

# THE ARIZONA REPUBLIC

**The Arizona Republic, July 2, 2008**

*Is Arizona economy 1 of the worst?*

*By Robert Robb*

A few weeks ago, Richard Stavneak, the director of the Joint Legislative Budget Committee, told lawmakers that “Arizona has one of the nation’s worst economies at this point.”

Now, Stavneak is my perennial choice for MVP of state government. His knowledge of state finances is encyclopedic. He is universally respected and appreciated for being a dispassionate and objective arbiter of the numbers.

But is Stavneak correct, does Arizona have one of the worst economies in the country?

From Stavneak’s perspective, it must seem that way. State revenues are down 7 percent this year, and the trend just keeps getting worse.

**According to the Rockefeller Institute, at least 14 states are currently experiencing declines in revenues. Arizona’s figure includes the effects of an income-tax cut. But even without that, the state would rank toward the bottom in terms of revenue production.**

And Stavneak is hardly alone. According to Moody’s, Arizona is one of nine states currently in a recession.

Over the last year, personal-income growth in Arizona ranked 42nd among the states. Customarily, Arizona is near the top.

So, certainly a case can be made that Arizona has one of the worst economies in the country at present. But closer examination reveals a more complex picture.

Arizona has certainly been hit harder by the housing-bubble burst. Housing prices hit a peak in

the Phoenix metro area in June 2006, as did construction employment for both the Valley and the state.

Since then, housing prices in the Valley have declined 29 percent, according to the Case-Shiller Index. That’s the largest drop of any of the 20 major metro areas included in the index and well above the index average of 18 percent.

According to the latest report from the Mortgage Bankers Association, the mortgage delinquency rate in Arizona is 20th highest among the states and the foreclosure rate is 10th.

Still, the percentage of Arizona’s mortgages in serious trouble (at least 3 months delinquent) is not far off the national average. And 92 percent of Arizona mortgages are current, right at the national average.

Overall, Arizona’s job creation has been sluggish. Since the housing and construction peak, Arizona has produced only 16,500 new jobs.

The common view is that housing and construction are what drive the other sectors of the Arizona economy. The data, however, suggest that contention is exaggerated.

Since the peak, Arizona has lost 42,100 construction jobs. That means that Arizona has actually produced 58,600 non-construction jobs during the post-peak period. That’s considerably less than the 198,000 non-construction jobs created in a comparable period leading up to the peak. But it does suggest that the other sectors of the Arizona economy have been churning forward despite the housing woes.

The view becomes even more complicated based upon a regional analysis.

During the post-peak period, the Phoenix metro area has produced 77,000 new non-construction jobs, while the Tucson area created 15,000.

That means that the non-urban areas of the state have lost around 35,000 non-construction jobs during this period.

These sharp regional differences also appear in the unemployment rate. As of April, the Phoenix metro area and the Tucson area had unemployment rates decisively below the national average. The rest of the state, however, had an unemployment rate of 6.7 percent, considerably above the national average.

Critics say that Arizona's economy is too dependent on housing. No critic, however, has quite explained how an area can have more people moving in than other areas without having an economy more devoted to building homes for them.

Housing is, unquestionably, a big part of Arizona's economy. And it's in a deep fall right now.

The rest of the economy, however, appears to be churning ahead, particularly in the two urban areas. Broad-spread economic distress appears to be concentrated in the non-urban areas.

So, Arizona certainly does not currently have one of the country's most robust economies, as it has had for so many years. But if you look beyond housing and construction, Arizona also does not seem to have one of the worst-performing economies either.

Of course, that's a lot to look beyond, particularly for folks whose job it is to cope with the bottom falling out of state revenues.