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SPEAKERS

NPR promo, George Hammond, Nicole Cox, Gus Fauchet, Christopher Conover

Christopher Conover 00:03

Welcome to The Buzz. I'm Christopher Conover. This week a look at Arizona's economy. Every December, a crowd gathers at the Westin La Paloma to eat lunch and hear about the economy of Arizona from leading experts. We are at that Economic Outlook Luncheon hosted by the University of Arizona's Eller College of Management. For this show, it gives a look back at the year and a prediction of what will come in the year ahead, with analysis of the state and the region from Dr George Hammond, the Director of the Economic and Business Research Center, and a broader look at the economy from a guest economist. Dr Hammond leads off our show. Welcome.

George Hammond 00:09

Hi, Chris, good to see you.

Christopher Conover 00:17


So one of the first terms you really dove into was unemployment. Arizona saw a record low unemployment for a good chunk of the year. How's that affecting the economy, both in a good and bad way?

George Hammond 01:08


A low, really historically low unemployment rate tells an economist that we're facing a tight labor market, and that's a double edged sword from the employer side. It's not so great, because you have to look really hard to find employees, and you're generally paying them more. But from the other side, it looks a little bit better because there are plenty of job opportunities out there, and employers are bidding up wages. The labor market is tight. Whether that's good or bad depends on which side of the market you're on. In terms of job growth, we're doing okay. We're up about 3600 jobs over the year. That's about 0.9% growth. It's about half the national rate of growth at this stage, and it's far slower than what we're seeing in Phoenix and Arizona. So Arizona is growing, but we're growing slow.




Christopher Conover 01:50

 Christopher Conover 01:58

Why is Southern Arizona, the Tucson metro area growing slower than Phoenix and other parts of the state?

 George Hammond 02:05


Tucson is growing slower because there are a couple of major sectors that are struggling. We're seeing strong job gains in health care, and that's what we're seeing across the state and across the nation. We're also seeing strong job gains in manufacturing here in Tucson, and that's a big contrast with what we're seeing in Arizona and nationally. So that's the good news. The not so good news is that we're struggling to generate jobs in leisure and hospitality, as are the state and the nation. You know, that's been slow to come back from the pandemic, but professional and business services, especially call centers, has struggled to add jobs in Tucson, and that's a sector that's really been growing in Phoenix and nationally.

 Christopher Conover 02:45

and it was a big sector here in southern Arizona for a long time.

 George Hammond 02:49

Absolutely. And we're not entirely sure that those, the people doing those jobs are no longer here. It's possible that they are just working for firms out of state. So call center, you can do that job from anywhere, and it may well be, in fact, I think it's likely that those people are actually here in Tucson working for call centers that are located out of the state. So Tucson is doing okay.

 Christopher Conover 03:14

So housing was another big topic in your speech. Arizona used to be known as an affordable place to live, but that affordability has gone down in recent years. We've talked about it a couple of times at these luncheons and breakfasts through the years. What's going on with housing prices recently?

 George Hammond 03:31

Housing prices are still rising in Tucson, as they are in Phoenix and nationally, they're not rising at anything like the explosive rates of growth we saw in 2021 and 2022 so that's the good news. The bad news is that house prices are not falling either. They're still really elevated measured by the Consumer Price Index. Shelter costs are up about 40% in Phoenix, and I think it's probably similar here in Tucson, compared to where we were before the pandemic began. So housing affordability is still really a struggle. Households in Tucson are housing cost burdened relative to a median family income. It takes about 36% of that median family income to pay the mortgage on a median priced house in Tucson,

C Christopher Conover 04:19

and that again, ties a little bit back to the unemployment rate and the competitiveness in the job market. But we hear anecdotally from lots of people that housing is really becoming a problem, especially rental housing costs not keeping up with wages

G George Hammond 04:36

right. Overall, housing cost burdens are generally significantly higher for renters than they are for homeowners. So that's more of an issue on that side of the market.

C Christopher Conover 04:46

So inflation, it was all the talk during the election. It continues to slow. In Arizona, the consumer price index shows annual inflation for our areas below 2%. That's the number that the Federal Reserve always cites as its target. How is that affecting our economy? After we heard so much about it in November, in the election?

G George Hammond 05:08

Inflation in Phoenix, and I think we're seeing the same thing here in Tucson, has been below the national average in terms of that headline number for the past year. So that's the good news. Prices are not rising at anywhere near the rates they were in 20 the summer of 2022 either nationally or in Phoenix. And that's good news. The bad news is that prices are way above where they were before the pandemic began. They're just rising at a much slower pace. So there's good news and there's bad news, and that's where we're at. It will take time for incomes to gradually catch up to what happened to prices during the past couple of years.


C Christopher Conover 05:49


and tying in housing and inflation back together. Since we've been talking about both of those, it's gotten a lot of discussion housing has in terms of inflation. In Arizona, how much of our inflation issue comes from a shortage of affordable housing?


G George Hammond 06:05


It was a huge contributor shelter, both rental units and the owner occupied housing was a huge factor in the acceleration of inflation in Phoenix, particularly relative to the national average. Now the Phoenix inflation peaked at just over 13% compared to 9% for the US in that summer of 2022 and that was mostly driven by what happened in the housing market. The good news is that shelter inflation in Phoenix is now below the national average.


C Christopher Conover 06:36


 Christopher Conover 06:30
So some hope on the horizon there may be.

 George Hammond 06:40
Yes, it's rising at a much slower pace, and that's that's good for overall inflation, and that helps with housing affordability, because, you know, personal income rose by 7% last year in the Tucson metro area,

 Christopher Conover 06:53
so taxable retail sales and restaurant sales are slowing. Is that a sign of belt tightening on the part of the consumer, or are we just coming down from a big peak and no worry?

 George Hammond 07:07
I think there are elements of both. There the taxable sales data that we deal with. Big chunk of that is really goods. During the pandemic, we were all buying all kinds of goods because we didn't spend money on travel and tourism, and that's since reversed. So we all expected that goods taxable sales would really decelerate, or even fall a little bit as we things got back to normal. But I think we are seeing, you know, the impact of higher prices, including housing affordability. So if you're you know, if you're buying a house now, mortgage rates are a lot more and you're buying a much more expensive house, and that's impacting household budgets, and there's just not as much money left over for goods, like automobiles, apparel, furniture, that kind of stuff, as well as eating out in restaurants.

 Christopher Conover 07:51
So let's look forward to 2025. It is right around the corner. We're coming into the holidays here. You said Arizona should expect its job growth to slow in the next two years. What's the likely cause of that, if it happens?

 George Hammond 08:06
I think it's the national economy gradually continuing its slowdown to trend growth from significantly above trend growth coming out of the pandemic. So everything is just settling down to more normal growth rates, and I think that's a big factor. We're still dealing with the hangover of the increase in interest rates. So that's still filtering through the economy. Even though interest rates have come down a little bit, they're still way above where they were before the pandemic began. So there's still that drag on the economy, you know. And as we look past the next couple of years, it's really demographics that are going to generate slower growth nationally, in Arizona and in Tucson as well.

 Christopher Conover 08:42

You mentioned in your talk that wage growth is expected to also slow. What's behind that? If the job market is strong, at least on the employee side, why is wage growth slowing down?

G George Hammond 08:58

Well, wage growth is slowing in part because the unemployment rate's not falling or as much as it was, right? So the labor market's kind of reached this equilibrium where it's tight, but we're not seeing the kind of churn in the labor market that we did coming out of the pandemic, when we saw these huge amounts of people quitting their jobs and being hired into new jobs. And that churn is what really turbo charges wage growth, and that's essentially gone away. The labor market is very placid, but it's at a very tight level.

C Christopher Conover 09:27

While inflation is slowing, people often lament that prices are not going down, especially places we all have to go, like the grocery store. Would a big price drop be beneficial? Or is that a sign of bad things out on the horizon?

G George Hammond 09:43

Well, it depends on what's driving the price drop. Right? Typically, when we see prices declining, that is being driven by major downturns in the economy. So we don't necessarily want to see that. You know? What we want to see is the rate of inflation come down and income growth continues. Need to be strong, and that way we catch up to where prices are, and that's more typically the way the economy works, and that's certainly a much more sustainable way to get back to a more normal equilibrium.

C Christopher Conover 10:11

You said much of your work that went into this forecast was done pre election. Makes sense. Election was just a month ago, and you don't put these forecasts together in a day or two. We're hearing a lot of talk about potential for deportations and tariffs, which hit the southern Arizona culture and economy. What would that do to these predictions for the economy?

G George Hammond 10:38

Well, you know, significant increases in tariffs, particularly on Mexico and Canada, as well as mass deportations, pose a significant downside risk to the Arizona outlook and to the US outlook, for that matter. Tariffs would hit Arizona exporters to Mexico, in part because Mexico would likely respond with tariffs of their own on our goods. It makes the goods that we're importing from Mexico more expensive, and a shared production process that's arisen between Mexico, Canada and the US over the past 20-30, years, means that we used to call this maquiladoras, and that's these goods as they are processed, as they're finished, they're crossing the border as many as seven or eight times. So imagine a tariff on each side as it goes

back and forth seven or eight times. That's a big problem as far as costs go. And it would be inflationary. So that would be a problem. Mass deportations would be a similar sort of problem. It would be a major labor supply shock. So our labor force participation rate would probably fall significantly. We would have supply chain issues. It would raise costs, because employers would have to try to bid up wages to attract native born workers into the labor market. And you know, both tariffs and mass deportations together would be a major adverse supply side shock, and that means higher prices and probably slower growth

C Christopher Conover 12:01

when it comes to tariffs going in and that supply side shock that you were talking about. Is that a short term thing, and then the economy kind of finds its feet and rebalances? Or is that a long term effect?

G George Hammond 12:07

It's a short run effect, right? But unfortunately, we all live in the short run, right? The short run to an economist is 2, 3, 4, years, right? But that's a long time to face higher prices and diminished labor supply, but it's a good point. In the longer run, tariffs might encourage more capital investment in the US. That you know, would help to stabilize manufacturing jobs, maybe even increase them a little, but it would be doing it at a higher priced level. Same thing for mass deportations. We would eventually draw people back into the labor market, but that would be at higher costs and after significant supply of chain disruptions,

C Christopher Conover 12:53

right, And two to three years at least. And as you said, in economist time, that's just a very short time, but in personal time, that's much longer.

G George Hammond 13:04

Yeah, exactly.

C Christopher Conover 13:06

All right. George Hammond is the director of the Economic and Business Research Center at the Eller College of Management at the University of Arizona. Dr Hammond, thanks for speaking with us today. Thank you. It's a pleasure. You're listening to the buzz after the break, we broaden out our look at the economy with the luncheon's other speaker. Stay with us.

N NPR promo 13:25

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C Christopher Conover 13:41

Welcome back to The Buzz. I'm Christopher Conover. This week, we're at the Westin La Paloma in Tucson for the Economic Outlook Luncheon put on by the Eller College of Management at the University of Arizona. The state's economy may be going strong at the moment, but even the strongest state economy will falter if the nation it's part of takes a turn for the worse. So with new elected leadership coming in just over a month, what's ahead for the economy of the US? That was the focus of what Gus Fauchet spoke about at the Eller Economic Luncheon. Dr Fauchet is the Senior Vice President and Chief Economist of the PNC Financial Services Group, and he joins us now. Welcome.

G Gus Fauchet 14:20

Thank you very much for having me.

C Christopher Conover 14:22

You started by noting several signs that the US economy seems to be feeling quite good at the moment. Small Business sentiment is up, interest rates are down, stocks are up., save the last week or so. What's been pushing this economy?

G Gus Fauchet 14:35

It's just good underlying fundamentals. The key thing is that the labor market remains very strong. The unemployment rate is about 4.2%, that's historically low. We continue to add jobs at a solid pace. We're seeing wages go up. And in fact, for the past couple of years, average wages have been growing more quickly than inflation. So generally, households are doing well. They're increasing their spending and response and since consumerspending makes up about two thirds of the economy. That means the overall economy continues to do well.

C Christopher Conover 15:05

Wage growth and many inflation measures are slowing to more manageable. Numbers. Are those two as linked as we think they are?

G Gus Fauchet 15:14

Yeah. So what we have seen in, you know, back in in 2021 2022 we had inflation that was higher than wage growth, so prices were going up more than wages. That caused some angst for consumers. What we've seen more recently is that inflation is slowing. Prices are going up, but not by as much as they were a couple of years ago, but the labor market remains good,

particularly here in Arizona, and so we're seeing wages grow more quickly than inflation, but we are seeing wage growth also slow to a pace that's consistent with low inflation, but continued economic expansion over the longer term.

C Christopher Conover 15:48

So in this case, which is the cart and which is the horse?

G Gus Fauchet 15:52

You know, I think it's it's not that one is the cart and one is the horse. It's that they both work in tandem. Typically, when we see strong wage growth, we also have high inflation. What we've seen is that inflation is coming down. That means that workers are maybe perhaps a bit less likely to push for pay increases at the same time that slower pay growth means that inflation is lower, and so they kind of feed upon one another.

C Christopher Conover 16:17

Is a slowing of job movement a reason why wage growth is down are people just not moving into new jobs or getting those I got another job offer raises at their current job?

G Gus Fauchet 16:29

There is a lot of that. A lot of the wage growth that we typically see comes from people who switch jobs. And one of the big reasons why you switch jobs is because you can get more pay somewhere else. What we've seen is that businesses have pulled back on their hiring somewhat. Layoffs are still low. So we don't see businesses dropping workers, but they're not hiring as much, and that's contributed to the slowing in wage growth to a pace that's more consistent with 2% inflation the Federal Reserve's objective over the longer run,

C Christopher Conover 16:56

one of the things that plays into job openings is retirements. We seem to be at one of those points where one generation is retiring, but is the other generation coming up to fill those spots, or is there something a little different going on?

G Gus Fauchet 17:12

No, we continue to see that. One of the big factors that supported job growth over the past few years has been strong immigration so and that's been a particular issue here in Arizona, but you know, we've had a lot of job openings. Demand has been strong for businesses in all types of industries, and they've been able to fill that demand by hiring new workers, including people who are coming into the labor force because they're graduating from the University of Arizona or something, but also people who are coming into the labor force because they've come to the

United States. So immigration has helped fill that gap. I am concerned that if we see significant restrictions on immigration, that that could weigh on long run job growth in the United States, and in particular in Arizona, where immigration has been a key source of labor force growth.

C Christopher Conover 17:55

Right, where we stand, We're 50-60, miles from the border, and all kinds of things that go with that. So you showed a map during your talk that states, much of the global economy is at risk. The US is a standout in that as it's growing, what is putting most of the world's developing economies at risk, and why did we get so lucky to be bucking that trend?

G Gus Fauchet 18:19

Okay, so just as in the United States, we saw high inflation a couple of years ago when we saw the Federal Reserve raising interest rates in an effort to slow inflation. That's been the case globally. So if we look at the Eurozone, if we look at the UK, if we look at Canada, they also had high inflation in 2021, 2022, 2023 their central banks, the Bank of Canada, Bank of England, European Central Bank, raised interest rates there to cool off growth, and that is contraction or it weighs on economic activity. Now they're starting to cut rates overseas, like we see the Fed cutting rates here, but they have less momentum. They've had much weaker recoveries in other developed economies compared to what we've seen in the United States. It isn't just luck that the US economy has done so well compared to other economies since the pandemic. We had the Fed respond aggressively by cutting interest rates, and then we also had a lot of stimulus. We had the Paycheck Protection Program, we had extra unemployment insurance benefits, we had the PPP loans, and then more recently, we've had the inflation Reduction Act, the chips and science Act, which has been important for Arizona and the semiconductor plants that are going up. So the US economy just has a lot more momentum, because we've been providing more support to the economy since the pandemic compared to those other countries, and so that puts them at a greater risk of recession over the next year or so.

C Christopher Conover 19:41

So a lot of the support you mentioned, obviously, was government support with a change in administration and talks of reducing the size of government, does that put our economy at risk potentially, or were those supports put in long enough term that one administration can't fix it or unfix it that fast?

G Gus Fauchet 20:01

Yeah. I mean, it's going to take a, you know, a couple of years, even if we do see those things kind of unwind, it's going to take a couple of years for that process to take effect. And then the other thing is, you know, we can't continue this process indefinitely, where it's the government providing all the support. The good news is, is that the private sector remains good. Consumers are in good shape. The labor market is in good shape. So even if we do see less support to the economy from the government, we should continue to see the US economy. Should continue to see the Arizona economy expand.

C Christopher Conover 20:33

You had two slides in your presentation today that said a lot when compared to each other. One was titled, What I'm pretty sure about mentioning four things. The next was titled open questions, which had 11. Are we in a big state of flux right now?

G Gus Fauchet 20:49

Absolutely, and I think it's increased since the election. I mean, we have lots of questions. What's going to happen to tax rates? We have a corporate income tax cut that is set to expire in a year or so, and so what happens with that? What happens with immigration, that's going to be key to long run economic growth? What happens with, You know, the government programs that we've seen, like the chips and science Act, the inflation Reduction Act, that have been supporting growth, there so lots of open questions about that. You know, one of the big questions is, what happens with tariffs? The president, President elect Trump, has talked about increasing tariffs on imported goods that would raise prices for consumers, that would raise prices for businesses, that means they're probably likely to buy less. And also the question is, what does it mean for inflation? Tariffs will raise those prices. We would see inflation pick back up again, if we see substantial tariffs, does that mean the Federal Reserve can't cut interest rates aggressively, or even has to raise interest rates? So you know, I mean lots of their risks to the upside, their risks to the downside with President elect Trump. But I think it's fair to say that those risks to both sides are much larger now than they would be if we had had a Harris administration.

C Christopher Conover 22:01

Mentioning tariffs. Last week, we talked to some folks here in southern Arizona about it, specifically in the agriculture import industry. They said tariffs go in, it hits them day one. Outside of the agriculture import industry, does the consumer see the effect day one, or does it take longer for tariffs to really hit the consumer and therefore the economy?

G Gus Fauchet 22:29

Well, I think we're likely to see big, immediate increases in food prices if we do get tariffs. You know, we import a lot of produce from Mexico, we import some from Canada, and then I think it's going to take a little longer for manufactured goods, tariffs on manufactured goods to work their way into the economy, but I would expect that we if we get substantial tariffs, and that's a big if, but if we get substantial tariffs, then that'll probably show up in higher consumer prices after a few months.

C Christopher Conover 22:56

So the Dow Jones Industrial Average, the S and p5 100, the NASDAQ have all been trending down for the past week. There's been a lot of concern about those tariffs we mentioned, and loss of lower skilled labor force with potential mass deportations. Is the past week a blip? Or are

investors now starting to get concerned?

G Gus Fauchet 23:15

No, I wouldn't read too much into one week worth of stock market data, markets can be very volatile. I think the key point is, is that really, we've seen big stock market gains for the past couple of years, and that's a reflection of the underlying strength in the US economy, that investors think that corporate profits will continue to increase and that the US economy will continue to expand over the next couple of years. You know, markets are up since the election, but they were up before the election as well. And I think that's a testament to the underlying strength that we see in the US economy and that we expect in the US economy over the next couple of years.

C Christopher Conover 23:52

Geopolitics was on the list with nods to the Middle East, China, Taiwan, Russia, Ukraine. How could all these countries destabilize our economy?

G Gus Fauchet 24:06

It's easy to paint a situation where there's an extended conflict in the Middle East that raises energy prices. And so that means that inflation would go back up. That means that the Fed can't cut rates as quickly, or has to raise rates. And so that would be the for the economy. You have a lot of investment from Taiwan that is taking place here in Arizona. So if there's saber rattling over that, or if, God forbid, China decides to invade Taiwan, then that means a huge disruptions to the semiconductor industry that Taiwan is a key piece of that causes big problems. We saw, like we saw with the recovery from the pandemic, even, you know, it's going to take some time to increase chip production in the US, but that means that we'd have big disruptions there, and that would cause problems in all sorts of industries that use semiconductors as an input. You know, we've seen one of the reasons European growth has been weak because is because they have high energy prices. They got a lot of their energy from Russia. We put sanctions on Russian energy. So if the conflict there widens, and that could cause big problems in Europe, and that could have an effect on the US economic growth. So lots of geopolitical at risks there. I think, you know, fortunately, we've seen a little bit better news coming out of the Middle East recently, but still there. I think there's a lot of risk out there that could cause problems for the US economy over the next couple of years.

C Christopher Conover 25:26

When we spoke with Dr Hammond a few minutes ago, he said, long, short term, even the economy is in good shape. He said, however, for economists, short term, 2, 3, 4, years, that's just a second in time for consumers, it might feel a little different. What's your prediction for the economic short term that 2, 3, 4 years?

G Gus Fauchet 25:49

Gus Fauchet 26:15

I think it should be good. There's a lot of angst out there amongst consumers, but when you look at the conditions, are actually pretty good. I think consumers have been hit hard by high inflation over the past few years. They're still still feeling the effects of that, but I think that the fundamentals for consumers still look pretty good. We've got low unemployment. The unemployment rate here in Arizona and in Tucson is below the national average, solid job growth. We have wages that are growing more quickly than inflation. And I think now that inflation is settling down, we see that consumers are feeling a little bit better about things. For higher income households, they're benefiting from rising home values from higher stock prices. So I think in aggregate, although there are some lower middle income consumers who have been hit hard by high inflation, I think when we look at the picture in aggregate, consumers are holding up pretty well.

C

Christopher Conover 26:41

All right. Well, thanks for taking a few minutes to chat with us today.

G

Gus Fauchet 26:44

Thank you very much for having me. I appreciate it.

C

Christopher Conover 26:46

Dr Gus Fauchet is the Senior Vice President and Chief Economist of PNC Financial Services Group, and that's the buzz for this week. you can find all our episodes online at azpm.org and subscribe to our show wherever you get your podcasts, just search for the buzz Arizona. We're also on the NPR app. Zac Ziegler is our producer, with production help from Maggie Farmer, Our music is by Enter the Haggis. I'm Christopher Conover, thanks for listening.

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Nicole Cox 27:30

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