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Economists: Arizona in for long recovery

By Ed Taylor
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Early indicators of a turnaround in the economy may be emerging, economists said Thursday. But they also cautioned the pullout from the deep recession is likely to be long and slow, and it will still feel like a recession long after technical numbers say the downturn is over.

Among the hopeful signs is the turnaround in the stock market, with the Dow Jones Industrial average briefly rising above 8,000 for the first time in two months Thursday. Historically, the stock market has been a predictor of recovery about six to nine months in advance.

Also, an unexpected jump in new factory orders was reported Thursday by the U.S. Department of Commerce.

Locally, a poll released Thursday by WestGroup Research seemed to indicate that consumer sentiment in Arizona has stabilized, though at a low level.

But not all is rosy. Economists point to the huge inventory of new houses in Arizona that still needs to be sold off and to a continuing problem with foreclosures. As a result, Arizona may pull out of the recession more slowly than the rest of the country, they say.

"The bottom line is we grossly overbuilt, and we have a ways to go to get out of that," said Tom Rex, an economist at the W.P. Carey School of Business at Arizona State University.

He said it could take three years "before we start to resemble normal conditions."

Elliott Pollack, a Scottsdale-based economist, doesn't see the bottom until late this year and then a long pull out, adding that people are "grasping at straws" if they think the economy is already poised for recovery.

"There is still too much housing and difficulty in getting financing," he said. "People still have too much debt, and they need to pay that down."

Marshall Vest, an economist at the University of Arizona's Eller College of Management, is a little more optimistic. He believes the national economy may hit bottom by the middle of this year as it responds to the unprecedented stimulus the federal government is pumping into the system through infrastructure spending, bank bailouts, deposit insurance and more.

"When you pump liquidity into the system, three things happen: fear vanishes, the stock market recovers and the economy follows suit," Vest said. "It's happened time and time again in history, and it will happen again."

In fact, Vest worries the federal government may inject too much cash and will have to cut back to avoid an inflationary boom.

"We have sown the seeds for the next bubble," he said.

East Valley consumers and business people are divided about the economic outlook. An unscientific online poll conducted by the East Valley Tribune.com Thursday found that a slight majority, 53 percent, do not feel any more optimistic about the economy now than they did a month ago.

Several businesses interviewed by the Tribune see light at the end of the tunnel.

"March was pretty good," said Gray McDougal, general manager of Earnhardt Toyota Scion in Mesa.

Helping the auto situation is solid demand for used cars, which has been driving up the value of trade-ins and making it easier for customers to afford new vehicles, he said.

"Those allowances (for trade-ins) have continued to climb through this economic climate," he said.

Louie Moses, vice president of Mesa TV & Appliance at 456 W. Main St., also is upbeat.

"Personally, I think things are getting better," he said. "Sales are improving over the last few months. It seems like we've taken our beating, and now things are improving."

Jerry McCurdy, owner of Mesa Muffler at 555 W. Main St., said March was slightly better than the previous month, but he's still cutting overhead as much as possible.

"It took a long time to get here, and it will take a long time to get out of it," he said.

One of the points of worry for economists is the job market, which remains weak. New claims for unemployment last week were worse than forecast, and Friday's reading on how many jobs the nation lost in March is widely expected to be grim.

But the Commerce Department said orders for manufactured goods rose 1.8 percent in February, reversing six straight monthly declines.

"There is now some solid evidence that the period of economic free-fall is behind us, that the next step will be a slower rate of decline," said Nigel Gault, chief U.S. economist for IHS Global Insight.

He predicted the economy will bottom out in the second half of the year but cautioned the unemployment rate could hit 10 percent before reversing.



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