

# **Finance Advisory Committee**

## **Briefing Materials**

**March 6, 2008**

**JLBC**





# Economic Outlook 2008

## “A Year You’ll Want to Forget”

**Presented by:**

**Elliott D. Pollack**

**Presented for:**

**Finance Advisory Committee**

**March 6<sup>th</sup>, 2008**



*Elliott D. Pollack & Company*

**Central Arizona Partnership**



# Where do we stand?





# Will there be a recession in 2008?

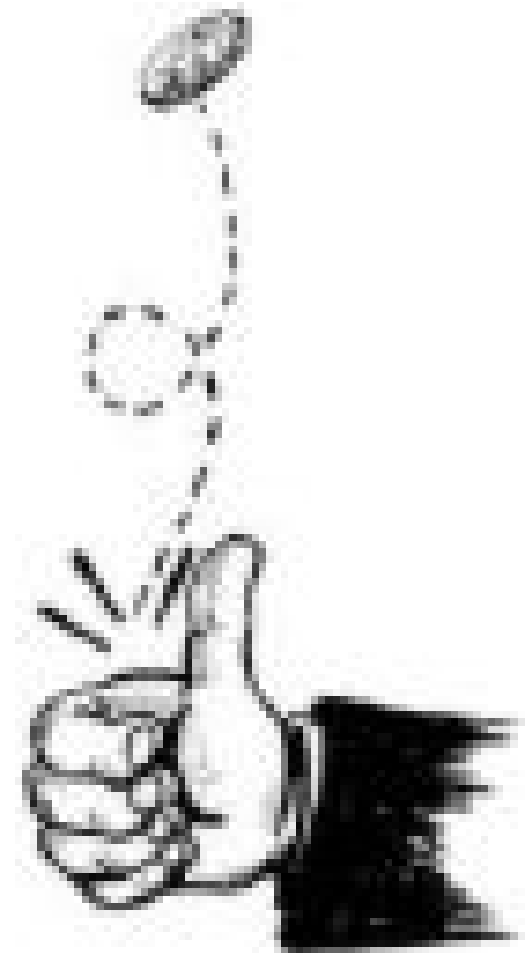
**YES**

**NO**



# Good chance of a recession

**(almost a coin flip)**





# ODDS OF A RECESSION

Source: National Blue Chip Panel

February 08 consensus: 48.8%

January 08 consensus: 38.1%

December 07 consensus: 39.1%

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January 07 consensus: 25.4%

Survey questions are asked on the 5<sup>th</sup> and 6<sup>th</sup> of each month.

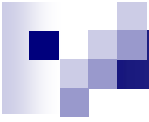




**Economists' expectations for  
2008 may be too lofty at the  
moment.**



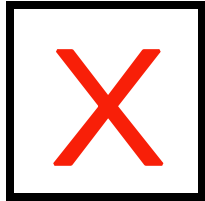




# **X** YES

- Housing market will worsen.
- Credit crunch will spread to non-highly levered section.
- Consumers will cut back.
- Export growth slows significantly.
- Business expansion will stop.





**NO**

- Housing market will worsen.
- Credit crunch will not spread to the business sector to the same extent it spread to the residential sector.
- Consumer spending weak.
- Export growth continues to be strong.
- Business continues to spend.





## Will there be a recession in 2008?



**YES**



**NO**

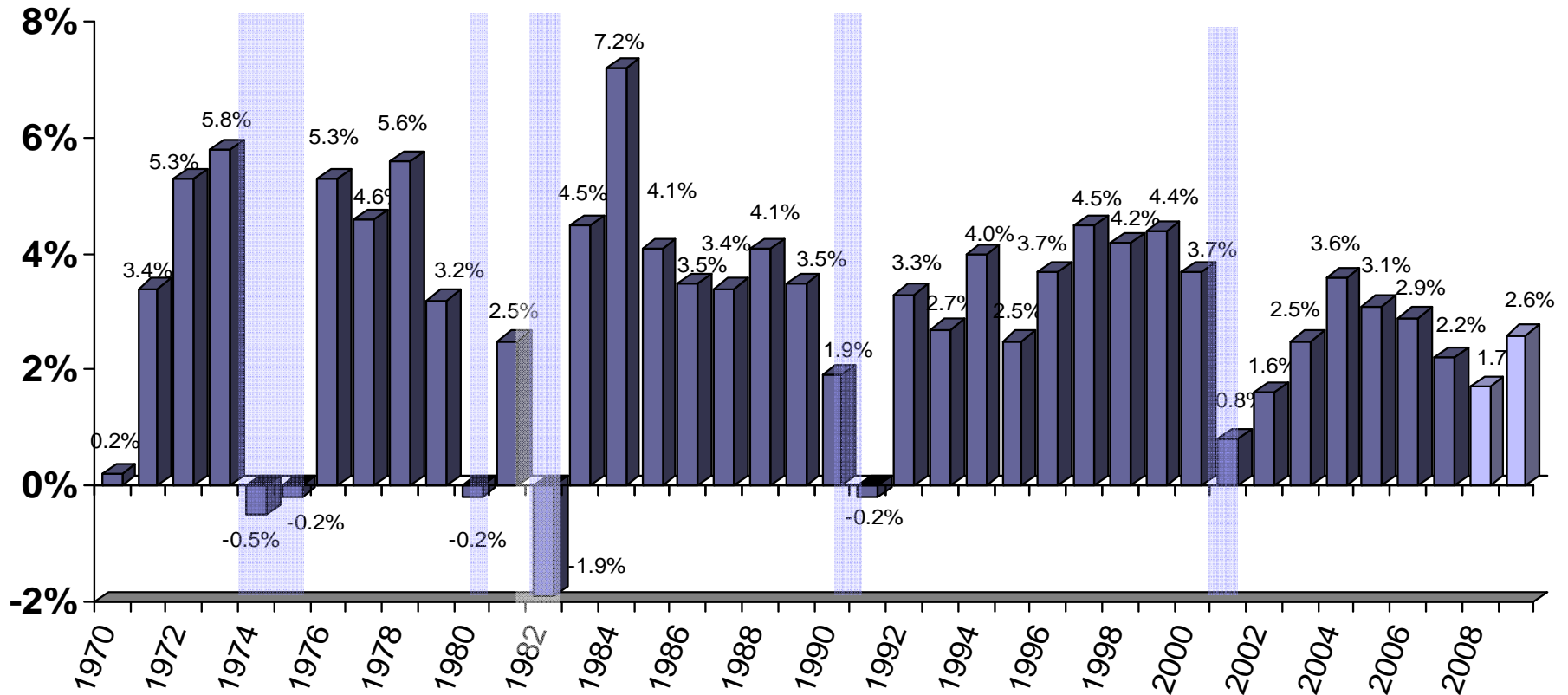
Either way, 2008 will **not**  
feel good!



# United States Real Gross Domestic Product\*

## Annual Growth 1970 - 2009\*\*

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



\* Based on chained 2000 dollars.

\*\* 2008 - 2009 are forecasts from the Blue Chip Economic Indicators, January 2007

 Recession Periods



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# Is a Recession Imminent?

**Economic expansions do not die of old age.**

**They die from:**

- 1. Structural imbalances**
- 2. Fiscal and monetary policy errors**

**...Combined with unusual shocks**





# This Time

Excess supply of housing →  
led to credit market problems.



# NBER Recession Indicators

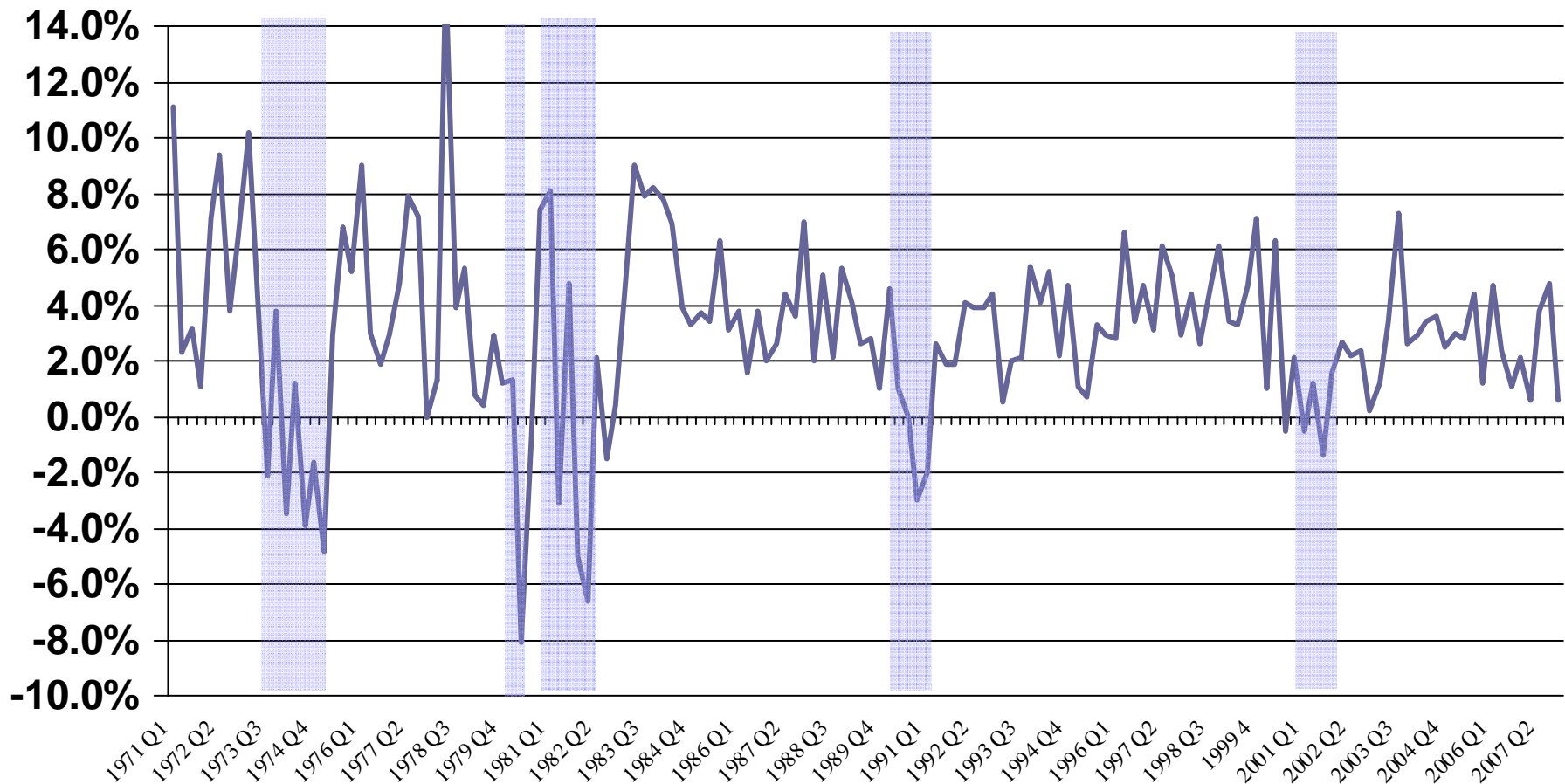
- Real GDP 
- Real Income 
- Employment 
- Industrial Production 
- Wholesale – Retail Sales 



# Real Gross Domestic Product Percent Change Quarter Ago, Annualized 1971 – 2007\*

Source: Bureau of Economic Analysis

Recession Periods

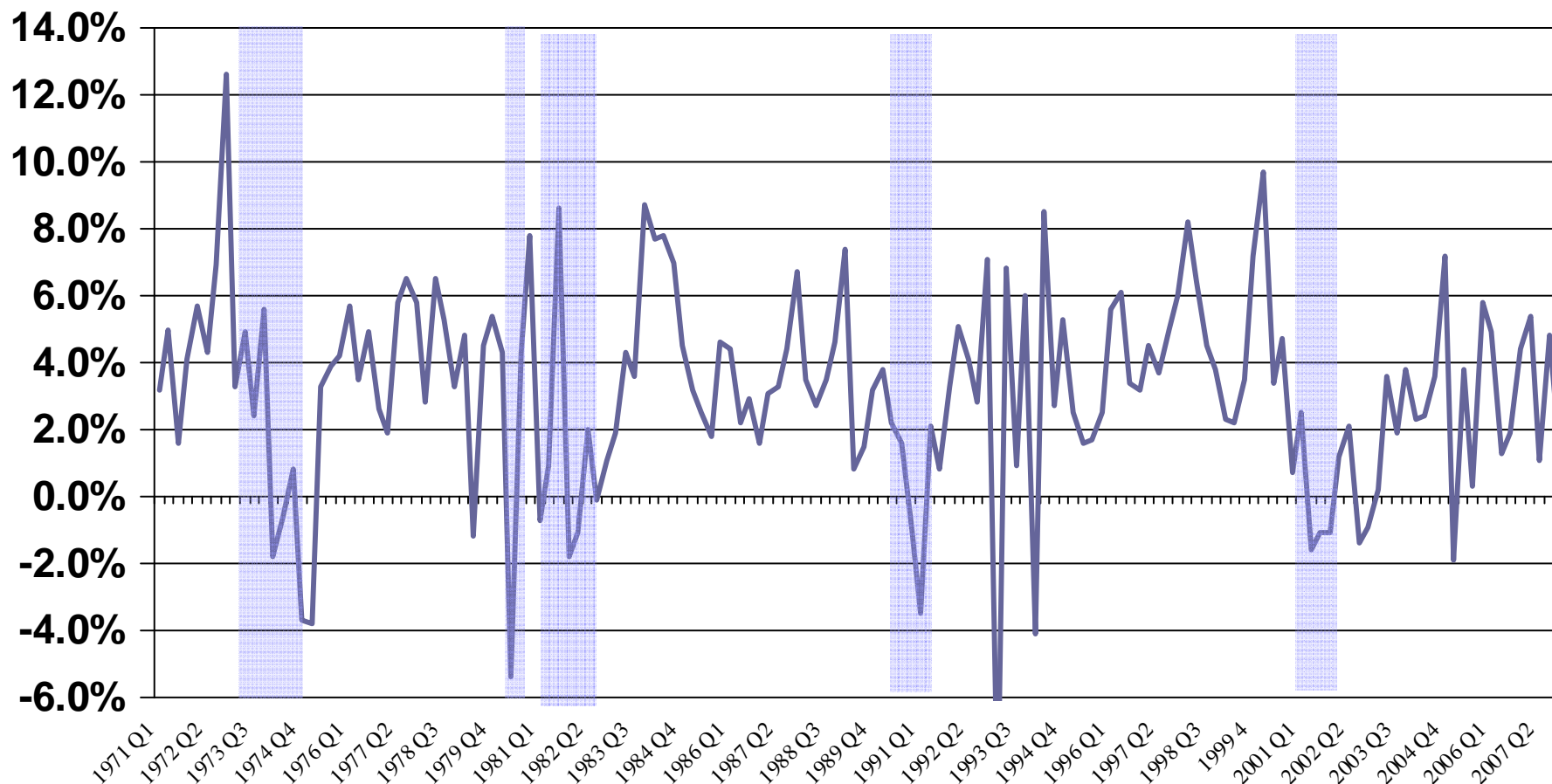




# Real Personal Income Net of Government Transfers Percent Change Quarter Ago, Annualized 1971 – 2007\*

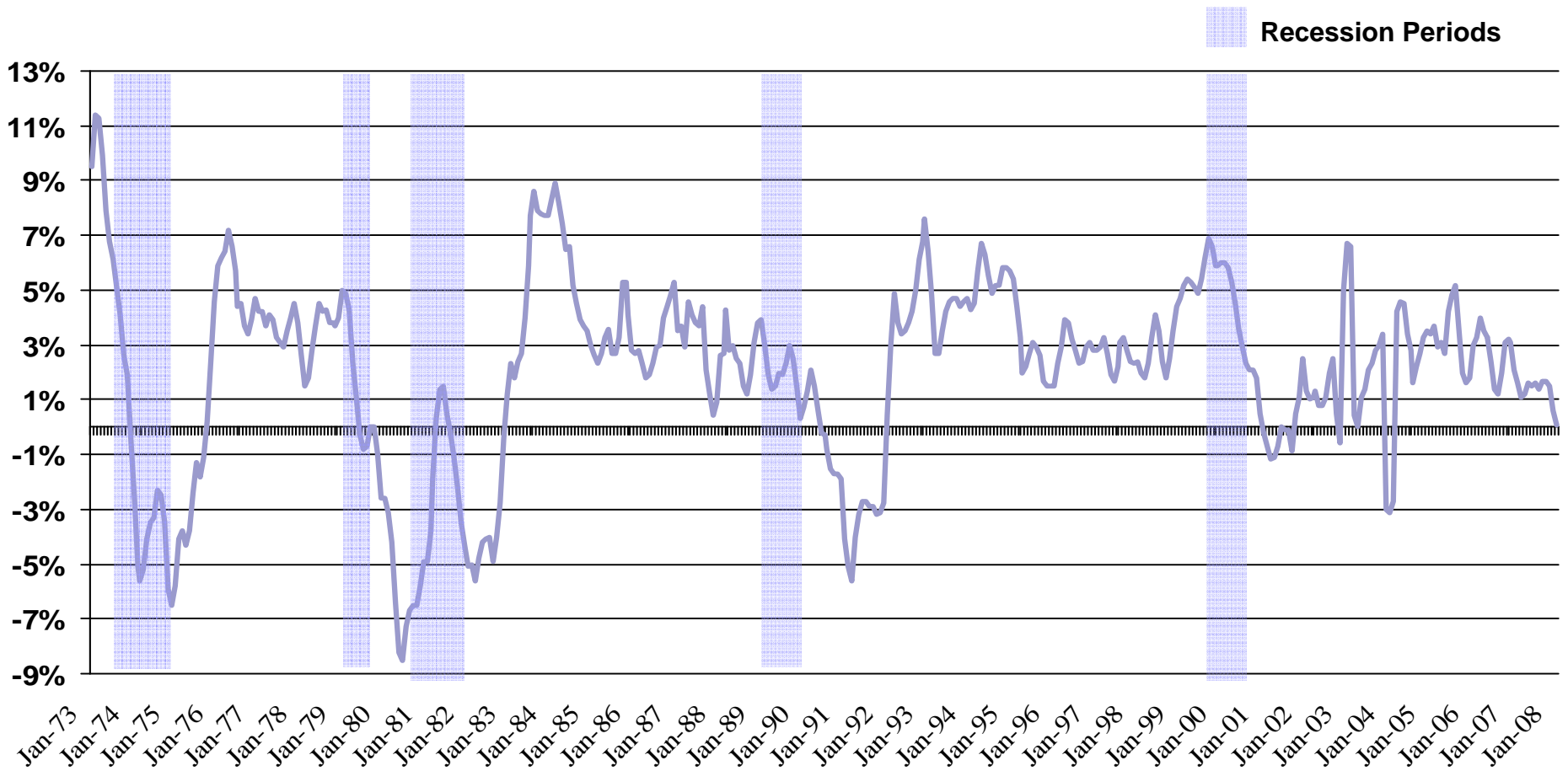
Source: Bureau of Economic Analysis

Recession Periods



# Real Retail Sales U.S. Percent Change Year Ago 1973 – 2008\*

Source: Federal Reserve



\*Data through January 2008  
\*\*Three-month moving average



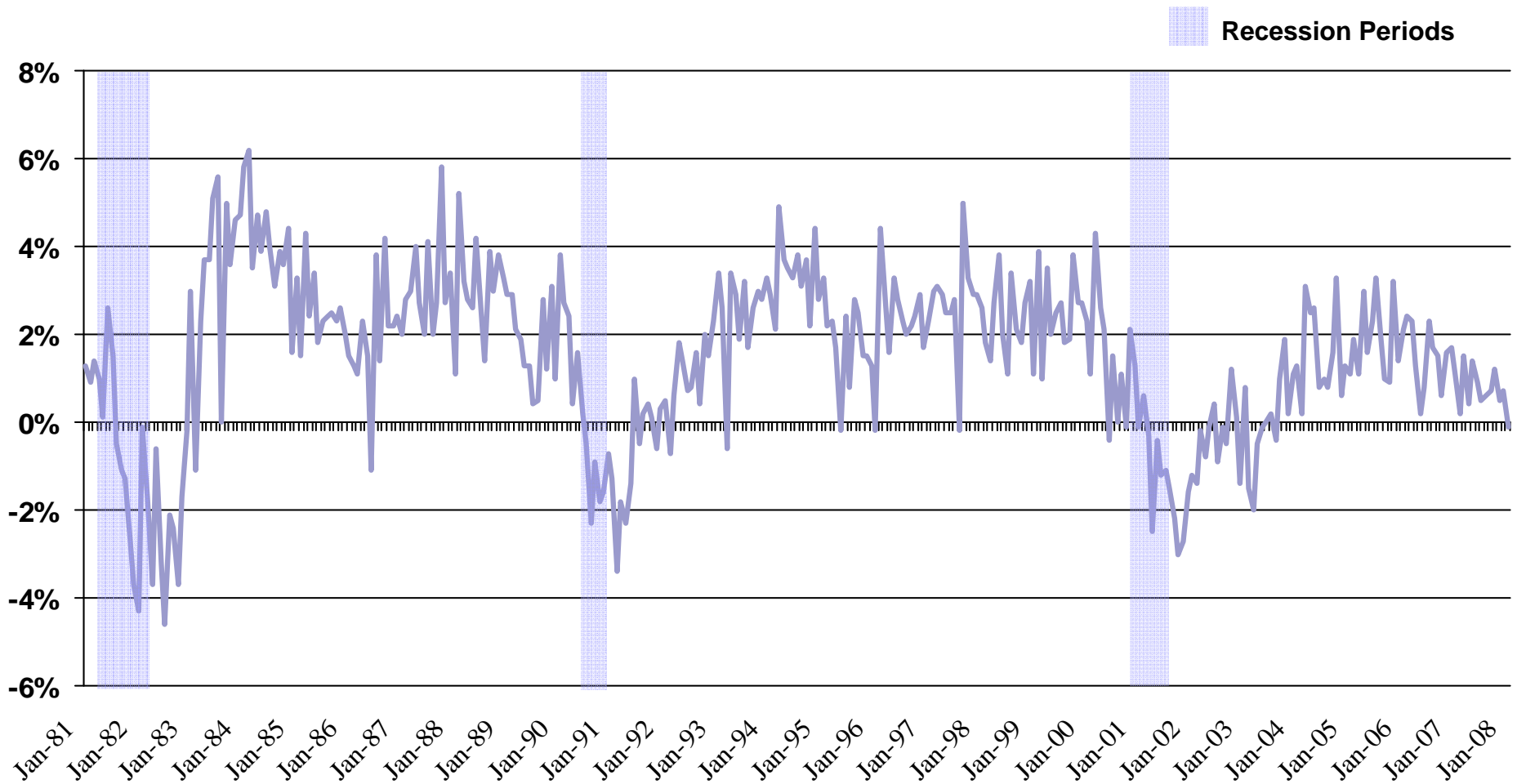


**Real retail sales  
on a month-over-  
month basis are  
approaching zero.**



# National Employment Percent Change Month Ago, Annualized (S/A) 1981 – 2008\*

Source: U.S. Bureau of Labor Statistics



\*Data through January 2008

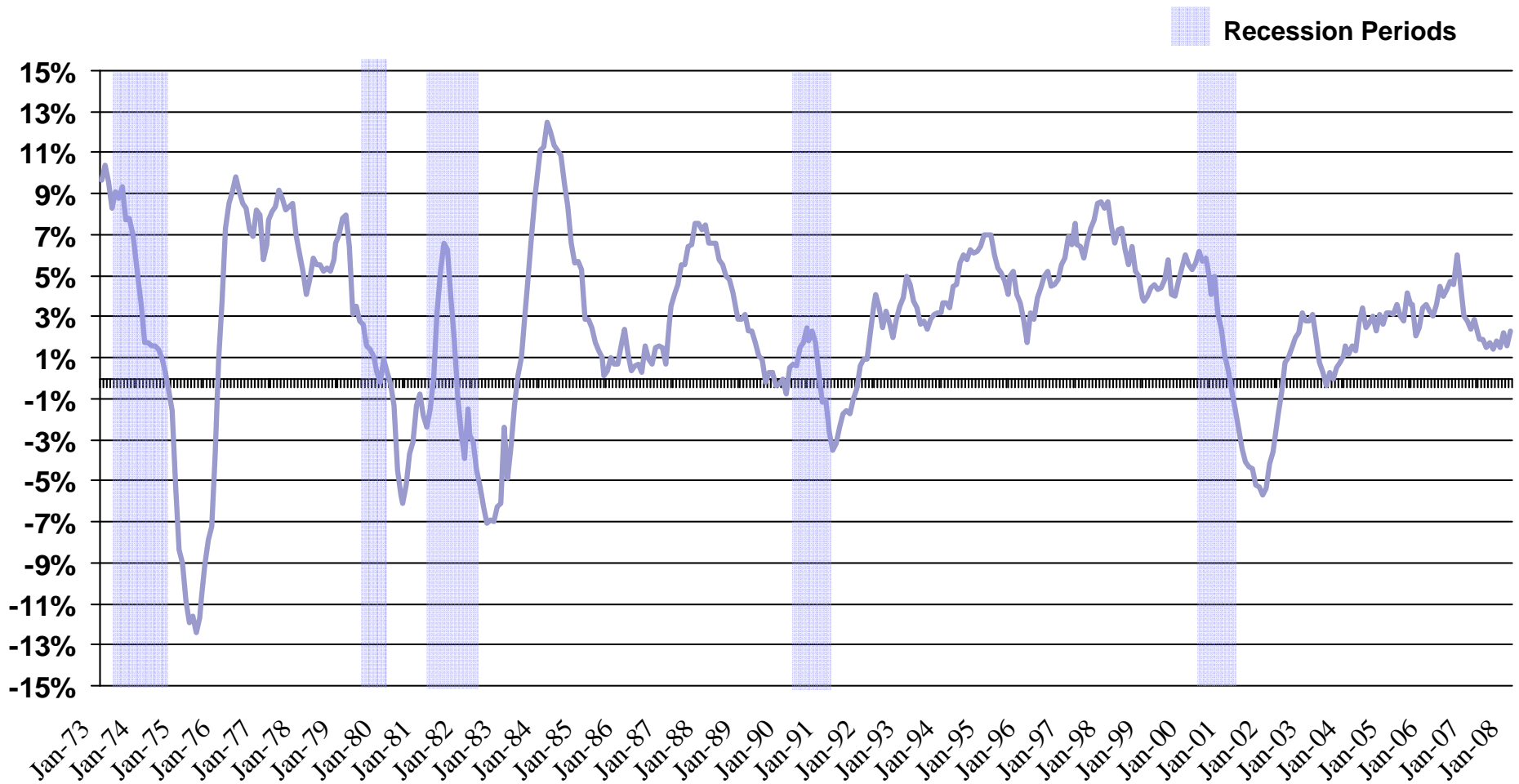


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# Industrial Production Percent Change Year Ago 1973 – 2008\*

Source: The Conference Board



\*Data through January 2008



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# The Consumer:

**In for a painful year?**

**(no, there really is no other picture to describe this)**





# Current Influences Impacting Economy

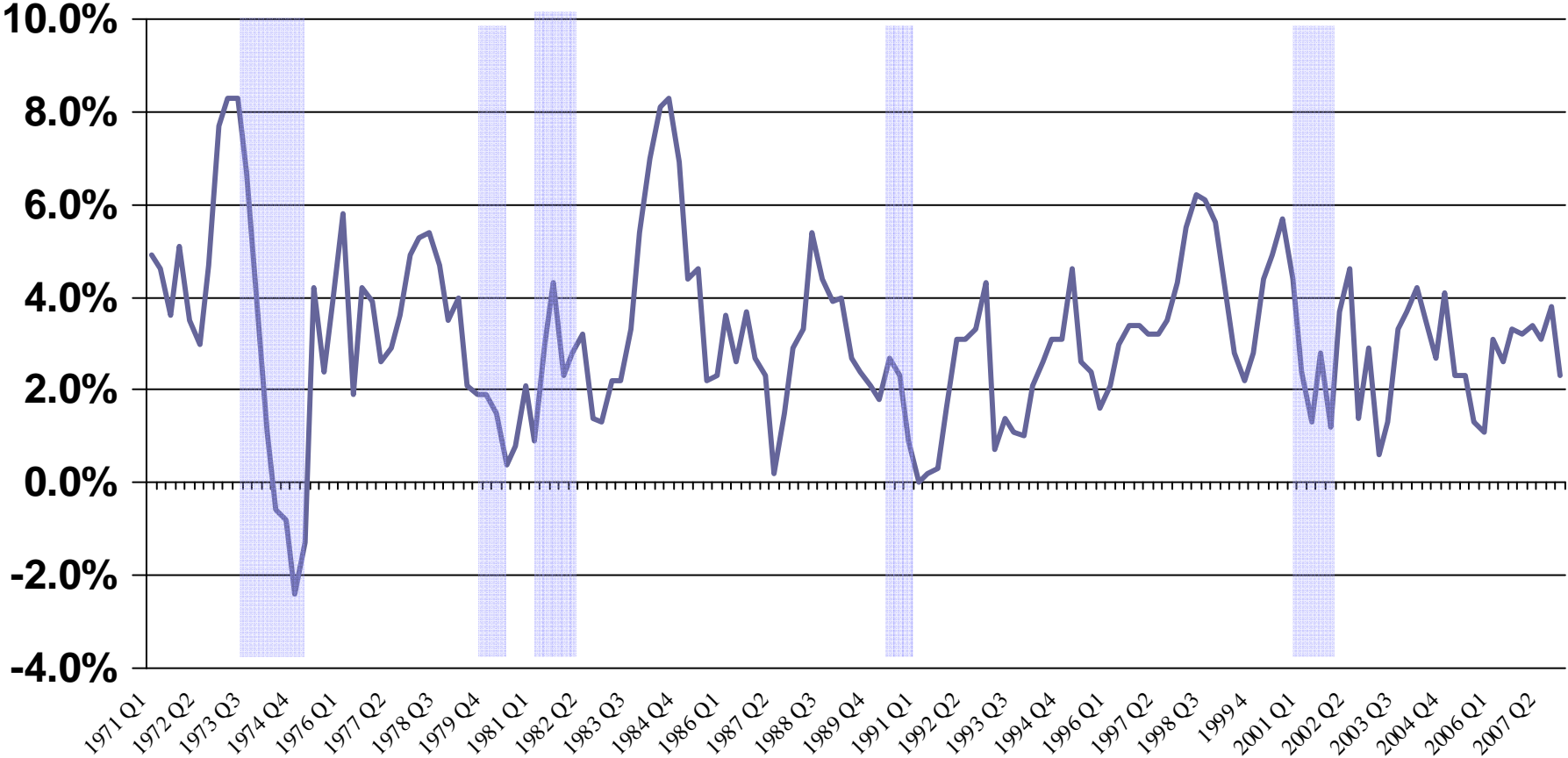
- Real income
- Savings rate
- Household net worth
- Mortgage equity withdrawal



# Real Disposable Personal Income Percent Change Year Ago 1971 – 2007\*

Source: Bureau of Economic Analysis

 Recession Periods



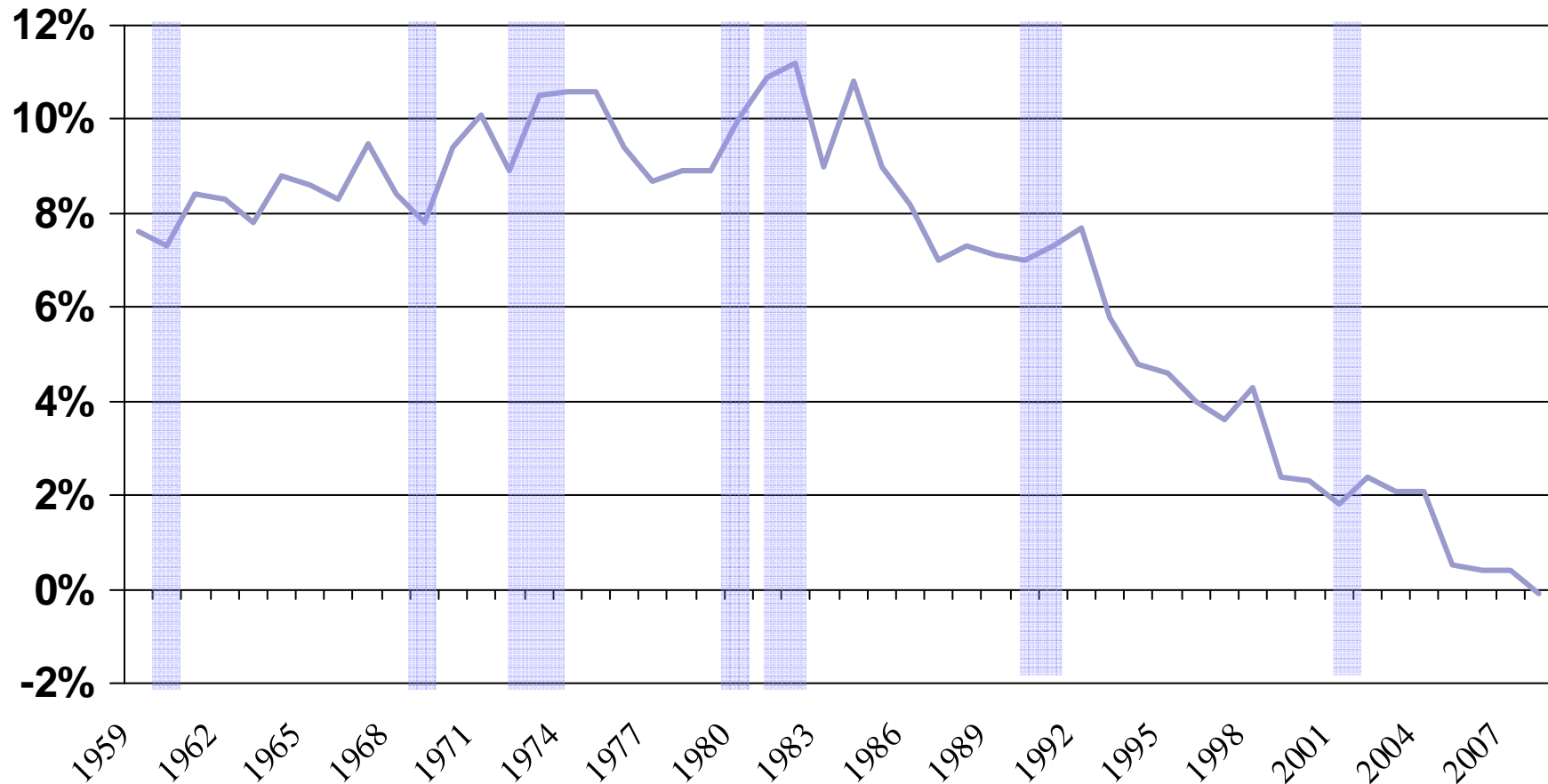
•Data through fourth quarter 2007  
 •\*\*Outstanding mortgage and consumer debt.





# U.S. Personal Savings Rate 1959 – 2007\*

Source: U.S. Bureau of Economic Analysis



\*Data through January 2008



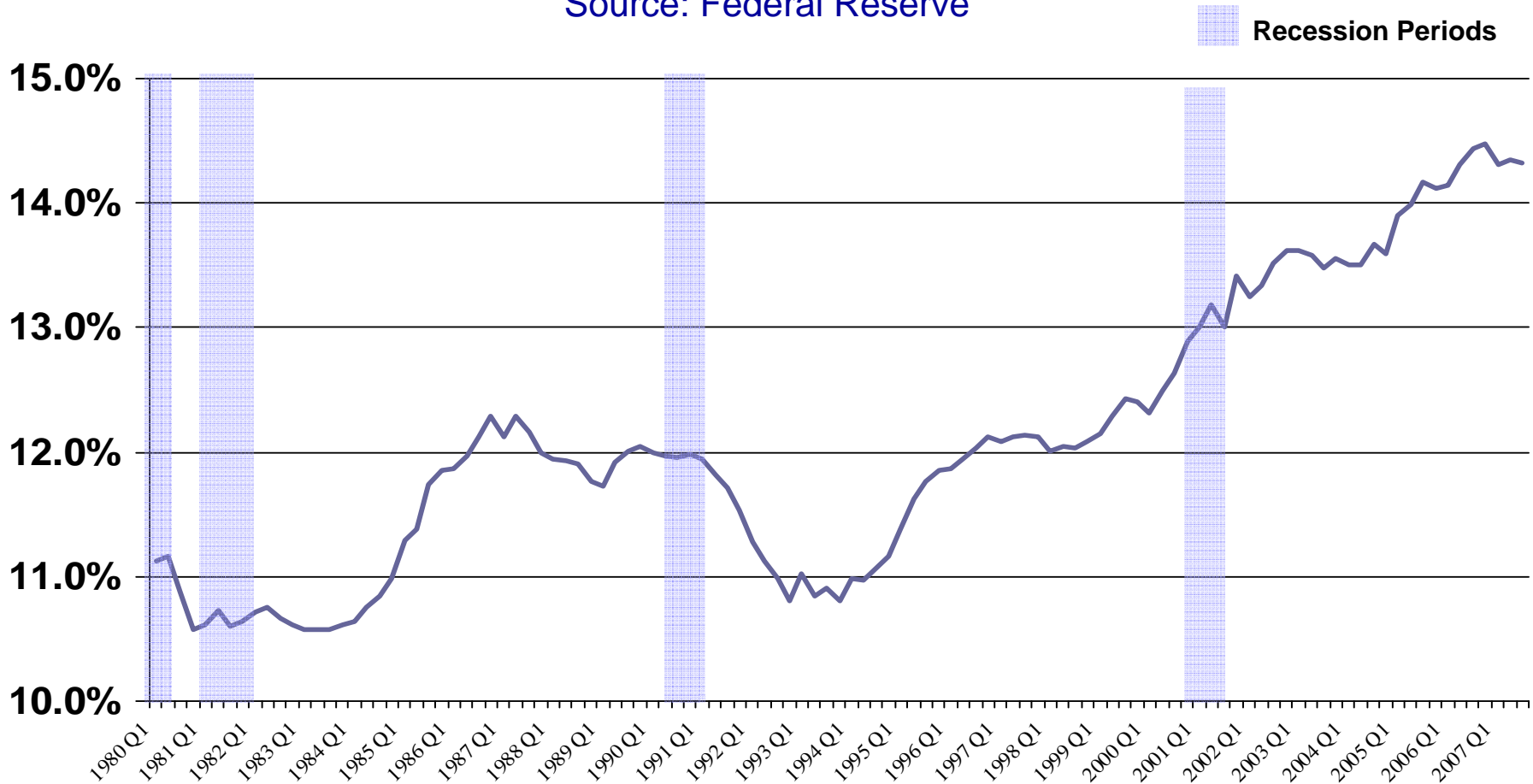
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# Debt to Income Ratio\*\*

## 1980 – 2007\*

Source: Federal Reserve



\*Data through third quarter 2007

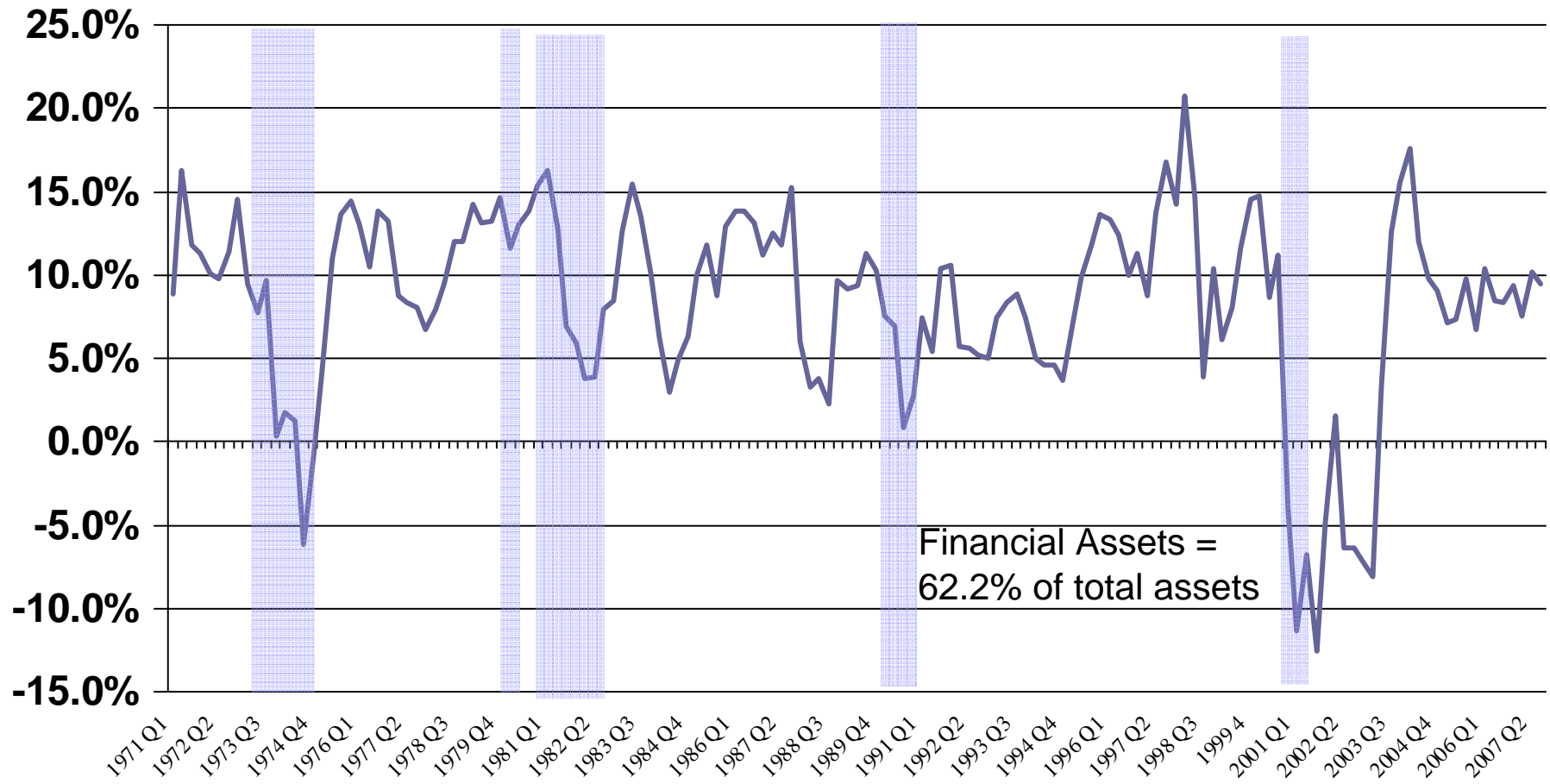
\*\*Ratio of mortgage and consumer debt to disposable income.



# Household Net Worth – Financial Assets Percent Change Year Ago 1971 – 2007\*

Source: Federal Reserve

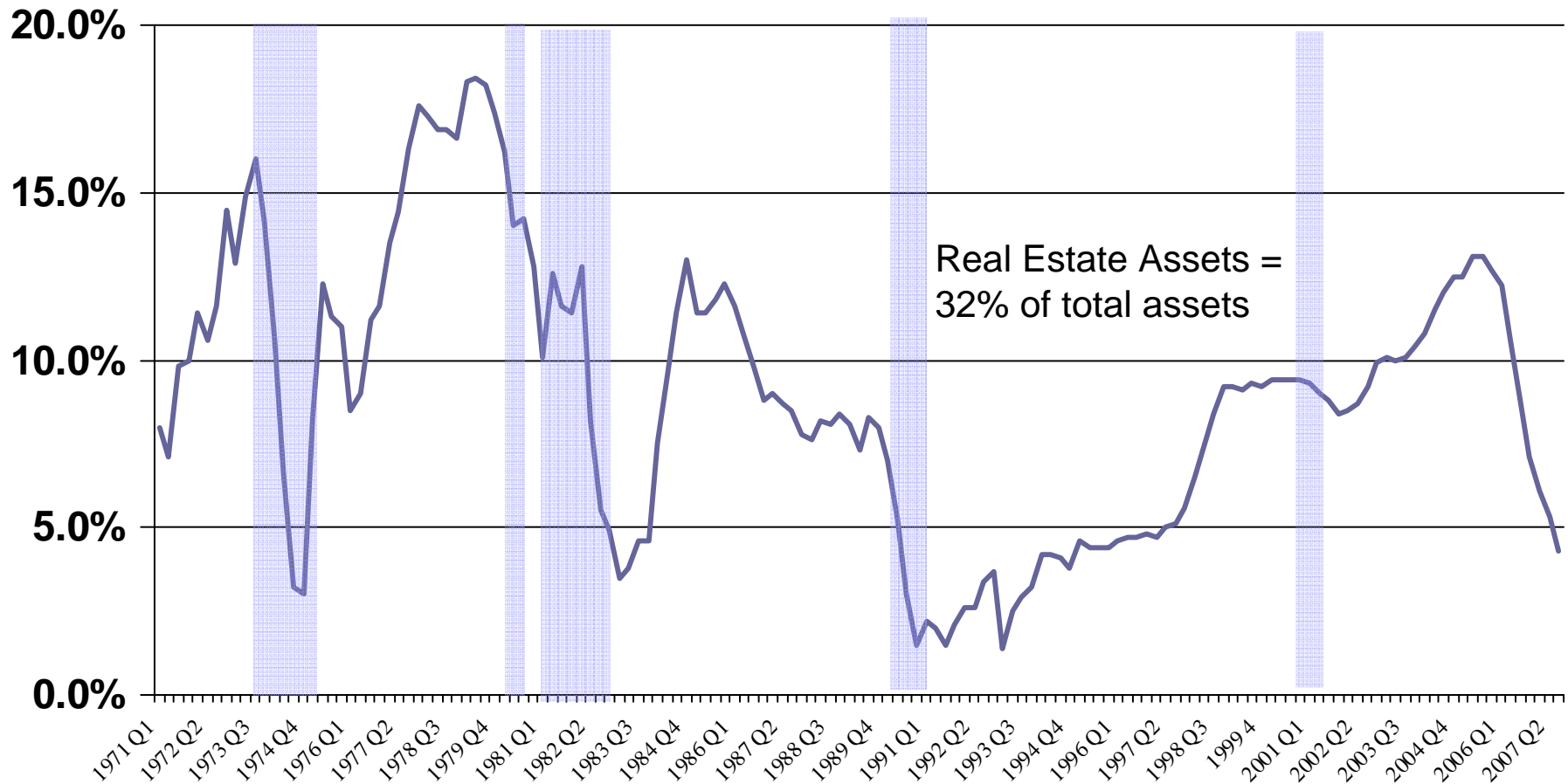
 Recession Periods



# Household Net Worth – Real Estate Assets Percent Change Year Ago 1971 – 2007\*

Source: Federal Reserve

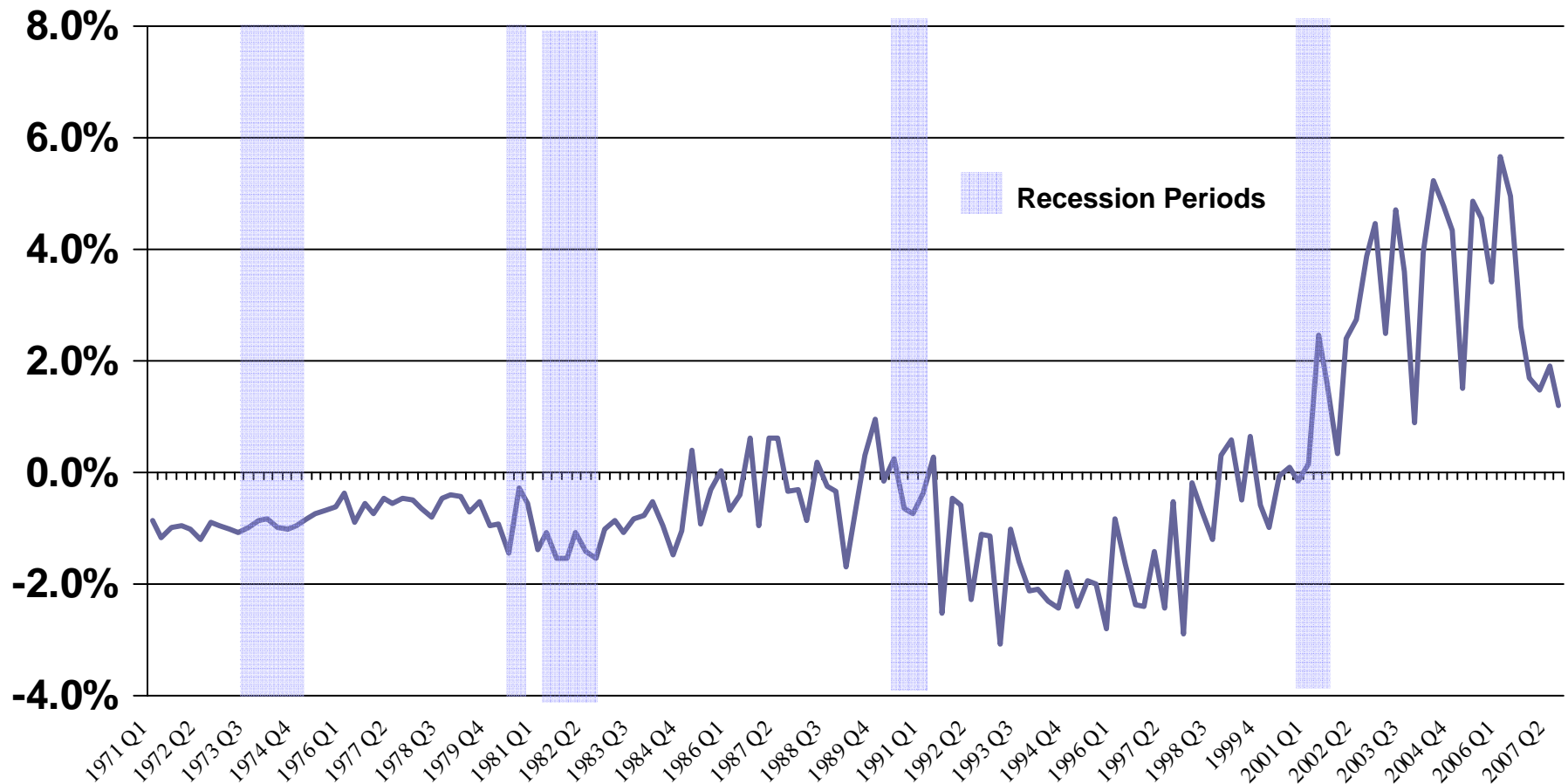
 Recession Periods



# Mortgage Equity Withdrawal as a share of Disposable Income

## U.S.: 1971 – 2007\*

Source: Bureau of Economic Analysis





# What will happen to HH Net Worth?

## In the 90s

Housing prices increased moderately,  
but stock market boomed.

## First half of 2000's

Stock market was doing poorly,  
but housing prices boomed.

## Now

Declining housing prices AND  
mediocre results in the stock market.





**Question:** Does  
this mean  
the reverse of the  
**wealth** effect?





# Conclusions...

- Mortgage equity withdrawal will go negative.
- Ability to refinance continues to be more difficult due to the credit crunch and declining housing prices.
- Savings rates will be impacted as households have to restructure balance sheets (i.e. can no longer rely on their house or the stock market) and will save more, spend less.
- Negative wealth effect.





# How long will this take?



Probably more  
than a year.





## **Therefore, not only will 2008 be weak, but it will feature:**

- Continued weakness in housing market
- Declining housing prices
- Weakness in commercial construction starting in mid-08.
- Fiscal stimulus in Washington being offset by deficits at the State and Local level.
- Employment declining
- Weakness in real incomes



## Thus...

Consumer spending,  
instead of being in the  
3% range, will be flat.





# Economic Composition

Source: BEA Real GDP 2007

<u>Category</u>	<u>% of Total</u>
Consumer	71.5%
Private Investment	
Non-residential	11.8%
Plant	2.6%
Equipment & software	9.2%
Residential	4.1%
Change in private inventories	0.1%
Net Exports	-4.8%
Exports	12.2%
Imports	-17.0%
Government expenditures	17.5%





The economy, of which consumers make up 70%, will go through a “restructuring”, the duration of which is uncertain.



# Saving Graces



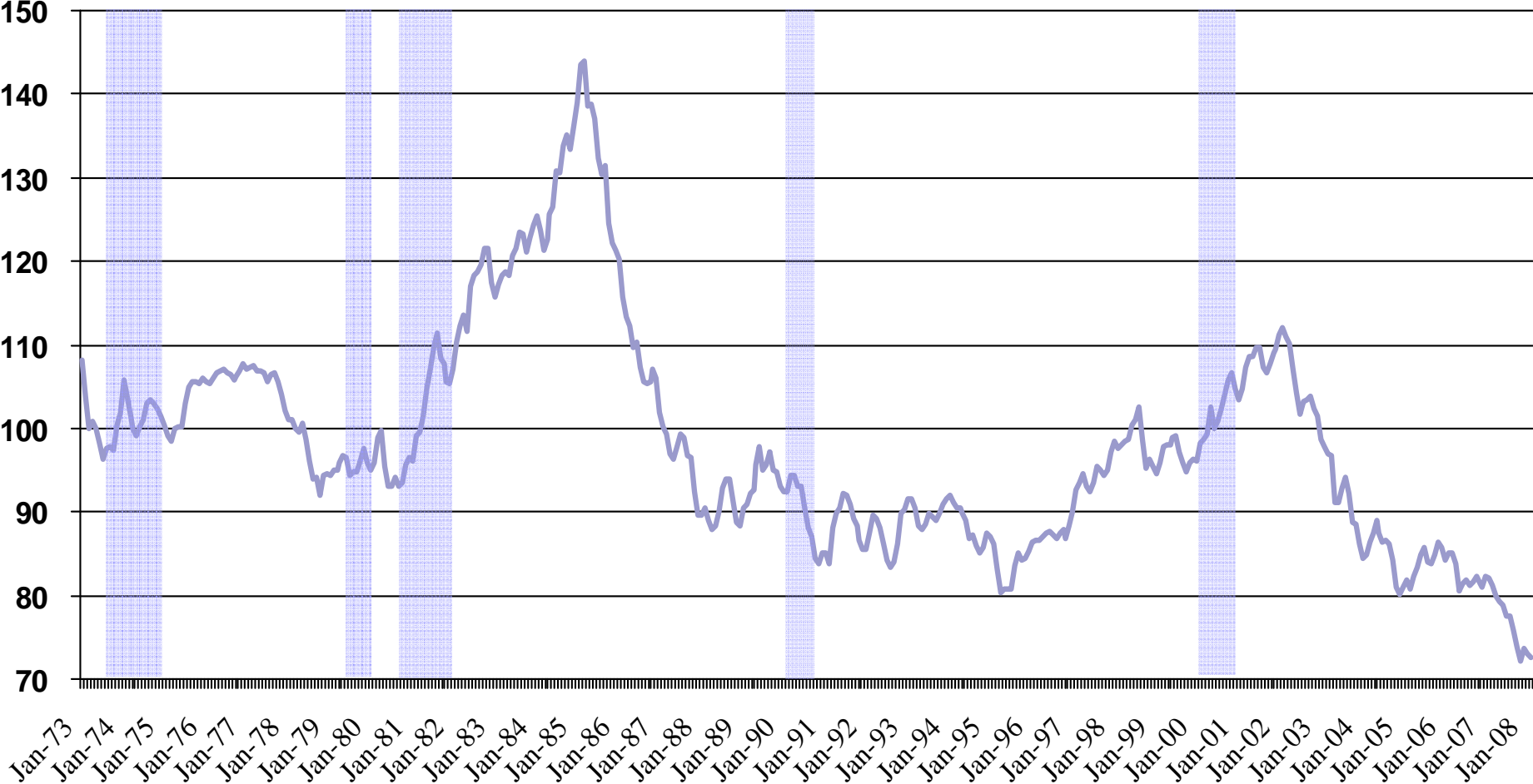
- **Corporations in great financial shape**
- **Exports booming**



# US Dollar Trade Weighted Exchange v. Major Currencies (1973 = 100) 1973 – 2007\*

Source: The Federal Reserve

Recession Periods

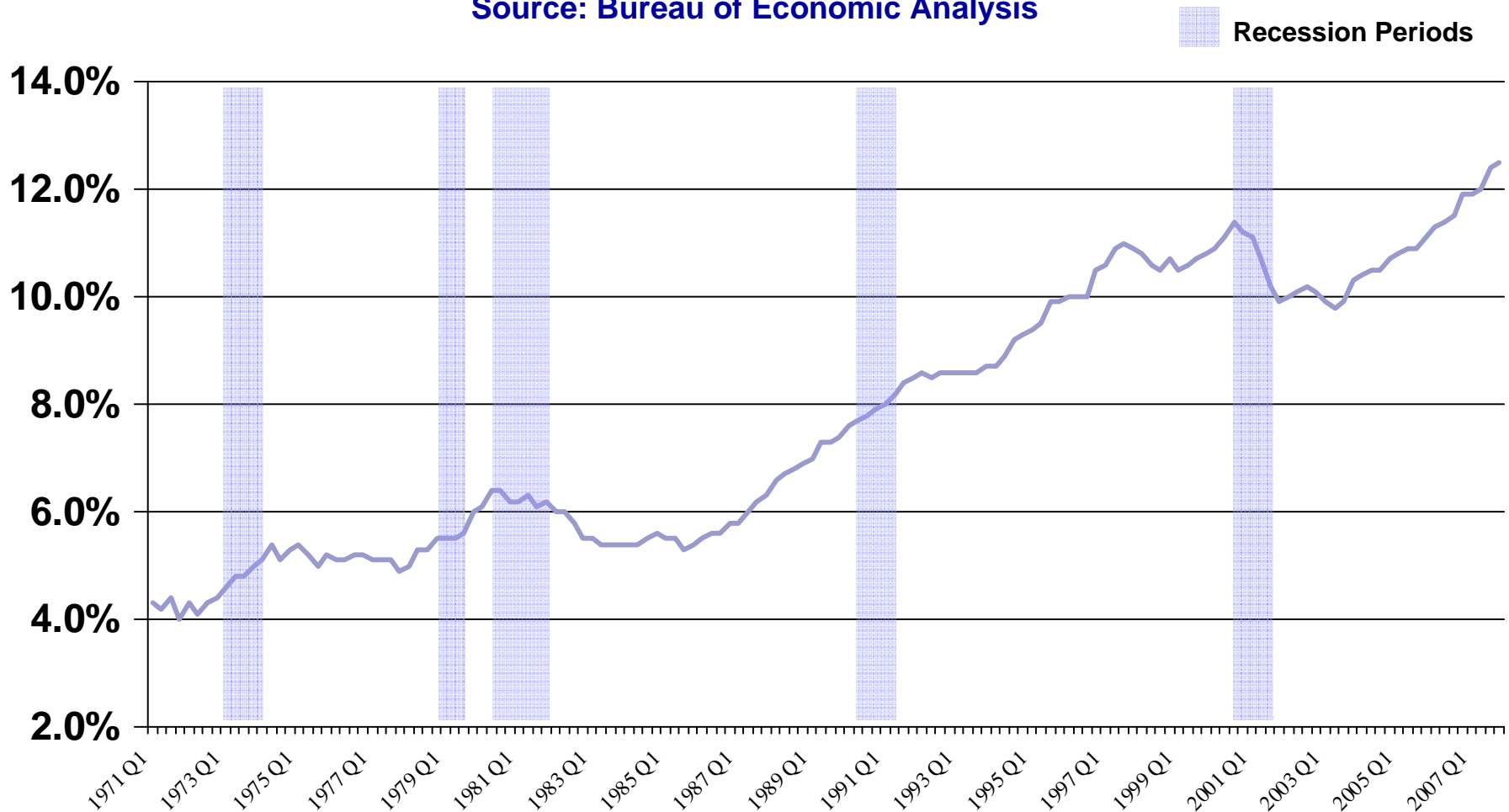


\*Data through February 2008



# U.S. Real Exports as a Percent of Real GDP 1971 – 2007\*

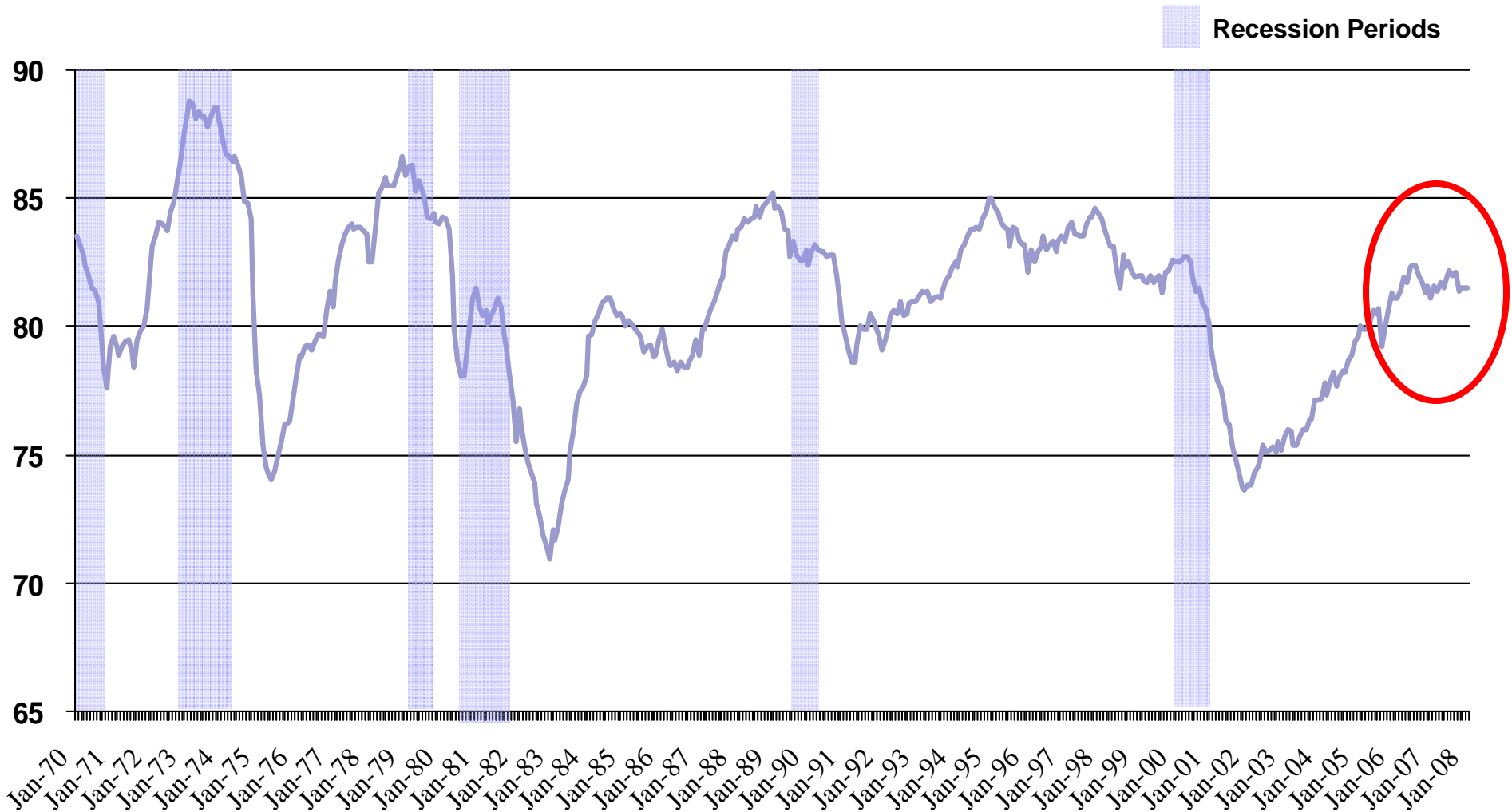
Source: Bureau of Economic Analysis





# Capacity Utilization Rate 1970 – 2007\*

Source: The Conference Board



\*Data through January 2008

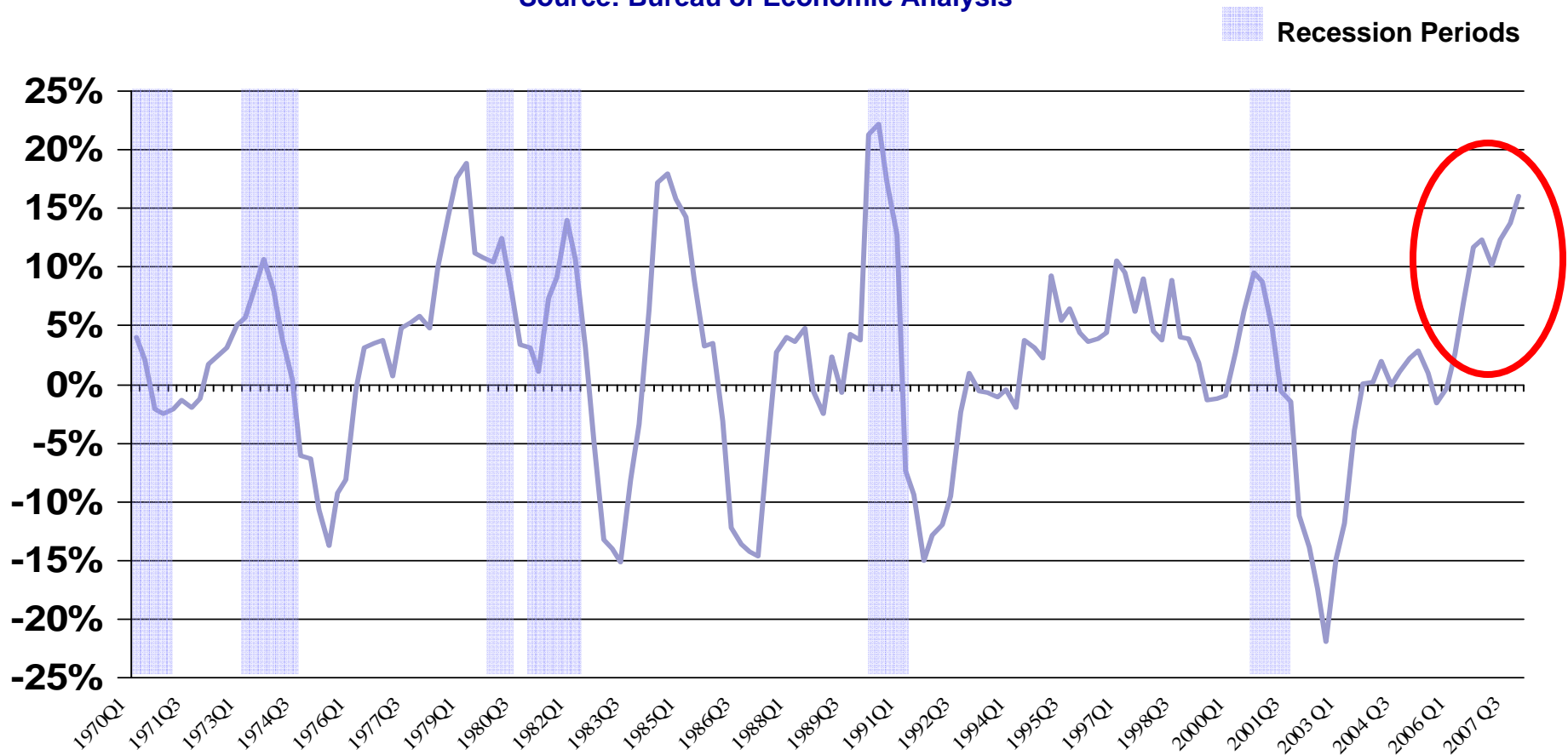


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# Total Plant Spending Percent Change Year Ago (Real Dollars) 1970 – 2007\*

Source: Bureau of Economic Analysis



•Data through fourth quarter 2007.

•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.





## But...

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**While the rest of the world is less tied to us than in the past, it is still tied to us and our slowdown will affect them.**

**This means we will export less and businesses will spend less on plant and equipment.**





**Thus...**

---

**This will be a slowdown  
in the economy....**

**...but the shape and duration  
are yet to be determined.**





## What This All Means

- State and local governments in Arizona are up against it (especially if they were spending temporary revenues on permanent programs).
- Downward pressure on prices (inflation not likely to be bad).
- Interest rates will go down from here.
- Fed will continue to stimulate economy.



# Credit Crunch

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**Banks and others  
significantly curtail  
their lending  
to all sectors.**



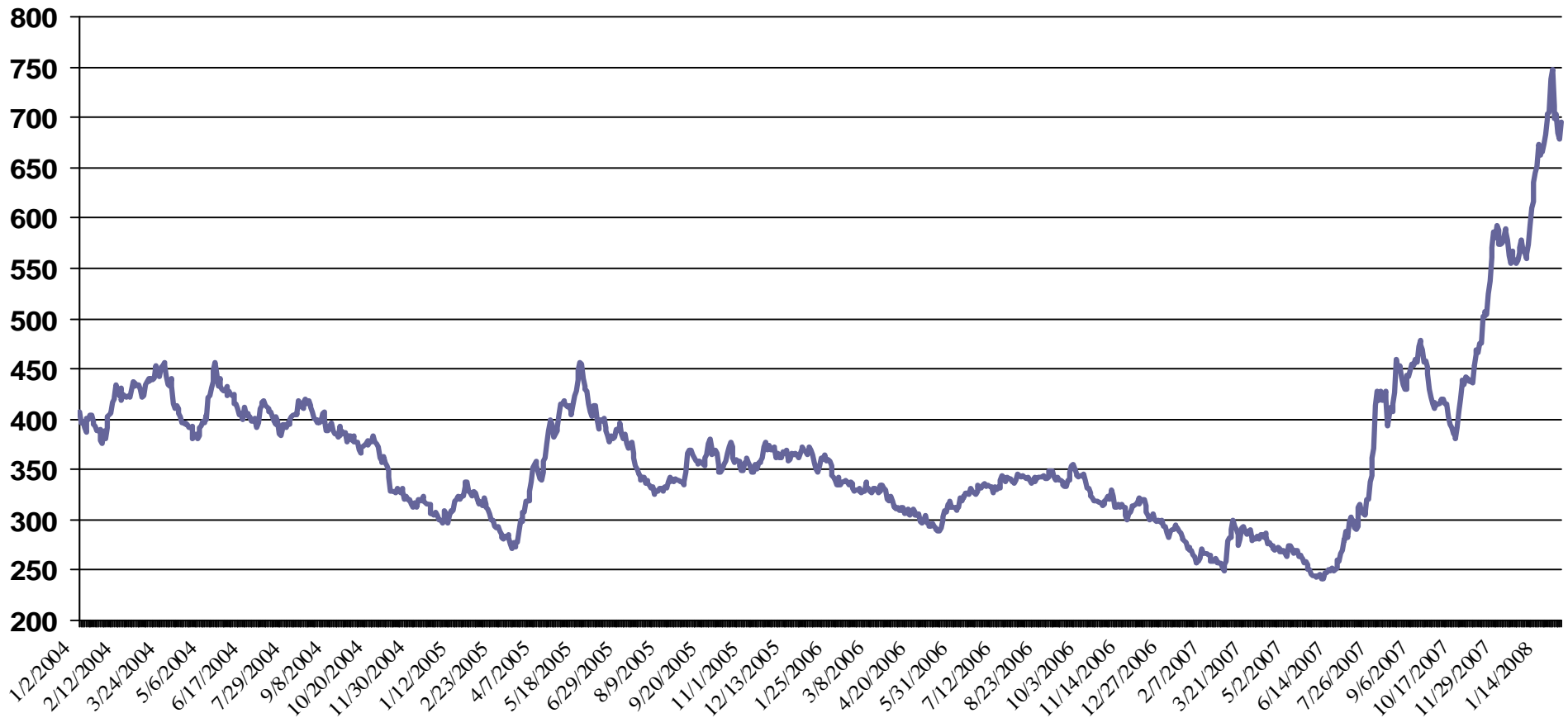
# Market re-prices risk.

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# High Yield Credit Spread 2004 – 2008\*

Source: Bespoke Investment Group; Merrill Lynch



\*Data through January 2008.

\*\* The spread between high yield corporate bonds (non investment grade/below bbb rated) and comparable Treasuries.



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# High Yield Credit Spread 1997 – 2008\*

Source: Bespoke Investment Group; Merrill Lynch



\*Data through January 2008.

\*\* The spread between high yield corporate bonds (non investment grade/below bbb rated) and comparable Treasuries.



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## **Problem Areas Linked to Most Leveraged Sectors**

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- **Mortgage Backed Bonds**
- **Leveraged Buyout Loans**
- **Junk Bonds**





## To Get a *Full Blown* Credit Crunch You Need

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### 1. FEAR –

**Of big losses on current & future loans.**

### 2. UNCERTAINTY –

***How big will the losses be?***

***When will the market stabilize?***

***At what price will it stabilize?***





**The crunch is starting to spread to the  
general economy.**





## Characteristics of a Limited Credit Crunch

- **Banks are still lending to consumers & businesses.**
- **Credit card agencies are still issuing credit.**
- **Mortgage lenders are still lending to qualified borrowers.**



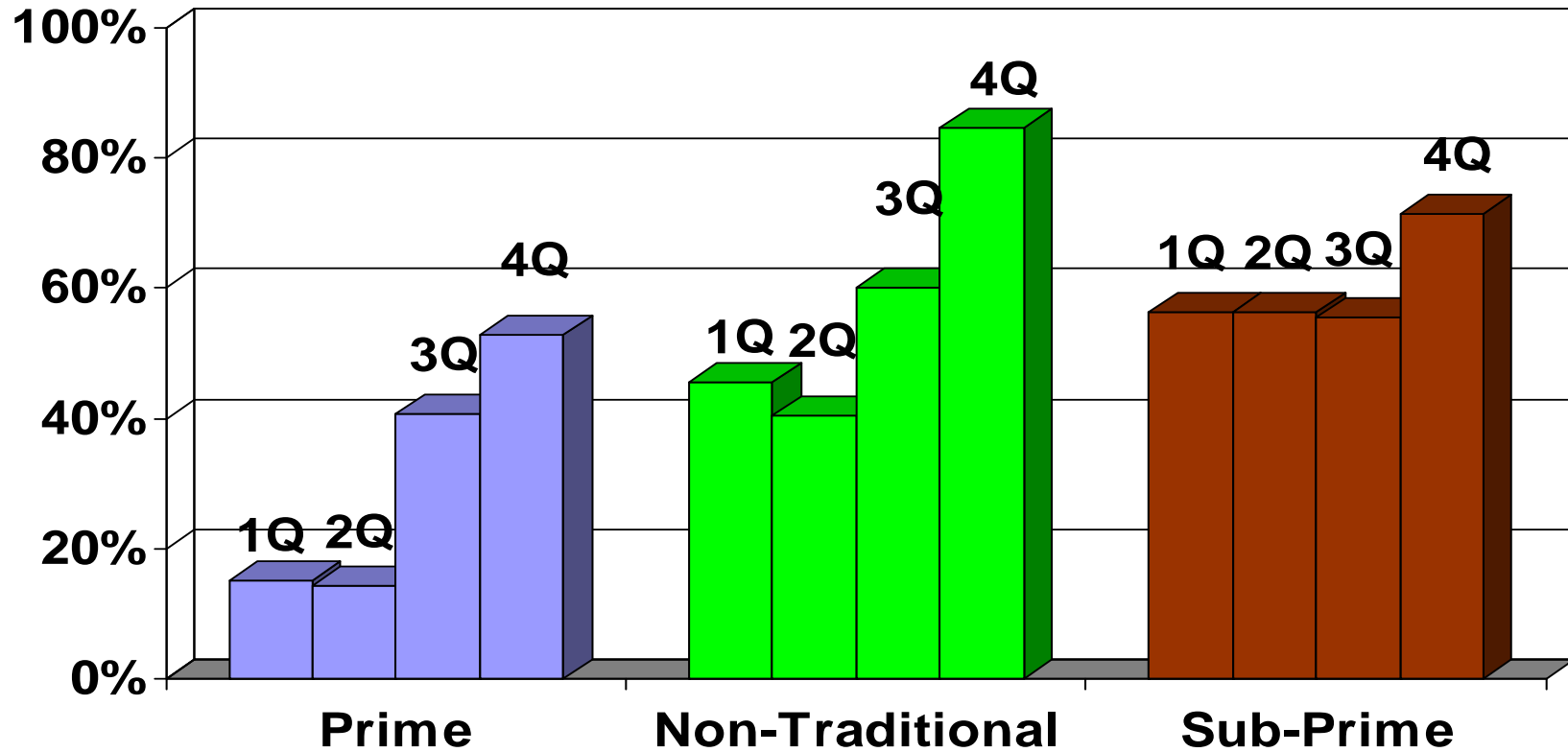


# What is Happening



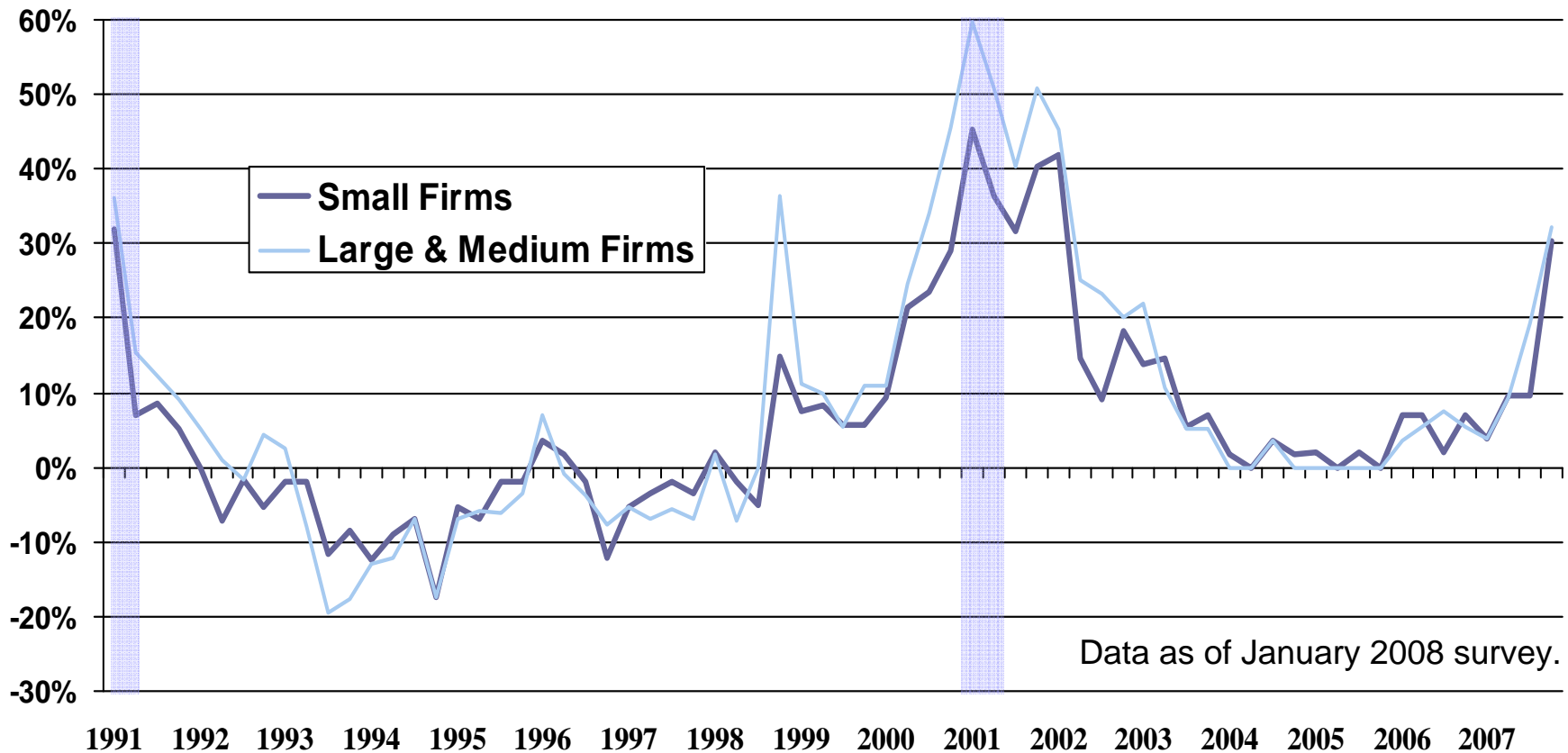
# Percentage of Large U.S. Banks Reporting Tougher Standards on Residential Loans 2007

Source: Federal Reserve, Board of Governors



# Percentage of Large U.S. Banks Reporting Tougher Standards on Business Loans 1991 – 2007\*

Source: Federal Reserve, Board of Governors



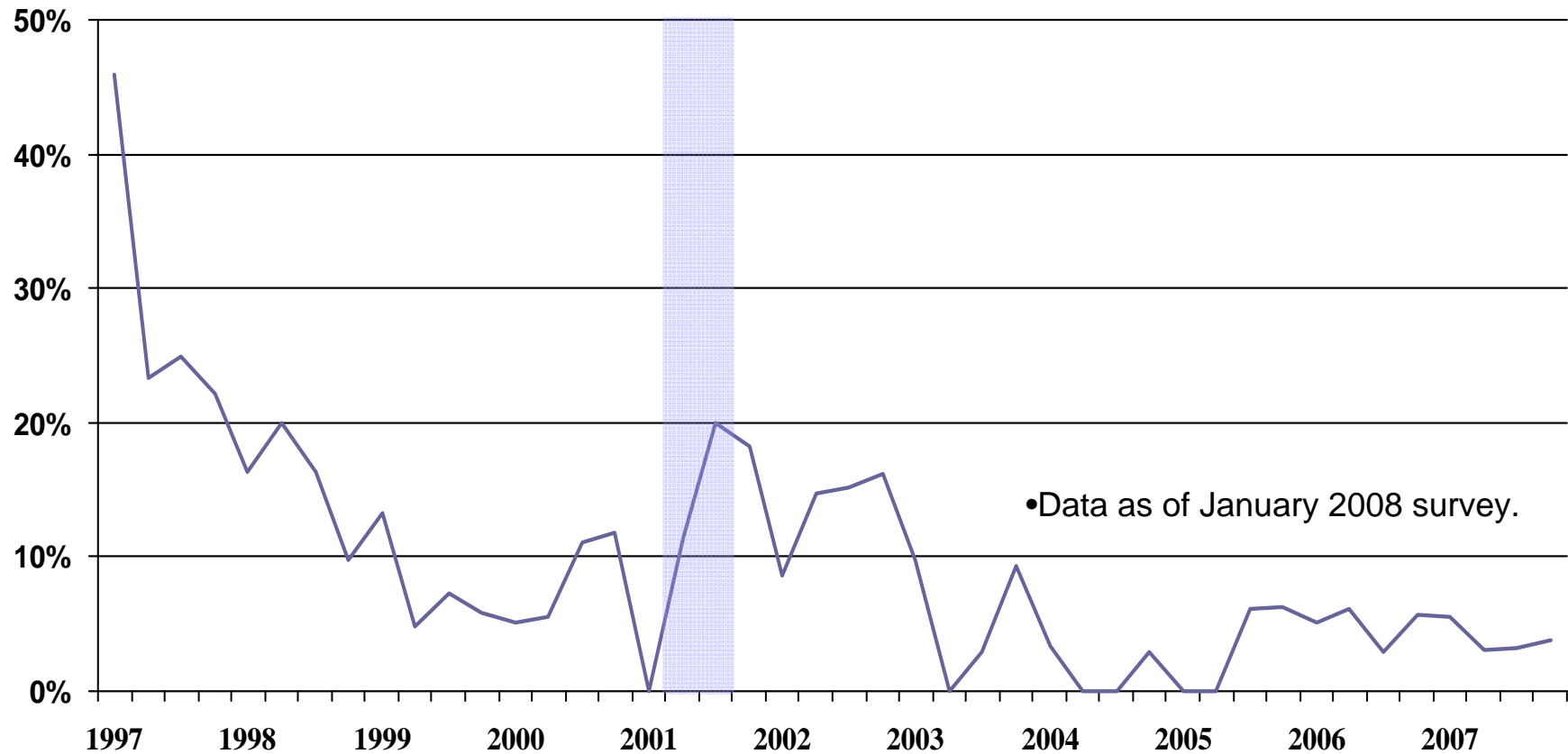
Data as of January 2008 survey.



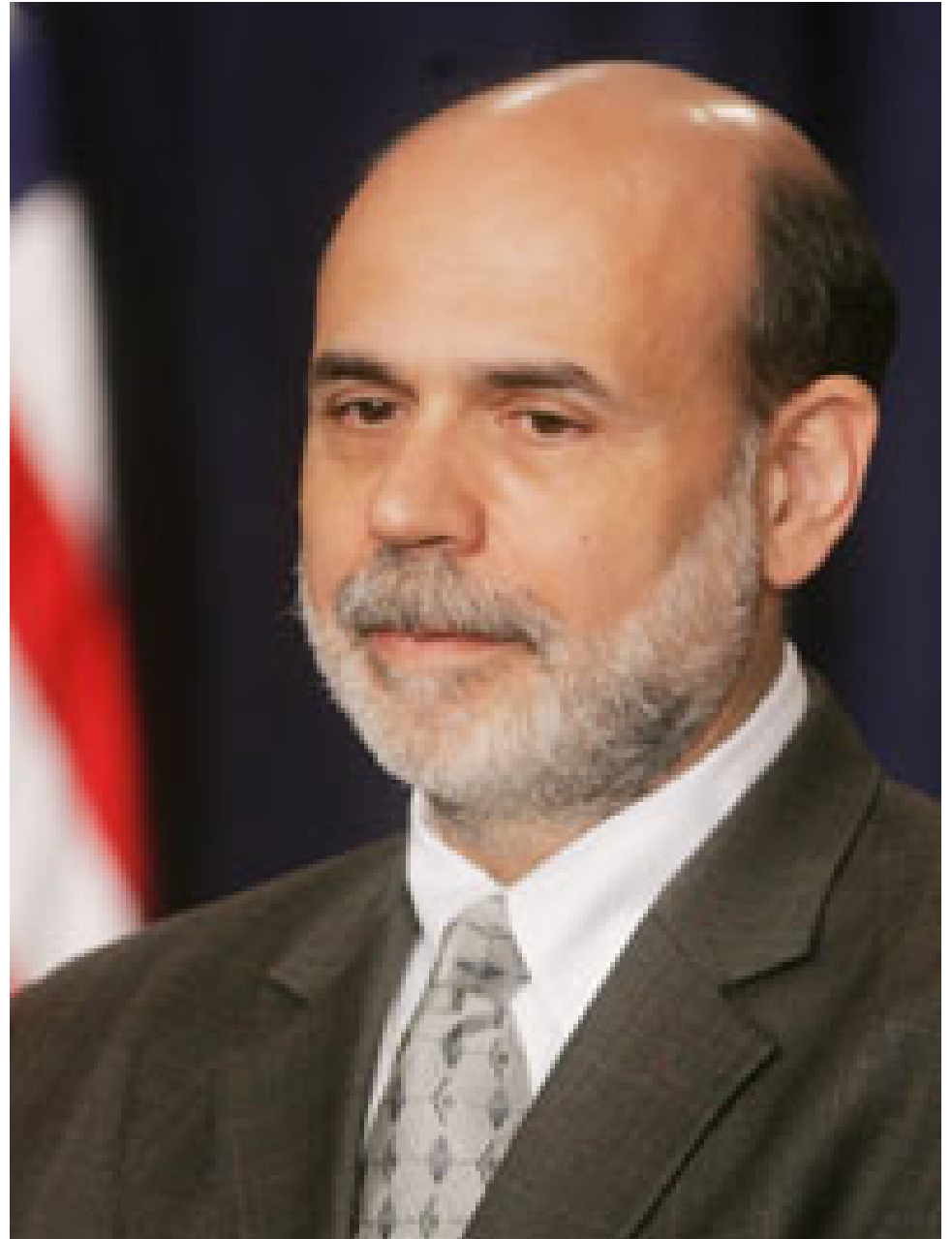


# Net Percentage of Large U.S. Banks Reporting Tougher Standards on Consumer Loans 1997 – 2007\*

Source: Federal Reserve, Board of Governors



# Actions of the Fed





**What about  
election year  
stimulus  
package?**





# The Perfect Storm in the Housing Market?






## **What Happened:**

- **Falling prices**
- **Fear**
- **Tightening of credit**
- **Less money to loan**





**Scheduled re-pricing of  
sub-prime loans pushes up delinquent  
and foreclosure rates, adding new  
supply that pushes down housing  
prices...**

**...which starts the process  
over again.**






# **Danger Ahead – ARMS to Reset**

**\$515 billion (2007)**  
**+**  
**\$680 billion (2008)**





**The credit crunch ends when  
banks & other lenders  
see stability.**







In the absence of  
destroying houses  
or stimulating  
demand, we have  
to just live through  
it...


... Until supply and  
demand are back  
in balance both  
nationally and  
locally.





# ECONOMIC OUTLOOK 2008







**“2008 will be remembered as  
a year you want to forget.”**

**-Lee McPheters, ASU**





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# Economic Update and Outlook: **Arizona**

Marshall J. Vest  
Eller College of Management  
The University of Arizona

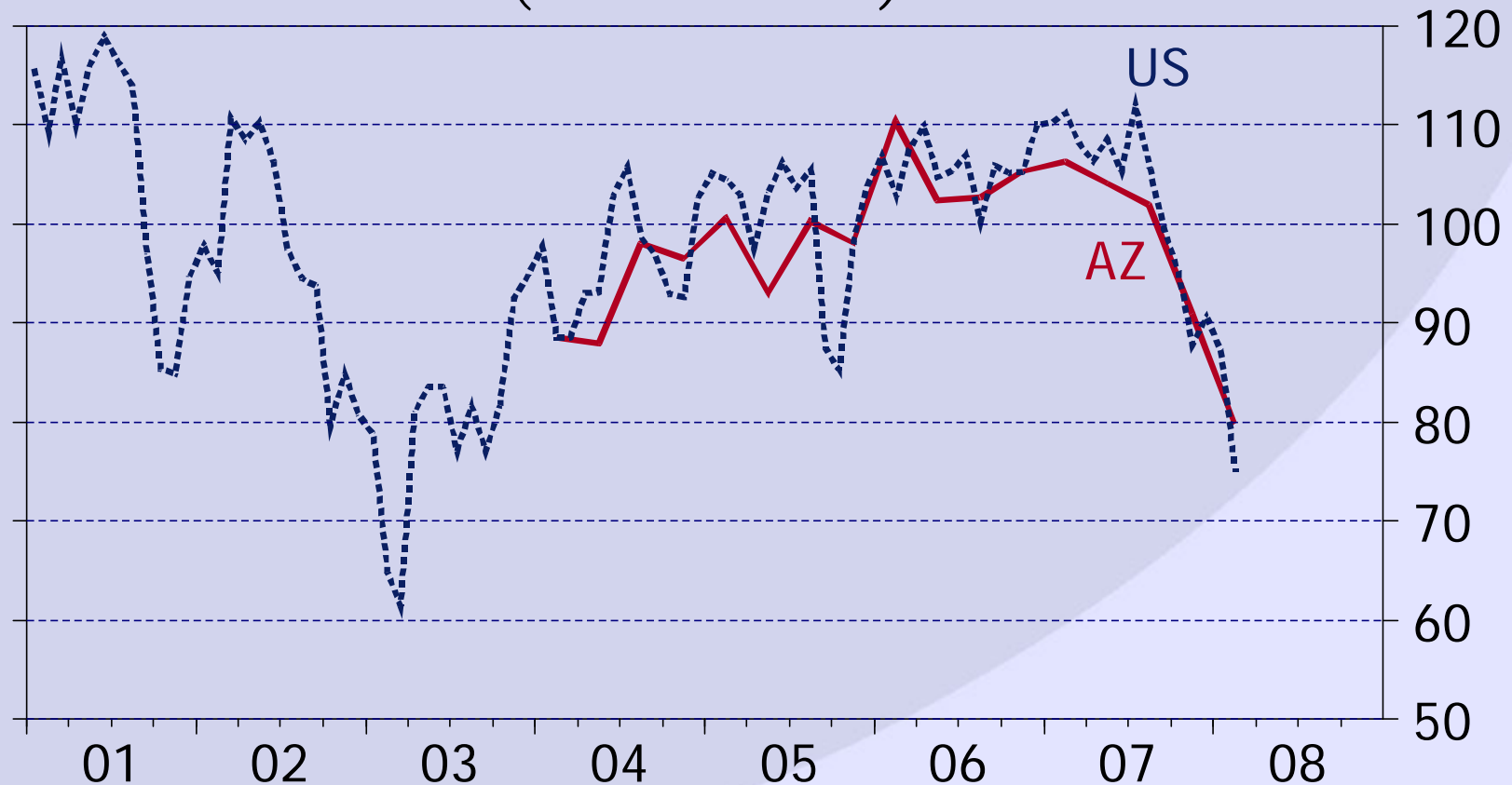
# Overview

- Little doubt that AZ's economy is now contracting
- How long, how bad?

# Consumer Update

- Confidence plunging
- Retail sales down
  - Peaked in January 2007
- Restaurant & bar sales holding its own

# Consumer Confidence Index (1985=100)

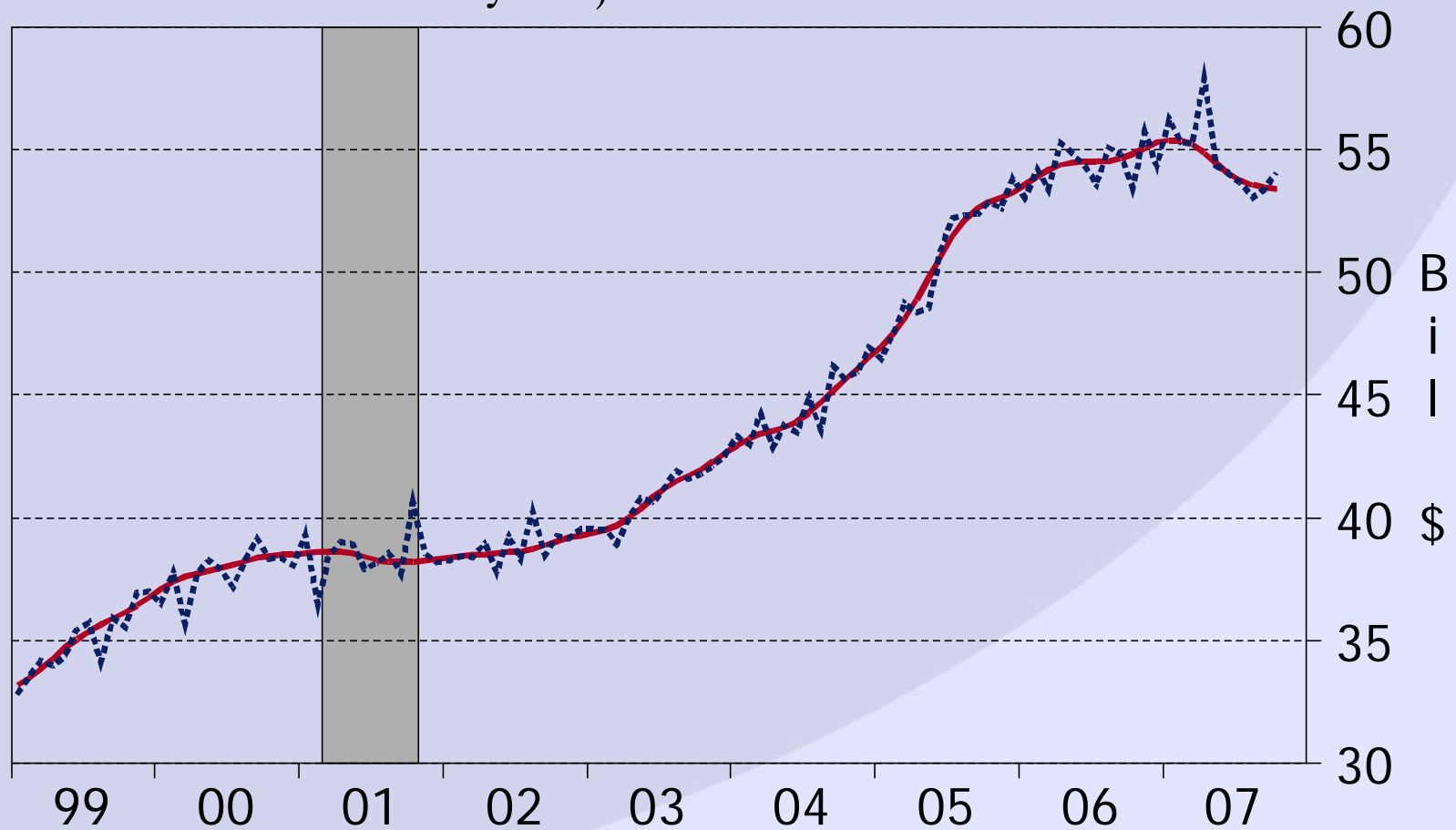


Source: Conference Board and Behavior Research Center, Inc.



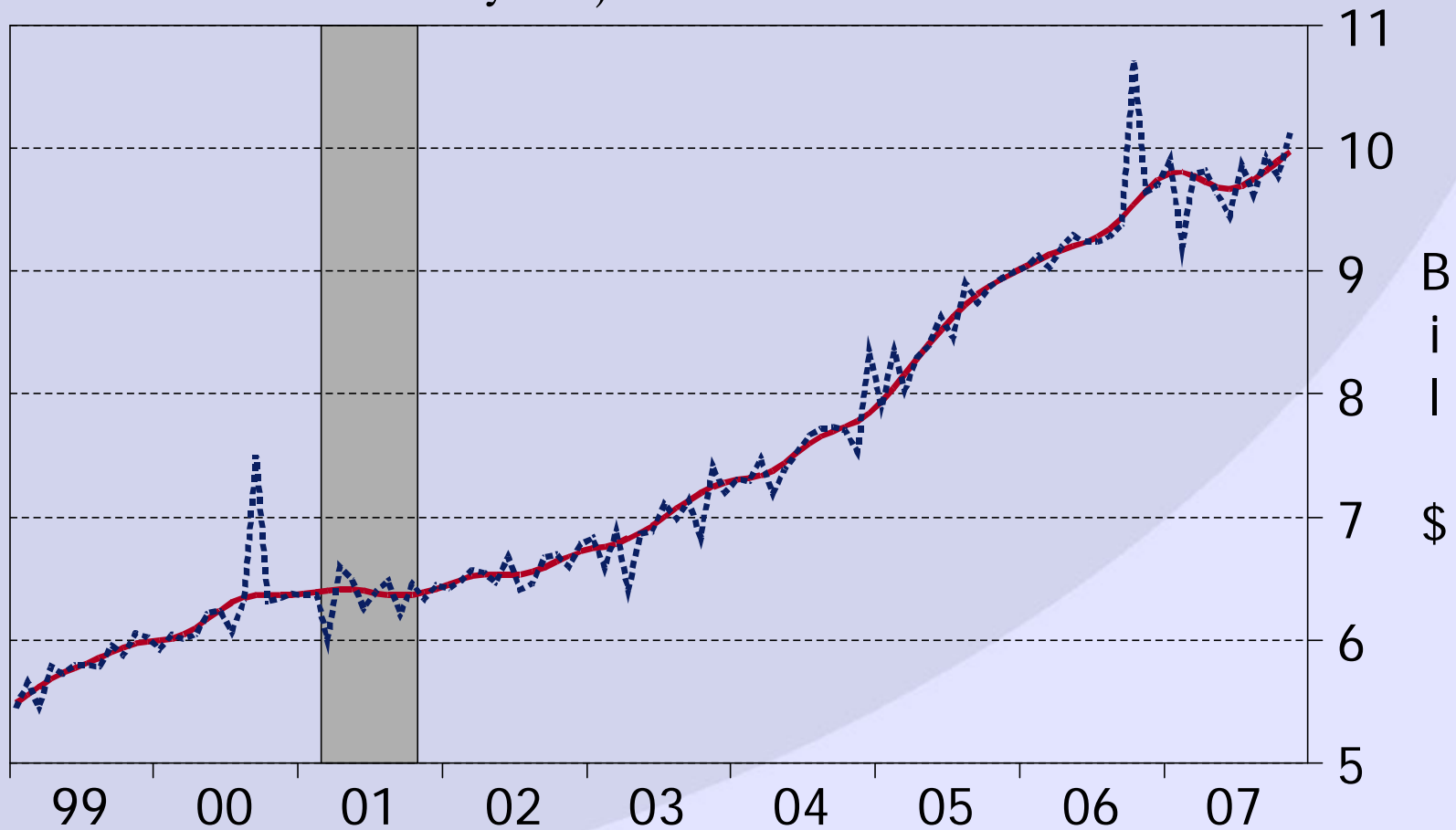
# Retail Sales, AZ

seasonally adjusted annual rate



# Restaurant & Bar Sales, AZ

seasonally adjusted annual rate

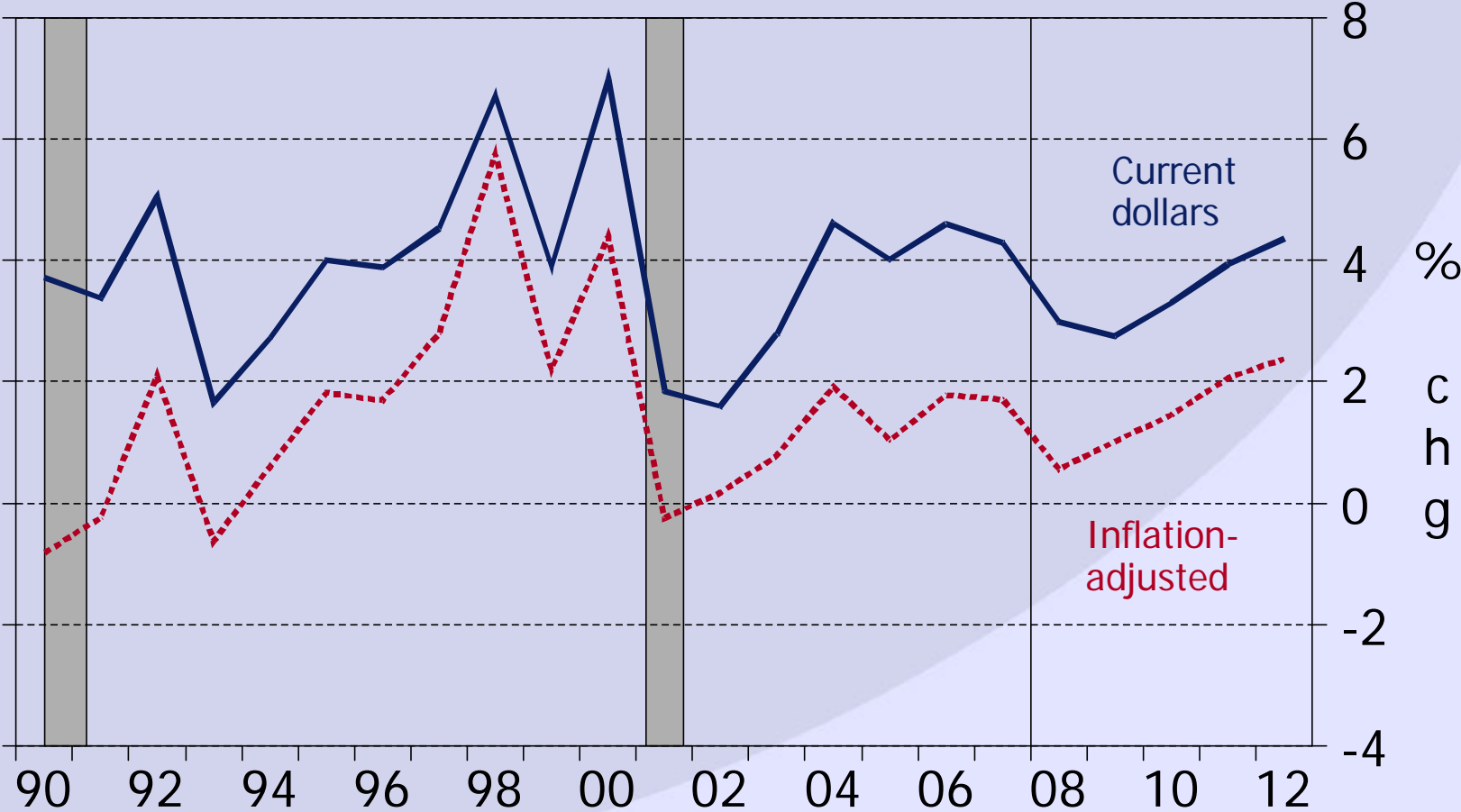


# Income and Wages Update

- Wage growth will slow to 3% from 4+
- Personal income up 5.9% in 2007Q3 vs. YA
  - forecast to grow by only 3-4%
- Spending will grow more slowly than incomes

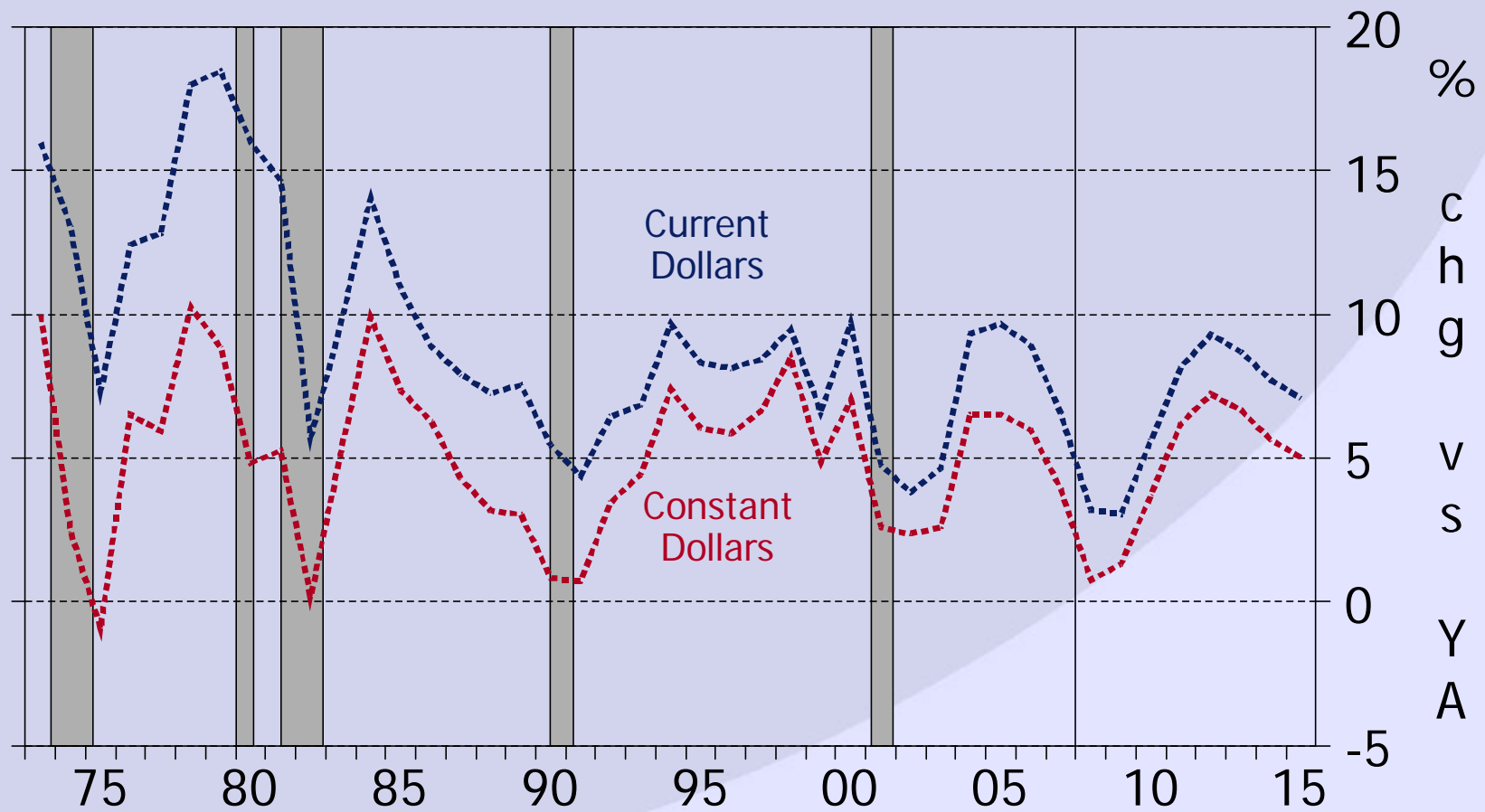
# Average Wages Per Employee

## Private Sectors, Arizona

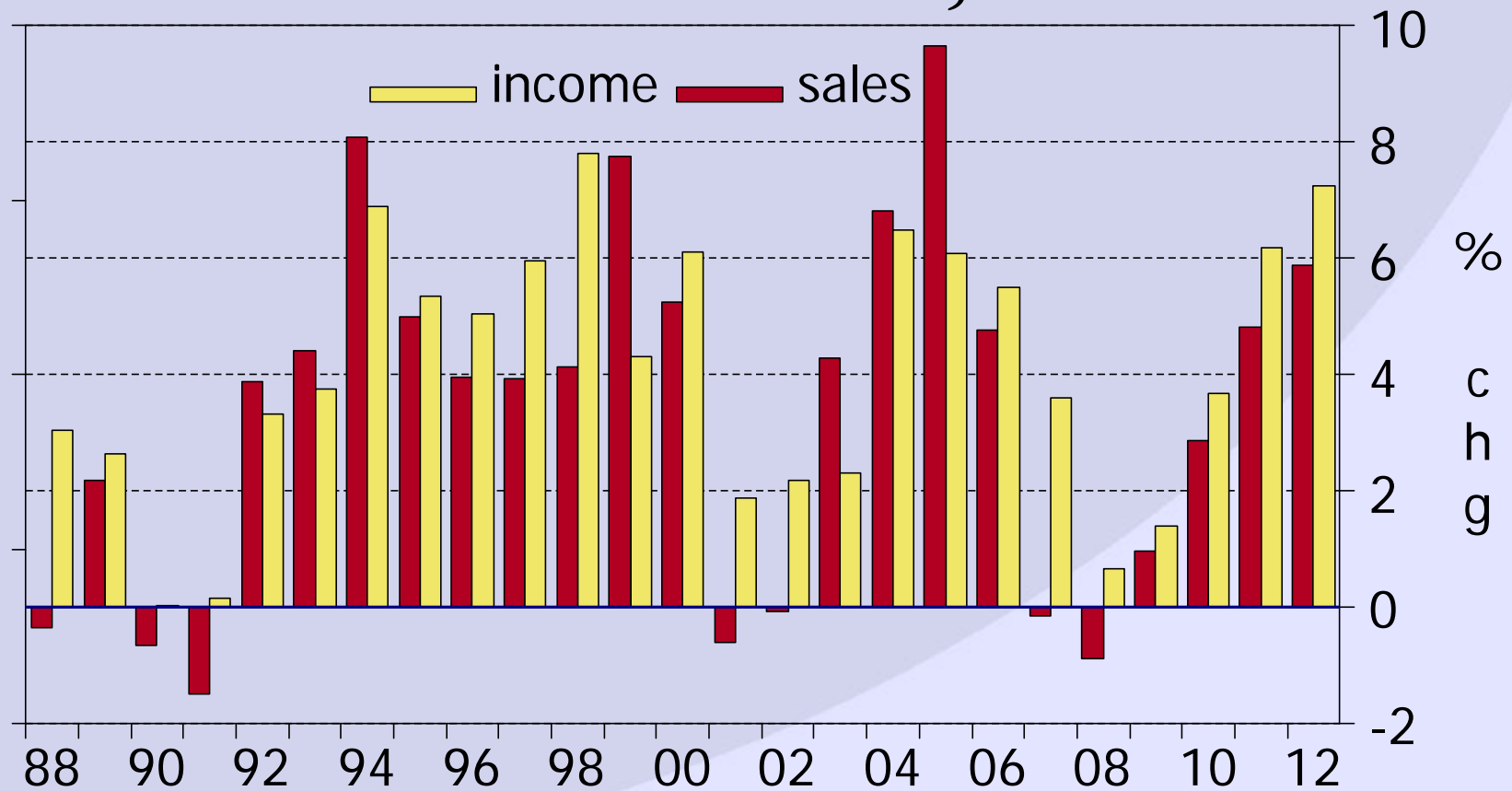


# Personal Income Growth

## Arizona



# Real Consumer Spending and Income Growth, AZ

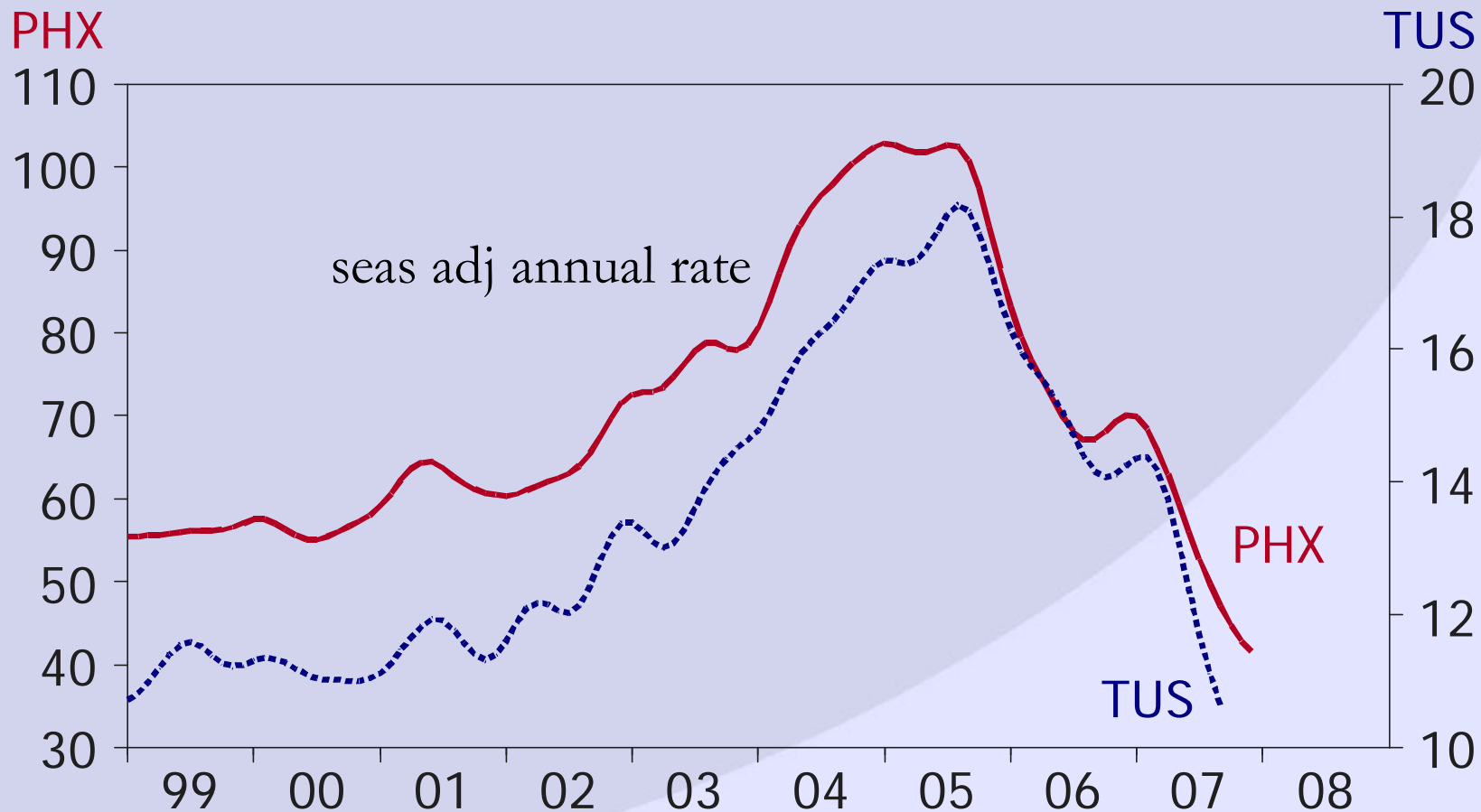


# Housing Update

- Home sales and permits still declining
- Inventories very high and heading higher
  - AZ ranks 4<sup>th</sup> – foreclosure rate in Jan. '08
    - 9,059 total, up 118% from year ago
    - Source: RealtyTrac
- Housing prices are moving lower

# Existing Home Sales, MLS

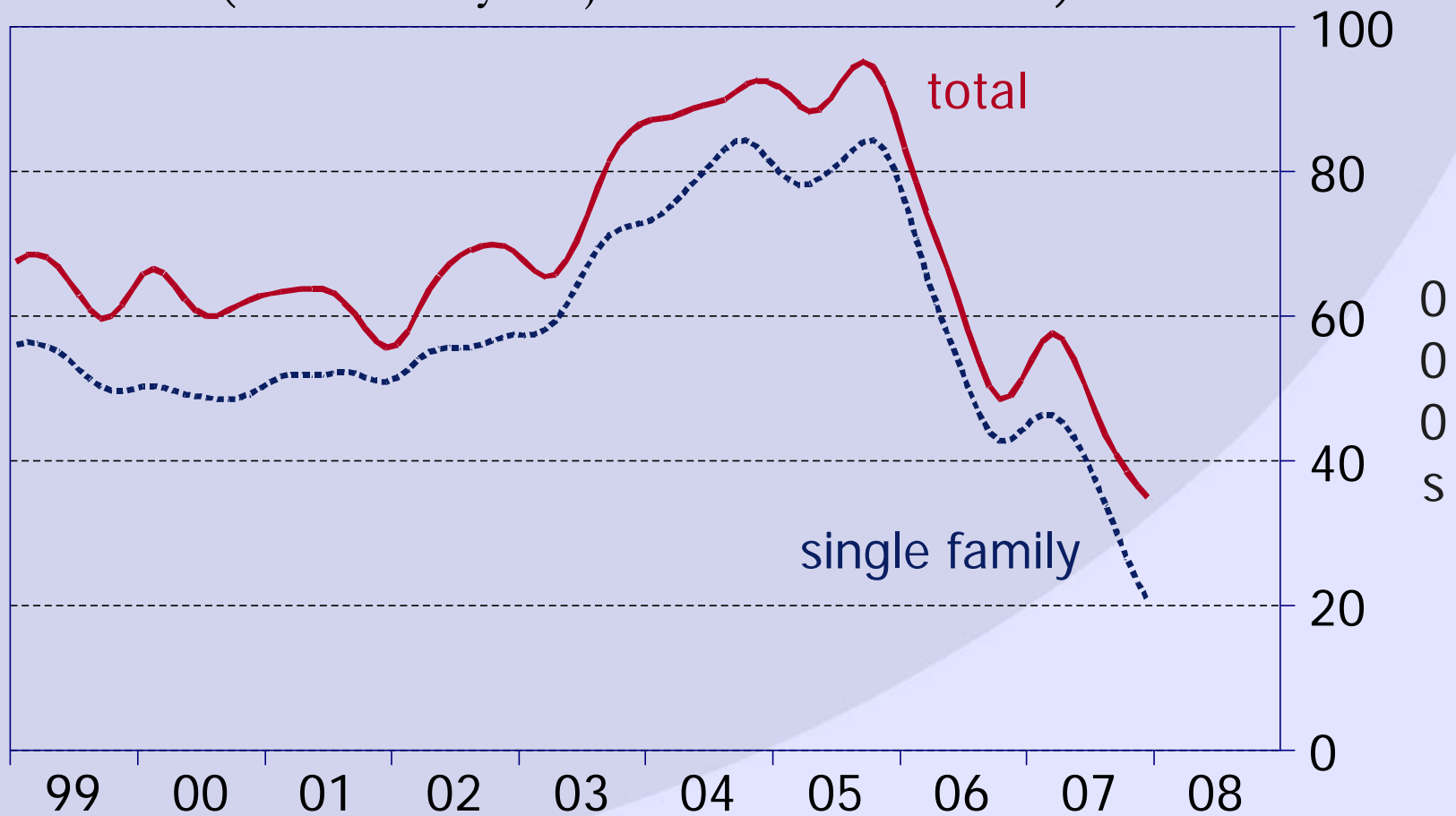
000s units





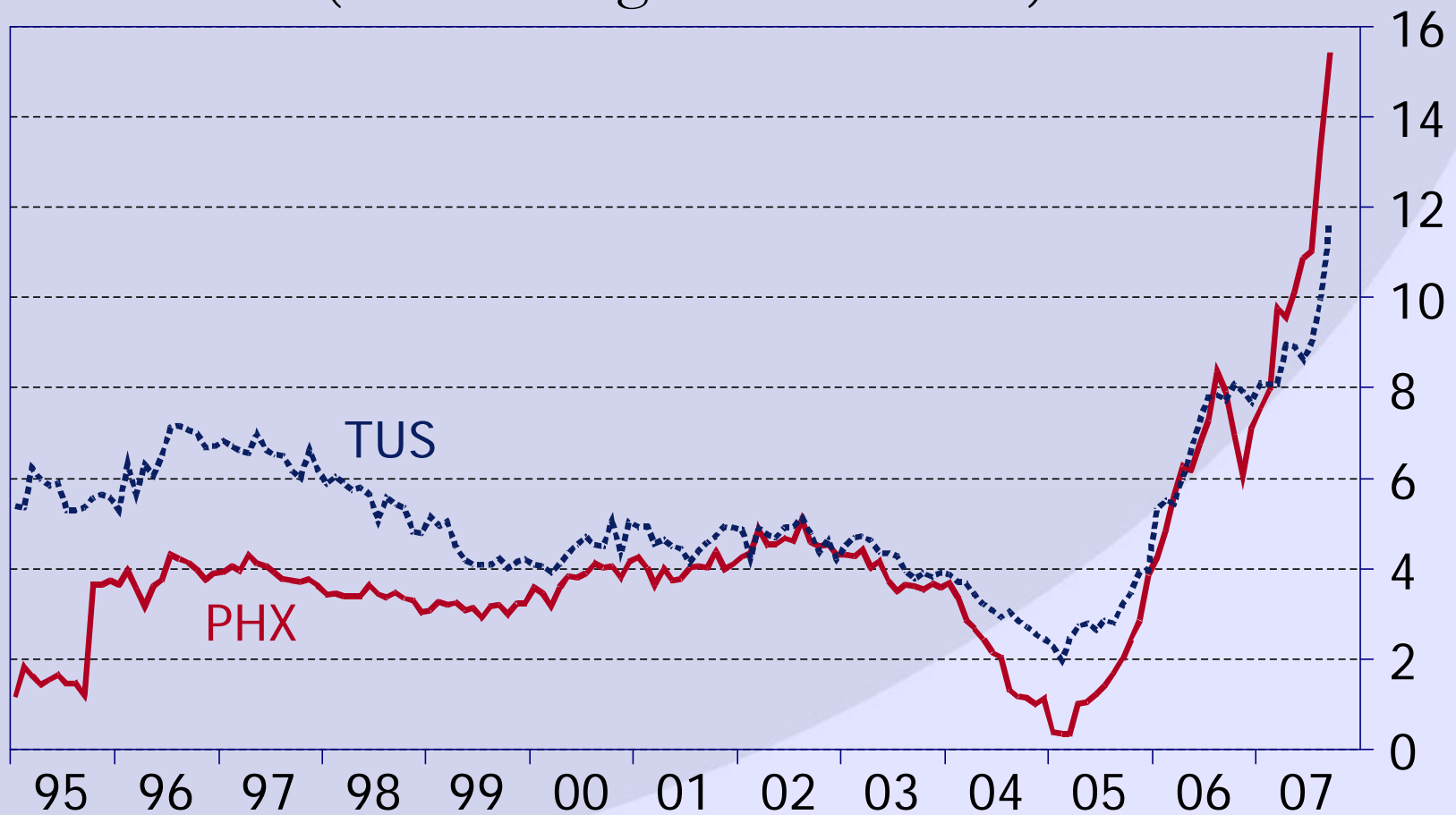
# Building Permits, AZ

(seasonally adjusted annual rate)

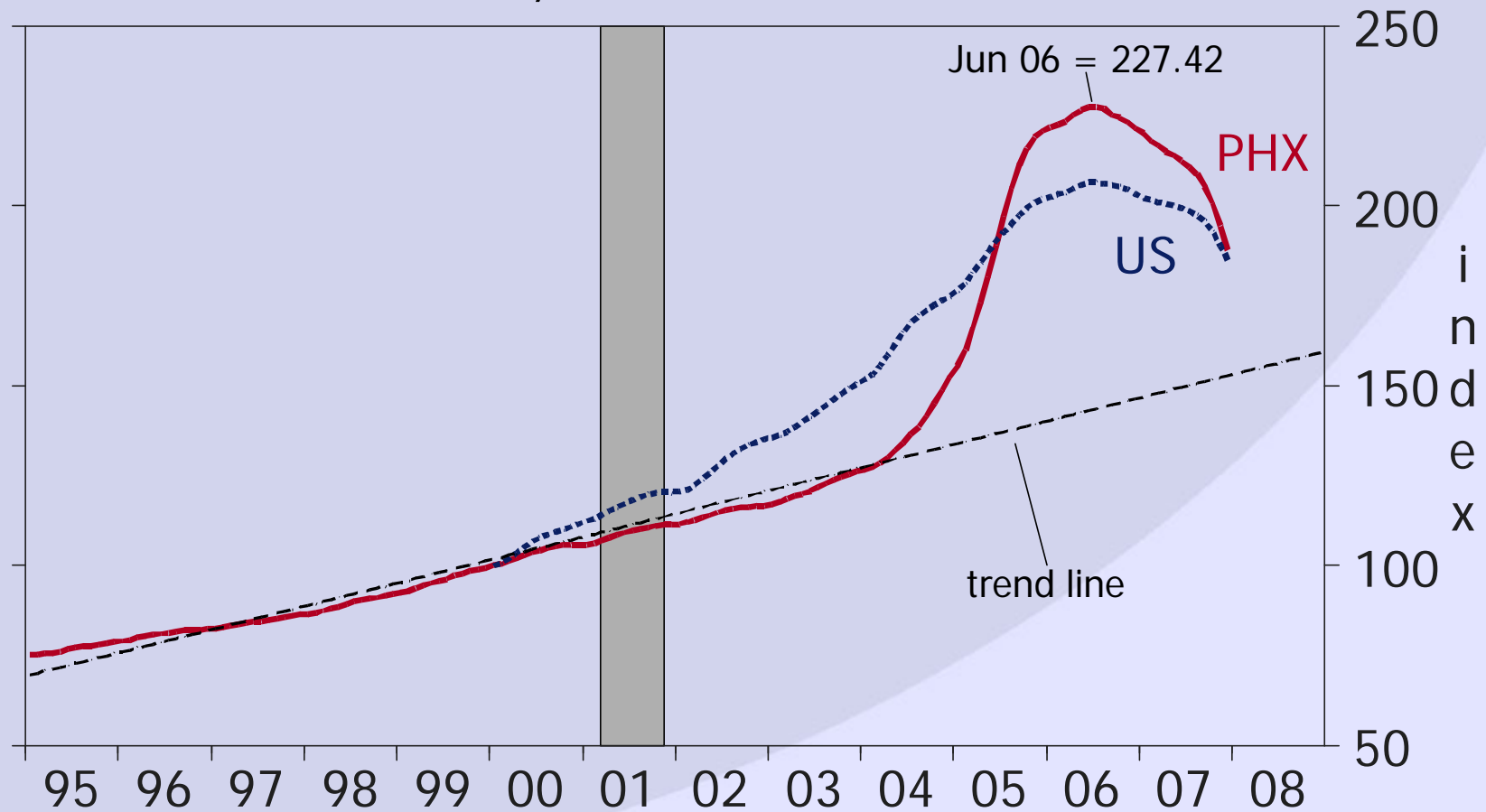


# Months Supply of Housing

(MLS listings to sales ratio)



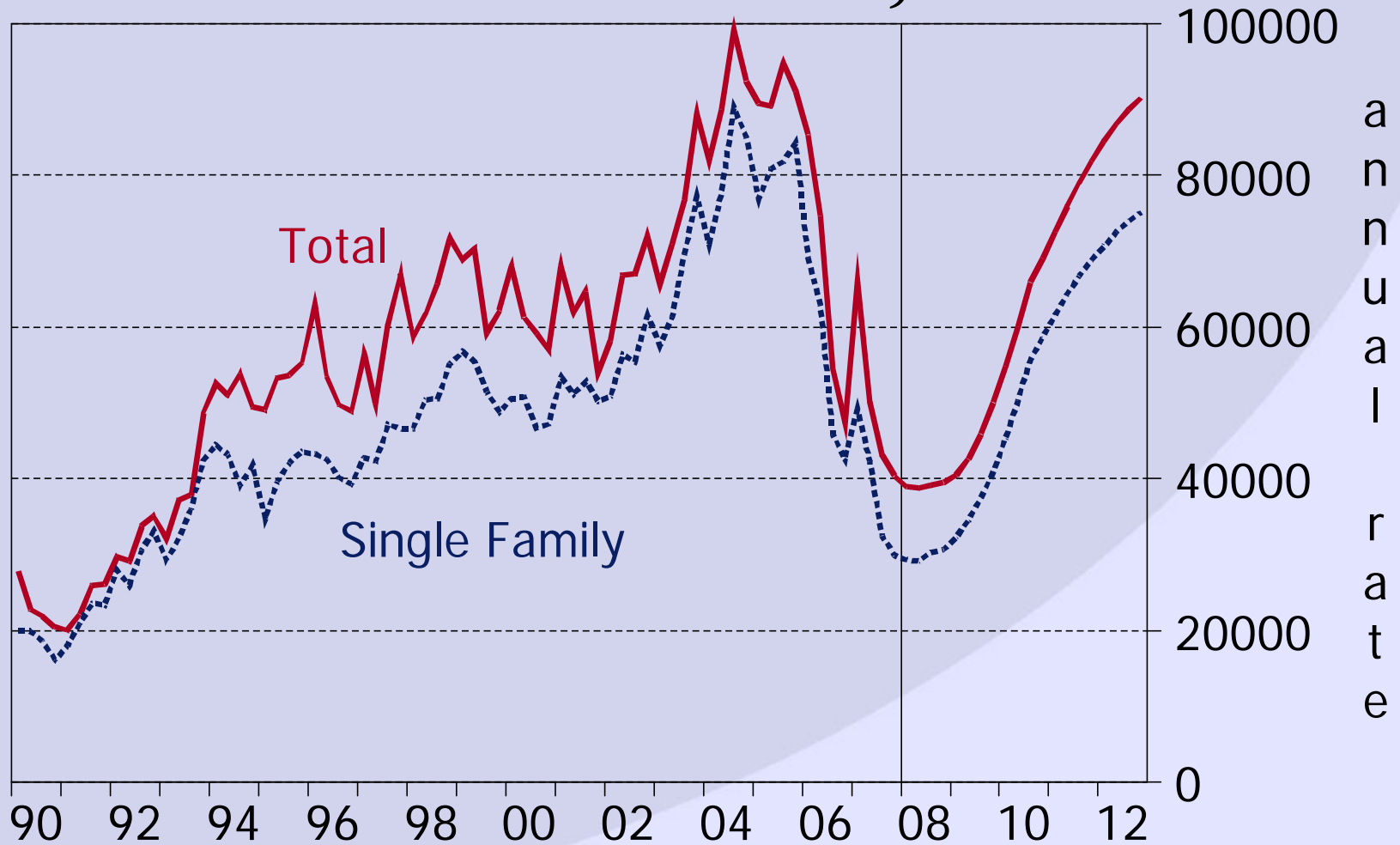
# Home Price Index S&P/Case-Shiller



# Housing Outlook

- Continued weakness
  - Sales stabilize in late 2008 and move up modestly in 2009
  - Starts stabilize in early 2009
  - Nationwide housing prices stabilize in 2010
    - OFHEO measure declines 5-7% peak-to-trough
    - Case Shiller declines 15-18%
    - We are about half way...
- Source: Dave Berson, Feb. 22 2008
  - Former Chief Economist of Fannie Mae, now PMI

# Residential Permits, AZ



# Labor Market Update

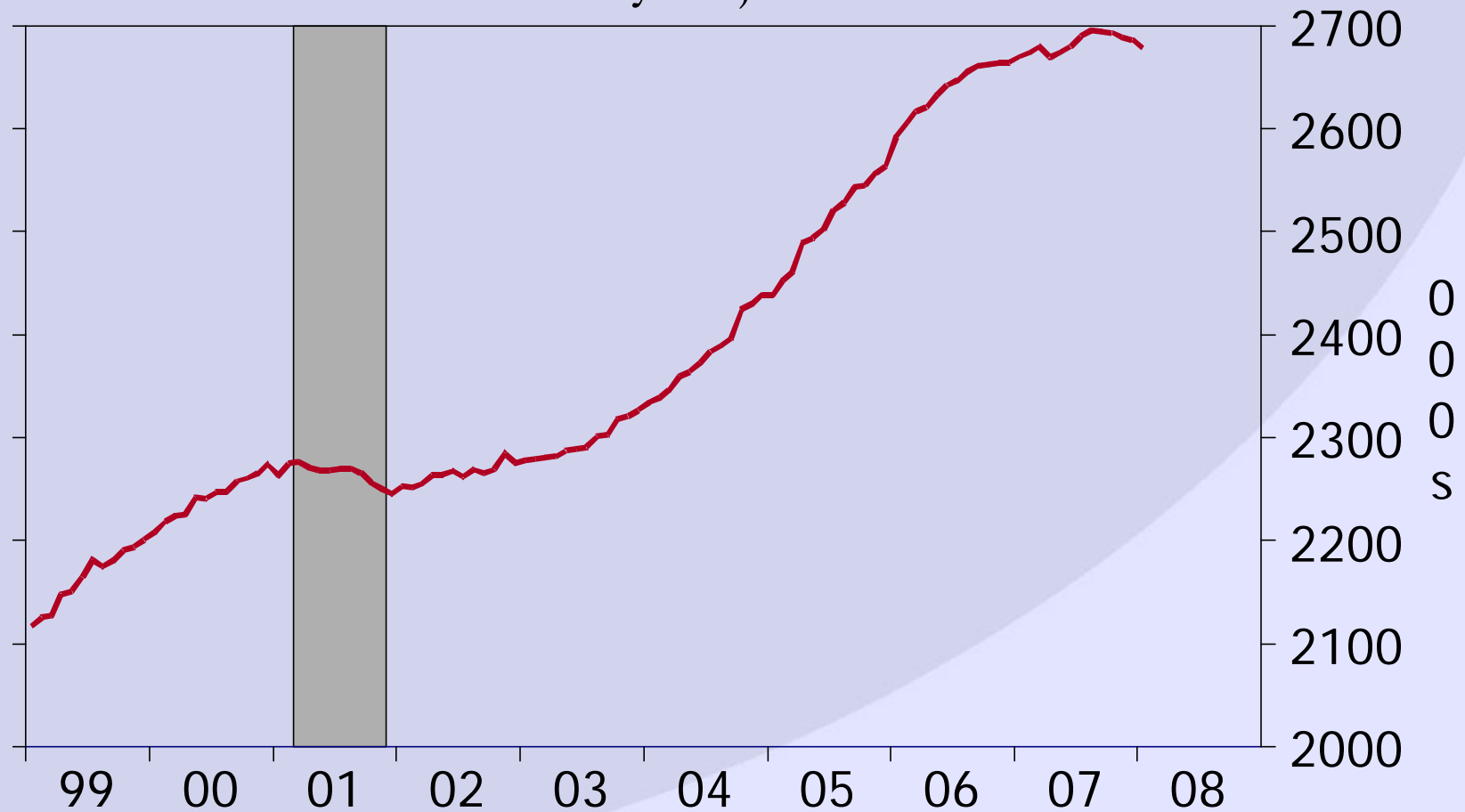
- Business Confidence at recessionary levels
- Nonfarm employment revised downward
  - Largest revisions on record, -53,600
  - Gain for 2007 now 1.2%, was 2.9%
- Employment peaked last August
- Losses are spread across sectors
- Unemployment rate leaps upward
- Nonfarm jobs will decline 15,000 this year
  - 9,000 next year (annual average basis)

# Business Leader Confidence Index Arizona



# Nonfarm Employment, AZ

seasonally adjusted





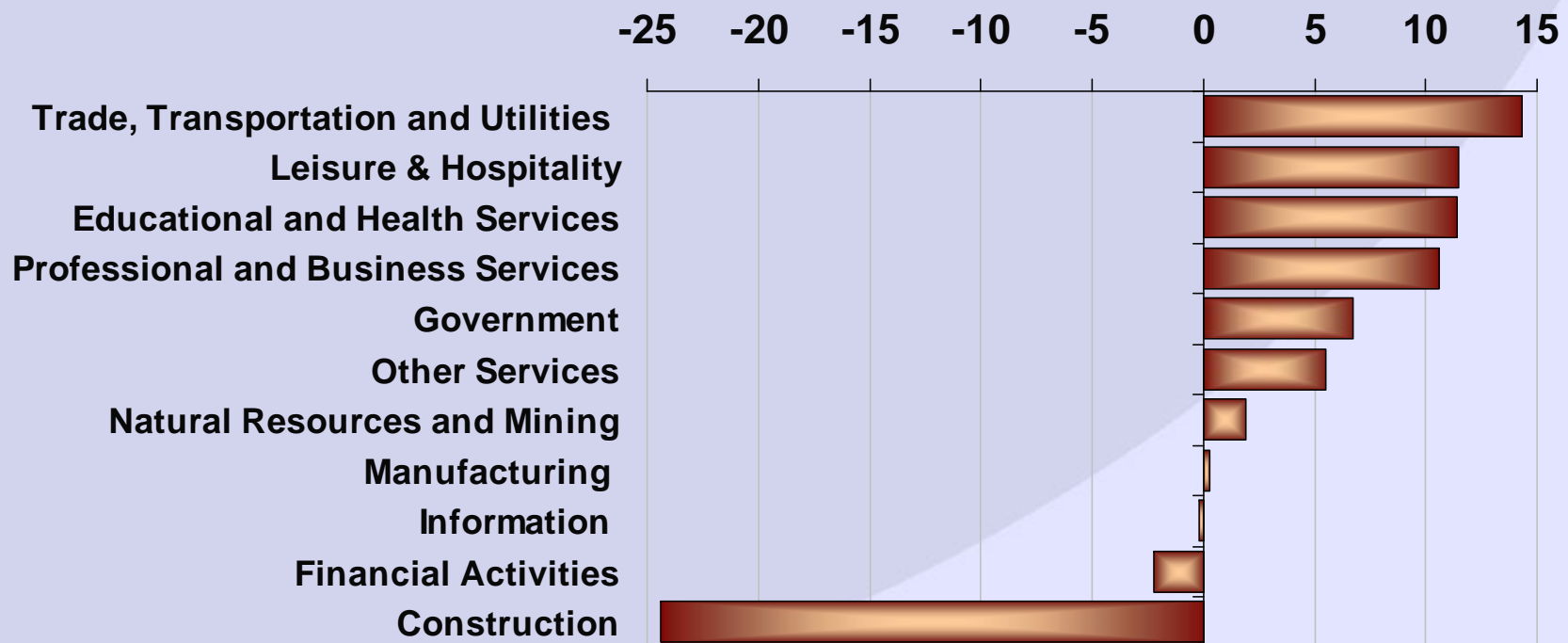
# Employment Trends

- Declining
  - Construction
  - Financial services
  - Information
  - Employment services (temp help)
- Flat
  - Manufacturing
  - Transportation & warehousing
  - Professional & business services

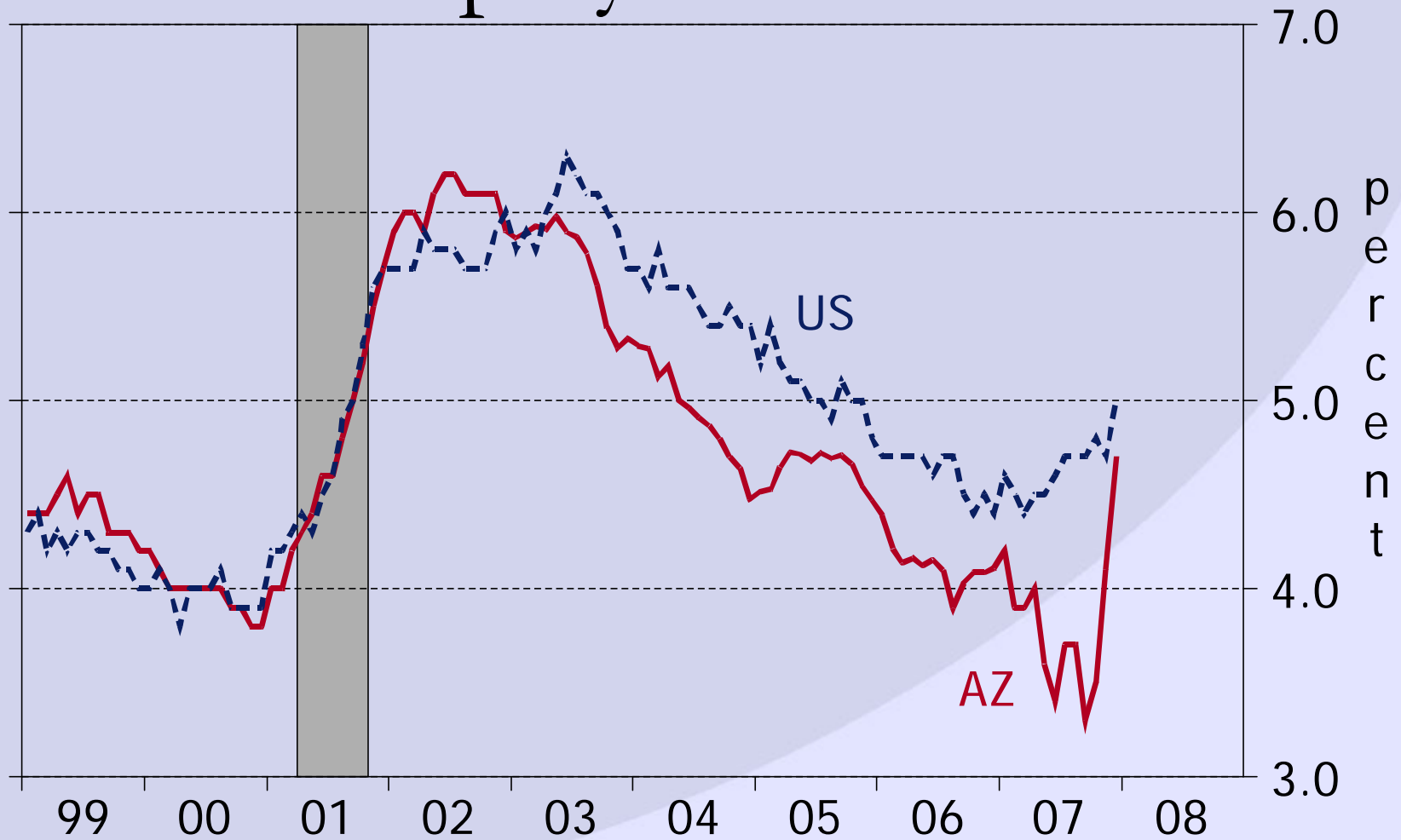
# Changes in Employment, AZ

December '07 vs. December '06

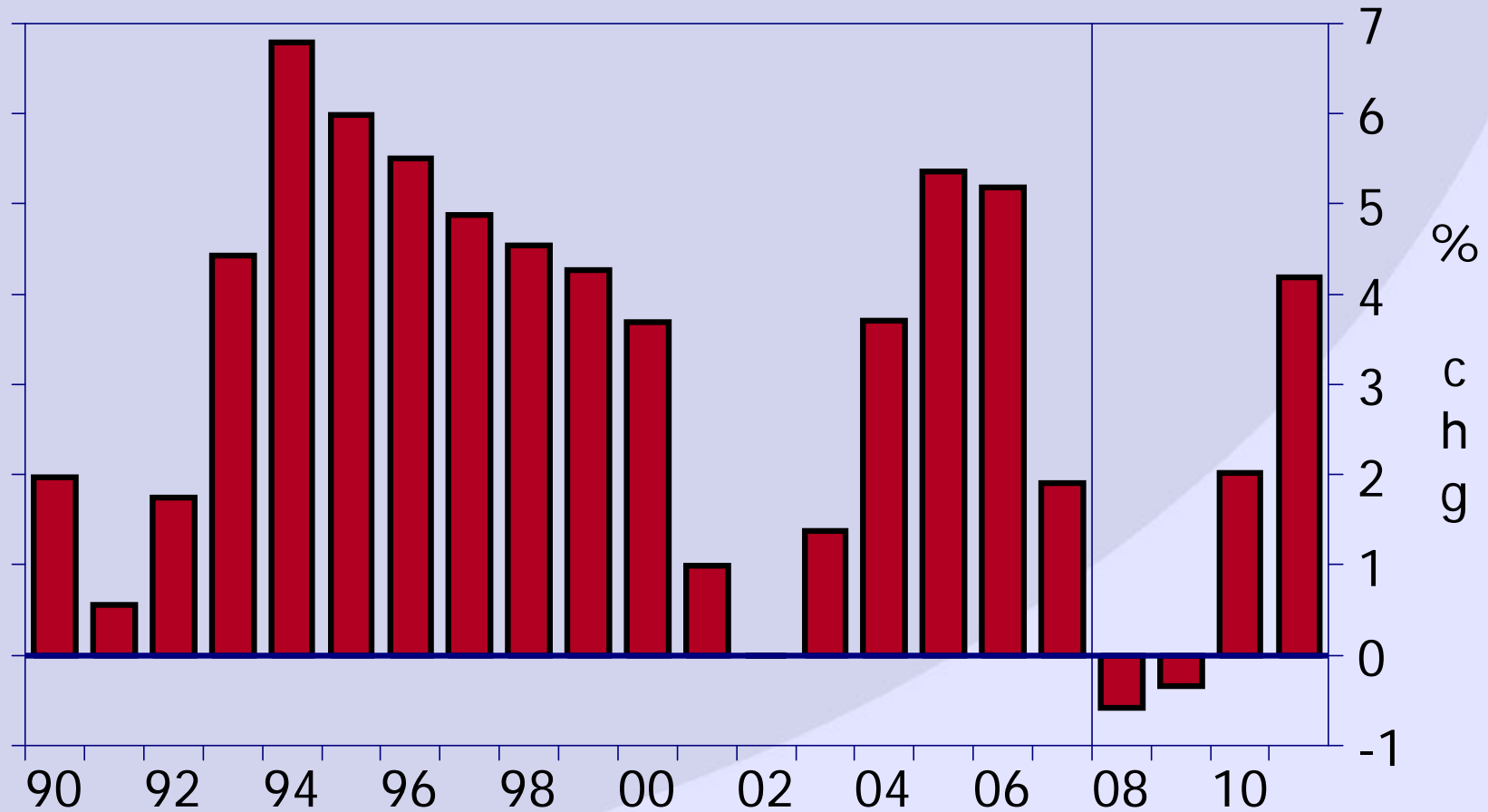
000s



# Unemployment Rate



# Nonfarm Job Growth Arizona

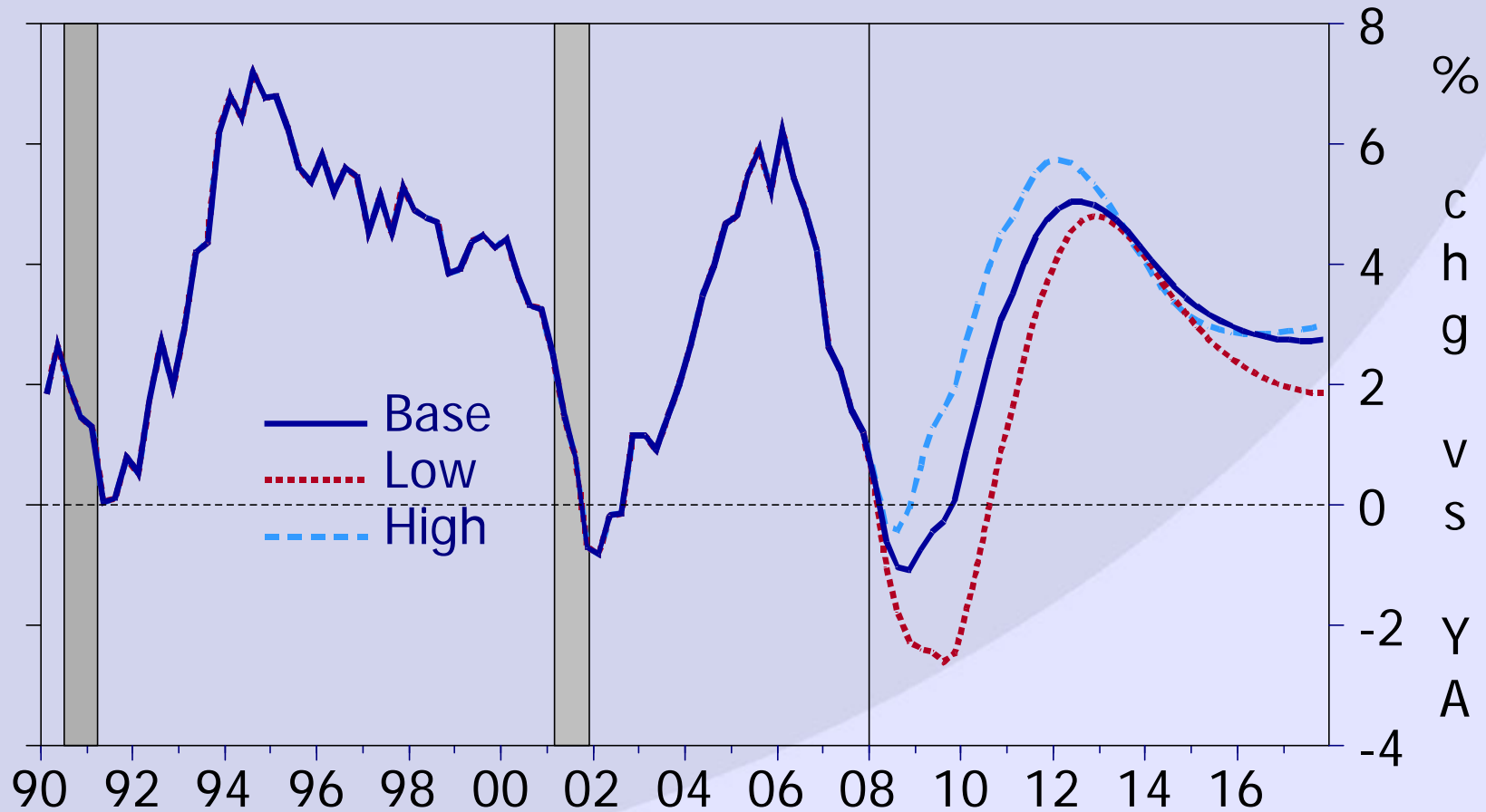


# Arizona Normally Lags

- Nonfarm jobs usually continue growing for another 4 months after national recession begins
- This cycle, Arizona is leading the nation downward
- And... will likely lag behind when cycle turns upward
  - Bottom in 2009Q2

# Nonfarm Employment, AZ

## Alternative Scenarios



A photograph of a desert landscape at sunset. The sky is a gradient of colors from deep purple at the top to bright orange and yellow near the horizon. The silhouettes of several saguaro cacti are visible against the bright sky. The cacti are of various heights and some have arms starting to grow.

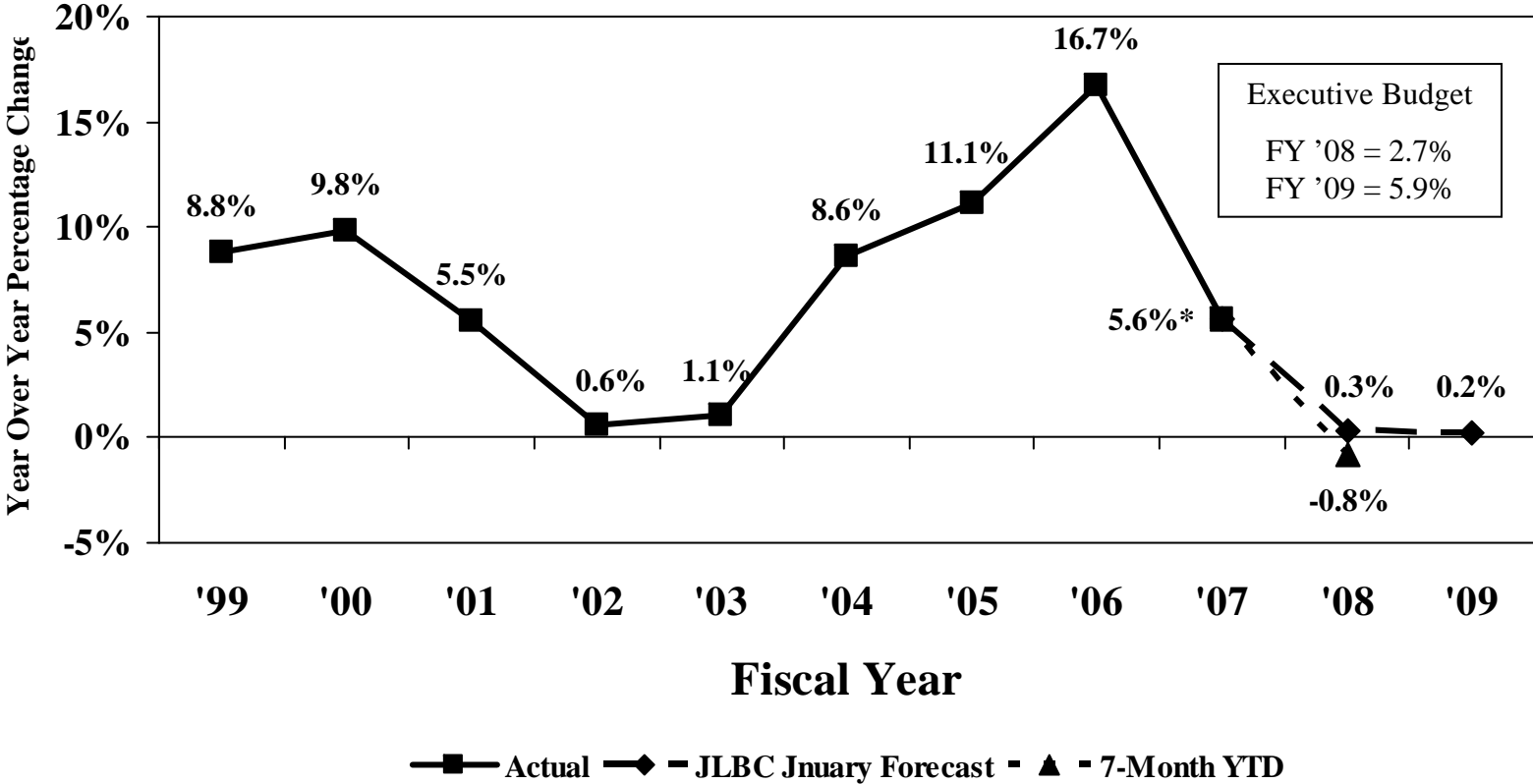
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**[EBR.Eller.Arizona.edu](http://EBR.Eller.Arizona.edu)**

# **Sales Tax**



# Sales Tax Growth Rate



\* The '07 increase of 5.6% does not include the one-time impact of the revised June estimated payment threshold from \$100,000 to \$1.0 million enacted by the Legislature. Including the impact of the one-time change, actual collections grew by 4.3%



## Arizona Sales Tax - Total General Fund Collections

		Collections (\$)	Year-to-Year % Change	Year-to-Date % Change	
FY 2004	↑	July 2003	271,097,895	5.1%	5.1%
		Aug 2003	261,639,289	7.4%	6.2%
		Sept 2003	266,948,000	6.9%	6.5%
		Oct 2003	265,731,338	9.6%	7.2%
		Nov 2003	267,288,644	8.3%	7.4%
		Dec 2003	261,734,569	8.4%	7.6%
		Jan 2004	313,990,713	5.9%	7.3%
		Feb 2004	257,808,864	9.3%	7.5%
		Mar 2004	264,404,198	10.8%	7.9%
		Apr 2004	300,747,181	14.0%	8.5%
		May 2004	277,369,244	10.3%	8.7%
		↓	June 2004	286,028,384	7.7%
FY 2005	↑	July 2004	297,753,472	9.8%	9.8%
		Aug 2004	286,991,921	9.7%	9.8%
		Sept 2004	291,524,219	9.2%	9.6%
		Oct 2004	294,146,223	10.7%	9.9%
		Nov 2004	289,546,242	8.3%	9.5%
		Dec 2004	287,618,657	9.9%	9.6%
		Jan 2005	356,818,639	13.6%	10.3%
		Feb 2005	282,930,176	9.7%	10.2%
		Mar 2005	291,854,753	10.4%	10.2%
		Apr 2005	332,806,103	10.7%	10.3%
		May 2005	315,664,510	13.8%	10.6%
		↓	June 2005	333,513,707	16.6%
FY 2006	↑	July 2005	347,621,329	16.7%	16.7%
		Aug 2005	334,204,902	16.5%	16.6%
		Sept 2005	343,784,559	17.9%	17.0%
		Oct 2005	344,584,769	17.1%	17.1%
		Nov 2005	334,011,412	15.4%	16.7%
		Dec 2005	341,852,219	18.9%	17.1%
		Jan 2006	420,282,327	17.8%	17.2%
		Feb 2006	330,582,460	16.8%	17.2%
		Mar 2006	345,767,996	18.5%	17.3%
		Apr 2006	384,904,139	15.7%	17.1%
		May 2006	362,497,362	14.8%	16.9%
		↓	June 2006	383,265,378	14.9%
FY 2007	↑	July 2006	390,460,231	12.3%	12.3%
		Aug 2006	353,466,457	5.8%	9.1%
		Sept 2006	379,889,665	10.5%	9.6%
		Oct 2006	376,890,480	9.4%	9.5%
		Nov 2006	365,372,337	9.4%	9.5%
		Dec 2006	362,236,390	6.0%	8.9%
		Jan 2007	439,996,411	4.7%	8.2%
		Feb 2007	359,643,938	8.8%	8.3%
		Mar 2007	353,088,173	2.1%	7.6%
		Apr 2007	398,196,373	3.5%	7.1%
		May 2007	357,610,064	-1.3%	6.3%
		↓	June 2007	320,780,323	-16.3%
FY 2008	↑	July 2007	392,889,822	0.6%	0.6%
		Aug 2007	366,627,555	3.7%	2.1%
		Sept 2007	366,842,873	-3.4%	0.2%
		Oct 2007	373,831,498	-0.8%	0.0%
		Nov 2007	366,084,157	0.2%	0.0%
		Dec 2007	362,105,035	0.0%	0.0%
		Jan 2008			
		Feb 2008			
		Mar 2008			
		Apr 2008			
		May 2008			
		↓	June 2008		

## Arizona Sales Tax - Retail General Fund Collections

		Year-to-Year	Year-to-Date
	Collections (\$)	% Change	% Change
FY 2004	July 2003	127,577,005	3.2%
	Aug 2003	118,490,608	8.3%
	Sept 2003	124,602,196	4.5%
	Oct 2003	120,412,104	8.0%
	Nov 2003	120,653,650	6.4%
	Dec 2003	127,258,077	7.1%
	Jan 2004	168,746,929	8.0%
	Feb 2004	121,833,836	9.5%
	Mar 2004	123,543,299	8.6%
	Apr 2004	144,618,793	13.8%
	May 2004	131,759,387	7.0%
	June 2004	135,314,178	6.8%
FY 2005	July 2004	135,655,865	6.3%
	Aug 2004	129,780,078	9.5%
	Sept 2004	129,817,746	4.2%
	Oct 2004	133,734,938	11.1%
	Nov 2004	131,620,393	9.1%
	Dec 2004	138,559,574	8.9%
	Jan 2005	186,350,807	10.4%
	Feb 2005	130,567,977	7.2%
	Mar 2005	136,300,442	10.3%
	Apr 2005	158,048,274	9.3%
	May 2005	148,086,810	12.4%
	June 2005	149,656,276	10.6%
FY 2006	July 2005	159,056,661	17.3%
	Aug 2005	151,650,858	16.9%
	Sept 2005	155,323,150	19.6%
	Oct 2005	151,719,291	13.4%
	Nov 2005	150,085,277	14.0%
	Dec 2005	157,743,736	13.8%
	Jan 2006	213,093,761	14.4%
	Feb 2006	148,801,215	14.0%
	Mar 2006	155,769,534	14.3%
	Apr 2006	175,368,144	11.0%
	May 2006	169,266,627	14.3%
	June 2006	168,160,318	12.4%
FY 2007	July 2006	169,723,491	6.7%
	Aug 2006	155,842,572	2.8%
	Sept 2006	163,988,894	5.6%
	Oct 2006	158,869,642	4.7%
	Nov 2006	153,908,793	2.5%
	Dec 2006	167,464,043	6.2%
	Jan 2007	215,189,656	1.0%
	Feb 2007	157,706,055	6.0%
	Mar 2007	158,858,656	2.0%
	Apr 2007	181,559,289	3.5%
	May 2007	177,671,344	5.0%
	June 2007	166,994,609	-0.7%
FY 2008	July 2007	168,701,610	-0.6%
	Aug 2007	155,843,067	0.0%
	Sept 2007	157,758,362	-3.8%
	Oct 2007	155,232,586	-2.3%
	Nov 2007	155,481,940	1.0%
	Dec 2007	161,715,960	-3.4%
	Jan 2008		
	Feb 2008		
	Mar 2008		
	Apr 2008		
	May 2008		
	June 2008		

## Arizona Sales Tax - Contracting General Fund Collections

		Year-to-Year	Year-to-Date
	Collections (\$)	% Change	% Change
FY 2004	July 2003	48,134,741	10.4%
	Aug 2003	45,929,526	8.7%
	Sept 2003	47,083,613	13.8%
	Oct 2003	48,219,491	18.0%
	Nov 2003	49,324,030	15.5%
	Dec 2003	43,970,907	6.9%
	Jan 2004	52,042,704	10.5%
	Feb 2004	41,840,685	16.5%
	Mar 2004	44,020,667	13.4%
	Apr 2004	51,032,178	25.2%
	May 2004	50,115,540	15.8%
	June 2004	49,842,749	13.3%
FY 2005	July 2004	56,625,508	17.6%
	Aug 2004	53,051,419	15.5%
	Sept 2004	56,478,418	20.0%
	Oct 2004	56,912,069	18.0%
	Nov 2004	54,698,652	10.9%
	Dec 2004	55,495,541	26.2%
	Jan 2005	64,083,984	23.1%
	Feb 2005	48,999,303	17.1%
	Mar 2005	53,376,960	21.3%
	Apr 2005	64,008,264	25.4%
	May 2005	61,389,981	22.5%
	June 2005	66,300,608	33.0%
FY 2006	July 2005	73,449,566	29.7%
	Aug 2005	65,280,791	23.1%
	Sept 2005	69,736,836	23.5%
	Oct 2005	71,875,989	26.3%
	Nov 2005	65,866,408	20.4%
	Dec 2005	73,197,845	31.9%
	Jan 2006	83,495,930	30.3%
	Feb 2006	65,409,736	33.5%
	Mar 2006	70,980,348	33.0%
	Apr 2006	82,734,326	29.3%
	May 2006	76,269,575	24.2%
	June 2006	82,977,855	25.2%
FY 2007	July 2006	89,602,967	22.0%
	Aug 2006	75,238,759	15.3%
	Sept 2006	80,938,291	16.1%
	Oct 2006	87,594,136	21.9%
	Nov 2006	80,499,919	22.2%
	Dec 2006	76,849,517	5.0%
	Jan 2007	95,496,438	14.4%
	Feb 2007	73,418,261	12.2%
	Mar 2007	70,403,512	-0.8%
	Apr 2007	81,956,142	-0.9%
	May 2007	76,125,717	-0.2%
	June 2007	80,475,472	-3.0%
FY 2008	July 2007	84,908,206	-5.2%
	Aug 2007	78,149,544	3.9%
	Sept 2007	75,884,177	-6.2%
	Oct 2007	77,120,496	-12.0%
	Nov 2007	76,543,383	-4.9%
	Dec 2007	76,723,853	-0.2%
	Jan 2008		
	Feb 2008		
	Mar 2008		
	Apr 2008		
	May 2008		
	June 2008		

## Arizona Sales Tax - Utilities General Fund Collections

		Year-to-Year Collections (\$)	Year-to-Year % Change	Year-to-Date % Change	
FY 2004	↑	July 2003	26,176,823	9.0%	9.0%
		Aug 2003	28,509,948	1.4%	4.9%
		Sept 2003	29,336,072	9.7%	6.5%
		Oct 2003	29,307,263	9.2%	7.2%
		Nov 2003	24,724,948	5.9%	7.0%
		Dec 2003	18,604,298	4.7%	6.7%
		Jan 2004	19,831,633	5.8%	6.6%
		Feb 2004	21,735,545	7.2%	6.7%
		Mar 2004	21,098,647	18.4%	7.7%
		Apr 2004	19,424,570	10.0%	7.9%
		May 2004	18,972,977	7.1%	7.8%
		↓	June 2004	21,672,854	13.5%
FY 2005	↑	July 2004	27,013,184	3.2%	3.2%
		Aug 2004	30,325,703	6.4%	4.8%
		Sept 2004	31,741,960	8.2%	6.0%
		Oct 2004	30,740,200	4.9%	5.7%
		Nov 2004	25,266,623	2.2%	5.1%
		Dec 2004	20,437,208	9.9%	5.7%
		Jan 2005	22,887,268	15.4%	6.8%
		Feb 2005	23,568,912	8.4%	6.9%
		Mar 2005	21,093,834	0.0%	6.3%
		Apr 2005	20,088,226	3.4%	6.0%
		May 2005	19,934,242	5.1%	6.0%
		↓	June 2005	23,163,752	6.9%
FY 2006	↑	July 2005	30,123,635	11.5%	11.5%
		Aug 2005	33,750,711	11.3%	11.4%
		Sept 2005	35,125,817	10.7%	11.1%
		Oct 2005	33,780,817	9.9%	10.8%
		Nov 2005	29,135,783	15.3%	11.6%
		Dec 2005	22,091,021	8.1%	11.2%
		Jan 2006	27,326,797	19.4%	12.2%
		Feb 2006	25,560,400	8.4%	11.8%
		Mar 2006	22,568,311	7.0%	11.3%
		Apr 2006	24,117,190	20.1%	12.0%
		May 2006	22,105,984	10.9%	11.9%
		↓	June 2006	27,844,657	20.2%
FY 2007	↑	July 2006	34,298,139	13.9%	13.9%
		Aug 2006	35,017,585	3.8%	8.5%
		Sept 2006	43,094,371	22.7%	13.5%
		Oct 2006	37,109,678	9.9%	12.6%
		Nov 2006	31,261,217	7.3%	11.7%
		Dec 2006	24,939,936	12.9%	11.8%
		Jan 2007	27,586,109	0.9%	10.4%
		Feb 2007	32,562,551	27.4%	12.2%
		Mar 2007	29,526,457	30.8%	13.8%
		Apr 2007	25,414,142	5.4%	13.1%
		May 2007	24,034,224	8.7%	12.8%
		↓	June 2007	29,476,016	5.9%
FY 2008	↑	July 2007	38,942,178	13.5%	13.5%
		Aug 2007	37,039,168	5.8%	9.6%
		Sept 2007	38,939,736	-9.6%	2.2%
		Oct 2007	43,658,875	17.6%	6.1%
		Nov 2007	34,702,176	11.0%	6.9%
		Dec 2007	28,029,896	12.4%	7.6%
		Jan 2008			
		Feb 2008			
		Mar 2008			
		Apr 2008			
		May 2008			
		↓	June 2008		

## Arizona Sales Tax - Restaurants and Bars General Fund Collections

		Year-to-Year Collections (\$)	Year-to-Year % Change	Year-to-Date % Change	
FY 2004	↑	July 2003	20,792,336	2.6%	2.6%
		Aug 2003	19,298,370	9.7%	5.9%
		Sept 2003	19,651,921	9.1%	6.9%
		Oct 2003	20,622,120	7.6%	7.1%
		Nov 2003	20,860,459	3.3%	6.3%
		Dec 2003	21,904,960	10.2%	7.0%
		Jan 2004	22,636,406	6.3%	6.9%
		Feb 2004	22,798,497	8.6%	7.1%
		Mar 2004	23,967,651	14.5%	8.0%
		Apr 2004	26,173,173	7.9%	8.0%
		May 2004	23,684,814	12.9%	8.4%
		↓	June 2004	23,349,956	6.2%
FY 2005	↑	July 2004	22,708,857	9.2%	9.2%
		Aug 2004	21,278,820	10.3%	9.7%
		Sept 2004	21,320,496	8.5%	9.3%
		Oct 2004	21,984,775	6.6%	8.6%
		Nov 2004	23,818,505	14.2%	9.8%
		Dec 2004	22,326,535	1.9%	8.4%
		Jan 2005	26,300,293	16.2%	9.6%
		Feb 2005	24,490,839	7.4%	9.3%
		Mar 2005	26,750,839	11.6%	9.6%
		Apr 2005	27,538,659	5.2%	9.1%
		May 2005	27,671,032	16.8%	9.8%
		↓	June 2005	26,359,625	12.9%
FY 2006	↑	July 2005	25,760,478	13.4%	13.4%
		Aug 2005	23,621,671	11.0%	12.3%
		Sept 2005	24,552,209	15.2%	13.2%
		Oct 2005	25,332,188	15.2%	13.7%
		Nov 2005	26,717,800	12.2%	13.4%
		Dec 2005	26,402,748	18.3%	14.2%
		Jan 2006	28,524,262	8.5%	13.3%
		Feb 2006	27,902,255	13.9%	13.3%
		Mar 2006	29,389,750	9.9%	12.9%
		Apr 2006	31,522,229	14.5%	13.1%
		May 2006	30,057,423	8.6%	12.6%
		↓	June 2006	29,045,199	10.2%
FY 2007	↑	July 2006	28,025,509	8.8%	8.8%
		Aug 2006	25,406,213	7.6%	8.2%
		Sept 2006	25,474,093	3.8%	6.7%
		Oct 2006	27,567,943	8.8%	7.3%
		Nov 2006	32,249,878	20.7%	10.1%
		Dec 2006	28,295,767	7.2%	9.6%
		Jan 2007	30,950,667	8.5%	9.4%
		Feb 2007	30,649,098	9.8%	9.5%
		Mar 2007	29,694,899	1.0%	8.4%
		Apr 2007	34,392,336	9.1%	8.5%
		May 2007	31,957,682	6.3%	8.3%
		↓	June 2007	29,936,887	3.1%
FY 2008	↑	July 2007	29,101,596	3.8%	3.8%
		Aug 2007	26,935,024	6.0%	4.9%
		Sept 2007	26,786,010	5.2%	5.0%
		Oct 2007	28,689,796	4.1%	4.7%
		Nov 2007	29,377,274	-8.9%	1.6%
		Dec 2007	30,275,107	7.0%	2.5%
		Jan 2008			
		Feb 2008			
		Mar 2008			
		Apr 2008			
	↓	May 2008			
	June 2008				

# Arizona Use Tax

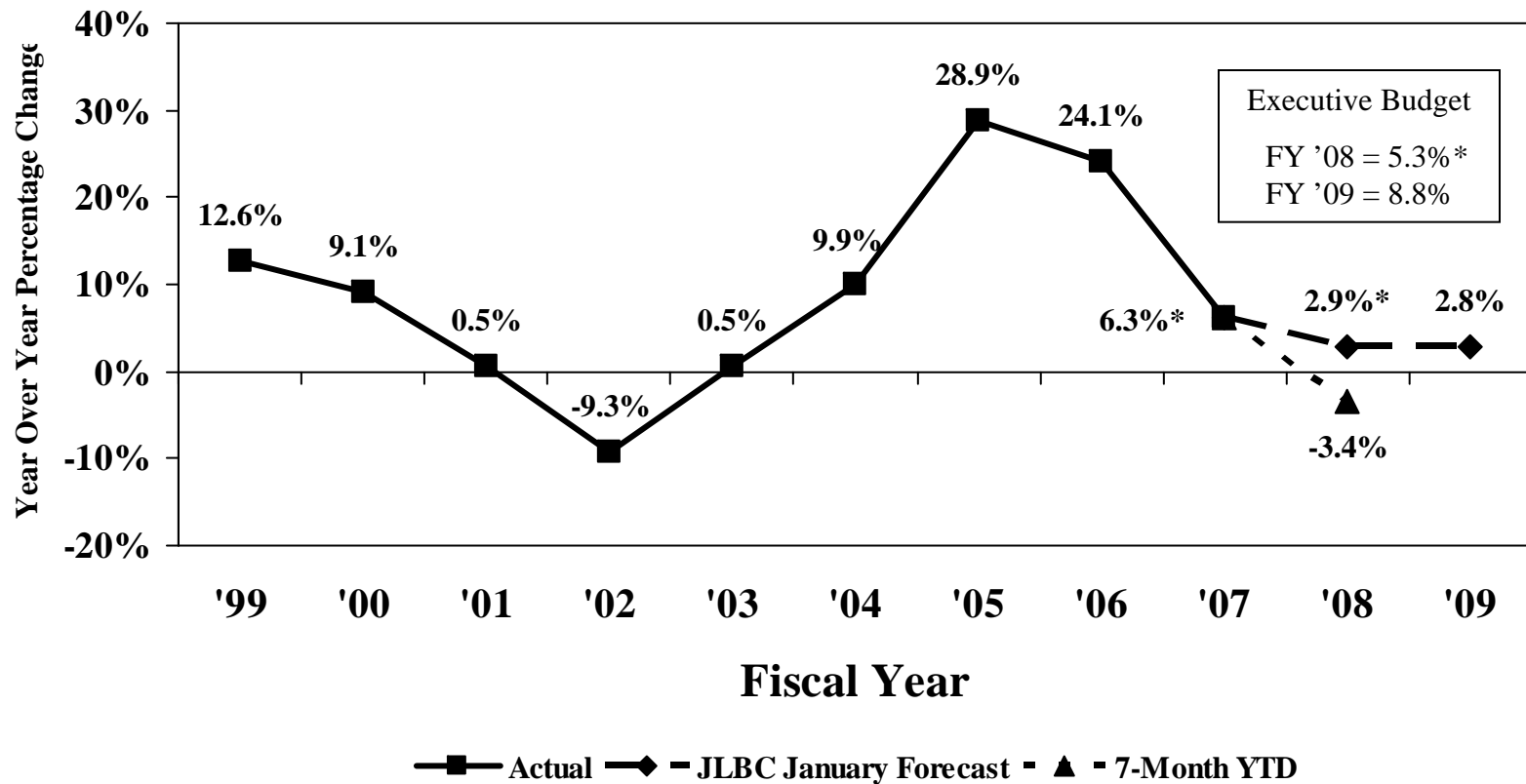
## General Fund Collections

		Year-to-Year	Year-to-Date			
	Collections (\$)	% Change	% Change			
FY 2004	↑	July 2003	17,860,978	32.4%	32.4%	
		Aug 2003	19,887,972	24.3%	28.0%	
		Sept 2003	19,482,321	14.2%	23.0%	
		Oct 2003	18,728,981	19.7%	22.2%	
		Nov 2003	20,488,151	38.7%	25.3%	
		Dec 2003	18,658,810	53.0%	29.1%	
		Jan 2004	19,912,056	-3.2%	23.1%	
		Feb 2004	17,630,604	13.9%	21.9%	
		Mar 2004	17,707,908	22.8%	22.0%	
		Apr 2004	21,218,819	23.0%	22.1%	
		May 2004	19,055,304	25.1%	22.4%	
		↓	June 2004	21,584,318	22.8%	22.4%
FY 2005	↑	July 2004	22,547,132	26.2%	26.2%	
		Aug 2004	22,557,101	13.4%	19.5%	
		Sept 2004	22,229,731	14.1%	17.7%	
		Oct 2004	20,607,802	10.0%	15.8%	
		Nov 2004	21,355,148	4.2%	13.3%	
		Dec 2004	19,586,986	5.0%	12.0%	
		Jan 2005	24,134,289	21.2%	13.3%	
		Feb 2005	21,758,390	23.4%	14.5%	
		Mar 2005	18,691,567	5.6%	13.6%	
		Apr 2005	22,354,083	5.4%	12.7%	
		May 2005	21,652,224	13.6%	12.7%	
		↓	June 2005	22,141,203	2.6%	11.8%
FY 2006	↑	July 2005	23,872,256	5.9%	5.9%	
		Aug 2005	26,621,874	18.0%	11.9%	
		Sept 2005	25,990,396	16.9%	13.6%	
		Oct 2005	28,124,088	36.5%	19.0%	
		Nov 2005	25,350,591	18.7%	18.9%	
		Dec 2005	25,520,731	30.3%	20.6%	
		Jan 2006	31,316,999	29.8%	22.1%	
		Feb 2006	26,149,998	20.2%	21.8%	
		Mar 2006	26,624,546	42.4%	23.8%	
		Apr 2006	26,326,619	17.8%	23.2%	
		May 2006	21,682,845	0.1%	21.1%	
		↓	June 2006	18,617,865	-15.9%	17.9%
FY 2007	↑	July 2006	28,987,773	21.4%	21.4%	
		Aug 2006	25,431,547	-4.5%	7.8%	
		Sept 2006	28,561,796	9.9%	8.5%	
		Oct 2006	28,527,152	1.4%	6.6%	
		Nov 2006	27,484,263	8.4%	7.0%	
		Dec 2006	23,756,958	-6.9%	4.7%	
		Jan 2007	31,899,499	1.9%	4.2%	
		Feb 2007	23,123,752	-11.6%	2.3%	
		Mar 2007	22,628,801	-15.0%	0.3%	
		Apr 2007	27,021,534	2.6%	0.6%	
		May 2007	6,153,618	-71.6%	-4.9%	
		↓	June 2007	29,434,170	58.1%	-1.0%
FY 2008	↑	July 2007	31,300,389	8.0%	8.0%	
		Aug 2007	29,103,528	14.4%	11.0%	
		Sept 2007	29,437,063	3.1%	8.3%	
		Oct 2007	30,750,858	7.8%	8.1%	
		Nov 2007	30,042,343	9.3%	8.4%	
		Dec 2007	26,487,663	11.5%	8.8%	
		Jan 2008				
		Feb 2008				
		Mar 2008				
		Apr 2008				
		May 2008				
		↓	June 2008			

# **Individual Income Tax**



# Individual Income Tax Growth Rate



\* The '07 actual and '08 forecast percentages do not include the impact of the 10% rate reduction passed by the Legislature, and phased in over 2 years beginning in tax year 2006. Including the rate reduction, actual '07 growth was 1.6%, the '08 JLBC forecast is (2.1)%, and the '08 Executive forecast is 0.3%.

**INDIVIDUAL INCOME TAX**

% Change From Prior Year

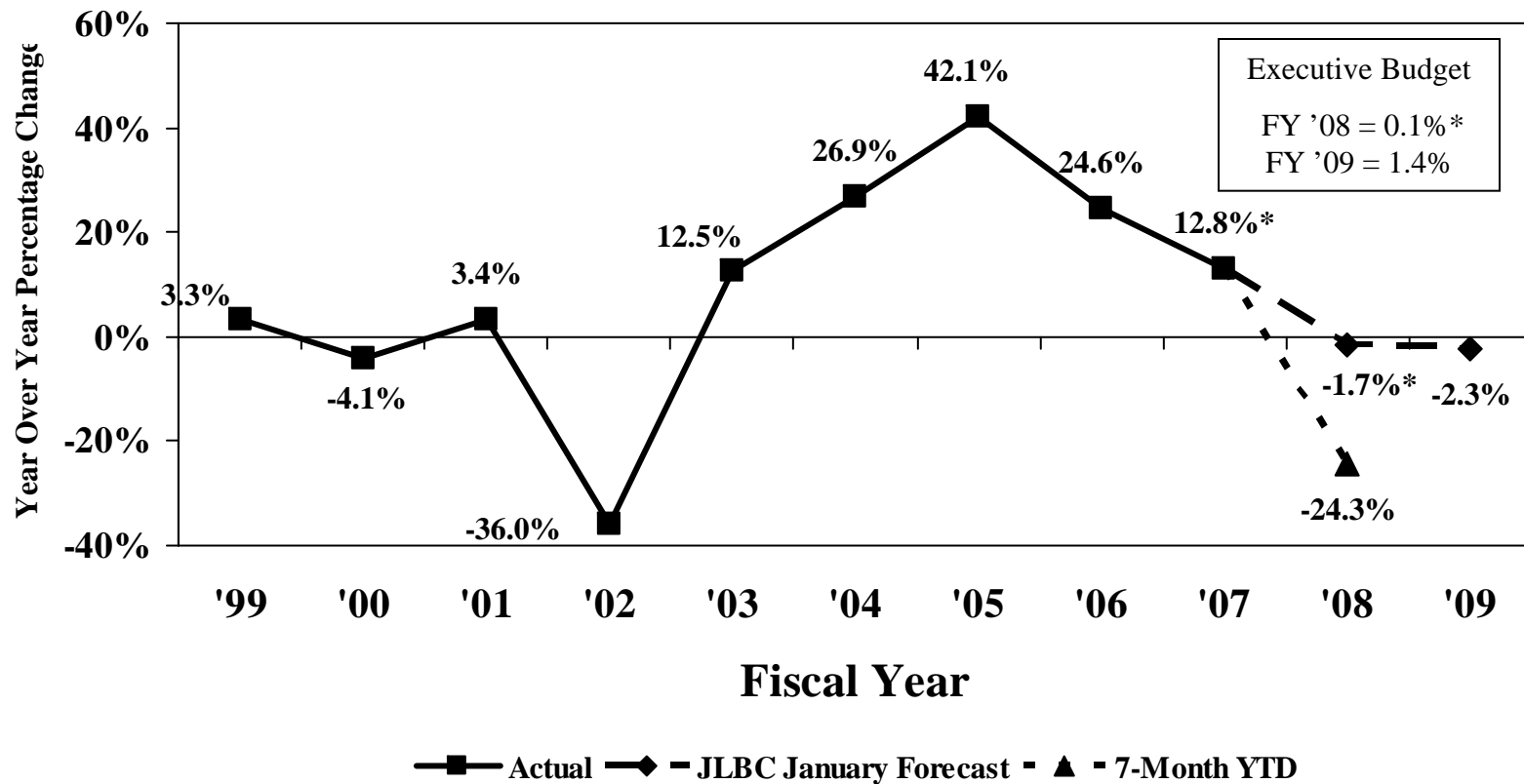
	Total PIT	Y/Y Chg.	FYTD		% Change From Prior Year		Est. & Final		FYTD		FYTD		
			Chg.	Withholdings	Y/Y Chg.	Chg.	Payments	Y/Y Chg.	Chg.	Refunds	Y/Y Chg.	Chg.	
FY 2004	Jul-03	165,870,019	-3.5%	-3.5%	168,192,384	-9.6%	-9.6%	9,818,564	0.3%	0.3%	(12,140,929)	-49.5%	-49.5%
	Aug	181,887,528	4.3%	0.5%	179,843,713	-0.3%	-5.1%	13,138,440	19.0%	10.2%	(11,094,625)	-35.3%	-43.6%
	Sep	230,980,848	-0.9%	-0.1%	179,587,853	2.8%	-2.5%	71,246,053	3.3%	4.9%	(19,853,058)	85.9%	-16.9%
	Oct	185,796,530	2.3%	0.5%	187,639,147	1.3%	-1.5%	21,360,425	8.4%	5.6%	(23,203,042)	-0.2%	-11.8%
	Nov	182,342,949	-4.4%	-0.5%	194,612,408	-0.5%	-1.3%	8,398,521	24.1%	6.6%	(20,667,980)	78.5%	0.3%
	Dec	260,146,909	7.4%	1.1%	213,979,177	2.2%	-0.7%	56,932,488	16.6%	9.6%	(10,764,756)	-32.4%	-4.8%
FY 2005	Jan	267,064,993	0.2%	0.9%	204,879,796	-2.0%	-0.9%	79,187,113	7.6%	9.0%	(17,001,915)	6.1%	-3.3%
	Feb	65,487,978	-1.7%	0.8%	205,968,930	6.9%	0.1%	12,119,201	21.0%	9.5%	(152,600,153)	12.1%	4.9%
	Mar	89,513,594	214.3%	4.7%	220,645,285	9.9%	1.2%	36,041,044	38.4%	12.2%	(167,172,735)	-15.7%	-4.1%
	Apr	302,321,741	41.2%	9.1%	186,126,178	-0.7%	1.0%	325,396,679	19.6%	15.9%	(209,201,115)	-14.8%	-7.9%
	May	135,278,064	37.2%	10.6%	195,496,444	2.5%	1.2%	46,712,145	50.8%	17.8%	(106,930,525)	-13.2%	-8.6%
	Jun	239,484,015	4.3%	9.9%	195,929,652	0.9%	1.2%	77,177,113	22.7%	18.2%	(33,622,750)	22.2%	-7.6%
FY 2006	Jul-04	180,258,486	8.7%	8.7%	185,359,849	10.2%	10.2%	7,982,042	-18.7%	-18.7%	(13,083,405)	7.8%	7.8%
	Aug	208,007,549	14.4%	11.6%	206,338,811	14.7%	12.5%	17,256,736	31.3%	9.9%	(15,587,998)	40.5%	23.4%
	Sep	258,308,001	11.8%	11.7%	184,456,860	2.7%	9.2%	85,967,739	20.7%	18.0%	(12,116,599)	-39.0%	-5.3%
	Oct	203,622,310	9.6%	11.2%	187,072,940	-0.3%	6.7%	27,192,307	27.3%	19.8%	(10,642,937)	-54.1%	-22.4%
	Nov	218,542,604	19.9%	12.9%	222,360,341	14.3%	8.3%	11,359,321	35.3%	20.8%	(15,177,058)	-26.6%	-23.4%
	Dec	296,768,719	14.1%	13.1%	233,620,890	9.2%	8.5%	81,181,241	42.6%	27.7%	(18,033,413)	67.5%	-13.4%
FY 2006	Jan	357,209,039	33.8%	16.9%	249,542,466	21.8%	10.5%	119,604,915	51.0%	34.8%	(11,938,341)	-29.8%	-15.8%
	Feb	95,639,793	46.0%	18.1%	239,830,618	16.4%	11.3%	12,489,817	3.1%	33.4%	(156,680,643)	2.7%	-5.3%
	Mar	108,697,181	21.4%	18.3%	245,076,317	11.1%	11.3%	39,089,384	8.5%	30.5%	(175,468,521)	5.0%	-1.3%
	Apr	534,861,186	76.9%	27.5%	209,608,264	12.6%	11.4%	512,208,256	57.4%	44.3%	(186,955,334)	-10.6%	-4.4%
	May	229,122,033	69.4%	30.2%	244,198,666	24.9%	12.7%	84,231,869	80.3%	46.8%	(99,308,501)	-7.1%	-4.7%
	Jun	282,679,372	18.0%	28.9%	215,867,519	10.2%	12.4%	106,817,719	38.4%	45.9%	(40,005,867)	19.0%	-3.7%
FY 2006	Jul-05	223,953,189	24.2%	24.2%	221,317,607	19.4%	19.4%	15,395,021	92.9%	92.9%	(12,759,440)	-2.5%	-2.5%
	Aug	263,697,095	26.8%	25.6%	253,061,649	22.6%	21.1%	25,713,368	49.0%	62.9%	(15,077,922)	-3.3%	-2.9%
	Sep	322,958,721	25.0%	25.4%	217,514,066	17.9%	20.1%	118,564,270	37.9%	43.6%	(13,119,615)	8.3%	0.4%
	Oct	244,717,144	20.2%	24.1%	233,132,229	24.6%	21.2%	27,206,826	0.1%	35.0%	(15,621,911)	46.8%	10.0%
	Nov	246,397,916	12.7%	21.8%	251,199,672	13.0%	19.3%	16,055,089	41.3%	35.5%	(20,856,845)	37.4%	16.3%
	Dec	366,228,870	23.4%	22.1%	275,574,553	18.0%	19.1%	111,812,195	37.7%	36.3%	(21,157,877)	17.3%	16.5%
FY 2007	Jan	461,569,947	29.2%	23.6%	289,016,657	15.8%	18.5%	182,419,323	52.5%	41.8%	(9,866,032)	-17.4%	12.3%
	Feb	104,975,664	9.8%	22.9%	269,407,378	12.3%	17.7%	18,041,261	44.4%	41.9%	(182,472,975)	16.5%	14.9%
	Mar	75,235,164	-30.8%	19.9%	271,172,800	10.6%	16.8%	43,912,674	12.3%	39.0%	(239,850,310)	36.7%	23.8%
	Apr	621,374,286	16.2%	19.1%	221,762,700	5.8%	15.7%	618,672,832	20.8%	28.8%	(219,061,246)	17.2%	21.8%
	May	423,818,481	85.0%	24.7%	276,966,197	13.4%	15.5%	259,114,481	207.6%	43.9%	(112,262,197)	13.0%	20.6%
	Jun	334,443,992	18.3%	24.1%	256,634,913	18.9%	15.8%	145,568,069	36.3%	43.2%	(67,758,989)	69.4%	23.2%
FY 2007	Jul-06	232,882,593	4.0%	4.0%	233,180,431	5.4%	5.4%	17,937,645	16.5%	16.5%	(18,235,483)	42.9%	42.9%
	Aug	283,590,385	7.5%	5.9%	277,224,789	9.5%	7.6%	23,419,716	-8.9%	0.6%	(17,054,119)	13.1%	26.8%
	Sep	355,502,457	10.1%	7.6%	216,332,499	-0.5%	5.0%	157,891,625	33.2%	24.8%	(18,721,667)	42.7%	31.9%
	Oct	305,050,149	24.7%	11.5%	263,987,122	13.2%	7.1%	65,184,764	139.6%	41.5%	(24,121,738)	54.4%	38.1%
	Nov	249,526,954	1.3%	9.6%	259,238,972	3.2%	6.3%	31,853,112	98.4%	46.0%	(41,565,130)	99.3%	54.6%
	Dec	360,467,690	-1.6%	7.1%	308,908,979	12.1%	7.4%	90,557,275	-19.0%	22.9%	(38,998,564)	84.3%	61.0%
FY 2008	Jan	544,268,647	17.9%	9.5%	339,575,980	17.5%	9.1%	239,701,160	31.4%	26.0%	(35,008,493)	254.8%	78.6%
	Feb	83,536,034	-20.4%	8.1%	292,673,483	8.6%	9.0%	18,072,039	0.2%	25.1%	(227,209,488)	24.5%	44.7%
	Mar	106,837,038	42.0%	9.2%	291,407,424	7.5%	8.8%	45,377,904	3.3%	23.4%	(229,948,290)	-4.1%	22.6%
	Apr	603,667,191	-2.8%	6.6%	253,149,529	14.2%	9.3%	642,965,695	3.9%	13.2%	(292,448,033)	33.5%	25.8%
	May	310,268,127	-26.8%	2.4%	289,463,997	4.5%	8.8%	172,843,132	-33.3%	4.8%	(152,039,001)	35.4%	27.0%
	Jun	311,735,821	-6.8%	1.6%	249,174,420	-2.9%	7.8%	138,268,468	-5.0%	3.9%	(75,707,066)	11.7%	25.9%
FY 2008	Jul-07	268,029,537	15.1%	15.1%	267,840,071	14.9%	14.9%	17,879,385	-0.3%	-0.3%	(17,689,920)	-3.0%	-3.0%
	Aug	267,673,402	-5.6%	3.7%	274,123,223	-1.1%	6.2%	25,938,503	10.8%	5.9%	(32,388,324)	89.9%	41.9%
	Sep	362,262,598	1.9%	3.0%	232,690,269	7.6%	6.6%	150,661,494	-4.6%	-2.4%	(21,089,165)	12.6%	31.8%
	Oct	275,455,820	-9.7%	-0.3%	279,036,817	5.7%	6.4%	68,191,868	4.6%	-0.7%	(71,772,864)	198.2%	83.1%
	Nov	235,450,207	-5.6%	-1.2%	267,231,175	3.1%	5.7%	17,879,843	-43.9%	-5.3%	(49,660,810)	19.5%	61.0%
	Dec	363,998,775	1.0%	-0.8%	302,000,571	-2.2%	4.1%	62,901,960	-30.5%	-11.2%	(903,757)	-97.7%	22.0%
	Jan	479,613,994	-11.9%	-3.4%	323,018,735	-4.9%	2.5%	195,882,391	-18.3%	-13.9%	(39,287,133)	12.2%	20.2%
	Feb												
	Mar												
	Apr												
	May												
	Jun												

**Individual Income Tax  
Estimated/Final Payments Worksheet  
(by Month)**

	FY2004			FY2005			FY2006			FY2007			FY2008		
	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final
Jul	9,818,564	2,774,158	7,044,406	7,982,042	3,053,848	4,928,193	15,395,021	4,885,194	10,509,827	17,937,645	6,371,696	11,565,948	17,879,385	6,507,747	11,371,639
Aug	13,138,440	2,732,267	10,406,173	17,256,736	4,162,399	13,094,337	25,713,368	7,683,379	18,029,988	23,419,716	7,456,858	15,962,858	25,938,503	5,666,480	20,272,023
Sep	71,246,053	65,075,592	6,170,461	85,967,739	78,273,024	7,694,715	118,564,270	110,531,138	8,033,132	157,891,628	145,469,802	12,421,826	150,661,494	135,849,436	14,812,058
Oct	21,360,425	3,772,407	17,588,018	27,192,307	5,023,144	22,169,162	27,206,826	7,685,799	19,521,027	65,184,764	11,339,308	53,845,457	68,191,868	10,396,440	57,795,428
Nov	8,398,521	2,538,181	5,860,340	11,359,321	3,013,046	8,346,275	16,055,089	5,885,793	10,169,296	31,853,112	5,472,606	26,380,506	17,879,843	4,759,688	13,120,155
Dec	56,932,488	51,357,168	5,575,321	81,181,241	73,782,471	7,398,770	111,812,195	104,933,642	6,878,553	90,557,275	80,299,660	10,257,616	62,901,960	55,908,594	6,993,366
Jan	79,187,113	73,720,063	5,467,050	119,604,915	113,808,450	5,796,464	182,419,323	176,696,056	5,723,266	239,701,160	224,055,775	15,645,386	195,882,391	186,098,584	9,783,807
Feb	12,119,201	1,203,674	10,915,527	12,489,817	2,222,960	10,266,858	18,041,261	3,446,602	14,594,659	18,072,039	3,192,180	14,879,859	-	-	-
Mar	36,041,044	3,044,584	32,996,460	39,089,384	4,321,854	34,767,531	43,912,674	3,710,949	40,201,725	45,377,904	5,005,202	40,372,702	-	-	-
Apr	325,396,679	44,070,748	281,325,931	512,208,256	60,279,400	451,928,857	618,672,832	76,814,795	541,858,037	642,965,695	56,965,976	585,999,719	-	-	-
May	46,712,145	3,646,483	43,065,661	84,231,869	4,464,003	79,767,865	259,114,481	9,724,645	249,389,836	172,843,132	27,485,026	145,358,105	-	-	-
Jun	77,177,113	67,435,337	9,741,775	106,817,719	93,912,110	12,905,609	145,568,069	127,531,819	18,036,250	138,268,468	125,906,046	12,362,422	-	-	-
Total	757,527,785	321,370,662	436,157,123	1,105,381,346	446,316,710	659,064,637	1,582,475,408	639,529,812	942,945,597	1,644,072,537	699,020,134	945,052,403	539,335,444	405,186,969	134,148,475
<b>Percent Change</b>															
	FY2004			FY2005			FY2006			FY2007			FY2008		
	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final
Jul	0.3%	-20.6%	12.0%	-18.7%	10.1%	-30.0%	92.9%	60.0%	113.3%	16.5%	30.4%	10.0%	-0.3%	2.1%	-1.7%
Aug	19.0%	8.7%	22.1%	31.3%	52.3%	25.8%	49.0%	84.6%	37.7%	-8.9%	-2.9%	-11.5%	10.8%	-24.0%	27.0%
Sep	3.3%	2.2%	16.9%	20.7%	20.3%	24.7%	37.9%	41.2%	4.4%	33.2%	31.6%	54.6%	-4.6%	-6.6%	19.2%
Oct	8.4%	14.1%	7.3%	27.3%	33.2%	26.0%	0.1%	53.0%	-11.9%	139.6%	47.5%	175.8%	4.6%	-8.3%	7.3%
Nov	24.1%	33.4%	20.5%	35.3%	18.7%	42.4%	41.3%	95.3%	21.8%	98.4%	-7.0%	159.4%	-43.9%	-13.0%	-50.3%
Dec	16.6%	16.5%	17.6%	42.6%	43.7%	32.7%	37.7%	42.2%	-7.0%	-19.0%	-23.5%	49.1%	-30.5%	-30.4%	-31.8%
Jan	7.6%	6.4%	26.2%	51.0%	54.4%	6.0%	52.5%	55.3%	-1.3%	31.4%	26.8%	173.4%	-18.3%	-16.9%	-37.5%
Feb	21.0%	13.4%	21.9%	3.1%	84.7%	-5.9%	44.4%	55.0%	42.2%	0.2%	-7.4%	2.0%			
Mar	38.4%	19.5%	40.4%	8.5%	42.0%	5.4%	12.3%	-14.1%	15.6%	3.3%	34.9%	0.4%			
Apr	19.6%	26.4%	18.6%	57.4%	36.8%	60.6%	20.8%	27.4%	19.9%	3.9%	-25.8%	8.1%			
May	50.8%	53.1%	50.6%	80.3%	22.4%	85.2%	207.6%	117.8%	212.6%	-33.3%	182.6%	-41.7%			
Jun	22.7%	24.9%	9.3%	38.4%	39.3%	32.5%	36.3%	35.8%	39.8%	-5.0%	-1.3%	-31.5%			
Total	18.2%	13.5%	22.0%	45.9%	38.9%	51.1%	43.2%	43.3%	43.1%	3.9%	9.3%	0.2%			
<b>Percent to Total</b>															
	FY2004			FY2005			FY2006			FY2007			FY2008		
	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final	Total	Estimated	Final
Jul	1.3%	0.9%	1.6%	0.7%	0.7%	0.7%	1.0%	0.8%	1.1%	1.1%	0.9%	1.2%	N/A	N/A	N/A
Aug	1.7%	0.9%	2.4%	1.6%	0.9%	2.0%	1.6%	1.2%	1.9%	1.4%	1.1%	1.7%	N/A	N/A	N/A
Sep	9.4%	20.2%	1.4%	7.8%	17.5%	1.2%	7.5%	17.3%	0.9%	9.6%	20.8%	1.3%	N/A	N/A	N/A
Oct	2.8%	1.2%	4.0%	2.5%	1.1%	3.4%	1.7%	1.2%	2.1%	4.0%	1.6%	5.7%	N/A	N/A	N/A
Nov	1.1%	0.8%	1.3%	1.0%	0.7%	1.3%	1.0%	0.9%	1.1%	1.9%	0.8%	2.8%	N/A	N/A	N/A
Dec	7.5%	16.0%	1.3%	7.3%	16.5%	1.1%	7.1%	16.4%	0.7%	5.5%	11.5%	1.1%	N/A	N/A	N/A
Jan	10.5%	22.9%	1.3%	10.8%	25.5%	0.9%	11.5%	27.6%	0.6%	14.6%	32.1%	1.7%	N/A	N/A	N/A
Feb	1.6%	0.4%	2.5%	1.1%	0.5%	1.6%	1.1%	0.5%	1.5%	1.1%	0.5%	1.6%	N/A	N/A	N/A
Mar	4.8%	0.9%	7.6%	3.5%	1.0%	5.3%	2.8%	0.6%	4.3%	2.8%	0.7%	4.3%	N/A	N/A	N/A
Apr	43.0%	13.7%	64.5%	46.3%	13.5%	68.6%	39.1%	12.0%	57.5%	39.1%	8.1%	62.0%	N/A	N/A	N/A
May	6.2%	1.1%	9.9%	7.6%	1.0%	12.1%	16.4%	1.5%	26.4%	10.5%	3.9%	15.4%	N/A	N/A	N/A
Jun	10.2%	21.0%	2.2%	9.7%	21.0%	2.0%	9.2%	19.9%	1.9%	8.4%	18.0%	1.3%	N/A	N/A	N/A
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	N/A	N/A	N/A

# **Corporate Income Tax**

# Corporate Income Tax Growth Rate



\* The '07 actual and '08 forecast percentages do not include the impact of tax law changes passed by the Legislature. Including these changes, actual '07 growth was 12.3%, the '08 JLBC forecast is 1.4%, and the '08 Executive forecast is 3.1%.



# **Economic Indicators**

## Recent Economic Indicators

### NATIONAL

The Conference Board's **U.S. Consumer Confidence Index** posted a slight increase in December, totaling 88.6, or 1.5% above November levels. The slight increase was attributed to an increase in the expectations index. Despite this increase, however, year-over-year, the index fell (19.5)%

The **U.S. Index of Leading Economic Indicators** decreased by (0.2)% in December, marking the third consecutive month of reported declines. Six of the 10 components that make up the composite index decreased in December. The building permit component made the largest negative contribution, followed by average working hours in manufacturing.

**U.S. semiconductor billings** decreased (1.0)% in November (3-month moving average) to \$3.82 billion. Year over year chip sales in the Americas were down (3.8)%, while total worldwide sales increased by 2.3%. While unit demand is strong, the average selling price in key product segments has declined.

The **U.S. Consumer Price Index (CPI)** (3-month moving average) increased by 0.2% in December. The year over year increase was 4.0%. All sub-indices of the CPI increased in December, with the index for energy accounting for almost one-third of the overall increase.

### ARIZONA

December total statewide **non-farm employment** increased, year over year, by 1.3%. By comparison, the November year-over-year average growth rate in the prior 10 years was

3.3%. Arizona's **unemployment rate** increased from 4.1% in November to 4.7% in December.

While 9 of 11 major industries gained jobs, job losses occurred in the construction and government sectors. **Construction employment** decreased by (9.7)% compared to December 2006. The average year-over-year growth rate for December in the past 10 years was 6.4%. Of all major construction sectors, specialty trades experienced the greatest losses.

Statewide, the number of **single-family residential building permits** (3-month moving average) declined (41.7)% on a year-over-year basis, to 1,765. The comparable number of **multi-family building permits** authorized increased, however, to 1,190 between September and November, resulting in a year-over-year increase of 138.1%. As in prior years, permitting activity in the multi-family segment continues to have significant volatility.

According to statistics released by the Real Estate Center at Arizona State University, the number of existing **single-family homes sold** in December totaled 3,290, or (28.8)% less than December 2006 sales. The **single-family median resale home price** also decrease in December to \$232,000, (7.3)% below the median price during the same time a year ago. Also decreasing, but at a lower rate, was the **townhouse-condominium median price** which fell (4.6)% below December 2006 levels, to \$167,000.

An alternative method to gauge housing prices is the **S&P/Case-Shiller Home Price Index**, which tracks repeat sales of the same home. The ASU data, on the other hand, could be influenced by

changes in the average square feet of sold homes. In October, the index for Phoenix stood at 200.72, or (10.6)% below October 2006 levels. Besides Phoenix, only 5 other areas posted double digit, year-over-year declines. These areas included Miami (12.6)%, Tampa (11.8)%, Detroit (11.2)%, San Diego (11.1)%, and Las Vegas (10.7)%.

The **Arizona Business Conditions Index (BCI)** dropped (12.1)% in December to 47.3. A reading of over 50 corresponds to local economic growth, while a reading below 50 suggests a slowdown in the overall level of economic activity in the near term. The reported decline in the index is attributable primarily to the production component, followed by the purchases component and the price index.

An alternative measure of statewide business sentiment is the University of Arizona's **Business Leaders Confidence Index (BLCI)**. In the 1<sup>st</sup> quarter of 2008, the BLCI fell to 40.4, signifying that conditions continue to deteriorate. At 40.4, the index is (22.2)% below the index a year ago, and (4.9)% below the prior quarter. All 6 components contributed to the lower reading relative to the prior quarter, with the national economy, capital expenditures and hiring categories registering the biggest percentage decreases. Like recent surveys, the sales expectations component continued to post the highest results while the national economy remains the lowest.

The Census Bureau reported that **Arizona's population** grew to 6,338,755 in 2007, an increase of 173,066 from 2006. Only 5 other states – Texas, California, Georgia, Florida, and North Carolina – added more people during the year. Further, Arizona's estimated year-



## Recent Economic Indicators (Continued)

over-year growth rate of 2.8% was the second fastest growth rate in the nation. Nevada, at 2.9%, had the highest growth rate on a percentage basis.

In January, the **AHCCCS caseload** slightly increased to 1,086,473 members. At the current level, the number of AHCCCS members has increased by 56,771 members or 5.5% above January 2007 enrollment.

The number of **TANF** recipients decreased (1.3)% in November to 83,393 recipients and is (1.0)% below the November 2006 count. The state budget projects 84,700 recipients in FY 2008.

Between October and December, the **Department of Corrections' inmate population** increased by an average of 37 inmates per month. At this level, the department's inmate population growth is significantly less than the budgeted increase of 160 inmates per month. The total population grew by 1,884 inmates from a year ago to a 3 month average population of 37,667 inmates.

Table 5

### RECENT ECONOMIC INDICATORS

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate	December	4.7%	14.6%	14.6%
- Non-Farm Employment – Total	December	2.76 million	0.4%	1.3%
Manufacturing	December	186,900	0.4%	0.2%
Construction	December	227,700	(1.3)%	(9.7)%
- Contracting Tax Receipts (3-month average)	Oct-Dec	\$76.8 million	(0.4)%	(5.9)%
- Retail Sales Tax Receipts (3-month average)	Oct-Dec	\$157.5 million	(0.8)%	(1.6)%
- Residential Building Permits (3-month moving average)				
Single-unit	Sep-Nov	1,765	(22.8)%	(41.7)%
Multi-unit	Sep-Nov	1,190	50.8%	138.1%
- Greater Phoenix Existing Home Sales				
Single-Family	December	3,290	0.3%	(28.8)%
Townhouse/Condominium	December	635	(5.2)%	(27.8)%
- Greater Phoenix Median Home Sales Price				
Single-Family	December	\$232,000	(0.8)%	(7.3)%
Townhouse/Condominium	December	\$167,000	(7.3)%	(4.6)%
- S&P/Case-Shiller Home Price Index	October	200.72	(2.2)%	(10.6)%
- Phoenix Sky Harbor Air Passengers	November	3.4 million	(2.9)%	(0.4)%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	October	\$7.02	0.9%	13.2%
- Leading Indicators Index	September	120.4	(0.9)%	0.8%
- Business Conditions Index (>50 signifies expansion)	December	47.3	(12.1)%	(13.8)%
- Consumer Confidence Index	3 <sup>rd</sup> Quarter 2007	101.9	(4.1)%	(0.8)%
- Business Leaders Confidence Index	1 <sup>st</sup> Quarter 2008	40.4	(4.9)%	(22.2)%
- Arizona Personal Income	3 <sup>rd</sup> Quarter 2007	\$210.9 billion	1.4%	5.9%
- Arizona Population	July 1, 2007	6.34 million	173,066	2.8%
- AHCCCS Recipients	January	1,086,473	0.6%	5.5%
- TANF Recipients	November	83,393	(1.3)%	(1.0)%
- DOC Inmate Growth (3-month average)	Oct-Dec	37,667	37 inmates	1,884 inmates
<b>United States</b>				
- Real Gross Domestic Product (seasonally adjusted annual growth rate)	3 <sup>rd</sup> Quarter 2007	\$11.7 trillion	4.9%	2.7%
- Consumer Confidence Index	December	88.6	1.5%	(19.5)%
- Leading Indicators Index	December	136.5	(0.2)%	(1.1)%
- U.S. Semiconductor Billings (3-month moving average)	Sep-Nov	\$3.82 billion	(1.0)%	(3.8)%
- Consumer Price Index (3-month moving average)	Oct-Dec	209.7	0.2%	4.0%

## JLBC FINANCE ADVISORY COMMITTEE (FAC) MEMBERS

**Dan Anderson** has served as Assistant Executive Director for Institutional Analysis for Arizona Board of Regents since July 2002. From 1975 through June 2002, Mr. Anderson held various positions at the Arizona Department of Economic Security, with most of his time as Research Administrator. He has been a member of the FAC since its inception.

**James Apperson** is Director of the Governor's Office of Strategic Planning and Budgeting (OSPB). He joined the Napolitano Administration as OSPB Deputy Director in October 2006 and was appointed OSPB Director in December 2006. Mr. Apperson most recently served in the private sector as President and CEO of the Arizona Chamber of Commerce. He has been a member of the FAC since December 2006.

**Dr. Jay Q. Butler** is Director of Realty Studies and an Associate Professor of Real Estate in the Morrison School at Arizona State University at the Polytechnic campus. He also holds the Arizona Realtors Professorship in Real Estate. Dr. Butler has been at ASU since 1972. He has been a member of the FAC since 1994.

**Brian Cary** is Corporate Economist for Salt River Project (SRP). Prior to joining SRP in September 2007, he served as Principal Economist on the JLBC staff for 4 years. Mr. Cary has been producing forecasts and analysis for more than 25 years, mostly focused on the energy and financial sectors. He joined the FAC in 1989.

**Tracy L. Clark** is Associate Director for the JPMorgan Chase Economic Outlook Center. He is editor of the JPMorgan Chase Arizona Blue Chip Economic Forecast; economics editor of the Greater Phoenix Economic Forecast; managing editor of the Western Blue Chip Economic Forecast and managing editor for the Mexico Consensus Economic Forecast. He produces a quarterly national and local economic forecast as well as the Arizona Leading Index. Mr. Clark has been a member of the FAC since 1989.

**Dennis Doby** is the Senior Director of Research Administration in the Arizona Department of Commerce. Research Administration transitioned from the Department of Economic Security to Commerce in December 2007. Mr. Doby has served in various capacities with the Department of Economic Security for most of the past 18 years. He also served as an economist with JLBC from 1993 to 1996.

**Pete Ewen** is Chief Economist and Manager, Revenue and Fuel Analysis and Forecast Group at Pinnacle West. He has been with Arizona Public Service/Pinnacle West for 17 years.

**John C. Lucking** is President of ECON-LINC, an economic consulting firm. Dr. Lucking also serves as a director for Sanu Resources Ltd., an international mineral exploration company, and as a trustee for several municipal bond mutual funds. Previously, he served as Chief Economist for Bank One Arizona and as the Executive Director of the Governor's Partnership for Economic Development (GSPED). Dr. Lucking has been a member of the FAC since 1987.

**State Treasurer Dean Martin** serves as the chief financial officer for the State Treasury in Arizona. He previously served as a State Senator from 2001 to 2007 and was Chairman of the Senate Finance Committee, responsible for legislation related to taxes, retirement, insurance and financial issues. The State Treasurer has been a member of the Finance Advisory Committee since its inception. Mr. Martin has been a member of the FAC since he became State Treasurer in January 2007.

**Georganna Meyer** is Chief Economist for the Arizona Department of Revenue. She has been a member of the FAC since 1984.

**Elliott D. Pollack** is President of Elliott D. Pollack and Company in Scottsdale, Arizona, an economic and real estate consulting firm established in 1987. Mr. Pollack served as Chief Economist of Valley National Bank in Arizona for 14 years prior to establishing his consulting firm and is currently a member of the Economic Estimates Commission. He has been a member of the FAC since its inception.

**Hank Reardon** is principal of H.C. Reardon Economics. Mr. Reardon served as Chief Economist and Revenue Section Chief during his 28-year tenure with the JLBC Staff. Mr. Reardon also worked for 20 years at the General Electric Company, where he held positions in auditing, accounting and forecasting. He has been a member of the FAC since 2000.

**Debra J. Roubik** is the Manager of Assessment and Institutional Research at Grand Canyon University. Ms. Roubik began her career as an economist at Chicago's Harris Trust and Savings Bank where she was responsible for the bank's macroeconomic model. She also held the positions of Vice President of Stotler Economics, Manager of Revenue Forecasting for Atchison Topeka & Santa Fe Railway, and Economist for the Arizona Department of Economic Security's Research Administration. She is also the founder of VisionEcon, a consulting firm. Ms. Roubik has been a member of the FAC since 2002.

**Martin Shultz** is Vice President of Government Affairs for Pinnacle West Capital Corporation. In that role he manages public affairs and government relations for Pinnacle West Capital Corporation and its subsidiaries: Arizona Public Service (APS), APS Energy Services, Pinnacle West Energy Corporation, El Dorado and SunCor. Mr. Shultz has been a member of the FAC since 1984.

**Randie Stein** joined the Investment Banking firm Stone & Youngberg as a Vice President in the Public Finance Department in September 2004. Ms. Stein has 10 years of experience as a fiscal advisor and Finance Committee analyst in the State Senate and as an economist/budget analyst with the Joint Legislative Budget Committee, and is a former staff director of the School Facilities Board. She has been a member of the FAC since 2005.

**Marshall J. Vest** is director of the Economic and Business Research Center at the University of Arizona's Eller College of Management. Mr. Vest has headed the College's Forecasting Project for 28 years. He is past-president of the Association for University Economic and Business Research, whose membership includes university-based applied research centers from across the country. Mr. Vest has been a member of the FAC for 28 years.