

**Breakfast with the Economists:  
Mid-Year Economic Update**

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**CHASE**

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**Overview**

- Green shoots?
  - Journalists tired of writing about “worst since...”
  - “Falling less rapidly” is now positive
- Money is beginning to move
- No evidence that AZ is approaching bottom
- Robust growth unlikely before 2011
  - Losses aren't recovered until 2013

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**Positive Developments**

- Consumers
  - Confidence rising
  - Retail sales firming
- Financial markets
  - Yield spreads narrowing
  - Stock market up 40% from early March
- Housing
  - Rising resale transactions, prices nearing bottom
  - Affordability now at record high
- Index of leading indicators rising

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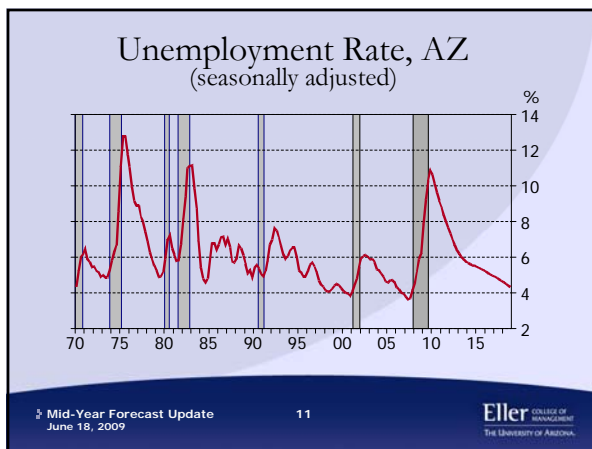
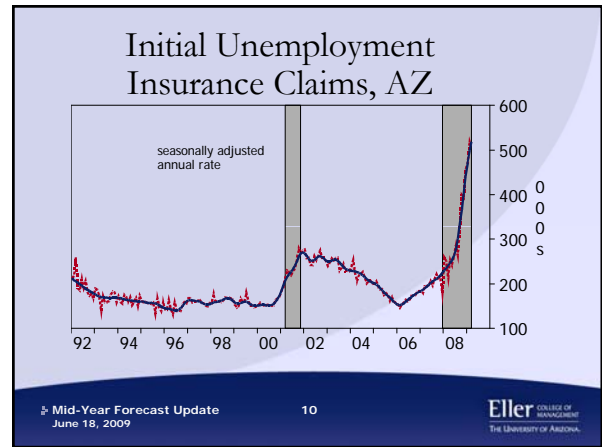
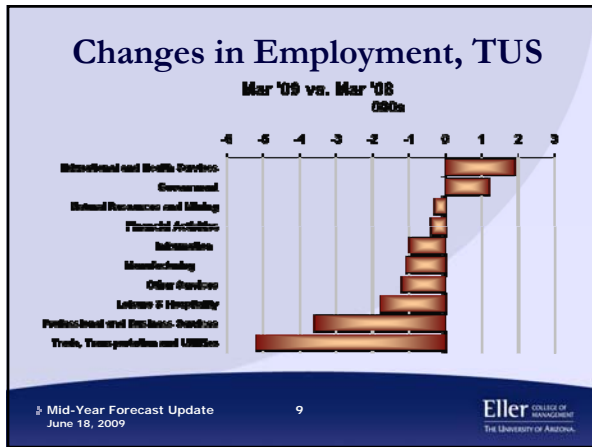
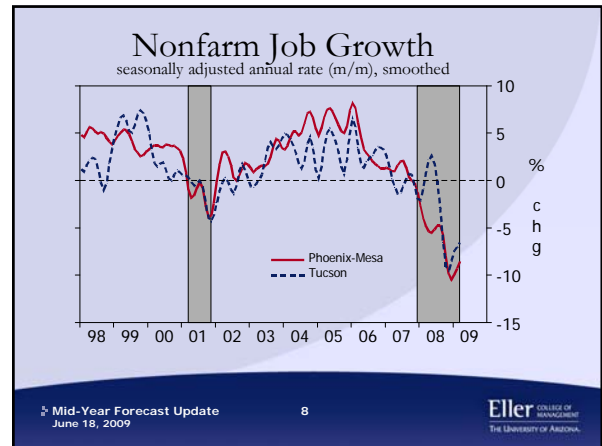
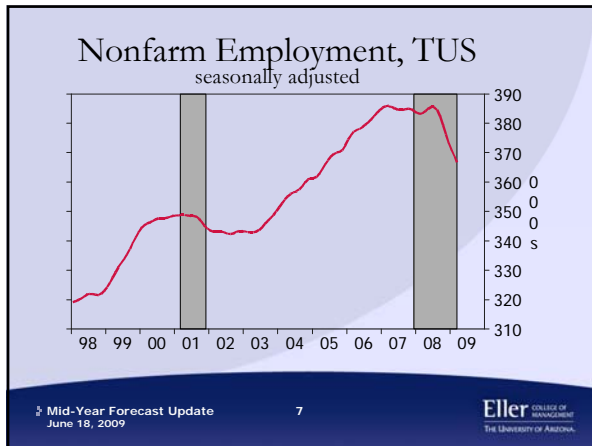
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**Labor Markets Are Plunging**

- Nonfarm employment, metro Tucson
  - declining at a 6.5% annual rate 1<sup>st</sup> quarter
  - 4.5% lower y/y
  - 19,100 jobs have disappeared, a 5.0% loss
- Initial unemployment insurance claims still skyrocketing
- Unemployment April 7.0% in Tucson
  - AZ = 7.7%, headed above 10%

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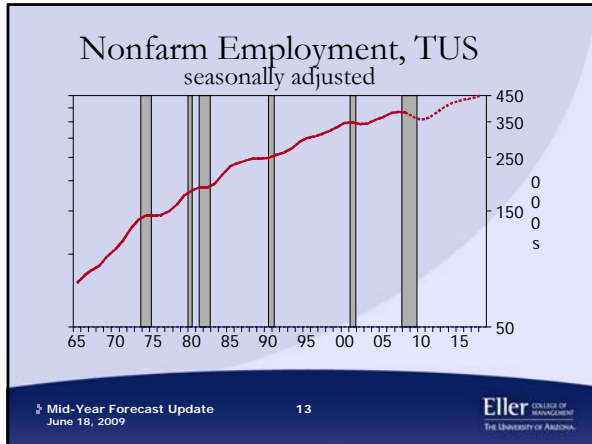


### Employment Outlook

- Nonfarm jobs peaked in March 2007, TUS
  - Lost 19,100 so far
- From peak to trough
  - Will lose 28,000 jobs, or 7.2%
  - Back to 2004 employment levels
  - Span a period of nearly three years
- 2013 before we recover lost jobs

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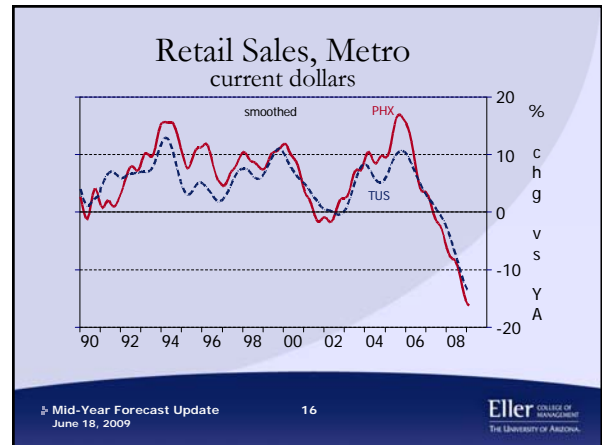
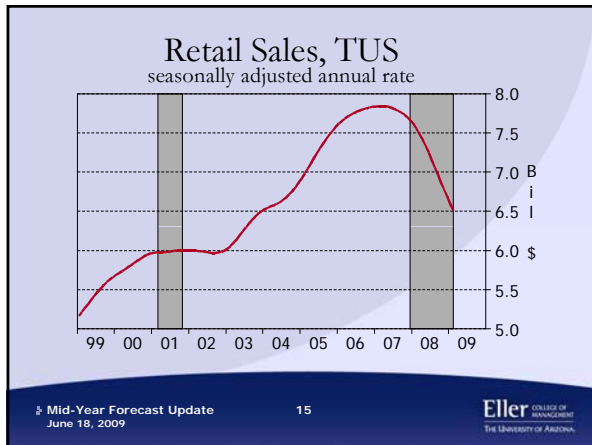
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### Consumer Belt Tightening

- Retail sales peaked in early 2007  
 – Declining at 13.5% annual rate in Feb.
- Nearly every category of sales & use is declining at double-digit annual rates
- Airline passenger counts in nosedive
- Both 2008 and 2009 will show record declines in spending

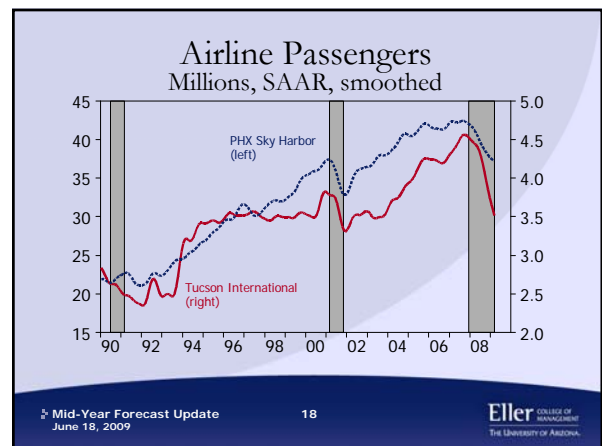
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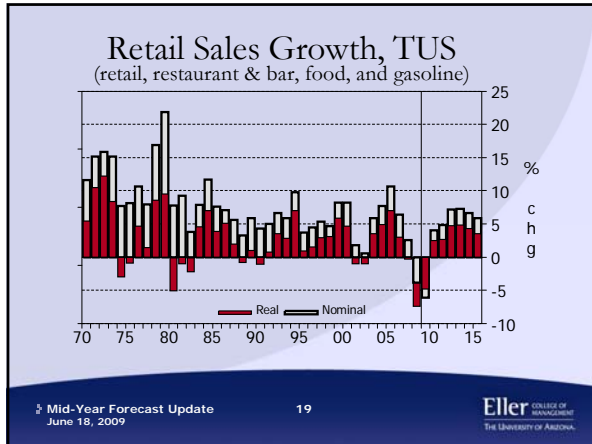


### Sales and Use Tax Collections, AZ % chg, 10-mo. YTD, April

Contracting	-23.4
Hotel/Motel	-11.2
Rental Personal Property	-9.8
Restaurant & Bar	-5.5
Retail	-12.2
Use Tax	-10.4
Utilities	0.9
Total Collections	-12.9

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### Housing Market Update

- Still a drag on the economy
- But, some positive signs

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### Foreclosures Driving Prices Lower

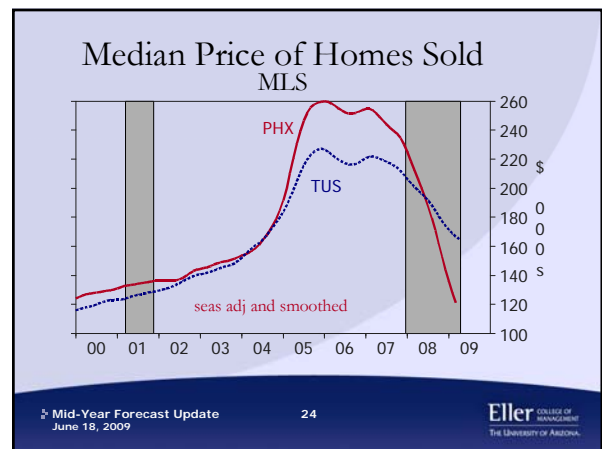
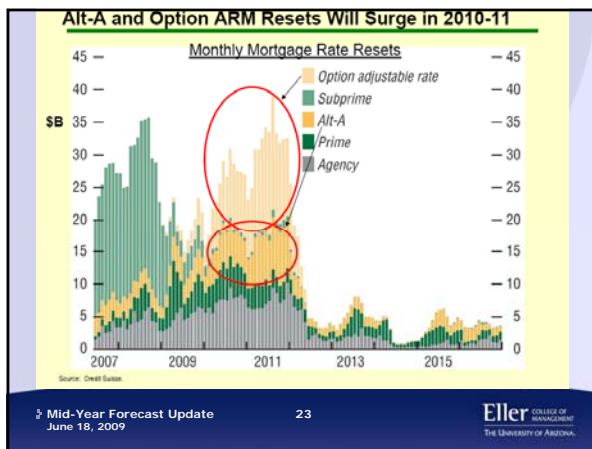
- AZ ranks 4<sup>th</sup> in nation, foreclosure rate
  - 110,700 properties in foreclosure
  - Second wave will hit in 2010 and 2011
- Housing prices continue to fall (from peak)
  - Realtor data shows drop of 53.7% in PHX
    - TUS down 27.2%
  - FHFA/OFHEO, PHX -23.7%, TUS -12.6%
    - Rate of decline is slowing – nearing a bottom

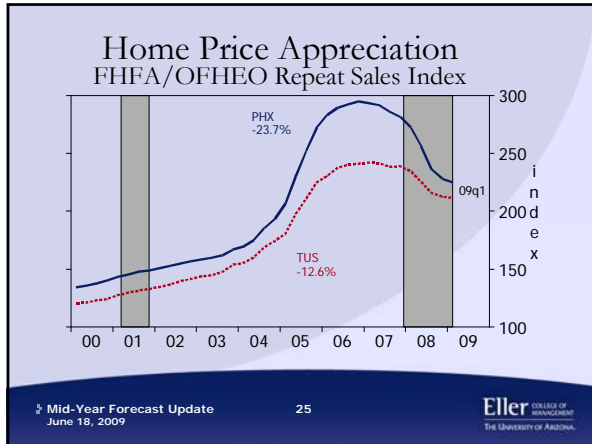
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### Foreclosures, April 2009 Source: RealtyTrac

	Foreclosure rate		Properties in foreclosure	
	Ranking	1 in every X Houses	New in April	Total
Arizona	4	-	-	110,720
Maricopa Co.	41	136	11,233	84,317
Pima Co.	110	258	1792	8630
Pinal Co.	19	91	1501	8158

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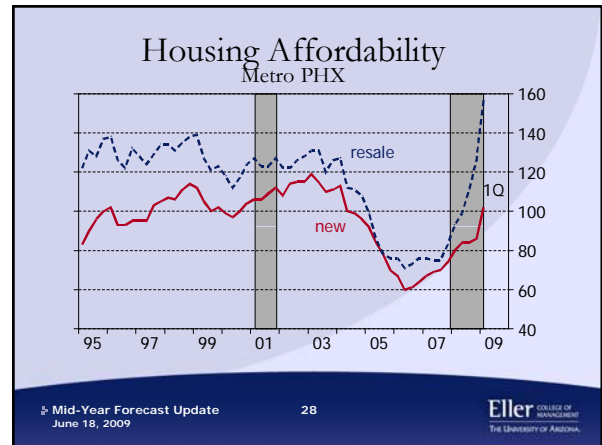
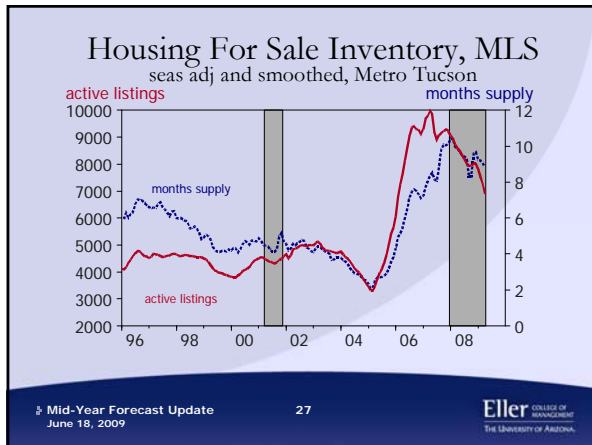




### Sales Are Up, Inventories Down

- Investors are buying foreclosed properties
  - %age of MLS sales that are bank-owned
    - 33% in TUS, 2/3rds in PHX, 70% in Pinal County
- Total MLS unit sales are up 74% in PHX
- Number of listings are declining
  - Months supply now 8.9 mos. in TUS, 7.8 PHX
- Affordability is at record highs
  - Now is a great time to buy a house!

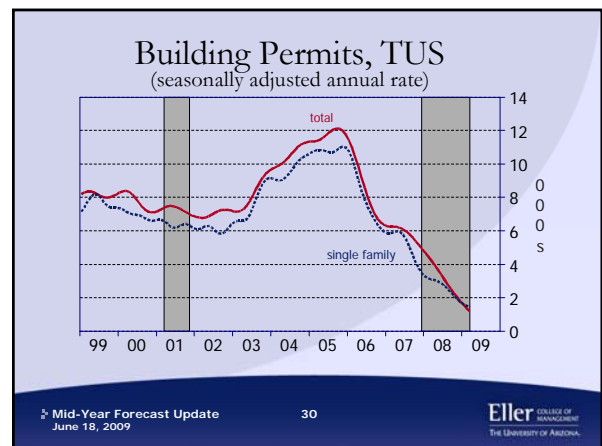
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### Homebuilding Nearing Bottom

- Residential homebuilding has all but ceased
- Metro Tucson
  - Down 90% from peak
  - 388 units permitted in 1<sup>st</sup> quarter
    - 34 multi-family
  - Bottom this year at 1300 units

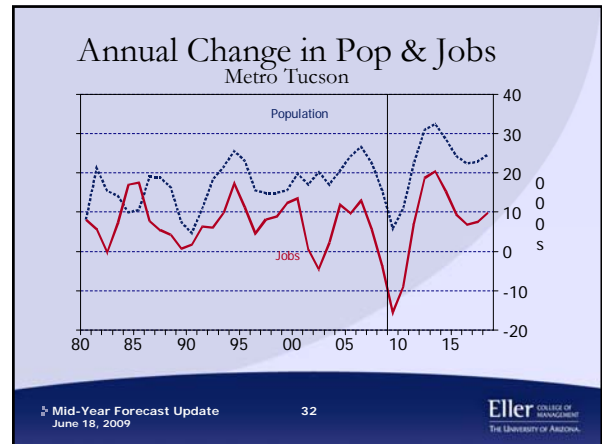
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### Tucson Population Growth at Decades Low

- Net migration plunges to zero this year  
 – 4800 in 2010
- Natural increase continues to add 6100 annually
- Annual growth rate drops to 0.6% this year  
 – Stays below 2.5% until 2012
- Now using Census Bureau estimates  
 – 1,017,800 mid-year 2009

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### Risks

- Public sector spending and layoffs  
 – State budget gap is 30% FY 09-10
- Commercial real estate refinancing wave
- Housing price declines could reaccelerate  
 – Fueled by second round of foreclosures
- Large private sector layoffs could continue

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### Outlook Summary

- National recession will end this summer followed by a weak recovery  
 – Neither housing nor autos are able to power a strong recovery  
 – Credit markets and banking system will need 2-3 years to get back to “normal”
- Arizona and Tucson will lag behind the nation by 3-6 months
- Need more data to see “Green Shoots”

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Glimmers of Hope  
Cautious Optimism  
Green Shoots

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The Economic Backdrop  
World recession  
First time since great depression

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Unemployment  
December 2007 4.7%  
December 2008 6.7%  
May 2009 9.4%  
Top 10% in 2009

**Currently over 14.5 million unemployed**  
We lost 6 million job since the recession started  
-- the most since 1945!

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Unemployment

Glimmer of hope–  
Sharp decline in the rate of job losses.  
Labor market showing signs of stabilizing.

Fact– We need to create over 100,000 new jobs each month to keep unemployment constant.

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Unemployment

Include Discouraged Workers  
Workers Forced to Work Part-Time

**Estimated Unemployment Rate = 16.4%**

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Unemployment

State Unemployment Rates – April 2009

Michigan	12.9%
California	11.0%
Nevada	10.6%
Oregon	12.1%
Ohio	10.2%
Florida	9.6%
Illinois	9.4%
Washington	9.1%
Arizona	7.7%
Utah	5.2%

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## Unemployment

- Women have passed men on the nations payrolls for the first time in American history!
- Men have accounted for nearly 80% of the layoffs in this recession.

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## Inflation

April 2008 to April 2009 = -0.7%

April 2009 = 0.2%

**Cautious Optimism**  
**Deflation less of a concern**

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## Growth

Fourth Quarter 2007 decrease -0.2%

Fourth Quarter 2008 decrease -6.3%

First Quarter 2009 decrease -5.7%

Officially in recession since December 2007

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## Growth

### How bad is it?

### Top 5 Recessions

Aug. 1929 – March '33	43 months
<b>Dec. 2007 – counting 19 months</b>	
Nov. 1973 – March '75	16 months
July 1981 – Nov. '82	16 months
May 1937 – June '38	13 months

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## Balance of Payments

Green shoots – imports are decreasing.

Dead plants – exports are decreasing.

Problem – exports are decreasing faster than imports.

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## Aggregate Demand

- $AD = C + I + G + X$

C = Consumption  
I = Investment  
G = Government Spending  
X = Net Exports (exports-imports)

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## Consumption Spending

Consumer confidence is still low--

**Glimmers of hope!**

**Consumer confidence is showing signs of improvement.**

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## Consumer Spending

Cautious Optimism!

Consumer spending up 0.5% in May.

Fact: Year-to-year spending down 11%.

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## Consumer Spending

"Paradox of Thrift"

Good to save  
EXCEPT  
When the economy is in a recession!

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## Consumption

Personal savings

February 2009	\$432 billion
March 2009	\$455 billion
April 2009	\$620 billion

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## Consumption Savings Rate

Sept 2005	-2.7%
Sept 2006	0.4%
Sept 2007	0.4%
Sept 2008	1.7%
<b>February 2009</b>	<b>4.0%</b>
<b>March 2009</b>	<b>4.2%</b>
<b>April 2009</b>	<b>5.7%</b>

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## Investment Spending

- Business confidence low but improving.
- **Inventories are a bright spot.**
- New homebuilding on hold.
- Loans are still difficult to get.

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### Investment Spending

**Businesses Have Slammed on the Breaks**

Drop in investment in 1<sup>st</sup> quarter 2009 was a post WWII record.

Private Fixed Investment	-38%
Equipment & Software	-34%
Construction	-44%

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### Investment Spending

Manufacturing capacity utilization May 2009

65.7%

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### Government Spending

Mid-Year Stimulus (\$168B) had little effect!

Tax revenues are down.  
Government spending is up.

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### Government Spending

National deficit is at record levels – and going up.

State and local governments cutting spending.

**45 states are facing budget deficits.**

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### Government Spending

**Government is there to save everyone!**

The federal government now owns:

- Banks
- Insurance companies
- Auto loan companies
- Car companies
- Mortgage companies

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### Government Spending

U.S. Federal Government Deficit FY 2008

Actual 2008 Deficit = **\$455B** - RECORD  
Initial Projection FY08 **\$305B**

**Missed projection by 50%**

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### Government Spending

Deficit projection fiscal 2009 was \$490B  
First six months of fiscal 2009  
**Deficit \$904 billion (not a misprint)**  
A World Record!

Revised – Who knows?  
New estimate:  
**-\$1.8 TRILLION - FY 2009!**  
**-\$1.3 TRILLION – FY 2010**

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### Government Spending

Projected Deficit will be **12.9%** of GDP.  
**3%** of GDP is normally considered safe.

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### World Economy

We are in a major world recession.  
**International Monetary Fund predicts a 4% global decline.**  
First Time Since the Great Depression.

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### World Economy

1<sup>st</sup> QT GDP- 2009

Japan	-8.8%
Britain	-4.1%
Euro Area	-4.8%
Germany	-6.9%
China	+6.1%

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### Monetary Policy

Defaults Continue

- Credit cards
- Car loans
- **Commercial loans next big problem**
- Student loans

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### Monetary Policy

Last Year Fed Funds Rate 4.5%  
Today Fed Funds Rate 0%

Glimmer of hope!  
Some banks appear to be stabilizing.

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## Exit Strategy

Do we have an exit strategy for our unprecedented monetary and fiscal policy?

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## Conclusion

It is going to get worse before it gets better!

Cautious optimism!

Key indicators show the economy is starting to stabilize.

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## Conclusion

- There are glimmers of hope!
- Analysis's are seeing "Green Shoots"
- Consumers have developed a cautious optimism

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## The glimmers of hope

- The rate of decline has started to decline.
- Inventories are very lean.
- Some parts of the housing market are starting to stabilize.
- Consumers have opened the wallets a little more.

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## Cautious Optimism

- Balance sheets of banks are improving.
- Investors are out of their panic mode.
- The stimulus has yet to take hold.

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## FACT

A real recovery:  
*depends on government demand being supplemented by sustainable sources of private spending.*

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### Think Positively

- Stop debating whether your glass is half full or half empty.

Solve the debate...  
by getting a smaller glass.

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### Conclusion

**Remember— tell your children and grandchildren:**

**Graduate school is the most respected form of unemployment!**

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