AZ economic forecast is a somber one

By Dale Quinn

Despite nationwide indicators of economic growth, Arizona will remain mired in a recession through the middle of next year, a UA economist said Friday, adding that statewide unemployment likely will grow to more than 10 percent.

The tone at the University of Arizona's 29th annual economic outlook luncheon was mostly somber. More than 500 members of Tucson's business community attended the luncheon at the Westin La Paloma Resort and Spa, 4300 E. Sunrise Drive.

"The good news is that the worst is behind us and we will start to heal soon," said Marshall Vest, director of the Economic and Business Research Center at the UA's Eller College of Management. "The bad news is it's going to take years to repair the damage that's been done."

While gross domestic product increased last quarter and is expected to be positive in the fourth quarter, Gerald Swanson, an economics professor at the Eller College of Management, said that doesn't mean the national economy is rebounding.

"We're stabilizing, but we have a long way to go," he said. While two successive quarters of growth of the gross domestic product usually indicate the end of a recession, Swanson said, high unemployment will have the effect of prolonging it.

Tucson has lost 26,000 jobs and the state has lost 275,000 since nonfarm labor peaked in March 2007, Vest said. And it won't be until the middle or third quarter of next year when those numbers start to turn around, he said.

Statewide unemployment, now at 9.3 percent, will likely peak between 10 and 10.5 percent, with Tucson's unemployment about a percentage point lower, Vest said.

The state is last in job growth, struggling with home foreclosures, and homeowner equity is lagging. "Arizona is arguably the hardest hit state in this recession," Vest said.

On top of that, the state's government is facing financial peril.

"The state is effectively insolvent. It's bankrupt," Vest said. He used the term loosely because there is no language in U.S. bankruptcy code that allows states to file for such protection.

But with a 20 percent, or roughly $2 billion, budget shortfall, the state would have to eliminate all government programs — universities, corrections and all other services — except K-12 education and health care services to balance the budget. Funds for education and health services have been protected by voters.

So Vest said the survival of the state's economy depends on an increase in taxes.

"Tax reductions reduce economic growth when the tax burden is high," he said. "The tax burden is not high in Arizona."

Swanson said the national recovery could be delayed by public uncertainty regarding health-care and energy policies coming out of Washington, D.C., wars in Iraq and Afghanistan, and questions about whether the economy can function without government intervention.

Government programs such as "Cash for Clunkers" and the tax credit for first-time homebuyers provided only temporary increases in car and home sales, and many economists have questioned the effectiveness of the
stimulus plan, Swanson said.

Even as the economy improves, unemployment will remain high as discouraged workers who had given up looking for a job resume their search and remain in the ranks of the jobless, Swanson said.

Workers who have stopped searching for a job aren't included in the government's unemployment statistics. Further, those who lost jobs in manufacturing, construction and the media aren't going to find employment in those industries, as those labor reductions will become permanent, Swanson said.

"We're going to have to invent new industries and new jobs," he said.

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