



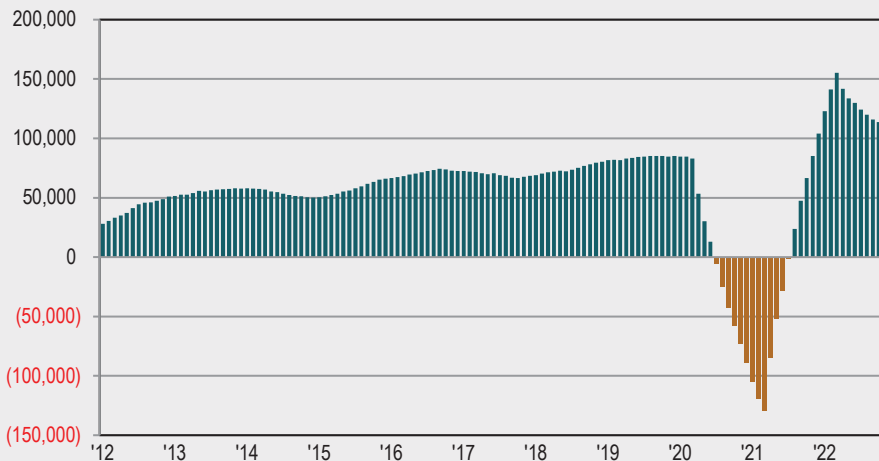
Winter 2023

ECONOMIC BRIEFING AND MARKET UPDATE

The housing market, which has consistently defied expectations during the pandemic, began to show signs of cooling in 2022, largely due to broader economic concerns and increases in mortgage interest rates. Notably, year-over-year growth in national new home sales has been down every month since March 2022, including in a 14.8 percent drop in November 2022. In addition, the Federal Reserve has been steadily increasing interest rates since March 2022 in an attempt to combat rising inflation rates. Consequently, mortgage rates of all types have also risen. The 30-year fixed mortgage rates skyrocketed in excess of 6.0 percent, the highest rate since November 2008.

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ARIZONA EMPLOYMENT GROWTH
TRAILING 12-MONTH AVERAGES



**ARIZONA
EMPLOYMENT
GROWTH**
NOVEMBER 2022
(TRAILING 12-MONTH AVERAGE
YEAR-OVER-YEAR GROWTH)

+112,883

▲ 0.3%
vs. previous period

▲ 3.8%
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	Nov-22	621,100	608,600	611,900	2.1% ▲	1.5% ▲
Education and Health Services	Nov-22	504,700	498,800	472,000	1.2% ▲	6.9% ▲
Professional and Business Services	Nov-22	462,800	460,400	455,100	0.5% ▲	1.7% ▲
Government	Nov-22	431,100	425,000	421,800	1.4% ▲	2.2% ▲
Leisure and Hospitality	Nov-22	340,500	339,000	319,100	0.4% ▲	6.7% ▲
Financial Activities	Nov-22	248,000	246,400	247,900	0.6% ▲	0.0% ▲
Manufacturing	Nov-22	199,100	198,100	183,800	0.5% ▲	8.3% ▲
Construction	Nov-22	188,500	187,700	179,200	0.4% ▲	5.2% ▲
Other Services	Nov-22	99,500	98,800	94,600	0.7% ▲	5.2% ▲
Information	Nov-22	50,300	50,600	49,500	-0.6% ▼	1.6% ▲
Mining and Logging	Nov-22	13,200	13,100	12,400	0.8% ▲	6.5% ▲

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As evidenced by current demand metrics, Arizona has not been immune to these effects. New building permits decreased 24.3 percent to 2,931 in November from the prior month, with growth down 45.9 percent on the year. Moreover, year-over-year growth continually decreased between April and November 2022, with a cumulative loss of 6,310 housing permits compared to the previous year. Almost 60.0 percent of these losses occurred in October and November alone and marks the longest negative streak in the market since 2010. Contributing to this decline is decreasing housing affordability within the region. In the Phoenix metro area, the Housing Opportunity Index (HOI), a measure of the affordability of homes based on various factors, including median income, has been steadily decreasing for the last two years, currently sitting at 22.5 (Q3 2022), nearly 2.9 times lower than what was seen during the pre-pandemic high in Q2 2020 (64.8) and only 0.2 points better than the record low of 22.3 (Q2 2022). Although the Tucson metro area is slightly more affordable at 40.2 (Q3 2022), it still represents the lowest point for the index since 2006 and a 30.3-point decrease since Q2 2020. Further highlighting new home construction concerns nationwide is the United States homebuilder confidence index, which measures how the majority of builders view current market conditions. In December 2022, the index posted its twelfth straight month of declines at 31.0 (out of 100), a drop of 52.0 points since the beginning of the year. Confidence in the western region fares even worse, representing the lowest scoring region with an index 6.0 points below the nation as a whole (25.0 out of 100).

Housing supply within the state also appears to be increasing. The Phoenix metro area reported 2.7 months of inventory

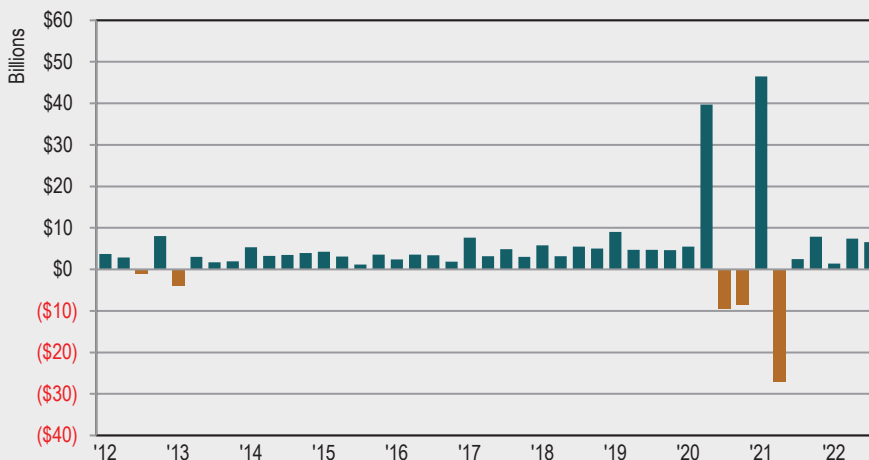
in December, a tripling from the previous year. While sales have been in the decline, the number of listings and listing prices have also been down. Among the 53 largest metro areas in the United States, the number of newly listed homes was down 21.4 percent compared to the previous month and down 14.3 percent compared to November 2021. The Phoenix area saw the largest declines, with a year-over-year decrease of 33.4 percent (from November 2021) of newly listed homes. Further, between June and November 2022, median listing prices fell by \$71,500 (-13.0 percent), with the largest month-to-month decline of \$25,050 occurring between July and August. In addition to the downward trends in asking prices, house price appreciation is dampening. Annual housing appreciation gains in Arizona were still positive as of Q3 2022 (+14.4 percent), but down from the previous quarter (-2.3 percent). Similarly, over the last year, homeowners in the state generated an average of \$46,000 in equity gains (Q3 2022), significantly lower than the average reported gains in Q2 2022 (\$89,000). The next round of pricing data is expected to post further declines.

Overall, the latest data nationally and in Arizona indicate that the state's housing market is shifting. Expanding inventory and slowing home sales suggest a supply-demand rebalance is emerging. The challenges are exacerbated by decreased housing affordability stemming from increasing mortgage rates, among other factors. Moving into 2023, it will be important to monitor changes to mortgage interest rates and overall economic fundamentals that have the potential to affect the housing market's performance.

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	2022	7,359,197	N/A	7,264,877	N/A	1.3% ▲
EMPLOYMENT METRICS						
Employment	Nov-22	3,158,800	3,126,500	3,047,300	1.0% ▲	3.7% ▲
Unemployment Rate	Nov-22	3.6%	4.1%	3.2%	-0.5% ▼	0.4% ▲
Average Weekly Hours Worked	Nov-22	34.7	35.3	35.3	-1.7% ▼	-1.7% ▼
INCOME AND SPENDING METRICS						
Personal Income (Annualized)	Q3 '22	\$419.4 B	\$412.9 B	\$396.3 B	1.6% ▲	5.9% ▲
Average Weekly Wages	Nov-22	\$1,074	\$1,088	\$1,016	-1.3% ▼	5.7% ▲
Transaction Privilege Tax Sales	Nov-22	\$16.2 B	\$15.7 B	\$14.8 B	3.5% ▲	9.7% ▲
National Inflation (CPI Index)	Nov-22	7.1%	7.7%	6.8%	-0.6% ▼	0.3% ▲
Phoenix MSA Inflation (CPI Index)	Oct-22	12.1%	13.0%	7.1%	-0.9% ▼	5.0% ▲
HOUSING METRICS						
Housing Price Index (Q1 1991 = 100)	Q3 '22	552.8	565.2	483.2	-2.2% ▼	14.4% ▲
Residential Units Permitted	Nov-22	2,931	3,871	5,418	-24.3% ▼	-45.9% ▼
Homeowner Vacancy Rate	Q3 '22	0.9%	0.9%	0.7%	0.0% ●	0.2% ▲
Rental Vacancy Rate	Q3 '22	6.7%	5.5%	4.7%	1.2% ▲	2.0% ▲
30-Year Fixed Mortgage Rate	Dec-22	6.4%	6.8%	3.1%	-0.5% ▼	3.3% ▲
AGRICULTURAL METRICS						
Proprietors' Farm Income (Annualized)	Q3 '22	\$439.3 M	\$397.7 M	\$98.4 M	10.5% ▲	346.4% ▲
Agriculture, Forestry, Fishing and Hunting GDP (Annualized)	Q3 '22	\$3.2 B	\$3.2 B	\$2.7 B	0.1% ▲	21.9% ▲
TRAVEL METRICS						
Sky Harbor Airport Passengers	Nov-22	3,900,839	4,031,363	3,870,356	-3.2% ▼	0.8% ▲

STATE OF ARIZONA ANNUALIZED PERSONAL INCOME GROWTH QUARTER OVER QUARTER



STATE OF ARIZONA PERSONAL INCOME GROWTH

Q3 2022
(QUARTER OVER QUARTER GROWTH)

+\$6.5 B

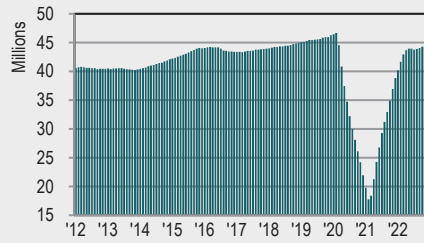
▲ 1.6%
vs. previous period

▲ 5.9%
vs. previous year

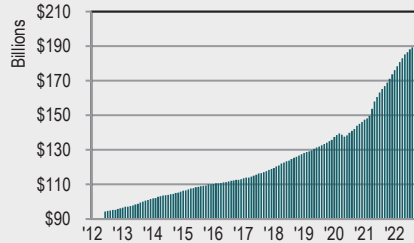


ECONOMIC BRIEFING AND MARKET UPDATE Winter 2023

SKY HARBOR AIRPORT PASSENGER COUNTS¹



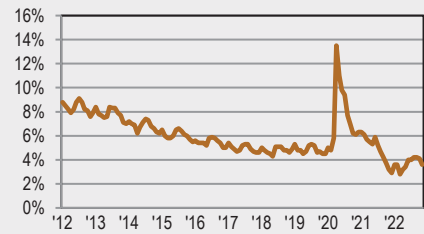
ARIZONA TRANSACTION PRIVILEGE TAX SALES¹



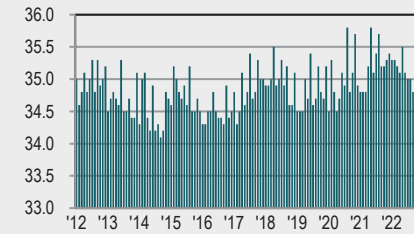
NATIONAL INFLATION (CONSUMER PRICE INDEX)²



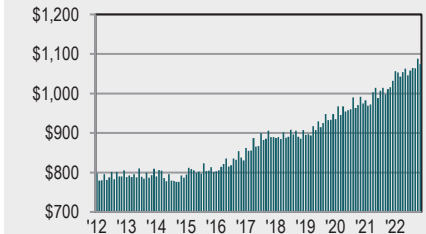
ARIZONA UNEMPLOYMENT RATE³



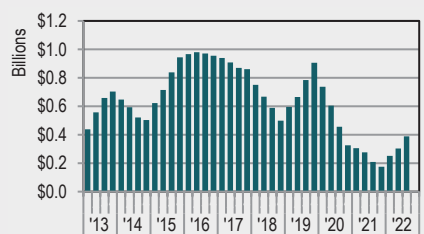
ARIZONA PRIVATE AVERAGE WEEKLY HOURS WORKED³



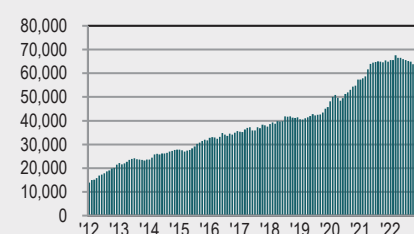
ARIZONA PRIVATE AVERAGE WEEKLY WAGES³



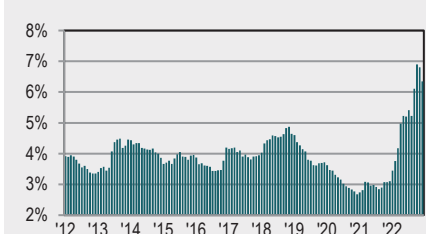
ARIZONA ANNUALIZED PROPRIETORS' FARM INCOME⁵



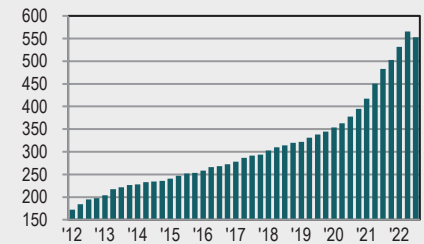
ARIZONA PRIVATE HOUSING UNITS PERMITTED¹



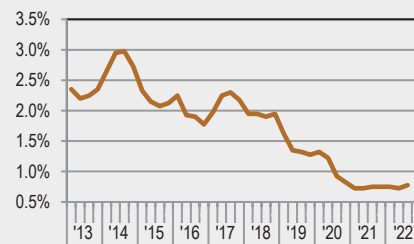
NATIONAL 30-YEAR FIXED MORTGAGE RATE³



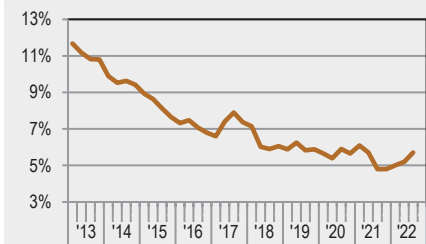
HOUSING PRICE INDEX⁴



ARIZONA HOMEOWNER VACANCY RATE⁵



ARIZONA RENTAL VACANCY RATE⁵



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

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.