

AZB ARIZONA BUSINESS

ARIZONA STATE UNIVERSITY'S MONTHLY NEWSLETTER ON THE ARIZONA ECONOMY

Arizona's occupational mix varies from national average

Arizona's occupational mix, while different from the national average, accounts for little of Arizona's overall hourly wage being 6 percent lower than the national average. The mean wage in Arizona is lower than the national average in every occupational group.

Occupational data are collected by the Occupational Employment Statistics program of the U.S. Bureau of Labor's Bureau of Labor Statistics, administered in Arizona by the Arizona Department of Economic Security. The data files provide employment and hourly wages for 711 detailed occupations and 22 major groups. The latest data are for 2000.

All economic data produced by the federal government are subject to being withheld to meet disclosure regulations, which are in place to prevent data on a particular company from being released or otherwise ascertained. These regulations result in considerable data being suppressed — not only for the detailed occupations, but for occupational groups as well — since the employment base is small in most Arizona counties. In only four of the 22 occupational groups were data disclosed for all 15 Arizona counties. In other occupations and occupational groups, employment was so small that the wage data may not be representative. While sampling error is minimized by requiring very high response rates, the universe of employers of a given occupation in a particular county may be much different in characteristics such as company size or industry than the statewide or national universe.

Major Occupational Groups — Employment

Both nationally and in Arizona, the numbers of workers ranged widely across the 22 major occupational groups. About 18 percent of all workers in 2000 were in office and administrative support occupations, while less than 1 percent were in the life, physical and social sciences; legal; and farming, fishing and forestry groups.

At the major occupational group level, Arizona's industrial mix in 2000 varied considerably from the national average, as seen in the employment share portion of Table 1. In particular, Arizona's occupational share was more than 50 percent higher than the national average in construction and extraction occupations and in the small group of farming, fishing and forestry. Employment also

was relatively high in Arizona in architecture and engineering, protective service, food preparation and serving, and building and grounds cleaning and maintenance. In contrast, Arizona had relatively few working in production; life, physical and social sciences; community and social services; legal; education, training and library; arts, design, entertainment, sports and media; and health care practitioners and technical occupations.

Major Occupational Groups — Wages

The overall mean hourly wage of \$14.83 in Arizona in 2000 equates to a little less than \$31,000 annually for a full-time worker. Because of a few workers whose wages are far higher than those of most workers in their occupation, the mean wage overstates the wages paid to most workers. In most of the occupational groups, the mean wage in 2000 was from 5 to 15 percent higher than the median wage, but it was 33 percent higher in sales occupations and 22 percent higher in legal occupations. The overall median wage was \$11.81, or less than \$25,000 annually.

The overall mean hourly wage in Arizona in 2000 was 6 percent less than the national average. In none of the 22 major occupational groups did the mean wage equal the national average for that group. The median wage exceeded the national average in two groups: sales and protective service. In most groups the ratio of the mean wage to the national average was within 6 percentage points of the overall figure of 94 percent, but the Arizona mean was 15 percent below average in farming, fishing and forestry; and construction and extraction.

The mean wage in seven of the 22 major occupational groups

Wages lower than U.S. average

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was at least 40 percent above Arizona's overall average; the median wage was at least 60 percent higher than the state's overall median in these seven groups. Nearly 20 percent of the workers were employed in these high-wage occupations, a share nearly equal to the national average; Arizona's mean wage in these groups was 4 percent less than the national average. In the next six groups shown in Table 1, the mean wage was close to the overall state average; the median wage in each case was higher than the overall Arizona median. Arizona's share of workers in these groups was higher than the national average, but the mean wage was 11 percent less than the U.S. figure. In the next four occupational groups, the mean wage was 11 to 20 percent less than the Arizona total and the median wage was similarly lower. These occupations employed many workers: 45 percent of the national total but less than 42 percent in Arizona. The mean wage among these groups was 4 percent less than the national average. Finally, five occupational groups paid from 34 to 51 percent less than the overall Arizona mean. The median wage in each case also was far below the state's overall median. Arizona's 17 percent share of workers in these occupations was higher than the national

average while Arizona's mean wage in these occupations was considerably less than the U.S. average.

Thus, Arizona's occupational mix accounted for only a tiny fraction of the state's lower-than-average overall wage. With a cost of living near the national average, these lower wages equate to a lower economic standard of living in Arizona. The common explanation for the low wages is that because of climate and other perceived advantages, workers are willing to accept lower wages in Arizona than they would in other parts of the nation.

Detailed Occupations

The 10 occupations with the highest median hourly wage in 2000 had medians of greater than \$40 per hour, or more than \$84,000 annually. Other than the chief executives category, each occupation was in the health or legal professions. In eight of the 10 occupations, the employment share was considerably less than 0.1 percent of the total; the exceptions were chief executives and lawyers. All but one had an employment share less than the national average. Thus, few workers were employed in the highest-wage occupations in Arizona, especially

compared to the national average. Wages in these occupations generally were similar to the national average for these occupations.

In contrast, many more workers were employed in the 10 occupations with the lowest median hourly wage. Each of these occupations had a median of \$6.53 per hour or less, an annual figure of less than \$13,600. Food preparation and service occupations dominated the list. Occupational shares generally were higher than the national averages. In almost all cases, the average and median wages in Arizona were less than the national occupational figures.

In the occupations with the greatest number of workers, employment shares generally were not too different from the national averages. Mean and median wages in these occupations generally were similar to the national figures. Five occupations had greater than 40,000 workers: retail salespersons, cashiers, combined food preparation and serving, customer service representatives (which had the highest median wage among the five at \$10.20 per hour, or about \$21,200 annually), and general office clerks.

— Tom R. Rex
Research Manager

TABLE 1
MAJOR OCCUPATIONAL GROUPS, ARIZONA, 2000

Major Occupational Group	Employment	Employment Share		Hourly Wage		Wage Ratio*	
		Percent	Ratio*	Mean	Median	Mean	Median
Management Occupations	140,190	6.3	104	\$31.16	\$28.20	95	96
Computer and Mathematical Occupations	51,830	2.3	102	27.40	26.00	98	98
Legal Occupations	12,410	0.6	81	29.23	24.01	88	88
Architecture and Engineering Occupations	61,350	2.7	138	24.83	22.80	96	92
Business and Financial Operations Occupations	73,990	3.3	93	21.75	20.10	93	95
Life, Physical, and Social Science Occupations	13,900	0.6	78	21.02	20.02	92	97
Health Care Practitioners and Technical Occupations	86,080	3.9	83	21.86	19.04	95	96
Installation, Maintenance, and Repair Occupations	95,320	4.3	104	15.55	14.53	96	95
Arts, Design, Entertainment, Sports, and Media	23,240	1.0	89	16.75	14.34	90	91
Education, Training, and Library Occupations	114,400	5.1	89	16.04	14.33	88	85
Total	2,238,400	100.0	-	14.83	11.81	94	NA
Community and Social Services Occupations	20,850	0.9	82	14.53	13.38	92	92
Construction and Extraction Occupations	162,330	7.3	152	14.02	13.29	85	88
Protective Service Occupations	64,150	2.9	124	14.61	13.10	99	102
Office and Administrative Support Occupations	407,790	18.2	103	11.94	10.87	94	94
Production Occupations	146,640	6.6	69	11.84	10.30	93	92
Transportation and Material Moving Occupations	152,120	6.8	92	11.99	10.22	97	97
Sales and Related Occupations	227,560	10.2	98	13.28	9.96	99	107
Health Care Support Occupations	48,590	2.2	93	9.75	9.26	96	97
Personal Care and Service Occupations	44,160	2.0	95	9.04	7.78	92	97
Building and Grounds Cleaning and Maintenance	85,560	3.8	115	8.39	7.64	89	91
Farming, Fishing, and Forestry Occupations	12,590	0.6	158	7.68	6.56	85	89
Food Preparation and Serving Related Occupations	193,350	8.6	113	7.33	6.50	95	95

* Ratio to national average. NA: Overall national median wage not available.

Source: Center for Business Research, L. William Seidman Research Institute, College of Business, Arizona State University, from U.S. Department of Labor, Bureau of Labor Statistics, and Arizona Department of Economic Security, Research Administration.

Greater Phoenix winter resident population holds steady

Since 1984 the Center for Business Research has conducted an annual census of mobile home and travel trailer/RV parks in Arizona in early February. Based upon this information, the Center produced estimates of the number of “snowbird” households (seasonal residents 55 and older) in the parks. The Center also produced estimates of the total number of snowbird households throughout the state, along with their annual spending. For the 2000-2001 season, their total spending in the state was estimated at \$1 billion.

For the 2001-2002 season, only a sample of parks across the state was surveyed. A total of 60 parks provided data for the survey. Based on these responses, it appears that the number of snowbird households in Phoenix and Apache Junction area parks has remained relatively constant for the 2001-02 season. The survey results imply a somewhat smaller snowbird population in parks outside the Phoenix area.

Why We Sampled This Year

Over the years, it has become much more time-consuming and expensive to conduct the park census. Fewer parks were responding to the mail survey, and it was increasingly difficult to make contact with park owners/managers by phone. Even with repeated callbacks, many parks could not be reached so that estimates had to be extrapolated from information derived from the smaller number of responding parks. In addition, our methodology relied on ratios of park to non-park snowbird households based on information from a variety of household surveys. But with the park snowbird households in decline, the assumption of constant ratios between park and non-park populations (because no updated information is available) implies a decline in the total snowbird population — when it appears that the numbers of non-park snowbird households in the Phoenix area are likely increasing.

These reasons, along with the fact that the number of winter resident households staying in RV/mobile home parks has been relatively unchanged for the past two seasons, led to the decision to cut back on the scope of the Center’s annual Winter Resident Study for the 2001-02 season.

Results from This Year’s Sample Survey

A sample of 48 parks in the Phoenix/Apache

Junction area and 40 parks in the rest of southern Arizona with large snowbird counts in past years were surveyed by telephone during February and March. Responses were obtained from 33 Phoenix area parks and 27 parks outside the Phoenix area. The Phoenix area parks ranged in size from 200 to 1,900 spaces, with 10 parks having at least 1,000 spaces. The parks in the rest of the state ranged in size from 53 to 1,230 spaces. Managers were asked for number of spaces, percent of spaces occupied by snowbird households, overall occupancy rates, whether their park had more/same/fewer snowbirds than last year and why, and whether snowbirds were arriving sooner/same/later than last year and why.

Table 1 presents the responses to the questions about the number of winter resident households and their time of arrival. What immediately stands out is the preponderance of “same” responses both in and outside the Phoenix area for number of snowbird households and arrival times.

Previous research indicates that the prime determinant for when to arrive/leave for many snowbird households is the weather back home. The vitality of the U.S. economy, stock market prices, and the level of interest rates play major roles. Also, Canadian visitors’ concerns about a weak currency and rising insurance costs have been heard. Yet even amid the declining Canadian dollar, the retreat of U.S. stock markets and interest rates since the fall of 2000, the NBER-defined recession beginning in March 2001, and the frightful nature of the 9/11 attacks, more than 60 percent of the Phoenix area parks reported arrival times and total numbers similar to the 2000-01 season. For the rest of the study area, the percentages were lower, but “same” was the most frequent response.

In the Phoenix area, nearly as many park managers reported more snowbirds as fewer. But nine parks indicated that they were coming later, compared to only four saying sooner. Concerns associated with 9/11 were the most cited reason, but some managers considered it a positive in encouraging people to leave big cities. A warm winter was also mentioned. Outside of Phoenix, “fewer than last year” responses outnumber “more than last year” responses 6 to 1 for Yuma area parks, again citing 9/11 and Canadian issues. Elsewhere in the state, “more” outnumbered “fewer” responses

5 to 3. At the same time, later arrivals were cited more than earlier arrivals for the same reasons.

The high proportion of “same number as last year” responses, together with some limited information relating to occupancy rates and the proportion of snowbird households, would indicate that the number of park snowbird households has remained relatively constant from 2000-2001 to the 2001-2002 season in the Phoenix/Apache Junction area. In comparison, the results from the sample survey imply that the rest of the state experienced a decline, notably in Yuma. This view is consistent with the results of the survey of Yuma area parks conducted by Northern Arizona University’s Yuma Campus, which indicated that occupancy rates in area parks were lower during the 2001-02 season compared with 1999-2000.

— **Stephen K. Happel**

Professor of Economics

— **Timothy D. Hogan**

Director, Center for Business Research

— **Joseph Ashby**

Undergraduate Honors Program

TABLE 1

RV/MOBILE HOME PARK WINTER RESIDENTS 2001-02 Survey by Geographic Area

Number of winter residents in your park compared with the 2000-01 season:

	Phoenix Area		Rest of Study Area	
	Parks	Percent	Parks	Percent
More	5	15	6	22
Same	22	67	12	44
Fewer	6	18	9	33
TOTAL	33	100	27	100

Time of arrival in your park compared with the 2000-01 season:

	Phoenix Area		Rest of Study Area	
	Parks	Percent	Parks	Percent
Earlier	4	12	6	22
Same	20	61	12	44
Later	9	27	9	33
TOTAL	33	100	27	100

Note: Columns may not add due to rounding.

Source: Survey conducted by the authors, Center for Business Research, L. William Seidman Research Institute, College of Business, Arizona State University.

Home sales strong, affordability improves in first quarter

The recorded sales activity in the Greater Phoenix housing market for first quarter 2002 represented home-buying decisions made around the time of the traumatic events of Sept. 11, declining consumer confidence and a recessionary economy. Even with this unfavorable economic environment, recorded sales activity improved through the quarter from 5,960 sales in January to 8,970 sales in March. Although the quarterly total of 21,955 sales is down from the 25,620 recorded in fourth quarter 2001, it is better than the 21,600 homes recorded sold in the first quarter of the record year 2001.

This pace of activity shows that people remained willing to take advantage of declining interest rates to satisfy their housing dreams. Thus, amid the current signs that the economy is recovering and consumer confidence is improving, the resale housing market has a solid basis for a very good 2002.

AFFORDABILITY

With the economy appearing to be in the early stages of a recovery, the Federal Reserve Board has ended its aggressive policy of lowering interest rates. The average 30-year mortgage rate has remained stable at 6.7 percent. This is above the year-end rate of 6.5 percent, but comparable to a year ago.

In the resale home market, the median home price continued at a record level, rising to \$139,700 compared to the previous record of \$138,000 set in third quarter 2001. Last year, the median resale home price was \$132,500. For new homes, the median price increased to \$158,015 from \$154,495 in fourth quarter 2001, but remained slightly below the \$158,030 of year ago.

Because the economy was weak with increasing layoff activity and low inflation, the median household income has remained unchanged. This, combined with higher

interest rates and median resale home prices, caused the resale affordability index to decline from 117 in fourth quarter 2001 to 112 in first quarter 2002. Because the same home buying conditions existed in the new home market, the new home affordability index value valleywide fell from 103 to 99, which is slightly better than last year's 98.

An index value of 100 means that the typical home buyer (based on the current median resale price and household income) would be able to afford a median-priced home at an effective interest rate of 8.0 percent.

Since home prices and incomes vary throughout the Valley, so does the affordability index. For example, in the resale sector, the first quarter 2002 index ranged from 76 in Scottsdale to 126 in Glendale and 127 in Chandler.

RESALE SINGLE-FAMILY HOMES

Even with the poor economic environment, first quarter 2002, with 12,655 recorded resale homes, was the second-best first quarter on record (compared to 13,275 sales for first quarter 2001). Monthly activity improved dramatically, from 3,345 sales in January to 5,340 in March.

As the housing cycle ages, more expensive homes typically sell in greater proportion as move-up buyers become more numerous. In first quarter 1998 (when the median home price was \$110,000), 15 percent of resale homes sold for less than \$70,000 and only 13 percent for more than \$200,000. In first quarter 2002, only 3 percent of the recorded sales were for homes under \$70,000, while 24 percent were for homes over \$200,000.

The median resale home price varied greatly across the Valley, from a high of \$877,250 (100 sales) in Paradise Valley to \$68,950 (65 sales) in the Sky Harbor housing area. Active areas were Mesa with 1,590 sales (\$129,000 median

price), Glendale with 1,075 sales (\$129,000), Deer Valley with 1,000 sales (\$150,000), North Scottsdale with 890 sales (\$317,150), Maryvale with 510 sales (\$95,000) and Mountain Park with 405 sales (\$183,000).

NEW SINGLE-FAMILY HOMES

The new home market slowed from the 8,460 homes recorded sold in fourth quarter to 6,015 sales, but is well ahead of last year's 5,120 sales.

Over the last few years, the strength of the new home market has migrated from the East Valley to the West Valley communities of Avondale, El Mirage, Goodyear and Surprise. In second quarter 1999, East Valley communities accounted for 44 percent of new home sales while West Valley communities stood at 19 percent.

Currently, the respective shares are 30 percent for the East Valley and 34 percent for the West Valley. A fundamental reason behind this shift is the stronger affordability of new homes in the West Valley. In the East Valley, the median new home prices were \$195,695 in Chandler, \$180,560 in Gilbert and \$170,130 in Mesa. In the West Valley, they were \$134,995 in Avondale, \$112,645 in El Mirage, \$149,240 in Goodyear and \$141,055 in Surprise.

Monthly activity improved from 1,725 sales in January to 2,295 sales in March. The highest median sales price was \$391,810 in North Scottsdale, where 205 homes were recorded sold; the lowest was \$112,645 in El Mirage, with 365 sales. Other active markets were: Deer Valley with 625 sales (\$197,705 median price), Superstition Springs with 622 sales (\$170,120), and Union Hills with 110 sales (\$280,000).

TOWNHOUSE/CONDOMINIUMS

With declining affordability in the single-

TABLE 1
HOUSING AFFORDABILITY INDEXES
Metropolitan Phoenix, Single-family Only

Quarter	Median Gross Monthly Income	Effective Interest Rate	Resale Homes			New Homes		
			Median Sales Price	Monthly Housing Payment	Affordability Index	Median Sales Price	Housing Payment	Monthly Affordability Index
First Quarter 2001	\$3,625	6.9%	\$132,500	\$870	117	\$158,030	\$1,040	98
Second Quarter 2001	3,550	7.0	136,000	905	113	157,615	1,050	98
Third Quarter 2001	3,680	6.9	138,000	910	113	156,500	1,030	100
Fourth Quarter 2001	3,680	6.7	137,000	885	117	154,595	995	103
First Quarter 2002	3,680	6.9	139,700	920	112	158,015	1,040	99

Source: Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University.

family sector, the townhouse/condominium sector has received greater attention from owners and investors alike. The potential buyer also appreciates the low maintenance, recreational facilities and security offered by this housing style. Although this sector frequently is perceived as the source of low-priced housing, many of the recent new developments are in the high end of the market. For example, the median price of \$163,765 for new units actually exceeds the \$158,015 for new single-family homes. The primary reason for this is that more than 45 percent of the 310 recorded sales occurred in North Scottsdale, with a median sales price of \$214,535.

Other active areas were East Mesa (55 sales, \$142,275), Superstition Springs (35 sales, \$114,300) and North Mesa (10 sales, \$119,990).

The resale townhouse sector improved from 2,860 sales recorded in fourth quarter 2001 to 2,970 sales, but remained lower than last year's 3,040 sales. The median price for resale units increased from \$90,000 in fourth quarter 2001 to \$94,000 and is well above last year's \$91,000. The median resale price was 67 percent of the median price for single-family homes. In the resale market, the median square footage was 1,160 (\$82 per square foot), compared to 1,615 (\$91 per square foot) in the single-family market.

The most active resale areas were North Scottsdale with 360 sales (\$164,000), South Scottsdale with 320 sales (\$115,500), Sun City/Peoria with 250 sales (\$69,950) and South Mesa with 180 sales (\$87,000).

NATIONAL HOUSING MARKET

Although the levels of activity are below a year ago, both the new and resale home markets showed considerable strength throughout

the quarter. Given the poor economic environment, the demonstrated strength of the sector support the opinion that the housing market will have another good year. The key issue will be whether a strong economic recovery could lead to higher interest rates, which could dampen the potential of the market.

The national resale median home price posted an increase from \$147,965 in the fourth quarter to \$150,900 in first quarter 2002 — well above last year's \$139,800. The lower interest rates were not enough to offset the higher median price, so the resale affordability index declined to 110 from 114 and was down from last year's 115. In the new home market, the median price increased from \$171,100 to \$182,700, resulting in the national new home affordability index falling from 99 to 91, compared to last year's 95.

LOOKING AHEAD

Given the weak economic environment in the waning months of 2001, the level of activity achieved by the housing market is very promising for 2002. Thus, the housing market remains a very strong light in the national and local economies.

The promise of 2002 hinges on three fundamental factors:

(1) The nascent economic recovery that has become evident in first quarter 2002 must strengthen throughout the year with resultant increases in job growth, employment and consumer confidence. The economically confident consumer has been the driving force of the recent housing boom and needs to reappear to add stimulus to the future housing market.

(2) Although low mortgage interest rates have been very important in sustaining the market, the expected economic recovery and some mounting inflationary concerns

will probably result in higher interest rates. Beyond the possible action of the Federal Reserve Board, a strengthening stock market could draw funds from the bond market, which would also result in higher interest rates. As long as rates stay at or below 8 percent, affordability can be maintained.

(3) The final factor is that future traumatic events are minimal in their impact on the economy and the consumer psyche. Given the heightening conflicts in the Mideast and other places, this factor maybe the most difficult to sustain. Escalation of international tensions could stifle the potential economic recovery and dampen consumer confidence. In addition, oil supplies could be impacted, with resulting higher energy costs and inflationary concerns and, in turn, higher mortgage interest rates. Thus, it is evident that even the Greater Phoenix housing market has become connected to rest of the world, and this must be taken into account when examining its future.

An overriding concern for the coming year is the issue of home buyer demand. Traditionally, a growing population and the creation of new households fuel home sales. While this factor should hold steady, a more recent trend — the faster turnover of homes and an increase in nontraditional home buyers such as single females and minorities — may wane if interest rates continue to climb. Thus, the concern is that home buyers in a weaker economic environment will be less likely to "trade up" for new homes, and the market will be more dependent on the traditional forces.

— Jay Q. Butler
Director,

Arizona Real Estate Center

TABLE 2
METROPOLITAN PHOENIX HOME SALES

	Single-family			Townhouse/Condominium			Grand Total
	Resale	New	Total	Resale	New	Total	
<i>Median Sales Price</i>							
First Quarter 2001	\$132,500	\$158,030	\$139,990	\$91,000	\$165,930	\$94,000	\$134,000
Second Quarter 2001	136,000	157,615	142,145	92,500	155,000	95,950	136,900
Third Quarter 2001	138,000	156,500	144,000	89,000	166,780	94,500	138,900
Fourth Quarter 2001	137,000	154,495	144,355	90,000	166,940	95,000	139,500
First Quarter 2002	139,700	158,015	146,000	94,000	163,765	98,000	140,000
<i>Number of Sales</i>							
First Quarter 2001	13,275	5,120	18,395	3,040	165	3,205	21,600
Second Quarter 2001	17,555	6,945	24,500	3,580	370	3,950	28,450
Third Quarter 2001	16,415	7,480	23,895	3,190	375	3,565	27,460
Fourth Quarter 2001	13,910	8,460	22,370	2,860	390	3,250	25,620
First Quarter 2002	12,655	6,015	18,670	2,970	315	3,285	21,955

Source: Arizona Real Estate Center, L. William Seidman Research Institute, College of Business, Arizona State University.

Population growth still strong; slowdown ahead

Population growth across Arizona remained vigorous in first quarter 2002, as the economic recession had not yet had much of an impact on migration flows. Slower growth should occur during the rest of 2002 in the Phoenix and Tucson areas.

While the net number of people moving to the state hardly lowered during the last several quarters, recent net migration to the Phoenix area has been less than that during the mid-1990s (see Figure I). Net migration is projected to decelerate in Maricopa and Pima counties during the rest of 2002 in response to the economic recession, which began in April 2001 and likely lasted into early 2002. Changes in net migration typically lag behind changes in economic growth by as much as a year.

The slowdown likely will be modest, with net migration to the Phoenix area remaining considerably higher than during the last recession in 1990-91. Housing markets remain strong, with new construction declining only modestly and increases in the vacancy rate not being substantial.

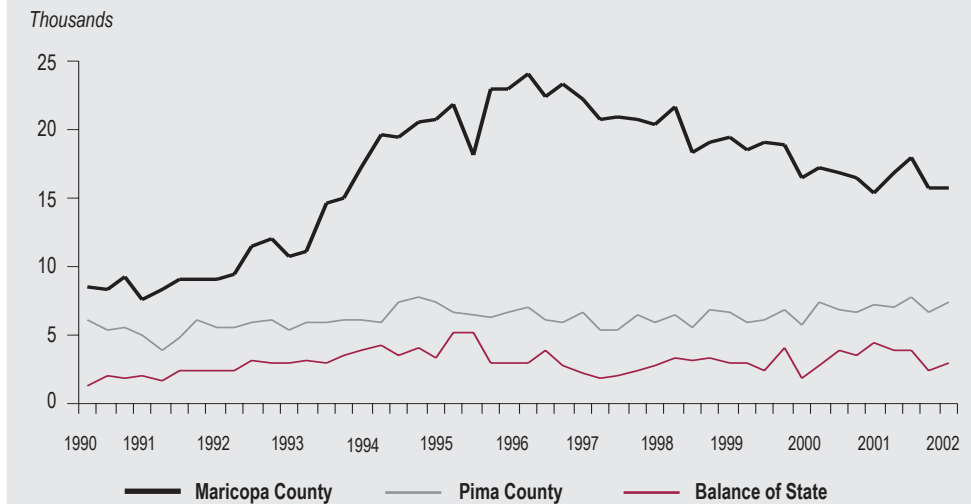
The estimated population of Arizona at the end of first quarter 2002 was 5,436,100. The gain during first quarter 2002 was estimated at 37,200, similar to the quarterly

increases during 2000 and 2001. Net migration accounted for 26,200 of the increase. Maricopa County was the home of about 3,268,700. Its population has been rising about 24,000 to 25,000 per quarter since 2000; the first quarter 2002 advance was about 23,900, of which net migration accounted

for 15,800. Pima County's population was estimated at 881,400 and the other 13 counties combined had an estimated population of 1,286,000.

— Tom R. Rex
Research Manager

FIGURE I
QUARTERLY NET MIGRATION



Source: Center for Business Research, L. William Seidman Research Institute, College of Business, Arizona State University.

Arizona Business Conditions Index slips in April

The seasonally adjusted Arizona Business Conditions Index fell to 54.4 in April from 57.7 the previous month. An index reading of over 50 indicates that the local economy is growing, while a reading below 50 suggests a slowdown in the overall level of economic activity in the near term.

ANALYSIS

The BCI gave up some of the ground it had gained recently. Even so, April marks the second consecutive month that the index has been above the critical 50-point level. A strong upward trend has been established over the past six months.

Most of the loss in the overall index came from a decrease in the sub-index of New Orders, which fell by 7.4 points. Still, at a healthy 57.5, the New Orders sub-index is indicative of strength returning to the local economy. The Employment sub-index remains below 50 and fell still further in April, coming to rest at 42.4. The Employment sub-index tends to lag improvement in the

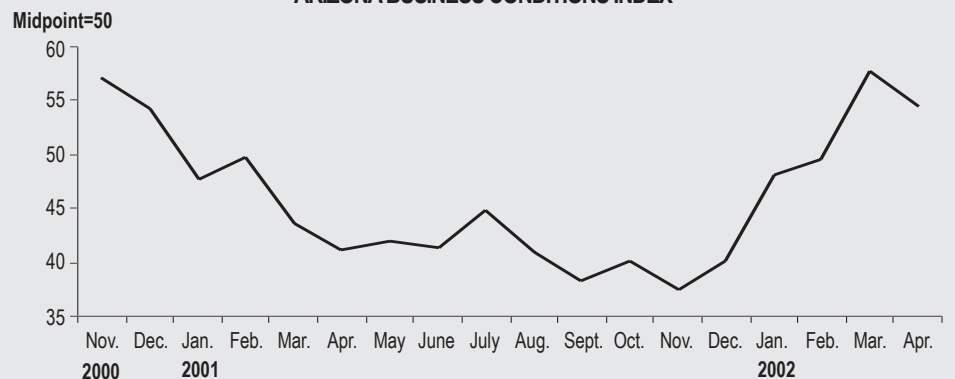
economy as employers are reluctant to hire until they are more confident about the strength and stability of the economy. The Production sub-index turned in stellar performance, rising by 1.8 points to 63.6.

The Prices Index fell by 5.8 points, to 50.3 in April. This shows a fairly neutral outlook

for prices in the market and an easing of the upward pressure that had been present during the previous three months.

— Dawn McLaren
Research Economist
Bank One Economic Outlook Center

FIGURE I
ARIZONA BUSINESS CONDITIONS INDEX*



*Excludes Price Index
Source: Bank One Economic Outlook Center, L. William Seidman Research Institute, College of Business, Arizona State University.

Bank One Arizona Leading Index flat in April

The Bank One Arizona Index of Leading Economic Indicators was flat in April at 115.9. The number was the same as the revised 115.9 number for March 2002, and 5.0 percent above the April 2001 number of 110.4 (1987 = 100).

Sensitive materials prices, hours worked in manufacturing, the inflation-adjusted value of Maricopa County residential building permits and production were positive. The inflation-adjusted value of the M2 money supply, employment from the Business Conditions Survey, delivery times, new orders and materials inventories were negative.

The flat showing of the Leading Index is not cause for alarm. The index often has flat or nearly-flat months in the midst of an upward trend. Consumers are not yet feeling the turnaround in the economy and are not likely to be convinced that the recession is over until the employment situation turns around later this year. Despite the fact that most signs point to recovery, there are still some potential threats to the economy. Businesses remain very cautious despite vastly improved profits. They will have to start spending and hiring soon if the recovery is to maintain momentum. Unfortunately, it is easy to understand the caution of both the consumers and the firms.

The most worrisome are the international problems. It seems that India and Pakistan are drifting toward war; both sides possess nuclear capability and at least the rhetoric suggests they are willing to use it. We do not know the extent of the damage that would be sustained during a nuclear exchange or how the fallout would impact countries in the region and around the world. India and Pakistan are important countries to the region as well as to the United States.

The situation in the Middle East also remains quite grave and could lead to disruptions of world oil supplies and political fallout from the crisis if it remains unresolved. The drag on the economy from all of these uncertainties remains psychological at this time, but that is still significant. Of course, the impact of an actual war between India and Pakistan or a significant deterioration in the Middle East would make things much worse.

The Leading Index cannot incorporate the intangible aspects of political unrest. The underlying economy remains sound and if business spending picks up and the

employment situation improves as expected, the recovery will continue. This is the scenario that the Leading Index and most economic forecasts are suggesting.

Fortunately, there is some evidence of increased business spending. New orders for computers and electronic products were up in March and April, which is good news for the semiconductor sector in Arizona. However, the trend will have to continue and become more broad-based before it can be said that the economy is truly out of the woods.

The domestic issues involved in the recent accounting and brokerage scandals may also be having some impact. Individuals and institutional investors alike are much

less certain that they know enough about companies in order to make intelligent investment decisions; this will restrain the stock market. Firms have to re-examine their accounting practices, and may become more cautious. Firms are also faced with little pricing power, which means that profits still may be under pressure once the initial productivity boost of the first quarter is over. Finally, the productivity boost was largely the result of all the layoffs during the recession, which is a negative in terms of consumer demand.

— Tracy Clark
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TABLE 1

NET CONTRIBUTION OF INDIVIDUAL COMPONENTS TO THE ARIZONA INDEX OF LEADING ECONOMIC INDICATORS

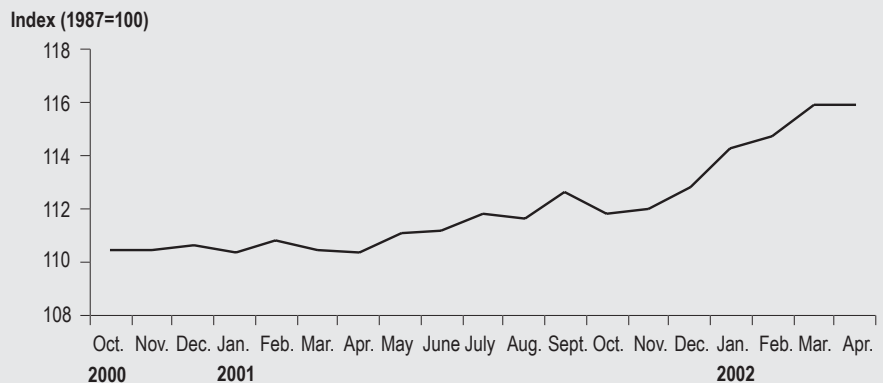
	Net Contribution*			
	Jan.	Feb.	Mar.	Apr.
Delivery Time*	0.16	-0.02	0.06	-0.06
Inventory Levels*	0.28	-0.04	0.25	-0.02
New Orders*	0.18	-0.04	0.20	-0.05
Production*	0.15	0.10	0.10	0.07
Employment*	0.29	0.12	0.08	-0.12
Residential Building Permits	0.13	-0.20	0.05	0.11
Average Workweek, Manufacturing	-0.11	-0.04	0.07	0.14
Money Supply	0.03	0.24	-0.16	-0.28
Change in Sensitive Materials Prices	0.17	0.29	0.34	0.26
OVERALL INDEX	1.28	0.41	0.99	0.05

* The net contribution of each component is calculated by multiplying the monthly percent change in its index by its relative importance.

* Based on indicators from the Purchasing Management Association of Arizona, Purchasing Management Association of Southern Arizona and the Northern Arizona Group.

FIGURE 1

ARIZONA INDEX OF LEADING ECONOMIC INDICATORS



Source (Table 1 and Figure 1): Bank One Economic Outlook Center, L. William Seidman Research Institute, College of Business, Arizona State University.



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ARIZONA ECONOMIC INDICATORS

	Month or Quarter	Current Value	Previous Value	Percent Change Previous Period	Percent Change from Year Ago	Year-to-Date	
						Value	Percent Change from Year Ago
LEADING ECONOMIC INDEX (1987 = 100)							
Arizona	April	115.9	115.9 r	0.0	5.0	NA	NA
BUSINESS CONDITIONS INDEX							
Arizona	April	54.4	57.7	-5.7	32.4	NA	NA
BUILDING PERMITS (Thousands of \$)							
Maricopa County	March	728,012	632,976 r	15.0	-25.9	2,028,847	-23.1
Pima County	March	98,183	98,181	0.0	-28.5	291,289	-13.5
Balance of State	March	186,646	157,084 r	18.8	19.5	498,254	16.1
Arizona	March	1,012,841	888,241 r	14.0	-20.6	2,818,390	-17.2
TOTAL HOUSING UNITS AUTHORIZED							
Maricopa County	March	3,787	2,827 r	34.0	-10.0	9,384	-27.2
Pima County	March	591	665	-11.1	-42.2	1,801	-18.5
Balance of State	March	1,434	1,302 r	10.1	9.0	4,025	6.8
Arizona	March	5,812	4,794 r	21.2	-11.2	15,210	-19.4
HOME SALES							
Maricopa County - Number	March	8,970	7,030	27.6	11.8	21,960	1.7
Maricopa County - Median Price(\$)	March	139,800	140,000	-0.1	2.5	140,000	4.5
HOUSING AFFORDABILITY INDEXES							
Metropolitan Phoenix - New Homes	1st Quarter	99	103	-3.9	1.0	NA	NA
Metropolitan Phoenix - Resale Homes	1st Quarter	112	117	-4.3	-4.3	NA	NA
MORTGAGE RATES (30-year Fixed)							
Maricopa County	April	6.7	6.7	0.0	-1.5	NA	NA
POPULATION ESTIMATES (Thousands)							
Maricopa County	1st Quarter	3,269	3,245	0.7	3.1	NA	NA
Pima County	1st Quarter	881	877	0.5	2.1	NA	NA
Balance of State	1st Quarter	1,286	1,277 r	0.7	2.8	NA	NA
Arizona	1st Quarter	5,436	5,399 r	0.7	2.9	NA	NA
RETAIL SALES (Millions of \$)							
Maricopa County	March	2,739	2,425	12.9	-0.7	7,504	0.4
Arizona	March	4,023	3,562	13.0	1.6	11,026	1.3

Note: The above figures reflect the latest data available as of date of publication and are subject to revision.

NA = Not Applicable r = Revised

Source: Center for Business Research, Arizona Real Estate Center, and Bank One Economic Outlook Center, affiliates of the L. William Seidman Research Institute, College of Business, Arizona State University. Retail sales data are from the Arizona Department of Revenue.