

W. P. CAREY SCHOOL
OF BUSINESS



ARIZONA STATE UNIVERSITY

Parallels and Perspectives on the Arizona Economy

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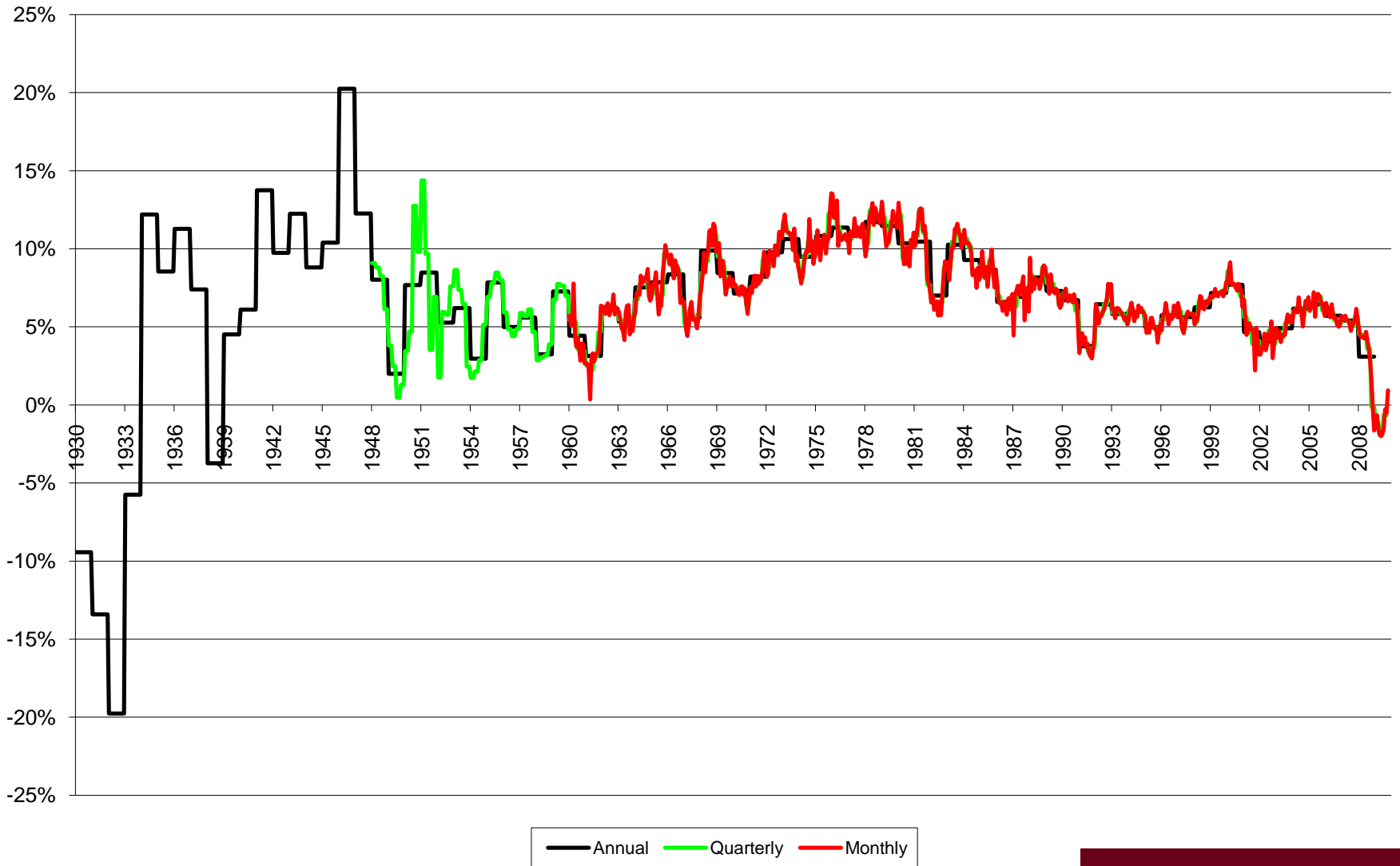
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National Economy

1929 vs. 2008

Nominal Personal Consumption Expenditures year over year percent change: National Data



Comparison with 1929

- Initial Shock was as great or greater
 - HH wealth fell about 3% from Dec 28 to Dec 29
 - HH wealth fell about 17% from Dec 07 to Dec 08 and precipitously in the fall of 08
- Both characterized by financial market panic
- Economy went into immediate free-fall thereafter in both cases

Comparison with 1929 cont.

Policy Response

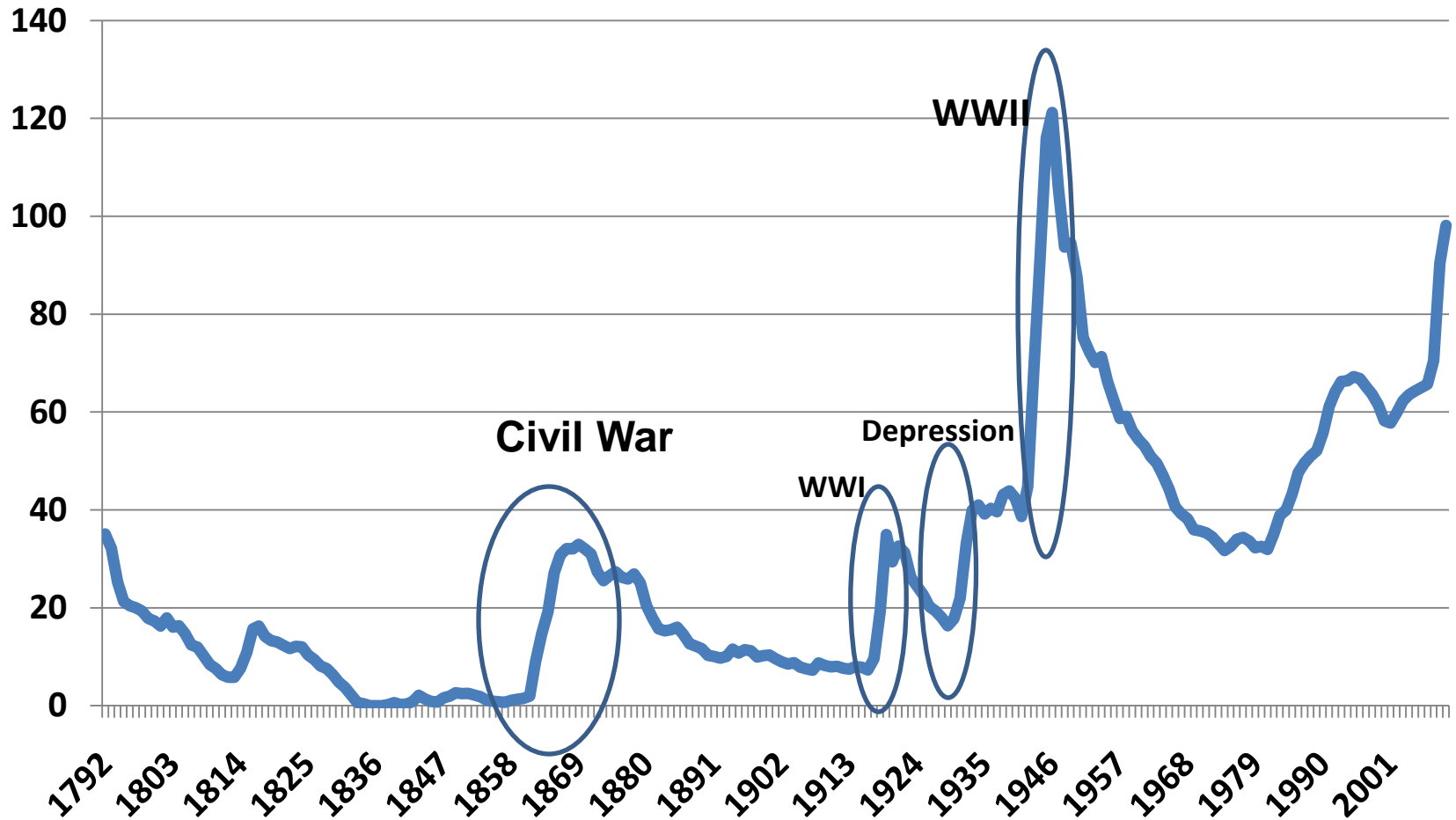
- 1929 Fed passive, no accommodation or action to save banks. Money supply contracted dramatically and credit evaporated
- 1931 raised interest rates to protect the Gold standard and raised taxes in 1932
- 2008 Activist Fed, aggressive monetary policy, TARP and fiscal stimulus injection
- ARRA was bigger, as a share of the economy than was any new deal program under Roosevelt

But what about all this debt

An Historical Perspective

Are there times in history when it makes sense to run up debt??????

Gross Public Debt-fed pct GDP

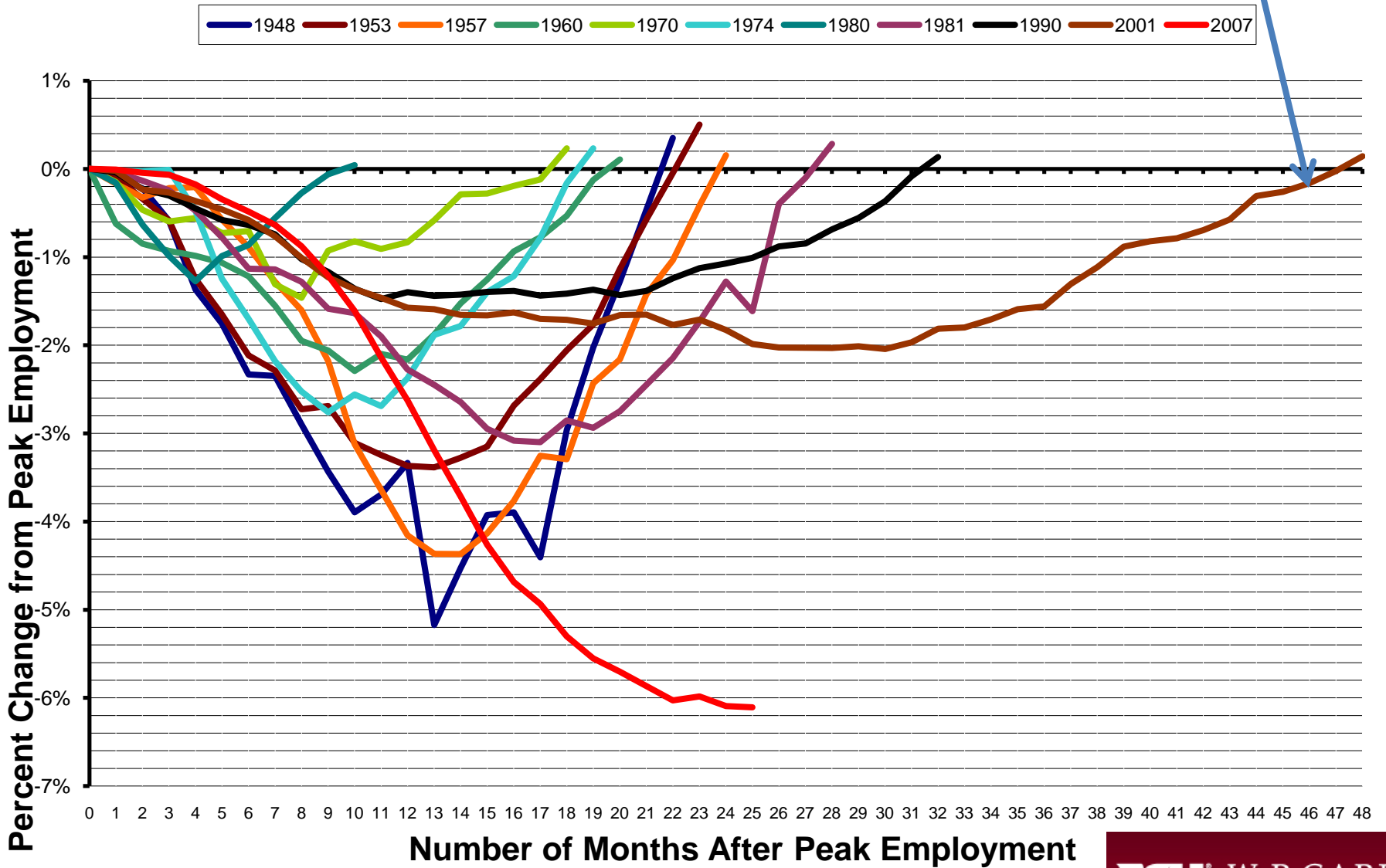


How Does this recession compare with prior ones

Perspectives on Employment

National Number of Months needed to surpass a peak in employment.

2001



National Headwinds

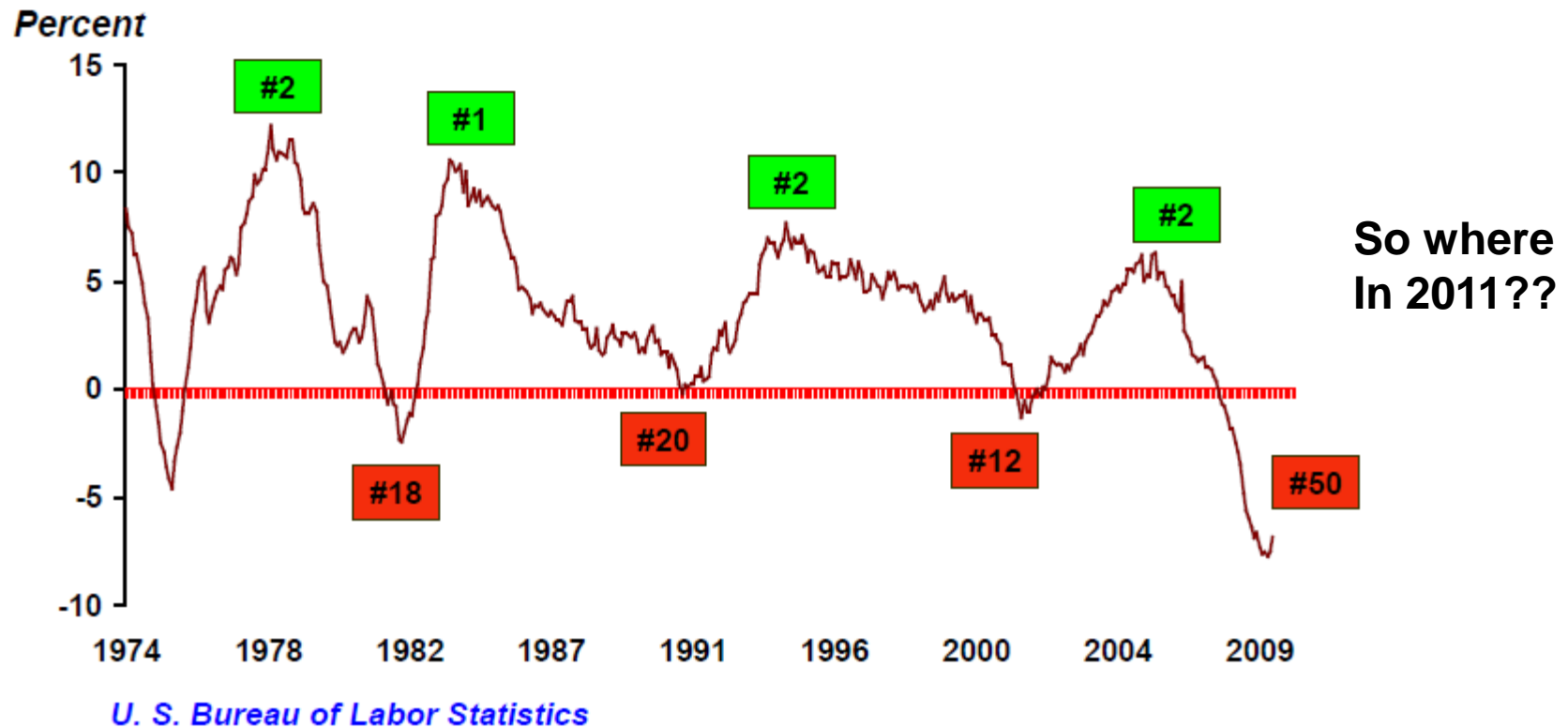
- Winding down government engagement – the exit strategy
- Political banter does not instill consumer and business confidence
 - Anti war protesters of the 60s
 - Tea Party Movement
- Geo-political shock -- e.g. another 911...
- The jobs mis-match challenge – skills vs. availability

Perspectives on Arizona Historically

We surge out of recessions

Is the old “bounce” formula still in place?????

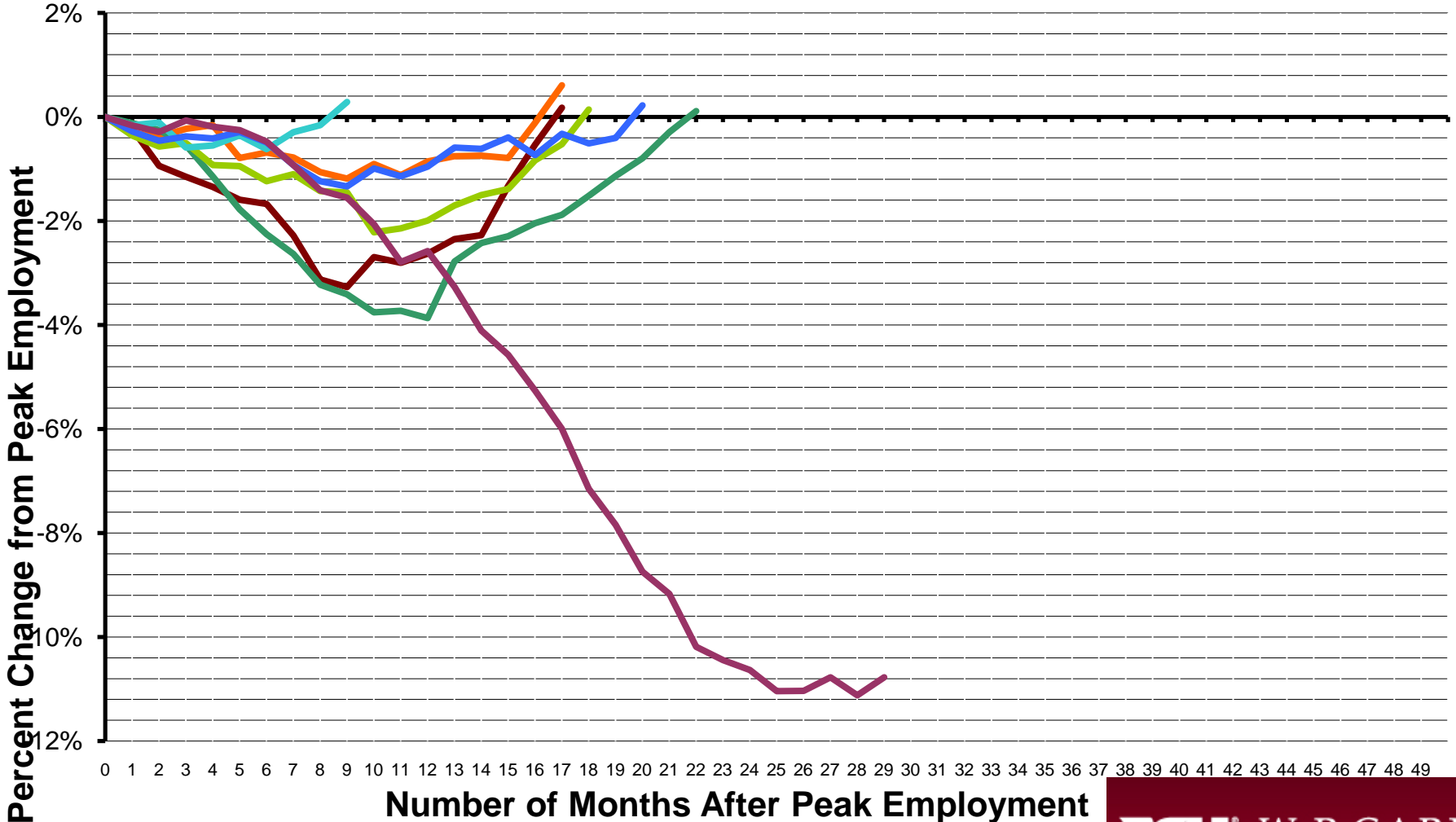
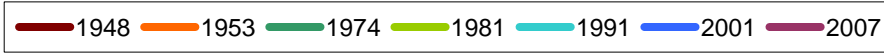
Arizona Comes Back From Recession (Employment Growth Rate & Ranking)



Arizona Doesn't have recessions

Until this one

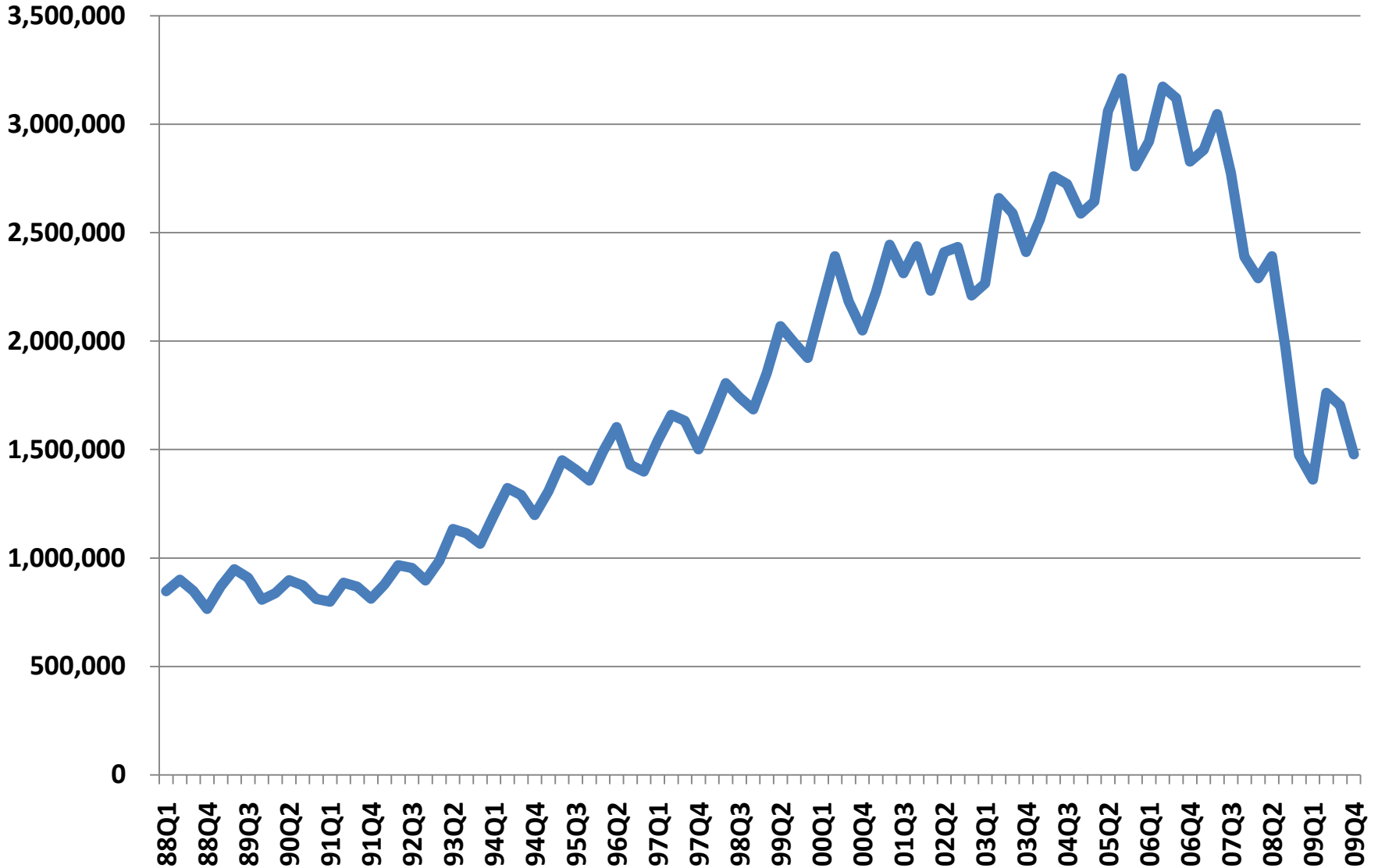
Arizona Number of Months needed to surpass a peak in employment.



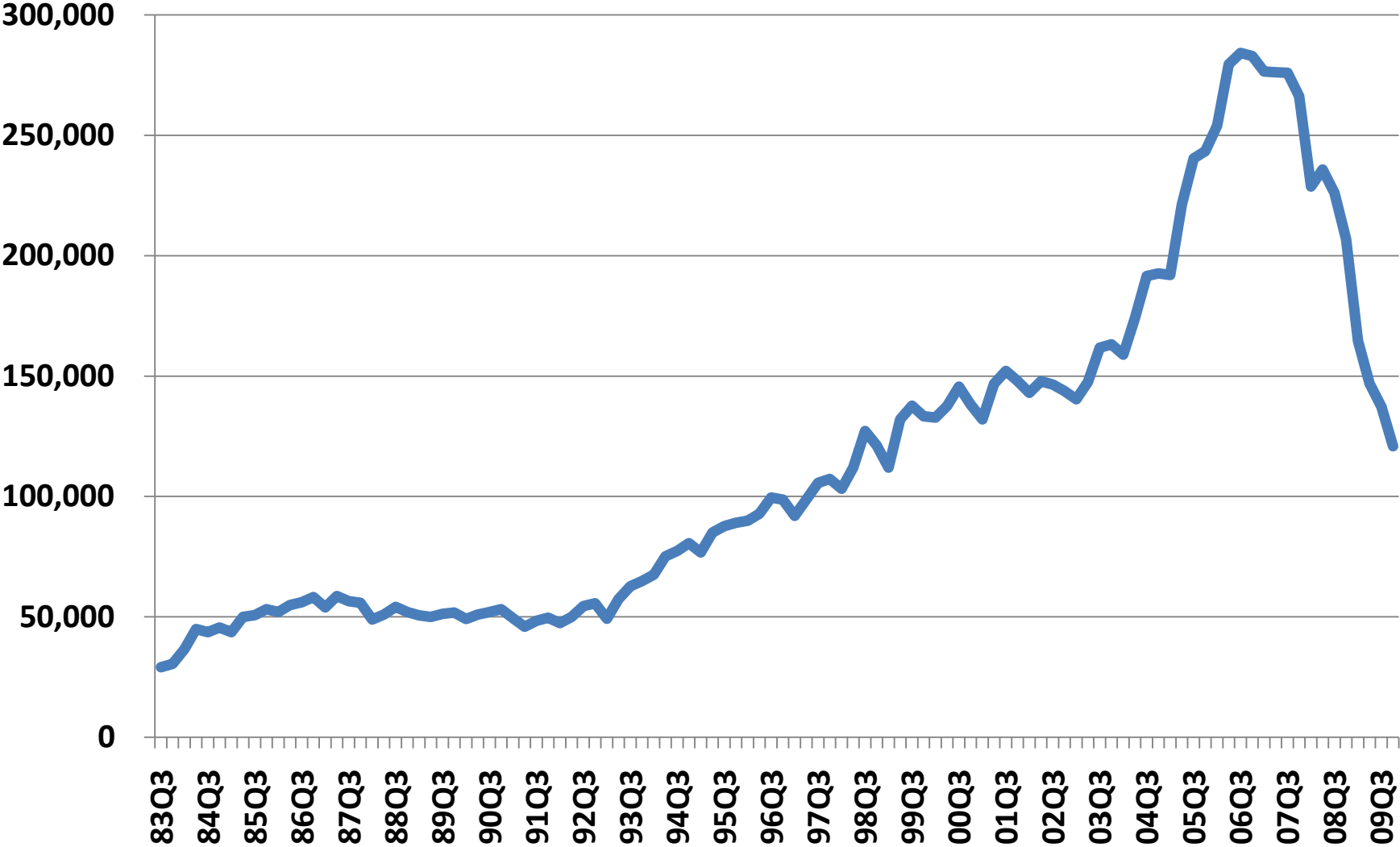
So part of Arizona's problem is that consumer spending as a share of income is at historical lows

- Incomes are down, unemployment is up, job losses are the worst since the great depression
- But the economy is clearly reacting to a wealth erosion of massive proportions and this wealth erosion has cratered spending plans
- Arizona has thrived on a healthy spending pace over the years.

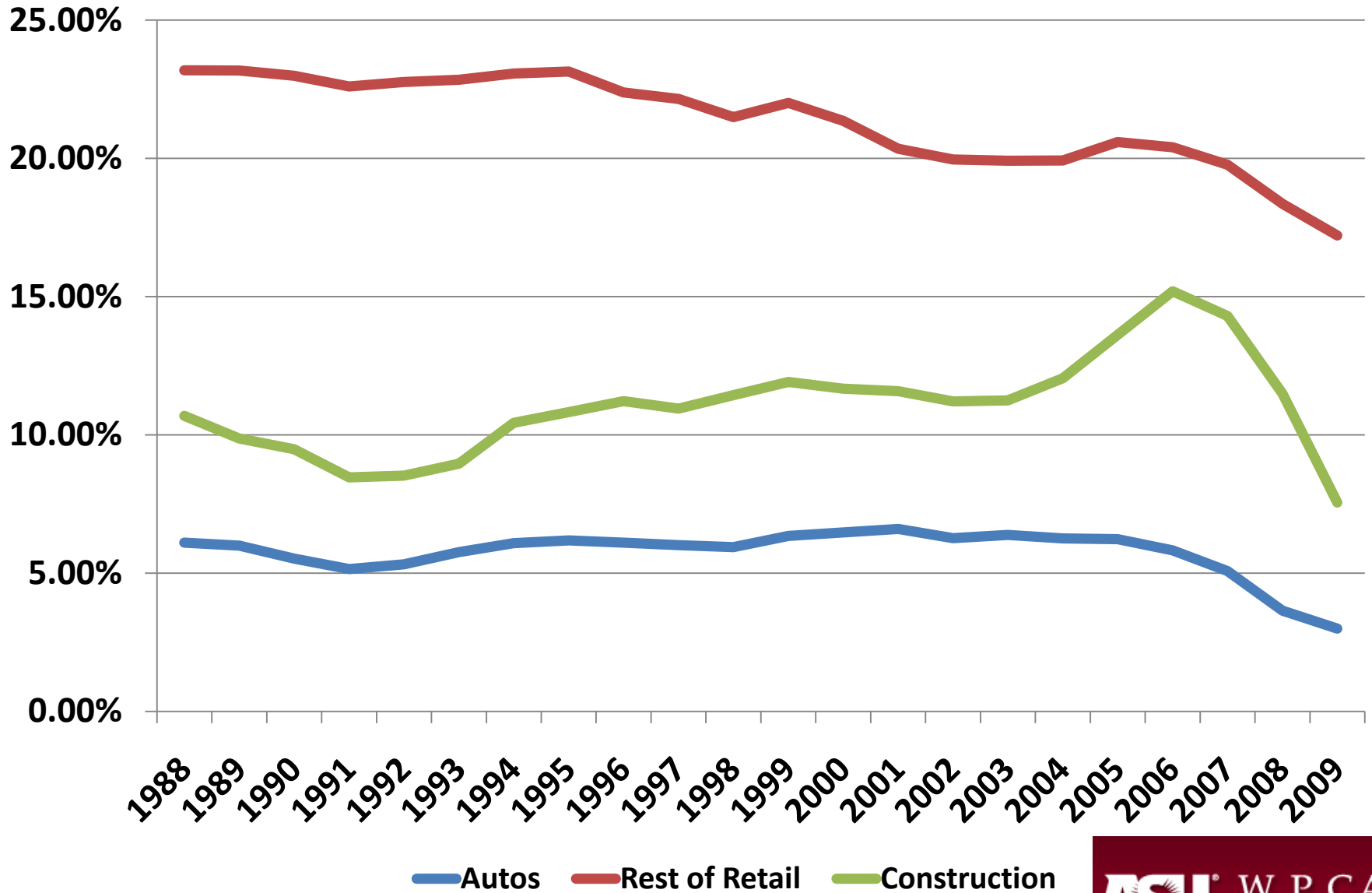
Spend Like its '98?? Autos/Parts: Retail Dollar Volume (current dollars per quarter in thous)



Spend like its '98??? Contracting Tax Revenues (Current Dollars per Quarter, thous.)



Taxable Purchases as a Share of Personal Income (each percentage point is worth about \$2 billion dollars)



So what does this mean for the AZ State Budget

Revenue growth is fine as long as the
State Grows

Arizona Revenues are not sustainable in a flat economy

FY	PI Growth*	GF Rev Growth	TPT Growth	Ind Inc Tax Income Growth	Corp Tax Growth
1992-2000	88.95%	72.64%	86.43%	85.07%	147.43%
2000-2007	67.86%	60.85%	60.29%	63.18%	88.49%
2007-2010	0.60%	-31.99%	-22.55%	-36.00%	-51.33%

This table conveys the problems with Arizona's revenue structure. When the State grows, so do revenues. When the State stops growing revenues are not simply flat, They plummet while expenditure demands²⁰ for basic services remain.

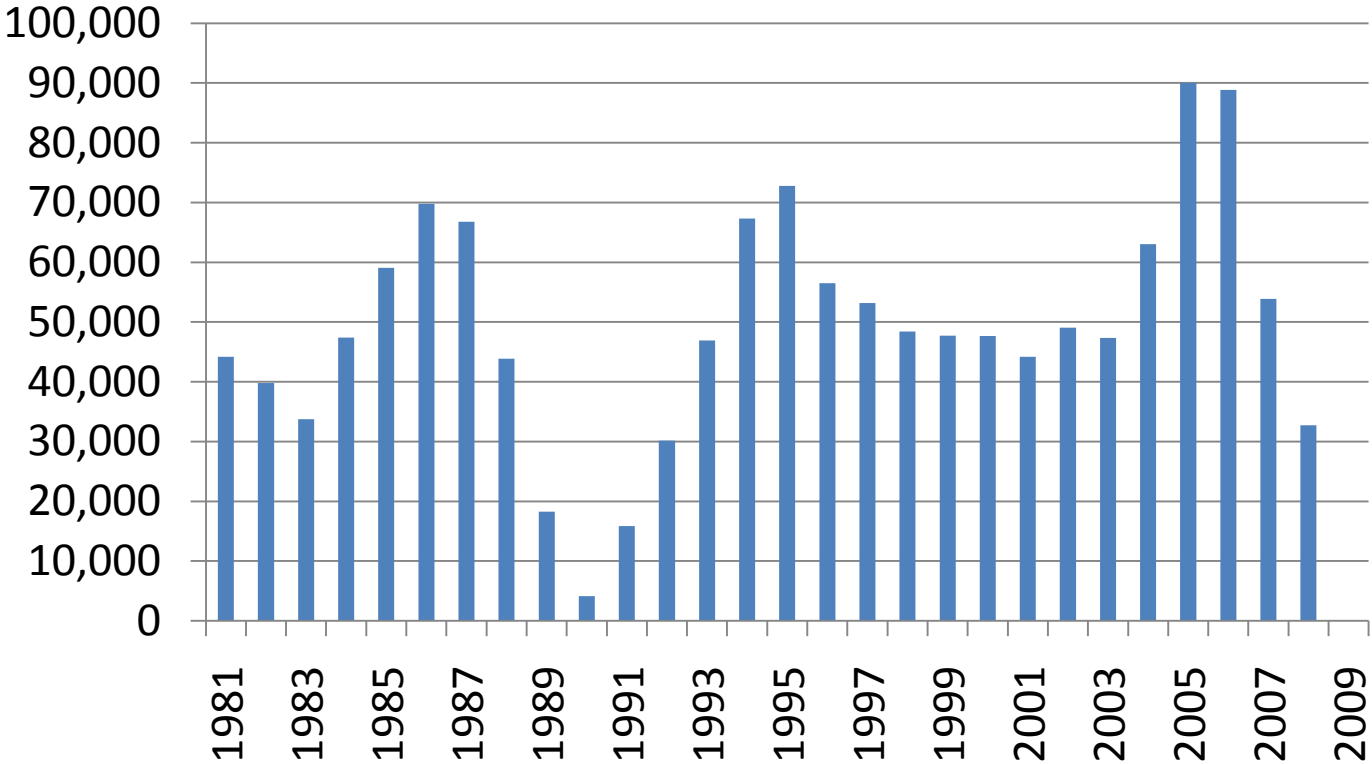
Domestic In-Migration, the People Magnet Factor

- We have been among the nations leaders in population growth for decades
- Our tax structure is optimally suited to reap tax receipts as this magnetism works its magic
 - New house
 - New car
 - New furniture
 - Capital Gains, income and property tax base expands
 - Population growth serving businesses flourish
- Is it sustainable????????????????

A look at this magnetism historically

Parallels 1990 and 2009

net domestic migration to Arizona



Arizona Growth, Revenue Collection and Domestic In-Migration: What exactly is the relationship here? What causes what?

Perspectives on May 18

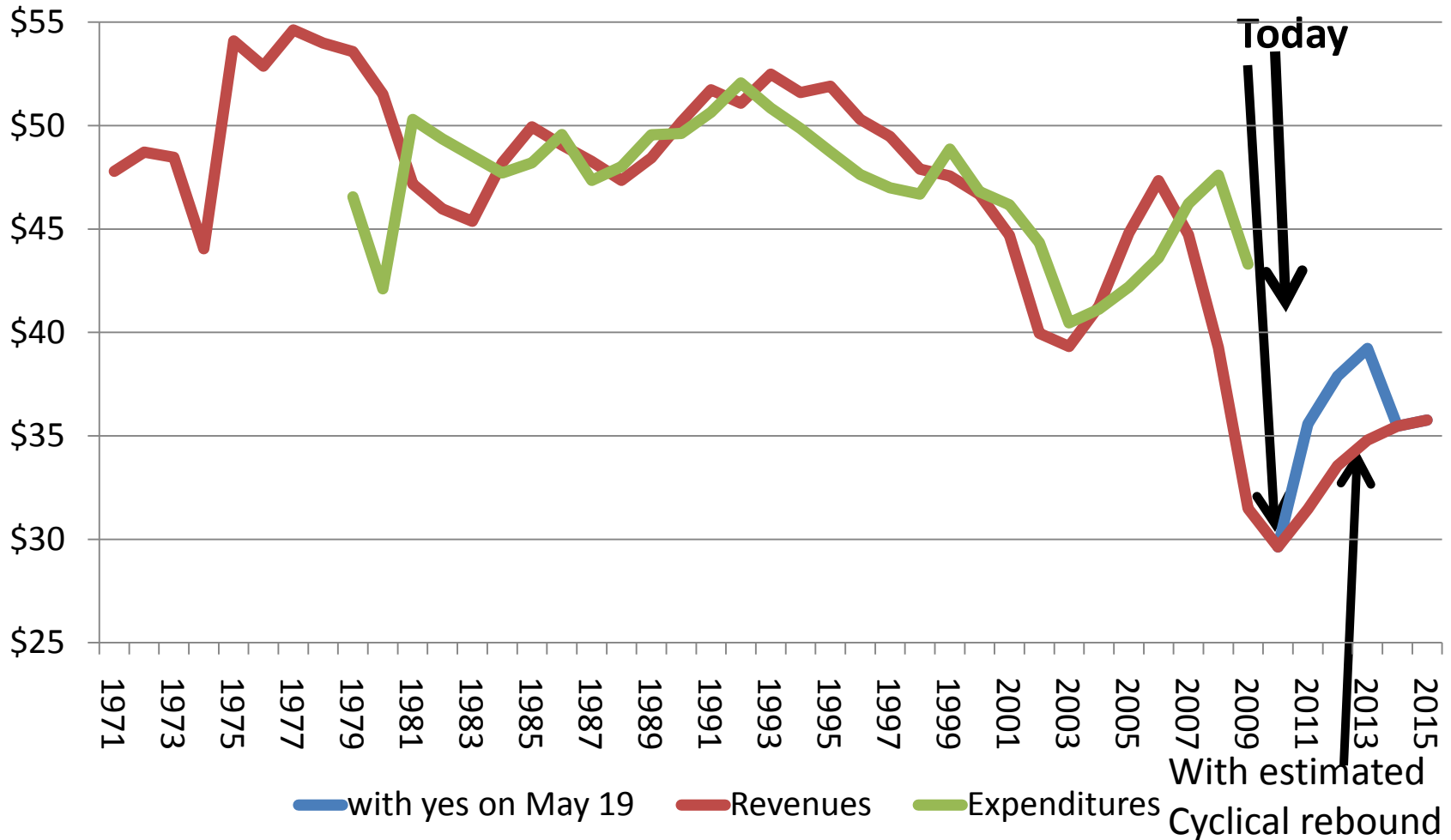
An opportunity for people to pay for the public services they apparently want, or not..

Issues to Contemplate regarding taxes

- Tax burdens were considerably higher through out much of AZ's history and we grew rapidly.
- Fundamentally, why shouldn't people pay for services they apparently want?
- Individual burdens are very low in this state
 - \$100k 3 person family pays \$6300 in combined S&L taxes
 - \$75k 3 person family pays \$4200 in combined S&L taxes
- Our biggest challenge and biggest opportunity is in education and it will take money to deal with it.

What the budget could look like

Revenues and Expenditures per \$1000 of Personal Income



For Arizona: A Perspective on Opportunities and Threats

- Opportunities
 - Traditional magnetism (climate, affordability, jobs)
 - Generally business friendly
 - Growth comes at us suddenly.
- Threats
 - Employer sanctions
 - Consumption boom over
 - Housing overhang
 - Fiscal house is not in order

So Phoenix, and all of AZ: Is the boom now bust, again??

- Let's remember 1990
 - Housing had collapsed. Experts said we needed no more commercial space for years
 - The Feds, through the RTC, were screwing up everything so fingers were pointed at Washington
 - The state's fiscal situation was so bleak that we raised taxes significantly
- So what happened? These events were followed by some of the fastest growth in the state's history.
- So you tell me? Will history repeat?