

Arizona is now in recession

Moody's: Valley bad, but Tucson in worse shape

by **Betty Beard** - May. 9, 2008 12:00 AM
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The Phoenix and Tucson metropolitan areas, as well as the state of **Arizona**, are in a recession, economists at Moody's Economy.com have declared.

The company first concluded several weeks ago that Arizona was in a recession and, in a separate report released Thursday, said that metro **Phoenix** is "firmly" in one.

Industries are shedding jobs, the housing market remains tumultuous, the mortgage-delinquency rate is rising faster than the national rate and credit conditions aren't likely to improve in the near term, says the Phoenix report written by Rebecca Seweryn, a senior economist with Moody's in West Chester, Pa.

To show how far the economic malaise has spread, she says that consumer-driven industries such as retail, leisure and hospitality are shedding jobs and remain under strain, despite a temporary boost from the Feb. 3 Super Bowl.

The housing industry in particular will be a drag on the local economy, Seweryn says in her report. "As (Phoenix) had one of the largest booms in the housing markets in recent years, it is in the midst of one of the biggest corrections."

Housing-related employment is falling fast, and because it makes up more than 15 percent of employment in the Phoenix area, the impact on the economy is extreme.

Nationwide, an average of about 10 percent of jobs are related to housing.

"Phoenix was pretty flat (in job growth) during 2007 and has been contracting a little bit since the third quarter," she said in an interview.

"Tucson is worse than Phoenix. If you look at Tucson, you definitely see that employment kind of topped out in the first quarter of 2007 and has been declining since. Its (decline) is much stronger than what you see in other areas."

She also said that Yuma's economy remained "decent" and that conditions are improving in Prescott and Flagstaff.

"Flagstaff was a lot weaker. It entered the recession a lot earlier than the metro areas, but it's picking up a little bit lately," Seweryn said.

Ariz. economists concur

Some Arizona economists have been saying for months that the state had entered a recession as they watched dismal numbers

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continue to be released from agencies and universities.

The *Blue Chip Economic Forecast*, produced by the W.P. Carey School of Business at Arizona State University, surveyed economists with 16 agencies and companies in January, and 35 percent said then that the state was in a recession.

Marshall Vest, a University of Arizona economist who has been saying since December that Arizona is in a recession, said, "I think the Arizona economy is contracting, and I still don't see any signs that we are near bottom yet."

Home building continues to contract, and now, consumers face higher gasoline prices, which further reduce their other spending. That, in turn, reduces sales-tax revenues for state and local governments and causes them to slash budgets.

Vest hopes the recession will be over by the end of the year.

"It may be awhile for Arizona because of the problems in home building and the housing market," he said. "As the rest of the economy moves up, it will take us a while longer."

Scottsdale economist Elliott Pollack said, "It's going to be a tough year. There will be no full recovery until the housing is back to normal.

"That could easily be three years."

8 other states hit

Although the Moody's reports aren't an official pronouncement of a recession (that requires two consecutive quarters of a declining gross domestic product), they do offer recognition that Arizona was one of the

first states to sink.

Moody's reports are written primarily for subscribers such as banks and utilities and other companies looking for economic data on an area.

Moody's reported in its April "Dismal Scientist" report that weakness is spreading across the U.S. economy and that Arizona and eight other states are in a recession. The others are California, Nevada, Florida, Michigan, Ohio, Rhode Island, Tennessee and Wisconsin.

The industrial Midwest, Northeast and mid-Atlantic areas are also at risk while "the **New York** metro area is at imminent risk of recession" because of cutbacks in finance and banking, the report said.

Economists usually rely on the National Bureau of Economic Research, a private organization in Cambridge, Mass., to officially pronounce recessions. But because the data is so time-consuming to gather and to verify, the bureau's pronouncements of the beginning and ending of recessions usually come six to eight months after the

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