

ARIZONA ECONOMIC ENVIRONMENT

The Arizona Department of Administration (ADOA), Office of Employment and Populations Statistics (EPS) produces demographic, labor force and economic information for Arizona and submitted the following summary of economic highlights for Program Year (PY) 2014.

Economic Overview:

The Arizona economy has recorded moderate and steady employment growth since the end of the Great Recession. This trend continued through PY 2014 as average annual seasonally unadjusted total Nonfarm employment increased by 54,400 jobs or 2.1 percent from PY 2013 to PY 2014 and the seasonally adjusted unemployment rate decreased from 6.8 percent in June 2014 to 5.9 percent in June 2015. This marks three consecutive program years of total Nonfarm employment growth at or above 2.0 percent. Arizona total Nonfarm employment is projected to record over-the-year job gains through the remainder of Calendar Year (CY) 2015 (56,600 jobs, or 2.2 percent) as well as CY 2016 (63,100 jobs, or 2.4 percent).¹

Other economic indicators related to the labor market also indicated positive trends through PY 2014, consistent with a growing economy. Indicators of income and output, such as real gross state product, real personal income, United States (U.S.) corporate profits after taxes and industrial production have improved since the end of PY 2013, at both the state and national levels.² Indicators of business and consumer spending are also showing expansion; real personal consumption expenditures, real retail and food services sales, real net domestic investment, and real net private domestic investment.³

National, state and local housing sectors continue to slowly improve with gradually rising levels of building construction permits and starts along with housing prices. Both single-family and multi-family housing markets continue to improve. Prices in single-family residential markets are rising as demand increases at a faster rate than the increase in supply of homes for sale. The supply of homes available for sale is being limited by the number of existing homes dedicated to the rental market where vacancy rates are low.⁴

¹See Employment and Population Statistics (EPS) Office. Modest Nonfarm Employment Growth in 2015; Mild Acceleration in 2016. February 26, 2015. Arizona Department of Administration (ADOA). At the website: <https://laborstats.az.gov/sites/default/files/documents/files/ifor-02-2014to2016-report.pdf>.

² See FRED graphs and data for the variables: real total gross domestic product for Arizona, annual, not seasonally adjusted (AZRGSP); real gross domestic product, annual, not seasonally adjusted (GDPMCA1); real personal income, billions of chained 2009 dollars, monthly, seasonally adjusted annual rate (RPI); total personal income in Arizona, quarterly, seasonally adjusted annual rate (AZTOT); personal income, seasonally adjusted annual rate (PINCOME); real disposable personal income, quarterly, seasonally adjusted annual rate (DPIC96); corporate profits after tax (without IVA and CCAdj), billions of dollars, quarterly, seasonally adjusted annual rate (CP); and industrial production: total index, index 2007=100, quarterly, not seasonally adjusted (IPB50001NQ) at the website <http://research.stlouisfed.org/fred2/>.

³ See FRED graphs and data for the variables: real personal consumption expenditures, billions of chained 2009 dollars, quarterly, seasonally adjusted annual rate (PCECC96); real retail and food services sales, millions of dollars, monthly, seasonally adjusted (RRSFS); real net domestic investment, billions of chained 2009 dollars, annual, not seasonally adjusted (W171RX1A020NBEA); real net private domestic investment, billions of chained 2009 dollars, annual, not seasonally adjusted (A557RX1A020NBEA) at the website <http://research.stlouisfed.org/fred2/>.

⁴ (a) See FRED graphs and data for the variables: all-transactions house price index for the United States, index 1980:Q1=100, quarterly, not seasonally adjusted (USSTHPI); all-transactions house price index for Arizona, index

Factors in the current national and state economies with the potential to reduce the rate of economic expansion begin with weak wage growth and falling real, median household income. Weakness in the growth of wages and real household incomes is a concern when the total level of outstanding consumer credit continues to increase. While revolving consumer credit levels are currently increasing very slowly, non-revolving consumer credit is expanding at a faster pace and, therefore, causing an expansion in the overall level of consumer credit. The continued growth in student debt is driving the increase in non-revolving consumer credit.⁵ The growth in the exports of goods and services to overseas markets is slowing because of the rise in the value of the U.S. dollar relative to the currencies of major international trading partners. If the Federal Reserve increases the interest rate charged to member financial institutions, then interest rates in the overall economy will, most likely, have the tendency to rise and dampen the already slow rate of the expansion of economic activity.⁶

1980:Q1=100, quarterly, not seasonally adjusted (AZSTHPI); all-transactions house price index for Phoenix-Mesa-Glendale, AZ (MSA), index 1995:Q1=100, quarterly, not seasonally adjusted (ATNHPIUS38060Q); all-transactions house price index for Tucson, AZ (MSA), Index 1995:Q1=100, quarterly, not seasonally adjusted (ATNHPIUS46060Q); new private housing units authorized by building permits, thousands of units, monthly, seasonally adjusted annual rate (PERMIT); new privately-owned housing units authorized by building permits: 1-unit structures, thousands of units, monthly, not seasonally adjusted (PERMIT1NSA); new private housing units authorized by building permit for Arizona, units, monthly, not seasonally adjusted (AZBPPRIV); privately owned housing starts authorized by building permits: 1-unit structures for Arizona, units, monthly, not seasonally adjusted (AZBP1FH); new private housing units authorized by building permit for Phoenix-Mesa-Scottsdale, AZ (MSA), units, monthly, not seasonally adjusted (PHOE004BPPRIV); privately owned housing starts authorized by building permits: 1-Unit structures for Phoenix-Mesa-Scottsdale, AZ (MSA), units, monthly, not seasonally adjusted (PHOE004BP1FH); new private housing units authorized by building permit for Tucson, AZ (MSA), units, monthly, not seasonally adjusted (TUCS004BPPRIV); and privately owned housing starts authorized by building permits: 1-unit structures for Tucson, AZ (MSA), units, monthly, not seasonally adjusted (TUCS004BP1FH) at the website <http://research.stlouisfed.org/fred2/>.

(b) Wells Fargo Economics Group. Special Commentary. Housing Chartbook: June 2015: Housing Activity Ramps Up. Mark Vitner. Anika R. Kahn. Alex V. Moehring. June 1, 2015. At the website www.wellsfargo.com/com/research/economics.

(c) Wells Fargo Economics Group. Special Commentary. Housing Data Wrap-Up: June 2015. Mark Vitner. Anika R. Kahn. June 30, 2015. At the website www.wellsfargo.com/com/research/economics.

⁵See FRED graphs and data for the variables: average weekly earnings of all employees: total private in Arizona, dollars per week, monthly, not seasonally adjusted (SMU04000000500000011); average weekly earnings of all employees: total private, dollars per week, monthly, not seasonally adjusted (CEU0500000011); real median household income in the United States, 2013 CPI-U-RS adjusted dollars, annual, not seasonally adjusted (MEHOINUSA672N); real median household income in Arizona, 2013 CPI-U-RS adjusted dollars, annual, not seasonally adjusted (MEHOINUSAZA672N); total consumer credit owned and securitized, outstanding, billions of dollars, quarterly, not seasonally adjusted (TOTALNS); total revolving credit owned and securitized, outstanding, billions of dollars, quarterly, not seasonally adjusted (REVOLNS); total nonrevolving credit owned and securitized, outstanding, billions of dollars, quarterly, not seasonally adjusted (NONREVN); and student loans owned and securitized, outstanding, billions of dollars, quarterly, not seasonally adjusted (SLOAS) at the website <http://research.stlouisfed.org/fred2/>.

⁶ (a) Wells Fargo Economics Group. Monthly Outlook. July 8, 2015. At the website www.wellsfargo.com/com/research/economics.

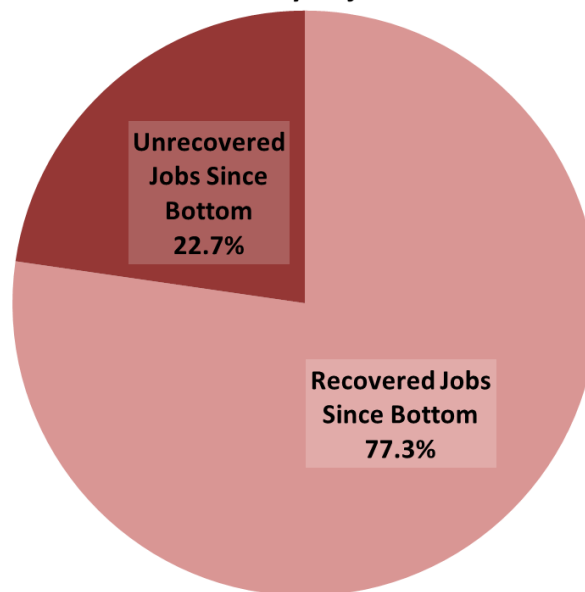
(b) IHS Economics. US Executive Summary. US Economic Growth Reverts to Its Underlying 2.5-3.0% Rate. N Behraves. S. Johnson. P. Newport. July 2015. At the website <http://connect.ihs.com>.

Recession Recovery Update:

Seasonally adjusted employment data from the Current Employment Statistics (CES) program is used in this section to understand employment dynamics through the Great Recession. Seasonal adjustment is a statistical technique used to eliminate the influence of fluctuations caused by seasonal events.⁷

Although Arizona has lagged behind the U.S. when comparing the replacement of jobs lost during the recession, significant employment gains for the state were recorded in PY 2014. According to seasonally adjusted data for June 2015, Arizona has recovered 77.3 percent of Nonfarm jobs lost as measured from peak employment level (October 2007) to trough employment level (September 2010; See Figure 1). At this same time last year, Arizona had only recovered 60.7 percent of Nonfarm jobs lost (See Figure 1). In contrast, as of June 2015, the U.S. has recovered 139.9 percent of Nonfarm jobs lost from peak employment level (January 2008) to trough employment level (February 2010). The employment peak and trough occurred at different time frames in the U.S. and Arizona. According to the most recent short-term industry employment projections, based on seasonally unadjusted data and released by EPS, the total Nonfarm employment in Arizona is not forecast to be greater than the pre-recession peak level of October 2007 during the 2015 to 2016 calendar year time frame.⁸ Total Nonfarm employment in Arizona is forecast to reach 2,687,900 jobs in 2016, or 99 percent of the pre-recession peak.

Figure 1 Arizona Total Nonfarm Employment Replacement Rate
Seasonally Adjusted



Source: Produced by the Arizona Office of Employment and Population Statistics in cooperation with the U.S. Dept. Of Labor, Bureau of Labor Statistics

⁷ For more information on the CES program, see www.bls.gov/sae/.

⁸ See Employment and Population Statistics (EPS) Office. Modest Nonfarm Employment Growth in 2015; Mild Acceleration in 2016. February 26, 2015. Arizona Department of Administration (ADOA). At the website: <https://laborstats.az.gov/sites/default/files/documents/files/ifor-02-2014to2016-report.pdf>.

Employment Review:

Table 1, shown below, lists annual percentage changes for total Nonfarm employment and employment grouped by North American Industry Classification System (NAICS) Supersectors. After posting a loss of 5.3 percent in PY 2009, Nonfarm employment was flat in PY 2010, and then increased by 1.7 percent in PY 2011 and 2.3 percent in PY 2012. PY 2013's growth rate was revised upward after benchmarking, to 2.2 percent from 1.9 percent; an indication that employment growth through PY 2013 was initially underestimated. Employment growth in PY 2014, while still above 2.0 percent, declined slightly from PY 2013 average growth to 2.1 percent. All Supersectors, excluding Natural Resources and Mining, posted employment gains in PY 2014. When PY 2014 over-the-year rates of growth across Supersectors are compared, Other Services leads the gains at 5.1 percent, followed by Leisure and Hospitality at 3.5 percent.

Other Supersectors reporting gains include: Education and Health Services (3.3 percent); Professional and Business Services (3.1 percent); Trade, Transportation, and Utilities (2.0 percent); Financial Activities (2.0 percent); Information (1.7 percent); Construction (0.4 percent); Government (0.3 percent); and Manufacturing (0.1 percent).

Industry	PY 2009	PY 2010	PY 2011	PY 2012	PY 2013	PY 2014
Total Nonfarm	-5.3%	0.0%	1.7%	2.3%	2.2%	2.1%
Manufacturing	-8.6%	-0.3%	2.7%	1.7%	0.4%	0.1%
Natural Resources and Mining	-15.1%	3.1%	8.2%	8.1%	0.7%	-1.3%
Construction	-25.9%	-4.5%	1.9%	6.7%	4.8%	0.4%
Trade, Transportation and Utilities	-5.4%	-0.3%	1.3%	0.4%	2.2%	2.0%
Leisure and Hospitality	-3.8%	1.4%	2.7%	2.8%	4.0%	3.5%
Education and Health Services	3.0%	3.2%	3.3%	2.2%	1.7%	3.3%
Professional and Business Services	-7.0%	0.9%	2.3%	4.4%	3.2%	3.1%
Financial Activities	-3.4%	0.7%	2.8%	3.7%	3.9%	2.0%
Other Services	-7.4%	-1.9%	-2.2%	0.3%	0.5%	5.1%
Government	-2.3%	-2.1%	-0.7%	0.6%	-0.3%	0.3%
Information	-6.7%	-1.7%	5.7%	6.3%	4.2%	1.7%

Source: Bureau of Labor Statistics (BLS) Current Employment Statistics

Notes: Calculated from seasonally unadjusted data; and PY 2014 estimates are preliminary

Table 2 shows annual employment levels for each industry Supersector. Employment levels in PY 2014, listed in descending order, are Trade Transportation and Utilities, Government, Professional and Business Services, Education and Health Services, Leisure and Hospitality, Financial Activities, Manufacturing, Construction, Other Services, Information, and Natural Resources and Mining.

Table 2: Program Year (PY) Average Employment by Industry in Arizona (in thousands)						
Industry	PY 2009	PY 2010	PY 2011	PY 2012	PY 2013	PY 2014
Total Nonfarm	2,393.7	2,394.0	2,435.6	2,491.0	2,544.9	2,599.3
Manufacturing	149.5	149.0	153.0	155.5	156.1	156.2
Natural Resources and Mining	10.8	11.2	12.1	13.1	13.2	13.0
Construction	115.8	110.6	112.6	120.2	125.9	126.4
Trade, Transportation and Utilities	470.4	468.9	475.1	477.1	487.7	497.3
Leisure and Hospitality	253.0	256.4	263.3	270.6	281.4	291.3
Education and Health Services	339.1	350.0	361.6	369.6	376.0	388.5
Professional and Business Services	340.3	343.3	351.1	366.6	378.3	390.0
Financial Activities	168.0	169.1	174.0	180.4	187.5	191.2
Other Services	90.1	88.4	86.5	86.7	87.2	91.6
Government	419.9	410.9	408.0	410.4	409.1	410.5
Information	36.9	36.3	38.4	40.8	42.5	43.2

In February 2015, EPS forecast a statewide gain of 119,700 Nonfarm jobs over the two-year (CY 2015-2016) projection period. An over-the-year gain of 56,600 Nonfarm jobs is projected for CY 2015, with a subsequent forecasted gain of 63,100 jobs for CY 2016. The rate of growth projected for Nonfarm employment in Arizona is 2.2 percent in CY 2015 and 2.4 percent in CY 2016. The average annual growth rates in total Nonfarm employment for Arizona, Phoenix Metropolitan Statistical Area (MSA), Tucson MSA, and Balance of State are shown in Tables 3a and 3b.

Table 3a: Forecasted Growth Rate in Arizona Nonfarm Employment⁹				
	CY 2013^(*)	CY 2014^(*)	CY 2015^(**)	CY 2016^(**)
Arizona	2.1%	2.1%	2.2%	2.4%
Phoenix-Mesa-Scottsdale MSA¹⁰	2.8%	2.4%	2.5%	2.6%
Tucson MSA¹¹	0.7%	1.4%	1.6%	1.8%
Balance of State¹²	0.2%	1.4%	1.6%	1.9%

⁹ Industry Employment Forecast based on pre-benchmarked data for 2014

¹⁰ Maricopa and Pinal Counties

¹¹ Pima County

¹² Arizona less Maricopa, Pinal, and Pima Counties

*Denotes historical data

**Denotes projected values

Table 3b: Forecasted Employment Change in Arizona Nonfarm Employment⁹				
	CY 2013^(*)	CY 2014^(*)	CY 2015^(**)	CY 2016^(**)
Arizona	--	--	56,600	63,100
Phoenix-Mesa-Scottsdale MSA¹⁰	--	--	45,500	49,900
Tucson MSA¹¹	--	--	5,700	6,600
Balance of State¹²	--	--	5,400	6,600

In CY 2015, all sub-state metropolitan statistical area (MSA) regions are projected to record positive Nonfarm employment annual growth rates. Phoenix-Mesa-Scottsdale MSA is projected to outpace total state employment growth in CY 2015, with a growth rate of 2.5 percent. However, the projected growth rates for Tucson (1.6 percent) and the Balance of State (1.6 percent) are slower than the statewide and Phoenix-Mesa-Scottsdale MSA rates. The expected Nonfarm job gains in CY 2015 are: 45,500 jobs for the Phoenix-Mesa-Scottsdale MSA, 5,700 jobs for the Tucson MSA, and 5,400 jobs for the Balance of State.

Growth rates in CY 2016 are expected to be higher than CY 2015 in all regions. Phoenix-Mesa-Scottsdale MSA is forecasted to continue growing at a faster pace (2.6 percent) than Tucson MSA (1.8 percent), the Balance of State (1.9 percent), and the State overall (2.4 percent). For CY 2016, the job gains forecasted for are: 49,900 jobs for Phoenix-Mesa-Scottsdale MSA, 6,600 jobs for Tucson MSA, and 6,600 jobs for the Balance of State.¹³

In Arizona, employment losses continued late into CY 2010, past the official end of the national recession in June 2009 as declared by the National Bureau of Economic Research (NBER).¹⁴ Net-positive, over-the-year gains started in January 2011, and gradually, the overall employment situation in Arizona is continuing to improve. Despite the growth in Arizona Nonfarm employment for CY 2015 and CY 2016 forecasted to be higher than any year since the end of the recession (CY 2010-2014), it still falls short of pre-recession (1997-2006) average growth of 3.4 percent.

Unemployment Trends:

The state's seasonally adjusted unemployment rate was 8.4 percent in June 2012 and has continually dropped through June 2015, as shown in Table 4. The continued decline in the unemployment rate is an indication of an improving Arizona employment outlook. The U.S. unemployment rate has also continued to decline from 8.2 percent in June 2012 to 5.3 percent in June 2015. Despite similar direction in trend, the state unemployment rate still remains higher than the national rate.

The number of claimants receiving unemployment benefits in Arizona has been declining since PY 2010, as shown in Table 5 below. The average number of claimants per month has fallen by at least 12.0% for each program year following 2009.

¹³ See Employment and Population Statistics (EPS) Office. Modest Nonfarm Employment Growth in 2015; Mild Acceleration in 2016. February 26, 2015. Arizona Department of Administration (ADOA). At the website: <https://laborstats.az.gov/sites/default/files/documents/files/ifor-02-2014to2016-report.pdf>.

¹⁴ For NBER recession dates, please see the following website: <http://www.nber.org/cycles/cyclesmain.html>.

The average duration, after reaching a peak of 19.2 weeks in PY 2010, has also been declining through PY 2014. The number of persons receiving unemployment benefits began declining as the economy started recovering from the recession, and went from a peak of 98,990 claimants in PY 2009 to 34,163 in PY 2014. The average duration stands at 16.0 weeks for PY 2014, slightly below the PY 2013 average of 16.1 weeks.

Table 4: Unemployment Rate (Seasonally Adjusted) - End of Program Years				
	June-12	June -13	June -14	June -15¹⁵
United States	8.2%	7.5%	6.1%	5.3%
Arizona	8.4%	7.4%	6.8%	5.9%
Phoenix - Mesa – Scottsdale MSA¹⁶	7.6%	6.8%	6.0%	5.1%
Tucson MSA¹⁷	7.6%	6.9%	6.2%	5.6%
Flagstaff MSA¹⁸	8.8%	8.1%	7.2%	6.4%
Lake Havasu City - Kingman –MSA¹⁹	11.3%	10.6%	8.8%	8.0%
Prescott MSA²⁰	8.9%	7.9%	6.3%	5.4%
Sierra Vista-Douglas MSA²¹	9.1%	9.0%	8.5%	7.2%
Yuma MSA²²	23.9%	25.6%	23.4%	21.8%

Table 5: Claimants Receiving Unemployment Benefits in Arizona						
	PY 2009	PY 2010	PY 2011	PY 2012	PY 2013	PY 2014
Average Number of Claimants per Month	98,990	71,313	60,300	44,236	38,821	34,163
Average Number of Weeks (Duration)	18.6	19.2	17.6	17.0	16.1	16.0
Percentage Over-the-Year Change	99.6%	-28.0%	-15.4%	-26.6%	-12.2%	-12.0%

Note: Program years begin on July 1 of the given year and end on June 30 of the following year.

Source: Arizona Department of Economic Security

¹⁵ Preliminary data; subject to revision

¹⁶ Maricopa and Pinal Counties

¹⁷ Pima County

¹⁸ Coconino County

¹⁹ Mohave County

²⁰ Yavapai County

²¹ Cochise County

²² Yuma County