



The (insert word here) Recovery Continues...

**Pinal Partnership
December 6th, 2013**

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



You Choose...



The Anemic Recovery?

Feeble

Frail

Sickly

Listless

Weak

Inspid

Wishy-Washy

Vapid

Bland

Lackluster

Ineffective

Pathetic



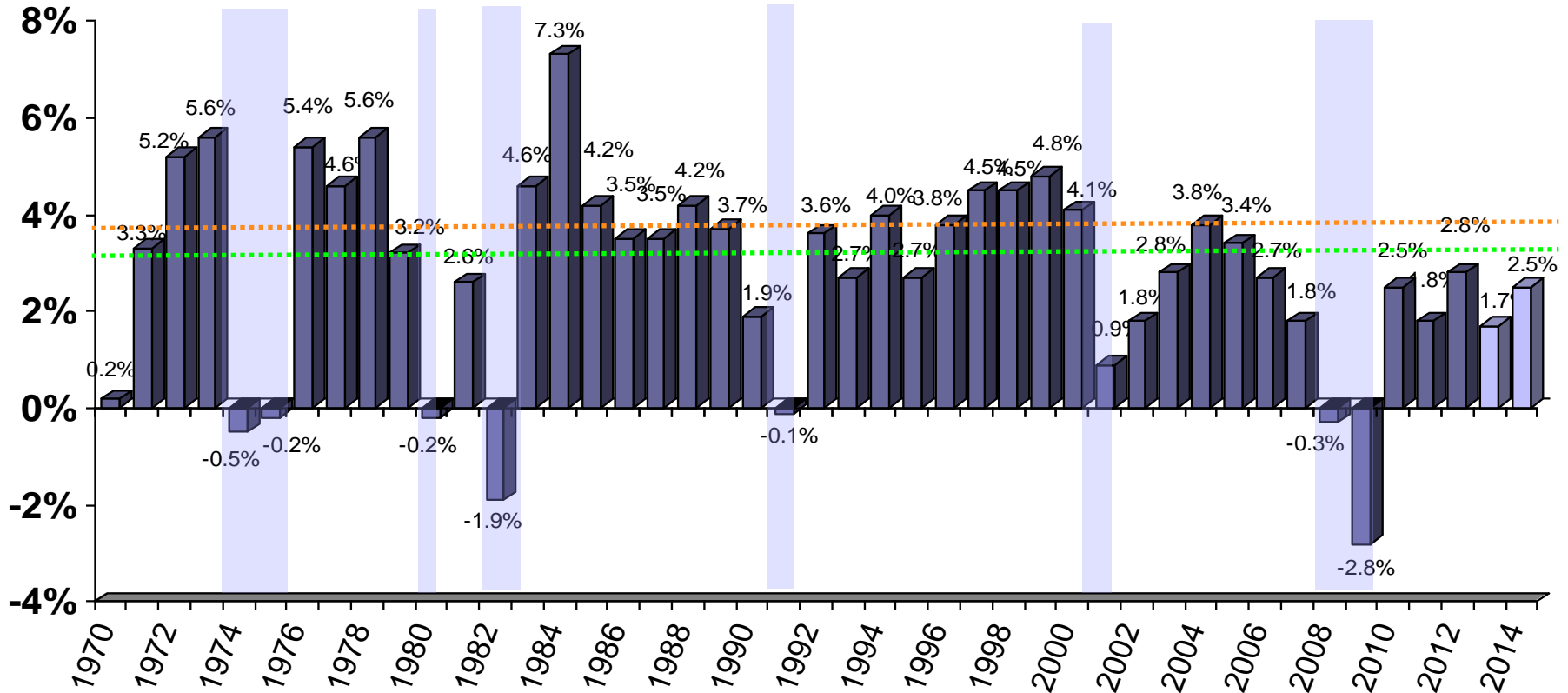
The Mediocre Recovery?

Uninspired
Indifferent
Unexceptional
Run-of-the-mill
Inferior
Of poor quality
Second rate
Bogus
Crappy
Lousy
Poor
Rinky Dink



United States Real Gross Domestic Product* Annual Growth 1970 - 2014**

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



* Based on chained 2009 dollars.

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

----- 3.8% = 40-year avg during expansion

----- 3.2% = 20-year avg during expansion

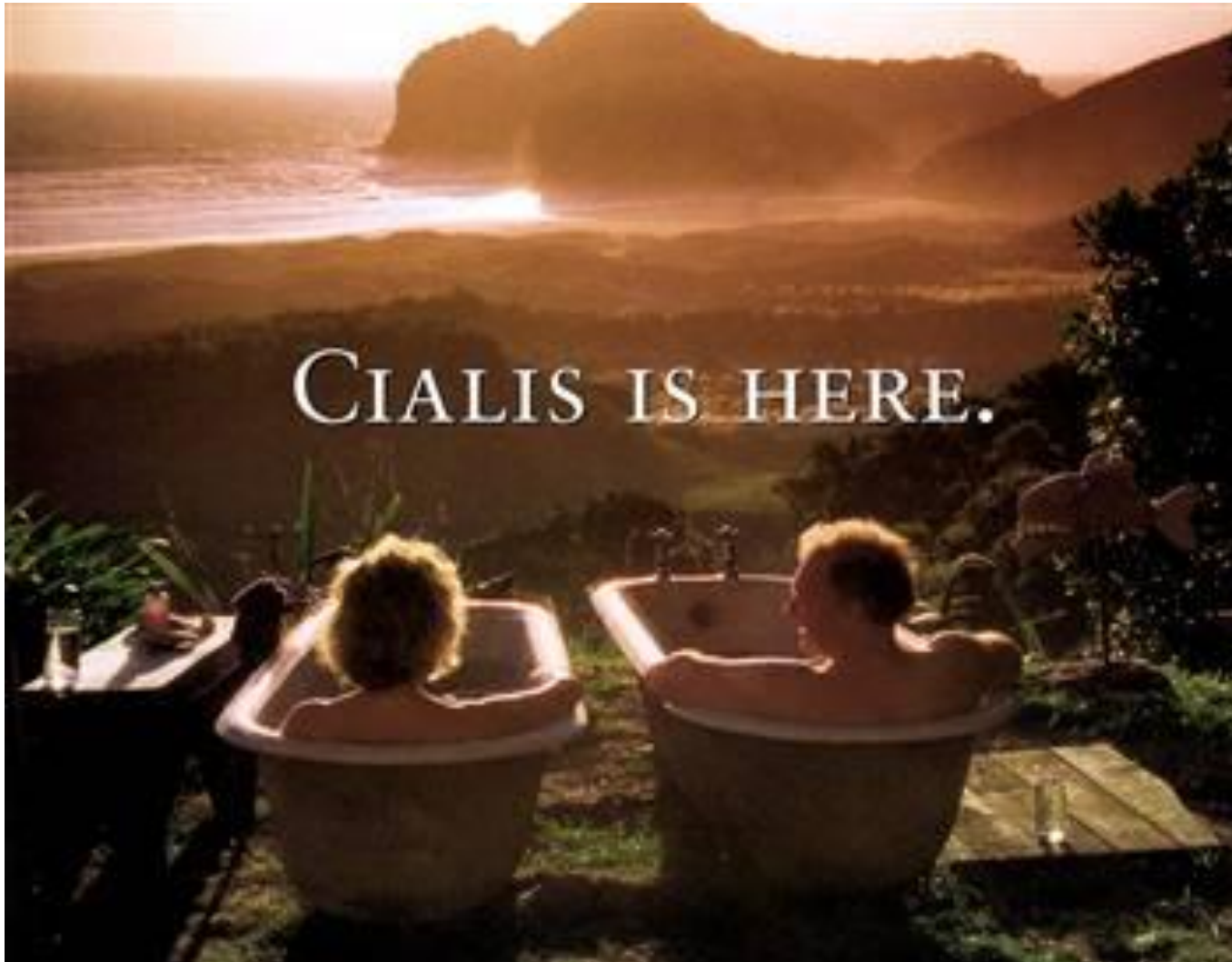
Recession Periods



**It is only because
conditions have been
so poor for so long
that we feel this
(insert word here) recovery
is OK.**



When will the recovery firm up?



Good News –

The recovery should continue because there are no significant imbalances.



Overall

- No irrational exuberance

Consumers

- Debt burden low
- Net worth improved
- Real income growth
- Liquidity improving
- Inflation low



Business

- No excess inventory
- No capacity issues
- Dollar not overly strong

Government

- No longer a drag on economy
- Fed policy still expansive

Housing

- Prices up but only as a rebound



NATIONAL ECONOMY –

**Continued subpar growth.
But, recovery should continue
and growth should accelerate.**



Uncertainty



No Acceleration to Income



- **70s, 80s, early 90s** – rapid increase in household formation.
- **90s** – huge increase in stock market.
- **96 – 2005** – rapid increase in housing prices and big jump in housing based credit.



■ **NOW - ????????**



- Stock market up, but not much from 2007 highs.
- Housing prices still way off peak.
- Revolving credit still flat.
- Participation rates declining.
- 14.5% of homes still underwater.





Bottom Line

Slower Long Term Growth



Skills Gap



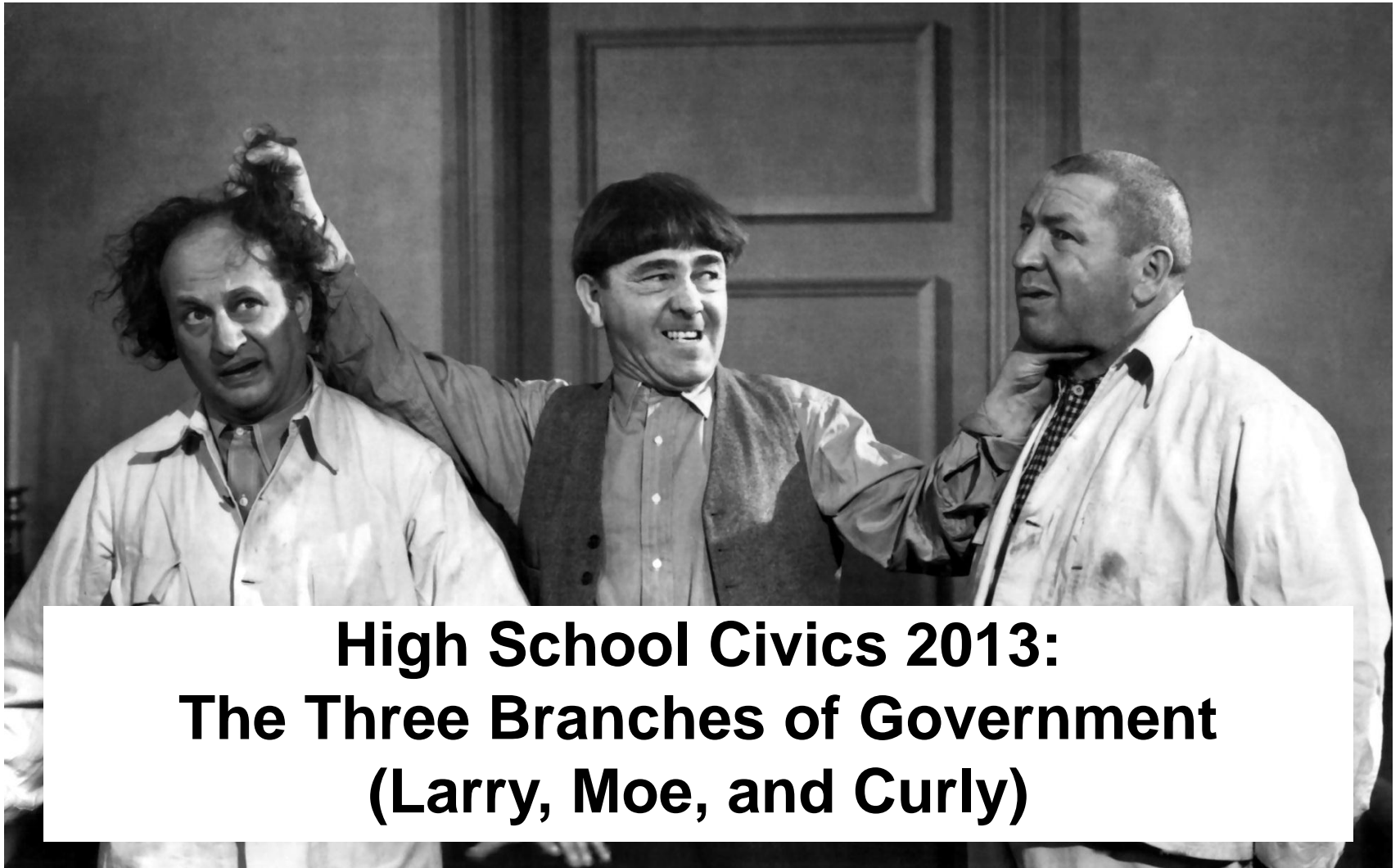


Car Wash

**ALL EMPLOYEES
TRAINED BY
MR MIYAGI**



Government Uncertainty



**High School Civics 2013:
The Three Branches of Government
(Larry, Moe, and Curly)**



Affordable Care Act?



- Dodd-Frank
- Tough lending standards
- Tax policy
- Over regulation
- Poor fiscal policy





Inability of the
economy to deal
with shocks.



All this has led to: Slow Employment Growth



Economic Crisis Du Jour

- European Debt;
- U.S. Debt Ceiling;
- *Middle East;*
- Rating Downgrade;
- ObamaCare;
- *Middle East;*
- Fiscal Cliff;
- Sequestration;
- *Middle East...*



Consumers





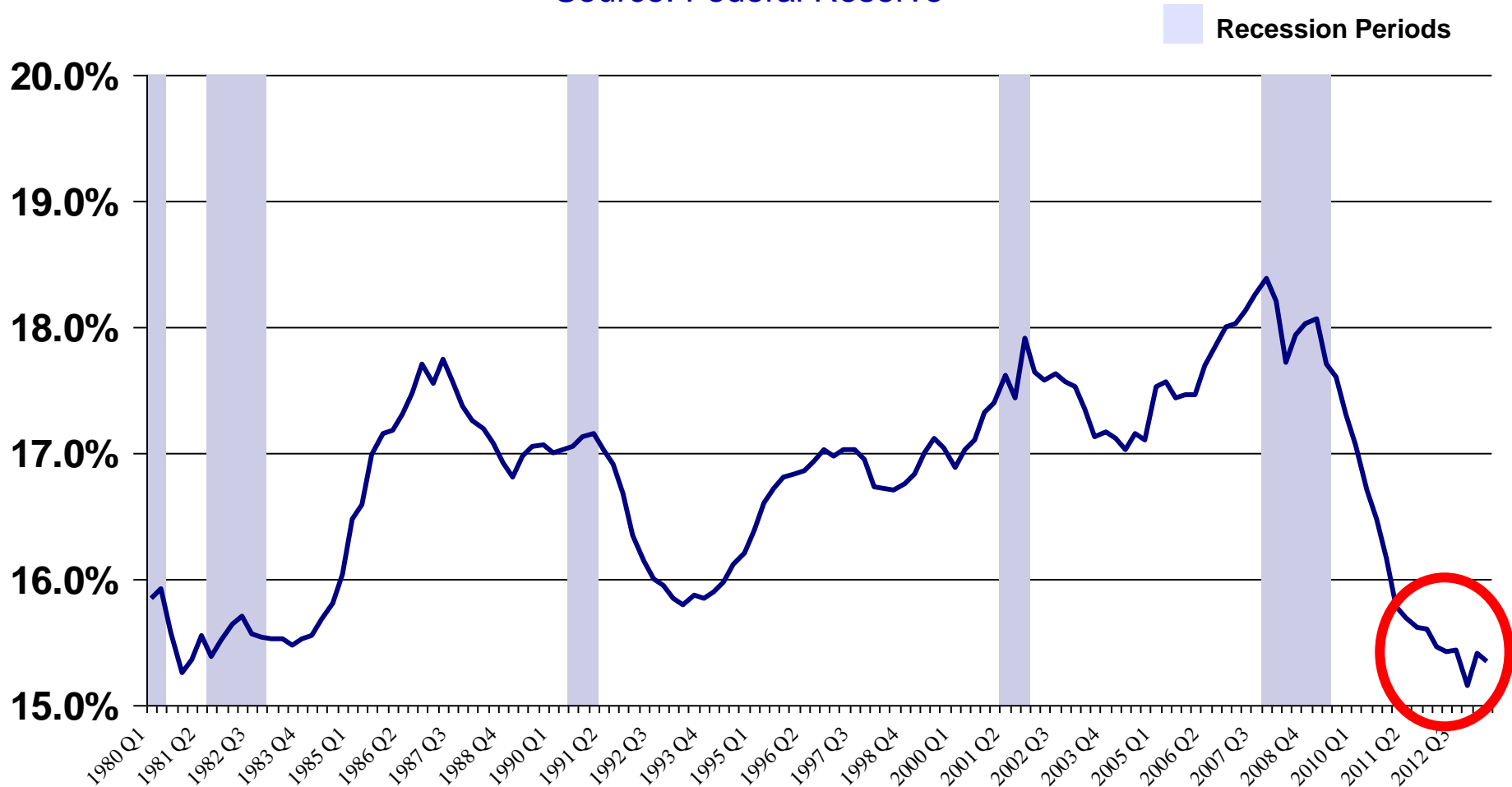
**Watch what you tweet,
Or you'll lose your seat!**



Financial Obligation Ratio**

1980 – 2013*

Source: Federal Reserve



*Data through second quarter 2013

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

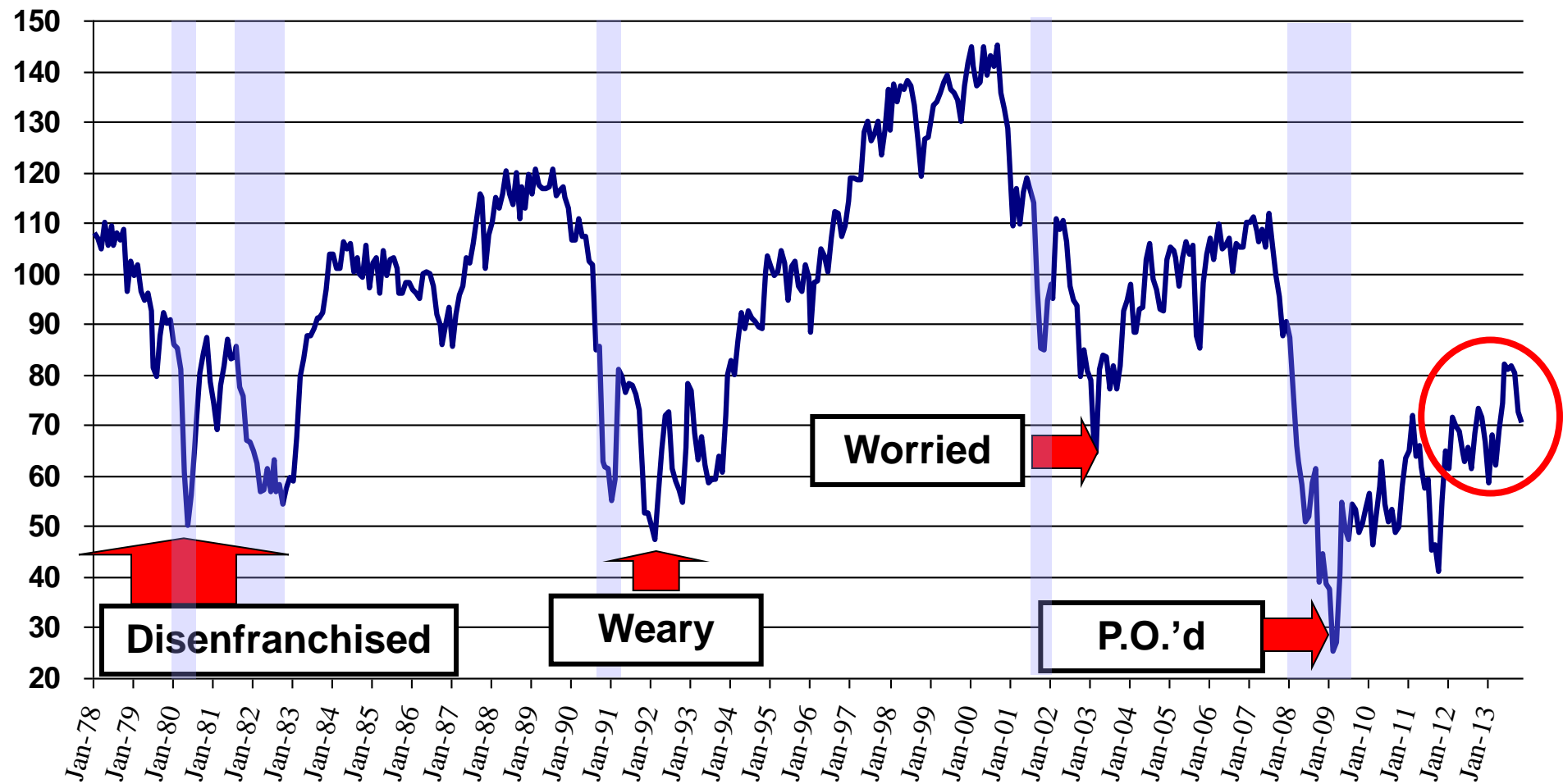


Consumer Confidence

1978 – 2013*

Source: The Dismal Scientist

Recession Periods



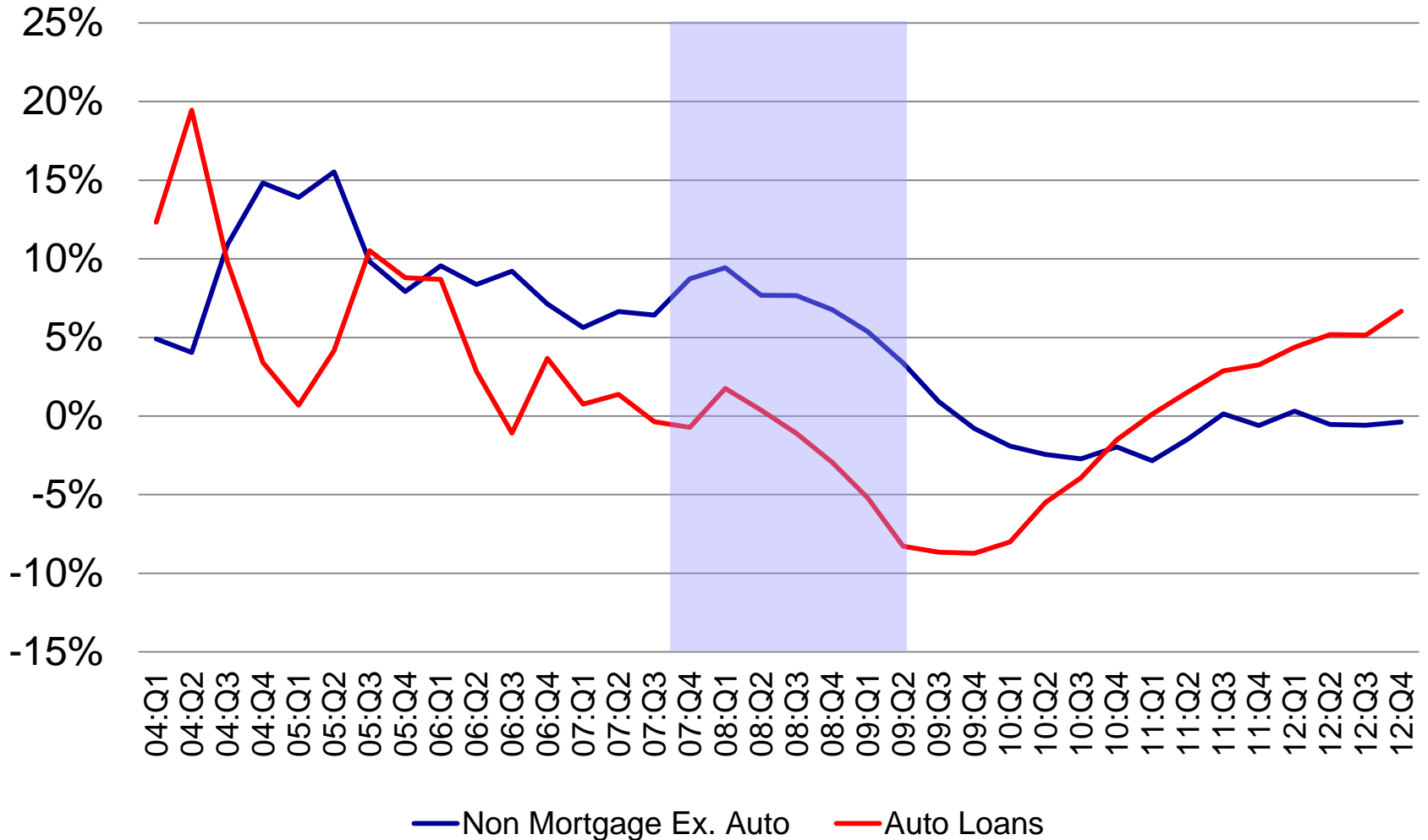
*Data through November 2013.



Household Debt Composition Percent Change Year Ago 2004 – 2012

Source: The Federal Reserve Bank of New York

 Recession Periods

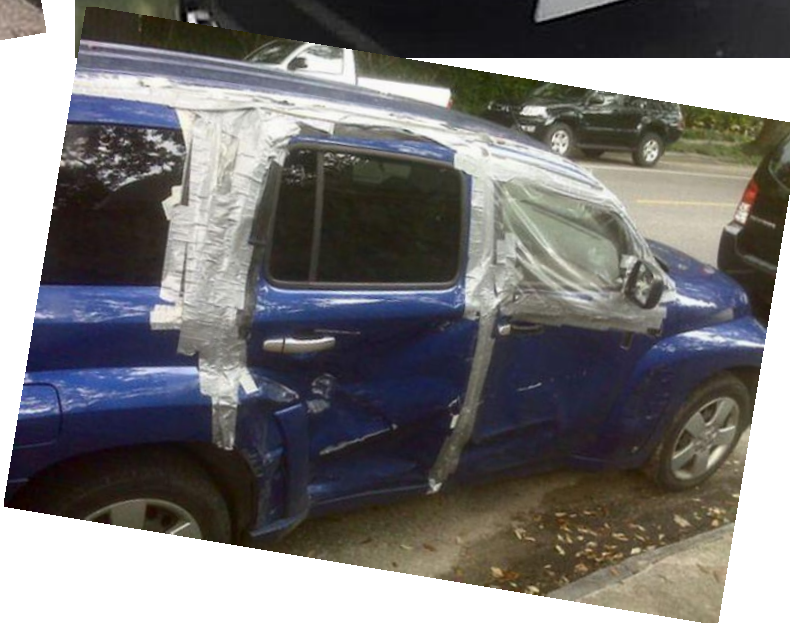


Average Age of Auto Fleet (all light vehicles)

- 2013 – 11.4 years
- 2010 – 10.6 years
- 2005 – 9.5 years
- 2000 – 8.9 years
- 1995 – 8.4 years



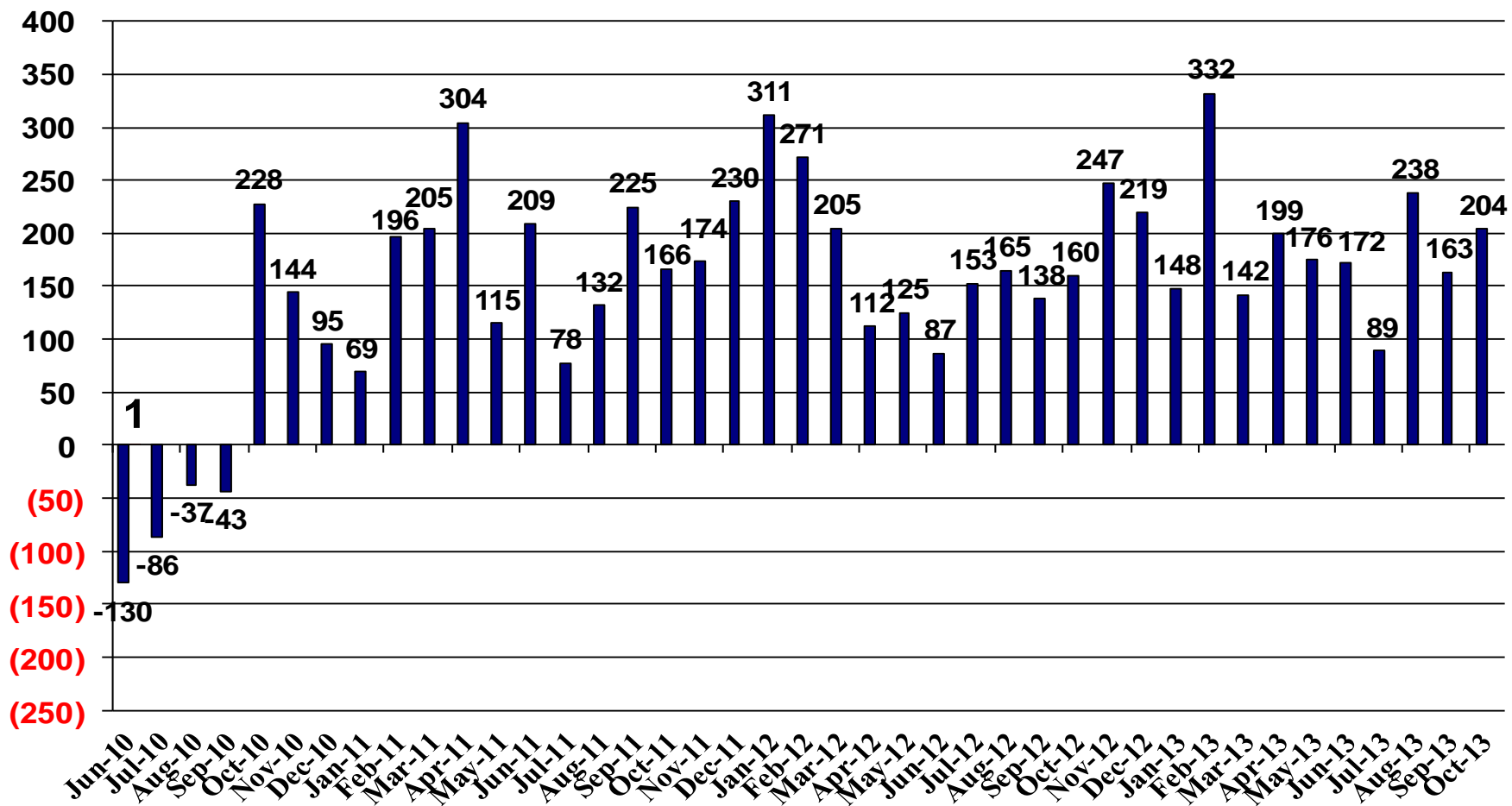
Time to replace the autos...



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

June 2010 – October 2013

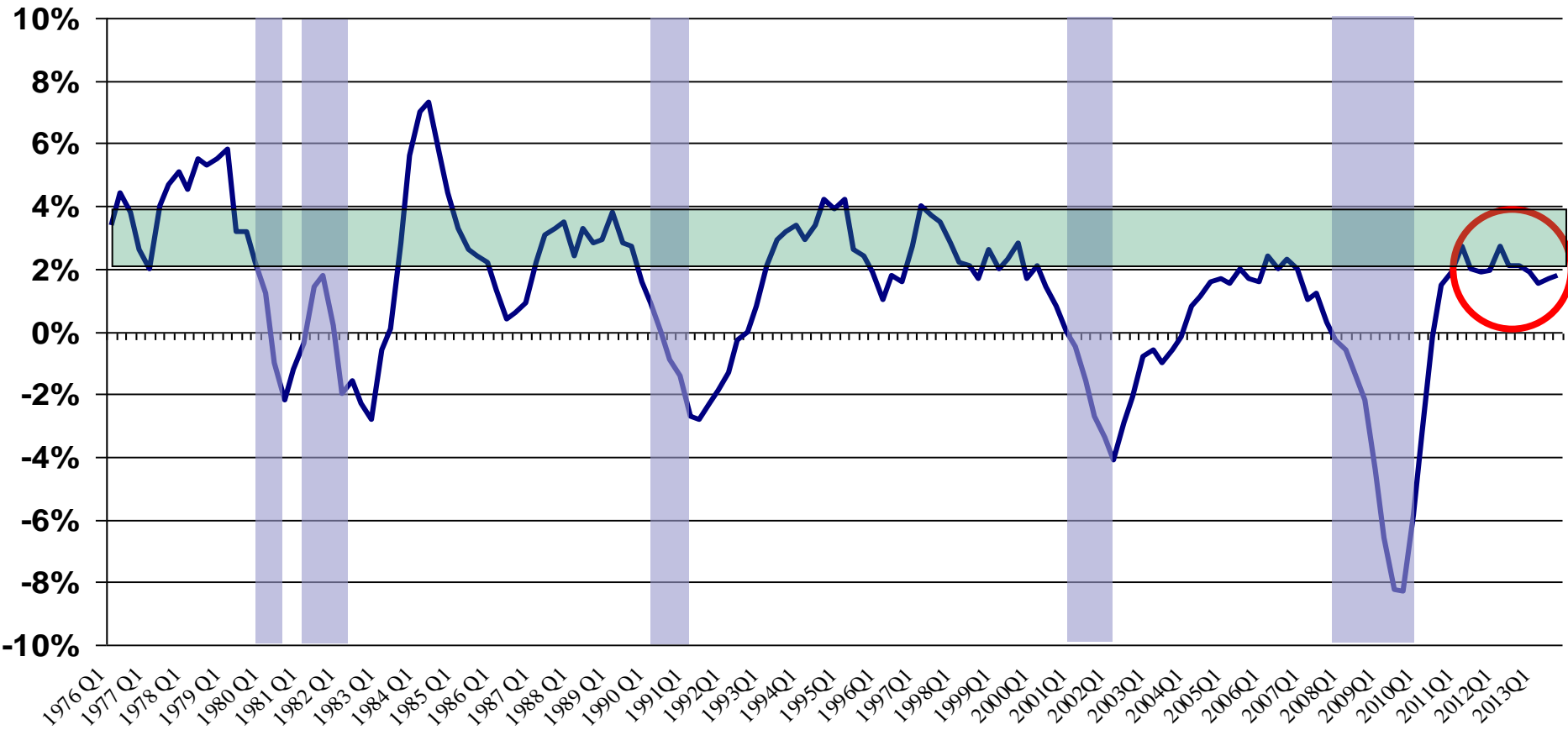
Source: Bureau Labor of Statistics



Hours Worked Percent Change from Year Ago 1976 – 2013*

Source: Bureau of Labor Statistics

Recession Periods



WEALTH EFFECT



Housing prices are up.

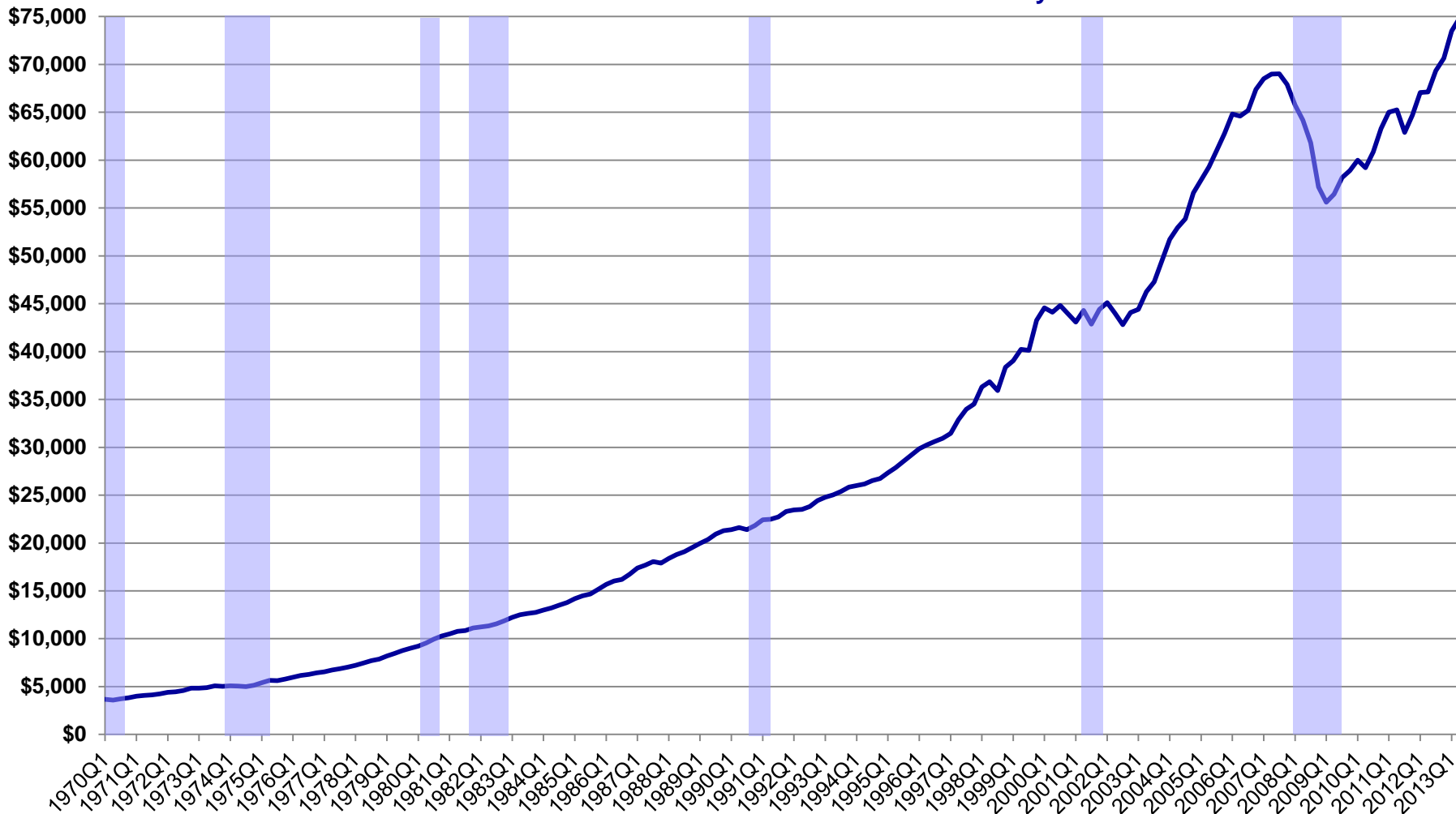
Stock market is up
from a year ago.



U.S. Household Net Worth (Billions of Dollars, NSA) 1970 - 2013*

Recession Periods

Source: Board of Governors of the Federal Reserve System



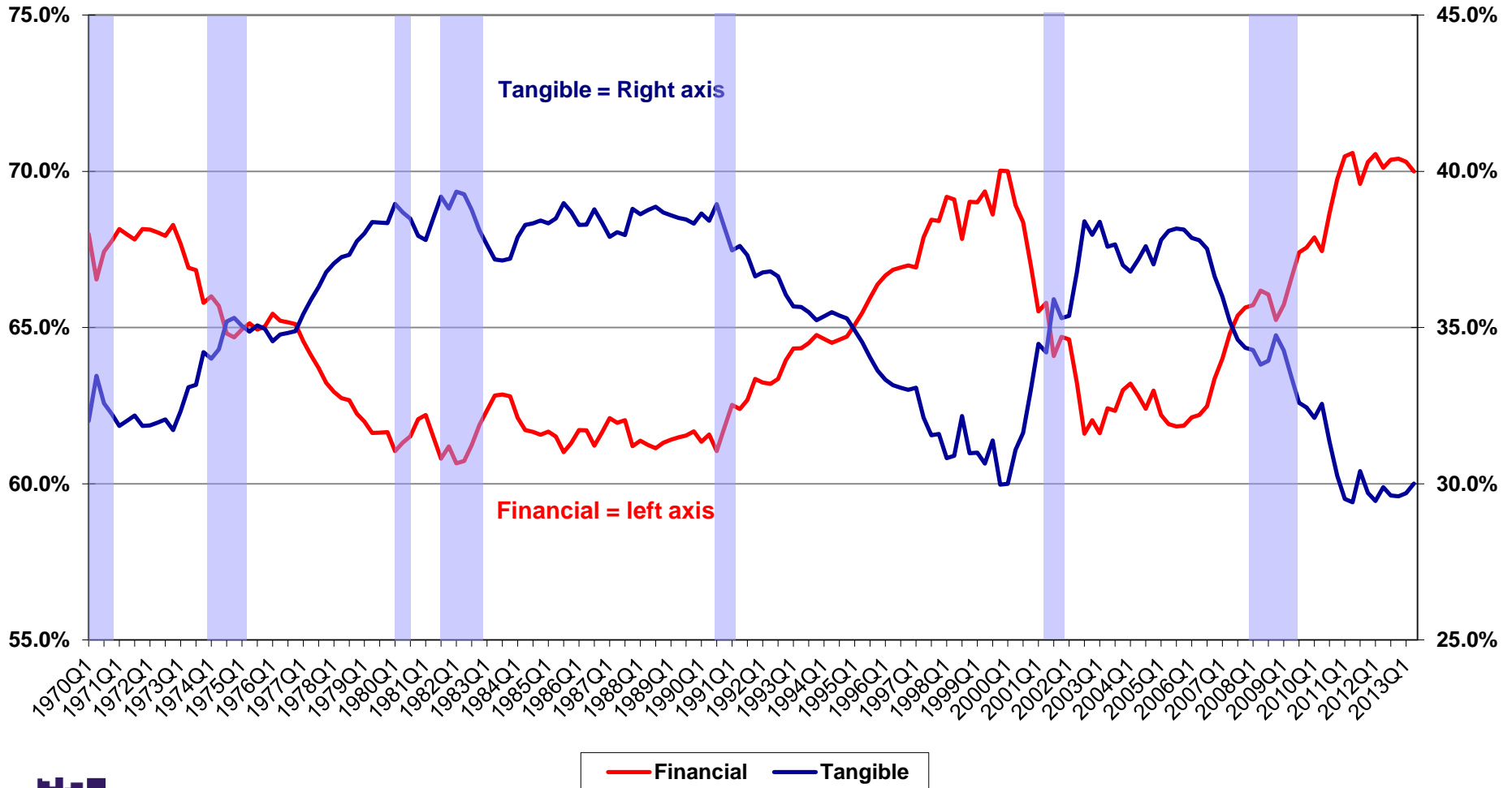
Wealth Effect...



U.S. Household Assets Financial (left) v. Tangible (right) as a Percent of Total Assets 1970 - 2013*

Source: Board of Governors of the Federal Reserve System

Recession Periods



Are you talking to your banker?



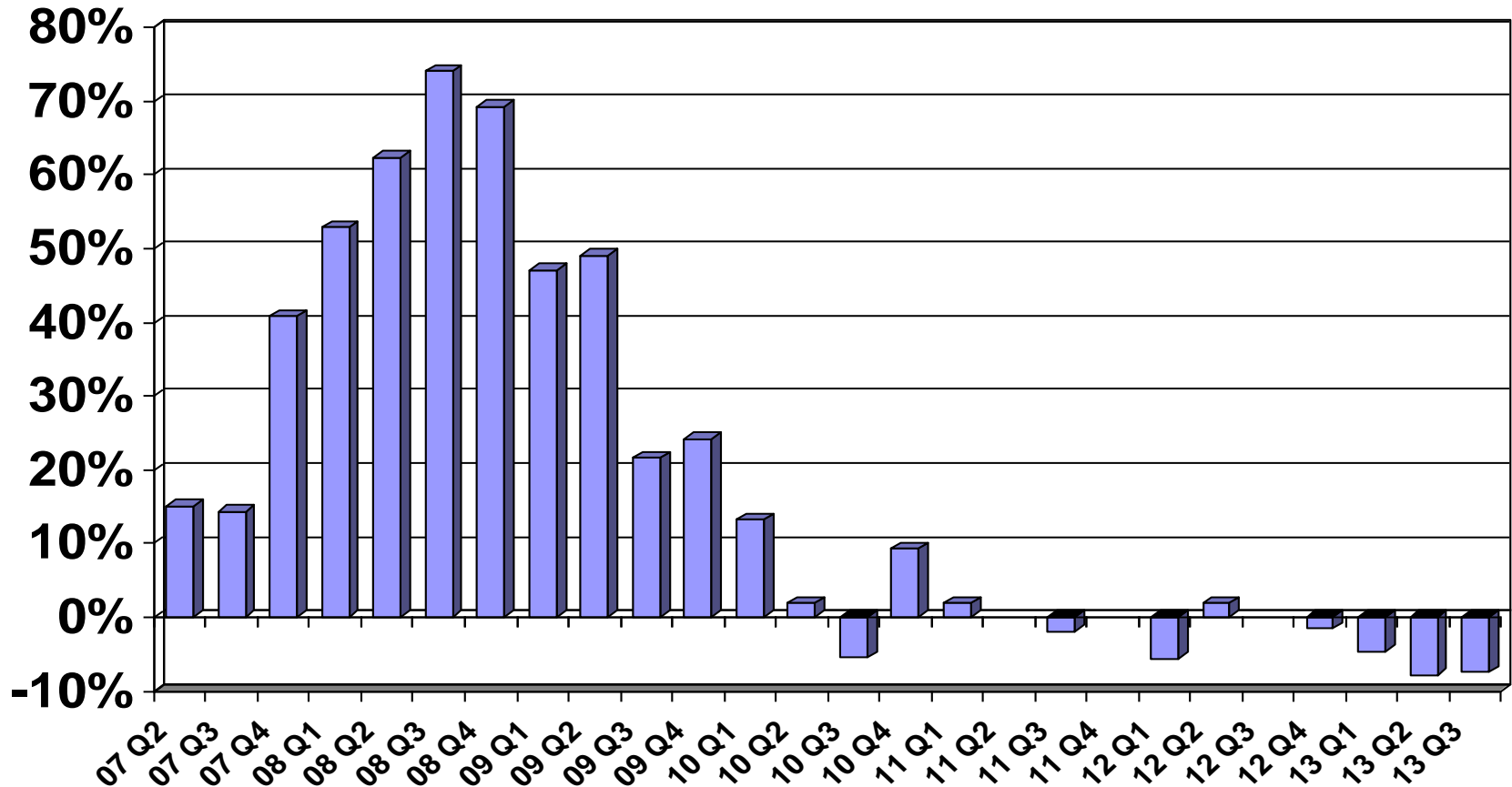
Assistant
Branch Manager

Branch Manager



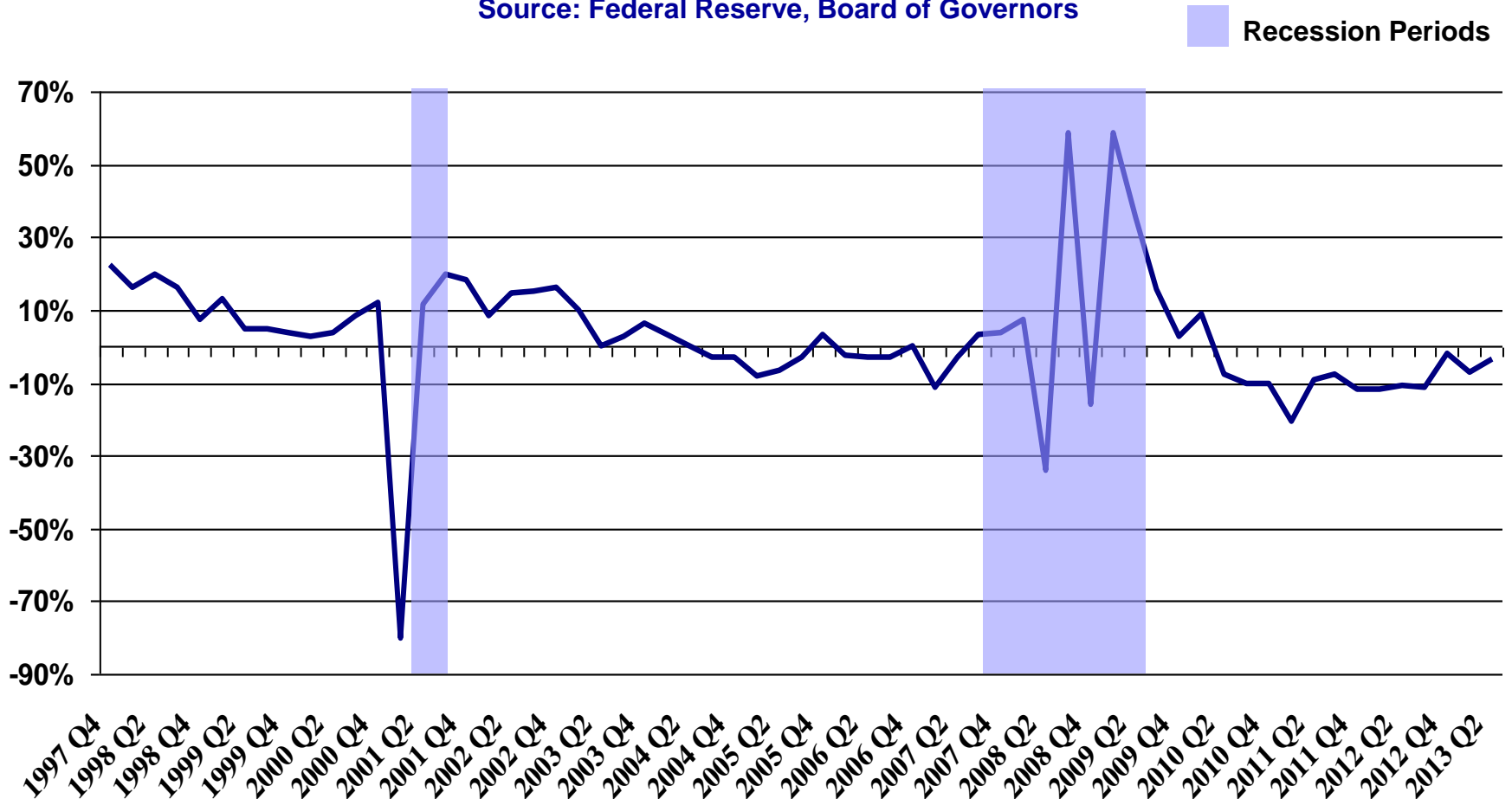
Net Percentage of Large U.S. Banks Reporting Tougher Standards versus Eased Standards on Residential Mortgage **Prime** Loans 2007Q2 – 2013Q3

Source: Federal Reserve, Board of Governors



Net Percentage of Large U.S. Banks Reporting Tougher Standards versus Eased Standards on Consumer Loans 1997 – 2013*

Source: Federal Reserve, Board of Governors



* Data as of Q3, 2013 survey.



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.

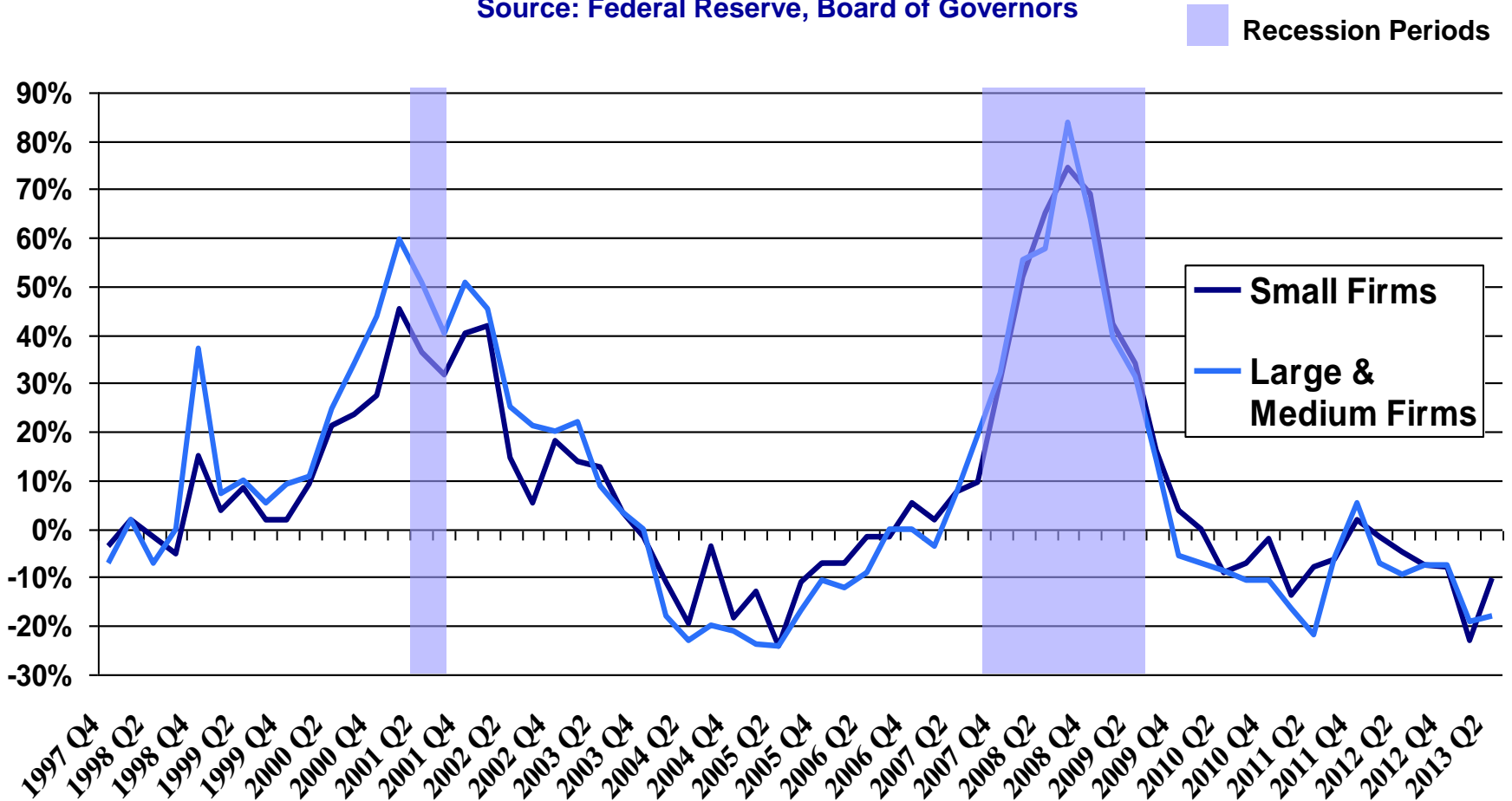


Business



Net Percentage of Large U.S. Banks Reporting Tougher Standards versus Eased Standards on Business Loans 1997 – 2013*

Source: Federal Reserve, Board of Governors



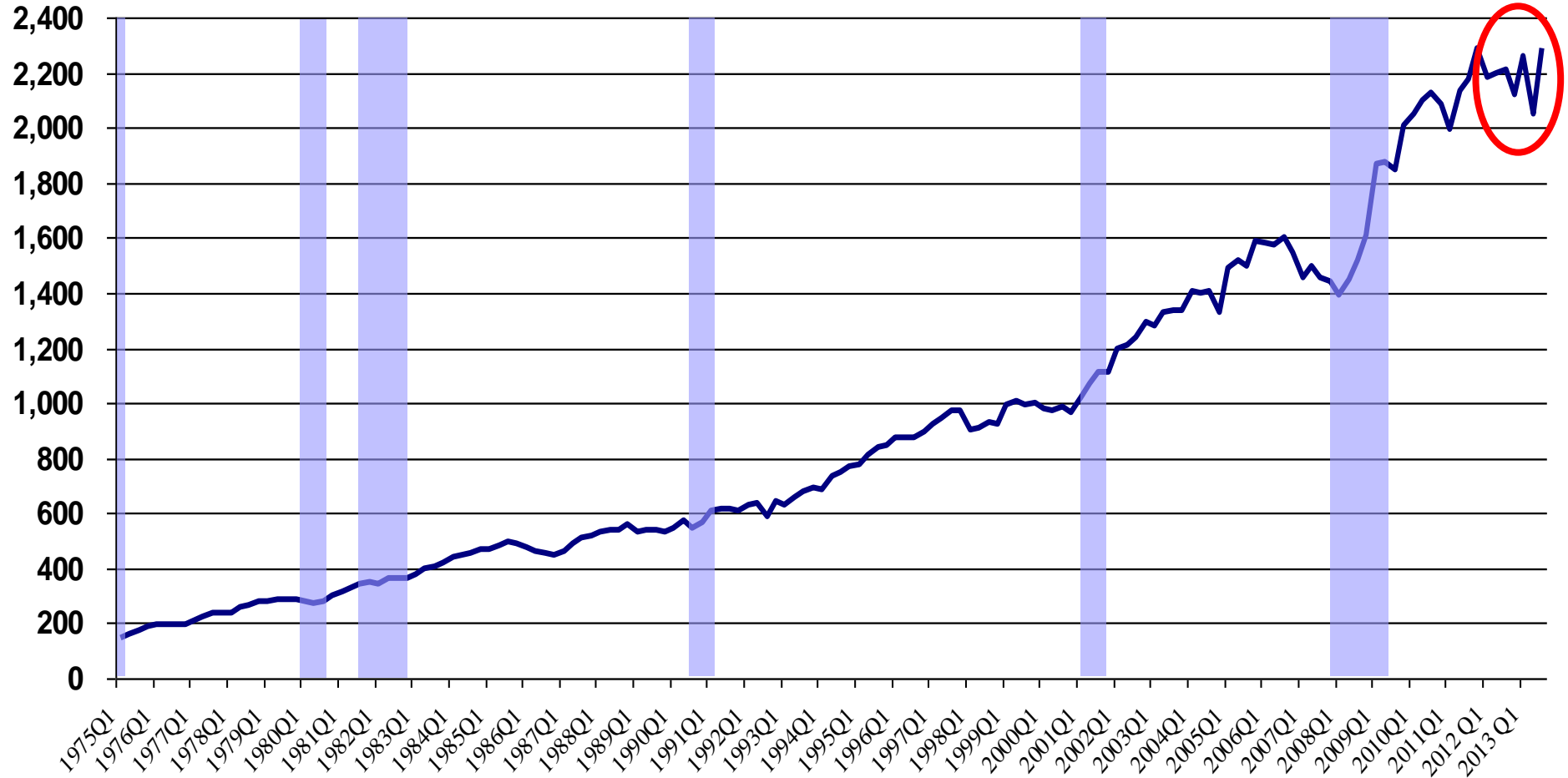
* Data as of Q3 2013 survey.



Corporate Net Cash Flow (Billions of Dollars, SA) 1975-2013*

Source: BEA

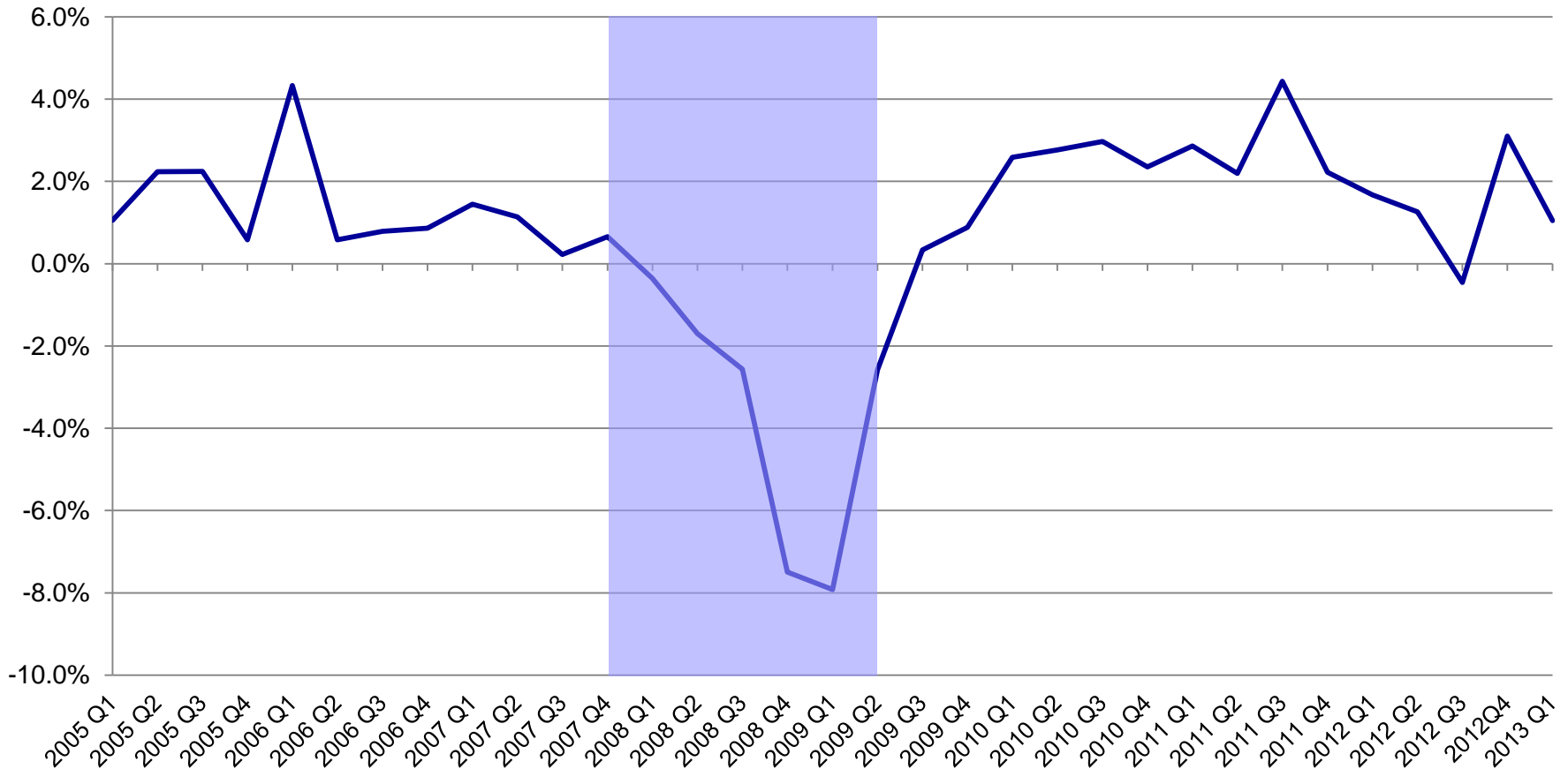
Recession Periods



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

Source: Bureau of Economic Analysis

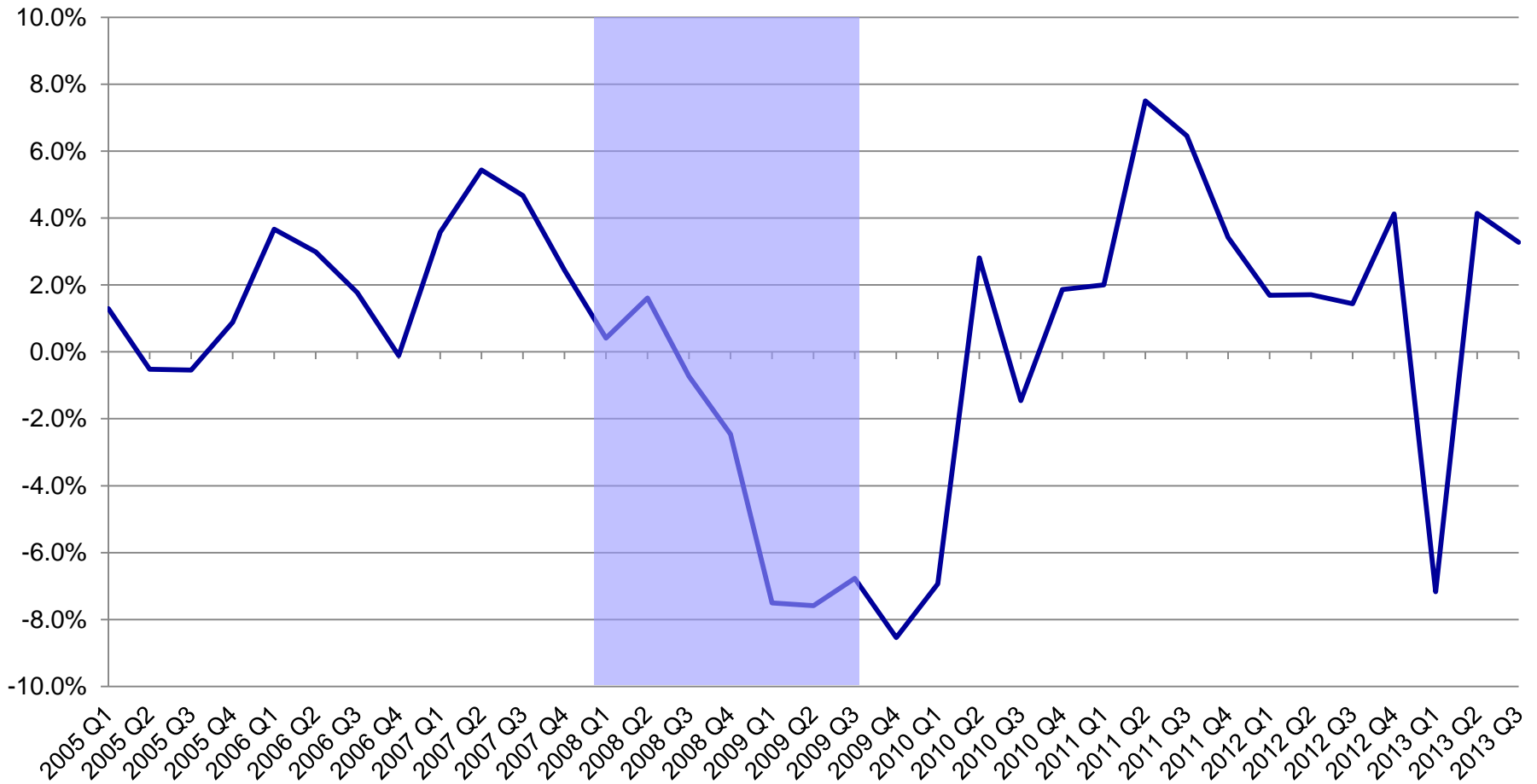
Recession Periods



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

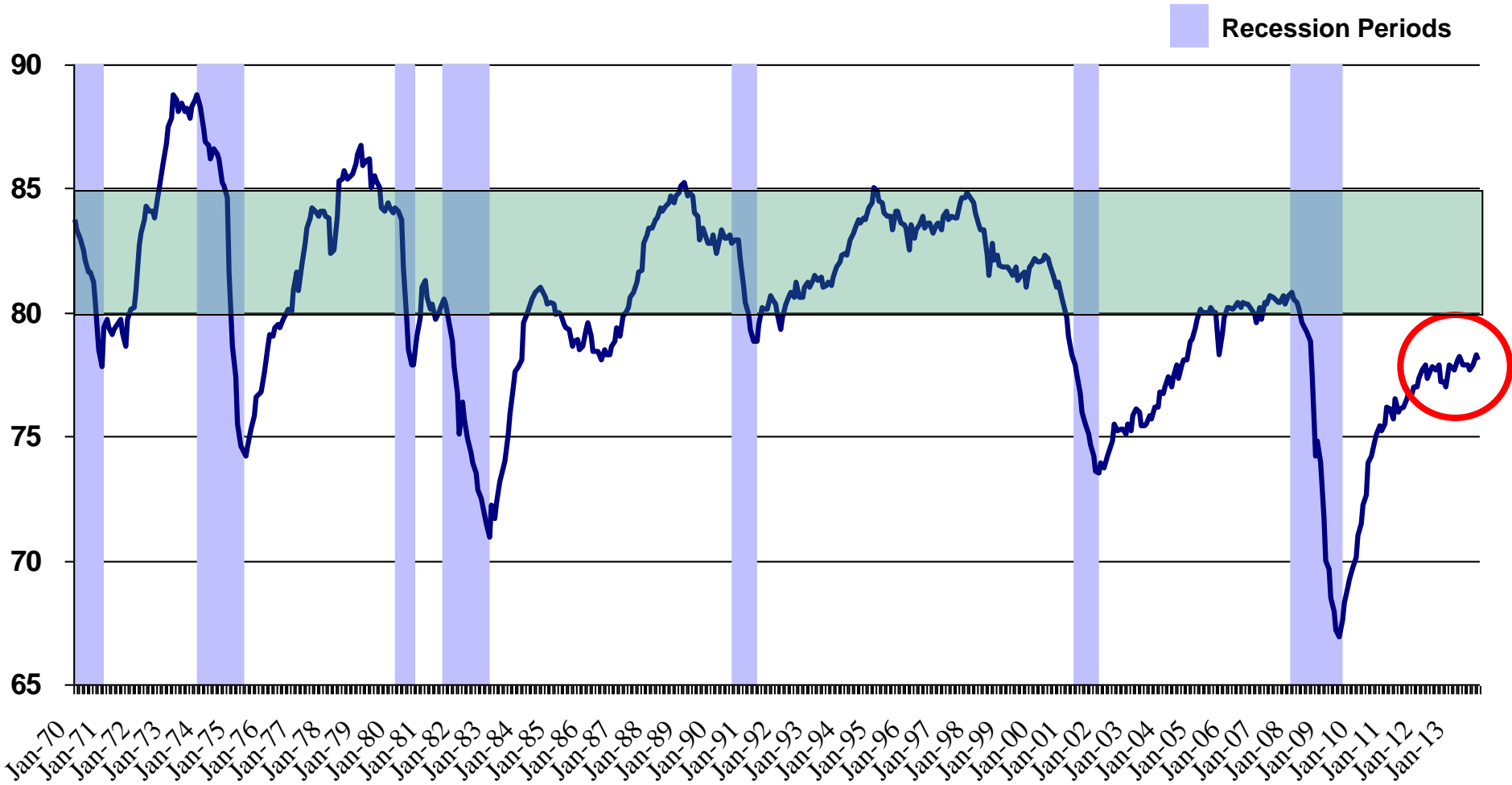
Source: Bureau of Economic Analysis

Recession Periods



Capacity Utilization Rate 1970 – 2013*

Source: The Federal Reserve Bank of St. Louis



*Data through October 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



Government Infighting & Lack of Leadership



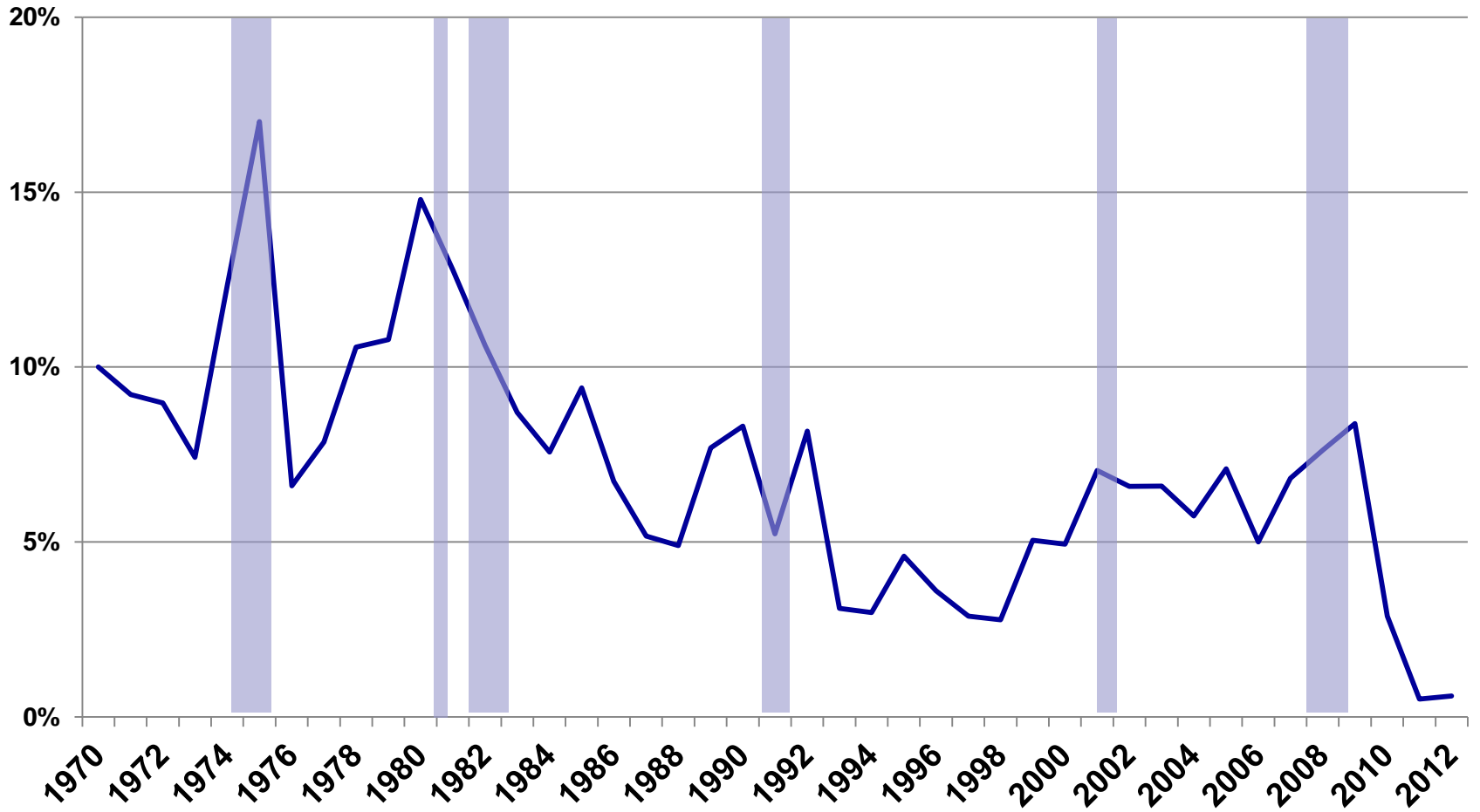


PITBULL FIGHT



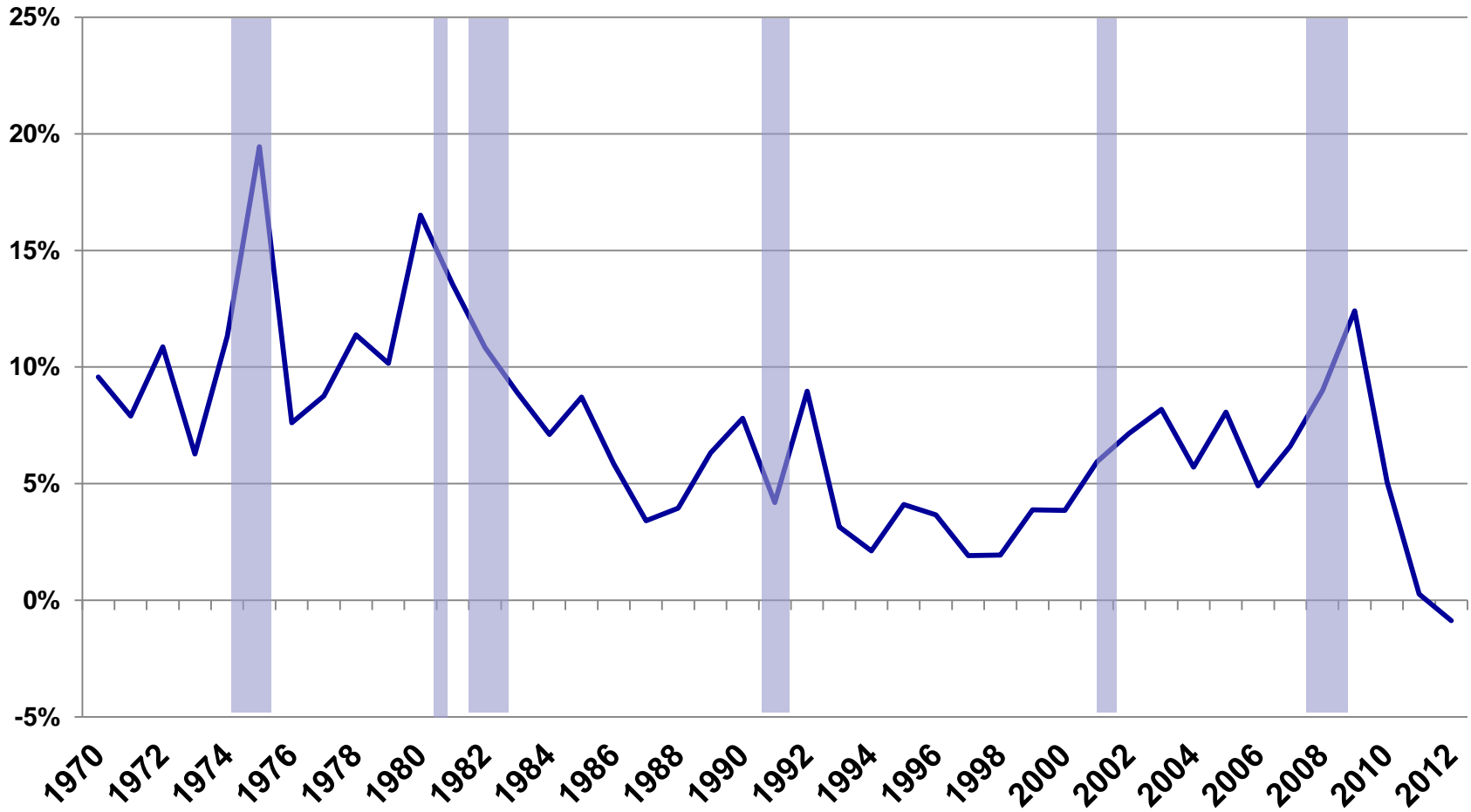
Total Government Expenditures Percent Change Year Ago 1970-2012

Source: U.S. Bureau of Economic Analysis



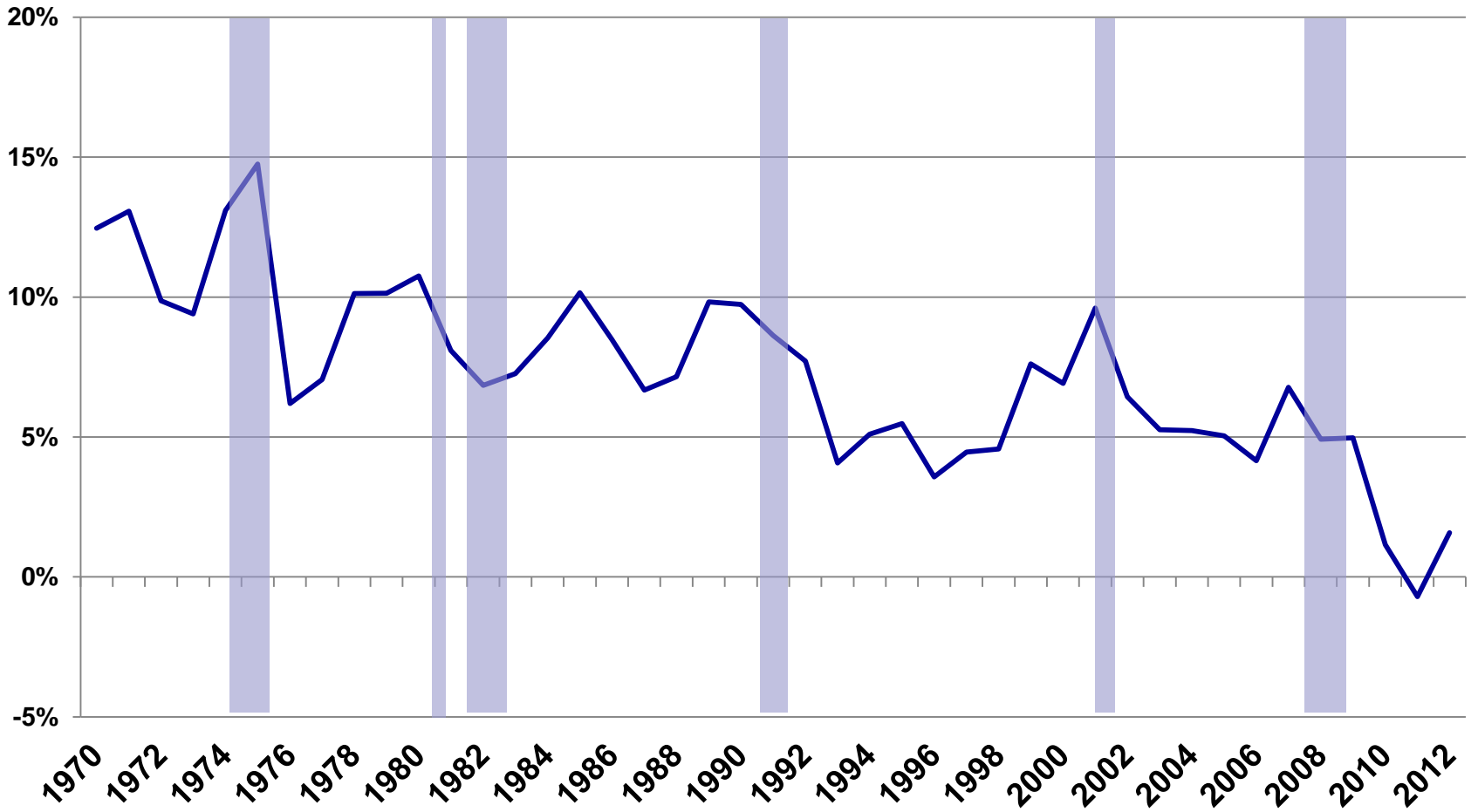
Federal Government Expenditures Percent Change Year Ago 1970-2012

Source: U.S. Bureau of Economic Analysis



State and Local Government Expenditures Percent Change Year Ago 1970-2012

Source: U.S. Bureau of Economic Analysis



Government Summary:

- **Government no longer a drag on economy in terms of GDP.**
- **Most major issues still ahead of us.**

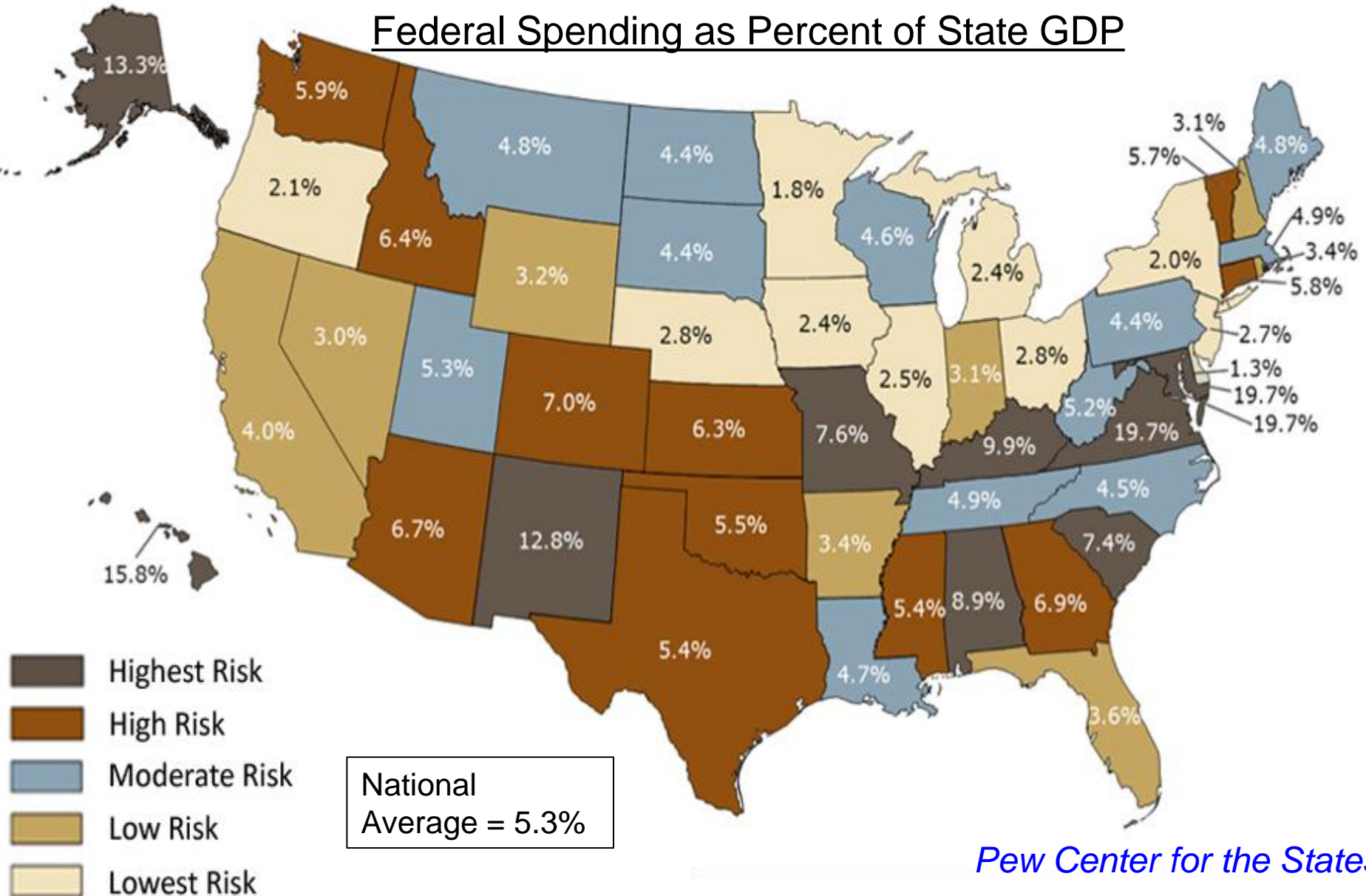


Sequestration



Arizona At Risk For Spending Cuts

Federal Spending as Percent of State GDP



Other Selected Indicators of Potential Vulnerabilities to Spending Cuts

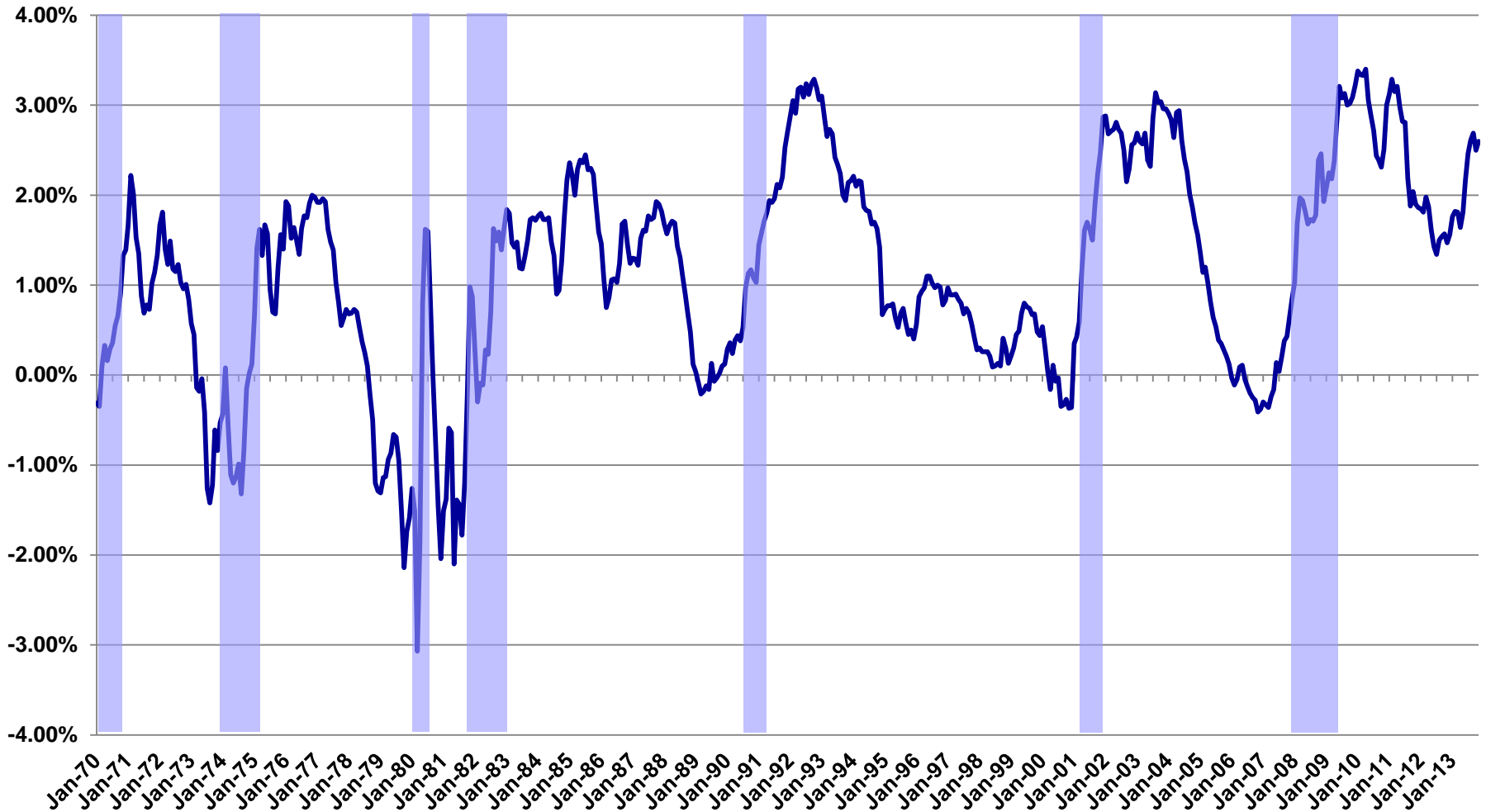
Selected Indicator of Vulnerability	National Avg.	Arizona
Federal grants subject to sequester (as a percent of State revenue)	6.6%	7.7%
Fed defense spending on procurement & wages (as a percent of State GDP)	3.5%	5.2%
Fed nondefense spending on procurement & wages (as a percent of State GDP)	1.8%	1.4%
Fed nondefense workforce (as a percent of employment in State)	1.0%	1.3%



10-Year Treasury Rate minus 1-Year Treasury Rate 1970 – 2013*

Source: Federal Reserve Economic Database

Recession Periods



NATIONAL SUMMARY

- **No major imbalances**
- **Consumer income growth to continue to be slow - but likely to continue**
- **Housing recovery likely to continue**
- **Business in good shape**
- **Federal government still creating uncertainties**
- **Government no longer a big drag on GDP**



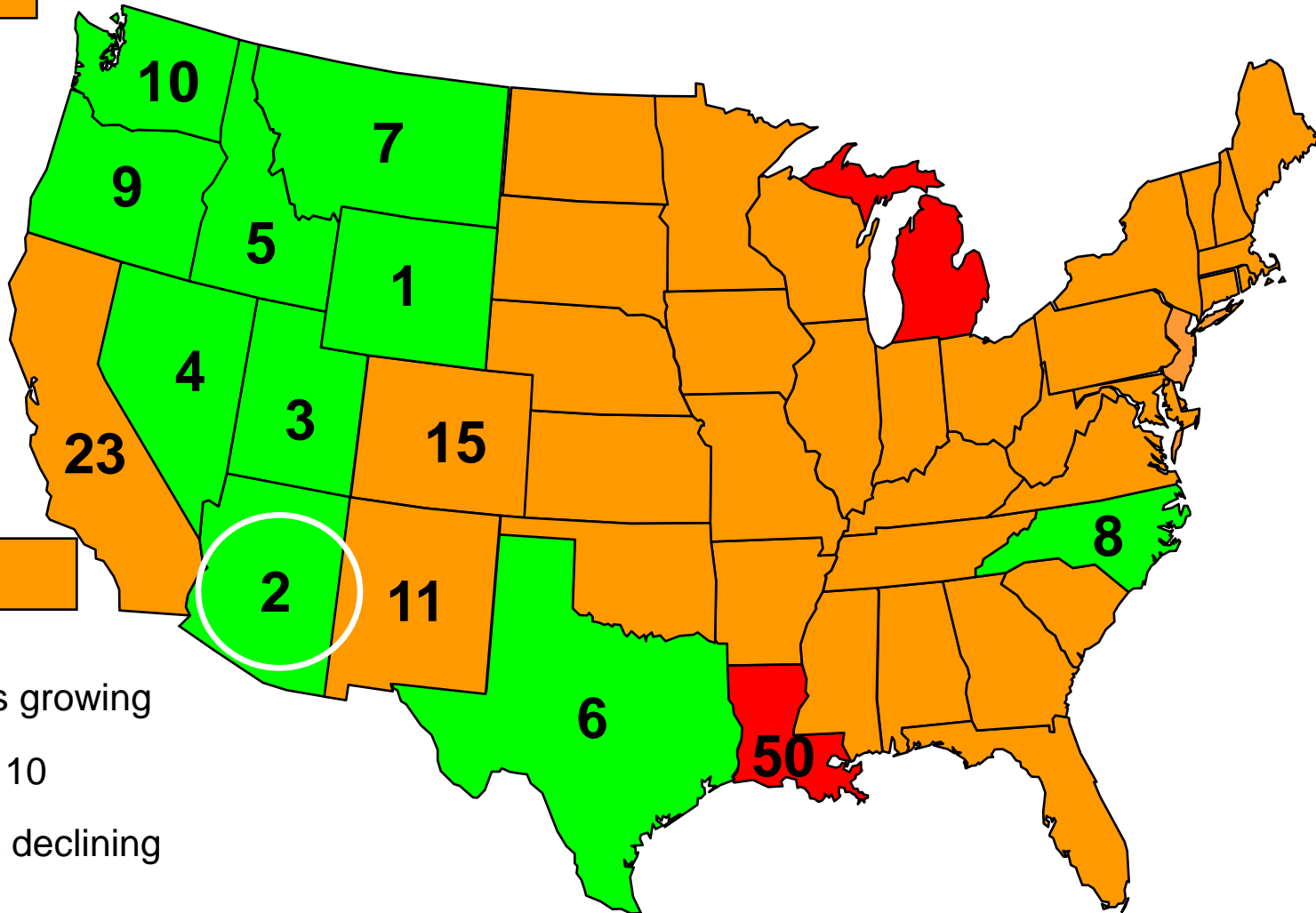
Arizona



Job Growth 2006

Source: US BLS

Alaska
24



14

Hawaii

- Jobs growing
- Top 10
- Jobs declining

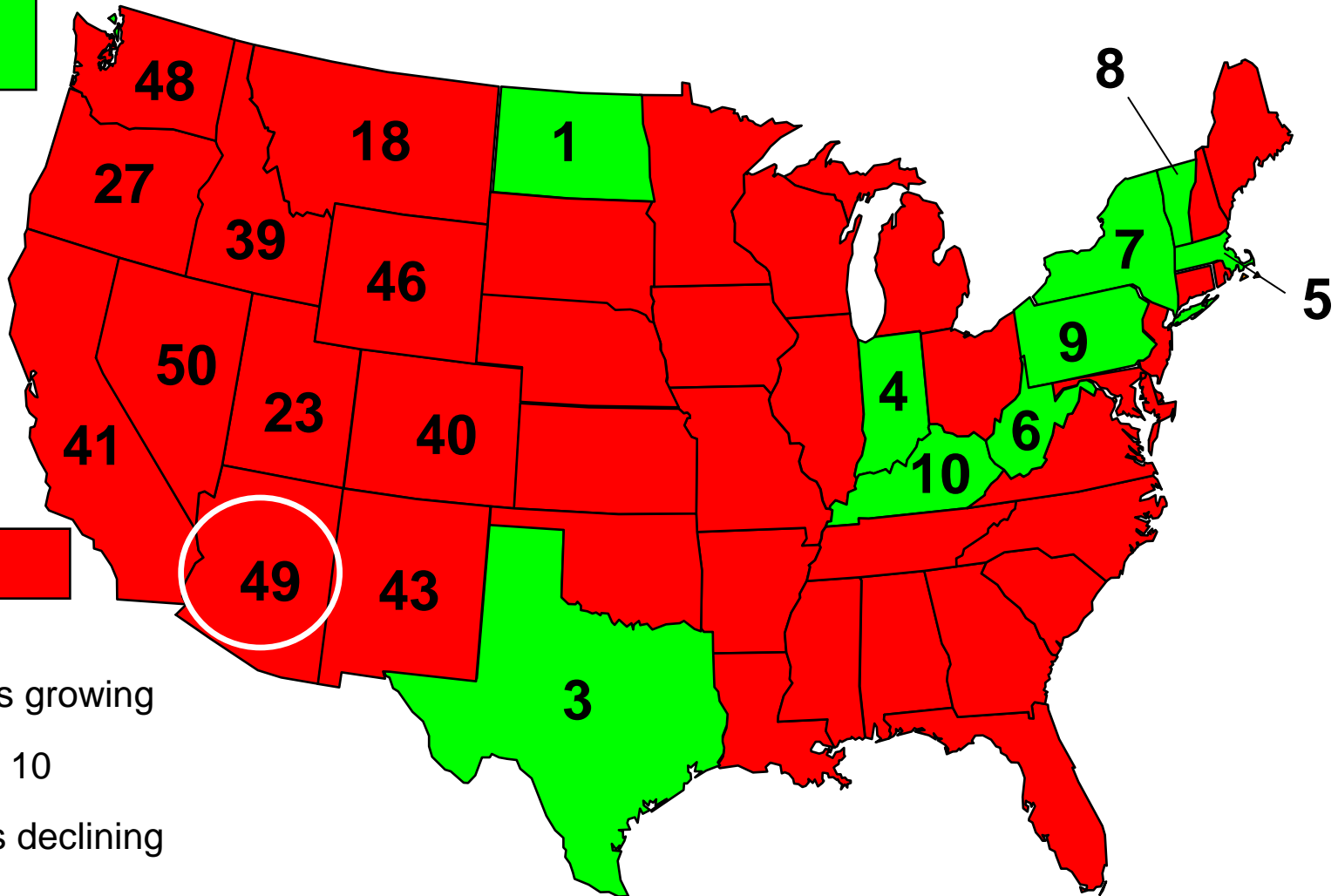


Job Growth 2010

Source: US BLS

Alaska

2



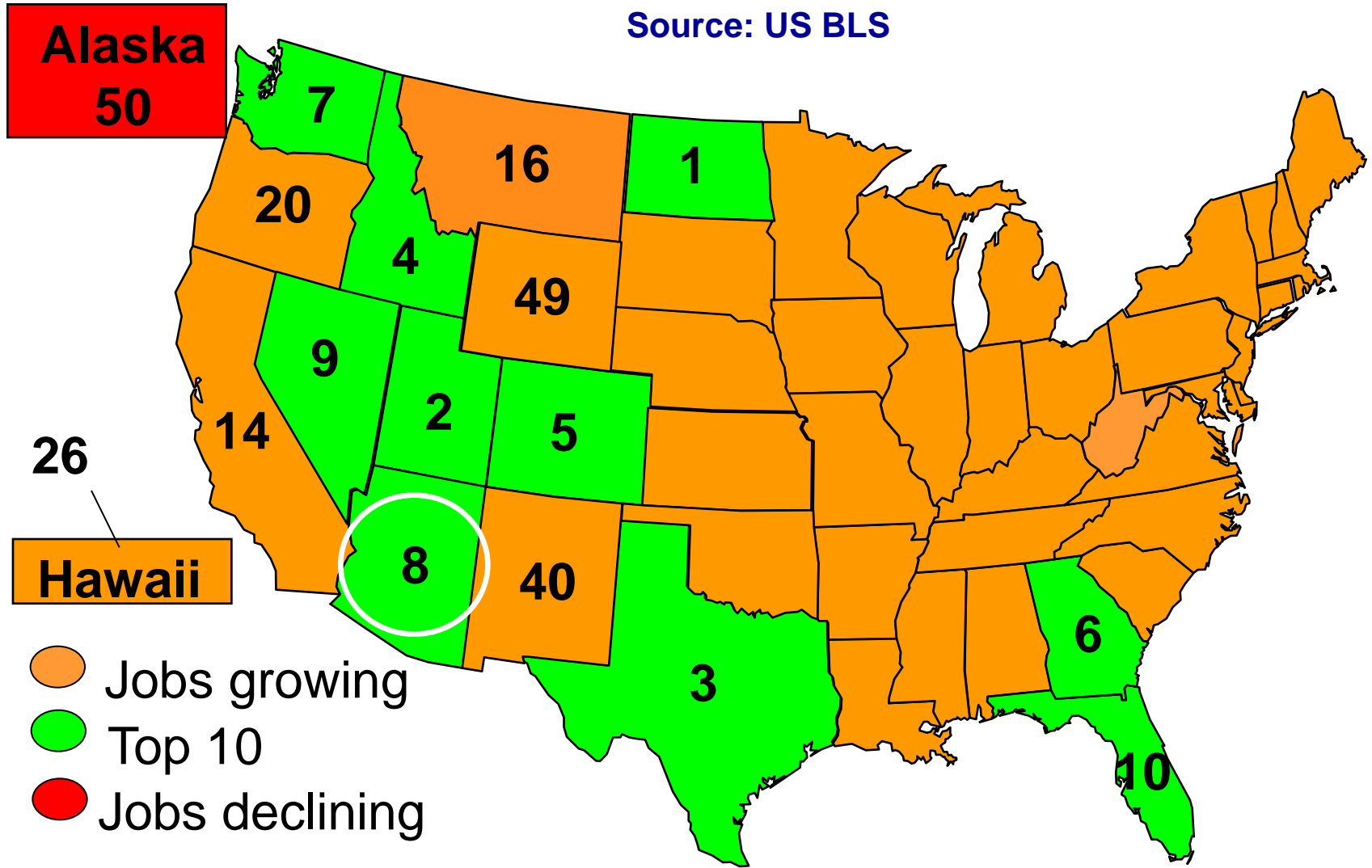
- Jobs growing
- Top 10
- Jobs declining



Job Growth 2013

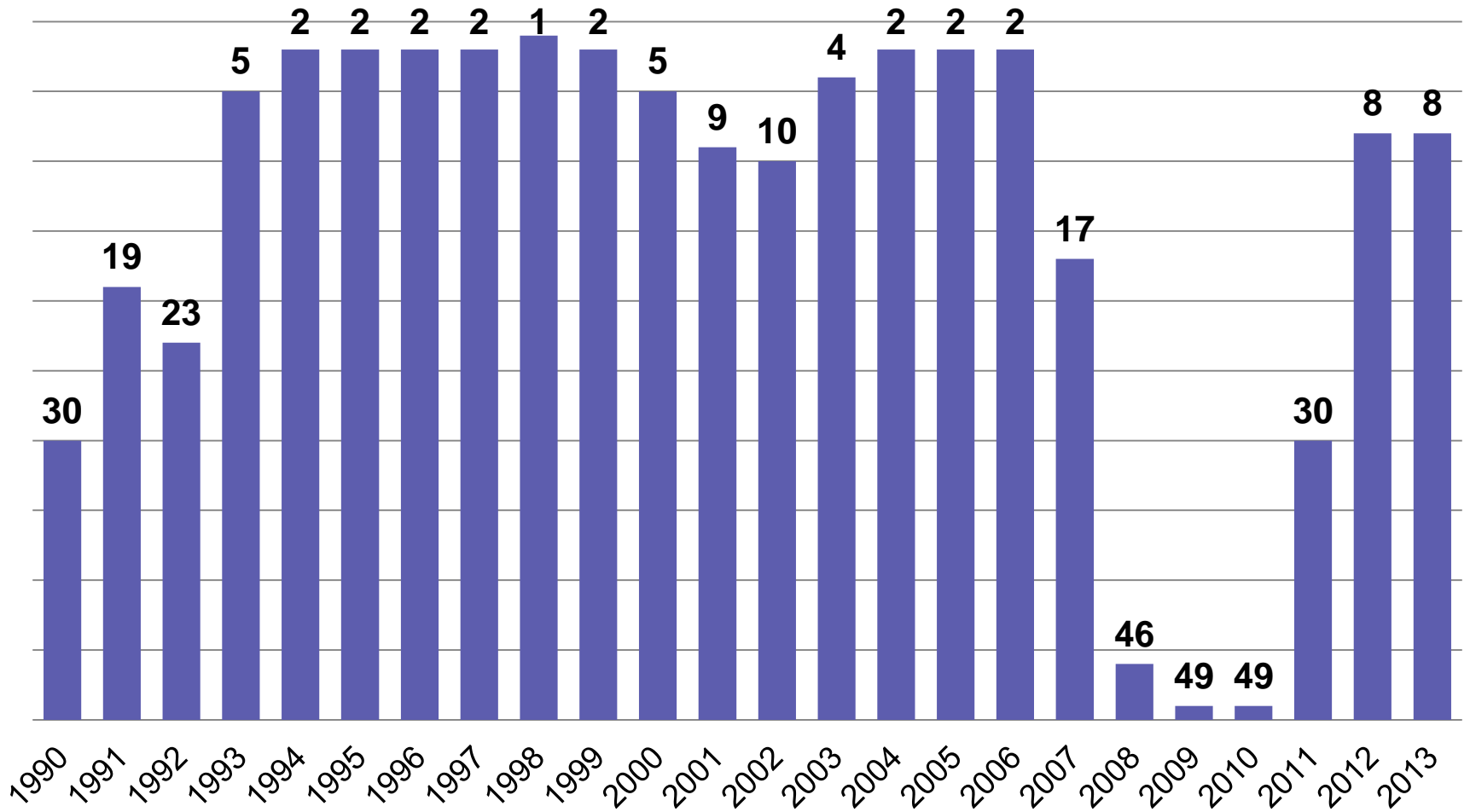
YTD October 2013 vs YTD October 2012

Source: US BLS



Arizona Rank Employment Growth 1990-2013*

Source: Bureau of Labor Statistics



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
2001	7	26
2002	5	25

Year	Rank	# MSA's
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*	7	28

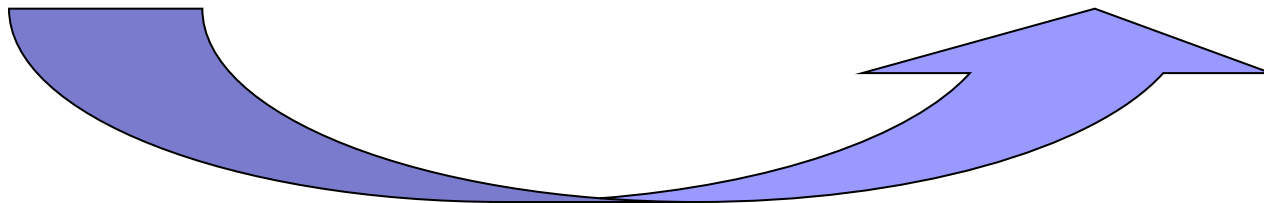
*Year-to-date, October 2013.



Greater Phoenix Employment*

Source: ADOA

<u>Sectors in Decline</u>	<u>Net Change</u>	<u>% Change</u>	<u>Sectors Improving</u>	<u>Net Change</u>	<u>% Change</u>
Manufacturing	-2,300	-1.9%	Education & Health Services	8,800	3.4%
Natural Resources And Mining	-200	-5.1%	Trade, Transp. & Utilities	8,500	2.4%
			Professional & Bus. Services	6,900	2.4%
			Financial Activities	6,400	4.3%
			Leisure & Hospitality	5,500	3.0%
			Construction	1,100	1.2%
			Other Services	500	0.8%
			Information	400	1.4%
			Government	400	0.2%



Top Sources of New Jobs Greater Phoenix

Source: Bureau of Labor Statistics, ADOA

		Job Growth	Wage
	Total	36,600	\$48,112
1	Health Care	7,600	\$49,806
2	Professional Services	6,900	\$51,720
3	Financial Activities	6,400	\$62,026
4	Food Services	5,500	\$17,076
5	Retail Trade	4,200	\$31,605
6	Wholesale Trade	4,000	\$72,507
7	State Government	1,600	\$51,558

*Job growth October 2013/ October 2012



Top Sources of New Jobs U.S.

Source: Bureau of Labor Statistics

		Job Growth	Wage
	Total	2,229,000	\$49,200
1	Administrative Services	391,900	\$34,870
2	Retail Trade	367,000	\$27,729
3	Food services	344,300	\$16,242
4	Health Care	300,400	\$45,407
5	Professional services	213,900	\$83,357
6	Construction	176,000	\$52,294
7	Financial activities	91,000	\$80,097

*Job growth October 2013/ October 2012



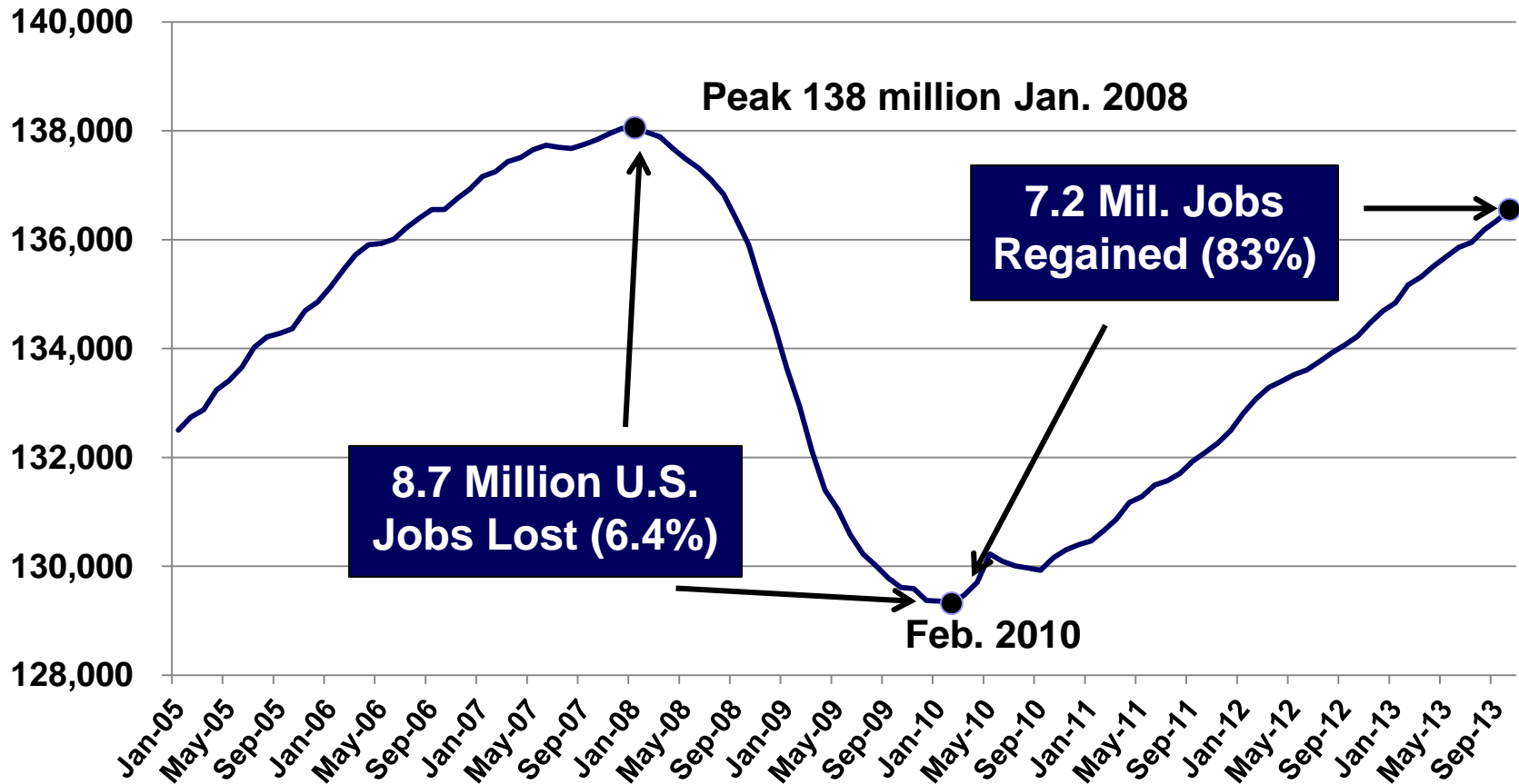
Greater Phoenix- Jobs Finally in the Black

Over last 12 months:	36,000
12 months before that:	43,900
12 months before that:	32,600
12 months before that:	1,500
12 months before that:	(149,700)

* As of October 2013



U.S. Has Gained 83% of Lost Jobs 1.5 Million Jobs (17%) Still to Recover

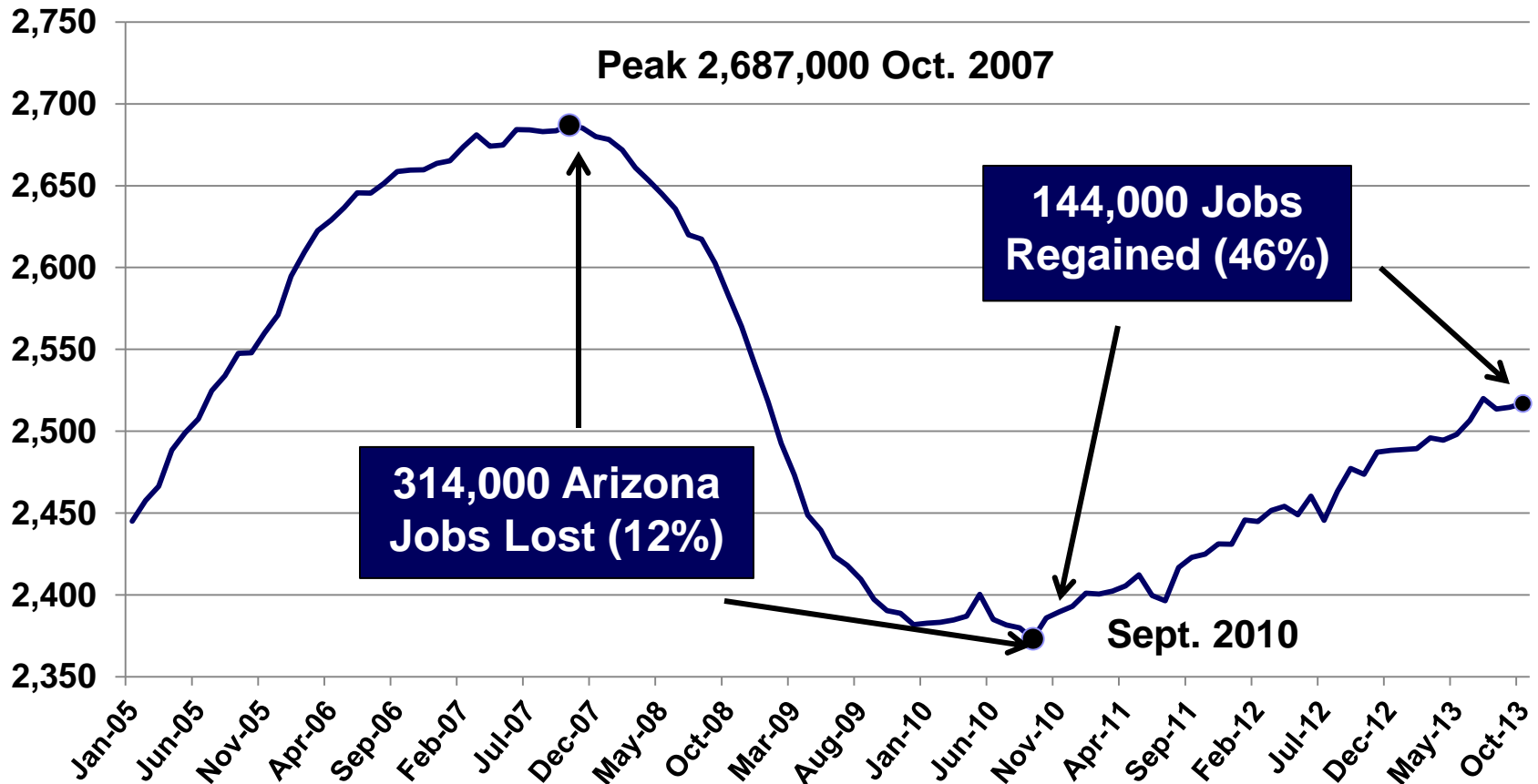


Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted
Slide stolen from Lee McPheters...



Arizona Has Gained 46% of Lost Jobs

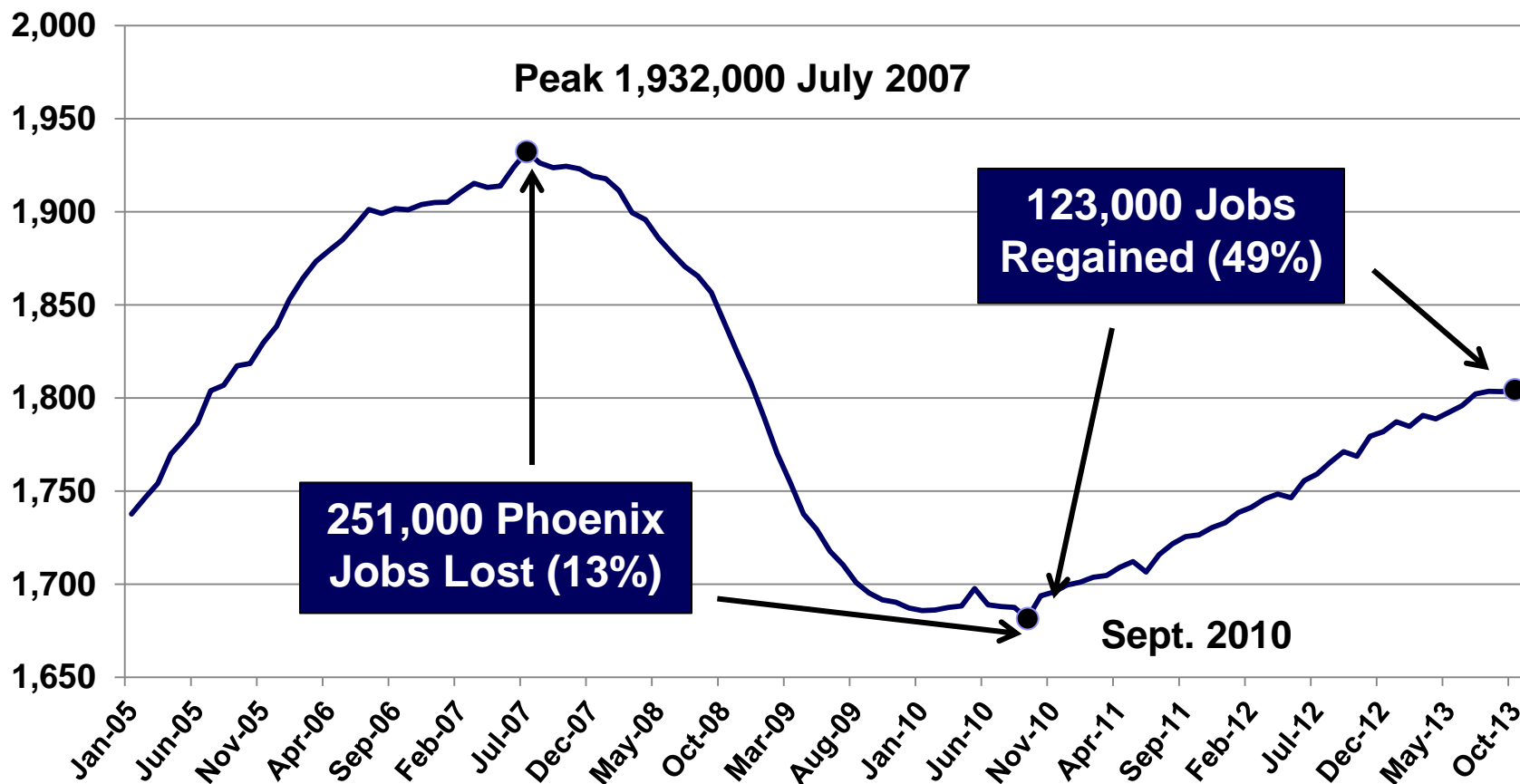
170,000 Jobs (54%) Still to Recover



Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted
Slide stolen from Lee McPheters...



Greater Phoenix Has Gained 49% of Lost Jobs 128,000 Jobs (51%) Still to Recover

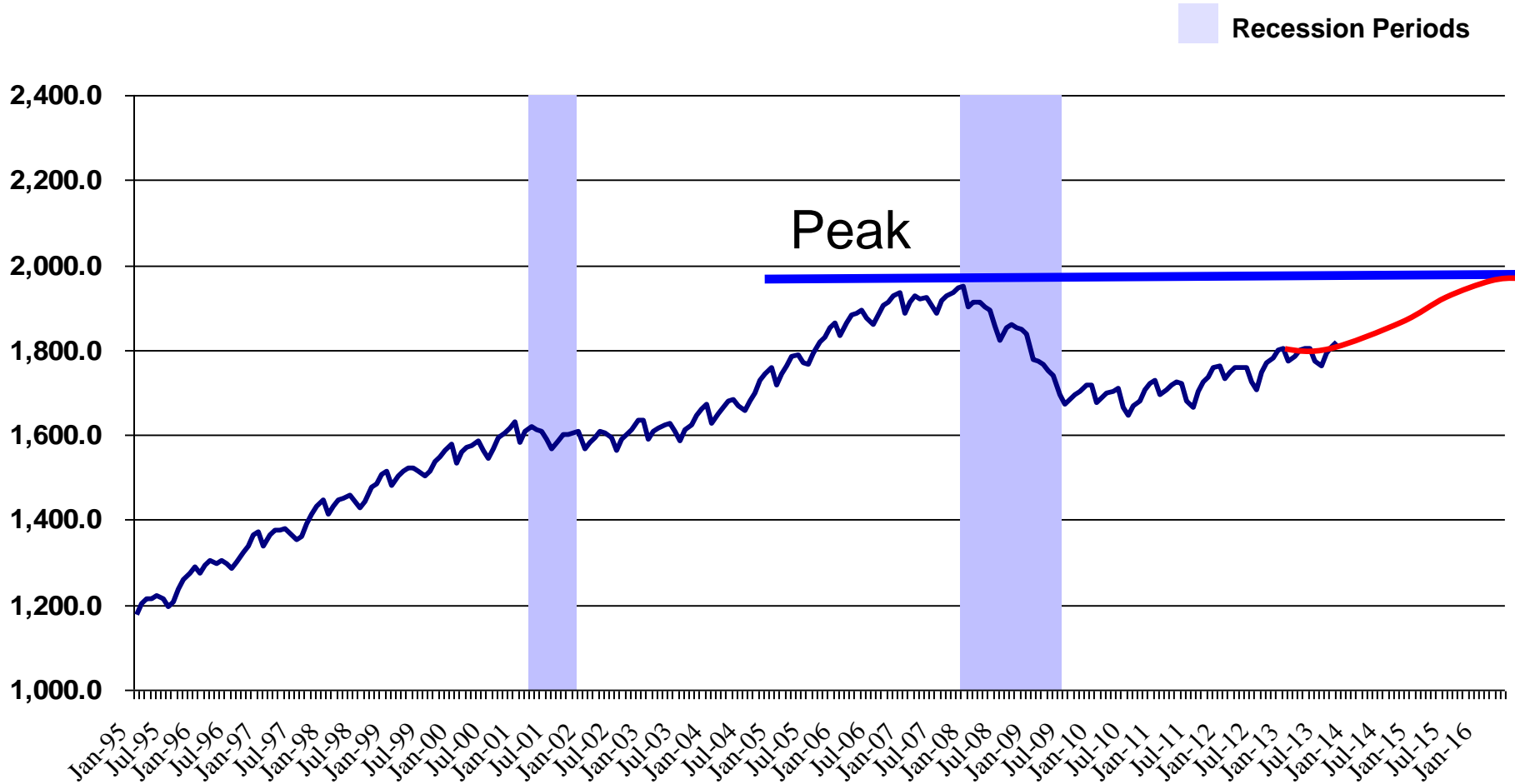


Source: U.S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted
Slide stolen from Lee McPheters...



Employment Levels: Greater Phoenix back to Peak in 2016?

Source: ADOA

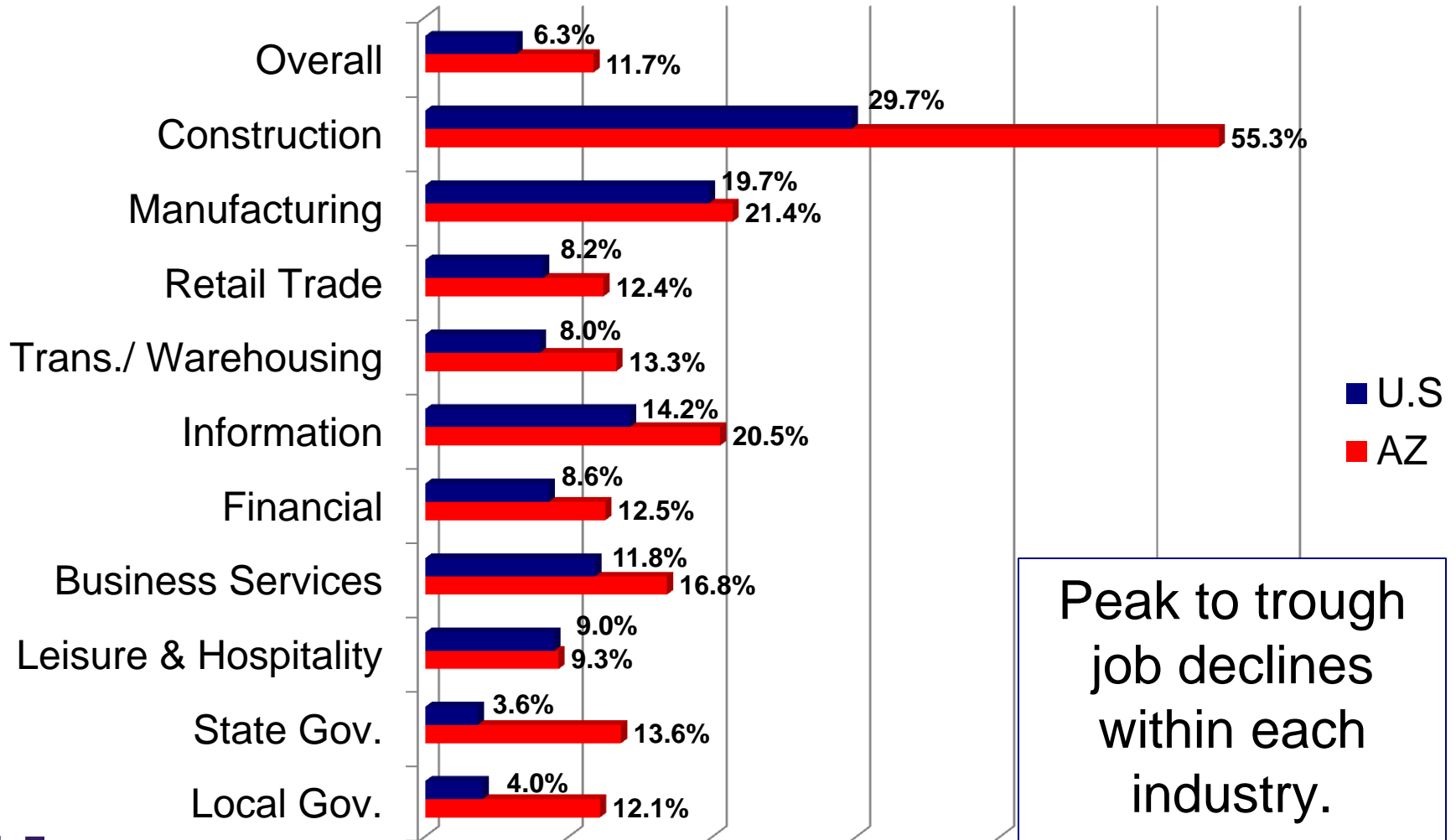


*Based on seasonally unadjusted monthly data



Arizona Job Losses Exceeded U.S.

Source: Bureau of Labor Statistics, Seasonally Adjusted Data



WHY?

- (1) Significant declines in population flows
- (2) Steeper housing decline



(1). Population Flows



**Since the Recovery
Greater Phoenix has created
136,900 jobs.**

**By Comparison, for the first 36
months of the previous recoveries,
Greater Phoenix created 206,500,
190,000 and 203,100 jobs,
respectively.**



Unemployment Rate is now 6.9%.

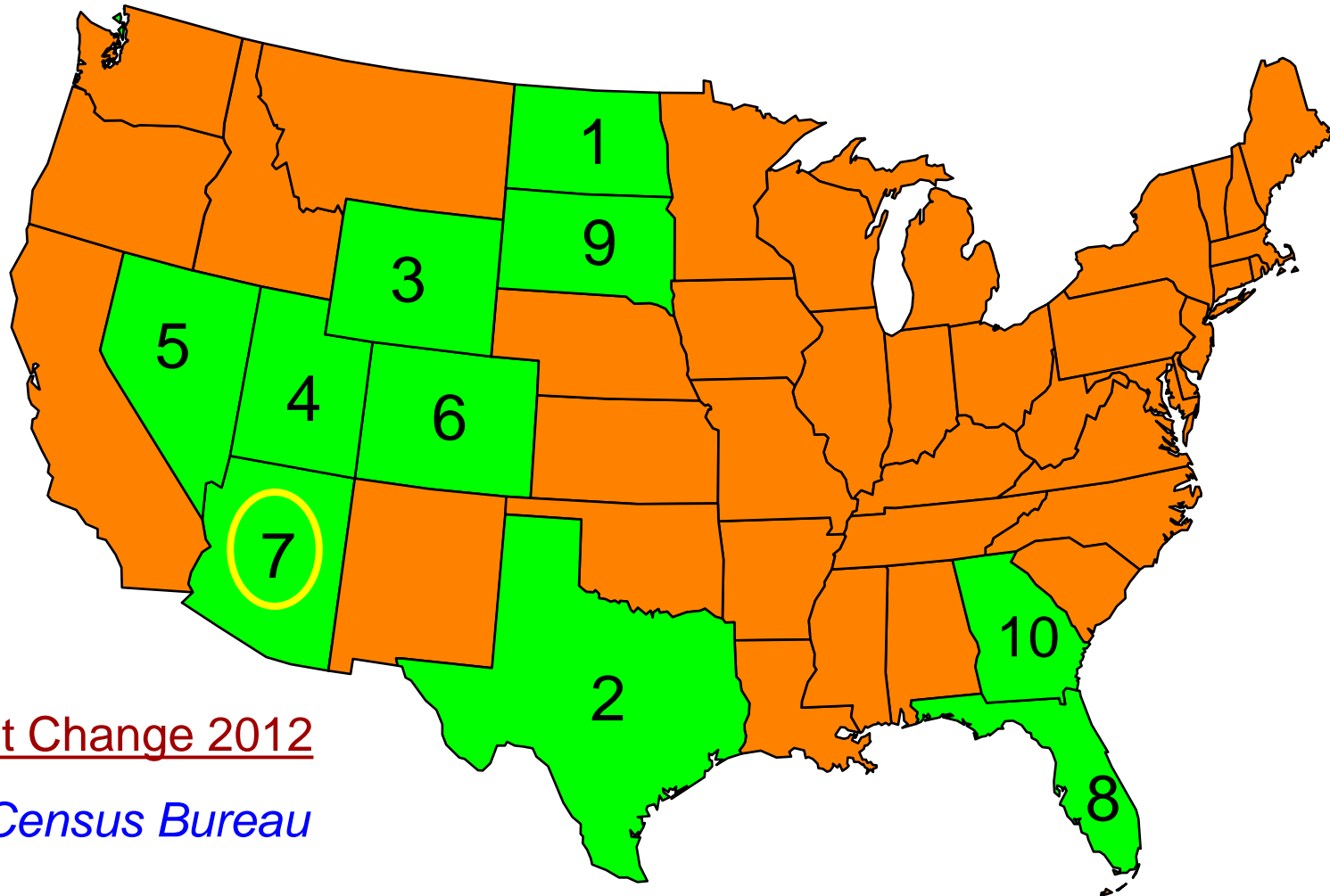
At the same point in the last three cycles, it was 5.3%, 3.2%, and 4.1%, respectively.







Arizona Population Growth Was Slow But Still Top 10 in 2012



Percent Change 2012

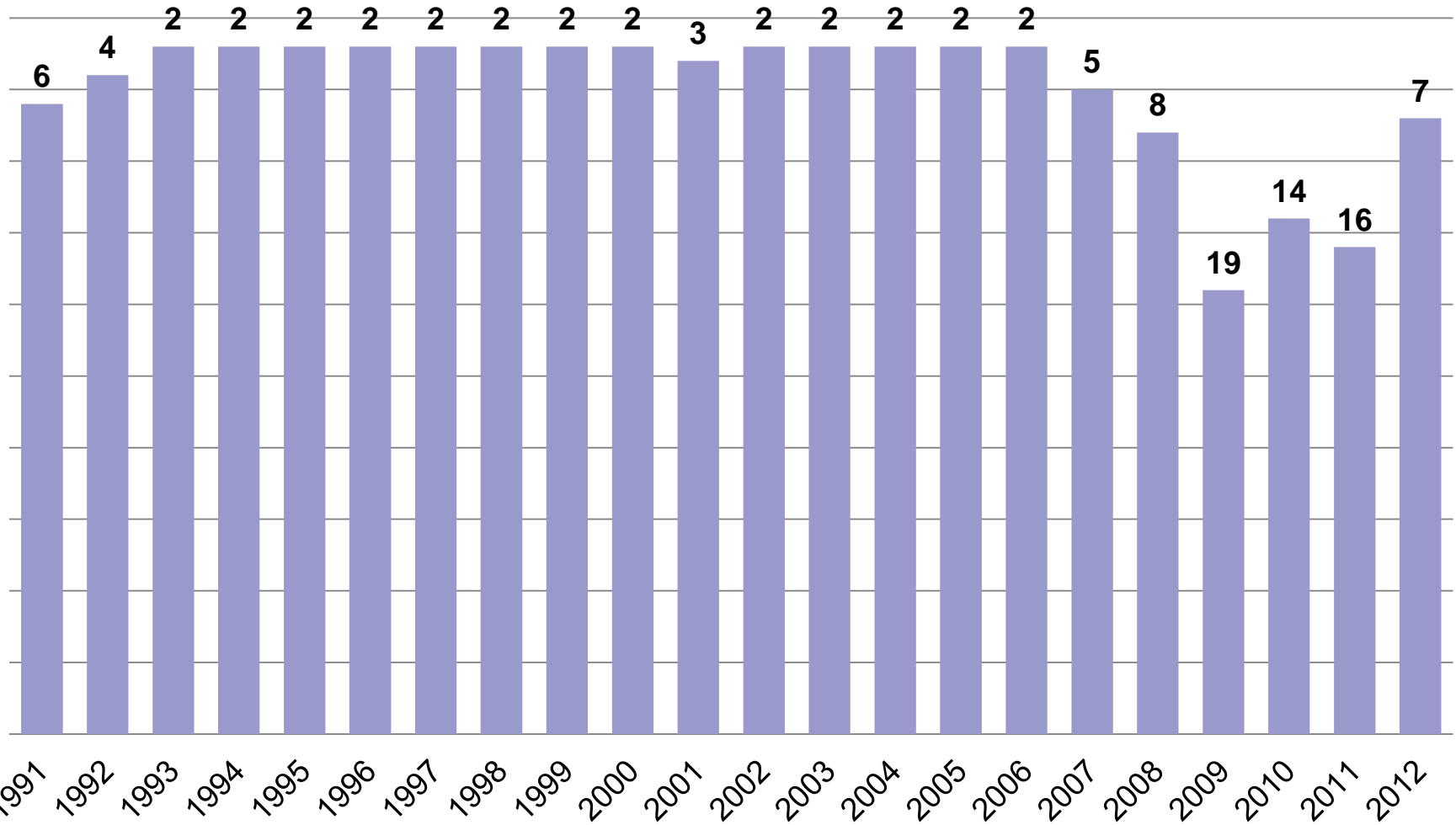
U. S. Census Bureau



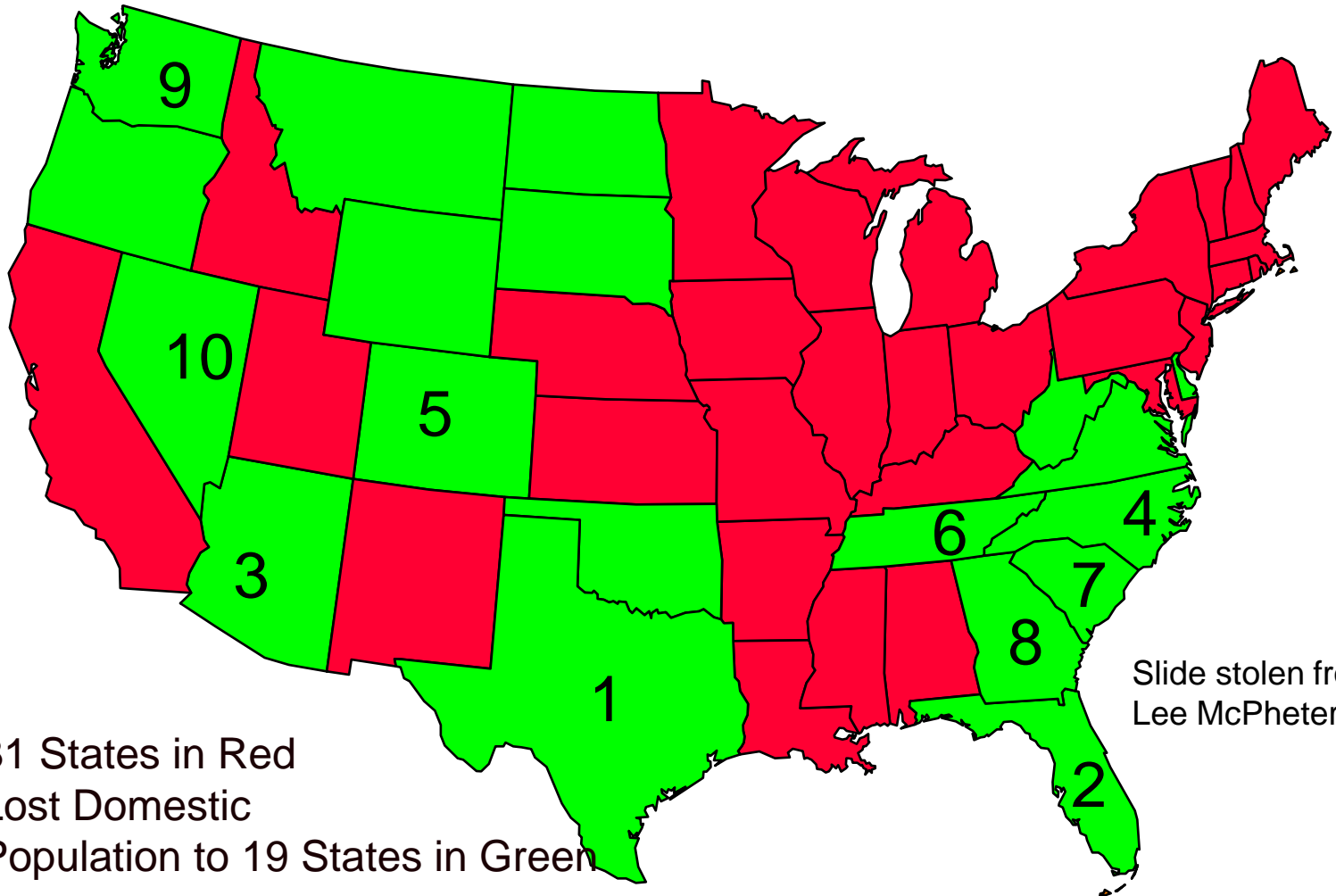
Elliott D. Pollack & Company

Arizona Rank Population Growth 1991-2012

Source: Census Bureau



Texas, Florida, Arizona Attracted Most Domestic Migrants in 2012



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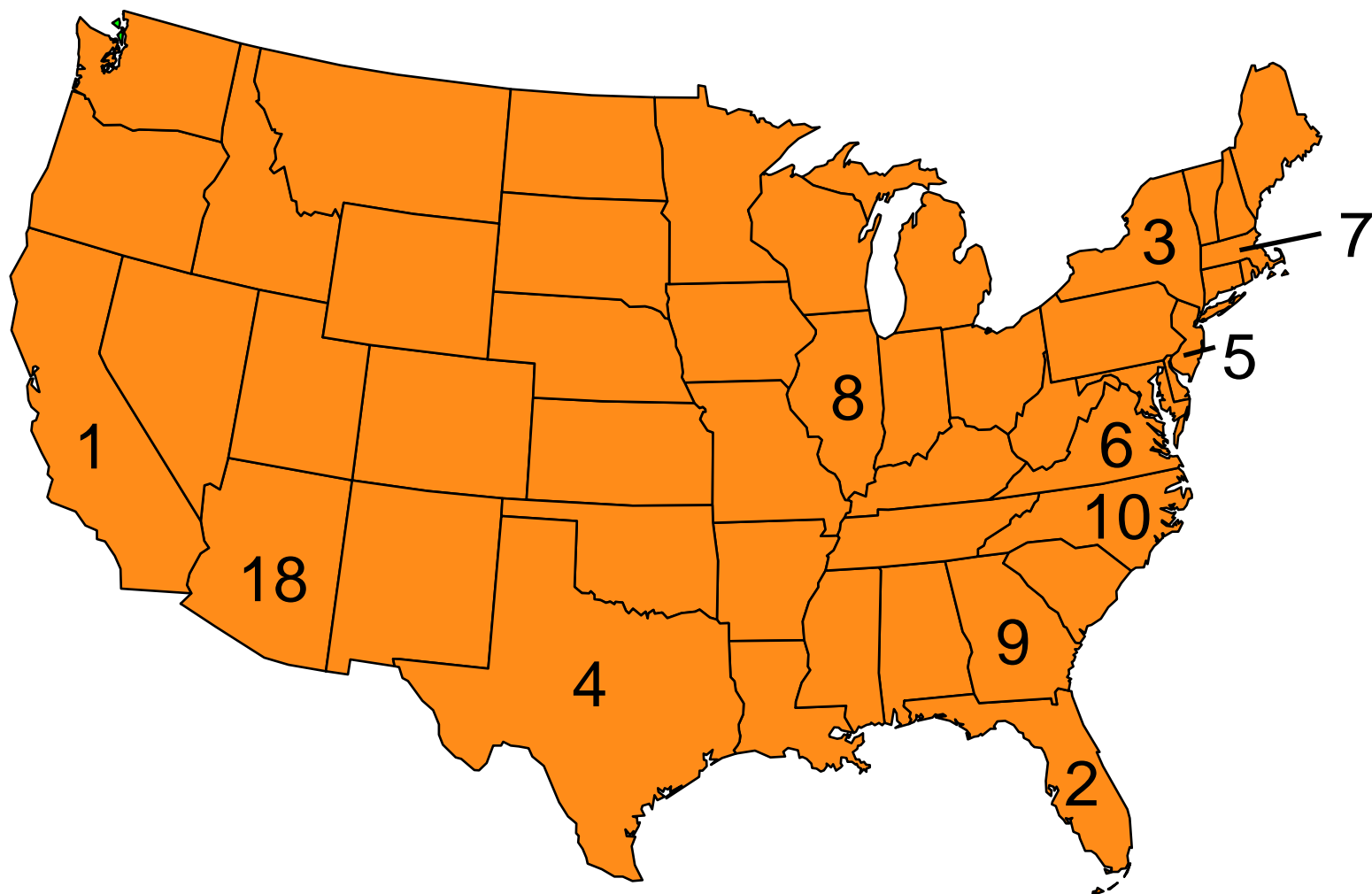
Arizona Domestic Migration Ranking

Source: U.S. Census Bureau

Year	Rank
2005	2
2006	3
2007	4
2008	3
2009	11
2011	12
2012	3



California, Florida, New York Attracted Most International Migrants in 2012



Alaska
Hawaii



Nationally, immigration represented over 38% of the total population increase in 2012.

Source: U.S. Census Bureau



Arizona International Migration Ranking

Source: U.S. Census Bureau

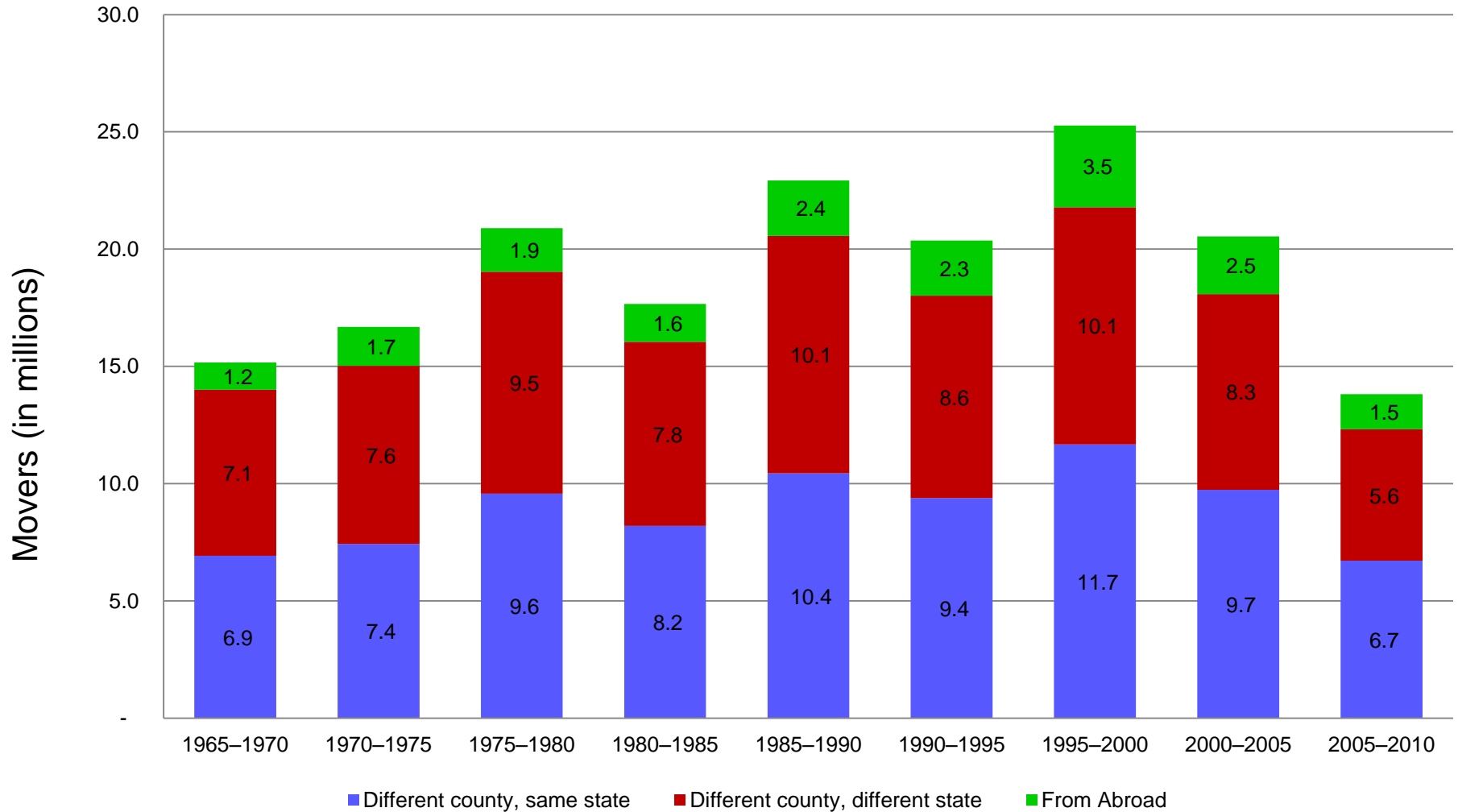
Year	Rank
2005	8
2006	9
2007	8
2008	9
2009	8
2011	8
2012	18



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

1980-2010

Source: U.S. Census Bureau



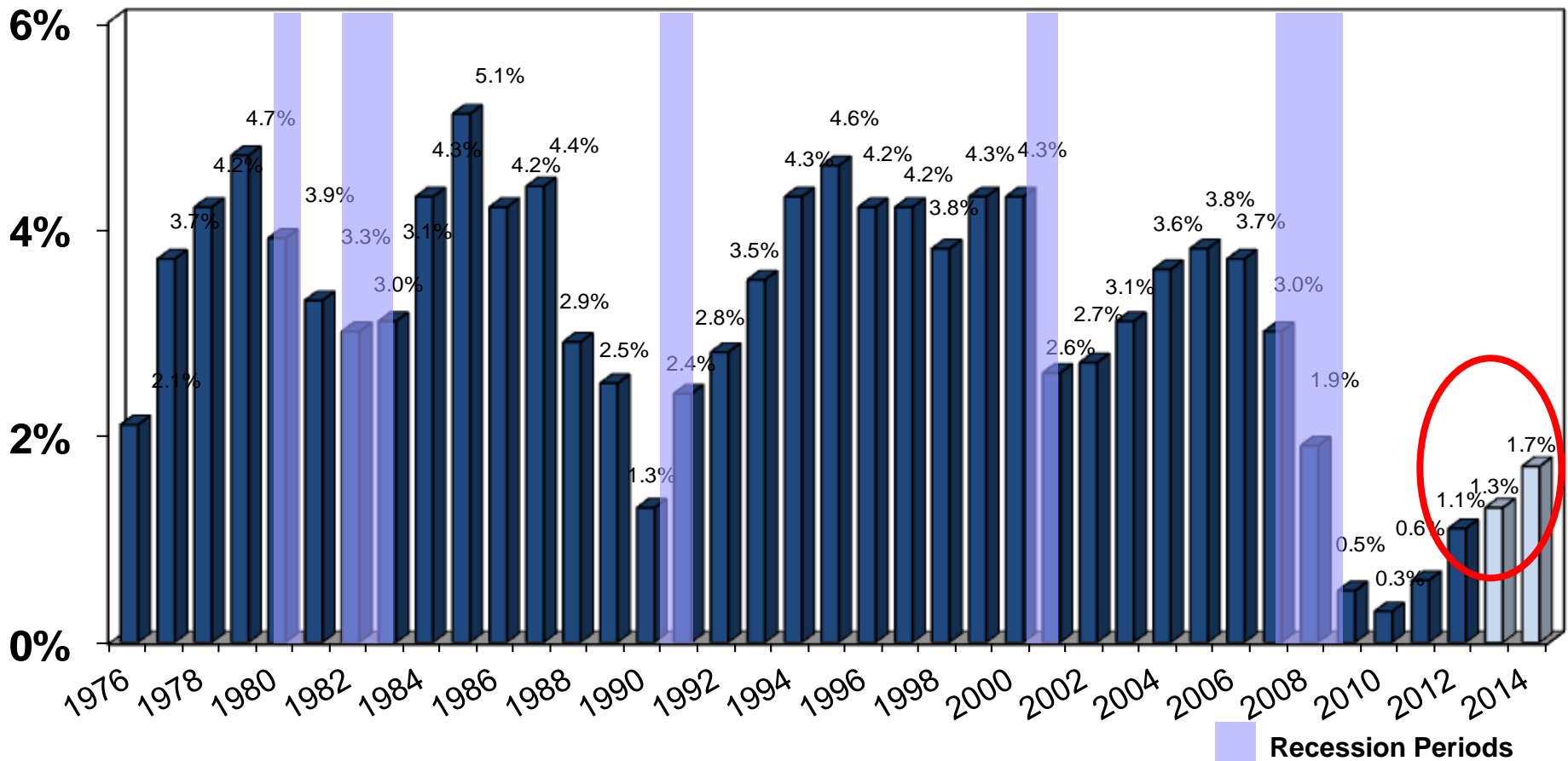
Why did population flows slow?

- **Slow job growth**
- **High unemployment**
- **Delayed retirement**
- **Difficulty in selling home**
- **Difficulty in qualifying for a loan**
- **S.B. 1070**



Greater Phoenix Population Annual Percent Change 1976–2014*

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



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



**No one knows,
but not as rapidly
as we would like.**



(2). Housing



**Fewer people mean fewer
houses.**



Greater Phoenix Population

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

YEAR	POPULATION	APR
1950	374,000	
1960	726,183	6.9%
1970	1,039,807	3.7%
1980	1,600,093	4.4%
1990	2,238,498	3.4%
2000	3,251,876	3.8%
2010	4,192,887	2.6%
2020 (forecast)	5,011,767	1.8%



**If you believe that
population forecast,
it implies an average of
more than 22,500 single family units
will be built each year
from 2014 through 2020.**



How homebuilders felt 2008 – 2011...



© London Media



How homebuilders feel now...

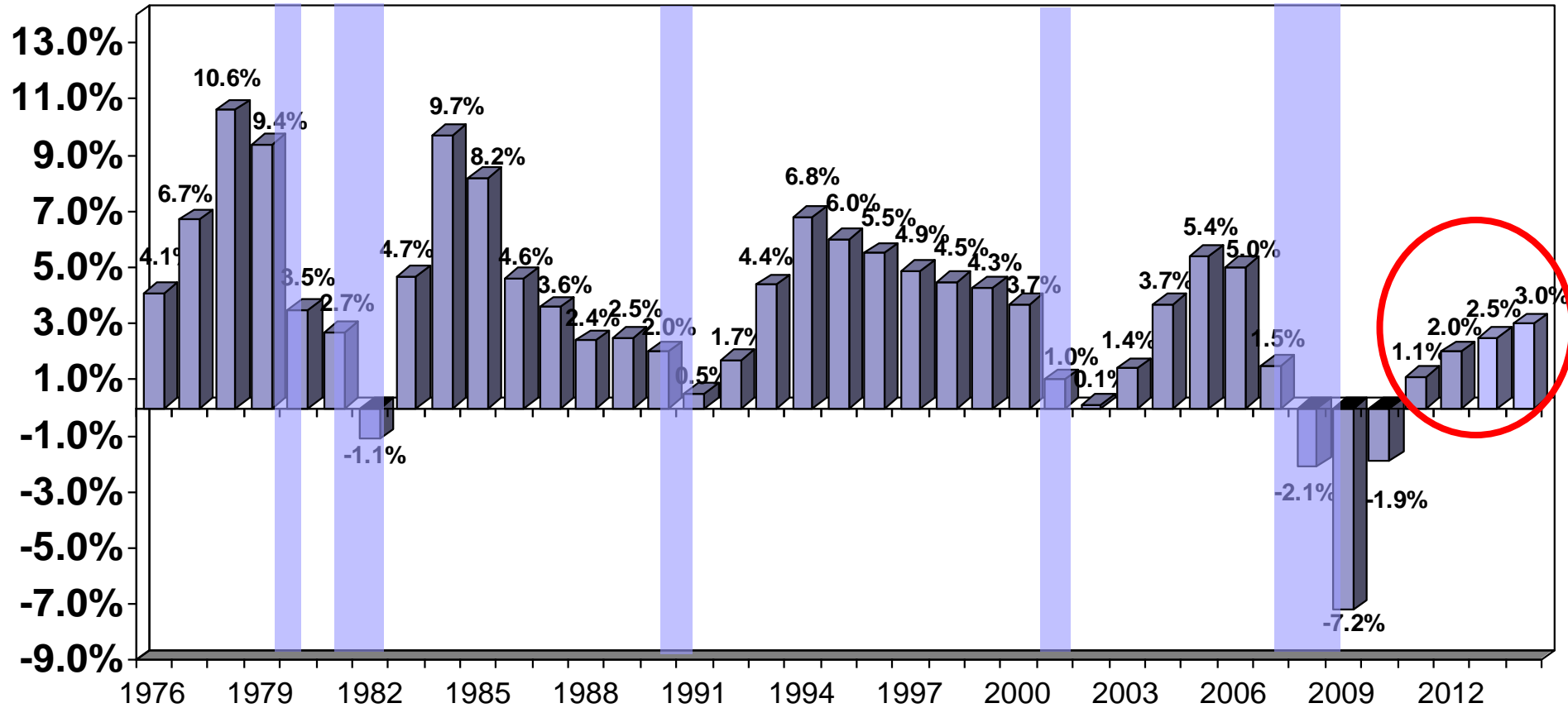


**Greater Phoenix permits
declined 89.3% from
peak to trough
compared to
75.4% nationally**



Arizona Employment Annual Percent Change 1976–2014*

Source: Arizona Department of Administration



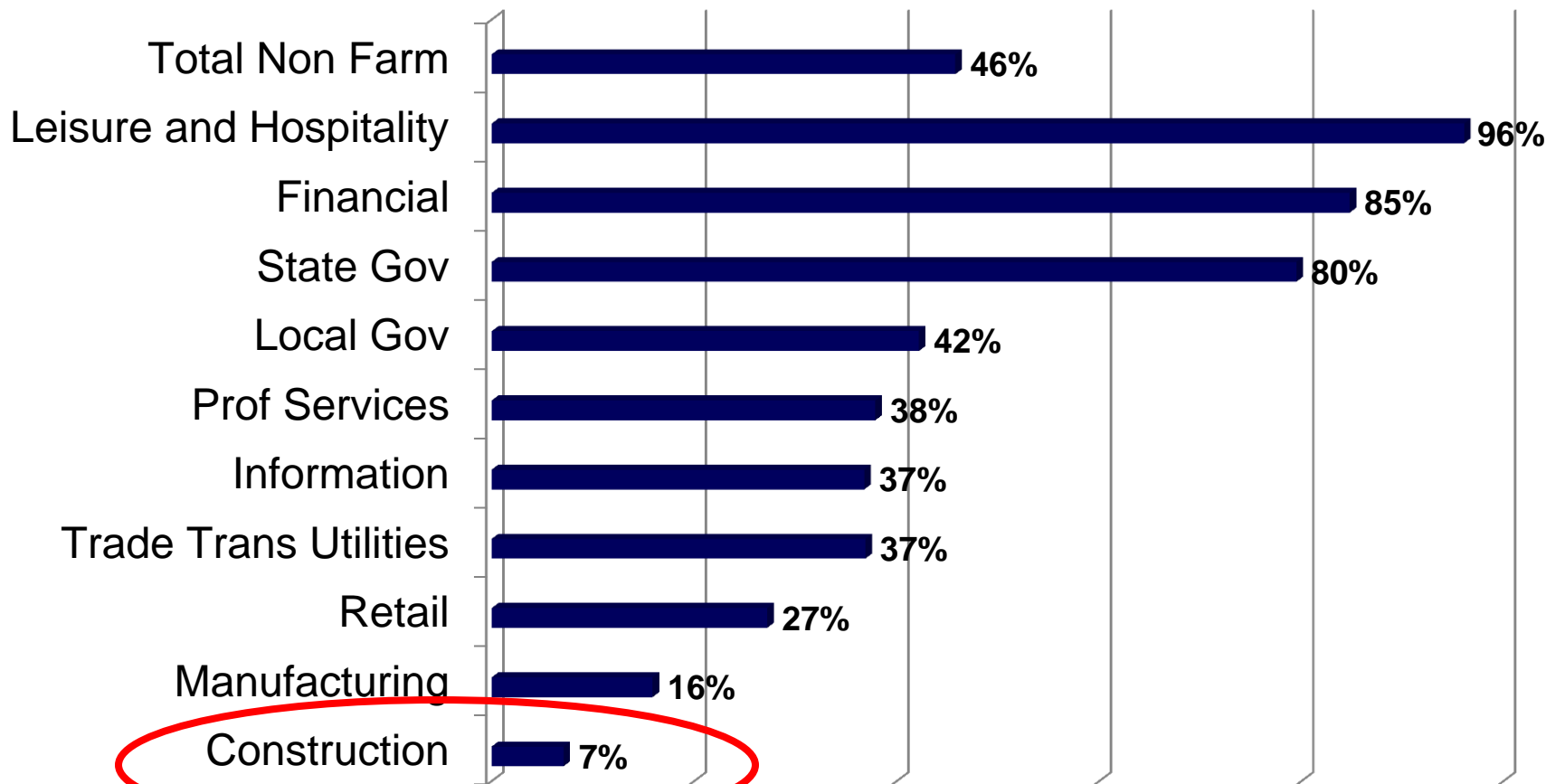
Recession Periods

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

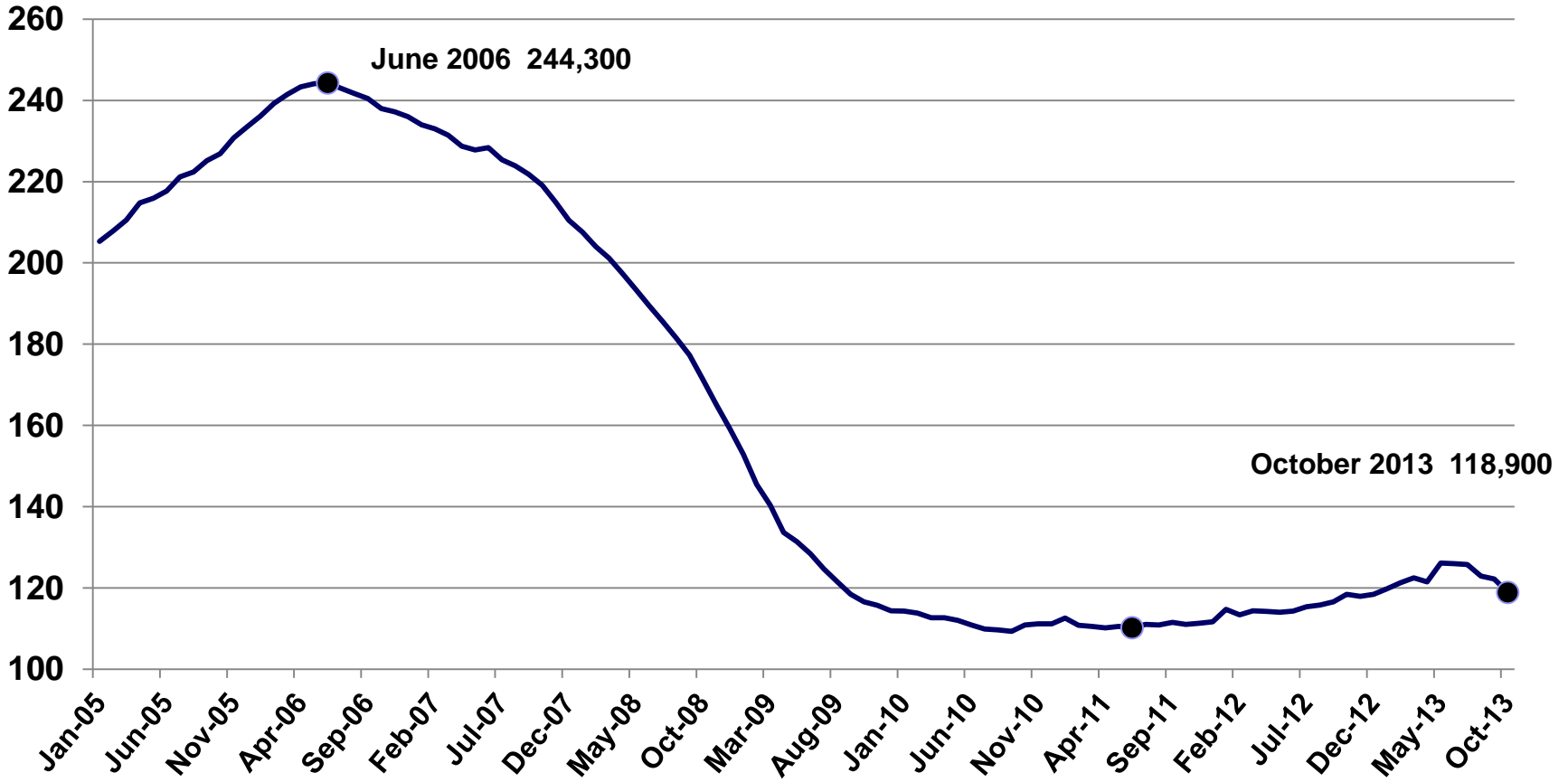


Arizona Jobs Regained Since Bottom of Cycle

Most Industries Yet To Regain Lost Jobs



Construction Employment is Still Down by 125,400 Jobs (49%) Since Peak



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

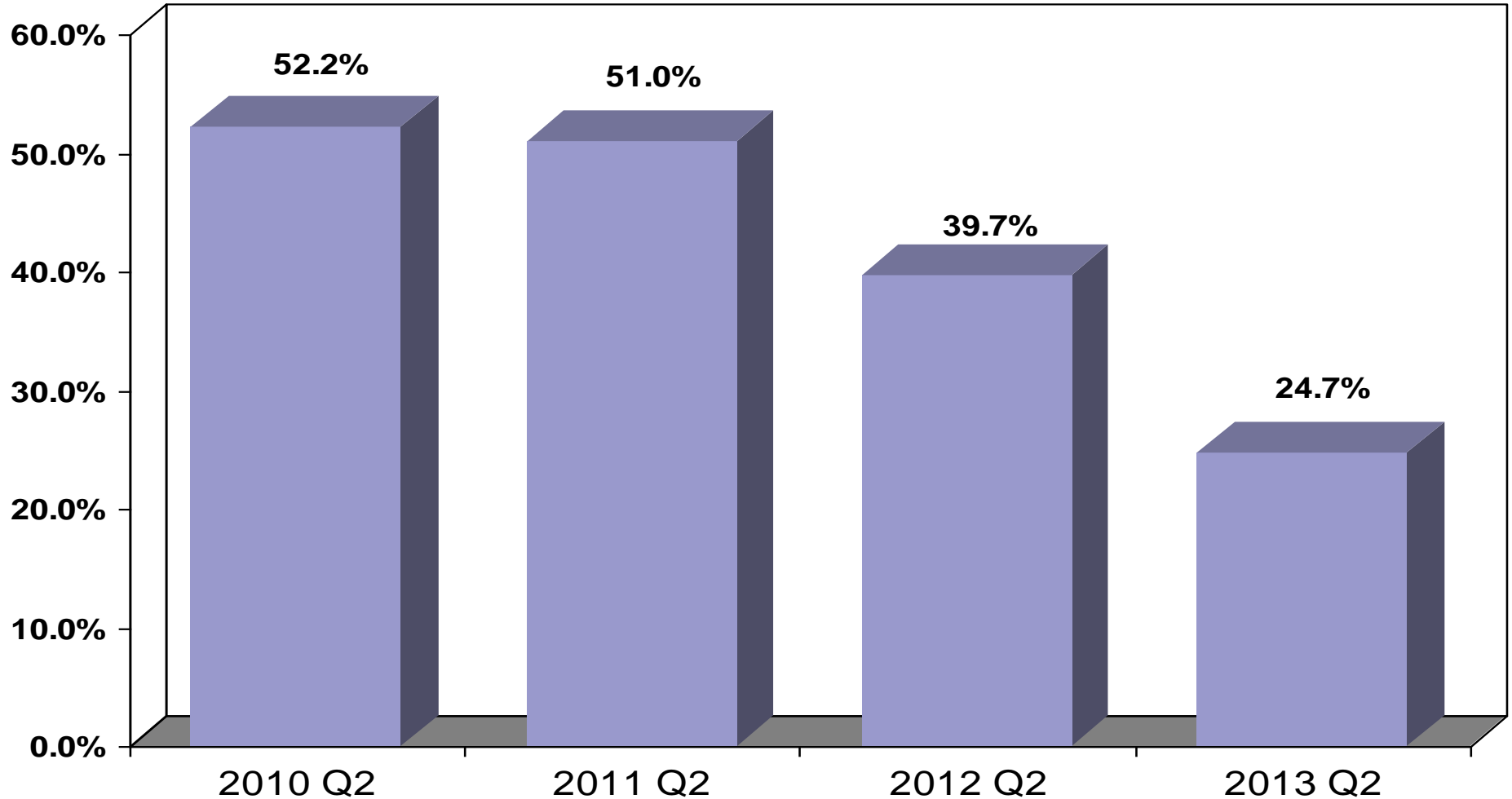


The outlook for housing is still excellent



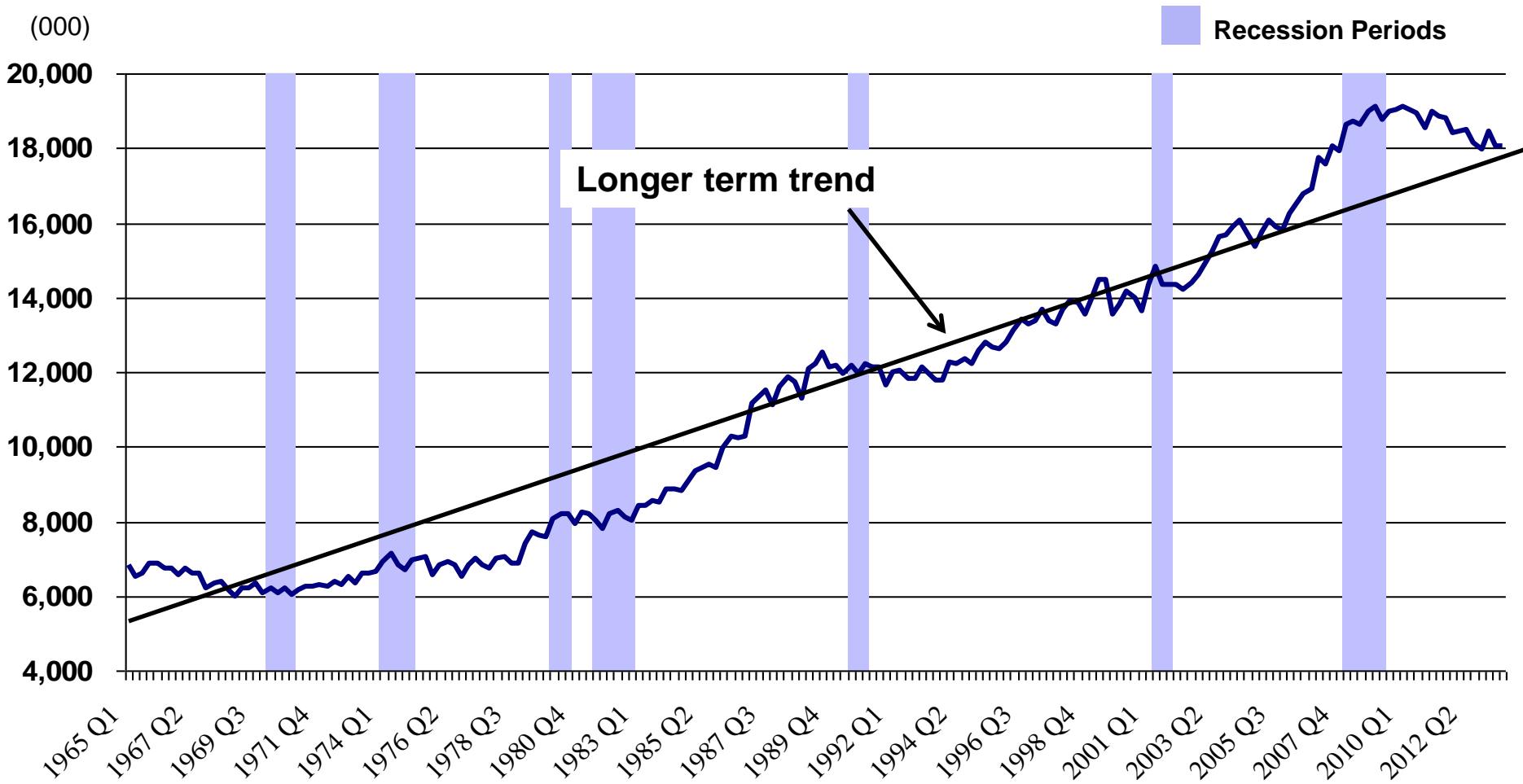
Arizona Negative Equity Share 2010 Q2 – 2013 Q2

Source: CoreLogic



US Total Vacant Housing Units 1965-2013*

Source: US Census Bureau



*Data through 2013 Q3.

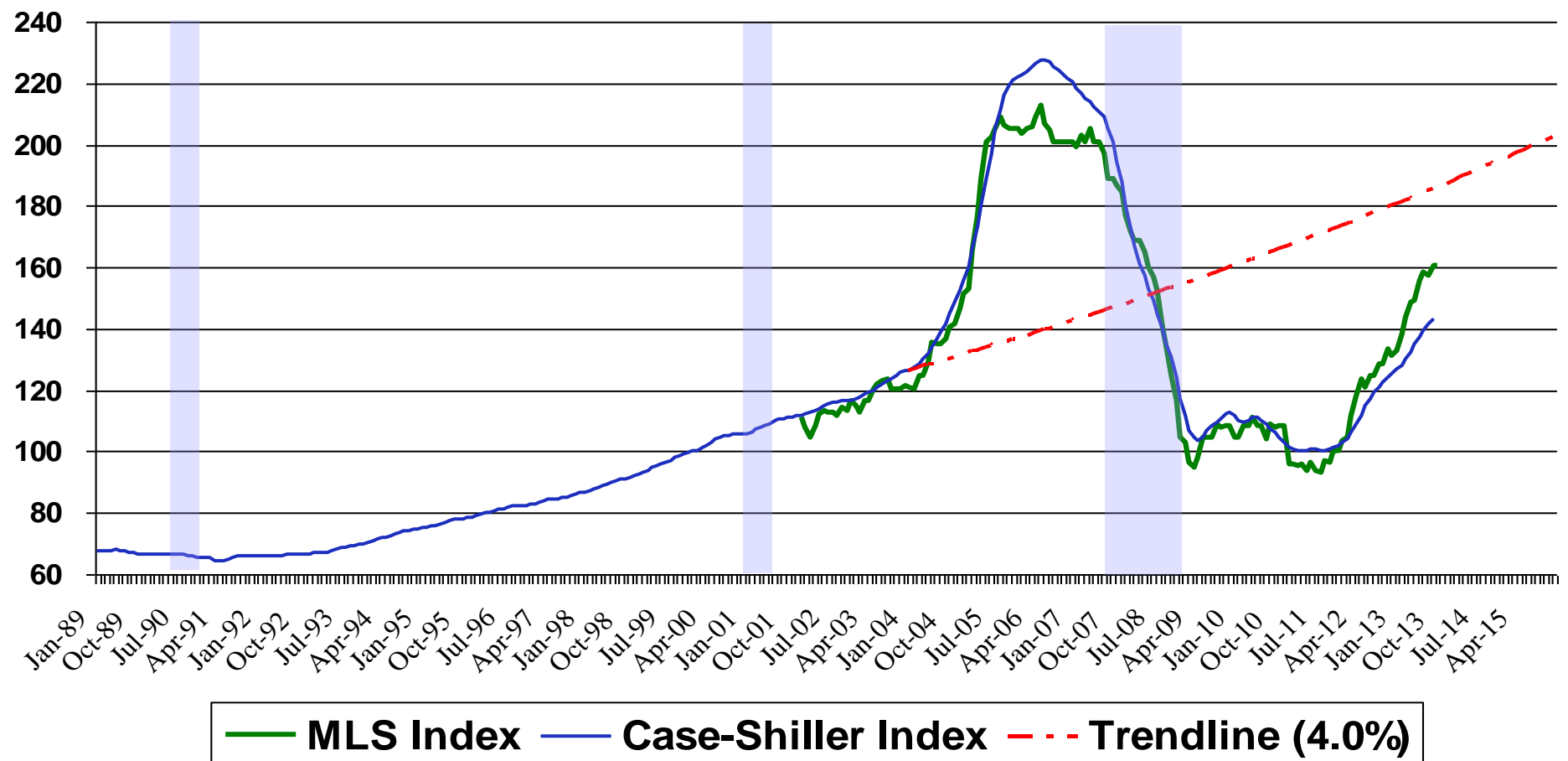


Home Prices Indices Greater Phoenix

1989 – 2013*

Source: Macro Markets, LLC; AMLS

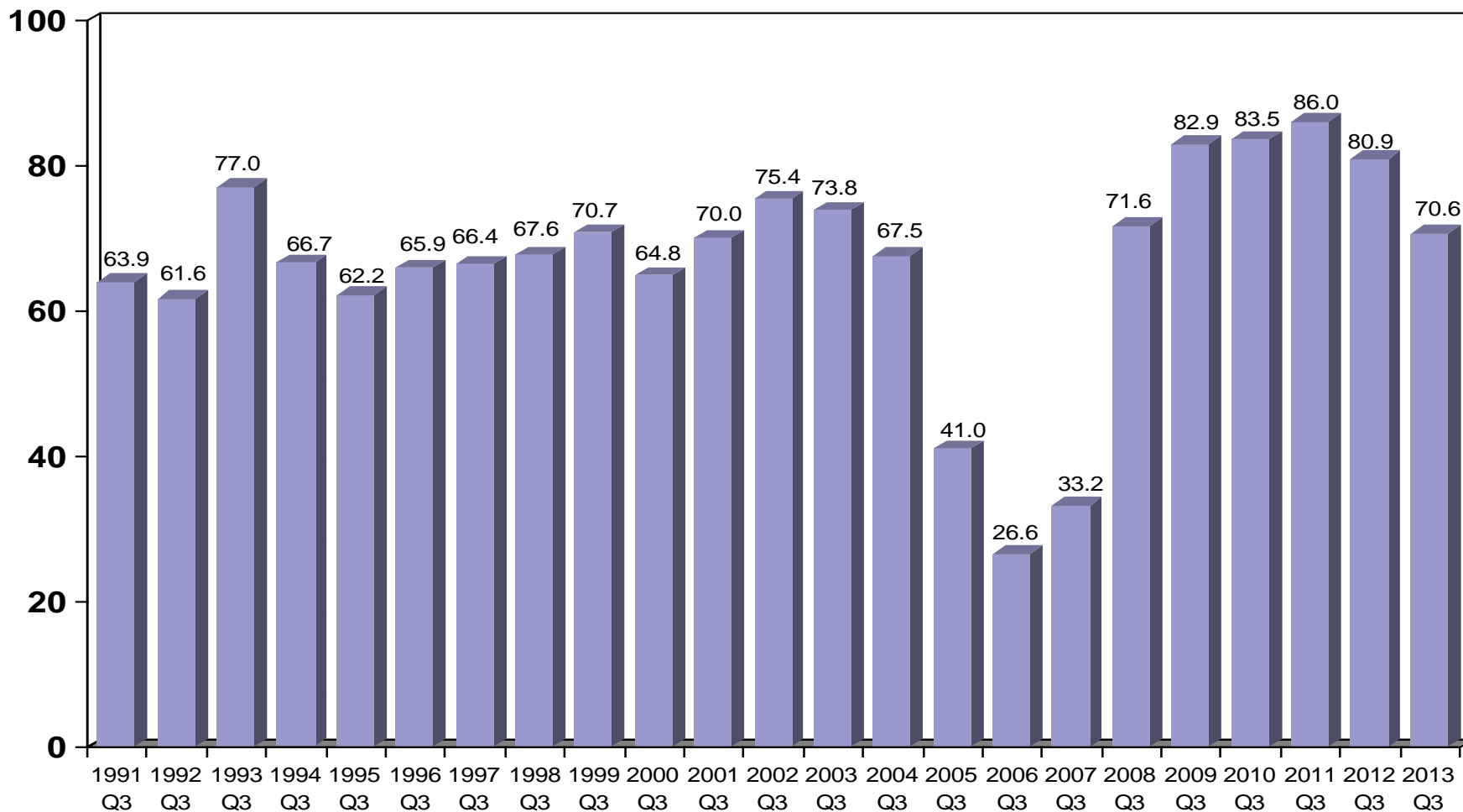
Recession Periods



*Data through October 2013.

Greater Phoenix Housing Opportunity Index 2004 – 2013*

Source: NAHB-Wells Fargo



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



**Until credit markets become
more normal
and housing prices continue
to increase,
the rate of population growth
will remain lower than
normal....**



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



Household Formations

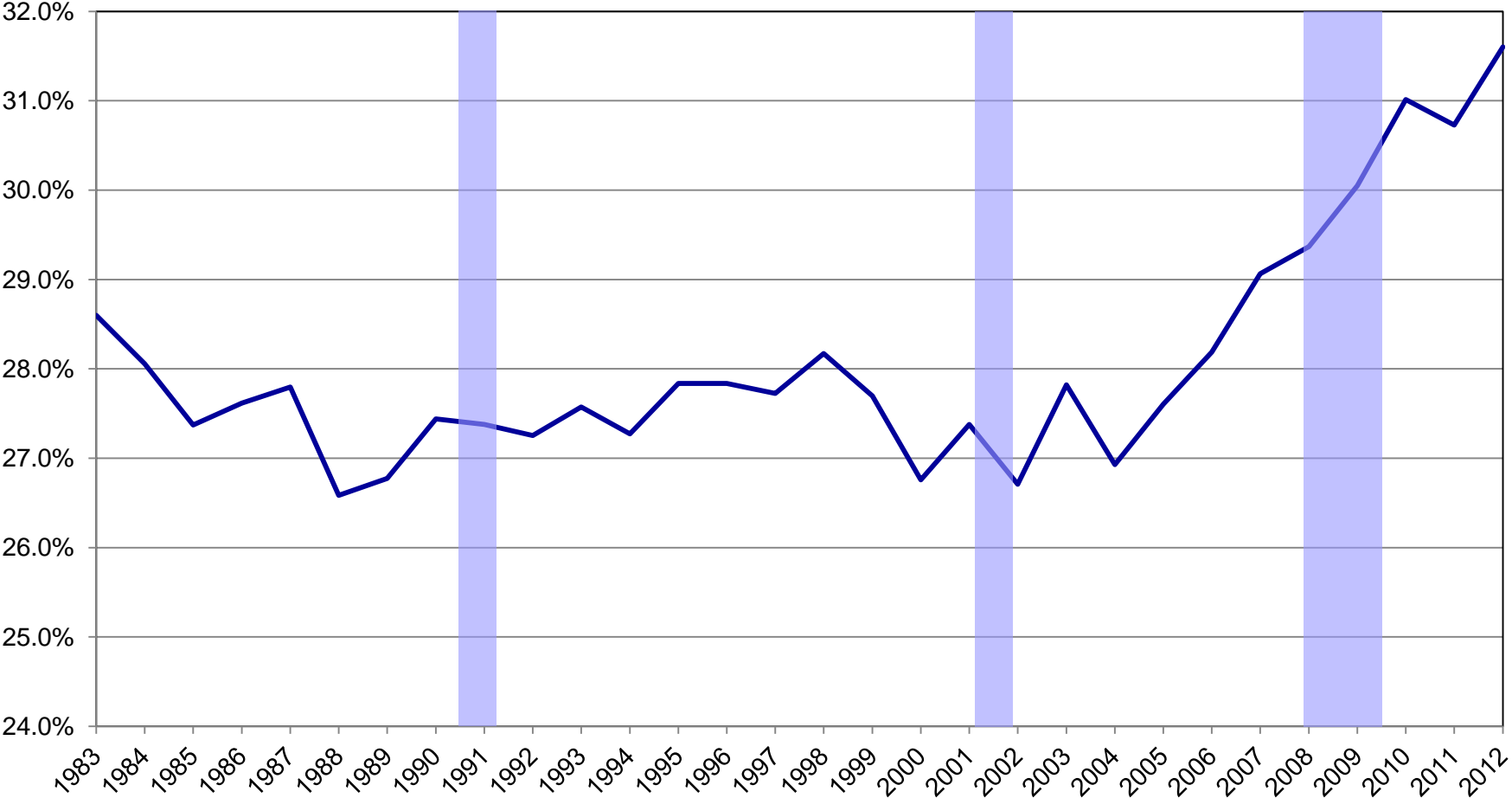
Lower during
recessions
(doubling up,
living at home
with mom &
dad, etc)



Percent of 18-34 Year Olds Living With Parents U.S.: 1983 – 2012

Source: US Census Bureau

Recession Periods

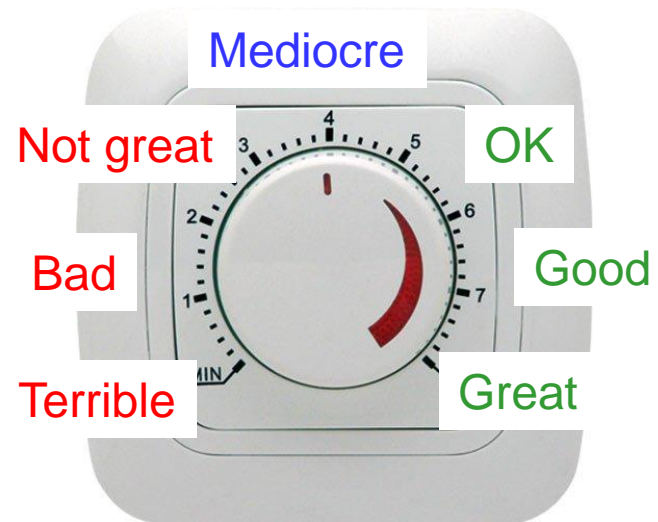


Housing

Not a light switch...



A dimmer switch...



WHAT WE HAVE BEEN SAYING...

- Think of what the housing market is going through as the same as any manufacturer that finds themselves with excess inventory...
- As excess inventory is absorbed, prices increase.





**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).**



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

Source: Arizona Department of Revenue

Recession Periods



*Data through September 2013

**3-month moving average

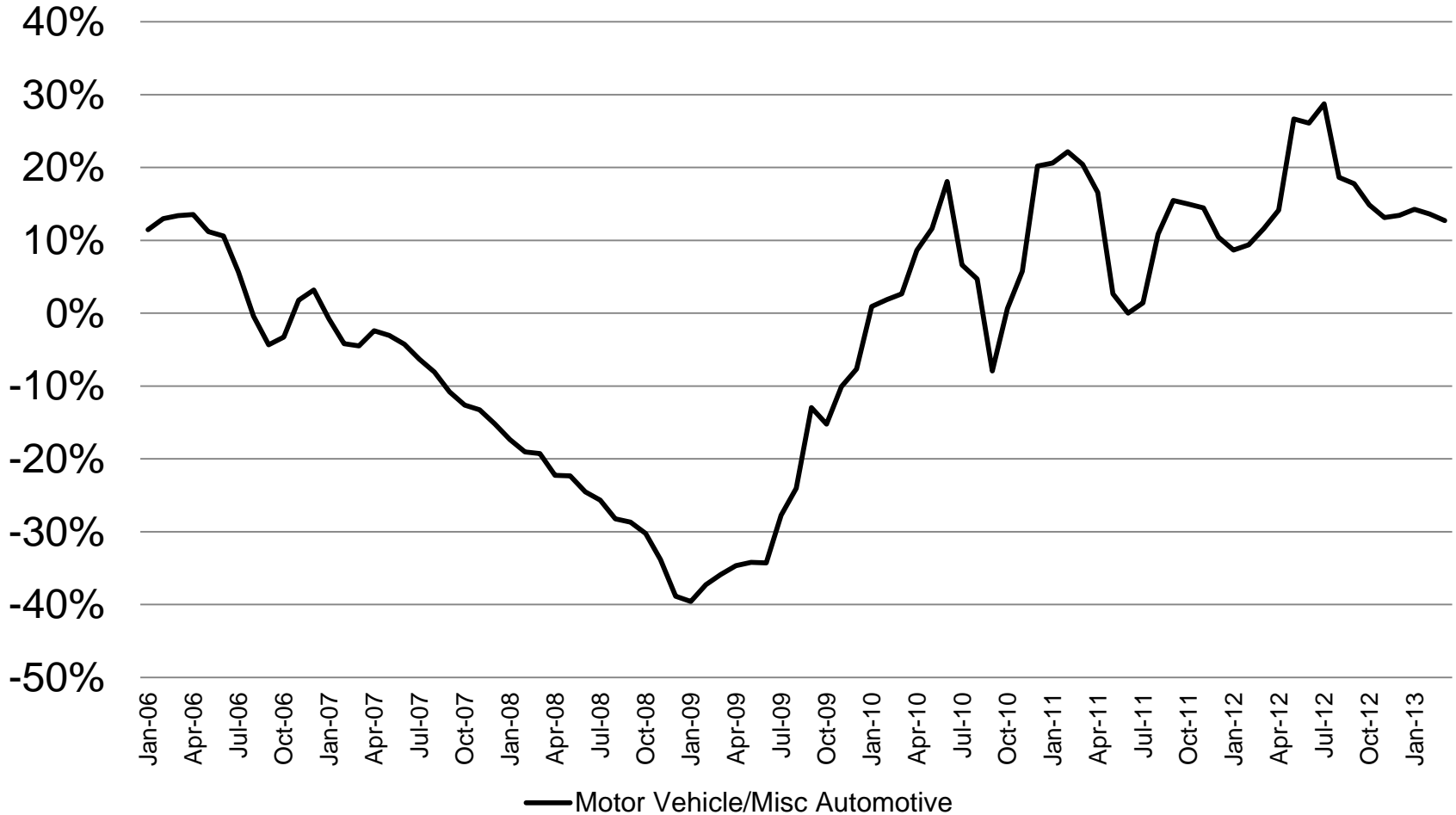
Note: January 2010 and March 2010 retail sales are estimates.





Maricopa County Motor Vehicle Retail Sales Percent Change Year Ago 2006 – 2013*

Source: Arizona Department of Revenue



*Data through March 2013

**3-month moving average

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

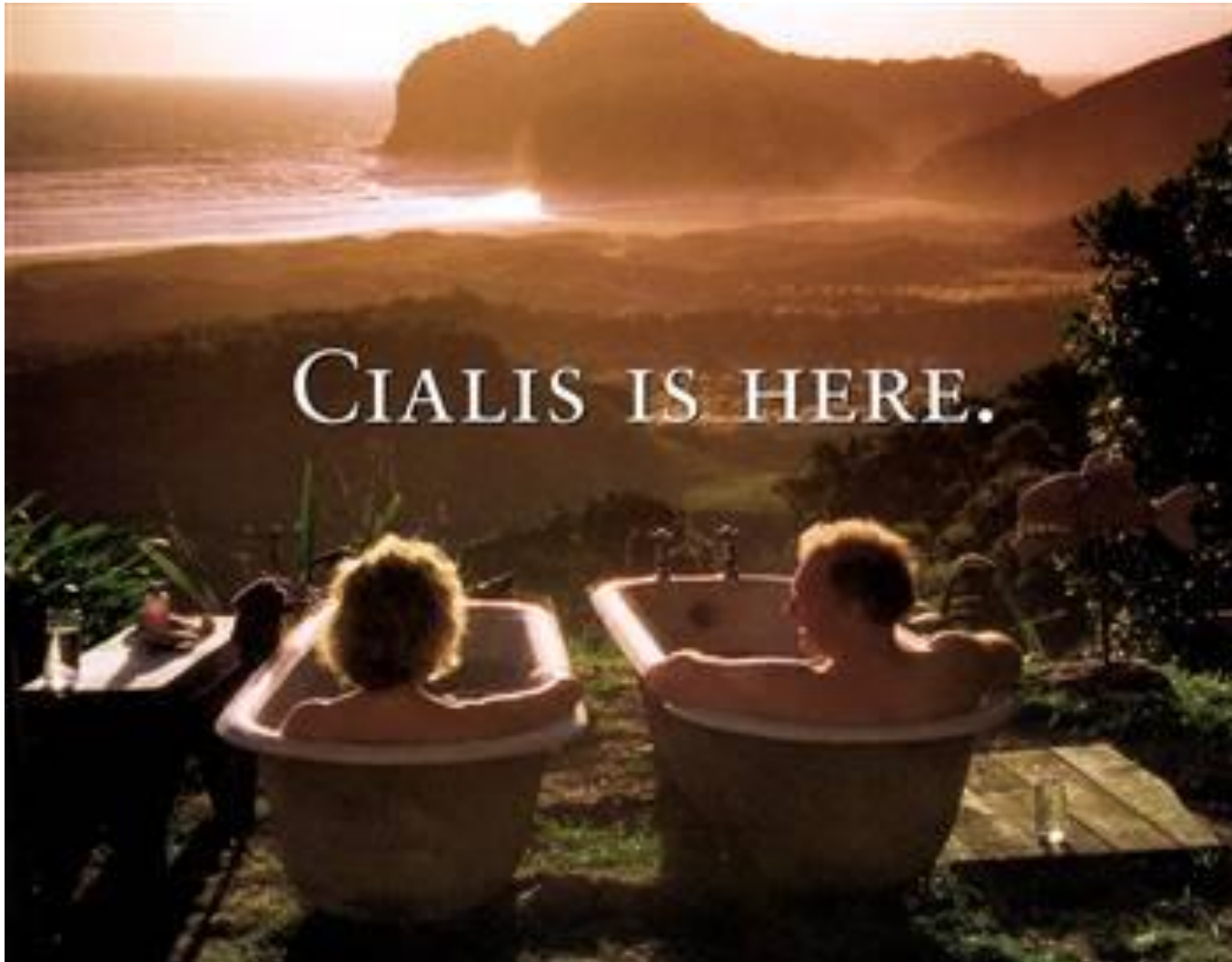




CONCLUSIONS: How will it all turn out?



Expect more growth...





What?
No recession!!??!



**No recession on the
horizon...**

**... It's slow but it's
growing.**



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





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ARIZONA-

**Slow but mildly accelerating
recovery.**

2014 will be better than 2013.

2015 should be a good year.





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