



Economic Update

November 2008

Presented by:
Elliott D. Pollack

Presented to:
Maricopa County Board of Supervisors



Elliott D. Pollack & Company



What has been making the news?

Real Economy

- Consumer confidence;
- Manufacturing index
- Falling housing prices
- Declining GDP;
- Falling stock prices;
- Falling commodity prices;
- Job situation worsening.

Credit Markets

- Bail-out packages
- Fed Action





The Consumer





Basic Story

Consumer

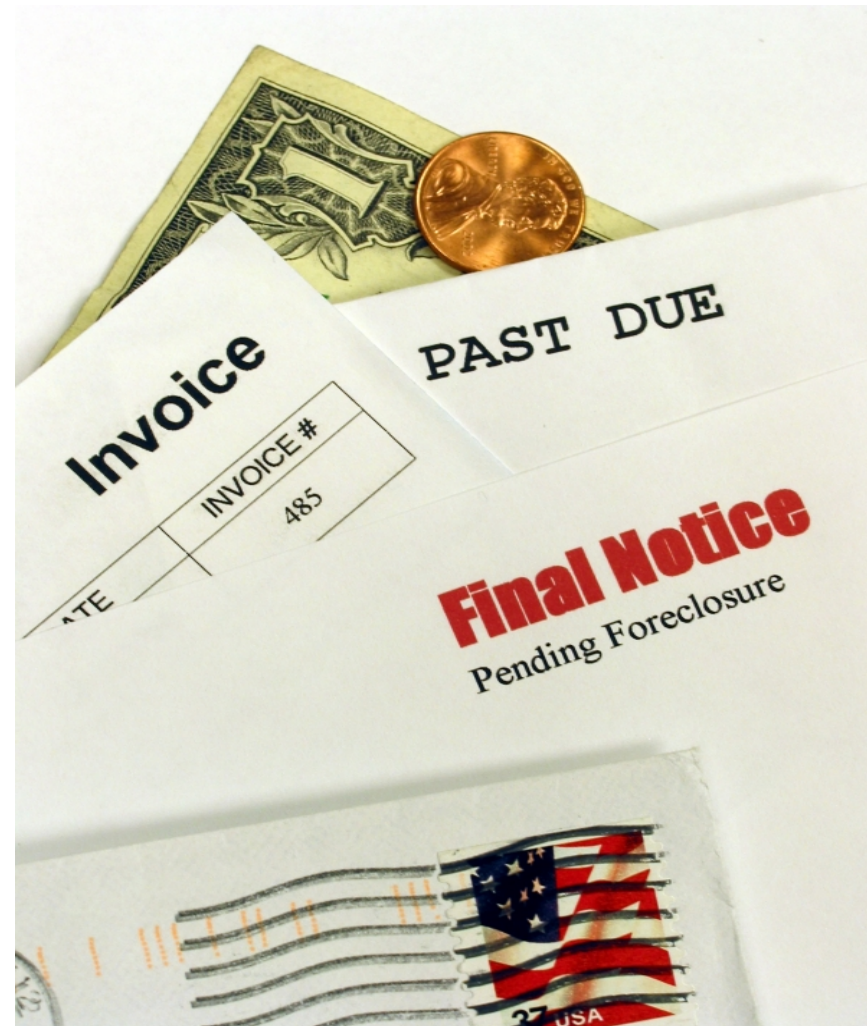
- Too much debt
- Not enough traditional savings
- Poor stock market and housing price performance
- Jobs and hours worked declining
- Prices on basic have been rising



The Result

Consumer

- Consumer spending squeezed
- Big cuts in spending on durables
- Also cuts in non-durables and services



Wealth Effect





What Will Happen to HH Net Worth?

In the 90s

Housing prices increased moderately,
but stock market boomed.

First half of 2000's

Stock market was doing poorly,
but housing prices boomed.

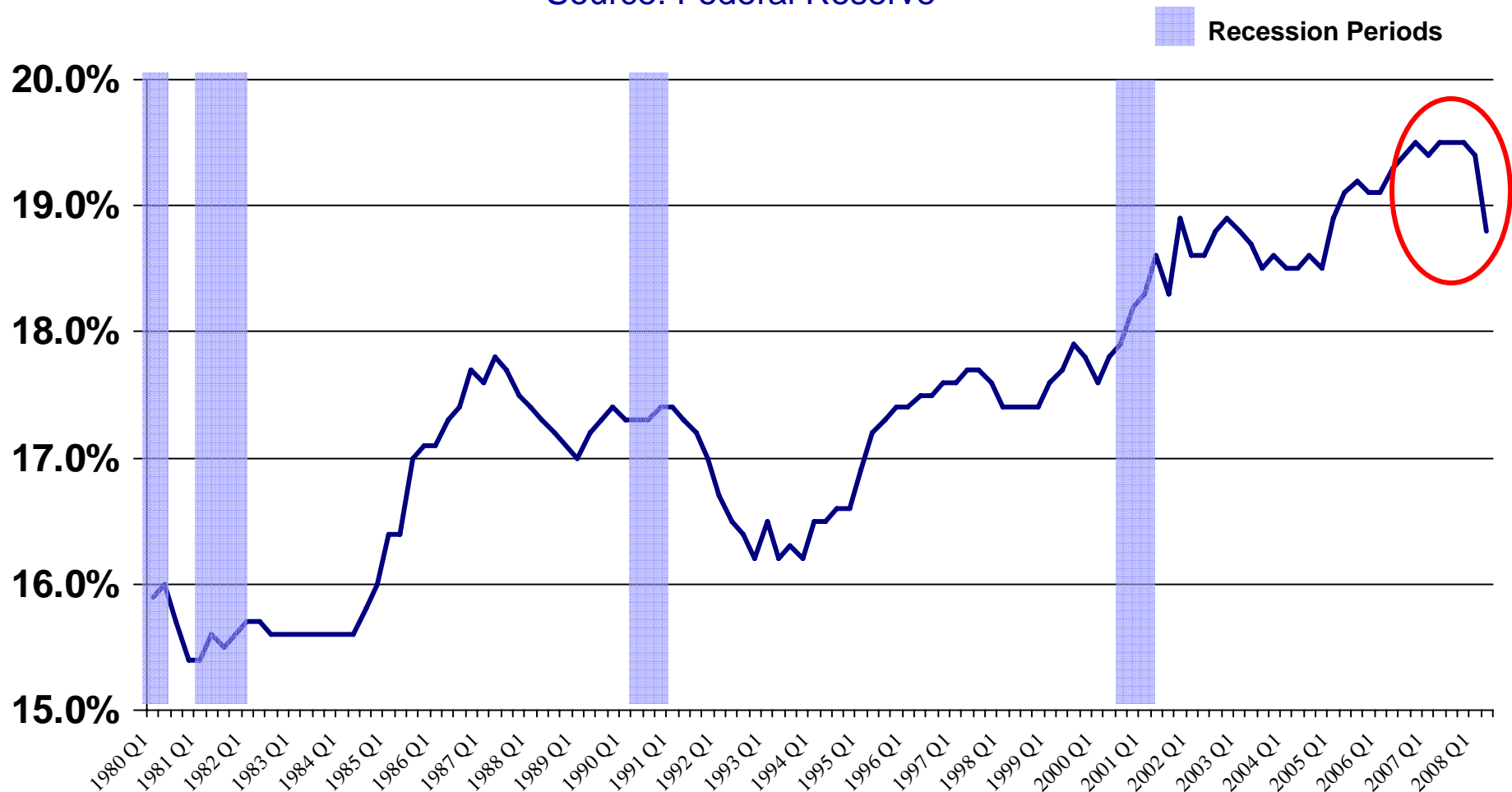
Now

Declining housing prices AND
poor results in the stock market.



Financial Obligation Ratio** 1980 – 2008*

Source: Federal Reserve



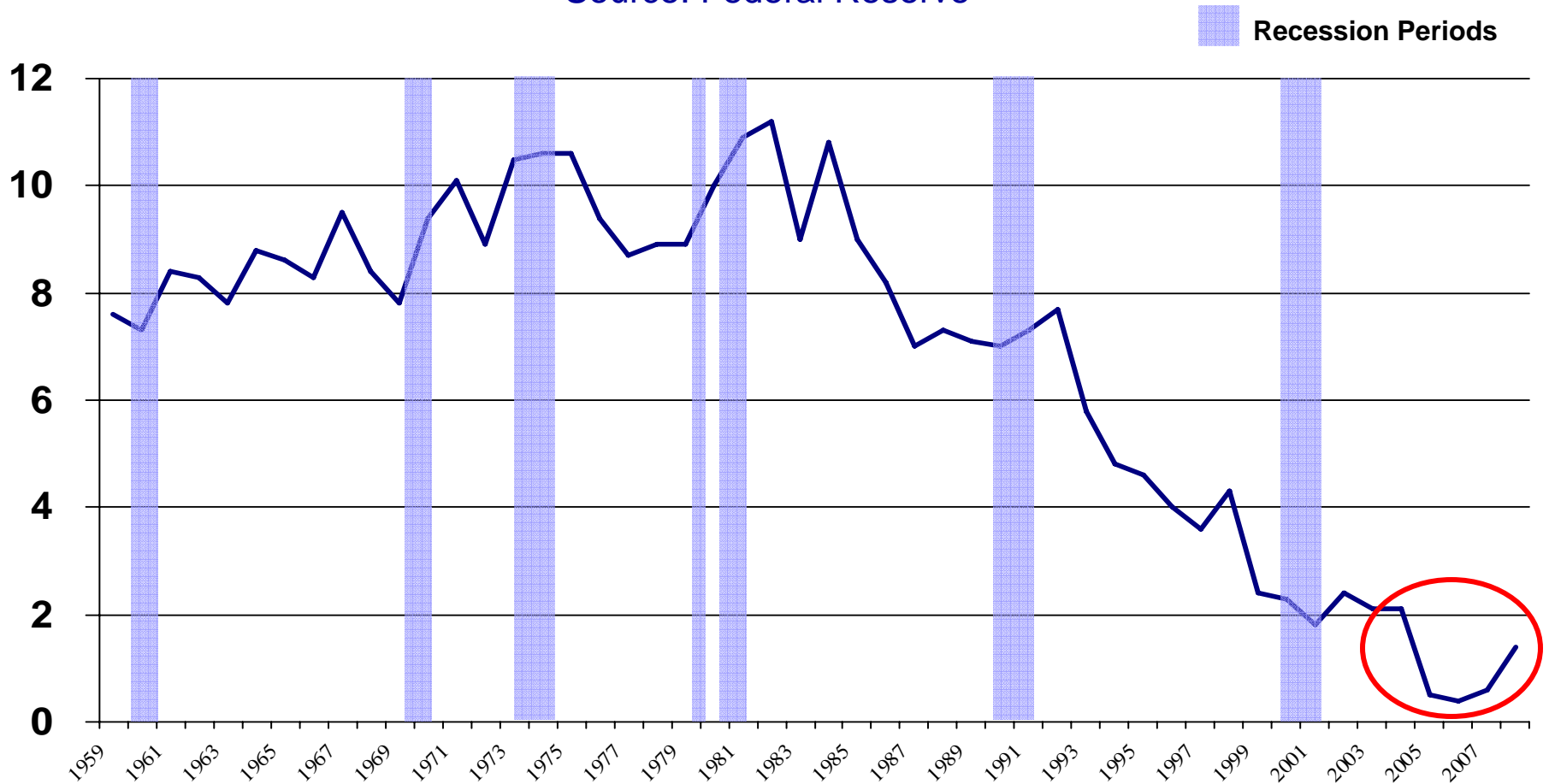
*Data through second quarter 2008

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



Savings Rate 1980 – 2008*

Source: Federal Reserve

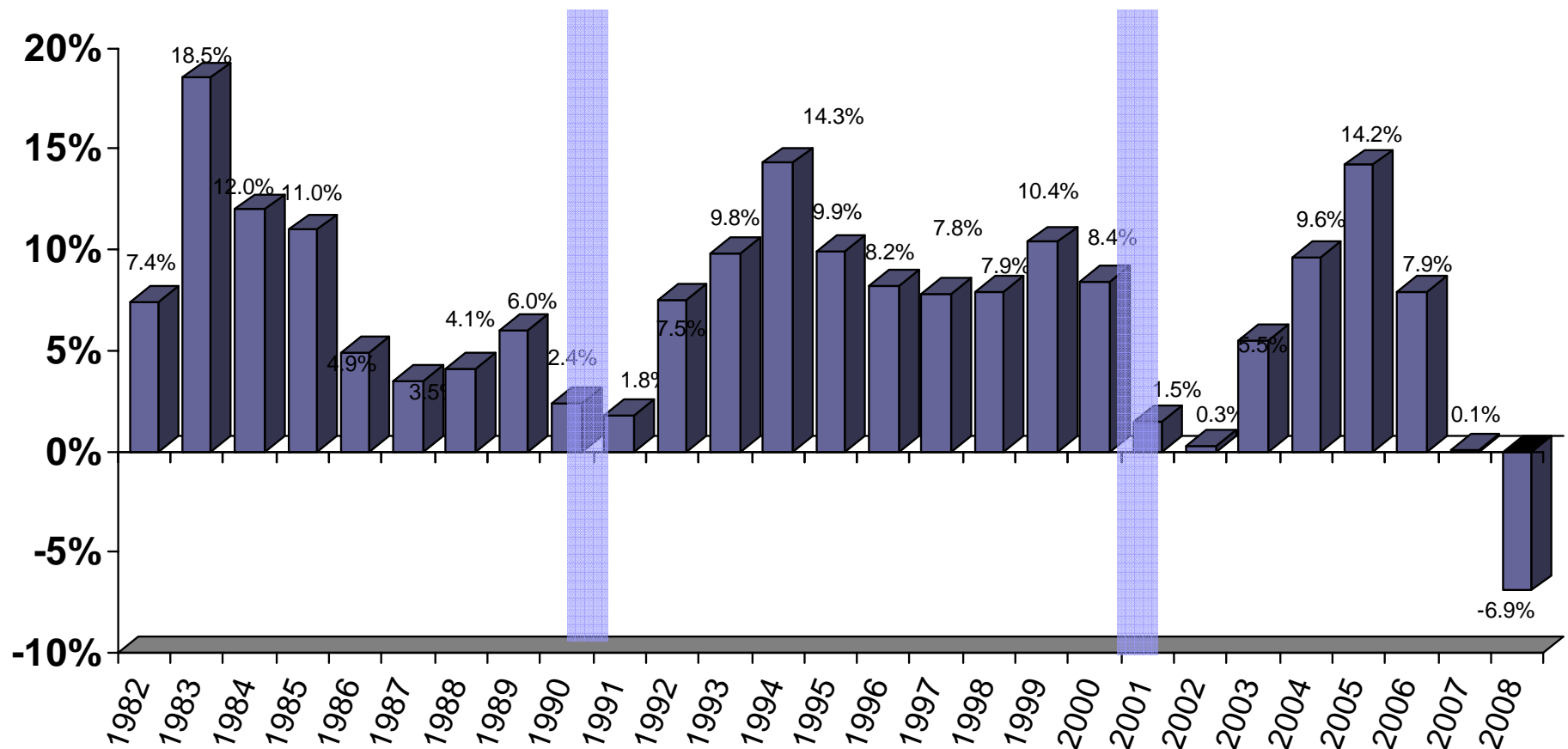


*Data through third quarter 2008



Maricopa County Retail and R&B Sales Annual Growth 1982 – 2008*

Source: ADOR



* Year-to-date through August 2008

 Recession Periods

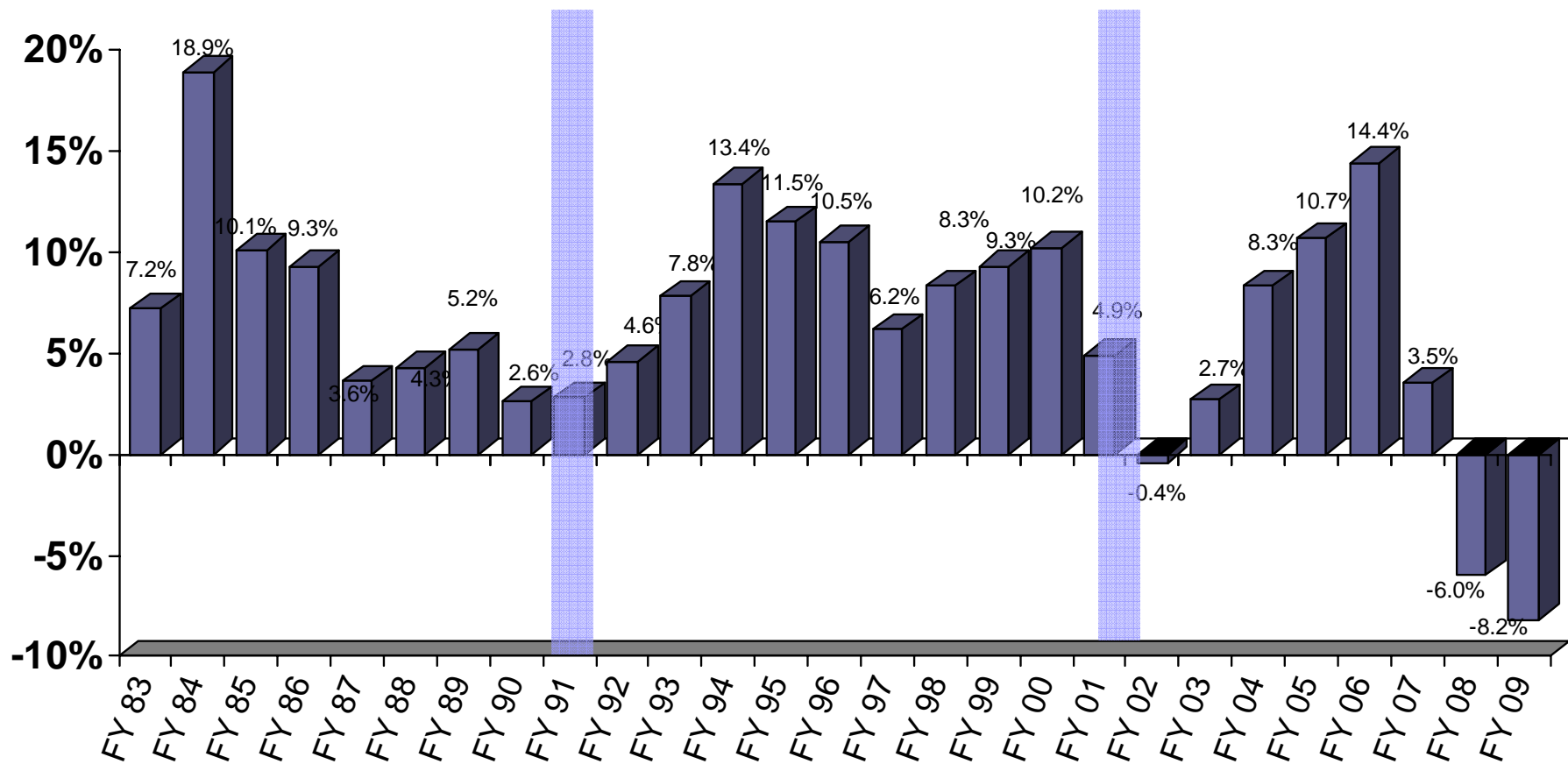


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Maricopa County Retail and R&B Sales by Fiscal Year

Annual Growth FY 83 – FY 09*

Source: ADOR



* Fiscal year-to-date through August 2008

 Recession Periods



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It's not just Retail

FY09 Maricopa County TPT

Source: ADOR


TPT Category	FY 08	FY 09 YTD (Sept)
Amusement	4.2%	-0.1%
Communications	6.5%	-13.2%
Contracting	-10.0%	-22.4%
Hotel / Motel	0.4%	-6.6%
Printing / Advertising	-1.4%	-21.1%
Rental of Personal Prop.	-6.7%	-6.0%
Restaurant & Bars	-0.1%	-5.3%
Retail	-5.8%	-10.6%
Utilities	7.3%	11.5%
Total	-4.6%	-10.3%





Housing





**Tighter lending standards
and a weak economy
act as a drag on the
housing market.**



It's Not Just Subprime

2008 Q1- Arizona

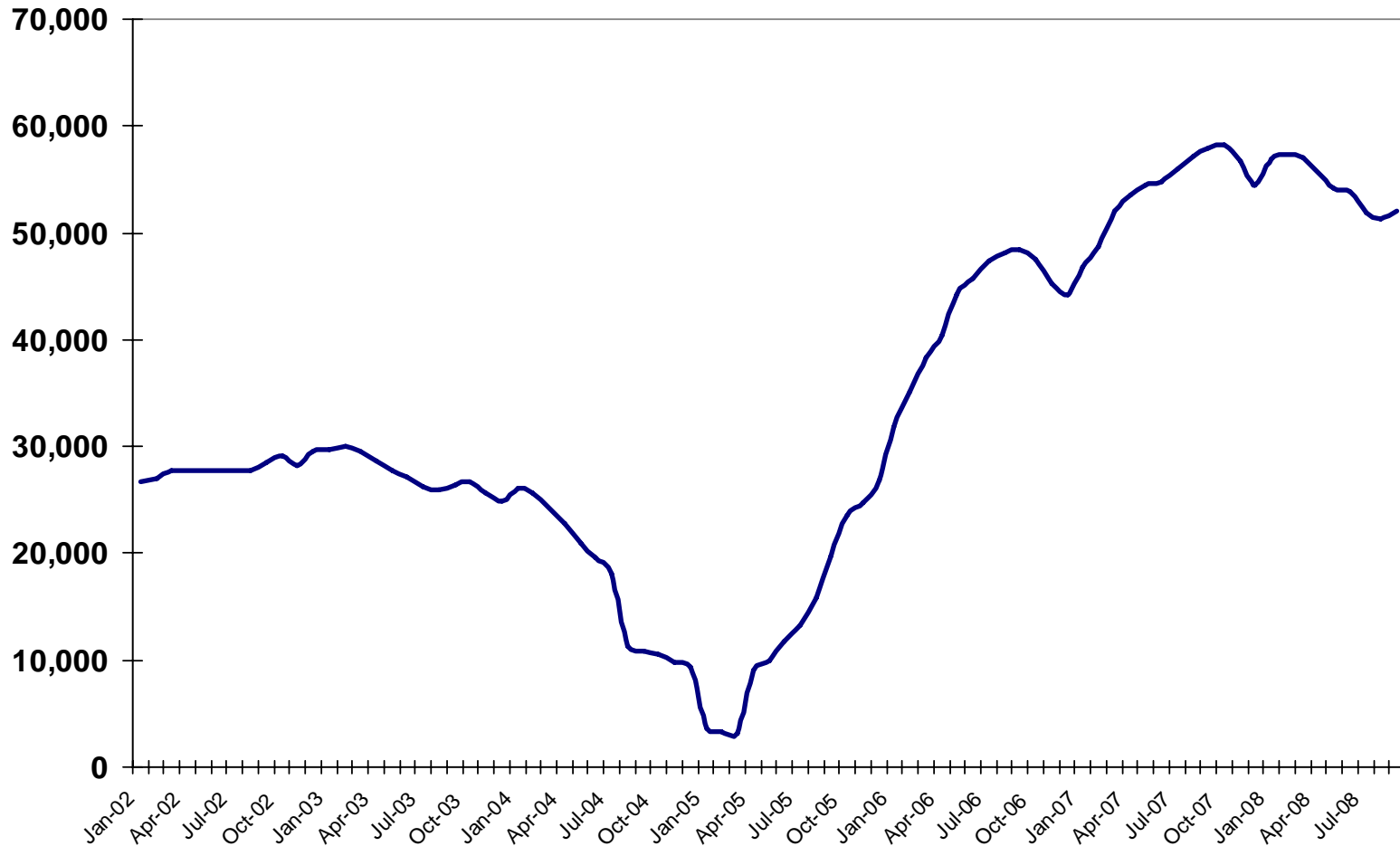
Source: Mortgage Bankers Association

Loan Type	AZ Share of Loans	AZ Share of Foreclosures
Prime Fixed	57.2%	14.2%
Prime ARM	19.8%	23.7%
Sub Fixed	4.9%	6.4%
Sub ARM	9.8%	52.6%
FHA	4.9%	2.2%
VA	2.3%	0.7%
Other	1.1%	0.3%
Total	100%	100%



Greater Phoenix Listings

January 2002 - September 2008
Source: AMLS





Maricopa County Inventory to Sales Ratio (Single Family Sales as a Percent of Inventory)

Source: ASU Realty Studies

Year	Resale	New
■ 2002	7.2 %	3.4 %
■ 2003	8.2 %	3.6 %
■ 2004	10.8 %	3.8 %
■ 2005	11.2 %	4.3 %
■ 2006	6.5 %	3.7 %
■ 2007	4.8%	2.6%
■ 1982-2004	6.6 %	2.6 %
As of 2008q2 this means...	70,000	28,200





Maricopa County Single Family Sales

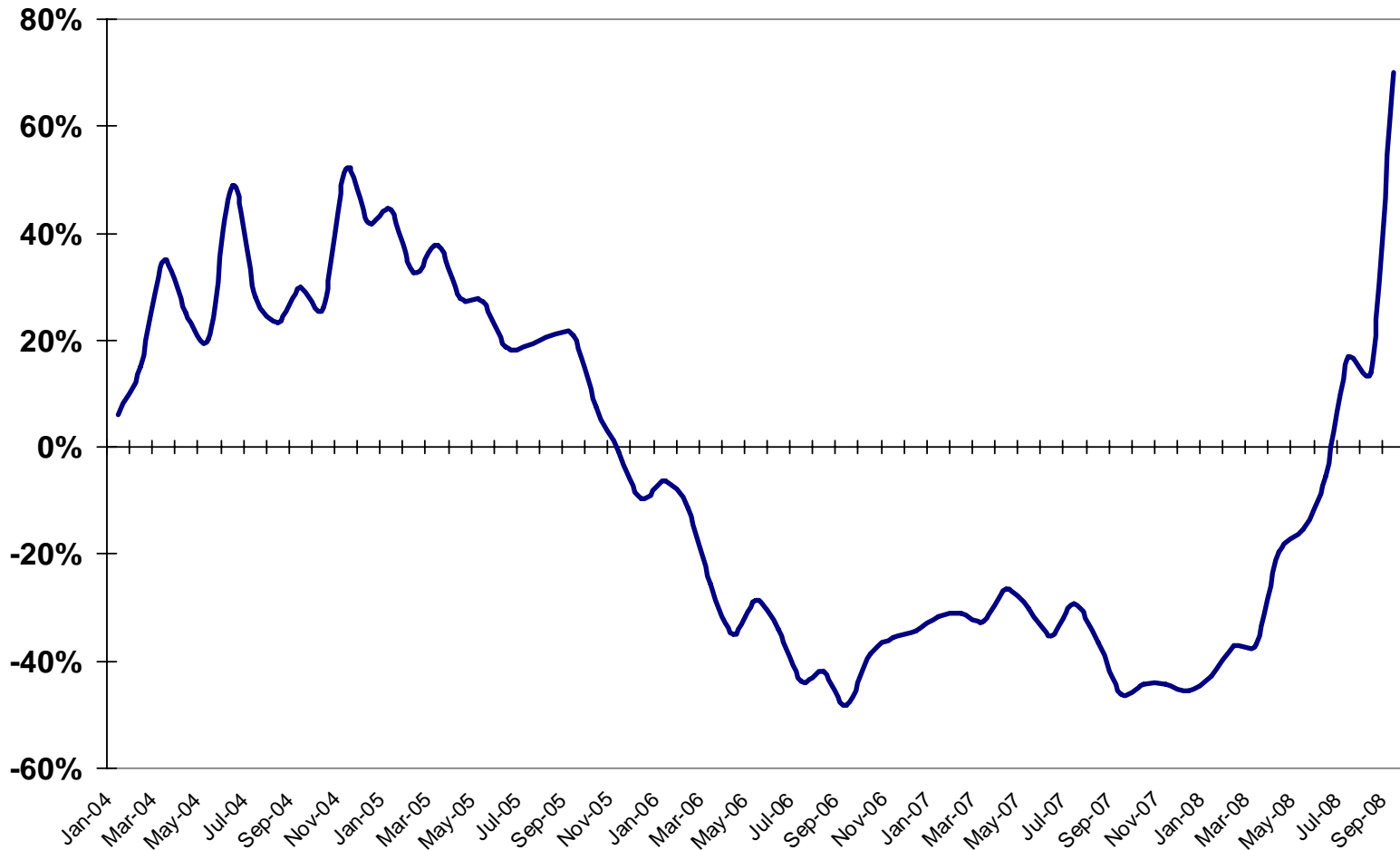
Source: ASU Realty Studies

Year	Resale	New Sales
2002	62,618	29,122
2003	73,786	32,699
2004	102,111	36,106
2005	110,819	42,537
2006	67,030	38,484
2007	50,974	27,332
2008 – first half	35,649	7,626



Greater Phoenix Resales Percent Change Year Ago January 2004 – September 2008

Source: R.L. Brown



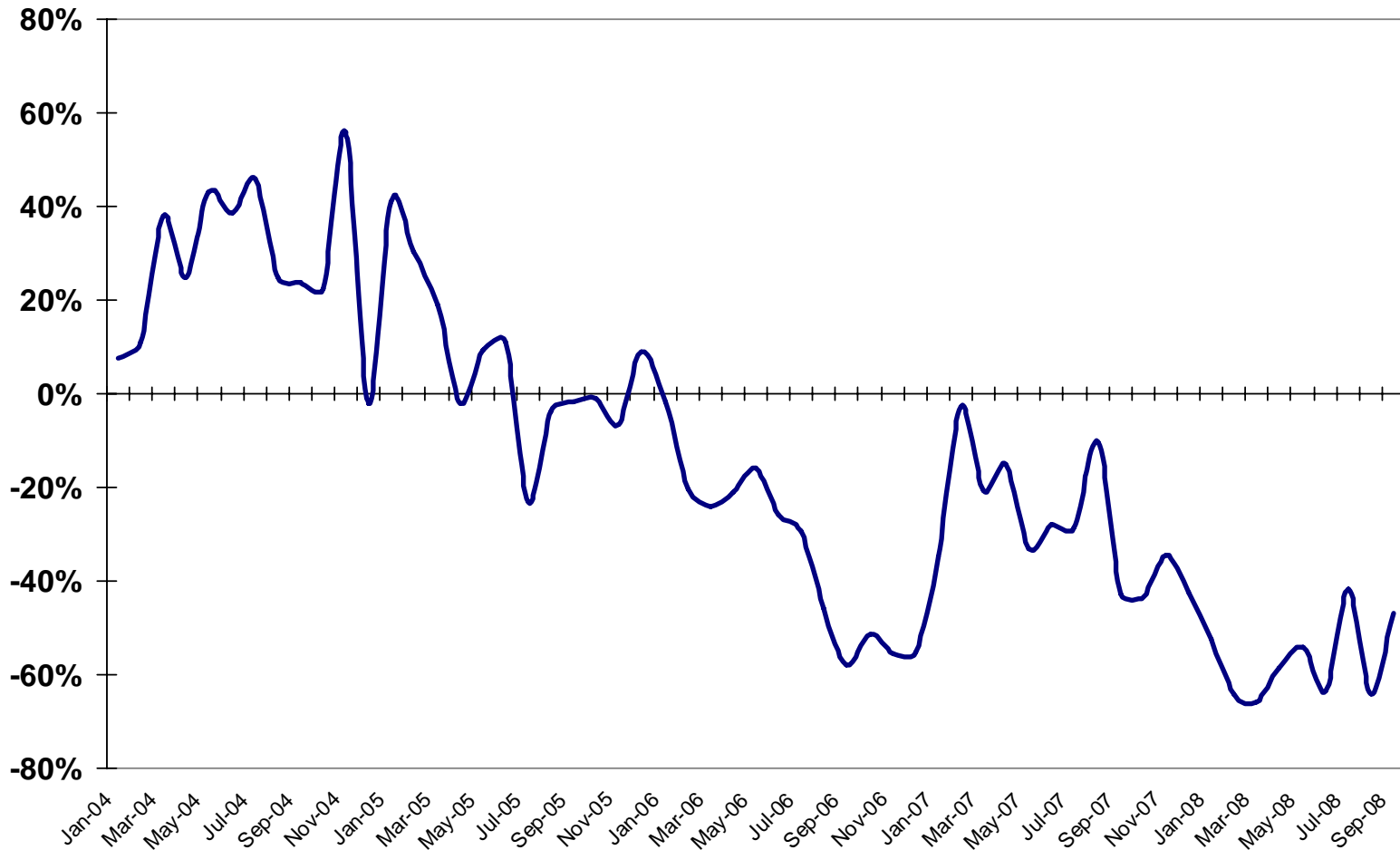
**During September of 2008 in
Greater Phoenix:
- 49.7% of all resales
were foreclosures.**

Source: R.L. Brown



Greater Phoenix Permits Percent Change Year Ago January 2004 - September 2008

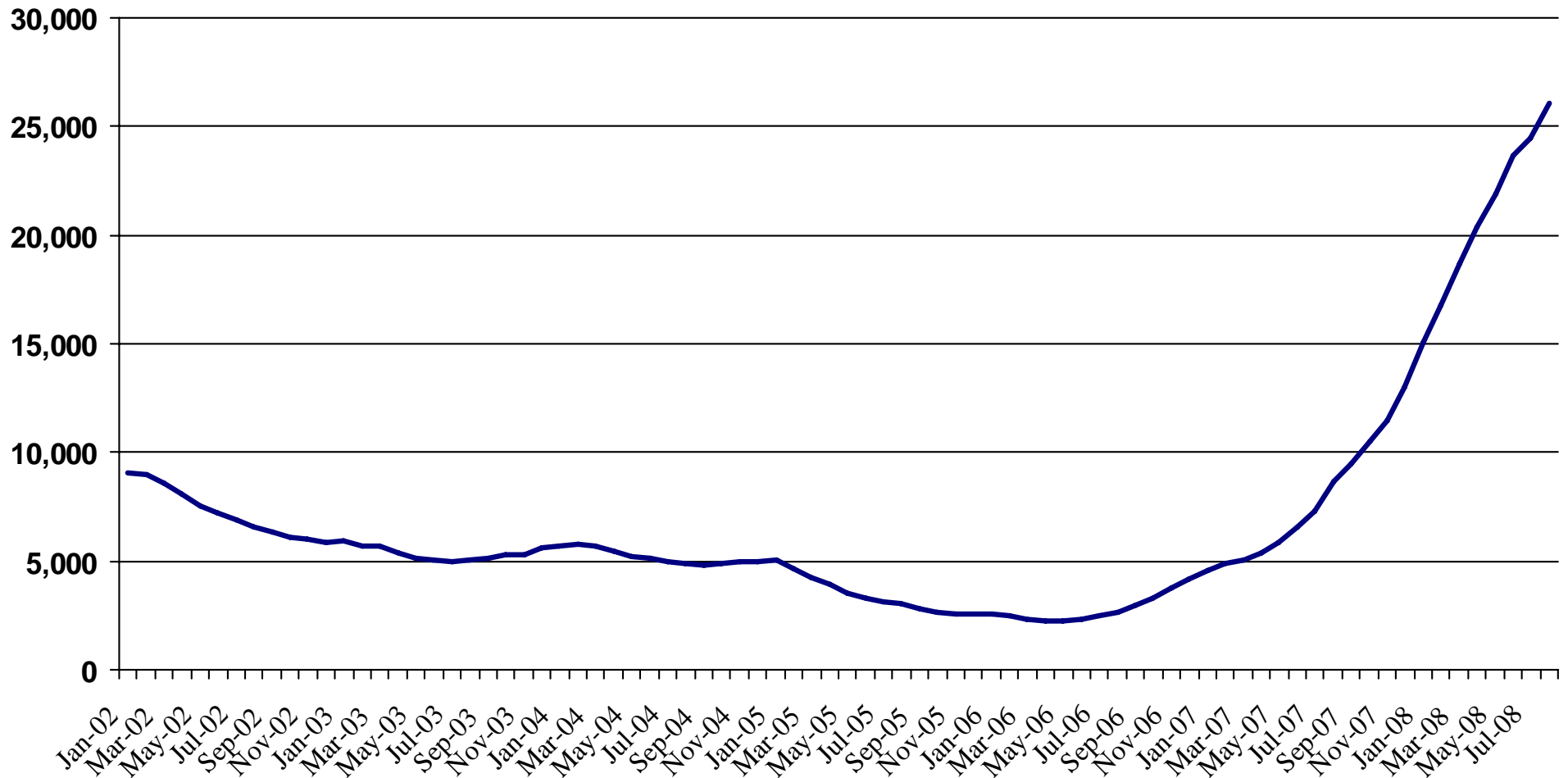
Source: R.L. Brown





Properties in the Foreclosure Process Maricopa County 2002 – 2008

Source: The Information Market

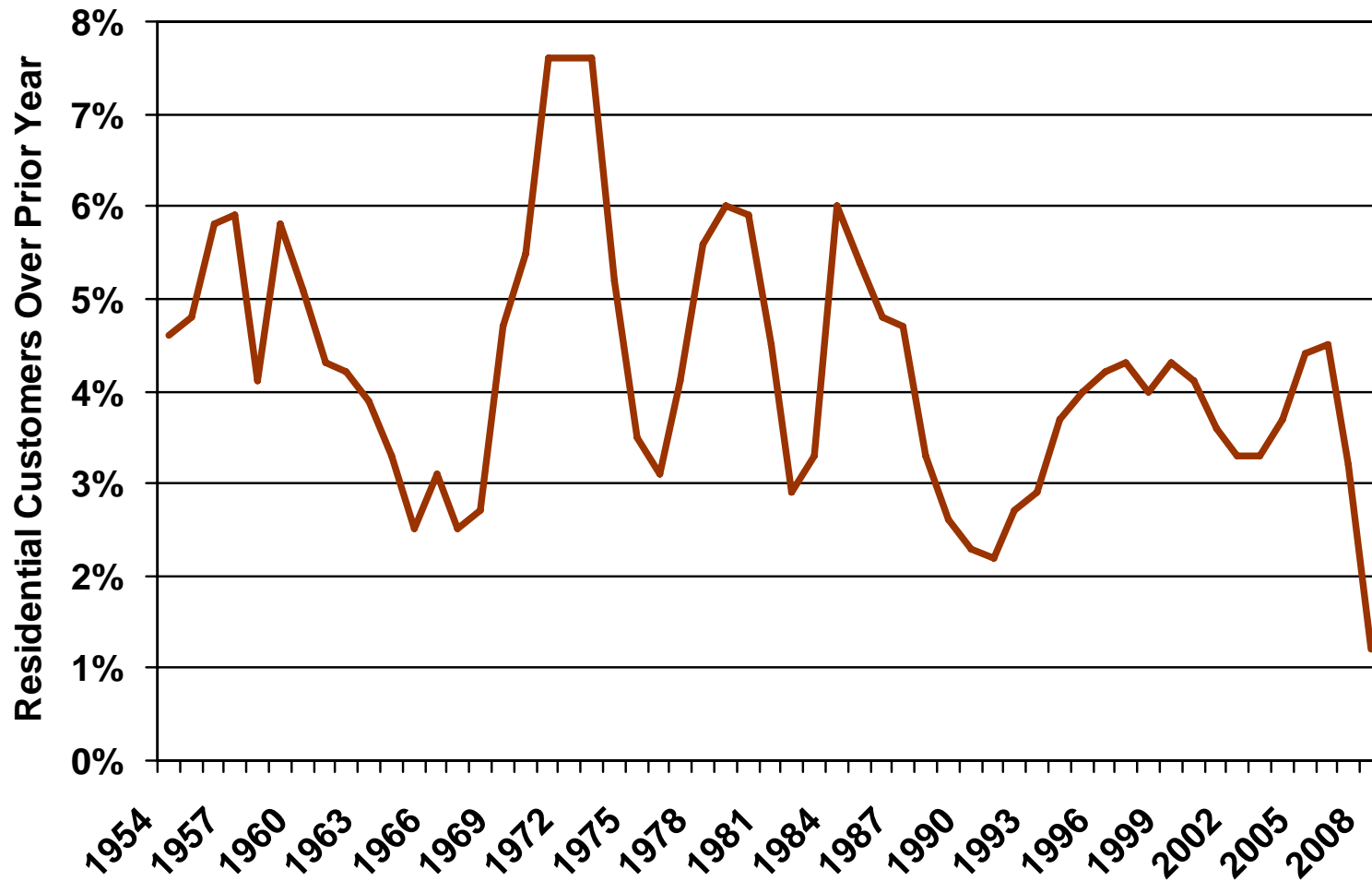




DEMAND For Greater Phoenix



APS Experiencing Slowest Growth in 40 years





Greater Phoenix Housing Demand

Old Analysis

125,000 new residents each year

80% single family

2.5 persons / housing unit

= 40,000 single family units

New Analysis

80,000 new residents each year

75% single family

2.7 persons / housing unit

= **19,300** single family units






Greater Phoenix Housing Demand

20,000 single family units demanded

14,000 new housing units per year

= 6,000 eating into excess each year



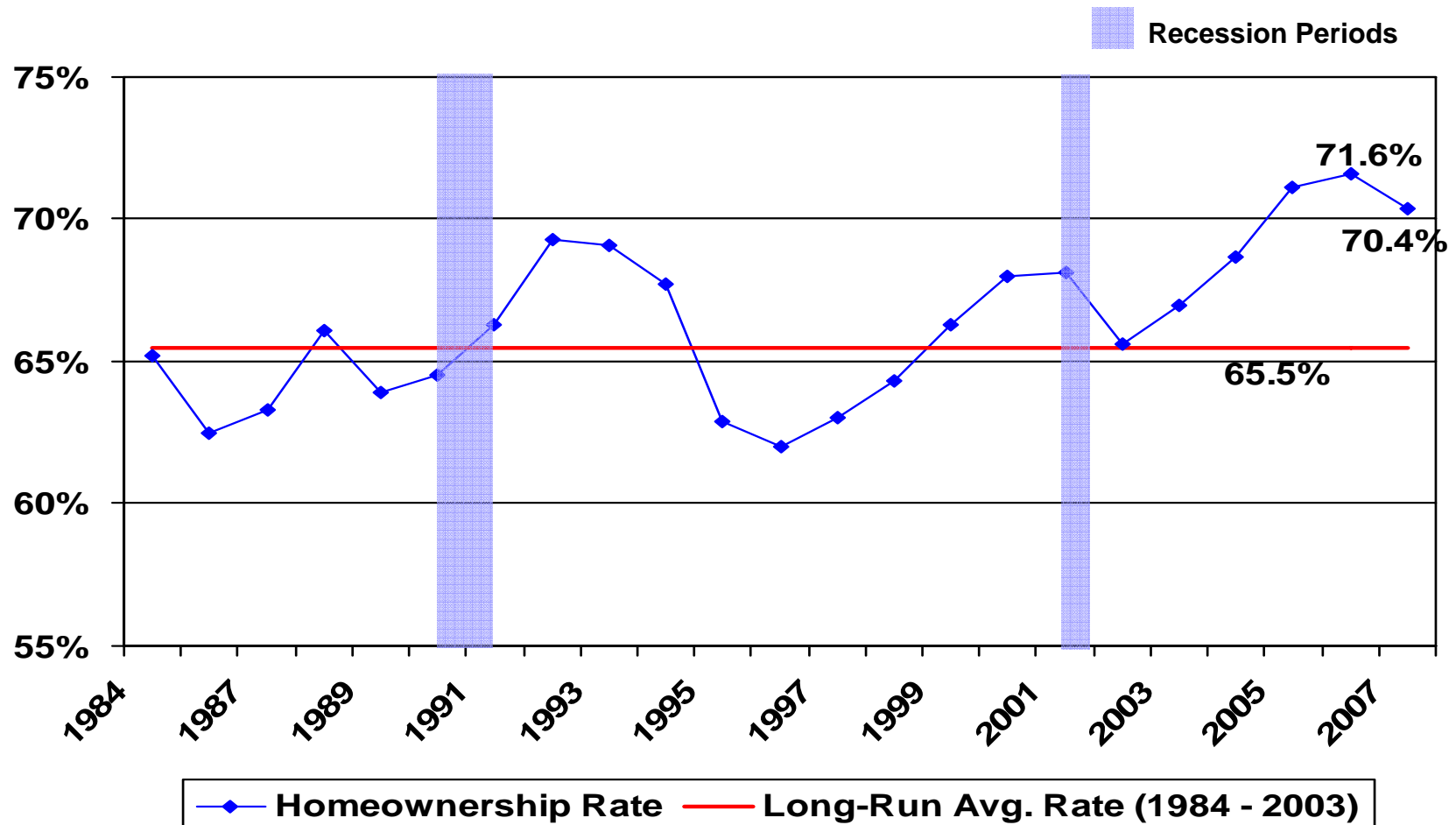


Homeownership rate
went up during the
housing bubble



Arizona Homeownership Rates 1984 - 2007

Source: U.S. Census



Greater Phoenix Housing Units

Source: ASU Realty Studies

<u>Year</u>	<u>Housing Units^{1/}</u>
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2007	1,517,500
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1% =	15,175
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2% =	30,350
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3% =	45,525
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4% =	60,700
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5% =	75,875
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If there are **45,000** excess units above “normal” and only eating into 6,000 units per year in 2008 and 2009...

... Then there will *still* be 30,000+ excess units to absorb.

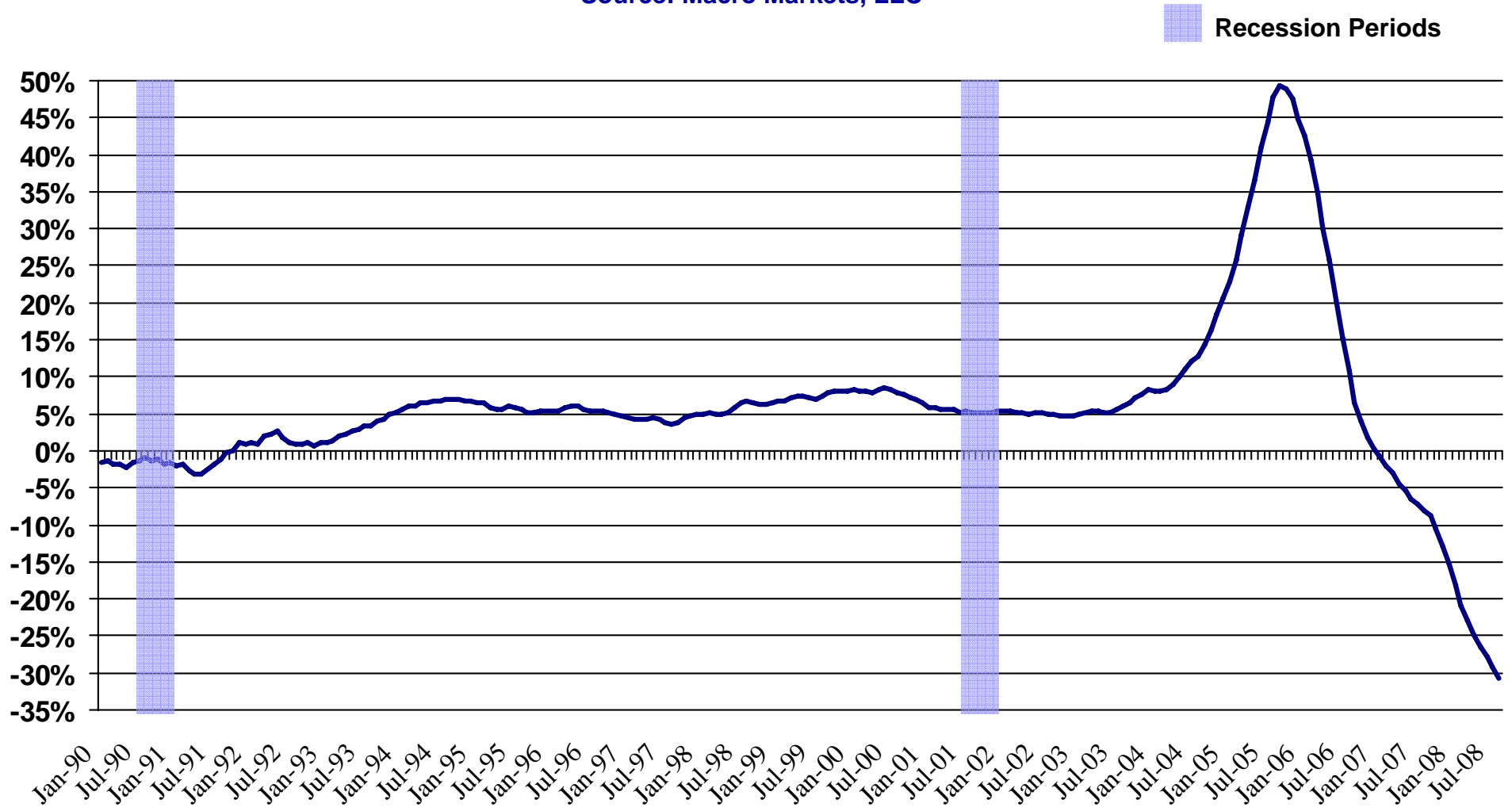


Greater Phoenix S&P/Case-Schiller Home Price Index**

Percent Change Year Ago

1990 – 2008*


Source: Macro Markets, LLC



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*Data through August 2008

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



**The bottom of the housing market
may occur in 2009,
but a full recovery
will probably take **multiple** years.**





Business



Saving Graces

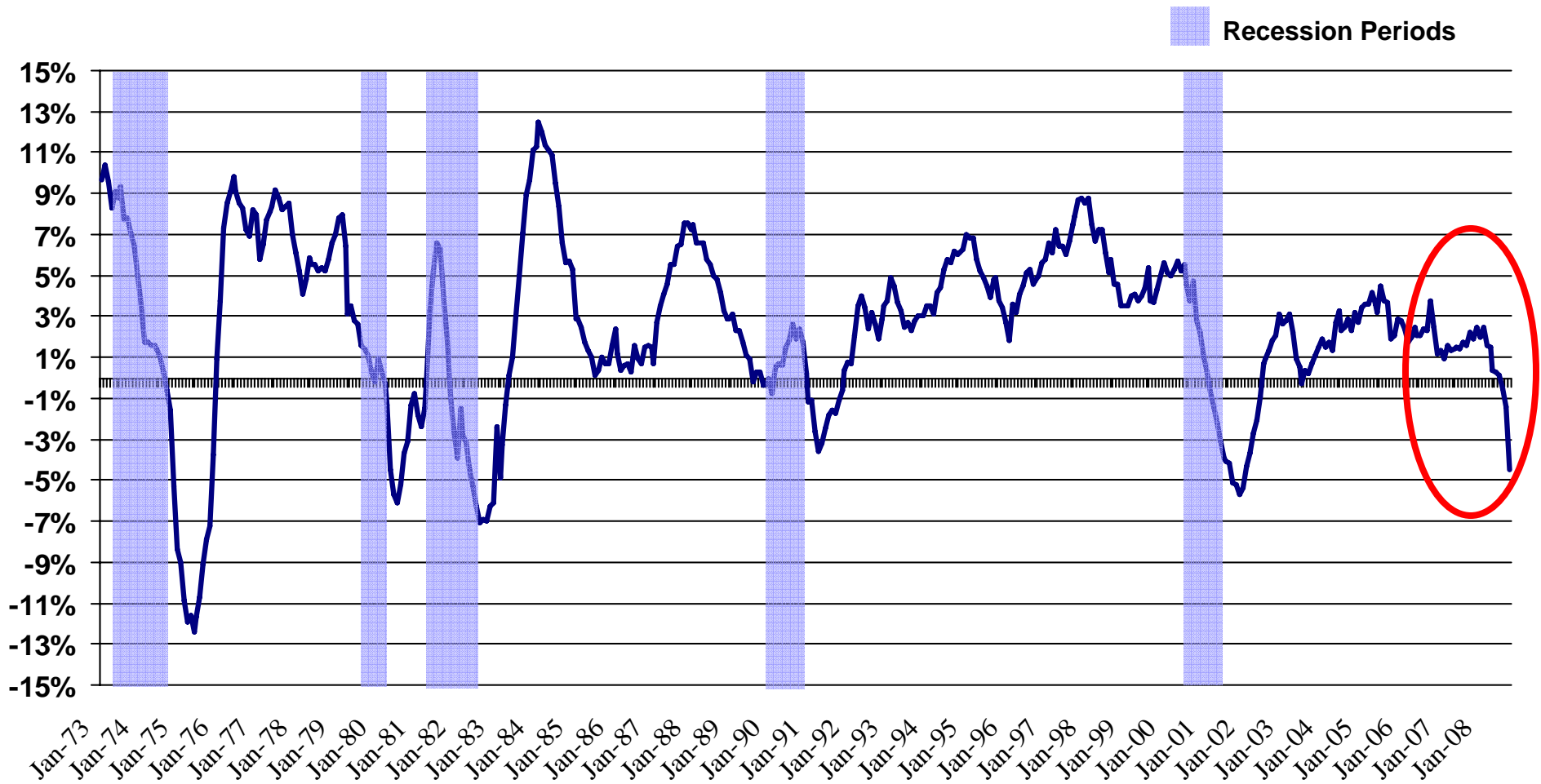


- **Corporations have been in good financial shape.**
- **Exports have been booming.**



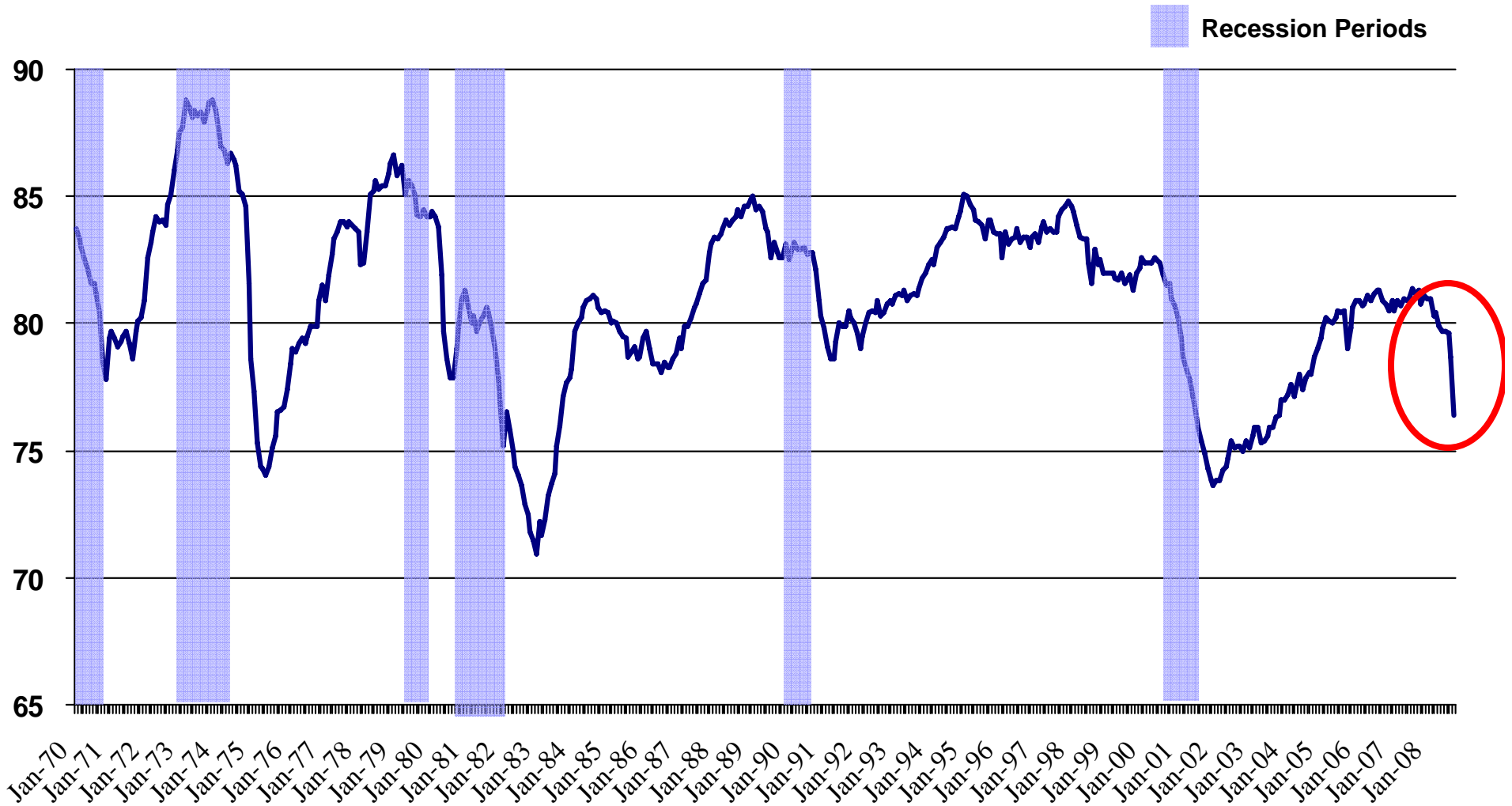
Industrial Production Percent Change Year Ago 1973 – 2008*

Source: The Conference Board



Capacity Utilization Rate 1970 – 2008*

Source: The Conference Board

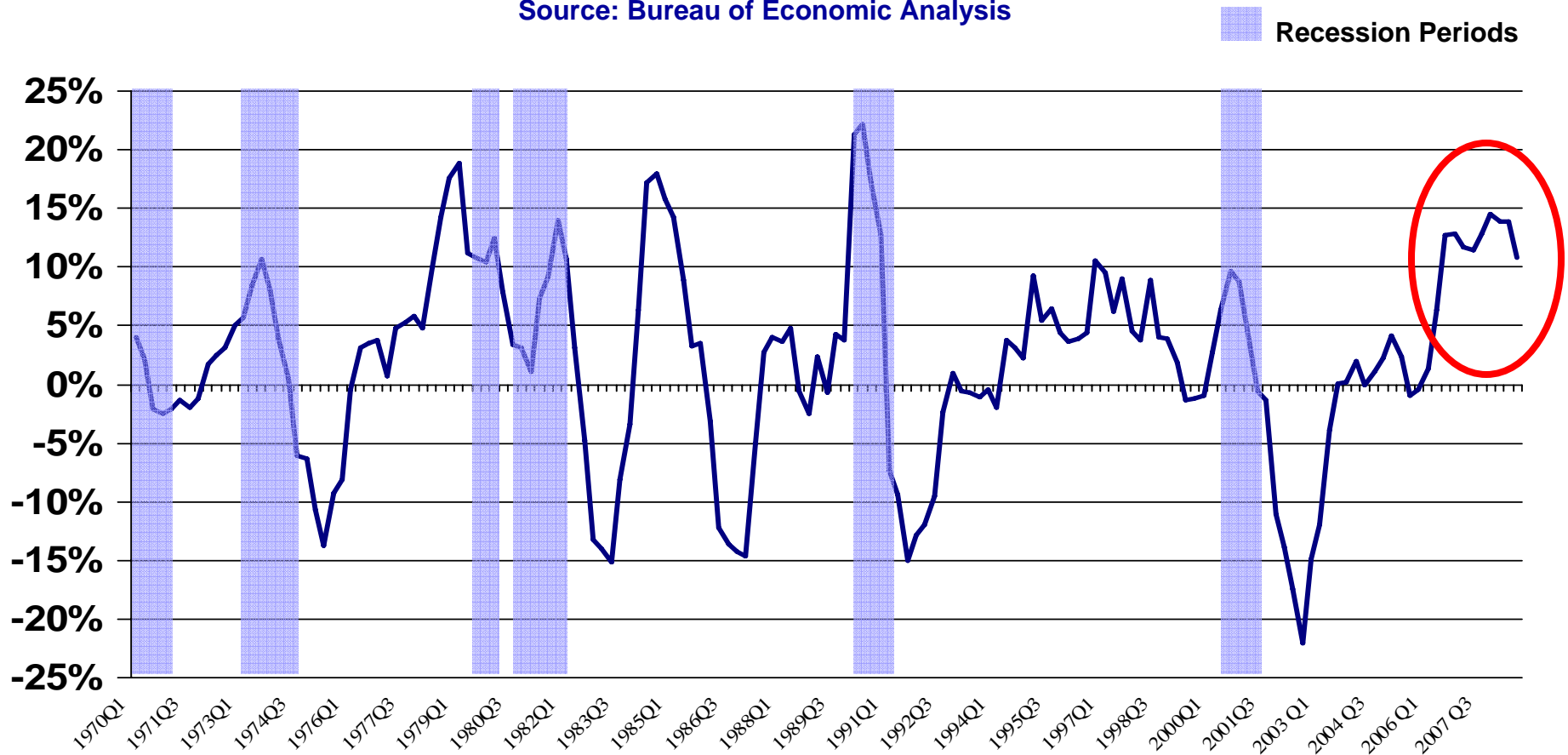


*Data through September 2008



Total Plant Spending Percent Change Year Ago (Real Dollars) 1970 – 2008*

Source: Bureau of Economic Analysis



•Data through third quarter 2008.

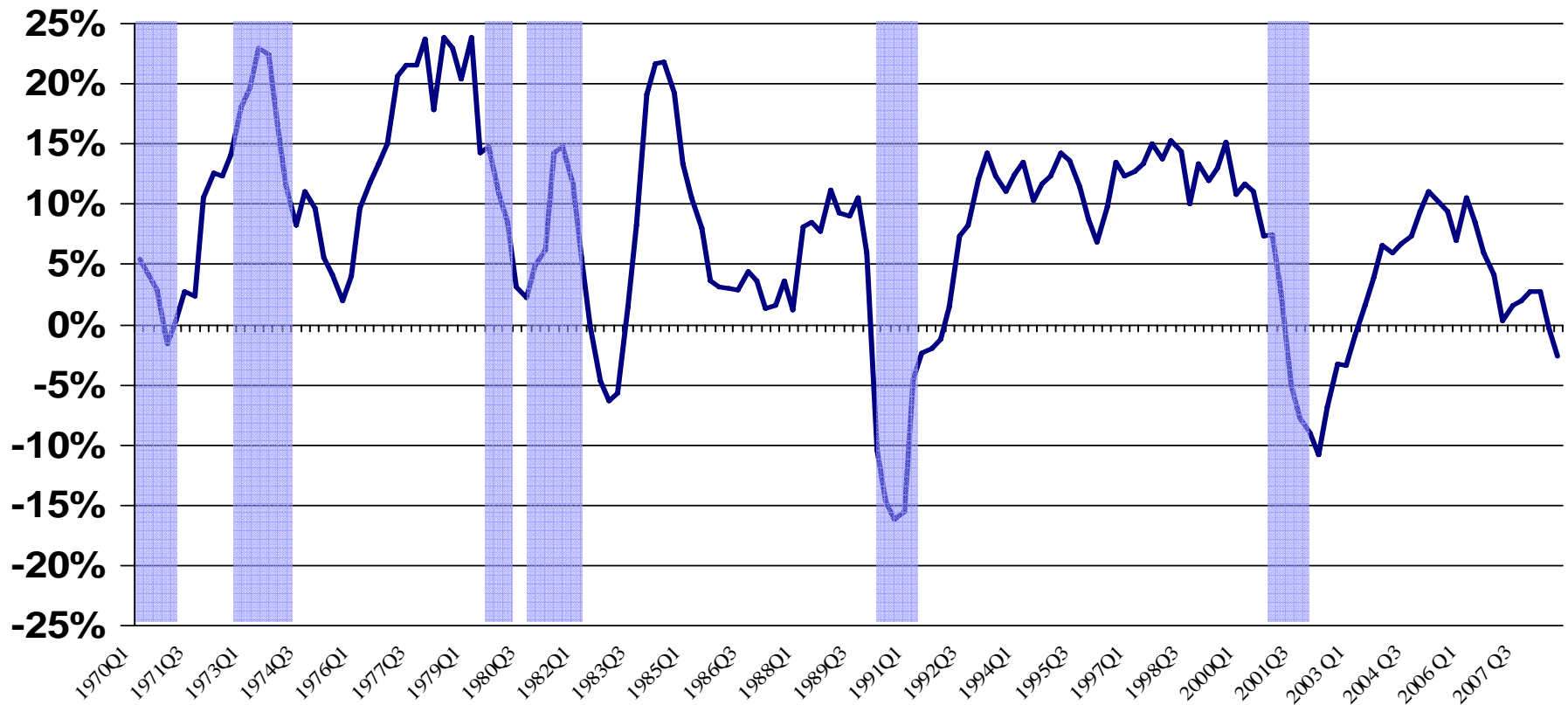
•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.



Total Equipment Spending Percent Change Year Ago (Real Dollars) 1970 – 2008*

Source: Bureau of Economic Analysis

 Recession Periods



•Data through third quarter 2008.

•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.



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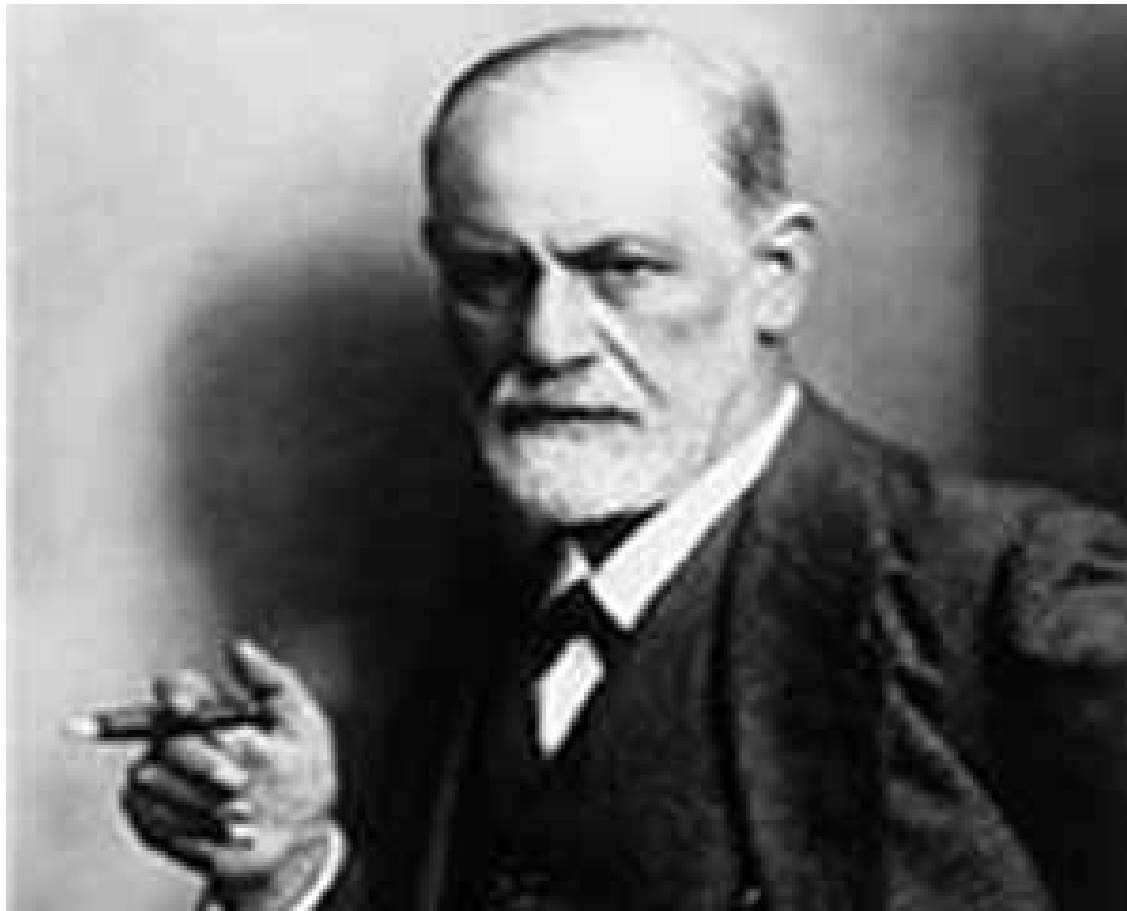


Government Measures





Credit Markets: Economics vs. Psychology





Government Economic Measures

1. Monetary Policy (rate changes),
2. GSE Reforms (Fannie/Freddie),
3. Money Mkt. Mutual Fund (MMMF) Guarantee,
4. Asset Backed MMMF Comm. Paper Liq. Facility,
5. Commercial Paper Funding Facility,
6. Increase Supply of Term Funds to Banks,
7. Expansion of Swap Agreements,
8. FDIC Temp Liquidity Guarantee Program,
9. Emergency Economic Stabilization Act (“bail-out package”),
10. FHA Hope for Homeowners(\$300B for mortgage assistance).

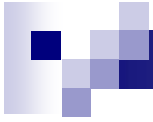




Bail Out or no Bail Out

= a **BAD** year
or
a **TERRIBLE** year.





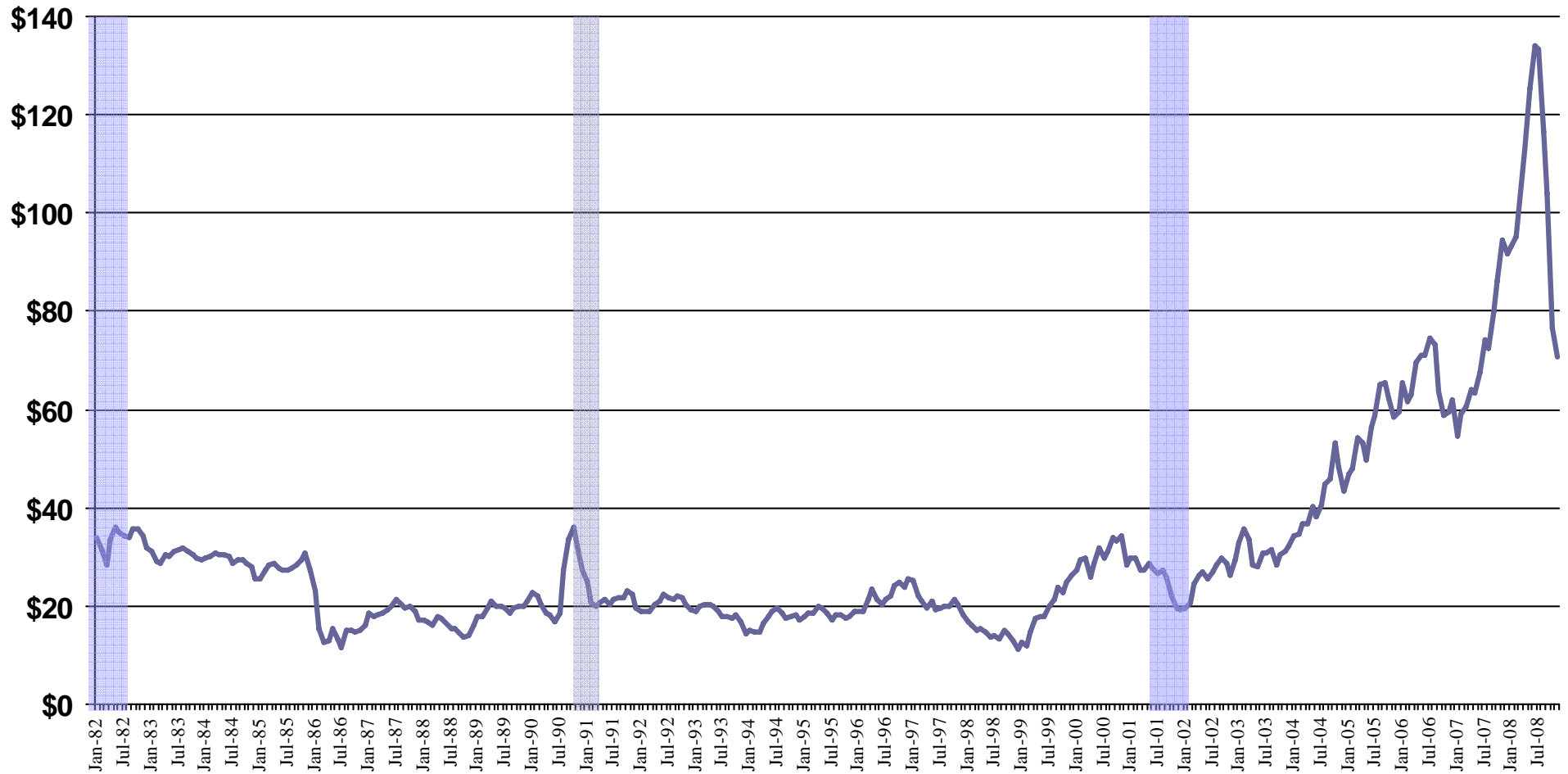
Prices



Oil Prices - \$/Barrel

1982 – 2008*

Source: Freelunch.com



*Data through Nov. 4th 2008.



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Spot Index for Raw Industrials

1967=100

January 2006 – October 2008

Source: Freelunch.com



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*Data through October 24, 2008

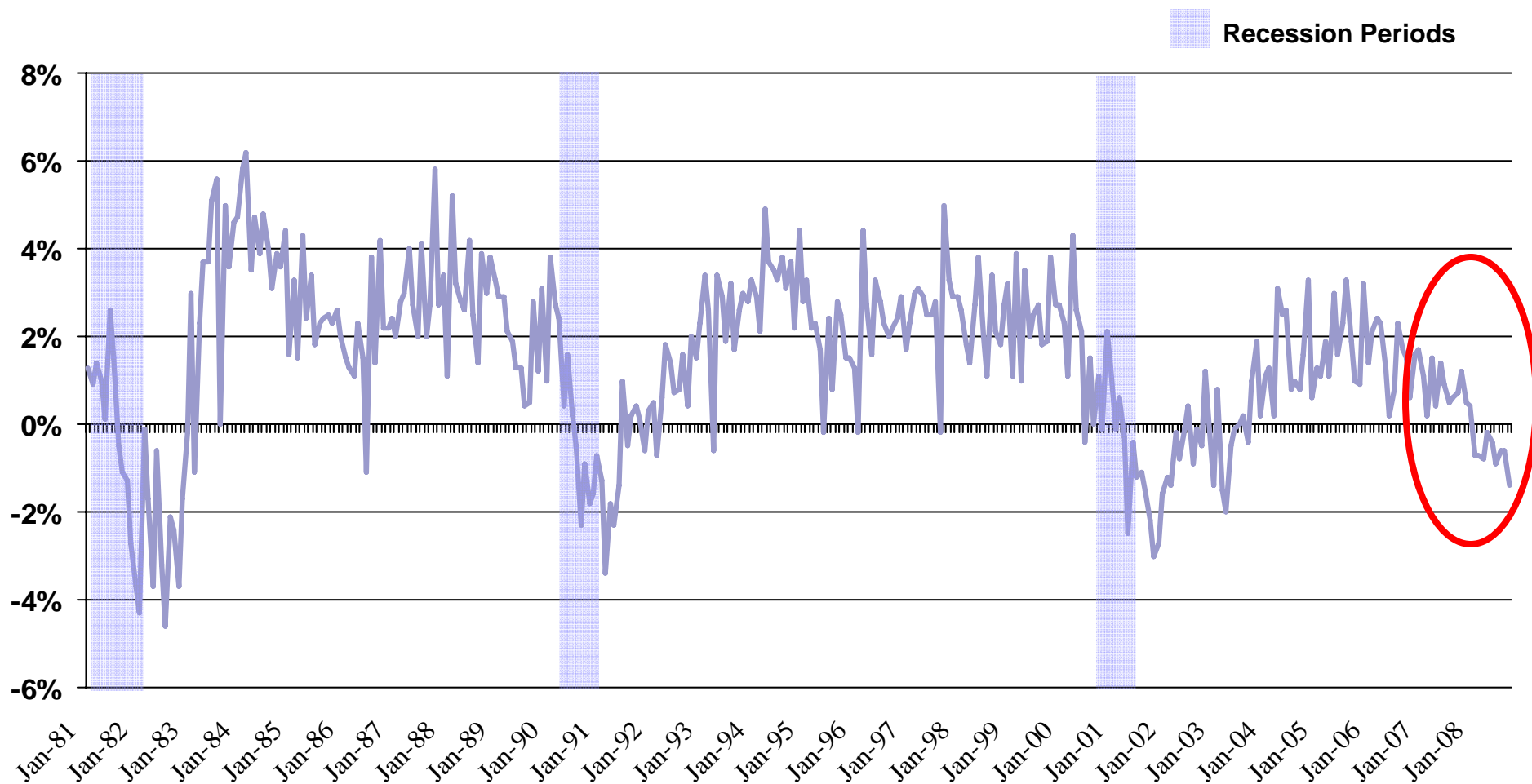


Employment



National Employment Percent Change Month Ago, Annualized (S/A) 1981 – 2008*

Source: U.S. Bureau of Labor Statistics



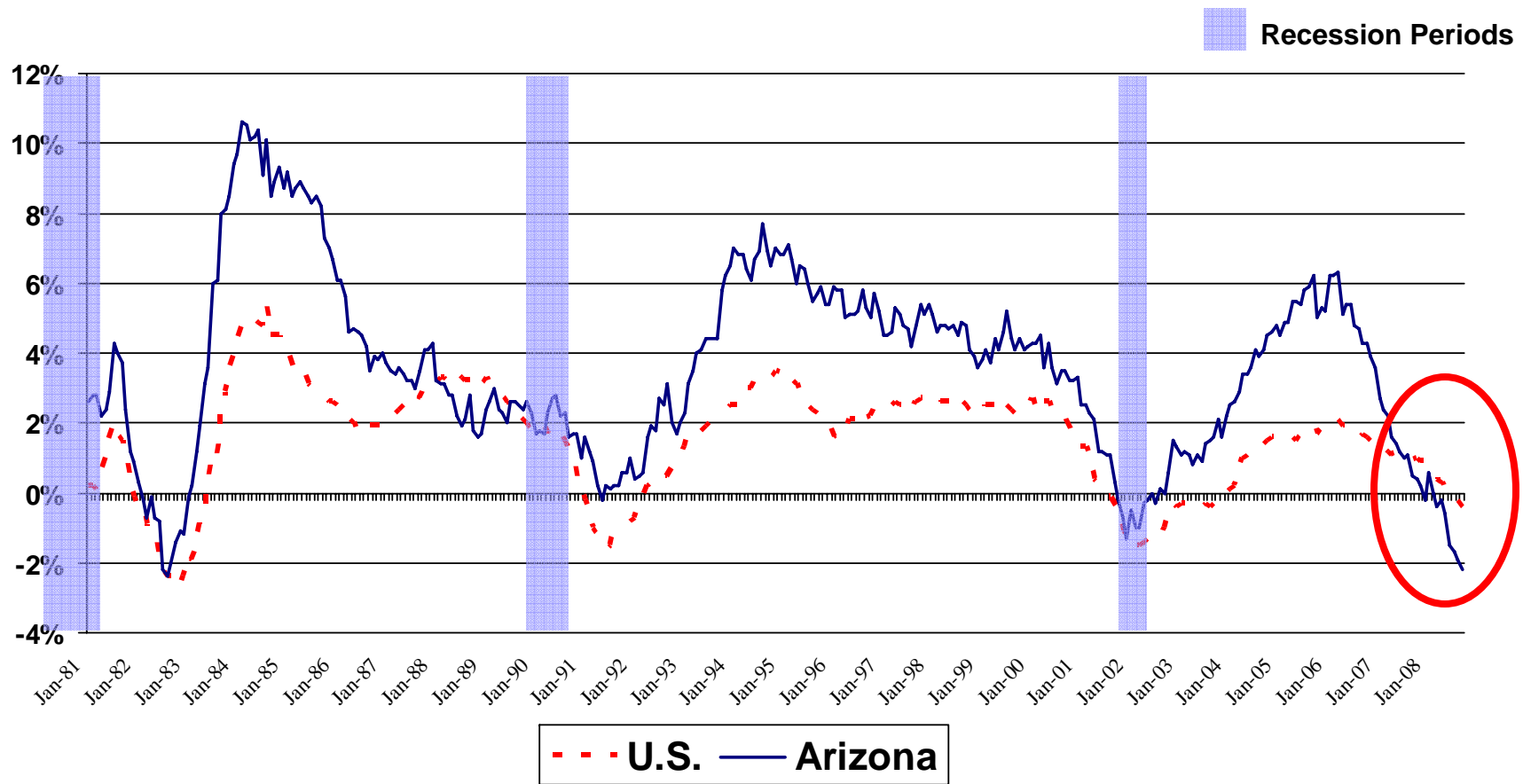
*Data through September 2008



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Arizona & US Move Together

(Nonfarm Employment Percent Change 1980 - 2008)

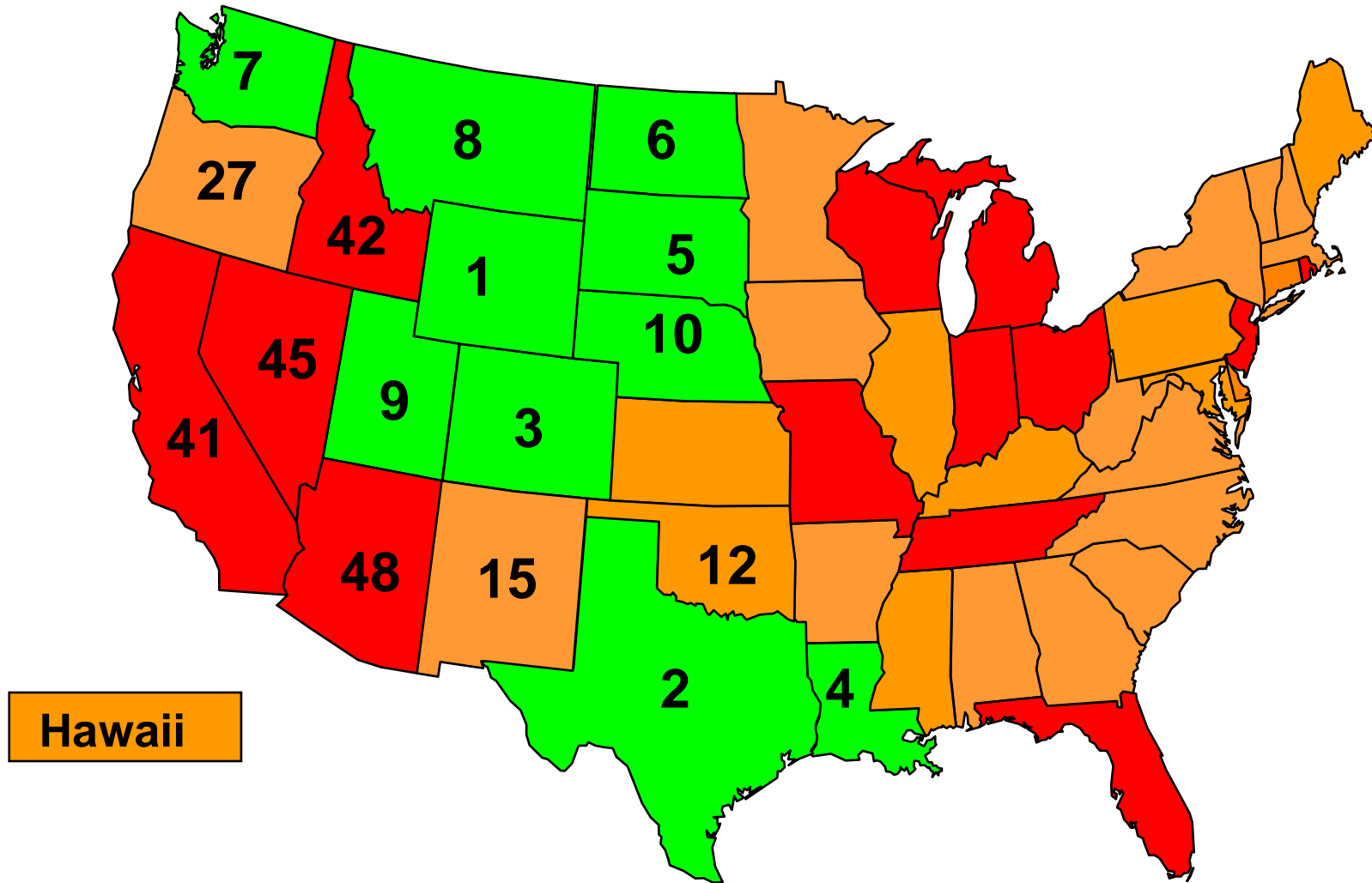


*Data through September 2008



Job Growth Update: Arizona Falls to 48th

YTD September 2008 vs YTD September 2007 - BLS

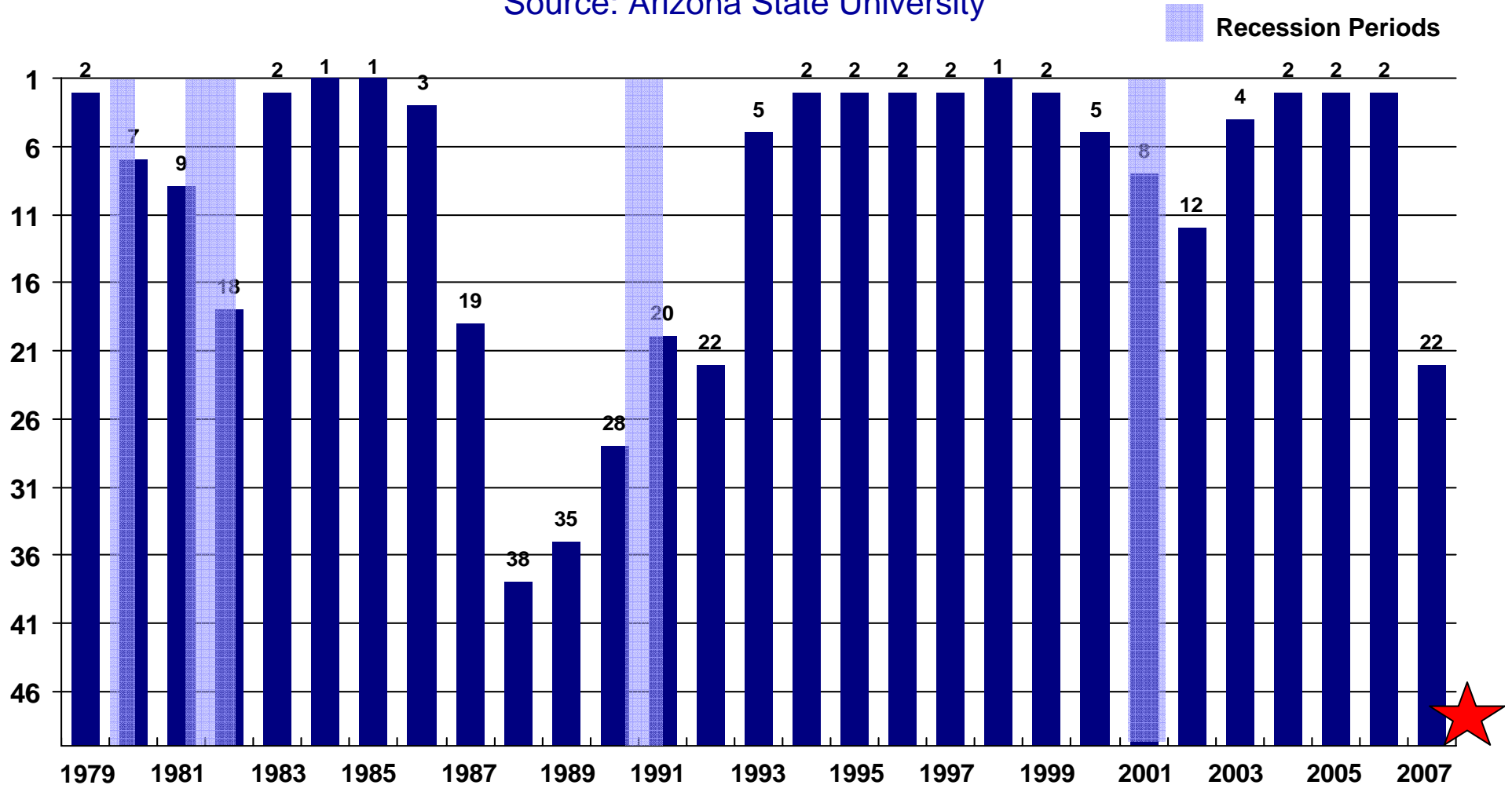


Hawaii



Arizona Employment Rank Among 50 States 1979 – 2008 Growth Over Previous Year

Source: Arizona State University

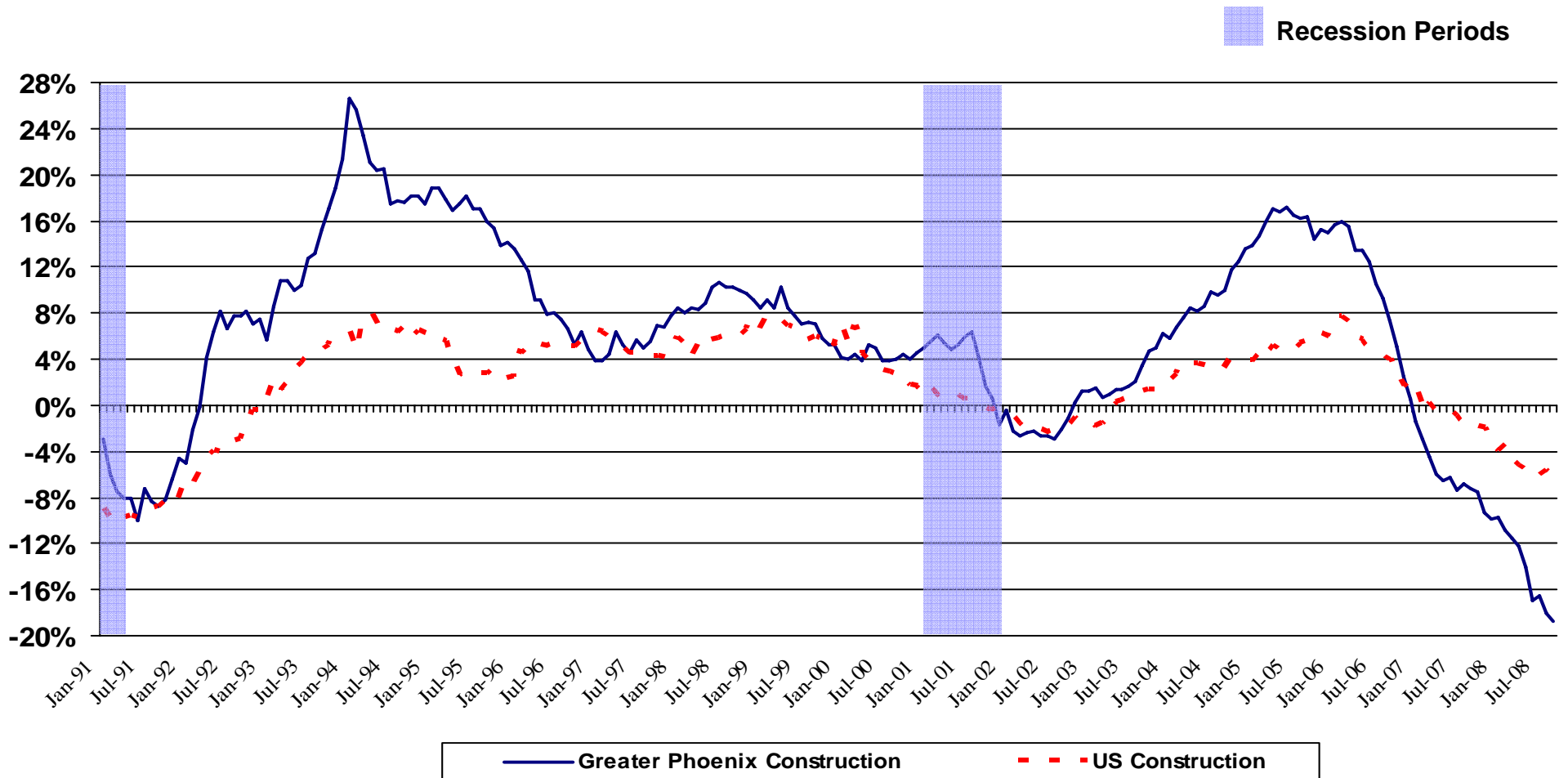


 = YTD September = 48



Construction Employment: Greater Phoenix v. U.S. Percent Change Year Ago 1991 – 2008*

Source: Bureau of Labor Statistics



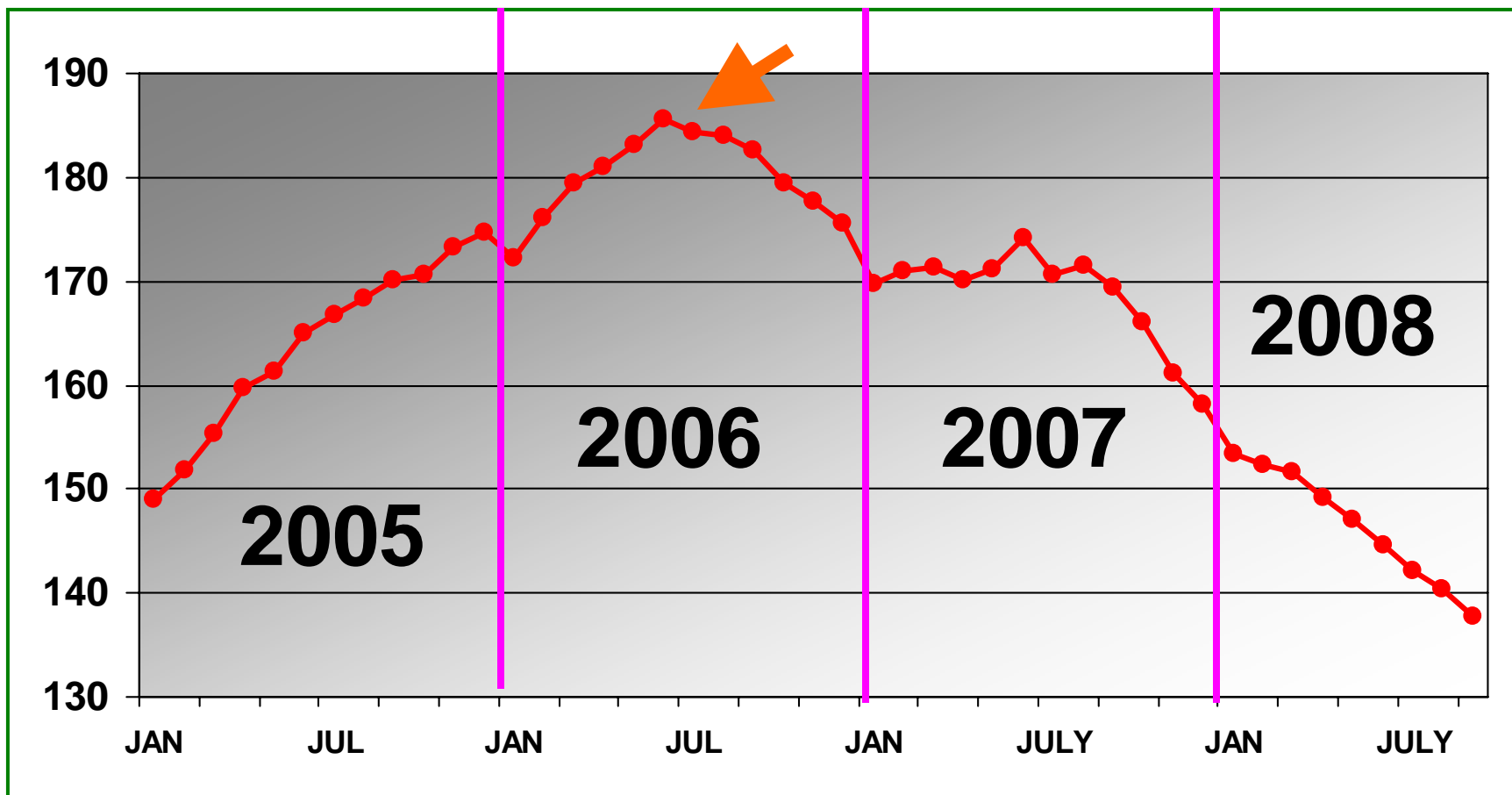
* Data through September 2008.



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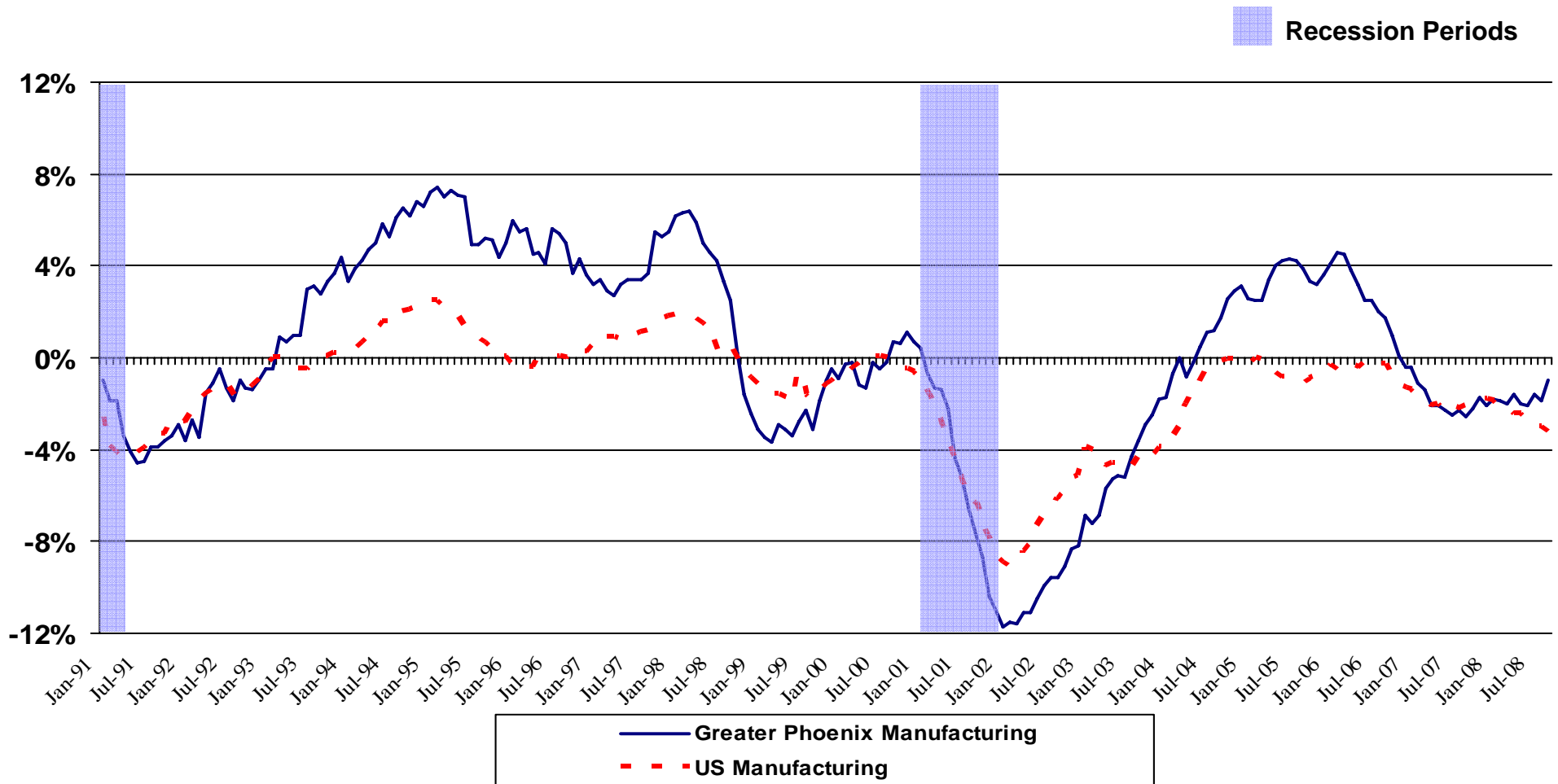
49,000 Greater Phoenix Construction Jobs Lost Since Summer of 2006

Thousands of Jobs



Manufacturing Employment: Greater Phoenix v. U.S. Percent Change Year Ago 1991 – 2008*

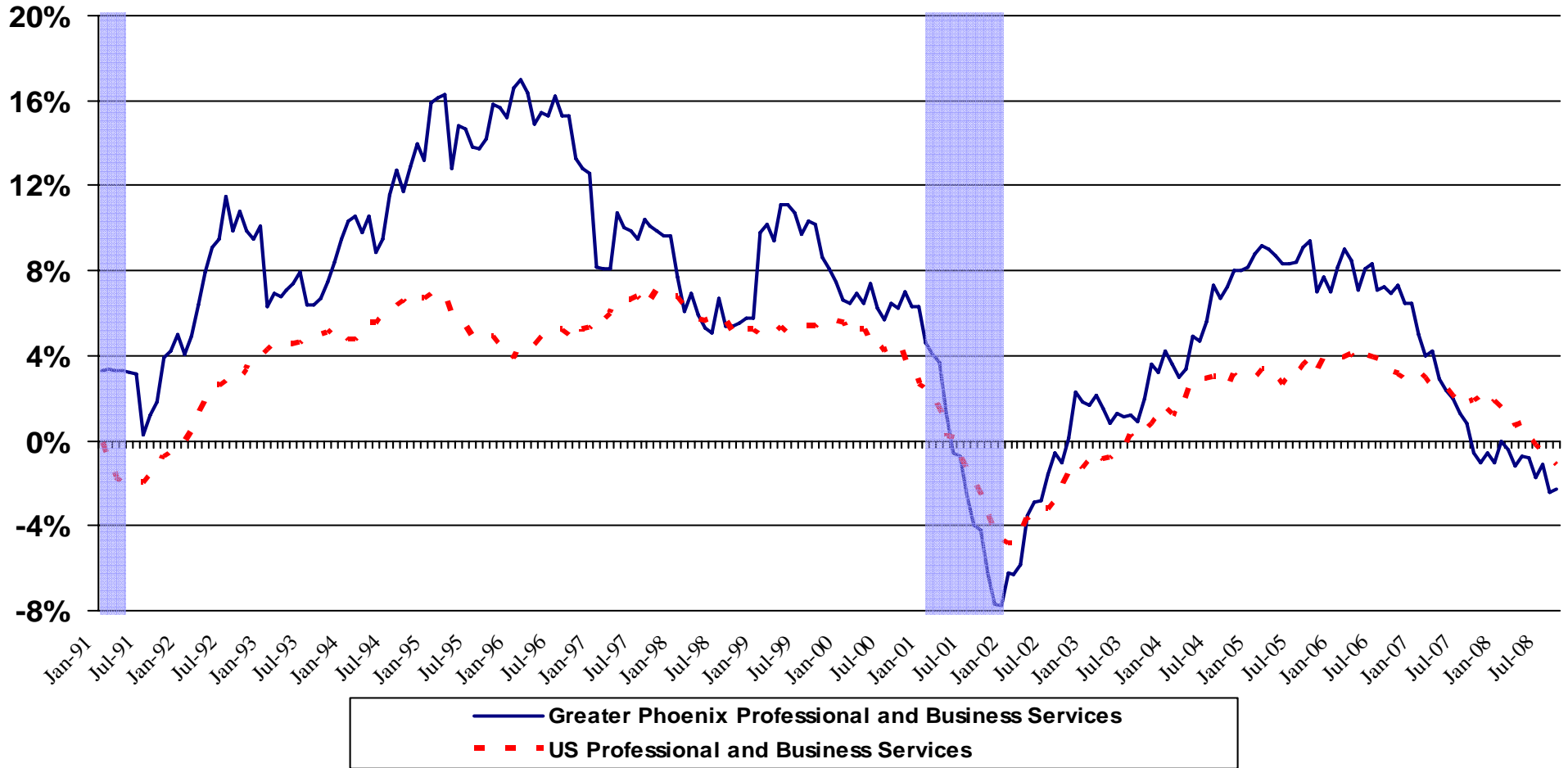
Source: Bureau of Labor Statistics



Professional & Business Services Employment: Greater Phoenix v. U.S. Percent Change Year Ago 1991 – 2008*

Source: Bureau of Labor Statistics

 Recession Periods



* Data through September 2008.





Worst year (relatively) on record



Phoenix-Mesa Employment

Source: Arizona Department of Commerce, Research Administration

<u>Sectors (-)</u>	<u>YTD %</u>	<u>% of Total</u>	<u>Sectors (+)</u>	<u>YTD %</u>	<u>% of Total</u>
Construction	-14.3%	7.8%	Mining	7.6%	0.2%
Manufacturing	-1.8%	7.2%	Edu. & Health Services	5.0%	11.3%
Trade	-0.3%	16.9%	Leisure & Hosp. Services	1.8%	10.0%
Transp. & Utilities	-2.0%	3.5%	Other Services	1.0%	3.8%
Information	-2.6%	1.6%	Government	3.1%	12.9%
Financial Activities	-2.9%	7.9%			
Prof. and Bus. Services	-1.2%	17.0%			
Percent of Total		61.9%			38.2%





Conclusions





**The worst is still in
front of us.**





Greater Phoenix **ECONOMIC OUTLOOK** 2008 - 2009





**The
economic
outlook
in the near
term is
UGLY.**






Greater Phoenix Forecast 2008 – 2009

<u>Indicator</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Population	4.2%	3.5%	2.0%	2.0%
Employment	5.4%	1.3%	-2.0%	-1.0%
Personal Income	8.4%	4.5%	3.0%	2.5%
Retail Sales	7.9%	0.1%	-5.0%	0.0%

Source: *Elliott D. Pollack & Company*, AZ Blue Chip, Department of Commerce, Research Administration




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**Things are bad now, and it will
be bad for
several more quarters.**

But...





**Greater Phoenix
economic fundamentals have
not really changed
(even housing is returning to
more affordable levels).**

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






**The comparisons will start to
look easy in the first half of
fiscal year 2010.**

Any recovery will be slow.





ELLIOTT D. POLLACK
& Company

Economic and Real Estate Consulting

WWW.ARIZONAECONOMY.COM

INFO @ EDPCO.COM

7505 East Sixth Avenue, Suite 100 Scottsdale, Arizona 85251

480-423-9200 P

480-423-5942 F

www.arizonaeconomy.com



Elliott D. Pollack & Company