

# PHOENIX



B L U E C H I P E C O N O M I C F O R E C A S T

## Manufacturers survey reveals declining optimism for 2001

The 2001 Greater Phoenix Manufacturers Survey reflects a less optimistic view of the economy than at any time since the annual survey was begun in 1994. The less-than-sunny outlook applies to the U.S. and local economies, as well as prospects for the participants' own businesses.

These conclusions were drawn from the results of the eighth Maricopa County Manufacturers Survey co-sponsored by RSM McGladrey Inc., the Bank One Economic Outlook Center and ASU's Center for Business Research. Those surveyed represent a broad cross-section of the manufacturing industry in Greater Phoenix.

It is not surprising that the 2001 survey results were almost uniformly less optimistic than any time in the survey's eight-year history, given the fact that during most of that period the economy was extremely strong.

For the 12-month period just ended, more than 43 percent of the respondents indicated that the economy was worse or substantially

worse than it was in the previous 12 months. This compares to only 12.3 percent who thought so when asked the same question in the 2000 survey. Only 27 percent in this year's survey believed the economy was moderately or substantially better, compared to 46.6 percent a year ago.

As for the Greater Phoenix economy, 24 percent thought the economy was worse off than a year ago, compared to only 8.4 percent in the 2000 survey. For their own industry, about 36 percent believe the business conditions are currently worse, compared to only 19 percent who felt that way a year ago.

In terms of expectations over the next year, the outlook has also deteriorated. In looking ahead 12 months, almost 45 percent believe that the United States economy will be worse than it is today compared to only 26 percent a year ago. Interestingly, some 22 percent still believe the economy will be better a year from now, compared with about 28 percent who believed so a year ago.

As for the Metro Phoenix economy, the outlook is less optimistic this year. Some 28 percent of respondents believe the economy will improve in 2001, while 30 percent think the economy will worsen. This compares with 32 percent and 12.6 percent respectively in the 2000 survey.

Survey participants were also less optimistic about the outlook for their industry: more than a third believe business will be worse this year, compared to only about 19 percent in last year's survey.

Still, while expectations are lower than they were a year ago, there remains a substantial percentage of manufacturers who believe things will improve. Indeed, 56 percent have seen demand for their products increase over the last 12 months. This is in line with results of the last two years. Only 21 percent have seen demand decrease. Looking ahead 12 months, some 41 percent expect demand for their product to increase — down from 54 percent a year ago.

*(Continued on page 4)*

## Greater Phoenix is in good shape to weather downturn

The panel members have not changed their forecasts significantly despite the drumbeat of negative economic news at the national level. The panel had already forecast slower growth in 2001, and recent developments apparently have not made much difference. The outlook for 2002 is remarkably similar to 2001, which suggests that the majority opinion favors a slowdown but not a recession — at least over the next two years.

The slowdown, if it plays out as the panel expects, should allow the local economy to bounce back quickly when the national economy re-accelerates. It is clear that the Greater Phoenix area will be affected by a

national slowdown, but job growth in the 3 percent range should be enough to keep us at or near the top compared to other large metropolitan areas. The difference going into the current slowdown is that the local economy is not significantly out of balance as it was during the last several expansions. The reason may be lingering memories of the real estate downturn during the late '80s, which prevented the irrational exuberance of the stock market from spreading to the real estate market.

Layoffs both nationally and locally have not warranted much concern to date, based on past cycles. However, the behavior of firms and consumers could be different this

time around. Firms have shown an unusual willingness to lay off workers in the current expansion; they may begin to shed workers faster, or in greater numbers, than expected. Consumers, who have not experienced a real economic slowdown or recession in a long time, may react strongly.

The bottom line is that the nation appears to be headed into an economic slowdown rather than a recession, based on past cycles. However, the possibility of a recession is much greater than it has been in a long time. Greater Phoenix is likely to fare better than the nation as a whole, but a national slowdown will be felt locally.

— T.C.



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## 2001 SURVEY OF MARICOPA COUNTY MANUFACTURERS

		Percent of Responses				
		<i>Substantially Better</i>	<i>Moderately Better</i>	<i>Same</i>	<i>Moderately Worse</i>	<i>Substantially Worse</i>
1) How do you rate present business conditions as compared with 12 months ago?						
(a) for the U.S. economy:	2001	4.6%	22.4%	29.6%	40.8%	2.6%
	2000	5.4	41.2	41.0	12.3	0.0
	1999	5.4	33.0	30.8	23.8	7.0
(b) for the Metro Phoenix economy:	2001	7.8%	24.0%	44.2%	22.7%	1.3%
	2000	9.4	38.6	43.6	7.9	0.5
	1999	6.6	37.9	35.2	15.9	4.4
(c) for your own industry:	2001	8.5%	29.4%	25.5%	29.4%	7.2%
	2000	9.9	38.1	32.7	17.8	1.5
	1999	10.3	33.0	22.2	21.6	13.0
2) Looking ahead 12 months from now, do you think business conditions will be:						
(a) for the U.S. economy:	2001	1.3%	20.9%	33.3%	39.9%	4.6%
	2000	5.0	22.9	46.3	25.9	0.0
	1999	1.1	21.3	40.4	34.4	2.7
(b) for the Metro Phoenix economy:	2001	0.7%	27.3%	42.2%	27.9%	2.0%
	2000	7.0	25.1	55.3	12.6	0.0
	1999	1.7	27.8	45.6	23.3	1.7
(c) for your own industry:	2001	2.6%	28.6%	34.4%	31.2%	3.3%
	2000	8.9	31.7	40.1	17.8	1.5
	1999	4.9	30.6	37.2	24.6	2.7

The following questions address the economic environment of individual companies over the past 12 months and their forecasts for the next 12 months:

		Percent of Responses			
		<i>Increase(d)</i>	<i>Remain(ed) the same</i>	<i>Decrease(d)</i>	<i>Don't Know</i>
3) Demand for your own company's product or service:					
(a) over the past 12 months:	2001	56.1%	23.2%	20.7%	0.0%
	2000	53.8	31.2	14.6	0.5
	1999	56.6	20.6	22.3%	0.6
(b) for the next 12 months:	2001	40.8%	34.2%	19.1%	5.9%
	2000	54.2	33.0	10.3	2.5
	1999	51.1	27.8	15.6	5.6
4) Employment at your own company:					
(a) over the past 12 months:	2001	41.9%	41.3%	16.8%	0.0%
	2000	37.7	48.8	13.5	0.0
	1999	37.0	41.3	21.7	0.0
(b) for the next 12 months:	2001	30.3%	52.6%	15.1%	2.0%
	2000	45.1	46.1	6.8	1.9
	1999	39.1	46.2	10.9	3.8
5) Capital expenditures at your company:					
(a) over the past 12 months:	2001	50.3%	36.8%	12.9%	0.0%
	2000	48.8	40.6	10.6	0.0
	1999	43.2	37.8	18.9	0.0
(b) for the next 12 months:	2001	36.0%	38.0%	24.7%	1.3%
	2000	47.8	41.0	9.8	1.5
	1999	39.3	37.7	20.2	2.7

MANUFACTURERS SURVEY (continued)		Percent of Responses			
		Increase(d)	Remained the same	Decrease(d)	Don't know
6) Wage/salary levels at your own company:					
(a) over the past 12 months:					
	2001	77.4%	21.3%	1.3%	0.0%
	2000	77.9	20.7	1.4	0.0
	1999	69.6	28.3	2.2	0.0
(b) for the next 12 months:					
	2001	61.2%	34.2%	2.6%	2.0%
	2000	71.8	27.2	1.0	0.0
	1999	58.6	36.5	1.7	3.3
7) Exports of your company's product or service:					
(a) over the past 12 months:					
	2001	52.3%	35.4%	7.7%	4.6%
	2000	42.4	45.7	8.7	3.3
	1999	31.7	36.6	28.7	3.0
(b) for the next 12 months:					
	2001	40.0%	49.2%	4.6%	6.2%
	2000	54.3	33.7	8.7	3.3
	1999	42.2	40.2	10.8	6.9

The employment outlook can be interpreted in a positive light. Some 42 percent indicated that they have increased employment over the last 12 months, up slightly from about 38 percent a year ago. About 17 percent indicated that employment has decreased, compared to about 14 percent a year ago. More importantly, 30 percent still anticipate an increase in employment this year, while 15 percent expect a decline in employment. This is down from 45 percent and 7 percent, respectively, from last year's survey; however, these responses are believed to be more indicative of a slowdown

in the economy than any absolute decline. The same is true regarding capital spending, where 36 percent of respondents said they expect capital spending to increase.

This year's special questions had to do with usage of the Internet and other electronic interfaces. Approximately 24 percent of those responding indicated that they get 10 percent or more of their sales from Internet transactions, while one-third indicated that they purchased more than 10 percent of their goods over the Internet.

Some 62 percent of those responding

indicate that they track more than 10 percent of their manufacturing process electronically, and more than 57 percent have made a significant investment in their electronic systems over the last year.

Overall, the results of the survey are in line with forecasts that the U.S. economy is in a period of slower growth and may be headed into a recession. However, it appears that local manufacturers are more optimistic than their national counterparts — albeit less so than they have been in recent years.

— E.P.

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