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Economic Outlook for 2009-2010: Riding Out the Storm

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The economic outlook has deteriorated significantly as a result of recent financial turmoil. The downturn, which began in late 2007, accelerated in August and the economy is in a free fall as year end approaches. We now expect a recession stretching into the second half of 2009 and comparable in severity to the mid-1970s and early 1980s recessions. Will these events become truly transformational?

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The first seven years of this decade is best described as a period of easy money. Financial innovation in the form of sub-prime mortgages and securitization, which permitted risk to be spread across investors worldwide, allowed credit to expand seemingly without limits – and with little effective regulation. The expansion of credit allowed asset bubbles to develop in real estate (and later) commodities.

Now credit is contracting, and overextended financial institutions are being forced to deleverage. That's a painful process in which panic has sent asset prices tumbling. The U.S. stock market has lost over 40% of its value so far – the largest drop since the mid 1970s. Home prices are down nearly 9% nationwide (according to the National Association of Realtors). Oil prices have fallen from over \$140 per barrel to below \$60.

Financial institutions have suffered crippling losses of capital, the nation's investment banks have all but disappeared, and some portions of financial markets all but stopped functioning in recent weeks.

The freeze in financial markets was precipitated by the bursting of the housing bubble and the subsequent insolvency of investment banks, which were major investors in sub-prime mortgage securities, as well as facilitators in the securitization process. These minimally-regulated institutions were operating effectively as hedge funds and taking huge bets using very high leverage. The failure of Lehman Brothers in mid-September precipitated a hard freeze on portions of financial markets.

This is a classic financial crisis that is well understood by Federal Reserve Chairman Ben Bernanke. He is quoted as saying, "The Federal Reserve's first responsibility is to do its part to ensure the integrity of the financial infrastructure – in particular, the payments system and the systems for settling trades of securities and other financial instruments. If necessary, the Fed should provide ample liquidity until the immediate crisis has passed."

So, the Fed has been doing just as expected – providing liquidity. In the evolving process, it has implemented unprecedented measures. As lender of last resort, the Fed has set up new lending facilities for primary dealers (including investment banks),

asset-backed commercial paper markets, money market mutual funds, and foreign central banks.

Working through the U.S. Treasury, the federal government has effectively nationalized the mortgage lending industry, and assumed control of the nation's largest insurer. It is also buying preferred stock in dozens of the nation's largest banks and buying mortgage-backed securities, in an effort to pump liquidity into the financial system.

Since the economy floats on a sea of credit, it is no surprise that the U.S. economy is now in a free fall – like Arizona has been all year. Real GDP declined a modest 0.5% in the third quarter and will likely plunge in the fourth and remain in negative territory until 2009's second half.

On December 1, the National Bureau of Economic Research (NBER) officially declared that December of 2007 marked the peak of the last expansion, which spanned 73 months (just over six years). Arizona's economy peaked a few months earlier. Whereas the nation's economy didn't begin to drop significantly until this August, Arizona's economy has been rapidly losing ground throughout 2008.

Consumers are in full retreat as year end approaches. They are truly stunned by recent developments as consumer confidence measures have plunged to the lowest levels ever recorded. Driven by declining housing values and stock holdings, household net worth has fallen by roughly 13% from its recent peak. Households are highly leveraged and very illiquid and their balance sheets are in the worst shape in the post-World War II era. Real consumption dropped 3.7% in the third quarter, the worst decline in 28 years. Auto sales in October were the lowest since 1983.

Consumer finances are unlikely to get much better anytime soon. Falling employment, declining real wages, negative wealth effects from lower housing values and stocks, tightening credit conditions, high debt burdens, and low savings will limit consumers' ability to spend. The unemployment rate stood at a 14-year high at 6.5% in October and is headed toward 8% or higher. Inflation-adjusted consumption is expected to log the worst back-to-back years (2008-09) in the post-World War II period.

Homebuilding is at the lowest level

since 1945, with starts nationwide dropping below the one million annual rate in recent months. Housing starts have declined by nearly two-thirds from their peak.

Inflation is yesterday's problem. In July, inflation was running at 5.6%. Suddenly, *deflation* is a real threat. October numbers showed both producer prices and consumer prices declining, due to the effects of falling energy prices. Core inflation at the consumer level fell by 0.1% as well. With declining energy and food prices, headline inflation at the consumer level will remain negative next year. Core price inflation will recede to near 1% from 2.2% currently, but if the core rate drops below zero for several months, monetary policy would be rendered ineffective. This is what happened in Japan in the 1990s as people stopped buying in the face of declining prices. Any money pumped into the system by monetary authorities was stuffed under the mattress. This is economists' worst fear – the dreaded "liquidity trap."

On the bright side, the economy has four positive factors acting to limit the severity of the recession. First, oil prices are less than half the \$140+ peak reached only a few months ago. That

means households have more than \$200 billion extra to spend on essentials rather than at the pump. Second, swift and coordinated action by governments around the world will stabilize financial markets. Three, these actions have infused a huge amount of liquidity into financial markets that will recapitalize banks and get credit flowing again. Four, we can expect further fiscal stimulus of \$200 billion or so from Washington very soon. Expected to be included are grants to states for infrastructure, Medicaid, and other safety net programs; extended unemployment insurance; and rebates to individuals similar to (but smaller than) those provided earlier this year. Combined these actions represent *huge* amounts of stimulus being poured into the economy and we can rest assured that more will be forthcoming if needed.

The Outlook

How do we find solace in today's depressing environment? The answer is: we've been here before and often when things appear bleakest, recovery is not too far off. Recessions are messy and downright scary, but they eventually come to an end with the stage set for the return of prosperity.

All considered, we should expect a recession comparable in severity to the mid-70s and early 80s recessions – both lasted 16 months, nearly a year-and-a-half. This one likely will be a bit longer spanning some 18-21 months and stretching into the second half of 2009. According to Global Insight, a global economic forecasting firm, the peak-to-trough decline in real GDP should range between -1.6% and -3.3% (Exhibit 1).

We've been through ten recessions since World War II and the bad times eventually fade. The last two were very short and mild, so this one seems extreme (as if we were in uncharted territory). But that's just because many don't remember the earlier episodes. The primary challenge is to survive – to remain solvent – and secondarily to prepare for the recovery and expansion when the business cycle turns up again.

The Outlook for Arizona

Arizona's economy has been contracting since the third quarter of 2007 – a few months before the nation's economy topped out. Arizona normally enters recessions later but this time it's leading the rest of the country, along with California, Nevada, and Florida – states that also participated in the recent housing bubble. Malaise has spread far beyond homebuilding, affecting nearly every sector of the economy.

Since peaking one year ago (September 2007), nonfarm employment has dropped by more than 85,000 statewide. The construction industry accounts for almost half of those losses (44,000), but effects of the housing debacle are widely felt throughout the economy. The trade, transportation, and utilities (TTU) sector has trimmed 20,200 jobs, followed by professional and business services at 18,000. Other sectors that have trimmed jobs over the past year include manufacturing, financial activities, other services, leisure and hospitality, and information. Only three sectors have added jobs: educational and health services (12,500), government (6,400) and mining (1,100). Mining will swing to negative in coming months with recently announced layoffs due to falling copper prices.

EXHIBIT 1
GDP Declines in Post-WW II Recessions, U.S.
peak-to-trough

<u>Year of Peak</u>	<u>% change</u>	<u># months</u>
1948	-1.8	11
1953	-2.6	10
1957	-3.7	8
1960	-1.6	10
1969	-1.1	11
1973	-3.1	16
1980	-2.2	6
1981	-2.9	16
1990	-1.3	8
2001	-0.4	8
2007	-1.6 to -3.3	18 to 24

note: 2007 numbers are forecasts from Global Insight

We should expect a recession comparable in severity to the mid-70s and early 80s recessions.

Aggregate nonfarm employment statewide is expected to continue falling through most of 2009 and perhaps into early 2010. Roughly 6.5% or 170,000 jobs will be lost from peak to trough. That will make this the longest and deepest recession in Arizona history. The longest lasted 16 months with a decline of a little over 2%.

Bankruptcies are increasingly in the news; Circuit City, Linens and Things, Lehman Brothers, and Mervyn's are some of the more recognizable examples. Filings for smaller companies, as well as consumers, are up as well. During the past year (with data through October), total filings have increased by 90% statewide. Most are Chapter 7 liquidations of individuals and businesses. Business bankruptcies under Chapter 11 have nearly doubled during the past year, but remain less than half the number experienced during the 1990-91 recession.

Arizona's unemployment rate in October was 6.1%, up sharply from 3.9% 12 months earlier. That remains well below the rates posted during the mid-1970s and early 1980s recessions, when the unemployment rate reached 13% and 11%, respectively. We look for the rate to approach 8% during this recession.

Sales figures for Arizona show that consumers are in full retreat. Retail sales (as narrowly defined) plunged at double-digit annual rates during the second and third quarters, and were 8.3% lower in August than 12 months earlier. A big reason for the out-sized weakness was high gasoline prices. Sales of gasoline were 26% higher during the same period, thereby leaving less money to spend for retail goods. Meanwhile, restaurant and bar sales declined only slightly, down a little over 2%. Combining all three categories, which sum to \$70 billion of spending at an annual rate, the total was 3.8% lower.

Gasoline is taxed on a per gallon basis, rather than as a percent of the dollars spent, so sales tax revenues reflect the other two categories. Unfortunately, in recent years policy makers have shifted more of the tax burden onto sales taxes in the belief that it was the most stable of the three

sources (income taxes and property taxes are the other two). They are now discovering that sales taxes can be quite volatile.

Retail spending (including all three categories plus food) will decline 1.6% next year, following a drop of 2.5% this year. That's in current dollars. In real terms (after adjusting for inflation), sales will drop 2.9% following an outsized 6.6% decline this year. Next year's decline will be smaller as inflation subsides and as autos and home related components stabilize.

Population growth, a major prop under Arizona's economy, slowed significantly in recent months as potential residents found that they were unable to sell their houses back home. According to U.S. Census Bureau estimates, annual population growth peaked at 3.6% in 2005 and 2006. We expect growth in the 1.2-1.3% range during the next two years, only slightly faster than nationwide. With reduced population growth, it will take longer to fill now-vacant houses.

The recession in Arizona began earlier and will last longer than the national recession. The main reason is that credit conditions must first improve and then Arizona's large inventory of houses must be absorbed. That must happen before homebuilding can commence once again. Unless another source of growth surprises us, homebuilding will need to get back on track before economy-wide growth returns.

Will the Current Environment Become Truly Transformational?

There is a good chance that policies and behaviors will change in response to the current upheaval. Here are some things that may transform.

The structure of the financial system is changing and so will the regulatory structure. The policy of minimal regulation in the belief that financial institutions would self-regulate, in the interest of shareholders and their own preservation, has failed. Much tighter regulatory oversight can now be expected.

A topic of interest in coming months is how the federal government will undo its recent actions. It is now the nation's de facto mortgage lender. It

controls the largest insurer. It has assumed large equity stakes in banking institutions. How will the federal government undo these intrusions into free markets? At present the government has no discernable exit strategy.

What about the issue of moral hazard? Will the "too big to fail" doctrine entice ever-riskier behavior in the future with the expectation that Uncle Sam will socialize their losses?

We should expect a change in spending and savings patterns on the part of consumers. Household net worth (wealth) has plunged by 13% so far, and that means less spending and more savings. The period of easy money is over and Americans' standard of living has taken a hit. Preferences have already shifted to more fuel efficient cars. Homeowners may even rediscover the wisdom of paying down (or paying off) the mortgage. And consumers will boost their savings rather than spending every dollar.

The nation's policies to boost home ownership (the great American dream) lie at the heart of the current crisis. Affordable housing programs, grants for down payments, low interest/interest only/negative amortization mortgages, second mortgages to cover down payments, etc., were commonly offered to borrowers who had minuscule chances of servicing the loan. Additionally, mortgage interest and real estate taxes are deductible and gains on the sale of a house are free of capital gains within certain limits. Will we continue to promote home ownership with our tax and lending policies?

Americans are being blamed by others around the world for the economic problems they are now experiencing. Will U.S. financial markets retain the "safe haven" status that they've enjoyed for years? Will foreign investors continue to provide capital?

If the liquidity currently being pumped into financial markets isn't drained as the economy recovers, we're likely to see much higher inflation and higher interest rates a few years down the road. We may be sowing the seeds of the next bubble. (Do you like roller coasters?) Hang on tightly. ■

*How will the federal government undo its intrusions into free markets?
At present there is no discernable exit strategy.*

FORECAST TABLES

Arizona	2007	2008	2009	2010	2011	2012	2013
Personal Income (\$ mill)	208,544.8	214,582.4	214,448.2	218,052.1	230,080.1	248,936.6	270,199.1
<i>percent change</i>	4.5	2.9	-0.1	1.7	5.5	8.2	8.5
Wage per Employee	43,153	44,269	45,369	46,434	47,841	49,637	51,610
<i>percent change</i>	3.5	2.6	2.5	2.3	3.0	3.8	4.0
Aggregate Retail Sales (\$ mill)*	82,792.8	80,700.9	79,397.3	81,029.4	85,862.0	92,636.2	99,842.6
<i>percent change</i>	2.2	-2.5	-1.6	2.1	6.0	7.9	7.8
Population (000s, mid-year)	6,338.8	6,442.3	6,522.2	6,605.3	6,724.6	6,873.9	7,035.9
<i>percent change</i>	2.8	1.6	1.2	1.3	1.8	2.2	2.4
Residential Permits	48,434	27,317	21,398	28,461	47,671	60,811	66,257
<i>percent change</i>	-25.7	-43.6	-21.7	33.0	67.5	27.6	9.0
Non Farm Employment (000s)	2,675.3	2,641.8	2,546.3	2,515.3	2,569.9	2,680.7	2,799.4
<i>percent change</i>	1.5	-1.3	-3.6	-1.2	2.2	4.3	4.4
Goods-Producing	418.0	383.6	335.6	311.8	319.0	342.9	367.6
<i>percent change</i>	-4.1	-8.2	-12.5	-7.1	2.3	7.5	7.2
Service-Providing	2,257.4	2,258.2	2,210.6	2,203.7	2,251.0	2,337.9	2,431.9
<i>percent change</i>	2.7	0.0	-2.1	-0.3	2.1	3.9	4.0
Trade, Trans., & Utilities	527.5	525.1	500.9	493.9	507.3	533.4	560.2
<i>percent change</i>	3.0	-0.5	-4.6	-1.4	2.7	5.2	5.0
Prof. & Business Services	403.8	396.9	379.3	370.2	377.1	396.8	419.3
<i>percent change</i>	2.4	-1.7	-4.4	-2.4	1.9	5.2	5.7
Leisure & Hospitality	272.4	269.5	260.1	263.6	273.5	285.9	297.2
<i>percent change</i>	2.1	-1.1	-3.5	1.3	3.8	4.5	3.9
Government	422.8	430.9	429.0	425.3	425.4	430.7	438.7
<i>percent change</i>	3.5	1.9	-0.5	-0.9	0.0	1.2	1.9
Phoenix-Mesa Metro Area							
Personal Income (\$ mill)	146,322.4	151,927.7	153,475.0	155,848.2	165,203.5	178,987.6	195,617.2
<i>percent change</i>	5.7	3.8	1.0	1.5	6.0	8.3	9.3
Wage per Employee	48,617	50,972	52,648	54,258	56,168	58,277	60,513
<i>percent change</i>	2.3	4.8	3.3	3.1	3.5	3.8	3.8
Aggregate Retail Sales (\$ mill)*	57,389.2	55,994.0	55,211.2	56,700.4	61,982.3	67,749.1	73,425.5
<i>percent change</i>	1.9	-2.4	-1.4	2.7	9.3	9.3	8.4
Population (000s, mid-year)	4,179.4	4,250.7	4,304.2	4,359.4	4,450.3	4,568.1	4,705.0
<i>percent change</i>	3.3	1.7	1.3	1.3	2.1	2.6	3.0
Residential Permits	37,272	20,314	15,269	17,478	32,487	44,121	51,297
<i>percent change</i>	-15.8	-45.5	-24.8	14.5	85.9	35.8	16.3
Non Farm Employment (000s)	1,918.2	1,891.2	1,839.1	1,805.9	1,844.4	1,927.3	2,033.4
<i>percent change</i>	1.8	-1.4	-2.8	-1.8	2.1	4.5	5.5
Goods-Producing	309.5	276.8	256.2	236.0	247.5	262.9	287.9
<i>percent change</i>	-4.1	-10.6	-7.4	-7.9	4.9	6.2	9.5
Service-Providing	1,608.7	1,614.4	1,582.9	1,570.0	1,596.9	1,664.4	1,745.6
<i>percent change</i>	3.0	0.4	-2.0	-0.8	1.7	4.2	4.9
Trade, Trans., & Utilities	392.0	387.7	366.4	361.0	372.6	393.5	415.3
<i>percent change</i>	3.3	-1.1	-5.5	-1.5	3.2	5.6	5.5
Prof. & Business Services	327.3	324.3	316.9	303.4	297.5	310.8	332.1
<i>percent change</i>	2.5	-0.9	-2.3	-4.3	-1.9	4.5	6.9
Leisure & Hospitality	185.6	189.7	183.7	185.8	192.6	201.2	209.4
<i>percent change</i>	2.9	2.2	-3.1	1.2	3.7	4.5	4.1
Government	239.8	243.0	241.2	238.8	239.7	243.8	250.3
<i>percent change</i>	4.6	1.3	-0.8	-1.0	0.4	1.7	2.7
Tucson Metro Area							
Personal Income (\$ mill)	31,727.6	33,061.9	33,496.7	34,548.6	36,753.8	39,544.4	42,373.2
<i>percent change</i>	6.4	4.2	1.3	3.1	6.4	7.6	7.2
Wage per Employee	41,042	42,591	43,411	44,354	45,491	47,134	49,055
<i>percent change</i>	3.3	3.8	1.9	2.2	2.6	3.6	4.1
Aggregate Retail Sales (\$ mill)*	11,969.5	11,736.8	11,812.9	12,142.8	12,857.7	13,715.7	14,550.5
<i>percent change</i>	2.5	-1.9	0.6	2.8	5.9	6.7	6.1
Population (000s, mid-year)	967.1	979.5	990.6	1,006.3	1,026.2	1,047.1	1,066.6
<i>percent change</i>	1.9	1.3	1.1	1.6	2.0	2.0	1.9
Residential Permits	5,237	3,618	3,433	5,556	7,542	8,249	7,723
<i>percent change</i>	-38.5	-30.9	-5.1	61.8	35.7	9.4	-6.4
Non Farm Employment (000s)	384.3	378.2	370.0	370.9	381.8	395.7	406.9
<i>percent change</i>	1.2	-1.6	-2.2	0.2	2.9	3.7	2.8
Goods-Producing	55.5	50.2	46.8	46.5	49.8	53.0	54.4
<i>percent change</i>	-3.6	-9.6	-6.7	-0.7	7.0	6.6	2.5
Service-Providing	328.8	328.0	323.2	324.4	332.0	342.7	352.5
<i>percent change</i>	2.1	-0.2	-1.5	0.4	2.4	3.2	2.9
Trade, Trans., & Utilities	64.3	63.8	62.2	62.4	64.1	66.4	68.5
<i>percent change</i>	2.6	-0.8	-2.6	0.3	2.8	3.6	3.1
Prof. & Business Services	52.1	51.4	50.3	48.8	49.3	51.4	53.9
<i>percent change</i>	4.7	-1.4	-2.1	-2.9	1.0	4.3	4.8
Leisure & Hospitality	40.1	39.1	38.2	38.8	40.3	42.1	43.6
<i>percent change</i>	-1.2	-2.5	-2.3	1.6	3.8	4.4	3.7
Government	77.9	79.0	76.8	76.8	77.7	78.9	79.7
<i>percent change</i>	2.1	1.4	-2.7	0.0	1.2	1.5	1.1

* Aggregate Retail Sales includes retail, food, restaurant & bars and gasoline sales.

Source: Economic and Business Research Center, Eller College of Management, The University of Arizona

ARIZONA ECONOMIC INDICATORS

	JUN 2008	JUL 2008	AUG 2008	SEP 2008	OCT 2008	% change versus year ago for most recent:	
						month	12-months
ARIZONA MONTHLY DATA							
Civilian Labor Force (000s) ADOC							
Employment	3,085.8	3,100.0	3,105.8	3,142.9	3,159.1	3.5	2.2
Unemployment	2,931.9	2,931.8	2,924.6	2,951.8	2,964.5	1.2	1.1
Unemployment Rate, Seas. Adj. (%)	153.9	168.2	181.2	191.1	194.6	60.2	30.4
	4.8	5.1	5.6	5.9	6.1	56.4	24.8
Employees on Nonagricultural Payrolls (000s) ADOC							
Total	2,608.1	2,568.7	2,603.3	2,611.1	2,608.9	-2.6	-0.9
<i>Total Private</i>	2,207.2	2,181.4	2,177.4	2,168.4	2,161.9	-3.4	-1.6
<i>Government</i>	400.9	387.3	425.9	442.7	447.0	1.4	3.2
Federal Government	54.5	54.4	55.0	54.7	54.8	4.0	2.5
State and Local Government	346.4	332.9	370.9	388.0	392.2	1.1	3.2
State and Local Government Education	164.8	152.0	192.4	210.5	214.8	2.3	4.4
Hours Worked Per Week, Manufacturing, ADOC							
	41.3	40.4	40.0	39.9	39.8	-2.7	-1.0
Average Hourly Earnings (\$) ADOC							
Construction	19.04	18.83	18.77	18.82	19.14	5.9	6.9
Manufacturing	16.25	16.49	16.59	16.53	16.46	2.9	5.5
Trade, Transportation, Utilities	15.00	15.02	15.18	15.08	15.14	3.3	2.0
Retail Trade	12.69	12.54	12.63	12.61	12.57	3.3	2.2
Wholesale Trade	19.64	20.03	20.29	19.97	20.00	2.1	2.3
Sales (\$000s) ADOR							
Aggregate Retail Sales	6,699,586	6,365,507	6,507,446	6,268,010	...	-3.6	-1.9
Retail	4,101,484	3,851,466	4,023,999	3,869,885	...	-8.1	-6.5
Food, EBR	976,816	937,370	935,636	956,803	...	4.0	4.9
Restaurants & Bars	731,919	703,176	720,050	718,500	...	-7.7	-2.5
Gasoline, EBR	889,367	873,495	827,762	722,822	...	22.3	23.1
Gallons (000s) ADOT	215,327	220,730	228,898	214,768	...	-6.4	-3.6
Utilities	863,978	1,077,857	1,036,194	932,773	...	-7.2	7.7
Communications	351,213	229,819	211,054	232,446	...	-22.3	-2.2
Amusements	92,130	90,451	74,342	70,296	...	-7.1	2.9
Rentals - Personal Property	309,162	312,887	299,007	316,927	...	1.3	-0.6
Contracting	1,578,861	1,524,687	1,420,280	1,464,964	...	-17.9	-14.4
Mining - Metal, Oil & Gas	144,734	128,938	177,871	136,117	...	-15.0	-3.1
Hotel/Motel	169,141	139,171	144,794	165,624	...	-3.5	-2.2
New Housing Units Authorized, Census C-40 & EBR							
Total Units	3,037	2,404	1,848	1,825	1,300	-43.7	-43.3
Single Family Units	2,067	1,813	1,459	1,133	877	-53.2	-51.2
2-4 Unit Structures	95	36	65	26	33	-79.5	-50.6
5-plus Unit Structures	875	555	323	666	391	41.0	-2.6
Bankruptcy Filings, U.S. Bankruptcy Court							
Total	1,577	1,782	1,747	1,881	3,119	179.2	90.5
Chapter 7	1,278	1,415	1,414	1,509	2,723	223.4	102.3
Chapter 11	35	39	34	37	52	79.3	70.2
Chapter 13	263	328	299	335	343	40.0	53.0
TRAVEL AND TOURISM - MONTHLY DATA							
Visits to Parks & Other Recreational Areas, NPS & ASPB							
Northern Arizona	2,198,418	2,237,728	2,261,908	1,671,947	1,435,616	1.7	0.1
Historical	151,344	137,514	135,388	120,200	133,558	5.8	-1.7
Scenic	739,650	868,865	855,285	629,344	516,678	-1.6	0.8
Water Based Recreation	1,307,424	1,231,349	1,271,235	922,403	785,380	3.2	-0.1
Southern Arizona	143,002	150,206	145,080	125,187	177,858	-11.2	4.1
Historical	21,318	21,825	20,089	20,254	28,889	12.3	2.7
Scenic	83,046	91,875	88,968	77,087	116,801	-18.4	5.9
Water Based Recreation	38,638	36,506	36,023	27,846	32,168	2.9	-2.7
International Border Crossings, USCBP							
Passengers	1,595,260	1,584,100	2,078,380	1,518,477	...	-3.9	1.3
Pedestrians	833,112	971,723	480,870	861,830	...	-9.8	-8.5
Vehicles	669,072	666,726	693,713	640,723	...	-2.6	-3.5

See sources and abbreviations at the bottom of page 8. • For additional detail and history, subscribe to *Arizona Economic Indicators Data Book*.

ARIZONA ECONOMIC INDICATORS

	JUN 2008	JUL 2008	AUG 2008	SEP 2008	OCT 2008	% change versus year ago for most recent:	
						month	12-months
PHOENIX-MESA METROPOLITAN REGION (MARICOPA AND PINAL)							
Civilian Labor Force (000s) ADOC	2,085.2	2,094.9	2,098.9	2,124.9	2,140.2	3.6	2.2
Employment	1,994.5	1,996.5	1,993.0	2,010.3	2,022.9	1.4	1.2
Unemployment	90.7	98.4	105.9	114.6	117.3	65.0	33.6
Unemployment Rate, Seas. Adj. (%)	4.3	4.6	5.1	5.3	5.5	61.8	30.1
Employees on Nonagricultural Payrolls (000s) ADOC							
Total	1,865.2	1,839.5	1,862.9	1,867.8	1,868.3	-2.6	-0.9
<i>Total Private</i>	1,645.5	1,627.8	1,622.6	1,616.7	1,613.2	-3.2	-1.5
<i>Government</i>	219.7	211.7	240.3	251.1	255.1	1.7	3.4
Federal Government	22.0	22.3	22.1	22.1	22.2	1.4	1.9
State and Local Government	197.7	189.4	218.2	229.0	232.9	1.7	3.6
State and Local Government Education	89.3	81.5	111.3	122.6	125.7	3.0	4.7
Sales (\$000s) ADOR							
Aggregate Retail Sales	4,517,677	4,282,023	4,406,042	4,299,141	...	-3.9	-2.9
Retail	2,804,495	2,639,057	2,764,577	2,698,354	...	-8.4	-7.8
Food, EBR	654,726	628,287	627,124	641,312	...	5.5	6.1
Restaurants & Bars	499,717	472,008	486,609	494,363	...	-8.9	-2.8
Gasoline, EBR	558,738	542,671	527,732	465,113	...	22.8	22.8
Contracting	1,088,231	1,063,929	1,021,510	1,017,853	...	-22.2	-16.6
Hotel/Motel	81,845	65,081	66,850	89,714	...	-4.8	-1.6
New Housing Units Authorized, Census C-40 & EBR							
Total Units	2,432	1,853	1,236	1,384	968	-27.3	-44.3
Single Family Units	1,474	1,280	914	703	559	-52.1	-54.7
2-4 Unit Structures	87	25	60	19	26	-56.8	-46.0
5-plus Unit Structures	871	548	262	662	384	260.8	-4.3
Housing Sales and Prices, ARMLS							
Total Sales (\$000s)	1,520,060	1,488,025	1,346,471	1,354,579	1,143,223	2.2	-24.4
Total Units	5,748	5,974	5,660	6,179	5,384	56.0	-3.2
Average Price (\$)	264,450	249,084	237,892	219,223	212,337	-34.5	-19.3
Phoenix Sky Harbor International Airport, PSHIA							
Total Passengers	3,431,977	3,486,964	3,316,110	2,861,437	3,165,766	-9.6	-4.6
Total Aircraft Movements	42,276	42,636	41,257	37,843	39,434	-13.1	-4.7
TUCSON METROPOLITAN REGION (PIMA)							
Civilian Labor Force (000s) ADOC	459.2	462.3	464.0	472.4	475.4	3.0	1.2
Employment	437.1	438.5	439.1	445.4	447.8	0.9	0.2
Unemployment	22.1	23.8	24.9	27.0	27.6	53.3	29.5
Unemployment Rate, Seas. Adj. (%)	4.7	4.8	5.4	5.6	5.8	48.7	27.7
Employees on Nonagricultural Payrolls (000s) ADOC							
Total	368.8	364.2	370.4	372.8	372.1	-3.3	-1.9
<i>Total Private</i>	295.8	292.6	292.4	291.7	290.7	-4.3	-2.7
<i>Government</i>	73.0	71.6	78.0	81.1	81.4	0.5	1.4
Federal Government	11.0	11.0	11.2	11.2	11.3	5.6	3.9
State and Local Government	62.0	60.6	66.8	69.9	70.1	-0.3	1.1
State and Local Government Education	34.4	33.0	39.5	43.3	44.1	1.4	0.2
Sales (\$000s) ADOR							
Aggregate Retail Sales	965,642	919,157	961,993	903,055	...	-4.2	-0.8
Retail	591,091	552,996	599,078	548,413	...	-10.0	-5.1
Food, EBR	150,952	144,856	144,588	147,859	...	5.7	6.3
Restaurants & Bars	104,377	106,411	109,342	109,900	...	-4.9	-3.3
Gasoline, EBR	119,223	114,894	108,985	96,883	...	24.6	26.1
Contracting	199,775	185,256	167,227	196,265	...	-7.9	-9.3
Hotel/Motel	22,374	17,444	18,990	19,782	...	-12.0	-14.8
New Housing Units Authorized, Census C-40 & EBR							
Total Units	306	278	271	229	153	-71.8	-39.6
Single Family Units	293	262	245	212	138	-56.4	-47.0
2-5-plus Unit Structures	14	16	26	17	15	-93.4	40.5
Housing Sales and Prices, TAR							
Total Sales (\$000s)	266,202	240,837	215,369	203,049	186,356	-18.8	-29.2
Total Units	1,034	945	903	934	823	-6.9	-23.0
Average Price (\$)	257,449	254,854	238,504	217,397	226,435	-12.8	-7.4
Tucson International Airport, TAA							
Total Passengers	353,152	352,542	324,006	287,577	334,055	-13.4	-1.4
Total Aircraft Movements	17,404	16,702	17,129	15,643	15,834	-27.8	-7.8

ARIZONA ECONOMIC INDICATORS

	JUN 2008	JUL 2008	AUG 2008	SEP 2008	OCT 2008	% change versus year ago for most recent:	
						month	12-months
APACHE COUNTY							
Civilian Labor Force, ADOC	20,775	20,900	21,200	21,200	21,325	6.5	2.5
Employment	18,600	18,550	18,800	18,875	18,825	2.0	1.7
Unemployment	2,175	2,350	2,400	2,325	2,500	58.7	10.7
Unemployment Rate (%)	10.5	11.2	11.3	11.0	11.7	49.1	7.6
Employees on Nonagricultural Payrolls, ADOC							
Total	19,550	19,175	19,825	19,750	19,650	-1.6	-0.7
<i>Total Private</i>	7,025	6,850	6,975	6,875	6,750	-5.3	-3.6
<i>Government</i>	12,525	12,325	12,850	12,875	12,900	0.4	0.9
Federal Government	3,350	3,100	3,300	3,325	3,275	1.6	1.0
State and Local Government	9,175	9,225	9,550	9,550	9,625	0.0	0.8
Sales (\$000s) ADOR							
Gross Retail	19,251	19,089	17,664	16,992	...	22.0	41.0
Contracting	10,614	9,628	8,768	11,026	...	38.2	14.7
Hotel/Motel	3,283	1,660	1,559	1,758	...	27.6	18.2
COCHISE COUNTY							
Civilian Labor Force, ADOC	59,075	58,900	58,425	59,025	58,675	1.4	1.6
Employment	56,125	55,750	55,250	55,625	55,275	-0.4	0.7
Unemployment	2,950	3,150	3,175	3,400	3,400	43.2	24.5
Unemployment Rate (%)	5.0	5.3	5.4	5.8	5.8	41.2	22.4
Employees on Nonagricultural Payrolls, ADOC							
Total	37,425	36,450	36,850	36,800	36,525	-3.7	-1.7
<i>Total Private</i>	25,150	24,575	24,500	24,275	23,975	-6.5	-3.2
<i>Government</i>	12,275	11,875	12,350	12,525	12,550	2.2	1.5
Federal Government	4,925	4,950	4,900	4,925	4,975	5.3	2.7
State and Local Government	7,350	6,925	7,450	7,600	7,575	0.3	0.8
Sales (\$000) ADOR							
Gross Retail	100,348	92,527	90,873	86,930	...	1.6	3.8
Contracting	27,684	24,278	22,506	30,583	...	9.0	-3.4
Hotel/Motel	3,762	3,188	3,355	3,318	...	-8.3	0.4
New Housing Units Authorized, Census C-40							
Total Units	36	25	20	25	25	-53.7	-35.2
Single Family Units	36	25	20	25	25	-53.7	-35.2
COCONINO COUNTY							
Civilian Labor Force, ADOC	74,200	74,500	73,600	74,500	74,200	4.2	2.8
Employment	70,800	70,800	69,900	70,700	70,300	2.3	1.9
Unemployment	3,400	3,700	3,700	3,800	3,900	56.0	23.9
Unemployment Rate (%)	4.6	5.0	5.0	5.1	5.3	49.7	20.2
Employees on Nonagricultural Payrolls, ADOC							
Total	65,900	64,800	65,100	65,300	64,700	-1.2	-0.3
<i>Total Private</i>	46,200	45,900	45,600	44,900	44,100	-2.6	-0.5
<i>Government</i>	19,700	18,900	19,500	20,400	20,600	2.0	0.1
Federal Government	3,200	3,000	3,200	3,100	3,000	3.4	0.9
State and Local Government	16,500	15,900	16,300	17,300	17,600	1.7	-0.0
Sales (\$000s) ADOR							
Gross Retail	165,525	164,712	163,112	146,291	...	0.3	1.7
Contracting	40,030	37,610	39,580	41,131	...	-2.1	-0.0
Hotel/Motel	32,117	28,333	28,727	27,434	...	9.6	9.4
New Housing Units Authorized, Census C-40							
Total Units	20	27	17	18	15	-40.0	-40.6
Single Family Units	20	25	17	18	15	-40.0	-43.1

See sources and abbreviations at the bottom of page 8. • For additional detail and history, subscribe to *Arizona Economic Indicators Data Book*.

ARIZONA ECONOMIC INDICATORS

	JUN 2008	JUL 2008	AUG 2008	SEP 2008	OCT 2008	% change versus year ago for most recent:	
						month	12-months
GILA COUNTY							
Civilian Labor Force, ADOC	22,025	21,950	22,125	22,225	22,300	5.4	2.9
Employment	20,850	20,675	20,725	20,750	20,775	2.8	1.9
Unemployment	1,175	1,275	1,400	1,475	1,525	60.5	25.8
Unemployment Rate (%)	5.3	5.8	6.3	6.6	6.8	52.2	21.9
Employees on Nonagricultural Payrolls, ADOC							
Total	14,600	14,200	14,550	14,425	14,425	-0.2	-0.2
<i>Total Private</i>	9,600	9,425	9,575	9,425	9,425	-0.8	-1.3
<i>Government</i>	5,000	4,775	4,975	5,000	5,000	1.0	1.8
Federal Government	550	550	550	525	525	16.7	0.9
State and Local Government	4,450	4,225	4,425	4,475	4,475	-0.6	1.9
Sales (\$000s) ADOR							
Gross Retail	43,366	43,965	40,117	36,641	...	-1.4	1.2
Contracting	9,482	9,294	10,709	9,623	...	6.5	-0.8
Hotel/Motel	1,145	1,238	1,324	1,012	...	-28.2	-27.0
GRAHAM COUNTY							
Civilian Labor Force, ADOC	15,650	15,400	15,400	15,750	15,750	7.3	10.0
Employment	14,725	14,425	14,425	14,725	14,750	4.8	8.5
Unemployment	925	975	975	1,025	1,000	66.7	45.5
Unemployment Rate (%)	5.9	6.3	6.3	6.5	6.3	55.3	31.9
Employees on Nonagricultural Payrolls, ADOC							
Total	8,675	8,075	8,225	8,325	8,400	-2.6	3.8
<i>Total Private</i>	5,850	5,400	5,450	5,375	5,375	-5.3	2.7
<i>Government</i>	2,825	2,675	2,775	2,950	3,025	2.5	5.9
Federal Government	400	400	400	400	400	0.0	-4.6
State and Local Government	2,425	2,275	2,375	2,550	2,625	2.9	7.7
Sales (\$000) ADOR							
Gross Retail	27,947	24,673	29,134	24,995	...	-2.7	5.2
Contracting	9,416	6,892	6,605	5,954	...	26.9	35.5
GREENLEE COUNTY							
Civilian Labor Force, ADOC	4,475	4,400	4,375	4,500	4,500	6.5	9.2
Employment	4,300	4,200	4,200	4,300	4,300	4.9	8.5
Unemployment	175	200	175	200	200	60.0	29.0
Unemployment Rate (%)	3.9	4.5	4.0	4.4	4.4	50.2	17.9
Employees on Nonagricultural Payrolls, ADOC							
Total	5,225	5,250	5,375	5,475	5,425	9.0	11.1
<i>Total Private</i>	4,700	4,750	4,825	4,925	4,900	11.4	12.6
<i>Government</i>	525	500	550	550	525	-8.7	0.0
Federal Government	50	50	50	25	25	-50.0	-16.7
State and Local Government	475	450	500	525	500	-4.8	1.3
Sales (\$000s) ADOR							
Gross Retail	26,256	24,325	22,670	9,660	...	-21.5	160.8
Contracting	3,383	4,861	5,186	6,429	...	-25.1	-29.2
Hotel/Motel (Includes Graham County data.)	945	806	917	916	...	17.8	-5.7

ADHS: Arizona Department of Health Services

ADOC: Arizona Department of Commerce

ADOR: Arizona Department of Revenue

ADOT: Arizona Department of Transportation

ARMLS: Arizona Regional Multiple Listing Service

ASPB: Arizona State Parks Board

BEA: Bureau of Economic Analysis, U.S. Department of Commerce

BLS: Bureau of Labor Statistics,
U.S. Department of Labor

Census C-40: U.S. Census Bureau, U.S. Department of
Commerce

EBR: Economic & Business Research Center,
The University of Arizona

NPS: National Park Service, U.S. Department of the Interior

PSHIA: Phoenix Sky Harbor International Airport

SAAR: Seasonally adjusted at annual rates

TAA: Tucson Airport Authority

TAR: Tucson Association of Realtors

U.S. Bankruptcy Court: District of Arizona

USCBP: U.S. Customs and Border Protection,
U.S. Department of Homeland Security

ARIZONA ECONOMIC
INDICATORS

	JUN 2008	JUL 2008	AUG 2008	SEP 2008	OCT 2008	% change versus year ago for most recent:	
						month	12-months
LA PAZ COUNTY							
Civilian Labor Force, ADOC	7,375	7,425	7,300	7,375	7,275	-4.9	-2.7
Employment	6,875	6,850	6,700	6,725	6,650	-8.3	-4.2
Unemployment	500	575	600	650	625	56.3	26.1
Unemployment Rate (%)	6.8	7.7	8.2	8.8	8.6	64.3	29.9
Employees on Nonagricultural Payrolls, ADOC							
Total	4,875	4,700	4,750	4,775	4,775	-9.5	-7.4
<i>Total Private</i>	2,400	2,250	2,225	2,200	2,200	-15.4	-15.8
<i>Government</i>	2,475	2,450	2,525	2,575	2,575	-3.7	2.1
Federal Government	325	325	325	325	325	0.0	2.6
State and Local Government	2,150	2,125	2,200	2,250	2,250	-4.3	2.1
Sales (\$000s) ADOR							
Gross Retail	21,654	23,124	19,076	15,361	...	2.2	6.7
Contracting	1,529	2,819	1,819	2,761	...	13.5	-10.6
Hotel/Motel	508	527	470	349	...	-3.0	-4.5
MOHAVE COUNTY							
Civilian Labor Force, ADOC	93,800	93,900	93,600	94,200	94,400	2.3	1.4
Employment	88,300	87,900	87,000	87,300	87,000	-0.8	-0.3
Unemployment	5,500	6,000	6,600	6,900	7,400	60.9	36.3
Unemployment Rate (%)	5.9	6.4	7.1	7.3	7.8	57.3	34.4
Employees on Nonagricultural Payrolls, ADOC							
Total	52,500	51,400	51,500	51,400	50,700	-6.1	-2.8
<i>Total Private</i>	43,900	43,100	42,800	42,500	41,900	-7.3	-4.1
<i>Government</i>	8,600	8,300	8,700	8,900	8,800	0.0	4.2
Federal Government	500	500	500	500	500	0.0	0.0
State and Local Government	8,100	7,800	8,200	8,400	8,300	0.0	4.4
Sales (\$000) ADOR							
Gross Retail	162,820	159,305	150,754	136,290	...	-7.8	-5.9
Contracting	37,579	40,925	27,506	35,503	...	-4.1	-21.7
Hotel/Motel	4,001	3,877	4,490	3,640	...	-8.7	-7.8
New Housing Units Authorized, Census C-40							
Total Units	55	29	66	42	46	-24.6	-55.9
Single Family Units	55	29	27	42	46	-24.6	-60.6
NAVAJO COUNTY							
Civilian Labor Force, ADOC	40,025	39,950	39,850	39,900	39,900	3.4	2.1
Employment	36,675	36,350	36,075	36,125	35,900	-0.8	0.3
Unemployment	3,350	3,600	3,775	3,775	4,000	66.7	27.7
Unemployment Rate (%)	8.4	9.0	9.5	9.5	10.0	61.2	24.8
Employees on Nonagricultural Payrolls, ADOC							
Total	29,875	29,025	29,375	29,175	28,975	-4.4	-2.1
<i>Total Private</i>	19,200	18,600	18,750	18,325	18,050	-7.4	-4.8
<i>Government</i>	10,675	10,425	10,625	10,850	10,925	1.2	3.0
Federal Government	1,800	1,650	1,750	1,750	1,725	1.5	1.6
State and Local Government	8,875	8,775	8,875	9,100	9,200	1.1	3.2
Sales (\$000s) ADOR							
Gross Retail	111,360	104,854	101,165	98,645	...	13.0	9.5
Contracting	14,174	19,467	16,909	17,814	...	-32.9	-11.2
Hotel/Motel	6,713	4,796	4,143	3,433	...	-8.2	17.6
New Housing Units Authorized, Census C-40							
Total Units	23	24	16	20	12	-60.0	-41.2
Single Family Units	23	24	16	20	12	-60.0	-39.5

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ARIZONA ECONOMIC INDICATORS

	JUN 2008	JUL 2008	AUG 2008	SEP 2008	OCT 2008	% change versus year ago for most recent:	
						month	12-months
SANTA CRUZ COUNTY							
Civilian Labor Force, ADOC	18,300	17,925	18,350	18,450	18,500	5.1	5.4
Employment	16,850	16,050	15,975	16,000	15,975	0.2	3.9
Unemployment	1,450	1,875	2,375	2,450	2,525	53.0	25.0
Unemployment Rate (%)	7.9	10.5	12.9	13.3	13.6	45.6	18.6
Employees on Nonagricultural Payrolls, ADOC							
Total	14,600	13,575	13,825	13,675	13,700	-2.8	2.0
<i>Total Private</i>	10,900	10,200	10,175	10,050	10,025	-3.1	1.9
<i>Government</i>	3,700	3,375	3,650	3,625	3,675	-2.0	2.4
Federal Government	1,525	1,525	1,525	1,500	1,525	8.9	7.1
State and Local Government	2,175	1,850	2,125	2,125	2,150	-8.5	-0.5
Sales (\$000s) ADOR							
Gross Retail	41,211	37,929	38,663	32,566	...	-14.3	-6.3
Contracting	12,748	11,017	7,724	13,941	...	64.9	1.3
Hotel/Motel	900	1,252	826	924	...	-10.4	17.7
New Housing Units Authorized, Census C-40							
Total Units	16	17	16	9	9	-60.9	-55.5
Single Family Units	16	17	16	9	9	-57.1	-55.2
YAVAPAI COUNTY							
Civilian Labor Force, ADOC	102,400	102,400	101,900	103,300	103,000	2.8	3.0
Employment	97,700	97,200	96,300	97,200	96,700	0.3	1.9
Unemployment	4,700	5,200	5,600	6,100	6,300	65.8	33.3
Unemployment Rate (%)	4.6	5.1	5.5	5.9	6.1	61.3	29.2
Employees on Nonagricultural Payrolls, ADOC							
Total	64,900	63,200	64,000	64,000	63,700	-3.0	0.0
<i>Total Private</i>	52,400	51,300	51,600	51,100	50,700	-3.6	-1.8
<i>Government</i>	12,500	11,900	12,400	12,900	13,000	-0.8	8.3
Federal Government	1,400	1,400	1,400	1,400	1,400	7.7	10.2
State and Local Government	11,100	10,500	11,000	11,500	11,600	-1.7	8.1
Sales (\$000) ADOR							
Gross Retail	185,255	173,271	165,815	155,067	...	-7.3	-3.8
Contracting	67,142	65,680	46,953	43,174	...	-25.7	-14.0
Hotel/Motel	7,932	8,118	9,688	9,029	...	-2.5	2.0
New Housing Units Authorized, Census C-40							
Total Units	66	42	35	37	33	-68.0	-50.9
Single Family Units	64	42	35	37	31	-65.6	-54.0
YUMA METROPOLITAN REGION							
Civilian Labor Force, ADOC	83,200	85,100	86,800	85,200	83,500	4.6	5.2
Employment	68,400	68,100	67,100	67,800	67,200	-1.6	3.6
Unemployment	14,800	17,000	19,700	17,400	16,300	41.7	15.5
Unemployment Rate (%)	17.8	20.0	22.7	20.4	19.5	35.5	9.6
Employees on Nonagricultural Payrolls, ADOC							
Total	52,000	50,500	51,100	51,600	51,800	-2.6	1.0
<i>Total Private</i>	37,400	36,600	36,500	36,600	36,800	-4.2	0.5
<i>Government</i>	14,600	13,900	14,600	15,000	15,000	1.4	2.2
Federal Government	3,500	3,500	3,600	3,600	3,600	9.1	5.3
State and Local Government	11,100	10,400	11,000	11,400	11,400	-0.9	1.3
Sales (\$000s) ADOR							
Gross Retail	140,137	132,328	136,445	138,743	...	3.7	5.2
Contracting	57,073	43,032	37,279	32,906	...	9.9	6.9
Hotel/Motel	3,617	2,852	3,454	4,315	...	-0.9	1.2
New Housing Units Authorized, Census C-40							
Total Units	72	52	83	40	25	-70.2	-24.8
Single Family Units	70	50	83	40	25	-70.2	-27.9

See sources and abbreviations at the bottom of page 8. • For additional detail and history, subscribe to *Arizona Economic Indicators Data Book*.

	III 2007	IV 2007	I 2008	II 2008	III 2008	% change versus year ago for most recent: quarter 4-quarters	
MEASURES OF INFLATION AND PRICES -QUARTERLY DATA							
Consumer Price index (1982-84=100) BLS							
Western Region (U.S.)	212.6	214.5	216.9	221.2	222.9	4.9	4.1
U.S. - All Urban Consumers	208.2	209.7	212.1	216.8	219.3	5.3	4.4
U.S. - Urban Wage Earners	203.6	205.3	207.7	212.9	215.5	5.8	4.8
Price Indexes (2000=100) BEA							
Gross Domestic Product	120.0	120.8	121.6	122.0	123.2	2.7	2.4
Personal Consumption Expenditures	118.0	119.2	120.3	121.5	123.1	4.3	3.7

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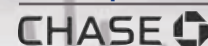
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