



The Grind Continues

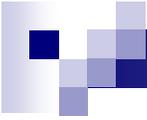
Maricopa County Board of Supervisors

September 24th, 2012

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



Elliott D. Pollack & Company



Economic Conditions





**It is only because
conditions have been
so poor for so long
that we feel this
mediocre recovery is OK.**





**In the short term,
the 2012 elections will not have
much of an impact
on the economy.**





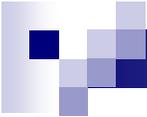
NATIONAL ECONOMY –

Continued subpar growth.

But, recovery should continue.

(unless the Federal Gov't does something stupid...)



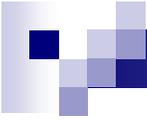


FISCAL CLIFF



- January 2, 2013:
 - Bush-era tax cuts expire.
 - \$3.3 trillion over 10 years
 - \$330 billion in 2013
 - Fiscal tightening measures agreed to last year kick in...
 - \$1.2 trillion in cuts over 9 years
 - \$500 billion in defense
(\$55 billion in 2013)





FISCAL CLIFF



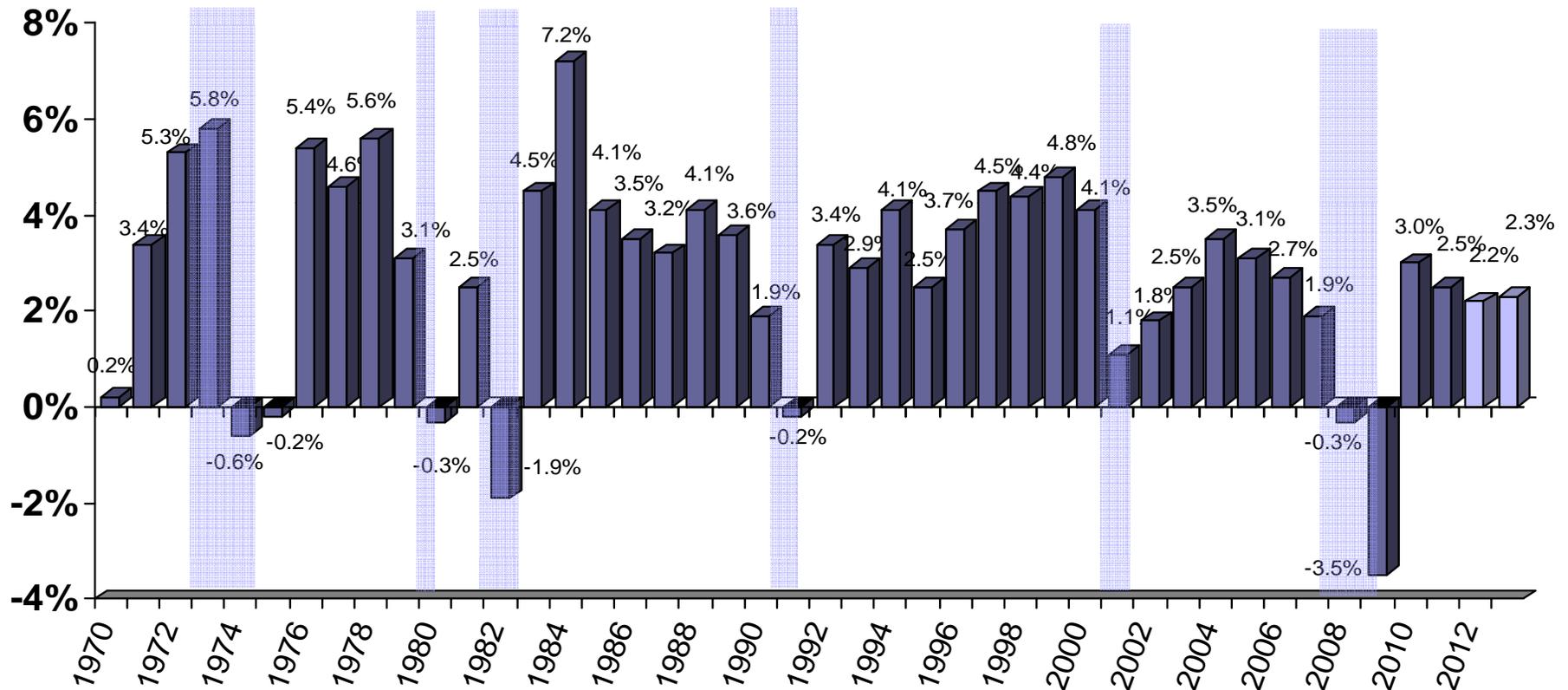
- Causes great uncertainty.
- Cost of non-resolution would be a recession in 2013 (CBO).
- So, most likely some type of resolution will occur in early 2013.



United States Real Gross Domestic Product*

Annual Growth 1970 - 2013**

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



* Based on chained 2005 dollars.

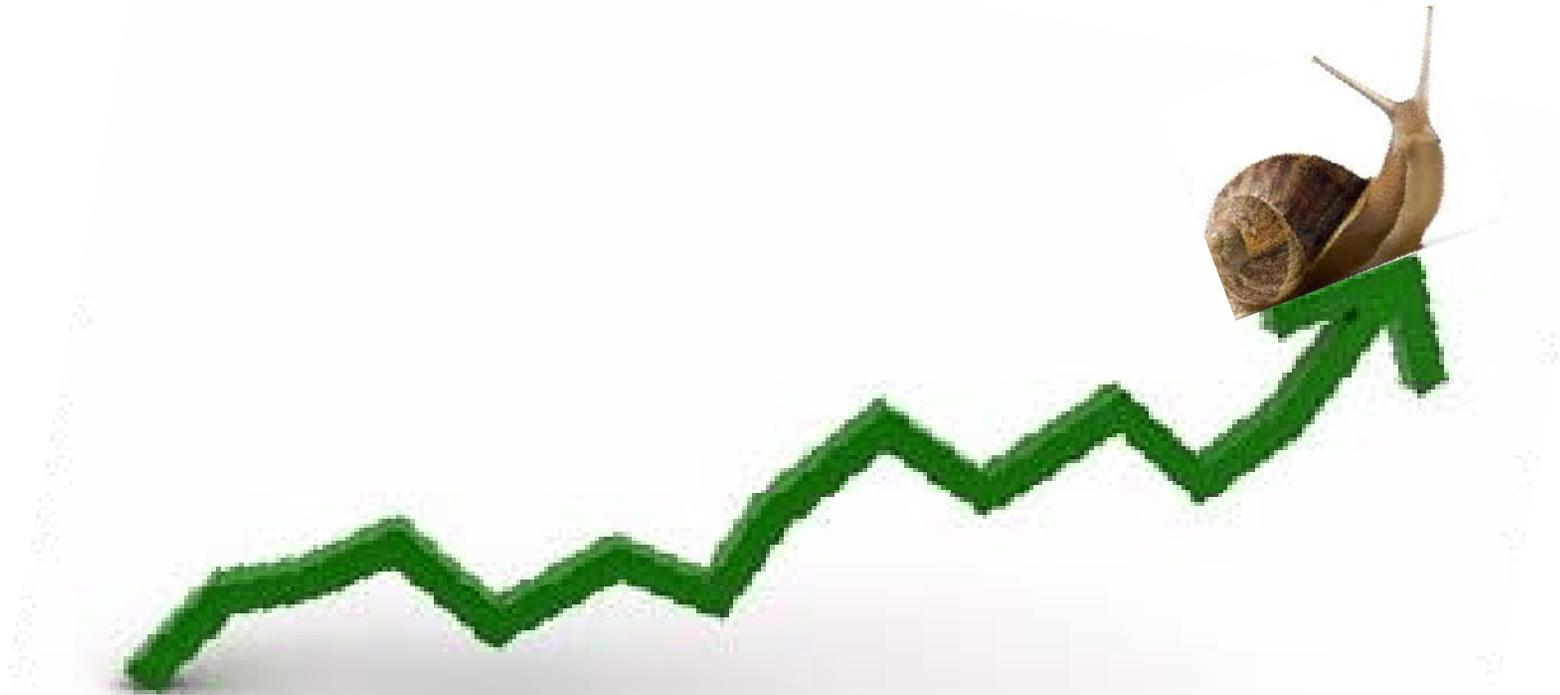
** 2012 - 2013 are forecasts from the Blue Chip Economic Indicators, August 2012

 Recession Periods



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At least we're growing!



**And growth should continue,
BUT...**





...growth will remain weak because of the following:

- Consumer spending modest, but up (Additional jobs and hours worked).
- Business spending up
- Excess industrial capacity.
- Continued housing recovery in 2013. Large percent gain. Small numerical gain.
- Limited commercial construction.
- Continued pressure on state and local government.
- Limited policy options on part of Federal government.

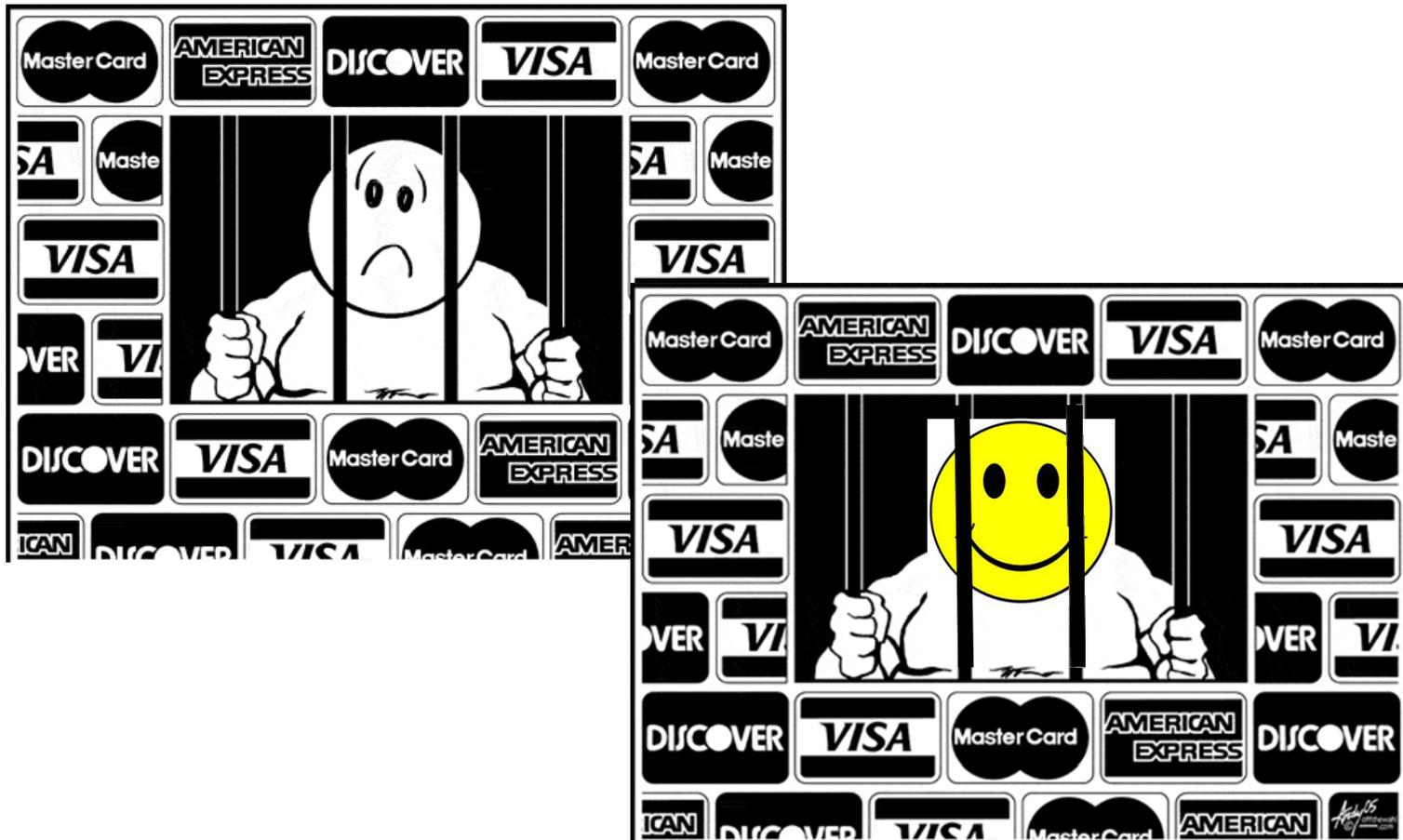




Consumers

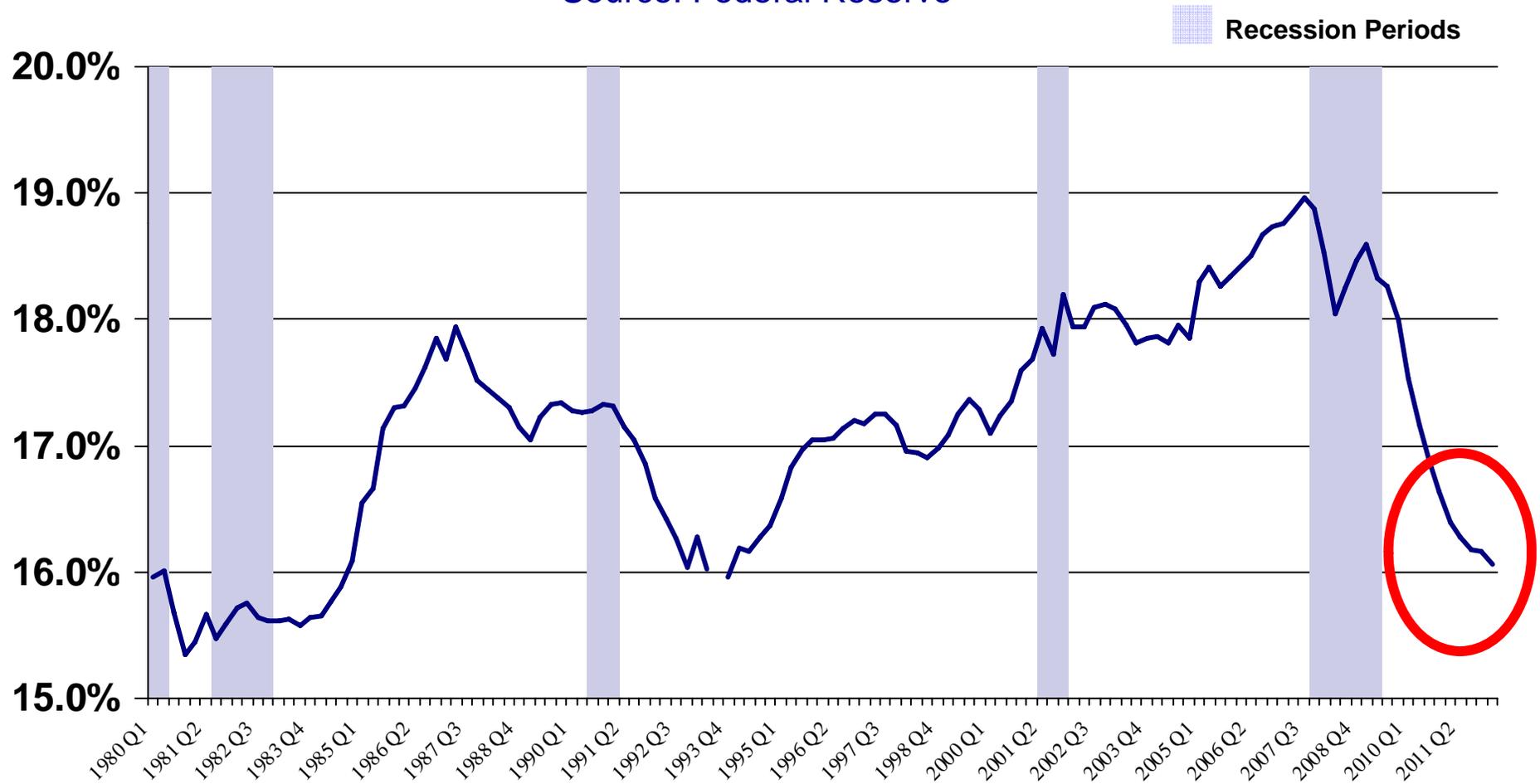


Consumer debt has declined by \$1.7 trillion over the last 4 years.



Financial Obligation Ratio** 1980 – 2012*

Source: Federal Reserve



Recession Periods

*Data through first quarter 2012

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

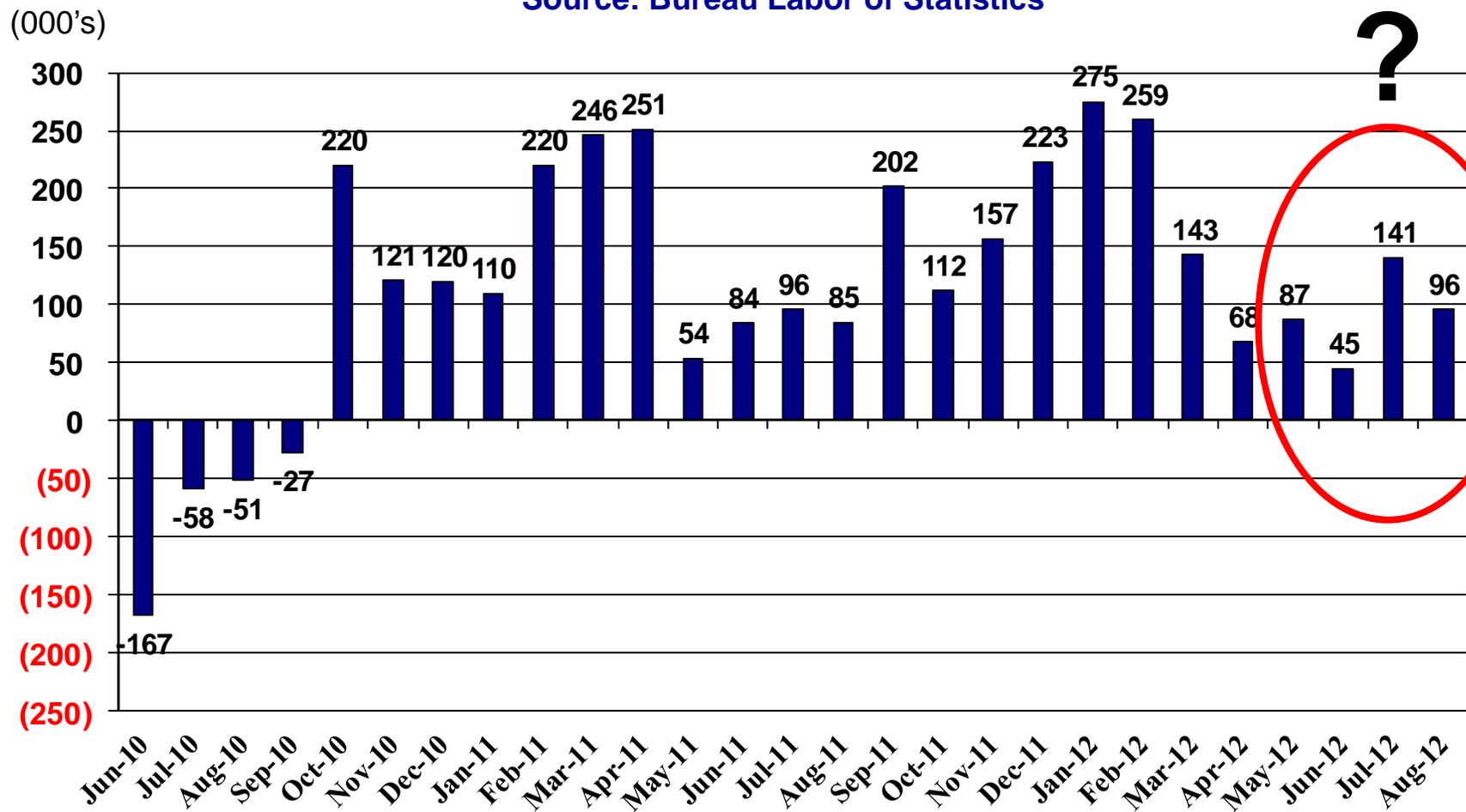


US New Job Data

Change from Prior Month (S/A)

June 2010 – August 2012

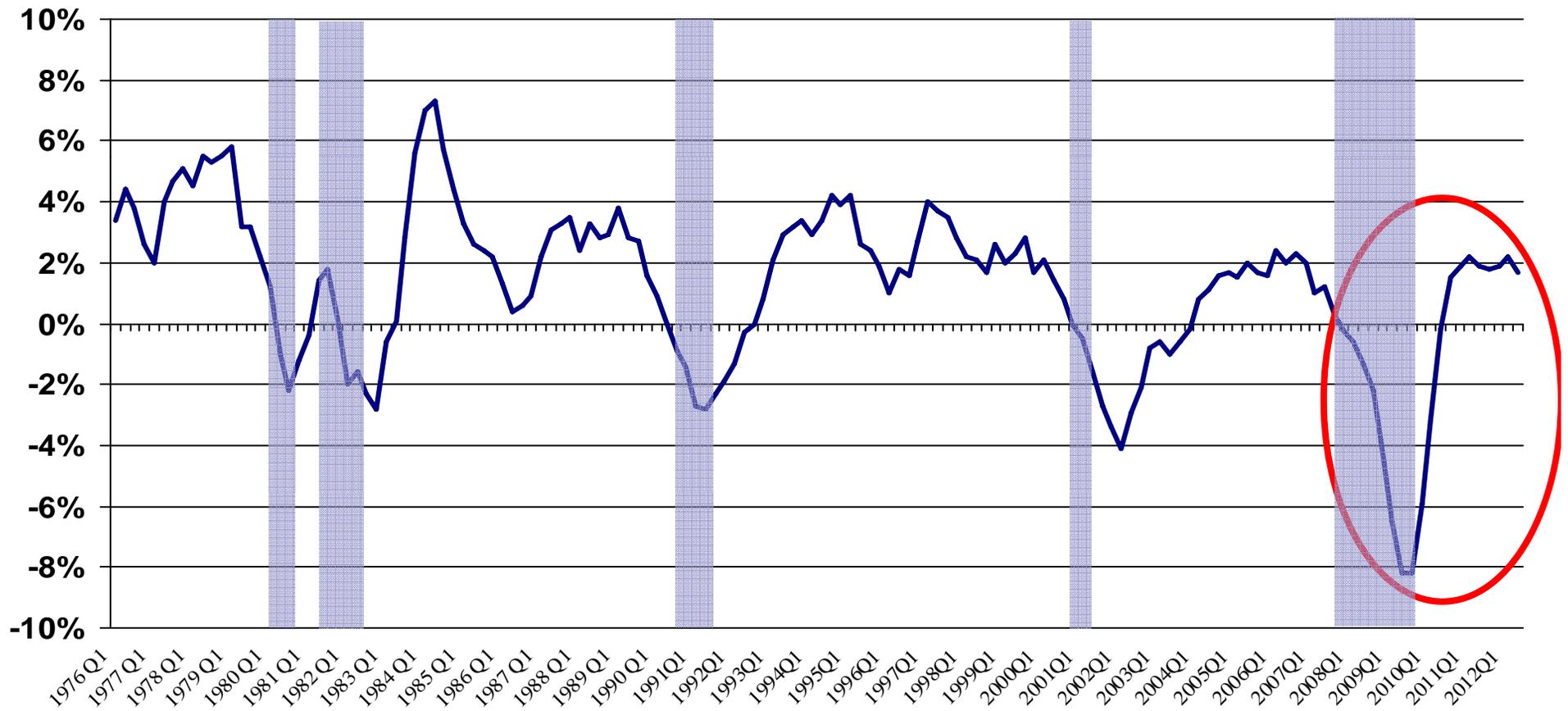
Source: Bureau Labor of Statistics



Hours Worked Percent Change from Year Ago 1976 – 2012*

Source: Bureau of Labor Statistics

Recession Periods



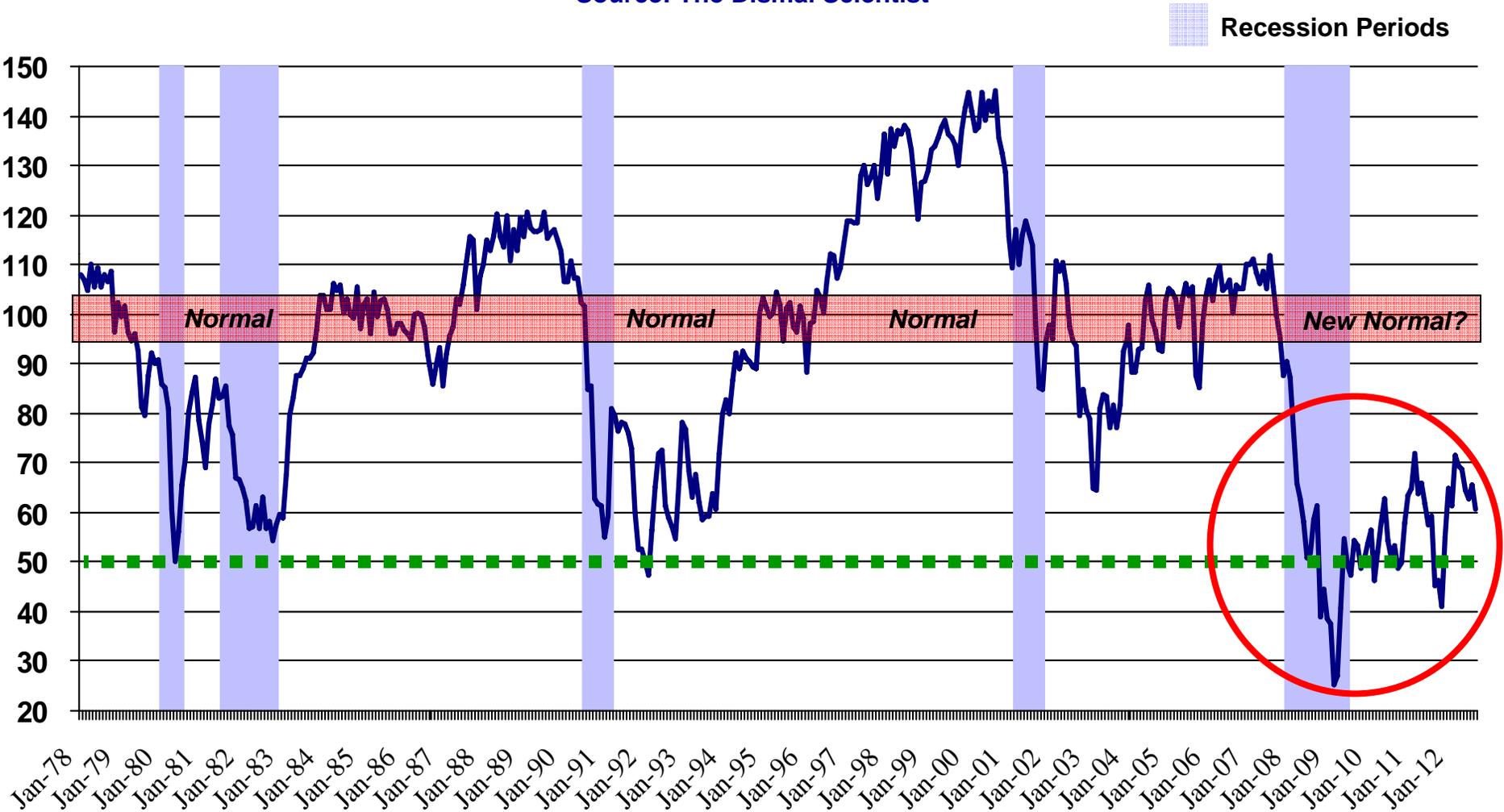
*Data through second quarter 2012



Consumer Confidence

1978 – 2012*

Source: The Dismal Scientist



*Data through August 2012



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WEALTH EFFECT



Newsweek

Housing prices are up.

Stock market is up
from a year ago.





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.
- Will the additional uncertainty translate into reduced consumer spending?



Business





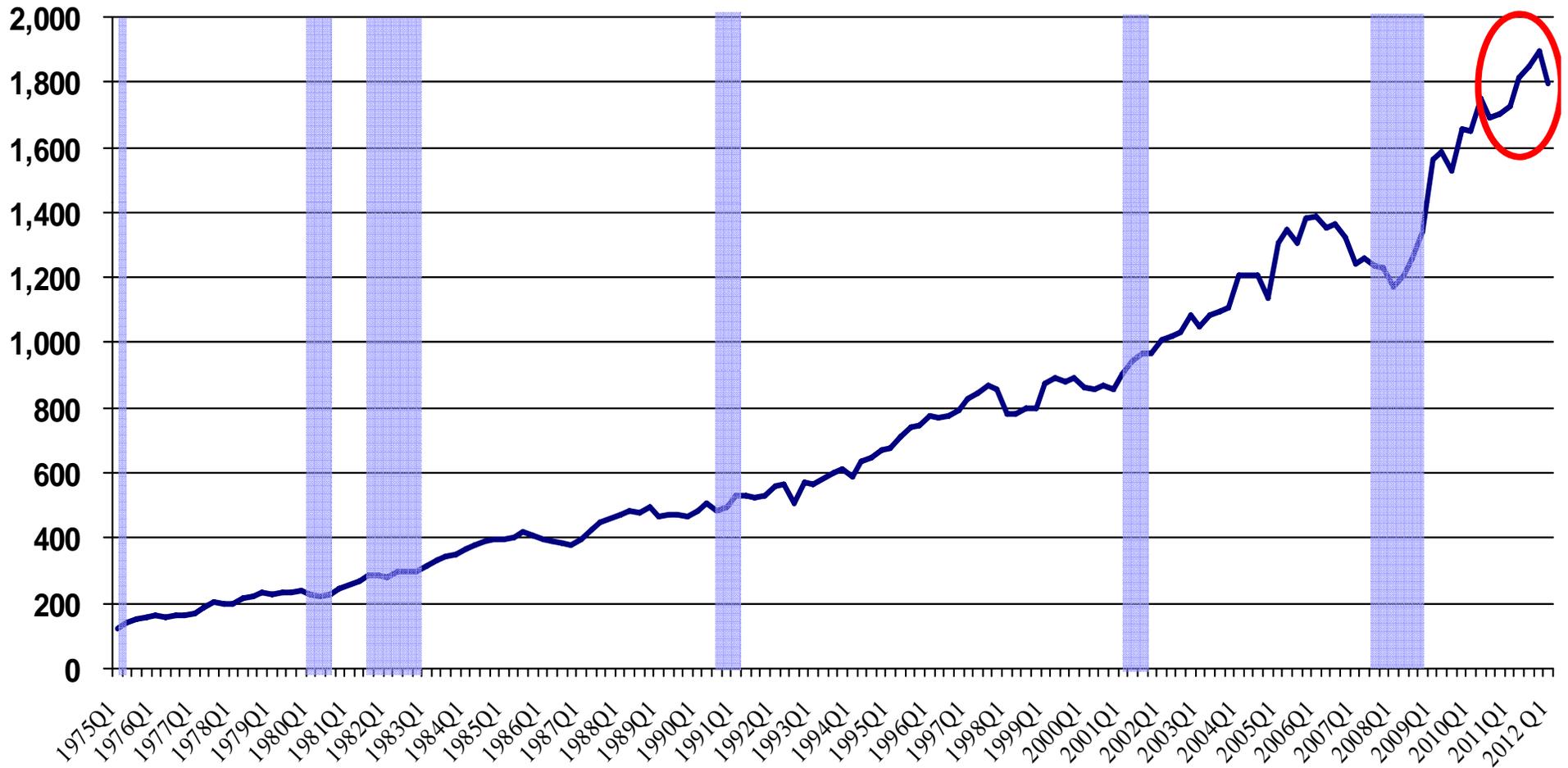
**Business debt has declined by
\$2.9 trillion over the last 4 years.**



Corporate Profit (Billions of Dollars, SA) 1975-2012*

Source: BEA

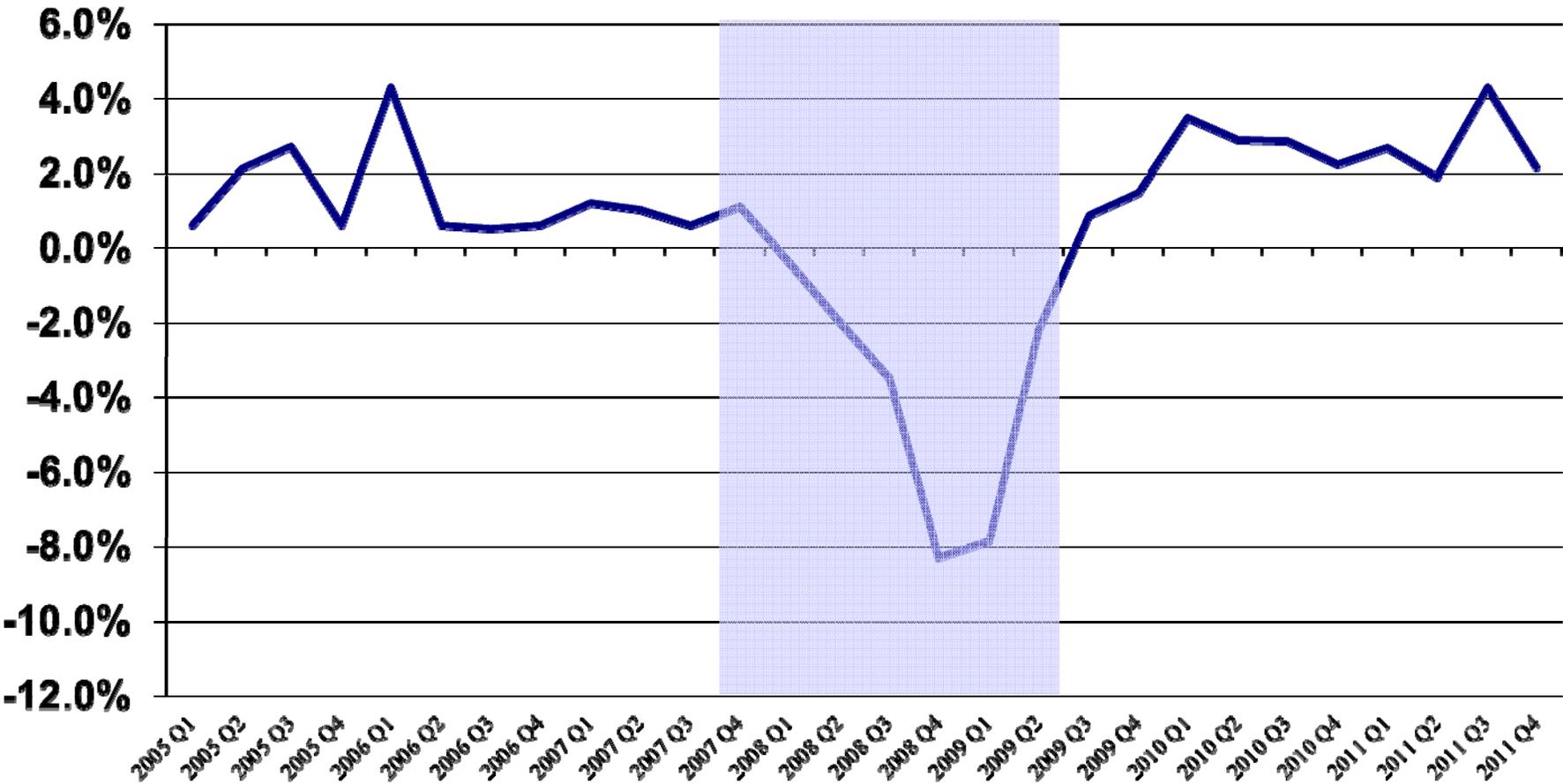
Recession Periods



Business Spending on Equipment Percent Change from Prior Quarter 2005 – 2012*

Source: Bureau of Economic Analysis

Recession Periods



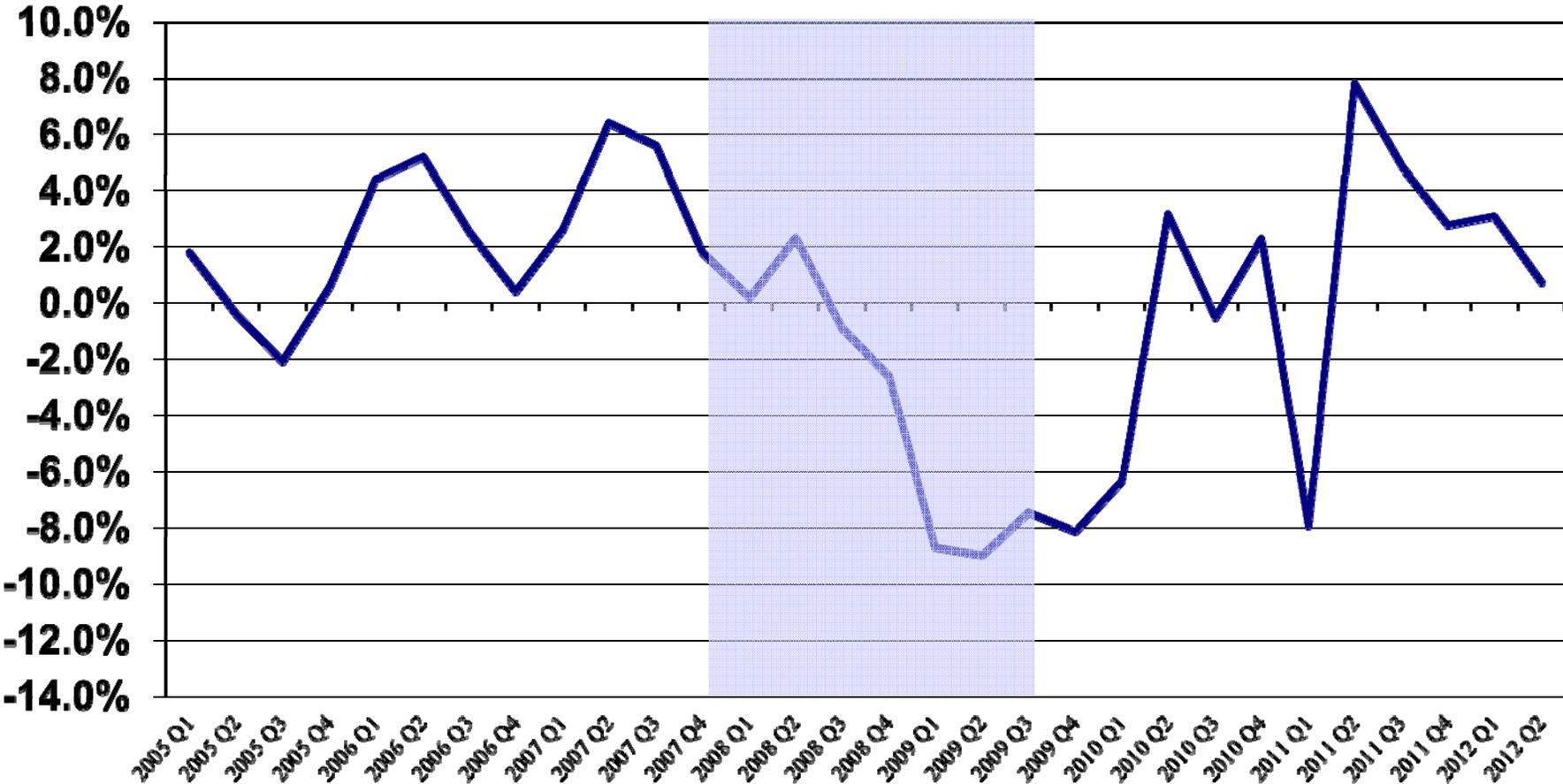
*Data through second quarter 2012



Business Spending on Plant Percent Change from Prior Quarter 2005 – 2012*

Source: Bureau of Economic Analysis

Recession Periods

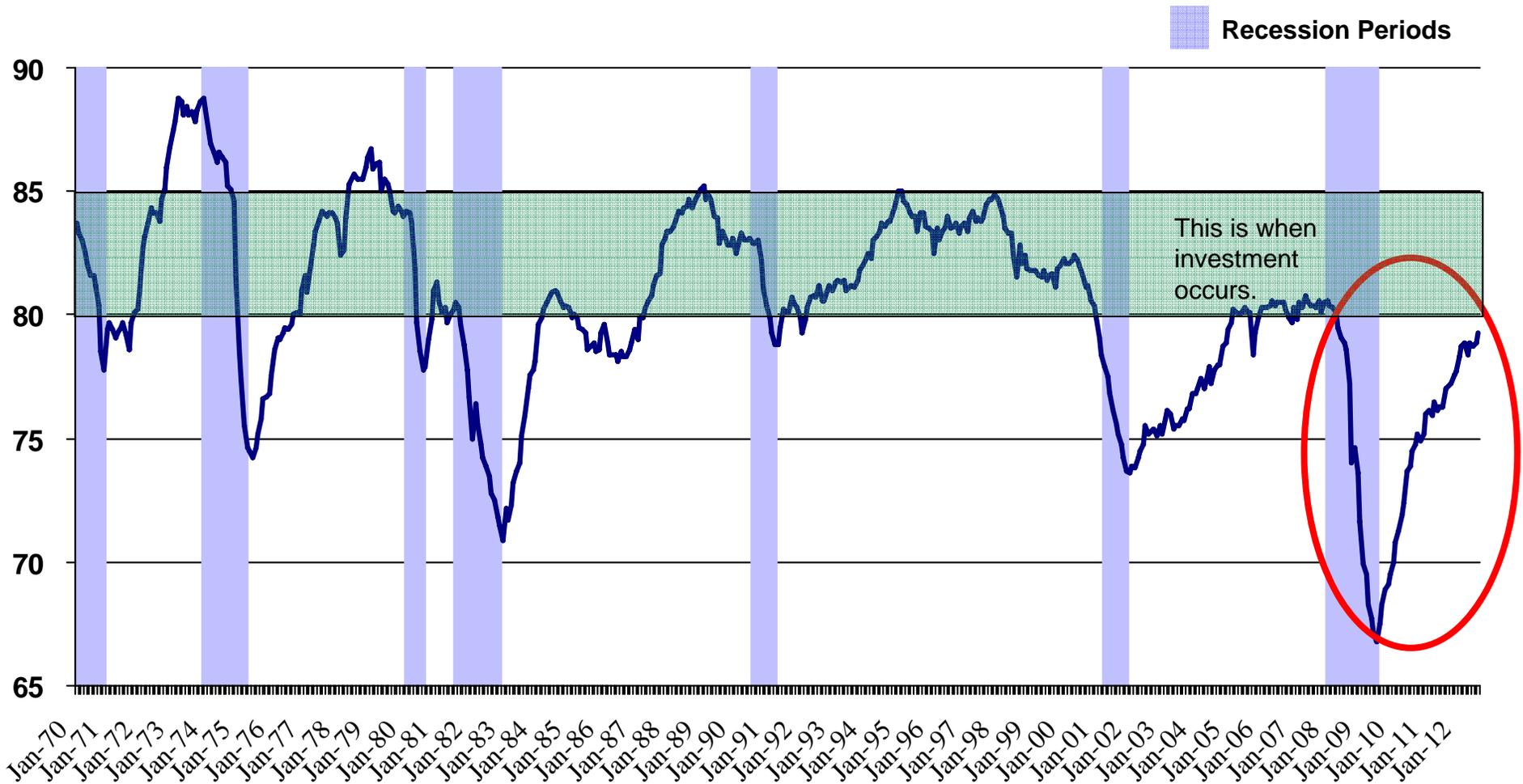


*Data through second quarter 2012



Capacity Utilization Rate 1970 – 2012*

Source: The Federal Reserve Bank of St. Louis



*Data through July 2012





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



**Gross Government debt has
INCREASED by \$5.8 trillion
over the last 4 years.**





Balanced Budget ?

We are borrowing \$0.34 of every dollar we spend and can't collect enough in taxes to make it up.



Balanced Budget ?

RECEIPTS	\$ tril
Individual income taxes	1.165
Corporate income taxes	0.237
Social insurance & medicare taxes	0.775
Unemployment insurance	0.066
Other	0.226
TOTAL	\$2.469



Balanced Budget ?

EXPENDITURES	\$ tril
Discretionary (security – military, defence, homeland security, FBI, CIA and non-security – departments of education, energy, etc.)	1.319
Mandatory (Programs such as Medicare, Medicaid, SS, TARP)	2.252
Interest on debt	0.225
TOTAL	\$3.796



Balanced Budget ?

EXPENDITURES	\$3.796 trillion
RECEIPTS	<u>\$2.469 trillion</u>
= DEFICIT	\$1.327 trillion

Discretionary Expenditures = \$1.319 trillion





Balanced Budget ?

So, even if we completely shut down government, including the military, we still wouldn't have a balanced budget.





Balanced Budget ?

The federal debt scheduled to be:

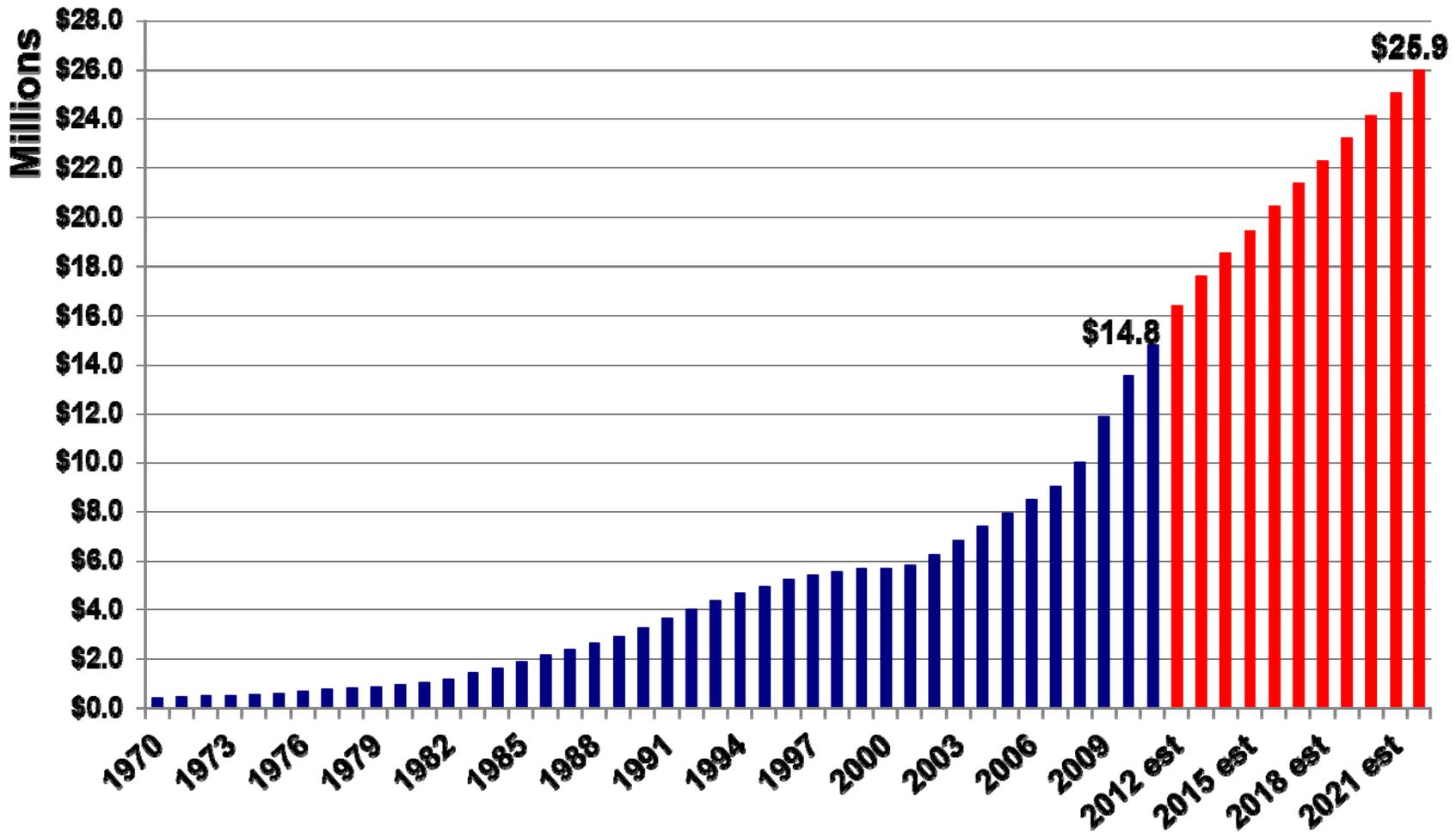
\$16.2 trillion in 2013

\$25.9 trillion in 2022



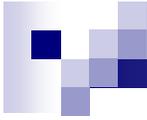
U.S. Gross National Debt (\$tril)

Source: U.S. Treasury; FY 2013 U.S. Budget



What is the tipping point?





It **WILL** happen but
no one can tell when.





What does the government need to do?

First, admit there is a problem

Second, deal with the problem.

**It will be painful and there is no
easy way out.**





What does the government need to do?

- **Need significant cuts in the rate of increase for long term fiscal health.**
- **Modest tax increases designed not to hurt incentives.**
- **But, significant cuts or tax increases will hurt the economy next year.**
- **Therefore, they need to phase it in!!!**

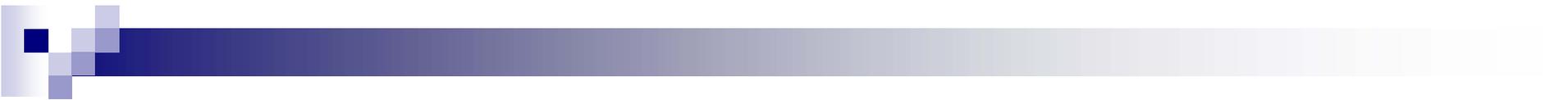




Government Summary:

- **State & local under pressure.**
- **But, more revenues available in FY2013.**
- **Federal spending up but more slowly.**
- **Need to avoid a self imposed “cliff.”**





Question:

Can Europe cause a recession
in the U.S.?

Conclusion:

Europe unlikely to cause any
significant problems for U.S.



NATIONAL SUMMARY

- Consumers still restructuring
- Confidence low, but spending will continue to grow
- Business in good shape but not confident because of:
 - Low capacity utilization
 - Cost of Obama Care
 - Potential for Fiscal Cliff
- Federal government, no leadership whatsoever.



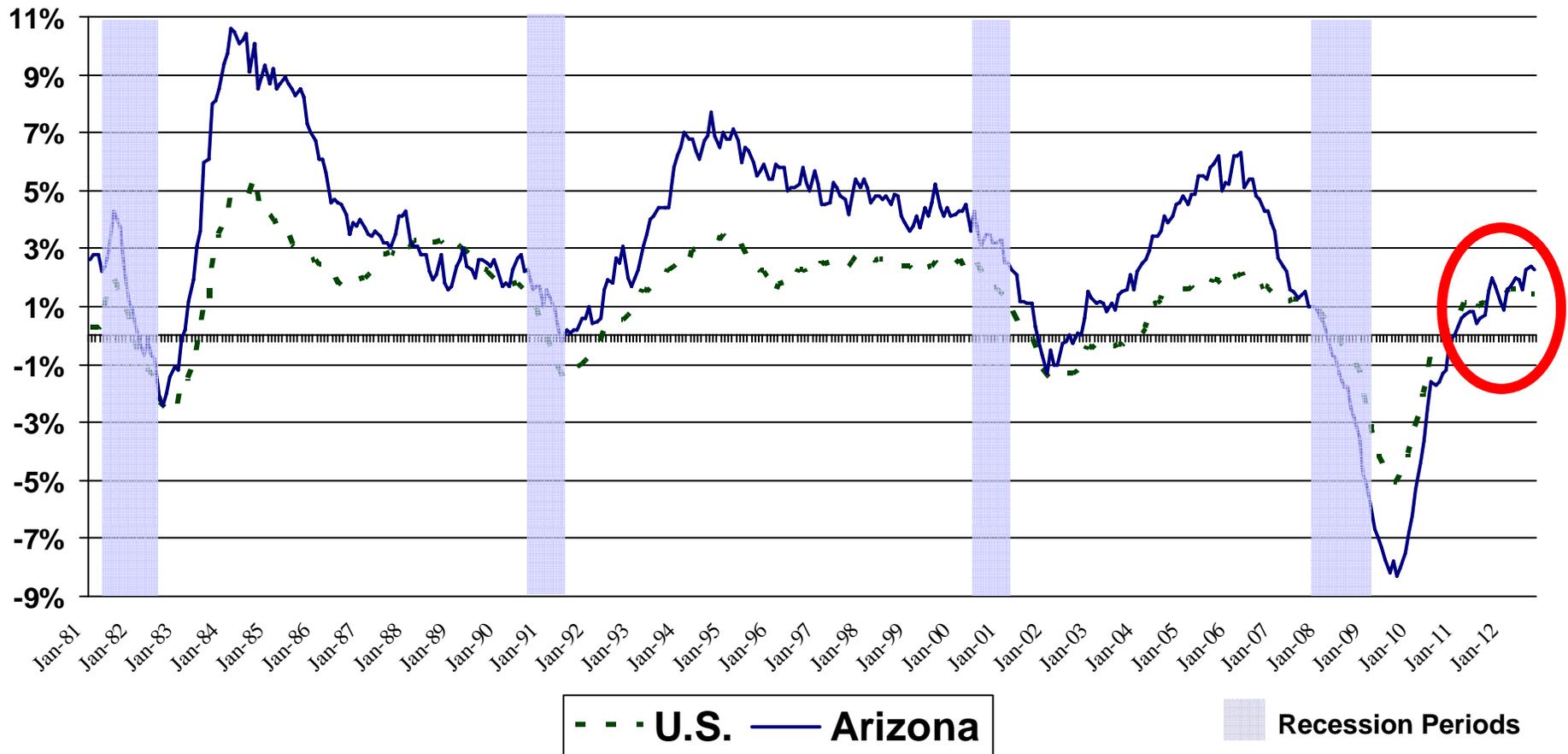
ARIZONA

**Happy
Birthday!!**



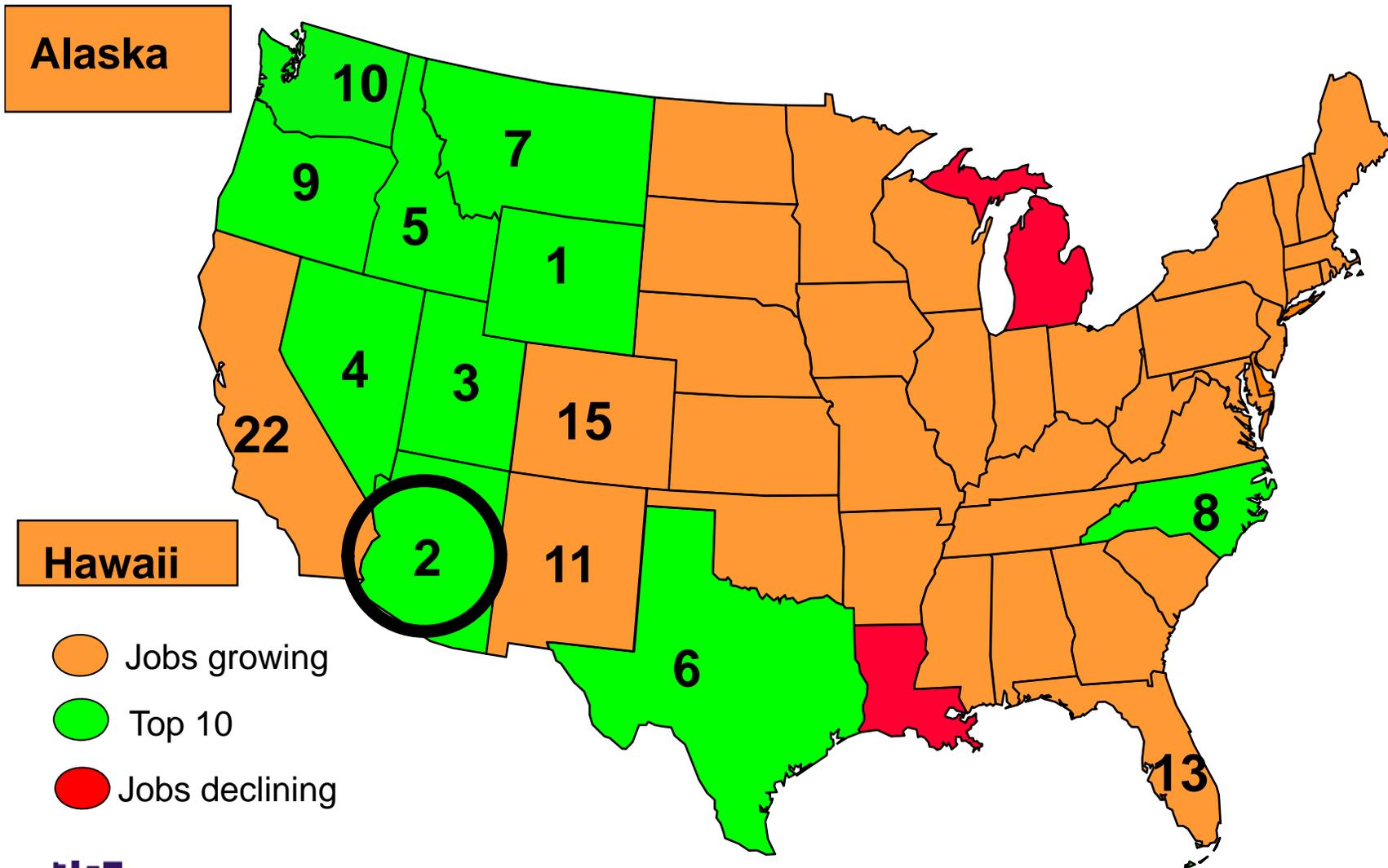
Arizona & US Move Together

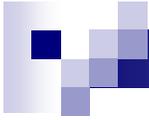
(Non-farm Emp. Percent Change 1980 – August 2012)



Job Growth 2006

Source: US BLS

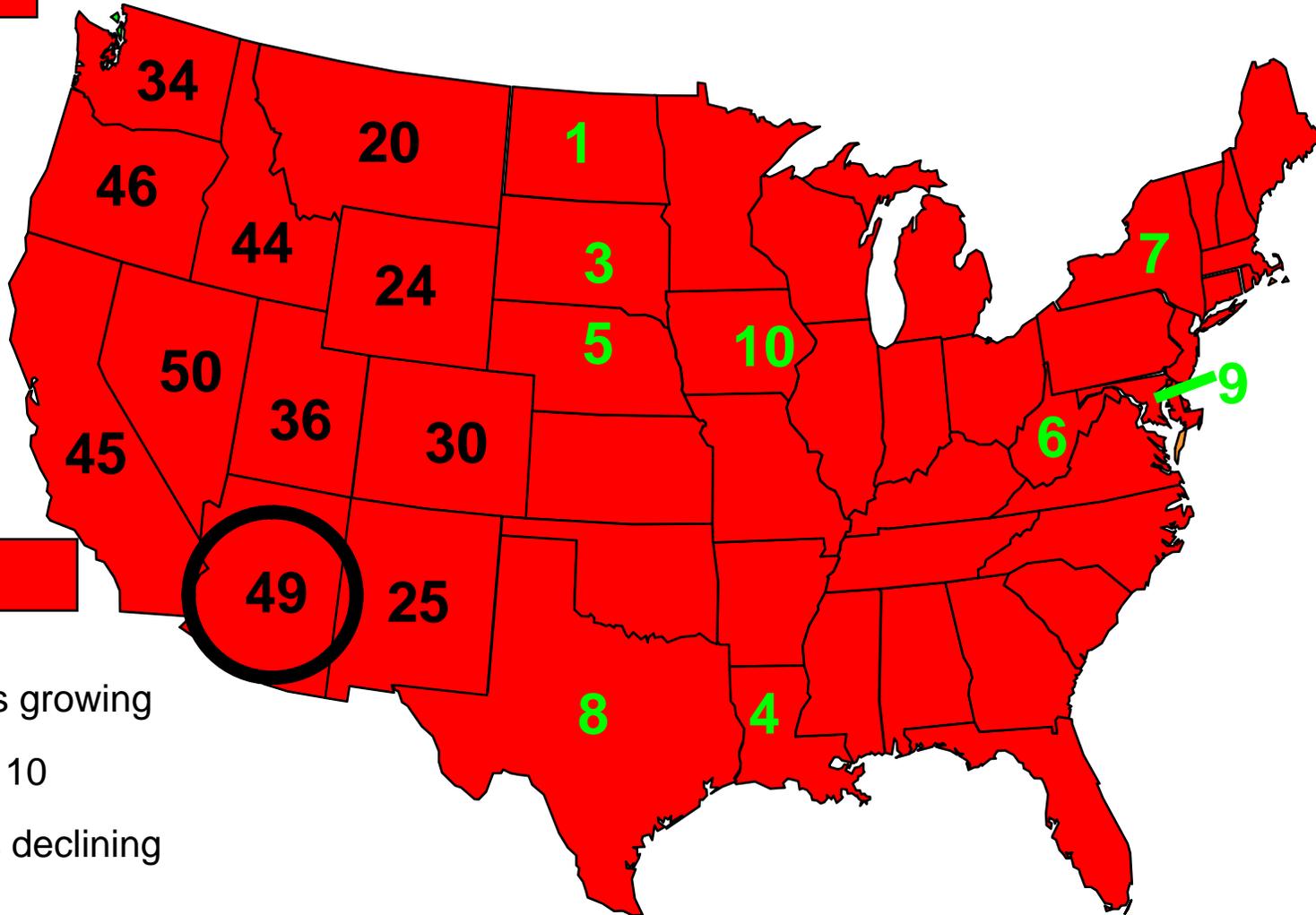




Job Growth 2009

Source: US BLS

Alaska 2



Hawaii

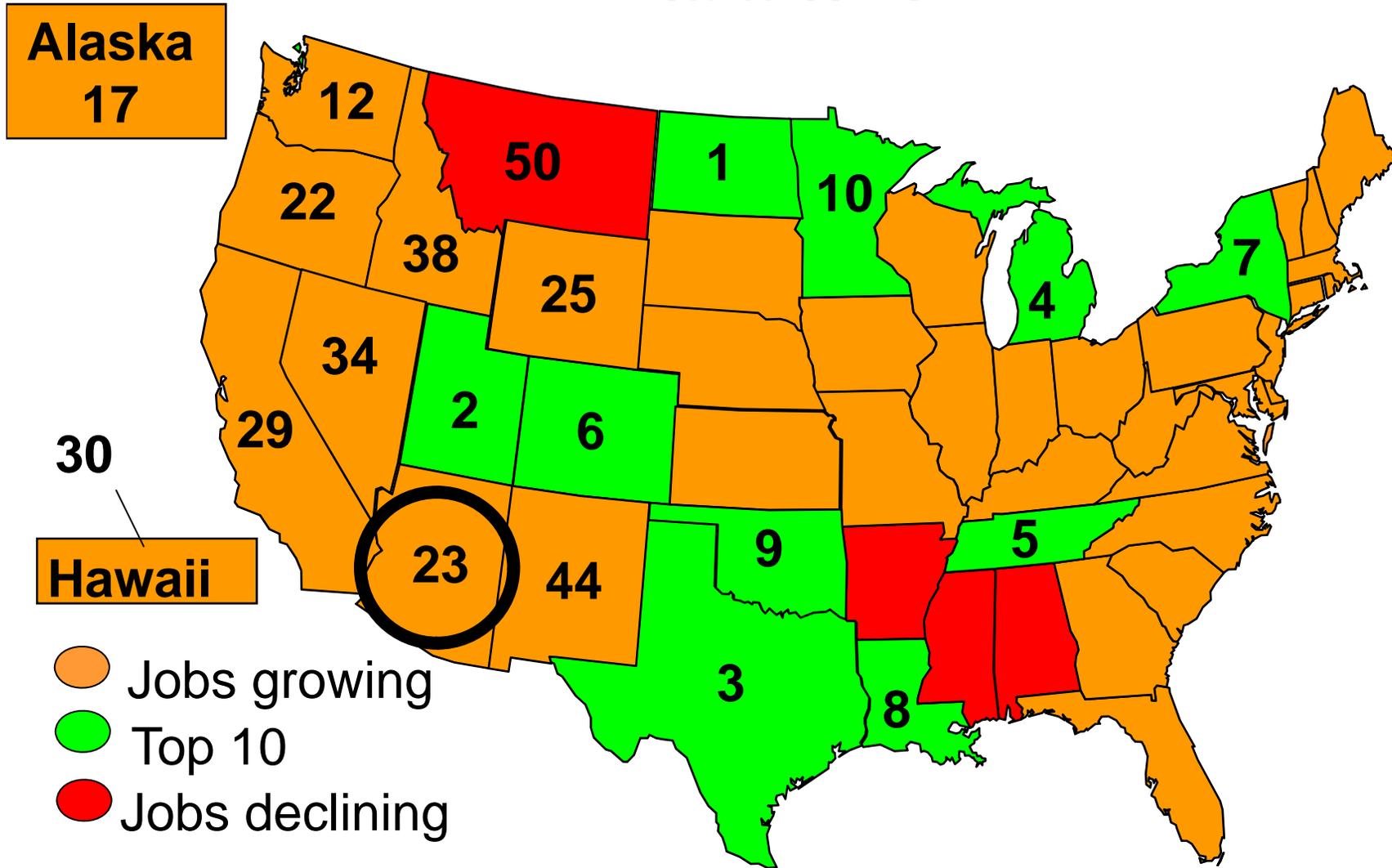
-  Jobs growing
-  Top 10
-  Jobs declining



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Job Growth 2011

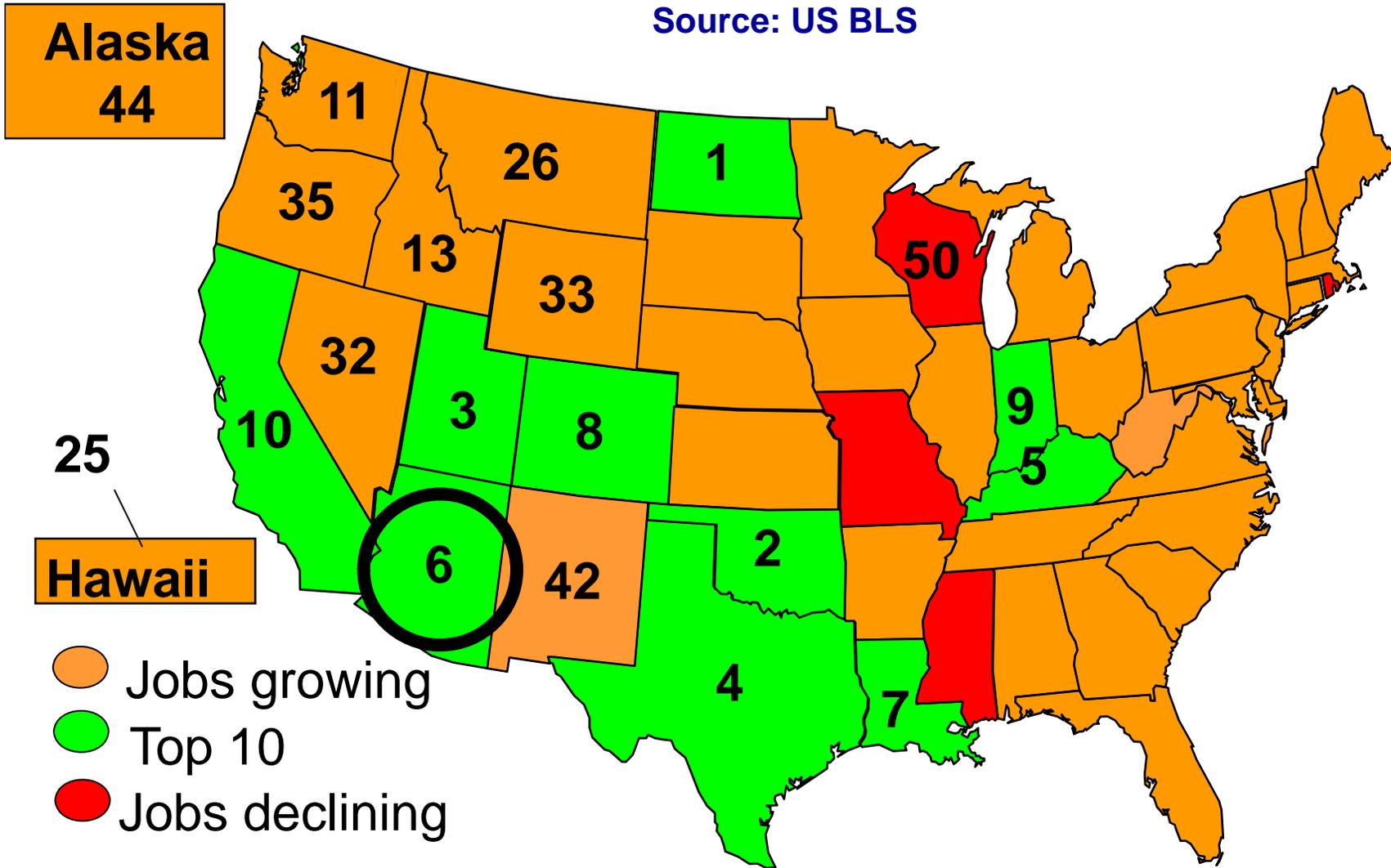
Source: US BLS



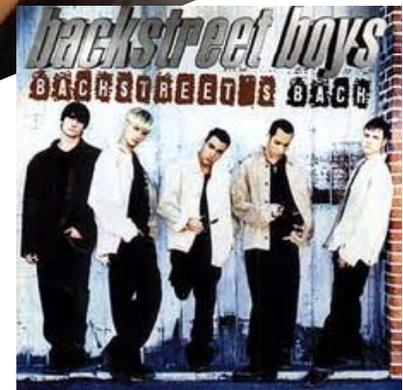
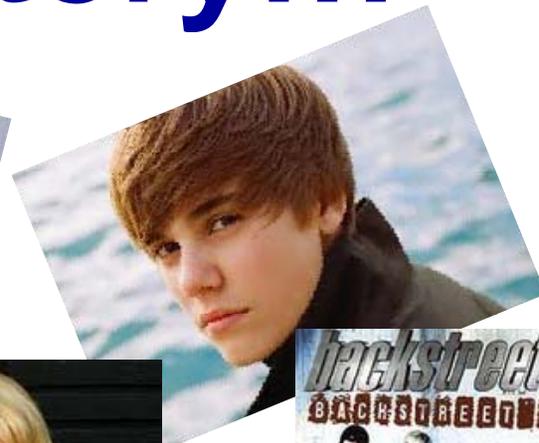
Job Growth 2012

YTD July 2012 vs YTD July 2011

Source: US BLS



**There is little that
isn't transitory...**

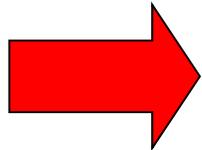


...It is mostly cyclical

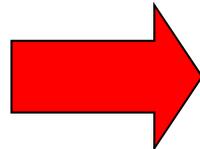


How did AZ go from 2nd to 49th?

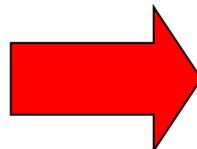
- Financial meltdown.
- Credit crunch/freeze.
- Overextended consumer.
- Excess single family inventory.
- Housing prices decline.



- Loss of wealth including home equity.
- Can't sell homes or retire.
- Homebuilding and home prices crash.
- ***Population inflows weaken in AZ.***
- Household size increases.
- Household formations decline.



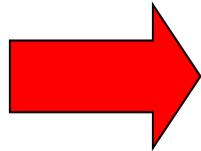
- Excess commercial construction



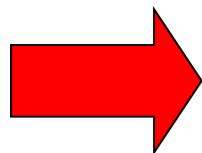
- ***“Growth” job losses.***
- ***All sector job loses.***



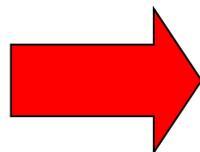
How does AZ go from 49th to 2nd?



- Overall US economic recovery improves.
- Stock market improves.
- Credit frees up.
- Consumers more confident.
- *People start to move to AZ again, slowly.*
- Investors help absorb excess housing.



- Excess housing absorbed
- Housing prices rise.
- Construction kicks in.
- *Construction job gains.*



- *All sector job gains.*
- *More people move to AZ.*





But the local recovery will be slow because...

- **Slow national recovery**
- **Consumers still restructuring**
- **Low levels of confidence**
- **Winding down of defense sector**
- **Population flows slow:**
 - **40% of U.S. households are not mortgage creditworthy.**
 - **More than 42% in Arizona and 24% nationally have no equity in their homes.**



Arizona Employment Growth

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

Year	Rank
1991	20
1992	21
1993	5
1994	2
1995	2
1996	2
1997	2
1998	1
1999	2

Year	Rank
2000	5
2001	10
2002	12
2003	4
2004	2
2005	2
2006	2
2007	16
2008	46
2009	49
2010	49
2011	23
2012*	6

*YTD July 2012 vs YTD July 2011

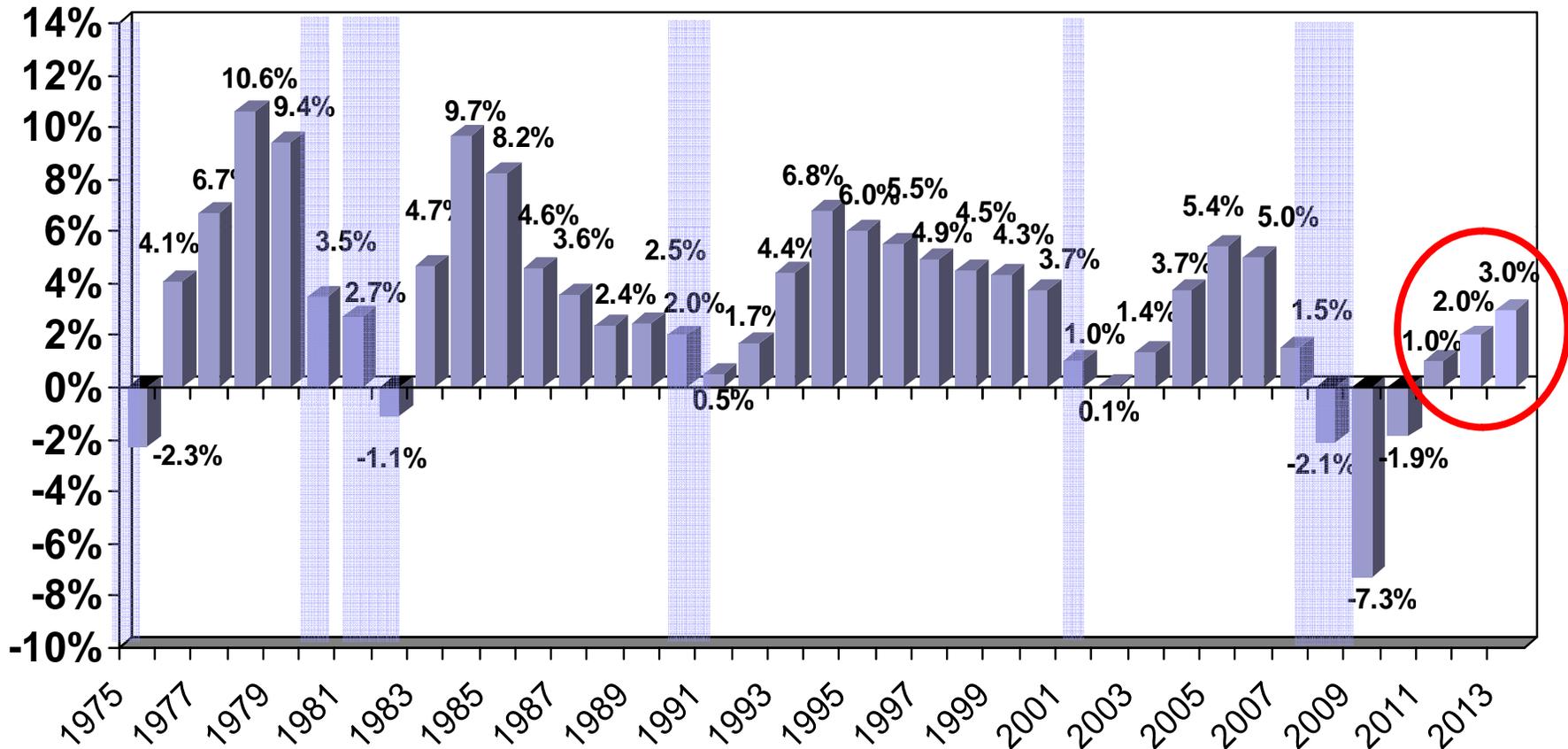


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Arizona Employment*

Annual Percent Change 1975–2013**

Source: Department of Commerce, Research Administration



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

** 2012 & 2013 forecast is from *Elliott D. Pollack & Co.*

Recession Periods



Elliott D. Pollack & Company



FISCAL CLIFF IN ARIZONA?

Projected Net Job Growth:

2012 = 48,000

2013 = 73,600

2014 = 88,500





FISCAL CLIFF IN ARIZONA?

If the mandated spending cuts take place, total **loss** to Arizona is projected at:

45,000 to 50,000 jobs.

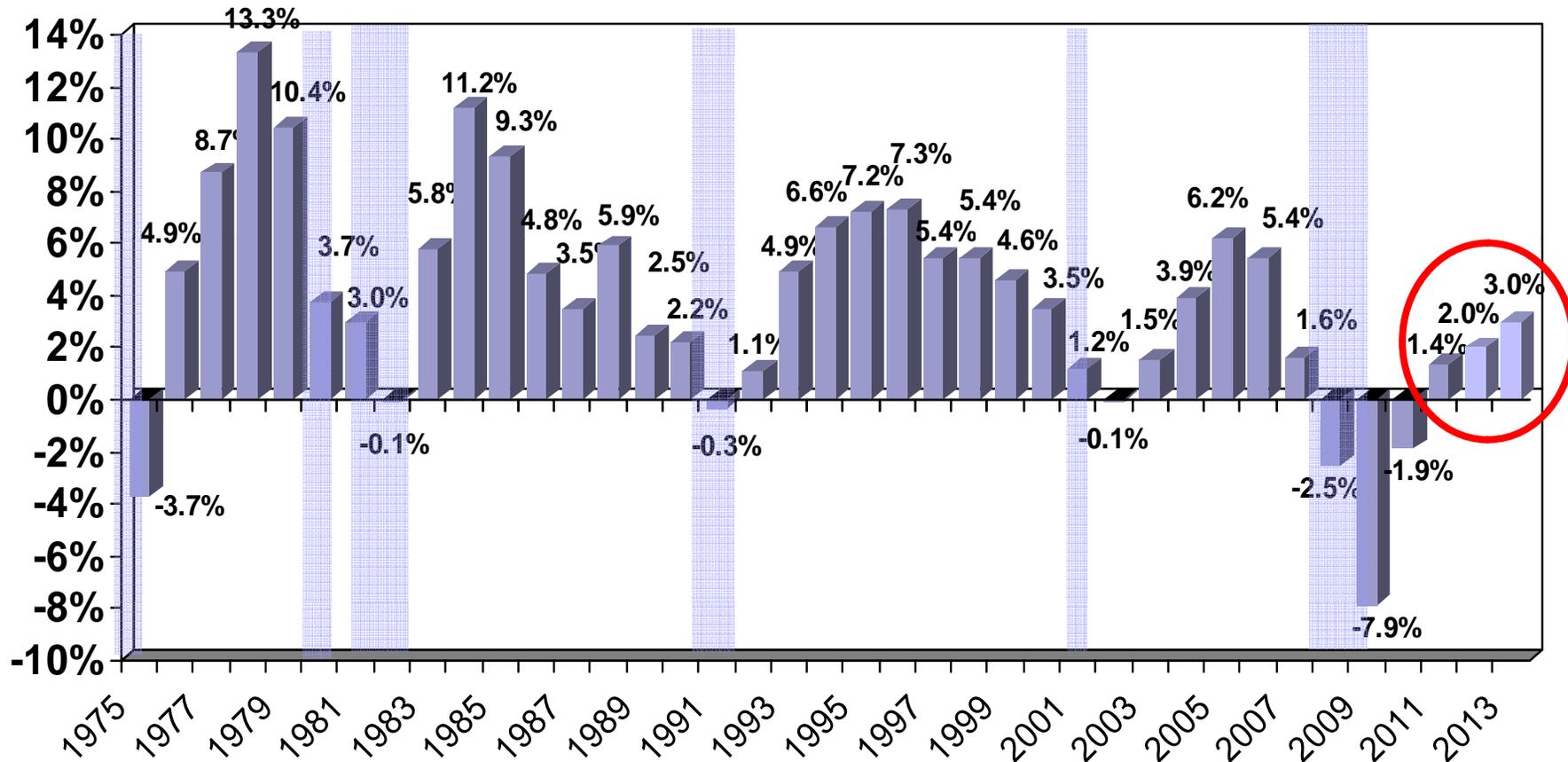
(This does not take into account any slowdown caused by tax increases.)

We will still grow, but very slowly.



Greater Phoenix Employment* Annual Percent Change 1975–2013**

Source: Department of Commerce, Research Administration



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

** 2012 & 2013 forecast is from *Elliott D. Pollack & Co.*

Recession Periods

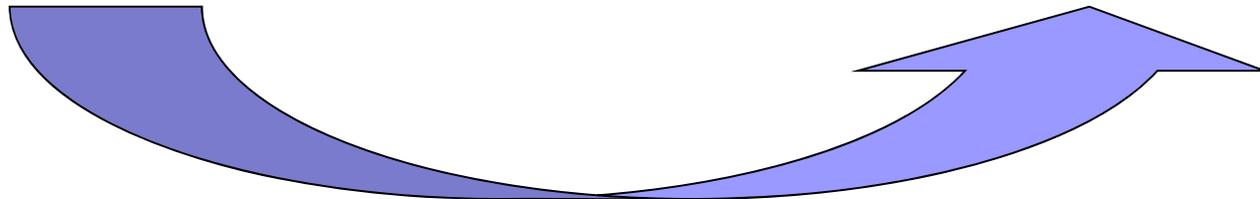


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Greater Phoenix Employment*

Source: Bureau of Labor Statistics

<u>Sectors in Decline</u>	<u>Net Change</u>	<u>Sectors Improving</u>	<u>Net Change</u>
Other Services	-1,200	Professional & Bus Services	12,900
		Education & Health Services	10,400
		Trade, Transp, Utilities	8,500
		Construction	6,300
		Financial Activities	5,000
		Leisure & Hospitality	3,700
		Government	900
		Manufacturing	700
		Information	0
		Mining	0





Greater Phoenix- Jobs Finally in the Black

Over last 12 months:	47,200
12 months before that:	31,600
12 months before that:	(15,500)
12 months before that:	(169,600)
12 months before that:	(61,800)

* As of August 2012





Greater Phoenix Jobs

Source: BLS

Jobs lost Peak to Trough: **245,900**
(Jul-07) (Sep-10)

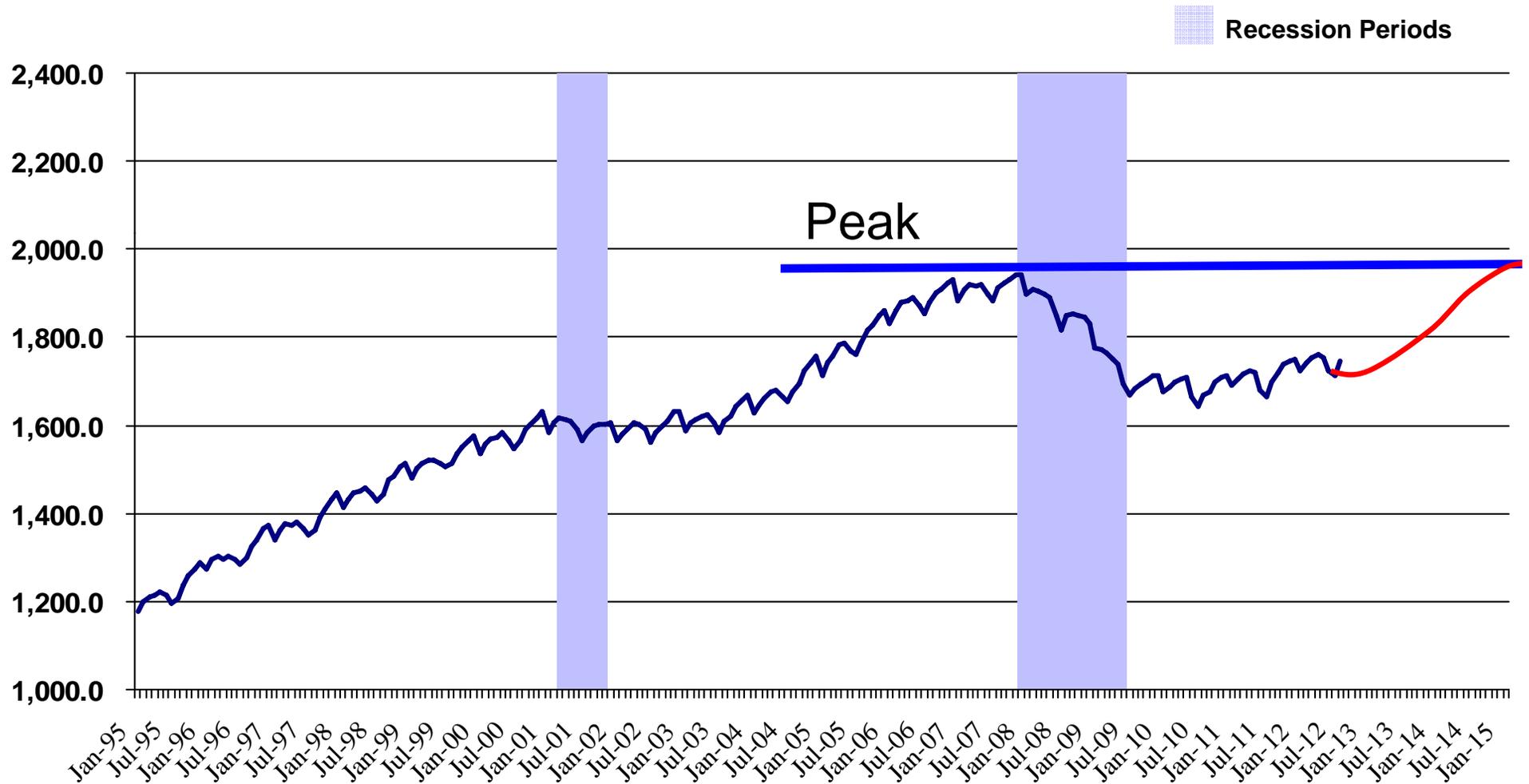
Jobs gained Trough to Current: **72,000**
(Sep-10) (Jul-12)

*****We are less than 30% of the way back*****



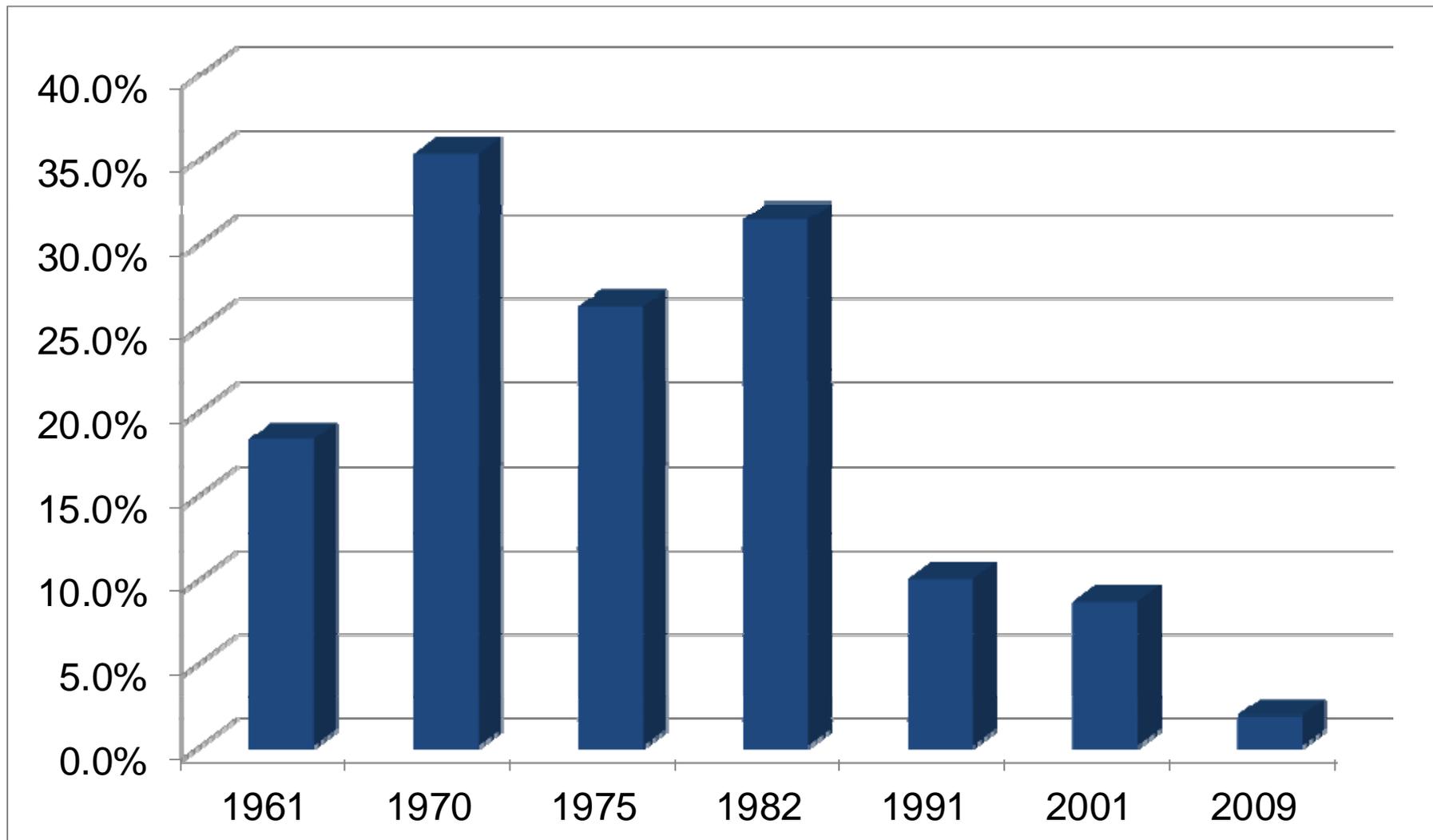
Employment Levels: Greater Phoenix back to Peak in 2015?

Source: ADOC



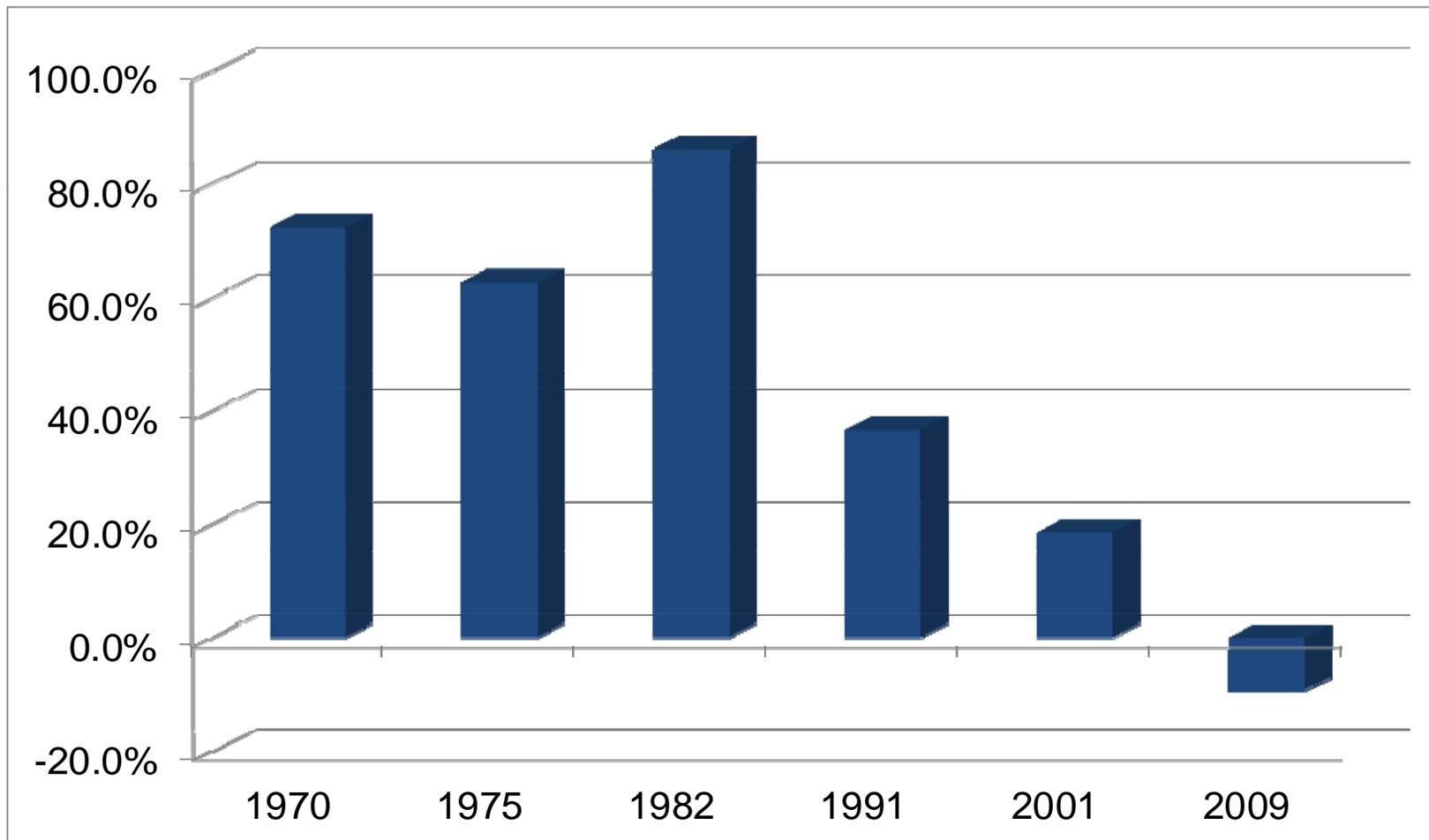
Greater Phoenix Non-Farm Employment Gains 3 Years After Recession End

Source: BLS



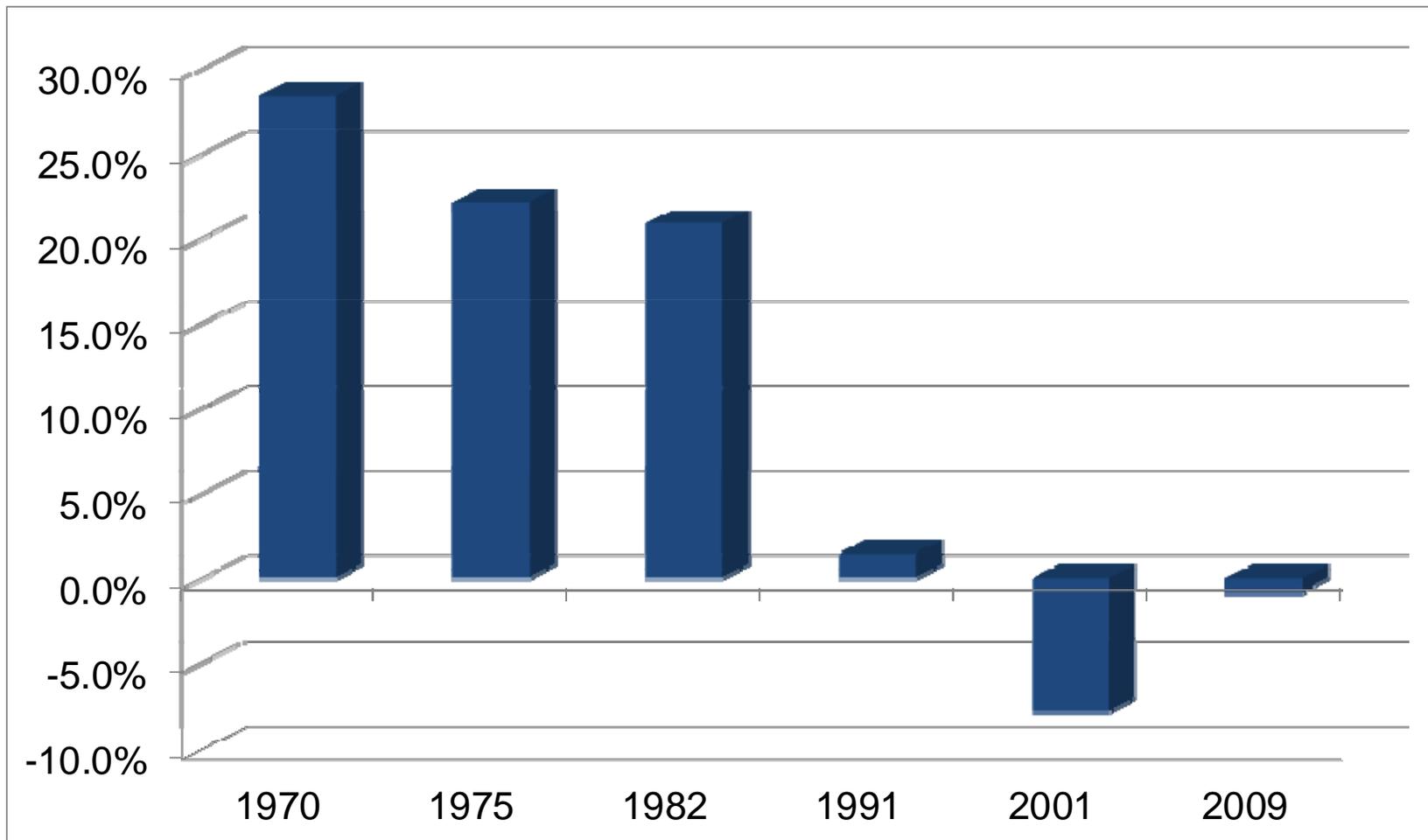
Greater Phoenix Construction Employment Gains 3 Years After Recession End

Source: BLS



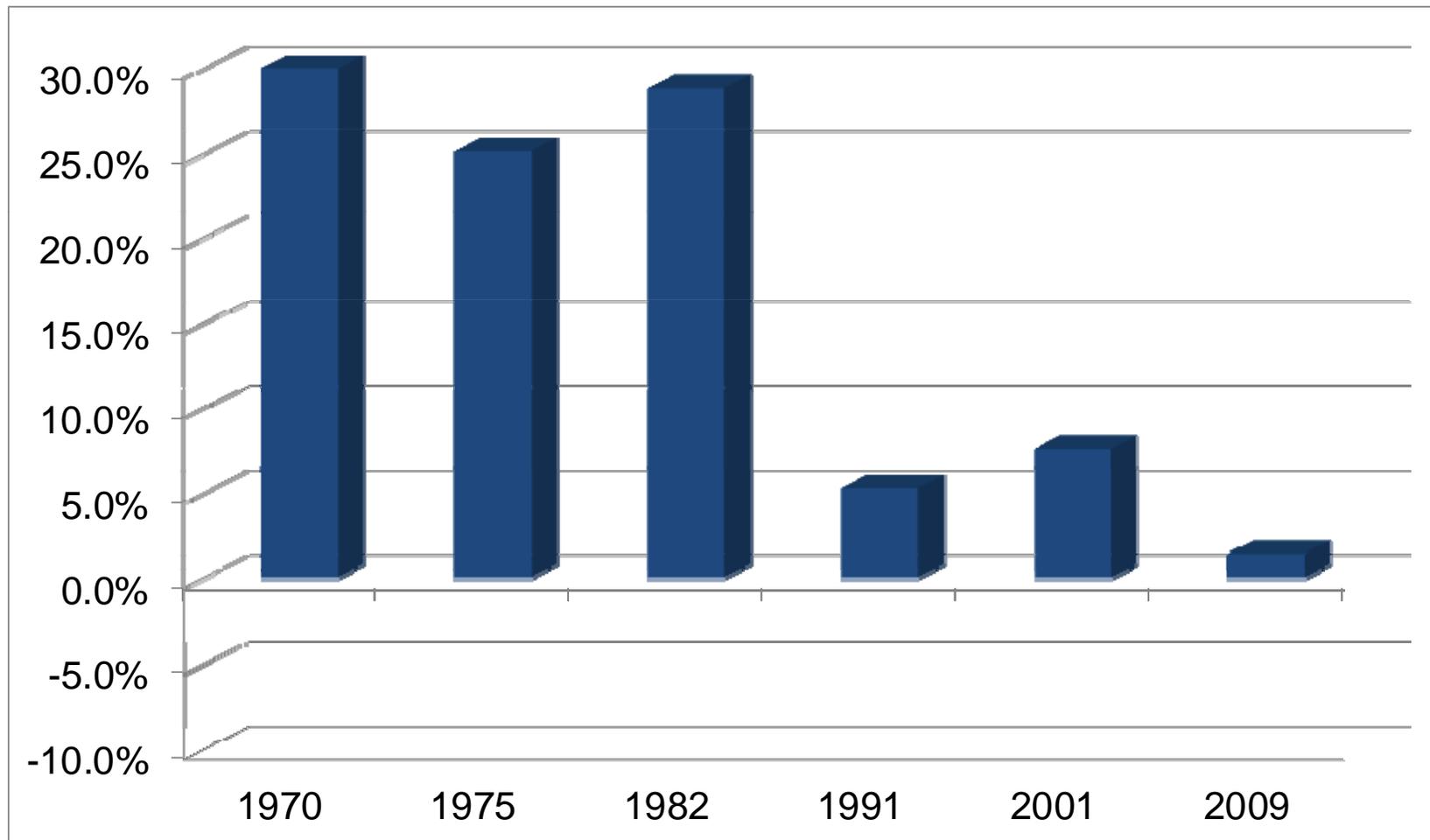
Greater Phoenix Manufacturing Employment Gains 3 Years After Recession End

Source: BLS



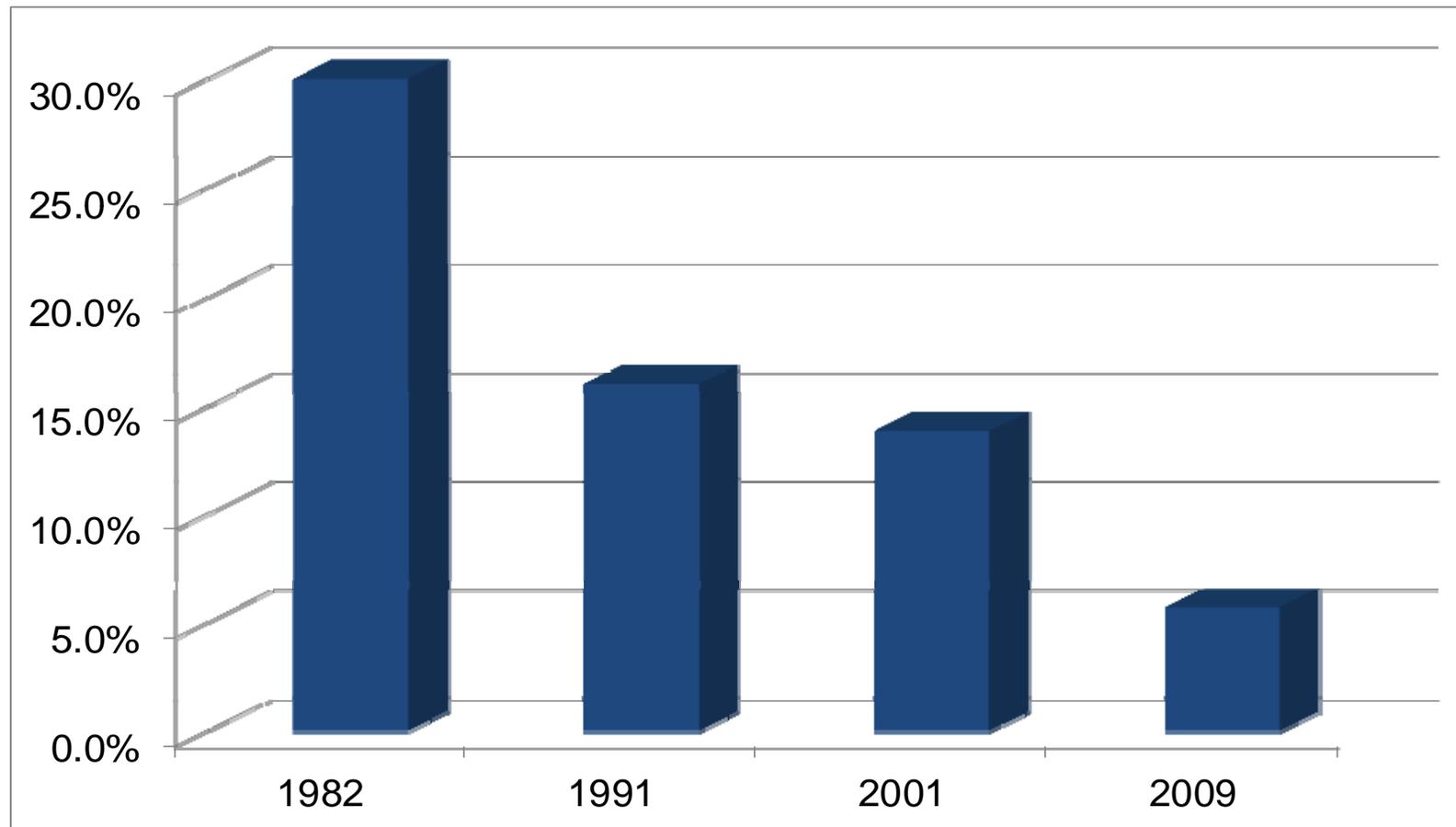
Greater Phoenix Trade Employment Gains 3 Years After Recession End

Source: BLS



Greater Phoenix Services Employment Gains 3 Years After Recession End

Source: BLS



Phoenix-Mesa Employment Growth

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

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

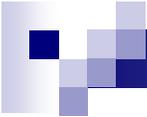
Year	Rank	# MSA's
1991	4	19
1992	4	19
1993	2	19
1994	1	19
1995	1	20
1996	1	21
1997	1	22
1998	1	23
1999	3	24

Year	Rank	# MSA's
2000	9	25
2001	7	26
2002	5	25
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	12	24
2012*	4	25

*Year-to-date, July 2012

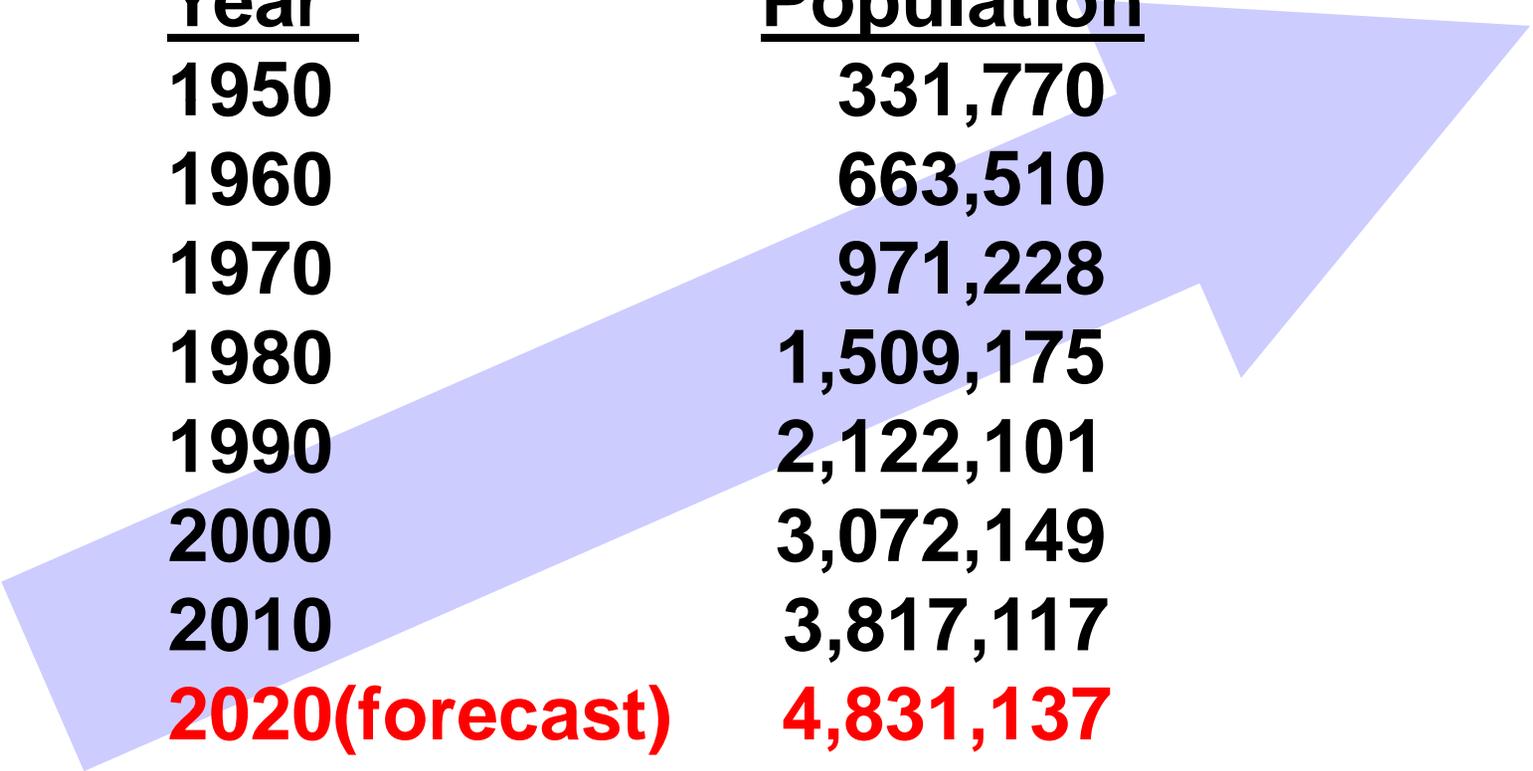


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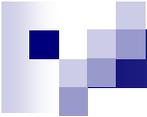
Maricopa County Population

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



<u>Year</u>	<u>Population</u>
1950	331,770
1960	663,510
1970	971,228
1980	1,509,175
1990	2,122,101
2000	3,072,149
2010	3,817,117
2020(forecast)	4,831,137





Greater Phoenix Employment

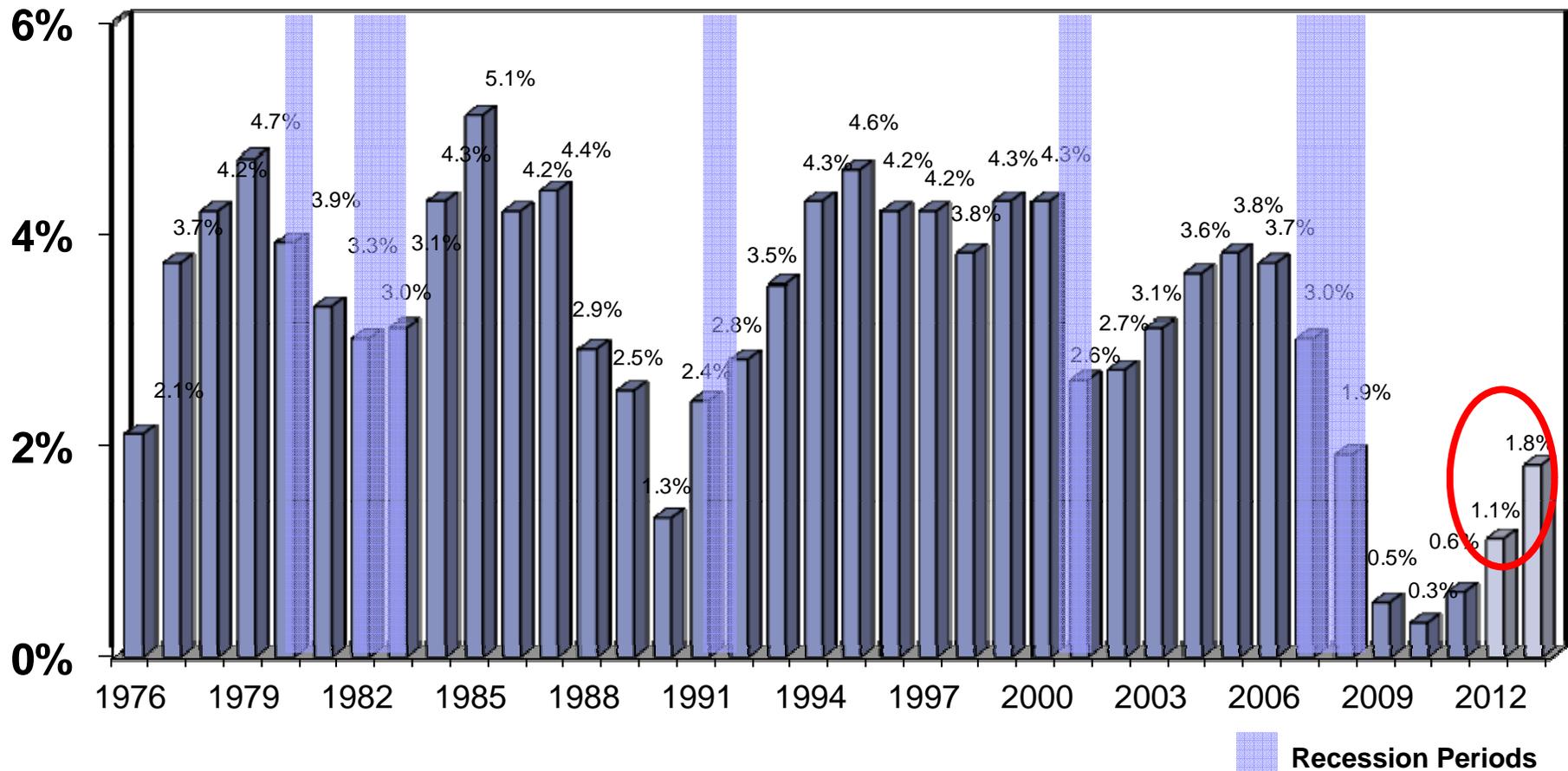
Source: U.S. Bureau of Census; Arizona Department of Administration; University of Arizona Forecasting Project

YEAR	EMPLOYMENT
1950	74,400
1960	181,700
1970	327,200
1980	636,200
1990	1,013,300
2000	1,578,400
2010	1,686,800
2020	2,312,700



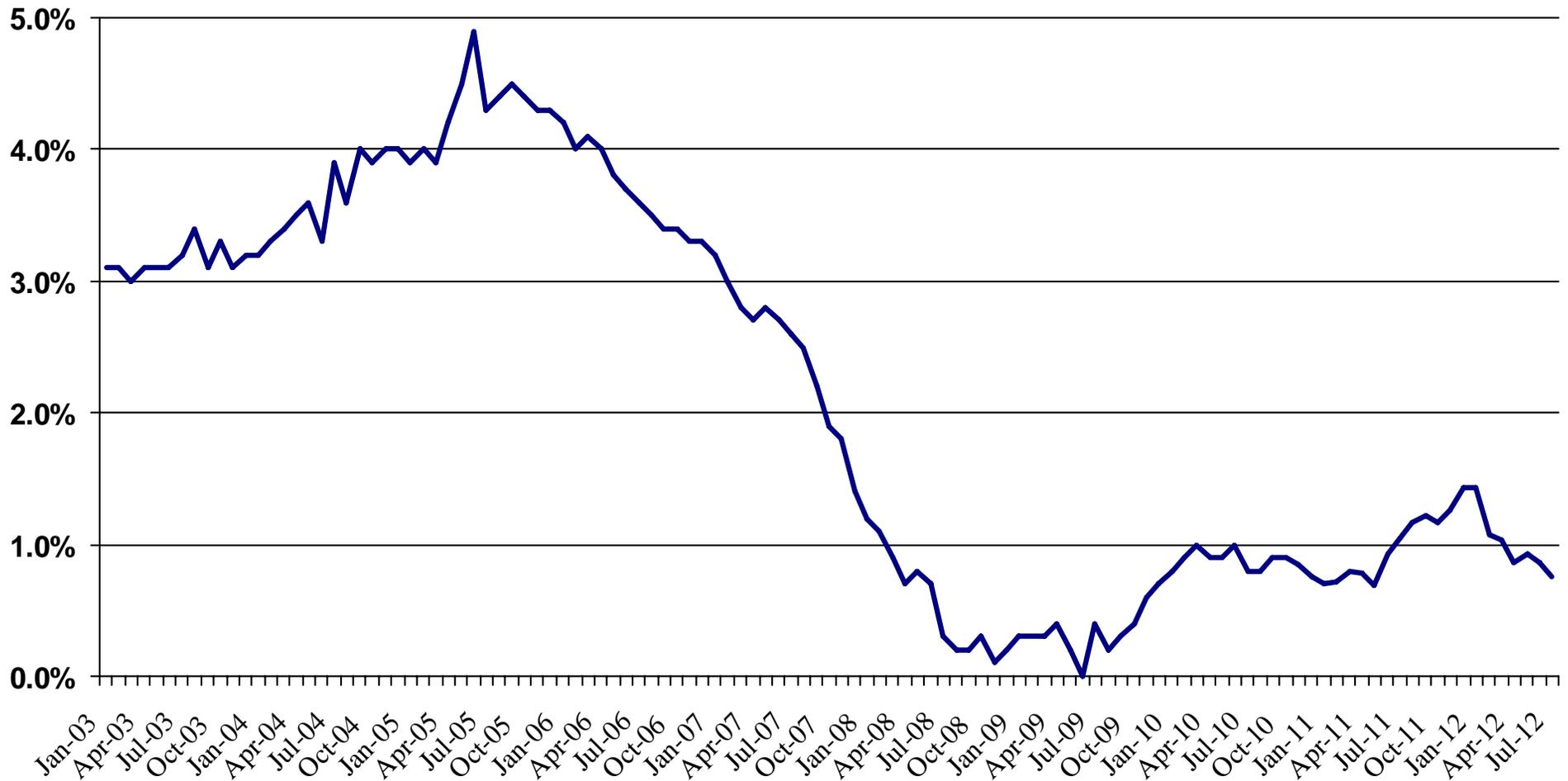
Greater Phoenix Population Annual Percent Change 1976–2013*

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



SRP Residential Utility Hookup Percentage Growth Greater Phoenix 2003 – 2012*

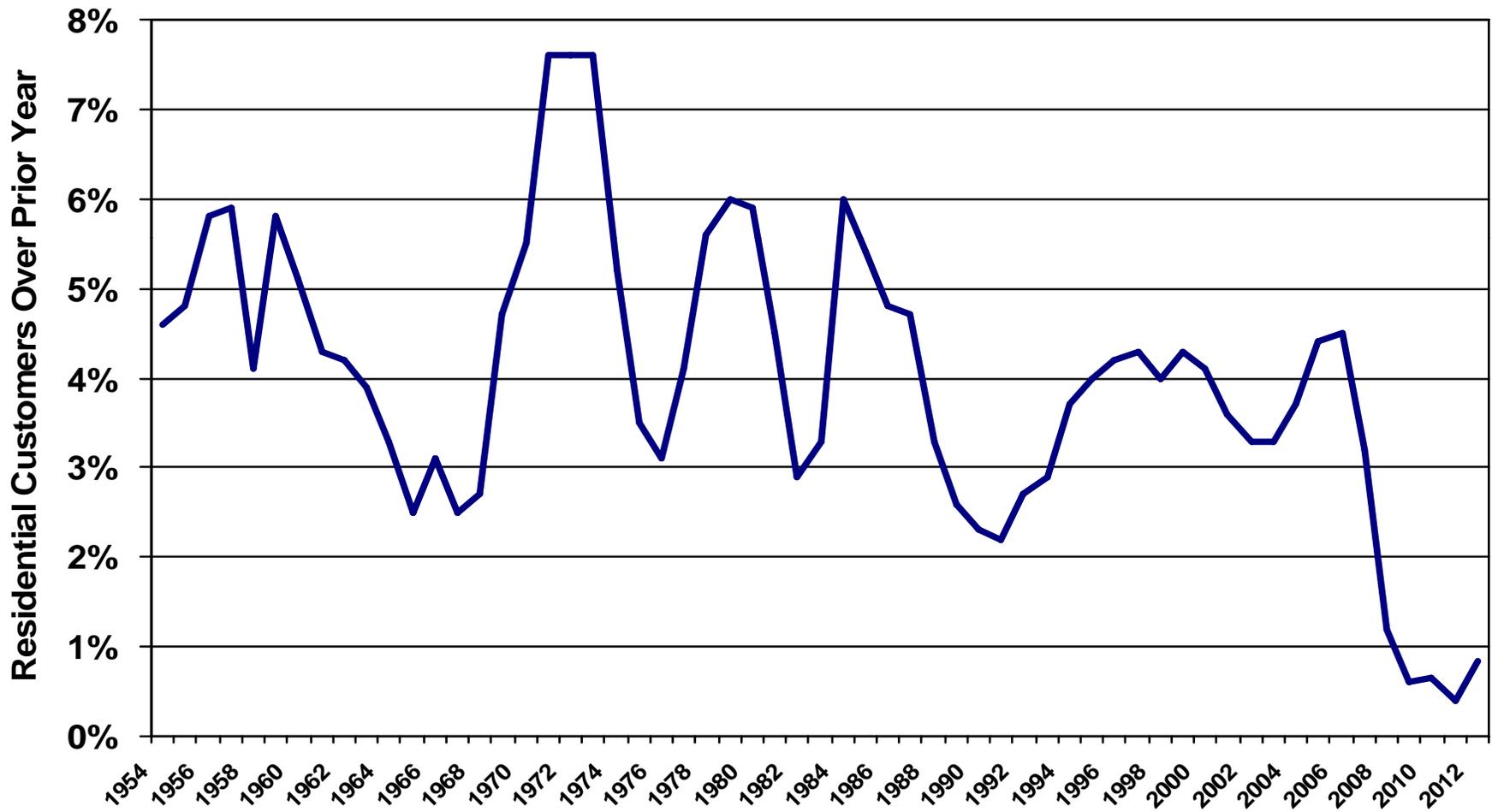
Source: SRP



*Data through July 2012.

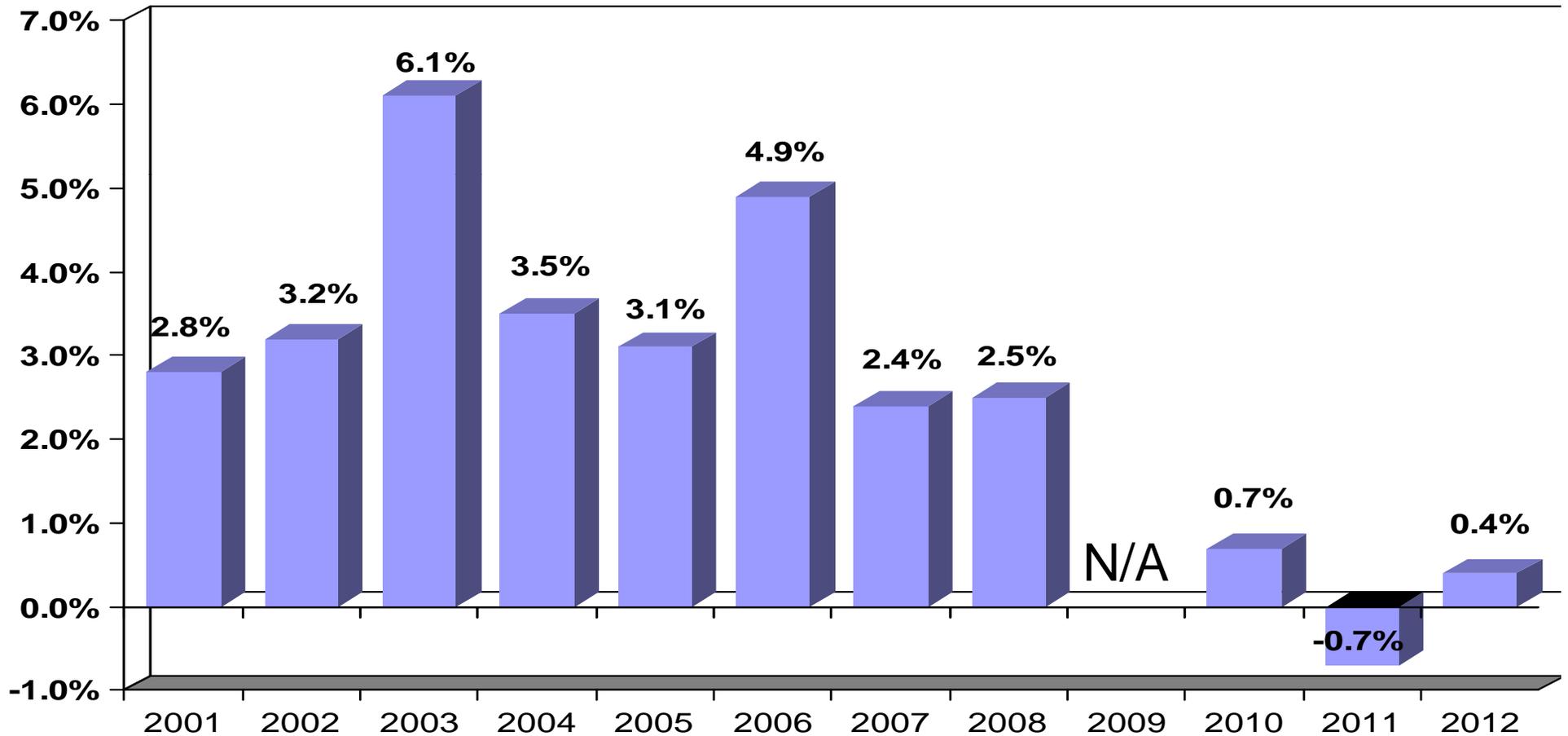


APS: Slowest Growth in over 50 years 1954 – 2012*



School Enrollment Growth 2001-2012

Source: Arizona Department of Education





HOUSING

**It's all about
supply & demand.**

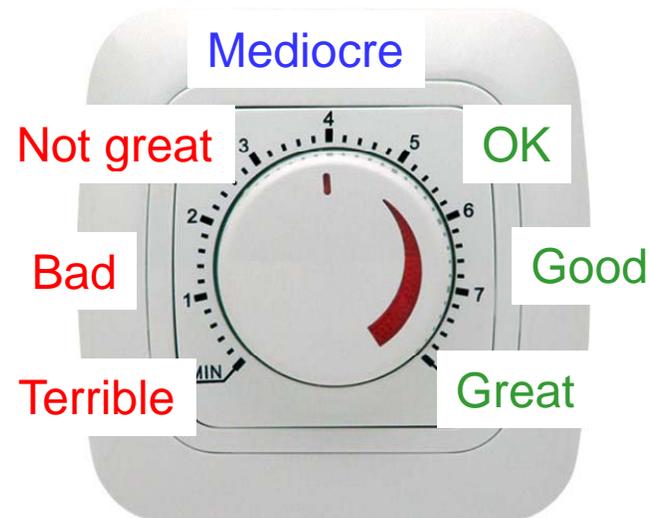


Housing

Not a light switch...



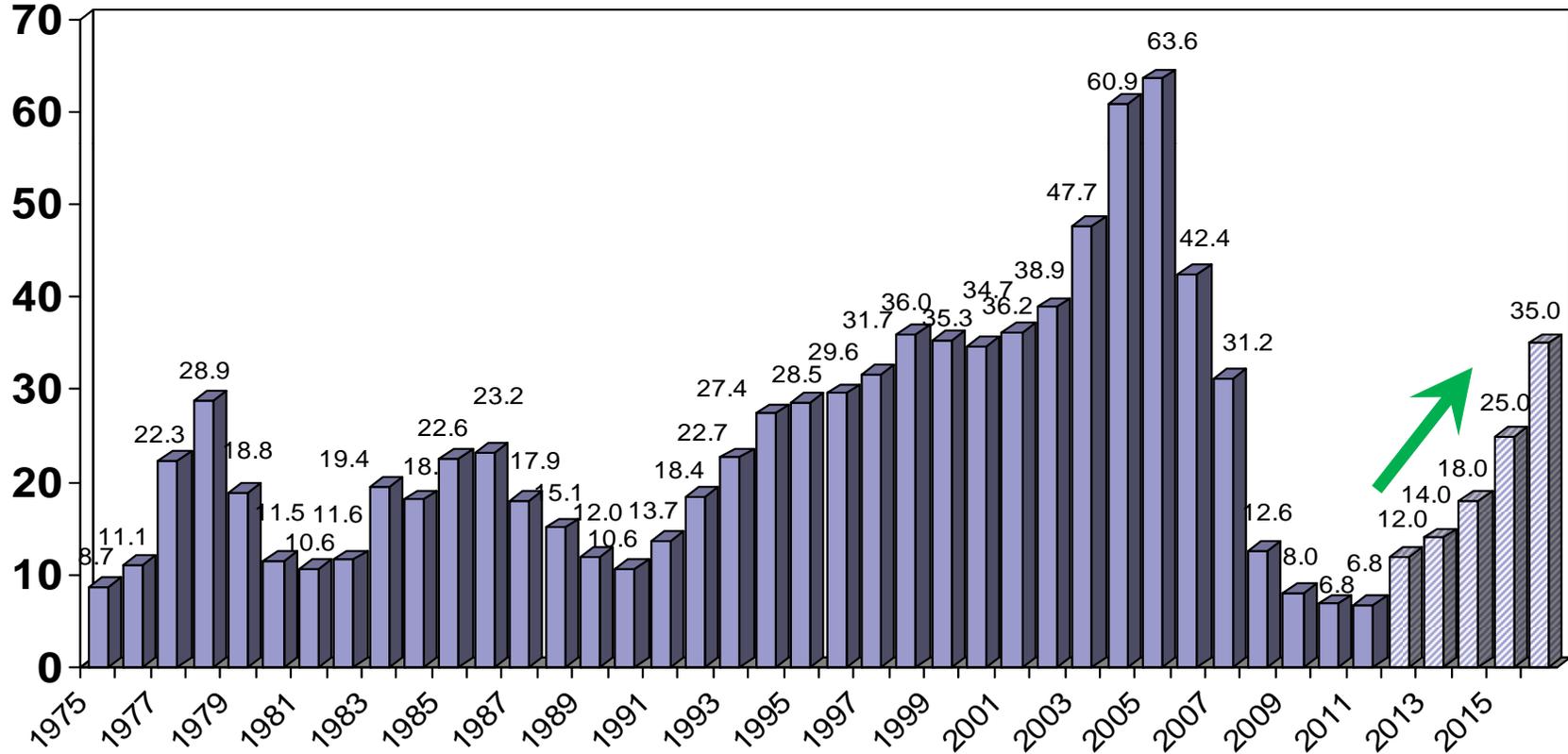
A dimmer switch...



Single Family Permits Greater Phoenix 1975–2016*

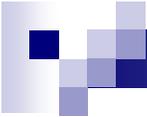
Source: RL Brown & Elliott D. Pollack & company

Permits
(000)



*2012 – 2016 forecast is from *Elliott D. Pollack & Company*





Greater Phoenix Single Family Permits

Source: RL Brown

<u>Year</u>	<u>Permits</u>	<u>% chg</u>
2004	60,872	27.6%
2005	63,570	4.4%
2006	42,423	-33.3%
2007	31,172	-26.5%
2008	12,582	-59.6%
2009	8,027	-36.2%
2010	6,822	-15.0%
2011	6,797	-0.4%
2012*	7,424	89.4%

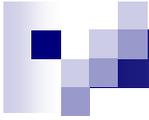




Greater Phoenix Single Family Permits

- From peak to trough, permits are off 89.3%
- 2012 year-to-date, permits are up 89.4%
- To recover to previous peak, permits would have to grow 835%
- To get back to long term trend (30,000), permits would have to grow 341%





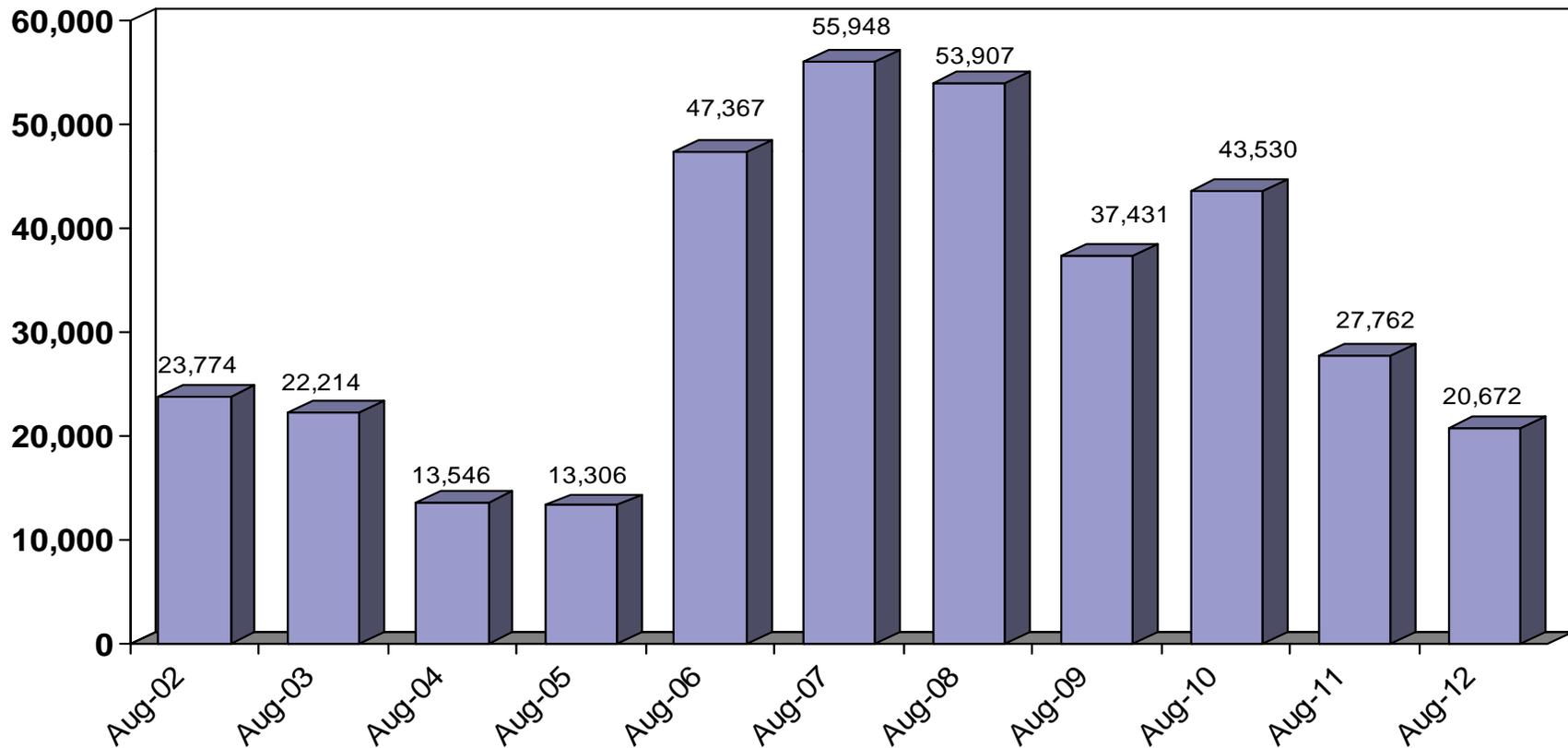
SUPPLY



Greater Phoenix Active Listings

August 2002 – August 2012

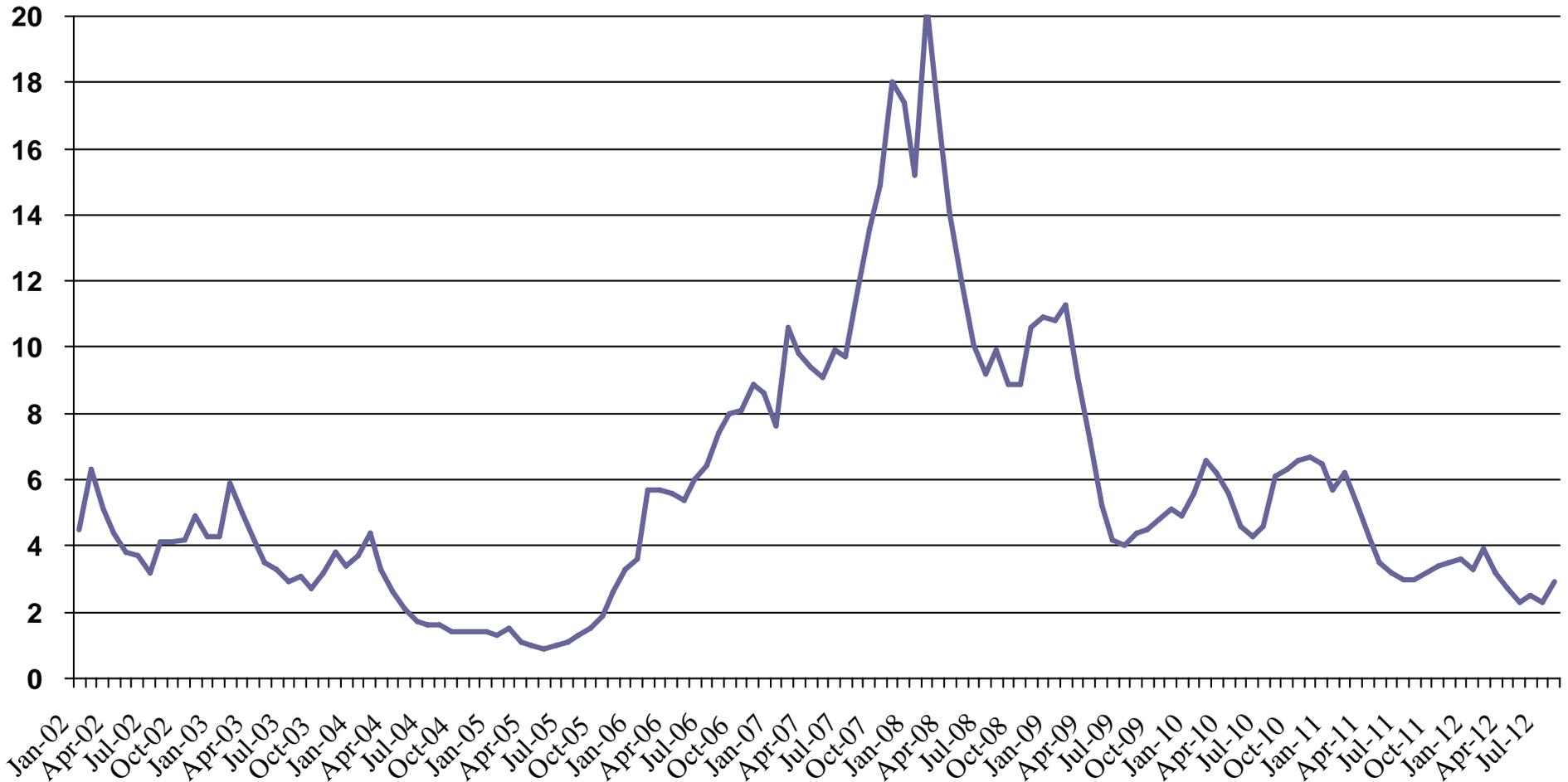
Source: Cromford Report



Greater Phoenix Single Family Months Supply

2002 – 2012*

Source: Cromford Report



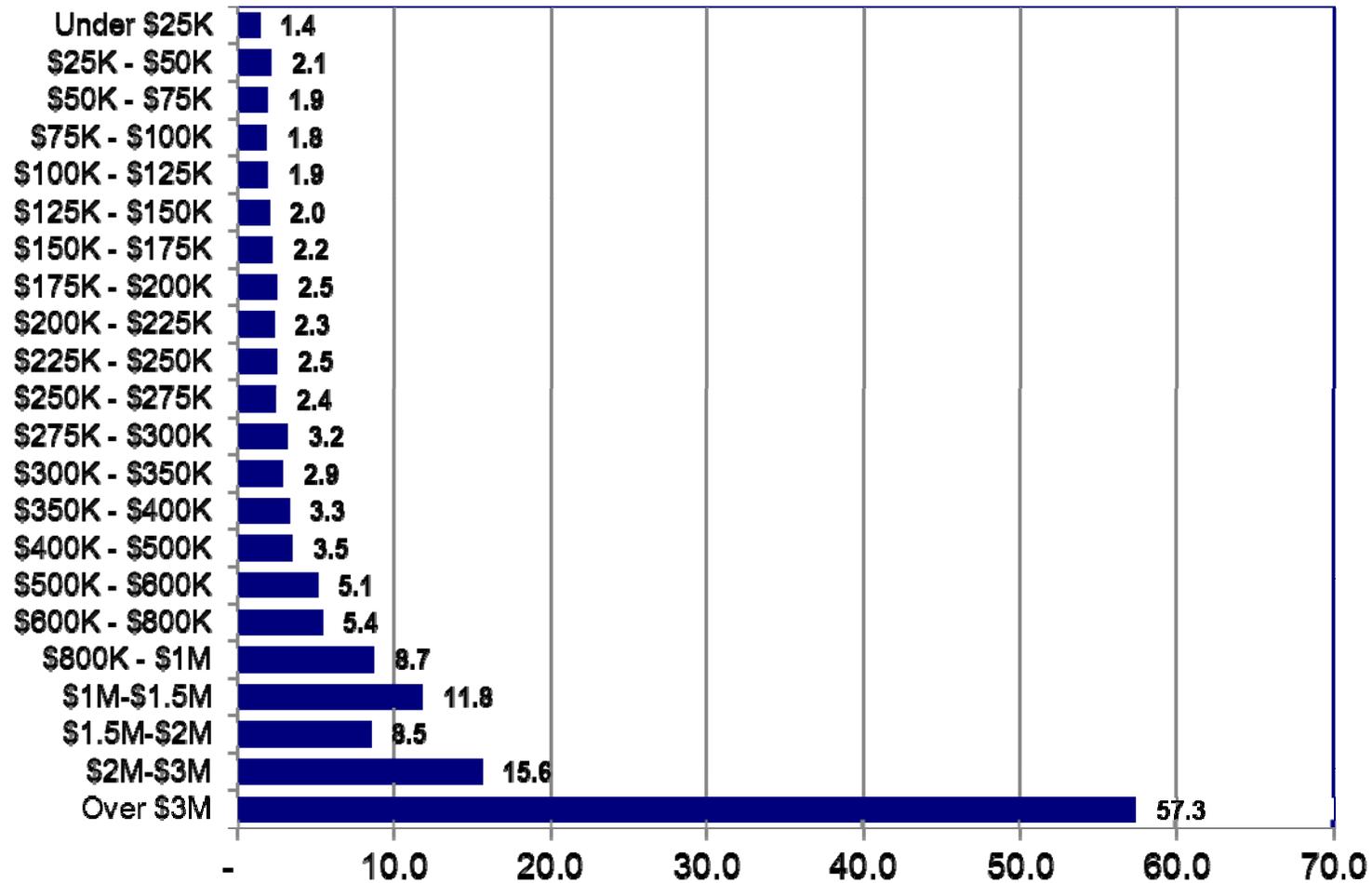
Elliott D. Pollack & Company

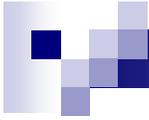
*Data through July 2012

Greater Phoenix Single Family Months Supply by Price Range

August 2012

Source: Cromford Report





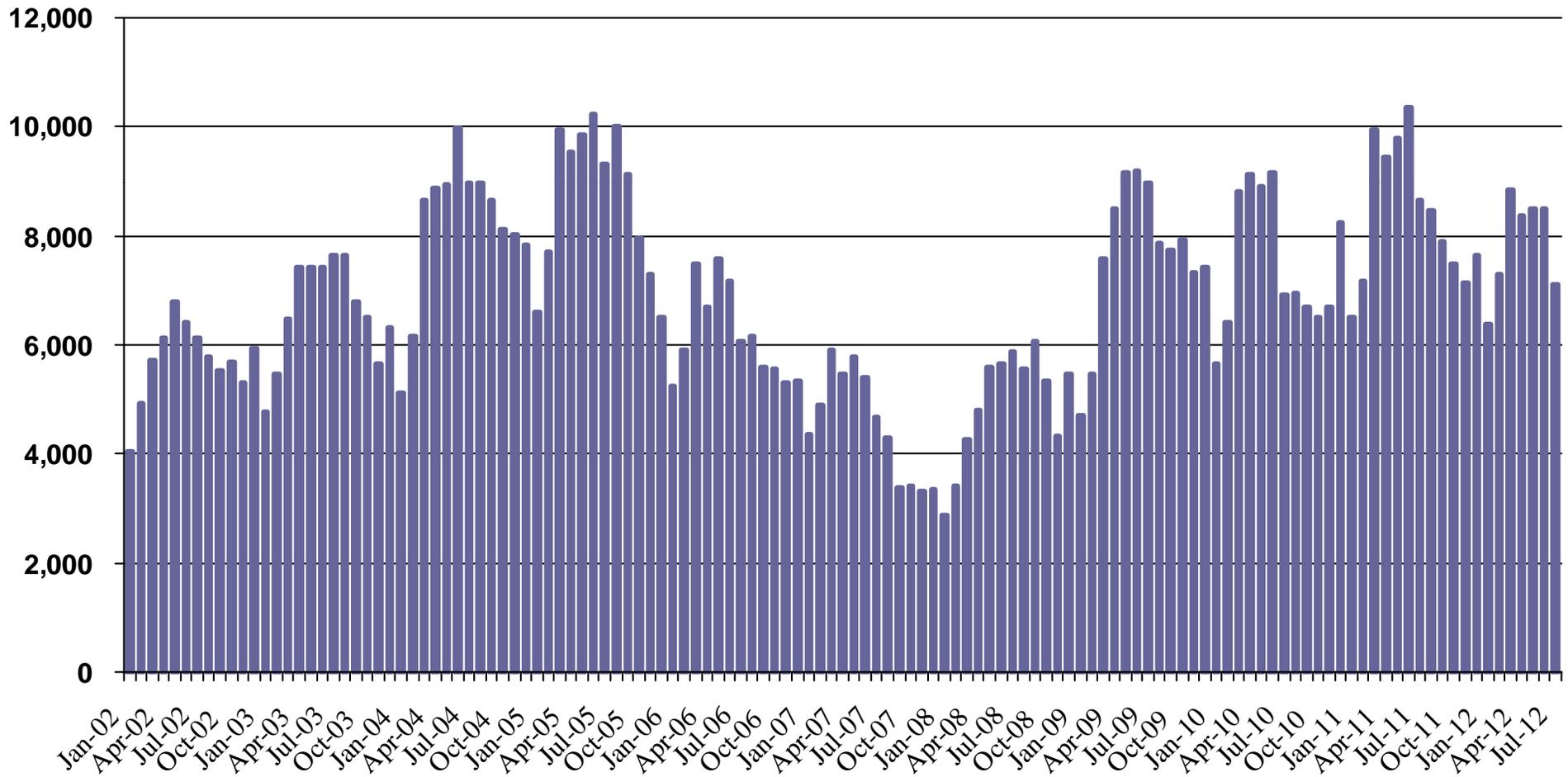
DEMAND



Greater Phoenix Single Family Resales

2002 – 2012*

Source: Cromford Report



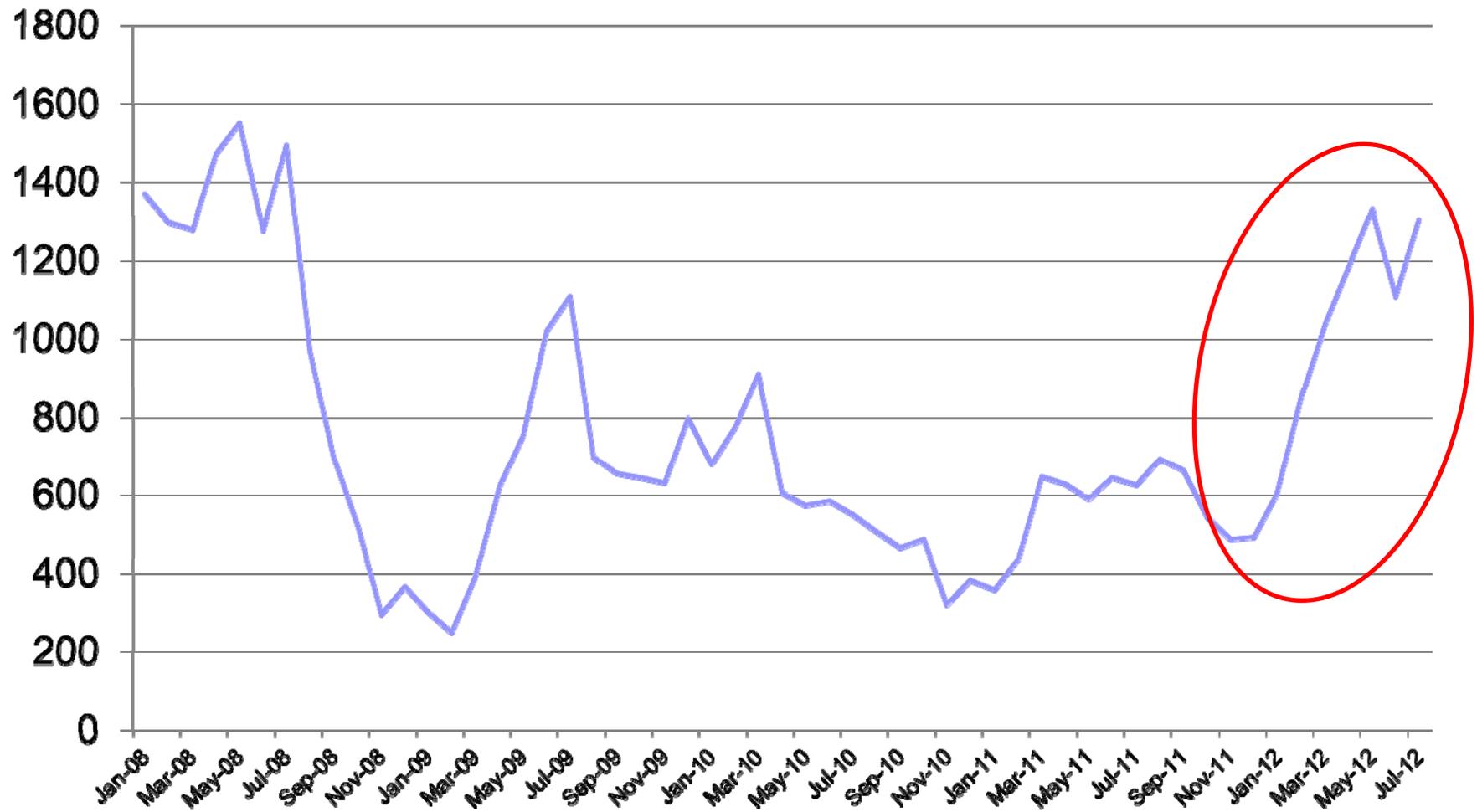
Elliott D. Pollack & Company

*Data through July 2012

Greater Phoenix Monthly New Home Permits

January 2008-July 2012

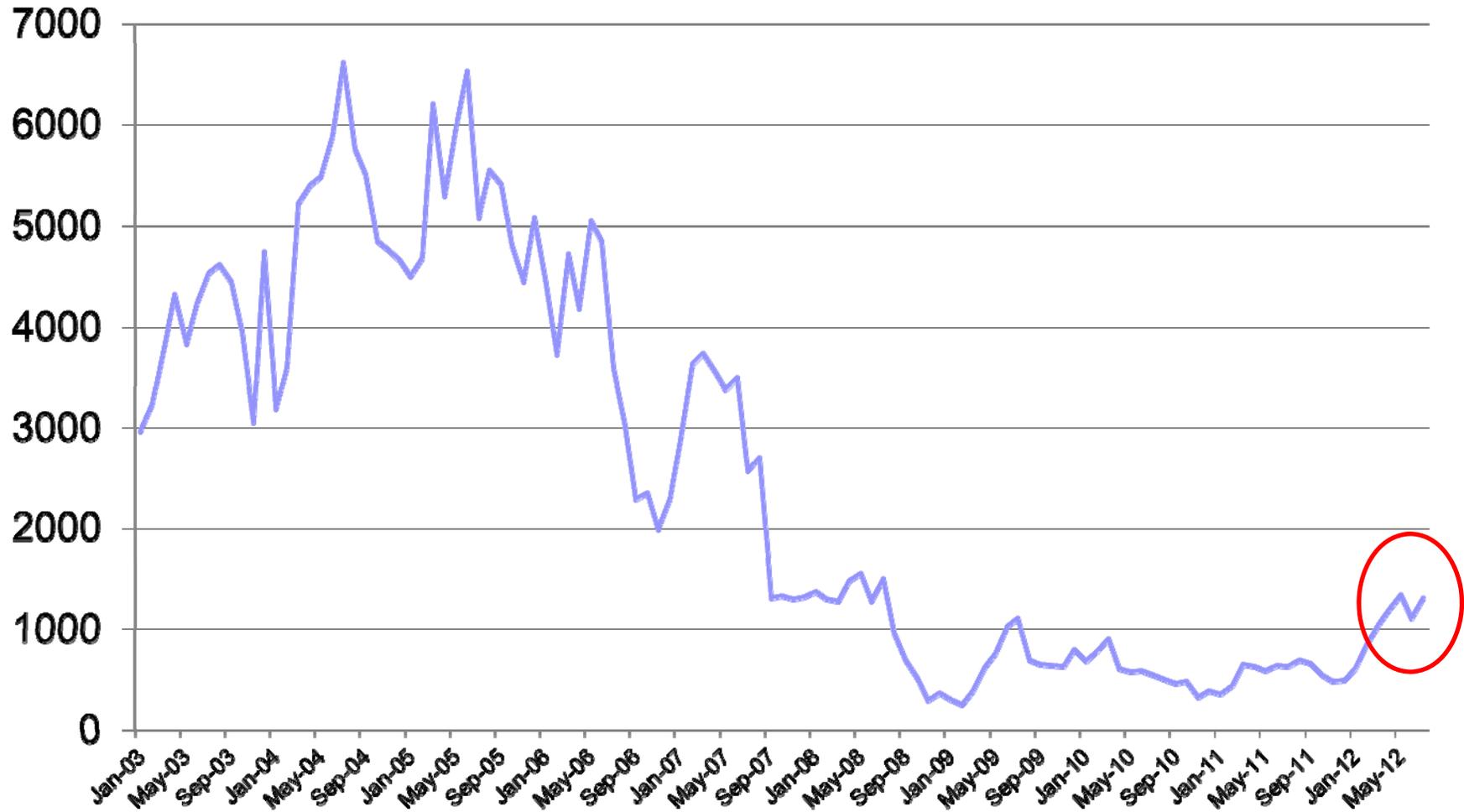
Source: RL Brown



Greater Phoenix Monthly New Home Permits

January 2003-July 2012

Source: RL Brown

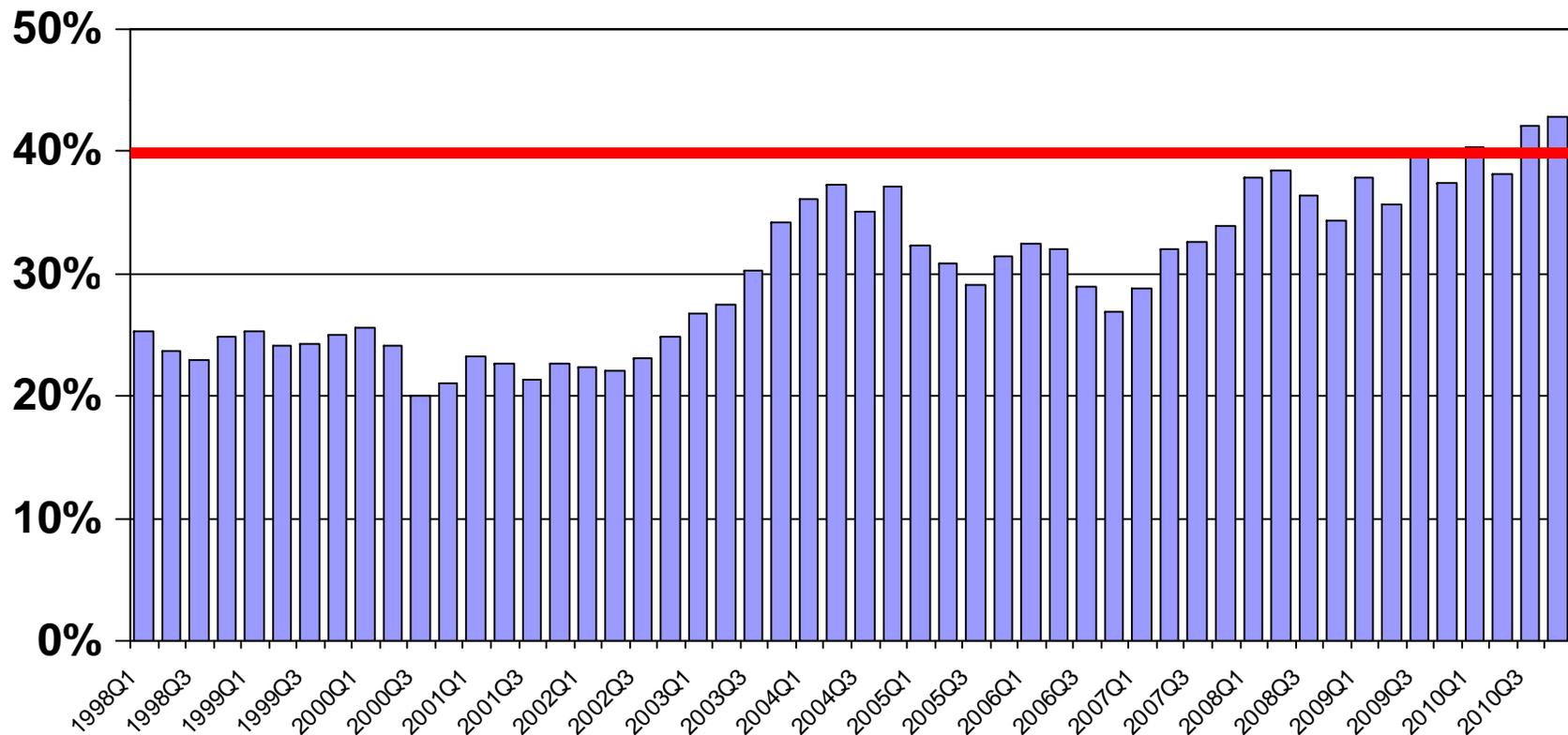


Investors: 40% Market?

Percent of Non-Owner Occupied Sales of Total Sales

Greater Phoenix

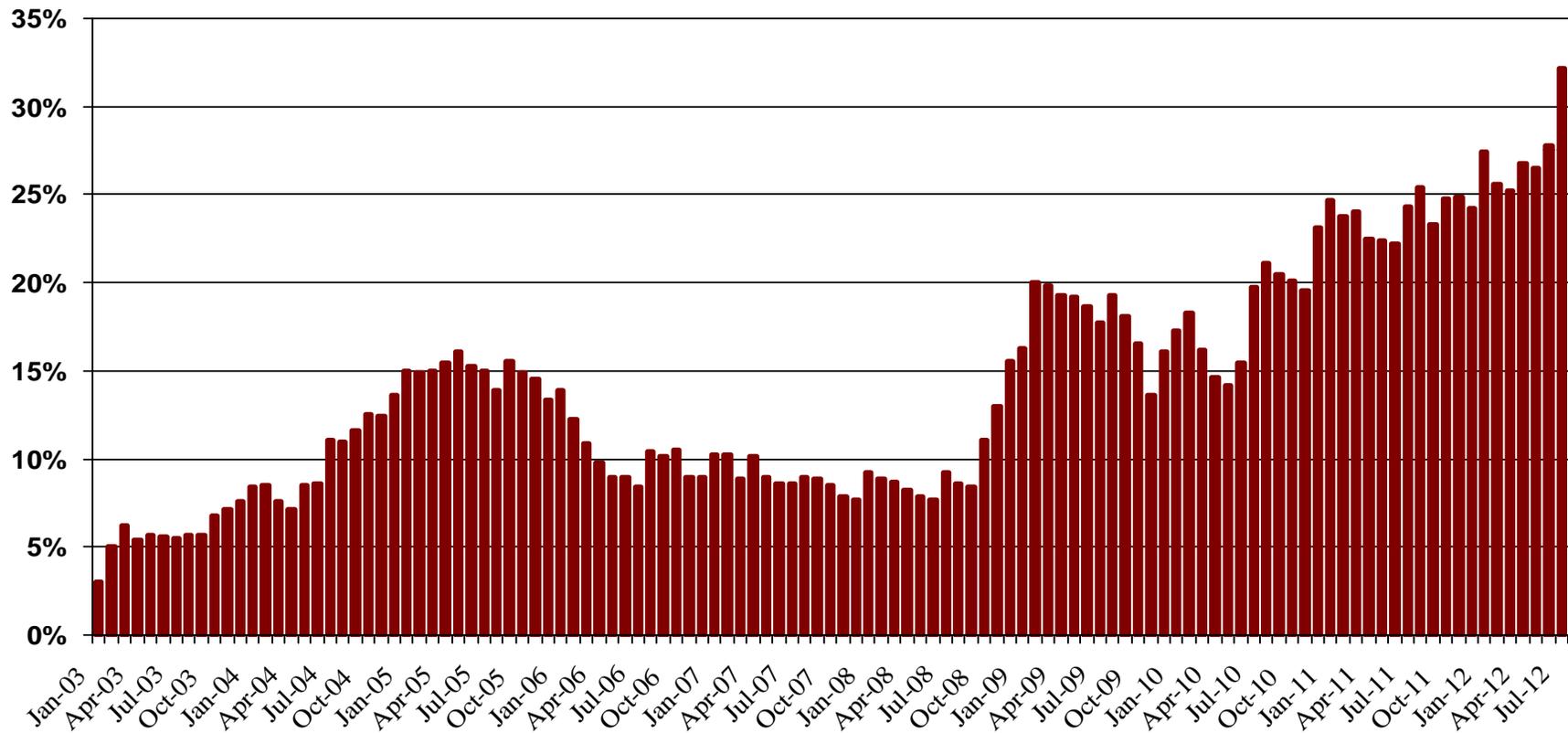
Source: DataQuick



Greater Phoenix Percentage of Sales to Landlords

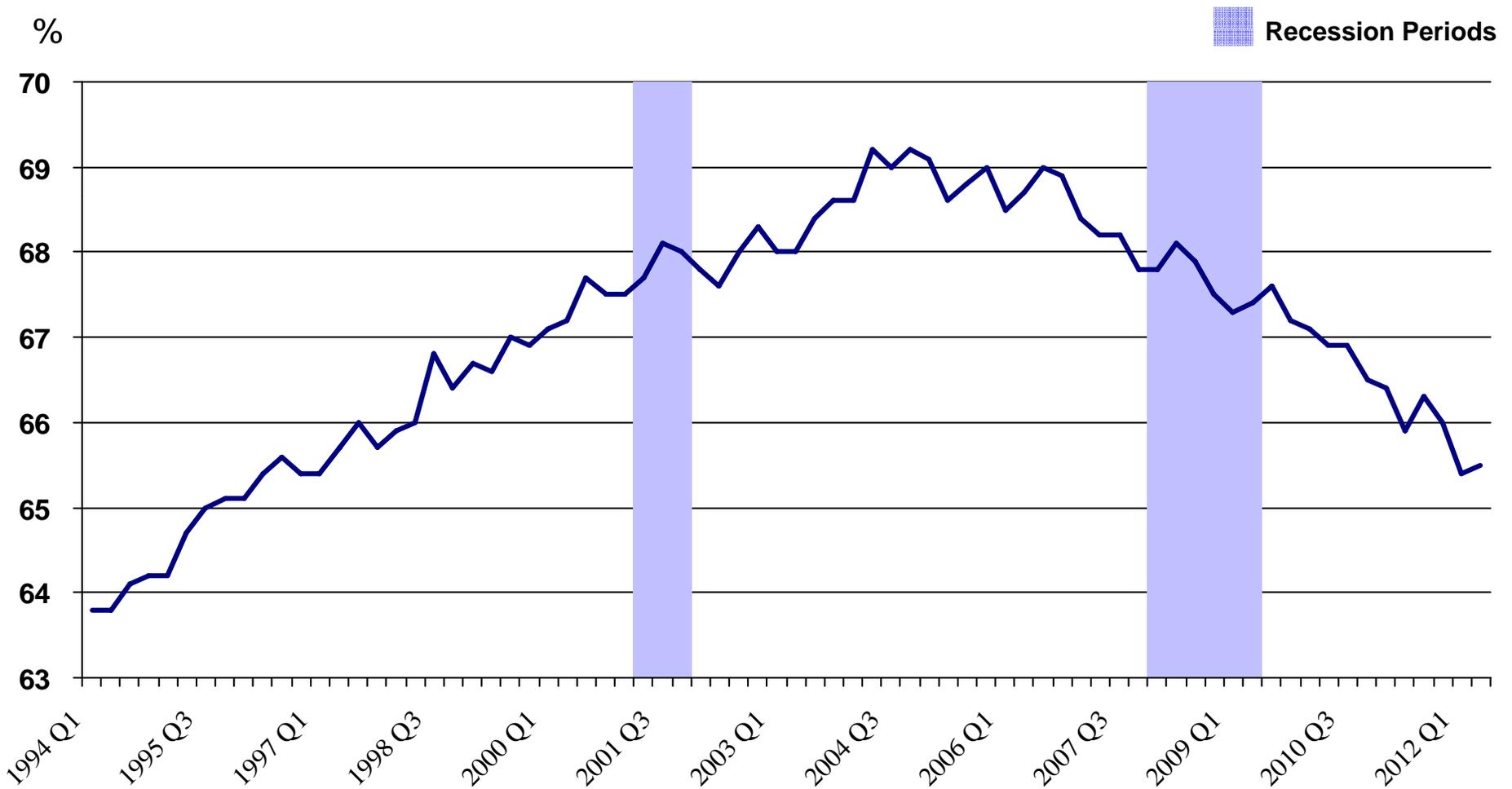
2003 – 2012*

Source: Cromford Report



U.S. Homeownership Rate 1994-2012*

Source: Census Bureau

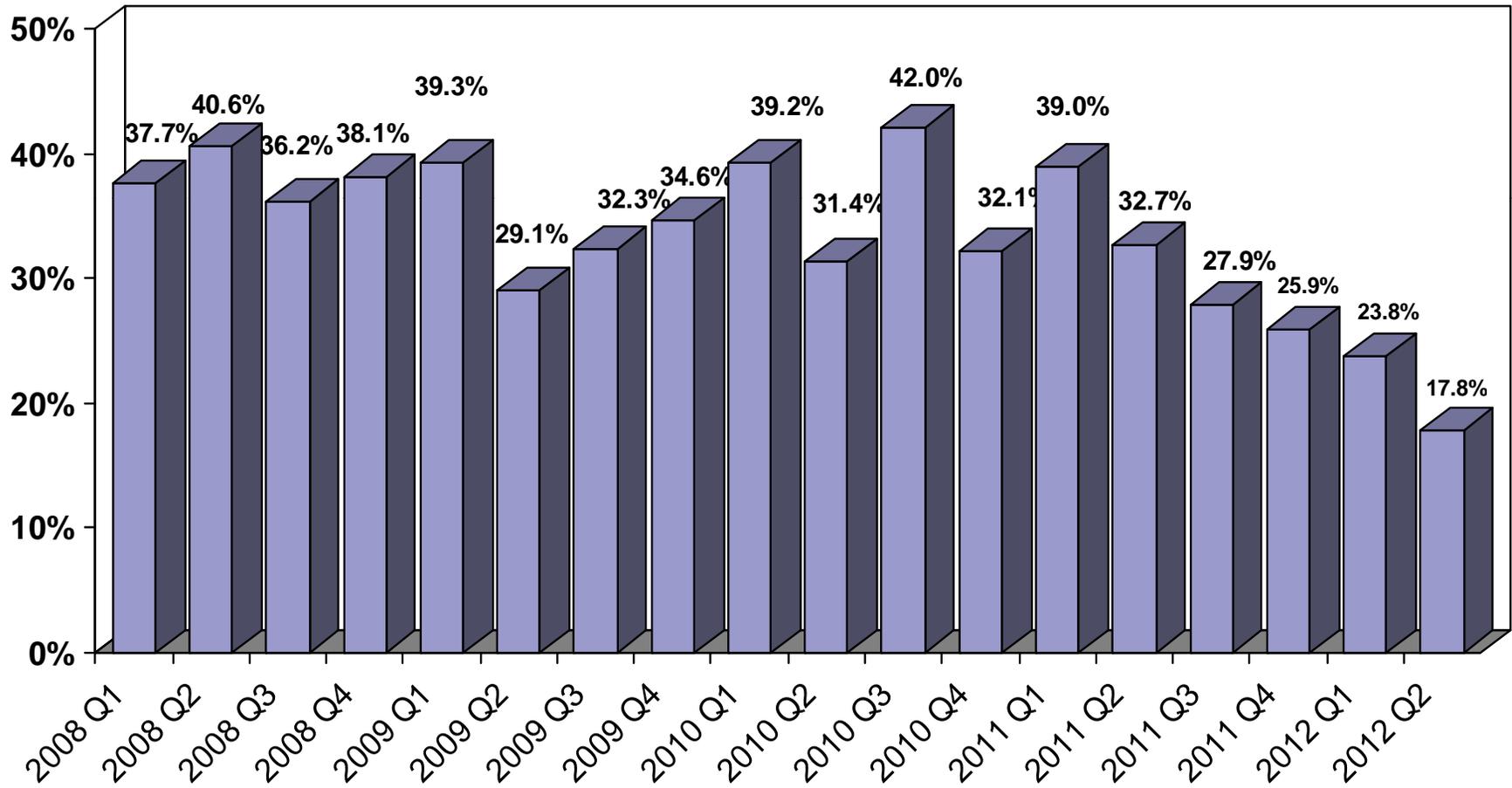


Elliott D. Pollack & Company

*Data through 2012 Q2

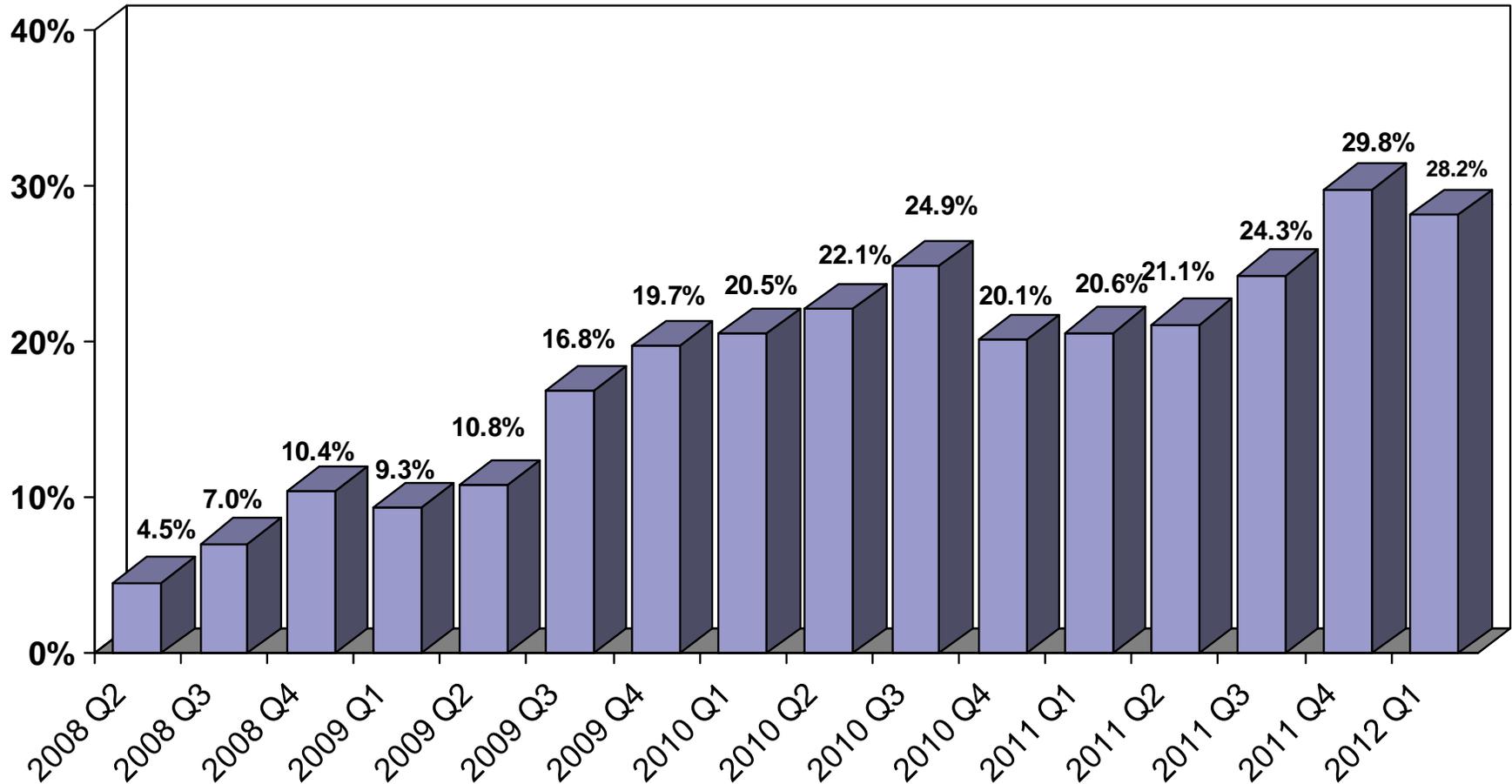
Foreclosures as a % of Total Sales Greater Phoenix 2008-2012

Source: ASU Realty Studies; Cromford Report



Short Sales as a % of Total Sales Greater Phoenix 2008-2012*

Source: Cromford Report



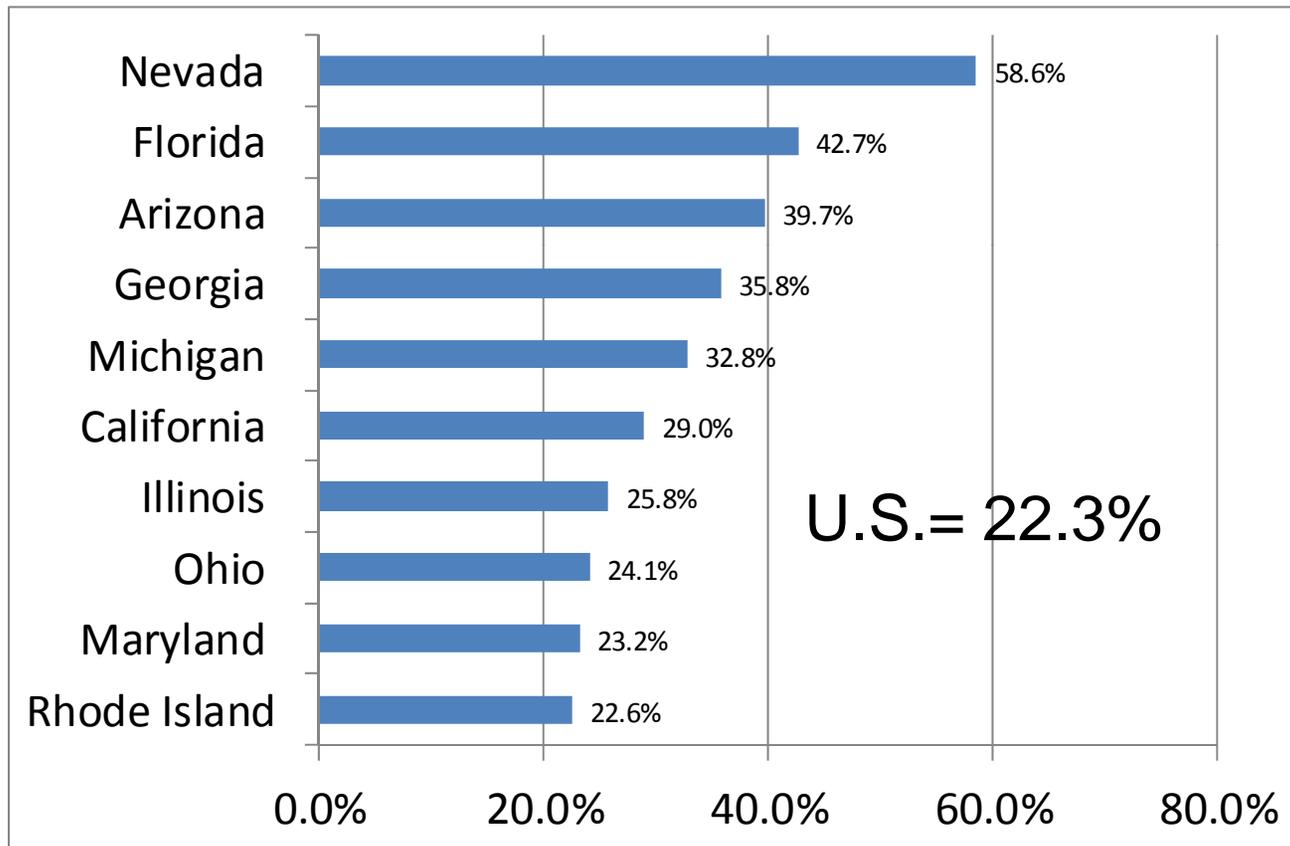
*Data through 2012 Q1

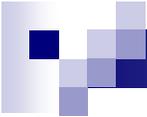


Top 10 States

Percent of Homes with Mortgages with Negative Equity

Source: Core Logic





Percent of Homeowners by Market Status

Source: CoreLogic

Homeowners that could be in resale market: **57.6%**
(Free & clear or LTV less than 80%)

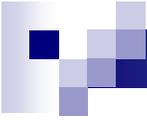
Homeowners not in resale market: **42.4%**
(Little or no equity)





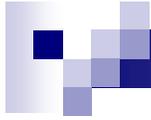
**Beyond that, 40% of Households
are not credit worthy.**





**Until this gets resolved
locally and nationally,
the rate of
population growth
will be anemic.**





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



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



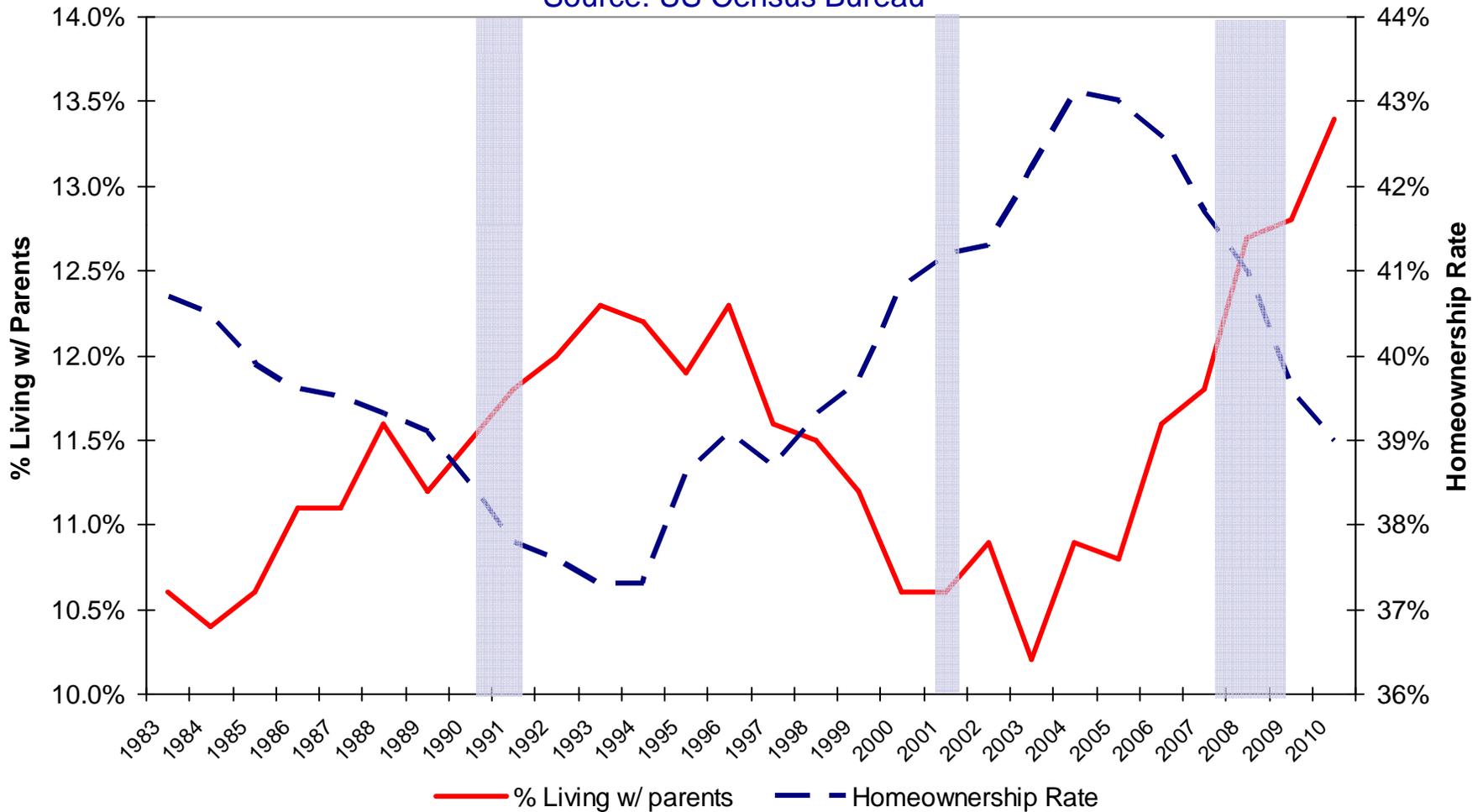
Household Formations

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





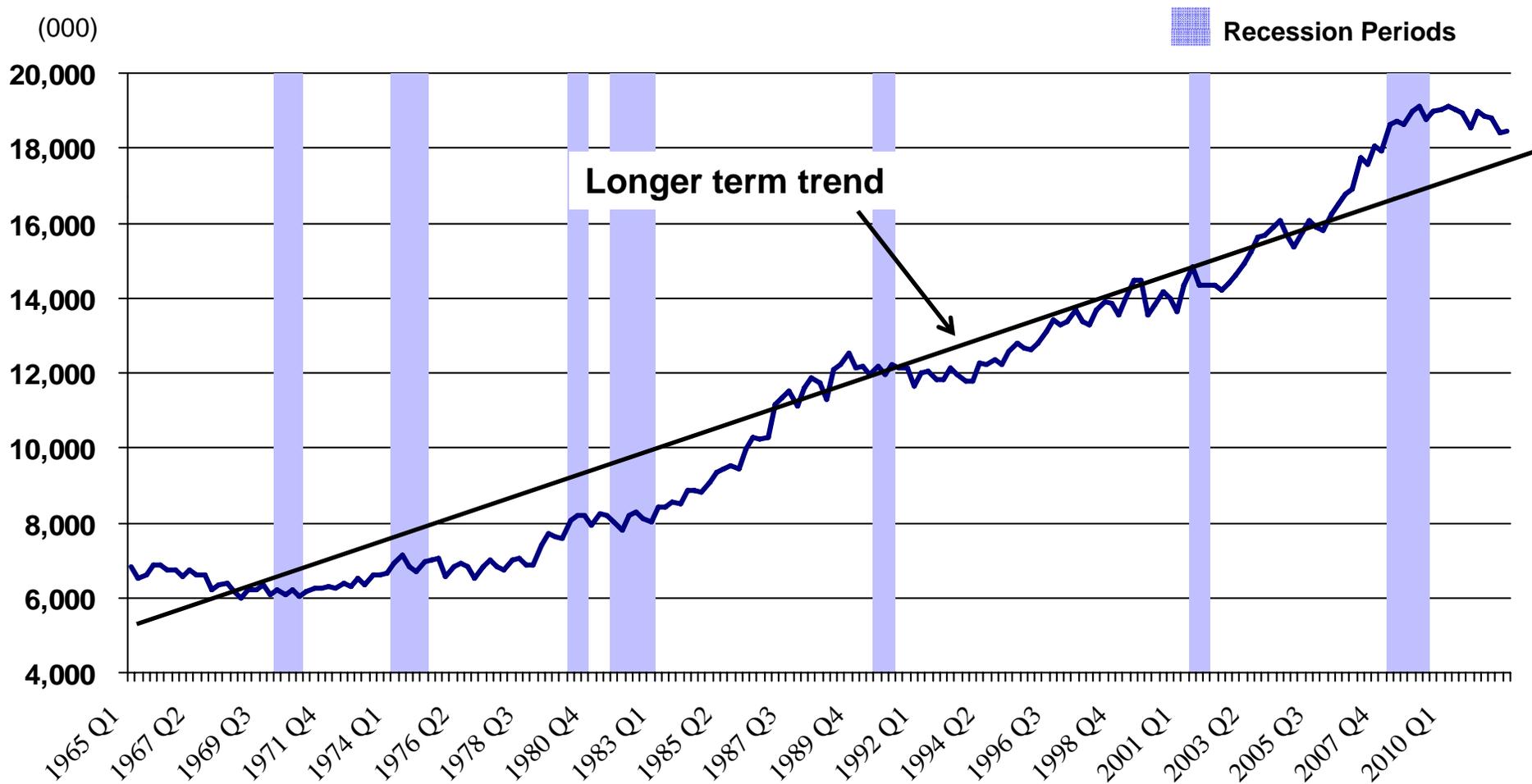
**In a weak economy,
population growth fails to
translate into household growth,
but when the economy begins to
strengthen, there is pent-up
demand for housing.**

Source: Linneman Letter



US Total Vacant Housing Units 1965-2012*

Source: US Census Bureau



*Data through 2012 Q1





Growth in Home Prices

July 2012 / July 2011

Source: ASU & MLS

New Homes: 4.4%

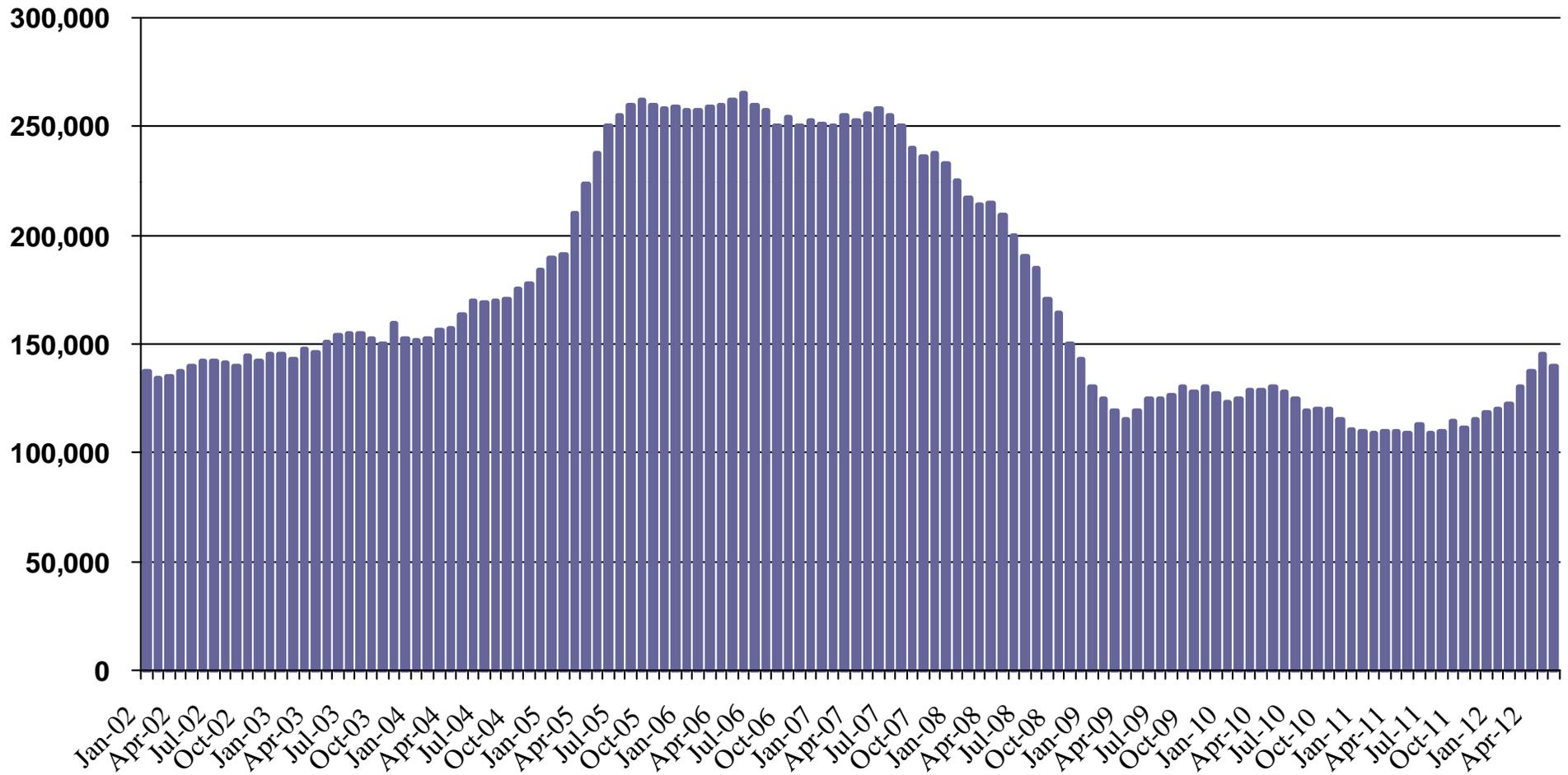
Resale Homes: 29.5%



Greater Phoenix Single Family Median Price

2002 – 2012*

Source: Cromford Report





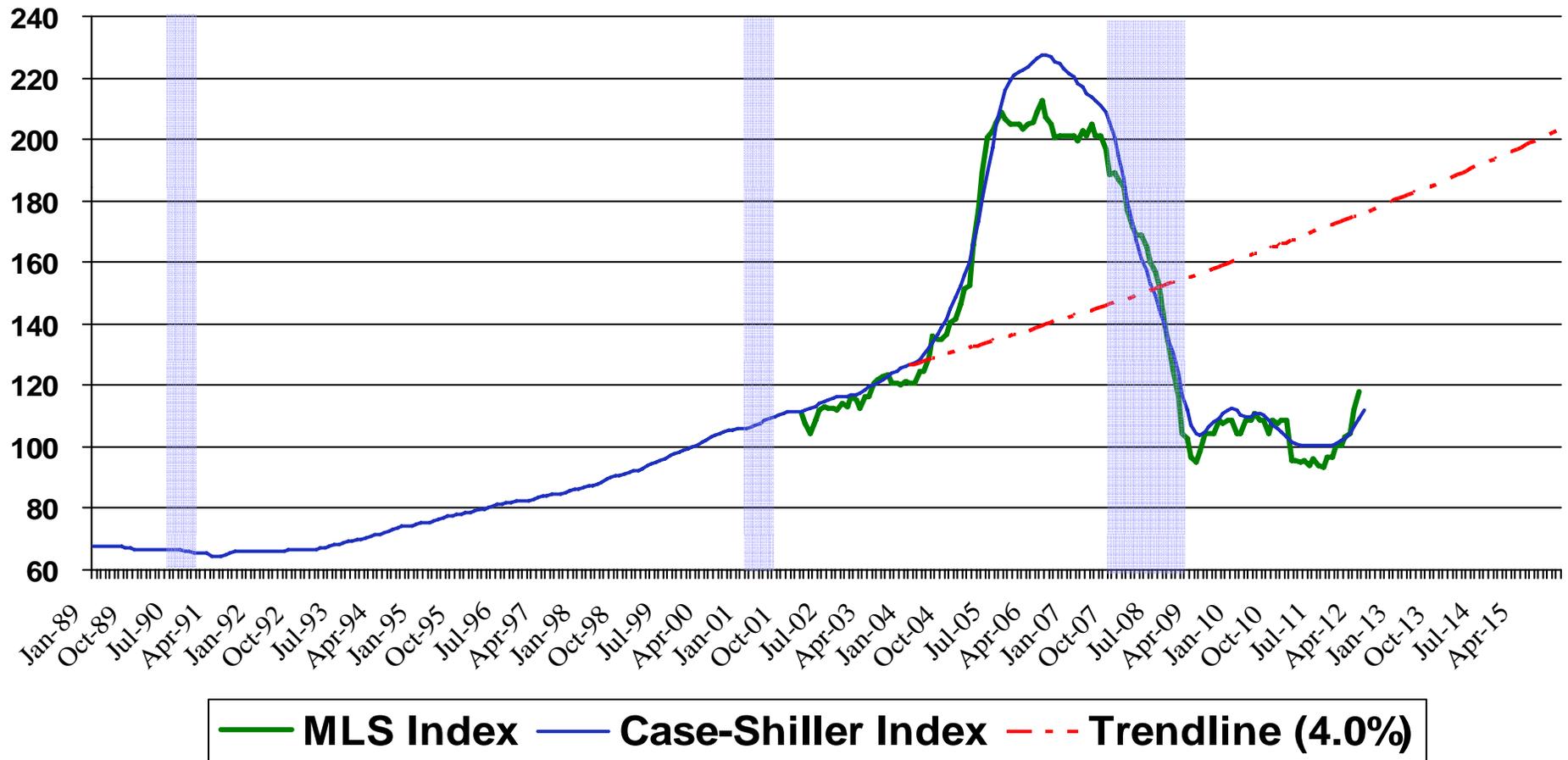
Price gains are largely in distressed properties.



Home Prices Indices Greater Phoenix 1989 – 2012*

Source: Macro Markets, LLC; AMLS

 Recession Periods



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*Data through May 2012.

- Think of what the housing market is going through as the same as any manufacturer that finds themselves with excess inventory...
- Prices are cut until the excess is sold.
- Then prices rise.





**As new housing and
housing prices recover, the
entire economy is helped.**



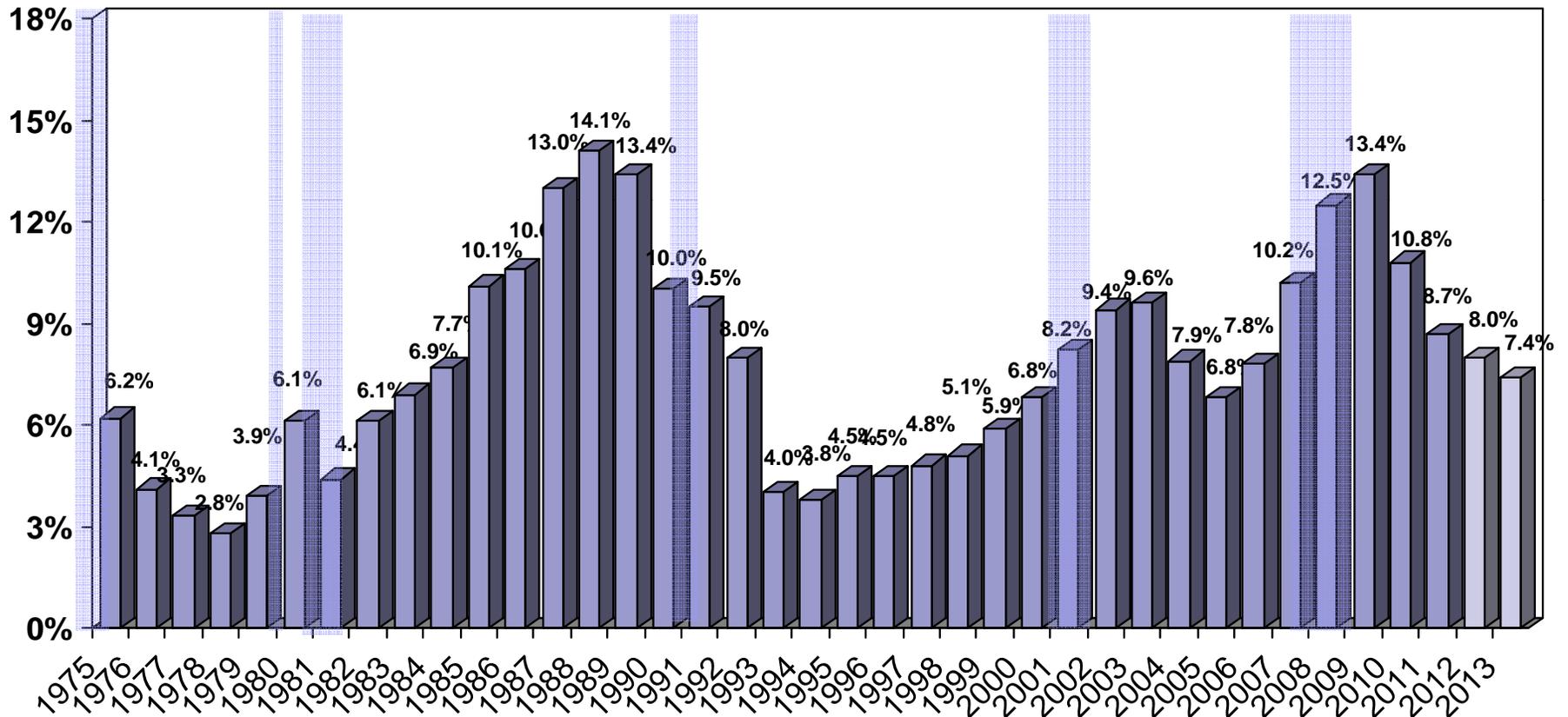
Multi-Family



Multi-Family Year-End Vacancy Rates Maricopa County 1975–2013*

Source: ASU Realty Studies / Hendricks & Partners**

Recession Periods

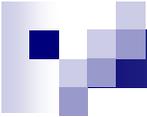


*2012 -2013 are forecasts from the Greater Phoenix Blue Chip

**Data prior to 2005 is from ASU



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Multi-Family Housing Market

Source: PMHS and Hendricks & Partners

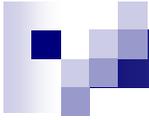
	<u>Absorption</u>	<u>Completions</u>
2007	(3,121)	3,800
2008	(4,466)	5,900
2009	9,100	6,231
2010	11,619	200
2011	7,729	248
2012q2	2,491	274





**As of second quarter 2012,
there are 3,250 multi-family
units under construction.**





OFFICE

More lights on?

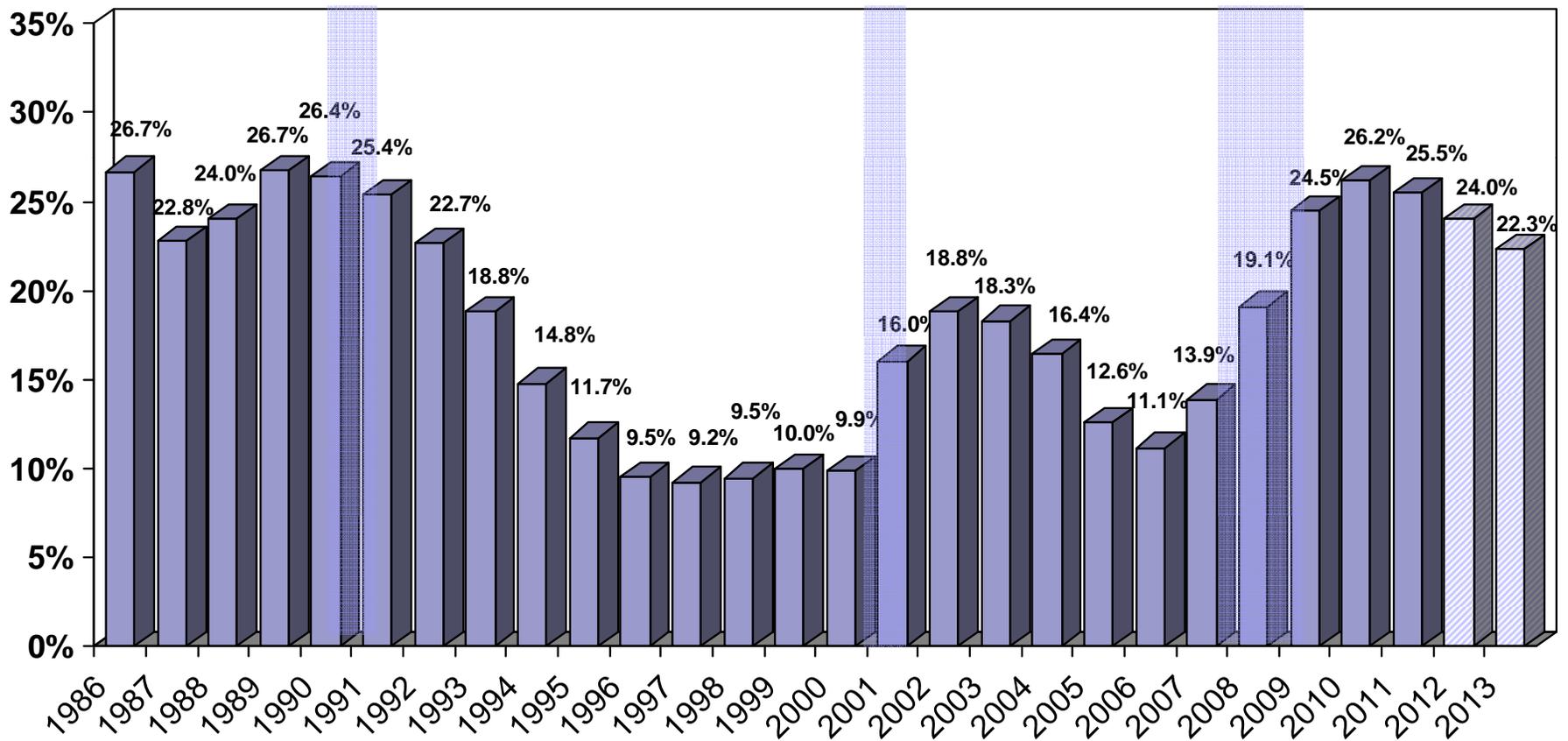


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Office Space Year-End Vacancy Rates Maricopa County 1986–2013*

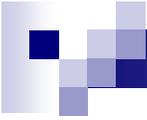
Source: CBRE

Recession Periods



*2012 -2013 are forecasts from CB Richard Ellis





Greater Phoenix Office Market

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
2006	3,245,888	**2,320,302
2007	1,500,704	4,905,374
2008	(603,112)	3,402,646
2009	(677,329)	1,798,415
2010	233,670	2,011,404
2011	1,857,433	3,144,910
2012q2	825,194	1,291,462

*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.





**As of second quarter 2012,
there are 92,100 square feet
of office space
under construction.**





**Under any reasonable
employment growth scenario,
we believe it will be **2016** before
any significant office
construction occurs
(although some sub-markets
will be sooner).**



INDUSTRIAL



© 2009 King David Interactive Corp.

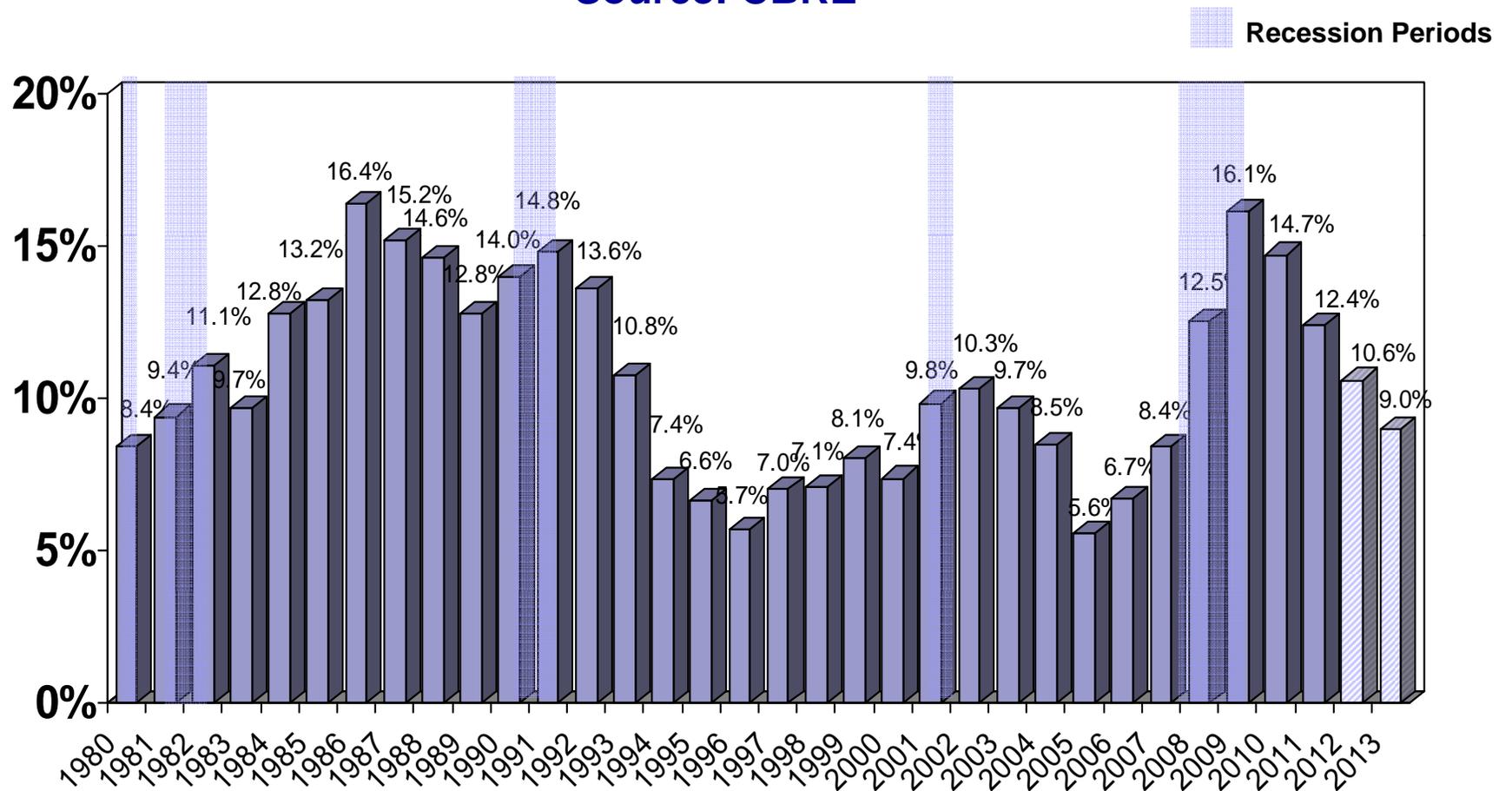
Slowly filling up?



Elliott D. Pollack & Company

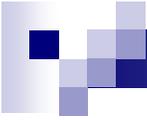
Industrial Space Vacancy Rates Maricopa County 1980 – 2013*

Source: CBRE



* 2012 - 2013 are forecasts from CBRE





Greater Phoenix Industrial Market

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
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
2012q2	3,361,977	1,260,831





**As of second quarter 2012,
there are 4.3 million square feet
of industrial space
under construction.**



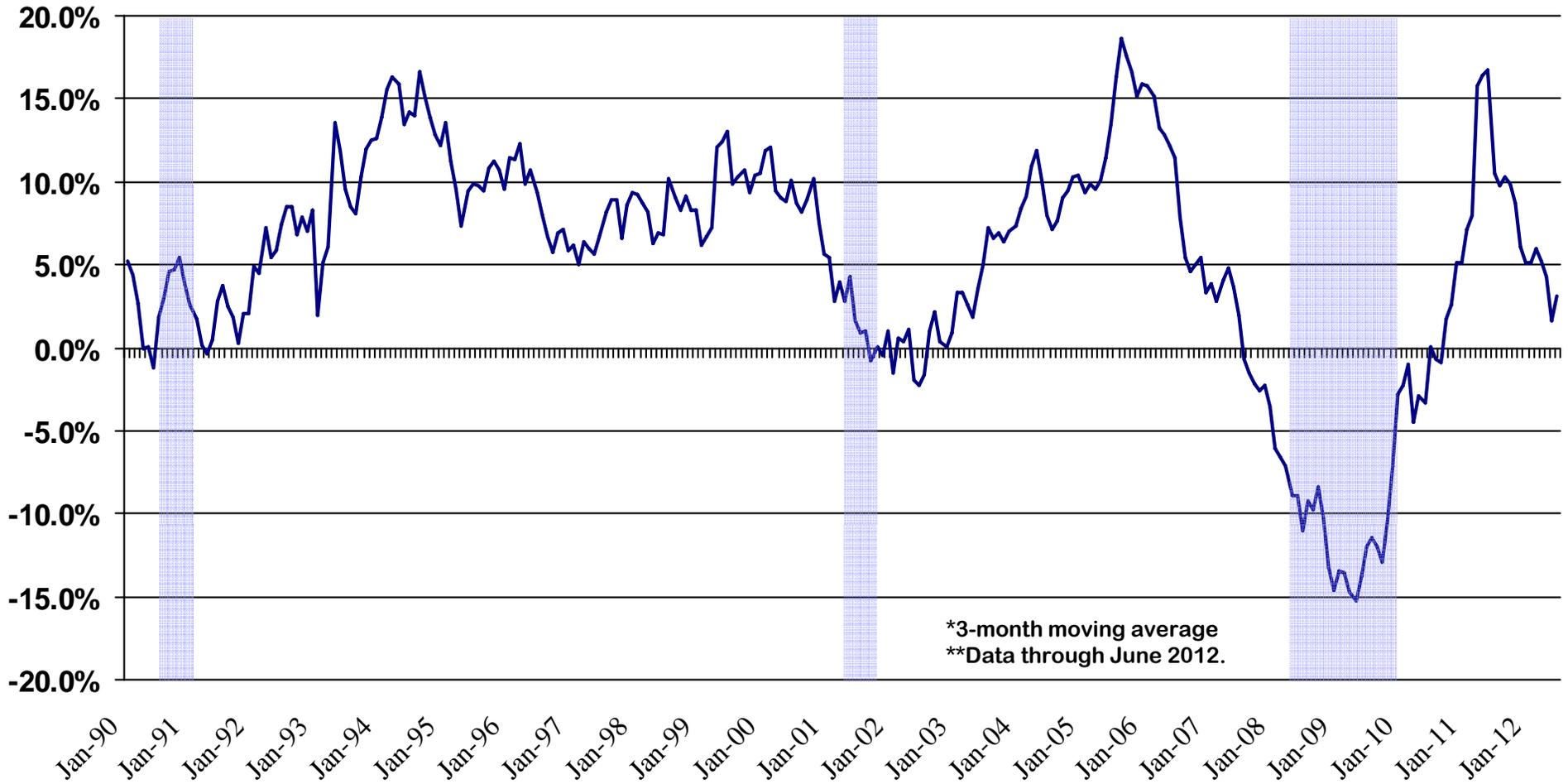
RETAIL



Maricopa County Retail Sales* Percent Change Year Ago 1990 to 2012**

Source: Arizona Department of Revenue

Recession Periods



*3-month moving average
**Data through June 2012.

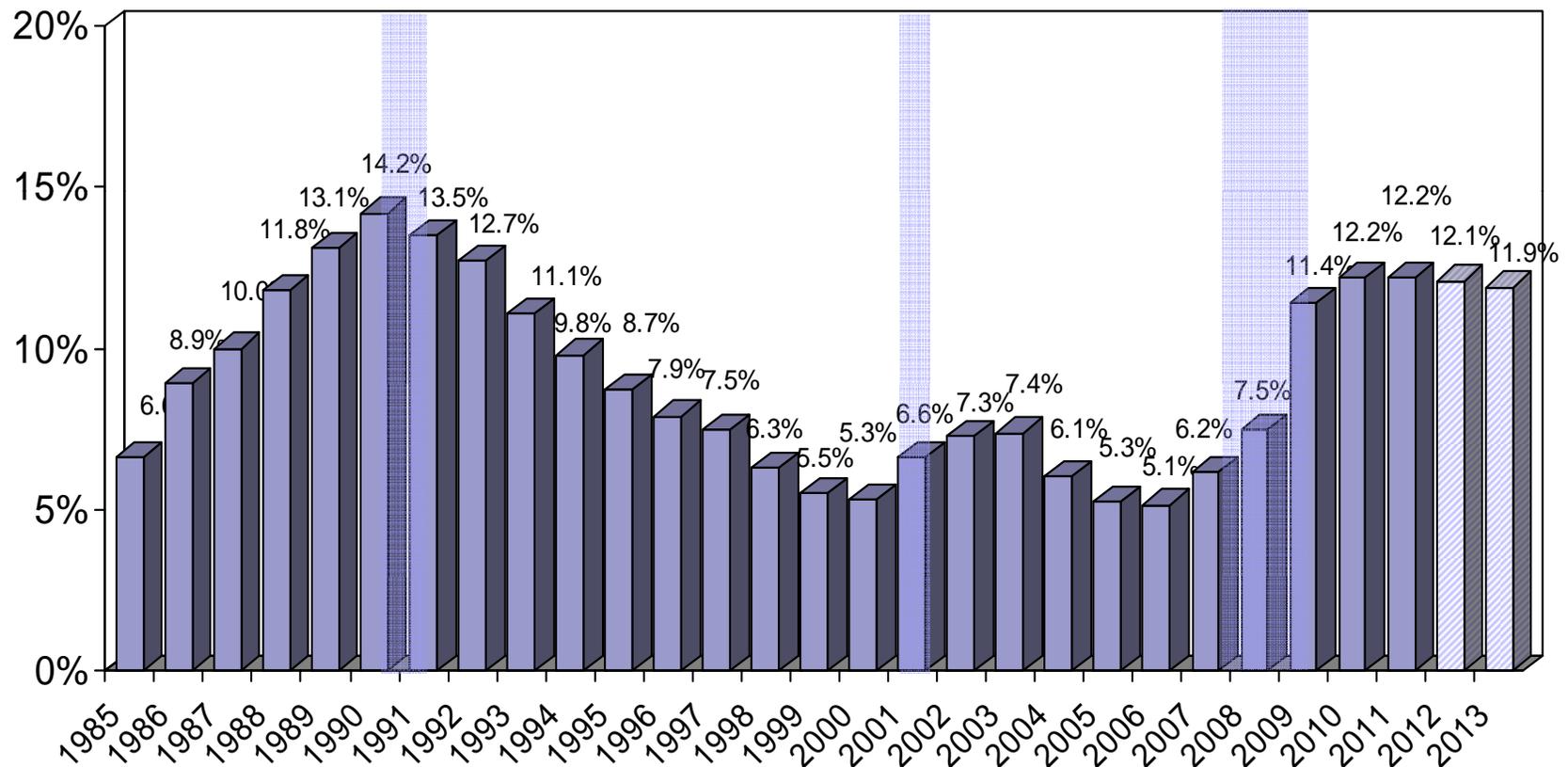


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Retail Space Vacancy Rates Maricopa County 1985–2013*

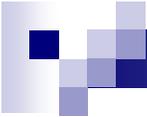
Source: CBRE**

 Recession Periods



* 2012-2013 are forecasts from CBRE
 ** Data prior to 1992 is from Grubb & Ellis





Greater Phoenix Retail Market

Source: CBRE

Year	Absorption (sf)	Chg in Inventory (sf)
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
2012q2	1,252,735	(126,636)

NOTE: 325,000 sf were deleted from inventory during 2011 and 175,000 through q2 2012 due to market data updates and demolitions.





**As of second quarter 2012,
there are 1.1 million square feet
of retail space
under construction.**





CONCLUSIONS



Glass Half Full?



But full of what???





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



Growth is slow by historic standards because the U.S. economy is slow and incentives are perverse.



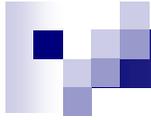


**The economy should
gain some momentum
(unless the Federal government does
something stupid)**



**There is a
BOOM
for Arizona
out there
somewhere.**





**But not in
2013.**





GREATER PHOENIX –

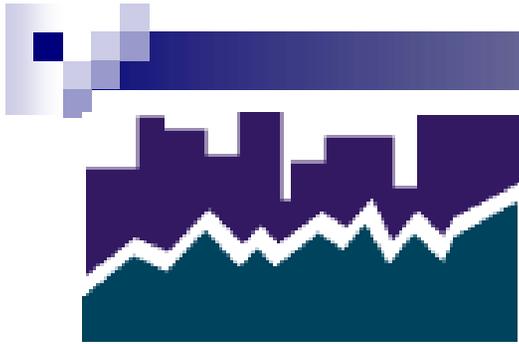
**Slow but mildly accelerating
recovery.**

2013 will be better than 2012

2014 will be better than 2013

2015 should be a good year.





ELLIOTT D. POLLACK ***& Company***

- **Economic and Fiscal Impact Analysis/Modeling**
- **Real Estate Market and Feasibility Studies**
- **Litigation Support**
- **Revenue Forecasting**
- **Keynote Speaking**
- **Public Finance and Policy Development**
- **Land Use Economics**
- **Economic Development**



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