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Mountain Monitor-1st Quarter 2011

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Mountain Monitor

Tracking Economic Recession and Recovery in the Intermountain West's Metropolitan Areas

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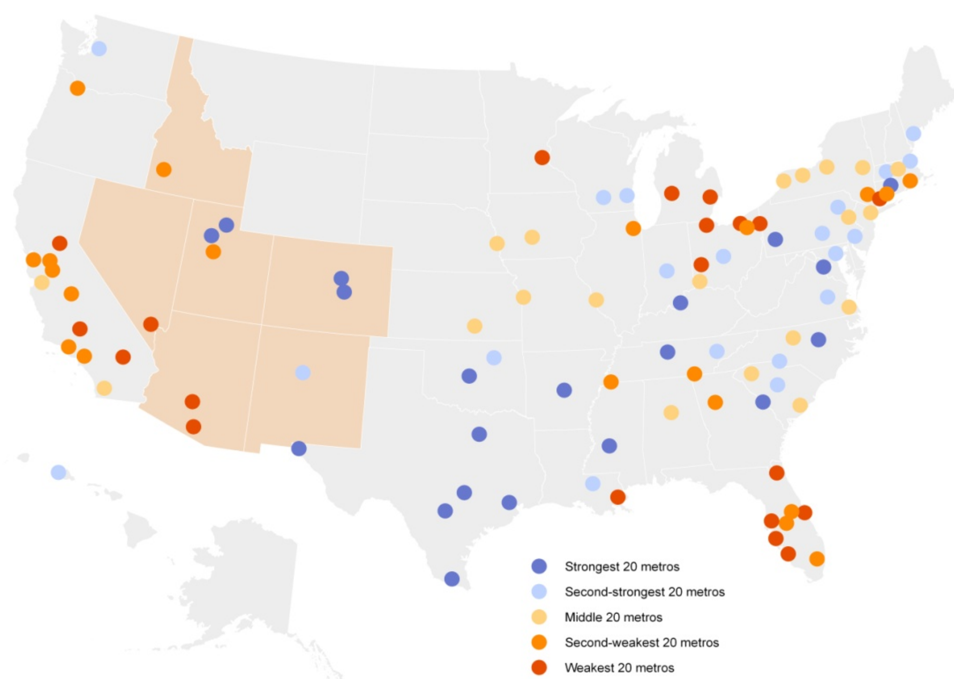
The pace of economic recovery slowed in the large metros of the Intermountain West in the first quarter of 2011. Widespread but slowing output growth was coupled with much slower improvement in the labor market, where for the first time the region's unemployment rate edged above the nation's. The weight of a still-depressed housing market slowed recovery further. Overall, the differing courses of the region's 10 major metro economies since the beginning of the recession can be characterized by relatively strong bouncebacks to the north and east of the region and more sluggish and protracted slogs to the south and west. Along those lines, four Intermountain West metros ranked in the top quintile and three in the bottom among the nation's 100 largest metropolitan areas on a measure of overall performance that takes into account changes in employment levels, the unemployment rate, output (gross metropolitan product or GMP), and house prices since the beginning of the recession and through the recovery.

Overall Performance: Recession and Recovery



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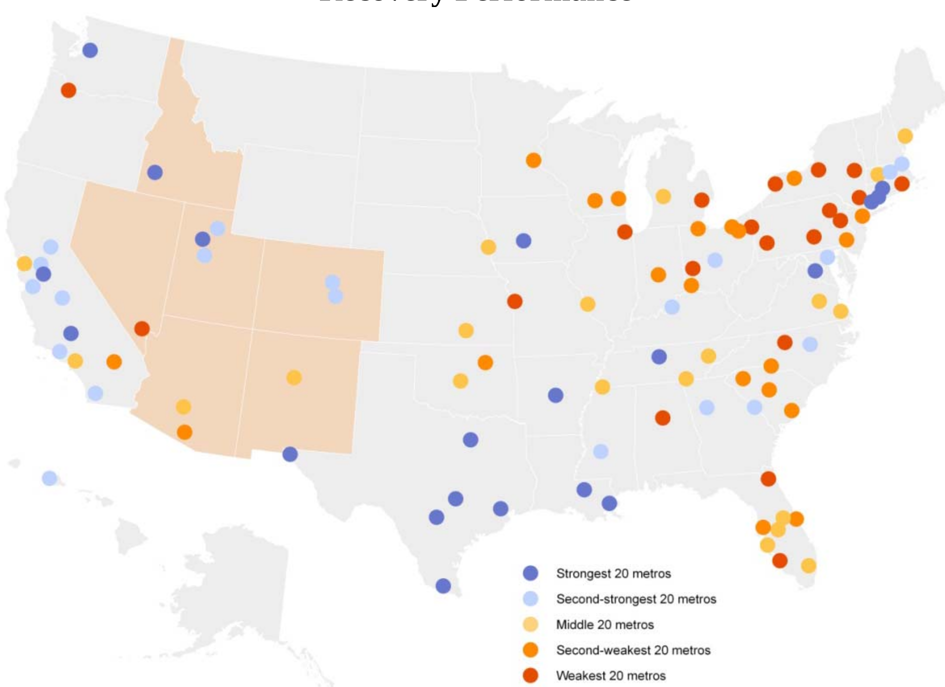
More specifically, Denver and Colorado Springs were joined by Ogden and Salt Lake City in the top quintile of large metros nationally on the *Mountain Monitor's* measure of overall performance since the beginning of the recession. These metros have withstood the Great Recession and its aftermath comparatively well and are now enjoying relatively robust recoveries in its wake. By contrast, Tucson found itself in the bottom quintile of performers and was joined by Las Vegas and Phoenix. Boise's over-the-recession performance ranked in the second-lowest quintile; Albuquerque's in the second-highest.

The bottom line: The nation's protracted slog toward economic recovery remains especially fitful, variable, and uneven in the Mountain region nearly three years after the initial crack-up.

Overall, the Mountain West's recovery ebbed in early 2011 after closing out 2010 with a quarter of strong gains. A closer look at the period of *recovery*—which runs from each metro's low-point through the first quarter of 2011—reveals another picture of variable performance across the region and, this quarter, slowing progress. (Note that house prices, which fell to new lows in all 100 metros in the first quarter of 2011, are not included in this overall recovery measure). Boise and Salt Lake City's relatively robust employment and GMP turn-arounds landed them in the top quintile of their peers. Ogden, Provo, Denver, and Colorado Springs have also made measureable progress in the quarters since the economy hit bottom and made it into the second quintile. Albuquerque's still-elusive employment recovery kept its overall performance middling, along with Phoenix's. Tucson's more feeble recovery eked past Las Vegas into the second-lowest quintile of performers. Still burdened by housing market troubles, Las Vegas' recovery remained one of the weakest in the nation through the first quarter of the year.

Recovery Performance



Las Vegas, for its part, is one of only four of the nation's 100 largest metropolitan areas that fell into the bottom quintile in terms of both the severity of its recession and the sluggishness of its recovery. The massive economic shock of the housing bust and the financial and credit crises exposed in certain metros precarious structural dependencies on certain sectors: housing in Las Vegas and Cape Coral, FL; auto manufacturing in Dayton and Detroit. Recovery in these metros is proving especially slow.

Employment

Employment expanded in Intermountain West metros in the first quarter of 2011 but remained significantly below peak. All of the region's metros except Albuquerque and Colorado Springs—where employment levels remained mostly flat—added jobs in the first quarter. Employment expanded fastest in Salt Lake City, Boise, and Denver, which all ranked in the top quintile nationally for their respective quarterly job gains of 1.0, 0.9, and 0.6 percent. Nevertheless, there are still 8.2 percent fewer jobs in the Intermountain West metros than there were before the recession, compared to 5.1 percent fewer nationally. Boise, Phoenix, and Las Vegas confront large employment deficits of between 9 and 14 percent. Colorado Springs, by contrast, is closest to recouping all of the jobs it lost to the recession, with employment in the first quarter only 3.0 percent below its 2008 peak. Quarterly job gains in Salt Lake City, Denver, and Ogden have gradually accumulated to bring these metros closer to putting the recession behind them than the nation.

Las Vegas and Boise welcomed job gains in the first quarter of 2011. After hemorrhaging jobs in the initial quarters of the recession and suffering sustained but milder losses in quarters following, employment finally hit bottom in Las Vegas and Boise at the end of 2010 and began to turn around. Albuquerque's slow but steady trickle of job losses, by contrast, continues. Albuquerque is the only metro in the region and one of only 12 nationally where employment is still falling.

Government employment—initially a source of stability—began to soften in the first quarter, with public sector job cuts increasingly placing a drag on recovery. To be sure, government employment grew in the region through the recession and initial stages of the recovery, and public sector employment gains provided an important boost to the Provo, Boise, Ogden, and Albuquerque economies especially. In those places, government job gains since the onset of the recession rank in the top quintile among peers nationally. In this respect, while total government employment has shrunk half a percent in the nation's largest 100 metros altogether since the beginning of the recession, in Provo, Boise, and Denver, it is up 7.7 percent, 6.3 percent, and 2.6 percent respectively, and down only in Las Vegas and Phoenix.

To that extent, public sector employment—which accounts for 18 percent of the economy in the Mountain metros—has provided an important jobs anchor during the crisis. That is now changing. <u>Federal government</u> employment in the region's metros, for example, expanded 8.0 percent while the rest of the economy was in recession but now in the recovery period it has fallen back 1.7 percent—cancelling out a portion of gains won in the private economy.

<u>State government</u> cuts have stung Boise and Phoenix with setbacks and exacerbated the recession in Las Vegas and Ogden too. State government employment in Phoenix has fallen 11.7 percent from the metro's peak to the present; in Boise, it has fallen 5.3 percent and in Las Vegas and Ogden, over 2 percent. By contrast, state job growth has tempered the impact of the recession in Colorado's metros, where fiscal conditions are markedly better. There state employment has increased around 11 percent since the recession's beginning. In Provo, state government has bolstered the recovery with 12.5 percent job growth. Auspiciously, the hemorrhaging of state jobs in Phoenix recently ended and in the two quarters

since the metro's economy hit bottom state employment has bounced back 2.7 percent, adding momentum to the recovery.

Meanwhile local government employment dynamics have been more complicated across the region and over time. In Boise, local government employment has expanded 15.1 percent since the beginning of the recession, and so served as an important source of jobs when few could be found (total employment in Boise remains down 9.0 percent). Utah's three major metros and Albuquerque also added many local government jobs, which served to ameliorate the overall employment situations there. Local governments have shed jobs on top of private sector losses in Colorado Springs, Phoenix, Tucson, and Las Vegas to the tune of 3 to 5 percent since the beginning of the recession. In a distressing but expected sign—expected because the impact of a recession typically hit local government coffers with a two-to-three year lag—local public sector cuts are *still* adding up in Arizona and Colorado metros and Las Vegas, and are beginning to hit Salt Lake City and Provo too. Government job losses at all levels threaten to undermine gains in the private sector and drag down recovery.

Unemployment

Unemployment declined modestly through much of the region but fell rapidly in Las Vegas in the year to March 2011. Standing out among the region's metros, Las Vegas made significant progress lowering its unemployment rate in the year to March 2011, which fell 1.8 percentage points to 13.3 percent. This remains, however, the gravest unemployment situation in the region, and was driven more by disenchanted workers leaving the labor force altogether than it was by individuals finding work. Nationally, the unemployment rate stood at 9.2 percent as of March, down 1.0 percentage points from a year earlier. Elsewhere in the Intermountain West declines in the unemployment rate were more measured and Boise actually saw joblessness increase by 0.2 percentage points. These measured declines owe at least in part to the fact that unemployment never really spiked in much of the region and so has less room to fall back. The unemployment rates in Tucson and Phoenix remain 8.5 and 8.7 percent of the workforce, respectively, and Utah's three metros plus Albuquerque all posted unemployment rates of "only" between 7 and 8 percent.

Output

Output (GMP) growth slowed in all of the region's metros in the first quarter of 2011. In line with the national economy, the region's output recovery decelerated in early 2011 after closing 2010 out strongly. At this slower pace Utah's metros led the region, with GMP in Ogden growing 1.1 percent in the first quarter, followed by Salt Lake City at 0.9 percent and Provo at 0.7 percent. Las Vegas, Albuquerque, and Boise also beat the national average in the first quarter with 0.6 percent growth. Overall, output remains below its pre-recession peak in Tucson, Phoenix, Boise, and Las Vegas. Salt Lake City's economy, meanwhile, is now 8.3 percent larger than it was before the recession; Ogden's 4.6 percent larger; and Denver's 3.8 percent larger.

Housing

Dramatic and accelerating declines in house prices battered the entire region in early 2011. Also besetting the region in the first quarter were new problems in the housing market. Inflation-adjusted house price declines accelerated to their fastest rates in a year in every metro. Seven metros ranked in the bottom quintile of national peers on this measure. Provo, Salt Lake City, Las Vegas, Ogden, Tucson, and Phoenix all saw house prices fall between 5 and 7 percent. In Boise, house prices fell by more than 10 percent over the quarter—the steepest decline in any major metro in the country. Boise also suffered the largest yearly decline in house prices in the nation’s 100 largest metropolitan areas. In total, house prices there have slumped to a level 42 percent below their late-2006 peak. In Phoenix, house prices have halved since peaking. In Las Vegas, homes are going for 60 percent less than they once did. Nationally, house prices are down around one-quarter—and have yet to recover in any of the top 100 metros. Denver and Colorado Springs have consistently posted the mildest quarterly, year-on-year, and total declines in the region. Accordingly, housing markets in those two metros plus Albuquerque and Ogden have outperformed the national housing market through the recession.

A wave of foreclosures hit the Utah metros in the first quarter of 2011, while Phoenix and Albuquerque made modest progress reducing their overhangs of real estate-owned properties, or REOs. These problems have in some places exacerbated the weakness of the real estate market. Salt Lake City, Ogden, and Provo, for example, all witnessed the number of REOs per 1,000 mortgageable properties tick up again in early 2011. In Phoenix, on the other hand, the REO rate fell 0.28 points in a sign that the foreclosure crisis there might finally be abating. Albuquerque posted a similar 0.24 point decline and nationally the REO rate fell 0.26 points. And yet, significant problems remain. Tucson and Las Vegas saw some of the progress they had made in the fourth quarter of 2010 reversed by a 0.57 point uptick in REOs in early 2011 in both places. And for that matter Phoenix and Las Vegas retain their shared title as epicenters of the nation’s foreclosure crisis, containing the two largest overhangs of REOs in the top 100 metro areas.

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The two toughest economic challenges facing the nation in the wake of the Great Recession—how to translate output recovery into jobs and how to shake the burden of a depressed housing market—persist supersized over the 10 metropolitan areas of the Intermountain West. Welcome progress was made towards recovery in every one of the region’s metros in the first quarter of 2011, but the pace was uncertain and the jobs picture clouded by continued troubles in housing market and the threat of further public sector layoffs.

Appendix Table. Changes in employment and gross metro product (output) over the time periods reported in the *Mountain Monitor*

	Change in Employment				Change in Output			
Metros	Peak to 2011Q1	Peak to trough	Trough to 2011Q1	2010Q4 to 2011Q1	Peak to 2011Q1	Peak to trough	Trough to 2011Q1	2010Q4 to 2011Q1
Albuquerque, NM	-6.6%	-6.6%	0.0%	0.0%	3.6%	-2.0%	5.8%	0.6%
Boise City-Nampa, ID	-9.0%	-9.8%	0.9%	0.9%	-1.1%	-7.0%	6.3%	0.6%
Colorado Springs, CO	-3.0%	-3.3%	0.3%	-0.1%	2.3%	-3.4%	5.9%	0.4%
Denver-Aurora, CO	-4.8%	-5.7%	1.0%	0.6%	3.8%	-2.1%	6.0%	0.3%
Las Vegas-Paradise, NV	-13.7%	-14.1%	0.5%	0.5%	-8.5%	-10.8%	2.6%	0.6%
Ogden-Clearfield, UT	-4.9%	-5.8%	0.9%	0.3%	4.6%	-1.7%	6.3%	1.1%
Phoenix-Mesa-Glendale, AZ	-11.5%	-12.5%	1.0%	0.6%	-3.4%	-7.0%	3.9%	0.3%
Provo-Orem, UT	-6.6%	-7.7%	1.1%	0.1%	0.7%	-4.6%	5.6%	0.7%
Salt Lake City, UT	-4.5%	-6.1%	1.7%	1.0%	8.3%	-1.1%	9.5%	0.9%
Tucson, AZ	-8.2%	-8.6%	0.5%	0.3%	-0.4%	-3.6%	3.3%	0.2%
Intermountain West metros	-8.2%	-8.7%	0.5%	0.5%	0.0%	-4.7%	4.9%	0.5%
Top 100 metros	-5.3%	-6.1%	0.8%	0.3%	0.9%	-3.9%	4.9%	0.5%
United States	-5.1%	-5.9%	0.9%	0.3%	0.9%	-5.1%	6.4%	0.4%

For individual metro profiles with data and rankings on every measure reported in the *Mountain Monitor* (overall performance, employment, unemployment, gross metropolitan product, housing prices, and real estate-owned properties from peak to present, trough to present, and quarter to quarter), please visit www.brookings.edu/metromonitor.

Methodology

The *Mountain Monitor*—a companion product to Brookings' national *MetroMonitor*—tracks quarterly indicators of economic recession and recovery in the six-state Mountain region's 10 major metropolitan areas that lie within the 100 most populous nationally. The six states are Arizona, Colorado, Idaho, Nevada, New Mexico, and Utah. The indicators include:

- **Employment**: Total wage and salary jobs, seasonally adjusted. Percentage change in employment is shown from each metropolitan area's peak employment quarter to the most recent quarter, measuring the extent to which employment has returned to its prerecession level, and from each area's trough employment quarter to the most recent quarter, measuring the extent of employment recovery since the employment low point. Peaks are defined as the highest employment level attained since the first quarter of 2004. Troughs are defined as lowest employment level reached since the peak. Percentage change in employment is also shown from the previous quarter to the most recent quarter, measuring the extent to which employment is moving toward or away from recovery. Source: Moody's Analytics.
- **Unemployment rate**: Percentage of the labor force that was unemployed in the last month of the quarter. The data are not seasonally adjusted. Therefore, changes in the unemployment rate are shown from the same month three years ago to the most recent month, and from the same month one year ago to the most recent month. Source: Bureau of Labor Statistics.
- **Gross metropolitan product (GMP)**: Total value of goods and services produced in a metropolitan area. Percentage change in GMP is shown from each metropolitan area's peak GMP quarter to the most recent quarter, and from each area's trough GMP quarter to the most recent quarter. Peak and trough quarters are defined as above. Percentage change in GMP is also shown from the previous quarter to the most recent quarter. Source: Moody's Analytics.
- **Housing prices**: Prices of single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac. Percentage change in housing prices is shown from each metropolitan area's peak housing price quarter to the most recent quarter, and from each area's trough housing price quarter to the most recent quarter. Peaks are defined as the highest house price level attained between the first quarter of 2005 and the second quarter of 2009. Troughs are defined as the lowest house price level reached since the peak. Percentage change in housing prices is also shown from the previous quarter to the most recent quarter and year-over-year. Source: Federal Housing Finance Agency House Price Index.
- **Real estate-owned (REO) properties**: Foreclosed properties that fail to sell at auction and thus become owned by the lending institution. Shown as the share of all mortgageable properties in each metro area in the last month of the most recent quarter, and change in share from last month in previous quarter. Source: McDash Analytics.

The *Mountain Monitor*'s rankings of metropolitan economic performance combine four key indicators: (1) percent change in employment, (2) percentage point change in unemployment rate, (3) percent change in GMP, and (4) percent change in House Price Index. There are two sets of rankings:

- **Overall performance** from the beginning of the recession to the most recent quarter: Employment, GMP, and House Price Index changes are measured from peak quarter to the first quarter of 2011. If a metropolitan area had no peak quarter for a particular indicator, the national peak quarter for that indicator is used for the purpose of determining the area's overall performance ranking. Unemployment rate change is measured from March 2008 to March 2011.
- **Performance during the recovery:** Employment, GMP, and House Price Index changes are measured from trough quarter to the first quarter of 2011. Unemployment rate change is measured from March 2010 to March 2011.

For each set of rankings, metropolitan areas are classified into groups of 20 based on their rank, among the 100 largest metropolitan areas in the country, on the average of the standardized scores for the four key indicators.

Interactive *MetroMonitor* maps, underlying indicator data, and one-page profiles of each of the 100 largest metropolitan areas are also available at www.brookings.edu/metromonitor.

About the Metropolitan Policy Program at the Brookings Institution

Created in 1996, the Brookings Institution's Metropolitan Policy Program provides decision makers with cutting-edge research and policy ideas for improving the health and prosperity of cities and metropolitan areas including their component cities, suburbs, and rural areas. To learn more visit: www.brookings.edu/metro

Brookings Mountain West

Established in 2009 as a partnership between the Brookings Institution and the University of Nevada, Las Vegas (UNLV), Brookings Mountain West (BMW) seeks to bring high-quality independent and influential public policy research to the critical issues facing the dynamic metropolitan areas of the Mountain West region. In this, the new initiative builds upon the work of Brookings' Metropolitan Policy Program, which focuses on helping metropolitan areas like Las Vegas grow in robust, inclusive, and sustainable ways through attention to the fundamental drivers of prosperity such as innovation, infrastructure, human capital, and quality of place, as well as regional governance. Along those lines, BMW, along with partners throughout the Mountain West, takes a deep interest in such areas as infrastructure improvement, economic growth, demographic change, environmental impact, alternative energy, and real estate investment.

As the Mountain West emerges as a new American Heartland, it will play an increasingly significant role in shaping national policy discussions. BMW provides a forum for this dialogue and offers knowledge-based policy solutions to help improve the quality of life in the West. Learn more at http://brookingsmtnwest.unlv.edu/

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