

STATE OF ARIZONA

Joint Legislative Budget Committee

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FINANCE ADVISORY COMMITTEE

September 1, 2004

Senate Hearing Room 1 - 9:30 a.m.

Members Present:

Dan Anderson, Board of Regents
Mr. Tracy Clark, ASU
Mr. Kevin Keogh, City of Phoenix
Mr. John Lucking, ECON-LINC
Ms. Georganna Meyer, DOR
Mr. Elliott Pollack, Elliott D. Pollack and Co.
Mr. Hank Reardon, Reardon Economics
Ms. Debra Roubik, VisionEcon
Mr. Marshall Vest, UofA
Mr. Don Wehbey, Dept. of Economic Security

Mr. Richard Stavneak, Director, JLBC Staff, opened the meeting at 9:40 a.m. and welcomed everyone to the Finance Advisory Committee (FAC) meeting.

Mr. Stavneak said that they would be giving some perspective on the current state of revenues. Mr. Pollack will give a presentation on the national economy and the JLBC Staff will have additional comments about real-time indicators in terms of beyond looking just at revenues.

Mr. Tim Everill, Mr. Hans Olofsson, Mr. Brian Cary, Mr. Tim Sweeney, and Mr. Richard Stavneak, JLBC Staff, provided a slide presentation and handout with an overview of the major revenue categories.
([Click here to view handout](#))

Mr. Elliott Pollack gave a slide presentation and handout on the national economy. ([Click here to view handout](#)) He said the economy is still strong and any slowdown is likely to be transitory. Mr. Pollack noted that the major problem has been oil prices. We are importing twice as much oil in 2004 as we did in 1973. The impacts of this are cuts in consumer spending and squeezed corporate profits, both of which lead to less hiring. Oil prices are essentially a tax increase on both businesses and consumers. The first half of the year, the increase was about \$44 billion, a quarter of overall increase in consumer spending. The reason consumer spending was slow was because effectively that much was taken out of the system. The future of oil prices is uncertain; however, they are more likely to decline from here than not.

Mr. Pollack said in 2004 things are pretty good. There has been fiscal stimulus, monetary stimulus, real incomes are up and businesses are doing well, productivity growth is strong, job growth is slowly starting to accelerate, and the dollar will go down and that means more exports. Inflation in the near term is not a problem, interest rates are low, and he believes the economy will continue to expand.

Mr. Stavneak said that he agrees that some of the economic data looks better than what you hear out of the popular press. He asked Mr. Pollack if he attributes that to there being blips of data that are over-emphasized by the media.

Mr. Pollack said that he feels economic data is not accurately portrayed by the media.

Mr. Stavneak asked, in terms of the national economy, what Mr. Pollack's perspective of the FAC growth rates as shown in the slides. Mr. Pollack said he thinks they are all reasonable. By historic standards they are not the huge boom you usually get at this point in the cycle in Arizona. You won't have that huge boom because the employment growth is not there like it usually is.

Mr. Shultz asked what Mr. Pollack's comments are on our dependency on oil having so dramatically increased since the 1970s. Mr. Pollack said the economy has grown and we are importing more, using a lot more and producing less.

Mr. Hans Olofsson, Mr. Tim Sweeney, and Mr. Tim Everill, JLBC Staff, gave a presentation using a handout on Arizona Real-Time Economic Indicators, which tend to focus more on economic measures than they do revenue measures. ([Click here to view handout](#)) Mr. Sweeney noted that the JLBC Staff is looking into the relationship of caseload increases in AHCCCS and the overall economic situation to come up with a form of model that takes into account some economic variables to try to forecast what Medicaid growth might be. Mr. Everill said that regarding passenger air travel, we are back to where we were in March of 2001 before 9-11 and before the recession.

Mr. Stavneak asked the panel members for their perspective about anything heard at the meeting or any additional advice, guidance, or observations they may have.

Mr. Marshall Vest said there was a softpatch in the second quarter, but it is hard to see looking at Arizona data. Maybe a little slowing down but the economy seems to be barreling ahead. The problem is that not all of the sectors are adding employees, manufacturing information, state and local government, (the administrative part, not education). The economy is still not hitting on all cylinders. If it were we would have a much bigger growth rates, but the expansion is still very much in place. The slowdown of the second quarter will be temporary. We still have to worry about whether there is a bubble in home building. Our population is continuing to grow and there is not a lot of speculative building.

Mr. Pollack said that between 15% and 20% of single family homes have now been sold to investors. Most homebuilders are now trying to close that out and not allow that to happen. The issue is how many of those people are basically buying and at the close of escrow trying to sell it, versus renting it out. He said that 30,000 more homes have been built than would normally be demanded. If all those houses come on the market, that will cause a slowdown in home building.

Ms. Debra Roubik asked what happen to vacancy rates in apartments. It will be the end of the decade before you get back to normalized vacancy rates in apartments. It is way over built for two reasons: 1) more money is available from typical lenders, and 2) the federal government is providing a lot of money for affordable housing and as a result there are a lot of those being built, so it will be awhile for apartments.

Mr. Tracy Clark said, he does not think long-term interest rates will rise that much. Mainly because of the fact that the feds are increasing short-term interest rates, it is going to increase people's certainty that inflation will remain under control. Long-term rates do not have to rise too much before investors decide that housing is not the best bet anymore. There is a significant risk that even a small increase in interest rates could collapse the investment demand in housing. Regarding fuel costs, they are on a downward trend but you have to look at why the fuel costs have been going up. China is sucking a lot of oil out of the market, there are a lot of supply questions about Russia, Venezuela, and three or four others. It is going to remain a very unsettled market with ups and downs. A lot of demand is coming from China, such as steel, wood, anything that you would use for manufacturing.

Mr. Stavneak asked Mr. Clark what his perspective is on the FAC growth path for 2005-2006. Mr. Clark said he does not see them as being unreasonable. He said he would be hesitant to push it any higher because of all the international issues previously mentioned. Arizona has the capacity to grow faster than shown but he thought the constraining factor is not Arizona but the national economy.

Mr. John Lucking, who recently returned from a trip to China, said they are trying to slow the economy in China. They are using more and more oil and he does not see that slowing down dramatically. You can hire people to do

manufacturing work for \$40 a month in China, and that is going to continue to be a source of a lot of imports into the United States. It will to some degree hold down inflation.

Mr. Stavneak noted that with regard to construction in Arizona, especially with larger buildings such as research labs for universities, there have been shortages of concrete and steel and prices have gone up higher than anticipated.

Mr. Kevin Keogh said the City of Phoenix's forecasts are similar but a little more muted. They are experiencing some construction cost pressures due to concrete rising costs. He said sales taxes were slower and more erratic the first half of last fiscal year, the second half was stronger and more consistent.

Mr. Dan Anderson wanted to note several points. Productivity rises with the overall age of the workforce. With the baby boomers moving into their prime working age, he thought some of the productivity growth that Mr. Pollack was talking about is here to stay, at least for the short-term. He is also more optimistic about the short-term because of the consumption pattern by age group. The age group of the baby boomers tend to have the highest consumption rate. Since many of the revenue sources for the state are consumption-based taxes that will help out in consumption. He is concerned in the long-term of a labor shortage when the baby boomers move into the retirement stage. The people exiting the labor force will exit with higher skills and productivity levels than the group that will be replacing them.

Mr. Blaine Vance, Deputy Treasurer, noted that as far as interest rates going up, they experience the short end of the market more than anyone else. They are expecting a 25 basis points rise this month on the 21st. The market looks like it is expecting another 25 basis points in December. There is a lot of cash out there when they look at the investment markets. The supply and demand on the short end is extremely large out in the market. Consequently they do not expect to see much rise in the long-term rates because everyone is bunching up at the short end. The small end of the mid-caps is starting to under perform, which is a concern because most of the employment rate and growth rate come from the small business owners. As far as inflation, they are looking at cost push as opposed to demand pull inflation.

Mr. Hank Reardon said recent statistics on personal income that were released in June, in the fourth quarter of 2003 we were eighth in the nation, and in the first quarter of 2004 we were second. We are doing pretty well relative to how the U.S. economy is doing. In regard to oil, things do not really look all that good. He said he did not have the numbers on China but felt their economy is growing faster than ours. Regarding the FAC growth rates he said it is a good path to be on right now. There is always the possibility that things will be better. It seems historically that has been Arizona's problem; you do a forecast and mark it up about 10% and you will be about right.

Mr. Don Wehbey said he generally feels more optimistic than the FAC in terms of the revenue. Arizona has some pretty good strengths of its own and held to the national constraints. He agrees with Mr. Anderson on the labor force in the long-term. They are still very confident that the economy is on a good track. Nationally, we do not have all industry and states sharing in job growth. One notable thing is California has been hovering in the rank of the 30s for many months and have moved significantly up, as their over-the-year rate showed an increase 0.6% to about 1.2%. We have been saying for many months that we expect to see continued improvement as California and other neighboring states continue their slow recovery. Arizona was one of the first states that actually did start having job growth and that was over two years ago. The national economy has only been adding jobs for six months. They see employment in the upward trend.

Mr. Marty Shultz said natural gas prices soared 22.4%. There are no specific plants in Arizona that are designed to come on-line. APS is acquiring the Florida Power and Light Plant in Coolidge, which is natural gas. As you look at this particular area, APS is 1400 megawatts short of what they believe is the needed market in 2007. He believes natural gas is going to be the fuel of choice. He would see expansion pressures here for usage.

Ms. Debra Roubik said capacity numbers are a good indicator to watch as to when inflation will start kicking in. With regard to housing and the speculative market, it would be good to be able to look at because it is a major affect, not nationally, but in Arizona we are heavily concentrated in construction and real estate. She said she does not know if we are in a bubble or not. On personal income, 30% to 40% of the gains we have seen so far come from real estate related areas, which is a problem. She said she is a little bit lower than the FAC forecast.

Mr. Stavneak thanked the Committee members for their participation and noted that the Committee will probably be getting together again in December.

The meeting adjourned at 11:04 a.m.

Cheryl Kestner, Secretary

Tim Everill, Revenue Section Chief

NOTE: A full tape recording of this meeting is on file in the JLBC Staff office at 1716 West Adams.

Finance Advisory Committee

September 1, 2004

JLBC

FY 2004 Revenue Collections Above Forecast

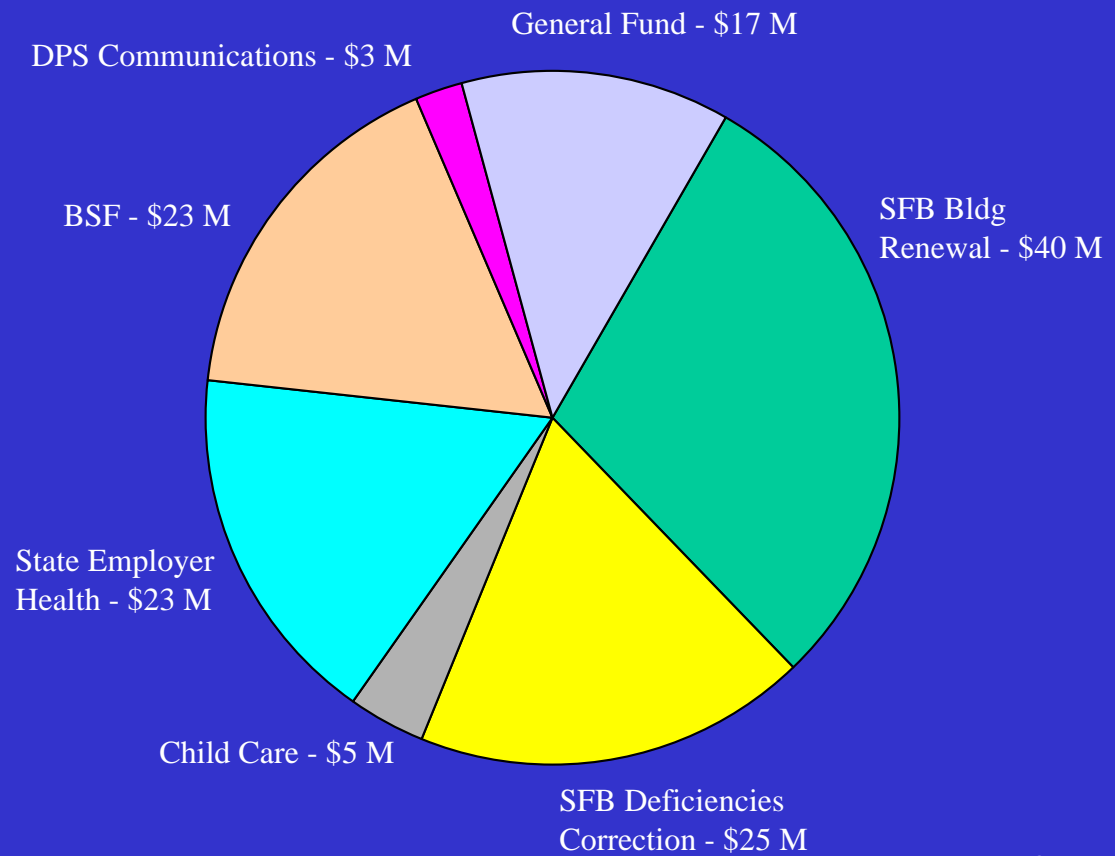
- FY 2004 General Fund revenues of \$6.7 billion were 7.6% over the prior year.
- Excluding a decrease in one-time revenues, collections were 10.4% over FY 2003.
- Increase was \$136 million over the FY 2004 forecast in the enacted FY 2005 budget.
- Big 3 categories all greater than the forecast.

Prior to Sine Die, Legislature Dedicated “Surplus” FY 2004 Revenues

\$136 Million

The “Triggers”

- SFB Building Renewal
- SFB Deficiencies Correction
- Child Care
- State Employer Health
- DPS Communications
- BSF
- General Fund



FY 2004 Revenue Collections Reflect Improvement in Arizona's Economy

“Index of State Economic Momentum”

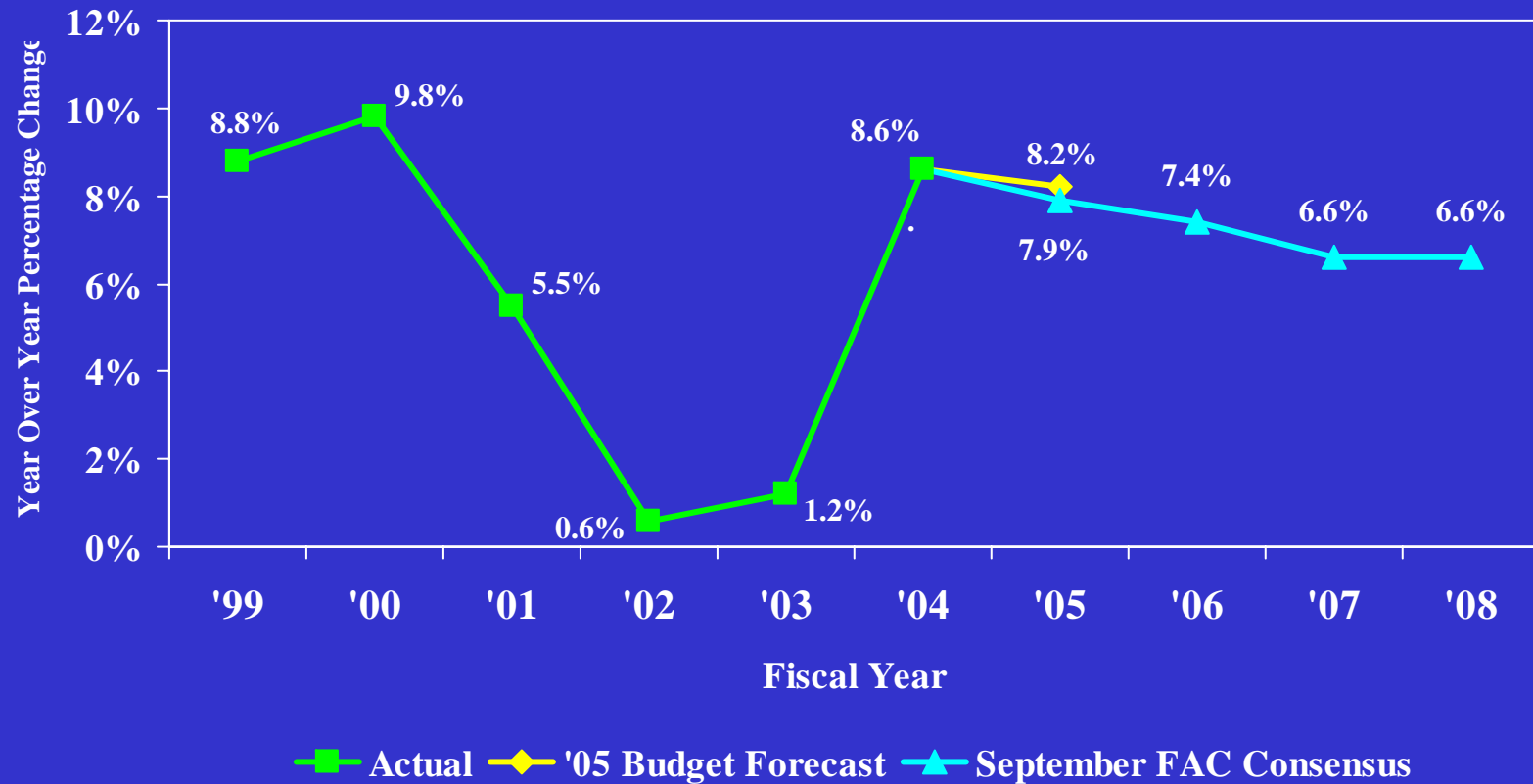
- Index is an indicator of state's economic vitality by State Policy Reports.
- Index measures growth in:
 - Population
 - Personal Income
 - Employment
- Arizona ranks 2nd in nation behind Nevada.

FY 2005 Forecast Revisions

- Kept same growth rates as budgeted.
- Asked FAC panel members for their latest forecast.
- Following slides compare budgeted growth rates with the consensus FAC forecasts.

Sales Tax Growth Rate

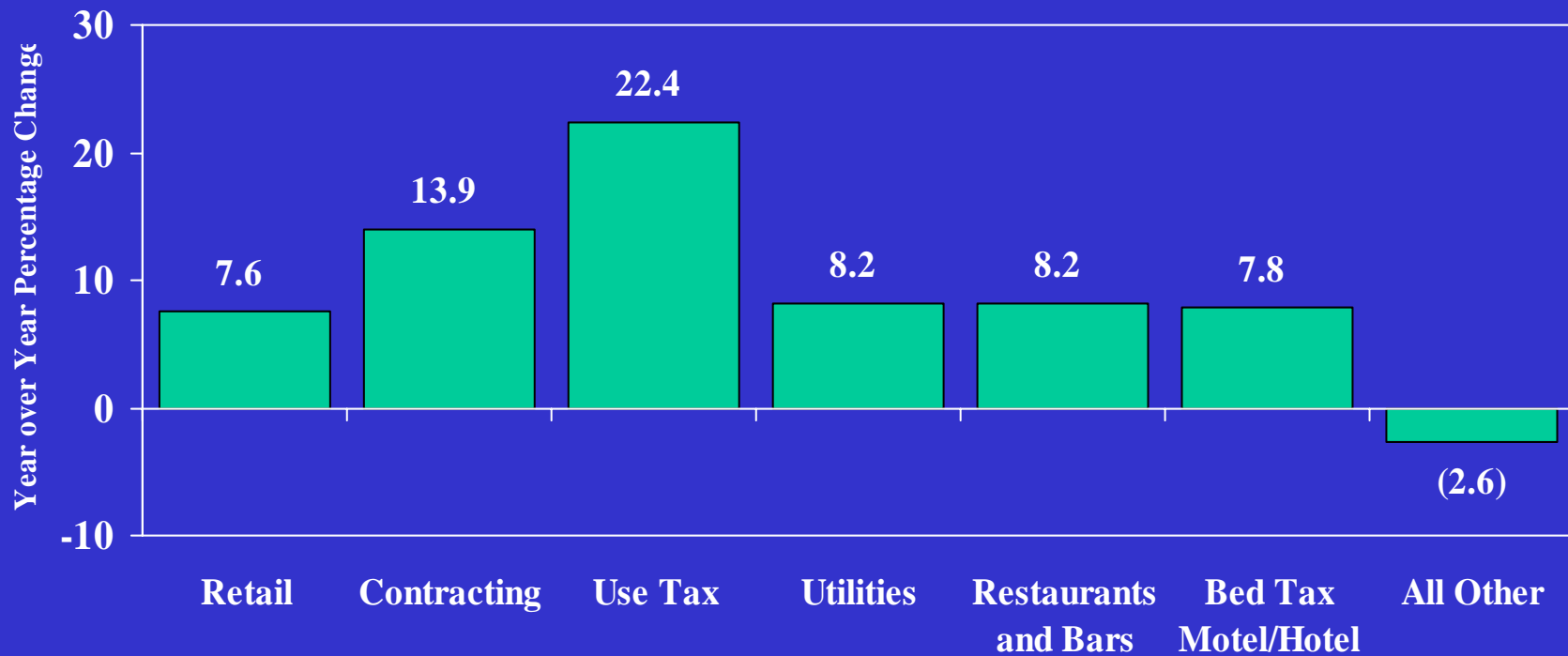
FAC Slightly Below Budgeted '05 Growth Rate



FY 2004 Actual = \$3.3 Billion

FY 2004 Sales Tax Growth

Strong Across a Broad Range of Categories



FY 2004 Sales and Use Tax Highlights

- The contracting category, which represented 17.3% of total receipts, contributed 26.7% of the increase in FY 2004 collections.
- Use tax receipts (all of which are retained by the state) soared by 22.4%, bolstered by higher volumes and prices of natural gas burned by Arizona power plants.
- The next gas-fired power project will not go on-line until spring 2005 - natural gas usage is not likely to increase as much in the current fiscal year.

Sales Tax Questions for the FAC Panel

- How fast will long-term interest rates rise? Will home building and purchases of durable consumer goods be affected?
- Will the rising cost of housing curb demand in the foreseeable future?
- Will fuel costs keep climbing? If so, will there be a significant impact on consumers' discretionary income? What categories are likely to be affected?
- What are your expectations for car and truck sales during the next 12 to 24 months?

Individual Income Tax Growth Rate

FAC Forecasted '05 Growth 0.9% Higher than Budget



■ Actual
 ◆ '05 Budget Forecast
 ▲ September FAC Consensus

FY 2004 Actual = \$2.3 Billion

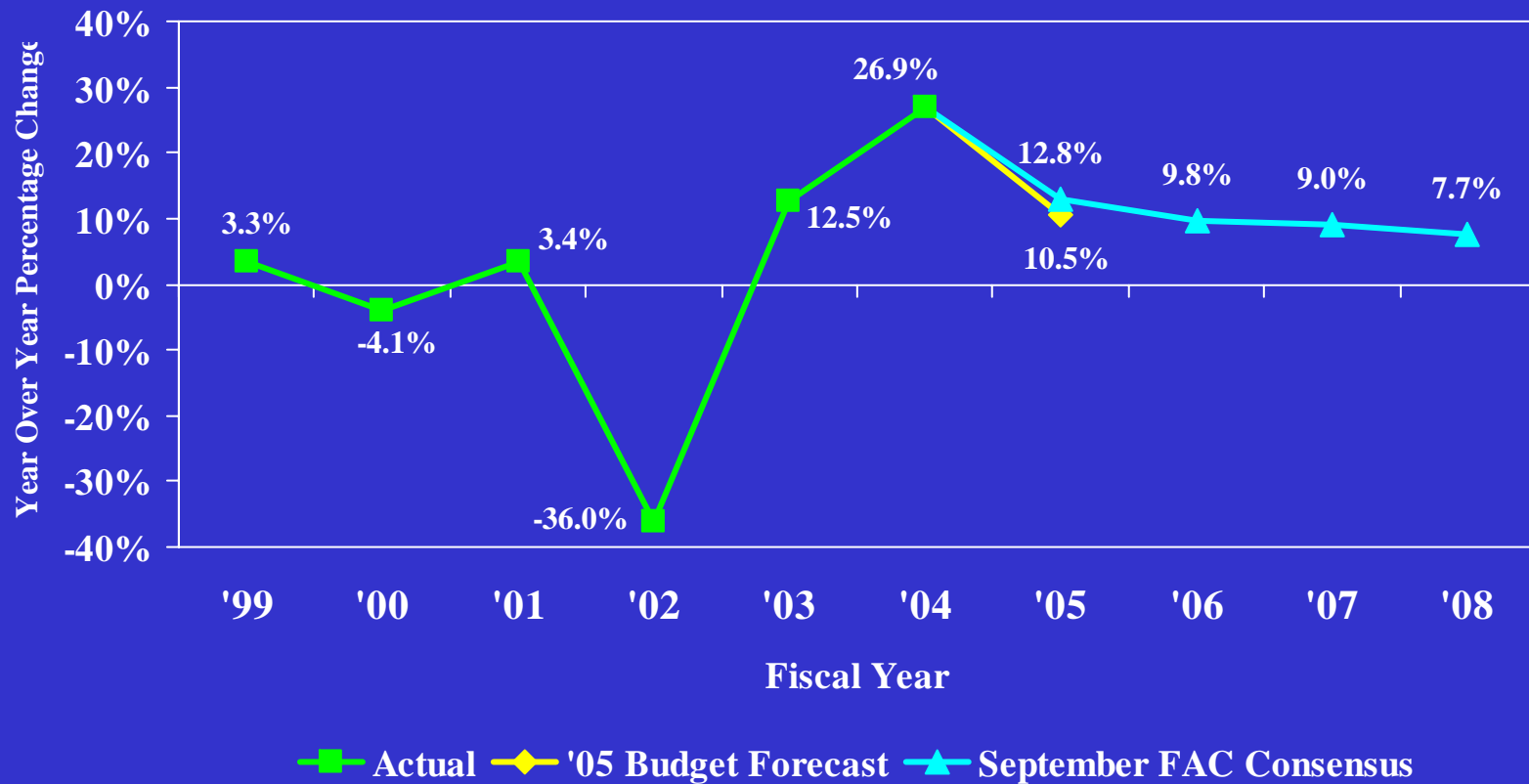
Individual Income Tax Issues

Questions for FAC Panel

- Stock Market Performance: S&P 500 increased by about 20% in 2003, but is flat so far this year. Where is the stock market headed next?
- Employer Benefit Costs: Health insurance costs are growing at double-digit rates. Will increased benefit costs depress wage growth?
- Changing Workforce Composition: Manufacturing jobs continue to be replaced by service sector jobs. How much will this impact personal income growth?

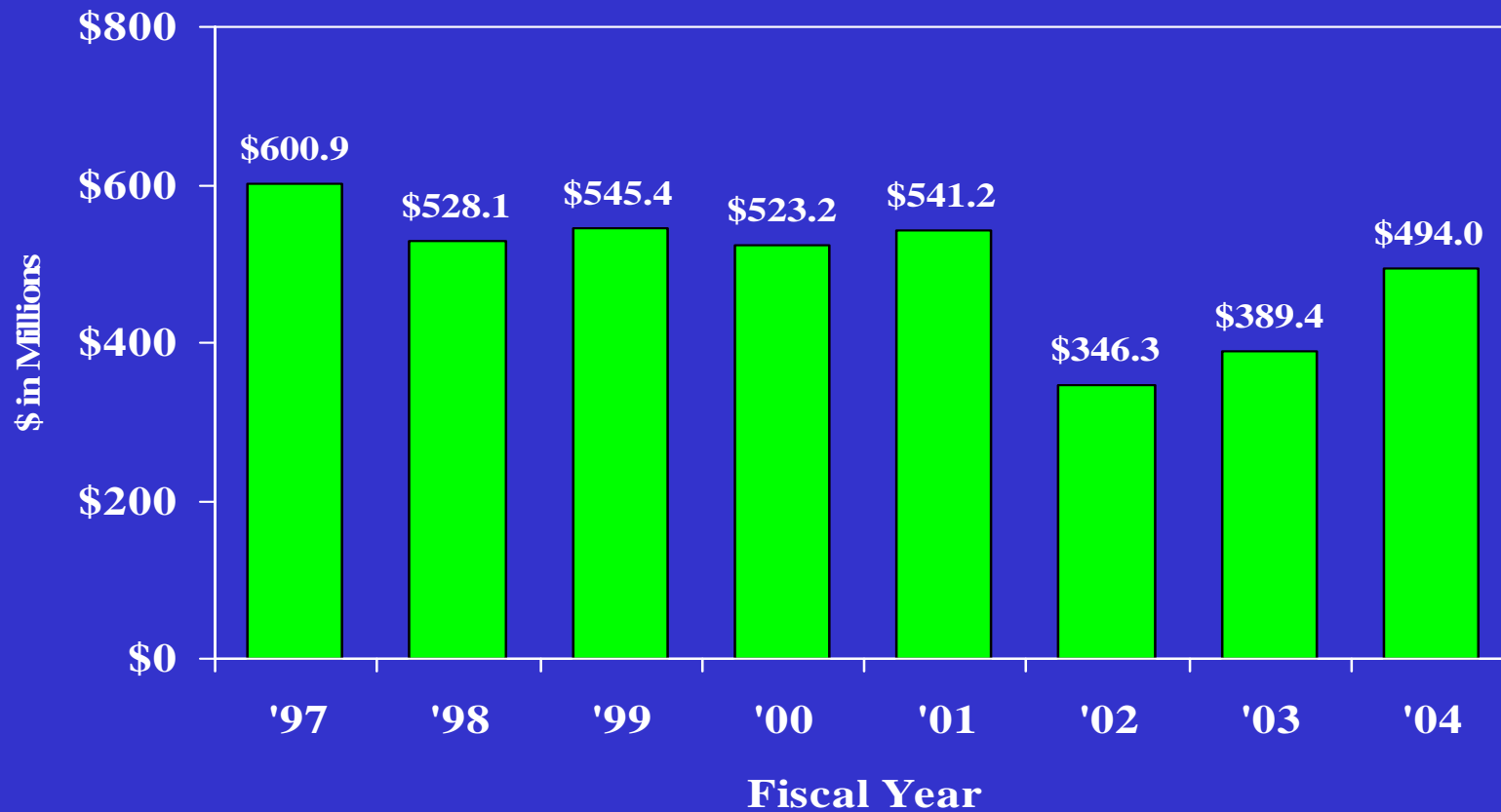
Corporate Income Tax Growth Rate

FAC 2.3% Higher than Budgeted '05 Growth Rate



FY 2004 Actual = \$0.5 Billion

Corporate Income Tax Collections Have Climbed but Remain Below Peak Levels



* The tax rate was reduced in 1998 and again in 2001.

Corporate Income Tax Collections May Slow Significantly in FY 2005

- Productivity growth, which was driving corporate profits higher, has slowed in recent months.
- The U.S. Blue Chip panel predicts corporate profits will grow by 17.3% in 2004 before slowing to 10.1% in 2005, which may be reflected in Arizona corporate income tax collections.
- Corporate income tax carry forward credits increase uncertainty about net collections in future years.

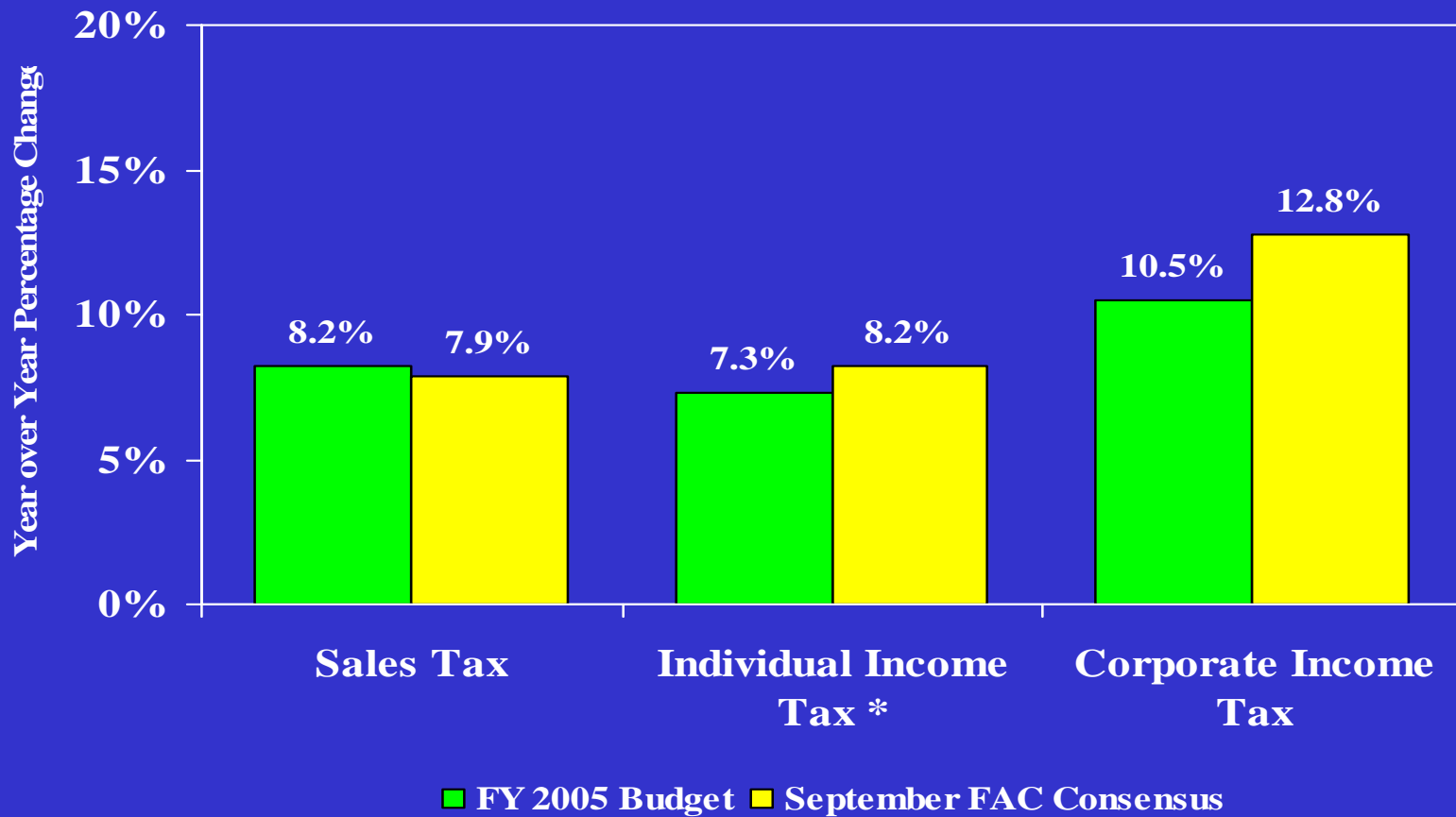
Corporate Income Tax Issues

Questions for the FAC Panel

- Will inflation be rising in the months ahead? If so, will it provide corporations with sufficient pricing power to increase profit margins?
- What sectors will be helped or hurt by the business climate during the next two years? How will this affect Arizona compared to other regions of the U.S.?
- What is the outlook for hiring and business productivity? Will increased capital spending lead to better productivity and profits in the foreseeable future?

FY 2005 Growth Rates

FY 2005 Budget Compared to FAC Panel



* Budgeted growth rate adjusted for \$76 M under-withholding in FY 04.

The Slippery Slope Upward

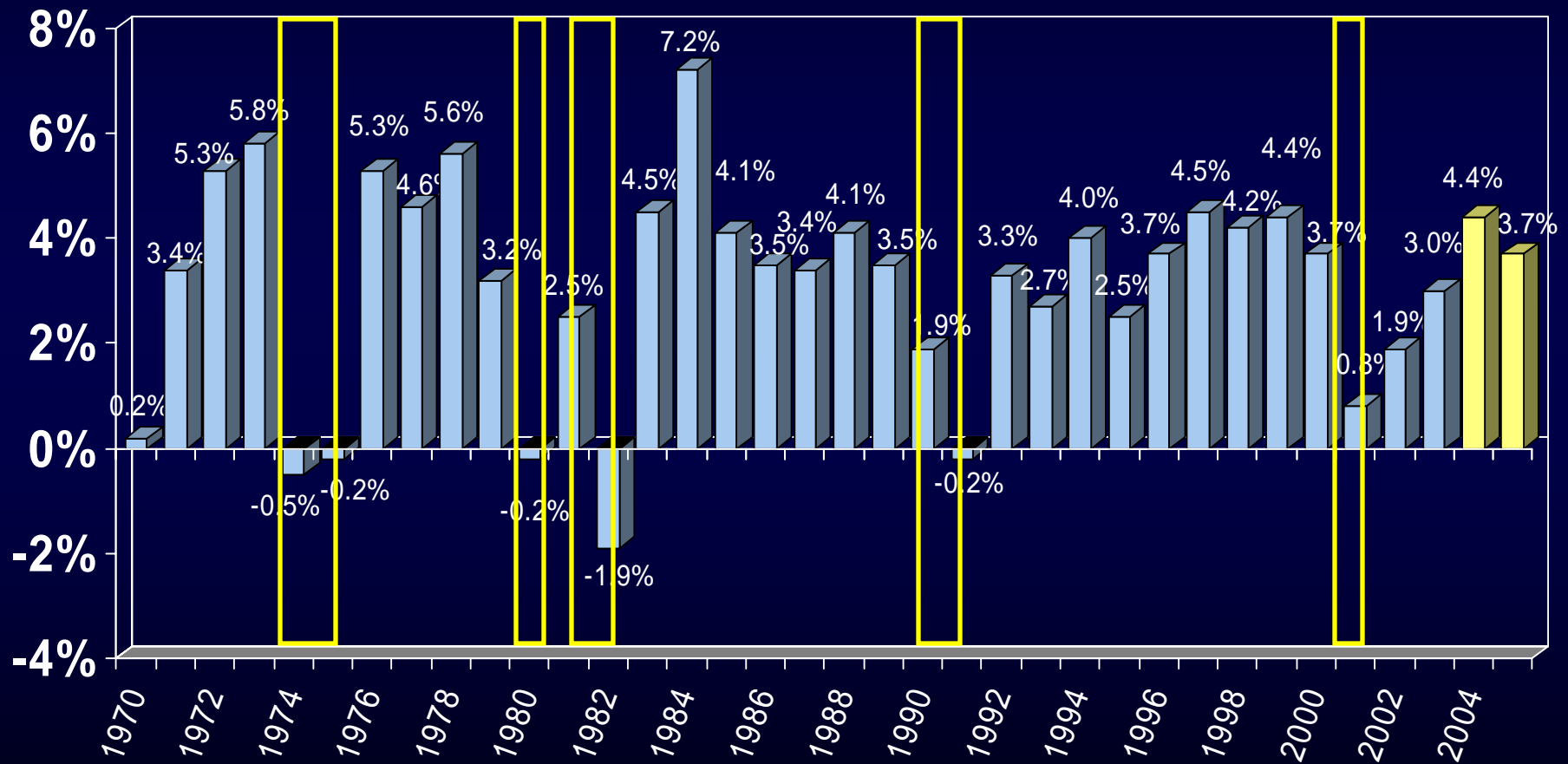
Elliott D. Pollack & Company

FAC

September 1st, 2004

United States Real Gross Domestic Product* Annual Growth 1970 - 2005**

Source: U.S. Bureau of Economic Analysis & *Blue Chip Economic Indicators*



* Based on chained 2000 dollars.

** 2004 - 2005 are forecasts from the Blue Chip Economic Indicators, August 2004

Recession Periods

U.S. Blue Chip Forecasts

Gross Domestic Product

| <u>Month</u> | <u>2004</u> | <u>2005</u> |
|--------------|-------------|-------------|
| April | 4.6% | 3.8% |
| May | 4.6% | 3.8% |
| June | 4.7% | 3.7% |
| July | 4.5% | 3.8% |
| August | 4.4% | 3.7% |

**The economy
is still
strong.**

**Any slowdown
is likely to be
transitory**

Oil

**Recent slowdown
partly due to
unexpected oil price
increases**

Oil Prices 1972 – 2004*

Source: Federal Reserve Board of St. Louis

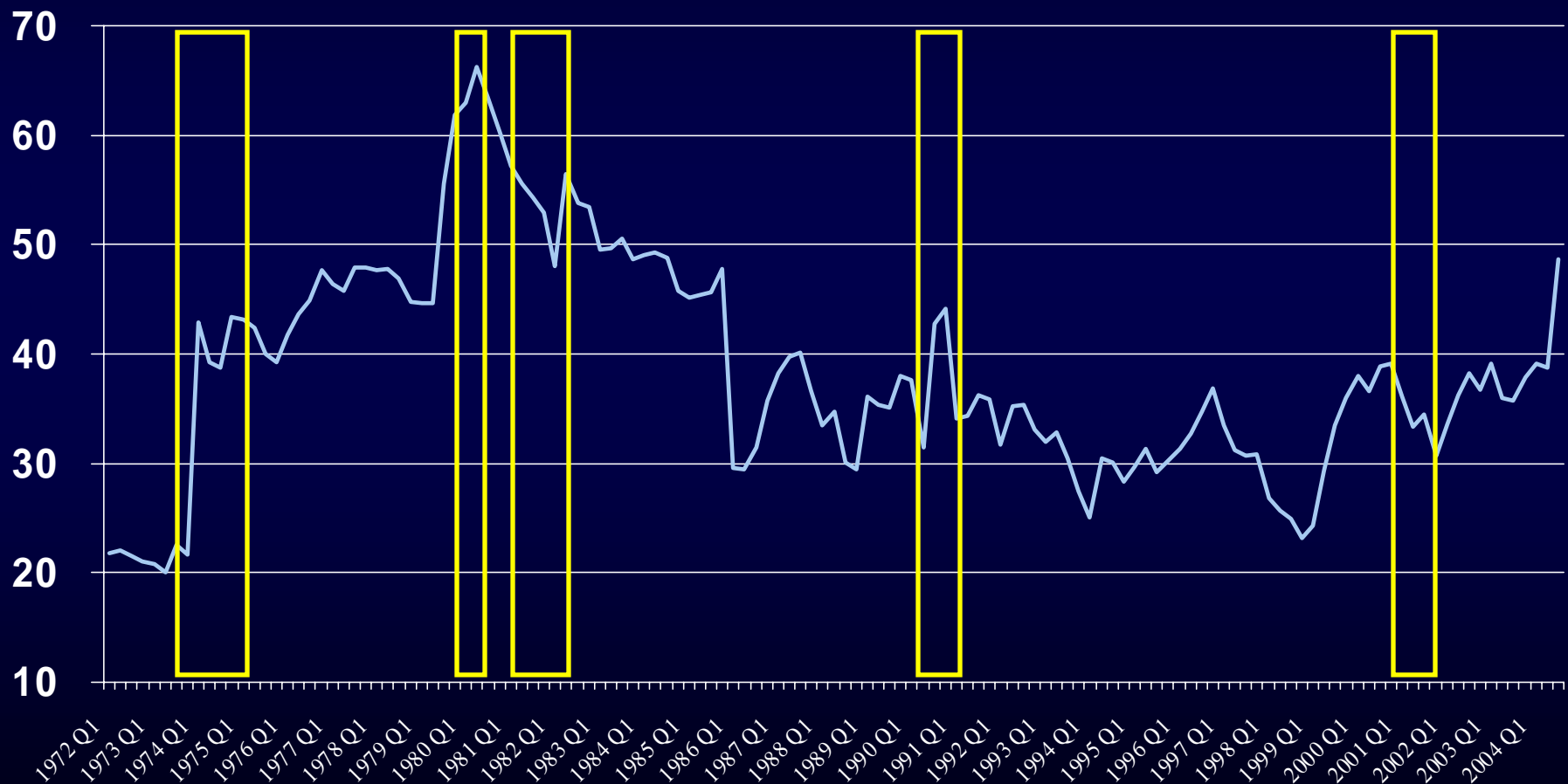


* Data through August 24, 2004 (\$45.61).

 Recession Periods

Inflation Adjusted Oil Prices (2004) 1972 – 2004*

Source: Federal Reserve Board of St. Louis and Bureau of Labor Statistics



•Data through second quarter, 2004
•** Adjusted with the PCE for oil & gas

□ Recession Periods

U.S. Motor Gasoline Prices 1993 – 2004*

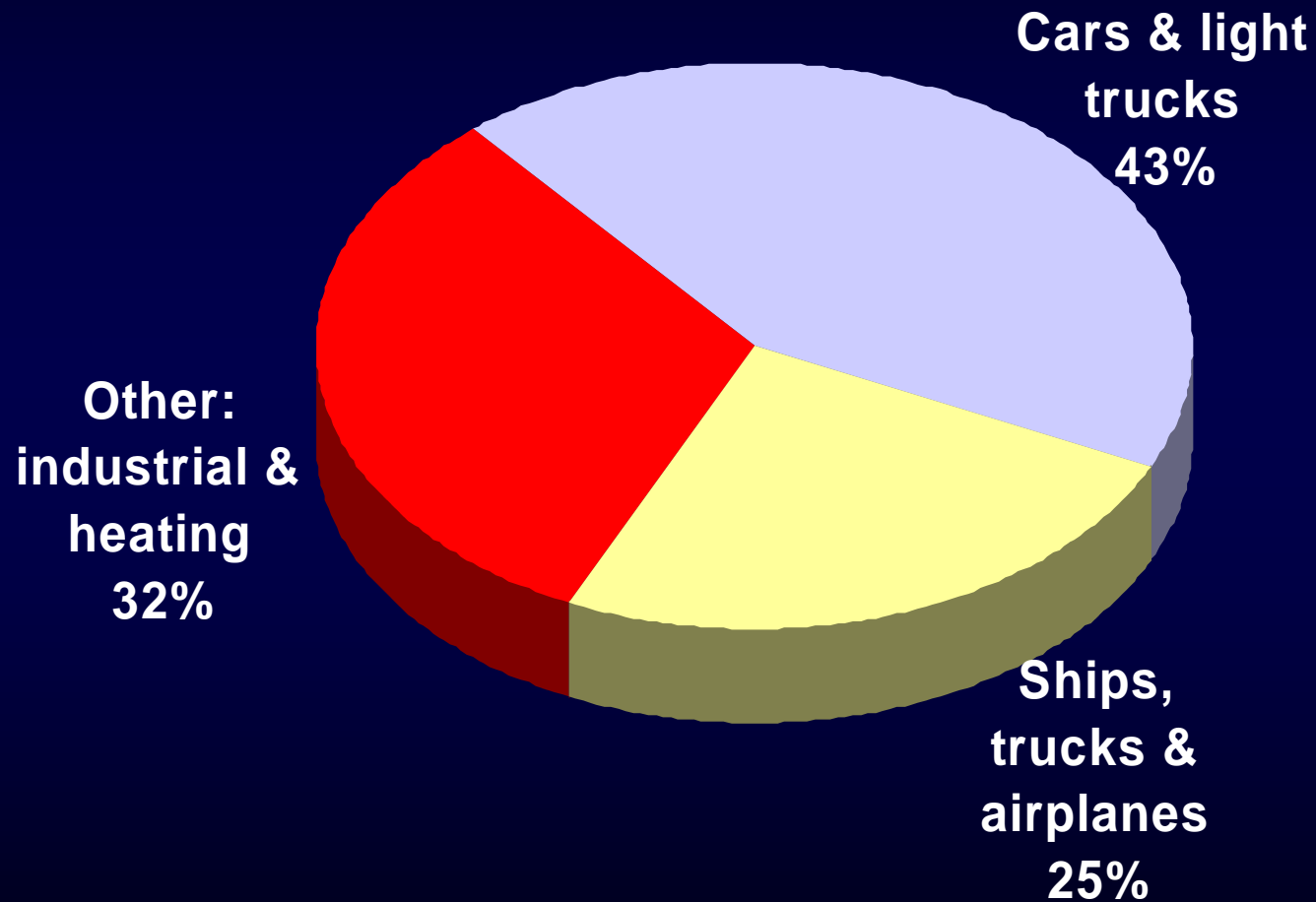
Source: Energy Information Administration



* Data through August 2004.

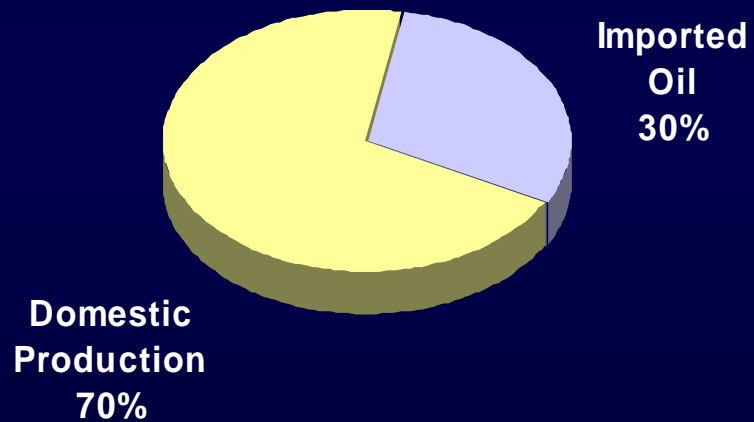
**U.S. is twice as
energy efficient as
in the 1970's**

U.S. Oil Use

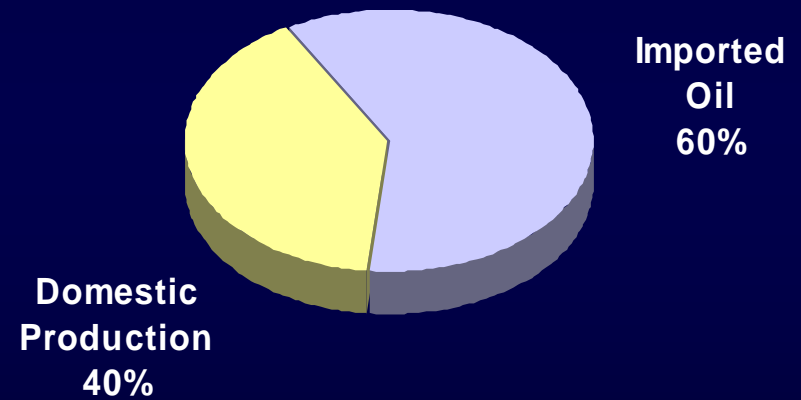


U.S. Imported Oil

1973



2004



IMPACTS

- **Cuts into consumer spending.**
- **Squeezes corporate profits and leads to less hiring and spending.**
- **Price effects → CPI → Bond prices**

**Oil price increases
act as a tax on
consumers &
business**

Impact on Consumer Spending

\$44 Billion

**Amount that rising gas prices
have siphoned away from U.S.
consumers in first half of 2004**

Impact on Consumer Spending

More than $\frac{1}{4}$ of the
overall increase in
consumer spending

IMPACT ON JOBS

Because labor is a major variable cost, higher energy outlays add more pressure to control labor costs.

IMPACT ON JOBS

Could result in a slowdown in capital spending even as business substitutes capital for labor.

IMPACT ON JOBS

**An attempt to increase
productivity**

IMPACT ON JOBS

The higher prices go, the fewer new jobs that will be created.

IMPACT ON JOBS

- **Costlier oil is having a cooling effect on hiring.**
- **Another problem has been high health care costs.**
- **Weak job market will keep inflation low.**

**So far, little price or
bond effect.**

**Future of oil
prices is
uncertain.**

**More likely to decline
from here.**

**But shocks could
occur that would
make the
expansion
bumpy.**

Consumer

Media's Problem Du Jour

30 months ago: “Double Dip”

2 years ago: “Housing Bubble”

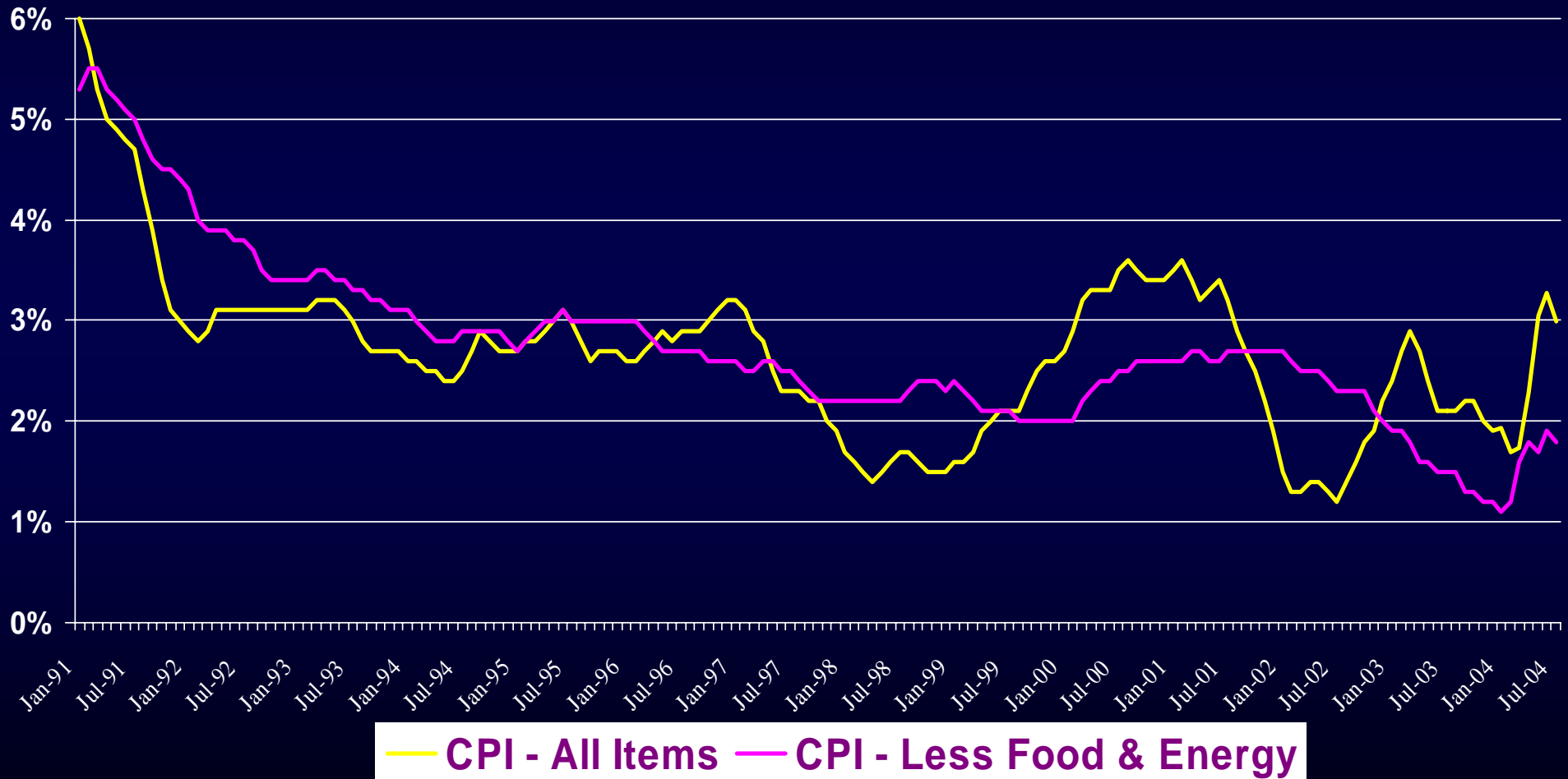
18 months ago: “Inflation v. Deflation”

Last year: “Jobless Recovery”

Now: “Oil Prices”

Consumer Price Index Percent Change Year Ago 1991 – 2004*

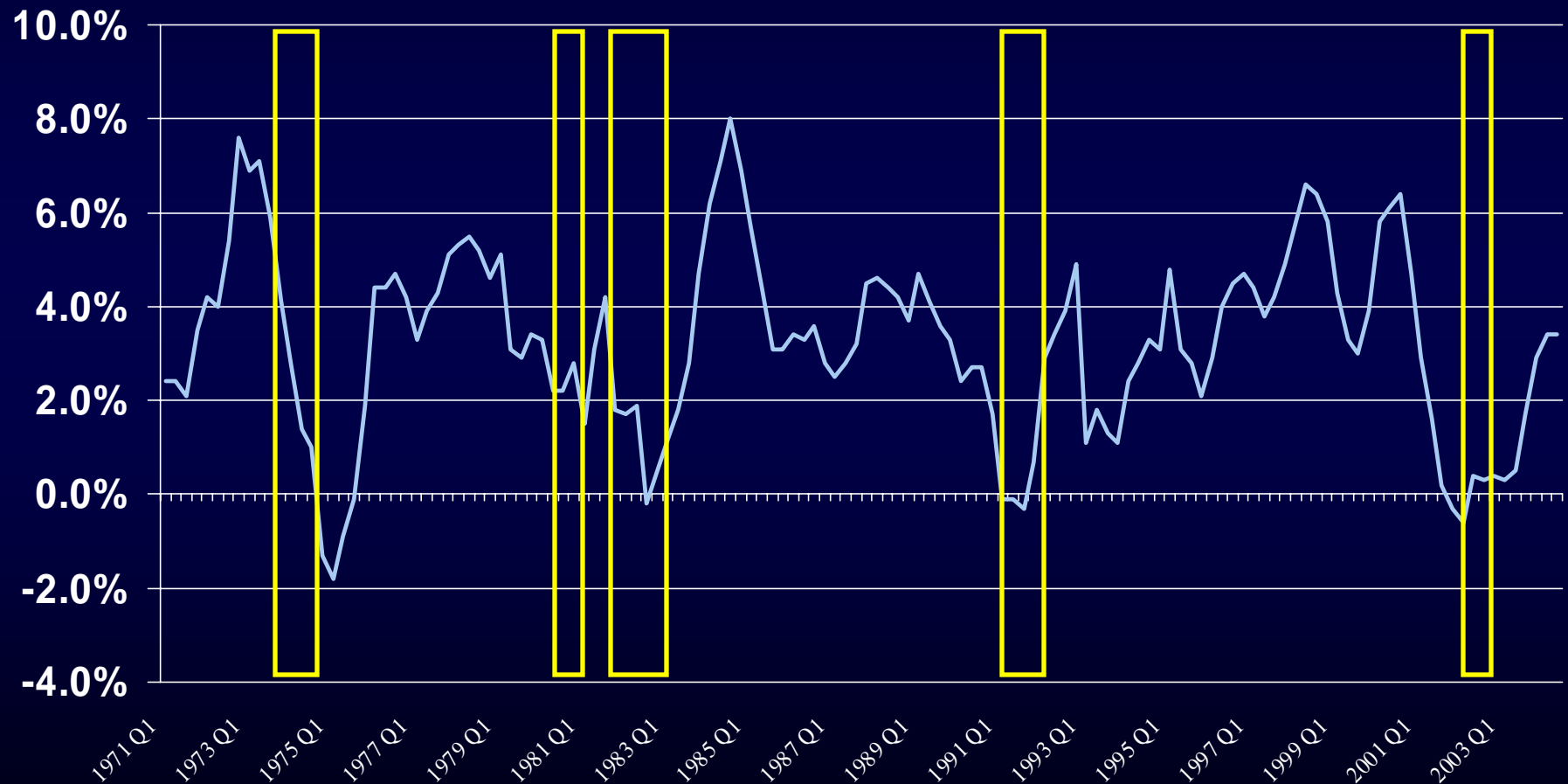
Source: Bureau of Labor Statistics



•Three-month moving average. Data through July 2004.

U.S. Real Personal Income Percent Change Year Ago 1971 – 2004*

Source: Bureau of Economic Analysis

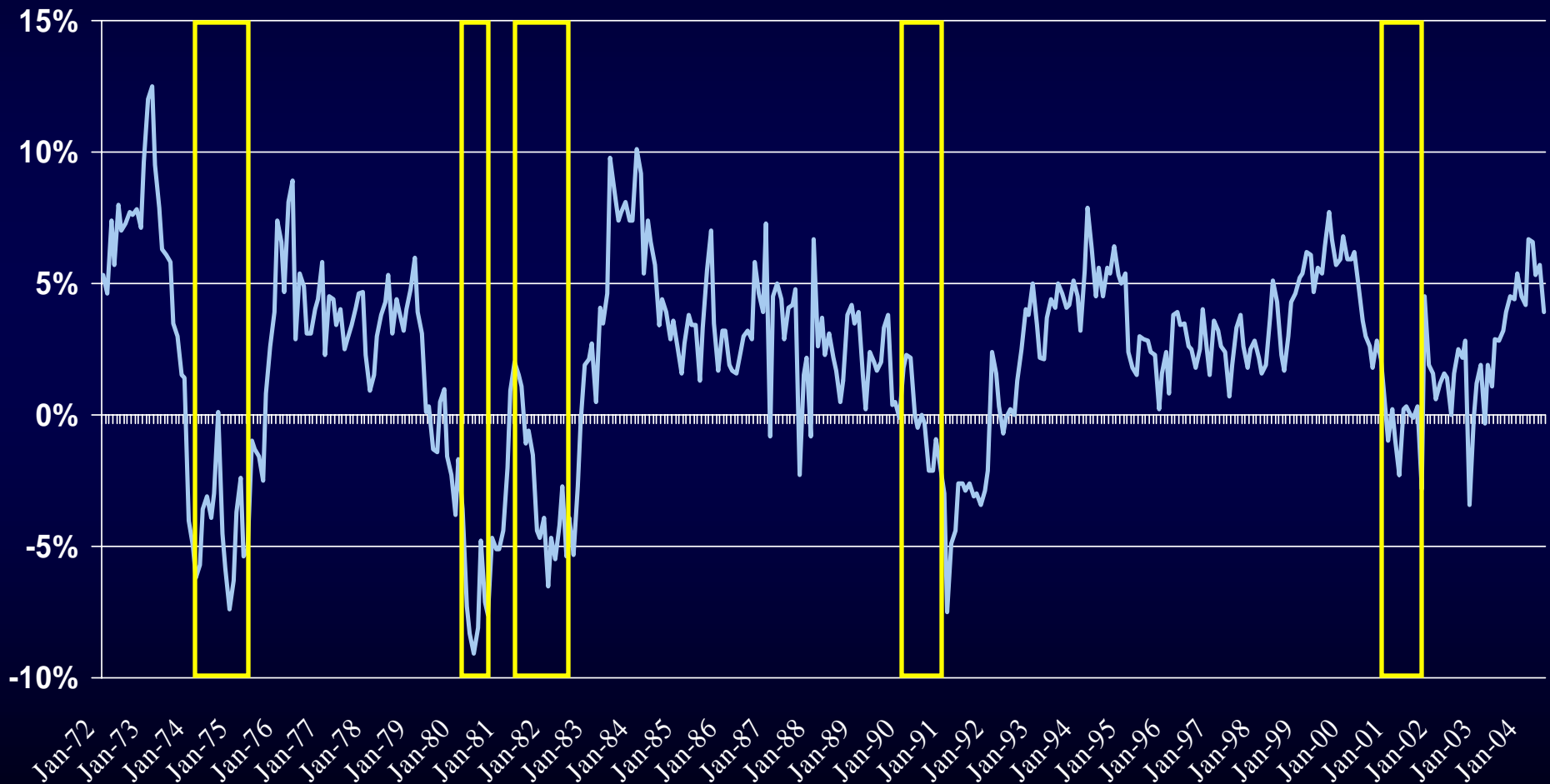


*Data through second quarter 2004

 Recession Periods

U.S. Real Retail Sales 1972 – 2004*

Source: Federal Reserve Board of St. Louis



* Data through June 2004.

 Recession Periods

Financial Obligation Ratio 1980 – 2003*

Source: Board of Governors, Federal Reserve Board



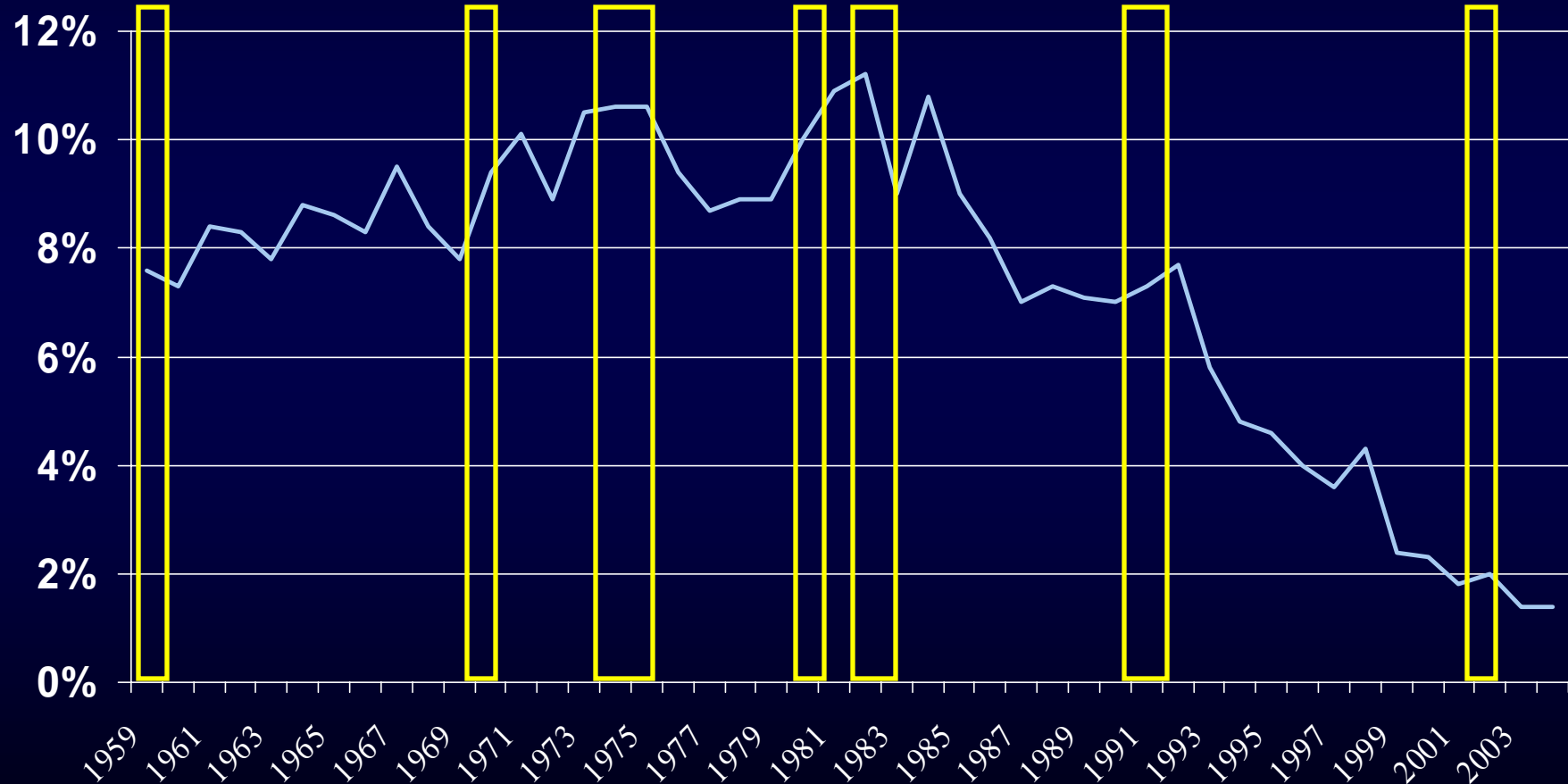
NOTE: The FOR includes debt service payments as a percent of disposable income. The FOR is a broader measure as it includes auto lease payments, rental payments, homeowner's insurance and property taxes.

*Data through fourth quarter 2003.

 Recession Periods

U.S. Personal Savings Rate 1959 – 2004*

Source: U.S. Bureau of Economic Analysis

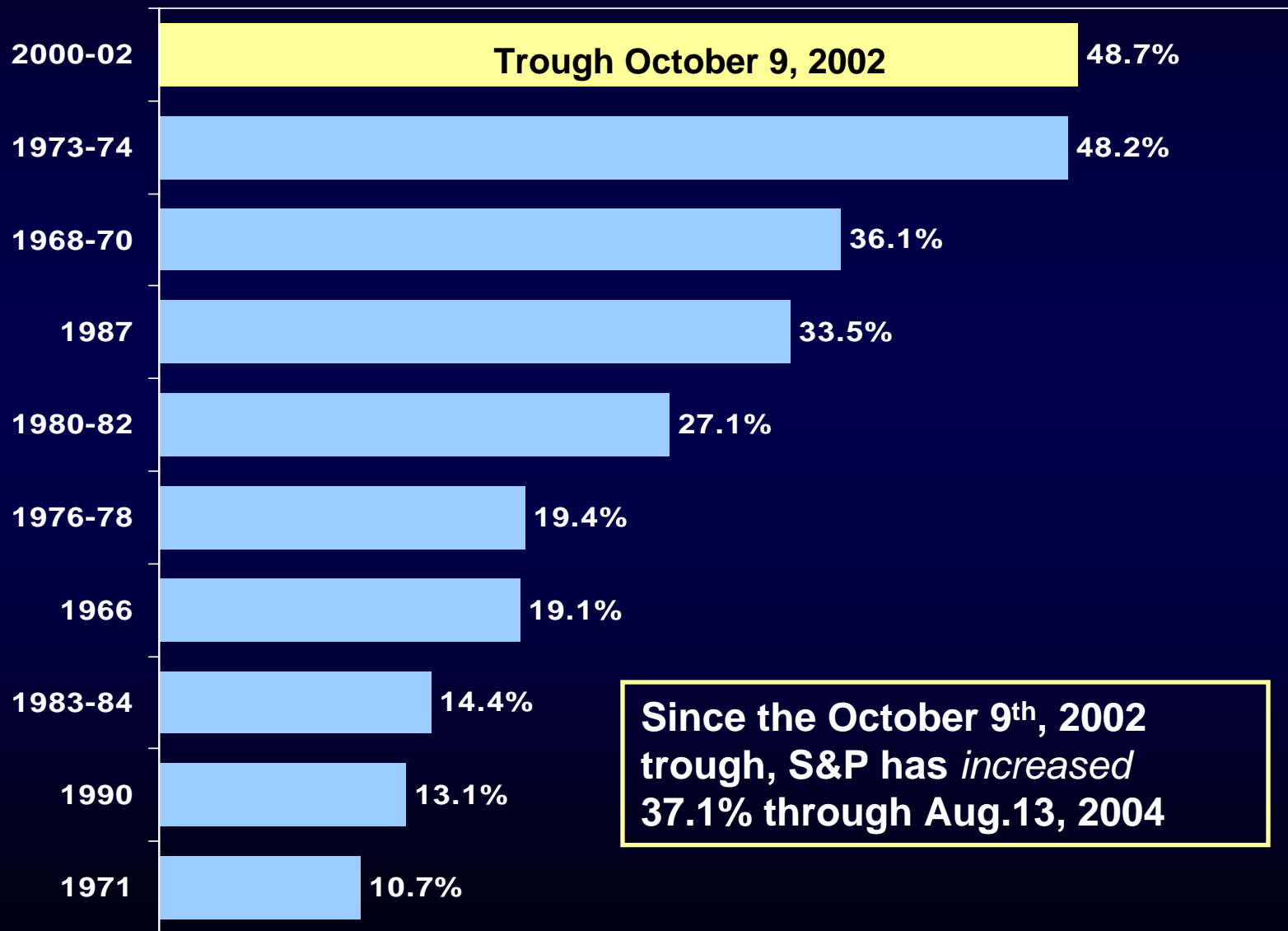


*Data through second quarter 2004

 Recession Periods

Bear Markets

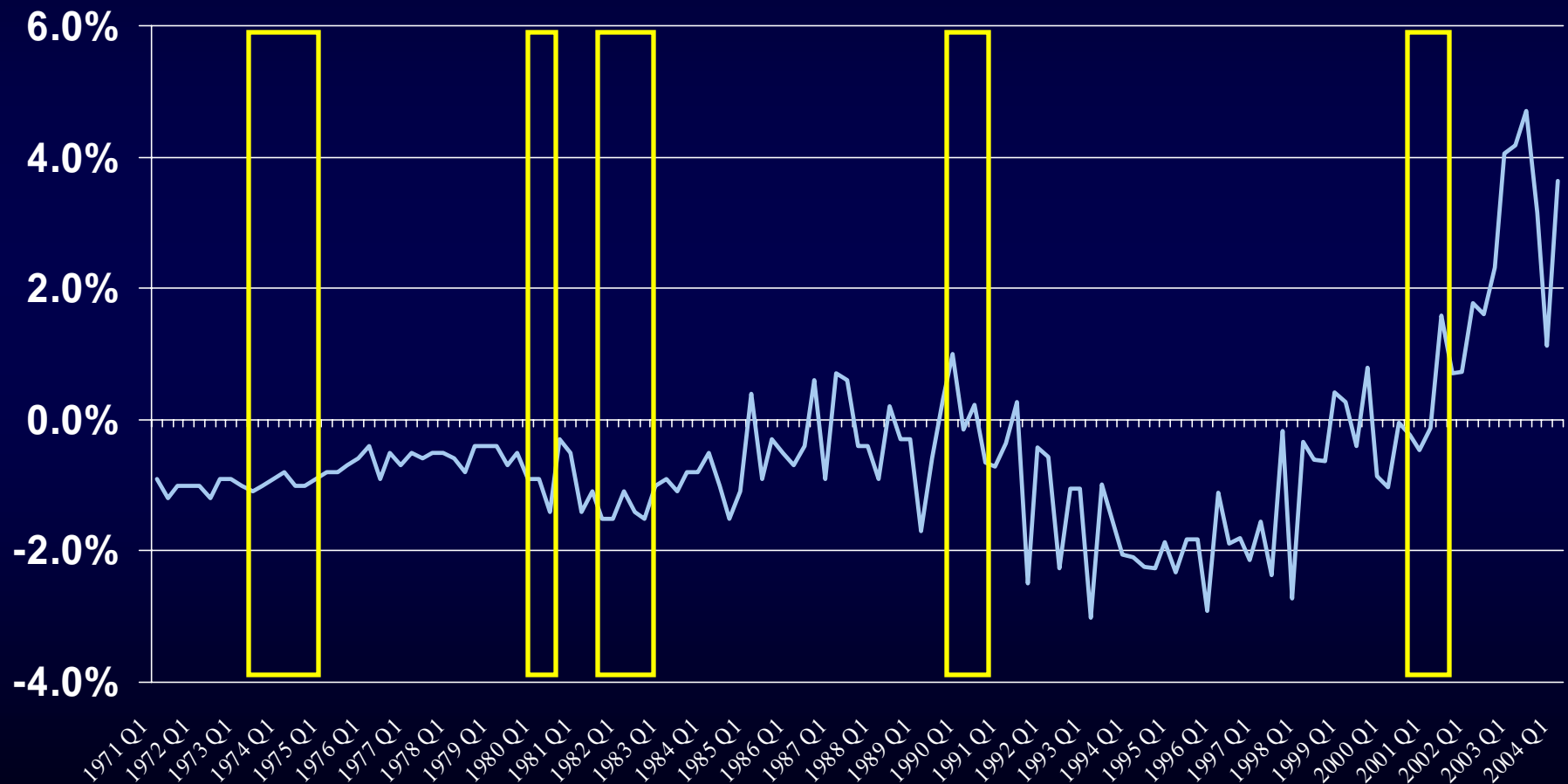
Ranking of Peak to Trough Declines S&P Composite Stock Price Index



Mortgage Equity Withdrawal as a share of Disposable Income

U.S.: 1971 – 2004*

Source: Bureau of Economic Analysis



* Data through first quarter 2004

Recession Periods

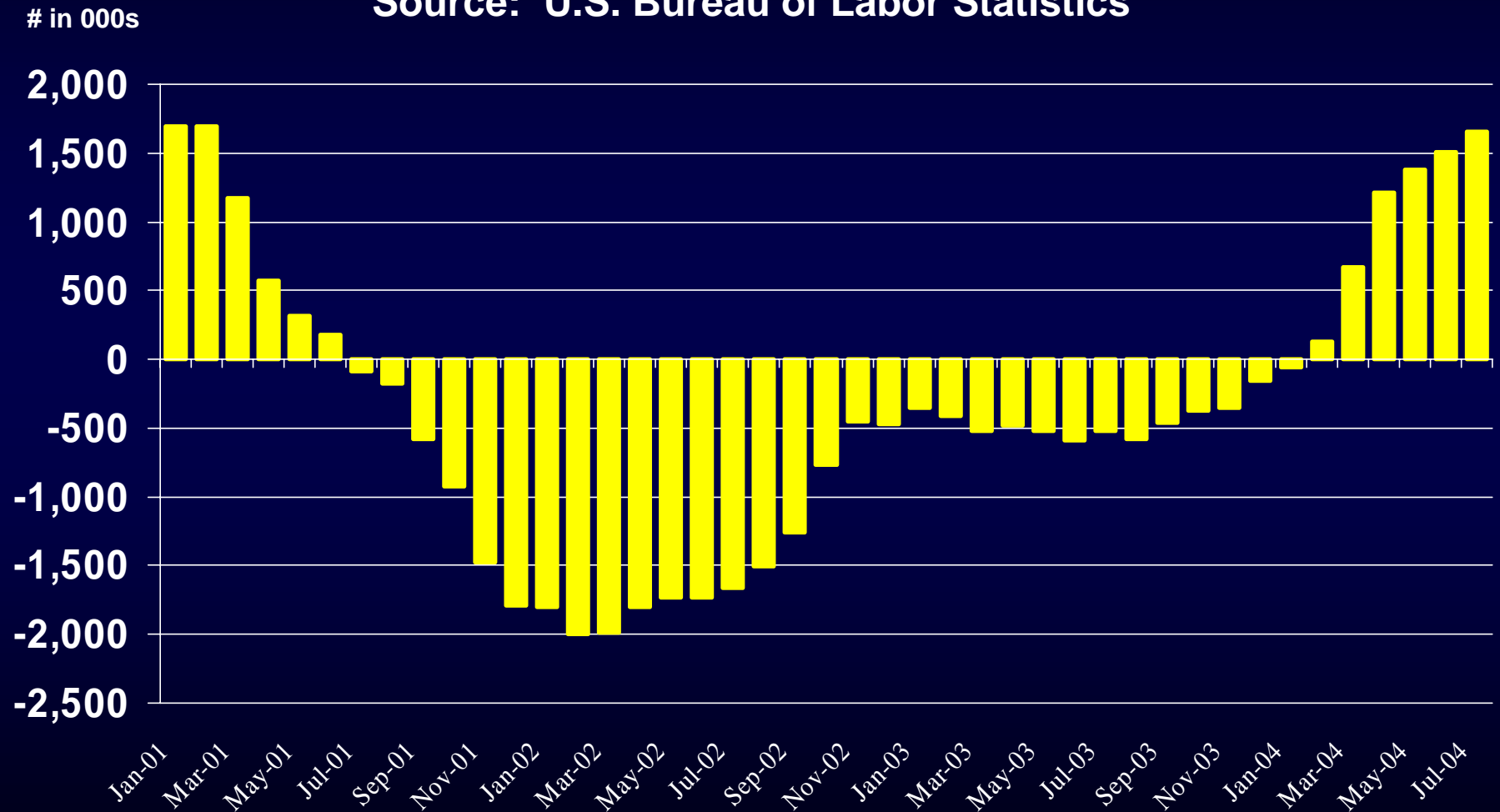
Unemployment Rate

Unemployment Rate 32 months Post Recession

| <u>Recession</u> | <u>UER at End</u> | <u>UER 32 months post</u> |
|------------------|-----------------------|-------------------------------|
| 1975 | 8.5% | 7.0% |
| 1982 | 10.8% | 7.4% |
| 1991 | 6.8% | 6.8% |
| 2001 | 5.6% | 5.5% |

National Employment (Net change in jobs over year ago) January 2001 – July 2004

Source: U.S. Bureau of Labor Statistics

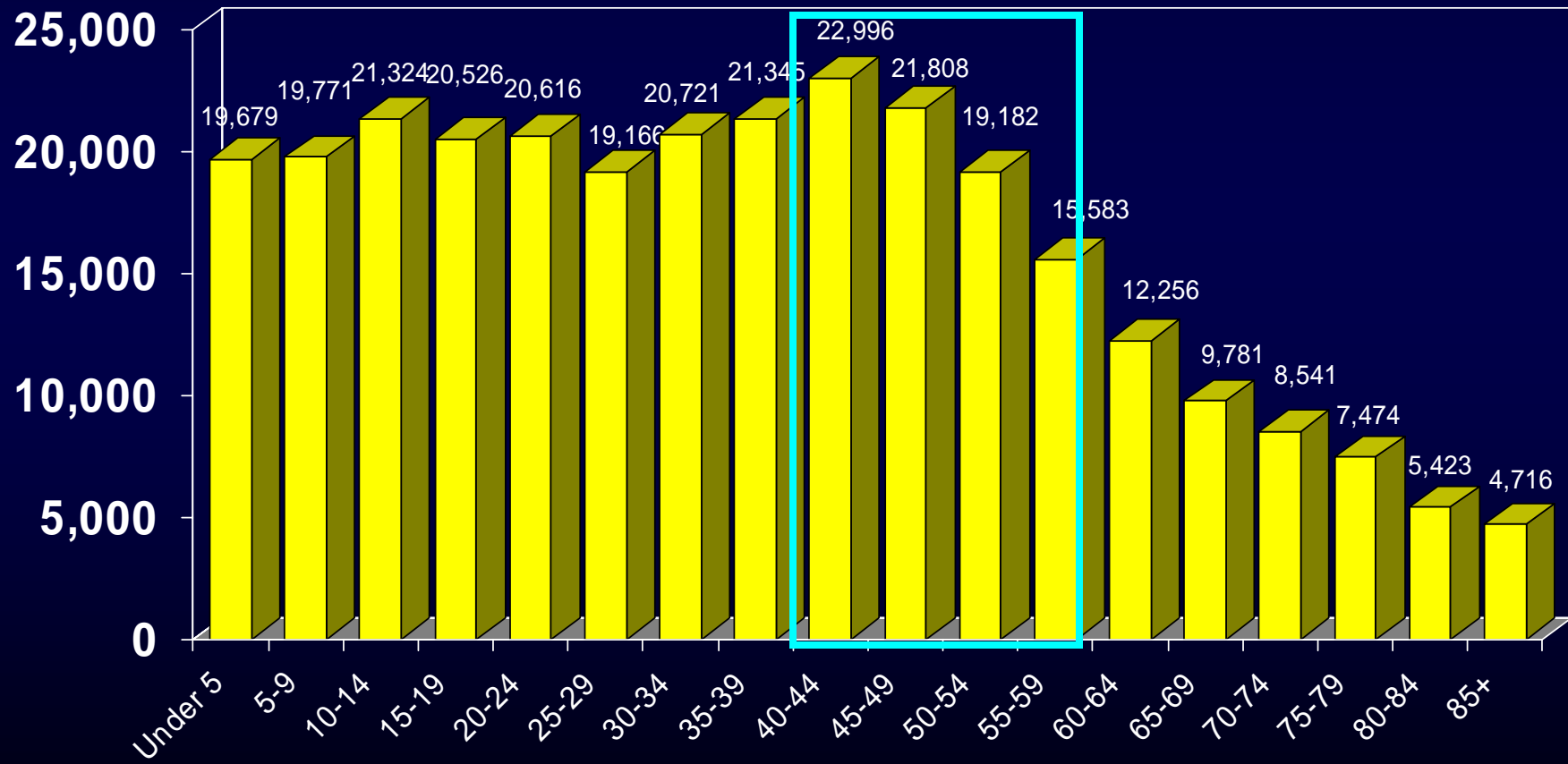


** Data through July 2004.

2003 U.S. Population by Age

Source: U.S. Bureau of the Census

Thousands



 Baby Boomers

Civilian Labor Force: Population Entering and Exiting the Labor Force

| <u>Year</u> | <u>20-24 years</u> | <u>60-64 years</u> | <u>Difference</u> |
|-------------|--------------------|--------------------|-------------------|
| 1970 | 17,202 | 8,676 | 8,826 |
| 1980 | 21,386 | 10,143 | 11,243 |
| 1990 | 19,132 | 10,619 | 8,513 |
| 2000 | 19,140 | 10,867 | 8,273 |
| 2005 | 20,963 | 13,153 | 7,810 |
| 2010 | 21,995 | 16,638 | 5,357 |
| 2015 | 22,615 | 18,958 | 3,657 |
| 2020 | 21,859 | 21,186 | 673 |

Source: U.S. Census Bureau & Arizona Department of Economic Security

Output Per Hour

| <u>Recession</u> | <u>% Growth</u> <u>10 qtrs</u> <u>from</u> <u>Recession End</u> |
|------------------|--|
| 1975 | 7.9% |
| 1982 | 6.7% |
| 1991 | 5.8% |
| 2001 | 11.1% |

Benefits of productivity growth

- **Less price pressure**
- **Dollar goes further**
- **Increases in real standard of living**

Jobless Recovery?

**Employment growth 32 months from the end of the recession
(seasonally adjusted monthly data)**

| <u>Recession</u> | <u>% Growth</u> |
|------------------|-----------------|
| 1975 | 9.8% |
| 1982 | 10.0% |
| 1991 | 3.1% |
| 2001 | 0.3% |

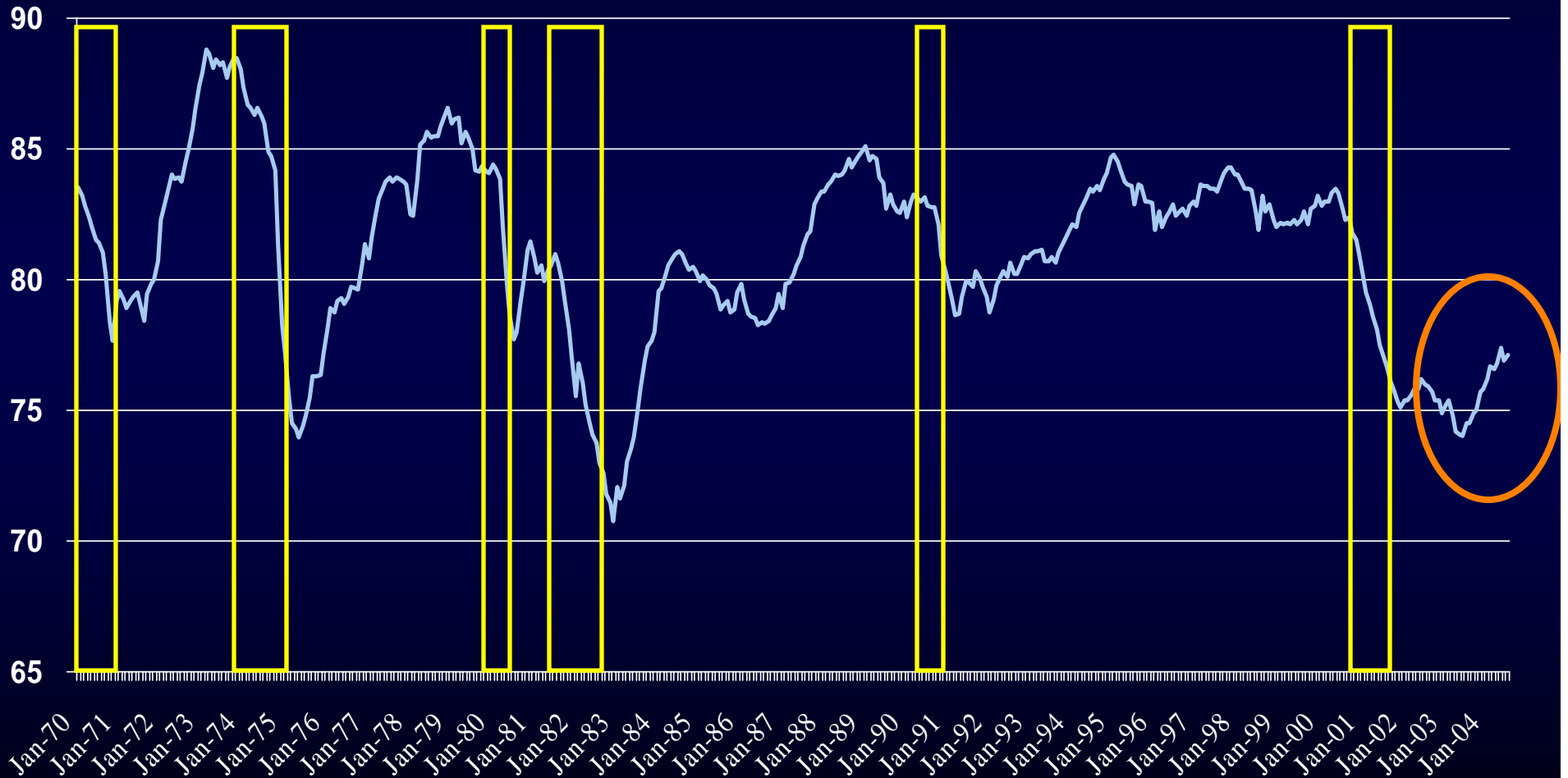
Business

**Entering portion of
cycle where business
spending will drive
economy.**

**Businesses
playing
things
close to the
vest**

Capacity Utilization Rate 1970 – 2004*

Source: The Conference Board

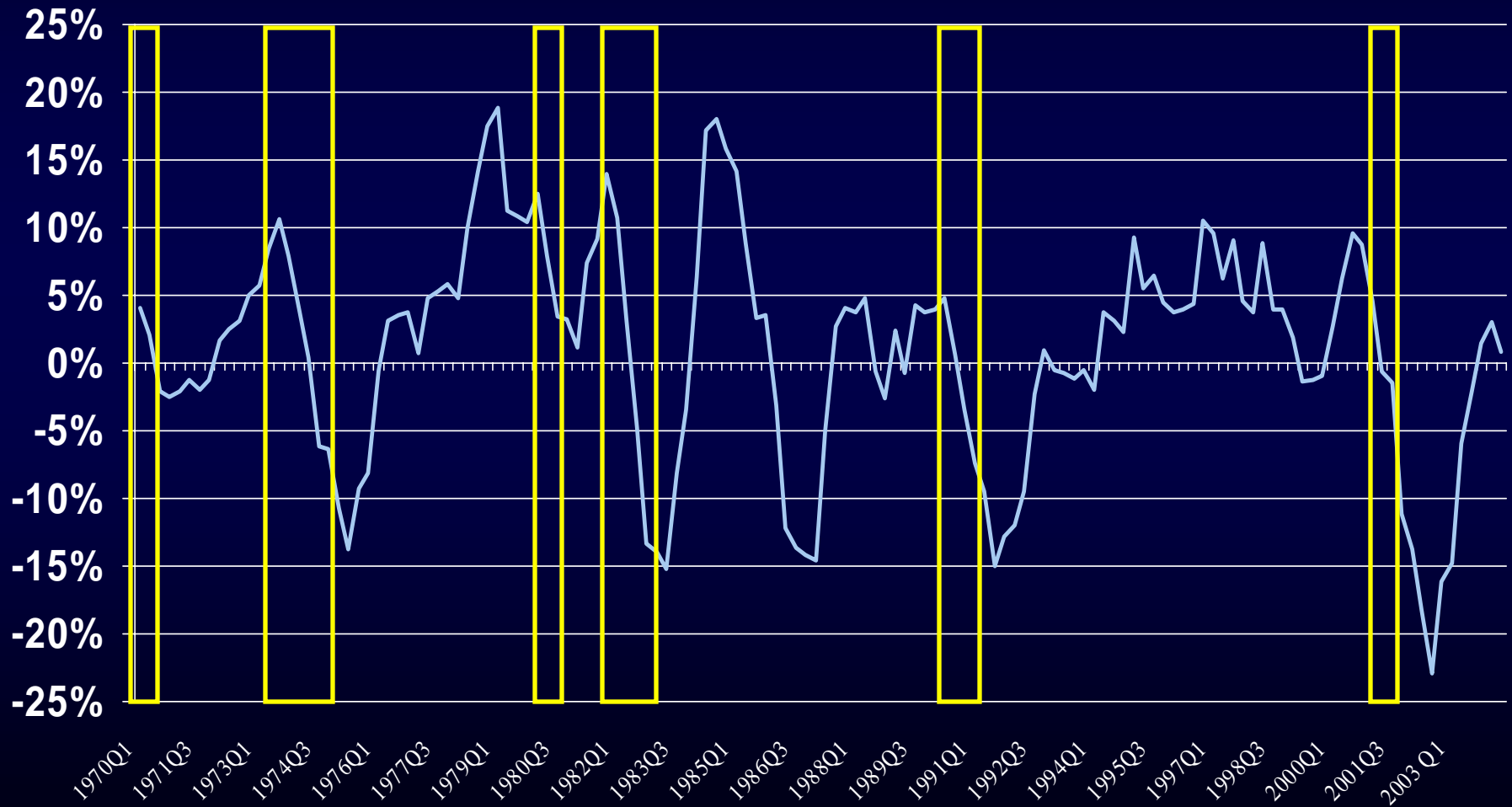


* Data through July 2004.

 Recession Periods

Total Plant Spending Percent Change Year Ago (Real Dollars) 1970 – 2004*

Source: Bureau of Economic Analysis



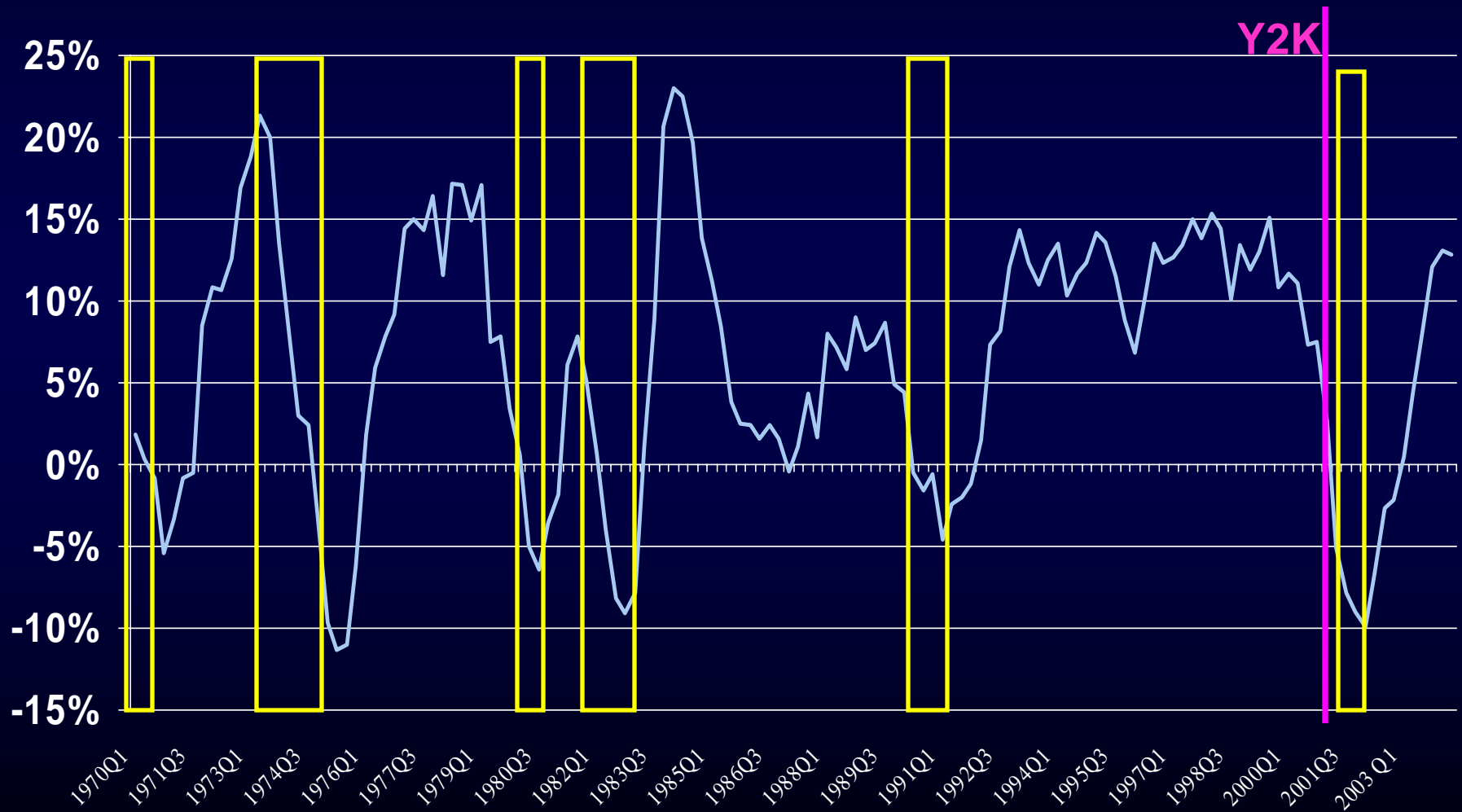
•Data through second quarter 2004.

•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.

 Recession Periods

Total Equipment & Software Spending Percent Change Year Ago (Real Dollars) 1970 – 2004*

Source: Bureau of Economic Analysis



•Data through second quarter 2004.

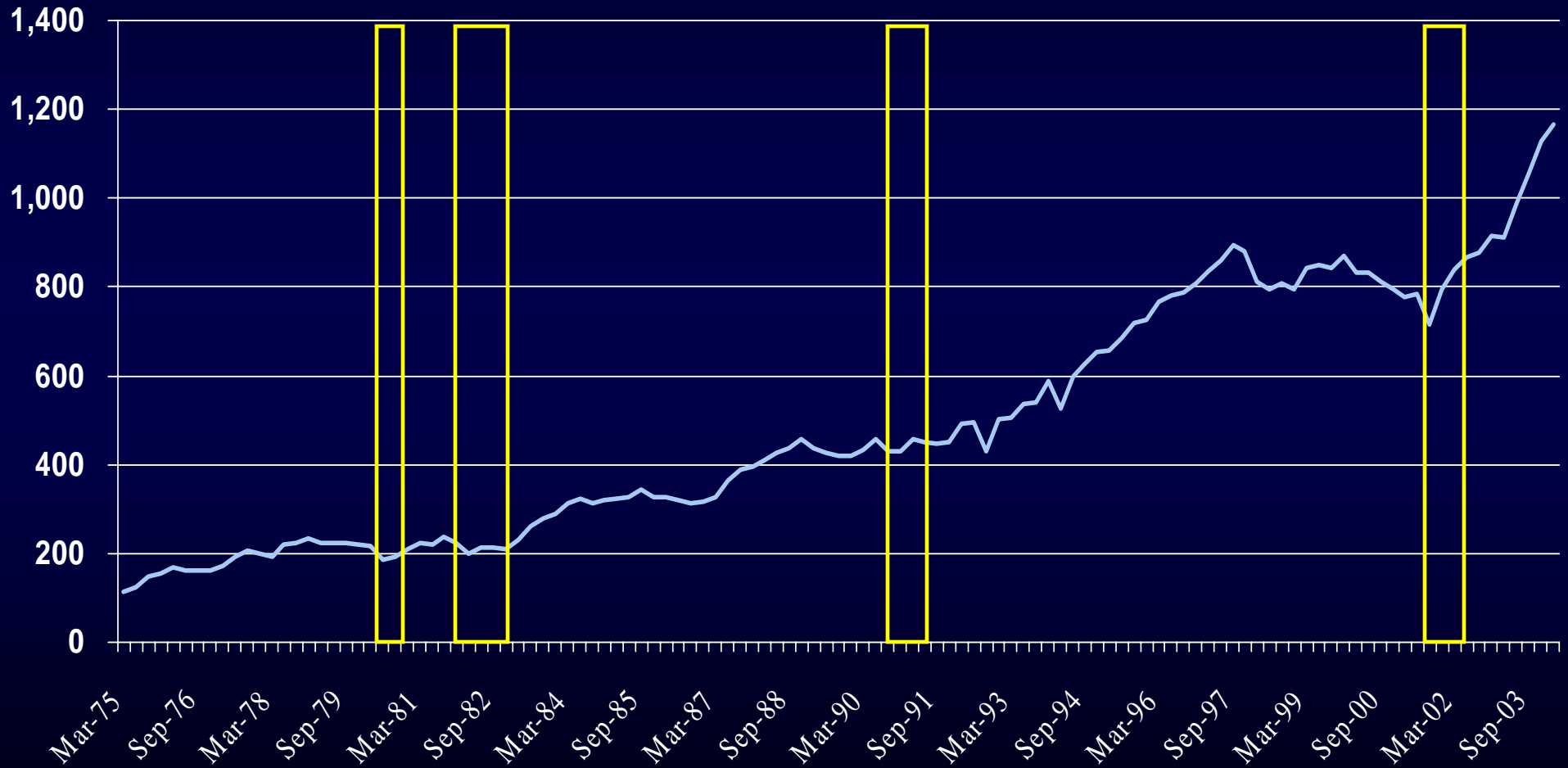
•NOTE: Series was revised in March 2004. Data prior to 1990 was not provided.

 Recession Periods

Corporate Profit 1975-2004*

(Billions of Dollars, SA)

Source: Freelunch.com



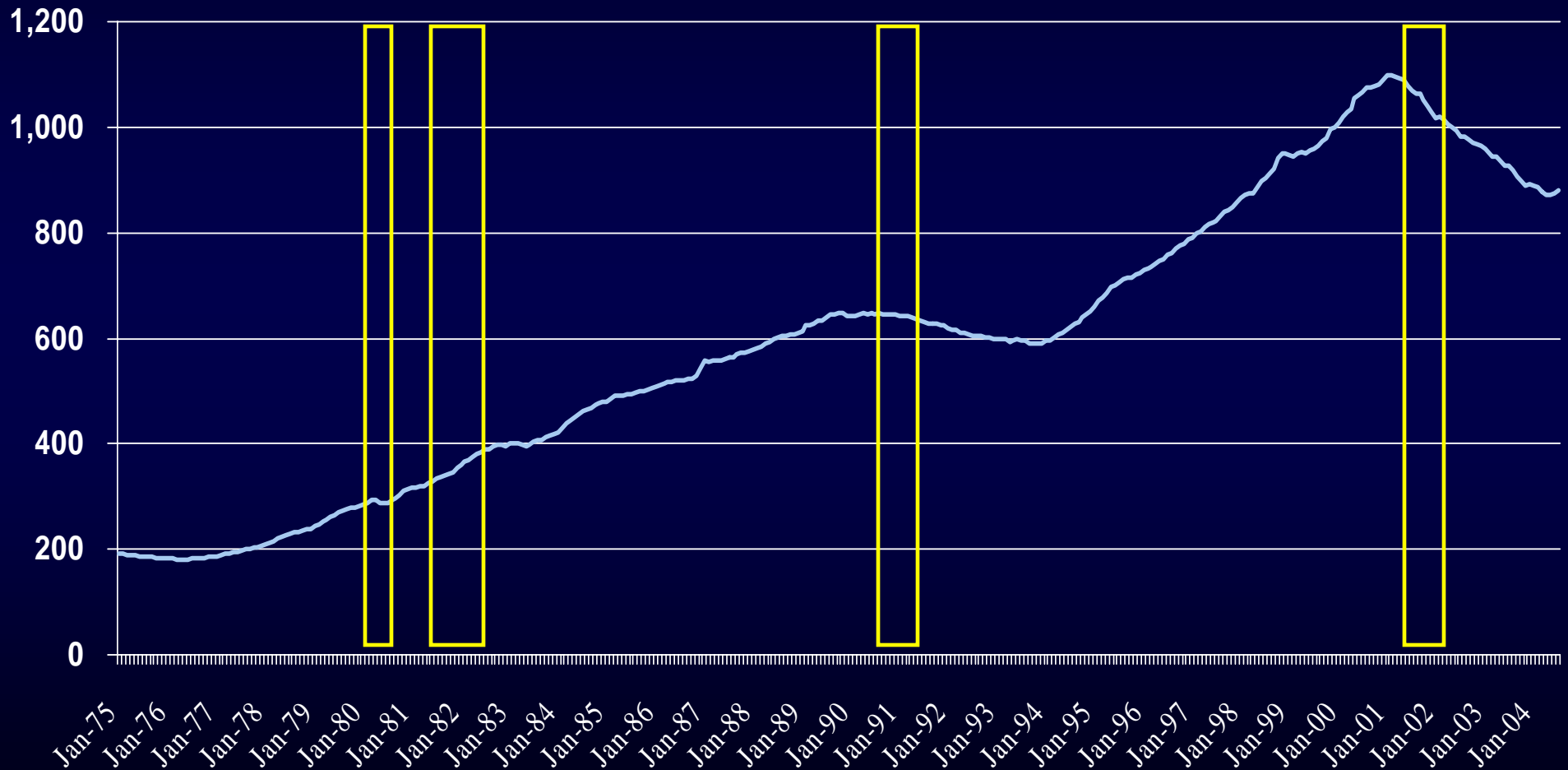
•Data through first quarter 2004

 Recession Periods

Commercial & Industrial Loans, U.S. Based Banks 1975-2004*

(Billions of Dollars, SA)

Source: Federal Reserve Economic Database



•Data through July 2004.

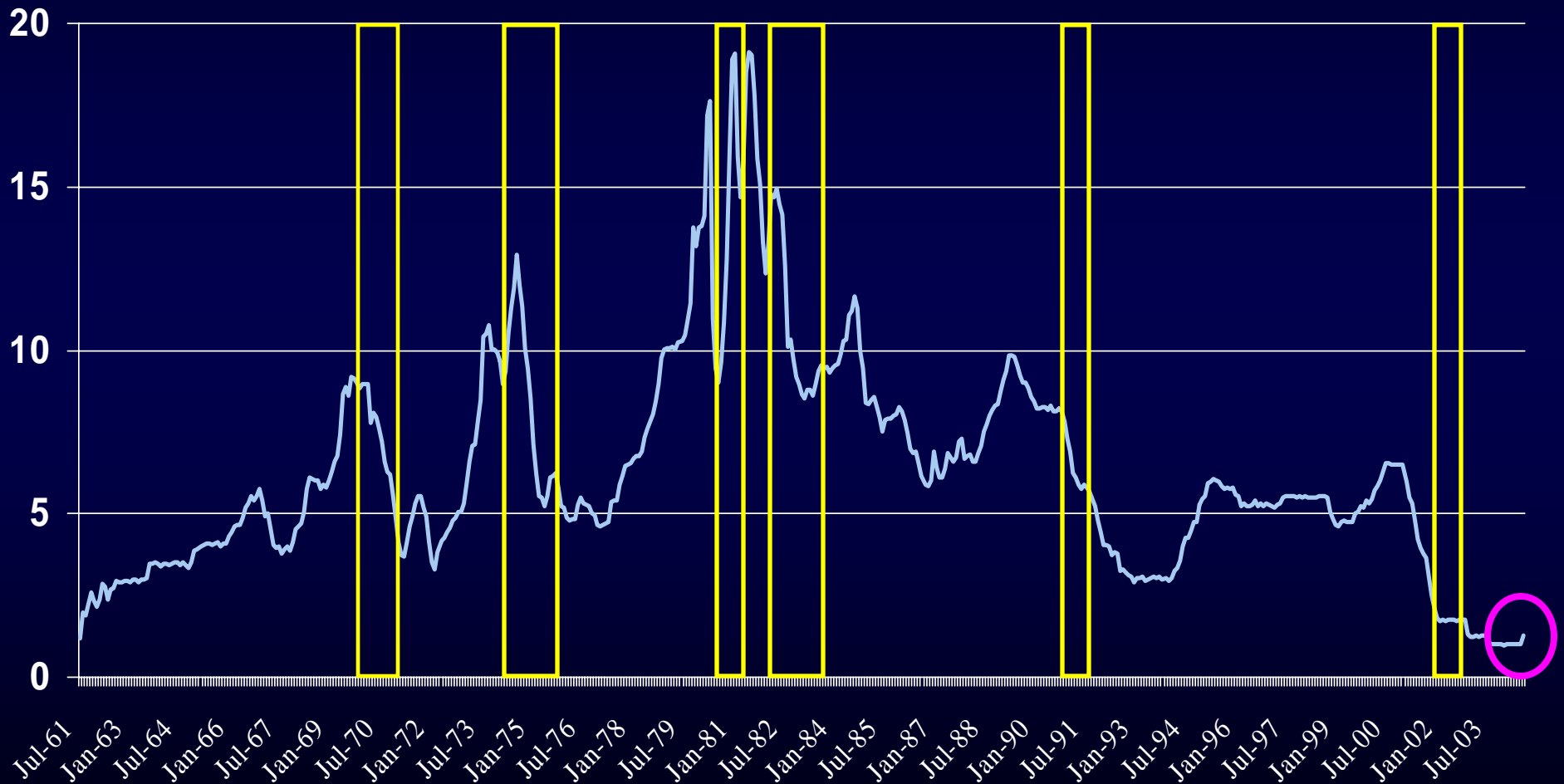
 Recession Periods

Government

**Lots
of
Stimulus**

Federal Funds Rate 1961 – 2004*

Source: Federal Reserve

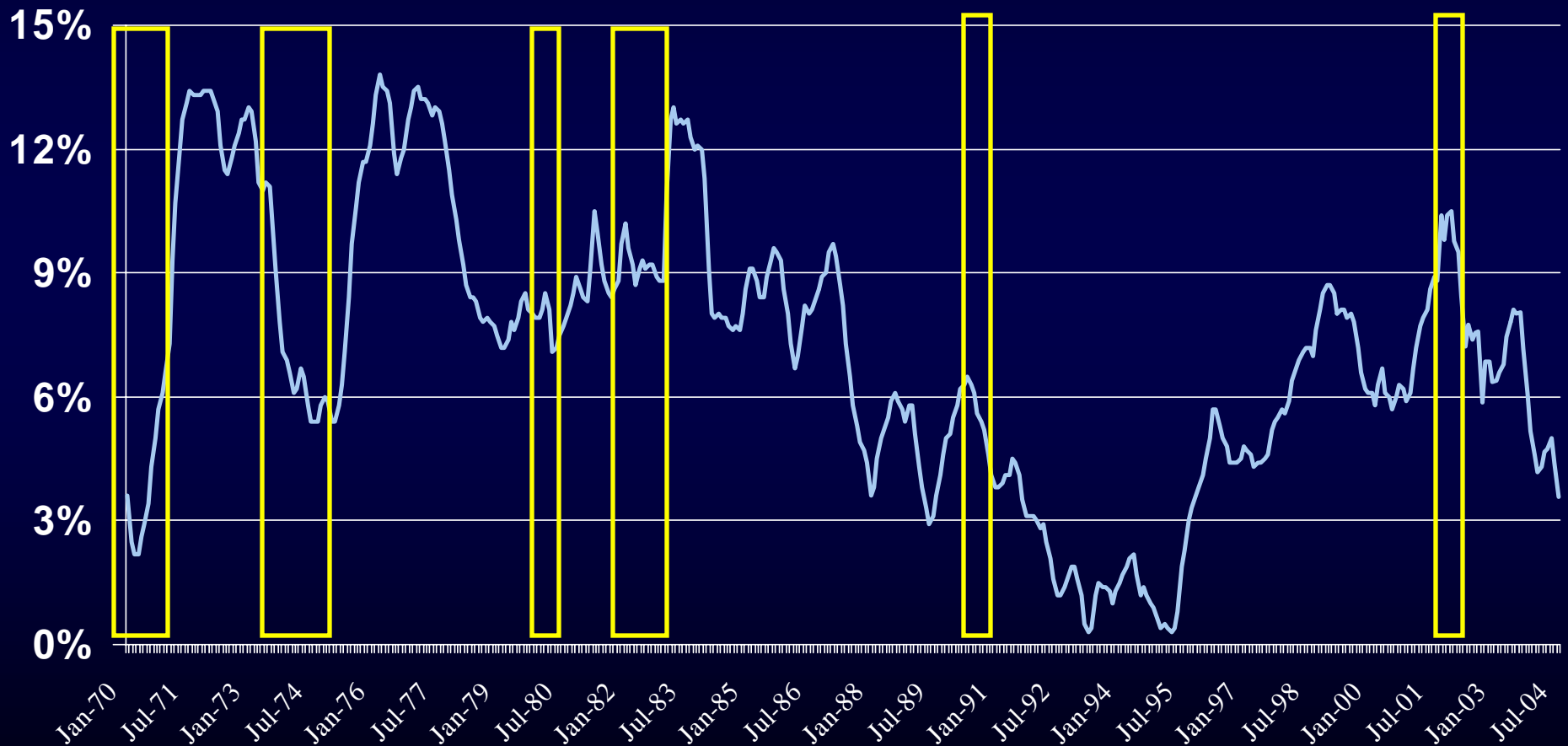


•Data through July 2004.

Recession Periods

M2 Stock – Seasonally Adjusted Percent Change Year Ago 1970 – 2004*

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



* Data through July 2004.

 Recession Periods

Fiscal Stimulus

- **\$140 billion in 2004**

Including: \$47 billion marginal tax rate

\$36 billion marriage-penalty relief

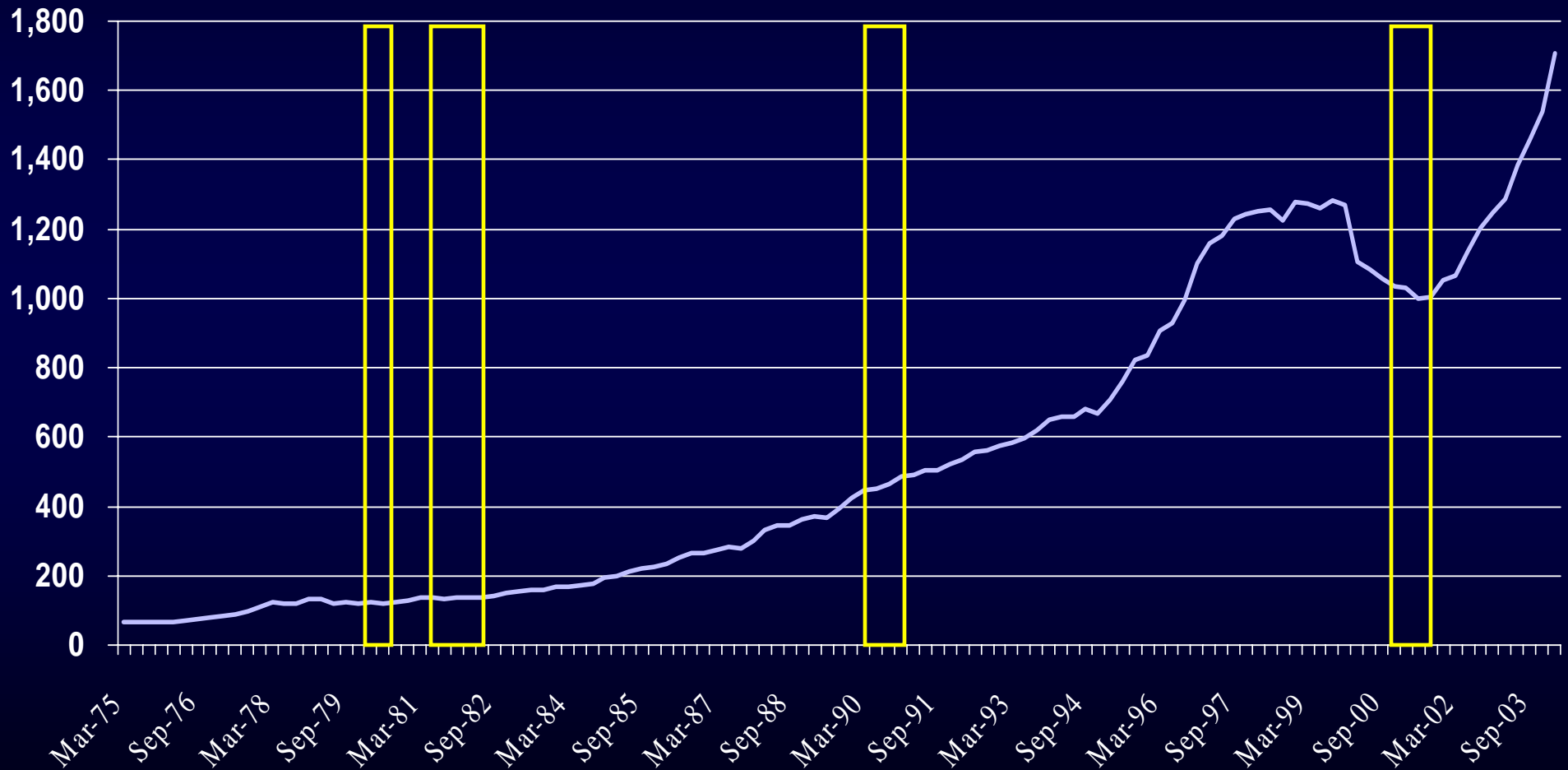
\$16 billion childcare credit

Deficit ??

U.S. Debt Held by Foreign & International Investors 1975-2004*

(Billions of Dollars, SA)

Source: Federal Reserve Economic Database



•Data through first quarter 2004.

2004

**Good
times ahead?**

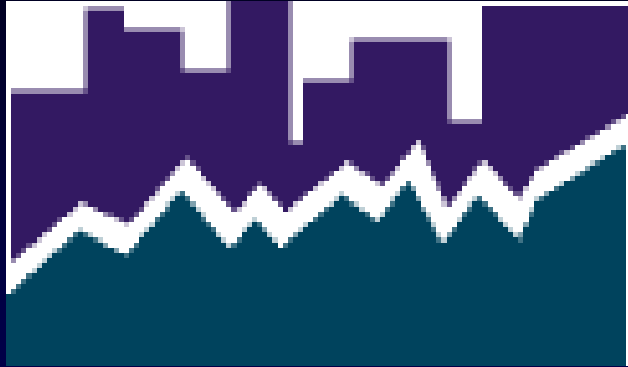
Mostly.

U.S. OUTLOOK **GOOD** NEWS

- **Fiscal stimulus**
- **Monetary stimulus**
- **Real incomes up**
- **Businesses mean and lean**
- **Productivity growth strong**
- **Job growth accelerating, albeit slowly**
- **Cheaper dollar means more exports**
- **Inflation (in near term) not a problem**
- **Tech changes will shortly be upon us**
- **Low interest rates**

U.S. Outlook
NET:

**Economy will
continue to expand.**



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Arizona Real-Time Economic Indicators

September 1, 2004

JLBC

Employment Statistics Depend on Data Source and Methodology

- Data based on household interviews conducted by the Census Bureau each month.
- Data based on payroll records submitted by businesses to the Bureau of Labor Statistics each month.

Differences Between the Two Employment Data Series

Household Survey:

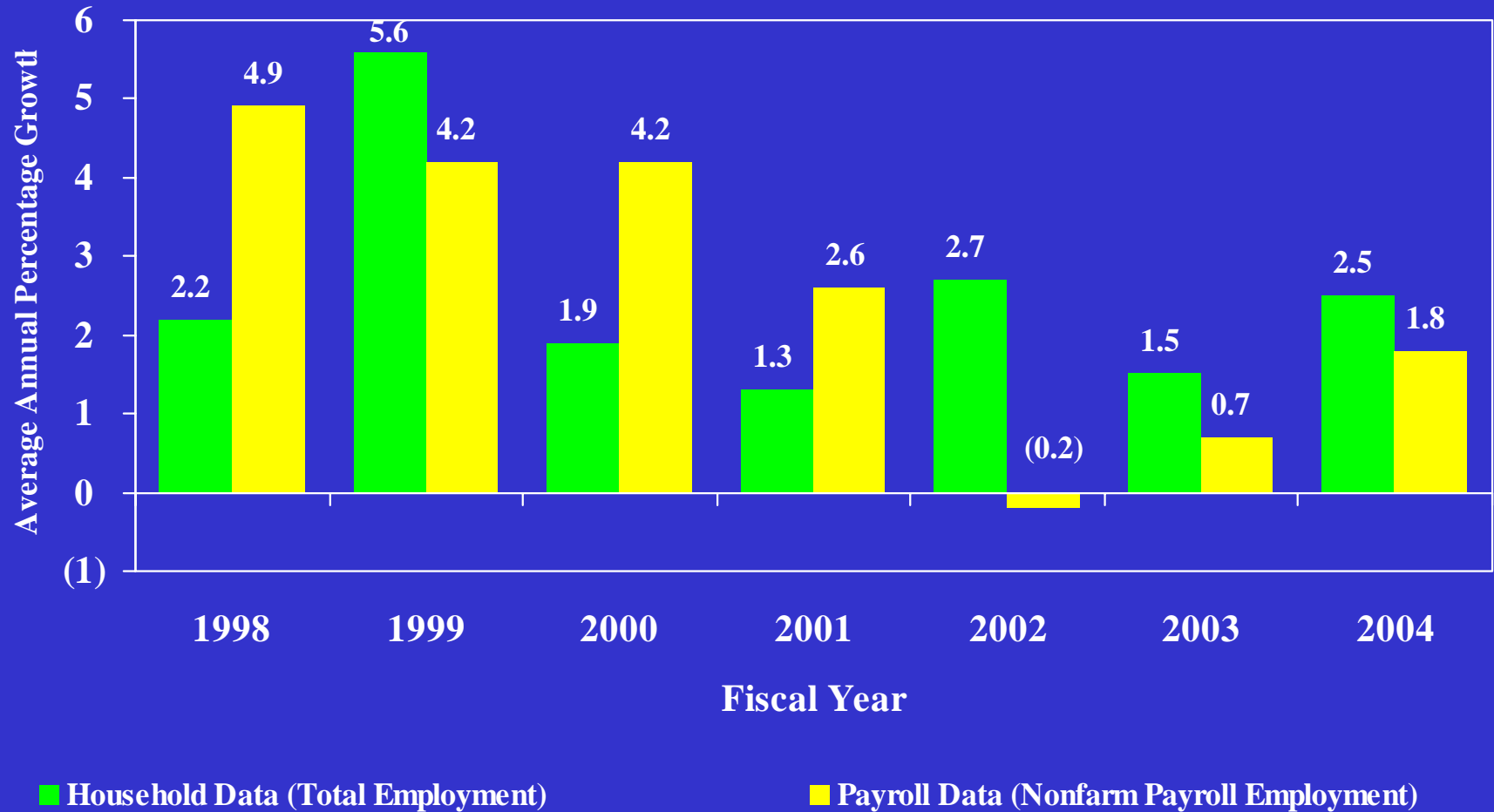
- Includes self-employed persons; not limited to wage and salary employees.
- Multiple jobholders only counted once.
- Uses relatively small sample size - can fluctuate considerably.

Payroll Survey:

- Limited to wage and salary employees.
- Multiple jobholders counted for each job.
- Uses large sample size - considered to be a more reliable measure.

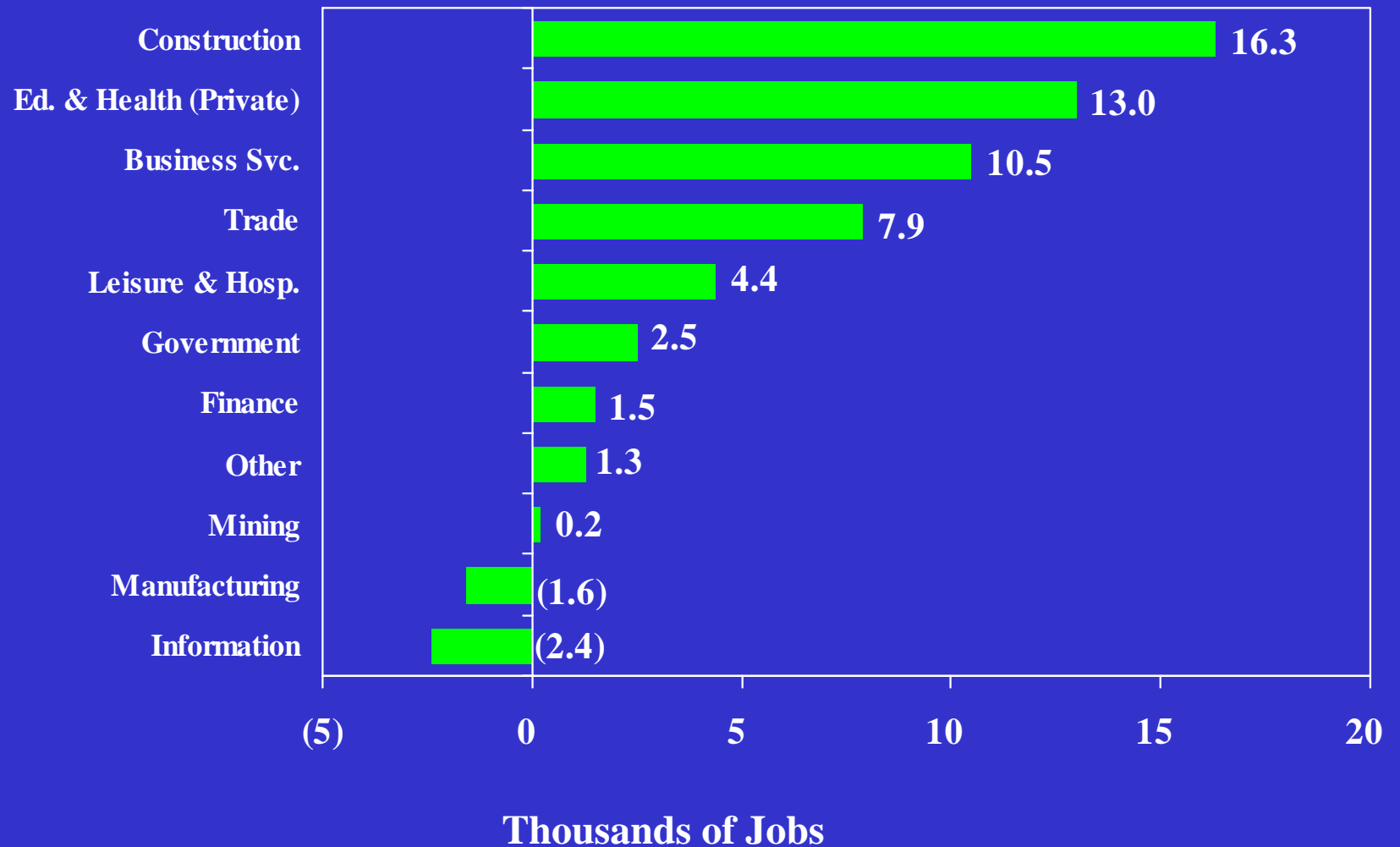
Household and Payroll Job Data Vary Considerably

Household Data Has Shown Greater Growth in Last 3 Years



53,600 Arizona Jobs Added In Last Year (Payroll Data)

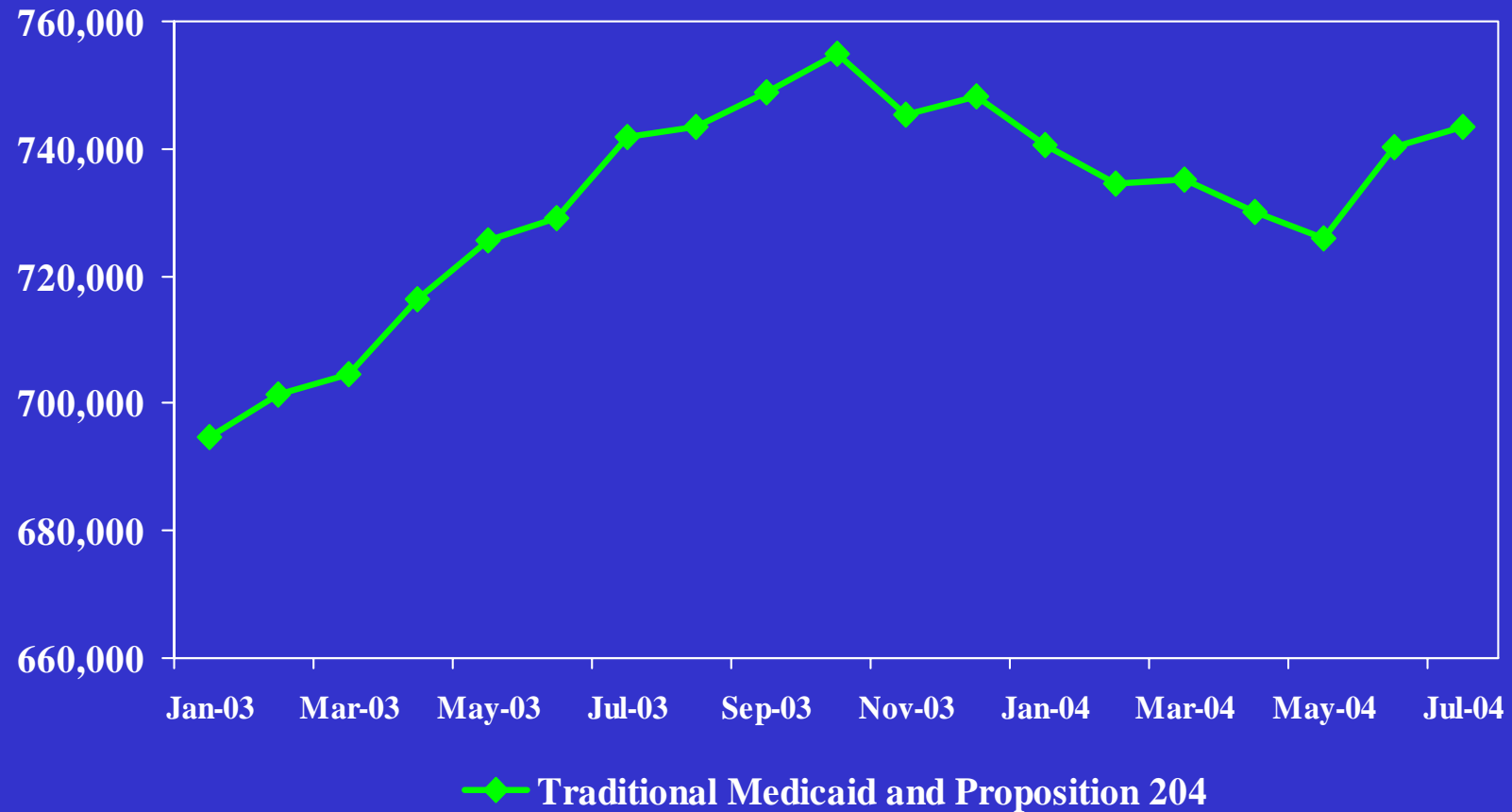
Construction and Health Led the Way - Manufacturing Still Lagging



Use of AHCCCS Caseloads as an Economic Indicator

- While the jobs picture has been favorable, AHCCCS caseload has increased significantly in the last 2 months.
- Since AHCCCS eligibility is tied to household income, it may be an economic indicator.

AHCCCS Caseloads Spike by 18,000 Members After 7 Months of Declines



Are Increasing Caseloads a Negative Economic Indicator?

- What is driving recent increases in AHCCCS membership?
 - Economic decline? Jobless claims are also increasing.
 - Elimination of processing backlog?
 - Redetermination period changes?
- What do caseload increases mean for the overall economic outlook?

State's 2 Largest Revenue Sources Withholding Tax and Sales Tax Increases Over Last 4 Months

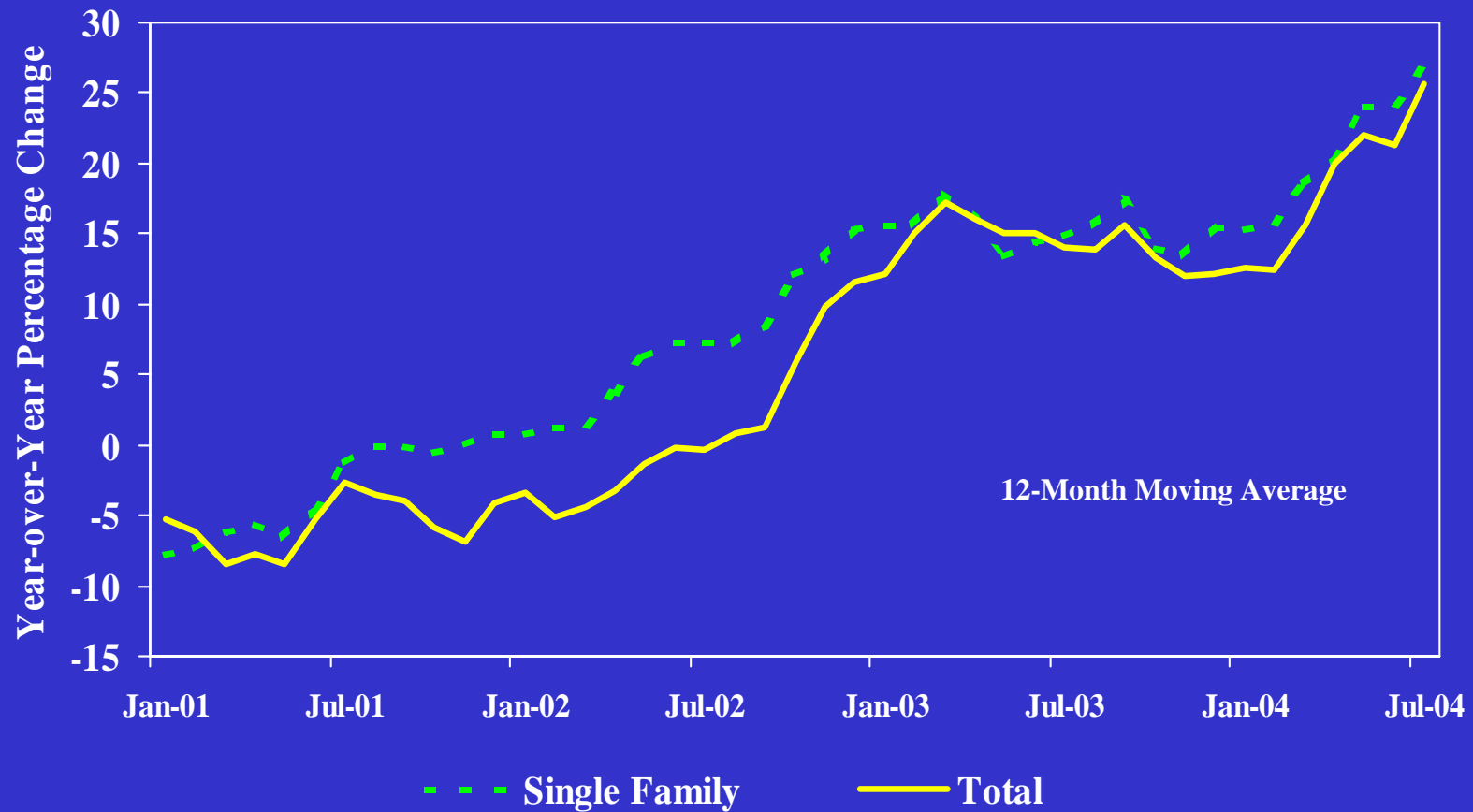


* May and June withholding data not comparable to previous year.

** August percentage changes based on preliminary estimates.

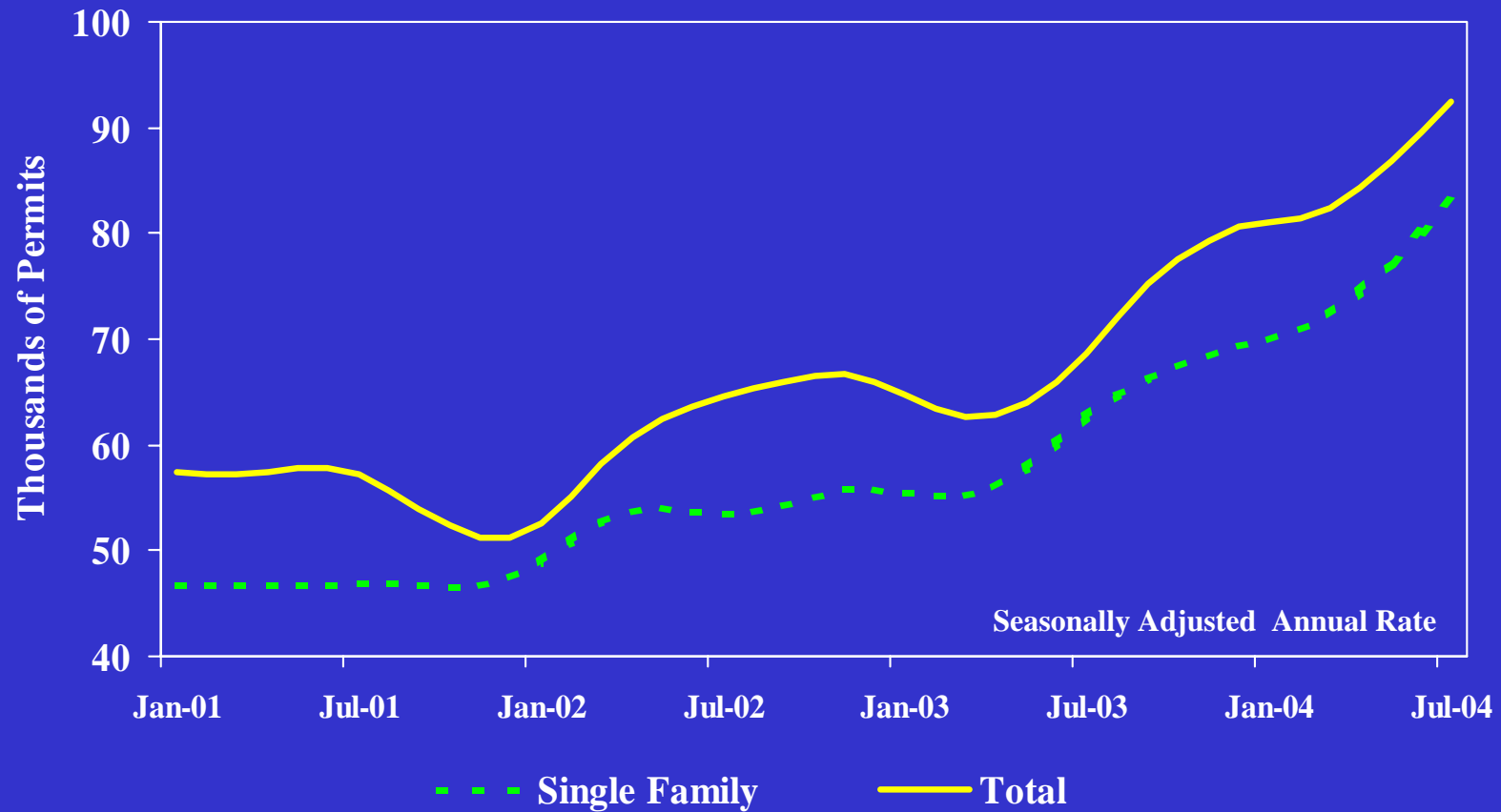
Arizona Residential Building Permits

Accelerating Growth in CY 2004



Arizona Residential Building Permits

Record High Levels in CY 2004



Sky Harbor Aircraft Passenger Traffic

Trending Up to Pre-Recession Level

