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Housing undercuts overall job growth

Ripple effects likely to be felt in more sectors

By Christie Smythe

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In February, University of Arizona economist Marshall Vest called 2008 "the year we'll all want to forget."

Vest was speaking to an audience of home builders, contractors and others in the building trades at a new-home industry forecast. That sector had already experienced a sharp slowdown in 2007.

But the ripple effects from the housing slump could be felt by other industries as well in the coming year, Vest said in an interview.

The housing industry "is so large," said Vest, who is the director of the Economic and Business Research Center at the University of Arizona's Eller College of Management. "As it shrinks, you find that the overall level of demand in the overall economy shrinks as well."

After healthy growth over the past several years, jobs in the construction and financial services industries have taken a hit, according to preliminary employment survey figures from the state Commerce Department.

Total non-farm employment in the Tucson metro area grew by about 12 percent from January 2003 to January 2007, then dropped by about 1.3 percent over the next year, ending this January, according to the figures.

During those boom years, construction jobs jumped more than 20 percent but showed a drop of about 8 percent in the first month of this year compared with January 2007. Financial services employment jumped by more than 24 percent from 2003 to 2007 but dropped by about 11 percent in January compared with the same month a year ago.

Much of the drop in financial services employment is likely related to the collapse of Tucson-based mortgage lender First Magnus Financial Corp., which laid off about 700 Tucson employees in August.

Employment at Koedyker & Kenyon Construction dropped by about 185 full-time equivalent positions, or a decrease of about 30 percent, from the end of 2006 to the end of 2007, according to this year's Star 200 survey.

Pima County One Stop Career Centers saw substantial foot traffic from out-of-work construction workers, said Jim Mize, manager of employer outreach for Pima County.

Some construction company owners also are hearing from people who are looking for work.

"I've got all kinds of people who are looking for jobs who come from the tract home industry," said Alex Ross, co-owner of custom-home builder Casas Bonitas Development. "They did huge cutbacks."

Drop in overall employment

The drop in construction jobs and other housing-related industries is "kind of a spiral" that could affect the rest of the economy, said Randy Agron, chief of operations for builder A.F. Sterling Homes and chairman of

ups and downs

Percent change in employment in the Tucson area, January 2007 to January 2008:

Total non-farm -1.3%

Construction -7.75%

Financial activities -11.41%

Mining +17.65%

Hospitals +5%

Source: Arizona Department of Commerce Research Administration employment survey

the Southern Arizona Home Builders Association.

"Now all those people who don't have jobs can't afford new cars, new stereos and can't go out to dinner," he said.

Overall, Tucson employment shrank by 4,900 non-farm jobs in January compared with the same month in 2007, according to the Department of Commerce.

Statewide, the unemployment rate inched up from a seasonally adjusted 3.9 percent in January 2007 to 4.3 percent in January 2008, according to the Department of Commerce. Seasonally adjusted unemployment figures were not yet available for metro areas.

Other than financial services and construction, other areas that showed decreases were hospitality, retail and administrative positions, which fell by about 3 percent, 0.2 percent and 6 percent, respectively, according to the Department of Commerce survey data.

Employment did increase in other Pima County industries, namely in aerospace, which jumped about 1,600 jobs, or more than 15 percent, from January 2007 to January 2008. Mining and hospital employment also showed growth over that time period. Mining jobs grew by nearly 18 percent, and hospital employment grew by 5 percent.

From Dec. 31, 2006, to Dec. 31, 2007, Freeport-McMoRan Copper & Gold Inc. increased its employment by about 19 percent, and hospital group Carondelet Health Network grew its workforce by about 10 percent, according to the Star 200.

The mining growth is good news, but it only represents a small number of jobs, said Vest, the economist. Health care, on the other hand, is a mainstay that "just continues to grow year after year" regardless of what the economy is doing, he said.

Building activity tumbles

Still, bad news from the housing sector suggests it will continue to undercut job growth in much of the local economy.

Through the later half of 2007 and January, home-building permit activity fell dramatically, according to reports from local market research firm Bright Future Business Consultants.

From 2006 to 2007, the number of new-home permits pulled by builders declined 41 percent, from 8,579 to 5,098. At the Feb. 8 industry forecast, Bright Future Business Consultants owner John Strobeck said he anticipates that number will drop further to 3,500 this year, a level not seen since the early 1990s. The National Association of Home Builders estimated in 2005 that each new home generates about 3.5 jobs across various industries related to home sales

"It's pretty obvious. We're in some challenging times right now," said Agron, chairman of the local home builders group.

Looking ahead

Some people in the building trades said they are looking for opportunities in commercial construction and renovation to help make up the difference in lost work.

Mark Ragel, president of Patio Pools & Spas, said he has found plenty of success in doing contract work for businesses, including a lazy river feature at the JW Marriott Starr Pass Resort & Spa.

Bob Schachte, owner of decorative scone business Edgeline Designs Inc., said he is hoping for a big boost from the Ritz-Carlton resort in the works in Dove Mountain.

Schachte, who also owns Ventana Custom Homes, said that he thinks 2008 will be "a year of correction," but that he expects his business will be able to survive and eventually expand.

"The macroeconomics of Southern Arizona is still healthy," he said. "We're just in a temporary slowdown because we just got a little too exuberant."

ups and downs

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