

# ARIZONA'S ECONOMY

ECONOMIC AND BUSINESS RESEARCH CENTER

## Expectations Lowered for the Longer Term

By Marshall J. Vest, Forecasting Project Director

September 1, 2011



In our annual update of 30-year projections, we've lowered the forecast significantly. That's partly due to decennial Census counts that found far fewer residents than expected and new estimates that show population growth currently near zero, a phenomenon that is likely to extend a few more years. Also, there's realization that fallout from the financial crisis will take a long time – perhaps a decade – to repair. Arizona already has lost a decade of growth, or more, in many industries (as measured by employment). And we are in the midst of losing an entire decade, or more, of population growth, due to low mobility rates. As a result, Arizona's population will barely top ten million 30 years from now.

The recent recession wiped out a decade's worth of progress, but Arizona's growth will eventually return and once again rank amongst the fastest-growing states. In our annual update of our 30-year projections, we show Arizona's population topping 10.2

million in the year 2041. That will easily put Arizona in the top ten largest states. By 2041, nearly four million more people will call Arizona home than live here today. Projections for each 10-year interval for selected aggregate measures are presented in **Exhibit 1**.

### Highlights of the 30-year forecast include the following:

- Over 1.8 million new jobs will be created in Arizona over the next three decades, boosting the total to 4.2 million.
- Per capita personal income relative to the nation will continue its downward slide from 87% today to nearer 83% thirty years from now. This ratio peaked at 95% in 1971. Per capita income is an aggregate measure comprised of demographics (age structure), wage levels, industry mix, and labor force participation rates. The projected downward trend will keep Arizona near the bottom of all states on this measure.

- Arizona's employment-to-population ratio plunged during the current recession and will remain well below its peak established in 2000 (43.3%), and after dipping below 37.2% last year, finishes in 2041 at 41.2%. Arizona's ratio consistently runs 3-4 points lower than nationwide (**Exhibit 2**).
- As the population continues to age, an increasing share of personal income will come from transfer payments, of which social security is the largest component. The share will rise from 21% today to 26.5% by 2040. Per capita transfers in Arizona today are roughly equal to the corresponding nationwide measure.
- Retail sales relative to income will continue to fall, dropping below 18% from nearly 45% in the early-1960s. An aging population that spends more on services (especially health care) and a smaller portion on taxable goods accounts for the drop. This has serious implications for a tax system heavily reliant on retail sales.
- Over the long term, migration flows will

**Exhibit 1:** Projections to 2041, Arizona

	2001	2011	2021	2031	2041
Population (000s)	5,288	6,410	7,569	8,888	10,220
Nonfarm Jobs (000s)	2,265	2,398	3,168	3,676	4,206
Personal Income (\$bil)	143	233	416	681	1,089
Retail Sales (\$ bil)	55	79	136	198	285

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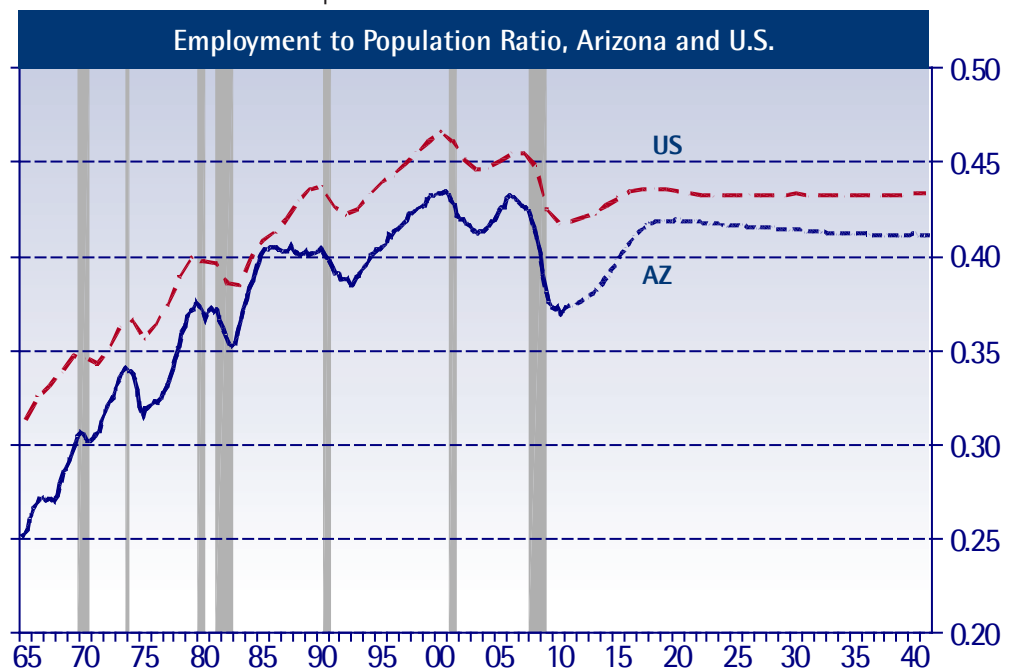
“Migration flows will continue to account for the lion’s share of population growth. On average, natural increase (births minus deaths) accounts for one third while net migration provides the remainder.”

continue to account for the lion's share of population growth. On average, natural increase (births minus deaths) accounts for one third while net migration provides the remainder. The latter varies significantly, of course, over the business cycle. During the recession, with mobility rates at a six-decade low, migration flows swung deeply negative for the first time in recorded history. By 2015 net migration will again approach 100,000 annually. Natural increase moved significantly lower during the recession due to falling births, but will stabilize at 40,000 new residents annually (**Exhibit 3**).

- Manufacturing, government, utilities, retail trade and mining will represent smaller shares of total jobs 30 years from now. Manufacturing's share will decline from 6.2% to 4.0%, government from 17.0% to 14.2%, utilities from 0.5% to 0.3%, and retail trade from 12.3% to 12.0%. Mining jobs will all but disappear.
- Sectors that will gain the largest shares are professional and business services (from 14.3% to 16.7%), health care & social assistance (from 12.6% to 14.7%), and financial services (from 6.9% to 7.7%).

- In our “high” scenario, Arizona's population reaches 11.2 million in 2041. In the “low” scenario, it is 9.8 million, compared to 10.2 million in the “most likely” scenario. Michigan, the seventh largest state, today has 9.9 million.
- Today, Arizona's 6.4 million population ranks 16th, just ahead of Tennessee. In thirty years, Arizona likely will overtake Indiana, Massachusetts, Washington, Virginia, New Jersey, North Carolina, Georgia, and Michigan to become the eighth largest state.
- The range for 2041 metro Phoenix population is 6.7 to 8.0 million. Metro Tucson's range is 1.4 to 1.5 million people. The “Sun Corridor” megapolitan population (both metros -- three counties combined) ranges from 8.1 to 9.5 million.
- By 2041, 71% of Arizona's population will reside in the Phoenix metro area (Maricopa and Pinal counties). Metro Tucson (Pima County) will account for 14.2%. Today, the shares are 65.8% and 15.3%, respectively.

**Exhibit 2:** Time to Put People Back to Work

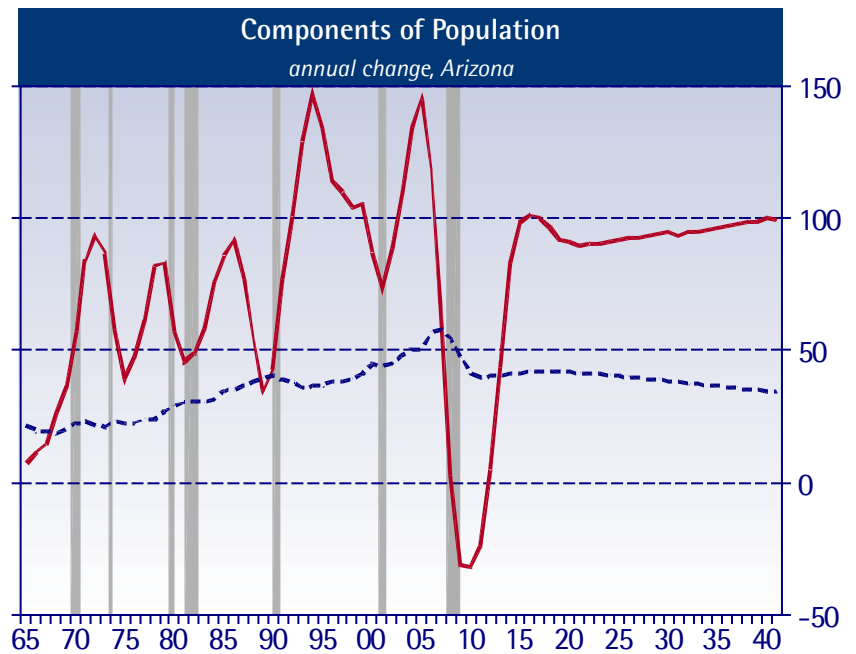


Arizona was the second-fastest growing state over the past decade, even though population growth disappeared during the recession. Low mobility rates will limit Arizona's growth for a few more years, but growth will return to more historical levels by mid-decade.

A history of population growth and components of change are shown in **Exhibit 4**. During the 1970s and 1980s Arizona's population swelled by nearly a million persons each decade. During the 1990s, a surge in migration pushed the gain to nearly 1.5 million. That pace appeared to be on track until the recession arrived in late 2007. The lack of jobs, accompanied by the loss of mobility due to the fall in housing prices and legislative action to restrict illegal immigration, brought population growth to a halt. So, for the decade just past, Arizona's population swelled by "only" one-and-a-quarter million. Interestingly, almost half (45%) of the gain was due to natural increase. With mobility likely to remain at low levels for at least a couple more years, we expect population to increase by a little over one million during the "teens". Our projections show net migration rising to 1.3 million per decade during the 20s and 30s.

Over the next 30 years, Arizona will add 3.6 million residents, or roughly half of the numbers here today. We can only guess what Arizona will be like, but it's clear that a great deal of change lies ahead. ■

**Exhibit 3:** Population Flows are (Very) Cyclical



**Exhibit 4:** Population Gain by Decade, Arizona, 1950-2040 (000s)

	Population (000s)	Annual Growth Rate, %	Change (000s)	Net Migration (000s)	Natural Increase (000s)
1950	756.0				
1960	1,321.0	5.7%	565.0		
1970	1,794.9	3.1%	473.9	256.1	217.8
1980	2,737.8	4.3%	942.9	691.1	251.8
1990	3,684.1	3.0%	946.3	615.3	331.0
2000	5,175.6	3.5%	1,491.5	1,107.3	384.2
2010	6,401.6	2.1%	1,226.0	676.7	549.3
2020	7,436.7	1.5%	1,035.1	685.7	349.4
2030	8,755.8	1.6%	1,319.1	919.3	399.8
2040	10,085.1	1.4%	1,329.3	967.8	361.5

# KIDS COUNT 2011: Tracking Child Well-Being in the United States

By Valorie H. Rice

On August 17, 2011, the Annie E. Casey Foundation released the 2011 edition of the *KIDS COUNT Data Book*, which they have published annually since 1990. *KIDS COUNT* is intended to provide policymakers and citizens with benchmarks of child well-being for each state allowing for comparisons to be made over time, as well as, between states regarding the condition of children. Ten key indicators are used to rank the states: percent of low-birth weight babies; infant mortality rate; child death rate; teen death rate; teen birth rate; percent of teens not in school and not high school graduates; percent of teens not attending school and not working; percent of children living in families where no parent has full-time, year-round employment; percent of children in poverty; and percent of children in single-parent families. Data used in the 2011 report are from 2007, 2008 or 2009.

New Hampshire ranked the highest in terms of overall child well-being, and has held the top place ten of the last eleven years while Minnesota has ranked second, trading places with New Hampshire once. On the other end of the scale, Mississippi has been at the bottom of the rankings that whole time followed closely by Louisiana. Arizona remains in the bottom third of states with an overall rank of 37, which is a slight improvement over recent years during which the state ranked 39th and 40th. This improvement in the ranking is thanks to declines in the teen birthrate and in the number of high school dropouts since 2000; even so, Arizona still ranks near the bottom of the states for these two indicators. Arizona has also shown improvement in the child death rate, going from 26 deaths per 100,000 children age 1-14 in 2000 to 21 in 2007. This is still higher than the national rate of 19.

**Table 1:** Summary of Arizona's Rankings *Kids Count 2011*

	Key Indicators	Year	Arizona	U.S.	AZ Rank
1	Percent of low-birthweight babies	2000	7.0	7.6	
		2008	7.1	8.2	16
2	Infant mortality rate (deaths per 1,000 live births)	2000	6.7	6.9	
		2007	6.9	6.8	27
3	Child death rate (deaths per 100,000 children ages 1-14)	2000	26	22	
		2007	21	19	27
4	Teen death rate (deaths per 100,000 teens ages 15-19)	2000	79	67	
		2007	80	62	36
5	Teen birth rate (births per 1,000 females ages 15-19)	2000	68	48	
		2008	56	41	43
		2009	56	41	43
6	Percent of teens not in school and not high school graduates (ages 16-19)	2000	18	11	
		2009	8	6	42
7	Percent of teens not attending school and not working (ages 16-19)	2000	N/A	N/A	
		2009	11	9	40
8	Percent of children living in families where no parent has full-time, year-round employment	2000	N/A	N/A	
		2009	34	31	38
9	Percent of children in poverty (income below \$21,756 for a family of two adults and two children in 2009)	2000	23	17	
		2009	23	20	38
10	Percent of children in single-parent families	2000	33	31	
		2009	37	34	41

Arizona has improved in three measures as compared with 2000 (described above) while the nation showed improvement in five of the eight indicators which allow historical comparison. As a state, Arizona does relatively well in terms of percent of low-birth weight babies, with 7.1 percent low weight compared to 8.2 percent nationally.

That is the only measure in which Arizona outperforms the nation as a whole.

To find more data regarding the condition of children in Arizona at state and local levels, go to the Kids Count Data Center at: <http://datacenter.kidscount.org/AZ> ■

## Census Bureau Releases Income, Poverty, and Health Insurance Coverage Estimates

By Maile L. Nadelhoffer

On September 13th, 2011, the U.S. Census Bureau released national income, poverty, and health insurance coverage estimates from the *Annual Social and Economic Supplement of the Current Population Survey* (or *CPS*). In 2010, median household income in the U.S. was \$49,445. This figure represents a 2.3% real decline from the 2009 median income. Arizona's median income of \$47,279 ranked 30th in the nation, coming in just below Texas and just above Idaho, and was 4.3% below the national number. Both Arizona and the nation as a whole have experienced two consecutive years of declining median incomes. However, after adjusting for inflation, Arizona's median income increased by 18.8% between 2001 and 2010, faster income growth than the overall national increase of 17.7% during the same timeframe. New Hampshire had the highest median income in 2010, \$66,707, and Mississippi the lowest, \$37,985.

The nation's official poverty rate in 2010 was 15.1%, up from 14.3% in 2009, this represents the third consecutive annual increase in the poverty rate for the United States as a whole. There were 46.2 million people in poverty in 2010, largest number in the 52 years for which poverty estimates have been published. The poverty rate increased for children younger than 18 (from 20.7 %

in 2009 to 22% in 2010). The 3 year average (2008-2010) poverty rate for Arizona was 19.2%. This figure is the second highest among the 50 states and the District of Columbia. The only state with a higher poverty rate than Arizona is Mississippi with 21.3% of its population living in poverty. Arizona is followed by New Mexico at 19.1%, and District of Columbia with 18.8%. New Hampshire had the lowest poverty rate of 7.1%.

In the United States the number of people without health insurance coverage rose from 49.0 million in 2009 to 49.9 million in 2010. However, the percentage without coverage, 16.3%, was not statistically different from the rate in 2009. The percent of persons without health coverage in the United States has risen fairly steadily from 13.6% in 1999 to its current rate. Arizona's uninsured rate for 2010 was 18%, the 11th highest rate in the nation, just behind Idaho at 19.2% and California at 19.4%. Texas had the highest uninsured rate in 2010 of 24.6%, and Massachusetts the lowest at 5.6%, just below Hawaii's rate of 7.7% (see **Table 1** on following page). Arizona's uninsured rate was 19.4% in 1999, the rate then dropped below 17% for the next 5 years at which time it began to climb again to the current rate. ■

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