The Land of Common NonSense

To:

17th Annual Ag Forum

By:
Jim Rounds, Senior Vice President
Elliott D. Pollack & Company

February 22nd, 2013

Context

The economy we wanted…

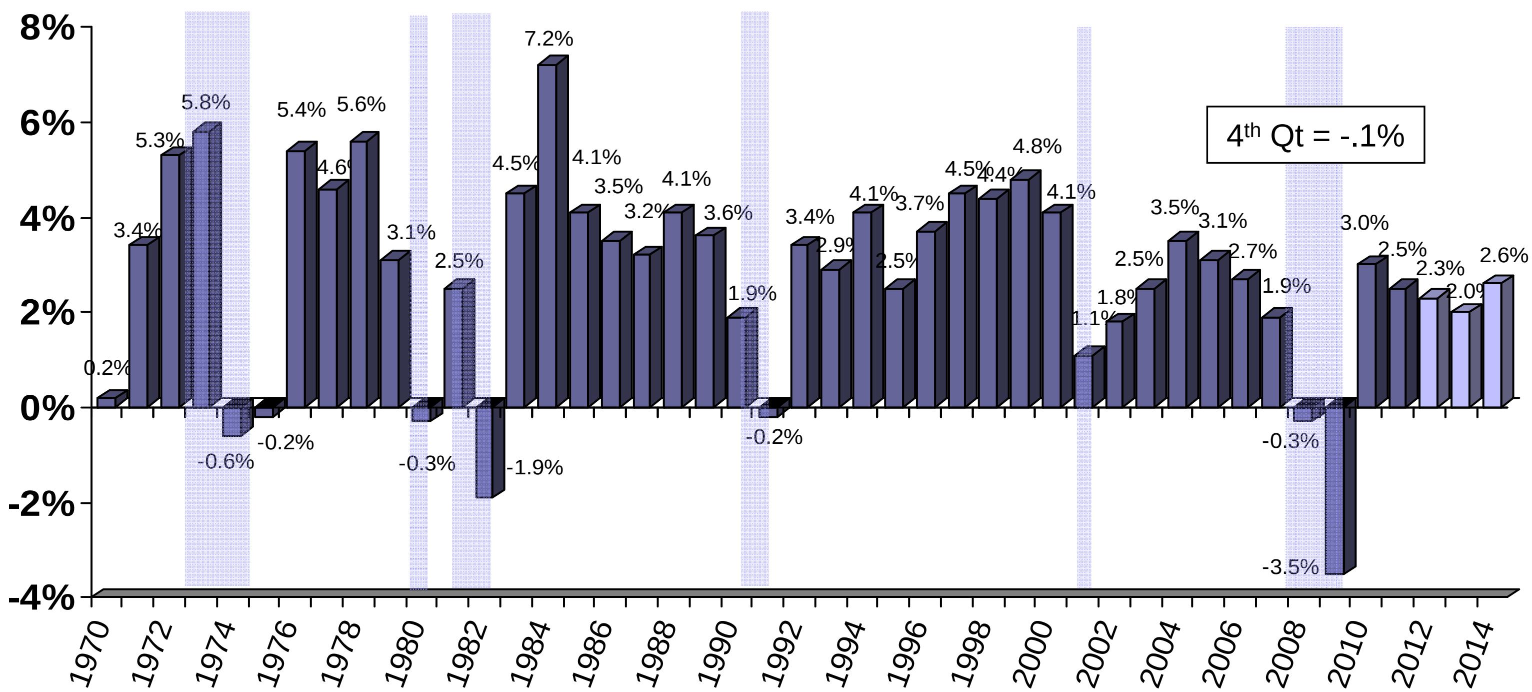
Two years ago…

Last year…

United States Real Gross Domestic Product*

Annual Growth 1970 - 2014**

Source: U.S. Bureau of Economic Analysis & *Blue Chip Economic Indicators*



* Based on chained 2005 dollars.

** 2012 - 2014 are forecasts from the Blue Chip Economic Indicators, January 2013

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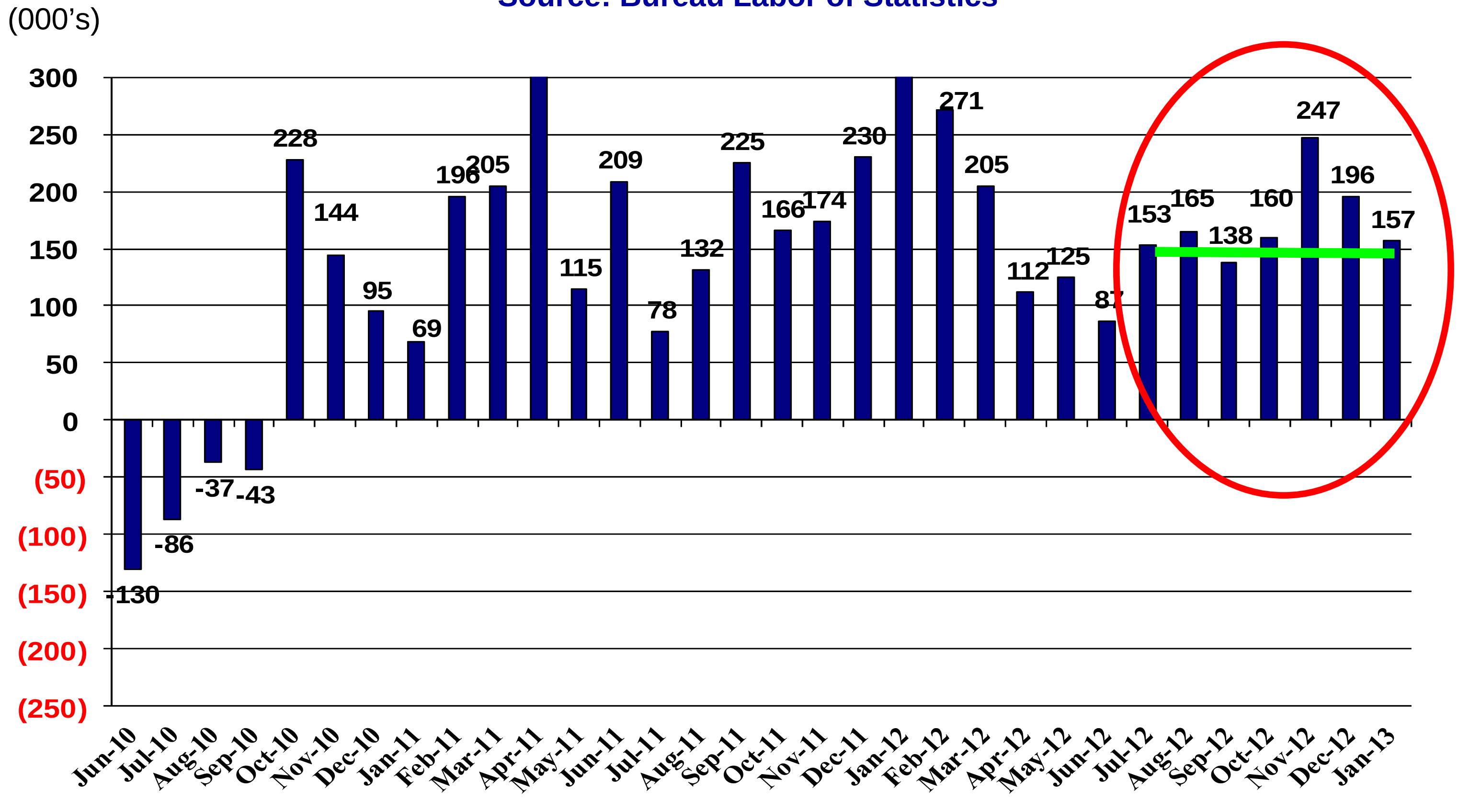
Worried about GDP? No.

- Spending boost followed by budget cuts,

- Inventories.

US New Job Data
Change from Prior Month (S/A)
June 2010 – January 2013
Source: Bureau Labor of Statistics



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U.S. Unemployment Rate
1976 – 2013*

Source: Bureau of Labor Statistics

*Data through January 2013

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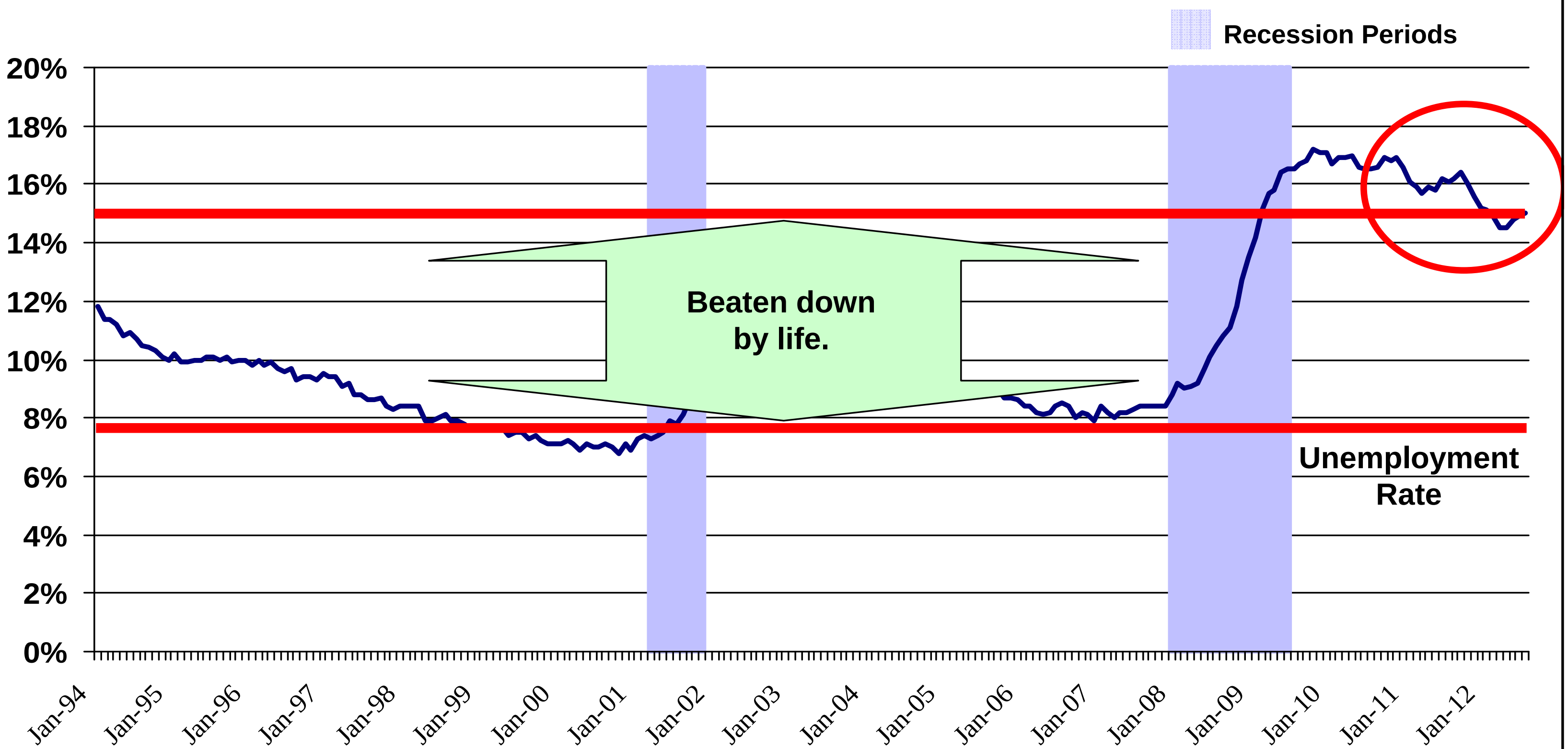
U.S. Underemployment Rate

1994 – 2012*

Source: Bureau of Labor Statistics



*Data through August 2012

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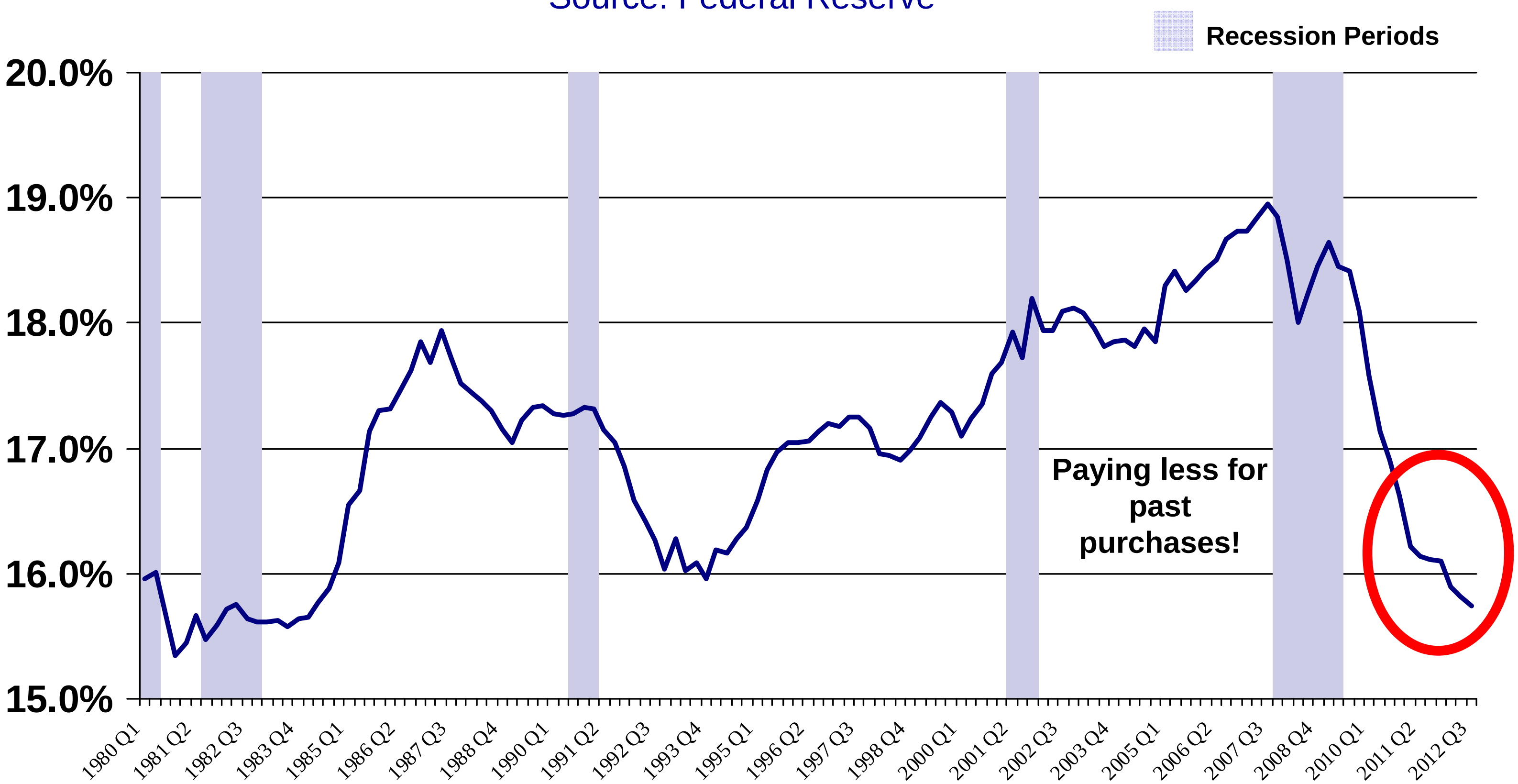
Financial Obligation Ratio**
1980 – 2012*

Source: Federal Reserve



*Data through third quarter 2012

**Ratio of mortgage and consumer debt (including auto, rent and tax payments) to disposable income.

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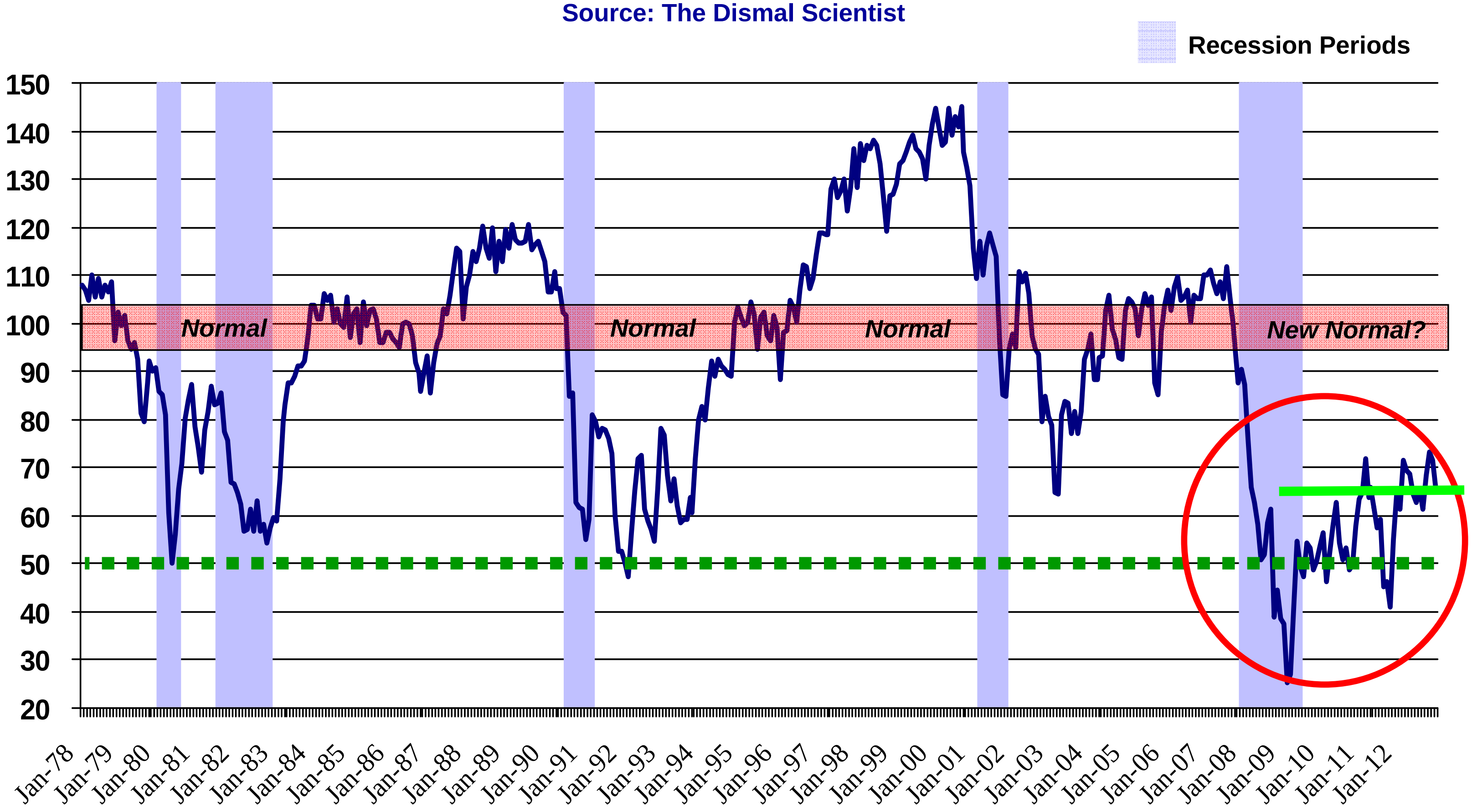
Consumer Confidence

1978 – 2012*

Source: The Dismal Scientist



*Data through December 2012

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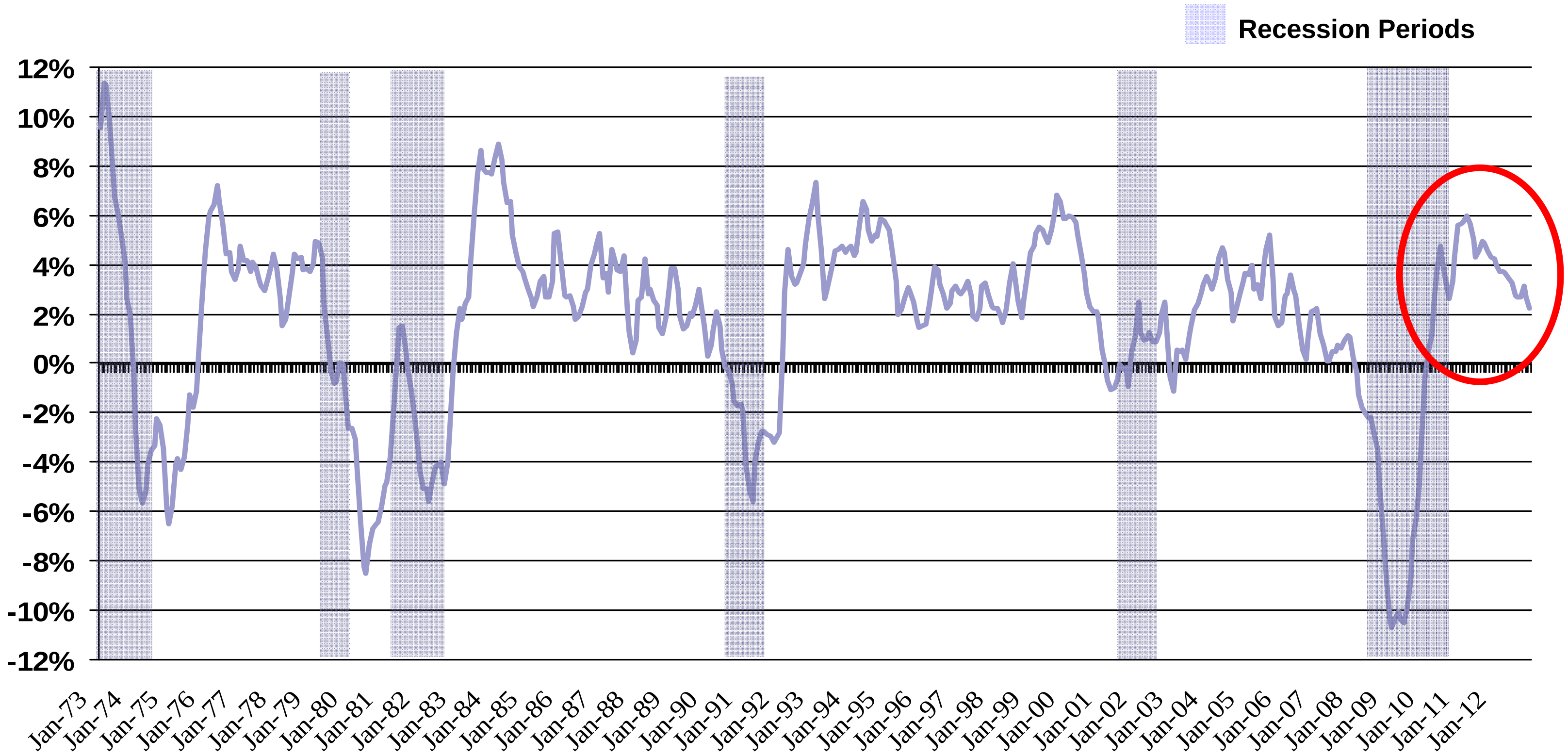
Real Retail Sales U.S.
Percent Change Year Ago
1973 – 2012*

Source: Federal Reserve



*Data through November 2012

**Three-month moving average

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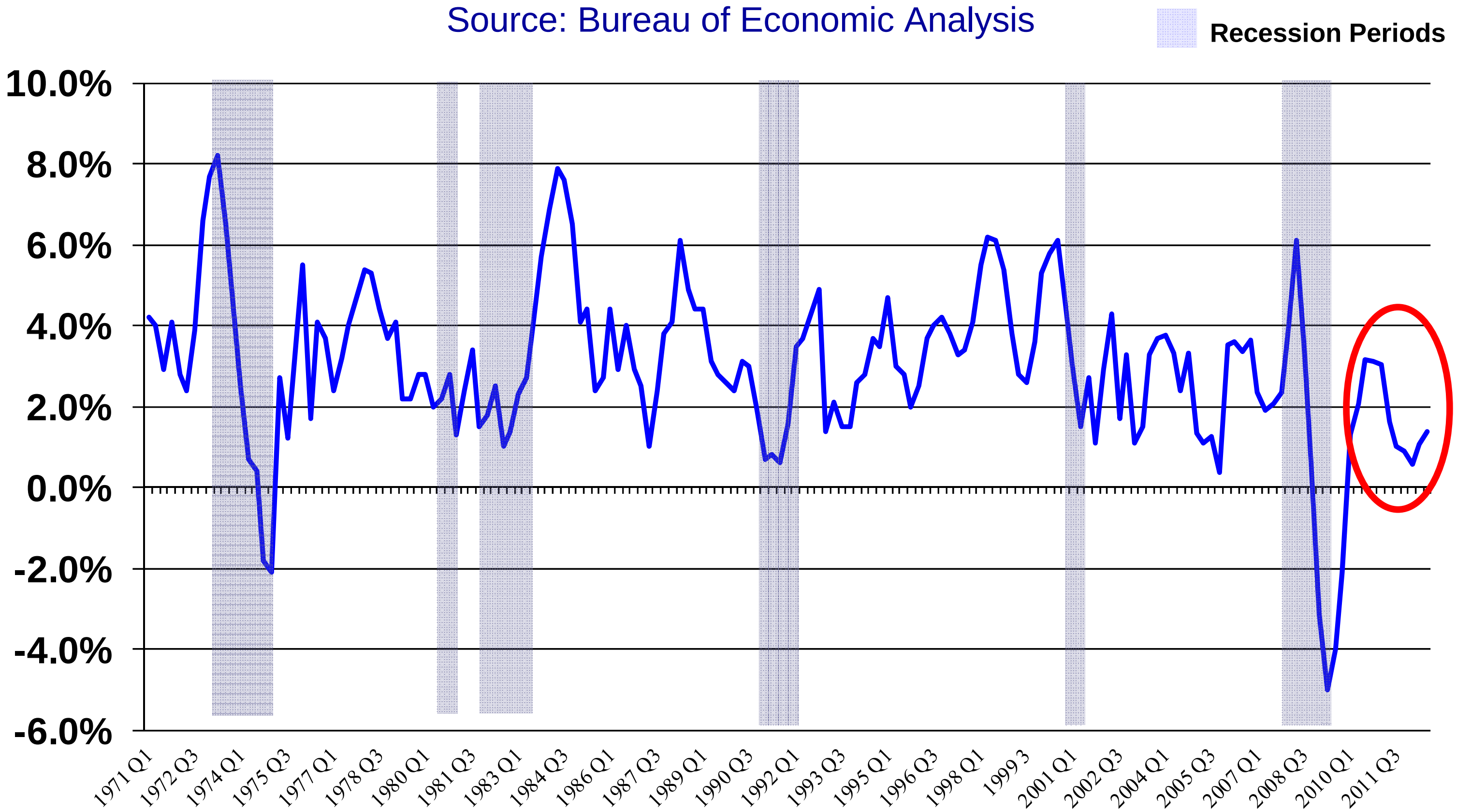
Real Disposable Personal Income
Percent Change Year Ago
1971 – 2012*

Source: Bureau of Economic Analysis



* Data through third quarter 2012

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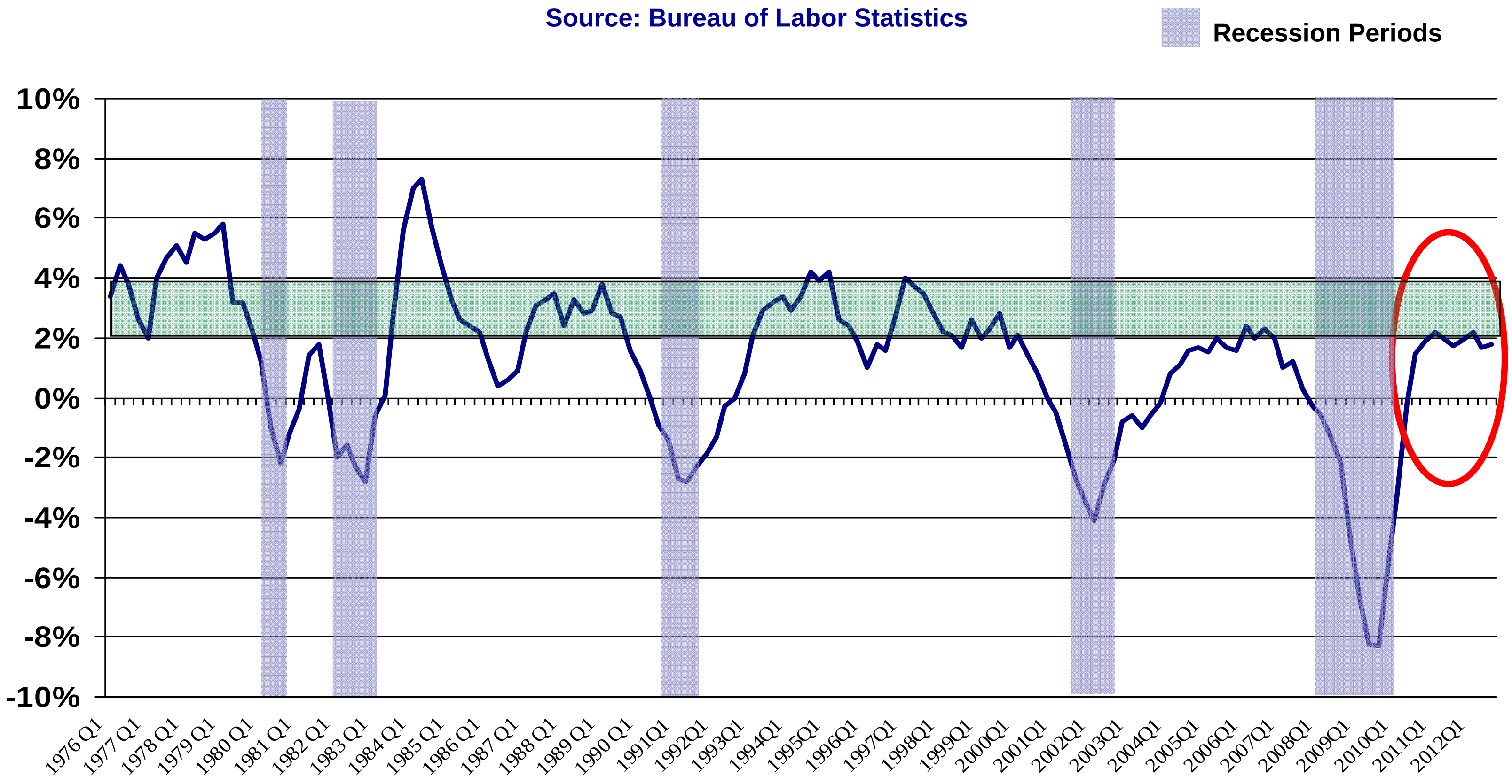
Hours Worked
Percent Change from Year Ago
1976 – 2012*

Source: Bureau of Labor Statistics



*Data through third quarter 2012

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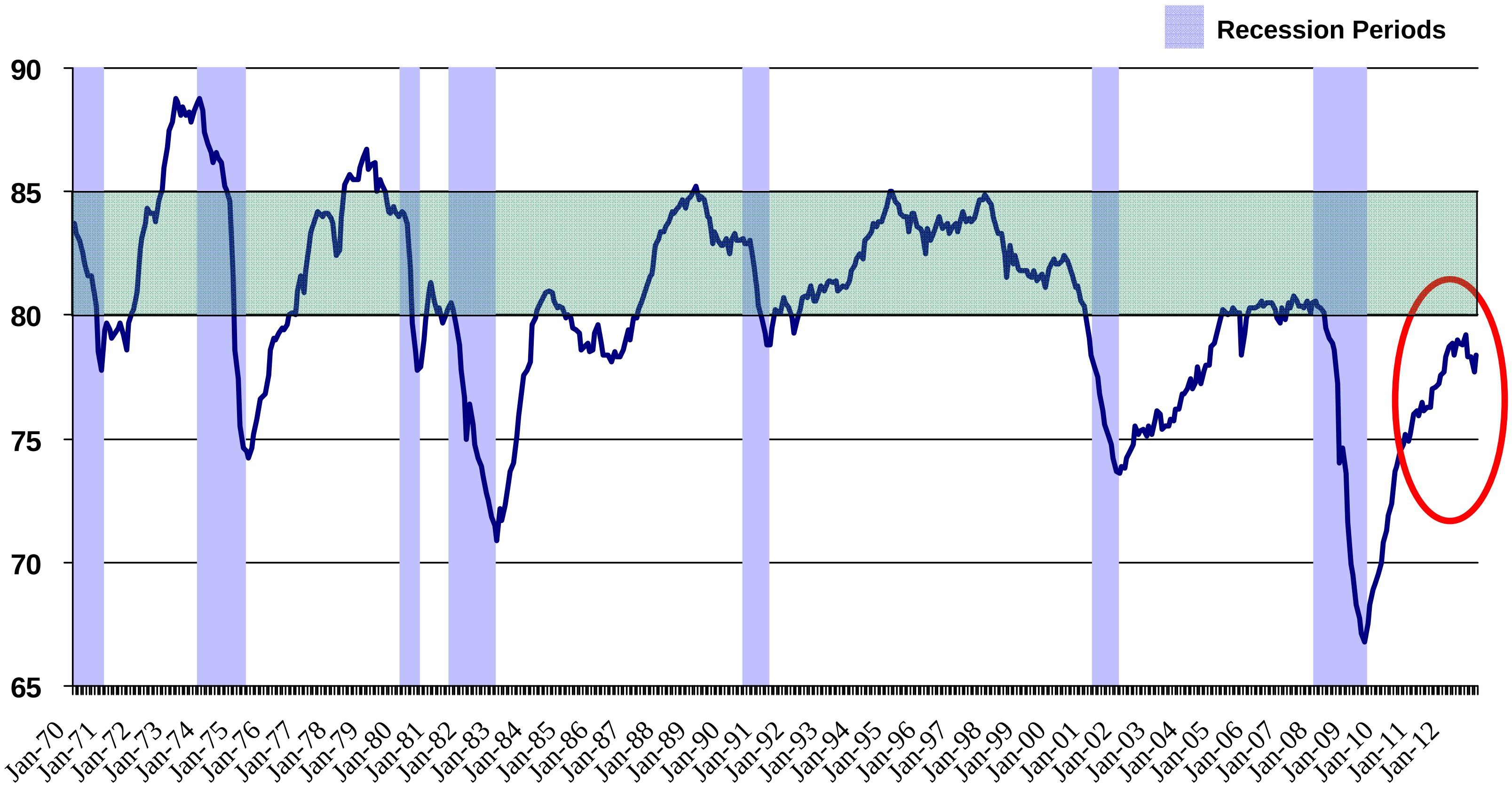
Capacity Utilization Rate
1970 – 2012*

Source: The Federal Reserve Bank of St. Louis



*Data through November 2012

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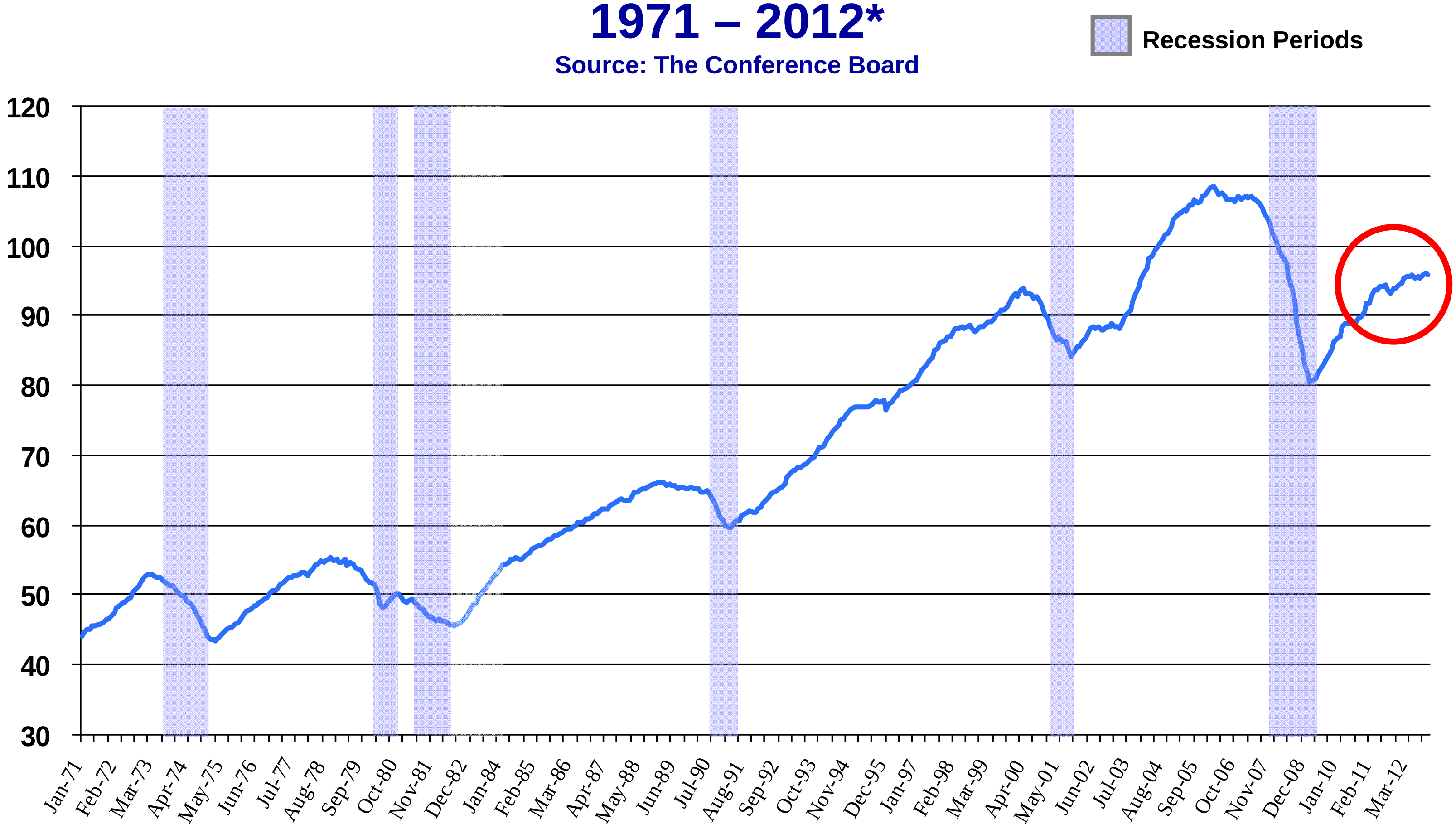
U.S. Leading Indicators
1971 – 2012*
Source: The Conference Board



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*Data through November 2012

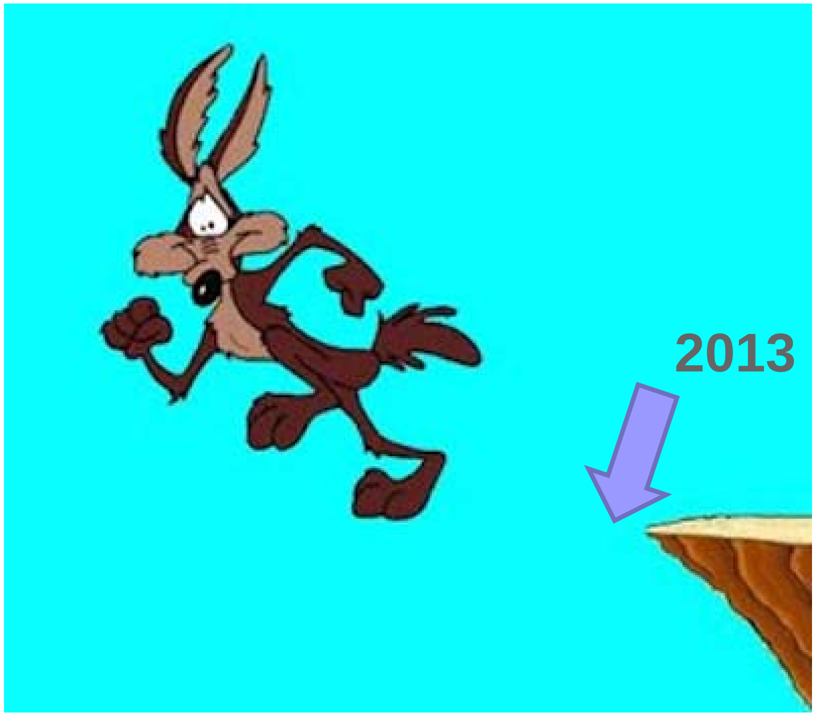
NATIONAL ECONOMY –

Continued subpar growth.
But, recovery should continue.

(unless the Federal Gov't does something stupid…)

Government

FISCAL CLIFF ?



Recession?
No.

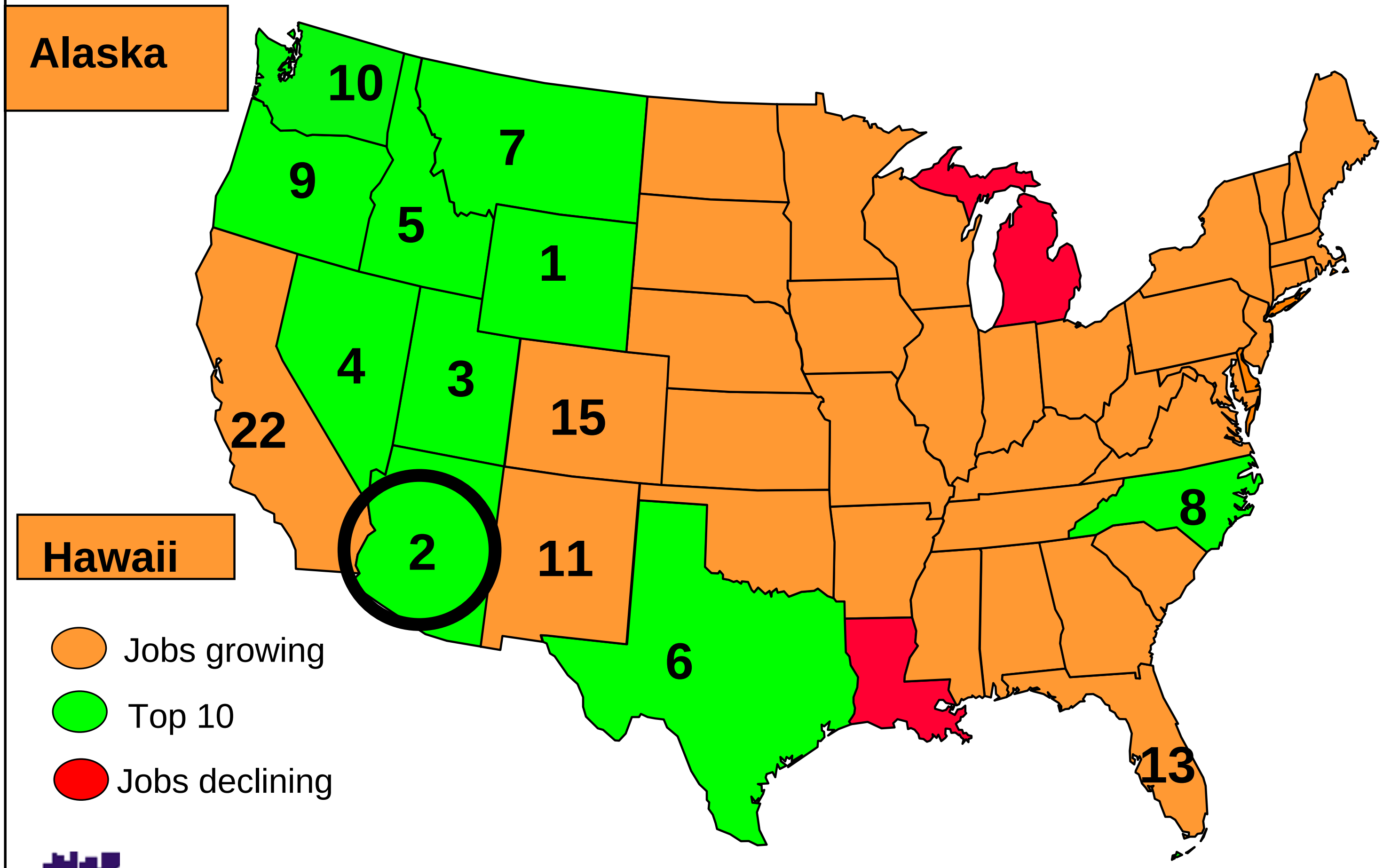
Slow growth?
Yes.

Kicking the can…
Yes.

Arizona

Job Growth 2006

Source: US BLS



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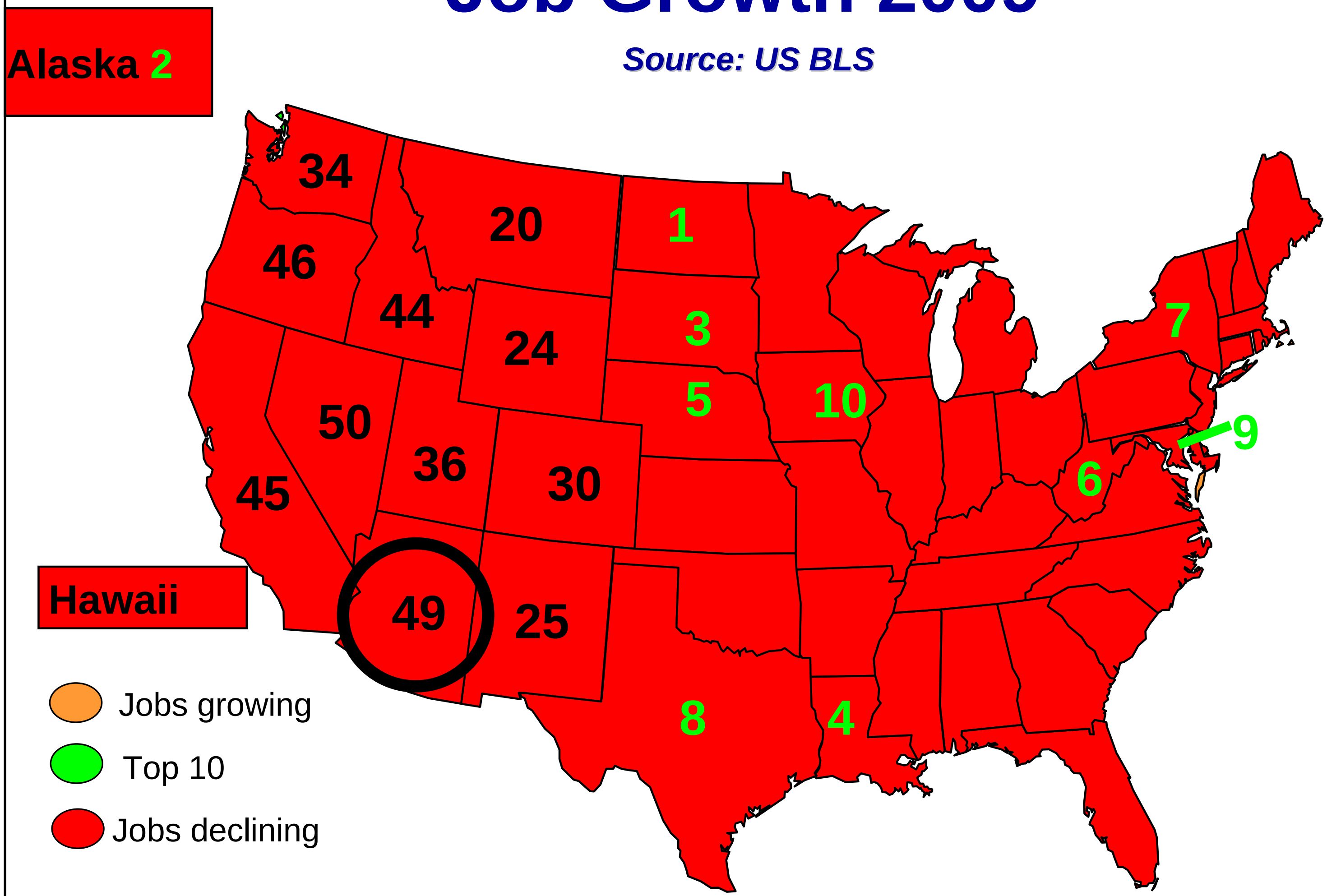
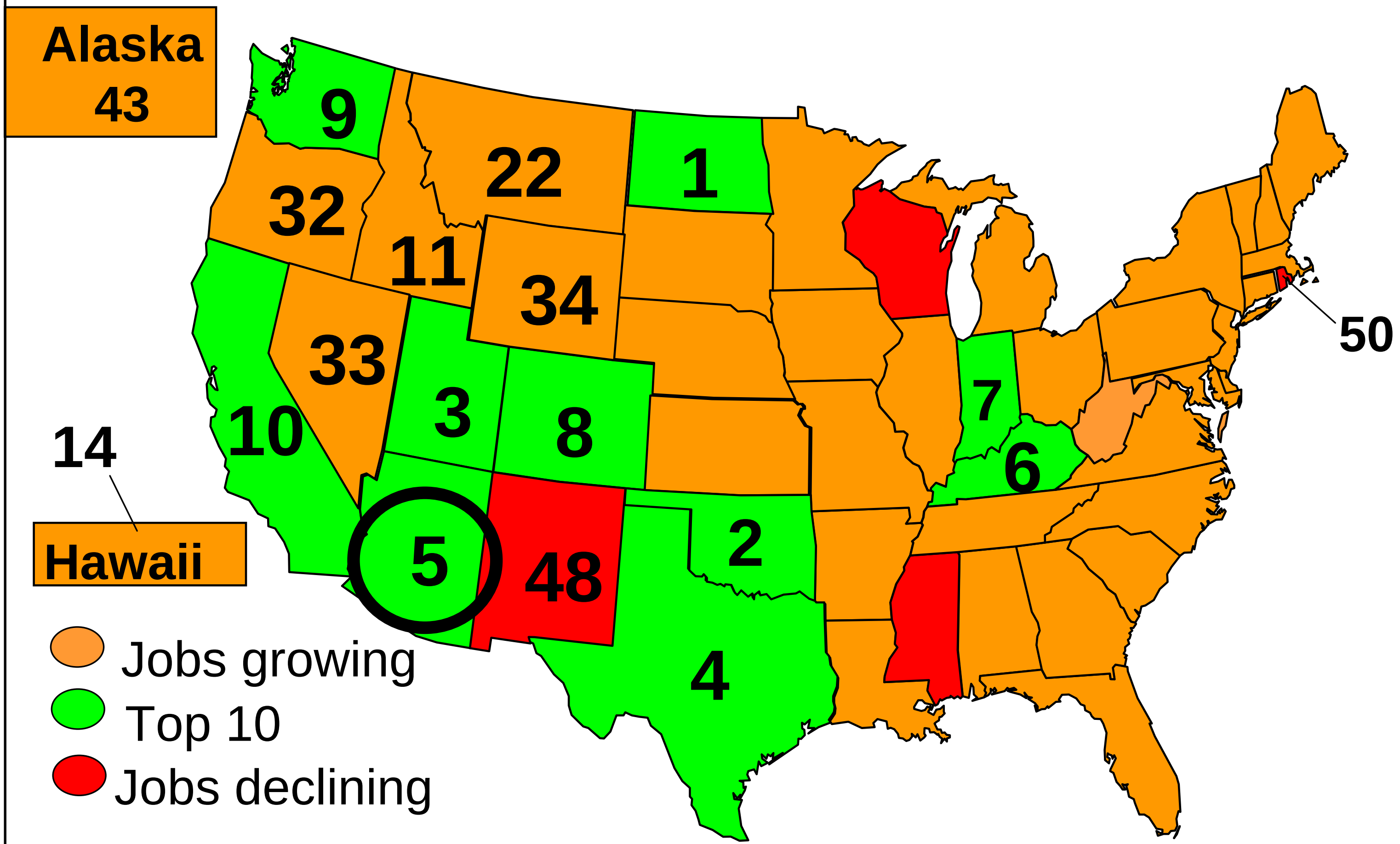
Job Growth 2009

Source: US BLS



Job Growth 2012

Source: US BLS



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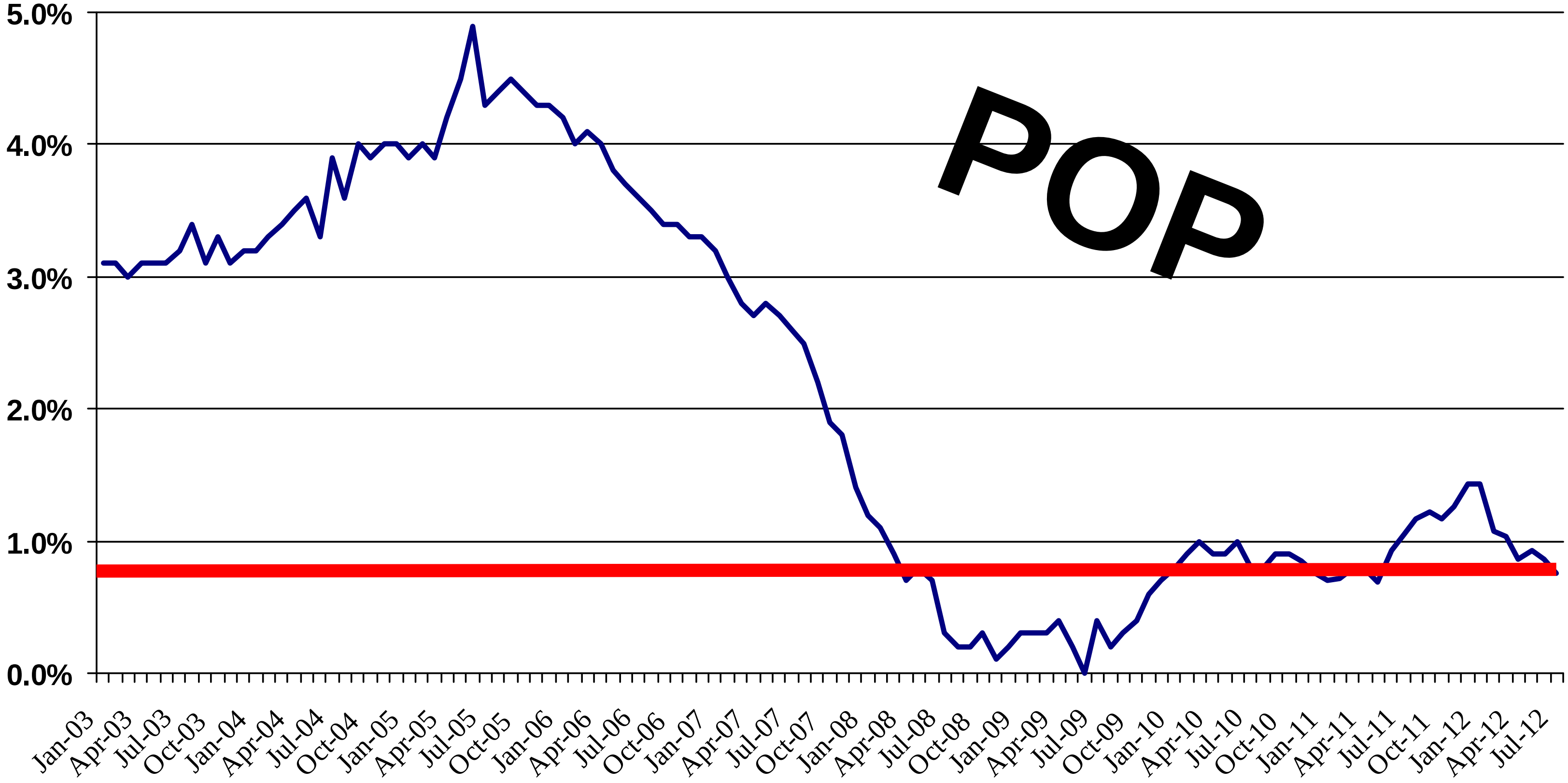
SRP Residential Utility Hookup Percentage Growth
Greater Phoenix 2003 – 2012*

Source: SRP



*Data through July 2012.

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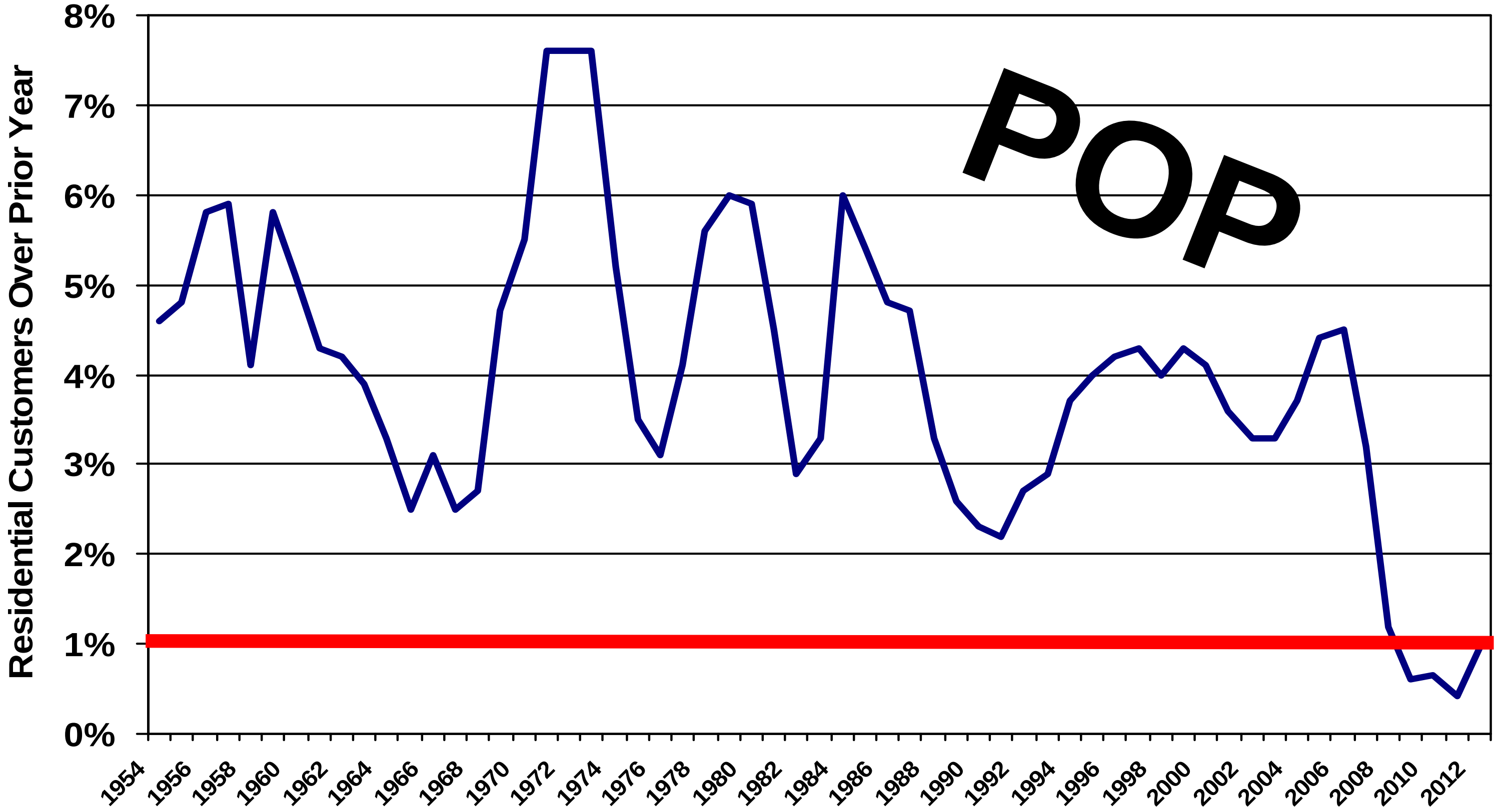
APS: Slowest Growth in over 50 years
1954 – 2012*



*Data through third quarter 2012
Source: APS

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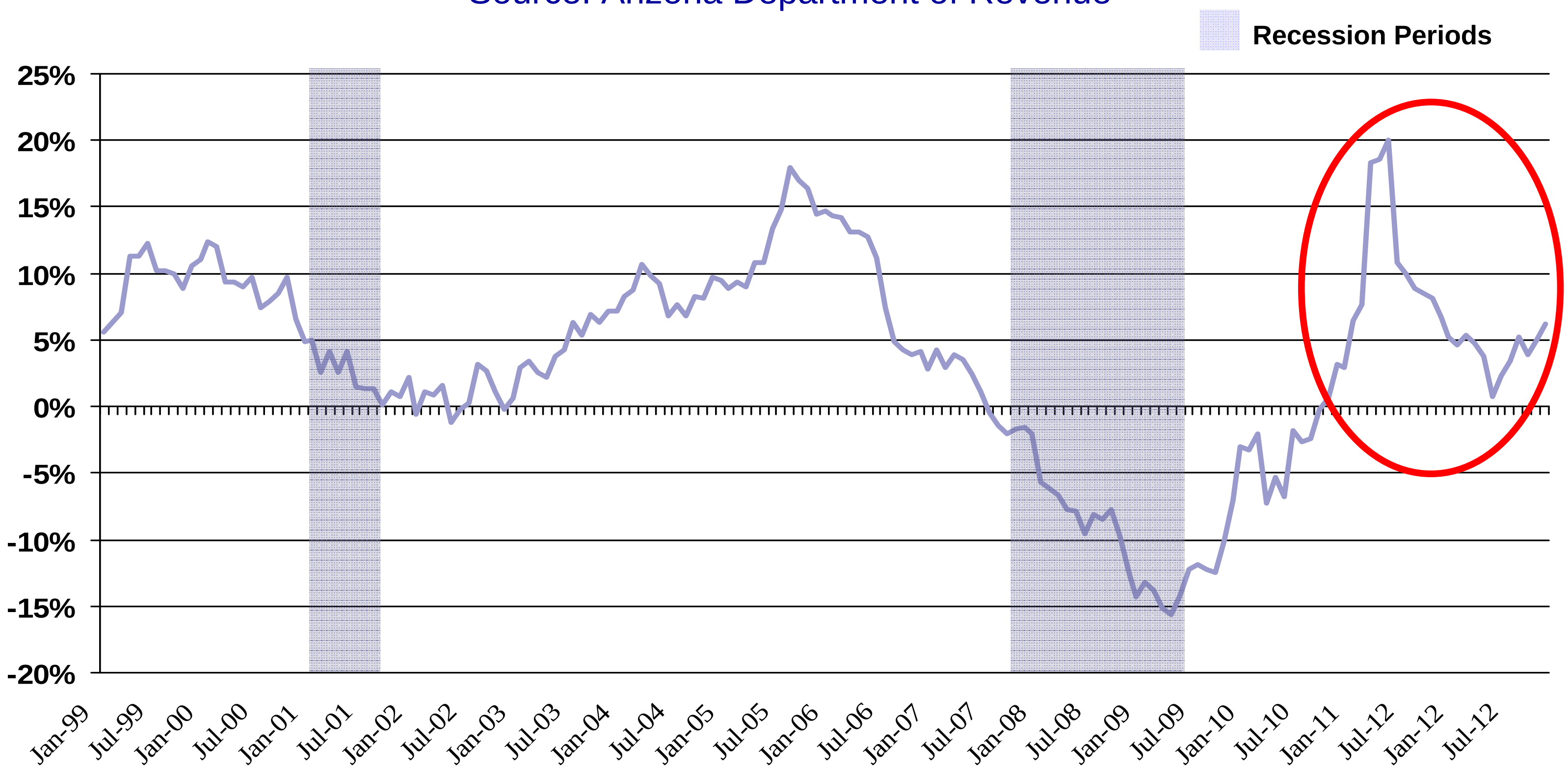
Arizona Retail Sales
Percent Change Year Ago*
1999 – 2012**

Source: Arizona Department of Revenue



*Data through November 2012
**3-month moving average

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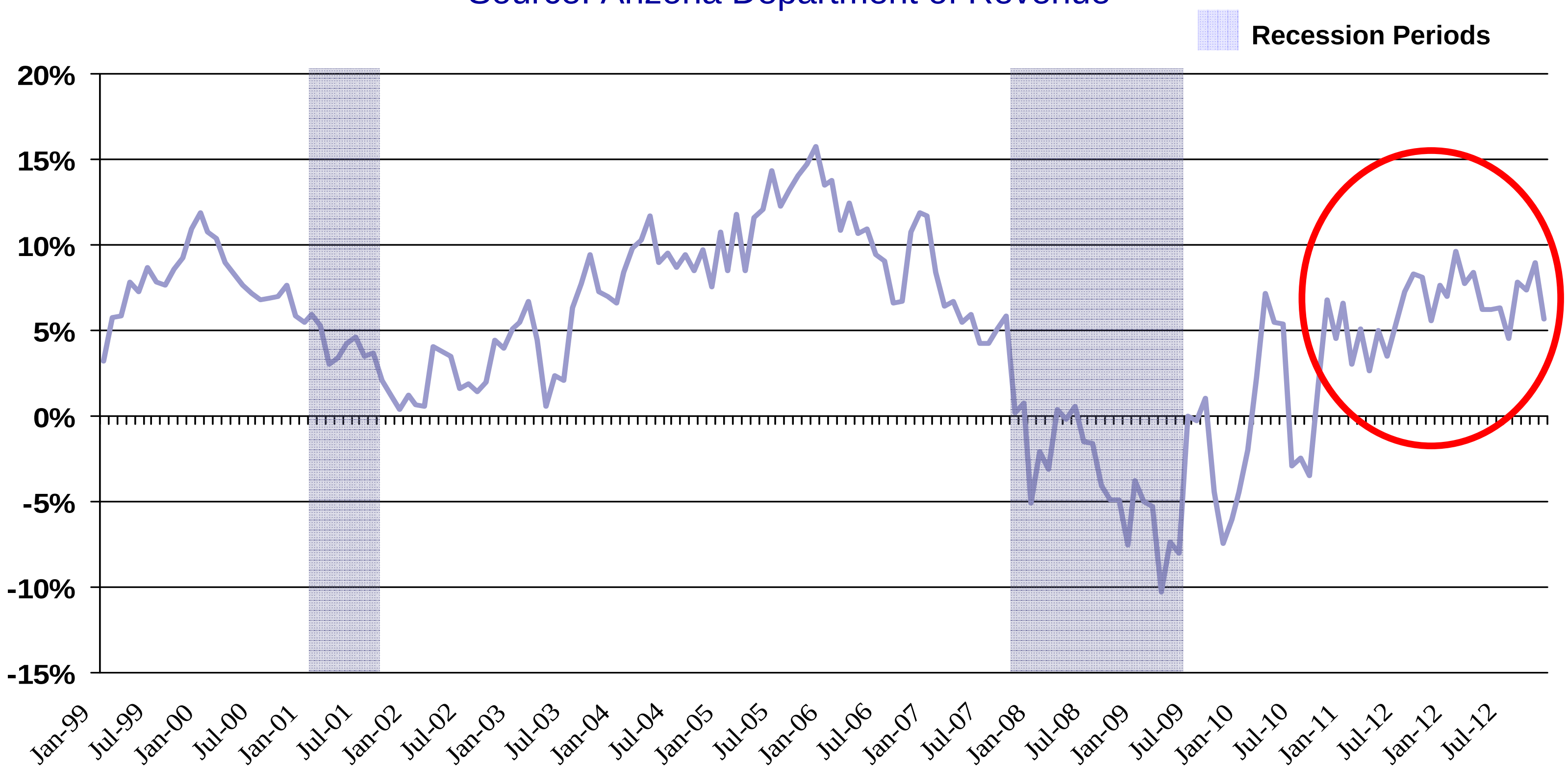
Arizona Restaurant and Bar Sales
Percent Change Year Ago*
1999 – 2012**

Source: Arizona Department of Revenue



*Data through November 2012
**3-month moving average

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FISCAL CLIFF IN ARIZONA?

Projected Net Job Growth:

2013 = 73,600

2014 = 88,500

= 162,100

FISCAL CLIFF IN ARIZONA?

If the mandated spending cuts take place, total loss to Arizona is projected at: 45,000 to 50,000 jobs.

We will still grow, but very slowly. Remember, the "worst case" is not the most likely scenario.

Addl. Detail: Greater Phoenix

Greater Phoenix Employment*

Source: Bureau of Labor Statistics

Sectors in Decline	Net Change
Information	-600
Natural Resources & Mining	-100

Sectors Improving	Net Change
Professional & Bus Services	9,700
Education & Health Services	9,700
Trade, Transp, Utilities	9,600
Leisure & Hospitality	6,200
Government	5,300
Construction	5,200
Financial Activities	3,500
Manufacturing	2,400
Other Services	900

*Dec. 2012/ Dec. 2011

Arizona-
Jobs in the Black

Over last 12 months:	63,900
12 months before that:	22,900
12 months before that:	7,000
12 months before that:	(160,500)
12 months before that:	(138,100)

* As of December 2012

Arizona Jobs

Source: BLS

Jobs lost Peak to Trough: 300,800
(Dec-07) (Jul-10)

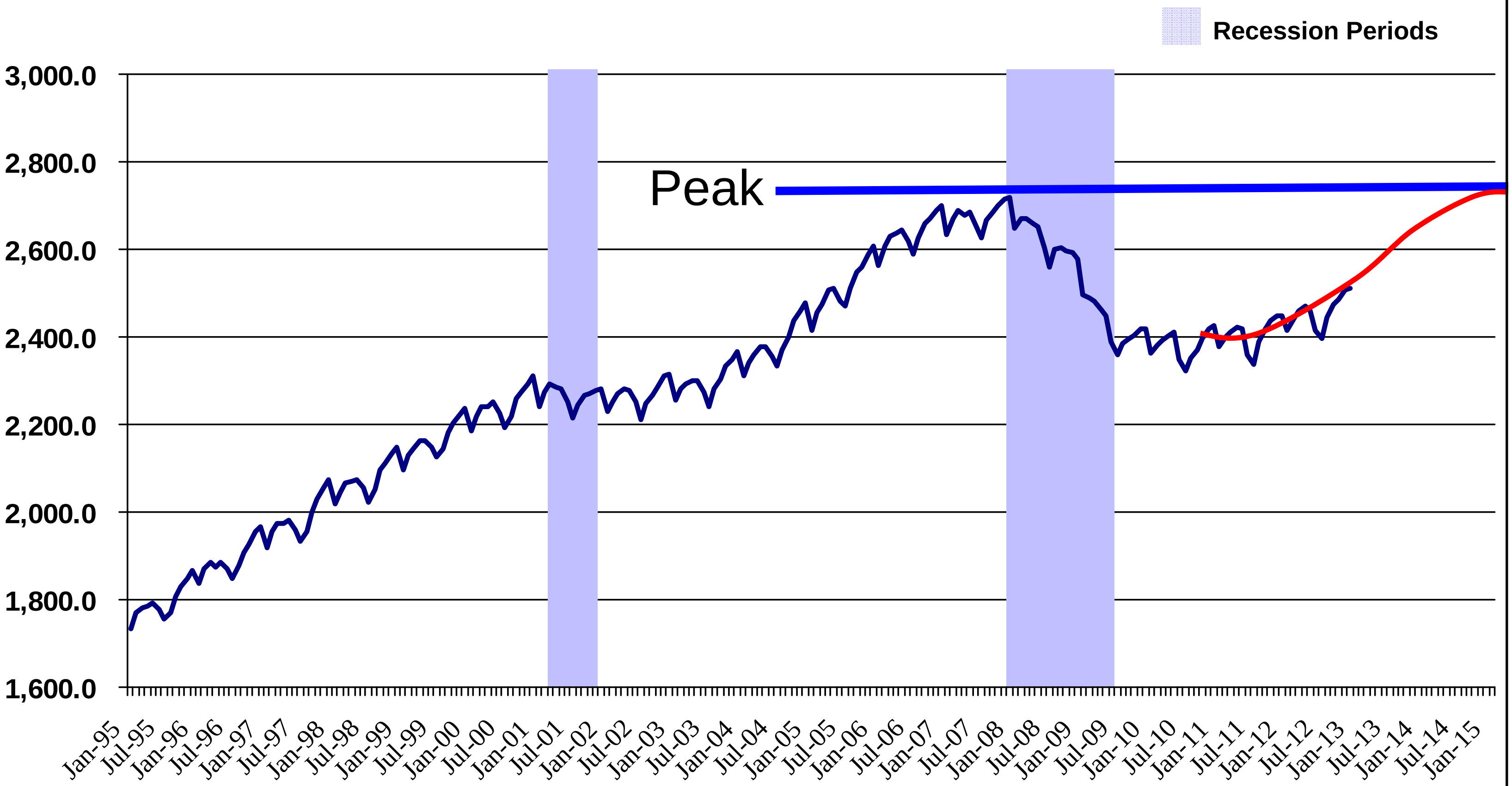
Jobs gained Trough to Current: 102,900
(Jul-10) (Dec-12)

*****We are 33% of the way back*****

*Based on seasonally adjusted monthly data

Employment Levels:
Arizona back to Peak in 2015?

Source: ADOA



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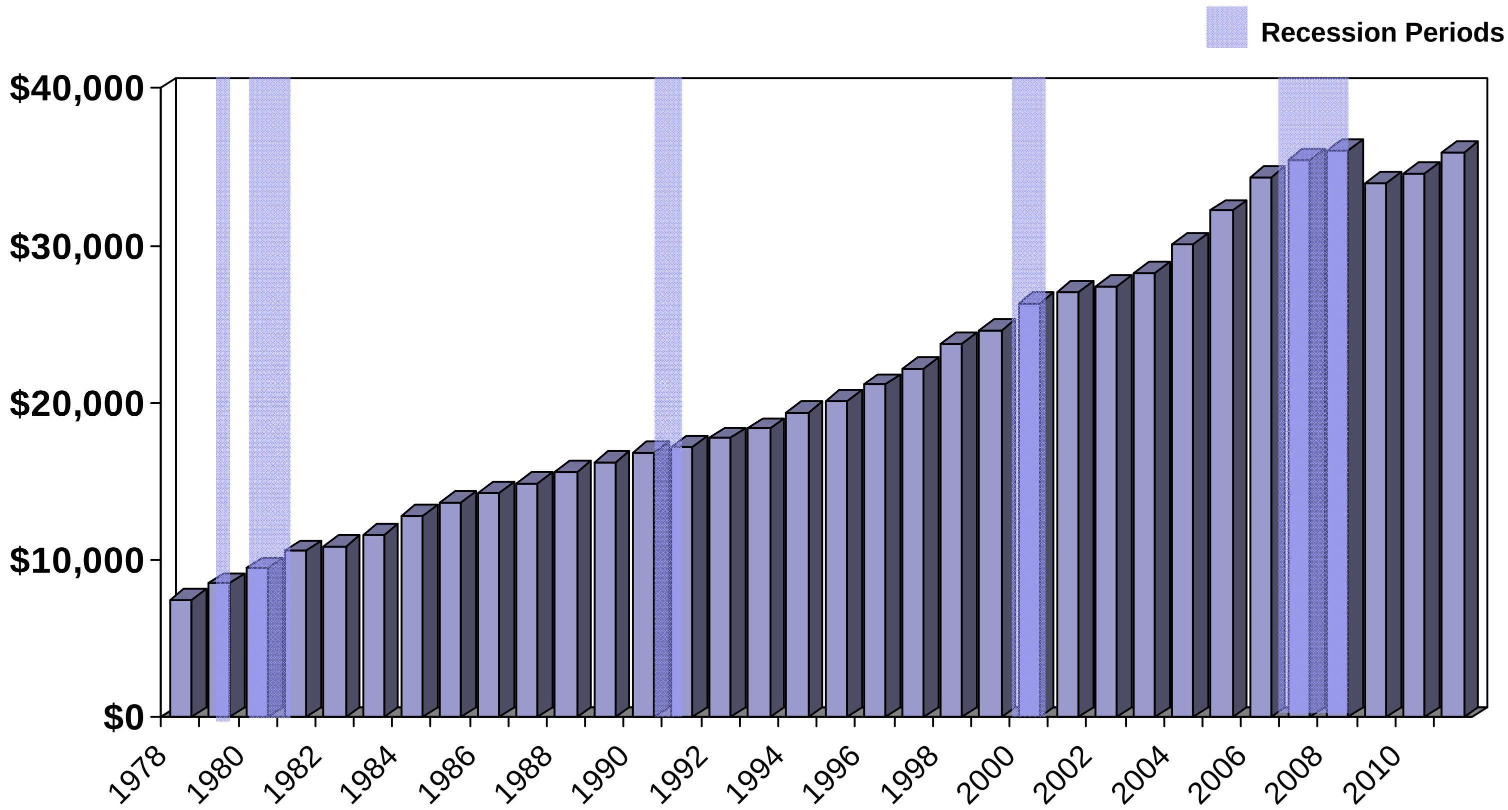
Arizona Per Capita Personal Income 1978–2011

Source: Bureau of Economic Analysis



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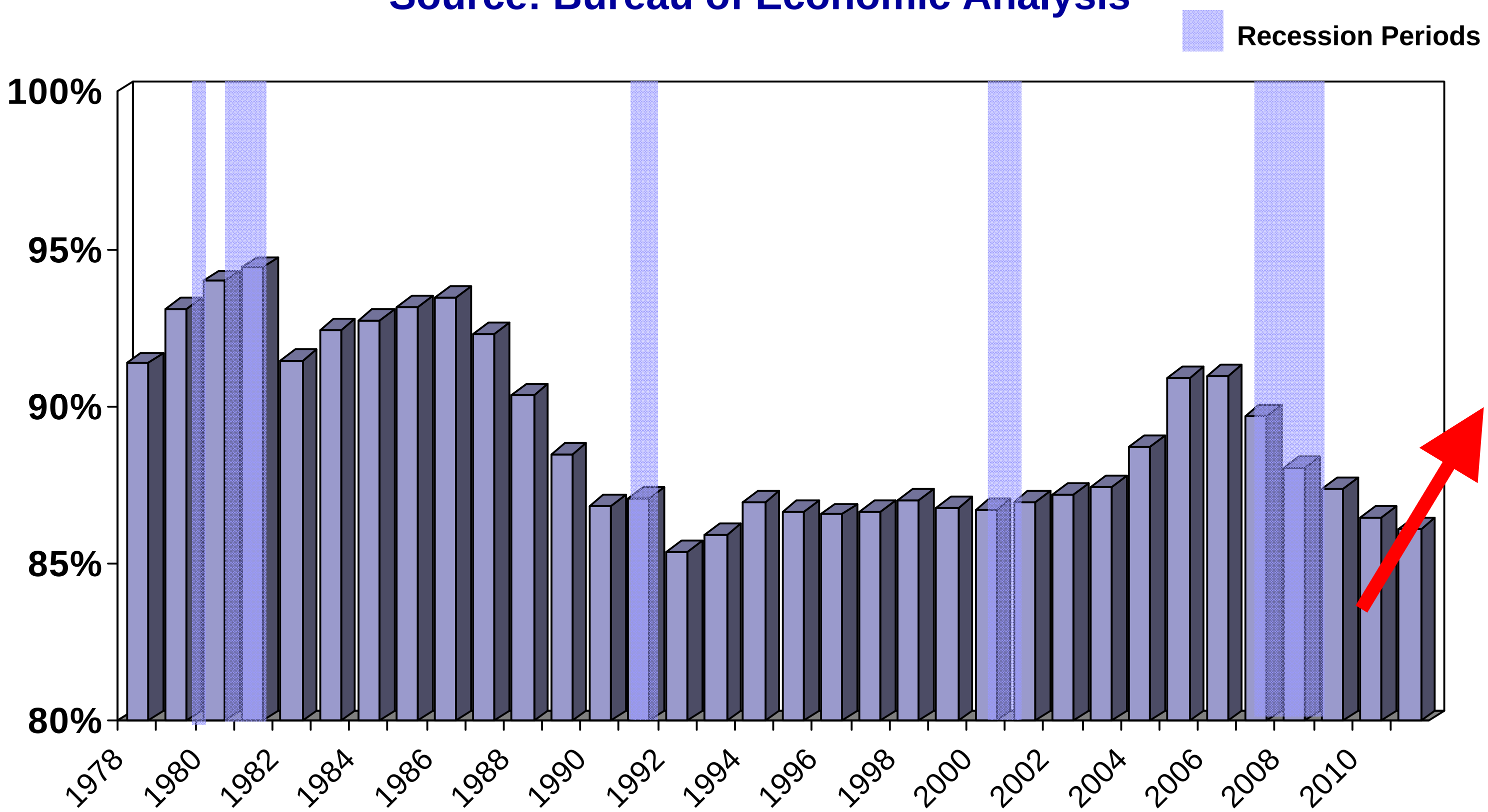
Arizona Per Capita Personal Income
% of US: 1978–2011

Source: Bureau of Economic Analysis



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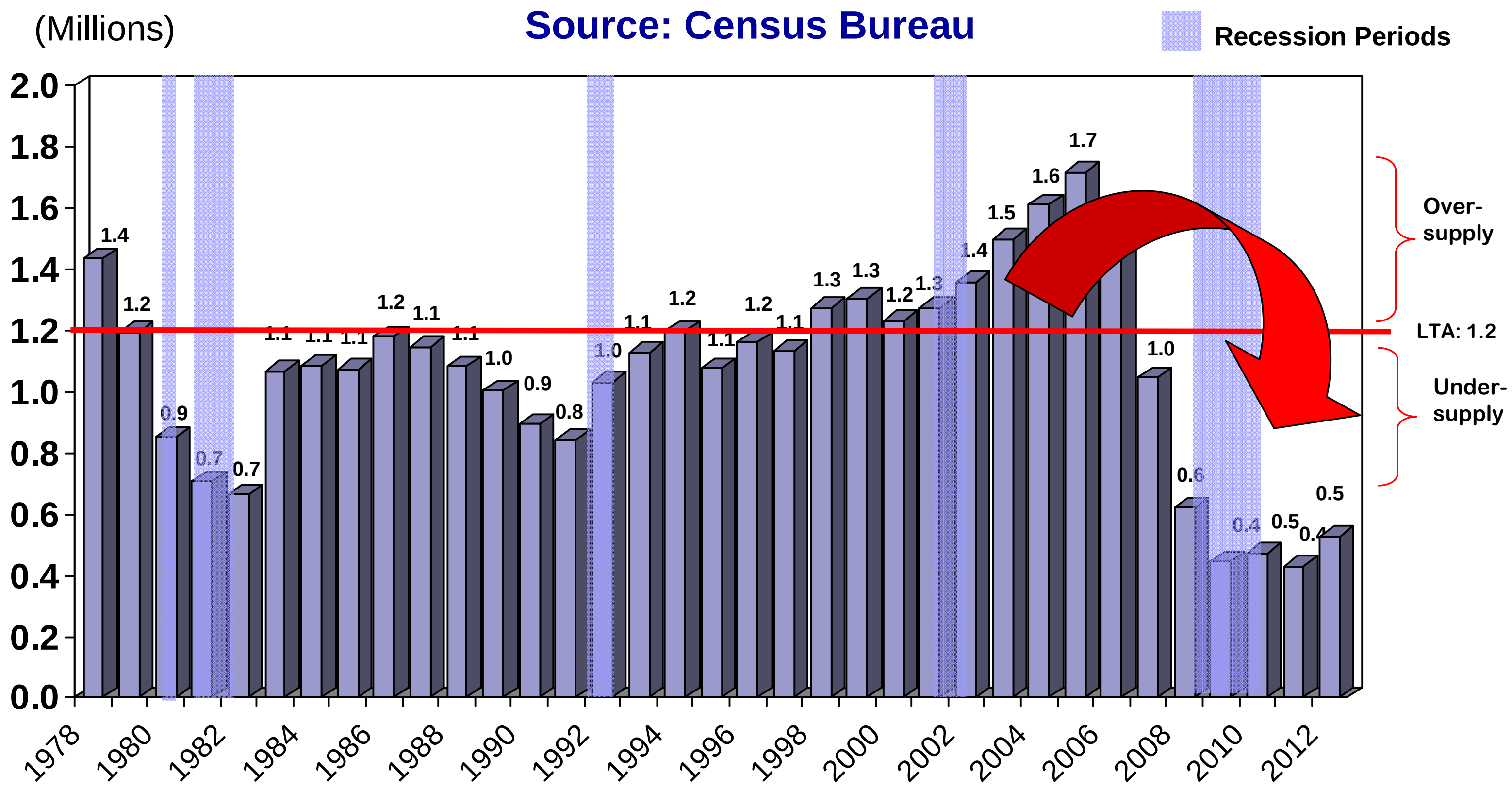
U.S. Single-Family Starts
1978–2012[1/]



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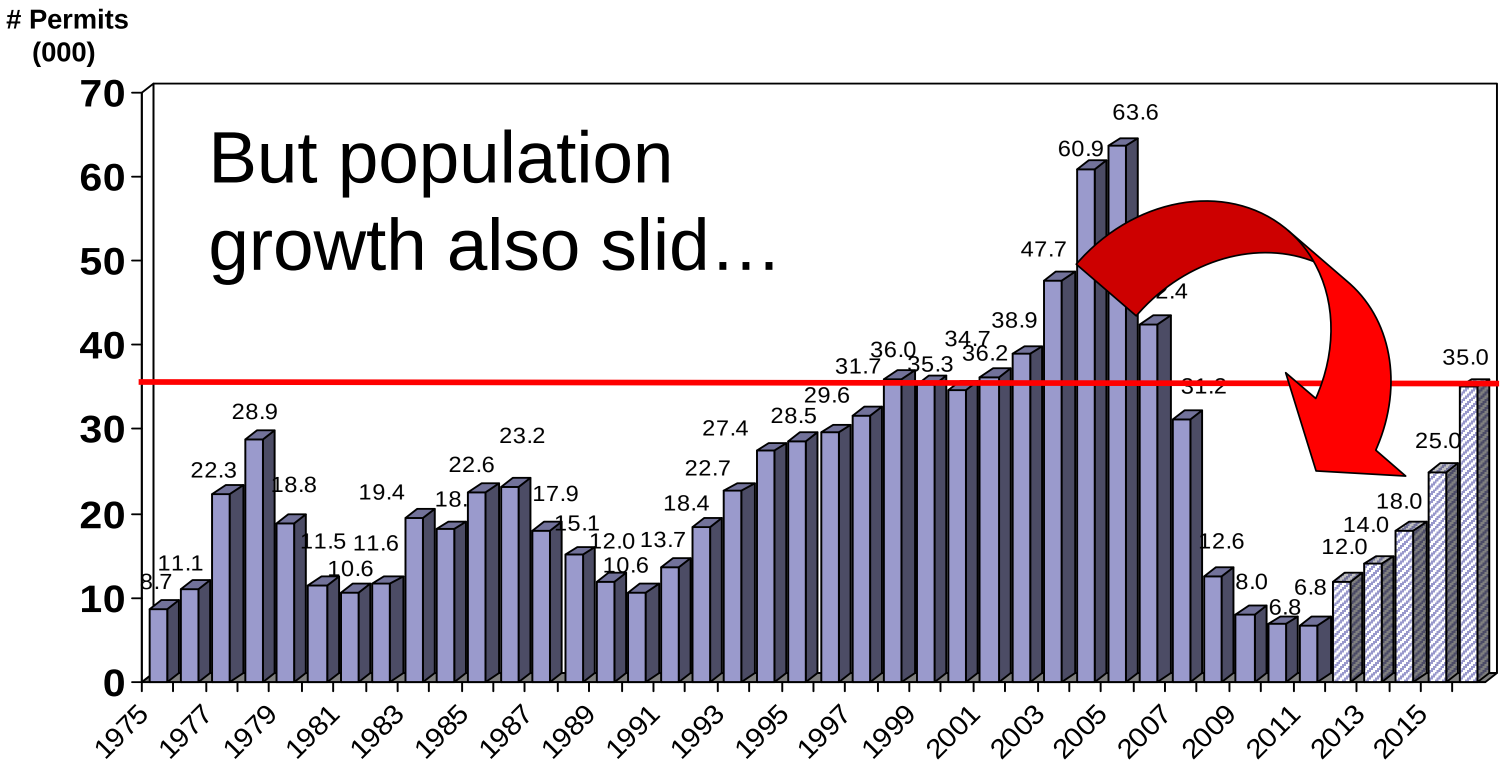
1/ Through November 2012

Single Family Permits

Greater Phoenix 1975–2016*

Source: RL Brown & Elliott D. Pollack & company



*2012 – 2016 forecast is from *Elliott D. Pollack & Company*

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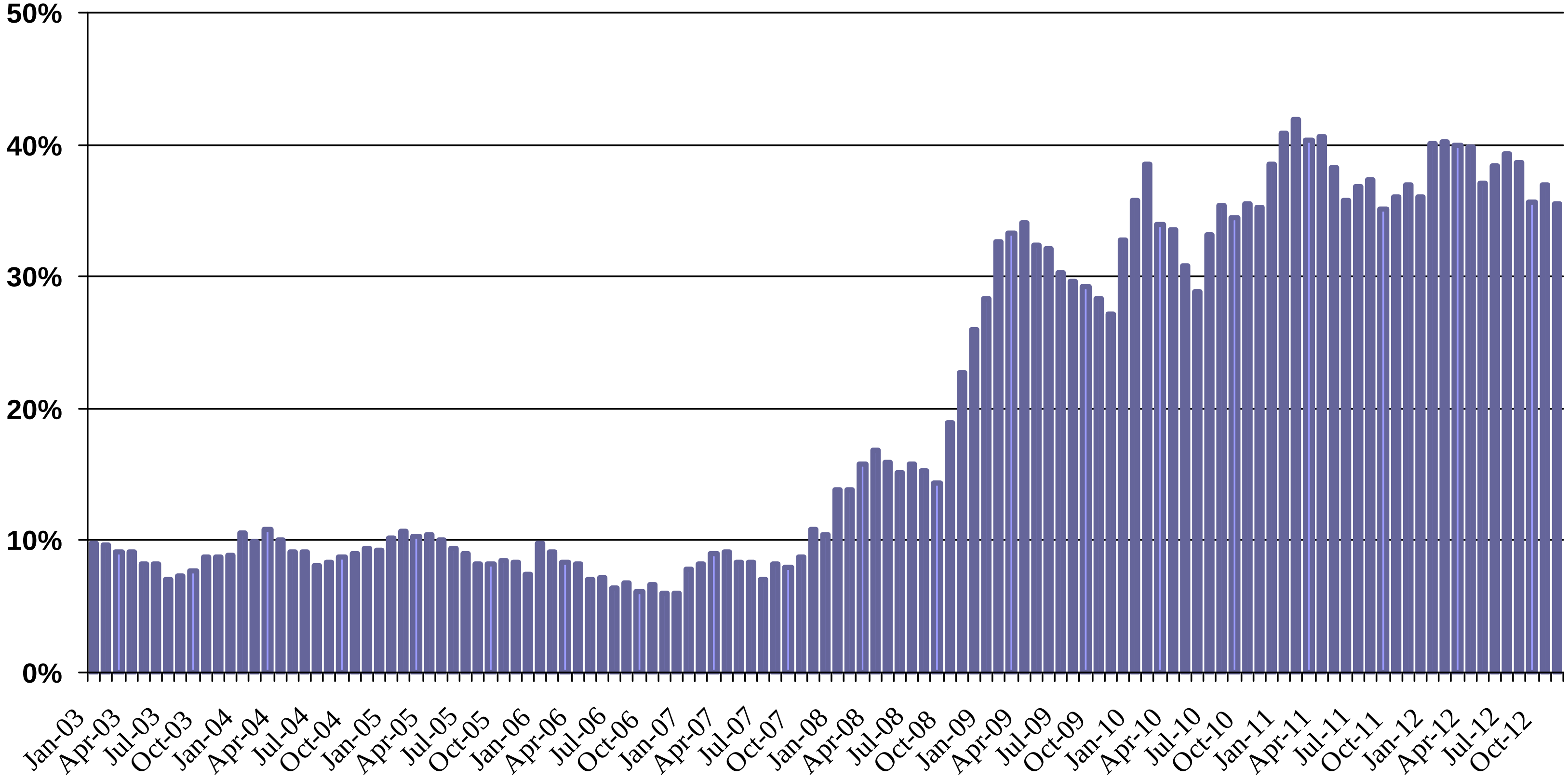
Greater Phoenix Percentage of Homes Purchased with

$$$ Cash $$$

2003 – 2012*

Source: Cromford Report



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*Data through November 2012

Greater Phoenix Permits

Source: R.L. Brown

Year	Permits	% chg
2004	60,872	27.6%
2005	63,570	4.4%
2006	42,423	-33.3%
2007	31,172	-26.5%
2008	12,582	-59.6%
2009	8,027	-36.2%
2010	6,822	-15.0%
2011	6,794	-0.4%
2012*	11,615	71.0%

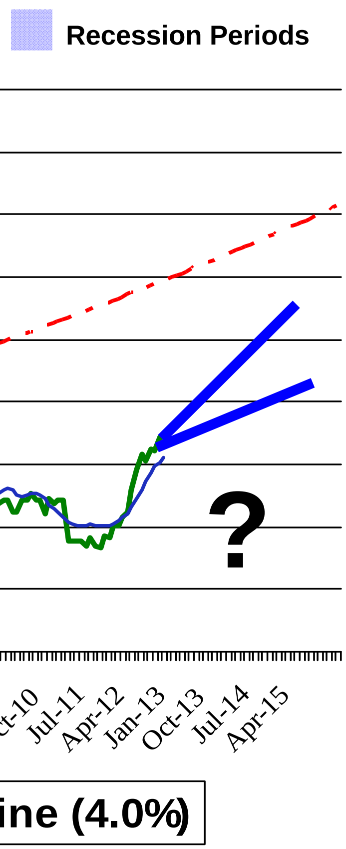
*Data through YTD December 2012 vs. YTD December 2011

Home Prices Indices

Greater Phoenix

1989 – 2012*

Source: Macro Markets, LLC; AMLS



*Data through October 2012.

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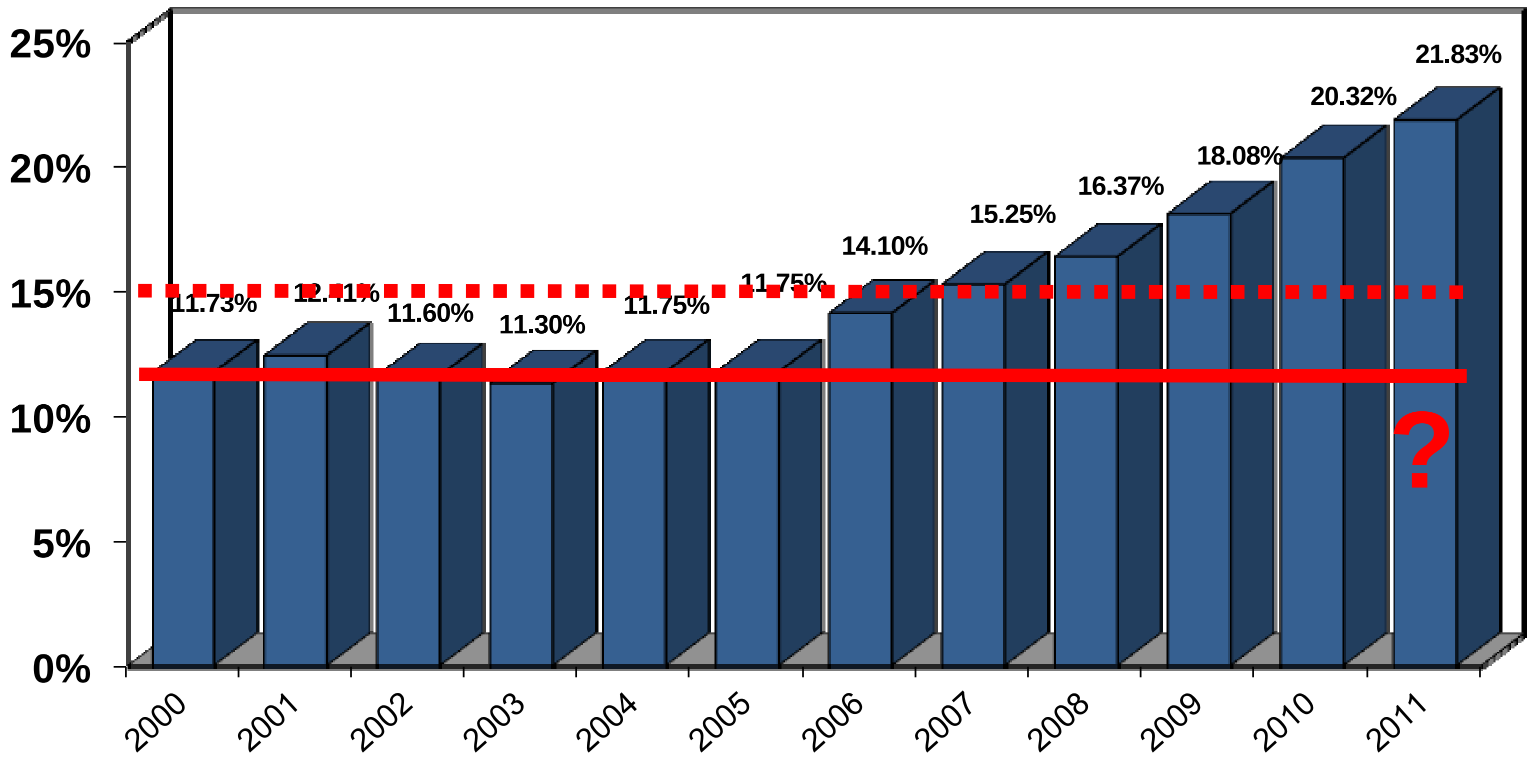
Total Single Family Units Occupied by Renters
2000-2011
Greater Phoenix
Source: American Community Survey



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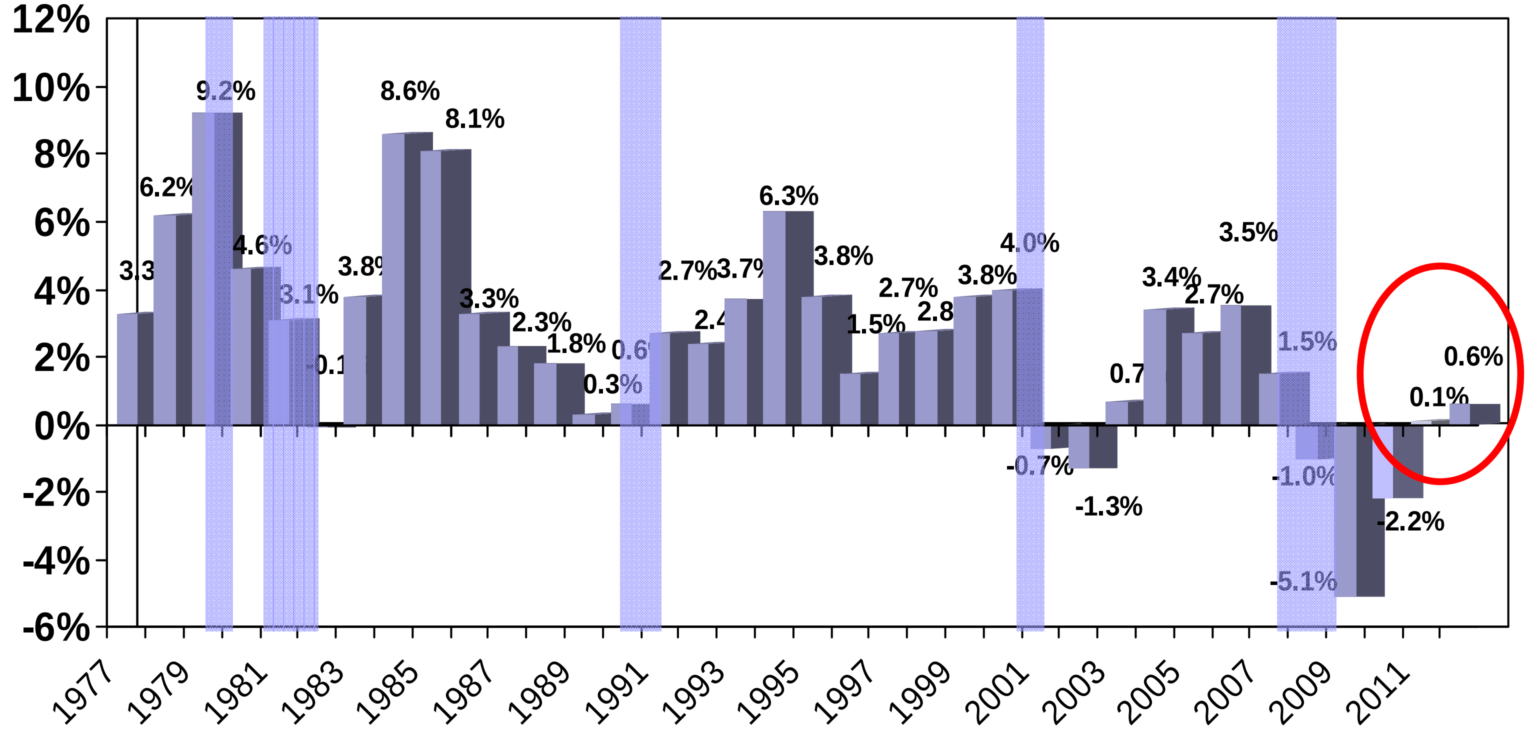
Greater Tucson

Same basic story, just different scale and timing…

Greater Tucson MSA Employment*
Annual Percent Change 1975–2012**

Source: Department of Commerce, Research Administration



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

**Data through November 2012

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Greater Tucson Employment*

Source: Bureau of Labor Statistics

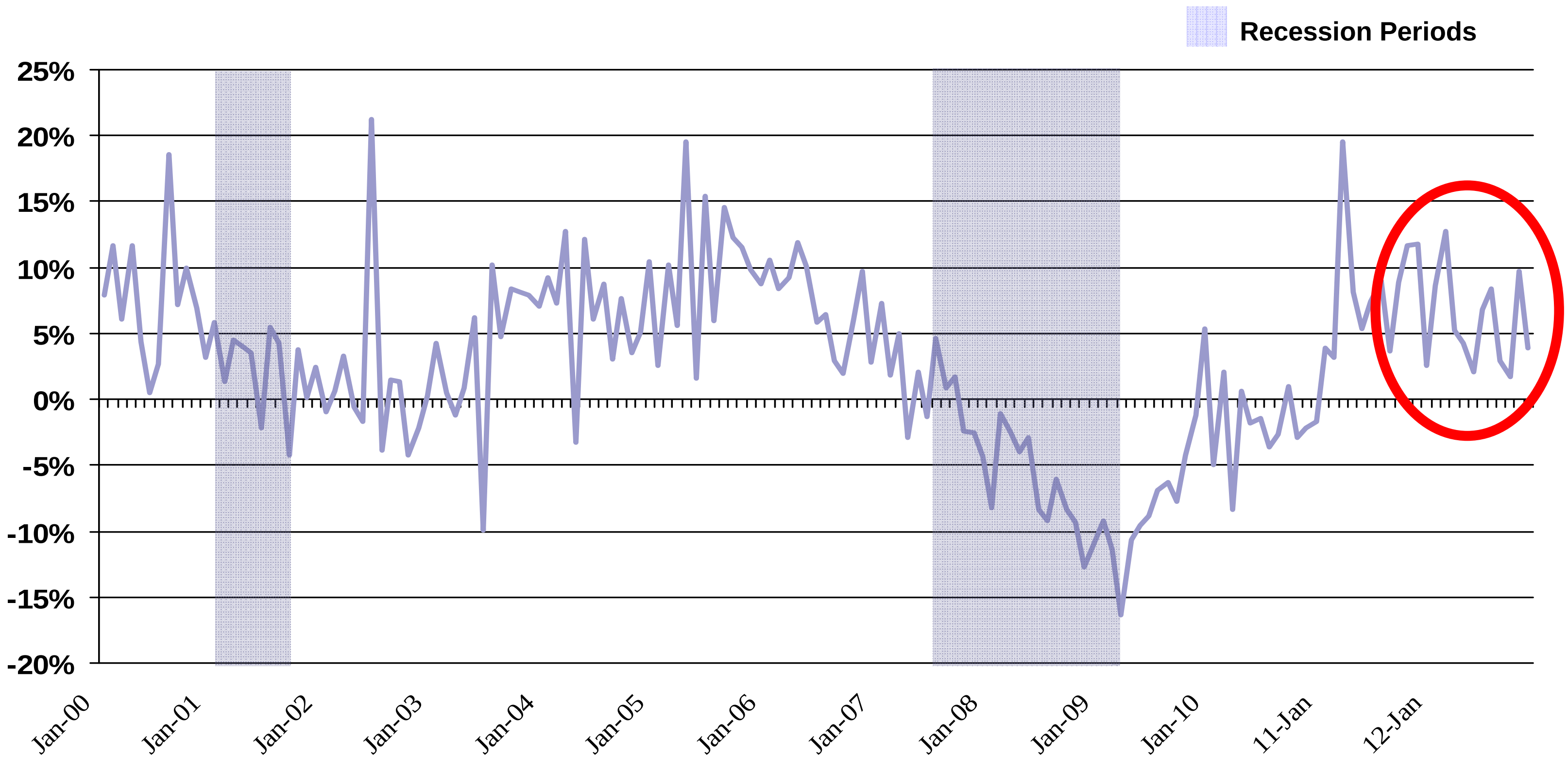
Sectors in Decline	Net Change
Education & Health Services	-1,000
Other Services	-400
Information	-300

Sectors Improving	Net Change
Trade, Transp, Utilities	2,100
Business & Prof. Services	1,500
Leisure & Hospitality	1,300
Construction	900
Government	900
Financial Activities	500
Manufacturing	300

*Dec. 2012/ Dec. 2011

Pima County Retail Sales
Percent Change Year Ago
2000 – 2012*

Source: Arizona Department of Revenue



*Data through November 2012

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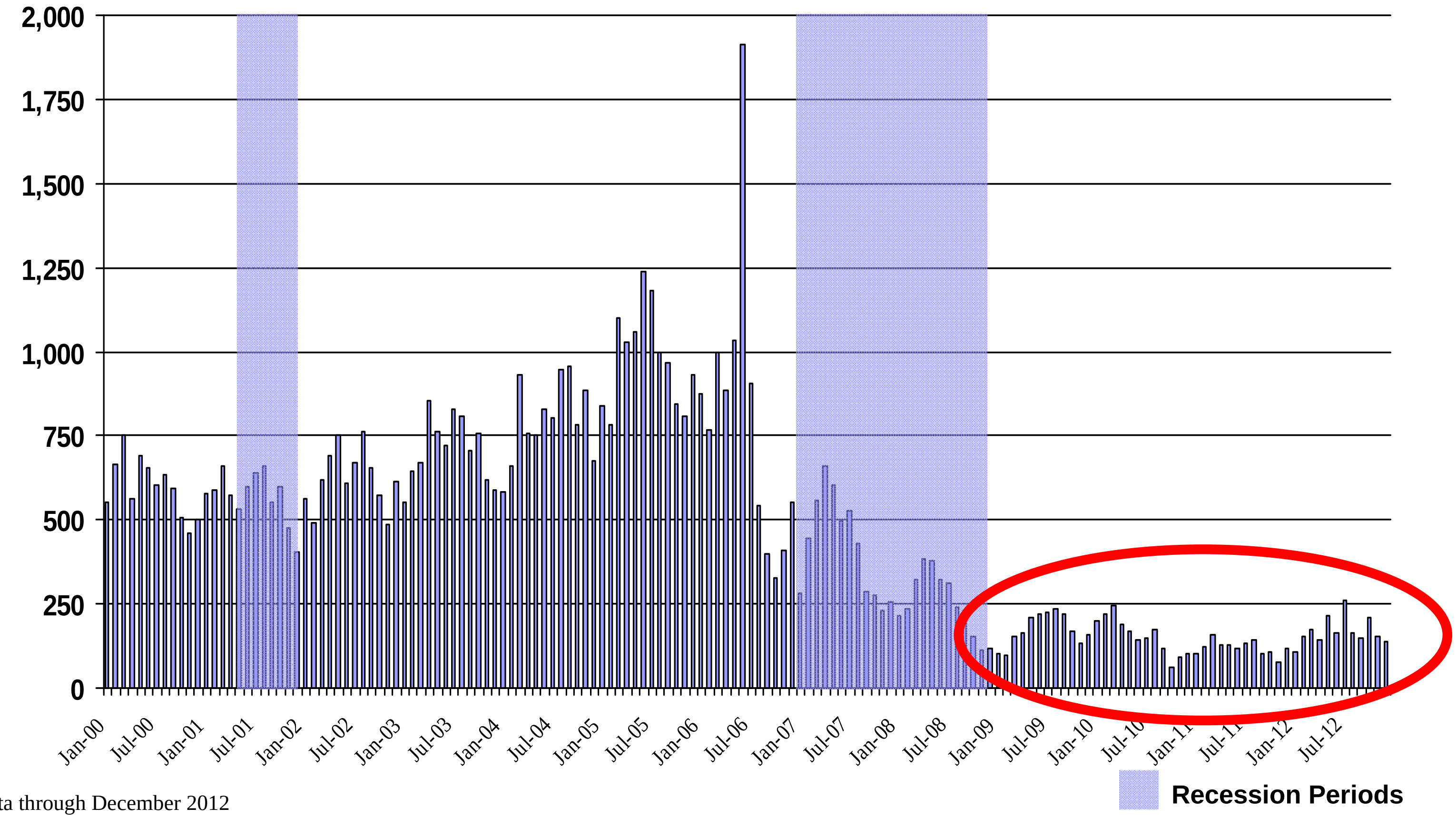
Greater Tucson Single Family Permits 2000–2012*

Source: Southern Arizona Housing Market Letter



*Data through December 2012

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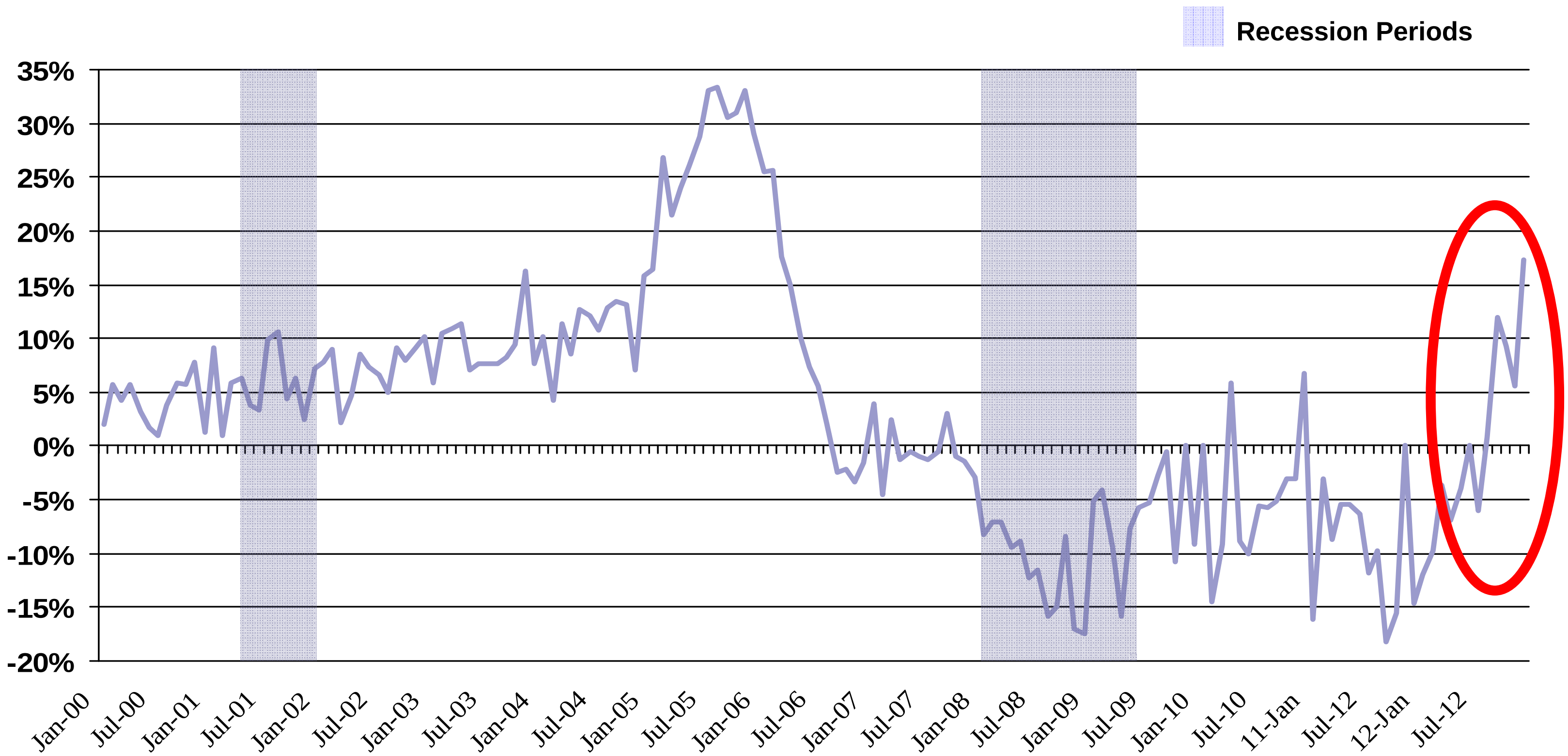
Single Family Resale Median Price
Greater Tucson
2000 – 2012*
Source: Southern Arizona Housing Market Letter



*Data through December 2012

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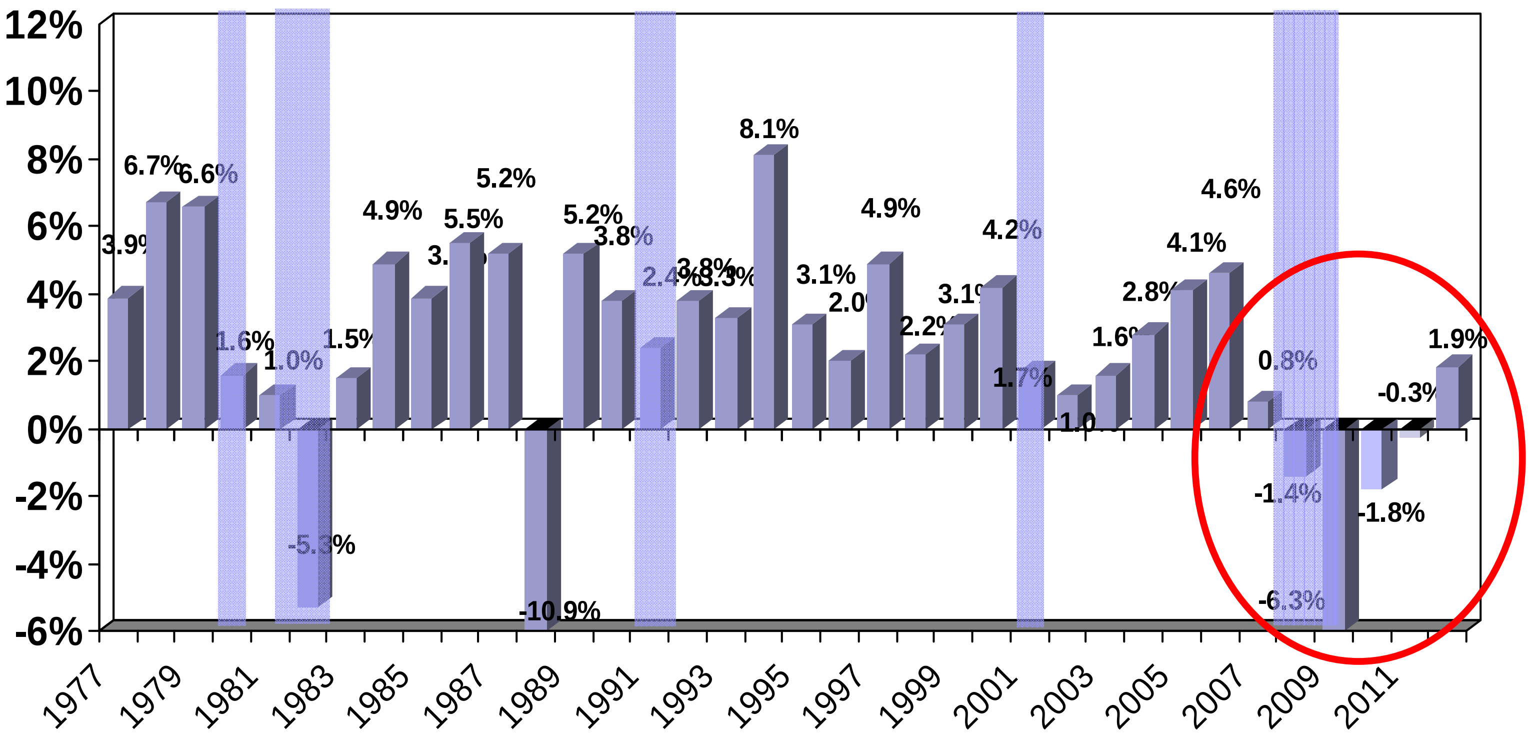
Balance of State

Balance of State Employment*
Annual Percent Change 1975–2012**

Source: Department of Commerce, Research Administration



*Non-agricultural wage & salary employment. Changed from SIC to NAICS reporting in 1990.

**Data through December 2012

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Balance of State Employment*

Source: Bureau of Labor Statistics

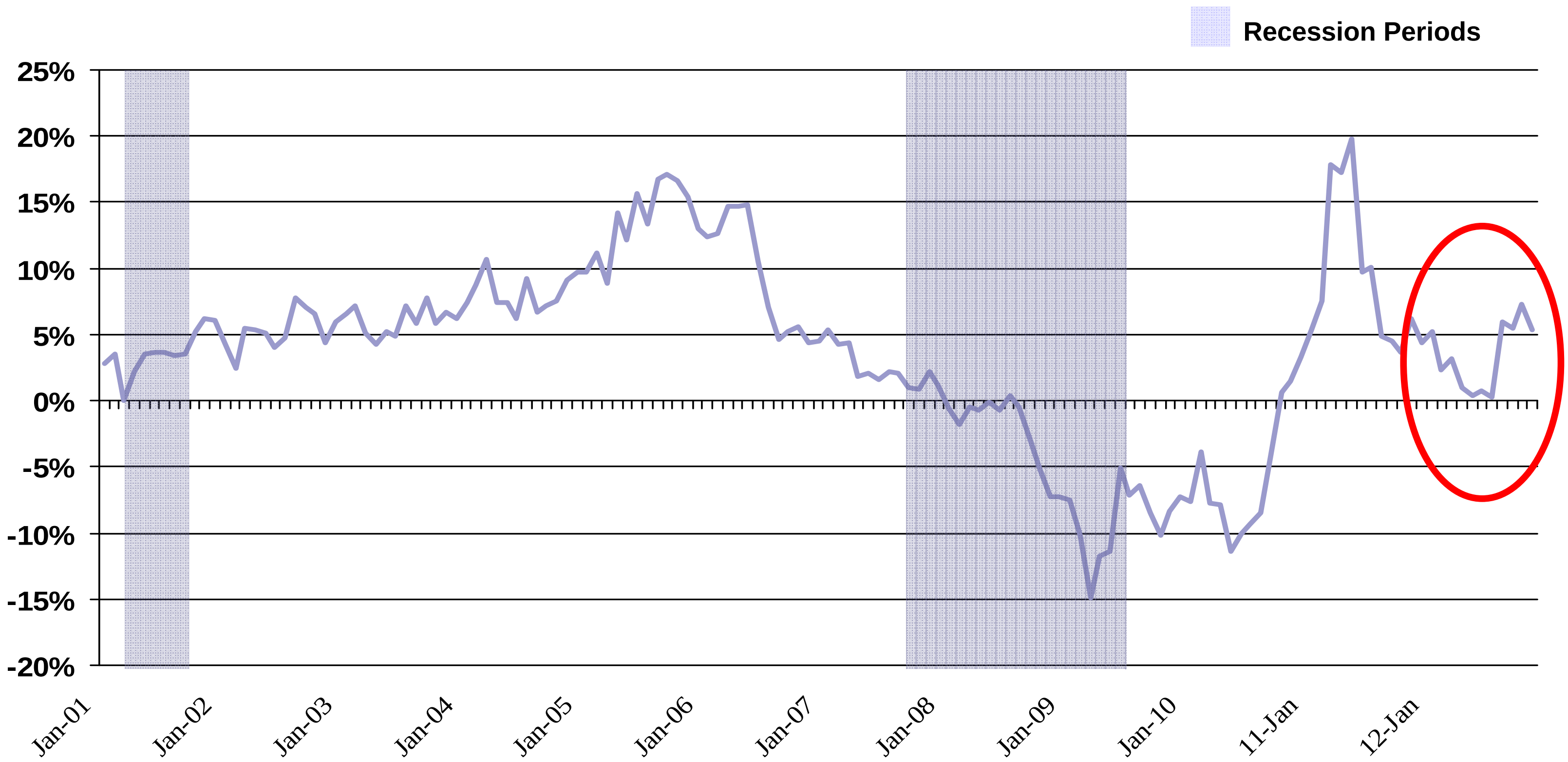
Sectors in Decline	Net Change
Other Services	-900
Financial Activities	-200
Information	-100

Sectors Improving	Net Change
Professional & Bus Services	2,100
Education & Health Services	1,500
Leisure & Hospitality	1,300
Construction	1,200
Manufacturing	900
Trade, Transp, Utilities	500

*Dec. 2012/ Dec. 2011

Balance of State Retail Sales
Percent Change Year Ago**
2000 – 2012*

Source: Arizona Department of Revenue



*Data through December 2012
** 3-month moving average

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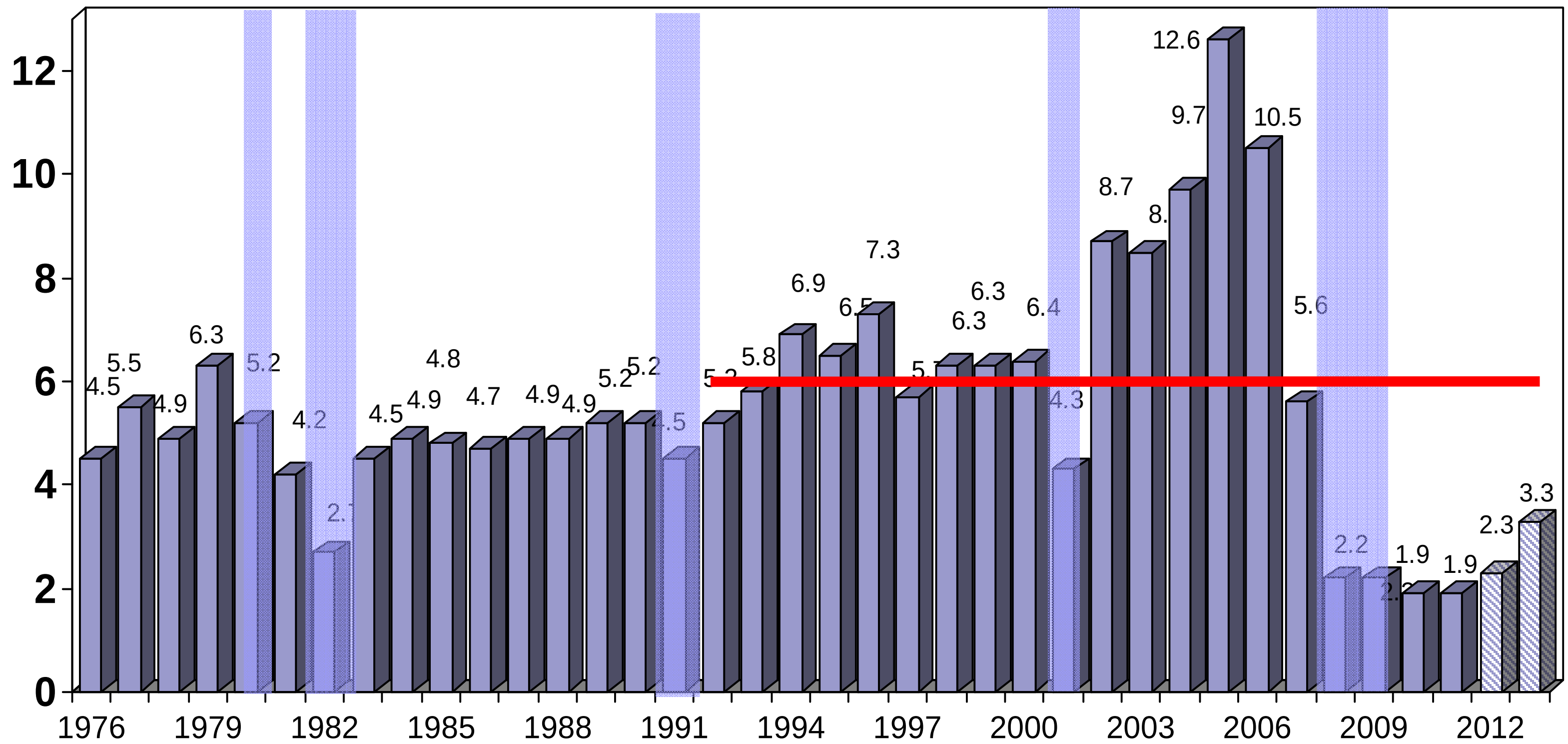
Balance of State Single Family Permits
1976–2013*
Source: University of Arizona



*2012 & 2013 are forecasts from the University of Arizona

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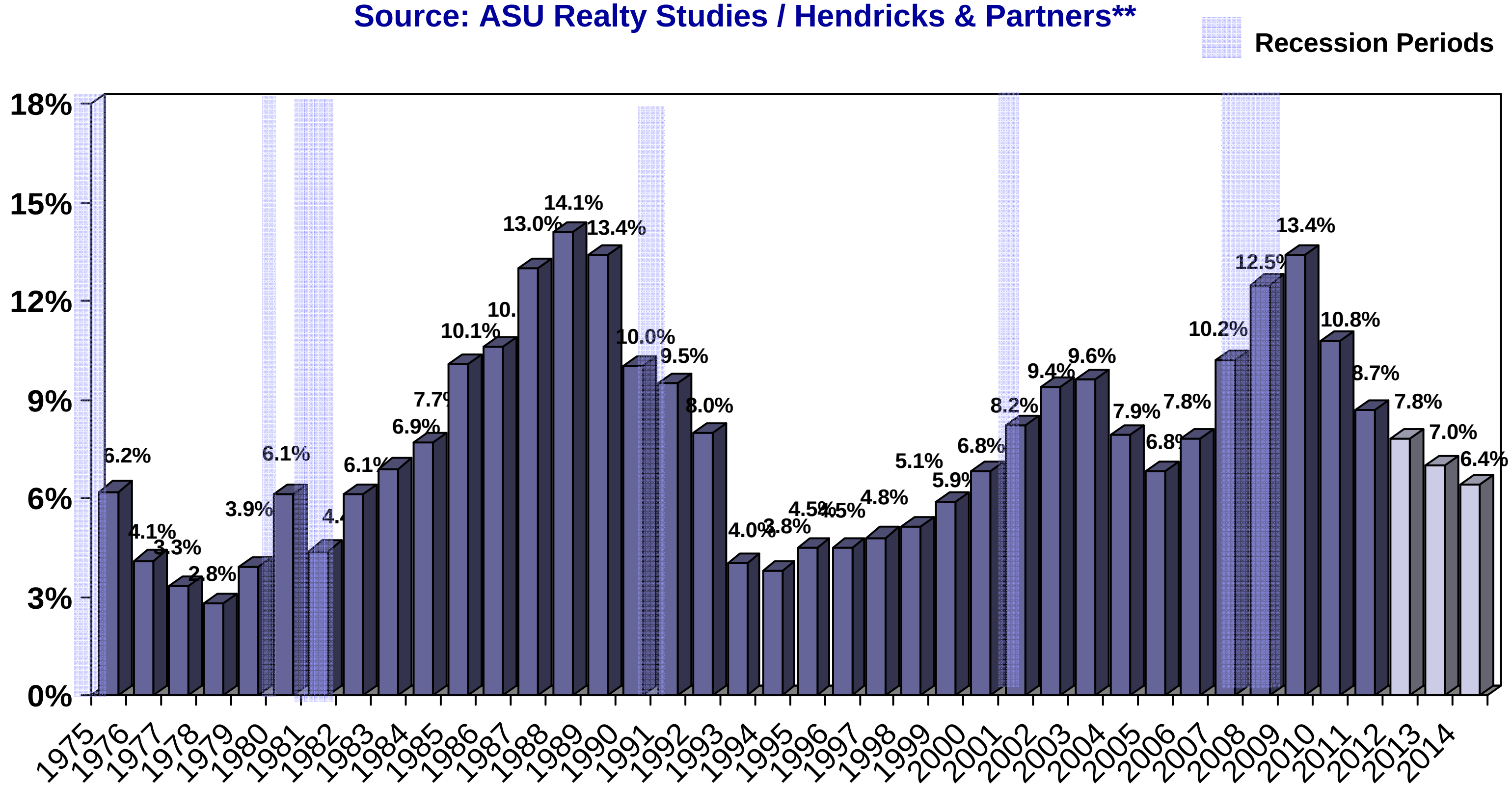
Commercial

Multi-Family

Multi-Family Year-End Vacancy Rates
Maricopa County 1975–2014*

Source: ASU Realty Studies / Hendricks & Partners**



*2012 -2014 are forecasts from the Greater Phoenix Blue Chip

***Data prior to 2005 is from ASU*

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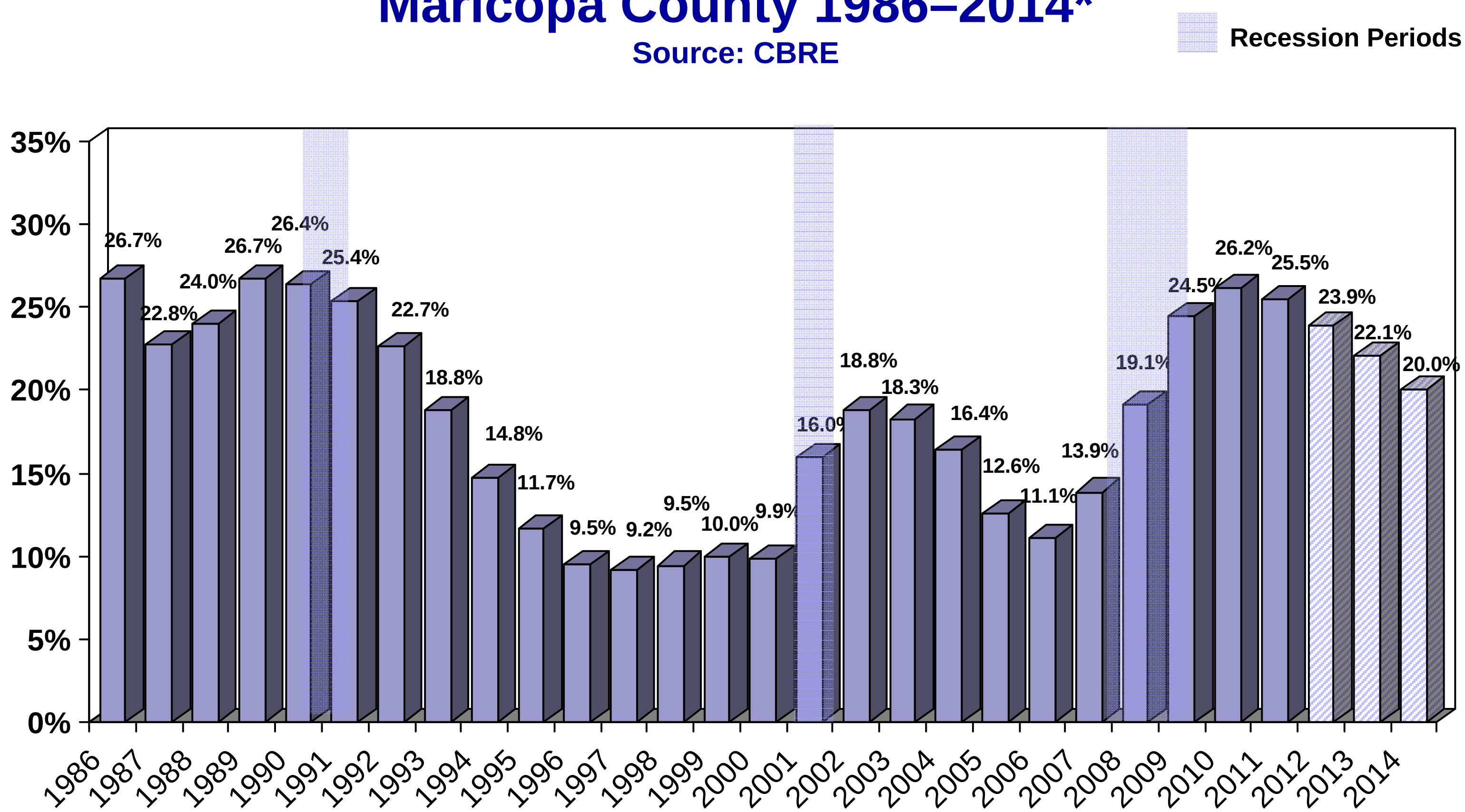
OFFICE

More lights on?

Office Space Year-End Vacancy Rates
Maricopa County 1986–2014*
Source: CBRE



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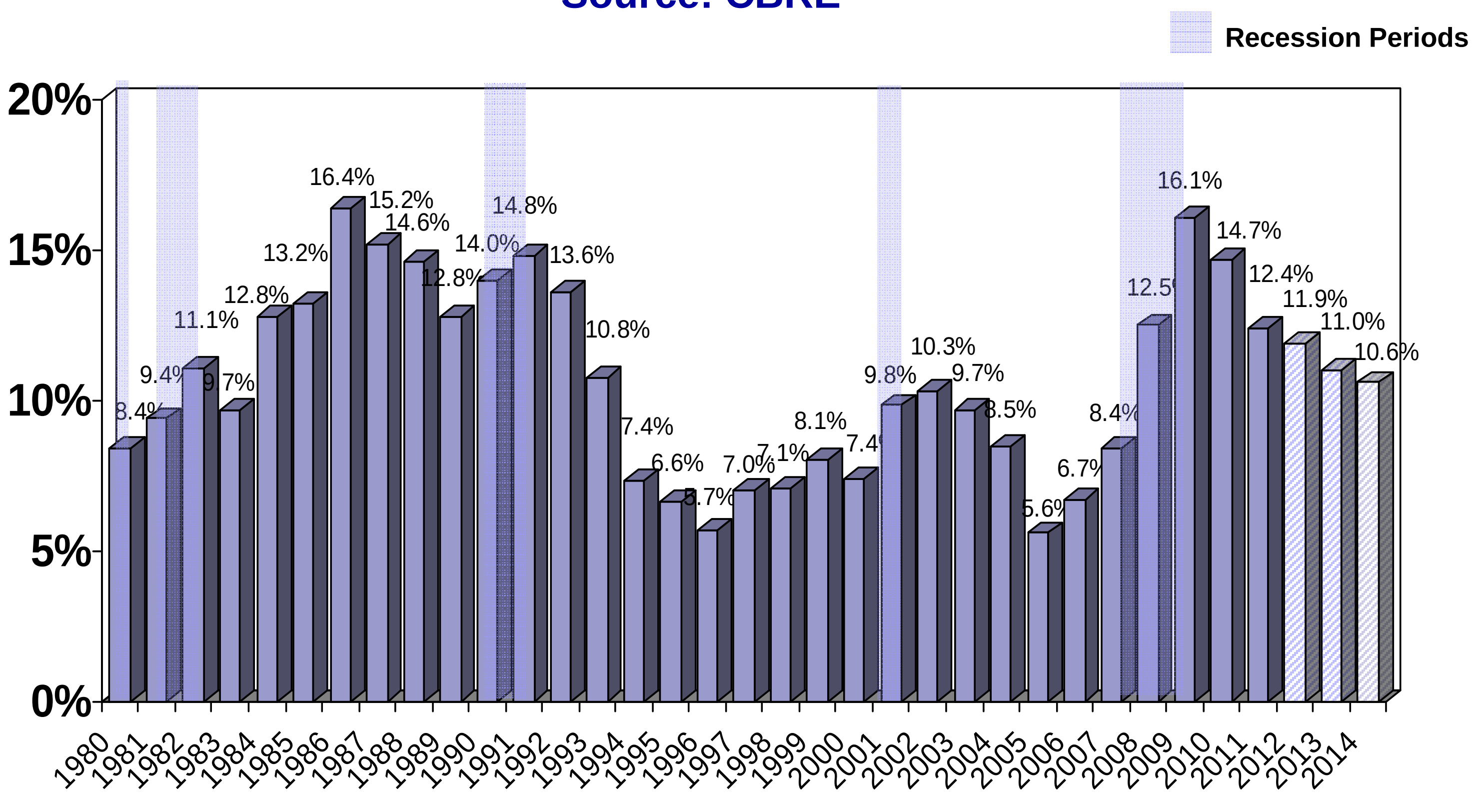
*2012 -2014 are forecasts from the Greater Phoenix Blue Chip

INDUSTRIAL

Slowly filling up?

Industrial Space Vacancy Rates
Maricopa County 1980 – 2014*
Source: CBRE



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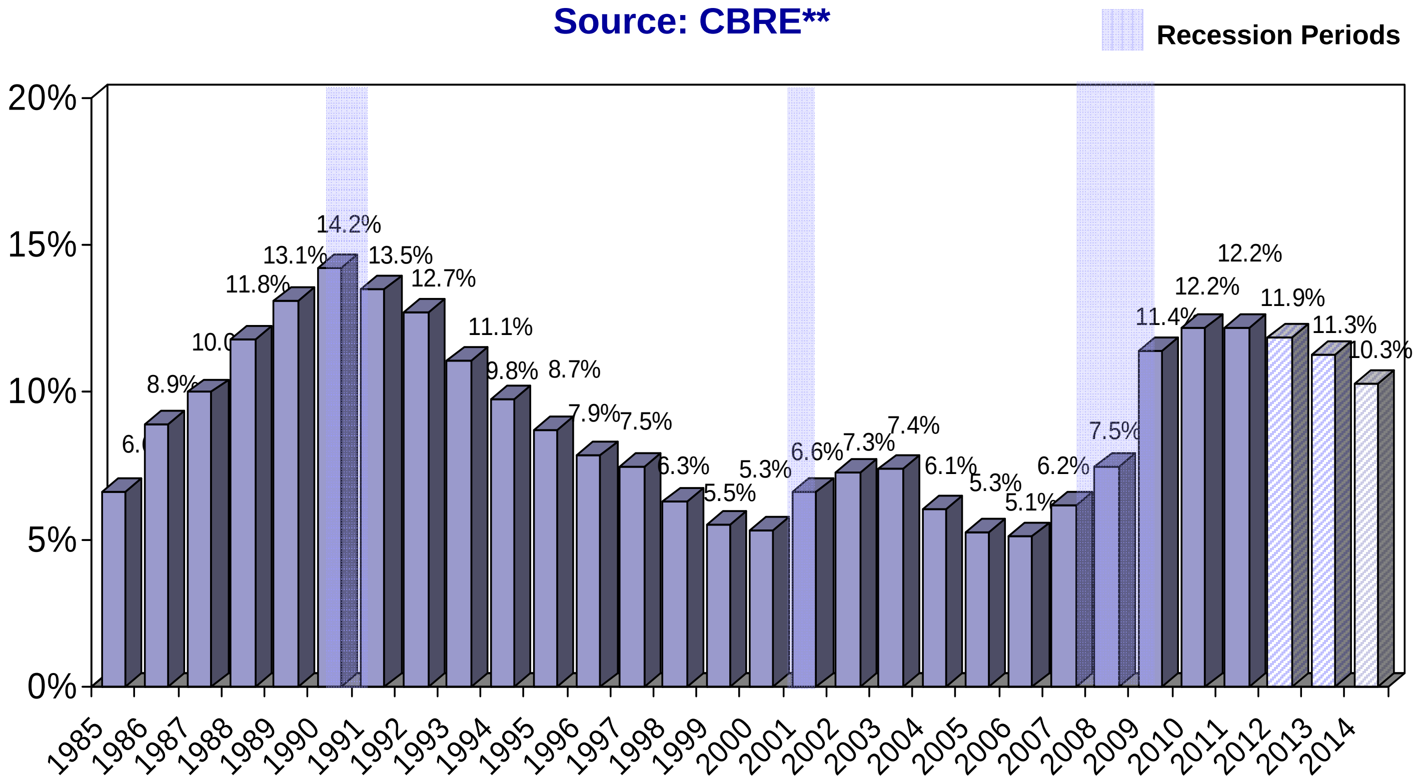
* 2012 - 2014 are forecasts from the Greater Phoenix Blue Chip

RETAIL

Retail Space Vacancy Rates
Maricopa County 1985–2014*

Source: CBRE**



* 2012-2014 are forecasts from GPBC

** Data prior to 1992 is from Grubb & Ellis

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Why be Optimistic?

Housing?

Many renting will buy.
Many doubled-up will buy.
Some population growth is back.
Employment growth is occurring.
Retirees less bound to crappy states.

Investors will not suddenly dump and run.

Still producing less than "normal."

Fundamentals remain in place.

"Normal" returns in 2015-ish.

Growth rates will be strong now though.

Cyclical vs. Permanent?

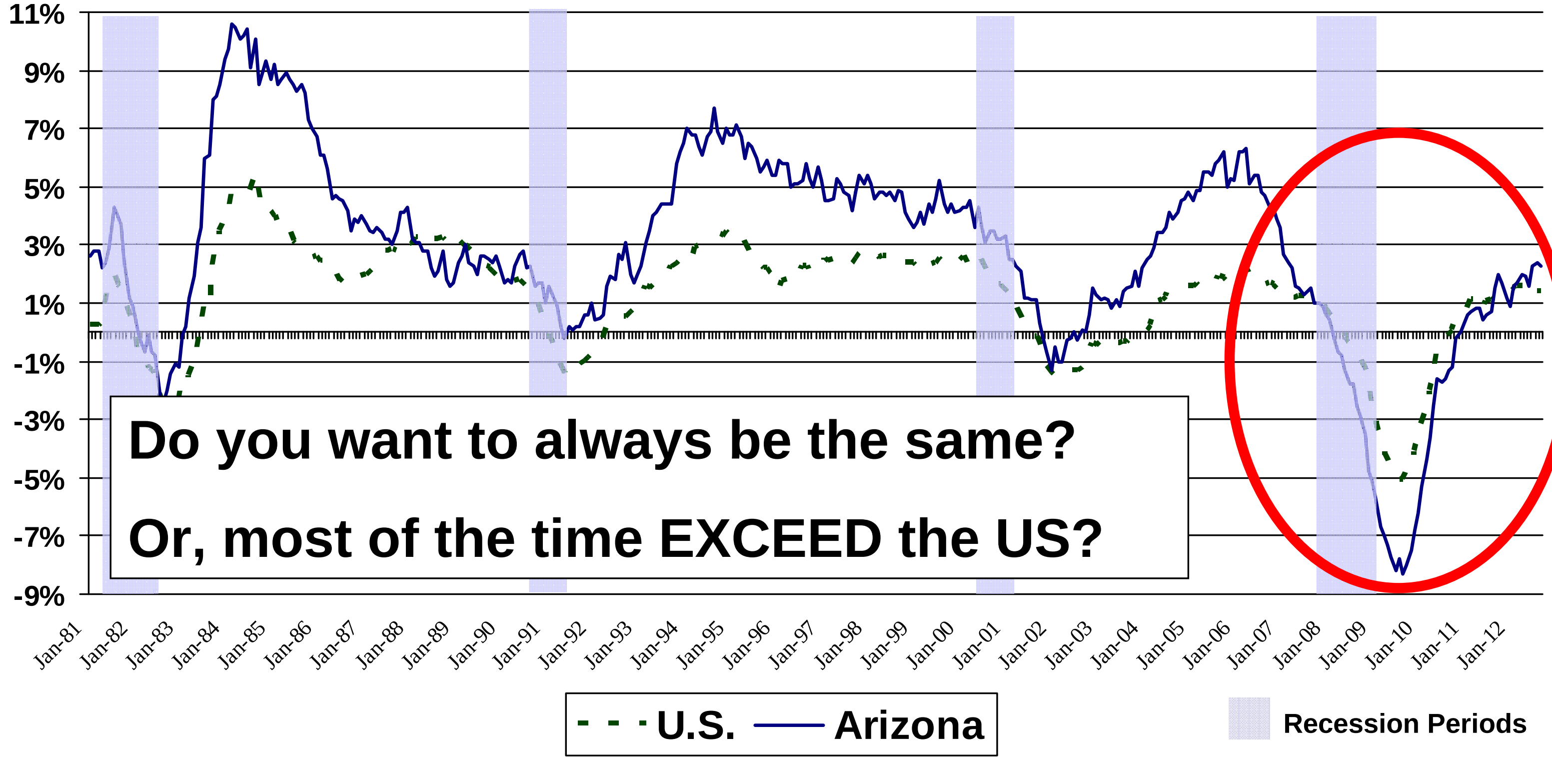
How Arizona Ranks Among the States in Percentage Growth

Source: U.S. Bureau of Census; Bureau of Labor Statistics; Bureau of Economic Analysis

DECADE	POPULATION	EMPLOYMENT	PERSONAL INCOME
1950 - 1960	4TH	3RD	2ND
1960 - 1970	3RD	3RD	4TH
1970 - 1980	2ND	3RD	4TH
1980 - 1990	3RD	3RD	5TH
1990 - 2000	2ND	2ND	3RD
2000 – 2010	2ND	12th	8TH

Is the Cycle Our Enemy or Friend?

(Non-farm Emp. Percent Change 1980 – August 2012)



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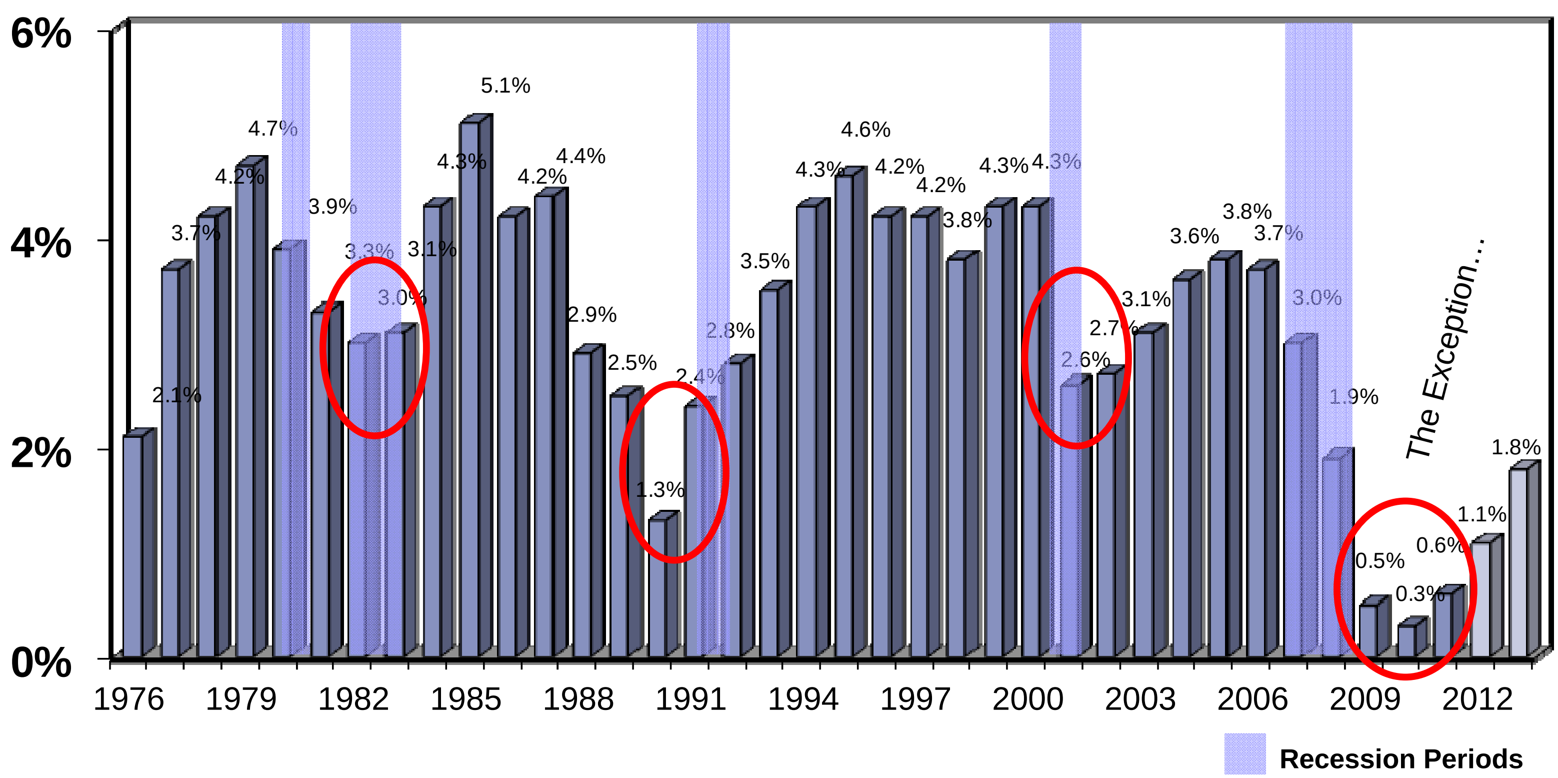
Greater Phoenix Population
Annual Percent Change 1976–2013*

Source: Arizona State University & Department of Commerce, Research Administration



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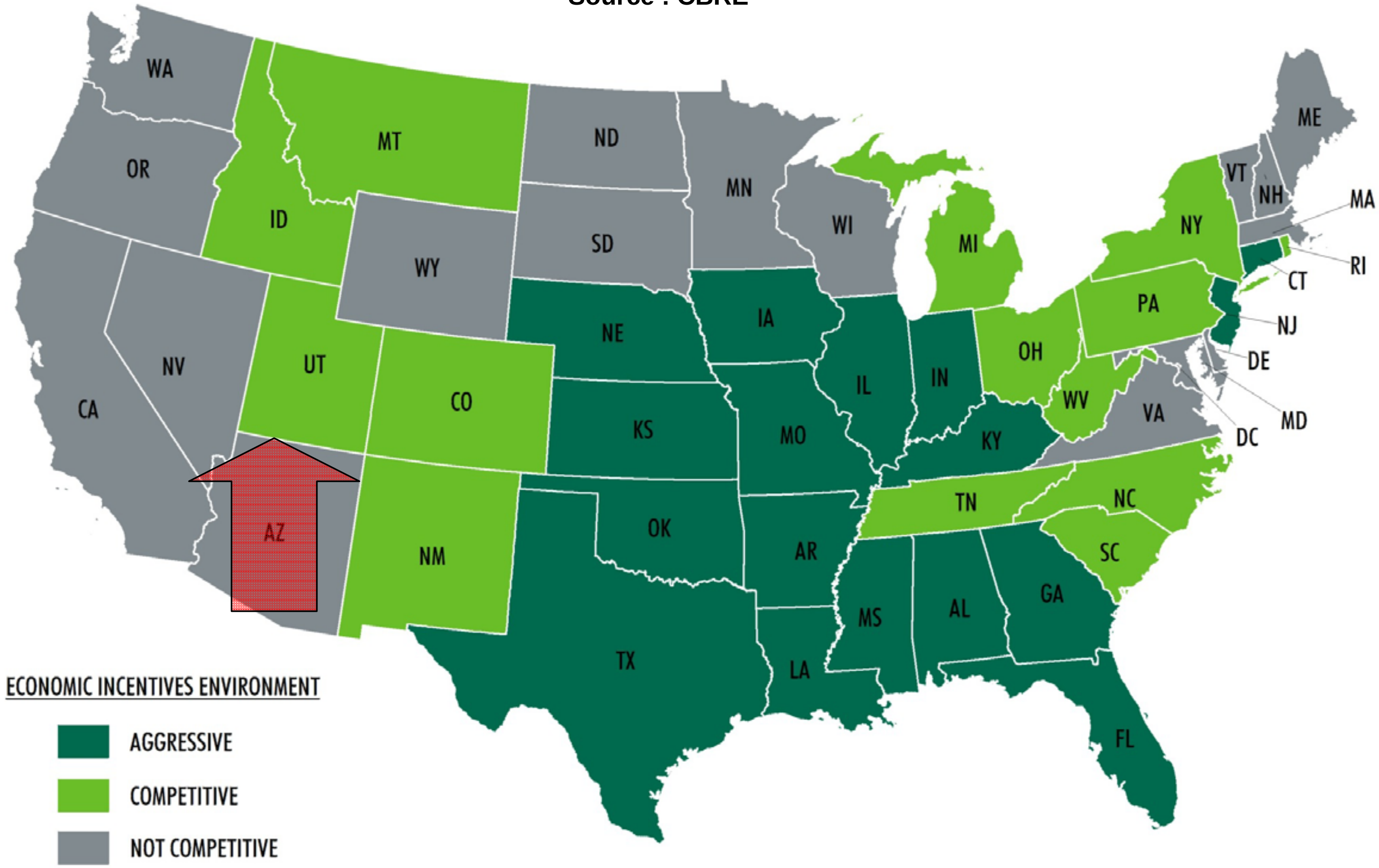
* 2012 & 2013 forecast is from *Elliott D. Pollack & Co.*

Growth Factors Still Intact?

1. Climate
2. Lifestyle
3. Geographic Location
4. Pro-Growth Attitude
5. Competitive Tax Structure
6. Focused Incentives/Investment (i.e. transportation)
7. Leadership with Common Sense
8. Low Cost of Living
9. Congressional Delegation Working for State
10. Business & Government in Same Direction
11. ETC, ETC, ETC.

Competitiveness Map – 2012(2013?)

Source : CBRE



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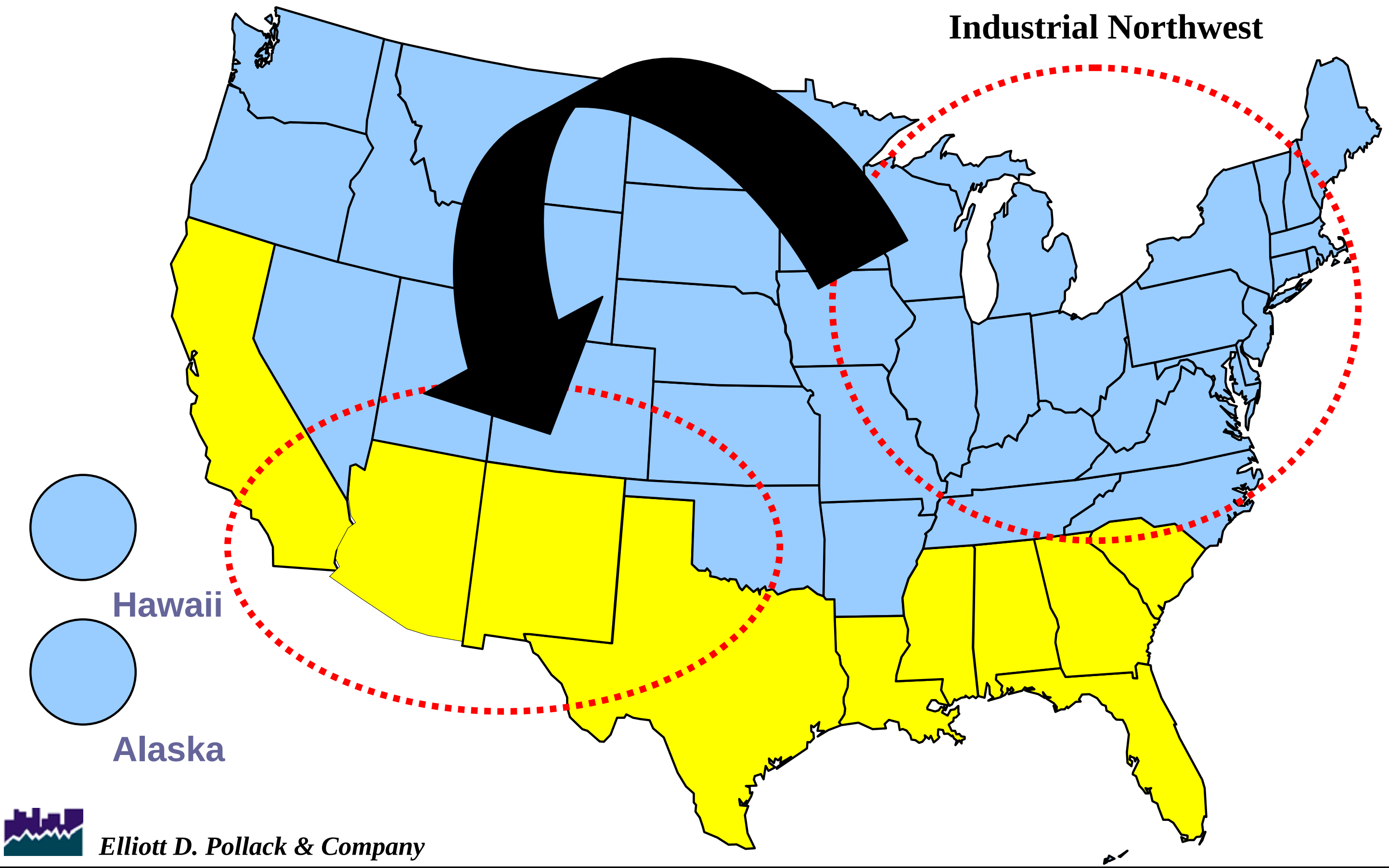
Benefits of the "SUNBELT"

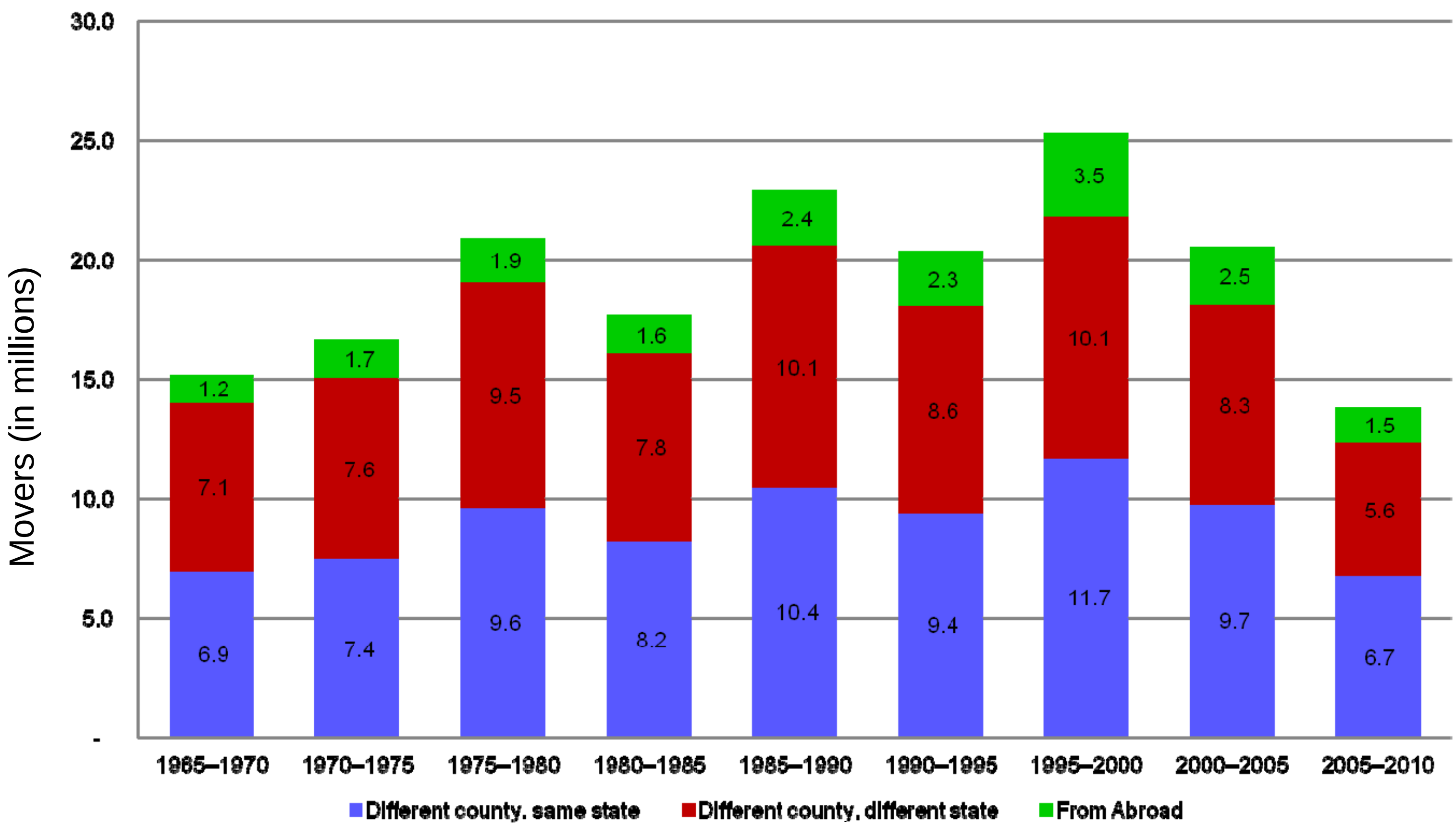


Where do they come from?

1. **California** – ***Complete disaster.***
2. **Northeast** – ***Too damn cold.***
3. **Rust Belt** – ***No jobs.***
4. **Florida** – ***Need help finding their luggage though.***

5. **Others…**

Five Year Distribution of Movers in U.S. by Type*
1980-2010
Source: U.S. Census Bureau



**Excludes movers in the same county*

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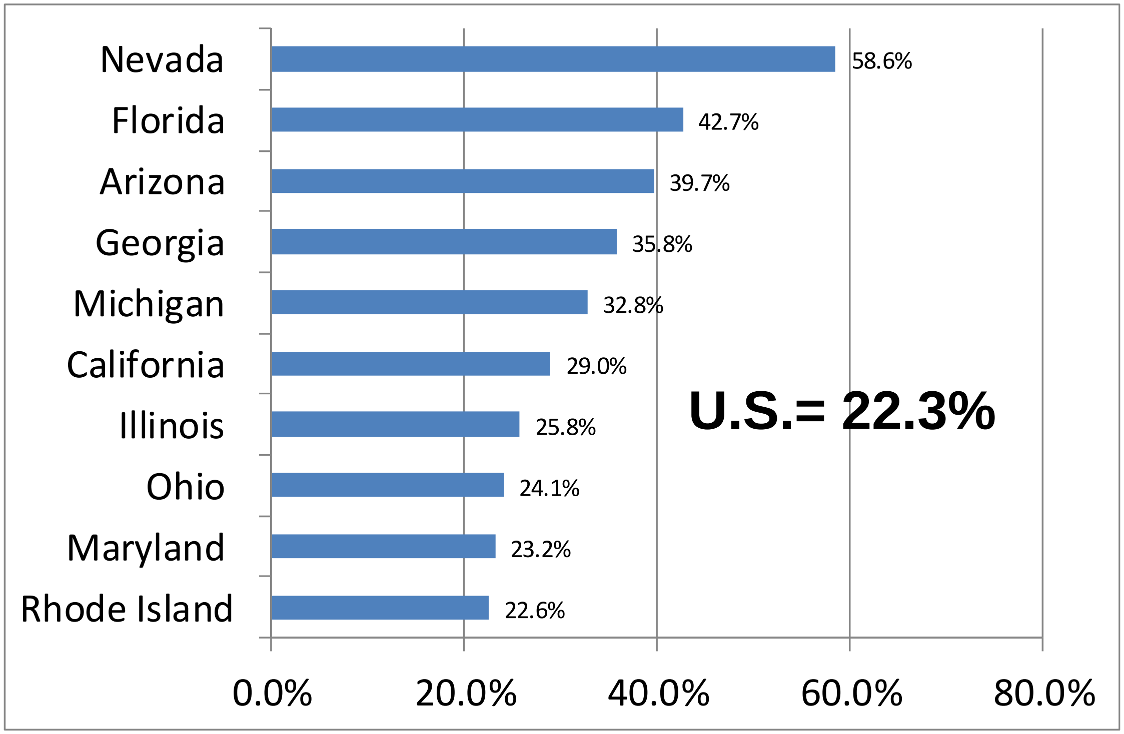
Top 10 States

Percent of Homes with Mortgages with Negative Equity

Source: Core Logic



Closing Points:

- **AZ will still be a top 5 economy.**
- **The long term potential remains intact!**

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- Real Estate Market and Feasibility Studies
- Litigation Support
- Revenue Forecasting
- Keynote Speaking
- Public Finance and Policy Development
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7505 East Sixth Avenue, Suite 100 Scottsdale, Arizona 85251

480-423-9200 P / 480-423-5942 F / www.arizonaeconomy.com / info@edpco.com