

W. P. CAREY SCHOOL  
OF BUSINESS



## Economic and Fiscal Update October 2015

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L. Wm. Seidman Research Institute



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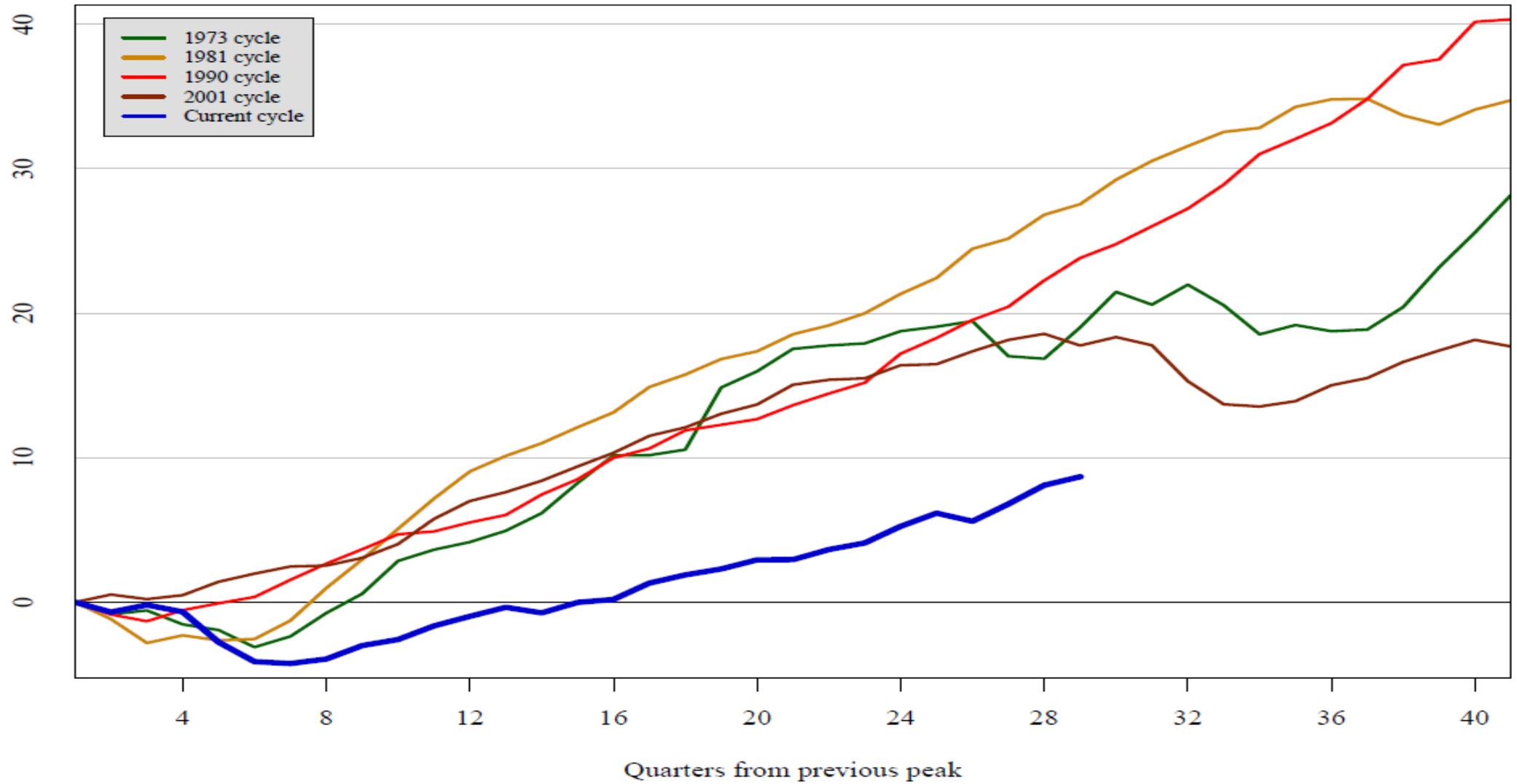


# Topics for the Day

- US Economy Issues
  - How we got here...
  - Hot button issues and pressures of the day
- Arizona Economy Issues
  - How we got here
    - Recent Trends
    - Future Trends
    - Areas of Growth
    - Strategies for the Future
- Budget Issues
  - Historical Perspectives
  - Current issues and outlook

# Real Gross Domestic Product

Percentage change from previous peak, Seasonally Adjusted



US Economic Snapshot; [www.econsnapshot.com](http://www.econsnapshot.com)

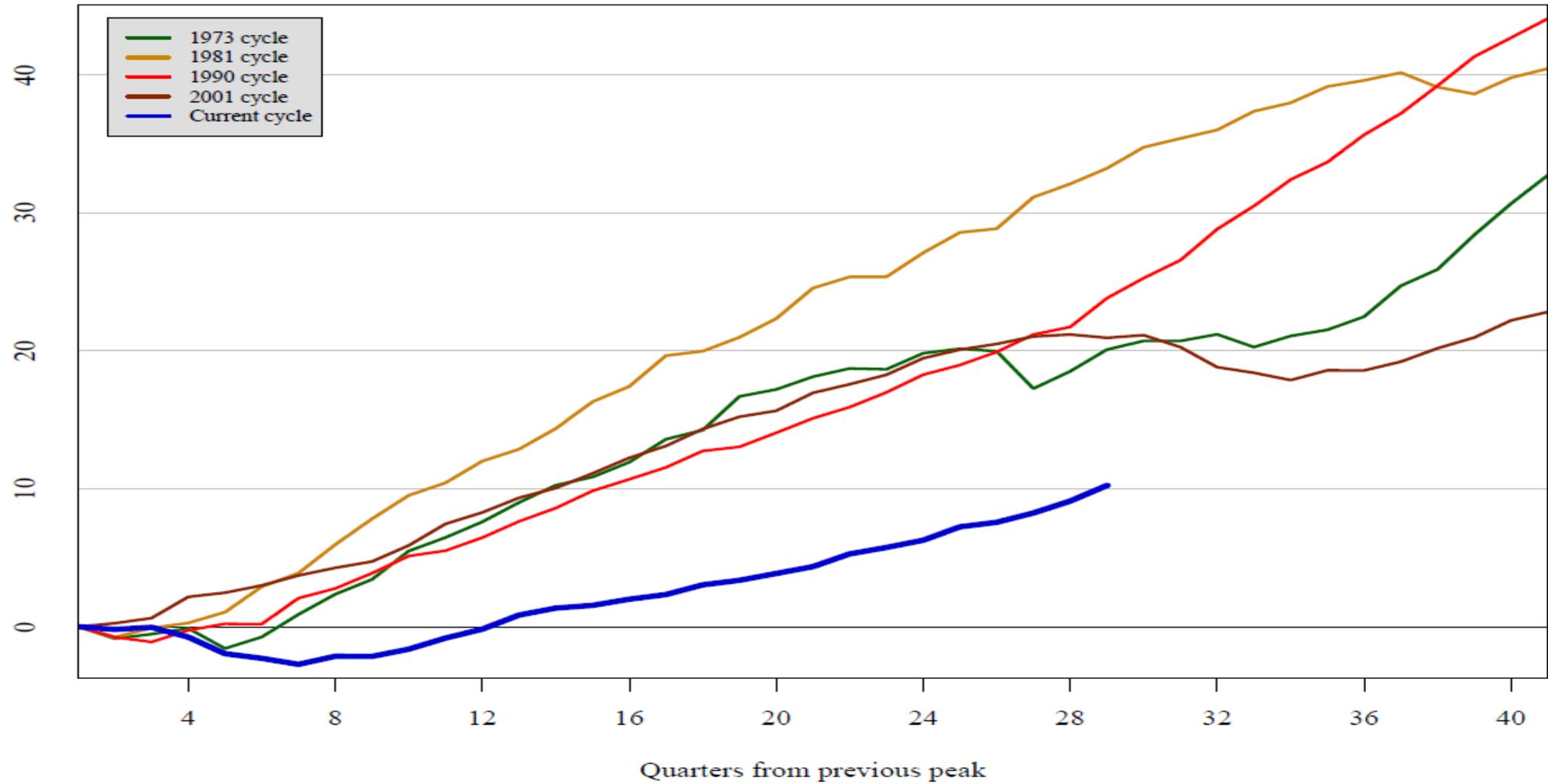
Source: U.S. Bureau of Economic Analysis

# GDP Arithmetic

- $Y=C+I+G+X-M$  Simple math and to grow GDP you have to grow the components
- $Y=C+I+G+X-M$  Keynesian:: increase G and the rest will take care of itself: perceived problem, lack of aggregate demand
- $Y=C+I+G+X-M$  Supply Side; neo-conservative:: cut G and get Govt out of the way: perceived problem, govt stifles supply

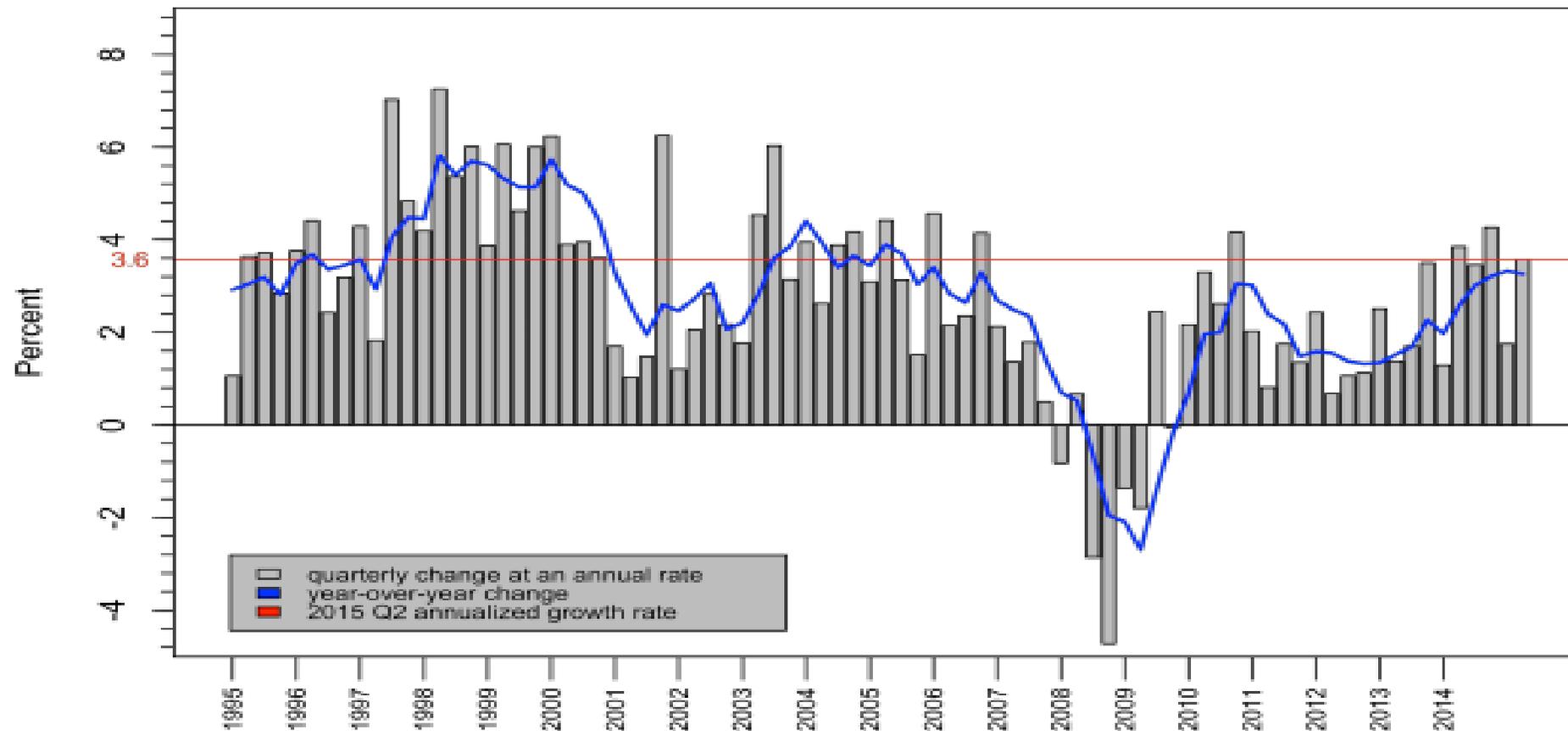
# Real Personal Consumption Expenditures

Percentage change from previous peak, Seasonally Adjusted



US Economic Snapshot; [www.econsnapshot.com](http://www.econsnapshot.com)  
U.S. Bureau of Economic Analysis

# Real Personal Consumption Expenditures

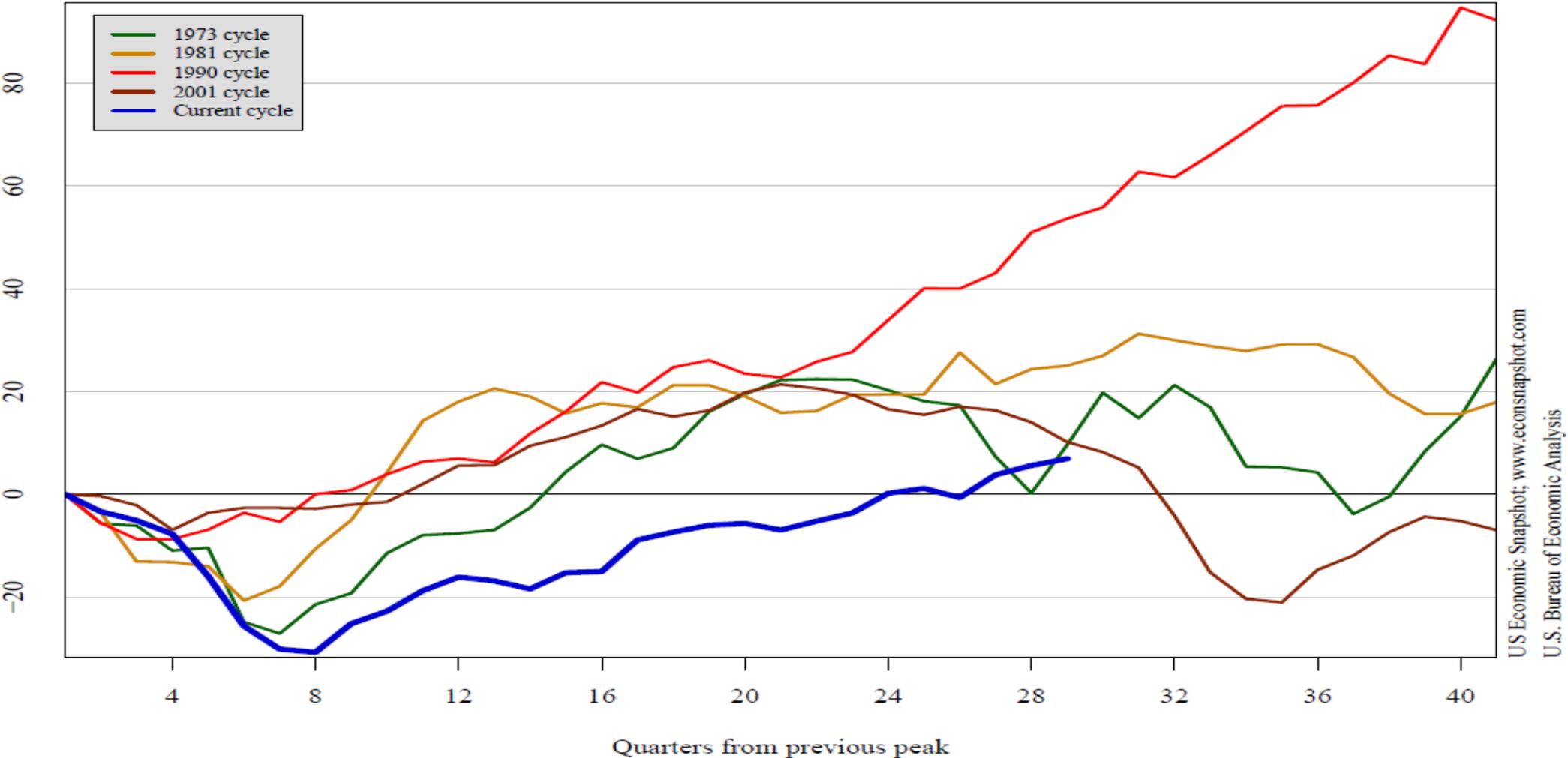


Econsnapshot.com

Source: BEA

# Real Gross Private Domestic Investment

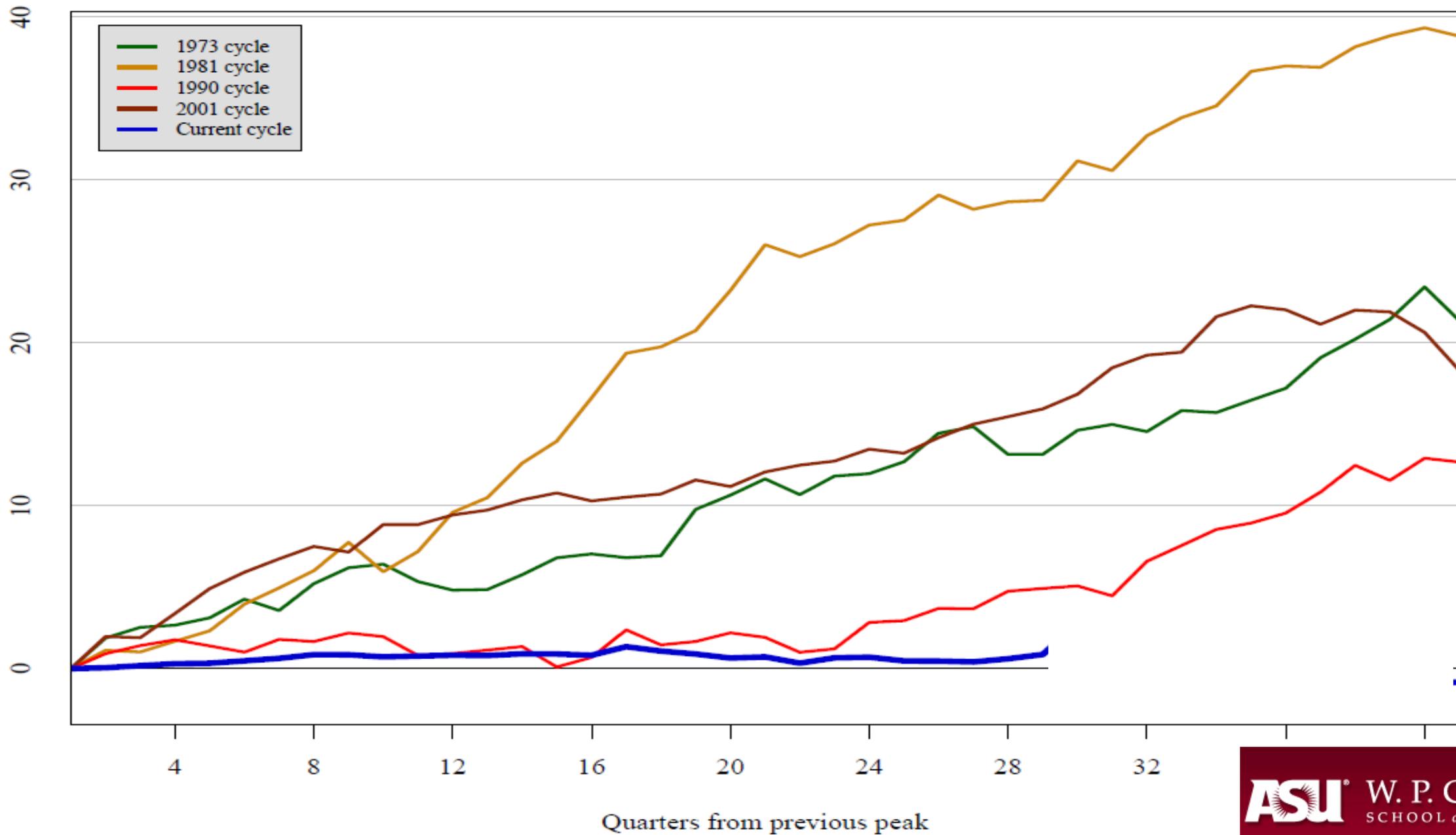
Percentage change from previous peak, Seasonally Adjusted



US Economic Snapshot; [www.econsnapshot.com](http://www.econsnapshot.com)  
U.S. Bureau of Economic Analysis

# Real Government Consumption Expenditures & Gross Investment

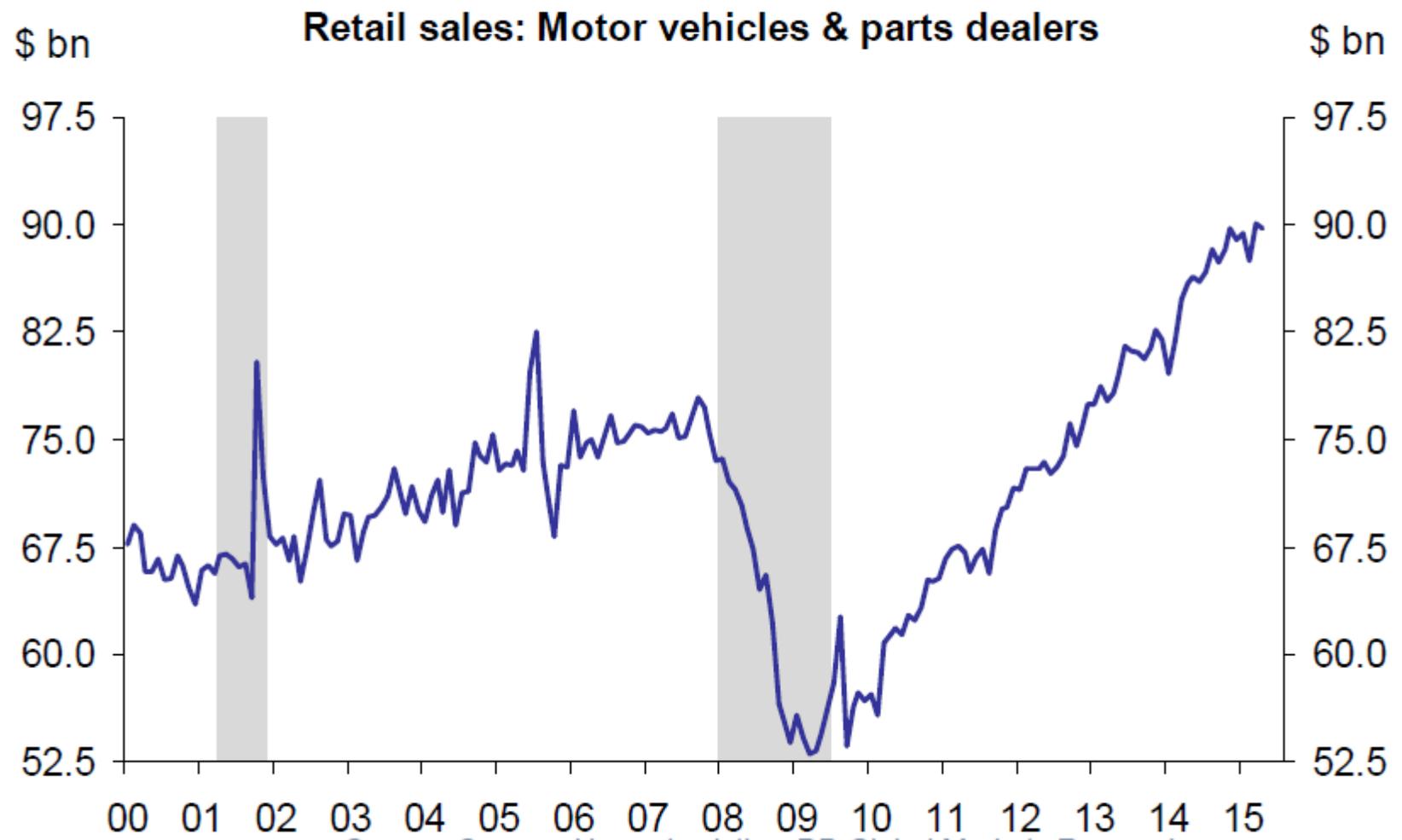
Percentage change from previous peak, Seasonally Adjusted



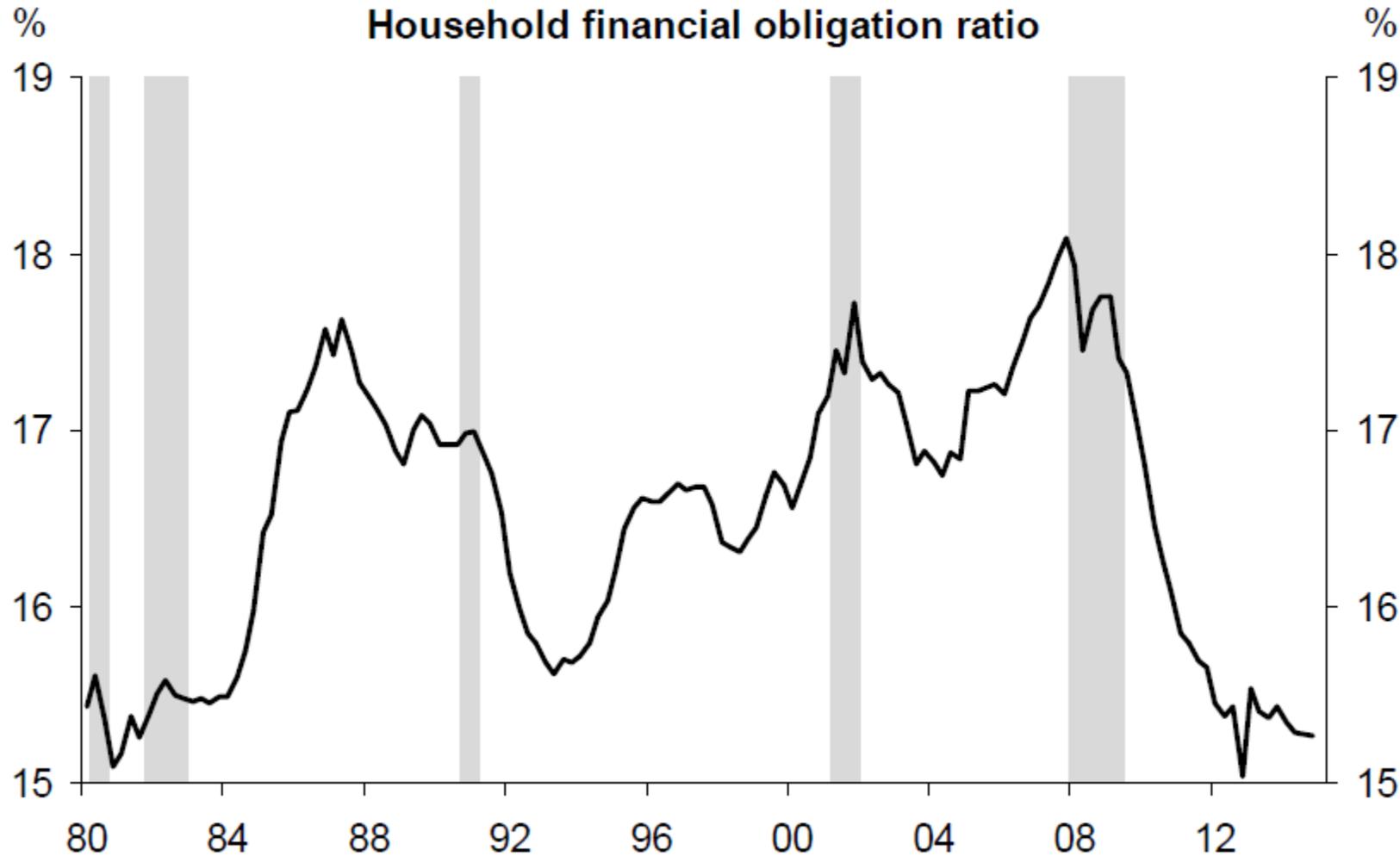
Cooley-Rupert Economic Snapshot; www.econsnapshot.com

So what is holding the Economy back from running at full steam?

# Motor sales at historic high

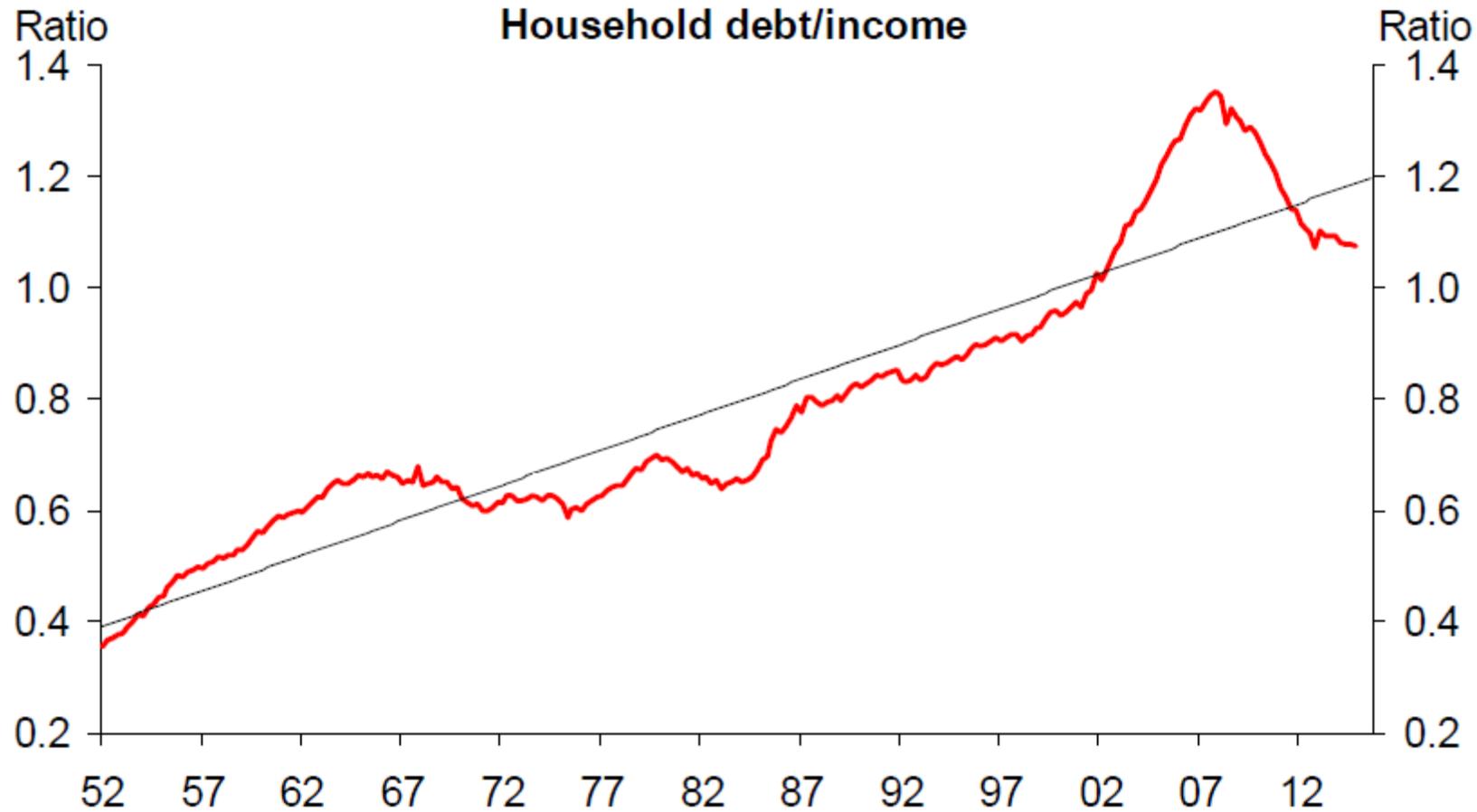


# Households' financial obligations ratio close to all-time lows



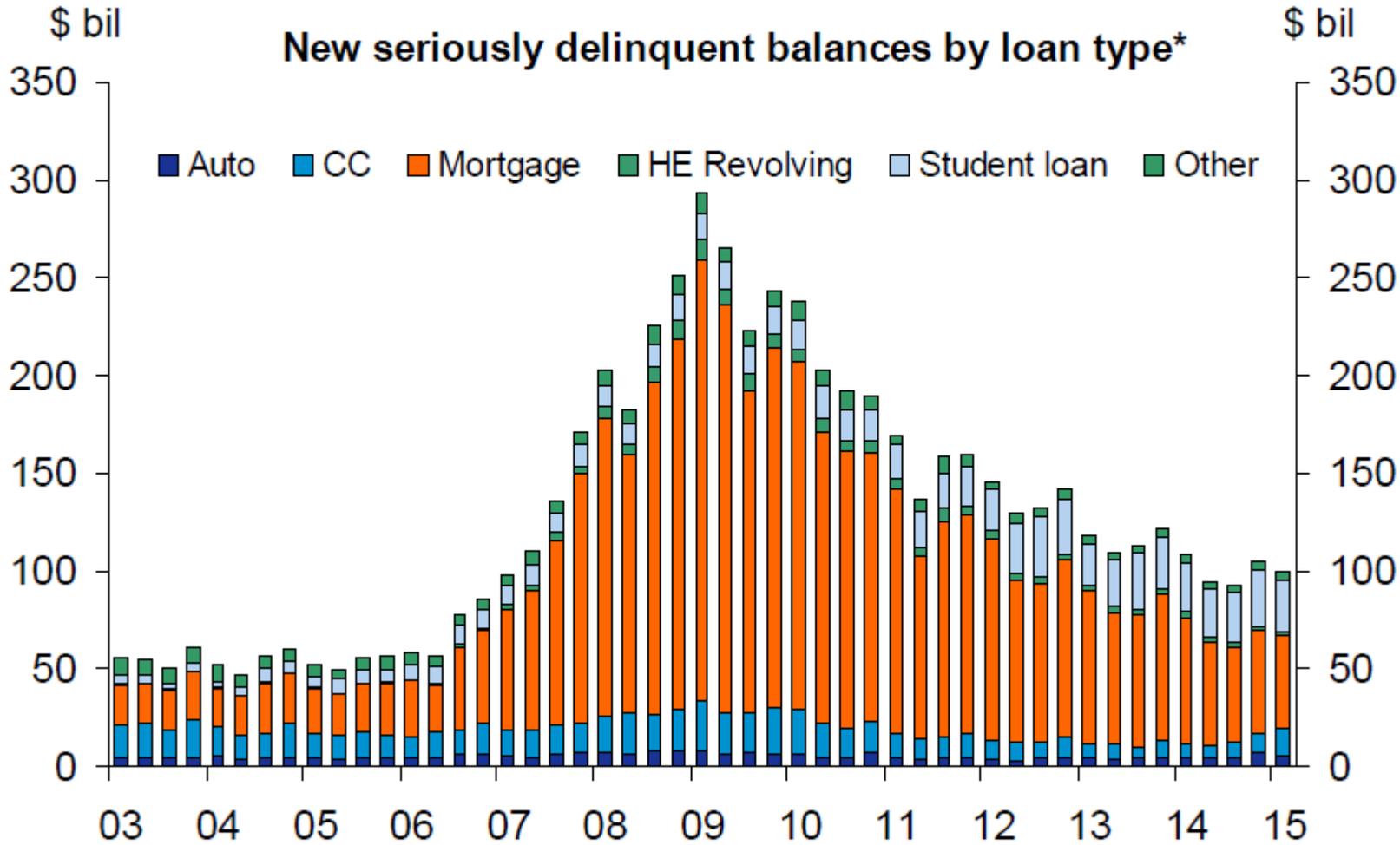
Source: FRB, Haver Analytics, DB Global Markets Research

We are now below the historical trend in debt/income



Source: FRB, Haver Analytics, DB Global Markets Research

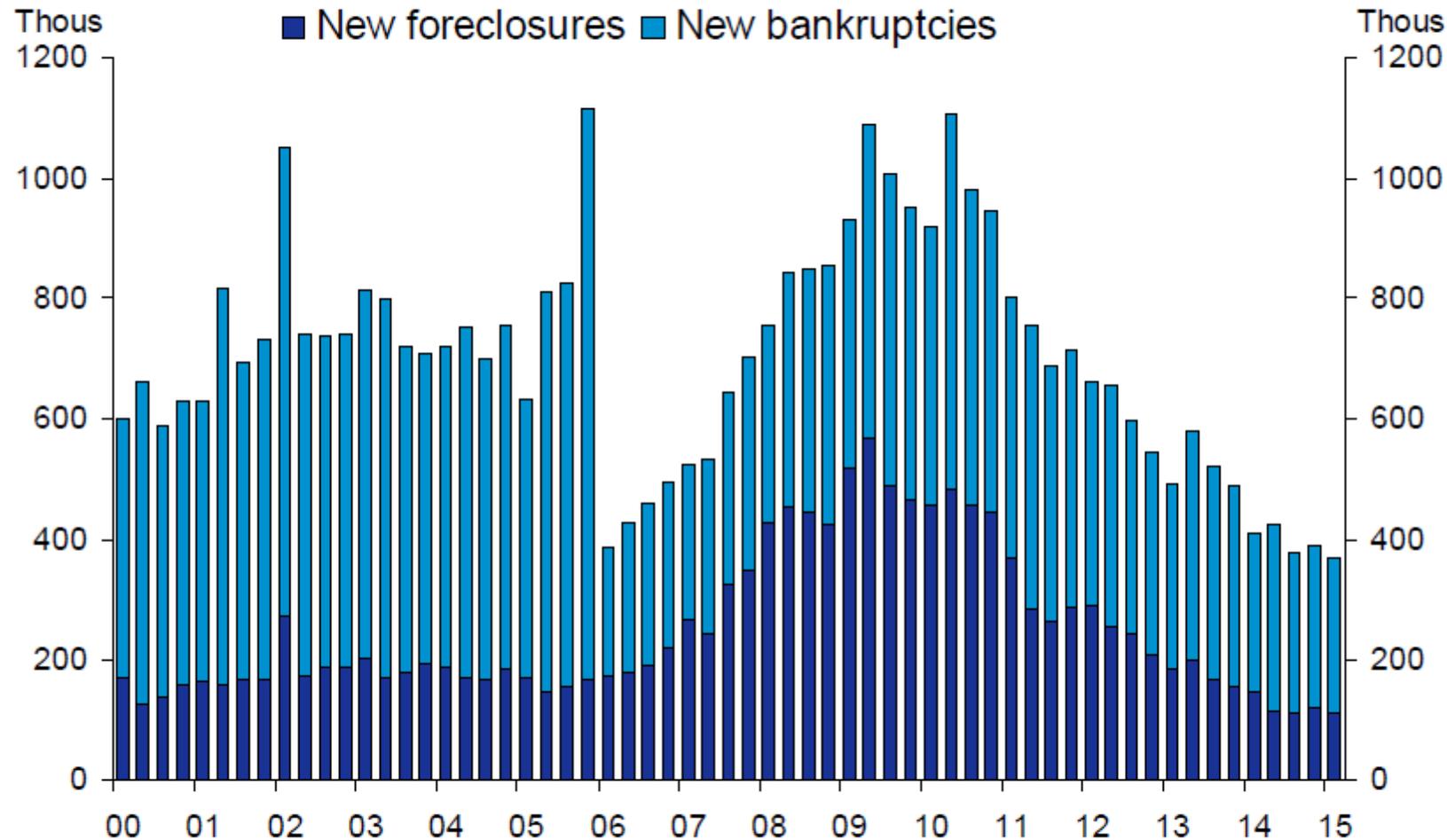
...and new seriously delinquent loans coming down...



\*90 or more days delinquent

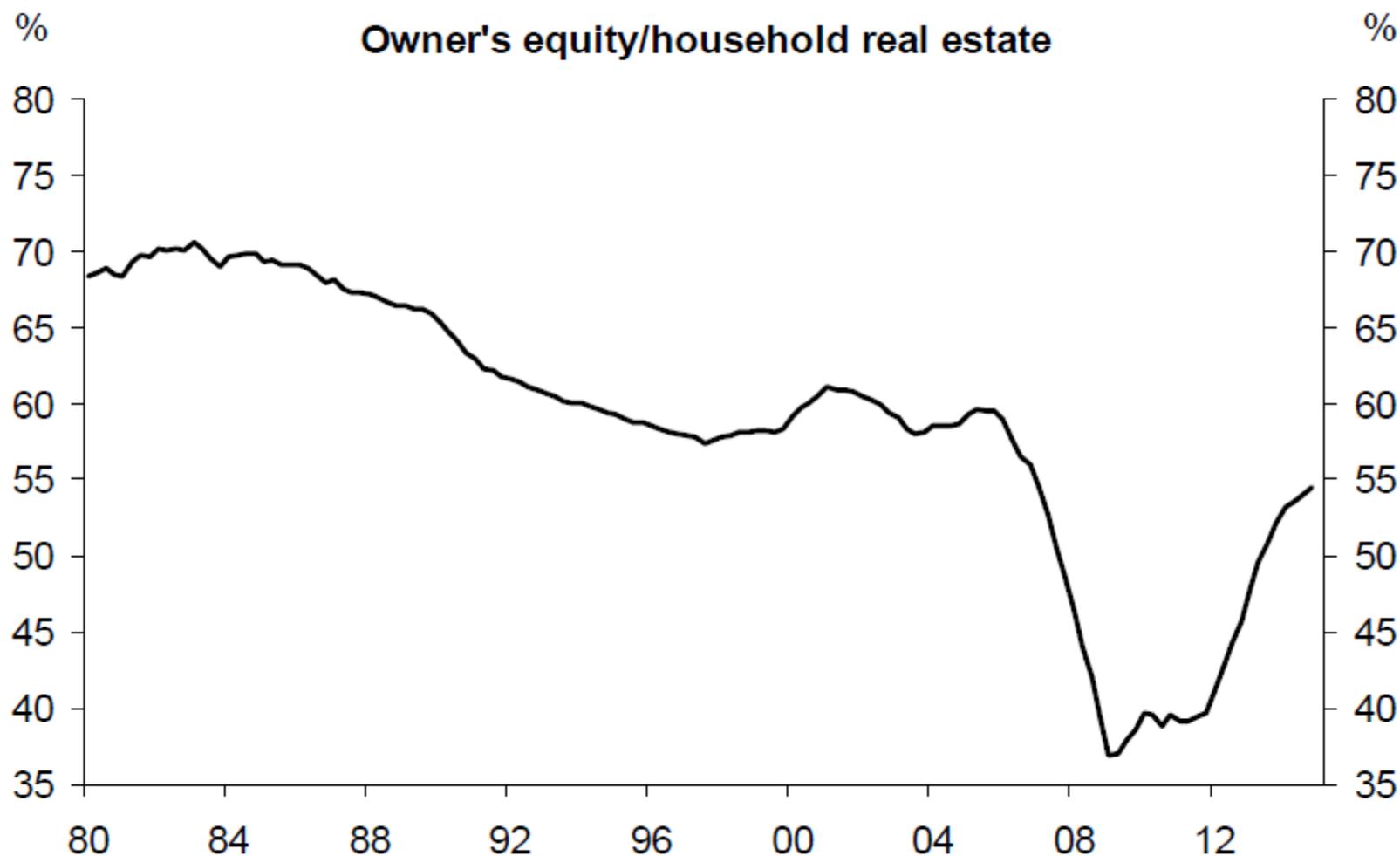
Source: FRB-New York, DB Global Markets Research

## ...and new foreclosures and bankruptcies coming down



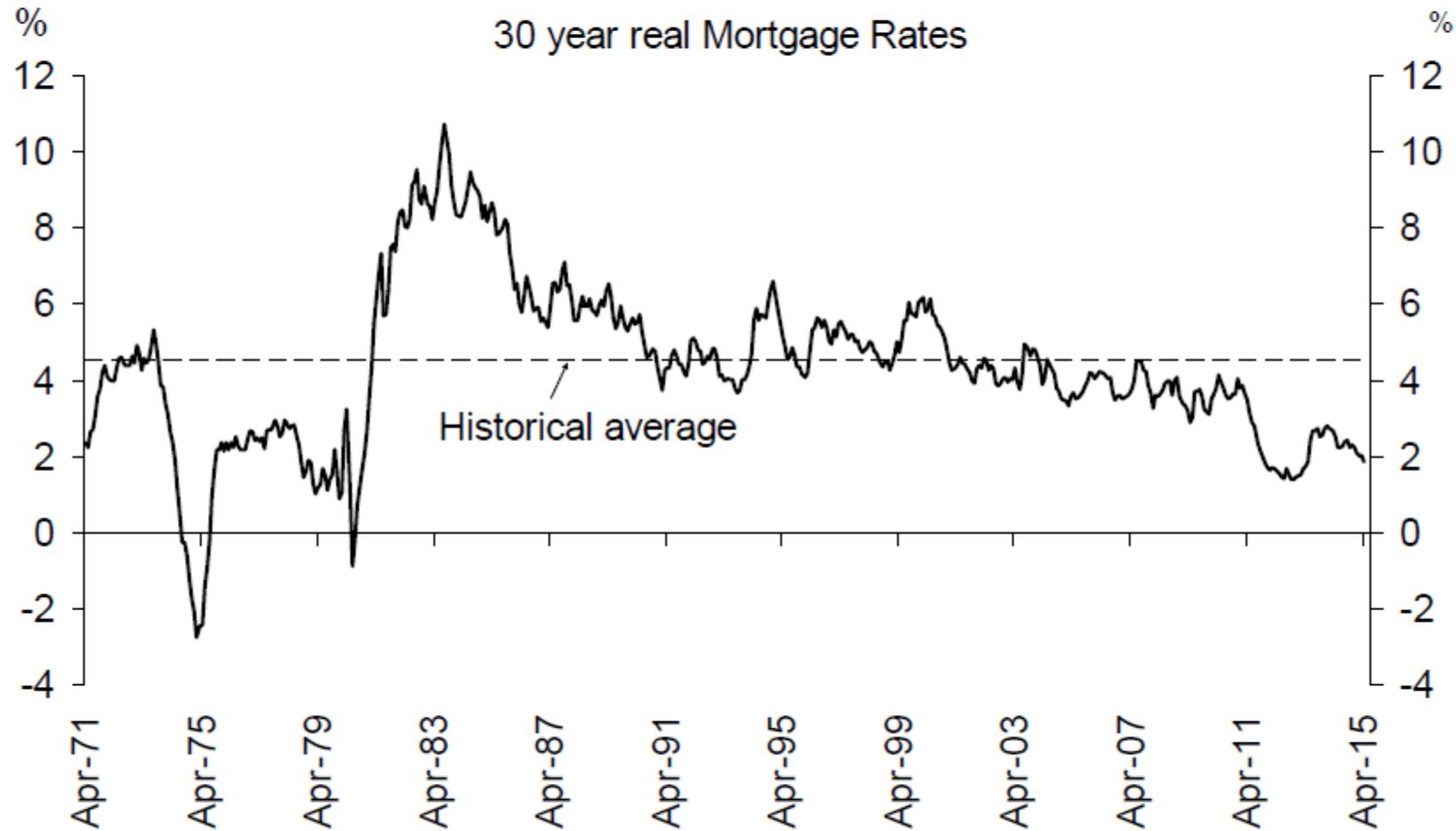
Note: Break in series in 2005-2006 was the Bankruptcy Reform Act. Source: FRB-New York, DB Global Markets Research

## Flow of funds: Households' real estate equity approaching pre-crisis levels



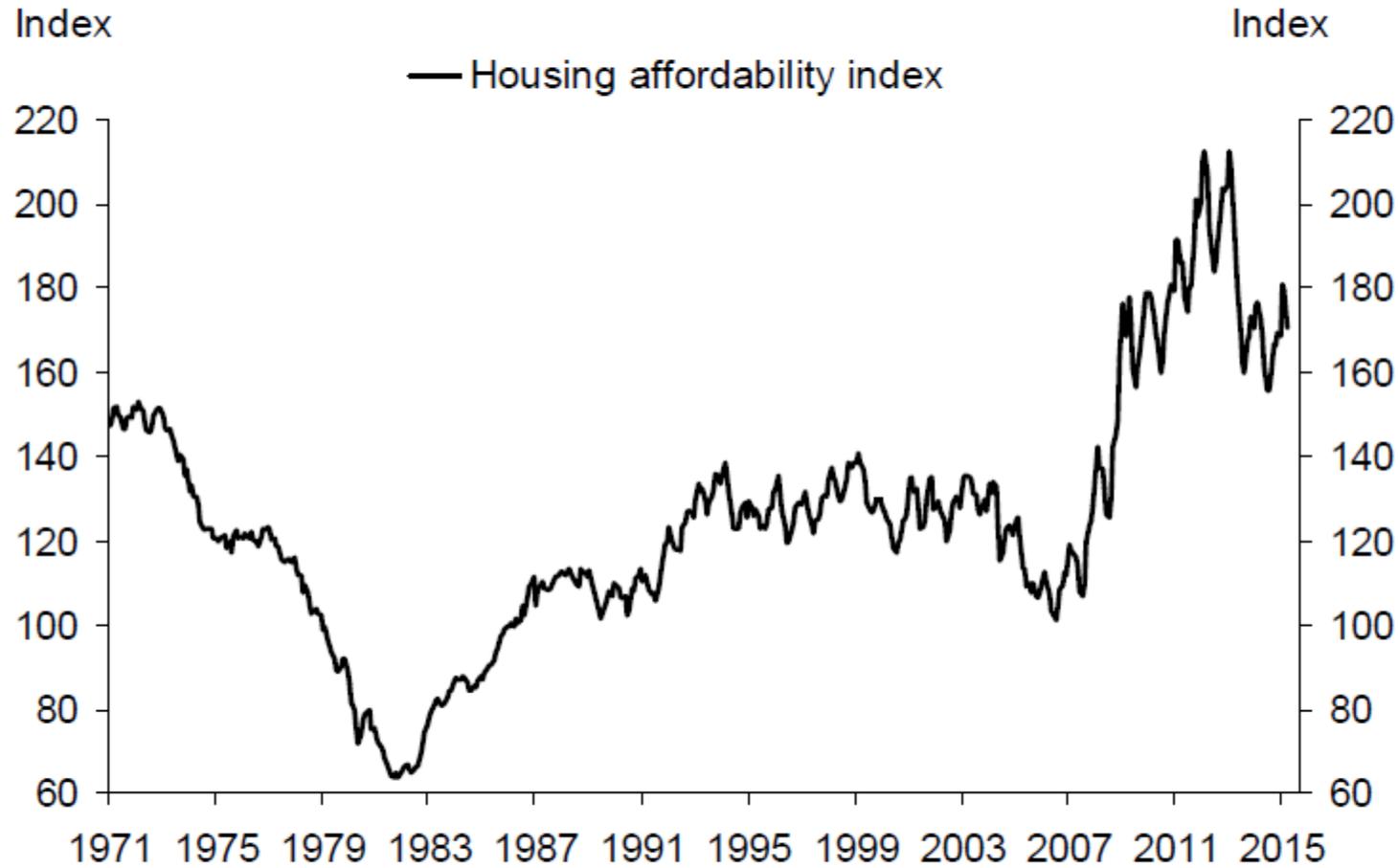
Source: FRB, Haver Analytics, DB Global Markets Research

# Real mortgage rates far below their historical norm



Source: FRB, Haver Analytics, DB Global Markets Research

## Housing affordability still at a very high level even if interest rates rise...



Source: NAR, Haver Analytics, DB Global Markets Research

# So why aren't we growing faster?

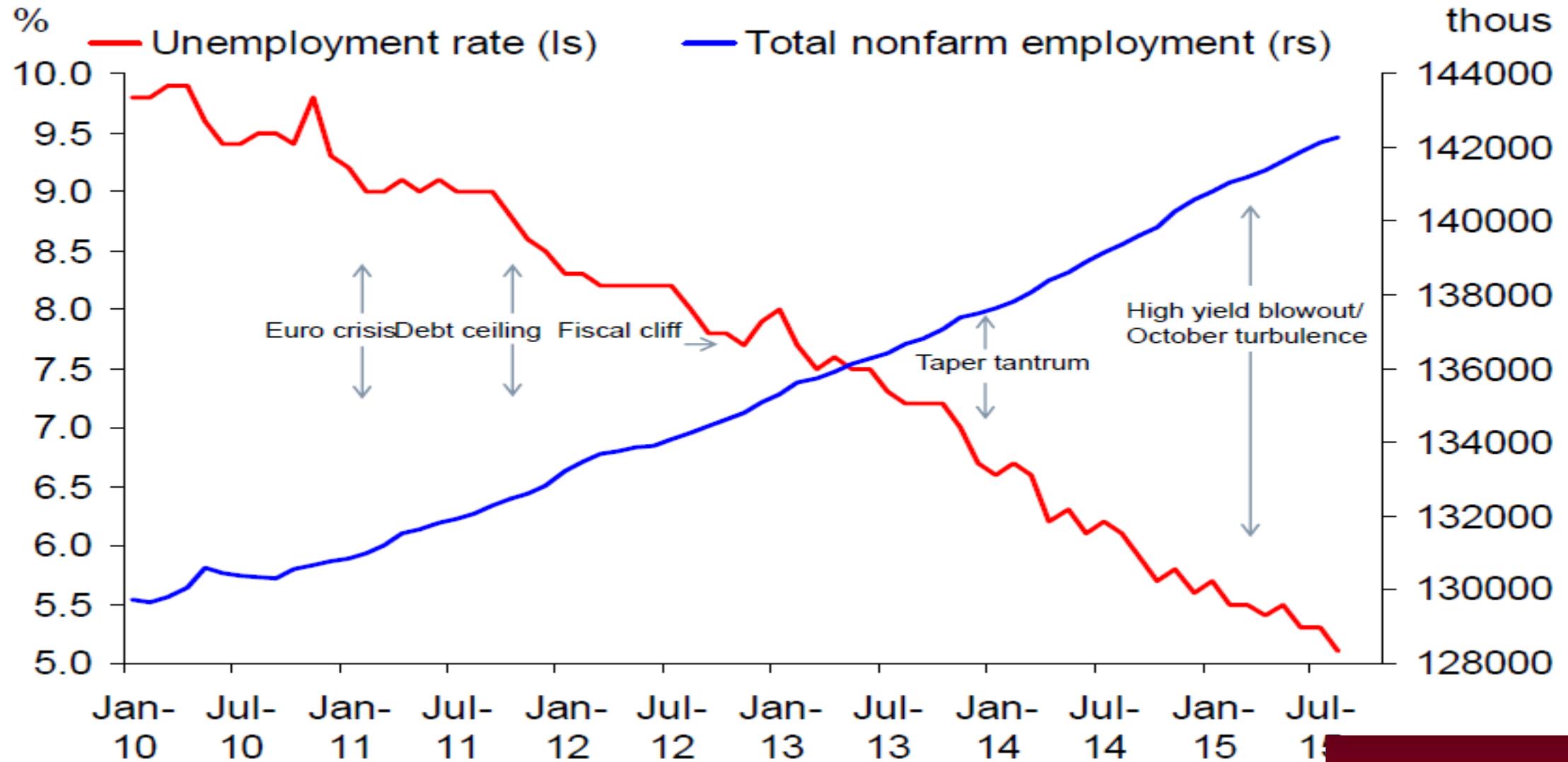
- Regulations, Taxes, bad policymakers
- Lack of investment in infrastructure, e.g. austerity headwinds
- Demographics, essentially the last 40 years were the anomaly and now the baby boomers are entitlement recipients
- Secular stagnation and the Great Reset. Tyler Cowen Richard Florida
- We are, its just bad data..

So What will the FED do and will it hurt the Economy

- They say they are “data driven”
- They want to raise Interest Rates
- Many small HH savers wish they would
- ?? Choke of Expansion, especially Housing
- ?? Impact on Exports
- ?? Impact on Equity Markets

**Worrying about what the Fed will and will not do may be a waste of time**

The Fed can easily begin to hike rates:  
 The taper tantrum had no impact on the speed of the recovery

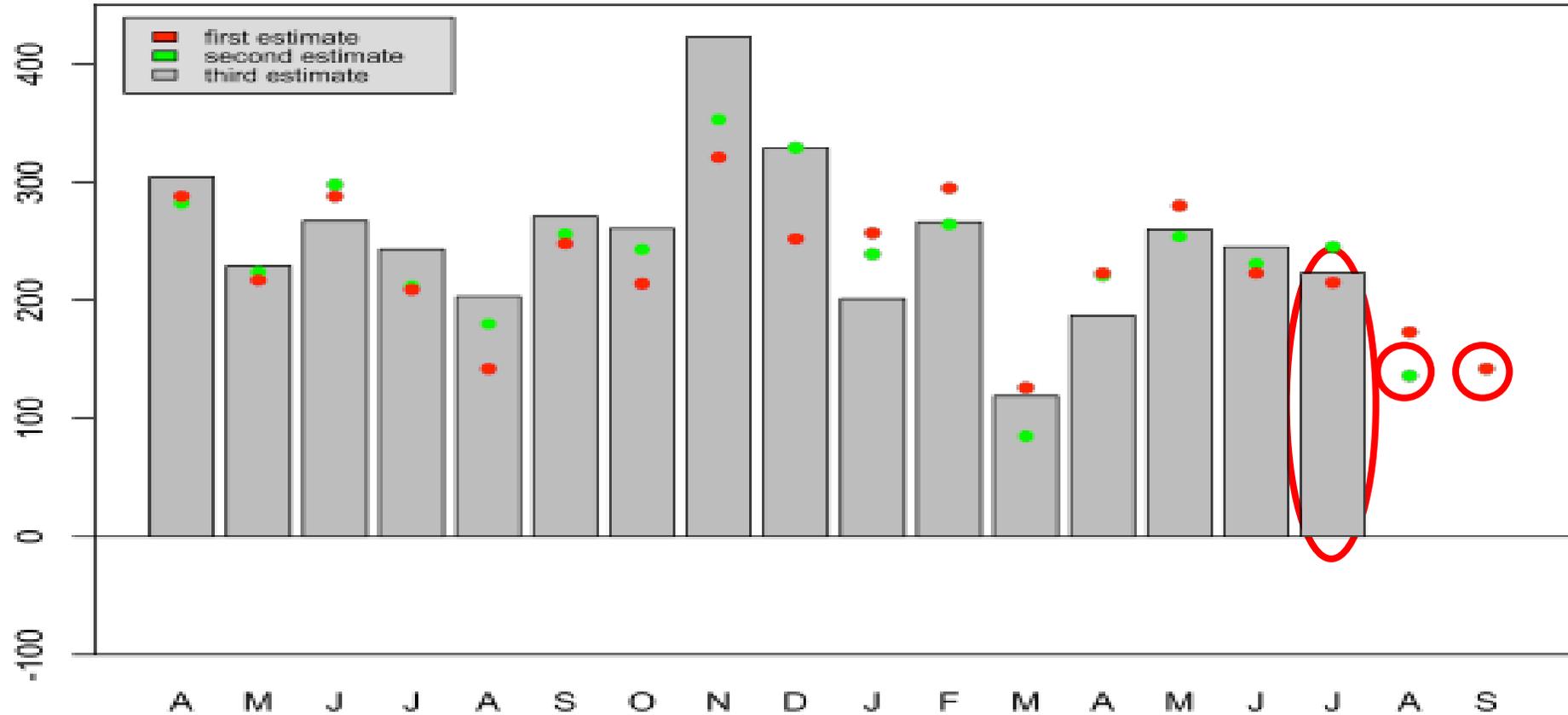


Source: BLS, BEA Haver Analytics, DB Global Markets Research

So How is the US Labor MKT  
doing??

# Net Employment Change

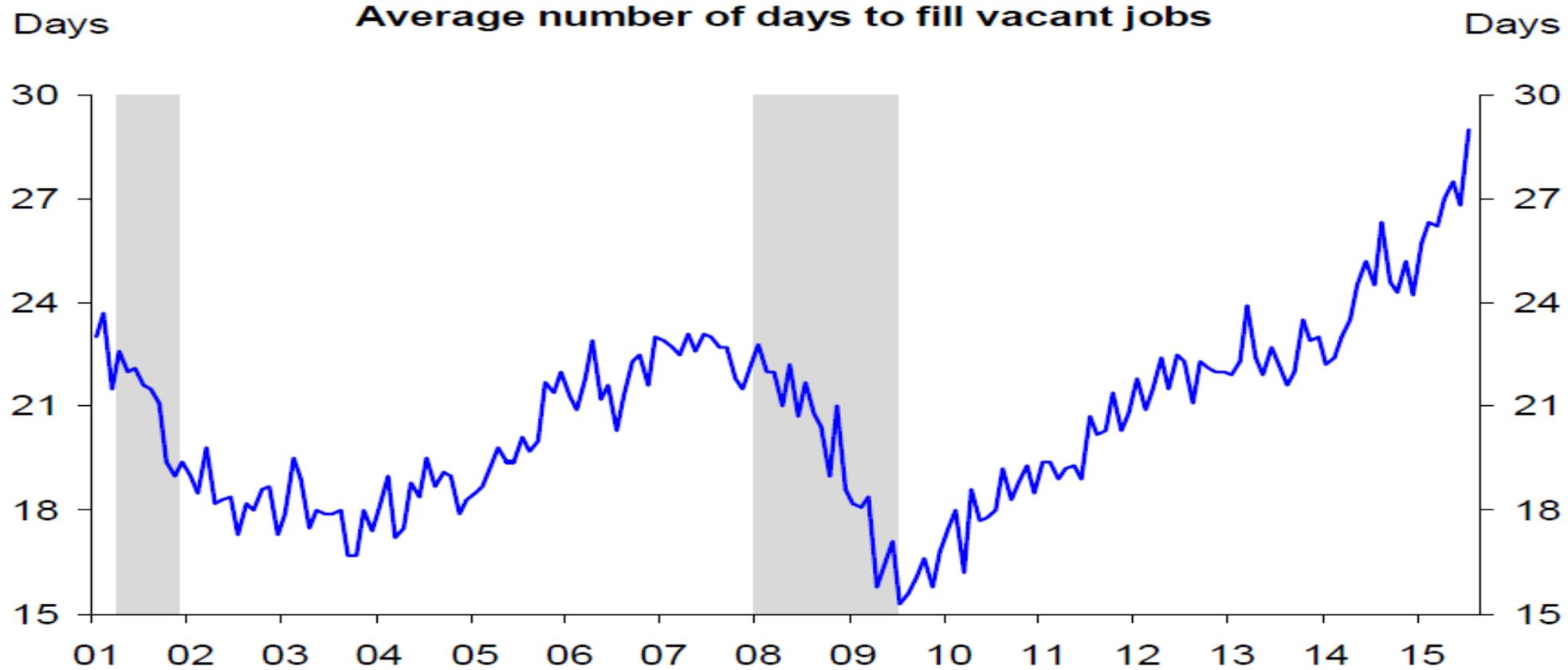
Thousands, SA



econsnapshot.com

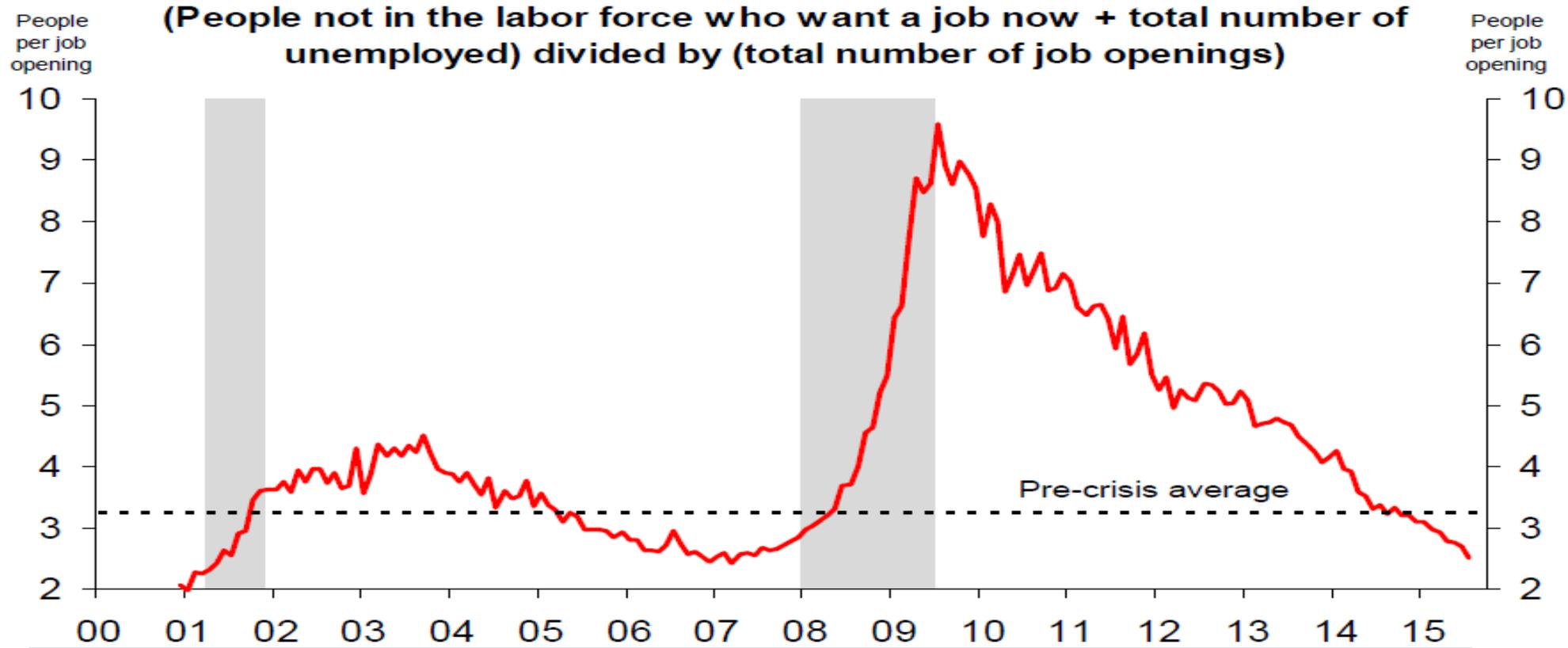
Source: BLS

It currently takes 29 days to fill a vacant job, up from 23 days in 2006



Source: Dice Holdings, Haver Analytics, DB Global Markets Research

# Less slack in the labor market: Number of available people per job opening is now at 2006-2007 levels

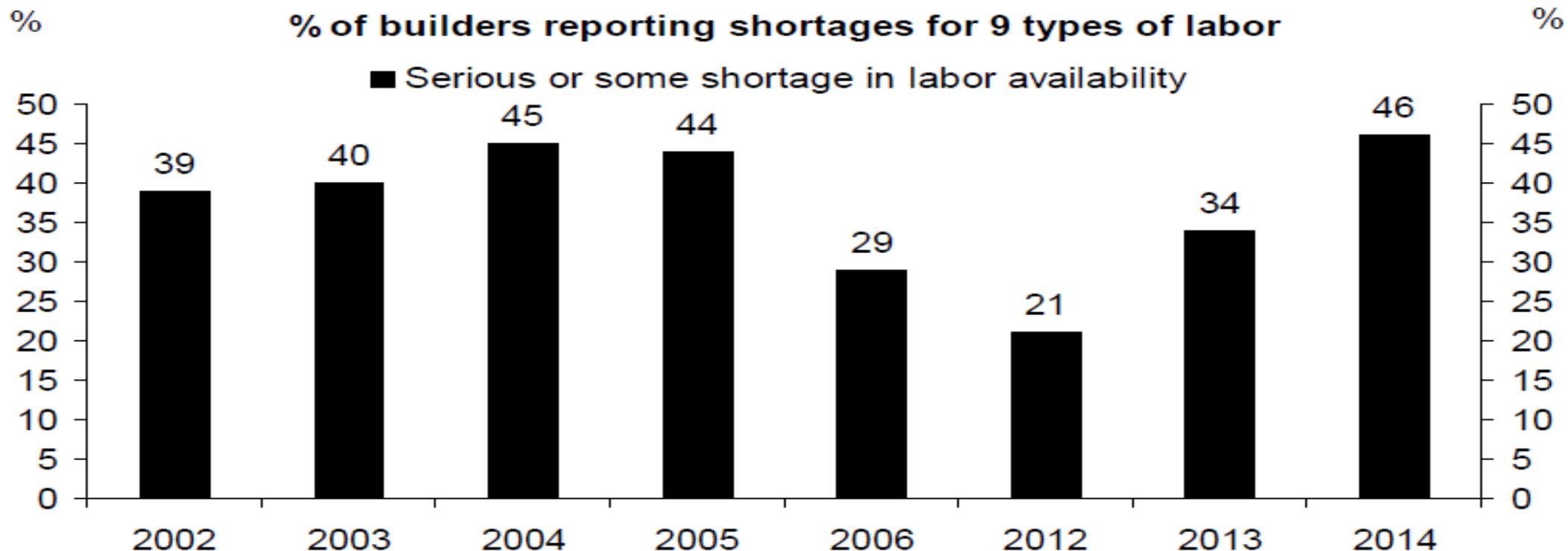


Source: BLS, JOLTS, Haver Analytics, DB Global Markets Research

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Torsten Slok, [torsten.slok@db.com](mailto:torsten.slok@db.com) +1 212 250-2155

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## Labor shortage in construction worse than in 2005

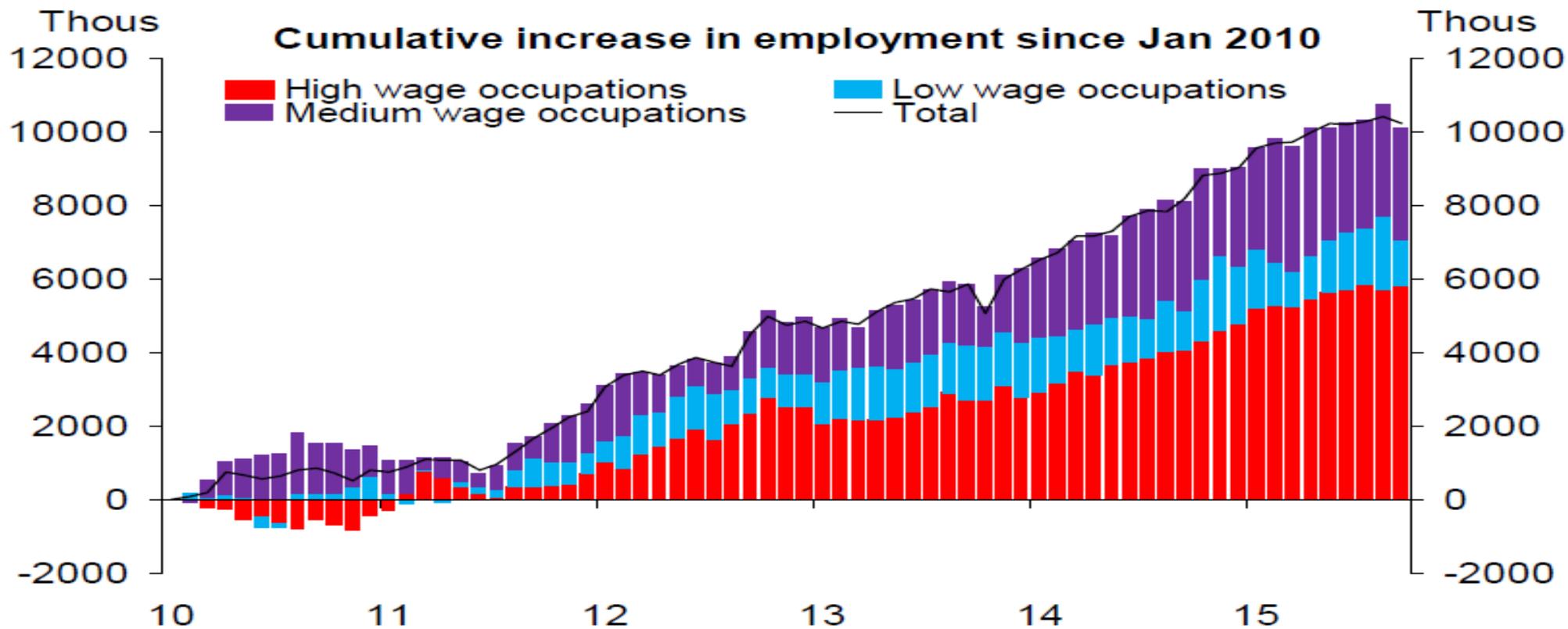


In 2004 and 2005 when builders were surveyed more than once a year, results from July survey are shown. For 2014, GDP growth is reported for Q1 and unemployment rate are averaged for first 5 months, real non-residential construction for first 4 months (includes all construction except residential building, inflation adjusted using CPI). This information has been sourced from:  
<http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=231854&channelID=311>

Source: NAHB, DB Global Markets Research



# Most of the jobs created during this recovery are high-wage jobs



High wage occupational categories are management, professional and related occupations. Medium wage categories are sales and office occupations; construction and extraction occupations; installation, maintenance and repair occupations; and production/transportation and material moving occupations. Low wage occupations are service occupations and farming, fishing, and forestry.

Source: BLS, Haver Analytics, DB Global Markets Research

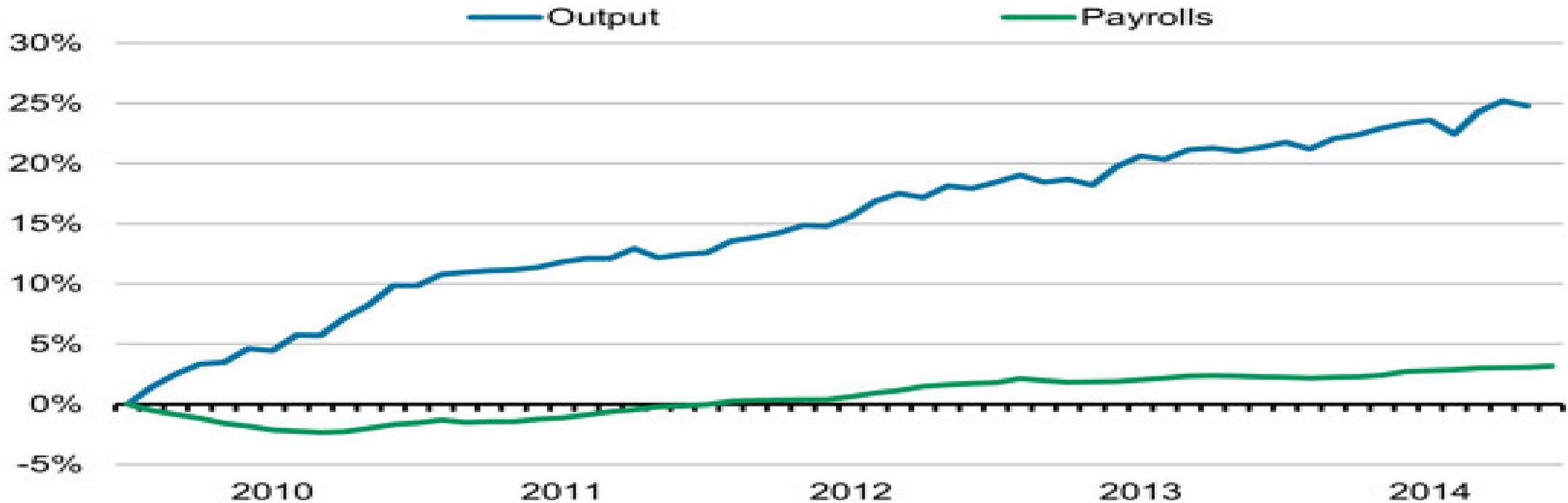
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Let's not forget about automation and productivity. Robots vs. jobs

## Manufacturing Payrolls Still Lag Output

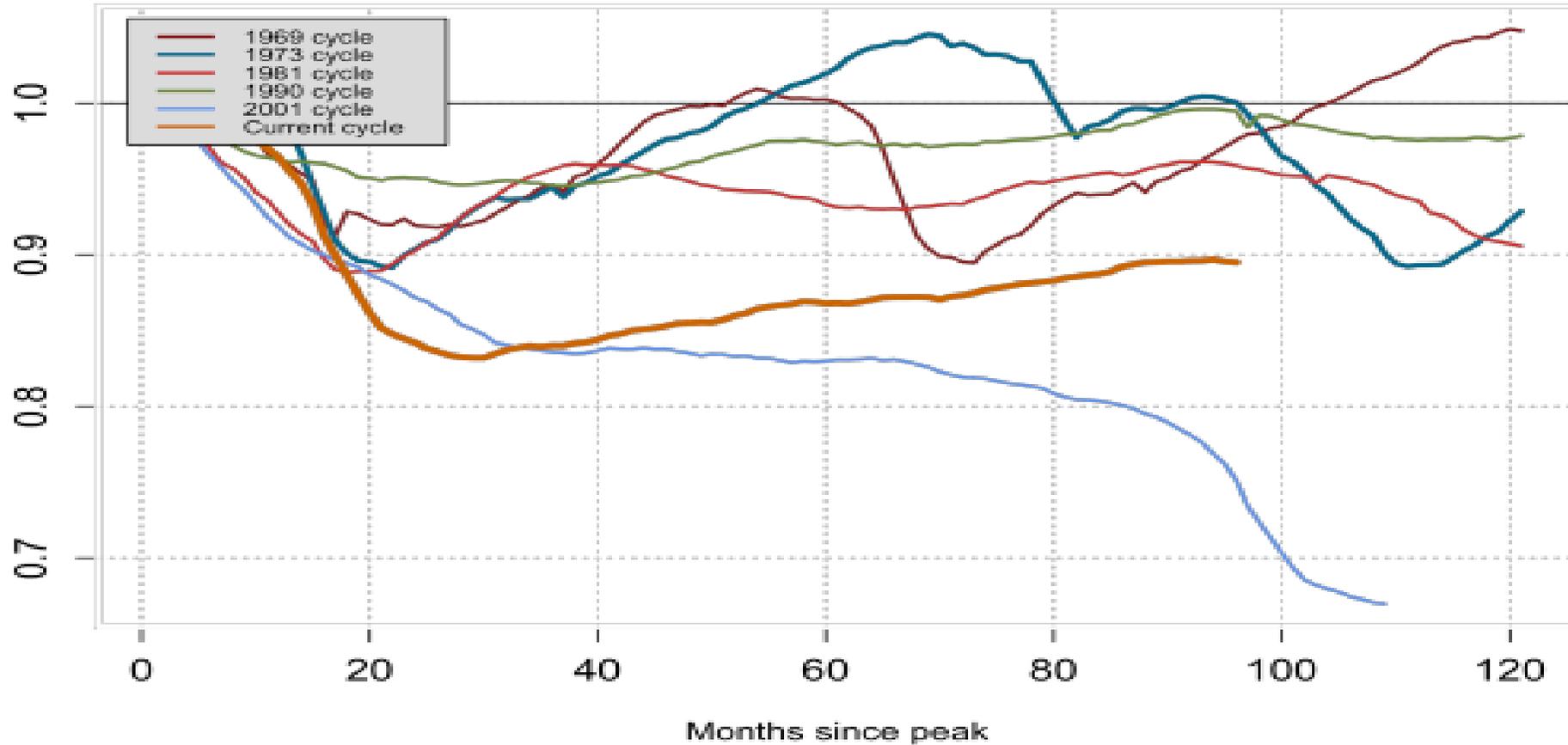
Cumulative Percent Change in Factory Output and Jobs So Far in this Recovery



Source: Federal Reserve, Labor Department | WSJ.com

# Employment: Manufacturing

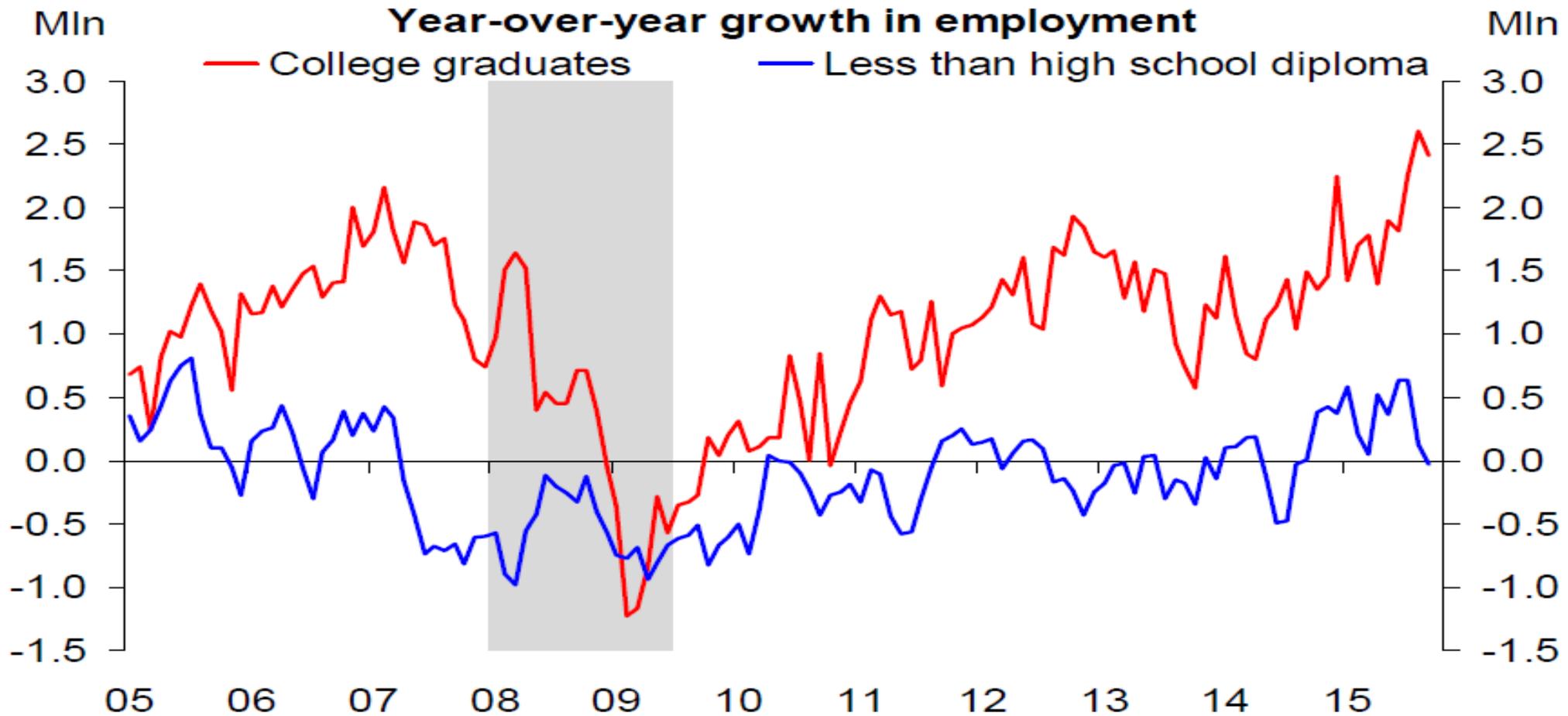
Peak before recession = 1



Econsnapshot.com

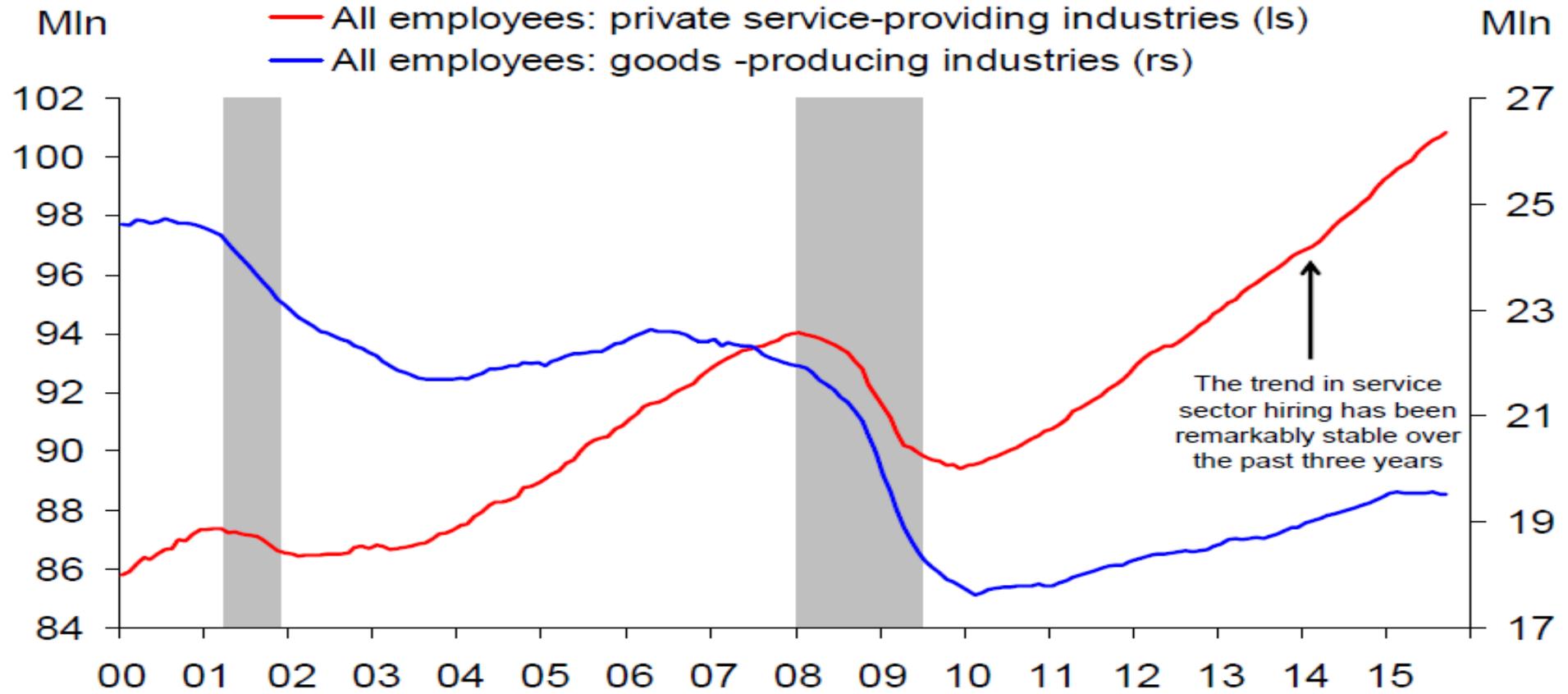
Source: BLS

Throughout this recovery we have seen stronger growth in high-wage jobs than low wage jobs



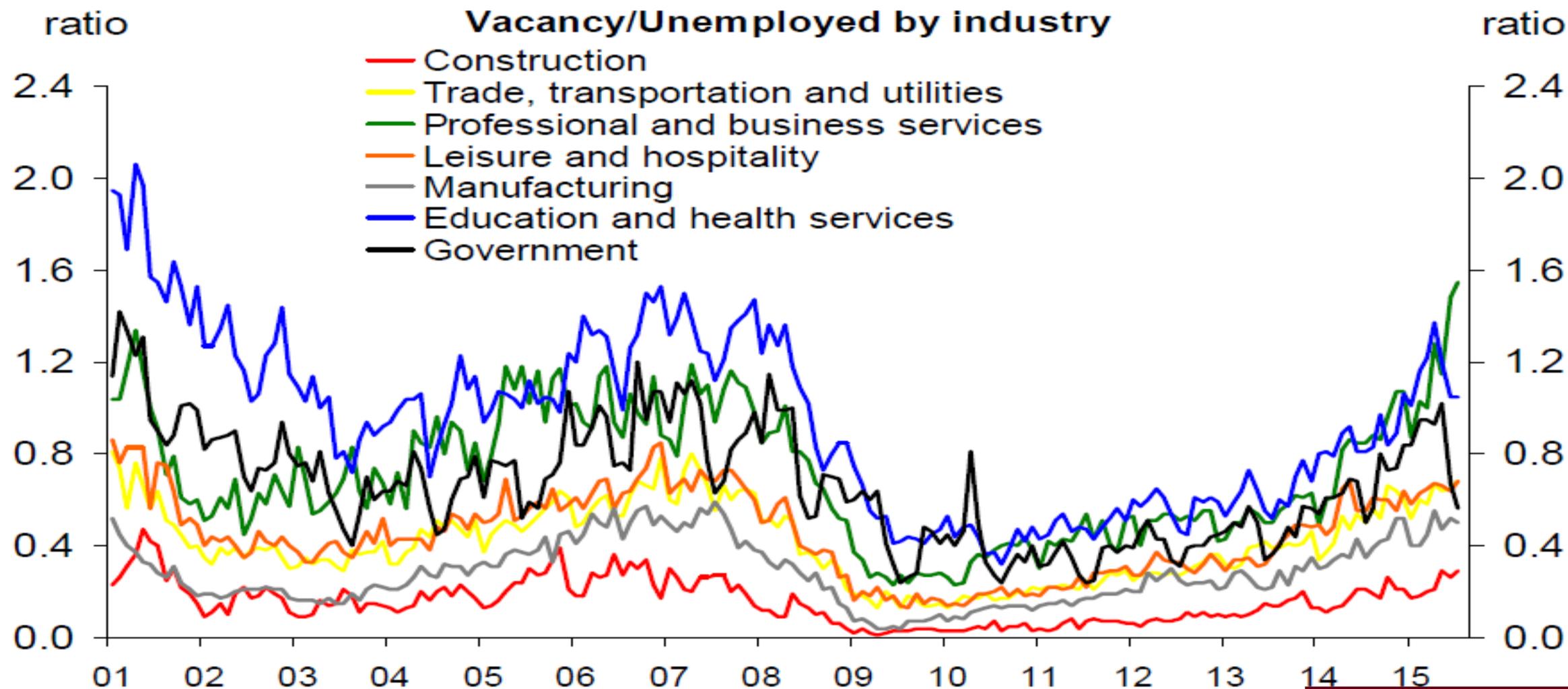
Source: BLS, Haver Analytics, DB Global Markets Research

# Service jobs driving the recovery in total employment



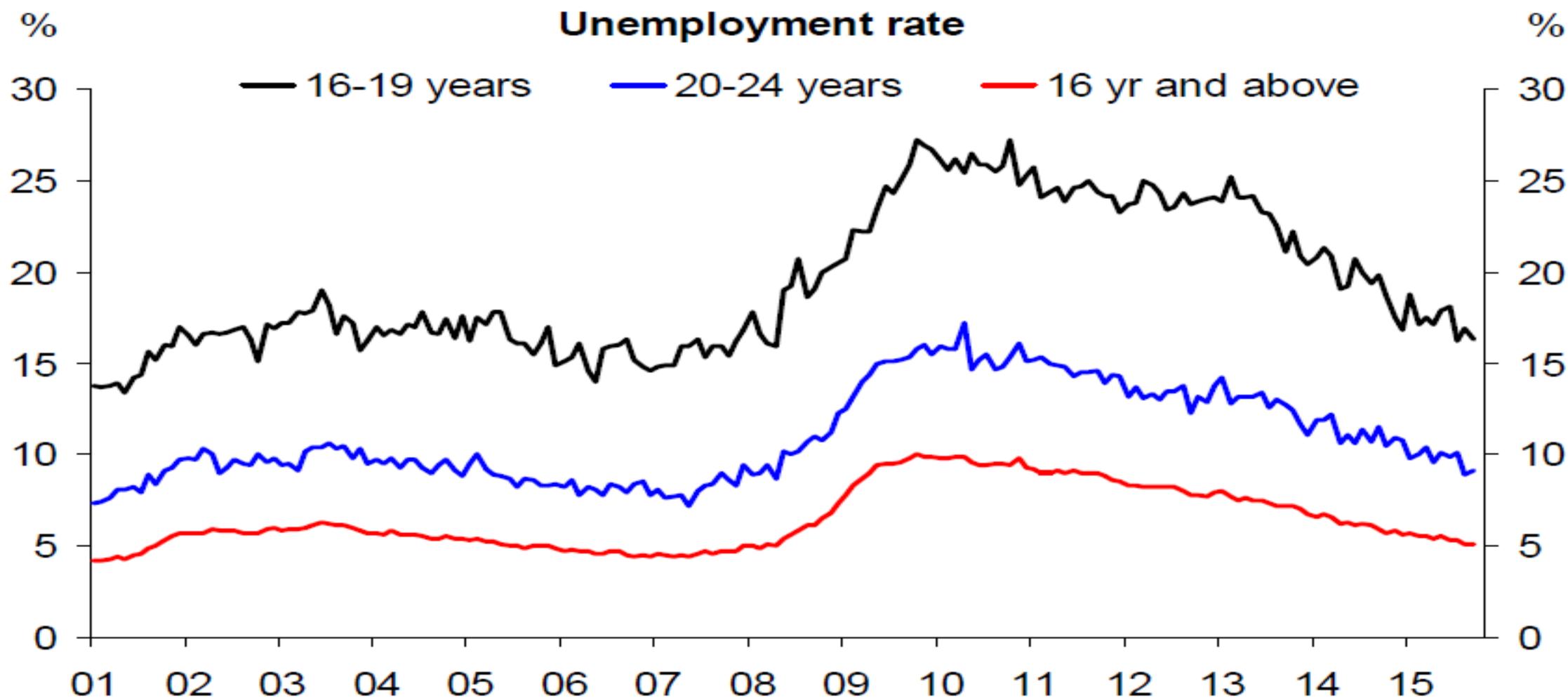
Source: BLS, DB Global Markets Research

# A broad-based recovery: Number of job openings per unemployed is at 2006 levels across industries



Source: BLS, JOLTS, DB Global Markets Research

# Youth unemployment trending down



Source: BLS, DB Global Markets Research

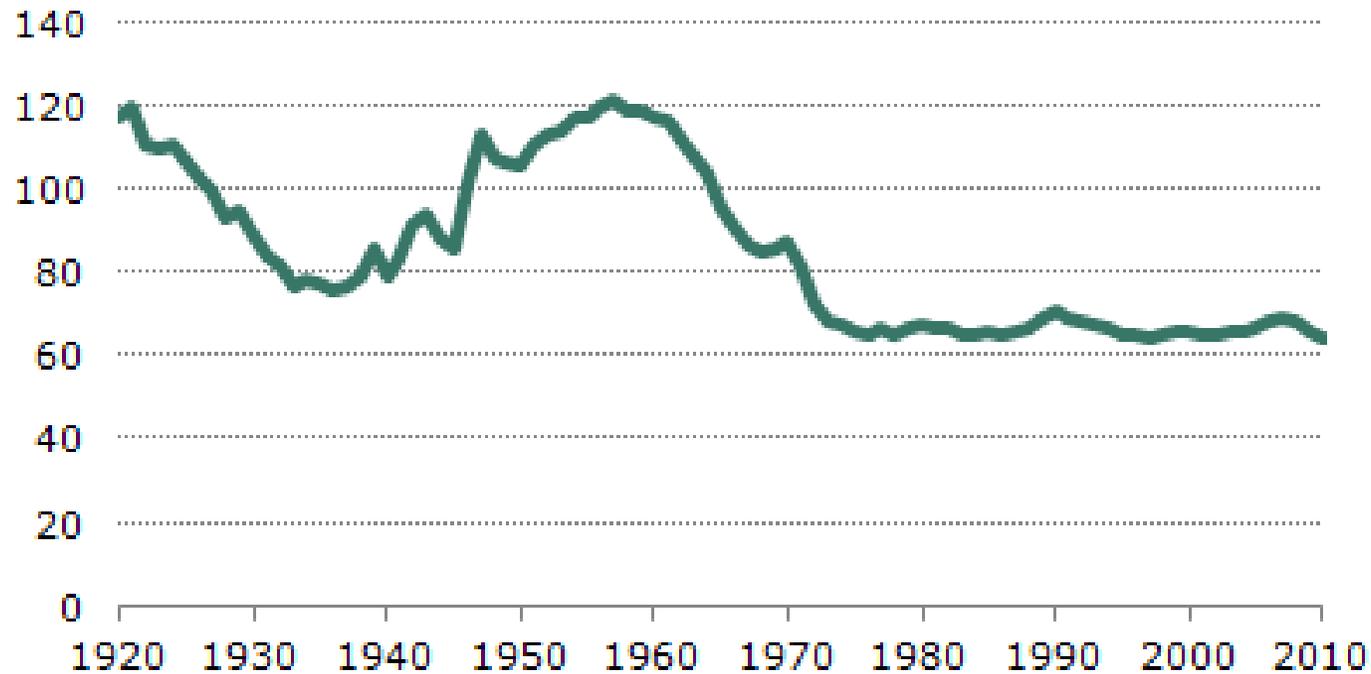
# Let's spend a few moments on

- Demographics
- Debt
- National Outlook

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## Birth Rates, 1920-2010

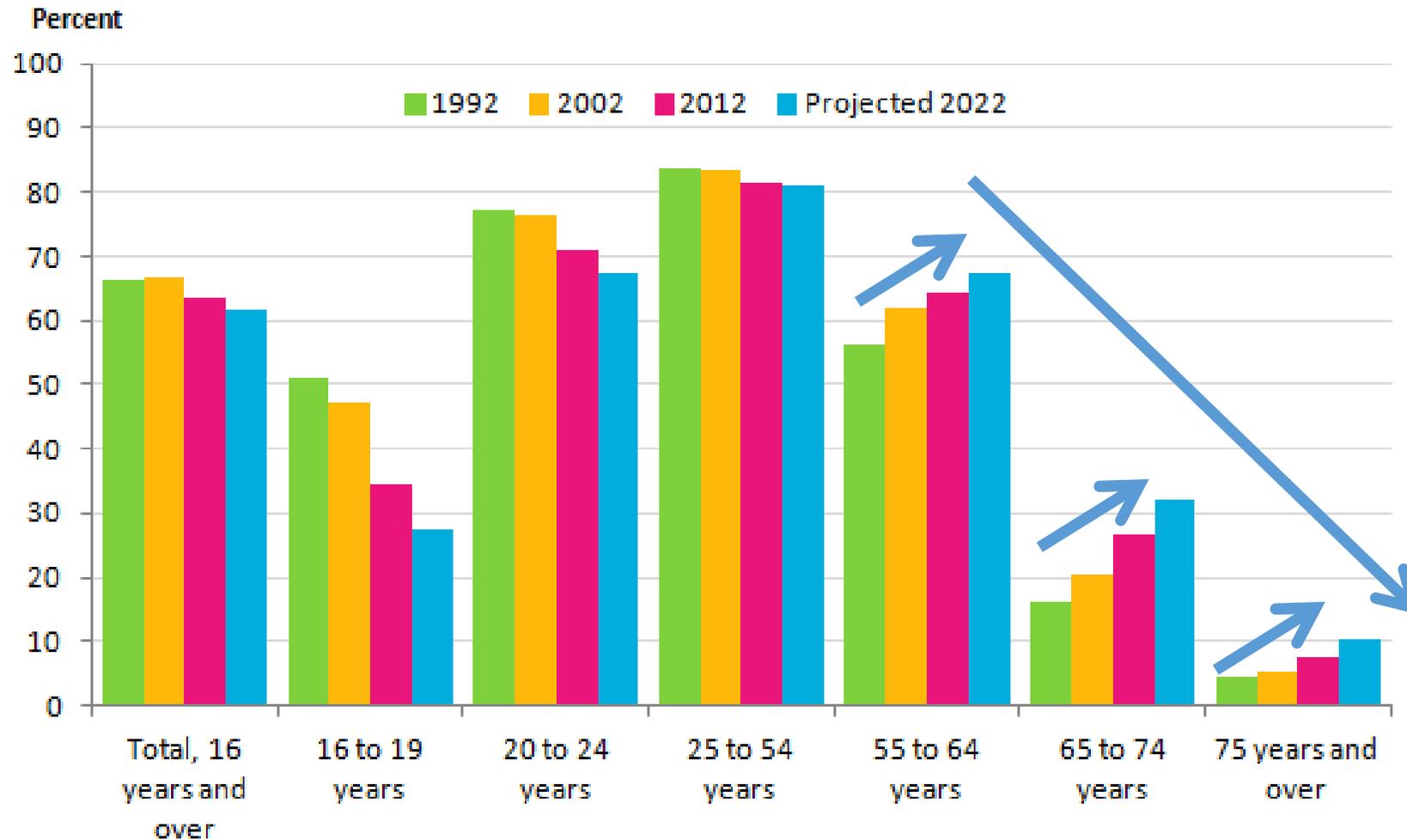
*Births per 1,000 women ages 15-44*



Source: Statistics calculated using data obtained from the National Center for Health Statistics and Heuser (1976), available [here](#)

PEW RESEARCH CENTER

## Labor force participation rates in 1992, 2002, 2012, and projected 2022, by age

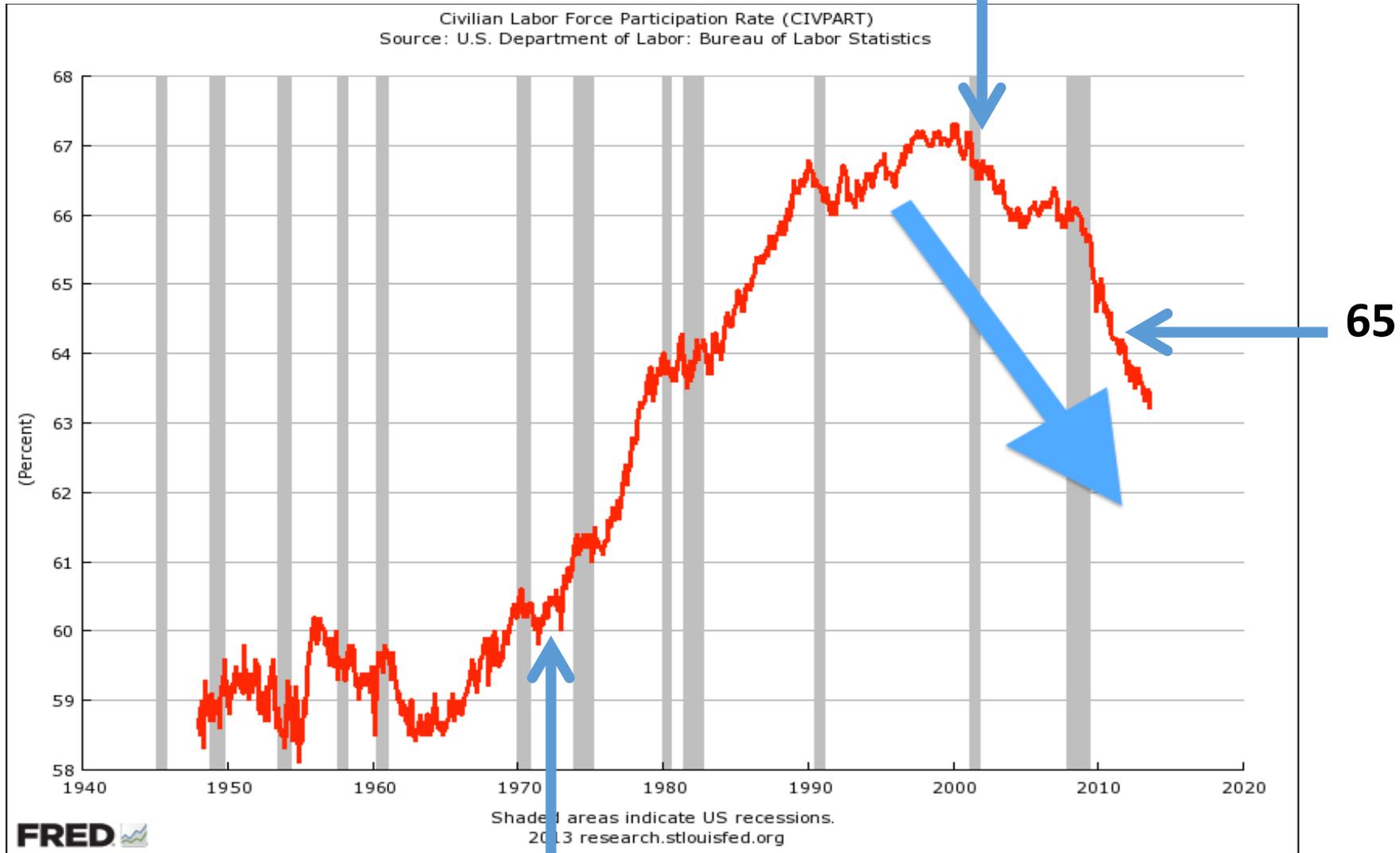


Source: U.S. Bureau of Labor Statistics.

**Seniors Working more!!**

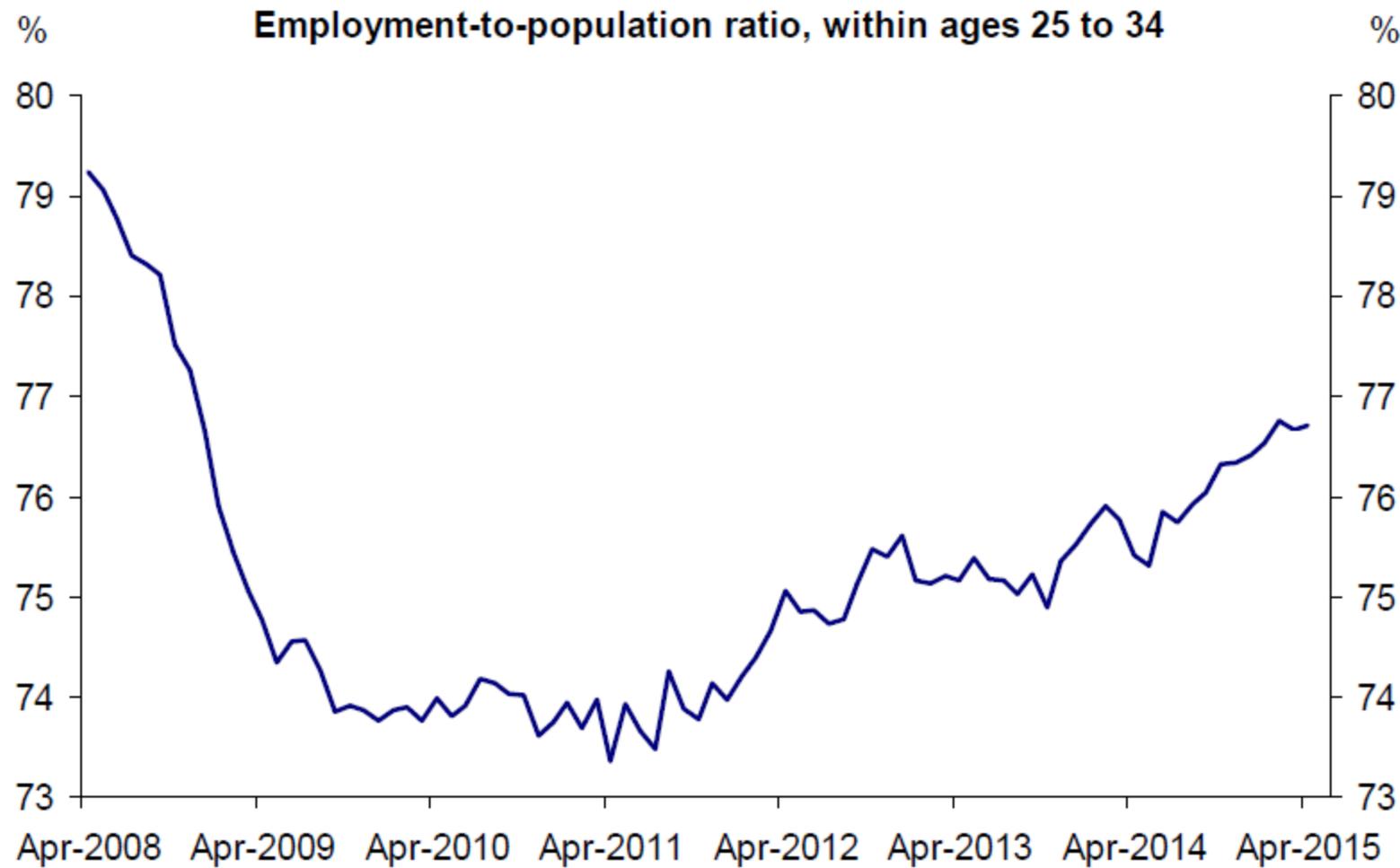
**Biology Dominates**

# First Boomers reach 55



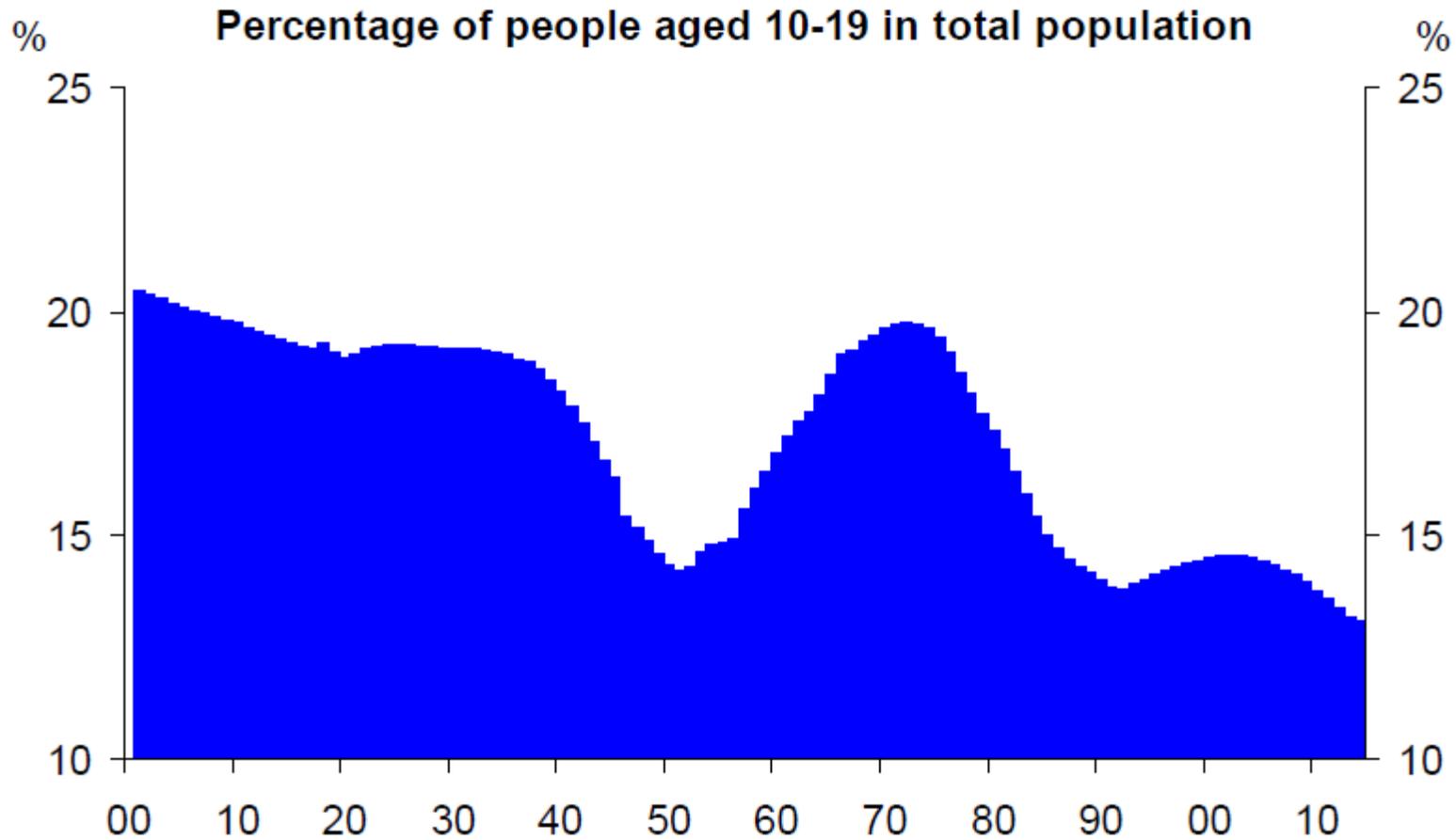
First Boomers reach 25

## Employment to population ratio for 25-34 year olds



Source: BLS, Haver Analytics, DB Global Markets Research

# Teenagers as a share of total population at the lowest level in a century



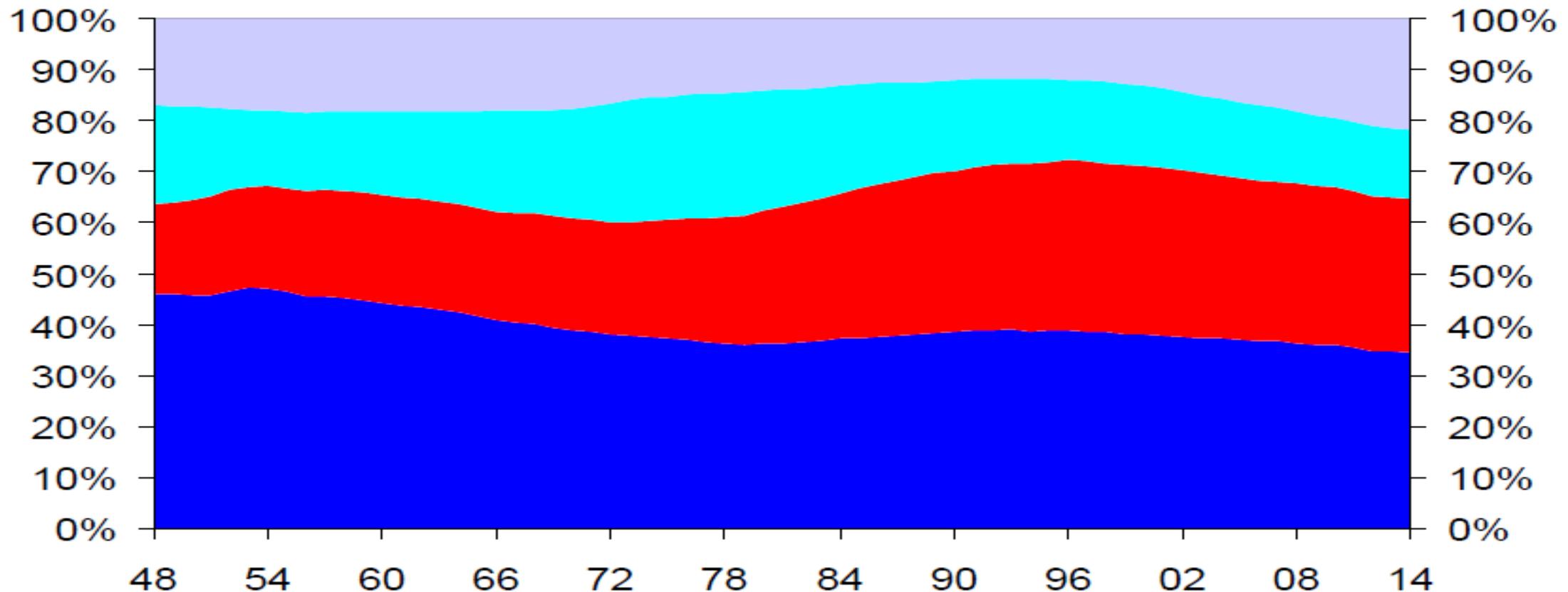
Source: Census, Haver Analytics, DB Global Markets Research

# Composition of labor force changing



## Demographic composition of labor force

■ Prime age males ■ Prime age females ■ Youths ■ Older adults



Note- "Prime age" represents 25- 54 age group, Youth represents 16-24 age group and older adults represent 55 yrs & above

Source: BLS, DB Global Markets Research

# Growth of working age population to slow sharply in years ahead

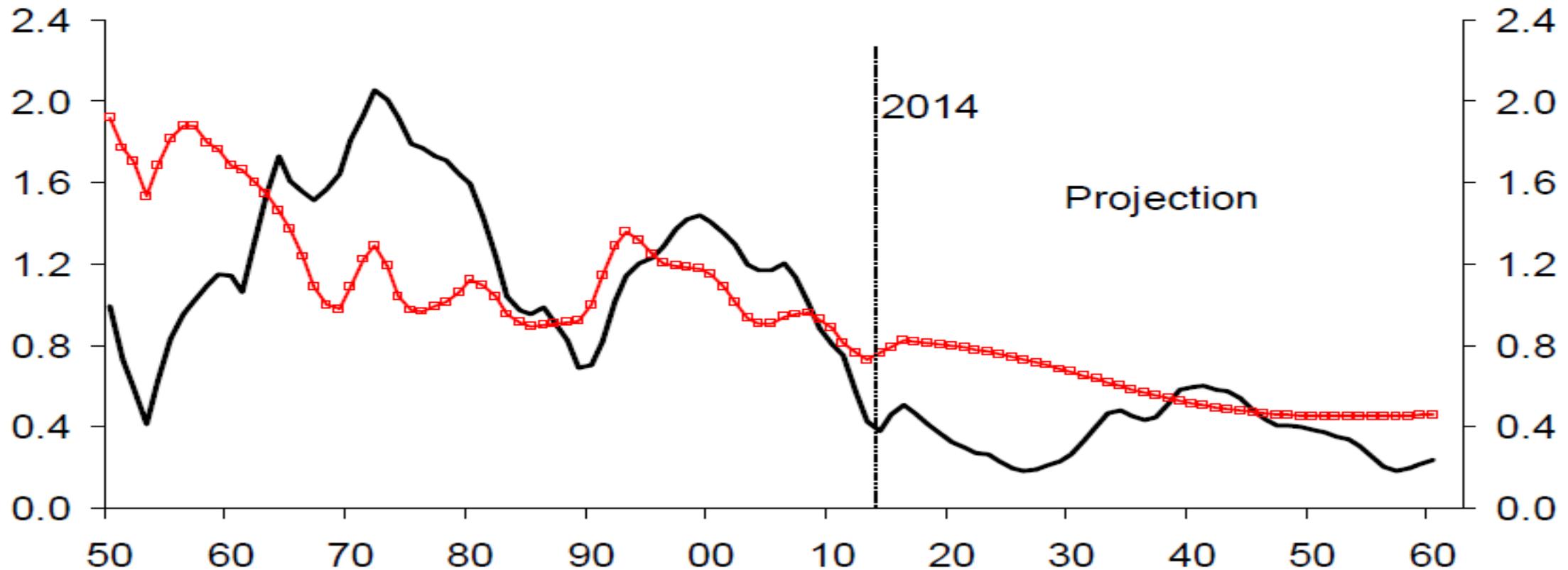


## U.S. population

3-yr %chg, AR

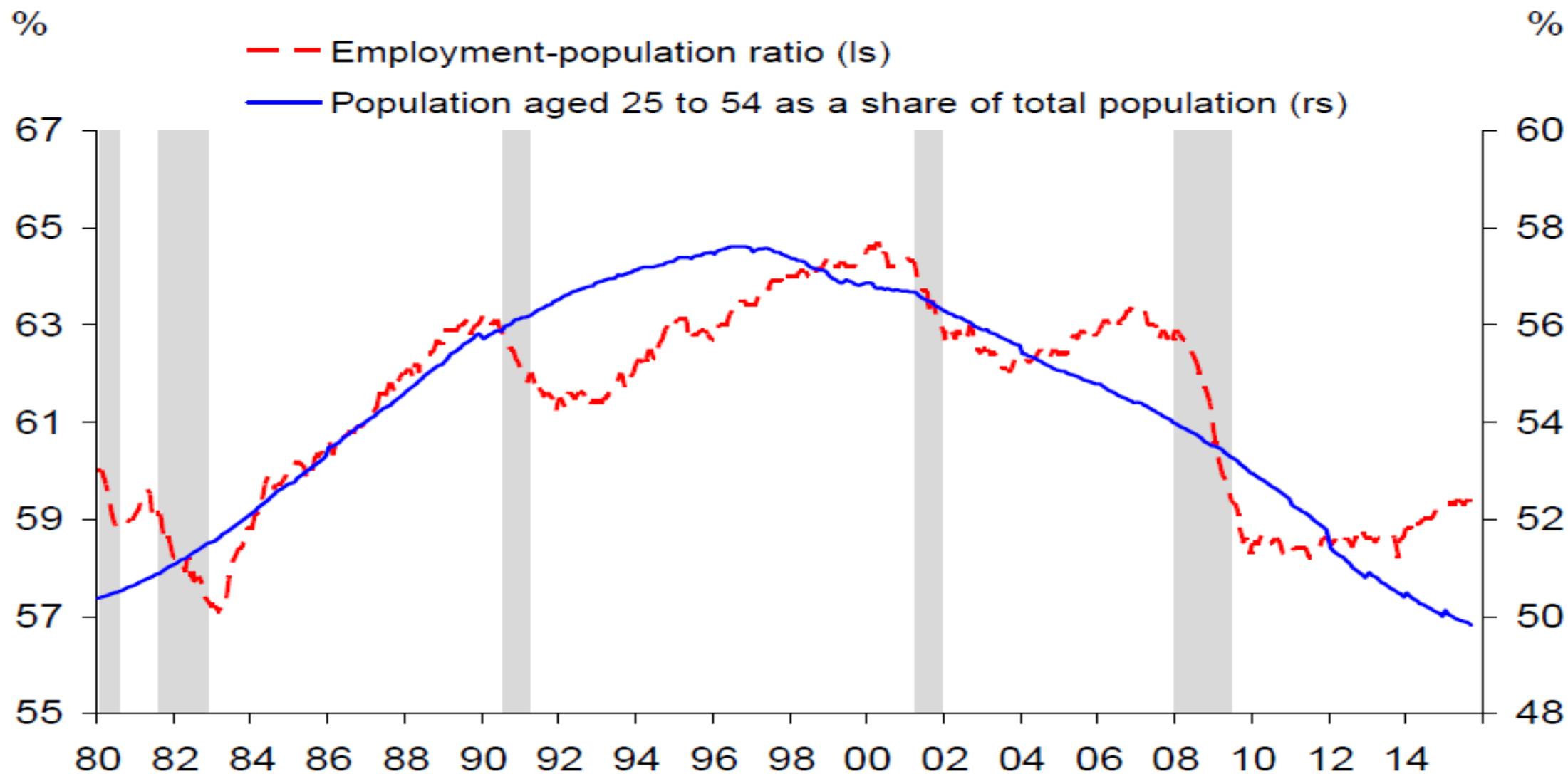
3-yr %chg, AR

— Working age (15-64 yrs)    —□— Total



Source: Census, DB Global Markets Research

# Can the Fed reverse this trend?



Source: BLS, DB Global Markets Research

Deutsche Bank

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SCHOOL of BUSINESS

## Recent Fed work suggests that those who left the labor force are not coming back



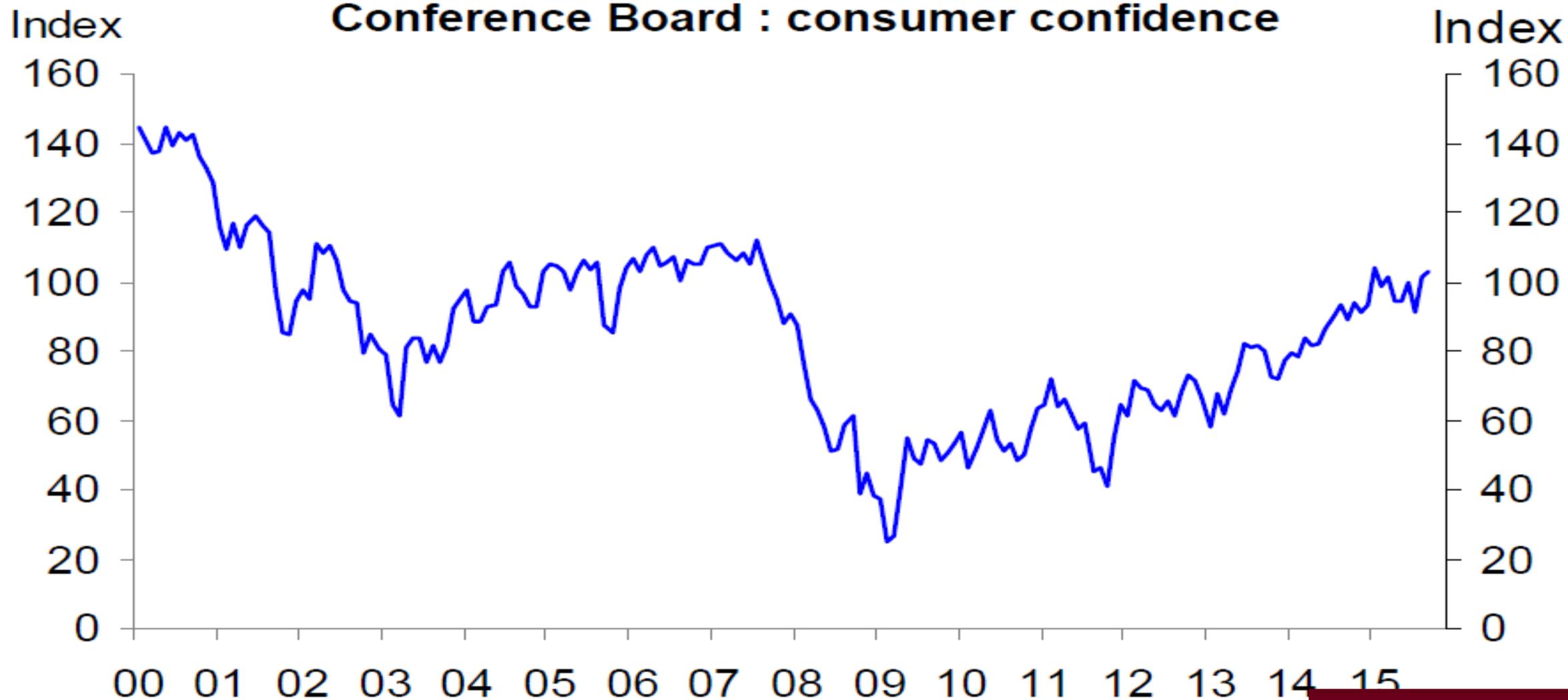
Source: Aaronson et al. "Labor Force Participation: Recent Developments and Future Prospects" (<http://www.federalreserve.gov/pubs/feds/2014/201464/201464pap.pdf>), BLS, Haver Analytics, DB Global Markets Research

# Issues for the US Economy

# US consumer confidence is up

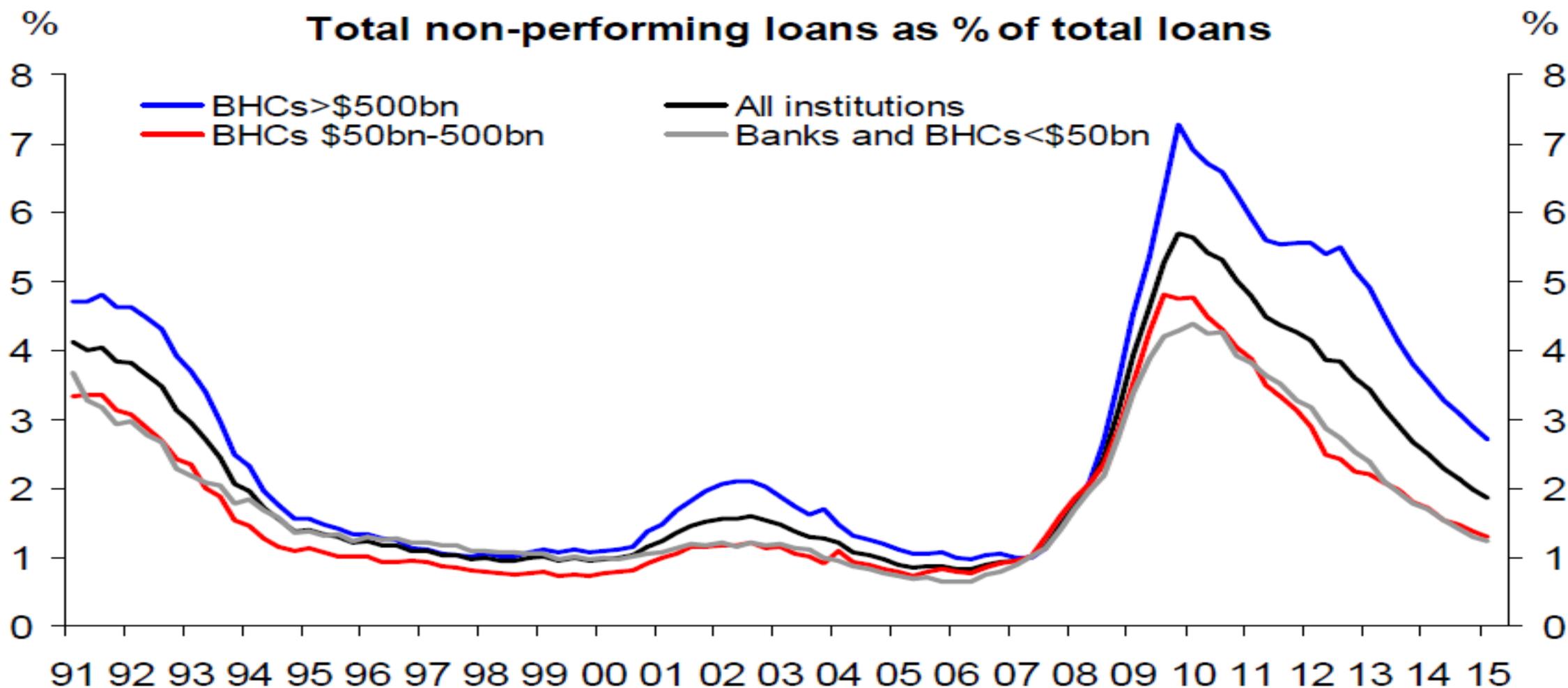


## Conference Board : consumer confidence



Source : Conference Board, Haver Analytics, Deutsche Bank Research

# Balance sheet repair almost complete in the banking sector

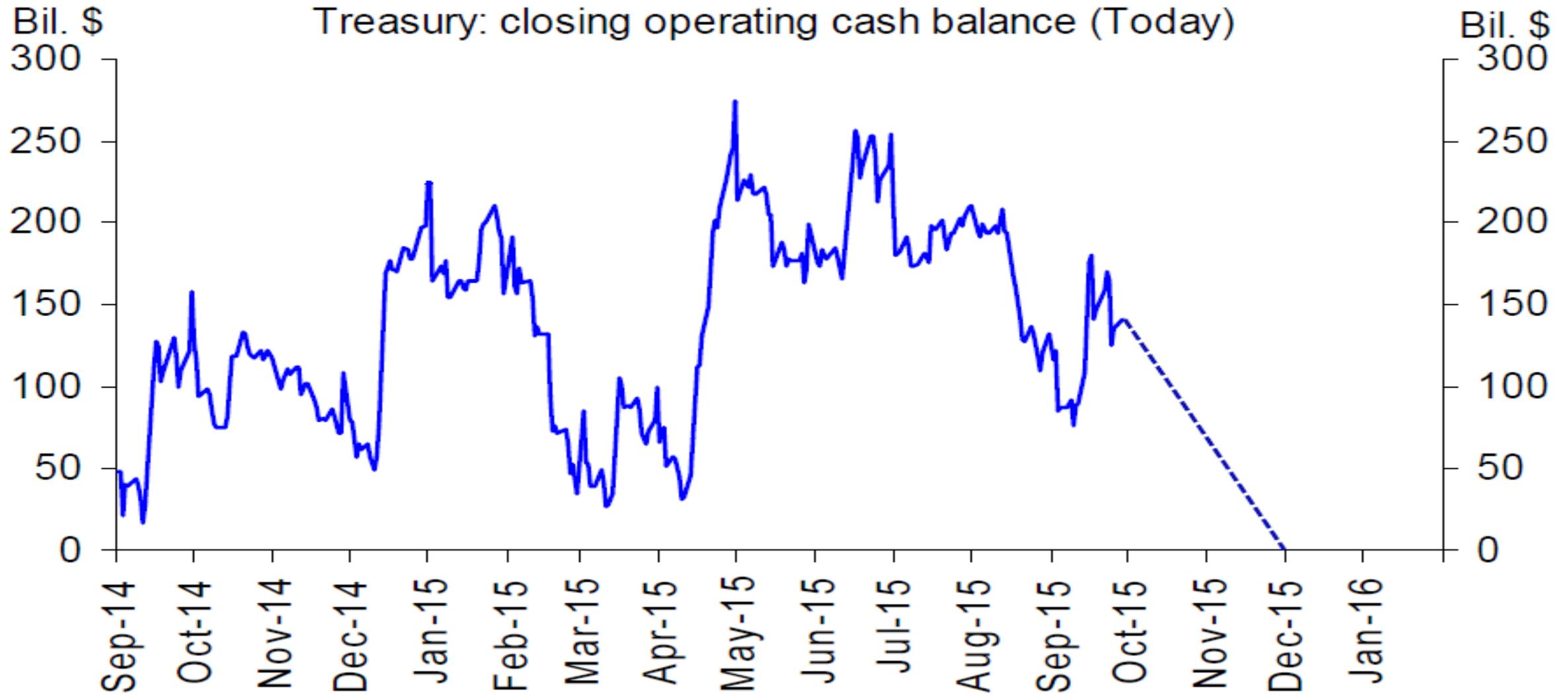


Note: Non-performing loans include loans that are (1) 90 days or more past due and still accruing or (2) non-accrual

Source: FRBNY, DB Global Markets Research

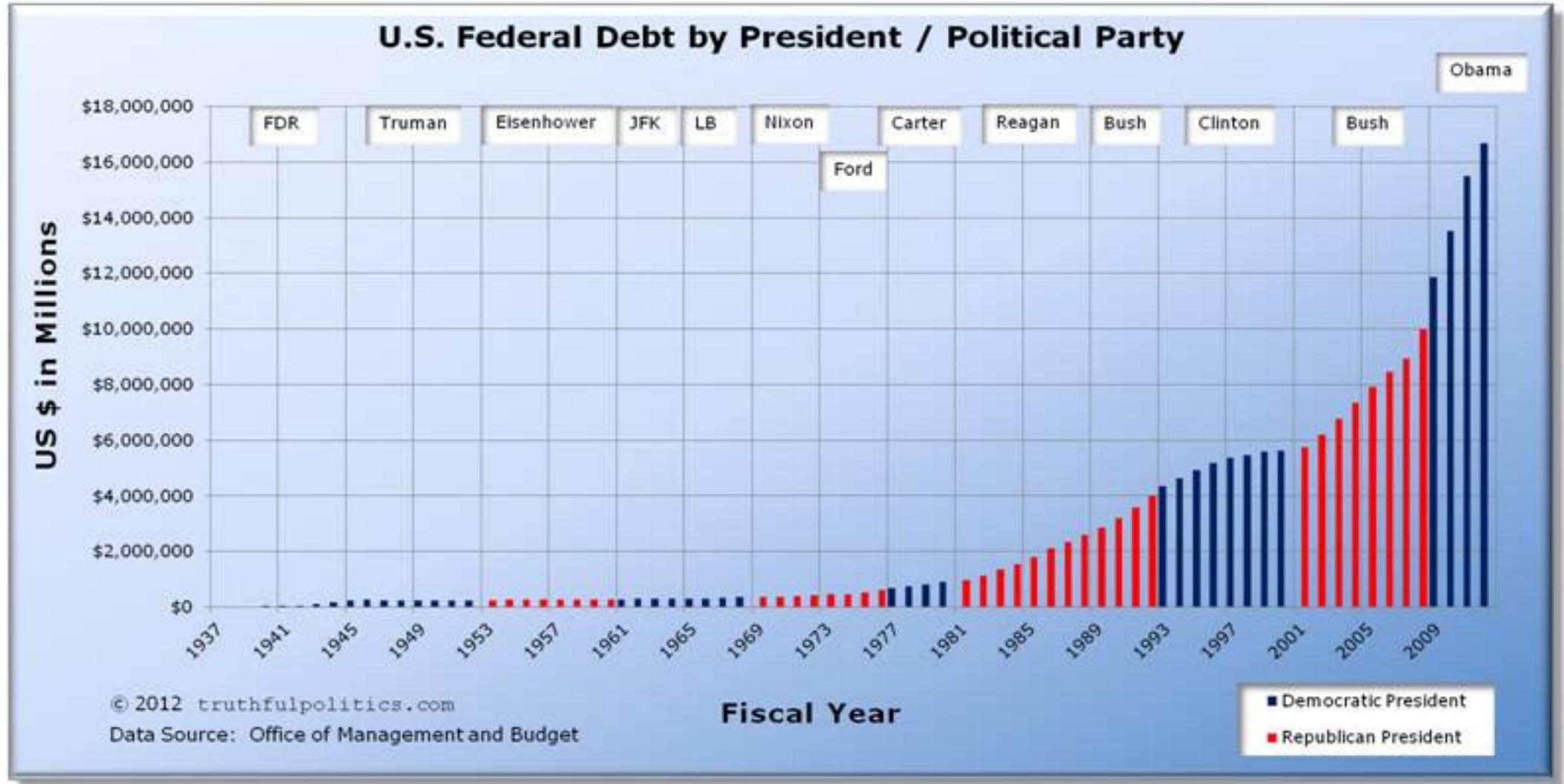
So will Washington create  
another crisis?

# If the debt ceiling is not raised, the US government will run out of money in late November



Source: TREASURY, CBO, Haver Analytics, Deutsche Bank Research

It is very popular to talk about Debt today and link it to particular political agendas



This graph seems to suggest that Debt is out of control and perhaps causing huge problems

**DEBT** AND **FREEDOM**  
TWO WORDS THAT CANNOT COEXIST

*"The borrower is the slave of the lender." —Prov. 22:7*

It was for our freedom that Christ  
set us free, so why do we continue  
to allow student loans, credit cards  
and car payments to enslave us?  
During Financial Peace University,  
you will discover a world of freedom  
by using proven, biblical principles  
to permanently break free from the  
bondage of debt. Sign up today!

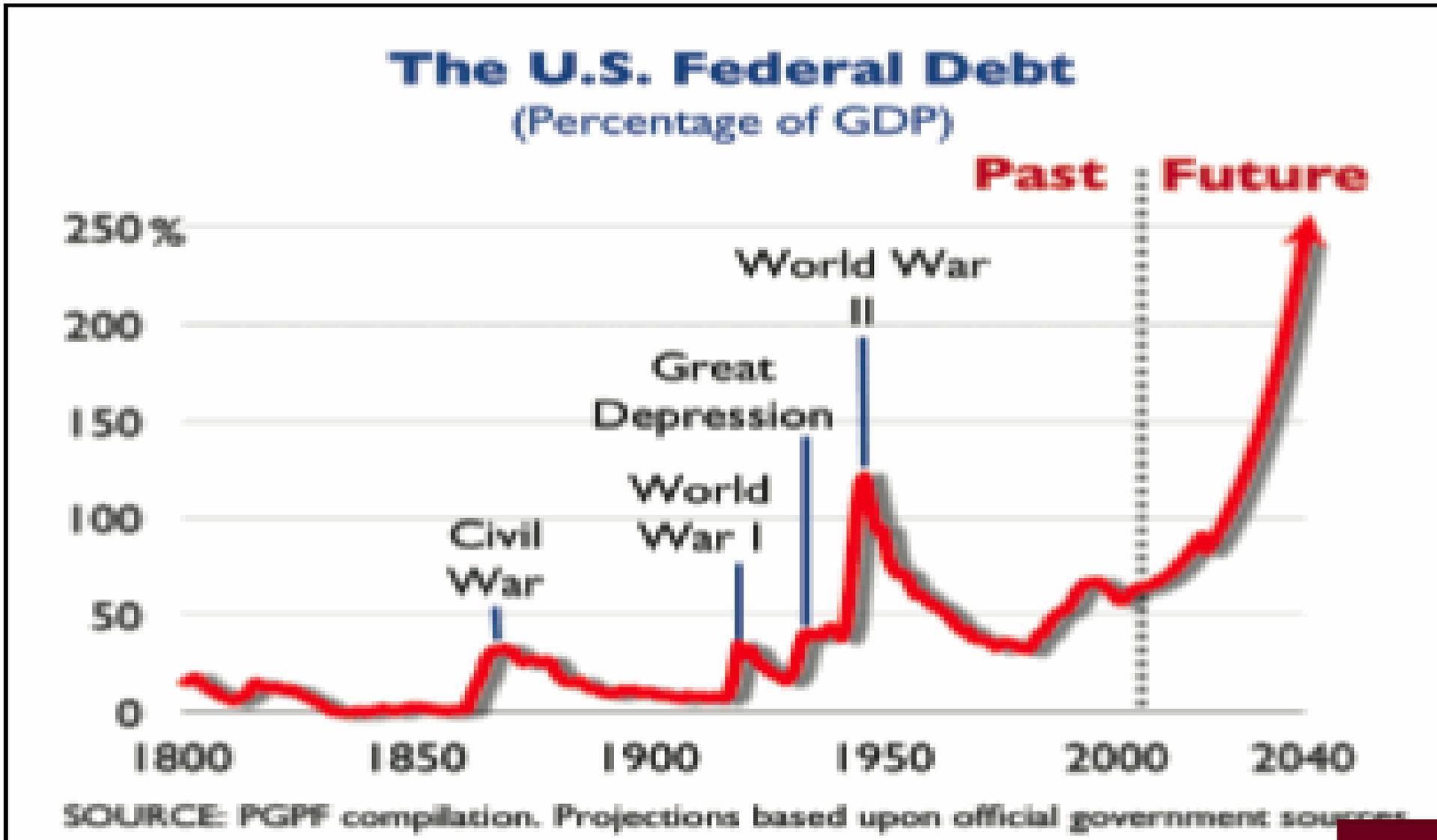
Dave Ramsey's  
**Financial Peace**  
UNIVERSITY

Radio Personalities  
are raging against Debt  
And the private sector  
Is responding accordingly

To many, Debt is  
Simply another four  
Letter word!!

To some it's literally a sin  
To take on debt

It is more interesting to examine Federal Debt in the Context of the size of the Economy

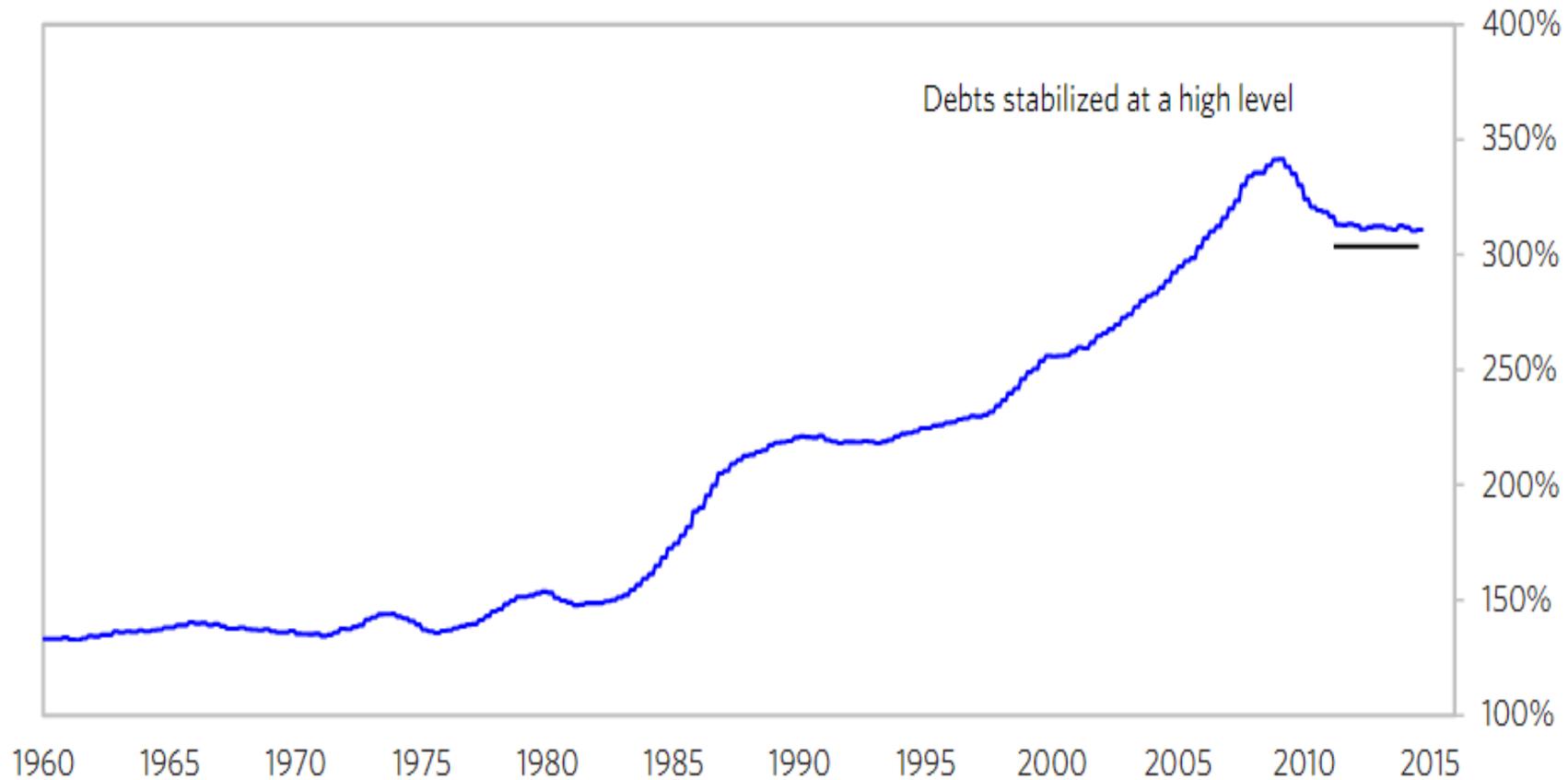


# But has this helped or hurt the recovery??

- What is the role of Debt?
- What does total Debt outstanding look like?
- Should the Government have responded like individuals did over the past 7 years?
- If families have to balance budgets so too should governments, right??

This graph depicts all debt, households, business, government, etc. as a share of GDP

### United States Total Debt Level (%PGDP)

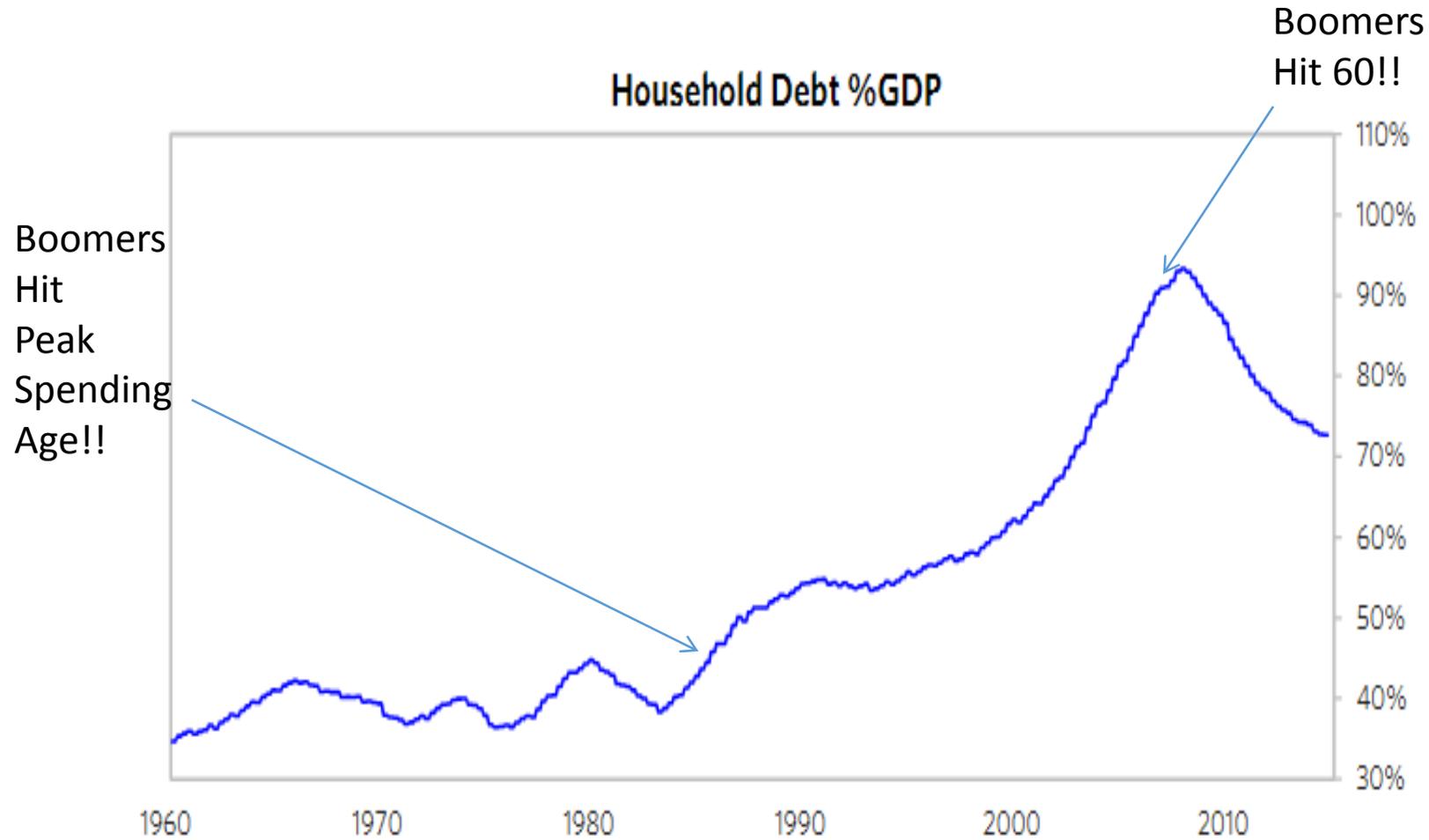


The Graph suggests that the economy has seen unprecedented debt reduction re

## But Debt plays an important role in the Economy

- Without Debt many of us would not own a house
- Without Debt we may not have the US interstate system
- Without Debt we may not have been able to finance wars.
- Too much debt is a problem, but debt avoidance has it's own problems.

Households are responsible for most of the Recent Deleveraging



And with this de-leveraging came dramatic declines in consumption

# So what is the consensus on Debt

- Governments should act like a family?
- Government Debt is always bad?
- Debt in general is evil?
- So should the Federal Government run a balanced budget?? Or should we pay off the debt? Is this logical or feasible?
- Is it good that states like Arizona must have a balanced budget??

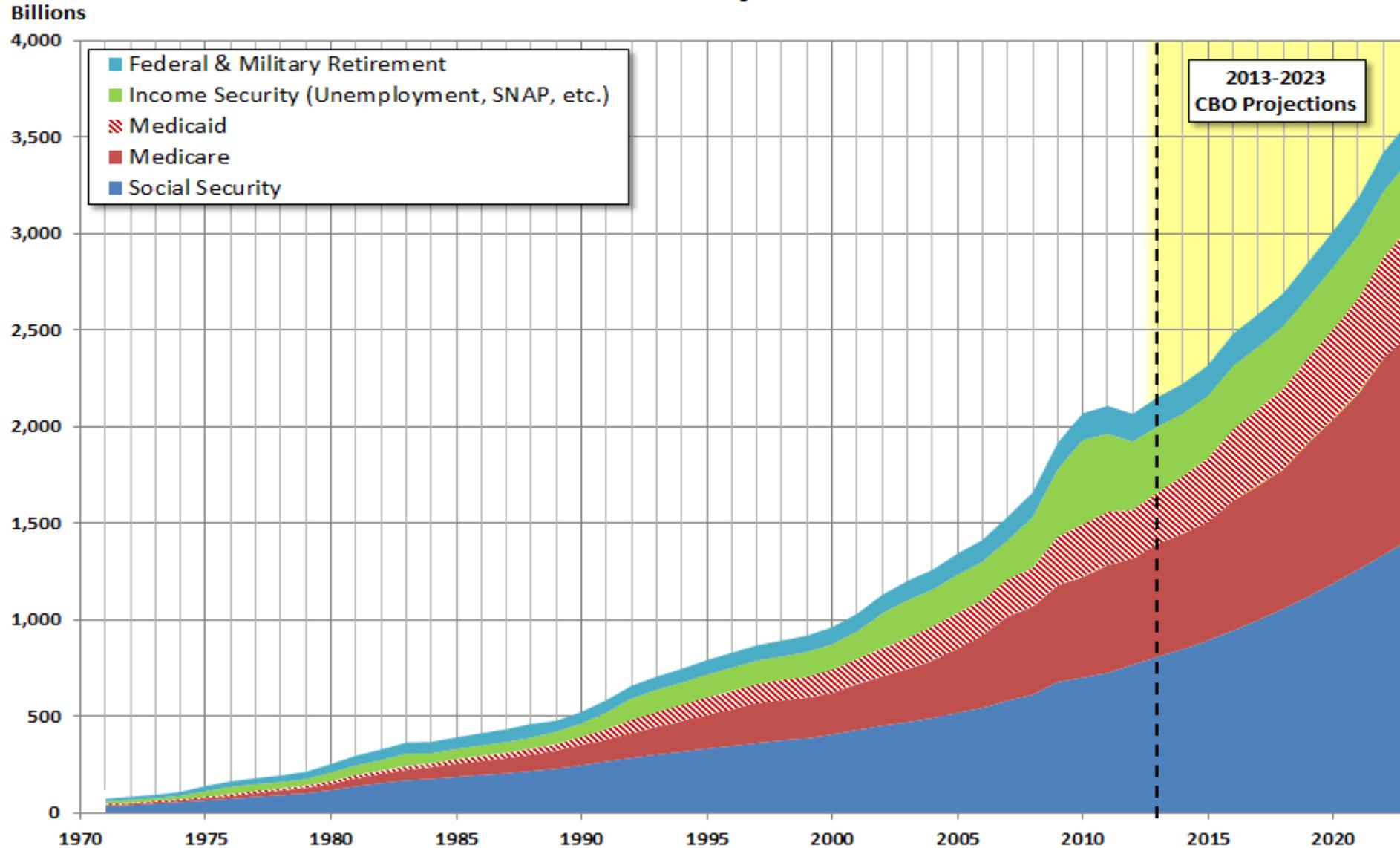
# And Debt today isn't the problem

Its our unwillingness to confront it.

Since 1980 we have replaced “tax and spend” with “borrow and spend”

# U.S. Expenditures for Major Entitlements Since 1971 With CBO's Baseline Projections for 2013-2023

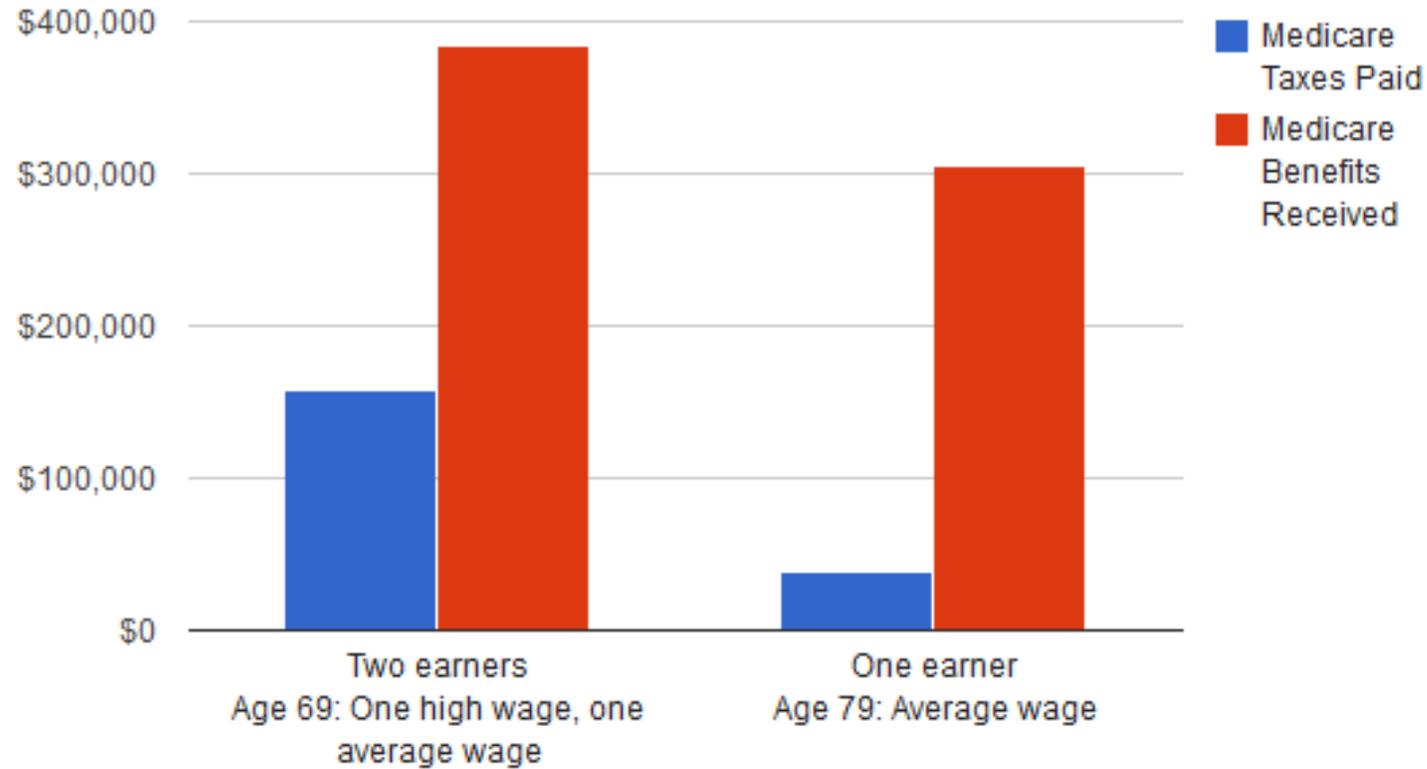
dshort.com



The biggest pressure on the Federal Budget over the next several years will be Medicare

- Have future Medicare recipients paid for the cost of their benefits??
- How would we finance health care obligations under a balanced budget constraint?
- Can we grow our way out of this?? If so how?? So what should be done?

### Medicare taxes paid in and benefits received for two typical households



# Balanced Budgets

- Without access to debt, the Federal Government would have to
  - Raise taxes to pay for entitlements
  - Cut Benefits
- Likely it would be some combination of both.

# U.S. Economic Outlook

GDP Grows Less than 3% (Again!) as Weak  
Global Markets Affect U.S. Economy

<b>Indicator</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Real GDP Growth</b>	<b>2.4%</b>	<b>2.3%</b>	<b>2.7%</b>
<b>10 Year Treasury Note</b>	<b>2.5%</b>	<b>2.3%</b>	<b>2.9%</b>
<b>Inflation (CPI)</b>	<b>1.6%</b>	<b>0.2%</b>	<b>2.0%</b>
<b>Employment (Jobs)</b>	<b>2.6 mil.</b>	<b>3.0 mil.</b>	<b>2.5 mil.</b>
<b>Unemployment Rate</b>	<b>6.2%</b>	<b>5.3%</b>	<b>4.8%</b>

*W. P. Carey School of Business, ASU & Blue Chip Economic Indicators, Sept. 2015*

# Issues for the Nation

## Positives

- Balance Sheets
- Most Private De-leveraging is now done
- Among the best economies in the world
- Potential of immigration and trade reforms
- Baby boomer retirements mean new opportunities

## Negatives

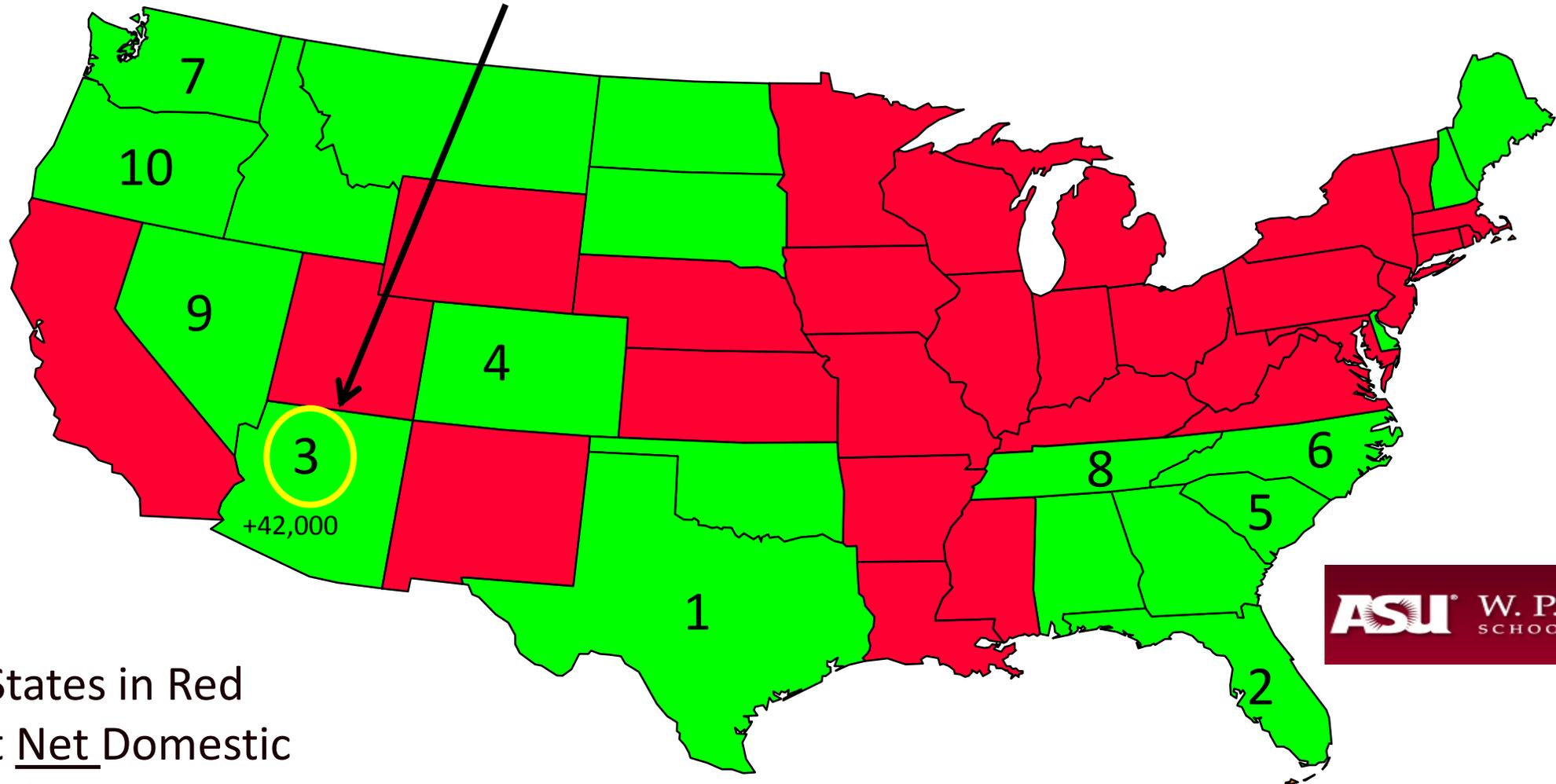
- Demography is now a headwind
- Legacy entitlements
- Value of the Dollar
- Dis-functional Federal Government
- Susceptible to major shocks, natural or otherwise
- Potential bubbles in credit markets and equities.
- Fed tightening

# **The Current Arizona Economy:** ***Growth Improves in 2015***

- **Historically A Growth Leader**
- **But Recession Hit Earlier, Harder**
- **Economy Paused in 2014**
- **New Job Mix is Emerging**
- **Long Term Outlook is Positive**

# Domestic Migration 2014

Net Migration not boosting construction in all states



Alaska  
Hawaii

30 States in Red  
Lost Net Domestic  
Population to 20 States in Green



U.S. Census Bureau

# Fuel Prices and the Economy

- Will add approximately 2 % to disposable income growth in AZ in 2015.
  - Spend it
  - Save it
  - Will it have an impact on Auto purchases?
- National Effects Mixed but AZ should see benefits

# Arizona: A Leading Growth State

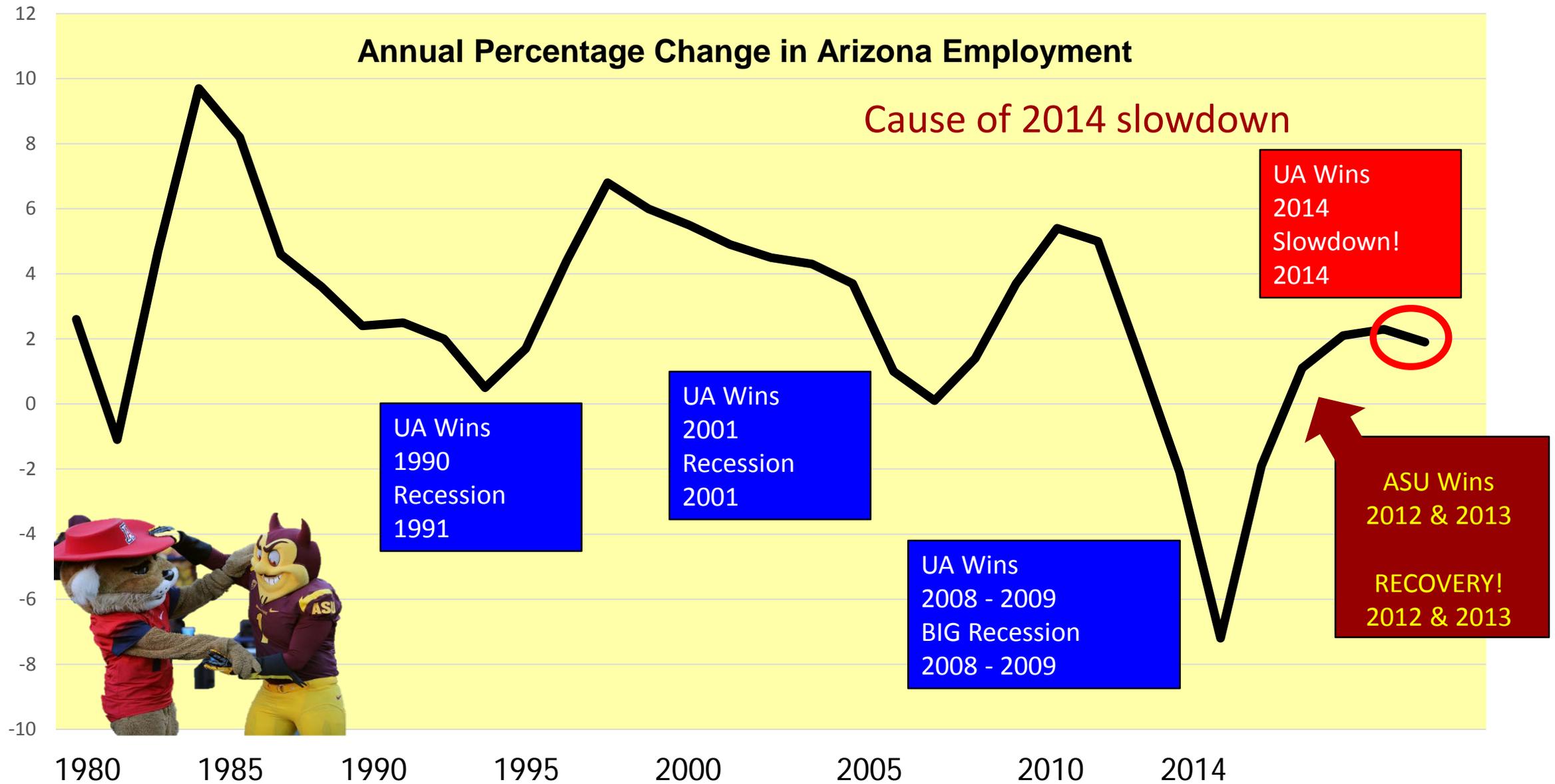
<b>Decade Rank</b>	<b>Population Growth (%)</b>	<b>Employment Growth (%)</b>	<b>Income Growth (%)</b>
<b>1960 - 1970</b>	<b>3<sup>rd</sup></b>	<b>3<sup>rd</sup></b>	<b>4<sup>th</sup></b>
<b>1970 - 1980</b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>	<b>3<sup>rd</sup></b>
<b>1980 - 1990</b>	<b>3<sup>rd</sup></b>	<b>3<sup>rd</sup></b>	<b>5<sup>th</sup></b>
<b>1990 - 2000</b>	<b>2<sup>nd</sup></b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>
<b>2000 - 2007</b>	<b>2<sup>nd</sup></b>	<b>3<sup>rd</sup></b>	<b>4<sup>th</sup></b>
<b>2008 - 2010</b>	<b>14<sup>th</sup></b>	<b>49<sup>th</sup></b>	<b>45<sup>th</sup></b>
<b>2014</b>	<b>6<sup>th</sup></b>	<b>16<sup>th</sup></b>	<b>18<sup>th</sup></b>

*Annual Growth Rates from U.S. Bureau of Census; U.S. BLS; U. S. BEA*

# So How did we get here??

- Real Estate Bubble
- Slow lingering effects of manufacturing slowdown
- Demographics and aging baby boomers
- Arizona image issues
- Or Maybe its something else....

## Results of economic analysis by colleague Lee McPheters



# ARIZONA

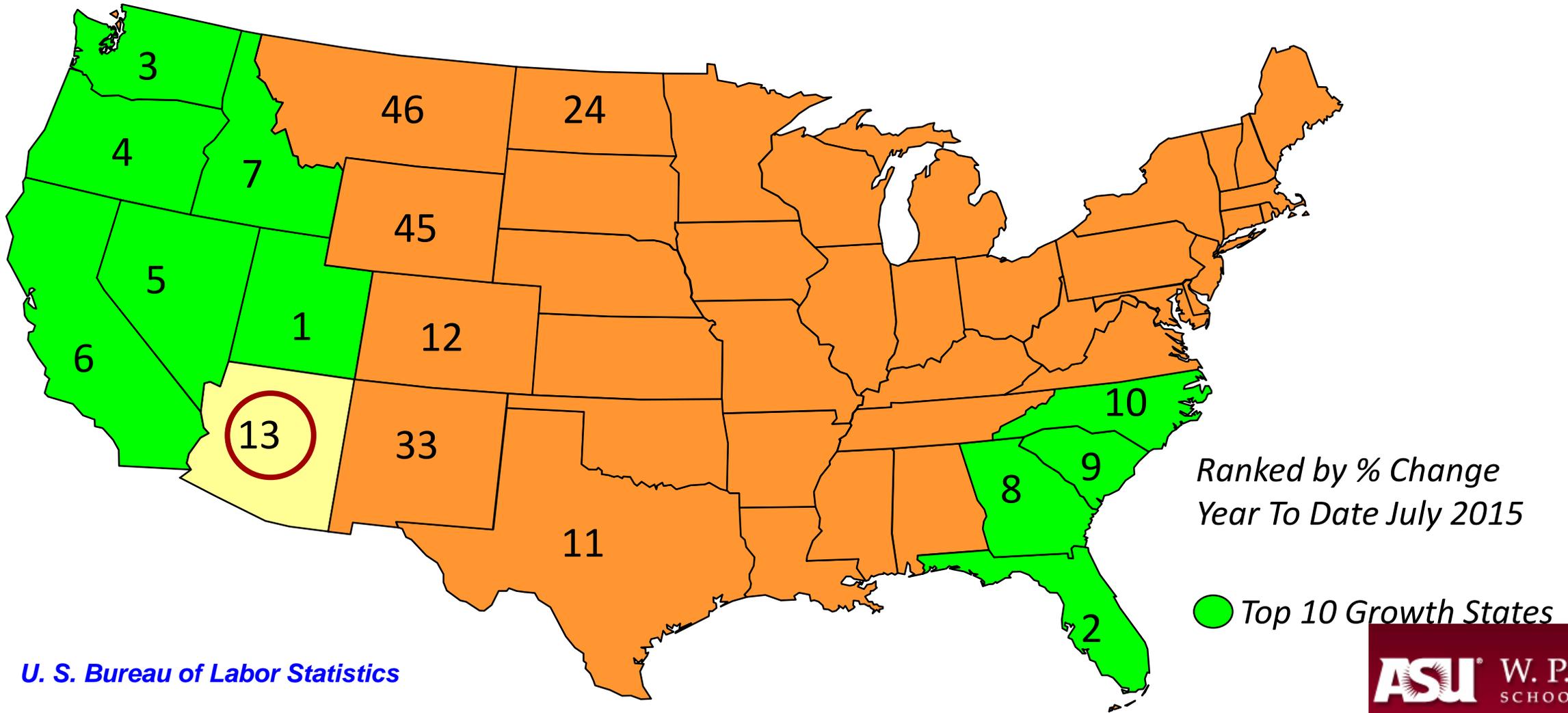
## Economic Outlook



<b>Indicators</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>New Jobs (<i>thousands</i>)</b>	<b>47.8</b>	<b>65.0</b>	<b>70.0</b>
<b>Employment (%)</b>	<b>1.9</b>	<b>2.5</b>	<b>2.7</b>
<b>Population (%)</b>	<b>1.5</b>	<b>1.7</b>	<b>1.7</b>
<b>Single Family Permits (%)</b>	<b>-8.0</b>	<b>25?</b>	<b>25?</b>

*W. P. Carey School of Business, ASU, based on data available October 2015*

# Arizona Ranks 13<sup>th</sup> Among All States In Year-to-Date Job Growth



# 8/15 Top Large metros for Job Growth in 2015 are in the West

	rnk	pct grth	# thous	workforce thous
San Jose-Sunnyvale-Santa Clara, CA	1	5.41	54.7	1,065.00
Orlando-Kissimmee-Sanford, FL	2	3.99	44.5	1,161.00
Portland-Vancouver-Hillsboro, OR-WA	3	3.67	39.6	1,119.50
Seattle-Tacoma-Bellevue, WA	4	3.4	62.9	1,915.40
San Francisco-Oakland-Fremont, CA	5	3.31	72.8	2,271.00
Dallas-Fort Worth-Arlington, TX	6	3.23	106.1	3,391.80
Riverside-San Bernardino-Ontario, CA	7	3.14	40.7	1,335.90
San Diego-Carlsbad-San Marcos, CA	8	3.07	41.5	1,394.20
Baltimore-Towson, MD	9	2.95	39.8	1,388.10
Indianapolis-Carmel, IN	10	2.9	28.9	1,023.80
Tampa-St. Petersburg-Clearwater, FL	11	2.89	35.1	1,249.80
Atlanta-Sandy Springs-Marietta, GA	12	2.77	69.8	2,590.10
Miami-Fort Lauderdale-Pompano Beach, FL	13	2.63	64	2,501.80
Phoenix-Mesa-Glendale, AZ	14	2.57	47.8	1,905.00
Boston-Cambridge-Quincy, MA-NH	15	2.57	66.5	

# A Comparison of job growth in 2015

## Smaller AZ Metros

	rnk	pct grth	# thous	workforce thous
Prescott, AZ	38	3.25	1.91	60.69
Flagstaff, AZ	98	2.53	1.61	65.25
Tucson, AZ	239	0.96	3.49	366.1
Lake Havasu City-Kingman, AZ	285	0.38	0.18	46.5
Yuma, AZ	330	-1.79	-0.92	50.8

## Smaller UT Metros

	rnk	pct grth	# thous	workforce thous
Provo-Orem, UT	2	6.54	13.62	222.02
Ogden-Clearfield, UT	16	3.96	9.05	237.77
Salt Lake City, UT	20	3.77	24.45	673.8
Logan, UT-ID	82	2.77	1.55	57.46
St. George, UT	124	2.19	1.18	54.81

# Arizona Job Growth Rankings

Ranked by Year/Year Growth: July 2015

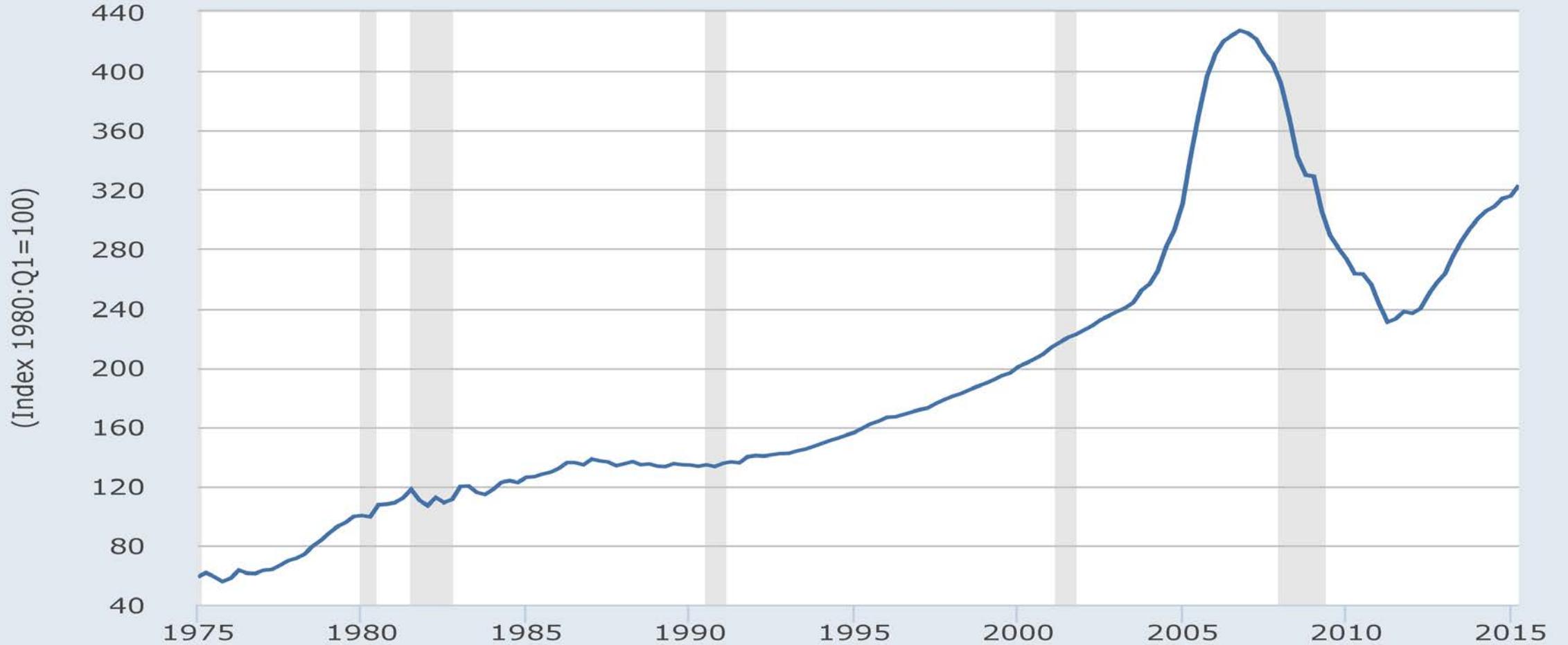
<b>Arizona Industry</b>	<b>% Growth</b>	<b>U.S. Rank</b>
<b>Overall Job Growth</b>	<b>2.7</b>	<b>12</b>
<b>Private Job Growth</b>	<b>3.5</b>	<b>7</b>
<b>Other Services*</b>	<b>3.9</b>	<b>1</b>
<b>Finance/Insurance</b>	<b>4.2</b>	<b>8</b>
<b>Prof/Business Services</b>	<b>4.9</b>	<b>9</b>
<b>Health Care</b>	<b>3.6</b>	<b>9</b>
<b>Construction</b>	<b>4.2</b>	<b>21</b>

*U. S. Bureau Labor Statistics & W. P. Carey School of Business*

*\* Other Services includes Personal Services, Repair Services*

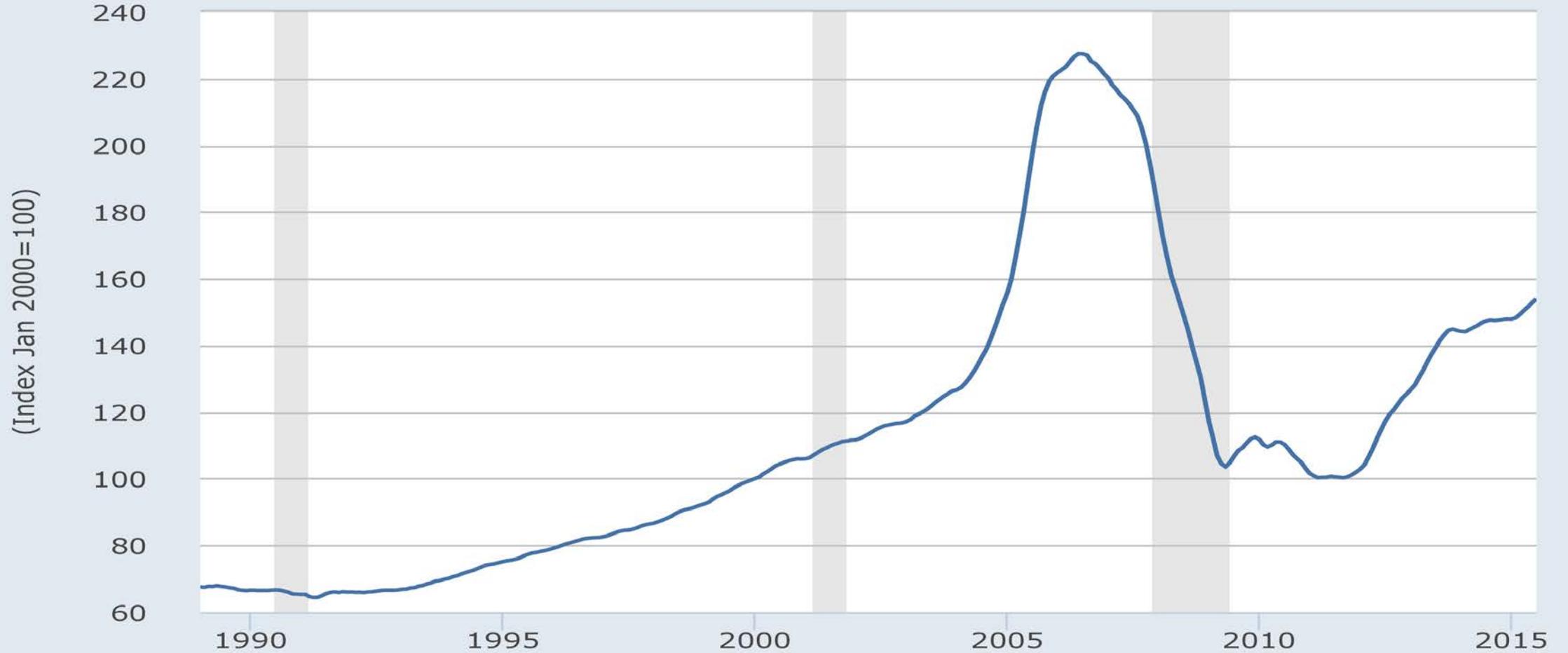
# Arizona positive Trends

— All-Transactions House Price Index for Arizona



Source: US. Federal Housing Finance Agency

Shaded areas indicate US recessions - 2015 [research.stlouisfed.org](http://research.stlouisfed.org)

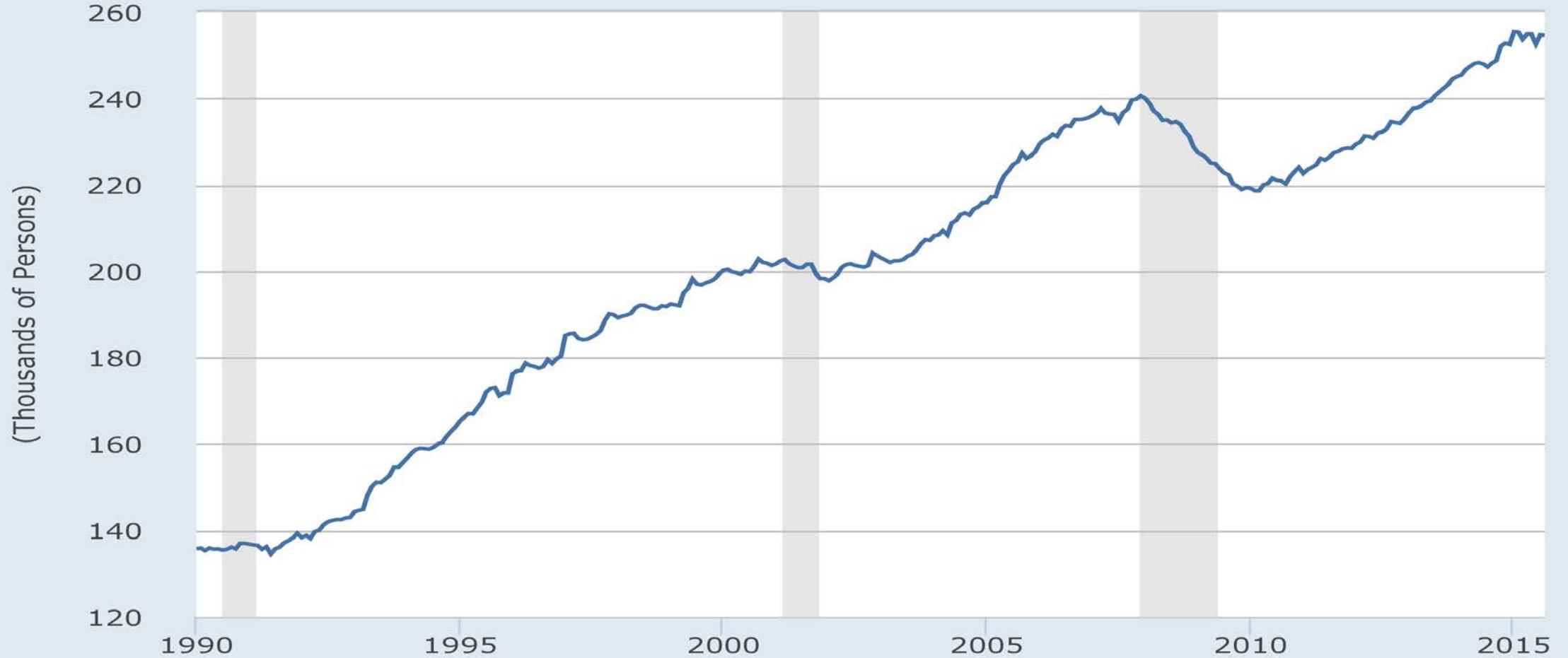


Source: S&P Dow Jones Indices LLC

Shaded areas indicate US recessions - 2015 research.stlouisfed.org



— All Employees: Accommodation and Food Services in Arizona



Source: US. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

Shaded areas indicate US recessions - 2015 [research.stlouisfed.org](http://research.stlouisfed.org)

— All Employees: Health Care: Hospitals in Arizona

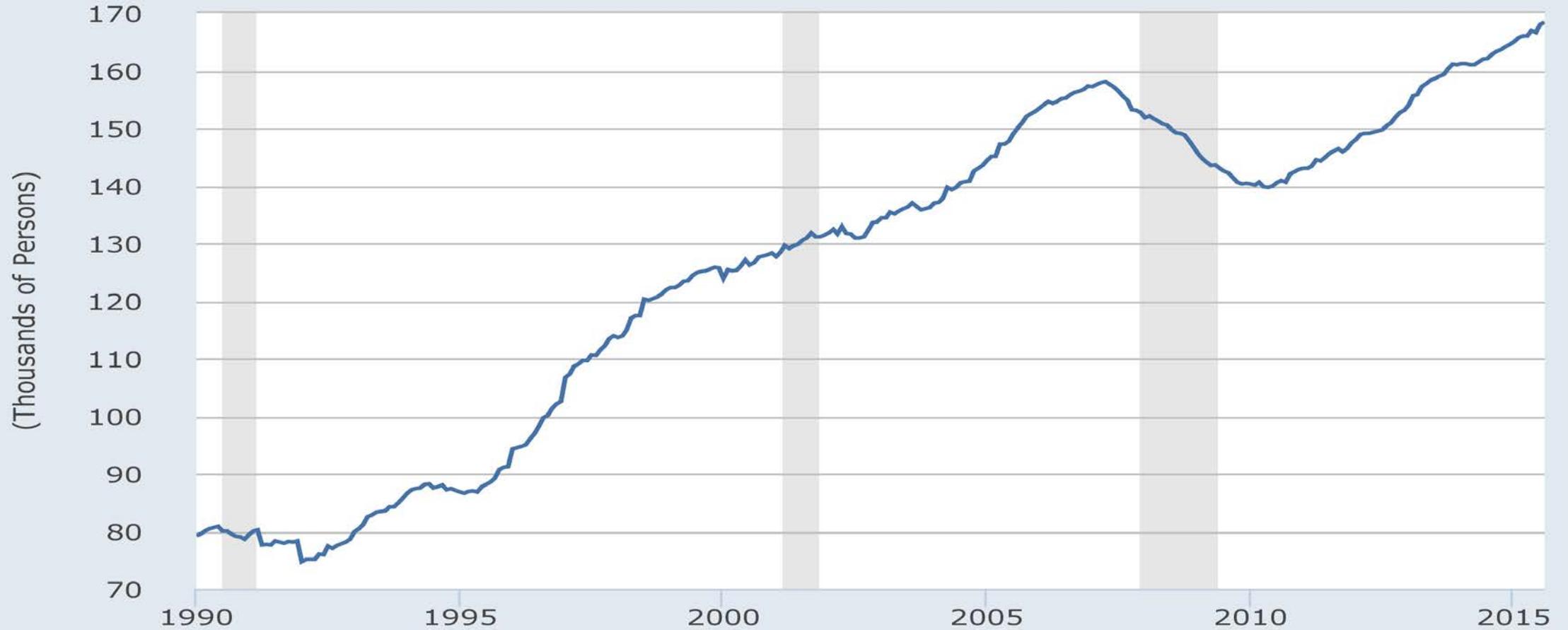


Source: US. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

Shaded areas indicate US recessions - 2015 [research.stlouisfed.org](http://research.stlouisfed.org)



— All Employees: Financial Activities in Phoenix-Mesa-Scottsdale, AZ (MSA)

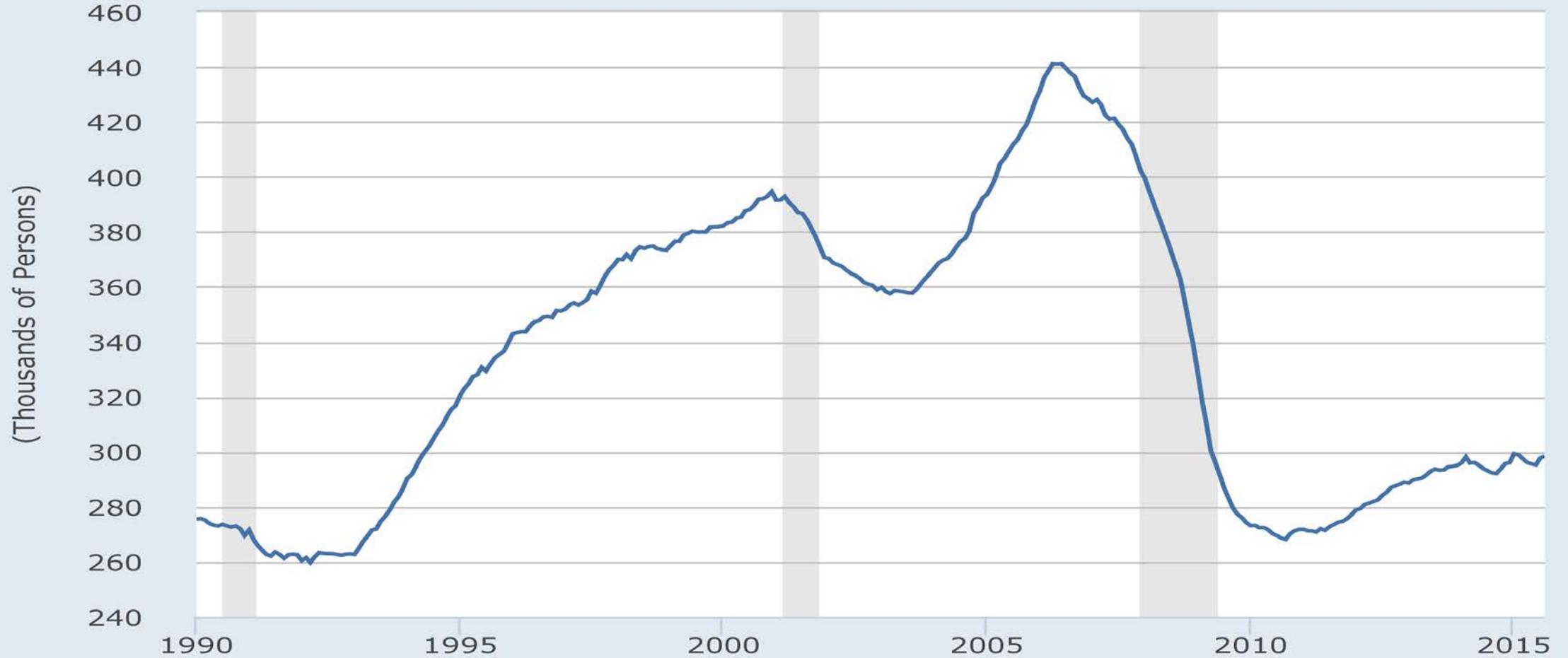


Source: Federal Reserve Bank of St. Louis

Shaded areas indicate US recessions - 2015 [research.stlouisfed.org](http://research.stlouisfed.org)

# Arizona Challenges

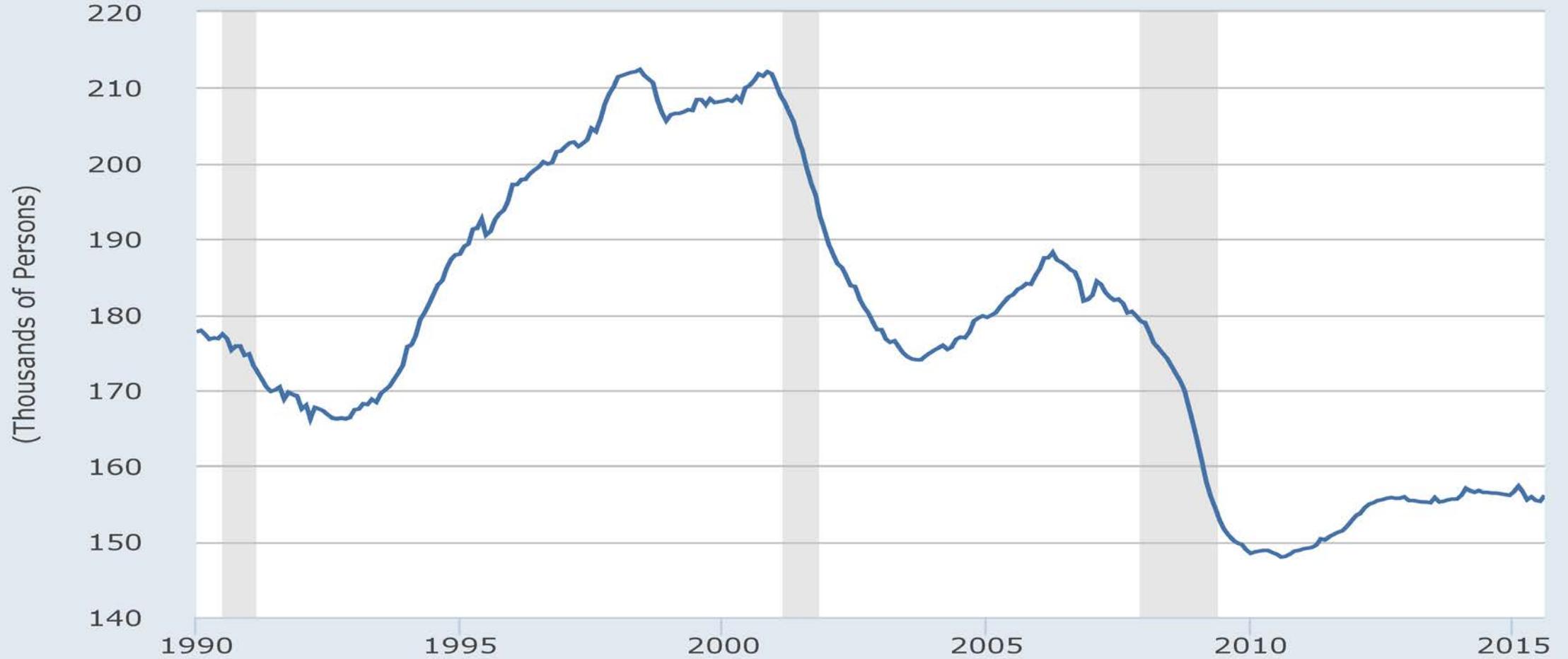
— All Employees: Goods Producing in Arizona



Source: US. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

Shaded areas indicate US recessions - 2015 [research.stlouisfed.org](http://research.stlouisfed.org)

— All Employees: Manufacturing in Arizona



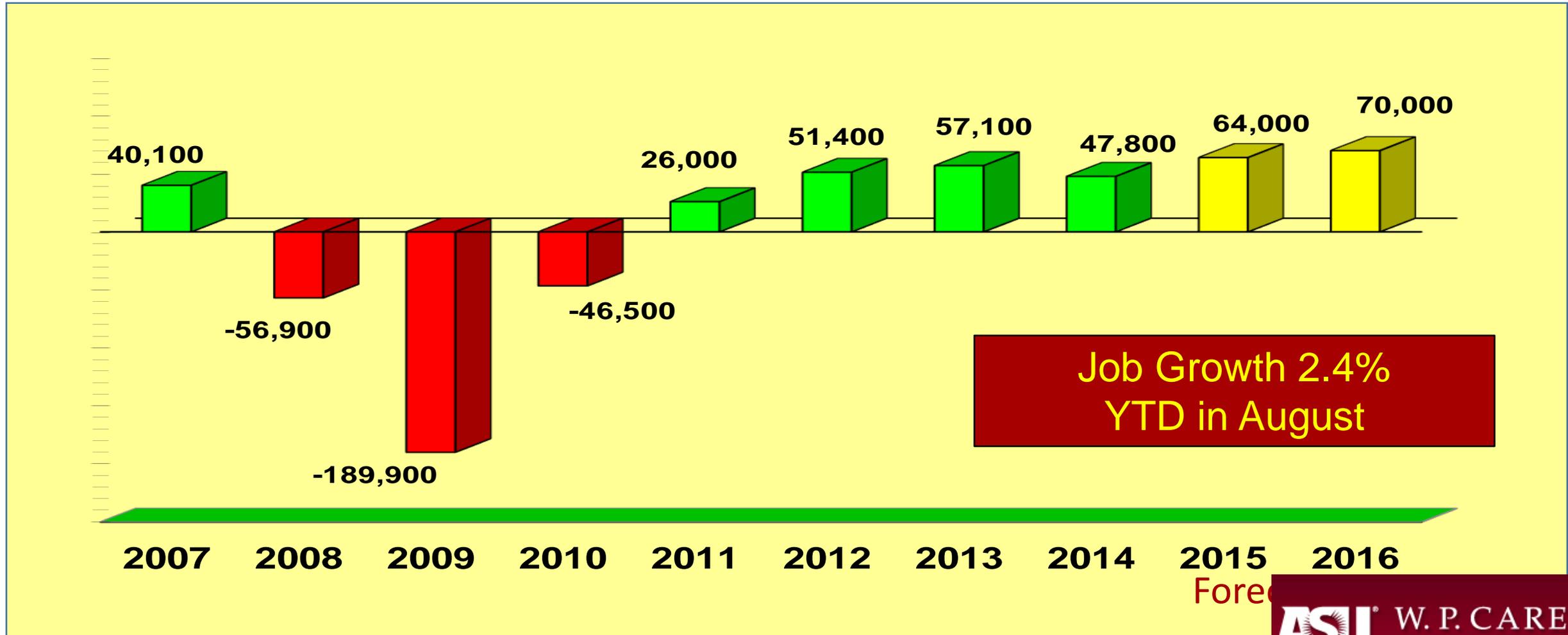
Source: US. Bureau of Labor Statistics

Shaded areas indicate US recessions - 2015 research.stlouisfed.org

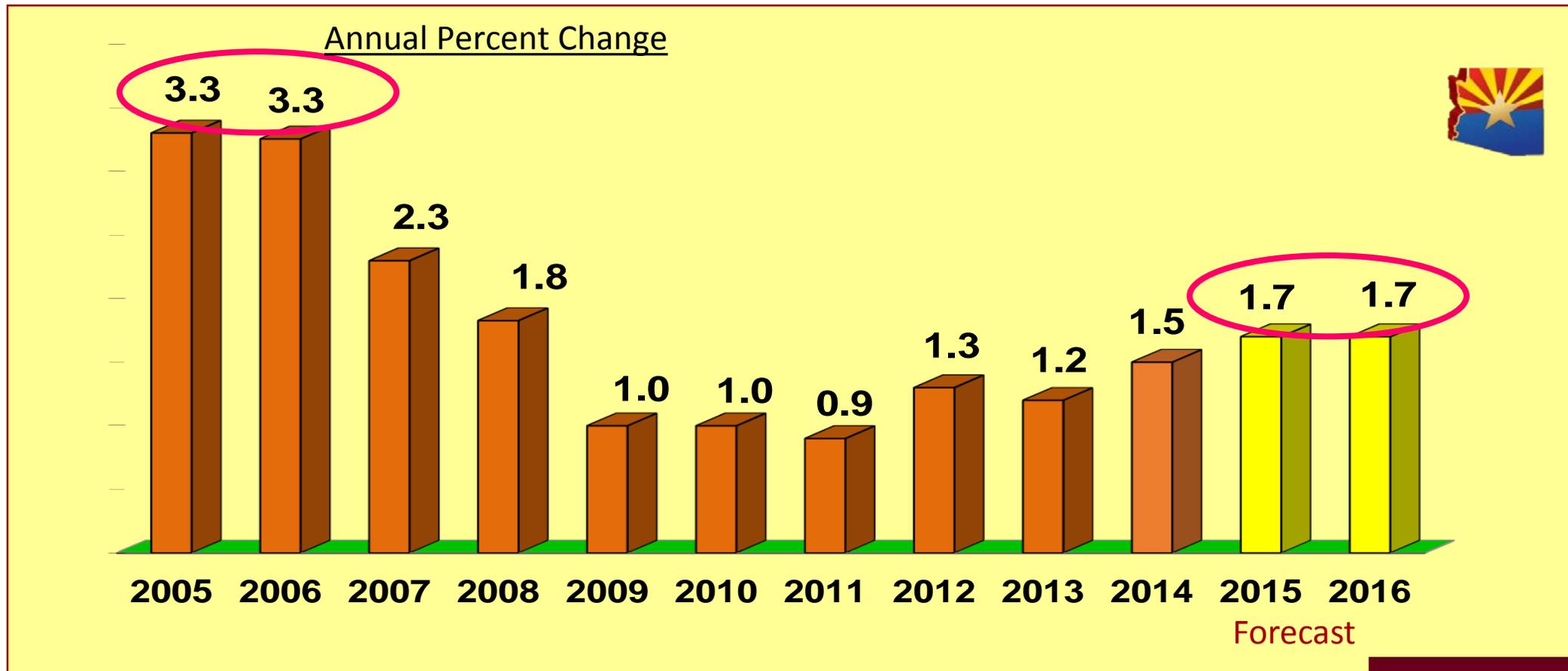
# Arizona Still Replacing Job Losses

Need 63,000 Jobs to Return to 2007 Peak

Annual Employment Change

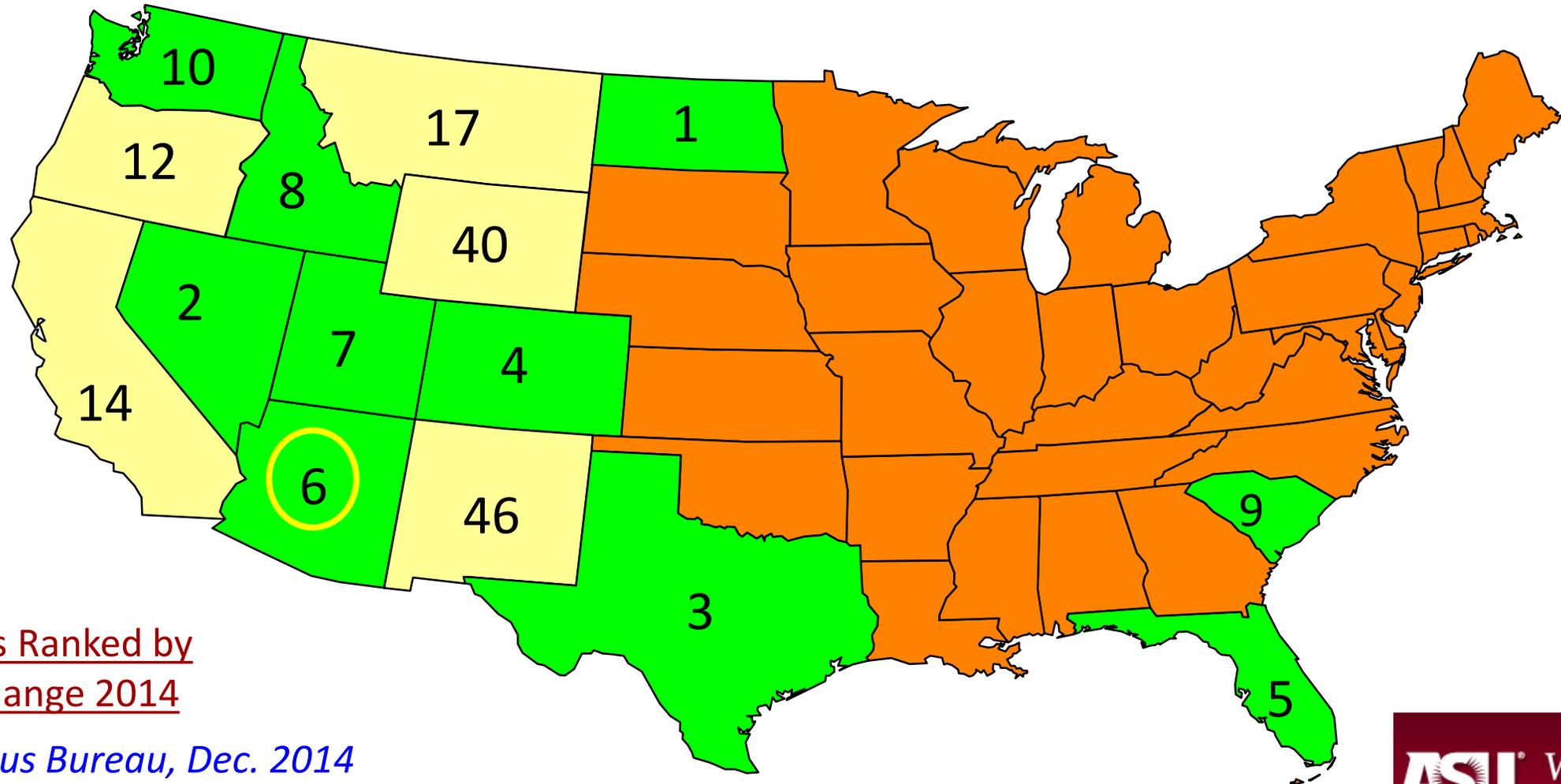


# Arizona Population Growth Rate Below 3.2% Twenty Year\* Average



W. P. Carey School of Business, ASU & U. S. Census Bureau; \*Average is 1980 - 2000

# But Arizona Ranked 6<sup>th</sup> (1.5%) in Population Growth in 2014

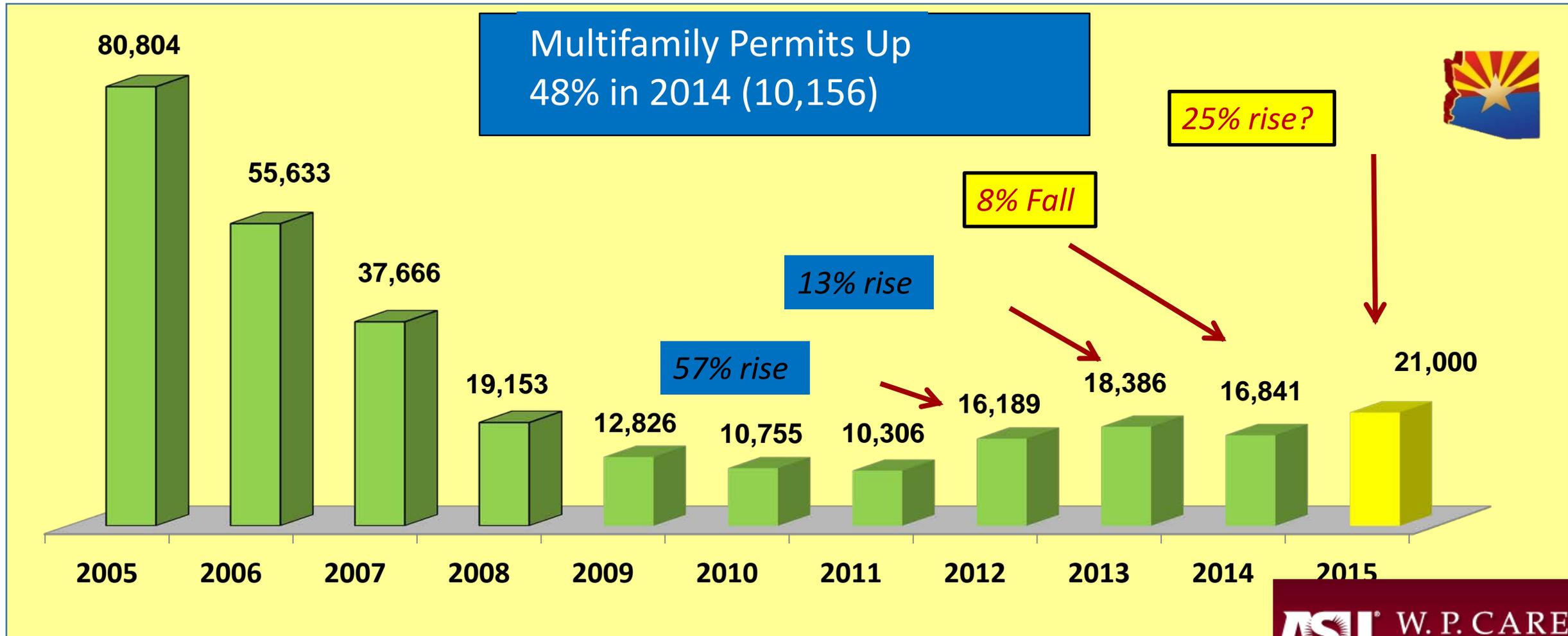


U. S. States Ranked by  
Percent Change 2014

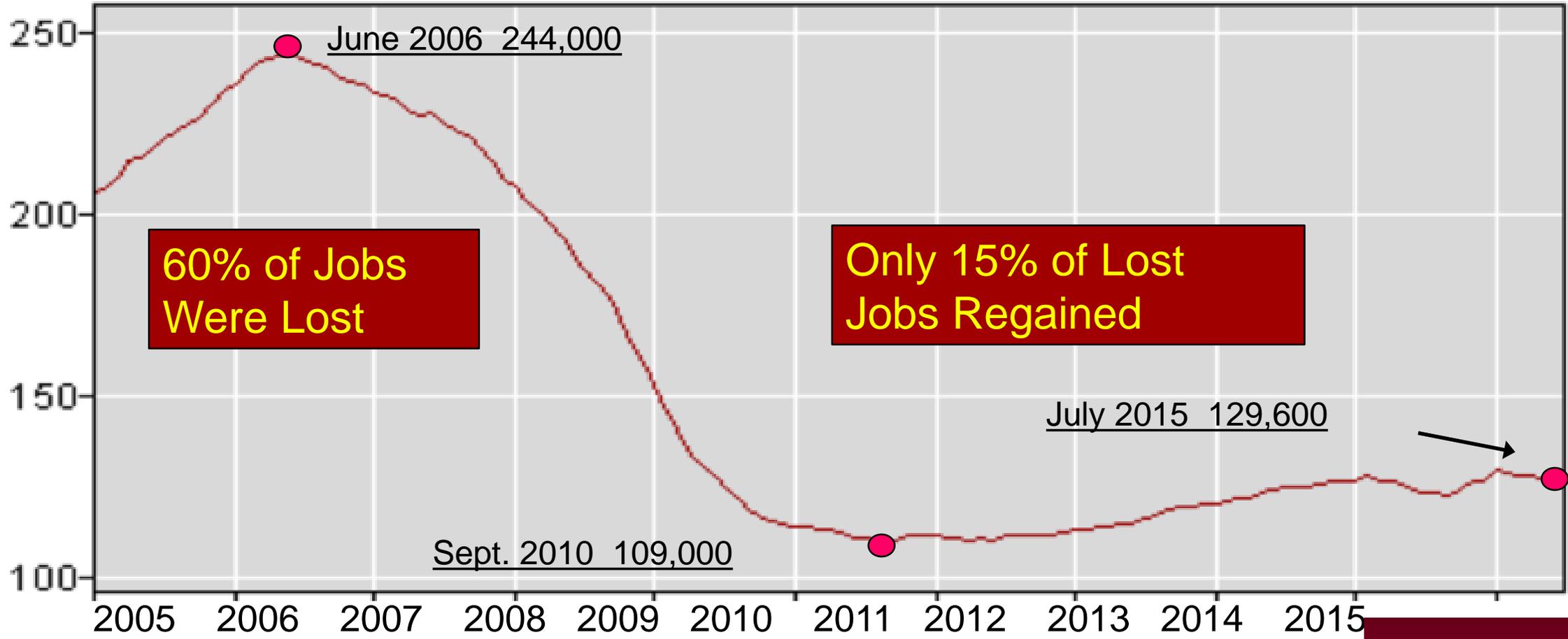
*U. S. Census Bureau, Dec. 2014*

# Arizona Home Building Improves

## Single Family Permits Up After 2014 Slowdown



# Arizona Construction Is Down By 114,000 Jobs Since Peak

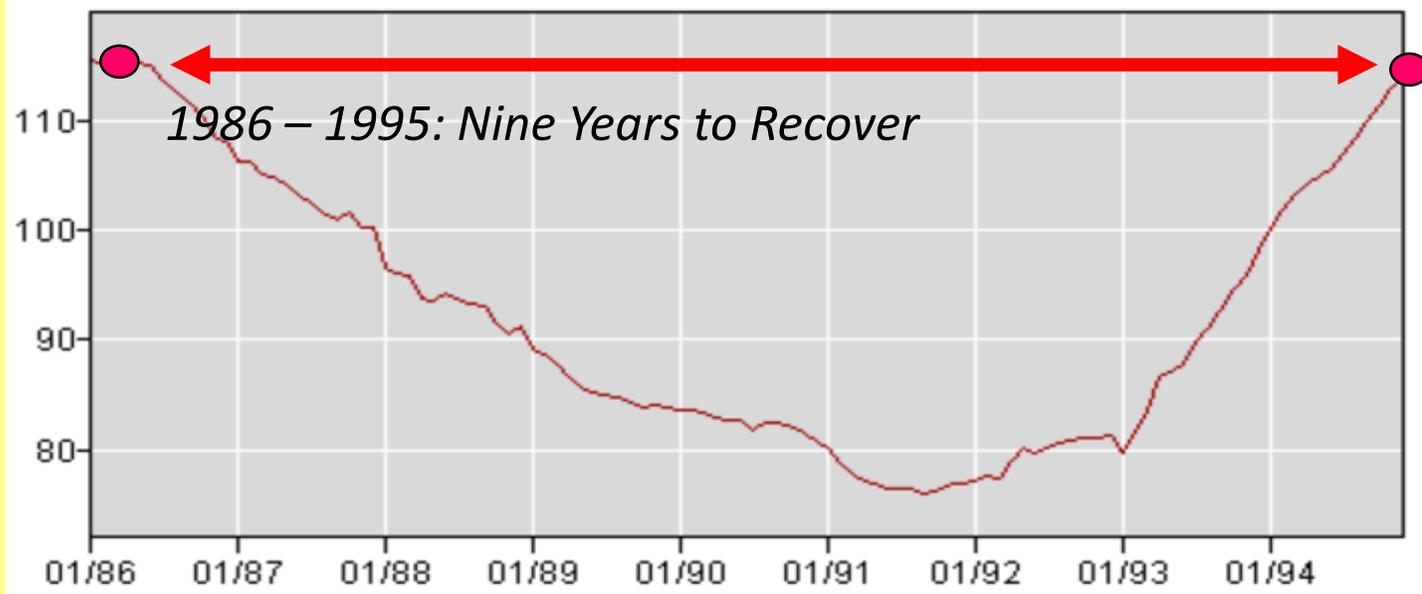


60% of Jobs Were Lost

Only 15% of Lost Jobs Regained

U. S. Bureau of Labor Statistics, Thousands of Jobs, Seasonally Adjusted

# A Tale of Two Downturns: 1986 & 2006



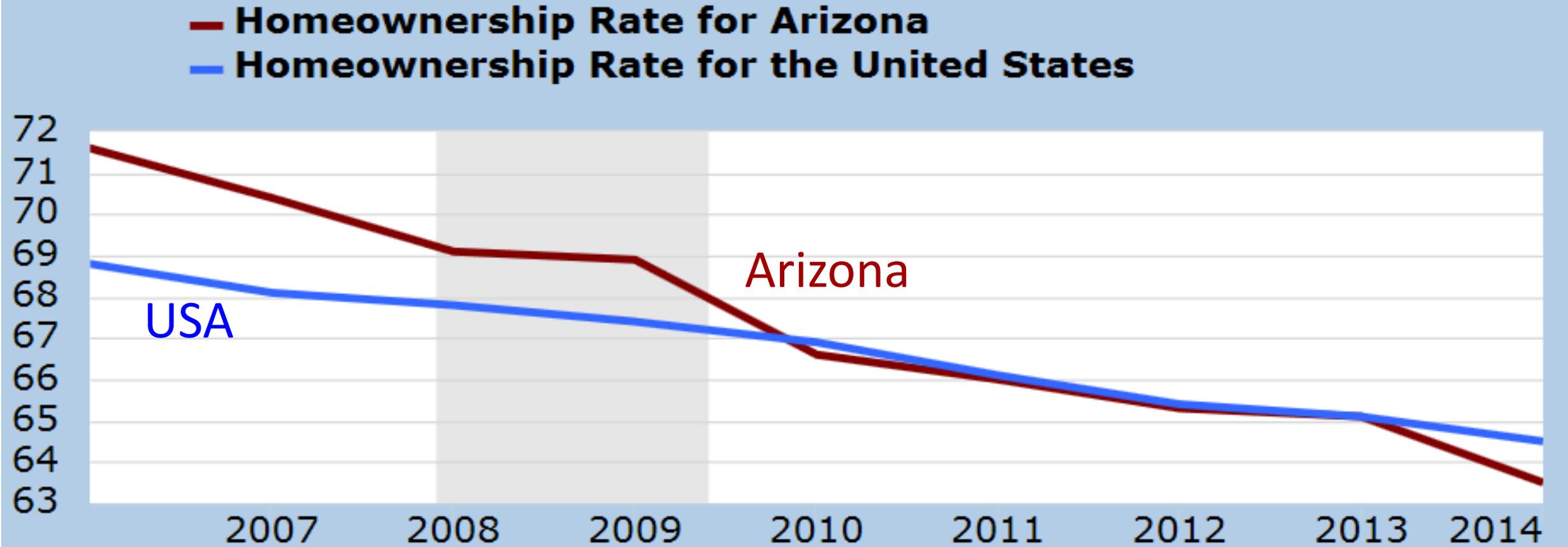
Arizona Construction  
Employment In the  
Savings & Loan  
Recession Of 1986



Arizona Construction  
Employment In the  
Housing Bubble  
Recession of 2006

You Are Here

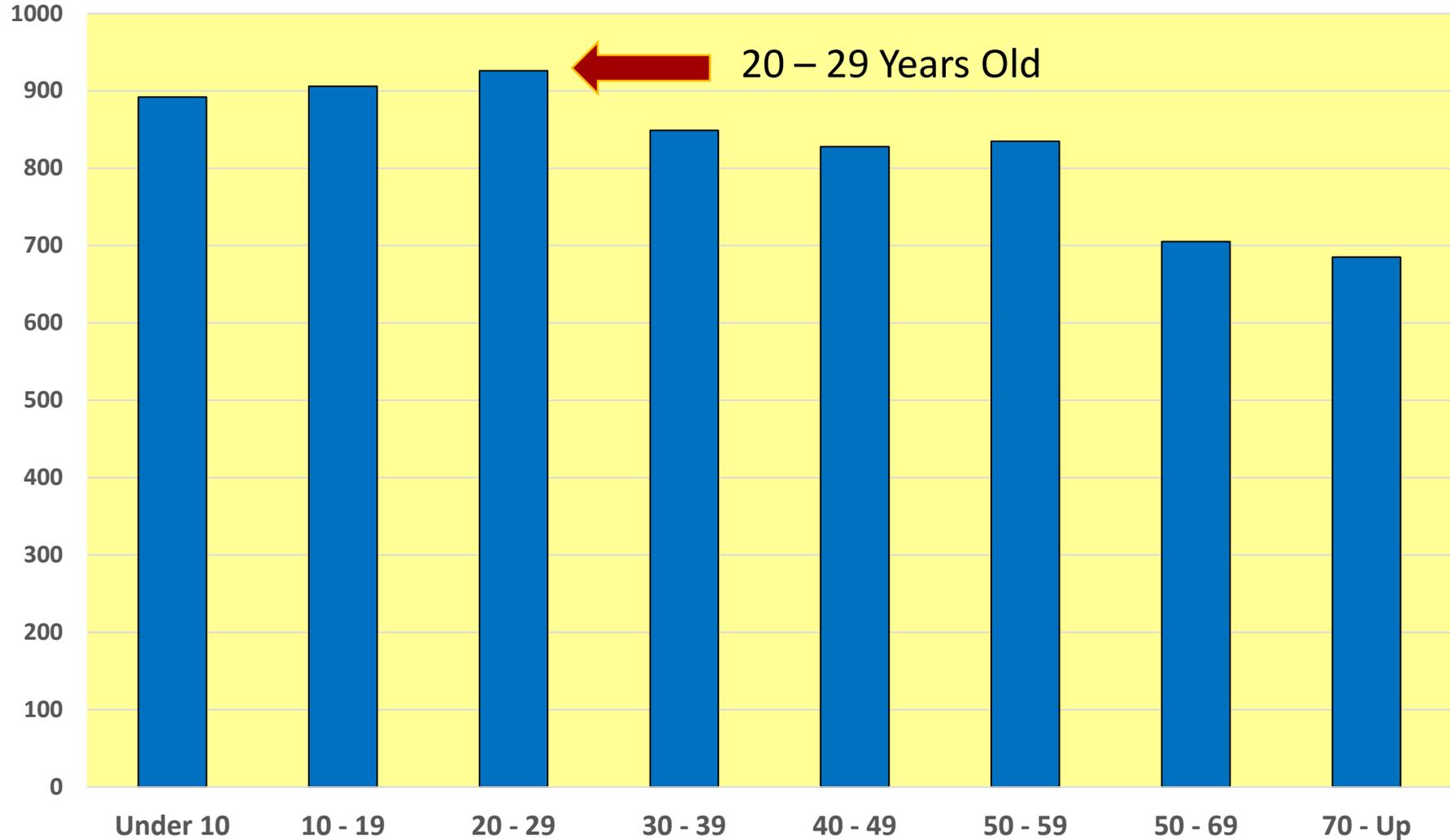
# US and Arizona Home Ownership Rates Have Declined Since Peaking in 2006



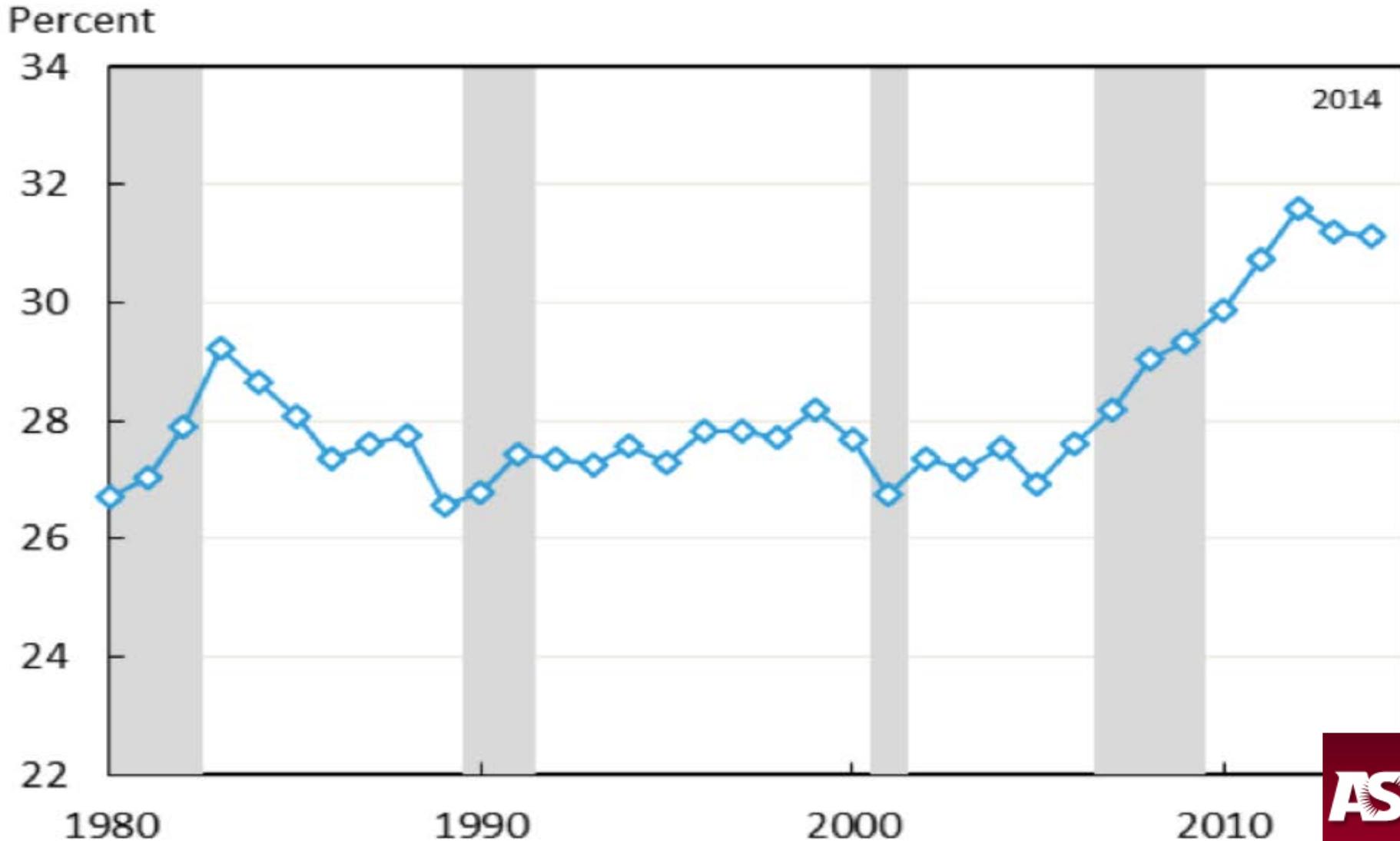
# Millennials (20-29) Largest Population Group

- When Will They Become Home Buyers?

Arizona Population (000)



# Share of 18-34 Year Olds Living With Parents Continues at High Level (potential for grth or new normal?)



# Optimists

## Expect

More Business Service &  
Health Care Jobs In Arizona

Population Growth Up, Wages  
Up, Construction Rebounds

Home Values & Incomes Rise,  
Consumers Get Back in Game

National Economic Growth  
Breaks out of 2% GDP Band

# Pessimists

## Expect

Population Growth Remains  
Slow Compared to Past Years

Too Many Lower Wage Jobs,  
Incomes Do Not Grow

Home Building Stagnant as  
Rates & New Home Prices Rise

Education Cuts, Image Issues  
Hurt Arizona Brand Long Term

# Current Arizona Consensus

- 2015 – best recovery year yet – but still below long term average growth rates
- Population growth to remain slow
- Knowledge jobs – the new driver
- Global economy is short term risk
- Job quality greatest long term risk

# Arizona Areas of Concern

# The Best States For Business And Careers



Rank ▲	State	Business Costs Rank	Labor Supply Rank	Regulatory Environment Rank	Economic Climate Rank	Growth Prospects Rank	Quality of Life Rank	Population
1	 <b>Utah</b>	5	4	9	6	10	16	2,923,000
2	 <b>North Dakota</b>	9	9	18	4	2	24	733,200
3	 <b>North Carolina</b>	4	7	2	24	9	31	9,901,400
4	 <b>Virginia</b>	24	2	1	12	33	5	8,292,700
5	 <b>Colorado</b>	35	1	13	8	4	9	5,307,800
22	 <b>Arizona</b>	25	17	17	47	5	40	

4<sup>th</sup> Highest

Bottom 10

## Quality of Life

Quality of life takes into account poverty rates per the Bureau of Economic Analysis and crime rates from the FBI. Other factors include cost of living from Moody's, school test performance via the Department of Education and the health of the people in the state per the United Health Foundation. We considered the culture and recreation opportunities in the state based on an index created by Bert Sperling, as part of our annual Best Places for Business. We factored in the mean temperature in the state as a proxy for the weather. Lastly, we included the number of top-ranked four-year colleges in the state from Forbes' annual college rankings.

# Elementary School Teacher Wages

STATE	SALARY	STATE	SALARY	STATE	SALARY
New York	\$74,830	Illinois	\$57,950	Alabama	\$49,410
Alaska	\$71,460	Oregon	\$56,890	Tennessee	\$48,970
Connecticut	\$70,820	New Hampshire	\$54,780	Maine	\$48,770
California	\$69,990	Hawaii	\$54,690	South Carolina	\$48,380
Massachusetts	\$69,890	Wisconsin	\$54,560	Louisiana	\$47,780
Rhode Island	\$69,450	Vermont	\$54,260	Florida	\$47,730
New Jersey	\$67,100	Utah	\$54,200	North Dakota	\$47,710
District of Columbia	\$67,010	Georgia	\$54,030	Idaho	\$47,060
Michigan	\$63,640	Nevada	\$52,900	Montana	\$46,720
Maryland	\$63,050	New Mexico	\$51,220	West Virginia	\$45,730
Pennsylvania	\$60,580	Kentucky	\$51,160	Kansas	\$45,010
Virginia	\$60,430	Texas	\$51,100	Arkansas	\$44,810
Washington	\$60,190	Indiana	\$50,350	Arizona	\$43,050
Minnesota	\$60,140	Missouri	\$50,240	North Carolina	\$42,440
Delaware	\$58,680	Colorado	\$50,180	Oklahoma	\$41,880
Ohio	\$58,490	Iowa	\$49,910	South Dakota	\$41,490
Wyoming	\$58,190	Nebraska	\$49,540	Mississippi	\$41,010

Source: Bureau of Labor Statistics

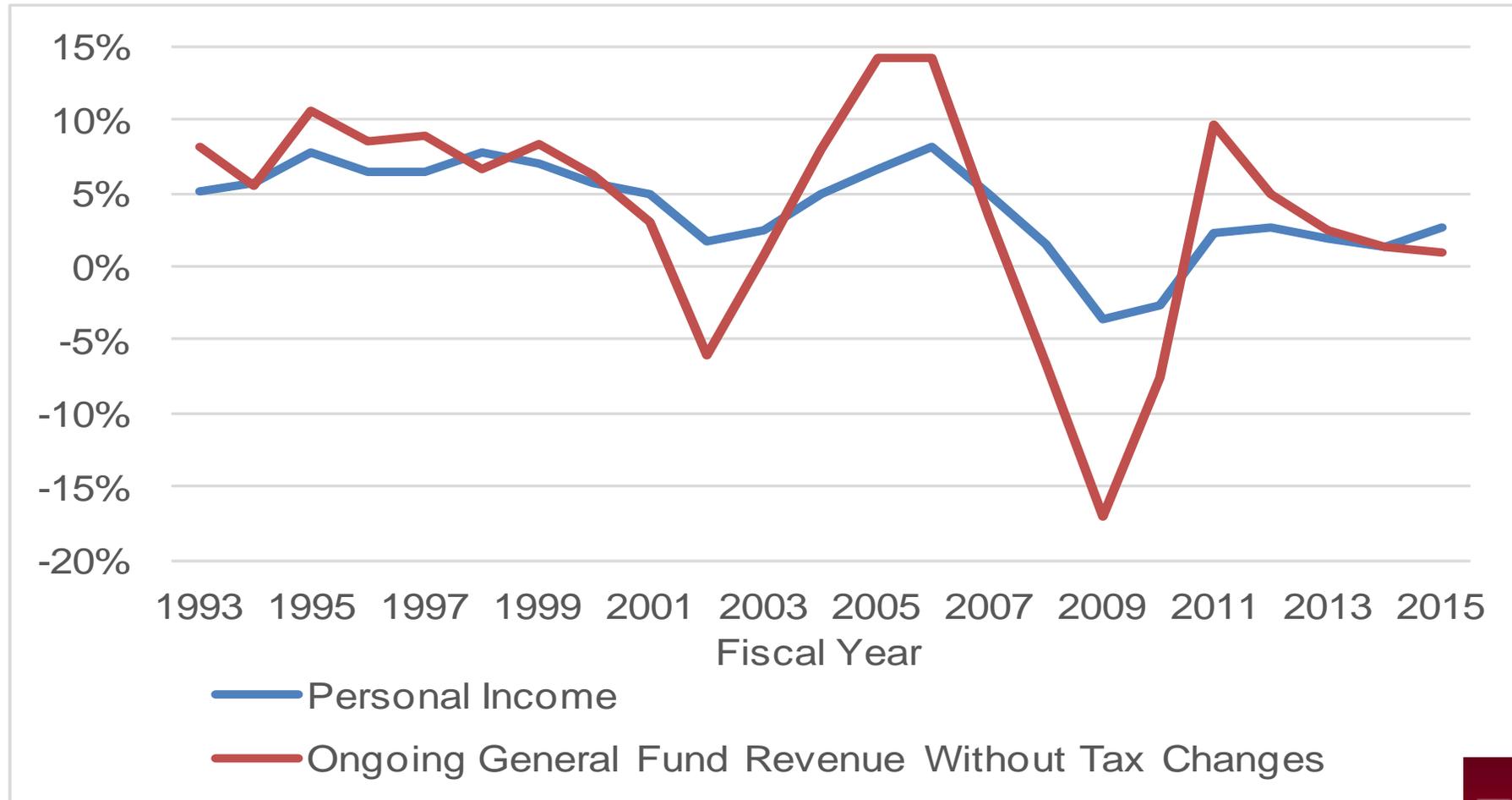
# On The Arizona Road To Recovery

*2015 Likely Best Year Since Recession Ended*

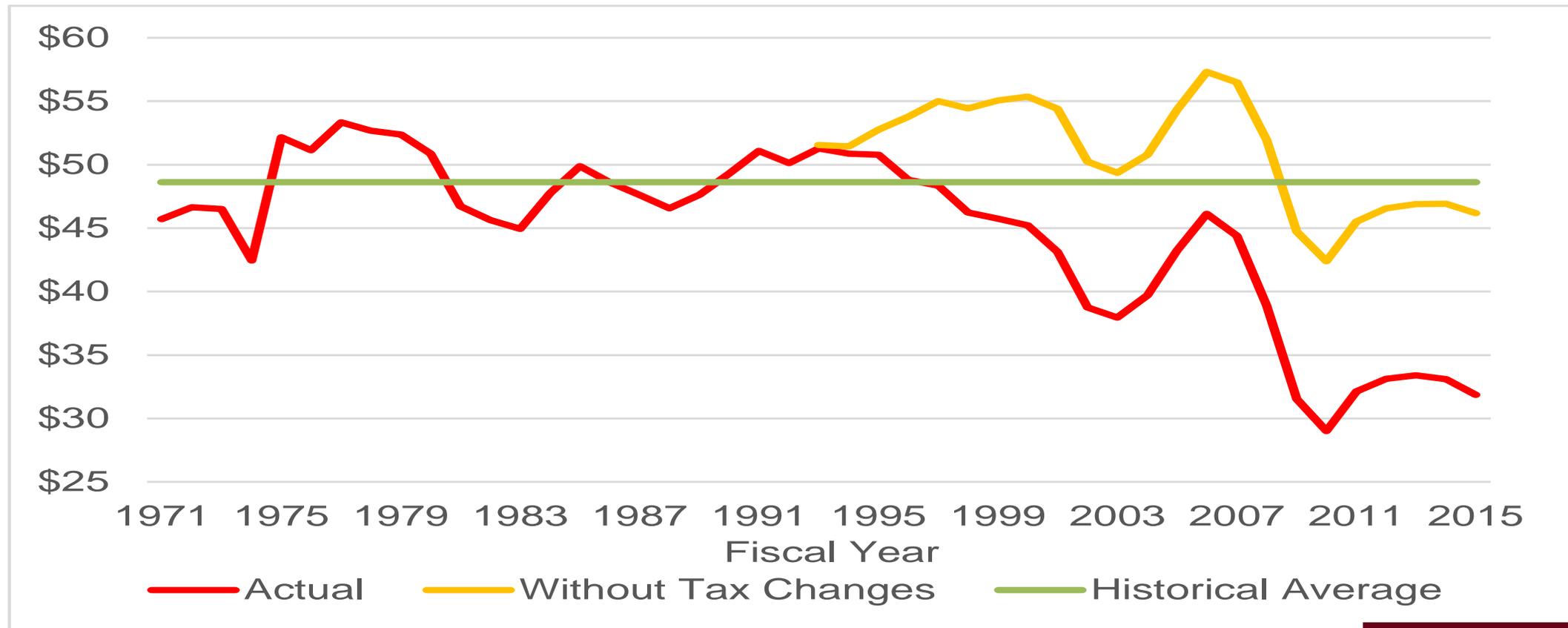


# A Brief Look at Budget Issues

# Personal Income Growth And ongoing GF Revenue Base “without” tax cuts

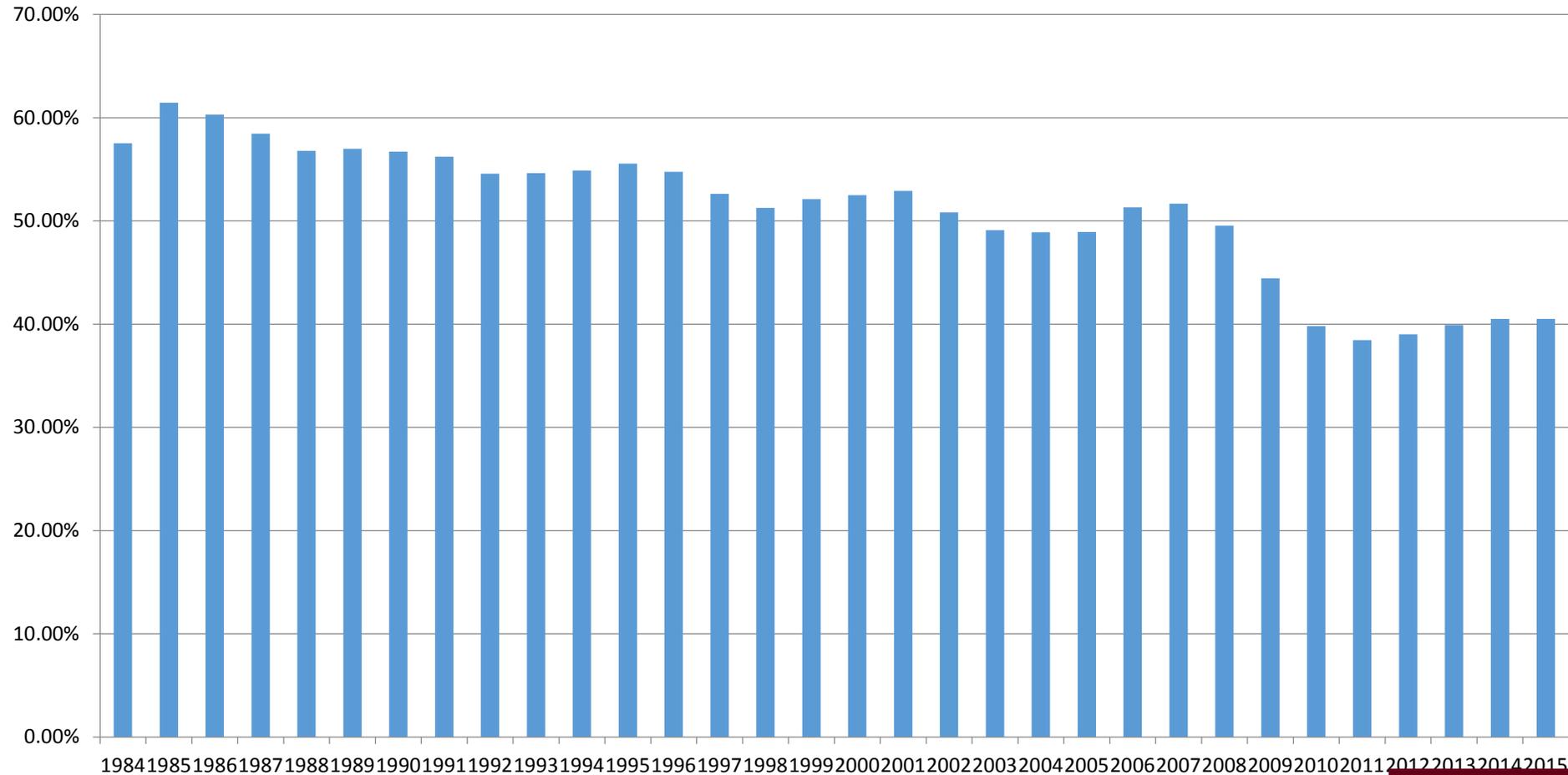


# Ongoing GF Revenues as a Share of Personal Income

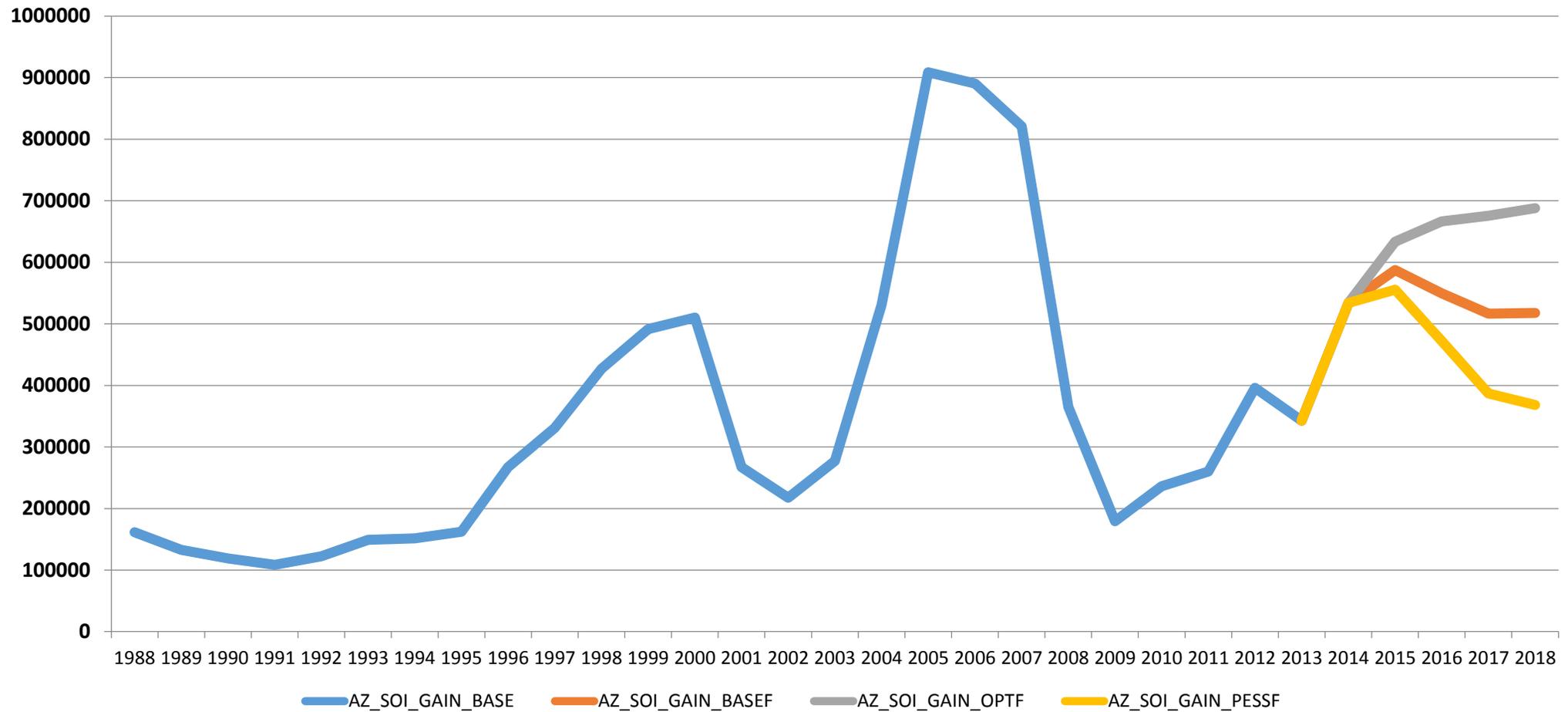


# Sales Tax Base no longer spans majority of Incomes

## Taxable Sales as a Share of Personal Income



# Estimates of Income Tax Revenue Attributable to Capital Gains Income in AZ



**TAXES PAID BY INDIVIDUALS IN 2013  
AS A PERCENTAGE OF THE MEDIAN OF 51 CITIES**

	Household Income				
	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000
<b>Total:</b>					
<b>Phoenix</b>	<b>100.0%</b>	<b>91.8%</b>	<b>89.4%</b>	<b>85.9%</b>	<b>85.9%</b>
<b>Salt Lake City</b>	<b>95.5</b>	<b>94.7</b>	<b>95.8</b>	<b>93.7</b>	<b>91.5</b>
<b>Income Tax:</b>					
<b>Phoenix</b>	<b>*</b>	<b>36.3</b>	<b>43.8</b>	<b>49.5</b>	<b>51.2</b>
<b>Salt Lake City</b>	<b>*</b>	<b>100.4</b>	<b>100.4</b>	<b>106.8</b>	<b>102.8</b>
<b>Property Tax:</b>					
<b>Phoenix</b>	<b>93.3</b>	<b>105.6</b>	<b>103.1</b>	<b>99.0</b>	<b>93.7</b>
<b>Salt Lake City</b>	<b>93.6</b>	<b>80.1</b>	<b>78.2</b>	<b>75.1</b>	<b>71.1</b>
<b>Sales Tax:</b>					
<b>Phoenix</b>	<b>145.9</b>	<b>143.4</b>	<b>138.0</b>	<b>142.9</b>	<b>142.3</b>
<b>Salt Lake City</b>	<b>126.8</b>	<b>125.3</b>	<b>118.0</b>	<b>122.5</b>	<b>120.5</b>
<b>Automotive Taxes:</b>					
<b>Phoenix</b>	<b>92.5</b>	<b>103.8</b>	<b>98.8</b>	<b>100.4</b>	<b>151.8</b>
<b>Salt Lake City</b>	<b>115.8</b>	<b>111.8</b>	<b>104.5</b>	<b>100.0</b>	<b>101.3</b>

# Business Tax Burdens in Arizona

	Total Effective Business Tax Rate as a Percentage of the U.S. Average		Share of Business Taxes	
	Arizona	Utah	Arizona	Utah
<b>TOTAL</b>	<b>109.8%</b>	<b>84.3%</b>	<b>100.0%</b>	<b>100.0%</b>
Property Tax	131.8	88.2	43.2	37.4
Sales Tax	175.5	89.8	32.9	21.3
Excise Taxes	74.1	91.4	8.4	12.6
Corporate Income Tax	81.1	70.3	5.5	7.4
Unemployment Insurance Tax	47.2	97.2	3.6	8.0
Individual Income Tax	50.0	100.0	2.7	6.5
License and Other Taxes	37.0	56.5	3.7	6.7

# A Glimpse at AZ Income Tax Progressivity

- Those earning 50k and less, some 61% of filers, pay 12% of the taxes about \$275 per filer.
- Those earning 100k and more, some 15% of filers pay 67% of the taxes
- Those earning 200k and more, some 3.5% of filers pay 41% of the taxes
- Millionaires -- .2% of filers, just over 5000 people pay 15% of the taxes about \$112k per filer.

# State Budget going forward

- **FY 2014**
  - Fiscal cliff and millionaires
- **FY 2015 and last year**
  - A return to normalcy in sales and individual
  - Some surprises in Corporate
- **FY 2016**
  - Modest growth amid some concerns but there is money in the coffers and more to come
    - Individual more reliance on normal sources
    - Sales headwinds
    - Corporate....
- **Beyond 2016 and “structural balance”**
  - How long can we fund government at a rate of 3% of personal income when it used to take 5%?

# Tax and Budget Reform

- Quest for Stability
  - Flatter income tax
  - Broader Sales tax
  - Greater reliance on residential property
- Concerns over Regressivity
- Budgeting Reforms
  - Two year cycles,
  - Wait till April
  - Triggers, surtaxes, rebates