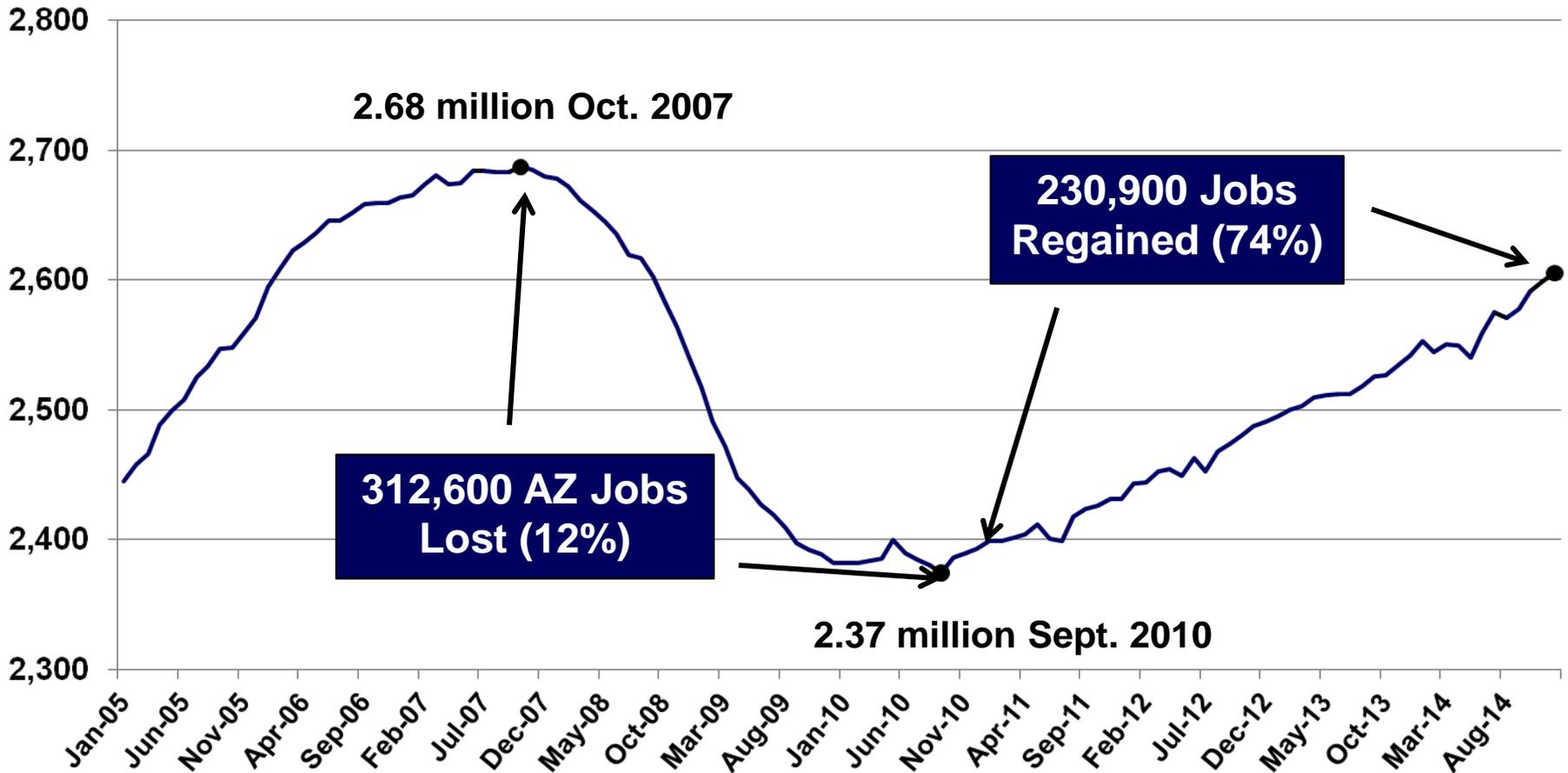


Hawaii
29

- Jobs growing
- Top 10
- Jobs declining

AZ Has Regained 74% of Lost Jobs

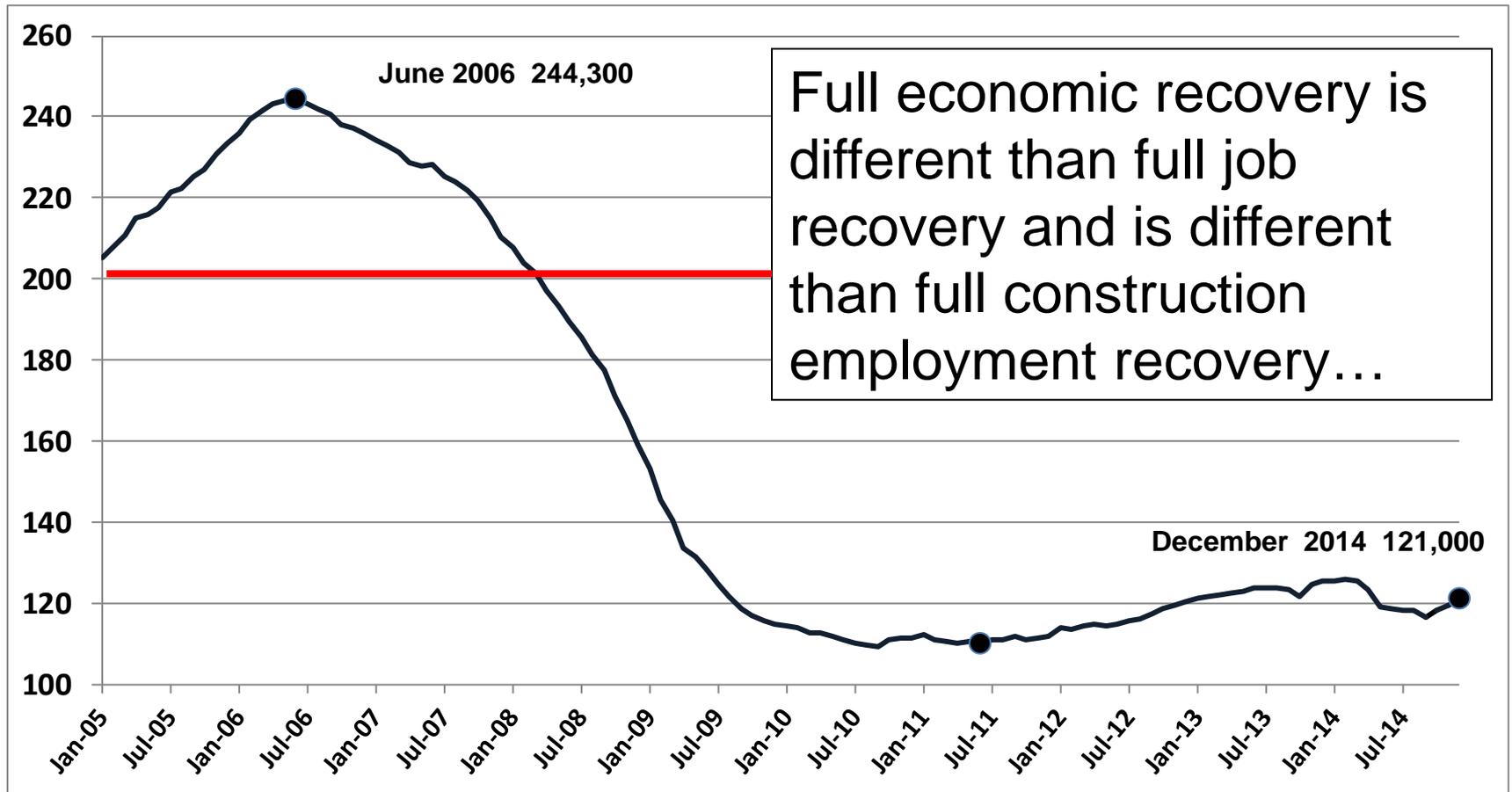
81,700 Jobs (26%) Still to Recover



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



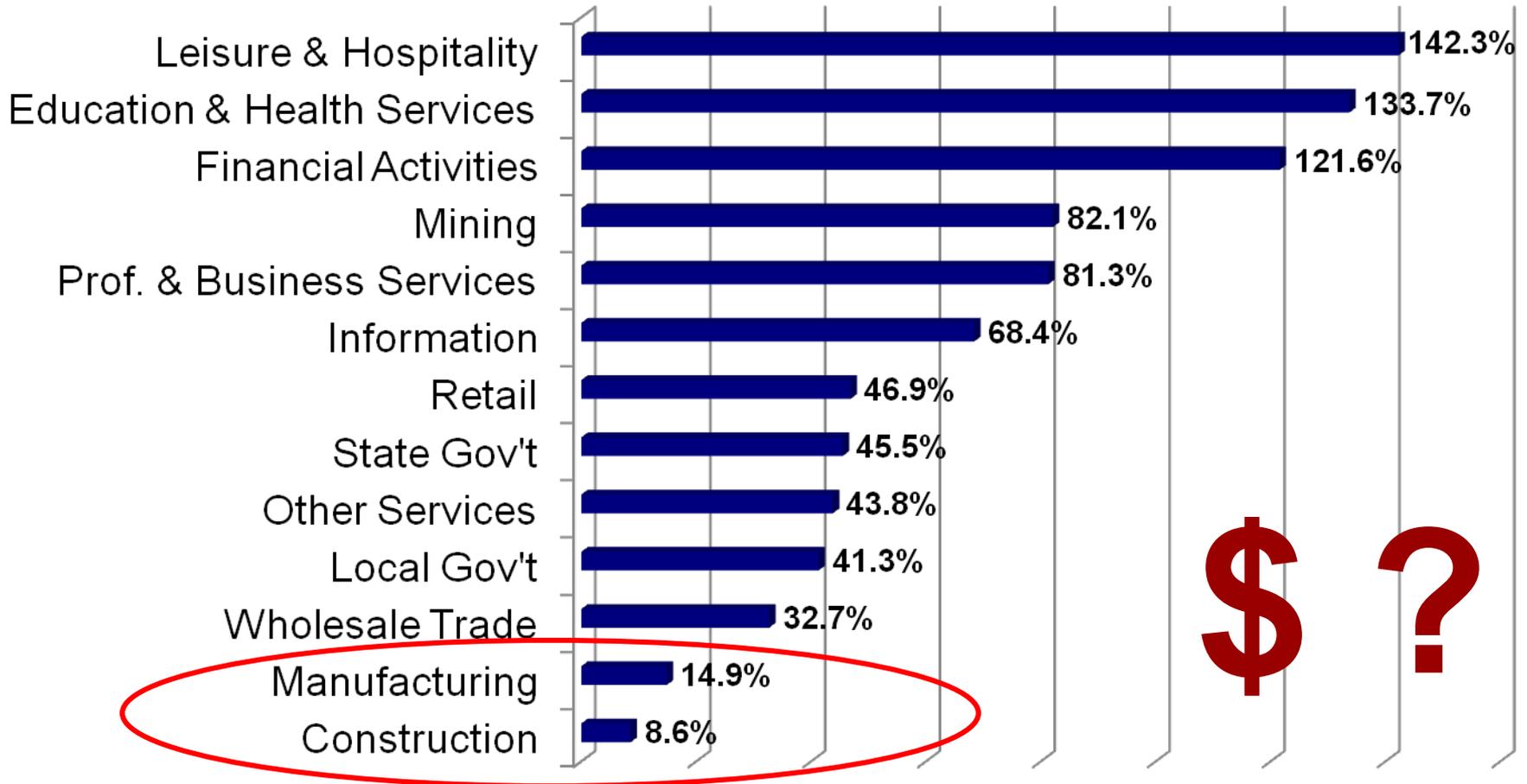
Arizona Construction Employment is Still Down by 123,300 Jobs (91%) Since Peak



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



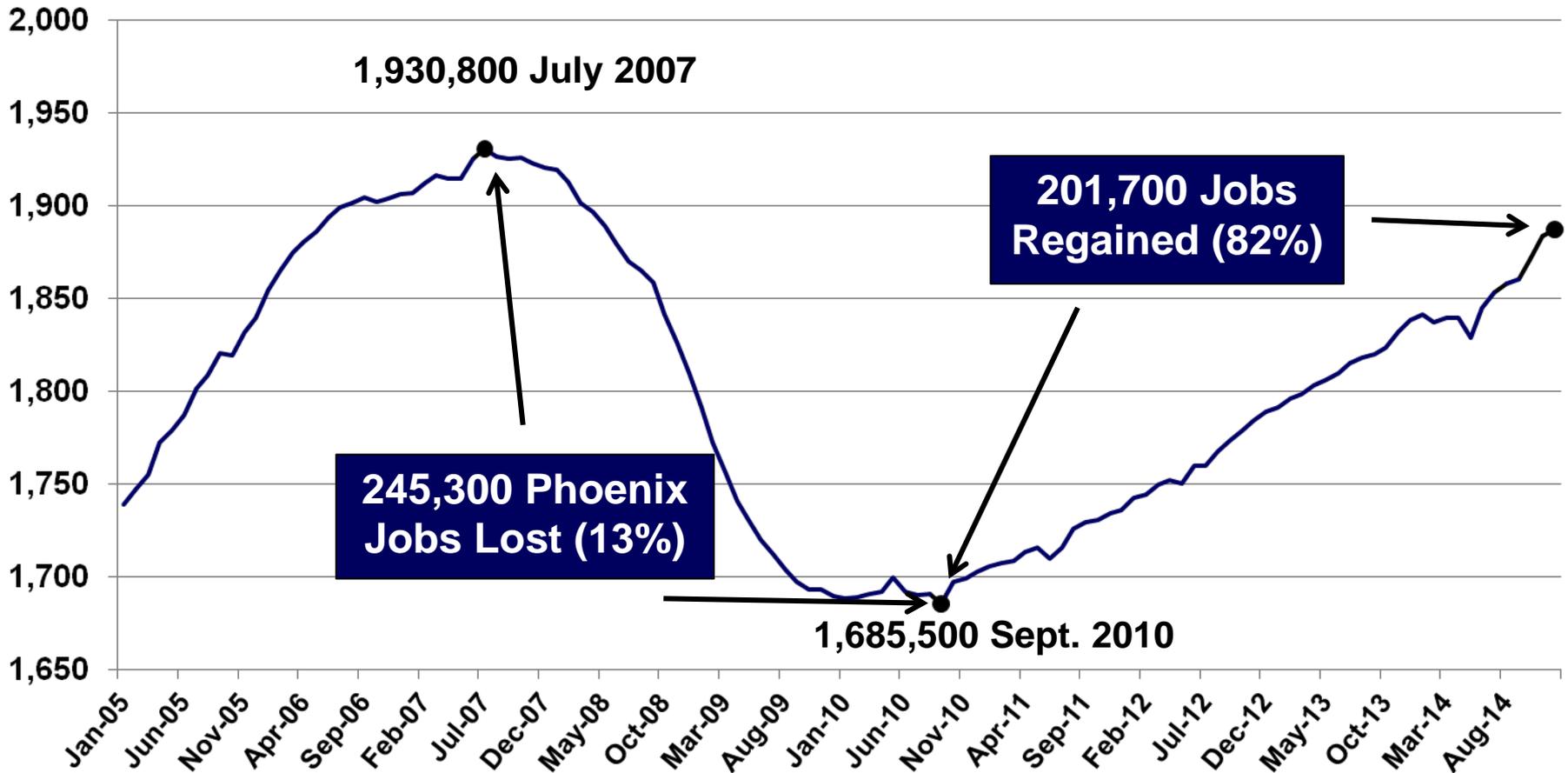
Arizona Jobs Regained Since Bottom of Cycle— Most Industries Yet to Regain Lost Jobs



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



Greater Phoenix Has Gained 82% of Lost Jobs 43,600 Jobs (18%) Still to Recover



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



Think about it...

**This is the perfect case study of
what the AZ economy looks like
w/o growth!**



Arizona Population Growth Rank 1991-2014

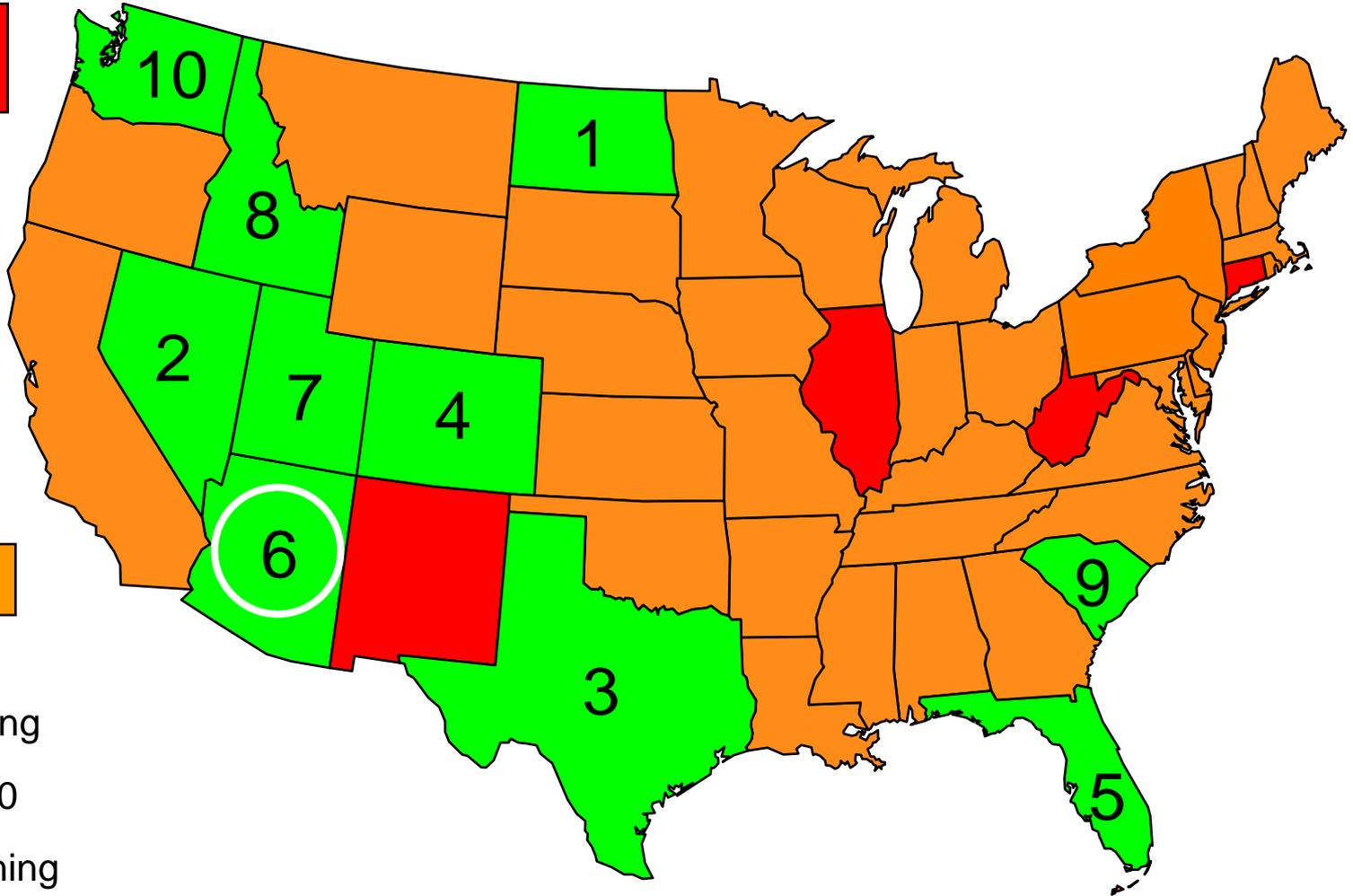
Source: Census Bureau



Population Growth 2014

Source: U.S. Census Bureau

Alaska



Hawaii

-  Growing
-  Top 10
-  Declining



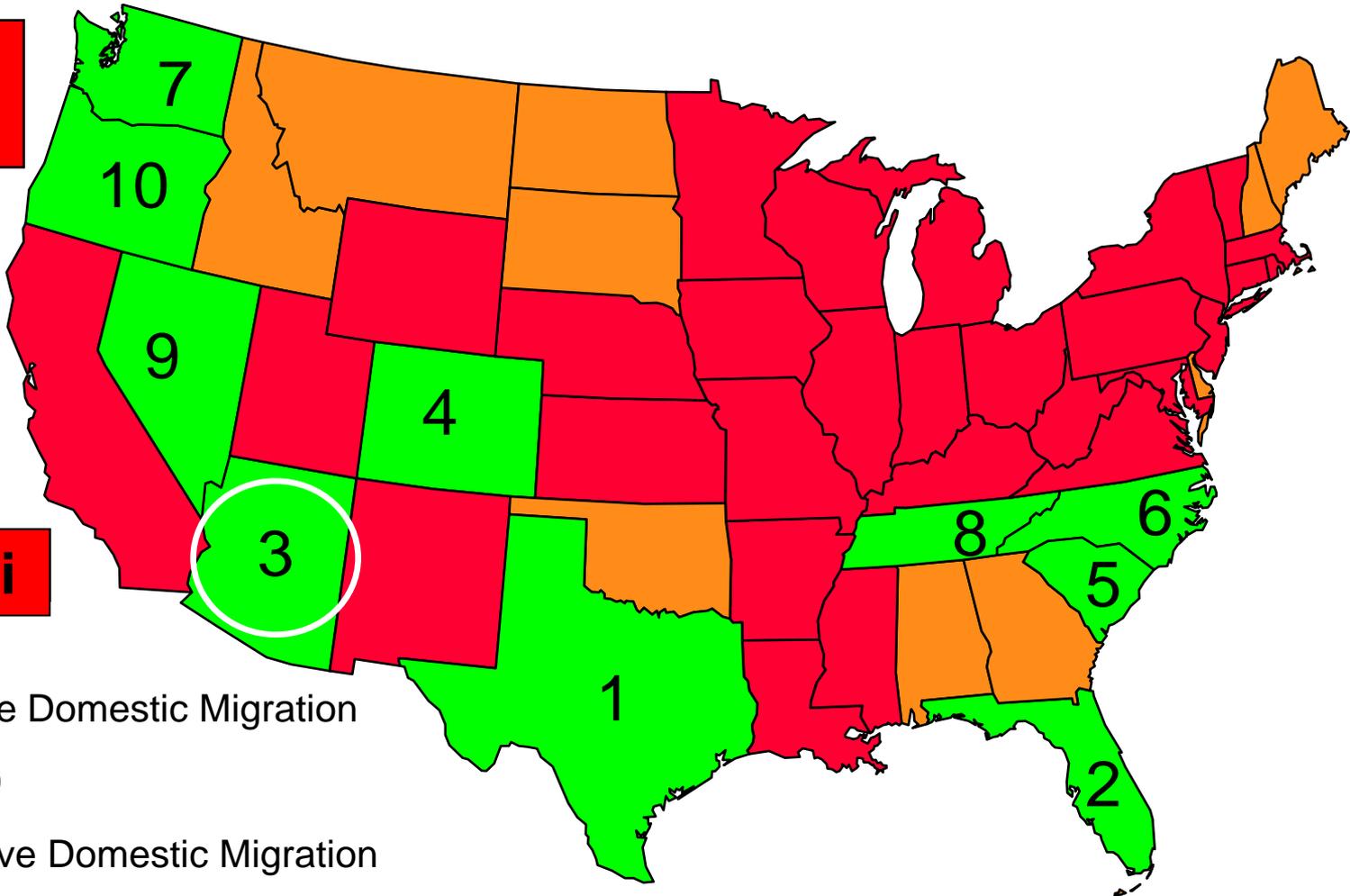
Domestic Migrant Ranking 2014

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



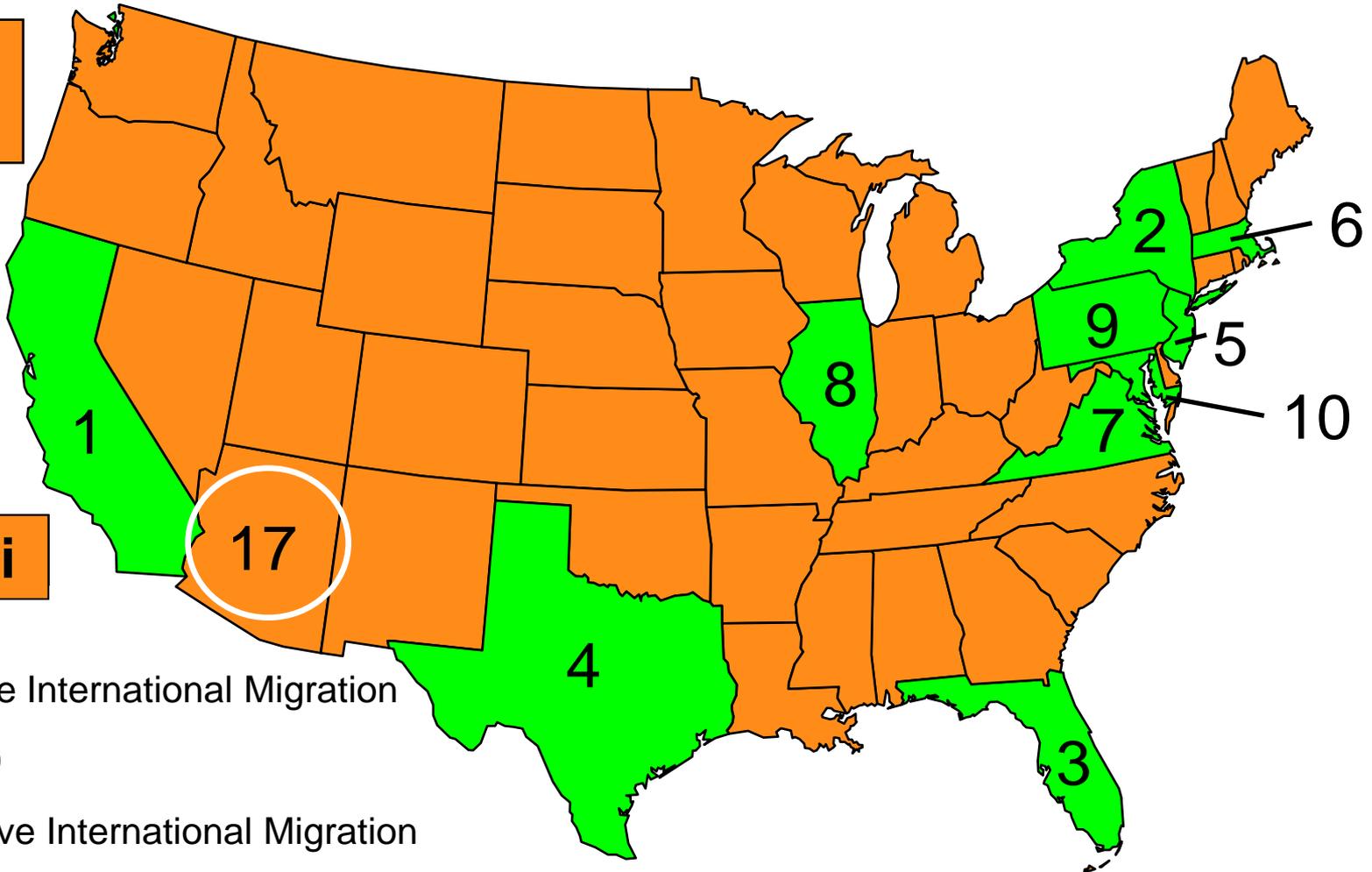
International Migrant Ranking 2014

Source: U.S. Census Bureau

Alaska

Hawaii

- Positive International Migration
- Top 10
- Negative International Migration



Arizona International Migration Ranking

Source: U.S. Census Bureau

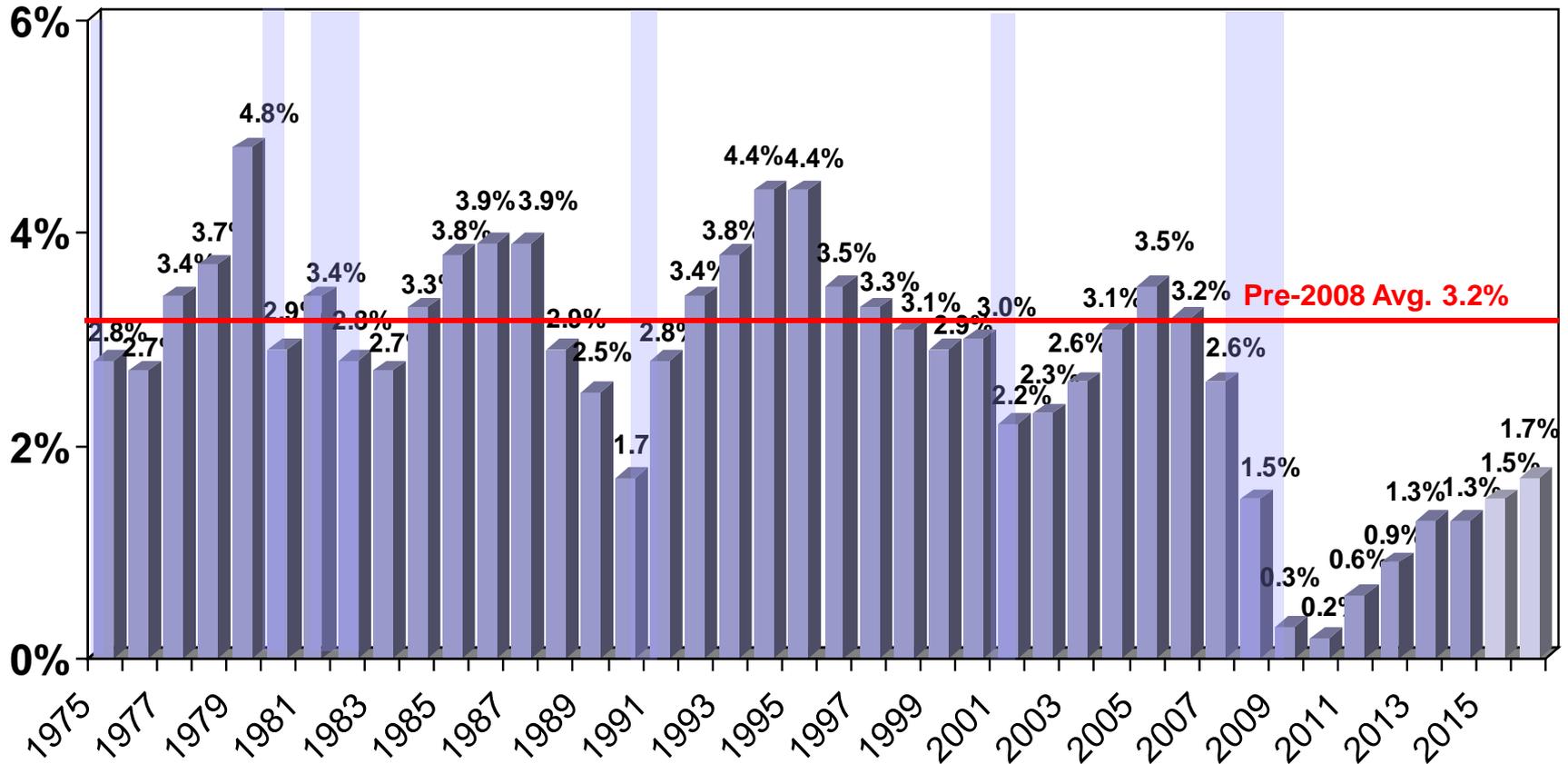
Year	Rank
2005	7
2006	8
2007	7
2008	8
2009	8
2010	18
2011	17
2012	17
2013	17
2014	17



Arizona Population Annual Percent Change 1975–2016*

Source: AZ Dept. of Administration, EDPCo

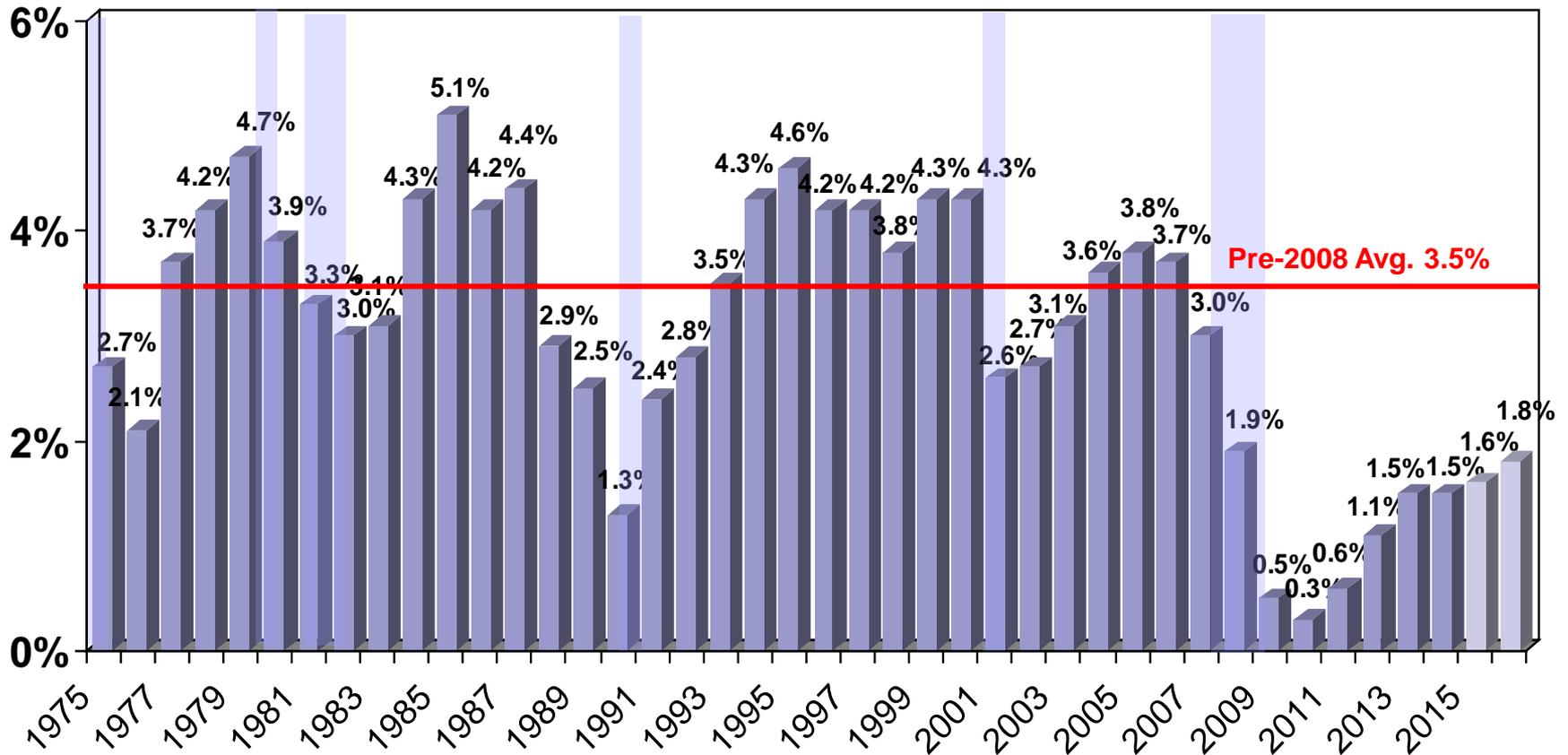
■ Recession Periods



Greater Phoenix Population Annual Percent Change 1975–2016*

Source: AZ Dept. of Administration, EDPCo

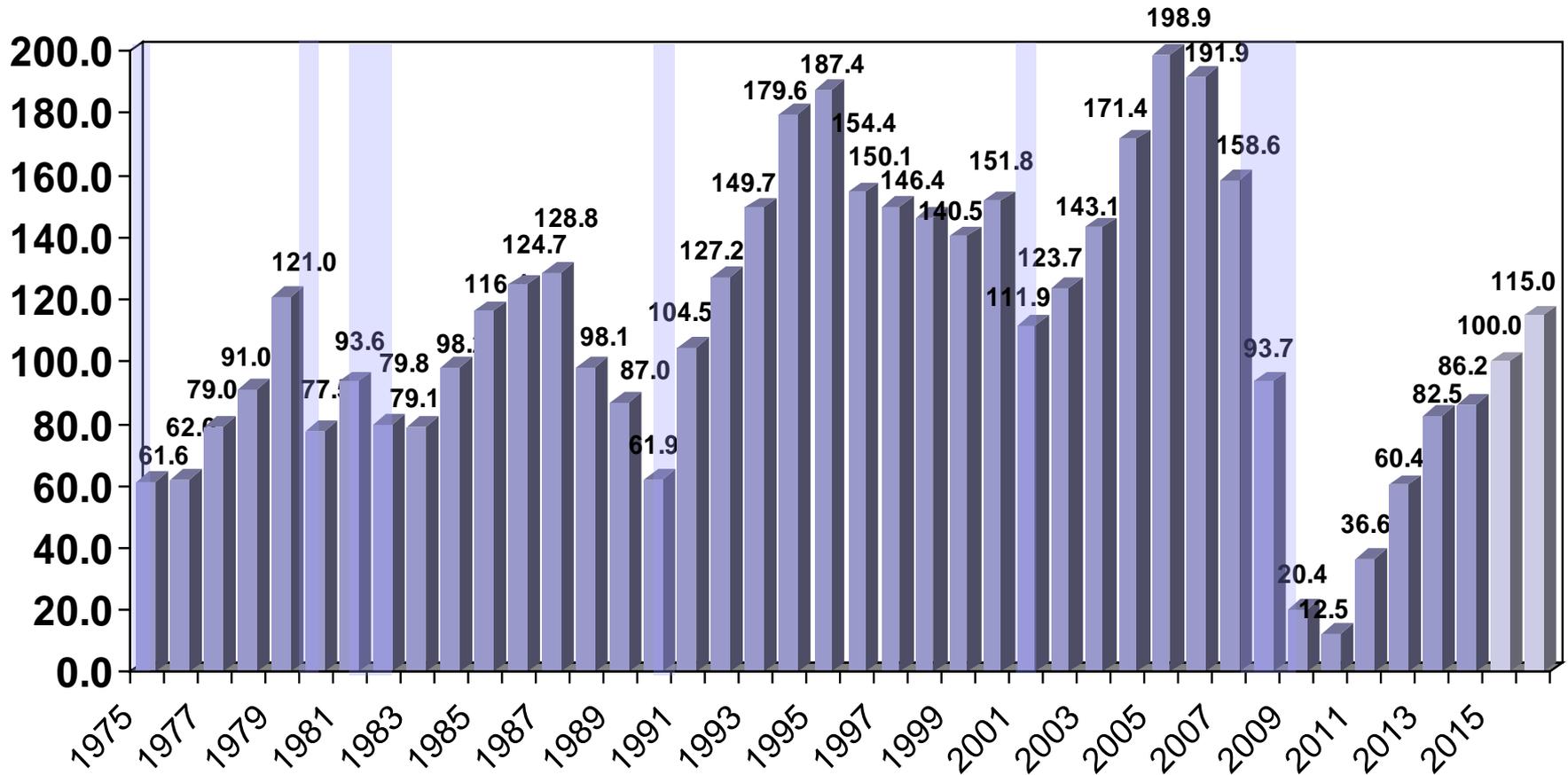
Recession Periods



Arizona Population Annual Net Change 1975–2016*

Source: AZ Dept. of Administration, EDPCo

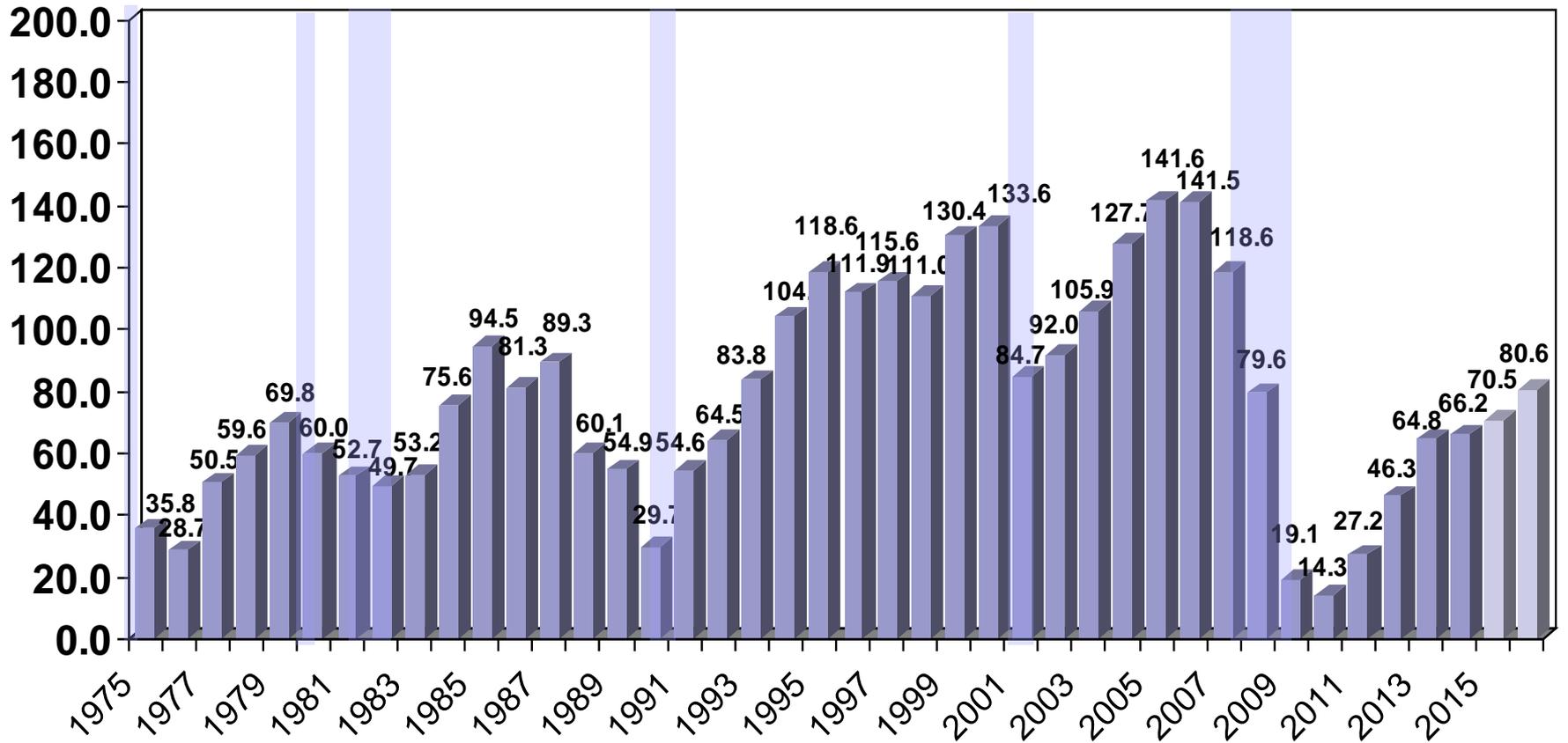
Recession Periods



Greater Phoenix Population Annual Net Change 1975–2016*

Source: AZ Dept. of Administration, EDPCo

Recession Periods



How quickly are population flows going to recover?

- (1) US Economy? **Stronger.**
- (2) Local Jobs? **Improving.**
- (3) Financial Issues? **Not Yet.**



Why aren't people moving/ buying?

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



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...**



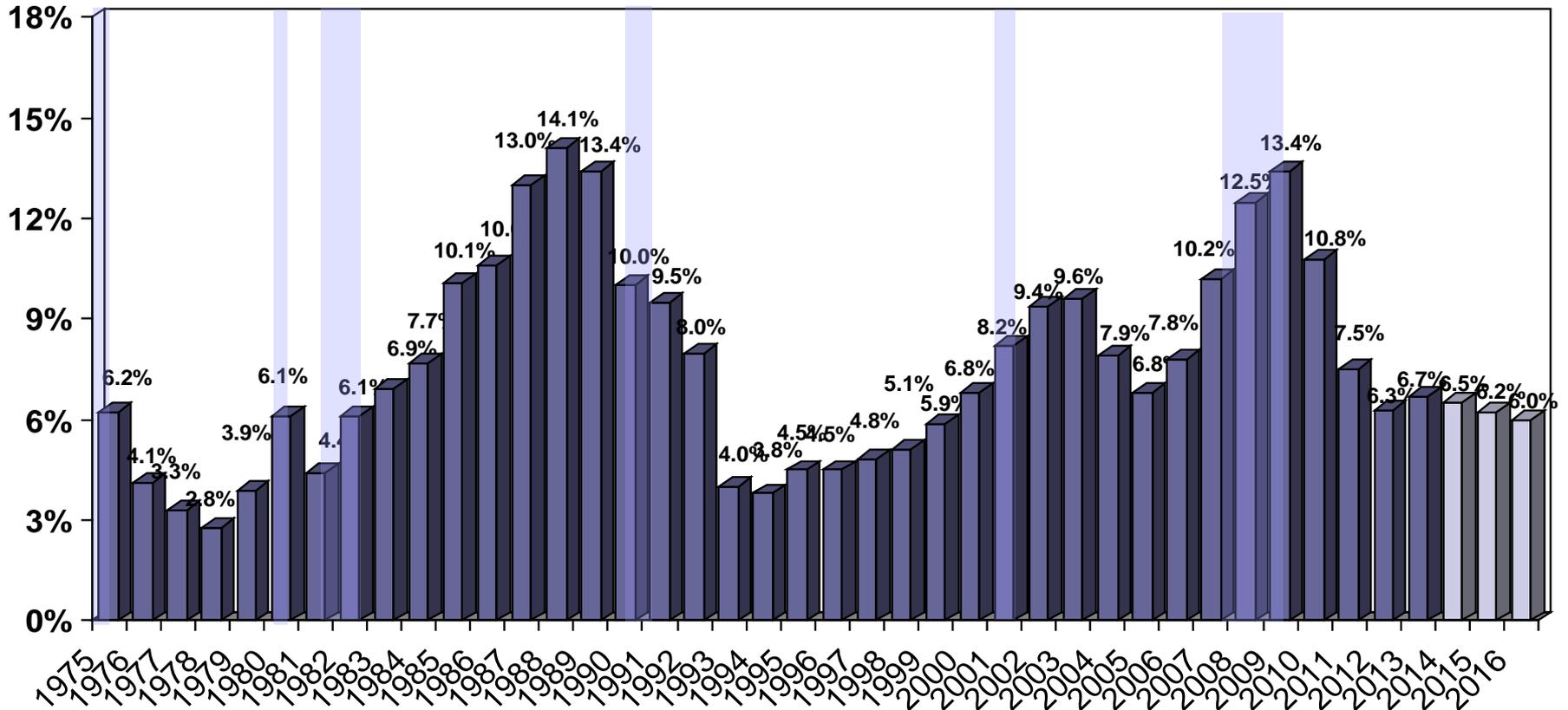
Multi-Family



Multi-Family Year-End Vacancy Rates Maricopa County 1975–2016*

Source: ASU Realty Studies / Berkadia**

Recession Periods



*2014, 2015 & 2016 are forecasts from *Elliott D. Pollack & Co.*

**Data prior to 2005 is from ASU



Multi-Family Housing Market

Source: PMHS and Berkadia

	<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	7,729	303
2012	2,950	910
2013	3,660	2,390
2014	6,750	4,970



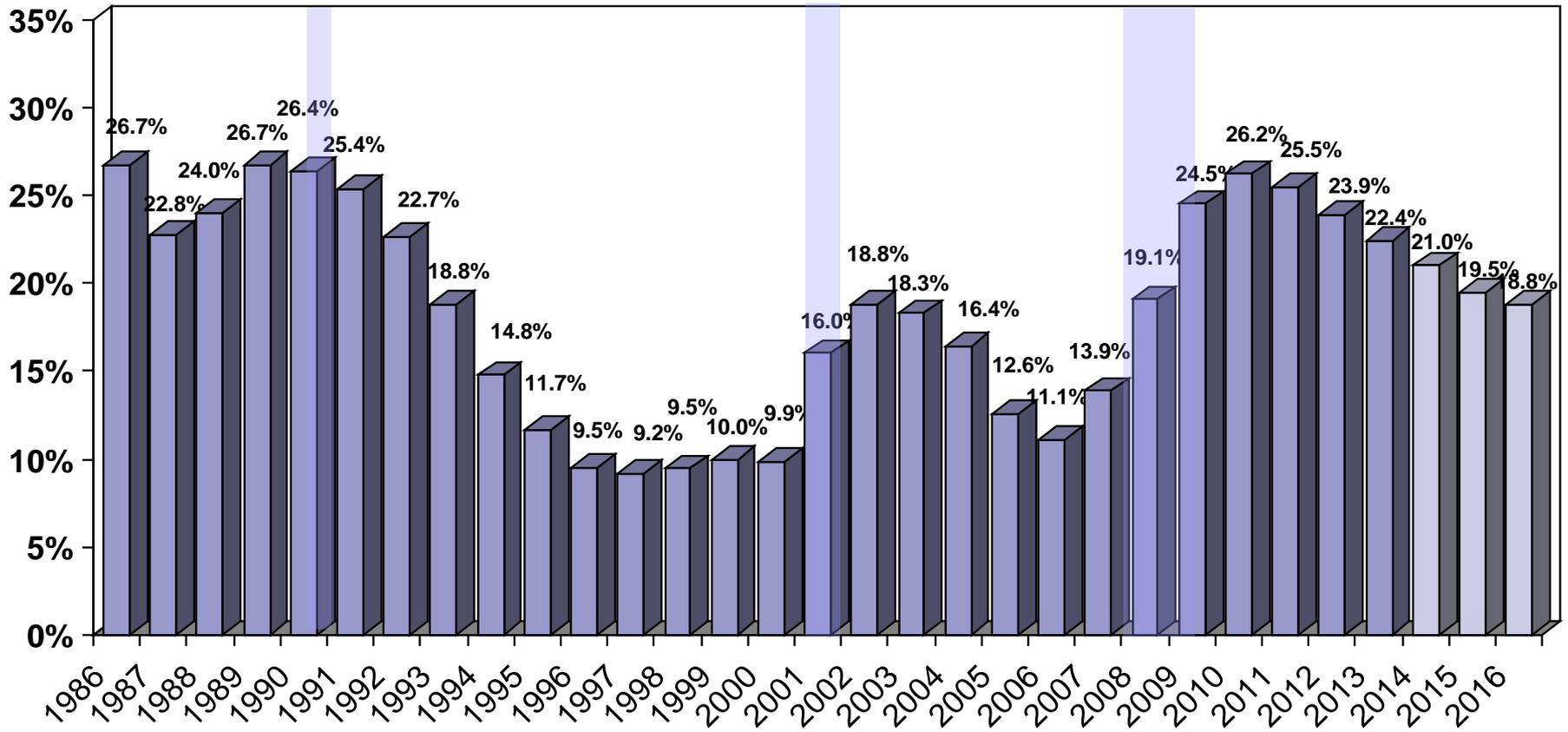
OFFICE



Office Space Year-End Vacancy Rates Maricopa County 1986–2016*

Source: CBRE

Recession Periods



*2014, 2015 & 2016 are forecasts from Elliott D. Pollack & Co.



Greater Phoenix Office Market*

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
2005	3,119,293	7,987
2006	3,245,888	**2,320,302
2007	1,500,704	4,905,374
2008	(603,112)	3,402,646
2009	(667,329)	1,798,415
2010	233,670	2,011,404
2011	1,857,433	3,144,910
2012	2,020,529	973,282
2013	1,721,366	(35,566)
2014***	1,458,559	701,300

*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.

***Data through third quarter 2014



INDUSTRIAL

Meanwhile



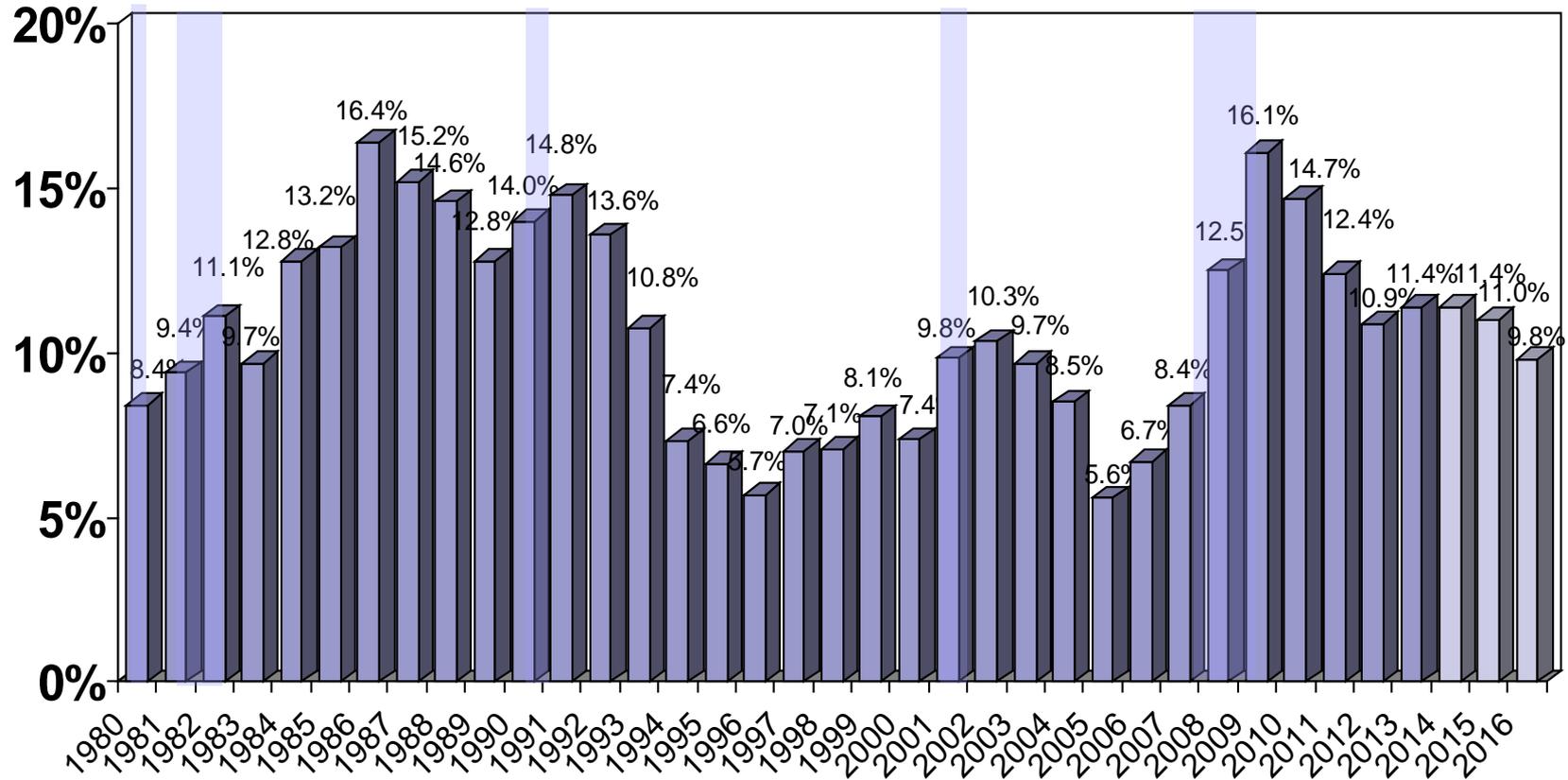
At the mattress factory



Industrial Space Vacancy Rates Greater Phoenix 1980 – 2016*

Source: CBRE

Recession Periods



Greater Phoenix Industrial Market

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
2005	13,349,129	7,072,477
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	7,405,168	3,358,724
2013	8,783,982	8,902,571
2014*	4,978,228	5,060,168

*Data through third quarter 2014



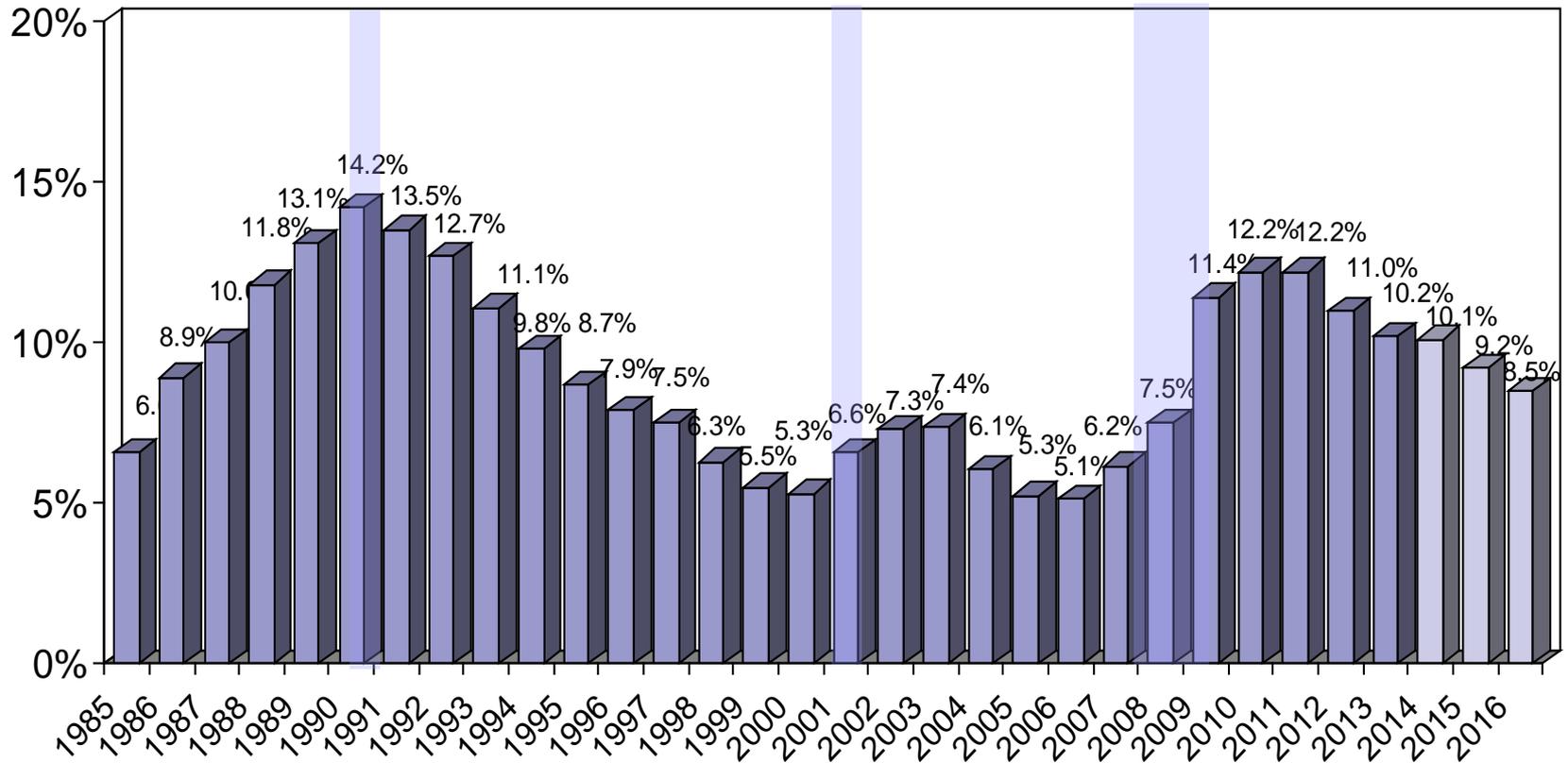
RETAIL



Retail Space Vacancy Rates Greater Phoenix 1985–2016*

Source: CBRE**

Recession Periods



* 2014, 2015 & 2016 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)
2005	6,708,155	6,248,789
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
2013	1,579,202	(325,959)
2014*	1,208,538	30,228

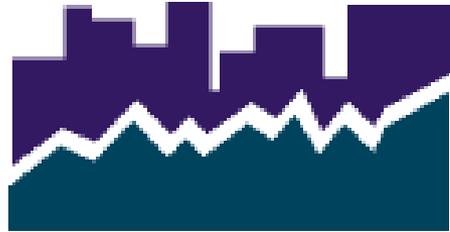
*Data through third quarter 2014



Arizona Summary

- (1) The economy is not “broken.”**
- (2) Job recovery isn’t that far off.**
- (3) Population movement has stalled everywhere.**
- (4) The causes (finances) are temporary.**
- (5) Now we know what AZ is like w/o growth.**
- (6) What can we actually do?**





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