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Phoenix and Arizona are not alone in economic misery



Lee McPheters

With very few exceptions, major labor markets in all parts of the nation are feeling the pain of the weak job growth associated with the current economic slowdown.

On average, the 29 labor markets with one million or more workers lost 17,500 jobs in the past 12 months (June 2002 vs June 2001). Only 6 large metro areas posted significant job growth during the period (see table).

Phoenix, the nation's 14th largest metro population center, is right in the middle of the pack when it comes to current economic performance.

In absolute number, the 19,300 jobs lost in Phoenix were slightly above the average and exceeded those in some larger areas such as Detroit and Minneapolis.

In percentage terms, the rate of job loss in Phoenix is similar to Dallas or St. Louis. The average percentage employment erosion in major labor markets that lost jobs was -1.4 percent. For the 12 month period, employment in the greater Phoenix metro area was down 1.2 percent.

The bottom 10 metro areas in the table represent a diverse geographic distribution. Seattle has been hardest hit of all major labor markets with a 3.3 decline in employment. San Francisco, also on the Pacific Coast, is the second weakest performer.

The Southeast is represented at the bottom of the listing by Atlanta, the Northeast by Boston and New York, the Midwest by Chicago and St. Louis, the Mid-Atlantic region by Northern Virginia, and the

EMPLOYMENT CHANGES IN METRO AREAS WITH ONE MILLION WORKERS (June 2002 vs June 2001, Employment in Thousands of Jobs)

Metropolitan Area	Change in Employment		
	Percent	Number	June 2002
Riverside-San Bernardino, CA	3.0	30.7	1,061.6
San Diego, CA	1.7	21.2	1,249.9
Kansas City, MO	1.1	10.9	1,007.7
Miami, FL	0.6	5.9	1,043.7
Orange County, CA	0.4	5.1	1,432.2
Nassau-Suffolk, NY	0.3	3.8	1,247.3
Washington DC	0.0	0.7	2,821.6
Houston, TX	-0.3	-6.7	2,121.0
Oakland, CA	-0.3	-3.6	1,059.1
Cleveland, OH	-0.5	-6.1	1,161.0
Minneapolis-St. Paul, MN	-0.7	-11.8	1,754.9
Los Angeles-Long Beach, CA	-0.7	-27.5	4,079.7
Detroit, MI	-0.8	-17.7	2,153.0
Baltimore, MD	-1.0	-12.1	1,259.7
Philadelphia, PA	-1.0	-25.0	2,403.5
Tampa-St. Petersburg, FL	-1.1	-13.5	1,223.6
Newark, NJ	-1.1	-11.3	1,021.7
Pittsburgh, PA	-1.1	-13.1	1,138.8
Dallas, TX	-1.2	-24.1	1,991.9
Phoenix, AZ	-1.2	-19.3	1,564.1
St. Louis, MO	-1.3	-16.8	1,316.9
Boston, MA	-1.5	-31.1	2,036.3
Chicago, IL	-1.6	-67.5	4,206.0
Northern VA	-1.6	-18.9	1,173.8
Denver, CO	-2.2	-27.0	1,176.2
Atlanta, GA	-2.6	-58.3	2,155.7
New York City	-2.6	-98.6	3,632.0
San Francisco, CA	-2.9	-30.8	1,044.2
Seattle, WA	-3.3	-47.3	1,370.1

Source: Blue Chip Job Growth Update, Bank One Economic Outlook Center, College of Business, Arizona State University; U.S. Bureau of Labor Statistics.

Mountain states by Denver and Phoenix.

The Riverside - San Bernardino metro area is the strongest major labor market in the country, with 30,700 new jobs from June to June and a very

healthy 3.0 percent growth rate.

Two other metropolitan areas in the Golden State — San Diego and Orange County — are also among the six large labor markets recording

(Continued on Page 3)

2002 ARIZONA BLUE CHIP ECONOMIC FORECAST

SOURCE:	ANNUAL PERCENT CHANGE 2002 FROM 2001									AVERAGE RATE FOR 2002		
	AZ Current \$ Personal Income	U.S. GDP Deflator (Chain)	AZ Real Personal Income	AZ Retail Sales	AZ Wage & Salary Empl.	AZ Mfg. Empl.	AZ Single- family Units	AZ Multi- family Units	AZ Pop. Growth	U.S. 3-Mo. T-Bills	U.S. 10-Yr. Treas. Notes	AZ Unempl. Rate
Arizona Public Service	5.1	1.6	3.2	3.1	0.9	(2.4)	(12.5)	(16.0)	2.6	2.2	5.0	5.3
ASU - Bank One EOC	4.8	1.4	3.4	2.5	0.3	(4.5)	(10.0)	(15.0)	2.6	1.7 L	5.0	5.6
CH2M HILL	4.2	1.6	2.6	3.4	0.6	(3.6)	(12.0)	(10.0)	2.4	2.1	5.0	5.3
Department of Economic Security	5.2	1.2	4.0	4.0	(0.8)L	(4.6)			2.5	1.8	5.2	5.8
ECON-LINC	3.8	1.2	2.4	3.2	(0.6)	(6.0)	(5.0)	(5.0)	2.3 L	1.9	4.8 L	5.8
Eggert Economic Enterprises Inc.	4.2	1.5	2.7	3.0	0.8	(6.0)	(14.0)	(15.0)	2.4	1.9	5.3	5.6
Elliott D. Pollack & Co.	4.1	1.8 H	2.3	2.5	0.0	(7.0)L	(15.0)	(20.0)	2.7	2.0	5.0	5.2
H. C. Reardon Economics	4.2	1.5	2.7	3.1	0.2	(5.5)	(12.0)	(17.0)	2.5	1.9	5.3	4.1 L
Joint Legislative Budget Committee	4.0	1.4	2.6	1.3	0.5	(2.0)	(12.0)	(12.0)	2.5	1.9	5.2	5.7
Lancaster Consulting	5.0	1.6	3.5	3.6	1.2	(1.5)	(10.0)	(12.0)	2.6	2.2	5.1	5.2
The Maguire Company	5.1	1.8 H	3.2	3.3	0.0	(3.0)	(10.0)	(15.0)	2.7	1.9	5.0	5.1
NAU - BBER	4.8	1.3	3.5	3.8	1.6	(1.3)	(10.0)	(10.0)	2.5	1.8	5.0	5.3
Office of the Treasurer	4.5	1.2	3.3	3.3	1.0	(2.1)				1.7 L	4.8 L	5.5
Protitlement	5.0	1.8 H	3.2	3.2	1.3	(4.6)	(12.0)	(10.0)	2.7	2.1	5.0	5.2
Salt River Project	5.0	1.4	3.6	3.0	0.0	(5.2)	(7.0)	(10.0)	2.8 H	1.8	5.2	5.5
Stellar Capital Management	4.9	0.9 L	3.0	2.5	0.6	(4.5)	(9.5)	(20.0)	2.5	1.9	5.0	5.8
Tucson Electric Power Co.	3.0 L	1.8 H	2.0 L	(0.1)L	0.0	(3.0)	(18.0)L	(20.0)	2.4	2.6 H	4.9	5.0
UA - Eller College	4.0	1.4	2.6	1.2	(0.1)	(6.0)	(3.0)	(25.6)	2.5	1.9	5.4 H	6.0 H
VisionEcon	5.8 H	1.2	4.6 H	4.6 H	2.3 H	0.2 H	0.0 H	(3.0)H	2.7	1.8	5.0	5.2
Wells Fargo & Co.	4.5	1.4	3.1	3.1	0.3	(4.6)	(5.0)	(30.0)L	2.6	1.8	4.8 L	5.9
Consensus – This Month	4.6	1.5	3.1	2.9	0.5	(3.9)	(9.8)	(14.8)	2.6	1.9	5.1	5.4
– Last Month	4.7	1.5	3.2	3.1	0.8	(2.7)	(10.8)	(13.9)	2.5	2.1	5.1	5.3

ARIZONA BLUE CHIP PANEL

Arizona Department of Economic Security Donald Wehbey Arizona Office of the Treasurer Neal Helm Arizona Public Service Pete Ewen and Brian Cary Arizona State University Bank One Economic Outlook Center Tracy Clark CH2M Hill Kent Ennis	ECON-LINC John Lucking Eggert Economic Enterprises Inc. Robert J. Eggert, Sr. Elliott D. Pollack and Co. Elliott Pollack H. C. Reardon Economics H. C. Reardon Joint Legislative Budget Committee Staff Lancaster Consulting Dwight Duncan	The Maguire Company Alan Maguire Northern Arizona University Bureau of Business and Economic Research Wally Duncan, Ronald Gunderson and Max Jerrell Protitlement Steve Pritulsky Salt River Project Arlyn Herrera, Rebecca Holmes and Karen Wolfe	Stellar Capital Management Phoenix, Arizona Stephen Taddie Tucson Electric Power Co. Julia Adams University of Arizona Eller College Marshall Vest VisionEcon Debra J. Roubik Wells Fargo & Co. Scott Anderson and Sung Won Sohn
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ARIZONA HISTORICAL TABLE

	AZ Current \$ Personal Income (millions)	U.S. GDP Deflator	AZ Real Personal Income (millions)	AZ Retail Sales (millions)	AZ Wage & Salary Empl. (thousands)	AZ Mfg. Empl. (thousands)	AZ Single- family Units	AZ Multi- family Units	AZ Pop. (thousands)	AZ Unempl. Rate
2001	\$135,224	109.4	\$123,605	\$44,833	2,265.7	209.6	50,930	10,613	5,324	4.7
Percent Change	4.8	2.2	2.5	2.0	1.0	(2.7)	4.3	(2.8)	3.0	
2000	\$129,069	107.0	\$120,625	\$43,940	2,242.8	215.4	48,846	10,920	5,169	3.9
Percent Change	8.2	2.2	5.8	7.8	3.7	1.7	(5.6)	(9.5)	3.0	
1999	119,339	104.7	113,982	40,769	2,163.1	211.7	51,764	12,067	5,017	4.4
Percent Change	5.7	1.5	4.2	10.0	4.3	(2.0)	1.5	(8.7)	3.1	
1998	112,895	103.2	109,394	37,071	2,074.7	216.0	50,997	13,218	4,864	4.1
Percent Change	8.9	1.3	7.5	7.2	4.5	4.1	18.6	1.3	3.3	

2003 ARIZONA BLUE CHIP ECONOMIC FORECAST

SOURCE:	ANNUAL PERCENT CHANGE 2003 FROM 2002									AVERAGE RATE FOR 2003		
	AZ Current \$ Personal Income	U.S. GDP Deflator (Chain)	AZ Real Personal Income	AZ Retail Sales	AZ Wage & Salary Empl.	AZ Mfg. Empl.	AZ Single- family Units	AZ Multi- family Units	AZ Pop. Growth	U.S. 3-Mo. T-Bills	U.S. 10-Yr. Treas. Notes	AZ Unempl. Rate
Arizona Public Service	6.0	2.1	3.8	4.8	2.7	0.2	10.0	12.5 H	2.6	3.6	5.4	4.7
ASU - Bank One EOC	5.6	1.9	3.6	5.0	2.7	1.0	(1.0)	(5.0)	2.3	3.3	5.9	4.7
CH2M HILL	6.1	2.1	4.0	5.9	2.5	1.0	1.0	(5.0)	2.6	3.6	5.6	4.8
Department of Economic Security	6.0	1.9	4.0	5.6	2.5	1.6			2.4	2.8	6.1	4.8
ECON-LINC	6.4	1.9	4.4	5.6	2.8	1.0	(10.0)L	(10.0)	2.5	3.0	5.2	5.2
Eggert Economic Enterprises Inc.	6.0	2.0	4.0	5.5	3.3	1.4	(5.0)	(4.0)	2.6	2.6	5.7	4.7
Elliott D. Pollack & Co.	6.5	2.3	4.3	6.0	3.5	3.0 H	(10.0)L	(10.0)	2.7	3.5	6.0	4.7
H. C. Reardon Economics	6.7	2.4 H	4.2	6.5	3.4	2.6	0.0	(5.0)	2.6	3.7 H	6.3 H	4.6
Joint Legislative Budget Committee	5.0	2.4 H	2.6 L	4.0	1.5	1.5	0.0	(4.0)	2.6	3.7 H	6.1	4.8
Lancaster Consulting	6.1	2.0	4.0	5.3	2.8	1.5	(5.0)	(10.0)	2.5	3.4	5.5	4.9
The Maguire Company	6.3	2.1	4.1	6.0	3.0	2.0	(5.0)	(5.0)	2.7	3.3	5.1	4.7
NAU - BBER	6.0	1.5 L	4.5 H	5.5	3.0	1.3	0.0	5.0	2.6	2.0 L	4.8 L	4.5
Office of the Treasurer	5.9	1.8	4.1	5.2	2.6	0.9				3.0	5.1	4.8
Protitlement	6.1	2.2	3.9	5.8	3.2	2.1	(5.0)	(5.0)	2.7	2.8	5.8	4.9
Salt River Project	6.0	2.4 H	3.6	5.5	3.0	2.0	0.0	0.0	2.8	2.8	6.1	4.5
Stellar Capital Management	5.5	1.5 L	3.6	4.5	2.0	1.5	2.0	5.0	2.2 L	3.0	5.5	5.3
Tucson Electric Power Co.	4.8 L	1.8	2.8	3.3 L	1.3 L	(1.5)L	(9.0)	(12.0)L	2.5	3.5	5.0	4.8
UA - Eller College	6.1	2.4 H	3.7	4.4	2.8	2.3	(7.8)	(0.1)	2.2 L	3.7 H	5.9	5.3
VisionEcon	6.8 H	2.3	4.5 H	7.7 H	4.0 H	1.0	11.7 H	3.9	3.1 H	3.2	5.9	4.1 L
Wells Fargo & Co.	5.9	1.9	4.0	5.1	3.4	1.6	0.0	10.0	2.6	3.2	5.4	5.4 H
Consensus – This Month	6.0	2.0	3.9	5.4	2.8	1.4	(1.8)	(2.2)	2.6	3.2	5.6	4.8
– Last Month	6.1	2.1	3.9	5.5	2.9	1.5	0.8	(0.4)	2.6	3.5	5.6	4.7

Basic data sources:

(1) Arizona personal income in current \$, (2) Gross domestic product price deflator chain type [1992 = 100] and (3) Arizona personal income in 1992 \$, Bureau of Economic Analysis; (4) Arizona retail sales, Arizona Department of Revenue, (5) Arizona total nonagricultural wage and salary employment and (6) Arizona manufacturing employment, DES; (7) Arizona single-family unit authorizations and (8) Arizona multi-family unit authorizations, ASU – AREC; (9) Arizona population, ASU – CBR; (10) 3-month Treasury bills, Federal Reserve Board; (11) 10-year U.S. Treasury notes yield FRB, H15; (12) Arizona unemployment rate, DES.

(Continued from Page 1)

employment increases.

Phoenix has often been compared to these California metro areas on various measures such as population growth and industrial mix.

But today, there are some stark differences. The Phoenix service sector, a key economic driver which grew at a double-digit pace in the mid '90s, has been losing jobs each month since late 2001.

So far this year, service sector job creation in Riverside-San Bernardino is actually exceeding the pace of last year, at 4.6 percent. Services growth is also strong in Orange County and San Diego.

WESTERN STATES

Nevada continues to outpace all other states in the rate of job growth. New Mexico is the only other Western state with employment gains (see table).

The weakest economy in the nation is Colorado. Job losses between June 2001 and June 2002 were more than double those of Arizona, although the two states are about the same size.

Both Arizona and Colorado have seen employment drop in important sectors

such as manufacturing, construction and services. But, unlike Arizona, Colorado has also lost jobs in wholesale and retail trade. Trade in the Grand Canyon State was up 6,000 jobs in June over the previous year. The gain of 1.1 percent was not spectacular, but at least it was in the right direction.

Arizona economy watchers became accustomed to top 10 growth rankings in the 1990s. It looks like they have some waiting to do before those days return.

Lee McPheters is Associate Dean of Executive and Professional Programs with the College of Business at Arizona State University.

EMPLOYMENT CHANGES IN WESTERN STATES (June 2002 vs. June 2001)

State	National Rank	Percent Change	Thousands of Jobs		
			Job Growth	Jun-02	Jun-01
Nevada	1	1.2	12.4	1,074.9	1,062.5
New Mexico	3	0.8	6.0	767.5	761.5
California	20	-0.4	-52.4	14,738.3	14,790.7
Idaho	26	-0.7	-4.0	575.5	579.5
Arizona	34	-1.0	-23.1	2,225.3	2,248.4
UNITED STATES		-1.1	1,450.0	131,849.0	133,299.0
Texas	38	-1.1	-105.1	9,475.9	9,581.0
Oregon	40	-1.3	-20.3	1,595.8	1,616.1
Utah	46	-1.6	-17.4	1,073.8	1,091.2
Washington	47	-2.2	-58.9	2,677.7	2,736.6
Colorado	50	-2.3	-51.6	2,211.2	2,262.8

Source: Blue Chip Job Growth Update, Bank One Economic Outlook Center, College of Business, Arizona State University; U.S. Bureau of Labor Statistics.

SPECIAL QUESTION: THE ECONOMIC RECOVERY

The economic recovery so far is similar to what became known as the “job-less recovery” following the 1990/1991 recession. In addition to this observation, it is clear from the panel’s forecast that not all sectors of the economy will recover at the same pace.

There are several reasons why businesses are being cautious when it comes to hiring. Business spending in general has not rebounded as much as the profit numbers suggest that it should. Firms during most of the '90s favored the equity markets rather than the bond market or banks when they needed funding, but the drop in the stock market has all but closed that source of funding for the time being. Borrowing from the commercial bond market or banks has been made more difficult by the revelations of corporate accounting irregularities, and at least in the corporate bond market kept interest rates relatively high. Finally, the level of scrutiny to which management is now subjected tends to discourage risk taking.

The employment picture is weakest in manufacturing, which is expected to shrink further during 2002 and rebound only mildly in 2003. Manufacturing actually was hurt more than the official numbers would suggest because of the trend toward outsourcing that accelerated dur-

ing the last decade. A large part of the losses suffered in the business services sector would have been included in manufacturing in past recessions. The result is a much larger decline in overall services growth than has ever been seen before, and a nagging suspicion that companies laid off more people than they would have if all of those people had been on the direct payroll. Firms also have discovered that they are able to maintain production with fewer workers, if only in the short run.

Construction also has begun to drop, mainly because of a slowdown in non-residential construction. Residential construction, particularly single family construction, continues to be propped up by low interest rates. Permit activity is expected to decline as population growth slows, but the size of the decline will be far smaller than in past downturns.

Employment is expected to start growing again in 2003 but the rebound will be anemic by historical standards. However, we must also bear in mind that the unemployment rate is far lower than is typical at this point in a recovery.

— Tracy Clark
Associate Director

Bank One Economic Outlook Center

EMPLOYMENT FORECASTS (Percent Change over Previous Year)

2002	
Manufacturing	-4.1
Mining	-5.5
Construction	-2.7
TCPU	-1.9
Trade	1.2
FIRE	1.2
Services.....	0.7
Government	2.2
Total	0.1
2003	
Manufacturing	1.7
Mining	-0.8
Construction	1.7
TCPU	2.1
Trade	2.4
FIRE	3.2
Services.....	3.3
Government	2.2
Total	2.6

ARIZONA BLUE CHIP ECONOMIC FORECAST

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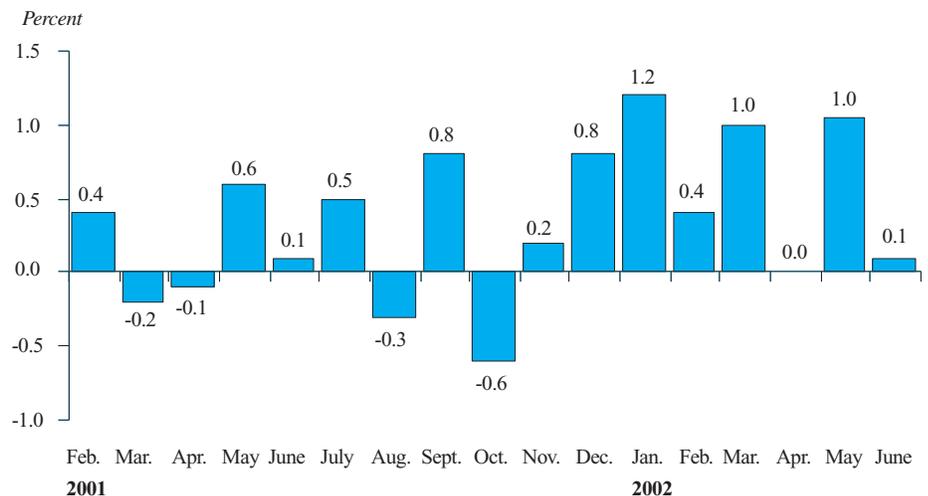
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LEADING INDEX

ARIZONA INDEX OF LEADING ECONOMIC INDICATORS Monthly Percentage Change*



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