

AZB ARIZONA BUSINESS

ARIZONA STATE UNIVERSITY'S MONTHLY NEWSLETTER ON THE ARIZONA ECONOMY

Surging home sales show no sign of slowing down

This year has brought an ongoing series of stressors centered on the economy, international situation and employment. The sole soothing comfort emerges from the long-term investments people have made in their homes.

In the second quarter of 2003, the Greater Phoenix housing market continued at a torrid pace with record 32,160 sales recorded sold, breaking the previous second-quarter record of 28,450 sales in 2001. So far this year, a total of 57,885 homes have been recorded sold, compared to 50,115 homes for the first half of 2002. Analysts expect that the market is likely to retain its strength for the remainder of 2003, even if interest rates rise as the economy recovers.

While recorded sales activity represents decisions made several months earlier, home buyers appear to be maintaining their confidence that the housing market will continue strong, benefiting from low interest rates, rapid appreciation and investment opportunities.

AFFORDABILITY

The housing market has benefited from the Federal Reserve repeatedly lowering interest rates amid the struggling economy. Further, funds have yet to appreciably flow from the bond market to the uncertain equity market, keeping interest rates low. The average 30-year mortgage rate has fallen from last year's 6.5 percent to 5.2 percent. However, with a glimmer of an economic recovery and better stock market, mortgage interest rates edged up from 4.9 percent in June to 5.2 percent in July.

In the resale home market, the median price rose to \$155,000, compared to the previous record of \$148,750 set in first quarter 2003 and last year's \$144,000. For new homes, the median price posted an extremely healthy increase from \$163,545 in first quarter to \$176,805 — well ahead of last year's \$155,250. This dramatic rise is partially due to the hot East Valley new home market where, for example, Gilbert's median price rose from \$192,190 in the first quarter to \$220,645, and Chandler's from \$214,740 to \$229,260.

Low interest rates and a slightly higher median household income were enough to offset the higher median resale home price, as the resale affordability index remained at 131. The index value was much

better than the 122 reported a year ago. With a much stronger increase in the new home median price, the new home affordability index value declined from 119 to 115, which is comparable to last year's 114.

An index value of 100 means that the typical home buyer would be able to afford a median-priced home at an effective interest rate of 8.0 percent, based on the current median resale price and household income. Since home prices and incomes vary throughout the Valley, so does the affordability index. For example, in the resale sector, the second-quarter 2003 index ranged from 90 in North Scottsdale to 164 in the West Valley communities.

RESALE SINGLE-FAMILY HOMES

With 19,845 recorded sales, the Greater Phoenix resale home market set a record for quarterly activity, easily surpassing the previous record set in second quarter 2001 (17,555 homes). Based on the record levels of activity, the 2003 year-to-date sales total is 34,880 sales in comparison to 29,980 for 2002 YTD and 30,825 for 2001 YTD. June 2003 set a monthly record (7,890 recorded sales), exceeding the previous record of 6,790 sales for April 2002.

The median home price can be driven by both the appreciation in overall home prices and by the change in the respective market shares of the types of homes being sold.

In first quarter 2001, only 10 percent of the resale market was for homes sold in the \$250,000 to \$499,999 range, while it was 16 percent for the first quarter 2003. In first quarter 2001, 21 percent of the resale homes sold were priced under \$100,000, while it was 9 percent for the same period this year.

The median resale home price ranged greatly, from a high of \$814,800 (140 sales) in Paradise Valley to

INSIDE

Home Sales: Second Quarter.....	1
Population Estimates: Second Quarter	3
Federal Funds.....	4
Current Economic Conditions.....	6
Business Conditions Index: July	6
Arizona Leading Index: July	7
Arizona Economic Indicators.....	8

Second Quarter Affordability and Sales

CENTER FOR
BUSINESS
RESEARCH

W. P. CAREY
SCHOOL of BUSINESS



\$83,950 (100 sales) in the Sky Harbor housing area. Active areas were: Mesa with 2,460 sales (\$139,900 median price), Glendale with 1,715 (\$143,000), Deer Valley with 1,695 (\$172,000), North Scottsdale with 1,450 (\$365,000), Mountain Park with 730 (\$196,000) and Maryvale with 655 (\$102,680). The median square footage for a resale home increased from last year's 1,640 square feet to 1,670 square feet.

NEW SINGLE-FAMILY HOMES

The new home market continued its fast pace with 7,680 recorded sales, up from 6,795 a year ago and 7,125 in first quarter 2003. Monthly activity was strongest in June (3,090 sales), with 2,510 sales posted in April and 2,080 in May.

Over the last few years, new home activity in the West Valley communities of Avondale, El Mirage, Goodyear and Surprise has come to represent 25 percent of the Greater Phoenix new home market. A fundamental motivation for this growth is the greater affordability of new homes in the West Valley. In the East Valley, the median new home prices were for \$229,260 in Chandler, \$220,745 in Gilbert and \$171,760 in Mesa. In the West Valley, the median home prices were \$173,375 in Goodyear, \$154,060 in Surprise, \$134,050 in Avondale and \$123,790 in El Mirage.

With 37 percent of the 215 recorded new home sales priced in excess of \$500,000, North Scottsdale had a median sales price of \$387,500; the lowest was \$123,790

in El Mirage, based on 260 sales. Other active markets were: Deer Valley with 920 sales (\$223,880 median price), Superstition Springs with 285 (\$188,475) and Union Hills with 110 (\$298,775).

The median square footage for a new single-family home recorded sold in second quarter 2003 was 2,275 square feet, which is larger than the 2,115 square feet reported a year ago.

TOWNHOUSE/CONDOMINIUMS

In recent years, the townhouse-condominium sector has been receiving greater attention from investors and owners who appreciate the low maintenance, recreational facilities and security offered by this housing style. The negative aspect of this popularity

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	Monthly Housing Payment	Affordability Index
First Quarter 2001	\$3,940	6.9	\$132,500	\$870	127	\$158,030	\$1,040	106
Second Quarter 2001	3,960	7.0	136,000	905	123	157,615	1,050	106
Third Quarter 2001	3,995	6.9	138,000	910	123	156,500	1,030	109
Fourth Quarter 2001 ..	4,000	6.7	137,000	885	127	154,595	995	112
First Quarter 2002 ..	4,000	6.9	139,700	920	122	158,015	1,040	108
Second Quarter 2002	4,020	6.6	144,000	920	122	155,250	995	114
Third Quarter 2002	4,030	6.2	146,000	895	126	159,535	975	115
Fourth Quarter 2002	4,040	6.0	147,000	880	128	164,540	990	115
First Quarter 2003	4,050	5.7	148,750	865	131	163,545	950	119
Second Quarter 2003	4,060	5.4	155,000	870	131	176,085	995	115

TABLE 2
METROPOLITAN PHOENIX HOME SALES

Median Sales Price	Single-family			Townhouse/Condominium			Grand Total
	Resale	New	Total	Resale	New	Total	
First Quarter 2002	\$139,700	\$158,015	\$146,000	\$94,000	\$163,765	\$98,000	\$140,000
Second Quarter 2002	144,000	155,250	148,000	95,700	162,000	99,400	142,000
Third Quarter 2002	146,000	159,535	150,000	95,000	165,785	99,900	145,000
Fourth Quarter 2002	147,000	164,540	153,640	98,000	158,545	104,900	148,380
First Quarter 2003	148,750	163,545	153,610	101,000	180,000	107,000	148,380
Second Quarter 2003	155,000	176,805	160,000	103,375	181,835	109,000	154,000
<i>Number of Sales</i>							
First Quarter 2002	12,655	6,015	18,670	2,970	315	3,285	21,955
Second Quarter 2002	17,325	6,795	24,120	3,685	355	4,040	28,160
Third Quarter 2002	16,865	7,670	24,535	3,330	390	3,720	28,255
Fourth Quarter 2002	15,780	8,645	24,425	3,315	425	3,740	28,165
First Quarter 2003	15,030	7,125	22,155	3,215	355	3,570	25,725
Second Quarter 2003	19,845	7,680	27,525	4,165	470	4,635	32,160

Source (Tables 1 and 2): Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

is that the median sale price for resale units increased from \$85,000 in first quarter 2000 to \$103,375 in second quarter 2003, but sales activity posted a record 4,165 units, compared to previous record set in second quarter 2002 (3,685 units). However, even with the rapid increase in the median price, it remained at 67 percent of the median price for single-family homes.

Many of the newer developments are at the high end of the market; the median price of \$181,835 for new units actually exceeds the \$176,805 for new single-family homes. The primary reason for this is that 41 percent of the 470 recorded sales were in North Scottsdale, with a median sales price of \$222,100. Other active areas were Superstition Springs (70 sales, \$132,820), East Mesa (30 sales, \$200,000) and South Scottsdale (15 sales, \$129,000).

In the resale townhouse/condominium sector, the median square footage was 1,175, compared to 1,165 reported a year ago. The most active resale areas were North Scottsdale with 560 sales (\$166,450 median price), South Scottsdale with 515 (\$124,000), Sun City/Peoria with 325 (\$76,000) and South Mesa with 240 (\$87,500).

NATIONAL HOUSING MARKET

The housing phenomenon is not unique to the Greater Phoenix area, but exists through out the United States. Although the national resale housing market slowed slightly at the end of the quarter, both the new and resale markets were still maintaining a record pace for the year.

The key issue will be whether the pace can be maintained if mortgage rates should increase and the economy and consumer confidence remain sluggish.

The national resale median home price rose from \$161,200 in the first quarter to \$168,900, well above last year's \$157,600. Lower mortgage rates were not able to totally offset the higher median price, so the resale affordability index declined from 133 to 132 compared to 124 for the second quarter 2002. In the new home market, the median price increased from \$186,000 to \$189,300, resulting in the national new home affordability index improving from 115 to 117, compared to last year's 102.

LOOKING AHEAD

Beginning with the hyperinflation era of the late 1970s, perception of the home began to change from being primarily a place in which to live, to a live-in investment. Further, a developing trend has been for homeowners to tap the rapidly appreciating equity in their homes through home equity loans. With the elimination of the tax deduction for interest on all debt purchases, except for the home, it has become a source for consumer spending, automobile purchases, college education, and even business opportunities.

Thus, home buyers have become increasingly concerned about the rate of appreciation that could support future refinancing or gains from the sale of the home. This is true whether it be for their personal residence,

a second (vacation) home or an investment (rental) home. Because people have found investment solace in a home purchase based on continued appreciation, they have been able to maintain confidence in the housing market, while losing confidence in the economy and/or stock market.

Since the role of the home in achieving a wide range of investment objectives is a relatively new concept, it is difficult to foresee how the market will react in the coming months, because interest rates are expected to increase and the stock market to further recover.

In the early 1990s, many homes were sold or foreclosed as economically stressed individuals confronted high interest rates and monthly payments. Now, low mortgage rates and monthly payments allow individuals and families to maintain their homes, even if they are facing difficult times. Further, people may be using funds from refinancing their homes to maintain income and lifestyle, until they retain employment and/or income. Thus, the future of the housing market must be examined in much broader context than in the past.

— Jay Q. Butler

Director

Arizona Real Estate Center

Net migration accelerated slightly in second quarter

Net migration to the Phoenix area rebounded a bit during second quarter 2003 from the low levels recorded in the three prior quarters. The estimated figure of 15,600 returns to the 15,000-to-16,000 range experienced from first quarter 2001 through second quarter 2002. Revised estimates of net migration between third quarter 2002 and first quarter 2003 were from 13,500 to 14,400 per quarter.

In Maricopa County, population estimates were revised back to third quarter 2002 due to the single-family vacancy rate reported annually in the Phoenix Metropolitan Housing Study being lower than anticipated. The population at the end of the second quarter is estimated to have been 3,381,900, an annual increase of

93,000 (2.8 percent). Net natural increase (more births than deaths) continued to rise slightly and accounted for 38 percent of the annual change.

Pima County's population topped 900,000 during the second quarter. Following a slight upward revision to 3,900 for the first quarter's growth, a population gain of 4,000 was estimated during the second quarter, putting the quarter-end population at about 901,500. The annual increase was 17,100 over the year (1.9 percent). Since the last decennial census, net migration to the Tucson area has fluctuated between 2,500 and 4,000 per quarter.

The annual growth rate in the balance of the state matched that of Maricopa County at 2.8 percent, with the population up to

1,331,200 at the end of the second quarter. Net migration was 7,000 in the second quarter, the ninth time in the last 10 quarters to equal or exceed 7,000. During the 1990s, only four quarters experienced net migration of this level.

Net migration may rebound a bit more during third quarter 2003, but likely will not rise further for at least a few quarters. Net migration flows lag behind relative employment growth (measured as the difference in growth rate from the national average) by about one year. After accelerating a little in the first part of 2002, employment growth rates have stabilized.

— Tom R. Rex

Research Manager

Federal funds totaled nearly \$35 billion in Arizona in 2002

Individuals, companies, local governments, and other entities in Arizona received \$34.8 billion from the federal government in 2002. Adjusting for population allows Arizona's figures to be compared to those of other states and the nation. Per person federal funds received in Arizona amounted to \$6,371 in 2002, compared to the national average of \$6,527 — a difference of 2.4 percent. Between 1992 and 2002, annual per capita figures in Arizona ranged from nearly equal to the national average in 1999 and 2000 to more than 8 percent less in 1994 and 1997.

Examining annual data between 1992 and 2002, no trend or cycle is apparent in the total amount of federal funds received in Arizona relative to the national average. As a result of the much faster growth of the state's population, the inflation-adjusted increase in federal funds between 1992 and 2002 was more than twice the national average (see Table 1). Per person, however, the increase was only a little greater in Arizona: 23 percent vs. 18 percent nationally.

Arizona ranked between 27th and 36th among the 50 states and District of Columbia on the per capita amount of federal funding between 1992 and 2002; the 2002 rank was 31st. Among 10 western states, Arizona's rank gradually improved from sixth in 1992 to third from 1999 through 2002.

Annually, the U.S. Bureau of the Census produces the Consolidated Federal Funds Report (CFFR), reporting data for the prior fiscal year. The CFFR covers federal government expenditures or obligations in five categories: retirement and disability, other direct payments, grants, procurement contracts, and salaries and wages.

RETIREMENT AND DISABILITY

Nearly a third of all federal funds are distributed as retirement and disability payments, nationally and in Arizona. This category includes direct payments, such as Social Security, federal retirement and disability benefits, and veterans' benefits.

The 1992-to-2002 growth in the real per capita amount of retirement and disability funds (7 percent) did not keep pace with the national average (17 percent). By 2002, Arizona's per capita amount (\$2,102) was marginally less than the national average after years of being higher. The state's ranking was down to 35th nationally and fourth among the western states, from 1992's 12th in the nation and first in the West.

Social Security accounted for nearly three-fourths of the \$11.5 billion in retirement and disability payments received by Arizonans in 2002. Nearly half (\$5.6 billion) came from the retirement insurance portion of Social Security, while survivors' insurance contributed \$1.4 billion, disability insurance \$1.3 billion, and supplemental security income \$0.4 billion. Other than Social Security, federal retirement and disability benefits amounted to \$2 billion and veterans' benefits added \$0.6 billion.

On a per capita basis, Social Security retirement payments were about equal to the national average, but Arizona received below average amounts from each of the other components of Social Security. In contrast, Arizona was above average in federal retirement and disability benefits — particularly for military retirees — and in veterans' benefits.

Arizona's per capita receipts ranked among the middle of the states in most components. The exceptions were a higher ranking on federal retirement and disability benefits for military retirees and a lower ranking for Social Security survivors' payments.

OTHER DIRECT PAYMENTS

This category includes direct payments to individuals other than retirement and disabilities (largely Medicare benefits) and direct payment to other entities. Arizona's 2002 other direct payments of \$6.2 billion accounted for 18 percent of the federal funds total; nationally the share was 22 percent. The 10-year real gain was twice the national average, but after adjusting for population growth the increase in Arizona was 19 percent, barely higher than the national average.

Relative to the national average, Arizona's per capita receipt of other direct payments was cyclical over the 1992-to-2002 period, lowest in the early 1990s and since 2001 at more than 20 percent below average. The state's 2002 figure (\$1,135) ranked 45th nationally and seventh in the West and ranks were nearly as low in the early 1990s. In contrast, the per capita amount nearly equaled the national average in 2000 when Arizona ranked 25th nationally and highest in the West.

Five-eighths of Arizona's other direct payments in 2002 came from Medicare, with the hospital insurance portion contributing \$2.1 billion and supplementary medical insurance adding \$1.7 billion. On a per capita basis,

Arizona's hospital insurance benefits were 23 percent below the national average, ranking the state 39th (but third in the West). Supplementary insurance benefits were 13 percent below the norm, ranking 29th nationally but second among the western states.

Arizona's per capita amount ranked around the middle of the states in excess earned income tax credits, food stamps, agricultural assistance (though the ratio to the national average was below 50 percent), and federal employees' life and health insurance. At just 46 percent of the national average, Arizona ranked 46th on unemployment compensation and similarly low on the much smaller housing assistance program. Arizona was above average on the amount received from miscellaneous other programs.

GRANTS

Block grants, formula grants, project grants, and cooperative agreements are included in this category. Most of the grants are made to state or local governments.

Arizona received nearly \$6.7 billion in grants in 2002, some 19 percent of all federal funds. Nationally, the share was nearly 22 percent. Spending on grants soared between 1992 and 2002, rising an inflation-adjusted 73 percent nationally, more than twice as fast as spending in any other category. Per person spending jumped 51 percent in Arizona, but the national advance was 54 percent.

Arizona consistently has compared unfavorably in this category, though the annual funding is somewhat erratic. As a ratio to the national per capita average, Arizona ranged from 10 to 20 percent low between 1992 and 2002; the 2002 per capita figure (\$1,221) was 13 percent below average. Except in 1993, the national rank was between 38th and 46th (41st in 2002) and the rank among the 10 western states was between fifth and eighth (sixth in 2002).

Three-fifths of all grants provided by the federal government in 2002 originated in the Department of Health and Human Services. This department also was the source of 60 percent of Arizona's total. Arizona's per capita figure was 87 percent of the national average and ranked 37th nationally and in the middle of the western states.

Four other federal departments provided more than \$20 billion in grants nationwide. Among these, Arizona's per capita amount was greater than the national average only from the Department of Education: Arizona

had among the highest amounts nationally and in the West. Grants from the Department of Agriculture were within 10 percent of the national per capita average, but Arizona ranked near the bottom of the states in grants from the Departments of Transportation and Housing and Urban Development.

Arizona's performance was mixed among the other federal departments providing at least \$1 billion in grants nationally. Arizona received above average amounts from the Department of Interior and the National Aeronautical and Space Administration. The state ranked near the bottom on grants from the Environmental Protection Agency and Departments of Energy and Commerce.

PROCUREMENT CONTRACTS

Procurement contracts with private-sector businesses in Arizona totaled \$7.3 billion in 2002, or 21 percent of all federal funds. This share was much higher than the national average of less than 14 percent.

Inflation-adjusted procurements nationally peaked in the mid-1980s, then fell through 1997. The reduction in the late 1980s and 1990s hit Arizona especially hard, with per capita awards falling below the national average and the state's rank among the western states dipping as low as ninth, though Arizona never ranked lower than 24th among all states (in 1997). Since 1997, procurements have increased, with a particularly strong real per capita gain in Arizona (70 percent v. 7 percent nationally). Arizona's per capita figure surged well past the national average, reaching \$1,336 (52 percent above average) in 2002, the eighth highest in the nation and second most in the West.

Nationally, 61 percent of the procurement contracts in 2002 were with the Department of Defense, but in Arizona defense contracts of \$6.5 billion accounted for 89 percent of the total. Arizona's per capita amount from the Department of Defense was 2.2 times the national average, ranking fifth nationally and first in the West. Procurements from the Army were particularly high at \$2.7 billion, 3.8 times the national per capita average and third in the nation. However, Arizona also ranked among the top 11 states in the contract value with the Navy, Air Force, and other defense sources.

In contrast, Arizona received only \$831 million in procurements from nondefense agencies. The per capita figure was only 44 percent of the national average, with the state ranked 44th nationally and last in the West. Of 23 subcategories of nondefense, Arizona's

per capita awards were below average in 21. The exceptions were contracts with the Departments of Justice and the Interior. The greatest amount of nondefense funds nationally came from the Postal Service, but the state ranked 42nd per capita.

SALARIES AND WAGES

Wages and salaries paid to federal government employees (including the military) was the smallest of the five categories, accounting for 9 percent (\$3.1 billion) of federal spending in Arizona and 10 percent nationally in 2002. Real per capita spending fell 11 percent nationally between 1992 and 2002; the decrease was 16 percent in Arizona.

Arizona's per capita amount (\$576 in 2002) was consistently below the national average between 1992 and 2002 by 10 to 15 percent (15 percent in 2002). In most years, Arizona ranked 28th or 29th nationally (but 31st in 2002) and seventh among the western states.

Federal employees other than defense workers living in Arizona earned \$2 billion in federal wages and salaries in 2002. Among the nondefense agencies, the Postal Service had the highest payroll in Arizona at \$811 million, accounting for one-fourth of total federal wages and salaries. On a per capita

basis, Arizona ranked 42nd nationally with a Postal Service figure 17 percent less than the national average. Justice Department employees in Arizona earned \$228 million; the per capita amount ranked sixth in the nation, 1.5 times the national average. Arizona also ranked above the per capita average on the three other civilian programs providing the greatest wages and salaries: Department of the Interior (three times the national average, ranked 13th nationally but only seventh in the West), Department of Veterans Affairs (barely above average), and the Department of Health and Human Services (2.3 times the national average, eighth most in the nation).

Overall, per capita nondefense wages and salaries in Arizona were 13 percent less than the national average, with a rank of 27th nationally and seventh in the West. The figures were nearly the same for defense wages and salaries: 18 percent below average, ranked 30th among the states and seventh in the West. The per capita figure for active military was close to the national average, but the figures for inactive military and civilian defense workers were quite low.

— Tom R. Rex
Research Manager

TABLE 1
SUMMARY OF FEDERAL SPENDING NATIONALLY AND IN ARIZONA

	Amount in 2002		2002 Per Capita Ratio to U.S.	1992-2002 Real Percent Change	
	Total (in millions)	Per Capita		Total	Per Capita
TOTAL					
Arizona	\$34,761	\$6,371	97.6%	71%	23%
U.S.	1,882,255	6,527		33	18
Retirement and Disability					
Arizona	11,471	2,102	99.8	50	7
U.S.	607,300	2,106		31	17
Other Direct Payments					
Arizona	6,193	1,135	78.0	66	19
U.S.	419,395	1,454		33	18
Grants					
Arizona	6,664	1,221	86.6	110	51
U.S.	406,579	1,410		73	54
Procurement Contracts					
Arizona	7,291	1,336	151.6	137	70
U.S.	254,252	882		20	7
Salaries and Wages					
Arizona	3,142	576	85.3	18	-16
U.S.	194,727	675		0	-11

Note: Data are for fiscal years.

Source: U.S. Department of Commerce, Bureau of the Census, *Consolidated Federal Funds Report* (various years). GDP implicit price deflator from U.S. Department of Commerce, Bureau of Economic Analysis.

Economic growth yet to accelerate

Economic gains remained modest into mid-2003. Employment markets continued to be weaker than other aspects of the economy, more so nationally than in Arizona. According to the National Bureau of Economic Research, the official arbiter of economic turning points, the national recession ended in November 2001, only eight months after it began. However, employment continued to drop through June 2003.

Revised employment estimates indicate that employment fell nationally for 17 consecutive months from the start of the recession in March 2001 through July 2002. Following four months of small gains from August through November 2002, employment dropped in six of the next seven months. Employment levels from March through June 2003 were 0.3 percent less than 12 months earlier. Employment in Arizona continued to be modestly higher than 12 months earlier, but the year-over-year increase has slowed from about 1 percent in late 2002-early 2003 to around 0.6 percent from April through June.

Like employment, the national unemployment rate continues to worsen, reaching 6.4 percent in June following 14 straight months of a rate between 5.7 and 6.0 percent. In contrast, the unemployment rate in Arizona in June was 5.9 percent, the sixth consecutive month at 6 percent or less.

Retail sales growth in Arizona through the first five months of 2003 was somewhat greater than during most of 2002, though the improvement occurred only in Maricopa County. Following an annual average increase of just 1 percent in Arizona in 2002 (before adjustment for inflation and population growth), the five-month cumulative year-over-year gain in 2003 was 3.4 percent. Growth in Maricopa County was near this rate, in Pima County was slower, and in the balance of the state was greater. In May 2003, the year-over-year gains in Arizona and Maricopa County were the greatest for a single month since January 2001, but the increases in the two preceding months had been less than 2 percent.

Estimates of personal income are available through the first quarter of 2003. Unlike

employment, the wages and salaries portion of national personal income rose on an inflation-adjusted basis during the first quarter of 2003, putting the annual change positive for the first time since the second quarter of 2001. The annual increase in Arizona topped 2 percent. The gains in real earnings and total personal income were a bit greater, especially nationally.

Real per capita personal income growth in Arizona, however, continues to be less than the national average. The annual increase nationally through first quarter 2003 was 0.7 percent compared a slight decrease in Arizona of -0.3 percent. Arizona's change has lagged behind the nation almost continuously since 1995. As a ratio to the national average, Arizona's per capita personal income was down to 84.0 percent in first quarter 2003, essentially equal to the low of the prior economic cycle (at the end of 1992).

— Tom R. Rex
Research Manager

Business Conditions Index leaps in July

The seasonally adjusted Arizona Business Conditions Index rose to 58.2 in July from 53.4 the previous month. 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 Arizona Business Conditions Index jumped by 4.8 points, reaching a level not seen since before the onset of the latest recession. This marks the first month since the recession that all the components of the index have attained a level higher than the critical 50-point benchmark.

The employment component of the overall index rose by 5.4 points to reach 52.6, the first time that this component has tested the waters above the 50-point mark since December 2000. The production component leapt by 7.1 points to reach 64.8, the highest level of this component seen since April 2000.

The new orders component, which has been climbing slowly but steadily since

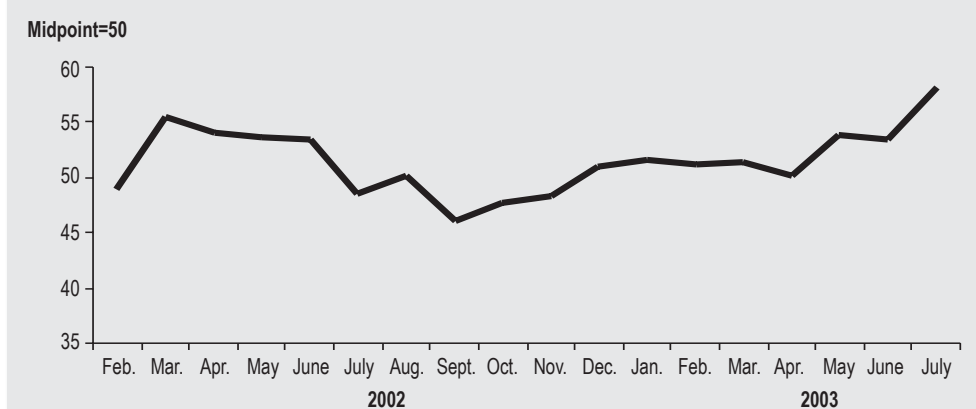
September 2002, reached a level of 60.6.

The Prices Index also rose in July, climbing by 5.1 points to reach 57.0. Unlike the bump upward in prices that occurred during the war in Iraq — which was likely due to fears about a possible disruption of the oil supply — this acceleration seems to be

more indicative of a change in supply and demand in the market.

— 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, W. P. Carey School of Business, Arizona State University.

Arizona Leading Index moves up a point in July

The Bank One Arizona Index of Leading Economic Indicators rose in July to 121.2, which is 0.8 percent above the revised 120.2 number for the previous month and 3.2 percent above the July 2002 number of 117.4 (1987 = 100).

Leading Index components with positive readings were: the inflation-adjusted value of the M2 money supply; materials inventories; employment from the Business Conditions Survey; the inflation-adjusted value of Maricopa County residential building permits; production; new orders, and sensitive materials prices. Hours worked in manufacturing and delivery times were negative.

It is clear that manufacturing continues to languish, but there are some encouraging signs. The Business Conditions Index, which provides five of the leading indicators, can be separated into manufacturing and nonmanufacturing components for the recent past — and the manufacturing component is finally signaling growth. Nonmanufacturing began to send a consistent growth signal at the end of 2002. July was the first month in a long time to record a number significantly above 50 for manufacturing. If the signal continues, it would be consistent with the beginnings of a tech recovery. Worldwide semiconductor shipments have been growing for the last five months, and the trend seems likely to continue. Intel has actually raised the guidance on its quarterly revenue projections instead of lowering the figure. Despite this good news, however, manufacturing employment is unlikely to show significant progress until 2004 at the earliest.

Sensitive material prices rose this month, but it is far too early to tell if that trend will continue. If it does, this would signal the beginning of a recovery in manufacturing outside of high tech. The one down indicator for manufacturing is hours worked, which dropped significantly. However, there is enough volatility in that indicator to allow for the possibility that an upward climb could resume next month.

The local economy depends heavily on the course of the national economy, which is also showing signs of recovery. The national Leading Index has been on an upward trend since April, helped by a recovering stock market. The market upticks suggest that most investors see signs of a business recovery that soon could lead to a recovery in business spending.

Until business spending resumes at the national as well as local levels, the recovery will be uneven at best.

Employment growth nationally remains unusually weak, which is affecting consumers' views on the economy. President Bush and the Federal Reserve have expressed confidence that employment will pick up soon, but the public seems to be taking an "I'll believe it when I see it" attitude. The overall unemployment rate suggests that many people may have become discouraged and dropped out of the job market or have taken significantly lower-paying jobs until the job market improves.

Conventional economic theory suggests that as the value of the dollar falls, the volume of exports will rise as other countries find our goods more attractive. However, the impact of cheaper exports has been muted significantly by the economic weakness of

our major trading partners and the fact that the dollar has been strengthening for the last three months. It seems unlikely that the economy will have a major boost from exports.

The impact of Arizona's recent gasoline pipeline shutdown is not likely to have an effect on the general economic numbers. The jump in gas prices and the hours wasted by consumers in lines waiting to fill up had a significant short-term impact but, thankfully, did not last long enough to drag down the entire economy. The shortage was also overshadowed by the widespread power outage in the northeastern United States. It is likely to be memorable for awhile in Arizona, but not nationally.

— Tracy Clark

Associate Director

Bank One Economic Outlook Center

TABLE 1

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

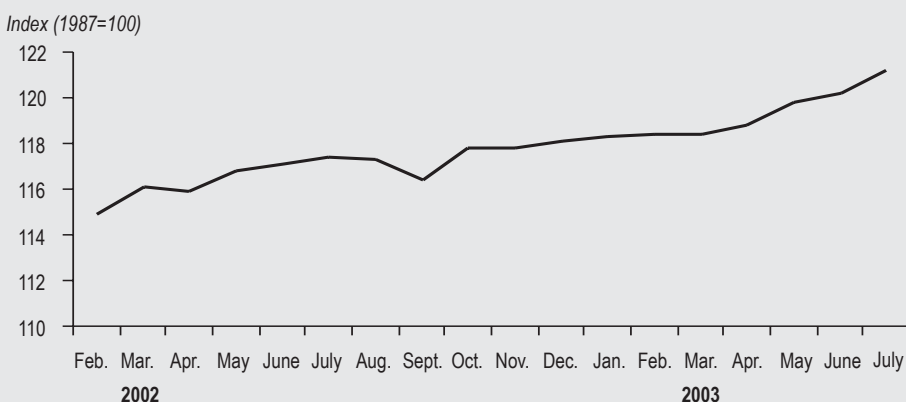
	April	May	June	July
Delivery Time*	-0.05	0.00	0.01	-0.01
Inventory Levels*	0.04	-0.01	-0.09	0.22
New Orders*	-0.02	0.14	-0.04	0.06
Production*	-0.08	0.10	0.06	0.12
Employment*	0.00	0.05	0.02	0.17
Residential Building Permits	0.28	-0.24	0.24	0.13
Average Workweek, Manufacturing	0.11	0.17	0.00	-0.24
Money Supply	0.31	0.79	0.29	0.31
Change in Sensitive Materials Prices	-0.18	-0.24	-0.11	0.06

* 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 I

ARIZONA INDEX OF LEADING ECONOMIC INDICATORS



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



AZB/ARIZONA BUSINESS

Philip R. Regier, Interim Dean
Timothy D. Hogan, Center Director
Nancy A. Maneely, Editor

AZB/ARIZONA BUSINESS (ISSN 1079-4255) is published monthly by the Center for Business Research, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University, PO Box 874011, Tempe, AZ 85287-4011; phone (480) 965-3961. Annual rate: \$24 per year to Arizona residents, \$30 per year out-of-state, \$36 per year foreign. Checks must be made payable to ASU Foundation, a separate non-profit organization which exists to support ASU. Your payment is not considered a charitable contribution. Fees will be applied to the printing and mailing of AZB/ARIZONA BUSINESS, which is not printed or mailed at state expense. Periodicals postage paid at Tempe, Arizona. POSTMASTER: Send change of address to AZB/ARIZONA BUSINESS, Center for Business Research, W. P. Carey School of Business, Arizona State University, P.O. Box 874011, Tempe, AZ 85287-4011.

AZB/ARIZONA BUSINESS is also available online at:
www.wpcarey.asu.edu/seid/cbr/

© 2003 Arizona Board of Regents for Arizona State University. Reprinting information contained in this publication requires the prior written permission of the Center for Business Research at the Seidman Research Institute, Arizona State University. Articles do not necessarily reflect the views of the Center, School of Business, or University. Authors are solely responsible for the accuracy and content of their articles.

Arizona State University vigorously pursues affirmative action and equal opportunity in its employment activities and programs.

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	July	121.2	120.2 r	0.8	3.2	NA	NA
BUSINESS CONDITIONS INDEX							
Arizona	July	58.2	53.4	9.1	19.9	NA	NA
BUILDING PERMITS (Thousands of \$)							
Maricopa County	June	949,543	824,201	15.2	8.9	4,750,149	6.2
Pima County	June	136,709	156,841	-12.8	-25.1	839,648	8.6
Balance of State	June	301,965	234,355 r	28.8	41.0	1,462,868	28.8
Arizona	June	1,388,217	1,215,397 r	14.2	9.4	7,052,665	10.5
TOTAL HOUSING UNITS AUTHORIZED							
Maricopa County	June	5,202	3,975	30.9	9.5	22,629	4.4
Pima County	June	832	917	-9.3	10.2	4,845	11.4
Balance of State	June	2,305	1,781 r	29.4	38.7	11,164	23.0
Arizona	June	8,339	6,673 r	25.0	16.4	38,638	10.1
HOME SALES							
Maricopa County - Number	June	12,640	9,320	35.6	31.0	57,890	15.5
Maricopa County - Median Price(\$)	June	156,100	153,900	1.4	8.5	151,300	7.2
HOUSING AFFORDABILITY INDEXES							
Metropolitan Phoenix - New Homes	2nd Quarter	115	119	-3.4	0.9	NA	NA
Metropolitan Phoenix - Resale Homes	2nd Quarter	131	131	0.0	7.4	NA	NA
MORTGAGE RATES (30-year Fixed)							
Maricopa County	July	5.4	5.2	3.8	-12.9	NA	NA
POPULATION ESTIMATES (Thousands)							
Maricopa County	2nd Quarter	3,382	3,358	0.7	2.8	NA	NA
Pima County	2nd Quarter	902	898	0.4	1.9	NA	NA
Balance of State	2nd Quarter	1,331	1,322	0.7	2.8	NA	NA
Arizona	2nd Quarter	5,615	5,577	0.7	2.7	NA	NA
RETAIL SALES (Millions of \$)							
Maricopa County	June	2,734	2,731	0.1	6.5	15,811	3.8
Arizona	June	4,021	4,029	-0.2	3.1	23,288	3.4

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, W. P. Carey School of Business, Arizona State University. Retail sales data are from the Arizona Department of Revenue.