



*Trying to Snatch Defeat from
The Jaws of Victory
(But it won't work...)*

Maricopa County Board of Supervisors
January 22nd, 2013

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



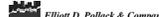
The economy we wanted...



What we got...



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



NATIONAL ECONOMY –

**Continued subpar growth.
But, recovery should continue.**
(unless the Federal Gov't does something stupid...)



FISCAL CLIFF
(still unresolved)

Causes great
uncertainty.



Keep your eye on the ball.

(The ball is deficit reduction).

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Best case scenario, The American Taxpayer Relief Act will reduce the deficit by \$737 billion over 10 years.

Total Reduction Needed: \$4-6 Trillion

*Source: Office of Management and Budget

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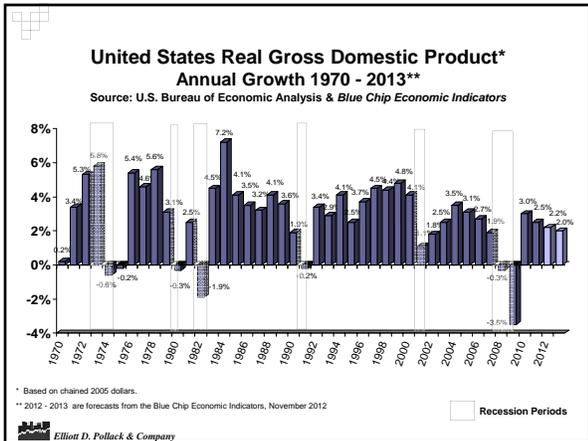
What we've got so far resolves only 12-15% of the problem.

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ObamaCare

- Uncertainty over costs
- Uncertainty over implementation

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At least we're growing!

And growth should continue, BUT...

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...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.

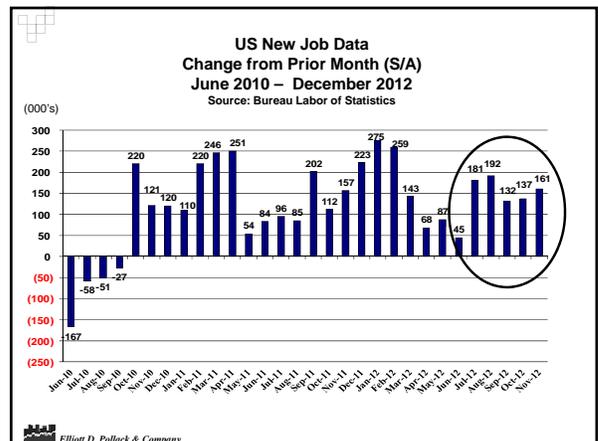
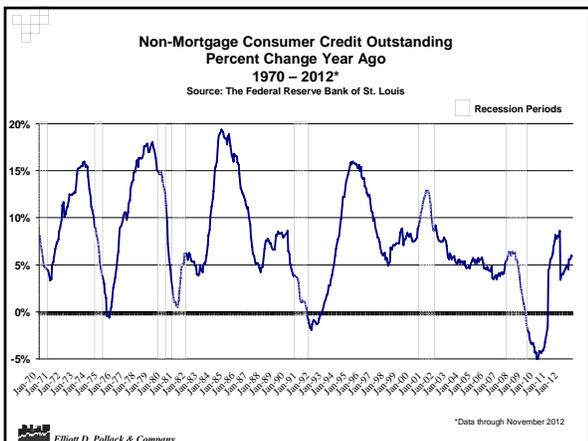
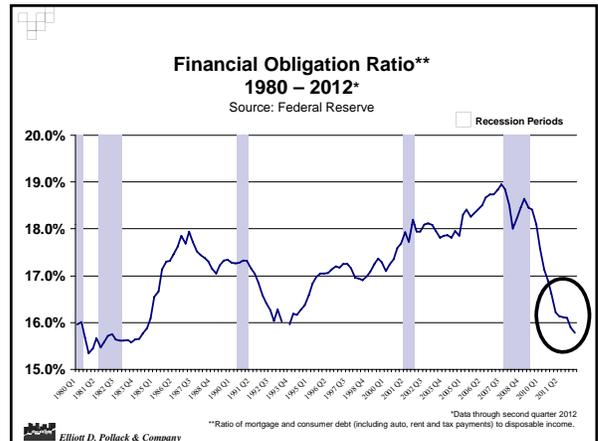
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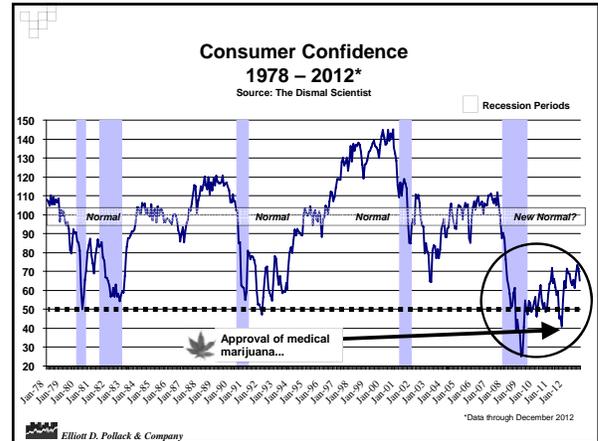
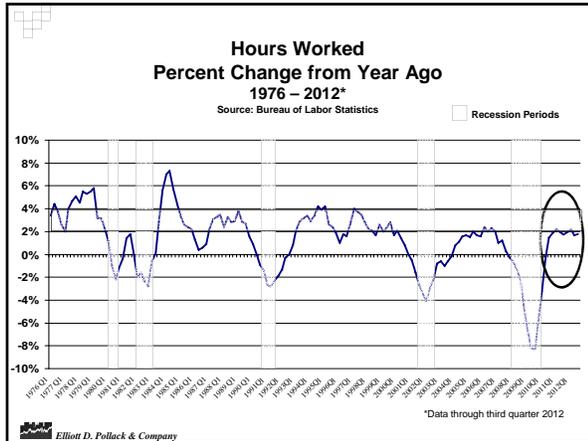
Consumers

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

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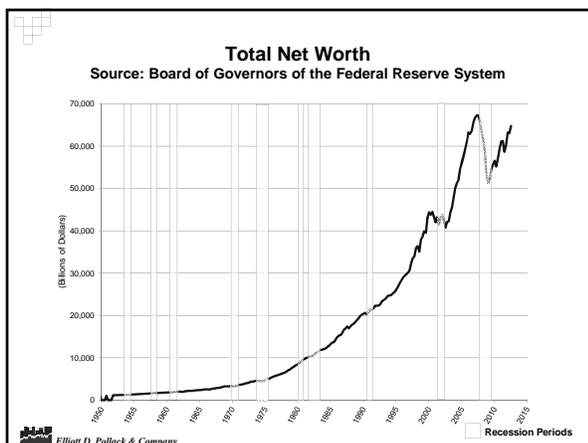
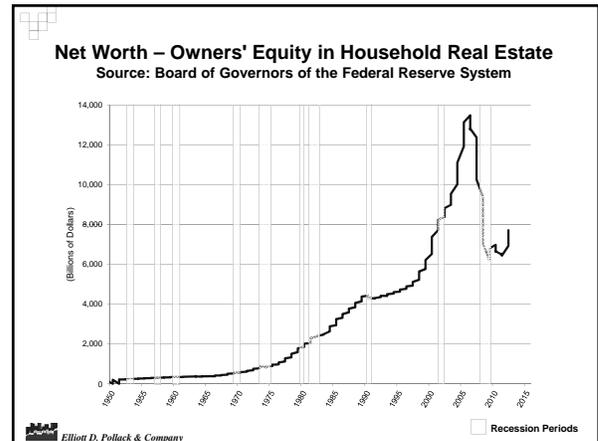




WEALTH EFFECT

Housing prices are up.
Stock market is up from a year ago.

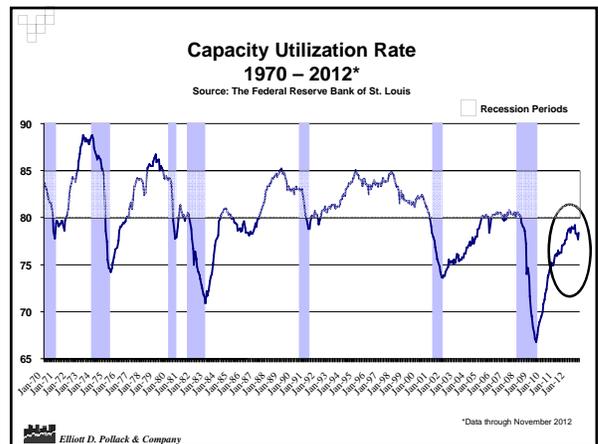
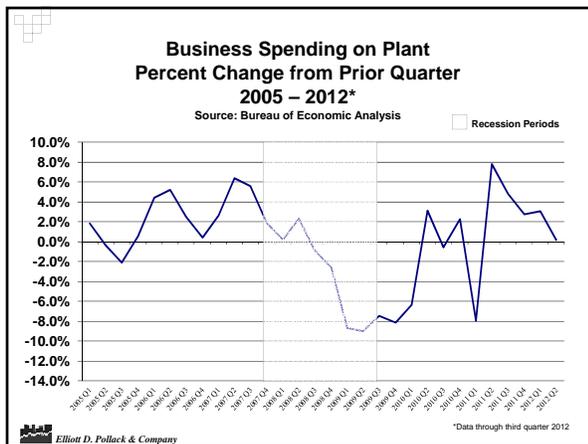
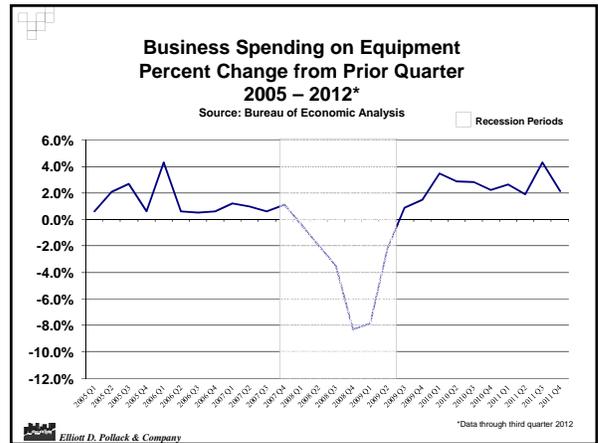
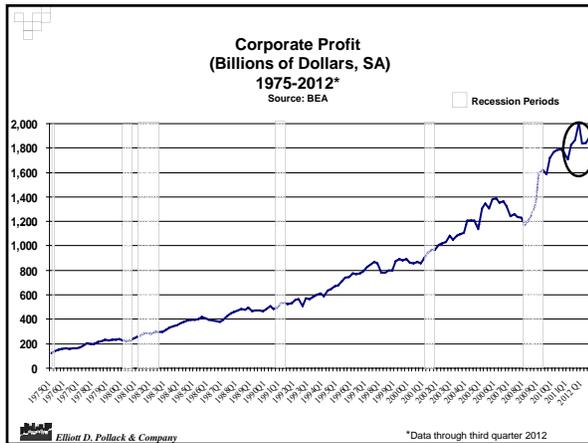
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Consumer Summary:

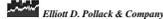
- Jobs are being created at a slow rate.
- Those that have jobs are spending a little more but will remain cautious.
- Unemployment to remain high, but should trend lower.
- Wealth levels are improving.
- Will the additional uncertainty translate into reduced consumer spending?

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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

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



Balanced Budget ?

EXPENDITURES	\$ tril
Discretionary (security – military, defense, 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

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



Balanced Budget ?

EXPENDITURES	\$3.796 trillion
RECEIPTS	\$2.469 trillion
= DEFICIT	\$1.327 trillion

Discretionary Expenditures = \$1.319 trillion

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

Balanced Budget ?

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

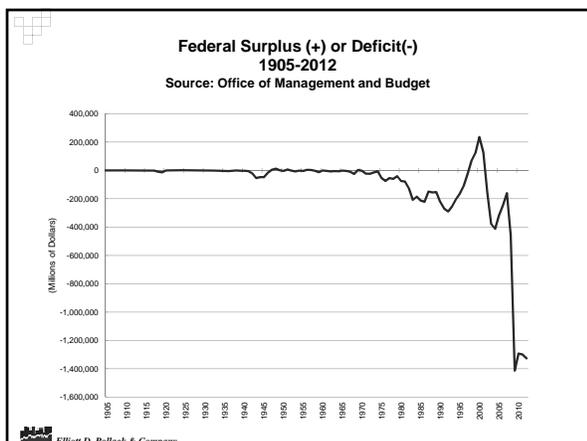
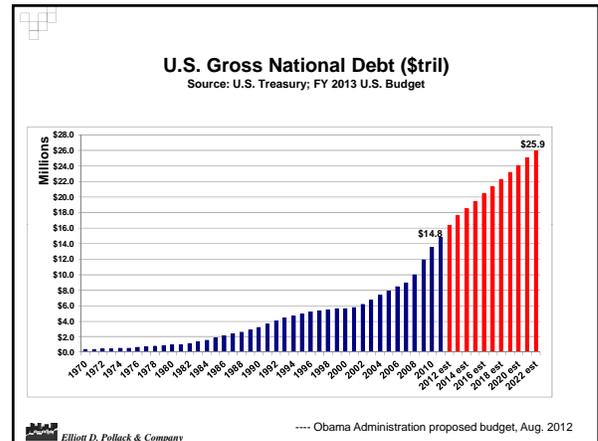
Source: U.S. Treasury; FY 2013 U.S. Budget

Balanced Budget ?

The federal debt scheduled to be:

\$16.2 trillion in 2013
\$25.9 trillion in 2022

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



What is the tipping point?

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It WILL happen but no one can tell when.

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You won't know what you're getting until it's **TOO LATE.**



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The reality is that there is no chance that the U.S. will default on its debt.

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What does the government need to do?

First, admit there is a problem

Second, deal with the problem.

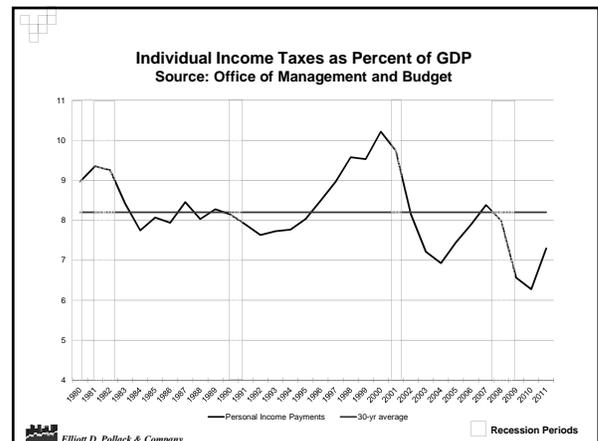
It will be painful and there is no easy way out.

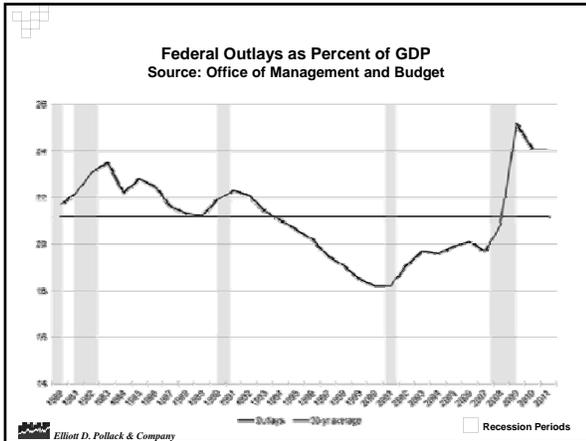
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What does the government need to do?

- 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!!!

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In 1930, the average life expectancy of someone entering the workforce was 66 years old.

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Today, the average life expectancy of someone entering the workforce is 79 years old.

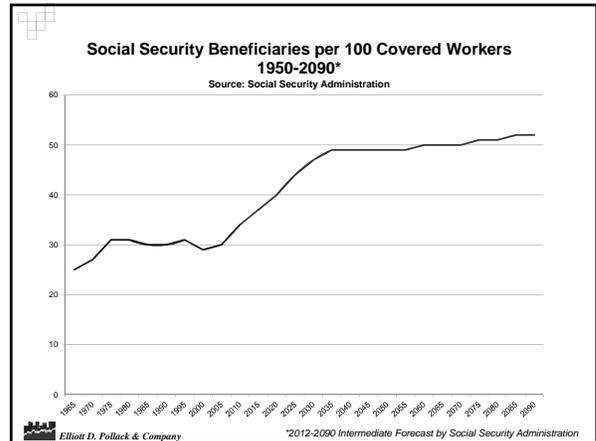
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In 1934, the retirement age was 65.

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Today, the retirement age is 67.

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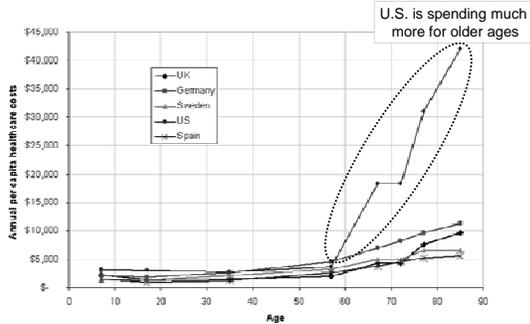


Today, persons 65 years and older represent 13% of the U.S. population.

In 2030, persons 65 years and older will represent nearly 23% of the U.S. population.

Per Capita Health Care Costs by Age

Source: "US-Europe Comparisons of Health Risk for Specific Gender Age Groups"



Government Summary:

- State & local under pressure.
- But, more revenues available in FY2013.
- Federal spending up but more slowly.
- Fiscal problem not resolved.

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
 - Fiscal Cliff?
- Federal government, no leadership whatsoever.



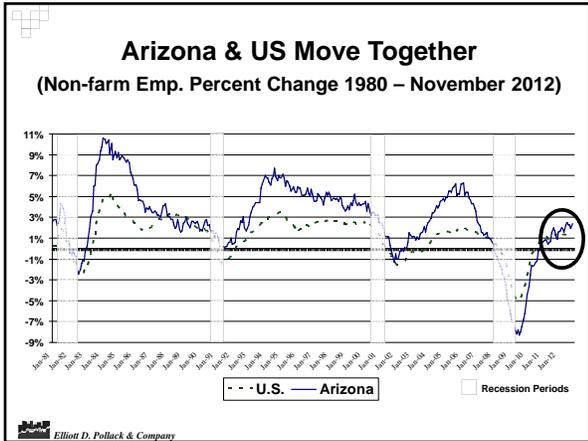
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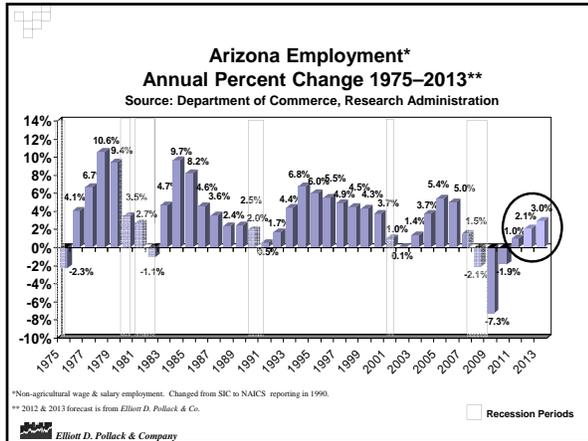
ARIZONA

Happy Birthday!!



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FISCAL CLIFF IN ARIZONA?

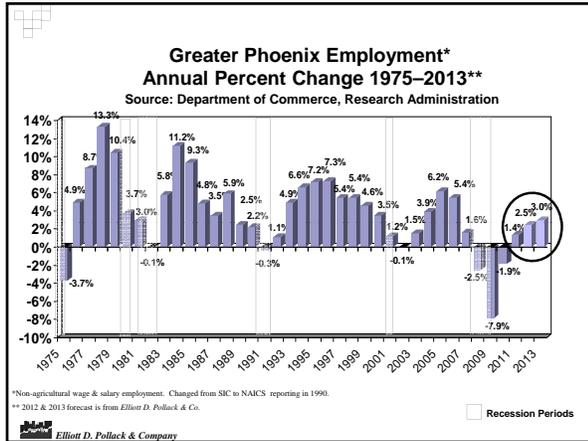
If the mandated spending cuts take place, total loss to Arizona is projected at:

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.

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Greater Phoenix Employment*

Source: Bureau of Labor Statistics

Sectors in Decline	Net Change	Sectors Improving	Net Change
Information	-600	Professional & Bus Services	9,700
Natural Resources & Mining	-100	Education & Health Services	9,700
		Trade, Transp, Utilities	9,600
		Leisure & Hospitality	6,200
		Government	5,300
		Construction	5,200
		Financial Activities	3,500
		Manufacturing	2,400
		Other Services	900

*Dec. 2012/ Dec. 2011

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Greater Phoenix- Jobs Finally in the Black

Over last 12 months:	51,800
12 months before that:	25,200
12 months before that:	10,900
12 months before that:	(122,000)
12 months before that:	(111,000)

* As of December 2012

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Greater Phoenix Jobs

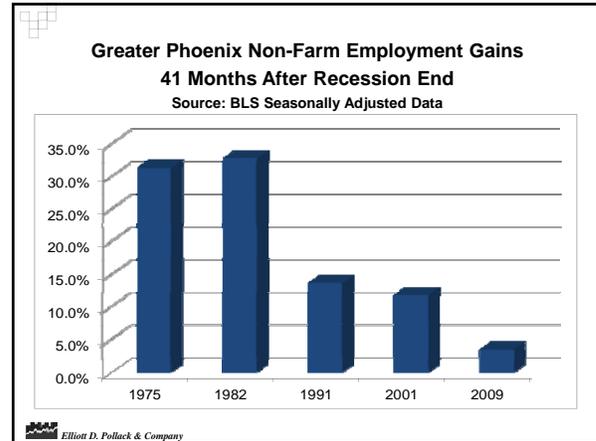
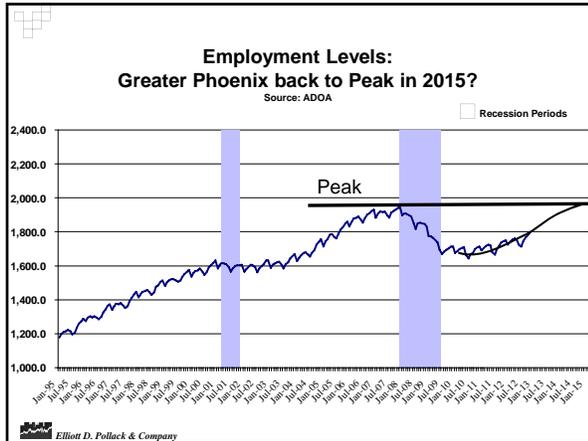
Source: BLS

Jobs lost Peak to Trough:	234,000
(Dec-07) (Jul-10)	
Jobs gained Trough to Current:	95,700
(Jul-10) (Dec-12)	

*****We are 41% of the way back*****

*Based on seasonally adjusted monthly data

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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*	3	25

*Year-to-date, December 2012

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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

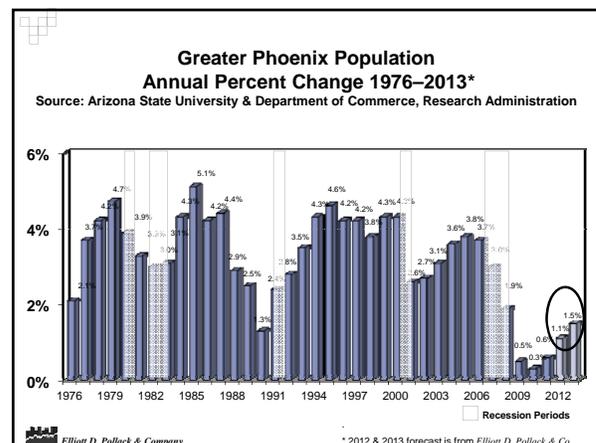
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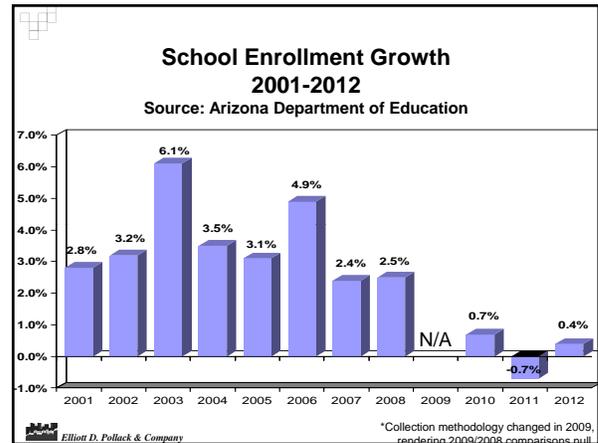
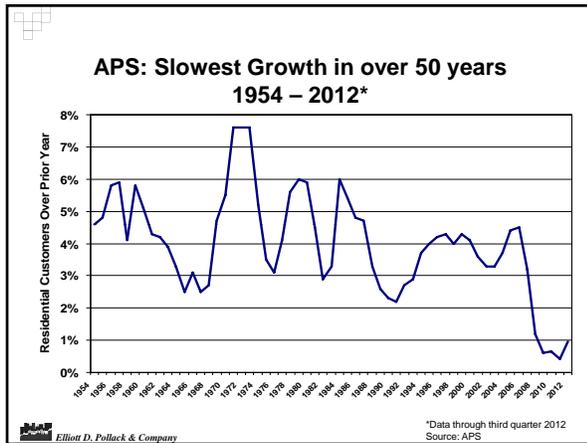
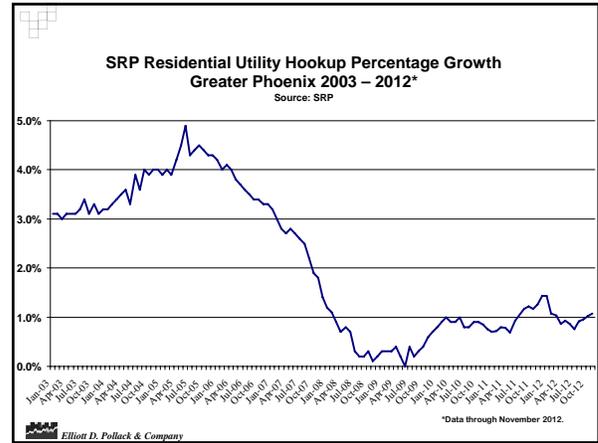
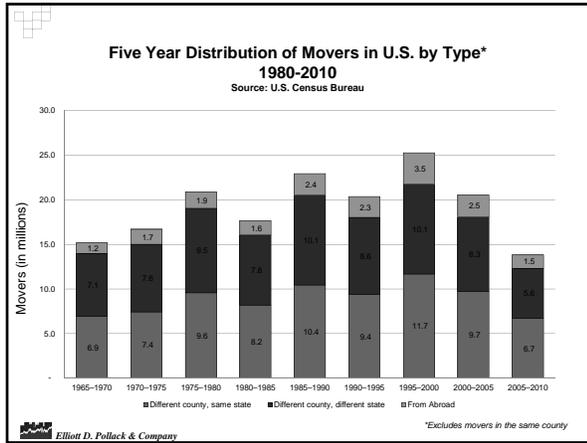
Maricopa County Population

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

Year	Population	Annual Rate
1950	331,770	
1960	663,510	7.2%
1970	971,228	3.9%
1980	1,509,175	4.5%
1990	2,122,101	3.5%
2000	3,072,149	3.8%
2010	3,817,117	2.2%
2020(forecast)	4,569,572	1.8%

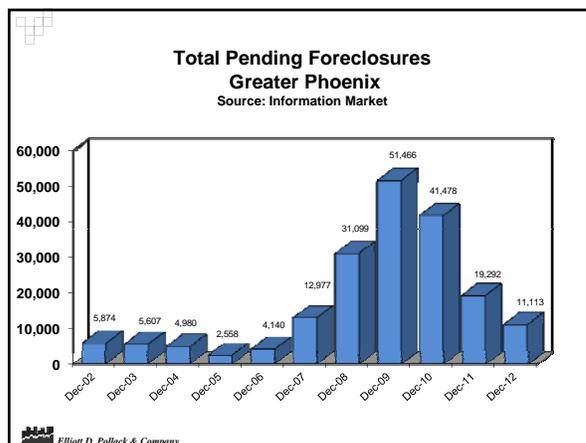
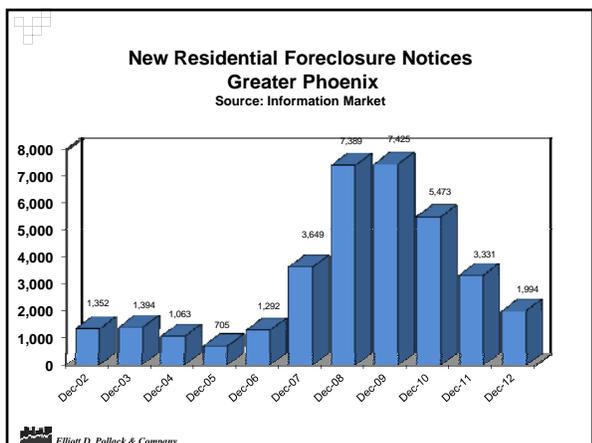
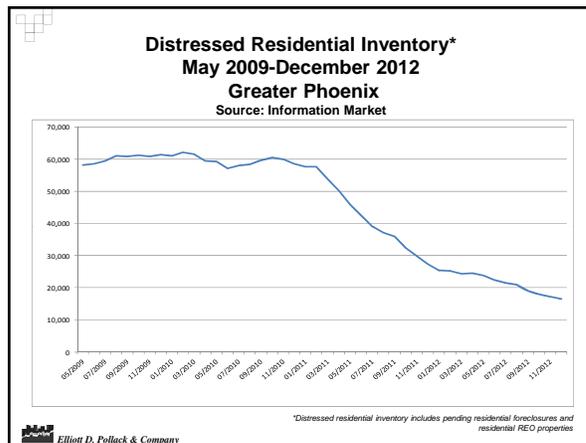
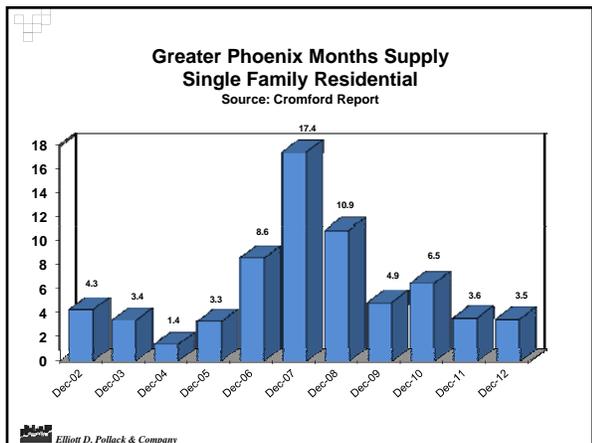
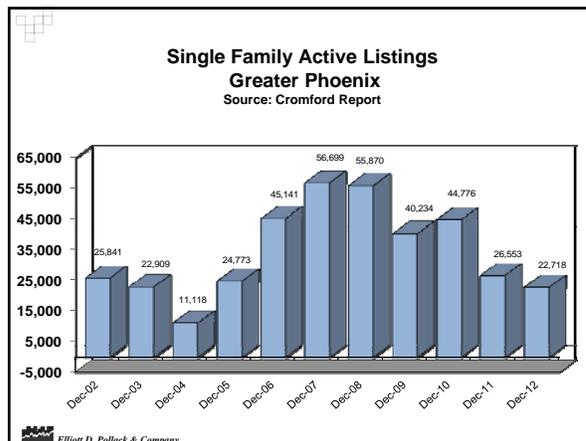
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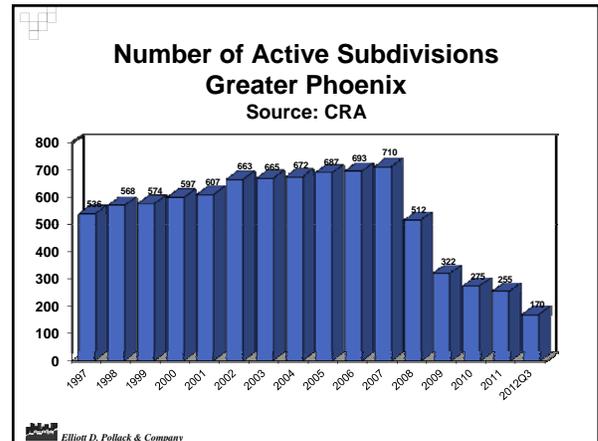
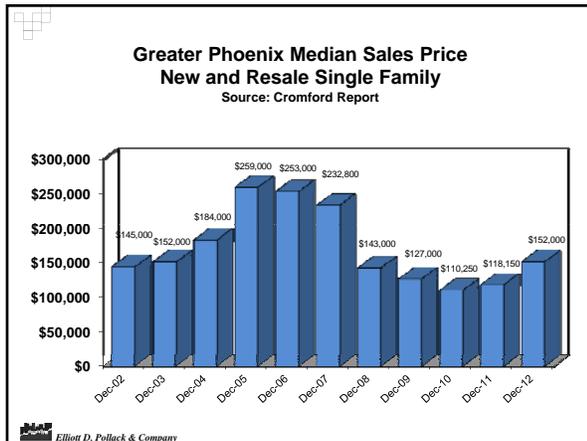
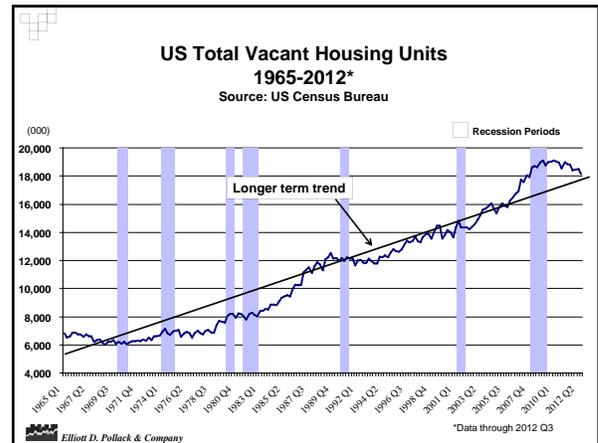
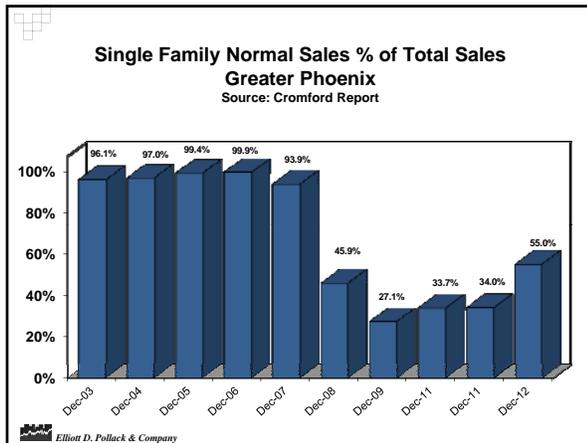




It's hard not to be optimistic about HOUSING

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Housing

Not a light switch...  Good
Bad

A dimmer switch...  Mediocre
Not great OK
Bad Good
Terrible Great

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- 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.



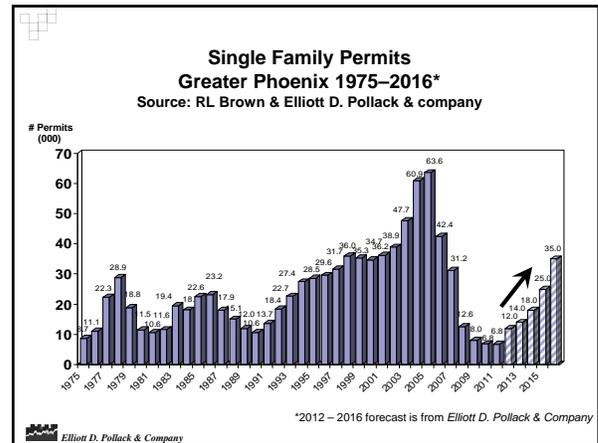
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Greater Phoenix Single Family Permits

Source: RL Brown

Year	Permits	% chg
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	6,794	-0.4%
2012*	10,974	73.7%

*Data through YTD Nov 2012 v. Nov 2011



**Price gains are greater in
distressed properties.**

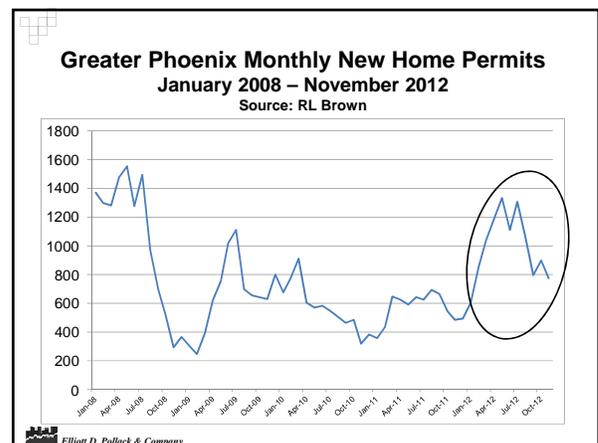
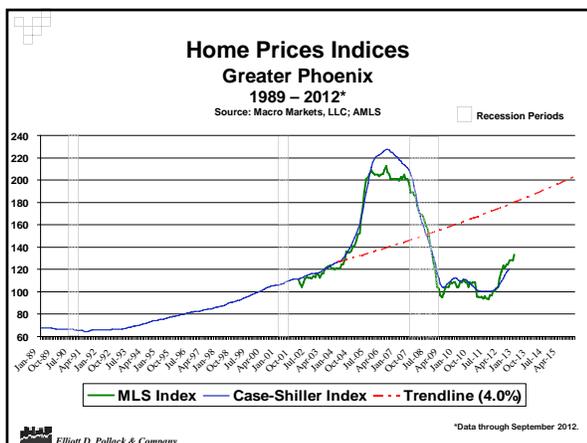
Growth in Single Family Home Prices November 2012 / November 2011

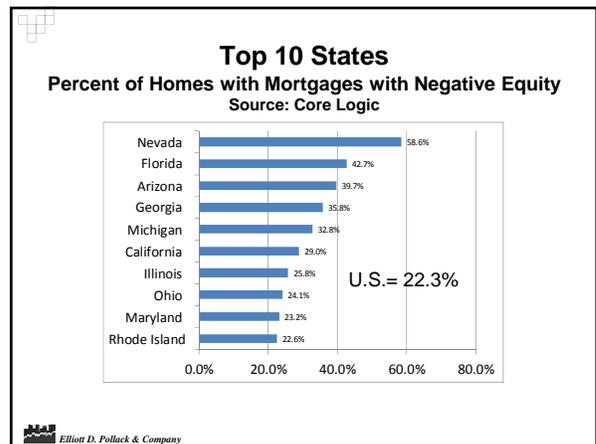
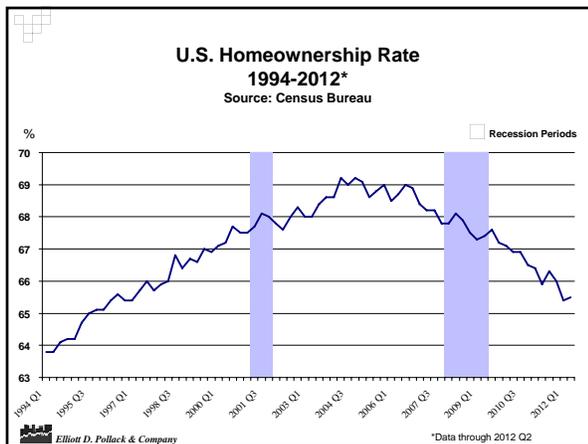
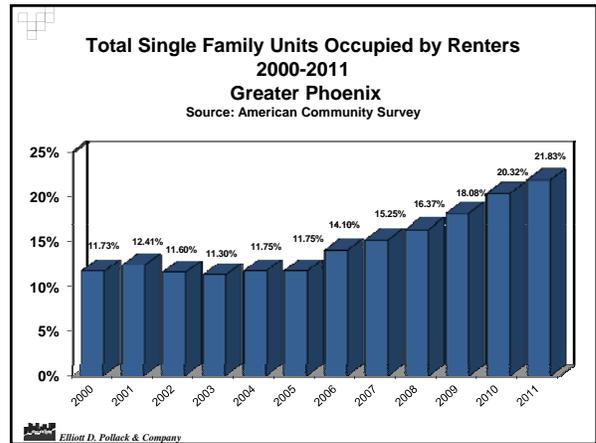
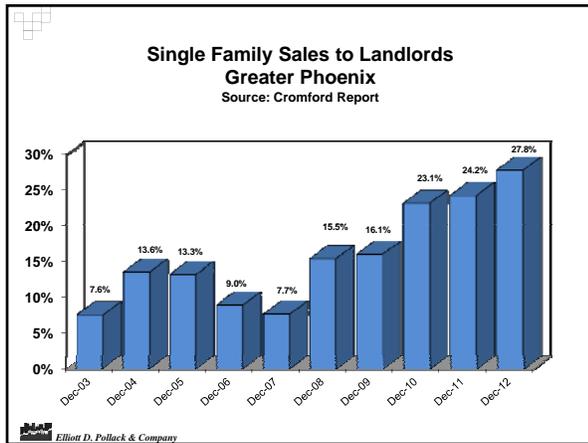
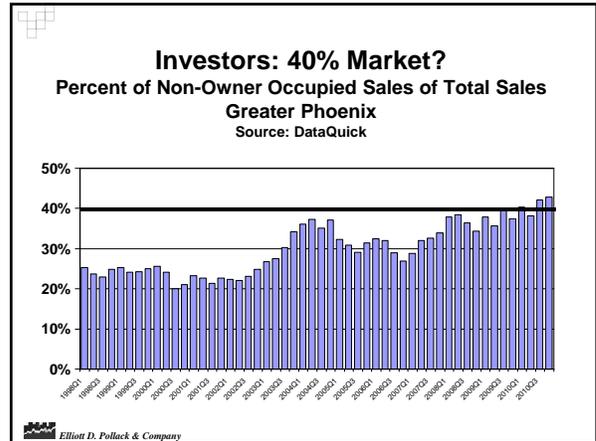
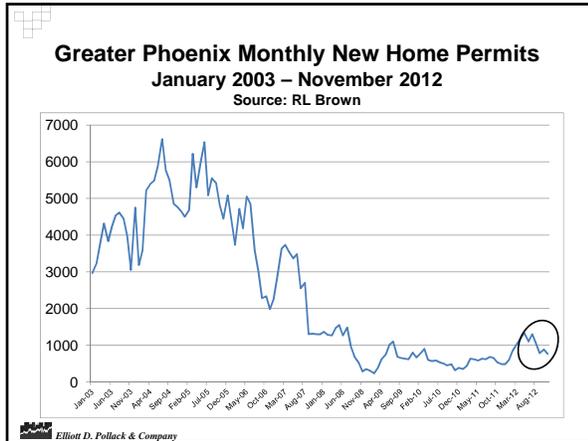
Source: ASU / MLS

New Homes: 9.5%

Resale Homes: 33.9%

NOTE: Resale includes normal and distressed single family home prices (MLS)

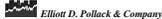




**Percent of Homeowners
by Market Status**
(National)
Source: CoreLogic

Homeowners that could be in resale market: **67%**
(Free & clear or LTV less than 90%)

Homeowners not in resale market: **33%**
(LTV greater than 90%)



**Also, about 40% of Households
are not credit worthy.**

Source: CoreLogic



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



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

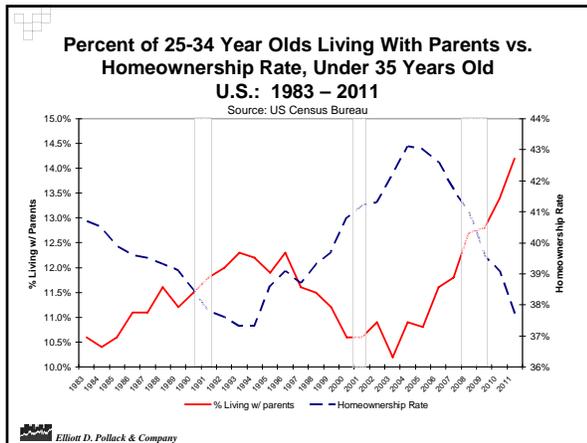


**As housing prices go up,
more and more people will be
able to sell their homes
because they aren't
underwater.**



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





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

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

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There are still issues...

- **Population flows**

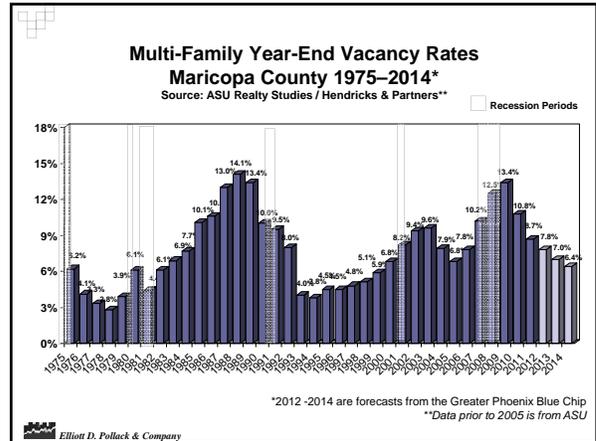
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So, we are on the right track.

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But, we are recovering, we are not recovered.

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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
2012q3	2,931	274

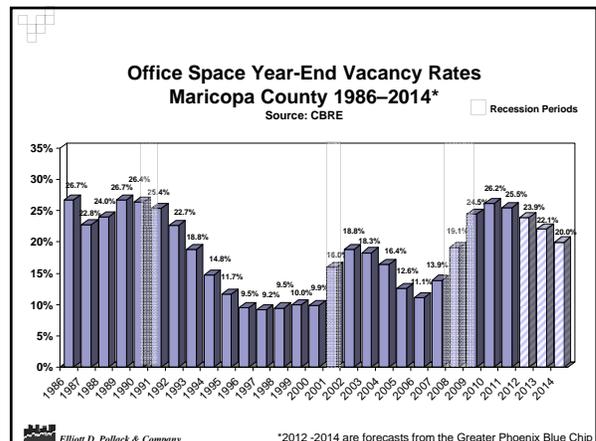
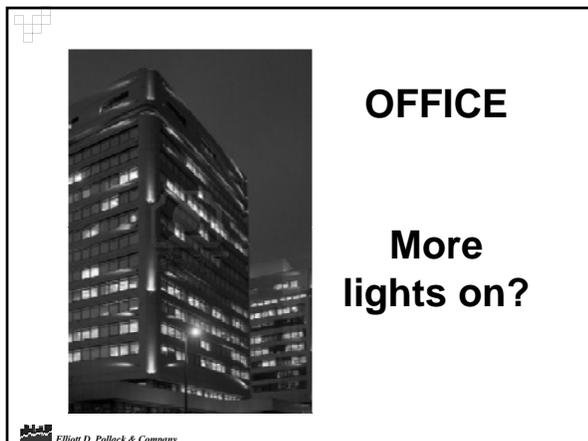
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Multi-Family Housing Market

Source: Cassidy Turley

Start Date	Total # of Projects	% of Projects	Total # of Units
2012/ U/C	25	35%	6,601
2013	25	35%	7,384
2014	12	17%	3,570
Undetermined	10	14%	2,588
TOTAL	72	100%	20,143

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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
2012q3	1,111,008	1,033,684

*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.

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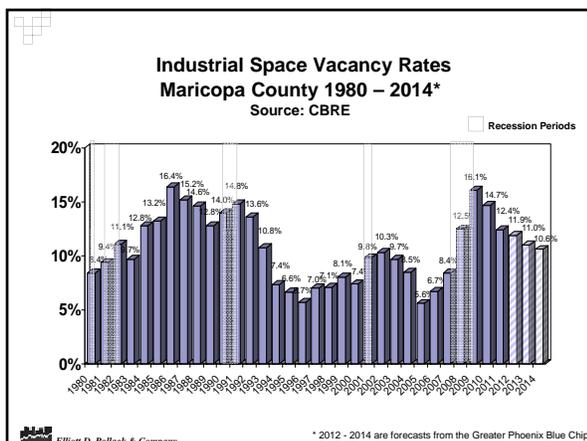
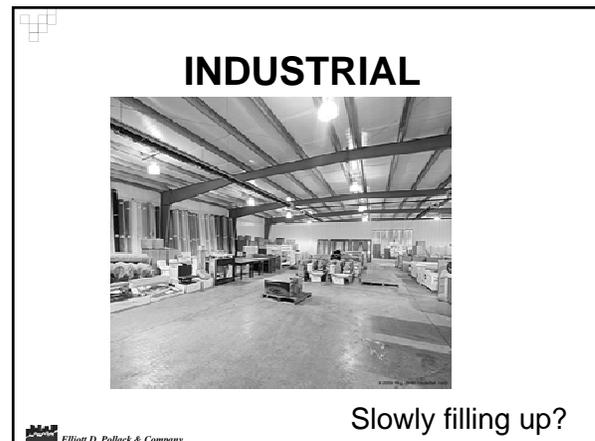
**As of third quarter 2012,
there are 300,975 square feet
of office space
under construction.**

Source: CBRE

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**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).**

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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
2012q3	6,093,132	2,132,574

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