



February 9, 2024

Arizona Economic Outlook





We believe sound fiscal and economic research is essential to uphold Arizona's economy, vitality, future, and individual opportunity.

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Housing Fellow



Jenn Daniels
Housing Fellow

Agenda

- **The Arizona Economy**
 - Performance relative to the U.S. and western states
- **Economic Future and Implications for State and Local Governments**
 - Revenue expectations

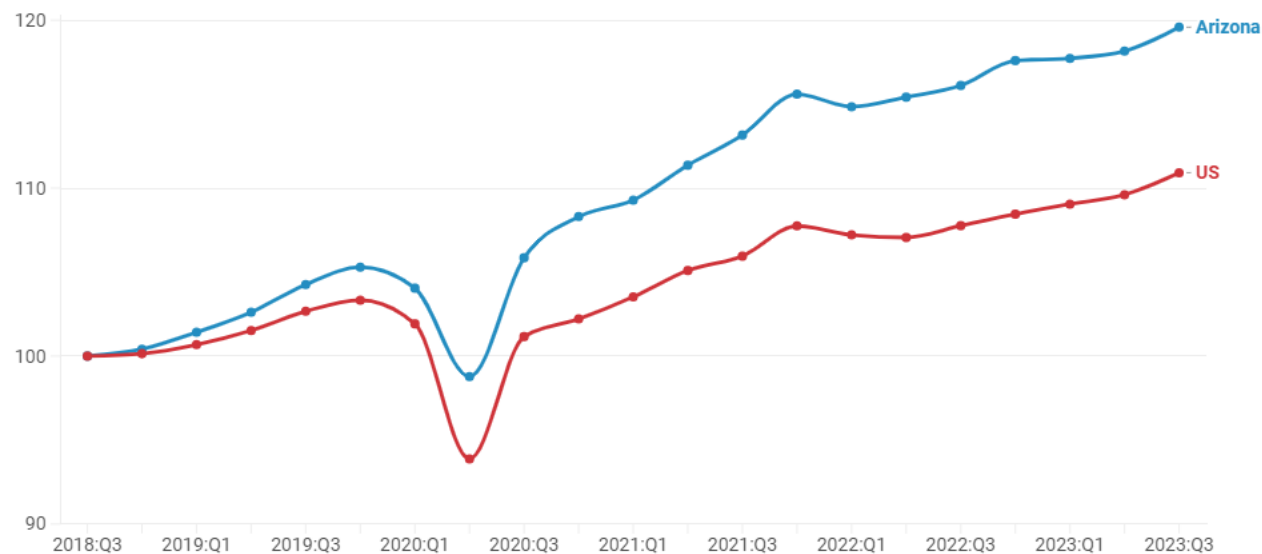
The Arizona Economy

Five years of positive momentum has made Arizona an economic success story

The Arizona Economy

Real Gross Domestic Product (RGDP) 2018Q3-2023Q3

Arizona's economy is nearly 20% larger in real terms than it was five years ago. The US is only 11% larger.



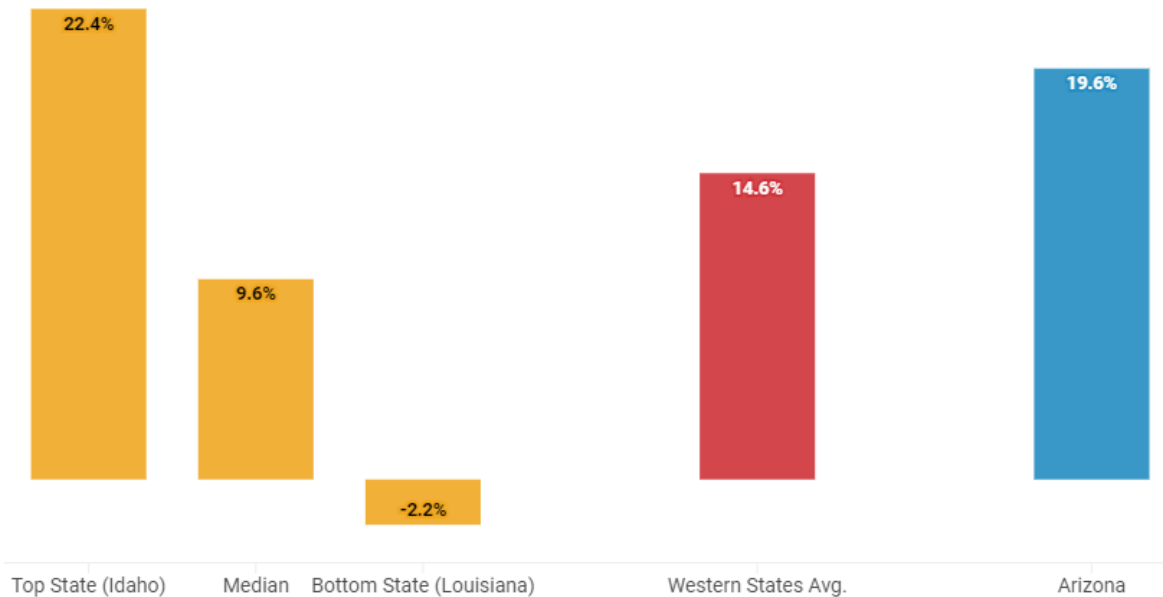
Over the last five years Arizona has enjoyed more robust growth than the U.S. and most other states.

- Arizona's economy grew nearly 20%.
- 4th fastest growing economy over the last five years.

The Arizona Economy

Five-Year GDP Growth (2018Q3 - 2023Q3)

Arizona's growth more than doubles the median growth of all states, and is 34% higher than the western average.



Source: U.S. Bureau of Economic Analysis

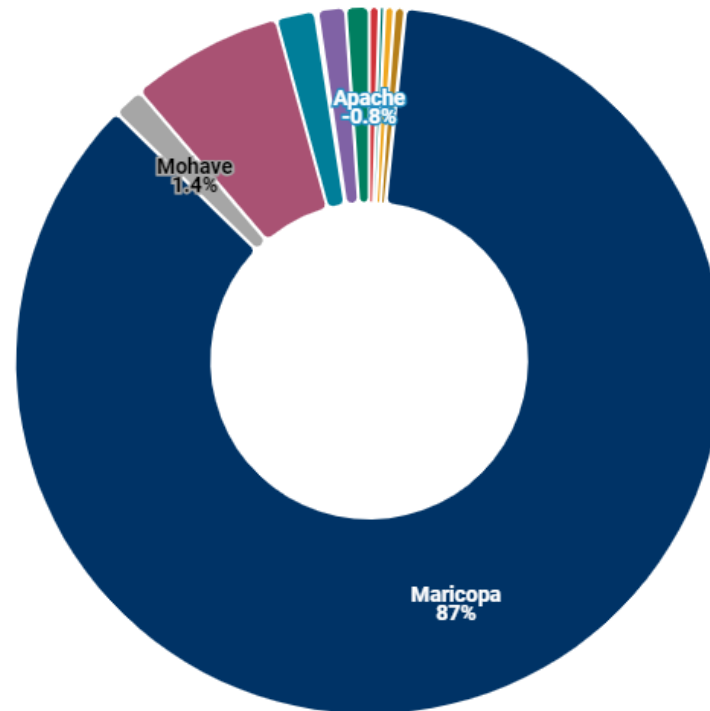
Arizona more than doubled the median growth

- Western states on average out-performed the rest of the nation.
- Arizona exceeded the western average by 34%

The Arizona Economy

Share of Five-Year RGDP Growth by County

Following national trends, growth in Arizona has been concentrated in major urban/metropolitan areas.

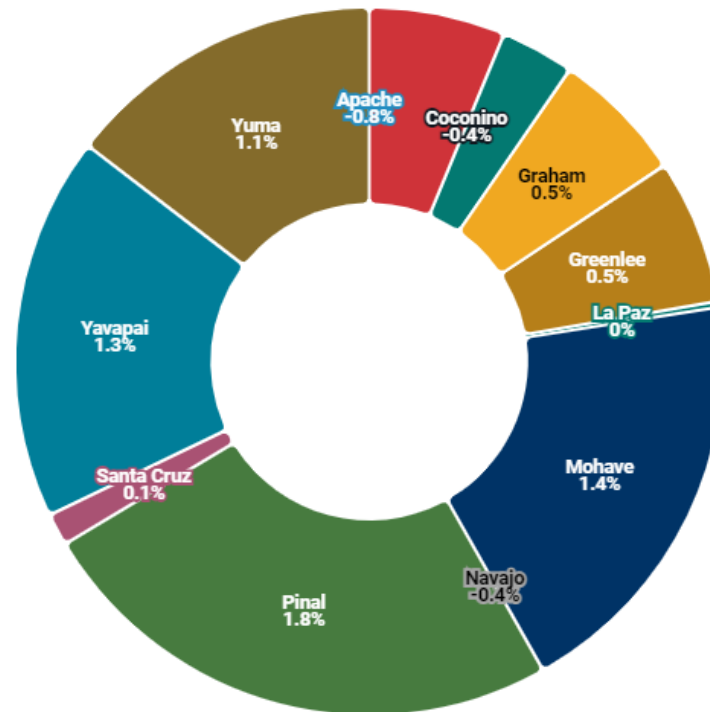


Source: U.S. Bureau of Economic Analysis

The Arizona Economy

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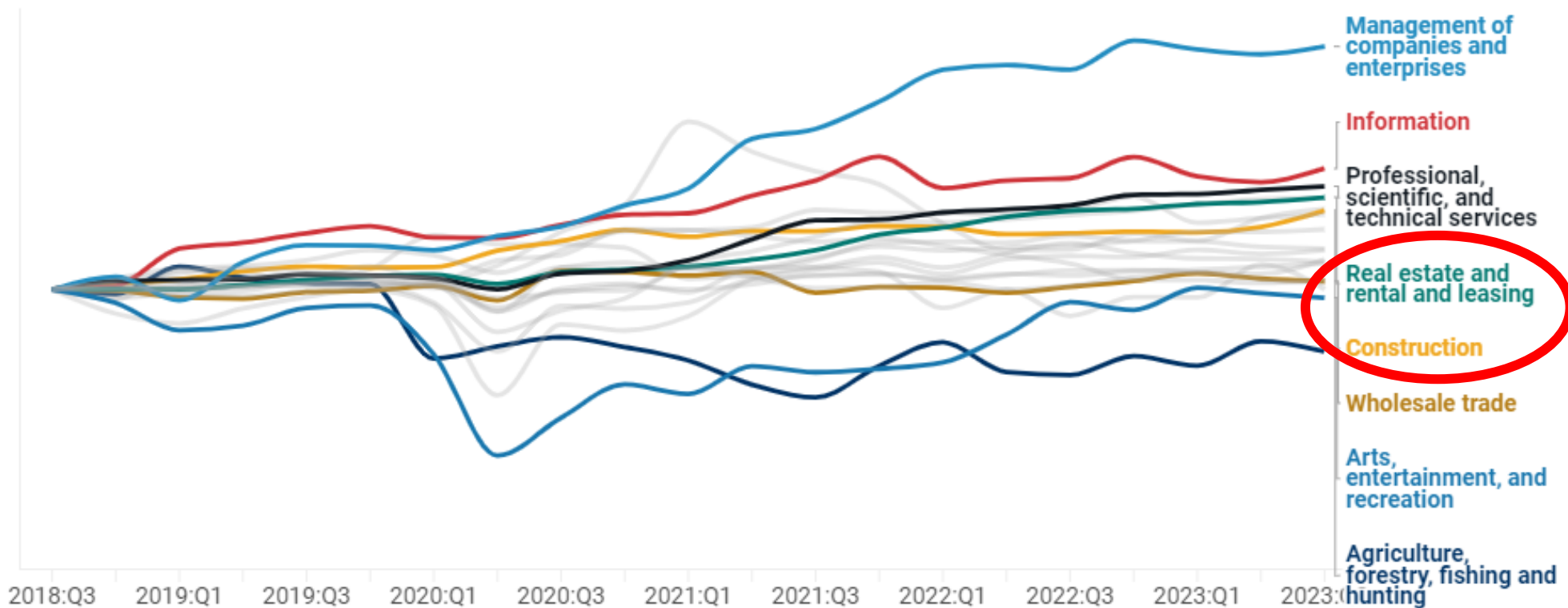


Source: U.S. Bureau of Economic Analysis

The Arizona Economy

Growth in RGDP by Sector

Arizona has experienced exceptional growth in the Management, Information, and Professional, Scientific and Technical Services sectors since 2018.

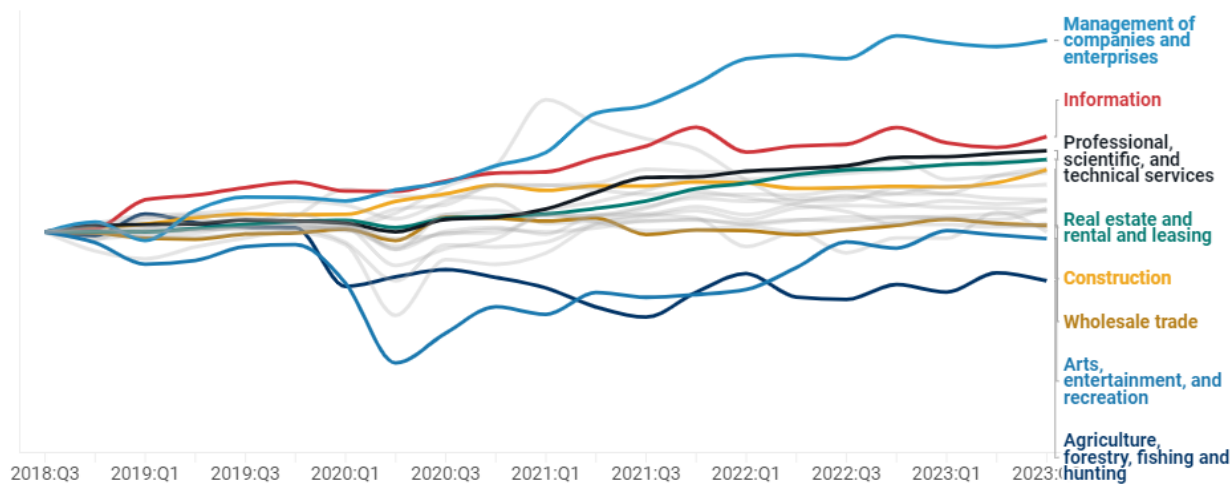


Source: U.S. Bureau of Economic Analysis

The Arizona Economy

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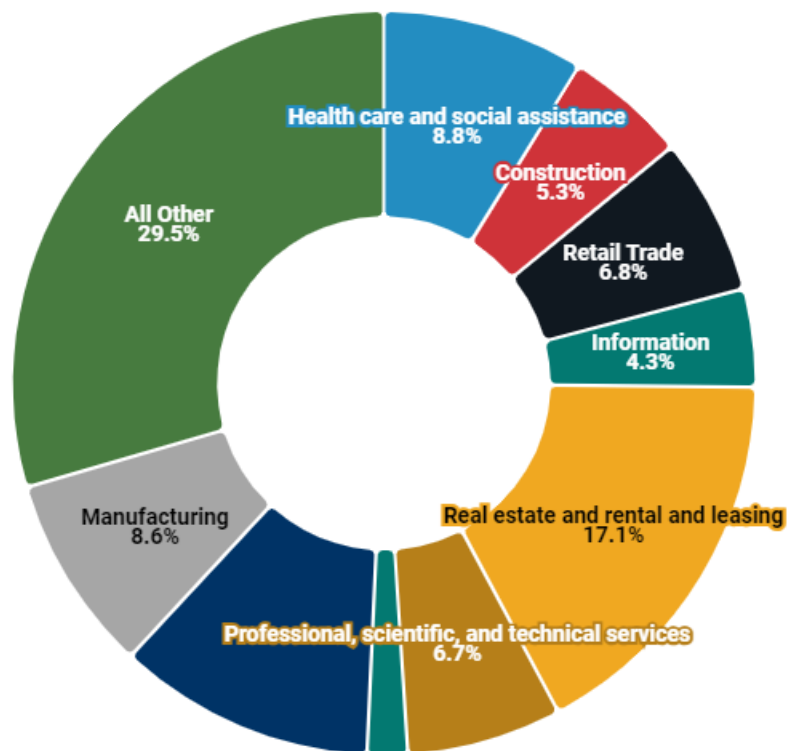
Source: U.S. Bureau of Economic Analysis

“The Management of Companies and Enterprises sector comprises (1) establishments that hold the securities of (or other equity interests in) companies and enterprises for the purpose of owning a controlling interest or influencing management decisions or (2) establishments (except government establishments) that administer, oversee, and manage establishments of the company or enterprise and that normally undertake the strategic or organizational planning and decision making role of the company or enterprise. Establishments that administer, oversee, and manage may hold the securities of the company or enterprise. ”

The Arizona Economy

Share of Arizona RGDP by Sector

The top-3 sectors in Arizona, Real Estate, Government, and Health Care/Social Assistance, account for nearly 40% of the state's GDP.



Source: U.S. Bureau of Economic Analysis

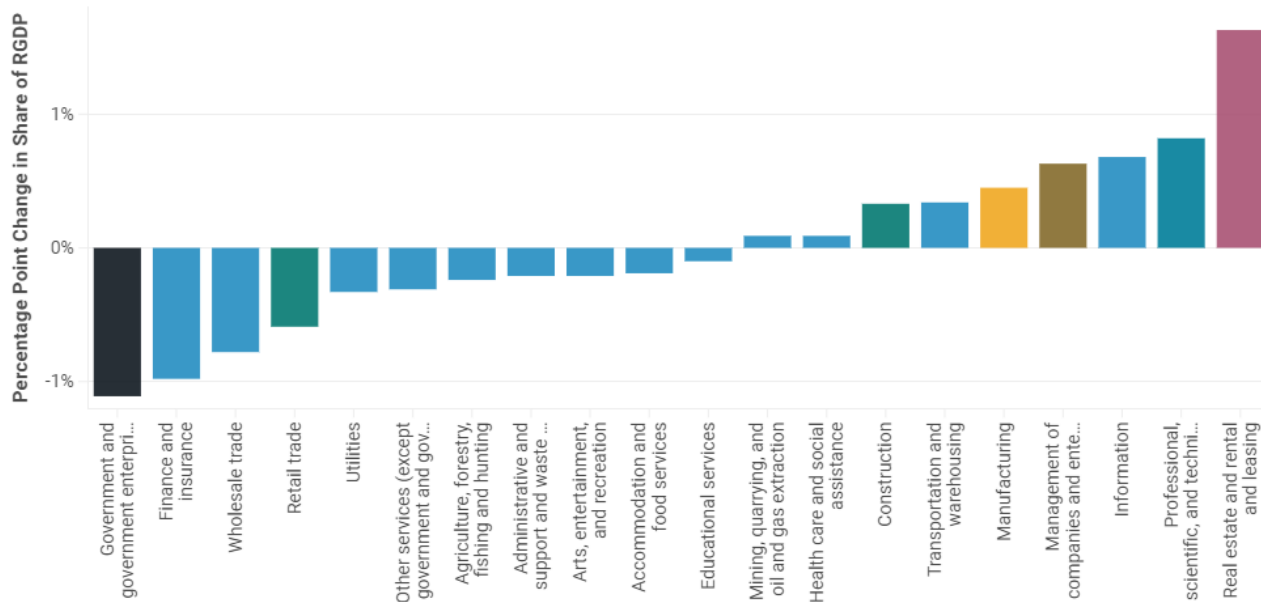
The real estate and rental and leasing sector comprises nearly 1/5th of the Arizona Economy.

- This compares to just **13%** for the US, and **14%** for western states.
- The three fastest growing sectors all represent larger shares of western economies compared to Arizona.
 - **(1) Management of companies and enterprises**
2.18% Western Average – 1.76% Arizona
 - **(2) Information**
6.84% Western Average – 4.26% Arizona
 - **(3) Professional, scientific, and technical services**
8.29% Western Average – 6.74% Arizona

The Arizona Economy

Change in Share of Overall Economy (RGDP), Arizona 2018 - 2023

The real estate and rental and leasing sector now represents 1.6% more of the Arizona economy compared to five years earlier.



Source: U.S. Bureau of Economic Analysis, CSI Calculations

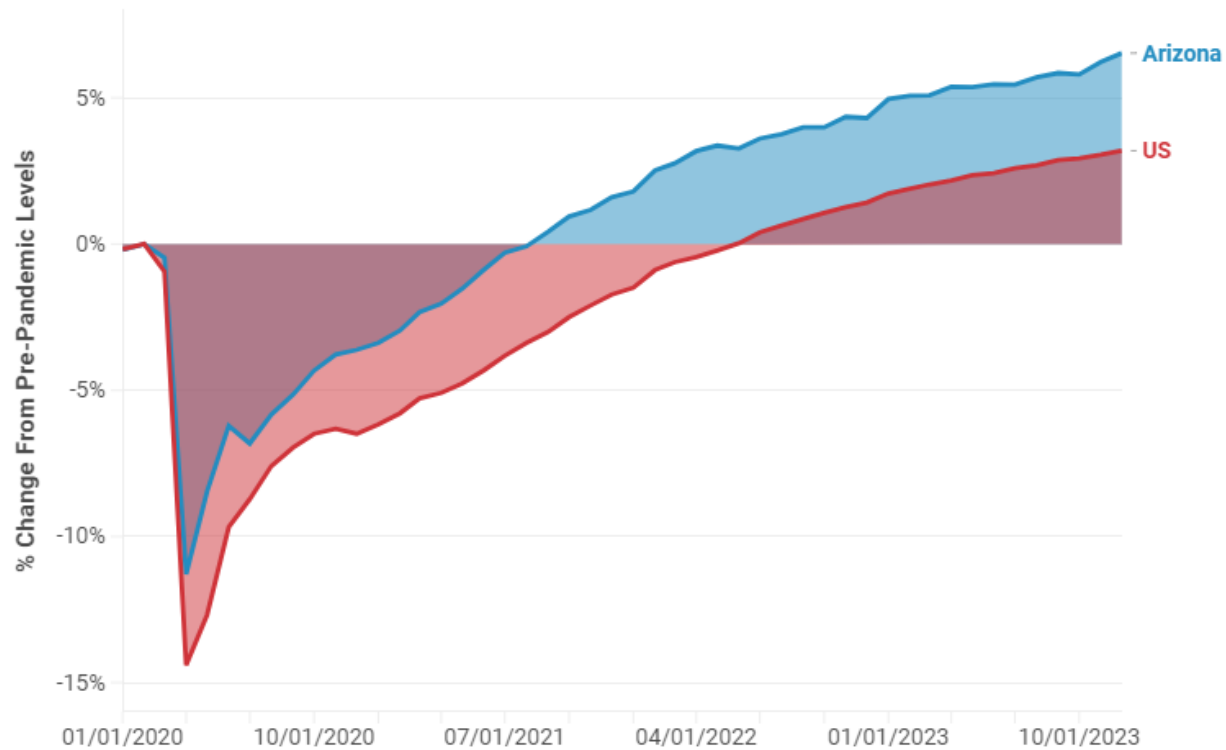
The real estate and rental and Leasing sector has also seen the largest growth as a share of the Arizona economy.

- Other key sectors like construction and manufacturing grew as a share of the state's economy.
- The top three growth sectors also grew as a share of Arizona's economy.

The Arizona Economy

AZ vs. U.S. Employment

Arizona's labor market was both more resilient during the pandemic, and recovered much faster than the U.S.



Source: U.S. Bureau of Labor Statistics

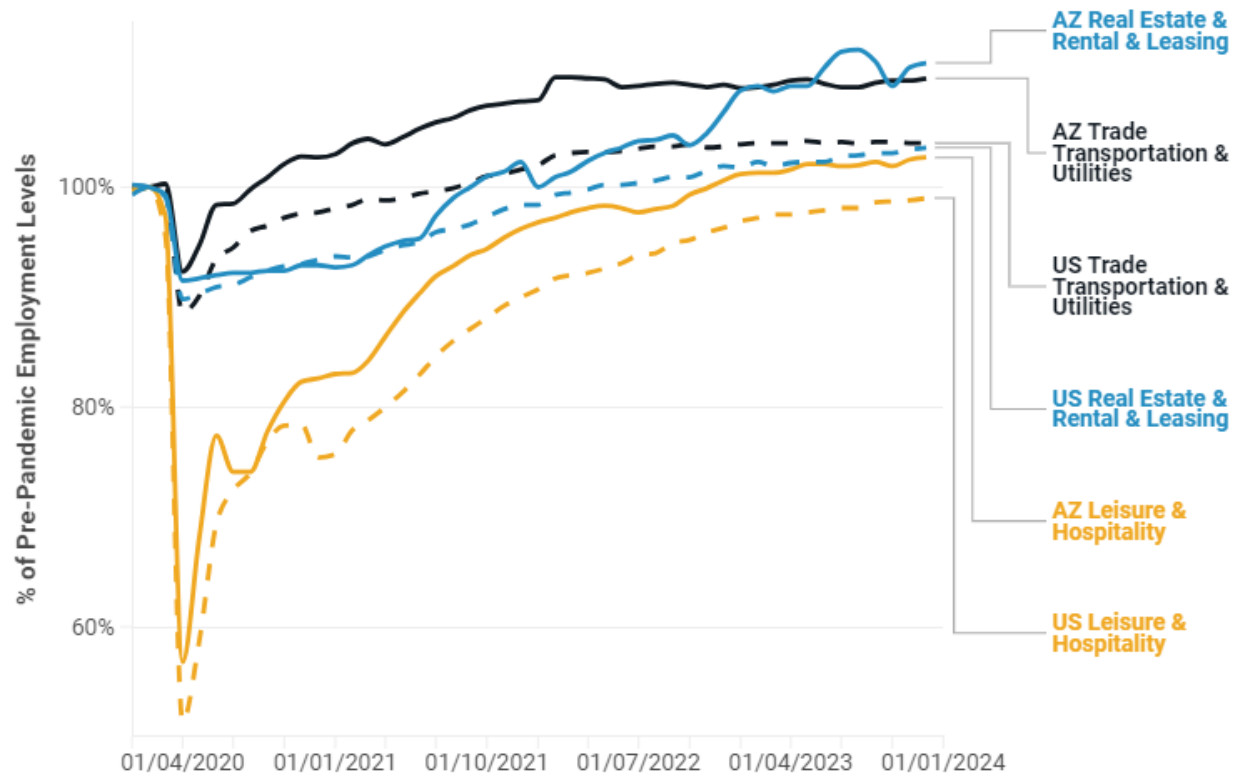
The Arizona economy recovered the jobs lost during the pandemic 9 months faster than the US.

- As of the December release, Arizona's job levels are nearly 7% higher than pre-pandemic levels.
- The U.S. is currently 3% above pre-pandemic levels.

The Arizona Economy

Job Recovery by Major Sector

Arizona performed better than the U.S. in some of the largest employment sectors, and those that were hit hardest by the pandemic.



Source: U.S. Bureau of Labor Statistics

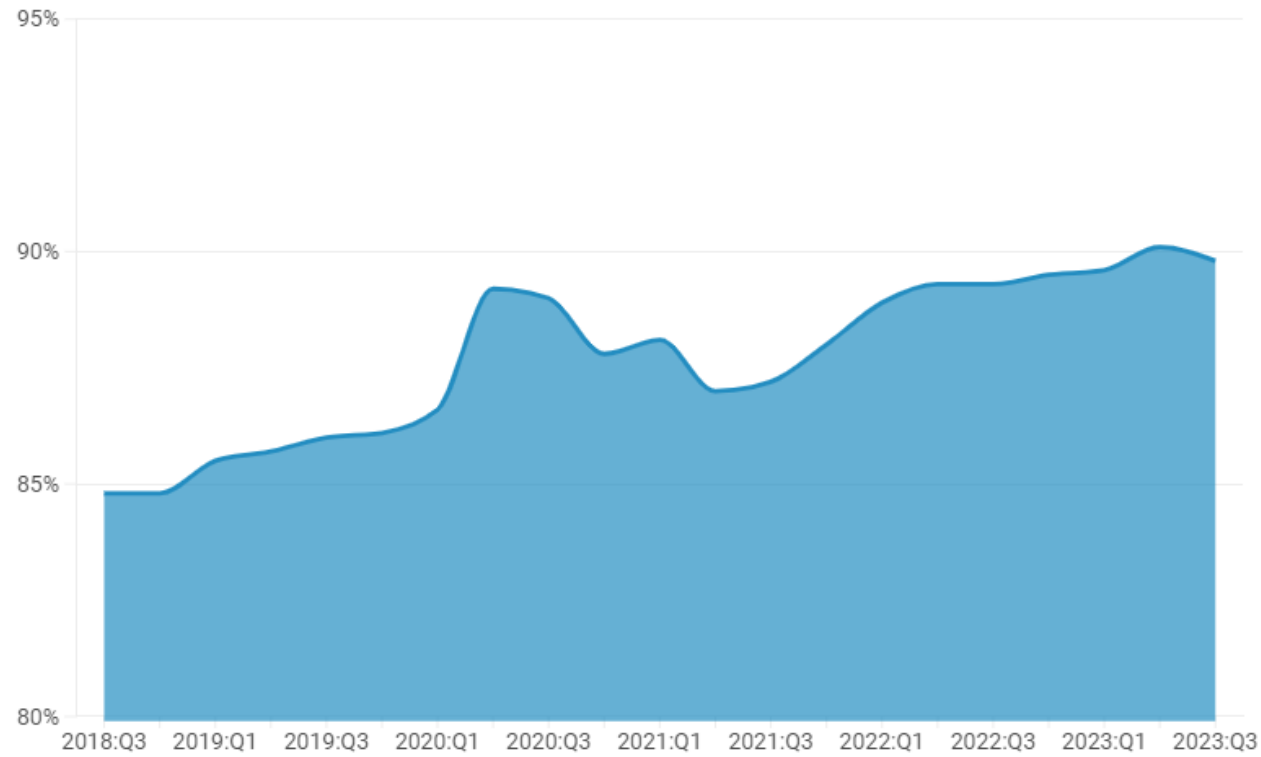
Arizona performed better than the U.S. in employment recovery for both the largest employment sectors and those hit hardest by the pandemic.

- As of December, the Leisure & Hospitality sector – the hardest hit sector during the pandemic – has yet to recover back to pre-pandemic levels in the US.
- For Arizona, this sector is 2.7% larger than it was pre-pandemic.

The Arizona Economy

Arizona's Per-Capita Personal Income as a % of U.S.

Arizona was a top state for income growth in the last five years, and is closing the gap between itself and the U.S.



Source: U.S. Bureau of Economic Analysis

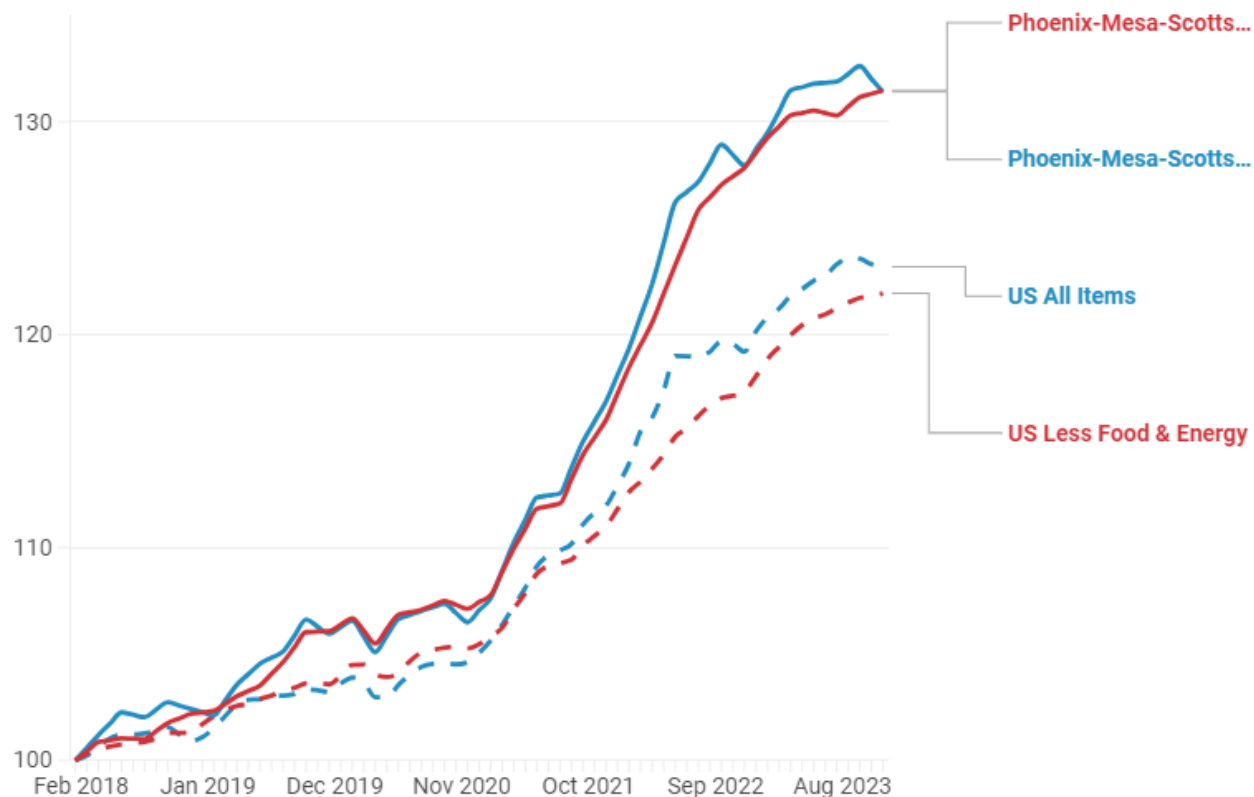
Arizona ranked 4th in growth of per-capita personal income since 2018.

- Arizona's per-capita personal income grew by 36% between 2018 and 2023.
- The U.S. grew 28% over this time.

The Arizona Economy

Inflation in Arizona and U.S.

Inflation in Arizona began to diverge from the U.S. in 2021.



Source: U.S. Bureau of Labor Statistics

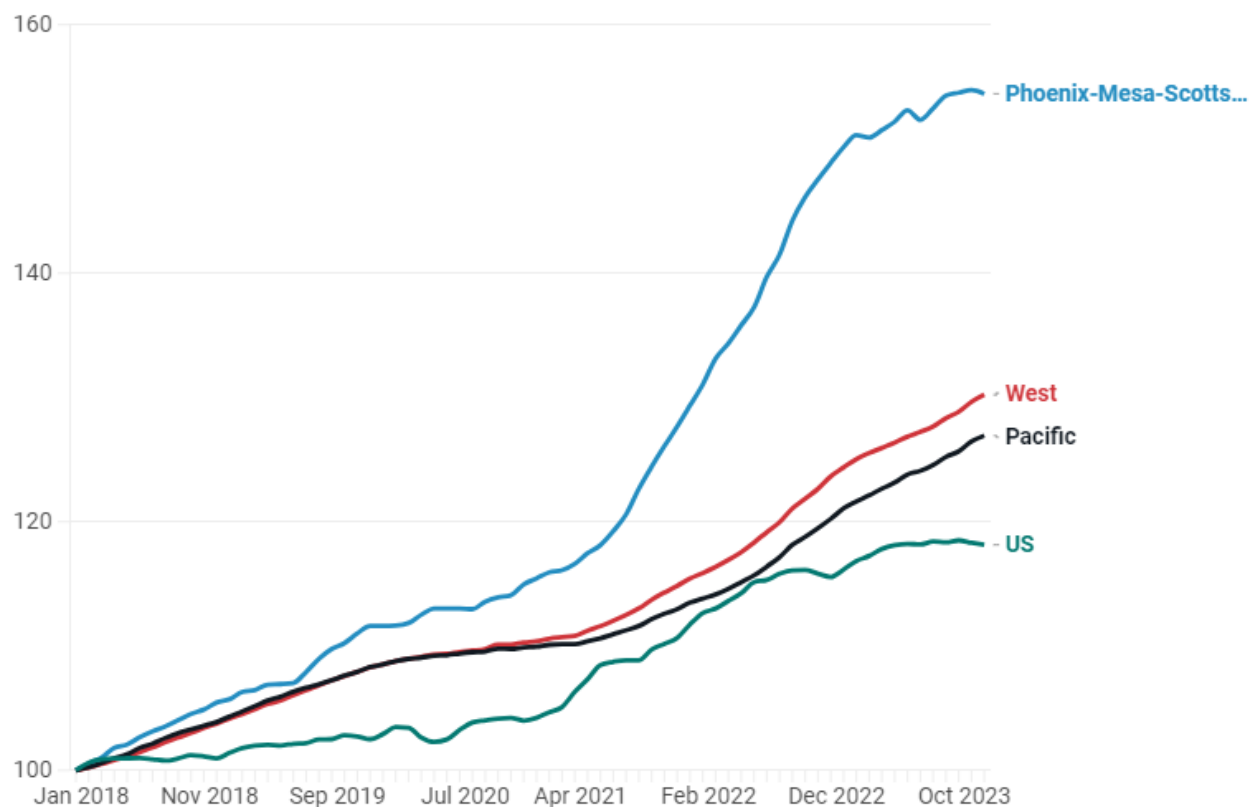
Inflation hit Arizona harder than the U.S. and most other states.

- While inflation has been generally higher in the state since 2018, the state diverged from the U.S. around mid 2021

The Arizona Economy

Inflation - Owner's Equivalent of Rent

Housing related inflation was much higher in Arizona



Source: U.S. Bureau of Labor Statistics

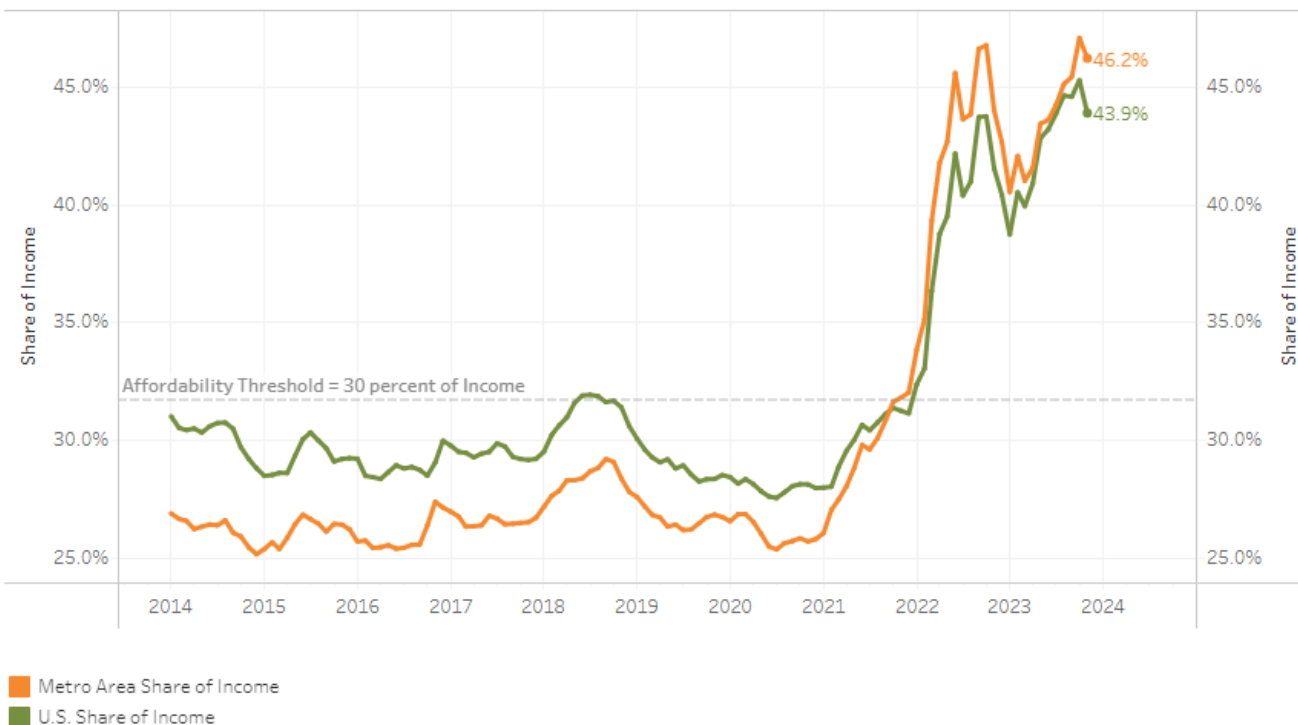
Housing and shelter has been a significant contributor to inflation across the country – especially in Arizona.

- Owner's equivalent of rent – a proxy for housing prices – grew much more drastically in the Phoenix metro area than in the U.S. and western regions.

The Arizona Economy

Updated: 1/18/2024

Nation vs Phoenix-Mesa-Scottsdale, AZ
Share of Income Needed to Own the Median Priced Home
Federal Reserve Bank of Atlanta Home Ownership Affordability Monitor
Data through November 2023



Source: Federal Reserve Bank of Atlanta

Housing is now less affordable in the Phoenix metro area compared to the US.

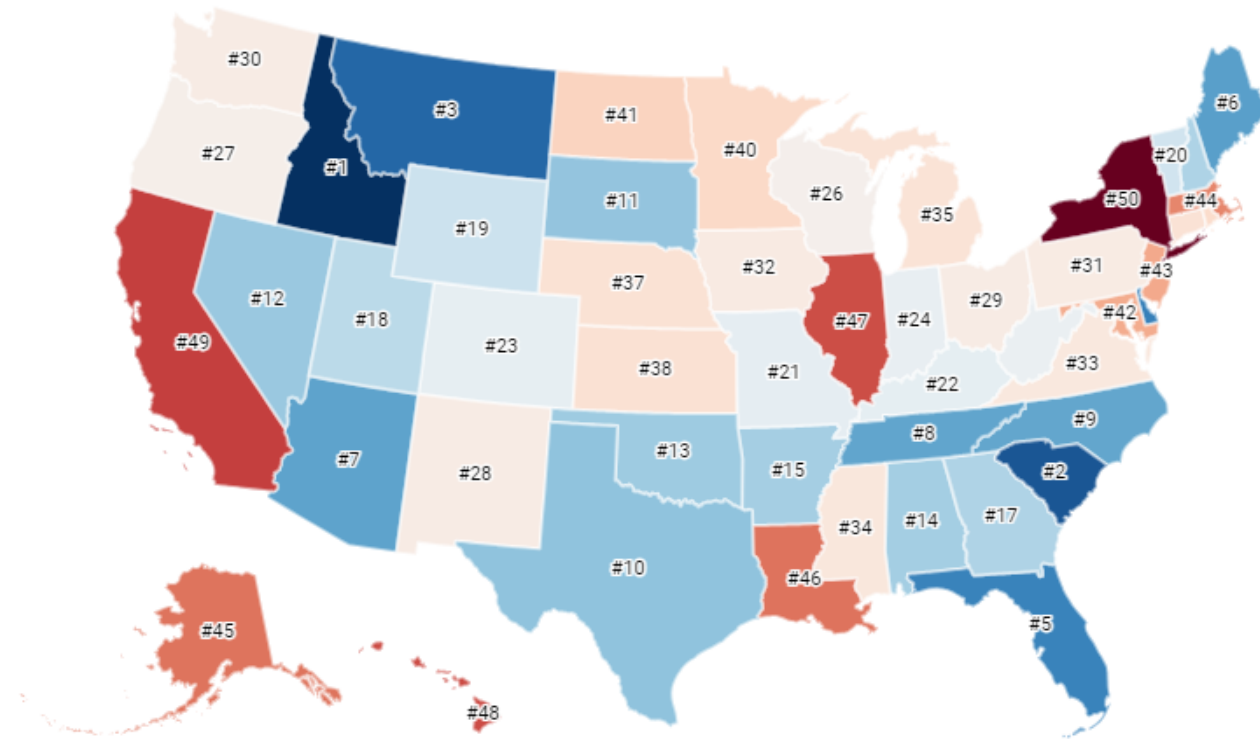
- Housing affordability across the nation has declined.
- Starting in mid 2021, the Arizona market became more unaffordable relative to the entire nation.

The Arizona Economy

Ranking of Cumulative Population Gain From Domestic Migration 2020-2023

Arizona Ranks 7th in Net Domestic Migration.

-4.37 0 5.67

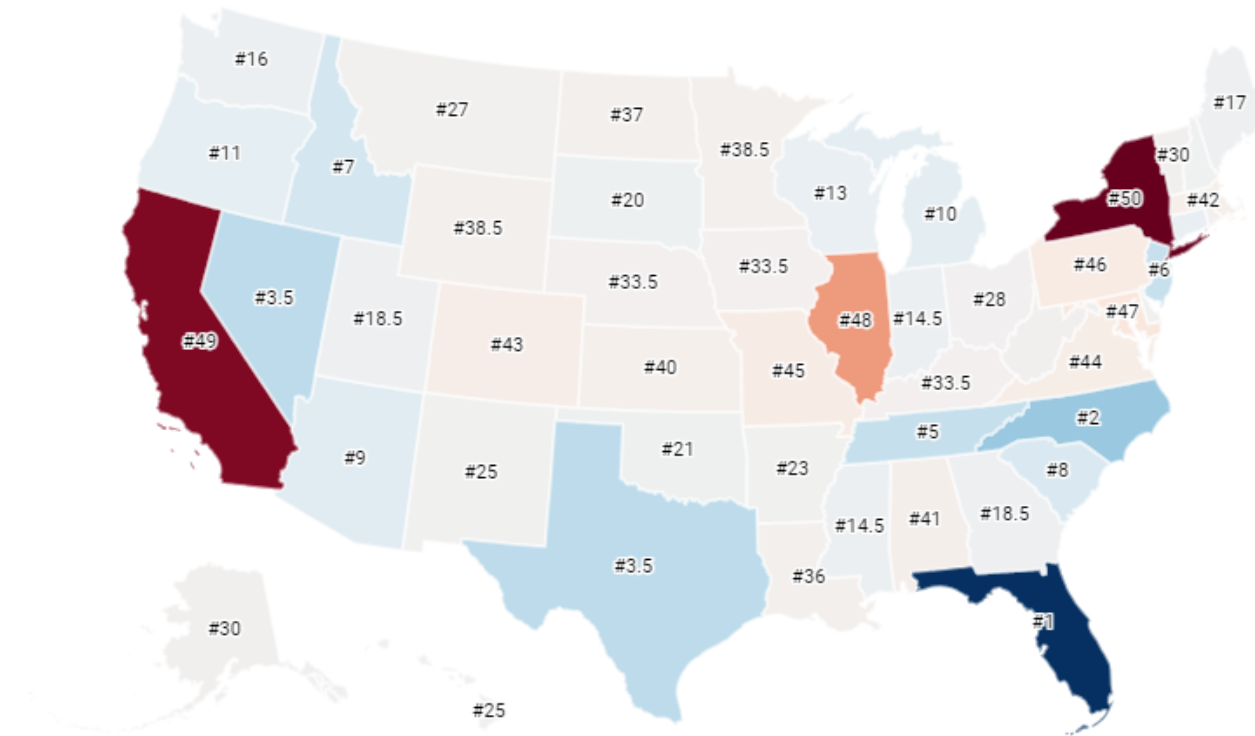
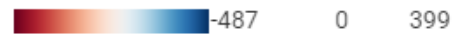


Source: US Census Bureau, Population Division

The Arizona Economy

Single-Establishment Firm Migration by State, 2021

Arizona ranks 9th in net firm migration.



Source: US Bureau of Labor Statistics

Economic Future and Implications for State and Local Governments

Arizona is in a strong position moving into 2024 but is particularly vulnerable to downswings in the housing market.

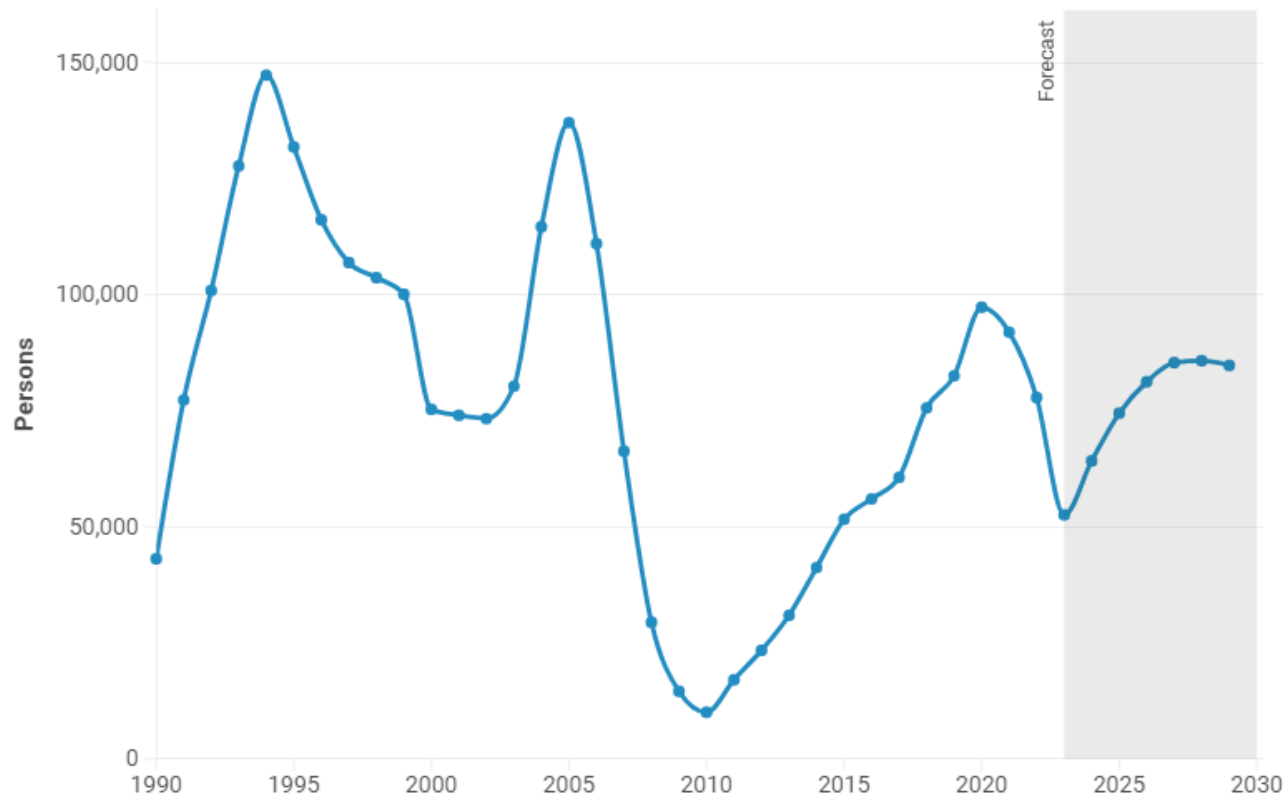
Future & Implications

- The state's growth has been particularly influenced by the performance of the Real Estate and Construction industries.
- Migration of both people and businesses has boosted growth over the last five years.
- Given the relative importance of the Real Estate and Construction sectors in the Arizona economy, significant disruptions in migration and/or disruptions in the housing market will have particularly damaging effects on growth in the state.

Future & Implications

Arizona Net Migration Forecast

Annual net migration is expected to pick up and remain above the 10-year average.



Source: S&P Global

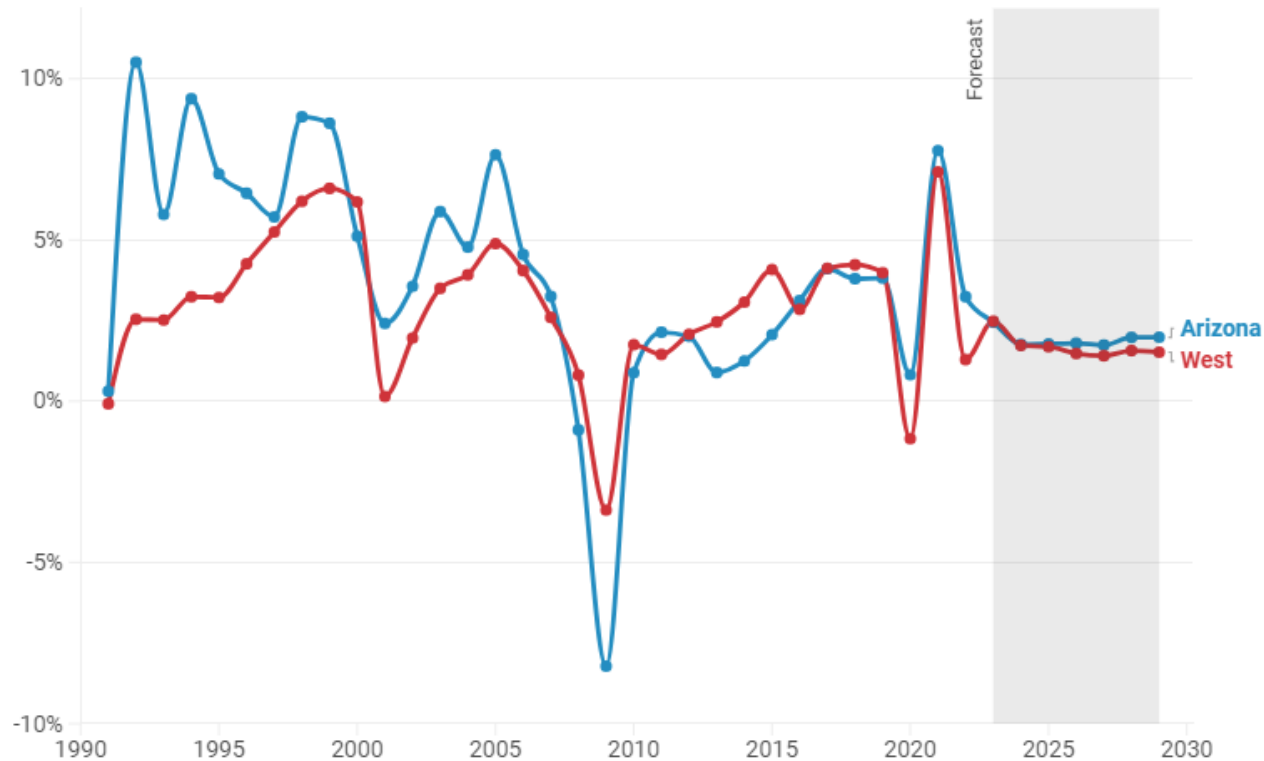
Strong net migration anticipated; remains an economic tail-wind.

- Rebounds from 2023 dip.
- S&P forecasts net migration figures above the average for the last 10 years through 2030.

Future & Implications

Real Gross State Product Growth

Growth is expected to moderate to 2% over the next decade, but remain above the overall growth for the west.



Source: S&P Global Insight

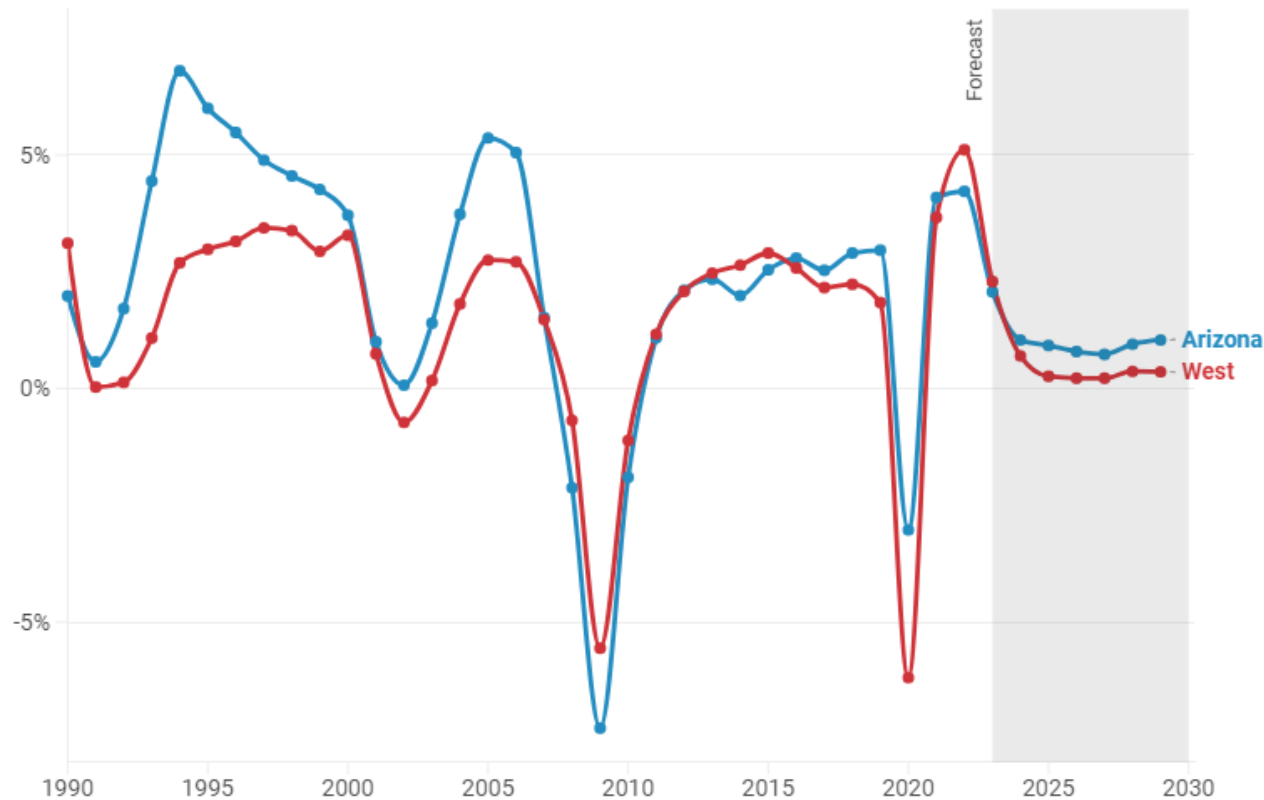
Growth is expected to moderate but remain stronger in Arizona relative to the west.

- S&P predicts an average growth of 1.93% through 2029, compared to 3% over the last 10 years.
- The western states as a whole are projected to grow by an average of 1.7% per year.

Future & Implications

Total Non-Farm Employment Growth

Arizona job growth is expected to outpace western states.



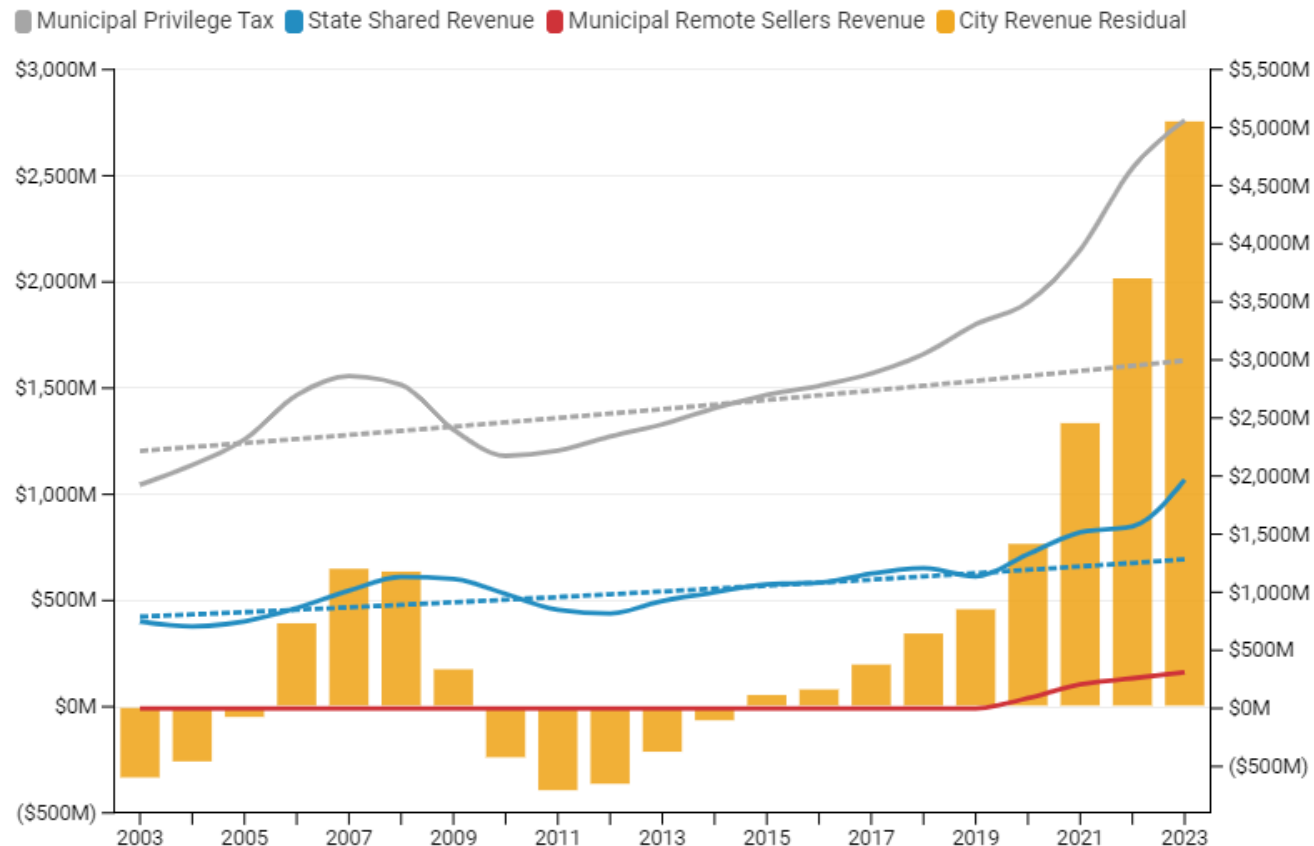
Source: S&P Global Insight

Arizona employment growth is expected to exceed the west.

- Despite the stronger relative growth, employment is anticipated to grow at nearly half the speed of the last 10 years.
- Arizona Office of Economic Opportunity (OEO) projects the Education and Health Services and Construction supersectors to grow the fastest.

Future & Implications

Like the State General Fund, City Revenue Collections Have Surged Since 2017



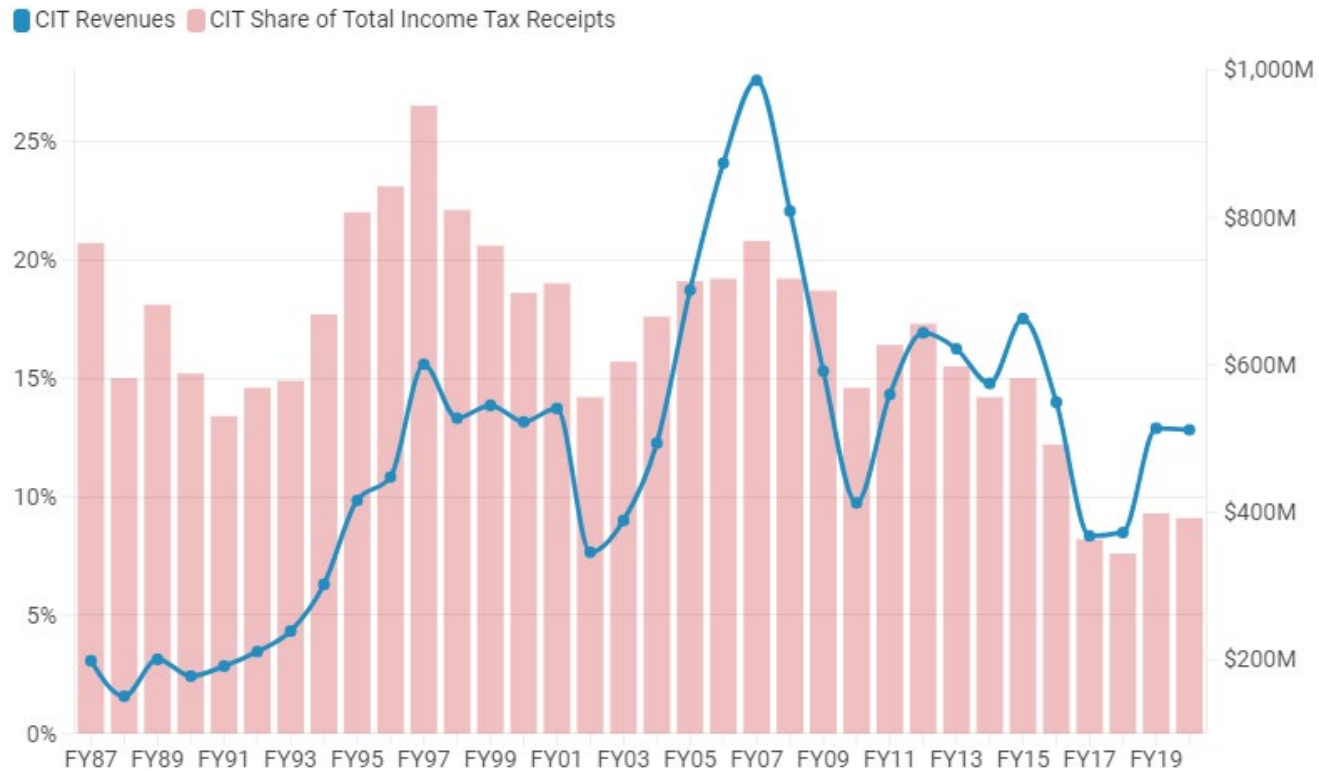
Recent years of strong economic performance has led to surging revenues for state and local governments.

- With moderating growth expected in the future, governments are unlikely to experience the same level of revenue growth they have over the last decade.

Future & Implications

Corporate Income Tax (CIT) Revenues

Corporate income tax receipts tend to be volatile from year to year, with steep downward movement following upward movement.



Source: Joint Legislative Budget Committee

CIT revenues are very elastic.

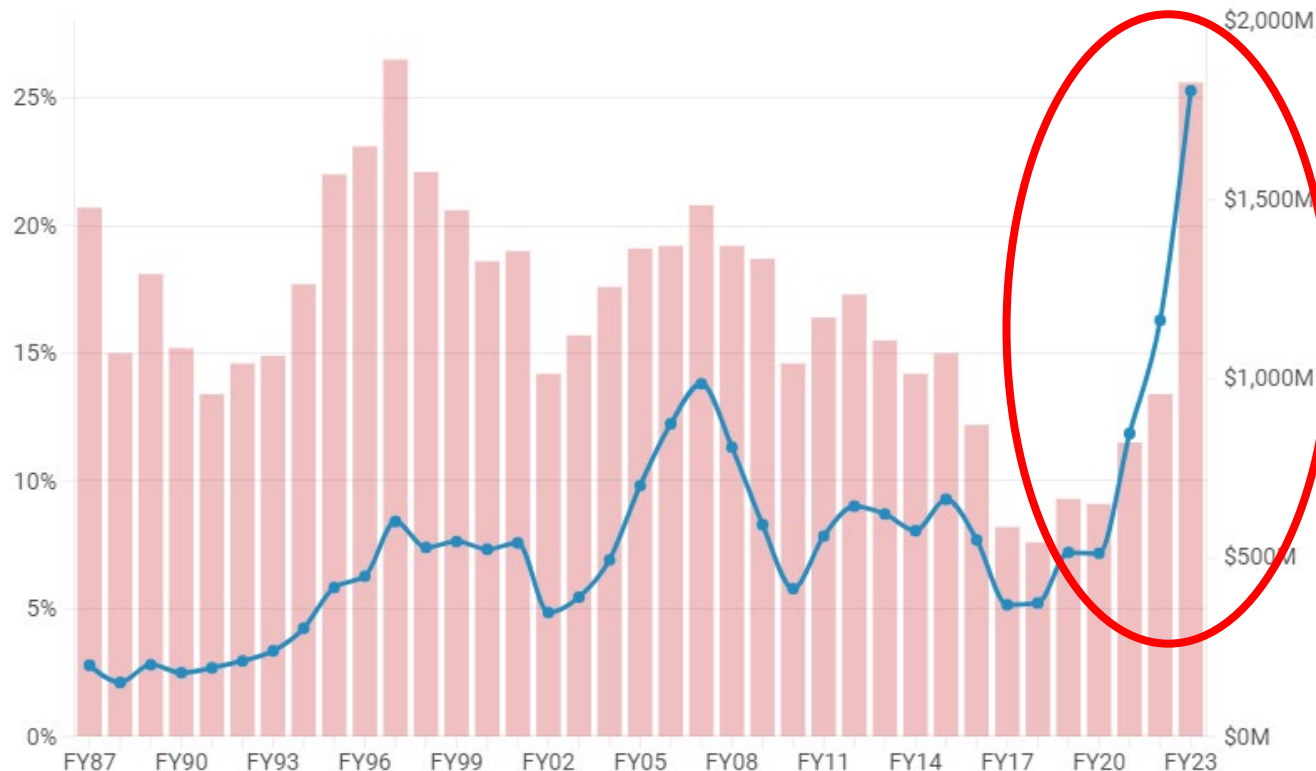
- No discernable trend over the last 30 years.
- Historically remained between \$400M and \$600M annually.

Future & Implications

Corporate Income Tax (CIT) Revenues

CIT revenues have skyrocketed over the last three years, and now represent over 25% of total income tax revenues.

■ CIT Revenues ■ CIT Share of Total Income Tax Receipts

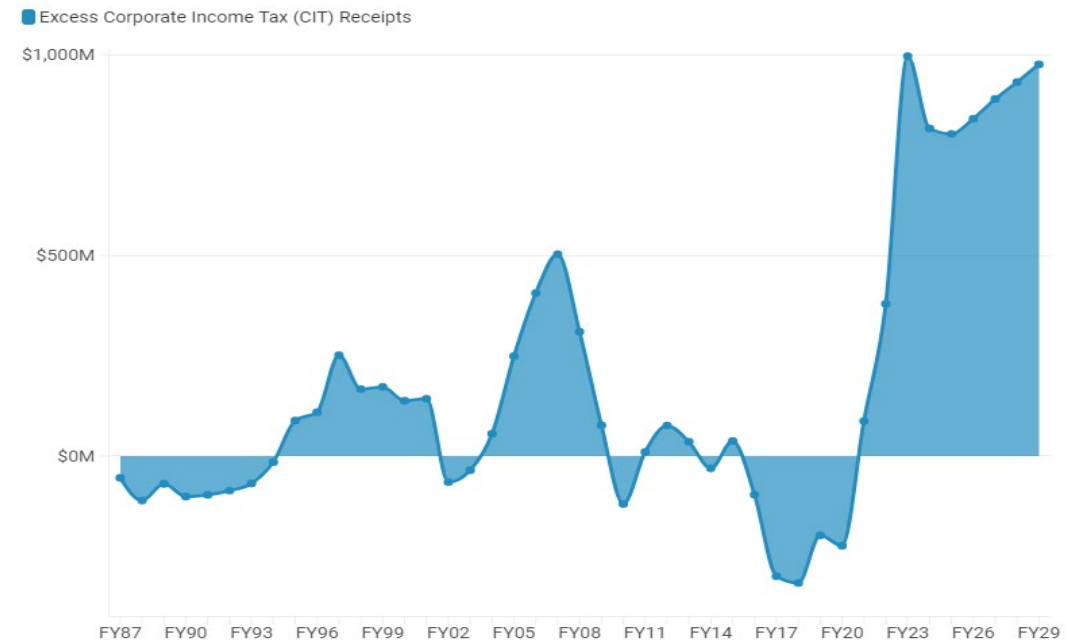
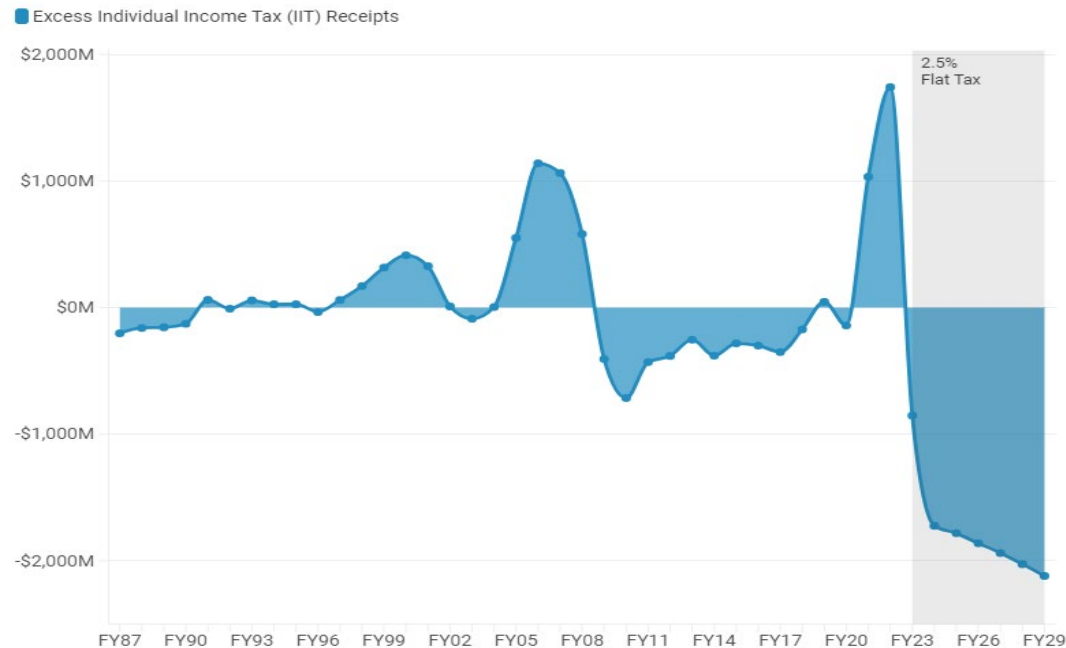


Revenues have drastically increased in the last three years.

- In FY20 CIT revenues were \$500 million; **they are now over \$1.8 billion.**
- Current JLBC and Executive projections show this category declining in 2024.
- Despite anticipating declines, projections do not account for the risk of reverting back to “normal”.

Future & Implications

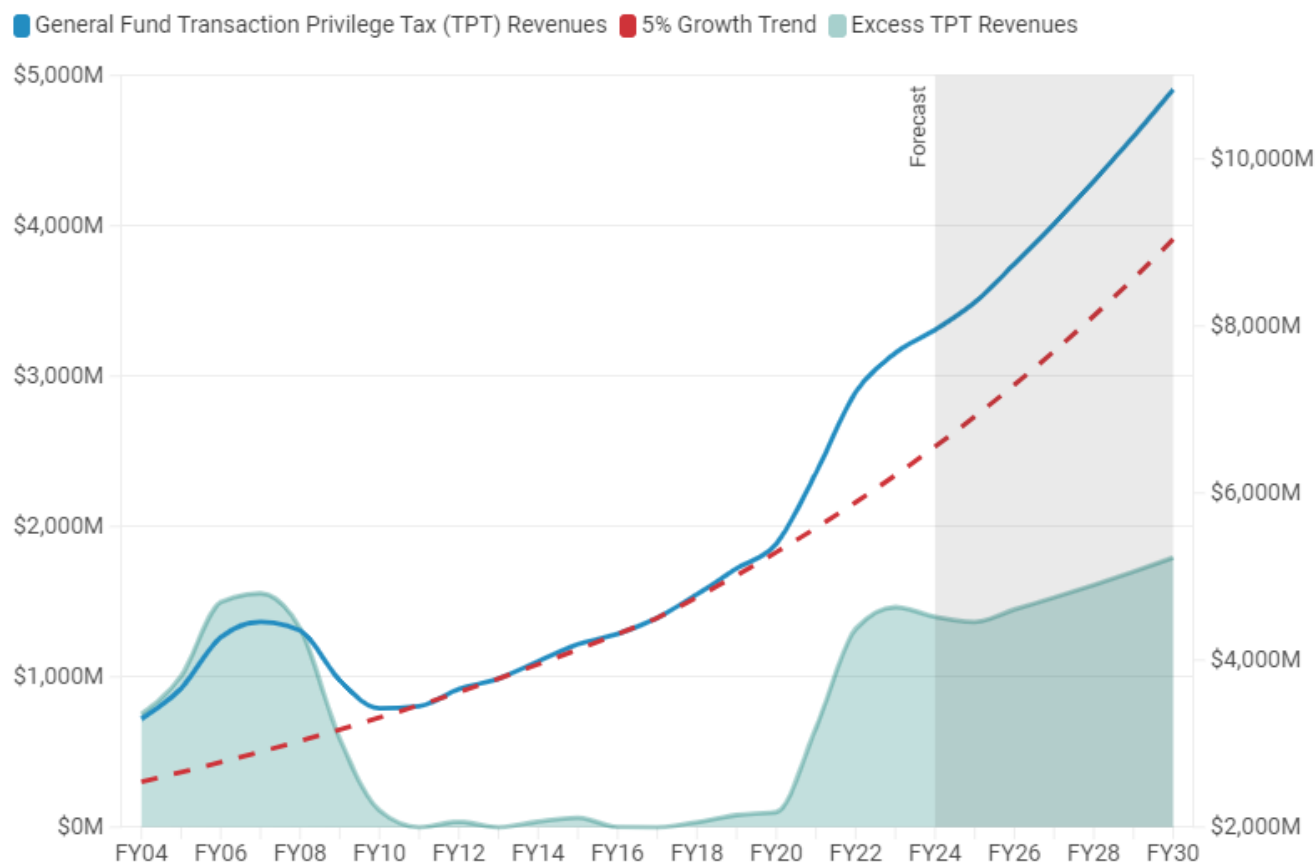
- **Revenue performance is expected to slow; CIT presents risks for Urban Revenue Sharing**
 - A return to more normal levels for CIT alone could mean a loss of \$200+ million in Urban Revenue Sharing (URS) distributions in future years.



The Arizona Economy

Transaction Privilege Tax Revenues

TPT revenues expected to remain strong even after blockbuster growth in FY21 and FY22.



TPT revenues are anticipated to remain strong through the current budget window.

- Even after record growth in FY21 and FY22, revenues are expected to remain above 5% growth trend.
- Increases in FY21 and FY22 strongly influenced by inflation – CSI estimates upwards of 3/4ths of the growth can be attributed to inflation.
- Revenues not anticipated to fall back to trend – instead the trend has likely shifted upwards.
- **Pending a recession or other significant economic disruption, state and local governments should expect predictable growth of 4%-6%.**



Questions?

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