

# AZB ARIZONA BUSINESS

ARIZONA STATE UNIVERSITY'S MONTHLY NEWSLETTER ON THE ARIZONA ECONOMY

## Latinos differ demographically from other Arizonans

Socioeconomic characteristics of Latinos living in Arizona are substantially different from those of other Arizona residents. This article provides an overview of these differences.

The U.S. Census Bureau releases decennial census data in an already tabulated format, mostly as simple tables (frequency distributions), though some cross-tabulations also are provided. If a user is interested in a cross-tabulation of two characteristics not produced by the Census Bureau, the primary option is to use the Public Use Microdata Sample (PUMS), which is released by state. Two versions of the PUMS are produced, each created by subsampling the population that completed the long-form questionnaire (15.8 percent of the population nationally). The 1-percent PUMS provides full characteristic detail but limited geographic detail while the 5-percent PUMS — used in this analysis — includes more records, more geographic detail (substate areas of at least 100,000 residents), but less characteristic detail.

The “raw” data in the PUMS include “allocated” responses. The Census Bureau accepted as “complete” survey forms with a number of unanswered questions, generally allocating a response for the missing data. For many characteristics in Arizona, 5-to-10 percent of the responses were allocated, but 15-to-20 percent were allocated for most income questions, with 29 percent of the records allocated for total income for persons.

Since the PUMS presents data for just 5 percent of the population, tabulations based on this file do not exactly match complete counts from Summary File 1 (the short-form questionnaire) or sampling estimates from Summary File 3 (the long-form questionnaire). For example, Hispanics make up 25.75 percent of the PUMS for Arizona, compared to a complete count figure of 25.3 percent. As with any sample, the results from the PUMS are subject to sampling error.

The 5-percent PUMS for Arizona includes geographic identifiers for 36 geographic areas (termed “PUMAs” by the Census Bureau) within Arizona: 22 in Maricopa County, seven in Pima County, and the other seven consisting of one or more of the other 13 counties. For this project, three substate areas were analyzed: the sum of the 22 PUMAs for Maricopa County, the sum of the seven PUMAs for Pima County, and the sum of the seven PUMAs for the “balance of the state” (the 13 less populous counties

combined). The Hispanic proportion of the population did not vary much across these three geographic areas in 2000: 25.6 percent in Maricopa County, 29.2 percent in Pima County, and 24.1 percent in the balance of the state.

Cross-tabulation tables of Hispanic origin were run for a large number of characteristics (for example, Latino/not Latino by place of birth). Three-way cross-tabulation tables were created for certain characteristics (for example, Latino/not Latino by place of birth by gender). Using only records of people of Hispanic origin, a more detailed analysis was conducted.

### LATINOS IN ARIZONA

Relative to non-Latinos living in Arizona, Latinos in Arizona are considerably younger. The Latino share of the total population varies substantially by age, from nearly 37 percent of children under the age of 16 to only 9 percent of those aged 65 or older (see Figure I). Looking specifically at persons of working age (16-to-64 years old), a bit more than 25 percent are of Latino origin. The Latino proportion varies widely even within this age range, falling from nearly 36 percent of those 16-to-24 years old to 13 percent of those 55-to-64 years old.

Equal shares of Latinos in Arizona consider their race to be white versus “some other race.” Some differences in socioeconomic characteristics are seen between these two racial categories.

Latinos make up a disproportionately large share of several family types, particularly married couples in which only the male is part of the labor force and families in which the male is in the labor force and the female is not present. A higher proportion of Latinos live in families with only one spouse present, while a higher percentage of non-Latinos live alone or with others

## Latino Demographic Profile

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who are not related. A higher proportion of young adult Latinos than non-Latinos are married, with Latinos born outside the United States having the highest proportion married.

Three-fourths of Arizona's Latinos speak Spanish at home, a fourth of whom do not speak English "very well." Nearly a fourth of Latinos live in a household in which no one aged 14 or older speaks English "very well." Eighty-five percent of working-age Latinos live in a household where Spanish is spoken at home.

Nearly half of Arizona's Latinos were born outside the United States, with more than 90 percent of the foreign born coming from Mexico. More than half are men because immigrants — most seeking work — are disproportionately male. Of those foreign born, less than a fourth are naturalized citizens, in part because so many are recent arrivals: nearly half of the immigrants arrived in the United States between 1990 and 2000.

Among children and young adults, a lower percentage of Latinos than non-Latinos attend school. Latinos on average possess far less educational attainment than non-Latinos, even after adjusting for age differences. One-half of working-age (16 to 64) Latinos have not earned a high school diploma and only 6 percent possess a bachelor's or higher degree. This lower educational attainment is a key factor in differences in employment statistics between Latinos and non-Latinos, as is ability to speak English.

A lesser proportion of Latinos between the ages of 16 and 64 are employed compared to non-Latinos, with a somewhat higher proportion unemployed and a higher proportion not in the work force. The lower proportion of Latinos working result in part from the disproportionate share of Latinos with limited educational attainment and the lower employment rate of those with little educational attainment. Except among the youngest workers, Latinos work both a lesser number of weeks per year and fewer hours per week than non-Latinos.

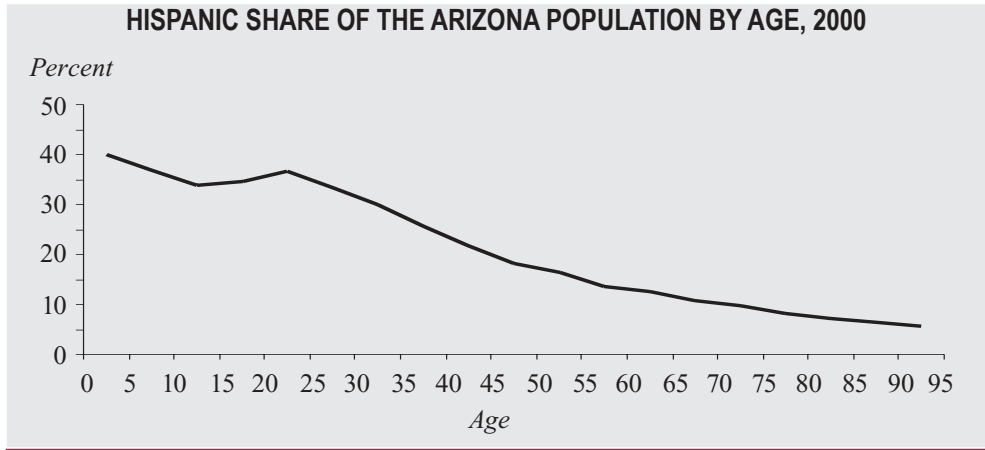
A higher proportion of Latinos work for private for-profit companies, with fewer self-employed, working for government, or employed at a nonprofit organization. The industrial mix of Latinos also is different from non-Latinos, with a greater share working in the construction, manufacturing, accommodation and food service, administrative and support, and agriculture industries, with fewer working in professional services and related "white-collar" sectors. The occupational

mix of Latinos is much different from non-Latinos, with higher proportions of Latinos working in "blue-collar" occupations and lower percentages in management and business, professional, sales, and administrative support occupations.

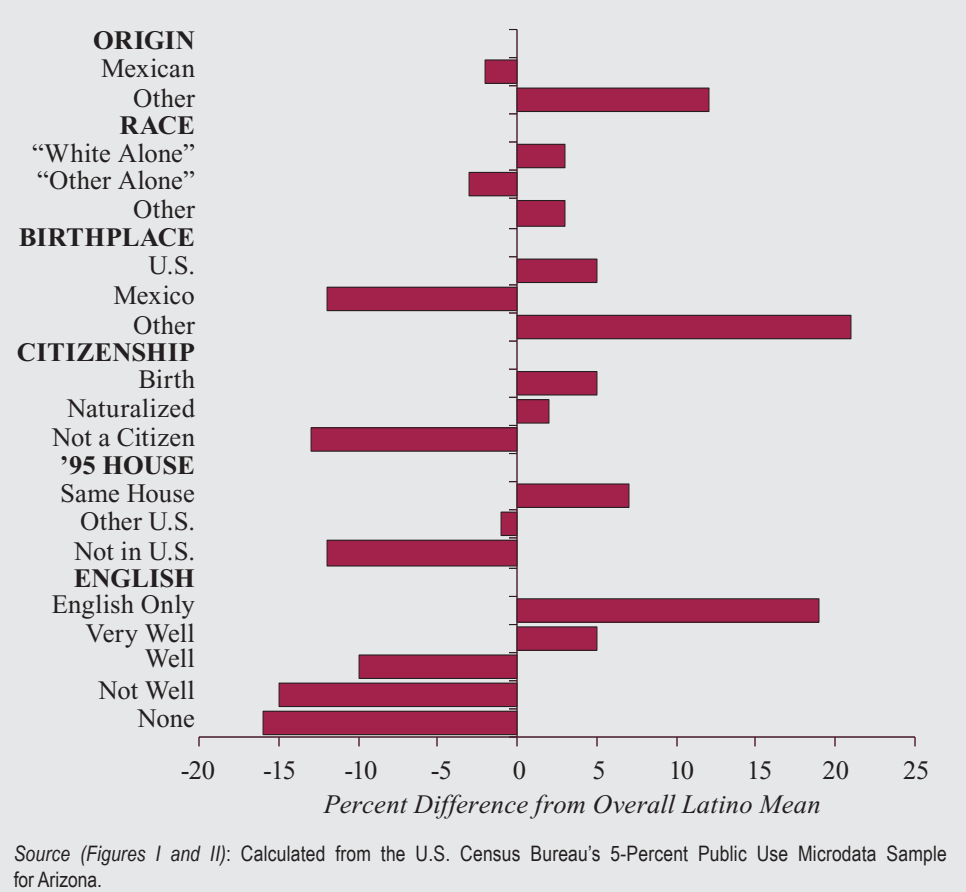
A higher percentage of Latinos than non-Latinos carpool to work or commute via a means other than car, truck or van. A lesser proportion of Latinos leave for work during the morning rush hour, with many leaving between 4 a.m. and 6 a.m.

Latino earnings are about a third lower than those of non-Latinos as a result of the lesser educational attainment, less work experience, fewer hours worked, job mix, and other factors. Controlling for the difference in educational attainment narrows the earnings differential, but among those with at least a high school diploma, Latinos have earnings about 20 percent less than non-Latinos. With a lesser share of Latinos receiving income from most sources, Latino incomes are far lower than those of non-Latinos. Differentials are

**FIGURE I**  
**HISPANIC SHARE OF THE ARIZONA POPULATION BY AGE, 2000**



**FIGURE II**  
**MEAN HOUSEHOLD INCOME OF LATINOS IN ARIZONA BY CHARACTERISTIC, 1999**



Source (Figures I and II): Calculated from the U.S. Census Bureau's 5-Percent Public Use Microdata Sample for Arizona.

especially large in earnings and incomes from interest and retirement. The poverty rate of Latinos is more than twice that of non-Latinos. Income as a percentage of the poverty rate averages only 210 percent among Latinos, compared to 321 percent among non-Latinos.

Household income of Latinos is about 30 percent less than that of non-Latinos. For those of similar educational attainment, Latino incomes still were 15-to-23 percent less than those of non-Latinos. Average household incomes of Latinos with various characteristics are shown in Figure II.

The lower incomes contribute to the housing characteristics of Latinos being different from those of non-Latinos. A lower proportion of Latinos are homeowners (60 percent compared to 75 percent of non-Latinos) and a higher proportion live in apartments. Despite a larger average household size, Latinos live in smaller (and older) dwellings. Among homeowners, home values are considerably lower; among renters, monthly rent is lower. As a percentage of household income, homeowners' costs are somewhat higher for Latinos, but renters' costs are only marginally higher.

#### DIFFERENCES AMONG GROUPS

Latinos in Arizona are not a homogenous group, though 84 percent are of Mexican origin. More than 60 percent of Latinos of

Mexican origin were born in the United States. A number of differences exist between Latinos of Mexican origin and those of other origins, but large differences also exist between immigrants from Mexico and U.S.-born Latinos of Mexican origin. A low percentage of Mexican immigrants have become naturalized U.S. citizens, in part because more than half arrived in the U.S. less than 10 years earlier.

Mexican immigrants of working age who have not become naturalized U.S. citizens have the lowest school enrollment, educational attainment, and employment rates among Latinos. Their unemployment rates are the highest, as is the share who are male. They have the highest shares working in the agriculture, construction, and accommodation and food service sectors, and service occupations such as janitorial and landscape maintenance. Earnings are the lowest. Recent immigrants (those moving to the United States between 1995 and 2000) are the most extreme on most of these indicators.

The ability to speak English makes a further difference, with higher proportions of those not speaking English well having little educational attainment; not being in the work force; working fewer weeks per year; employed by for-profit businesses; working in the construction, agriculture, administrative support, and accommodation and food services sectors; having farming,

construction and repair, and services occupations; and earning less.

#### COUNTY POPULATIONS

The profile of Latinos living in Maricopa County — more than 55 percent of Arizona's Latinos — is different from those living in Pima County. On many measures, Latinos living in the balance of the state (the 13 less populous counties) are a meld of the characteristics of those in the two populous urban areas.

Latinos in Maricopa County have the lowest median age of the three regions; the highest percentage of males; the highest proportion of those only of "some other race;" the least English proficiency; the highest percentage born in Mexico; the greatest percentage who are not citizens; a much higher percentage of recent immigrants (more than twice that of the rest of the state); and the highest percentage employed. Educational attainment is lower than in Pima County. The percentage working in the construction sector is particularly high. While non-Latino earnings are considerably higher in Maricopa County than elsewhere in the state, the earnings of Latinos in Maricopa County are only slightly higher than those of Latinos elsewhere.

— Tom R. Rex  
Research Manager

## One in five Arizonans has a disability

A total of 20.1 percent (a little more than 900,000) Arizonans aged five or older reported one or more disabilities in the 2000 census. Given the increase in population since April 2000, the number of Arizona residents aged five or older with a disability in 2003 likely is nearly 1 million.

Six types of disabilities were included in the 2000 census long-form questionnaire. Half of those with a disability suffered from multiple conditions: 5 percent of Arizonans had two disabilities, 2 percent had three disabilities, another 2 percent experienced four disabilities, 1 percent were afflicted by five disabilities, and less than 0.5 percent reported having all six disabilities.

Of the six disabilities, a work disability was most common: 11.0 percent of those aged 16 or older reported this disability alone or in combination with other disabilities. Physical disabilities afflicted 8.8 percent of those aged five or older; 7.0 percent of those

aged 16 or older were unable to go outside the home alone; 5.0 percent of those aged five or older had a mental disability; 4.2 percent of those aged five or older had a sensory impairment such as blindness or deafness; and 2.8 percent of those aged five or older were unable to care for themselves.

For each of the disabilities, an extremely strong relationship exists with age. The lowest incidence occurs either among children or young adults, depending on the disability, with the highest incidence among the very elderly. While the elderly have the highest percentages with disabilities, the number of Arizonans with disabilities is greatest among the baby-boom generation (ages 35 to 54 in 2000) because of the large number of people in this age group.

The percentage of the population with one or more disabilities rises steadily with age. Less than 5 percent of children five-to-nine years old have a sensory, physical, mental

or self-care disability. A little more than 15 percent of those 20-to-29 years old have any of the six disabilities. This percentage gradually rises, reaching 30 percent of those 60-to-69 years old and more than half of those 75 or older. The median age of people with a disability is 50, compared to 34 for those without a disability.

Even after adjusting for age, the disabled population's socioeconomic, household, and housing profiles differ from those who are not disabled. In particular, the disabled population has a lower average income, with a lower labor force participation rate and a higher unemployment rate.

The report "The Disabled Population in Arizona: Data from the 2000 Public Use Microdata Sample" is available at [www.wpcarey.asu.edu/seid/cbr](http://www.wpcarey.asu.edu/seid/cbr)

— Tom R. Rex  
Research Manager

# Third-quarter home sales remain high as affordability slips

Even with emerging signs of job growth to bolster the recovery, the single-family housing market continues to provide the only consistently good economic news. While recorded sales activity represents decisions made several months earlier, home buyers apparently remain confident that homes are excellent investments as well as places to live.

The Greater Phoenix housing market continued its torrid pace in the third quarter, with a second consecutive quarterly record of 33,435 sales. In the previous (second) quarter, 32,160 sales were recorded. So far this year, a total of 91,320 homes have been recorded sold, compared to 78,370 homes for the same period in 2002. There is no expectation of a dramatic slowdown for the remainder of this year and into early 2004.

## AFFORDABILITY

The Federal Reserve has maintained its policy of holding interest rates low in order to foster the anemic recovery. Although funds have yet to appreciably flow from the bond market to the uncertain equity market, there has been enough activity to increase 30-year mortgage interest rates from 5.2 percent in the second quarter 2003 to 5.7 percent, which is slightly below last year's 6 percent.

Resale home prices maintained record levels, with the median price increasing from \$155,000 in second quarter 2003 to \$159,500, compared to \$146,000 a year ago. Due to the strong new home market in the West Valley communities, the median price for new homes declined from \$176,805 in the second quarter to \$173,895, but it

remained well ahead of last year's \$159,535. This difference is evident in the following examples: Chandler's new home median price was \$233,050 for a 2,670 square-foot home, while in Surprise it was \$159,165 for a 1,875 square-foot home.

Even though mortgage interest rates are near historical lows, the effective interest rate increased from 5.4 to 5.9 percent. Further, low inflation and a nearly jobless recovery have combined to hold median household income to no growth. These elements, combined with a higher median home price, forced the resale affordability index to decline.

The resale affordability index fell from 131 in second quarter 2003 to 120, which is below last year's 126. Even with a slight decline in the new home median price, the new home affordability index value fell from 115 to 110, which is below last year's 115.

(An index value of 100 means the typical home buyer would be able to afford a median-priced home at an effective interest rate of 7.7 percent, based on the current median resale price and household income. A lower index value indicates less affordable homes.)

Since home prices and incomes vary throughout the Valley, so does the affordability index. For example, in the resale sector, the third-quarter 2003 index was 75 in Scottsdale, 131 in the Glendale area, 139 in the Maryvale area and 152 in the West Valley communities.

## RESALE SINGLE-FAMILY HOMES

With 20,560 recorded sales, the Greater Phoenix resale home market set another

record for quarterly activity, surpassing the previous record just set in the second quarter (19,845 homes). The 2003 year-to-date total is 55,435 sales in comparison to 46,845 for 2002 YTD and 47,245 2001 YTD. September set a monthly record (8,185 recorded sales), exceeding the previous record of 7,890 sales set in June of this year.

The median home price can be driven by the appreciation in home prices and by the change in the respective market shares of the homes being sold. In first quarter 2001, homes in the \$250,000 to \$499,999 range represented only 10 percent of the resale market, while it was 17 percent for the third quarter 2003. In first quarter 2001, 21 percent of the resale homes sold were priced under \$100,000, while it was 8 percent for the third quarter 2003.

Median resale home prices ranged greatly across the area, from a high of \$875,000 (120 sales) in Paradise Valley to \$81,130 (70 sales) in the Sky Harbor area. Active areas were: Mesa with 2,570 sales (\$147,000 median price), Glendale with 1,850 (\$145,000), Deer Valley with 1,810 (\$175,000), North Scottsdale with 1,475 (\$370,000), Mountain Park with 720 (\$213,500) and Maryvale with 665 (\$105,000). The median square footage for a resale home increased from last year's 1,650 to 1,690.

## NEW SINGLE-FAMILY HOMES

Based on a strong September (3,650 sales), The new home market continued its strong pace with 8,630 recorded sales, up from 7,670 a year ago and 7,680 in second quarter. Over the last few years, the West Valley communities

TABLE 1  
HOUSING AFFORDABILITY INDEXES  
Greater 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
Third Quarter 2003	4,060	5.9	159,500	945	120	173,895	1,030	110

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

have come to represent 26 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. The following examples illustrate the disparity: In the East Valley, the median price in Gilbert is \$215,825 for a 2,595-square foot home and in Mesa, \$171,760 for 2,250 square feet. In the West Valley, the median price is \$138,750 for a 1,660 home in Avondale and \$122,615 for 1,410 square feet in El Mirage.

With 88 percent of the 176 recorded new home sales priced in excess of \$300,000, North Scottsdale had a median sales price of \$532,433; the lowest was \$122,615 in El Mirage, based on 225 sales. Other active markets were: Deer Valley with 1,040 sales (\$237,243 median price), Superstition Springs with 310 (\$179,990) and Union Hills with 140 (\$265,794).

The median square footage for a new single-family home recorded sold in third quarter 2003 was 2,180, slightly smaller than the 2,200 square feet reported a year ago.

### TOWNHOUSE/CONDOMINIUMS

Both investors and occupying owners recognize the advantages of the low maintenance, recreational facilities and security offered by the townhouse/condominium housing style. The increasing popularity is evident in that the median sale price for resale units increased from \$85,000 in first quarter 2000 to \$103,000 in third quarter 2003. However, even with the rapid increase, the median price represents only 65 percent

of that for single-family homes. Higher prices might be one explanation for the sales activity declining from a record 4,165 units in second quarter 2003 to 3,745 units, compared to last year's 3,330 sales.

Many of the newer developments are at the high end of the market; the median price of \$188,690 for new units actually exceeds the \$173,895 for new single-family homes. The primary reason is that 35 percent of the 500 recorded sales were in North Scottsdale, with a median price of \$255,000. Other active areas were Superstition Springs (60 sales, \$134,130), North Tempe (45 sales, \$251,970) and East Mesa (30 sales, \$163,625).

In the resale townhouse/condominium sector, the median square footage was 1,145, compared to 1,150 square feet reported a year ago. The most active resale areas were North Scottsdale with 440 sales (\$173,000 median price), South Scottsdale with 405 (\$120,000), South Mesa with 315 (\$88,750) and Sun City/Peoria with 280 (\$80,000).

### LOOKING AHEAD

Historically, the quarterly resale activity has represented 1.6 percent of the single-family housing inventory, with 2 percent evident in the 1990s as the market recovered and homeownership expanded. With both of these events basically played out, the recent movement above 2 percent must be more founded on the purchase of homes for rental investments. Thus, the potential of the housing market must rely in part on continued interest in homes as investments and their success in the rental market. Since investors

are mostly concerned with appreciation, the market could be adversely impacted if too many of the investment homes enter the resale market in the coming years.

Low interest rates have allowed many to pursue the American dream by stretching their incomes to buy homes and/or improve the quality and size of their homes. With income so important in purchasing and maintaining a home, the slow and changing employment market has raised many concerns. If something should happen to impact a household's income such a medical emergency or job loss, the home is placed at jeopardy — and this is evident in the increasing number of defaults and foreclosures.

The greater Phoenix area has grown by providing jobs and affordable housing to a diverse population. The dramatic rise in home prices has begun to impact affordability, evident in the movement of affordable housing to West Valley communities and Pinal County. However, many of the communities are a distance from employment centers, placing more pressure on the freeway system. Thus, it will become increasingly important for the "newer" areas to advance beyond bedroom communities to more economically diverse ones.

The future of the housing market is tied directly to the area's ability to create and sustain jobs that pay well and offer advancement potential.

— Jay Q. Butler  
Director

Arizona Real Estate Center

TABLE 2  
GREATER 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
Third Quarter 2003 .....	159,000	173,895	163,785	103,000	188,690	108,620	158,000
<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
Third Quarter 2003 .....	20,560	8,630	29,190	3,745	500	4,245	33,435

Source: Arizona Real Estate Center, L. William Seidman Research Institute, W. P. Carey School of Business, Arizona State University.

# Population growth continues at pace of recent years

Net migration continued to Maricopa County and Pima County in third quarter 2003 within the quarterly range of the last three years, but net migration to Arizona's 13 least populous counties was the highest since at least 1990.

Net migration to Maricopa County was about 16,500 during third quarter 2003, within the 15,000-to-17,000 range of each quarter but one since mid-2000. Due to the economic slump, quarterly net migration during this period has been less than that from 1994 through 1999. The least net migration was between second quarter 2002 and first quarter 2003, including a quarter with a figure of only 14,000 [see Table 1]. As is typical, the lesser net migration lagged behind decreases in job growth by about one year. In Pima County, net migration during third quarter 2003 was estimated at 3,800, within the 2,400-to-4,100 quarterly range experienced since early 2000.

In the balance of the state during third quarter 2003, the number of completed new housing units easily was the most since at least 1990; net migration also was the

highest of this period at 8,500. Despite the national economic slump, net migration in each quarter of the last three years has been greater than the average of the 1990s. Nearly all of the surge in the housing stock over this period can be traced to a sharply rising number of new single-family housing units in Pinal County. Though technically a part

of the Phoenix metropolitan area for more than a decade, only in the last few years has urban growth spilled into Pinal County in great number.

— **Tom R. Rex**  
Research Manager

**TABLE 1**  
**QUARTERLY POPULATION (In Thousands)**

Year and Quarter	Population				Net Migration			
	Arizona	Maricopa County	Pima County	Balance of State	Arizona	Maricopa County	Pima County	Balance of State
2001 4	5,396.2	3,241.7	876.9	1,277.6	26.3	15.6	3.0	7.7
2002 1	5,432.9	3,266.1	880.8	1,286.0	26.2	16.7	2.8	6.7
2002 2	5,469.1	3,289.6	884.4	1,295.0	25.0	15.3	2.4	7.2
2002 3	5,505.7	3,313.3	888.7	1,303.8	25.1	15.1	3.1	7.1
2002 4	5,544.6	3,338.0	893.6	1,313.0	27.0	16.0	3.6	7.3
2003 1	5,580.9	3,361.1	897.5	1,322.3	23.8	14.0	2.5	7.3
2003 2	5,619.5	3,386.1	902.1	1,331.3	26.8	16.1	3.4	7.3
2003 3	5,660.0	3,411.5	907.1	1,341.5	28.7	16.5	3.8	8.5

Note: estimates have been revised back to first quarter 2002.

Source: Center for Business Research, L. William Seidman Research Institute, W.P. Carey School of Business, Arizona State University.

# Business Conditions Index continues climb in October

The seasonally adjusted Arizona Business Conditions Index rose to 63.3 in October — reaching its highest level since April 2000 — from 60.4 the previous month [see Figure I]. A 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

It is time to call the steady upward movement of the Arizona Business Conditions Index a trend. Since May, the index has moved out of the narrow neutral range where it had been stuck for more than a year. While the sharpest increase occurred in July, the rate of increase has risen each month since August.

Driving the engine of growth are three key components: production, new orders and purchases. The increase in the purchases component is especially important, as it is indicative of business beginning to reinvest in supply — possibly in physical capital. The production subindex reached 71.5, the highest since mid-1983. That was also a period of recovery after recession. The key difference is that this time, the employment

component, although above the critical 50-point, remains fairly weak (at 54.0 in October). A jump had been seen in the previous month, but that has now been retraced somewhat. Still, it is encouraging that the employment subindex has held to growth territory for four months.

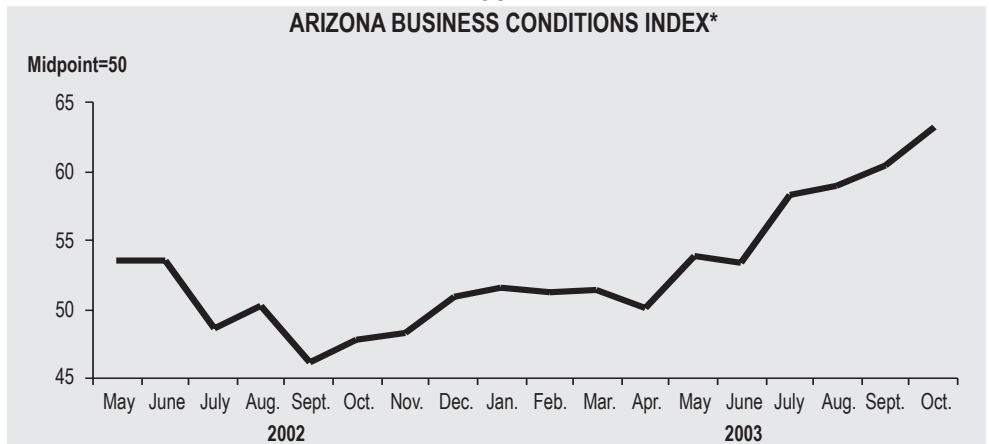
The Prices Index fell slightly to 55.0 in

October from 56.0 the previous month. This implies that there is still upward pressure on prices, but not enough to raise inflation concerns.

— **Dawn McLaren**  
Research Economist

Bank One Economic Outlook Center

**FIGURE I**  
**ARIZONA BUSINESS CONDITIONS INDEX\***



\*Excludes Prices Index

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

# Arizona Leading Index slightly up in October

The Bank One Arizona Index of Leading Economic Indicators rose in October to 122.6. The number was 0.7 percent above the revised 121.7 level for September 2003 and 4.1 percent above the October 2002 level of 117.8 (1987 = 100).

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

The good news is that the evidence of a strengthening economy continues to mount. The bad news is that employment growth remains relatively weak. However, in order to paint an accurate picture it is necessary to put the employment data in perspective.

Nationally and locally, the unemployment rate never bottomed out at the levels typically seen in a recession, which means in one sense the employment situation was better than usual for an economic downturn. At the same time, however, there is evidence that unemployment was more of a problem for the people who were impacted. Underemployment — being forced to accept a job with a significant cut in pay and responsibilities — seems to have been more of a problem in this cycle. Also, the length of time skilled workers spent looking for a new job may have been longer.

The explanation for the unusual performance of the job market seems to be that in this downturn, a large number of those who lost their jobs were not just laid off — their jobs disappeared permanently. Historically, people who lost jobs lost during a recession had a reasonable expectation that they would be rehired or find a similar position once the economic climate improved. There were a much larger number of jobs that disappeared entirely in this recession, either because the company ceased to exist or stopped performing certain functions with no intention of resuming them in the future.

If job growth is examined month-over same-month prior year, the national economy has had negative job growth from July 2001 to October of 2003 (the most recent month available). On the same basis, Arizona lost jobs from October 2001 through June 2002,

which means Arizona has fared significantly better than the rest of the nation. Arizona has also been among the top 10 states in job growth in every month but one in the period from April 2002 to September 2003. The weakest sector for the nation remains manufacturing. In September 2003 only two states — Nevada and Hawaii — reported positive manufacturing job growth. Employment growth nationally should turn positive on a year-over-year basis early in 2004, while Arizona is likely to be experience a more normal pace of job growth by the middle of 2004.

The most encouraging news from the Leading Index components is the fairly broad-based improvement that can be seen in business activity. The slowdown in business spending was the primary cause of the recession, and it hit Arizona disproportionately

hard. Arizona should benefit on the upswing as businesses starts to spend. The indications nationally are positive, with a jump in business spending contributing significantly to the high rate of growth in the third quarter.

The most puzzling results from the index are the behavior of the money supply M2. It has dropped for two consecutive months despite a continuing policy of low interest rates by the Federal Reserve and indications that business borrowing may be on the upswing soon. The Federal Reserve will eventually begin to force M2 to shrink as the economy starts expanding, but it seems too soon for this, given the Fed's policy announcements.

— Tracy Clark

Associate Director

Bank One Economic Outlook Center

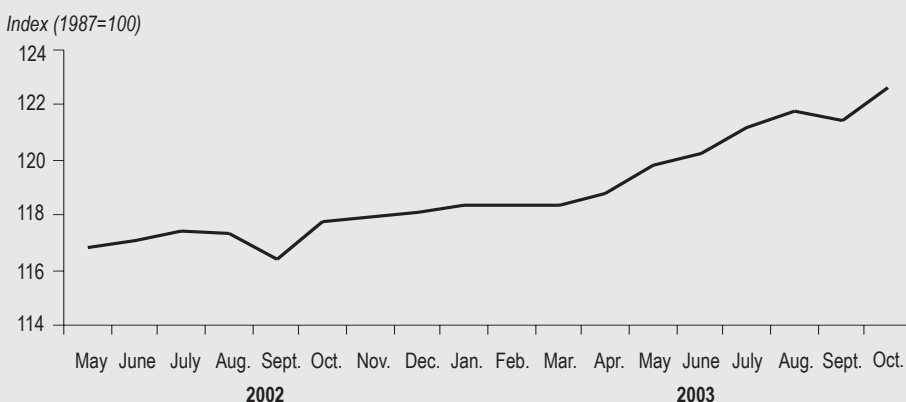
**TABLE 1**  
NET CONTRIBUTION OF INDIVIDUAL COMPONENTS TO THE  
ARIZONA INDEX OF LEADING ECONOMIC INDICATORS\*

	July	August	September	October
Delivery Time*	-0.01	0.11	-0.06	0.00
Inventory Levels*	0.22	-0.04	-0.03	0.23
New Orders*	0.06	0.01	0.00	0.10
Production*	0.12	0.03	0.08	0.05
Employment*	0.17	-0.01	0.18	-0.07
Residential Building Permits	0.18	-0.03	0.06	0.08
Average Workweek, Manufacturing	-0.32	0.07	-0.07	-0.04
Money Supply	0.33	0.22	-0.31	-0.22
Change in Sensitive Materials Prices	0.03	0.20	-0.06	0.58

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



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Timothy D. Hogan, Center Director  
Nancy A. Maneely, Editor

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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 .....	October	122.6	121.7 r	0.7	4.1	NA	NA
<b>BUSINESS CONDITIONS INDEX</b>							
Arizona .....	October	63.3	60.4	4.8	32.3	NA	NA
<b>BUILDING PERMITS (Thousands of \$)</b>							
Maricopa County .....	September	942,482	864,530 r	9.0	42.0	7,432,019	13.2
Pima County .....	September	158,810	173,707	-8.6	36.9	1,333,872	14.4
Balance of State .....	September	228,791	252,644	-9.4	28.9	2,211,581	24.0
Arizona .....	September	1,330,083	1,290,881 r	3.0	39.0	10,977,472	15.4
<b>TOTAL HOUSING UNITS AUTHORIZED</b>							
Maricopa County .....	September	4,291	3,974 r	8.0	8.8	34,977	4.4
Pima County .....	September	750	884	-15.2	-2.1	7,465	13.2
Balance of State .....	September	2,093	1,807	15.8	49.8	17,087	21.2
Arizona .....	September	7,134	6,665 r	7.0	16.8	59,529	9.9
<b>HOME SALES</b>							
Maricopa County - Number .....	September	13,560	9,670	40.2	37.2	91,320	16.5
Maricopa County - Median Price(\$)	September	156,250	159,000	-1.7	7.8	154,000	7.8
<b>HOUSING AFFORDABILITY INDEXES</b>							
Metropolitan Phoenix - New Homes .....	3rd Quarter	110	115	-4.3	-4.3	NA	NA
Metropolitan Phoenix - Resale Homes .....	3rd Quarter	120	131	-8.4	-4.8	NA	NA
<b>MORTGAGE RATES (30-year Fixed)</b>							
Maricopa County .....	October	5.6	5.8	-3.4	-3.4	NA	NA
<b>POPULATION ESTIMATES (Thousands)</b>							
Maricopa County .....	3rd Quarter	3,412	3,386 r	0.8	3.0	NA	NA
Pima County .....	3rd Quarter	907	902	0.6	2.1	NA	NA
Balance of State .....	3rd Quarter	1,342	1,331	0.8	2.9	NA	NA
Arizona .....	3rd Quarter	5,660	5,620 r	0.7	2.8	NA	NA
<b>RETAIL SALES (Millions of \$)</b>							
Maricopa County .....	September	2,593	2,606	-0.5	7.7	23,500	4.8
Arizona .....	September	3,822	3,910	-2.2	7.9	34,754	4.6

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.