



# **Reality Revised!**

**Maricopa County Board of Supervisors  
April 11<sup>th</sup>, 2011**

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



# Synopsis:

**Maricopa County's  
employment recession  
only just recently ended...**

**...We previously thought it ended  
last summer.**



# Synopsis:

**Our recovery is occurring six months later than previously thought.**

**Our recovery will be slightly weaker than previously thought.**

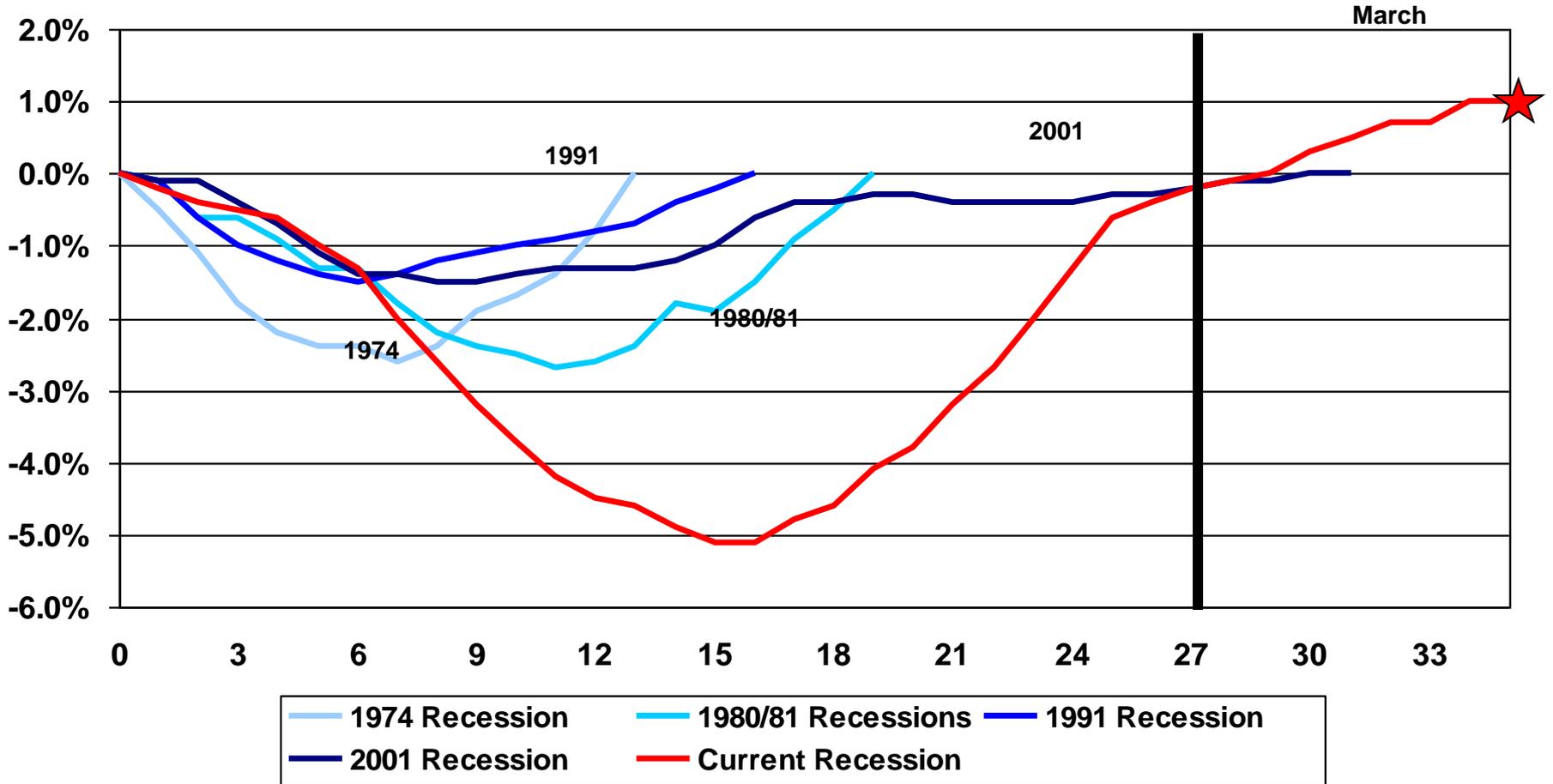


# The U.S. Recovery:



# U.S. Y/Y Job Losses - Recent Recessions

## Duration in Months - BLS



# US Employment\*

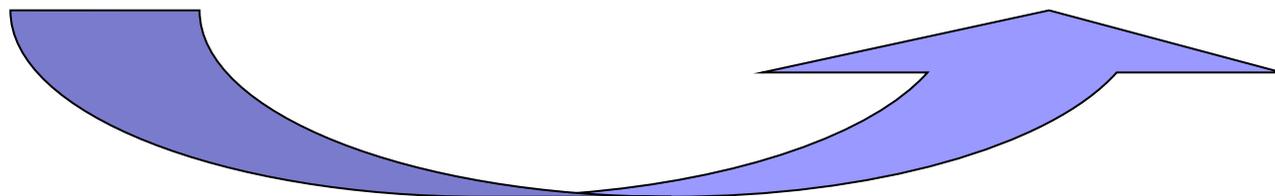
Source: Bureau of Labor Statistics

## Sectors in Decline

Construction	-0.6%
Information	-1.4%
Financial Activities	-0.4%
Government	-1.6%

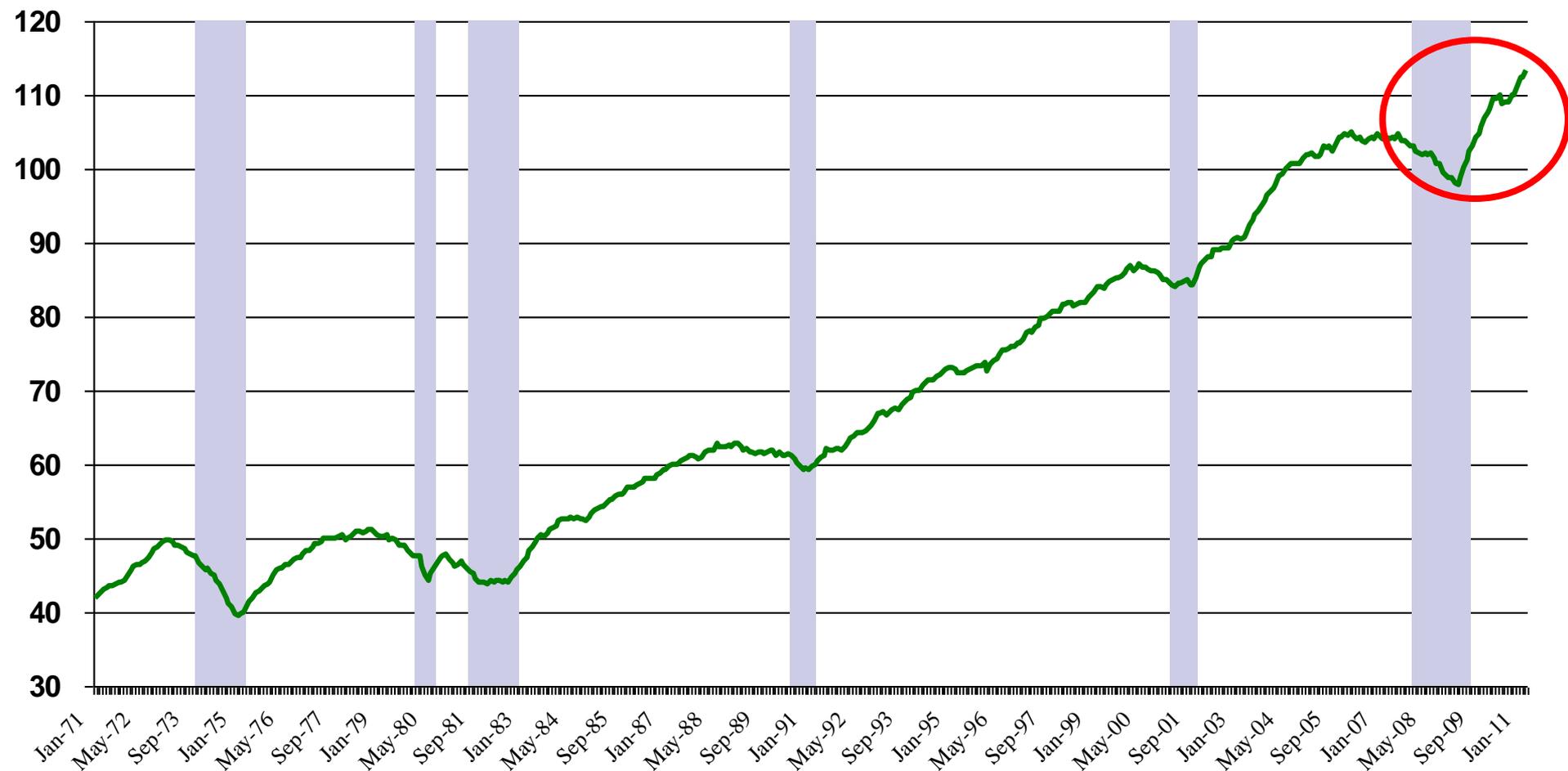
## Sectors Improving

Natural Resources & Mining	11.4%
Education & Health Services	2.1%
Trade	0.8%
Prof. & Bus. Services	3.3%
Leisure & Hospitality	1.6%
Transp., Warehousing & Utilities	1.7%
Manufacturing	1.8%
Other Services	2.0%



# U.S. Leading Indicators 1971 – 2011 (through February)

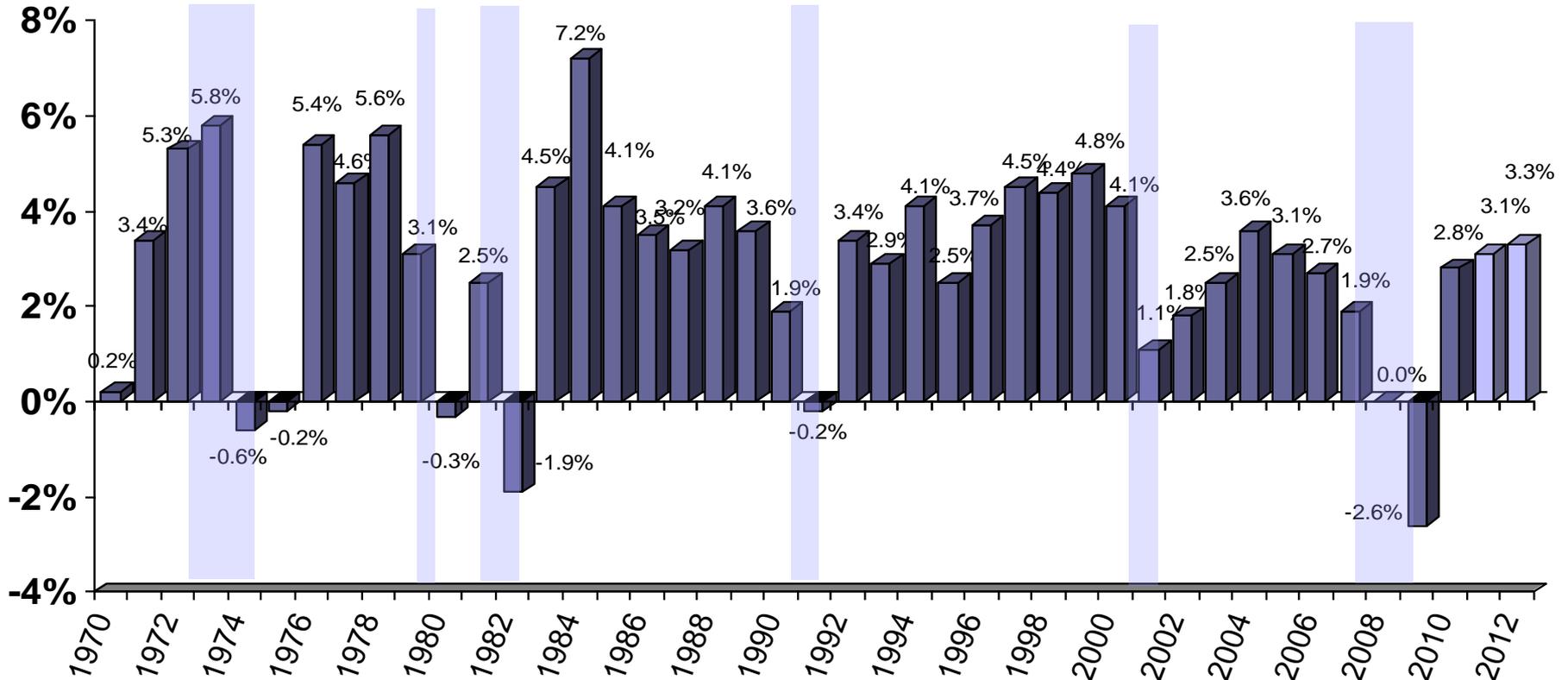
Source: The Conference Board



# United States Real Gross Domestic Product\*

## Annual Growth 1970 - 2012\*\*

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



\* Based on chained 2005 dollars.

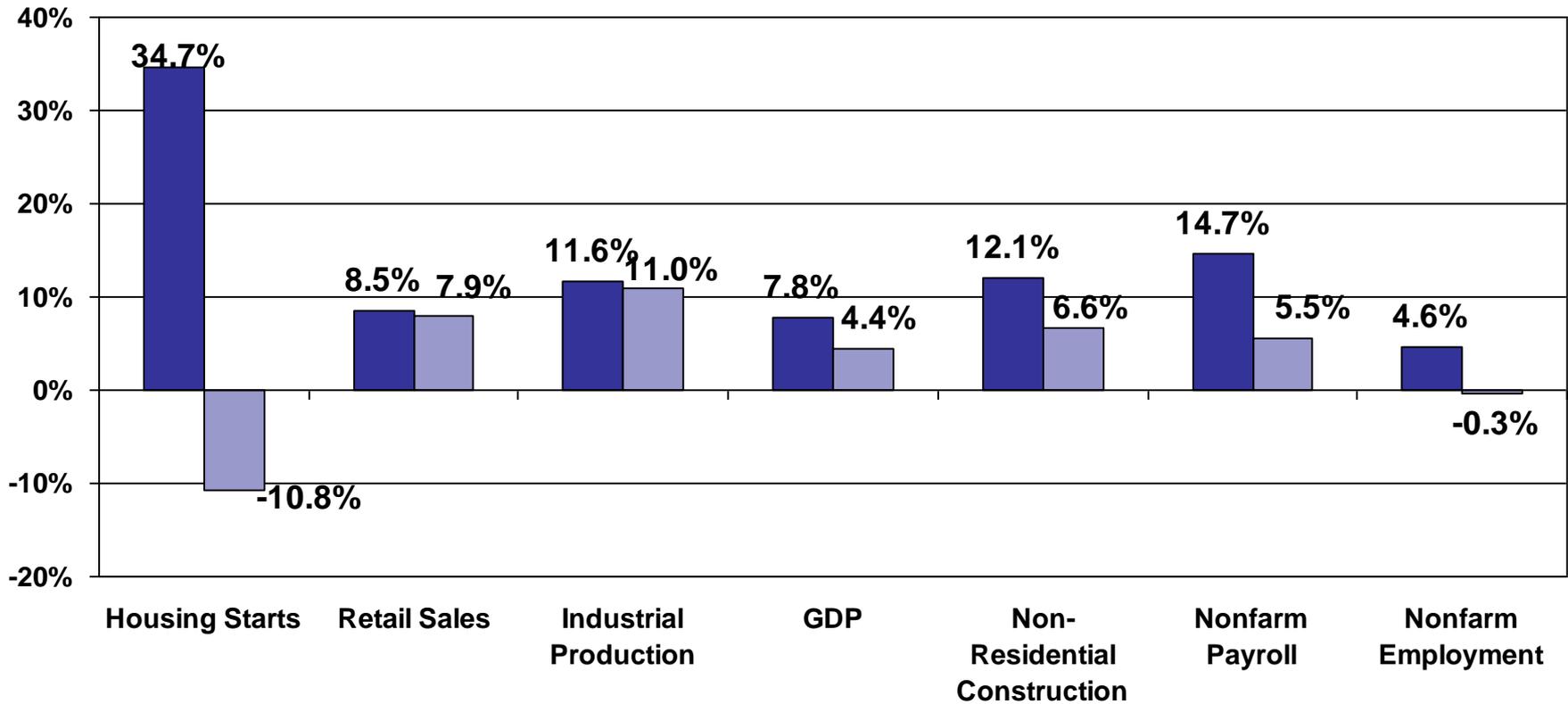
\*\* 2011 - 2012 are forecasts from the Blue Chip Economic Indicators, March 2011

 Recession Periods



# Recession End v. 6 Quarters Later

Sources: NAHB; Census, BEA, BLS



■ Average of 8 Prior Recessions

■ Current Recovery





***2012 & 2013  
will be a whole  
lot better than  
2010 & 2011  
-and-  
2010 & 2011  
were a whole lot  
better than  
2008 & 2009!***



- Recovery in Arizona will be slow.
- For the U.S., a solid cyclical recovery is underway.



# Consumers

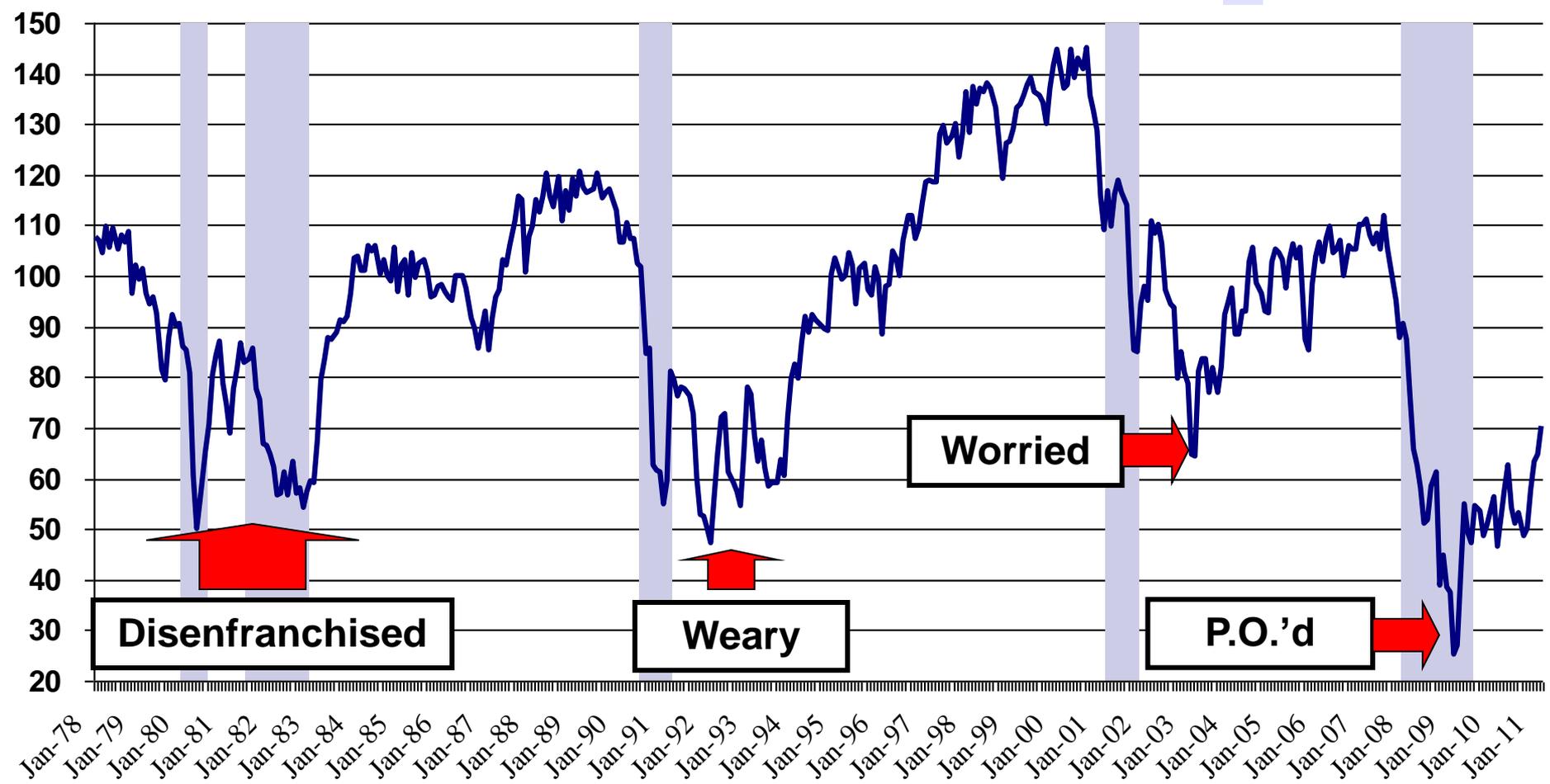


# Consumer Confidence

1978 – 2011\*

Source: The Dismal Scientist

Recession Periods

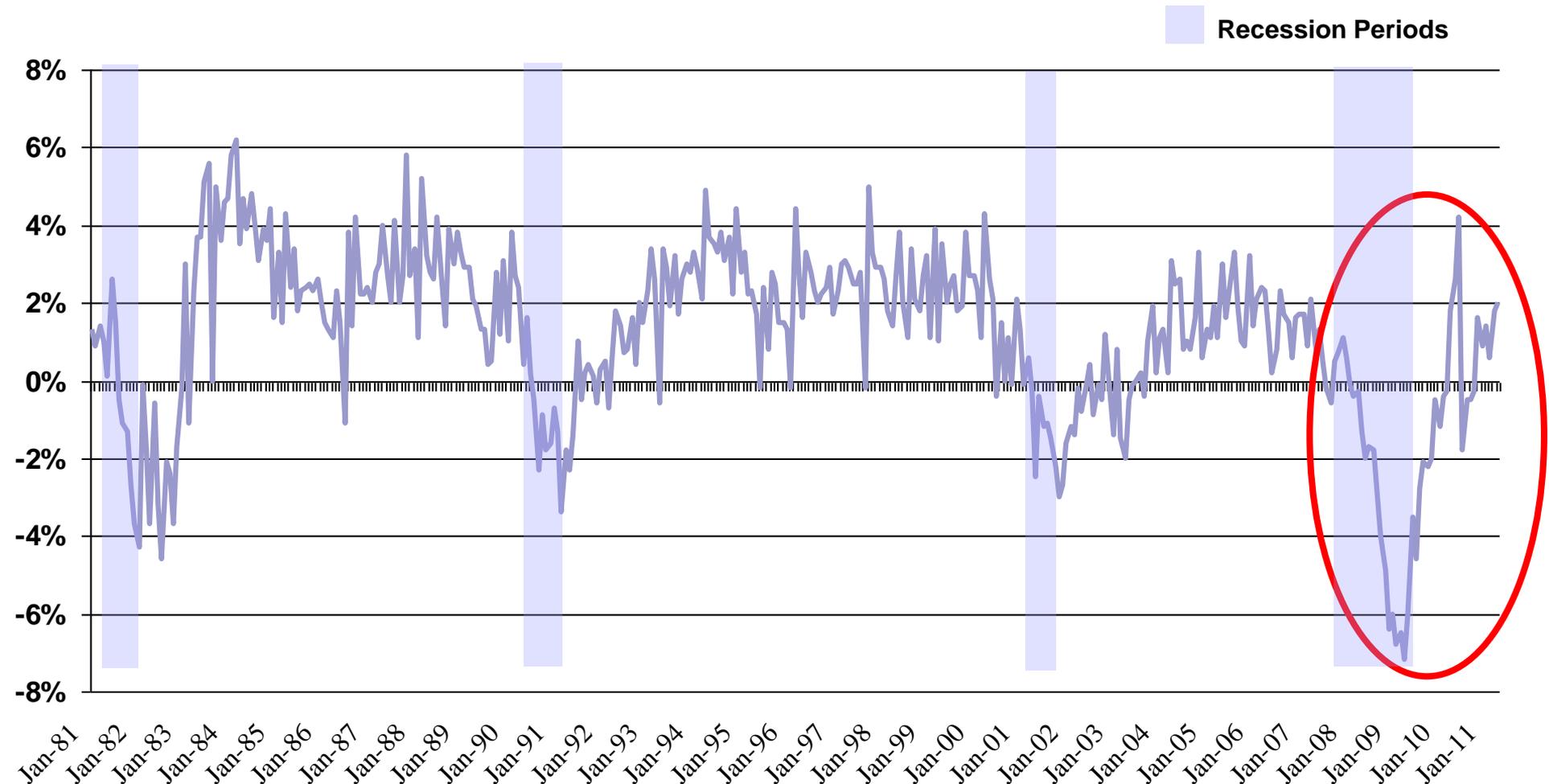


\*Data through February 2011



# National Employment Percent Change Month Ago, Annualized (S/A) 1981 – 2011\*

Source: U.S. Bureau of Labor Statistics



\*Data through March 2011

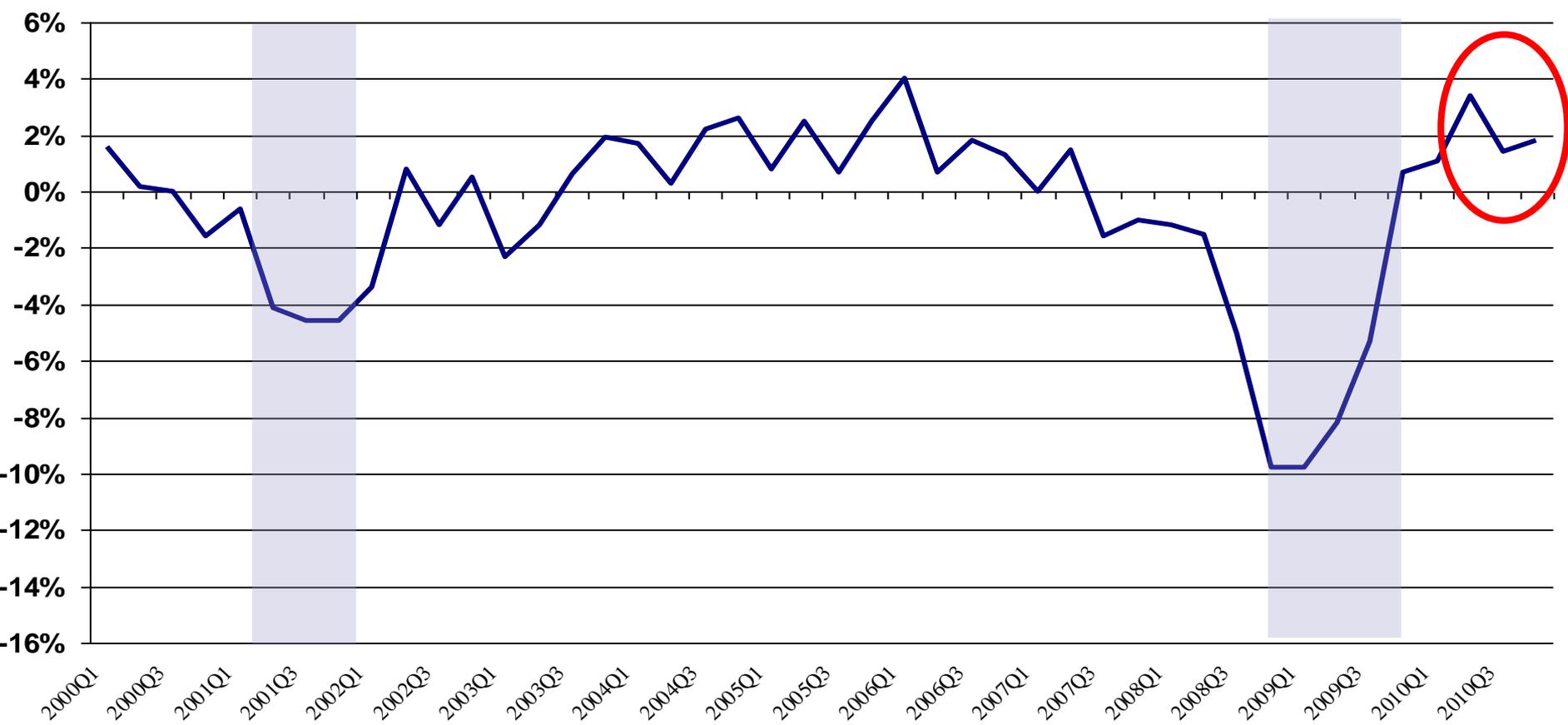
# Hours Worked

## Percent Change from Quarter Ago, Annualized

### 2000 – 2010\*\*

Source: Bureau of Labor Statistics

Recession Periods



\*\*Data through fourth quarter 2010

# Household Income

## In the 70s and 80s

Boost in income → women entering labor force

## In the 90s

Stock market boomed

## First half of 2000's

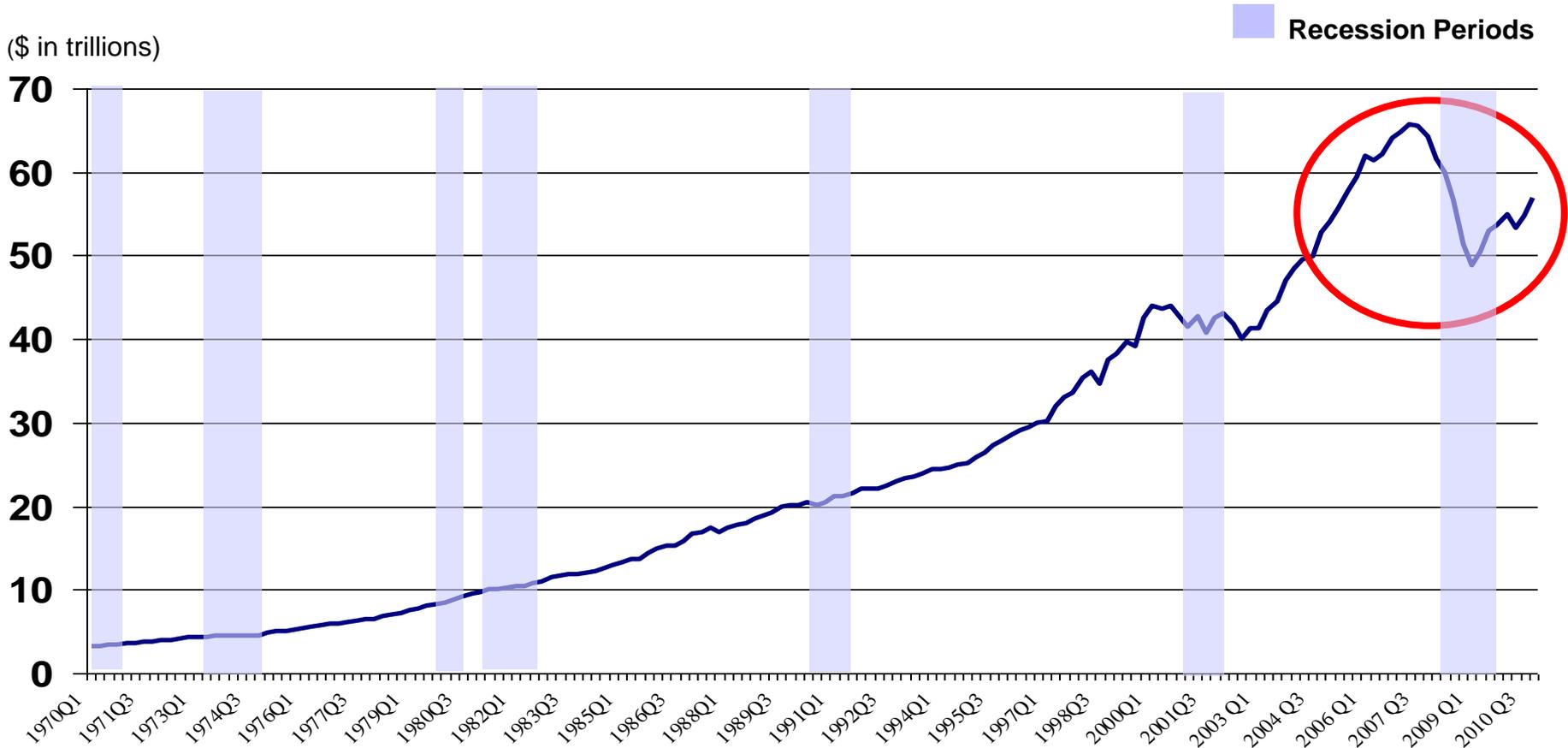
Housing appreciation → house as a credit card.



# Household Net Worth (\$\$\$)

## 1970 – 2010\*

Source: Federal Reserve



\*Data through fourth quarter 2010.



# Basic Story: Consumer (Households)

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- Debt level improving but probably still has a way to go.
- Savings rate up.
- Jobs and hours worked looking better.
- Tight credit markets make borrowing difficult / lack of need to borrow.
- Real personal income up.
- Confidence low but improving.



# The Impact of Higher Oil Prices

- Less spent on locally produced items;
- Lower GDP, higher inflation, and job losses;
- Ripple effect on the prices of other goods and services...



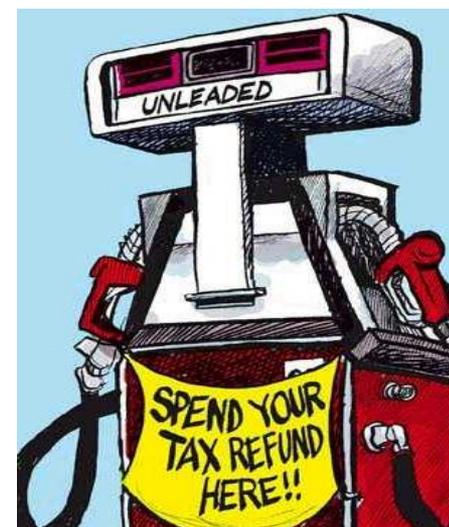
# The Impact of Higher Oil Prices?

## ■ Consumer Impact:

- A 1 cent increase at the pump costs consumers \$1.2B;
- Gas has increased in price by 80 cents in the last 12 months.
- Double that in the last 24.

## ■ Economy Impact (each \$10 per barrel increase):

- Real GDP down 0.2 in yr 1 and 0.5 in yr 2;
- GDP Deflator up 0.3 in yr 1 and 0.4 in yr 2;
- Unemployment up 0.1 in yr 1 and 0.2 in yr 2.



# Consumer Recap: All the Same Stuff...

- Lots of pressure on the consumer.
- Situation is improving but VERY slowly.
- Wealth is an issue.
- Less pent up demand than typical for a recovery.



# ***Business***

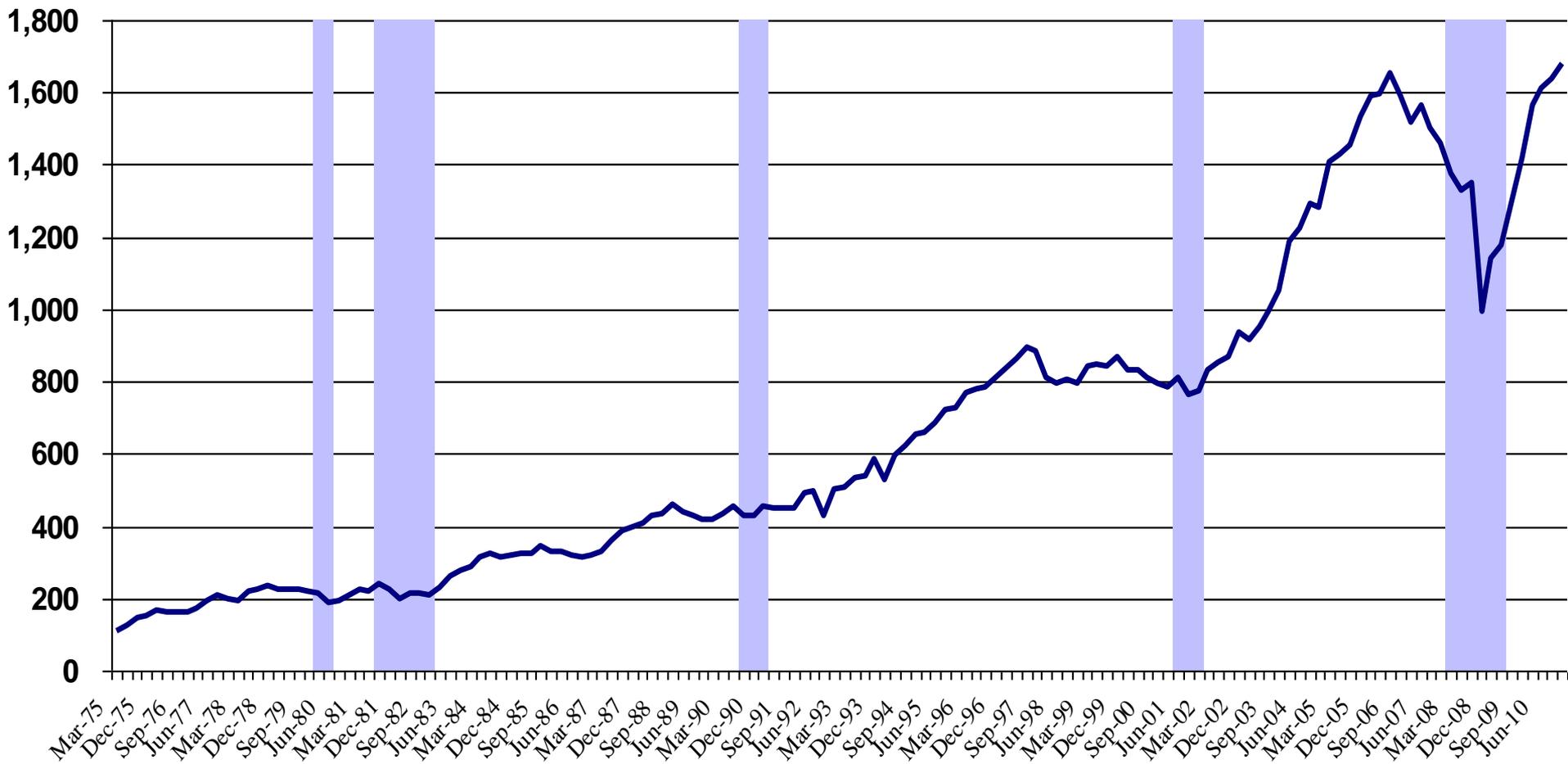
**Depends on the sector...**



# Corporate Profit (Billions of Dollars, SA) 1975-2010\*

Source: Freelunch.com

Recession Periods

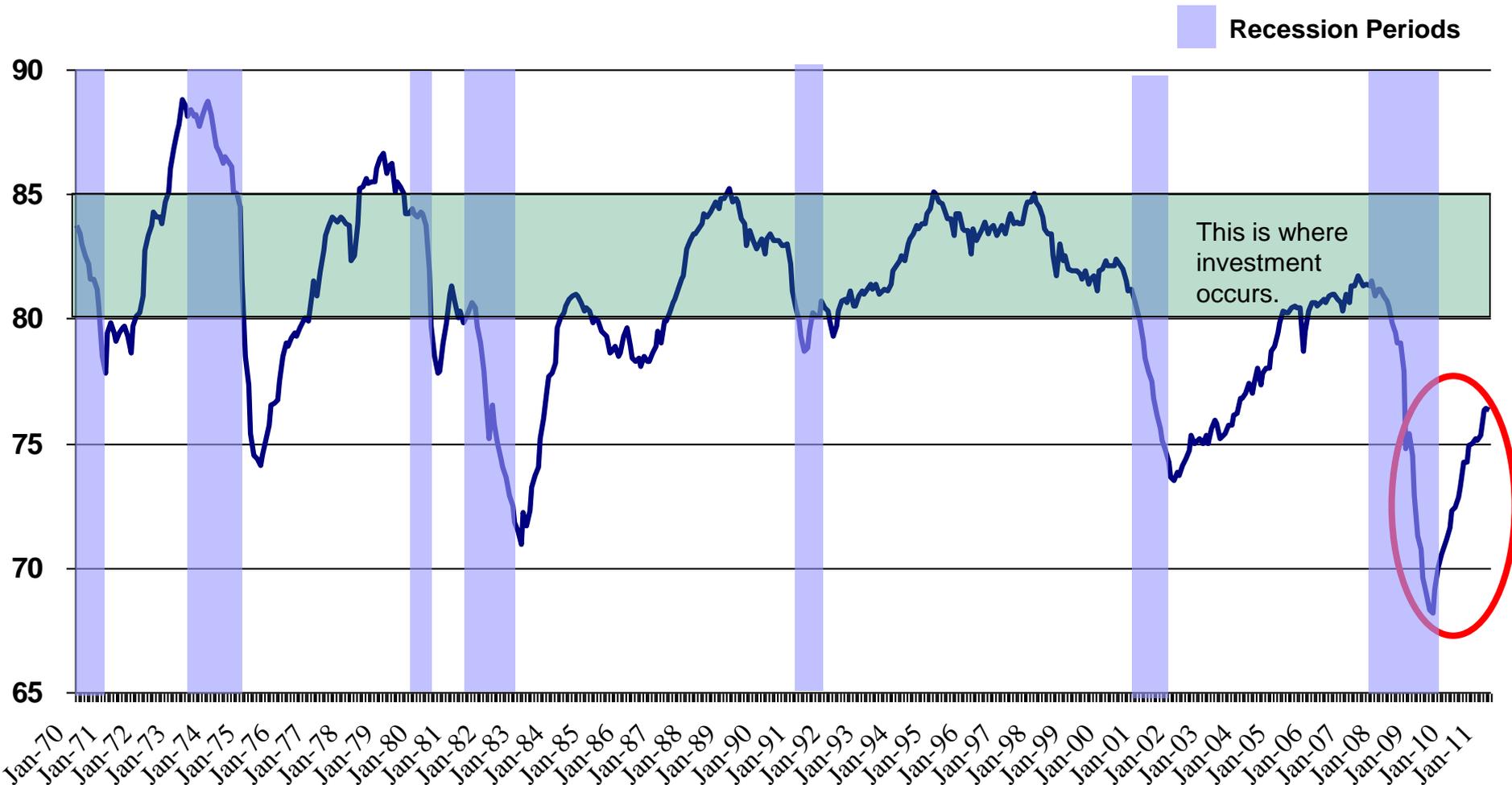


\*Data through fourth quarter 2010



# Capacity Utilization Rate 1970 – 2011\*

Source: The Conference Board



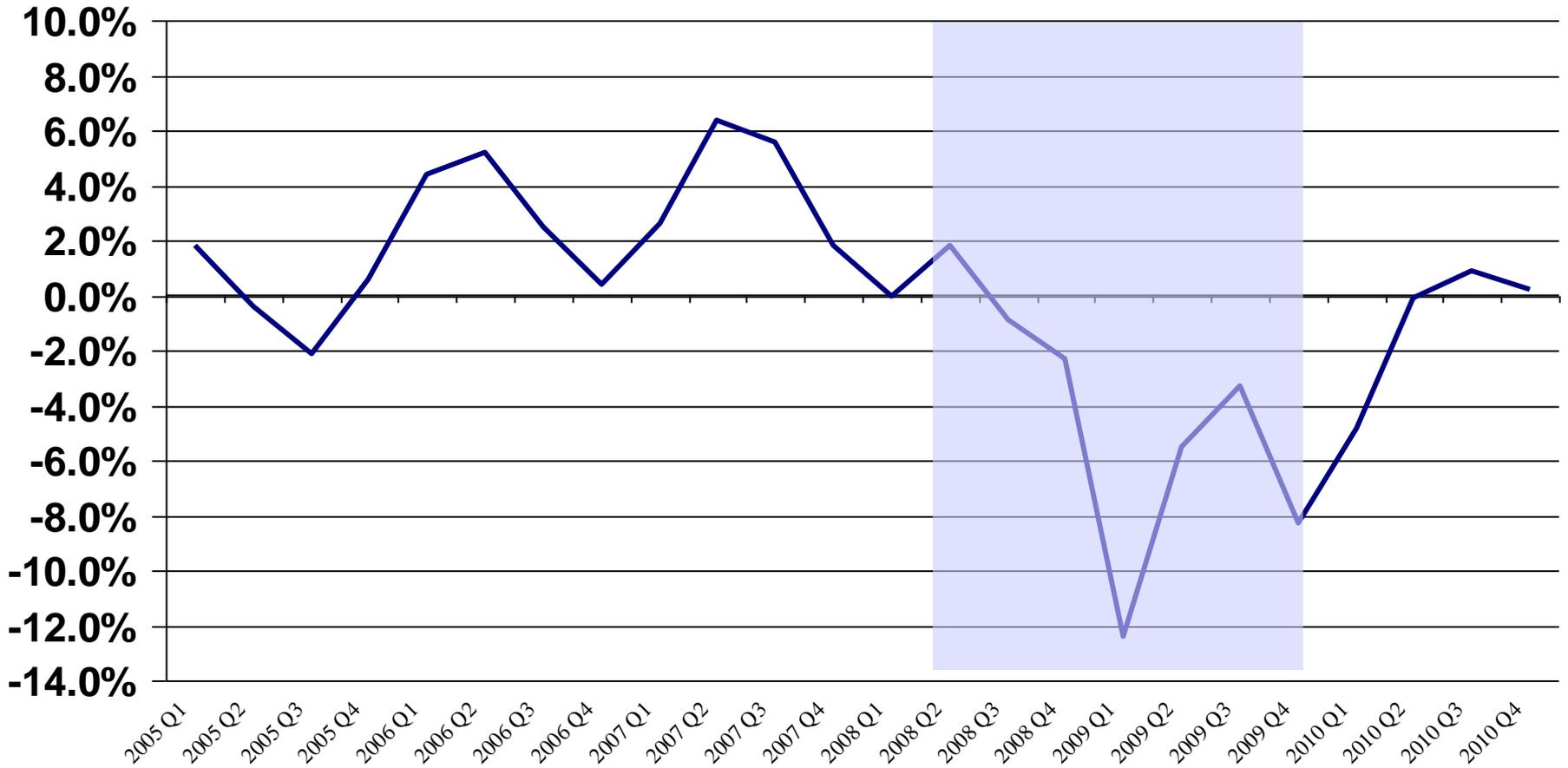
\*Data February 2011



# Business Spending on Plant Percent Change from Prior Quarter 2005 – 2010\*

Source: Bureau of Economic Analysis

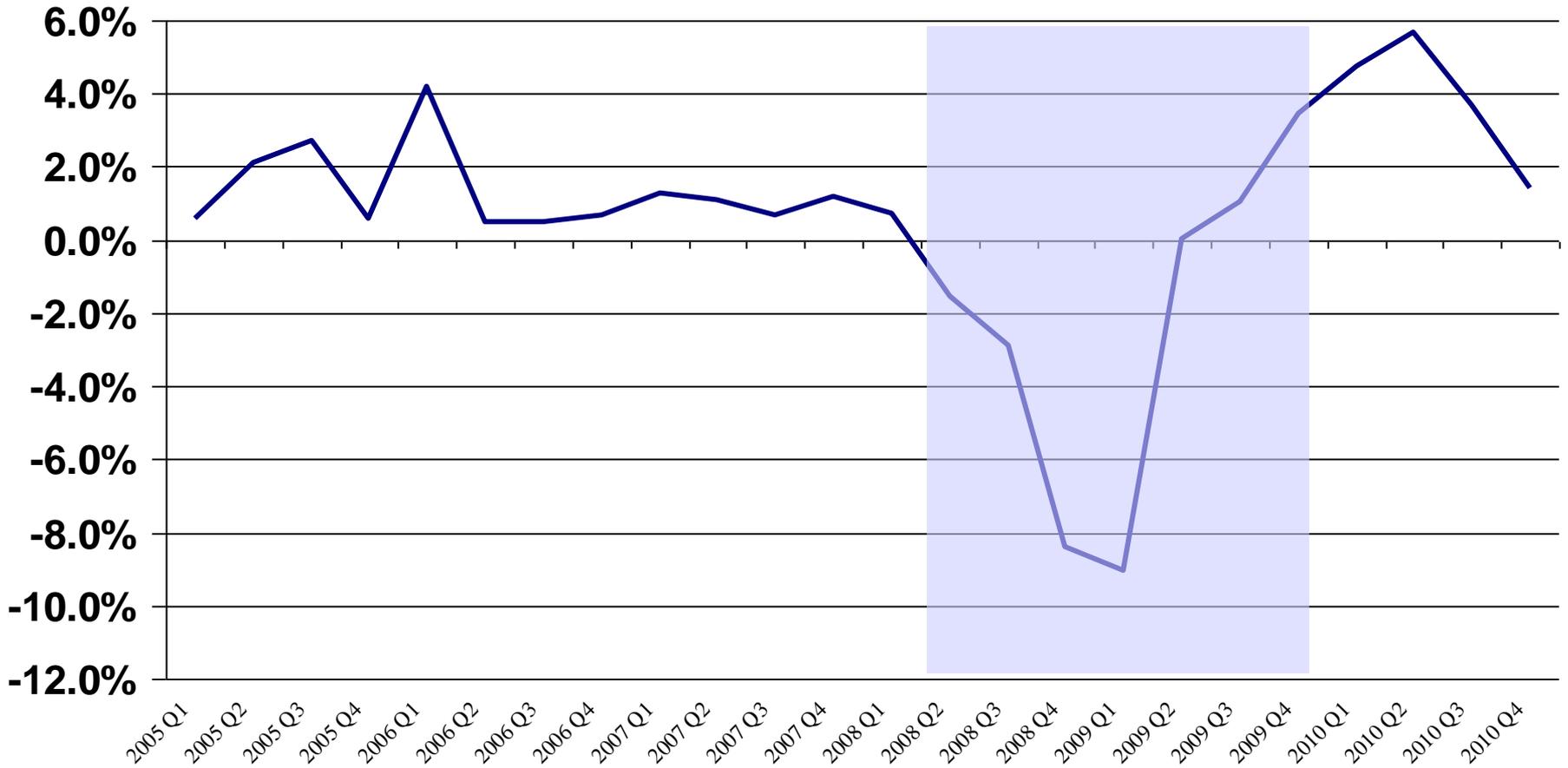
Recession Periods



# Business Spending on Equipment Percent Change from Prior Quarter 2005 – 2010\*

Source: Bureau of Economic Analysis

Recession Periods



# Business Summary

- **Business spending on plant will be slow.**
- **Spending on equipment will be up.**
- **Limited positive impact during initial phase of recovery.**
- **Additional inventory corrections will enhance the growth data.**
- **Hiring will be relatively slow.**

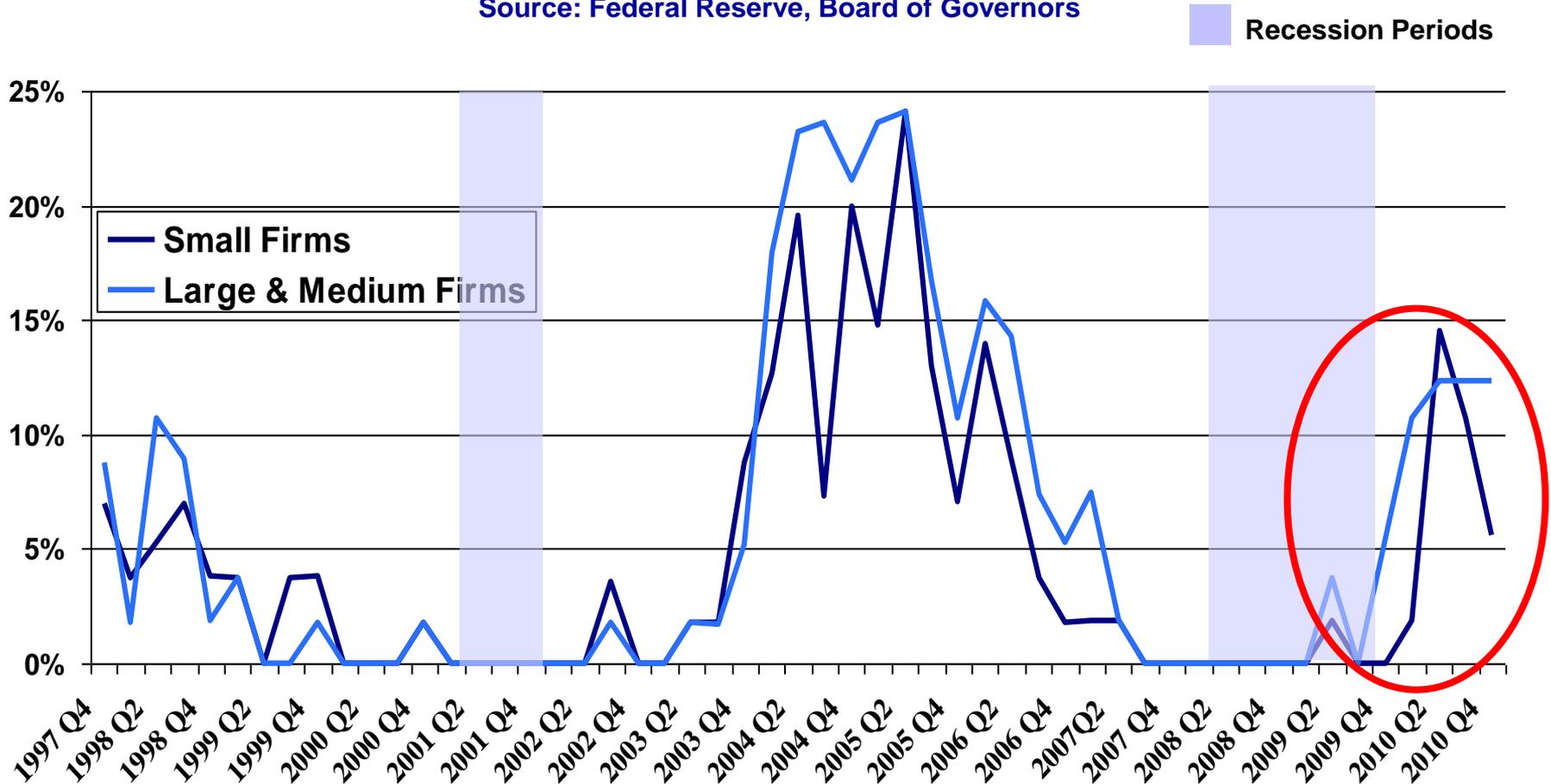


# How tight is Credit?



# Percentage of Large U.S. Banks Reporting **Easier** Standards on Business Loans 1997 – 2010\*

Source: Federal Reserve, Board of Governors



\* Data as of January 2011 survey.



# High Yield Credit Spread 1997 – 2011\*

Source: Bespoke Investment Group; Merrill Lynch

Recession Periods



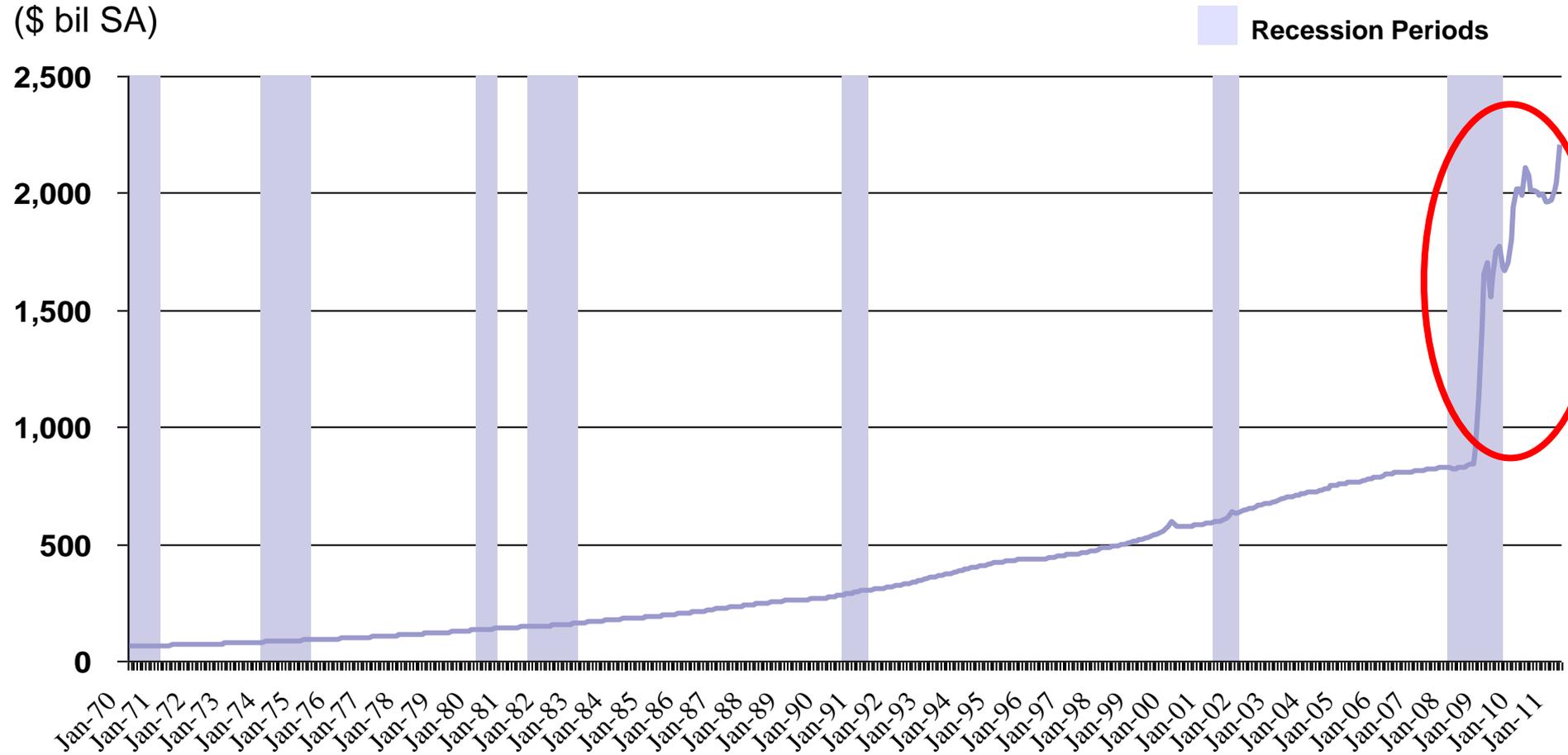
\*Data through February 2011.

\*\* The spread between high yield corporate bonds (non investment grade/below bbb rated) and comparable Treasuries.

# Monetary Base\* 1970 – 2011\*\*

Source: Federal Reserve

(\$ bil SA)

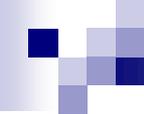


\*\*Data through February 2011



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\*Monetary base comprises only coins, paper money and commercial bank reserves with the central bank..



# **U.S. Summary:**

**Recovering but not  
recovered.**



**Recovery *has just*  
begun in Arizona.**



# Case Study:

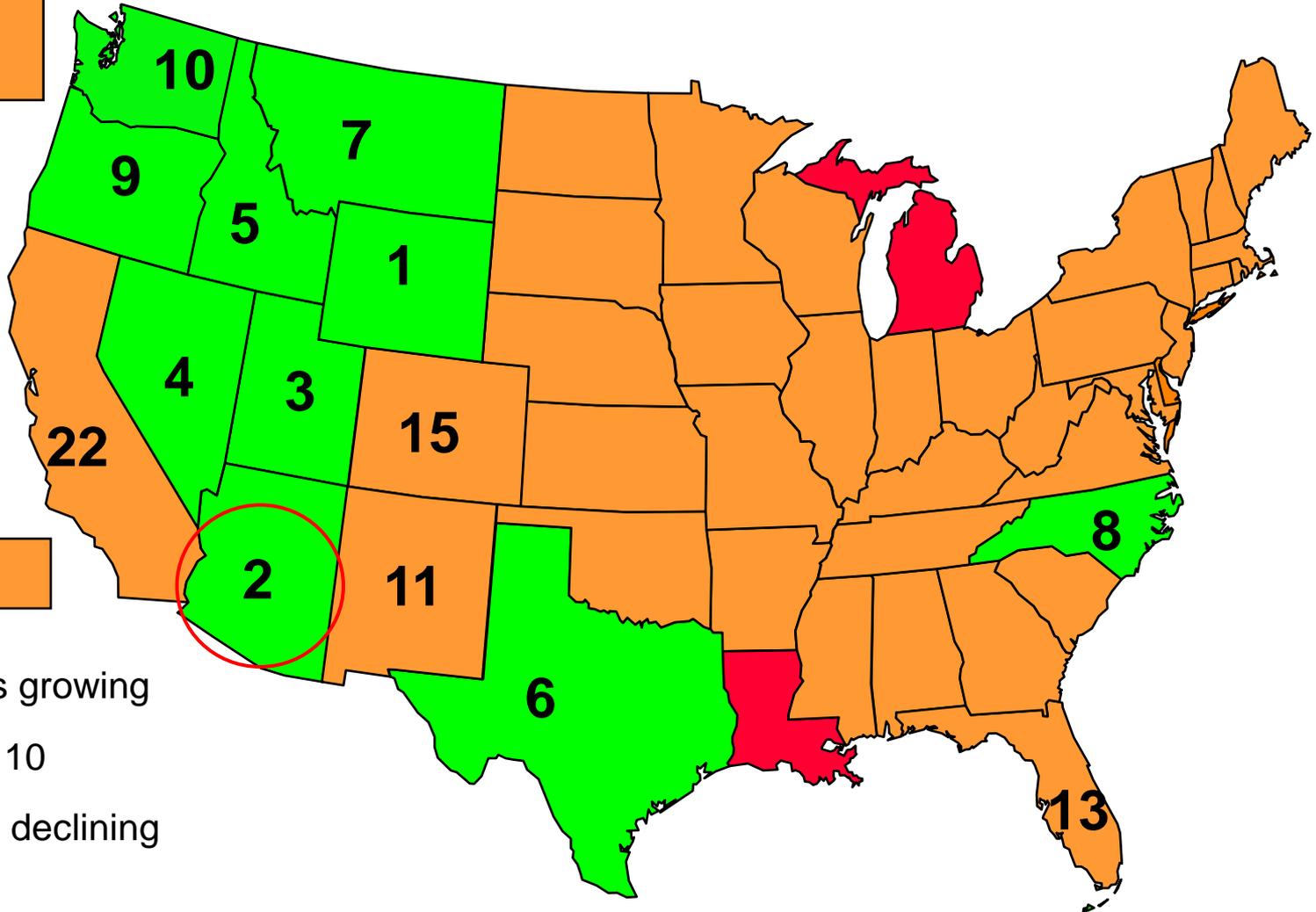
**Arizona,  
performing  
worse than  
earlier  
reported...**



# Job Growth 2006

Source: US BLS

Alaska



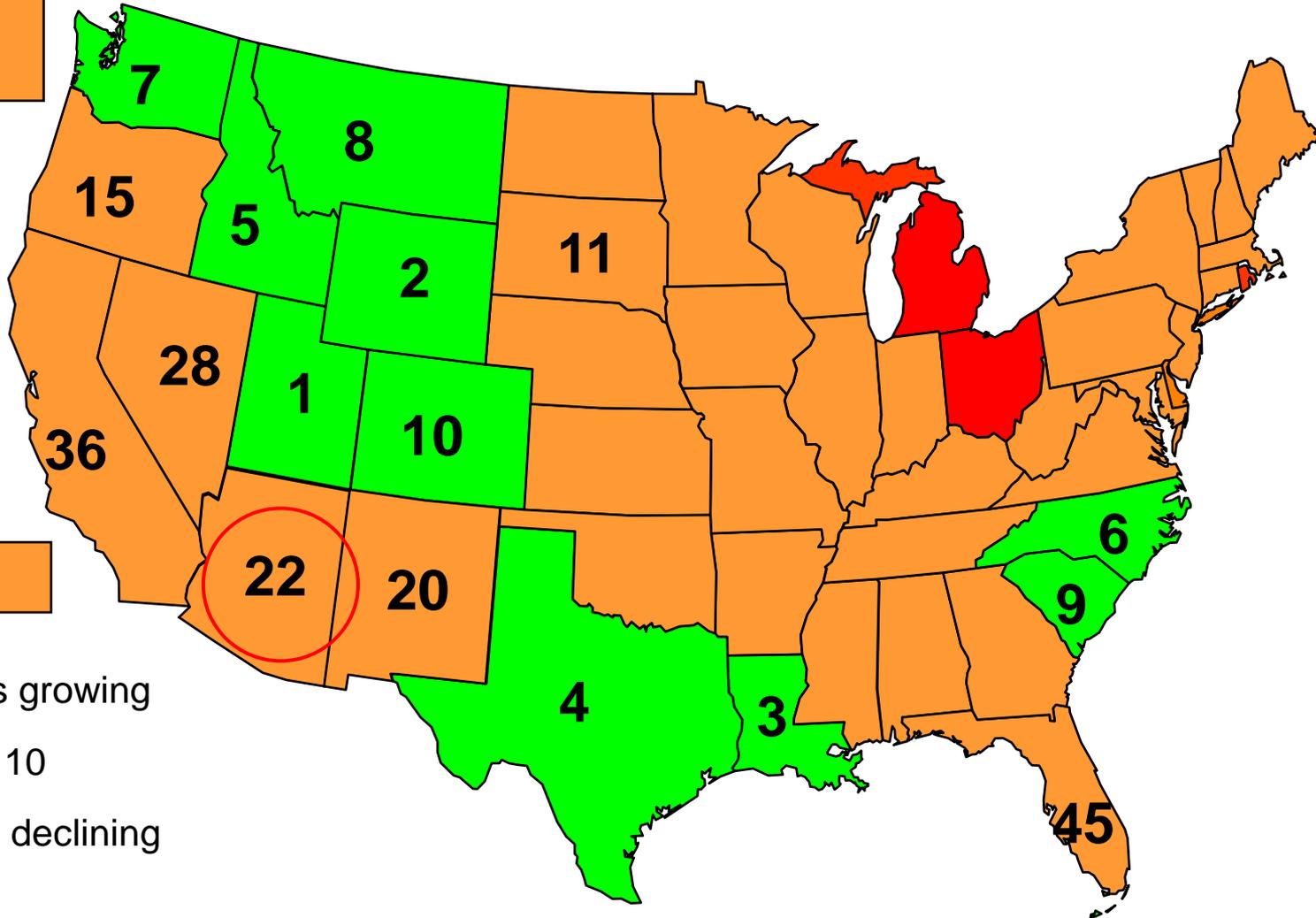
Hawaii

- Jobs growing
- Top 10
- Jobs declining

# Job Growth 2007

Source: US BLS

Alaska



Hawaii

- Jobs growing
- Top 10
- Jobs declining



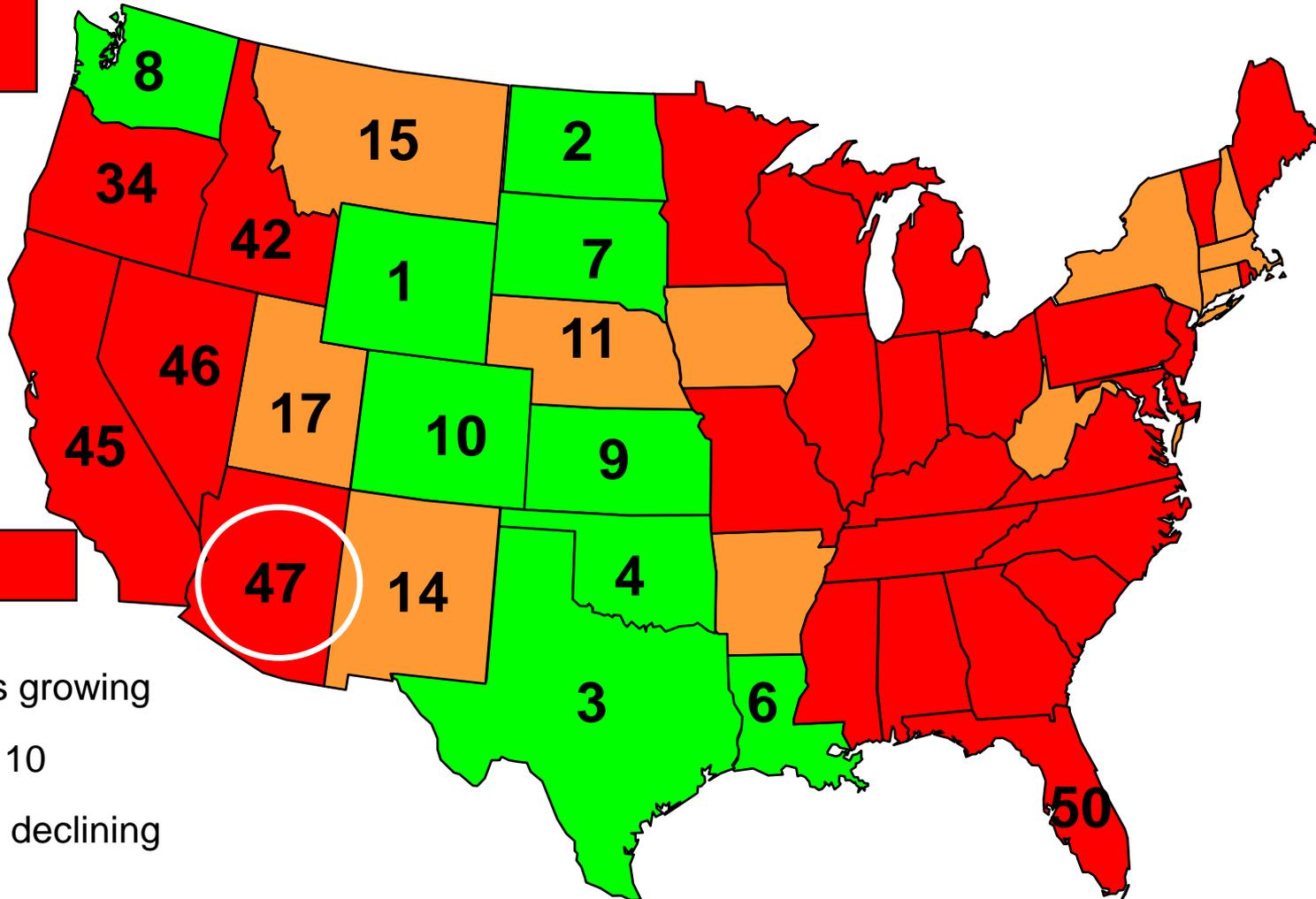
# Job Growth 2008

Source: US BLS

Alaska

Hawaii

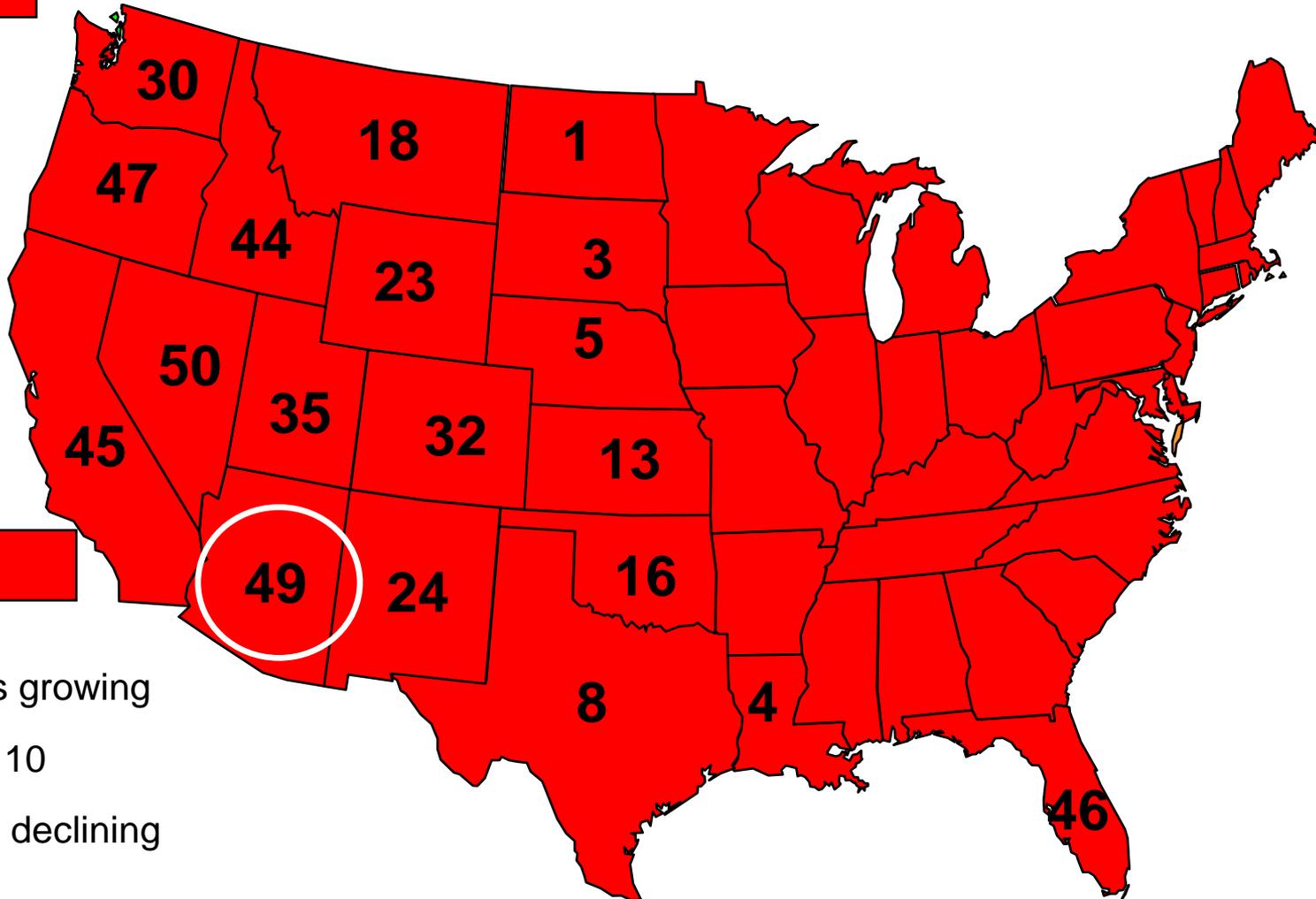
- Jobs growing
- Top 10
- Jobs declining



# Job Growth 2009

Source: US BLS

Alaska  
2



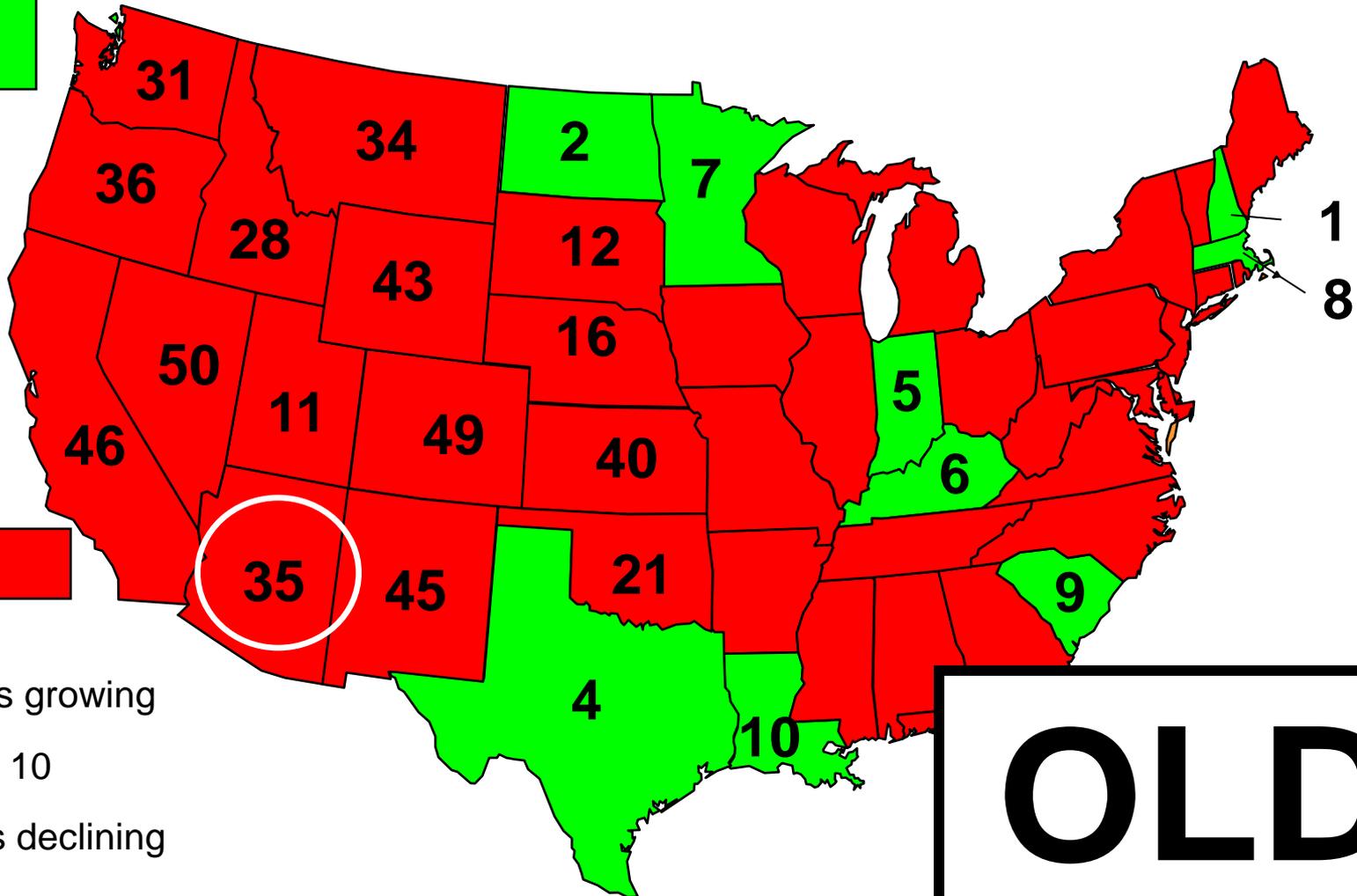
Hawaii

- Jobs growing
- Top 10
- Jobs declining



# Job Growth 2010

Alaska  
3



Hawaii

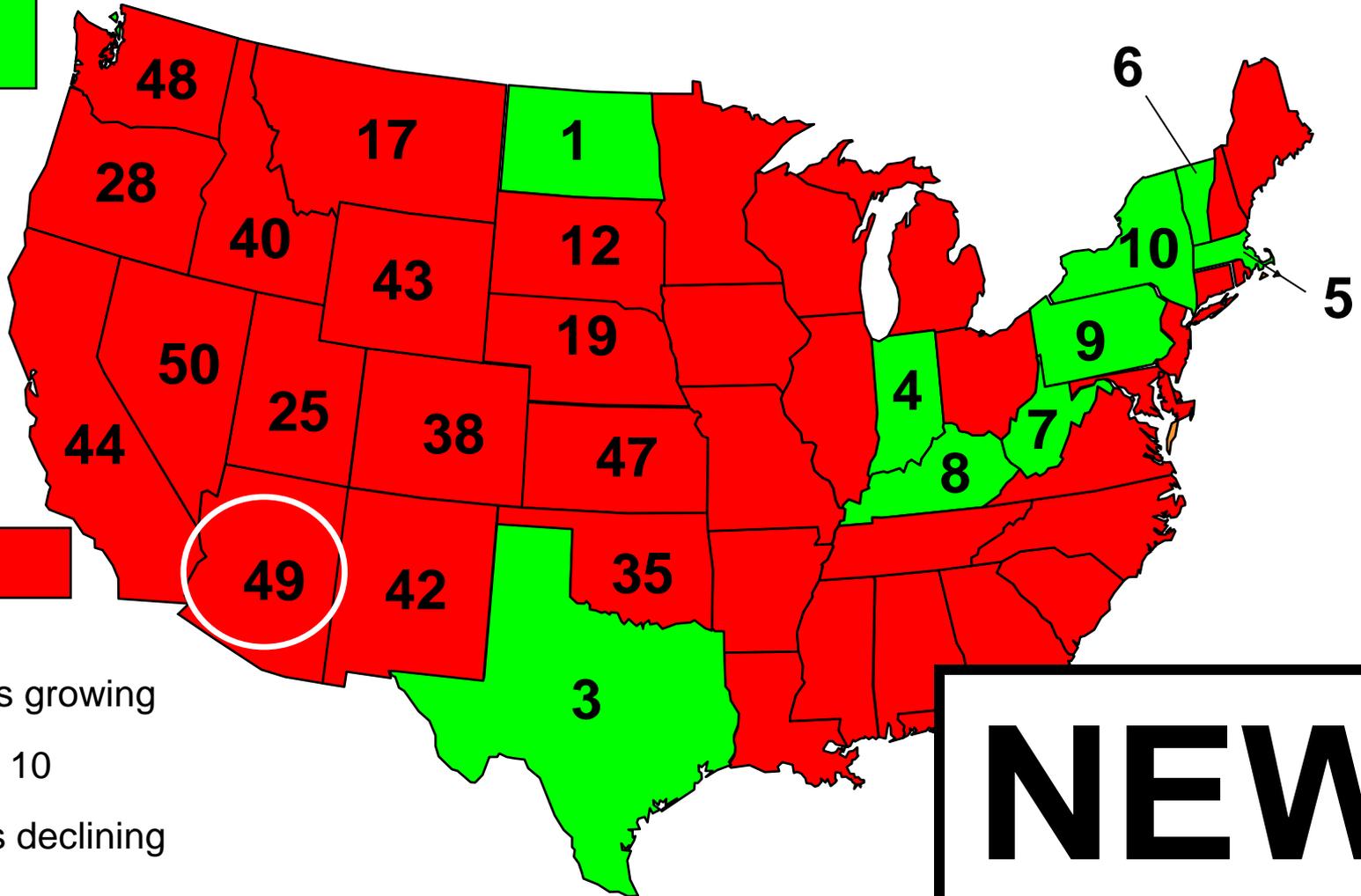
- Jobs growing
- Top 10
- Jobs declining

**OLD**



# Job Growth 2010

Alaska  
2



Hawaii

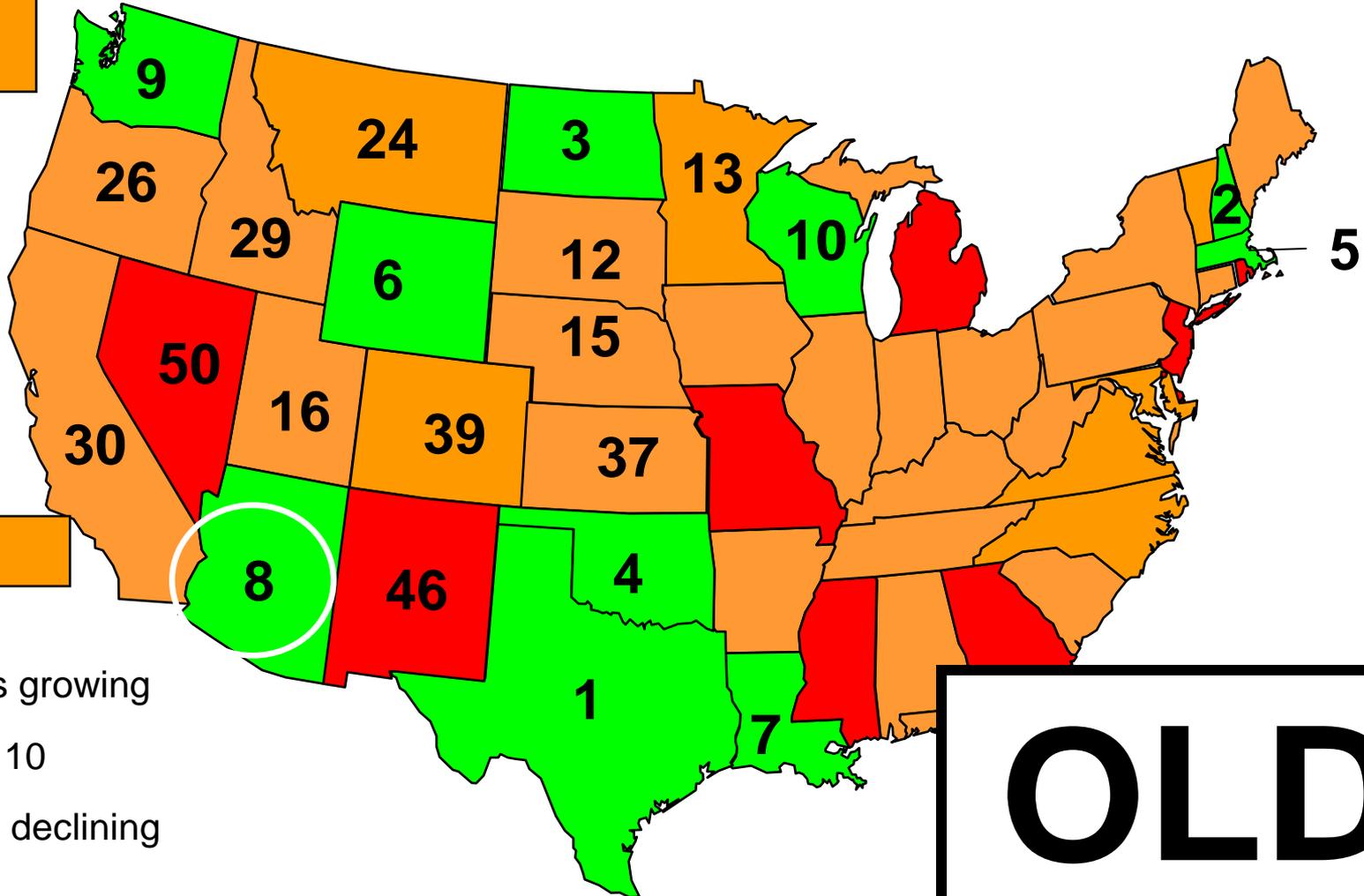
- Jobs growing
- Top 10
- Jobs declining

**NEW**



# Job Growth Update: Arizona Ranked 8th December 2010 v December 2009

Alaska  
36



Hawaii  
32

- Jobs growing
- Top 10
- Jobs declining

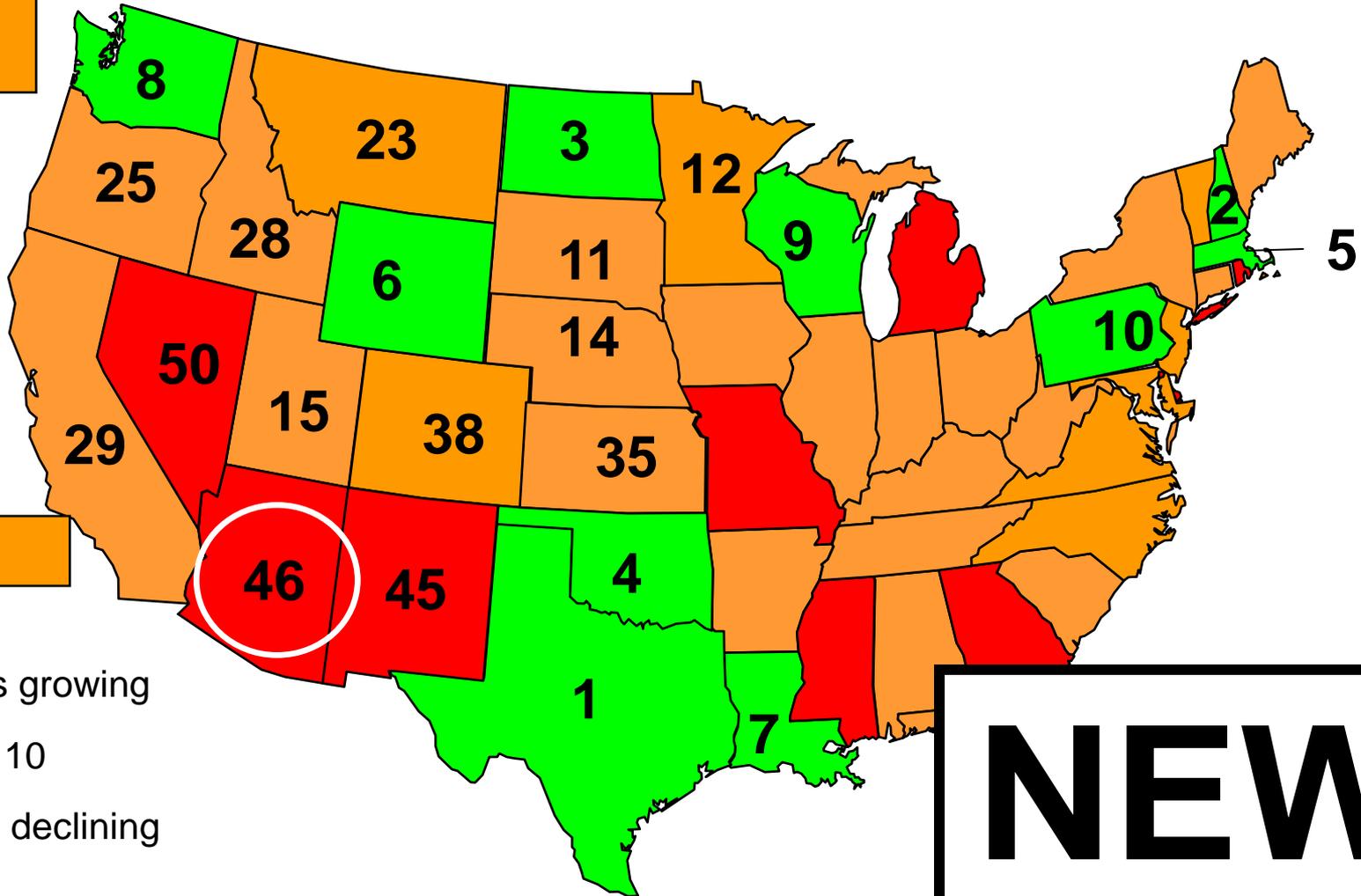
**OLD**



# Job Growth Update: Arizona Ranked 46th December 2010 v December 2009

Alaska  
36

31  
Hawaii

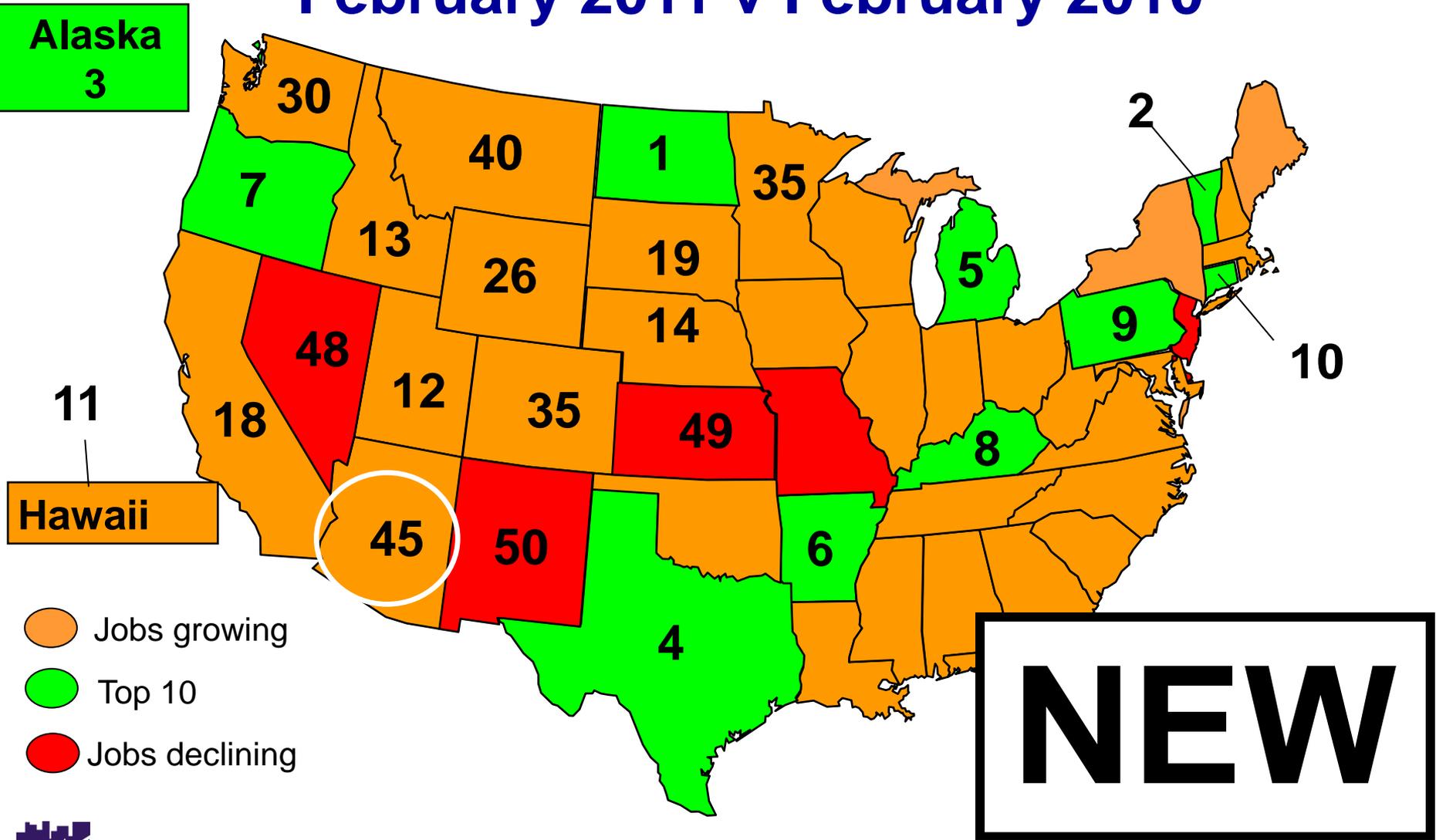


**NEW**



# Job Growth Update: Arizona Ranked 45th

## February 2011 v February 2010

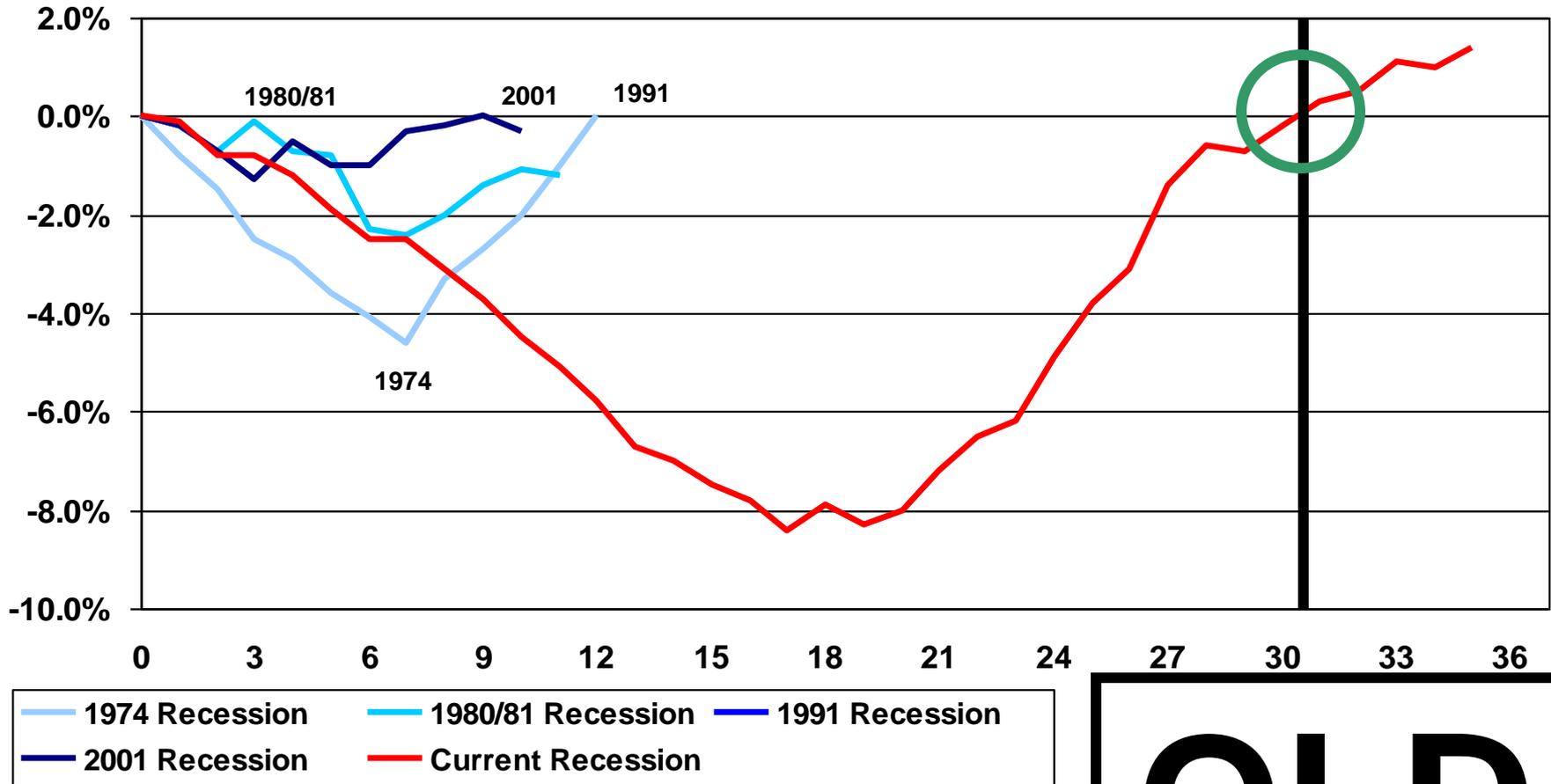


**NEW**



# Arizona Y/Y Job Losses - Recent Recessions

Duration in Months – BLS - December

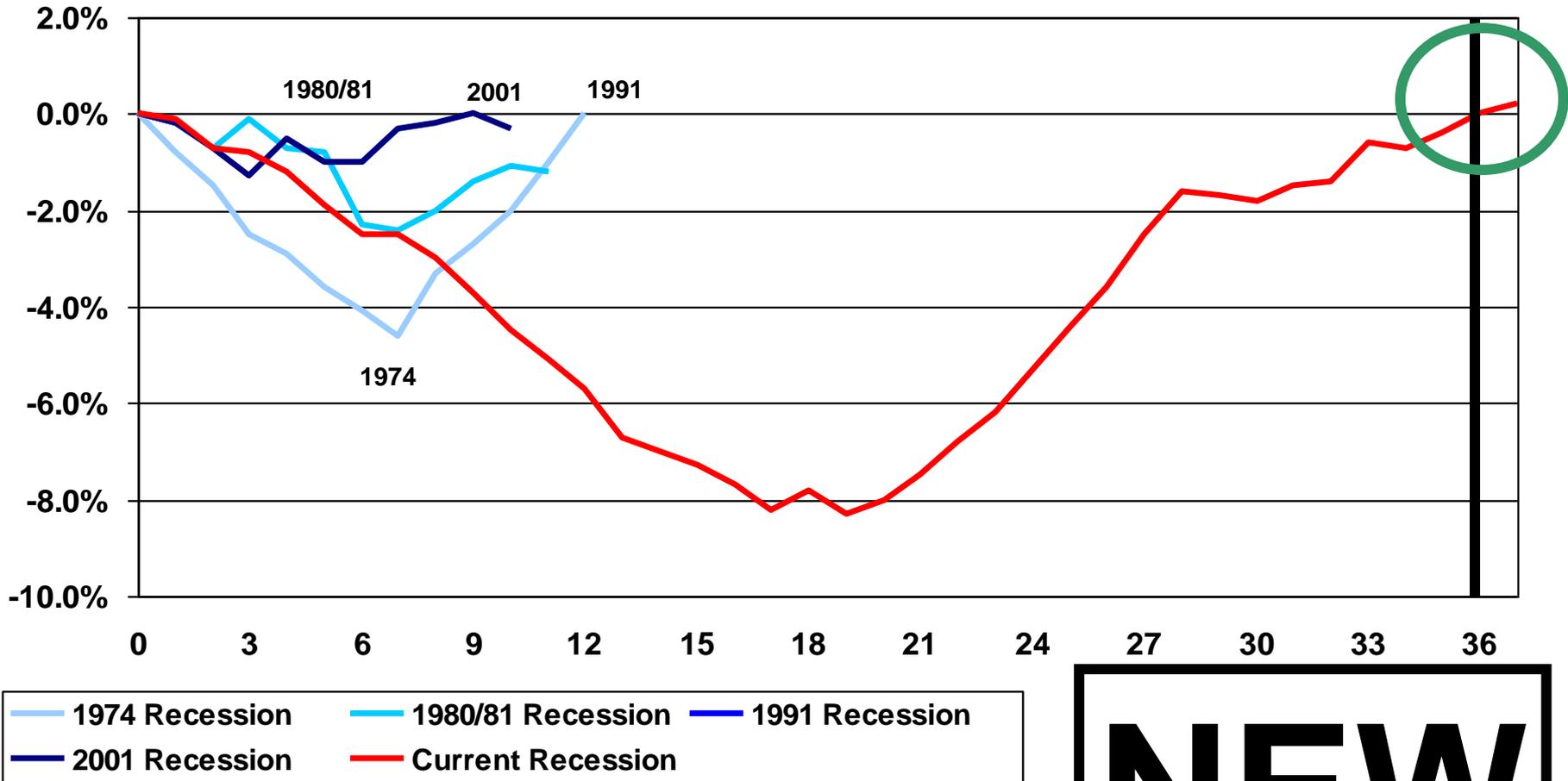


**OLD**



# Arizona Y/Y Job Losses - Recent Recessions

Duration in Months – BLS - February



**NEW**



# Maricopa County



# Maricopa County Population

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

<u>Year</u>	<u>Population</u>
1950	331,770
1960	663,510
1970	971,227
1980	1,509,175
1990	2,122,101
2000	3,072,149
2010	3,817,117
<b>OLD 2010</b>	<b>4,063,564</b>
<b>U.S. 2010</b>	<b>309,769,609</b>

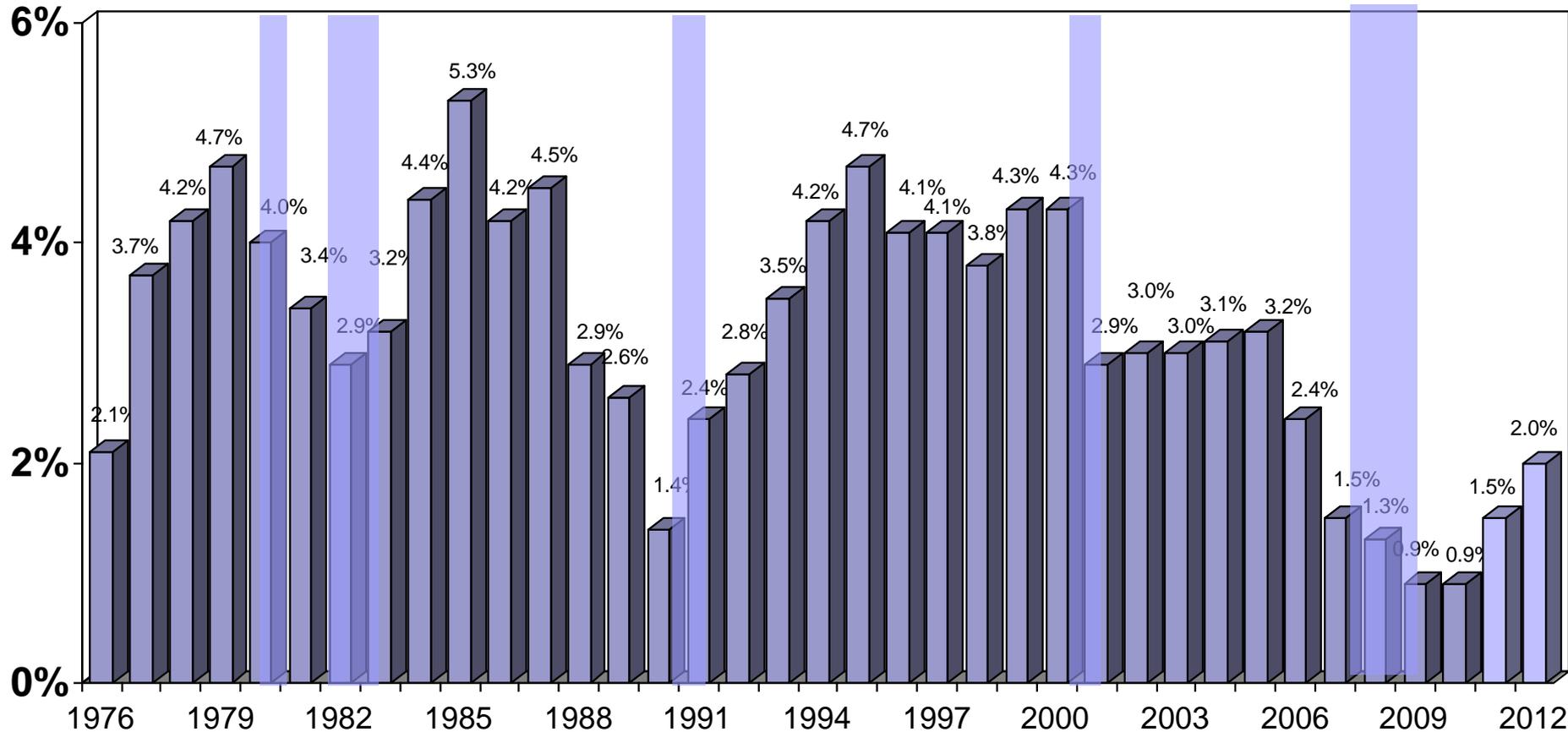


**We said before in  
'08, '09 and '10  
No one showed up!**



# Maricopa County Population Annual Percent Change 1976–2012\*

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



 **Recession Periods**

2008 and 2009 are estimates put out by ADES and may be subject to substantial revision.

\* 2011 & 2012 forecast is from *Elliott D. Pollack & Co.*

# Phoenix-Mesa Employment Growth

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

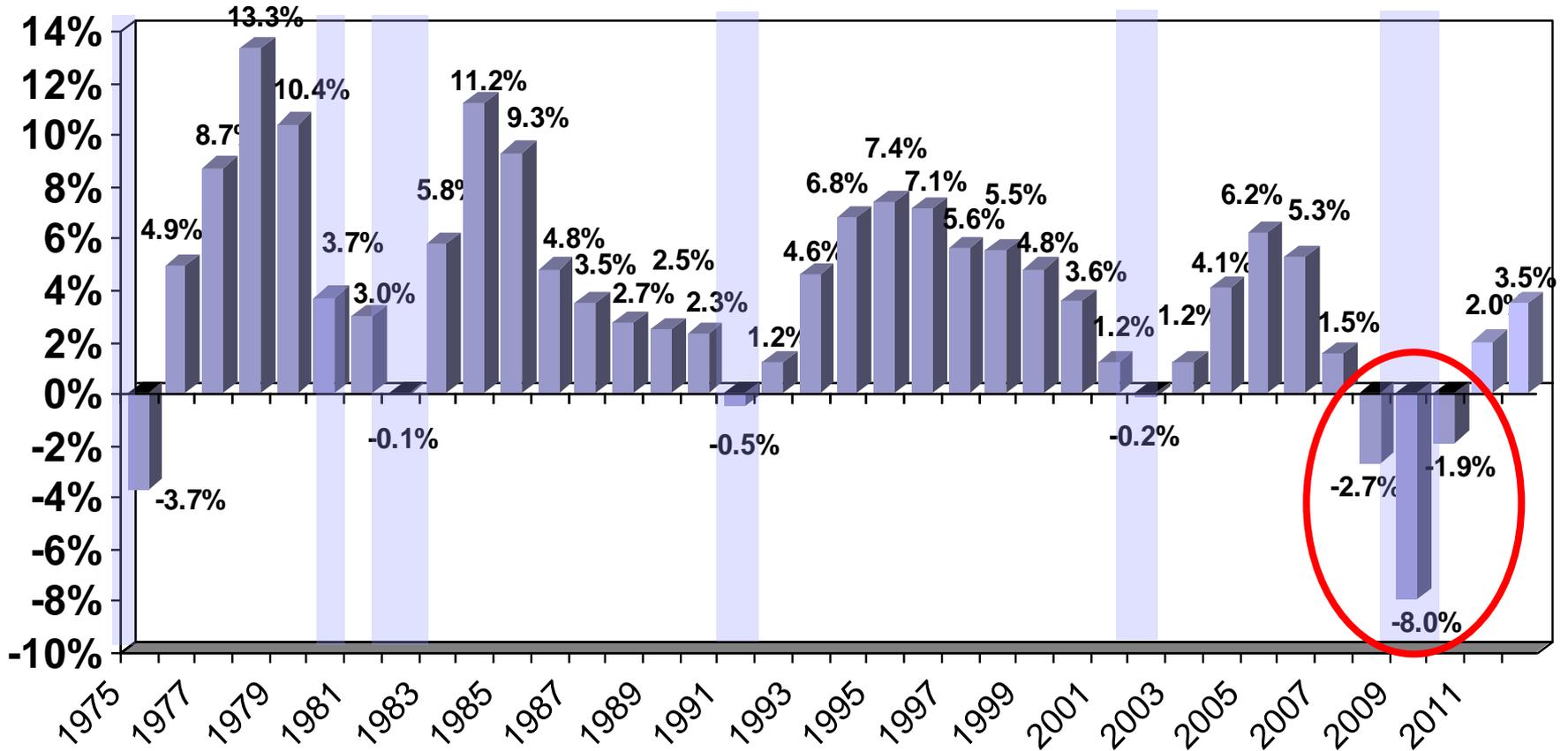
Source: Arizona State University, U.S. Bureau of Labor Statistics

<u>YEAR</u>	<u>RANK</u>	<u># of MSAs</u>
1991	4	20
1992	5	20
1993	2	20
1994	1	20
1995	1	21
1996	1	23
1997	2	23
1998	1	24
1999	3	26
2000	8	26
2001	6	28
2002	5	28
2003	3	29
2004	4	29
2005	1	30
2006	1	31
2007	10	32
2008	29	32
2009	31	32
2010	31	32



# Maricopa County Employment\* Annual Percent Change 1975–2012\*\*

Source: Department of Commerce, Research Administration



Recession Periods

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

\*\* 2011 & 2012 forecast is from *Elliott D. Pollack & Co.*



# EMPLOYMENT MID YEAR 2009 (End of Recession)

Source: Arizona Department of Commerce, Research Administration

## Sectors in Decline

Mining	-23.1%
Construction	-31.9%
Manufacturing	-12.7%
Trade	-7.4%
Transp. & Utilities	-9.1%
Information	-4.1%
Financial Activities	-8.7%
Prof. & Bus. Services	-11.9%
Other Services	-6.9%
Educational Services	0.0%
Leisure & hosp svcs	-5.8%
Health Services	-0.7%
Government	-3.4%

## Sectors Increasing

**NONE!!!**



# Employment as of February 2011

Source: Arizona Department of Commerce, Research Administration

## Sectors in Decline

Information	-1.5%
Government	-1.6%
Other Services	-3.9%
Construction	-4.3%
Prof. & Bus. Services	-0.7%

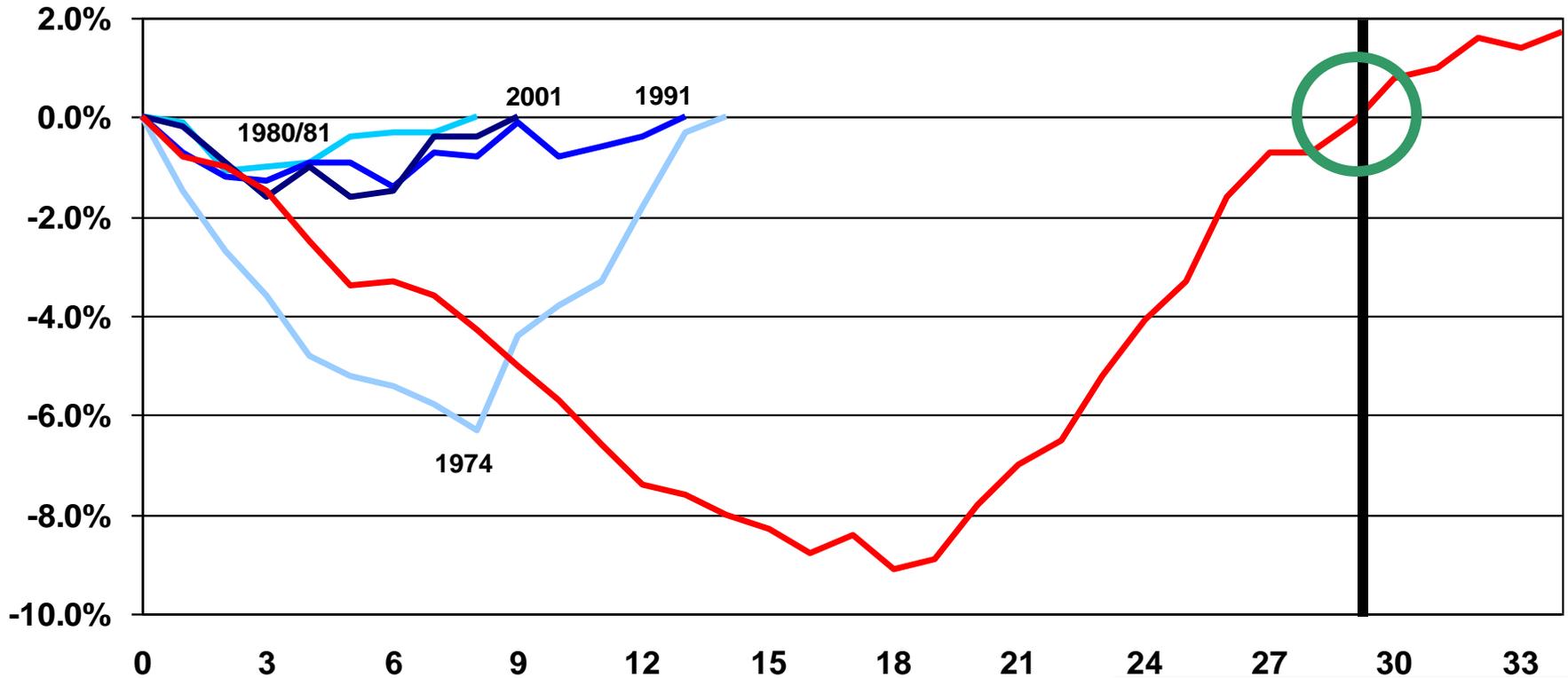
## Sectors Improving

Mining	0.0%
Leisure & Hospitality	2.1%
Education & Health Services	5.8%
Trade	1.1%
Transp. & Utilities	5.3%
Manufacturing	0.5%
Financial Activities	0.1%



# Greater Phoenix Y/Y Job Losses - Recent Recessions

Duration in Months – BLS - December



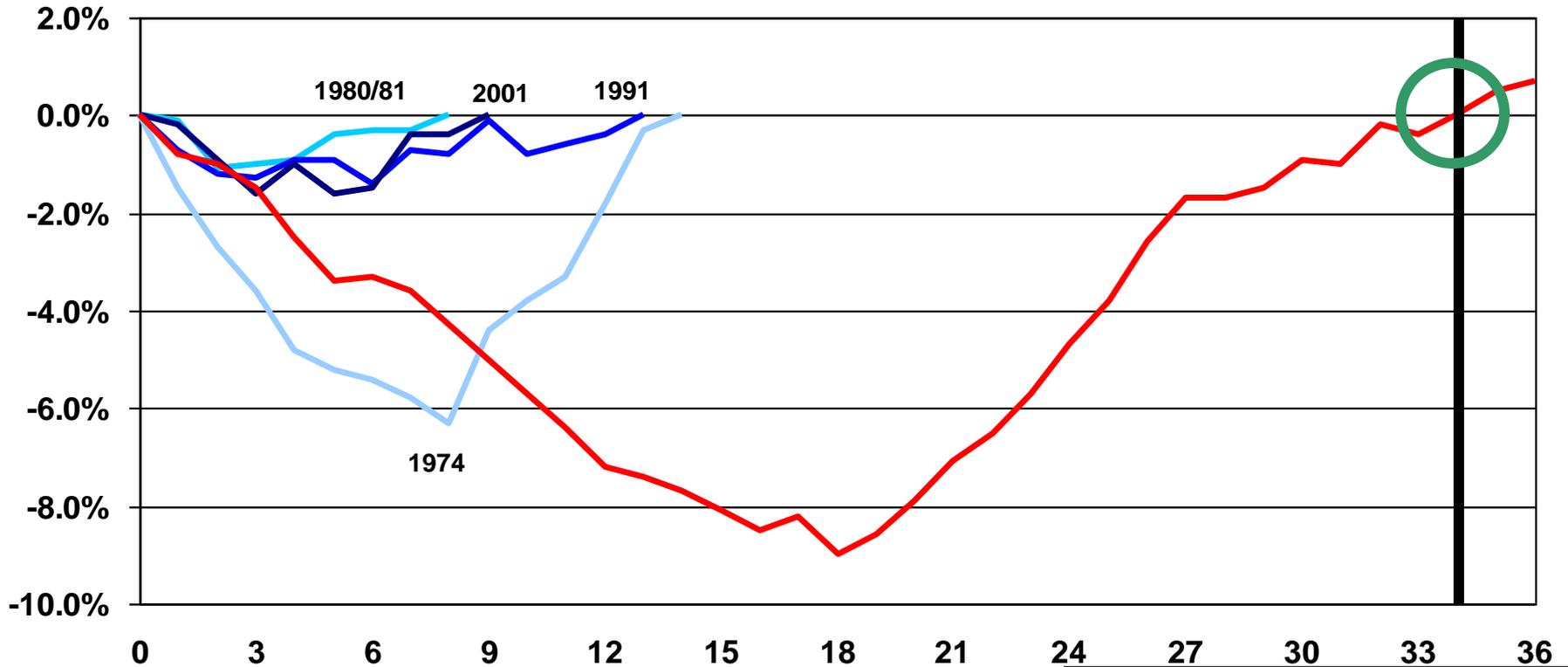
— 1974 Recession    — 1980/81 Recession    — 1991 Recession  
— 2001 Recession    — Current Recession

**OLD**



# Greater Phoenix Y/Y Job Losses - Recent Recessions

Duration in Months – BLS - February



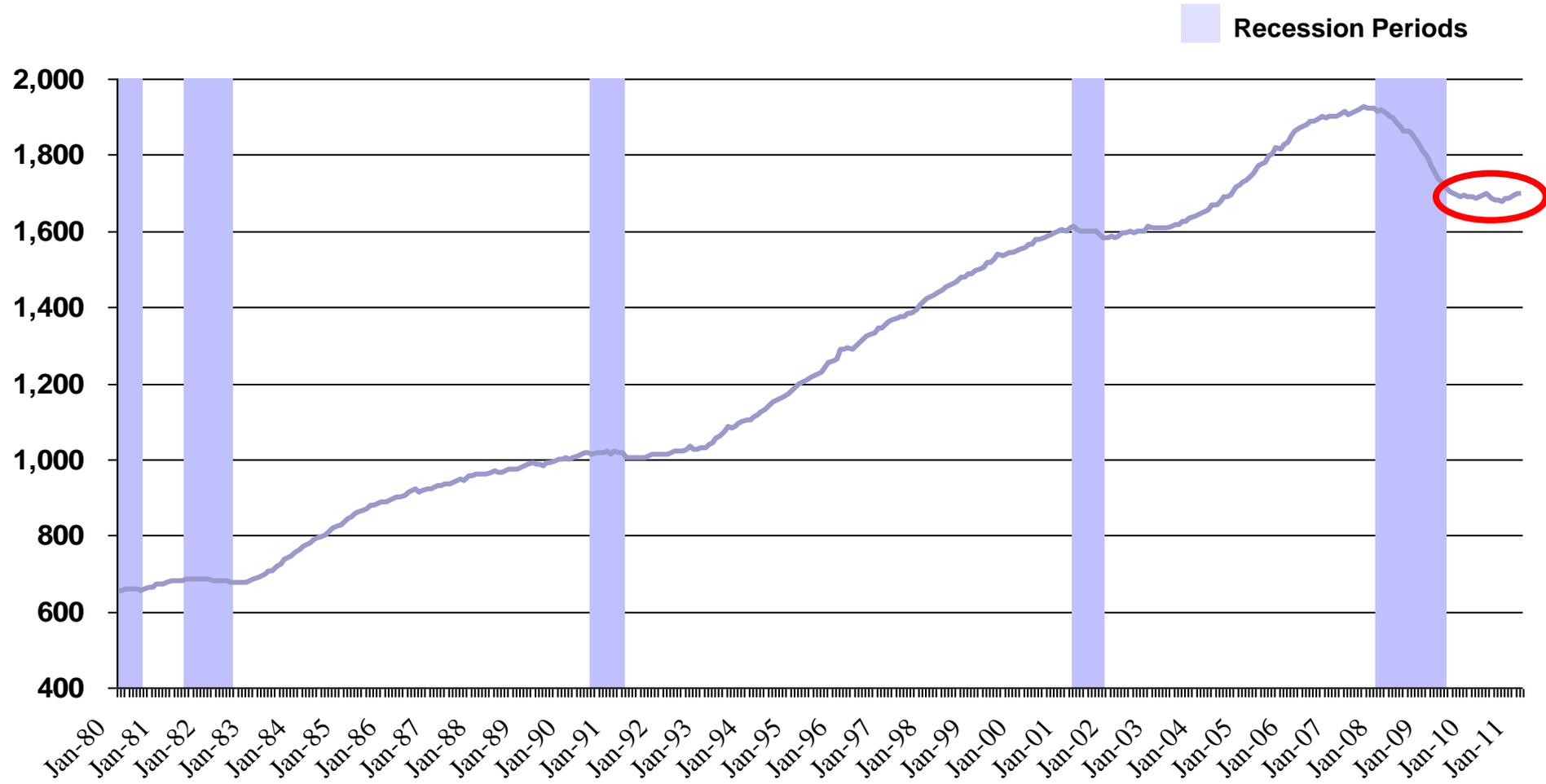
— 1974 Recession    — 1980/81 Recession    — 1991 Recession  
— 2001 Recession    — Current Recession

**NEW**



# Greater Phoenix Employment (S/A) 1980 – 2011\*

Source: U.S. Bureau of Labor Statistics



\*Data through February 2011



# Job Growth Anemic Greater Phoenix Employment **Gain/Losses**

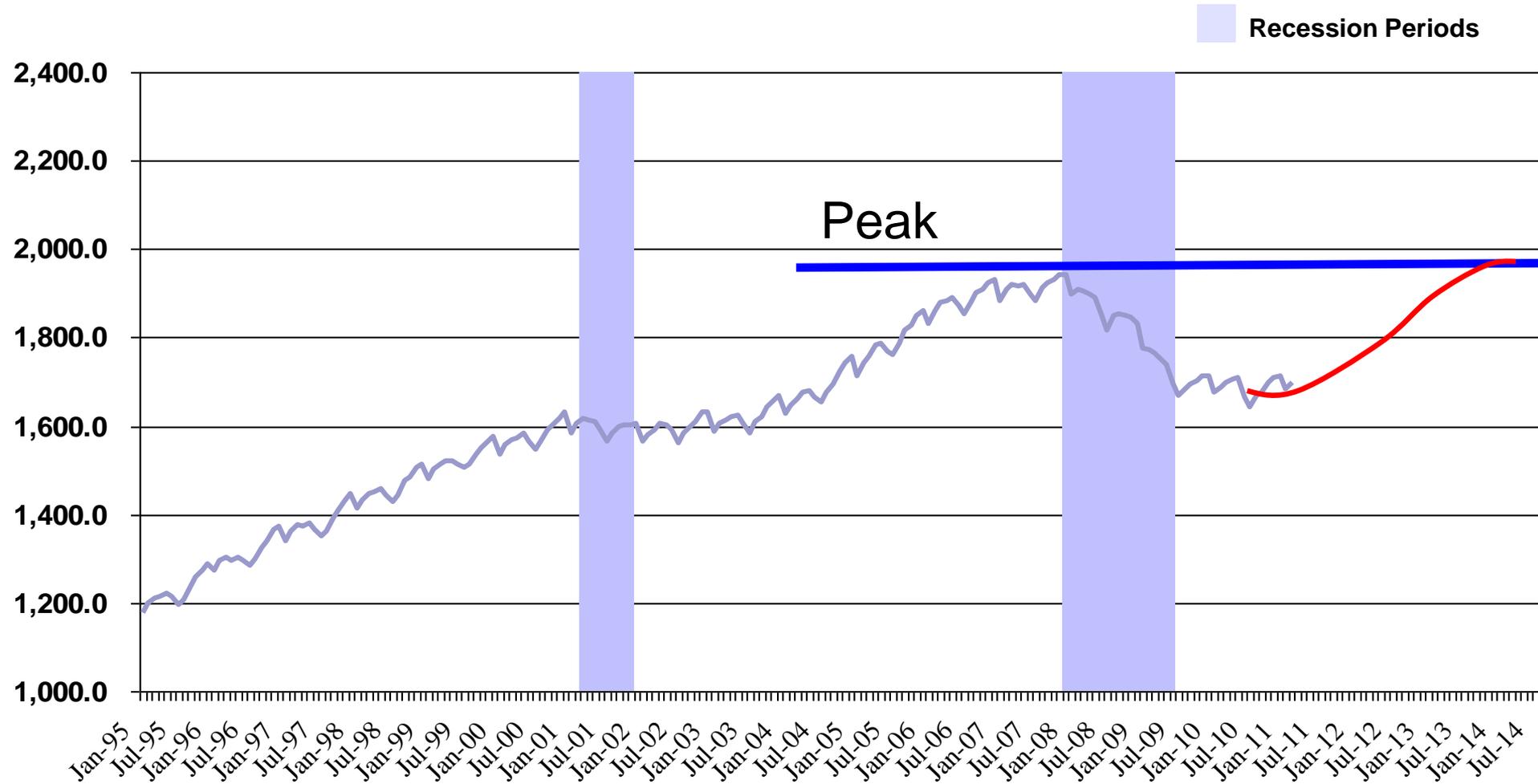
<b>Over last 12 months:</b>	<b>11,900</b>
<b>12 months before that:</b>	<b>(83,800)</b>
<b>12 months before that:</b>	<b>(141,700)</b>

As of February 2011



# Employment Levels: Greater Phoenix back to Peak in 2014-15?

Source: ADOC





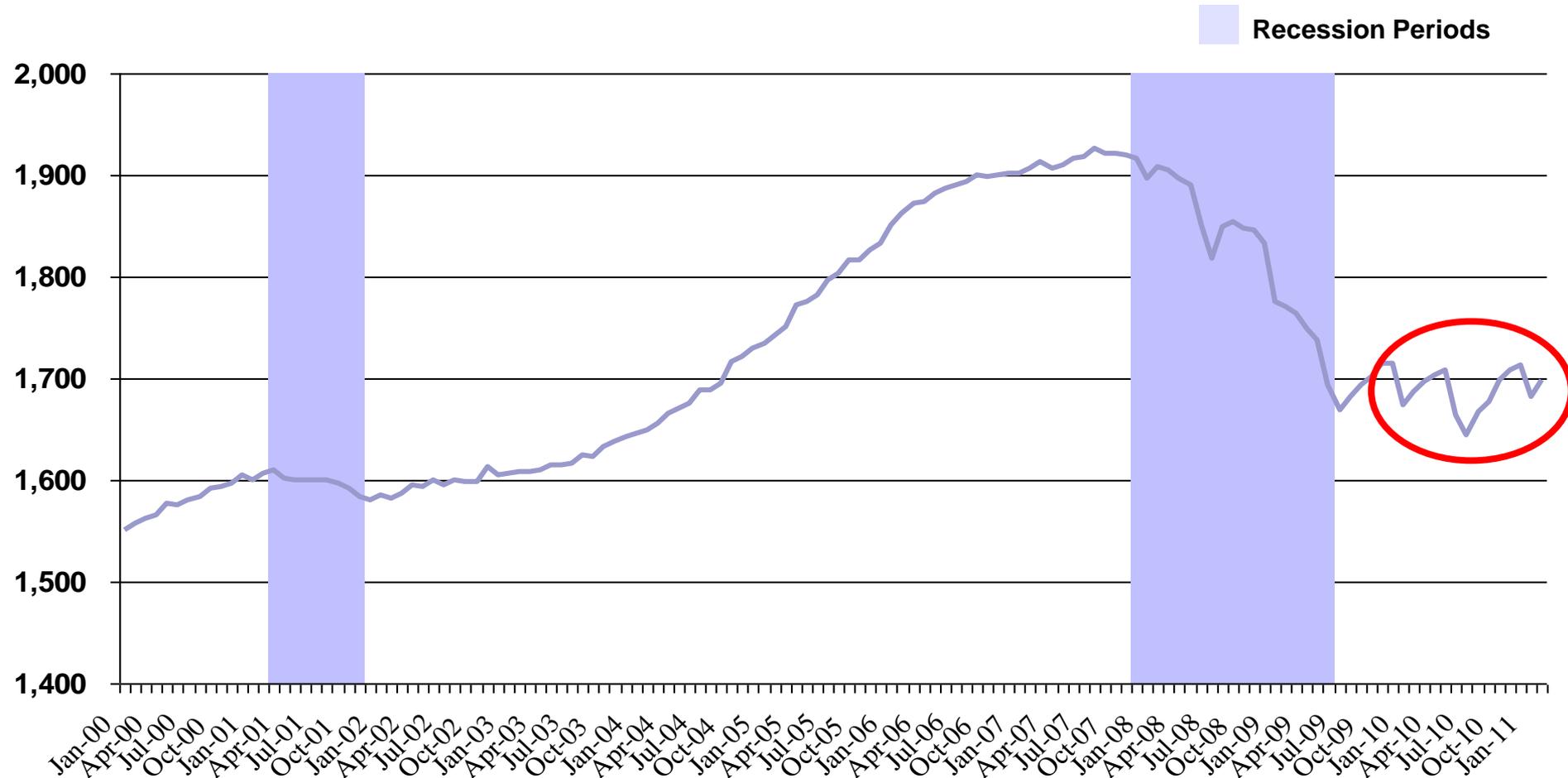
**Real estate problems  
will continue...**



# Job Growth Anemic

## Greater Phoenix Employment Levels

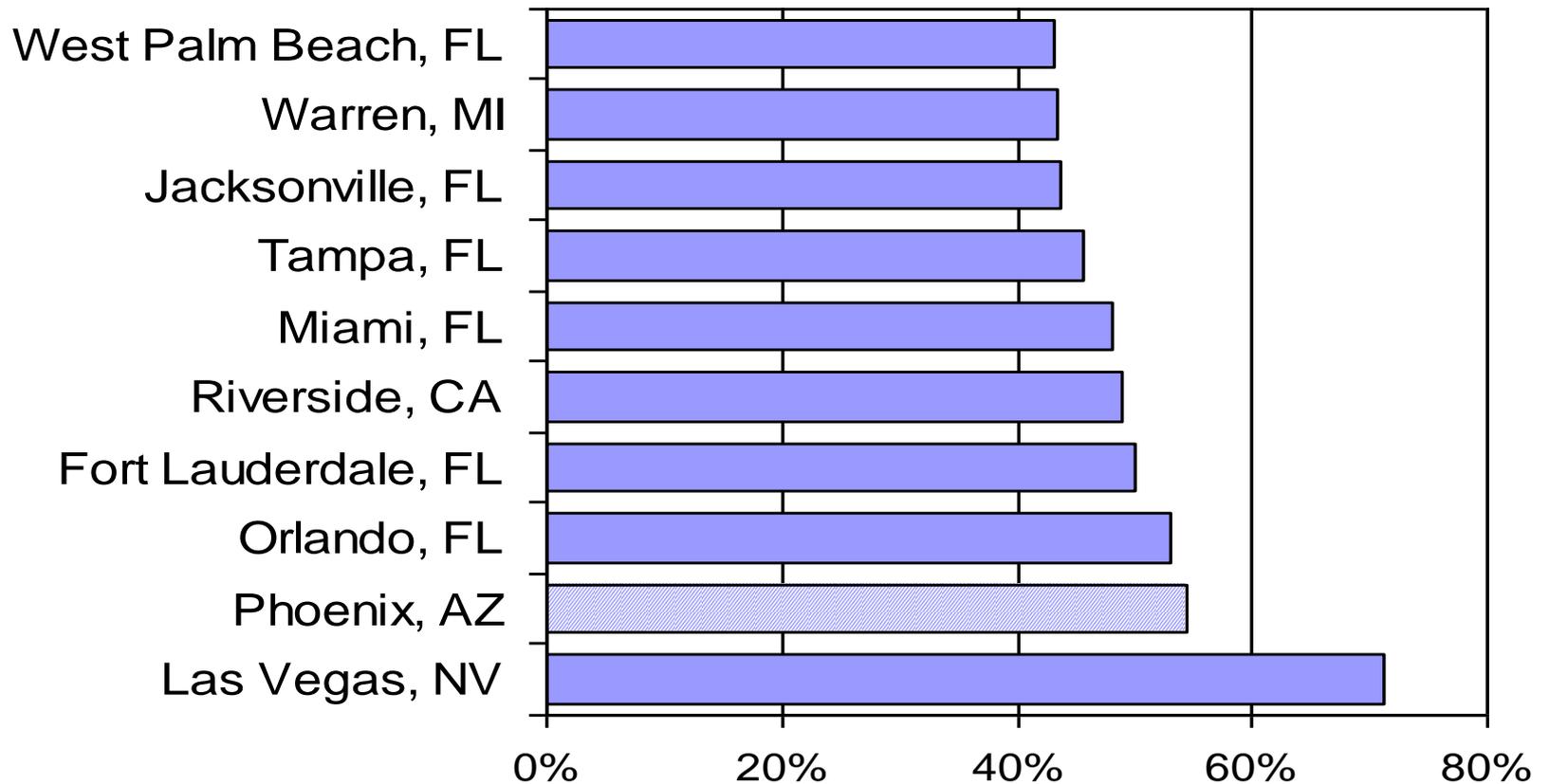
Source: U.S. Bureau of Labor Statistics



# Negative Equity in Homes Affects Ability to Sell or Buy

Source: First American Core Logic

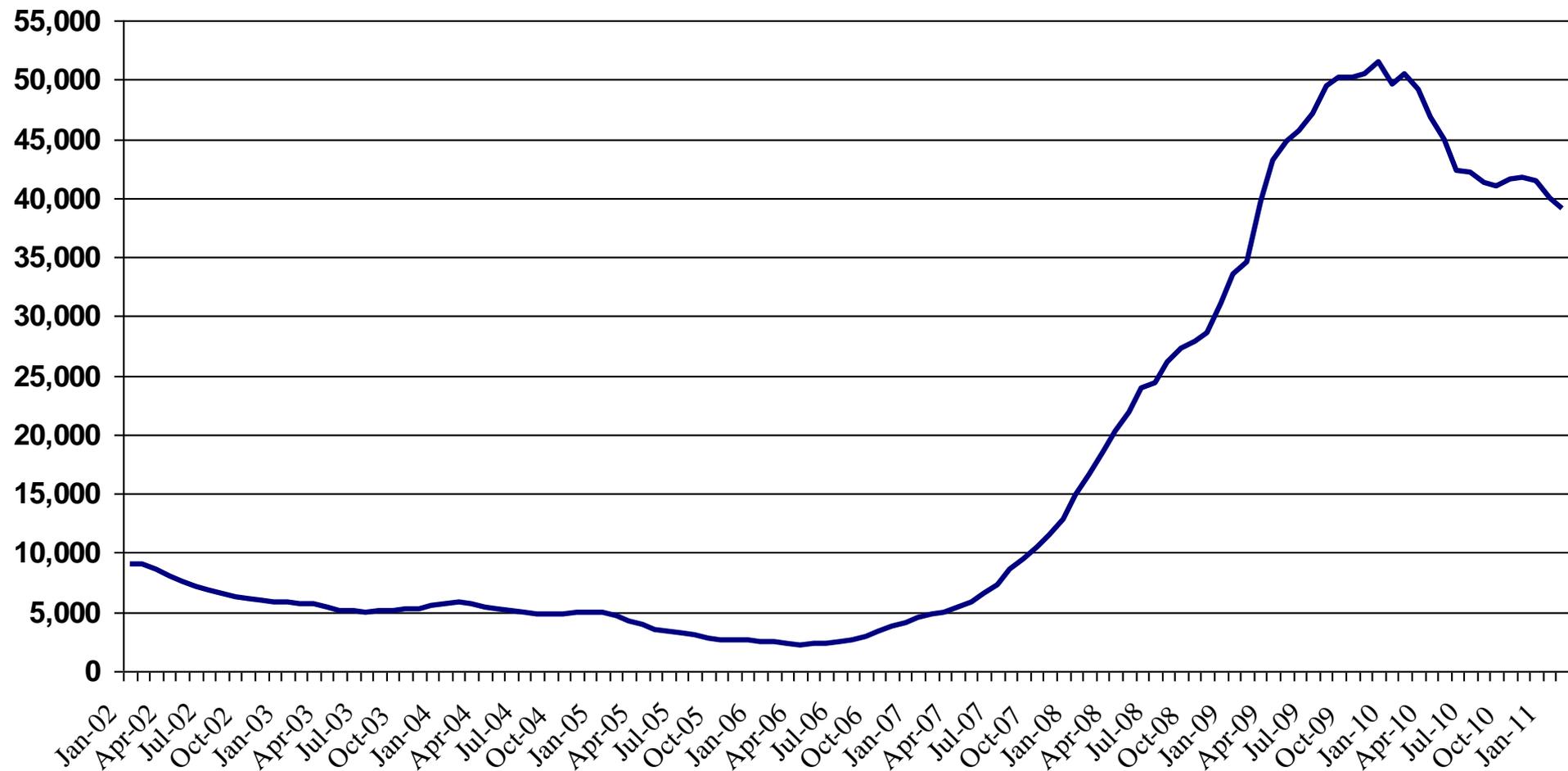
## Top 10 MSA's with Negative Equity



# Foreclosures Still High

Maricopa County 2002 – 2011

Source: The Information Market





# Housing Market Summary

Housing market may have bottomed, but chances of a significant recovery are slim.



# The Real Problem

- Too many vacant homes.
- Not enough new households.



# SUPPLY V. DEMAND



A photograph of a large sumo wrestler and a small child in a ring. The wrestler is in a crouching stance, and the child is also in a crouching stance, facing the wrestler. The word "SUPPLY" is written in large yellow letters across the wrestler's chest, and the word "demand" is written in smaller yellow letters on the child's back.

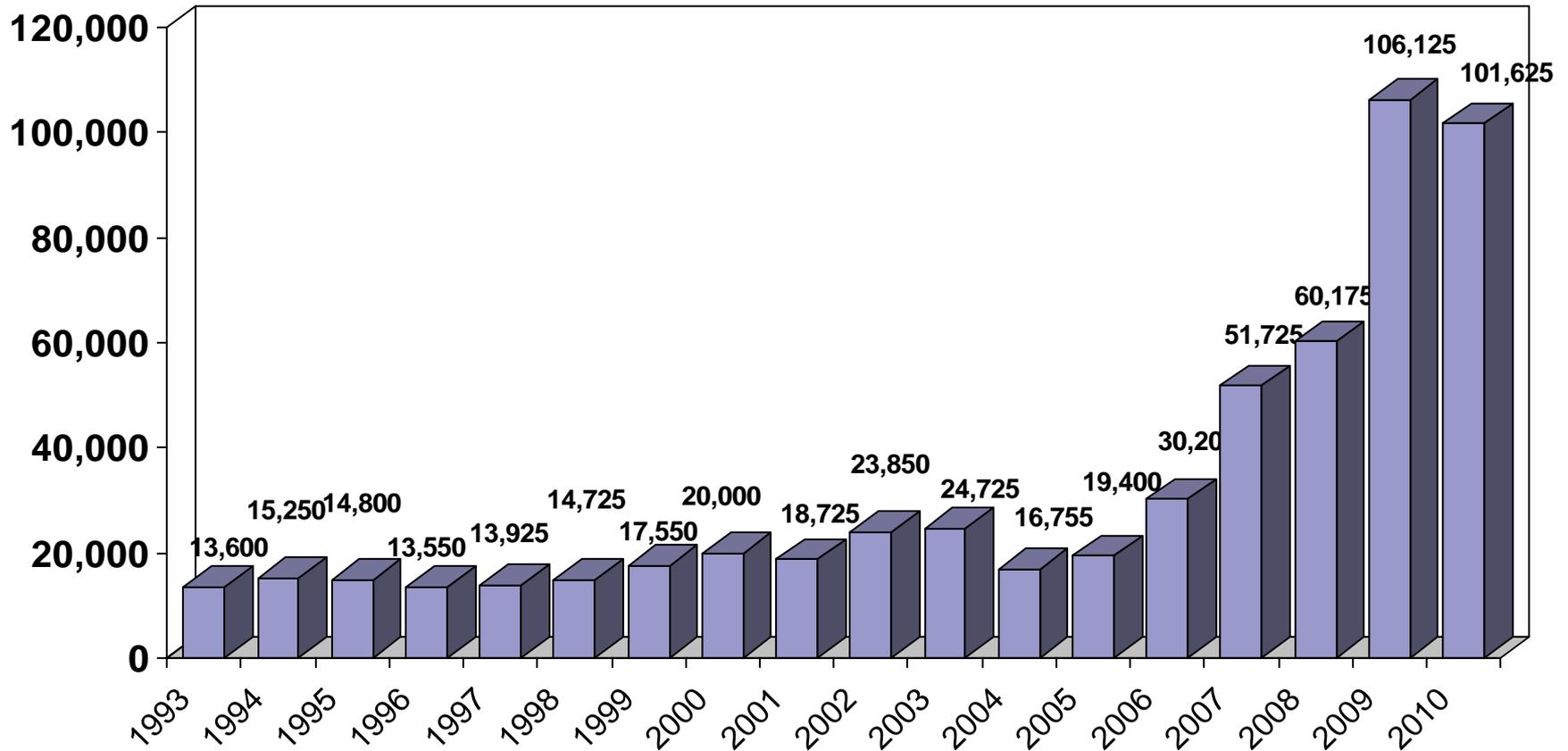
**SUPPLY**

demand

**Excess  
supply could  
still be  
60,000 to  
80,000 units  
regardless of  
how  
we do the  
calculation.**

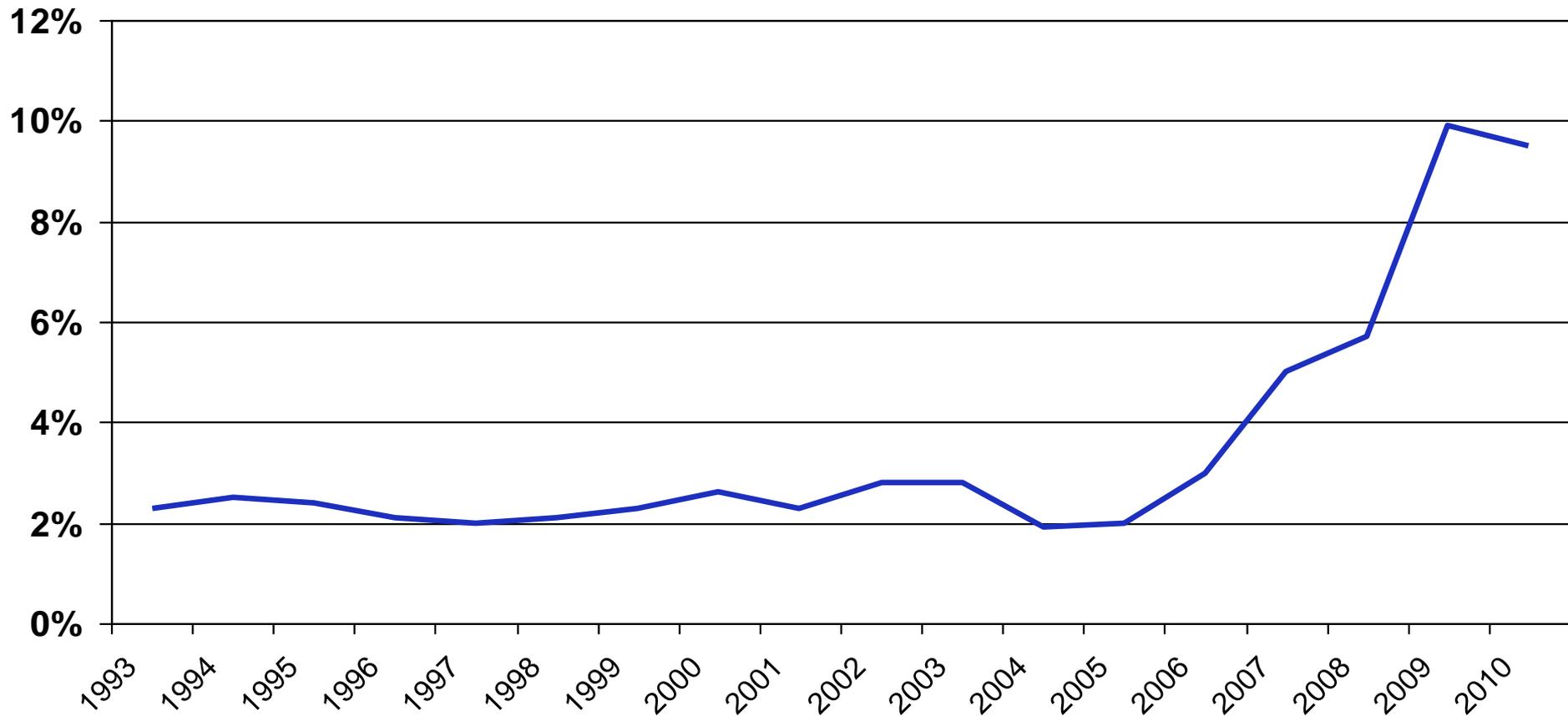
# Single-Family Vacant Units Maricopa County 1993–2010

Source: PMHS



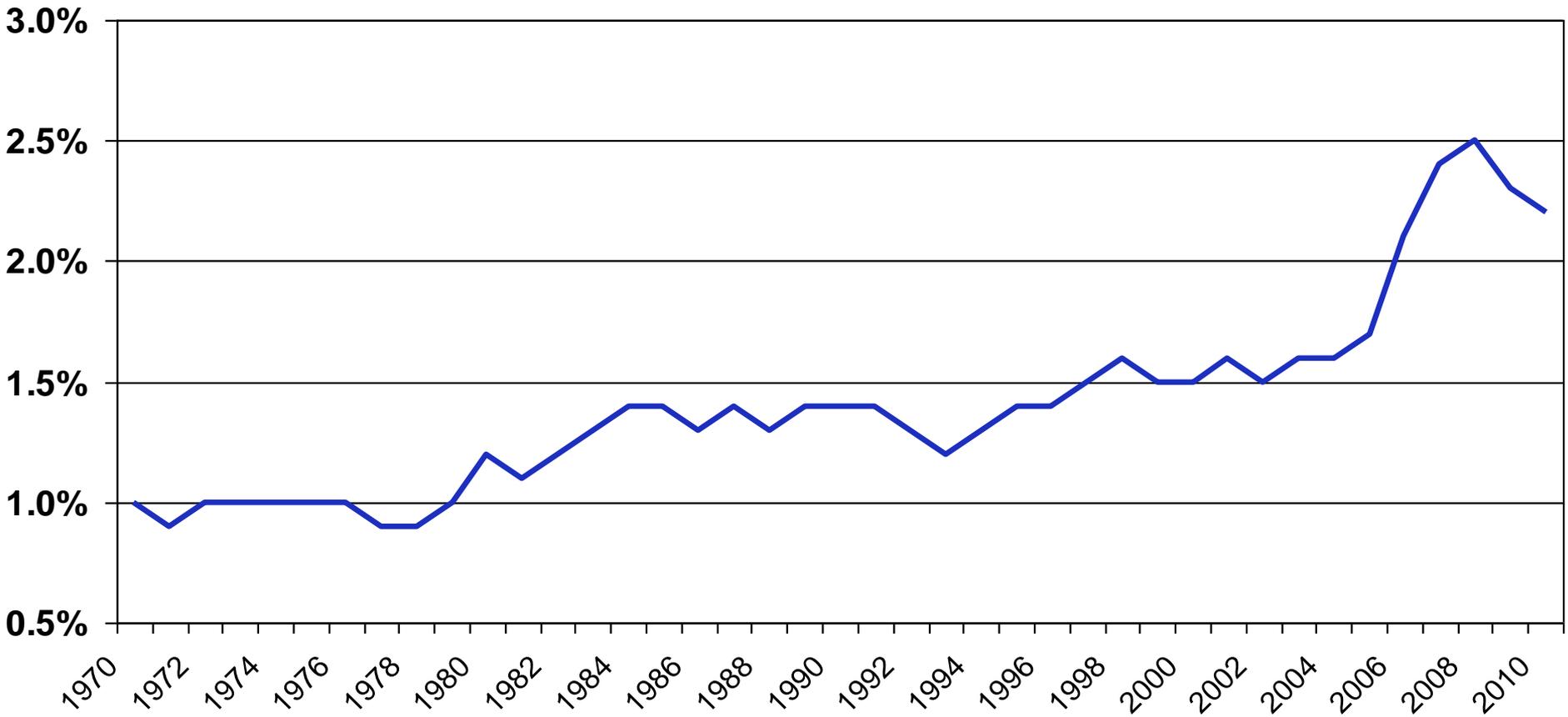
# Single-Family Vacancy Rate Maricopa County 1993–2010

Source: PMHS



# Single-Family Vacancy Rate National 1970–2010

Source: Census Bureau



# Household Formations

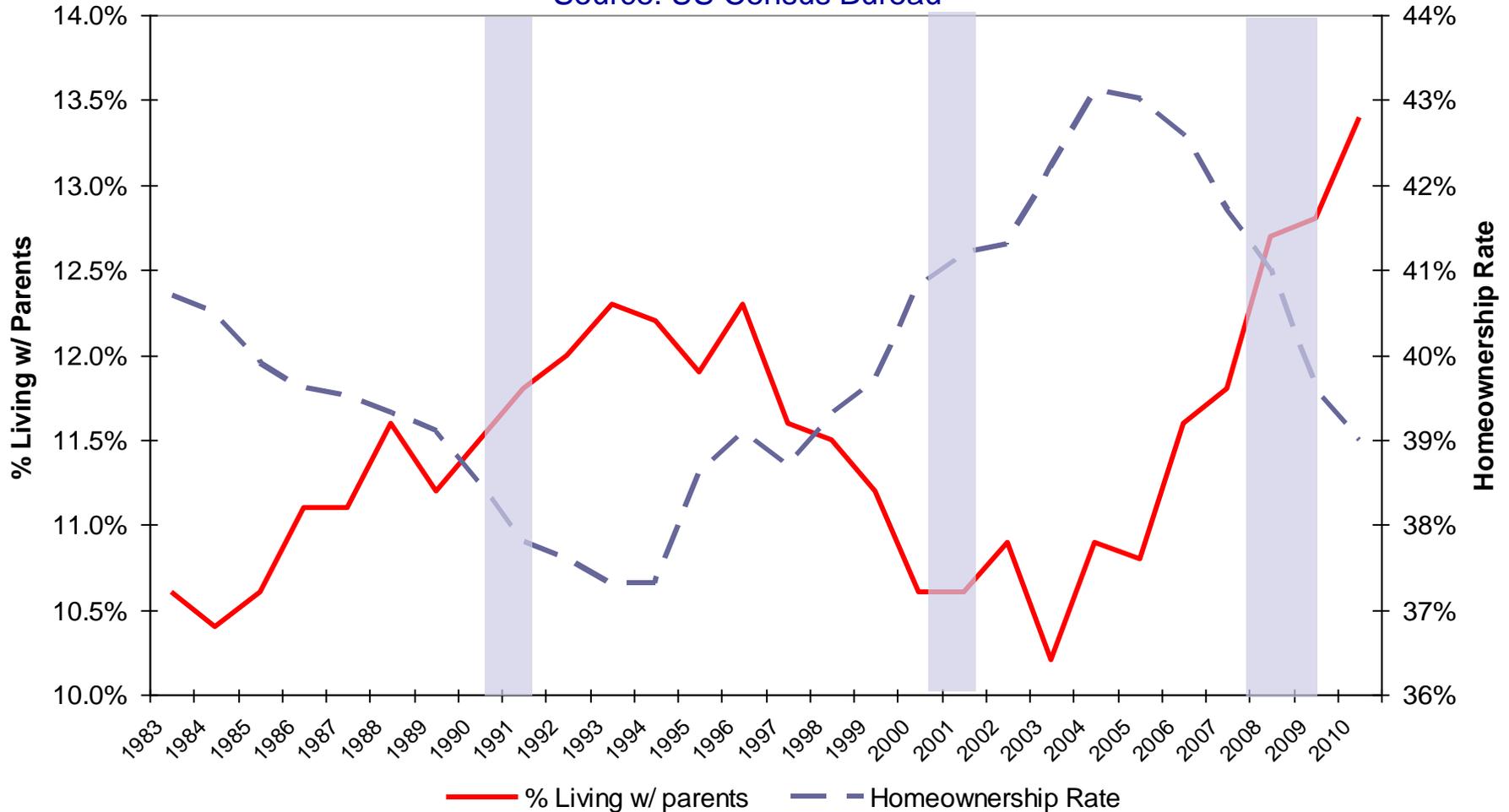
Lower during recessions (doubling up, living at home with mom & dad, etc)



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

## U.S.: 1983 – 2010

Source: US Census Bureau



# How Investors Impact the Market:

Investors temporarily create demand.

How many of those homes will come back on the market?

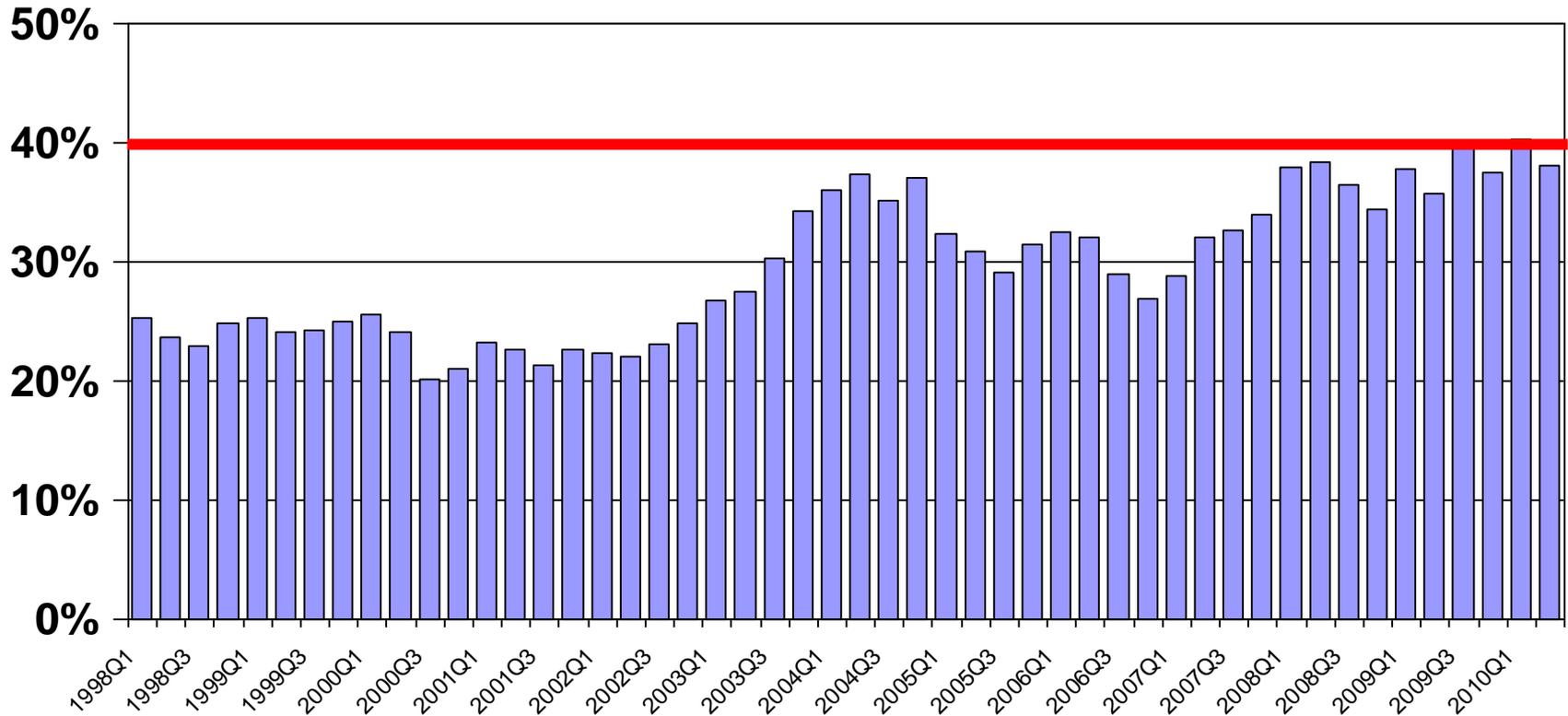


# Investors: 40% Market?

Percent of Non-Owner Occupied Sales of Total Sales

Greater Phoenix

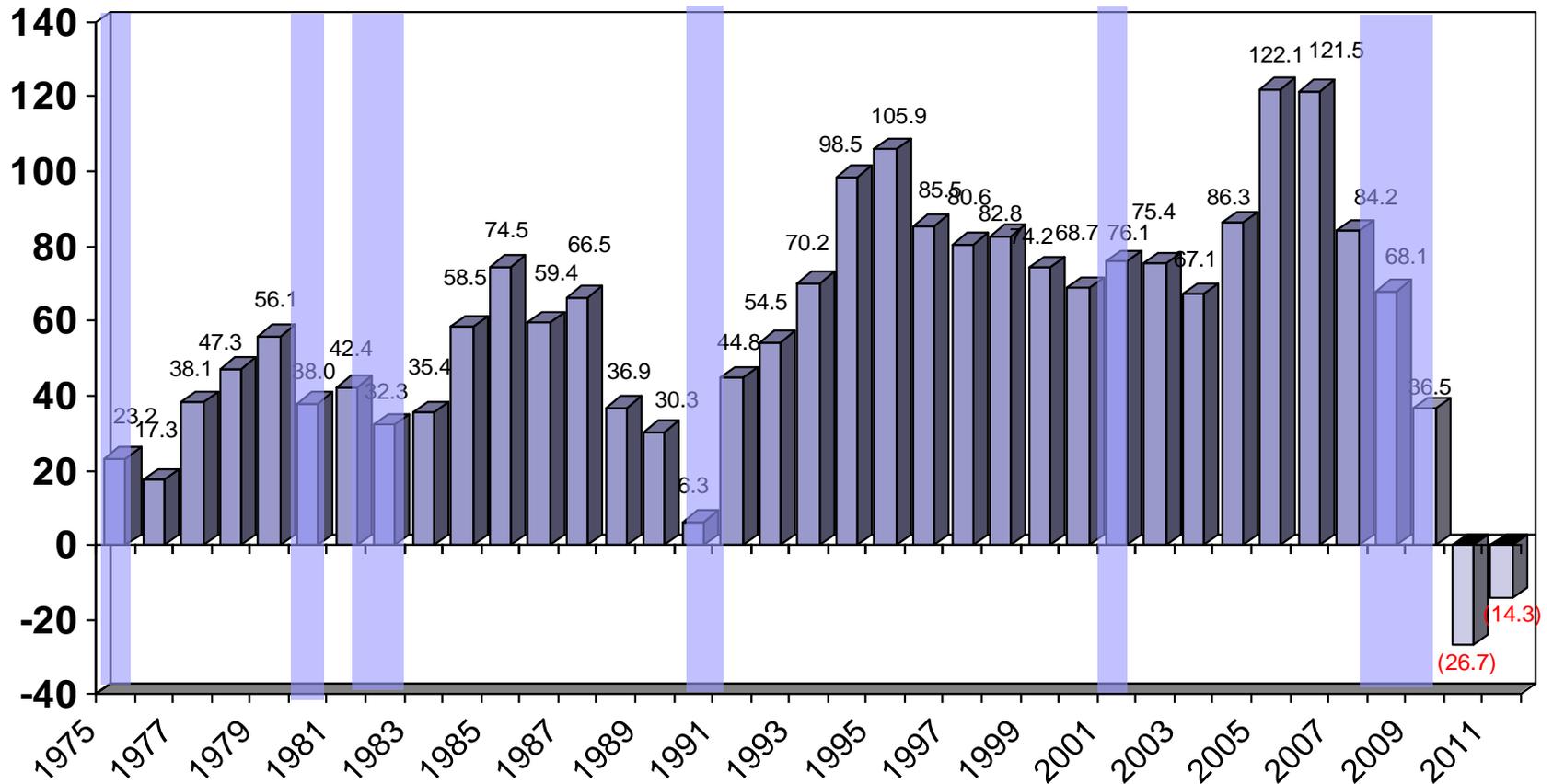
Source: DataQuick



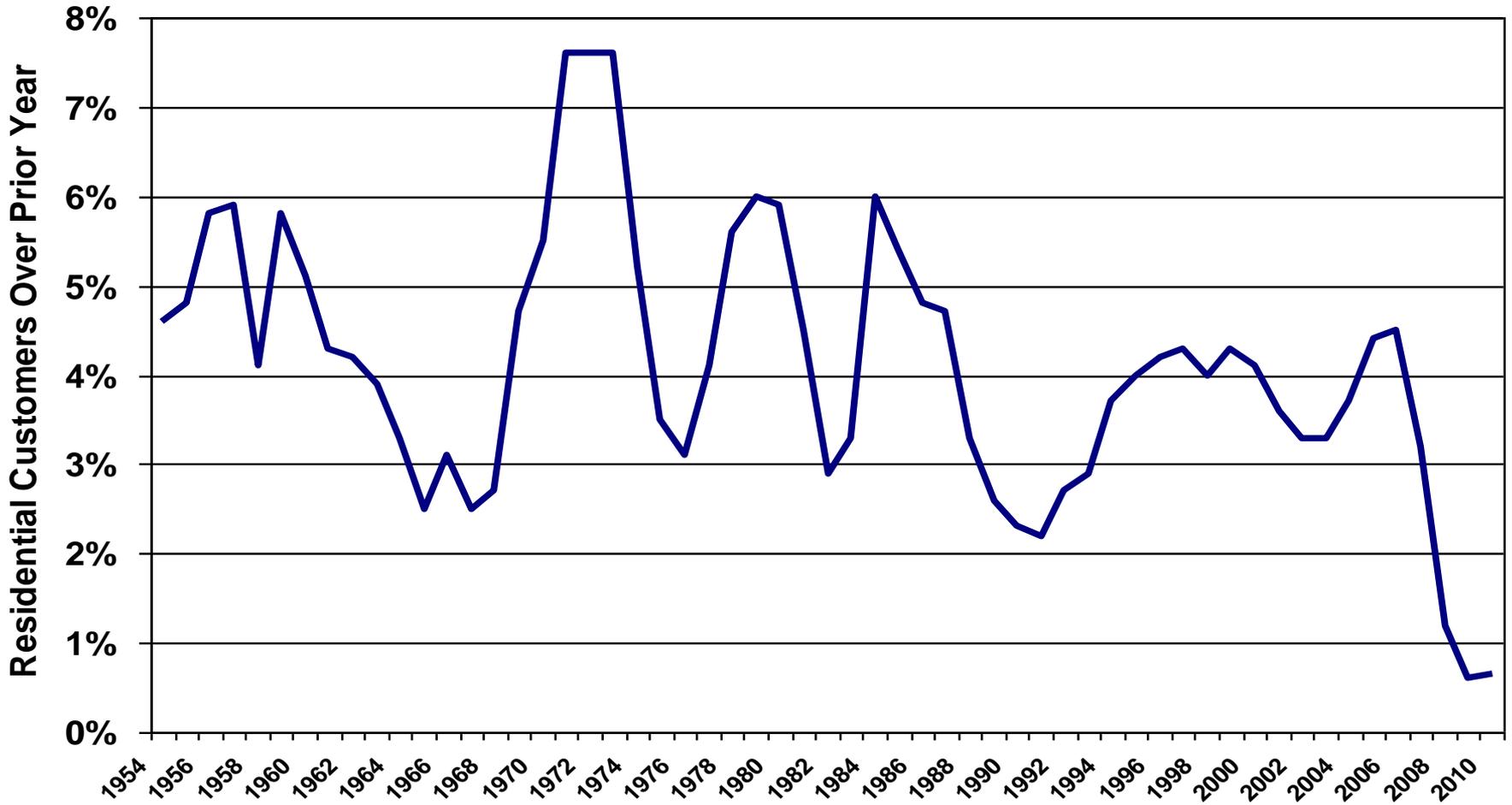
# Greater Phoenix Net Migration 1975–2011

Source: University of Arizona

Recession Periods

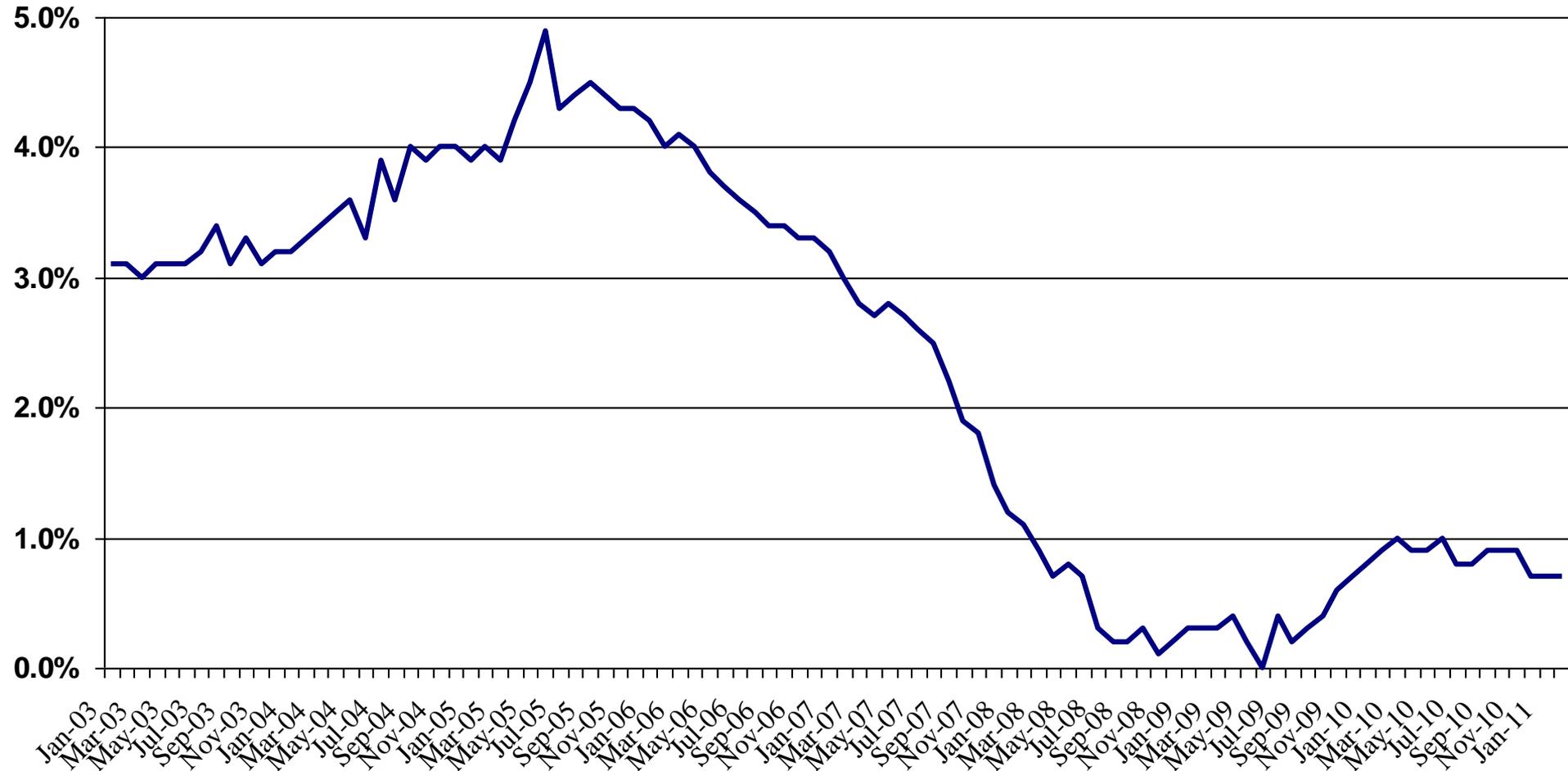


# APS: Slowest Growth in over 50 years 1954 – 2010\*



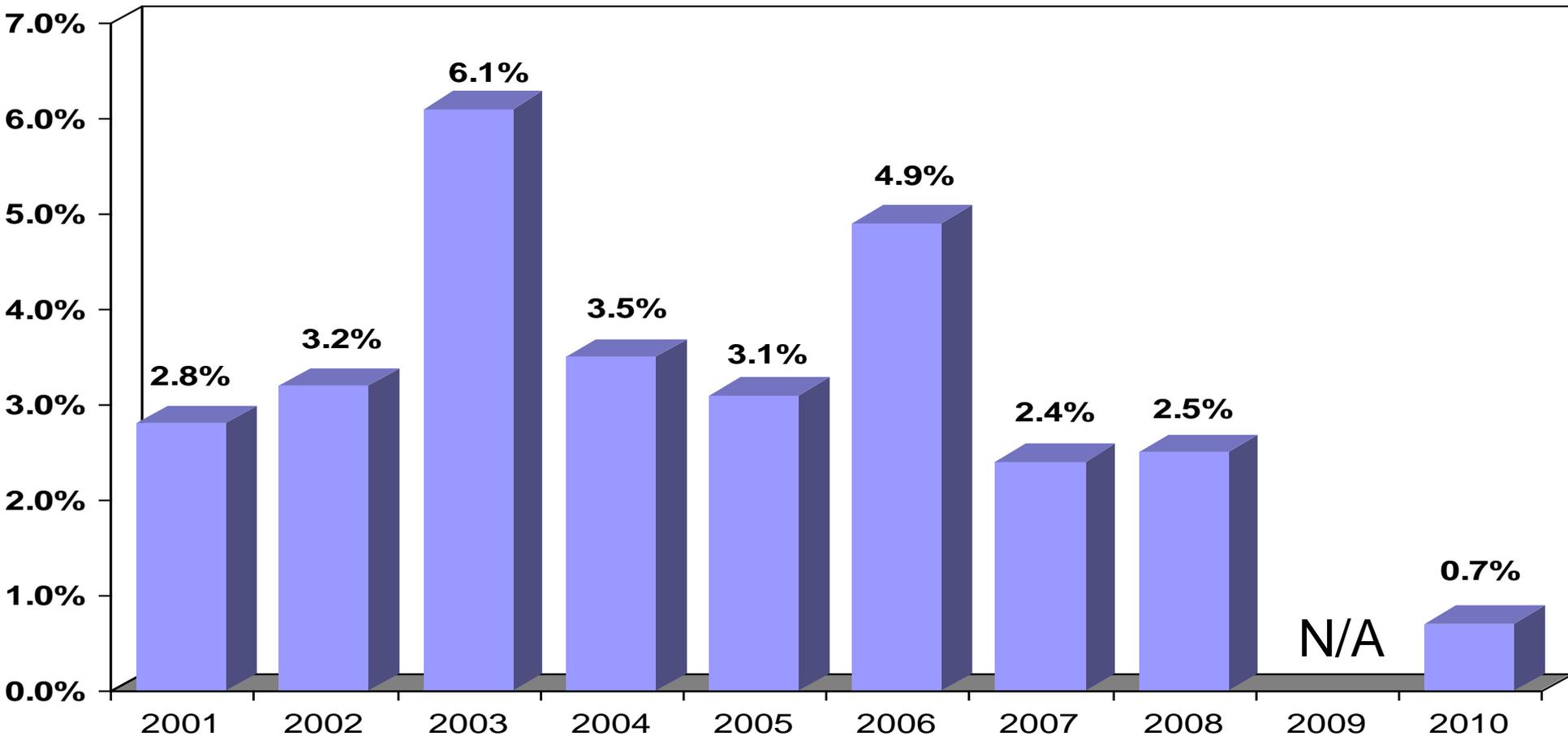
# SRP Residential Utility Hookup Growth Greater Phoenix 2003 – 2011

Source: SRP



# School Enrollment Growth 2001-2010

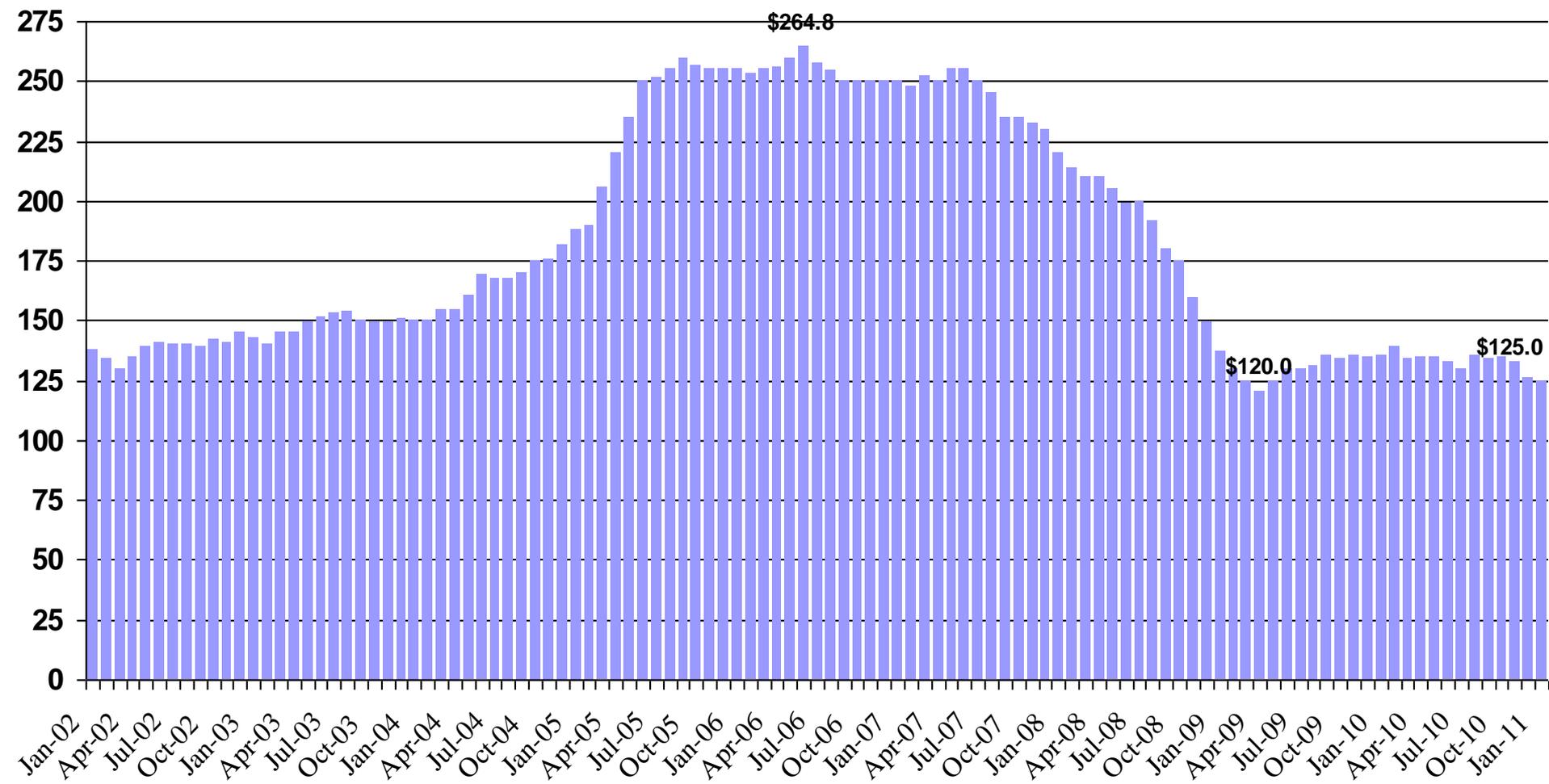
Source: Arizona Department of Education



# Greater Phoenix Median Price of Single Family Homes - Resale

2002 – 2011\*

Source: MLS



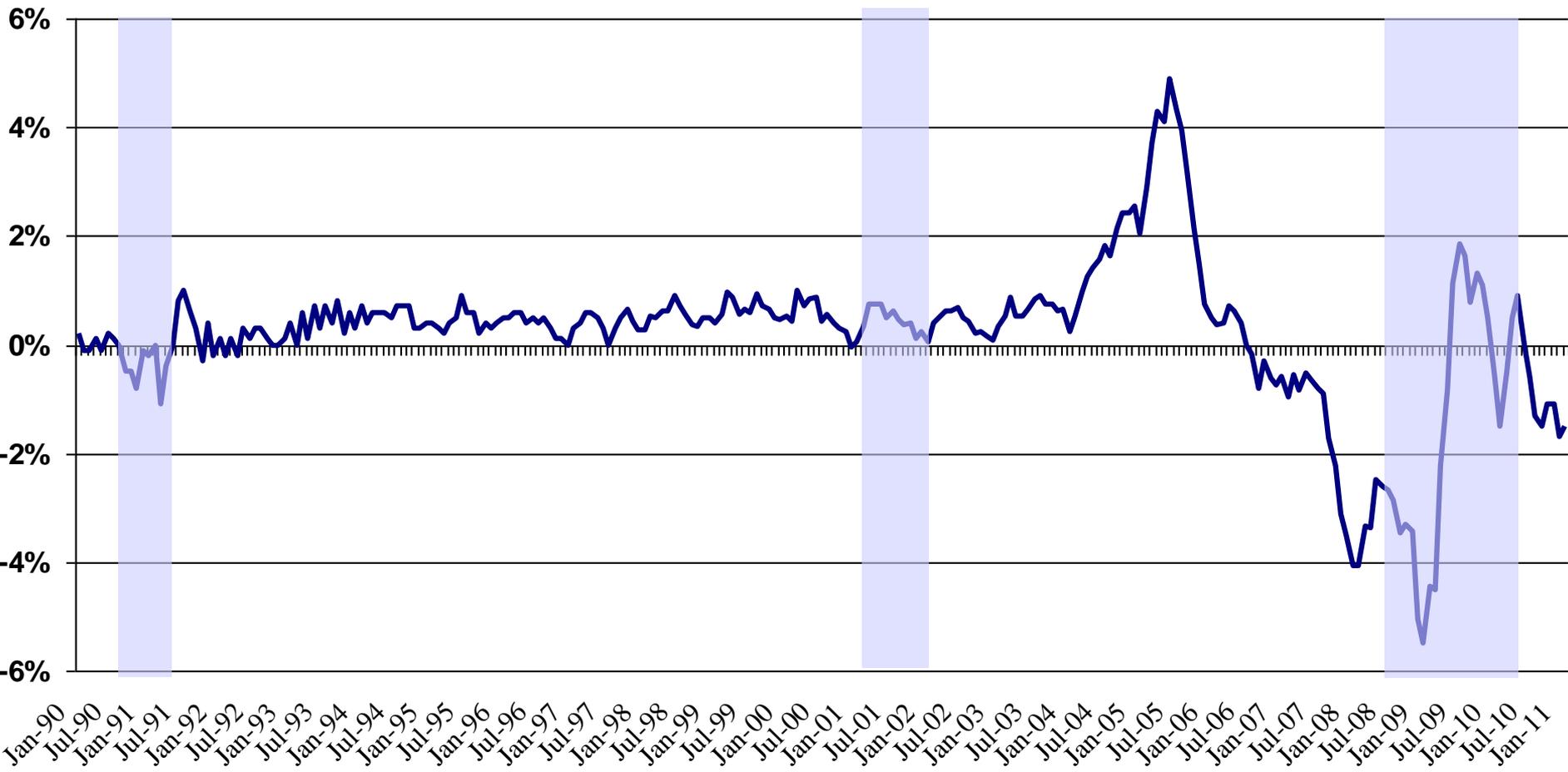
# Greater Phoenix S&P/Case-Schiller Home Price Index\*\*

## Percent Change Month Ago

### 1990 – 2011\*

Source: Macro Markets, LLC

Recession Periods



\*Data through January 2011

\*\*Measures changes in existing single family home prices given a constant level of quality.



Elliott D. Pollack & Company

**Balance between supply and demand  
will not be fully achieved until about  
2014.**

**But building will get  
progressively better  
between now and then.**

**Balance = when you have to build for net in-migration**

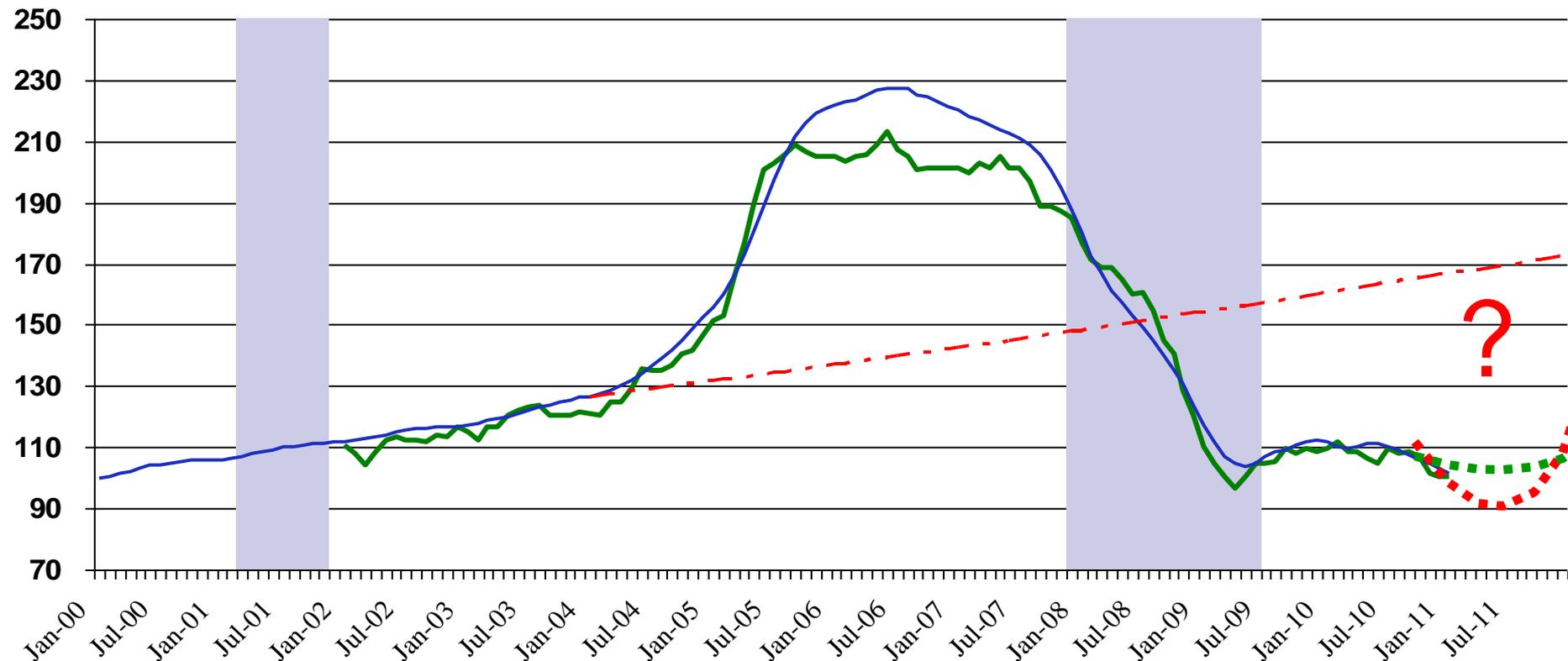


# Home Prices Indices

2000 – 2011

Source: Macro Markets, LLC; AMLS

Recession Periods



Recession — MLS Index — Case-Shiller Index - - - Trendline (4.0%)



# Commercial Markets...



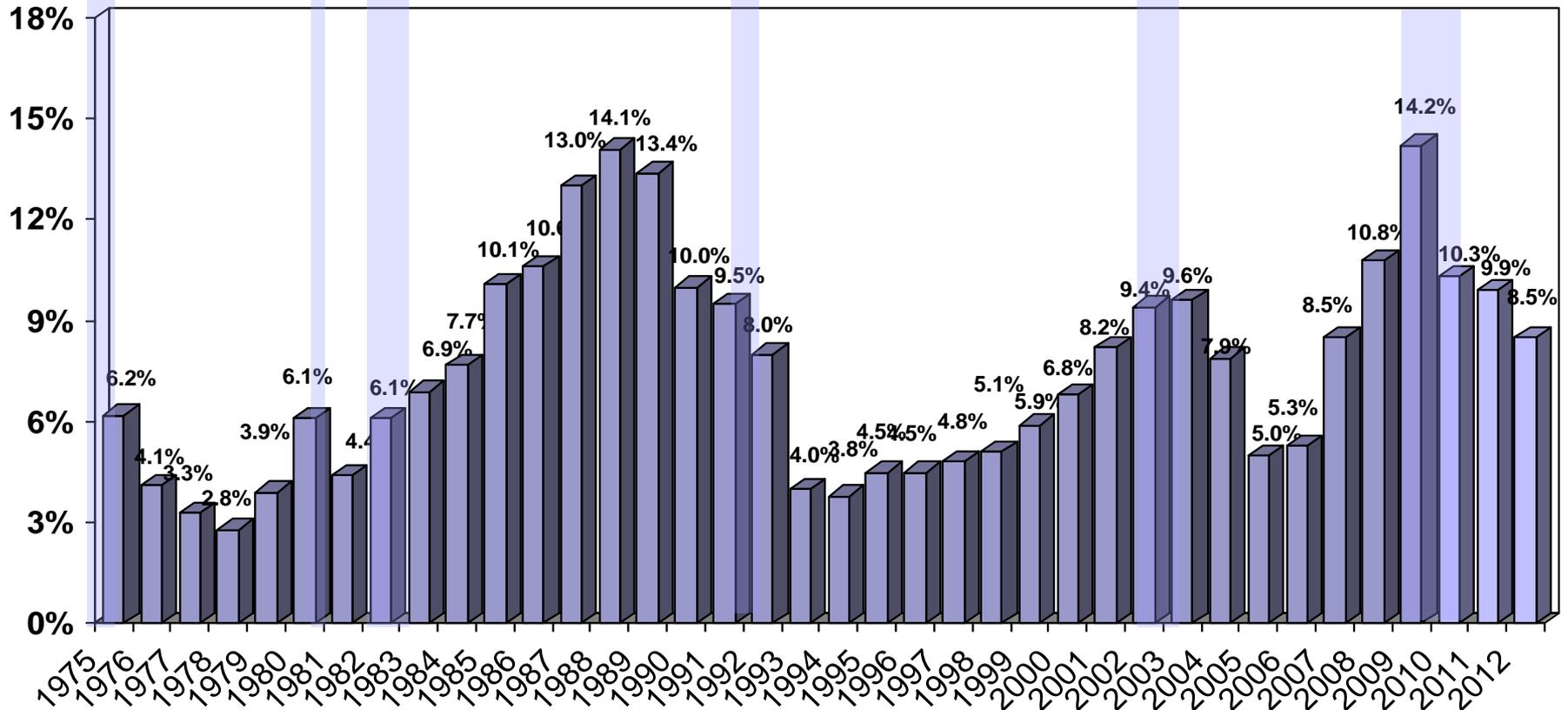
# APARTMENTS



# Multi-Family Year-End Vacancy Rates Maricopa County 1986–2012\*

Source: ASU Realty Studies

Recession Periods



\*2011 -2012 are forecasts from the Greater Phoenix Blue Chip



# Greater Phoenix Multi-Family Construction Activity

Source: PMHS

Year	Absorption	Chg in Inventory
2005	4,756	(5,169)
2006	(4,653)	(3,828)
2007	(5,846)	4,979
2008	(4,466)	3,234
2009	(5,319)	6,831
2010	20,743	6,705

\*There were 19,949 condo conversion in the Greater Phoenix area from q1 2005 through q4 2009.



**There are currently  
234 multi-family units under  
construction (Q4 10).**





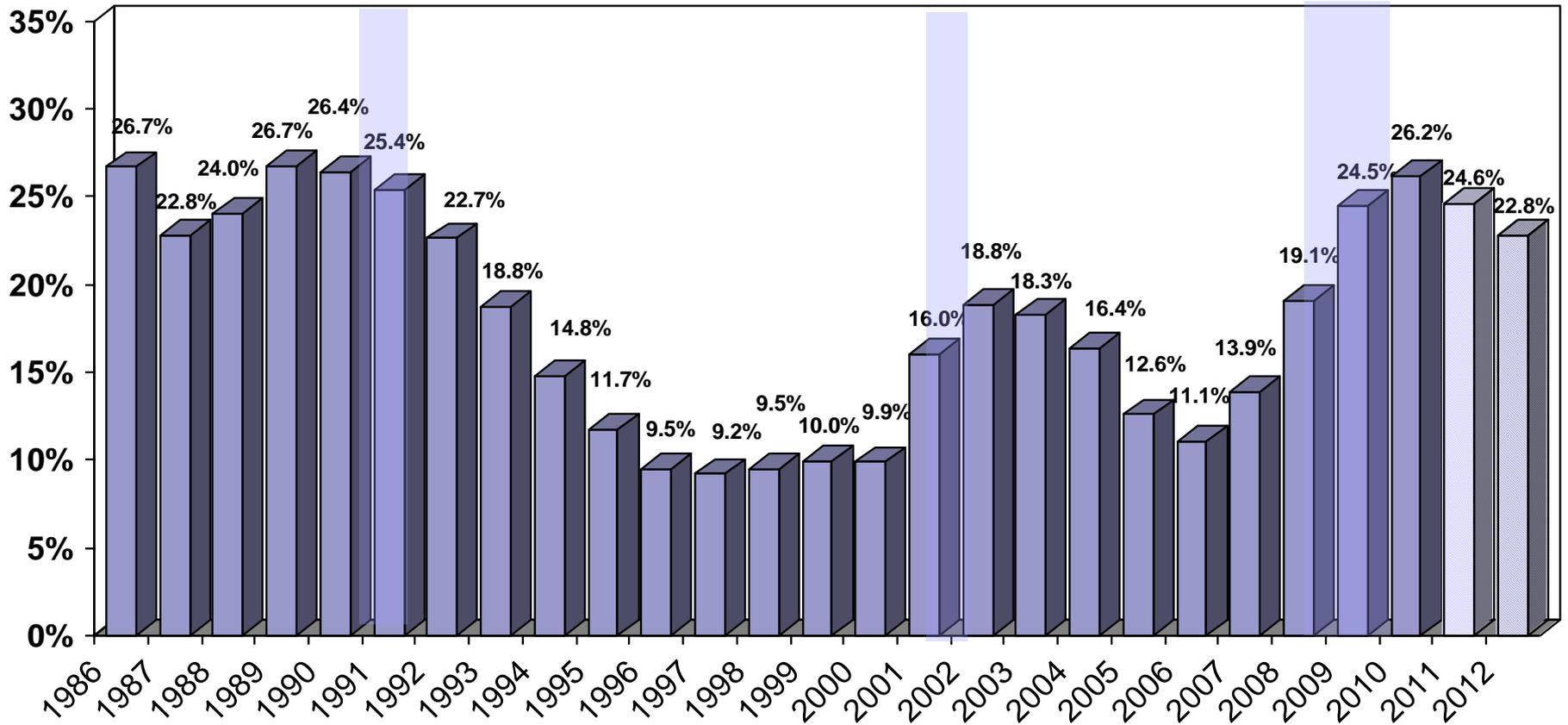
# OFFICE



# Office Space Year-End Vacancy Rates Maricopa County 1986–2012\*

Source: CB Richard Ellis

Recession Periods



# Greater Phoenix Office Market Construction Activity

Source: CB Richard Ellis

Year	Absorption (sf)	Chg in Inventory (sf)
2004	2,222,880	1,620,862
2005	3,119,293	7,987
2006	3,111,075	**2,320,302
2007	1,500,704	4,905,374
2008	(603,112)	3,402,646
2009	(2,407,706)	1,798,415
2010	849,955	2,011,404

\*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.



**There is currently  
no multi-tenant office space under  
construction (q4 10).**

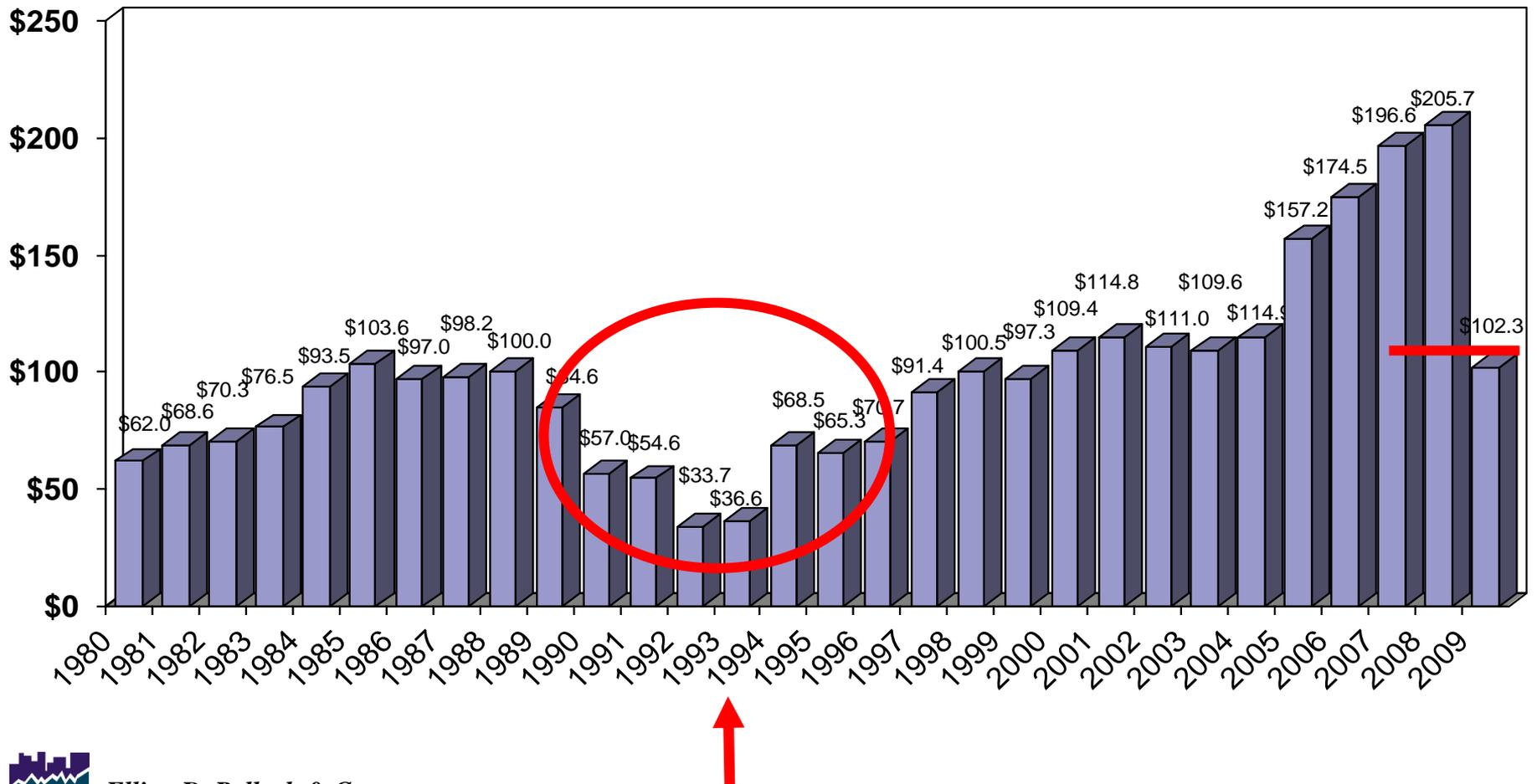


**No significant office  
building in Greater  
Phoenix for next  
3-5 years.**



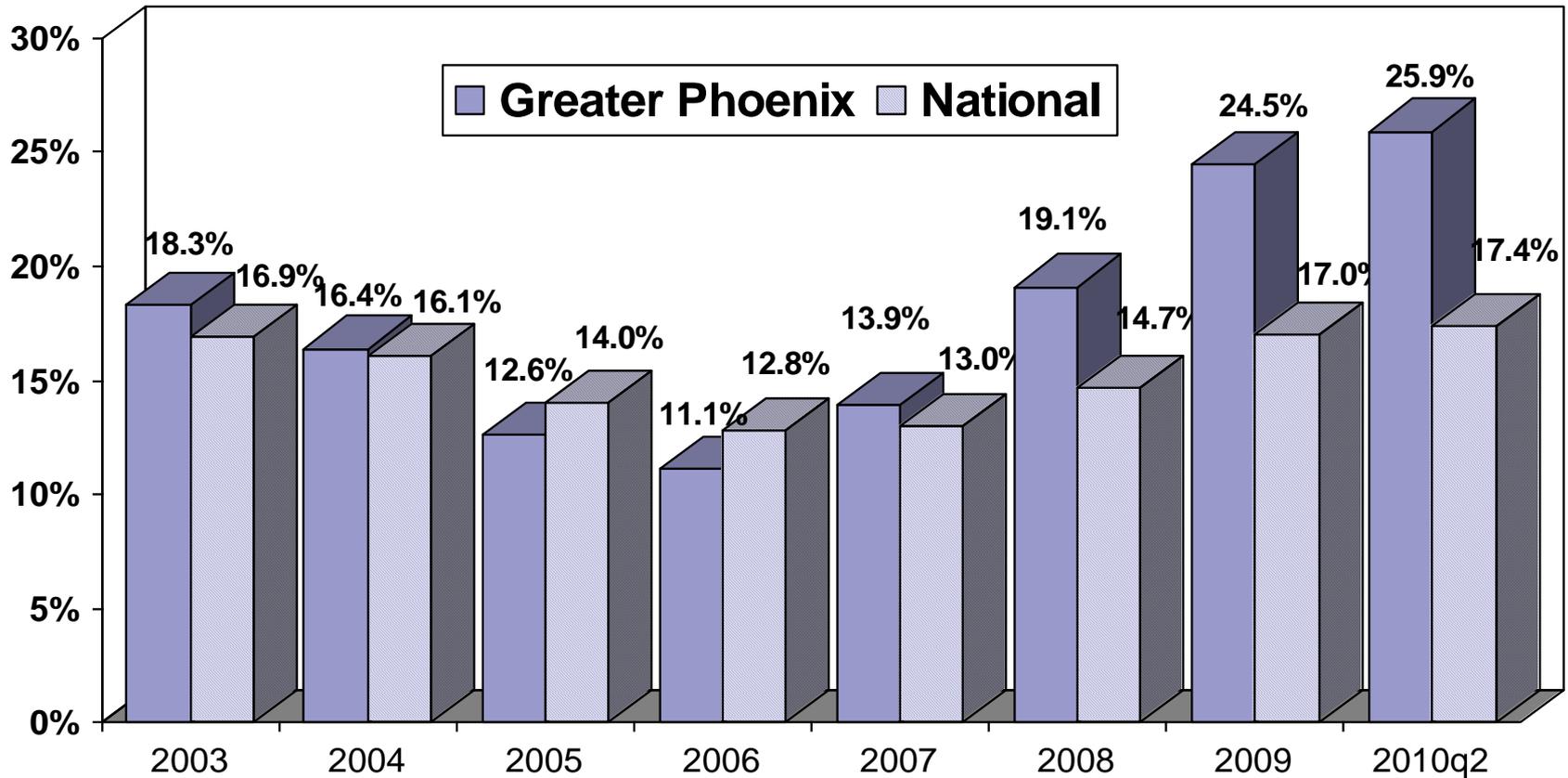
# Office Sales: Price per Square Foot Maricopa County 1980–2009

Source: Kammrath & Associates



# Office Space Vacancy Rates U.S. versus Greater Phoenix

Source: CB Richard Ellis and Marcus & Millichap



# Back to Normal Vacancy?

- **Office = 2014 – 2015**
- **Industrial = 2013 – 2015**
- **Retail = 2014 - 2015**



**No new commercial  
construction is needed  
for years.**





**The economic fundamentals  
have not really changed.**

**The long term economic outlook  
remains favorable.**



# Shorter Term Considerations:

- We will benefit from the U.S. recovery;
- Housing is very affordable;
- Single family permitting is probably bottoming;
- Employment has bottomed;
- So has population;
- Consumer spending will be up.



# Longer Term Considerations:

- People *will* start moving again;
- We will again create jobs at a rapid pace as the local recovery takes hold;
- The jury is still out on whether state policymakers will help to turn this around.



# Outlook Summary

<u>Subject</u>	<u>Good News</u>	<u>Bad News</u>
National economy	Recovering	How rapid?
Housing	At or past bottom	Still many negatives. No quick fix for population flows.
Commercial real estate	At or near bottom	Recovery will be slow and take a long time.
State government	Sales tax revenues no longer falling	Revenue growth too slow to fix problem soon.
Retail sales	Past bottom; pent up demand	Consumers still restructuring balance sheet. Credit markets tough.

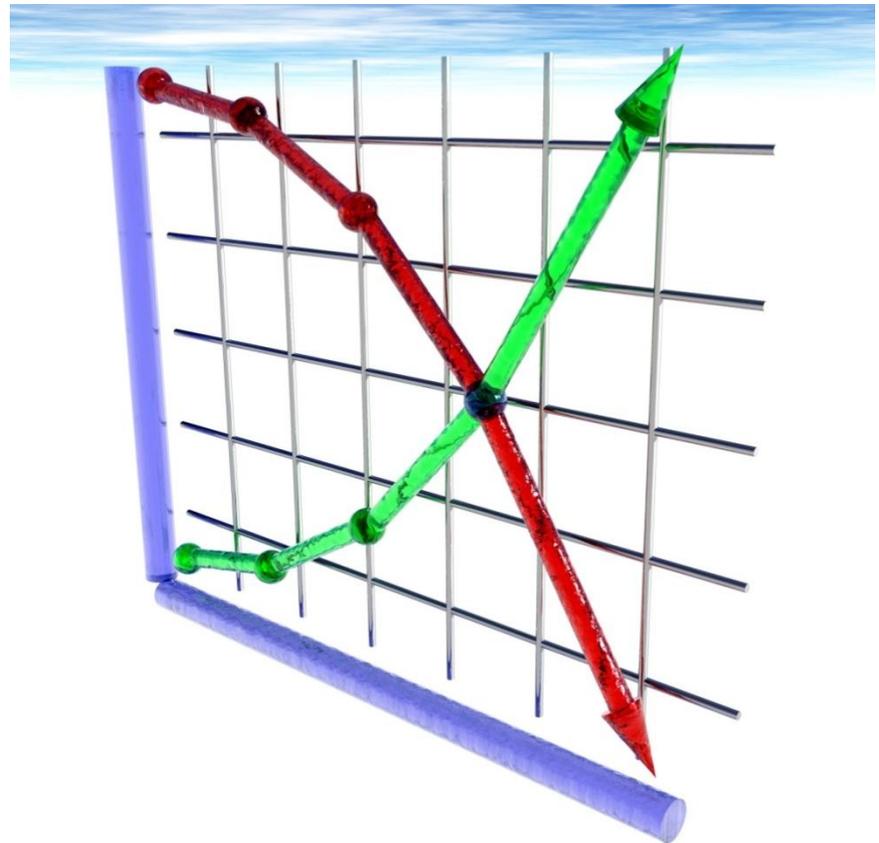


Whether the  
boom will  
arrive in  
**2014** or  
**2015**  
I can't tell  
yet.



# What has to happen for the boom to occur in Arizona?

- A national recovery
- Credit markets return to some level of normalcy
- Excess supply of housing & commercial is absorbed
- Housing prices rise
- The balloon re-inflates



# Maricopa County Forecast FY 2011 – FY 2012

<u>Indicator</u>	<u>2010</u>	<u>2011(f)</u>	<u>2012(f)</u>
Population	0.8%	1.0%	2.5%
Employment	-5.8%	1.0%	3.5%
Retail Sales	-5.1%	4.0%	6.0%
Building Permits (total)	-27.8%	-20.0%	10.0%





# What does this all mean for REVENUES?



# Revenue Summary

- The impact from population and employment revisions resulted in a downward revision in the tax revenue categories.
- Maricopa County's share of Net Assessed Value in the State directly affects the formula for State shared sales tax. For each 1% drop in MC's NAV share, the impact is estimated to be \$1.0 million.
- MC's share of State population also dropped with 2010 Census and will have an impact on future distributions from the State.
- Additional caution is warranted for the coming fiscal year in terms of budgeting.
- The next quarter will provide critical information about the health of revenue collections for the coming fiscal year as a whole





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