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SPEAKERS

Nicole Cox, Sharon Megdal, George Hammond, NPR promo--Rachel Martin, Christopher Conover

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C **Christopher Conover** 00:03

Welcome to The Buzz. I'm Christopher Conover. This week a look at the Arizona economy. Arizona's economy has been booming since the COVID 19 pandemic began to slow. Low unemployment growing wages and increasing population have persisted for years, but so have less positive indicators like inflation and skyrocketing housing prices. This week we're at the Eller Economic Business Research Center's Breakfast With the Economists event at the La Paloma resort in Tucson to talk with the featured speakers about recent economic conditions and what they see for the state's future. Up first is the EBRC's director, Dr. George Hammond. So you started off your speech in there talking about jobs, which I think the last time you and I talked we were talking about jobs, seems like a pretty popular topic. Arizona has seen some notable growth in recent years unemployment's been near record lows, if not record lows. Tell us about that. And what you see for the future when it comes to jobs.

G **George Hammond** 01:12

Yeah, Arizona's labor market is in strong shape. We're generating job growth significantly faster than the than the nation, our unemployment rate is about at the national level, near record lows in both cases. For Tucson, job growth is a little bit slower, but still, you know, solid, a little bit slower than the nation and Arizona. But overall, the you know, the labor market, really across the board is in pretty good shape, we are seeing a few signs of weakening around the edges of the labor market. So compensation growth is slowing, both nationally and in Phoenix, which is the metro area that we have data for. And, you know, layoffs in Arizona are rising a little bit as are initial claims for unemployment insurance. But you know, those are those are just some some kind of clouds around the edges of an overall bright labor market.

C **Christopher Conover** 02:06

So you also noted in your speech that inflation in Arizona is below the national average. Everybody's probably pretty happy about that, especially at the store and the gas pumps. But inflation related to housing is decelerating. How much was our area's inflation issue related to

those fast rising rents?

02:30

That was a huge part of the reason why inflation in Arizona and Phoenix was so far above the national average, particularly in the summer of 2022. Housing is the biggest single component of the overall inflation measure. So you know, when when you have, you know, shelter prices, both rents and the owner's equivalent version of rents rising at double digit rates, you know, almost 20% over the year, that really drives overall inflation.

C Christopher Conover 03:03

We were talking to some builders for single family and multifamily homes recently, and they said the biggest thing that's dragging them down is interest rates. So how as interest rates are going up mortgages, 6-7%, at least right now, what's that going to do coupled with inflation?

03:24

Right, so we've seen house prices rise, you know, 30-40%, over the past, you know, since the pandemic started, and at the same time, we've seen mortgage interest rates roughly doubled from 2022 to currently, and that is a recipe for just huge declines in housing affordability, right. So if if if an individual purchased the house, when interest rates are 3%, they're going to be reluctant to give up that 3% mortgage, move somewhere else and take out a mortgage for well, at a much more costly house at a double the mortgage rates. So it's having a lot of impacts, you know, it's difficult for, you know, people who are moving to Arizona to find, you know, affordable housing. And it's also impacting, we think, migration into the state because people feel more stuck in the house that they're currently.

C Christopher Conover 04:14

We talked to a realtor recently who said, if you have one of those mortgages at 2-3% It's better than winning the lottery economically at this point.

G George Hammond 04:23

Right.

C Christopher Conover 04:24

So growth and retail sales tax is also an indicator of what's going on. For the state's two biggest metro areas, you called it an anemic and noted that restaurant and bar taxes also slowed significantly, but the state's median income is up. So are people just not spending in stores and restaurants?

04:49

That's part of it. Well, what's also happening is that inflation has come down significantly. So when we're measuring, you know, taxable sales, before adjusting for inflation, when inflation slows that, that automatically brings down nominal taxable sales. So we expected that to happen to some extent. They, sales are below where we had expected them to be. So we think it's the level of prices is putting off consumers a bit that everybody's feeling sticker shock every time they go to buy anything nowadays, and that's got something to do with it. But you know, overall, you know, we think that consumer spending is going to be okay, going forward, you know, back to its roughly 2% growth rate as we look forward. Part of what you're seeing in taxable sales is that much of taxable sales is on goods. And we've seen a shift in consumer spending a bit away from goods towards other types of services, restaurants and bars are, of course, are taxed. But, you know, health care is a big service that we're all spending more and more money on, and that's not taxed.

C Christopher Conover 05:52

Marketplace, the national business economics program on that a lot of our stations air recently did a whole series on Phoenix, and business growth and Phoenix looking at especially the semiconductor plants that are going in there. They're fueling a lot of growth. Is the state just riding on Phoenix's economic coattails?

06:13

Phoenix is by far the biggest metropolitan area in the state. So it's, it's a major driver, and it's the fastest growing metropolitan area in the state, not only the biggest. So Phoenix drives the state's activity. That is for sure. You know, in terms of, you know, the manufacturing, a lot of that manufacturing activity is still to come. So actually, if we look at manufacturing employment in Phoenix, those jobs are down over the year. In contrast, jobs are up over the year in Tucson, driven by aerospace. So you know, the we think that, you know, Phoenix is going to get those chip manufacturing jobs once the factories are completed, but that hasn't happened yet.

C Christopher Conover 06:54

In the meantime, Southern Arizona, Tucson still has aerospace and other things going on. Zac, our producer, last week went on vacation to Long Beach--without us I want to point out--and he noticed that apartments a block from the beach, two bedroom apartments were renting for what two bedroom apartments here in Tucson are renting for in the same neighborhood. Is this going to hinder population growth, which is so important to Arizona's economy, just those housing prices?

07:29

Yes, housing prices, housing affordability is the way to think about it, is is going to affect the competitiveness of Arizona. I think we're still going to be competitive versus most of the

competitiveness of Arizona. I think we're still going to be competitive versus most of the metropolitan areas in California. So, you know, if you look at LA 2.7% of the homes sold in LA at the end of 2023 were affordable to a family making the median. San Diego that was 4%. Whereas, you know, Phoenix is at about 22%. You know, Tucson is higher, about 30, 35-36% I think so we're still more affordable than California. It's really our competitiveness versus places like Texas, New Mexico, you know, Colorado, Utah, even Washington.

C Christopher Conover 08:20

Okay, so we don't have to worry about Zack leaving us for the beach quite yet.

G George Hammond 08:24

Well, I hope not.

C Christopher Conover 08:27

Thanks for spending some time with us.

G George Hammond 08:28

It's always a pleasure.

C Christopher Conover 08:30

George Hammond is the Director of the Eller Economic and Business Research Center at the University of Arizona. You're listening to The Buzz. After the break and economist talks about what may be one of the state's most limiting factors for economic growth. Water. Stay with us.

N NPR promo--Rachel Martin 08:48

I'm Rachel Martin. You probably know how interview podcasts with famous people usually go. There's a host a guest and a light q&a. But on Wildcard we have ripped up the typical script. It's a new podcast from NPR, where I invite actors, artists and comedians to play a game using a special deck of cards to talk about some of life's biggest questions. Listen to Wildcard wherever you get your podcasts only from NPR.

C Christopher Conover 09:12

Welcome back to The Buzz, I'm Christopher Conover. We're at the Eller Economic and Business Research Center's Breakfast With the Economists event talking about the state of Arizona's economy and what experts see ahead. The opening image of Dr. Sharon McDowell's presentation at the event led with an eye catching question, is Arizona running out of water?

Dr. Megdal is the director of the University of Arizona Water Resources Research Center. She has also served on the board of the Central Arizona Project, the American Water Resources Association, Governor Katie Hobbs' Water Policy Council and the Arizona Corporation Commission. She joins us now. So I have to say Sharon, we were a little surprised when we were doing research for this, not to see you as the guest speaker at an event called Breakfast With the Economists, but that you have a PhD in Economics from Princeton. So start telling us a little bit about the intersection between water and the economy.

S Sharon Megdal 10:17

That, my answer to that story may not be as direct as you would like, Chris. Because, first of all, just at the personal level, my nexus between economics and water really is a nexus of a meandering career path. And I became involved in water from the real world side of things, not from the academic side of things. And so I mentioned that because how I got involved in water here in the region was really through leading up a regional water augmentation district that was established in the early '90s. And then was not made permanent, it was probably 20 years before its time. But while training wise, book wise, I'm trained as an economist, my water training is much more on the job, real world. And so my connection to water and economics is really one of bringing my framework of thinking about issues and resource scarcity. Economics is really about the scarcity of resources and how they get allocated and priced combined with the very practical aspects of how water is managed, which is its own thing. And so fundamentally, I've combined the two, and the two are combined in the real world, and that you can't have an economy without the water to support it. But having the water to support it really involves a lot of effort on the part of a lot of people in making sure we're using it wisely, and so forth. So it's been become intricately entwined in my professional career, but also kind of in what I do from the outward perspective.

C Christopher Conover 12:03

Water is a good is a service but it's not like other goods and services. Is that just because it's finite, or is there more to it than that?

S Sharon Megdal 12:16

Water is very different from other goods and services. And I'm going to again, we're then going to meander here a little bit in my response. When you study economics, this is Economics 101. And I don't know if they still talk about it, they probably do. I looked it up on Google, they talk about the diamond water paradox. And they say, Why are diamonds so expensive. And water is so cheap, when water is essential for life and diamonds are not. And they explain the paradox in terms of supply and demand, that the supply of diamonds is very limited, it takes a lot to extract the diamonds. And you pay a lot because of that. And water was viewed as more plentiful. But water isn't necessarily plentiful. It's certainly not plentiful for us here in the Sonoran Desert. And yet, its pricing is strange. You know, we price it based on the cost of extraction, the cost of delivery, the cost of administration, but not the water scarcity itself. We don't pay for the water molecules. So we have a very strange good. Water is essential to life. It is scarce, yet, it's priced in a way that we don't recognize that scarcity. And I'll just give you a real quick example just for background. Economics teaches a good or service should be if it's

not a kind of perfect market dictated by supply and demand, it should, its price it should somehow reflect the next best alternative. And our next best alternative is not free water pump from the ground. It's maybe desalinated water, or it's recycled water that goes through a lot of treatment. Or maybe it even becomes some more imported water. But basically by not pricing water according to its next best alternative, we're not sending the right signals to consumers. So it's different in so many ways. Water is different in so many ways from other goods and services. And yet we need it for life. We need it for everything that we do.

C Christopher Conover 14:19

So you bring up a lot of interesting things about water and why it's different. Most of Arizona's water, which you well know is, I think it's about 72%, is used for agriculture. And we hear a lot of talk about cutting water to farmers. If Arizona decides to move away from agriculture, which is a big economic driver for us, how would that affect our lives and would our overall economy take a notable hit as far as jobs and GDP and things like that?

S Sharon Megdal 14:52

I think one runs into difficulty answering that kind of question because you could answer it from the gross numbers of state, domestic product or you could say, well, we wouldn't feel anything very much about that in Tucson. But what about the families and the communities that depend on that agriculture? They will feel it severely. And so this, again, relates to economics in that we typically don't have ways of compensating people when we're taking something away from them. However, actually in the here and now, if people are reading and listening to what's going on, we are compensating farmers for using less water, we are trying to enter into voluntary arrangements with farmers as opposed to just we're taking your water, you don't have it anymore. We don't have the flexibility necessarily to do that. Nor do we necessarily want to do that. And by flexibility, agriculture has some senior rights to surface water, they have some senior rights to Colorado River water. If we as a community if we as a collective, want to see agriculture use less water, we need to think of ways to incentivize that to alleviate the burden on the farmers on the communities. And that is going on to a certain extent. But there are concerns that, if farming goes away, some of the rural character of Arizona will go away. And so it's not only measured in dollars and cents, but it's also measured in how our communities thrive more generally, these are tough questions. But I will say this, just to mention, is for a long time, there have been efforts by farmers themselves or by others to incentivize farmers to become more efficient, to use less water to grow their crops. But that less water hadn't hasn't necessarily been saved in use for another purpose, such as helping communities grow, if that's what the desire of the public is. And instead, sometimes that saved water ended up going being used for more agriculture. So now some of the discussion is, okay, can we enter into agreements with agriculture? Can we see them use less water, and have that water quantified and saved, whether it's to leave it in in Lake Mead to keep Lake Mead up for deliveries in the future, or whether it's to--some people don't like this--to transfer that water to other users. So it's really a complicated puzzle that we're working on.

C Christopher Conover 17:39

Talking about other users, we hear the phrase that a lot of farmers are now growing houses instead of crops. Growth has been, for the last decade for Arizona, 100-150,000 people a year.

That's projected to continue. From a water standpoint, is that going to be the biggest limiting factor for growth?

S Sharon Megdal 18:03

Water is, and it's going to remain, a factor to consider when we have growth, as it should. I mean, we live in the desert, we should not be selling properties and lands if they're not, if there's not the water to serve them. But then, again, things are nuanced. What do you mean by limiting factor? Do you mean it it's going to limit and it's not going to happen? And we're going to put gates around communities limiting growth? Or is it that we're going to have to plan for that, acknowledge that, make plans and take actions to address that. Some people think water should never be the limiting factor of growth. But there are natural limitations of a region. So I do think that, for the most part, we in Arizona are recognizing that it is the responsible thing, it's the necessary thing to make sure, communities and businesses have the water that they need over the long term. But I will say that's not necessarily required in all parts of Arizona, while it is in the metropolitan area of Tucson and like it's not everywhere. So we have to recognize that we need to adapt to our water situation. And that may mean growth looks a bit different than it might have in the past.

C Christopher Conover 19:29

You coined a phrase during your presentation this morning, the wicked water problems. So what are those problems? And why do they stand out as the big wicked problems?

S Sharon Megdal 19:43

Wicked problems are problems that are they're big, and they're not easy to resolve, and they may change over time. And so one of the examples I use, the first example I'll typically use is the imbalance of some supply and demand on the Colorado River looking at the whole basin. The river's over allocated it has been and the river's shrinking in terms of the water, it's producing on an average annual basis. And that's a problem. The West is growing, it's going to continue to grow. We want recreational opportunities. We want everything from what's becoming a more and more limited resource. So the question is, what do we do? How do we try to get demand and supply into balance? What other water sources can we bring to bear communities are working on this a lot of times something I do like to point out that sometimes my, my scientist colleagues who work on climate change and climate change adaptation, and they really focus on this concept of adaptation. And what I say to them is people are adapting all the time to these changing circumstances. They're just not necessarily out there waving the flag, look at me, I'm adapting. But they are and we are all the time. And so that's a great example of where we're just constantly working on how to deal with these shortfalls in the Colorado River, how to make sure our individual communities are resilient and grow. And there's no one answer for any one of them. And even if you think you have an answer, or response or solution, it may only be partial, and things may change. And so the idea is that you work on mitigating or adapting to these circumstances, but it's almost a never ending process. Now, sometimes money can be brought to bear. And I'll give you another example that I didn't talk about this morning of a wicked water problem that I sometimes bring bring up. And that's the access to water. And I will bring up the wicked problem that really came to the forefront for

the Navajo Nation during COVID, when it was realized that the the lack of running water im impacted communities ability to wash hands to do some of the things that needed to be done. You even had intergenerational housing that was much more prevalent, where you couldn't necessarily isolate those who were sick or elderly. And this, this is a, the lack of water availability is chronic in that area. But it became an acute issue. But now we're looking at a water settlement that if it comes to bear would include a lot of financial resources to address that. And, and so sometimes money can help. But it's not the only solution to these problems.

C Christopher Conover 22:38

So let me read back something you had on one of your slides. And there is your last slide it said, quote, I'm optimistic that we can adapt to changing circumstances because we've been adapting and because failure is not an option, close quote, which is something we were just talking about that adaptation. Are we being pessimists, by being so concerned about this issue that you think we'll fix? Or is there unnecessary level of concern that needs to be in there?

S Sharon Megdal 23:10

That's a great question. So over the years, I'll often say we need to be vigilant, we need to be activist or excited about water. This is one of the things I've said that I want people to be excited about water so they're aware of it, they take the appropriate actions and understand the implications of their own behavior. But historically, I've not said we should be alarmed about it. Pessimism is to me a mood, right? Are you optimistic or are you pessimistic? Is the glass half full or glass half empty? It's it's both. But what you focus on to me is important because if you're pessimistic, as somebody working on water resources, it's hard to have the energy and enthusiasm to go work on it. It's kind of like oh, getting out of bed, you're going to work on this. So to me, when I think about optimism, pessimism, and this question comes up in a lot of audiences these days about are you optimistic, are you pessimistic and I've been criticized for being too optimistic. But I'm not going to apologize for that because I am optimistic that we can do the work and we can do the things that it requires. But there's a lot of work to be done. But I do want to mention one thing and recently, I was quoted by Tony Davis in an article where I said I was alarmed. And that's not a term that I usually use. And it was an article about whether or not Glen Canyon Dam would be able to have the water flow down to the lower basin if the water levels in Lake Powell got too low. And what came out in the study from the Bureau of Reclamation was, there's this cavitation that's gone on. And it was saying that, wow, we may not be able to operate the system the way we thought we could. And that, to me was alarming. And so I'm, I'm gonna be honest and give my own personal assessment of things. But I don't think I think being concerned, being aware, that's all fine. But if you're pessimistic, I don't think we'll get to where we need to be. And I think we have to get to where to somewhere where we're, we're not becoming a ghost town. You know, one time I'll tell you another quick story. I don't know if you ever and you have to remember the play, which I don't remember. But if you ever saw the show, Urinetown. And both ASU and U of A were doing productions on it, and the student assistant director, whatever up it is, you want to talk about long term outlook. And I gave him a view of what the long term outlook could be. If the Colorado River went dry, what what might our communities like a community like Tucson look like? We're not going to become a ghost town. But we could be smaller than we are now. We could see disruptions to property values. But I think it's our job, not to see that sort of thing happen and be prepared. And the other thing I sometimes point out is we're in the old Boy

Scouts building. I didn't do that this morning, because I was short on time. But what's the motto of the Boy Scouts be prepared. And that's a good motto for building a water center because I think we have to be prepared. And I think that our water managers are working very hard for us to be prepared, but it is going to take all of us and that's why it's all hands on deck. It's every one of us.

C Christopher Conover 26:52

All right. Well, thanks for sitting down with us.

S Sharon Megdal 26:54

Thank you.

C Christopher Conover 26:56

That was Dr. Sharon Megdal, director of the University of Arizona Water Resources Research Center. 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 podcast just search for The Buzz Arizona. We're also on the NPR app. Zac Ziegler is our producer with production help from Desarae Tucker. Our music is by enter the haggis, I'm Christopher Conover, thanks for listening.

N Nicole Cox 27:39

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