



Spring 2024

ECONOMIC BRIEFING AND MARKET UPDATE

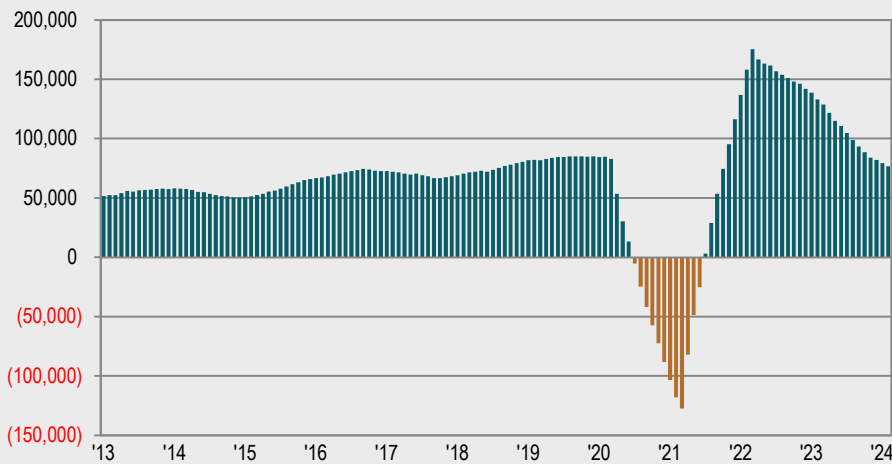
In August 2022, Phoenix had the nation’s highest inflation rate among Metropolitan Statistical Areas (MSAs) at 13.0 percent; however, it has since achieved one of the lowest rates among observed metros (2.2 percent as of February 2024). Similarly, the national inflation rate reached a 40-plus year high of 9.1 percent in June 2022 but gradually declined; most recently, it was recorded at 3.2 percent (February 2024). To be clear, this is not to suggest that prices for goods and services have retreated; rather, prices are increasing at a slower rate. Over the last two years, efforts to tame inflation have led to increased interest rates, which have impacted various markets, industries and communities across the nation.

Amidst efforts to combat inflation, the Federal Reserve implemented a series of interest rate hikes beginning in March 2022, when inflation stood at 8.5 percent. The first hike raised effective rates to 0.3 percent; the eleventh and final hike in July

2023 brought rates to 5.3 percent, coinciding with cooling inflation. While the Federal Reserve opted to leave interest rates unchanged at the most recent March meeting, officials still project three rate cuts during the year. According to the latest Wall Street Journal

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ARIZONA EMPLOYMENT GROWTH
TRAILING 12-MONTH AVERAGES



**ARIZONA
EMPLOYMENT
GROWTH**
FEBRUARY 2024
(TRAILING 12-MONTH AVERAGE
YEAR-OVER-YEAR GROWTH)

+76,558

▲ 0.2%
vs. previous period

▲ 2.4%
vs. previous year

EMPLOYMENT

INDICATOR SERIES

	MOST RECENT DATA AVAILABLE	INDICATOR VALUES			GROWTH RATES	
		CURRENT PERIOD	PREVIOUS PERIOD	SAME PERIOD PREV. YEAR	VS. PREV. PERIOD	VS. SAME PERIOD PREV. YR.
Trade, Transportation and Utilities	Feb-24	624,500	626,600	609,500	-0.3% ▼	2.5% ▲
Education and Health Services	Feb-24	541,300	538,300	506,500	0.6% ▲	6.9% ▲
Professional and Business Services	Feb-24	472,200	468,400	472,200	0.8% ▲	0.0% ●
Government	Feb-24	442,500	435,400	429,700	1.6% ▲	3.0% ▲
Leisure and Hospitality	Feb-24	350,800	347,500	352,900	0.9% ▲	-0.6% ▼
Financial Activities	Feb-24	241,900	240,900	243,000	0.4% ▲	-0.5% ▼
Construction	Feb-24	213,800	214,400	205,300	-0.3% ▼	4.1% ▲
Manufacturing	Feb-24	193,100	193,200	194,500	-0.1% ▼	-0.7% ▼
Other Services	Feb-24	103,400	102,100	101,500	1.3% ▲	1.9% ▲
Information	Feb-24	48,900	49,400	52,600	-1.0% ▼	-7.0% ▼
Mining and Logging	Feb-24	14,800	14,700	13,600	0.7% ▲	8.8% ▲

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Economic Forecasting Survey, 31.4 percent of economists foresee the first rate cut occurring at the next meeting in April, with an additional third predicting it will happen in June.

Consumers have widely felt the impacts of inflation. National personal consumption expenditures rose 6.0 percent in 2023, marking three consecutive years of growth. These inflationary pressures and overall spending levels have increased reliance on credit and decreased savings. Credit card interest rates rose to a record 21.2 percent, up by 4.9 percentage points since the previous year, while credit card balances peaked at \$864.3 billion in Q3 2023.

Arizona also experienced a spending surge. Consumer expenditures rose by 10.3 percent in 2022 (latest available). Compared to the national average, living in the Phoenix metro area was 4.3 percent higher overall, and housing was 23.8 percent more expensive in 2022. However, this gap has narrowed over the last year as market conditions have changed. Notably, in 2023, the overall cost of living in the area was only 1.9 percent more expensive than the national average, with the cost of housing 15.8 percent above the baseline. The effects of moderating price pressures are being felt statewide. For example, Scottsdale, Arizona, experienced one of the top five annual rent decreases (14.0 percent) across cities in the United States in February 2024.

Big businesses have managed to avoid the effects of higher interest rates. In Q4 2023, corporate net interest payments (debt payments, less income from interest-bearing investments) nationwide reached their lowest level in over 45 years (\$80.6 billion). However, smaller companies have faced challenges. A Federal Reserve of Minneapolis survey found that 63.0 percent of businesses were negatively impacted by rate hikes, with 38.0 percent citing it as the top challenge to current operating productivity. Another Goldman Sachs survey found that 77.0 percent of businesses were concerned about the ability to access capital and only one-third felt they could afford taking out a loan. Regardless, small business owners are becoming increasingly

confident about the future, with three-quarters maintaining optimism about their 2024 financial trajectory, up from prior year sentiments.

Higher interest rates have also impacted demand and prices for commercial real estate. In the Phoenix metro area, demand for office space lags the national average. Despite weak absorption and higher vacancy rates, the average rental rate in the region is higher than the nationwide average. Conversely, demand for retail and industrial space in the Phoenix metro area exceeded national averages, which has led to accelerated rent price growth; still, higher vacancy rates exist for these sectors.

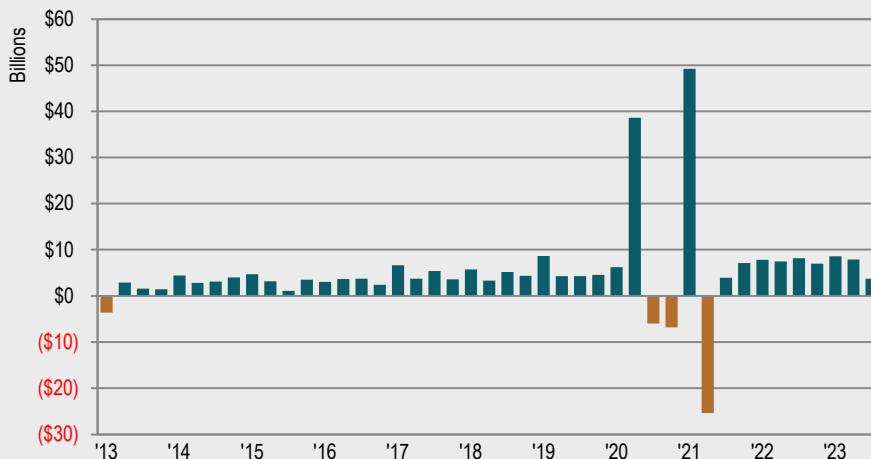
The startup industry has also been impacted, as new businesses are perceived as riskier investments during high-interest rate periods. Nationally, data from Pitchbook shows startup capital investments declined by more than half over the last two years, from \$348.0 billion in 2021 to \$170.6 billion in 2023. Decreases span various industries, including information technology, healthcare, financial services and energy. Only 564 startup transactions were made in Arizona in 2023, the lowest annual total since 2014. Capital invested in Arizona startups dropped by 49.7 percent in 2023 to \$23.5 billion, reaching the lowest point since 2018. However, the generative artificial intelligence (AI) industry witnessed significant investment growth nationwide, with total AI deal values soaring to \$25.4 billion in 2023, a ninefold increase since 2019. OpenAI secured the largest venture capital deal (\$10.0 billion) among generative AI startups in 2023, which will likely benefit Arizona State University's partnership with OpenAI to enhance ChatGPT and the broader AI industry.

The last several years have been challenging as the impacts of inflation have been felt across multiple sectors of the economy. While these headwinds are likely to persist for a time, increasing optimism about the economy's future coupled with dampening inflation and a stabilized interest rate environment are encouraging signs.

ECONOMIC INDICATOR SERIES

	MOST RECENT DATA AVAILABLE	INDICATOR VALUES			GROWTH RATES	
		CURRENT PERIOD	PREVIOUS PERIOD	SAME PERIOD PREV. YEAR	VS. PREV. PERIOD	VS. SAME PERIOD PREV. YR.
POPULATION METRICS						
Population	2023	7,431,344	N/A	7,365,684	N/A	0.9% ▲
EMPLOYMENT METRICS						
Employment	Feb-24	3,247,200	3,230,900	3,181,300	0.5% ▲	2.1% ▲
Unemployment Rate	Jan-24	3.8%	3.8%	3.6%	0.0% ●	0.2% ▲
Average Weekly Hours Worked	Feb-24	35.0	35.0	35.0	0.0% ●	0.0% ●
INCOME AND SPENDING METRICS						
Personal Income (Annualized)	Q3 '23	\$461.4 B	\$457.7 B	\$434.3 B	0.8% ▲	6.2% ▲
Average Weekly Wages	Feb-24	\$1,141	\$1,136	\$1,101	0.4% ▲	3.6% ▲
Transaction Privilege Tax Sales	Jan-24	\$16.4 B	\$19.7 B	\$16.2 B	-16.6% ▼	1.1% ▲
National Inflation (CPI Index)	Feb-24	3.2%	3.1%	6.0%	0.1% ▲	-2.9% ▼
Phoenix MSA Inflation (CPI Index)	Feb-24	2.2%	2.7%	8.5%	-0.5% ▼	-6.3% ▼
HOUSING METRICS						
Housing Price Index (Q1 1991 = 100)	Q4 '23	566.5	558.6	531.7	1.4% ▲	6.5% ▲
Residential Units Permitted	Feb-24	4,977	5,576	4,600	-10.7% ▼	8.2% ▲
Homeowner Vacancy Rate	Q4 '23	0.4%	0.8%	1.5%	-0.4% ▼	-1.1% ▼
Rental Vacancy Rate	Q4 '23	6.7%	9.8%	6.7%	-3.1% ▼	0.0% ●
30-Year Fixed Mortgage Rate	Feb-24	6.9%	6.7%	6.3%	0.3% ▲	0.7% ▲
AGRICULTURAL METRICS						
Proprietors' Farm Income (Annualized)	Q3 '23	\$168.5 M	\$270.4 M	\$312.5 M	-37.7% ▼	-46.1% ▼
Agriculture, Forestry, Fishing and Hunting GDP (Annualized)	Q3 '23	\$2.4 B	\$2.5 B	\$2.5 B	-6.4% ▼	-6.6% ▼
TRAVEL METRICS						
Sky Harbor Airport Passengers	Jan-24	3,939,032	4,255,484	3,853,032	-7.4% ▼	2.2% ▲

STATE OF ARIZONA ANNUALIZED PERSONAL INCOME GROWTH QUARTER OVER QUARTER



STATE OF ARIZONA PERSONAL INCOME GROWTH

Q3 2023
(QUARTER OVER QUARTER GROWTH)

+\$3.7 B

▲ 0.8%
vs. previous period

▲ 6.2%
vs. previous year

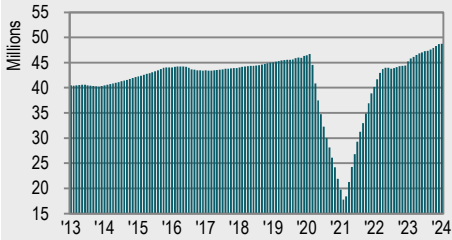


ECONOMIC BRIEFING

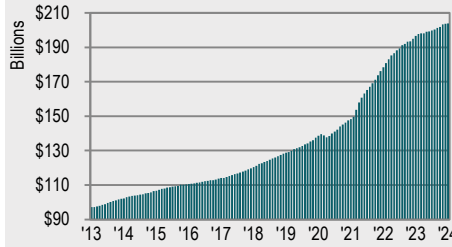
AND MARKET UPDATE

Spring 2024

SKY HARBOR AIRPORT PASSENGER COUNTS¹



ARIZONA TRANSACTION PRIVILEGE TAX SALES¹



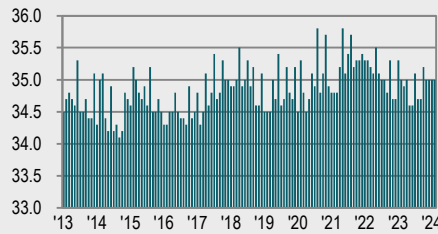
NATIONAL INFLATION (CONSUMER PRICE INDEX)²



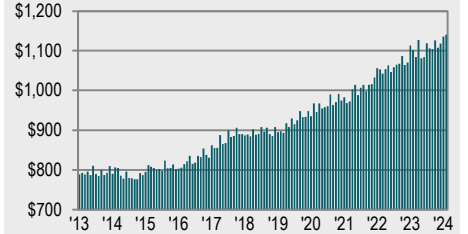
ARIZONA UNEMPLOYMENT RATE³



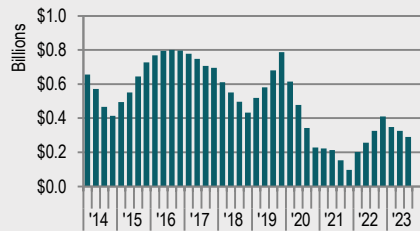
ARIZONA PRIVATE AVERAGE WEEKLY HOURS WORKED³



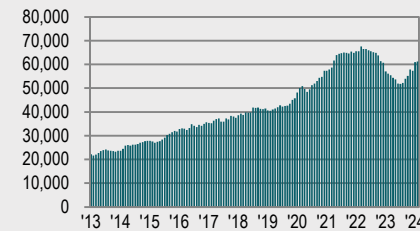
ARIZONA PRIVATE AVERAGE WEEKLY WAGES³



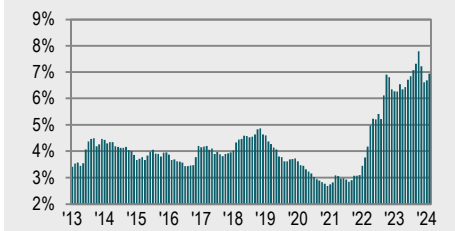
ARIZONA ANNUALIZED PROPRIETORS' FARM INCOME⁴



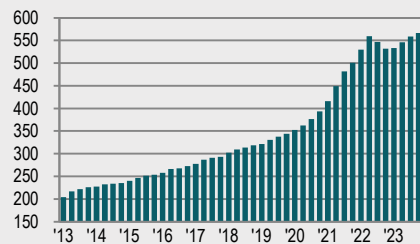
ARIZONA PRIVATE HOUSING UNITS PERMITTED¹



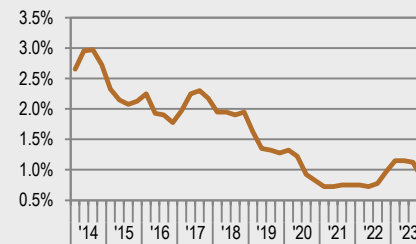
NATIONAL 30-YEAR FIXED MORTGAGE RATE³



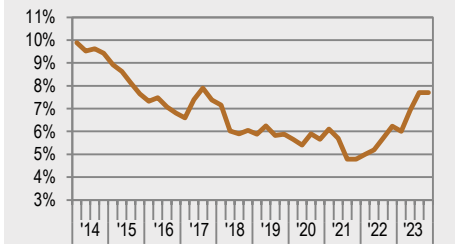
HOUSING PRICE INDEX⁵



ARIZONA HOMEOWNER VACANCY RATE⁵



ARIZONA RENTAL VACANCY RATE⁵



Note: ¹Trailing 12-month total. ²Year-over-year change. ³Monthly series. ⁴Trailing 4-quarter average. ⁵Quarterly series (Q1 1991 = 100).

Methodology: Applied Analysis ("AA") was retained by the National Bank of Arizona to summarize and analyze a series of key economic indicators on a recurring basis. Relevant data were obtained from AA's internal databases as well as national, regional and local data providers, including, without limitation, state and local governments and universities. While we have no reason to doubt the accuracy of any of the data reported, we have not performed an audit or assurance procedures on these data, and as such, we cannot attest to their completeness. Generally speaking, data reported are for Arizona.