

Arizona Daily Star®

www.dailystar.com® @www.azstarnet.com®

Published: 02.10.2008

Tucson should be OK if the economy tanks

4 key industries here won't be hurt significantly by recession

Opinion by Richard Carlson

SPECIAL TO THE ARIZONA DAILY STAR

Many regions and industries in the United States are in recession and most of the nation will soon follow. However, this is likely to be a uniquely diverse recession, with some regions and industries remaining relatively untouched while others experience great difficulty.

Exports, high-tech, energy and agriculture are likely to do well, while housing could experience its biggest downturn since World War II. This will mean continued economic expansion in technology and export centers such as Seattle and the San Francisco Bay area and booms in energy centers such as Texas and the Rocky Mountain region.

In contrast, the regions most caught up in the housing bubble, such as Phoenix, Nevada, Southern and Central California and Florida, are already in recession.

Bursting bubble

The key cause of the 2008 recession — the U.S. subprime housing bubble — is likely to go into the records as the biggest financial scam in world history. With the connivance of the once-trusted overseers of finance — the Big Four accounting firms and the three major bond-rating agencies — many mortgage lenders and their investment bankers lent hundreds of billions of dollars to buyers who had little chance of paying their mortgages for very long.

These loans were made because they could be sold instantly at great profit to mostly foreign investors who were desperate to invest their ever-growing mountain of dollars. Broker profits were guaranteed, regardless of whether the loans were paid back.

It is this multitrillion dollar flood of Asian-, Arab- and European-owned capital that creates the conditions and incentives for such bubbles. As the flood of dollars sloshes around world markets, it creates a round-robin of financial bubbles and busts.

In the 1980s, Japanese investors suffered in the Japanese and U.S. commercial real-estate bubbles. In the 1990s, it was the high-tech bubble and now it's mortgage mania. A sucker may not be born every minute, but millions of them seem to reappear once a decade in U.S. financial markets.

The sudden appearance of millions of new subprime buyers helped U.S. housing prices double between 2000 and 2006. Now that these buyers are no longer in the market, prices are falling. It will take some time to re-equilibrate U.S. housing markets. Prices are unaffordable in many markets and any attempt to maintain prices at unaffordable levels only extends the damage.

Prices have already dropped by 30 percent in some California counties, and by 15 percent or more in Southern California, Las Vegas, Phoenix and Florida. Price drops will be concentrated in regions with high levels of sub-prime mortgages and where speculators accelerated the boom.

Because subprimes went primarily for lower-cost homes, the bubble and following bust are concentrated in low-cost regions. For example, home prices show minimal decline in high-cost cities around San Francisco Bay but are collapsing in the low-cost commuter towns in the nearby Central Valley.

The broader threat to the economy comes from the weakness of the many banks that created bonds so complex that no one knows their value. These banks are writing off billions, and they may be forced to write off even more. The larger economic problems come as the weakened banks ricochet from overly generous to

overly conservative and cut off loans to fully qualified businesses and home buyers.

If a major loan slowdown combines with the housing depression, a recession is inevitable. The Federal Reserve and Congress are desperately trying to head off this problem.

Tucson position positive

Tucson is well-positioned to weather this storm. Its four key industries of the military, the university, high-tech and retirees will be little affected by the national recession. Housing is the area's only weak point, but Tucson's construction employment is only 6 percent of the total and Tucson housing should do better than national averages.

Two-thirds of Tucson's housing goes to retirees, a relatively stable market, and Tucson did not get caught in the speculative frenzy to the same degree as Florida and Las Vegas. Tucson's new retirees alone need about 7,000 new units a year, but the region will build only about 4,000 units in 2008. As a result, the inventory of unsold homes will soon disappear. By late 2009, the Tucson market will be poised for another round of growth.

By 2012, when the first wave of the baby boom really hits — growing by 50 percent from 2006 — Tucson will need 15,000 units a year to meet normal growth. This will lead to another, more sustainable, boom in both construction and home prices in Tucson.

Contact Richard Carlson at rccarl@pacbell.net.

All content copyright © 1999-2008 AzStarNet, Arizona Daily Star and its wire services and suppliers and may not be republished without permission. All rights reserved. Any copying, redistribution, or retransmission of any of the contents of this service without the expressed written consent of Arizona Daily Star or AzStarNet is prohibited.