Arizona, U.S. in economic stalemate

by Betty Beard and Jahna Berry - Aug. 7, 2010
12:00 AM
The Arizona Republic

Hopes for a stronger economic recovery remain hampered by a stubbornly high unemployment rate, which stayed stuck at 9.5 percent in July.

Big businesses are reluctant to hire until they see consumers spend more, even though many firms are profitable and are sitting on billions of dollars of cash.

Small businesses remain hamstrung by economic uncertainty and, often, lack of credit.

Consumers remain reluctant to spend freely because they worry about their jobs.

"It's almost a Catch-22, where businesses won't spend until consumers spend more, and consumers won't spend more until businesses spend more," said Nathan Topper, an economist who follows Arizona for Moody's Economy.com.

Businesses and consumers appear to be waiting for each other to make the first move. And the second half of the year could mean more of the same.

Lee McPheters, an Arizona State University economist, said, "The indicator updates and economic reports we've been getting recently all point to a lackluster second half for the national economy, and that means more of the same for Arizona."

Despite the stalemate, as reflected in federal jobs data released Friday, there are encouraging indicators, other economists say.

Although the statistics don't always reflect it, the Arizona and national economies are recovering, albeit slowly, according to economist Marshall Vest of the University of Arizona. People may be expecting too much too soon after such a deep recession, he said, and everyone just needs to be patient until a recovery becomes more obvious.

Vest said one reason the economy has probably paused is that federal stimulus programs moved up sales that might have naturally occurred later.

Arizona has added almost 39,000 jobs this year, according to his calculations, and initial claims for unemployment insurance have been trending down for a year.

"I think the economy is doing better than what is commonly realized and than what
most people are feeling," Vest said. "It's because we are very early in the recovery and we have lost so much ground. It's going to be awhile before people start feeling good again."

Reluctant to hire

Nationwide, private jobs have increased by 630,000 this year, but two-thirds of that growth was in March and April, and hiring has been sluggish since.

The U.S. Bureau of Labor Statistics said Friday that total non-farm employment fell by 131,000 from June to July, mostly because of the continued layoffs of temporary U.S. census workers. Private employment grew by 71,000 over the month.

To significantly reduce the nation's unemployment rate, the private sector would need to consistently add at least 200,000 jobs a month.

Despite a stronger stock market and generally healthier corporate earnings, the economy's recovery hasn't included much business expansion and additional hiring, typical actions by companies after a recession. Companies have become increasingly productive with leaner staffs and better technology, so they aren't in a rush to add to payrolls.

Non-financial American companies in the Standard & Poor's 500 index of large companies have accumulated a record $837 billion in cash.

Topper said they apparently still believe it's best to be cautious in case the economy worsens, as some experts have predicted.

"You don't want to be caught overstocked or overstaffed," he said.

Donna Davis, chief executive of the Arizona Small Business Association, which represents 4,700 businesses with 500 or fewer employees, said, "It's very simple. If there is no work or projects, then people aren't going to hire. It's just going to take time because there is a lot of uncertainty in the marketplace. Most businesses are just hunkered down and waiting it out."

Glenn Hamer, president and CEO of the Arizona Chamber of Commerce and Industry, believes businesses are holding back because of uncertainty over federal policies, especially the new health-care and financial-reform laws, environmental regulations and potential revisions in organized-labor rules and tax laws.

Competition for jobs

The U.S. Bureau of Labor Statistics said Friday that there are about 14.6 million unemployed Americans and that 45 percent of those have been out of work for 27 weeks or longer.
An additional 8.5 million are working part time because they can't find full-time work, and 2.6 million have stopped looking or were discouraged.

With state unemployment near 10 percent, Arizona job seekers face stiff competition for every job opening, said Phoenix resident Daryl Lewis, who was waiting for a bus outside a state unemployment office in north-central Phoenix.

"I have applied for 30 to 40 jobs in six months," said Lewis, 50, who has been looking for a medical-administrator job. He interviewed for two posts but wasn't hired.

"There were 15 to 20 applicants for each of the jobs," he said.

Now, Lewis' wife, who was working, is in the hospital, he said.

"I need to find a job because we are in trouble," he said.

Meanwhile, many others have returned to school to improve their skills and marketability.

After doing everything from flipping burgers to working for ice-truck drivers in Alaska, Michael Jager, a 26-year old Surprise resident, enrolled at the Universal Technical Institute in Avondale to study to become an auto, diesel and industrial technician.

In his almost two years there, he has seen the enrollment soar.

"When I came here, I had no problem finding a front-row parking spot," he said. "Now, if you are not here half an hour early, you can just forget it."

Reluctant to spend

Employed or not, battered consumers can hardly be blamed for being careful about their spending. They are worried about jobs, plummeting housing values, or what to do when their unemployment benefits run out.

Retail sales in June fell 3.3 percent below June 2009, according to the Arizona Department of Revenue.

More consumer spending could help recharge Arizona's economy. But, echoing the caution expressed by many Americans after the Great Depression, many thrifty Valley residents shopping at a Walmart store in Mesa on Friday morning didn't want to spend any more than they absolutely needed to.

"I am spending less," said Gary Snay, 63, a long-haul trucker visiting his son in Mesa. Although Snay said he got a 5 percent raise last year, prices for groceries and other items have gone up even more during that time, in his opinion.

"Even if you have a job or collected unemployment," Snay said, with so many
high prices, "you lost money."

Mesa resident Robyn Mackelprang, 27, is a new mom who recently left a marketing job to care full time for her 14-month-old son, Landon. She is naturally thrifty because she was raised in a family of six, but Mackelprang is looking for more ways to save now that her husband is the sole breadwinner.

"I am thinking about getting the newspaper on Sundays for the coupons," Mackelprang said. "I haven't done it before, but I heard that you can save a lot of money that way."

She and her husband would like to buy a house to make room for their expanding family, but they are unable to sell their condo because home values have fallen sharply, she said.

McPheters said one silver lining to weak consumer spending is that the longer consumers delay spending, the more pent-up demand develops. That could mean a lot more spending in 2011.

That apparently has already happened with cars and trucks. Arizona sales rose 30.6 percent in June above a year earlier, according to the Arizona Department of Revenue.

There has been a lot of debate nationally about what, if anything, should be done to speed recovery.

Among the ideas: more stimulus spending, more government job-creation efforts, reductions in taxes and regulations, or Federal Reserve actions to further loosen credit.

Or, perhaps, the early stages of recovery are a period that Americans just have to ride out.

Tom Rex, another ASU economist, said, "Government spending is the normal stimulus, but we already have had a lot of that, with much of those funds still being realized (put into use) in the private sector. A new round of spending would take months to have much effect and could create longer-term problems."

Copyright © 2009, azcentral.com. All rights reserved. Users of this site agree to the Terms of Service and Privacy Policy/Your California Privacy Rights