

# AZB ARIZONA BUSINESS

ARIZONA STATE UNIVERSITY'S MONTHLY NEWSLETTER ON THE ARIZONA ECONOMY

## Volatile markets cast pall over state's outlook for 2002

The economy has yet to slip back into recession, but the picture has dimmed since the second quarter. The corporate financial scandals continue to take their toll on the stock market and negatively impact consumer and business spending. Locally, the outlook for semiconductors and other high technology has not improved, while housing activity continues at a surprising pace.

Congress has passed new tougher corporate responsibility legislation, which was enough to boost the stock market in the short term, but may or may not be enough in the coming months. Investor mistrust damages the economy on several fronts and impacts spending by consumers and businesses. The problems for business extend beyond tarnished reputations. The falling stock market means the seemingly inexhaustible supply of capital that fueled the '90s is shut off, and banks are not going to step up to fill the gap until they can be sure the financial information coming from companies is accurate. The end result is that even worthwhile projects may go begging for cash, delaying the increase in business spending needed to keep the economy going. The climate makes managers less willing to take risks, which could further delay increases in business spending. Companies are being distracted from their regular business by the need to verify past statements in order to have the CEO certify them. There is also a real possibility that institutional investors may force companies to make changes that go beyond the congressional package. Consumers are affected by the negative wealth effect and the psychological impact of seeing their savings evaporate. The sense of betrayal generated by the drumbeat of corporate restatements and new investigations by the Security and Exchange Commission contributes to the feeling of economic gloom.

Has the economy been wounded enough to cause a double-dip recession? That is a difficult question to answer, but at least for now the answer appears to be no. Unemployment is still quite low and consumers — at least those who still have jobs — appear to still have the extra money that until recently was going into the stock market. Housing starts remain at remarkable levels given the overall economic climate, and a surprising number of homeowners are refinancing from a 30-year to a 15-year mortgage, which in effect means an increased investment

in housing. Consumers continue to buy cars at an unexpected pace, although the level of incentives needed to maintain sales levels is rising. Businesses have not increased spending, but they have not pulled back either. Mass layoff statistics suggest that the labor markets are still weak, but they have not deteriorated further. Lastly, the Federal Reserve has not dropped rates further — but there is almost no chance there will be an increase in the near future.

The path of the stock markets is worrisome to many because of the markets' reputation as leading indicators of the economy. The theory goes that highly motivated investors will incorporate all possible information about companies as soon as it becomes available, which is usually long before the information impacts official statistics. The Conference Board found enough statistical evidence of this to incorporate the S&P 500 stock index into the revamped Leading Index. However, recent experience also indicates that investors are not particularly good at separating truth from fiction and that speculative bubbles are a real possibility even with "rational" investors. If the stock market currently is readjusting to a realistic valuation of corporations, that is a necessary but painful process — but the consequences of an overreaction that seriously undervalues corporations would be much more severe.

The 2002 Gross Domestic Product forecast for third quarter remains unchanged, primarily because the second quarter forecast already was significantly more pessimistic than previous ones. The forecast is consistent with quarterly results for the rest of the year significantly weaker than those from the first quarter. Economic activity should still pick up in 2003, although the first quarter is likely to be weaker than previously expected.

The biggest change to the national forecast

### Third Quarter Economic Forecast

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is the scaling back of industrial production for 2002 and to a much smaller extent in 2003. Capacity utilization, which measures how intensively the nation's production facilities are being used, will not be rising nearly as fast as previously expected. It seems likely that any turnaround in the nation's job markets will be delayed as well. Domestic demand is still stagnant outside of the auto sector, and the economies of our

major trading partners, while improving over 2001, are still somewhat weak. Canada is expected to have GDP growth moderately higher than the U.S. but still well below 2000. Mexico is still expected to be somewhat weak in 2002, but to improve substantially in 2003. The pattern for most of our other trading partners is significant improvement in 2003. The dollar is finally weakening against other major currencies,

which makes it easier to increase exports. The weakening dollar seems to be a combination of nervousness over the falling stock market and a sense that after the terrorist attacks, the U.S. is less of a safe haven than before.

The outlook for interest rates has improved since the Fed is now likely to delay any tightening moves until sometime in 2003. There has even been some speculation that the Fed might lower the Federal Funds rate

**TABLE 1**  
**2002 AND 2003 ECONOMIC FORECASTS: UNITED STATES**

	Actual 1998	Actual 1999	Actual 2000	Actual 2001	Forecast 2002	Forecast 2003
Gross Domestic Product						
Billions of 1996 Dollars .....	8,508.9	8,856.5	9,224.0	9,333.8	9,539.1	9,844.4
Percent Change .....	4.3	4.1	4.1	1.2	2.2	3.2
Industrial Production (Percent Change) .....	5.2	3.6	4.5	(3.6)	0.5	4.0
Net Exports (Billions of 1996 Dollars) .....	(221.1)	(316.9)	(399.1)	(408.7)	(464.0)	(500.0)
Housing Starts						
Number in Thousands .....	1,616.9	1,666.5	1,592.3	1,636.7	1,638.3	1,659.6
Percent Change** .....	9.7	3.1	(4.5)	2.8	0.1	1.3
Unemployment Rate (Percent) .....	4.5	4.2	4.0	4.8	5.9	5.4
Consumer Price Index (Percent Change) .....	1.6	2.2	3.4	2.8	1.9	2.6
Three-Month Treasury Bill Rate (Percent) .....	4.8	4.6	5.8	3.4	1.7	3.3
10-Year Treasury Note Rate (Percent) .....	5.3	5.6	6.0	5.0	5.0	5.9

\*\*Calculated prior to rounding

**TABLE 2**  
**2002 AND 2003 ECONOMIC FORECASTS: ARIZONA**

	Actual 1998	Actual 1999	Actual 2000	Actual 2001	Forecast 2002	Forecast 2003
Personal Income						
Millions of Current Dollars .....	112,895	119,339	129,069	134,589	141,049	148,948
Percent Change .....	8.9	5.7	8.2	4.3	4.8	5.6
Retail Sales						
Millions of Current Dollars .....	37,071	40,769	43,940	44,833	45,954	48,252
Percent Change .....	7.2	10.0	7.8	2.0	2.5	5.0
Unemployment Rate (Percent) .....	4.1	4.4	3.9	4.7	5.6	4.7
Wage and Salary Employment						
Number in Thousands .....	2,074.7	2,163.1	2,242.8	2,265.7	2,272.9	2,333.6
Percent Change .....	4.5	4.3	3.7	1.0	0.3	2.7
Population						
Number in Thousands .....	4,864	5,017	5,169	5,324	5,462	5,588
Percent Change .....	3.3	3.1	3.0	3.0	2.6	2.3
Single-Family Units Permitted						
Number .....	50,997	51,764	48,846	50,930	45,837	45,379
Percent Change .....	18.6	1.5	(5.6)	4.3	(10.0)	(1.0)
Multifamily Units Permitted **						
Number .....	13,218	12,067	10,920	10,613	9,021	8,570
Percent Change .....	1.3	(8.7)	(9.5)	(2.8)	(15.0)	(5.0)

\*\* Apartment complexes of three or more units

Source (Tables 1 and 2): Bank One Economic Outlook Center, L. William Seidman Research Institute, College of Business, Arizona State University.

one more time before the end of the year. The benefit of one further rate cut would be a psychological boost from the perception that the Fed is still helping the economy. However, since interest rates are already so low, another rate cut would have little real effect. There is also the possibility that further cuts would have a negative impact by confirming consumers' worst fears about the economy. On balance, it seems unlikely that the Fed will cut further unless the economy continues to deteriorate.

### ARIZONA

The fate of the Arizona economy is tied very closely to what happens at the national

level. The local economy will not turn up until the national economy improves. Arizona, and particularly Maricopa County, has the extra burden of a high reliance on high tech and semiconductors which continue to languish.

The personal income forecast was downgraded in part because the numbers for 2001 were revised down, and also because a turnaround in employment appears to be further in the future due to continued weakness at the national level. The personal income growth forecast would be even weaker except for the fact that population growth is holding up so well.

Employment growth remains negative

on a year-over-year basis both locally and nationally, and it now appears that any improvement will be delayed until 2003. The forecasts have been cut for the manufacturing, mining and TCPU (transportation, communication and public utilities) sectors. Manufacturing is facing continued weakness in the high-tech sector, particularly semiconductors. The good news on the semiconductor front is that manufacturers of equipment for the industry have seen increases in orders for new equipment for seven months and shipments have increased for three months in a row. Unfortunately, spending by both business and consumers for new computer equipment has been stagnant

**TABLE 3**  
**2002 AND 2003 ECONOMIC FORECASTS: MARICOPA COUNTY**

	Actual 1998	Actual 1999	Actual 2000	Actual 2001	Forecast 2002	Forecast 2003
Retail Sales						
Millions of Current Dollars.....	25,207	27,825	30,167	30,605	31,340	32,938
Percent Change.....	7.9	10.4	8.4	1.5	2.4	5.1
Unemployment Rate (Percent).....	2.7	3.0	2.7	3.9	5.4	4.4
Wage and Salary Employment						
Number in Thousands.....	1,418.8	1,487.0	1,541.0	1,557.2	1,552.5	1,592.9
Percent Change.....	5.5	4.8	3.6	1.1	(0.3)	2.6
Population						
Number in Thousands.....	2,890	2,995	3,097	3,196	3,285	3,371
Percent Change.....	4.0	3.6	3.4	3.2	2.8	2.6
Single-Family Units Permitted						
Number in Thousands.....	35,603	35,430	33,107	33,428	29,417	30,005
Percent Change.....	16.9	(0.5)	(6.6)	1.0	(12.0)	2.0
Multifamily Units Permitted **						
Number in Thousands.....	10,529	9,524	9,490	9,163	7,880	7,565
Percent Change.....	(2.4)	(9.5)	(0.4)	(3.4)	(14.0)	(4.0)

\*\* Apartment complexes of three or more units

**TABLE 4**  
**ARIZONA EMPLOYMENT FORECASTS: 2002 and 2003**  
**(In Thousands)**

	Actual 1998	Percent Change	Actual 1999	Percent Change	Actual 2000	Percent Change	Actual 2001	Percent Change	Forecast 2002	Percent Change	Forecast 2003	Percent Change
Manufacturing.....	216.0	4.1	211.7	(2.0)	215.4	1.7	209.6	(2.7)	200.2	(4.5)	202.2	1.0
Mining.....	13.0	(5.8)	11.4	(12.3)	9.7	(14.9)	9.5	(2.1)	8.8	(7.0)	8.8	0.0
Construction.....	143.8	9.1	154.7	7.6	161.6	4.5	164.6	1.9	151.6	(7.9)	148.6	(2.0)
TCPU*.....	100.9	4.5	104.2	3.3	109.8	5.4	111.3	1.4	106.3	(4.5)	105.2	(1.0)
Trade.....	498.0	3.2	509.7	2.3	526.9	3.4	533.3	1.2	542.9	1.8	560.3	3.2
FIRE**.....	135.6	6.2	139.6	2.9	144.4	3.4	150.4	4.2	153.4	2.0	158.8	3.5
Services.....	626.1	4.9	677.8	8.3	708.5	4.5	710.6	0.3	724.8	2.0	761.1	5.0
Government.....	341.5	4.1	354.1	3.7	366.7	3.6	376.6	2.7	384.9	2.2	388.7	1.0
Total Wage and Salary Employment.....	2,074.7	4.5	2,163.1	4.3	2,242.8	3.7	2,265.7	1.0	2,272.9	0.3	2,333.6	2.7
Unemployment Rate.....	4.1%		4.4%		3.9%		4.7%		5.6%		4.7%	

\*Transportation, Communications and Public Utilities

\*\*Finance, Insurance and Real Estate

Source (Tables 3 and 4): Bank One Economic Outlook Center, L. William Seidman Research Institute, College of Business, Arizona State University.

or declining for several months. Consumers seem to be spending their dollars on DVD players and other items which contain fewer and less complex chips than PCs or laptops. There is little good news for either mining or TCPU.

The moderation of personal income growth and continued stagnation of employment growth is having a negative impact on retail sales. Year to date through May retail sales are up 0.1 percent for Arizona and down 0.8 percent for Maricopa County. The forecast assumes an improvement as the year progresses, but the rate of improvement will be lower than originally predicted.

Given the uncertainty surrounding forecasts of the local and national economies, perhaps it is a good thing for forecasters that the method of reporting employment

numbers will change dramatically after the first of the year. Beginning in January 2003, employment at the state level will be reported on a NAICS basis. NAICS, which stands for North American Industry Classification System, is an outgrowth of the North American Free Trade Agreement and intended as an improvement over the old Standard Industrial Classification codes for classifying businesses. The SIC basis for classifying firms leads to the eight major categories plus total employment (see Table 4). Under NAICS there will be 11 or more major categories in Table 4.

Forecasting will be complicated by the lack of history prior to 1990 for any of the categories below the total. There will be some categories with the same names, like construction and manufacturing, but

they will not cover all the same firms. The Bureau of Labor also is mandating a switch to a purely statistical and mathematical sampling estimation methodology with no human analytical input. The last change is intended to improve the quality of estimates, but in a state such as Arizona where the analysts have a good grasp of the economy this may lead to worse, not better, estimates of employment. Interpretation of the new employment statistics will be difficult until they become familiar and the national numbers begin to be reported on the same basis, which is supposed to happen in June 2003.

— Tracy Clark

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## Arizona Leading Index inches upward in June

The Bank One Arizona Index of Leading Economic Indicators rose in June to 117.0. The index was 0.1 percent above the revised 116.9 number for May 2002 and 5.2 percent above the June 2001 number of 111.2 (1987 = 100).

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

The last time the Leading Index declined was October 2001. Since then the index has been up for seven months and flat for one. This suggests that economic activity is on the rise, but a few indicators are giving contrary signals. There are worries that reduced consumer spending may derail the current economic turnaround in Arizona, as it is consumer spending that prevented this recession from becoming worse. Those worries stem from what appears to be a jobless recovery in Arizona.

Nonagricultural employment growth has remained negative in Arizona and the nation, both posting losses of about 1 percent in May 2002 when compared to May 2001. For Arizona, this means that there are 23,700 fewer jobs this May compared to last. Usually, employment improves shortly after general economic

activity rises, but the lag is longer this time. Showing the worst job declines are the construction, manufacturing and transportation, communications and public utilities sectors. Job contraction in manufacturing preceded the economy's fall into recession and is outlasting it as well.

Nominal retail sales growth remained positive through the recession, but entered the negative zone recently. The initial buoyancy was because automobile sales, encouraged by dealer incentives, remained robust. As the dealer incentives ended, automobile sales turned downward and took overall nominal retail sales along. This indicates that concerns

about consumer spending may be well founded.

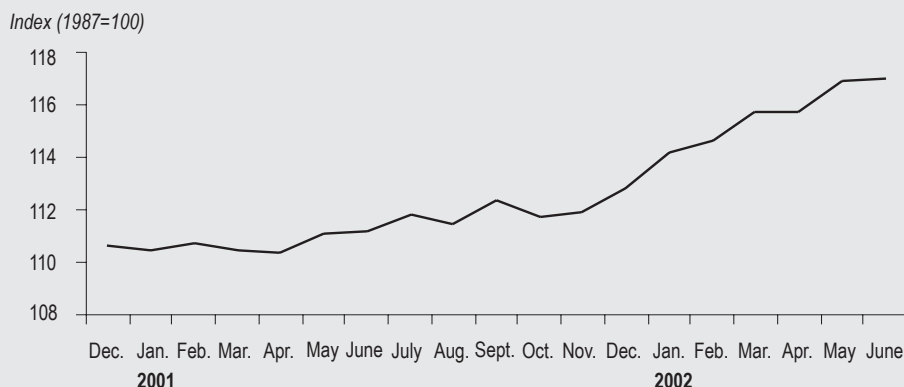
The Leading Index shows economic activity on the upswing, but it remains to be seen in many economic indicators available to measure the Arizona economy, employment being the most important of these. Once the employment figures show improvement, there will be more confidence that the economic recovery will not falter.

— Dawn McLaren

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FIGURE I  
ARIZONA INDEX OF LEADING ECONOMIC INDICATORS



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

# Visitors swarm Quartzsite in annual winter pilgrimage

Quartzsite is a small desert community along I-10, 125 miles west of Phoenix and 17 miles east of the Colorado River. Established in 1867 and originally named Quartzite because the mineral was found nearby, the town became known as Quartzsite through an error in spelling. The area is a rock hunter's paradise. Quartz, agates, limonite cubes, and gold are only a few of the many minerals found in the surrounding desert. Snowbirds and other visitors started to descend upon the area in large numbers in the 1960s, most notably after the annual Pow Wow mineral-gem shows began in 1967.

This article presents the findings of a survey conducted by the ASU Center for Business Research (CBR), in conjunction with the Bureau of Land Management (BLM), of households camped around Quartzsite in the 21st-century equivalent of a covered wagon — motor homes, travel trailers, fifth wheelers, etc. — during the 2001-2002 winter season.

## CAMPING AND THE BLM SOLUTION

The Pow Wow really put Quartzsite on the map for snowbird households. During the 1970s these visitors camped on public lands from October to April to attend a series of events held each winter — now totaling nine mineral-gem shows and 15 swap meets.

Quartzsite's permanent population in 1980 was a mere 1,193, yet during the winter season many times this number were camping in the surrounding desert. The BLM became increasingly concerned about the deterioration of the landscape. Accordingly, in 1983 it established the La Posa long-term visitor area (LTVA) on 11,400 acres of public land near Quartzsite.

From Sept. 15 to April 15, households may camp on the LTVA for up to 14 days for \$25, or the entire season for \$125. Camping units must be self-contained, since electric, sewage, and water hookups are nonexistent. Central water and waste facilities are provided, graded access roads crisscross the area, and groups of volunteers help the BLM operate the area.

Since 1983 the BLM has established six other LTVAs in the region — one in Arizona near the Imperial Dam and five on the California side of the Colorado River. The \$125 permit allows households to move from one LTVA to another during the winter season. The BLM also has established five campgrounds near Quartzsite that allow

no-fee camping for up to 14 days.

Quartzsite's 2000 census population is 3,354. Estimates of the snowbird population are much harder to come by. Between 1995 and 2002, the number of LTVA permits issued (in all seven areas) averaged 8,650 per year. No count is kept of sizable numbers of households staying in the non-fee campgrounds, and others continue to camp in non-designated areas.

According to the 2001 CBR Winter Resident Study, the area also has nearly 40 RV and mobile home parks with almost 3,000 spaces, many of which are occupied by snowbirds. The BLM does not provide estimates for the total number of seasonal visitors in the Quartzsite area for fear that any figure they provide will be mistaken for an accurate visitor count. However, the Quartzsite Chamber of Commerce claims a peak winter visitor population of 50,000. Even if the actual snowbird population is only a fraction of this figure, the numbers are stunning given such a small permanent population base.

## SURVEY FINDINGS

Questionnaires were placed in the office of the La Posa LTVA during the last week of January 2002, and individuals were asked to complete the survey and leave it at the office. The result was a total of 159 usable responses from households camping on the LTVA.

Most of the responding households were married couples — nearly 90 percent consisted of two adults, and only three households had children ages 0-17 living with them. The median age of all respondents was 66 and only 5 percent were born after 1950. Seventy-seven percent indicated that they were retired.

Two-thirds of the visitors said they were permanent residents of Western states, with the largest numbers from California, Oregon, and Washington. Only 13 percent came from Midwestern states and 6 percent from Canada, both much lower proportions than for the snowbird populations in the Phoenix/Apache Junction area.

More than one-third said they were staying less than one week in the Quartzsite area, and the median length of stay was slightly less than two weeks. One-third of those surveyed indicated that this was their first winter season in Quartzsite. The median number of years of visiting was between

three and four; 6 percent have been coming 10 years or more. Nearly 62 percent indicated that they plan to come back to Quartzsite again next winter, another 33 percent were uncertain, and only 5 percent indicated they were not planning to return.

When asked how much money they spend per week, the average was around \$150, and only 12 percent indicated \$400 or more. Compared to the snowbirds in the Phoenix area mobile home and travel trailer/RV parks, who are estimated to spend an average \$400 a week, the Quartzsite winter crowd is more frugal once they arrive (even if they have spent tens of thousands of dollars on their motor homes and travel trailers).

## BABY BOOMER SNOWBIRDS

Many of the baby boom generation appear not to be interested in traditional snowbird areas like Apache Junction. Instead they want second (third, fourth) homes in upscale locations. Or they want a more mobile lifestyle in a motor home with all the technological bells and whistles. The motor home/travel trailer industries are projecting phenomenal growth in sales over the next two decades in response to baby boomers. As satellite dishes, cell phones, and the Internet allow them to remain easily in touch wherever they roam, there is every reason to believe substantial numbers of baby boomers will go this direction barring setbacks in financial markets and retirement accounts.

Consequently, we anticipate that modern-day covered wagons will arrive in ever increasing numbers to Quartzsite over the next 10 years. Not only are many baby boomers likely to adopt the nomadic lifestyle, living in their motor homes as they crisscross the country, but those with permanent residences will buy motor homes and travel trailers to venture out in comfort for vacations or excursions to trade shows, car races and rock concerts.

— **Stephen K. Happel**  
*Professor of Economics*

— **Timothy D. Hogan**  
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The authors wish to thank Mark Lowans, Outdoor Recreation Planner Team Leader, and the recreation staff and volunteers of the BLM Yuma Field Office for their assistance with the survey.

# Arizona relinquished No. 1 growth position in 2000

Arizona's current dollar gross state product (GSP) jumped 8.2 percent and topped \$156 billion in 2000. The state's real GSP (gross state product adjusted to account for price changes) increased 6.5 percent between 1999 and 2000, putting the state in ninth place among the fastest growing states in 2000. The pace of economic growth slowed in Arizona in 2000. Over the 1994-99 period, real GSP growth averaged 7.8 percent per year, and the state's 8.2 percent increase for 1998 was the highest among all states. This deceleration is similar to the pattern for the national economy where growth in real output slowed to 4.5 percent in 2000 after peaking at 5.1 percent in 1998.

Gross State Product is the most comprehensive measure of a state's economic performance, representing the value added in production (gross output minus intermediate inputs) by the labor and property located in a state. It is the state-level counterpart to national Gross Domestic Product (although there are some methodological differences), the measure most often used to gauge the performance of the national economy. The U.S. Department of Commerce's Bureau of Economic Analysis recently released GSP estimates for 2000 and revised estimates for 1998 and 1999. Arizona GSP was revised downward slightly for 1998, while the 1999 estimate was increased.

In terms of sectoral shares of gross product, the Arizona economy is not that different from that of the nation (see Table 1). The relative sizes of the manufacturing, trade, service, and government sectors are very similar. With the need to provide housing, commercial space, and infrastructure for its rapid growth, the state's construction sector is larger than its national counterpart. Conversely, the relative size of the finance, insurance, and real estate sector is somewhat smaller in Arizona than in the national economy, and surprisingly — given its historical importance to the state's economy, mining's share of GSP in Arizona is below the national level.

The year 2000 was good for Arizona's electronic equipment manufacturers. The value of their output jumped more than 15 percent — accounting for more than 11 percent of the total increase in GSP. The state's service sector also grew at double-digit rates and contributed nearly one-third of total growth in GSP in 2000 led by business services' 13 percent growth rate. Mining was

the only major industrial division to suffer a decline in GSP.

In addition to Arizona, four other western states (Idaho, Oregon, California, and Colorado) were among the top 10 states in terms of GSP growth in 2000 spurred by the robust performance of their "high tech" industries. The other five were all located in the northeast region (Rhode Island, New Hampshire, Massachusetts, New Jersey, and New York) and benefited from strong growth in finance, insurance and real estate and services. Alaska and Louisiana were the only states for which real GSP declined in 2000 due to their dependence on the poorly performing oil and gas sector.

## THE 1991-2000 EXPANSION

Arizona led the nation in terms of growth of its Gross State Product (GSP) between 1991 — the end of the last recession — and 2000. Over the entire nine-year period, real GSP rose at an annual average rate of 7.3 percent compared with a 3.9 percent rate for the nation.

Seven western states (Arizona, Idaho, Oregon, Nevada, Colorado, Utah, and New Mexico) were among the fastest growing states between 1991 and 2000 in terms of GSP, with New Hampshire, Georgia, and North Carolina rounding out the top 10. The slowest growing states over the expansion were Alaska, Hawaii, Louisiana, Wyoming, and Maine. All but Hawaii suffered from

dependence on natural resource-based economies, and Hawaii was hit by the negative impacts of the Asian crisis. Alaska's real GSP actually declined between 1991 and 2000.

Among Arizona's major industrial divisions, manufacturing led the expansion — averaging nearly 15 percent per year growth in real GSP — and provided the largest contribution to GSP growth, accounting for 30 percent of the total increase over the 1991-2000 period. The electronic equipment sector was primarily responsible, contributing about three-fourths of manufacturing's total share.

Wholesale and retail trade also exhibited rapid growth in output over the period — wholesale trade averaging growth almost 10 percent per year and retail trade 8 percent per year over the expansion — and also accounting for about 30 percent of the growth in GSP.

GSP growth of Arizona's TCPU (transportation, communications, and public utilities) sector also outpaced the overall growth in real output over the expansion — and provided about 7 percent of total increase in real GSP over the 1991-2000 period.

Although they did not have above-average growth rates, the state's large service and FIRE (finance, insurance and real estate) sectors were major contributors to the overall growth of GSP, with services accounting for 17 percent and FIRE for 15 percent of the total increase in real GSP over the expansion.

Construction's gross product also increased

TABLE 1  
GROSS STATE PRODUCT

Industrial Divisions	Arizona			United States			
	2000 GSP (Millions of current dollars)	Percent change 1999-2000	Percent change in real GSP 1991-2000	Share of change in total real GSP 1991-2000	Sectoral share 2000	Percent change in real GSP 1991-2000	Sectoral share 2000
Total GSP	156,303	8.2	88.5	100.0	100.0	40.8	100.0
Agriculture, forest, fish	2,246	1.4	43.2	1.1	1.4	37.1	1.4
Mining	1,136	-0.9	42.7	0.7	0.7	-5.9	1.3
Construction	9,292	10.3	85.5	5.0	5.9	41.1	4.7
Manufacturing	24,382	9.7	246.3	30.0	15.6	49.5	15.8
T.C.P.U. <sup>a</sup>	11,154	5.6	92.3	7.2	7.1	43.9	8.3
Wholesale trade	10,124	6.9	131.0	8.5	6.5	70.0	6.8
Retail trade	16,463	8.8	100.0	11.8	10.5	63.3	9.0
F.I.R.E. <sup>b</sup>	28,714	6.0	67.8	14.9	18.4	42.4	19.5
Services	34,652	10.7	69.3	17.3	22.2	37.9	21.8
Government	18,140	6.3	21.6	4.1	11.6	10.3	11.6

<sup>a</sup> Transportation, Communications, and Public Utilities

<sup>b</sup> Finance, Insurance, and Real Estate

Source: Center for Business Research, L. William Seidman Research Institute, College of Business, Arizona State University, calculated from U.S. Department of Commerce, Bureau of Economic analysis data.

substantially, accounting for about 5 percent of the total increase in real GSP between 1991 and 2000. The output produced by the other three major industrial divisions grew much more slowly. Real GSP growth averaged about 4 percent per year for both the agriculture and mining sectors, and they each accounted for about one percent of total GSP growth. The government sector was the slowest growing among the major industrial divisions, with an average increase in output of only slightly more than 2 percent per year.

#### GSP PER EMPLOYEE

Arizona's GSP grew much faster than national output during the 1991-2000 expansion. Much of this above-average increase is explained by the overall growth experienced in the state. Total employment expanded 65 percent over the period compared with a 32 percent increase in the U.S. economy. But increases in output per worker in the Arizona economy also outstripped the national average during the 1990s. Real GSP per employee rose by 28 percent between 1991 and 2000 compared to a 17 percent increase nationally. Arizona GSP per employee stood at 96 percent of the U.S. average in 2000 compared with 87 percent

in 1991 (at the beginning of the expansion) and 92 in 1986 (the peak of the last economic cycle). The change in real GSP per employee can be interpreted as a measure of overall productivity gains, and Arizona's economy recorded an average annual rate of 2.8 percent over the 1991-2000 period compared with the 1.7 percent average annual rate of the U.S. economy.

#### 2001

The downturn in the manufacturing sector, the "meltdown" of the "new economy," and the economic disruptions associated with Sept. 11 and its aftermath have resulted in some significant changes in the recent economic performance of the different regions not reflected in these GSP statistics. While GSP estimates for 2001 are not yet available, preliminary total earnings figures — a narrower economic measure that includes wages and salaries, other labor income, and proprietors' income — are available. These data indicate that many of the areas that had benefited from the new economy in the last half of the '90s were suffering in the first year of the new millennium. Some of the fast-growing western states did not slip too far (measured in terms

of earnings growth) — Nevada still ranked fifth, and Arizona was still 14th and Utah 15th but they ranked below both Alaska and Louisiana which were at the bottom in 2000. Other previous high fliers were treated much worse: for example, Rhode Island fell from first to 20th, Oregon from third to 47th, and California from fifth to 37th.

Overall earnings growth in Arizona was halved in 2001 — falling to 5 percent after a 10 percent increase in 2000, and the sectoral pattern also shifted. While earnings in the manufacturing sector jumped 11 percent in 2000, total manufacturing earnings actually declined more than 2 percent in 2001. Service sector earnings increased only 2 percent last year after growing nearly 14 percent in 2000, and earnings in the state's wholesale trade sector only grew 0.5 percent after an 8 percent increase in 2000. On the other hand, the pace of earnings growth was up for the FIRE sector in 2001, and construction earnings continued healthy growth — dropping from 10 percent in 2000 to 7 percent last year.

— Timothy D. Hogan

Director

Center for Business Research

## Arizona Business Conditions Index dips in June

The seasonally adjusted Arizona Business Conditions Index fell slightly to 54.1 in June. An index reading 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 June index fell just short of the May level of 54.4. The number is similar to that seen in March 2001, just as the national economy was entering a recession. This also marks the sixth month that the index has remained over the critical 50-point mark. The proximity to neutral levels is indicative of slow growth in the local economy. The current level is nowhere near the 60s seen during periods of rapid growth.

While the New Orders and Production sub-indices continue to show strength — both were recorded at 56.7 in June — the Employment sub-index took a turn for the worse, coming to rest at 47.6. This suggests that growth in employment is not

yet imminent. Still, June's level is a vast improvement from the low 30s seen in the last quarter of 2001.

The Price Index rose to 54.7 in June from 54.2 in the previous month. Prices have moved from a weak position during the recession to one in which there is some upward pressure. This pressure does not appear to be coming from the energy sector,

as might be anticipated during a time of trouble in the Middle East, but rather from business services.

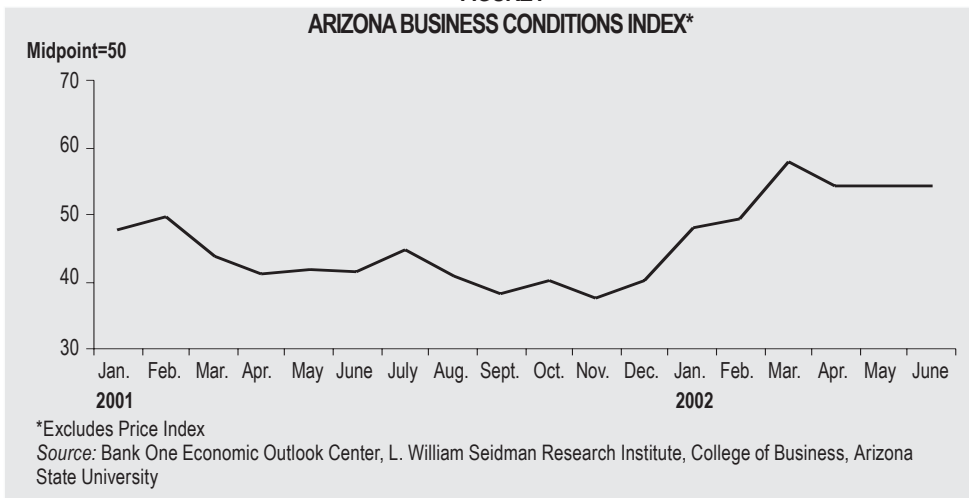
— Dawn McLaren

Research Economist

Bank One Economic Outlook Center

FIGURE I

ARIZONA BUSINESS CONDITIONS INDEX\*





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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
<b>LEADING ECONOMIC INDEX (1987 = 100)</b>							
Arizona .....	June	117.0	116.9 r	0.1	5.2	NA	NA
<b>BUSINESS CONDITIONS INDEX</b>							
Arizona .....	June	54.1	54.4	-0.5	30.9	NA	NA
<b>BUILDING PERMITS (Thousands of \$)</b>							
Maricopa County .....	May	857,115	715,432 r	19.8	-3.9	3,601,394	-15.2
Pima County .....	May	109,245	159,450	-31.5	-17.7	559,984	-3.4
Balance of State .....	May	202,315	220,627	-8.3	16.4	921,196	21.2
Arizona .....	May	1,168,675	1,095,509 r	6.7	-2.5	5,082,574	-9.0
<b>TOTAL HOUSING UNITS AUTHORIZED</b>							
Maricopa County .....	May	4,075	3,475 r	17.3	0.7	16,934	-18.9
Pima County .....	May	669	913	-26.7	-11.5	3,383	-6.9
Balance of State .....	May	1,601	1,785	-10.3	9.4	7,411	14.3
Arizona .....	May	6,345	6,173 r	2.8	1.3	27,728	-10.6
<b>HOME SALES</b>							
Maricopa County - Number .....	May	7,380	11,130	-33.7	-17.0	40,470	-0.1
Maricopa County - Median Price(\$)	May	142,000	140,125	1.3	4.6	140,400	4.0
<b>HOUSING AFFORDABILITY INDEXES</b>							
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
<b>MORTGAGE RATES (30-year Fixed)</b>							
Maricopa County .....	June	6.3	6.5	-3.1	-7.4	NA	NA
<b>POPULATION ESTIMATES (Thousands)</b>							
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	0.7	2.8	NA	NA
Arizona .....	1st Quarter	5,436	5,399	0.7	2.9	NA	NA
<b>RETAIL SALES (Millions of \$)</b>							
Maricopa County .....	May	2,542	2,618	-2.9	-4.0	12,664	-0.9
Arizona .....	May	3,751	3,853 r	-2.6	-2.7	18,630	0.1

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.