



GREATER PHOENIX

REGIONAL ECONOMIC UPDATE *2014 First Quarter*

April 22, 2014

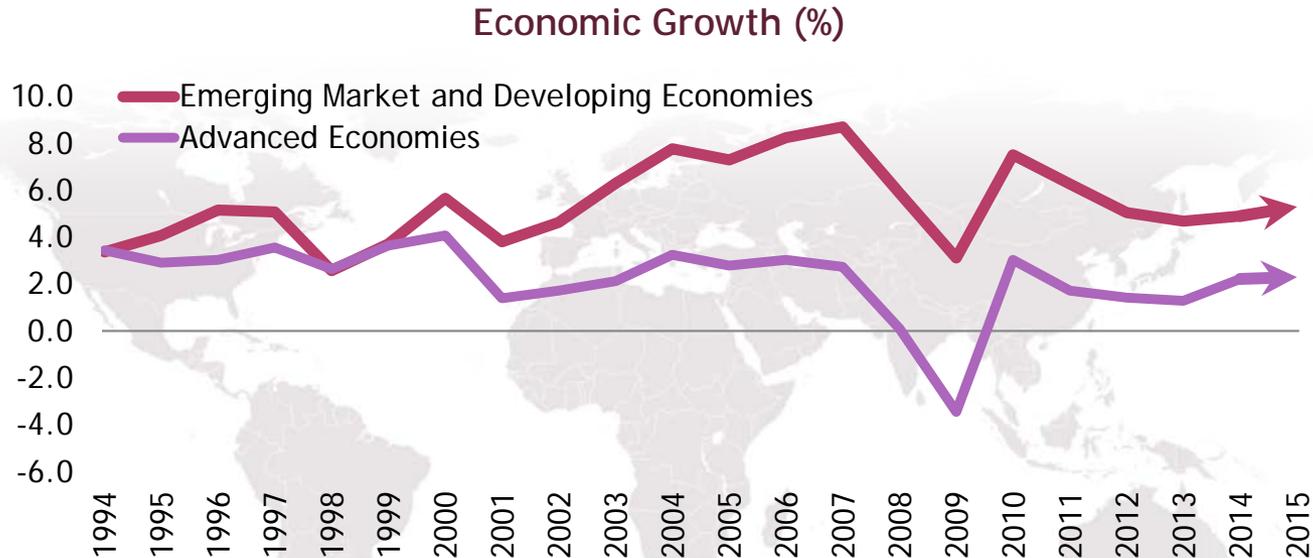
MACRO ECONOMIC SNAPSHOT



- Advanced economies driving global growth
- Monetary policy still expansionary but tapering
 - Interest rates remain favorable
 - Investors recalibrating their portfolios
- More certainty in fiscal policy
 - Next debt ceiling discussions in March 2015
 - FY2015 budget process on-going

GLOBAL ECONOMY STRENGTHENS

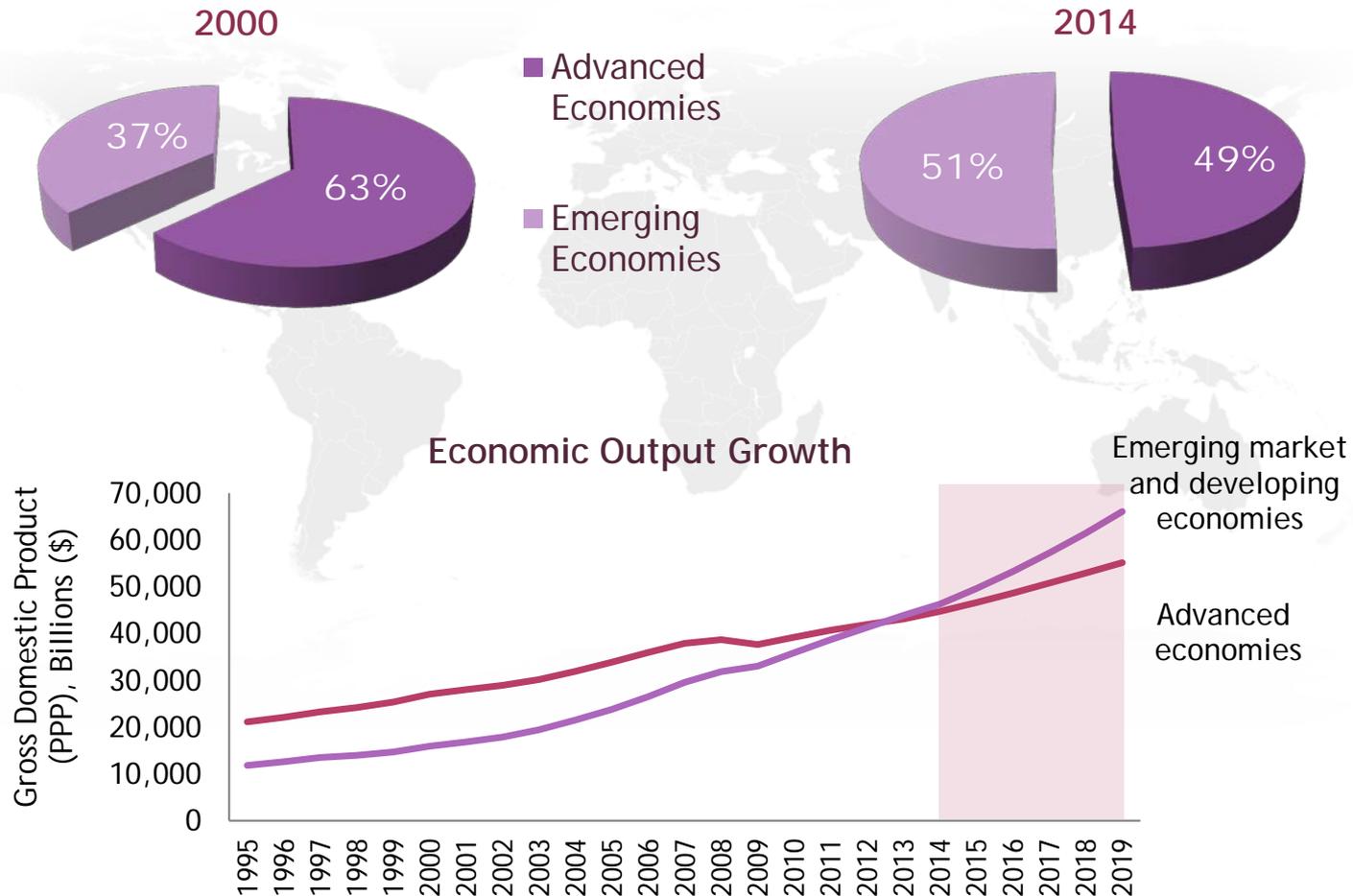
advanced economies in the driver's seat.....



	Actual		Projections	
	2012	2013	2014	2015
Advanced Economies	1.4	1.3	2.2	2.3
United States	2.8	1.9	2.8	3
Canada	1.7	2	2.3	2.4
Euro Area	-0.7	-0.5	1.2	1.5
Emerging Market and Developing Economies	5	4.7	4.9	5.3
China	7.7	7.7	7.5	7.3
Mexico	3.9	1.1	3	3.5

GLOBAL ECONOMY

emerging markets commanding larger share.....



GLOBAL ECONOMY

why it matters.....

Region's Markets (2012 Exports)

	Value	(Share)
Mexico	\$1.78 B	(16.5%)
Canada	\$1.53 B	(14.2%)
China	\$ 985 M	(9.1%)
Total	\$10.83 B	



"computer and electronic products"

"aerospace parts"

"machinery equipment"

"electrical equipment, appliance, and components"

"fabricated metal"

GLOBAL ECONOMY

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"toys, games"

"tools"

Suppliers - Consumer goods
and manufacturing inputs
(2013 Imports to Arizona)

	Value	(Share)
Mexico	\$7.04 B	(37.1%)
China	\$2.48 B	(13.0%)
Canada	\$1.51 B	(7.9%)
Total	\$ 18.99 B	

"furniture, bedding, etc."

"electrical machinery"



GLOBAL ECONOMY

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Foreign Direct Investments
(in capital, equipment, and labor)

Phoenix MSA	Arizona
Canada	Canada
China	United Kingdom
Germany	France

"banks, holding and investor groups"

"power companies"

"communications, semiconductor, construction companies"

GLOBAL ECONOMY

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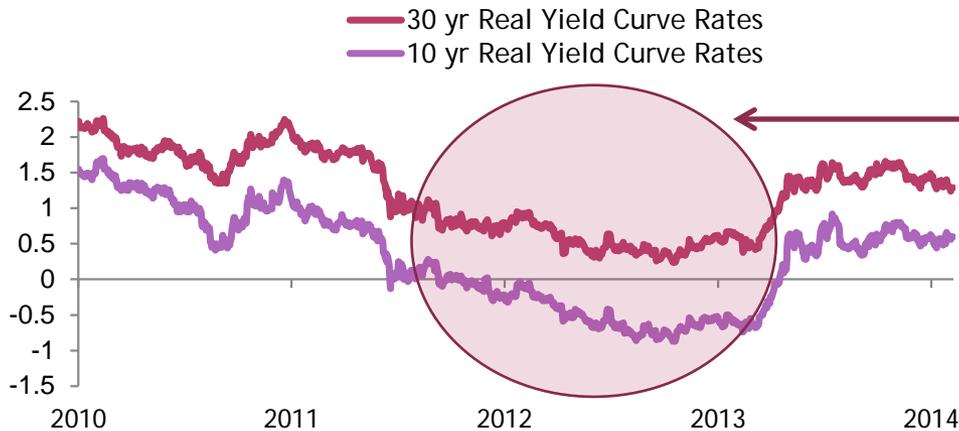
Phoenix MSA	Arizona
Canada	Canada
China	United Kingdom
Germany	France



Workforce/Knowledge
(2011 Data)

Foreign controlled
companies employed
80,100 Arizona workers

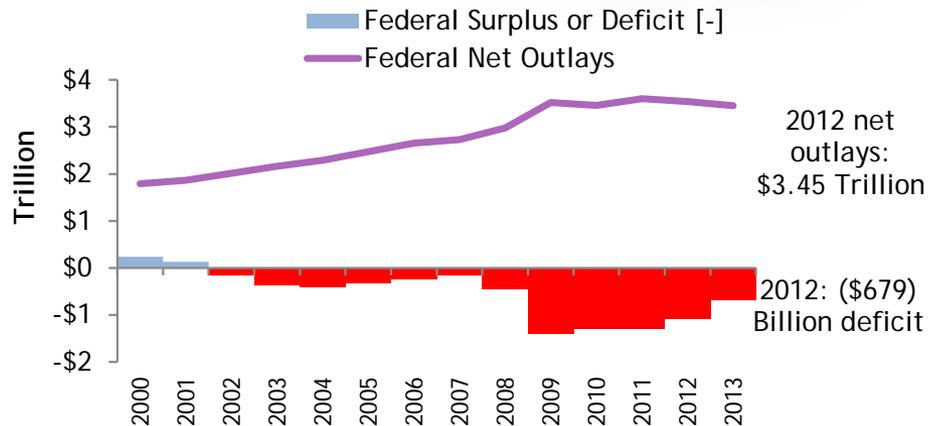
MONETARY AND FISCAL POLICY EFFECTS



Sept. 21, 2011 - Operation Twist :
Treasury buyback of 6 YR to 30 YR
bonds and sale of 3 YR or less.



- Money market normalizing as the Federal Reserve pulls back stimulus
- Fiscal policy more certain in 2014 as federal deficit continues to decline



TRACKING THE REGION'S ECONOMIC PERFORMANCE

- ◉ Labor market improving
- ◉ Job creation modest
 - 62 percent job recovery rate is behind national average
 - Construction and manufacturing struggling to gain foothold
- ◉ Consumers remain optimistic
 - Spending on durable goods on the rise
- ◉ Residential real estate market is normalized
 - New construction uptick but slow
- ◉ Commercial real estate still has a ways to go
- ◉ Businesses plan to increase capital expenditures (CAPEX)



LABOR MARKET

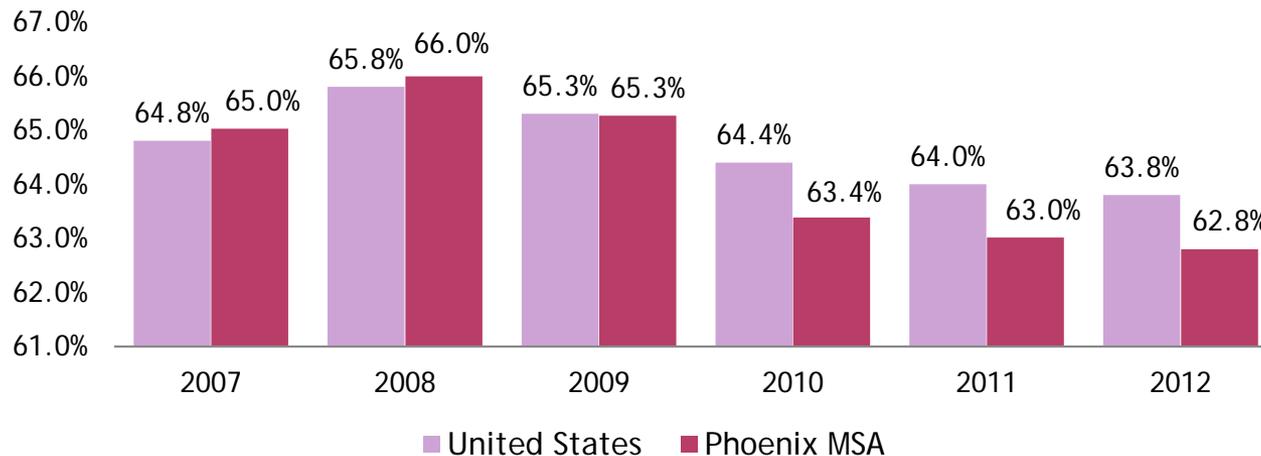
conditions improving, but labor force participation down.....

Unemployment Rate

Not Seasonally Adjusted

	Mar 2014	Mar 2013	2013 Average
Maricopa County	6.3	6.7	6.7
Phoenix MSA	6.4	6.8	6.9
Arizona	7.3	7.8	8
United States	6.8	7.6	7.4

Participation rate*



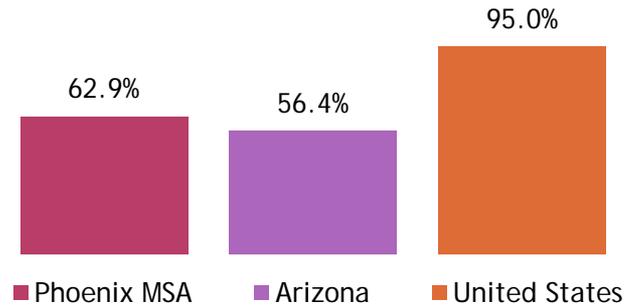
* *Population 16 years and over in the Labor Force*

Data Source: Office of Employment and Population Statistics, Arizona Department of Administration; American Community Survey, 1-Yr estimates, U.S. Census Bureau.

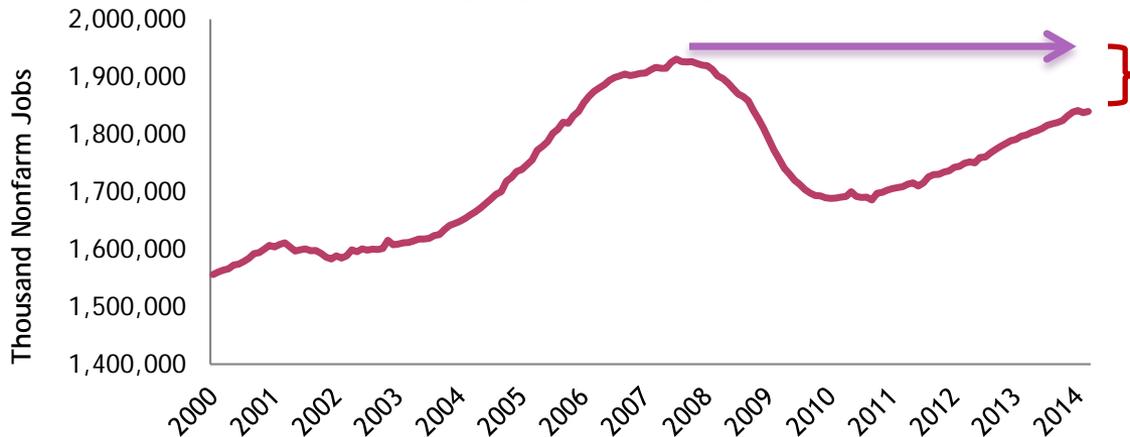
JOB RECOVERY

glass more than half full.....

Job Recovery Rate*
as of March 2014



Total Nonfarm Employment
Seasonally Adjusted, January 2000 to March 2014



91,100 of the
254,300 jobs
lost are yet to
be recovered.

*Job Recovery Rate since trough of nonfarm employment trough

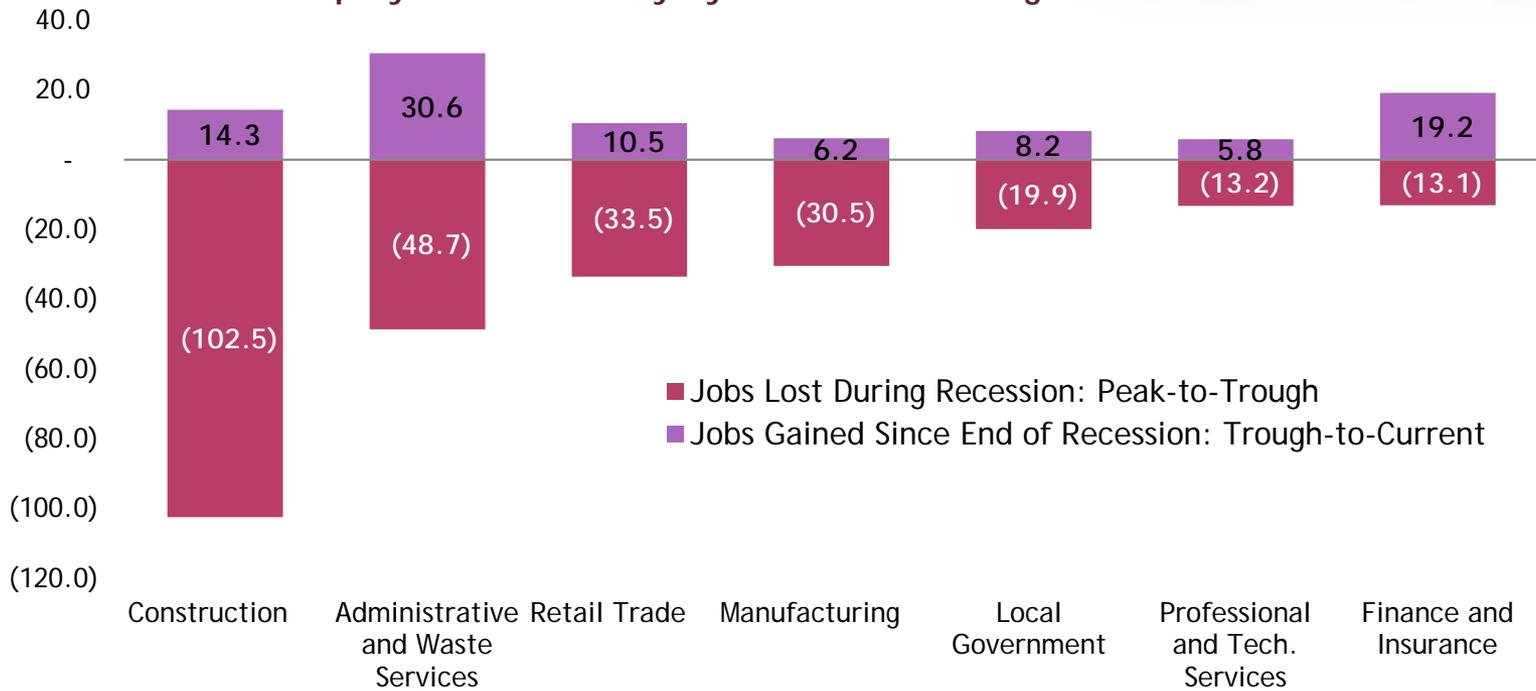
Data Source: Office of Employment and Population Statistics, Arizona Department of Administration

JOB RECOVERY

industry leaders and laggards.....

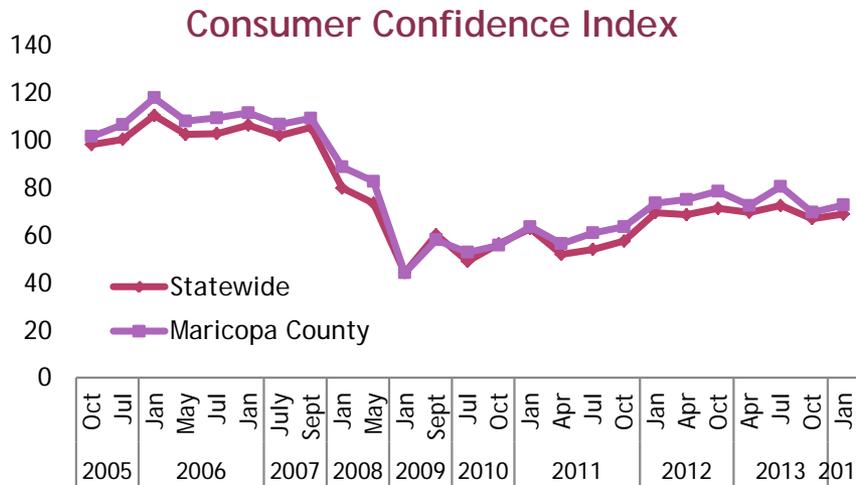
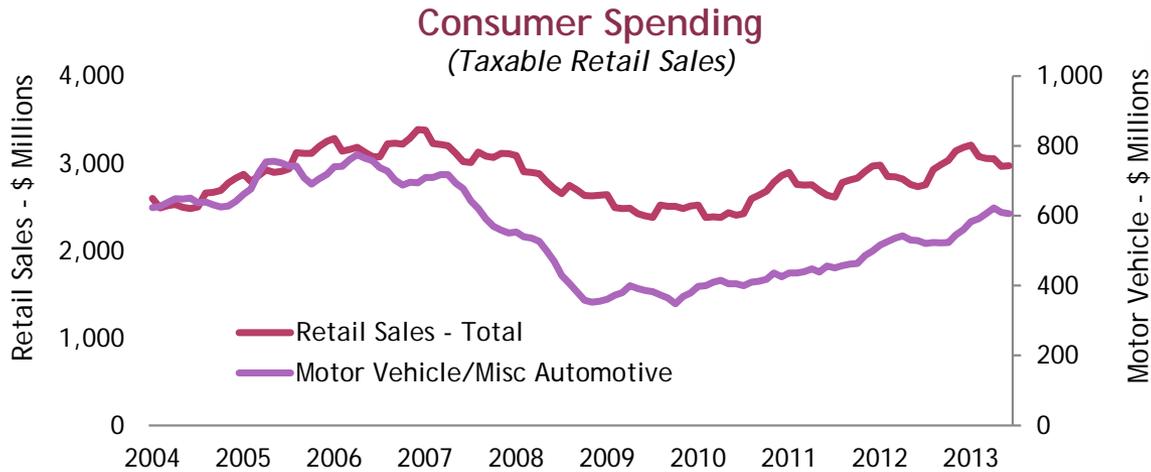


Employment Recovery by Sectors with Largest Job Losses



CONSUMERS

remain cautiously optimistic.....

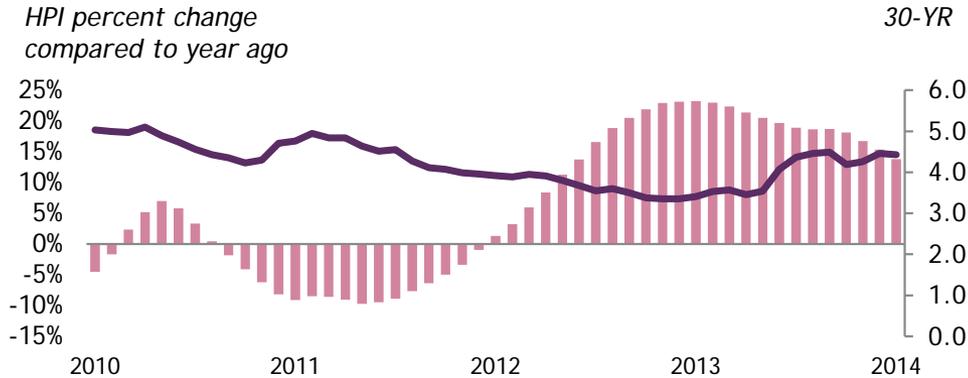


<i>(Percent change from year ago)</i>	
Consumer Price Index - All Items <i>(2013 Second half)</i>	1.3 %
Consumer Confidence Index <i>(2014, January, since Apr 2013)</i>	0.3%
Taxable Sales: Retail <i>(2013 January, accrual)</i>	2.6%

RESIDENTIAL REAL ESTATE

resale home values appreciating, at slower rate.....

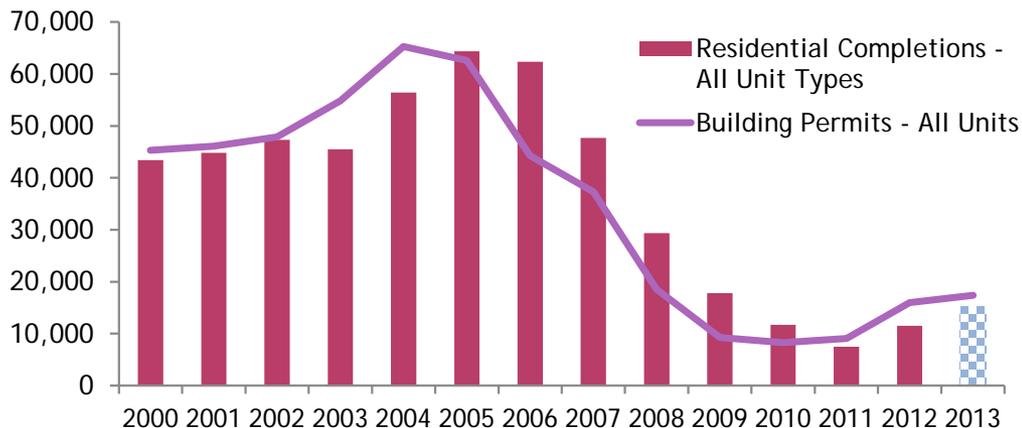
S&P/Case-Schiller Home Price Index



(Percent change from year ago)

FHFA Home Price Index (HPI) (2014:Q1)	18.1%
S&P/Case-Schiller HPI (2014, January)	13.8%
Housing Affordability Index (2013:Q1)	-12.9%
Residential Completions (net) (2013)	32.8%

New construction picking up but slow.....

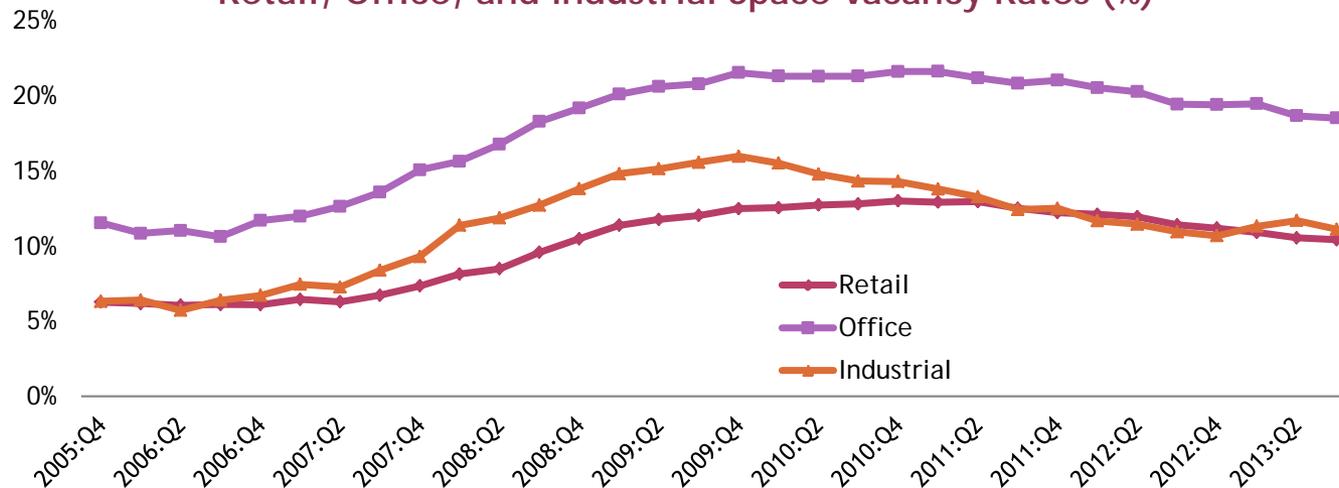


Data Sources: U.S. Census Bureau; MAG residential completion (net demolitions) data; S&P/Case-Schiller Home Price Index; Federal Housing and Finance Administration

COMMERCIAL REAL ESTATE

still in recovery.....

Retail, Office, and Industrial Space Vacancy Rates (%)



Vacancy Rates (%)

	2014:Q1	Percent Change from Year ago
Retail Space	10.3%	-8.5%
Office Space	17.8%	-8.6%
Industrial Space	13.1%	10.1%



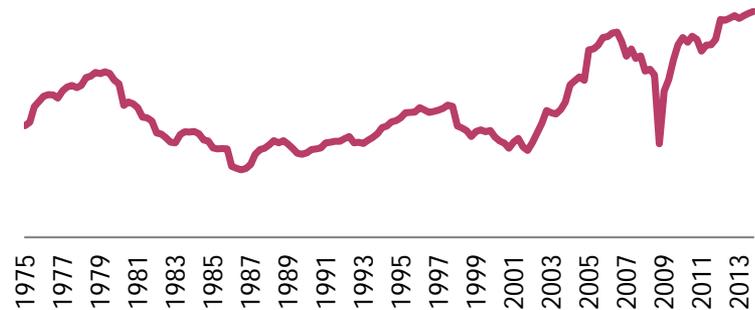
Source: CoStar Inc.

BUSINESSES

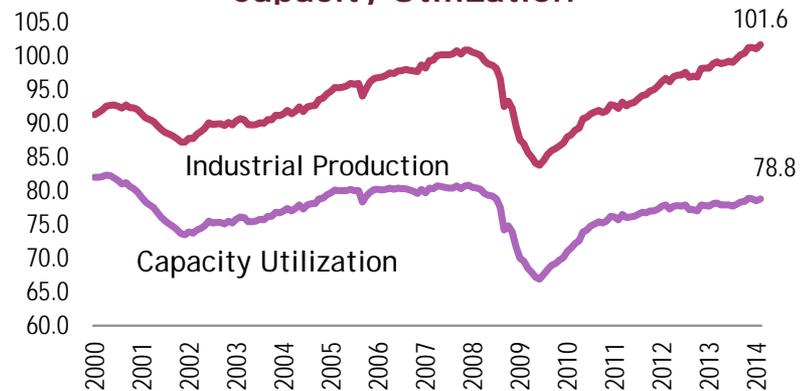
pent up need for capital expenditure (CAPEX).....

- Corporate profits as share of GDP remains high (11 % in 2013:Q3)
- Capacity utilization index approaching threshold (80)
- 61 percent of companies plan on increasing CAPEX investments - *NABE Industry Survey**

Corporate profits as share of GNI



Capacity Utilization



*NABE - National Association for Business Economics

"U.S. companies ramp up CAPEX as confidence grows", February 20, 2014, Reuters

TAKE AWAY

- ◉ Economic growth in 2014 expected to pick up
- ◉ Construction and manufacturing sectors expected to pick up as:
 - Fiscal policies provide more certainty in 2014
 - Monetary policies remain accommodative
- ◉ Brush up business plans as pent up demand for capital expansion and rise in global demand nudges investment
 - This will boost commercial real estate

Q&A

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