

National & Regional Economic Outlook

**The Alliance Bank Economic Policy Institute
2018 Economic Outlook Conference**

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The Economy by the Numbers

- Greater than 3.0% GDP growth for all of 2018.
- Unemployment below 4% for several months.
- Inflation trending at less than 2%.
- Wage growth occurring at levels around 3% which is higher than experienced since 2009.
- Historically, interest rates are still low.

But, how are you feeling?



The Truth about Lies

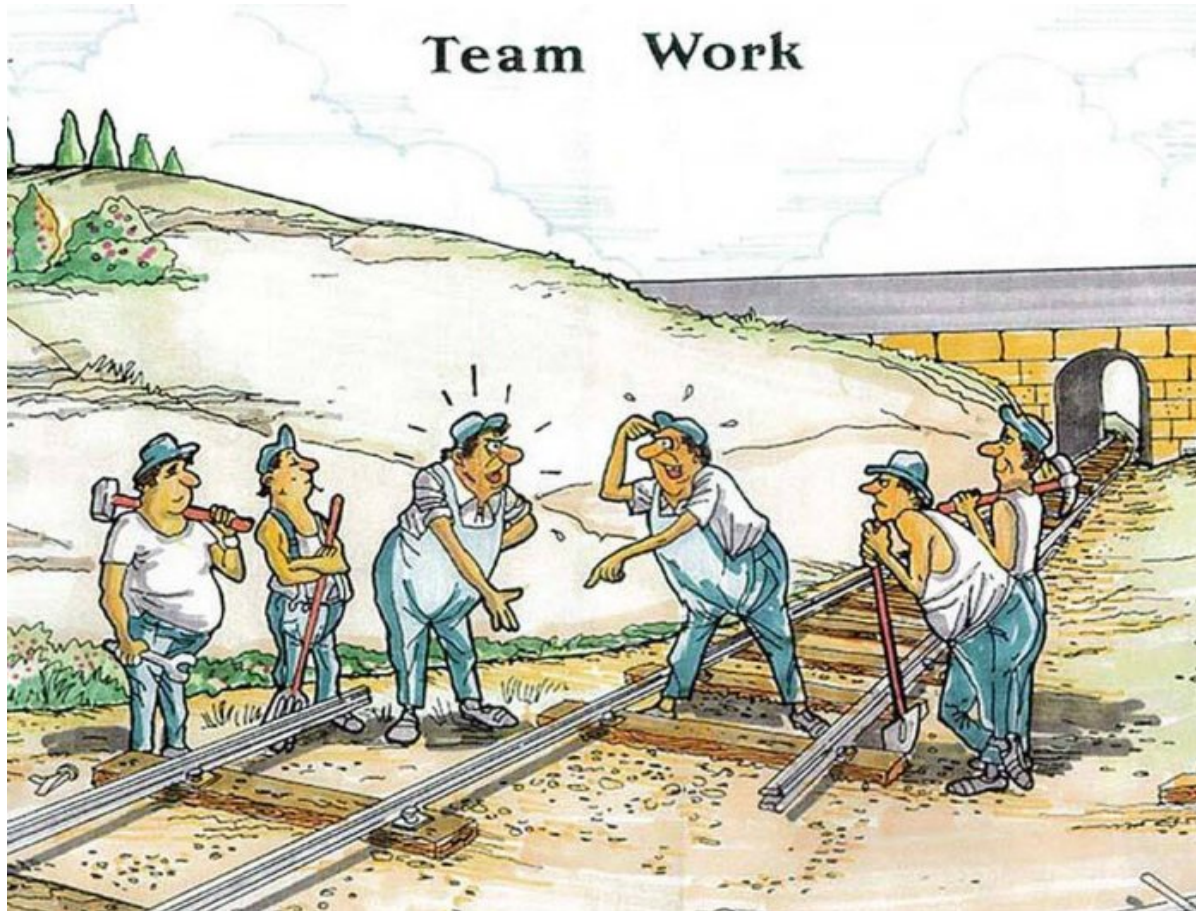
“Falsehood flies, and truth comes limping after it, so that when men come to be undeceived, it is too late; the jest is over, and the tale hath had its effect.”

– Jonathan Swift
English Essayist & Poet
(1667-1745)

Where to Seek the Truth



Communication



Short-term Concerns in 2018

- Increasing interest rates will negatively impact housing.
- Low unemployment levels will increase wages, as well as prices, generating \uparrow inflation.
- Protectionist trade instead of free-trade raises costs all along the supply chain.
- Uncertainty about slowing growth in the rest-of-world, and the increasing strength of the dollar.

Long-term Headwinds

- Rising interest payments on the federal debt
- Shortage of workers in the labor force
- Growth in entitlements is not sustainable
- Widening wealth and income gaps
- Decaying infrastructure
- Costs associated with global warming
- Healthcare in general

Fiscal Policy Update

Corporate Tax Cut Impact

- GDP overall increased by 3.5% in 3rd Qtr.
- Business fixed investment grew by only **0.8%** which is its slowest rate since 4th Qtr. 2016.
- The supply-side boost from the corporate tax cuts from 35% to 21% has stalled after 6 months.
- Recent NABE survey -- 81% of firms did not change their hiring or investment plans after the corporate tax cut.

Source: *The Trump tax-cut stimulus still isn't here.* Yahoo Finance, October 31, 2018.

Trickle-down Economics



No Recession in 2019

The U.S. economy is fundamentally strong

- *A recession in the next year is unlikely unless –*
 - The FED miscalculates and tightens monetary policy too quickly.
 - The rest of the world enters a recession and subsequently drags the U.S. into a recession as well.
 - The trade war with China heats up, and tariffs keep rising into the future.

Change in Non-farm Employment

Rank	Percent Change in Total Non-farm Employment September 2018/September 2017	Percent Change over the year
1	Florida	4.8%
2	Utah	3.6%
3	Texas	3.3%
4	Nevada	3.2%
5	Washington	3.2%
6 (tie)	Arizona	2.9%
6 (tie)	Colorado	2.9%

Source: U.S. Bureau of Labor Statistics, www.bls.gov

Change in State Populations

Rank	Six Highest Growth Rates by State Last Year 2017 / 2016	Percentage Growth 2017 / 2016
1	Idaho	2.15%
2	Nevada	1.96%
3	Utah	1.85%
4	Washington	1.69%
5	Florida	1.56%
6	Arizona	1.53%

Source: U.S. Bureau of the Census, www.census.gov

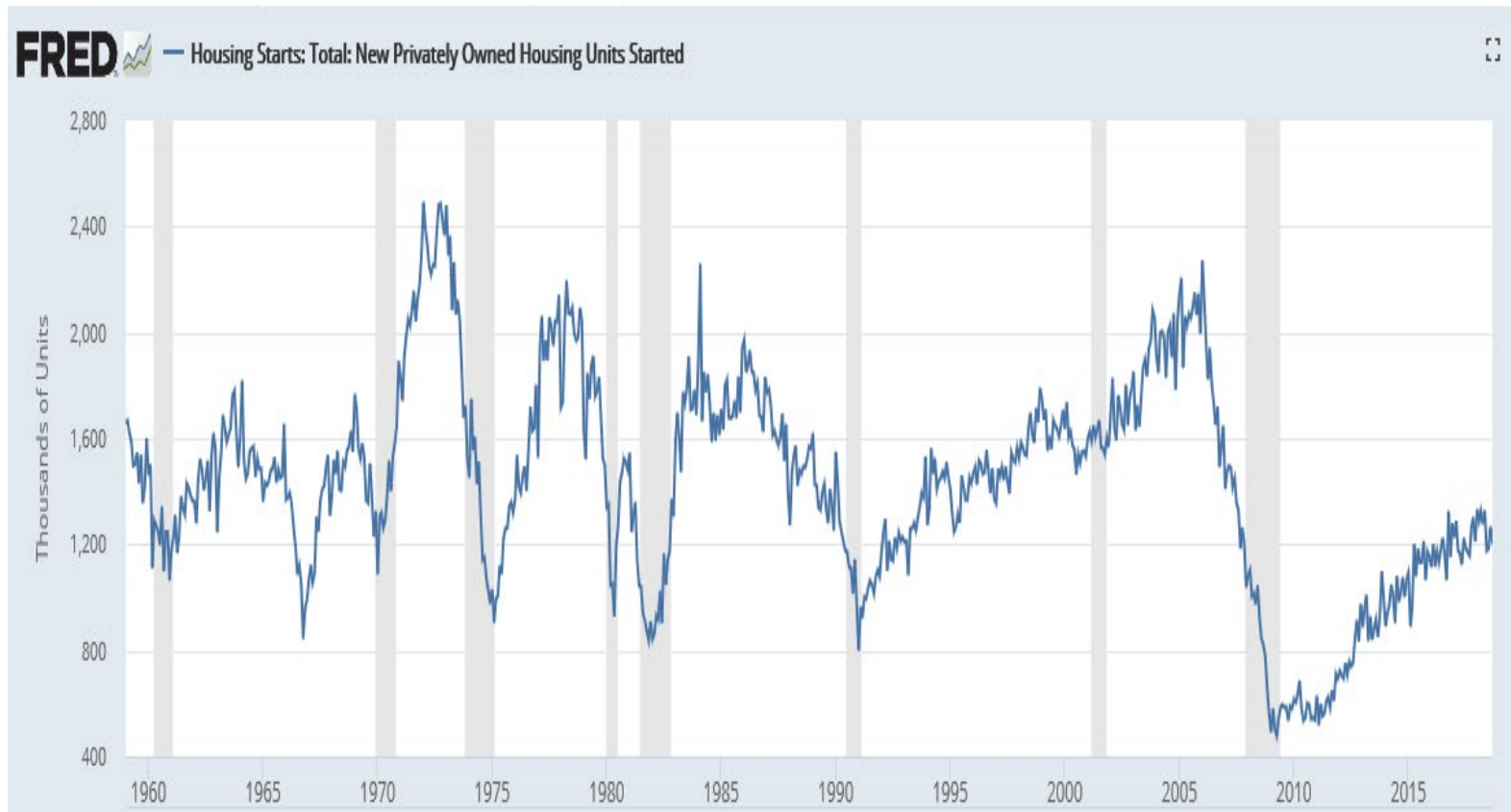
Arizona Blue Chip Forecasts

Annual Percent Changes

Arizona Consensus Forecasts	2018 / 2017	2019 / 2018
Retail Sales	5.1%	4.5%
Wage & Salary Employment	2.5%	2.2%
Single Family Housing Permits	14.0%	9.4%

Source: W.P. Carey School of Business, Seidman Research Institute, Arizona State University, November 2018

U.S. Housing Starts



Source: U.S. Bureau of the Census, www.fred.stlouisfed.org

Flagstaff Real Estate

(Overall Flagstaff Regional market)

- Single family home sales -- 3rd Qtr. 2018 / 2017
 - Decreased from 326 to 265
- Median sales price -- 3rd Qtr. 2018 / 2017
 - Increased from \$393,500 to \$410,000

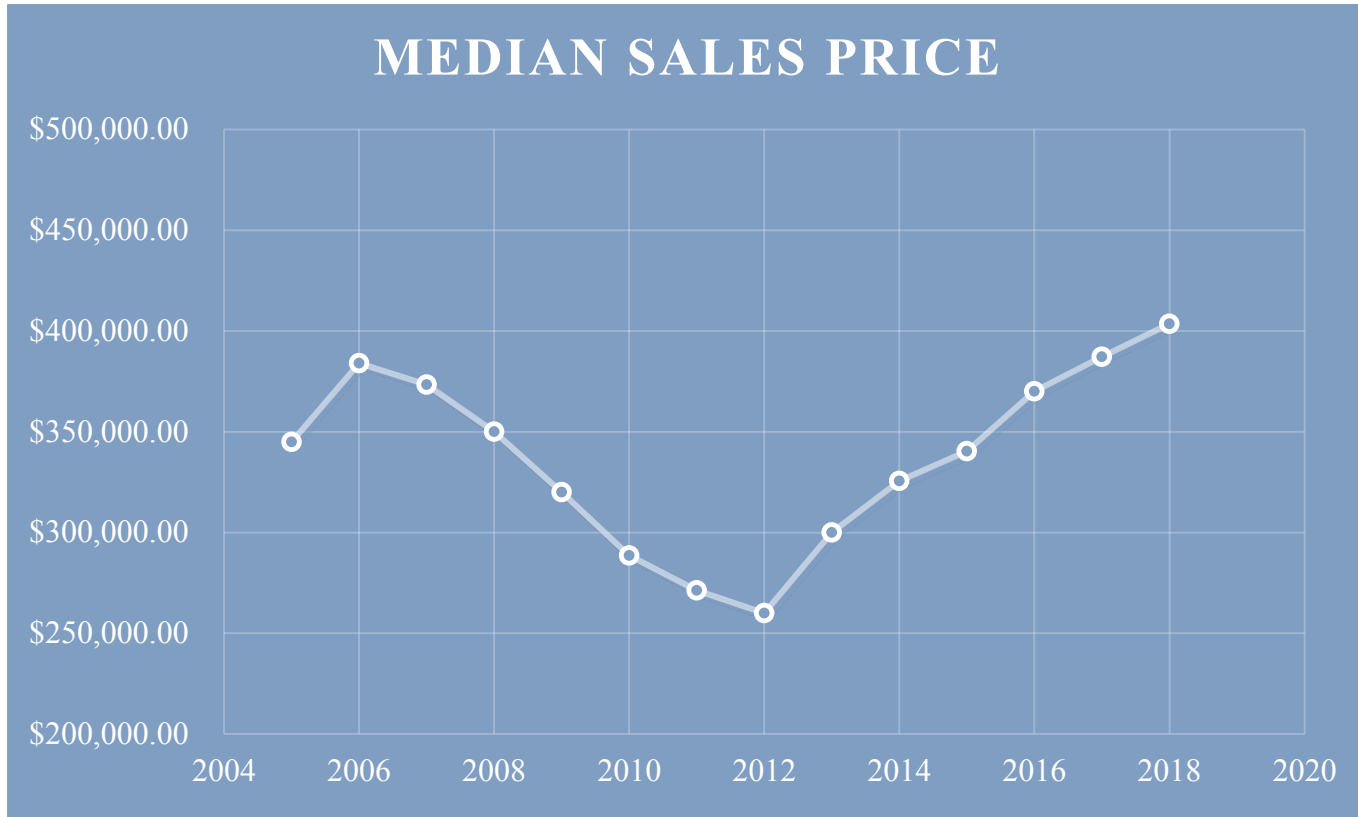
Source: www.flagstaffhomesblog.com | Flagstaff Market News, Elite Team/REMAX Peak Properties

Decline in Sales

- This decline is due to classic supply and demand factors:
 - Rising interest rates
 - Higher home sales prices
 - Low levels of available inventory

Source: www.flagstaffhomesblog.com | Flagstaff Market News, Elite Team/REMAX Peak Properties

Flagstaff Single Family Homes Median Sales Prices



Source: www.flagstaffhomesblog.com | Flagstaff Market News, Elite Team/REMAX Peak Properties.
2018 information is as of November 1, 2018 & includes surrounding areas.

Flagstaff Single Family Homes Total Sales *(2018 is 10 mo's)*

Single Family Sales in Region



These sales include Flagstaff as well as in surrounding areas including Doney Park, Kachina Village, and Bellemont, among others.

Source: www.flagstaffhomesblog.com | Flagstaff Market News, Elite Team/REMAX Peak Properties

Total Employment Change (Sept. 2018/2017) **Arizona & MSA's**

Region	Increase in Total Employment Sept. 2018/2017
Arizona	78,300
Phoenix MSA	63,700
Flagstaff MSA	2,500
Lake Havasu/Kingman MSA	2,000
Prescott MSA	1,300
Rest of State	8,800

Source: Office of Economic Opportunity, Arizona Labor Statistics, October 18, 2018

Employment Change – Sept. 2018/2017

Coconino County (overall & top 5 sectors)

Sector	% Change in Employment
Total Nonfarm Payroll Employment	4.2%
Government (all levels)	11.2%
Financial Activities	7.1%
Educational & Health Services	4.1%
Manufacturing	2.4%
Leisure & Hospitality	1.9%

Source: Office of Economic Opportunity, Arizona Labor Statistics, October 18, 2018

Employment Change – Sept. 2018/2017

Yavapai County (overall & top 5 sectors)

Sector	% Change in Employment
Total Nonfarm Payroll Employment	2.0%
Construction & Natural Resources	13.2%
Manufacturing	7.9%
Financial Activities	5.0%
Leisure & Hospitality	2.9%
Professional & Business Services	2.7%

Source: Office of Economic Opportunity, Arizona Labor Statistics, October 18, 2018

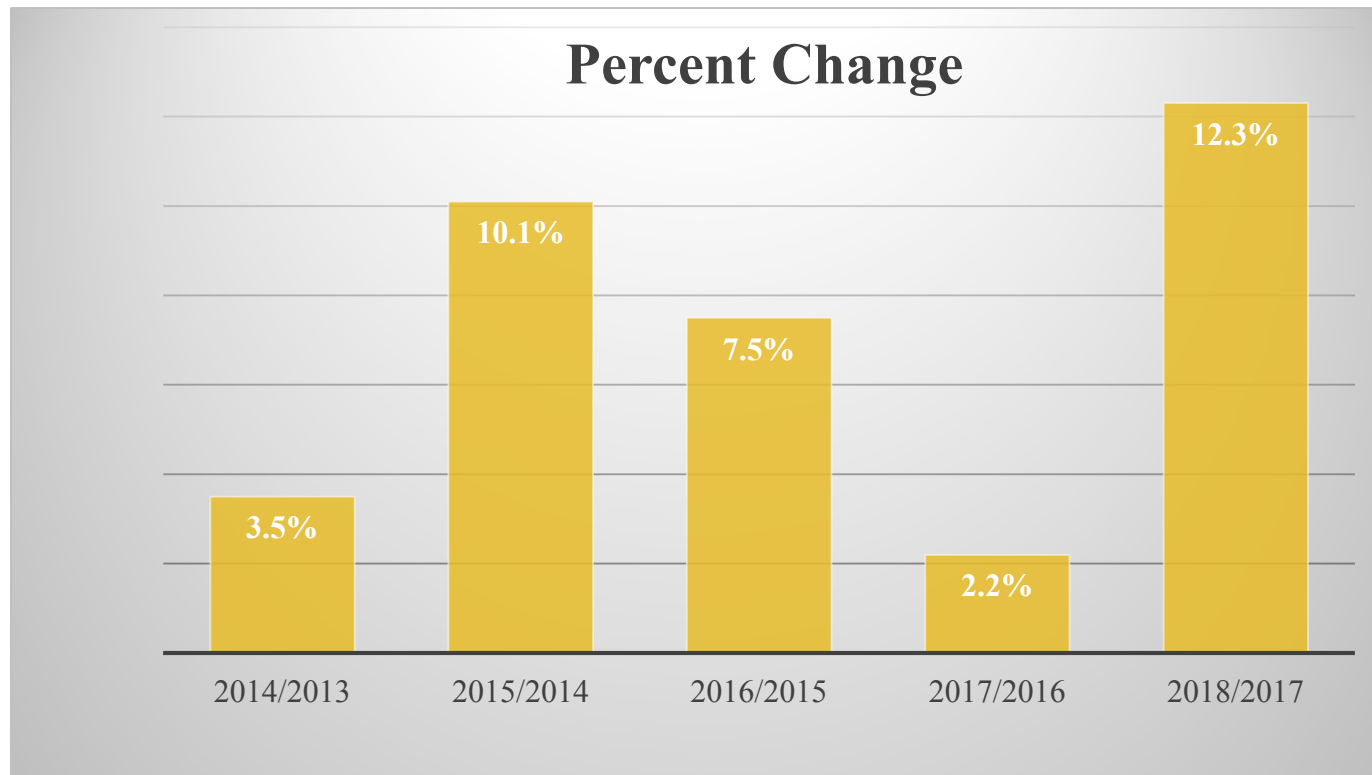
Employment Change – Sept. 2018/2017

Mohave County (overall & top 5 sectors)

Sector	% Change in Employment
Total Nonfarm Payroll Employment	3.0%
Construction & Natural Resources	13.8%
Trade/Transportation & Utilities	6.6%
Leisure & Hospitality	5.1%
Manufacturing	3.2%
Educational & Health Services	2.3%

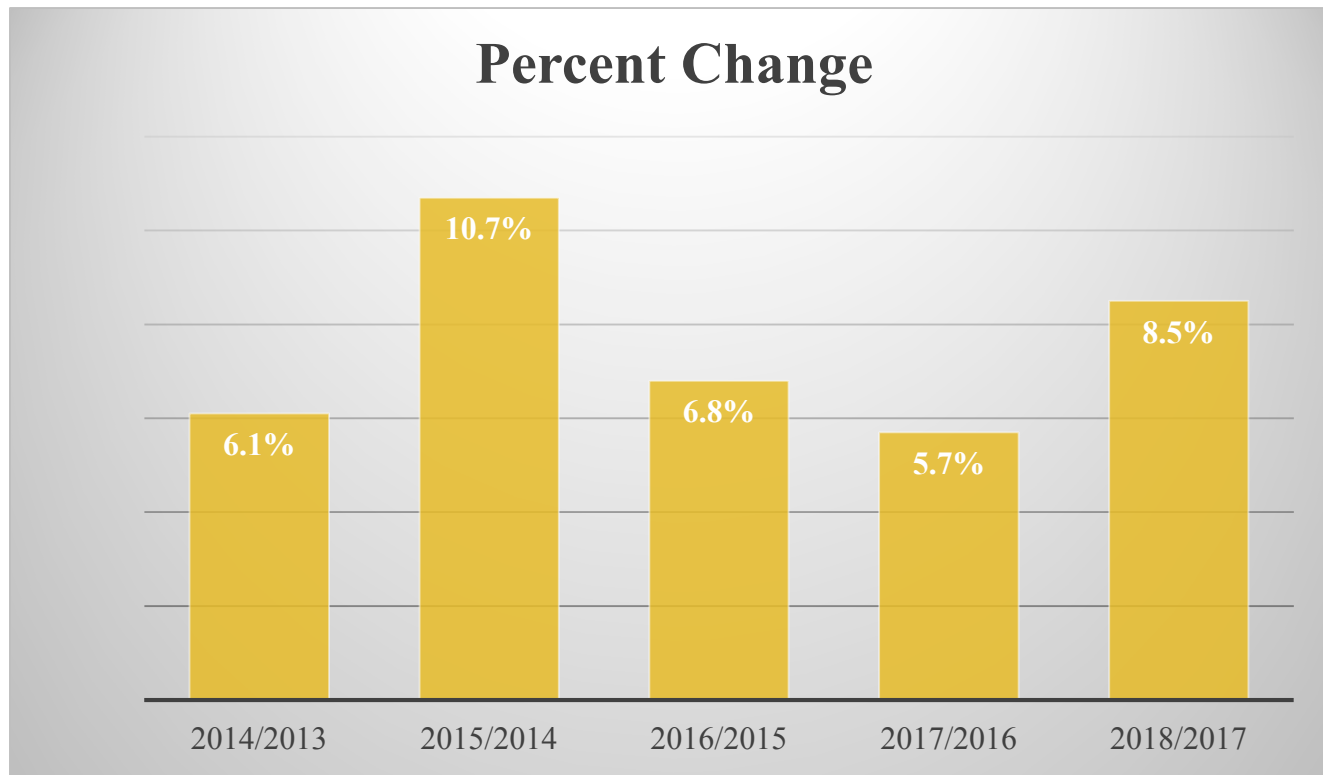
Source: Office of Economic Opportunity, Arizona Labor Statistics, October 18, 2018

Flagstaff Tax Revenues FY Total w/o Utilities



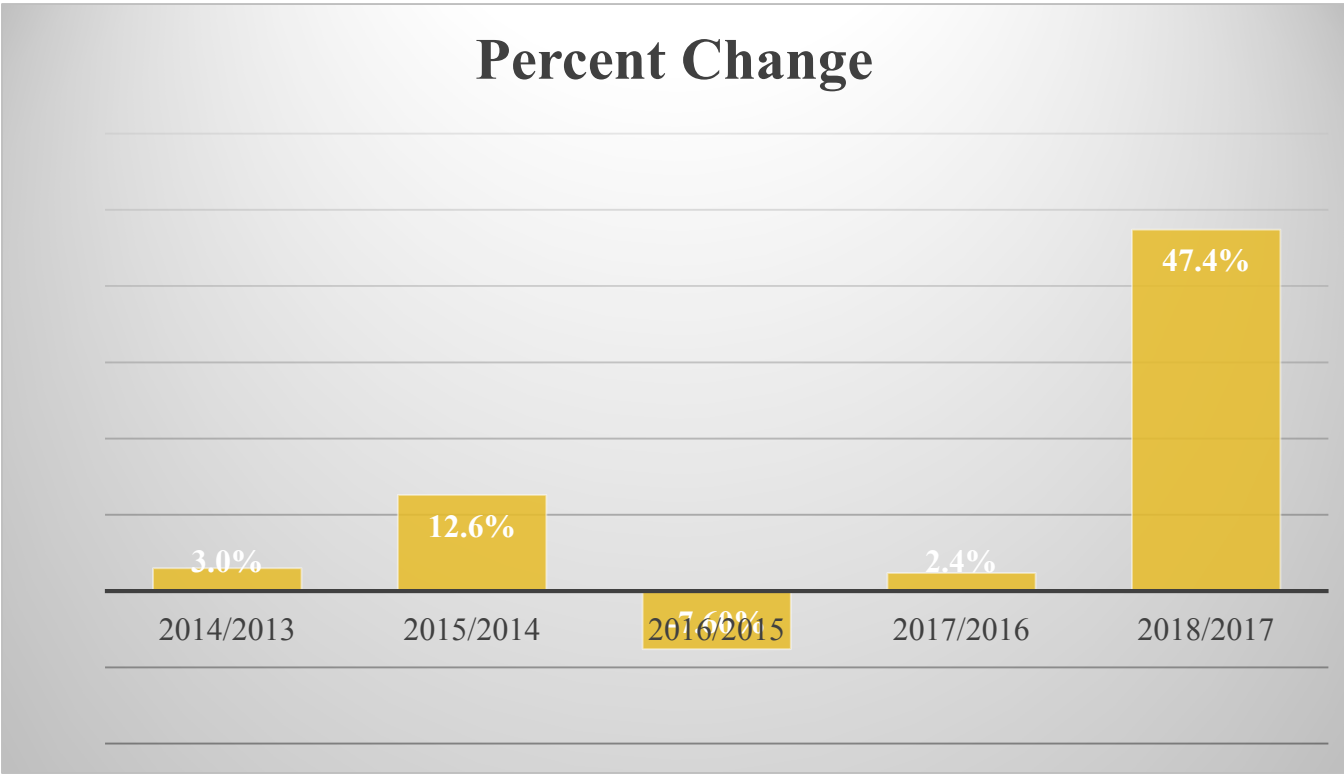
Source: <https://www.flagstaff.az.gov/2769/Monthly-Tax-Revenue-Statistics>

Flagstaff Tax Revenues FY BBB (Hotels, Restaurants)



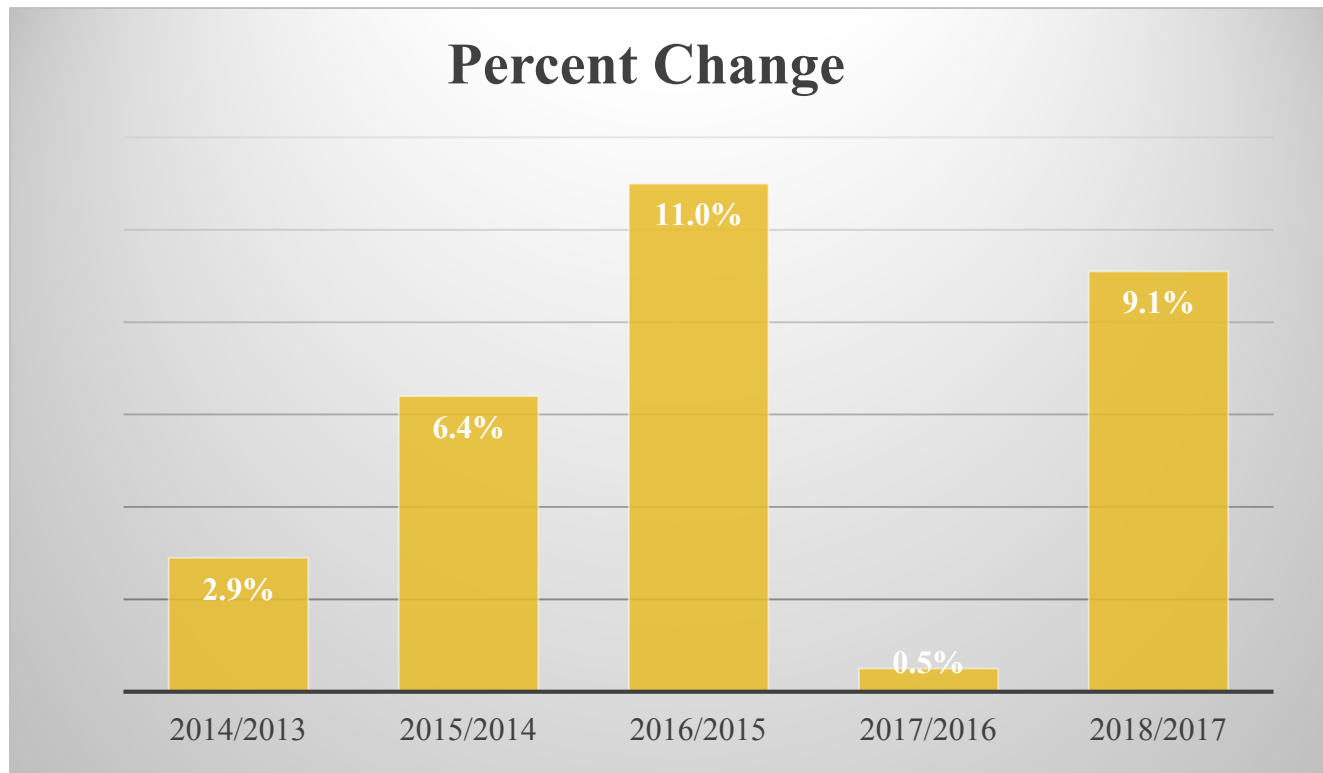
Source: <https://www.flagstaff.az.gov/2769/Monthly-Tax-Revenue-Statistics>

Flagstaff Tax Revenues FY Construction Contracting



Source: <https://www.flagstaff.az.gov/2769/Monthly-Tax-Revenue-Statistics>

Flagstaff Tax Revenues FY Retail Including Auto Sales



Source: <https://www.flagstaff.az.gov/2769/Monthly-Tax-Revenue-Statistics>

Flagstaff Forecast- 2019

- Construction activities continue to be strong.
- Sales and revenues overall, continue an upward trend, although not as strong as 2018, due to slower growth in the US and in foreign countries which will impact tourist activities.
- Housing, congestion, and in-town transportation issues, will continue to be major areas of local concern.