

Arizona Daily Star®

www.dailystar.com® @www.azstarnet.com®

Published: 06.05.2008

UA panelists paint a dismal portrait of Tucson economy

By Christie Smythe

ARIZONA DAILY STAR

Anyone hoping for a quick end to the economic slowdown would not have been assuaged by University of Arizona economists on Wednesday.

At an economic update with business leaders, economists Marshall Vest and Gerald Swanson said the recession they predicted earlier to be short and mild is actually getting worse, and recovery may take longer than expected.

Now "this recession is shaping up to be worse than the last two," said Vest, director of the Economic and Business Research Center at the Eller College of Management, referring to recessions in 2001 and the early 1990s.

"It's a full-blown recession," he said. "I think we all know that."

Vest and Swanson, a veteran economics professor at Eller, spoke to Tucson business leaders at the Doubletree Hotel Tucson at Reid Park on Wednesday. The presentation was an update to a December forecast when they first said the state was likely in a recession but expected the local economy to bounce back quickly.

But Tucson continues to suffer from a slumping housing market, a shrinking job market and falling consumer spending, Vest said. Recovery may not begin until mid-2009, or possibly later, Vest said.

Tucson home prices fell by 2.9 percent in the first quarter of 2008 from the end of 2006, said Vest, quoting index numbers from the Office of Federal Housing Enterprise Oversight. The drop in Phoenix was worse at about 6.7 percent, he said.

Vest said the federal index likely undercounts price drops because it only includes homes purchased with conventional financing, not with subprime loans. Foreclosed properties in Tucson now total about 4,400, said Vest, referencing data from RealtyTrac.

The local economy is losing jobs at a 2 percent annual rate and not strictly in construction, Vest said. Industries including hospitality, business services and financial services have been hurt, too, he said.

"This is not just one sector of the economy," Vest said.

Retail sales have also dropped 6 percent since the beginning of 2007, with auto sales showing one of the deepest slumps, Vest said.

Swanson, who focused more on the national economy, said inflation and the falling dollar will likely cause more woe in the future.

Spikes in food and energy prices are already being felt by consumers and will likely lead to broader inflation, he said.

Signs pointing to recession

- Housing is in "a free fall," said University of Arizona economist Marshall Vest. Government numbers show prices dropped 2.9 percent in Tucson from the end of 2006. Vest said those numbers likely underrepresent the problem because the figures do not include homes purchased with subprime mortgages.
- The job market is shrinking, not growing. Tucson is losing jobs at about a 2 percent annual rate, Vest said. Job losses are occurring in construction, financial, business service and hospitality industries.
- Retail sales are falling, particularly for auto dealers. Sales are down 6 percent from last year, Vest said.

At prices hovering around \$130 per barrel, oil is up more than 80 percent from last year, Swanson said. Corn, soybean and wheat prices are up 60 percent, 73 percent and 132 percent, respectively.

Ballooning national debt and low interest rates are also forcing down the value of the dollar, he said, and will make the price of imports — namely oil — go even higher.

"The problem with downward spirals is they spiral downward," Swanson said.

Recessions are often described as two consecutive quarters of negative economic growth, but Swanson said the National Bureau of Economic Research — which officially declares recessions — may use other measures. So far, growth has slowed to a crawl nationwide but has not been negative.

Cass Morgan, a custom home builder who was in the audience, said he and other business owners are "tightening their belts" in preparation for some difficult months ahead.

"They've been sensing this for a long time" he said.

Signs pointing to recession

- Housing is in "a free fall," said University of Arizona economist Marshall Vest. Government numbers show prices dropped 2.9 percent in Tucson from the end of 2006. Vest said those numbers likely underrepresent the problem because the figures do not include homes purchased with subprime mortgages.
- The job market is shrinking, not growing. Tucson is losing jobs at about a 2 percent annual rate, Vest said. Job losses are occurring in construction, financial, business service and hospitality industries.
- Retail sales are falling, particularly for auto dealers. Sales are down 6 percent from last year, Vest said.
- *Contact reporter Christie Smythe at 434-4083 or csmythe@azstarnet.com.*

All content copyright © 1999-2008 AzStarNet, Arizona Daily Star and its wire services and suppliers and may not be republished without permission. All rights reserved. Any copying, redistribution, or retransmission of any of the contents of this service without the expressed written consent of Arizona Daily Star or AzStarNet is prohibited.