Arizona Blue Chip
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Getting there is NOT Half the Fun

By Elliott Pollack

The first of the revisions to the 2008 employment data for Arizona and its political subdivisions were recently made available. These revisions are important because they make the data more accurate. While there will be a final set of revisions next February, it is generally the first revisions where the major changes are made. They will continue to tell a bleak story.

YEAR-OVER-YEAR

Employment for the State was down 2.1% in 2008, the largest yearly decline since 1975. The Phoenix-Mesa MSA showed employment declines of 2.4%. Employment revisions for Tucson actually showed a more positive picture with employment down 1.1%.

DECEMBER-OVER-DECEMBER

Virtually all sectors of the economy showed declines from December 2007 to December 2008. For the State as a whole, employment was down 5.6%, or more than 152,000 jobs, over that twelve month period. Every major sector with the exception of metal mining (a small sector), health care and social assistance, and local government education was down. The only area of manufacturing that grew was aerospace, which actually showed an increase of 700 jobs over the twelve month period.

A NEW YEAR?

The declines continued into 2009. January 2009 versus January 2008 was down 155,000 jobs for the state as a whole. As of January, goods producing employment was down 14.7% from the year earlier. Private sector service producing employment was down 5.7% and total nonfarm was down 5.9% from a year ago. As of January 2009, only health services and government showed any growth.

The pre-revision data showed the employment recession in Arizona starting in December 2007. Post revision data showed it starting in February 2008. The depth and length of this employment recession clearly makes this worse than any other in the post World War II period. This stems from a combination of factors, some national and some local. The recession is likely to last longer because of the housing bubble and its effect on Arizona. In essence, Arizona built ten years of housing in the first seven years of the decade. Thus, housing that would have been built now already exists.

Historically, Arizona grows at approximately 2.3 to 2.5 times the national average. For the first seven years of this decade, Arizona grew at 4.3 times the national average. Had the excess housing that was built in the first seven years of the decade not been built, Arizona would have grown at a rate closer to the 2.5 times average.

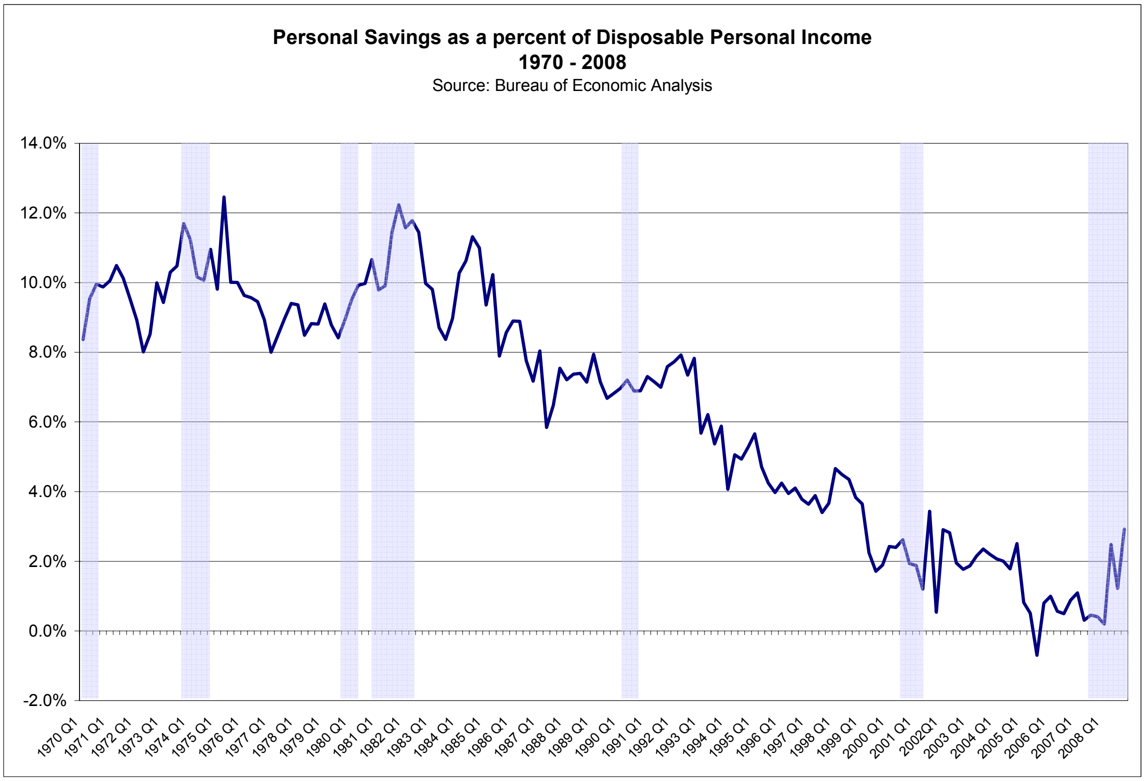
BASICS

The average person is over-extended in terms of debt and has little traditional savings. The average person spent far more than would be justified economically in the 1990's because of wealth created from stock market profits and in the first part of this decade the party continued when housing prices were skyrocketing and people used their house as a credit card. We are now paying the piper. Getting back to "normal" will not be fun. It will take a significant time period to pay down debt and increase traditional savings. This means less spending. The result has been substantial declines in purchases of all consumer items, but especially durable goods. Auto sales are down 40 % from a year ago. Also, since Arizona overbuilt housing in the earlier part of the decade, it will be quite some time before the demand for new housing picks up again significantly. We estimate in the Phoenix market alone, there could be 40,000+ excess single-family homes at the present time. The problem is exacerbated by the fact that if you can't sell your home in Phoenix, you probably can't sell it in California, Michigan, Pennsylvania or other places people come from to come to Phoenix. Thus, population inflows have slowed.

On top of that, one must overlay the credit crunch. For those people that are qualified for credit, and there aren't nearly as many of those as there used to be, getting credit is still difficult. The result is that the difficulties in the economy are likely to be drawn out. The recovery is likely to be a U not a V. Yet, a recovery could start as soon as the fourth quarter of this year or the first half of next year simply because the comparisons become so easy. The present economic circumstances did not justify the type of declines, especially in autos, that have occurred. But, the underlying need for consumers to restructure their balance sheets and the huge supply of excess capacity that exists in the manufacturing sector suggests no quick fix and a relatively slow recovery.

Keep in mind that even during the major recession of the depression era, the one that lasted from August of 1929 to March of 1933, the recovery that followed was very strong. Indeed, industrial production increased by almost 13% per year between the end of the recession in March of 1933 and the beginning of the next recession in May 1937. We do not expect the recovery of this recession to be nearly as strong.

In essence, the nation is paying the piper for the spending spree that went on in the 1990's and in the early part of this decade. That party is now over. In Arizona, we also have a severe hangover because of the overbuilding in housing. The slowdown will also lead to overbuilding in commercial activity as well.



We will get out of this. The long term dynamics for Arizona appear to be every bit as good today as they have ever been. Indeed, if the legislature takes advantage of the situation to revamp our tax structure to make us more user friendly, especially to export related industries, (export meaning where the goods are sold out of state) we will come through this in better shape than before it all started. However, getting there will not be half the fun.