

MEMORANDUM

To: Chris Bradley

From: Jim Rounds
Jill Welch

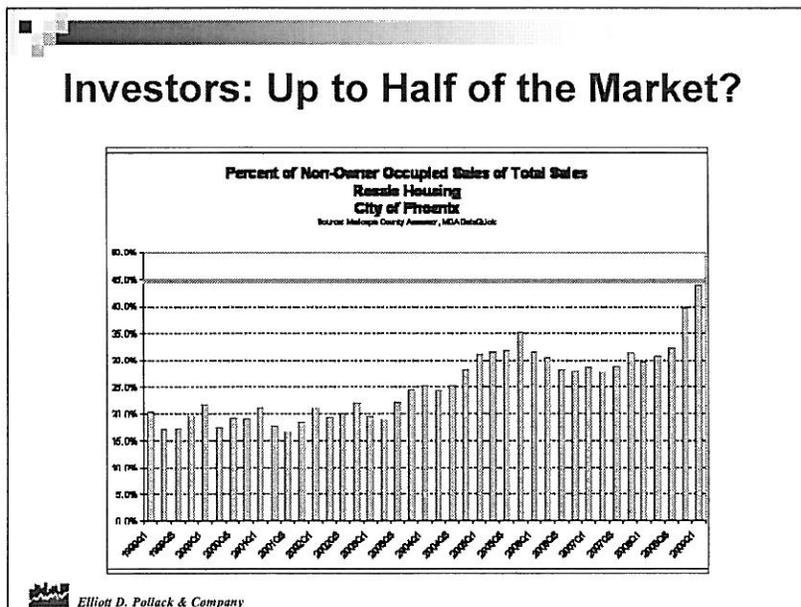
Date: June 22, 2009

Re: Economic Update

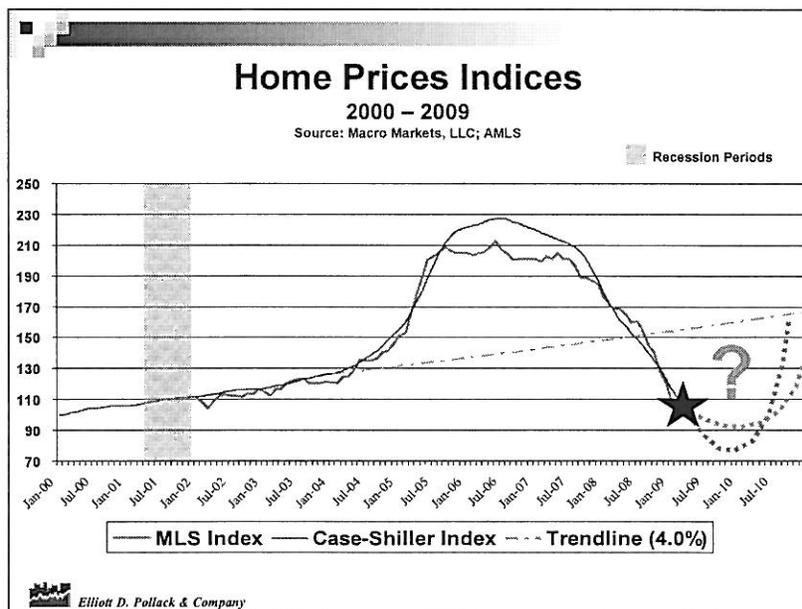
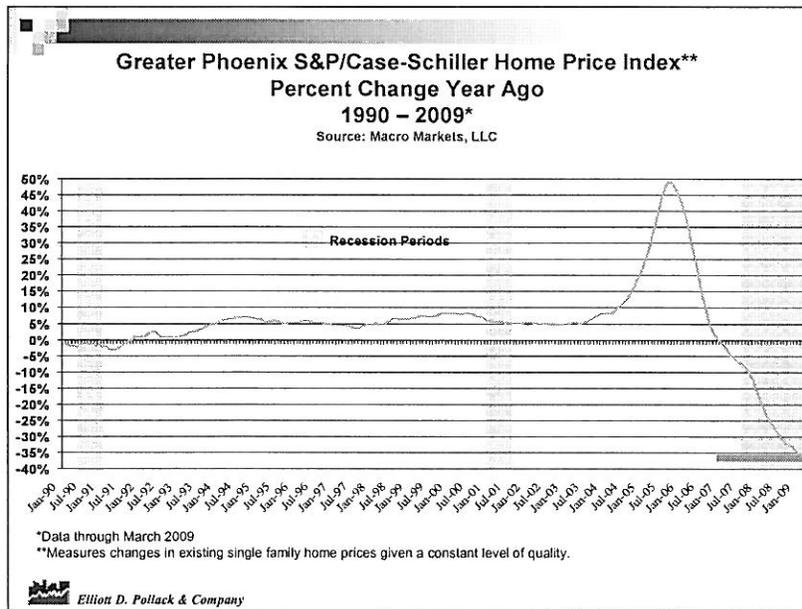
During the past month we have given special attention to housing data. Reports have indicated that we may have “hit bottom” in terms of housing price declines and may have finally worked through a significant amount of the excess construction that occurred between 2003 and 2006. The reality is that this is false.

The Reemergence of Investors

One major culprit impacting the misinformation is the reemergence of investors into the local market. One data source indicates that for the City of Phoenix, investor purchases of resale homes comprise as much as 45% of the market. This sales activity does not represent any “working through” of the excess supply of housing. Investor homes will be placed back onto the market at a future date and do not represent an underlying change in housing demand.

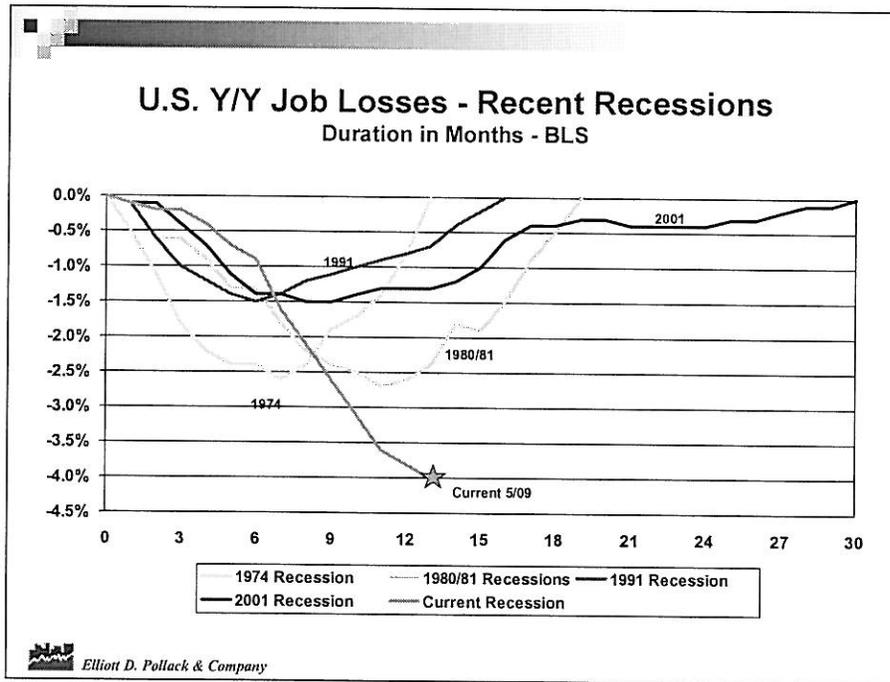


The reemergence of investors is also impacting home sales prices. Prices move upward as the growth in demand exceeds the growth in supply. At the present time, supply still significantly exceeds underlying demand. However, with the additional investors entering the market, a temporary balance has been achieved between supply and demand. This has stalled the price declines. However, as the investor homes reenter the market in the next couple of years, the additional supply will place downward pressure on prices. There is no free lunch. Equilibrium in this market will occur when supply and population based demand for housing product come into balance and the excess supply is fully absorbed.

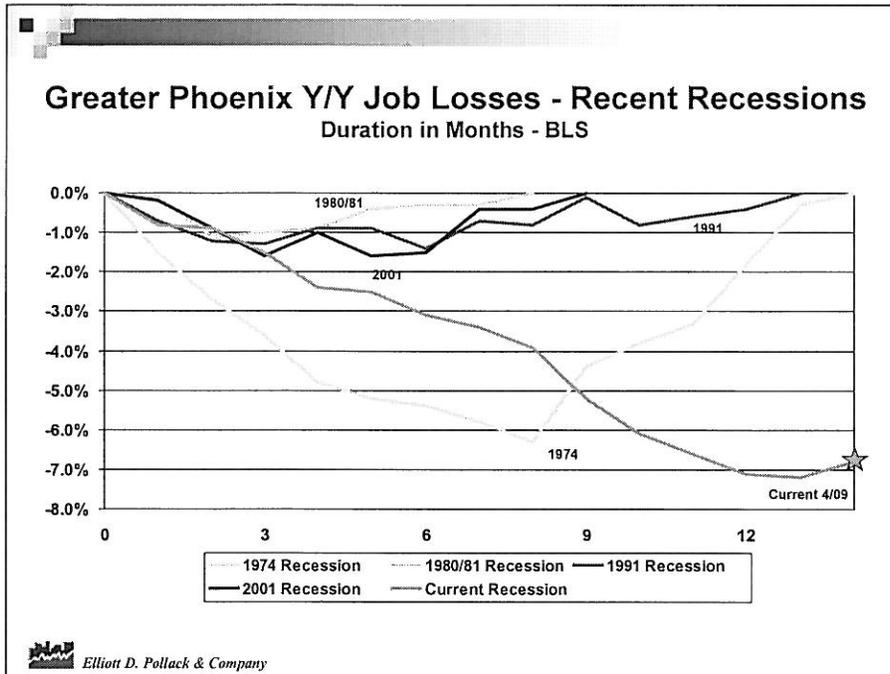


Employment

Unfortunately, the employment situation continues to worsen. This is to be expected. Job losses are likely to continue through the first part of next calendar year. When viewing the job losses on a year-over-year basis, for the U.S. as a whole, the current employment recession is already far *deeper* than anything that was experienced in the modern era. When done, it will also likely match the *longest* employment recession since 2001.



For Arizona, the employment situation is even more dismal. At the present time, the local employment recession is already longer than any in modern history, and is also deeper in terms of the percentage of job losses. Another nine months to a year of additional job losses can be expected.



Pending Forecast

The aforementioned economic issues will be incorporated into the forecast that is currently being constructed. The real estate items will have an impact on property taxes while the weak and unemployed consumer will have an impact on sales tax activity. It is unclear at this time if a recommendation will be made to reduce the FY 2010 forecast. The current forecast already incorporates very weak economic activity.