

# ARIZONA ECONOMIC ENVIRONMENT

By examining various economic indicators, it appears that the economy is gradually improving in the United States as well as Arizona compared to the recessionary years.

- Improvement in real Gross Domestic Product (GDP), real personal income at the state and national levels, employment, industrial production, wholesale and retail sales has been observed;
- Employment gains in the private sector, increasing private domestic investment, slow rise in total industrial production and rate of capacity utilization, high levels of corporate profit, and a slow resurgence in private residential construction permits has been seen; and
- Gradual climb in household net worth as the decline in national home prices have slowed, a continued decline in the fraction of disposable income used for household debt payments, and continued growth in U.S. exports has also been observed.

Arizona's employment was one of the fastest growing in the nation prior to the recession that started at the end of 2007. For many years, Arizona consistently rated amongst the top 10; however the pattern ended in 2007. The structure of the Arizona economy, highly tied to the construction industry, made Arizona one of the hardest hit states by the economic and financial crises. Arizona's national ranking has significantly improved in the past year and it now ranks eighth in the nation. Arizona had dropped to 36 as of May 2011, after being in the top two from calendar year (CY) 2004 to CY 2006, second only to Nevada. For CY 2010, the state's national ranking had tumbled to 49 with Nevada at 50.

**Table 1: Percentage Change in Program Year Average Employment—Arizona**

Industry	PY 2007	PY 2008	PY 2009	PY 2010	PY 2011
<b>Total Nonfarm</b>	0.2%	-5.3%	-5.4%	0.0%	1.7%
<b>Manufacturing</b>	-2.8%	-8.3%	-8.7%	-0.4%	0.9%
<b>Natural Resources and Mining</b>	19.5%	1.1%	-15.1%	3.1%	4.4%
<b>Construction</b>	-10.9%	-25.3%	-25.9%	-4.5%	3.8%
<b>Trade, Transportation and Utilities</b>	1.2%	-5.7%	-5.4%	-0.3%	1.4%
<b>Leisure and Hospitality</b>	1.0%	-3.8%	-3.9%	1.3%	2.6%
<b>Education and Health Services</b>	4.8%	4.2%	3.1%	3.2%	2.8%
<b>Professional and Business Services</b>	-0.6%	-8.6%	-7.0%	0.7%	1.3%
<b>Financial Activities</b>	-3.1%	-4.9%	-3.7%	0.4%	1.2%
<b>Other Services</b>	2.7%	-3.0%	-7.2%	-1.7%	0.3%
<b>Government</b>	3.9%	0.1%	-2.3%	-2.1%	0.7%
<b>Information</b>	-1.4%	-4.4%	-6.6%	-1.8%	1.4%

Notes: Source: BLS Current Employment Statistics

1. Calculated from seasonally unadjusted data; and
2. PY 2011 includes May's preliminary estimate.

Looking at the performance for the Program Years (PYs) 2010 and 2011, Nonfarm employment was flat in 2010 and gained by 1.7 percent in 2011, after posting a loss of 5.4 percent in 2009 and 5.3 percent in 2008 **Table 1**. For PY 2011, all the major industrial sectors posted employment gains compared to PY 2010 where some sectors gained while others lost. Natural Resources and Mining 4.4 percent, Construction 3.8 percent, Education and Health services 2.8 percent and Leisure and Hospitality 2.6 percent were the sectors with most gains in PY 2011 when measured in terms of over the year percentage change.

Although Natural Resources and Mining and Construction sectors had the most over the year percentage gains, these two sectors have a smaller employment base as shown in **Table 2**. Construction lost over half its workforce during the recession resulting in a smaller base employment. As shown in **Table 2**, Arizona's large industrial sectors in descending order of magnitude as of PY 2011 are Trade, Transportation and Utilities, Government, Educational and Health Services, Professional and Business Services and Leisure and Hospitality.

**Table 2: Average Program Year Employment (in thousands)—Arizona**

Industry	PY 2007	PY 2008	PY 2009	PY 2010	PY2011
<b>Total Nonfarm</b>	2667.5	2525.2	2389.9	2389.6	2429.0
<b>Manufacturing</b>	178.4	163.6	149.5	148.9	150.2
<b>Natural Resources and Mining</b>	12.6	12.8	10.8	11.2	11.7
<b>Construction</b>	209.1	156.2	115.8	110.6	114.8
<b>Trade, Transportation and Utilities</b>	527.4	497.3	470.4	469.1	475.8
<b>Leisure and Hospitality</b>	273.4	263.1	253.0	256.4	263.1
<b>Education and Health Services</b>	315.9	329.3	339.4	350.1	359.8
<b>Professional and Business Services</b>	400.1	365.8	339.8	342.3	346.9
<b>Financial Activities</b>	179.5	170.7	164.4	165.1	167.0
<b>Other Services</b>	100.4	97.3	90.1	88.6	88.9
<b>Government</b>	429.3	429.7	419.9	411.2	414.1
<b>Information</b>	41.4	39.6	36.9	36.3	36.8

The Arizona Department of Administration (ADOA)/Office of Employment and Population Statistics (EPS) released a forecast of Arizona's Nonfarm employment on May 4, 2012 as depicted in **Table 3** below.

**Table 3: Forecasted Total Nonfarm Employment, Growth Rate**

	2011 (a)	2012 (b)	2013 (b)
<b>Arizona</b>	1.0%	2.0%	2.3%
<b>Phoenix Metropolitan Statistical Area (MSA)<sup>(1)</sup></b>	1.4%	2.3%	2.5%
<b>Tucson Metropolitan Statistical Area (MSA)<sup>(2)</sup></b>	0.1%	0.9%	1.4%
<b>Balance of State<sup>(3)</sup></b>	-0.3%	1.3%	1.8%

Notes:

1) Maricopa and Pinal counties

2) Pima County

3) Arizona less Maricopa, Pinal, and Pima counties

a) Historical

b) Forecast

ADOA/EPS is forecasting a gain of 102,900 Nonfarm jobs, representing a growth rate of 4.3 percent, over the two projected years of 2012 and 2013. An over-the-year gain of 47,100 jobs is projected in 2012 and 55,800 jobs in 2013.

**Table 3** shows the average annual growth rate in Total Nonfarm employment for Arizona, Phoenix Metropolitan Statistical Area (MSA), Tucson MSA, and Balance of State. In 2012, all regions are forecast to have positive annual over-the-year growth rates in Nonfarm employment. Arizona is forecast to grow at 2.0 percent in 2012. Phoenix is expected to grow faster than the state at 2.3 percent. However, the projected growth rates for Tucson 0.9 percent and the Balance of State 1.3 percent are slower than the statewide and Phoenix MSA rates. The expected Nonfarm job gains in 2012 for the Phoenix MSA are 39,300 jobs, for Tucson MSA are 3,200 jobs, and for Balance of State are 4,600 jobs.

Growth rates in 2013 are expected to be higher than 2012 across all regions. Phoenix is forecast to continue growing at a faster pace 2.5 percent than Tucson 1.4 percent, Balance of State 1.8 percent, and the state overall 2.3 percent. For 2013 the job gains forecast for Phoenix MSA are 44,400 jobs, Tucson MSA 5,200 jobs, and Balance of State 6,300 jobs.

In Arizona, job losses continued late into 2010 past the official end of the U.S. recession in June 2009 as declared by National Bureau of Economic Research (NBER). Net positive over-the-year gain started only since January 2011. The overall employment situation in Arizona is improving and expected to be better than the past two years. However, the rate of growth in Nonfarm employment is lower than what was observed prior to the recession 1997-2006 average of 3.2 percent. Although population growth in Arizona is positive 0.6 percent in 2011, the rate of growth is lower than historically observed 2.8 percent, 2001-2007. The current housing situation limits the ability of home owners to sell their properties and relocate to Arizona. However, an initial increase in home prices in Arizona and some other states is a positive sign.

Although there are positive signs of economic improvement, there are some domestic factors that could dampen the growth of the local economy. Arizona continues to face a slower population growth, high levels of unemployment, large debt loads, reduced income and wealth, weak housing and commercial real estate markets, rising health care costs and ongoing budget challenges in state and local governments. In addition there is uncertainty on the international front. However, the positive factors listed outweigh the uncertainties in support of the forecast. As the economy improves and additional employment is created, consumers are expected to spend more as their incomes rise. Increased spending would further cause a multiplier effect generating additional output, employment, income, and government tax revenue.

The state's seasonally adjusted unemployment rate was 10.6 percent in May 2010, and had dropped to 9.6 percent in May 2011 and further dropped to 8.2 percent in May 2012, as shown in **Table 4** below. The U.S. unemployment rate has also declined from 9.6 percent in May 2010 to 9.0 percent in May 2011 and 8.2 percent in May 2012. The state has the same unemployment rate as the nation as of May 2012.

**Table 4: Unemployment Rate (Seasonally Adjusted) -End of Program Years(s)**

Industry	PY 2007	PY 2008	PY 2009
United States	9.6%	9.0%	8.2%
Arizona	10.6%	9.6%	8.3%
Phoenix – Mesa – Glendale	9.9%	8.7%	7.4%
Tucson Metro	9.6%	8.6%	7.5%
Flagstaff Metro	10.2%	9.3%	8.1%
Lake Havasu City – Kingman – Metro	12.1%	11.2%	9.7%
Prescott Metro	11.1%	10.2%	8.7%
Yuma Metro	26.6%	27.2%	27.6%

(1) May 2012 data are preliminary.

**Table 5** shows that the number of claimants receiving unemployment benefits in Arizona steadily increased in tandem with the negative trajectory of the employment environment, but has started a declining trend since 2010. From PY 2007 to PY 2008, the number of claimants increased by 99.6 percent, and from PY 2008 to PY 2009 the number of claimants was up 33.2 percent. However, from PY 2009 to PY 2010, the number of claimants decreased by 28.0 percent. Nonetheless, the average duration jumped from its level of 14.6 weeks in PY 2006 to its highest level of 19.3 weeks in PY 2010. For PYs 2007, 2008, and 2009 average duration stood at 15.0, 15.3, and 18.6 weeks, respectively. The number of persons receiving unemployment benefits on average increased with the onset of recession. It was 37,219 in PY 2007; 74,292 in PY 2008; and 98,990 in PY 2009. However, the number of persons receiving unemployment benefits started declining as the economy started slowly improving and was 71,313 in PY 2010 and 60,300 in PY 2011.

**Table 5: Claimants Receiving Unemployment Benefits - Arizona**

Metric	PY 2007	PY 2008	PY 2009	PY 2010	PY2011
Average Number of Claimants	37,219	74,292	98,990	71,313	60,300
Average Number Of Weeks	15.0	15.3	18.6	19.3	17.6
% Over the Year Change	37.7%	99.6%	33.2%	-28.0%	-15.4%

Notes: PY includes July 1 through June 30th of a given year. Source: AZ Department of Economic Security.

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