Breakfast with the Economists: Mid-Year Economic Update

Consumer Spending
- Retail sales bottomed in June 2009 (nominal terms) and is growing at 8.8% AR
  - Spread across categories
- Restaurant & bar sales bottomed in October

https://ebr.eller.arizona.edu
Retail Sales, TUS
seasonally adjusted annual rate

Spending Growth, Past 6 Months (AR), Arizona

<table>
<thead>
<tr>
<th>Category</th>
<th>% change</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail sales, total</td>
<td>8.8</td>
<td>-</td>
</tr>
<tr>
<td>Motor vehicle dealers</td>
<td>2.6</td>
<td>10.3</td>
</tr>
<tr>
<td>Miscellaneous automotive</td>
<td>11.2</td>
<td>4.3</td>
</tr>
<tr>
<td>Furniture, home furnishings</td>
<td>20.7</td>
<td>6.4</td>
</tr>
<tr>
<td>Building material, lawn &amp; garden</td>
<td>5.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Food &amp; liquor stores</td>
<td>0.0</td>
<td>8.2</td>
</tr>
<tr>
<td>Miscellaneous retail</td>
<td>19.5</td>
<td>15.8</td>
</tr>
<tr>
<td>Clothing &amp; accessories</td>
<td>11.3</td>
<td>5.8</td>
</tr>
<tr>
<td>General merchandise</td>
<td>-3.1</td>
<td>18.8</td>
</tr>
<tr>
<td>Restaurant &amp; bar sales</td>
<td>0.0</td>
<td>-</td>
</tr>
</tbody>
</table>

Restaurant & Bar Sales, TUS
seasonally adjusted annual rate

Airline Passengers
Millions, SAAR, smoothed

- PHX Sky Harbor (left)
- Tucson International (right)
Retail Sales Growth, TUS
(retail, restaurant & bar, food, and gasoline)

Consumer Confidence Index
(1985=100)

Mid-Year Forecast Update
June 9, 2010

What’s Fueling Spending?
- Releasing "pent-up demand"
  - Upper income households
- Savings rate is moving lower
- Federal rebate programs
  - Cash for clunkers, homebuyer credits
  - Rebates for energy efficient appliances, windows
- No longer making mortgage payments
  - Delinquencies, strategic defaults, etc.
- Personal income growing again

Nonfarm Jobs, TUS
seasonally adjusted

Source: Conference Board andBehavior Research Center, Inc.
Housing Affordability: Resale
Metro Phoenix

Median Price of Homes Sold
MLS, seas adj and smoothed

Home Price Appreciation
FHFA/OFHEO Repeat Sales Index

Foreclosures, April 2010
Source: RealtyTrac

<table>
<thead>
<tr>
<th></th>
<th>Foreclosure rate</th>
<th>Properties in foreclosure</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1 in every X</td>
<td>Notices in April</td>
</tr>
<tr>
<td>Arizona</td>
<td>169</td>
<td>16,088</td>
</tr>
<tr>
<td>Maricopa Co.</td>
<td>138</td>
<td>11,323</td>
</tr>
<tr>
<td>Pima Co.</td>
<td>242</td>
<td>1761</td>
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<tr>
<td>Pinal Co.</td>
<td>109</td>
<td>1331</td>
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</table>
Near Term Outlook

- Recession in AZ is over, recovery will be slow
  - Drag from real estate and public sector
- Risks
  - Oil spills, euro-zone turmoil, volatility in stock markets
  - Policy mistakes
  - AZ’s new immigration law
- Voters deserve credit
  - But Arizona still facing a structural deficit

America’s Most Innovative Cities

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Rank</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>San Jose</td>
<td>11</td>
<td>Palm Beach</td>
</tr>
<tr>
<td>2</td>
<td>Austin</td>
<td>12</td>
<td>Minneapolis</td>
</tr>
<tr>
<td>3</td>
<td>Raleigh, NC</td>
<td>13</td>
<td>Washington, D.C.</td>
</tr>
<tr>
<td>4</td>
<td>San Francisco</td>
<td>14</td>
<td>Rochester, NY</td>
</tr>
<tr>
<td>5</td>
<td>Seattle</td>
<td>15</td>
<td>Albany, NY</td>
</tr>
<tr>
<td>6</td>
<td>San Diego</td>
<td>16</td>
<td>Boise, ID</td>
</tr>
<tr>
<td>7</td>
<td>Madison, WI</td>
<td>17</td>
<td>Oxnard, CA</td>
</tr>
<tr>
<td>8</td>
<td>Boston</td>
<td>18</td>
<td>Denver</td>
</tr>
<tr>
<td>9</td>
<td>Provo</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Portland, OR</td>
<td>20</td>
<td>Bridgeport, CN</td>
</tr>
</tbody>
</table>

Visit Our Award-Winning Website:

EBR.Eller.Arizona.edu

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CHASE
ANGST!
THE WORD *DU JOUR*

Unemployment

- December 2007: 5.0%
- December 2009: 10.0%
- APRIL 2010: 9.9%

**GOOD NEWS?**
- MAY 2010: 9.7%

Currently 15 million unemployed

Unemployment

- MAY UNEMPLOYMENT: 9.7%
- 46% have been unemployed for over 6 months
- 32% have been unemployed for over 1 year
- Worst long-term unemployment since 1930s
Unemployment

May 2010 Decline in Unemployment = 287,000

May 2010 Decline in Labor Force = 322,000

May Employment Gain = 431,000

May Gain in Temporary Census Workers = 411,000

May Loss in State Employment (excluding education) = 13,000

MEET THE UNEMPLOYABLE MAN

Men Age 24 – 54 that are not working = 20%

A. Their high unemployment is largely structural rather than cyclical

B. Many of their jobs are gone forever

Employment

DISTURBING TREND -

Employment Rate # Employed__

Pop over age of 16

January 2000 64.6%

April 2010 58.8%

May 2010 58.7%

UNEMPLOYMENT

Selected States – April 2009

Michigan 14.0%

Nevada 13.7%

California 12.6%

Rhode Island 12.5%

Illinois 11.2%

Arizona 9.4%

North Dakota 3.8%
Inflation - Deflation

May 2010 = -.01%

Core Price Index Slide in April to its Lowest Level in 44 Years

Growth in GDP

GOOD NEWS!

Third Quarter 2009 + 2.2%
Fourth Quarter 2009 + 5.6%
First Quarter 2010 + 3.0%

STILL TOO SLOW TO SIGNIFICANTLY CHANGE UNEMPLOYMENT RATE

Growth

Technically the recession is over!
However--

The recession dating committee has yet to go out on a date

National Bureau of Economic Research

GROWTH

RISK = ANGST

Is this a hollow recovery?
Like a piñata without candy?
Euro crisis = double dip recession?
Consumption

Consumers are decreasing their debt at lightening fast pace.

**Mortgage Defaults**
**Strategic Mortgage Defaults**

**THINK--**
Debt Destruction – Not Repayment
More money to spend on consumption!

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Investment Spending

- Business confidence low but improving
- Inventories are a bright spot
- New home building showing signs of life
- Loans are still difficult to get

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Investment Spending

Manufacturing Capacity Utilization
GOOD NEWS!

April 2010 73.7%
Up 4.5 % From April 2009

Slowly Improving!
80%+ = Normal

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Fiscal Policy

**Deficit**

Fiscal 2009- $1.4 TRILLION
Projected 2010
- $1.5 TRILLION

Projected 2011
- $1.3 TRILLION
Fiscal Policy

February 2010 $220 Billion Deficit

All Time Monthly World Record for Deficit Spending!

20 Consecutive Months of Budget Deficits
First Time Ever

Fiscal Policy

ANGST

44% of federal government spending is currently being financed by borrowing

NOT SUSTAINABLE!

Fiscal Policy

ANGST

Recent Gallop Poll

81% people said that they trust government to do what is right some of the time or never

Deficits and Unfunded Liabilities

“Everyone wants to go to heaven, but nobody wants to die!”
- Songwriters Dorsey & Thomas

SOLUTION =
National Commission on Fiscal Responsibility and Reform
**Government Spending**

Deficit for fiscal 2009 = **10.0%** of GDP

3% of GDP is normally considered safe

ANGST

Our we on the verge of a sovereign debt crisis?

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**Euro Zone Risk**

**Sovereign Debt Crisis**

Once there were three little pigs

Now – there are five little PIIGS

Portugal

Ireland

Italy

Greece

Spain

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**Fiscal Policy**

MANDATORY SPENDING

1965 29% OF BUDGET

2010 66% OF BUDGET

ADD DEFENSE in fiscal 2010

83% OF BUDGET

17% DISCRETIONARY

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**Fiscal Policy**

We can not grow ourselves out of this deficit

IT IS A STRUCTURAL DEFICIT

TO SOLVE THE DEFICIT PROBLEM:

TAXES MUST BE INCREASED

AND/OR

SPENDING MUST BE CUT
FISCAL POLICY

MY PREDICTION--

THERE IS A VALUE ADDED TAX

COMING TO A STORE NEAR YOU IN THE NOT-TOO-DISTANT FUTURE

Monetary Policy

Brilliant Ben and the Fantastic Federal Reserve
Our New Superhero!

SO FAR SO GOOD

Monetary Policy

Federal Funds Rate Still Zero

ANGST
129 banks failed in 2009
73 banks have failed in 2010

772 BANKS ON FDIC WATCH LIST
- ONE OUT OF EVERY TEN BANKS -

Monetary Policy

HYPEREXPANSIONARY MONETARY POLICY

The Federal Reserve’s Balance Sheet has Exploded

August 2007 $800 billion
APRIL 2010 $2.3 trillion

Think Printing Lots of Money

ANGST = INFLATION
Conclusion

We Are Facing Lots of Uncertainties
We are Worried

**We Have Lots of Angst**

Conclusion

The Recession Will Not Be Viewed as Over Until -

**“The Unemployed Fat Lady Sings”**

**CONCLUSION**

REMEMBER –

**PRIVATE SECTOR PRODUCTION AND INCOME PAYS FOR PUBLIC SECTOR GOODS AND SERVICES**

Conclusion

For the rest of the year let’s be:
Patient
Productive
And YES
Avoid Angst!
Conclusion

HAVE A SAFE AND ENJOYABLE SUMMER

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