

Arizona bitten by reliance on housing

by **Betty Beard** - Apr. 6, 2008 12:00 AM
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You don't need to be an economics whiz like Ben Bernanke to grasp the financial impact of the real-estate bust in metro Phoenix.

It just takes understanding of a single number. No. 50.

Arizona's average per person income grew by the smallest percentage in the United States in 2007, according to the U.S. Bureau of Economic Analysis. Two years before, in 2005, the state ranked No. 11.

Most economists agree it is one of many warning signs over the past 18 months that depict an economy singularly dependent on the ability to build and sell homes.

The boom times are great where \$1 in every \$3 is tied to the housing economy, where population growth linked to sunshine and affordable housing seems unstoppable. The downturns are doubly painful, spurring discussion about how to catapult into a more diversified economy.

"I think it has everything to do with real estate and the idea that we are shedding jobs in both construction and mortgage finance and all those other sectors that are related to growth," said University of Arizona economist Marshall Vest.

"The downturn is hitting Arizona harder than other states. . . . It's just because of our reliance on growth, which has turned negative."

Marty Goodwin, a Cave Creek resident, said

the problem is obvious to her.

"We do have industries, a few, but for so many years our influx of folks from back East has created an artificial bubble of prosperity," she said.

Other indicators also show the state has been hit hard in the downturn.

- Arizona is looking at a state budget shortfall of at least \$1.2 billion this fiscal year and an additional \$1.7 billion deficit in the 2008-2009 fiscal year because sales-tax collections have fallen below estimates, according to the Joint Legislative Budget Committee.

- Arizona lost 26,100 manufacturing jobs and 23,700 construction-related jobs in the 12 months through February, the latest figures available, according to the Department of Commerce.

- Income-tax withholding collections are down 2.2 percent this fiscal year through

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February, according to the budget committee. Decreases in tax withholdings generally coincide with slow growth in income earning, said Dennis Hoffman, an economics professor at Arizona State University's W.P. Carey School of Business.

- Of the 10 largest counties in the country, Maricopa County had the second-lowest average weekly wage - \$827 in the second quarter of 2007, according to the Bureau of Labor Statistics.

Arizona's total personal income has been growing, not surprisingly, because Arizona has been among the fastest-growing states for years, along with Nevada. The more people there are, the more money they generate. As with per capita percentage numbers, the total personal income also jumped with the housing boom.

A question of numbers

That population growth may be at the root of a question about Arizona's ranking.

The Bureau of Economic Analysis attributes the sharp drop in the rate of income growth to the residential construction slowdown.

However, Scottsdale-based economist Elliott Pollack was skeptical that Arizona is in last place.

Pollack suspects the Bureau of Economic Analysis overestimated the state's population growth at 2.8 percent, which would drive down the per capita number.

He pointed out that the per capita number comes from a preliminary report. Given the relatively small differences in the states' rankings, Pollack believes that when the

numbers get their customary revision, the results may not be as dramatically weak.

"I'm not saying things aren't weak," Pollack said. "What surprised me is that we are 50th. That's what I have a difficult time with."

If the state's income growth was that bad, he said he would expect Arizona's job-growth number to be among the lowest in the country. Arizona's number of jobs grew only 1 percent last year, but that was good enough to put the state 22nd in the country, according to the Bureau of Labor Statistics.

Dennis Hoffman, an economics professor at the W.P. Carey School of Business at Arizona State University, also suspects the population is not growing that fast, especially with many immigrants believed to be leaving because of the state's new employer-sanctions law.

Others say Arizona probably lost a lot of higher incomes because of the housing slowdown and because the state doesn't have enough businesses that attract better-educated and better-paid workers.

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Barry Broome, chief executive officer of the Greater Phoenix Economic Council, said the housing slump hit some of the highest-paid occupations.

"If you looked at the top income performers in Arizona, and you figure that's in things like financial investment, mortgage brokers, real-estate brokers, investment bankers and land speculators, their wealth has probably been decreased by a factor of five or 10 in this market," he said.

And that, in turn, has a trickle-down effect on other industries.

Lynne Forde Breyer, a Scottsdale interior designer, said: "My business income went down because, being in a discretionary business, many of my clients put off projects pending better economic news. . . . I have many associates who did very little business in the interior design field in 2007."

Frank Barrios, a Phoenix retiree, said: "Bank loans and real-estate sales are all negatively impacted by what is happening today. Many of these people still have jobs but are making a lot less money than they were a year ago."

Positive steps

Bernanke, the Federal Reserve chairman, is dealing with the global repercussions of the overheated housing market and the risky financial instruments created to further the boom. Under a plan introduced Monday by the Bush administration, the Fed would assume greater market oversight in troubled times.

Locally, discussions center on how to deal with thousands of homeowners struggling with the threat of foreclosure. Beyond that, conversations center on what will come next,

after the remarkable 1,135 percent growth in population since World War II that made Phoenix the nation's fifth-largest city.

Economists and others say that although Arizona needs jobs tied to construction and real estate, the long-term solution is to branch out and to improve education. The U. S. Census Bureau on Wednesday again said Arizona spends less on students than almost any other state.

In December, Gov. Janet Napolitano created the Arizona Economic Resource Organization, a non-profit group that aims to coordinate efforts of economic development entities and help the state attract and retain businesses.

Michael Crow, Arizona State University president, said Arizona has done well in building highways and other infrastructure. "But we haven't yet put into place the creative or innovative capacity on a sufficiently broad enough basis to make the economy more robust," he said.

The state needs to create more economic opportunities, he said, instead of just places

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for people to live.

In the larger world economy, Phoenix is essentially running in place, falling behind cities such as San Diego, Austin and Philadelphia. These cities have reinvented themselves, building "knowledge economies" around research and technology, with the ability to quickly turn new ideas into products and services. Their success attracts more investment, more talented workers and more leading companies, all critical in global competition.

The success also boosts wages and opportunities across the entire economy.

The Valley has bits and pieces of a knowledge economy. But economists say Phoenix needs to do much more before it can replace housing, manufacturing and tourism as its economic foundation, just as the city replaced cattle, farming and copper mining.

Education parallels

Richard Stanley, senior vice president and university planner at ASU, said a 2004 University of California study found that the more workers with college degrees there are in a state, the more it raises the salaries of non-degreed workers, as well.

Stanley estimated that a 1 percent increase in the number of Arizonans with a bachelor's degree or better could raise the state's personal income by \$2.1 billion. The state's three public universities produce about 18,300 degrees a year.

Broome wants more attention on attracting knowledge workers.

"If your economy is built around ingenuity,

your ability to create new technologies becomes a matter of your intellect and your talent and not a matter of how many interest-free loans without security you can get from second-tier mortgage players or how many people move here.

"Those things will come to a screeching halt at some point in the next 25 to 30 years in Arizona."

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