

AZB ARIZONA BUSINESS

ARIZONA STATE UNIVERSITY'S MONTHLY NEWSLETTER ON THE ARIZONA ECONOMY

Cautious optimism rules for national, local economies

The good economic news continues to accumulate, but the newly released GDP figures should be viewed with caution. The news is good for the Arizona economy as well, but it should be kept in mind that this recovery is different from previous recoveries.

The preliminary GDP figures for the third quarter 2003 showed a SAAR (seasonally adjusted annual rate) of 7.2 percent. This means the rate of growth for the economy would be 7.2 percent if the third-quarter growth rate persisted for four quarters. Sometimes it is better to look at the year-to-date GDP growth, which stood at 2.6 percent through the third quarter. Another thing to keep in mind is that this is just the first look at the quarter — revisions are likely and, in this case, any revisions likely would be in a downward direction. The final figure probably will be closer to 6.0 percent than 7.2. Even so, a preliminary 7.2 percent SAAR is quite impressive, so the question becomes: where did the growth come from — and will it persist? GDP growth can be traced broadly to domestic spending by government, business and consumers, or shifts in net exports. Sixty-five percent of the third-quarter growth came from increased consumer spending. Private domestic investment, which includes business spending and residential housing, accounted for 19 percent. The change in net exports accounted for 12 percent. Government spending accounted for the remaining 4 percent.

The biggest factor in the GDP jump was a surge of consumer spending — the question here is: why did consumer spending surge when it never really dropped that much during the recession? Part of the answer may be that people were spending some of the money they got from recent tax changes. Durable purchases may have surged because of increased incentives for cars, or because consumers were taking advantage of the last round of mortgage refinance activity. A fear of rising interest rates in the future may have pushed some purchases. There is no reason to expect consumer spending to drop in the future, but it seems unlikely we will see further surges of the magnitude we saw in the third quarter.

Perhaps the most encouraging sign was the uptick in business spending — particularly on equipment and software. This is viewed as a precursor to more broad-based increases in business spending, and suggests that business spending will provide an increasing share of GDP growth in the coming

quarters. The other piece of good news is the increase in temporary and contract employment. Temporary employment tends to increase during the first phase of growing demand, and eventually is reflected in more permanent jobs. This bodes well for the future, despite the weak employment results nationwide this year.

It is somewhat surprising that government accounted for so little of the increase during the third quarter. However, it does make sense on closer inspection. Defense spending surged in the second quarter as the federal government started to replace material used up in the Iraq war, and has remained at that high level in the third quarter. (It is the acceleration or slowing of spending that adds to or subtracts from GDP growth.) Non-defense spending did accelerate during the quarter, accounting for the modest contribution of government to GDP growth.

State and local government made a positive contribution to GDP in the third quarter, but at a level far below normal. The degree to which lower state spending has counterbalanced increased federal spending has not received sufficient attention at the national level. There is much debate on the desirability of public versus private spending; many people believe all private spending is good while all public spending is bad. These are mostly long-run, return-on-investment arguments; in the short run, spending is spending regardless of the source. Spending at the state and local level has been seriously constrained, and it will likely be some time before all of the budget problems are resolved — meaning a continued drag on GDP.

Net exports, usually a drag on GDP growth, turned in an unusual positive performance as exports grew faster than imports. It is important to note that America still imports far more than it exports, but in quarters where exports grow faster than imports the impact is a net positive for GDP. Unfortunately, in the future growth in imports will continue to exceed exports most of the time.

Fourth Quarter Economic Forecast

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The bottom line is that third quarter GDP growth was strong enough to cause a revision for the 2003 forecast, from 2.4 percent to 2.6 percent. GDP growth in the fourth quarter will be in the mid to high 3 percent range, with gradual improvement afterwards. The third quarter was an anomaly, although it did serve to confirm the generally positive direction of the economy.

Faster economic growth is leading to

increases in inflation and long-term interest rates. The higher interest rates are expected to moderate the pace of housing starts, although they will remain high by historic standards.

ARIZONA

Improvement in the Arizona economy has been evident for some time in the numbers, and 2004 will be the year when we will actually

be able to feel the improvement. Employment growth should continue to increase, and better performance will be evident in both the service-providing and goods-producing sides of the economy.

Arizona has been among the top 10 states for job growth in every month except one (when it was 11th) since April 2002. The state accomplished this amazing feat with job growth that ranged from -0.3 percent to

TABLE 1
2003 AND 2004 ECONOMIC FORECASTS: UNITED STATES

	<i>Actual</i> 1999	<i>Actual</i> 2000	<i>Actual</i> 2001	<i>Actual</i> 2002	<i>Forecast</i> 2003	<i>Forecast</i> 2004
Gross Domestic Product						
Billions of 1996 Dollars	8,858.9	9,191.4	9,214.6	9,439.9	9,685.3	10,034.0
Percent Change	4.1	3.8	0.3	2.4	2.6	3.6
Industrial Production (Percent Change)	4.3	4.7	(3.6)	(0.7)	0.5	3.7
Net Exports (Billions of 1996 Dollars)	(320.5)	(398.8)	(415.9)	(488.5)	(530.0)	(541.0)
Housing Starts						
Number in Thousands	1,666.5	1,592.3	1,636.7	1,747.7	1,800.1	1,650.7
Percent Change*	3.1	(4.5)	2.8	6.8	3.0	(8.3)
Unemployment Rate (Percent)	4.2	4.0	4.8	5.8	6.1	5.8
Consumer Price Index (Percent Change)	2.2	3.4	2.8	1.6	2.3	2.6
Three-Month Treasury Bill Rate (Percent)	4.6	5.8	3.4	1.6	1.0	1.7
10-Year Treasury Note Rate (Percent)	5.6	6.0	5.0	4.6	4.0	4.9

*Calculated prior to rounding

TABLE 2
2003 AND 2004 ECONOMIC FORECASTS: ARIZONA

	<i>Actual</i> 1999	<i>Actual</i> 2000	<i>Actual</i> 2001	<i>Actual</i> 2002	<i>Forecast</i> 2003	<i>Forecast</i> 2004
Personal Income						
Millions of Current Dollars	120,264	131,046	137,331	142,725	150,289	159,307
Percent Change	6.5	9.0	4.8	3.9	5.3	6.0
Retail Sales						
Millions of Current Dollars	40,769	43,940	44,833	45,425	47,605	50,367
Percent Change	10.0	7.8	2.0	1.3	4.8	5.8
Unemployment Rate (Percent)	4.4	3.9	4.7	6.2	5.8	5.0
Wage and Salary Employment						
Number in Thousands	2,163.1	2,242.7	2,265.0	2,264.9	2,289.0	2,350.5
Percent Change	4.3	3.7	1.0	(0.0)	1.1	2.7
Population						
Number in Thousands	5,017	5,169	5,321	5,468	5,615	5,761
Percent Change	3.1	3.0	2.9	2.8	2.7	2.6
Single-Family Units Permitted						
Number	51,764	48,846	50,930	55,649	61,715	58,629
Percent Change	1.5	(5.6)	4.3	9.3	10.9	(5.0)
Multifamily Units Permitted *						
Number	12,067	10,920	10,414	8,830	5,916	5,561
Percent Change	(8.7)	(9.5)	(4.6)	(15.2)	(33.0)	(6.0)

* Apartment complexes of three or more units

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

1.2 percent. This says something about the strength of the Arizona economy and the relative weakness of the economy nationwide. It seems likely that the benchmark revisions of the employment data early next year will move upward, but if recent history is any guide the revisions will be small and will not change the basic story.

So far this year, manufacturing, mining and the information sector have not shown growth when compared month-over-month to last year. Financial services has showed a positive in the last month, but remains very weak. Services, construction and transportation, warehousing and utilities are the only sectors at or above 2 percent

growth year-to-date. The revisions to the 2003 employment forecast are significant in some cases, but the overall impact is a wash. The expectation is that only construction will have negative job growth in 2004 and, given the remarkable resilience of the housing market, even that is not certain.

Manufacturing was hit hardest by the stock market fall, the recession, and business's reluctance to resume spending once the recovery started. Manufacturing in Arizona is heavily weighted toward high tech, and even more toward business-to-business rather than end consumer manufacturing. Semiconductor demand was on the upswing prior to the Iraq war, and the war itself

only produced four down months before the upward trend resumed. Arizona manufacturing will also benefit from the upswing in spending on equipment and software, as well as a more general upswing in business spending.

The state also will benefit if the export picture continues to improve. While the civilian aerospace manufacturing sector is most likely to continue struggling because of the continued troubles in civilian aviation, the "space" part of aerospace is actually looking up, with local firms landing contracts.

Arizona firms tend to have strong ties to firms in California and the improving

TABLE 3
2003 AND 2004 ECONOMIC FORECASTS: MARICOPA COUNTY

	<i>Actual</i> 1999	<i>Actual</i> 2000	<i>Actual</i> 2001	<i>Actual</i> 2002	<i>Forecast</i> 2003	<i>Forecast</i> 2004
Retail Sales						
Millions of Current Dollars.....	27,825	30,167	30,605	30,690	32,225	34,158
Percent Change.....	10.4	8.4	1.5	0.3	5.0	6.0
Unemployment Rate (Percent).....	3.0	2.7	3.9	5.6	5.2	4.8
Wage and Salary Employment						
Number in Thousands.....	1,487.0	1,541.0	1,559.5	1,552.4	1,566.4	1,613.4
Percent Change.....	4.8	3.6	1.2	(0.5)	0.9	3.0
Population						
Number in Thousands.....	2,995	3,097	3,194	3,289	3,382	3,473
Percent Change.....	3.6	3.4	3.1	3.0	2.8	2.7
Single-Family Units Permitted						
Number in Thousands.....	35,430	33,107	33,428	35,360	38,047	35,384
Percent Change.....	(0.5)	(6.6)	1.0	5.8	7.6	(7.0)
Multifamily Units Permitted *						
Number in Thousands.....	9,524	9,490	8,964	7,268	3,343	3,143
Percent Change.....	(9.5)	(0.4)	(5.5)	(18.9)	(54.0)	(6.0)

* Apartment complexes of three or more units

TABLE 4
ARIZONA EMPLOYMENT FORECASTS: 2003 and 2004
(In Thousands)

	<i>Actual</i> 1999	<i>Percent</i> <i>Change</i>	<i>Actual</i> 2000	<i>Percent</i> <i>Change</i>	<i>Actual</i> 2001	<i>Percent</i> <i>Change</i>	<i>Actual</i> 2002	<i>Percent</i> <i>Change</i>	<i>Forecast</i> 2003	<i>Percent</i> <i>Change</i>	<i>Forecast</i> 2004	<i>Percent</i> <i>Change</i>
Manufacturing.....	207.5	(1.4)	209.9	1.2	201.7	(3.9)	183.9	(8.8)	176.5	(4.0)	178.3	1.0
MNR*	11.1	(14.0)	9.8	(11.7)	9.6	(2.0)	8.9	(7.3)	8.5	(4.9)	8.4	(1.0)
Construction.....	160.8	7.6	168.1	4.5	173.6	3.3	172.3	(0.7)	176.6	2.5	171.3	(3.0)
TWU**	73.6	4.8	74.3	1.0	76.6	3.1	75.8	(1.0)	76.9	1.5	78.6	2.2
Information.....	47.1	8.3	54.4	15.5	53.9	(0.9)	51.5	(4.5)	48.4	(6.0)	48.9	1.0
Trade.....	350.2	3.6	363.5	3.8	364.0	0.1	366.4	0.7	370.1	1.0	386.7	4.5
Financial Activities.....	147.5	3.9	151.0	2.4	153.4	1.6	153.9	0.3	154.2	0.2	160.4	4.0
Services.....	811.2	5.8	845.0	4.2	854.5	1.1	863.9	1.1	886.4	2.6	921.8	4.0
Government.....	354.1	3.7	366.7	3.6	377.8	3.0	388.3	2.8	391.4	0.8	396.1	1.2
Total Wage and Salary Employment	2,163.1	4.3	2,242.7	3.7	2,265.0	1.0	2,264.9	(0.0)	2,289.0	1.1	2,350.5	2.7
Unemployment Rate	4.4%		3.9%		4.7%		6.2%		5.8%		5.0%	

*Mining and Natural Resources

**Transportation, Warehousing and Utilities

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

fortunes of Silicon Valley will help us as well. Fortunately, the impact of the recent fires in California on that state's economy (and, by extension, ours) will be minimal. The exception may be the still-struggling airline industry which had to cancel flights, reroute them and, in general, spend a lot more money than it had planned during the period.

The opening paragraph stated that this recovery is not like others. There are two reasons why: First, Arizona is not going to rocket out of the recession because housing, durable goods purchases and population growth did not drop during the recession.

Second, the employment picture is different

now. Firms have changed the way they manage labor costs, and many of the jobs that were lost were not really layoffs in the traditional sense. Firms were eliminating jobs throughout the expansion, while at the same time creating jobs in other areas. The public did not pay much attention to it until the recession halted the job creation — but the elimination of jobs continued.

Firms are also much more reluctant to add to permanent employment than in the past, preferring temporary and contract workers. Traditionally, the view of jobs lost during a recession was that the people were laid off and would be rehired once demand picked up again. There was a much higher

proportion of jobs in the last two recessions that represented jobs that were never coming back — either because the firm had eliminated doing those things or because the firm itself had ceased to exist. It seems likely that businesses have permanently shifted to a new system in which jobs are eliminated in both good times and bad, and permanent employees are added much more cautiously than in the past. Thus, anemic job growth coming out of a recession may be the pattern for future cycles.

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Arizona Leading Index slips in September

The Bank One Arizona Index of Leading Economic Indicators fell slightly in September to 121.4. The number was 0.33 percent below the revised 121.8 for August and 4.3 percent above the September 2002 number of 116.4 (1987 = 100).

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

After maintaining a narrow range of just 2 points for almost a year, the Leading Index increased that range to 5.4 over the last five months. Although the index components that involve the national economy effectively suppressed some of the gain for the Arizona-specific components, the local economy does seem to be returning to a state of growth. It is typical to see slight retracements now and then because of fear of bubbles, over-enthusiasm and the return of weakness to the economy.

Several months ago, CEO surveys began to show a return of confidence, although the indices of consumer confidence remained low. Business people indicated they believed that the economy was recovering, and that investment in both physical and human capital would be a good thing. To an economic analyst, that is good news, but the words needed to be followed by action. For months, the action did not come, but there are indications it has finally begun. Production remains a positive influence on the Leading Index,

and investment in physical capital has been occurring. This type of investment usually occurs in three year cycles. The last cycle was in 1999, during the height of Y2K worries as businesses made themselves Y2K-compliant and ordered larger quantities of supplies in case the supply chain was interrupted on January 1, 2000. Several economic shocks since then (Sept. 11, corporate scandals, the war in Iraq) served to postpone investment in physical capital, but both the timing and the conditions are right to end the postponement.

Over the last few months it has become clear that the Arizona economy, along with the nation's, is growing once again. This is growth that should make Arizona residents feel confident about the future of the local economy. A key component will be the return of healthy job growth. Arizona ranked eighth in the nation in job growth for

September, compared to September 2002. The state managed that ranking with just over 1 percent growth in employment. The amount of job growth has been creeping up slowly for months and it looks like the growth will continue, but at a much slower pace than that of overall economic conditions.

Because of the nature of the job market, employment growth usually is one of the last sectors of the economy to show recovery after a recession. In September, the employment component of the Arizona Leading Index showed significant recovery and, should that continue, will serve as confirmation that true economic recovery has taken hold.

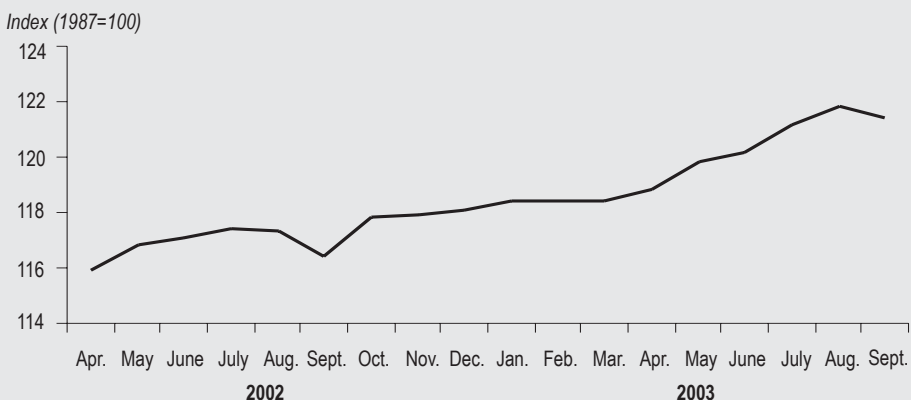
— Dawn McLaren

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FIGURE I

ARIZONA INDEX OF LEADING ECONOMIC INDICATORS



Source: Bank One Economic Outlook Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

Clusters of poverty and affluence continue to expand

Several geographic clusters of high poverty rates exist across the Phoenix urbanized area. Similarly, prosperous neighborhoods tend to be found in close proximity to other well-to-do areas. The geographic extent of both rich and poor neighborhoods is expanding at about the same rate as the overall urban area.

The geographic pattern of poverty and affluence within Maricopa County — based on the 1990 census and compared to earlier censuses — was examined in the December 2000 issue of *AZB/Arizona Business* (available at www.wpcarey.asu.edu/seid/cbr). That analysis is updated below to include 2000 census results.

The geographic unit used in this analysis is census tract. In the urbanized area, a the census tract most commonly is a one square mile area, but some tracts are smaller. In less developed areas, a tract may encompass many square miles. In each decennial census, some tracts with an expanding population are split to keep the number of residents in most census tracts in the few-to-several thousand range. Compared to 466 census tracts in the 1990 census, Maricopa County was divided into 663 tracts in the 2000 census. Fourteen of the 663 tracts were excluded from this analysis because of small populations that result in unreliable poverty estimates.

The income threshold at which a person is considered to be living in poverty varies by family size and type. The poverty rate is the percentage of the population determined to be living in poverty. The decennial census is the only source of dependable poverty data for states and more geographically detailed areas, but even its poverty rates have wide margins of error at the census tract level. Census poverty rates are calculated from data collected from only a sample of the population (one in eight households in urbanized areas) and refer to the calendar year prior to the census date (e.g. 1999).

POVERTY

The poverty rate in Maricopa County has changed little over time, fluctuating from 11.9 percent in 1969 to 10.5 percent in 1979 to 12.3 percent in 1989 to 11.7 percent in 1999. Since each of these census years were near the end of an economic cycle, the census data do not reflect the short-term ups and downs of poverty rates related to the business cycle.

Within Maricopa County, however, the poverty rate has changed dramatically since 1969 in some spots. In general, the portion of the urban area with high poverty rates has expanded in geographic extent at about the same rate as the growth of the entire urban area. The poverty rate in some older neighborhoods has soared from low to high. In contrast, a few census tracts have experienced a sharp reduction in poverty rates due to new middle-class development. The number living in poverty in these tracts may not have changed, but the large increase in population lowered the poverty rate.

Nearly one of five (129 of 649) census tracts had a poverty rate of 20 percent or more in 1999. This percentage was a bit higher than in 1989, as was the percentage of the county's population living in these high-poverty tracts. The percentage of tracts with extreme poverty (a rate of at least 40 percent) declined between 1989 and 1999 to the lowest percentage of the last four decennial censuses, but the percentage of tracts with poverty rates from 20 up to 40 percent rose to the highest figure of the four censuses. Of the 129 tracts in 1999 with poverty rates of at least 20 percent, 74 had a rate from 20 up to 30 percent, 32 had a rate from 30 up to 40 percent, nine had a rate from 40 up to 50 percent, and in 14 tracts at least half of the population lived in poverty.

Most census tracts in Maricopa County with high poverty rates are clustered in a contiguous mass covering nearly all of central and south Phoenix, spreading north over time. Several much smaller clusters of poverty occur across the county, particularly in downtown areas of Chandler, Glendale, Mesa and Tempe.

Central-South Phoenix Cluster

Though contiguous, the high-poverty tracts in central-south Phoenix can be divided into four components.

Salt River North to McDowell Road. Stretching from Papago Park and the Phoenix city limits on the east to the edge of the developed area within the city to the west, this is the core of the high-poverty cluster. Every census tract within this area had a poverty rate of at least 20 percent in 1999, with 15 of 37 tracts experiencing extreme poverty (rates of at least 40 percent). The bulk of this area has had high poverty rates for decades. Even in 1969, poverty rates

exceeded 40 percent in five of 27 tracts. A small increase in poverty rates in the 1970s was followed by a jump in rates in the 1980s. During the 1990s, however, the poverty rate fell in as many tracts as it rose.

Salt River South to South Mountain. As the high-poverty area expanded geographically from its core north of the river, it first spread to the south. Of the census tracts in the city of Phoenix with high poverty rates in 1999, only a third had rates of 20 percent or more in 1969. Poverty rates of more than 20 percent spread to most of the rest of the area during the 1970s and 1980s. In the 1990s, the poverty rate rose above 20 percent in a few more tracts, but overall the poverty rate fell slightly across the area. The only tracts with poverty rates less than 20 percent in 1999 were those east of 40th Street and a couple of tracts bordering South Mountain Park.

West Phoenix and East Phoenix, North of McDowell Road. In 1969 in the city of Phoenix, no census tract north of McDowell Road had a poverty rate of 20 percent or more. Poverty rates rose in the 1970s in this area, but only one tract in 1979 reached a poverty rate of 20 percent. Poverty rates climbed more during the 1980s, with the rate in several tracts topping 20 percent. Poverty rates continued to rise substantially in the 1990s, with the rates in many additional tracts exceeding 20 percent, though no tract had a rate as high as 40 percent in 1999. This portion of the Valley (which generally extended north to Camelback Road in 1999) had the most substantial increases in poverty rates between 1989 and 1999.

Not all tracts between McDowell and Camelback roads suffered high poverty in 1999. Most notably, poverty rates remained low near Central Avenue from McDowell to Indian School roads, extending west to include the Encanto area. This pocket of low poverty largely separates the high poverty areas in east Phoenix from those in west Phoenix, though the two areas merge along Camelback Road.

The expansion of the high poverty cluster has been more extensive in west Phoenix - 25 census tracts had a poverty rate of at least 20 percent in 1999, stretching as far west as 75th Avenue and beginning to merge with the high poverty cluster centered in downtown Glendale. A few high-poverty tracts are located north of Camelback Road, with one extending to Glendale Avenue.

With several tracts, including much of the Maryvale area, having poverty rates in the mid-to-upper teens in 1999, most of the pockets of lower rates within this cluster likely will disappear in coming years. Some westward and northward expansion of the cluster likely will continue, particularly close to I-17 where this cluster may merge with the Sunnyslope poverty cluster.

In east Phoenix, 11 census tracts had poverty rates of at least 20 percent in 1999, up from three in 1989. Most of these tracts are between McDowell and Thomas roads. With only three other tracts in the vicinity having above average poverty rates and with affluent areas only a short distance to the north, this subcluster is unlikely to expand much farther, at least in the near term.

Other Clusters

North Phoenix. Three spots in north Phoenix had poverty rates of at least 20 percent in 1999. The first, a single census tract around Deer Valley Airport, had a poverty rate of barely 20 percent and was surrounded by tracts with rates less than 10 percent.

The second, a square mile area of three census tracts centered on 28th Street and Paradise Lane, is a pocket of high and rising poverty, with the rate for the square mile rising from 25 to 30 percent between 1989 and 1999; all three tracts had rates near 30 percent in 1999. Most of the surrounding tracts had below average poverty rates in 1999. It is unlikely that this pocket of poverty will spread.

The largest of the three is Sunnyslope, centered at 7th Avenue and Mountain View Road. Four census tracts had poverty rates ranging from 23 to 29 percent in 1999, with four adjacent tracts having rates from 16 to just less than 20 percent. Poverty rates have gradually increased in this area; further expansion of the cluster seems likely to the west and southeast.

Glendale. Each of the four census tracts including a portion of downtown Glendale (four square miles in total) had a poverty rate in excess of 20 percent in both 1989 and 1999, with three above 30 percent in each year. In three of the four tracts, however, the poverty rate fell from 1989 to 1999, halting the trend of rising poverty (in 1969, three of the four tracts had a poverty rate less than 17 percent).

While poverty in the core of the cluster eased, the geographic spread of high poverty increased between 1989 and 1999. Poverty

rates exceeded 20 percent in three additional census tracts, two northwest of downtown and one to the southeast. The latter tract is adjacent to the spreading central-south Phoenix poverty cluster. With several other tracts adjacent to the 1999 Glendale poverty cluster having poverty rates in the upper teens, the geographic expanse of this poverty cluster likely will continue to grow.

Northwest Valley. In 1989, five census tracts in this region — mostly in Surprise-El Mirage — had poverty rates greater than 20 percent (three in excess of 30 percent). New developments that overspread this area in the 1990s caused a dramatic lowering of poverty rates, with all five tracts experiencing a decline, four in excess of 10 percentage points. Only one tract in Surprise had a high poverty rate in 1999.

Southwest Valley. Poverty rates also generally fell during the 1990s in high-poverty areas of the southwest Valley, with new development playing a role. In 1989, seven tracts stretching from Cashion through Avondale and Goodyear to Buckeye had poverty rates above 20 percent. Five of these tracts experienced a decline in rate between 1989 and 1999 (three of more than 10 percentage points), with the poverty rate in three falling below 20 percent. High poverty remained in 1999 in Cashion, the southern part of Avondale, a largely undeveloped area south of Avondale and Cashion, and Buckeye. Continued development in the region probably will lower poverty rates further, though pockets such as Cashion likely will remain.

Tempe. Six census tracts extending from west of to east of downtown and to the east of Arizona State University had poverty rates in excess of 20 percent in 1999; three of the tracts had figures of more than 40 percent. The poverty rates are exaggerated by the number of university students living in the area, whose part-time work status results in low incomes. Poverty rates were little changed in the 1990s following rises during the 1970s and 1980s. This cluster probably will not expand in size, though tracts to the southwest of the cluster had above average poverty rates in 1999.

Mesa. Poverty rates in the downtown area continued to gradually rise in the 1990s. The number of high-poverty tracts also continued to swell, from none in 1969 to two in 1979, three in 1989, and eight in 1999. The highest rate was 27 percent. High-poverty tracts extend in each direction from the tract encompassing downtown.

With poverty rates near 20 percent in a few additional adjacent tracts to the southeast and west of the downtown cluster, the area of high poverty likely will continue to expand. This cluster could merge with the Tempe cluster.

Chandler. Poverty rates plunged in downtown Chandler between 1989 and 1999, falling from 12 to 16 percentage points in each of the three census tracts that had poverty rates above 20 percent (all higher than 30 percent) in 1989. In 1999, poverty rates in the three tracts ranged from 19 to 22 percent. The fourth downtown tract had a figure of 18 percent, but all surrounding tracts had below average poverty rates. With continued redevelopment in downtown Chandler, this poverty cluster may disappear.

Guadalupe. The town of Guadalupe remains a small pocket of high poverty surrounded by tracts of average poverty rates. The town's poverty rate, however, fell considerably from 1989 to 1999, from 40 to 27 percent. In 1969, the rate had been 50 percent.

Rural. In much of the county outside the urbanized area, poverty rates are high. The portion of the Gila River Indian Reservation that is in Maricopa County had a poverty rate of 63 percent in 1999, similar to that of earlier censuses. The Salt River Reservation's rate was 30 percent, but the Fort McDowell Reservation's rate was less than 20 percent. The far western part of the county, including Tonopah, had a rate of 26 percent. The southwestern part of the county, including Gila Bend, had a rate just under 20 percent; the figure ranged from 18 to 25 percent over the last four censuses.

AFFLUENCE

In contrast to these clusters of poverty, the Phoenix area has clusters of prosperity. A measure of affluence was calculated from decennial census data using poverty rates, income (per capita), and home values. No census tract west of 7th Avenue had a high affluence score, and relatively few had a marginally high score.

The primary affluent cluster begins only a short distance north and east of the east Phoenix poverty cluster. The town of Paradise Valley forms the core of this moneyed cluster, which runs from the Biltmore and Squaw Peak areas on the west and Camelback Mountain neighborhoods on the south to the edge of the developed area in the northeast. Most tracts east of Tatum

Boulevard (north of Camelback Mountain) had at least marginally high affluence scores in 1999, including nearly all tracts in Scottsdale north of McDonald Drive. Carefree and most of Fountain Hills is included in this affluent cluster.

Close to this "favored quarter" is the North Central Avenue affluent area between Camelback Road and Northern Avenue, consisting of two square miles with high affluence scores and another square mile with a marginally high figure. This prosper-

ous area quickly transitions into the Sunnyslope poverty cluster, which just as quickly gives way to marginally high affluence scores in Moon Valley-Lookout Mountain. In the northwest Valley, several tracts in the Arrowhead area and to its west had marginally high affluence scores.

The Valley's second largest area of affluence is south of South Mountain. In 1999, five contiguous census tracts had a high affluence score, with four adjacent tracts marginally high. A short distance to the

east in south Tempe and west Chandler, a number of contiguous tracts had marginally high affluence scores. Another area of contiguous tracts with marginally high affluence scores is the Ocotillo area of south Chandler. In northeast Mesa, two adjacent tracts had high affluence scores while a couple of other nonadjacent tracts had marginally high scores.

— **Tom R. Rex**
Research Manager

Business Conditions Index continues to rise in September

The seasonally adjusted Arizona Business Conditions Index rose to 60.4 in September from 58.9 the previous month. An index reading over 50 indicates that the local economy is growing; below 50 suggests a slowdown in the overall level of economic activity in the near term.

ANALYSIS

The Arizona Business Conditions Index report for September is full of good news. The only component of the index to register below the critical 50-point level was the purchased materials inventory level. However, this may simply reflect caution in embracing the optimistic view that the recovery finally has begun. The overall index rose to a healthy 60.4, the highest level in three years.

The production component of the overall index has risen remarkably over the last few months, from a fairly neutral 51.2 in February to 60.5 in September. This component has remained above the 60-point level for the past three months. While all of the components have shown strong readings lately, the employment component had merely moved itself from dismal to neutral. In September, some evidence of improvement in job growth finally appeared, with a reading of 57.5 for the employment component — a jump of 5.5 points compared to the previous month. This change in the employment subindex should make the recovery more real for those who have been seeking work over the last couple of years.

All indications are towards healthy growth returning to the Arizona economy in the very near future. While one month of good news is not enough to call it a trend, there has been a clear break toward the upside. The purchases component of the index is also showing healthy readings, which is an

indication that businesses may be starting to invest in physical capital once again. This shift from an attitude of optimism to action is the key that economists have been waiting for to turn the economic recovery from sluggish to sound.

The Prices Index fell slightly from 58.3 in August to 56.0 in September. During the recession, the Prices Index had fallen into

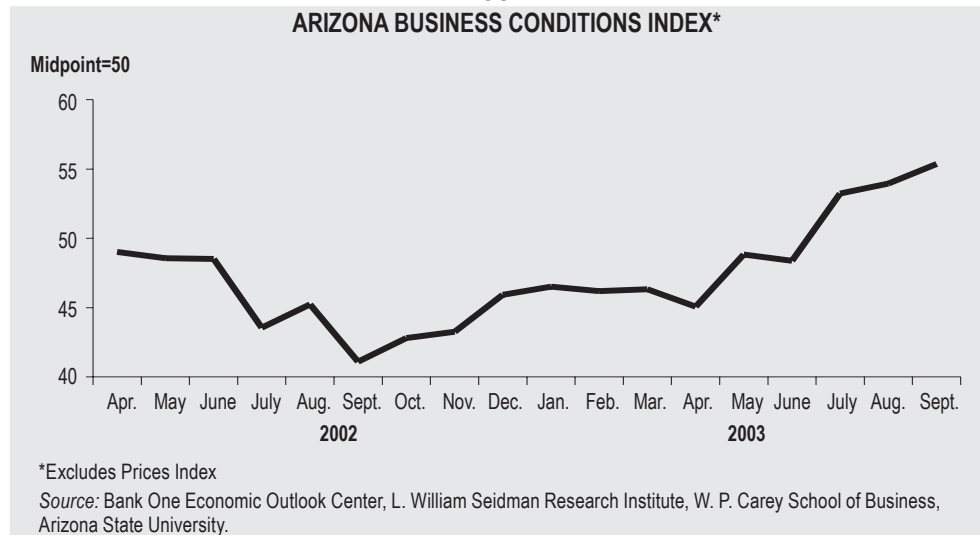
the 40s, reflecting the softness in demand in the economy. The current level of the Prices Index indicates that there is mild upward pressure on prices, but not enough to warrant concern.

— **Dawn McLaren**
Research Economist
Bank One Economic Outlook Center

TABLE 1
ABC INDEX COMPONENTS AND PRICE INDEX

	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03
Overall Index	50.1	53.8	53.4	58.2	58.9	60.4
Delivery Times	53.0	53.5	53.8	53.4	58.7	56.1
Purchased Materials						
Inventory Levels	48.7	46.2	41.0	53.0	50.5	49.4
Purchases	52.1	50.2	56.2	56.6	67.7	68.7
New Orders	52.8	60.5	57.8	60.6	61.8	60.5
Production	49.9	55.0	57.7	64.8	64.7	69.5
Employment	44.7	46.5	47.2	52.6	51.9	57.5
Prices	56.8	52.6	51.9	57.0	58.3	56.0

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
LEADING ECONOMIC INDEX (1987 = 100)							
Arizona	September	121.4	121.8	-0.3	4.3	NA	NA
BUSINESS CONDITIONS INDEX							
Arizona	September	60.4	58.9	2.4	31.0	NA	NA
BUILDING PERMITS (Thousands of \$)							
Maricopa County	August	858,177	865,683	-0.9	23.2	6,483,184	9.9
Pima County	August	173,707	161,707	7.4	9.7	1,175,062	12
Balance of State	August	252,644	259,211	-2.5	12.7	1,982,789	23.4
Arizona	August	1,284,528	1,286,601	-0.2	19.1	9,641,035	12.7
TOTAL HOUSING UNITS AUTHORIZED							
Maricopa County	August	3,966	4,070	-2.6	5.7	30,678	3.8
Pima County	August	884	986	-10.3	6.9	6,715	15.2
Balance of State	August	1,807	1,951	-7.4	2.6	14,994	18.0
Arizona	August	6,657	7,007	-5.0	5.0	52,387	9.0
HOME SALES							
Maricopa County - Number	August	9,670	10,200	-5.2	17.9	77,760	13.5
Maricopa County - Median Price(\$)	August	159,000	158,900	0.1	9.7	153,325	7.6
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	September	5.8	5.9	-1.7	0.0	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	August	2,606	2,490	4.6	5.6	20,906	4.5
Arizona	August	3,910	3,734	4.7	5.1	30,932	4.2

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.