

A Precise and Absolutely Error Free Forecast of Future Conditions

To:
City of Sedona
January 20, 2012

By:
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Senior V.P., Elliott D. Pollack & Company

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U.S. Conditions



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FACEPLANT?

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OR SAFE ?

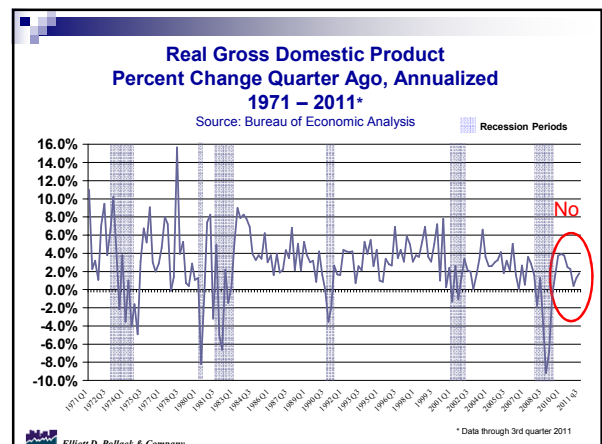
FACEPLANT

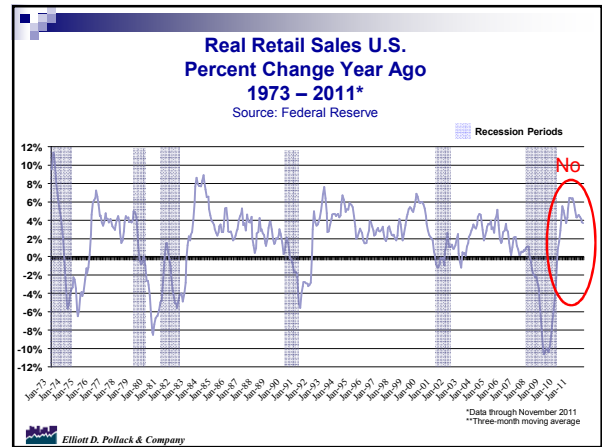
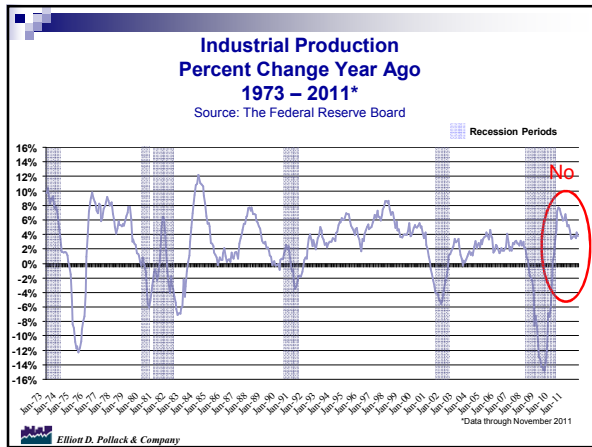
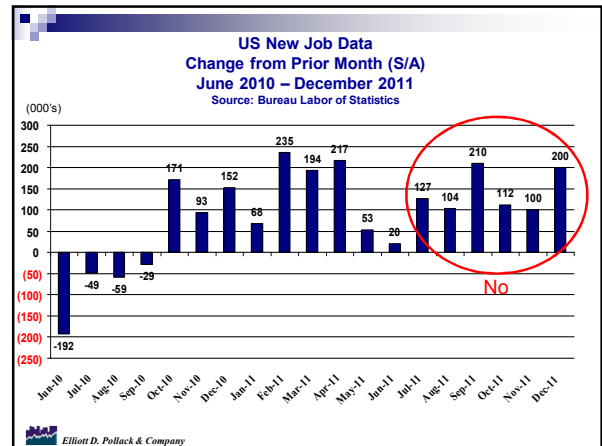
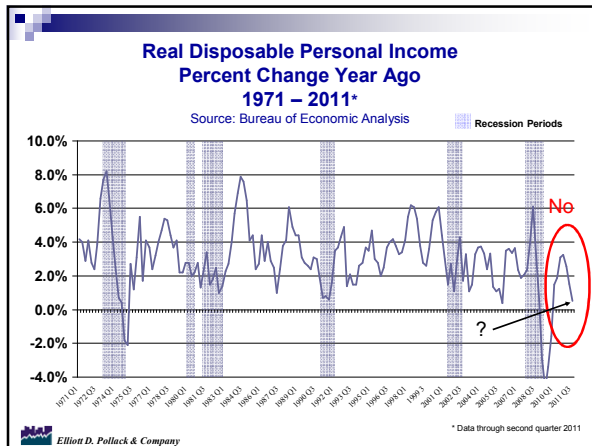
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Signs of a Double Dip – Look for Declines in these Main Economic Categories

- Real GDP
- Real Income
- Employment
- Industrial Production
- Wholesale – Retail Sales

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Recession Indicators Summary:

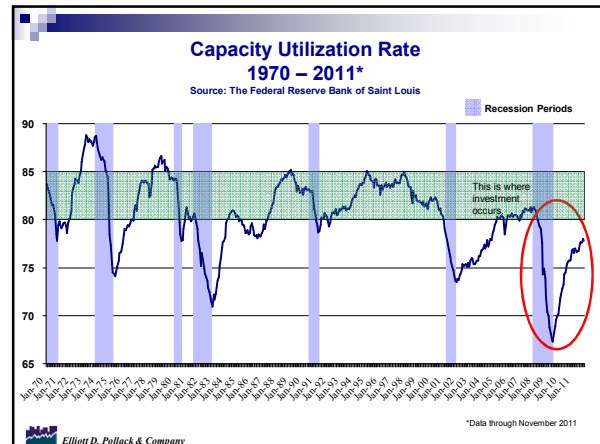
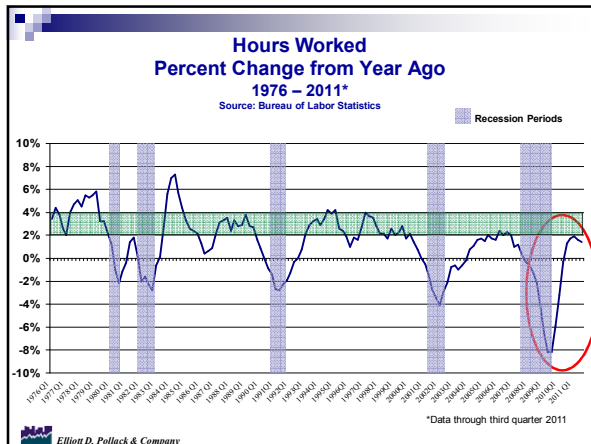
**Still Moving Upward
(Just VERY Slowly)**

- Real GDP
- Real Income (?)
- Employment
- Industrial Production
- Wholesale – Retail Sales

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Other Measures...

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Consumer Summary:

- Jobs are being created but not quickly enough.
- Those that have jobs are spending a little more but will remain cautious.
- Most of those that don't have jobs probably won't anytime soon.
- Wealth levels are improving but people still feel poor.

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Business Summary:

- Profits are high, but...
- Business spending on plant will be slow for now, but getting closer to seeing some additional investment.
- Hiring will still be relatively slow, but more pressure to hire soon.
- Money still sitting on the sidelines?

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Deleveraging & Liquidity Traps

- Consumers (& businesses) are **worried**,
- Thus, they are **saving** more and trying to get **out of debt**,
- So, **spending less** than normal,
- Means **less demand for products/services**,
- Means **less demand for labor and capital**, and falling profits,
- Means **more worry** for the employed (aka consumers/businesses).

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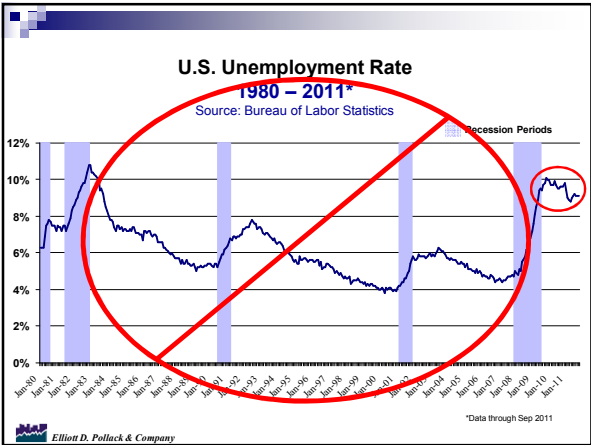
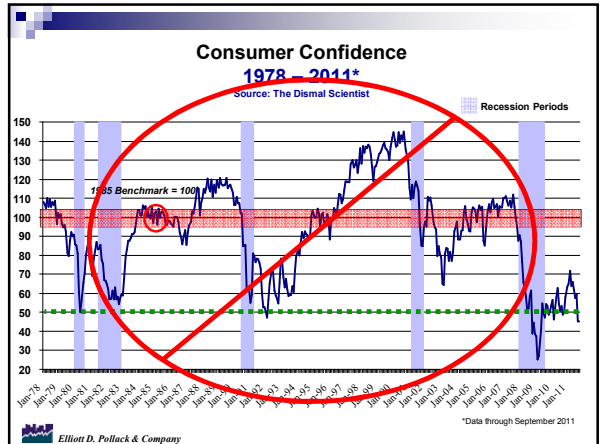
Deleveraging & Liquidity Traps

- Federal Government was **already borrowing and spending too much**,
- "Stimulus" has also been inefficient,
- Thus, cannot afford more (**so no Keynesian spending opportunity**),
- Monetary policy is now of limited benefit** as well,
- Interest rates are low and little borrowing/lending.
- Need more certainty. How?**

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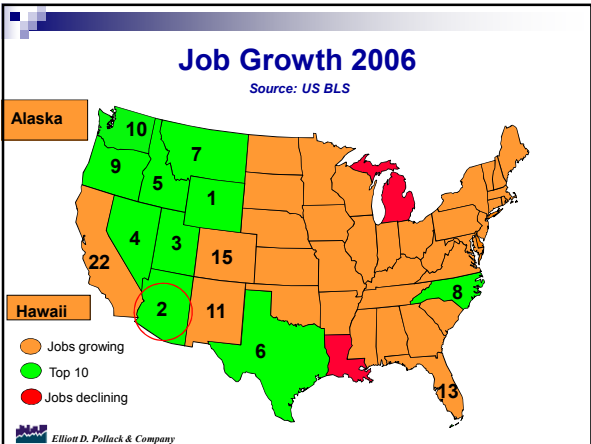
What not to look at just yet...

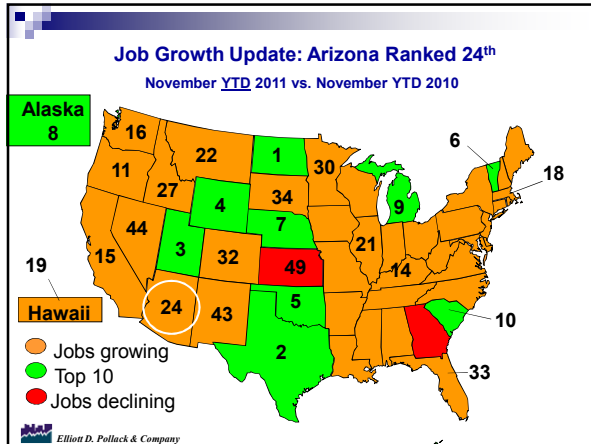
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Current State and Local Basics

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Rank	State	2011 YTD	2010 YTD	Growth
1	North Dakota	391.2	374.4	4.5%
2	Texas	10561.6	10326.5	2.3%
3	Utah	1204.4	1179.4	2.1%
4	Wyoming	288.2	282.5	2.0%
5	Oklahoma	1554.2	1524.7	1.9%
6	Virginia	502.2	488.7	1.9%
7	Nevada	554.2	538.2	1.9%
8	Alaska	330.8	325.3	1.7%
9	Michigan	3918.2	3857.9	1.6%
10	South Carolina	1831.7	1804.1	1.5%
11	Oregon	1622.7	1588.4	1.5%
12	Louisiana	1909.3	1831.1	1.4%
13	Ohio	5095.3	5028.3	1.4%
14	Kentucky	1791.8	1767.8	1.4%
15	California	14987.0	13979.8	1.3%
16	Washington	2812.9	2778.2	1.3%
17	New Hampshire	630.0	621.8	1.3%
18	Massachusetts	3224.9	3183.9	1.3%
19	Hawaii	593.2	585.9	1.3%
20	Pennsylvania	5675.9	5609.5	1.2%
21	Illinois	5666.0	5605.9	1.1%
22	Montana	432.5	428.2	1.0%
23	Connecticut	1620.6	1615.4	1.0%
24	Arizona	2398.7	2374.5	0.9%
25	Iowa	1481.4	1468.0	0.9%
26	Tennessee	2932.4	2903.6	0.9%
27	Idaho	607.9	602.7	0.9%
28	Wisconsin	2757.9	2734.2	0.9%
29	Arkansas	1172.4	1162.4	0.9%
30	Minnesota	2658.8	2636.7	0.8%
31	New York	8614.5	8543.6	0.8%
32	Colorado	2234.9	2217.9	0.8%
33	Florida	7220.0	7188.6	0.7%
34	South Dakota	405.7	402.8	0.7%
35	Maine	598.1	592.1	0.7%
36	West Virginia	750.6	745.6	0.7%
37	Mississippi	1056.6	1038.6	0.6%
38	Virginia	3648.5	3625.6	0.6%
39	Rhode Island	481.0	478.5	0.5%

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What to focus on during the coming years...

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- 1) Jobs
 - 2) Population
 - 3) Economic Base
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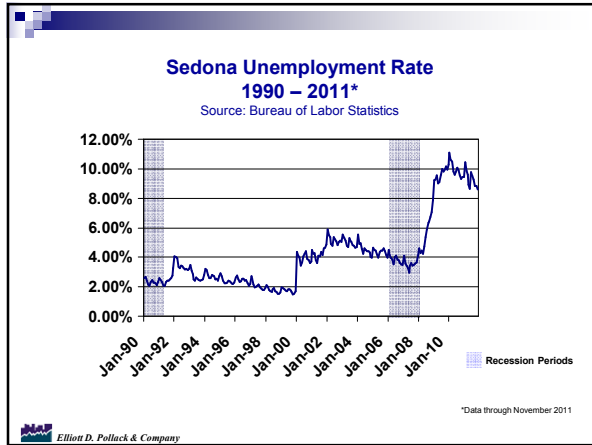
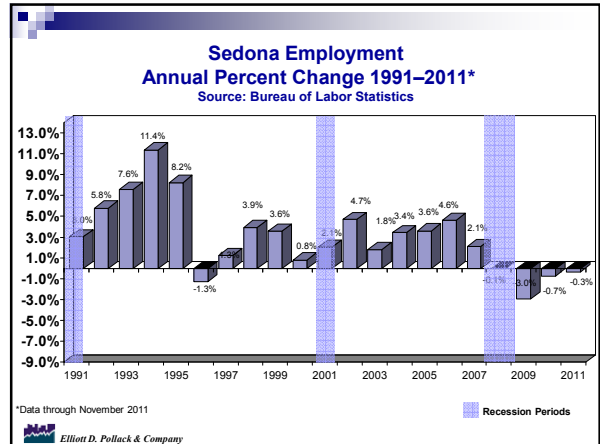
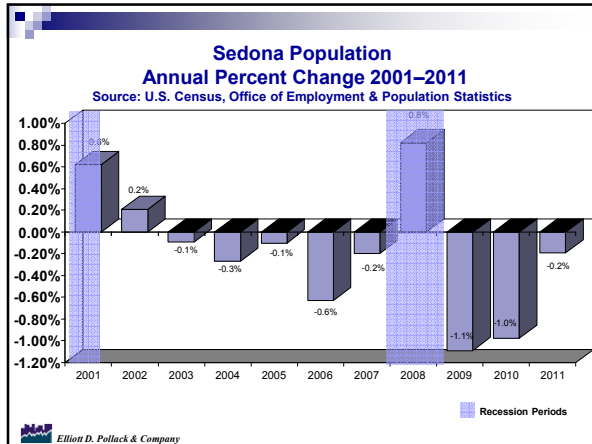
Sedona's Economic Base

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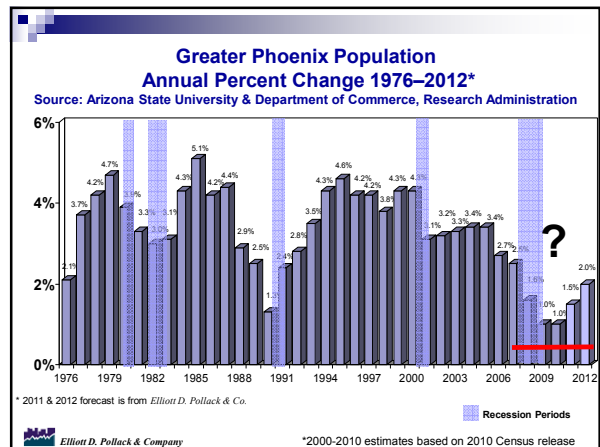
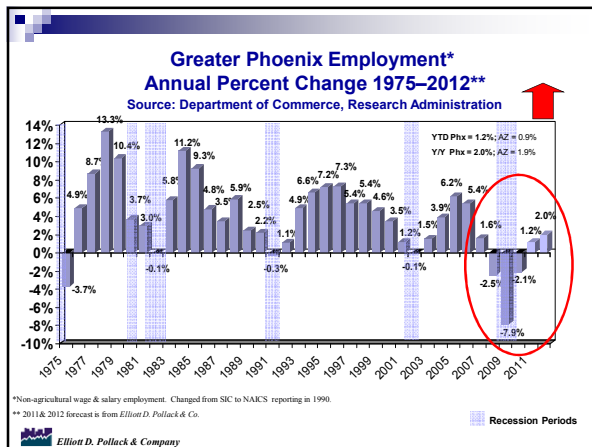
Local Economy

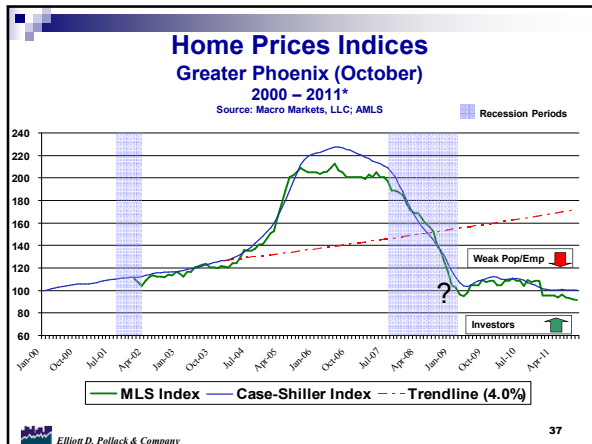
Hospitality and retail/amusement make up 2/3rds of the employment and gross revenue base.

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Other Select Trends/Examples...

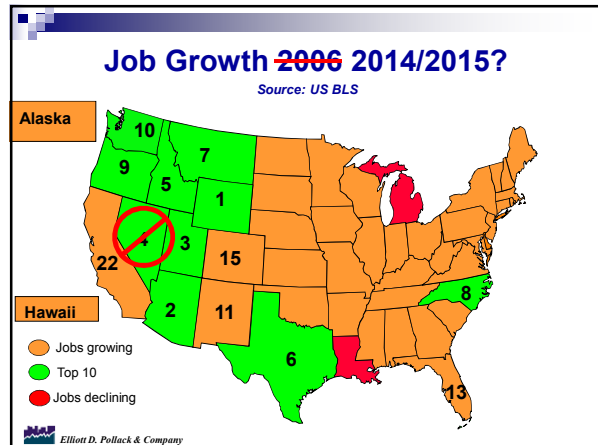




- ### Arizona Current Conditions Summary:
- Weak population numbers for now.
 - Weak employment numbers for now (rates to lead the country soon though).
 - Based on current activity, the full recovery is still a ways away.
 - **But...what's ahead?**
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**We are who we are...
...for now**

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Positives?

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**This is NOT a multi decade
recovery...**

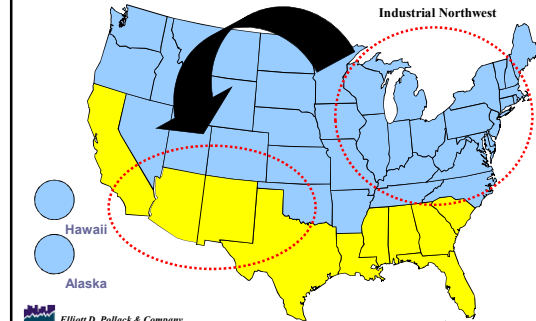
**Think 2015 for full recovery
for most, but growth before
then.**

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Benefiting from basic demographic changes...

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Benefits of the "SUNBELT"



Negative Equity in Homes Affects Ability to Sell or Buy

Source: First American Core Logic

47% of homes with mortgages in Arizona have negative equity.

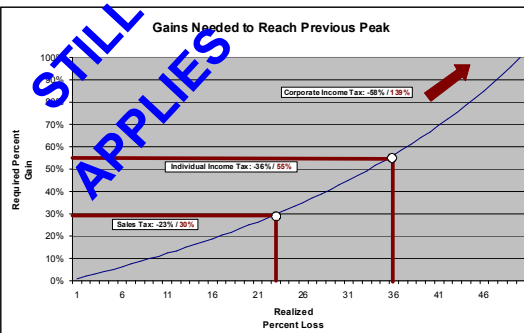
(National average about 22%)

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Tax Revenues?

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State forecast revisions in our future?



Economic Competitiveness

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Economic Development Summary:

- We will continue to grow faster than the rest of the country over the long run.
- If we do things right we might even grow in terms of quality.
- **Coordination among all of the E.D. entities will be critical.**

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Something still needs to be done about statewide **tourism** promotion.

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Future Conditions Summary

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Performance Measures?

Falling far results in:

- Strong rates of growth that seemingly don't match the reported "levels" of activity.
- Strong rankings that seemingly don't match what we read in the paper.
- Panic and opinions that the world is 100% different than before. Not necessarily true, we need to maintain some perspective.

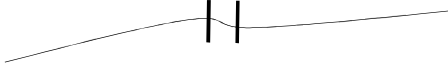
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"A Lost Decade," but what does this tell us about the future?

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Basic Question:

a) Underlying fundamentals remain, we will grow, but we will need to try harder.



b) Break in underlying fundamentals, flat decade means no future.



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